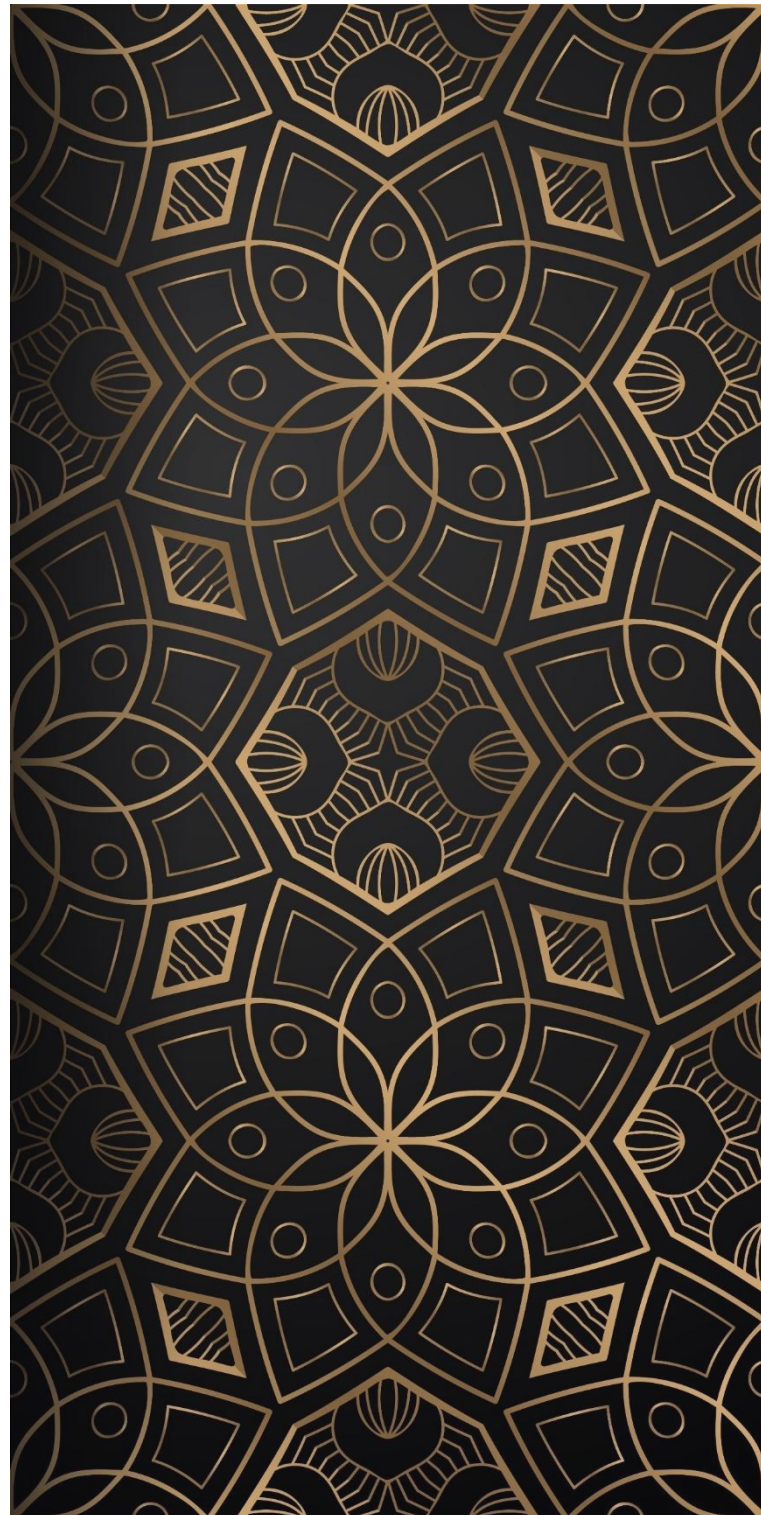




BURMAN
CAPITAL MANAGEMENT



Sectoral shift underway?

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Summary

Since reaching their peak on September 26, 2024, India's equity markets have experienced significant volatility driven by a cyclical slowdown in the domestic economy, geopolitical uncertainties, and global trade tensions. Over the last nine months, headline indices in India recorded peak drawdowns between 15 to 26%, with a subsequent recovery leaving them 2.5% to 5.5% below all-time highs as of June 30, 2025.

Such consolidation phases have historically triggered shifts in sectoral leadership. In this newsletter, we analyze the evolution of sector dominance over the past five years and spotlight three sectors which are showing signs of leadership in the next phase of the markets, namely Banking, Financial Services, and Insurance (BFSI), Healthcare, and Chemicals. In addition, we also discuss emerging opportunities in niche segments such as Discretionary Consumption and Building Materials.

We deep-dive into these sectors considering various micro and macro factors including sectoral earnings, valuations, geo-political developments, government and regulatory actions, among others to arrive at prospects for them going forward.

Portfolio performance update

During the Apr-Jun 2025 quarter our portfolio delivered returns of 14.1% vs 10.8% for our benchmark S&P BSE 500 TRI. Since inception i.e. Mar 23, 2021, our portfolio has delivered annualized returns of 32.7% vs. S&P BSE 500 TRI returns of 17.5%, delivering outperformance of more than 1,500 bps annualized.

Over the last three years, our returns have been 30.9% vs 21.7% annualized for our benchmark, an outperformance of close to 900 bps annualized. Over the last two years, annualized returns have been 22.4% vs 20.5% for our benchmark.

In the last twelve months, our portfolio has delivered 20.9% vs 5.1% for our benchmark.

Performance Snapshot

	1 Month	3 Months	6 Months	1 Year	2 Years	3 Years	4 Years	Since Inception
Burman Capital Management	2.6	14.1	-1.7	20.9	22.4	30.9	31.3	32.7
S&P BSE 500 TRI	3.7	10.8	5.9	5.1	20.5	21.7	16.1	17.5

Monthly performance (Absolute returns %)	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
2021	NA	NA	0.67	6.5	5.7	(0.5)	7.5	4.1	4.3	4.0	7.3	9.6
2022	0.2	(7.0)	11.7	(2.5)	(5.7)	(2.8)	9.3	8.7	4.5	4.1	(3.5)	0.1
2023	(1.3)	1.0	(0.5)	9.0	7.1	3.6	1.7	6.8	0.8	-	8.7	0.6
2024	1.4	(3.5)	(8.6)	10.5	(5.1)	10.3	4.9	6.9	3.1	(1.8)	3.6	4.6
2025	-9.7	-6.5	2.1	2.2	8.8	2.6						

Note: All returns are net of fees and expenses (TWRR). Since inception, two-year and three-year returns are annualized; other time period returns are absolute. Benchmark changed effective from 1st April 2023 to S&P BSE 500 TRI from S&P BSE Small Cap Index, according to SEBI circular dated December 16, 2022.

Sectoral leadership progression post COVID-19

Indian markets made their COVID-19 bottom on Mar 23, 2020, post which sectors such as Chemicals, Metals & Mining, Power, and IT emerged as leaders. Reasons for their outperformance was idiosyncratic, including (1.) Chemical companies reported super-normal profits driven by increasing prices and inventory build-up globally due to COVID-19 led trade disruption and (2.) strong returns in the IT sector were driven by the tech boom during the pandemic. In addition, sub-sectors such as (1.) Wood panel manufacturers experienced a windfall driven by 'work-at-home' culture, (2.) Electronic manufacturing companies' scale grew exponentially driven by the government's PLI (Performance-Linked Incentive) scheme, among others

Sector returns rank (#)	Expansion phase Mar 2020 to Oct 2021	Consolidation phase Oct 2021 to Mar 2023	Expansion phase Mar 2023 to Sep 2024	Consolidation phase Ongoing since Sep 2024
Returns (%)	172%	-10%	80%	-8%
1	Chemicals	Capital goods and infrastructure	Capital goods and infrastructure	BFSI
2	Metals and mining	Auto/ancs	Power	Telecom and Media
3	Power	Telecom and Media	Telecom and Media	Chemicals
4	IT	Consumer	Auto/ancs	Healthcare
5	Real estate and construction	Power	Healthcare	Real estate and construction
6	Oil and Gas	BFSI	Real estate and construction	Capital goods and infrastructure
7	Capital goods and infrastructure	Metals and mining	Metals and mining	Oil and Gas
8	Auto/ancs	Real estate and construction	BFSI	Metals and mining
9	BFSI	Chemicals		IT
10	Healthcare	Oil and Gas	Oil and Gas	Auto/ancs
11	Telecom and Media	Healthcare	IT	Consumer
12	Consumer	IT	Chemicals	Power

After Oct-21, markets moved sideways till about Mar-23 as corporate earnings turned weak due to (1.) commodity inflation driven by the Russia-Ukraine war and (2.) increase in interest rates by central bankers globally. Only two sectors, namely Capital Goods and Auto/components, delivered positive returns during this period driven by strong profit growth. These two sectors turned out to be amongst sector leaders in the ensuing bull market from Mar-23 to Sep-24 – reflecting a pattern where consolidation-phase leaders excel in expansionary phases. There were also certain sub-sectors such as PSU (Public Sector Undertaking) banks that delivered positive returns driven by bottoming-out of their credit costs and revival in profit growth while others such as defense and railways benefited from government initiatives. Sectoral leadership emerges from a confluence of macro and micro factors that drive undiscounted positive changes in sectoral earnings.

Since the market peak on Sep 26, 2024, three sectors, viz. BFSI, Healthcare and Chemicals have shown resilience. In the next section, we discuss the fundamental dynamics driving these sectors.

Sectoral Deep dive

Chemicals

After an exceptionally strong period for the Chemicals sector in CY2020-21, the industry struggled due to excess inventory build-up globally which subsequently led to a sharp fall in demand. This fall in demand together with Chinese capacities opening-up (post COVID-19 related restrictions) resulted in a double whammy for the sector resulting in PAT declining by 22.4% over FY2022 – 25. As a result, the Chemicals sector became one of the worst performing in the Oct 2021 – Mar 2025 (returns of a meagre 7% over 3.5 years). However, issues that had an impact on the sector are now reversing driven by improving demand and prices (at the margin).

Sector returns rank (#)	Expansion phase Mar 2020 to Oct 2021	Consolidation phase Oct 2021 to Mar 2023	Expansion phase Mar 2023 to Sep 2024	Consolidation phase Ongoing since Sep 2024
Returns (%)	305.5%	-17.2%	48.8%	-1.8%
1	Commodity Chemicals	Fertilizers	Carbon Black	Dyes & Pigments
2	Speciality chemicals	Carbon Black	Fertilizers	Fertilizers
3	Carbon Black	Pesticides & Agrochemicals	Dyes & Pigments	Pesticides & Agrochemicals
4	Dyes & Pigments	Speciality chemicals	Commodity Chemicals	Speciality chemicals
5	Fertilizers	Commodity Chemicals	Pesticides & Agrochemicals	Commodity Chemicals
6	Pesticides & Agrochemicals	Dyes & Pigments	Speciality chemicals	Carbon Black

“Chemicals” is a heterogeneous space wherein dynamics of one value chain can differ significantly from others. Niche chemicals are experiencing strong tailwinds for instance – (1.) certain Speciality Aroma Chemicals companies are benefitting from imposition of anti-dumping duties against China in the US and EU following an aggressive period of dumping by these Chinese companies in 2023/2024 and (2.) Dyes & Pigments industry in India is experiencing a tailwind given the second largest player in the world filed for bankruptcy. There are other pockets of opportunities as well in the Chemicals sector where earnings have or are expected to grow at a rapid pace.

BFSI (includes banking, financial services, insurance, and capital market intermediaries)

Capital Market Intermediaries such as asset management companies, wealth managers, exchanges, brokers, and depositories among others have grown exponentially over the last few years. The group in aggregate reported a 35%+ CAGR in PAT and 48%+ in market capitalization over FY2023-25 driven by rapidly increasing penetration and high mark-to-market gains. As India's GDP per capita rises, savings will increase leading to more investments – a trend which is likely to be decadal.

Sector returns rank (#)	Expansion phase Mar 2020 to Oct 2021	Consolidation phase Oct 2021 to Mar 2023	Expansion phase Mar 2023 to Sep 2024	Consolidation phase Ongoing since Sep 2024
Returns (%)	148.9%	-9.1%	61.6%	3.0%
1	Finance - Affordable Housing	Bank - Public	Capital Market Intermediaries	Capital Market Intermediaries
2	Finance - Investment	Bank - Private	Finance - NBFC	Finance - Investment
3	Finance - NBFC	Finance - Housing	Finance - Investment	Bank - Private
4	Capital Market Intermediaries	Insurance	Bank - Public	Finance - NBFC
5	Bank - Public	Finance - NBFC	Insurance	Finance - Affordable Housing
6	Bank - Private	Finance - Affordable Housing	Bank - Private	Finance - Housing
7	Insurance	Finance - Investment	Finance - Affordable Housing	Bank - Public
8	Finance - Housing	Capital Market Intermediaries	Finance - Housing	Insurance

Banks have been reeling under a credit growth slowdown driven by an exceptionally tight liquidity environment for most of CY2024. Given decisive liquidity measures taken by the Reserve Bank of India, credit growth is expected to pick-up in the latter half of the year. Private banks trade at about a ten per cent discount on the long-term average, and a pick-up in credit growth may provide a trigger for re-rating.

Another interesting pocket is affordable housing financiers (AHFC). Listed AHFCs are growing their AUM (Assets Under Management) between 20-30%, have low credit costs, strong RoE between 13-17% and are trading at reasonable valuation. Moreover, recent repo rate cuts of about 100bps are likely to augur well for them given their ability to retain yields in interest rate downcycles, leading to higher spreads.

Healthcare

Sector returns rank (#)	Expansion phase Mar 2020 to Oct 2021	Consolidation phase Oct 2021 to Mar 2023	Expansion phase Mar 2023 to Sep 2024	Consolidation phase Ongoing since Sep 2024
Returns (%)	145.6%	-17.9%	105.4%	-2.0%
1	Medical Equipment	Hospital & Healthcare Services	Medical Equipment	Hospital & Healthcare Services
2	Hospital & Healthcare Services	Medical Equipment	Pharma - Generics	CDMO/API_Intermediates
3	CDMO/API_Intermediates	Pharma - Diversified	CDMO/API_Intermediates	Pharma - Branded Generics
4	Pharma - Generics	Pharma - Branded Generics	Pharma - Diversified	Pharma - Diversified
5	Pharma - Diversified	Pharma - Generics	Hospital & Healthcare Services	Medical Equipment
6	Pharma - Branded Generics	CDMO/API_Intermediates	Pharma - Branded Generics	Pharma - Generics

Driven by macro tailwinds from regulated markets, especially the US, several companies in the CDMO (Contract Development and Manufacturing Organization) sector have witnessed a strong uptick in profitability. As per our calculations, CDMO companies cumulatively grew profits by almost 65% in H2FY25 (partly aided by certain loss-making companies turning profitable). Indian CDMO companies have carved a niche for themselves in terms of building capabilities and are expected to grow significantly over the course of this decade. While most companies in the segment trade at expensive valuations (sector-level valuation at 65x TTM P/E), there are specific plays where valuations are reasonable.

Listed hospital chains in India are expanding at a fast rate with record bed additions expected. CARE ratings, for instance, expects major listed companies to add between 10,000 – 12,000 beds over the next 3-5 years versus addition of 4,000 beds between FY2019-24. These chains address a large underpenetrated market and are likely to grow significantly over the long term. They also have strong pricing power driving superior economics. Like CDMO companies, most hospital chains are expensive (sector-level TTM P/E of 70X+), though there are certain niche pockets of opportunities still available.

Other interesting spaces

Discretionary Consumption

Given the government's focus on driving consumption as visible through various initiatives such as (1.) incoming transfer schemes, (2.) tax rebates, (3.) pay commission changes, (4.) interest rate cuts and (5.) increasing system liquidity, consumption in certain pockets may get a boost. While the effects of these initiatives are not visible currently in numbers, certain high operating leverage businesses may experience a surge in profits if the demand comes through. Few sub-sectors include (1.) value retail focused on rural/semi-urban where we are witnessing pick-up in demand momentum driven by rural-focused government initiatives and (2.) select opportunities in the Quick-service restaurant space which is recovering from a demand slowdown and intense competition.

Building Materials

Building materials space has been reeling under anemic demand and increasing competition over the past few years. However, with residential real estate completion cycle gaining pace in CY 2025/26 from the surge of projects launched between CY2021-23, urban projects sensitive categories such as sanitaryware may gain significantly.

While we have focused on specific sectors and sub-sectors above, there are several other attractive opportunities in the market. Our focus is currently on orienting our portfolio towards companies that run by strong management teams who have the execution capabilities to harness such sector-level tailwinds efficiently. If you would like to discuss our approach in the current market in more detail, please feel free to write to me at agupta@burmancapital.com.

About Burman Capital Management

Burman Capital Management is a part of Burman Family Holdings, the strategic investment platform of the Burman Family, which over the last twenty years has invested over US \$500 million in various businesses primarily in India and have partnered and joint ventured with many of the leading Fortune 100 companies from around the world. The Burman family are the control shareholders of the Dabur Group. Dabur was founded in 1884 by Dr. S.K. Burman and is today one of the largest Indian Fast Moving Consumer Good Company in India with over US\$1 billion in revenue and a market capitalization of over US\$10 billion.

At Burman Capital Management, we are long-term investors with deep passion for identifying and investing in exceptional businesses early. We are fundamentals-driven bottom-up investors and run concentrated portfolios focusing on small to mid-size companies. We are a SEBI-registered Portfolio Manager with registration number INP100007091.

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