UNIFI AIF

REVIEW : Q3-FY 2023

AIF BLEND 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*

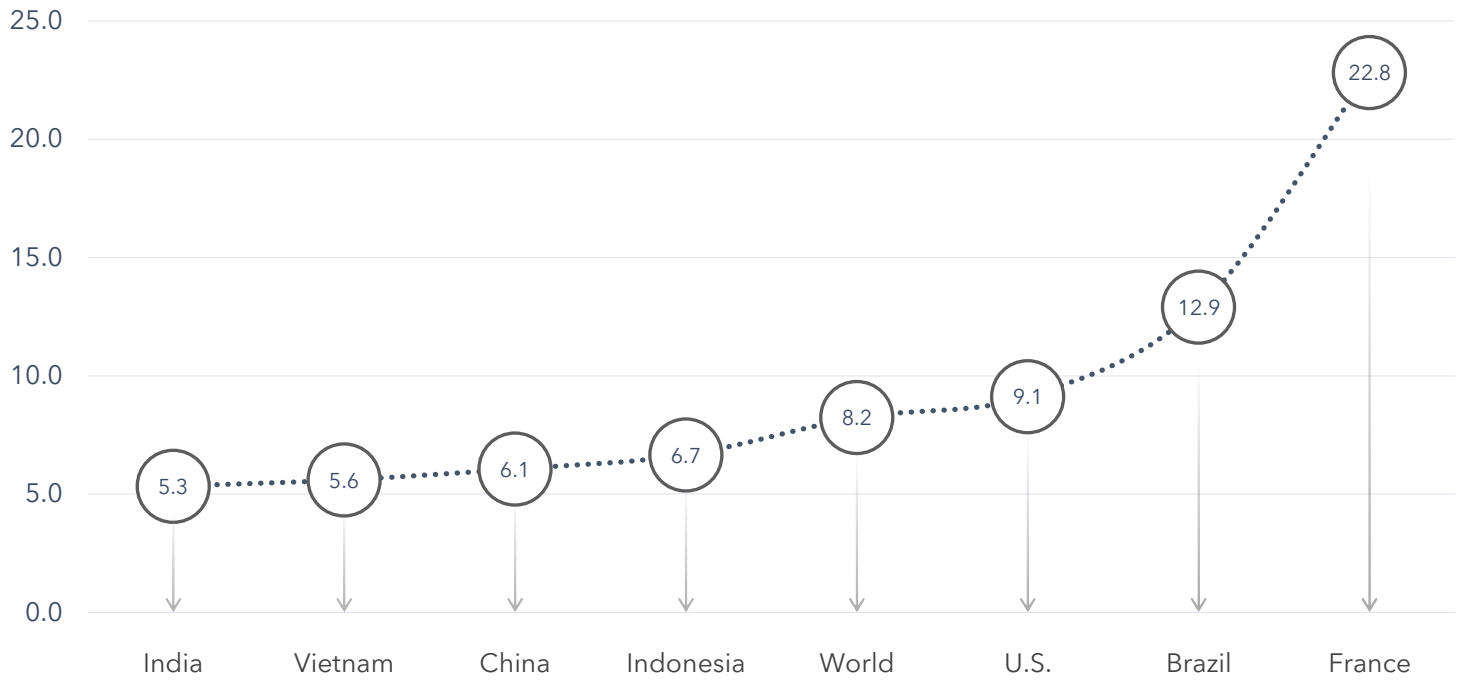
Issac Asimov said this best: it is only afterward that a new idea seems reasonable; to begin with, it usually seems unreasonable. India's progress fits the bill. The consistency in India's equity returns is not just a function of a few financial measures coming together but a combination of progress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

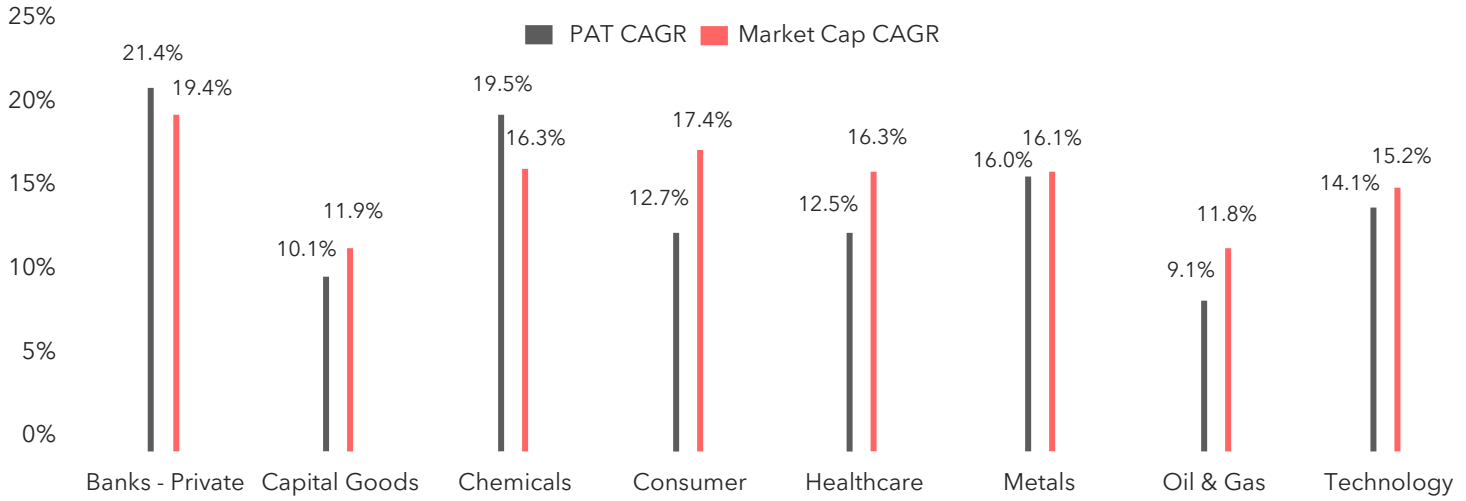
The following table captures the profit growth and market cap growth of comparable Nifty 500 companies over the last 15 years. For most of the sectors, profits have grown consistently even in every block of 5 years and the same is reflected in the market cap. The profit pool of most of the Indian corporates 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?

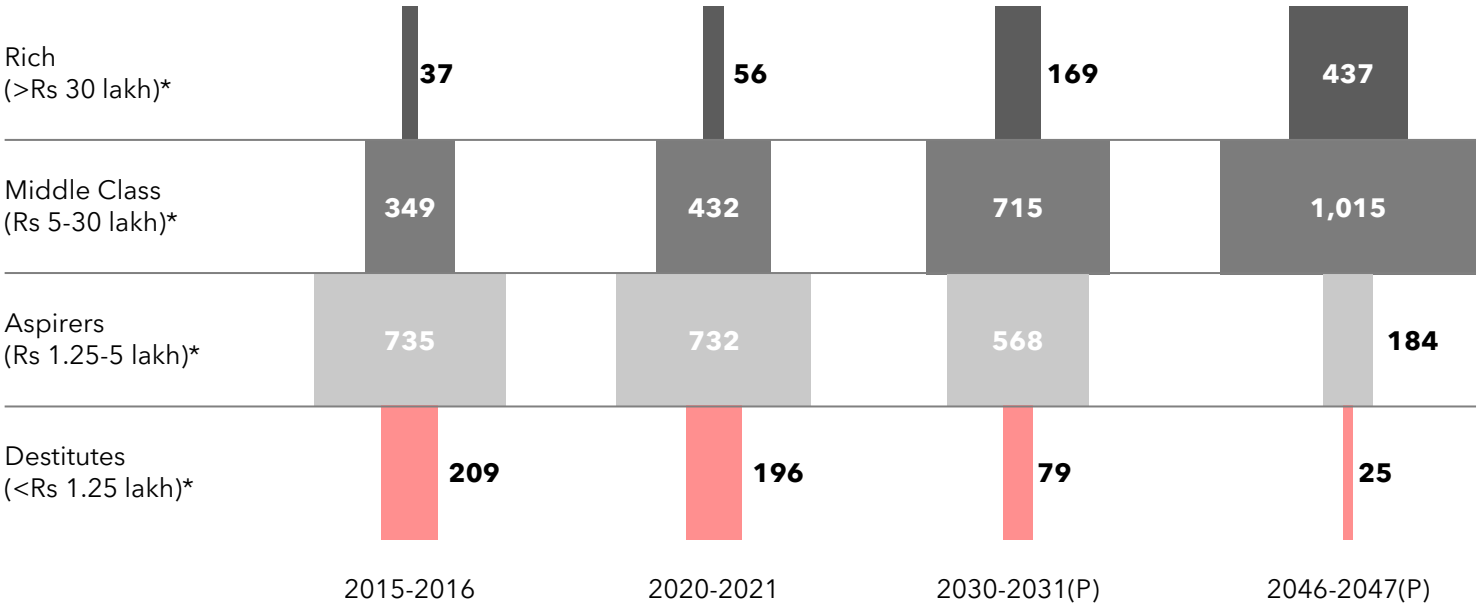
CONSUMPTION AHEAD

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

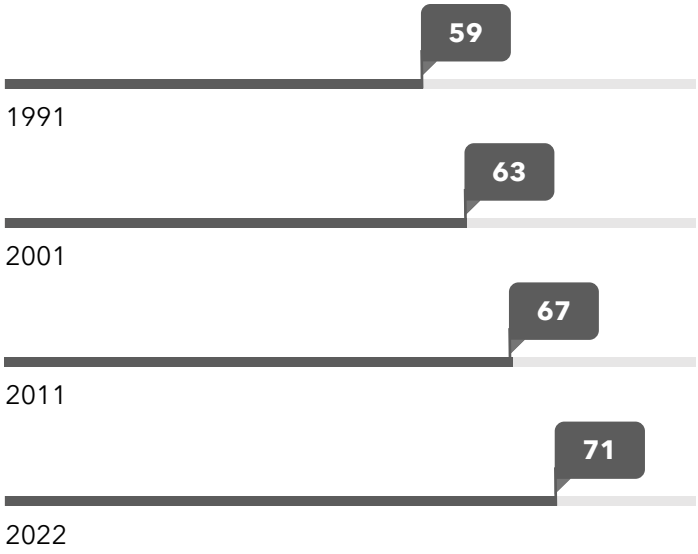
There are several; we touch upon better life expectancy, education, and internet penetration

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.

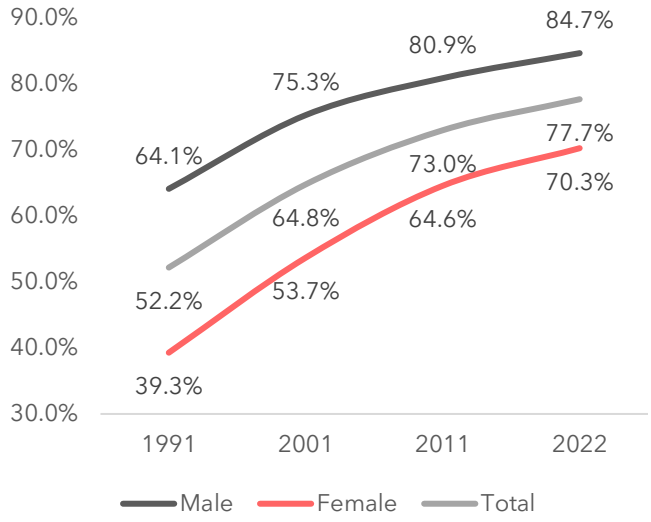
Alongside healthcare, education is the primary driver of productivity. The gross enrolment in upper primary (grades 6-8) has increased to almost 95% in FY-2022, while higher secondary (Class XI and Class XII) increased to ~60% in FY22 vs. 40% in FY13. The importance of upskilling a large part of India's 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%.

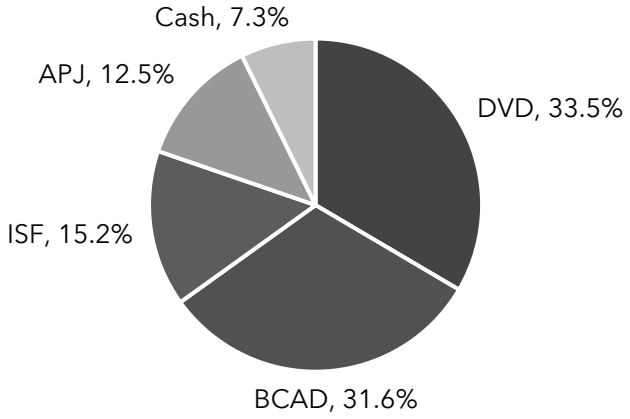
Consumption trends in the real estate industry are indicative of the health of the sentiment in Indian households. India is historically resilient to a certain pace of inflation and interest rates; thus, the headline movement in each variable has had little or no impact on real estate consumption. In 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.

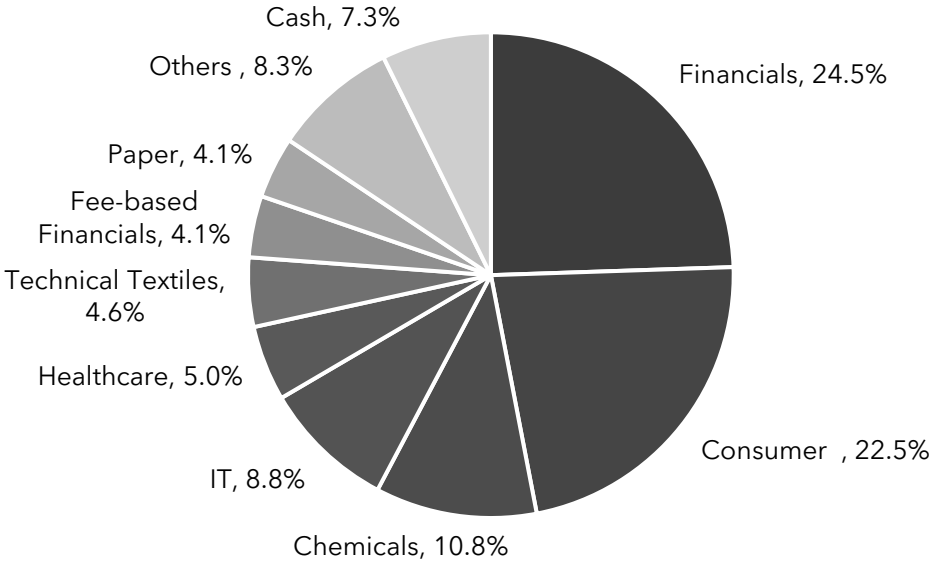
The strategy wise composition of the AIF Blend Fund is as below:

THEME ALLOCATION



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

SECTOR ALLOCATION



The following annexure present a brief on our top holdings:

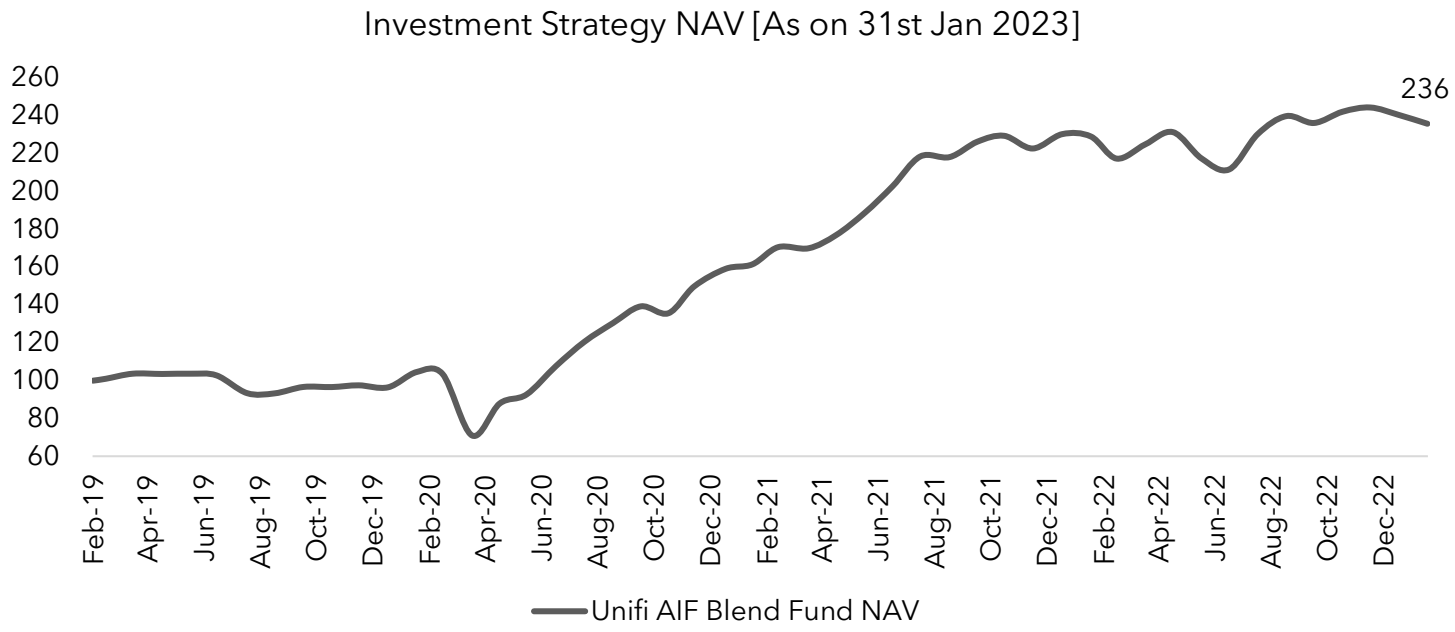
Company	Brief background and Investment rational
Axis Bank	Axis Bank reported PAT of Rs. 5,853cr vs Rs. 5,330cr in Q2 FY23 and Rs. 3,614cr in Q3 FY22. Credit growth was at 4.3% QoQ / 14.6% YoY. The bank is expected to report growth of 14% for FY23 and 15% for FY24. Margins improved by 30bps QoQ to ~4.3% 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.
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.
Bector Foods	Bector Foods reported revenue growth of 40% YoY to Rs. 368cr. The growth is led by both biscuits and bread segments. The company also continues to increase its distribution reach to further capitalize on the growth opportunity. The decline in key raw materials has led to margin improvement and EBITDA Margin in this quarter came in at 14% vs 12.6% in Q3FY22. The company registered PAT growth of 80% YoY to Rs. 28cr in this quarter vs Rs. 15cr in Q3FY22.

	Biscuits in India is extremely consolidated as the top-3 players have ~70% market share. Bector is more of a regional player and is 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 register high growth. In the B2B bread segment, the company supplies buns to QSR outlets like Burger King and McDonald's. The B2B breads segment for Bector is growing in higher teens given the rate at which QSRs are growing in India. On the B2C bread segment, the company has now expanded into Bangalore and Mumbai (earlier it was only present in NCR). Given the growth opportunities that the company has in biscuits and bread segments, we expect Bector to deliver consistent 10-15% revenue growth for the next few years and operating leverage would result in much better earnings growth. Key risks include a steep increase in raw material prices and a demand slowdown.
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 appliances 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.
Sonata Software	Sonata delivered revenue growth of 6.3% (INR) QoQ and 4.7% (US$) in CC terms to $ 61mn, which is a healthy number in a seasonally weak quarter. Cloud(32%) and Dynamics(37%) share in revenue continue to rise YoY. Industry vertical wise exposure after new classification is TMT (33%), Retail/CPG (21%), Manufacturing (18%), Emerging (11%),Healthcare (9%), and BFSI (7%). International IT services EBITDA margin came in at 25.2%, a decline of 70 bps QoQ due to higher employee costs, and absolute EBITDA of domestic business came at INR 51.7 cr up 10% QoQ. Overall EBITDA margin for the quarter stood at 6.9%, down 340bps QoQ and 17bps YoY. Company reported overall PAT of Rs. 118cr in this quarter registering QoQ growth of 4% and 20% YoY. Domestic Product Services (DPS) revenue was up 21% YoY. Company added 20 new customers in International IT services and 85% of domestic business is annuity led. The company hired new CTO to deepen their proposition of digital engineering solutions. And reiterated that business momentum is good. Key risks: Slowdown in the USA and Europe and cuts in discretionary IT spending by enterprise clients.

Polycab India	Polycab delivered revenue growth of 10% YoY to Rs.3,715cr, aided by strong volume growth in cables & wires segment, which grew at 11% YoY. The company was able to drive 17-18% volume growth on account of distribution expansion and market share gains from unorganised players. The FMEG segment revenue was flat YoY at Rs.342cr, on account of high base of previous year and lower offtake due to inflationary pressure across product categories. Polycab was able to improve EBITDA margin YoY to 13.6%, thanks to better product mix, operating leverage and optimum inventory hedging mechanism. As a result, EBITDA was up by 39% YoY to Rs.504cr. Overall, PAT grew at 45% YoY to Rs.361cr. 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 B2B cables business, 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. Key risks include further escalation in metal prices, slowdown of demand.
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 beds 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.
Atul Ltd	Atul recorded revenue degrowth of 8% YoY to Rs. 1,268cr. EBITDA and PAT declined by ~30% YoY each to Rs. 172cr and Rs. 105cr respectively. The performance chemical segment reported revenue degrowth of 19% YoY with 3% EBIT margin vs 15% YoY. This is due to low export demand impacting operating leverage negatively and inflated raw material/energy costs impacting the pricing power. The company has a high share of revenue towards discretionary applications in Aromatics, Colors and Polymers. The largest impact is in the category of Aromatics. The company is the market leader in the category of Cresol, which finds application in the fragrance and

	antioxidants industry. With inventory destocking and lower capacity utilization at the customer's end, the primary off take has declined a lot. Geography-wise, the impact is severe in the US, EU, Turkey, and China. With China opening up, there should be some recovery in exports. The other segment – Life Science Chemicals comprising Crop Protection and Pharmaceutical Intermediates business, has performed well with better price realisation and volume growth in the Crop Protection sub-segment. Life Science chemicals has delivered revenue growth of 24% with EBIT margins at 23% vs 11% YoY. 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. The key risks would be softening of spreads in key products and the delay in the commercialization of capex.
Garware Technical Fibres	Garware reported a revenue decline of 11% YoY to Rs. 275cr. EBITDA and PAT declined by 14% and 4% YoY to Rs. 47cr and Rs. 37cr 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 72% vs 70% YoY. EBITDA growth was low due to the negative impact of operating leverage due to the demand slowdown. The company continues to win new patents and launch new products, which we believe will drive growth and profitability. 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. 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.
RBL Bank	RBL Bank reported PAT of Rs. 209cr vs Rs. 202cr in Q2 FY23 and Rs. 156cr in Q3 FY22. Loan growth was at 6.4% QoQ / 14.7% YoY led by growth across business verticals. In the short term, RBL will continue to focus on microfinance & credit cards and over the medium term, it will focus on building 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 a change in loan mix towards higher yielding assets, utilisation of liquidity and granularization of deposit. The 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.
ICICI Securities	ICICI Securities' revenue were 880cr in Q3 FY23, up 2% sequentially. The broking segment revenue degrew 20% Q-o-Q due to lower cash volumes (ISec' broking revenues are more dependent on cash volumes). The focus on growing derivatives volumes continued and ISec gained market share to 3.8% vs 3.7% sequentially. The broking allied offerings such as margin trading, prime and other fees supported revenue growth sequentially. Despite a weak quarter, the lending book grew 16% qoq. The total retail and allied income was Rs.504cr, the same as the previous quarter. The distribution revenue which is 19% of consolidated revenue grew 2% YoY across mutual fund, life insurance and other products. Corporate finance revenue is dependent upon primary issuances and stood at Rs.59cr for the quarter. This segment is cyclical. Last year same time, as there were several primary issuances, ISec had amongst their best ever quarters. This resulted in consolidated PAT degrowth to Rs. 281cr. 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. The market share improvements in derivatives is visible quarterly, but the pace needs acceleration. Profitability for the quarter was slightly impacted as the increase in interest cost has not yet been fully transmitted to customers. The transmission of rate hike to customers is expected to take place in the subsequent quarters. We like the business resilience given the improving share of non-brokerage revenues in sales, technology leadership, continuing consolidation of the user base, high RoE of 50% and dividend yield of 4%. Key risks would arise from a downcycle in equity markets leading to lower volume turnover and lower deal flow for corporate finance.
JK Paper	JK Paper reported revenue growth of 61% YoY & flat QoQ to Rs.1,643cr, 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 3-4% price hike in Q3 to pass on the increase in raw material & power costs. As a result, EBITDA was up by 125% YoY at Rs.565cr. The company continued to perform well amidst a turnaround in the business at its subsidiary- Sirpur Paper Mills. Overall, PAT came at Rs.334cr compared to Rs.151cr in Q3 FY22 and Rs.352cr in Q2 FY23. 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. Key risks would be further escalation of coal prices and decline in international pulp prices.



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 24th Feb 2023)	FY2023	FY2024E
P/E Ratio	19.6x	17.4x
Earnings Growth	24.0%	16.3%
Debt Equity Ratio	0.07	0.02
ROE %	21.3%	21.0%
PE/ Growth Ratio	0.9x	

**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 4th 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 Fund	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**	
SBI	4,65,419	4,827	7,840	62%	31,675	47,419	10	17%	8.7%
Axis Bank	2,61,366	11,548	19,549	69%	13,025	20,680	13	17%	8.7%
Bector Foods	3,091	21	37	76%	58	88	35	18%	7.2%
CG Consumer	18,986	199	107	-46%	577	585	32	23%	7.1%
Sonata	9,788	120	155	29%	376	461	21	42%	6.3%
Polycab India	45,818	324	482	49%	850	1,212	38	23%	5.4%
Narayana	15,284	118	191	62%	342	578	26	33%	5.0%
Atul	21,061	210	142	-32%	605	565	37	12%	4.9%
Garware	6,029	51	47	-8%	165	160	38	16%	4.6%
RBL Bank	9,173	207	275	33%	-75	863	11	7%	4.6%
ICICI Sec	15,263	510	377	-26%	1,383	1,156	13	43%	4.1%
JK Paper	6,641	210	451	115%	544	1,230	5	35%	4.1%

CLASSIFICATION OF MARKET CAP

Segment	Basis	%
Large Cap	> Rs. 46,500cr	22.7%
Mid Cap	> Rs. 16,500cr < Rs. 46,500cr	21.0%
Small Cap	< Rs. 16,500cr	49.0%
Cash		7.3%
Total		**100%**

LIQUIDITY ANALYSIS

Segment	% of portfolio
1 day	22.8%
Between 1 & 3 days	20.7%
Between 3 & 7 days	17.4%
Greater than 7 days	31.9%
Total	**92.7%**

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.