Piper Serica Leader Portfolio Strategy™

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Piper Serica

Portfolio performance

The since-inception (June 2019) TWRR for the PMS is 16.1%. This compares favorably with our benchmark Nifty that returned 13.9% over the same period and multi-cap MFs that generated 14.1% return. Our standard deviation is at the same level and CAPM beta is 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 update

The month of August saw a continuation of recovery across global markets. Indian markets continued to recover too. Nifty closed at its all-time monthly closing high though it is still about 6% away from its all-time high. FPIs were net buyers after a long time and DIIs were net sellers after 17 months. Markets however continue to be highly volatile as investors are still not sure about the direction of interest rates, commodity prices, inflation and the probability of recession. While the large cap and mid-cap indices have recovered sharply in line with FPI inflows, the small cap index is almost 20% below its all-time high reached earlier this year. This shows that the market recovery is uneven and interesting opportunities continue to be available in the small and mid-cap space.

The earnings season ended with lower-than-expected earnings downgrades. The downgrades were limited to 3-5% of estimated earnings which means that though the Indian markets are trading at a premium to the average of the Emerging Market indices they are still well within their historical valuation range. Our view is that the Indian markets are fairly valued and incremental returns will require astute investing. The good news is that the earnings growth trajectory is sharply up, and this will continue to attract foreign capital. The August FPI flows were the highest ever in last 20 months and we believe that we will continue to see net inflows on a monthly basis. The domestic flows continue to be robust. Combined, we see them providing strong support to the markets.

Our cash position at PMS level is down to 7.2%. We have completely exited from an underperforming B2B Internet company. Its quarterly results were not up to the mark and its execution is falling behind schedule. We are not expecting any significant portfolio churn in the near future. We are in the final stages of due diligence of a couple of small cap companies. If we decide to add them to the portfolio the churn would be about 8% of the total portfolio over the next couple of months.

View on the recent macro data

The recent domestic data flow has been positive. Domestic consumption continues to be strong. Auto companies, especially 2-wheelers, are seeing a strong recovery in demand after 5 years of falling sales. Services PMI has risen to 4-year high of 57.2 putting it firmly in expansion zone. Employment generation is at a 14-year high. Exports are at their highest ever. As commodity prices and global freight rates fall sharply, the inflation rate is also seeing a downward trend. The strong domestic consumption shows that the economy has absorbed the interest rate hikes well. As the festive season approaches, we are seeing OEMs starting to build inventory as the channel inventory was quite lean.

There are also interesting developments in capital markets that show the rapid migration of savings from physical assets to financial assets. The number of demat accounts has crossed 10 crores. This was about 4 crores in pre-covid time. The cash market and F&O volumes are near all-time highs. New folios are getting created every day by mutual fund investors as they plow in fresh capital every month. This is a very positive development for three of our portfolio companies – CDSL (largest depository by number of accounts), Angel One (3rd largest digital broker with a 20% market share) and CAMS (largest mutual fund RTA). With a very supportive macro environment we expect these companies to thrive. Their industries have very high entry barriers and within that each of these is a very competitive player that rates almost 9 out of 10 on our Porter model analysis.

Upcoming long-term opportunities

A recent report by Bain on manufacturing export opportunity for India makes for enthralling reading (link here). It expects chemicals, pharmaceuticals, electronics, automotive, industrial machinery, and textiles (among others) to propel manufacturing exports to $1 trillion by FY28 from $418 billion. The six megatrends that Bain has identified to support this growth are supply chain diversification, advantages for India in certain manufacturing sectors, government initiatives to bolster manufacturing in the country, capital expenditure infusion into manufacturing sectors, heightened merger and acquisition (M&A) activity, and private equity/venture capital (PE/VC)-led investment in manufacturing.

In addition to the manufacturing space, there are some government sponsored initiatives that we believe will be extremely disruptive and will open a big opportunity for dynamic companies that are ready to benefit from these initiatives. At the same time, the incumbents that will be too late to react will suffer. ONDC (Open Network for Digital Commerce), NEP (National Education Policy 2020) and CUET (Common University Entrance Test) are 3 such key initiatives by the government that have the power to disrupt e-commerce, education and test preparation industries. ONDC is already being hailed as a "giant-killer". The government has shown its execution power through UPI and we expect these initiatives to be as impactful as the UPI.

Our research team is already on the job assessing the potential impact of these initiatives and finding winners that we can add to our portfolio. We will discuss this in greater detail in our future investor letters.

On a lighter note, the month also brought the news of revival of the iconic brand Campa Cola by Reliance. Most of us have happy memory of drinking it till the MNC brands showed up. Thums Up and Limca have already shown the staying power of Indian soft drink brands. With the retailing might of Reliance, Campa Cola can climb up the market share chart very quickly. We will be cheering for that.

Best wishes from our team for the auspicious month of Ganesh Chaturthi. May the Lord remove all obstacles from our path and bless us.

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