FOCUS

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Hi All,

Before we get in to understand how the macro factors are impacting our equities, lets throw some light on the use case of the concept called Leverage in financial terms

Leverage is a weapon to amplify your returns and as well a trap to suck your capital. Lets take an example of a financing business where the entity comes with a capital of 100 and brings in a debt of 300 at the cost of capital of 10% p.a.

Now the available 400 is lent out to earn interest income at the rate of 15%.

Now assume 25% of the receivables turned bad and unrealizable, then the realized value is 300+ interest income of 15% on 300 i.e. 345. our liability stands at 330 including interest. After the outflow we are left with a capital of 15. Our capital of 100 has become 15 in this case

If we had stuck to our own capital and did business with the same with out any external borrowing, we would have left with 75 + interest income of 11.25 i.e. 86.25

If you take the case of positive outcome, and if the whole 400 credit lent is good and realized, we would be making a interest income of 60. After cost of capital outflow adjustments , our capital would be standing at 130/- which means 30% increment on our actual capital which is twice the returns that you can generate by deploying available capital with out leverage

This is the usual cause behind the failures of many financing companies and naive derivative traders who loose their capital in the fantasy of amplified returns. That’s why debt:equity ratios are very important especially in banking and finance companies. And so this remains as one of the criterions for us in choosing the companies to invest. For more knowledge on this dive deep into the debt equity ratios of Adani group companies

A GLANCE IN TO US MARKETS

We are ready with the recipe to invest in US markets as well. We were researching a lot in to the equities of US in the last two months and we listed down the companies that we like to our taste and criterion to invest in. We could come up with a good list of 10 US companies belonging to sectors like tech/pharma/semiconductor..etc. I would want to discuss more on the parameters that we have considered to select these stocks but it will be a big long topic to discuss. lets discuss our parameters one by one in detail going forward in our focus. The primary parameter we looked in to is to see companies serving international markets with incremental revenues and sustenance of margins with demand forward intact

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MACRO TALK

INFLATION

There is a startling jolt from inflation numbers with retail inflation breaching 6% target of RBI. This will warrant for extra interest rate spikes from the RBI in the next coming monitory policy review meetings.

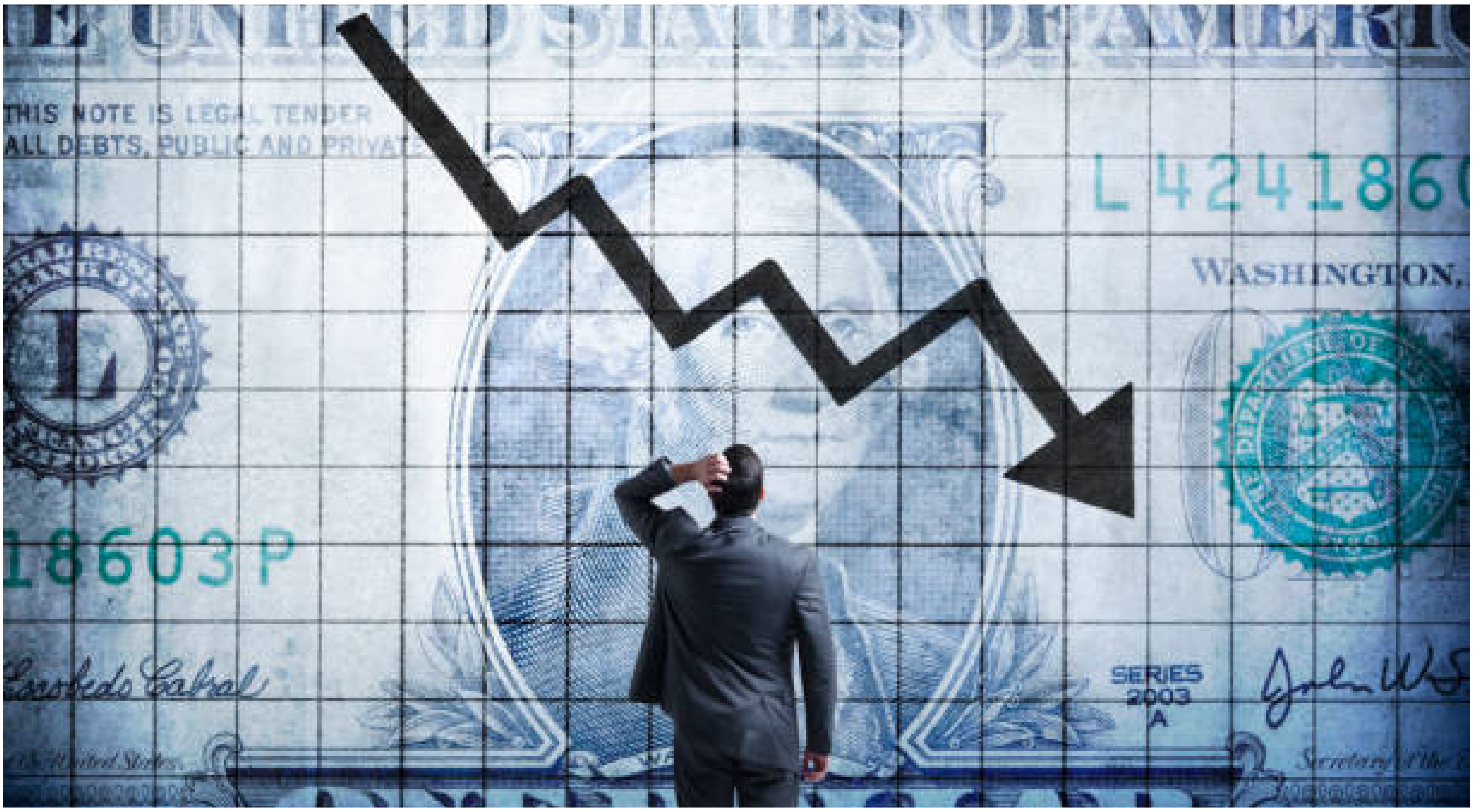
As the interest rates climb, margins will stay under pressure in specific for the leveraged business models. High interest rates are never a favorite of equity markets as a whole except for banking businesses. So inflation impacts real GDP growth as well the equity valuations for a while to come

GDP GROWTH SHRINK

GDP growth slowed down to 4.4% in Q3(oct-dec) from 6.3% in Q2(Jul-Sep). The slowing down is expected with monetary tightening in the form of spiked interest rates. But what is going beyond my comprehension is a sudden spike in the retail inflation even in the low demand scenario. This phenomenon is to be observed closely in the coming days to understand how it impacts the equities

MACRO TALK

US RECESSION



Layoffs all around with no exception from Google and Microsoft is a full pledged sign of a recession going on. Recession internationally will squeeze the infra and IT budgets of all companies which will have a cascading impact on the order books of the concerned companies. This scenario will definitely give some tough time for IT companies in India specifically. GDP getting slowed down as discussed is a consequence of this macro factor combined with many other

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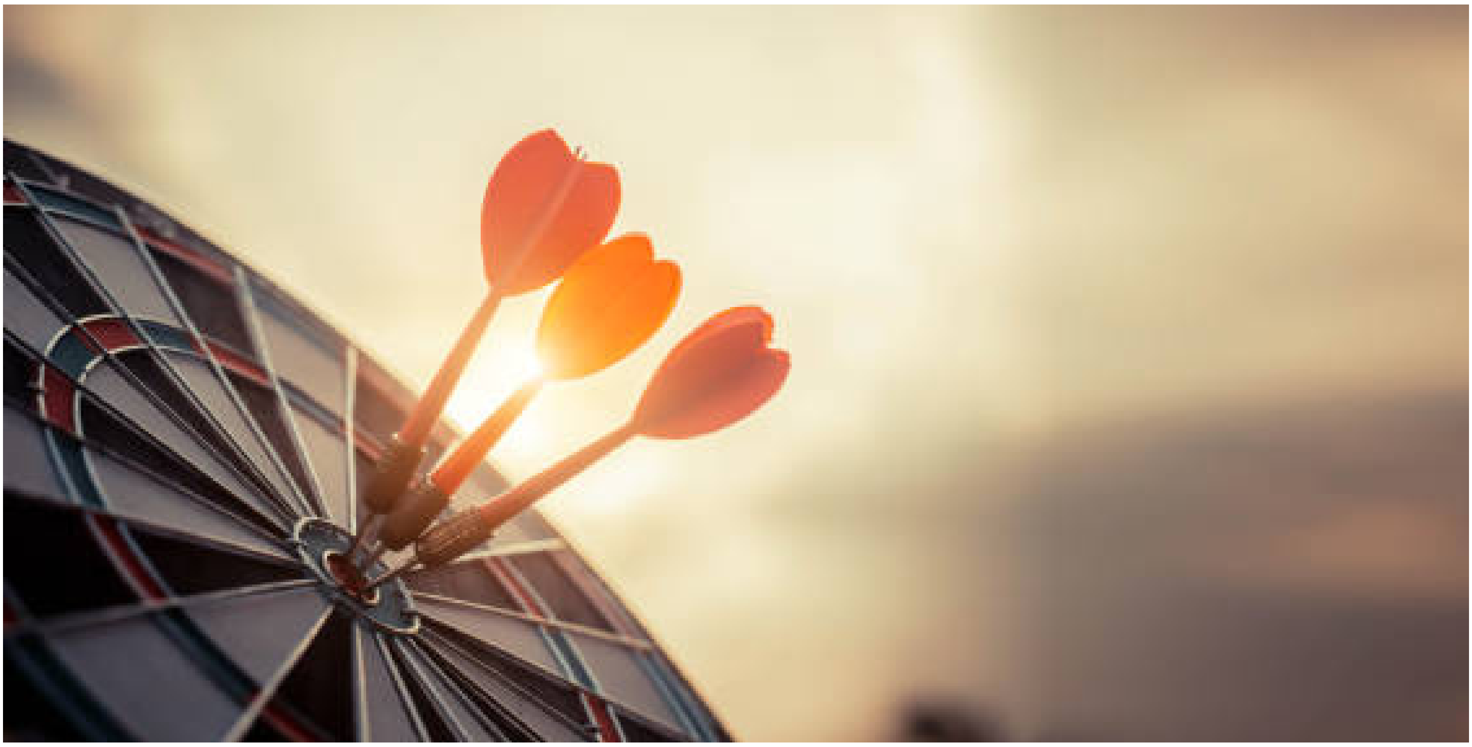
OUR FOCUS



Our stocks in focus are the bellwether entities in their own sectors who can capture the market as it comes. All the macro factors and technical indicators may deter us to stay hold in equities for now in these tough times but patience is the key here. A frequent shuffle to debt funds from equity and vice versa will make our conviction diluted and one fine day we will end up not participating in the trend to come and we cannot dare missing the mother of all trends in india to come. Lets stay HOLD and embrace everything that comes in our path of wealth creation

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OUR CHARGES AND OPERATIONAL CONTACT

We charge 1% per annum on the Asset under management or 5000/- per annum whichever is higher

Clients with investment value of less than 2 lakh will be charged 2000/- fixed per annum

We serve our clients alike with the passion we have for the markets

Please contact our Business development and Operations lead Mr. Manindhar vsv

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Visit us at **www.nagmunagapati.com**

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