Trust Line
BizNotes
1ST SEP 2022
For Private Circulation

MONTHLY VIEW

FROM THE FUND MANAGER DESK

The big Retail Rush: What is driving the consumption binge in India?

Data points for India and the world can't be more divergent. While the world seems to be convulsing on the dread of triple R, India seems to be rejoicing on the rhythm of double R. Triple R of Recession, Rate hikes and Reduction in central bank balance sheets dominate the narrative for the developed world whereas here in India, the double R of Retail Rush is reveling the retailers. Diwali seems to have set in early for consumer demand.

Retail business, PV sales, credit card spends and retail credit have seen a huge spurt in July after months of muted show. Both the RBI's consumer confidence index and the CMIE's consumer sentiments index (Center for Monitoring Indian Economy) have shown a significant spurt in July. More importantly, what is significant is that both these indices reflect the assessment on the future conditions of demand, besides the current one. This means the consumer confidence in India is likely to sustain in a durable manner, provided there are no further shocks from the global macro.

What is fascinating is the level of growth in July in the consumer retail vis-à-vis the pre-pandemic level in 2019 (not YOY from 2021). In most of categories, the growth numbers are gyrating at high double digits as listed below.

- ↑ 23% in footwear
- ↑ 22% in apparel and clothing
- ↑ 32% in sports goods
- ↑ 23% in furniture & furnishing and 17% in QSR
- ↑ 17% in Consumer Durables & Electronics and 15% in jewelry

While opening up of contact-intensive services sectors and improved rural prospects on good monsoon etc. could be cited as some of the reasons for the rise in consumer sentiment, it doesn't fully explain the extent of jump one is witnessing in various categories, esp. with respect to pre-pandemic levels. Looks like, there is more to it than what meets the eye. The reason being, the pandemic pent-up has been playing out for a while since March and hence can't fully explain the surge in July, esp. when the global macro and inflation/interest rate scenario is much less favorable now compared to few months back.

So the key question to ask is, what is driving this consumption binge? If it is beyond the

MONTHLY VIEW

pandemic pent-up, what is it? In our view, it may be impossible to pinpoint to any one single factor that could be causing this upsurge. It could be because of confluence of factors coming together in a coincidental manner to conspire this huge consumption surge. What could be these factors?

Here are some of the major ones...

- With the clean-up of balance sheets and NPA cycle behind, banks and NBFCs are more than willing to lend, fueling credit growth (for e.g. latest data shows that a 77% jump in loans for consumer durables).
- Cumulative pent-up (rather cumulative base effect) from accumulated demand because of slower growth over last six to seven years on account of teething troubles over reform measures such as GST, RERA etc. With these measures stabilizing, they are now acting as catalysts for renewed growth.
- Opening up of contact-intensive service sectors and surge in disposable income among employees in technology and other services segments etc. have added, not in small measures to the consumer boost.
- Improved confidence on India's medium to long-term growth outlook on favorable geo-political settings (China+1 in particular), massive super-digitization cycle, progressive policy environment etc.

In summary, if one goes by above confluence, it looks like the surge we are witnessing in consumer demand is likely to sustain and could turn out to be a durable one. Further, there are early signs that the stress in the rural economy is easing as reflected in the fall in the demand for work under MNREGS in July (Mahatma Gandhi Rural Employment Guarantee Scheme). For the month of July, work demanded under this scheme fell to nearly half as compared to the prior month. This coupled with the improving prospects on the jobs front (due to an uptick in agricultural activity and a better monsoon which led to a 6-month drop in the unemployment rate in July), there is increasing confidence and comfort for a durable surge in consumer demand. Hope the Retail Rush becomes a double R block-buster for India in real terms like the theatre flick RRR in reel terms. Only time will tell. Interesting times!

Happy Value Investing!!!

ArunaGiri N

MONTHLY VIEW

CORPORATE NEWS

- **Strides Pharma Science Limited** announced that it has received approval for Naproxen Sodium Softgel Capsules, 220 mg (OTC) from the United States Food & Drug Administration (USFDA). The US OTC market for Naproxen Sodium Softgel Capsules, 220mg (OTC) is approximately $100 Mn. The product will be manufactured at the company's facility at Bengaluru. Company has a target to launch 20 products every year in the US market and has a growth outlook of $250 Mn in FY23 for the U.S. business.

- **Tata Motors** announced that it has won an order of 921 electric buses from Bengaluru Metropolitan Transport Corporation (BMTC). Under the larger tender by Convergence Energy Services Limited (CESL), Tata Motors will supply, operate and maintain 12-metre electric buses for a period of 12 years, as per the contract. Company has also signed a Power Purchase Agreement (PPA) with **Tata Power** to develop a 7.25 Mwp onsite solar project at its commercial vehicle manufacturing facility here.

- **Wipro Limited** announced that it has been awarded a multi-year contract to deliver Service Integration and Management (SIAM) Services to HM Treasury (HMT), UK government's economic and finance ministry. Wipro and HMT will work together on everything from strategy, design, and implementation to daily operations including coordinating service integration across HMT's vendors to offer end-to-end SIAM services.

- **Dr. Reddy's Laboratories Limited** announced that the Company has received the Establishment Inspection Report (EIR) on the inspection conducted by the United States Food & Drug Administration (USFDA) at the formulations manufacturing facility (FTO 11) in Srikakulam, Andhra Pradesh. The Agency has concluded that the inspection is "closed".

- **Shilpa Medicare** completes Human Clinical Studies of High Concentration Biosimilar Adalimumab & has submitted dossier to the CDSCO for review and grant of marketing/manufacturing license — a first in India. The drug is expected to cater to diseases such as rheumatoid arthritis, plaque psoriasis, and Ulcerative Colitis.

- **Adani Power** has agreed to acquire DB Power at an enterprise value of Rs 7,017 cr. DB Power owns and operates a 2x600 MW thermal power plant at District Janjgir Champa in Chhattisgarh.

- **Mahanagar Gas** cut the prices of kitchen fuel Piped Natural Gas (PNG) and automobile fuel Compressed Natural Gas (CNG), following an increase in allocation of domestically produced natural gas from the government. The price of PNG has been reduced by Rs 4 per standard cubic metre to Rs 48.50 per SCM, while that of CNG by Rs 6 a kilogram to Rs 80 per kg.

MACRO NEWS

- Rating agency **ICRA** predicted that the Indian economy will grow 12–13% in the Q1 of the new fiscal year, i.e. FY23. ICRA gave this rating citing the second-highest reading of the business activity index in 13 months in April. However, ICRA has kept its annual GDP prediction at 7.2% for this fiscal year, citing concerns over inflation and the ensuing tightening of RBI policy.

- Government reduced the **windfall tax** on petroleum crude marginally to Rs 13,000 per tonne from Rs 17,750 per tonne after crude oil prices reached 6-months low. The centre, however has increased levy on diesel exports to Rs 7 per litre from earlier Rs 5 per litre and re-introduced levy on aviation turbine fuel exports to Rs 2 per litre.

MONTHLY VIEW

- Government has allowed **retrofitment of CNG and LPG kits** in petrol and diesel vehicles that are compliant with BS-VI emission norm. As of now, such modifications are permissible only in vehicles that are compliant with BS-IV emission norm.
- The retail businesses grew 18 percent in July 2022 over the pre-pandemic level of July 2019, according to Retailers Association of **India's Retail Business Survey.** In July 2022, growth in sales compared to the pre-pandemic period (July 2019) was noticeable across regions, with sales in eastern India growing to 25 percent. There was 21 percent sales growth in southern India, while the figures were 16 percent and 10 percent for the north and the west, respectively.
- The **Reserve Bank of India (RBI)** has sought feedback from stakeholders on the possibility of imposing a "tiered" charge on payments made through the Unified Payments Interface (UPI), based on different amount bands.
- The country's **unemployment rate** in July fell to 6.80 percent, the lowest level in the last six months, amid rising agriculture activities during monsoon, according to Centre for Monitoring Indian Economy (CMIE) data.

FUNDS FLOW DATA

Data as on 25th Aug 2022

FUNDS FLOW DATA (Rs in Cr)		
Category	**MTD**	**YTD**
FII	46,893	(1,65,476)
DII	(7,010)	2,35,503
Total	**39,883**	**70,027**

DEBT & FOREX MARKET

Data as on 25th Aug 2022

DEBT / FOREX MARKET			
Category	**Day**	**1 Mnth**	**3 Mnths**
10 Yr Yield	7.30	7.39	7.31
Re / US $	79.90	79.69	77.51

Trust Line
BizNotes
For Private Circulation

1st SEP 2022

MARKET VIEW

Is the FIIs-return here to stay?

If one were to pick one striking story for the markets in the month of August, it will be the return of FIIs to the Indian markets. FIIs have been net sellers since Oct'21. They have pulled out massive 33Bn+ dollars from Indian markets in this period (till June'22). In July, the pace of selling came down significantly to result in a marginal net positive number for the month. But for the month of August, from the word go, it was only buying from FIIs end. FII net flows have been over 5.8Bn dollars for the month of Aug (as on 25th Aug). This is a remarkable turnaround given the relentless FII selling in the previous nine months. This level of flows have made Indian markets to outperform Asian peers in Aug. While MSCI EM index has been flattish in the month of August (with marginal decline), Nifty has managed to eke out a reasonable positive return (as on 25th Aug).

But the key question now is whether these flows will sustain?

On that, while the long-term picture is a lot clearer for the FII flows, in the short-term, it could be murky. Though flows have returned in August on retracement of dollar index and treasury rates, it could still be bumpy in the coming months based on what is happening to dollar index and the 10-year US yield. Already, there is a reversal in the direction of dollar index and in the treasury rates in the last week of August. Dollar index which has softened to sub 106 level in the first few weeks of Aug. is now back to near 109 levels (as on 25th Aug). Similarly, 10-year US yield which has eased to 2.6% level has once again started to firm up to over 3.10% level on the expected hawkish tone coming out of Fed's Jackson Hole meeting. This unpredictable evolving dynamics in the metrics of dollar index and treasury rates would set the direction for FII flows in the short-term. Given this, expect the markets to be bumpy and volatile in the short-term, though Indian markets are poised to directionally trend up in the medium term on the improving prospects for growth.

As we have been consistently communicating, it is critical that investors digest the likely short-term volatility so as to stick to the investing process and stay invested given the sweet-spot India is in with respect to medium to long-term growth outlook.

MARKET VIEW

Trust Line
BizNotes
For Private Circulation

1ST SEP 2022

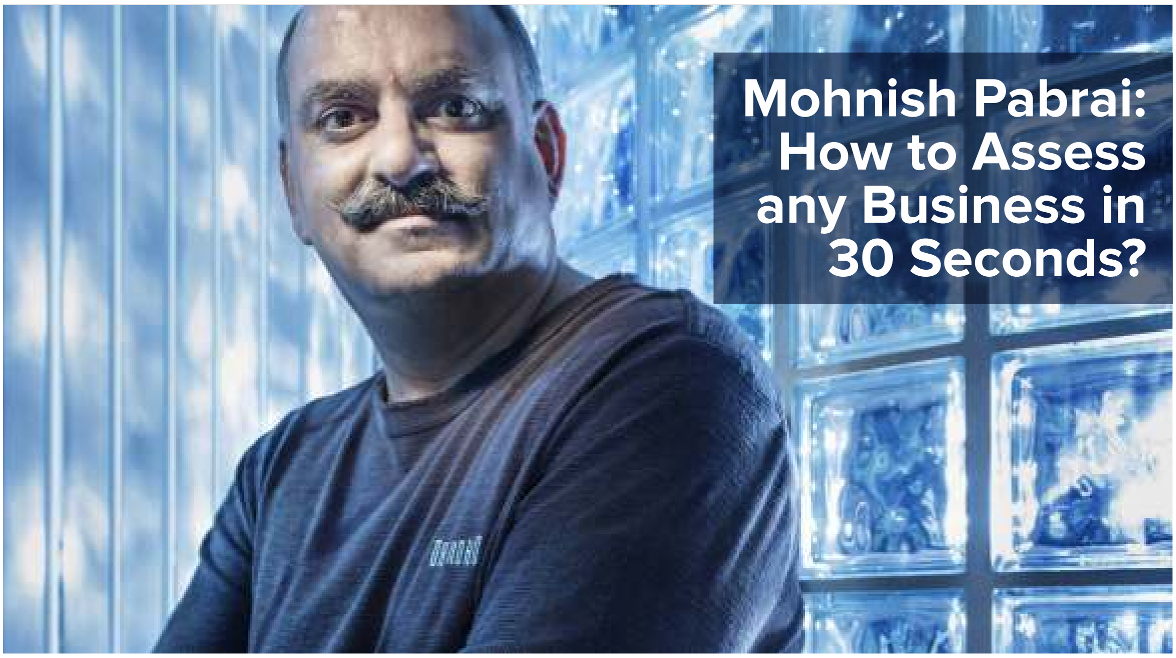
VALUE EXTRACTS

Value Extracts

- In this section of the newsletter, we attach an extract/write-up that we believe can add value to the readers from the ***"VALUE INVESTMENT"*** point of view or others that offer interesting perspective.
- Enclosed section carries an interesting blog post from The Acquirer's Multiple titled **"Mohnish Pabrai: How To Assess Any Business In 30 Seconds"** by **"Johnny Hopkins"**

"People who exit the stock market to avoid a decline are odds-on favourites to miss the next rally."

- Peter Lynch



In his recent interview on The One Percent Show, Mohnish Pabrai explains how to assess any business in 30 seconds. *Here's an excerpt from the interview:*

Pabrai: If I looked at something like MasterCard, it would very quickly make sense, because they get a certain percentage of every transaction, and it's a bunch of servers. I mean, it's going to be 80% margin business, because after you have scale, every incremental transaction almost has no cost.

So, you can tell very quickly if a business has great economics or not, doesn't take much time, what does take more time is the durability. You can tell whether a business is a good business or not, the second question, is it a durable, that's a much harder question. And if you're going through it in 30 seconds, you have to run through in your head all kinds of things about durability.

I'm reading a book by Terry Smith. Terry Smith runs Fundsmith in the UK, with I think £30 billion under management. He says, "I don't want to pick winners." He says picking winners is very hard. "I want to call the winner after the race has ended."

So, he says that basically once the race has ended, we know who the winner is, and that's who I want to invest with. What he means by that is, he has no interest in any companies which don't have a very long history. So, he's interested in Nestle with 150-year history, where I think there was one quarter they lost money or something, or like Colgate-Palmolive and so on, or Microsoft or whatever.

So, he's saying, "These companies already won. Nestle has won, Microsoft has won, all these companies have won, so I just want to look at all the winners, and then just pick from those."

VALUE EXTRACTS

His approach is, we know their return on equity is high, we know that they have durability, because they've already shown they're durable. Who's going to take Nestle out? Who's going to take Unilever out? His approach to that is, I'm going to answer the question in a simple way, which is the race is already over.

I think that if you use those two models, if you just have the durability and the return on equity, those are the only things you really looked at, you could pretty much in 30 seconds get there with a lot of businesses.

You can listen to the entire discussion here:

https://youtu.be/NfcGzvXAw6M

- Blog Post by Johnny Hopkins

DISCLAIMER:

This document is provided for assistance only and is not intended to be and must not alone be taken as the basis for an investment decision. Nothing in this document should be construed as investment or financial advice, and nothing in this document should be construed as an advice to buy or sell or solicitation to buy or sell the securities of companies referred to in this document. The intent of this document is not in recommendatory nature. Each recipient of this document should make such investigations as it deems necessary to arrive at an independent evaluation of an investment in the securities of companies referred to in this document (including the merits and risks involved), and should consult its own advisors to determine the merits and risks of such an investment. The investment discussed or views expressed may not be suitable for all investors. This document is being supplied to you solely for your information and may not be reproduced, redistributed or passed on, directly or indirectly, to any other person or published, copied, in whole or in part, for any purpose.

About TrustLine

At TrustLine, we run a specialized PMS / AIF fund for exclusive set of high net-worth clients (long only value based fund). We are a company with a single mission-to deliver superior long-term returns to our clients. We are managing over Rs.700+ crores of AUM for over 550+ highly satisfied clients. This makes us among the top 25 discretionary portfolio managers in India, with industry leading performance.

Over the years we, at TrustLine, have gained rich domain expertise by focusing and specializing in Portfolio Management Services (PMS) / Alternative Investment Fund (AIF). Unlike our competition, we are a unique firm focused only on Asset Management Services (PMS / AIF). This sets us apart and gives us a competitive advantage in the Fund Management space. At TrustLine we believe, the quality of “Research” is fundamental to delivering out-sized returns. When research is complemented by contrarian investment approach, the rewards can be dis-proportional. This forms the foundation of our investment choices and stock selection in our core PMS & AIF business. Our disciplined practice of this “Value Investment” principle has enabled us to deliver superior risk adjusted returns with significant out-performance over bench-mark indices.

With a client retention rate in excess of 95%+, we have grown as an organization through strong references, primarily driven by solid track record of building wealth across good and bad market cycles, through focused and disciplined approach to investing.

TrustLine products include:

- ***Intrinsic* Deep Alpha fund (AIF)**
- ***Intrinsic* Deep Value fund (PMS)**
- ***Intrinsic* Floater (Arbitrage fund)**

TrustLine Holdings (P) Ltd
6/13, 3rd Floor, Equinox Building, Eastern Wing, North Avenue, Kesava Perumalpuram,
R.A. Puram, Chennai - 600 028.
Tel: 044 – 42083877, Email: pms@trustlineindia.com, aif@trustlineindia.com
www.trustlineindia.com