UNIFI AIF

REVIEW : Q3-FY 2023

Umbrella AIF BCAD Fund

PERSISTENCE OF GROWTH

For those of us inching our way through the infinite gridlock at Lower Parel or Silk Board and Whitefield, imagining we are a nation running at 6.5% p.a for over 20 years is an exercise in irony. India has a habit of testing the most ardent of her backers with a poverty of aspect. India's progress is a distribution of numbers versus a single experience, which it is often confused with. This forces a restricted view of reality instead of one that merits its complexity, preventing us from grasping the magnitude of India's success with capitalism.

Since 2000, and with a generational base of 20 years, India has made the most rapid progress across all economic indicators. Moving from a $460bn economy to a $3.2trillion today, the absolute strides in each cohort of industry, services, and agriculture place it among the World's most significant on every parameter. The absolute size of progress made in each of the cohorts is self-explanatory. However, in calling out the obvious, this has resulted in vast profit pools that have consistently distilled into the creation of equity value.

Global Ranking	2000	2021
Size of Industry	12	5
Size of Agriculture	13	7
Size of Services	3	2
Consumer Spending	11	5
Savings	12	7
Savings Rate	12	4
Investment	7	3
FDI	10	4

Source: World Bank

The material jump in agriculture is critical, given the bearing of farm incomes on almost 60% of India's population. A slew of policy initiatives are underway to fundamentally strengthen India's farm income and the importance of this on India's domestic consumption cannot be overemphasized. On the industrial side, new world equations and India's strides in import substitution have re-drawn supply chain dynamics, and India will continue to strengthen its footprint herein. This is expected to have a significant multiplier effect on the tertiary side of India's economy. India has delivered well in the Services industry and continues consolidating its strength herein, given its high-quality and low-cost talent pool. While there are several other parameters on which India has made material strides, we especially call out the 3rd and 4th highest investment and savings rates anywhere in the World, a key to sustaining re-investment rates in any economy.

The accumulated data on India's progress is accurately reflected in its equity returns across long periods. India is consistently the World's best-performing equity market for 20 years [USD, adjusted].

CY22	1 year	CY19-22	3 year	CY17-22	5 year	CY12-22	10 year	CY02-22	20 year
Brazil	10.1	India	8.6	USA	7.5	USA	10.4	India	12.0
India	-6.0	USA	5.9	India	5.8	India	7.3	Brazil	9.8
UK	-9.8	Taiwan	4.7	Taiwan	5.1	Taiwan	5.7	Germany	8.3
France	-14.9	France	1.1	France	1.7	Japan	5.1	USA	7.6
Germany	-17.0	Germany	0.1	Japan	-0.3	Germany	4.0	Taiwan	6.6
China	-18.0	S. Korea	-2.3	Germany	-0.8	France	3.7	S. Korea	6.3
USA	-19.4	Japan	-2.9	Brazil	-2.1	China	-0.5	MSCI EM	6.1
Japan	-20.3	UK	-3.4	UK	-2.8	S. Korea	-0.5	Russia	5.7
MSCI EM	-22.4	MSCI EM	-5.0	MSCI EM	-3.8	UK	-0.6	Japan	5.2
S. Korea	-29.2	China	-8.1	Russia	-5.1	MSCI EM	-1.0	China	5.0
Russia	-29.3	Brazil	-10.3	S. Korea	-5.1	Brazil	-3.6	France	3.9
Taiwan	-30.1	Russia	-13.8	China	-6.4	Russia	-6.8	UK	1.8

**Annualized returns % as of 31st December 2022*

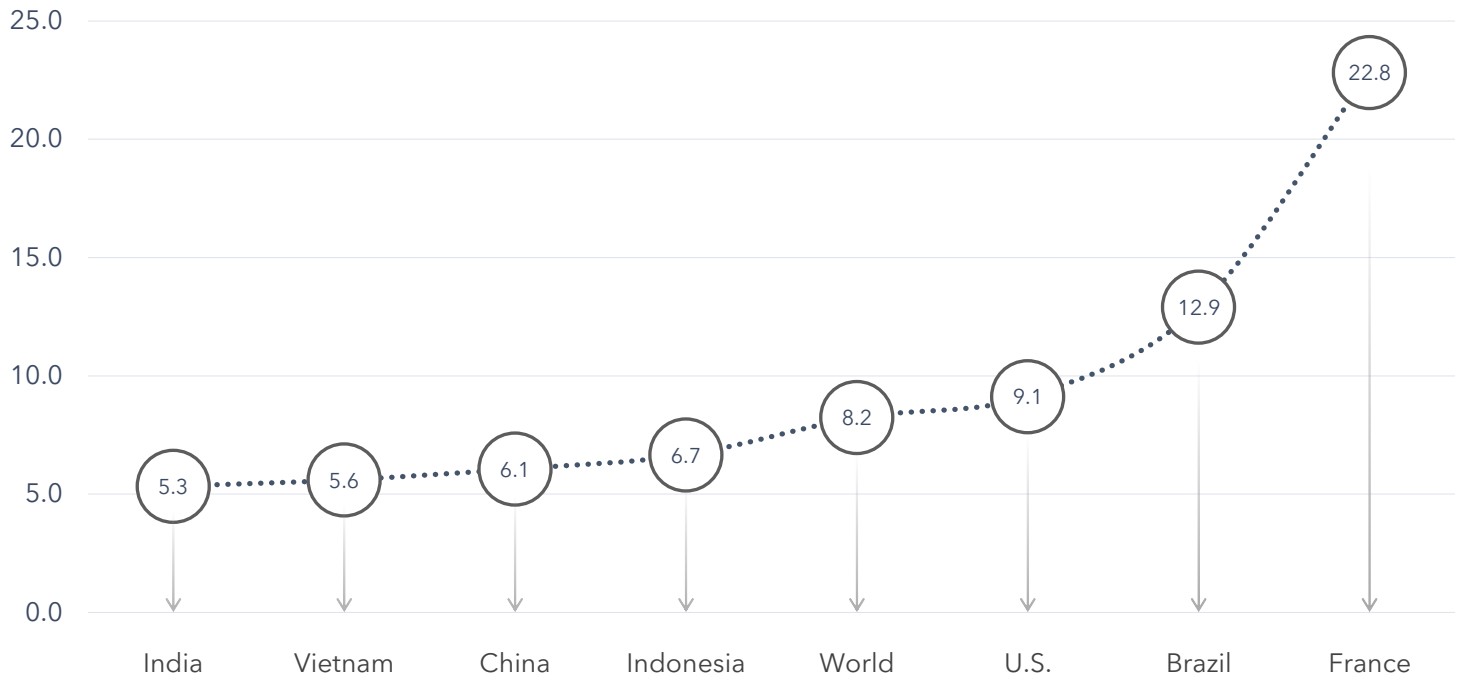
Issac Asimov said this best: it is only afterward that a new idea seems reasonable; to begin with, it usually seems unreasonable. India's progress fits the bill. The consistency in India's equity returns is not just a function of a few financial measures coming together but a combination of progress on productivity and social standards. We highlight a few of them here.

CAPITAL EFFICIENCY

India's capital-output ratio is among the most efficient in the World

The capital-output ratio is an indicator of the amount needed to produce one unit of output and is one of the most critical metrics in evaluating any economy's productivity. It explains the relationship between the level of investment and economic growth. A lower capital-output ratio is desirable as it shows capital efficiency. India has the lowest capital-output ratios compared to most emerging/developed economies.

CAPITAL OUTPUT RATIO (10 YEAR AVERAGE)



Source: World Bank, Capital output= Investment as a % GDP/GDP Growth rate

As a result, India has consistently created vast amounts of profit pools in every industry over many years. The importance of such sustainability in growth, re-investment, and development cannot be overestimated. A cursory look at Japan, West Europe, and North America's struggle with growth, despite their productivity and social infrastructure, indicates how challenging it is to maintain an elevated growth rate for long periods. Though not called out in this data set, India's firms have among the best rates of RoE the World over.

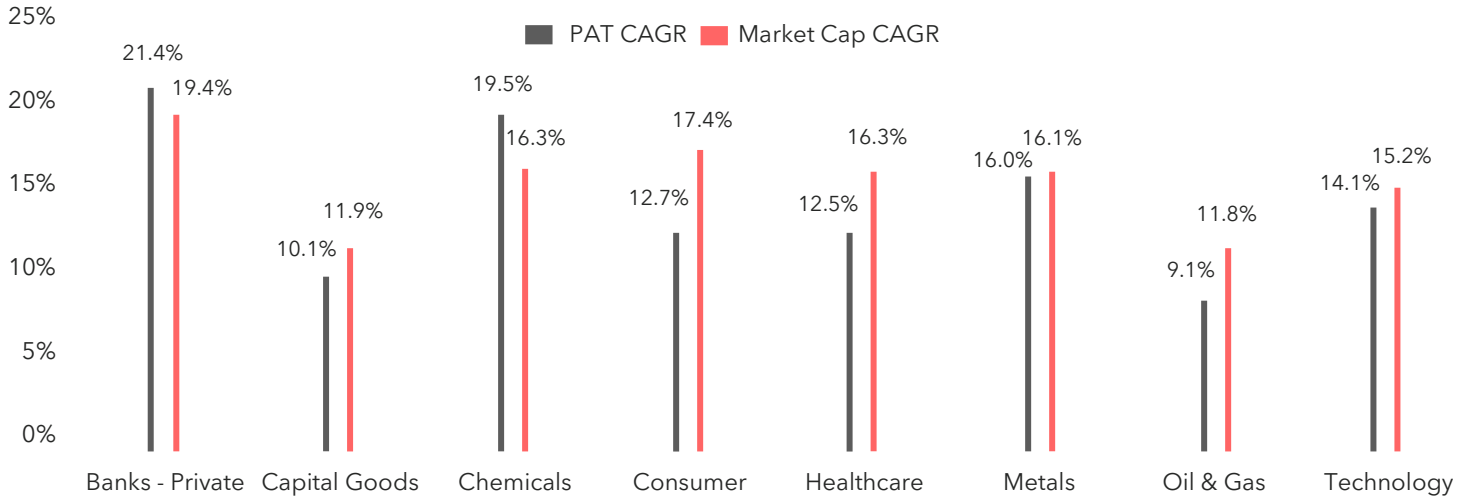
The following table captures the profit growth and market cap growth of comparable Nifty 500 companies over the last 15 years. For most of the sectors, profits have grown consistently even in every block of 5 years and the same is reflected in the market cap. The profit pool of most of the Indian corporates continue to grow at high rates given the tailwinds from raising household incomes, a favourable offshore destination for various sectors, policy initiatives digitization and rising productivity.

		CAGR FY 07-12		CAGR FY 12-17		CAGR FY 17-22		2007-22
Sector	**No of Cos**	**PAT**	**Mcap**	**PAT**	**Mcap**	**PAT**	**Mcap**	**PAT CAGR**
Banks - Private	10	31.4	19.3	9.1	22.6	21.9	15.6	20.5%
Banks - Public	10	20.4	21.0	PL	6.0	LP	13.2	10.8%
NBFCs	19	25.0	15.5	8.7	20.8	18.7	17.5	17.3%
Capital Goods	27	13.0	3.7	-5.5	9.8	9.2	11.8	5.3%
Cement	11	3.8	9.7	2.3	19.4	19.9	11.6	8.3%
Chemicals	30	19.2	18.1	5.5	23.0	21.3	23.3	15.1%
Consumer	24	16.5	21.9	12.0	18.8	10.9	13.0	13.1%
Consumer Durables	8	16.3	17.3	19.2	34.2	2.5	15.8	12.4%
E-Commerce	1	29.4	16.4	PL	19.6	Loss	43.1	34.7%
Automobiles	27	26.3	17.2	5.2	25.0	-11.5	4.1	5.5%
Healthcare	31	15.9	16.7	15.0	21.4	4.9	9.0	11.9%
Infrastructure	2	8.4	-13.4	-4.1	19.0	23.2	8.2	8.6%
Logistics	3	5.9	3.2	0.6	18.7	PL	9.7	5.5%
Media	5	19.5	2.0	15.9	30.6	0.1	-4.8	11.5%
Metals	13	1.2	13.0	-13.5	6.8	60.6	17.8	12.0%
Oil & Gas	10	7.9	6.4	9.3	11.7	11.4	15.7	9.5%
Retail	5	34.8	27.3	15.0	19.1	10.1	33.2	19.5%
Technology	17	16.9	8.4	16.2	13.2	9.2	24.7	14.0%
Textiles	9	-3.0	4.2	PL	32.9	LP	21.9	11.3%
Utilities	5	6.3	4.6	7.9	1.5	4.3	4.5	6.1%
Others	35	6.7	22.8	2.5	3.9	20.5	26.7	9.6%
Nifty-500	302	13.1	11.4	4.7	15.1	16.1	15.7	11.2%

Comparable firm with 15-year data within NSE 500
PL – Profit to Loss, LP – Loss to Profit

Adjusted for the capital efficiency of the respective sectors and the attractiveness of their terminal value, the equity value created in every sector broadly corroborates with the pace of their earnings growth over long periods.

NIFTY 50 (2007-2022)



While the direction of India's growth is not debated, from an investment point of view, the oft-asked question is, is India expensive?

IS INDIA EXPENSIVE?

This is an absolute question, best understood in a relative context.

Markets are inherently forward-looking, discounting the future value of their earnings. This discourse is especially interesting in the case of India, as the incline ahead is more reminiscent of a step well rather than linear progression. As India deals with its structural issues around income growth, inequality, and physical and social infrastructure, its growth gradient will be a series of leg-ups versus a smooth curve. Meaning, the terminal growth rates assumed today have a high probability of upgrades, and the duration of growth is likely to be significantly deeper than expectations today.

It is thus natural that the present value of the future, viewed today through the prism of a simple multiple, seems high. So, is India expensive?

The heterogeneity of the markets is a complex variable to tackle. For the sake of simplicity, let us view this through the prism of a few globally accepted thumb rules for a few industries. (A) Private banks that are capital efficient and exhibit growth rates significantly higher than systemic growth rates are typically priced in a particular spectrum. For instance, the private high-growth banks in the U.S. [average of 20 banks] are priced at a book value of 1.3x and earnings multiple of 10x, 1-year forward. However, the more well-run banks in India are valued at closer to 2x on book value and 14x on multiples, implying the incremental pace of growth and consistent market share gains. (B) In the case of IT firms that are a proxy to digitization, multiples worldwide are a combination of high earnings growth rate and capital efficiency. Such firms across the U.S. and China trade at earnings multiples of 25x and 29x, respectively, while multiples in India are 20x. Note the difference? (C) While on the other hand, as commodities are inherently less secular in the predictability of their earnings and capital efficiency, they generally command low multiples.

In a nutshell, the sum total of an index is a function of the weight of different sectors, and the attractiveness of such a sector. Keeping this in perspective, let us evaluate how the frontline indices in India and China are stacked against each other.

	India			China		
	Sector Weight	Sector P/E	Weighted P/E	Sector Weight	Sector P/E	Weighted P/E
BFSI	37%	18	6.8	21%	7	1.4
Commodities	3%	9	0.3	11%	10	1.1
Consumption	12%	43	5.2	18%	18	3.3
IT	15%	23	3.5	11%	29	3.2
Pharma	4%	28	1.1	7%	23	1.5
Others	29%	19	5.6	32%	12	3.9
Index P/E			22.4			14.0

As is apparent, India and China have very different constituents in their indices, and the reasons behind the difference in the headline valuations are visible and self-explanatory. The one factor that stands out is the valuation attributable to consumption-oriented companies in India, given India's long road of consumption ahead. Is that justified?

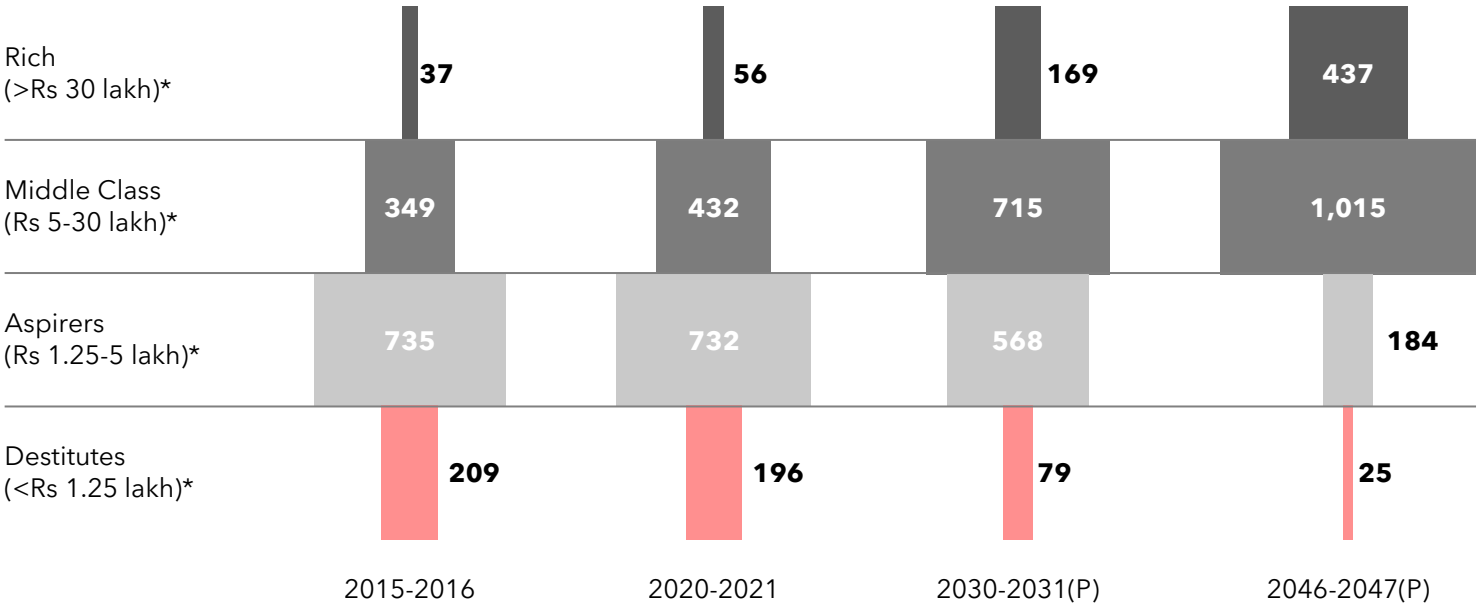
CONSUMPTION AHEAD

Since China's admission to WTO in 2001, manufacturing has driven employment growth. Manufacturing-led employment in India is finally set to grow, driven by several policy-led incentives and the re-alignment of global supply chains. This, alongside India's continued growth in services, will lead to increased employment and household incomes.

Significantly, manufacturing-led activity will drive tertiary employment, as witnessed in China, substantially boosting consumption. With a 6% growth in real economic growth between today and the next few years, Indian consumption is set to get very meaningful. This will drive a decade of robust consumption of premium discretionary products. Early signs of this trend are already visible across categories like cars, 2W, travel, etc.

INDIA'S INCOME PYRAMID

(Population in million)



**Annual household income at 2020-21 prices*

Source: ICE 360

The potential for growth at the top end of the income pyramid is staggering. The upper-income cohort is expected to compound at a CAGR of 12% over the upcoming decade, adding ~113 million people with very high purchasing power. At this end, India will likely add consumers equivalent to the population of Mexico today [population of 126mn]. In the middle class, India will likely add consumption equal to Indonesia [population 273 mn]. India will add ~400 million people with significant per capita incomes to Indian and global consumption. Whichever way this is sliced, the potential of this emerging purchasing power and profit pool is staggering. This is a significant determinant of the salience of India's consumption-driven industries. Those with the right to win in an expanding market will continue to be priced accordingly. Given how much of India's potential depends on its demographic strength, taking brief stock of its social indicators and how they are poised is also essential.

SOCIAL INDICATORS

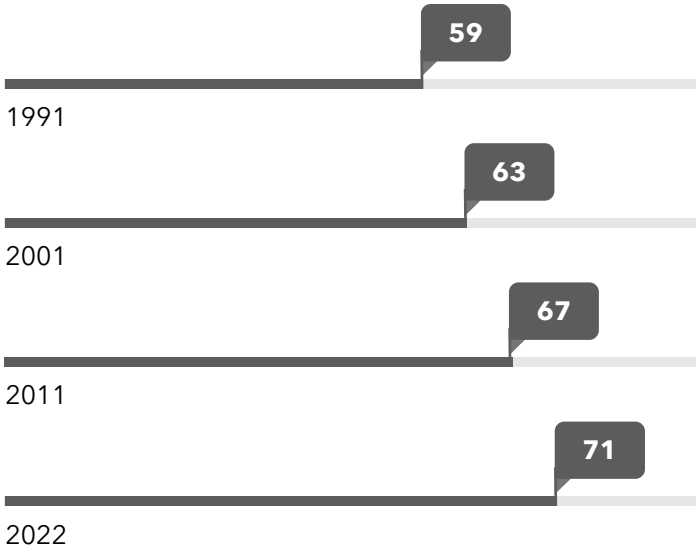
There are several; we touch upon better life expectancy, education, and internet penetration

Life expectancy, a vital human development indicator, has significantly improved over the last few years. While this is important from the perspective of social security and a sense of purpose, it is relevant in a nation's economic discourse from the standpoint of better productivity and consumption. Private investment in preventive and secondary healthcare is on the rise consistently. Over the next few years, led by increased insurance penetration, India's healthcare coverage per se will strengthen significantly.

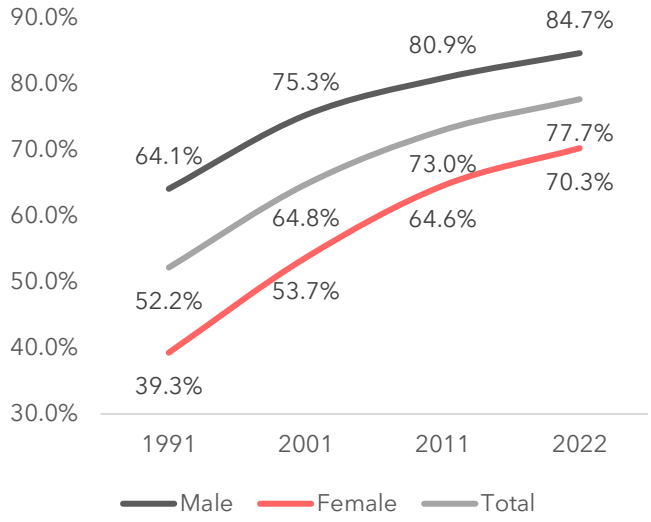
Alongside healthcare, education is the primary driver of productivity. The gross enrolment in upper primary (grades 6-8) has increased to almost 95% in FY-2022, while higher secondary (Class XI and Class XII) increased to ~60% in FY22 vs. 40% in FY13. The importance of upskilling a large part of India's demography cannot be over-emphasized from an employment perspective and is especially crucial in a largely service-driven economy like India. A slew of policy interventions at the state and central level continue to address the issue of education and upskilling, strengthening India's base of skilled manpower at scale and costs that are among the most attractive in the World.

Lastly, a combination of affordability and investments in infrastructure has significantly increased internet penetration in India over the last 10 years. Almost half of India uses the internet today, compared to just 10% a decade back, while rural penetration has increased to nearly 40% now (from 15% in 2016). This increase in internet penetration is boosting productivity gains and the growth of technology-led businesses, whose impact on the Indian economic landscape cannot be overemphasized.

LIFE EXPECTANCY (NO. OF YEARS)



LITERACY RATE



% OF POPULATION USING INTERNET

0% 1991

1% 2001

10% 2011

47% 2022

Over the next decade, India's progress on economic and social parameters will feed into one another and ultimately create a more robust domestic consumption-oriented economy.

PORTFOLIO CONSTRUCTION

Credit, Building Products, I.T., and Industries are the key constituents of portfolios.

Each area discussed above feeds into how we imagine the construction of your portfolios today. While we are excited about India's macro, our bottom-up construction of the portfolios is strictly a function of our comfort with underlying earnings growth at reasonable valuations, adjusted for capital efficiency. We continue to re-look all our positions and right-sized them, given how the risk/reward has changed over the past few months.

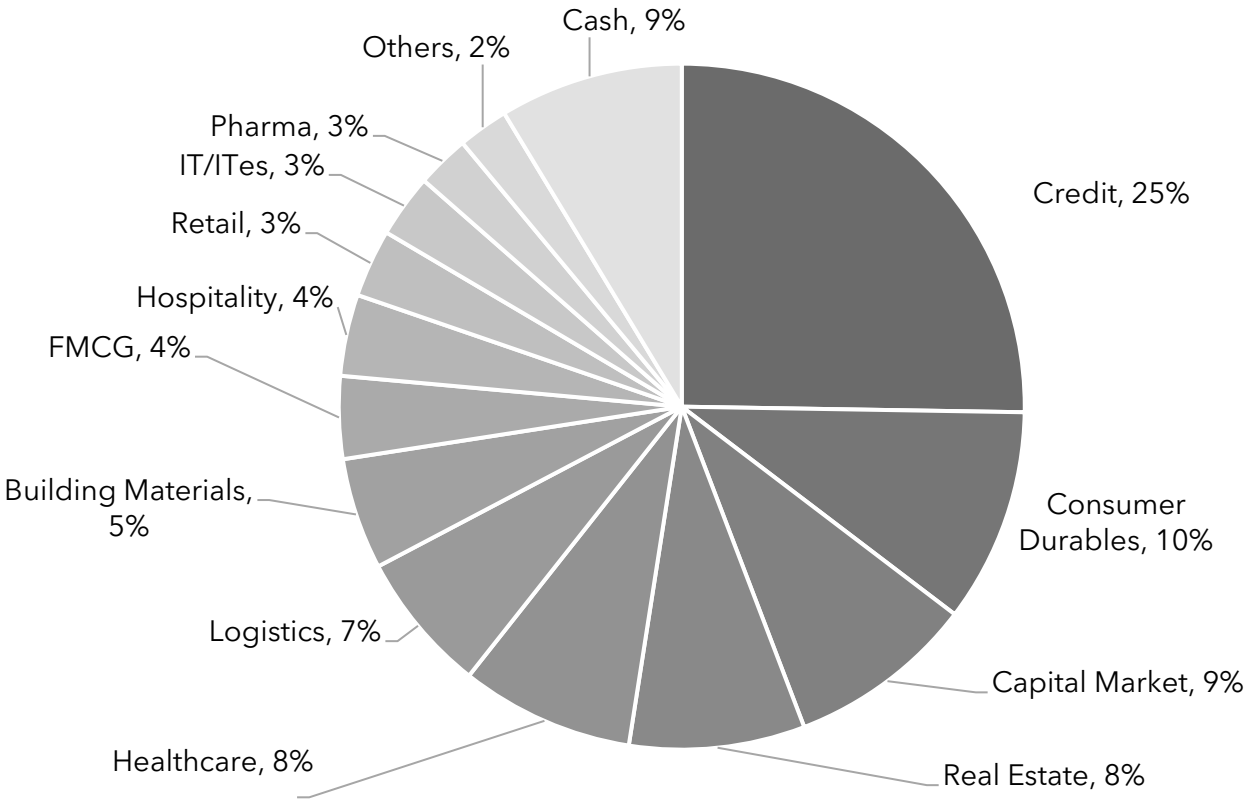
We have taken the gains where our thesis has played out and reallocated them to positions where we believe the risk/reward is more favorable. A new cycle of economic expansion, coinciding with the end of a higher provisioning cycle, continues to result in higher credit growth for the banks. As a result, banks are a significant constituent in our portfolios. Banks have posted a strong quarter in Q3-23 with improving margins, robust credit growth, and benign asset quality. The rise in interest rates has resulted in higher earnings growth for the banks as NIMs (Net Interest Margins) have moved higher for the industry, led by its leaders. India's credit growth is now close to its long-term average of 15%.

Consumption trends in the real estate industry are indicative of the health of the sentiment in Indian households. India is historically resilient to a certain pace of inflation and interest rates; thus, the headline movement in each variable has had little or no impact on real estate consumption. In 2022, India's top seven cities delivered the highest sale of units in over a decade [c.215,000]. The supply side is supportive of this buoyancy, with new launches reflecting a decadal high. This has a significant flywheel effect on several players in the building value chain, from cables & wires, electrical durables, sanitary ware, and other building materials.

In technology, we continue to align with smaller firms specializing in enabling technologies [cloud, digital] with a track of successful execution over the past many years. We continue to prospect for opportunities within IT and believe that firms that cut back on technology spending will risk long-term competitiveness. Similarly, we are aligned with a network chain that focuses on the midmarket and is a cost leader in healthcare. Burgeoning lifestyle diseases and rising affordability are contributing to the Indian healthcare industry, delivering 12-14% CAGR growth over the last 6 years.

Elsewhere in the industrial economy, we have aligned with chemical companies that are either leaders in base chemicals with the self-sufficiency of feedstock with maximization of its downstream capabilities and/or leaders in areas such as fertilizers with market leadership. While in manufacturing, we are aligned with a domestic OEM leading India's progress on the import substitution of its defense forces.

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



The following annexure present a brief on our top holdings:

Axis Bank	Axis Bank reported PAT of Rs. 5,853cr vs Rs. 5,330cr in Q2 FY23 and Rs. 3,614cr in Q3 FY22. Credit growth was at 4.3% QoQ / 14.6% YoY. The bank is expected to report growth of 14% for FY23 and 15% for FY24. Margins improved by 30bps QoQ to ~4.3% led by asset repricing. We expect deposit repricing to reflect from Q4 FY23 onwards. NIMs have settled much above structurally guided range and there are couple of levers available to offset deposit cost pressure. Cost to asset ratio remained elevated at ~2.3% (+2bps QoQ) as the bank remains committed to investing in focus business segments over the medium term. Asset quality continues to improve with moderation in GNPAs & NNPAs. The bank has now one of the lowest Net NPAs across all major Banks. The bank has been reporting normalised gross slippages of ~2% for the past 3 quarters. Net slippages are also back to normalised level of ~1% vs 0.3% in Q3 FY23. Credit cost came in slightly higher at 77bps vs 30bps in Q3 FY23 but excluding one-offs credit cost was at 60bps. Credit cost is currently running below normalised range led by higher recoveries over the past 5-6 quarters. Axis Bank carries unutilised provisions of ~66bps of loan book. Key risks would include a deterioration in asset quality leading to higher-than-expected credit costs and lower-than-expected loan growth.
Narayana Hrudayalaya	Narayana reported revenue growth of 18% YoY to Rs. 1,128cr. The revenue growth is driven by higher occupancies and an increase in ARPOBs (Average Revenue per operating Bed). On the backdrop of strong revenue growth, higher gross margins, and improving profitability in new hospitals, the EBITDA margin increased to 22.6% vs 21.3% in the last quarter and 18.3% in Q3FY22. Consolidated PAT increased by 56% YoY and flat QoQ to Rs. 155cr. The new hospitals in India (Delhi/Gurgaon/Mumbai) registered an EBITDA Margin of 7% in this quarter vs 5% in the last quarter. These 3 hospitals would clock double-digit EBITDA Margins over the next 3-4 quarters as the occupancies increase. This will lead to better profitability for the Indian business. The company is also working on improving productivity by reducing ALOS (average length of stay) and investing in technology. The company will be commissioning its Oncology block in Cayman by end of FY23 and this is the first full-fledged oncology department in Cayman. This will lead to higher revenue and improved profitability for the Cayman business. The company is also adding a 50-bed hospital in Cayman which would be operational by Q4FY24/Q1FY25. On the domestic front, it is adding a green field hospital in Kolkata and debottlenecking Bangalore hospital. For Cayman and India, it would be incurring Rs. 1,000cr capex in FY24 and this would give the growth for the mid-term. Key risks include government policies in India and Cayman, margin contraction in the interim period of high capex.
State Bank of India	SBI reported PAT of Rs. 14,205cr vs Rs. 13,265cr in Q2 FY23 and Rs. 8,432cr in Q3 FY22. Credit growth stood steady at ~3.6% QoQ / 18.6% YoY led by growth across Retail & SME segment. SBI has been reporting strong credit growth over the past 4-5 quarters and is expected to grow higher than system credit growth for FY23. Margins improved by 18bps QoQ to ~3.5% led by repricing of assets. Management

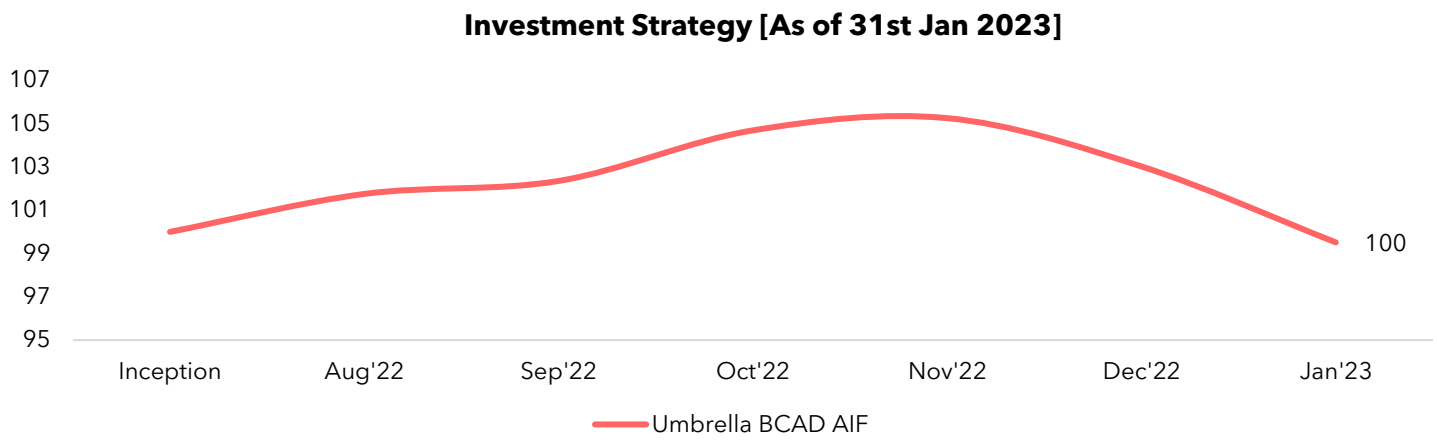
	endeavours to maintain margins at the current level in the near term despite some pressure from deposit rates as the bank has some excess liquidity and headroom for higher C-D (Credit-Deposit) ratio. In addition, PAT was further higher due to higher treasury gains. SBI's asset quality further improved with sequential moderation in GNPAs & NNPAs. SBI has been reporting one of the lowest gross & net-slippages across the banks over the past 5-6 quarters. The bank reported gross slippages of ~0.4% and net slippages of 0.2% for Q3 FY23. Reported credit cost was a bit higher at 77bps vs 42bps in Q2 FY23 but majority of that was towards building contingent provisions for future uncertainties. SBI now carries unutilised contingent provisions of ~35bps of loan book. Key risks would include lower-than-expected loan growth, deterioration of asset quality leading to higher-than-expected credit costs and higher treasury losses.
Crompton Greaves Consumer Electricals	Crompton Greaves Consumer reported a revenue decline of 10% YoY to Rs.1,266cr, on account of weakness in the lighting and pumps segment and lower offtake in the fan's segment due to category transition to new energy norms, commencing from January 2023. Given the revenue loss and under-recovery in costs, EBITDA margins fell sharply from 14.3% to 10.2%. As a result, EBITDA fell 35% YoY to Rs.130cr. Overall, PAT came at Rs.84cr vs Rs.147cr YoY [down 43%]. The potential recovery in the lighting segment and ramp-up of the appliance's portfolio post the acquisition of Butterfly, provide good visibility for earnings growth going forward. Crompton is amongst India's most profitable players in the consumer durables space with best-in-class 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.
Cera Sanitaryware	Cera reported 18% revenue growth to Rs.458cr, led by 20%, 13% & 36% YoY growth in sanitaryware, faucet ware and tiles segments respectively. Gross margins expanded to 54.5% from 52.4% YoY on account of price hikes and better product mix. The contribution of newly launched premium products has improved to 40% of sales compared to 25% in the previous year. EBITDA margins improved to 16.4% compared to 16.3% YoY, resulting in EBITDA growth of 19% YoY to Rs.75cr. Overall, PAT came at Rs.57cr in Q3 compared to Rs.43cr in the previous year. [up 32% YoY / 11% 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 with a cash rich balance sheet [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.

RBL Bank	RBL Bank Q3 FY23 results were largely in line with estimates. PAT came at Rs 209crs vs Rs 202crs in Q2 FY23 and Rs 156crs in Q3 FY22. Loan growth came in slightly higher at 6.4% QoQ / 14.7% YoY led by growth across business verticals. Management reiterated that in the short term, RBL will continue to focus on microfinance & credit cards and over the medium term, it will focus to build secured retail book around housing and vehicle finance. Margins improved by 19bps QoQ to ~4.7% largely due to passing on of repo rate hike and utilisation of liquidity. Going ahead margins will improve quarter on quarter led by change in loan mix towards higher yielding assets, utilisation of liquidity and granularisation of deposit. Cost to Income ratio declined by ~100bps QoQ but remains elevated at ~68% as the bank is incurring expenses towards costs related to launch of new products, technology upgradation and branch expansion. Cost to Income will gradually decline as above expenses moderate and new products gain some scale. RBL reported improvement in asset quality led by sequential moderation in GNPAs & NNPAs. Gross slippages moderated to 3.9% vs 5.4% in Q2 FY23 and net slippages moderated to 2.4% vs 3.9% in Q2 FY23. Credit cost came at 1.8% and is currently running lower than normalised rate of ~2% due to higher recoveries. The bank is expected to witness higher recoveries over the next 2-3 quarters which will keep credit cost below normalised levels. Key risks would include deterioration of asset quality leading to higher-than-expected credit costs, higher treasury losses, and lower-than-expected loan growth.
Radiant Cash Management	Radiant Cash Management Services Ltd is an integrated cash logistics player in a consolidating industry. The company has a Pan India presence with strong network in Tier 2 and Tier 3+ locations. Radiant has a diversified client base with long standing relationships. For 3Q FY23, revenues/EBITDA/PAT grew 19%/41%/50% respectively. In 3QFY23, sales were 93crs, EBITDA of 24crs and PAT of 17crs. ~70% of revenues are from Cash Pickup & Delivery, where Radiant has 40% market share in retail cash management. The typical customers here are banks, and the company gets paid per visit per outlet per month. The company has ~55000 touch points today and is adding 1000-1100 points per month which is primarily driving growth. ~25% of revenues are from network cash management. This is a premium service provided by Radiant where it deposits the funds collected on behalf of customers in its own bank account and then transfers them to the clients electronically. Radiant also has ~5% revenues from cash vans. The company is adding van capacity that will aid growth. The company continues to grow revenues between 15-20%. PAT growth is a function of operating leverage. Its capital efficiency is high with ROCE more than 30% and ROE in excess of 25%. Radiant historically pays 40-50% of profits out as dividend and offers a 3% dividend yield. The key risks can arise from rapid digitsation of retail transactions and any adverse change in bank-partnership terms

Tamilnad Mercantile Bank	TMB Bank reported PAT of Rs. 280cr vs Rs. 262cr in Q2 FY23 and Rs. 200cr in Q3 FY22. However, the loan book was flat on sequential basis while YoY loan growth stood at 8.8% YoY. On YTD basis (Apr'21-Dec'22), loan growth stood at 3.1%. Management has guided for a loan growth of 10% for FY23 and ~12% for FY24. Margins were higher at ~4.5% as the company has not increased its term deposit book aggressively in the past one year. Once it starts to grow, margins should be back to normalised level of ~4.2%-4.3%. Cost ratios were stable at ~2.2% in Q3 FY23. TMB bank has one of the best asset quality metrics across the banks with Gross NPA of 1.7% and Net NPA of ~0.8%. Gross slippages were merely at 0.8% (1% in Q3 FY23) and Net slippages were Nil for Q3 (10bps for Q2 FY23). Lower slippages and higher recoveries have led to lower credit cost of ~40bps for Q2 FY23 and 48bps for 9MFY23. Management guided for credit cost of ~50-75bps for FY24 which is lower than their average long term credit cost of ~1.2%. Key risks would include lower than expected loan growth, deterioration of asset quality leading to higher-than-expected credit costs and higher treasury losses.
Kfin Tech	KFin is a registrar and transfer agent (RTA), a service provider to the asset management industry. KFin services 26 of the 42 AMCs with Rs.12.7 trillion avg AUM. KFin's overall Avg AUM market share is at 31.7%. KFin has a 49% market share in the issuer solutions market where it caters to 5100+ corporate clients. KFin also offers transfer agency and fund accounting solutions for the AIF, PMS players and other international clients For 3Q FY23, revenues/EBITDA/PAT grew 12%/9%/79% respectively. In 3QFY23, sales were 188crs, EBITDA of 81crs and PAT of 53crs. EBIT margins are at 43% vs 40% sequentially. The debt repayment resulted in reduction of interest cost YoY leading to PAT growth. The revenue growth of 12% YoY was led by the issuer solutions and international business. The international business grew 11% sequentially and 45% YoY. This was led by client additions - 33 clients in 9MFY23 vs. 22 clients in 9MFY22. KFin has a presence in South East Asia and for the quarter won their first deal in Canada. The issuer solutions business grew 6% sequentially and 40% YoY. The company added 128 corporate clients during the quarter. The market share in issuer solutions for NSE 500 companies stood at 49% in Q3FY23 vs. 43% in Q3FY22. The domestic MF business grew 5% sequentially and contributes to 67% of overall revenues. We like the business given the favorable industry structure of a duopoly, low asset intensity and capital efficiency. The overall avg AUM in domestic mutual funds continued to grow faster than the industry, aided by contribution from new clients & faster growth in existing clients' portfolio. KFin' presence in international geographies offers a meaningful opportunity given the first mover advantage. Key risks would include any event risks from merger of any mutual funds leading to consolidation and change in regulatory landscape that may result in pressure on yields..

Kewal Kiran Clothing	Kewal Kiran delivered revenue growth of 16% YoY to Rs.199cr, aided by strong sales of the winter wear category. The company delivered well across retail and MBO channel, with 39% & 24% YoY growth respectively. They added 19 new stores in the quarter and are on track to double its store count to 700 stores in the next three years. EBITDA margins improved to 17% compared to 16% YoY, on account of operating leverage. As a result, EBIDTA was up by 22% YoY to Rs.34cr. Overall, PAT was up by 26% YoY to Rs.27cr. 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
Redington India	Redington is a global distribution company with presence across 40 markets and covers the entire gamut of IT products, Smartphones, and offers service & solutions across Managed, Cloud, Logistics. The company partners with 290+ brands associations and services 43,000+ channel partners. Redington reported strong revenue growth of 31% YoY and 14% QoQ. Sales for 3Q FY23 were Rs.21674cr. Gross margins were lower at 5.7% vs 6.3% last quarter. The lower gross margins are due to the product mix - higher share of lower margin mobility business vs enterprise business. In the mobility business the company distributes mobiles, laptops, tablets, and other such devices. The negative impact on gross margins was partially offset by lower other expenses at 1.6% of revenue vs 2% sequentially. Higher WC intensity led to working capital days of 30 days vs 27 days QoQ. Higher WC resulted in a higher interest expense leading to flattish PAT of Rs.379cr YoY and QoQ. The tax outgo was also higher at 21% vs 17% sequentially. From a capital allocation standpoint, the company's return ratio is healthy with ROCE' being in excess of 30% and the company continues to pay out 40% of PAT as dividends which results into a dividend yield of ~4%. We like Redington given that they are amongst the top 2 ICT distributors across markets it operates in. The company's dominant positioning and financial muscle give it significant competitive advantage in a business that has high barriers to entry. Redington has created a strong services business - both on 3rd party logistics business and the high margin cloud business. These businesses as they continue to gather scale have the potential to be valued separately too. Redington' broad portfolio and relationships with vendors across segments allows for balanced growth and reduces vendor concentration. Redington has demonstrated robust risk management practises over the years that helps better manage credit, inventory, and currency risks. Key risks would arise from high interest costs in a rising interest rate environment, slowdown/delays in the high margin enterprise business and lower than expected margins.

IIFL Wealth	IIFL Wealth is now rebranded as 360 One. Its largest shareholder with a 25% holding is Bain Capital who acquired the stake at Rs.1,661 per share. 360 One is amongst the largest wealth managers in India with an AUM of 2.75 lakh cr (Excluding custody assets). Revenue/EBITDA/PAT grew YoY by 10%/47%/16% to Rs.415cr/Rs.229cr/Rs.180cr respectively in Q3 FY23. The recurring assets AUM is 1.66 lakh cr, up 20% YoY and 7% QoQ. Recurring revenues are steady at 67% of revenues. Recurring revenues are Rs.276crs for the quarter, up 6% QoQ. Recurring assets comprise the asset management AUM of 0.59 lakh cr and wealth AUM of 1.07 lakh crores. Asset management grew 6% YoY, has yields of 0.83% and yields are broadly stable sequentially. Asset management comprises AIF, PMS & MF assets. Wealth Management grew 36%, has yields of 0.56% and yields are broadly stable sequentially. Wealth management comprises IIFL one and third party distribution assets like MF, PMS, AIFs. The key monitorable is the net new inflows at 6,034crs for 3QFY23. This is despite a relatively weak environment. For 9M FY23 the net new flows are 18,200crs – 14,600crs in wealth and 3,600crs 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 is expected to grow faster than the industry and the shift of assets from physical to digital. 360One has an industry leading business model, demonstrated executional capabilities and a strong leadership and management team. The stock has a 25% ROE and offers a 3% dividend yield. Key risks would include slowdown in net new inflows and any employee/client attrition.
Mahindra Holidays	Mahindra Holidays reported revenue growth of 18% YoY to Rs.315cr, aided by growth in membership additions and recovery in resort income, led by improvement in occupancies to 85% from 80% YoY. The company added 4,176 members in this quarter compared to 3,700 members in the previous year (up 13% YoY / down 5% 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 were stable YoY at 25% as the company was able to absorb cost better despite rooms expansion. Company had a one-off income from forex gain of about Rs.28cr in this quarter. Adjusting for the same, PAT grew at 14% YoY to Rs.41cr. Mahindra Holidays is the market leader in timeshare & vacation ownership business in India, with a cumulative membership base of 2.77 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.1,089cr 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.



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 Feb 2023)	FY2023	FY2024E
P/E Ratio	21.9x	17.9x
Earnings Growth	29.5%	19.6%
Debt Equity Ratio	0.1	0.1
ROE %	21.3%	21.4%
PE/ Growth Ratio	0.7x	

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

We are continually monitoring the environment for any opportunities that have potential to materially improve the portfolio composition. We will be writing to you again post the 4th quarter results.

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

ANNEXURES

Financial Details of Top Portfolio Companies

UMBRELLA BCAD AIF	Market Cap (Rs. cr)	PBT (Rs.cr)		YoY	PAT (Rs. Cr)		P/E	ROE	Portfolio Weight (%)
Company	**24th Feb 2023**	**Q3 FY22**	**Q3 FY23**		**FY 22**	**FY 23E**	**FY 23E**	**FY 23E**	
Axis Bank	261,859	11,548	19,549	69%	13,025	20,680	12.7	17%	8.8%
Narayana Hrudayalaya	15,284	118	191	62%	342	578	26.4	33%	8.2%
SBI	464,928	4,827	7,840	62%	31,675	47,419	9.8	17%	7.7%
CG Consumer	18,986	199	107	-46%	577	585	32.5	23%	6.2%
Cera Sanitaryware	7,945	58	78	34%	154	204	38.9	19%	4.9%
RBL Bank	9,173	207	275	33%	-75	863	10.6	7%	4.7%
Radiant Cash Management	1,024	15	22	52%	40	72	14.2	31%	4.6%
Tamilnad Mercantile Bank	7,188	291	367	26%	822	1052	6.8	17%	4.0%
Kfin Tech	5,018	41	72	76%	149	193	26.0	24%	3.8%
Kewal Kiran	2,341	29	36	24%	82	111	21.1	22%	3.2%
Redington	13,786	487	494	1%	1257	1392	9.9	23%	3.0%
IIFL Wealth	15,699	198	224	13%	583	694	22.6	22%	3.0%
Mahindra Holidays	5,490	49	56	14%	132	150	36.6	12%	2.2%

CLASSIFICATION OF MARKET CAP

Segment	Basis	%
Large Cap	> Rs. 46,500cr	19.03%
Mid Cap	> Rs. 16,500cr < Rs. 46,500cr	15.57%
Small Cap	< Rs. 16,500cr	56.84%
Cash		8.56%
Total		**100%**

LIQUIDITY ANALYSIS

Segment	% of portfolio
1 day	22.19%
Between 1 & 3 days	15.87%
Between 3 & 7 days	36.63%
Greater than 7 days	16.66%
Total	**91.35%**

RISK MANAGEMENT

While the environment is buoyant for India in the longer term, in the shorter to medium term, the aftereffects of unforeseen economic linkages from a recessionary West may be a risk. While India remains a largely domestic consumption-oriented economy, a rapid worsening of the economies in the West may affect their balance of trade with the World [including India] in the immediate to medium term. India's Current Account Deficit and foreign exchange reserves may be under pressure if energy prices remain elevated and rise. The recent softening of energy and commodity prices will assist India's macroeconomic case, but there remains the prospect of second or third-order impact from global macroeconomic and geo-political shocks.

Risk	Level	Mitigants
Concentration Risk	Fund	At the portfolio level, such risks are minimized by limiting the aggregate exposure of the portfolio to such investments to less than 10% of the value at the time of investment.
Foreign Exchange Risk	Fund	Fund has invested in only Indian Listed companies and hence the fund's investments do not face any foreign exchange risk at the Fund level.
Leverage Risk	Investee Company/Fund	Fund has not taken any leverage at the Fund level. Except for financial companies, most of the investee 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.
Realization Risk	Investee Company/Fund	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, the size of the investment and trading strategies to minimize the realization risk.
Strategy Risk	Investee Company	Investments are evaluated from a bottom-up and top-down perspective. The fund investments align with the segments of the economy that are emerging and companies that have characteristics which make them the dominant participants in their industry. The investments are assessed through a detailed financial model that captures historical performance and forward estimates based on publicly disclosed documents. The investment team rigorously undertakes quarterly diligence for any change in the investment thesis.
Reputation Risk	Investee Company	Company selection starts with rigorous fundamental analysis and a historical performance review supported by a detailed financial model constructed internally. We have an internally designed governance framework vetted over many years. This governance framework helps us in evaluating companies that meet our internal guidelines. We evaluate the investee companies both at an absolute and relative level. Periodic maintenance diligence of management/ financials has been done for Investee companies.

Extra Financial Risk	Investee Company/Fund	We avoid investing in companies with a known history of corporate governance issues. If such an issue arises in an existing investment, we stop additional purchases and start optimally exiting the investment. Our governance framework helps us in identifying any lapses in corporate governance. We actively monitor all publicly disclosed documents regarding ESG [Environmental, social, and corporate governance]. Any reported misconduct is evaluated by the investment committee for further action.
Geopolitical risks	Investee Company	Geopolitical tensions globally can disrupt the supply chain in the region. This might have a non-linear impact on business.
Raw material inflation	Investee Company	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.
Key Man Risk	Investee Company	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.