

06th May, 2025

Dear Investor,

The equity market continued to drift downward through the first half of April 2025, impacted by the imposition of tariffs and reciprocal measures by the United States on April 2nd. This triggered inflationary concerns, delayed anticipated rate cuts by the Federal Reserve, and led to foreign institutional investor (FII) selling. Despite these headwinds, the benchmark Nifty recovered in the latter half of the month and ultimately closed flat at 24,334. Encouragingly, foreign investor sentiment appears to be shifting. After two consecutive months of outflows, FIIs turned net buyers in March 2025 and continued their buying trend in April. While efforts were underway to address tariff issues and ongoing trade negotiations with the U.S., the nation was shaken by a brutal terrorist attack in Pahalgam that claimed the lives of several tourists. This tragic event has redirected the government's focus toward national security and its strategic response to neighbouring threats. The response to the Pahalgam attack will likely be measured and calibrated—as the saying goes, “revenge is a dish best served cold.” Despite the geopolitical shock, Indian markets have demonstrated resilience, anticipating limited military escalation in response. Historically, April tends to be a difficult month for markets, but this year defied the trend with a notable recovery in the latter half. The Nifty rebounded, the rupee appreciated against the U.S. dollar, and yields on the Indian 10-year government bonds declined. In the face of global turmoil, the Indian market has held steady and continues to move in the right direction.

Scouting for more trade opportunities...

Our government has studied Trump's playbook, The Art of the Deal, and we've learned quickly. We have some very smart, capable individuals engaging in talks with Trump, and we're likely to be among the first to strike a deal with him. The markets have taken note, especially as the Indian market was the first to rebound from the Liberation Day-related fears. Although India has relatively low exposure to U.S. tariff hikes compared to several other countries, it has begun taking proactive measures in response to this looming threat. One key strategy is to negotiate and sign Free Trade Agreements (FTAs) with the UK, the European Union, and New Zealand, which could provide compensatory market access opportunities. Our foreign policy has become a masterclass in diplomacy—building closer ties with the U.S., Japan, and even Russia, all while avoiding unnecessary conflicts. Meanwhile, our military is strengthening rapidly, undergoing significant modernization and preparing for any challenge. It's a strategic and bold approach, and one of the reasons India's markets have remained relatively unaffected, thanks in large part to strong leadership. The “China-plus-one” strategy is also starting to pay off. Companies like Apple are now exporting iPhones worth \$2 billion from India, effectively bypassing U.S. tariffs.

India has been more resilient, rebounds first post liberation day!

In fact, India is a major outlier in the manufacturing PMIs for April 2025, which came in at 58.2—far above that of other countries. The notable increase in new export orders in April may indicate a potential shift in production to India, as businesses adapt to the evolving trade landscape and U.S. tariff announcements. Manufacturing output growth strengthened to a 10-month high on the back of robust orders. India's foreign policy has to be appreciated, being the only country with cordial and friendly relations with the world, without taking any sides and maintaining a purely domestic focus. The biggest positive is that energy prices are at an all-time low, below \$60 a barrel.

Future Outlook

Despite global economic episodes, India's growth story remains intact, supported by improvements in rural consumption and infrastructure spending. Policy and political stability continue to provide confidence, reinforcing a favourable economic environment. The recent budget targeted tax relief, aiming to address the cyclical slowdown in urban consumption, thereby supporting overall economic growth. Long-term growth drivers such as increasing affluence, low penetration, and strong demographics continue to provide structural tailwinds.

Valuations

We believe that wealth is created in the long term. With valuations reaching reasonable levels, investors should take a long-term perspective. Those with the ability to tolerate short-term volatility may benefit from maintaining a disciplined and systematic approach to investing. With the rupee strengthening and a massive, sizable manufacturing opportunity ahead, there should be no looking back for India as we become an attractive destination for the world while on our course to a \$30 trillion economy.

Warm Regards,

CA Rakesh Doshi

Principal Officer & Fund Manager

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