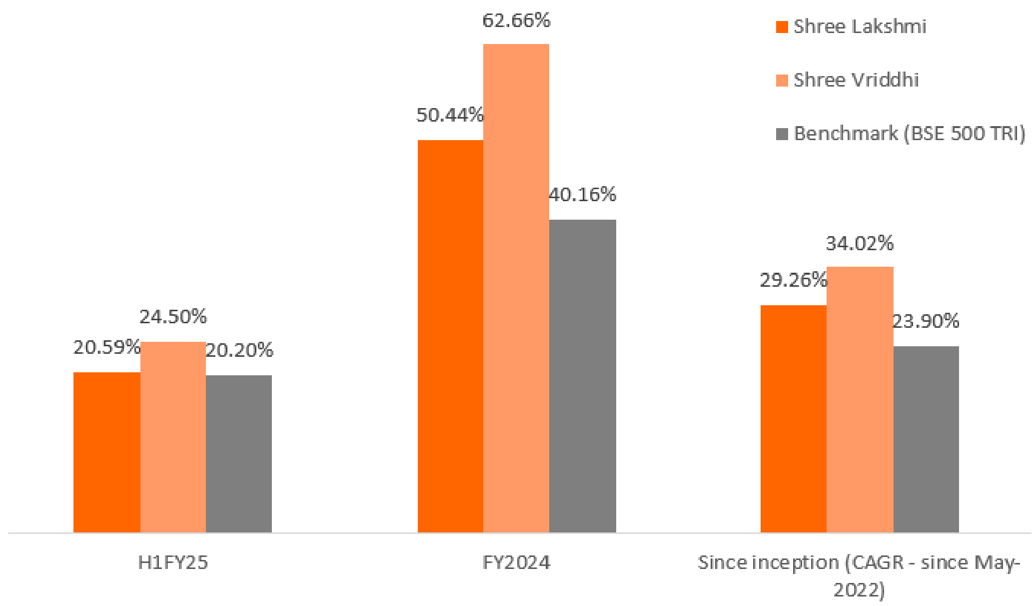
YouTube link to this letter: https://youtu.be/QkZmlBrsyXc

Let me take this opportunity to update you on the performance of both Shree Lakshmi and Shree Vriddhi funds for the first six months of FY2025.

Markets have been turbulent



In my previous letter, I had written "*The markets will never go up or down linearly. There will be volatility, sometimes extreme volatility. As investors we need to behave rationally and with discipline acknowledging that we are playing a long game".*

September was a tough month for the markets. India, already the fifth largest stock market in the world, saw the sharpest decline amongst the top ten markets in the world in this month. **Overall market cap of India shrunk by 2% and fell to $4.9 trillion after two straight months of market decline. During this period the frontline indices, Nifty and Sensex posted healthy gains of over 2%.** The decline in September was primarily driven by weakness in information technology, oil & gas, energy, PSU, defence, and telecom stocks.

Both funds, Shree Lakshmi and Shree Vriddhi has not moved in sync with the headline indices in the last quarter. One major reason for that is we have completely uncorrelated with any index. Our stock picks and allocations are not aligned with any index. And so there will be times like this when we will have divergent performance. Usually, such market phases do not last beyond a few quarters. Our focus of buying good quality growth businesses typically works out well over time.

Uncertainty all around the globe

The world is increasingly becoming a very disturbed place. Too many small and big conflicts are erupting every week. At the time of this writing, we have Russia-Ukraine war still going on. Israel-Palestine-Iran-Syria-Lebanon is going up in flames. The dock workers have gone on strike in the US which could cause supply chain disruptions once more. Continuous conflicts in Sudan, Syria, DRC (Congo) continue without capturing the news highlights any longer.

The global economy could help India stand out

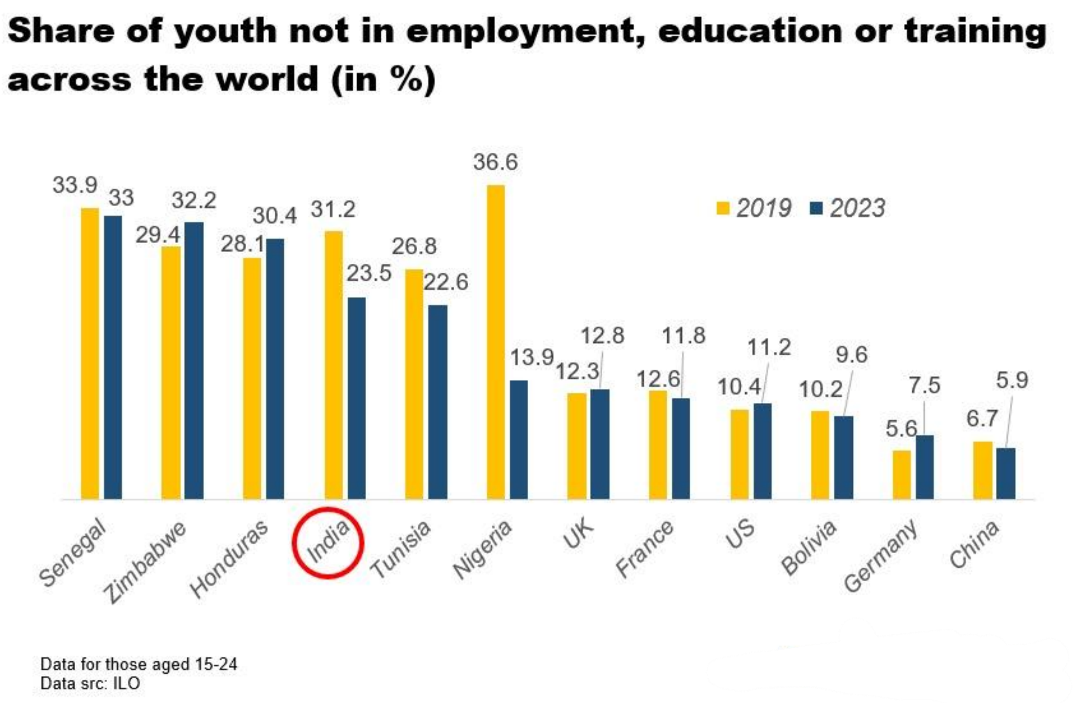
In economic news, the US Fed started its rate cut cycle signalling that inflation is under control and the focus is now gradually shifting back to pickup of growth. Swiss National Bank, European Central Bank (ECB), Bank of England (BOE), Bank of Canada (BOC), Sweden's Riksbank and Bank of Japan have already cut rates.

A rate cutting cycle in developed markets without a major financial trouble tends to be good for emerging markets as more capital flows to them in search of higher returns. Capital inflows help the currency, forex reserves and help lower bond yields. Overall, lower rates tend to be good for growth investors. As our primary investing style is growth, we may benefit from the emerging trend.

India needs to create jobs for long term economic development

I am bullish on India. Very bullish. Long term bullish. That does not mean we have no issues and everything is fine. We have our fair share of challenges that comes from being a low-to-middle income country.

Of the major challenges, the one which I feel has the most near-term impact on society as well as policymaking is jobs. India needs to do a lot more in this aspect.



This budget saw a number of initiatives been announced to help.

1. Direct Cash Transfers for New Employees
2. Internship Opportunities
3. Employment Generation in Manufacturing
4. Financial Support for Employers
5. Skill Development Initiatives
6. Focus on Rural and MSME Development

While all these have a noble intent, it needs to be seen how much of it actually translates into real job growth, which in turn would lead to a more vibrant economy.

Will manufacturing be the next wave?

Country	High Growth Phase	Avg Real GDP growth during high growth phase	Manufacturing share at the beginning of high growth phase	Manufacturing share at the end of high growth phase
Thailand	1985-1991	9.3%	21.9%	28.2%
China	1990-2005	9.8%	9.1%	32%
Indonesia	1983-1996	6.3%	13.4%	24.1%
Vietnam	2010-2022	6.1%	19.2%	25.8%
India	2024-2030	??	15%	?

Most emerging markets have grown their GDP through massive growth in manufacturing industry for a significant number of years when they went through a strong growth phase. I expect India to have a similar growth phase where the share of manufacturing in our GDP could go from 15% to 20%-22% by 2030.

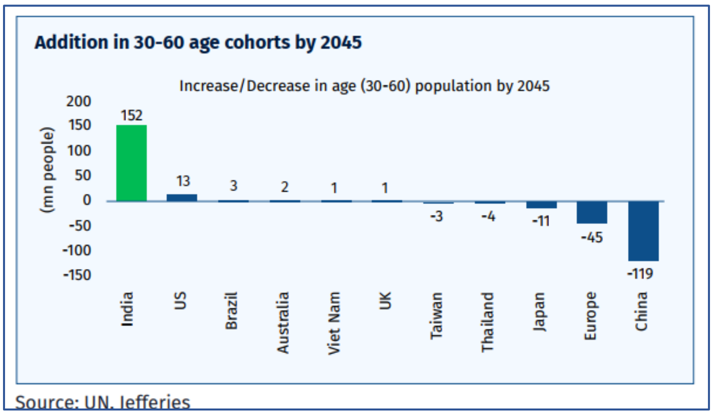


Fig: India is well endowed with people in the working age

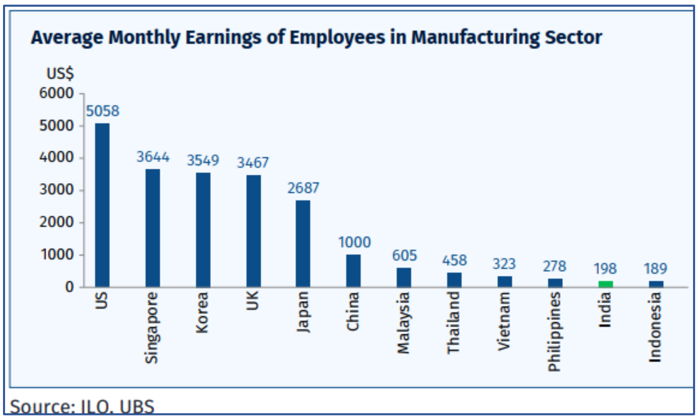


Fig: Availability of reasonably cheap source of skilled labour to aid manufacturing

	FY28 Projected exports (US$ bn)	Projected exports CAGR (FY22-28)
Chemical	~$110 - $130	19% - 23%
Pharma	~$45 - $50	16% - 18%
Industrial machinery	~$70 - $75	18% - 20%
Electrical & electronics	~$120 - $145	35% - 40%
Automotive	~$45 - $55	15% - 18%
Textile & apparel	~$95 - $110	13% - 16%

Source: Bain analysis

Fig: Manufacturing led sectors can have a sustained business growth

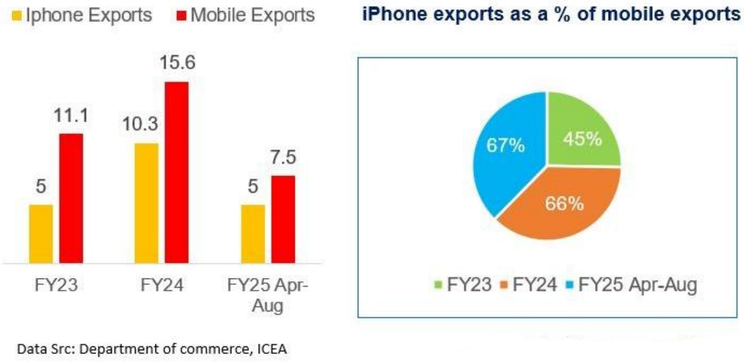


Fig: iPhone exports have charged up electronics exports from India

Both Foreign and Domestic investors are investing in India

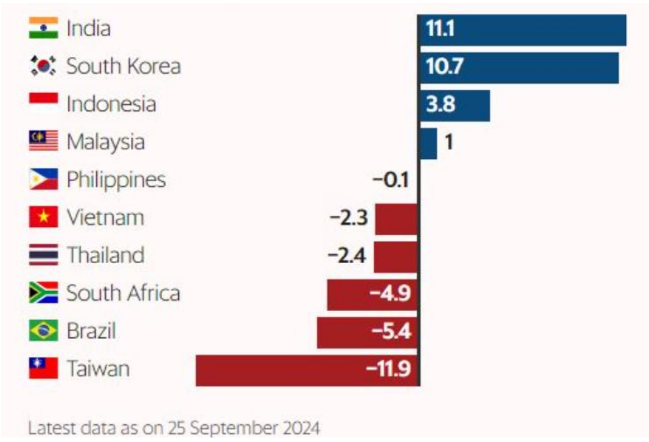


Fig: India is a preferred destination for foreign investors within the emerging markets basket

Data in USD Billion YTD, src: Mint

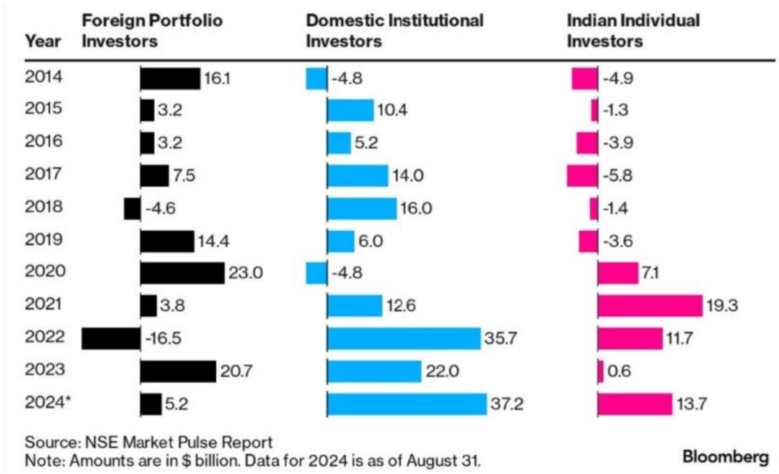


Fig: Indian domestic investors are increasingly participating in the equity culture

Src: Bloomberg

The 1-in-4 Rule: Best to remind ourselves frequently

I have this rule that I always keep at the back of my mind. It goes like this.

- 1 in 4 years will be bad where we will lose money.
- 1 in 4 stocks will not play out the way we thought it would.
- 1 in 4 stocks we will get in or out too early or too late.

In addition, once every year, we are likely to see a 10% fall in the markets. Once every 2-3 years, a 20% fall and once every 8-10 years a 30%+ fall.

The problem is we don’t really know which of these we are in now. Is this the one year where we will lose money? Or is this the stock in which we are making a mistake on?

<u>Since we don't know if this year will be that bumper year or that bad year, the most rational thing to do, if we have a long-term horizon is to remain invested</u>.

Once we understand this, it is easier to handle the ups and downs. Plan for the occasional speed breaker on the road. It is not that you leave your house only when you know that the road to your destination is all clear with zero traffic. You get out on the road and make the journey. Along the way, sometimes the traffic is slow, sometimes fast and if there are diversions you take them as long as they take you towards the destination.

It is exactly the same here. Just keep in mind the destination in this journey is to compound your capital at a reasonable rate over your investment horizon and not make large capital losses.

Thank you once again for being part of our journey of wealth creation.

Abhishek
Fund Manager
Shree Lakhsmi & Shree Vriddhi

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  - *the timing of inflows and outflows of funds*
  - *differences in the portfolio composition because of restrictions and other constraints.*
- *Past performance should not be taken as an indication or guarantee of future performance.*