



STRATEGY COMMUNIQUE: Q4: CY 2024

Acknowledging Context

Price discovery, primarily a micro-pursuit, is now subject to multiple risk perceptions.

Unifi has traditionally focused on businesses' bottom-up, sifting for risk and reward at the right price. The past few months have witnessed significant global macro shifts, and near-term asset prices reflect the changes in risk perception. The broad causation of the current environment is an uncertain international trade environment and its consequent impact on key G20 economies. If implemented in its entirety, this has the potential to impact multiple avenues of global spending and change international supply chain equations, opening up risks to economic growth in general.

Indian equities, while structurally strong and not yet in the line of international trade developments, are not immune to these emerging variables. Until the uncertainties around the macros are nearly fully discounted, the global risk appetite will influence (a) foreign capital inflows into India, (b) liquidity pressure, (c) INR currency stability, and (d) cost of capital, all of which affect valuation multiples.

Q3 FY 2025 Earnings Update

In the third quarter of the fiscal year 2024-25, Corporate India experienced moderate growth. Nifty reported a single-digit PAT growth for the third successive quarter since the pandemic (Jun' 20). Sales/EBITDA/PAT growth for Nifty constituents was at +6%/+8%/+5% YoY in 3QFY25. Excluding Metals and Oil & Gas, profits for Nifty constituents were up 7% YoY (vs. est. of +7% YoY).

NSE 500	Adjusted PAT growth		
	Dec 2023	Dec 2024	YoY
Banks-Private	47,829	49,725	4%
Banks-PSU	38,094	47,142	24%
Oil & Gas	50,408	41,486	-18%
NBFC	34,543	36,466	6%
Technology	30,666	33,156	8%
Utilities	26,041	24,608	-6%
Automobiles	23,847	23,370	-2%
Metals	16,265	18,306	13%
Healthcare	13,618	15,916	17%
Consumer	16,013	15,494	-3%
Insurance	13,458	15,445	15%
Capital Goods	9,396	11,323	21%
Misc	11,884	10,373	-13%
Cement	6,237	5,876	-6%
Retail	2,434	2,600	7%
Consumer Durables	1,440	1,977	37%

This softness was driven by weakness in Private Banks, Auto, and lower-than-expected sentiment in IT Services, Consumption, etc. This reflects the broader economic landscape, which has pockets of challenges. Auto volumes remained weak from a domestic consumption perspective, particularly in passenger cars and commercial vehicles, both of which are closely tied to lower overall economic activity and consumer confidence. Low credit growth and pricing pressure resulted in muted earnings growth for the financial sector. Weak consumption trends and raw material inflationary pressure weighed on consumer companies, limiting their growth and profitability. Technology services companies reported modest growth,

driven by weak demand from their end-user base, reflecting a slowdown in client spending. At the same time, the healthcare sector remained resilient, supported by sustained demand from export markets and stable pricing, which helped to maintain growth.

Despite these headwinds, the Indian economy grew at 6.2% during the October-December period, up from 5.6% in the previous quarter, with full-year growth projections adjusted upwards to 6.5%. This is expected to sustain the times to come, setting the base for a broader recovery. We elaborate on the strength of the Macro's below.

India, Macro

Key aspects of India's macroeconomic indicators remain reasonably strong, laying the foundations for sustainable growth in the times to come.

Core Growth | Real GDP grew 6.2% YoY in Q3-FY25, in line with the expectations and better than 5.8% (revised up from 5.6%) in Q2-FY25. This needs to be seen in the context of the base quarter's growth of 9.5% in the previous year (i.e., FY24). After growing 9.2% in FY24, India's real GDP growth is expected at 6.5% in FY25 (and at a similar level in FY26), implying an average growth of 7.5% during the three years ending FY26. Not only is this the fastest growth compared to any other major nation in the world, but also very strong vis-à-vis the state of the global economy. This is led by a recovering rural economy, a stable political environment, a robust banking sector, a good external position (CAD at just ~1% of GDP), and a continued focus on social and real infrastructure.

Inflation remains contained; c4% in FY26e. | While core economic growth is expected to be robust, inflationary pressures continue to remain at bay. India's headline inflation averaged 4.9% in 2024 before easing sharply to 3.9% in the first two months of 2025. Similarly, the core inflation (all items excluding food & fuel items) averaged only 3.4% in 2024 and stood at 4% in Feb '25. This combination of strong growth and low inflation gives enough firepower and room to the RBI to ease monetary policy in the times to come.

Fiscal position continues to improve; deficit budgeted at 4.4% of GDP in FY26 | India over-achieved its fiscal deficit targets in FY24 and FY25 (based on its revised estimate) and also budgeted a fiscal deficit in FY26 at 4.4% of GDP. Notably, the Government has consolidated its deficit without resorting to sharp spending contraction, hurting GDP growth. Further, the Government has shifted its focus from deficit to debt-to-GDP ratio from FY27 onwards, a more comprehensive and credible indicator of fiscal position. It intends to bring down its debt-to-GDP ratio from 57% in FY25 to 49-50% over the next five years, laying firm foundations for India's nominal growth expectations of c.11% for many years.

Despite near-term weakness in corporate earnings, India's macroeconomic foundation is strengthening. A combination of healthy GDP growth, easing inflation, and fiscal discipline is setting the stage for sustainable economic expansion. This environment fosters business prospects, improves capital flows, and enhances consumption trends. As inflation remains under control, purchasing power improves, benefiting sectors across the board. A lower fiscal deficit ensures stability, supporting infrastructure and policy-driven growth initiatives. These factors create fertile ground for well-run companies to thrive. Firms with strong execution capabilities and sound financials stand to gain the most. As economic momentum builds, earnings will follow. This interplay of macroeconomic tailwinds and corporate adaptability will define wealth creation in the coming years.

Review of FYTD2025

In FYTD 2025, Indian markets have moved through two exact phases of excess and correction.

The First Half: A Test of Discipline | Our advisory strategy underperformed relative to the benchmark in the first half of FY 2025. The recommendations consciously avoided firms without fundamental backing yet performing with momentum. This trend was spread across the breadth of the market, driving valuations to unsustainable levels. In the first half, we aligned with value over impulse, led by house discipline of risk and reward-led investing, and the firm belief that capital preservation and long-term compounding matter more than chasing transient gains. While this phase led to short-term underperformance, it also allowed us to avoid the risks accompanying euphoric rallies.

The Second Half: Strength in Concentration | The latter half of the year saw a more deliberate and strategic stance, recognizing several micro and macroeconomic factors. We took more concerted steps in refining and correcting our advisory strategy, and rebalancing exposures to mitigate risks. This phase was characterized by a heightened focus on capitalizing on emerging trends, reinforcing our commitment to long-term value creation.

It is essential to acknowledge that asset prices tend to move in a parabolic manner rather than in a predictable, linear line in periods of market turbulence. Current pricing does not necessarily reflect fair value, as external uncertainties have induced stress-driven biases in valuation, and external shocks amplify price movements beyond what underlying fundamentals would typically justify.

Portfolio Update

FY 2025 was a year of sharp sectoral divergences, and this is how we responded.

Credit | India's credit growth has experienced a modest deceleration, easing from mid-teen levels to a range of approximately 11-13%. Despite this slowdown, overall asset quality remains robust across the financial system, while specific segments across credit cards and microfinance have exhibited some signs of stress. We anticipate the current credit cycle will persist for the next few years, supported by a relatively stable macroeconomic environment and prudent lending practices. In line with our GARP investment approach, we have actively advised to adjust portfolio allocation throughout the year. We have recommended to reduce exposure to re-rated stocks, such as a leading PSU Bank and reallocated capital to opportunities where we see further potential for valuation expansion. This includes India's second-largest PSU Bank which is more attractively valued.

IT Services | Twelve months ago, the IT sector was poised for growth, supported by expectations of interest rate cuts and the ability for higher spending. The outlook for digital transformation remained strong, and enterprises were expected to accelerate their investments in cloud, cybersecurity, and next-generation software solutions. In alignment, our advice was to position the portfolio to capture the opportunities within the IT services sector. However, rising trade-related uncertainties and the context of India's services trade surplus have introduced complexities that could influence industry trends. While AI-driven automation presents opportunities, it also brings challenges in terms of revenue visibility, pricing pressure, and the evolving role of human capital within the sector. Given these uncertainties, we have taken a more cautious stance on the IT services sector in recent months.

Hospitals | India's private hospital sector is experiencing a structural shift towards premiumization, with leading hospital chains focusing on high-margin specialties and international patient care, resulting in higher realizations and profitability. The increased adoption of technology is improving operational efficiency and patient outcomes. Given these tailwinds, the hospital sector remains an investment opportunity with long-term growth potential.

We have suggested to maintain the exposure to one of India's most prominent chains in the private and affordable care segment while adding new positions in a leading premium care chain. ARPOB (Average Revenue Per Occupied Bed) continues to rise for each of them, driven by higher patient footfalls, a favorable case mix, and good capital efficiency. Given high earnings growth and reasonable valuations, these holdings remain resilient even in challenging market conditions.

Pharmaceuticals | We have advised to exit a large generics player as the business continues facing headwinds in the export market. During the year, we directed to add exposure to specialized API players that emphasize building an extensive product portfolio of low-volume and high-value APIs while maintaining high compliance standards. We tend to be cautious with the uncertainty in exports for the Pharma sector and are very selective with portfolio construction in this space.

Infrastructure | Our recommendations have been to increase exposure in this sector over the year; however, the outlook turned challenging due to delayed government spending following the elections. However, the overall space is expected to recover as investments pick up. With structural growth in place, we remain optimistic about its long-term potential. We expect select companies in this space to benefit from increased investments and policy support, driving their long-term performance.

Financialization of Savings | The financialization of savings in India presents a significant growth opportunity driven by rising household incomes and the under-penetration of financial products. We remain optimistic about this space, given its long-term potential. Adhering to our valuation discipline, we advised to trim exposure in this segment during the initial months of this financial year as valuations saw a sharp re-rating in a few of investee companies while suggesting an asset management company (AMC) on the grounds of value.

Agrochemicals & Fertilizers | The agriculture sector has delivered a mixed performance. Our recommendations of the domestic crop protection-focused company faced headwinds due to adverse climatic conditions and internal restructuring issues despite a strong product portfolio. We expect this to reverse in the coming financial year.

Summary

Financial markets do not always reflect intrinsic value linearly. In times of heightened uncertainty, asset prices react disproportionately to short-term macroeconomic fluctuations and liquidity shifts. This is an integral characteristic of market cycles when pricing can deviate significantly from fair value in the face of external stressors. And India's current environment is no exception. While there is the issue of froth in several sections of the market, volatility driven by external adjustments amplifies reactions. While such distortions may create near-term challenges, they also present opportunities to engage with high-quality businesses at attractive valuations. We continue to evaluate/engage closely with our investee companies to check for resilience in the face of external headwinds while maintaining their ability to deliver medium-term growth.

As we continue to navigate evolving macroeconomic conditions, we reaffirm our conviction in the long-term growth trajectory of our investee companies. These businesses are structurally sound, well-capitalized, and positioned to capitalize on emerging opportunities across their respective sectors. Their strong fundamentals, innovation-driven strategies, and operational efficiencies underpin our confidence in their ability to deliver sustained value over time.

The following sections outline our investment strategies and provide a performance summary for Q3 FY25. Individual portfolios will vary in holdings and proportions based on the timing of your investments. Please do not hesitate to contact your relationship manager for a detailed review of your portfolios.