1st February 2023

Dear Investor,

Greetings from KRIIS Portfolio.

New Year began with higher volatility post the announcement of Adani FPO of Rs 200bn and the subsequent selling in the group companies. This affected the sentiment along with near term uncertainty around the forthcoming budget. The Nifty benchmark reversed below 18000 levels and closed around 17750 along with the volatile global markets. FPI continued to sell with the remerging markets looking for attractive investment destinations. We see this trend continuing for a quarter till the balancing of the portfolio happens.

Indian equity markets have survived all these macro events and have been one of the best performing major markets globally.

We have entered 2023 with a lot of fear and hope as equity investors. After a long timewe see investors having very low expectations from equity markets at the beginning of the year unlike what was there early 2022. The consensus on the street is that 2023 would be as bad as 2022 or could get even worse when it comes to equity returns. However we know that when you least expect something, that is when it delivers. Our view is that this year is likely to be less fluctuating for markets than last year. Inflation is already trending lower not just in India but in the rest of the world also. Central banks are expected to continue to tighten rates, but not to the extent seen in 2022. As a result, bonds will come under less pressure. Oil and natural gas prices are less likely to gyrate considering the supply chains have been re-organized globally. Let’s look at some of the drivers for the market in 2023.

Recession in developed markets could hurt global growth

Rapid and extensive tightening by the Federal Reserve has led to recession in the US. Nobody can predict the recession for now in the US. We believe that the US may be soft landing wherein we see demand slowdown in developed markets which could hurt global trade to some extent. India would be less affected in this case as India remains more of a domestic story and is less export dependent.

India attracting FDI

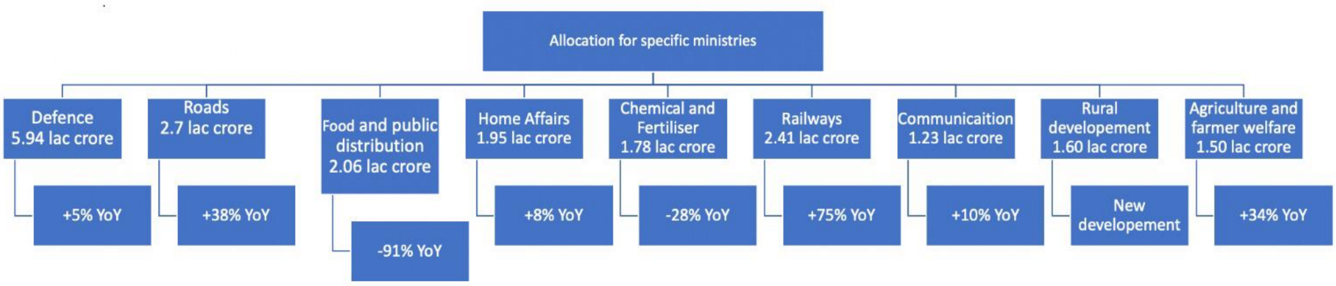
With India holding the presidency for the G20 this year, there would be a concentrated effort from the government to position and cement India’s position in global trade which has been growing strong over the past three years. Focus would be on attracting stable FDI flows to improve the competitiveness of its manufacturing sector and to make it an integral part of the global value chain. FDI inflows to India largely sustained at ~US$ 55bn over the past three years despite the pandemic-induced uncertainty. Historically, the services sector continues to dominate FDI inflows in India. The digital platforms, e-commerce and education are also catching up as new sources of FDI inflows. Notably, India has recorded a modest pickup in FDI inflows directed to the manufacturing sector over the past few years.

Budget 2024

In the context of what is happening in the world, what lies ahead in 2024 in terms of the fiscal attitude of the government, whether it is consolidation or the tax policy, the announcement was met by actions. The budget therefore is balanced in terms of geo-politics, economics, politics and fiscally sound and productive in the allocation of resources.

1. Strong Focus on Structural Reforms. Strong emphasis on financial inclusion for all.
2. 33% Increase in Capex is more than what the market was expecting, this will create a GDP multiplier of at-least 3-4 times.
3. Increased thrust on Railways is positive for the entire sector.
4. Maintaining 5.9% fiscal deficit despite 33% increase in capex showcases the financial discipline of the Government. This will lead to macro-economic stability especially globally; potentially attracting FII investments back in the Indian markets.
5. No tweaking in LTCG and relief for the middle class through raising eligible income for taxation were positive for the market sentiments. There was an absence of adverse shocks in the budget.

Allocation for Specific Ministries



Valuations

India valuations are at a multi-year high premium over EM countries and thus could induce volatility backed by global developments. We believe the valuations will align with the results and news flow and with better than expected 3Q numbers and most negatives factored should stabilize and improve from hereon. Wishing you the best from the KRIIS team and stay safe.

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