KRIIS
PORTFOLIO PRIVATE LIMITED

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Dear Investor,

The benchmark NSE continued to reflect the global volatility but however indices closed nearly flat. The FPI continued the selling spree due to inflation and interest cost increase worries. The Q4 2022 results displayed mixed outlook, with some showing margin pressures and a few commodities companies giving good numbers. Many companies have been able to pass on the increased costs and also cut their own production costs. This gives us the confidence to focus on good business which have good moats and pricing powers and not get affected by the ongoing turmoil.

Tax buoyancy continues…

April 2022 has seen the GST collections increase to Rs 1.68 lakh crore. One explanation that's been doing the rounds is that the formal sector has taken a leap from the pandemic-related shutdowns and impact on the economy. Also, after a complete lifting of lockdowns, the service economy may be roaring back to life as usual, as offices gradually fill up and entertainment and travel reopen. Then, inflation may be playing an important part. Inflation also aids the formal sector's growth, as it is better equipped to manage a situation when costs are rising continuously. But inflation also leads to an increase in the price of goods. What should one make of the buoyancy reflecting in GST revenues? It does not seem to square with the picture of slowing consumption that has been emerging from corporate commentary. Remember that GST is a tax on consumption unlike the earlier system, where excise duty was a tax on production and VAT was levied by states on sale of goods.

Inflation woes

The consumer price index has been higher than the RBI target range of 2-6 percent for three consecutive quarters breaching the RBI's legal mandate. These problems were sparked by global issues, the pandemic followed by the Russia-Ukraine war which have created supply constraints. For instance, coal shortages at a time when electricity demand in the country has surged and crude prices are ruling high could hamper industrial production and fuel inflation. Commodity prices, be it cement, steel, petrol, diesel, and even agricultural products such as cotton, have increased substantially. Margin pressure, not just in Q4 FY22, but for a couple of quarters more cannot be ruled out. However Property sales, credit trends, urban mobility, traffic and toll trends, entertainment, travel and tourism data are all showing steady improvement in the past two months. If this sustains, it may help build conviction on a broad-based economic recovery and growth. The hope remains that the commodity prices cool off over a period of time and thereby normalcy prevail since this is due to supply driven constraints and not demand driven.

Good Monsoon season predicted

The IMD has predicted the South West monsoon to yield rainfall between 96-104 percent of the long period average. This is an early forecast and it's only by July that we get a good idea about the spread and timing of rainfall, both of which are crucial for agriculture. The hope is rural demand will also get support. This should assist to taper the food prices inflation.

Who owns India INC?

The data provided by the NSE show that Indian institutions, retail investors and Indian promoters continue to bet on Indian companies while foreign investors are withdrawing from emerging markets.. Take the latest report which shows the impact of selling by foreign institutional investors (FII) on their holding and the increasing presence of retail investors in the country. FII ownership has declined by 65 basis points to 20.9 percent in the Nifty 500 and by 81 basis points to 19.7 percent in the listed NSE universe. But the hero of the quarterly report is the retail investor, who continues to bet on the India story. Retail investment in the Nifty 50 stands at 8.3 percent, 9 percent in the Nifty 500 and 9.7 percent in the listed NSE stocks. Also, indirect ownership through mutual funds has also increased. Domestic Mutual Funds' (DMF) share in Nifty 50 companies has hit a two-decade high by the end of 2021. DMF holding in the Nifty 50 stands at 8.5 percent, and 7.8 percent in the Nifty 500. Reiterating their faith in their own companies, Indian promoters have steadily increased their stake. For the fourth consecutive quarter, Indian private promoters have increased their share to a 16-year high. Indian promoters' stake in NSE listed and Nifty 500 universes increased by 44 basis points each to 36.4 percent and 35.8 percent in the December quarter, taking the total increase to 180 basis points and 150 basis points, respectively, in 2021. Indian markets are down by less than 10 percent from their peak in October 2021 despite record selling by foreign investors. Increased domestic participation is the only reason that we do not see carnage on the Street. The silver lining here is that whenever FIIs decide to come back they are not going to get bargains in the Indian markets.

IMF projects higher growth

Amid the faltering growth of the world’s largest economies due to the Russia-Ukraine war, the International Monetary Fund (IMF) has cut down global economic forecast to 3.6% for 2022 as against 6.1% growth in 2021. The IMF has projected 8.2% GDP growth for India in 2022 compared to US at 3.7%, China at 4.4% and Russia at -8.5%. IMF projections are even higher than RBI’s projection of 7.8% for India.

Portfolio Positioning

We recommend investors to remain invested through this current turmoil and use additional liquidity and cash flows if any to top-up their existing equity allocations with a view of next 3 years. We should see the current turmoil as an opportunity as valuation correction from the recent highs and give investors an opportunity to build their long term portfolio. While our investments approach has been of bottom-up, we continue to rationalize our portfolio continuously, track the portfolios liquidity and add wherever we feel comfortable on growth and valuations. Wishing you the best from our team and stay safe.

Thanks with Regards,
CA Rakesh Doshi
Principal Officer & Fund Manager
KRIIS – The Portfolio Management Company