



3P INVESTMENT MANAGERS

The 3P way. Simple but not easy.

3P INDIA EQUITY FUND 1

(An open Ended Scheme of 3P India Equity Fund, registered with Securities and Exchange Board of India (SEBI)
as Category III Alternative Investment Fund)

(OCTOBER - DECEMBER 2024)

1P

Prudence of creating a
portfolio of sustainable and
reasonably valued
businesses.

2P

Patience with businesses
and markets. Risk in
equities reduces
as investment
horizon increases.

3P

Performance is the
outcome.



Ratan Tata
1937 – 2024

Mr. Ratan Tata was a teacher of business and life. His life radiated wisdom, enriching everyone seeking to navigate life with integrity and character. His lessons extend far beyond the realm of business and finance, shaping our values and guiding us towards a fulfilling life. Here we present a handful of his gems, hoping you find them as valuable as we do.

I have always tried to do the 'right' thing.

Never compromise on your values and principles, even if it's the hard way.

Businesses need to go beyond the interests of their companies to the communities they serve.

Never underestimate the power of kindness, empathy and compassion in your interactions with others.

I don't believe in work-life balance. I believe in work-life integration. Make your work and life meaningful and fulfilling, and they will complement each other.

I would like to leave behind a sustainable set of companies that operate in an exemplary manner in terms of ethics and values and build on what our ancestors left behind.

If you want to walk fast, walk alone. But if you want to walk far, walk together.

The Tata Group's journey began in 1868 when Mr. Jamsetji N. Tata founded a trading company with a capital of ₹ 21,000. He was a pioneer in worker welfare initiatives, a legacy that the Tata Group continues to uphold across all its companies. More than just an industrialist, he was a true patriot whose decisions were driven by his vision for the country and its people, rather than profits. The seeds he planted nearly 150 years ago have continued to bear fruit for both the Group and the Nation.

At 3P, we hold the Tata Group in the highest esteem and will consider ourselves extremely fortunate if our conduct can be even a pale reflection of the Tata Group's values. To keep us inspired and on the right path, we have a small bust of Shri Jamsetji N. Tata in our Boardroom, serving as a guiding light since our inception.

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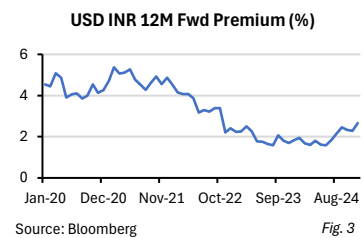
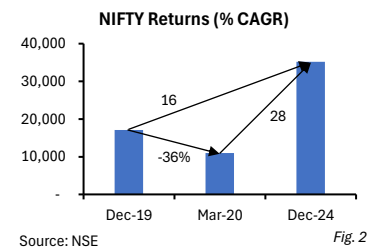
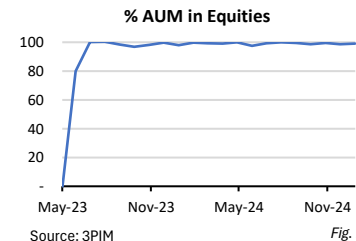
December 2024

Dear Sir/Madam,

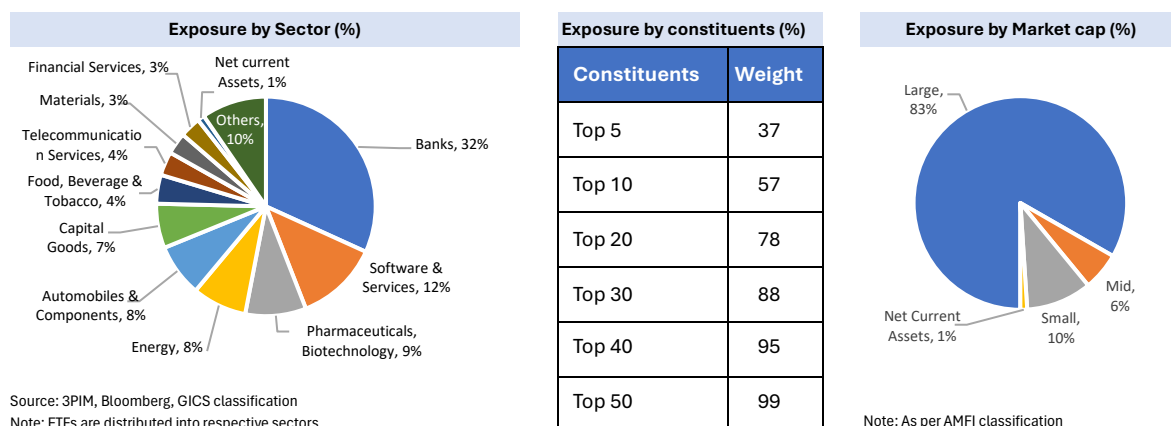
We are pleased to share the 7th quarterly update of 3P India Equity Fund 1 (3PIEF-1). This Fund was launched on 3rd May 2023. The Fund delivered a strong performance in its maiden year. The performance is holding up in the current year as well. (for details please refer [Portfolio Strategy](#) section)

The Fund continues to run fully invested (Fig. 1). This is based on our view that equities should meaningfully outperform cash over the medium to long term. This view is supported by sustained growth prospects of both the Indian economy and of corporate profits. However, as we have been highlighting for last few quarters, return expectations need to be considerably moderated.

The high returns of the last five years were mainly due to the low base of markets post the sharp fall experienced in Covid (Fig. 2) and partly due to the fall in cost of capital as central banks across the world eased to support the economy (Fig. 3). It would clearly be fallacious to extrapolate these returns as current multiples leave little room for rerating especially as growth in profits and cost of capital normalise. This is discussed in more detail in the markets section.



The charts below summarise the key portfolio characteristics of 3PIEF-1 as of 31st December 2024.



The key changes are discussed in the portfolio strategy section.

Fig. 4

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Indian Economy : Owner's Pride, Peer's Envy !

The Indian economy grew 5.4% in Q2FY25. This was a whole percentage point below consensus estimates. The miss highlights the difficulty of macroeconomic forecasts, especially over short periods, due to inherent volatility of short-term outcomes. The adjoining table illustrates the volatility in quarterly growth rates (Fig. 5). This clearly shows why it is more useful to be directionally right than to focus on precise short term forecasts.

Fig. 5

(%)	Q1	Q2	Q3	Q4	Max Divergence
FY16	7.6	8.0	7.2	9.1	1.9
FY17	8.7	9.7	8.6	6.3	3.4
FY18	6.1	5.3	6.7	8.9	3.6
FY19	7.5	6.5	6.2	5.7	1.8
FY20	4.9	4.2	3.2	2.8	2.1
FY23	12.8	5.5	4.3	6.2	8.6
FY24	8.2	8.1	8.6	7.8	0.8
FY25	6.7	5.4			1.3

Source: JPM

Note: FY21 and FY22 have been ignored due to effect of Covid-19.

Experts have opined that the lower growth in Q2 is mainly a result of reduced government expenditure due to elections. It is reassuring to note that the RBI and the Honourable Finance Minister have expressed confidence about better growth in H2. The RBI has forecast a growth of 6.6% for the current fiscal (Source: RBI

Dec-24 MPC Meeting).

"It is better to be approximately right than precisely wrong."

- Warren Buffett

Moving beyond the quarterly disappointment, the big picture about India's economy is that it has grown at a CAGR of 6.1% between 2010-2024. This has been a result of:

- Growing and young population when most countries are ageing and witnessing reduction in family sizes
- Educated, skilled and cost competitive manpower
- Vast availability of natural resources (sunlight, arable land, water, minerals (ex-oil and gas))
- Entrepreneurship
- Stable social and political environment
- Low penetration of discretionary goods and services
- Shrinking product lifecycles etc

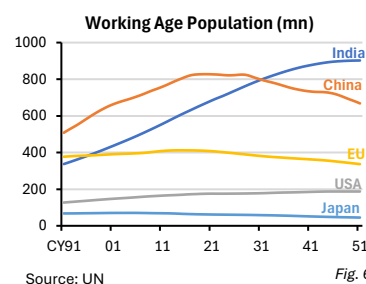


Fig. 6

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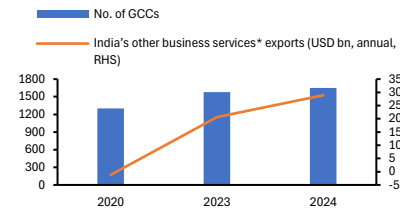
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December 2024

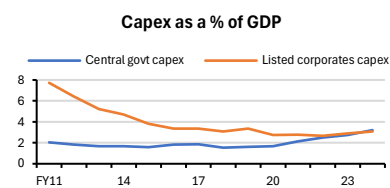
What adds to the excitement in India is the emergence of few factors that should support even higher growth of the Indian economy:

- Acceptance of remote working post Covid is positive for business service exports (Fig. 7)
- Improving capex after a weak capex cycle of the previous decade (Fig. 8)
- Improved prospects of manufacturing driven by Government support, China+1, etc
- India's strong geopolitical position
- Considerable improvement in our physical and digital infrastructure
- Improved business environment driven by key reforms (Fig. 9)



Source: Media, Axis Cap | *R&D, consulting, technical, trade etc. | FY 24 no. of GCC is 3P estimate based on trend growth

Fig. 7



Source: ISEC

Fig. 8

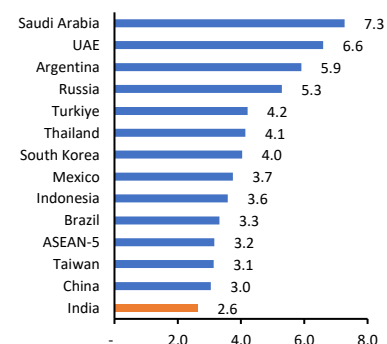
Key reforms of last decade

- GST + Digitisation of payments
- Simplification of laws
- Make in India / PLI
- Corporate tax cut
- New Criminal Laws
- RERA and IBC
- Gati Shakti
- JAM Trinity

Fig. 9

While these growth boosters support a case for higher growth compared to the last decade, achieving a 9-10% growth is less likely. The diversity of India that we value so much makes this difficult. The strong democratic processes, federal set up, a strong judiciary and bureaucracy, free media, voice of NGOs and citizen organizations etc, reduce the chances of big mistakes on one hand and moderate the pace of change on the other. As a result, while growth in India is sure footed and less volatile, double digit growth is less likely. A 6-8% growth for many years to come is more realistic and would be no mean achievement.

Volatility of GDP Growth (%)



Source: IMF, 3PIM

Note: Standard deviation of IMF growth rates

Fig. 10

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Slowing Profit Growth : A Reversion to Mean

Nifty EPS is likely to grow at 10% CAGR in FY24-26 compared to 16% CAGR between FY22-FY24.

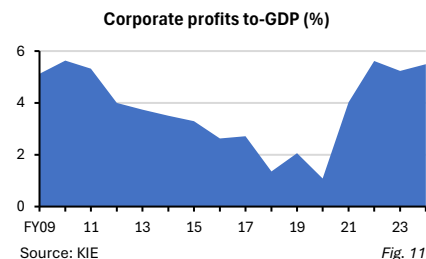
(source: KIE)

In our judgement, slower growth of profits is not to be confused with a slowing economy. It is rather mainly due to the stabilizing ratio of profits/GDP. The higher growth in corporate profits of last few years was due to a decadal low base of margins because of high NPAs, weak capex cycle and low commodity prices

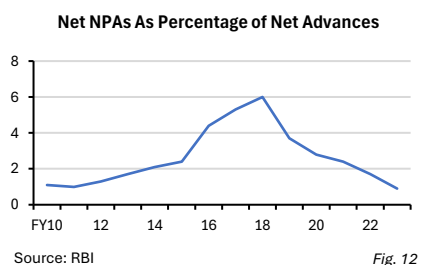
(Fig. 8,12).

“Reversion to mean is the iron rule of the financial markets”

- John C. Bogle



Post the normalisation in profits/GDP, we expect corporate profits to grow at 10-12% CAGR broadly in line with nominal GDP growth. Since India by and large lacks non-linear businesses (i.e. global platforms, innovation driven companies, etc), we think, going ahead, it is difficult for corporate profits to outgrow nominal GDP materially.



A case in point is the FMCG sector. It exhibited strong PAT growth for more than a decade supported by significant expansion in margins (Fig. 13). In view of the prevailing margins and the increasing relevance of organised retail, private label, e-commerce etc, we believe PAT growth for this sector should not exceed turnover growth henceforth.

Fig. 13

Companies	14Yr Rev CAGR (%)	EBITDA Margins (%)	
		FY10	FY24
Britannia	11.8	5	19
Colgate	7.7	24	33
Dabur	8.6	19	20
HUL	9.2	16	23
Marico	9.3	16	20
Nestle	11.8	20	24

Source: KIE

Note: Dabur and Marico have been taken on a standalone basis

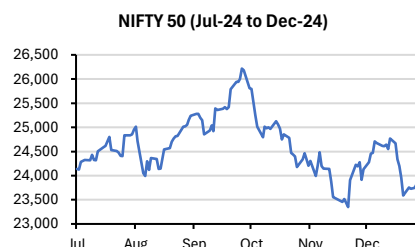
Equity Markets : Review and Outlook

After the strong run over last 5 years, markets have finally consolidated over last 6 months (Fig. 14). The reality of lower profit growth slowly getting priced in, prevailing multiples that leave little room for upside, a surge in supply of stocks and large FII selling have broken the momentum of one way movement. This consolidation is welcome and it will improve the risk reward for long term investors.

Interestingly, though market indices have been rangebound, the large variation in price movements across sectors / stocks is reminiscent of the power of averages to mislead. The adjoining tables present not just the divergence across sectors/stocks in an otherwise rangebound market but also the reversal of roles in last two quarters:

- Underperformers of the last few years like Banks, IT have outperformed
- Outperformers of the last few years like Automobiles, FMCG, Oil & Gas, Power have sharply underperformed

The consolidation / time correction in the markets and a significant correction in several NIFTY stocks has moderated the multiples of large caps. Nifty is presently trading at 20x FY26 and 17x FY27 (Source: KIE). At 17x FY27, risk reward is reasonable for largecaps, over the medium to long term. Staggered investments in large caps are therefore appropriate for these markets. However, return expectations should be realistic. In our judgement, large cap indices should compound ~12% CAGR over the medium to long term.



Source: NSE

Fig. 14

“Never try to walk across a river just because it has an average depth of four feet.”

- Milton Friedman

NIFTY 50 Sectors	Fall in Marketcap from 6M Peak (%)
Information Technology	4
Health Care	7
Banks	9
NIFTY 50	10
Communication Services	15
Industrials	15
Materials	18
Consumer Staples	18
NBFC	19
Consumer Discretionary	20
Energy	21
Utilities	25

Source: Factset

Fig. 15

Significant Losers of NIFTY 50	Fall from 6M Peak (%)
NIFTY 50	10
TCS, Bharti, SBI, Bajaj Finance, BEL, JSW Steel, Trent, Grasim, Titan, PGCIL, HDFC Life, Axis Bank, Maruti	10 to 20
Shriram Finance, BPCL, Hindalco, Nestle, Adani Enterprises, Tata Steel, Bajaj Finserv, Adani Ports, HUL, RIL, NTPC, Britannia, Tata Consumer, SBI Life, Coal India	20 to 30
ONGC, Bajaj Auto, Asian Paints, Hero Motorcorp, IndusInd Bank, Tata Motors,	>30

Source: Factset

Fig. 16

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Looking ahead, all eyes are set on President Trump taking office on 20th January 2025.

His views on tariffs, taxes, deregulation, expenditure control of the US government, immigration, sharp focus on the interests of the US Economy and on fossil energy, his choices of appointees to key positions along with the heft of US economy (26% of world), current dominance of capital markets (~73% of MSCI World Index at the end of 2023), leadership in technology and innovation clearly suggest that the world must brace for a break from the past. The following words of Scott Bensen, U.S. Treasury secretary elect, give a glimpse to the same.

“It would be 3% real economic growth – how do you get that? Through deregulation, more U.S. energy production, slaying inflation and forward guidance on confidence for people to make investments so that the private sector can take over from this bloated government spending. Three million more oil barrels equivalent a day from U.S. energy production. That would be my 3-3-3. That would substantially decrease the oil price, which – that’s one of the No. 1 drivers of inflation expectations.”

- Scott Bessent

While it is hard to forecast exact outcomes of these intentions / announcements, we feel, given the composition of Indian economy (high consumption: ~70% of GDP, low manufacturing exports: 12% of GDP), low CAD (1%), India’s geopolitical status and good relations with US, India should not be at a disadvantage under the Trump administration. In fact, if oil prices move lower, given the clear intent to increase US production of fossil fuels by 3mbpd, it should work to our advantage. Oil prices have in the recent past corrected to \$74 from \$88 in the last 6 months.

“Far more money has been lost by investors in preparing for corrections, or anticipating corrections, than has been lost in the corrections themselves.”

- Peter Lynch

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Portfolio Strategy and Positioning

Sustainability of businesses and valuations are the two cornerstones of 3P Investment Philosophy. Avoiding weak businesses lowers the risk of permanent loss of capital and avoiding excessive valuations lowers the risk of poor long-term returns. This approach's relevance has increased in today's buoyant market conditions with many pockets of excesses especially in the small and midcaps and in the IPO markets.

We continue to be steadfast in our investment approach that is grounded in reality and conservatism. Nearly 85% of the Fund, in our judgement, comprises of companies that enjoy leadership / strong positions in respective businesses and should be able to increase/maintain their market share. At the same time, we are avoiding pockets of excessive valuations or companies where implied growth expectations are unrealistic.

The portfolio continues to be well diversified across sectors and key economic variables. The Fund is overweight Healthcare, Industrials and Insurance and is underweight Consumer Staples, Energy and Materials. Exposure to Automobiles, Banks & Financials, IT, and Telecom is close to market weights. Key portfolio changes made recently are:

- Increased weight in large Banks, Pharmaceuticals
- Reduced underweight in Software Services
- Participated in select anchor allocations of IPOs based on attractiveness of individual businesses

The performance of 3P India Equity Fund 1 is summarised in the adjoining table (Fig. 17). The absolute performance since inception was supported by strong market returns. As we have been highlighting for some time and as expected, one year returns of indices have moderated to 10% / 15% (NIFTY 50/NIFTY 200 respectively). The Fund's relative performance over 1 year and since inception has been strong and was supported by some sharply undervalued pockets in the market that the Fund was able to take advantage of and an underweight position in consumer staples.

Fig. 17

Fund	Returns (%)		
	3PIEF-1	Nifty 50 TRI	Nifty 200 TRI
1 Year	22.3	10.1	14.7
Since Inception* (CAGR)	34.0	18.3	24.2

Source: Bloomberg, 3PIM | *Inception Date: 3rd May 2023

Note: Pre-tax returns, pre-management fees. Data as of December 31, 2024.

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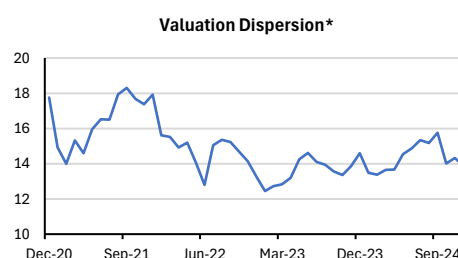
December 2024

As discussed earlier – future market returns should be lower compared to last 5 years due to a dearth of meaningful pockets of undervaluation. Bulk of the returns should come from earnings growth. This, coupled with the large pipeline of stocks, merits a cautious approach. The massive increase in retail participation as suggested by the number of demat accounts growing to 182mn in Nov-24 from 39mn in Dec-19 (pre-covid), the massive oversubscription in most issues despite demanding valuations, large listing gains and subsequent fall in prices once anchor / pre-IPO allocations are out of the lock-in are symptomatic of excesses. While it is likely that most will not turn out to be good investments over the long term, yet the flow of capital to small companies is positive for the economy and hopefully few will turn out to be great for stakeholders and for the economy. At the same time, reasonable valuations of largecaps, that account for bulk of the market capitalisation, make a deep and broad-based correction less likely.

“An IPO is like a negotiated transaction- the seller chooses when to come public – and its unlikely to be a time that’s favourable to you.”

- Warren Buffett

Given the prevailing market conditions, we are focused on managing portfolio risk. On one hand allocation to small / midcaps is being kept low and on the other, allocation to select sectors post sharp outperformance has been lowered. Portfolio holdings are being maintained ~50 as dispersion in valuations is low. If and when there is meaningful undervaluation in some pockets, portfolio’s diversification should reduce. Some of the tail holdings may also get rationalised over time.



Source: KIE, 3PIM calculations

Note: Valuation Dispersion is defined as the standard deviation of sector PE (ex-financials) at a point in time.

Data as of 31 December 2024.

Fig. 18

The Fund’s NAV is on a post-tax basis. We expect the tax rate to further reduce gradually over time as more holdings qualify for long term capital gains.

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The Fund Managers of 3P Investment Managers have invested a sizeable part of their net worth in 3P Funds to align their interests with that of the customers. Further, under normal conditions, members of the 3P investment team will not purchase direct listed equities in the secondary market.

The 3P India Equity Fund 1 has grown to ₹12,522 crores (\$1.5bn). The assets under management of 3P Investment Managers stand at ₹15,223 crores (\$1.8bn). This growth is a result of our unitholders' trust in us for which we are grateful. Our long-term focus, disciplined approach, low costs and complete alignment of interests provide resilience to this partnership.

We plan to share the next Fund update around 1st week of April 2025.

Kindly note that 3P India Equity Fund 1 is an open-ended Fund with zero exit load. The Fund is available for transactions on every 15th / last day of the month (previous day if it is a non-working day).

Please feel free to reach out to the undersigned or services (services@3pim.in) for any clarifications, feedback or suggestions.

Wishing you and your loved ones a Perfect 2025. Interestingly, this year is the only Perfect Square of our lifetime.

$$44 \times 44 = 1936$$

$$45 \times 45 = 2025$$

$$46 \times 46 = 2116$$

Warmly,

CIO and Fund Manager



(Prashant Jain)

Email: prashantj@3pim.in

Portfolio Strategist and Co-Fund Manager



(Ashwani Kumar)

Email: ashwanik@3pim.in

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