UNIFI AIF

Review : Q2-FY 2023

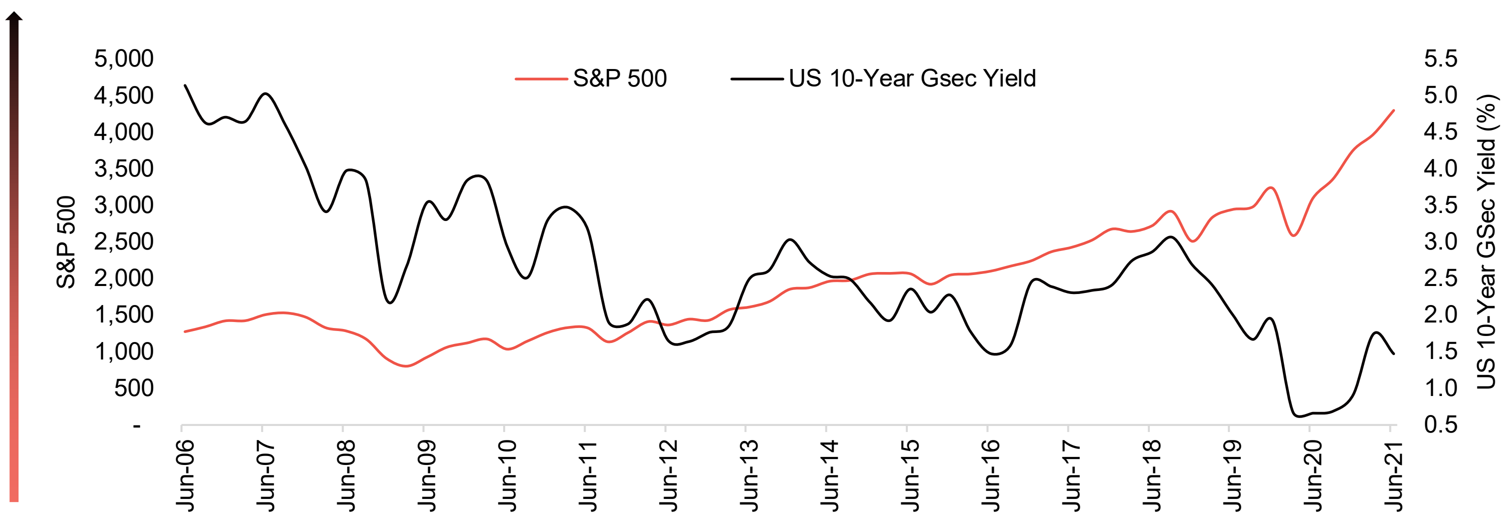
Umbrella AIF BCAD Fund

We usually write sparingly on the Macros. Macros run a relatively low elasticity when seeking absolute returns in relatively stable emerging markets, such as India. However, 2022 has been a year of significant macro upheaval, and a moment here will contextualize the complexity of the environment. This is important to appreciate the risk/reward currently prevalent before we shift our focus back to the bottom-up.

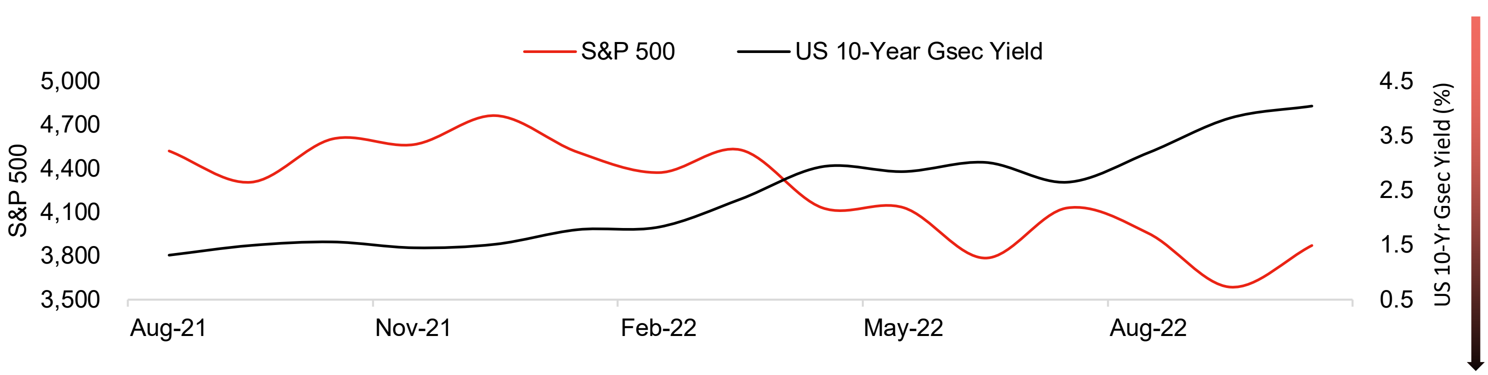
Cutting through the Macro

Over the last decade, the global monetary policy system burdened itself with the primary objective of delivering growth through a medium of very negligible cost of capital. An extended phase of such marginal costs lent to the artificial stimulation of excess demand, exerting tremendous inflationary pressure across all asset classes – physical or intangible. This spawned the beginning of economic unsustainability because when the cost of capital is cheap, in some combination, consumers tend to over-pay for all factors of an economic value chain – land, labor, and capital. Further, the forceful measures taken by central banks during the pandemic accelerated the consequences on all such assets, eventually reflecting in the inflationary value of the underlying equity holding such assets. This is essentially an economic theory, but as they were implemented with abandon over the last many years, the markets played out as they ought to have – i.e., create a period of unsustainable surplus and eventually give it up. And these trends played out equally between the primary markets [venture capital funding conceptual ideas] before transmitting to the secondary [capital] markets.

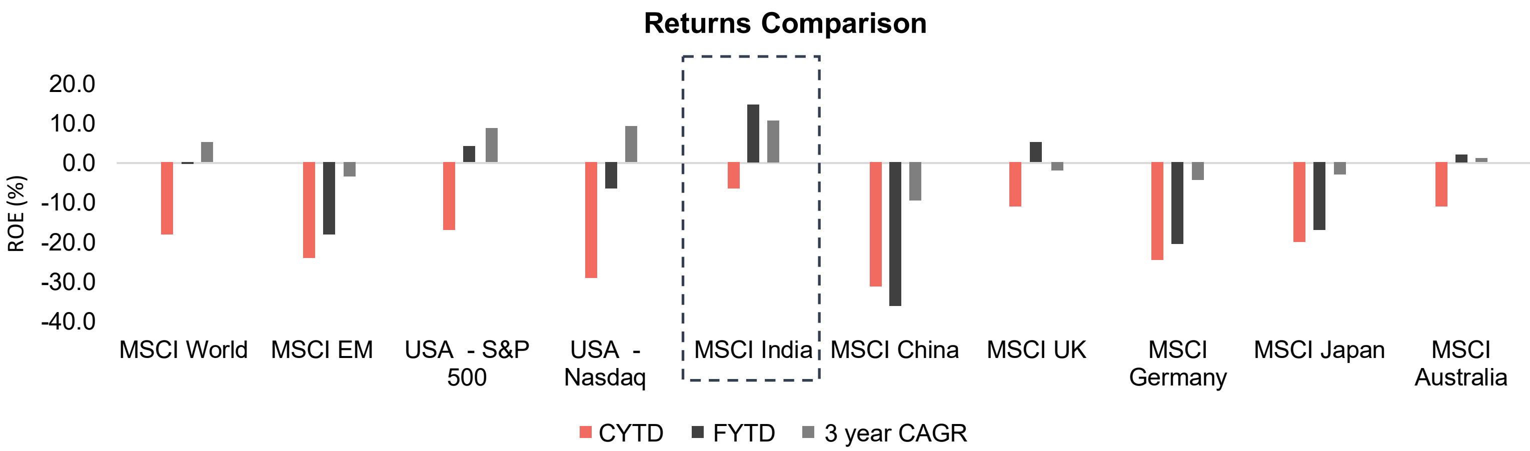
To skip the details in favor of brevity, this is how the bubble played out in the US: as quantitative easing began in the late-2010s, the US 10year GSec fell from ~4% to <1% while the S&P 500 compounded at ~12% CAGR.



When capital is cheap, all assets command a premium. When the glut recedes, interest rates rise, and risks adjust to reality. Over the past 15 months, as the FED increased interest rates, US GSec increased from 1% to 4%, while the S&P 500 gave away ~17% from its peak of the previous year. And there is more tightening to come, as evidenced by the US Fed's general guidance that intends to be "sufficiently restrictive." This means yields will rise, and it remains to be seen how much more US equities will reprice themselves.



A similar passage of play played out in almost all countries worldwide for the past 18 months. However, interest rate reversals, and money supply, are the only variables that can be formally controlled, as monetary policymakers cannot control the most integral end of the economy – demand and supply. This leaves the door open for the markets to reprice themselves. The result is a complex system of unpredictable output, constantly evaluated by the stock markets, basis the strength of each underlying economy.



As of 15th November 2022

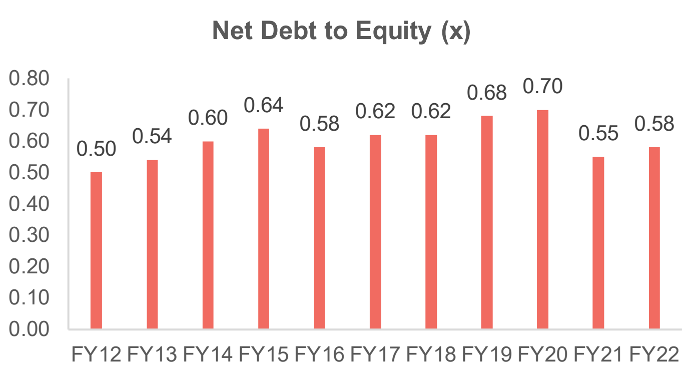
In the context of this complexity, we distill the macros into a simple framework to address what this means for managing your equity risk in India. Accordingly, we ask ourselves the following questions: How is India faring? And how are we managing your equity risk?

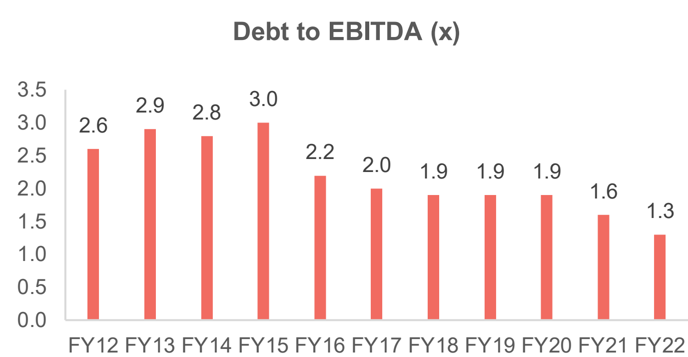
How is India faring?

As an emerging market, India cannot be immune to worsening global macros.

However, the underlying strength in a new capital formation cycle, credit growth, and a resilient domestic consumption cycle place India in a different macroeconomic trend from the rest of the World. While this is evidenced by past returns as showcased above, going ahead, this is primarily because India's credit cycle has run inversely proportionate to the West's. Between 2015 – 2021, India curtailed its lending while the West was in an expansionary phase. This resulted in negligible domestic capital formation and limited economic multiplier. The West, in this period, enjoyed a liberal flow of capital and an expansionary private sector. The situation now stands reversed. Corporate India, with its strong balance sheets and policy support across the breadth of manufacturing and agriculture, is in the midst of a new phase of growth and witnessing renewed demand within India.

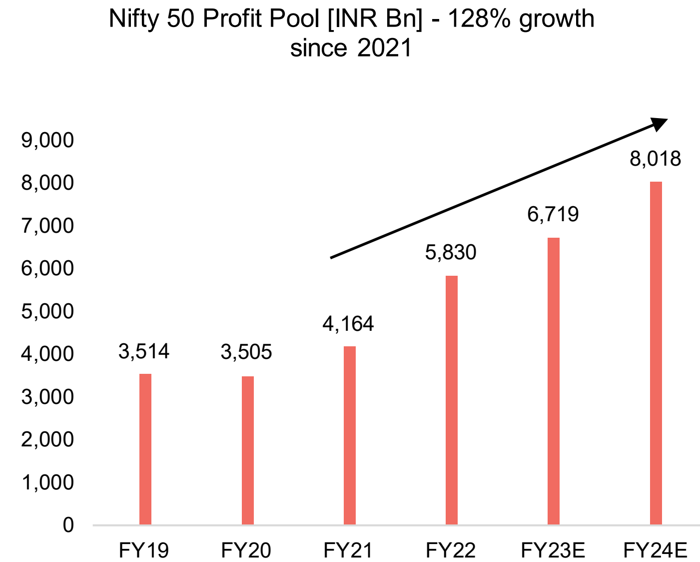
We support this with a few facts. Since FY15, Indian firms have materially deleveraged their balance sheets. The debt to EBITDA ratio of the top 500 corporates in India decreased from 3x to 1.3x. Resultantly, the rate hike cycle in India has had little or no impact on earnings or growth plans. On the other hand, India Inc has witnessed strong economic resilience post-pandemic phase, reflecting higher credit growth. India's system credit growth has touched a multi-year high of ~17% in Nov '22, led by robust consumption demand. As India's capacity utilization in the manufacturing sector is running above its long-term average, the construct of the next phase of private CAPEX cycle is robust and financially sustainable.





In FY 2022, Corporate India witnessed the best-ever delta in terms of an increase in the cumulative profit pool in the last two decades. They continue to defend that base well despite the current inflationary cycle.

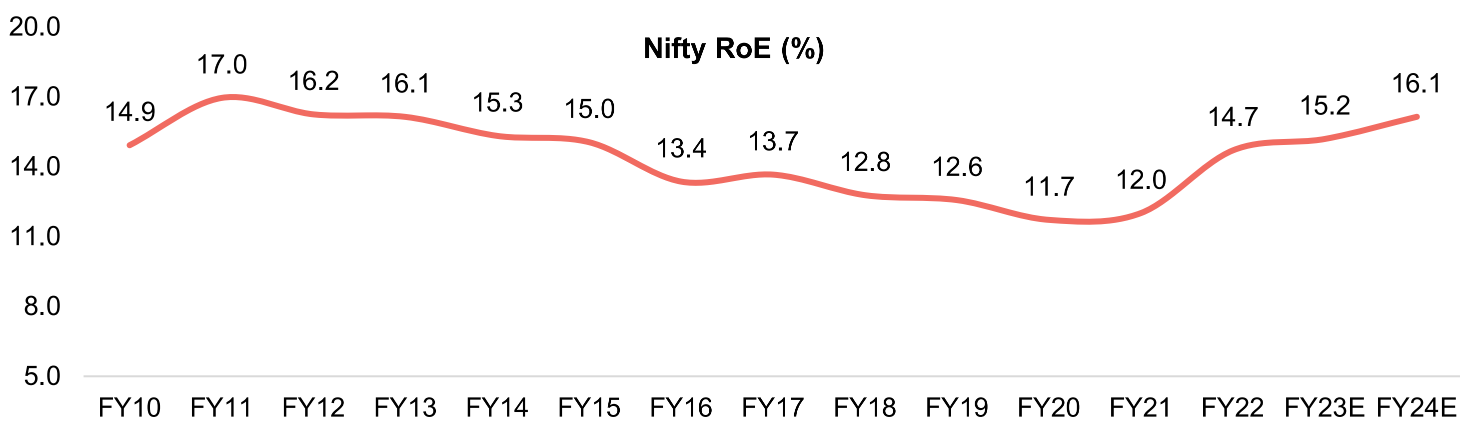
India is the only economy that provides growth rates of this magnitude at scale with greater appreciation to capital allocation, governance, and the Government's willingness to do what it takes to support the domestic industry. After going through a challenging earnings growth cycle in the last decade, Nifty 50's cumulative profit pool has doubled in the previous 3years. The last time corporate India enjoyed this fundamental strength was more than a decade back. The markets are ultimately discounting this pace of growth despite the challenging global macro environment. And this is responsible for India's equity market performance relative to other major economies.



.. and doing this with Capital Efficiency

While earnings growth and profitability metrics remain the focal point of a firm's journey, value creation is unsustainable without the discipline of capital allocation. The primary pillars of the value creation journey are earnings growth and the firm's ability to reinvest capital at better returns than the cost of capital, especially in an environment where the cost of capital is on its way up.

In a nutshell, earnings growth only creates shareholder value if a company generates returns over the cost of capital, and this is reflected in Corporate India's financials. With the corporate balance sheets today in significantly better shape, Return on Incremental capital has much been higher than historical trends, resulting in the expansion of earnings and an appreciation in the value of equity delivering such earnings.

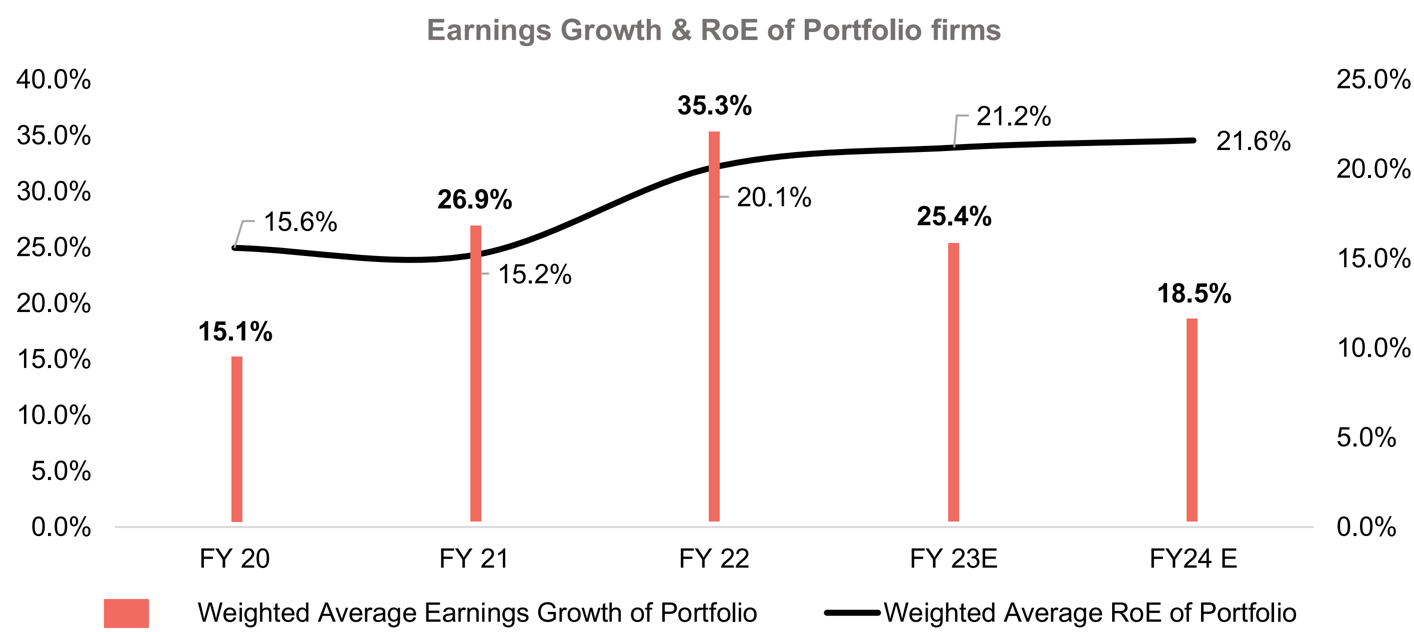


How are we managing your equity risk?

The robust offtake of credit dictates the making of a new economic cycle. And financial enterprises are the first to capture the multiplier effects, ahead of other parts of the economy. As a result, credit remains a significant part of our portfolio today. As of October, this year, India's systemic credit growth reached a multi-year high of 17%, driven by strong consumer demand. This figure is anticipated to rise with a new investment cycle. Further, a rising interest rate environment coupled with benign credit costs will help banks report robust earnings over the next few years. On average, Banks today constitute c.25% of your portfolios.

The depth of India's domestic consumption and manufacturing franchise are drawn upon to construct the remainder of your portfolios. Due to healthy wage inflation in the formal economy, disposable incomes have risen at a healthy pace. Coupled with pent-up disposable incomes over the two pandemic years, there has been a noticeable improvement in premium and discretionary consumption, property absorption, and financialization of savings. While we have mentioned this statistic in our previous notes, it may be worth repeating that the percentage of households in the upper and high-income groups grew from 8% in 2005 to 24% in 2018. And by 2030, this percentage is estimated to reach 51%. With this change in the profile of household incomes, all cohorts of discretionary consumption will grow while newer categories will be created. We are aligning with numerous companies at the portfolio level that are aligning with such change. The respective portfolio sections present a more detailed flavor of your portfolio.

We have drawn from the strength of India's macros highlighted in the previous sections and referenced it with a firm's exhibiting strength in sections of the economy described above in evaluating (A) earnings growth and (B) capital efficiency in determining if they merit a place in your portfolios. This has resulted in a portfolio with a blended average earnings growth of c.22% in FY23 and FY 24, with capital efficiencies of 21%. While the macros play a role in the regular pricing of securities, the strength in earnings and ability to defend capital efficiency will culminate in portfolio returns over the medium term.



In closing

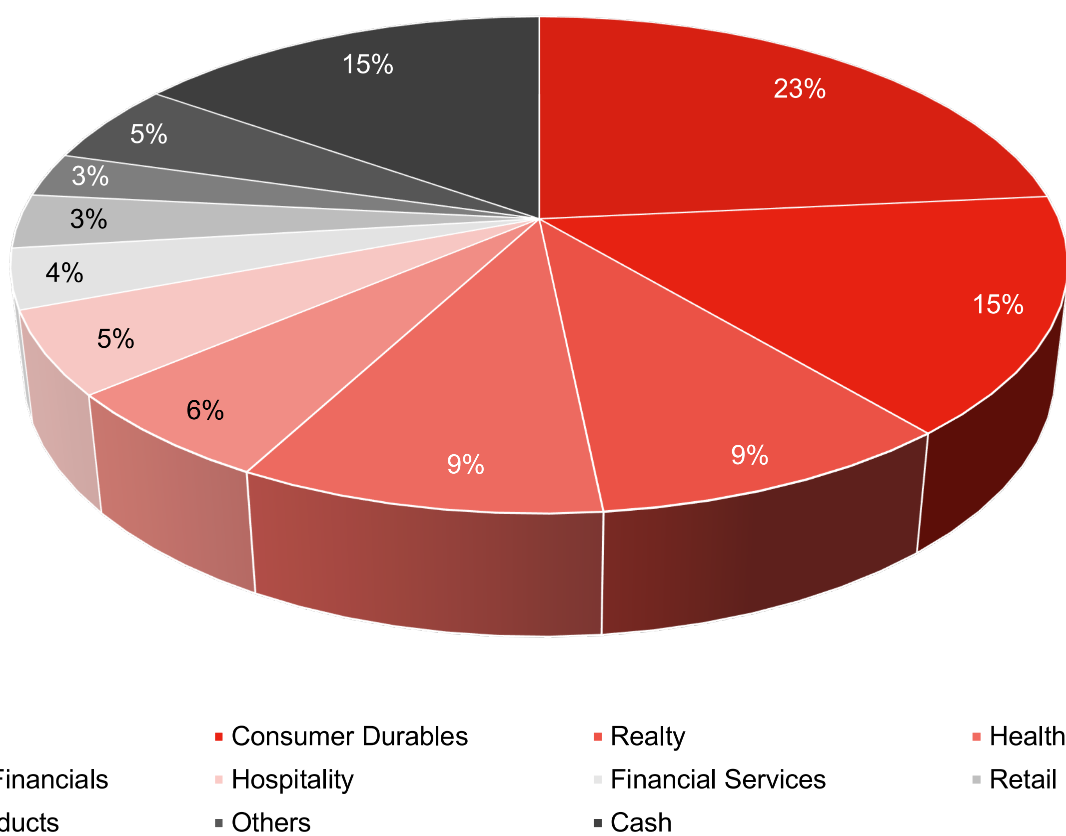
As one of the World's fastest-growing economies, India is naturally home to businesses with very high growth rates. And growth companies derive most of their value from the future, which is fair. In a cycle of monetary tightening and higher cost of capital, the premiums typically paid for growth compress, and their equities' value is drastically repriced. To us, this boils down to not evaluating companies through a prism of buying cheap or high-growth companies at all costs, which is the basic premise of value and growth. To us, high-quality growth businesses are a balance between a proven and profitable business model, a sustainable competitive advantage, financial productivity in the form of cash generation and return on equity, and the ability to sustain and compound this into the future. And in various measures, our portfolio construction is an outcome of this.

India, as a basket, has typically commanded high growth multiples as the depth of formalization and consumption the country offers is unique and truly one of its kind. The rapid adoption of India's technology stack [digital payments, identity, formalization, payments, and tax systems] is transforming a vast, inefficient, informal cash economy into an unthinkable new-age economy, surprising even the most optimistic India watchers from a few years ago. This is creating productivity at a scale unseen before, and all of this will eventually be captured in the equity value of India's most efficient firms. This has led to investors to reimagine how they view and value India's equities. And again, in various measures, our portfolio construction is an outcome of this.

At the cost of repetition, the macros today are complex and difficult to price. As markets react to the high frequency of news flow and price them in real-time, we tread a line of caution and constantly evaluate risk and reward. In a nutshell, this means not overpaying for growth and not overstaying our welcome when an investment objective has been achieved.

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

Unifi Umbrella BCAD AIF - Sector Allocation



The following annexure presents a brief on our top holdings:

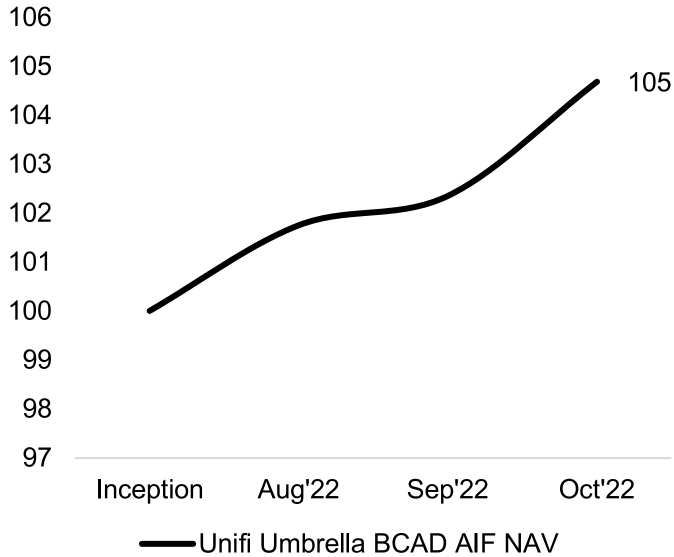
Narayana Hrudayalaya	Narayana reported revenue growth of 22% YoY to Rs. 1,142cr. India business delivered revenue growth of 19% YoY to Rs. 910cr. The revenue growth in India business is largely driven by higher occupancies as ARPOBs (Average Revenue per operating Bed) remained flat. On the backdrop of higher occupancies, the EBITDA margin in India business increased to 21% in this quarter vs 19% in Q1FY23. Cayman business has seen a recovery post the covid wave in Q1. Cayman business reported revenue growth of 48% YoY to US$29Mn and EBITDA Margin recovered to 40%+. Driven by strong growth in both the Indian and Cayman operations, consolidated PAT increased by 70% YoY and 52% QoQ to Rs. 169cr. There has been delay in Cayman capex and this will now be operational in H2FY24 (will increase beds from 100 to 150). On the domestic front, the company has recently acquired a hospital in Bangalore and also working on green field projects in Kolkata and Raipur. These projects would increase the capacity by 30% over the next 3-4 years. We continue to be positive on the sector given the changing lifestyle (more hospitalization) and higher household income. Narayana has one of the best governance standards and balance sheets in the industry. Over the last few years, the company is successfully reducing the dependence on cardio by focusing on departments like Onco and Neuro. Covid has given a fillip to Cayman hospital and this business is on strong footing. Given the sector tailwinds and company's growth strategy, we remain positive on this name. Key risks include new hospitals taking more time to reach breakeven and any changes in the Cayman government policies.
Axis Bank	Axis Bank's Q2 FY23 performance was better than expectations led by improvement in margins, higher loan growth and benign credit cost. Axis reported strong ~4.2% sequential growth in loan book led by growth across verticals. Margins improved by 36bps QoQ to ~4% led by better spreads. Improvement in margins has come as a complete surprise to the street as earlier in 1QFY23, management has indicated that they will reach to 3.7-3.8% of margins over the next 8-10 quarters. On the margin improvement, management mentioned that improvement in margins is structural in nature (no one-offs) and it intends to maintain margins at around current level. Opex continues to be elevated due to investments. Asset quality has further improved and is among the best in peers given Net NPA of 0.5% and restructuring at ~0.4% of loans. Net slippages continued to be modest at 0.3% vs 0.4% in 1QFY23. Lower net slippages over the past 5-6quarters has the led the bank to report sub-optimal credit cost of 20-30bps in the past couple of quarters. The bank has outstanding COVID provision of 69bps. We expect the bank may report an RoA / RoE of ~1.6% / 16% in FY23E led by improvement in margins and credit costs Vs 1.2% / 12% in FY22. Key risks would include a deterioration in asset quality leading to higher-than-expected credit costs and lower-than-expected loan growth.
SBI	SBI reported strong set of numbers led by strong sequential loan growth (+4.8% QoQ), improvement in margins (+30bps QoQ) and moderation in slippages & credit cost. Loan growth has come in at a healthy rate of 4.8% QoQ & 20.8% YoY. SBI is currently running ahead of system growth of 16.5% YoY (As on Sep'22). Although ~21% YoY loan growth has come in on a lower base of 6.5% YoY but even on YTD basis (Apr-Sep'22), SBI is running ahead of system growth. We are estimating loan growth of 14-16% for FY23. Margin improved by 30bps QoQ to 3.3% led by passing on of hike in interest rates and improvement in CD ratio. SBI also has excess SLR, which will help in funding loan growth. Post reporting minimal gross slippages of 40-70bps during 2QFY22 to 4QFY22, SBI reported elevated slippages of 1.4% in 1QFY23. However, in 2QFY23 gross slippages moderated back to 0.3%. Net slippages were at -0.4% vs 0.7% in 1QFY23. On the back of negative net slippage for the quarter, credit cost moderated to 42bps vs 63bps in 1QFY23 resulting in improved

	PCR of 78% vs 75% in 1QFY23. SBI is expected to report an RoA of ~90bps vs 67bps in FY22 and RoE of 17.4% vs 13.3% in FY22. Key risks would include deterioration of asset quality leading to higher-than-expected credit costs, higher treasury losses, and lower-than-expected loan growth.
CG Consumer	Crompton Greaves Consumer reported revenue decline of 4% YoY to Rs.1,331cr, on account of high base last year due to pent up demand post covid. Despite a lower offtake in stocking up inventory by the channel, the company delivered ahead of industry growth rates, on the back of market reach initiatives, product innovation and premiumization. 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 improved sequentially at 31%. We expect Crompton to deliver headline growth that is ahead of the industry. The company reported PAT of Rs. 131cr (down 17% 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.
Tamilnad Mercantile Bank	TMB bank reported 3.1% QoQ / 11.1% YoY growth in advances. Sequential growth was led by Retail & Corporate book which grew by 14.5% and 4% QoQ. YTD growth (Apr-Sep) for the bank till 1HFY23 stands at 3.2%. Management has given loan growth guidance of 11-12% for FY23 & FY24 but the bank is confident of delivering loan growth above 12%. Margins improved to 4.47% vs 4.1% in Mar'22 led by improvement in cost of deposit and increase in Credit-Deposit ratio to 81% vs 75% in Mar'22. As of now, management has cautiously not passed on any rate hike to its customers. The management will take decision on passing on of rate hike in its next strategy meet. Management have mentioned that current level of margins of ~4.5% are not sustainable and sustainable margins will remain be in the range of 4-4.25%. Cost to assets stood at 2% in 2QFY23 & 2.2% 1QFY23 vs our expectation of 2.2% for FY23. Cost ratios will start inching upwards as the bank initiates its branch expansion plans. Gross NPA & NNPA have remained stable at 1.7% & 0.9% over the last 2 quarters. PCR has also remained stable at 44%. Gross slippage stood at 1% & 1.5% for 2QFY23 & 1QFY23 vs 1.6% in FY22. Net slippages were Nil for 1Q and 10bps for 2QFY23. Credit cost stood at 40bps for 2QFY23 & 52bps for 1HFY23 vs our estimates of 1% for FY23. Management has given guidance of 50bps for credit cost for FY23 & 50-75bps for FY24. We continue to build in gross slippage of 1.5% for FY23. SMA 1 & 2 stands at 3.3% & 2.8% respectively. Management mentioned that SMA nos need to be seen in relation with net slippages numbers. SMAs nos are higher but the bank is able to maintain extremely low net slippages. TMB is expected to report an RoA of ~1.6% and RoE of 15% FY23 vs RoA of 1.3% & RoE of 16.6% in FY22. Key risks would include deterioration of asset quality leading to higher-than-expected credit costs, higher treasury losses, and lower-than-expected loan growth.
IIFL Wealth	IIFL Wealth is amongst the largest wealth and alternate asset managers in India. Revenue/EBITDA/PAT grew YoY by 22%/45%/21% to Rs.383cr/Rs.204cr/Rs.173cr respectively in Q2 FY23. Company manages 2.7 lakh cr of AUM that grew 5% YoY - the wealth business is 2.1 lakh cr and asset management is 0.56 lakh cr. The AUM flows were driven by net new inflows of Rs.6,104cr - Rs.6051cr in wealth management and Rs.53 cr in asset management. Over the past 3 years, the company transitioned revenue and costs from an upfront to a trail earning distribution model. We expect the cost to income to be 45% for FY23 vs 52-54% earlier as the employee variable expenses are linked to recurring revenues. This alignment will aid margins.

	We like the business given the sector tailwinds as HNI Wealth expected to grow faster than the industry and the shift of assets from physical to digital. IIFL Wealth has an industry leading business model, demonstrated executional capabilities and a strong leadership and management team. Key risks would include slowdown in net new inflows and any employee/client attrition.
Lemon Tree	Lemon Tree Hotels (LTH) Q2FY23 results were largely on expected lines. Revenue grew 103% YoY and 2% QoQ to Rs197cr in Q2FY23, led by ARR of Rs4,917 (2% higher sequentially), and improvement in occupancy to 66.2% from 65.1% in Q1FY23. EBITDA margin came at 48% in Q2FY23. EBITDA was Rs93.6cr vs 33.9cr in Q2FY22 and Rs92.4cr in Q1FY23. The company is well-placed to capitalize on the impending opportunity in the domestic Hospitality industry and the expected upcycle, due to: a) its strong presence in the Mid-Priced Hotel segment, b) stabilization of Hotels launched before the outbreak of the COVID-19 pandemic in greater demand and higher ARR markets, and c) an increase in the number of rooms through management contracts. Overall given the H1 revenue run rate of Rs388cr the company should comfortably meet its full year revenue guidance of Rs800cr with an EBIDTA margin of 50%. Seasonality in the hospitality business leads to higher ARR and occupancy levels in H2 leading to higher margins given operating leverage benefits. Recovery in the Corporate Travel in locations like Delhi, Bengaluru, Hyderabad should also aid margins. LTH has currently two hotels are under development viz. 'Lemon Tree Mountain Resort, Shimla' with 69 rooms and 'Aurika, Mumbai International Airport' (MIAL) with 669 rooms. Total estimated project cost is ~Rs950cr out of which Rs450cr has already been incurred. The Aurika in Mumbai given its size, location and potential ARRs of Rs11-12000 should provide impetus to the overall proftiability. The hotel should be operational in Q3FY24 with annualized revenue run rate of more than Rs250cr with 50%+ EBIDTA margins. Key risks would be a prolonged wave of covid leading to restrictions on travel and a sharp slow down in the economy.
Kewal Kiran	Kewal Kiran delivered revenue growth of 29% YoY to Rs.226cr, supported by 14% volume growth and 15% increase in realisations, led by price hike and better product mix. The company delivered well across channels, with higher growth in the retail channel at 39% YoY. They added 38 new stores in the quarter and is on track to double its store count to 700 stores in the next three years. EBITDA margins improved to 22% compared to 18% YoY, aided by strong volume growth and operating leverage. As a result, EBIDTA was up by 55% YoY to Rs.50cr. Overall, PAT was up by 44% YoY to Rs.39cr. We like the business as it stands out in the retail spectrum, with control over manufacturing and branding, enabling them to keep most of the margins at their end. In the last decade, they have followed financial prudence and capital allocation discipline and returned 75% of earnings to shareholders. We believe that the rise in household incomes will keep up the demand for discretionary clothing allowing the branded players to grow higher and gain market share. Key Risks: Competitive Intensity from MNC brands and private labels of large format stores
ICICI Securities	ICICI Securities' revenue grew 1% YoY to 865cr in Q2 FY23. The broking segment revenue degrew 17% Q-o-Q due to lower cash volumes (ISec is more dependent on cash volumes). The focus on growing derivatives volumes continued and ISec gained market share to 3.7% vs 3.4% in Q1 FY23. The broking allied offerings such as margin trading, prime and other fees supported revenue growth sequentially. The total retail and allied income was Rs.505cr. The

	distribution revenue which is 18% of consolidated revenue grew 5% YoY across mutual fund, life insurance and other products. Corporate finance revenue of Rs.52cr is cyclical as depends upon primary issuances which remained weak for the quarter. The revenue from corporate finance in the same period last year was high due to heighted capital market activities. This resulted in consolidated PAT degrowth of 15% Y-oY to Rs. 300cr. ISec continues to make investments in technology and branding and expects to gain market share in the derivative segment that have benefited the discount brokers. We like the business resilience given the improving share of non-brokerage revenues in sales, technology leadership, continuing consolidation of the user base and high RoE of 50%. Key risks would arise from a downcycle in equity markets leading to lower volume turnover and lower deal flow for corporate finance.
Mahindra Holidays	Mahindra Holidays reported 19% YoY growth to Rs.284cr, aided by growth in membership additions and recovery in resort income, led by improvement in occupancies to 79% from 74% YoY. The company added 4,400 members in this quarter compared to 3,900 members in the previous year (up 12% YoY / up 8% QoQ) and the company is focusing on selling the long-term product with higher down payments, which has enabled improvement in Avg User Rates. Margins stood at 23% compared to 26% YoY as company as company is accelerating its sales initiatives. Company had a one-off income from lease rent waivers for about Rs.11cr in the previous year. Adjusting for the same, PAT grew at 5% YoY to Rs.31cr. Mahindra Holidays is the market leader in timeshare & vacation ownership business in India, with a cumulative membership base of 2.7 Lakh members. It owns and operates 4,715 rooms across 72 resorts in the country. Unlike other hoteliers, the company is debt free with cash of Rs.1,018cr and is able to fund its capex (rooms addition) and opex from the existing member base, without the need to leverage. We remain positive about the revival of domestic tourism, which had been affected due to covid in the last three years. Key risks would be a prolonged wave of covid leading to restrictions on travel and a sharp slowdown in the economy.
Cera Sanitaryware	Cera reported 5% revenue growth to Rs.414cr, led by 10% & 7% YoY growth in sanitaryware and faucet ware segments respectively, while the tiles segment declined 18% YoY. Gross margins expanded to 55% from 50% YoY on account of price hikes and better product mix. The contribution of newly launched premium products has improved to 36% of sales compared to 22% in the previous year. EBITDA margins improved to 16% compared to 15% YoY, resulting in EBITDA growth of 15% YoY to Rs.68cr. Overall, PAT came at Rs.51cr in Q2 compared to Rs.42cr in the previous year. [up 21% YoY / 28% QoQ]. Cera is a proxy to play the uptick in residential sales in the country. While Cera is India's #2 player in the market, they have grown at 1.5x industry rate led by market reach initiatives, product innovation and premiumization. Over the dull realty cycle, Cera has shown strong discipline in pricing and has among the balance sheets in the industry with 50% of its Net Worth in Cash and is now embarking on a due capacity expansion program, providing levers to grow ahead of the industry. Key Risks: Energy Inflation and slowdown in real estate sales.

Investment Strategy [As of 31st Oct 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 24th Nov 2022)	FY2022	FY2023E
P/E Ratio	28.1x	25.1x
Earnings Growth	35.1%	25.9%
Debt Equity Ratio	0.1	0.1
ROE %	20.0%	21.3%
PE/ Growth Ratio	1.0x	

*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 3rd 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.

Annexures:

Financial Details of Top Portfolio Companies

UMBRELLA AIF BCAD	Market Cap (Rs. cr)	PBT (Rs.cr)		YoY (%)	PAT (Rs. Cr)		P/E	ROE	Portfolio Weight
Company	**24th Nov 2022**	**Q2 FY22**	**Q2 FY23**		**FY 22**	**FY 23E**	**FY 23E**	**FY 23E**	**24th Nov 2022**
Narayana Hrudayalaya	15,427	116	196	69%	342	568	27.2	32%	9.2%
Axis Bank	270,177	4,193	7,166	71%	13,025	19,755	13.7	16%	9.1%
SBI	543,821	10,472	18,081	73%	31,675	47,531	11.4	17%	8.9%
CG Consumer	23,213	213	153	-28%	577	585	39.7	23%	8.3%
Tamilnad Mercantile Bank	8,051	282	355	26%	822	917	8.8	15%	4.9%
IIFL Wealth	16,261	188	226	20%	583	684	23.8	22%	3.4%
Kewal Kiran	2,894	57	69	21%	82	114	25.4	22%	3.2%
Cera Sanitaryware	7,124	35	52	49%	155	200	35.6	18%	2.6%
Lemon Tree	7,130	-35	25		-99	110	64.8	13%	2.6%
ICICI Securities	16,771	471	404	-14%	1,383	1,205	13.9	45%	2.4%
Mahindra Holidays	5,444	55	42	-24%	132	150	36.3	12%	2.4%

CLASSIFICATION OF MARKET CAP

Segment	Basis	%
Large Cap	> Rs. 47,460cr	17.9%
Mid Cap	> Rs. 16,440 cr < Rs. 47,460 cr	26.7%
Small Cap	< Rs. 16,440cr	40.6%
Cash		**14.7%**
Total		**100.0%**

LIQUIDITY ANALYSIS

Segment	% of portfolio
1 day	19.5%
Between 1 & 3 days	25.6%
Between 3 & 7 days	18.6%
Total	**86.0%**

Risk Management

Risk	Mitigants
Coronavirus Impact	The impact from the ongoing Coronavirus outbreak in India and rest of the World can be multifold. The lockdown related slowdown in consumption can affect several sectors. How long it takes for sentiment to return in consumption remains to be seen. 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.
Geopolitical risks	Geopolitical tensions globally can disrupt 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 (Corona Virus, and political) has the potential to disrupt the supply chain of a few of our investee companies.
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 spanning Brexit, US-China trade war, OPEC related developments, and other geo-political issues. 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. Further, in case such issue arises in an existing investment, we stop additional purchases and start optimally exiting the investment.
Concentration risk	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.
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 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 relative infancy stage and have a strong growth curve ahead of them.
Softness in IT product spends	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.