

A Quick Update

Markets have been rangebound for nearly a year. This is a welcome consolidation after strong returns of the previous four years.

This consolidation has moderated valuations and improved the risk reward. Earnings growth expectations are also now realistic after the sedate FY25 NIFTY EPS growth of 6.5%. The consensus 3 year NIFTY EPS CAGR between Mar-25 and Mar-28 is ~11%.

The resilience of the Indian economy and equity markets in the face of multiple developments over last year have once again highlighted the low dependence of our economy on global events and the waning influence of FII flows on Indian markets.

Sustained and strong domestic flows have reduced the volatility of markets even in the face of adverse global events and FII selling.

USD bn	Q1FY25	Q2FY25	Q3FY25	Q4FY25	Q1FY26
FII Flows (USD bn)	(1.0)	10.7	(11.8)	(13.5)	5.4
DII Flows (USD bn)	15.4	12.4	22.1	21.8	19.7
NIFTY 50 Return (%)	6.9	6.9	(8.3)	(0.9)	10.2

Source: KIE, Bloomberg, 3PIM

Fig. 1

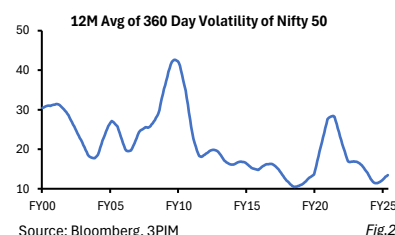


Fig. 2

July flows in mutual funds spiked sharply to INR 42,700 crores (\$ 4.8bn). This is suggestive of strong underlying liquidity and growing maturity of local investors to take advantage of corrections. Given the relatively low share of equities in both household assets and savings compared to other countries and the lower taxation of gains on equities, it is reasonable to expect these flows to not only sustain but to grow over time. **Indian capital markets are now probably in a virtuous cycle of sustained local flows leading to lower volatility which in turn is supportive of higher allocation to equities!**

In such an environment, corrections are likely to be shallow and of a short duration. The time correction of last one year should be seen in this context. In the next 1-2 quarters markets should start trading based on FY28 earnings. NIFTY is trading at 17x FY28 earnings. While this multiple is nearly 10% higher than past averages, it is reasonable given the sharp fall in volatility which lowers the cost of capital and the enhanced attractiveness of equities relative to bonds / fixed income due to change in tax laws post FY25. Even for FIIs, the sharply lower USD premium has lowered the cost of capital.

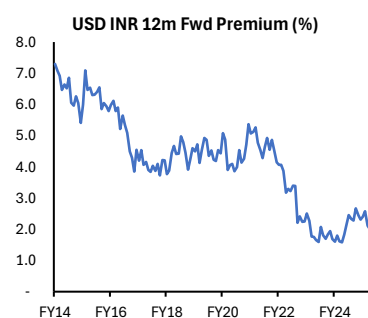


Fig. 3

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.

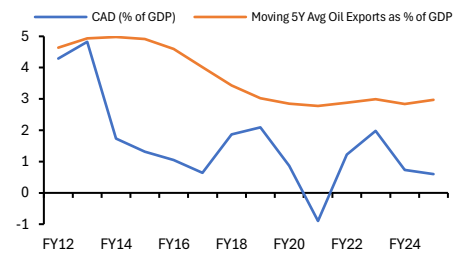
13th August 2025

The ongoing tariffs tussle that is occupying headlines should have minimal impact on Indian economy, on corporate profits and on equities. This is so because :

1. Service exports to USA are not impacted.
2. Goods exports to USA are just ~2% of India's GDP. Further only 65% of the total value of India's merchandise exports to the US (1.3% of GDP) are subject to US tariffs. Pharmaceuticals, electronics and energy have been exempted from additional tariffs.
3. Impact of tariffs will be mainly felt by textile companies, auto ancillaries, chemical companies, polished diamond exporters etc. These sectors have minimal weightage in NIFTY.

In any case, it is reasonable to expect a resolution of the tariffs issue in the foreseeable future. USA and India not only have a mutually beneficial long-standing relationship but also share similar values that gives resilience to this relationship.

Additionally, a sustained rise in service exports & remittances and the lower oil intensity of Indian economy have sharply lowered the Current Account Deficit (CAD). This has made the Indian economy more resilient to any disruption in external capital flows.



Source: RBI, 3PIM

Fig.4

To conclude, given the reasonable time correction in the markets, the resilience and strong growth prospects of Indian economy and strong domestic flows to equities, present markets offer a reasonable opportunity for long term investors. Return expectations from markets however have to be realistic and should be anchored around nominal GDP CAGR (~12% CAGR) over the long term.

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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