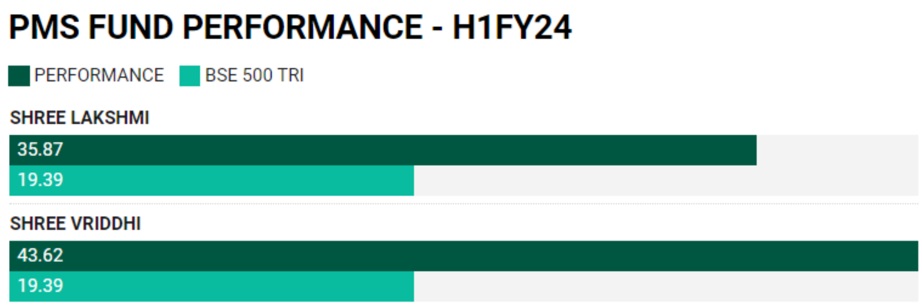
Investor Letter – October 2023

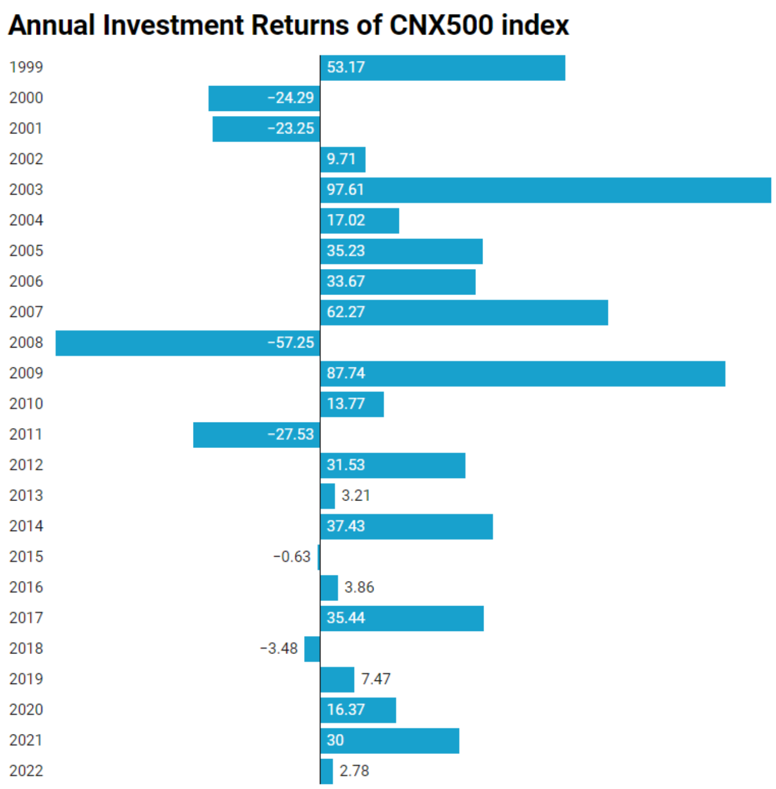
We have come to the end of the first half of the financial year. Here is the overview of the performance of the two funds.



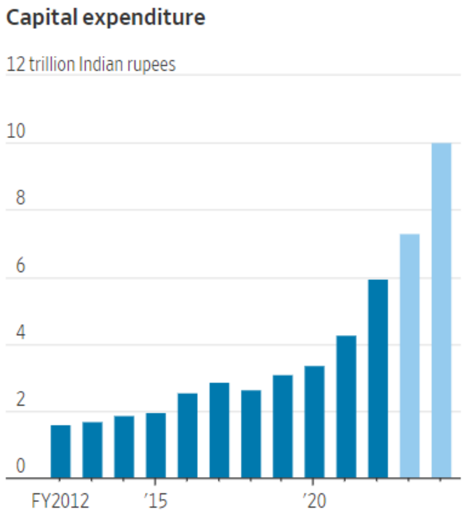
As you can see, both the funds have performed well. One of the main reasons for the performance has been that the markets have been kind.

I am personally an absolute return investor. I am concerned about the absolute returns I make irrespective of a benchmark. That is why my focus is always on reducing the downside risk and looking for growth.

An important aspect I wish to point out today is that as investors we need to be open to variability in returns. Below are the returns in CNX500 in each calendar year since 1999. In general, one out of every five years is loss-making, for two years returns are similar to fixed deposits and for the two remaining years the returns are handsome. **The order in which these years appear is not possible to be determined beforehand.** Thus, **you need to remain invested during the mediocre years for those two very good years** to really turbocharge your portfolio returns.



The economy is poised interestingly now. Domestic infrastructure spending from both the central and state governments is in full swing.



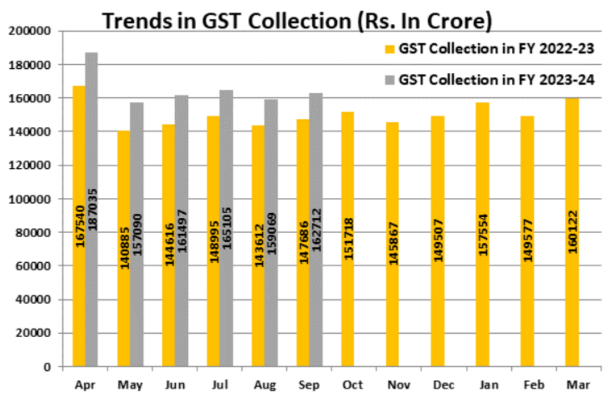
Note: FY2023 and 24 are budget estimates. All other years are actual spending. 1 trillion rupees=$12 billion
Source: CEIC; Indian Ministry of Finance

The PLI scheme is another booster for manufacturing in India and about 733 applications have been approved in 14 sectors with an expected investment of Rs.3.65 lakh crores. 176 MSMEs are among the PLI beneficiaries in sectors such as Bulk Drugs, Medical Devices, Pharma, Telecom, White Goods, Food Processing and Textiles & Drones.

Actual investment of Rs. 62,500 Crore has been realized till March 2023 which has resulted in incremental sales of over Rs. 6.75 lakh crores and employment generation of around 3,25,000. Exports boosted by Rs 2.56 lakh crores till FY 2022-23.

The third big news for India has been the inclusion of bonds in the JPMorgan Index. This is likely to see about $25-30 billion over a ten-year period. Usually, when one such institution includes a country in its index, others follow suit. **I expect significant foreign currency flows into India over the next 5-10 years. The downside to this large foreign capital inflow is that the rupee is likely to be more volatile in times of global crisis.**

GST trends have also become healthy which can sustain the infrastructure push by the government.



Also, getting into an election year, I expect some populist measures to be announced. If this in some form, like interest rate subvention for low-cost housing or some form of universal basic income through direct benefit transfer, is announced, it might add to the consumption power of the masses.

The two main challenges right now are with how crude price behaves and the recovery of the rural economy. India, being a predominantly crude importing country comes under pressure when crude becomes expensive. Also, the fact that the rural economy is still not out of distress post-Covid is evident from the strong MNREGA employment figures, which I consider as a proxy for the rural economic situation. In the short term, these can impact market sentiment.

As I mentioned in my interview on ET NOW last week (click on the image or the link below to see the clipping), I think the next two to three quarters would give us a good opportunity to invest for the next two to three years.

https://t.co/KtrnaHwQSa

Lastly, we will be having an online meet on the 8th of October. Hoping to see you there.

As always, feel free to reach out to me at equity@shreerama.co.in for any questions or feedback.

Regards
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