Monthly Letter August 2020

We were up 13.4% for the month of July (Nifty up 7.5%). On a 12-month rolling basis, we were up 20.3% versus a -0.4% return for the Nifty. We are now back to portfolio levels of end February 2020, where we were prior to the fall engendered by the Covid crisis and the lockdown panic. We were able to pivot the portfolio from Financials heavy to Pharma heavy, which is the primary reason for our rapid recovery. We have been highlighting that we plan to be defensive in our approach ever since the lockdowns were announced, as we believe the impact would be long lasting on the economy sensitive sectors (especially Banks), and this approach has paid off. Agrichem, Pharma, Telecom, Technology, Online Businesses, Chemicals and Insurance; are some of the sectors we are more exposed to. We also have some allocation to Gold through an ETF, which has done well for us.

Markets globally have done well on the back of the significant injections of liquidity by Central Banks, bounce back of economic activity as lockdowns started ending as well as the positive news flows on vaccine development. We believe this trend is likely to continue, as it is unlikely that the world will return to the conditions it experienced over the first half of this year. Three geographies need to be brought under control viz south USA, Brazil and India, and even here the incipient signs are that things will improve. The commentary we hear on earnings related concalls is largely positive. Apart from disruptions caused by localised lockdowns, demand in most consumption related sectors appears to be at approximately seventy to eighty percent of pre-covid levels in July. Supply chains are worst impacted by localised lockdowns and are improving more slowly, but nevertheless, the trend is positive. Many businesses expect demand to return to pre-covid levels by September end, and the Diwali season this year to be a good one.

Low interest rates and crisis driven deep reforms, as we have highlighted in our previous Monthly Letters, are two pillars that will greatly aid the market recovery going forward.

As it is said, ‘never let a good crisis go waste’, and we see this aspect across the businesses we track. We find that most managements have been able to assess the situation and swiftly re-engineer the business, which has resulted in significant cost savings. This is one of the primary reasons for earnings this quarter to be better than expected. Out of these savings, most managements believe that they may be able retain as much as half of it even when things return to normal. This could result in significantly better profitability for corporate India down the line.

Markets are strange creatures. They do the most unexpected of things, against all odds. The last couple of months is a reflection of this. Successful equity investors are those who can absorb the risk and volatility that others cannot bear, and are primarily rewarded for this. Over the years we have probably experienced more gut-wrenching falls than we could have imagined. Yet here we are with our capital intact. This gives us confidence that we can navigate through almost anything that is thrown at us. However, without your support this would never have been possible. So, thank you for your faith in us!

Warm regards

RC

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