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PORTFOLIO PRIVATE LIMITED

Date: 04/07/2022

Dear Investor,

The NSE benchmark index continued its volatility in June 2022 reflecting the global volatility. The index was down 4.6% after the deep cut of 15200 during the month. The FPI continued on the selling spree due to global inflation of commodities and fear of recession. Global headwinds emanating from geo political uncertainty, disruption of supply chain, rising crude and commodity prices and global food shortage has led to aggressive increase in interest rates by central banks globally including in India. The rate tightening cycle is far from being over with further increase of 50-100bps in India in next 3-6 months and more than 150 bps hike expected by the US Fed during this period.

Commodities begin to cool off.

Many globally traded commodities cooled off 17-22% from the highs recently seen mainly due to the global central banks rate hikes and the resultant impact on the demand. Crude and gas were the exceptions due the Russian sanctions and logistical issues. This resultant fall in commodities is positive for manufacturing and consumer industries. The moot question is when will the war end? We believe though the intensity of the war has reduced in recent months, but a complete ceasefire seems quite remote in near term though EU leaders would want it to happen. Even if the war ends physically, the economic sanctions which are more damaging, would persist and that would keep inflationary pressures high but tempered.

India in unique position and resilient

Sustained high crude oil prices and shortage of key components is slowly pushing major economies towards recession and raising the cost of living of common man in these countries. However, in the midst of all this, we see India is in a unique position given its quite resilient domestic demand, discounted Russian Oil imports, self-sufficiency in major food items, deleveraged corporate balance sheet and Govt support towards domestic manufacturing & infra spends and job creation. Nevertheless, we believe India will continue to remain as a major growth engine and current geopolitical impasse will only increase opportunities in both domestic markets. This has been emphasized in our earlier notes about India being in advantageous position of being both consumption and production centers.

Silver lining for agricultural recovery good for GDP

Agriculture has always been the key driver for the Indian economy. It is heartening to note that Agri produce prices have jumped sharply, which would help farmers get better realization for their produce. Also, the Agri terms of trade for cotton, soyabeans, maize, and wheat have turned favorable, raising hopes of strong rural demand recovery. The monsoon forecasts have been very positive for the year and good for the growth. The recent high prices and Agri exports augers well for the farmers and government would buy less to support the MSP. This would in turn spurt the demand for consumer goods.

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India remain the attractive destination

The recent selling in FIIs redemptions are due to re-aligning of the weights towards India owing to India's outperformance among other emerging markets. The recent sell off in our markets has brought valuations of headline Index Nifty-50 below the 10-year average 1-year forward PE multiple. Risk rewards are looking more favorable with bulk of the correction done. Thus we feel while India has done well to manage its internals, like decisions on balancing inflation and rural growth, keeping fiscal math under control, protecting the currency dynamics, healthy growth in jobs/ wages/ personal tax collections, strong balance sheets of corporates/ banks/ individuals, creating the environment for capex cycle to recover and market share gain in exports. Hence our positive outlook remains on India notwithstanding the obviously challenging externals in geo-politics, commodity prices, central banks' action, reversing portfolio flows, etc. However, India remains attractive destination and as and when the external factors show sign of subsiding FIIs will start looking at India.

Portfolio Positioning

We recommend investors to remain invested through this current turmoil and as stated earlier use additional liquidity and cash flows if any to top-up their existing equity allocations with a 2–3-year view. We 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. Wishing you the best from KRIIS team and stay safe.

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