UNIFI Capital

INITIAL OBSERVATIONS RETAIN THEIR TRUTH

UNIFI AIF – BLEND FUND

Q3 FY22

Initial observations retain their truth

Twenty years back, on the 24th of April 2002, Unifi invested its maiden tranche of investor capital. Records indicate an investment of Rs.5 Lacs, or $18,000 in equivalent. India's $300bn markets were experiencing their initial burst of economic expansion since the '91 reforms, and Unifi's approach of participating in this expansion was based on a firm bottom-up focused approach of buying growth at a reasonable price. Since then, India has strengthened its domestic franchise of consumption-led growth, achieved global dominance in several sectors, and is today birthing a renaissance in manufacturing while rapidly formalizing. Ergo, vast pools of profit that did not exist until a few years ago are now emerging. In parallel, India grew 10x to a $3 trillion market today. In that journey and for the first time in modern economic history, interest rates fell to near zero [in the West], completely changing how growth assets are valued.

Unifi has been an active participant in this journey of India from a $300bn to $3trillion market, representing over 2/3rds of India's modern economic history and underwriting more than $1.5bn in investor capital today. What has not changed all this while is Unifi's approach to investing. Over the past twenty years, Unifi has stayed firm with its initial philosophy of aligning with growth firms at a reasonable price. And this is as good a time as any to reemphasize our philosophy in simple terms.

With the right framing, narratives tend to become an asset. It is irrelevant how great a business model is if the equity premiums expected to underwrite them are excessive and do not explain in simple terms how the rewards from such an investment will be significantly higher than the risks it will entail. While this seems simple, it isn't easy to practice in a growth-focused market like India, as valuations often discount the most optimistic outcomes. And investors with options tend to gravitate to the strongest narrative presence. Such investments are unlikely to merit our attention if it does not favor the right mix of risk and reward. Often, this will result in significant divergence from consensus. Ideas that challenge consensus-held assumptions can feel lonely, but in our opinion, this is all the more reason they merit closer attention. It is our experience that this is typically where asset mispricing resides. And is the precursor to absolute returns.

Q3 FY 22 and Inflation Positioning

Managing inflation is not a one-size-fits-all approach. There is a stark difference in how product and category leaders navigate such a cycle, and this eventually plays out in a manner that strengthens their proposition. We are deeply vigilant of the current inflationary cycle in preserving our underlying principles of curating portfolios with the right risk reward. From what we have seen so far, we are comfortable with the earnings resilience of our portfolio companies given the environment.

Key Sector	Allocation	Comments
Credit	20%	India is early days into a new cycle of economic expansion, coinciding with the end of an aggressive provisioning cycle. Given inflation today, higher nominal rates of growth will result in the expansion of bank balance sheets earlier than later. Given the cycle, the industry is coming out of, the health of the end-user industry, and vastly different underwriting practices, India's well-managed banks are optimally poised to benefit from this trend. Entry valuations are attractive to capture a new cycle of growth. Operating profit expanded by 16% YoY on an average in Q3 22 with an expansion in Net Interest Margins. PAT grew 2x on an average for the portfolio companies led by improvement in incremental slippages and hence provisioning.
IT	15%	Global spending on cloud adoption is below the halfway mark, pointing to a significant runway of growth for the next many years. The companies here have exposure to wage inflation as a challenge and that has been managed well given the demand environment. The supply side is expected to get significantly better over the next 3-quarters. Otherwise, technology spending is anti-inflationary with continuing high levels of capital efficiency. For the quarter, the average EBITDA growth of Portfolio companies was 21% YoY in Q3 22 while more or less defending their operating margins.

Key Sector	Allocation	Comments
Chemicals	15%	We have allocated to companies with the following characteristics: (a) base Chemicals with the self-sufficiency of feedstock with maximization of its downstream capabilities, (b) diversified earnings base, and (c) Leadership position in key chemistries/products with exposure to multiple end-use industries. India is in the midst of a new wave of import substitution, and we continue to like the space for the runway of growth it offers for multiple years ahead. For the quarter, the average EBITDA growth of Portfolio companies was 25% YoY in Q3 22 while margins were maintained.
Consumer-durables & others	10%	India's household spending on consumer durables continues to be strong, led by a new wave of home modernization and expansion. As wage inflation and rural incomes continue to remain supportive, we believe this is early days into India's journey of premiumization of consumer durables. Our investee companies here are price and cost leaders and have the best right to win given the environment. For the quarter the average EBITDA growth of portfolio companies was 13% YoY in Q3 22 while more or less defending their operating margins.

Internal dialogues

Good investment research is analogous to investigative journalism. It is a dynamic and iterative process. Expecting a crystal-clear idea of thought to play out is not just academic but perhaps also a failure to appreciate a dynamic asset class. While a fundamental investigation of the business, the people running it, and the valuations we choose to participate in are under continuous diligence. Over the past years, we have continued to add layers to our assessment of the underlying. Today, governance is more analogous than it has ever been and is something that is deeply entrenched in our framework today. Many of you have asked us what is it exactly we cover here? We take the liberty of sharing our basic governance framework with you. Please note: in live investment cases, depending on the findings, deeper work is done on various other parameters. These parameters are weighted and scored on a case-to-case basis.

Management Competence & Governance Scorecard

Capital Allocation & Business Model

- Long Term Capital Efficiency - ROCE & ROE
- Incremental Capex - Core or Non-Core
- Dividend Policy & Consistency
- Cashflow from Operations & Margin management - Long term record

Quality of the Board and Executive Team

- The credibility of Independent Directors
- Relevance of their Qualification & Experience
- Presence in other boards & Compensation level
- Salaries of Key Executives, ESOPs
- HR element - Feedback on work cultu

Promoter / Management Quality, Compensation & Activity

- Qualification/Experience, family involved
- Salary – Performance-based and fixed
- Overall Stake in the company – History of dilutions/warrants
- Pledge of Shares - Quantum / End-use of Funds, insider buying/selling

Transparency & Governance

- Related party transactions, Disclosure - Subsidiaries, Associates, JVs
- Annual report commentary & consistency
- Quality of Auditor, audit qualifications
- SEBI / Regulatory Compliance track record
- Industry / Peer group Feedback
- Credit Rating History & Comments
- Feedback - Bankers / Suppliers / Customers / Former Employees

Overall Score

In closing

Doubt is not a pleasant condition. And the last two years in particular, have made it clear that certainty is absurd. We are in an industry where uncertainty is the basic premise of everything we seek to do. As fund managers, it is a part of our mandate to weather uncertainty. And as investors, it is essential for you to be appreciative of this phenomenon for very long periods of time.

We refrain from commenting on the current geopolitical situation while closely watching for linkages to our investments. War is painful. To add to it is near meaningless, as the event in itself.

While investors will judge us on the outcomes, we continue to judge ourselves based on our processes. Given where we are in the uncertainty of matrix today, our internal process of diligence is the single biggest piece of variable we rely on. Across cycles, our underlying principle of seeking absolute growth at reasonable valuation remains constant, and the process of underwriting is responsible for delivering them. Outcomes are not in our hands. But adherence to the correct process will eventually result in intended outcomes.

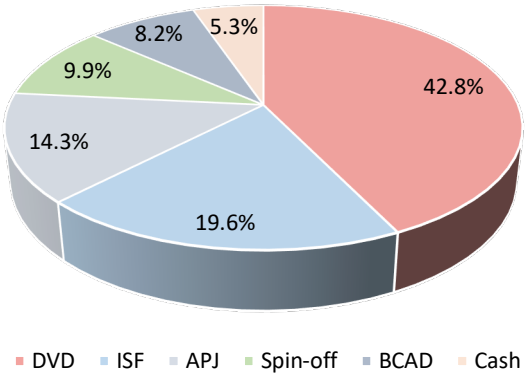
We have initiated 5% exposure to Natco Pharma. Natco was a late entrant in the US market compared to large-sized listed peers and despite that, a differentiated strategy in the US has ensured a sharp and very profitable scale-up over the last decade. The company pursuits complex products with low competition, long gestation period and large market size. The long-term strategy of the company is to bring stability in earnings – focus on creating a steady branded generics business in India through acquisition and a front-end franchise in the US; evaluate M&A opportunities in US, India, and other large EMs. We have also initiated 5% exposure to Coromandel International, India's largest privately held non-urea (Phosphatic) fertilizer company. Structurally, the company is well placed to battle cost inflation with excellent capital allocation and governance, and with a debt-free balance sheet, the company is strongly poised for the next cycle of growth.

To fund these purchases, we have exited JB Chemicals and Hindalco. Further, we trimmed GSFC, Suven Pharma, Tata Comm and DCM's exposure to align with Unifi's philosophy of constructing the portfolio with a favorable risk-reward equation.

Our underlying principle of demanding growth at reasonable value has held us in good stead and we continue to stand by those tenets. We have moved out of names where our investment thesis played out and valuations ran ahead of fundamentals. As you can see in your portfolios, we have switched to names that are likely to deliver strong earnings growth in the current cycle, including those benefiting from a broader regulatory and policy environment, irrespective of where the benchmark indices trade. Overall, we are comfortable with the earnings salience of our portfolio companies and what they are doing to seed leadership for the times to come. Our portfolios continue to build concentration in seeking such leadership.

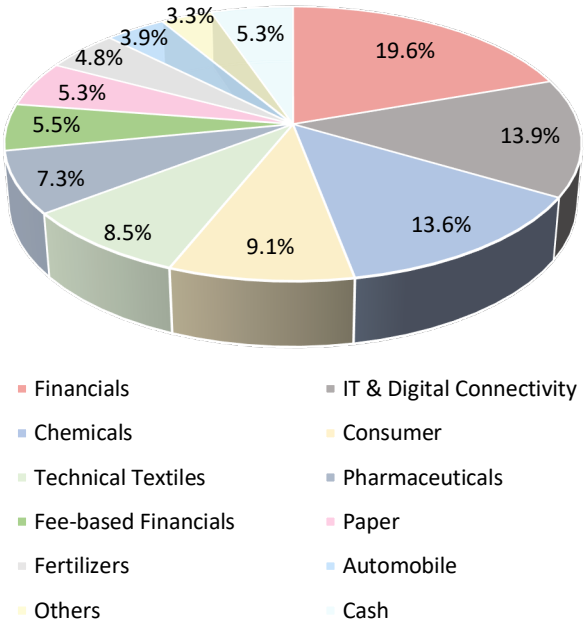
The strategy wise composition of the Blend AIF fund is as below:

Blend AIF - Theme Allocation



The sector wise composition of the Blend AIF fund is as below:

Blend AIF - Sector Allocation



The following annexure presents a brief on our top holdings:

Company	Brief background and Investment rationale
Axis Bank	Axis bank reported robust loan growth of 7% QoQ which was better than a few of its large peers. Loan growth across business verticals in the range of 6-9% QoQ while Net Interest Income grew by 17% YoY. Margins overall improved sequentially by 15bps to 3.5%. Cost ratios were a bit elevated for the quarter led by higher-tech spending, recovery, origination, and statutory expenses. The bank will continue to make investments in the technology and operational side which will keep Opex ratios elevated over the short term. Asset quality improved with moderation in Gross and Net NPAs. Net slippages were negligible for the bank and credit cost has now narrowed to ~80bps (lower than the long-term average).

Company	Brief background and Investment rationale
	The bank is well placed to ride the growth wave and recent quarter performance has increased our confidence in its ability and intent to grow the book. We believe that asset quality is in very good shape and best among its peers given Net NPA of 0.9% and restructuring at ~0.7% of loans. Considering higher provision coverage of the bank at ~72% and ~25% coverage on restructured loans, we believe the bank is sufficiently provided for its stressed assets. The bank may report an RoA / RoE of ~1.5-1.6 / ~15% in FY23 led by improvement in margins and operating expenses. Key risks would include deterioration of asset quality leading to higher-than-expected credit costs, the decline in NIMs due to falling yields, and lower than expected loan growth.
Garware Tech	Garware delivered revenue growth of 11% YoY and 9% QoQ to Rs. 308cr. EBITDA and PAT registered a decline of 4% and 12% YoY to Rs. 56cr and Rs. 38cr respectively. Despite significant inflation in key raw materials i.e., crude derivatives, the company has been able to pass on a majority of this cost with a few months' lag. The gross margin declined 3% YoY while the company was able to negate the impact sequentially on gross margins. EBITDA growth was affected by an unprecedented increase in freight costs. In addition, the cycle time to dispatch goods to customers in many parts of the world has significantly increased due to the non-availability of containers despite having the materials ready. Though the situation has improved sequentially from Q2 to Q3, there is still some disruption impacting the revenues. PAT growth was impacted due to the negative MTM impact in income from investments. We remain positive on Garware given the company's focus towards value-added products (which now forms 70% of overall business), its leadership position in the technical textile segment, its relationship with an international clientele built over the past decades and strong balance sheet with cash of Rs. 550cr. The company continues to win new patents and launch new products, which we believe will drive growth and profitability. Key risks: Decline in the prices of Salmon, a further sharp increase in raw material price and failure of newer products to garner higher market share.
CG Consumer	Crompton Greaves Consumer reported revenue growth of 5% YoY to Rs.1,411cr. The lighting segment was flat owning to decline in B2G business, and Consumer durables delivered 6% YoY growth, due to de-growth in the pumps segment. In each of the key product segments [Fans (11% YoY), Electric Appliances (13% YoY), the company delivered ahead of industry growth rates, on the back of product innovation, premiumization, and market reach initiatives. The company was able to mitigate commodity inflation through price hikes, product mix improvement, and aggressive cost reduction. As a result, the gross margin was stable sequentially at 32%. We expect this trend to continue, along with headline growth that is ahead of the industry. The company reported a PAT of Rs. 147cr (down 3% YoY) during the quarter. Crompton is amongst India's most profitable players in the consumer durables space with best-in-class growth, margins, and capital efficiency. We continue to like the company and expect them to benefit from this phase of consolidation and growth in household spending on durables. Key risks to the investment could emanate from a drop in consumer sentiment, and steep inflation in raw materials.

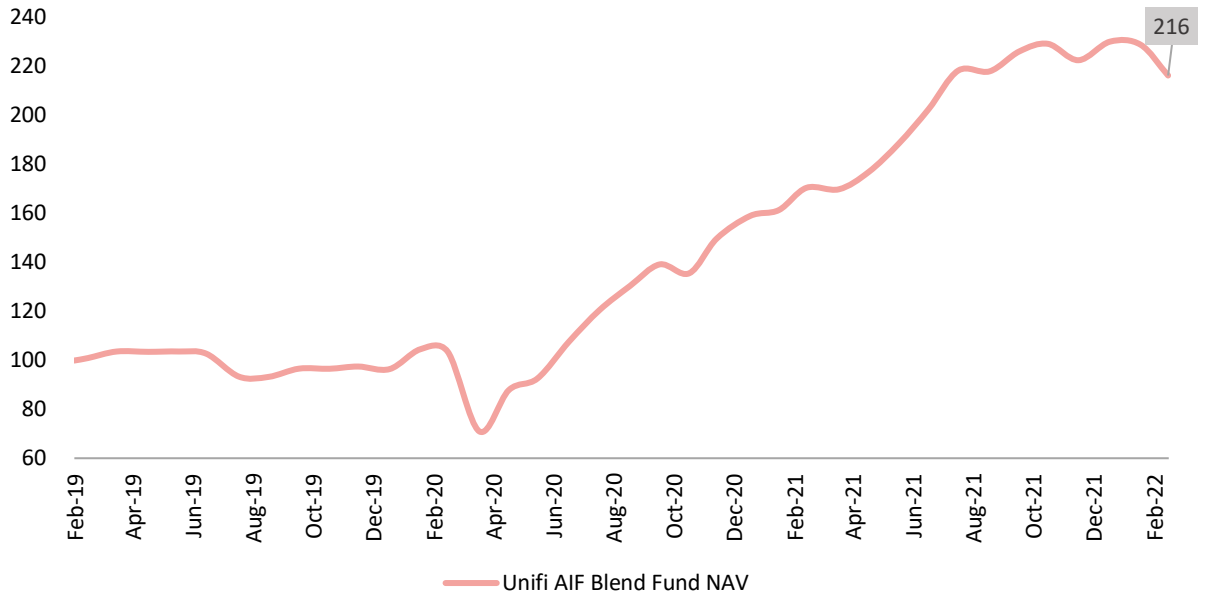
Company	Brief background and Investment rationale
ICICI Bank	ICICI Bank has reported a higher loan growth of 6.4% QoQ / 16.4% YoY which was driven by growth across business segments. NII grew by 23% Y-Y on the back of higher loan growth and improved margins. ICICI Bank has considerably grown its margins over the past few years from 3.4% in FY19 to 4% in 3QFY22. We expect margins to improve only once the surplus liquidity dries up in the system which would restrict pricing wars to some extent. ICICI reported improvement in headline GNPA number, and Net NPA now stands at 0.9%. Retail NPAs are back to a historical level after inching up during the pandemic. Slippages have also moderated to normalized level while net slippages were almost Nil for the quarter. ICICI Bank has ticked almost all boxes in terms of higher loan growth, protecting its margins in a band of 3.9-4%, asset quality performance in terms of slippages & recoveries, and moderation in credit cost trend. ICICI Bank may continue to deliver higher growth with improvement in the macro-environment. Drying up liquidity in the system and general improvement in interest rates may lead to better margins in FY23. With higher provisioning on GNPA & restructured book and normalized slippages for FY23, credit cost shall be contained at around current levels. We expect the bank to report RoA / RoE of 1.9% / 17% in FY23. Key risks would include deterioration of asset quality, higher than expected credit costs, the decline in NIMs due to falling yields, and lower than expected loan growth.
ICICI Securities	ICICI Securities continued to deliver steady revenues with revenues at Rs.942cr, up 52% YoY and 10% QoQ. The broking segment was flat sequentially. The client additions continue to be strong at 6.8 lakh clients, primarily through the digital channel. The distribution revenues were up 54% YoY led by improvement in both mutual fund and non-mutual fund revenues. The company continues to add new partnerships and sell through channels beyond ICICI Bank. 81% of the new client additions have been through the non-ICICI bank channel. Corporate finance revenue was Rs.111cr up 374% YoY and 52% QoQ due to the heightened capital market activities. The PBT was up 43% YoY at Rs.510cr, and PAT was up by 43% YoY at Rs.381cr. I-Sec is a leading tech-based securities player offering a range of financial services including brokerage, financial products distribution, and investment banking, with a focus on both retail and institutional clients. As of Dec 2021, the company had ~3.1 Mn customers who had traded on NSE in the last 12 months. I-Sec is also the second-largest nonbank MF distributor with an AUM of Rs.503 Bn. We like the business due to its technology leadership, continuing consolidation of the user base, high RoE of more than 50%+ and increasing share of non-brokerage revenues in the sales. Key risks would arise from a prolonged downcycle in equity markets leading to lower turnover, and heightened competition leading to loss of market share.
Wipro	Wipro delivered YoY Revenue/EBIT/PAT growth of 3%/ 1%/1% at Rs. 20,313 / 3,433 / 2,969cr. Guidance for the next quarter remains in the range of 2-4%. Recurring IT services EBIT margins was as per expectations at 17.6% down 19 bps QoQ on the back of wage hike impact. In terms of geographies, the growth was led by America, which grew 3.4%, followed by Europe and APAC, which grew 2.3% and 2.9%, respectively, QoQ in CC. All the verticals reported positive growth QoQ, with BFSI (up 4.1% QoQ), Communication (3.8% QoQ), and Consumer Business Unit (up 5.2% QoQ) except Energy which reported a 2.2% QoQ decline. The management painted a bright outlook, driven by a strong demand environment across verticals and geographies – while supply-side challenges are expected to continue for the next 2-3 quarters.

Company	Brief background and Investment rationale
	Key risk: Slower than expected economic recovery in the USA and Europe and cuts in discretionary IT spending by enterprise clients.
JK Paper	JK Paper reported revenue growth of 37% YoY & 8% QoQ to Rs.1,024cr, supported by higher realizations & volume recovery. The company had taken a price hike of 8% in Q3 to pass on the increase in raw material & power costs. As a result, EBITDA was up by 62% YoY at Rs.251cr. The company continued to perform well amidst a turnaround in the business at its subsidiary- Sirpur Paper Mills. Overall, PAT came at Rs.151cr compared to Rs. 118cr in Q2FY22 and Rs.65cr in the previous year. JK Paper is a play on the revival of domestic paper consumption driven by the reopening of offices and educational institutions. Further, the company is increasing its capacity from 4.36 lakh tonne to 7.42 lakh tonne driven by greenfield packaging board expansion in Gujarat with a capacity of 1.7 lakh tonne and the addition of 1.36 lakh tonne from the inorganic acquisition of Sirpur paper mills. The medium-term earnings growth would be driven by volume increase, cost optimization, and better realization. Key risks would be a delay in capacity addition, a decline in realization and the extended impact of COVID.
SBI	SBI reported 6.5% YoY growth in Net Interest Income led by 8.9% YoY growth in the loan book. Sequential loan growth at 5.5% has shown an improving trend and this shall reflect in better Net Interest Incomes in the coming quarters. Loan growth was led across the business vertical in the range of 5-10% QoQ. Their margins excluding certain one-offs were broadly stable and they endeavour to maintain margins at current levels. Operating leverage seems to be coming in for SBI with a slew of digitization measures implemented over the years. Cost ratios are now down by ~10% compared to an average of the last 10 years. Asset quality has further improved with the moderation of NPAs and slippages stood negligible for the quarter. We do not expect any large stress coming on SBI's book over the short to medium term. SBI is well placed to reap the benefit of improving the economy with a much cleaner balance sheet, provision buffer build-in, and a comfortable capital position. We expect SBI should continue its superior performance on the operational & asset quality side and shall report RoA of 0.9% and RoE of ~16% in FY23. Key risks would include deterioration of asset quality leading to higher-than-expected credit costs, the decline in NIMs due to falling yields, and lower than expected growth.
Coromandel	Coromandel is India's largest privately held non-urea (Phosphatic) fertilizer company. It has a diversified revenue mix that straddles both the regulated and unregulated sectors. In Fertilizers, a stable cash business funding growth business, accounting for 75% of EBITDA. Coromandel has a 15% market share in India's NPK consumption with a better position compared to peers due to value proposition to farmers through differentiated products; focus on speciality grade, strategic sourcing, and international tie-ups for key RM supplies, and backward integration to the extent possible to protect & benefit from integrated chain margins. In Crop Protection, Coromandel has taken a slow and measured step to overhaul its portfolio from older generics to a mix of combination (double or triple molecules) and in-licensed products from global innovators (launched six products). This business forms 25% of consolidated EBITDA. Coromandel recorded revenue growth of 44% YoY in Q3 22 to Rs.5,075cr. However, the revenue growth is of less significance as it includes the pass-through of RM cost. Volume grew 8% YoY. EBITDA and PAT grew by 10% and 14% YoY to Rs.545cr and Rs.382cr respectively. Margins were better than expectations due to backward integration in Phosphoric Acid, sourcing efficiency & operating leverage. Structurally, the company is well placed to battle cost inflation with excellent capital allocation and governance, and with a debt-free balance sheet, the company is strongly poised for the next cycle of growth.

Company	Brief background and Investment rationale
	Key risks to the investment could be significant RM Inflation, unexpected regulatory developments, and the erratic monsoon.
Natco Pharma	Natco Pharma is a vertically integrated and R&D focused company engaged in developing, manufacturing, and marketing FDFs and APIs. It is one of the market leaders in branded oncology medicines in India. The Company focuses on niche therapeutic areas, and it sells FDF products in the US, India, Europe, and the Rest of the World (RoW), with substantial clientele in Canada and Brazil as well. Natco was a late entrant in the US market compared to large-sized listed peers and despite that, a differentiated strategy in the US has ensured a sharp and very profitable scale-up over the last decade. The company pursuits complex products with low competition, long gestation period and large market size - transferring litigation risk to marketing partners sharing with them a significant part of cashflows. Natco recorded revenue growth of 58% YoY to Rs. 561cr. However, revenue includes reimbursement of expenses incurred towards the R&D of 3 products in the US market from the marketing partner. Adjusting that, growth is moderate. EBITDA and PAT grew by 23% and 27% YoY respectively. Domestic Formulation revenue grew at 6% YoY. The company is looking to expand the portfolio and launched 3 products in Q3 22 [of which the company is sole generic in one product]. Exports grew moderately adjusted for one-offs. gRevlimid in Canada and Everolimus [launched in Oct] are driving the portfolio currently. NATCO has acquired Dash Pharmaceuticals, a New Jersey-based entity for consideration of US$ 18mn. Apart from Revlimid, the company has about 10 approved products in the pipeline, of which atleast 4 products will be launched in the next two financial years. The company file 2 ANDAs in Q3 22 and in addition, in process of filing 3 complex products for which R&D was reimbursed by the partner in the current quarter. The long-term strategy of the company is to bring stability in earnings – focus on creating a steady branded generics business in India through acquisition and a front-end franchise in the US; evaluate M&A opportunities in US, India and other large EMs. To fund the capabilities and acquisition, the company will significant cashflows from the launch of gRevlimid [8Bn$ market size in the US and 12Bn$ globally] and other complex products in the US and other RoW markets for the next 2years. Key risk: Product Concentration, Inability to grow base business
Tata Comm	Tata Comm's Q3FY22 revenues grew by 0.3% QoQ at Rs. 4,185cr (down 0.9% YoY), led by 3.0% growth in the Data business (sequentially), while Voice revenue declined by 8.6%. EBIDTA declined 2.7% QoQ to Rs. 1082cr. The previous quarter had seen benefits on account of lower network operating costs and a few one-time benefits of about Rs50cr. Consequently, EBIDTA margin declined 70bps QoQ in this quarter to 25.9%. Tata Comm's adjusted PAT was Rs. 395cr (-7% QoQ). Data revenue increased 3% while EBIDTA reduced 0.8% QoQ at Rs.3,233cr and Rs. 1,041cr respectively, with margins at 32.2% (120bps qoq decrease). Within Data, revenue for Core Connectivity (the traditional segment) increased 1.6% QoQ while EBIDTA decreased 1.5% QoQ to Rs1,013cr at a margin of 44.5%. Digital Platform & Services (the Growth segment) – which contributes now ~12% to EBITDA – saw 5% QoQ growth in revenue and 1.8% QoQ degrowth in EBIDTA to Rs. 901 and Rs. 119cr respectively.

Company	Brief background and Investment rationale
	The deal funnel is healthy and is expected to drive revenue. The company sees better traction in small and big deals and a good double-digit order book in the data business. Some deals have been pushed to Q4. The company is focusing on annuity kinds of models unlike usage-based models in the past, on both large and small deals (earlier large deals). The capex guidance for FY22 stood at USD250mn driven by new orders, maintenance capex (2% of revenue), and strategic capex. It may spend higher to tap growth opportunities. Margin guidance for FY23 is 23-25%. Key risks would be slower to negative growth in the data segment on account of lower usage of Tata Comm's services e.g., data streaming of live sports or reduced international travel or delays in deal conversion or new technologies come in to replace fibre at a reasonable cost.
Sonata Software	Sonata delivered revenue growth of 33% YoY driven by the IT services division that grew 31% YoY, and the domestic product segment that grew 33% YoY. Overall EBIDTA margin contracted sequentially by 570 bps to 7.1% mainly led by margin contraction in domestic product segment at 2.5% vs. 5.6% QoQ. As a result, PAT came at Rs.97cr, up 81% YoY and 7% QoQ. The IITS segment EBITDA margin is down 70bps QoQ due to wage hike pressure and will remain under pressure for a few quarters. The outlook for each of their segments in the times to come are well driven by normalization in the European travel industry, traction in Microsoft's core business, and enterprise investment in new-age cloud and IT products. Sonata is a key partner to Microsoft in their global product development initiatives and has a strong domestic product re-selling business. There is a trend of better off-shoring that is being witnessed on the back of industry-wide work-from-home initiatives, and this is likely to be margin accretive in the times to come. Risks: Slower than expected economic recovery in Europe and cuts in discretionary IT spending by enterprise clients.

Blend AIF Performance
[As on 28th Feb 2022]



Key Portfolio Metrics

It is important to note 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 4th March 2022)	FY 22E	FY 23E
P/E Ratio	23.7x	17.8x
Earnings Growth	46.0%	23.4%
Debt Equity Ratio	0.06	0.06
ROE %	22.9%	23.5%
PE/ Growth Ratio	0.7x	

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

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 post the 4th quarter results.

In closing, we encourage you to write to us, or your relationship manager for a detailed review of the portfolio and understanding of our proposition in greater granularity.

With best wishes,

E. Prithvi Raj | Fund Manager

Baidik Sarkar | Head - Research

Annexures:

Financial Details of Top Portfolio Companies

BLEND AIF	Market Cap (Rs. cr)	PBT (Rs.cr)		YoY (%)	PAT (Rs. Cr)		P/E	ROE	Portfolio Weight
Company	4th March 2022	Q3 FY21	Q3 FY22		FY 21	FY 22E	FY 22E	FY 22E	
Axis Bank	2,19,434	1,491	4,827	224%	6,826	13,230	17	12%	9.1%
Garware Tech	5,877	59	47	-20%	158	154	38	18%	8.5%
CG Consumer	24,480	202	199	-1%	541	590	41	28%	6.3%
ICICI Bank	4,77,987	6,078	8,141	34%	16,193	22,577	21	14%	5.6%
ICICI Sec	19,761	358	510	42%	1,068	1,354	15	85%	5.5%
Wipro	3,15,371	3,850	3,779	-2%	10,868	12,400	25	22%	5.5%
JK Paper	3,861	103	210	104%	237	500	8	18%	5.3%
SBI	4,12,361	6,991	11,548	65%	20,410	33,182	12	14%	4.9%
Coromandel	22,304	447	511	14%	1,329	1,395	16	23%	4.8%
Natco	15,861	63	80	27%	300	1,225	13	24%	4.8%
Tata Comm	32,633	381	484	27%	1,325	1,505	22	-	4.4%
Sonata	7,861	100	130	30%	244	378	21	39%	4.0%

Classification of market cap

Segment	Basis	%
Large Cap	> Rs. 45,000cr	27.8%
Mid Cap	> Rs. 15,000 cr < Rs. 45,000 cr	31.9%
Small Cap	< Rs. 15,000 cr	35.0%
Cash		5.3%
Total		**100%**

Liquidity analysis

Segment	% of portfolio
1 day	29.4%
Between 1 & 3 days	27.3%
Between 3 & 7 days	18.0%
Greater than 7 days	19.9%
Total	**94.7%**

Risk Management

Risk	Mitigants
Coronavirus Impact	The impact of the ongoing Coronavirus outbreak in India and the rest of the World can be multifold. The lockdown-related slowdown in consumption can affect several sectors. Our investee companies have product & category leadership along the financial wherewithal to withstand temporary phases of demand slowdown and lead consolidation of demand. The BFSI sector could have heightened stressed assets for a certain period of time thereby impacting their profitability.
Geo-political risks	Geopolitical tensions globally can disrupt the supply chain in the region. This might have a non-linear impact on business.
Raw material inflation	India continues to be dependent on the supply of feedstock whose pricing is global in nature. Key categories would be crude, metals, minerals, and natural commodities. Sharp movement in their underlying prices will have a short-term financial impact on the companies. The situation in China [political] has the potential to disrupt the supply chain of a few of our investee companies.

Risk	Mitigants
Liquidity risk (in case of NBFCs)	The NBFC led liquidity crisis in India has had a systemic effect on the entire economy. Our investee companies have been able to tap diversified sources of liquidity on the back of their long-term track record of comfortable asset quality and asset-liability management (ALM). However, sustained deterioration of the asset quality can continue to affect our holdings in Banks and NBFCs.
Foreign Exchange risk	The foreign exchange system continues to be guided by global developments. Our investee companies in the IT sector are subject to sharp movements in the USD and GBP. They mitigate the same via hedging, but there remains a portion of revenues that continue to be subject to the vagaries in fx movements. Most of our non-IT exposure is to companies that derive their revenues from the domestic market. The revenue from exports would be minimal for each strategy as a whole, and where relevant, are adequately hedged. A sharp depreciation in the INR will affect the import of feedstock (higher prices) which can lead to a brief moment of earnings-related volatility.
Leverage risk	Except for financial companies, most of the operating companies in the strategies carry nil to moderate debt on their balance sheets with a track record of having managed leverage well in the past. Their leverage is monitored regularly.
Technology Obsolescence	Technological changes can render the products/services of a company obsolete and thereby hurt its profitability and valuation. Such a risk is generally minimized by limiting the aggregate exposure of portfolio to such investments to less than 10% of value.
Governance risk	We avoid investing in companies with a known history of corporate governance issues. If such issue arises in an existing investment, we stop additional purchases and start optimally exiting the investment.
Stock Illiquidity risk	High Impact cost, due to thin trading at the time of buying or selling is endemic to small & mid-caps. We plan our investment decisions, size of the investment and trading strategies to minimize the costs due to illiquidity.
Key Man Risk	Small and mid-caps are frequently managed by a key promoter / person on whom the business is completely reliant and without whom the business would be materially inferior. We generally avoid such names and in cases where we make any exceptions, the aggregate exposure of the portfolio to such investments is limited to less than 10% by value.
Slowdown in global consumption	The wallet share of the investee companies in the global manufacturing value chain does not pose a significant risk of loss of business to their vendors. New and high growth areas such as Lithium-Ion batteries, EV vehicles are in the relative infancy stage and have a strong growth curve ahead of them.