FROM A DESK OF FUND MANAGER

October 12, 2020.

Dear Investors,

Greetings from CONCEPT INVESTWELL.

It has been more than 6 months we have been in the midst of a pandemic. First we went into survival mode to now into revival mode and in **few months from now we should move on to thriving mode.** Our team has **attended many conference calls and channel checks** to get a glimpse of what is happening on ground with the companies we own and their peers. As I had mentioned in my past letters, our companies have been superior in terms of **quality of business** model along with **agile management** who adopts fast with the changing environment. This is what we have actually seen on the ground and the same is reflected in their recent quarter numbers. Titan for example has continued to gain market share from unorganized jewelers, similarly our banks are getting higher deposits compared to pre-covid levels showing that people are trusting with their hard-earned money. Most of the companies in our portfolio are at 80-90% of pre-covid sales. All our businesses are improving on a month on month basis and should soon reach pre-covid levels.

Even broader economy has started showing green shoots. High frequency data has improved substantially in the month of September. Indian manufacturing PMI increased to 56.8 in September 2020 from 52 in August 2020. The reading was the highest since 2012. GST collection for the month of September has been at Rs.95,480 crore which is highest in last many months. Auto sales have started growing not only on a MoM basis but even on YoY basis. Electricity consumption is at 98% of pre-covid level. Migrant laborers have started coming back and have started working. Coming quarter should be good on account of festive season. One good change which we are witnessing and has surprised us the most is that India has turned **current account surplus**. It is an unheard thing as mostly we have always been current account deficit. Our import was always higher than our exports. So what has caused this sudden change? As you must be aware our **top three import items are crude oil, electronics and gold**. **Now as crude has crashed from $70 to $40 we are saving billion of dollars on this**. You would be surprised to know that we have become self sufficient in manufacturing mobile phones and therefore, most **smart phones are "Made in India"** now. Even import of gold has reduced drastically post corona hit us. On the other side **our exports of IT and Pharma sales has not taken any hit and infact it has gone up**. This is not a one-off and should continue for a while if crude oil prices remain low which we think is more likely. We believe that dominance of oil is over and this can be seen in stock prices of many oil companies which lost a big chunk of their market cap lately. Exxon Mobil which was once darling of US market and was in Dow Jones Index since 1928 has now being removed last month.

Similarly, we are observing that the market is very circumspect on **old economy stocks** even when they are available at steep discount from pre-covid levels. Some of the stocks are Public Sector Units where **dividend yield is higher than bond yields** but still market is not favoring the trade. The big question is, have they become **value trap**? We are watching this space with lot of interest but have mostly stayed away from them.

The other BIG change which we are witnessing post corona and which we think should last is the use and adoption of technology. **<u>Pre-corona, businesses used to run using technology, now, technology is making them run.</u>** What use to take 10 years to shift, corona will make it shift in 3 years. Transition from physical to digital has been very fast because of this pandemic. For eg. My home consumption facilitated by Amazon, Big basket, Netflix etc. has gone up substantially which is unlikely to reverse even after pandemic as they deliver quality at a fair price. The emergence of Reliance Jio is a clear example of this. Investors are queuing up to buy new age businesses of the company like Reliance JIO and Reliance Retail and on the other hand the same company (Reliance) is finding it difficult to sell its refinery business. This clearly shows where investors want to be. Biggest surprise of Quarter 1 result was saving on expenditure by corporates. Travelling cost (thanks to Zoom and Work from Home) has gone down and this should not be reversed in a big way. Businessman are smart people and has tasted that participating in exhibitions or doing seminars in 5 star hotel banquets or travelling in airplanes is not necessary if they are still able to sell virtually and save a lot in return, then this is a new trend which we expect to see going forward.

Our Dynamic plan which is a fusion of Human Intelligence and Artificial Intelligence has completed one year and has done extremely well by beating the benchmark by a huge margin.

Finally, coming to market valuation, we **feel that because of low interest rates across the world which are here to stay, equity should get high Price Earning Multiple compared to its historical average.** 85% of Total

World Global bond market is yielding less than 2% returns. We are in an era where **world is sloshing with high liquidity and low interest rates.** Fixed Deposit returns have come down drastically and people have realized that **real-estate is highly illiquid** and so only choice left is Equity investing which should grow by the day. **<u>Our take is that investors should remain invested in equities and allocate more if you are underweight as decent returns can be made here.</u>**

Happy Investing through CONCEPT.

Yours Truly,

Siddharth B. Mandalaywala
Fund Manager