CAPGROW CAPITAL

13th October, 2022

"Too many macros at Play"- Stay Safe

After so many years of laxity in the economics discipline, we find a lot of macro variables at play. Fear of the Fed continuing with the aggressive stance and Russia Ukraine war continuing to cause collateral damage in the global markets. The Europe Energy crisis has killed the local economy, and the EU is witnessing unprecedented inflation levels touching double digits. This year so far has been a roller coaster, with YTD performance almost at Par while too much activity has happened in between. The question that is being constantly asked is where does India stand in this global turmoil?

We believe the total economic decoupling of any country never happens in the medium to longer term. More so, when the country's GDP is expanding at a fast pace like India, and its dependence on global economic conditions for its growth is higher. The world is becoming more integrated economically while disintegrating politically. The slowdown in global trade and demand, the disruptions, and the risks of higher inflation hurting demand and economic growth will sooner or later have an impact on India's growth trajectory.

Factors that affect India

The global inflation and the Ukraine war, i.e., the geopolitical risk, are two significant risks that weigh on India's macro outlook. Despite RBI's intervention, we have already seen the impact of steep INR depreciation, leading to a decrease in India's forex reserves by close to $120 billion.

The impact on India's growth will also get impacted by global supply disruptions leading to higher commodity prices, a slowdown in global demand and trade, and movement in capital flows due to the heightened geopolitical risks. These external headwinds will cause an impact on various sectors, the quantum of which is difficult to ascertain.

The talks of U.S. and global recession

If the stock prices are to be believed and are any indicator, most of the U.S. equity prices are down from anywhere between 40-70%. And I am here not talking about the froth that existed in SPAC and other speculative investment banking-led structures, this fall relates to the rock-solid companies that have strong businesses, and they are also down significantly from their peaks, as seen below.

Company	Peak Price $ (highest Price)	Date (Peak Px)	Latest Price	Fall	Time Period
Netflix	701.0	17/11/21	230.0	-67.2%	11 mths
Facebook	383.0	07/09/21	133.6	-65.1%	13 mths
AMD	164.4	30/11/21	57.8	-64.8%	10 mths
Salesforce	311.6	09/11/21	145.6	-53.3%	11 mths
Tesla	414.4	04/11/21	223.0	-46.2%	11 mths
Amazon	188.5	13/07/21	113.5	-39.8%	16 mths
Alphabet	151.4	02/02/22	97.9	-35.4%	8 mths
Microsoft	347.3	22/11/21	229.3	-34.0%	11 mths

This time the only difference is that the fall has been gradual and relatively slow, as the leverage is not there in the system. We believe that the Fed tightening is near the end of the cycle before it starts to loosen sometime early next year. This is based on the premise that the commodities have started correcting; the higher interest rates will kill economic growth that will get fully reflected in the economic data with a lag of 6-9 months. We have already seen higher vacancies and a fall in U.S housing prices. The slowdown in the U.S economy will force the Fed to cool down from its aggressive stance and reduce the pace of rate hikes as further tightening may also have repercussions on the financial stability and the financial system.

The U.S. dollar is strengthening and causing volatility in the U.S markets and outside the U.S, as the majority of the global trade is denominated in dollars. A strong dollar makes imports less expensive; the rate hikes are basically exporting inflation to other countries; the rising dollar also increases borrowing costs for emerging market borrowers; servicing these loans with a depreciating currency raises the risk of defaults in the emerging markets.

Where does India stand out?

We believe the global risks will outweigh the strong domestic economy in the minds of equity investors in the short term. However, the medium-term outlook for India remains relatively better. The structural shifts in India's economy have started yielding results. The manufacturing sector, driven by PLI schemes and China + 1 factor, has pushed industrial growth, leading to higher Capex and the kick-start of the private sector investment cycle. The near-term monetary and fiscal policy will be focused on reducing twin deficits and maintaining external-internal balances while at the same time keeping the momentum on public infrastructure spreading and ensuring and facilitating global trade.

In terms of sectors, we believe that export-led sectors like IT, Pharma, and Chemicals will continue to do well. IT services are an enabler for businesses and may get impacted little, while Pharma exports continue to do well. The domestic outlook for pharma companies also looks attractive post Covid. China +1 factor continues to support chemical companies in terms of higher growth rates driven by both widenings of product range & higher market shares.

The current festive season is going to be bumper with higher automobiles and consumer durables sales. Real estate sales are strong, with the launch of several new projects. Recently, DLF sold its entire 1800 Cr of apartments in DLF Phase 5 in just 2 days despite the rise in home loan rates and property prices.

The banking and financial sector is poised for strong growth in the coming years as the whole corporate sector in India, barring a few groups, has deleveraged. The uptick in capital investments and retail consumption is driving the credit demand. Any upticks in NPAs or defaults are still far away. Indian banks do not have much exposure globally and are immune to global shocks. The auto sector is also posting strong monthly numbers.

In terms of flows, domestic investors are continuously increasing their shares of inflows, and FPIs will sooner or later come back. India remains one of the favorite emerging market destinations with its strong domestic economy, demographic profile, better corporate governance, and reduced political risks.

How has CapGrow performed?

Portfolio Performance as of 30th September, 2022

Special Situation (SS) Investment Approach:

SPECIAL SITUATION INVESTMENT APPROACH*							
Performance (in CAGR)	1 Month	3 Month	6 Month	1 Year	2 Year	3 Year	Since Inception
CapGrow SS	**-1.35%**	**21.37%**	**0.72%**	**-0.04%**	**37.58%**	**30.59%**	**18.35%**
Benchmark (Nifty 500)	-3.23%	10.77%	-0.44%	-1.48%	25.99%	16.65%	14.40%

CapGrow Special Situation Strategy has outperformed the markets across all timelines and has consistently beaten its Nifty 500 benchmark since inception. Escorts Kubota Ltd and DFM Foods are our top conviction bets which have performed well. DFM Foods plans to delist, and we will keep an eye on this corporate development and continue to track this event. Zee Enterprises has received approval for its merger with Sony Group's Indian unit from CCI and is looking to seek shareholder and creditor approval which is expected to rerate the stock in the coming months. We continue to emphasize the Special Situations approach, bet on strategic announcements, and look forward to outperforming the benchmarks.

We reiterate that Investors should increase allocation towards the Special situation as we continue to find newer and exciting opportunities in this space.

Growth Investment Approach:

GROWTH INVESTMENT APPROACH *							
Performance (in CAGR)	1 Month	3 Month	6 Month	1 Year	2 Year	3 Year	Since Inception
CapGrow Growth	**-1.40%**	**12.67%**	**1.19%**	**-5.82%**	**29.88%**	**15.56%**	**12.46%**
Benchmark (Nifty 500)	-3.23%	10.77%	-0.44%	-1.48%	25.99%	16.65%	14.40%

CapGrow Growth Strategy has outperformed the markets in the past 1 month, 3 months and even 6 months compared to the Nifty 500 benchmark. Stocks like J B Chemicals in the pharma space and CSB Bank have performed well. They have created alpha in the portfolio performance despite our top conviction bets like Housing Finance Development Ltd and EPL ltd having seen a dull and laggard performance in the past few quarters. For HDFC, we remain bullish on the synergistic benefits of HDFC twins through lower financing costs and deeper penetration across the nation. Further on the part of EPL, global headwinds (rising energy prices and rupee appreciation in Eurozone) are close monitorable, with the base fundamentals of business remaining strong. We remain optimistic about these two large bets that are underperforming and our overall portfolio stocks. We continue to monitor quarterly business performances and rapidly changing macro and would continue to realign and rebalance our portfolio to improve our returns going forward.

Overall, we don't see any crash or a catastrophic fall (a common fear currently) in the Indian equity markets. We all are confident of a bumper Diwali in terms of strong consumer and Auto Sales. The monthly SIPs are close to 13k Cr, and there is an additional 100k Cr of money lying on the sidelines to enter Indian equity markets with the MFs and Institutions. The growth in corporate earnings will provide support to the equity prices. We believe we are in the last leg of this directionless market and the market should move upwards from its narrow band, fully supported by earnings and inflows. Please note that India continues to have one of the highest economic growth rates, well supported by structural reforms and a stable political government.

We want to reiterate our motto of "Client comes first" and reaffirm that we are working hard to create long-term wealth for all clients. I will be happy to get on a call with each of you to address any queries you may have.

Happy Investing! Wishing all our clients and families a very Happy and Prosperous Deepawali!

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***CapGrow Capital Advisors LLP is a SEBI Registered PMS. Following is the disclaimer for the performance data:**

We hereby confirm the following related to the Portfolio performance:
i. All performance data is based on TWRR (Time-Weighted Rate of Return) for both the PMS strategies
ii. Individual client performances can be different than the reported performance depending on their joining dates and AUM at different times.
iii. Net of all fees and all expenses, including taxes, are taken into consideration at the time of reporting the performance data.
iv. Performance reported in all marketing material and websites is the same as that reported to SEBI. The aggregate firm-level performance reported in all documents is the same as the combined performance of all the portfolios managed.
v. The performance-related information provided above is not verified by SEBI.