

Newsletter

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— Charlie Munger

Exclusive Coverage


Spark Capital
Investment Management



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Global Economy

The global macro backdrop remains uncertain, with U.S. yields crossing 5% and crude oil moving above \$90, highlighting heightened volatility amid escalating Middle East tensions. Rising energy prices are adding to global inflationary pressures, while elevated yields are tightening financial conditions and keeping risk sentiment under pressure.

The Fed's 25 bps rate hike to 3.75%–4.00% in September, its first since 2023, highlighted renewed inflationary pressures. Despite this, the U.S. economy remained resilient, with the Manufacturing PMI at 55.9, while the Composite PMI rose to 58.4 and the Services PMI to 58.8. Markets were mixed, with the Dow Jones falling 3.53%, while the S&P 500 gained 0.26% and the Nasdaq rose 2.92%, supported by technology and growth stocks.

In Europe, economic activity showed signs of improvement. Eurozone Manufacturing PMI rose to 52.9, its highest level since May 2022, while the Composite PMI climbed to 53.1 from 52.0 in August. Services PMI also strengthened to 53.0 from 51.6, pointing to broader expansion. Despite improving activity, European markets remained under pressure, with the DAX falling 2.97%, CAC 40 declining 4.06%, FTSE 100 down 1.70% and Euro Stoxx 50 slipping 1.57%.

Asian economies delivered a mixed performance. Japan's Manufacturing PMI eased to 54.1 in September from 54.9, while the Composite PMI fell to 52.3 and the Services PMI to 51.3, indicating a moderation in activity. In China, the Manufacturing PMI rose to 52.1 from 51.5, while the Services PMI edged up to 51.6, signalling continued expansion.

Asian stock markets were mixed, with the TWII rising 2.11%, Nikkei 225 gaining 0.81% and Kospi edging up 0.03%. In contrast, the Shanghai Composite fell 3.46% and the Hang Seng declined 2.83%, reflecting weakness across key Chinese markets. Overall, resilient economic activity is being offset by higher yields, volatile oil prices and persistent inflation concerns.



Indian Economy

India's macro backdrop remained resilient, with the RBI unanimously raising the repo rate by 25 bps to 5.50%, while raising its FY growth forecast to 7.1% from 6.7%. The central bank also revised its core inflation forecast to 4.4% from 4.3%, reflecting emerging price pressures. The RBI noted that economic activity-maintained momentum during the July–September quarter, indicating continued strength in domestic demand.

High-frequency indicators also pointed to sustained economic activity. India's Manufacturing PMI rose to 55.1 in September from 52.8 in August, signalling a stronger pace of expansion. The Composite PMI increased to 55.9 from 54.6, while the Services PMI improved to 55.2 from 54.1. Although both Composite and Services readings came below their preliminary estimates, the data continued to indicate expansion across key segments of the economy.

Despite this resilience in the underlying economy, Indian equity markets witnessed a sharp broad-based correction during the period. The Nifty 50 declined 6.03%, while the Nifty 100 fell 5.92% and the Nifty 500 dropped 5.85%. The Nifty Midcap 150 recorded the steepest decline at 7.07%, highlighting significant pressure across the broader market. The Nifty Smallcap 250 declined 3.08%, while the BSE Sensex fell 5.80%.

Foreign investor flows remained a key source of pressure. In September, FIIs recorded a net outflow of over ₹44,000 crore, with gross purchases of ₹3.14 lakh crore against gross sales of ₹3.58 lakh crore. In contrast, DIIs recorded a net inflow of over ₹76,000 crore, supported by gross purchases of ₹3.68 lakh crore against sales of ₹2.92 lakh crore.

Overall, strong domestic economic activity and DII support provided a counterbalance to elevated foreign selling and global risk pressures, but equity markets remained volatile as investors weighed growth resilience against inflation, monetary policy and external uncertainties.

Happy Investing!!

PMS Bazaar Research Team.

About Spark Capital PMS and Fund Management Team

Spark Capital
Investment Management

+ Spark Asia Impact Managers, a SEBI-registered portfolio manager (INP000006235), runs two long-only Indian equity strategies, both launched in 2019 and benchmarked to the Nifty 50 TRI: India@75 Flexicap (since 7 February 2019) and India@75 Core & Satellite (since 20 June 2019). Both are multi-cap, sector-agnostic portfolios of roughly 25–30 high-conviction stocks. Since inception, the CIO has published a regular market commentary, Market Musings, that documents the team's views through each phase of the cycle. The PMS manages ₹877 crore across 421 accounts (as on September 30, 2026).

Investment Team



P. Krishnan [Managing Director and CIO] Spark Asia Impact Managers

P. Krishnan has over 35 years of experience in equity fund management. He began as a fund manager at SBI Mutual Fund in 1990 and later managed Kothari Pioneer Bluechip (now Franklin India Bluechip). He then spent 19 years at DNB Asset Management in Norway, running India and Asian equity strategies, including the Asian Small Cap Fund and the DNB India Fund. He joined Spark Capital in 2018. He holds a B.E. in Computer Science and a PGDM from IIM Bangalore.



Amresh Kumar [Partner, Fund Management] Spark Asia Impact Managers

Amresh has about two decades of experience in equity research and fund management. He started in credit assessment at JP Morgan and then covered metals, mining and cement in Macquarie's India research team. At Geosphere Capital Management, a US-based hedge fund, he ran long/short Asian equity portfolios from Singapore for three years and then co-managed its India long-only portfolio for close to a decade. Amresh holds a B.Tech from IIT Roorkee and an MBA in Finance from SPJIMR, Mumbai, and has cleared all three levels of the CFA program.



Sreekanth P. V. S [Senior Vice President, Investment Management] Spark Asia Impact Managers

Sreekanth has over 16 years of experience in equity research and institutional equities. Before joining Spark, he covered consumer discretionary at Antique Stock Broking. Earlier, he worked in institutional equities at ICICI Securities and Motilal Oswal Financial Services, and covered FMCG and media at Angel Broking. He holds an MBA in Finance from IBS Hyderabad and a BBA in International Business from the Institute of Advanced Studies in Education.

About Investment Philosophy, Investment Approach and Process

Investment Philosophy

Spark PMS believes long-term equity returns come from businesses which don't repeatedly dilute their equity, and are bought at prices that respect their cash generation.

The team's five guiding beliefs are execution over ideology, growth at the right price, flexibility across sectors and market caps, an understanding that behavioral dynamics shape markets, and a conviction that risk and drawdown control matter. The goal is sustainable alpha from structural mispricing rather than tactical trades. In practice, this comes down to three ideas:

- **Market structure decides profitability:** Industries that have consolidated, or are consolidating, tend to price rationally, protect returns and reward the leaders with market share over time. The team prefers to own among the top two or three players in such industries rather than the challengers in fragmented ones.
- **Self-funding growth compounds best:** A business whose operating cash flow funds its own capex and working capital can compound for years without dilution or balance-sheet strain. Unit economics should preferably support a return on invested capital significantly higher than cost of capital.
- **Price is part of the thesis:** Valuation is anchored on cash flows, not just earnings multiples. Cash flow is harder to flatter than reported profit, and the discipline keeps the portfolio from paying any price for a good story.

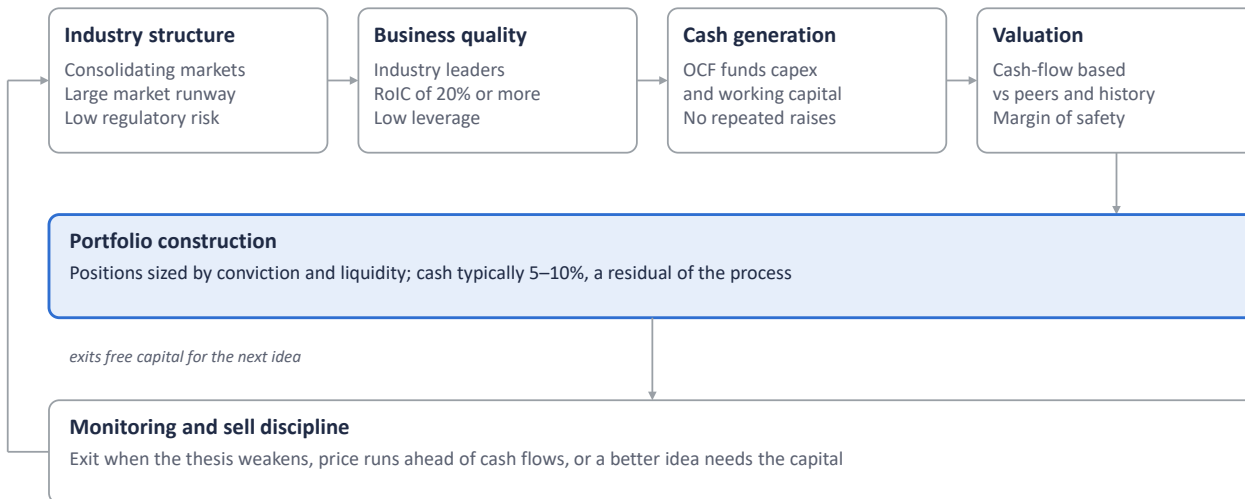
The team deliberately avoids chasing recent winners. Its own study of 20 years of Nifty 500 data shows that only about 27% of a year's top-quartile stocks stay in the top quartile the following year, close to what chance would predict.

Investment Approach and Process

The process is bottom-up and agnostic to sector and market cap, and runs in four stages: identify price-value gaps (out-of-favour segments, misunderstood trends, company inflections); research them in depth to build a focus list of 40–60 names; construct the portfolio with liquidity and risk filters; and monitor outcomes against expectations, cutting losers and scaling winners. Within the research stage, each idea passes four filters, in order: industry structure, business quality, cash generation and valuation.

About Investment Philosophy, Investment Approach and Process

Every idea clears four filters, in order, before it is sized



Investment Framework - Four filters, then portfolio and monitoring.

Ideas move left to right through the filters; capital freed by exits goes back to the start of the funnel.

THE FRAMEWORK

- **Industry Structure** : The team starts with the industry, not the stock. It looks for markets that have consolidated, or are consolidating, with rational pricing and high entry barriers, and a large addressable market so the leaders have a long runway. Sectors whose economics depend heavily on regulation are discounted, because a policy change can rewrite the returns overnight.
- **Business Quality** : Within an attractive industry, the focus is on the leaders: market share gains, pricing power, management's record on capital allocation, and unit economics that support a return on invested capital of 20% or more. Leverage is treated as a red flag, particularly in services businesses, where debt rarely builds a moat.
- **Cash Generation** : The key test is whether operating cash flow funds the company's own capex and working capital. Profit that does not convert to cash, or growth that needs repeated equity or debt raises, weighs against the idea.
- **Valuation** : Companies are valued on cash flows, cross-checked against peers and the company's own history. A stock is bought only when the price implies an attractive return on the cash flows the team expects, with a margin for error.

About Investment Philosophy, Investment Approach and Process

- **Portfolio Construction** : Flexicap holds around 28 stocks with a 2–3 year horizon and a single-stock limit of 10%. Core & Satellite holds around 25 stocks with a 1–2 year earnings horizon, larger core positions and a single-stock limit of 15%. Positions are sized to conviction and liquidity, and the top 10 holdings make up about 40% of each portfolio. Cash has typically been 5–10% and is kept below 15%: it is a residual of the bottom-up process, not a market call.
- **Monitoring & Selling** : A position is reviewed when the thesis weakens (the industry structure loosens, cash conversion slips or leverage rises), when the price runs well ahead of the cash flows, or when a better opportunity needs the capital.

FIVE TESTS ALONGSIDE CASH FLOW

Cash generation is the anchor, but every idea is also tested on five questions:

- **Scale** : Is the opportunity big enough? A large addressable market means one successful business model can be replicated many times over and create value far beyond its starting size.
- **Leverage** : Does growth depend on borrowed money? Debt is a red flag, especially in services businesses, where the real assets are people and processes and borrowing rarely builds a durable advantage.
- **Unit Economics** : Will each unit of capital earn enough? The business should be able to generate a return on invested capital of at least 20% once it reaches maturity, even if early years are lower.
- **Regulatory Risk** : How much of the profit depends on a regulator's decision? Businesses whose economics hinge on policy, pricing approvals or licences warrant a lower valuation multiple, because a single rule change can reset returns.
- **Valuation discipline** : Are we paying for fundamentals or for popularity? The team does not chase the flavour of the year. Its study of 20 years of Nifty 500 data shows that returns persist only weakly from one year to the next: about 27% of a year's top-quartile stocks stay there the following year, against 25% by chance.

RISK MANAGEMENT

Besides the quality of the businesses owned, the fund manages risk through single-stock limits and liquidity limits, and tracks the leverage of its holdings and the share of the portfolio in stocks with promoter pledges. The record in falling markets reflects this: since inception, Flexicap beat the Nifty 50 TRI in 16 of the 22 months when the index fell more than 2%, and Core & Satellite in 14 of 21.

About Investment Philosophy, Investment Approach and Process

STRATEGY PERFORMANCE AND PORTFOLIO SNAPSHOT

Data as on 30 September 2026. The benchmark for both strategies is the Nifty 50 TRI. Returns are in % and net of fees; periods over one year are annualised.

TRAILING RETURNS

Period	Flexicap	Core & Satellite	Nifty 50 TRI
1 year	-1.7%	-3.6%	-7.1%
3 years	8.2%	6.0%	6.1%
5 years	11.4%	10.7%	6.4%
Since inception	14.1%	15.9%	11.1% (Flexicap) / 10.8% (C&S)

Inception: Flexicap 7 Feb 2019; Core & Satellite 20 Jun 2019. Strategy performance is as on 30 September 2026 and is net of all expenses and fees. Returns for one year or less are absolute; returns for longer periods are annualised using the Time Weighted Rate of Return (TWRR) method. Past performance is not indicative of future results and returns are not verified by SEBI. Holdings and allocations are current, subject to change, and do not constitute a recommendation.

TOP SECTORS

BFSI about 40% in both strategies, followed by Pharma & Healthcare, Consumer Discretionary and Infrastructure.

Top 10 holdings (about 40% of each portfolio)

- **Flexicap:** Axis Bank, Bajaj Auto, Dr Reddy's Laboratories, Kotak Mahindra Bank, ICICI Lombard General Insurance, Narayana Hrudayalaya, NTPC, Reliance Industries, SBI Life Insurance, State Bank of India.
- **Core & Satellite:** Bajaj Auto, Dr. Lal PathLabs, EID Parry India, ICICI Lombard General Insurance, Kotak Mahindra Bank, NTPC, Piramal Finance, RBL Bank, SBI Life Insurance, State Bank of India.

MARKET-CAP SPLIT AND PORTFOLIO CHARACTERISTICS

	Flexicap	Core & Satellite
Large cap	43.0% (13 stocks)	41.0% (12 stocks)
Mid cap	33.5% (13 stocks)	36.0% (11 stocks)
Small cap	15.0% (9 stocks)	17.0% (8 stocks)
Cash and equivalents	8.5%	6.0%
Debt/equity of holdings (ex-financials)	36.0%	32.4%
AUM in stocks with promoter pledge	10.8%	10.3%
Median P/E, FY27E / FY28E	23.8x / 20.6x	22.0x / 20.1x

Disclaimer: The stocks mentioned above are for informational purposes only and do not constitute a stock recommendation or investment advice. Portfolio holdings and allocations are subject to change and may not remain the same in the future. Past performance is not indicative of future returns.



Exclusive Interview



Amresh Kumar

Partner, Fund Management,
Spark Asia Impact
Managers

“ Since 2019, small caps as a group have beaten large caps, helped by faster earnings growth and a near doubling of their valuations, while the Nifty 50 de-rated. ”

Excerpts from the interview:

As of 31 August 2026, BFSI accounted for nearly 40% of both strategies. What structural factors justify this level of allocation?

Our BFSI weight is an outcome of bottom-up stock selection, not a top-down call on the sector. Financial services is also among the largest sectors in the Nifty 500, so our exposure is less of an outlier than it may appear.

Three structural factors support it. First, credit penetration in India remains low relative to the size of the economy, giving well-run lenders a long runway. Second, household savings are steadily moving from physical assets into financial ones, which benefits asset managers, insurers, exchanges and depositories. Third, many of these businesses operate in consolidated or regulated markets where competition is circumscribed, the kind of industry structure we look for.

Not all of the 40% is the same bet. Our holdings span public and private sector banks, a housing finance company, life and general insurers, a depository and a ratings agency. Each has its own drivers, from credit growth and deposit costs to capital-market activity and claims trends, so lumping them together overstates the concentration.

What they share is a domestic earnings base. With geopolitical risks elevated, we set out to build a domestically focused portfolio, not a financials-focused one. Well-capitalised financials with healthy returns on assets and equity fit that brief.

Why do you maintain a cash position, and how do you determine whether holding cash offers greater value than staying fully invested? Is cash primarily a risk-management tool or dry powder for emerging opportunities?

We don't begin with a predetermined cash target. Cash is the residual outcome of our investment process. When we cannot find enough businesses that meet our return and risk hurdles at prevailing valuations, we are comfortable waiting.

The 2024–25 period was a good example. As valuations became stretched in parts of the market, we progressively raised cash rather than trying to predict the top. When prices corrected and our fundamental thesis on selected businesses remained intact, we deployed that cash in stages. We therefore don't use cash to make a macro call or to predict market movements.

For us, cash is essentially optionality. We are willing to give up some near-term participation in order to retain the ability to act when the risk-reward becomes more attractive. Cash has typically been 5–10% of our portfolios, and we keep it below 15%; on 31 August 2026 it was 10% in Flexicap and 6% in Core & Satellite. It is not a market-timing call. Cash builds up when our bottom-up process finds fewer stocks that clear our valuation hurdle, and falls when good businesses become available at sensible prices.

The decision to hold cash rests on a simple comparison. Every stock we own or want to own has an expected return based on its cash flows and the price we pay. When the best available ideas no longer offer a reasonable margin over that hurdle, holding cash is better than buying something merely to be fully invested.

So cash is primarily dry powder, with risk management as a useful by-product. Corrections are when quality businesses become affordable, and having capital ready means we can buy them without selling something else at the wrong time. We are careful, though, not to let cash become a drag: over a full cycle, equities compound, and an idle balance has a real cost.

Since both strategies were launched in 2019 and have navigated multiple market corrections, which period tested your risk framework the most, and how did that experience reshape your approach to risk?

The COVID crash of early 2020 tested us the most. Both strategies were less than a year and a half old when the Nifty 50 TRI fell 29.1% between January and March 2020.

Our portfolios fell about 20% (Flexicap 20.6%, Core & Satellite 19.7%). Two things helped. We had entered 2020 cautious on stretched valuations and debt-heavy businesses, so the portfolios leaned towards companies with balance sheets strong enough to survive months of disruption without raising capital. And because we were never forced sellers, we could add to businesses whose long-term earnings power was intact, including a sizeable position in IT services.

Exclusive Interview with Amresh Kumar, Partner, Fund Management

The episode reshaped our approach in three ways. Balance-sheet strength became an explicit survival filter, not just a marker of quality. We learnt to deploy cash in stages, since bottoms are visible only in hindsight. Limiting the fall matters, but so does being fully positioned for the rebound.

Equities are not a one-year asset class, yet investors often anchor to first-year returns. How should they think about the right investment horizon and evaluate returns across market cycles?

Most of an equity return in any single year comes from changes in sentiment and valuation multiples. Over longer periods, returns tend to follow growth in earnings and cash flow. First-year numbers are therefore mostly noise, and depend heavily on the investor's entry point.

The data bears this out. Using 20 years of point-in-time Nifty 500 constituents, we ranked stocks by 12-month total return. On average, only about 27% of a year's top quartile stayed there the next year, barely above the 25% chance would produce. More than one in five fell straight to the bottom quartile, and fewer than one in ten stayed on top three years running.

We encourage investors to assess a strategy over three to five years, ideally a full market cycle, and to ask better questions: How consistent are rolling three-year returns against the benchmark, after fees? How deep were drawdowns, and how long did recovery take? Are the underlying businesses compounding earnings and cash flows? Past performance does not guarantee future results, but these questions show whether a process works.

Source: Nifty 500 point-in-time constituents, 2005–2026; stocks ranked by 12-month total return (including dividends); average across 39 annual comparisons.

EVs, AI and PSUs have dominated investor attention in recent years. Which emerging themes do you believe could define the next phase of India's equity markets and broader investment landscape?

For decades, Indian manufacturing has been our go to: always expected, never arriving. Its share of GDP has stayed near 13%, roughly half that of China or Vietnam. When China+1 began, Vietnam captured the first wave. Its exports have grown about tenfold since 2005 and, at \$347 billion in 2024, are closing in on India's \$428 billion from a far smaller economy.

We believe this is starting to change. Indian manufacturers have historically lacked two things: capital and technology. Capital was scarce and expensive, which kept plants sub-scale, and sub-scale plants could not afford frontier technology. The first constraint is easing. Companies raised about ₹3 lakh crore through public equity markets in FY26, roughly six times the ₹49,000 crore raised a decade earlier. With capital in hand, technology can be bought first and developed in-house later.

Exclusive Interview with Amresh Kumar, Partner, Fund Management

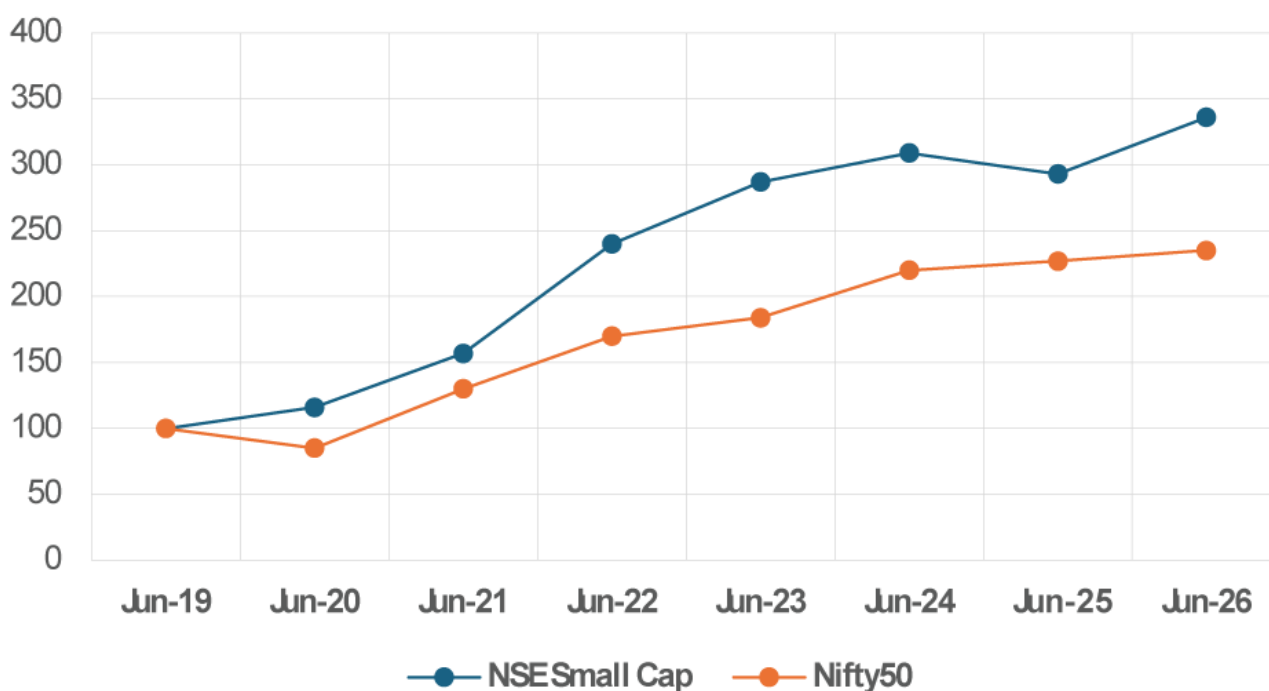
External tailwinds are also building. The rupee is about 8% weaker against the dollar than a year ago, and European industry pays around 50% more for electricity than China's. Both make Indian exporters more competitive, particularly in auto components and aerospace. The virtuous cycle may have only just begun, but the shackles of the past appear to be breaking.

Do you view large caps primarily as a source of stability and mid- and small caps as sources of alpha, or do their roles and contributions evolve meaningfully across market cycles?

We do not think of market capitalization as a proxy for quality or for alpha. Size tells you about liquidity and research coverage, not about whether a business is good or whether its price is right.

Since 2019, small caps as a group have beaten large caps, helped by faster earnings growth and a near doubling of their valuations, while the Nifty 50 de-rated.

EPS (Indexed) of NSE Smallcaps vs Nifty50



Trailing P/E	Sep-19	Sep-26
Nifty 50	22.7x	20.4x
Nifty Midcap 150	21.0x	30.3x
Nifty Smallcap 250	16.4x	31.2x

Exclusive Interview with Amresh Kumar, Partner, Fund Management

But the typical small cap did not win. Tracking every stock in the three indices from April 2019 to October 2026:

April 2019 constituents	Nifty Smallcap 250	Nifty Midcap 150	Nifty 50
Median stock, annual return	11%	10%	13%
Equal-weighted basket, annual return	20%	16%	14%
Stocks that lost money	24%	13%	10%
Stocks that rose 10x or more	22	5	0

The median small cap compounded at 11% a year, against 13% for the median Nifty stock, and nearly one in four lost money. The group's edge came from its tail: 22 small caps rose tenfold or more, against none in the Nifty, and the top 10% delivered over half the gains.

That makes small caps a richer hunting ground for alpha, not a source of it. A top-quartile small cap returned 9.6x; a bottom-quartile one lost 44%. With valuations now at a premium, size alone is unlikely to carry returns; selection will. Our current mix of about 40% large, 36% mid and 11–16% small caps is an outcome of that selection.

Source: Bloomberg, Spark Fund Research; total returns, April 2019 to October 2026, for index constituents as of April 2019.

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