

1st May, 2024

Dear Investor,

We are experiencing killer heat this summer with temperatures soaring to 39 degrees to 42 degrees across India. Request all to take care, venture out only if inevitable and have plenty of water to prevent dehydration. Hope this heat will reward us with a bounty of rainfall.

The market made a new high at 22783 on Nifty during April 2024, riding on the excellent macro fundamentals. This was on the back of global volatility during the month with the US economy reporting lower than expected GDP figures.

Getting better every passing day.....

India is currently experiencing a Golden moment due to solid macroeconomic conditions, fine corporate earnings, peaking of interest rates, lower inflation, and policy momentum. We firmly believe in the medium-term India story and have conviction in selected domestic cyclical themes, such as the financialization of savings, private capex revival, rising discretionary consumption, strengthening the real estate cycle, and the massive development of digital and physical infrastructure. We do expect intermittent volatility along the way driven by notable events (General Elections'24), mid- and small-cap valuations, and potential global macro shake-ups. We believe that still growth factors have several tailwinds such as the peaking of interest rates, domestic private capex, and inflation control improving consumption.

However, the three factors that dominate discussions are the following:

- 1) Political continuity:** With Lok Sabha elections scheduled in Apr-Jun'24, multiple opinion polls are predicting a return of the BJP-led NDA government with full majority for an unprecedented third term. This augurs well for sustained economic reforms and continued policy momentum, with a focus on capex, manufacturing, and infrastructure development. However, this could keep the equity market multiples elevated, in our view.
- 2) Consumption slowdown short-term:** Both macro and micro indicators suggest a persistent weakness in consumption, particularly noticeable in rural India. With inflation moderating and predictions of a normal monsoon, coupled with election spending, we expect consumption trends to bottom out and contribute to growth in H2FY25.
- 3) Market flows:** DII + FII flows stood at ~USD50.5b in FY24, the highest ever. The continued rise in retail participation, along with increasing SIP contributions and the addition of new demat accounts (over 3.6m accounts per month during Oct'23-Mar'24) amid the ongoing trend of financialization of savings, has supported the markets in the face of global volatility.



Year of Midcaps/Smallcaps: FY24 witnessed broad-based growth, with all indices and sectors delivering positive returns. Both the Nifty Midcap 100 (+60% YoY) and the Nifty Smallcap 100 (+70% YoY) outperformed the Nifty-50 by a wide margin of 31% and 41%, respectively. On a five-year basis, Nifty-50/Nifty Midcap 100/ Nifty Smallcap 100 reported a CAGR of 14%/21%/18%. Our portfolio also has been tilting more on mid/small caps by over 60% to reap the positive mood in the segment.

Indian capital markets poised to embrace Amritkaal

India exited FY24 with a GDP of USD 3.6t and an underlying growth of 7.6%+. Capital markets signed off FY24 with a stellar 29%/60%/70 % returns in Nifty/Nifty Midcap 100/Nifty Smallcap 100. India's market cap has reached USD 4.4t, making it the fifth largest in the world.

Corporate earnings, Inflation, monsoon forecast, rural recovery, policy decisions by central banks and upcoming general elections are key monitorable in the near to medium term. We expect interest rates to come down in the second half of the year, on account of the government's focus on managing inflation and in line with the global rate cycle. Core inflation has been steadily tracking downward, while food inflation remains a wild card but with the likelihood of improved monsoons this year, we could see this coming down, bringing headline inflation to within the RBI's comfort zone for rate cuts. This could lead to consumption trends to bottom out and contribute to growth in 2HFY25. We expect a strong capex upswing from Private companies which should adequately complement Government spending. Nevertheless, we continue to focus on our bottom-up approach looking for mispriced opportunities across sectors and market caps and will be keeping a close watch on market dynamics around elections.

Thank you and Happy Investing
May the Good Times Continue....

Thanks with Regards,

CA Rakesh Doshi

Principal Officer & Fund Manager

KRIIS – The Portfolio Management Company