Piper Serica Leader Portfolio Strategy™

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Portfolio performance and activity

The since-inception (June 2019) TWRR for the PMS is 20.5%. This compares favorably with our benchmark Nifty that returned 15.5% over the same period and multi-cap MFs that generated 16.5% return. Our standard deviation and CAPM beta continue to be well below that of the benchmark and our Sharpe ratio is well above, as detailed in the factsheet.

Our monthly factsheet can be downloaded here.

Portfolio and market update

There were no major changes to the portfolio other than those that you are already aware of through our earlier communications. We continue to add to our position in Divis, LTI and Lemon Tree. In summary, we have added Divis for its focus on custom synthesis business, LTI for its higher share of digital business leading to higher margins and Lemon Tree for being the biggest beneficiary of the unlock activity in the hospitality sector.

Two of our portfolio stocks, IndiaMart and Zomato, have seen a sharp correction in stock price over the last quarters. The operating performance has improved but the valuation multiples have dropped from the peak. We have limited their allocation to about 10% in aggregate of the portfolio. Even then, the sharp correction has led to near term underperformance of the portfolio. Revisiting our investment thesis for these companies we find both investing aggressively for growth, but the upside of this investment is not immediately visible to the markets. Both the companies are using technology in a very effective manner to create long term competitive edge and will maintain their leadership in their high growth industry. They have very forward-looking management and strong balance sheet. Zomato is already at a contribution level of 1% and it is expected to turn profitable as soon as the contribution margin increases to 5%. Therefore, unless we see a divergence between our investment thesis and the operating performance of both the companies, we will hold them in the portfolio with a combined allocation of about 10%.

Our view on the mega merger of HDFC Ltd. and HDFC Bank is that the much-delayed merger is a merger of compulsion. HDFC Ltd. will benefit more as it has a lower margin and growth business. At the same time, the creation of a much larger lending entity doesn't solve HDFC Bank's problems of driving growth through digital channels or the competitive challenge from new age fintech companies. There will be some cost synergies but it is difficult to see how the merger by itself will help the merged entity increase its market share. The immediate positive reaction by the markets has helped the entities recover from more than 20% underperformance against the benchmark over the last year. However, we believe that the earnings of HDFC Bank could be downgraded in the near term after building in the merged entity number and the onus will be on the management to prove the upside of the merger through operating performance.

We have stayed almost fully deployed. Our current cash holding at the PMS level is about 4.4%.

At a macro level, it is heartening to see the support provided by the domestic investors to the markets. FPIs have been selling continuously for the last six months. In the last quarter, this selling reached a crescendo of USD 14 billion. In earlier times, this kind of selling would have crashed the markets. However, despite this selling the Nifty turned almost flat since the beginning of this year helped by a 4% increase in March. The domestic investors ploughed in almost USD 9 billion to offset the FPI selling. The Nifty is just 5% shy of its all-time high achieved in October 2021 despite a cumulative selling of USD 36 billion since then. We are seeing a remarkable reduction in dependence on foreign capital. While India will remain a capital deficient high-growth emerging market country it is good to see that it is getting high quality long-term foreign capital and is not dented by the outflow of hot money.

The annual household savings in India is estimated to be USD700 billion as per a recent report by Jefferies. Less than 5% of this goes to equity investments. 50% still goes to real estate and 15% each to bank fixed deposits and gold. We believe that with financialization of savings, the share of equity investment will get to double digits. With the addition of a new breed of young investors who are not interested in locking their money in illiquid and low-return assets, we expect that an increasingly large part of savings will flow to equity markets directly and through mutual and pension funds. With the proliferation of digital brokers and fintech apps the young investors find it easy to invest in stocks. As a result, share of digital brokers in retail segment has increased to 45% and is expected to increase to 63% by 2025. This is a mega-trend for the decade and will help our portfolio companies like AngelOne and CDSL.

The recent recovery in global markets in the face of Ukraine war situation and sharp inflation has confounded analysts. While both remain a worry it is also likely that both will lose intensity over the next couple of months. The western countries have realized that sanctions over Russia cause mutual pain. Similarly, the extended peak cycle of commodities is showing some signs of tapering as more supply comes on stream. At the end of the day, global markets will never be completely devoid of worries. Responsible long-term investing requires an investor to stick to her asset allocation plan through the market volatility. That has proven to be the only certain way of creating long-term wealth.

Our best wishes to you and your loved ones for the festive month of April!

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