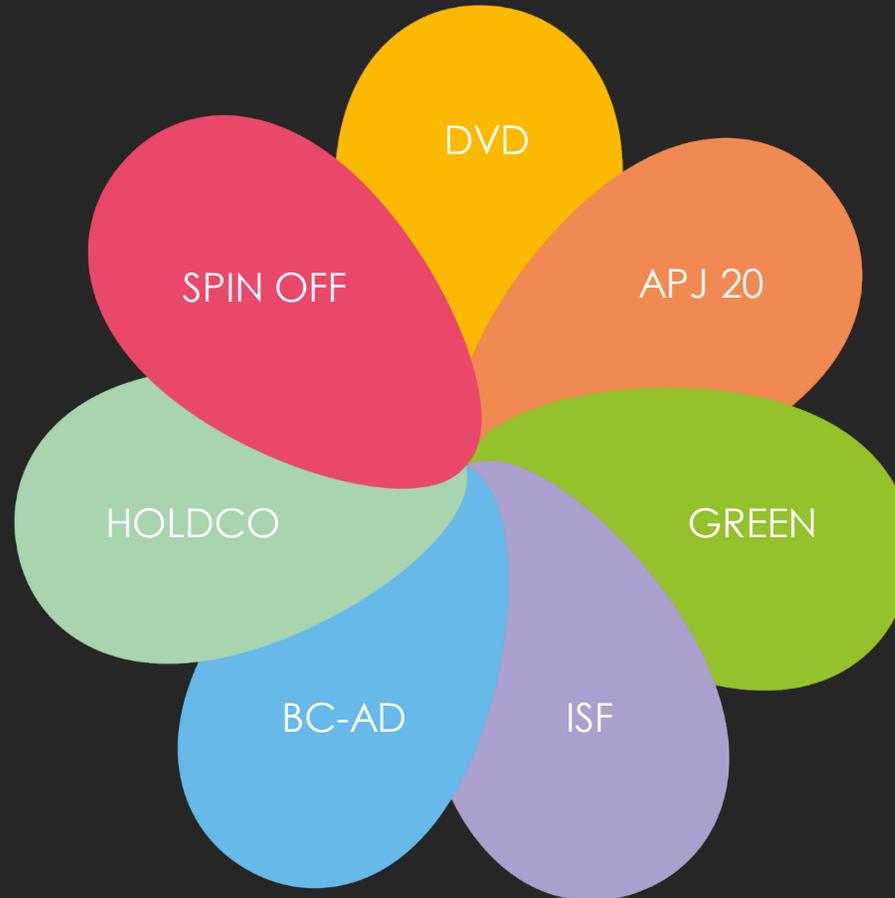


# INVESTMENT STRATEGY & ADVISOR CREDENTIALS



**RANGOLI INDIA FUND**

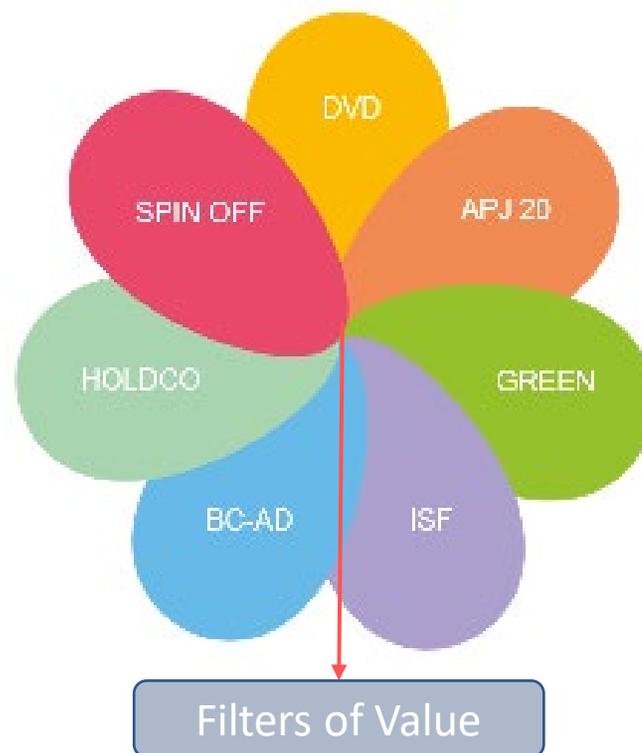
ABOUT THE  
INVESTMENT  
ADVISOR - UNIFI

- As Indian markets become more institutionalised, close benchmarking and index orientation is dominating investor behaviour, leading to polarisation of both research coverage and capital flows. Unifi focuses on investing in under-researched opportunities that institutions typically miss.
- Over 20 years the firm has developed expertise in using distinct themes as filters to identify value.
- By limiting the capital, we accept under each theme, we are able to stay true to our focus on relatively less liquid firms. We typically take a 5-year investment view supported by aggressive research coverage.
- Unifi uses absolute measures of value; businesses must be capable of reasonably consistent earnings growth, be capital efficient, use little or no debt and most importantly be well-governed.
- Unifi is based in Chennai and serves about 5300+ domestic and overseas-Indian clients through its regional offices. We manage about USD 1.4+ Bn. We are regulated by the Securities and Exchange Board of India.
- Our team of 89 is connected through their passion for working in markets, rigorous learning and long tenures with the firm. The research team of 14 is well qualified and experienced. We usually undertake our own primary due diligence on prospective investments.

## STRATEGY BACKGROUND

The investment opportunity is a diversified multicap strategy investing in listed Indian equities. Its objective is to cherry-pick the “best of our best” businesses from across the 7 themes that we have managed over time.

These themes act as a filter to identify value in order to earn a superior risk adjusted return. The fund holds a concentrated portfolio of 15-20 companies with predominant focus on mid-caps and average portfolio market capitalization of around USD 8 to 10 Bn.

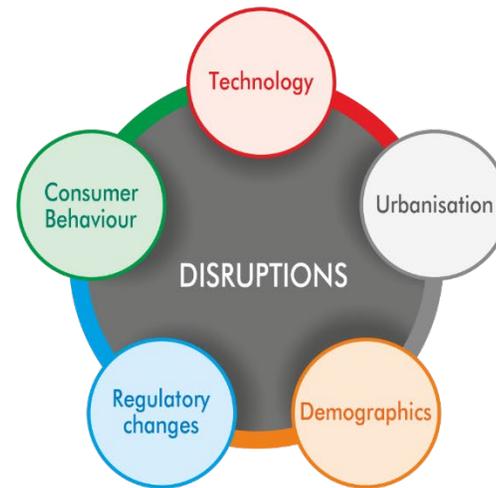


\*Notes: 1. URL for detailed performance track record of each theme <https://www.unificap.com/Track-record.aspx>

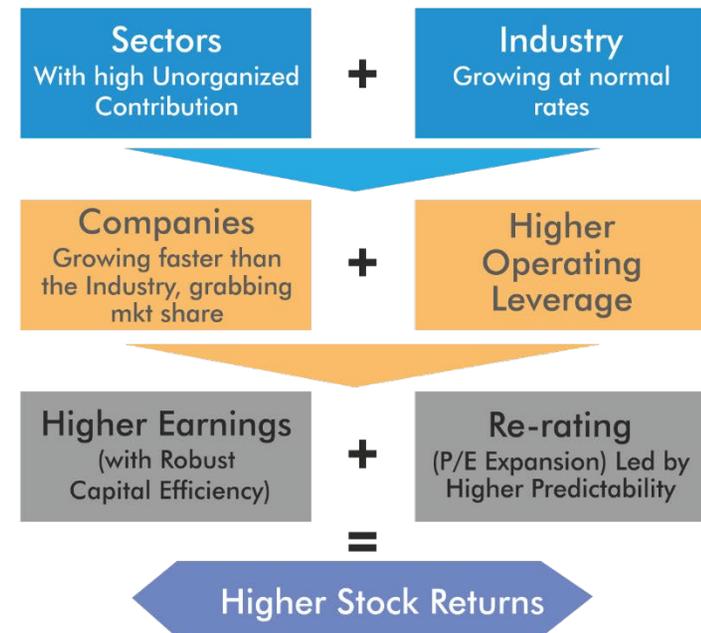
## BUSINESS CONSOLIDATIONS AFTER DISRUPTIONS (BCAD)

The BC - AD theme identifies leaders in business segments which have numerous fragmented players. These businesses are well placed to leverage the disruptions to gain market share and create value for their investors.

India's economy has a high proportion of unorganised businesses which are estimated to account for about 35% of the GDP. As the economy grows in size from the current \$2.6 Tn, it will traverse certain social, technological, legal, taxation and regulatory changes. These changes are likely to challenge the current business models of unorganized players in certain sectors.



### Pictorial representation of Investment thesis of BCAD



As a result, well established organized players in such sectors will gain market share along with improving margins, potentially generating very high earnings growth. The BC-AD theme has been structured to benefit from this imminent migration of market share from the unorganised segment to organised players.

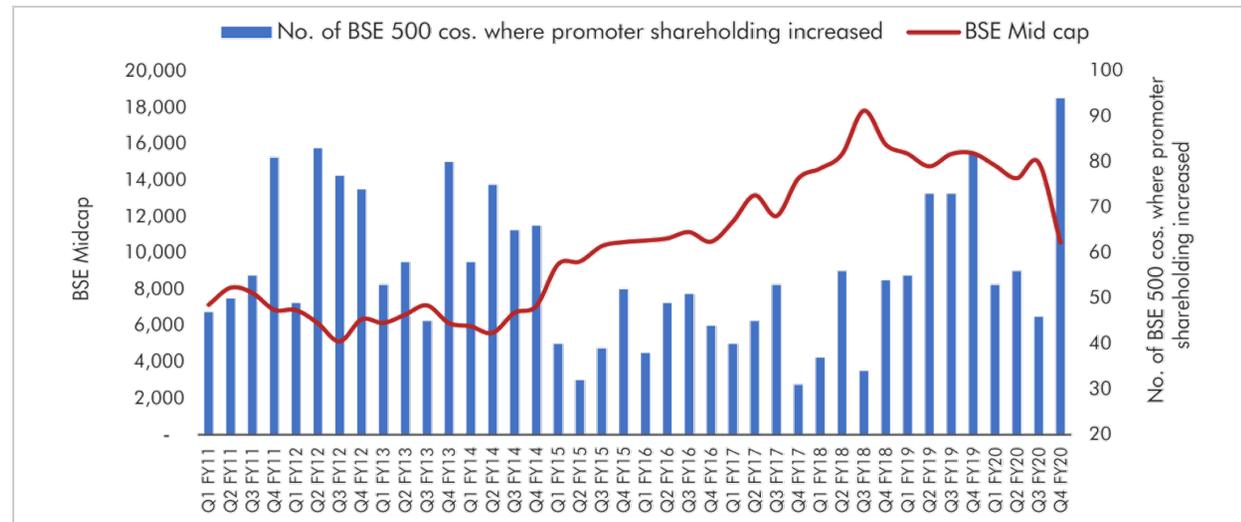
The basic approach of Insider Shadow theme is to identify companies where the promoter has acquired additional shares that seem to be motivated either by an undervalued stock price or an impending improvement in business prospects.

We find that promoter holding is not a constant percentile in many companies and they typically are contrarians. They use one or more of the following methods to increase their stake and the transactions are reported to the exchanges as per the regulatory requirements.

- Preferential issue of shares and/or warrants.
- Merger of promoter owned private/public companies.
- Creeping acquisition in open market.
- Voluntary open offers.
- Subscribing to the unsubscribed public portion in rights issues.
- Initiating the company to do a buyback either through market purchases or tender offer route.

Globally, various research studies have shown that company buy-back and promoter buying have usually resulted in superior relative return to shareholders over a period of time. The underlying assumption is that managers and controlling shareholders have a clear advantage over other market participants and are well positioned to take sensible investment decisions especially in case of small and under-tracked companies.

## INSIDER SHADOW (ISF)



## DEEP VALUE @ DISCOUNT (DVD)

While there are many approaches to value investing, it reduces fundamentally to buying something for less than it is at least worth. That value is not a single, precise number, rather it is a range. It is easy to see why value investing should work: buying a portion of a business for less than it is intrinsically worth should be able to deliver higher returns.

Deep value investing is a conservative and sometimes contrarian approach. Business trading at 10 PE is not necessarily cheaper than another trading at 20 PE. Such measures of value don't reveal other important aspects about a business. We sensitise the PE multiple using 4 filters that are critical to us as an investor:

- 1. Corporate Governance**
- 2. Capital efficiency**
- 3. Earnings growth**
- 4. Debt free or low debt**

The theme aims to be a value investor in growth businesses, being agnostic to market capitalisation and sector. We are opportunistic and look to exploit inefficiencies in the market, such as:

- Misconceptions or just plain lack of understanding of certain niche sectors sometimes lead to undervaluation of firms. Since institutional analysts need to focus on larger and more liquid firms, they tend to ignore emerging sectors or sub-sectors that could be promising.
- Over reaction to a short term negative event. Markets can be myopic; a weak quarterly result often shrinks the valuation temporarily in an otherwise structural growth opportunity for a business.
- A cyclical sector that is currently depressed, with net cash and trading below its book value.
- A business that is in midst of a turnaround.
- Institutional imperative of benchmarking that causes fund managers to exit business that are attractive but aren't above a specific market cap.
- Widespread market dislocation driven by a geo-political/economic shock.
- Corporate restructuring such as demergers.

In summary, to borrow a wise saying: We look to buy from pessimists and sell to optimists.

The Holdco theme identifies strong underlying businesses and looks for significant valuation discounts that are likely to recover as promoters feel the heat of change in the regulatory landscape; or as underlying businesses exhibit significant growth. Many holding companies are run as group holding companies rather than strategic investment companies. This results in a perennial discount in their valuations.

### Why discount?

Distribution tax if assets are to be distributed

Uncertainty over future growth of the underlying assets

'Lack of control' discount because minority shareholders can't exercise control over the method and timing of distribution

Tendency of the controlling promoter to unlock value but instead of distributing to shareholders, re-invest in building his own kingdom

### What has changed?

Under Companies Act 2013, related party transactions will require prior approval of members by special resolution

Introduction of class action suits under Companies Act 2013, to fight against mismanagement and oppression

The renewed thrust of SEBI in ensuring higher level of corporate governance would motivate delisting of holding companies

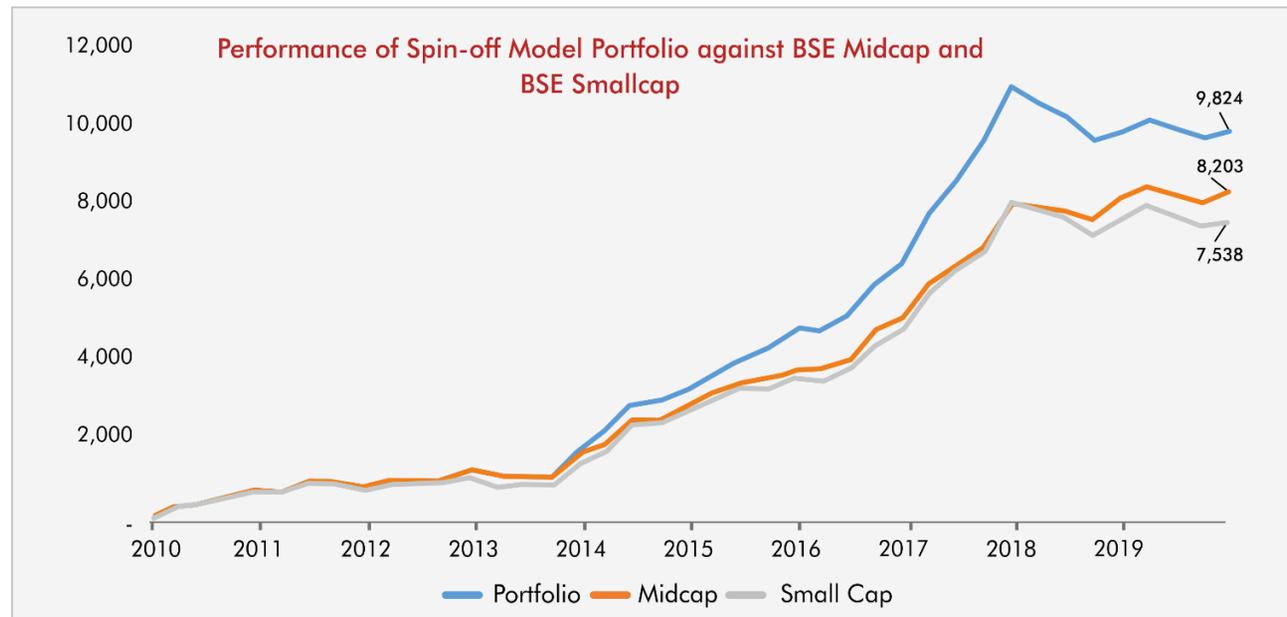
Growing institutional ownership in listed firms and the growing influence of proxy advisory services will empower minority shareholders

Secondly, when the Indian economy liberalised in the 90s, new opportunities such as insurance, asset management, credit cards and brokerage were open to the private sector. Ventures sponsored by leading financial institutions of the country were able to leverage their brand and distribution systems to carve out largest market shares. Such businesses provide an opportunity to invest in the parent's equity and realise gains in earnings from the consolidated entity.

## SPIN OFF

Corporate India has woken up to the fact that spinning off an unrelated business, or a business with a distinctly and vastly different growth profile is key to realizing the right value for the respective business, and is in the long term interest of its key stake holders. Spin off theme looks at situations that offer great scope for the businesses to realize their full growth potential and attract commensurate market valuation.

There is a dynamic relationship between the markets and a typical spin off transaction such as the deal announcement, deal structure and regulatory issues surrounding the same. The ability to deconstruct each one of them as and when they occur and correlate the same with the “value” as on such date to evaluate fundamental risk/reward ratio is key. We believe, identifying the deal payoff is important to success in this style of investing and over the past years, Unifi has built expertise around this.



In order to understand the potential value unlocking of spin-off transactions, Unifi studied the entire universe of demergers that happened in the listed space in India over the last 10 years. A model portfolio was constructed assuming an investment was made in the parent company on the date of announcement of the proposed demerger. The investment was held for 3 years from the listing of the demerged entity. This was done for every spin off opportunity where equal amount was invested in 63 spin-offs identified. The above chart highlights the portfolio's superior performance compared to the benchmarks.

Dr. APJ Abdul Kalam's books, *India 2020* and *Beyond 2020*, discuss how institutional capacity building in a few sectors and consolidating their strengths thereupon could help Indian economy gain momentum. APJ20 looks at firms that have evolved and are in a ripe position to benefit from such growth prospects.



#### AGRICULTURE:

The entire eco system across Seeds, Food Processing, Irrigation systems, branded sellers etc.



#### SPECIALTY CHEMICALS

The entire gamut of core and specialty chemicals



#### INFRASTRUCTURE:

Select subsectors like suppliers to the railways, downstream power industry & construction equipment makers.

#### MANUFACTURING:

Essentially engineering companies like power, auto ancillaries, defense, etc.



#### MINING:

Rather than just mining companies, focus on businesses that would facilitate the initiative like explosives manufacturers, wagon builders, evacuation and safety equipment makers as well as beneficiaries like power etc.



Over the years, each of our target sectors has built a niche set competencies that have bordered on being disruptive. This has translated to them enjoying a quasi-oligopolistic status in their industry. However, these developments in absolute terms are at a smaller number. The evolution of the end user industry is such that, this base is poised to experience high growth and operating advantage over the next few years. In other words, each of these firms, have a high inbuilt option to participate in a disproportionate pay off.

Our endeavor is to participate with concentrated positions in stocks that will be a direct or a proxy beneficiary to the growth in these sectors. As always, markets fancy few sectors that have done well in the past ignoring the rest. Of the sectors which are less understood, few such as specialty chemicals, agriculture, precision manufacturing have become globally competitive and are privy to an expanding market opportunity.

# GREEN

The green theme identifies companies which provide products and services that help in reducing the carbon footprint in the environment and/or result in more efficient use of natural resources. We believe “Green” is likely to be the single biggest disruptor in the next 5 to 10 years. The power of disruption led by innovative technologies has opened up pockets of opportunities that enable intelligent entrepreneurs to grow exponentially.

The green shoots of this transformation are already visible in India. Adoption of solar and wind energy, adoption of zero discharge policies by manufacturing companies, LED lighting in a large scale and acceptance of eco-chemicals are some such practices.

## Emissions



Emissions control involves cleaner energy which includes: non-fossil fuels and natural gas. It would also include companies that manufacture or install equipment and services for prevention/clean-up of air or soil pollution. Would include Green Chemicals both eco-friendly consumer and industrial chemicals.

## Alternate Energy



Companies that provide products and services along the renewable and alternative energy value chain. It would include companies that design, develop, manufacture or install wind turbine equipment & components. Similarly in the case of other renewable energy technologies pertaining to hydro, tidal & geothermal.

## Water



Companies that provide or operate technologies, infrastructure and services for the supply, management and treatment of water for industrial, residential, utility and agricultural users. This includes: water infrastructure, water treatment equipment & water utilities.

## Energy Efficiency

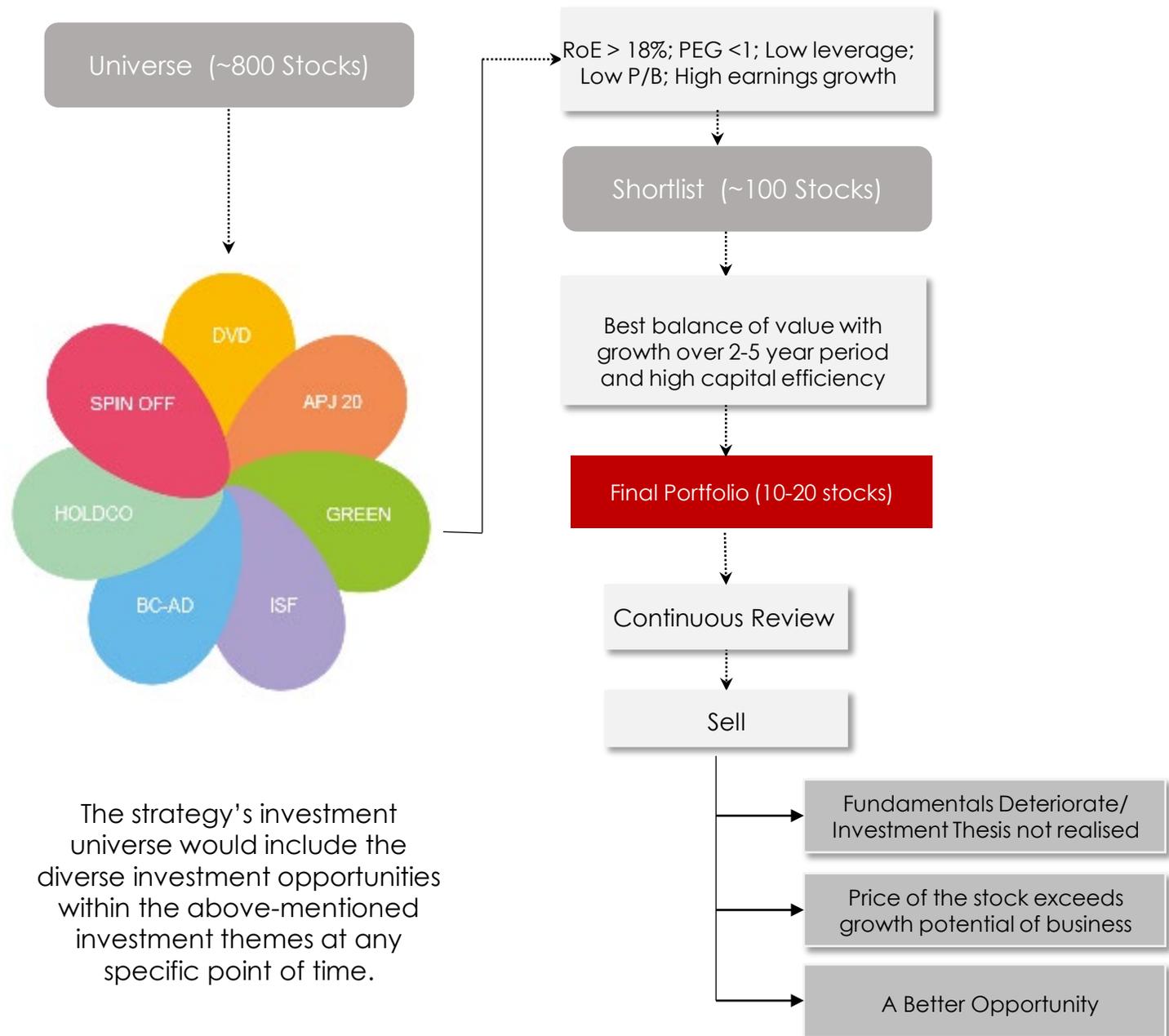


Companies that provide products and services enabling more efficient methods of energy usage. This would include: industrial energy efficiency, building energy efficiency, transport energy efficiency, power network efficiency and consumer energy efficiency.

## INVESTMENT PHILOSOPHY & BELIEFS

- Scale is not a driver but an outcome of excellence in our work
- Unifi is essentially a value investor in growth businesses
- Stock performance, particularly in mid and small firms, needs a catalyst; and often the best catalyst is an attractive price combined with growth
- Both micro (firm level) and macro risks are critical in determining outcomes
- Risk is typically measured by the volatility of returns generated by an asset. But we include another dimension to it, and believe that the greatest risk emanates from the probability of an asset's permanent diminution of value i.e. loss of invested capital.
- Consistency of returns to our initial objective is an important measure of performance
- Our People - the bedrock of our firm's ethos is best represented by our commitment to Accountability and Continuity, both internal and external. We attract people who are passionate and give them time and opportunity to succeed. We maintain a tight code of conduct and have zero tolerance for poor integrity or quality.

# INVESTMENT PROCESS



# RISK MANAGEMENT FRAMEWORK

## Portfolio Parameters

Pre-trade

- In-depth bottom-up Stock Review even in top-down investment themes
- Sensible Exposure Limits:
  - Sector Specific
  - Company Specific
- 'Marketable Liquidity' Assessment
- Staggered Purchases (No Chasing)
- Derivatives only to preserve gains – Zero open positions

## Ongoing Surveillance

Post-trade

- Daily Mark-to-Market assessment including detailed review of extreme movements
- Weekly Liquidity Attribution Assessment to ensure conformity with the theme
- Real-time monitoring of corporate communications to stock exchanges and methodical tracking of sector and company specific news in media
- Quarterly meet/call with management of all the portfolio companies to measure progress, review results and revalidate assumptions
- Opportunistic hedging/tactical trading to respond to short-term, counter-theme market moves

## Firm Infrastructure

- Best-in-class IT infrastructure with back-up
- Independent reporting lines for operations, funds management and risk-monitoring; Daily MIS to clients with private web access facility
- Research Access to premium databases capturing economic, sector and company specific trends
- Three independent audits – Internal, portfolio specific and Statutory
- Access to industry experts and sell side analysts- Pay for expertise model

## KEY PEOPLE: INVESTMENT MANAGEMENT TEAM



**K SARATH REDDY**  
**FOUNDER & CHIEF INVESTMENT OFFICER**

In a career spanning 30+ years, Mr. Sarath Reddy has led a variety of functions in the field of Investments. Having started his career in Mumbai with Standard Chartered Bank, he took the first opportunity that came along to turn into an entrepreneur. He founded Unifi Capital in 2001 with a highly experienced team of professionals. As Unifi's Chief Investment Officer, he works very closely with the analysts and fund management team



**SARAVANAN V. N.**  
**RESEARCH & PORTFOLIO MANAGER**

Saravanan is a chartered accountant with 20+ years of diverse experience in capital markets research, corporate banking and auditing. He has been part of Unifi since 2006 and has been managing the AIF Category III High Yield Fund since its inception in FY2014. He closely tracks the domestic debt, hybrid and arbitrage segments besides reviewing opportunities arising from the listed pharma and chemical companies. His prior experience includes 2 years in ICICI wholesale banking division and 3 years of articleship in PWC.



**BAIDIK SARKAR**  
**HEAD - RESEARCH & PORTFOLIO MANAGER**

Baidik is a Chartered Accountant with 18 years of experience across consulting, research, and investment management. Since 2008, he has been a core member of Unifi's research and investment management team. Currently, he assists the CIO in managing the APJ, Green, and Spin-Off Funds. Prior to this, Baidik worked as a Strategy Consultant with the Government Reforms and Institutional Development arm of Price Waterhouse Coopers (PwC). Baidik brings deep, non-generalist insights to his research and investment management practice.

## KEY PEOPLE: INVESTMENT MANAGEMENT TEAM



**HITESH ARORA**  
**RESEARCH & PORTFOLIO MANAGER**

Hitesh brings with himself strong credit markets experience after having worked with Banks such as J.P. Morgan and Deutsche Bank for over more than a decade. He has worked across various global markets in a wide variety of roles including Credit Structuring and Credit Risk Management. At Unifi he manages the Insider Shadow Fund besides covering multiple names across sectors including Metals, Insurance (Life & General), Power and Telecom. He also leads the effort in evaluating investments in the REIT and InvIT space for the High Yield Fund. Hitesh is an MBA from IIM Bangalore and MS from Columbia University, New York. He has also done his B. Tech (Hons) from IIT Kharagpur and is a CFA Charter Holder.



**E. PRITHVI RAJ**  
**RESEARCH & PORTFOLIO MANAGER**

Prithvi has more than 7+ years of experience in equity research and corporate finance. At Unifi, he handles equity research across Consumption, Oil & Gas, and Infrastructure sectors. He also assists CIO in managing the 'Business Consolidation After Disruptions' Fund (BCAD) and Blended Rangoli Fund. Prior to this, he has worked as an analyst at a boutique investment bank during which he was handling the corporate finance transactions for infrastructure projects. Prithvi holds an MBA degree from Great Lakes Institute of Management, and he is an Electronics and Communication Engineer..



**AEJAS LAKHANI**  
**RESEARCH & PORTFOLIO MANAGER**

Aejas has over 11 years of experience across asset management, corporate governance, investment banking and credit rating. At Unifi, he handles the pharma and chemical sector. He assists the CIO in managing the 'Business Consolidation After Disruptions' Fund (BCAD). Prior to this, he worked with a proxy advisory firm, liAS and as an analyst with Edelweiss AMC. He holds an MBA degree from the Asian Institute of Management, Manila and an MA in economics from Mumbai University.

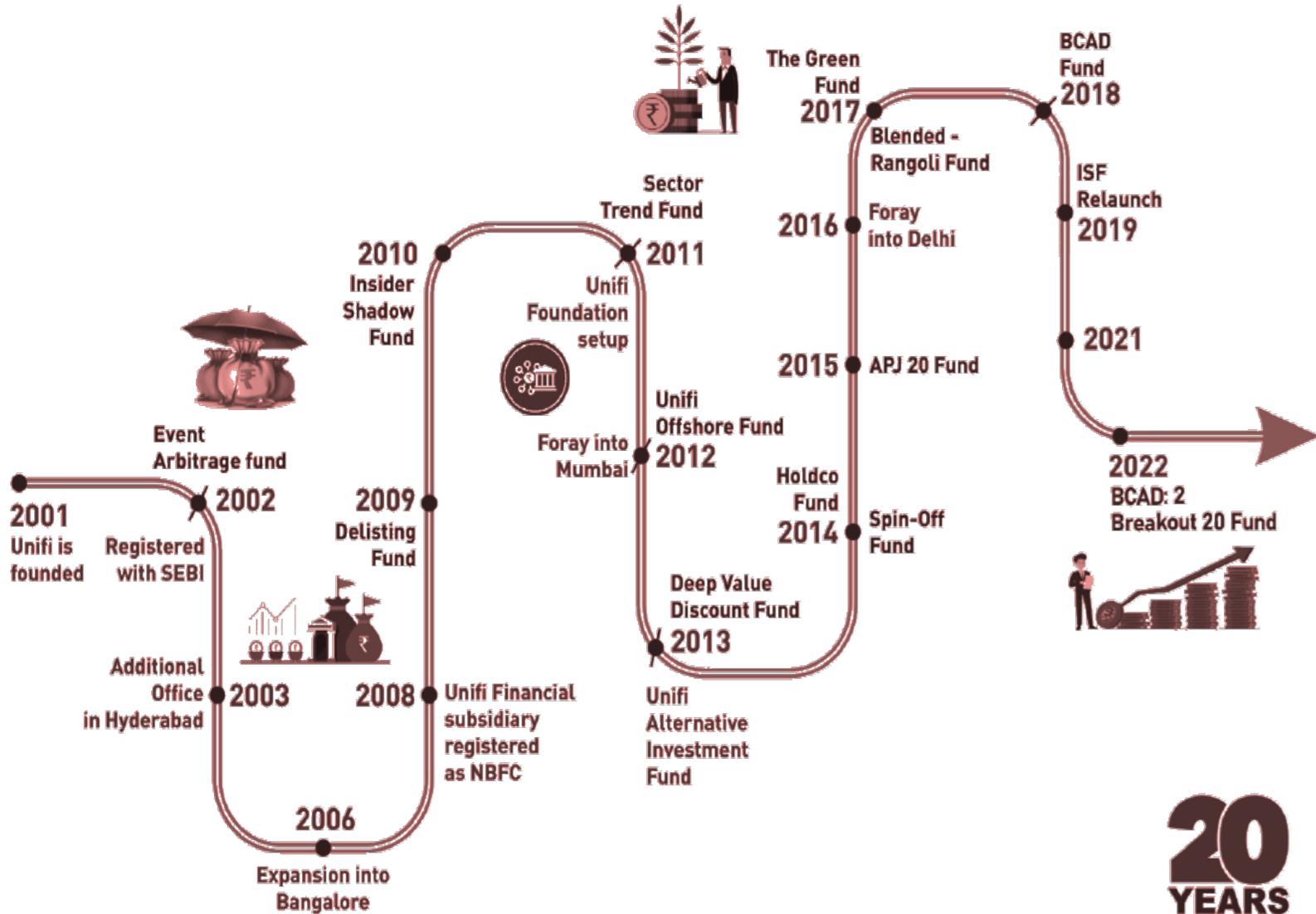


**ARUN KUMAR**  
**RESEARCH & PORTFOLIO MANAGER**

Arun is a qualified Chartered Accountant with 5+ years of experience in capital markets research, corporate finance, auditing and taxation. He is currently part of Unifi Alternatives team that manages the High Yield fund and Holdco fund. Key responsibilities include research of debt and arbitrage investments, due diligence and performance monitoring of investee companies. Prior to Unifi, he was part of the corporate finance division of Essel Forex.

# Unifi: Historical Timeline

Unifi was established in 2001 as a specialized Portfolio Management company offering innovative investment strategies with superior risk adjusted returns. The core team at Unifi has on average 20+ years of experience in capital markets.



**20**  
YEARS

# THANK YOU

For further information on the Investment Advisor visit:

[www.unificap.com](http://www.unificap.com)

**Disclaimer:**

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