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Your Journey to
Prosperity



Ckredence Wealth

Your journey to prosperity

DESK OF FUND MANAGER

From the desk of

FUND MANAGER

Dear Investors,

As discussed in our last quarterly webinar post budget, we tried to de-risk our portfolio positioning ahead of general elections, which we have partially reversed subsequently post elections by way of deploying cash, taking exposure to beta names and cyclical.

However, in the light of growing global uncertainty driven by significantly upped geo-political risk and increasing probability of USA going into recession, we are sitting on 15% cash while we are writing this note. This cash level will be used carefully if we come across reasonable risk reward matrix at sectoral level or at stock level. At present portfolio is well diversified towards Pharma, IT, Consumer and PSU energy basket. These four sectors account for ~50% weightage. Balance 35% is deployed into bottom up stock specific ideas, BFSI, auto and chemical.

Ahead of 1QFY25 results, we took massive exits from BFSI space. This move looks perfect in hindsight now. However, post recent correction in banks, we have again built up 13% exposure to BFSI very recently. Automobile sectors has been great wealth generator for us. That said, sector has moved from value zone to fairly valued / expensive zone. Wholesale auto sales growth is higher than retail growth and there has been increasing competition which has led to selective price cuts across PV after long time. Overall, portfolio is well diversified across 34 stocks.

Last November, we launched new product namely Business Cycle approach where we intend to invest in maximum 4-5 sectors across market caps. This investment approach (IA) will scout for under researched, undervalued or under owned names where business cycle turn around can led to significant wealth creation over the period of 3-5 years. Thus, this IA is benchmark agnostic, absolute return product. However, portfolio for this product is up and running highly successfully with decent alpha generation.

1QFY25 numbers have come by and large in line or better with very few disappointments. However, Nifty 50 earnings growth for FY24-25 is looking moderate on high base and global macroeconomic uncertainty. We are very conservative compared to street for forecasting earning growth of 10-12% for FY25 - FY26. Thus, Nifty is currently trading at 21.9x FY25E and 19.9x FY26E EPS respectively. Based upon that, risk: reward ratio from current Nifty levels of 24541 stands meagre at +0.5% (Base case with 22x multiple) vs. -17.8% (Bear case with 18x multiple) for next 12 months. However, market always looks forward beyond 12 months, so, from 2QFY25 onwards market will start discounting FY26 numbers

aggressively. Based upon that, from 18 months prospective, risk: reward ratio stands equal at +10.4% vs. -9.6%. Also, we need to focus on political stability, policy sustenance (Current account and fiscal discipline), controlled inflation and healthy GDP growth and stable corporate profitability. These factors make India a much better investable market for the long run.

However, from here on, we believe it will be stock pickers market where index movement is relatively less important. Our portfolio have demonstrated significant outperformance until FY23 end. For FY25, we have purposefully slowed down by way of not participating into high beta, aggressive sectors to navigate challenging global macro-economic outlook and increased domestic valuations. We have experienced similar situation in the past (FY21-22) and later on our cautious stance looked much wiser in FY23. Overall, our endeavour is to fall much lesser than markets in falling markets and participate upside during rising markets. That said, for long term investors, market timing is futile and it does not make any sense to map investment levels.

CKREDENCE WEALTH MANAGEMENT PVT LTD.

KARTIK MEHTA

Chief Investment Officer (CIO)

The investment strategy, approach and the structure of the strategy herein involves risk and there can be no assurance that specific objectives will be met under differing market conditions or cycles. The investment strategy and the composition of the portfolio as stated herein is only indicative in nature and is subject to change within the provisions of the disclosure document and client agreement without any prior notice to investors. Please refer to the disclosure document & client agreement for details and risk factors. Clients are requested to refer the DD before investing. There may be other factors that may be relevant for identification of a contrarian investing opportunity.