

Nepean Capital

3Q CY24/2Q FY25 Quarterly Newsletter

The Nepean Long Term Opportunities Fund II is an open-ended, multi-cap India Special Situations fund. It has given a return (in US\$, net of fees) of +58.1% at an IRR of +17.2% since the first close (Oct 14, 2021). It has outperformed the benchmark NIFTY500 by 1870 basis points.

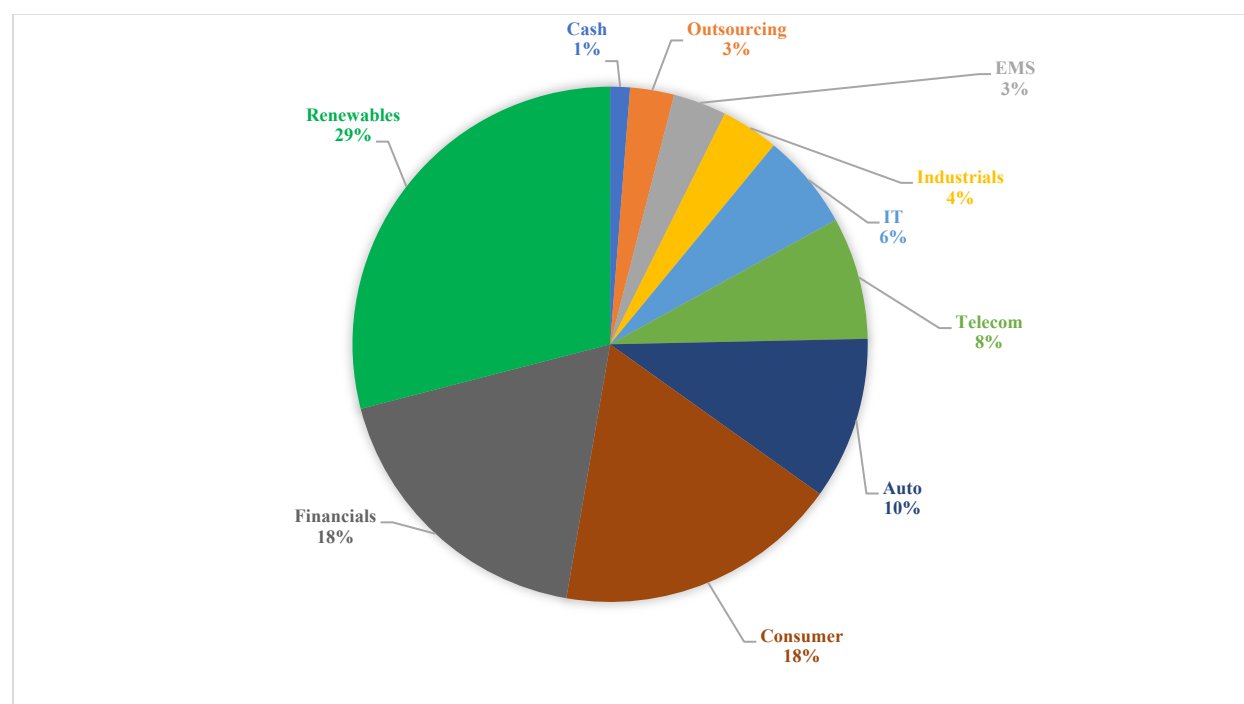
Performance, net of fees in US\$ as of Sep 30, 2024

Period	Fund I*				Fund II**			
	CY18^	CY19	CY20	CY21	CY21^^	CY22	CY23	CY24 YTD
Fund	+5.3%	0.0%	+35.1%	32.3%	+1.3%	-1.8%	+35.6%	+17.2%
Benchmark	-7.0%	-11.8%	+18.6%	31.7%	-3.0%	-7.3%	+25.3%	+23.8%
Outperformance (bps)	+1230	+1180	+1650	+60	+430	+550	+1030	-660
Since Inception				+84.1%				+58.1%
Benchmark				+28.2%				+39.4%
Outperformance (bps)				+6020				+1870
IRR				+24.0%				+17.2%

*Benchmark NIFTY Small Cap Index
^First close Sep 18, 2018
NAV is calculated monthly

**Benchmark NIFTY500 Index
^^First close Oct 14, 2021
Fund I was closed in May 2021

Sectoral break-up



Top 10 Holdings

Stock	% Holding
INOX Wind Ltd.	20.96%
Varun Beverages Ltd.	11.75%
Aadhar Housing Finance Ltd.	8.87%
Exicom Tele-Systems Ltd.	5.02%
Bajaj Auto Ltd.	4.57%
Bharti Airtel Ltd.	3.97%
Infosys Ltd	3.91%
Axis Bank Ltd.	3.84%
Eureka Forbes Ltd.	3.76%
Indus Towers Ltd.	3.71%

As I write this, residents of the Gulf coast of Florida are bracing for the wrath of Hurricane Milton. Meanwhile in India, residents are recovering from Hurricane SIBUC (Sell India, Buy China). Today, the benchmark NIFTY50 is down 5% from a lifetime high of 26,216 (Sep 26th) led by the sudden rise of the Chinese markets. This was prompted by the announcement of decisive stimulus measures from the Chinese government. YTD foreign portfolio investors (FPIs) have invested \$8.9 Bn in India and their ownership for the first time crossed \$1 Tn in value. However, they rushed into China, an under owned market, over the past two weeks causing the Shanghai Composite (SHCOMP) to rise as much as 24%. This was partly funded by a sell down in India, with FPIs having net sold \$5.5 Bn this month.

The India to China switch trade is not a surprise given that until recently the former traded at 23x CY25 P/E, 2x China and at a 70% premium to Asia (ex-Japan). Moreover, consensus earnings estimates for CY25 between China A shares (+14%) and India (+16%) aren't vastly different. It looks like the much-awaited correction in the Indian equity markets did happen. We often pondered on what would cause it. Would it be internal or external factors? Even the disappointment with the general election results on June 4 didn't last more than a day.



This year, the NIFTY50 and the S&P500 moved in tandem, significantly outperforming the Shanghai Composite until mid-September.

The drop in the Indian markets was accentuated by curbs on the futures & options (F&O) market that the SEBI announced on Oct 1 (effective from Nov 20). It was compelled to take action when a SEBI study found that 93% of 11.3 Mn retail F&O traders incurred a combined net loss of Rs.1.81 lakh crores/\$22 Bn over the last three financial years. Moreover 76% of the traders had annual incomes of less than Rs.5 lakhs/\$6,000 and 92% of them lost money. So far this fiscal, individual investors have accounted for 35% of the volume of Index options, 29% of stock options and 30% of Index futures.

Key Emerging Themes

- In our last Quarterly, we wrote about the Rise and Rise of the Retail Indian investors. That hasn't changed and they continue to plough money into the markets via domestic mutual funds or directly. That's 43 consecutive months of net positive flows. YTD domestic mutual funds have seen a cumulative \$41 Bn of net inflows, 4x that of FPIs.
- Thankfully the supply of paper too has surged to absorb the flows. In the first six months of FY25, Indian companies raised equity worth Rs.1.56 lakh crores/\$18.9 Bn, +100% YoY. The biggest IPO was that of Bajaj Housing Finance (a sub of Bajaj Finance) that raised Rs.6,560 crores/\$790 Mn. While the overall IPO was oversubscribed 63x, the QIB portion was bid as much as 209x. The second half of the fiscal year has a strong pipeline, including that of Hyundai Motors India (India's largest ever IPO, opens Oct 15) that aims to raise \$3 Bn.
- While B2G businesses are seeing strong growth, the slowdown in domestic consumption remains a concern. India's GDP growth for the quarter ended June 30th hit 6.7% (the slowest in five quarters) compared to 8.2% a year ago. Passenger car sales have fallen for the past three months with September sales down 19% YoY. Having said that, over the next two quarters India has 45 wedding dates (equates to 3.5 Mn weddings) that are considered auspicious, the highest in a decade. The Confederation of All India Traders (CAIT) estimates that the upcoming wedding season will generate business worth Rs 5.9 lakh crores/\$71 Bn. That coupled with the upcoming festive season, retailers and auto dealers alike expect a significant turnaround in sales. The first signs of the revival came last week when Mahindra's new 4 wheel drive, *Thar Roxx*, clocked 176,218 bookings within the first 60 minutes !



- India's attraction to global corporations is only growing as they seek out alternatives to China. For example, in FY24 Apple's India revenues crossed \$24 Bn +74% YoY, a testament to a successful investment in the country. It has now started manufacturing and exporting the iPhone 16. Separately, India has 1,600 global capability centers (GCCs) that employ 1.6 Mn people. A Nasscom-KPMG report states that their total revenues are \$60 Bn, up from \$19.5 Bn ten years ago. The latest Economic Survey by the Government of India estimates by 2030 GCCs will generate revenues of \$121 Bn or 3.5% of the country's current GDP.
- Quick Commerce is growing rapidly and giving stiff competition to both the e-commerce players and the kirana stores (neighbourhood grocery stores). The three largest players in

India are Blinkit (owned by Zomato), Instamart (Swiggy) and Zepto. Quick commerce currently accounts for a third of the Indian online grocery sector's \$11Bn GOV (gross order value). We put out a report in August that found that 6 out of 10 products were cheaper on quick commerce platforms than at the kirana store. That said, 6 out of 10 products were cheaper on e-commerce platforms than on quick commerce platforms. The link to the report: <https://nepeancapital.com/news>

- The Hurun India Rich List now has 334 dollar billionaires. This is because the number of companies with a market cap of a billion dollars or more has risen from 175 ten years ago to 550 today. Also, there are 5 companies with a market cap of more than \$100 Bn vs. none in 2014. Mumbai has overtaken Beijing as the billionaire capital of Asia, followed by New Delhi and Hyderabad.

Conclusion

Our outlook for India is stronger for longer but in the near-term our concerns are:

1. Will the rally in the Chinese markets sustain? Hence how much more will FPIs sell in India?
2. When will the domestic Indian mutual funds start deploying their estimated Rs.2 lakh crores or \$24 Bn in dry powder into the markets?
3. Will the Middle-East conflict escalate and drive up oil prices further? Every year, the price of oil is the Damocles sword hanging over India, the other being the monsoon. Unlike the U.S., higher oil prices are negative for India given that it imports 80% of its annual consumption.

Beginning from the last quarter, we are sending out a weekly of the top stories emerging from India (let me know if you want to be added to the mailing list). I have hand-picked some of the non-financial ones that show a different side of the country:

The magnificent misfit men of a lost Calcutta

https://economictimes.indiatimes.com/opinion/et-commentary/the-magnificent-misfit-men-of-a-lost-calcutta/articleshow/112431708.cms?utm_source=contentofinterest&utm_medium=text&utm_campaign=cppst

From a food delivery boy to a Node.js developer

http://timesofindia.indiatimes.com/articleshow/113440614.cms?utm_source=contentofinterest&utm_medium=text&utm_campaign=cppst

2024's biggest Bollywood hit so far is *Stree 2*, it's the fifth installment in the Maddock Films Supernatural Universe and sequel to the hit *Stree* (2018)

Here's the trailer:

<https://www.youtube.com/watch?v=KVnheXywIbY>

Coldplay tickets for \$11,000? Uproar in India after tickets sold out in minutes and resold for outrageously high prices

https://www.cnn.com/2024/10/01/asia/coldplay-concert-ticket-india-scalping-intl-hnk?cid=ios_app

His 1,257 radios put Uttar Pradesh man in the Guinness Book of World Records

http://timesofindia.indiatimes.com/articleshow/113885316.cms?utm_source=contentofinterest&utm_medium=text&utm_campaign=cppst

Media

Last month, we hosted Pratik Pota, the CEO of Eureka Forbes (India's largest water purifier company) on the Nepean Capital podcast series. It's an investee company and majority owned by U.S. private equity fund, Advent International. The link to the video:

<https://www.youtube.com/watch?v=TWpWyD7wbpc>

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