



Review : Q2-FY 2023

AIF Blend Fund

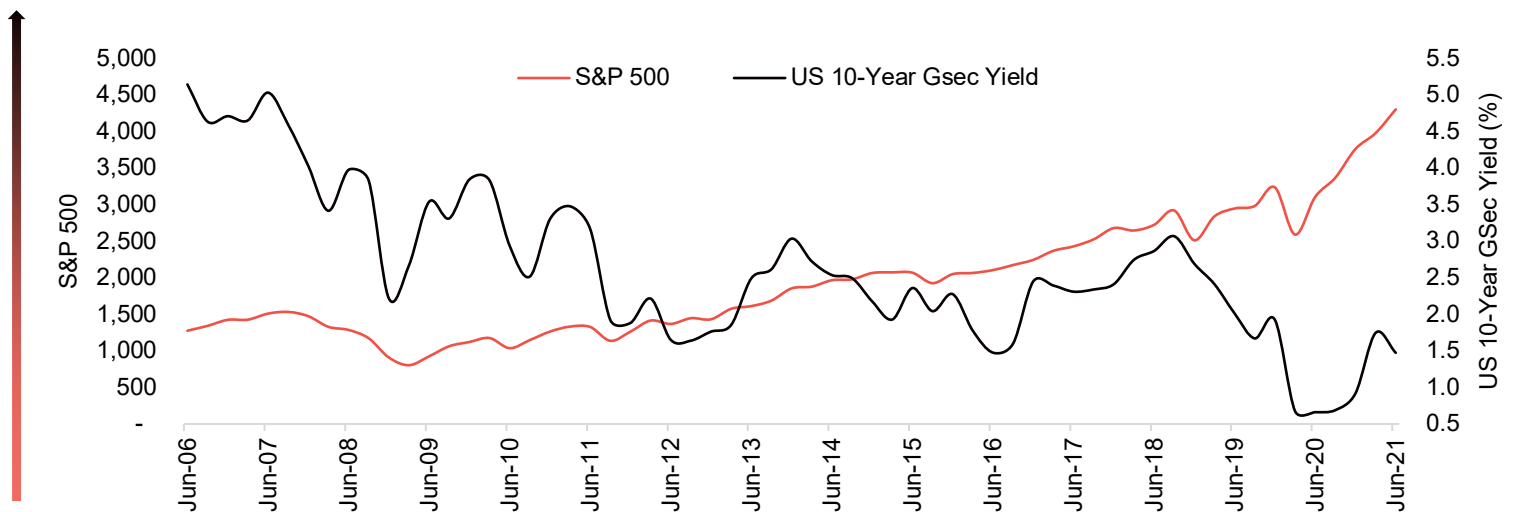
We usually write sparingly on the Macros. Macros run a relatively low elasticity when seeking absolute returns in relatively stable emerging markets, such as India. However, 2022 has been a year of significant macro upheaval, and a moment here will contextualize the complexity of the environment. This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

Cutting through the Macro

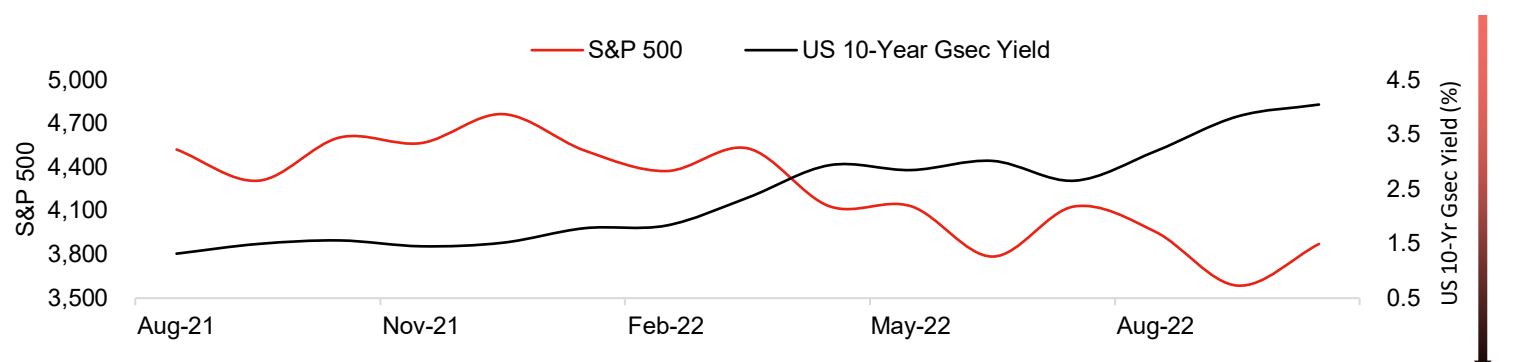
Over the last decade, the global monetary policy system burdened itself with the primary objective of delivering growth through a medium of very negligible cost of capital. An extended phase of such marginal costs lent to the artificial stimulation of excess demand, exerting tremendous inflationary pressure 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.

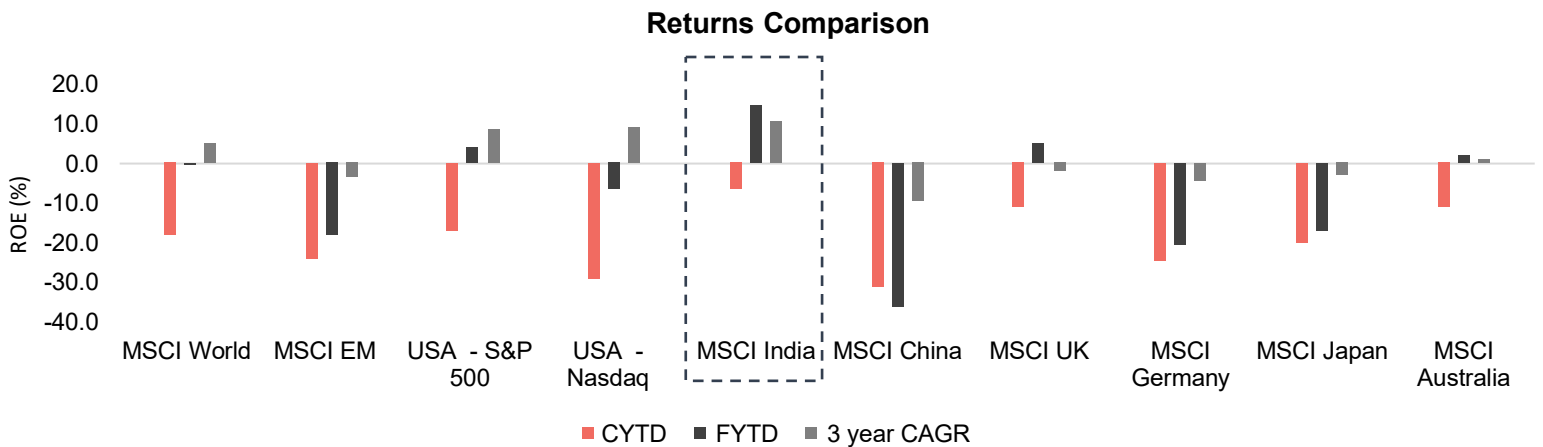
To skip the details in favor of brevity, this is how the bubble played out in the US: as quantitative easing began in the late-2010s, the US 10-year GSec fell from ~4% to <1% while the S&P 500 compounded at ~12% CAGR.



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?

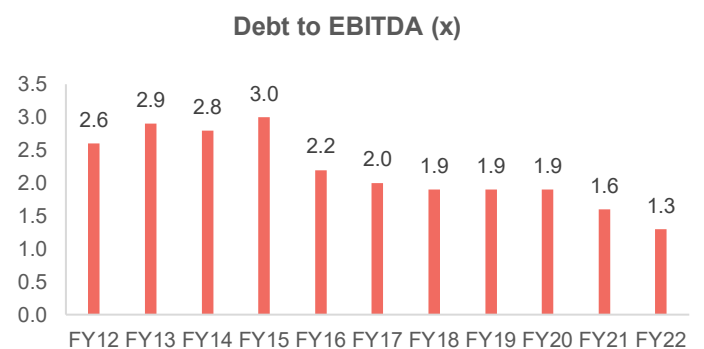
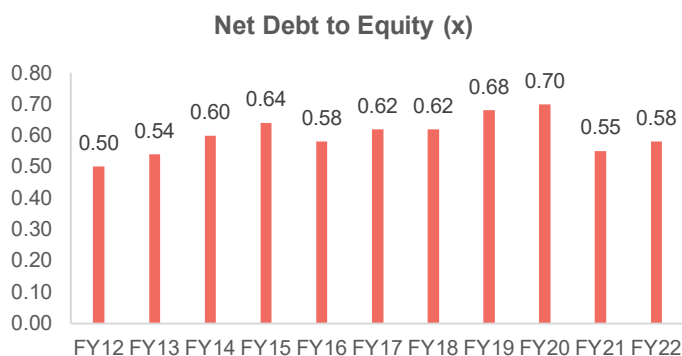
How is India faring?

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.

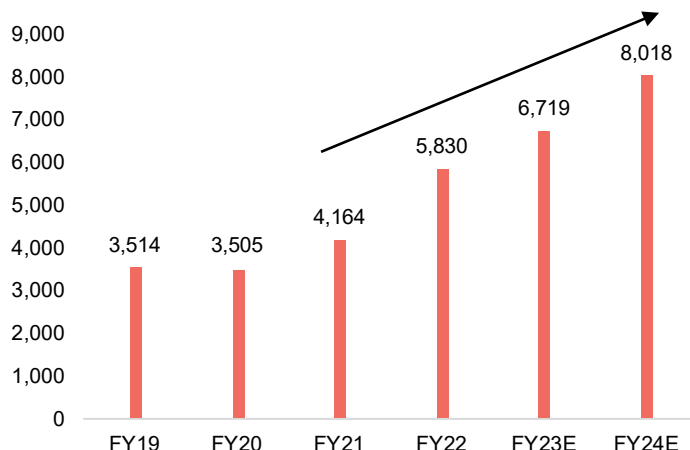
We support this with a few facts. Since FY15, Indian firms have materially deleveraged their balance sheets. The debt to EBITDA ratio of the top 500 corporates in India decreased from 3x to 1.3x. Resultantly, the rate hike cycle in India has had little or no impact on earnings or growth plans. On the 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 3 years. 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.

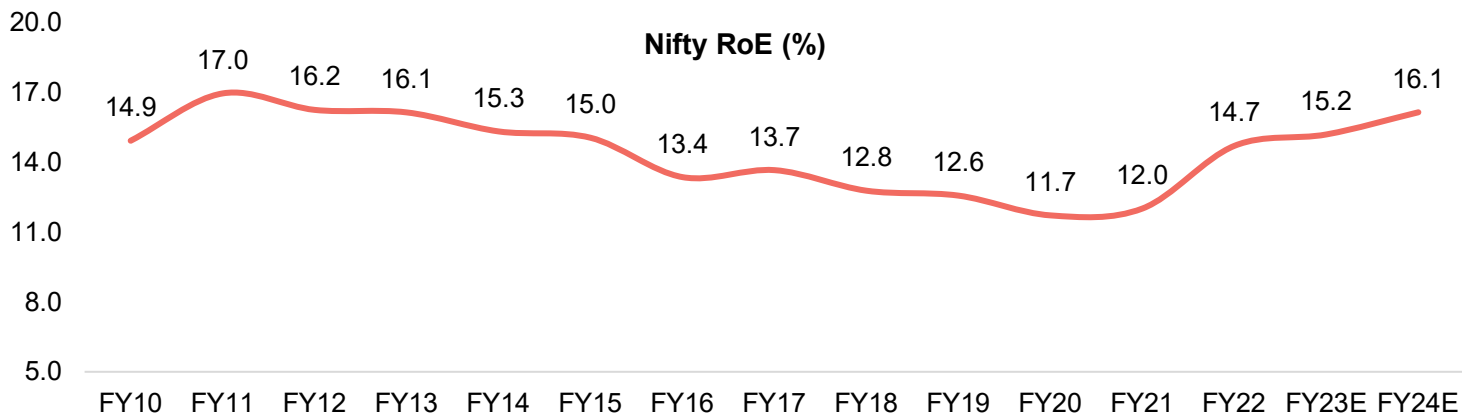
Nifty 50 Profit Pool [INR Bn] - 128% growth since 2021



.. 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.

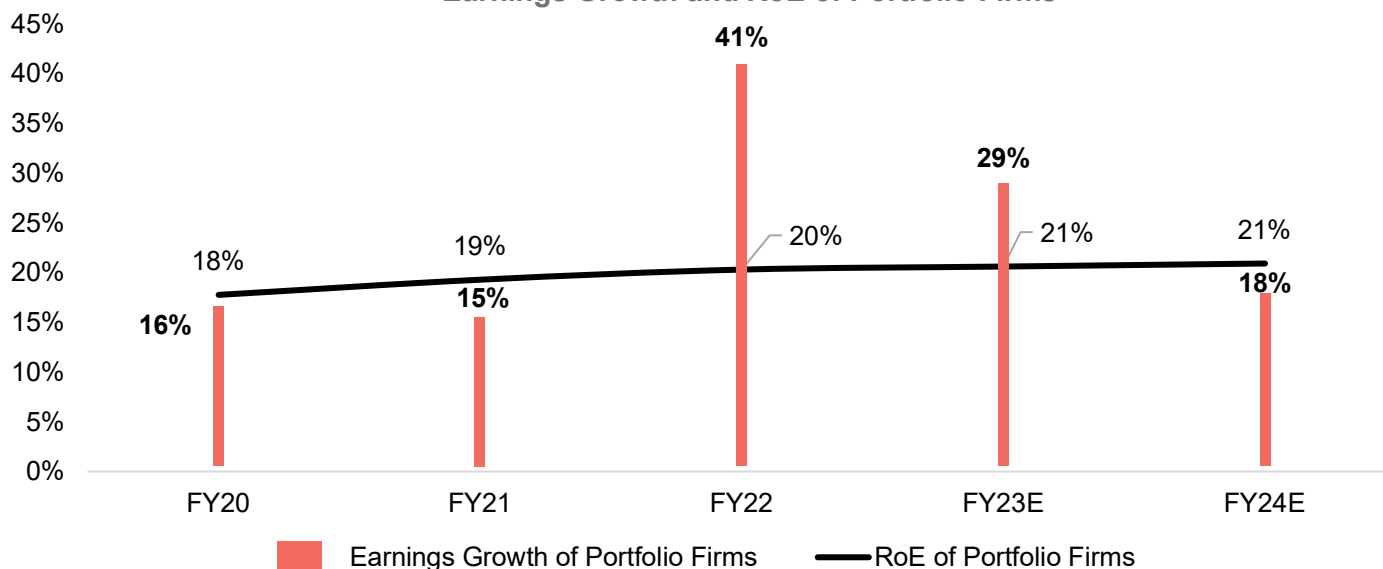
Long term YoY credit growth %



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.50% over FY23 and FY 24, with capital efficiencies of 24%. 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.

Earnings Growth and RoE of Portfolio Firms



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.

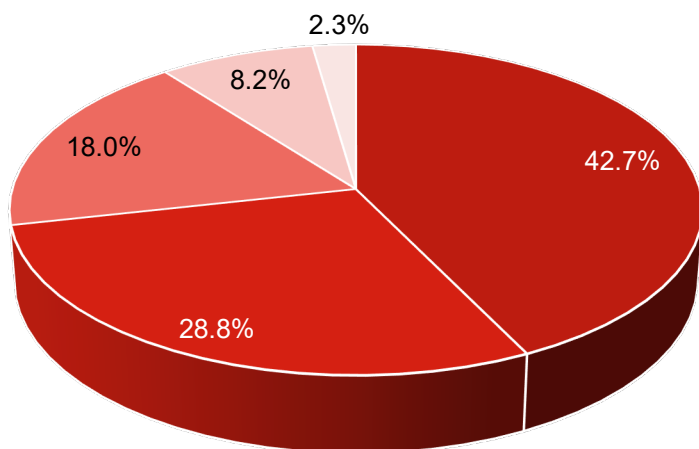
India, as a basket, has typically commanded high growth multiples as the depth of formalization and consumption

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

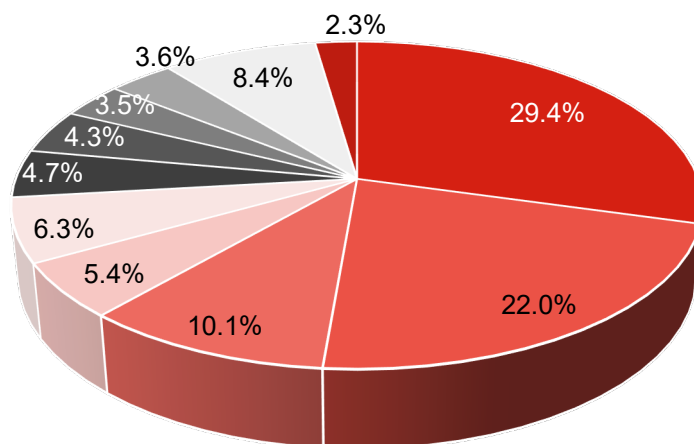
Blend AIF - Theme Allocation



■ DVD ■ BCAD ■ ISF ■ APJ ■ Cash

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

Blend AIF - Sector Allocation



■ Financials ■ Consumer
 ■ Chemicals ■ Technical Textiles
 ■ Paper ■ IT
 ■ Fee-based Financials ■ Fertilizers
 ■ Pharmaceuticals ■ Others
 ■ Cash

The following annexure presents a brief on our top holdings:

<p>Axis Bank</p>	<p>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.</p> <p>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 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.</p> <p>Key risks would include a deterioration in asset quality leading to higher-than-expected credit costs and lower-than-expected loan growth.</p>
<p>SBI</p>	<p>SBI reported a 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.</p> <p>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 a RoA of ~90bps vs 67bps in FY22 and RoE of 17.4% vs 13.3% in FY22.</p> <p>Key risks would include deterioration of asset quality leading to higher-than-expected credit costs, higher treasury losses, and lower-than-expected loan growth.</p>
<p>CG Consumer</p>	<p>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 improved sequentially at 31%. We expect Crompton to deliver headline growth that is ahead of the industry. The company reported a PAT of Rs. 131cr (down 17% YoY) during the quarter.</p> <p>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.</p> <p>Key risks to the investment could emanate from a drop in consumer sentiment, and steep inflation in raw materials.</p>

<p>ICICI Bank</p>	<p>ICICI Bank's 2Q performance was also better than our expectation largely due to 30bps expansion in margins to 4.3%. Loan book grew strongly by 4.8% QoQ led by growth across business verticals. The domestic corporate portfolio grew by 23.1% Y-o-Y and 5.3% sequentially driven by growth across well-rated financial and non-financial corporates. Growth in Business banking/ SME loans was driven by digital offerings and platforms such as InstaBIZ and Merchant stack. 30bps of margin expansion in the quarter was led by passing on of hike in repo rates and higher loan yields on new loans. The bank further added that rate hike has not been completely reflected in P&L, so yield & margins should improve but the bank expects rise in cost of deposits in future quarters. During the quarter, Opex to assets increased by 10bps QoQ to 2.25% led by retail business and technology related expenses.</p> <p>Gross slippages declined to 1.9% vs 2.7% in 1QFY23. Net slippages continue to be minimal at 0.3% vs 0.2% in 1QFY23. Reported credit cost came in at 72bps vs 52bps in 1QFY23 which was almost completely towards building of contingent provisions. The bank had created similar contingent provision of Rs 1,000crs in 1QFY23 & 4QFY22. The bank is carrying contingent provision of 107bps. It is expected to report an RoA of 2.1% vs 1.8% in FY22 and a RoE of 17% vs 15% in FY22.</p> <p>Key risks would include deterioration of asset quality, higher than expected credit costs, and lower than expected loan growth.</p>
<p>JK Paper</p>	<p>JK Paper reported revenue growth of 74% YoY & 15% QoQ to Rs.1,644cr, supported by commissioning of the new packaging plant and higher realizations. The company was able to expand margins, thanks to the backward integration of its pulp capacity and access to coal from domestic linkages. JK Paper took 4% price hike in Q2 to pass on the increase in raw material & power costs. As a result, EBITDA was up by 146% YoY at Rs.540cr. The company continued to perform well amidst a turnaround in the business at its subsidiary- Sirpur Paper Mills. Overall, PAT came at Rs.352cr compared to Rs.118cr in Q2 FY22 and Rs.264cr in Q1 FY23.</p> <p>JK Paper is a play on the revival on domestic paper consumption driven by the reopening of offices and educational institutions. Further, the company has increased its capacity from 4.36 lakh tonne to 7.42 lakh tonne driven by greenfield packaging board expansion in Gujarat with a capacity of 1.7 lakh tonne and the addition of 1.36 lakh tonne from the inorganic acquisition of Sirpur paper mills. The medium-term earnings growth would be driven by volume increase, cost optimization, and better realization.</p> <p>Key risks would be further escalation of coal prices and decline in international pulp prices.</p>
<p>Bector Foods</p>	<p>Bector Foods reported revenue growth of 41% YoY and 16% Q-o-Q to Rs. 348cr. Biscuits segment continued its strong performance and registered 40% YoY revenue growth in this quarter. This high growth is due to increased distribution reach in domestic and international markets. Breads segment continue to benefit from higher growth of QSRs in India. This segment delivered revenue growth of 51% YoY to Rs. 125cr. The gross margin improved Q-o-Q basis to 44.6% in Q2FY23 vs 43.8% in Q1FY23 as key raw material prices started cooling off (especially palm oil). The EBITDA Margin in this quarter improved to 13% on the backdrop of high revenue growth and declining raw material costs. Company registered PAT of Rs. 22cr in this quarter vs Rs. 18cr in Q2FY22 and Rs. 13cr in Q1FY23.</p> <p>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. 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</p>

	<p>company has now expanded into Bangalore and Mumbai (earlier it was only present in NCR). Given the growth opportunities 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.</p> <p>Key risks include entailing a steep increase in raw material prices and demand slowdown.</p>
Garware Tech	<p>Garware delivered revenue growth of 26% YoY to Rs. 356cr. EBITDA and PAT registered a growth of 22% and 17% YoY to Rs. 62cr and Rs. 48cr respectively. The company has faced challenges due to significant inflation in key raw materials inputs i.e., crude derivatives. However, the company was able to pass on most of this cost increase with a few months' lag. The resultant gross margin was down from 70% to 66% YoY. EBITDA growth was high as the high input cost impact was partially offset by operating leverage due to strong revenue growth. In addition, the cycle time to dispatch goods to customers in many parts of the world has been reduced with the improving availability of containers. The company continues to win new patents and launch new products, which we believe will drive growth and profitability.</p> <p>We remain positive on Garware given the company's focus on value-added products (which now forms 70% of overall business), its leadership position in the technical textile segment, its relationship with an international clientele built over the past decades and its strong balance sheet with cash of Rs. 550cr. The board has approved a proposal to buy back ~1.2% of equity at Rs. 3750/share i.e., a 15% premium to CMP.</p> <p>Key risks: A decline in the prices of Salmon, a further sharp increase in raw material price and failure of newer products to garner higher market share.</p>
Polycab India	<p>Polycab delivered revenue growth of 7% YoY to Rs.3,332cr, aided by strong volume growth in cables & wires segment, which grew at 12% YoY. The company was able to drive 15% volume growth on account of distribution expansion and market share gains from unorganised players. The FMEG segment revenue declined 11% YoY to Rs.305cr, on account of high base of previous year and lower offtake in fans portfolio. Polycab was able to improve EBITDA margin YoY to 12.8%, thanks to operating leverage and optimum inventory hedging mechanism. As a result, EBITDA was up by 41% YoY to Rs.428cr. Overall, PAT grew at 35% YoY to Rs.271cr.</p> <p>Polycab is the market leader in Cables & Wires with 24% market share of the organised market. In the last 5 years, company has built a consumer durable portfolio of reasonable scale to leverage the existing distribution network. We remain positive about the medium-term earnings due to strong traction in the B2B cables business, the pickup in real estate demand and expanding product categories in the FMEG segment. The company has showcased good pricing discipline in a tough raw material market, enabling them to maintain normalised margins going forward.</p> <p>Key risks include further escalation in metal prices, or a slowdown in demand.</p>
Sonata Software	<p>Sonata delivered revenue growth of 4%(INR) QoQ and 1.8% (US\$) in CC terms to \$ 58mn, with still some pending revenues due to supply-side issues. International IT services (IITS) revenue growth was led by Microsoft Dynamics services (2% QoQ US\$), Modern Validation and Dev Eng Mgmt Ser (7% QoQ US\$) and Open Source Digital Platform Services (6.5% QoQ US\$). Microsoft Digital Platformation Services (-0.2% QoQ US\$) and Managed cloud services (-9% QoQ US\$) was soft this quarter. IITS EBITDA margin came in at 25.9%, a decline of 70 bps QoQ and absolute EBITDA of domestic business came at INR 47cr up 7% QoQ. Overall EBITDA margin for the quarter stood at 11%, up +200bps QoQ and down 3% YoY. Company reported overall PAT of Rs. 112cr in this quarter registering QoQ growth of 5%.</p>

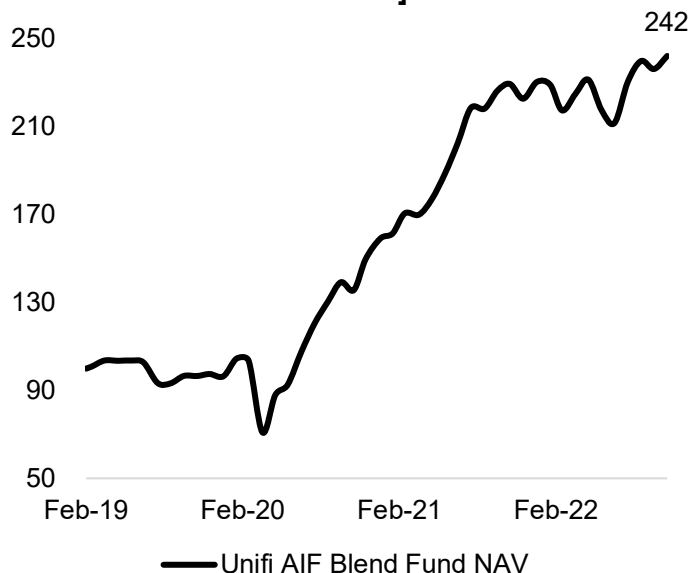
	<p>Domestic Product Services (DPS) revenue was up 72% YoY. Investment in senior leadership in past few quarters resulted in 2 large deal wins in this quarter. Management aspires to double international IT service revenue in the next 4 years on back of large deals.</p> <p>Key risks: Slowdown in the USA and Europe and cuts in discretionary IT spending by enterprise clients.</p>
Atul Ltd	<p>Atul recorded revenue growth of 19% YoY to Rs. 1,487cr. EBITDA and PAT delivered growth of 1% each YoY to Rs. 220cr and Rs. 148cr respectively. The performance chemical segment delivered revenue growth of 7% YoY led by growth in the Polymers and Bulk chemicals segment. The high energy costs and declining realisations have impacted the profitability of the Performance Chemicals segment. The Life Science segment recorded revenue growth of 65% YoY led by growth in the crop protection business. In the Life Science business, the ramp-up in new capacities for API business has been subdued due to delays in approvals, leading to upfront fixed costs and negative operating leverage. The price of key raw materials increased by 20-200% in the last financial year. The company has taken significant price hikes to pass on input costs. The management has been confident of a complete pass-through over the next few months. Gross margin was flat on a YoY basis. Apart from the raw material inflation, the surge in coal price and logistics cost globally impacted profitability. In H2 FY23, the capacity ramp-up should be significant with margin recovery.</p> <p>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 upstream/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 existing product markets and increase its share of downstream products. The company is incurring a total capex of Rs. 1700cr over FY23-24.</p> <p>The key risks would be softening of spreads in key products and the delay in the commercialization of capex.</p>
ICICI Sec	<p>ICICI Securities' revenue grew 1% YoY to 865cr in Q2 FY23. The broking segment revenue declined 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. The 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 heightened capital market activities. This resulted in consolidated PAT degrowth of 15% YoY to Rs. 300cr.</p> <p>ISec continues to make investments in technology and branding and expects to gain market share in the derivative segment that has benefited the discount brokers. We like 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%.</p> <p>Key risks would arise from a downcycle in equity markets leading to lower volume turnover and lower deal flow for corporate finance.</p>
DCM Shriram	<p>DCM Shriram reported revenue growth of 28% YoY at Rs. 2,740cr. EBITDA and PAT recorded a degrowth of 7% and 19% at 270cr and 128cr, respectively. The revenue and profitability decline in the current quarter were primarily driven by the Chloro-alkali segment. Though</p>

Caustic Soda's revenue and profitability was strong, the fall in construction activities and recession worries globally continue to impact the PVC demand. The same has been reflected in global PVC price which has witnessed a decline of ~35%, both on a YoY and QoQ basis. The sugar segment registered expansion in volumes with the rebase of opening inventory. The distillery business was steady-state, and the sugar volumes are expected to continue to remain strong in the financial year. However, the operating profitability in the sugar segment was weaker due to lower yields at the end of the recovery season and an increase in the cane cost. Also, there was a one-off cost of Rs. 15 cr on the account of revision in wages w.e.f. Oct. 2018. Agri-business had performed steadily across verticals. Fenesta's exceptional business performance has continued while the Cement was a drag due to input cost inflation. The current unfavourable demand-supply dynamics and elevated energy costs have led to a decline in profitability for the Chloro-alkali segment.

The company is predominantly present in Chloro-alkali and sugar segments along with agriculture products like fertilizers, bio seeds and other farm solutions. The company continues to reinvest cash in the existing business by debottlenecking capacities and expanding the ethanol facility. Further, the company has announced entry into chlorine/hydrogen downstream products namely Epichlorohydrin, Hydrogen peroxide and Aluminium chloride. These are value-added segments within the chlorine value chain and will contribute positively toward overall profitability improving incremental capital efficiency. The company is placed for a sustained growth trajectory with an improved balance sheet amidst a strong business cycle with a cumulative capex of Rs. 3500cr to be commercialised in the next 12-15months.

Key risks: Unexpected regulatory developments in Sugar/Ethanol business and cut down of the strong Caustic Soda cycle in the international market.

Investment Strategy NAV [As on 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 earnings growth, and has reasonable valuations.

Valuation Parameters* (As on 24 th Nov 2022)	FY2022	FY2023E
P/E Ratio	24.0x	19.8x
Earnings Growth	41.0%	28.8%
Debt Equity Ratio	0.10	0.07
ROE %	20.3%	20.6%
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 to post the 3rd quarter's 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

AIF BLEND	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
SBI	5,43,732	10,472	18,081	73%	31,675	47,531	11	17%	10.0%
Axis Bank	2,70,151	4,193	7,166	71%	13,025	19,755	14	16%	9.5%
CG Consumer	23,248	213	153	-28%	577	585	40	23%	8.5%
ICICI Bank	6,53,954	7,201	10,036	39%	23,339	31,625	21	17%	7.2%
JK Paper	7,051	173	484	180%	544	1,177	6	34%	6.3%
Bector Foods	2,508	25	30	20%	58	84	30	17%	5.7%
Garware	6,804	53	61	15%	165	180	38	18%	5.4%
Polycab India	37,761	267	360	35%	850	1,158	33	20%	5.2%
Sonata	7,358	120	148	23%	376	461	16	42%	4.7%
Atul Ltd	23,623	196	202	3%	605	701	34	15%	4.3%
ICICI Sec	16,771	471	404	-14%	1,383	1,205	14	45%	4.3%
DCM Shriram	13,013	229	228	0%	1,064	954	14	16%	3.9%

CLASSIFICATION OF MARKET CAP

Segment	Basis	%
Large Cap	> Rs. 46,500cr	30.7%
Mid Cap	> Rs. 16,500 cr < Rs. 46,500 cr	28.4%
Small Cap	< Rs. 16,500 cr	38.7%
Cash		2.3%
Total		100%

LIQUIDITY ANALYSIS

Segment	% of portfolio
1 day	29.2%
Between 1 & 3 days	17.4%
Between 3 & 7 days	27.1%
Greater than 7 days	24.1%
Total	97.7%

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.