

### **Sohum India Opportunities Fund: Investor Update Newsletter, June 2025**

It is interval time – the halfway mark to 2025. When you step back and take a non-emotional deep breath and look at the reality of where we are today versus six months ago, it will seem that the financial world today is just fine. In fact, if you just took an “off-the-grid” delightful six-month sabbatical and just looked at the beginning and mid-year financial snapshots of 2025, one could easily conclude that they missed very little. This is because, point to point, it looks like a very comfortable 1H. The US markets are up 7% YTD, Nifty is up 8%, India 10-year G-sec yield is down by ~50bps and the INR is at exactly the same level versus the USD as it was at the start of 2025.

However, those who have lived through the last 6 months in the market would vouch for this - ***“Statistics hide more than they reveal”***. It has been one of the most turbulent times for investors across the globe. To describe this period, many investors would use words like - frustrating, confusing, unpredictable, derailing, slow, surprising, and downright crappy. The themes or concepts that drove much of this period were:

1. Trump’s liberation day tariffs and potential supply chain confusion
2. DOGE, inflation uncertainty, interest rate confusion, deficit concern – resulting in unprecedented decoupling in US\$ and stubborn US bond yields
3. Three wars – India Pakistan, Gulf War and intensification of Russia Ukraine war with broad implications for everything from world order to oil prices

The environment was very new and almost all the so called “experts” had to eat the humble pie as the turn of events was way too fast. However, in the end, global markets climbed all walls of worries and are now standing at all-time highs (ATH). For instance, on April 8, the S&P 500 was down 15% in 2025, marking the fourth worst start to a year in history. However, it is now up over 7% YTD (a rally of 30% from its lows). Two important lessons one can learn from the events of the past six months are:

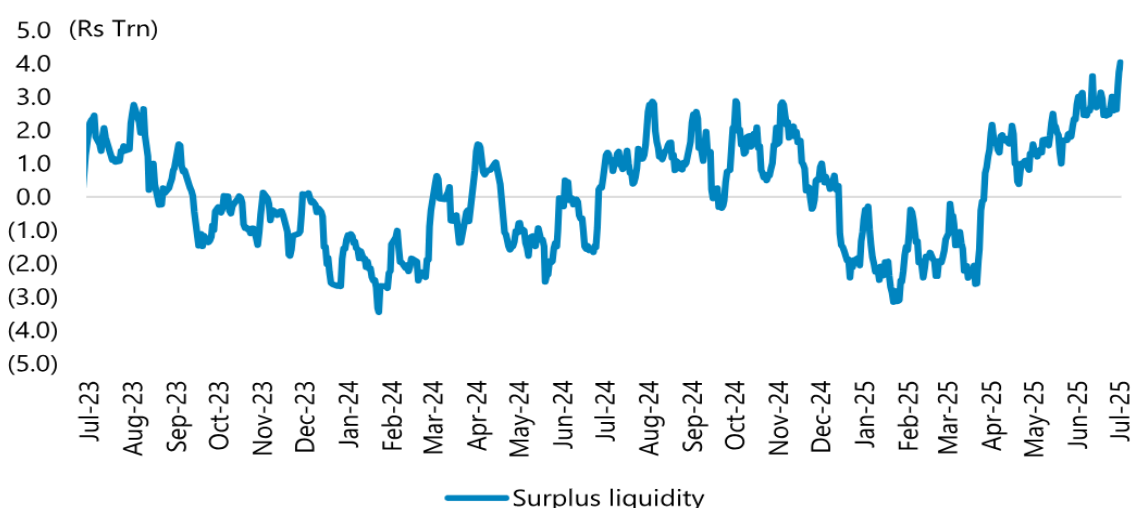
1. It is easy to let emotions, particularly when it comes to politics and policy, roil the markets in the short term, but eventually common sense and reality win out. There does seem to be an “invisible hand” that pushes our system away from the extremes, even when all momentum appears to be on one side. The most difficult part might be maintaining calmness and perspective in moments when it feels like the roller coaster is getting worse or never ending.
2. It is virtually impossible to be a short-term investor, trader, or builder of a company. There is just too much noise, and the swings are too extreme. One therefore needs a temperament that prioritizes long-term success while always maintaining the proper sense of urgency, and a consistent long-term strategy that will not only outlive short-term shocks but will result in creating a durable, important, profitable, and purposeful long-term outcome.

One of the reasons why equity markets have relaxed over the past couple of months is the expectation that tariffs will ultimately settle much lower, as reflected in the UK and China “deals”. Specifically, where the cause of economic risk is known, a peak in that pressure has often been enough to spark market relief before the worst of the economic outcomes are seen. Also, lower tariffs mean that recession risks have now compressed, and the US and world economy at large is likely moving towards a more certain path of sluggish but non-recessionary growth. Cracks in the US\$ have also helped EM

equities (since it gives central banks more room to ease monetary policy) with the MSCI EM index up 15% YTD. Indian equities too have moved higher (although it has underperformed its EM counterparts), despite large FII selling and soft earnings. A standout feature of the Indian economy in 1HCH25 has been policymakers doing *“whatever it takes”* to revive growth. In this regard, the RBI response has been particularly noteworthy. Under the new Governor, Mr. Sanjay Malhotra, the RBI in the last six months has done the following:

1. Delivered 100bps of repo rate cuts
2. Cumulative staggered reduction of 150bp in the Cash Reserve Ratio (CRR)
3. OMO purchases worth Rs.5 trillion, resulting in banking system liquidity moving from net deficit of Rs.3 trillion in Jan-25 to net surplus of Rs.4.4 trillion in Jun-25. This is the highest surplus post Covid.
4. Easing of regulation for the financial sector in the form of:
  - a. Reduction in risk weights for MFI and NBFC loans
  - b. Dilution of draft LCR norms
  - c. Dilution of draft project finance norms
  - d. Expanding coverage of Priority Sector Loans (PSL) for Scheduled Commercial Banks
  - e. Reduction in PSL requirements of Small Finance Banks (SFBs) from 75% to 60%
  - f. Reducing qualifying asset threshold for NBFC-MFIs to 60% from 75%
  - g. Increase in LTV (including interest) for gold loans (<Rs.2.5 lakhs) from 75% to 85%

**Chart 1: Banking system liquidity is at a surplus of Rs.4 trillion**



Source: RBI

The central government too has undertaken few confidence building measures like income tax cuts to the tune of Rs.1 trillion. The government has also received a record Rs.2.7 trillion in RBI dividend, which will find its way into the economy through the course of the year. Moreover, after a prolonged uncharacteristic slack in capex in 9MFY25, the government has once again embarked on big capital spends (Rs.2.4 trillion in Mar'25 was a record), with the past five months' (Jan-May'25) capital spending growing at 41% YoY vs. 2% YoY in 9MFY25.

Overall, supportive monetary and fiscal policy along with financial stability has led to a strong rebound in Indian markets (in line with global markets) despite economic recovery remaining slow and uneven. Bank balance sheets are in better shape than, probably, in any time in history – in terms of low NPAs and high CRARs. Corporate balance sheets are similarly strong, with near-decadal lows in leverage. Add low deficits – fiscal and external – and we have a fortress balance sheet for India. This stands out in a period when several other countries are experiencing rising fiscal deficits.

Overall, our equity markets seem to be looking past earnings downgrades and has set hopes for better growth in 2H led by monetary policy transmission, income tax cuts and good monsoon. After delivering 5% earnings growth in FY25, we expect NIFTY EPS of Rs.1150/Rs.1300 for FY26/FY27 which translates into 14% growth for each year. Based on the above, Nifty (@25,450) is trading at 1-year forward P/E of 21.5x which is higher than its 5-year average of 20x (the enhanced stability warrants a higher multiple for India, which is why we use 5-year, post-Covid histories for most of our analysis). Further, the gap between bond yield (6.3%) and earnings yield (4.7%) is currently at 160bps vs. historical average of 180bps suggesting that equities are fairly valued.

Overall, we remain constructive on Indian equities given an environment of improving corporate earnings growth, low interest rates, ample liquidity and financial stability. While corporate earnings growth has been weak in FY25 and is expected to remain in single digit in H1FY26, it should recover gradually from H2FY26. The current multiples, however, leave little room for further rerating. Return expectations should therefore be reset to low double digits in line with nominal GDP growth over the long-term. ***In the near term, we feel there could be both time correction and price correction of 3-5% which would be a good entry point.***

### **Portfolio Composition & Performance**

In terms of our portfolio positioning, we remain tilted towards domestic themes, driven by expectations of a domestic recovery. Our portfolio broadly reflects our preference for growth visibility and domestically focused plays in a challenging global environment. As we anticipate a gradual recovery in earnings by FY26, we have marginally raised our weights in mid- and small-cap stocks. We are over-weight BFSI, capital goods, construction material, power and utilities, telecom, real estate and logistics while we are under-weight IT, oil and gas and consumer sector.

### **Performance Table of Sohum India Opportunities Fund (SIOF)–AIF (20<sup>th</sup> May,2022 till 30<sup>th</sup> June,2025)**

	Nifty 50 TRI	Pre Tax NAV* (SIOF)	Outperformance
Since Inception (Absolute Return)	63.14%	89.88%	26.74%
Since Inception (CAGR)	17.00%	22.83%	5.84%

*\*Sohum India Opportunities Fund Pre-tax post fee NAV for direct option (average large cap holding of 78%)*

Overall, ***our portfolio companies across all segments large, mid and small cap are well poised to deliver industry-leading earnings growth (Portfolio companies' earnings growth at 16.4% over FY25-27, with PE of 19.0x on FY26 & 15.9x on FY27 at 25,450 Nifty and ROE at 16.3%) and we anticipate the same to translate into benchmark outperformance in the near to medium term.*** As we complete three years, we are truly thankful to all our investors who have stayed with us and backed us in our journey. Our long-term focus, disciplined approach and complete alignment of interests provides resilience to this partnership. We believe this is just the start and we remain excited about the opportunities in the coming years with focus on delivering super value and performance to our unit holders.

Warm Regards,

Sanjay H Parekh