



Monthly Letter for Sept 2017

We are happy to report that we had a good month in August. While there was some turbulence during the month, largely due to geopolitical factors, in the end we were able to generate returns of +3.2% versus the -1.6% return on the Nifty (NSE 500 -1.1%). This was essentially due to our favourable positioning in businesses that have been able to grow notwithstanding the headwinds of demonetisation, GST and RERA. For the fiscal to date we are up +24% versus the Nifty which is up +8.1% (NSE 500 +8.8%).

While geopolitical news flows cast a shadow on the market in August, which resulted in FIIs selling a significant Rs 16k crores during the month, this was counter balanced by a record level of buying by domestic mutual funds of Rs 16.2k crores. The consistently high level of purchases by domestic mutual funds, which reflects the shift in domestic savings towards the financial market, has been a significant factor supporting this rally.

The early data on collections under the new GST regime is also encouraging, and indicates that initial targets are being met. While the Q1 data on GDP growth has been low at 5.7% only, this data point can find justification in the significant de-stocking that took place in anticipation of the shift over to GST from July 1. Given that other macro factors have remained resilient during this period, we believe that a recovery will be seen going forward.

As discussed in our previous Monthly Letter, India is in a fundamental transition, which over the medium term will create a significantly larger sized economy with a higher growth rate. Given this expectation, we see the current high valuations sustaining in the medium term, as investors are looking beyond the structural reforms which have caused the near term disruptions. Other issues like the non performing loans in the banking system and poor capex spending are also likely to improve with the government attention being focussed on resolving this (discussed in previous Monthly Letter). No doubt, risks remain of further fiscal deterioration with loan waivers, poor employment generation and low export growth. The most significant risk remains that of an escalation in geopolitical tension. It is becoming difficult to predict what direction that may take in the near term. World markets also appear richly valued; however, as there appears to be some recovery in global economic growth, it is possible that this factor may not be of immediate concern.

What is of concern is that the market is finding it difficult to sustain above the 10000 level on the Nifty. The recent attempts by the market to move above this level have been thwarted for one reason or another, thus creating the feeling that a distribution by intelligent hands is occurring at this level. It is possible that the strong resistance here may create investor fatigue, and engender a deeper correction, which will run through till the issues alluded to above cease to be of concern. Should this transpire, we will be guided by our risk management processes.

Thank you for your support always.

Warm regards

RC

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