Monthly Letter

February 2022

Invest well. Celebrate life.

We were -2.4% in January vs an almost flat NIFTY50. For the rolling 12-month period ending January, we were +52.3 vs +27.2% for the NIFTY50. The month saw heightened volatility due to the reasons we mentioned in the last Monthly Letter, viz, the impact of the US Feds plan to raise interest rates over 2022, which caused the US markets to swoon; as well as the brewing and escalating tension between the US and Russia over Ukraine. Aside from this, we had a corporate governance accident in one of our holdings, wherein the promoter was hauled up by SEBI for insider trading. This incident caused a sharp fall; it was a grim reminder that human greed remains one of our greatest latent risks. We are in approximately 10% in cash at the moment as volatility levels have risen, and we believe markets may be at a crossroads with a sectoral rotation ahead.

The Union Budget for fiscal 2022-23 is on balance positive for the market, and a mature one that focused on continuity of policy and direction. This is welcome. In the past, frequent policy changes, with the damaging retrospective laws, have left corporate India as well as foreign investors short on confidence to invest for the long term. The Budget is aimed at strengthening the nascent capital investment cycle which augurs well, though the impetus to the consumption side of the economy was left a bit short, with no new measures to put more money in the hands of the common man. There is a tremendous focus in the Budget on giving manufacturing a boost. The lack of populist measures ahead of elections in key states was also a notable positive. The document is a realistic one with achievable targets on revenue collection. Revenue buoyancy has been one of the bright spots in the current financial year and this trend is likely to also see targets for fiscal 2023 exceeded.

One of the key expectations from the Budget that debt investment into India by overseas investors be made tax free was missing. This is a necessary precursor for Indian debt to be included in the key global bond indices. This inclusion would mean significant debt inflows via foreign funds into India, helping strengthen the rupee as well as keeping bond yields in check in this extant inflationary environment. Bond yields have hardened post Budget because of this exclusion, as well as due to the larger than expected borrowing program of the

Government in fiscal 2023. However, many tax reforms have been undertaken by this Government outside the Budget, as is good, and hopefully this tax exemption will also happen the same way.

In a few days, markets will move on as the Budget has been largely a non-event, as it should be. Markets will re-focus on world events that were troubling it pre-Budget, like the hardening of interest rates globally and geopolitical stresses. Selling by foreign investors in emerging markets has intensified over the last few months, as has been in India, and it is an indicator of the resilience of our market that it has corrected minimally in the face of such heavy selling. So, one wonders what will give going forward; will markets be able to continue to absorb this level of selling pressure going forward, or will they finally capitulate in the face of such strong headwinds. How the war clouds over Ukraine play out is also a matter of continuing concern. Interestingly, while FPIs are significant sellers in the secondary market, concurrently global private equity funds are significant investors in Indian startups and the unlisted space, reflecting the differing views between short-term and long-term money.

All in all, we expect the months ahead to be quite volatile, as markets face these numerous headwinds. Notwithstanding the same, we believe our market holds a lot of opportunity in the long term, for both, domestic and foreign investors, for the many reasons we have been repeatedly highlighting in previous Monthly Letters. In the end, we earn excess returns in equities over fixed income investors because we absorb the risk and volatility they cannot bear. We are in one such period and need to hold tight till we emerge at the other end.

Thank you for sailing in our boat! We hope to be a worthy helmsman.

RC

301-302, Mittal Avenue, Nagindas Master Road, Kala Ghoda, Fort, Mumbai – 400 001. India Tel: +91 22 22875801