



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)

(JANUARY - MARCH 2025)

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.



“Be fearful when others are greedy and greedy when others are fearful”

- Warren Buffett

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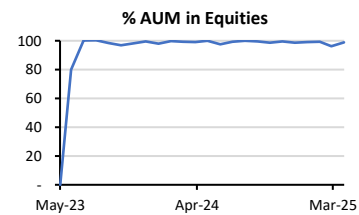
Performance is the outcome.

March 2025

Dear Sir/Madam,

We are delighted to share the 8th quarterly update of 3P India Equity Fund 1 (3PIEF-1). Launched on 4th May 2023, the Fund has sustained its performance as it completes its second year. (for details please refer [Portfolio Strategy](#) section)

The Fund continues to run fully invested as we believe that over the medium to long term, equities should meaningfully outperform cash, especially on a tax adjusted basis. This view is sustained by the long term growth prospects of both the Indian economy and of corporate profits. However, the Fund had reduced exposure to smallcaps and midcaps (SMIDs) in early CY24 due to excessive valuations. This has aided performance in FY25.



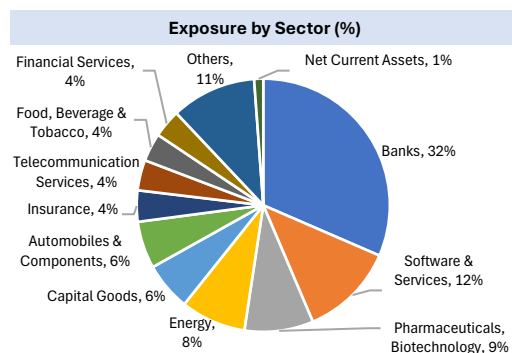
Source: 3PIM

Fig. 1

The recent market correction was, in our opinion, a result of demanding valuations, elevated earnings expectations and a large supply of equities both from capital raising and FII selling. SMIDs corrected the most due to their high valuations. These are discussed in detail subsequently.

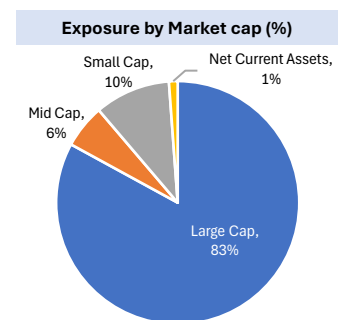
We believe that after the recent correction, risk-reward for largecaps is now favorable over the medium to long term. However, in our opinion, risk-reward for SMIDs remains unfavorable despite the sharp correction. These views were also shared in our note dated [28th January, 2025](#).

The charts below summarise the key portfolio characteristics of 3PIEF-1 as of 31st March 2025.



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

Exposure by constituents (%)	
Constituents	Weight
Top 5	37
Top 10	56
Top 20	79
Top 30	90
Top 40	96
Top 50	99



Source: 3PIM, AMFI
Note: As per AMFI classification. ETFs are distributed into respective classification

Fig. 2

The key changes of the last quarter are discussed in the portfolio strategy section.

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FY25 : A Recap

The adjoining table summarises NIFTY's performance FY22 onwards. (FY20 and FY21 were extremely volatile due to Covid, hence not included)

(%)	FY22	FY23	FY24	FY25	FY26	FY27
Return	19	-1	29	5		
EPS growth	37*	12	26	4	16	14
P/E (x)^	22	17	22	20	17	

Source: NSE, MOSL, 3PIM

Note: NIFTY return as of 28th March 2025 | *due to low base of Covid |

^P/E is 1 year forward at financial year end

Fig. 3

NIFTY ended the year nearly flat with a return of 5%. As a result, the 3-year CAGR of NIFTY moderated to ~10%. This is in line with what we have been suggesting.

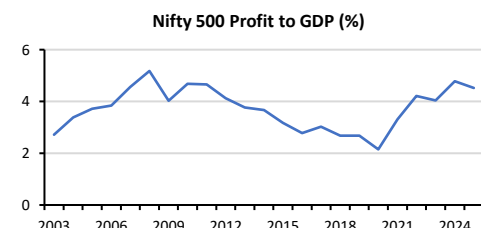
Markets therefore offer compounding prospects in line with earnings growth and should deliver around 12% CAGR over the long term.

- 3PIM Investor Letter (Mar-24)

Another point to note is the low growth in NIFTY's earnings for FY25. This has lowered the 3-year CAGR to ~13.6%. This broadly aligns with our view that long term earnings growth should converge with nominal GDP growth of 10-12% (6-7% real growth + 4-5% inflation) as corporate margins have fully recovered. India also lacks non-linear businesses that makes it difficult for corporate profits to outgrow nominal GDP growth meaningfully.

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.

- 3PIM Investor Letter (Mar-24)

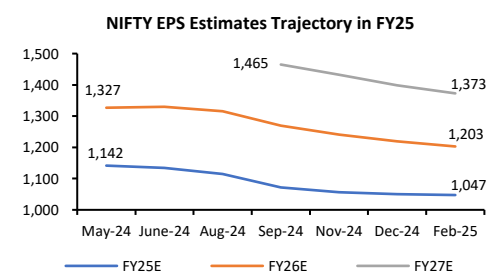


Source: MOSL, 3PIM

Note: 2025 numbers are estimates

Fig. 4

Earnings estimates witnessed downward revisions as the year progressed. Presently, NIFTY EPS growth estimates for FY26 and FY27 are 16% and 14% respectively. It will be interesting to watch if there are downgrades in FY26 as well.



Source: MOSL, 3PIM

Fig. 5

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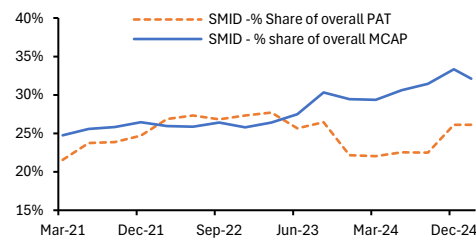
Markets corrected meaningfully in H2FY25 (NIFTY corrected 10% between 26th September 2024 and 31st March 2025). This correction was on the backdrop of rich multiples (NIFTY 50 was trading at 23x FY26 EPS in Sep-24), elevated growth expectations and a large supply of equities from fresh issues, promoter sales and FII selling, etc (Fig. 6).

Supply of Equities					
INR bn	FY22	FY23	FY24	H1FY25	H2FY25
FPI Selling* (A)	1,294	494	(2,089)	(800)	2,103
Insider Net Selling (B)	443	342	1,357	94	280
PE Selling* (C)				467	144
Supply from Issuances (D)	1,928	859	1,821	1,970	2,239
Total Supply (A+B+C+D)	3,664	1,695	1,089	1,732	4,766
Supply as % of Year End Marketcap	1.4	0.7	0.3	0.4	1.2

Fig. 6

Source: Antique Broking, Bloomberg, BSE, IIFL, MOSL, Tickertape, 3PIM calculations.
 Note: These figures are collected and compiled on a best effort basis. Supply is positive and buying is negative. Issuances include IPOs, QIPs, OFS, Rights Issue, Preferential Issues, FPOs
 ^FPI selling data up to 27th Mar 2025 | *Data not available for FY22, FY23, FY24

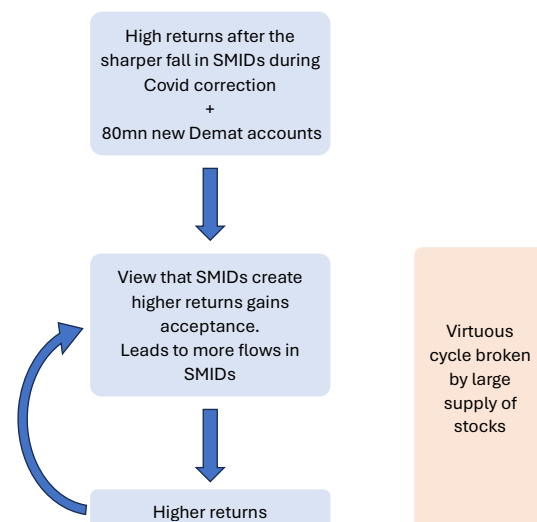
The correction in H2FY25 also marked the reversal of the gravity defying outperformance of SMIDs over the last 5 years. We have been highlighting the excesses in SMIDs since the beginning of FY25. What made the outperformance of SMIDs unsustainable was the lack of higher PAT growth versus largecaps.



Source: Ambit | Data as on 28th February 2025

Fig. 7

The origins of the outperformance by SMIDs lie in the sharper fall SMIDs experienced in Covid. As a result of the low base, the subsequent returns were higher vs largecaps. This period also marked a large addition of new to market investors (number of unique investor accounts has risen to 111mn as of Jan-25 from 31mn on Mar-20). As this large group of investors experienced higher returns in SMIDs, a view gained acceptance that SMIDs generate higher returns versus largecaps. This led to further participation in SMIDs creating a virtuous cycle until it was broken by the large supply as Promoters, PE investors, etc found it lucrative to sell / dilute their stake aggressively.



Source: 3PIM

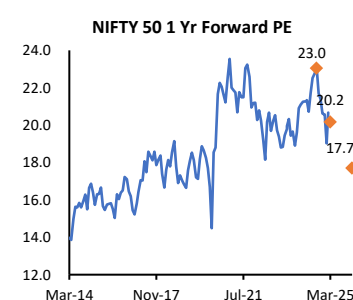
Fig. 8

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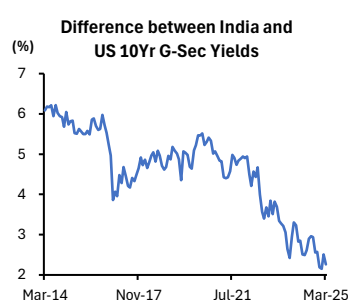
FY26 : Looking Ahead

After the recent correction in markets, NIFTY is trading at ~18x FY27 earnings. At this multiple, the risk reward is favourable for largecaps over the medium to long term even for a 10-12% earnings growth especially given the fall in India's cost of capital (Fig. 10). The recent fall in the gap between bond yield and earnings yield also signals an improved risk reward in largecaps (Fig. 11).



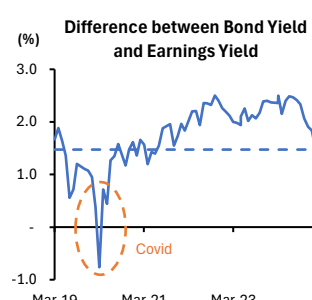
Source: MOSL, 3PIM calculations

Fig. 9



Source: Bloomberg, 3PIM

Fig. 10



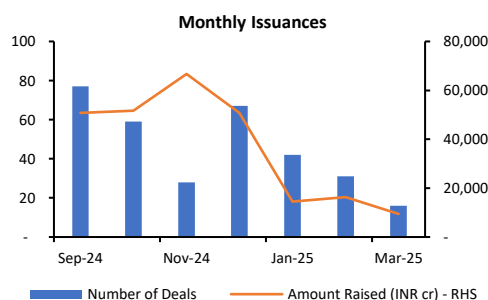
Source: Bloomberg, 3PIM

Note: Earnings yield is the inverse of 1 year forward NIFTY PE.

Fig. 11

An improved risk reward in largecaps is also supported by the sharp reduction in supply from both primary / secondary issuances and FII selling.

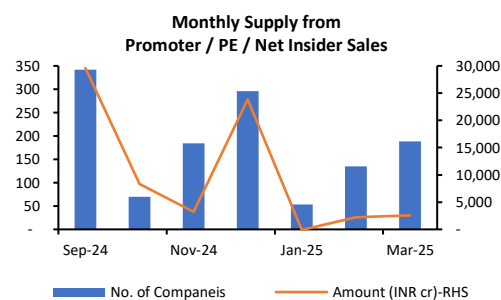
Over the last 6 months, investors have incurred significant losses in majority of the issuances (IPOs, QIPs, OFS, FPOs, rights and preferential issues, etc). This has resulted in a sharp waning of appetite for new issuances. There were just 16 instances of equity issuances in Mar-25 worth ~INR 95bn vs ~INR 508bn in Sep-24 over 77 deals.



Source: Antique Broking, MOSL, IIFL, 3PIM calculations.

Note: These figures are collected and compiled on a best effort basis. Issuances include IPOs, QIPs, OFS, Rights Issue, Preferential Issues, FPOs

Fig. 12



Source: Antique Broking, Ticktape, 3PIM calculations.

Note: These figures are collected and compiled on a best effort basis.

Fig. 13

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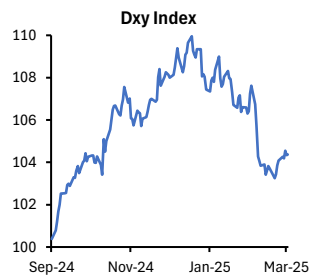
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Additionally, FII flows have turned positive in the second fortnight of Mar-25. This has coincided with the sharp reversal of DXY. This correlation was highlighted in our [28th January 2025 update](#).



Source: Bloomberg

Fig. 14

FII Net Equity Flows in Mar-25 (INR cr)	
Week 1	(15,942)
Week 2	(2,905)
Week 3	4,417
Week 4*	22,483

Source: MOSL, 3PIM
*Data up to 27th March 2025

Fig. 15

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.

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.

- 3PIM Update (28th January 2025)

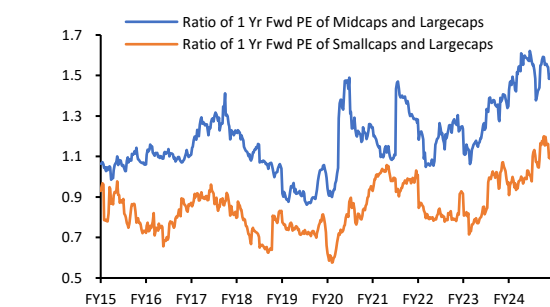
During this correction, NIFTY corrected 10% while NIFTY Midcap 150 and NIFTY Smallcap 250 indices corrected 15% and 19% respectively. 48% of SMIDs have fallen more than 20%.

% of Top 400 SMID Companies in Various Return Brackets		
<= -20%	(-20% , 0%)	>= 0%
48	36	16

Source: FactSet, 3PIM calculations
Note: Top 400 SMID companies considered as per latest AMFI classification. IPOs after 26th September 2024 have been omitted.

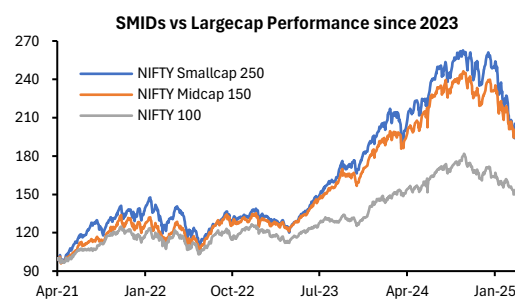
Fig. 16

Despite the recent underperformance of SMIDs, the risk reward is not yet favourable in our judgement. This is because of the considerable gap in both valuations and returns between SMIDs and largecaps despite lack of higher profit growth in SMIDs.



Source: Bloomberg

Fig. 17



Source: NSE, 3PIM Calculations

Fig. 18

In view of the above, in our opinion, underperformance in SMIDs is likely to continue but probably at a slower pace.

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US Tariffs – The Suspense is Over ?

US tariffs and their impact have been keenly debated over the last few months. These were finally unveiled on 3rd April 2025.

The impact on Indian economy and markets is likely to be marginal in our opinion. We had opined the same in our December 2024 letter.

Some key points to be noted are:

1. Services exports to USA are not directly impacted.
2. Goods exports to USA are just ~2% of India's GDP.
3. Tariffs on key nations, like China, Vietnam etc whom India competes with for manufactured exports are higher, thus giving Indian exports a relative advantage.

In terms of sectors, Banks, Consumer, Construction & Engineering, Energy, Financial Services, Insurance, Materials, Pharmaceuticals, Ports, Retail, Telecom, Tobacco and Utilities that collectively constitute ~80% of the NIFTY index, are not directly impacted. Similarly, Auto OEMs, apart from Tata Motors, do not face any direct impact.

The IT sector, while not directly impacted, could experience challenges if tariffs / related developments lead to a weak US economy, potentially affecting demand for Indian IT services. The impact on Pharmaceuticals is still uncertain.

While the direct impact on India is likely to be minimal, these tariffs and any countermeasures by other nations will create uncertainty, which is detrimental for both business investments and economic growth.

In this uncertain environment, it will be interesting to observe how capital flows get realigned if US equities continue to underperform. Should that be the case, it may turn out to be beneficial for emerging markets in general and India in particular, given the lower impact on India versus others.

In conclusion, the overall impact of the tariffs on the Indian economy and markets is expected to be minimal. Over time India may even benefit. The recent fall in Crude prices (from \$75 to \$60 per bbl) and US 10-year yields (from 4.4% to 4%) will also work to India's advantage.

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.

- 3PIM Investor Letter (Dec-24)

US Exceptionalism Peaking Out?

- US marketcap share in the world is ~54% vs earnings share of 43% and GDP share of 26%.
- Uncertain US growth outlook:
 - Impact of tariffs & counter measures
 - Low-cost AI models in China
 - High Fiscal Deficit of US at ~6%
 - Impact of wealth erosion due to fall in markets
- In recent years, it is estimated that nearly 80% of money invested in stock markets worldwide went to US.
- Foreigners now own a record 18% of US equity markets.
- Likely revival of growth in Germany and Europe.

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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 held the 3P India Equity Fund 1 in good stead in the recent sharp downturn in SMIDs.

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 Capital Goods, Insurance & Pharmaceuticals, and is underweight Consumer Staples, Energy & Materials. Exposure to Automobiles, Banks & Financials, IT, and Telecom is close to market weights. Key portfolio changes made recently are:

- Increased exposure to Insurance, Financial Services, Transportation, Utilities, etc.
- Reduced exposure in Automobiles and rationalized few small holdings

The performance of 3P India Equity Fund 1 is summarised in the adjoining table (Fig. 19). While the returns of the first year had tailwinds of strong market returns, the second year was a year of lower absolute returns.

Fund	Returns (%)		
	3PIEF-1	Nifty 50 TRI	Nifty 200 TRI
1 Year	12.3	6.7	6.4
Since Inception* (CAGR)	28.0	15.7	19.0

Source: Bloomberg, 3PIM | *Inception Date: 4th May 2023 Fig. 19
Note: Pre-tax returns, pre-management fees. Data as of March 28, 2025.

The Fund's performance has been ahead of market indices in both years. The first year's performance was supported by an underweight position in consumer staples, overweight position in capital goods, utilities and some stock specific positions.

The reduction in exposure to SMIDs, utilities, financial services and an increased exposure to select pharmaceutical names aided relative performance in the second year.

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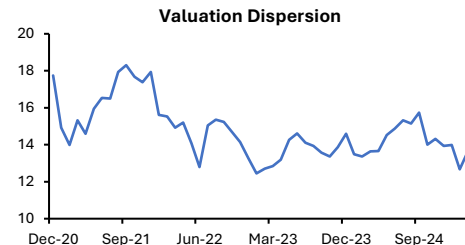
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Portfolio holdings are being maintained ~50 as dispersion in valuations is low. If and when there is meaningful undervaluation in some pockets, portfolio's diversification should reduce. Some tail holdings may also be further rationalised over time.



Source: KIE, 3PIM calculations

Fig. 20

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

Data as of 28th March 2025.

We would also like to take this opportunity to share few important developments at 3PIM :

1. Mr. Natarajan Srinivasan has joined the Board of 3PIM as an Independent Director and he was appointed as the Chairman of the Board. Mr Srinivasan has held several leadership positions the most recent being Managing Director & CEO at CG Power and Industrial Solutions Ltd. He currently serves on the boards of few companies, including Godrej Agrovet Ltd., CAMS Ltd, CG Semiconductor Ltd, etc. Mr Srinivasan's rich experience and counsel will be valuable to the company.
2. 3PIM International (IFSC) LLP, a group entity of 3PIM, domiciled in GIFT City, India, has received all clearances from the Regulator. We plan to offer a similar product to those who are desirous of participating in a USD denominated product.
3. We have engaged the services of PwC for establishing and putting in place a Cyber Security and Cyber Resilience Framework in our entity. The work is in progress.

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 ₹13,216 crores (\$1.5bn). The assets under management of 3P Investment Managers stand at ₹16,559 crores (\$1.9bn). 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.

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March 2025



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MANAGERS**

We plan to share the next Fund update around 1st week of July 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 and last day of the month (previous day if it is a non-business day). Kindly also note that the Fund's NAV is on a post-tax basis.

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

Warmly,

CIO and Fund Manager

(Prashant Jain)

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Portfolio Strategist and Co-Fund Manager

(Ashwani Kumar)

Email: ashwanik@3pim.in

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