

7-Oct-23

Dear Investors,

Hope all is great at your end. Our performance for the month of September is as follows (Exhibit 1).

Exhibit 1: Performance as on 30-Sep-2023

	1m	3m	Since Inception (Apr-23)		AUM (INR Cr)
			Strategy	BSE 500 TRI	
MoneyGrow Flexicap	1.1%	3.9%	15.8%	16.3%	30.0
MoneyGrow Bespoke	2.3%	7.1%	23.0%	17.5%	52.5
MoneyGrow NDPMS	2.3%	8.2%	17.0%	16.3%	0.8
BSE 500 TRI	2.1%	5.5%			
Total AUM					

This has been a month of consolidation for the markets and our portfolio. Also, we are living in a period where the divergence between global macro and Indian micro has been exceptionally pronounced, and this makes the stock selection exceptionally important. Let me elaborate below:

Weakness in Global Macro

- US 10-year yields (the global risk-free rate) has risen from 4.1% on 31-Aug-23 to 4.8% on 6-Oct-23. This 70bps move is sharp and made the market participants worry about a potential repeat of 1987-like crash.
- In Oct 1987, US 10-year yields rose 203bps from 8.2% (17-Jun-87) to 10.23% on 15-Oct-87 and suddenly S&P 500 crashed 20.5% on 19-Oct-87 and by almost 28.5% in four days. I have saved the headline of New York Times and have pasted it below as Exhibit 2.

Exhibit 2: NYT Front-cover post Black Monday Oct 1987



- This kind of a move in US 10-year yields is an exceptional move and my learning over the last two decades has been that one should be extra careful.
- What will happen next is probably a trillion-dollar question, but any sharp move in US 10-year does lead to a situation of disequilibrium for the short-term.

Having said all the above about global macro, we have a situation of one of the strongest underlying economic performances here in India. A few of the major highlights are as follows:

- Inflation: Indian Aug CPI fell to 6.8% vs 7.4% in July, largely due to reversal in vegetable prices. WPI inflation remains in negative territory at -0.5%.
- Index of Industrial Production (IIP): July IIP stood at 5.7% vs 3.8% in June.
- Indian bonds will soon be part of JP Morgan bond indices from June 2024 and this could result in an inflow of USD 20-40bn. Post this inclusion, there is a chance we may get included in some of the other indices too. We have covered this in our flash note dated 22-Sep-2023.
- Government's fiscal accounts has witnessed a robust growth in tax collection revenue for August, especially direct taxes. For 5MFY24, Gross tax collections are up 17% YoY, led by the direct tax revenue. Further, Indirect tax collections continued to stay robust. Refer Exhibit 3.

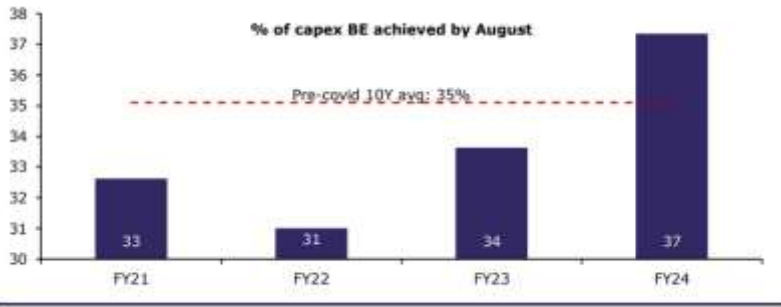
Exhibit 3: Direct Tax collection

Date	Aug-23		Aug-22		Jul-23		Chg. (%)		FYTD (5MFY24)			Chg. (%)		FY2024BE		FY2024	
	Aug-23	Aug-22	Jul-23	yoy	mom	2024	2023	2022	2024/2023	2023/2022	Rs bn	(% of BE)	Current run rate	Required run rate			
Gross tax revenues	2,950	1,511	2,223	95	33	11,892	10,206	8,596	17	19	33,609	35	2,378	3,102			
Direct taxes	1,722	373	1,055	362	63	6,128	4,861	3,791	26	28	18,317	33	1,226	1,741			
Corporation tax	628	112	376	463	67	2,389	2,076	1,681	15	24	9,227	26	478	977			
Income tax + other taxes	1,094	261	679	319	61	3,739	2,785	2,110	34	32	9,090	41	748	764			
Indirect taxes	1,048	1,137	1,075	(8)	(2)	5,749	5,335	4,795	8	11	15,292	38	1,150	1,363			
Customs duty	185	143	158	29	17	835	653	762	28	(14)	2,331	36	167	214			
Excise duty	236	288	244	(18)	(3)	998	1,140	1,372	(12)	(17)	3,990	29	200	342			
Service tax	1	(2)	1	(134)	4	4	1	1	298	(14)	5	86	1	0			
GST	804	707	762	14	5	3,912	3,541	2,659	10	33	9,566	41	782	808			
CGST	627	519	672	21	(7)	3,362	2,867	2,167	17	31	8,116	41	673	679			
IGST	63	89	(24)	(30)	(361)	(29)	155	66	(119)	136	-	-	(6)	-			
Compensation cess	114	99	114	16	0	577	519	406	11	28	1,450	40	115	125			
Net tax revenues	2,214	339	1,490	553	49	8,039	7,001	6,448	15	9	23,306	34	1,608	2,181			
Non-tax revenues	308	272	238	13	29	2,096	1,166	1,487	79	(21)	3,017	69	419	132			
Non-debt capital receipts	17	14	30	20	(44)	154	315	152	(51)	108	840	18	31	98			
Total receipts	2,538	625	1,758	306	44	10,289	8,484	8,087	21	5	27,163	38	2,058	2,411			
Total expenditure	2,911	2,633	3,300	11	(12)	16,718	13,900	12,767	20	9	45,031	37	3,344	4,045			
Revenue expenditure	2,343	2,196	2,914	7	(20)	12,980	11,377	11,048	14	3	35,021	37	2,596	3,149			
- Interest payments	677	548	562	24	20	3,678	3,386	2,784	9	22	10,800	34	735	1,018			
- Subsidies	397	267	540	49	(26)	1,807	1,365	1,474	32	(7)	3,747	48	361	277			
- Transfer to states (Min of Fin)	96	163	164	(41)	(42)	610	643	994	(5)	(35)	1,873	33	122	180			
- Rural development	141	121	119	17	19	649	598	674	9	(11)	1,575	41	130	132			
- Others	1,033	1,008	1,530	(6)	(33)	6,237	5,385	5,122	16	5	17,027	37	1,247	1,541			
Capital expenditure	567	437	386	30	47	3,738	2,523	1,719	48	47	10,010	37	748	896			
- Defence	154	(5)	132	(2,941)	17	479	411	374	16	10	1,714	28	96	176			
- Railways	175	97	165	80	6	1,127	672	314	68	114	2,400	47	225	182			
- Roads and highways	83	289	22	(71)	280	1,102	1,096	725	1	51	2,586	43	220	212			
- Loan to states for capex	78	5	34	1,354	130	412	36	40	1,036	(9)	1,300	32	82	127			
- Others	76	51	33	49	129	618	307	265	101	16	2,010	31	124	199			
Fiscal deficit	372	2,008	1,542	(81)	(76)	6,428	5,416	4,680	19	16	17,868	36	1,286	1,634			
Primary deficit	(304)	1,460	980	(121)	(131)	2,753	2,030	1,896	36	7	7,068	39	551	617			
Revenue deficit	(178)	1,585	1,186	(111)	(115)	2,844	3,208	3,313	(11)	3	8,699	33	569	836			

Source: CEIC, Kotak Economics Research estimates

- India's capex is on a roll!!! A capex of Rs3.7tn is the highest, in the first five months of any fiscal year. Centre continues to frontload capex in advance, ahead of the upcoming Parliamentary elections and allocation is towards areas such as railways, roads & highways, defence, etc. Transfers to states by Centre have been robust through the 50-year interest-free capex loan program, as the Centre has also successfully pushed states to frontload their capex this year. Refer Exhibit 4.

Exhibit 4: Capex



Source: Bloomberg, Emkay Research

- Monsoon was finally normal after the pick-up in September. Sowing was in-line with last year and this was a major relief.
- Commercial banks' YoY credit growth remained strong in Sep-23, deposit growth also picked up. Refer Exhibit 5.

Exhibit 5: Credit Growth and Deposit Growth



Source: Bloomberg, Nirmal Bang Institutional Equities Research

- Some of the corporates have released their end-of-quarter update and that appears quite strong: particularly from banks and NBFCs. More detailed results are awaited soon.

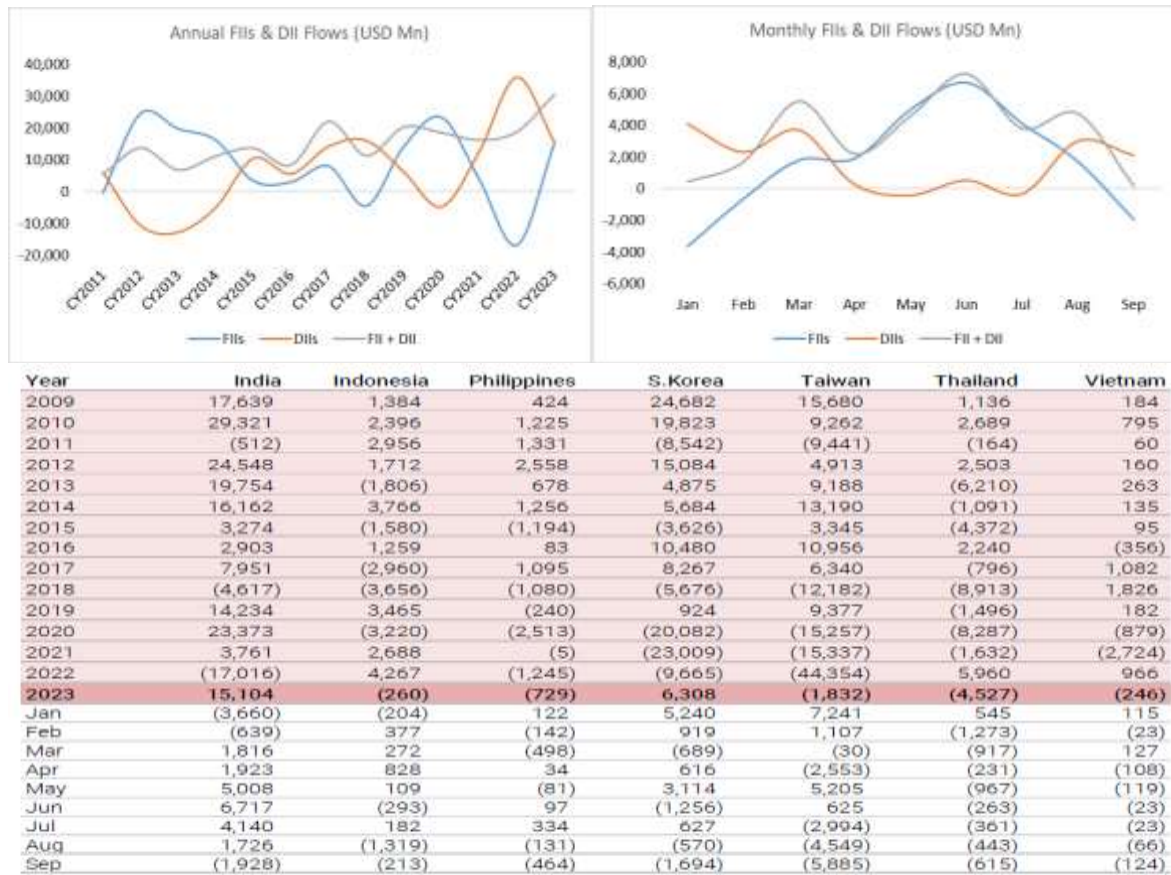
Conclusion

- In the light of adverse macro, one must ask oneself whether one is a short-term investor or a long-term investor. Should there be a market correction led by US macro, will one be comfortable to add to existing holdings or will one panic and exit the portfolio. I personally feel that this is the most important question as opposed to trying to guess whether there can be a sharp correction or not.
- We are having a lot of tailwinds in India – particularly demographics, resurgence of manufacturing, huge domestic demand for services and products. As a society, we have also embraced technology wholeheartedly as evident from Jan-Dhan, Aadhaar, UPI and what not. As the next level of renewable energy transformation happens, we may turn from net importer to net exporter of energy. Last, but not the least, we have a massive war chest of foreign exchange reserves that make us less vulnerable to any external shock relative to our own

history or in comparison to other EM economies. So, directionally we all know that we are on the right path, and we just need to keep moving forward steadily.

- Historically, we have seen a lot of sharp corrections and they have invariably been the best time to add to existing holdings. FIIs may sell massively because of their overall leveraged positions and/or pressure of redemptions, but my best guess is that DIIs will buy again. Refer to Exhibit 6 that shows the strong FII sell-off in Sep.

Exhibit 6: FIIs sell-off in Sep across all regions; Resilient Performance of Indian Equities



Source: Bloomberg, Kotak Institutional Equities

- We remain very vigilant in these times and will be more than happy to discuss the portfolio/outlook anytime as per your convenience.

Warm regards,

Manish Gupta & entire MoneyGrow team

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