"Far more money has been lost by investors trying to anticipate corrections than lost in the corrections themselves"

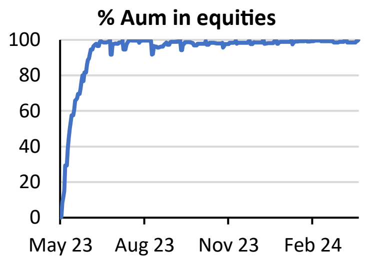
Peter Lynch

3P INVESTMENT MANAGERS

Dear Sir/Madam,

We are delighted to share the 4th update of 3P India Equity Fund 1.

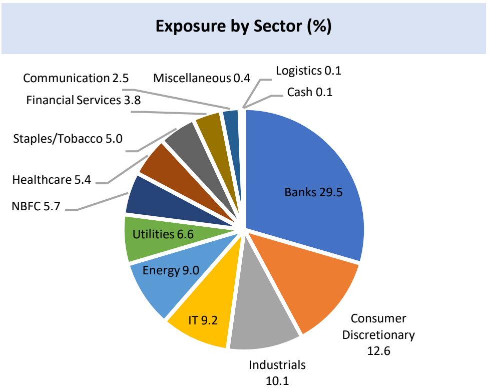
The Fund was fully invested by June 2023 (within 2 months of inception) and has remained 98-100% invested since then (fig 1). The Fund had a strong start, both in absolute terms and relative to markets (details on page 5).



Note: Equity portion declines on 15/30th due to Inflows | Source: 3PIM fig 1

The key portfolio characteristics of 3P India Equity Fund 1 as of March 29, 2024 are presented below (fig 2). Given our low churn strategy, these have largely remained stable. Fund's Portfolio Turnover* is 5.8% since inception.

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



Note: ETFs are distributed into respective sectors | Source: 3PIM, Bloomberg

Exposure by constituents (%)

Constituents	Weight
Top 5	37
Top 10	56
Top 20	79
Top 30	91
Top 40	97

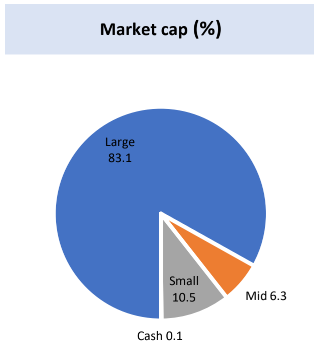
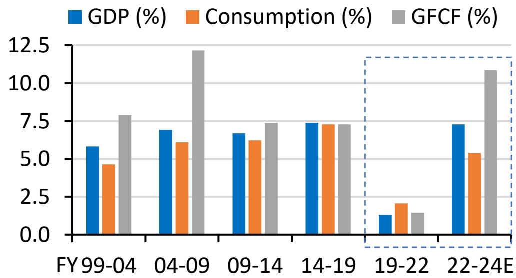


fig 2

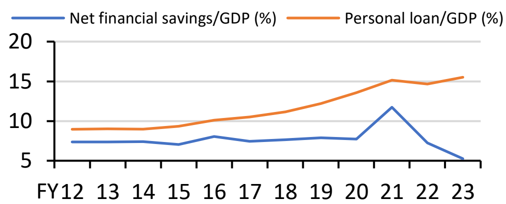
Indian Economy : Exhibiting Strong Growth

The adjoining chart presents the growth of the Indian economy and its break up between Gross Fixed Capital Formation (GFCF) and Consumption in 5-year buckets (fig 3).



Source: RBI, KIE, 3P Calculations fig 3

It is interesting to note that growth in the last 2 years has touched the high levels of growth witnessed in FY14-19. We are focusing on the growth of last two years in the last five-year period (FY19-24) as growth for the previous three-year period was impacted by Covid and post-Covid recovery from a low base. Moreover, the quality of growth is good as it is led by high capital formation. A slowdown in consumption has to be seen in the context of sustained growth in personal loans and a fall in net financial savings and is not worrisome in our opinion (fig 4).



Note: Personal loan includes Housing, education, vehicle loans, credit card etc. | Source: KIE fig 4

The 3P way. Simple but not easy.

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

The improvement in growth in the last two years is despite an incomplete recovery in private capex.

Weak capex of last decade, recovery in corporate profitability, low corporate leverage and low bank NPAs create a conducive environment for recovery of private capex (fig 5, 9). As private capex picks up, this improvement in growth should not only sustain but accelerate in our judgement. Manufacturing Purchasing Managers Index (PMI), a lead indicator is also encouraging.

Rising share in global manufacturing (China +1, competitive wages in India, improving business climate etc) and services (acceptance of remote working, availability of talent, competitive wages etc) are structural tailwinds for growth (May-June 2023 quarterly).

	2014-19	2022-24
GDP (%, CAGR)	7.4	7.3
System Gross NPLs (%, Avg)	8.3	2.2
Corporate* Net D/E (%, Avg)	72	43
Manufacturing PMI (Avg)	52	56
Business confidence (Avg)	114	132

Note: Approximate value, *Large listed corporates
Source: Jefferies, RBI
fig 5

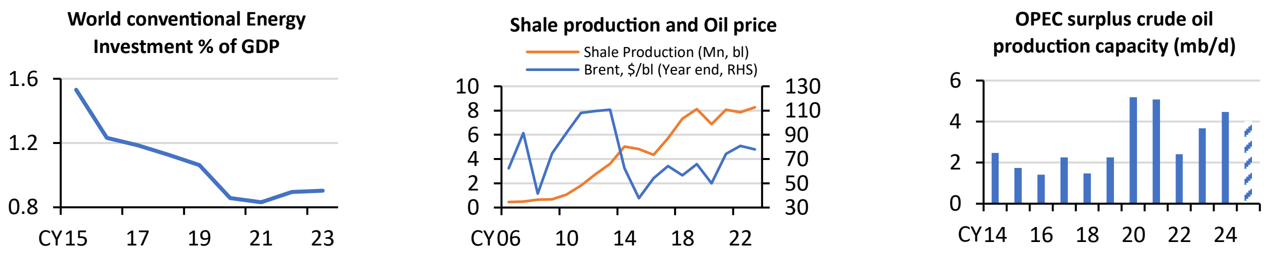
Indian Economy : Reducing Risks

India has historically been vulnerable to high oil prices. As shown in the adjoining table, there is a high correlation between oil prices and the current account deficit (CAD) (fig 6).

Given the low investment in conventional energy over the past decade, we have been discussing the possibility of higher oil prices. Interestingly, a massive rise in US shale output has kept oil prices in check despite OPEC curtailing production. OPEC's spare capacity is currently 4mb/d, which provides comfort on oil prices (fig 7). On the flip side, slower growth in US shale oil production and (or) better than expected growth in consumption could support higher oil prices.

Avg, Oil price (Brent, $/bbl)	Avg. CAD/GDP (%)
<40	-0.7
40-60	-0.8
60-80	-1.6
80-100	-1.7
100-120	-3.6

Note: 30 Year history | Yearly frequency
Source: RBI, World Bank, 3P calculations
fig 6



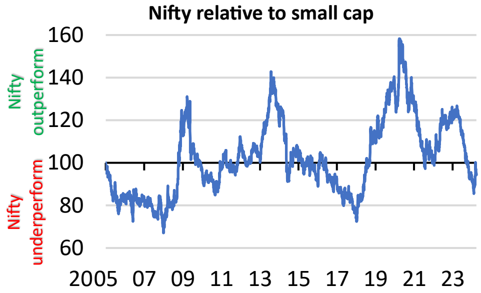
Note: mb/d = million barrels per day | Source: IEA, EIA, World Bank, OPEC, 3P calculations
fig 7

Additionally, due to an increase in the export of services, India's CAD has fallen and is estimated to be 0.8 % of GDP in FY24 (Source: KIE). This is the lowest CAD in the last 7 years barring FY21 (Covid year). Low CAD enhances the resilience of economy to withstand higher oil prices on one hand and disruption in capital flows on the other.

Markets Review and Outlook

Over the past six months, we have highlighted the excesses in the small and mid-caps (SMIDS) universe (July-Sep and Oct-Dec 2023 quarterlies). Contrary to the popular opinion of sustained outperformance of small caps, we have emphasized alternating periods of outperformance and underperformance of small caps (fig 8). In our view, the recent underperformance in SMIDS reverses only a small part of the outperformance of the last 3.5 years and the risk-reward in large caps continues to be better.

Nifty relative to small cap



Source: Ace Equity, 3P calculations fig 8

"My experience teaches me that by far the largest losses have been sustained by investors through buying securities of inferior quality under favourable general conditions". Benjamin Graham

Based on this view, exposure to SMIDS in the Fund has been reduced from 23% to 16% over the last few quarters.

Though counterintuitive, in an environment where real economic growth is likely to accelerate, profit growth should slow down in our opinion. This is because, in the last two years, there has been a broad-based recovery in corporate profitability. Corporate profits to GDP has increased from 1.1% in FY20 to 5.5% in FY24 and the number of loss-making companies in NSE 500 has declined from 60 to 31. Corporate profits are likely to grow around 12% CAGR for next two years (fig 9). Low inflation and stable INR also lower the growth of nominal GDP and profits.

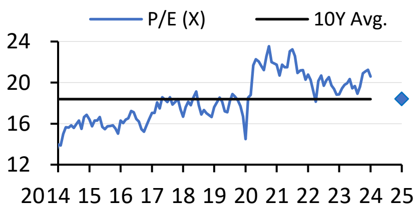
Profit and EPS growth

FY	20	21	22	23	24E	25E	26E
Profit/GDP (%)	1.1	4.0	5.6	5.2	5.5	5.5	5.6
EPSg* (%)	(5.7)	18.4	36.1	11.4	18.9	10.1	12.5
Loss-making co.	59	60	33	31	NA	NA	NA

*EPSg for 24,25,26 is for Nifty stocks | Source: KIE, MOSL fig 9

Nifty is trading at 21x FY25 and 18x FY26 PE (fig 10). These multiples are 12% and 22% higher than their 10 and 15-year averages respectively. As highlighted earlier (July-Sep 2023 quarterly), India's improved growth prospects, lower cost of capital and higher domestic equity flows are supportive of these multiples. However, as multiples have limited room to expand, these markets present a compounding opportunity. We believe Nifty, over the long term, should compound at ~12%. These returns broadly comprise of 6-8% real growth and 4-6% inflation.

Valuation



Source: KIE, Bloomberg, 3P calculations fig 10

Portfolio Strategy and Positioning

Sustainability of business 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. In line with this view, over the last few quarters, SMIDS exposure in the portfolio was reduced.

> "But investing isn't about beating others at their game. It's about controlling yourself at your own game."
>
> Benjamin Graham

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.

In our opinion, portfolio companies follow good ESG practices. Interestingly, companies in conventional power have plans to rapidly scale up their renewables portfolio.

As stated earlier, the Fund participates in IPOs on a selective basis. In the last quarter we participated in two IPOs 1) **Medi Assist** : Largest and most profitable third-party aggregator (TPA) in India; 2) **Popular Vehicles**: A leader in servicing of Maruti cars by volume.

The 3P India Equity Fund 1 (3PIEF-1) had a strong start. Since its inception, the Fund has outperformed Nifty TRI and Nifty 200 TRI (fig 11). This performance is akin to a cricketer scoring a century in his debut match. Sourav Ganguly scored 131 runs in his debut test* and his overall average was 42 runs (113 test matches). The Fund's strong start must be looked at similarly.

Index/Fund	Returns since May 4, 2023 (%)
Nifty 50 TRI	23.7
Nifty 200 TRI	30.8
3PIEF-1	42.3

Note: Pre-tax returns, pre-management fees. Data as of March 28, 2024. Source: Bloomberg, 3P fig 11

The Fund's NAV is on a post-tax basis. Currently, the provision for tax on gains is on a short-term basis. We expect the provision for tax to moderate as short-term capital gains convert to long term capital gains over time. Presently the Fund size is ₹8778 crores (including 28 March flows).

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 March 28, 2024, sectoral composition and a brief rationale for the same. Annexure B contains regulatory disclosures.

*(1996, Lords, England; Source: ESPNcricinfo, Wikipedia)

We appreciate your participation in the 3P India Equity Fund. As Daniel Kahneman (Israeli-American author, psychologist, and economist who recently passed away) once said, " It's a wonderful thing to be optimistic. It keeps you healthy and it keeps you resilient." At 3P Investment Managers we are optimistic about India and Indian equities. Your trust in us and our long-term focus, disciplined approach, low costs and complete alignment of interests provide resilience to our partnership.

We plan to share the next Fund update around 1st week of July 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 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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