



Cautious, but not fearful : March 2022 Newsletter

Slippage in returns, the first in 2 years

CY22 has been dramatic so far, and it shows through the first quarterly decline in returns from equities in nearly 2 years. The Russia-Ukraine conflict added a new dimension to the already persistent uncertainty.

Ampersand NAV was down 2.8% and underperformed major indices for the first time in a year, and also the first quarterly decline in 2 years. However, our fund has delivered cumulative returns of 113.6% since inception in Sept 2017 and 33.7% in FY22, both well ahead of key comparable indices.

As on March 31, 2022, our fund consists of 29 stocks and a cash surplus of 4.8%.

IT was one of the reasons for our modest showing

Since identifying digital transformation as a structural theme over 2 years ago, IT has been one of the key overweight sectors in our fund. Our exposure has consistently hovered in the 20-24% range. And this has served us well, driving fund outperformance over an extended period. However, during the quarter under review, sector index declined ~10%, and consequently dragged our fund returns.

However, it would not be fair to pin down the performance to IT alone. Financials (our 2nd highest exposure) continued to lag the broader market despite improving fundamentals, mostly due to technical reasons like foreigner selling. Finally, substantial tax outgo for the fiscal impacted returns by ~150bps viz over half the contraction.

Bull market is far from over

We are expecting low double-digit annual market returns for FY23e, measured on benchmark indices like the Nifty. This will largely be supported by ~20% corporate earnings growth, led by Banks, Materials, Energy, Capital goods and IT services sectors. These collectively account for over 70% of Nifty, and should mostly benefit from the inflationary situation. On the other hand, consumer focused sectors will be impacted by input cost pressures, which is more than compensated by the beneficiaries.

Inflationary pressures could ease off in coming months

The biggest risk to our bullish stance is sustenance of inflationary pressures, which in turn could lead to surge in interest rate and consequent contraction in consumer demand. As we know, the spike in inflation is due to continued supply shocks, initially due to the pandemic and more recently due to the Ukraine conflict. We believe there are good reasons for inflationary pressures to peak well before CY22 comes to a close, namely :

1. Leading economies like USA and the EU are keen to control inflation, and have started to raise interest rates

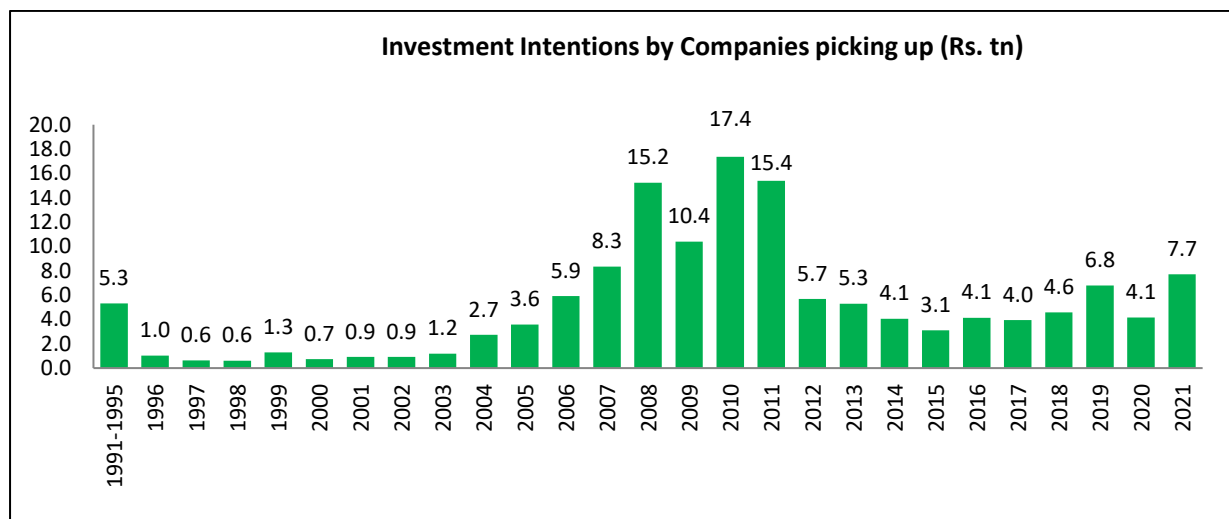


2. Container freight rates, a key lead indicator of inflation has softened 20% in past 3 months
3. Worst of supply cut fears related to sanctions on Russia, already reflecting in prices
4. China's decision to lockdown to control pandemic is impacting its domestic demand more than global supply, as reflected in stable prices.

Elusive capex theme finally coming into play

Increased capex towards capacity expansion as well as rebuilding of the supply chain, both globally and in India is imminent. This is evident from the announcement of nearly Rs 7.7tn capex plans by India's private sector last fiscal, the highest in a decade and up 87% yoy. Recovery in the capex cycle therefore is likely to emerge as a huge opportunity in the coming years. We identify key drivers as follows:

1. Capital intensive sectors such as Steel, Aluminium, Textiles etc are operating near full utilisation, after several years of under investment
2. Borrowing ability of India's corporate sector has improved substantially, with 85% of corporates showing improved credit rating scores last fiscal, a decade high
3. The pandemic followed by the Ukraine conflict has necessitated the need to improve the supply chain, and thereby reduce excessive dependence on countries like China, and now Russia.



Source: Spark Capital



Ampersand portfolio aligned to changing market dynamics

Although it is almost impossible to remain insulated from global turmoil, Ampersand portfolio by design has reasonable exposure to commodity agnostic sectors like Banks, Retail, Leisure, IT services and even a bit of Pharma/Healthcare.

Thematically, we remain cautious on domestic consumption due to inflation hurting purchasing power. However, we do expect demand to sharply rise for Travel, Leisure and Retail related sectors, especially on the low pandemic impacted base years of FY21/FY22.

In the IT services sector, talent shortages are hurting but could ease in the next 6 months as freshers get inducted. Our present investment choices are selective, and include names with domain specific tailwinds which will enable superior growth.

In pharma, we favour integrated players with domestic centric focus. We also believe well run hospitals will be key beneficiaries of medical tourism.

Finally, we are actively considering investing in beneficiaries of capex spends, which will address supply-chain rebuild efforts globally.



DISCLAIMER:

Ampersand Capital Investment Advisors LLP (Ampersand) is an Investment Manager of Ampersand Growth Opportunities Fund Scheme – I (Fund), a Scheme of Ampersand Capital Trust registered as a Category III – Alternative Investment Fund (AIF) under the SEBI (Alternative Investment Funds) Regulations, 2012.

This document is strictly for information and illustrative purposes only and should not be considered to be an offer, or solicitation of an offer, to buy or sell any securities or funds or to enter into any contribution agreements. Before anyone considers an investment, it is important to read through and understand the contents of the Disclosure and/or Offer Document.

This document does not constitute or is not intended to constitute an offer to buy or sell, or a solicitation to an offer to buy or sell financial products, units or securities. The information provided by Ampersand is obtained from sources believed to be reliable but is not guaranteed as to accuracy or completeness and expressly disclaims all warranties and conditions of any kind, whether express or implied.

This document is prepared by Ampersand strictly for the specified audience and is not intended for distribution to public and is not to be disseminated or circulated to any other party outside of the intended purpose. This document may contain confidential or proprietary information and no part of this document may be reproduced in any form without its prior written consent to Ampersand. If you receive a copy of this document and you are not the intended recipient, you should destroy this document immediately.

Any dissemination, copying or circulation of this communication in any form is strictly prohibited. In preparing this document, Ampersand has relied upon and assumed, without independent verification, the accuracy and completeness of information available from public sources. Accordingly, neither Ampersand nor any of its partners, employees, agents or advisors shall be liable for any loss or damage (direct or indirect) suffered as a result of reliance upon any statements contained in, or any omission from this document and any such liability is expressly disclaimed.

Investments in Shares and Securities are subject to market risks and investor's risk profile. In making an investment decision, Investor must rely on their own examination of the terms of the offering, including the merits and risk involved. Past performance may not be indicative of future results. Therefore, no current or prospective client should assume that the future performance will be profitable or equal to corresponding indicated performance levels. There is no assurance or guarantee that the objectives will be achieved. No client or prospective client should assume that any information presented in this document as the receipt of, or a substitute for, personalized individual advice from the registered adviser or any other registered investment professional.

All intellectual property rights emerging from this newsletter are and shall remain with Ampersand. This is for your personal use and you shall not resell, copy, or redistribute the newsletter or any part of it, or use it for any commercial purpose.