



1st May 2023

Dear Investor,

Greetings from KRIIS Portfolio.

Markets rallied in April 2023 on the expectation of slowdown in rate hike and possible rate cuts during the year later. The RBI's action, also in the recent meet of not hiking rate and its comments on inflation followed by lowest consumer inflation number (5.44%) which was lowest in the last 14 months provided the cushion for a strong rally. The Nifty benchmark closed at 18065, 4% higher than the previous month close. FPI and domestic funds were net buyers during the month. The Dollar Index (DXY) also was down nearly 5% from 107 to 101 making Indian Equities attractive. We expect the trend to improve slowly for the rest of the year.

Is US shows early signs of bottoming?

The US data showed strong consumption growth and, perhaps more importantly, corporate results have been a decent so far. The Flash PMIs for April indicated a surprising acceleration in economic activity in the developed economies, despite rate hikes and worries about a credit crunch. Analysts tell US GDP minus changes in inventory, net exports, and government spending grew at a 2.9 percent annualized rate, which is very strong. Moreover, weekly initial unemployment claims in the US declined. The threat of a recession has been pushed to the back burner for now. Forecasting is a risky proposition in this environment. But it does seem like FY24 will be the year when victory over high inflation will be achieved. Eventually, rate cuts will come into the picture, but it is best not to speculate when and follow the data instead.

RBI takes the lead to Pause rate hike.

The RBI's pause in the latest bi-monthly MPC meeting is a case in point. While Governor Das made sure that it was a pause, but not a pivot, the challenges posed by a slowing economy (Growth in FY24 at 6.5% vs. 7.0% in FY23), and persistent inflation have not dissipated yet. However, the Indian economy is now famous for its resilience. The recent numbers speak for itself like improved consumer sentiment, higher retail auto sales, higher real estate demand and power consumption. Despite the interest hike of 250 basis points the rate sensitive businesses such as real estate and automobiles have done very well 2023.

Encouraging Service Sector Exports Growth

The latest trade data tell us why Services exports grew by an impressive 27% in FY23, significantly faster than exports of merchandise goods that were up 6 percent. Services have also grown significantly faster than non-oil merchandise exports from FY19 (pre covid). Importantly, an analysis of the services data shows strong traction in non-software exports. As Wall Street report reports, after experimenting with remote work, enterprises are increasingly looking to outsource more skilled work. Perhaps this explains the spurt in non-software exports. MNCs are setting up Global Capability Centers in India and moving up the value chain to data analytics, business development, design, and R&D. India's large talent pool is rapidly becoming a key asset. This should drive demand for consumer goods and discretionary going forward.

**Valuation**

Indian equity market has underperformed the global and Asian markets during the last few months, resulting in moderation of premium and making the market valuation more reasonable. India's long term structural story remains strong, and its macros are also better placed in comparison to other economies. We reiterate the stance to 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**