

1st November 2022

Dear Investor,

Greetings from KRIIS Portfolio! We hope this mail finds you and your loved ones in good health.

NSE benchmark was range bound and less volatile during October. The index however closed positive at 5.3% during the month of October. Fears of recession, and currency volatility continued to challenge the market confidence. The US markets especially the Dow gained nearly 4300 points during the last 5 days of the month with the hope that Fed would be less aggressive on interest hike. The FPI again started their buying spree from the last week of October.

We would like to retain our view that the inflation battle in developed markets may be quite prolonged though recent growth/inflation dynamic drives hope of faster return to neutrality. This may also act as drag on eventual recovery of our domestic markets inflation in developed markets is decidedly behind, and growth slowdown/ recession concerns have fully played out. While our preferred stance has been India-centric growth sectors for much of this year, pockets of value may have started to emerge in some of the global-oriented sectors such as technology, pharma and commodities. Some of these would also receive support to their earnings from a weak currency. We have in a way outperformed the US markets due to resilience of the economy. While for the calendar year so far Nifty has gained 3.7%, while the Dow and the Nasdaq have posted negative returns of 10% and 29.6%.

Massive opportunity for India's Defense Industry

The idea of discussing in the monthly note was to merely to highlight the emergence of new industry which provides highly sophisticated warfare and Equipment to our Defense, savings in cost due to cheap local manufacturing, forex saving besides huge opportunities of exports.

We visited the Defense Expo 2022 (DefExpo) held at Gandhinagar (Gujarat) to understand how the indigenization of defense platforms/systems is shaping up the overall sector. Below are the key takeaways:

- Defense Research and Development Organization (DRDO) displayed a wide range of 430 products including strategic and tactical weapon systems, defense equipment and technologies developed at DefExpo 2022. These included products across engines & propulsion, aerospace & aeronautics, naval weapons, armored vehicles, advanced electronics, guns & ammunitions, missiles, etc. DRDO showcased advancements in technologies made by its laboratories.

- Products displayed in aerospace include LCA MK1, LCA MK2, AMCA, Tapas (Rustom-II) UAV, TEDBF, LCH, LUH, ALH, indigenous multi-role helicopter (IMRH) etc. In engines and propulsion, Kaveri derivative engine (46 kn) for high range combat UAVs, air propulsion system, 25 kn turbofan engine were some of the products displayed.
- In missiles, Akash NG, QRSAM, MRSAM, Nirbhay cruise missile, Nag & Amogha ATGMs, Astra air to air missiles, Rudram air to surface, Pinaka rocket system were displayed. In terms of naval weapons and systems, fuel cell-based air independent propulsion (AIP) technology for submarines, high endurance autonomous underwater vehicles (AUVs), advanced torpedoes, Shakti EW system, submarine fired decoy, Mareech anti torpedo decoy system were displayed.
- Private sector participation to play key role in better execution with more indigenization involving more private players, MSMEs and startups for improving the overall efficiencies.
- Increasing indigenization through ToTs (Transfer of Technology) in major technologies in aircrafts, helicopters and warships to nearly 60-75%.
- Rise of unmanned aerial vehicles (UAVs) We understand that unmanned aerial vehicles are expected to witness significant growth in India. Many private players have already developed UAVs and drones for military and civil use.
- We believe that exports hold a big opportunity for Indian Defense players led by the expected further increase in indigenization level of major platforms & systems. India's Defense export potential is huge and the government's target of touching | 35000-40000 crore of Defense exports by FY25E (from | 12000-13000 crore currently) is possible.

Portfolio Positioning

We reiterate the stance to recommend investors to remain invested through this current volatility and consider this good opportunity to top-up. Investment in fundamentally great companies combined with discipline and patience, success is a matter of when and not whether. 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