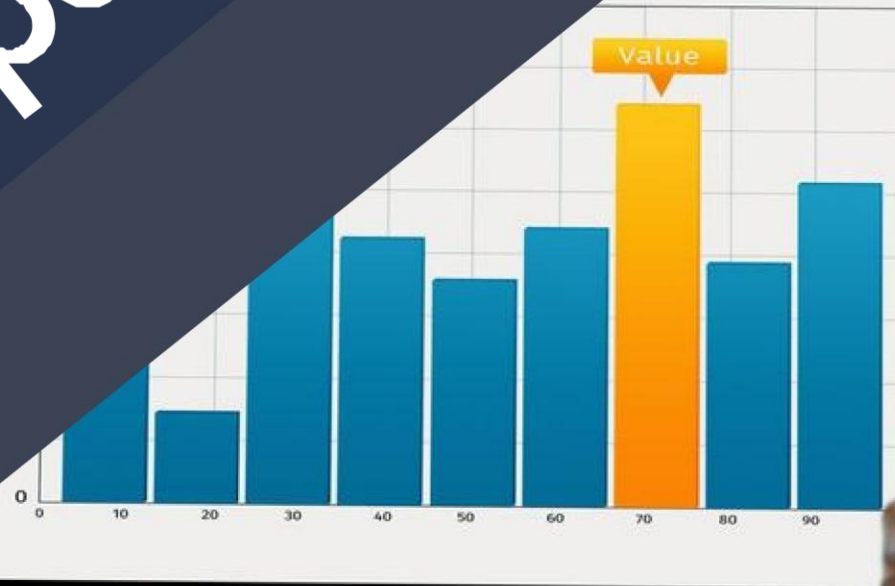


Embracing complexity to capture Alpha

Investment Strategy Report





Contents



01

About US

02

Economic Outlook

03

Equity Outlook

04

Debt Outlook

05

Deployment
Strategy

06

Optimus Prime

07

Portfolio Stafice



KILIKA CAPITAL





WHO WE ARE?



ABOUT US

Kilika Capital is a research-driven investment firm specializing in **deep research** and analysis to identify high-quality financial products for sophisticated investors.

OUR MISSION

At Kilika Capital, our sole mission is to **generate Alpha** for our investors.

MEET OUR LEADERSHIP TEAM – THE DREAM TEAM!

At Kilika Capital, we believe that great businesses are built by exceptional people. Our team brings a mix of experience, precision, and creativity that sets us apart, but what truly defines us is our shared passion for delivering results.

Siddharth Jadeja, CFA – The Strategist

Our managing partner, Siddharth Jadeja, is the calm, analytical anchor of Kilika Capital. A CFA charterholder and an MBA in finance, Siddharth comes with over 15 years of experience in a variety of roles ranging from credit risk, equity research, corporate banking, structured finance, and fund management at giants like HDFC Bank, Edelweiss Capital and Nuvama to name a few. He's been the brains behind countless deals, with the kind of market insights you'd bet on any day. Whether it's breaking down complex businesses or analysing sectors or structuring assets, Siddharth's expertise in credit and risk ensures our ship sails smoothly. Investors trust him, and so do we—his knack for turning numbers into actionable results thought rigorous analysis is *nothing short of magic*. Siddharth, a passionate sports enthusiast who has played cricket at the state level, brings the same unwavering discipline and never-give-up attitude to Kilika Capital.

Smitha Iyer – The Operational Hawk

If you ever wonder who keeps our house in perfect order, meet Smitha Iyer, the head of operations and our very own perfectionist-in-chief. Chemical Engineer, an alumna of Welingkar Institute Of Business Management, Smitha is an MBA in finance with over 8 years of experience in giants like ICICI Prudential and Future Generali. She took a short break to embrace motherhood (shoutout to her little champ, Devamsh!) And returned with twice the tenacity. She hounds the AMCs, dots every *i*, and crosses every *t*—no document or process escapes her eagle eye. Sure, her insistence on perfection might leave you a little exasperated, but when you realize that clean operations mean safety, you'll be grateful she's on your side.

Piyush Sharma – The Creative Wizard

Meet Piyush Sharma, our research lead and the youngest brain in the room—but don't let that fool you. Armed with an MBA and a flair for creativity, Piyush lives and breathes financial models. Whether it's running a Monte Carlo simulation, dissecting a mutual fund, creating a portfolio company DCF model, or rethinking how investor portfolios are structured, he's always cooking up something extraordinary. Watching Piyush and Siddharth brainstorm together is like watching a symphony of numbers—a mix of youthful enthusiasm and seasoned experience. For Piyush, Kilika Capital isn't just a job; it's a playground for pushing the boundaries of quantitative finance, a platform to challenge conventions, explore new paradigms, and redefine what's possible in a financial model. Who says spreadsheets can't be fun?

Together, we're not just a team; we're partners in your financial journey. We bring experience, attention to detail, and a touch of creative flair to everything we do. Whether it's operations, research, or strategy, rest assured—we've got your back. After all, when we win, you win. And we're in it for the long run.

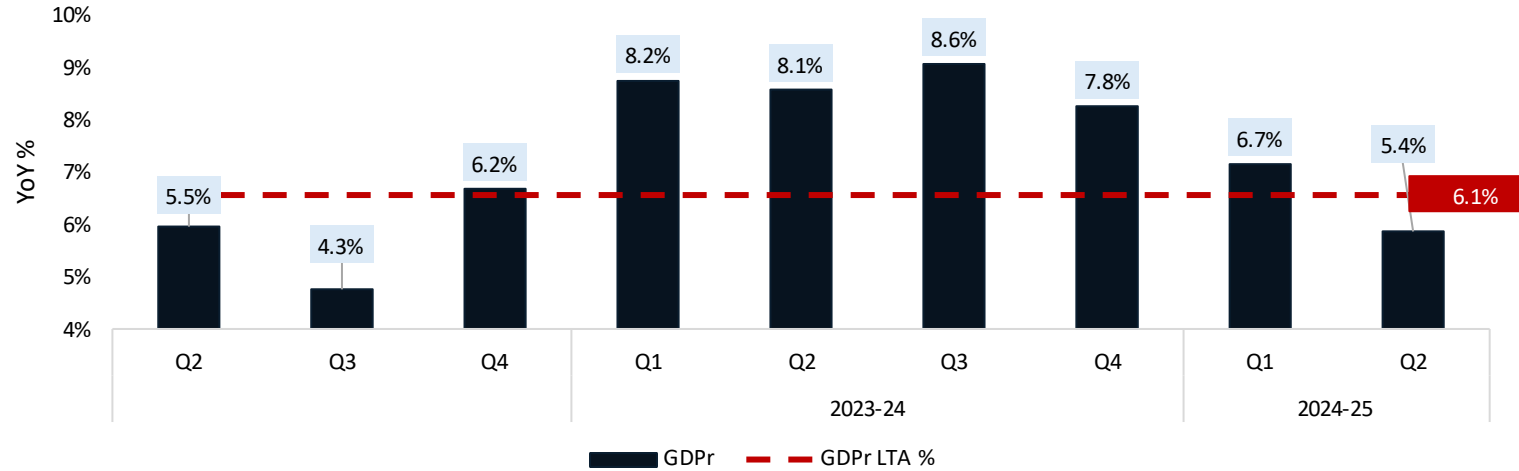
Macro-Economic Outlook



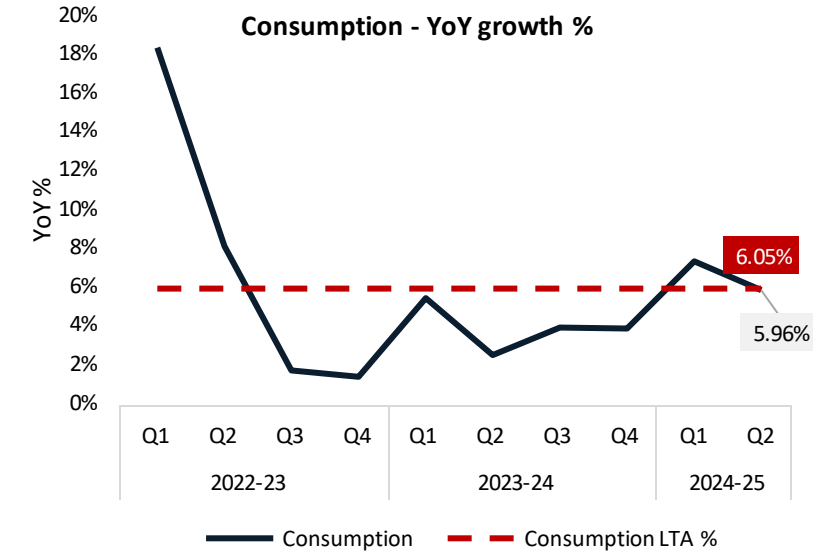
1. GDP (Gross Domestic Product)



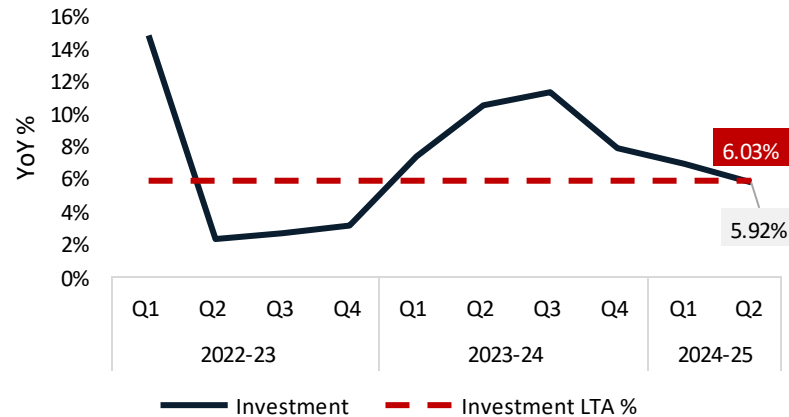
Real GDP



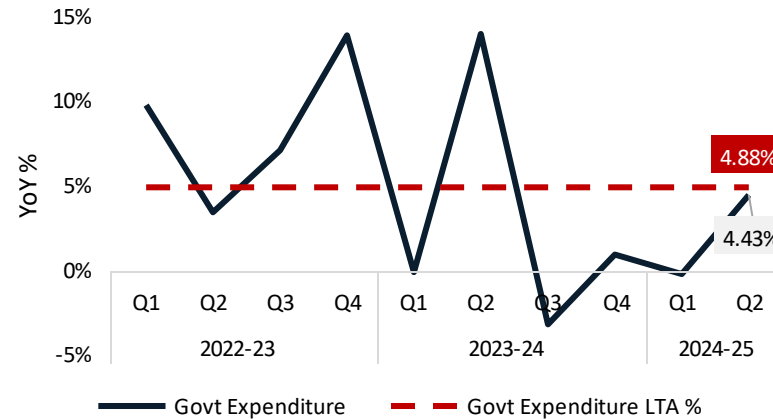
Consumption - YoY growth %



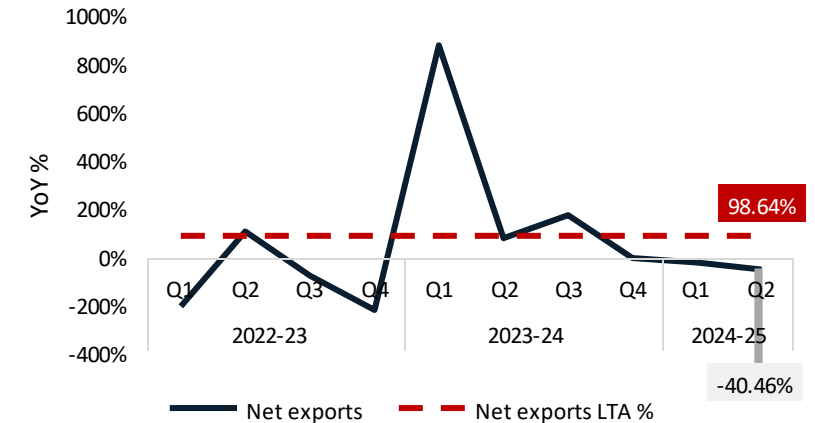
Investment - YoY growth %



Government Expenditure - YoY growth %



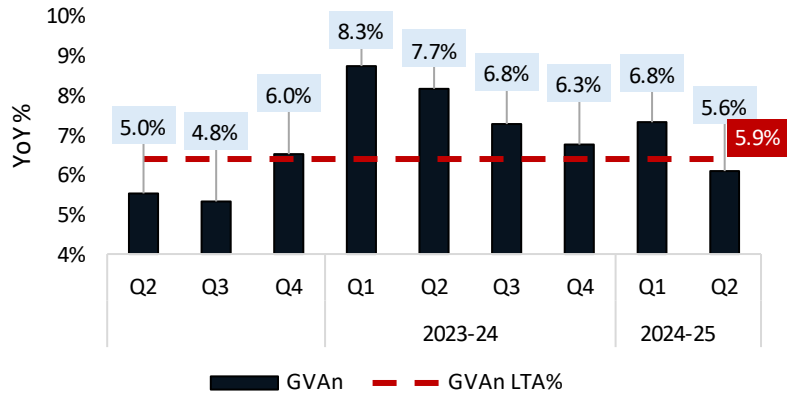
Net Exports - YoY growth %



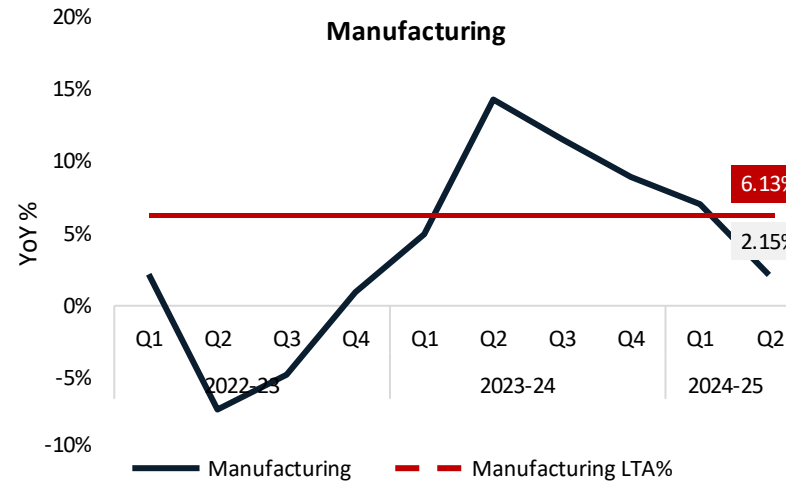
GVA (Gross Value Added)



Real GVA



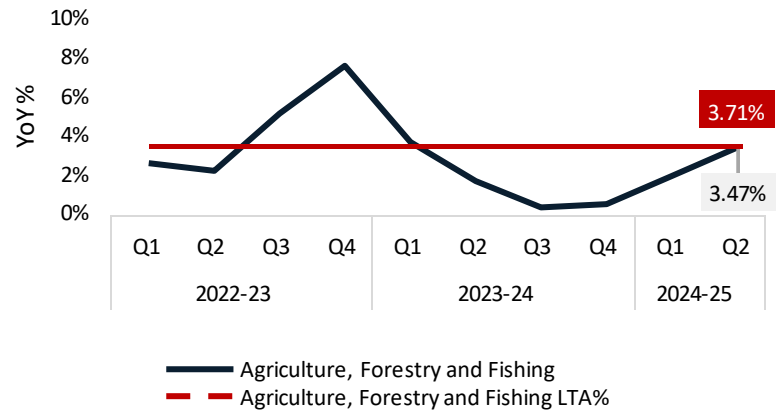
Manufacturing



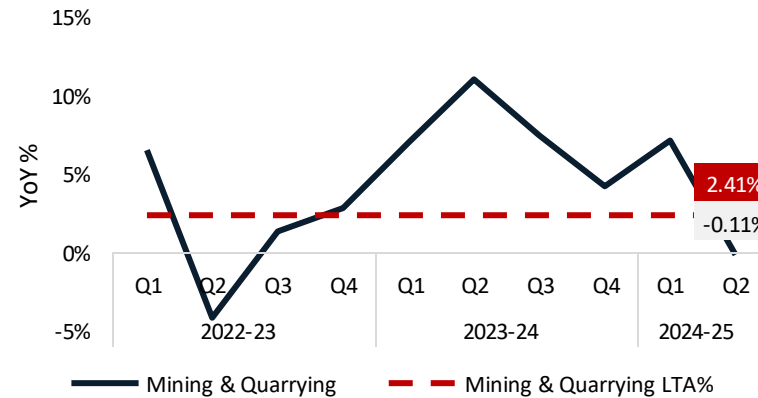
Finance, Real Estate, Services



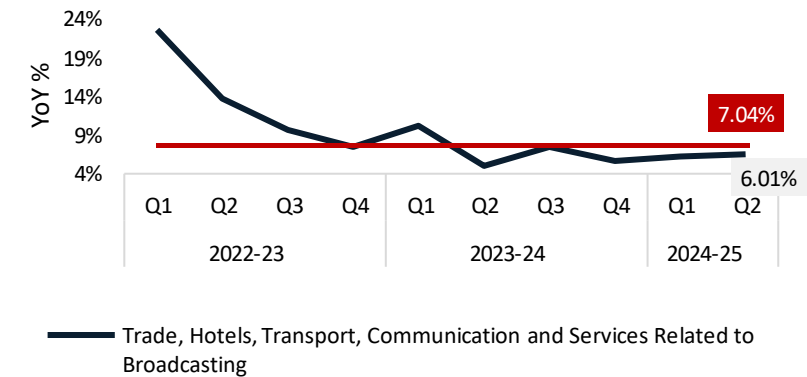
Agriculture



Mining



Trade, Hotels, Transport, Communication and Services Related to Broadcasting





GDP shocker

India's GDP growth for Q2FY25 came in at 5.4%, significantly below expectations and the lowest in nearly two years. This marks a decline from the 6.7% growth in Q1FY25 and the 8.1% growth recorded in Q2FY24. This is the third consecutive quarter of slowing growth, raising concerns about the factors dampening economic momentum. The rapid growth witnessed just a year ago now appears distant.

Causes of the slowdown:

The slowdown stems from weakness across three of the four engines of economic growth:

- **Private consumption:** declined due to **weakening urban demand**.
- **Private investment:** sluggish, with no signs of immediate recovery.
- **Exports:** fell due to **global trade challenges** and **slowing external demand**.
- **Government spending:** although it recovered slightly in Q2, its **performance in the first half of FY25 remains lower** compared to the same period in the previous year.

Sectoral performance:

1. **Industry:** the biggest drag, with sharp declines in manufacturing due to **slowing domestic demand and weak exports**.
2. **Mining and Power Generation:** underperformed, affected by **unusually heavy monsoon rains**.

Silver linings:

Despite the slowdown, there are some positive developments

1. **Agriculture:** recorded **robust growth of 3.5% (up from 2% in Q1)**, aided by **favorable monsoon rains and strong sowing**. Higher kharif crop arrivals are expected to ease food inflation, potentially allowing the reserve bank of India (RBI) to cut interest rates. Improved agriculture performance could boost rural demand and consumption.
2. **Government capex:** while central government spending has increased, it is expected that **state government capex may recover in the coming months**.

Persistent Headwinds:

1. **Urban consumption:** has **slowed significantly**, with experts predicting no immediate recovery.
2. **Exports:** remain weak amidst **slowing global growth and potential trade wars**.
3. **Private sector capex:** shows no clear signs of revival, hindered by the **urban consumption slowdown**.
4. **State government spending:** lags behind due to **tight financial conditions**.

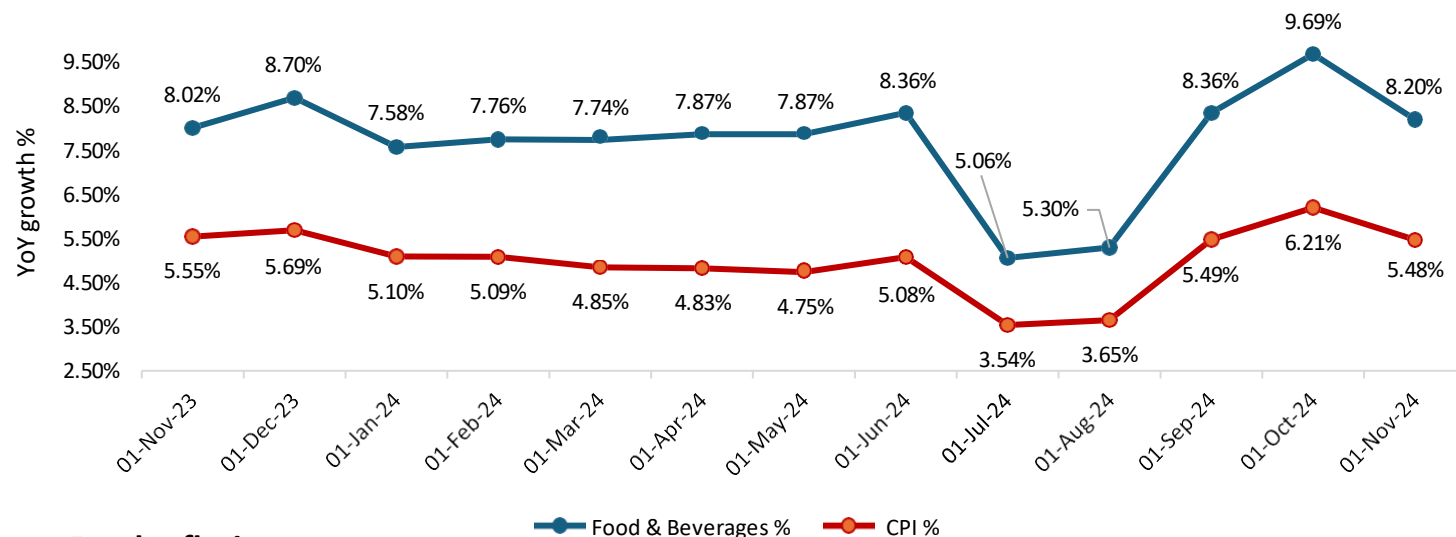
Implications for FY25 growth:

- Economists are revising down their growth estimates for FY25. In nominal terms, the economy grew 8.2% in FY24, but nominal GDP growth for H1FY25 stands at just 8.9%. Achieving the 10.5% nominal growth target set in the budget requires over 12% growth in H2FY25, which seems unlikely given the prevailing headwinds.
- In summary, while agriculture and potential policy easing by the RBI offer some hope, the challenges from **weak consumption, investment, and global factors** pose significant risks to India's economic growth trajectory for the remainder of FY25. **The RBI has revised its GDP growth projection for FY25 downward from 7.2% to 6.6%.**

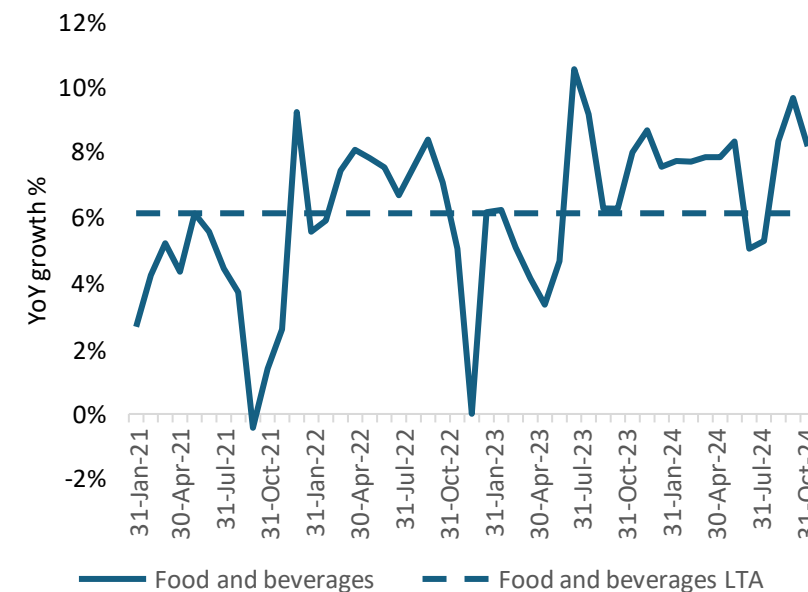
2. Inflation



Headline CPI and Food and Beverages Inflation



Food & Beverages YoY %



Persistent Food Inflation

WPI Overview

- **Headline WPI fell to 1.89% YoY in November** (vs 2.36% in October), with a 0.1% MoM decline driven by food and primary articles.
- Primary Articles dropped by 1.2% MoM, and food prices fell 1.8% MoM.
- Fuel and Power inflation increased by 0.4% MoM, with mixed trends in petrol (-0.8%) and diesel (+0.1%).
- Core Inflation grew by 0.5% YoY but declined sequentially (-0.03% MoM).

Food Inflation Trends

- **MoM Consolidated Food Inflation fell 0.5% in November.**
- Major contributors:
 - Vegetables (-6.4%) led by tomatoes (-34%) while onions (+5.5%) and potatoes (+2.6%) rose.
 - Pulses declined (-2.0%) while cereals rose (+1.1%).
 - Milk (-0.2%) and spices (+0.7%) showed mixed trends. Egg prices surged 5.8% MoM.

Fuel and Core Trends

- **Fuel inflation grew 0.4% MoM** (mineral oil +0.7%, coal flat, electricity -0.1%).
- Manufacturing sectors saw declines in wood, rubber, chemicals, and machinery products.

Outlook for FY25 & FY26

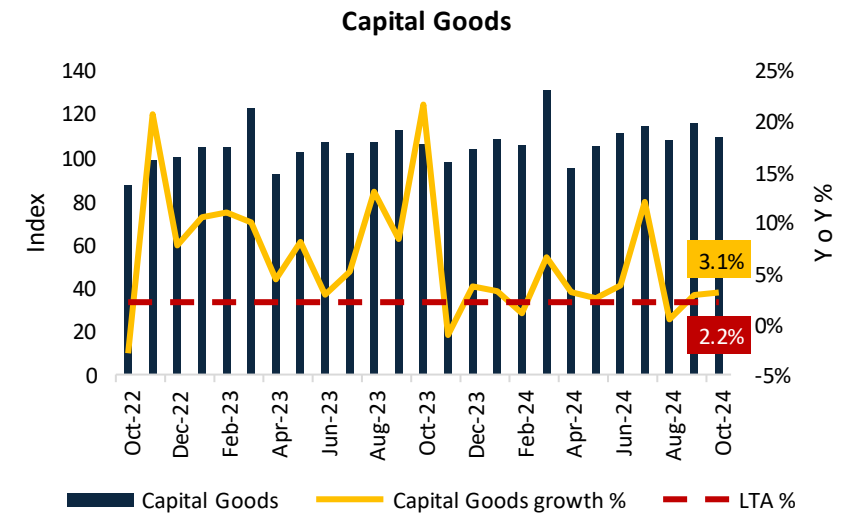
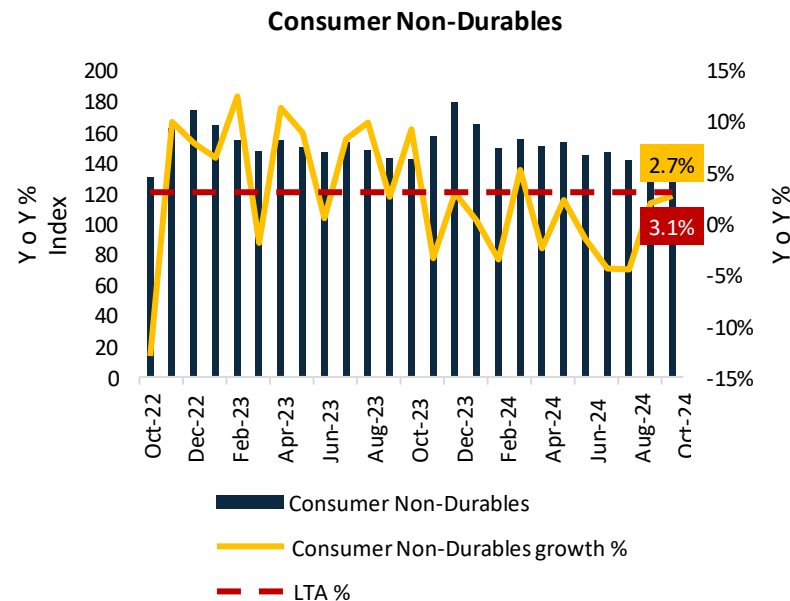
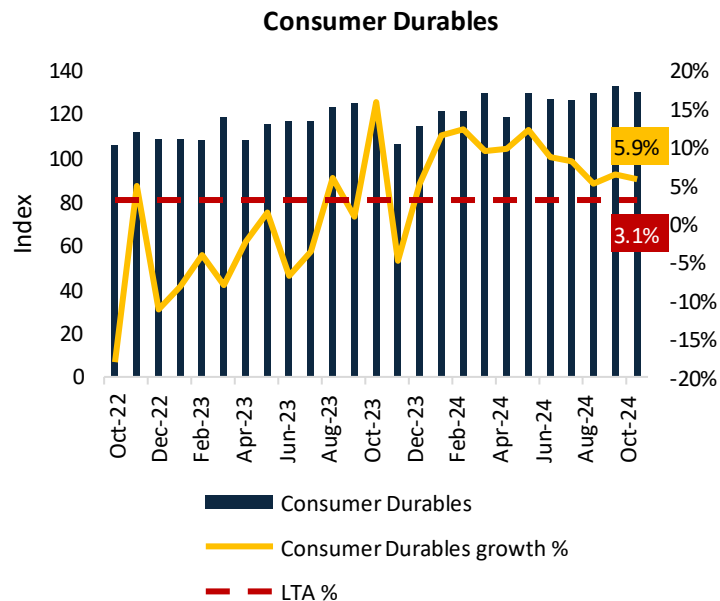
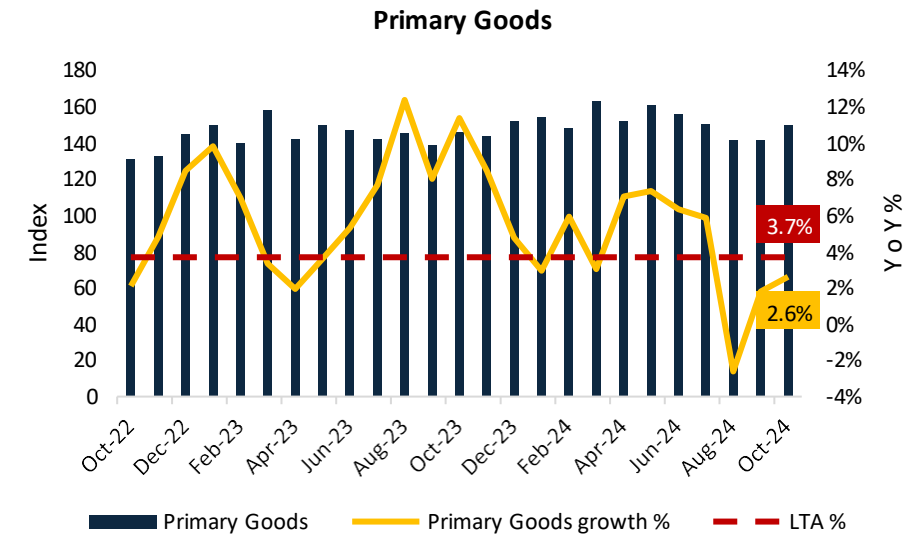
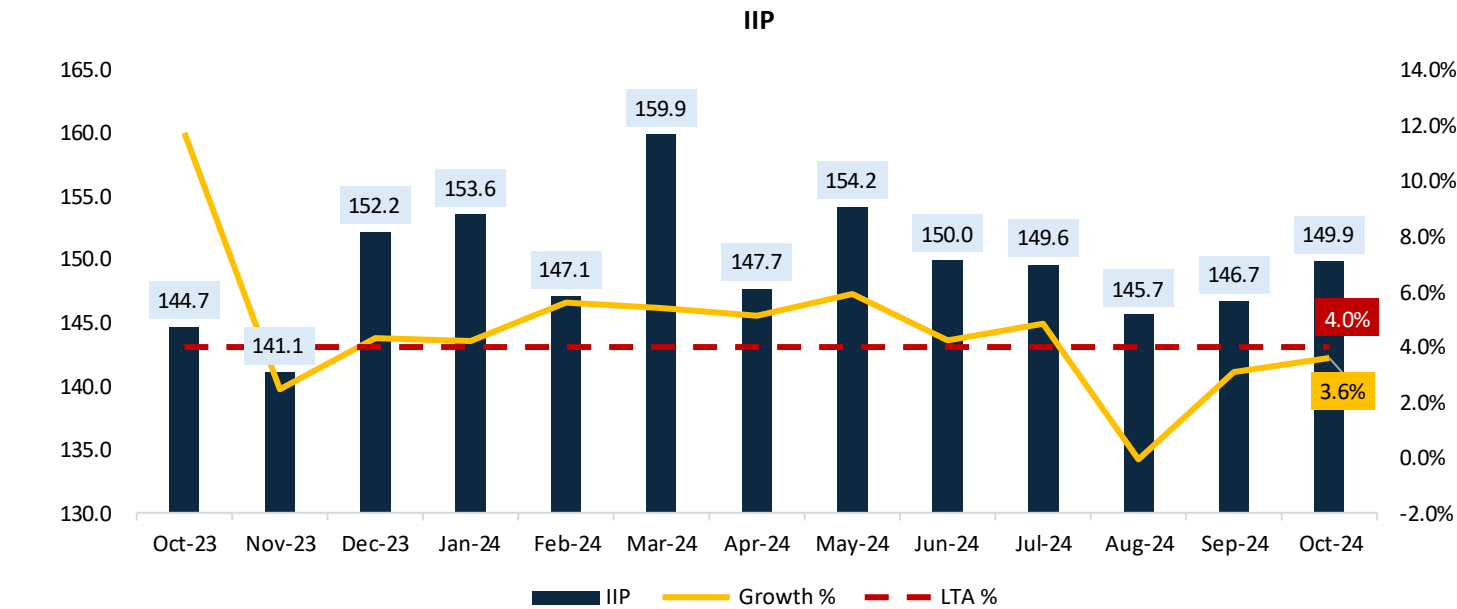
- WPI Projections: 2.5% YoY for FY25, rising to 3.4% in FY26.
- **CPI Projections: December CPI expected at 5.4-5.5%, similar to November.**
- **Risks:**
 - **Tariff impacts** from potential U.S. policies under Trump.
 - **China's delayed fiscal push**, potential commodity price rise.
 - **INR depreciation** alongside other Asian currencies, raising input costs for Indian manufacturing.

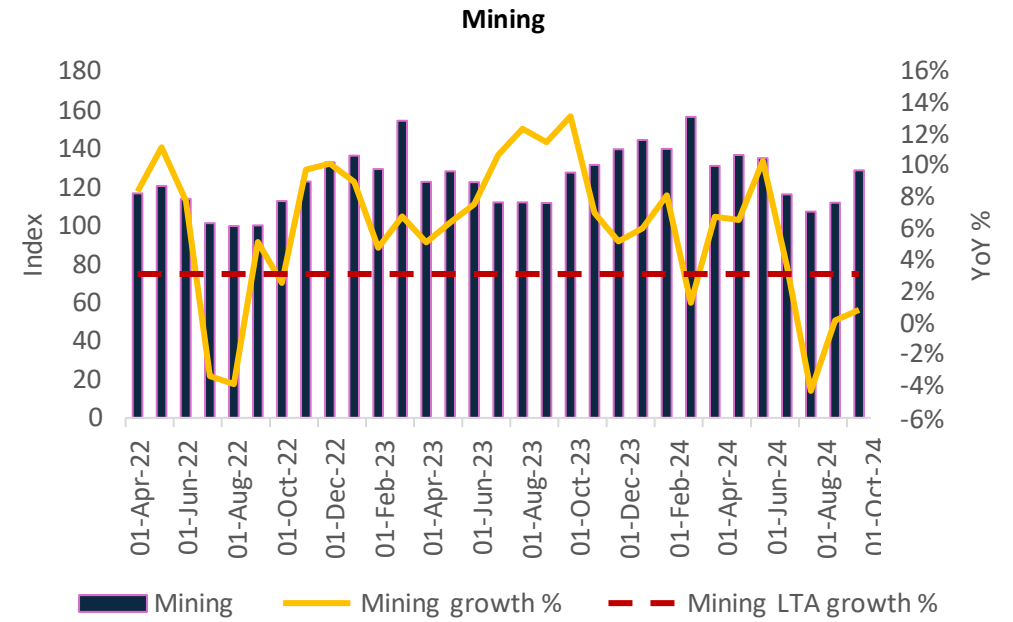
RBI Policy Outlook

- The CRR cut raised rate cut expectations for February 2025. However, RBI is likely to stay data-driven, with higher **chances of a rate cut in Feb 2025 as supply chain and inflation impacts become clearer.**

Source: Internal assessment based on RBI DBIE data

3. IIP (Index of Industrial Production)

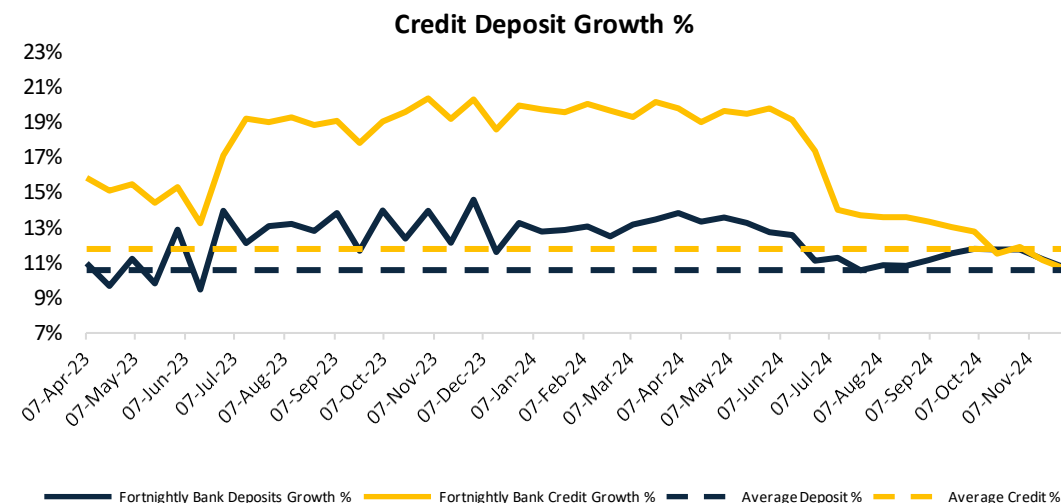
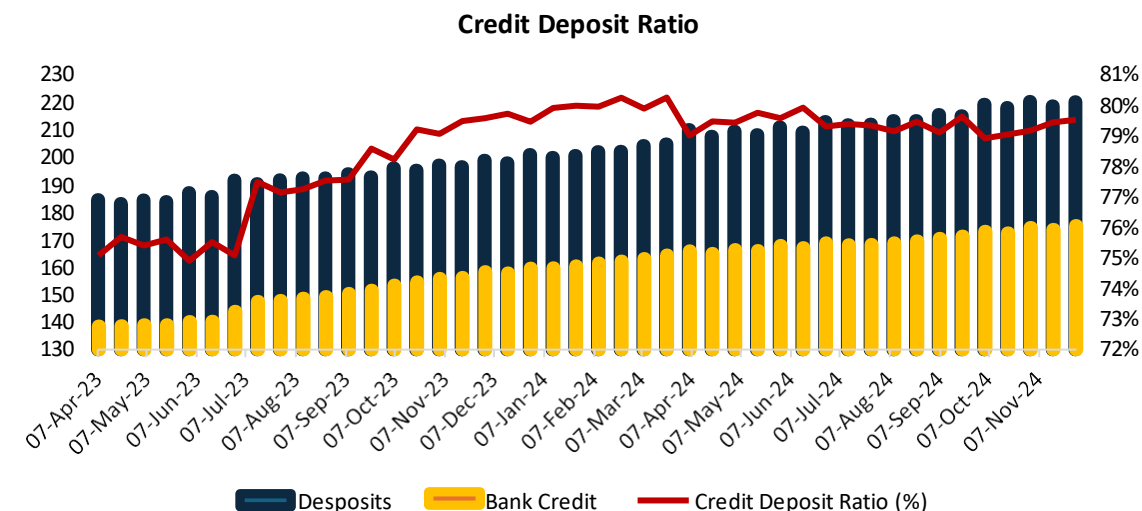




Challenges Galore

- India's industrial output, measured by the Index of Industrial Production (IIP) rose 3.5 per cent in October 2024, up from 3.1 per cent the previous month. In the April-October period, industrial output increased by 4%, compared to 7% from a year earlier. On a year-on-year basis, however, **October IIP was a significant climbdown from the same month a year ago when it hit 11.9%.**
- Manufacturing output rose 4.3% year-on-year in October, electricity generation grew 2% and mining activity was up 0.9%. The sectors had grown by 10.6%, 20.4% and 13.1%, respectively, from a year ago.** Within manufacturing, 18 of 23 industry groups saw growth compared to October 2023. The biggest contributors were “manufacture of basic metals” (3.5%), “manufacture of electrical equipment” (33.1%) and “manufacture of coke and refined petroleum products” (5.6%). In manufacture of basic metals, item groups “pipes and tubes of steel”, “galvanized products of steel (including colour coated tin plates, TMBP and tin free steel)”, “bars and rods of mild steel” added significantly to growth. Electrical equipment and petroleum product manufacturing saw growth, driven by specific items. Electric heaters, small transformers, and optical fiber connectors boosted the electrical equipment sector. Petrol, aviation fuel, and liquefied petroleum gas contributed significantly to the growth in refined petroleum products. Weightages of Manufacturing and Mining in IIP are 78% and 14% respectively.
- At a usage level IIP growth in October 2024 on a YoY basis are as follows: Primary goods grew at 2.6 percent, Intermediate goods grew at 3.7 percent, Capital goods grew at 3.1 percent, Infrastructure/construction goods grew by 4.0 percent, Consumer durables grew at 5.9 percent, Consumer non-durables grew at 2.7 percent. In the past year YoY growth rates of Primary, Capital, and Infrastructure goods are on a decreasing trend, whereas Intermediary goods are flattish, similarly Consumer Durables show a rising trend whereas Consumer Non-Durables are falling. **Overall sluggishness in IIP growth seem to be in sync with the slow GDP growth rates witnessed.**

4. Capex

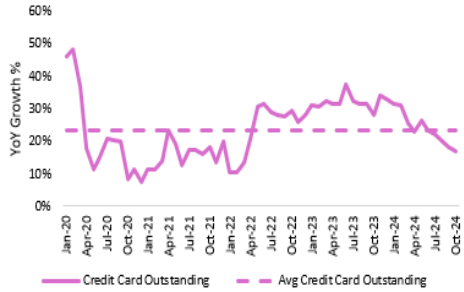


Mixed Bag

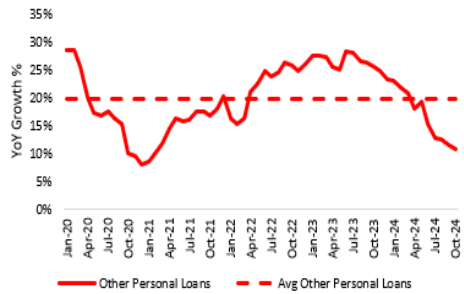
- Banks in India have seen a 10.6% increase in deposit mobilization from November 2023 to November 2024, aligning with a similar 10.6% growth in credit, according to the latest Reserve Bank of India (RBI) data. This trend marks a shift as incremental deposits outpaced incremental credit in the recent month, **reducing the credit-deposit ratio from a high of 80.25% in March 2024 to 79.52% by November 29, 2024**. Public deposits with scheduled commercial banks reached ₹224.7 lakh crore, up from ₹203.2 lakh crore a year prior, with demand deposits growing by 10.3% and term deposits by 10.6%. **This improved balance between deposit and credit growth is crucial for mitigating liquidity risks, which had been a concern due to previous mismatches in growth rates**. Despite these positive figures, the RBI highlighted that the structural liquidity issues could persist if the trend of household savings shifting towards higher-yielding financial instruments continues, necessitating ongoing efforts to attract deposits through competitive interest rates and innovative products
- Overall Total Bank credit growth stood at 11.7% in Oct 2024 as compared to a 5 year Long Term Average (LTA) of 11.8%, however with a declining 1 year trend. Credit growth to Agri was healthy at 15.5% vs LTA of 13.8%. Credit to Industry grew at 7.9% vs LTA of 5.9% primarily driven by Large and Mid sized corporates which make up a 80% of the total credit to Industry.** However, this was counterbalanced by a **sharp decline of credit growth to Services and Personal credit**. Services which fell sharply to 12.7% as compared to a LTA of 15.5% on account of a sharp fall in credit growth to Trade Services and credit to NBFCs. Personal credit growth fell to 12.9% vs LTA of 18.9%. This was largely on account of a slowdown in credit growth to Housing and Vehicle loans segment, which together account for 62% of the total Personal credit.
- The recent CRR cut of 50bps is expected to jump start the credit cycle spurring economic growth. However, it is interesting to note that the GDP/Credit ratio has decreased significantly from 13% to 9% during the past 5 years on account of a decelerating ICOR (Incremental Capital Output Ratio) attributed to increased capital efficiency and corporate balance sheet deleveraging.**

Credit to Consumer

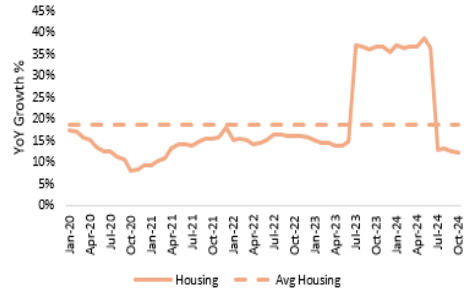
Credit Card O/S



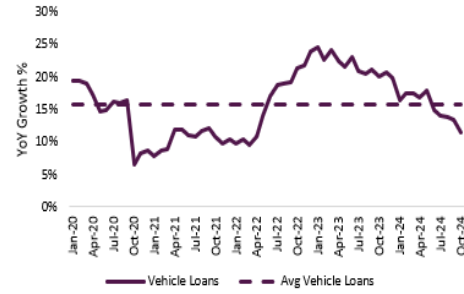
Personal Loans



Housing Loans

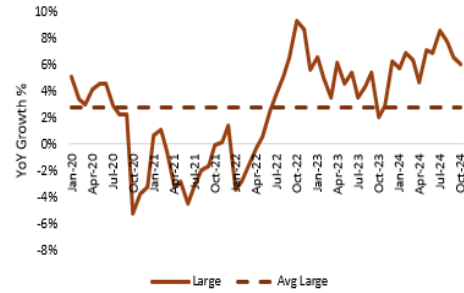


Vehicle Loans



Credit to Industry

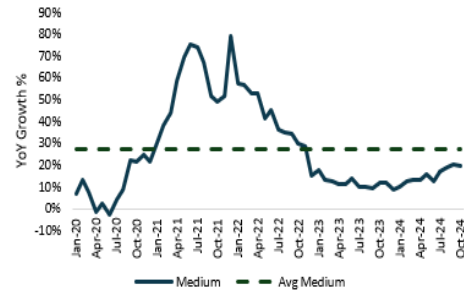
Credit to Large Corporates



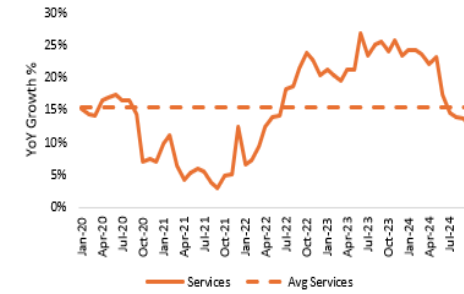
Credit to Small & Micro Sized Corporates



Credit to Mid-Sized Corporates

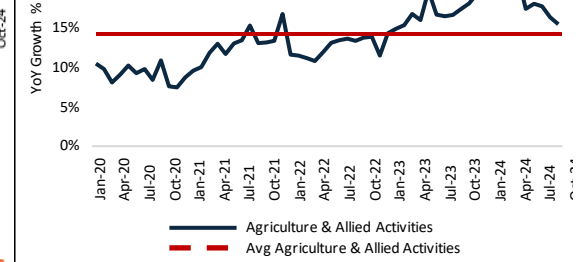


Credit to Service Sector

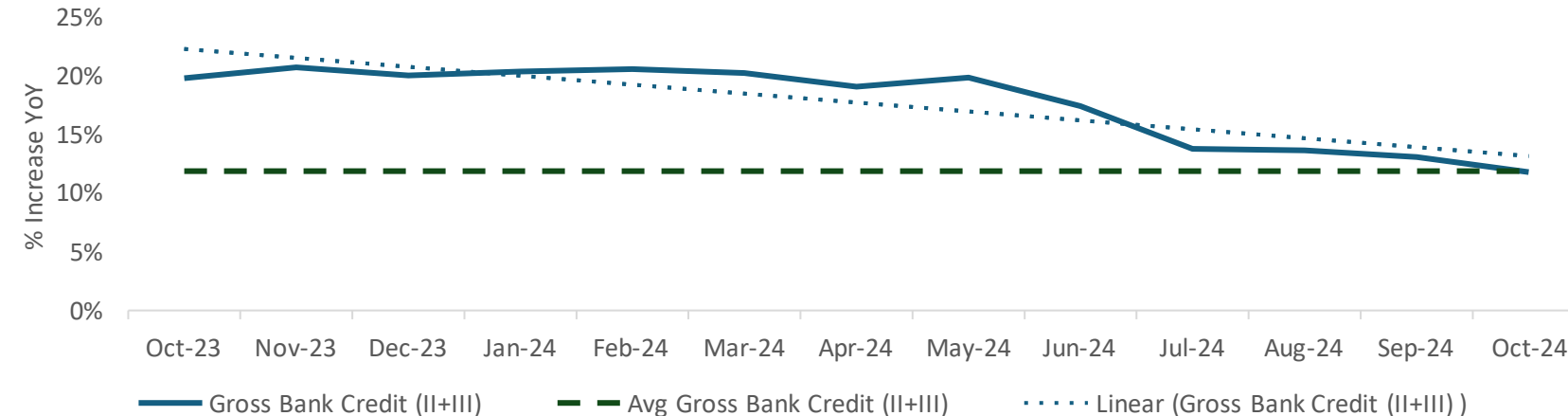


Credit to Agri

Agri & Allied Activities Loans



Total Bank Credit Growth



Quarterly GDPn / Credit Ratio

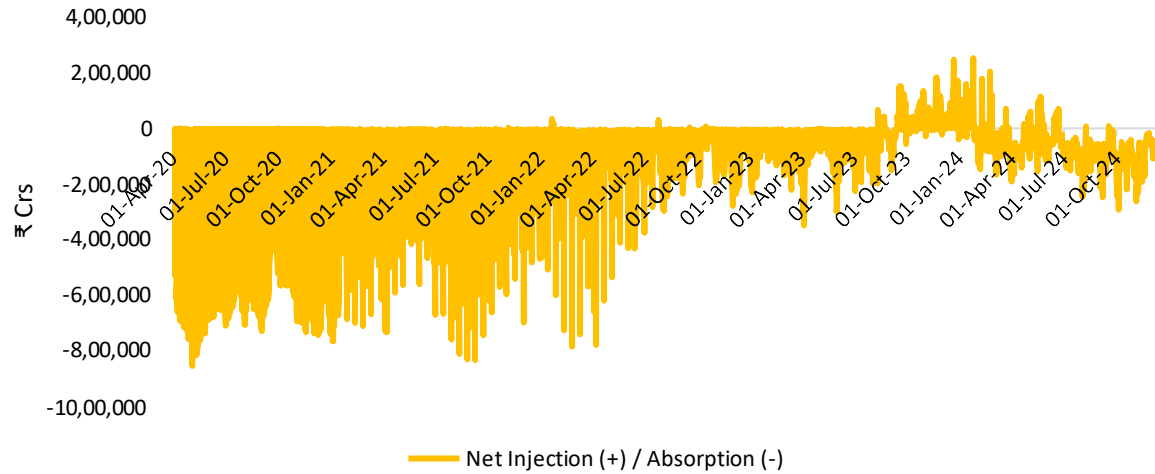


Source: Internal assessment based on RBI DBIE data

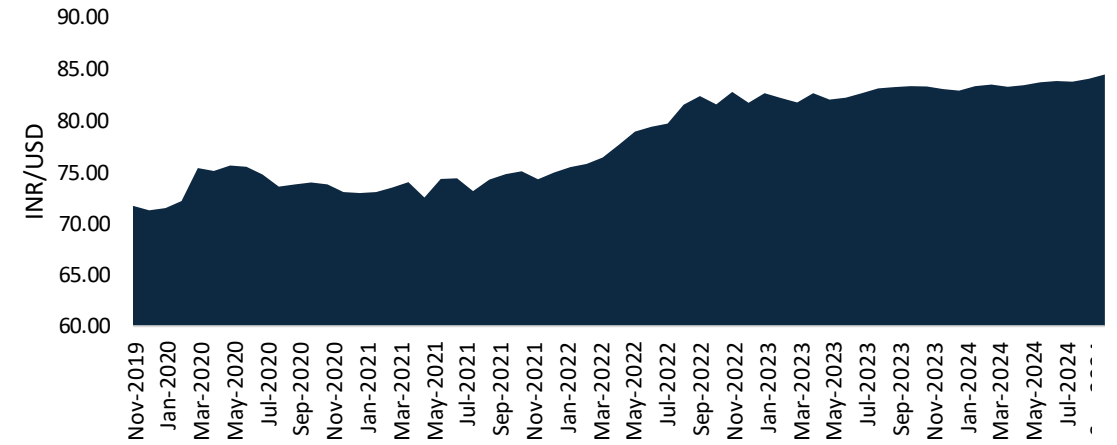
5. Liquidity



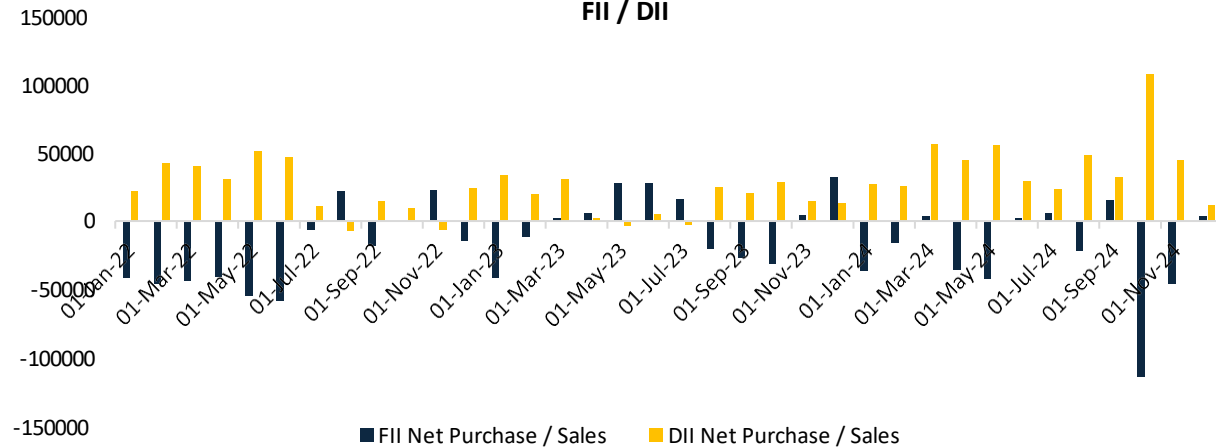
Net Injection(+)/Absorption(-) of Excess Liquidity



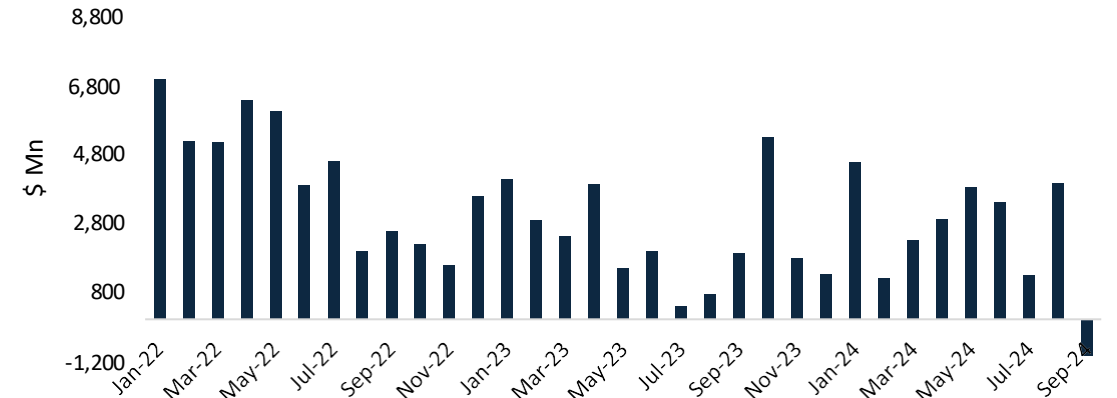
INR/USD



FII / DII

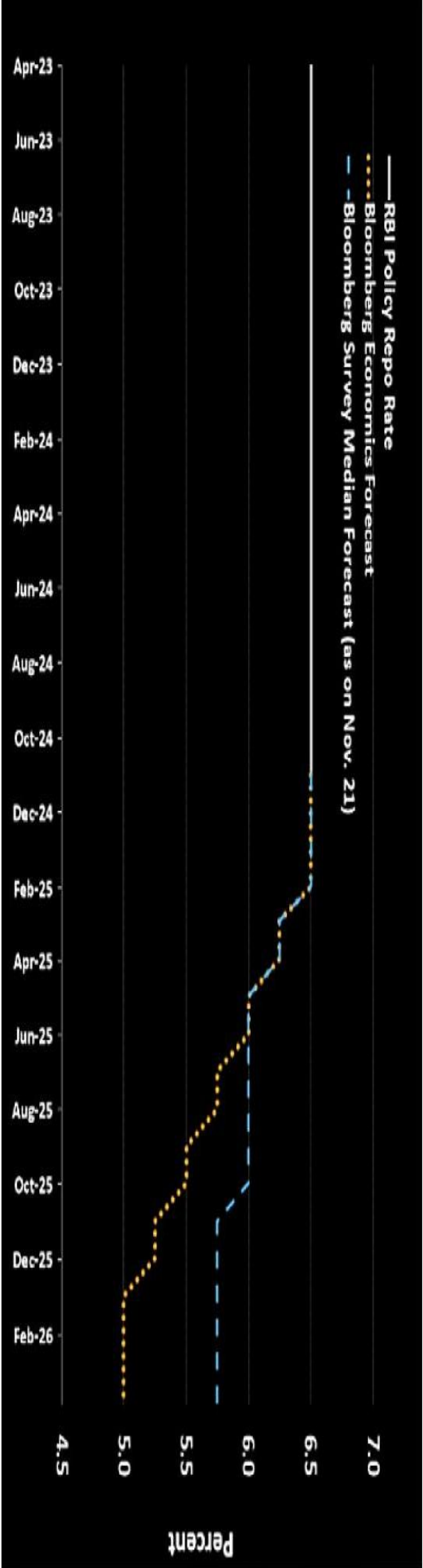


FDI

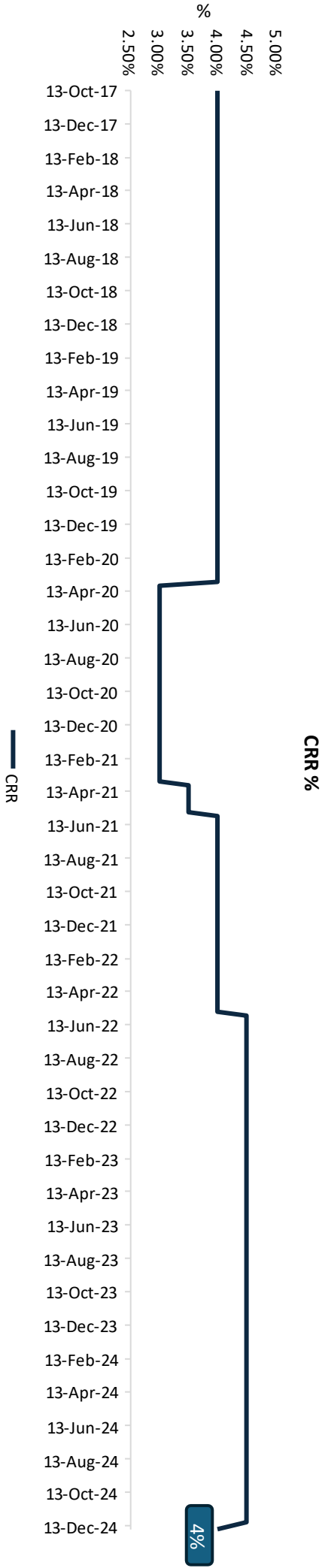




Repo Rate - Bloomberg Forecast:



CRR (Cash Reserve Ratio) - Path:





CRR Cut Cheer Countered by Feds Tempered Optimism

FII Inflows

Foreign Institutional Investors (FIIs) have resumed buying in December, purchasing equities worth ₹13,345 crore through exchanges as of December 17, contributing to a total of ₹22,765 crore when including primary market investments. This influx has catalyzed a market rally, particularly in large-cap stocks, with notable gains in the banking and IT sectors. However on December 18, the US Fed cut its benchmark interest rate by 25 basis points to a target range of 4.25 per cent - 4.50 per cent. However, its updated guidance **tempered optimism, indicating only two rate cuts in 2025, down from four projected in September**. The trigger for this central bank action is the incoming administration in Washington veering in favour of **lower taxes, curbing immigration and high tariffs – all steps that are likely to be inflationary**. The move by the new dispensation in this direction is certainly to make it more difficult for the Fed to reach its 2 per cent inflation target. That explains the fresh caution signaled by the US Fed. This has led to a **risk off sentiment** and FII started pull out money from the Indian markets.

FDI Inflows

India has surpassed \$1 trillion in FDI inflows since April 2000, with \$42.1 billion received in H1 FY2024-25, a 26% YoY rise. Mauritius and Singapore are top investors, driven by favorable tax treaties, while services, IT, and manufacturing sectors lead inflows. Nearly 69% of the FDI was recorded in the last decade, propelled by "Make in India" and liberalized policies.

CRR cut by 50 bps:

The Reserve Bank of India (RBI) on 6th Dec slashed the cash reserve ratio (CRR) by 50 basis points (bps) to 4% from 4.5% in a bid to boost liquidity in the financial system. CRR is the percentage of a bank's total deposits that it is required to maintain in liquid cash with the RBI as a reserve, without gaining any interest on the same. The RBI however kept the Repo rate – the key policy rate – unchanged at 6.5% in a majority 4-2 decision. This is the eleventh consecutive monetary policy, over 22 months, which has left the Repo rate unchanged. Significantly, the policy panel cut the GDP growth estimate to 6.6% in FY2025 from 7.2% projected earlier, and raised the retail inflation forecast to 4.8% for the current fiscal from 4.5% projected earlier. The RBI also decided to retain the **monetary policy stance as 'neutral'** in the policy. The decision to cut CRR by 50 bps will **free up Rs 1.16 lakh crore to the banking system, augmenting the lendable resources of banks**. The **liquidity in the banking system has tightened because of the RBI's actions to stabilize the rupee**. There have been a lot of dollar sales (by the RBI), which has affected the overall liquidity in the system. **In December, liquidity will further tighten due to outflows related to payment of advance tax, goods and services tax (GST), and quarter-end demand for credit**. The cut in CRR is likely to reduce the deposit rates marginally as the liquidity will increase in the banking system. The surplus liquidity can be used by banks for lending, which is expected to help in spurring economic growth.

Repo rate unchanged:

The 4-2 decision to keep the Repo rate unchanged indicates that there are differences of opinion in the policy panel about the way forward in the wake of the slowdown in the economy. The RBI flagged the persistent food inflation in his explanation for the majority decision. **Food inflation pressure is likely to linger in Q3 of FY25 and start easing in Q4 of FY25**. High inflation reduces disposable income in the hands of consumers. MPC believes that only with durable price stability, we secure strong foundation for high growth.

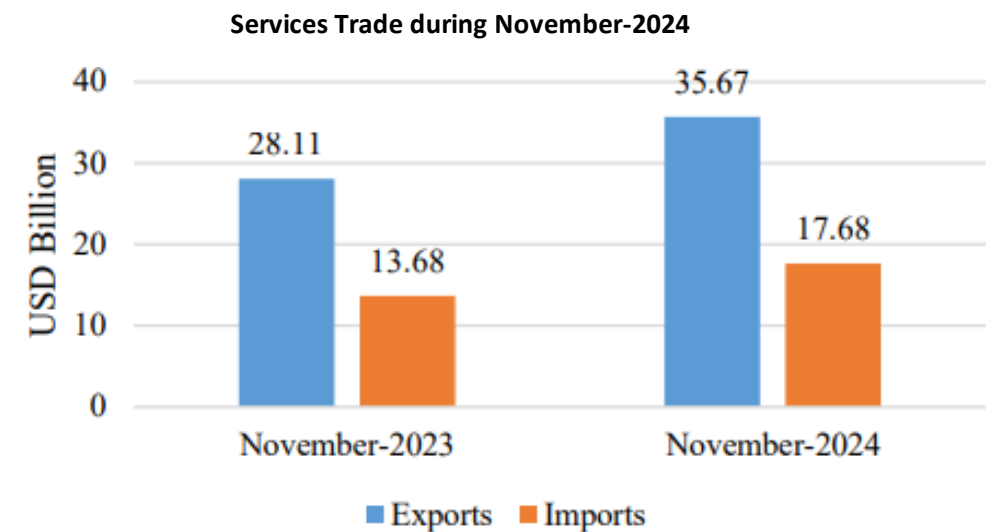
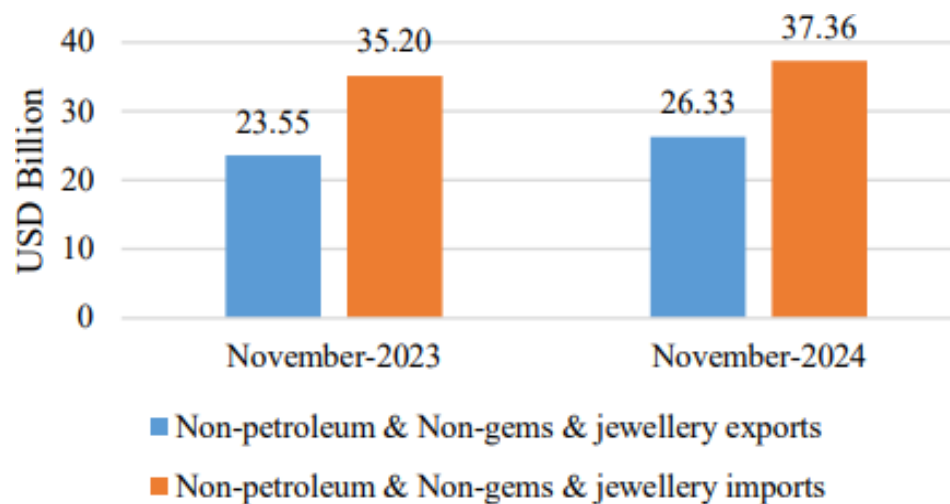
INR ₹/USD \$

As markets absorb the Fed's cautious yet hawkish tone, global and domestic factors will continue to dictate the rupee's trajectory in the coming months. While RBI interventions may temper volatility, structural challenges, including **twin deficits** and **weak export performance** persist. Sustained dollar strength and **rising global interest rates** add to the rupee's vulnerability in the short term. USD/INR pair broke off the resistance level of 85.00, with potential depreciation towards 85.20 levels. In the near term, we expect the rupee to trade within the range of 84.70–85.20, with headwinds outweighing tailwinds.

6. Trade



Trade excluding Petroleum and Gems & Jewellery during November-2024





India's Trade Performance – a silver lining

Record Trade Deficit

- The trade deficit widened to \$37.84 billion in November, up from \$27.14 billion in October, primarily due to soaring gold imports.
- ***For FY25, the projected trade deficit has been revised to \$290 billion (from \$268 billion earlier), though the CAD-to-GDP ratio remains steady at 1.1%.***

Gold Imports Surge

- **Gold imports jumped 108% MoM** to \$14.9 billion in November, following a 62% increase in October.
- **This spike was driven by importers leveraging a \$225/oz drop in global gold prices during early November.**

Oil and Non-Gold Imports

- Oil imports declined by 12% MoM to \$16.1 billion, reflecting stabilization in global energy prices.
- Non-oil, non-gold (NONG) imports fell by 4.7% MoM to \$39 billion, with declines in machinery (-3.9%), electronics (-8.8%), and chemicals (-6.0%).
- Agricultural imports showed mixed trends, with vegetable oil (+22.9%) rising and pulses (-18.5%) declining.

Exports Under Pressure

- **Total exports stood at \$32.11 billion, down 18% MoM due to slowing global demand:**
- Oil exports declined by 18.9% MoM to \$3.7 billion.
- Non-oil exports also fell 18% MoM to \$28.4 billion, with 25 of 31 categories showing declines.
- **Key drops included engineering goods (-21%), gems & jewelry (-36.4%), and handicrafts & carpets (-32.6%).**
- Marginal growth was seen in electronics (+1%) and agricultural products like rice (+8.8%).

Services: A Bright Spot

- Services exports rose 4% MoM to \$35.6 billion, with imports increasing 2.7% MoM to \$17.7 billion.
- **The net services trade surplus reached a record \$18 billion, contributing significantly to stabilizing the current account.**
- Year-to-date services surplus (April-November FY25) is 15% higher YoY, bolstered by sectors like IT and business consulting.

CAD and GDP Impact

Despite the sharp rise in gold imports, the CAD/GDP ratio is expected to remain at 1.1% for FY25:

- **Gold imports are projected at \$68.5 billion (up from \$57 billion previously estimated).**
- **Net services exports are revised upwards to \$184 billion (from \$168 billion earlier), offsetting the impact of goods trade deficits.**

Sectoral Trends and Outlook

- **Engineering goods, traditionally strong performers, faced steep declines, while electronics exports showed resilience.**
- **On the import side, transport equipment imports rose 15.3%, signaling domestic investment recovery.**
- **The government anticipates normalization in gold imports and a steady oil market, which could ease trade imbalances in the coming months.**

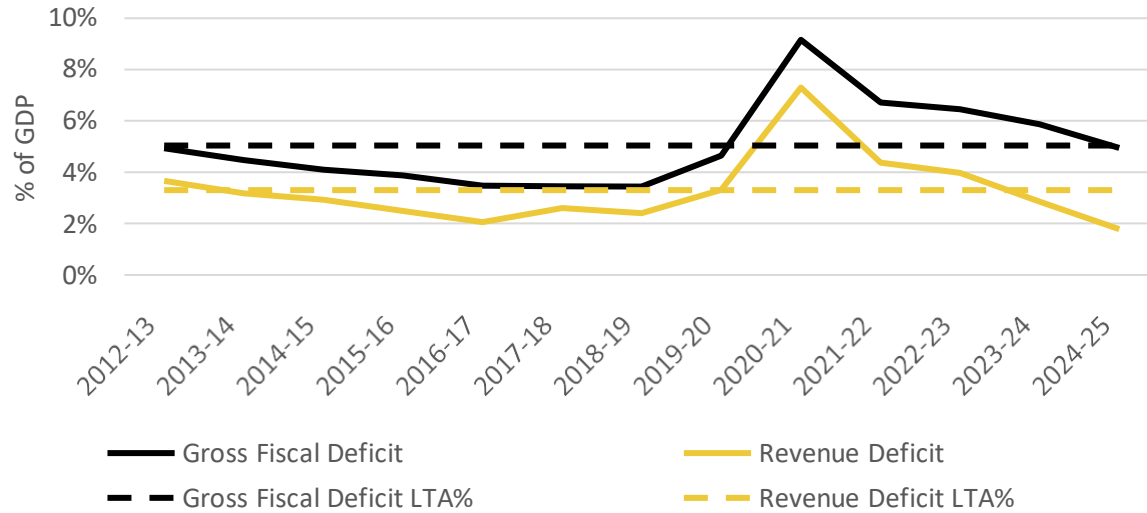
Takeaways

- **While the goods trade deficit surged due to temporary factors like gold and petroleum, the resilient services sector and stable CAD-to-GDP outlook provide a silver lining.**
- Maintaining global competitiveness and managing import dependency remain critical for long-term trade stability.
- There is a chance that the data released might be inaccurate due to double counting of some gold imports, so until we receive the revised data next month, we reserve our judgement.

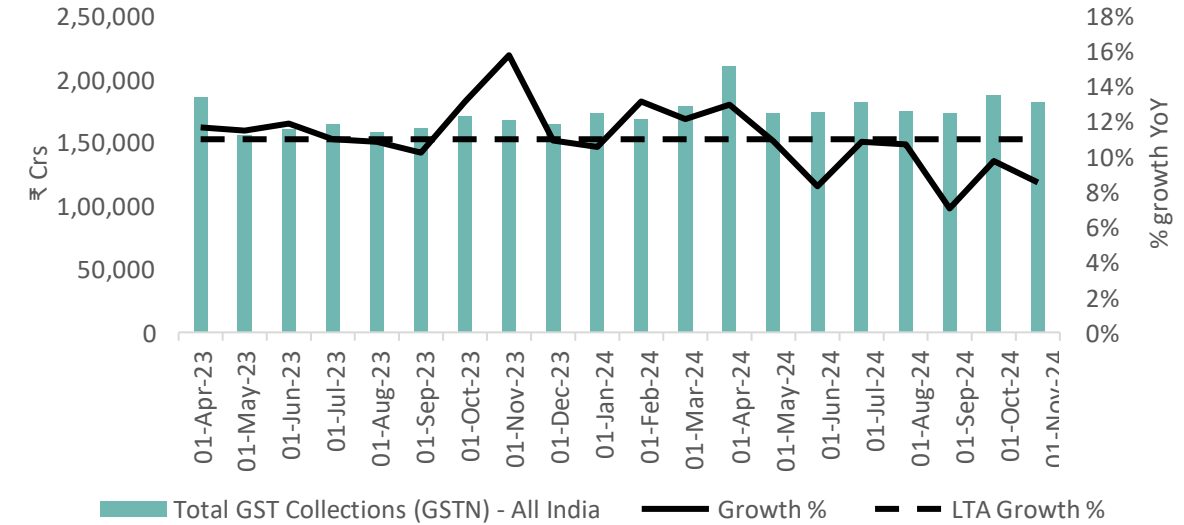
7. Fiscal Situation



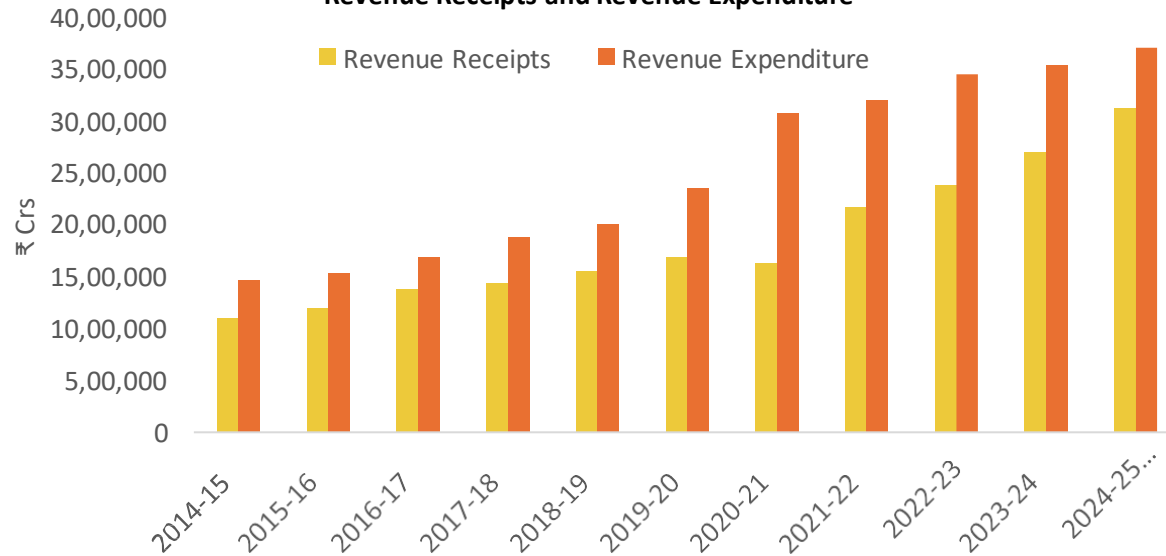
Deficits as a % of GDPn



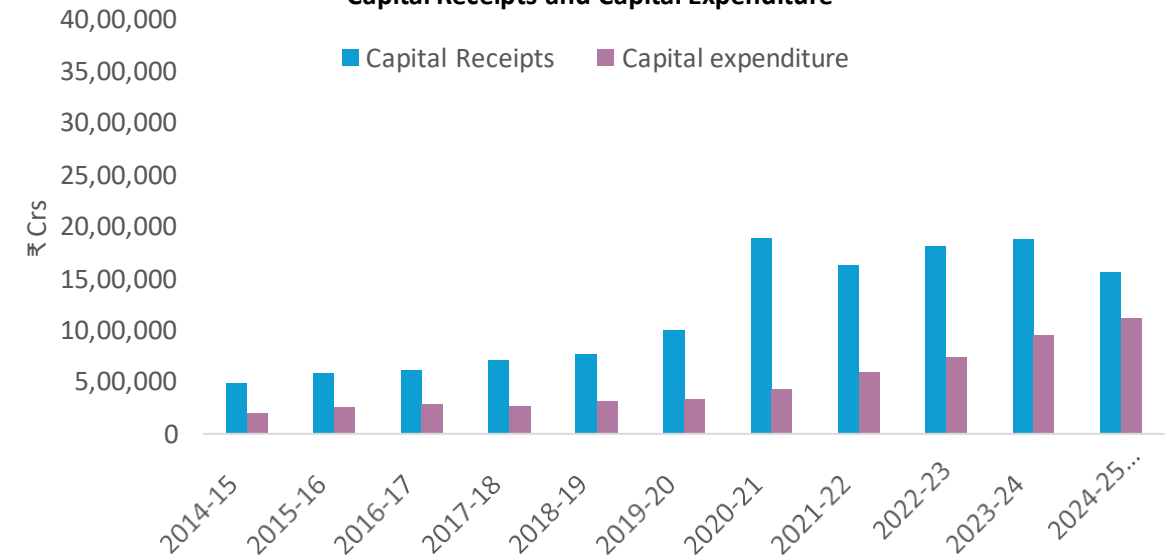
GST Collections



Revenue Receipts and Revenue Expenditure



Capital Receipts and Capital Expenditure



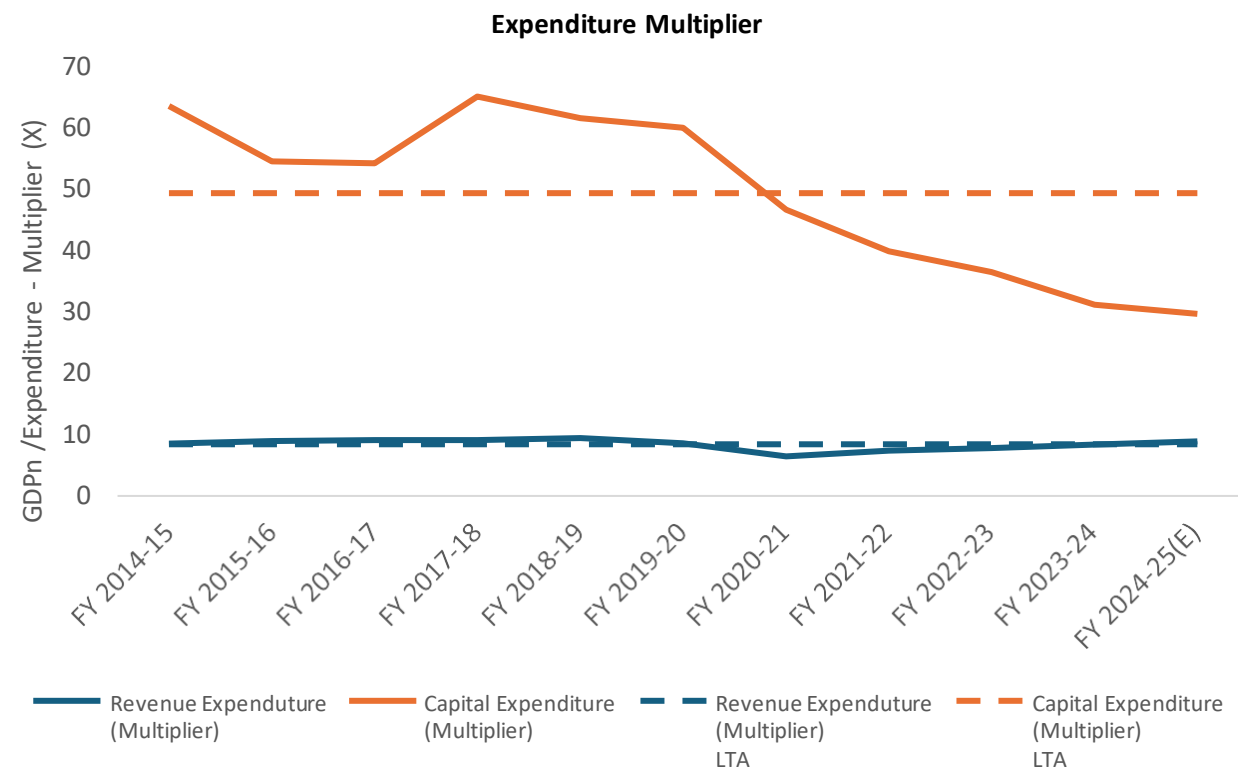
Fiscal Situation



Bucking Up

- India's fiscal deficit for April-October FY25 stood at ₹7.51 lakh crore, or 46.5% of the budget estimate (BE), slightly better than ₹8.04 lakh crore (45% of BE) during the same period last year. **Capital expenditure, vital for long-term growth, declined by 14.7% in this period, with the government spending only 42% of its full-year target.** October showed a sharp turnaround, with total expenditure rising by 31.7% and **revenue expenditure growing by 41.9%.** However, **the focus on revenue spending over capital expenditure raises concerns about the quality of spending.** The government now faces the challenge of meeting its ₹11.11 lakh crore capex target with just five months left, needing to spend 58% of the allocated amount. This comes as GDP growth in Q2 FY25 slowed to 5.4%, the lowest in seven quarters, increasing pressure on fiscal policies to support the economy. **Balancing growth-driven capex and fiscal discipline will be key for policymakers in the months ahead.**
- Going by yearly trends, Revenue Expenditure which accounts for 77% of the Total Expenditure grew at 2.52% in FY 2023-24 and is expected to grow at 4.78% in FY 2024-25. Capital Expenditure on the other hand which account of 23% of the Total Expenditure grew at 28.41% in FY 2023-24 and is expected to grow at 16.93% in FY 2024-25. Revenue Deficit was at 2.85% last fiscal year and is expected to be at 1.78% of GDP in this fiscal, whereas Gross Fiscal Deficit which was at 5.87% last fiscal is expected to be at 4.94% in the current fiscal year.
- Driven by festive demand, the Goods and Services Tax (GST) collections for the Union and state governments climbed to ₹1.82 trillion in November, marking an 8.5% year-on-year growth. Sequentially, however, the latest collection figures are lower than the ₹1.87 trillion reported in October, which was the second highest reported so far since the new indirect tax regime was introduced in 2017. **The consumption tax figures highlight the positive impact of the recent festive season on goods purchases, providing a much-needed boost the industry had been anticipating.** The tax collected in November reflects transactions conducted in October. The uptick in GST collections driven by festive demand had been anticipated by policymakers, who remain optimistic about sustained growth in rural consumption and an improvement in urban demand. **India's economic momentum showed signs of revival in October however we remain cautious.**

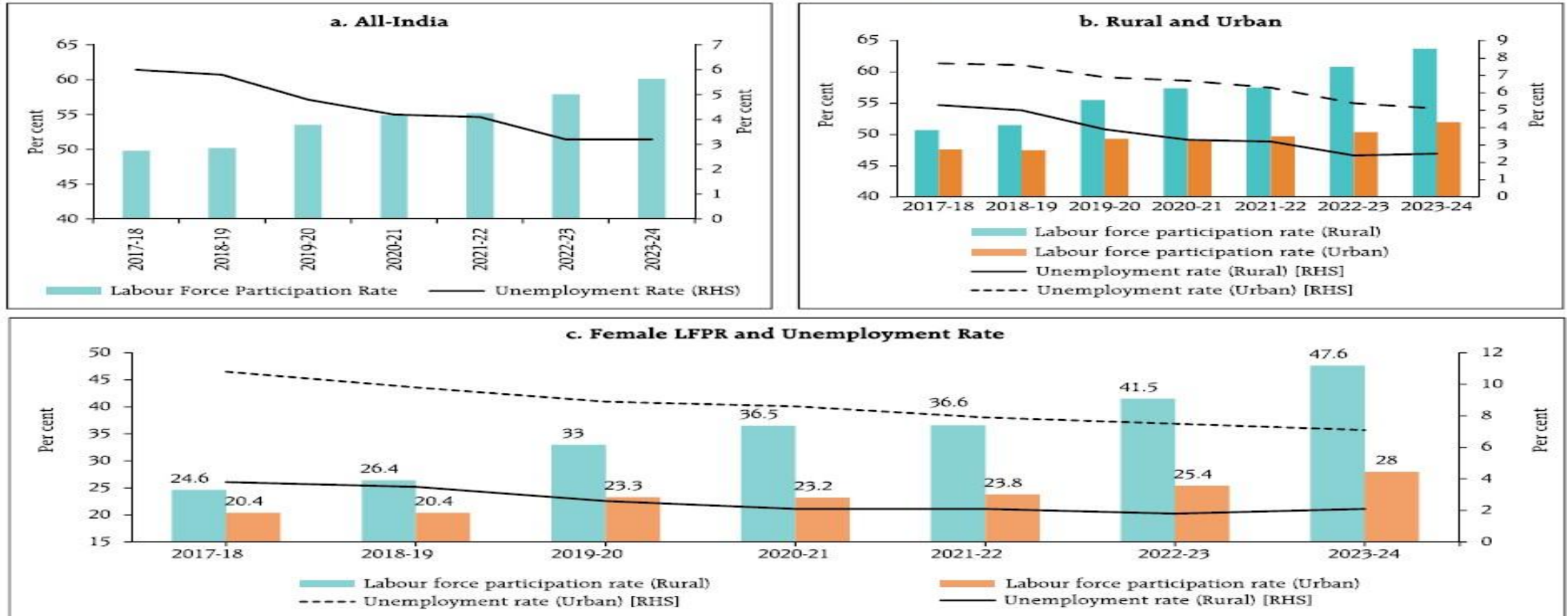
- Although the **capital expenditure multiplier shows a decreasing trend post covid** this may be attributed to (i) **India's GDP growing at a faster nominal pace, particularly post-pandemic due to inflation and economic recovery.** Even when the government increases capital expenditure in absolute terms, it may not keep pace with GDP growth, leading to a decline in capital expenditure as a percentage of GDP. (ii) **Gradual and increasing shift towards State Level spending.**



8. Employment



Chart III.4: PLFS Annual 2023-24 (Age 15 and above)



Source: Ministry of Statistics and Programme Implementation (MoSPI).

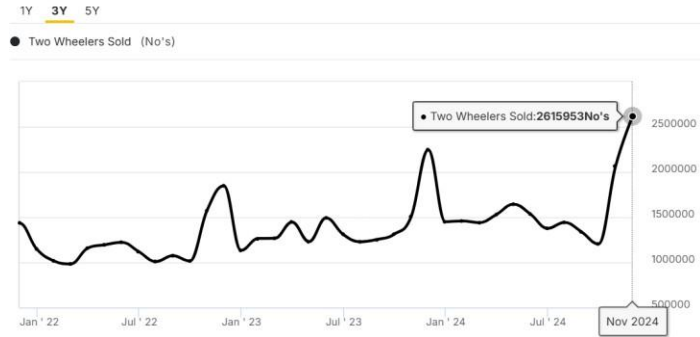
Demographic Leverage in play

India's **Labour Force Participation Rate (LFPR)** rose to 60.1% in 2023-24 from 57.9% in 2022-23, driven by a sharp increase in female labour force participation from 37.0% to 41.7%. The unemployment rate declined to 3.3%, reflecting rural resilience despite urban unemployment at 6.6%. Policy-driven skilling programs and economic expansion bolstered labor market entry, yet urban job creation lagged behind, amplifying structural employment gaps. The LFPR growth signifies demographic leverage but underscores a pressing need for enhanced job absorption capacity.

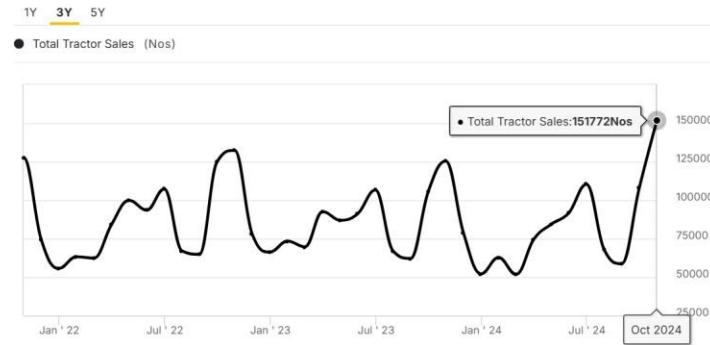
9. Demand Indicators



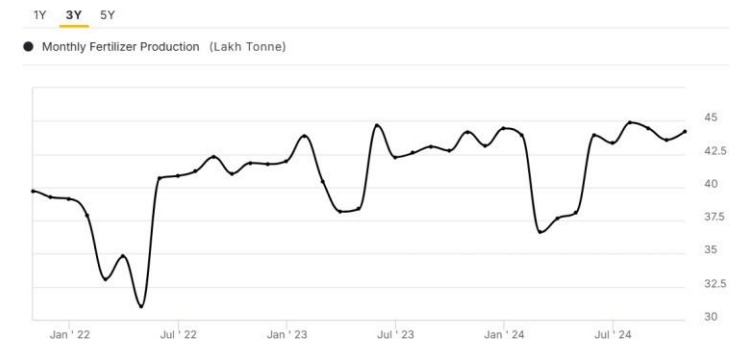
TWO WHEELERS SOLD (No's)



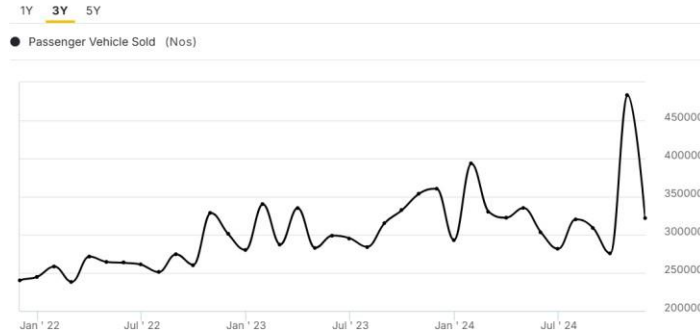
TOTAL TRACTOR SALES (Nos)



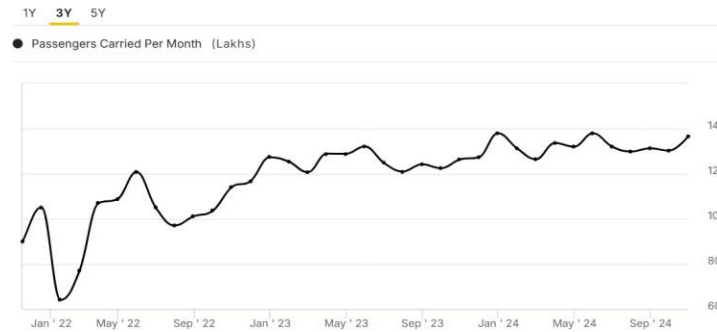
MONTHLY FERTILIZER PRODUCTION (Lakh Tonne)



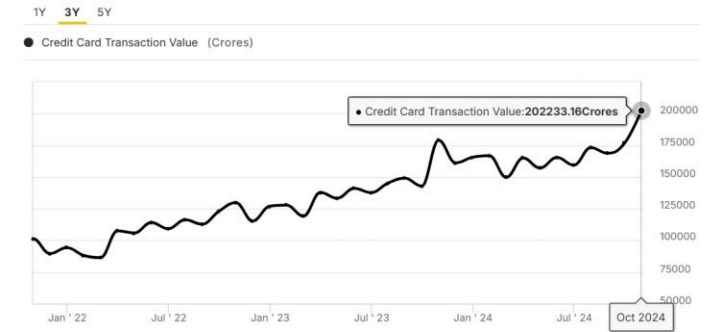
PASSENGER VEHICLE SOLD (Nos)



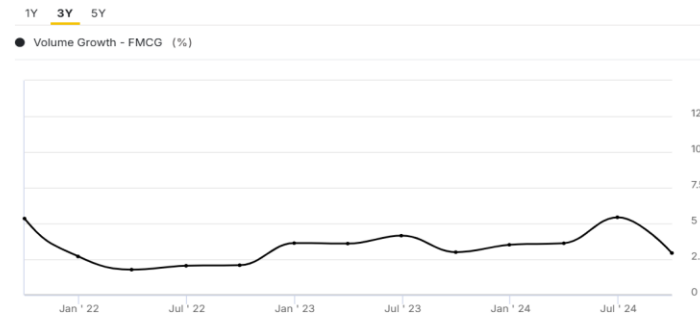
PASSENGERS CARRIED PER MONTH (Lakhs)



CREDIT CARD TRANSACTION VALUE (Crores)



VOLUME GROWTH - FMCG (%)



Select Consumer Demand Indicators

Rural Demand

Sales of two-wheelers, tractors, and fertilizers have experienced a significant upward trend, largely driven by favorable monsoon conditions and an increase in harvest yields. This improvement has led to a rise in disposable income in rural areas, enhancing purchasing power and boosting demand for these essential products.

Urban Demand

Passenger Vehicles, Airline travel, and Credit card transactions experienced an uptick driven by the festival season starting from Diwali in November and the Wedding season.

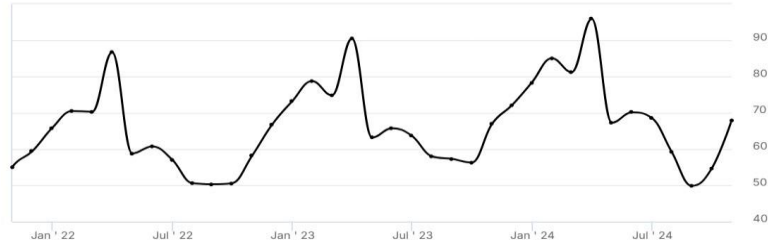
At the beginning of Q3 FY2024-25, overall consumer demand experienced a notable surge, rebounding from a period of sluggish growth reflected in Q2, which was highlighted in the quarterly GDP figures. As we move forward, it will be crucial to monitor whether this positive momentum can be sustained beyond the festival season.



COAL PRODUCTION (Mil Tonnes)

1Y 3Y 5Y

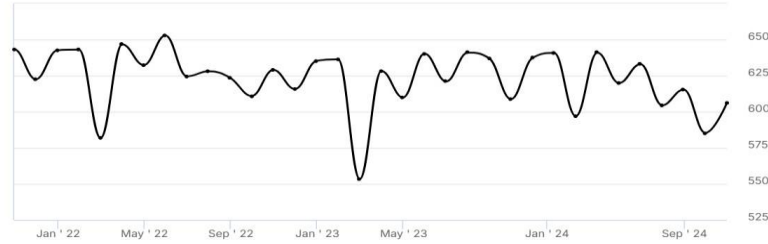
● Coal Production (Mil Tonnes)



CRUDE OIL PRODUCTION (ThsBar/day)

1Y 3Y 5Y

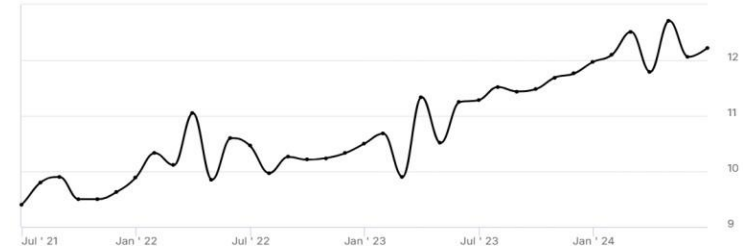
● Crude Oil Production (ThsBar/day)



CRUDE STEEL PRODUCTION (Mil Tonnes)

1Y 3Y 5Y

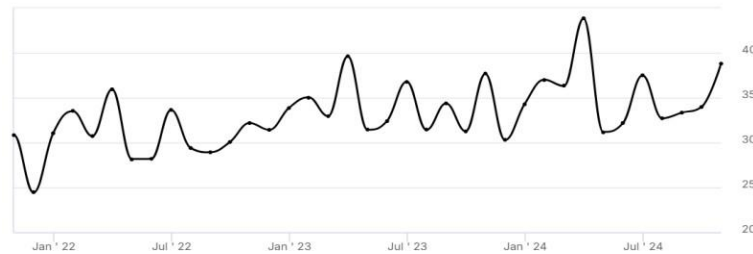
● Crude Steel Production (Mil Tonnes)



CEMENT PRODUCTION (Mil Tonnes)

1Y 3Y 5Y

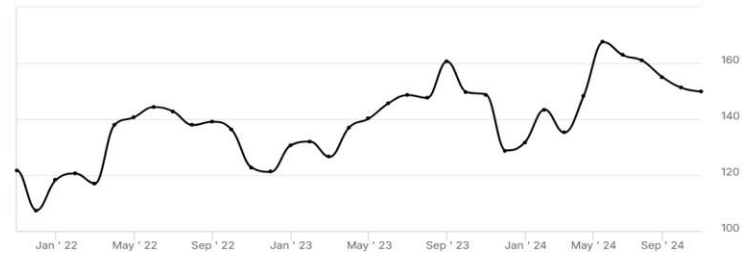
● Cement Production (Mil Tonnes)



ELECTRICITY GENERATION (Bil Units)

1Y 3Y 5Y

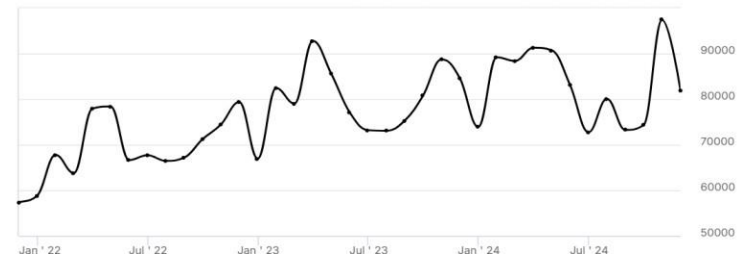
● Electricity Generation (Bil Units)



COMMERCIAL VEHICLE SOLD (Nos)

1Y 3Y 5Y

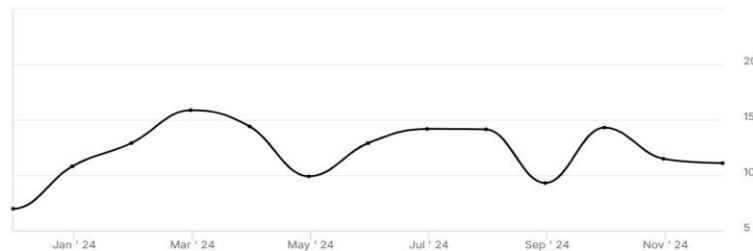
● Commercial Vehicle Sold (Nos)



FREIGHT INDEX - YOY GROWTH (%)

1Y 3Y 5Y

● Freight Index - YoY Growth (%)



Select Industrial Demand Indicators

- Crude oil production and electricity generation have shown muted performance over the past two quarters of FY 2024-25.
- Similarly, Coal production, Cement output, Commercial Vehicle sales, and the Freight Index have remained relatively flat, indicating a period of stagnation in these key sectors.



Macro-Economic Heatmap

	Jun-24	Jul-24	Aug-24	Oct-24	Nov-24
↓ GDP	Good	Good	Good	Bad	Bad
→ Inflation	Good	Good	Good	Ok	Ok
↓ Industry	Good	Good	Good	Bad	Bad
→ Capex	Good	Good	Good	Good	Good
↑ Liquidity	Good	Ok	Good	Good	Good
↑ Trade	Good	Good	Good	Good	Good
↑ Fiscal Situation	Good	Good	Good	Good	Good
→ Employment	Good	Bad	Bad	Ok	Ok
→ Demand Indicators	Bad	Bad	Bad	Ok	Ok
↓ Equity	Ok	Bad	Bad	Bad	Bad
↑ Debt	Good	Good	Good	Good	Good

Key:

Good
Good
Ok
Bad
Bad

Cautious Optimism

The domestic economy is exhibiting clear signs of a slowdown, with disappointing figures emerging across various economic indicators, including economic growth, consumer demand, and industrial performance. While the current liquidity situation appears stable, persistent foreign outflows could prompt the Reserve Bank of India (RBI) to intervene in the foreign exchange market, potentially affecting short-term liquidity, interest rates, and inflation. Despite a boost from the festive season in India, it remains uncertain whether this momentum will be sustained. We will be closely monitoring the situation to determine whether this slowdown is a transient fluctuation or indicative of deeper structural issues within the economy. At the moment we remain in a wait-and-watch mode.



Equity Outlook



Market Cap Risk-Return Profile



Year	Nifty 50 Return %												
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	CY
2024	0%	1%	2%	1%	-1%	7%	4%	1%	2%	-6%	0%	-1%	9.5%
2023	-2%	-2%	0%	4%	3%	4%	3%	-3%	2%	-3%	6%	8%	20.0%
2022	0%	-3%	4%	-2%	-3%	-5%	9%	4%	-4%	5%	4%	-3%	4.3%
2021	-2%	7%	1%	0%	7%	1%	0%	9%	3%	0%	-4%	2%	24.1%
2020	-2%	-6%	-23%	15%	-3%	8%	7%	3%	-1%	4%	11%	8%	14.9%
2019	0%	0%	8%	1%	1%	-1%	-6%	-1%	4%	4%	2%	1%	12.0%
2018	5%	-5%	-4%	6%	0%	0%	6%	3%	-6%	-5%	5%	0%	3.2%
2017	5%	4%	3%	1%	3%	-1%	6%	-2%	-1%	6%	-1%	3%	28.7%
2016	-5%	-8%	11%	1%	4%	2%	4%	2%	-2%	0%	-5%	0%	3.0%
2015	6%	1%	-5%	-4%	3%	-1%	2%	-7%	0%	1%	-2%	0%	-4.1%
2014	-3%	3%	7%	0%	8%	5%	1%	3%	0%	4%	3%	-4%	31.4%
2013	2%	-6%	0%	4%	1%	-2%	-2%	-5%	5%	10%	-2%	2%	6.8%
2012	12%	4%	-2%	-1%	-6%	7%	-1%	1%	8%	-1%	5%	0%	27.7%
2011	-10%	-3%	9%	-1%	-3%	2%	-3%	-9%	-1%	8%	-9%	-4%	-24.6%
2010	-6%	1%	7%	1%	-4%	4%	1%	1%	12%	0%	-3%	5%	18.0%
2009	-3%	-4%	9%	15%	28%	-4%	8%	1%	9%	-7%	7%	3%	75.8%
2008	-16%	2%	-9%	9%	-6%	-17%	7%	1%	-10%	-26%	-5%	7%	-51.8%
2007	3%	-8%	2%	7%	5%	1%	5%	-1%	12%	18%	-2%	7%	54.8%
2006	6%	2%	11%	5%	-14%	2%	0%	9%	5%	4%	6%	0%	39.8%
2005	-1%	2%	-3%	-7%	10%	6%	4%	3%	9%	-9%	12%	7%	36.3%
2004	-4%	-1%	-2%	1%	-17%	1%	8%	0%	7%	2%	10%	6%	10.7%
2003	-5%	2%	-8%	-5%	8%	13%	5%	14%	4%	10%	4%	16%	71.9%
2002	2%	6%	-1%	-4%	-5%	3%	-9%	5%	-5%	-1%	10%	4%	3.2%
2001	9%	-1%	-15%	-2%	4%	-5%	-3%	-2%	-13%	6%	10%	-1%	-16.2%
2000	4%	7%	-8%	-8%	-2%	7%	-9%	5%	-9%	-8%	8%	0%	-14.7%

RISK-RETURN MEASURES	NIFTY 50	NIFTY MID CAP 150	NIFTY SMALL CAP 100	NIFTY SMALL CAP 250
CAGR Return %	11.8%	15.4%	16.8%	22.9%
Standard Deviation	6.3%	7.6%	8.7%	7.1%
Avg Months with +ve return	7	8	6	8
Avg Months with -ve return	5	4	6	5
Avg Months with >6% decline	1	1	1	1
No of Years	25	19	11	6

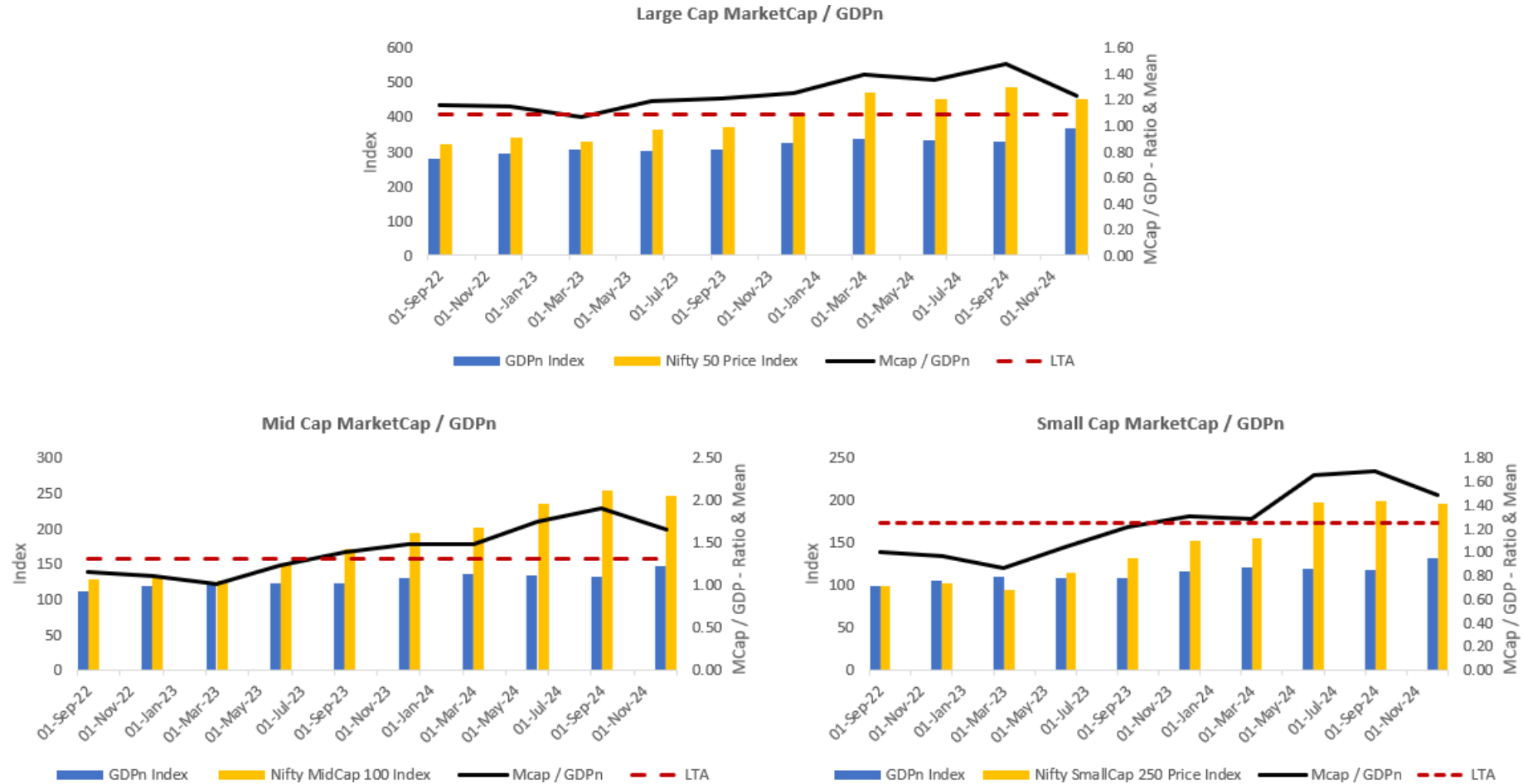
Tempered Down Expectations

- In October, the market saw a 6.22% decline followed by a 0.31% decline in November and a 1.22% decline till 19 December, sparking caution among investors. **Historically, the Nifty 50 has given a CAGR of ~12% over the past ~25 years**, with an average of only 1 month in a year where returns have declined by 6% or more (this number is the same for mid and small caps). Furthermore, advances and declines in a single month were at an average of 7 and 5 respectively in a single year for large caps, thus tending towards a CAGR of ~12% over a long-time horizon. **Similarly Mid Caps registered a CAGR of ~15% over the past ~19 years and Small Caps registered a CAGR of ~17% over the past ~11 years**. As we end CY 2024 with a modest 9.5% YTD return in Nifty 50, thus exhibiting mean reversion from the past year. However Mid and Small Caps have given a return of 27% and 26% respectively in YTD 2024 which followed 44% and 56% return respectively in CY 2023. Hence, **we expect returns in Mid and Small Cap Indices to be subdued in CY 2025 with reversion to their long-term mean**.
- As per TTM PE valuations Mid Cap and Small Cap seem to be overvalued and Large Caps fairly valued.

Market Cap	Current PE	Long Term Average PE	Premium / (Discount)	Valuation
Large Cap	22.60	23.99	-6%	Fairly Valued
Mid Cap	42.89	31.93	34%	Overvalued
Small Cap	34.76	24.52	42%	Overvalued

- The scatterplot shows the tradeoff between risk and return for the 3 Market Cap indices, with increasingly higher returns at the cost of higher risk as we move down the Market Cap spectrum.

Buffett Indicator

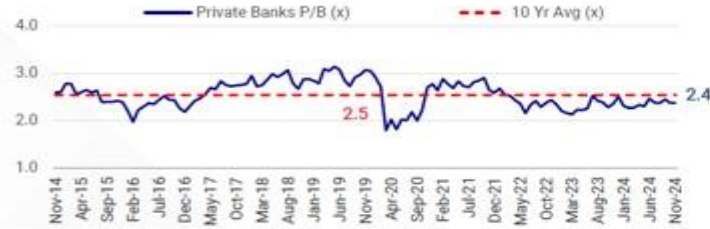


The present lofty valuations are evidenced in the **high premiums exhibited in their Mcap/GDP ratios where Mid Caps and Small Caps are currently trading at hefty premiums of ~21% and ~16% respectively** (Buffet Indicator). Similarly **Large Caps are trading at a relatively lower premium of ~11.5%**

Sectoral Valuations



12 Month Forward Private Banks P/B (x)



12 Month Forward Automobiles P/E (x)



Bullish

Private Banks as a sector looks attractive as they are currently trading at below their historical average multiple. Once valuations of the broader market get in the reasonable zone, companies would rather fund expansion through debt rather than QIPs or any other form of equity dilution. This would most likely mark the beginning of another structural capex cycle. It's no wonder most institutional funds hold maximum allocation to this sector.

Automobiles are also trading below its long-term average and looks attractive despite some drop in momentum in the last quarter. However, considering muted management commentary based on slowing urban demand, the valuations seems reasonable.

12 Month Forward Technology P/E (x)



12 Month Forward Cement P/E (x)



Positive

Technology is currently trading at a premium to its historical average, but with President Trump in office the US will be looking to spend more on tech.

Healthcare is trading slightly above its historical average, but the earnings growth of the healthcare sector probably justifies its high multiple.

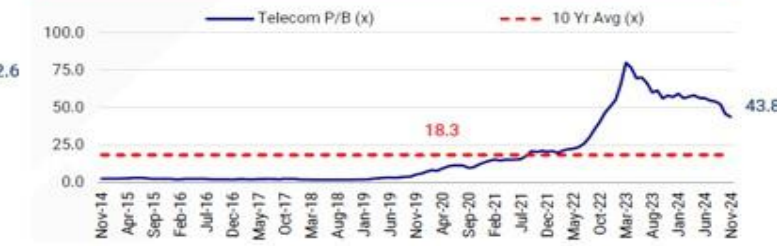
Cement is trading above its historical average but that's because of the prolonged monsoons in India and once Real Estate and Infra construction picks up in Q3, earnings are likely to grow, and the multiple is likely to revert back to its historical average.

Telecom is above its historical average, but do remember that for bulk of that historical period telecom companies were making losses. It's only in recent times that they have started making profits.

12 Month Forward Healthcare P/E (x)



12 Month Forward Telecom P/E (x)



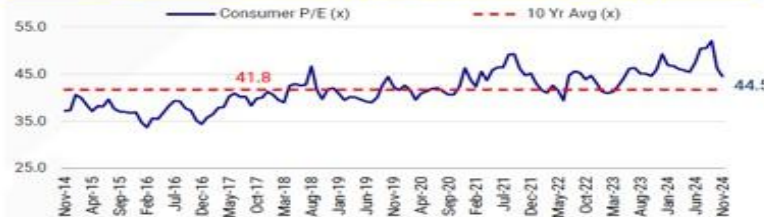
Sectoral Valuations



12 Month Forward Oil & Gas P/E (x)



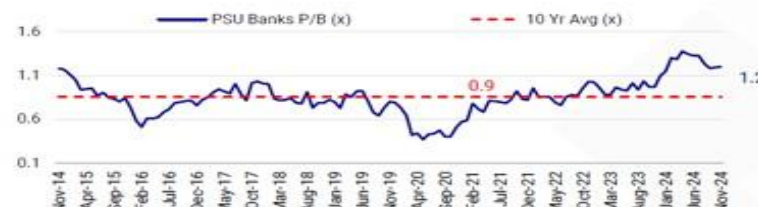
12 Month Forward Consumers Staple P/E (x)



12 Month Forward Specialty Chemicals P/E (x)



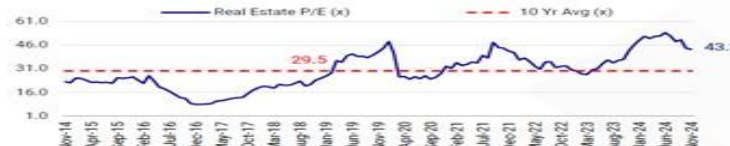
12 Month Forward PSU Banks P/B (x)



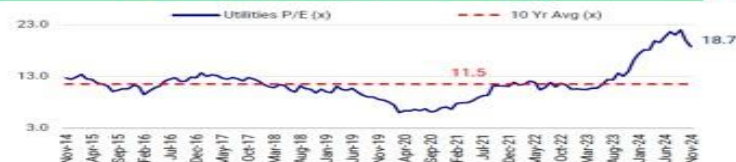
12 Month Forward Capital Goods P/E (x)



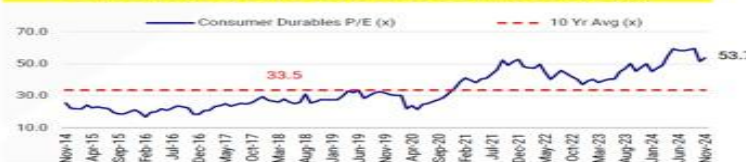
12 Month Forward Real Estate P/E (x)



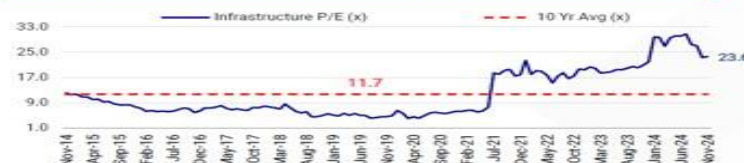
12 Month Forward Utilities P/E (x)



12 Month Forward Consumer Durables P/E (x)



12 Month Forward Infrastructure P/E (x)



Neutral

Oil & Gas, Consumer Staples, Speciality Chemicals and PSU Banks are neutral sectors in terms of their relative valuations. Once the government capex cycle starts and there is more clarity on trade tariffs, would we start forming a definitive opinion on companies in these sectors.

Bearish

Real Estate is trading well above its historical average, however some of this premium can be attributed to the fact that property inventories in major cities are at their lowest levels in 15 years, which usually signals a surge in new construction. This could benefit allied industries like cement, steel, and consumer durables.

Consumer Durables, Utilities, Capital Goods and Infrastructure sectors are trading way above their historical averages, and one will have to be extremely selective in this sector.



Corporate Earnings

	SALES			PAT		
Sector	Est.	Actual	VS Exp.	Est.	Actual	VS Exp.
	YoY	YoY		YoY	YoY	
Nifty 50 Index (50)	3.9	4.0	In Line	3.0	4.0	In Line
Large Cap (82)	7.1	3.6	In Line	-0.1	0.2	In Line
Mid Cap (88)	7.9	9.0	In Line	2.5	-9.6	Below
Small Cap (106)	9.2	7.7	In Line	-3.6	-15.0	Below

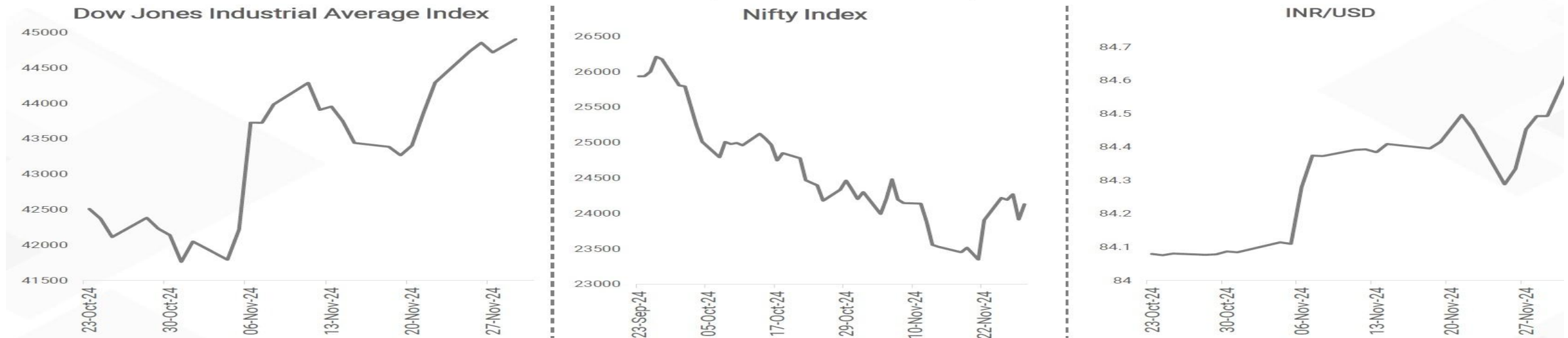
Below Expectations

- Corporate earnings in Q2 FY25 highlighted significant headwinds, with muted revenue growth and margin compression across non-financials. **Mid-cap and Small-Cap companies faced severe EPS cuts.** Sectors like **FMCG, Auto, and Retail** grappled with subdued urban demand, while **MFIs and Oil Refiners** saw 100% of firms missing earnings estimates, underscoring sector-specific challenges. In contrast, Banks outperformed on the back of lower credit costs, and cyclical sectors like Steel, Mining, and Pharmaceuticals benefited from favorable input price tailwinds, with over 70% of companies beating estimates.
- Corporate India's Q2's underwhelming performance led to a 10% correction from September highs. The market currently seems to be in a risk off sentiment with ₹1.6 lakh crore of FPI outflows since September this year. **China's stimulus, geopolitical risks, consumption slowdowns, slower than expected US Fed rate cuts, and Trump's trade policy uncertainty** are the major headwinds to the market currently.

Strategy



US Markets Rise, Indian Markets Fall, INR Falls



Source: Kotak AMC

Tailwinds

- Robust structural long term economic growth.
- Political Stability with BJP and allies forming majority at the Center as well as in Maharashtra.

Headwinds

- Subdued earnings due to slowing consumer demand.
- Elevated valuations, especially in the Mid Cap and Small Cap space.
- Geopolitical uncertainty with Israel-Palestine and Russia-Ukraine conflicts lingering on.
- Foreign flows redirecting towards US and general risk off sentiment due to a slower than expected rate cut cycle in the US, leading to heightened market volatility.
- Uncertainty over Trump's trade policies.

Outlook

- Heightened Volatility with a Downward Bias / Risk Off Sentiment

Suggested Strategy

Underweight Equity

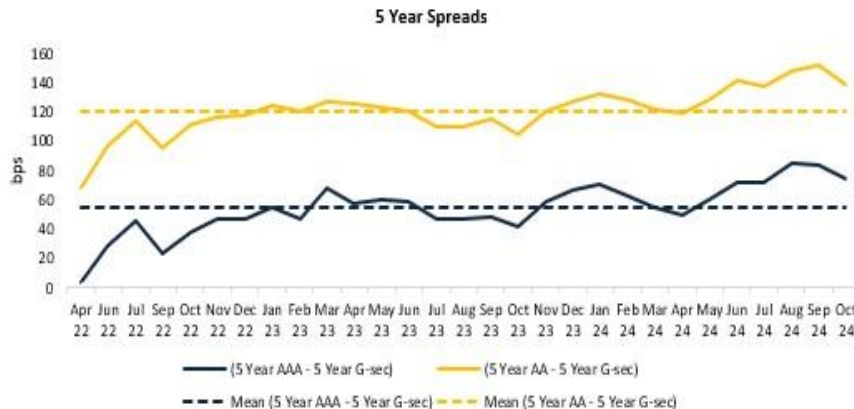
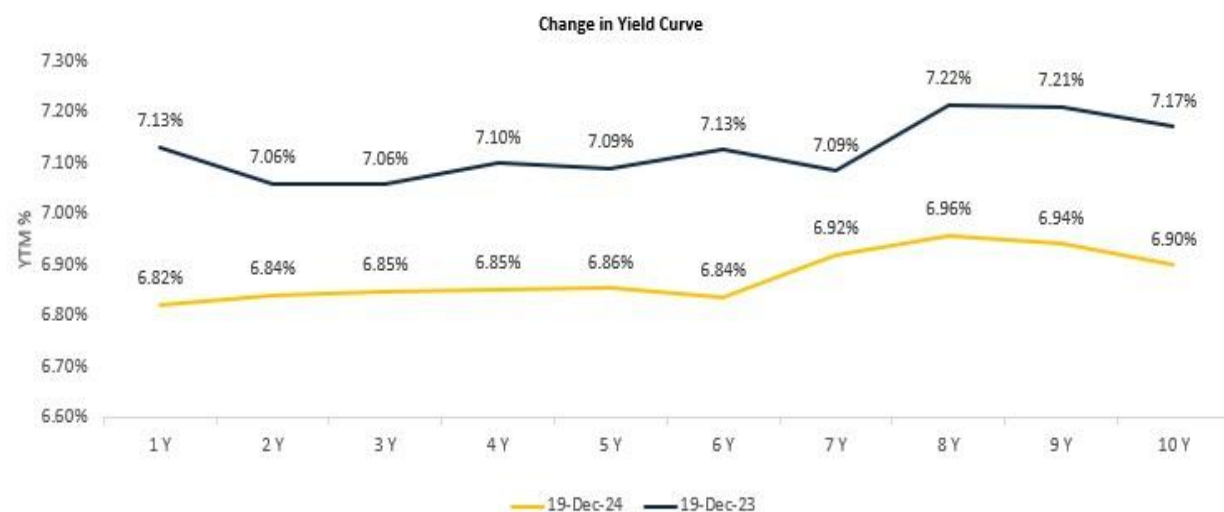
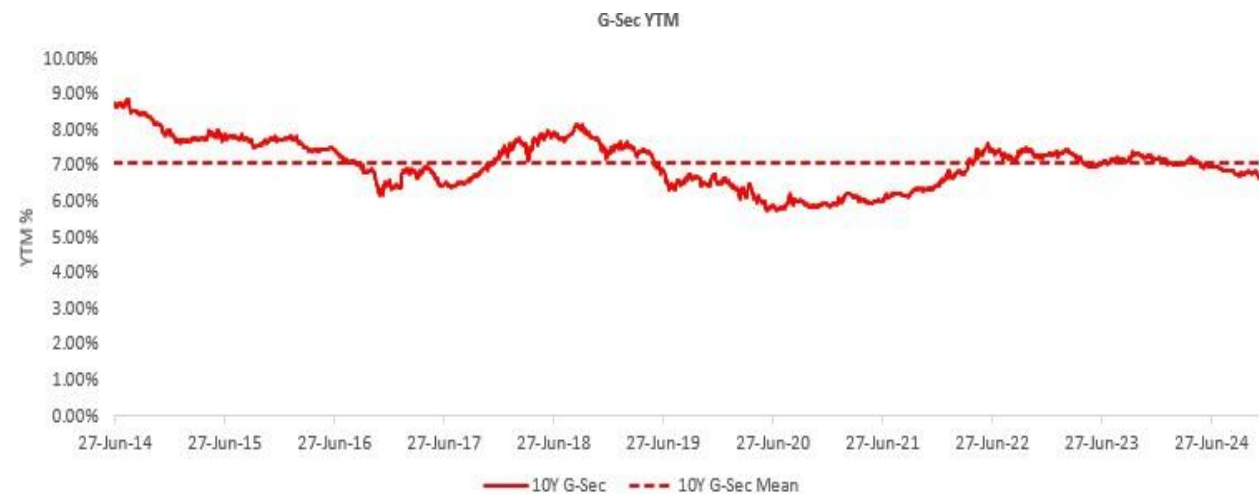
Category	Stance
Large Cap	Neutral
Mid Cap	Underweight
Small Cap	Underweight



Debt Outlook



Yields & Spreads



AA spreads & AAA spreads are seen reverting towards the long-term average in October 2024. The convergence of spreads towards their historical means in recent months suggests improved systemic stability, yet persistent volatility highlights sectoral disparities and selective risk aversion among institutional investors.



Debt Market Outlook

Prevailing Scenario:

- **Inflation**

Headline CPI inflation which was at 4.7% in FY 2023-24. October 2024 witnessed an inflation hump of 6.21% on account of elevated Food Prices due to a prolonged monsoon in India. However inflation is expected to moderate to 4.5% in FY 2024-25 with Q3 and Q4 of FY 2024-25 expected to be 5.7% and 4.5% respectively.

- **Growth**

Last quarters were marred with disappointing Q2 FY25 GDP growth of 5.4% (well below consensus) and downward revisions to GDP forecasts for FY25. Q2 GDP revealed a moderation in private consumption, capex, and government spending, with muted growth of 6% y/y in H1 FY25 compared to 8% y/y in H1 FY24. On the supply side, manufacturing, mining, and electricity underperformed, while agriculture and services delivered robust growth. This has created space for potential rate cuts, likely in the February 2025 policy.

- **Fiscal Situation**

Fiscal deficit as a percentage of GDP was 5.9% in FY 2023-24, with a budget estimate of 4.9% in FY 2024-25 and 4.5% in FY 2025-26. Fixed-income yields remained range-bound in November, with the 10-year G-sec trading between 6.75%-6.85%, eventually closing the month at 6.75%. Term premia marginally compressed, averaging 21 basis points. SDLs (State Development Loans) mirrored G-sec trends, with the 10-year SDL yield moving between 7.09%-7.16% and closing at 7.14%. The spread between SDLs and G-secs averaged 32 basis points. Corporate bonds showed limited movement, with 10-year AAA-rated PSU bonds trading between 7.26%-7.32%, closing slightly higher at 7.31%. Primary SDL issuances declined to ₹55,006 crore in October. The current trajectory of inflation and growth suggests softening yields ahead, with February 2025 likely to be the pivot for a policy rate cut. For now, the market remains anchored, offering opportunities in the short & long-duration space while keeping a close watch on inflation prints and fiscal dynamics.

- **Rate Cuts - US Fed**

US Fed has cut interest rates by a quarter of a percentage point. This brings the federal funds rate down to a range of 4.25% to 4.50%. For some context, this is the Fed's third rate cut in a row, and if you add up all the cuts they've made recently, it totals a full percentage point. But here's the twist—this wasn't your typical rate cut. In fact, it's being described as one of the most cautious, or even hesitant, rate cuts we've seen in a while. The Fed's cautious approach seems to be based on updated forecasts for key parts of the economy: Inflation: The Fed now expects core inflation (which excludes things like food and energy prices that can swing up and down) to stay higher than they previously thought. They're predicting it will hit 2.8% in 2024 and 2.5% by the end of 2025. That's still above their long-term goal of 2%. The Fed is still worried about lingering inflation risks. The Fed that while higher rates are affecting areas like housing, broader financial conditions, such as stock market valuations and corporate bond spreads, remain relatively loose. This disconnect could be another reason why the Fed is approaching things so cautiously. Economic Growth: In a bit of a surprise, the Fed raised its GDP growth forecast for 2024 from 2.0% to 2.5%. This shows they're more optimistic about how the economy will perform. Unemployment: They also lowered their forecast for the unemployment rate in 2025 from 4.4% to 4.3%. This suggests they believe it's possible to bring inflation down without causing a big increase in job losses—a situation often referred to as a "soft landing." The new projections now point to just two small rate cuts in 2025, down from the four cuts they suggested back in September. New Government and their Policies: There's also a layer of complexity involving fiscal policies from former President Trump's administration. Powell acknowledged that some Fed officials are factoring in potential effects from policies like tariffs, tax cuts, and immigration restrictions, while others aren't. This divide shows how uncertain the economic outlook is, making it even harder for the Fed to plan ahead.

• Rate Cuts - India

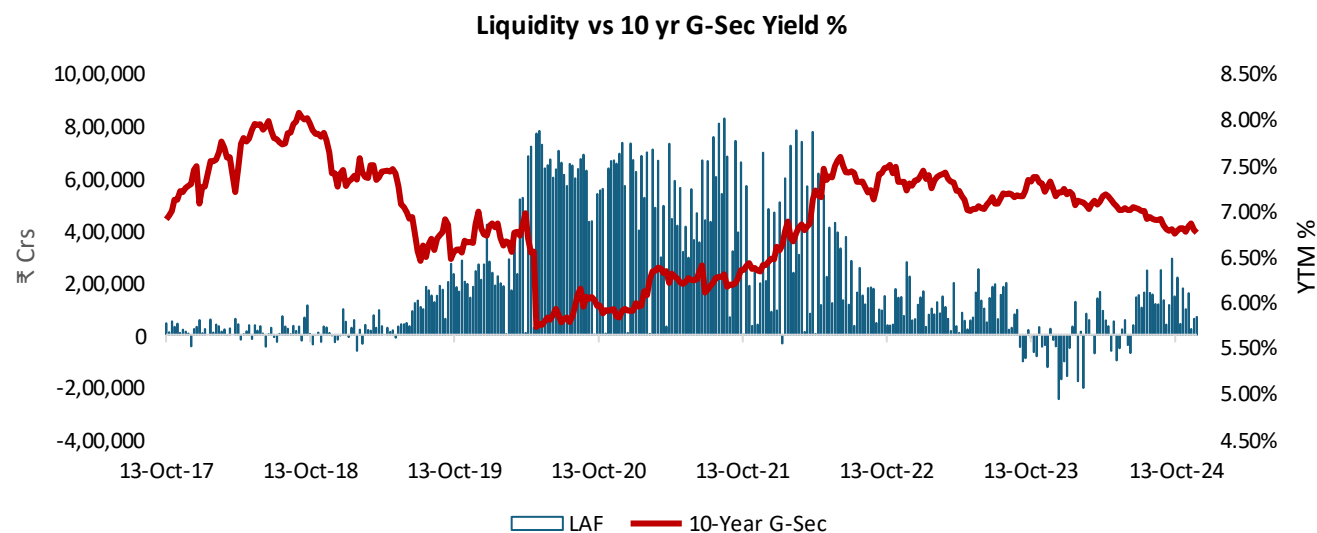
The Reserve Bank of India (RBI) on 6th Dec slashed the cash reserve ratio (CRR) by 50 basis points (bps) to 4% from 4.5% in a bid to boost liquidity in the financial system. The RBI however kept the Repo rate – the key policy rate – unchanged at 6.5% in a majority 4-2 decision. This is the eleventh consecutive monetary policy, over 22 months, which has left the Repo rate unchanged. The RBI also decided to retain the monetary policy stance as 'neutral' in the policy, hence creating headroom for a rate cut in Feb 2025, however this decision will be largely data driven with domestic inflation being of foremost importance. Food inflation pressure is likely to linger in Q3 of FY25 and start easing in Q4 of FY25. High inflation reduces disposable income in the hands of consumers. MPC believes that only with durable price stability, we secure strong foundation for high growth.

Outlook:

- Indian bonds are likely to get support from - slower domestic growth, lower inflation in the coming months, and better demand due to expected global bond inclusion.
- However, geopolitical uncertainties like US tariffs, fiscal concerns, a strong dollar impacting the INR hence managing liquidity will remain important due to the risks of currency volatility, China's stimulus, volatile crude oil prices due to ongoing conflicts, delayed US Fed rate cuts leading to short term volatility - may keep bond markets volatile in the short term. Recent state development loans (SDL) auctions have shown average yields of around 7.11% for longer tenors, climbing to 7.23% in annualized terms. On the other hand, AAA-rated PSU bond yields for similar maturities are trading slightly lower, between 7.10 per cent and 7.16 per cent. Market participants said that the price difference is largely driven by heavy supply, timing mismatches in fund flows, and rising global interest rates. Bond yields surged post the US Federal Reserve meeting outcome as the Fed indicated towards a more measured pace for future reductions. This has triggered uncertainty across financial markets, with has spilled over to the Indian bond market, causing yields across instruments, including SDLs and PSU bonds, to rise by 4–5 bps for tenors of 10 to 15 years. SDL issuances, concentrated in the second half of the financial year, have coincided with rising US Treasury yields and a weakening rupee, which recently breached Rs 85 a dollar. These factors have tightened domestic monetary conditions, pushing yields higher across the board. The higher yields on SDLs compared to AAA PSU bonds reflect market dynamics like supply-demand imbalances rather than an increase in perceived risk.
- RBI is likely to cut the policy rate in February 2025, as clearer data on growth (FY25 advance GDP estimates), inflation (Nov-Jan trends), fiscal consolidation (Budget FY26), and foreign inflows may emerge.

Suggested Strategy:

- ❖ *Investors should remain vigilant, balancing near-term curve volatility against opportunities in both the short and long ends of the yield curve. Barbell strategy with a larger allocation to longer duration 10yr+ GSec/AAA bonds and a smaller allocation to 1-2yr GSec/AAA bonds.*
- ❖ *Overweight Debt but Liquidity to be tracked very closely.*



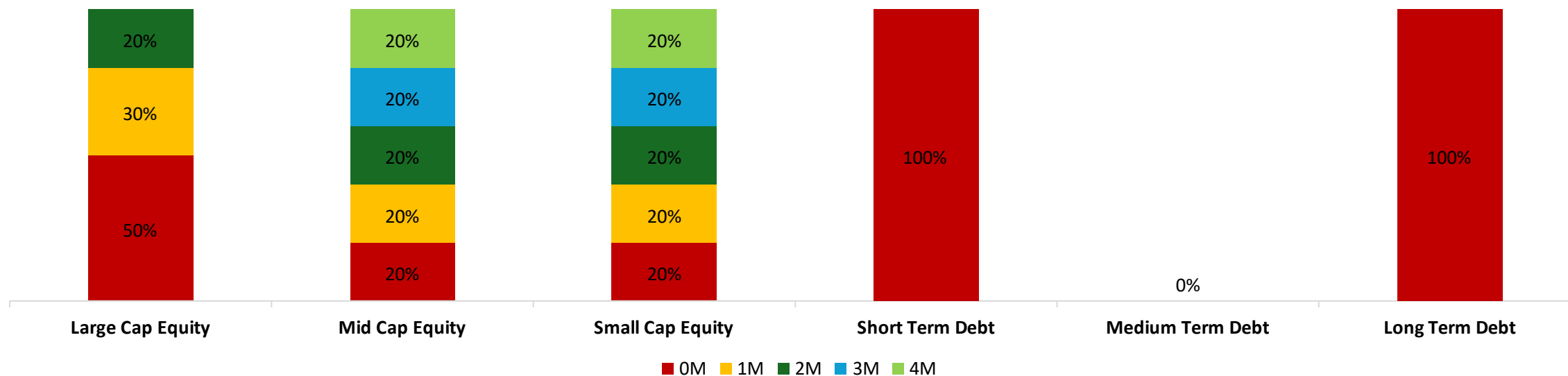
Deployment Strategy



Deployment



Staggered Deployment Strategy



Indicators:

Indicators signaling over heated market conditions –

- VIX
- Market Cap/GDP for Mid Cap and Small Cap Indices
- Consumption and Investment
- TTM PE for Mid Cap and Small Cap Indices
- FII activity

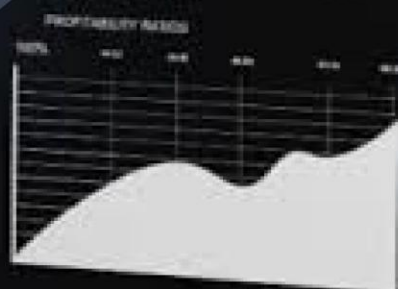
Indicators signaling fair valuation -

- Market Cap/GDP for Large Cap Index
- Export and Import
- Liquidity
- TTM PE for Large Cap Index
- DII activity

Deployment Strategy:

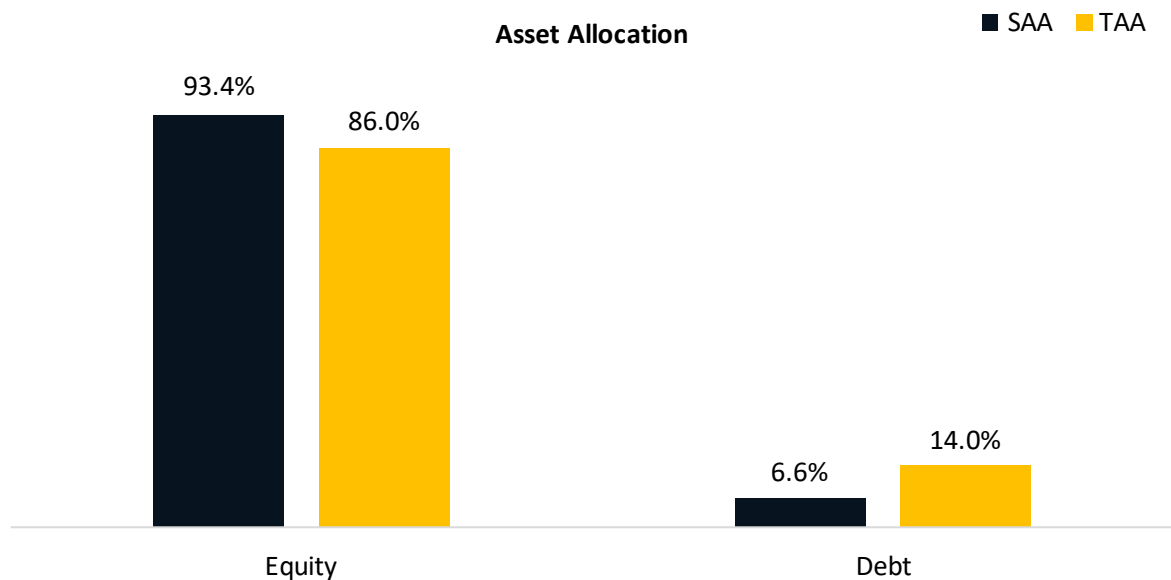
Staggered Deployment over the next 5 months -

- Large Cap – 50% immediate >> 30% in 1st month >> 20% in 2nd month
- Mid Cap – 20% immediate deployment and 20% in each month in the next 4 months
- Small Cap - 20% immediate deployment and 20% in each month in the next 4 months
- Short Term Debt – 100% immediate deployment (Rollover strategy)
- Long Term Debt - 100% immediate deployment (Duration strategy)

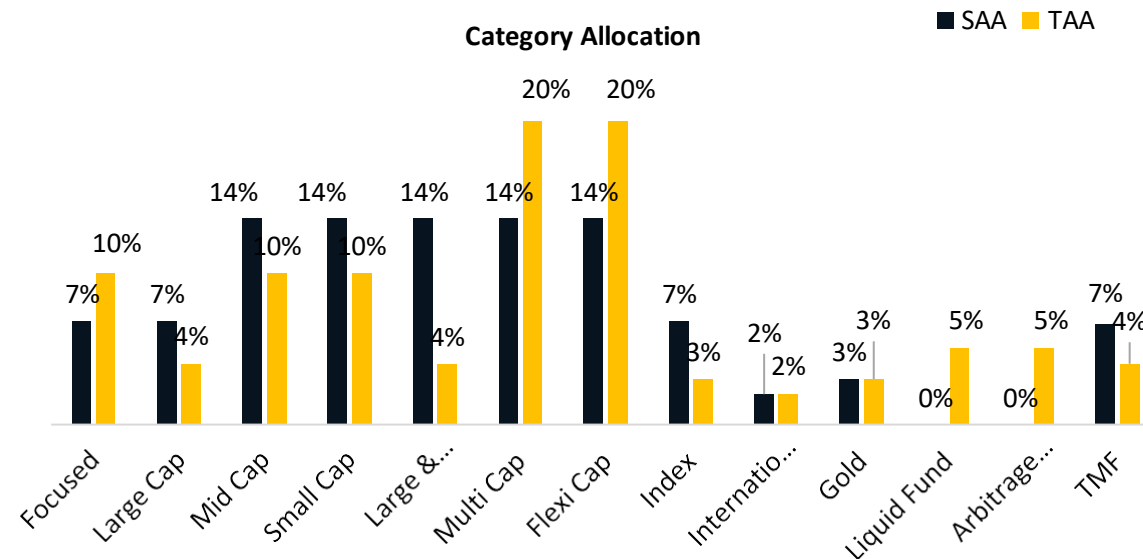




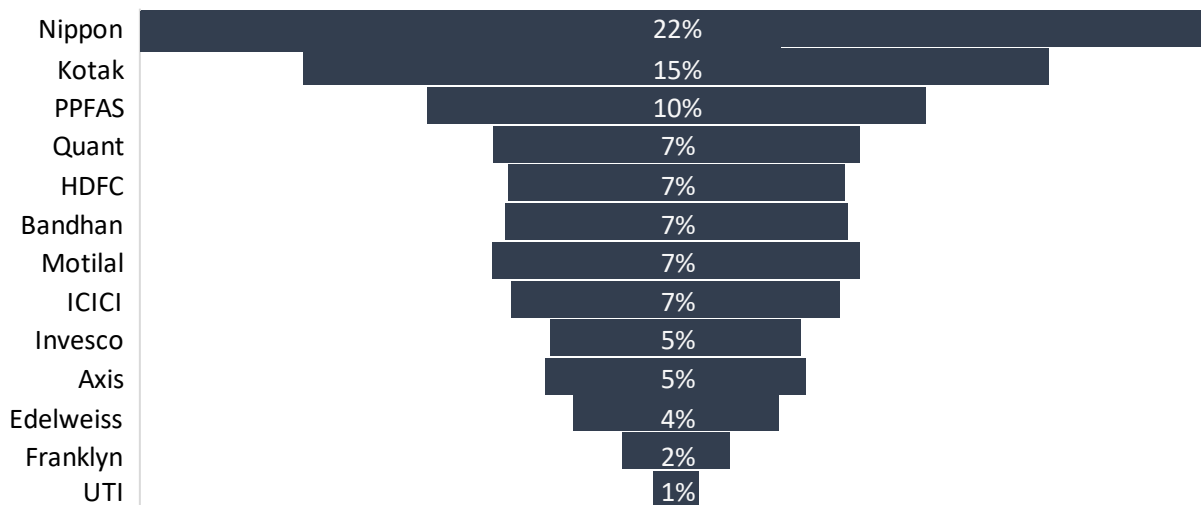
Asset Allocation



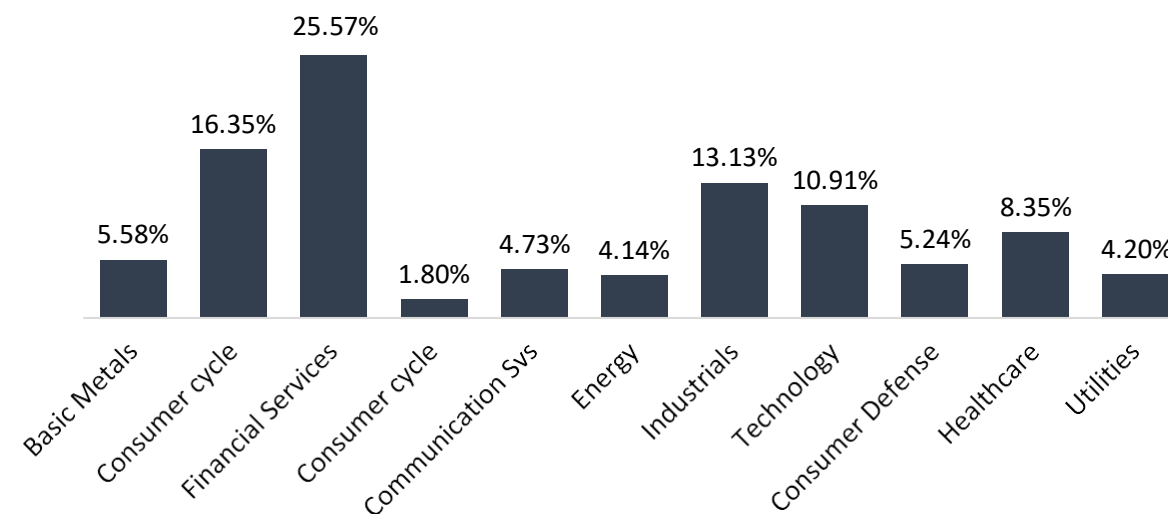
Category Allocation



Fund House Concentration



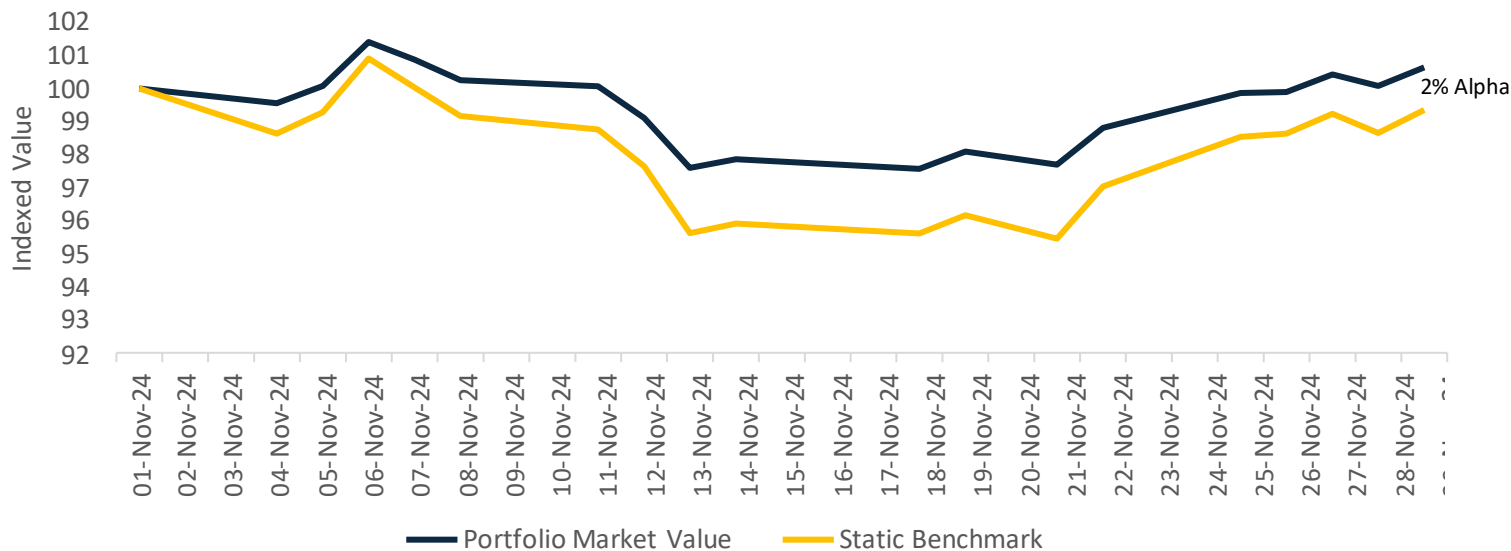
Sectoral Allocation



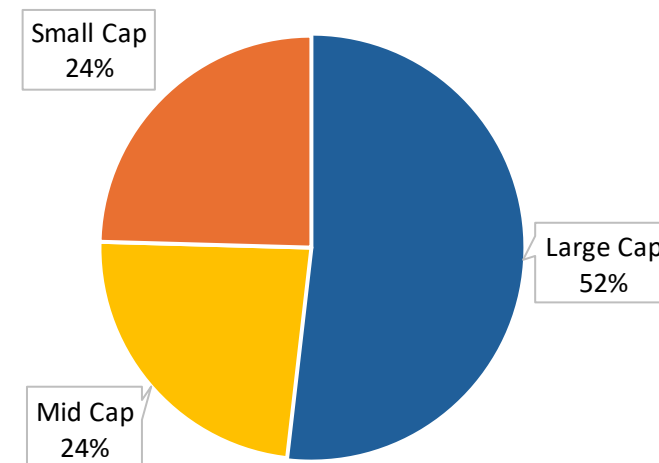
***SAA - Strategic Asset Allocation & TAA - Tactical Asset Allocation**, Commodity and International Allocation considered as Equity Allocation, Arbitrage Funds & Liquid Funds Allocation considered as Debt Allocation, and is temporarily parked for the short term and will be deployed opportunistically, Portfolio Inception date - 1st November 2024, Portfolio values are as on 23rd December 2024, Returns under 1 year are absolute and returns over 1 year are annualized. All portfolio returns mentioned are calculated on a pre-tax basis. Actual returns may vary depending on applicable taxes, charges, and individual tax liabilities. The benchmark indices for each fund are carefully selected to align with their respective investment objectives. The benchmark weights remain static as per the SAA. The constituent benchmarks and their respective weights are: NSE 500 India TR INR - 36.00%, NSE 100 India TR INR - 11.80%, NSE Mid cap 150 TR INR - 15.60%, NSE Small cap 250 TR INR - 15.60%, NSE 200 India TR INR - 13.60%, NSE 50 TR INR - 0.80%, NIFTY 11-15 YR G-SEC INDEX - 6.60%. All returns are pre-tax and pre-exit load if applicable in the Model Portfolio. Optimus Prime Model Portfolio is an Aggressive portfolio strategy



Portfolio Performance vs Benchmark



Portfolio Market Cap Mix



Portfolio Performance Analytics

Analytics	Portfolio	Benchmark
Absolute Return %	0.35%	-1.51%
Standard Deviation (annualized)	10.45%	14.30%
Beta	0.81	
Alpha	1.86%	
Information Ratio	6.59	
Downside Capture	-23.39	

Debt Portfolio Analytics

Debt Measures	Nov-24
Average MoD	1.62
Average Maturity	2.19 yrs
Average Coupon	NA
Average YTM	7.13 %

Average Credit Rating	Nov-24
AAA	100%
AA	0%
A	0%

***SAA - Strategic Asset Allocation & TAA - Tactical Asset Allocation**, Commodity and International Allocation considered as Equity Allocation, Arbitrage Funds & Liquid Funds Allocation considered as Debt Allocation, and is temporarily parked for the short term and will be deployed opportunistically, Portfolio Inception date - 1st November 2024, Portfolio values are as on 23rd December 2024, Returns under 1 year are absolute and returns over 1 year are annualized. All portfolio returns mentioned are calculated on a pre-tax basis. Actual returns may vary depending on applicable taxes, charges, and individual tax liabilities. The benchmark indices for each fund are carefully selected to align with their respective investment objectives. The benchmark weights remain static as per the SAA. The constituent benchmarks and their respective weights are: NSE 500 India TR INR - 36.00%, NSE 100 India TR INR - 11.80%, NSE Midcap 150 TR INR - 15.60%, NSE Smallcap 250 TR INR - 15.60%, NSE 200 India TR INR - 13.60%, NSE 50 TR INR - 0.80%, NIFTY 11-15 YR G-SEC INDEX - 6.60%.



Current Investment Portfolio Stance: *Conservative*

In our latest meeting, the investment advisory committee decided to take a Conservative Approach. It was unanimously decided that the portfolios would feature significantly reduced exposure to Mid and Small Cap equities (~8-9% underweight) as the committee adopted an underweight position in equity (7.4% underweight). Our conservative decision reflects ongoing market uncertainties - The impending US tariff structure under the new regime, weak domestic demand leading to muted corporate earnings, and elevated headline inflation on account of elevated food price levels.

In the short term, rising inflation remains a potential challenge, as indicated by increasing treasury yields. The committee anticipates high volatility and a low-return environment following Trump's re-election. There has been a noticeable shift of capital towards Japan and the US, highlighting a flight to perceived safer assets. Amid frequent and substantial capital outflows, RBI's intervention to manage currency fluctuations remains persistent, however their main focus is on taming structural inflation. This approach aims to ensure that even with muted returns in the short term, individuals achieve real-term profits.

In the long term, we believe India stands at the threshold of transitioning from a consumption-driven economy to a manufacturing-driven one, especially in the wake of China+1. This is supported by the government's fiscal strategy, evident in the gradual shift toward higher individual taxation and the strategic allocation of revenues towards overall capital expenditure. However, this strategy comes at the cost of crowding out consumption which has been the backbone of India's growth story thus far. As we witness a lower growth trajectory in urban demand indicators, it would be prudent to lower equity return expectations in 2025. That said, we remain optimistic about India's long-term growth story.

Albeit a very short timeframe, this strategy has paid off so far. The current conservative stance has proven effective in navigating the current market volatility, with the portfolio continuing to generate Alpha in December (~2% overall) despite a challenging market environment, with a Beta of 0.81 and a downside capture of ~-23% indicating that the portfolio gained slightly overall during the benchmark's negative periods, effectively outperforming it in down markets. The committee has agreed to maintain this strategy until the domestic demand situation improves and there is some clarity on the new tariff structure post president Trump steps into office. The Asset Allocation stance would be then revaluated based on new market dynamics.

The focus currently remains on preserving capital and generating consistent Alpha amid challenging conditions.

Disclaimer



Kilika Capital, operating under Kilika Partners LLP, is an AMFI registered distributor (ARN: 278590) and functions in compliance with the applicable regulatory framework in India. The information contained herein is strictly confidential and is intended solely for the recipient(s) to whom it is addressed. Any unauthorized access, review, use, disclosure, dissemination, distribution, or copying of this communication, in whole or in part, is strictly prohibited and may attract legal consequences under applicable laws. If you are not the intended recipient, please refrain from any further use or disclosure of its contents, notify the sender immediately, and delete the communication from your system. Any advice is incidental. Investments are subject to various risks, including but not limited to market, credit, operational, and liquidity risks. Prospective investors are strongly advised to read the scheme / fund related documents, offering memorandums, disclosure documents, and other associated materials, including risk factors, carefully and thoroughly before making any investment decisions. Investments are inherently subject to market fluctuations, including loss of principal and there is no assurance or guarantee of returns, nor of achieving the stated investment objectives. Unplanned cash inflows or outflows during the investment horizon can influence both the net worth and the timeline for achieving the specified financial objective. Past performance of any investment is not indicative of its future performance. Investment decisions shall be made solely at the discretion and risk of the investor. Any assumptions, projections, or analyses provided by Kilika Capital are based on prevailing market conditions and internal assessments on best effort basis, and there is no representation, warranty, or guarantee, expressed or implied, that these assumptions or projections will materialize. The information and analysis provided is for educational purposes only and is not a buy/sell recommendation. Kilika Capital and its partners, directors, employees, or agents shall not be liable for any losses or damages, including without limitation, any direct, indirect, or consequential losses. The Audio version of this report, if available, has been generated using artificial intelligence and may not capture all nuances or updates. While we strive for accuracy and timeliness, Kilika Capital does not guarantee the completeness, accuracy, or reliability of the information provided. By accessing or listening to the audio, you acknowledge and agree to the terms of this disclaimer. The terms of this disclaimer are subject to change without prior notice, in alignment with prevailing laws, regulations, or amendments thereto. Kilika Capital reserves the right to modify or withdraw this communication at its sole discretion and without prior notice.

This document is for informational and educational purposes only and should not be regarded as an offer to sell or as a solicitation of an offer to buy the securities or other investments mentioned in it. Investors are advised to refer to the Disclosure Document for detailed risk factors/disclaimers. Securities referred to in this document are not an endorsement of their soundness or a recommendation to buy or sell. The same may or may not be a part of our approach in future or any other approaches launched from time to time. The document is prepared on the basis of publicly available information, internally developed data and other sources believed to be reliable. All opinions, figures, charts / graphs, estimates and data included in this document are as on a specific date and are subject to change without notice. Kilika Capital, associate concerns or affiliates or any of their respective directors, employees or representatives do not assume any responsibility for, or warrant the accuracy, completeness, adequacy and reliability of such information or any direct, indirect, special, incidental, consequential, punitive or exemplary damages, including lost profits arising in any way from the information contained in this material. Whilst no action has been solicited based upon the information provided herein, due care has been taken to ensure that the facts are accurate, and opinions given are fair and reasonable.

Disclaimer for U.S. Persons: Kilika Capital is not a registered broker – dealer under the U.S. Securities Exchange Act of 1934, as amended (the “1934 act”) and under applicable state laws in the United States. In addition, Kilika Capital is not a registered investment adviser under the U.S. Investment Advisers Act of 1940, as amended (the “Advisers Act” and together with the 1934 Act, the “Acts”), and under applicable state laws in the United States. Accordingly, in the absence of specific exemption under the Acts, any brokerage and investment services provided by Kilika Capital, including the products and services described herein are not available to or intended for U.S. persons. The details in this document does not constitute an offer or invitation to purchase or subscribe for any securities or solicitation of any investments or investment services and/or shall not be considered as an advertisement tool. “U.S. Persons” are generally defined as a natural person, residing in the United States or any entity organized or incorporated under the laws of the United States. US Citizens living abroad may also be deemed “US Persons” under certain rules.

Disclaimer for U.K. Persons: The details in this document have not been approved by an authorised person within the meaning of the Financial Services and Markets Act 2000 “FSMA”. In the United Kingdom, this document is being distributed only to and is directed only at (a) persons who have professional experience in matters relating to investments falling within Article 19 (5) of the FSMA Financial Promotion Order 2005 the “Order”; (b) persons falling within Article 49 (2) (a) to (d) of the Order (including high net worth companies and unincorporated associations; and c any other persons to whom it may otherwise lawfully be communicated all such persons together being referred to as “relevant persons”). This document must not be acted on or relied on by persons who are not relevant persons. Any investment or investment activity to which this document relates is available only to relevant persons and will be engaged in only with relevant persons. Any person who is not a relevant person should not act or rely on neither this document nor any of its contents. This document must not be distributed, published, reproduced or disclosed (in whole or in part) by recipients to any other person.

Disclaimer for Canadian Persons: Kilika Capital is not a registered adviser or dealer under applicable Canadian securities laws nor has it obtained an exemption from the adviser and/or dealer registration requirements under such law. Accordingly, any brokerage and investment services provided by Kilika Capital, including the products and services described herein are not available to or intended for Canadian persons. This presentation and its respective contents do not constitute an offer or invitation to purchase or subscribe for any securities or solicitation of any investments or investment services.

For any further clarifications or assistance or corrections or suggestions, please contact us at siddharth@kilikacapital.com.



THANK YOU

Piyush Sharma
E-Mail: piyush@kilikacapital.com

Siddharth Jadeja, CFA
E-Mail: siddharth@kilikacapital.com