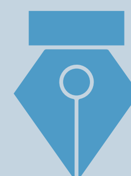
Trust Line
BizNotes
1st MAR 2024
For Private Circulation

MONTHLY VIEW

FROM THE FUND MANAGER DESK



How does the interim budget connect to the bigger theme?

Budgets, particularly under the current ruling regime, are progressively becoming less tactical and more directional. If anything, the latest interim budget, often referred to as "vote on account", has only strengthened this view more convincingly. Coming ahead of a looming general election, the allure was there all over for the Govt. to pursue populism against fiscal restraint. The fact that the Govt. chose the latter, that too without compromising the quality of the expenditure, points to the growing commitment from this regime to the overarching theme observed in the previous budgets. We will come to the theme in a while. Of course, budget time is an occasion for political rhetoric and every administration capitalizes on it to the hilt. As to be expected, much of the budget speech generally gets unproductively squandered on the political outwitting. The latest interim budget was no exception to this rule. But looking beyond that, one does see a powerful pattern that connects to the previous budgets. While each of the budgets of this administration may outwardly seem discrete and disjointed, but, on a closer look, dots do connect to an interesting larger picture.

Beyond the headline numbers, a closer examination unveils a shifting expenditure profile, hinting at an underlying structural shift, if not a sweeping reform. Our focus today delves not into the specific numbers of the current interim budget but rather on the reoccurring theme threading through various budgets.

The Govt's commitment to fiscal glide path was clear from the headline fiscal no of 5.1% (5.8% in FY24 RE) in the interim budget. While the accolades for this positive surprise were all over there in the media, hidden under this catchy headline splash was the more nuanced one, that is, the change in the profile of expenditure that toes the line set by the broader directional trend across many budgets of this regime.

The most notable aspect of this budget is that the deficit is being curtailed without making a trade-off on the quality of expenditure. In other words, the profile of expenditure is moving towards more productive areas of capital expenditure compared to non-productive revenue expenditure. While the total government expenditure is projected to grow a little over 6 percent, the capital expenditure is

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expected to increase by about 17 percent (from FY24 RE) to a record Rs 11.1 trillion. Shifting gears from revenue to capital expenditure is not a one-year wonder this year. Looking at the data for the last decade, during FY14-FY24, the revenue expenditure has grown by the CAGR of 9.9%, down from 14.2% in the previous decade (FY04-FY14), while the CAGR of capital expenditure has sharply moved up from 5.6% in FY04-FY14 to 17.6% under the current regime of last ten years. This speaks volumes about the structural shift in the profile of government spending towards productive areas. As per analysis done by one of the leading business dailies, capital expenditure as a proportion of the total expenditure of the government is projected to hit a 30-year high in FY24-25.

Now, let us look at the numbers from another perspective, that is, from the prism of subsidy against capital expenditure. As a percentage of GDP, how have these two numbers been trending across past budgets?

Here, the government's blueprint is fairly simple - stem the seepages in the subsidy flow and channelize those savings into productive capital expenditure, without reducing the quantum of subsidy to the needy. By streamlining the subsidy distribution process in the last mile using DBT (Direct Benefit Transfer) and Aadhaar, government could successfully save a full percentage of GDP from subsidy leakages and channelize them into capital outlays. Over time, under the current regime, subsidy outlay as a percent of GDP has come down sharply from 2.3% to all the way to 1.3% (appx). And, as a direct fallout from this, the capital outlay moved up substantially from 1.6% of GDP to over 2.9% in FY23 and further to 3.1% in FY24. In the interim budget for FY25, this trend got further accelerated with capital outlay projected at 3.4% of the GDP.

In terms of absolute numbers, government's capital expenditure nearly tripled between 2019-20 to 2023-24. Naturally, there were concerns whether the system would be able to absorb such a large increase in capital outlay given the execution challenges and capacity constraints. On this, the government has proved the skeptics wrong by flawless execution on the ground. The case in point is that the revised estimate for FY23-24 is only marginally lower than the budget estimates which means the government could successfully absorb the budgetary outlays in various infra projects. Execution seems to be the single most strength of this administration going by the successful completion of projects in various sectors such as railways, road, defence, airports etc.

To sum up, a consistent narrative across all budgets of this administration is the discernible structural shift in the expenditure profile, moving from the non-productive to the

productive side, from revenue to capital expenditure. While this subtle and discreet reform may not boast the grandiosity of a big-bang initiative, if sustained to its lasting potential, it could emerge as one of the most defining reforms of this government in the years to come!

Happy Value Investing!!

ArunaGiri N.

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CORPORATE NEWS

- **Multi Commodity Exchange,** India's largest Exchange in the Commodity Derivatives Market segment, and the Jakarta Futures Exchange (JFX) (i.e. PT. Bursa Berjangka Jakarta), the largest exchange in Commodity and Derivatives market in Indonesia, have entered into a Memorandum of Understanding (MoU) to enhance collaboration in key areas, including knowledge sharing, research, education, training, awareness creation, and other market development initiatives.

- **Wipro Ltd** disclosed a new deal with US chipmaker, Intel Foundry. The deal with the chip development division of Intel will further see Wipro engineers work on Intel's latest '18A' chip node that will be used in cutting-edge consumer electronics devices next year onward. Wipro said that its deal with Intel will cater to chip designs for clients across automotive, industrial and telecommunications verticals, and be used for "generative AI-driven designs".

- **S. P. Apparels Limited,** a leading apparel manufacturer and exporter, has signed a definitive agreement to acquire 100% stake of Young Brand Apparel Private Limited (YBAPL) the subsidiary of **Bannari Amman Spinning Mills Limited** along with the garment unit situated at Palladam of Bannari Amman Spinning Mills Limited and land and building situated at SIPCOT (The State Industries Promotion Corporation of Tamil Nadu Limited) for a value of Rs 223 crore.

- **Equitas Small Finance Bank** announced its partnership as the Official Banking Partner with Chennai Super Kings. The rekindled partnership symbolises the champion team's journey of coming back home with Equitas' campaign "Bank Behind Champions".

- **Mahindra Finance** and IBM announced a strategic collaboration to build a super app that would serve as a single digital interface for consumers to access multiple businesses within Mahindra Finance.

- **Suprajit Engineering Limited** announced the launch of its "Braking Products Division". This division has been setup in a fully renovated and refurbished plant at Bommasandra Industrial Area, Bangalore. The division will start deliveries in this quarter to select OEM customers and aftermarket. The braking division will house brake shoes, brake pads, brake liners, CBS, Mechanical Disc Brake Systems (MDBS) and offer a comprehensive range of braking products for its valued customers.

- **Paytm Payments Bank** restructured its board with the appointments of Srinivasan Sridhar, Ex-Central Bank of India Chairman; Debendranath Sarangi, IAS (Retd); Ashok Kumar Garg, former Executive Director of Bank of Baroda; and Rajni Sekhri Sibal, IAS (Retd).

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MACRO NEWS

- **Government** relaxed FDI norms for the space sector by allowing 100% FDI in manufacturing of components, systems or sub-systems for satellites, ground segments, and user segments. It also permitted 74% FDI in satellite manufacturing and operation, satellite data products and 49% in development of launch vehicles and spaceports. This will bring in fresh foreign investments up to $25 billion over the next decade, said Dr. Subba Rao Pavuluri, President of the Space Industry Association-India (SIA-India).

- **The Cabinet Committee on Economic Affairs** approved a proposal to increase the fair and remunerative price (FRP) for sugarcane to Rs 340/quintal for the 2024-25 marketing season. The increase in the procurement price of sugarcane is about 8% higher than the FRP of sugarcane for the current 2023-24 season, which is Rs 315/quintal. With this approval, sugar mills will pay an FRP of Rs 340/quintal of sugarcane at a sugar recovery rate of 10.25%.

- **Government** has revised its windfall gains tax on crude petroleum. As per the revisions, Special Additional Excise Duty (SAED) on crude petroleum will increase to Rs 3,300/tonne, from Rs 3,200/tonne earlier; while tax on diesel will increase to Rs 1.50/litre from nil/litre. Further, SAED on petrol and aviation turbine fuel (ATF) will continue to be nil.

- **Nuclear Power Corporation of India Limited** announced India will add 18 more nuclear power reactors with a cumulative capacity to generate 13,800 MWe of electricity, taking the total share of atomic power in the energy mix to 22,480 MWe by 2031-32.

- **SBI's Economic Research Department** has released its analysis projecting the GDP growth for the third quarter of the financial year 2023-24. According to their report, the GDP growth is likely to be at 6.8%, based on an unchanged base, but could potentially hit 7% due to expected downward revisions in the estimates for Q3 FY23.

- **India** will be home to two full-fledged semiconductor fabrication plants entailing multi-billion dollar investment besides several chip assembly and packaging units, Minister of Electronics and IT Rajeev Chandrasekhar said. The minister confirmed that the two projects include a $8 billion proposal submitted by Israel-based Tower Semiconductors and the other from Tata Group.

- **The Reserve Bank of India's (RBI)** latest Bulletin has said that fresh round of capital expenditure by the corporate sector is likely to fuel the next leg of growth. It stressed that stable and low inflation at 4% provides the bedrock for sustaining GDP expansion. The likelihood of the global economy exhibiting stronger-than-expected growth in 2024 has brightened in recent months, with risks broadly balanced. It stated that the Indian economy continues to sustain the momentum achieved in the first half of 2023-24, going by high frequency indicators. Overall, investment intentions of the private corporate sector have been positive this year so far.

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FUNDS FLOW DATA

Data as on 27th Feb 2024		
FUNDS FLOW DATA (Rs in Cr)		
Category	**MTD**	**YTD**
FII	872	(24,872)
DII	23,782	50,526
Total	**24,654**	**25,654**

DEBT & FOREX MARKET

Data as on 27th Feb 2024			
DEBT / FOREX MARKET			
Category	**Day**	**1 Month**	**3 Months**
10 Yr Yield	7.07	7.17	7.27
Re / US $	82.88	83.12	83.33

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MARKET VIEW

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Sticky US inflation and its implications for Indian markets!

Fed officials have been waiting for convincing signals regarding the trajectory of inflation before they gain confidence to consider initiating rate cuts. Unfortunately, the recently released inflation data for January, published in the middle of February, failed to bolster this confidence. If anything, it contributed to the uncertainties surrounding the potential timeline for rate cuts. The stubborn inflation number of 3.1% for Jan complicates the Fed's fight against inflation and could push back the timeline for rate cutting cycle. Following the release of data, US 10-year treasury yield firmed up, and the dollar index strengthened, hinting at a potential continuation of the pause in the monetary cycle. As the Fed grapples with these challenges, market participants are closely watching for further cues from the market and from the Fed for the future direction of monetary policy.

The market forecast for the rate cuts fell after the release of the CPI numbers. Market participants were pricing in just a 39% chance that the Fed would start cutting rates at its May monetary policy meeting, down from 57% before the release, according to the CME Group's FedWatch tool, which forecasts the probability of rate action based on Fed fund futures trading data.

As a direct fallout of this negative surprise from the US inflation data, Indian markets have started experiencing increased volatility due to uncertain FII flows to the Indian markets. Following a withdrawal of over 3 billion dollars from Indian markets in January, FIIs cautiously resumed buying in early February, only to adopt a more measured approach after the release of the CPI data in the second week. With Indian indices trading at elevated valuations, the markets may continue to experience range-bound movements until there is clarity on the trajectory of the rate-cutting cycle in the US. These are indeed interesting times, and market participants are keenly watching for developments that could shape the dynamics in the near term.

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 article from Substack titled ***"Buffett and Three Hedge Funds"*** by ***"Roger Lowenstein".***

"Understanding both the power of compound interest and the difficulty of getting it is the heart and soul of understanding a lot of things."

- Charlie Munger

Buffett and Three Hedge Funds

The oracle at 93

Warren E. Buffett's annual letter, released Saturday, was sobering in its report on Berkshire Hathaway Inc.'s beleaguered railroad and utility businesses. Berkshire, Buffett, and his shareholders (including me) are paying for the socialistic mood in various statehouses, particularly California, where regulators are increasingly abandoning the fixed-return model for utilities, which across the decades made them ultra-stable investments. A few states have "raised the specter of zero profitability." In lay terms, legislatures want constituents to have ready access to electricity without having to bear its economic cost. Berkshire's railroad, BNSF, is hurting from Washington-imposed wage settlements that ran well above projected inflation, and from other problems. Buffett characteristically took the blame for not anticipating the risks to each of these businesses. "I made a costly mistake," he wrote with respect to utilities.

Otherwise, the report was positive on Berkshire's large insurance holdings and on its operating profits generally (up 21%, despite a decline in the two problem units) and uncommonly sentimental in its tribute to Buffett's late partner, Charlie Munger, who died just short of his 100th birthday. Modestly deeming Munger "the architect of Berkshire" while he, Buffett, merely played the role of "general contractor," Buffett, 93, wrote, "In a way his relationship with me was part older brother, part loving father." Rarely if ever has the Oracle bared such feelings in public.

Finally, it was reassuring though unsurprising

VALUE EXTRACTS

that Buffett continues to insist on a shareholder-centric model of corporate governance, in which duty to shareholders is compromised neither by managerial greed nor by political fashion. Or as Buffett, who as chairman and CEO earns a $100,000 salary and zero bonus, wrote:

Berkshire benefits from an unusual constancy and clarity of purpose. While we emphasize treating our employees, communities and suppliers well - who wouldn't wish to do so? - our allegiance will always be to our country and our shareholders. We never forget that, though your money is comingled with ours, it does not belong to us.

Such sentiments stood in contrast to the governance philosophy evidenced in an illuminating report in the weekend Wall Street Journal on three giant hedge funds - Citadel, Millennium and Point72 - each of which notched returns of "around 10% or more" in 2023.

Since the Standard & Poor's 500 index returned 26% last year, you might think that investors would be clamoring to get their money back. In fact, they are banging on the door to invest more.

How else to interpret the obscene escalation in such funds' fees? According to the Journal, rather than the customary hedge fund fee of 2% (or less) for expenses, these funds have moved to a "pass-through" model in which expenses such as technology, employee bonuses and, if they choose, the office Nespresso, are allocated to investors. The model of 'we-spend, you-pay' is not one to encourage thrift. According to a Barclay survey of investors reported by the Journal, investors in such funds "on average pay expenses equivalent to around 5% of fund assets. ... In some cases, expenses can amount to more than 7% of assets." This is in addition to the rich performance fee, typically a fifth of profits.

The Journal reported that Citadel, Millennium and Point72 represent the hedge-fund industry's "hottest strategy," which is combining scores of investment teams, each with their ostensible differentiation of strategy, under one roof. According to the Journal's admiring appraisal, "few have managed to match the success" of these three, by which it meant that within the mediocre universe of multi-manager funds (which achieved less than half the return of the S&P over the past five years), these three have done better than some others. Or perhaps the Journal appreciated what is meant by "success"- or rather, for whom the funds' success is intended.

The aim of Citadel, run by Ken Griffin, Point72, run by Steve Cohen, and Millennium, managed by Izzy Englander, is to increase the assets and therefore fees under their control. In this endeavor, they are indeed, to quote the Journal, "killing it." Citadel and Millennium each manage around $60 billion, Point72 $32 billion. But don't look for the customers' yachts.

Hedge funds are private businesses and free to charge a market rate. However, to the extent that these large funds are marketing to institutions (meaning, the "investors" allocating money to Citadel, et. al, are investing other people's money) incentives can—and often do—become badly misaligned. To wit, such institutional clients may be glad to forgo, over time, considerable economic returns for the supposed comfort of multi-manager, volatility-damping strategies. And they may scarcely blink at paying fees out of proportion with results for the privilege, or the perceived status, of being Ken Griffin's client or, perhaps, sitting in the owner's box of Steve Cohen's fourth-place baseball team. It isn't their money.

The mindset of these mega-asset collectors, hardly unique to the financial industry, resembles that of overpaid executives in other industries (did somebody say "Tesla"?) They regard investors not as partners but as pigeons. They practice their own form of socialism (socialism to benefit the privileged, mind you), extracting a tax on the owners of capital. Berkshire is different. Despite its 59-year record of success—the fruits of which have been distributed in equal proportion among all investors, including the CEO - the Buffett model remains more the exception than the rule.

- Article by Roger Lowenstein

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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. 1000+ crores of AUM for over 600+ highly satisfied clients. We are now one of the top 50 discretionary alternate asset managers(listed equities) in the country.

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)**

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