

# Nepean Capital

## 2Q CY25/1Q FY26 Quarterly Newsletter

The Nepean Long Term Opportunities Fund II is an open-ended, multi-cap India Special Situations fund. It has given a return of +51.8% (in INR, net of fees) at an IRR of +11.9% since the first close (Oct 14, 2021). It has outperformed the benchmark NIFTY500 by 70 basis points since.

### Performance in INR, Net of Fees as of June 30, 2025

	Fund I*				Fund II**				
Period	CY18^	CY19	CY20	CY21	CY21^^	CY22	CY23	CY24	CY25TD
Fund	+0.8%	+2.6%	+38.4%	+31.3%	+0.2%	+9.2%	+36.1%	+5.7%	-3.6%
Benchmark	-11.0%	-9.5%	+21.5%	+30.7%	-4.1%	+3.0%	+25.8%	+15.2%	+5.5%
Outperformance (bps)	+1180	+1210	+1690	+60	+430	+620	+1030	-950	-910
Since Inception				+87.9%					+51.8%
Benchmark				+27.9%					+51.1%
Outperformance (bps)				+6000					+70
IRR				+26.0%					+11.9%

\*Benchmark NIFTY Small Cap Index

^First close Sep 18, 2018

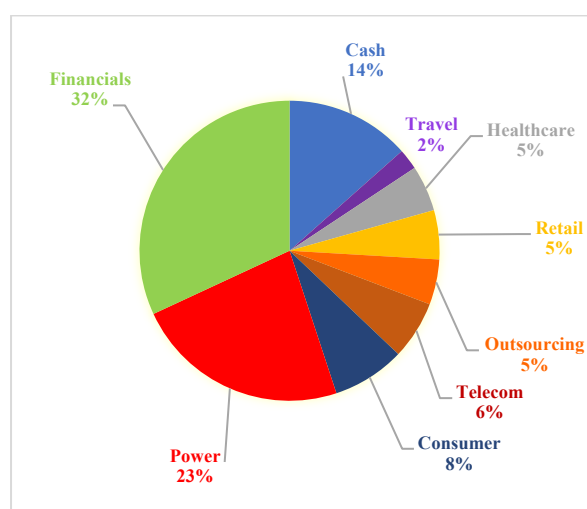
NAV is calculated monthly

\*\*Benchmark NIFTY500 Index

^^First close Oct 14, 2021

Fund I was closed in May 2021

### Sectoral Break-up

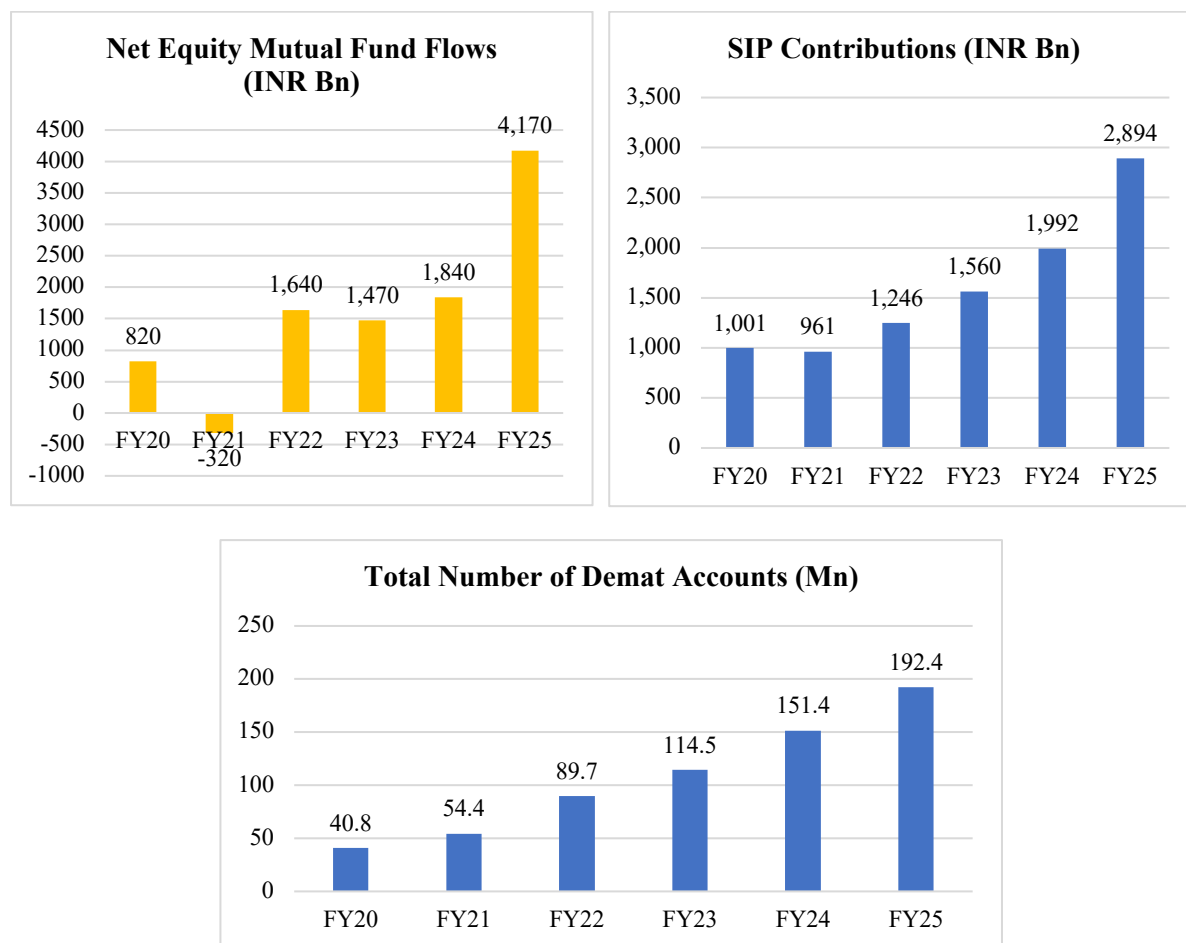


### Top 10 Holdings

Company
Aadhar Housing Finance
Manappuram Finance
INOX Wind
Varun Beverages
Bharti Airtel
Transformers & Rectifiers
Aster DM Healthcare
Kotak Mahindra Bank
TD Power Systems
Piramal Enterprises

The key theme emerging out of India over the past four years is the resilience of domestic Indian investors who keep pouring money into the equity markets come rain or shine or geo-political tensions; nothing seems to scare them. In fact, even the limited conflict with Pakistan in the first week of May had no impact. YTD domestic mutual funds & insurance companies have net invested a record US\$42 Bn. Their participation in the equity market has been so strong that in March this year, domestic institutional ownership crossed FPI (foreigner portfolio investors) ownership for the first time. The month of June witnessed a new record Rs.27,269 Cr/\$3.2 Bn of flows via SIPs (systematic investment plans). Net of

redemptions, last month saw Rs.23,587 Cr/\$2.77 Bn of net inflows, the 52<sup>nd</sup> successive month of net inflows into open-ended equity schemes.



The one question that I am asked almost every month: What will cause domestic flows to slow down ? I don't see that happening anytime soon unless there is a catastrophic event. Of the 28 states in India, five (i.e. Maharashtra, Uttar Pradesh, Gujarat, West Bengal & Rajasthan) account for almost half of the investor base. Hence, the penetration of the equity culture in the rest of the country remains low. Moreover, with a 50-bps cut in the repo rate last month, banks are offering pre-tax savings rates as low as 2.5% and one-year fixed deposits yields between 6.25-7.0%. That leaves equities and gold as the only two attractive investments. Almost 40% of the new breed of investors are below the age of 30 (and 70% below the age of 39) and armed with smartphones running on 4G/5G mobile networks.

FPIs turned net buyers in the past three months, reducing their YTD total selling to \$8.6 Bn from \$12 Bn in the 1Q CY2025. While it appears that India's reliance on FPI flows to drive markets has reduced, don't forget that foreigners still own a trillion dollars of India's total market cap. Any prolonged selling by them will have a significant impact on the markets. In the past 18 months, FPIs have cut back on further investments in India as valuations remain expensive relative to not just its own historical averages (see table below) but also relative to its Asian/EM peers and the S&P500 (India is at 22x one-year forward earnings vs. 21x for the S&P500). The Buffet Indicator stands at 127%, a 38% premium to India's 10- year average of 92%.

INDEX	ONE YEAR FORWARD P/E RATIOS (X)		
	FY26	5-year Avg	10-year Avg
NIFTY50	21.7	20.5	20.7
NIFTY MID CAP	27.6	26.5	22.8
NIFTY SMALL CAP	27.5	19.2	16.4

The other reason FPIs are lukewarm to India is that earnings in the key economies of Asia are also robust (subject to final U.S. tariffs). CY26 consensus earnings growth estimates for Korea, Taiwan and China range from 14-16%, in line with India. 1Q CY25/4Q FY25 results for the NIFTY50 were tepid with sales growth of a mere 6.4%, making it the fourth consecutive quarter of low single digit growth; net income growth was less than 1%. For the full year FY25, NIFTY50's sales grew 7.2%, a four year low; EBITDA +5.9% and net income rose only 5.5%. Now compare that to 1Q CY25 earnings for the S&P500 which grew 12%, of which the Mag7 grew a spectacular 32%.

Hence, EM focused mutual funds are modestly overweight India, while Global and Asia funds are underweight. Global funds' (ex-US) allocation is 2.9% vs. the index weight of 5.3%; Asia (ex-Japan) funds are at 19.3% vs. 21.1%.

The one area of some concern is that, apart from the top 10 industrial houses, overall corporate credit growth has been dismal. There are a variety of explanations: slowdown in consumption, companies have raised equity to retire debt and industry capacity utilization levels at 65-70%. Over the past five years India Inc. has significantly deleveraged its balance sheets and as a result, companies are sitting on over \$150 Bn in cash.

The government has realized the challenges facing the Indian economy and has stepped up its capex by 41% YoY for the first five months of this calendar year. This led to the 1Q CY25/4Q FY25 GDP growth of 7.4%. There is also much talk of a potential cut in GST rates that will further boost consumption. The market expects that the second half of fiscal 2026 will be stronger led by low inflation, a good monsoon, and the unexpected 50 bps cut in interest rates last month by the RBI. In addition, the RBI announced a cut in the CRR (cash reserve ratio) by 100 bps to 3% that will infuse Rs.2.5 lakh crores/\$30 Bn of liquidity in four tranches starting from mid-September.

We are starting to see some green shoots. The HSBC India Manufacturing Purchasing Managers' Index (PMI), compiled by S&P Global, rose to 58.4 in June from 57.6 in May (a 14-month high). Similarly, the Services PMI Business Activity Index rose from 58.8 in May to 60.4 in June (a 10-month high), driven by a sharp rise in new business orders.

On May 6<sup>th</sup>, India and the UK finalized a landmark free trade agreement (FTA). India has described this as *a historic and ambitious deal to boost jobs, exports, and national growth*. The FTA includes tariff elimination on 99% of Indian tariff lines, covering nearly 100% of trade value, and reduces tariffs on 90% of UK tariff lines. Bilateral trade, valued at £42.6 billion in 2024, is projected to double to £75 billion by 2030. The hope is that India will soon sign a mutually beneficial FTA with the U.S given that the new deadline is August 1.

We remain measuredly sanguine that all of the above actions will lead to a sustained economic recovery from the second half of FY26.

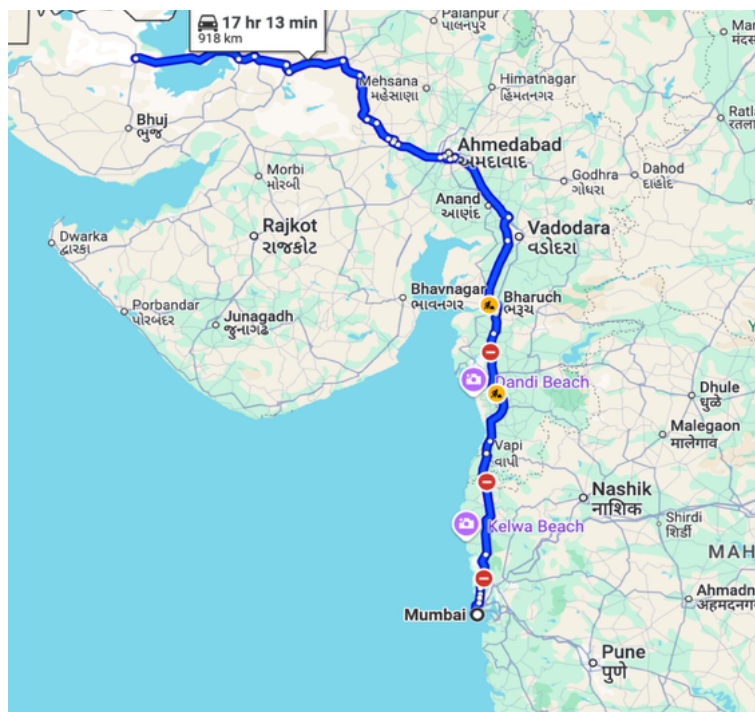
I visited the U.S. between April 25-May 15, part holiday and part work. Highlights:

- Inflation in the U.S. is still raging, relative to pre-COVID. I rank the U.S. as among the most expensive countries in the world to holiday in.
- Travel is booming. Our hotels in Jackson Hole and Yellowstone were full, despite the season starting three weeks later. We took eight flights in three weeks and every one of them was packed to capacity.
- Labor shortages are very visible. While JFK's Terminal 4 has 16 immigration booths, only seven had officers processing incoming passengers. And hence the wait time was 1.5 hours.
- Foreign ownership of the U.S. equity market is 18%, a record high. But money is now flowing out of the U.S. and going overseas into equity markets like the EU and some to EMs.
- Most investors felt that given low unemployment and high inflation, it is improbable that the Fed will cut rates anytime soon.
- A common question was: Why are Indian retail investors so focused on investing in the domestic market and not overseas ? Do note that every Indian is allowed to remit only

\$250,000 abroad each year. While that's a million dollars for a family of four, it comprises all foreign expenses, including holiday travel, shopping, family support, overseas education and healthcare. Moreover, the growth in the domestic economy has been so strong that most Indians don't bother investing abroad.

- Another question that investors asked was: How big a deal are potentially higher U.S. tariffs on India? The fact is, last year India's merchandise exports to the U.S. were only \$80 Bn (or 18% of total goods exports of India and a mere 2% of GDP). India's trade surplus with the U.S. was \$46 Bn, significantly lower than China's \$292 Bn and Vietnam's \$123 Bn.
- That said, we believe that this is an opportunity for India to gain export market share from China, Vietnam and Mexico by playing the tariff arbitrage in industries ranging from footwear to garments to electronics. The Modi government is focused on improving the ease of doing business, tax laws and infrastructure. The poster child is Apple which last year made \$22 Bn worth of iPhones in India, +60% YoY. Today one in five iPhones sold globally are *Made in India*.
- Visits to Costco and Walmart: This has become a standard feature of all my semi-annual U.S. trips. I enjoy spending a couple of hours studying their new merchandise and looking out for *Made in India* products. Whether the U.S. likes it or not, I found *Made in China* still dominates. India lags China by a mile, which I believe is a potential opportunity.

In the past quarter, the Nepean Capital investment team met over 100 companies at various investor conferences and visited several cities in India. I would like to highlight one such visit to the village of Khavda, located in the western state of Gujarat. It is home to the Hybrid Renewable Energy Park, the world's largest (solar + wind) with a cumulative capacity of 45 GW. The park is spread over 72,600 hectares of arid land with summer temperatures hitting highs of 45°C (113°F) and average daytime temperatures ranging from 35°C to 40°C (95°F to 104°F). The park will annually offset around 58 million tons of CO2 and aims to provide clean energy to around 16 million homes, equivalent to powering entire countries like Poland, Belgium and Canada.



From Mumbai, Khavda is an hour's flight to Bhuj, followed by a 1.5-hour drive to the project site. I highly recommend investors/allocators make time to visit Khavda and witness the renewable energy revolution unfolding in India. An FYI, in April this year India overtook Germany to become the world's third largest producer of renewable energy.



*Images from the Hybrid Renewable Energy Park, Khavda, Gujarat*

Below are the case studies of two of our recent investments:



Market Cap: Rs.22,265 Cr/\$2.6 Bn

FY27 Valuation: 1.3x P/B

**Company Profile:**

Manappuram Finance (MGFL) is a diversified NBFC with a consolidated AUM of Rs.430 Bn/\$5 Bn. MGFL is India's second largest gold financier with gold loans constituting 59% of its loan book.

Within its non-gold portfolio, key segments are microfinance (17% of AUM), vehicle loans (11%) and home loans (4%). It has a branch network of 5,200+ branches with a concentration in South India.

**Investment Thesis:**

- Bain to acquire 18% stake: Bain plans to infuse Rs.43.8 Bn/\$515 Mn via preferential allotment of equity and warrants at Rs.236/share. The deal will trigger an open offer for 26% stake at the same price. Post the deal, Bain's stake will be between 18-41.7%, depending on the success of the open offer. MGFL will use these proceeds to drive growth in the gold loans business and scale up the mortgage business. We believe this equity raise will fortify the balance sheet and drive strong growth for years to come.
- Management change: Bain Capital will be classified as a co-promoter of the company post the investment. The PE fund will have the right to nominate certain members of the Executive Management like the CEO & other key managerial personnel for MGFL. We view this as a significant positive as not only does this take away the management succession overhang but also any concerns around quality of governance.
- Large TAM & gold price tailwinds: Organised gold financiers form a mere 6% of household gold tonnage and only 40% of the gold financing market in India. Yet gold prices have been a key driver of growth, esp. as customer accretion and network expansion at key players have lagged. We believe loan growth at gold NBFCs will improve due to a) higher gold prices; b) stabilising competition from banks (NBFCs share in retail gold loans > 60%) c) diversification into non-gold segments and d) regulatory support.





Market Cap: Rs.31,424 Cr/\$3.7 Bn

FY27 Valuation: 25x EV/EBITDA

### Company Profile:

Aster DM Healthcare is a leading private multi-specialty tertiary care hospital chain in India, with 19 hospitals and 5,159 beds. Aster also operates a chain of pharmacies and diagnostic centers across Southern India. Aster has recently unlocked value by segregating its legacy GCC business and has now shifted its core focus to expanding presence PAN India.

### Investment Thesis:

- **Merger with Blackstone owned Quality Care:** In Nov 2024, Aster and Quality Care India (19 hospitals; 5,150 beds) entered into a definitive agreement to merge both companies, subject to regulatory approvals (received the CCI approval in Apr'25), corporate and shareholders' approvals. The new entity, Aster DM Quality Care Ltd., will have 38 hospitals and 10,300 beds making it among the top 3 hospital chains in India. We believe this to be a natural fit for Aster, given the focused approach in south and central India, potential to improve therapy mix, synergies to help in margin accretion, and the strength it will offer in terms of senior management.
- **Strong synergies:** We expect the merged entity to significantly expand its presence in southern and central India, gaining presence in metro/tier-1 cities (with minimum overlap of hospitals). It will have the ability to maximize patient outreach and conversion. Moreover, the multilevel synergies like integrated doctor model (the merged entity will have a broader base of star senior specialists) and costs synergies such as supply chain efficiencies (rationalization of spends on consumables and scale benefits). It will result in lower overheads (optimizing corporate functions and leveraging the best practices from both organizations through technology and channel mix).
- **Bed capacity expansion:** Aster has planned capacity addition of 2,000+ beds over FY25-28, of which ~684 beds are brownfield, and 100% of beds are in the existing clusters. Quality Care has an expansion plan to add 1,200+ beds over the same period, of which a large part will be brownfield. This suggests that the merged entity will expand by 3,200+ beds (taking the total bed count to 13,600+), of which 60+% will be brownfield.

Here are some of the top *non-financial* stories emerging from India that I send out every week (let me know if you want to be added to the mailing list):

### Michelin Star-less Sky: Why Michelin recognises Indian food abroad but ignores its homeland

<https://economictimes.indiatimes.com/news/india/michelin-star-less-sky-why-michelin-recognises-indian-food-abroad-but-ignores-its- paign=cppst>

### Marc Benioff reveals how just one meeting with an Indian 'Mata' in Kerala gave him the idea for \$250 billion Salesforce

[https://economictimes.indiatimes.com/news/new-updates/marc-benioff-reveals-how-just-one-meeting-with-an-indian-mata-in-kerala-gave-him-the-idea-for-250-billion-salesforce/articleshow/120331235.cms?utm\\_source=contentofinterest&utm\\_medium=text&utm\\_campaign=cppst](https://economictimes.indiatimes.com/news/new-updates/marc-benioff-reveals-how-just-one-meeting-with-an-indian-mata-in-kerala-gave-him-the-idea-for-250-billion-salesforce/articleshow/120331235.cms?utm_source=contentofinterest&utm_medium=text&utm_campaign=cppst)

### Murder they wrote: It's Indian crime fiction's moment in the sun

[https://www.indiatoday.in/india-today-insight/story/murder-they-wrote-its-indian-crime-fictions-moment-in-the-sun-2723181-2025-05-11?utm\\_source=newsletter&utm\\_medium=story\\_link&utm\\_source=Netcore&utm\\_campaign=INSIGHT:+INDIA+TODAY+MAGAZINE&utm\\_medium=Email&utm\\_content=](https://www.indiatoday.in/india-today-insight/story/murder-they-wrote-its-indian-crime-fictions-moment-in-the-sun-2723181-2025-05-11?utm_source=newsletter&utm_medium=story_link&utm_source=Netcore&utm_campaign=INSIGHT:+INDIA+TODAY+MAGAZINE&utm_medium=Email&utm_content=)

**IMPORTANT DISCLOSURE**

*This letter is being furnished to the recipient on a confidential basis for informational purposes and does not constitute an investment recommendation or an offer to sell or a solicitation of an offer to purchase an interest in any security, including, without limitation, any interest in any current or future investment fund managed by Nepean Capital LLP. Any such offer or solicitation shall be made only pursuant to the confidential offering memorandum for such investment fund (each, a “Memorandum”), only in jurisdictions in which such an offer would be lawful and only to individuals who meet the investor suitability and sophistication requirements of such investment fund. Each of Nepean Capital Fund’s Memorandum describes risks related to an investment therein and which qualifies in its entirety the information set forth herein, including, without limitation, any discussion of or information regarding the investment strategy, limitations or parameters of such Nepean Capital Fund. Investment in any Nepean Capital Fund will involve a high degree of risk, including loss of the entire investment.*

*PAST PERFORMANCE IS NOT NECESSARILY INDICATIVE OF FUTURE RESULTS AND MAY DIFFER FOR DIFFERENT TIME PERIODS. THERE CAN BE NO ASSURANCE THAT ANY NEPEAN CAPITAL FUND WILL ACHIEVE COMPARABLE RESULTS. Investors should be aware that other performance calculation methods may produce different results and changes in calculation methodology and presentation of data may lead to the restatement of historic data. Comparison of investment performance results should consider qualitative circumstances and should be made only for portfolios with similar investment objectives. An individual investor’s actual net performance may differ from the performance presented as a result of characteristics attributable to the specific Nepean Capital Fund and class of shares/partnership interests in which such investment is made, the timing of capital contributions and withdrawals, eligibility to participate in “new issues” profits and losses, participation in side pocket investments, and the payment of performance and management fees. Investment performance results are for illustrative purposes only and are not a guarantee of future performance. Moreover, past performance results of any principals or affiliates of Nepean Capital are not indicative of, and do not guarantee, any future results and no assurances can be given that the investments of any Nepean Capital Fund will be exited at a profit. Furthermore, there is no guarantee that the performance of any Nepean Capital Fund will be similar to the performance of any of the prior investments made by any such principals or affiliates. Investors should note that wherever there is a potential for profit, there is also the possibility of loss. The performance results presented herein are time-weighted rates of return and reflect reinvestment of interest and other earnings. Annualized returns represent the annual percentage rate of return, which if earned annually for all periods of investment, would result in the cumulative rate of return. Unless otherwise noted, total return includes realized and unrealized gains and losses on securities positions, dividends, interest, and related portfolio and general and administrative fund expenses.*