MONEYLIFE ADVISORY
MAS WEALTH

It was a Spectacular Upcycle

Dear Esteemed Investors,

This communication comes after a brief gap. We have enjoyed a bull run lasting 18 months, during which our two portfolios have delivered remarkable returns. I am pleased to report that 95% of our investors have remained with us since their initial investment, placing their trust in us throughout this period. The market has rewarded both them and us generously. Thanks to a confluence of positive factors, we were fortunate to identify numerous investable ideas across various sectors,.

Performance Overview*

Period	Growth	Prime
March 23 - Sept 24	111%	98%
Nifty 500	57%	57%
Nifty 50	41%	41%

** Absolute Returns*

The question that is now on everyone's mind is: what does the future hold, especially now that the market appears to be correcting? Many believe this decline is driven by Foreign Institutional Investors (FIIs) selling their holdings in favour of more attractive opportunities in Chinese markets. However, given the diverse mandates of FIIs, it is hard to assert that all are aligned in their actions. Additionally, FIIs have been offloading shares since late last year, prompted by the inflated valuations in India.

On a more positive note, many believe that the continued influx of domestic savings into mutual funds will sustain market momentum. Nevertheless, it is also possible that when market corrections occur for internal reasons, these same investors may pause their Systematic Investment Plans (SIPs). Retail investors tend to flock to top-performing funds, which often include overvalued stocks that could face turbulence. Millions of new retail investors who have recently invested in popular stocks may panic during significant corrections. In our view, the primary challenge ahead for the market lies in the slowing corporate earnings.

Large Caps

As we enter the quarterly results season, early reports from major Indian companies have been disappointing. Last week, the Bajaj Auto stock fell over 15%, marking its largest weekly decline since January 2011, following its Q2 FY25 results, which revealed a 2.68% year-on-year decrease in operating profit and a drop in operating profit margin from 20% to 16%. Alarmingly, the management has projected a festive season sales growth of merely 1-2%, significantly below the industry expectation of 5-6%.

Even Nestlé India, typically resilient during slowdowns, reported a domestic volume growth of only 1%, reminiscent of stagnating developed markets. Its net profit increased by a mere 7%, with revenue from operations up just 3.3%. Tata Consumer, another leading consumer goods company, faced weak results, resulting in a 7% stock decline last Monday. Hindustan Unilever came out with similarly poor results and the stock got crushed. Two banking giants of the Nifty 50—Kotak Mahindra Bank and HDFC Bank—reported only a 5% increase in profits.

Infosys's September quarter results were lacklustre, with revenues struggling to keep pace with inflation; profit rose by only 4.73%, while revenues increased by a mere 5.11% year-over-year. Tata Consultancy Services, India's largest IT services firm, reported a revenue increase of 7.06% and a net profit rise of just 5%. Another Nifty 50 software entity, LTI Mindtree, posted revenue growth of 5.92% and profit growth of 7.68%.

The outlook for future returns from large caps appears modest. This is primarily due to the fact that stocks within indices typically belong to sectors that have performed well historically. Unfortunately, three of the four sectors that have thrived in the past are currently underperforming and, barring significant changes, are unlikely to regain their former momentum. These sectors include large fast-moving consumer goods firms like Hindustan Lever, major software companies, and large banking and finance entities. The fourth sector, big pharma, does exhibit growth, albeit in limited areas. In essence, the largest stocks in the index are experiencing slow growth, which dampens overall index performance, while smaller companies—now richly valued—begin to take the lead.

Mid and Small Caps

This segment of the Indian market is particularly exhilarating, showcasing the finest examples of Indian entrepreneurship. We have concentrated our efforts here, yielding substantial benefits for you. Sectors that have struggled for the past 15 years are now on a robust growth trajectory, propelled by significant government spending aimed at economic stimulation. Mundane businesses such as wires, pipes, forgings, castings, cables, transformers, pumps, motors, and urban infrastructure construction are thriving, although most are small enterprises.

However, high earnings growth attracts considerable investment, which in turn elevates valuations. When purchasing such stocks, all known factors appear highly favourable and self-reinforcing: strong sales and profit growth, a substantial order book, and significant expansion plans aimed at capturing future growth. Rarely does anyone question whether these positives are already reflected in the stock price or whether justifying ever-higher valuations is prudent. Many small-cap stocks have reached unprecedented valuation levels, and if investors are not vigilant, they may be blindsided by disappointing future returns from these popular stocks. If earnings slow, the subsequent decline could be severe. At Moneylife, we have been acutely aware of this and have booked profits in the first two quarters as many of our holdings became overvalued, ultimately leading to considerable capital gains for you. This approach, we believe, is preferable to watching gains dissipate, an unfortunate outcome that hits both professional and retail investors.

What Lies Ahead?

As the September quarter results unfold, we are adopting a more defensive posture. Signs of an economic slowdown are becoming evident. Collections from the Goods and Services Tax (GST) have fallen to 6.5%, the lowest in 40 months. The trade deficit expanded to $29.7 billion in August, up from $24.2 billion a year ago. India's merchandise exports declined to $34.7 billion in August, down from $38.3 billion the previous year. The annual Gross Domestic Product (GDP) growth rate has decreased from 7.8% to 6.7%. The Index of Industrial Production (IIP), which tracks the output of eight core industries—including coal, oil, and electricity—was negative in August for the first time in three years. In September, car sales plummeted by 19% compared to the same period last year.

The Purchasing Managers' Index hit an 8-month low at 56.5 in September, down from 57.5 in August. The Services PMI also fell to a 10-month low of 57.7 points, down from 60.9 points in August 2024. Home loan disbursements decreased by 9% in the first quarter, while auto loans and personal loans saw modest increases of only 2% and 3%, respectively. Credit disbursements by fintech companies remain stagnant, and during the April-August period, diesel sales rose merely 1% year-on-year.

While some stock market experts assert that India has undergone permanent positive transformations—such as a robust banking system, low current account deficit, manageable inflation, controlled budget deficit, and a low debt-to-GDP ratio—the prevailing narrative that this is "India's century" does not resonate with us as a sound basis for investment returns. The data suggests there has been no fundamental transition to higher income through increased productivity and enhanced competitiveness. Thus, should economic growth revert to pre-Covid levels, we hope to be adequately prepared. We have increased our cash reserves and will deploy your investments judiciously. Additionally, we will hedge the portfolio against sudden market movements, whether upward or downward, in hopes of outperforming benchmark indices and delivering favourable returns.

Wishing you all a joyous Deepawali.

Happy investing,

Debashis Basu
Founder & Principal Officer