EAST
GREEN
CAPITAL

Dear Investors!

The 3rd quarter of FY 2020-21 will be remembered as the quarter in which the 2020 bull market broadened beyond all imagination. When investors speak of broad bull markets, it means that most stocks start trending up, irrespective of its underlying business, risks on its balance sheet or the quality of the management. In this phase, every long investor makes paper profits temporarily, irrespective of their stock picking ability or risk management frameworks. Ironically, these very skills depress returns somewhat and the new entrant in the market always ends up outperforming the process-driven active portfolio managers for some time!

But, trending up stock prices for weak/stressed businesses and stocks will mostly be a temporary phenomenon. Liquidity and investment demand will eventually follow growth and earnings. This is most noticeable during periods of fear and during flights to safety. Better quality businesses fall less and markets rotate back to safety and growth, as has been evident from 21st Dec 2020.

Two events that defined the quarter:

1. Successful Covid-19 vaccine announcement on 9th Nov [1]:

   The market mood temporarily shifted from quality, growth, beneficiaries of Covid-19 and lockdown to old economy sectors and 'going-out' segments like commodities, lending, consumer, tourism. Since we were primarily positioned into Covid-19 beneficiaries and growth companies, our portfolio took a temporary hit.

2. Discovery of a new Covid-19 strain on 21st Dec [2]:

   The market moved back into growth companies, especially, IT enabled services and Internet product companies

Speaking of IT Services, in our previous letter (Q2 FY 21), we wrote:

"One additional interesting beneficiary of Covid-19 and the subsequent 'Work-From-Home' theme that has emerged in this quarter, is the IT services sector."

Q3FY21 started with a clear trend in favour of ITeS companies due to the accelerated digitization efforts of multiple industries, necessitated in the post pandemic world. However, the month of October was led by the rally in financial stocks, especially the lending companies. The frontline stocks such as the biggest consumer finance company and the biggest private banks started picking up steam. But, we continued to stay away from these because of our discomfort with the extent of uncertainty with regard to the pickup of delinquencies in the loans in certain segments.

November was marked by an unprecedented inflow of FII money in the Indian markets which led the Nifty to zoom ~15% in 1 month. This was accompanied by a swift rise in mid and small caps. Attractive valuations as well as demand recovery expectations in certain segments such as building material, home improvement, consumer durables etc. were significant contributors to this. We positioned our portfolio accordingly by adding some stocks from these very segments consisting of proven companies with capable management teams. The trend strengthened further in December and the Indian markets continued to hit fresh highs in sync with most emerging markets.

----

[1] https://www.pfizer.com/news/press-release/press-release-detail/pfizer-and-biontech-announce-vaccine-candidate-against
[2] https://www.nytimes.com/2020/12/21/health/new-covid-strain-uk.html

www.eastgreencapital.com contact@eastgreencapital.com

Generous monetary policies of most central banks have forced abundant liquidity across the globe. This has been a major contributor to an unhindered rise in all asset classes including the new ones such as crypto-currencies. All emerging markets have seen huge foreign inflows into their stock markets. But in context of the Indian markets, additional contributing factors might have been:

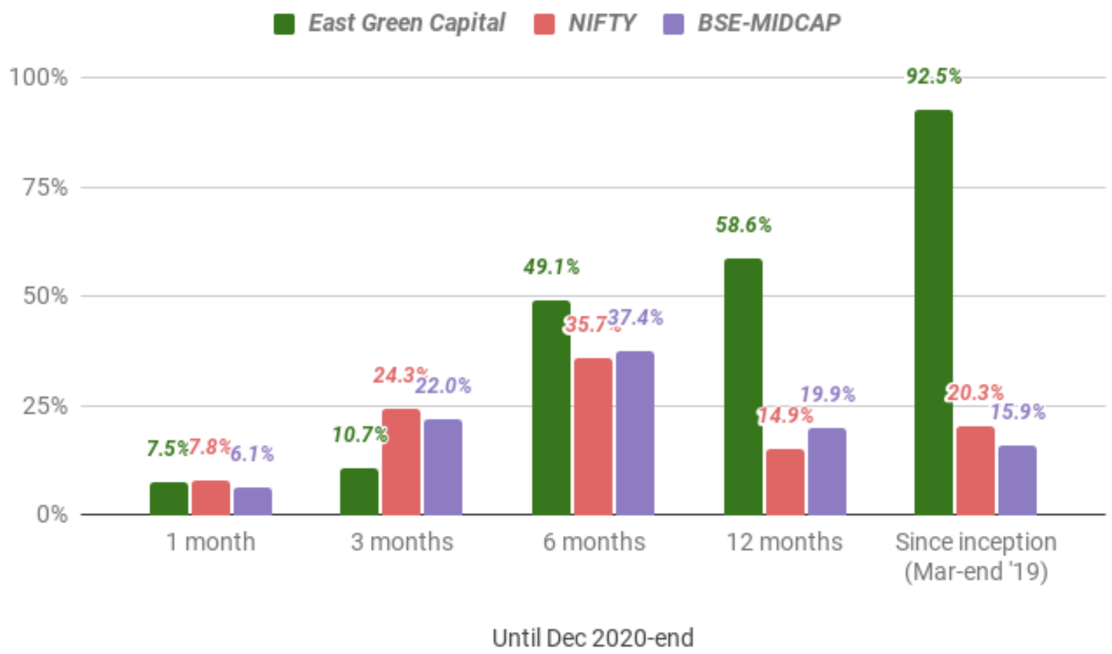
- Relatively lesser impact of COVID-19 pandemic on India as compared to other major economies of the world
- A very conservative fiscal stance taken by the Government of India post the pandemic
- Unprecedented cost optimization across sectors, leading to margin expansions, some of which may persist over the longer term
- Market share shift in favour of the leader with stronger balance sheets, from the laggards/unorganized players with weaker balance sheets, some of whom may not survive the stress from the pandemic/lockdown

Past performance:

We had a 'weaker than the market' October and November, since we were not positive on lending stocks and old economy sectors. And that's what was moving the most in the indices. Eventually, in December, our favoured sectors started outperforming the market and we closed the gap for the quarter. Overall, we had a 10.7% gain in Q3 against 24.3% for Nifty.

However, we are still at a healthy alpha over longer time periods.

Return across different time periods ending Dec 2020:

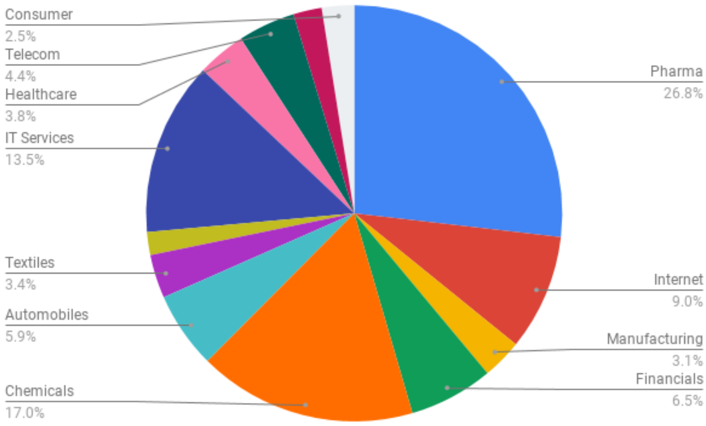


Note: *Individual portfolio returns may differ slightly depending on their time of investment and subsequent capital addition/withdrawals.*

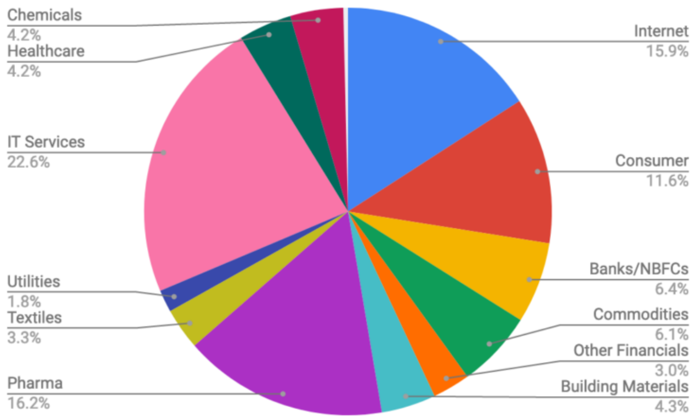
Please visit https://eastgreencapital.com/historical-performance/ for more performance metrics

Present portfolio:

Here's how our model portfolio changed over the course of Q3:



End of Q2 2020-21



End of Q3 2020-21

Changes in Q3:

1. We sold a diagnostic company as soon as it was clear that the vaccine will put a brake on its Covid-19 testing growth
2. We bought back a cement major during a short period of unwarranted fall in its price
3. We did move completely out of chemicals because of lack of space in portfolio, but continue to be bullish on its growth prospects
4. We entered building materials and home improvement segments
5. We have started to buy lending financials
6. And of course, we have added onto IT services and Internet stocks

The way ahead:

As always, we continue to track our portfolios with a keen eye towards unfolding opportunities as well as the risks lurking on the horizon - global and domestic inflationary expectations, a risk of less than expected performance on the growth front in the coming quarters, etc. Also, there would be more clarity on the fate of the financial services sector as better data about their asset quality start to emerge in the Q3 result updates.

We continue to be bullish on our favoured sectors, manage risk actively and also continue to rotate into better opportunities.

Vinay Arya
vinay@eastgreencapital.com

Pratik Karmakar
pratik@eastgreencapital.com