Sohum India Opportunities Fund: Investor Update Newsletter, June 2026

A year ago, in our June 2025 letter, we highlighted how a series of geopolitical developments—including President Trump's Liberation Day tariffs, the India–Pakistan conflict, and the Iran–Israel tensions—disrupted the global order and contributed to heightened volatility in equity markets during 1HCY26. 1HCY27 saw the outbreak of the most consequential of these conflicts – the US-Israel-Iran confrontation that erupted in February 2026 and closed the Strait of Hormuz for weeks, sending crude oil to above $110 briefly. The Memorandum, signed by the US and Iranian presidents on 17th June 2026, brought a ceasefire to the war that has broadly held, shipping through Hormuz has almost normalised, and crude oil has round tripped all the way back to pre-war levels. This is the single biggest swing factor for India this quarter.

The War Is Over: Crude Cools Off, BOP Gets a Breather

Brent crude has retreated to around US$68–70/bbl after briefly spiking above US$110 during the conflict, as oil exports from the Gulf have largely normalised. For India, which imports nearly 90% of its crude requirements, this significantly reduces risks to the import bill, inflation outlook and currency stability heading into 2HFY27.

India's balance of payments, March fiscal year-ends, 2019-27E (US$ bn)

	FY19	FY20	FY21	FY22	FY23	FY24	FY25	FY26	FY27 E Oil@ 85	FY27 E Oil@ 95	FY27 E Oil@ 105
Current account balance	**-57.3**	**-24.7**	**23.9**	**-38.8**	**-67.1**	**-26.1**	**-23.1**	**-25.4**	**-71.4**	**-89.7**	**-107.9**
CAB/GDP (%)	**-2.1**	**-0.9**	**0.9**	**-1.2**	**-2.1**	**-0.7**	**-0.6**	**-0.6**	**-1.8**	**-2.2**	**-2.7**
Trade balance	-180	-158	-102	-189	-265	-245	-287	-337	-389	-407	-425
Trade balance/GDP (%)	**-6.7**	**-5.6**	**-3.8**	**-6**	**-8.2**	**-7**	**-7.6**	**-8.6**	**-9.6**	**-10.1**	**-10.6**
- Exports	**337**	**320**	**296**	**429**	**456**	**441**	**442**	**446**	**450**	**456**	**462**
Imports	**518**	**478**	**398**	**619**	**721**	**686**	**729**	**783**	**839**	**863**	**887**
Capital account	**54**	**83**	**64**	**86**	**59**	**90**	**17**	**2**	**91**	**91**	**101**
Capital account/GDP (%)	2	2.9	2.4	2.7	1.8	2.4	0.4	0	2.3	2.3	2.5
Foreign investment	**30**	**44**	**80**	**22**	**23**	**54**	**5**	**-9**	**-9**	**-9**	**1**
- FDI	**31**	**43**	**44**	**-39**	**28**	**10**	**1**	**7**	**6**	**6**	**6**
- FPI	**-1**	**1**	**36**	**-17**	**-5**	**44**	**4**	**-16**	**-15**	**-15**	**-5**
Overall balance	**-3.3**	**59.5**	**87.3**	**47.5**	**-9.1**	**63.7**	**-5**	**-23.6**	**19.6**	**1.3**	**-6.9**

Source: Kotak Estimates

India's merchandise trade deficit stood at US$28.38bn in April 2026 and US$28.21bn in May 2026, remaining elevated as a broad surge in imports (led by higher gold and crude prices) outweighed a healthy rebound in exports.

With the war now behind us and oil normalised, we expect the trade deficit to narrow through 2HFY27 and combined with the RBI's aggressive capital-account measures (detailed below), we think the BOP could swing back towards balance, over the coming two-to-three quarters – a meaningful positive for the currency and for imported inflation.

RBI's Proactive Playbook to stabilize INR

Governor Sanjay Malhotra's RBI has run an unusually active 18 months. On the conventional policy side, the MPC delivered a cumulative 125bps of repo rate cuts between February and December 2025 (6.50% → 5.25%), accompanied by a 100bps cut in the Cash Reserve Ratio (4.0% → 3.0%, phased over Sep-Dec 2025) that released roughly Rs2.5tn of durable liquidity. Since December 2025 the repo rate has been held steady at 5.25% under a neutral stance, as the RBI assessed the lagged impact of transmission and kept an eye on the West Asia-driven inflation risk.

The more interesting development this quarter has been on the external/capital-account side. Facing the BOP deficit and reserve drawdown described above, the RBI unveiled a package in early June 2026 that is modelled on the 2013 Raghuram Rajan-era FCNR(B) swap window that helped India through the taper tantrum and is designed to aggressively attract US dollar inflows, stabilize the rupee, and replenish India's foreign exchange reserves. The key elements:

- A special US Dollar-Rupee swap facility under which the RBI will bear the entire FX hedging cost for banks raising fresh FCNR(B) deposits of 3–5-year tenor, mobilised between 8th June and 30th September 2026.
- Temporary withdrawal of the interest rate ceiling on fresh FCNR(B) deposits (3-5yr) and on NRE deposits of 3yr+ tenor, till 30th September 2026 – banks have responded immediately, with FCNR(B) rates jumping from ~3.5-4% to 6-7.1% across major private and small finance banks.
- A concessional FX swap facility (at a fixed 1.5% p.a.) to incentivise ECBs/overseas borrowings by PSUs and banks.
- Exemption of these special FCNR(B) deposits from CRR/SLR requirements, letting banks deploy 100% of funds raised.

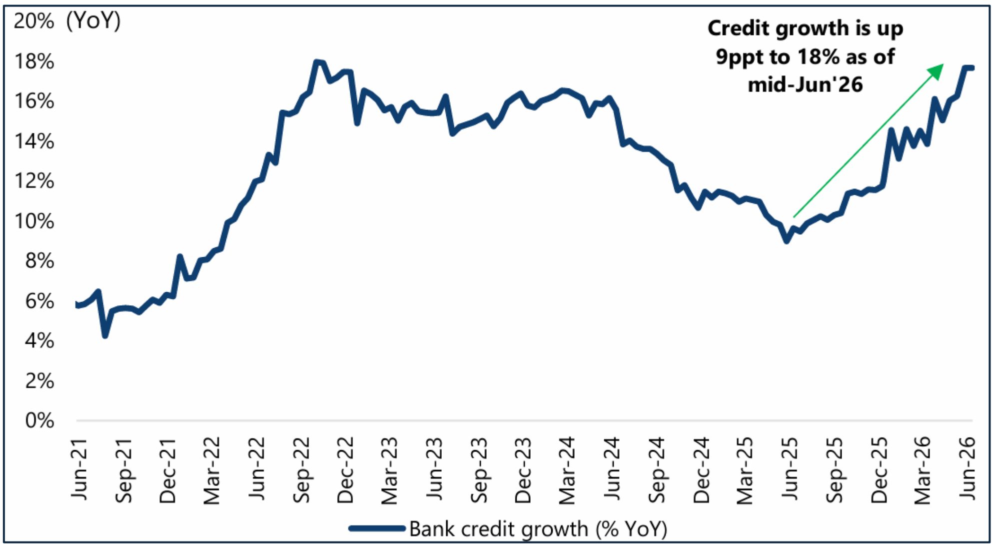
Estimates converge around US$40-60bn of potential inflows through this route over the window. If flows materialise anywhere close to these estimates, several brokerages now believe the FY27 BOP could swing to a surplus, which would be a tailwind for the rupee and for banking system liquidity/deposit growth simultaneously. The package is showing immediate traction. Bank treasury desks reported that commercial banks collectively booked over US$7 billion in fresh FCNR-B deposits in less than two weeks.

Separately, the Finance Ministry also implemented removal of capital gains tax and tax on interest income on specified government securities for eligible foreign investors, wef from 1st April 2026 – a structural, long-term reform that also improves India's case for inclusion in global bond indices. This should help deepen India's bond market, diversify the investor base, attract stable long-term foreign capital, and strengthen the debt market.

1QFY27 so far: Resilience Intact, Banking Asset Quality Should Surprise Positively

Despite the geopolitical overhang through much of the quarter, we expect India Inc and the broader economy to have navigated 1QFY27 resiliently. For financials specifically, we see three threads worth highlighting for the quarter:

Loan growth:



We expect ~18% loan growth in 1QFY27—a healthy outcome despite a temporary dip in banker sentiment during the quarter amid the West Asia conflict. With the conflict now behind us, demand conditions are expected to improve, and bankers remain optimistic about credit growth in range of 16-17%.

Net Interest Margins: NIMs compressed modestly in 4QFY26 (system NIM down ~5bps QoQ, PSU banks -6bps, private banks -3bps, with SFBs/regional banks actually +24bps on richer gold-loan mix) as policy rate cuts flowed through to asset yields faster than funding costs. While a sharp rebound is unlikely in 1QFY27, easing deposit costs, a stable repo rate, and improving system liquidity should support margins. We expect NIMs to bottom out around current levels and gradually improve through FY27.

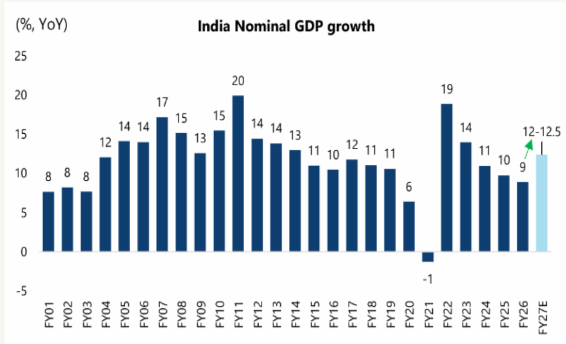
Large Ticket Deals Underscore a Broader FDI Revival

Two marquee transactions this quarter highlight that long-duration foreign capital remains committed to India, albeit with greater selectivity. Adani Enterprises signed a US$11.5bn 50:50 JV with Abu Dhabi-based International Resources Holding to develop an integrated aluminium project in Odisha—the largest FDI proposal in India's mining and metallurgy sector. Separately, Mediterranean Shipping Company invested US$1.4bn for a 49% stake in Adani Ports' Vizhinjam transhipment port, marking the largest foreign investment in India's shipping sector and supporting a significant capacity expansion by 2028.

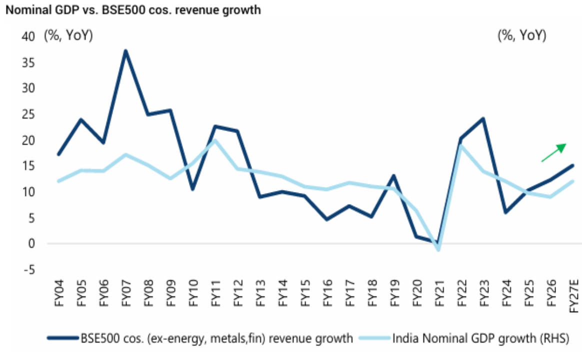
These transactions reinforce our BOP thesis: while portfolio flows have remained volatile, strategic FDI continues to flow into India's infrastructure and manufacturing sectors. Alongside FCNR-led inflows, such investments should help strengthen India's capital account and improve external balances over FY27.

High WPI, High Nominal GDP: A Setup That Could Surprise Earnings Positively

WPI inflation rose sharply to 9.68% YoY in May 2026, led by higher fuel, power and manufactured product prices. While elevated wholesale inflation may appear concerning, we view it constructively for equities as producer prices are closely linked to nominal GDP and corporate earnings growth. As the crude-driven shock fades, stronger pricing power could support earnings growth even if volume growth remains moderate.



Source: MoSPI, Jefferies



Source: Ace Equity, Bloomberg, MoSPI, Jefferies. Estimates are bloomberg consensus

We expect Nifty earnings to grow from 1,050 in FY26 to 1,200 in FY27 and 1,400 in FY28, implying a healthy ~15.5% CAGR over FY26–28. As of 1QFY27 (~23,866), Nifty is trading at 19.9x FY27 earnings and 17.0x FY28 earnings, implying earnings yields of approximately 5.0% and 5.9%, respectively. Against the 10-year GOI bond yield of ~6.7%, this translates into an earnings yield gap of roughly 170bps on FY27 and 80bps on FY28, making the forward risk-reward attractive from an FY28 perspective. With the Nifty still trading meaningfully below its January 2026 all-time high (~26,373) after the correction triggered by the West Asia conflict and global tariff uncertainty, we see risk return to be extremely favourable.

Portfolio Statistics

As on 30-06-2026	Nifty 50 - 23866	SIOF - AIF
EPS Growth [FY25/27] CAGR	8.8%	16.0%
EPS Growth [FY26/28] CAGR	14.5%	20.0%
P/E [FY26]	22.3x	20.8x
P/E [FY27]	**19.9x**	**17.3x**
P/E [FY28]	**17.0x**	**14.7x**
P/B [FY27 / FY28] Avg	**2.66x**	**2.20x**
ROE [FY27 / FY28] Avg	**14.4%**	**17.0%**

Monsoon update: From deficit to recovery

The monsoon's recovery is emerging as a key positive on our radar. Following a prolonged lull through June, the southwest monsoon has entered an active phase, narrowing the all-India cumulative rainfall deficit to about 24% as on July 5, from nearly 40% just a week ago. Kharif sowing, down nearly 22% versus last year through end-June amid the monsoon's near-absence across West and Central India, should see meaningful catch-up through July as this active spell holds. Reservoir levels, at 26% of capacity versus 36% a year ago, remain comfortable. Most weathermen expect the current active phase – driven by favourable conditions over the Bay of

Bengal – to continue until mid-July, aiding further recovery in sowing and narrowing the seasonal deficit. We will continue monitoring rainfall trends through August and September before revising our constructive stance on rural demand and food inflation.

Portfolio Composition & Performance

Overall, as of 31st March 2026, our flagship Sohum India Opportunities Fund has in the last one year, gained 4.83% (pre-tax) against a backdrop where the Nifty 50 declined 6.47% and the Nifty 50 TRI fell 5.42%. Since our inception (20th May 2022), we have delivered 99.06% returns (an outperformance of 44.76% over Nifty TRI) with average large cap holding of 78% and consequently much lower risk.

Our portfolio remains firmly tilted towards domestically-oriented themes – Capital goods, Auto OEM & Auto ancillary, power and utilities, telecom, real estate and logistics remain our largest overweight, while we stay underweight IT, oil & gas and consumer. We are Neutral on BFSI; however, we will increase our weight selectively. In this environment, we have increased our allocation to large-cap market leaders, favouring businesses with strong competitive positions, resilient earnings profiles, and the ability to navigate periods of macroeconomic uncertainty. This positioning, combined with our large-cap tilt, helped cushion the portfolio through the volatility of the past two quarters: even as the Nifty remains meaningfully below its January 2026 peak following the West Asia-driven correction, our NAV (Rs19.9056 pre-tax) is marginally higher than where it stood in January 2026 (Rs19.5473), underscoring the resilience of our stock selection and sector positioning through a genuinely difficult macro window.

Performance Table of Sohum India Opportunities Fund (SIOF) – AIF (20th May 2022 till 30th June 2026)	Nifty 50 TRI	Pre-Tax NAV* (SIOF - AIF)	Outperformance
Since Inception (Absolute Return)	54.30%	99.06%	44.76%
Since Inception (CAGR)	11.11%	18.20%	7.09%

**Sohum India Opportunities Fund Pre-tax post fee NAV*

Draw down in recent fall since Jan 2026

Date	Nifty 50	Nifty 50 TRI	Post Tax NAV	Pre Tax NAV
31-12-2025	26,130	39,334	18.82	20.07
30-06-2026	23,866	36,146	18.84	19.91
Difference (%)	**-8.7%**	**-8.1%**	**0.1%**	**-0.8%**

As the geopolitical overhang of the past year lifts and India's macro setup – easing crude, a proactive RBI defending the currency and capital account, resilient credit growth and asset quality, and a favourable nominal-GDP-led earnings backdrop – comes into sharper focus, we remain constructive on our domestically-oriented, large-cap-anchored portfolio. The monsoon bears close watching over the next two months, but our base case remains one of gradually improving earnings visibility through FY27. Risk return is now extremely favourable in Equities, and we recommend increase exposure to equities.

We thank our investors for their continued trust and partnership.

Warm Regards
Sanjay H Parekh