



Sohum India Opportunities Fund: Investor Update Newsletter, March 2026

FY26 was one of the more eventful years for Indian equities in recent memory — a year that packed an entire cycle into twelve months. We started with cautious optimism, saw a meaningful recovery build through the year, and ended with a sharp geopolitical shock. It was a year that tested patience and reinforced the value of staying disciplined.

Coming off a weak FY25 where Indian equities had underperformed global peers, there was expected recovery in earnings growth. The RBI turned decisively pro-growth, cutting rates by a cumulative 100bps through FY26, taking the repo rate to 5.25% — the most accommodative since the post-COVID period. Liquidity remained in sustained surplus through OMO purchases, USD-INR swaps and VRR operations. GST cuts and RBI pro-growth stance since inflation was quite benign had started to reflect in earnings recovery in beginning of Q4FY26.

Financials improved as credit growth has recovered to 15.4% (Feb'26). Autos continued their structural upcycle, supported by GST cuts and easing financing costs, while metals benefited from resilient global demand, particularly linked to data centre and energy transition capex.

The global backdrop for much of FY26's first half remained complex but manageable. US-China tensions continued to reshape supply chains through tech restrictions, semiconductor controls and rare-earth curbs, reinforcing the 'strategic fragmentation' theme. Europe stayed resilient on the back of defence spending and fiscal support. China's AI progress (e.g., DeepSeek) drove a re-rating in tech, pulling some flows away from India. Meanwhile, US markets saw extreme concentration, with the top 10% of stocks accounting for ~78% of market cap, entirely driven by AI-related mega-caps.

The year, however, ended with a sharp geopolitical shock. On February 28, 2026, US and Israel strike on Iran were followed by a closure of the Strait of Hormuz — a critical route handling ~20 million barrels/day of oil and ~20% of global LNG trade. Brent crude spiked from ~\$70/bbl to ~\$100+/bbl within days, Qatar Energy declared Force Majeure, and input costs across LPG, fertilisers and petrochemicals rose sharply. For India, with ~85% crude import dependence, the impact was immediate. The rupee weakened to ~Rs95/USD, as markets corrected sharply — Nifty fell ~11.3% alone in March. FIIs recorded their sharpest-ever monthly outflow, pulling out ~Rs1.2 lakh crore (~\$12 billion) from Indian equities in March alone.

In many ways, FY26 delivered both tailwinds and shocks in quick succession. While policy easing, improving growth and liquidity supported markets through most of the year,

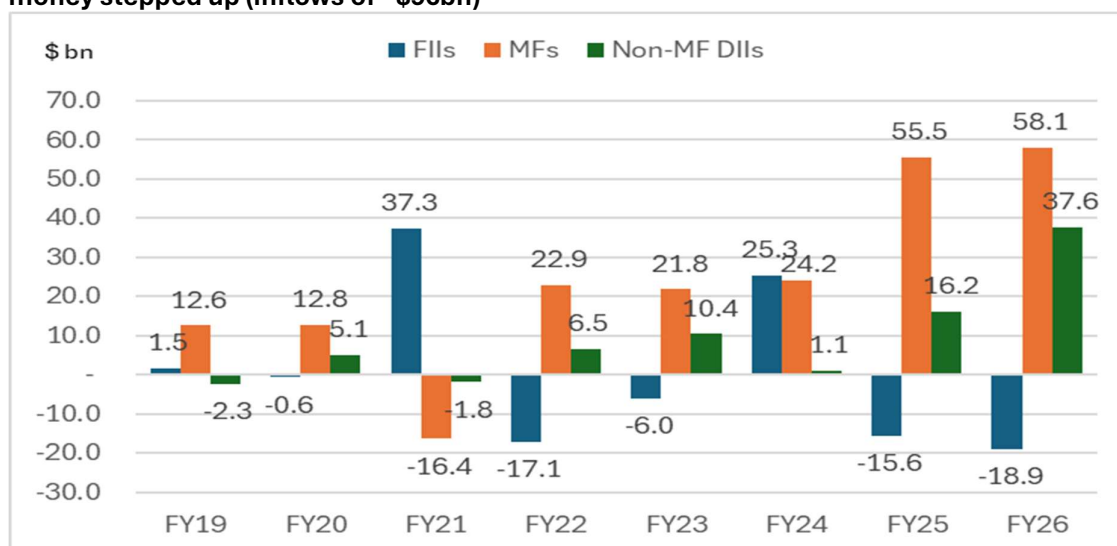
the final months reinforced a core truth — macro volatility is unavoidable. Our focus remains on building portfolios that can navigate such phases while staying anchored to long-term fundamentals.

Key principles we followed which helped us & our learnings

- Margin of safety, especially beyond large caps – Warren Buffett called it the three most important words in investing. Margin of safety remains central to our approach — with stricter discipline as risk increases. While we maintain adequate price–value gaps in large caps, we demand materially higher discounts in mid and small caps to account for governance, liquidity and volatility risks. We have also consciously avoided businesses where these risks are amplified — particularly commodity exposure, high leverage, and low promoter ownership.
- Clear assessment of value on prospective basis – This has been core to us and found it objective approach without bias in our decision-making process. It also helped us when price far exceeded our assessment of value and we have not refrained from profit booking, reducing weight or switching to better option / moved across caps.
- GAAP vs. GARP: Our framework is explicitly GARP — Growth at a Reasonable Price — but the growth must be real, cash-backed growth over accounting growth. If profits don't translate into operating cash flow, they are not sustainable — and not worth paying for. We have avoided overpaying from growth and buying at any price.
- Avoiding Working Capital Guzzlers: We look to avoid businesses that consistently absorb cash through working capital, diluting returns and increasing fragility. EPS growth without cash backing isn't compounding — it's borrowed growth.
- Effective Capital Allocation – Prudent capital allocation has been an important barometer to judge Management quality.
- Avoid IPOs at Frothy Valuations: We evaluate IPOs on the same GARP framework as secondary market investments/our portfolio holdings and participate only when valuations offer clear margin of safety — not when driven by momentum or narrative.
- Leadership Changes & PE Overhangs: We treat leadership changes and PE-backed businesses with caution. Management transitions often disrupt continuity and performance, so we demand a higher margin of safety. Similarly, PE exits are typically timed for maximum valuation — not investor returns — and often precede slower growth or weaker disclosures.
- Make volatility your friend – The volatility is extremely high across caps and returns are never linear and excess happens on both sides, and we will continue to try and take advantage of it. Profit booking in case of price far exceeds value is an integral part of strategy and we will do it on case-to-case basis based on long term outlook of business.

Flows & Liquidity

FY26 continued to see persistent selling from FIIs (outflows of ~\$19bn) while Domestic money stepped up (inflows of ~\$96bn)



Source: Bloomberg

Primary Markets continue to see record supply but weak outcomes. IPO fundraising hit a record ~Rs1.8 trillion across 112 mainboard issues. However, average listing gains fell sharply to ~8% (vs ~30% in FY25), with only ~31% of IPOs delivering >10% returns on debut. PE-VC exits in FY26 stood at \$18.8 billion across 223 deals, as against \$26.1 billion across 292 deals in FY25, a 40% decline YoY.

FY	No. of IPOs	Amount raised (Rs cr)
2019-20	13	20,350
2020-21	30	31,268
2021-22	53	1,11,547
2022-23	37	52,116
2023-24	76	61,922
2024-25	78	1,62,387
2025-26	112	1,78,963

In terms of Funds flow, FII flows, Domestic Flows – MF, Insurance and Pension Funds and supply of paper from IPO / QIB / PE exit and Management exits will be an important variable to track ahead this year.

Market view and domestic macro

We begin FY27 with cautious optimism balanced against an honest acknowledgement of near-term headwinds. Our base case is that the US-Iran conflict, while can be materially disruptive in near term in terms of earnings impact, will not escalate into a prolonged supply disruption with a resolution on the cards soon (one month). We believe the economic and political cost of a sustained Strait of Hormuz blockade is simply too high

for all parties - Iran's ability to sustain a Hormuz blockade is finite, the US has no strategic interest in a prolonged oil shock that risks tipping its own economy into stagflation ahead of a mid-term political cycle, and Gulf producers — notably Saudi Arabia and the UAE — have a structural interest in restoring export flows.

The rupee weakened materially through FY2026, depreciating ~9.85% from ~Rs84/USD to a low of Rs94.79/USD — its worst performance since FY2012 — driven by sustained FII outflows, a wider current account deficit, and delayed progress on a US trade deal, before the Iran-led oil shock accelerated the move. The RBI responded with heavy intervention, drawing down over \$30 billion in reserves in March, alongside forex swaps, OMO sterilisation, and NDF operations, while also capping banks' open FX positions to curb speculation. In our view, a weaker but managed currency is a necessary trade-off to preserve domestic growth — though it does add incremental pressure on inflation, external balances, and foreign flows going forward.

On the back of this, our overall view remains that India is a fundamentally sound economy that has been hit by an exogenous shock of significant but finite impact which should get resolved in the upcoming weeks. The structural pillars — a domestic consumption-driven GDP, low merchandise export dependence, a de-leveraged banking system and corporate balance sheet, a proactive RBI, and a government committed to fiscal prudence — remain entirely intact.

Portfolio composition & performance

Overall, as of 31st March 2026, our flagship Sohum India Opportunities Fund has in the last one year, gained 3.16% (pre-tax) against a backdrop where the Nifty 50 declined 5.05% and the Nifty 50 TRI fell 4.0%. Since our inception (20th May 2022), we have delivered 75.35% returns (an outperformance of 31.68% over Nifty TRI) with average large cap holding of 78% and consequently much lower risk.

In our portfolio, we are overweight lenders (credit growth uptick, spreads / NIM should improve, lower earnings base), Autos (GST cut beneficiary), Telecom (dominance by leader, best mass consumption proxy, tariff hikes), metals (global commodity rally), power and utilities (continuity and steady business, AI led energy demand gradually will help growth), Insurance (GST cut beneficiary, under penetration) and capital goods. Our key underweights are IT (AI led disruptions and demand challenges) and staples (high valuations and modest growth).

We have lowered our EPS forecasts for NIFTY from 1300 to 1225 for FY27 and from 1450 to 1400 in FY28. Based on the above, Nifty (@22,331) is trading at 18.2x FY27 earnings and 16x FY28 earnings. Further, the gap between bond yields (7.1%) and earnings yield (5.5%) is currently at ~160bps, offering a good margin of safety and favourable risk reward. The gap is extremely attractive on FY28 basis at 85 bps (earnings yield of 6.25%).

Hence with the framework that current crisis should get resolved maximum in next one month, we feel risk return is extremely favourable with a 12-15-month time horizon. However, we recommend gradual accumulation till we get clarity on the outcome of this crisis. Also, once there is clear resolution to crisis, one can add even

at higher levels (3-5% higher) to average on upside and yet make decent returns. With recent market correction, we feel some quality mid and small cap names are available at good margin of safety where risk reward is favourable and should be looked at.

Overall, our portfolio companies across all segments large, mid and small cap are well poised to deliver industry-leading earnings growth (Portfolio companies' earnings growth at 15.6% over FY25- 27 (vs 10% for Nifty), with PE of 15.0x on FY27 & 12.9x on FY28 and ROE at 17.2% (vs 14.6% for Nifty).

Warm Regards,

Sanjay H Parekh