



1st January 2023

Dear Investor,

Greetings from KRIIS Portfolio. We wish you and your family a happy, healthy and prosperous 2023.

December month again turned out to be volatile with the news of spread of Covid in China and fear of the virus spreading all over and thereby shutdown. The Nifty benchmark after making new high in November 2022 again reversed below 18000 levels. The world markets got some breather when the WHO announced the withdrawal of the Covid in China and its economy opening.

Year 2022

Coming post a tumultuous couple of years with wild swings amidst once in a lifetime pandemic, a collapse of world economy, the opening of the world, we saw it all. From negative crude prices to peak crude. From Stimulus driven liquidity to tightening rates and purses. From closed shipping routes & freights to the sky and now submerged. But amidst all this turmoil, India was standing out as an oasis of growth, stability, and bullishness. Which it did, well at least at the index level it seems all good. Just proves the point, even if you get your macro reasoning and portfolio positioning correct, it is not possible to have a performing portfolio all the time. Mr. Market also had its own way of behavior pattern. The FII's pulled out big, India would have normally collapsed, instead it's been rock solid. ESG was supposed to be the theme of the decade, Non ESG stocks had the time of their life this year. Pharma and IT with its hangover in terms of demand and efficiency in a Covid and post Covid world was supposed to have a long runway and were seen as pockets of value and growth, they are amongst the worst performing sectors this year. Private Banks were eating PSU banks market share for lunch, guess who outperformed this year. PSU bank stocks outperformed by a mile. **Despite all of this, Indian equity has managed to outperform most asset classes including developed and emerging equities markets by a wide margin.**

What is in store for 2023?

India is one of the largest and most dynamic economies in the world. KRIIS believes India's economy currently benefits from catalysts for growth, both cyclically and structurally. This in turn creates opportunities for investors. India enjoys several structural growth drivers which could keep the economy on a reasonably strong upward trajectory in the long run. Such drivers include a domestically oriented economy with increasing internal demand and investment, a low but expanding export share, a rapidly expanding middle class and a high savings rate in the population. The convergence of these megatrends is driving three themes - Rising Incomes, Local Consumption and Global supply chain diversification.

We expect domestic demand to be the key driver of economic growth in the next couple of years, both from a consumption standpoint and capital expenditure (capex) standpoint. We are seeing self-sustaining drivers emerging from India, led by a resurgence of manufacturing, strengthening government finances with better quality of public spending, and massive infrastructure investments. Such measures, combined with the cyclical improvement in demand and capacity utilization, and cleaner balance sheets, should boost the private capex cycle, with positive effect on productivity.

Our choices for 2023 are therefore more thematic in nature and, many new segments throw new opportunities which should boost the economic growth and also contribute to lower emissions.

1)The energy transformation.

The energy transformation is well underway, as countries, industries and individuals worldwide shift away from carbon sources of energy toward renewables. India has planned massive investments in solar power and investments planned in hydrogen. This would also bring about changes in the reduction in power costs with better environment.

2)Exponential growth in Electrification trend in auto space

The share of EV has been growing faster from 1% 2019 to 5% in 2022 and more so in 2wheelers. Most auto majors have committed nearly \$15 billion in capex with supporting government policy framework like PLI schemes for auto and components and Advance Cell chemistry.

3)Structural shift in Defense production.

The government has already notified four positive indigenization lists till now in complex systems, which will be procured from domestic companies, MSMEs and startups. These consist of total 411 platforms include aircraft, helicopters, submarines, warships, missiles, unmanned aerial vehicles, radars, sensors, etc. DRDO is playing major role in developing new generation/modernized platforms that will eventually be manufactured in India and gives strong visibility for longer term.

4) GATI Shakti to help logistics fire on all cylinders.

The World Bank's Logistics Performance Index ranks India in 44th place while the country wants to raise it to 25. India also expects to lower its logistics costs from 14% to sub 10% of GDP. by building more warehouses, cold chain networks, processing centers near Agri-fields, etc. This should reduce the cost and make India competitive and more productive.

Besides the other areas which should contribute positively to GDP growth are railways modernization, implementation 5G network, gas pipeline network, new semi-conductors and electronics sector, robust real estate demand, specialty chemicals and ethanol story. We believe that with inflation easing interest rates should fall from hereon and thereby lead to double digit earning growth. Valuations have corrected relative to earnings. All in all, India will remain in bright spot in 2023.

Valuations

Valuations are at a multi-year high premium over EM countries and thus could induce volatility backed by global developments. We believe the premium is justified factoring better corporate earnings and better macro management. Investment in strong fundamental companies with good corporate governance and growth combined with discipline and patience, will prove positive. 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