K3 Domestic AIF: Newsletter for Aug 2025

August 2025 will likely be remembered as a pivotal month when a seemingly stable relationship between two of the world's largest democracies came under strain due to tariff-related tensions. US's abrupt move to raise tariffs on India —shifting from one of the lowest global tariff brackets to a significantly higher 50% slab injected fresh volatility and unpredictability into an already turbulent year for Indian markets.

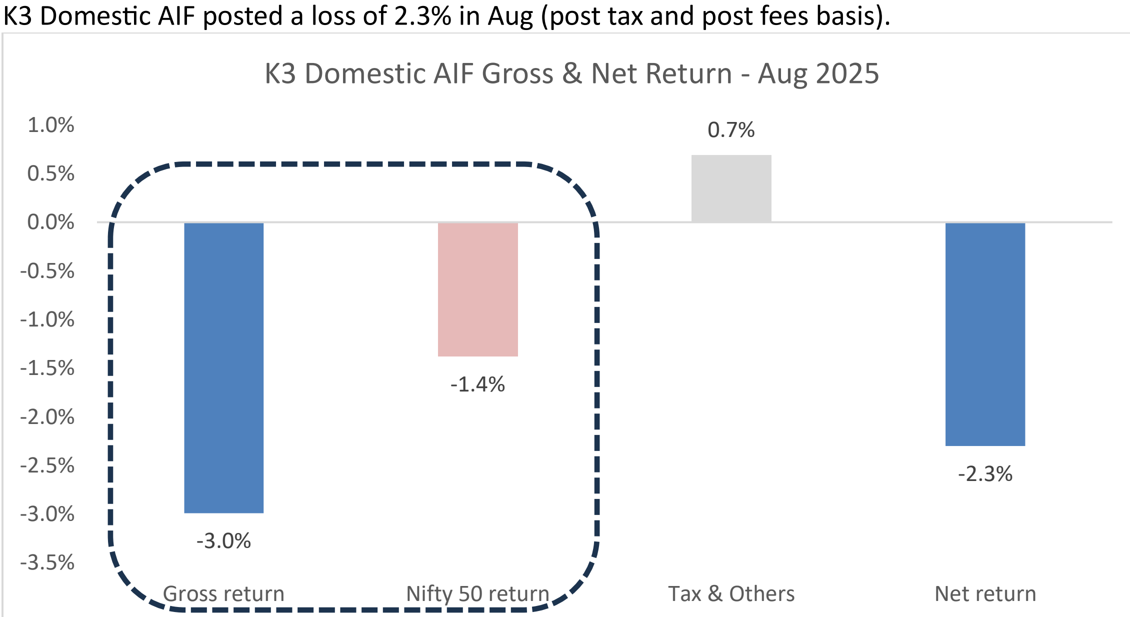
What stood out, however, was the Indian government's composed and strategic response. Rather than escalating tensions, it stayed the course on trade negotiations, reaffirmed ties with long-standing partners like Russia, and extended diplomatic overtures toward China—demonstrating a balanced foreign policy stance amid mounting pressures.

On the economic front, the government acted swiftly. Targeted indirect tax cuts were rolled out to boost consumer demand, while specific support measures were initiated for exporters to help offset the impact of global headwinds. These steps reflect a clear intent to stabilize the macro environment and keep the growth engines running.

While we view these measures as positive for India's long-term growth and market trajectory, they have near-term implications—particularly on foreign capital flows, which have remained soft year-to-date. This, in turn, weighed on broader market sentiment.

After a relatively strong run over the previous three months, K3 Funds AIF experienced a modest pullback in August, underperforming the benchmark Nifty index. The recent volatility underscores the challenges of navigating a complex and rapidly evolving global landscape. Nonetheless, we remain focused on our investment strategy, grounded in fundamentals and driven by our investment return goals.

K3 Domestic AIF posted a loss of 2.3% in Aug (post tax and post fees basis).



Return Comparison

Month	K3 AIF Pre Tax Return	Nifty 50
April	0.6%	3.5%
May	3.1%	1.7%
June	5.2%	3.1%
July	-1.4%	-2.9%
Aug	-3.0%	-1.4%
Total	**4.4%**	**3.9%**

Performance Review - K3 Domestic Alternate Investment Fund

As of Aug end, we were at **121%** gross and **38%** net exposure for the fund. We have cut down gross and net from previous months given the weak performance and for risk management reasons; however, continue to favor midcaps in the portfolio.

K3 Domestic AIF: Portfolio Breakup (based on market cap)

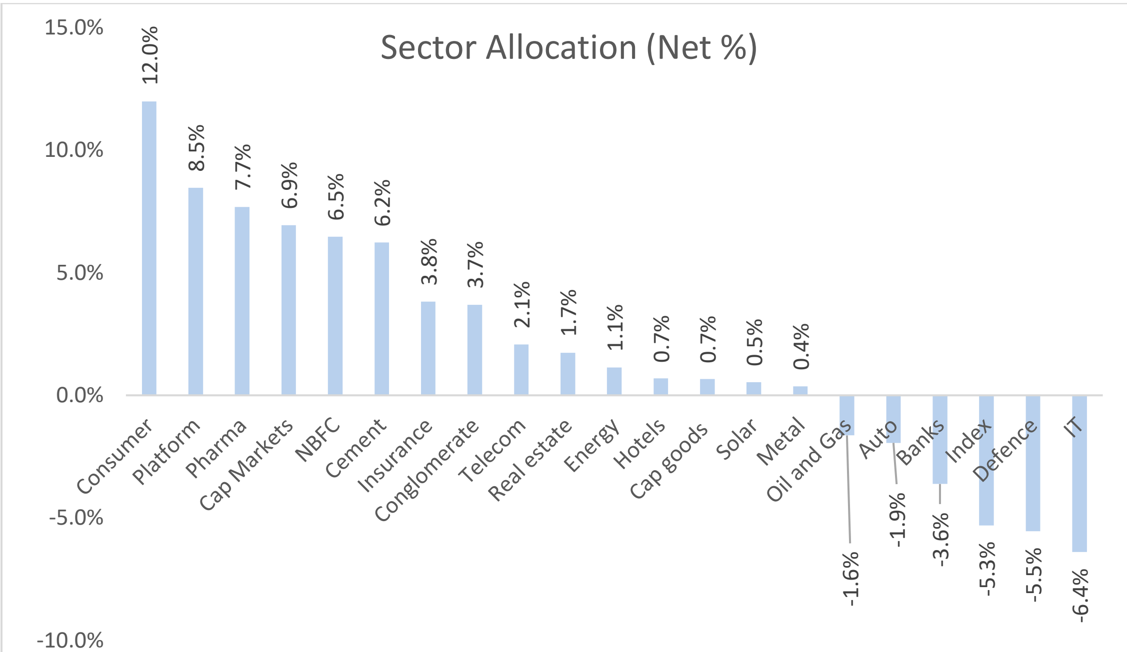
Category	Long	Short	Gross	Net
Large	31.3%	28.2%	59.5%	3.1%
Mid & Small	48.2%	13.1%	61.3%	35.1%
Total	**79.5%**	**41.4%**	**120.8%**	**38.1%**

K3 Domestic AIF: Longs vs Shorts

P/E and Growth, F2027e

Particulars	Wtd. Avg. EPS Growth %	Wtd. Avg. PE
Long portfolio	28.1%	23.6
Short portfolio	17.0%	24.2

K3 Domestic AIF: Sector Allocation (net positions in each sector based on actual positions as of Aug end)



In August, our fund got hit more on account of our higher exposure to midcaps and some hedges not behaving well even in the large cap universe. The biggest loss-making sectors were NBFCs and capital markets. On NBFCs we remain constructive on the large names, while we have reduced exposure to capital market names given the expectations on big changes in the availability of futures & options on Indian exchanges. We believe government is doing the right thing by banning online gaming as well as potentially short-term derivatives (weekly contracts) and it won't change the structural story in Indian capital market plays. Portfolio did well on its shift to consumption stocks (autos, hotels, platform stocks, etc.).

View on market

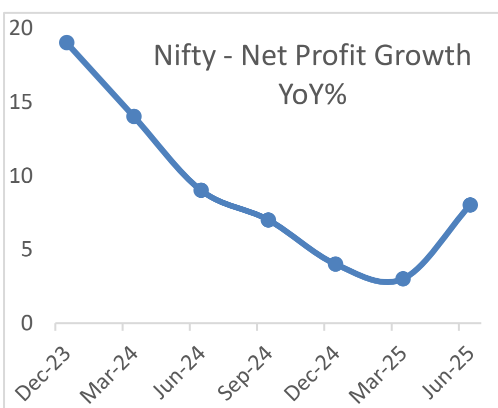
Our view remains unchanged – we remain constructive on fundamentals (both micro and macro) given all the building blocks are in place as we highlighted in our July monthly, namely -

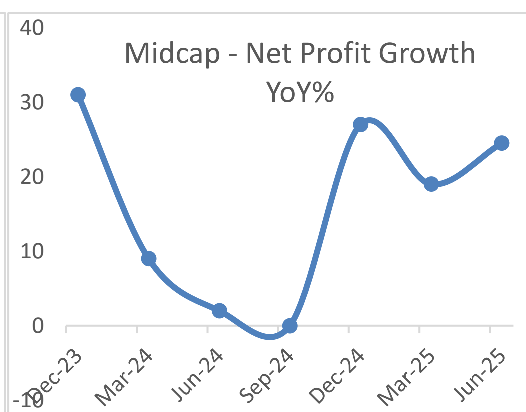
LIQUDITY REMAINS BENIGN

1. **Domestic liquidity remains benign -** With the GST cuts – inflation is expected to further moderate, thereby giving RBI further room to cut rates (expectations of further 50bps rate cuts by Mar26 building up and given the current regulator's view to upfront all the macro boosters to the economy, we believe it will happen sooner rather than later.
2. **Finally, the US rate cuts are on the horizon,** which means the market should start pricing this. With most global markets at or close to lifetime highs, India could see some reversal from outflows to Inflows. As per Bloomberg data, there is high probability of further 3 rate cuts in 2025 calendar year.

FUNDAMENTALS – NO NEGATIVES

1. **Domestic consumption push adds to corporate India's earnings growth** – indirect tax cuts should add to volume and earnings growth.
2. **In all likelihood, we may have already witnessed the worst of the Trump-era tariff escalation.** While no one can predict the future with certainty, India is now placed at the highest tariff slab, and the actual economic impact so far has been manageable, with minimal disruption to overall growth (hit to GDP is expected to be less even with punitive 50% tariffs sustaining without any changes)
3. **June quarter earnings were not bad** and mostly inline to better. Forward earning downward revisions have stalled as well.





Note: MOFSL Midcap universe taken for Midcap Net profit growth
Source: Motilal Oswal Financial Services Research

RELATIVE PERFORMANCE AND FLOWS

If it was just liquidity and fundamentals, we would have been more constructive after the time correction of last 12-15months; however, we need to be cognizant of the global equities' performance, valuations and flows. India has underperformed sharply in last 12 months, thereby correcting some excesses built in valuations and positioning. While it's not cheap on valuations, in a world with more growth uncertainty on account of tariffs etc., the certainty on growth should start having positive impact on the Indian markets. Nevertheless, this is the missing piece which is holding Indian equities and resulting in sharp underperformance on a relative basis.

1. **India has underperformed on a relative basis** – Especially if one looks at last 2months (souring of India-US trade relations).

Performance Comparison of Major World Indices

INDICES	July & Aug	YTD	1 Year
INDIA - NIFTY 50	-4.3%	5.7%	-1.5%
INDIA – NIFTY MIDCAP	-6.8%	1.5%	-1.5%
US - S&P 500	4.1%	11.1%	16.7%
JAPAN - NIKKEI	4.5%	11.4%	20.6%
CHINA - HSCEI	3.1%	27.0%	53.9%
MSCI WORLD	3.8%	13.9%	16.9%
MSCI EM	3.4%	23.2%	20.9%

Source: Bloomberg; Price data is as of 11th Sept

2. **Domestic inflows in equities continue**; however not sufficient to take care of foreign outflows as well as new issuances or promoter/PE funds sell-downs.

FII & DII: Net Cash Inflow/Outflow Comparison

FII selling has intensified again in July & August

US$ Mn	FII	DII
Oct-24	-13625	12768
Nov-24	-5441	5264
Dec-24	-1998	4023
Jan-25	-10101	10011
Feb-25	-6780	7454
Mar-25	233	4345
Apr-25	320	3302
May-25	1377	7911
Jun-25	871	8450
Jul-25	-5543	7086
Aug-25	-5342	10801

Source: Moneycontrol

K3 Domestic AIF – Key Themes

Financials - updating our view

There was some pullback in NBFCs stocks in July and August month especially after strong performance in the June quarter. Now that Indian government is trying to revive consumption and we are heading towards more rate cuts, we believe it's time to be bullish on the sector, albeit selectively. These stocks are trading at attractive valuations and hence it makes sense to buy and hold these stocks where earnings will fully normalize in F2027e.

India Financials – Comparative Table

Scrip	Price	F2026 - EPS	F2027 - EPS	EPS Growth FY27	F2027 - PE	PEG Ratio	Stock Perf (Apr-Jun)	Stock Perf (July-Aug)
Spandana	263	5.4	28.4	426%	9.3	0.02	19%	-8%
Fusion	180	10.6	20.7	95%	8.7	0.09	46%	-14%
IDFC First	73	3.1	5.9	90%	12.4	0.14	33%	-7%
RBL	272	17.6	28.2	60%	9.7	0.16	43%	5%
Credag	1307	75.6	114.6	52%	11.4	0.22	27%	16%
Poonawala	441	15.2	25.4	67%	17.3	0.26	33%	-7%
Capital SFB	294	31.8	38.9	22%	7.6	0.34	13%	-1%
AU SFB	710	34.2	48.1	41%	14.8	0.36	53%	-12%
SHFL	620	49.2	60.3	22%	10.3	0.46	8%	-18%
AB Cap	292	14.6	19.0	30%	15.3	0.51	50%	0%
SBI Card	857	25.7	35.4	38%	24.2	0.64	8%	-16%
Muthoot	2878	170.7	204.0	19%	14.1	0.72	10%	1%
LTF	234	11.4	13.7	20%	17.1	0.85	34%	5%
SBFC	107	4.0	5.0	25%	21.4	0.86	27%	-6%
Chola	1512	61.4	74.8	22%	20.2	0.92	7%	-13%
BAF	972	33.9	42.0	24%	23.1	0.96	5%	-6%

Source: Bloomberg, K3 estimates; Price data is as of 11th Sept

Thank you for being a part of K3 Funds.

K3 team