

Dear Investors,

Greetings!

We have been receiving a lot of calls on the recent market environment, the Adani episode as well as its impact from a systematic point of view. We thought of providing our perspective to you as it is very important to assess the current environment accurately, and, that it is essential to look at different market segments separately.

We all are aware of the global risks including the inflated U.S dollar balance sheet, inflation that is now showing signs of tapering and the EU impact due to Russia Ukraine conflict. India has more or less remained insulated from all this, barring inflation which is global in nature and has led to higher policy rates and longer-term negative impact on growth. The recent Adani episode has spooked the Indian markets in the short term.

Our view is that the widespread selling in Adani stocks is restricted only to the group and other similar stocks where the equity valuations were stretched. A lot of the Adani group companies that we have researched in the past have real assets and businesses that are strategic in nature- the port, recently acquired cement assets, and Mumbai Airport while power and transmission businesses have regulated returns. The FPO was the trigger point for the short sellers and then the vicious circle started with the margin calls due to MTM losses and other set of sellers joining the bandwagon. Even though we are not in any of Adani group stocks or such stocks where these irrational valuations exist. Our thought is that this mayhem should settle down in the coming week as the exchange monitoring and margin system are tight enough to protect the market integrity.

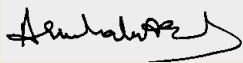
A lot of stocks in our portfolios remain unfazed by this saga, as they have a strong moat, are quality businesses, and are driven more by fundamentals than market forces. We are keenly monitoring for any price dislocations that can offer us an opportunity to further invest. Stocks like ITC, Kotak Bank, HDFC, and Infosys in our Growth portfolio are flattish or slightly up in the last two weeks, while the SS portfolio is also not impacted and continues to show resilience. In fact, stocks like IDFC Ltd are up in the recent meltdown as the event (Rs 11 dividend) has happened. Similarly, a lot of other SS stocks like Escorts and Fortis have remained flattish in this period of extreme volatility, highlighting the sound investment thesis on which the portfolios are built.

CapGrow has always believed in market cycles. Being able to identify where we are in the cycle is the most significant part. The odds are turning favorable, and the investors should adjust their equity exposures appropriately. Our stance is based on the macro - with inflation tapering down, signaled by a Fed hike of 25 bps, we are at the fag end of the inflation cycle. The recent budget will boost consumption, and Govt. capex will have a multi-layered impact on economic growth. The growth visibility and improvement in economic indicators is still 12 months away, but the recent meteoric rise in US Tech stocks reinstates the point, that the worst is over. A lot of stocks both globally and in India have seen their market valuations corrected. The first half of CY23 will remain hazy while the equity returns will be back-ended.

We reiterate that our portfolios remain largely unaffected by this extreme volatility. Our focus on the research process at the time of making investments reassure the strength of a particular stock and gives us the confidence to hold them through mark-to-market volatility. In fact, we are looking to add some of the positions where price dislocations may happen. We have always maintained that it is difficult to predict, but we can construct our portfolios in such a way that we are well-prepared to withstand such market disruptions. We, at CapGrow, strive to protect capital and generate returns that price the risk appropriately for our investors.

As always, Happy to get on a call for any further clarifications. Till then, Happy Investing!

Yours truly,



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