First Things First

Our portfolio return for September 2019 was 5.4%[1&2]. This compares favorably with market indices (3.6% for BSE Sensex and 3.9% for Nifty) and Mutual Funds (2.3%) for the same period. Our last four-month return is 6.8%, again higher than broad market indices (-2.4% for BSE Sensex and -3.6% for Nifty) and average of Mutual Funds (1%).

Portfolio Activity

The portfolio is well-diversified and top holdings continue to do well. 18 of our stocks hit their 52-week high in last 2 months. We have increased allocation to insurance stocks. We have removed a leading innerwear company and booked partial profit in the only aviation stock we have. With the stock price more than doubling in the last year, the allocation to this one company had gone above our pre-defined level. Our cash holding continues to be below 5% of the total AUM.

Top 5 Stock Holdings	In %
Info Edge India Limited	4.3%
Apollo Hospitals Enterprises Ltd	4.0%
ICICI Lombard Gen Insurance Co Ltd	3.8%
Godrej Properties Limited	3.5%
HDFC Bank Limited	3.5%

Commentary on impact of cut in corporate tax rates

The govt. has taken a strong measure to kick start the economy. High tax paying companies will now have more capital to either re-invest or return to shareholders. Either way this will give a boost to the economy through a pick-up in private capex, generation of employment and increase in consumption. This is a virtuous cycle that has been missing in India for a long time. The potential increase in per-capita GDP over the next couple of years will get us over the inflection point where the country suddenly starts believing that it is not poor anymore.

The tax rate of 15% for new manufacturing companies makes us extremely competitive. Return on Capital Employed will increase and gestation periods for new projects will significantly reduce. India now has a great opportunity to attract international companies to set up factories in India.

Arguably, govt. will struggle to meet its fiscal deficit target. In the normal course such a miss would lead to an increase in interest rates and depreciation of the INR. However, with the RBI reducing rates by 25 basis points in the latest policy meet and signaling a dovish stance, the negative impact may be limited. RBI is also trying to make sure that the rate cuts are transmitted to the retail borrowers.

Outlook

Tax cuts have led to an increase in earnings estimates. NIFTY earning estimate has been increased by 8-10%. While this led to a sudden jump in the indices, we believe some of the immediate exuberance will get toned down as investors realize that the impact of tax-cuts will kick-in only in about 12 months.

Festive season sales figure is a more important near-term data point, especially for consumer discretionary industries like real estate and autos. While some of the auto sales numbers have picked up on a monthly basis, they are still very weak compared to last year. Plant shutdowns have been balanced by launch of new models. It will be interesting to see how much inventory is left after the festive season. Availability of easy consumer finance for large ticket purchases will be a key factor.

Note:
1. This is the average absolute return for the entire portfolio. Individual portfolio returns will vary because of different allocation to same stocks in different portfolios and different time of making the investment.
2. Calculated by independent fund accountant on a TWRR basis after taking into account all fees and expenses.

While we continue to hold a twelve-month NIFTY target of 13500, we believe that the next 3 months will be volatile, and markets will follow the FPI flows. We see the near-term pressure as a great opportunity to invest in high quality Leaders while they are still available at reasonable valuations.

In this festive month, the team at Piper Serica PMS would like to wish you and your loved ones a very Happy Diwali and a prosperous new year!

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