CAPGROW CAPITAL

Quarterly Newsletter – December, 2019

Dear Investors,

Wishing you all a very happy and prosperous 2020! We all pray that the next decade turns out to be a wonderful journey for our investors and CapGrow will continue to play a major part in this process of wealth creation.

We believe 2020 will be a significant year for all of us. The concerns of slowdown and recession are fading away. The green shoots are selectively visible and there is a general consensus that the process of cleansing and strengthening the system is now in place. The Indian economy is poised to take off and going forward, the growth will be much steadier and real.

Last three years have seen a lot of significant changes in the Indian economy. The effects of demonetisation, GST, and other stricter regulations have taken its toll on lot of sectors. The biggest driver of any economy – consumption, credit, manufacturing and productivity have all weakened. The ILFS crisis has put brakes on the entire credit cycle and the banks are very hesitant to lend. The NBFCs that were contributing to the growth in a significant manner have curtailed growth and are busy in cleaning their balance sheets due to ALM mismatches or the NPAs that are surfacing on a frequent basis.

We strongly feel that we are near the end of the deleveraging cycle. The sell off by promoters of a consumer hair oil company, a big media group like Zee reducing its stake to low single digits to repay the promoter level debt, and a real estate cum EPC player selling 5% stake to take care of their real estate liquidity issues are some of the examples of the system getting deleveraged. Even the automobile inventory in the dealer channels have reduced significantly and same is with the steel sector. The pace of decline in industrial activity has started moderating; PMI surveys – a pointer to industrial activity and sentiment – have also clocked an improvement in the last couple of months. Telecom sector can see an increase in ARPU after very long period of consolidation. All 3 operators have announced tariff hike after a gap of 3 years. The government has taken steps to revive the real estate cycle, which is the primary cause of many problems affecting the economy today. This points to a strong possibility of an expansion in credit going forward. The corporate world is sitting on the side-lines to spend on the capacities to benefit from the recent tax incentives offered by the government.

We believe that the other leg of the economy- the agriculture should also post descent numbers going forward on the back of a good monsoon and good rabi crop. The government seems to be on a pro-active mode now and is well aware of the concerns and realities on the ground. The budget in February may not have any significant policy changes but tinkering couple of things like LTCG, STT may boost the market confidence.

The picture looks promising for the future. There are few things that do worry us- the limited fiscal and monetary space to drive growth. Disinvestment is a right strategy to reduce the fiscal deficit that is hovering around 9% on a combined basis. Disinvestment will bring in new management which will take productivity and governance to higher level. The other worrying part is the ground situation and social conflicts that are on an upswing leading to loss of business and revenues. We have already seen what the citizen protests can cause to a growing economy - Hong Kong. Hong Kong is on the brink of a recession due to more than 50% drop in tourist arrivals and business visitors.

CapGrow continues to be focussed on its single mission- investing in high quality businesses across the spectrum keeping clients interest in mind. Both the PMS investment approaches- Growth and Special Situation are doing well despite the turbulent markets. **CapGrow Growth Investment approach was also highlighted in the media for the best 1-month and 3-month category performances.**

Performance - For CY19, CapGrow Growth was up by 7.44%. Our aggregate performance, combining the two strategies was up by 4.64% for the same period**.** The banking and insurance stocks like ICICI Bank, HDFC Ltd and Max Financials have done very well for us.

Recent Portfolio changes - We have recently increased position in Larsen & Toubro and added couple of mid cap names like Syngene, Polycab and Suprajit Engineering.

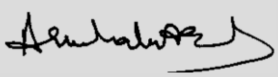
Our View- We agree with the market belief that the divergence between the large caps and small & midcaps have widened to a historic high, but there are challenges in the mid and small cap category. Their earnings visibility continues to be poor and their low valuations are there for a reason. For CY19, equities polarization has been witnessed whereby top 6 stocks have contributed 98% to the rise in nifty index. Risk reward trade off still appears to be little skewed and we are cautiously approaching to increase allocation in midcaps.

As always, each one of us at CapGrow stand committed to excellent service standards. We stand honoured in serving you and are available to address any of your issues. We have set very high standards for us and are working hard to achieve them- both in terms of clients’ satisfaction as well as portfolio performance. We promise you to excel in both.

Once again, wishing you all a wonderful 2020.

Best Regards,
Arun Malhotra

(Co-Founder & Chief Investment officer)



CapGrow Capital Advisors LLP