UNIFI Capital

THE BLENDED AIF

4th Quarterly Review – March 2020

Executive Summary

Unifi Capital actively manages seven bottom up equity strategies that sift through opportunities across the breadth of the market. The mandate is to participate in opportunities that arise from: *a mix of emergent themes, corporate actions and attractiveness of core fundamentals*. Our objective is to deliver superior risk adjusted returns from an absolute perspective. Investments under the Blend fund have accordingly been cherry picked from across 7 distinct funds. In effect, the endeavor has been to identify *"the best of our best"*.

Each of our investments is a function of rigorous bottom up evaluation, and a common thread that runs across each of them may be characterized as follows:

I. Leader in its industry
II. Privy to fundamental tailwinds
III. Strong leadership teams with track record of execution
IV. Good corporate governance and financial discipline
V. Insulated from disruption for foreseeable future

In the course of our primary diligence and investment, we have engaged with the managements of all our investee companies in addition to secondary channel checks to triangulate our thesis. The first three communiques sent in May, September & November detailed our thesis on 9 investments (Crompton Consumer| Bank of Baroda| Himadri in May, Suven| Intellect| Equitas in Sep and Garware| VIP| Muthoot Finance in November). In our current note to you, we are sharing our rationale on three of our key holdings.

Sheela Foam | Market Cap Rs. 7,951 Cr.

Incorporated in 1971, Sheela Foam Limited (SFL) is one of the leading manufacturers of mattresses in India and markets their products under its flagship brand "Sleepwell". The company also manufactures other foam-based home comfort products targeted primarily at Indian retail consumers as well as technical grades of polyurethane foam (PU Foam) for use in a wide range of industries. It has a wholly-owned subsidiary in Australia called *Joyce Foam* to manufacture PU foam and recently acquired *Interplasp* in Spain (July 2019).

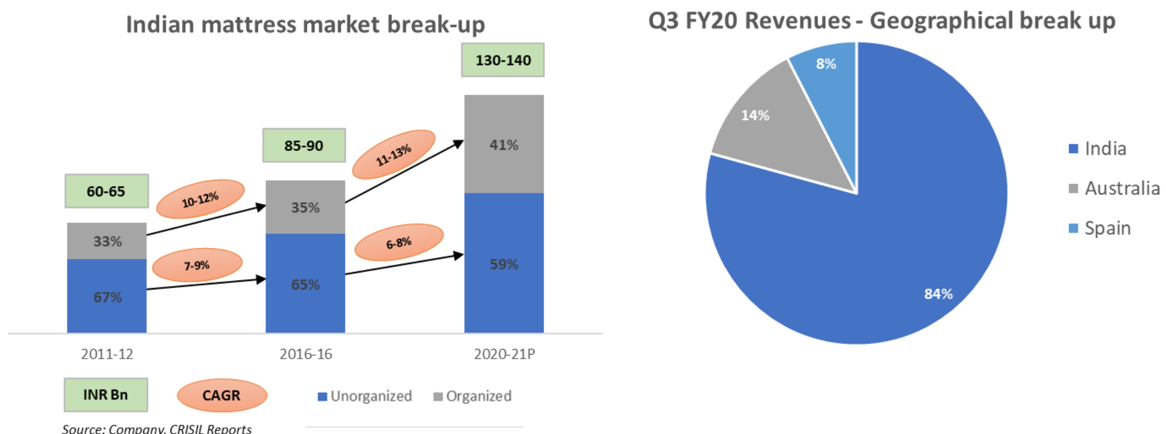


Exhibit 1: Indian Mattress market shifting from unorganized to organized sector

The market size of spring coir & foam mattresses in India is Rs.9,000cr; of which 65% is unorganized. Sheela has a market share of around 22% in the organized market. Key opportunity for Sheela lies in the incremental market share from the unorganized segment in rubber coir and foam segments, where the products from these smaller players are priced between Rs. 3,000-3,500. At the higher end of the mattress

market they are focusing on memory foam category (which retails at Rs. 30,000+) and also making mattress customized to the needs of a customer. It is expected that pure branded mattresses as a portion of consolidated revenues will go up from 36% in FY18 to 41% by 2023. This is expected to improve the overall quality of the business as raw material prices have normalized, after a spike in FY19. The company is expected to deliver earnings growth of c.20% CAGR in the next couple of years.

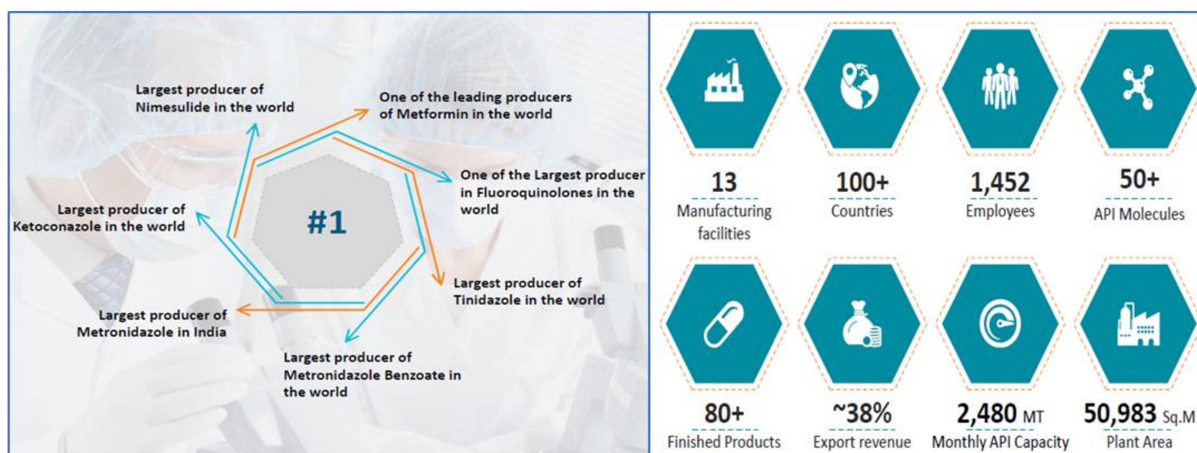
Founded by Sheela Gautam, the company is currently run by her son Rahul Gautam, who is a chemical engineer from IIT Kanpur and has been involved in the business since last 40 years. With Tushar Gautam (Rahul's son) actively participating in the management, the next generation is also being groomed.

Risks: Competition from PE funded price-disruptors, Raw material (TDI & Polyol) price volatility.

Aarti Drugs | Market Cap Rs. 1,570 Cr.

Aarti Drugs (AD) is engaged in the manufacturing of generic Active Pharmaceutical Ingredients (APIs), Pharma Intermediates, Formulations and Specialty Chemicals. Established in the year 1984 and part of Aarti Group of Industries, it sells products in 100+ countries and 38% of the revenue is from exports.

AD has a product portfolio of 50+ API molecules and 80+ finished products which are manufactured across its 13 facilities. Therapeutic segments addressed by the company include Anti-biotic, Anti-protozoal, Anti-inflammatory, Anti-diabetic, Anti-fungal and Cardio-protectant. With a diverse product basket, Aarti Drug's caters to most of the major domestic pharma companies. Through operational efficiencies and continuous process improvement, AD focusses on being the lowest cost producer. The company is a global market leader in 9 out of top 10 APIs manufactured by them, which contribute to around 75% of the total sales. As just 5 of these 10 products are produced in China, the threat of Chinese competition is limited.



Source: Company

Exhibit 2: Global leadership in API molecules with strong execution capabilities

The promoters of AD are from a chemical engineering background, and as a strategy, the company targets products that have an import substitute opportunity. It has started developing a formulation business which currently contributes about 13% of its revenues and has significant potential. While sales volume grew 17% in FY19, the gross margins fell due to constrained raw material supplies from China; the impact should be lesser going forth as the company has lowered dependency by developing new processes that use domestically available raw material. India currently imports over 60 per cent of its APIs, and continuous efforts are being made by the GoI towards increasing domestic production of APIs. However, the API business has high gestation period due to persistent tightening of regulatory norms. Aarti Drugs, led by a high-quality management, global reputation, requisite permits, ample

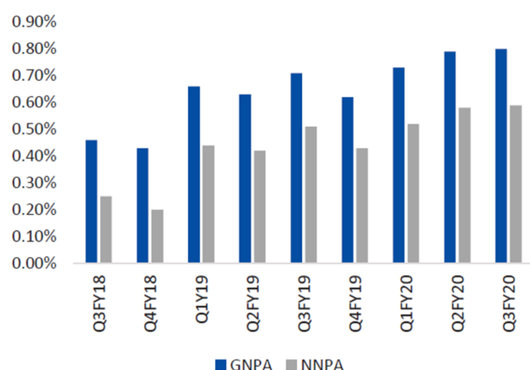
land and strong corporate pedigree should benefit from these tailwinds and we expect them to generate earnings growth of c.23% CAGR over next 2 years without factoring any gains from US FDA approval for its facility.

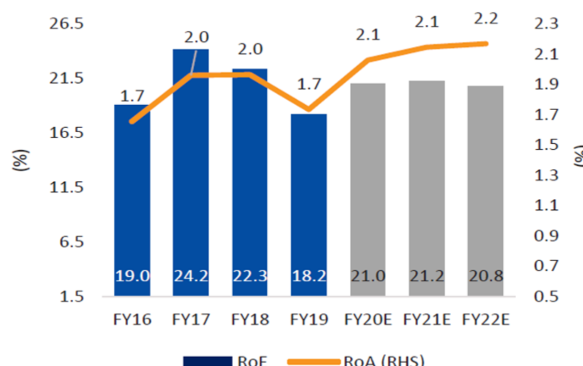
Risks: Constrained raw material supplies from China, Abrupt swing in Crude-oil prices.

Can Fin Homes | Market Cap Rs. 6,391 Cr.

Can Fin Homes caters to demand in the LIG/MIG segments of the population which deals in affordable housing units. It is one of the largest Housing Finance companies in India with a loan book of around Rs. 20,172Cr. as of Dec 2019. Affordable housing is a theme that is being strongly promoted by the government by giving credit linked subsidies to end-users and tax-free status to the projects to help developers. Given the intense competition in metro areas, it is to Can Fin's advantage that it has a vast presence in the Tier2/3 areas.

The company witnessed a decline in loan growth over the last few quarters due to increase in interest rates and RERA related disruptions to the sector, yet recording a CAGR loan book growth of 17% in the 3 years ending Dec 2019. This was led primarily by Housing Loans - which constitutes ~90% of loan book. The company's focus continues to remain on salaried class (71% of total loan book), with negligible exposure to builder loans. It has an average ticket size of 18 lacs in the Housing loans (90% of the book) and average ticket size of less than Rs 5 lacs in the LAP book (less than 5% of the book). South India continues to be the prime driver of the AUM with 72% of the book coming from this region. Karnataka is a key state at 32% share in the book. The asset quality has been stable over the past 5 years though the last few quarters have seen a slight increase in GNPAs. Unlike the other HFCs which are facing liquidity issues, the quasi-PSU profile of Can Fin homes ensures that the management will not have any dearth of avenues to borrow. The interest spread has declined over the past 2 quarters as the increase in cost of funds is yet to be passed on to the end-customers. We expect the same to improve in the coming quarters.





Source: Company, Edelweiss Report

Exhibit 3: Stable asset quality with robust RoA & RoE

The company is currently trading at 16.2 x FY20 earnings with a P/B of 2.9 and ROE of 19.5%. We expect them to put up a moderate loan growth of 15-20% in the coming quarters while interest spread improves marginally. As the new branches mature and the RERA related issues get sorted out (particularly in the Southern markets of Karnataka & TN), the growth rates will trend higher.

Risks: Asset quality becoming adverse leading to higher credit costs, abrupt change in top level management, dilution from capital raise and geographical concentration of loan book in South India.

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Q3 FY20 | Result Updates

Muthoot Finance	On the back of liquidity flows being reinstated, the Gold AUM delivered growth of 19% YoY and 8% QoQ to end at Rs 38,498cr at Dec 2019. The higher gold prices also helped. Muthoot also raised Rs.1200cr in their recent tranche of public NCDs. Their yield was higher at 24.58% in Q3 FY20 as the company collected excess interest (similar to Q2 FY20). On the other hand, the cost of funds fell by 30 bps sequentially to 8.98% at Dec 2019. As a result, NII was up by a strong 45% YoY to Rs 1,587cr. Overall, PAT of the gold loan business was up 66% on a YoY basis at Rs.803 cr. in Q3 FY20 and, their consolidated PAT was up 63% YoY at Rs.849 cr. Muthoot Finance is the largest gold financing company in India with a network of over 4,480 branches spanning 27 States & UTs. It has a long track record in the gold loan sector with operations dating back to 1939. With an average loan size of Rs.42,000 and comfortable LTV of around 65%, the company has adequate cushion to withstand any volatility in gold prices. Rated AA/Positive by CRISIL, the company has a strong capital adequacy ratio of 26.5%. We expect the company to record steady earnings growth of around 12-15% over the next couple of years. We like the business due to: • Low risk gold loan business with high NIMs and extensive branch network. • High capital adequacy along with high RoE obviates the need for equity dilution. • Well diversified borrowing profile with good access to bank funding, public NCDs, commercial paper and other wholesale channels of funding. • Diversification into Home finance, Microfinance and CV finance which now form 11% of the AUM. Key risks would include sharp rise in NPA and increasing competition within the segment leading to decline in NIMs.
Garware Technical Fibres	For the quarter, Garware reported a softer than expected (10-12%) topline growth of 6%. While EBITDA margins weakened by 1% due to revenue mix change and lower volumes, earnings grew 17% YoY due to lower tax rates. Garware's EBITDA margins have weakened by 2% for the first nine months of FY20 and revenues have fallen by 4%, the weak performance has been mitigated by higher other income and lower tax rates. In the Fibre and Industrial Product division, growth resumed after the delay in orders in H1 caused by elections. In the higher margins Synthetic Cordage division, the demand has been flat. In the quarterly press release, management guided for a strong international orderbook and scope for favourable operating leverage in 4Q. They have got 3 new patents. With the announcement of a dedicated fund to promote manufacturing of Technical Textiles in the budget, the environment is getting favourable for the company and might generate newer opportunities in the medium to long run. Given the global leadership of the company, debt free status and a RoE of 20.2%, we see the company as a compounder and thereby we continue to remain invested despite the uptick in valuations. Key risks include fall in price of Salmon, sharp rise in Crude Oil and failure of newer innovative products to garner market share.
Crompton Greaves Consumer	Crompton Consumer continued to report healthy growth in their core consumer durables business. Their durables segment (fans, pumps, heaters, coolers and others), constituting 75% of their revenues grew by 11% YoY to Rs.787cr, on the back of strong growth across all product segments, while earnings from the segment grew 11% YoY. The Lighting business (25% of

	revenues) was soft, on the back of a one-time Government contract in the same quarter last year, and a competitive pricing environment. The like to like revenues in this segment was down 11% YoY. Overall, revenue growth has been recorded at 4% for this quarter but revenue expectations for FY20 is still expected to be around 7%. Margins, however, have not suffered and absolute EBIDTA growth is 8% YoY. As expected, the net credit of -22Cr coming from tax refund in allowance of goodwill reported to a one-time boost in earnings resulting in PAT of Rs.161cr vs Rs.80cr YoY. Fans grew 8% in volumes this quarter. Winter is seasonally weak for this product. Appliances grew by 66% in volumes (small base) and Pumps grew by 8%; Agri pumps portfolio was impacted by unseasonal rains. LED Panels and Battens have registered 15% volume growth. B2C lighting was up 13-14% in volumes, implying B2B business which is lumpy was down. As per retail audit, the distribution now covers 54% of the market in India. Growth in Geysers from 7% share last year to 11% and 3-4% share in air coolers - have a runway for double-digit market share going forward. Their share in Fans increased from 24% three years back to 27% today. Over all, they continue to report a strong pace of growth in execution. Over the next two years, the company will continue to deleverage, giving an additional fillip to their earnings. Key risks to the investment could emanate from drop in consumer purchasing power, translating to lower sales of consumer durables. The LED industry in India has exhibited severe price erosion in the last few years and continuance of the same will hurt the company. Should competitive pressure intensify in other categories, it shall lead to compression in margins.
Suven Pharma	Suven Pharma Limited (demerged entity) posted impressive numbers slightly better than our expectations. SPL revenues arise from contract research services, commercial scale intermediate supplies and select specialty chemicals sales. SPL looks to move into APIs as well as formulations and it is building capacities in this regard. As regards Q3, Revenues were up 45% YoY and EBIDTA was up 68% yoy due to margin expansion from favourable business mix. Q4FY20 revenues and profits are likely to be in line with Q3. In FY21, the management expects 15 to 20% top-line growth with a base EBIDTA margin of about 40% with possible upsides. SPL has raw materials stock till March end and post that they will have to await shipments from China. The raw material availability and lumpy order-book remains a key risk for next year growth assumptions. SPL is marked at a very conservative valuation (12.5 times FY20E PAT) due to the de-merger related shut period and its true value would be discovered by the market on its listing that is likely to happen in the next few months.
Sheela Foam	Sheela reported moderate growth of 6% YoY & 26% QoQ in Q3 FY20. Growth was strong in the Mattresses segment which saw a volume growth of 38% YoY thanks to the robust sales in Starlite & Featherfoam versions. Gross margins were almost stable on a QoQ basis at 48.4%, and significantly higher than the previous year's number of 40.6% on the back of which PBT was up 38% YoY at Rs.69cr. The company has transitioned to the lower tax rate regime on the back of which standalone PAT was up 53% YoY at Rs.53cr. The Australian subsidiary made a PAT of Rs 7 Cr compared to a PAT of Rs 4 Cr last year. The newly acquired Spanish subsidiary made a PAT of Rs 6 Cr on a revenue of Rs 50 Cr. This ensured that the consolidated PAT was up 66% YoY at Rs 65 Cr. Over the 9M period, the consolidated PAT was up by 69% YoY to Rs 162 Cr. We like the company due to its net debt free status with a RoE of 24% and an industry leading market share of 23%. The company has also launched low-priced brands 'Starlite' and 'Featherfoam' to take on unorganized players. Key risks for the business would arise from higher raw material costs, intensive competitive pressure leading to loss of market share and slump in discretionary consumption spends.

VIP Industries	VIP reported flat revenues of Rs. 432cr on the back of (1) Implementation of a software system for channel management which is completed now & (2) Lower push from the e-commerce channel which the company is focusing now. The gross profit was up 12% YoY at Rs 230 Cr on the back of the margin improvement. Overall EBIDTA was up by 78% YoY and 2% QoQ at Rs 68 Cr. The EBIDTA margin improved to 15.7% from 8.8% last year while being stable on a QoQ basis. Overall PBT was up by 18% YoY in Q3 FY20 and up by 4.5% YoY in 9M FY20 (adjusted PBT). The company had migrated to the lower tax regime which helped it post a 39% YoY in PAT in Q3 FY20 and 12% YoY growth in PAT for 9M FY20(adjusted PAT). VIPs' products are sold through a chain of traditional retailers, in hypermarkets, on online portals and the CSD (defense) network via more than 10,000 retail sale points. VIP procures 50% of its products from China, and has five manufacturing plants in India and one in Bangladesh. We like the company due to their leadership in a fast growing category with industry leading market share of 60%, net debt free status with attractive RoE of 28%, increasing capacity in Bangladesh plant, and the trend of shift of demand for luggage's and back packs from the unorganized to more design oriented proposition of the organized sectors. Key risks would be depreciation of INR, loss of market share due to intense competition, disruption in the supply chain from China and sustained slowdown in consumption.
Can Fin Homes	Loan book growth continues to be satisfactory at 15% YoY and 3% QoQ at Rs 20,172 Cr. Disbursements picked up sequentially by 12% YoY and 11% QoQ at Rs 1,477 Cr. The same was up sequentially by 5% in Q2. Asset quality was almost stable at 0.8% which will still be the lowest in the HFC sector. The management is confident of GNPA's trend lower from Q4 FY20 due to the SARFESI action initiated against the delinquent loans. In line with the loan growth and improved spreads, the NII was up 23% YoY. The PBT was up by 15% YoY and 11% QoQ at Rs 146 Cr. Overall, the PAT was up by 33% YoY & 9% QoQ at Rs 107 Cr in Q3 FY20. The salaried class continues to form 71% of the loan book while non-salaried segment formed the rest. Builder loans were a paltry 0.03% of the book. Housing loans formed 90% of the book, but if one adds the top-up loans in the NHL segment the share of HL would be 94% and LAP is only 5%. Branch count has reached 196 from 140 at FY16. Four more will be added in Q4 FY20. Non-metros account for 115 branches and have increased their share in loans to 36% at Q3 FY20. This non-metro book grew by 28% YoY while the Metro book (constitutes 64% of the book) grew by only 9% YoY. Given the intense competition in metro areas, it is to Can fin's advantage that it has a vast presence in the Tier2/3 areas. Key risk would be asset quality becoming adverse leading to higher credit costs.
Aarti Drugs	Aarti Drugs reported robust Q3FY20 numbers in line with our expectations. Sales grew 24% YoY mostly driven by volumes. EBIDTA and PAT grew 31% YoY and 34% YoY respectively due to operating leverage and tax savings. EBIDTA margin has increased by 70 bps from 13.65% levels to 14.32%. Going forward, they expect to grow at about 10% -12% in volume terms. In Q3, API segments contributed to 86% of revenues. (67% domestic: 33% exports); The capacity utilisation is about 80+% and new capacities are getting added. Formulation is now 14% of revenues and growing rapidly from a low base. Aarti is focusing on replacing the low margin domestic contract manufacturing formulations business to better margin exports formulations to regulated markets. With respect to Corona Virus related production challenges, the company has specified that they have raw material inventories till March end and 20% of their sales will be affected if raw material supplies are completely stopped from China beyond March end. The company is reasonably valued at 12 times FY20E PAT with a ROE potential of 18+%. Key risks are - Constrained raw material supplies from China & volatility in Crude-oil prices.

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Bank of Baroda	BoB reported slight deterioration in their asset quality on a sequential basis with GNPA moving to 10.43% from 10.25% in Q2 FY20. However, the corporate watchlist is now at Rs.10,500cr., down from Rs.14,500cr in Q2 FY20. The bank recognized DHFL as GNPA (Rs 2,000 Cr) in addition to the RBI divergence of Rs 4,050 Cr. These one-offs resulted in the slippages increasing to Rs 10,400 Cr. The slippages in Q2 FY20 were Rs 6,000 Cr. About 85% of the corporate slippages came from the watchlist. Recoveries from Bhushan steel and Alok are expected in Q4 FY20 (Rs 1,200 Cr). RCOM exposure of Rs 4,000 Cr (85% provisions) will also see recovery of Rs 2,400 Cr in Q4 or Q1 FY21. Domestic advances grew by only 1% YoY. However, Retail loans grew by 16.2% YoY wherein home and auto loans grew by 10% & 43% YoY respectively. NIM was stable at 2.80% which resulted in a strong NII of Rs 7,128 Cr. The operating expenses were on the higher side at Rs 4,912 Cr due to one-off expenses related to ESOP program. The operating profit was Rs 4,957 Cr which were followed by higher credit costs of Rs 7,155 Cr. As a result, the PBT was negative at Rs 2,198 Cr and PAT was negative Rs.1,408 Cr. Post-merger with Vijaya and Dena in April 2019, Bank of Baroda (BoB) has emerged as India's 3rd largest bank with total advances of Rs.7 lakh Cr and with strong market share of 22% in Gujarat, 10% in Rajasthan, 8.3% in UP, 9.6% in Chhattisgarh and 8% in Karnataka. The bank is now done with most of the stress recognition and provisioning with a coverage ratio of 64%. With continued access to low cost funds through retail deposit & CASA franchises, BoB is well placed to demonstrate strong earnings growth with an improving credit profile. We like BoB on the back of (a) attractive valuations of 0.58x P/ Adjusted book with a projected RoE of 11.4% in FY 21, (b) most of the stress being recognized, and provisions taken and (c) robust growth in retail assets on the back of slowdown in competition from NBFCs. Key risks to the thesis will emanate from fresh stress in the corporate segment which can force the bank to keep provisions at elevated levels.
Himadri Speciality	Himadri delivered a soft quarter for Q3-20, on account of multiple business headwinds across different segments. Their CTP volumes (roughly 60% of total) have been largely flattish with a negative bias. The end-user aluminium industry is in a lot of stress, but they are forced to keep their plants running, and as a result supporting Himadri's volumes. However, Graphite volumes (10% of volumes) has taken a steep hit as the electric arc furnaces in India are doing poorly; and carbon black volume (roughly 25% of volumes) was up QoQ, although carbon black prices have corrected and realisation is down. The margin has contracted on the account of the drop in realizations, one-off inventory write-downs and charging of advances/receivables to P&L (write-off 39 Cr). The reported EBITDA of Rs.35cr., when adjusted for write-offs, is Rs.74cr., relative to Rs.86cr in Q2 i.e. 14% down QoQ. The outlook for Q4 FY20 is challenging as well, but sequentially better. The demand for Carbon Black has shrunk significantly on the back of the sharp slowdown in Auto volumes last quarter. As a result, the regular manufacturers of carbon black have moved supplies into the non-tyre categories that Himadri primarily catered to (65% of their volumes). Himadri, however, maintained its market share and new 60,000 TPA lines of speciality carbon black segment commissioned in Jan end with much lower volumes. They are now producing regular grades to stabilize the plant. In addition to pressure from domestic suppliers, South Korea has started dumping carbon black in India. The Indian producers have approached the GoI for protection, however, a likely resolution may take 2-3 quarters. The Graphite electrode segment is typically a high margin consumers of coal tar pitch, but steel volumes from the electric arc are falling, and the consumption of this consumable have fallen. As per our understanding, realizations are unlikely to fall significantly from current levels.

	Update on capex: The ACM plant is postponed to Q1 of 2020, on account of supply chain disruptions in China. Commissioning is expected to be in phases starting from H1FY21 over the next 12 months thereon. Overall, we are disappointed with how our investment this company has played out, largely led by macroeconomic factors. Key risks to the investment will emanate from continuous slowdown in the auto industry, slow ramp up in the utilization of new facilities, and fall in aluminium production in India.
TVS Srichakra	Results were weaker than expected with the sales having fallen by 15% as compared to our expectation of YoY sales fall of 9-11% (7-8% due to lower volume and 2-3% due to raw material price fall). As the operating leverage played out negatively, absolute EBITDA has fallen by 22% YoY and higher depreciation and interest cost led to PBT fall of 44%. Despite the falling sales, employee and other expenses rose; the company has labour friendly policies and the ill-effects of lack of retrenchment in weak environments is now showing up. From a PBIDT perspective, this is the worst quarter for the company since June, 2015. While volume pick-up in 2-wheeler OEM would be the key to revival, at CMP of Rs. 1650 it trades at 11.3x FY21e with FY21e RoE of 13%. Failure of pickup in 2 and 3-wheeler sales, raw material price spike and irrational competition would be the key risks.
Sonata Software	Sonata Software delivered an in-line quarter, with their IT services revenues growing 3.8% QoQ (USD46.8mn) while constant currency growth was at 2.4% sequentially. The numbers on a YoY basis look better, at 15% YoY growth in dollar terms, and 16% in INR terms. Consolidated EBIT margin came at 8.1% down 340bps QoQ owing to the low mix of high margin IT services business and net earnings for the quarter came at Rs76cr which is up 18% YoY. We like the company for their focus on platform-based growth.Net cash at Rs.440cr is 12% of the Market cap and this continues to give us comfort. Sonata's platform IP-led business model continues to remain attractive; they are the highest margin in Tier-2 IT and have a good focus on high growth Microsoft Dynamics 365 platform, healthy RoE (30%) and high dividend yield (4-5%). The stock trades at a P/E of 13x current year and 12x FY-21. Key risks would arise from their inability to continue with their M&A strategy, lack of growth from the recent acquisitions made in FY2019 and a sustained slowdown in India may lead to deferments in product sales.
Intellect Design Arena	Intellect had yet another challenging quarter as license wins in Q3-20 were a tad soft, and a few of them had to be deferred to next quarter on account of procedural reasons. USD revenues came in at $45m vs $46.5m Q3 FY20 and $52.4m Q3 FY19. The deal pipeline at Rs.3817cr ($536mn.) is still robust, out of which Rs. 3248cr ($456mn.) is accounted by 133 Opportunities. The average deal size stands at Rs.16cr ($2.3mn) in Q3 FY20 as against Rs.13cr ($1.9mn) in Q3FY19. AMC revenues (sticky) is up 7% YoY and flat and this is 20% of revenues currently, which is expected to grow by 15-17% for the next year. This is a key monitorable. The company's end-user base is seeing a shift in consumption patterns as they move from in-premise installations of software to cloud-based applications. From an earnings perspective, the cloud-based model is lucrative in the long run, as it provides the company with annuity revenues. The company did report some additional momentum in license wins (incremental amount of $5mn) that will make it to revenues the next quarter. Given the significant reference ability of global installations around the world,

	we believe over time Intellect will see the conversion of deals from pursuits to closure. Such events are and will continue to be binary and lumpy in the future as well. This apart, the company has improved its revenues from the annuity-based AMC stream, and their order book for the next 12 months continues to be robust. Intellect is one of the leading providers of consumer and transaction banking solutions to midsized banks around the world with a track record of tier-1 customers around developed and emerging economies. Product revenues are usually lumpy in nature, and large deal closures are binary events. Over the rest of the year, the company is expected to improve its operating margins from automation initiatives in delivery of their products. Key risks would include long sales cycles, and delays in discretionary expenditure by their clients. It is important to note that product sales cycles the world over have binary sales cycles, and conventional earnings metrics over the very short term is not always the right measure of performance.
Bombay Burmah Trading Corporation (Britannia)	India's larger biscuit maker, Britannia, delivered volume growth of 3% YoY, as the entire category battled a general slowdown in consumption spends similar to last quarter. Britannia continued to grow ahead of the industry and has gained the highest market share in this financial year thereby outpacing the growth of Parle and ITC. The company continues to focus on cost efficiencies, thereby delivering 11% in EBITDA growth while lower tax rates have helped in PAT growth of 23% Y-o-Y. The company is well positioned to ride on the return of consumption demand in general. The company is entering into other categories like wafers, milk shakes, croissants etc., which will drive the next leg of growth. Key risk is significant raw material inflation, and poor consumer demand, especially in rural India.
IIFL Finance	IIFL Finance reported a 11% YoY AUM growth while on a sequential basis it was up 3%. Overall, 85% of the business is retail in nature with better margins and moderate risk profile. The retail franchisee of home loans, business loans, microfinance and gold loans are continuing to exhibit steady growth sequentially. The developer finance segment which forms 13% of the book is de-growing. NII was up by 6% YoY & 3% QoQ to Rs 516 Cr. Other income was lower at Rs 67 Cr compared to Rs 105 Cr last year. The operating expenses were higher by 11% YoY at Rs 305 Cr mainly driven by employee expenses. Provisions were lower at Rs 35 Cr compared to Rs 60 Cr in Q2 FY20. The asset quality has improved in Q3 FY20 with the GNPA moving from 2.51% to 2.27% sequentially. Overall, the adjusted PAT was higher by 69% YoY at Rs 188 Cr due to elevated provisions in last year's P&L. IIFL Finance is an NBFC with Rs 36,000 Cr of AUM which is mainly into Home loans (35% of loan book), SME Loans (23%), Gold loans (20%), Construction finance (13%) and Microfinance (8%). In spite of the liquidity crunch, the company raised Rs.2, 721 Cr in long term funding in Q3 FY20.It also had untapped committed credit lines worth Rs.3,058 cr with banks and other financial institutions. While it has started 2 co-lending projects with 2 PSU banks, they are yet to ramp up the same in volumes. The company is close to raising $400 Mn in secured MTN notes at 5.875% interest rate which should help increase disbursements. Asset quality continues to be satisfactory. Key risks would include slippage in asset quality and access to liquidity.

IIFL Securities	IIFL securities reported flat brokerage revenue in Q3 due to the slow growth in the subscriber base. However, institutional brokerage showed good traction rose to about 50% of the total Brokerage income of Rs 105 Cr. Average daily cash turnover in Q3 FY20 was Rs 13.3 Bn compared to Rs 11.4 Bn in Q2 F20 and Rs 11.2 Bn last year. Overall, market share improved sequentially to 1.6% from 1.3% in Q2 FY20. Distribution income was healthy with asset under advisory of about Rs. 9,000cr. Investment banking related income was strong in Q3 FY20 due to strong deal flow. Costs were under control this year with employee expenses coming down by 8% YoY in 9M FY20. Overall, EBIDTA in 9M FY20 was still down by 30% from last year's levels to Rs 205 Cr. However, the run rate has improved sequentially and the company looks to do better in 2H FY20. Overall, the PBT was down by 25% YoY in 9M FY20 to Rs 149 Cr. The adjusted PAT was Rs 110 Cr in 9M FY20, down 18% YoY from Rs 134 Cr last year. The company also had an exceptional gain of Rs 102 Cr from sale of a property. Key risks would be anaemic growth in customer base and weak equity markets.
J B Chemicals	J B Chemicals delivered a topline growth of 12% YoY, and operating margins expanded by 50bps YoY. The company did a buyback of Rs. 130cr this quarter. The negative impact from the fall in the size of Ranitidine has been mitigated as JB Chem was able to gain market share post Glaxo's exit from this market. The API business witnessed a revenue de-growth of 9% this quarter as exports fell on account of a key customer, changing registration. The management is confident of scaling up the subsidiary business in Russia, as couple of molecules have been approved in Russia. Overall, the PBT grew by 14% YoY and lower taxes boosted the PAT growth to 33% YoY. At CMP of 533, It trades at 15x FY20e with operating RoE of 18%. Key risks would be slowdown in domestic growth, Cilnidipine coming under NLEM and currency volatility.

Key Portfolio Metrics

The following schema illustrates the broad sectoral and thematic allocation for the Blend Fund.

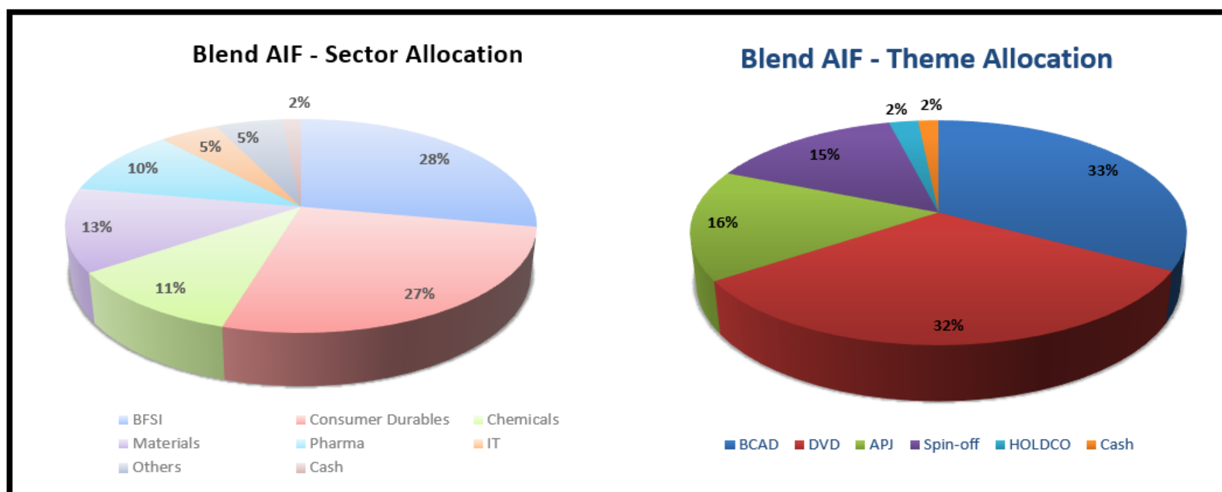

Exhibit 4: BLEND AIF allocation as on 28th February 2020

It is imperative to highlight here that each investment in the fund has been made on its own merit and the portfolio characteristics are merely a by-product of the process. In sync with Unifi's philosophy, the aggregate portfolio has low leverage, demonstrates potential for strong earning's growth and has reasonable valuations.

Valuation Parameters (As on 28st Feb 2020)	FY2019	FY2020E
P/E Ratio *	26.4	21.1
Earnings Growth *	16%	32%
Debt Equity Ratio	0.18	0.11
ROE %	23.9%	25.0%
PE/ Growth Ratio	1.62	0.66

**Adjusted for one-off to make figures representative*

Despite being fully invested, we are continually monitoring the environment for any opportunities that have potential to materially improve the portfolio composition. We will be writing to you again in June with updates on the fund.

In closing, we encourage you to write to us, or your relationship manger for a detail portfolio review and understanding our proposition at greater granularity.

With best wishes,

K. Sarath Reddy | Founder & CIO
Anand Bhavnani | Fund Manager – Blend AIF

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Annexures:

Financial Details of Portfolio Companies

(Rs. in Cr)	Sales*		Operating Profit #		PAT		D/E Ratio	ROE	Portfolio Weight
Company	9M FY'20	FY'19	9M FY'20	FY'19	9M FY'20	FY'19	H1 '20	FY'19	
MUTHOOT FINANCE	4,209	4,520	3,130	3,157	2,321	2,103	NA	24%	13.43%
GARWARE TECHNICAL	701	1,018	122	192	105	126	0.21	21%	12.62%
CROMPTON CONSUMER	3,494	4,479	458	584	394	401	0.15	43%	12.48%
SUVEN PHARMA^^	662	663	321	262	216	164	0.13	31%	10.27%
SHEELA FOAM	1,669	2,141	227	209	162	134	-	19%	7.11%
VIP INDUSTRIES	1,409	1,785	259	224	134	144	0.12	28%	6.93%
CAN FIN HOMES	471	531	426	474	285	297	NA	19%	6.64%
AARTI DRUGS	1,356	1,561	191	207	82	90	0.83	17%	6.35%
BANK OF BARODA^	22,062	18,480	15,272	13,486	461	434	NA	2%	5.58%
HIMADRI SPECIALITY	1,441	2,377	243	522	134	320	0.23	20%	3..97%
TVS SRICHAKRA	1,672	2,431	182	262	58	103	0.47	15%	3.15%
SONATA SOFTWARE LTD	948	1,120	266	293	167	203	-	36%	2.60%
INTELLECT DESIGN ARENA	991	1,459	11	149	-21	140	0.21	10%	2.26%
BBTC (BRITANNIA)	8,732	11,054	1,389	1,939	1,019	1,155	-	30%	2.26%
IIFL Finance	1,560	2,200	846	1327	451	644	NA	16%	1.80%
IIFL Securities	527	835	205	377	110	171	NA	25%	0.55%
J B Chemicals	1,331	1,643	286	305	222	194	-	13%	0.43%

* In case of financials (Muthoot, Bank of Baroda, IIFL Finance & Can Fin) instead of Sales, Net Interest Income (NII) has been reported
# In case of financials (Muthoot, Bank of Baroda, IIFL Finance & Can Fin) Pre-provision Operating Profit (PPOP) has been reported
^ FY19 Figures are for consolidated BOB pre- amalgamation, hence not comparable with post amalgamation financials for H1-FY20
^^Suven Pharma numbers are not comparable with previous period due to demerger of Suven Lifesciences

Fund Risk Management

Price Risk: Stock markets are volatile and may decline significantly in response to adverse issuer, political, regulatory, market or economic developments. Different parts of the market and different types of equity securities may react differently to these developments. For example, small cap stocks may react differently than large cap stocks. Issuer, political or economic developments may affect a single issuer, issuers within an industry, sector or geographic region, or the market as a whole. Unifi AIF 3 – BLEND Fund adopts a bottom up approach towards investing. Also, various macro events and its implications are considered to reduce the overall negative impact on portfolio.
Loss of Capital: All investments in securities present a risk of loss of capital which is an outcome of various events like macro events or something internal to the company. The Fund would seek to moderate this risk of loss of capital through a careful selection of investments.
Liquidity Risk: This represents the possibility of not honoring redemptions upon closure of fund due to illiquidity of the portfolio. Also, it is possible that the realized price from selling the security might be lesser than the valuation price as a result of illiquid market. The Fund would ensure that at a significant portion of its investments can be liquidated at prevailing market prices.
Risk of Key Personnel: This represents loss of one or more key personnel of the Fund Management team who are responsible for managing the Fund's portfolio. The process of investment and fund management is institutionalized and hence procedure driven. This reduces the risk of loss of key personnel.
Concentration Risk: This represents risk of concentration of investments in few opportunities. This risk is minimalized as individual position weightage isn't allowed to go beyond 10% of the Investible Funds.
Leverage Risk: This represents risk of leverage risk at the investee company level. This risk is minimalized through prudent selection of investments.