



# 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)

(APRIL-JUNE 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.



**3P INVESTMENT  
MANAGERS**

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*"Bull markets are born on pessimism, grown on scepticism, mature on optimism and die on euphoria"*

*Sir John Templeton*

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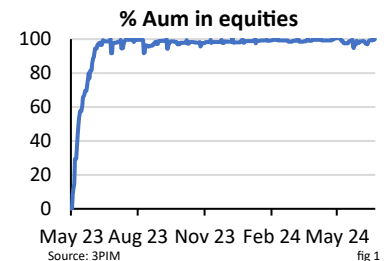
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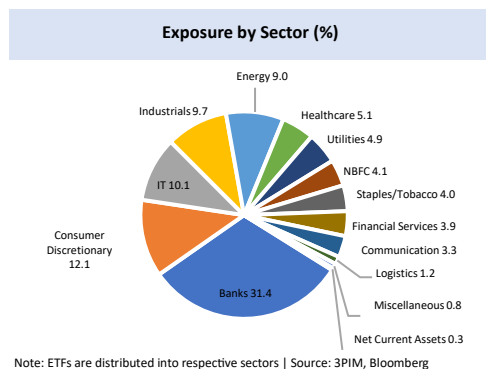
Dear Sir/Madam,

We are delighted to share the 5<sup>th</sup> quarterly update of 3P India Equity Fund 1. This Fund was launched on 3<sup>rd</sup> May 2023 and this quarter marked the completion of its first year. It is said, well begun is half done. It is also said that “You’re only as good as your last performance!” This debate aside, the Fund had a strong start both in absolute terms and relative to markets (fig 10).

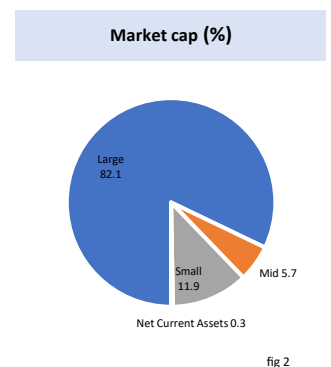


The Fund continues to remain fully invested (fig 1). In our assessment, equities should outperform cash over the medium to long term, largely driven by earnings growth.

The key portfolio characteristics of 3P India Equity Fund 1 as of June 28, 2024 are presented below (fig 2).

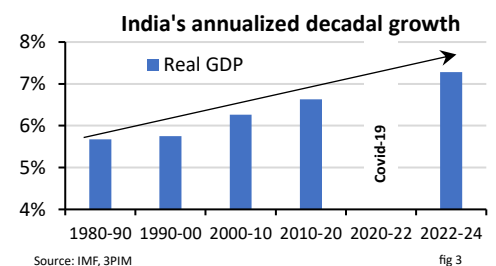


Exposure by constituents (%)	
Constituents	Weight
Top 5	36
Top 10	55
Top 20	74
Top 30	86
Top 40	94



## Indian Economy: Smooth Sailing

Indian economy is like a strong ship that has successfully navigated difficult seas and is now experiencing calm seas and strong tailwinds (fig 3).



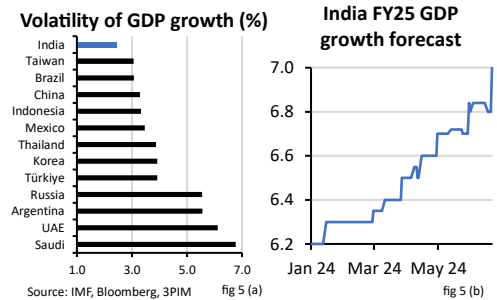
It is evident from the adjoining chart that Indian Economy has not just grown at healthy rates over last four decades but has grown at a higher rate each successive decade. This growth despite changing governments, difficult macro conditions and several adverse events was driven by structural growth drivers (fig 4). Even the volatility of growth has been low, due to these (fig 5 (a)).

### Structural Drivers of India's growth

- Young and growing Population
  - Reducing size of families
  - Skilled, educated 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
  - Internet, digitalisation
- fig 4

While these structural drivers will continue to support growth in the future as well, tailwinds of rising share in global exports of manufacturing and services, improved business and investment climate, an upturn in capex cycle after a prolonged period of weakness, strong macroeconomic indicators etc. should drive India's growth rates higher (for more details please refer Jan-Mar 2024 quarterly). In our judgement, India should grow between 7-8% over the current decade. Recent economic data is also in sync with this view.

- GDP growth of 7.3% over last two years is above 10Y average of 5.9%. RBI forecasts GDP growth of 7.2% for FY25.
- Consensus FY25 GDP forecast was revised upward by 80 basis points in the last six months (fig 5 (b)).
- High-frequency indicators - PMI, growth in tax revenues, credit and freight traffic are strong.



*“India is at the threshold of a major structural shift in its growth trajectory moving towards 8% GDP growth in a sustained manner.”*

RBI Governor Shri Shaktikanta Das  
(ET June 26, 2024)

### Election uncertainty behind, Policy continuity ahead

While the election results did throw some surprises, it is reasonable to expect policy continuity, especially on the economic front, including fiscal consolidation. There is also continuity in allocation of key ministries including economy linked ones like Finance, Defence, Home, External Affairs, Road Transport & Highway and Railways. Key ministries given to allies are Panchayati Raj (JDU), Rural Development and Communications (TDP), Food Processing (LJP), Heavy Industries and Steel (JDS).

The salient points in BJP's manifesto are consistent with the policy direction of the last decade and point to prioritising investment-led job creation and income generation, continued focus on infrastructure development, supporting Make in India and continued support to weaker sections of the society in the areas of food, housing, health, loans etc.

Healthy economic growth, buoyancy in tax revenues, large value of government holdings in PSUs, high base of government capex, RBI dividends etc are supportive of lower fiscal deficits even in the face of some extra expenditure.

### Markets Review and Outlook

Markets have had a strong run. They are up 100% over the last five years. Current multiples are 12% and 23% higher than the 10 and 15-year averages respectively. While these multiples are supported by improved growth prospects, lower cost of capital and lower volatility of markets driven by higher domestic flows, there is limited room for these to expand. Markets therefore offer compounding prospects in line with earnings growth and should deliver around 12% CAGR over the long term. These markets are thus suitable for the patient investor.

This view may appear conservative to some who expect higher returns on the back of sustained local flows (fig 6 (a)). What this argument misses is the commensurate rise in supply of stocks. It is also interesting to note the acceleration in promoter selling (fig 6 (b)).

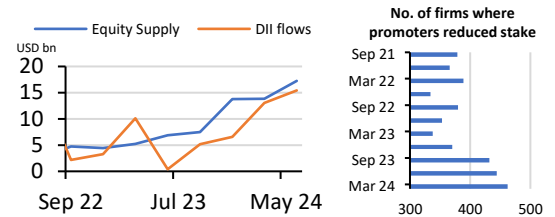


fig 6 (a) Equity Supply in India on NSE, DII - Domestic Institutional Investors (Includes Bank, DFIs, Insurance, New Pension Scheme and MF) | Source: Bloomberg, NSE, Business standard, Kotak Institutional Equities, 3PIM

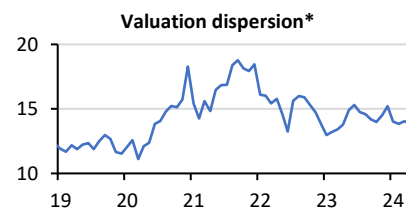
fig 6 (b)

## Falling dispersion

Strong returns of past few years have been accompanied with a normalization of dispersion in valuations across sectors. Sectors that were trading at excessive multiples post Covid in 2021 have underperformed and their multiples have moderated, while sectors that were trading at low multiples like PSUs, corporate banks, power utilities, coal mining etc. have outperformed and their multiples have rerated sharply (fig 7).

This reminds us of the famous words of John C Bogle – “Reversion to mean is the iron rule of financial markets”

	Sep 21 (PE)	June 24 (PE)	Returns % (Since Sep21)
IT services	30	23	-19
Cons. Disc.	78	59	4
Cons. Stap.	41	39	13
Pvt banks (PB)	3.0	2.2	30
Metals & Mining	8	13	56
PSU banks (PB)	1.1	1.4	87
Electric utilities	10	17	115
Defence	16	51	426



\*Defined as standard deviation of sector PE (ex-financials) at a point in time | Note: 12m forward PE | Source: Bloomberg, NSE, Kotak Institutional Equities, 3PIM

fig 7

## Pockets of excesses

As is characteristic of markets, excesses disappear in one part only to reappear in some other part.

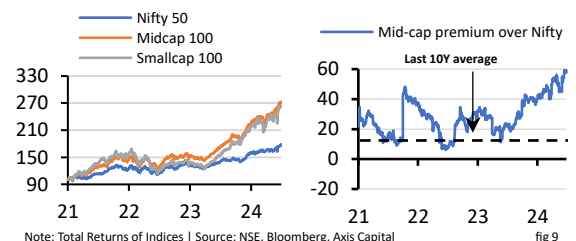
Manufacturing and Defence companies have seen significant outperformance backed by a strong narrative of government thrust on manufacturing, China+1, PLI, indigenisation of defence equipment, revival in capex and large needed investments in power and infrastructure. Consequently, this space has seen sharp expansion in multiples and is pricing in sustained high growth in earnings (fig 8). In our assessment, risk-reward is not favourable in this space. Sale of stakes by MNC parents in Indian arms (Whirlpool 24%, Timken 10% and ZF 7.5%) despite strong business fundamentals and growth prospects is also supportive of this view.

Post the significant outperformance of SMIDs in the last few years, the risk-reward continues to be less attractive (fig 9).

Stock*	Sep 21 (PE)	Current (PE)	Returns (%)
Hindustan Aeronautics	13	46	665
Bharat Electronics	18	49	392
Mazagon Dock Shipbuilders	7	38	1705
Siemens	59	97	239
ABB India	74	97	347
Cummins India	34	59	297

\*Most valued companies in Manufacturing and Cap Goods in Nifty Manufacturing index | 12m forward PE | Source: NSE, Bloomberg

fig 8



Note: Total Returns of Indices | Source: NSE, Bloomberg, Axis Capital

fig 9

## 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.

*"It's far better to buy a wonderful company at a fair price, than a fair company at a wonderful price."*

Warren Buffett

Nearly 90% 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.

The portfolio continues to be well diversified across sectors and key economic variables. The Fund is overweight consumer discretionary, financials, healthcare, industrials & utilities and is underweight consumer staples, IT, materials and oil & gas.

This quarter witnessed a modest increase in portfolio turnover as some portfolio holdings completed one year making them eligible for long term capital gains. The Fund's Portfolio Turnover\* on an annualized basis is 19% since inception. We expect a 15-25% portfolio turnover over a cycle implying an average holding period of nearly 5 years in line with our long-term focussed investment strategy. Allocation to Power and NBFCs was reduced post their strong outperformance and allocation to Banks and IT was increased after significant underperformance. In Pharma, while sector allocation is the same, there was churn in individual names.

The Fund continues to participate in IPOs on a selective basis. In the last quarter we participated in IPO of Ixigo (Le Travenues Technology) a technology company focused on Indian travellers to plan, book and manage their trips across rail, air, buses and hotels.

The 3P India Equity Fund 1 (3PIEF-1) delivered a strong performance in both absolute terms and relative to benchmark in its maiden year. In our opinion, this performance is an outlier one and should not be extrapolated.

Fund	Inception date (%)	Returns since inception (%)		
		Fund	Nifty 50 TRI	Nifty 200 TRI
3PIEF-1	4/May/2023	58.3	33.7	44.7

Note: Pre-tax returns, pre-management fees. Data as of June 28, 2024. Source: Bloomberg, 3PIM

fig 10

The Fund's NAV is on a post-tax basis. We expect the tax rate to progressively reduce over the next few quarters as more holdings qualify for long term capital gains.

The Fund managers of 3P India Equity Fund have invested a sizeable part of their net worth in the Fund to align their interests with that of the customers. Further, under normal conditions, the 3P team will not directly purchase listed equities in the secondary market.

Annexure A details the Fund Portfolio as of June 28, 2024, sectoral composition and a brief rationale for the same. Annexure B contains regulatory disclosures.

(\*Securities bought or sold (whichever is less) / Average Assets Under Management (AUM))





## 3P INVESTMENT MANAGERS

The 3P India Equity Fund 1 has grown to 10,612 crores (USD 1.25 bn). While this is a respectable size, it is insignificant relative to the market capitalisation of India of USD 5 tn and is a mere 0.03% of the market. The Fund's 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 1<sup>st</sup> week of October 2024.

Kindly note that 3P India Equity Fund 1 is an open-ended Fund with no exit load. The Fund is available for transactions on every 15<sup>th</sup>/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](mailto:services@3pim.in)) for any clarifications, feedback or suggestions.

Warmly,

CIO and Fund manager

(Prashant Jain)

Email: [prashantj@3pim.in](mailto:prashantj@3pim.in)

Portfolio Strategist and Co-Fund manager

(Ashwani Kumar)

Email: [ashwanik@3pim.in](mailto:ashwanik@3pim.in)

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**3P Investment Managers Private Limited**

📍 2nd Floor, Nirlon House, Dr. Annie Besant Road, Worli, Mumbai - 400030.

🌐 [www.3pim.in](http://www.3pim.in) ✉ [services@3pim.in](mailto:services@3pim.in) ☎ +91 (22)-69544454