CAPGROW CAPITAL

20th MARCH, 2023

"Humpty Dumpty had a great fall" while "India stands firm and tall"

As I pen down my thoughts this weekend, a crisis of confidence in banking prevails around the world with the failure of SVB, while the First Republic and a few others face their test of survival. The risk of contagion is high and the turmoil in the financial system is giving sleepless nights to the Central banks, policymakers, and investors across the world. Asset liability mismatch, one of the most common risk metrics, led to the insolvency of SVB and the resulting fear mongering leading to a spillover effect across North America and now Credit Suisse in Europe.

Amid this turbulence and uncertainty, I am of the firm opinion that there exists an opportunity. We, at CapGrow, are trying to highlight the fear factors that are plaguing the investors' minds and attempting to dissect them for a better understanding and decision-making process.

***U.S. hard landing and Global Macro*:** There is no doubt that the U.S. economy is going through painful periods of economic degrowth and financial instability. The failure of a couple of banks along with a flight of deposits from other regional banks can turn ugly, and the threat of failure of a couple more looms large. The critical areas of the U.S. economy - consumer spending, housing, manufacturing, and trade - all are showing signs of recession; reminiscing the 2008-09 financial crisis and Covid lockdown. The only silver lining that is still strong is the U.S. labor market, but this data works with a lag, and with so many layoffs by tech companies, we will see the number falling off the cliff very soon. The inflation is still high, but with so much demand destruction and weak economic data, we should see inflation cooling off. The rate hikes need a pause, as the need to save the financial system gains priority over inflation. The cycle should also see a reversal as we see poor economic growth bringing down inflation 2 quarters down the line.

India Scenario: Amidst this challenging global macro, India stands on a strong footing and is insulated from these uncertainties. India's story has a lot of structural positives that make it an attractive investment destination. The next decade definitely belongs to India. Look at what some of the structural initiatives that have brought significant transformations and business opportunities. For example, the "*Make in India*" and PLI has led to India becoming a manufacturing hub for Apple within 2 years of starting operations. In the last 10 months of FY23, India has exported close to INR 80,000 Cr worth of mobile phones, while Apple's is close to 50% of this. Another major contributor is Samsung electronics. The multiplier effect of this is multifold, the easier one being the creation of 100,000 jobs locally. Similarly, the digital revolution and 5G rollout are happening at a much faster pace than in other economies. India is rolling out the 5G at a faster pace that will overtake the EU in the next 12 months; and even North America. All this is driven by the explosive growth in data usage. India data usage is upwards of 20 gigabits per month and is growing at 30% growth while the EU is still at 15. Our belief is that data-led growth will revolutionize the Indian economy going forward, with the adoption of related applications and enterprise applications much faster than in other economies. A lot of VCs, software engineers, and entrepreneurs are already at the forefront of cutting technology that could bring efficiencies and costs of doing business down.

And top of all these local demand factors is the China plus one strategy. Post Covid and subsequent disruptions, global firms have realized that they need more diversified supply chains that offer flexibility and reduce the concentration risk.

India’s GDP is poised to grow @ +6.0% in FY24, and there are pockets of the economy that are showing resilience in the face of heightened uncertainty in the global economy. The Indian corporate balance sheets are deleveraged and are in good shape. The domestic demand drivers are intact and a big scale-up in Infra investment from the government will have multi-dimensional positive effects on various core sectors of the economy. Export-related sectors like merchandise exports may get hit, while the rural demand is close to a trough and expected to improve going forward. The crude has come down, coupled with the rebound in the services sector, driven by discretionary spending by consumers will keep the health of the Indian economy intact.

From an investment perspective, the current market scenario provides a very compelling long-term risk-return award. We believe the contradictions in the economic data, and the swings, may still persist for a few more weeks, but India will emerge stronger and unscathed from all the economic turmoil. We want to maintain a high-quality bias in our portfolio and stay away from timing the markets and advise our investors to deploy their cash in these uncertain times. Valuations have become quite attractive, and a business down cycle overseas led by banking failures makes us positive on the recovery trade from here on.

We would be more than happy to provide you with any additional information. Please reach out to us at pms@capgrowcapital.com or + 91 98195 61662 if you have any queries.

Warm Regards,

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