



# FIRST-PRINCIPLES

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UNIFI UMBRELLA AIF – BLEND FUND 2

Q4 FY22

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## FIRST-PRINCIPLES

*A fundamental proposition that serves as the foundation for a chain of reasoning.*

We count the privilege of managing risk capital seriously. As we round off the financial year and re-group for the next many, it is a good time to emphasize our core principles that define how we think and manage capital.

## NON-PRESCRIPTIVE

We invest across a vast range of industries and firms at very different stages of evolution. We appreciate the heterogeneity and uniqueness of India's investment universe and are wary of assigning simplistic rules, boxing our style of investing. Our approach favors the identification of the value and their margin of safety over everything else. This means the dispersion of themes at a portfolio level will likely be high and consistent around a risk and reward equation that is favorable.

## MARGIN OF SAFETY

India's lack of complete capital convertibility has resulted in valuations of some of India's finest firms reaching levels that cannot be theoretically justified. As leaders, a few of these companies will continue to consolidate their position of dominance and grow. We are comfortable not aligning with such opportunities and prioritize the discovery of value over the temptation to hold great companies that do not offer a margin of safety in terms of *price and time*. Our strategy of looking thematically at the evolution of India's industries and households enables us to discover opportunities that are beyond consensus.

## THE LONG TERM IS A SERIES OF MEDIUM TERMS

We monitor the journey to our investment outcomes very closely and do not feel obligated to stay invested in firms we like without regard to their growth and valuations. While our objective is to generate absolute long-term performance, our instincts are to implement the logical next steps [buy, hold, sell] as our investment journey evolves. This is a corollary to maintaining the margin of safety at a stock and portfolio level.

## SUSTAINABILITY

Governance is key to realizing an entity's true value in letter and spirit. We look for companies that have acted consistently on all financial and qualitative facets of governance. Long-term business, and equity value creation, are sustainable when a business checks these boxes. We are uncompromising in the evaluation of this facet and comfortable bypassing opportunities that seem financially attractive but questionable on governance.

## PEOPLE

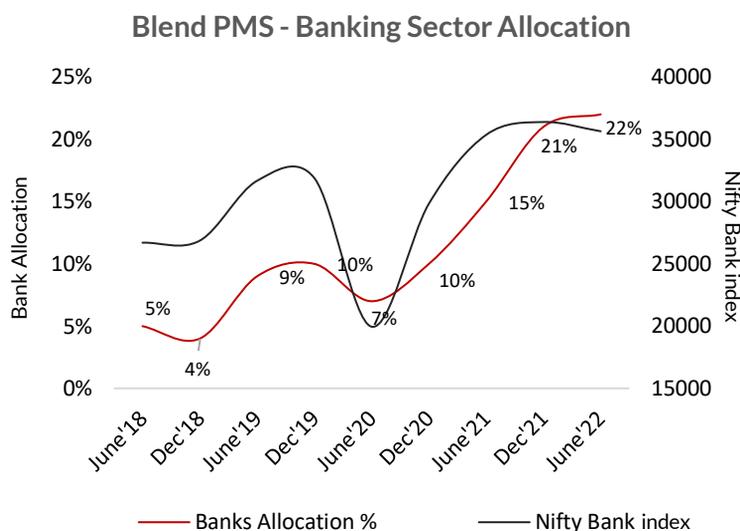
Our strong investment team combined with our working relationships with entrepreneurs, experts, and market intermediaries help navigate the breadth and depth of India's investable universe. We invest in each of these relationships consciously.

## ANATOMY OF A PORTFOLIO

*In keeping with the first principles, our responses to the market are never static*

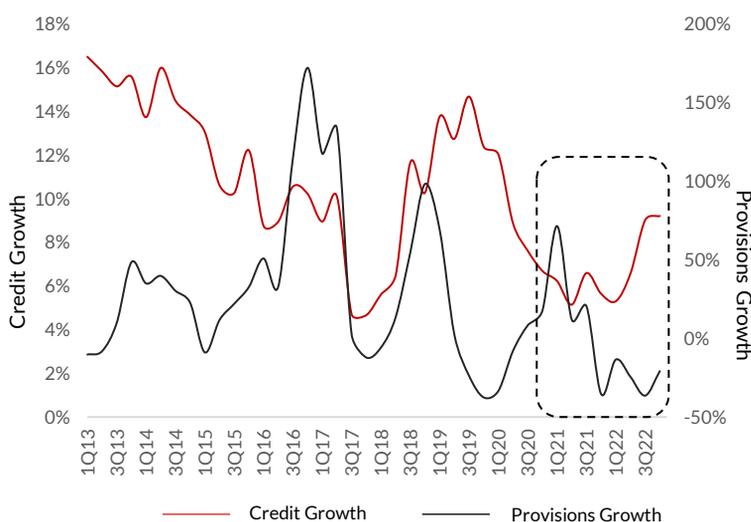
Cyclicality and evolution of the markets are a reflection of the society they represent and therefore no one answer works forever. A common mistake made at the turn of a cycle is the assumption that the market will revert to how it was immediately before, which is unlikely over time. Maintaining an updated prognosis for the future is critical, especially when the current one is working well. In other words, the portfolio composition must reflect our view of the future and manage the risk of being early appropriately.

*This is a representative sample of how there are sub-cycles within cycles and how our funds have navigated this over the past 4 years.*

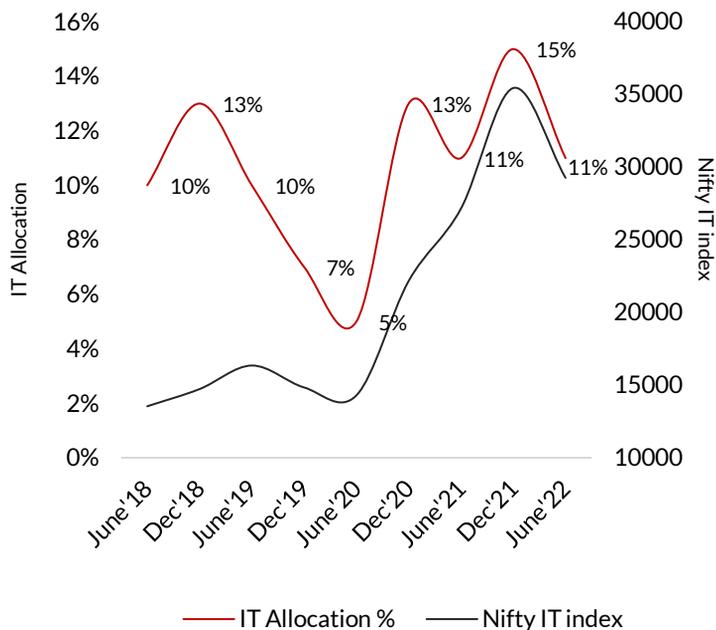


A moment of inflection in India's **Banking** system is finally underway. After 10-years, there is a clear divergence today between the systemic growth rate and credit costs. Today, an extended period of provisioning has led to credit costs below normalized levels while a higher nominal-growth environment supports credit growth. Given that India's private consumption expenditure (in real terms based on 2011-12 prices) in FY22 was below FY20 levels, we are yet to witness a complete revival in demand.

Despite the circumstances, the industry is now clocking double-digit credit growth. As policy measures to seed a new cycle of growth fructify and private consumption surpasses pre-pandemic levels, further offtake in credit is anticipated. There is an added angle of the rate-environment. As RBI reverses the low-rate regime, industry margins will gain as interest rates rise. *With this in perspective, our exposure to India's banking sector is the highest ever in recent years, at c.22% vs negligible exposure in the previous sub-cycle.*



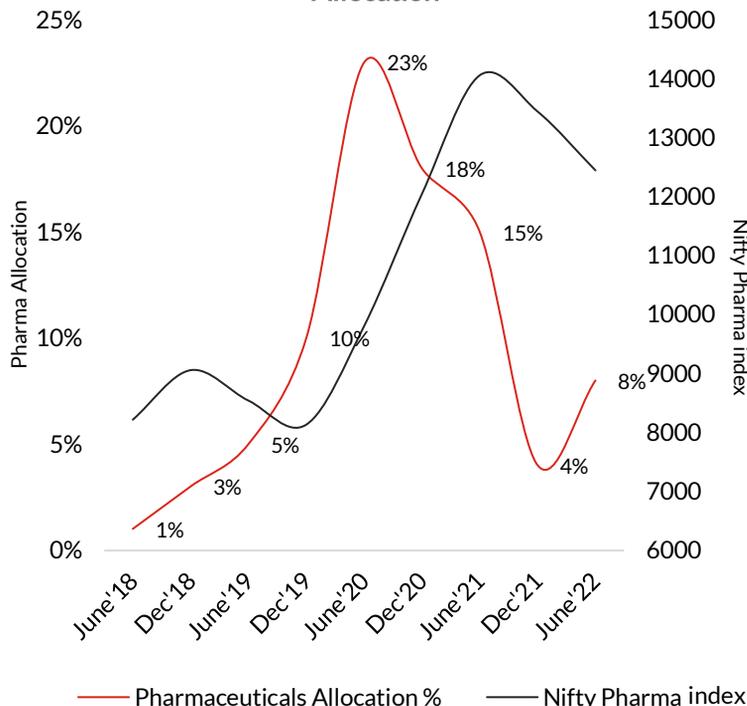
Blend PMS - IT Sector Allocation



Technological change today is exponential. This rapid change lies in the advances of enabling technologies ranging from computing power to data storage to the scale and performance of the Internet. These advances create tipping points – moments when technologies cross a threshold and trigger sudden and significant change, making them a systemically important part of society. And firms that choose to cut back on technology spending will risk long-term competitiveness. **Despite the inflationary environment, this explains the lack of slowdown in the appetite for server and cloud spending.** Productivity gains from technology are eventually a key driver of growth and sustainability. We continue to see opportunities in the technology space and maintain exposure to the sector, driven strictly by the bottom-up, in areas where growth visibility is long tailed.

We view India's pharmaceutical industry with a strict bottom-up lens considering the industry's diverse segments and geography-specific challenges. India offers a structural pathway and investment case given lifestyle-led chronic diseases, but most firms in the industry operate in multiple geographies, with US generics being a key market. The US Generics business faces a prolonged fall in profitability due to severe pricing pressure led by the consolidation of buyers, stiff competition, legacy products, and regulatory hurdles. We have refrained from underwriting equities in businesses operating under such circumstances. Today, our alignment is a bottom-up one pursuing complex products with low competition, niche therapies, a long gestation period, and a large market size. We have managed our exposures here accordingly.

Blend PMS - Pharmaceuticals Sector Allocation



The rest of our portfolio composition largely continues to draw from the breadth and strength of India's domestic consumption franchisee. India's household consumption expenditure has grown at a CAGR of 8-10% p.a. over the last few years, driven by higher disposable incomes and urbanization. A sharp rise in pent-up disposable incomes over the two pandemic years has resulted in visible betterment across premiumization, non-discretionary consumption, property absorption, and financialization of savings.

The number of households in the upper and high-income brackets increased from 8% in 2005 to 24% in 2018, and this is expected to touch 51% by 2030. This shift in household incomes will accelerate underlying consumption across all cohorts and create newer categories. At a portfolio level, we are aligning with various businesses that would likely benefit from this consumption trend. We have captured this in detail in the later section.

Alongside, we increased our exposure to India's largest private sector manufacturer of Phosphatic fertilizers. With backward integration of scale and an unprecedented rise in input costs, the subsidy mechanism of the Government of India will enable them to capture significant spreads in a positive demand environment. While in chemicals, we have exposure to names that are catering to India's need for import substitution and are category leaders who are backward integrated and moving up the value chain.

## CONSUMPTION AHEAD

*India remains a significantly domestic consumption-driven economy. We present a few data points highlighting a few of India's consumption drivers and how they come together as a flywheel.*

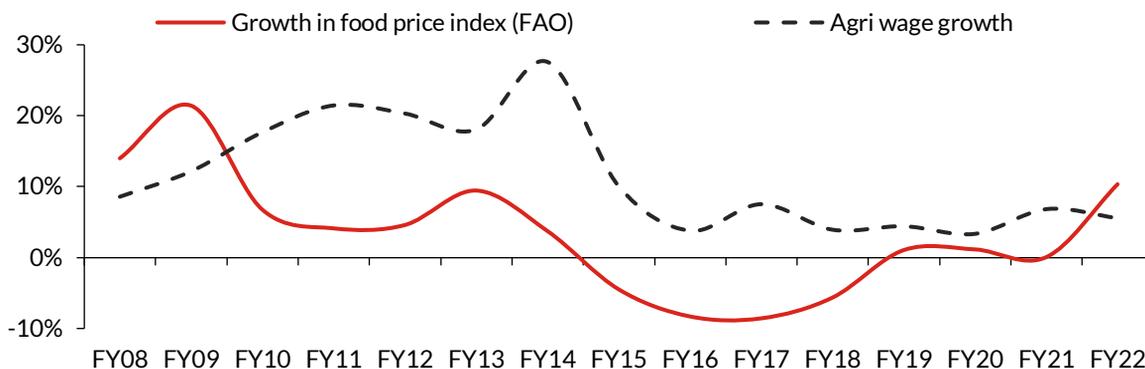
### RURAL CONSUMPTION

Transfer of income is an essential tool to eliminate structural imbalances in an economic value chain. This is true of productivity and output [and hence GDP] between urban and rural India. 65% of India stays in the hinterlands, where the majority of consumer spending is driven by farm income.

The government's policies toward increasing farm incomes via better minimum support prices are birthing a new rural income growth cycle. In our opinion, a tempered and real inflation in farm income is one of the most significant policy initiatives at play in the current times.

This has a flywheel effect on multiple segments of the economy with two primary trends: (a) increases access to agricultural inputs and mechanization, enabling increased productivity, and (b) the incremental incomes help households move up the chain of Maslow's hierarchy of needs.

Increased consumption, premiumization, and an uptick in discretionary goods and services directly benefit from better farm incomes. It is clear from the previous cycle that the correlation played out, and we see a repeat of this cycle again. The impact of this on the Indian economy cannot be overemphasized.

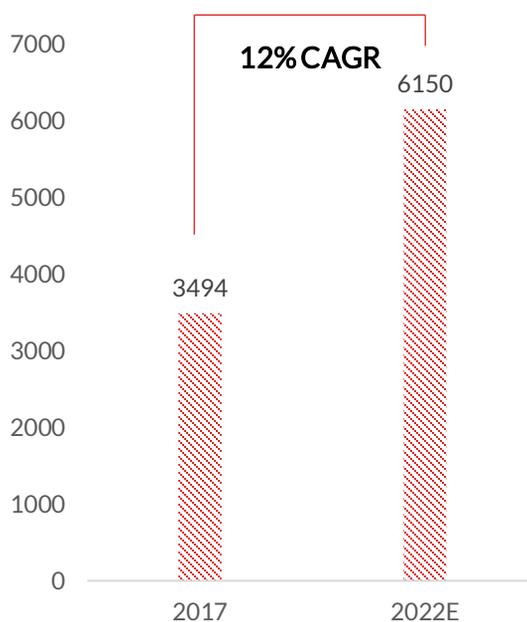


### URBAN CONSUMPTION

Anecdotal flows on urban income growth have been positive for a while: heightened IT wage inflation, manufacturing resurgence, incremental construction activity, etc. Another strong proxy that captures urban consumption potential is the strength of personal tax collections. This number captures both the fundamental ideas of (a) the supply side: i.e., an expansion of the tax-payers base through the formalization of the economy, and (b) the demand side, i.e., an increase in the number of consumers translating into the increased per capita spend.

With several sectors seeding a new wave of growth and the emergence of peripheral cities, the rise in personal disposable incomes will have a multiplier effect at scale, creating new patterns of consumption.

### PERSONAL TAX COLLECTIONS (RS. BN)

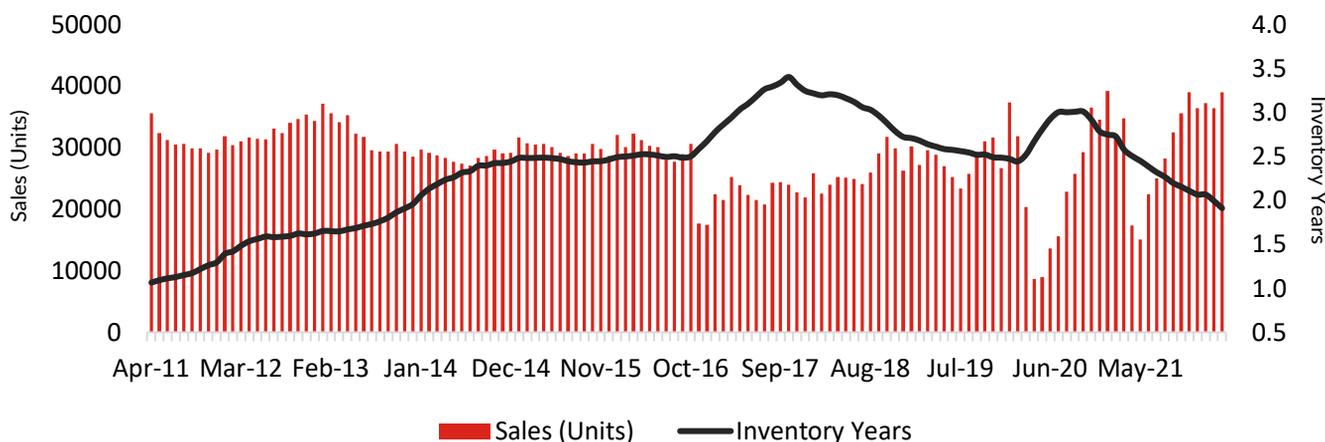


### EARLY SIGNS OF HOUSEHOLD ASSET FORMATION

It is early days, but a multi-year unit price stagnation and pent-up savings have made their way into India's household capital expenditure. Real Estate is the largest constituent of the household balance sheets and higher discretionary incomes are showing up in better realty consumption. This has resulted in the lowest levels of inventory in Tier-1 cities over the last 8-10 years. In the current financial year, the housing sales in the top-7 cities have rebounded to pre-pandemic levels and new launches have surpassed pre-2020 levels.

The importance of the real estate sector to the Indian economy cannot be over-emphasized: realty consumes 65% of India’s cement production and 40% of iron & steel, and each has a large flywheel of its own on the economy as a whole.

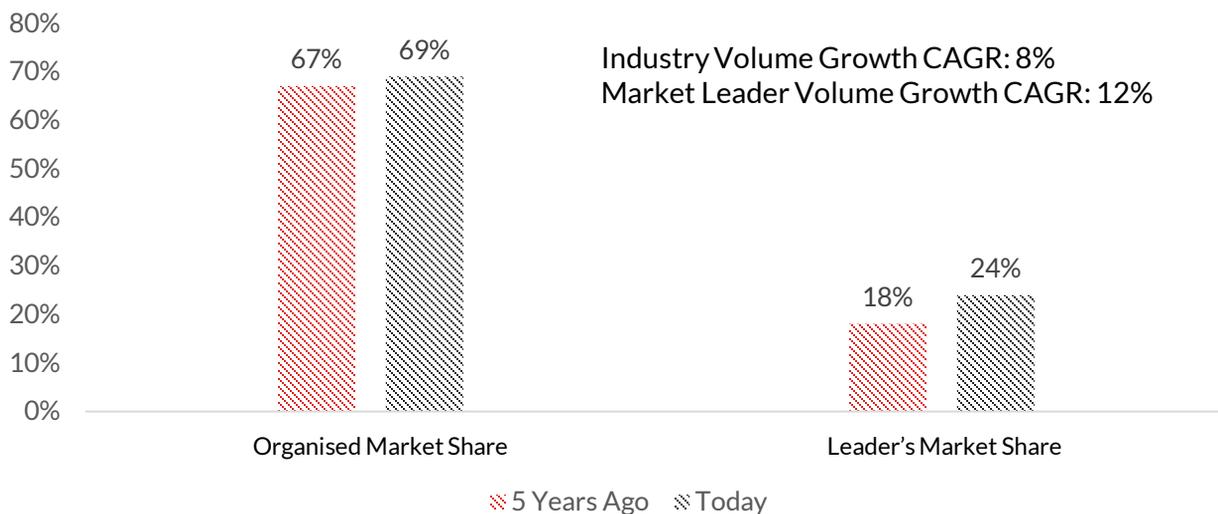
### Sales in Tier 1 Cities / Inventory Levels



### An example of how Realty feeds into the value chain – Consolidation

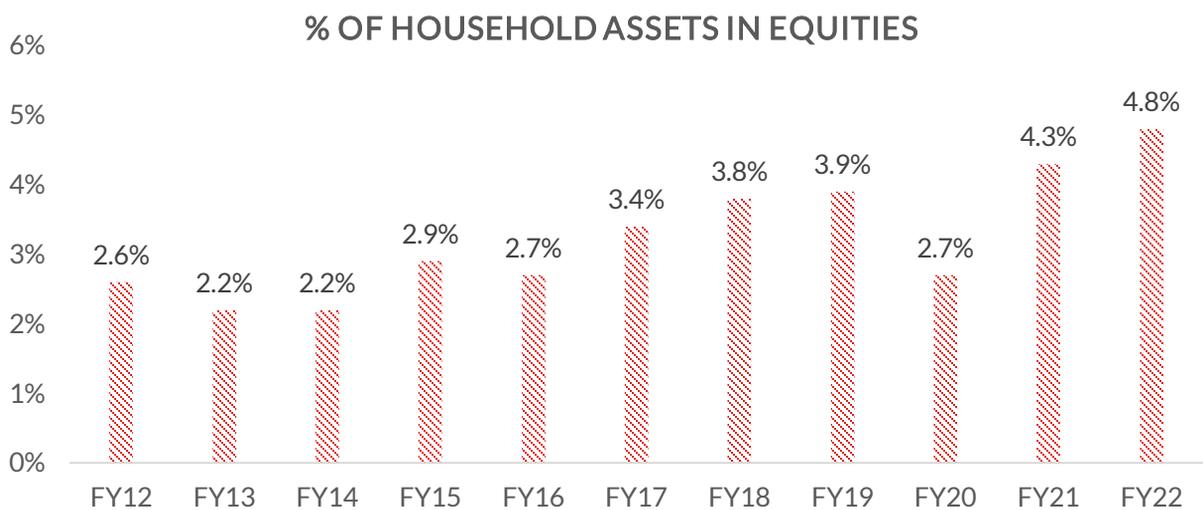
The private household-capex influences the entire building value chain from cement, iron & steel, cables & wires, paints, pipes & fitting, to sanitary ware, tiles, and wood panels. While this offers a huge set of heterogeneous opportunities in different categories, it is to the discretion of investors to play the best proxy which offers the collective prospects of high-volume growth, consolidating industry structure, favorable unit economics, and reasonable valuations. We present an example of a proxy to the sector, and how in a phase of high growth, the leader consolidates its market share significantly.

### WIRES AND CABLES



## FINANCIALIZATION OF SAVINGS

In keeping with the trends of consumption, the nature of how India is saving has witnessed a paradigm shift. A cursory glance at various asset classes indicates how the average savings dashboard has moved over the past 5 years: (a) SIP AUM now forms ~30% of equity AUM vs ~20% of equity AUM; (b) Share of equity AUM has increased to c.48% vs c.32% and (c) the number of demat accounts have grown over 3.5x. These trends are likely to continue as financial literacy and access to financial products are significantly higher than in the previous generation.



*Source: RBI*

Overall, the path to increased consumption and premiumization is not just paying for rational product attributes or functional benefits, but also for social and psychological reasons for which a customer consumes and pays a premium. Over the past two years, the intensity of how India consumes has pivoted. A new wave of growth capital has entailed a variety of investments that lower the friction in paths to consumption. Despite the inflationary environment, demand expansion across categories is throwing up opportunities for us to underwrite. The long-term drivers that will now shape India's consumption will be very different from what we have witnessed over the last many years, and we see growth emerging from several frontier business segments that will generate significant earnings over the next five years.

## IN CLOSING

*Uncertainty is inherently unmeasurable. In the long run, investment outcomes will continue to be a function of their earnings growth, adjusted for capital efficiency. While in the interim, divergence in how various stakeholders measure and react to risk will affect stock prices.*

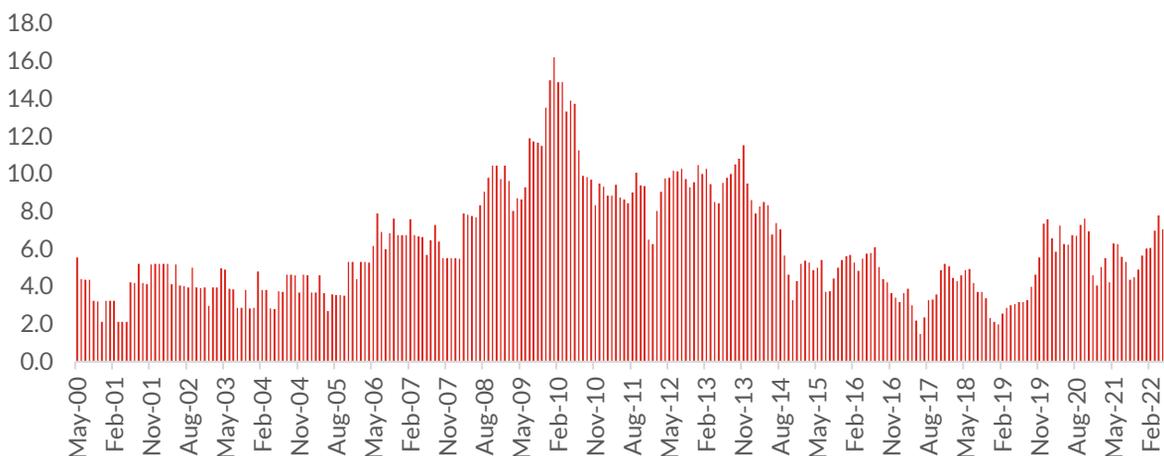
## GROWTH

Contraction in growth rates is as much a logical phase of an economic cycle as is expansion in growth rates. What is difficult is timing the slowdown, especially given the nature of false alarms that are endemic to the industry. Over time, our assessment of the market's cyclical phase will significantly impact our portfolio returns since it determines our stance of either being defensive or investing opportunistically. Let's bear in mind that India's demographic picture fundamentally underpins its growth rates. In a nutshell, the aspirations of 2/3rd of India's consumers aged below 30 and their rising incomes are driving a wave of demand for certain products and services. And there is the added impetus of a manufacturing resurgence. Our job is to identify firms in these sectors available at a reasonable price.

## INFLATION

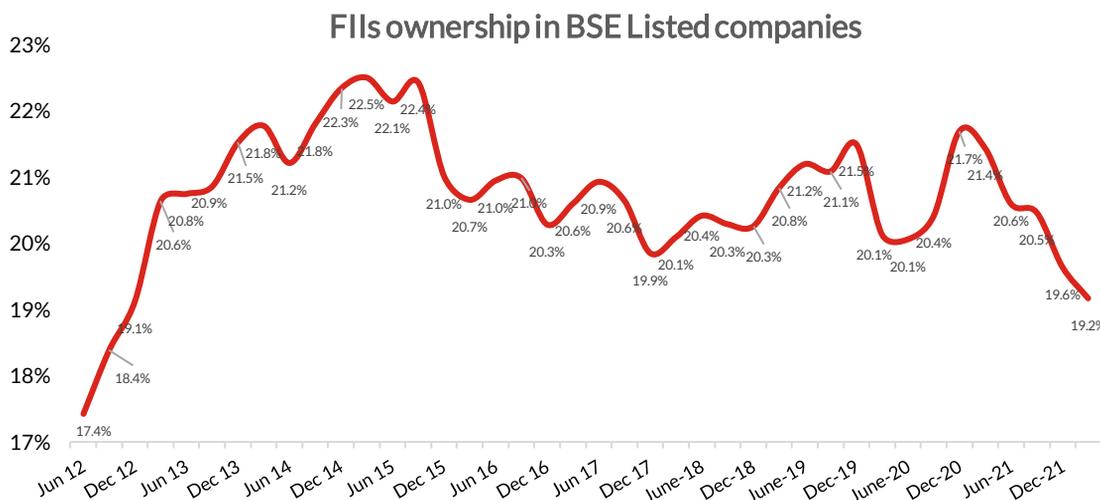
The powerful force of inflation influences demand; low and stable inflation accentuates growth while rising inflation contracts pricing spreads for firms and purchasing power for consumers. The question is, how long will inflationary prices prevail before supply catches up as it always does? Getting this forecast right is essential as it influences interest rates and our choice of asset classes. Today's environment is dominated by jams in container shipping, the war in Ukraine, and the reversal of the benefits of globalization due to geopolitics and rising trade barriers, presenting India with serious challenges and great opportunities. While we face uncertainties, the macroeconomic stability of the country's overall debt and foreign currency flows/balances are foundational to our view as investors.

CPI Inflation

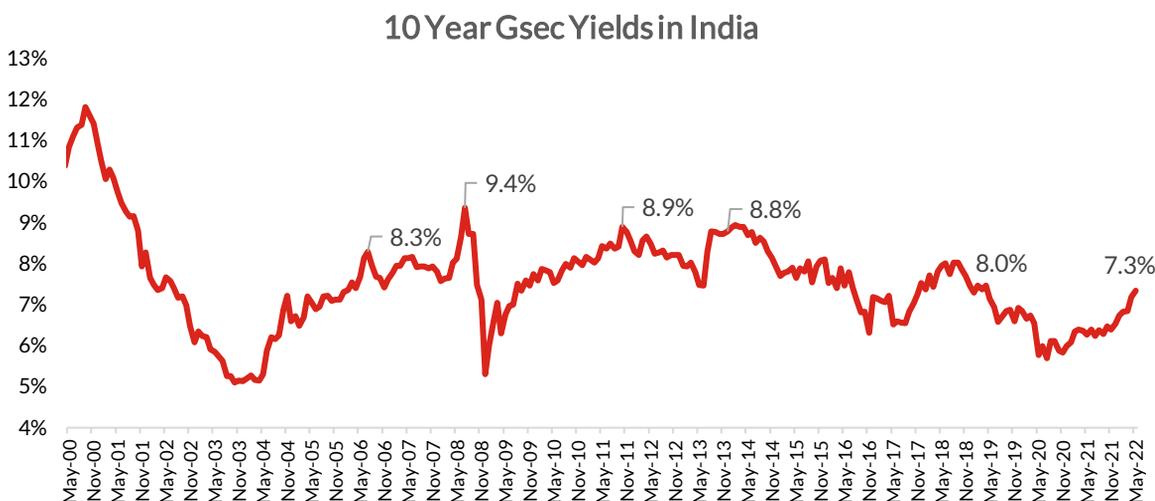


## OUR VIEW

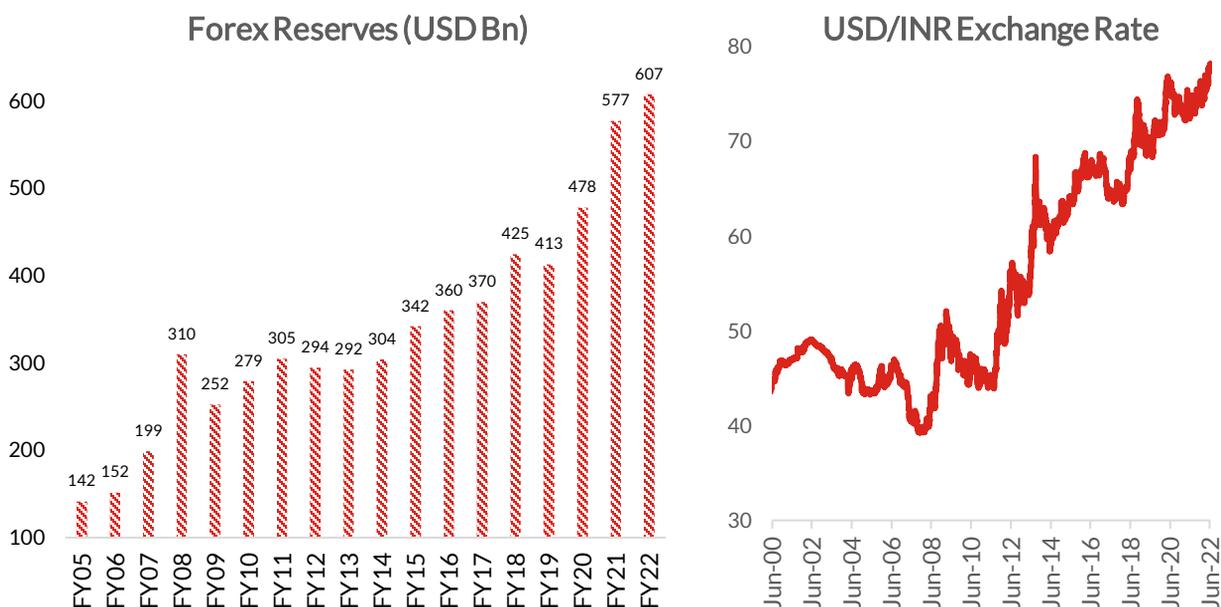
Asset prices are determined by how investors expect growth and inflation to trend. And this is reflected in our current portfolio construction. The demographic picture in the developed world is dominated by high base effects of incomes and consumption and their low and falling birth rates of around 1.5. The selling by foreign investors and the hysteria observed in the western media is a reflection of this. The collateral impact on Indian stock markets has been quite significant, especially on those firms that were over-valued or whose prospects are weak and unclear.



Inflation is impacting firms and consumers, but not equally. It is important to bear in mind that the absolute cost of money is more important than the direction of cost, i.e., interest rates. It is clear that interest rates are still at a reasonable level relative to our past.



And alongside, the probability of a sharp fall in the rupee exchange rate as we suffered in 2014 is low.

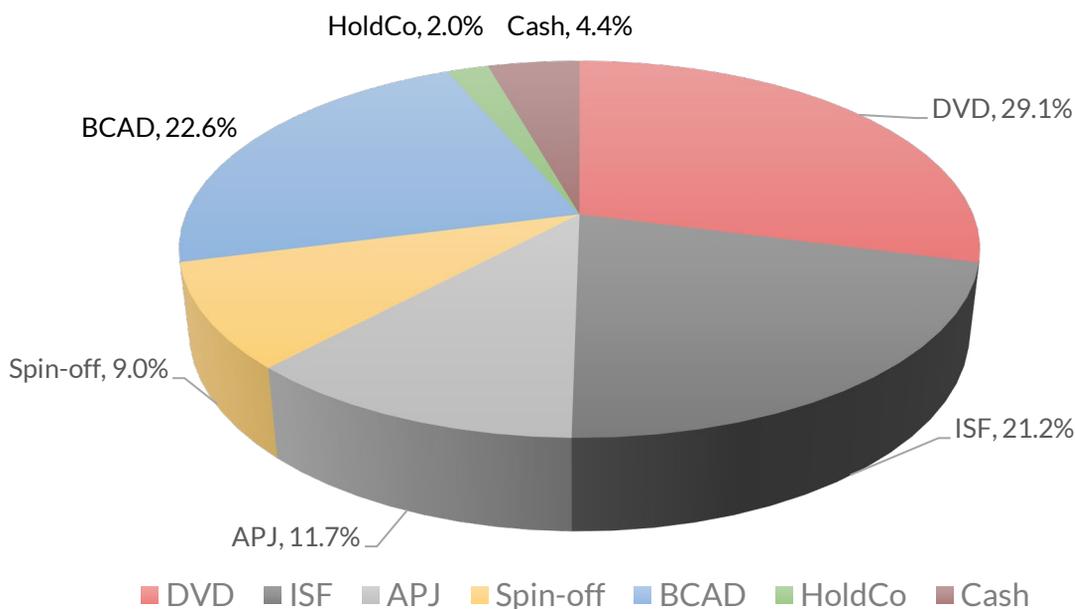


Different sectors are coping with growth and inflation using the tools at their disposal to optimize their growth and earnings. Certain sectors will do well and others poorly, and we are focussed on identifying this accurately and early.

Finally, valuations. As prices have dropped across the board, there are more well-run businesses we have the option to buy vs. the same period last year. We find sectors like consumer staples still over-valued relative to their growth and capital efficiency and resist the temptation to take shelter under the comfort of brand names that represent good past performance. Instead, we are taking advantage of reasonable valuations in emerging sectors and firms catering to India’s discretionary demand for healthcare, building products, home appliances, and agri-chemicals, and globally competitive firms in technology, KPO, chemicals, and specific aspects of pharmaceuticals. We cannot over-emphasize India’s demographic strength, the depth of its consumption franchisee, and the resurgence in manufacturing. The rising income of 26cr households is driving a wave of demand for certain products and services, and we are excited by the opportunities available to us.

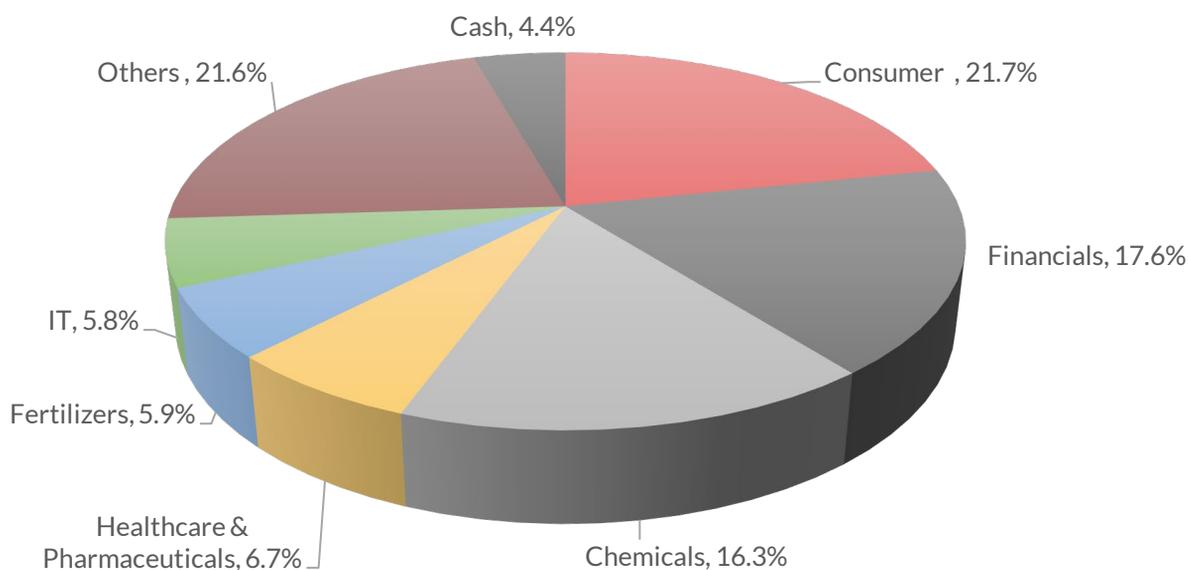
The strategy wise composition of the Unifi Umbrella Blend AIF fund is as below:

### Unifi Umbrella Blend AIF – Theme Allocation



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

### Unifi Umbrella Blend AIF - Sector Allocation



The following annexure presents a brief on our top holdings:

**State Bank of India** SBI reported earnings growth of 41% YoY/8% QoQ to Rs 9,114cr. This was led by higher loan growth of 6% QoQ which was similar to large private banks. The company is confident about corporate credit growth in FY23 given unutilised credit lines, loans under approval and improvement in lead economic indicators. SBI also mentioned that since 75% of loan book is linked to external benchmark, so it will be one of the beneficiaries in rising interest rate environment. Asset quality has further improved with net NPA improving by ~32bp QoQ to 1.0%

We believe that asset quality of SBI is in a better shape as it has been reporting benign gross slippages of 40-70bps over the past three quarters now. Net slippages are even better at NIL to negative over the same period. We do not expect any major asset quality challenges flowing into FY23 as SMA I & II book is low at 13bps. 50% of restructured book is being billed now and is performing well. We expect SBI should continue its superior performance on the operational & asset quality side and shall report RoA of 0.9% and RoE of ~17% in FY23.

Key risks would include deterioration of asset quality leading to higher-than-expected credit costs, decline in NIMs due to falling yields, and lower than expected loan growth.

**Axis Bank** Axis Bank reported earnings growth of 54% YoY/14% QoQ to Rs 4,118cr. The bank reported an impressive loan growth at 6.4% QoQ which was slightly better compared to its peers. Its incremental market share also improved to 9.6% vs outstanding market share of 5.9%. The company is witnessing strong traction in the focus areas of retail and SME while it is cautious on wholesale lending due to fierce competition in lending rates. Margins declined slightly by 4bp QoQ. Asset quality has further improved and is among the best in peers given the net NPA at 0.7% and restructuring at ~0.6% of loans.

We expect that company's margins will improve structurally in FY23 led by shift from investment to asset book, maturity of RIDF bonds, improvement in CASA book and general improvement in interest rates. Opex was elevated as Axis continues to invest in building front end team, process and infrastructure. Asset quality has further improved and is among the best in peers given Net NPA of 0.7% and restructuring at ~0.6% of loans. The bank may report an RoA / RoE of ~1.4/~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 and lower than expected loan growth.

**CG Consumer** Crompton Greaves Consumer reported revenue growth of 2% YoY to Rs.1,548cr. The lighting segment was down 4% YoY owing to decline in B2G business, while consumer durables delivered 3% YoY growth, on the back of a slow-down in the pumps segment. In each of the key product segments [Fans (19% YoY), Electric Appliances (28% 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 30% in spite of material inflation. We expect Crompton to deliver headline growth that is ahead of the industry. The company reported PAT of Rs. 176cr (up 2% 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 given their execution 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.

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### Godrej Consumer

Godrej Consumer reported revenue growth of 7% YoY to Rs.2,916cr. Except for Indonesia, all the other regions did well (India, Africa and LATAM) with 9-15% YoY revenue growth. The gross margin declined to 49.5% vs 50.7% in Q3FY22 and 55.1% in Q4FY21 due to inflation in palm oil and crude oil prices. Reported EBITDA declined by 15% YoY but there had been one off inventory pilferage in African business. Adjusted to that, EBITDA declined by 9% YoY. Despite sharp drop in the gross margin on YoY basis, the EBITDA margin didn't show decline to that extent given the cost efficiencies that company has been working on. Company reported PAT of Rs. 362cr in Q4FY22 (adjusted PAT declined by 3% YoY).

Godrej Consumer always had great brands (Good Knight, Cinthol, Godrej No.1, Hit, Godrej Expert and Aer) but the execution was weak in the last few years as management focused more on international business. The company appointed Sudhir Sitapati as new CEO in 2021 and he comes with rich experience in HUL. The new CEO has been working on various initiatives like filling the gaps in product portfolio, cutting down unnecessary SKUs, cost efficiencies etc and we expect this to play out in the next couple of years. The company has also recruited new CEOs for Africa and Indonesia businesses. There are clear turnaround signs visible in Africa business over the last couple of quarters and we expect even India business to see a revival going forward.

Key risks include entailing a steep increase in raw material prices and any changes in the senior management.

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### Coromandel

Coromandel recorded revenue growth of 50% YoY in Q4 FY22 to Rs.4,227cr. However, the revenue growth number is of less significance as it includes the pass-through of RM cost. EBITDA and PAT grew by 65% and 86% YoY to Rs.280cr and Rs.291cr respectively. Margins were better than expectations due to backward integration in Phosphoric Acid, sourcing efficiency & operating leverage. The company plans to increase their Phos Acid capacity by 25% in H1 FY23, apart from incurring capex for Sulfuric capacity for backward integration and SSP capacity to capture market share in the category, combining a capex amount of Rs. 700cr. Structurally, the company is well placed to battle cost inflation with good capital allocation and governance, and with a debt-free balance sheet, the company is strongly poised for the next cycle of growth.

Coromandel is India's largest privately held non-urea (Phosphatic) fertilizer company with a diversified revenue mix of regulated and unregulated products. The company has a 15% market share in India's NPK consumption with a better proposition vs peer through differentiated products, focus on specialty 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.

Key risks to the investment could be significant reduction in RM prices leading to correction in inventory valuation, unexpected regulatory developments, and the erratic monsoon.

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**Sonata Software**

Sonata delivered revenue growth of 4.3% QoQ and 4.7% in CC terms, slightly lower than expectation. Supply-side constraints on account of attrition led to a 2-2.5% miss in the revenue. International IT Services [IITS] EBITDA margin came in at 27.5%, a decline of 50 bps QoQ, while that of Domestic product services (DPS) came in at 3.8%, improvement of 130bps QoQ. IITS margin was impacted because of wage hikes given in Jan'22. Overall EBITDA margin for the quarter stood at 7.4%, up +30bps QoQ.

USA (+8% QoQ US\$) led growth, while Europe and Asia remained flat. The management continues to invest in building digital capabilities and has also started focusing on non-Microsoft tech stack (Amazon and Google). While the visibility of growth remains good, margins for the services business will remain in the 20-22% range.

Key risks: Slowdown in the USA and Europe and cuts in discretionary IT spending by enterprise clients.

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**Atul Ltd**

Atul recorded revenue growth of 23% YoY to Rs. 1,370cr. EBITDA declined by 19% YoY to Rs. 205cr and PAT declined by YoY 23% to Rs. 137cr. Revenue growth was contributed by both the segments. The performance chemical segment delivered revenue growth of 29% YoY led by growth in the Polymers and bulk chemicals segment. The price of key raw materials increased by 20-200%. The company has taken significant price hikes to pass on inputs costs leading to better realizations. The management is confident of a complete pass-through by Q2 FY23. The Life Science segment recorded revenue growth of 18% YoY led by growth in the crop protection business. In the Life Science business, the ramp-up in new capacities has been subdued due to delays in approvals, leading to fixed costs upfront and negative operating leverage. Gross margin was down 400bps YoY. Apart from the raw material inflation, the surge in coal price and logistics cost globally impacted profitability. In FY23, the capacity ramp-up should be significant with margin recovery.

Atul is one of the largest integrated chemical companies in India. The company's growth is underpinned by its leadership position in key chemistries/products, exposure to multiple end-use industries and the maximization of its downstream capabilities. This has helped the company build a sustainable business model complemented by its self-sufficiency in feedstock and supported by the expansion of its existing product lines and entry into the value-added product market. The company is in the midst of capacity expansion across sub-segments to strengthen its position in its existing product markets and increase the share of downstream products. Atul is incurring a total capex of Rs. 1700cr over FY23-24.

The key risks would be softening of spreads in key products and the delay in the commercialization of capex.

**Natco Pharma** Natco Pharma recorded revenue growth of 80% YoY to Rs. 597cr. Profitability was impacted by one-off inventory value write-off and receivable credit loss, combining to Rs. 278cr. Adjusted for one-offs, EBITDA and PAT grew by 240% and 223% YoY to Rs. 260cr and 171cr respectively. Revenue was mainly driven by the first generic launch of gRevlimid in the US market by Natco with its marketing partner Teva. Domestic Formulations business was steady. The company is looking to expand the product portfolio by entering new therapies and launching more products in the existing therapies. Apart from the gRevlimid launch in the US, gRevlimid in Canada and Everolimus [launched in Oct 21] are driving the portfolio currently. NATCO has acquired Dash Pharmaceuticals, a New Jersey-based entity for consideration of US\$ 18Mn.

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. The company will generate 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 2 years and this will be used to fund acquisitions and capabilities. In addition, the company has forayed into the Agrochem business, where the first key launch is expected in Q2 FY23.

Apart from Revlimid, the company has about 10 approved products in the pipeline, of which at least 4 products will be launched in the next two financial years. The company filed 3 FTFs in FY22 and for one of the products, the company is the only FTF filer.

Key risks: Product concentration and inability to grow base business.

**Varun Beverages** Varun Beverages reported revenue growth of 26% YoY to Rs.2,827cr supported by volume growth of 19% YoY and realisation increase by 6% YoY. The growth in realisation was driven by price hikes in select SKUs, change in SKU mix and higher realization in international markets. Gross margin reduced by 430 bps to 51.5% primarily due to increase in preform/pet chips prices. Despite the increase in input costs, company was able to improve EBITDA margins from 17% to 18.8%, led by operating leverage and volume growth. Overall, PAT was up by 97% YoY to 255cr.

Varun Beverages is the second largest bottler for PepsiCo globally and currently bottles 85% of PepsiCo India's beverage volumes. Summer is the peak season for sale of carbonated soft drinks in India and the last two summers got impacted due to outbreak of covid. Meanwhile, the company has worked on geography expansion domestically, taking over Southern and Western operations from PepsiCo. The company has also expanded distribution reach by setting up visi-coolers at retail touchpoints. Varun has introduced new products in the non-Cola space with offerings like Lemon drink (Mountain Dew-Ice) and Energy drink (Sting) which have been received well. Having completed the domestic capacity expansion, free cash flows will be used to bring down debt and expand in international markets which offer high growth potential.

Key risks include increase in raw materials like PET reforms and sugar prices.

**Bector Foods** Bector Foods reported revenue growth of 13% YoY to Rs.252cr. Biscuits segment had growth of 4% YoY as exports got impacted due to container availability. Breads had registered a 27% YoY growth on backdrop of QSR business going back to pre-covid level. The gross margin improved to 45% in Q4FY22 vs 43% in Q3FY21 as company took multiple price hikes. Despite largely flattish gross margin, the EBITDA margin declined to 10% in Q4FY22 vs 13.1% in Q4FY21 due to increase in employee, power and fuel expenses. Company registered PAT of Rs. 10cr in this quarter vs Rs. 13cr in Q4FY21.

Biscuits in India is largely dominated by 3 players controlling almost 70% of the market. Bector is more of a regional player and currently present in NCR region. But the company has been entering into new geographies and expanding its distribution network over the last few months and this would help the company in registering high growth. In the B2B breads segment, company supplies buns to QSR outlets like Burger King and McD. The B2B breads segment for Bector is growing in higher teens given the rate at which QSRs are growing in India. On the B2C breads segment, the company has now expanded into Bangalore and Mumbai (earlier it was only present in NCR). Given the growth options that company has in biscuits and bread segments, we expect Bector to deliver consistent 10-15% revenue growth for the next few years and operating leverage would result in much better earnings growth.

Key risks include entailing a steep increase in raw material prices and demand slowdown.

**Chemplast** Chemplast delivered strong revenue growth of 35%YoY to Rs. 1,807cr. EBITDA and PAT were Rs. 346cr and 232cr, up 1% and 37% YoY respectively. The company had built up the inventory in Q3 due to low demand and the same was liquidated in Q4 resulting in volume growth of 28% and 13% YoY for Paste PVC and Suspension PVC respectively. In the first half of the quarter, the spreads were impacted due to the high-cost inventory on the books, impacting the EBITDA growth. The PAT growth was high due to decline in finance cost post the use of IPO proceeds for debt reduction. The company plans to reinvest a significant portion of its cash flows in scaling up the contract manufacturing business. The multi-purpose plant capacity will commence in phases starting from Q1 FY24.

From its IPO proceeds, the company has repaid Rs. 1240cr debt resulting in a net cash balance sheet and is committed to capex of Rs.350cr. The company plans to debottleneck Suspension PVC capacity by 10% in FY23 and expand Paste PVC capacity by 60% in FY24. Chemplast has a prominent leadership in Suspension and Paste PVC in India along with Caustic soda and chlorine derivatives. The profitability growth going forward will be fueled by a favorable able business cycle in key products, technological advantage and operating leverage. The management has turned around the business and has revamped it with a targeted approach. With attractive valuations and clear growth directions along with a more prudent balance sheet, we expect the company to capitalize on its growth in respective segments and consolidate its positions among its peers.

Key risks: Decline in PVC prices globally and inability to maintain gross profit spread, Unwarranted expansion in a commodity business.

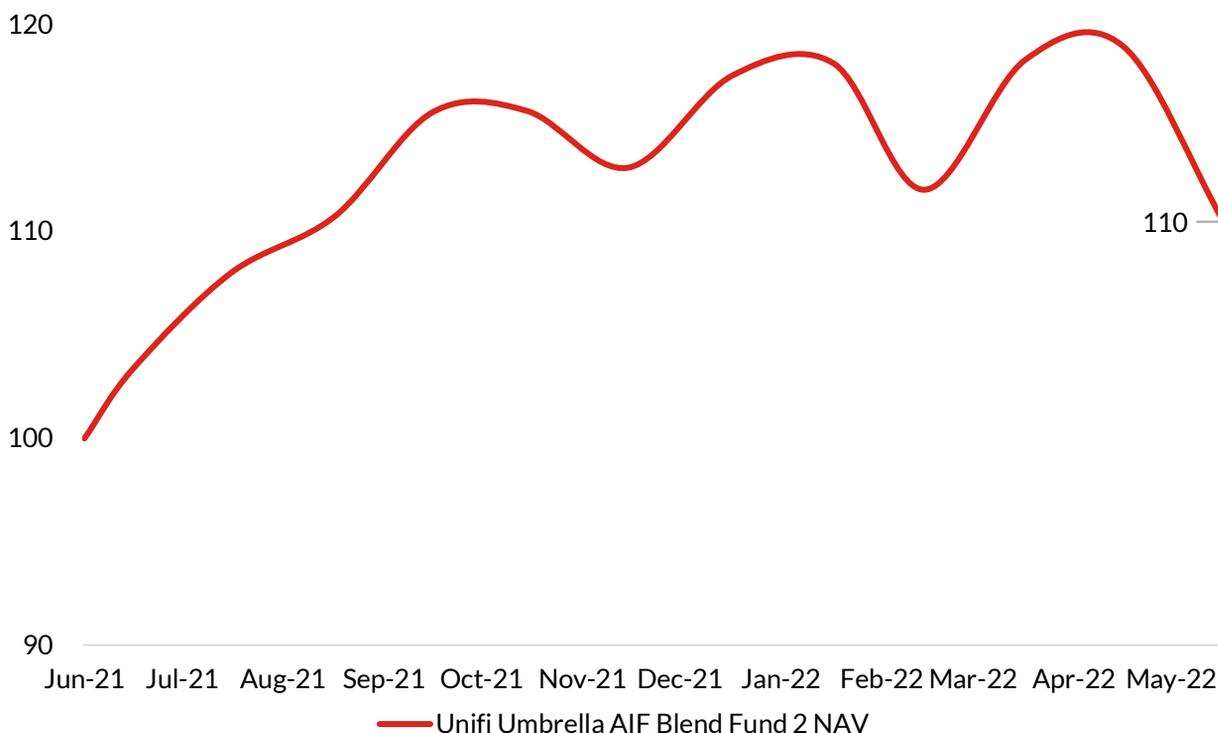
**Tube Investments** Tube Investments (standalone) reported revenue growth of 15% YoY to Rs. 1,809cr. The growth was primarily led by Engineering division (tubes and tubular components) where company registered 21% YoY growth. Cycles underperformed in this quarter with revenue decline of 17% YoY. Despite severe headwinds the domestic auto industry is facing, Tube was able to register growth in the revenue largely led by price hikes and focus on exports.

The EBITDA Margin declined by 250bps YoY to 10.1% in this quarter due to high RM inflation. Company has been taking price hikes regularly and should be in a position to pass on the entire RM inflation in the next few months. The adjusted PAT was flat at Rs. 138cr in this quarter.

Under Mr. Velayan's leadership, the company has taken many initiatives to reduce the dependence on domestic auto industry. Accordingly, it started focusing on exports since last 4-5 years and currently exports form 15% of the revenue. Exports will continue to grow higher than domestic in the next few years as company keeps entering more geographies adding new clients. Also, Tube Investments has acquired CG Power from Avantha group and the turnaround in CG Power happened much quicker than anticipated. CG Power provided Tube with diversification into capital goods space. The company is also entering new categories like Electric 3W and Railways. Over the next few years, Tube will evolve as much more diversified industrial player than just an auto ancillary company.

Key risks include entailing a steep increase in raw material prices and highly competitive intensity.

### Investment Approach NAV [As on 31st May 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 4 <sup>th</sup> June 2022)	FY2022	FY2023E
P/E Ratio	22.0x	16.1x
Earnings Growth	38.2%	22.4%
Debt Equity Ratio	0.12	0.10
ROE %	18.7%	19.9%
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 Q1 FY23 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**

## ANNEXURE

## FINANCIAL DETAILS OF TOP PORTFOLIO COMPANIES

Unifi Umbrella BLEND AIF	Market Cap (Rs. cr)	PBT (Rs.cr)		YoY (%)	PAT (Rs. Cr)		P/E	ROE	Portfolio Weight
Company	4th June 2022	Q4 FY21	Q4 FY22		FY 22	FY 23E	FY 23E	FY 23E	4th June 2022
SBI	4,13,879	8,649	12,479	44%	31,675	44,977	9	17%	7.8%
Axis Bank	2,06,604	3,570	5,479	53%	13,025	17,692	12	14%	7.1%
CG Consumer	23,044	231	213	-8%	577	669	34	27%	6.4%
Godrej Consumer	77,895	424	384	-9%	1,783	1,891	41	16%	6.1%
Coromandel	28,265	213	389	83%	1,528	1,757	16	25%	5.9%
Sonata	7,284	109	136	25%	398	460	16	41%	5.8%
Atul	23,444	236	182	-23%	605	756	31	16%	5.8%
Natco	12,688	71	228	221%	448	1,226	10	25%	4.7%
Varun	48,262	195	361	85%	696	1,080	45	24%	4.7%
Bector Foods	1,663	17	13	-24%	58	71	23	13%	4.6%
Chemplast	7,611	225	280	24%	649	725	10	18%	4.3%
Tube	30,195	162	173	7%	699	853	35	27%	3.8%

## CLASSIFICATION OF MARKET CAP

Segment	Basis	%
Large Cap	> Rs. 45,000cr	30.4%
Mid Cap	> Rs. 15,000 cr < Rs. 45,000 cr	25.6%
Small Cap	< Rs. 15,000 cr	39.6%
Cash		4.4%
<b>Total</b>		<b>100%</b>

## LIQUIDITY ANALYSIS

Segment	% of portfolio
1 day	30.4%
Between 1 & 3 days	16.5%
Between 3 & 7 days	22.9%
Greater than 7 days	25.8%
<b>Total</b>	<b>95.6%</b>

## RISK MANAGEMENT

Risk	Mitigants
<b>Coronavirus Impact</b>	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.
<b>Geo-political risks</b>	Geopolitical tensions globally can disrupt the supply chain in the region. This might have a non-linear impact on business.
<b>Raw material inflation</b>	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.

<b>Liquidity risk (in case of NBFCs)</b>	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.
<b>Foreign Exchangerisk</b>	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.
<b>Leveragerisk</b>	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.
<b>Technology Obsolescence</b>	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.
<b>Governancerisk</b>	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.
<b>Concentration risk</b>	At the portfolio level, such risks are minimized by limiting the aggregate exposure of portfolio to such investments to less than 10% of value at the time of investment.
<b>Stock Illiquidity risk</b>	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.
<b>Key Man Risk</b>	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.
<b>Slowdown in global consumption</b>	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.
<b>Softness in IT product spends</b>	The convergence to digital software solutions is a 'must do' proposition and our investee companies have exhibited significant traction in competing in this space. A combination of their recent deal wins, and current bid pipelines bode well for their future.

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