

A Short Update

NIFTY peaked on 26th September 2024 at 26,216. Since then, it is down ~12% to 22,957. In the same period, NIFTY Midcap 150 and NIFTY Smallcap 250 indices have corrected ~15% and ~18% respectively.

Averages Tend to Hide More Than They Reveal

The fall in indices, especially large cap indices, does not reflect the correction in the broader markets. The median stock in NSE 500 is down 18%. The adjoining table gives a better picture of the depth and breadth of correction in the markets.

% Fall since 26 Sep 2024	No. of stocks in NIFTY 500
>30	61
20 - 30	157
10 - 20	145
0 - 10	86
<10	51

Source: Bloomberg, 3PIM Calculations
Note: Data as on 27th January 2025

The recent outperformance by largecaps marks a reversal of the trend of small and midcaps outperforming over the last few years. It remains to be seen if this trend sustains.

As we have been highlighting for the last few quarters, largecaps, in our judgement, offer superior risk reward vs small and midcaps. (Please refer Sep-24 and Dec-24 investor letters on our website for more information)

A main reason for this correction in our opinion is the large supply of stock over the last 3 months from two fronts :

- (i) large primary / secondary supply (OFS / IPO/ F PO / QIPs) of ~INR 1.6trn in Oct-Dec quarter.
- (ii) FII selling of ~INR 2.6trn (USD 31.2bn)

(i) and (ii) combined aggregate to ~INR 4.2trn (USD 49bn) which is ~1% of India's marketcap !

The large supply from IPOs/QIPs/OFS etc is largely a result of the prevailing expensive valuations in small and midcaps. Large FII selling on the other hand is probably triggered by the strengthening of USD.

FII Flows (USD mn)	
Oct-24	-16,512
Nov-24	-5,177
Dec-24	1,144
Jan-25*	-10,694
TOTAL	-31,238

Source: Bloomberg
* Data is MTD up to 28 January 2025

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28th January 2025

USD Strength, FII Flows & Markets

It has been observed in the past that a USD appreciation correlates well with Emerging Markets' (EM) underperformance in the near term. This time appears to be no exception.

The table below summarises occasions when DXY has risen and the performance of MSCI EM and MSCI India.

Start Date	End Date	No of Months	DXY USD Index Return (%)	MSCI Net TR USD Index		India Net Foreign Equity Investment (USD mn)
				MSCI EM	MSCI India	
21-Jul-08	11-Sep-08	2	11	(19)	(2)	(2,554)
22-Sep-08	28-Oct-08	1	14	(43)	(42)	(6,263)
17-Dec-08	09-Mar-09	3	13	(17)	(22)	(2,730)
25-Nov-09	07-Jun-10	6	19	(8)	(3)	10,330
04-Nov-10	30-Nov-10	1	7	(6)	(11)	7,125
19-Aug-11	04-Oct-11	2	8	(14)	(8)	(1,558)
30-Jun-14	13-Mar-15	9	26	(9)	8	20,751
15-Oct-15	30-Nov-15	2	6	(6)	(6)	(1,175)
18-Aug-16	28-Dec-16	4	10	(7)	(11)	(4,418)
16-Apr-18	14-Aug-18	4	8	(9)	1	(3,166)
25-May-21	15-May-22	12	17	(24)	(1)	(34,106)
30-Jun-22	27-Sep-22	3	9	(10)	6	13,488
13-Jul-23	03-Oct-23	3	7	(8)	1	2,593
27-Sep-24	28-Jan-25*	4	8	(7)	(18)	(31,875)
Average		4	12	(13)	(8)	(2,397)
Median		3	9	(9)	(5)	(2,056)

Source: Bloomberg, 3PIM calculations | () denotes negative

*Ongoing

Note: USD DXY is an index that tracks the strength of the US dollar against a basket of major currencies.

It is interesting to note that the movement of DXY, FII outflows and correction in markets between Oct-24 to now follows the similar pattern of the past. It is therefore reasonable to infer that this is a passing phase and that markets should improve overtime.

The 3P way. Simple but not easy.

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The Road Ahead

While it is always tough to comment on near term market prospects, we believe that the time and significant price correction has improved the risk-reward in largecaps, though bulk of the small/midcaps are still far from the value zone.

NIFTY is presently trading at ~16.7x FY27 earnings, which is reasonable for a 10-12% EPS CAGR, especially given the fall in cost of capital in India. (Fig. 1)

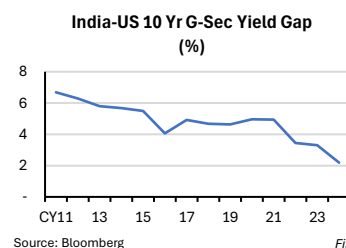


Fig. 1

The USD DXY Index and US 10-year yields have also started retracing. (Fig. 2)

In view of the above we believe the risk-reward for large caps, has improved and we feel it is appropriate to increase exposure to large caps / large cap strategies in a staggered manner over the next one or two months with a medium to long term view.

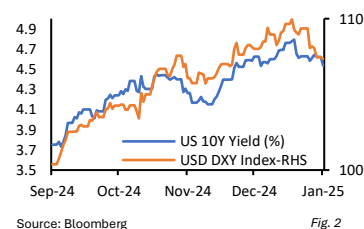


Fig. 2

Please also note that based on investor / distributor feedback, the 3P India Equity Funds are open for transactions on the day of the Union Budget (1st February 2025) and on 3rd February 2025, the next working day. This is in addition to the regular day of transactions – on every 15th /last working day of the month (provided it is a business day).

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

Warmly,

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