

Dear Investors,

India's corporate earnings cycle is poised for a volume-led expansion in FY27 but a prolonged conflict in the Middle East poses the most significant downside risk in a decade.

The FY27 Opportunity: Volumes Take the Lead

India's corporate earnings narrative for FY27 is turning structurally healthier. For the first time in several years, **nearly two-thirds of sectors** are expected to see revenue growth driven by volume expansion not price inflation. This matters: volume-led growth signals genuine demand, improves operating leverage, and compresses per-unit costs. **What's driving it?** GST rate cuts in H2 FY26 flow through as a full-year tailwind for autos and two-wheelers. Rural demand recovery lifts FMCG. A public capex cycle sustains cement. Commercial vehicles benefit from a confluence of economic recovery, a replacement cycle, and rate reductions. **Higher operating leverage** means margins could expand even on modest topline growth.

Markets in the Shadow of the Strait

The geopolitical calculus has shifted materially. Iran's blockade of the Strait of Hormuz a chokepoint carrying a **fifth of global oil and substantial LNG flows** is no longer a tail-risk scenario. It is the baseline. The newly-anointed Supreme Leader has signalled no near-term de-escalation. India's Economic Survey had modelled three scenarios in February. **The worst case is now playing out.** European and Asian economies, reliant on imported energy, face the most acute exposure. India dependent on the Strait for oil, LPG, and industrial gas is squarely in the line of fire. A market decline of ~10% is a meaningful correction, but not yet a crisis; the sharper risk is a prolonged supply shock.

The Four Fault Lines to Watch

ENERGY COST PASS-THROUGH *Crude and LNG price spikes compress manufacturing margins directly and raise working capital requirements. Sectors with thin margin buffers — airlines, chemicals, ceramics — are most exposed.*

FREIGHT & TRANSIT DELAYS *Rerouting ships around the Cape of Good Hope adds 10–14 days and 20–30% to freight costs. Inventory build-ups and supply disruptions become a drag on Q1 and Q2 FY27 numbers.*

RUPEE PRESSURE *A weaker rupee inflates import bills for oil-dependent industries. RBI intervention absorbs domestic liquidity, tightening monetary conditions even without a formal rate hike.*

STRATEGIC COMMODITY PREMIUM *The conflict has accelerated a structural shift: nations will now price in the cost of strategic reserves across oil, gas, and critical commodities. This is a permanent, not transitory, cost for import-dependent economies.*

The Long View: Patience Has a Price

For long-term investors, the current drawdown roughly a third of the COVID-era decline is uncomfortable but historically unremarkable. The key difference from 2020 is the absence of a coordinated global fiscal and monetary backstop. Recovery, if and when it comes, may be slower and less uniform. The post-COVID cohort of retail investors many of whom have only known a rising market is being handed a rare and valuable lesson. Leverage is the primary risk to monitor: elevated leveraged positions could transform a correction into a forced-selling cascade. Those with a multi-decade horizon and no leverage can afford patience. The sectors best positioned to absorb the shock domestic consumption, rural demand, import-substituting industry remain structurally intact.

"In revenue growth, when volumes lead the charge, it is always a more sustainable growth story than when price-change drives growth. FY27 promises to be one such year but much depends on how costs play out."

RNM Capital Trust AIF Cat III: Strategy in Action

Since inception in February 2026, our portfolio has delivered outperformance relative to the Nifty, driven primarily by three structural positioning decisions:

- ✓ Higher allocation to earnings compounders where volume growth visibility remains strong.
- ✓ Avoidance of sectors facing margin compression, particularly businesses highly exposed to energy cost volatility.
- ✓ Selective exposure to companies benefiting from India's capex and manufacturing cycle.

Rather than chasing momentum, the portfolio has remained focused on high return-on-capital businesses with strong balance sheets and pricing power, which tend to outperform during volatile macro environments.

Another key contributor to our fund's outperformance has been **strict price discipline in portfolio construction**. While identifying high-quality businesses is essential, the price at which they are

purchased ultimately determines long-term investment outcomes. Our investment framework places significant **emphasis on valuation discipline and downside protection**. Positions are initiated only when a sufficient margin of safety exists between intrinsic value and market price. This approach helps limit permanent capital loss and reduces the impact of market volatility on the portfolio.

