

24th July 2024

Dear Investors,

India juggernaut continues...

Markets have been in general healthy and rewarding. Our goal is to provide you with a clear perspective on your investment portfolios and recommend the strategic mindset going forward.

As we write this letter, the Finance Minister of India Mrs. Nirmala Sitaraman, has just presented the Fiscal 2025 Union Budget. Macro balance in terms of fiscal deficit and borrowing programs are quite reasonable, capital formation momentum has been maintained, compulsion of coalition politics has been very fairly addressed while unnecessary freebies have been avoided and rationalization of tax structure has been attempted without going too overboard. Increase in short- and long-term capital gains looks a short-term irritant to investors like us, but to be fair many of us expected an increase since some time. Most importantly, the focus of the Budget has been on creating a foundation for medium-term growth through schemes on employment, skills enhancement, improving productivity of agriculture, and support for the Micro, Small and Medium Enterprise (MSME) sector. Overall, **a balanced progressive framing of policies should, to our mind, maintain the growth trajectory going forward and that is what matters for long term investors.**

We continue to find value and franchise opportunities...

One of the key new investments that EQ has made for our investors is **Protean eGov Technologies Ltd.** And the budget has been very encouraging for the business. As part of its Open Digital Ecosystem, Protean has been working on various pilots in the agriculture sector to create land records for Digital Public Infrastructure. A complete project allocation on this can boost the revenues from the ODE - Agri business vertical which is negligible currently. Additionally, the increase in limits in corporate NPS even in the new tax regime is positive. Budget has reiterated the Government emphasis to use Open Digital Ecosystem to deliver public goods and we strongly believe Protean eGov Technologies is one of most unique play on this structural trend. We see a very robust business model with deep competitive advantages run by a competent and innovative professional team poised to grow faster than economy available at value prices.

Roughly four years back virtually everyone on the street hated **Raymond Ltd.** We saw value in the business & brand and started accumulating around Rs 2500 crore market capitalization. Market capitalization went down to Rs 2000 crores after our initial purchases, but now Raymond trades at Rs 22,000 crores market capitalization (combined two entities after split) - a cool 10X. This is classic value hunting in corners most of us hate to go. We have always loved venturing in such trades and would do so in future too as and when opportunity appears to our team.

We want to keep walking on this path of tactically owning hated deep value stocks combined with some good quality franchises at reasonable value in our portfolios. Markets by its very nature goes greedy and fearful and hence create cycles and volatility. Time and again value opportunities appear to ones who are hunting for them. On the other hand, India is on a once in a lifetime structural prosperity trend and several businesses will scale to new heights over time and we are looking for such opportunities too, where we ride the trend longer.

Compounding magic of equities...

Index	1 Year	3 Years	5 Years	10 Years	15 Years	20 Years
India Nifty 50	1.1x	1.6x	2.0x	3.7x	8.8x	16.1x
US S&P 500	1.2x	1.5x	2.2x	4.1x	11.5x	11.6x
Gold	1.2x	1.3x	2.0x	2.2x	4.2x	9.3x
Real Estate	1x	1.2x	1.3x	1.6x	2.6x	5.7x
Debt	1.1x	1.2x	1.4x	2.0x	2.9x	4.0x

Source: Economic Times

Investors need to keep the long-term base case return potential of each asset class and not jump assets purely by near term attractiveness. The above index table of various asset classes shows how they multiply over different time frame is instructive.

In 20 years Rs 100 invested in Debt would turn to Rs 400, in real estate Rs 570, in Gold Rs 930 and in Nifty 50 Equity Rs 1610. Longer holding periods are where differences show up meaningfully and investors who ignore this fact miss out on significant wealth creation opportunity. Clients who started their journey 21 years back with us have seen their Rs 100 grow to Rs 6000.

"My life has been a product of compound interest." Warren Buffett

The message is clear. For beating inflation and long-term wealth creation, allocation to equities is what matters. Systematical Investment Plans is a sound strategy. Allocation to equities - direct or through instruments like PMS, AIF or Mutual Funds should be systematically scaled up and investors need to have a long-term holding attitude.

The tendency of investors to interrupt compounding and go to other asset classes like real estate or debt becomes high when they see elevated equity prices. But we and several eminent investors have understood the folly of such a strategy. Compounding goes on. No one can time and re-enter again. Deboarding an outperforming asset class is a bigger risk than seeing some drawdowns in the short term.

Broad mindset we encourage investors to internalize going forward...

- 1. Be an India Bull:** Have faith in the ongoing super cycle in Indian economy. There are not one but several stacks of structural drivers which should bring prosperity to India in the coming few decades.

2. **Un-wavered faith in Equity as an asset class:** Know that equities are your best long-term friends for wealth creation despite its near-term volatility. Stick with it to see rewards.
3. **Keep investing/re-investing:** Systematically adding to equities should be the mantra not withdrawing.
4. **Stick with a sound Process:** Bull markets can fool many to try a hand at picking stocks. But long-term success in investing needs sound processes and tactics honed over longer periods. Partner with those who have passion and love for their craft of investing. Those who have seen previous ups and downs are better equipped is a commonsense wisdom.

The market is not a very accommodating machine; it won't provide high returns just because you need them, nor do they come in linear fashion. The best results from the market accrue to those who hold unwavering passion and faith towards it and partner with it for longer periods. We aspire to help our investors on this journey - we love what we do and do what we love.

“When you manage money, it takes over your whole life. It's a 24-hour-a-day thing.” - Julian Robertson

Best times for Indian equities lie ahead...

Regards,

Porinju Veliyath