

## 1. Fund Manager’s Commentary

The Girik Multicap Growth Equity Strategy is inspired by the CANSLIM philosophy of stock picking developed by American investor William J. O’Neil. The goal of this strategy is to identify leading companies from leading industry groups that show sharp acceleration in earnings, newness in products or change in management and suggests buying them at the right price with enough margin of safety ahead of the company’s major stock price advance

The month of May proved very challenging for equities - particularly for broader markets. Nifty declined about 3% in the month but midcaps and small cap indices were down 5.3% and 10.2% respectively. There was a lot of anxiety about 4Q FY22 results season given the extremely challenging macro backdrop (high inflation, tightening monetary policy, supply disruptions etc.) In some relief, these numbers turned out to be broadly in line with expectations (growth of 23% in sales and 21% earnings YoY for NIFTY companies).

However, a closer analysis reveals that there was a big divergence in the performance of various sectors. Most of the growth was primarily driven by BFSI, global commodities (oil & gas and metals) and IT services while sectors such as autos, consumer durables & FMCG lagged.

For the full year FY22, Nifty earnings growth was impressive at 35% on the back of just under 15% YoY growth in FY21. Over the next couple of years too the Nifty earnings growth is expected to be in the mid-teens (please refer to the chart). This will make the Indian corporate sector among the better performing ones in the global context. It bodes well for Indian equities.

In the last newsletter, we had discussed the surprise move by the RBI to raise policy rates in an unscheduled meeting to fight inflation. In May, we saw a follow up fiscal action too with the government reducing taxes on petrol and diesel to make them cheaper. Government also adjusted import duties to make domestic steel, edible oil cheaper and prevent potential shortage of wheat and sugar. It appears the authorities are prepared and willing to take all action within their control to reduce the impact of inflation on domestic consumers and businesses.

While the global macro situation is likely to remain challenging in the foreseeable future (given the tightening monetary conditions and ongoing war in Europe), we continue to focus our research efforts on identifying the likely winners in the given situation. Historical analysis reveals that there are always some companies that emerge as winners no matter what the macro-economic conditions are. It is this dispersion of corporate performance eventually translating into dispersion of stock performance is what we concentrate on to generate returns for our investors.

