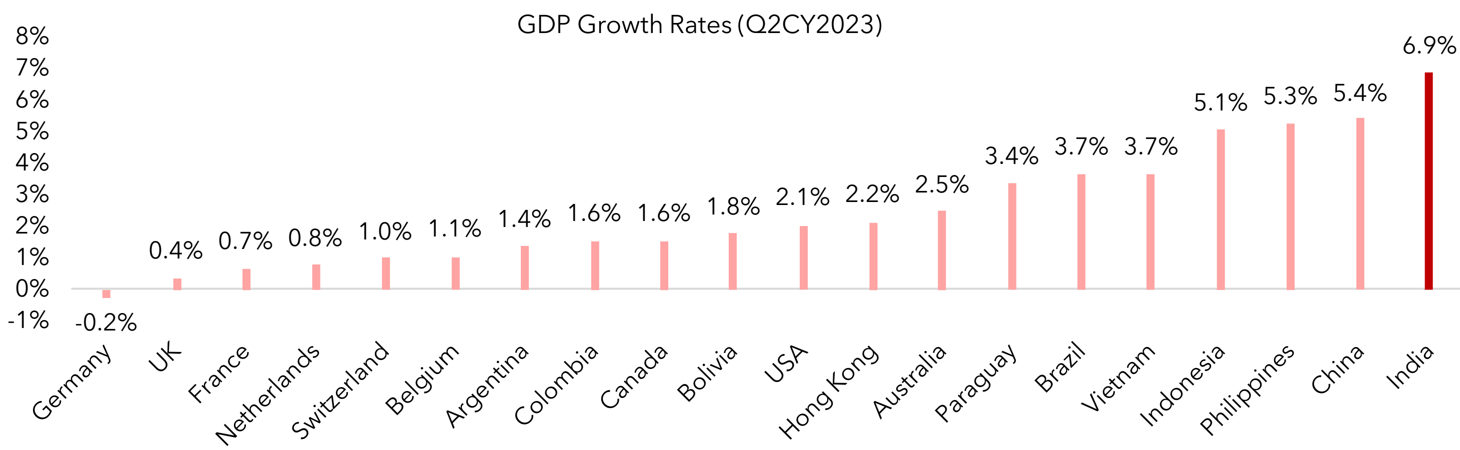
UNIFI CAPITAL

REVIEW : Q1-FY 2024

The Rhetoric of Slowdown vs. Reality of Expansion

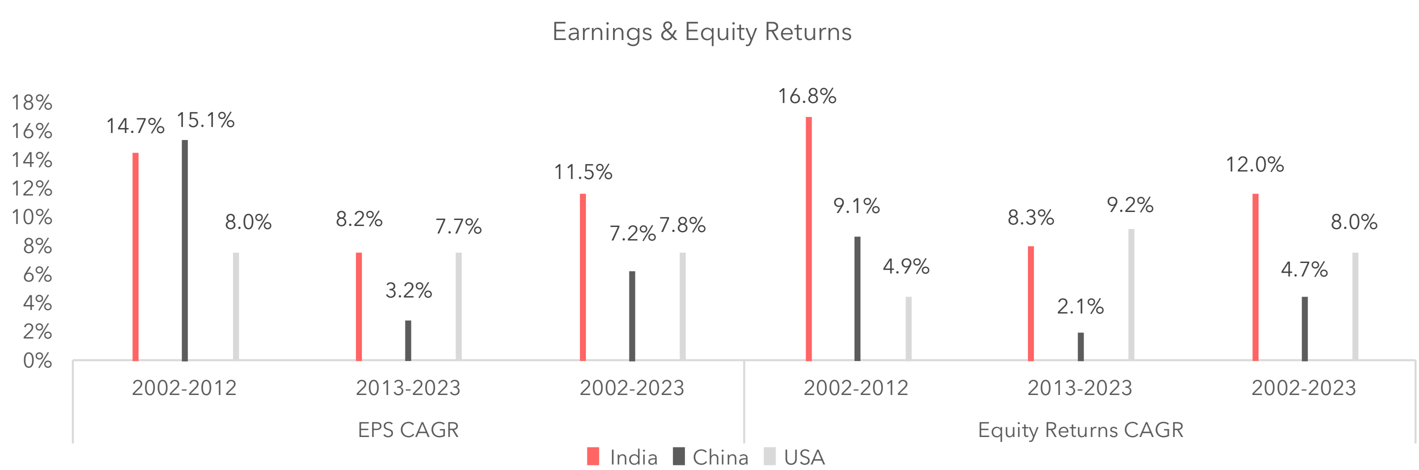
How exactly is the world faring? Headlines have an enduring palette for a certain economic condition. As we ushered in 2023, an imminent global recession/stagflation was a certainty, given the prevalent interest rate calendar, inflation, fiscal tightening, and geo-political sentiments. The reality of the ensuing economic landscape is however different. An unyielding pursuit of economic growth by policymakers, relentless advancement of technology, and progress in productivity have not only reshaped industries but fundamentally altered economic outcomes. At the heart of this pursuit is the acute recognition of the impact of economic growth on societal progress. The data, at scale, is a testament to this fact.

Currently, over 80% of the countries that publish quarterly GDP data [IMF] are reporting expansion of GDP. Contrary to the consensus expectations of a recession in 2023, the growth outlook for most regions during the year has been revised upwards. Among the major economies, [ex-Germany and Russia], all other regions are clocking growth. While GDP contraction is likely in some of the European countries and a slowdown in GDP growth is likely in the US between 2023 and 2024, the forecast by the IMF suggests that the vast majority of the countries would maintain positive growth momentum, in 2023 and 2024. While the delayed impact of aggressive monetary policy tightening can slow down the global economy, this is likely to be compensated by continued accommodative fiscal policies. Moreover, a significant deterioration in growth prospects would also result in a pivot by the major central banks which would help prevent sustained low GDP growth. A cursory glance at real GDP growth (Q2 CY 2023) around the World is as follows.

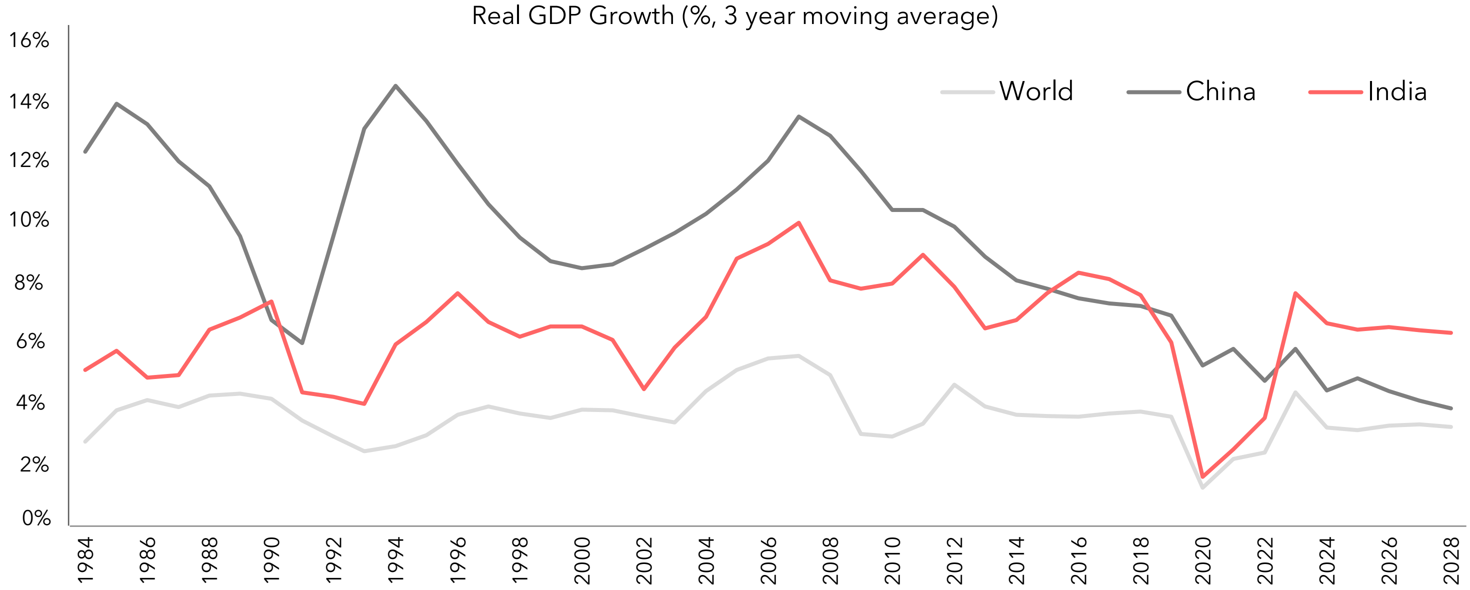


Source: Spark Research

While India is currently maintaining the highest growth rate among the systemically important economies of the world, as per the IMF, India is likely to retain this position in each year between 2023 and 2028. Despite the prevalent macroeconomic stress, India is pivoting to the structurally finest it has been in a decade. It's equity returns are the outcome. From here on, the arithmetic importance of India's contribution to global growth is apparent.



Source: Bloomberg, Motilal Research



Source: IMF, Spark Research

While the makings of high growth rates have been prevalent in India, today, the execution between builders of public policy, and private enterprise is of a genre resulting in outcomes not seen before. The strong resilience of domestic consumer demand, execution of government policies to promote investments, and diversification of the global supply chain into India, is aiding in the maintenance of this momentum in growth. While the outcomes are a function of several intricate factors, we shall evaluate a few moving parts.

Structure behind the numbers

In our previous note to you, we touched upon the various parameters of productivity that are driving India's economic progress. While rising corporate and household incomes are of a nature that is addressing India's generational shift in consumption, the broad contours of India's economic makeup are undergoing a shift. We evaluate a few factors here.

Current Account Deficit

Why a lower CAD pays off in the long term?

Before we get to India's evolving CAD scenario, let us refresh the theory. A persistently high CAD makes any country highly dependent on foreign capital flows. The characteristics of such flows are they disappear exactly when the nation needs it the most. This is particularly true of emerging economies. A high CAD is an indication of a nation's structural reliance on external resources, and unless addressed, restricts the ability of such an economy to increase economic multiplier effects. For instance, one of the key reasons for India to be able to grow at 8-9% during FY04-09 was that India had a current account surplus during FY01-03. Had India's current account been weaker, or negative, it would not have been possible to have maintained such rates of growth; or the after-effects could have been painful. In the same breath, even if a CAD-nation receives sufficient foreign capital flows and increases its forex reserves, it is very different from another country with lower capital flows but a current account surplus. In the former case, the rise in forex reserves is due to the accretion of liabilities, as foreign capital flows are an obligation to be repaid. India is conversing towards a more sustainable CAD regime today, lending credence to the sustainability of the growth to come.

Over the past many years, India has run a Current Account Deficit of -2%. Over the next few years, this is expected to neutralize and gradually turn positive. The various moving parts of India's CAD are as follows.

As a % of GDP	FY23	FY24E	FY25E	FY26E	FY27E	Comment
Net Imports Goods	-7.7%	-6.8%	-6.4%	-6.0%	-5.7%	
Oil Imports (Brent Crude @$95)	-3.3%	-3.1%	-3.0%	-2.8%	-2.7%	The decline in net oil imports is based on our assumption of mid-single digits in volume growth while prices are stable at $ 95/Barrel
Non-Oil Imports	-4.4%	-3.6%	-3.4%	-3.2%	-3.0%	
Coal	-1.6%	-1.2%	-1.1%	-1.0%	-1.0%	Coal prices have declined by ~25-30% compared to last year. We have not assumed any benefit led by a transition to green energy
Electronics	-2.0%	-2.0%	-1.9%	-1.9%	-1.8%	Assumed gradual moderation in net electronics imports as indigenous manufacturing under PLI scheme & China plus one gains some pace.
Gold	-1.1%	-1.0%	-1.0%	-1.0%	-1.0%	
Textile	0.7%	1.0%	1.0%	1.0%	1.0%	
Net Import Services & others	5.8%	5.4%	5.4%	5.3%	5.3%	
IT Exports	3.4%	3.3%	3.2%	3.2%	3.2%	Assumed gradual moderation from IT exports led by a near-term slowdown in the sector.
Remittances	3.0%	2.6%	2.6%	2.5%	2.4%	Assumed lower remittance on the assumption of Brent crude being stable and gradual transition towards an alternate source of fuel over the next few years
CAD	-2.0%	-1.4%	-0.9%	-0.6%	-0.4%	

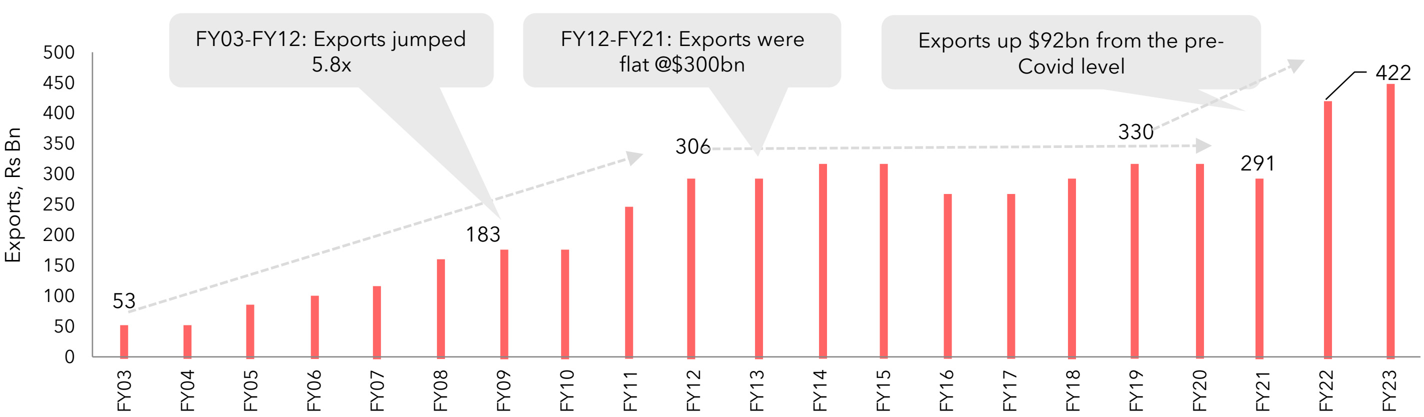
We expect India's CAD to decline gradually over the next few years and eventually turn positive somewhere around FY28-FY29. This is largely based on our assumption that Brent crude is stable at ~$95 / barrel. This shall lead to a ~40% decline in CAD by FY27. The benefit from lower oil & coal imports shall be pared off to some extent by relatively lower IT exports and lower remittances. As a result, India's ability to maintain its existing high rates of growth, and investment outcomes is likely to be more sustainable than ever.

Manufacturing Pivot

Moment of absolute growth

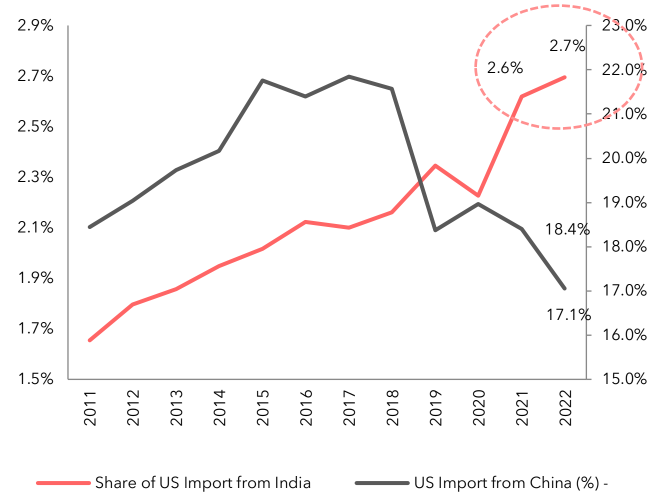
Much has been said about the resurgence of Manufacturing in India. This is important, as manufacturing as a % of India's GDP has declined from 17% of GVA a decade ago to 15% of GVA in FY23. One of the main reasons why manufacturing-led growth is preferable is because of its ability to generate large employment across the spectrum of the economy. India has historically delivered below par on its employment generation endeavours, due to its limited success with manufacturing. Over the past 3 years, there has been a concerted effort to deliver on this, and the numbers are showing up. Although India's share in global exports is still less than 2%, it must be noted that it is at an all-time high now and increased by 0.2% during the past three years to 1.82%. The shift of the supply chain away from China is abetting this trend and is expected to strengthen from here on.

As the data below indicates, there has been considerable progress in India's manufacturing economy.



Source: MOC, CMIE, Spark Research

Source: Spark Research

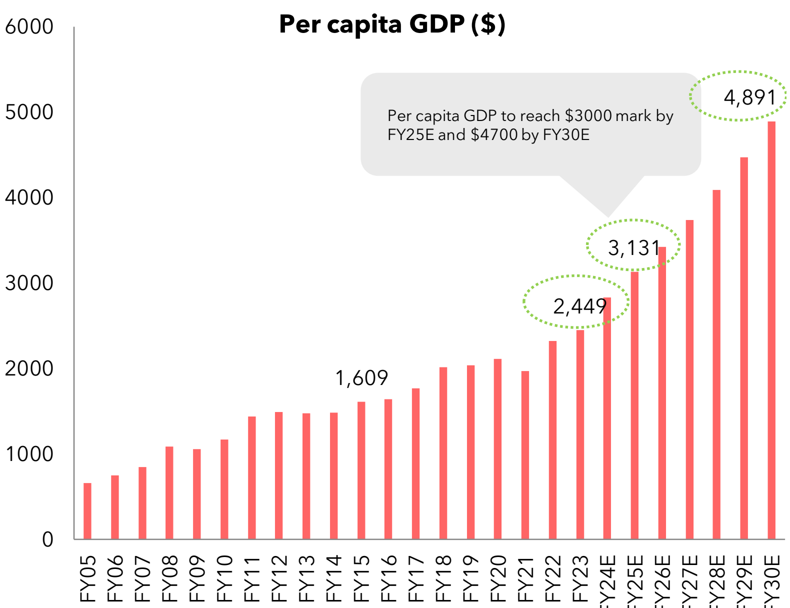


Source: Spark Research

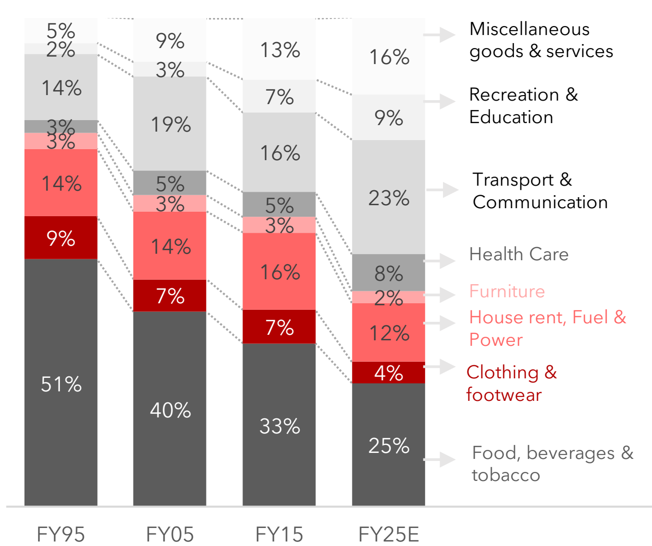
The $2,000 mark

Moment of Pivot in India's consumption

The starting point of conversations around India's potential is its 1.4 billion people and their many needs, and the consequent growth pivots on domestic consumption and investments. India has crossed the $2,000 per capita income mark – which has been an inflection point for the non-linear jump in discretionary spending in other countries. It is at this juncture that discretionary spending rise as increase in income levels drive a shift in household spending away from necessities to premiumization and discretionary spending. As India's real wages grow in mid-single digits from here on, disposable incomes will grow at a much higher rate. Importantly, this is well supported by the stock of India's demography. By 2030, India's working-age population is expected to be 1.04 billion with a dependency ratio to be the lowest in its history at 31.2%, contributing just under a quarter of the incremental global workforce. The working-age population bulge is expected to last till 2055. The "Asian Miracle" was built on harnessing this trend: Japan entered this sweet spot in 1964, South Korea in 1967 and China in 1994. What this can do to India's consumption is exciting.

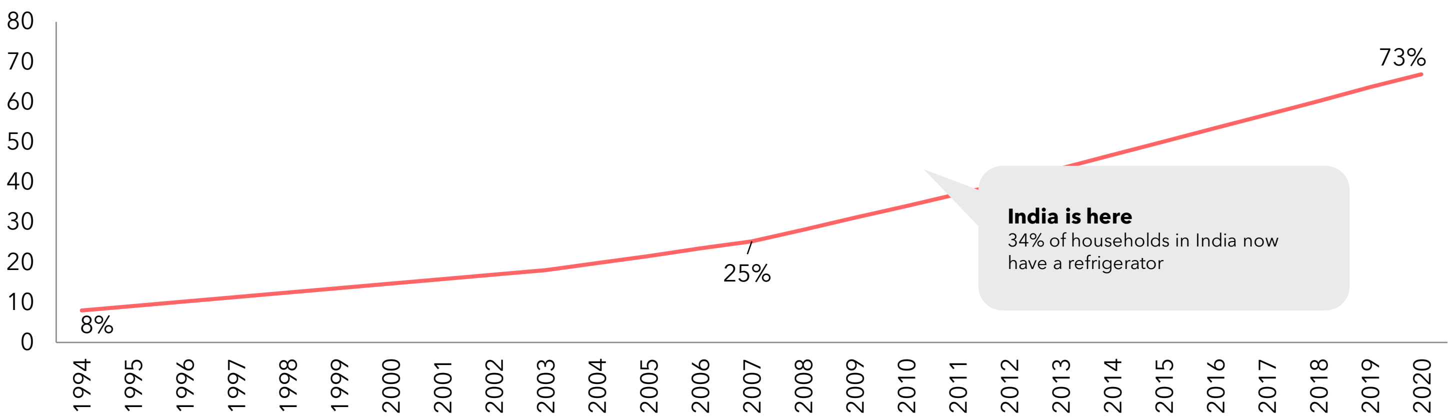


Source: GOI, Spark Research



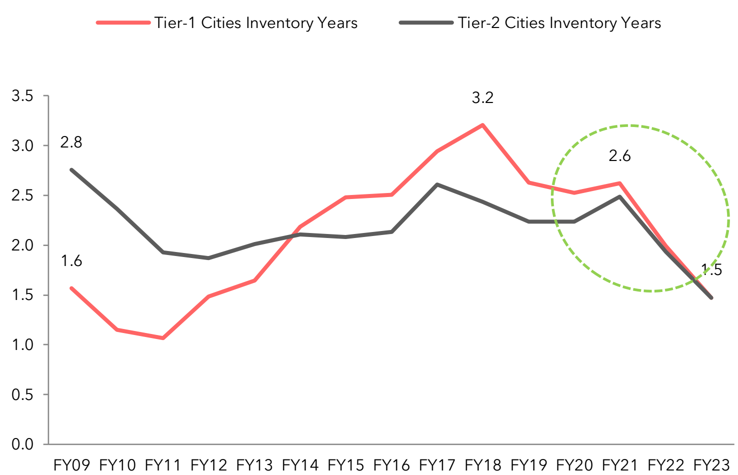
Source: CSO, Spark Research

Indonesia: % of household with a Refrigerator

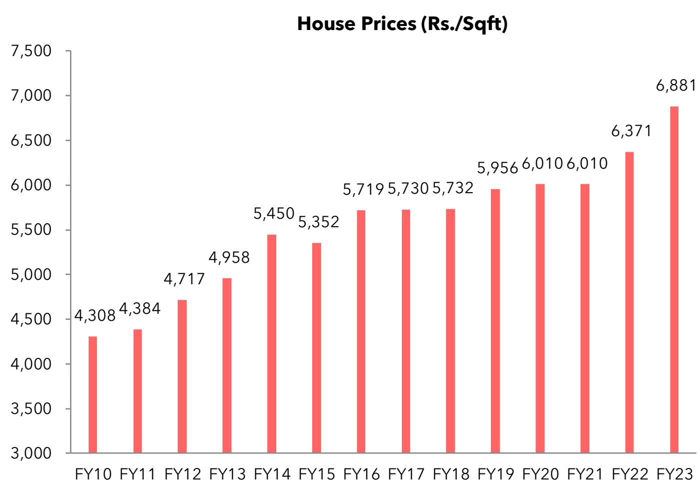


Source: World Bank, Spark Research

We use trends in India's housing sector as a proxy for the strength of India's consumption. Over the last year, India's unsold housing inventory has been declining sharply in both tier 1/tier 2 cities while property prices have increased after remaining stagnant for the last 8 years



Source: Spark Research

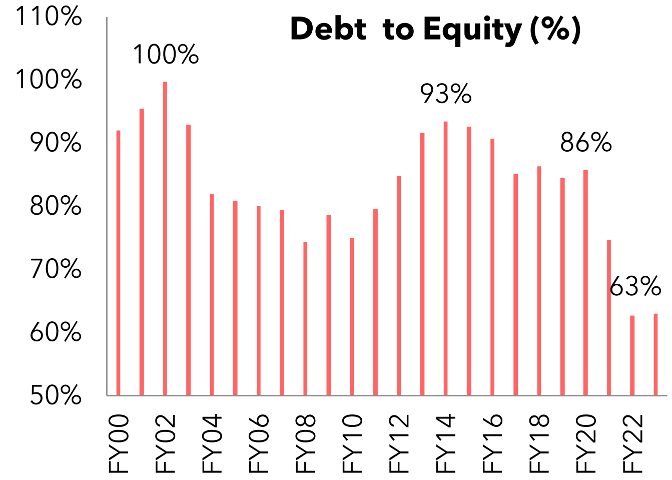


Source: Spark Research

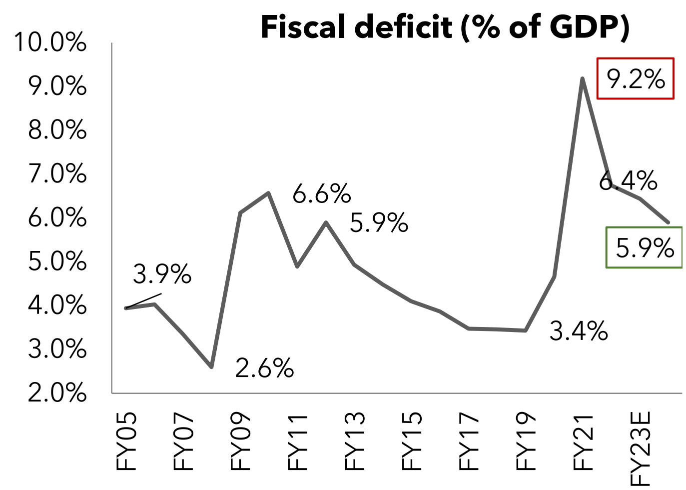
A new Investment cycle

India's Corporate, Government, Household & Banks balance sheets at a position of strength, kickstarting a new economic cycle.

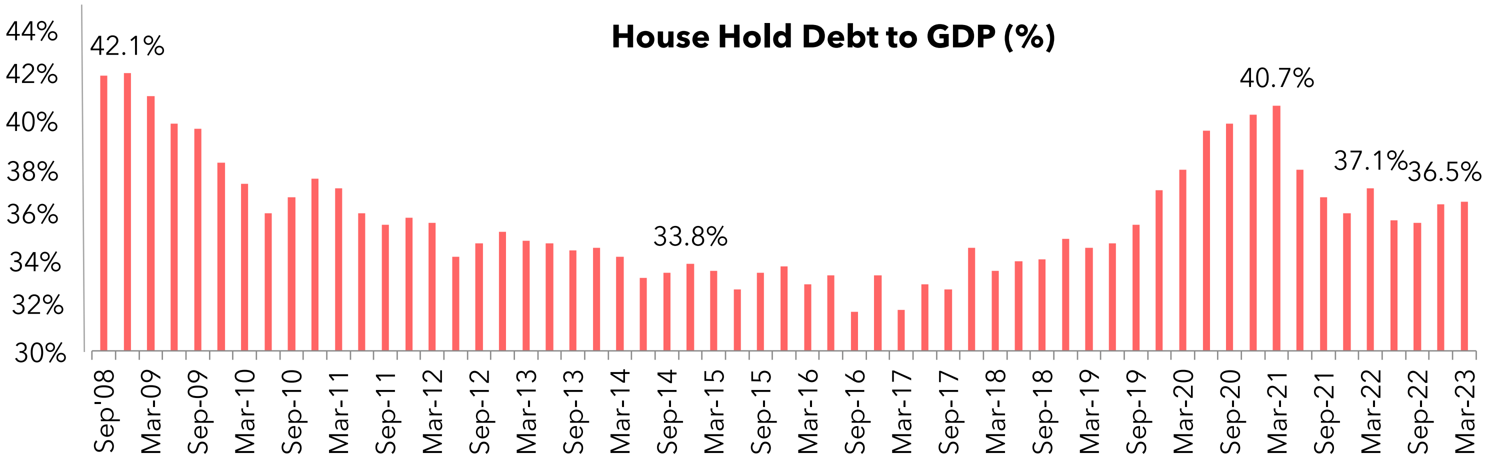
India's Balance Sheet is showing all the characteristics of kickstarting a new economic cycle as Corporate, Government, Household, and Banks balance sheet points to a comfortable position. While corporate debt to equity has fallen from 93% in FY14 to 63% in FY23, Fiscal Deficit as % of GDP ballooned during Covid-19 to 9.2% moderate to 5.9% in FY24BE. Household Debt to GDP has moderated to 36.4% in Dec'22 from 40.7% from a year ago. In the same breadth, post-COVID, India has witnessed a sharp rebound in credit demand led by strong consumption demand, government-guaranteed loans to MSMEs and higher working capital requirements by corporates, etc. This has led to decadal high loan growth of ~15%-16% in FY23. Credit growth during FY23 was broad-based, led by higher growth from Retail, Services, and Agriculture segments. Early trends of FY24 are indicating continued demand momentum which shall aid in sustaining higher loan growth in FY24 as well.



Source: CMIE, Spark Research



Source: GOI, Spark Research



Source: Spark Research

Banking Reforms

- **Asset Quality Review by the Central Bank (2015)**
- **The Insolvency and Bankruptcy Code (2016)**
- **Recapitalization of government owned banks**

	FY14	FY16	FY18	FY22	FY23
GNPA (Rs Tn)	2.3	5.6	9.7	7.0	5.4
GNPA %	3.8%	7.5%	11.2%	5.9%	3.9%
Total Banking System Advances (Rs Tn)	60	74	87	119	138
Net NPA%	*2.1%*	*4.4%*	*6.0%*	*1.7%*	*1.0%*
Capital Adequacy Ratio (CAR %)	*13%*	*13%*	*14%*	*17%*	*17%*

Historically, and as seen in the previous decades, these are levels from which the credit sector progresses into a new cycle.

	Phase 1	Phase 2	Phase 3	Phase 4	Phase 5	Phase 6
	Downcycle	Cycle Bottom / Early Recovery	Midcycle	Late Cycle	Downcycle	Cycle Bottom / Early Recovery
	1998-2002	2003 - 2005	2006 - 2008	2009 - 2012	2013 - 2020	2021 - 2024
	▪ Lower commodity prices ▪ NPA cycle was bottoming out; Banking system had excess liquidity ▪ Real Estate slowdown; Uncertain global market outlook	▪ Early signs of commodity price increase ▪ Electricity Act- Opening-up of power sector ▪ Higher Govt. Spend	▪ Strong private participation in power, steel and cement ▪ Commodity prices on strong up-move globally, triggering capex ▪ Pickup in residential real estate	▪ Excess capacity starts building up post '08-'09 crisis ▪ Leveraged private players especially in power and steel sector ▪ Demand drops due to global slowdown and domestic policy paralysis	▪ Lower commodity prices ▪ Adverse real estate cycle with massive excess inventories ▪ Excess supply across sectors ▪ Balance sheet repair with gradual consolidation in market share with a few players	▪ Balance sheet strengthens across large companies ▪ Large assets under NCLT resolved ▪ Falling corporate NPA cycle ▪ Residential Realty, Govt spend and favorable global demand ▪ PLI incentives system might pre-empt/fast track potential capacity addition
Govt Capex CAGR (%)	4%	23%	8%	11%	12%	**Start of an upcycle led by:** ▪ Deleverage trend across sectors ▪ Demand-led Inflation should drive utilization and capex ▪ Rising trend of Environmental clearances granted; More brownfield capex to follow
GFCF CAGR (%)	9.0%	12.5%	21.5%	14.4%	8.5%	
Metal prices CAGR (%)	0%	24%	21%	5%	-4%	
WPI Inflation (%)	4.6%	5.5%	5.5%	8.1%	1.6%	
Cost of Debt (%)	10.5%	6.7%	9.3%	9.2%	8.1%	
Leverage (D/E)	Deleverage in 2002	Releveraging	Releveraging	Releveraging	Deleverage in 2021	
Slippages (%)	6.7%	3.6%	1.8%	2.2%	6.0%	
Corporate Credit growth (%)	12%	23%	24%	22%	3%	
Liquidity/Excess SLR (%)	7.8%	16.3%	4.9%	4.7%	7.2%	
Capacity Utilization (%)	~80%	~85%	>90%	~75%	~70%	
Private sector in Public Infra	**Low**	**Low**	**High**	**Very High**	**Low**	
Residential Real Estate	Slowdown ⇩	Strong Growth ⇧	Moderate Growth ⇔	Strong Growth ⇧	Slowdown/Consolidation ⇩	
Global Outlook	Negative	Positive	Very Positive	Negative	Positive since Oct-20	

Note: *Government Capex is the Central & State Government spend CAGR during the specific periods, GFCF – Gross fixed capital formation; Metal price is USD price of Copper and Steel; WPI – Average inflation during that period; Cost of debt is 10 yr AAA corporate bond yield; Capacity Utilization is average utilization of steel, cement and aluminum capacity*

Source: RBI, Ministry of Commerce, Spark Research

In Summary

While India has much to do and execute, structurally, this is the finest India has been and this is showing up in India's resilient earnings. After a strong 23% earnings CAGR over FY20-23, Nifty is expected post 21.5% in earnings growth for FY 2024. This is in part a function of the early days of India's investment cycle, where a combination of strengthening services industry, green shoots in manufacturing, and productivity improvement are driving a recursive cycle of growth. Over time, this will culminate into better growth, and investment outcomes.

As the World's fastest-growing economy of scale, India is home to several high-growth companies. India's unique depth of formalization and consumption means many of the firms that are participating in this period of pivot, will command high growth valuations. The swift integration of digital tools, from payments to tax systems, is shifting India from a sprawling cash-based economy to an efficient modern one. This massive productivity shift is expected to be reflected in the value of India's top firms. This may lead to pockets of excess in valuations. However, we continue to be mindful of the same in constructing your portfolios. It's worth emphasizing that the current economic climate is intricate and ever-changing. As the market responds to ongoing news, we remain vigilant, ensuring we don't overpay for potential and knowing when to exit once our investment goals are met.

An outline of our investment strategies has been presented in the following sections, with a performance summary for Q1 FY24. Individual portfolios will vary in holdings and proportion based on the timing of your investment. Please do not hesitate to contact your relationship manager for a detailed review of your portfolios.

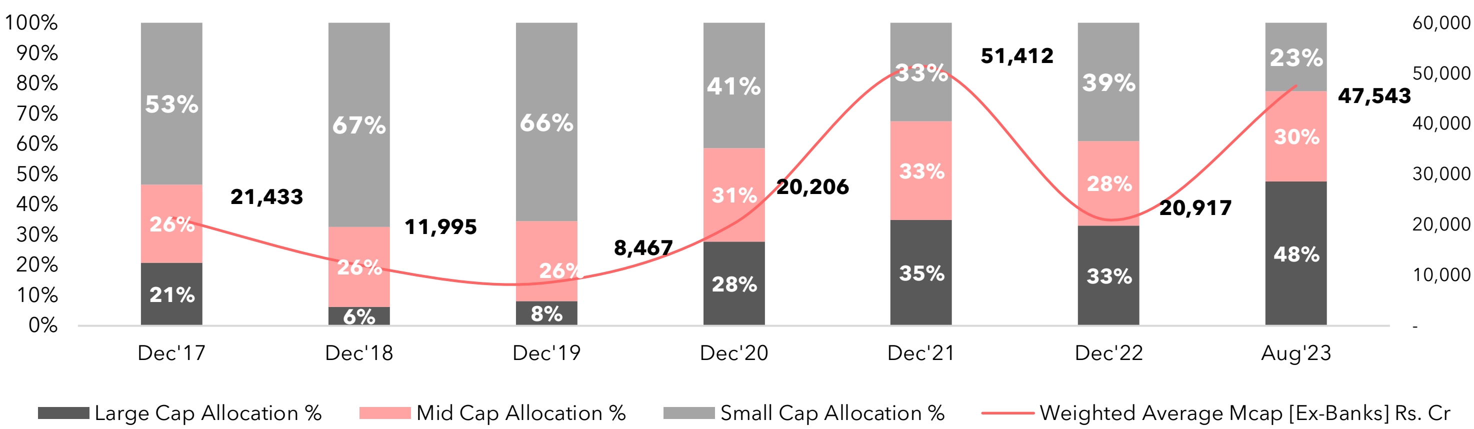
Revisiting our strategies

As we imagine your portfolios for the year ahead, we briefly revisit what each of our open strategies today stands for and how we are thinking about them.

Blend

Over the last 10 years, Unifi's adaptability in various capitalization classes and sectors has resulted in consistently top-quartile performance. The chart below captures in detail how Blend has navigated the past cycles and how it has impacted performance.

Market cap composition

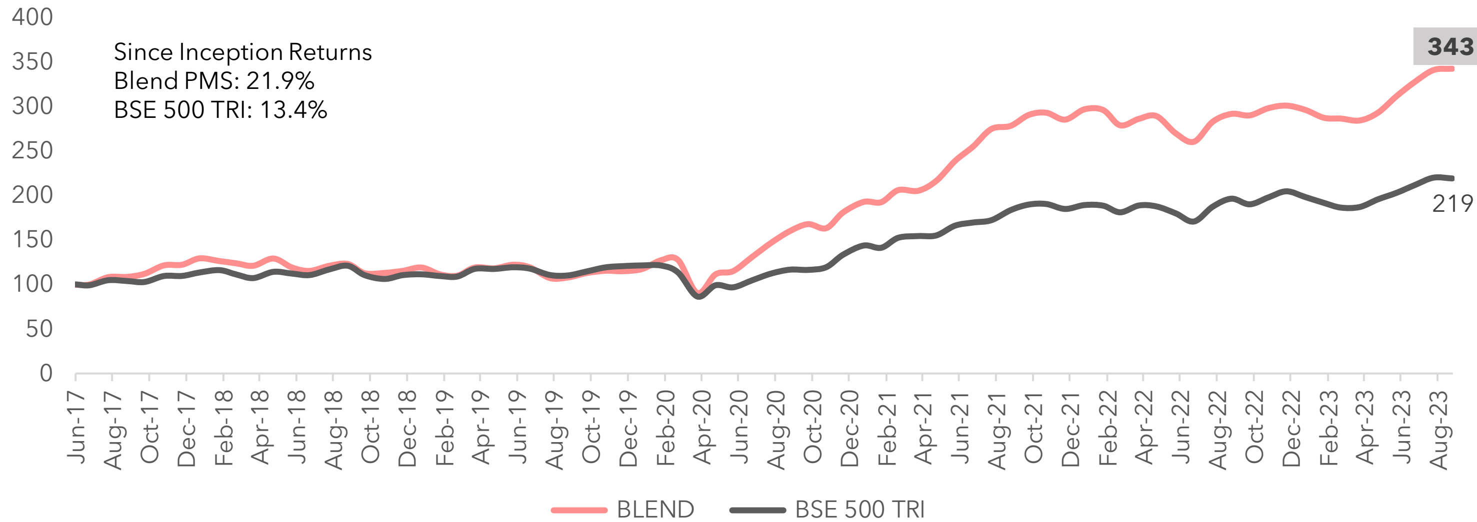


Sector composition

Dec'18		Dec'19		Dec '20	
Sector	Allocation	Sector	Allocation	Sector	Allocation
Chemicals	28.0%	Financials	27.0%	Pharmaceuticals	18.0%
Financials	20.0%	Chemicals	17.0%	IT/ITes	15.0%
IT/ITes	13.0%	Consumer	15.0%	Financials	12.0%
Technical Textiles	10.0%	Technical Textiles	10.0%	Fee-based Financials	10.0%
Automobile	7.0%	Pharmaceuticals	9.0%	Technical Textiles	9.0%
	78.0%		78.0%		64.0%

Dec'21		Dec'22		Aug'23	
Sector	Allocation	Sector	Allocation	Sector	Allocation
Financials	21.0%	Financials	27.0%	Financials	24.0%
IT/ITes	16.0%	Consumption	17.0%	IT/ITes	20.0%
Chemicals	10.0%	IT/ITes	13.0%	Consumption	12.0%
Fee-based Financials	9.0%	Chemicals	9.5%	Healthcare	7.0%
Digital Connectivity	8.0%	Healthcare	6.0%	Chemicals	5.0%
	64.0%		72.5%		68.0%

Returns

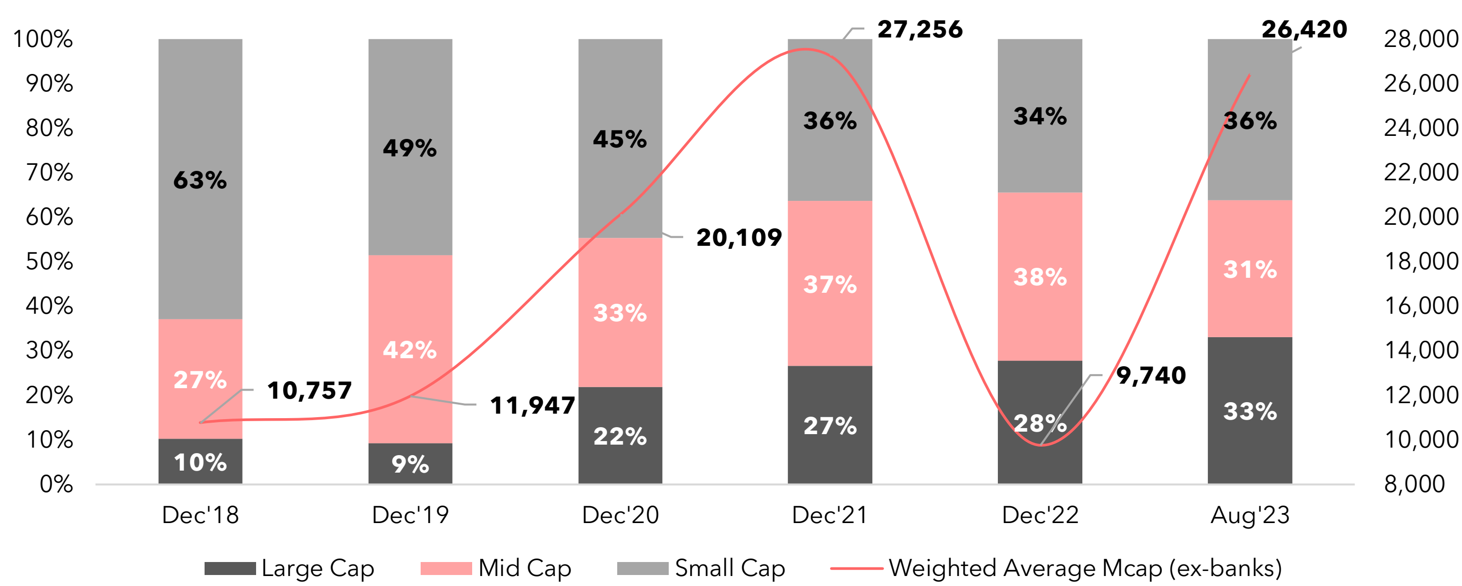


Unifi has over two decades of experience in thematic, sector-specific investments. The Blend strategy has managed conventional boundaries of capitalization by seamlessly aligning with opportunities experiencing a breakout moment in earnings, strengthening its businesses across the markets. The lack of a model portfolio approach ensures the ability to prospect and align with opportunities from all parts of the market.

BCAD

Investing in consumption / As Indian households experience income levels not seen before, experiences of other emergent nations suggest the increased consumption of newer products and experiences. The BCAD strategy seeks to participate in these trends. India's rapid pace of urbanization, rising disposable incomes, and the economy's growing appetite for premiumization have reflected well on earnings growth of consumption-focused firms. India's domestic consumers have been at the forefront of driving economic growth; to this extent, the strategy will concentrate on investments in companies at the forefront of India's strengthening consumption franchise, irrespective of the macrocycle.

Market Cap composition

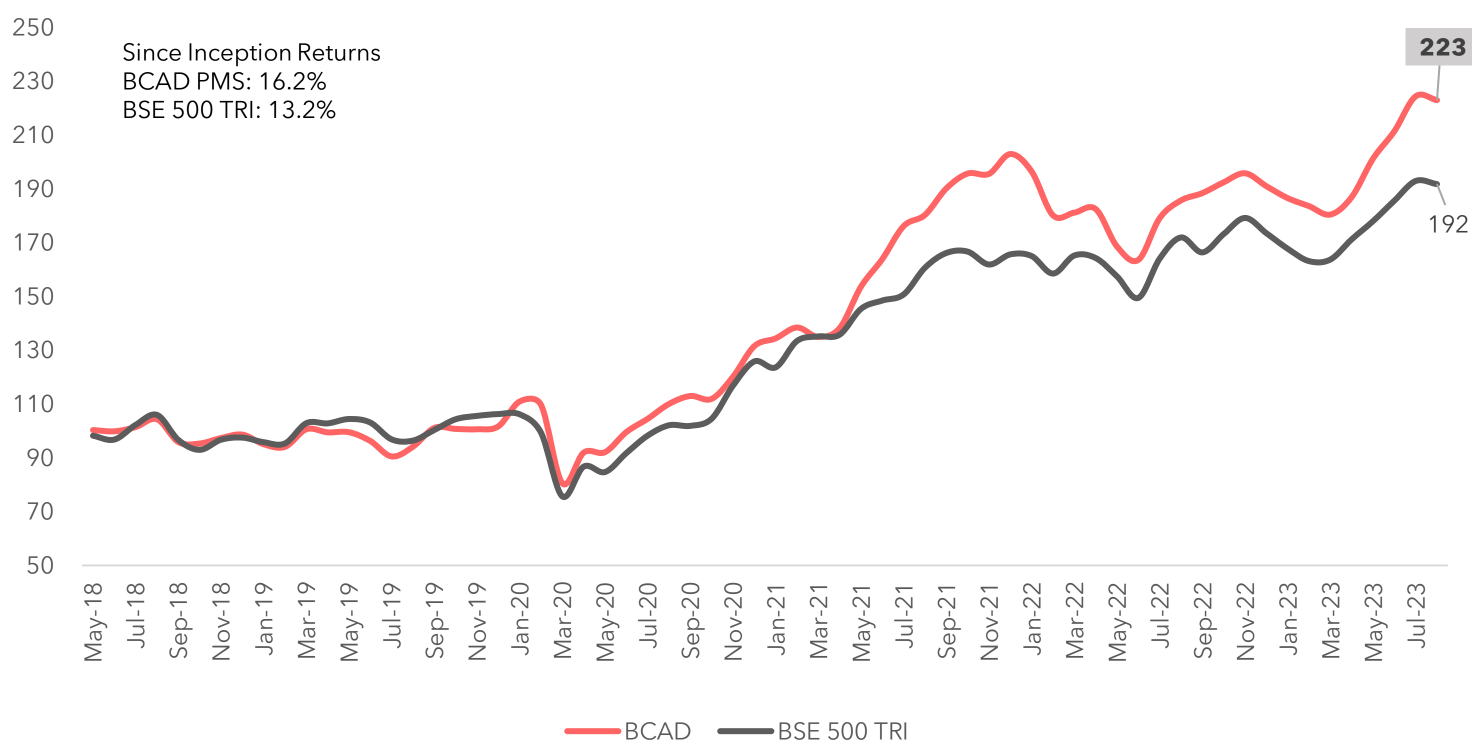


Sector composition

Dec'18		Dec'19		Dec '20	
Sector	Allocation	Sector	Allocation	Sector	Allocation
Consumer Durables	35.6%	Consumer Durables	42.0%	Consumer Durables	27.3%
Staples	13.2%	Staples	18.0%	Staples	12.2%
Logistics	5.3%	Financials	9.9%	Internet	10.0%
Financials	4.7%	Fee Based Financials	6.1%	Financials	9.0%
Internet	4.7%	Auto	5.9%	Fee Based Financials	8.0%
	63.5%		81.8%		66.5%

Dec'21		Dec'22		Aug'23	
Sector	Allocation	Sector	Allocation	Sector	Allocation
Financials	17.6%	Financials	26.9%	Financials	26.0%
IT	13.7%	Consumer Durables	12.6%	Consumer Discretionary	20.0%
Consumer Durables	13.1%	IT/ITES	10.5%	IT/ITES	14.0%
Fee Based Financials	9.5%	Fee Based Financials	7.8%	Healthcare	8.7%
Digital Connectivity	8.8%	Healthcare	7.6%	Fee Based Financials	8.0%
	62.6%		65.3%		76.7%

Returns



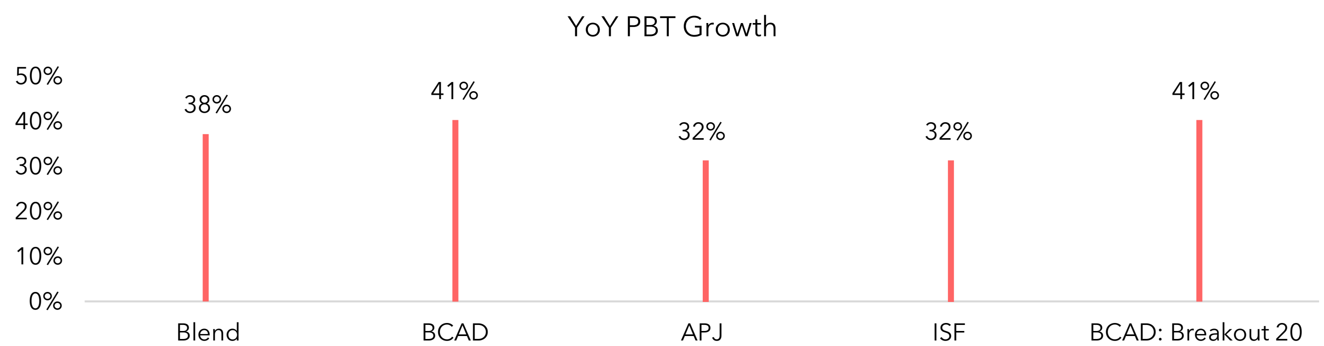
The intrinsic characteristic of BCAD is to offer an ideal combination of growth as well as relative defensiveness. Why is this important? Basis risk/reward gives all of Unifi's investors an ideal mix of options between the growth-focused flexi-cap strategy [Blend] and a relatively defensive yet growth-focused option in BCAD. The importance of having an optimal combination of two very different approaches to growth investing was tested twelve months into the launch of BCAD, with the onset of Covid. The ability of BCAD to preserve capital and yet participate in growth was demonstrated in its entirety.

Financial Year	BCAD	BSE 500 TRI	Delta
FY 2019	1%	4%	-4%
FY 2020	-20%	-27%	7%
FY 2021	67%	77%	-10%
FY 2022	34%	21%	13%
FY 2023	0%	-2%	2%
FY 2024	27%	19%	8%
Since Inception, Absolute Return	123%	92%	31%

Consumer-facing companies often exhibit relatively lower volatility in earnings and valuations due to several vital factors inherent to their business models. A combination of steady demand for consumables and the non-cyclical nature of demand will typically shield firms from volatility in earnings and valuations. Over the years, national and corporate prosperity has translated into incomes for Indian households. And this has reflected well on consumption, the fulcrum of India's economy. Given the capital efficiency with which this growth has been delivered, India's equity markets have broadly mirrored the pace of earnings growth. In the years to come, on a large base, the direction of growth is expected to be e amount of capital India will absorb will be among the highest anywhere in the World, creating among the World's biggest profit pools.

Review, Q1 FY-2024

The absolute reading of the numbers suggests strength in the franchise of the leaders. The earnings salience of our portfolio companies is broadly on expected lines, along with their initiatives in seed leadership for the times to come. Our portfolios continue to build concentration in seeking such leadership.



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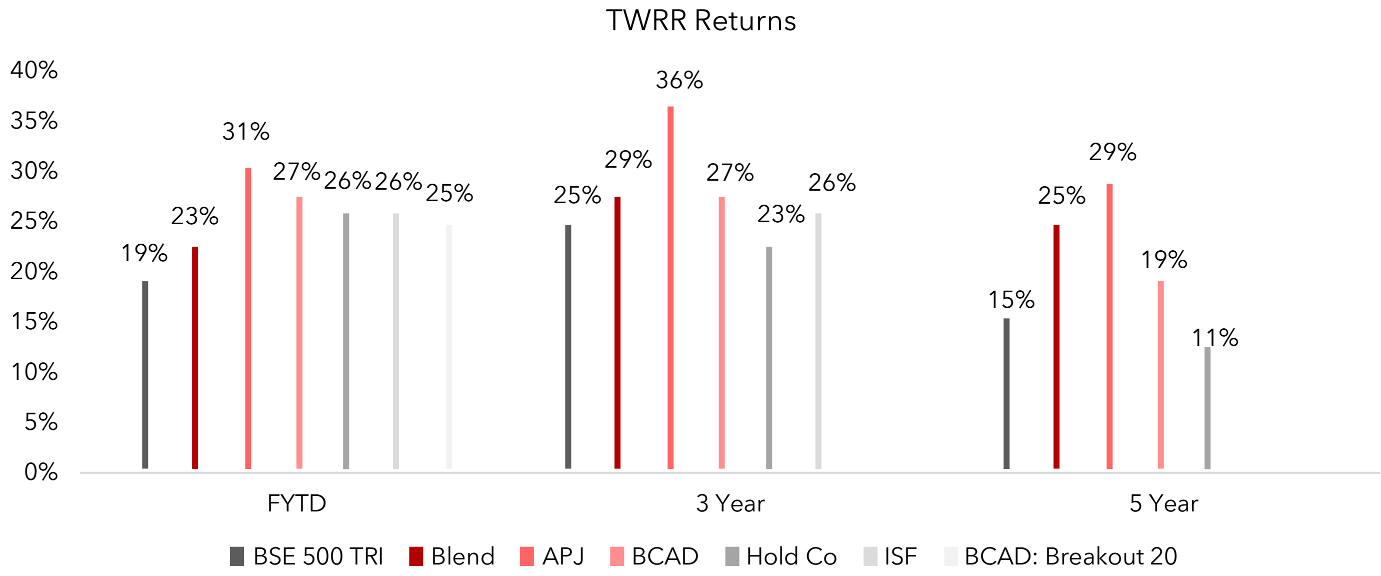

**Returns as of 25th Sept 2023*
ISF tenure is <5years.
BCAD breakout tenure <3years

Blend

The Blend fund strategy continues to cherry-pick ideas from across the six distinct themes managed by Unifi, thereby investing in "the best of our best" and participating in opportunities across the breadth of the market. The ideas represent emergent themes, corporate actions, and fundamentally attractive bottom-up opportunities. We continue to focus on delivering superior risk-adjusted returns from an absolute perspective.

As on Sept 25th, 2023	FY 24E
Wt. Avg PE	20.5x
Wt. Avg PB	4.5x
Wt. Avg ROE	22.0%
Wt. Avg Mcap	Rs.135,640cr

BC AD

The fund continues to invest in sectors that are currently witnessing a shift in market share from the unorganized to organized players. The market leaders with strong and debt-free balance sheets, a majority of our investee companies, are likely to see an increase in their market share, as marginal players find it difficult to operate in the current environment.

As on Sept 25th, 2023	FY 24E
Wt. Avg PE	26.8x
Wt. Avg PB	4.8x
Wt. Avg ROE	22.8%
Wt. Avg Mcap	Rs.88,580cr

BCAD 2 Breakout 20

The BCAD 2 Breakout 20 strategy seeks to invest in sectors that are witnessing structurally high growth rates driven by demographic led consumption and larger stream of disposable incomes. The fund continues to focus on large operators with competitive advantage at scale, consolidating position in their respective categories.

As on Sept 25th, 2023	FY 24E
Wt. Avg PE	22.5x
Wt. Avg PB	4.2x
Wt. Avg ROE	19.3%
Wt. Avg Mcap	Rs.91,180cr

APJ

The fund seeks to deliver absolute returns over a five-year horizon through investments in sectors that will benefit from the next stage of India's growth on the back of improvement in India's infrastructure, and policy climate. The APJ fund continues to focus on firms delivering manufacturing excellence broadly across technology, chemicals, pharmaceuticals, materials, and infrastructure in general.

As on Sept 25th, 2023	FY 24E
Wt. Avg PE	24.1x
Wt. Avg PB	3.2x
Wt. Avg ROE	16.0%
Wt. Avg Mcap	Rs.72,946cr

ISF

The Insider Shadow Fund invests in fundamentally sound companies where there has been an increase in promoter holding. Typically, such an action by the controlling shareholder demonstrates their conviction that the company's growth prospects or inherent value is not captured in the stock price at that moment. Unifi's proposition is to gain from the eventual balancing of the value-price mismatch in the market by identifying and investing in such companies after a detailed review of their fundamentals and corporate governance standards.

As on Sept 25th, 2023	FY 24E
Wt. Avg PE	20.4x
Wt. Avg PB	2.3x
Wt. Avg ROE	18.0%
Wt. Avg Mcap	Rs.106,184cr

Risk

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	Mitigants
Coronavirus Impact	The impact of the ongoing Coronavirus outbreak in India and the rest of the World can be multifold. The lockdown-related slowdown in consumption can affect several sectors. Our investee companies have product & category leadership along the financial wherewithal to withstand temporary phases of demand slowdown and lead consolidation of demand. The BFSI sector could have heightened stressed assets for a certain period of time thereby impacting their profitability.
Geopolitical risks	Geopolitical tensions globally can disrupt the supply chain in the region. This might have a non-linear impact on business.
Raw material inflation	India continues to be dependent on the supply of feedstock whose pricing is global in nature. Key categories would be crude, metals, minerals, and natural commodities. Sharp movement in their underlying prices will have a short-term financial impact on the companies. The situation in China [political] has the potential to disrupt the supply chain of a few of our investee companies.
Liquidity risk (in case of NBFCs)	The NBFC led liquidity crisis in India has had a systemic effect on the entire economy. Our investee companies have been able to tap diversified sources of liquidity on the back of their long-term track record of comfortable asset quality and asset-liability management (ALM). However, sustained deterioration of the asset quality can continue to affect our holdings in Banks and NBFCs.
Foreign Exchange risk	The foreign exchange system continues to be guided by global developments. Our investee companies in the I.T. sector are subject to sharp movements in the USD and GBP. They mitigate the same via hedging, but there remains a portion of revenues that continue to be subject to the vagaries in fx movements. Most of our non-IT exposure is to companies that derive their revenues from the domestic market. The revenue from exports would be minimal for each strategy as a whole, and where relevant, are adequately hedged. A sharp depreciation in the INR will affect the import of feedstock (higher prices) which can lead to a brief moment of earnings-related volatility.
Leverage risk	Except for financial companies, most of the operating companies in the strategies carry nil to moderate debt on their balance sheets with a track record of having managed leverage well in the past. Their leverage is monitored regularly.
Technology Obsolescence	Technological changes can render the products/services of a company obsolete and thereby hurt its profitability and valuation. Such a risk is generally minimized by limiting the aggregate exposure of portfolio to such investments to less than 10% of value.

Governance risk	We avoid investing in companies with a known history of corporate governance issues. If such an issue arises in an existing investment, we stop additional purchases and start optimally exiting the investment.
Concentration risk	At the portfolio level, such risks are minimized by limiting the aggregate exposure of portfolio to such investments to less than 10% of value at the time of investment.
Stock Illiquidity risk	High Impact cost, due to thin trading at the time of buying or selling is endemic to small & mid-caps. We plan our investment decisions, size of the investment and trading strategies to minimize the costs due to illiquidity.
Key Man Risk	Small and mid-caps are frequently managed by a key promoter / person on whom the business is completely reliant and without whom the business would be materially inferior. We generally avoid such names and in cases where we make any exceptions, the aggregate exposure of the portfolio to such investments is limited to less than 10% by value.
Slowdown in global consumption	The wallet share of the investee companies in the global manufacturing value chain does not pose a significant risk of loss of business to their vendors. New and high growth areas such as Lithium-Ion batteries and E.V. vehicles are in the relative infancy stage and have a strong growth curve ahead of them.
Softness in I.T. product spends	The convergence of digital software solutions is a 'must do' proposition and our investee companies have exhibited significant traction in competing in this space. A combination of their recent deal wins, and current bid pipelines bode well for their future.