

5th March, 2025

Dear Investor,

The equity market continued to drift down due to slow down fears, tariff war by USA, inflation fears, yield rates getting firm, weakening rupee and FII selling. The bench mark nifty fell 6% during the month to 22125. Despite being in an oversold condition, Indian markets continue to decline. The benchmark index has dropped by nearly 16 %, but the broader market is experiencing even more severe losses. Many companies in mid cap/small cap witnessed anywhere between 20% to 50% price erosion during the month. Nifty fell by 6%, mid-caps lost 10.4 % and small caps decreased by 13.7%.

Better than expected GDP growth on higher base.

The Indian economy showed a promising rebound in the third quarter ending December, according to numbers released recently. The economy grew at 6.2 percent compared to the slow pace of 5.6 percent in the preceding three months. The story gets interesting when you dig into the revisions. The First Advance Estimate of 6.4 % was based on an 8.2 % GDP growth in FY24. The FY24 growth figure has been revised up to a massive 9.2 %. That changes the entire picture. Growth of 6.5 % on a much larger base is not the same as growth on a lower base—it signals an economy that’s significantly stronger than previously believed while this numbers can be revised upwards latter the point is the direction of strong growth upward trend which gives a lot of comfort. On the brighter side, private consumption surged to 6.9 percent in the fiscal third quarter, led by rural demand and festival spending, with full-year growth expected to hit 7.6 percent.

Factored by too much global uncertainty.

Trump’s sweeping remarks since he assumed office have been a spanner in the works. There is no debating that Trump’s statements indicating an era of high tariffs, tax cuts, tight immigration laws and mass deportations could change the contours of international trade and perhaps fuel higher prices. Besides, it is too early to assess the impact of such policies and likely retaliatory measures by other countries on global trade and inflation. US fed reserve to pause the rate cut fearing inflation trends caused the jolt.

While the Indian government is working hard to counter the tariff decision by possibly reducing duty on certain goods imported from America. India has been increasingly viewed as an alternative manufacturing hub to China, a trend that may accelerate with these new tariffs. This 'China plus one' strategy could see more production shifting to India, presenting a significant opportunity for the country's manufacturing sector.

Another factor which could be positive is the evolving defense strategies and expenses by Europe to protect itself. This could provide a massive opportunity for India’s Defence exports. Also all out efforts of US to bring peace in Ukraine and Mideast is highly favorable for India.

Future Outlook

Despite global economic uncertainty, India's growth trajectory remains resilient though with small hiccups due to subdued global expansion. India's growth story remains intact, supported by a – steady improvement in rural consumption, infrastructure spending, infusing liquidity for growth. Policy and political stability continue to provide confidence, reinforcing a favourable economic environment. The current budget builds upon past policy initiatives and adopts a countercyclical approach. By providing targeted tax relief, it aims to address the cyclical slowdown in urban consumption, thereby supporting overall economic growth. Long-term growth drivers such as increasing affluence, low penetration, and strong demographics continue to provide structural tailwinds.

We repeat that, long-term growth prospects for India remain encouraging. Investors with a long-term perspective and the ability to tolerate short-term volatility may benefit from maintaining a disciplined and systematic approach to investing.

Valuations

However we remain optimistic that the select Indian equities will deliver a healthy long-term compounding given the strength of corporate India's balance sheet and prospects of secular profitable growth. Given the sustained growth in economy with some hiccups, good macro outlook and continuity of policy makes India still more attractive post the recent fall. Investing in good quality businesses at reasonable valuation with long-term philosophy are the core of our approach which we continue to strive for that.

Thanks with Regards,

CA Rakesh Doshi

Principal Officer & Fund Manager

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