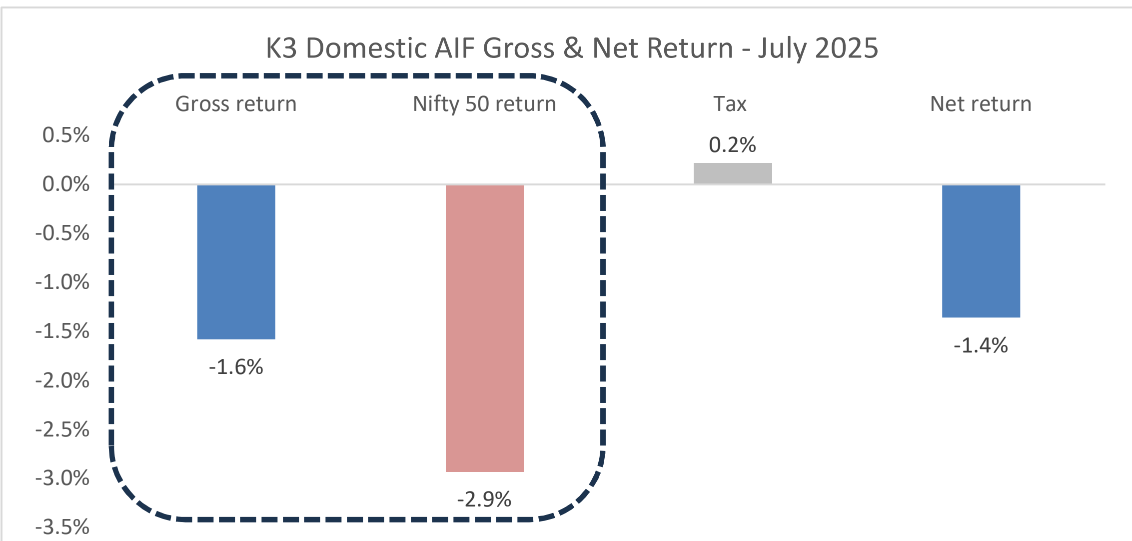
# K3 Domestic AIF: Newsletter for July 2025

2025 continues to be a year marked by one or the other geopolitical event that has roiled the markets. After India-Pakistan in May and Iran-Isreal conflict in June, there was an expectation that we may have few peaceful weeks till the tariff deadlines come back to haunt. However, for India, last few months have seen big shift in India-US relations, which finally manifested in US President Trump imposing 50% tariffs on India – this marks a big change from India being a close ally and potentially a beneficiary of tariff related actions on China to a country with maximum potential tariffs.

If one adds results season to this mix then the outcome is a lacklustre broader market in India. As we pointed out, most Indian companies' stocks are supported by a story that earnings would pick up in next 4-6 quarters and hence "current quarterly earnings report come in the way of that story", thereby resulting in underperformance during results months.

Indian markets went down in July (Nifty was down 2.9% in July). K3 Domestic AIF too posted a loss of 1.4% in July (post tax and post fees basis).




**Performance Review - K3 Domestic Alternate Investment Fund**

As of July, we were at **137%** gross and **63%** net exposure for the fund.

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

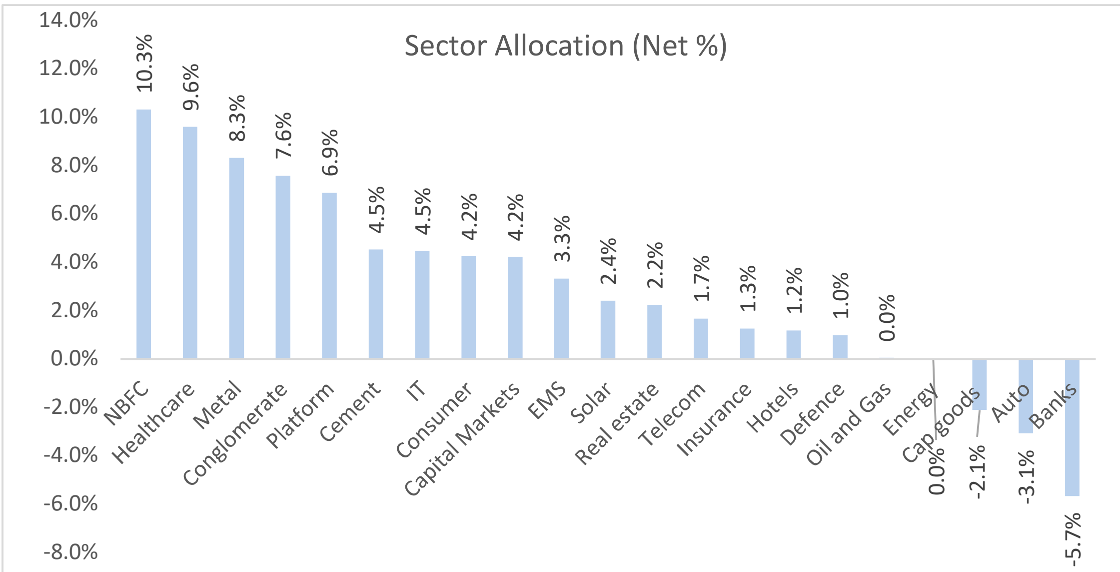
| Category | Long | Short | Gross | Net |
|---|---|---|---|---|
| Large | 41.6% | 21.6% | 63.2% | 19.9% |
| Mid & Small | 58.2% | 15.4% | 73.6% | 42.9% |
| **Total** | **99.8%** | **37.0%** | **136.8%** | **62.8%** |

**K3 Domestic AIF: Longs vs Shorts**

**P/E and Growth, F2027e**

| Particulars | Wtd. Avg. EPS Growth % | Wtd. Avg. PE |
|---|---|---|
| Long portfolio | 28.2% | 23.6 |
| Short portfolio | 13.6% | 24.2 |

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




In July, we got hit on our long exposure to NBFCs (though partly mitigated by short exposure in banks). We were positioned in favor of NBFCs which got impacted as one large NBFC raised caution on SME credit quality. Also, the results for June qtr were not exciting (something which was expected though). We discuss our current views later in the monthly. We were also slow in reducing our Defence sector longs and lost some money there. Our positions in platform stocks (Eternal and Swiggy), did well contributing to performance. From here on, we are long consumption stocks (platform stocks, traditional FMCG companies, diagnostics, etc.) hoping for a revival in consumer sentiment and spending (we discuss this in detail in our themes section).

## View on market

We believe that the building blocks are in place for markets to do well or rather not do poorly in absolute terms. Below we try to deliberate on the same–

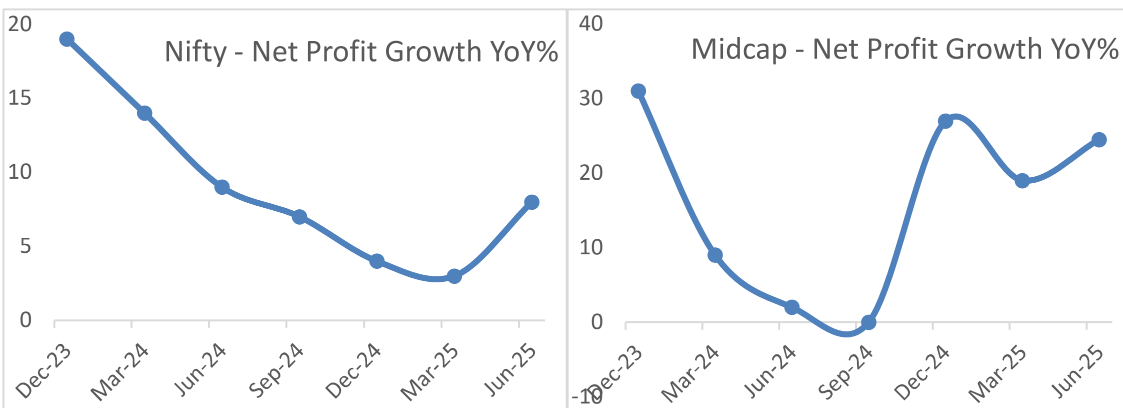
***Positives:***

1. **Domestic liquidity remains benign** – that's usually a supportive factor for Indian markets as we have pointed out few times in our previous newsletters.

2. **Is consumption coming back**? – We believe YES, and we discuss this theme in detail in the later part of monthly.

3. **Actual impact of Trump Tariffs is manageable on overall economic growth**– Yet, market rightly fears what if the narrative turns more adverse with additional future actions.

4. **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*

5. **India has underperformed on a relative basis** – And yes, it matters when one is allocating long term capital. Below table shows India performance in 1 year but more importantly from the peak of Tariff Tantrum (approx. 3 months).

**Performance Comparison of Major World Indices**

| INDICES | 1 Month | 3 Months | YTD | 1 Year |
|---|---|---|---|---|
| INDIA - NIFTY 50 | -1.4% | -0.1% | 4.2% | 0.4% |
| US - S&P 500 | 2.4% | 9.0% | 9.7% | 16.1% |
| JAPAN – NIKKEI 225 | 8.9% | 14.9% | 8.7% | 14.0% |
| CHINA - HSCEI | 0.6% | 6.2% | 24.0% | 46.7% |
| MSCI WORLD | 2.7% | 8.7% | 12.6% | 16.5% |
| MSCI EM | 1.8% | 7.9% | 19.4% | 15.0% |

*Source: Bloomberg*

6. Domestic flows in equities continue

**FII & DII: Net Cash Trading Activity Comparison – DII purchases have outpaced FII selling**

| 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 |

*Source: Moneycontrol*

7. **Government / regulators seem to be ready to provide support** if required – we saw a proactive government (budget in Feb), proactive RBI (front ended rate cuts) and proactive SEBI (with actions against Jane Street, trying to instill confidence in the markets). One shouldn't discount these measures in unison.

8. **Chatter of US rate cuts going up again** – That should reverse some FX pain seen in last month and hopefully reduce foreign fund outflows.

***Negatives:***

1. **Dealing with unknown** – In dealing with Trump Tariffs, India is in an unfamiliar and unknown territory – With the consistent spurn of his claims of mediation for Truce, have we irked a volatile but powerful global leader?

2. **Credit issues coming back** – One of the most respected NBFCs raised alarm on SME loans in July – is that a precursor or extra cautious call? We believe so far that it's probably a reminder that we are going through a great credit quality period, and one shouldn't assume that its normal.

3. **Valuations** – Traditional factors all still point to valuations being high – though with the time correction seen in last 12 months (broader markets almost flat in last 12 months), valuation premiums over other markets are declining.

Overall, we at K3 Funds believe it's a fair risk reward. It doesn't scare us, and we believe it's time to stay invested. Having said that, our risk management framework forces us to manage our gross judiciously and we have cut down the gross exposure, till we see next big catalyst for Indian equities.

## K3 Domestic AIF – Key Themes

**Indian consumer seeing revival?**

We believe Indian consumption sector is seeing some sort of revival – which bodes well in this uncertain time of global tariffs. We are seeing multiple signs of its revival, which could accelerate in the next few quarters.

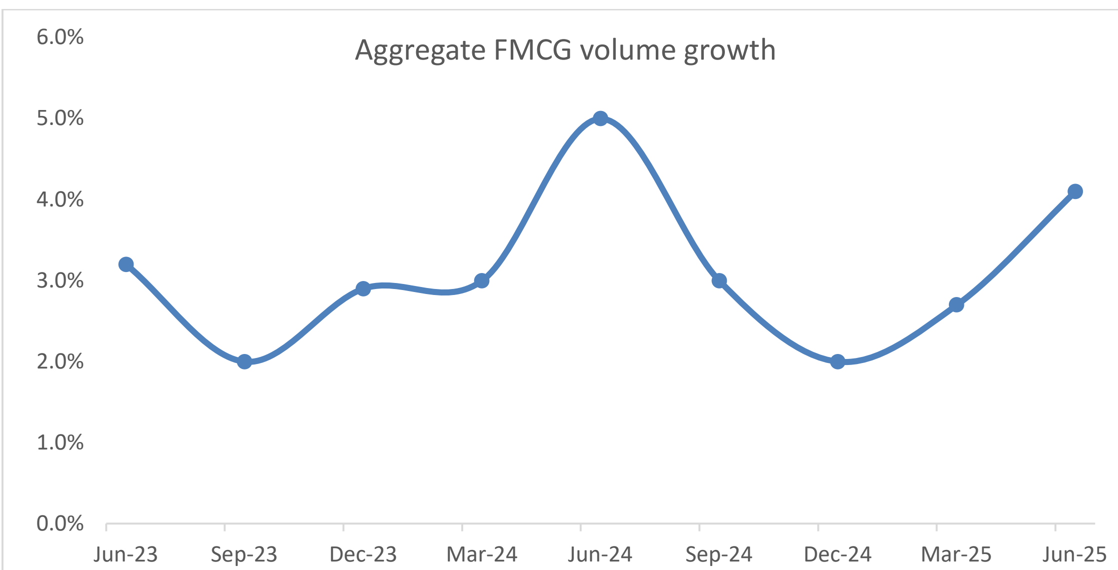
**1. Recent quarter results showed some pick up in volumes** – While it's from a low base, it sets up stage for potential earnings beat especially given lower inflation which means higher margins.

**2. Government efforts to revive having some impact** – We had some budget changes earlier this year which leaves more cash in the hands of urban consumers; we expect that to flow in demand now.

3. **Rural consumption which was holding up well could pick up even more** as we see good monsoons throughout the country.

4. **Lower inflation** period historically has been associated with better volumes for FMCG companies especially in lower income and rural segments.

5. **Financial conditions have improved for low-income borrowers** given RBI easing of norms and reversal of macro prudential credit tightening.




*Note: Aggregate Volume growth taken for HUL, Marico, Pidilite, Asian Paints, Britannia, Nestle & Dabur*
*Source: Goldman Sachs Research*

We have increased our exposure to consumption plays in India and are doing more work on this theme as we believe it could continue for several quarters.

**Financials - updating our view**

As we highlighted our bullish stance on financial stocks since our inception given macro headwinds, we also mentioned that we would reduce exposure before quarterly earnings. We believe financial stocks must be looked at based on F2027 normalized earnings and the earnings reports before that could bring some disappointments given elevated hope after strong stock performance in last 3-4 months.

Most financial stocks are "earnings revival story" and hence current results come in the way of story. While one large NBFC has also highlighted a potential credit quality hotspot in SME sector, we are not overly worried about that as of now based on other data points which we see. In short that doesn't derail our medium-term thesis on the sector. We are in fact looking to add back to the exposure given reduction before the June quarter earnings.

Building blocks are largely in place and while earnings growth looks high given a low base in F2025 and F2026, valuations are attractive and hence it makes sense to buy and hold these stocks where earnings will normalize fully 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) |
|---|---|---|---|---|---|---|---|---|
| Spandana | 240 | 5.4 | 28.4 | 426% | 8.4 | 0.02 | 19% | 2% |
| Fusion | 148 | 10.6 | 20.7 | 95% | 7.1 | 0.07 | 46% | -18% |
| IDFC First | 69 | 3.1 | 5.9 | 90% | 11.7 | 0.13 | 33% | -6% |
| RBL | 252 | 17.6 | 28.2 | 60% | 8.9 | 0.15 | 43% | 7% |
| Credag | 1334 | 75.6 | 114.6 | 52% | 11.6 | 0.23 | 27% | 3% |
| Poonawala | 455 | 15.2 | 25.4 | 67% | 17.9 | 0.27 | 33% | -9% |
| Capital SFB | 297 | 31.8 | 38.9 | 22% | 7.6 | 0.34 | 13% | 4% |
| AU SFB | 751 | 34.2 | 48.1 | 41% | 15.6 | 0.38 | 53% | -9% |
| SHFL | 616 | 49.2 | 60.3 | 22% | 10.2 | 0.46 | 8% | -11% |
| AB Cap | 273 | 14.6 | 19.0 | 30% | 14.4 | 0.48 | 50% | -7% |
| SBI Card | 789 | 25.7 | 35.4 | 38% | 22.3 | 0.59 | 8% | -15% |
| Muthoot | 2757 | 170.7 | 204.0 | 19% | 13.5 | 0.69 | 10% | 0% |
| LTF | 202 | 11.4 | 13.7 | 20% | 14.7 | 0.73 | 34% | -2% |
| Chola | 1462 | 62.3 | 77.7 | 25% | 18.8 | 0.76 | 7% | -11% |
| SBFC | 105 | 4.0 | 5.0 | 25% | 21.0 | 0.84 | 27% | -7% |
| BAF | 861 | 33.9 | 42.0 | 24% | 20.5 | 0.85 | 5% | -6% |

*Source: Bloomberg, K3 estimates; Price data is as of 14th August*

Thank you for being a part of K3 Funds.

K3 team