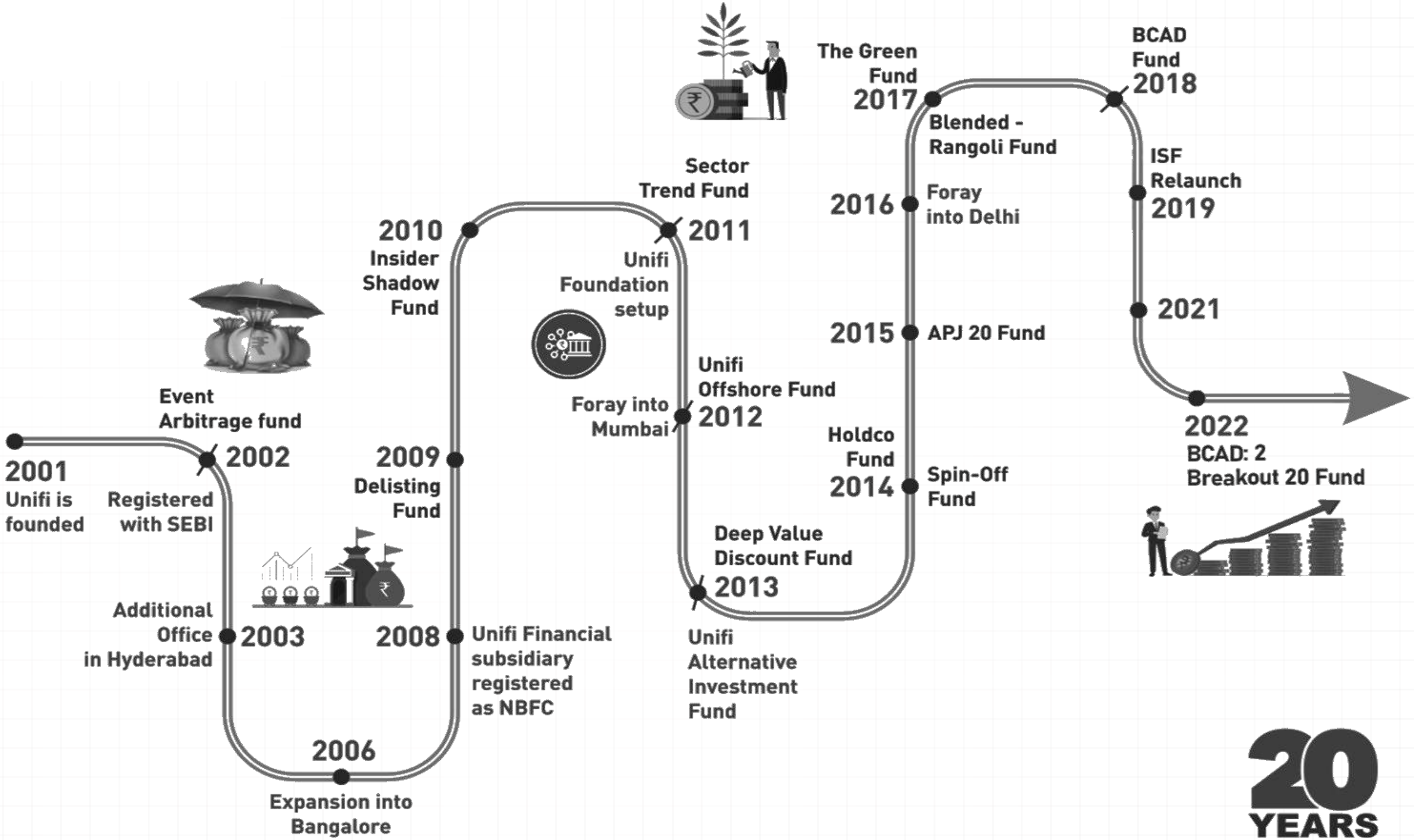
UNIFI CAPITAL

High Yield Strategy – Debt PMS

Unifi: Historical Timeline

Unifi was established in 2001 as a competitive and performance-oriented asset manager, using innovative investment strategies to achieve superior risk-adjusted returns



Contents

- Objective & Structure
- Strategy & approach
- Segment overview – Alternative NBFCs
- Segment overview – Event Arbitrage
- Segment overview – Directional calls & Hybrids
- Unifi's experience & due diligence process
- Overview of investee companies

Objective

Unifi High Yield Fund is a discretionary fund focusing on fixed income investment opportunities in domestic capital markets with an endeavor to generate 3 to 5% p.a. pre-tax returns over the rate of core inflation.

The objective is to consistently generate superior compounded annual returns than conventional debt instruments with uncompromising emphasis on capital preservation.

Structure - PMS

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Fund Manager	Unifi Capital Pvt. Ltd.
Management Fee	1.25% per annum fixed
Target Return	Core Inflation plus 3-5% p.a.
Liquidity Profile	Within 7 working days in normal market conditions
Exit Load	Exit load of 2% if capital is redeemed within 6 months.
Minimum Investment	INR 1 Crore
Custodian / Valuation partner	HDFC Bank/CRISIL
Tax Incidence	Taxed at Investors' end
Reporting	Daily MIS + Quarterly review
Track Record (Pre-tax)	~11% CAGR since Apr 2013 (AIF cat III - debt segment returns)

Strategy & Approach

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Why is the fund targeting to beat Core Inflation?

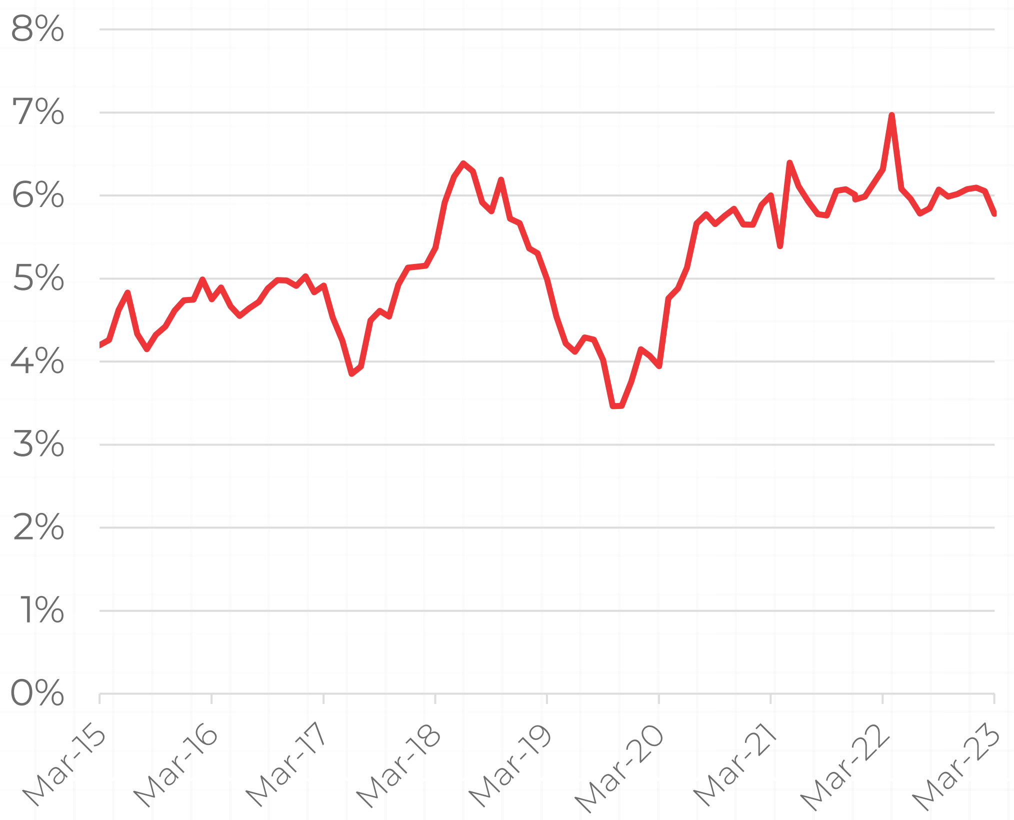
RBI measures core inflation as consumer price inflation (CPI) excluding Food & Fuel. The price changes due to supply shocks in food and fuel category are transitory & typically reverse themselves.

Hence, monetary policy does not have to respond to such changes. Core inflation removes the volatile low-ticket size consumption components and helps in identifying the relevant inflation rate that an investor's portfolio needs to generate (at least) to preserve the time value of their money.

The key components of core inflation are Transport and communication, Education, Health, Household goods and services, Personal care and effects, Recreation and amusement.

CPI data Source - The National Statistical Office (NSO) & Ministry of Statistics and Program Implementation (MoSPI)

Core Inflation over the last 9 years



Financial Year	Core CPI
FY15	4.20%
FY16	4.75%
FY17	4.91%
FY18	5.37%
FY19	4.99%
FY20	3.94%
FY21	6.00%
FY22	6.32%
FY23	5.78%

Strategy & Approach

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Our core investment strategy is to diligently find high yield debt opportunities in Alternative NBFCs with good fundamentals and proven track record across business and economic cycles.

Meticulous evaluation would be done by our in-house team with external ratings used only as a starting point.

Typically, majority of the portfolio would be invested in such fixed income investments with a weighted average tenor of 3 years or below.

The balance part would be opportunistically invested in select structured corporate credit, hybrid INVITs / REITs, corporate event arbitrage and mean reversion directional calls emerging from the listed equities segment to enhance the overall returns.

Segment	Indicative Allocation	UNIFI's Experience
Alternative NBFC debt	30% to 100%	12+ years; 12% CAGR
Event Arbitrage (open offers, buybacks etc.)	0% to 25%	18+ years; 15% CAGR
Hybrid Invits and Reits	0% to 25%	3+ years; 10% CAGR
Liquid MFs and AAA, AA, A+ bonds / Cash	0% to 25%	12+ years; 6% CAGR
Directional calls	0% to 5%	18+ years; 16% CAGR

Event Arbitrage – Approach and Strategy

The core investment approach is to exploit corporate event arbitrage opportunities in the listed capital markets that inherently have limited correlation to economic cycles and market volatility.

Unifi, since its inception, has been specializing in identification and quick execution of low risk-moderate gain opportunities in the capital markets thrown up by market events, behavior and regulation.

These corporate event arbitrage opportunities inherently have limited correlation to economic cycles & market volatility. As these opportunities are sporadic, it works better as a yield-enhancer in a broad fund like this instead of a separate fund.

Type of opportunity	Recent / Notable deals
Mandatory open offer or Voluntary open offer	• Suven Pharma, ACC & Ambuja, Butterfly, Escorts, JB Chemicals, Indostar, Vedanta, WABCO
Buybacks through tender offer route	• Just dial, Hindustan Unilever
Corporate actions resulting in value unlocking	• Majesco Limited, IDFC Limited
Delisting	• Clariant Lifesciences, Polaris consulting

Generally, we participate in those opportunities where –

❖ there is sufficient liquidity in the scrip,
❖ the management is reasonably sound,
❖ the process of share acquisition is completely transparent,
❖ where the balance of risk-reward after considering the possibility of non- acceptance of shares offered (in case of public tenders) and the capital loss/risk on the shares not accepted is reasonably estimated to be in our favour.

Event Arbitrage – Attributes

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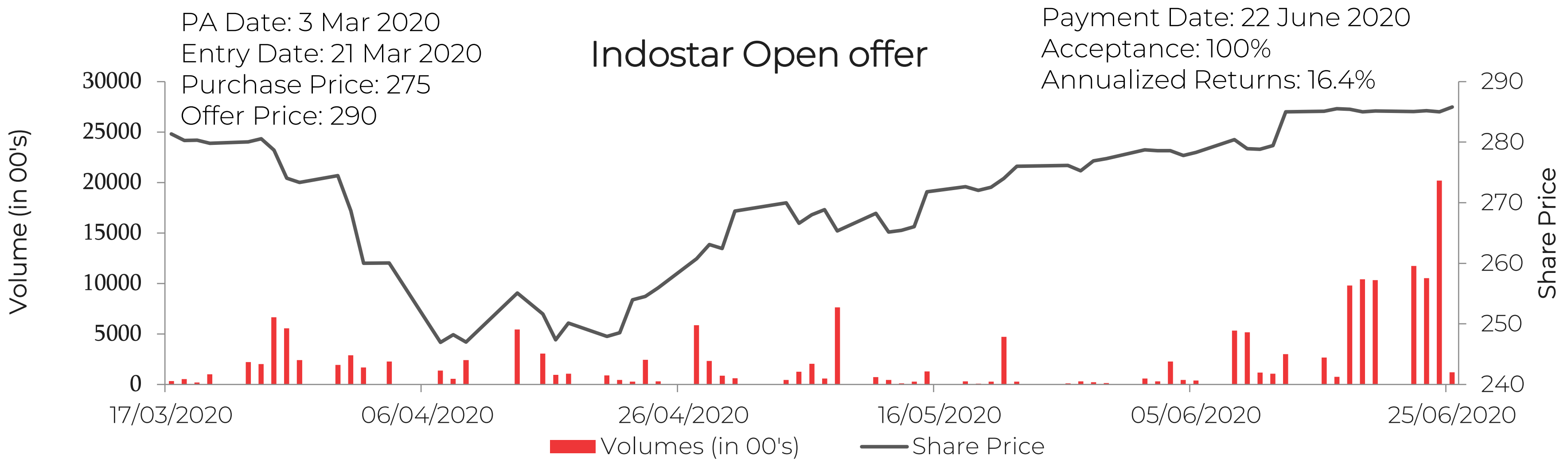
Event Arbitrage opportunities (Open Offers, Buybacks, IPOs etc)	FY23	FY22	FY21	FY20	FY19	FY18	FY17	FY16	FY15
Total no. of opportunities during the year	77	64	42	32	42	92	78	95	60
No. of offers participated	14	22	20	9	7	20	17	10	9
Average offer size (in crs)	1782	2400	1329	1182	2178	1212	773	407	287
Largest Offer invested (in crs)	19879	7700	5948	10355	17000	14512	6000	1621	11449
Smallest Offer invested (in crs)	390	500	318	448	212	152	130	474	251

In a typical open offer, the price movement during the period between public announcement and the offer closure is largely insulated from market volatility and delivers a debt like absolute return.



Segment Overview – Directional calls / Hybrids

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Select Directional calls

Opportunistic position on a highly selective basis in listed equities, leveraging our access to the in-depth research repository from our equity strategies

- To Take advantage of severe market price volatility caused by regulatory actions, political changes, force majeure events or extreme macro-economic conditions, which would invariably return to normalcy in due course. (mean-reversion).
- To exit the open positions in an organized manner post completion of respective event arbitrage transactions

REITS & INVITS

- Over the last 3 years, Unifi has been tracking and investing in the rapidly evolving domestic Infrastructure Investment Trusts (INVITs) and Real Estate Investment Trusts (REITs) segments.
- These special purpose vehicles downstream income from several high-quality infrastructure and real estate assets across India. There is a dual opportunity of spread trade as well as higher carry yield in these hybrid instruments as compared to conventional debt deals..

Segment Overview – Alternative NBFCs

Alternative NBFCs - Introduction

Over the last 15 years, new breed of NBFCs have emerged that adopt alternative ways of sourcing, credit under-writing, monitoring and collection methodologies to offer financing to those households and enterprises traditionally excluded or under-served by banks and large NBFCs. They are also the first alternative and cheapest source of funds from the organized sector for these borrower segments who were earlier depended on local high-cost money-lenders. By delivering the last mile credit, these institutions are ensuring unorganized to organized transition and democratization of credit access in India covering the entire gamut as follows –

Segment / Particulars	Micro Finance	MSME Finance	Used CV Finance	Affordable Housing	Consumer Finance
Loan Size	Rs.5,000 to Rs.1,00,000	Rs.5,000 to Rs. 5 crores	Rs.25,000 to Rs.15 lakhs	Rs.1,00,000 to Rs.20 lakhs	Rs.5,000 to Rs.5 lakhs
Tenor	12 months to 24 months	3 months to 7 years	2 years to 5 years	5 years to 20 years	1 month to 3 years
ROI	18% to 30% p.a.	14% to 36% p.a.	16% to 32% p.a.	10% to 18% p.a.	18% to 40% p.a.

Segment Overview – Alternative NBFCs

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Key differentiators

- Tech led credit underwriting, documentation and life-cycle management.
- Doorstep solutions & quick turnaround time.
- Scalable model & capability to work with informal income records.
- Vertical specialisation, Social media analytics etc.

Opportunity Size

- There are about 9700+ licensed NBFCs in India and only 260+ are rated. About 210 of them can be classified as Alternative NBFCs.
- In the last two decades, these NBFCs have collectively raised Rs.60,000+cr. private equity from marquee institutional investors and Rs.200,000+cr. debt capital from domestic and global financial institutions.
- About 10 of them have become small finance banks or universal banks either directly or through mergers indicating the trust and importance that RBI has placed on these companies.

The last decade had several challenges and learnings for the alternative NBFC sector right from -

- 2010-11 A.P. MFI crisis,
- Demonetization,
- GST transition,
- farm loan waivers,
- liquidity crisis post IL&FS default
- Covid impact on their operations and collections.

These extraordinary occurrences have seasoned the sector and enabled them to fine tune their process as regards origination, credit appraisal, collections as well as prudent liabilities and capital adequacy management.

The central bank also duly supported the entire sector with refinance and special liquidity support during both covid waves.

Unifi's Experience & Due Diligence process

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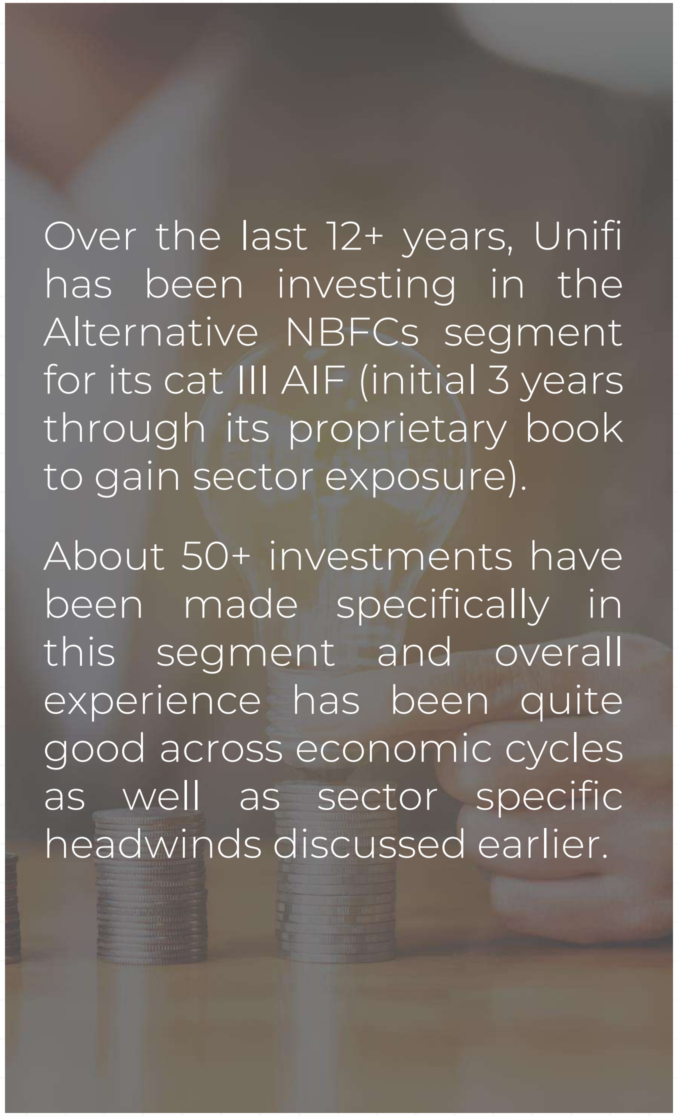

Over the last 12+ years, Unifi has been investing in the Alternative NBFCs segment for its cat III AIF (initial 3 years through its proprietary book to gain sector exposure).

About 50+ investments have been made specifically in this segment and overall experience has been quite good across economic cycles as well as sector specific headwinds discussed earlier.

The following criteria and due diligence process are firmly applied for selection of investment opportunities in this segment, and they have held us in good stead –

- Fundamentally sound and profitable business model.
- Management with proven track record.
- Robust process for credit evaluation, security creation, operations, and collections.
- Presence of seasoned Private Equity investors in the board with 25+% stake.
- Recent round of promoter / private equity infusion strengthening the capital adequacy.
- Short Term Maturity and being in the top quadrant of the Company's Liability repayment profile thereby placing our exposure in a positive Asset Liability bucket.
- Primary due diligence by Unifi team including HO and branch visit and discussion with key promoter and management personnel.
- Rigorous post investment monitoring through access to periodical MIS reports and in-depth assessment to track performance and detect early warning signals.

Alternative NBFCs – Approach & Case Study

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Case Study – (Two-wheeler Finance) – Berar Finance Limited

In September 2022, we invested in 11.50% 2.5-year NCD (Quarterly amortisation) of Nagpur based Berar Finance Limited. It was incorporated in 1990 as deposit taking NBFC, primarily engaged in financing purchase of two wheelers. It has a network of 100+ branches spread across the states of Maharashtra (about 50% of book), Chhattisgarh, Madhya Pradesh, Gujarat, Karnataka & Telangana.

- The company has been operating successfully for many years and hasn't posted a single loss in their 30+ years of existence
- Company is adequately capitalized and backed by PE Investors – Amicus Capital & Maj Invest – they have recently concluded Rs.100cr equity infusion from Maj Invest
- Strong growth in AUM even in a COVID hit year without any compromise on profitability and asset quality. Asset quality is backed by strong collections team. stringent portfolio monitoring & swift recovery mechanism
- Clearly defined and structured branch operational processes observed during our branch visit

Rs. in Crore	**Favourable Asset Liability Profile at the time of Investment**								
	<1 Month	**1-2 Months**	**2-3 Months**	**3-6 Months**	**6-12 Months**	**1-3 Years**	**3-5 Years**	**>5 Years**	**Total**
Total Assets (a)	90.46	65.71	55.18	147.56	226.29	176.69	225.87	44.64	941.94
Total Liabilities (b)	21.77	31.98	33.23	108.85	216.63	295.88	41.96	290.00	941.94
Mismatch (a-b)	68.69	33.73	21.95	38.71	9.66	(119.18)	183.90	(245.36)	
Cumulative Mismatch	68.69	102.42	124.36	163.07	172.74	53.55	245.36		

Investee Companies – Alternative NBFCs

Networth of 1000+ Crs

- Avendus – Next is the only level
- InCred – Borrow. With Confidence.
- ofBusiness
- CLIX
- FIVE STAR Business Finance Limited
- NORTHERN ARC
- TVS CREDIT
- SK FINANCE – Saath Aapke... Hamesha

Networth between 100-250 Crs

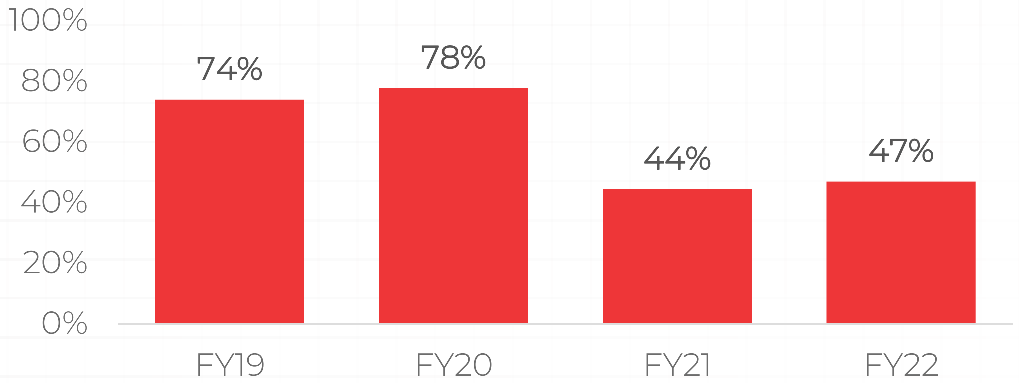
- LoanTap
- EarlySalary
- Mintifi
- FLEXILOANS
- KINARA CAPITAL
- kissht
- BERAR FINANCE LIMITED – Partnership for Prosperity

Networth between 250 Crs – 1000 Crs

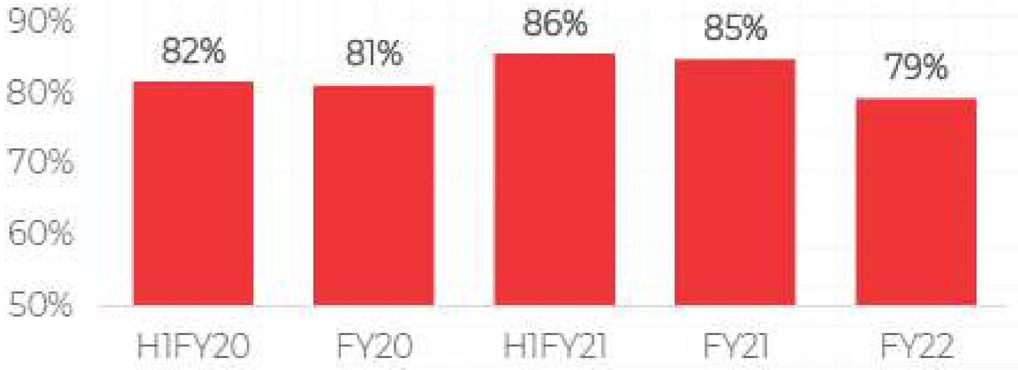
- Chaitanya
- IKF FINANCE
- KrazyBee – Delivering dreams
- svatantra
- LENDINGKA₹T – Think Cash, Think Lendingkart Group!
- AYE [आय]
- IIFL samasta
- AUXILO – The next level beckons
- Kogta FINANCIAL – Freedom to Grow
- DVARA KGFS
- slice
- Capsave
- FINOVA CAPITAL – Financing Dreams
- Ashv – Aavishkaar Group
- BELSTAR MICROFINANCE LIMITED
- efl – ...by your side

Investee Companies – Alternative NBFCs

% of Alternative NBFCs in our portfolio that had raised equity during the Financial year



% of Alternative NBFCs in our portfolio that had capital adequacy of 25+%



Select list of Private Equity Investors in the Alternative NBFCs portfolio companies

Morgan Stanley PE Equity Asia	TPG Asia	IFC [World Bank]	Premji Invest	Accion US	AION Capital Partners
Norwest Venture Partners	Matrix Partners	IIFL Seed Ventures	Creador Advisors India LLP	Alpine Capital	Aavishkaar Group
Sequoia Capital	Bravia Capital	Sumitomo Mitsui Banking Corporation	FMO Dutch Development Bank	IDFC Private Equity	Motilal Oswal PE Fund
Softbank Group	Eight Roads	Baring PE	Vertex Ventures	Sistema Asia Fund	Lok Capital

Risk Dynamics

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Type of Risk	How it is managed
Portfolio concentration limits	• Single company exposure not more than 10% • Not more than 25% in any sector or sub-segment of NBFC • Not more than 30% in BBB category papers and nothing below BBB- • Not more than 20% in Market Linked Debentures to curtail volatility • Portfolio duration not more than 3 years • Not more than 20% in perpetual bonds of NBFCs and Banks collectively • Firm cap of 10% in Directional Calls overall to curtail market volatility • Firm cap of 25% in Event Arbitrage to retain the predictability and accrual nature of the fund
Liquidity risk	The amortization nature of the debt investments, high liquidity of arbitrage and directional equity positions would help us to manage the liquidity requirements. Investors have been duly informed about the illiquid nature of this PMS and plan their redemption requirements accordingly.
Strategy level risk - Debt / Fixed Income	As is the case with any debt investments, the fund's fixed income portfolio is also subject to credit, liquidity and price risks. Firm adherence to company-specific limits as above along with a complete bottom-up review of the issuer company and the management abet us to manage the credit risk. However, illiquidity of corporate bonds, given the shallowness of debt markets in India, is something we must live with. We are constantly looking to increase our network of debt market intermediaries to help us create liquidity in case the need arises. It is subject to price volatility due to changes in interest rates especially if RBI changes its policy stance. As we have structured this part of the allocation with a hold-to-maturity mindset and are comfortable with the carry yield, the intermediate price fluctuations should not unduly worry us.
Strategy level risk - Event Arbitrage	Investments in tender offers and buybacks done with certain underlying assumptions as regards the offer completion timelines, tendering pattern and post offer market price. While these assumptions are backed up by detailed analysis of various fundamental and behavioral aspects including historical trends, the actual occurrences may or may not be as per our expectations. Any adverse outcomes contrary to our hypothesis could result in losses and negatively impact the overall portfolio returns. These are known risks that we are subject to, and the fund management team would monitor them on an ongoing basis.

Portfolio – analytics & attributes

Pre-tax performance (%)													
Year	**Apr**	**May**	**Jun**	**Jul**	**Aug**	**Sep**	**Oct**	**Nov**	**Dec**	**Jan**	**Feb**	**Mar**	**Total**
FY23	1.28%	0.53%	1.01%	0.80%	0.88%	0.35%	0.76%	0.73%	0.78%	0.63%	0.50%	0.81%	9.11%
FY24	0.55%	0.85%	0.82%	0.85%									3.12%

1. Gross Carry Yield – 11.25%
2. Portfolio duration- 1.60 years (less than the limit of 3 years)
3. Not more than 10% exposure to single company
4. Not more than 20% to perpetual bonds
5. Not more than 25% exposure in each sub sector
6. Not more than 30% exposure in BBB category instruments
7. Not more than 20% exposure to Market linked Debentures

Sector Allocation	**% Allocation**
Diversified NBFC	20%
Micro Finance	20%
MSME/SME Finance	20%
Vehicle Finance	15%
Consumer Finance	15%
Education Finance	10%

Current portfolio companies – key financial metrics

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* Financial info pertaining to FY23 (Rs. Cr)

Company*	Sub-Segment	Rating		Networth	Total Debt	Loan AUM	Capital Adequacy
Clix Capital	Diversified	A		2,034	3,306	4,375	36%
Esskay Fincorp	Vehicle Finance	A+		1,834	7,043	7,380	26%
Navi Finserv	Consumer Finance	A		2,269	5,763	7,858	28%
Incred Financial	Diversified	A+		2,486	3,864	6,063	33%
Kogta Financial	Vehicle Finance	A		1,134	2,647	3,359	34%
Indostsar Capital	Vehicle Finance	AA-		3,112	5,980	5,196	32%
Capsave Finance	Equipment lease	A		501	1,225	1,873	26%
Satya Microcapital	Micro Finance	BBB+		837	3,666	4,684	19%
IIFL Samasta	Micro Finance	AA-		1,322	7,270	10,552	17%
Berar Finance	Vehicle Finance	BBB		275	826	964	26%
Krazybee Financial Services	Consumer Finance	BBB+		2,000	1,275	4,644	60%

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Thank You