

Nepean Capital

2Q FY26 Quarterly Newsletter

The Nepean Long Term Opportunities Fund II is an open-ended, multi-cap India fund. It has given a return of +49.2% (in INR, net of fees) at an IRR of 10.6% since the first close (Oct 14, 2021). It has outperformed the benchmark NIFTY500 by 370 basis points since.

Performance in INR, Net of Fees as of September 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%	-5.2%
Benchmark	-11.0%	-9.5%	+21.5%	+30.7%	-4.1%	+3.0%	+25.8%	+15.2%	+1.6%
Outperformance (bps)	+1180	+1210	+1690	+60	+430	+620	+1030	-950	-680
Since Inception				+87.9%					+49.2%
Benchmark				+27.9%					+45.4%
Outperformance (bps)				+6000					+370
IRR				+26.0%					+10.6%

*Benchmark NIFTY Small Cap Index

^First close Sep 18, 2018

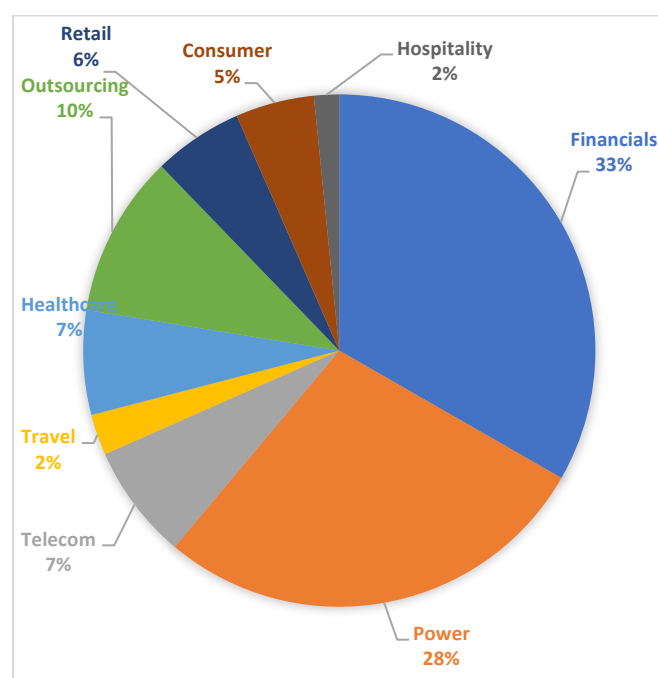
NAV is calculated monthly

**Benchmark NIFTY500 Index

^^First close Oct 14, 2021

Fund I was closed in May 2021

Sectoral Break-up



Top 10 Holdings

Aadhar Housing Finance Ltd.	10.12%
Manappuram Finance Ltd.	8.50%
Bharti Airtel Ltd.	6.19%
JSW Energy Ltd.	6.04%
TD Power Systems Ltd.	5.83%
Amber Enterprises India Ltd.	5.61%
Aster DM Healthcare Ltd.	5.47%
Transformers and Rectifiers Ltd.	5.28%
Piramal Finance Ltd.	4.66%
Kotak Mahindra Bank Ltd.	4.60%

There were a few themes that dominated the last quarter's newsflow. Let's examine each one of these and analyze their impact on the Indian economy and the equity markets.

Flows: Over the past year, the selling by FPIs in India has been the highest among EMs. YTD it's been over -\$18 Bn taking the 12-month total to -\$27.8 Bn. As a result, this calendar year India has been the worst performing market in Asia-Pacific, up a mere 3% in US\$ terms vs. Korea +57%, China +39%, Hong Kong +32%, Taiwan +26% and the S&P500 +14%. This is despite the fact that domestic Indian investors have net invested a record \$67 Bn YTD via mutual funds and insurance companies.

S&P 500 Index

.SPX:INDEX

RT Quote | Exchange | USD

Last | 9:31 AM EDT

6,738.65 ▲ +22.86 (+0.34%)

52 week range

4,835.04 - 6,750.87

1D 5D 1M 3M 6M YTD 1Y 5Y ALL

+ Comparison ■ .NIFTY500 ■ .HSI ■ .KSI1 ■ .TWII

Plots

1D Display Studies Settings Annotations



Unlike Indian investors (who are limited to \$250,000 per person annually of all outward remittances), FPIs have a choice of where to invest. It's not just within EMs but also whether to invest overseas at all or not, especially when earnings in their own backyard are so strong. The S&P500's 1Q CY25 aggregate EPS growth was 12% YoY. The Mag 7 grew earnings by 28% and the balance 493 companies grew by 9%, which was faster than Indian companies. Similarly, 2Q earnings for the S&P500 rose +11% YoY, exceeding the 4% consensus expectation. As many as 60% of the companies surpassed consensus EPS forecasts by more than one standard deviation, the highest rate in the past 25 years. Consensus earnings for next year are at 14% vs. 9% for 2025. The S&P500 trades at a one year forward P/E of 21.5x, a tad lower than India's valuation.

Historically, India's valuations were not much of a concern, but couple them with an earnings slowdown and we have a problem. India's weight in the MSCI EM index has decreased to 15.4% from peak of 21% in September last year, while China's weight has increased to 30% from a bottom of 24%. While the secondary market has given meagre returns YTD, the IPO market is roaring. New companies have raised Rs.1.1 lakh crores/\$13 Bn, +100% YoY; this compares to \$24 Bn in the U.S. YTD. Strangely while FPIs have sold aggressively in the secondary market, they have been actively participating in the IPO market investing \$4.9 Bn this year. The last quarter of 2025 is expected to witness another \$8 Bn in IPOs, including WeWork India and LG Electronics India.

Tariffs: On August 7th, the Trump administration imposed an additional 25% tariff on merchandise imports from China (that's over and above the 25% baseline tariff). This makes India among the most highly taxed countries that trade with the U.S. and impacts its ability to become one of the China+1 nations. 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, much less than China's \$292 Bn and Vietnam's \$123 Bn.

GST 2.0: On August 15 (India's Independence Day), Prime Minister Modi announced that the government would soon announce reforms in the Goods & Services Tax (GST) to help jump start domestic consumption. The GST Council acted swiftly and in a unanimous decision taken on Sep 3rd it discontinued the 12% and 28% slabs, leaving only two primary rates of 5% and 18% (plus 40% for *sin* goods). The new rates were effective Sep 22nd which was the start of the festive period (September end to the first week of November) and will be succeeded by the wedding season.

Billboards and the media across India are agog with companies marketing lower prices with the new GST slabs and encouraging consumers to buy their products. The initial impact has been phenomenal with the country witnessing its strongest *Navratri* (a Hindu festival) sales in over ten years. For example, Hyundai Motors (India) registered around 11,000 dealer billings, its best single-day performance in the last five years. While Maruti saw a 50% jump in bookings (a 35-year high), Tata Motors recorded nearly 10,000 car deliveries, a new best for the company. Daily credit card transactions at e-commerce platforms jumped almost 100% week on week. The first half of the festive season, including festivals like *Onam*, *Durga Puja*, and *Dussehra*, accounts for 40–45% of total festive sales, making it the single largest consumption period in India.

Pause & Read

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GST GST 2.0

Maruti Suzuki Wagon R

₹66,000 savings

29% GST + CESS **18%**

₹7,74,000 **₹7,08,000**

*Average ex-showroom price + GST

Godrej

Get set for **Big Cooling, Big Savings!**

28% 18% GST

Free **5 YEARS** Comprehensive warranty*

UPTO **₹3,000** Cashback*

Fixed EMI starting at **₹900***

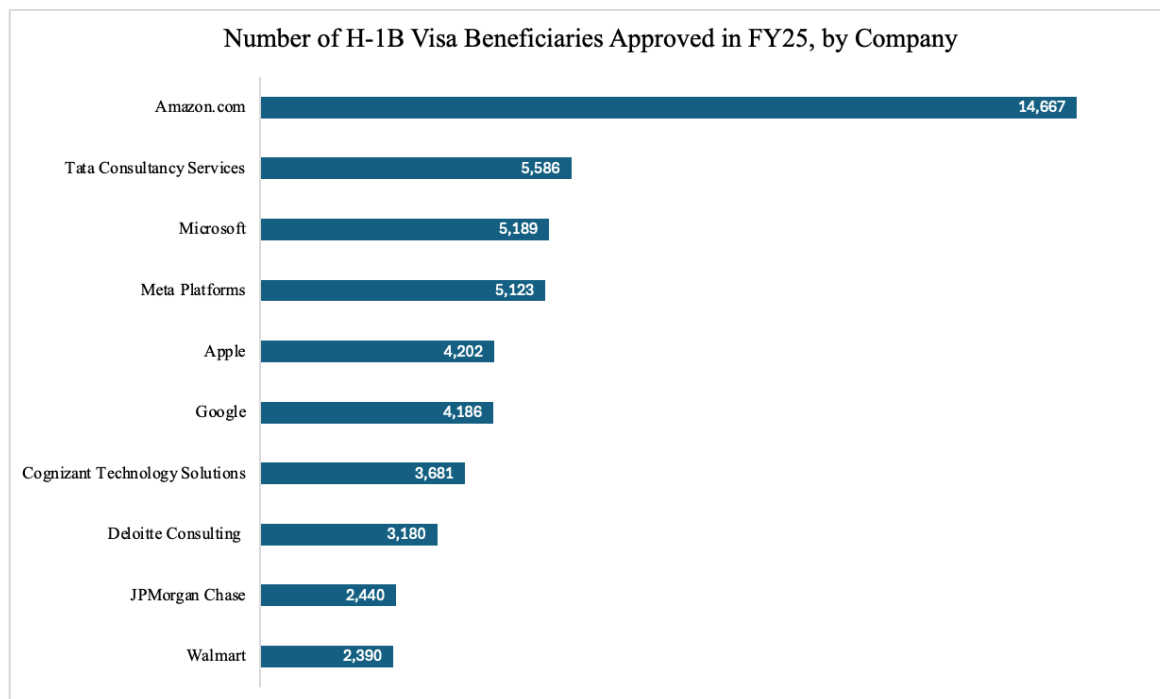
Free **Installation** (Select models)

Price ₹7990/- No gas recharging cost* No labour visit costs No plastic repair costs

*T&C: bit.ly/GAThC

H1-B: On Friday, Sep 19th, President Trump introduced a US\$100,000 fee for all new H1B visa applications, making it mandatory for employers to make this payment with each petition, effective Sep 21, 2025. That compares to an all in cost of \$33,000 before Sep 19, according to a National Foundation for America Policy (NFAP). The U.S. government later clarified that the fee is per application rather than paid annually; doctors are exempt. Moreover, it applies only to new applications and does not apply to H1-B visa renewals. The issue is that two-thirds of the annual quota of 85,000 H1-B visas (a fraction of the 171 Mn civilian labour force in the U.S.) are taken up by *computer related occupations*.

The table on the next page lists the Top 10 companies which sponsor H1-B visas:



Federal data from fiscal 2024 shows that people born in India accounted for 71% of approved H-1B petitions that year, followed by China at around 12%. It's interesting to note that many of the leaders of the top U.S. corporations are products of the H1-B system, namely Sundar Pichai (Alphabet), Satya Nadella (Microsoft), Arvind Krishna (IBM), Nikesh Arora (Palo Alto Networks), Ajay Banga (Mastercard), Indra Nooyi (the former CEO of PepsiCo) and more recently Srinivasa Gopalan (T-Mobile). A Newsweek article dated July 23, 2025, exemplifies that: <https://www.newsweek.com/2025/08/08/indian-ceos-america-are-more-common-everwhat-sets-them-apart-2101964.html>

The Indian IT sector has been reeling from a double whammy of soft demand and now the advent of AI. Hence it's no surprise that over the past five years, the large IT companies have seen huge under performance, TCS (+0%), Infosys (+30%), Wipro (+25%) vs. the NIFTY50 (+111%).

Tata Consultancy Services Ltd

TCS-IN:National Stock Exchange of India

*Data is delayed | Exchange | INR

Last | 3:29 PM IST

2,973.70 ▼ **-14.70 (-0.49%)**

EXPORT

WATCHLIST +

LIVESTREAM

Closing Bell: Overtime

Volume

3,062,943

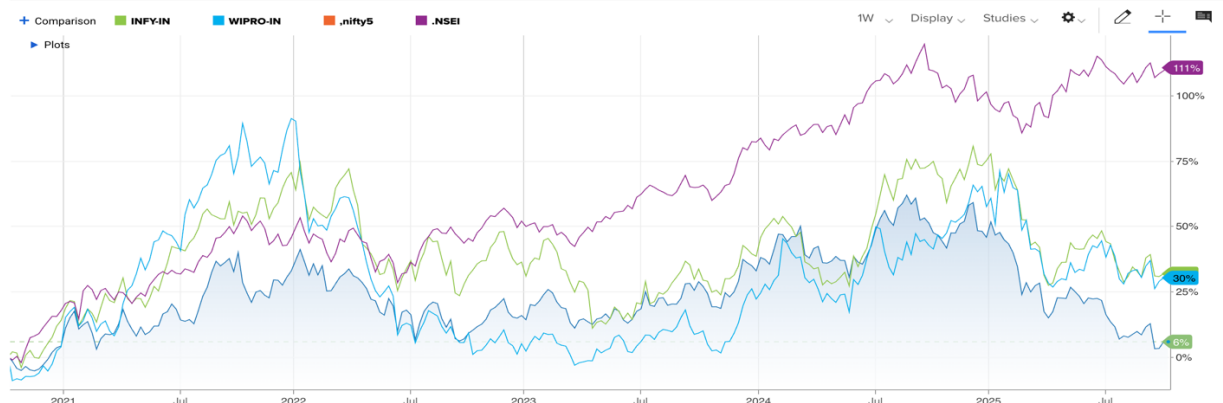
52 week range

2,866.60 - 4,424.37

1D 5D 1M 3M 6M YTD 1Y 5Y ALL

+ Comparison INFY-IN WIPRO-IN .nifty5 .NSEI

Plots



However, the impact of the H1-B issue should be modest on Indian IT companies since over the past five years they have halved the number of H1-B visa applications (*see Table below*).

Company	2021	2022	2023	2024	2025
TCS	10,527	9,992	6,922	7,574	5,509
Infosys	8,954	7,168	7,402	8,192	2,024
HCLTech	3,080	3,143	2,812	2,982	1,772
Wipro	2,952	2,314	2,458	1,648	1,523
Tech Mahindra	1,763	1,197	1,349	1,210	951
LTI Mindtree	994	802	1,882	2,136	1,807
Persistent	250	252	357	559	403
Coforge	268	233	319	292	234
Mphasis	902	912	824	785	663
LTTS	663	592	596	100	416
Eclerx	6	10	7	7	2
Birlasoft	541	371	481	358	238
Mastek	6	1	14	53	34
Tata Elxsi	150	130	156	67	104
KPIT Technologies	157	122	173	100	85
Total	31,213	27,239	25,752	26,063	15,765

That said, some analysts believe that this will potentially increase offshoring and create more jobs in India. GCCs (Global Capability Centers) already employ over 2 Mn people working for the likes of Amazon, Google, Meta, Microsoft, Goldman Sachs, JP Morgan, Morgan Stanley, etc. Accenture, which employs 300,000 people in India, has just announced plans to set up a new GCC in the state of Andhra Pradesh that will employ 12,000. Apparently, India today houses over half of the GCCs worldwide and that number is only growing.

Conclusion:

External challenges have forced the Government of India to look inwards and focus on reforms such as income tax and GST cuts. Moreover, monetary policy (the RBI has cut 100 bps over the past 9 months) and fiscal policy have turned expansionary. This coupled with tepid inflation and a better-than-expected monsoon should set the foundation for a strong consumption led recovery in earnings. While the street is cautiously optimistic, we are confident that the reforms in GST will aid in reviving demand leaving consumers with higher disposable incomes. More importantly, global funds across EM/Asia/Global mandates are today underweight India by 210 bps on aggregate and any improvement in earnings will only bring them back as interest in Japan and China is fading.

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):

How five students used education to change their families' destiny

http://timesofindia.indiatimes.com/articleshow/124209120.cms?utm_source=contentofinterest&utm_medium=text&utm_campaign=cppst

Swiggy Delivery Boy to Deputy Collector: Inspiring journey of Suraj Yadav from food delivery to government service

<https://www.moneycontrol.com/education/swiggy-delivery-boy-to-deputy-collector-inspiring-journey-of-suraj-yadav-from-food-delivery-to-government-service-article-13571470.html>

Why Indians are taking their long weekends abroad

<https://www.indiatoday.in/lifestyle/travel/story/why-indians-are-taking-their-long-weekends-abroad-2773627-2025-08-20>

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