UNIFI CAPITAL

Review | Q2 FY2026

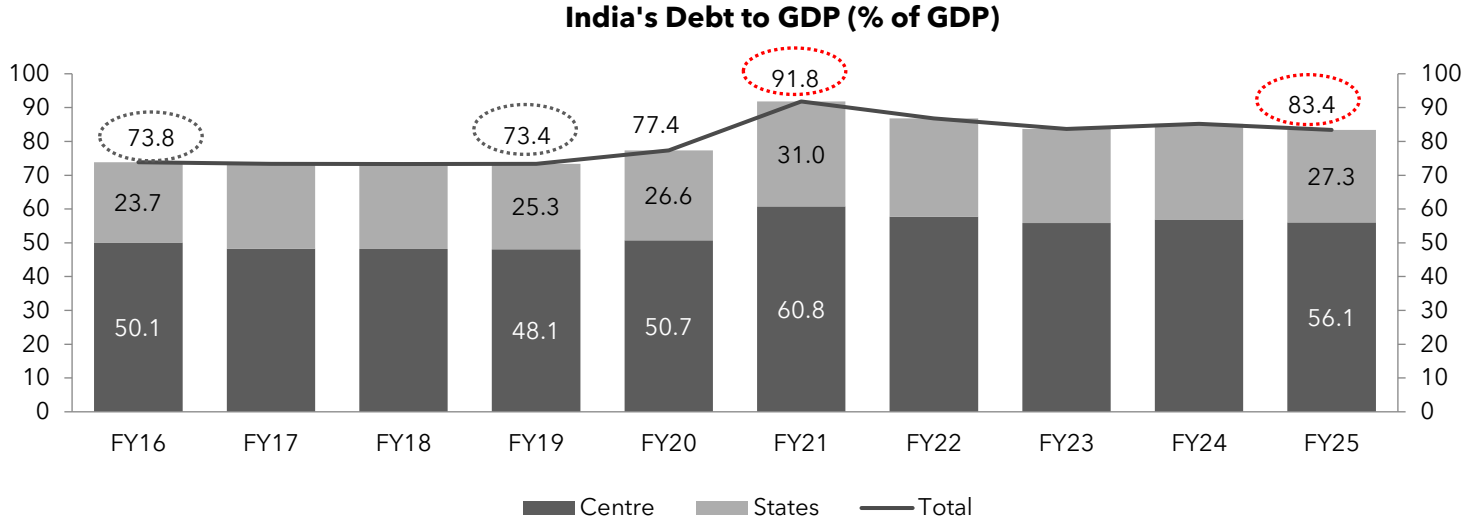
Acknowledging Context

The macro environment shapes the contours in which individual companies operate. It influences the opportunity set, the cost of capital, and the durability of earnings. It determines which pockets of the market offer genuine value, and where optimism runs ahead of fundamentals. In periods when macros shift meaningfully, it is essential as managers of risk to articulate the context.

As we step into the final quarters of FY26, India's macroeconomic backdrop has changed in ways that matter for portfolio construction, driving the context for growth and value. Portfolio composition is a response to the environment and an indication of why we are positioned the way we are, and how it aligns with both risk and opportunity in the current cycle.

India, State of the Economy

Limited Fiscal Room | Over the past few years, India's public debt [Central and State] has risen meaningfully. The Centre's debt-to-GDP ratio now sits above 56%, and State debt has followed a similar upward trajectory at 27%, bringing the combined public debt to 83.4% of GDP; or 10% above the pre-COVID levels [FY19]. While the numbers remain manageable, they close the option of significant discretionary fiscal expansion. The government cannot materially outspend its current trajectory without compromising on fiscal discipline. This constraint is essential because public expenditure has been a dominant driver of growth over the last decade.

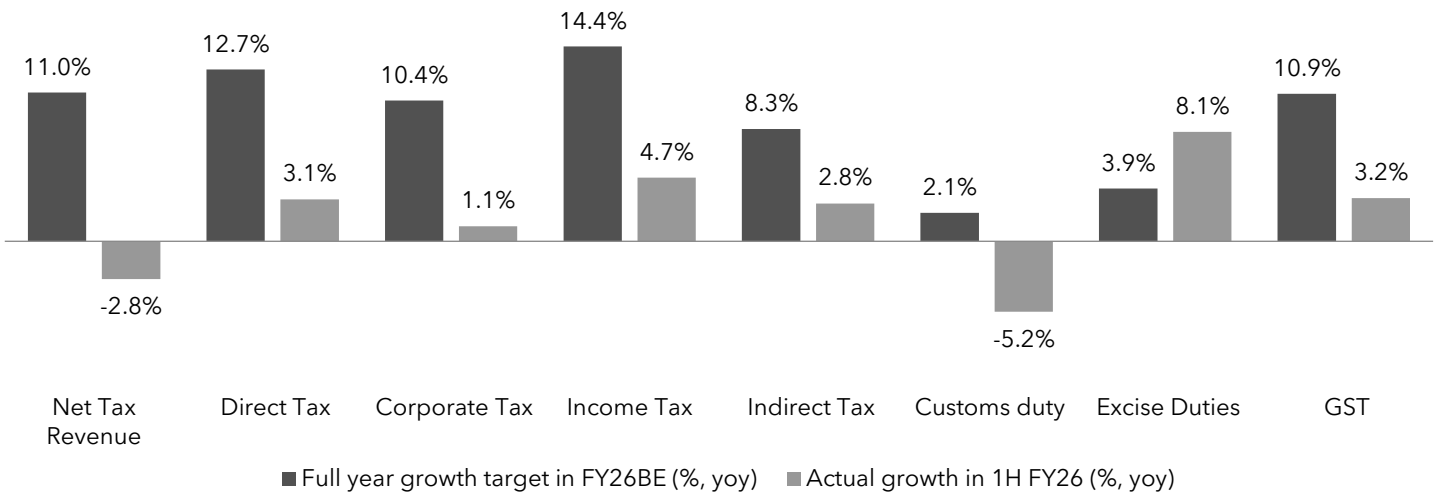


Over the past few years, much of India's growth impulse has come from the supply side: massive outlays on infrastructure, digital public goods, logistics corridors, energy transition, and manufacturing-linked incentives. Today, the budgeted share of public capex allocated to physical infrastructure (roads, railways, and metros) is set to decline to 50% in FY26 from an average of 54% between FY22-25, which could yield lower capex multipliers.

Tax Revenues Lose Steam | India's tax collections softened notably in the first half of FY26, reflecting a combination of weak corporate profitability, tepid consumption, and muted capital market activity. Direct tax revenues rose just 3.1% YoY, [Rs. 10.6tn], significantly below the 12.7% estimated in the Union Budget. Within this, personal income tax collections grew by 4.7%, while corporate tax collections grew by just 1%, dragging overall collections.

Indirect taxes also disappointed, moving just 2.8% YoY. Within this, GST collections grew 3.2%, while Excise duty grew 8%. Custom duties continued to struggle, declining 5%, underscoring ongoing supply-chain normalization.

Tax collections performace: Actuals vs. budgeted



This change in trend matters, as tax buoyancy is no longer at a level that can comfortably underwrite a wave of fresh government spending to stimulate demand.

External Stress | Compounding this dynamic is the external environment. Despite the 50% punitive tariffs imposed by the US, India has had limited room to diversify its export basket as the share of exports to the US has risen from 18% in FY23–25 to 20.5% in FY26YTD. A policy relaxation on this front will be a welcome relief, notwithstanding the depreciation of the INR. As a result, and amid other factors, India's nominal GDP growth has slowed sharply to 8.8% in Q1 FY26, the weakest pace in more than a decade, barring Covid. In Q2 of FY26, India grew at a higher-than-expected 8.2%, the fastest pace in six quarters, largely on the grounds of GST and tariff-led front-loading.

Nominal GDP growth (%, yoy)



Without a structural return to 11–12% nominal GDP growth, a broad-based pickup in corporate earnings is a challenge. Lower nominal growth also keeps government revenues under strain, limiting the fiscal space for higher spending while staying on the consolidation path.

Monetary Easing | Amid these constraints, monetary policy remains an area of constructive optionality. With inflation trending in a tolerable band [<2% YTD], the space for incremental monetary easing remains open. A well-timed reduction in policy rates will help lower costs across the system and revive the credit cycle in a balanced manner, especially to the MSME sector, which can absorb incremental capital. India's banks enter this phase with healthier balance sheets, stronger capital adequacy, and improved underwriting discipline, positioning them to transmit easing more effectively than in earlier cycles.

With limited fiscal space and a maturing tax base, the supply-side lever that has carried this cycle cannot be extrapolated. The next phase of growth will have to emerge from the demand side - from the capacity of households to consume and enterprises to invest, rather than from the state's ability to build. It is here, in the delicate interplay between private-sector confidence and household purchasing power, that the trajectory of India's expansion will now be determined.

Q2 FY 2026 Earnings Update

2H Recovery Setup

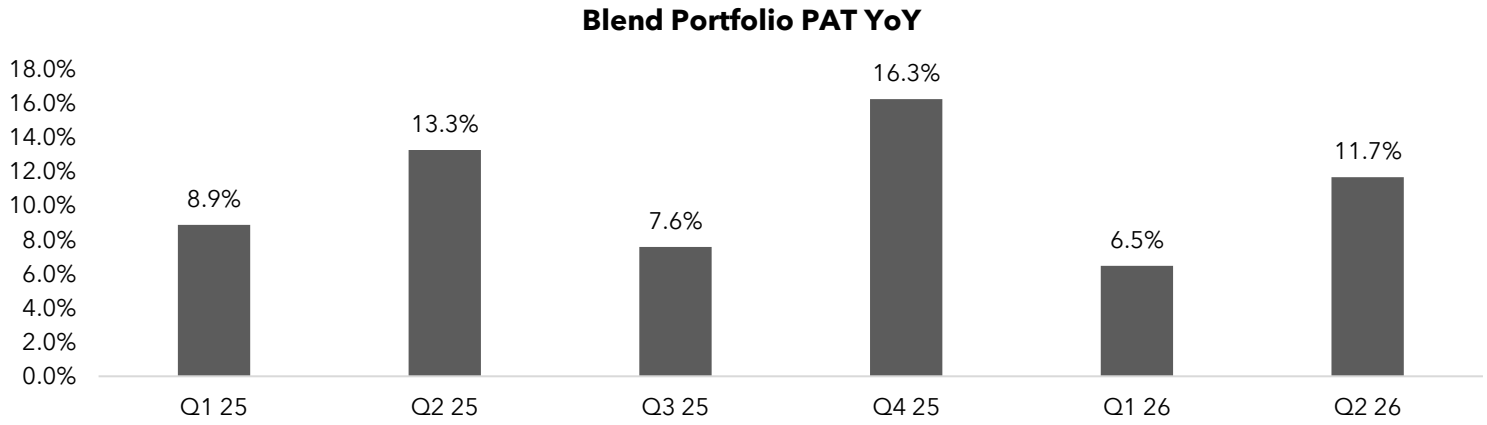
Q2FY26 results were steady but unspectacular, with headline numbers held back by a softer nominal growth environment. Nifty companies reported c.6% revenue and operating profit growth, but aggregate earnings were broadly flat for the quarter, reflecting both a strong base last year and continued pressure in select sectors. For the half-year, Nifty earnings grew 4% while the broader BSE-500 delivered healthier double-digit growth, though earnings upgrades remain rare and consensus estimates for FY26 and FY27 have inched lower. Valuations across large, mid, and small-caps remain above their 5-year averages, suggesting the market is waiting for clearer earnings momentum before rewarding the broader basket.

NSE500	Adj PAT Cr		
Sector	**Q2 25**	**Q2 26**	**YoY %**
Automobiles	20,327	17,144	-15.7%
Banks-Private	51,338	50,023	-2.6%
Banks-PSU	47,655	48,865	2.5%
Capital Goods	11,215	14,582	30.0%
Consumer	15,596	16,175	3.7%
EMS/ Durables	1,941	2,823	45.5%
Healthcare	3,656	4,816	31.7%
Technology	32,691	35,367	8.2%
Utilities	25,148	23,230	-7.6%
Pharma	12,178	13,611	11.8%

Across sectors, demand commentary was noticeably more positive than reported numbers. Banks and NBFCs continued to report stable asset quality, with disciplined growth, while rate-cut-led-NIM compression muted earnings. The festive season lifted sentiment in autos, jewellery, electronics, and select apparel, pointing to improving underlying consumption. EMS players continued to grow at high rates amid industry opportunities, while seasonal factors have muted domestic consumer electricals. The pharma segment is showing signs of recovery, driven by improved U.S. demand and a more stable pricing environment, while the domestic market remains resilient. The domestic healthcare space remains on a good footing, supported by incremental expansion and pricing. The chemical industry is undergoing a period of consolidation as it navigates an extended destocking phase, tariff-related pressures, and continued oversupply from China. The metals sector delivered strong performance, supported by firmer commodity prices, and improved sentiment driven by expectations around China's involution policy. IT services remained subdued amid global uncertainty. A significant observation was muted wage growth, especially in IT and financial services, constraining parts of urban discretionary demand.

Portfolio Update

Unifi's portfolio companies delivered a weighted average earnings growth of c.14.1% ex-financials and c.11.7% at a portfolio level for Q2 FY 2026, led by improved earnings momentum across many holdings.



Credit – Portfolio Composition of 17%

Credit Cycle Turning with Policy Support

After a mid-year lull, bank credit growth in India is showing early signs of reacceleration—rising from ~10.4% YoY in mid-September to 11.2% by October-end. This uptick has been spurred by festive-season demand and recent GST rate cuts, particularly benefiting retail and MSME credit momentum. RBI's pro-growth stance in delivering cumulative repo rate cuts of 100 bps in 2025, initiating active open market operations to inject liquidity, and announcing a phased 100 bps CRR cut (through November) to release ~₹2.5 trillion for bank lending has bettered the outlook for credit growth. With CPI inflation near record lows (~0.25% YoY in October), the RBI is well placed to accelerate credit transmission. We see this pro-growth policy stance as a supportive backdrop for credit offtake heading into 2026. This dictates our exposure to the sector.

Indian banks' net interest margins have already felt the pinch of the RBI's repo rate cuts earlier in 2025, and much of that impact is now behind us. Going forward, as deposit costs trend down, margins are expected to begin recovering around the third quarter of fiscal 2026. Another rate cut may delay this development, but it will be a medium to long-term positive. On the asset quality front, industry-wide metrics remain healthy. Aside from a few pockets (e.g., microfinance, small-ticket business loans) where stress lingers, most segments are stable, and the earlier spike in credit card/personal loan delinquencies is easing. Our portfolio's banks and NBFCs have minimal exposure to the vulnerable segments, and even in those limited cases, their underwriting has been conservative. We take comfort in the fact that the institutions we own are maintaining strong credit discipline, keeping incremental stress low.

On this backdrop, our positioning in the credit sector remains focused on quality that offers Growth at a Reasonable Price (GARP). We continue to hold one of India's largest public-sector banks, a franchise that has steadily gained market share without stretching its risk appetite. Over the past 4–5 years, this bank cleaned up its balance sheet and improved asset quality, emerging from the last credit cycle in far better shape. Today, it boasts conservative underwriting, a diversified loan book, and comfortable capital buffers, translating to low credit costs and a clear path to mid-teen RoEs. Yet, valuations remain reasonable considering the bank's improving fundamentals and healthy return ratios, offering a balanced risk-reward for long-term investors.

We also own two mid-sized south-based banks that have shown remarkable resilience in recent years. Both institutions underwent management and policy overhauls – revamping their credit policies, upgrading technology, and even refreshing HR practices to build a stronger risk culture. These efforts have paid off in robust asset quality through the cycle, with notably improved underwriting outcomes. Despite this progress, each still trades at a reasonable valuation relative to its improving return ratios, suggesting room for a re-rating as their turnaround stories continue to unfold.

In the private sector, we maintain exposure to a leading bank that we view as a long-term compounding story. This bank's relatively smaller market share (versus its private peers) gives it plenty of headroom to grow faster than the industry average. Importantly, it couples this growth opportunity with strong governance and disciplined credit quality across cycles. With a proven management team at the helm and a consistent track record, we see this franchise as a compelling re-rating candidate once the market fully appreciates its structural growth potential.

Hospitals & Healthcare – Portfolio Composition of 10%

Operating Leverage Meets Structural Demand

India's private healthcare sector continues to deliver robust performance, underpinned by sustained growth in Average Revenue Per Occupied Bed (ARPOB), rising patient throughput, and steadily expanding margins. What was once a 'theme' has now become a visible earnings driver: ARPOBs are trending higher across listed players, supported by richer specialty mix, higher inflows of international patients, adoption of robotic surgeries, day-care formats, and other high-value procedures.

We remain invested in a leading East–South hospital chain with deep presence in the affordable and mid-market segments. Its overseas assets have scaled up strongly, contributing meaningfully to profits, while execution in India continues to anchor growth. The company is building adjacencies that should add incremental growth engines over the medium term. The chain has pursued acquisitions to accelerate its scale-up in overseas markets, leveraging operational learnings from its existing Indian and overseas assets. Alongside, we hold exposure to a South-focused hospital that continues to execute well.

With improved visibility into free cash flow and a disciplined reinvestment strategy, our healthcare holdings are well-positioned to capture margin expansion and secular demand growth. This combination of operating leverage, structural tailwinds, and balance-sheet strength makes healthcare one of the most attractive long-term themes in the current market environment.

Product Distribution – Portfolio Composition of 9%

Consistent Growth

Globally, enterprise demand for computing is accelerating, driven by shorter product cycles and rapid innovation that both accelerate obsolescence and drive progress. At the same time, consumers are becoming increasingly connected, with rising adoption across segments such as retail, education, home, and business, as well as in cloud and SaaS solutions. A notable shift is also underway toward premium products and more frequent upgrade cycles.

Against this backdrop, we hold exposure to a leading global ICT distributor with a strong presence in India, strategically positioned to capture this expanding demand and deliver sustained growth. Our portfolio company reported healthy YoY revenue and earnings growth. The business had been facing headwinds in several preceding quarters due to one geography (Turkey), which has now been fully addressed by the sale of the unit causing the pain. The other geographies remain resilient, continuing to benefit from their leadership in IT distribution across India and the Middle East. Growth in cloud, cybersecurity, and enterprise solutions is broadening revenue streams beyond traditional hardware distribution, improving both margin visibility and cash flow. As the Turkish overhang dissipates, the market's focus should return to core earnings, making this a compelling position in our portfolio.

IT and Technology – Portfolio Composition of 12-14%

We have reduced our exposure to Indian IT services, following a reassessment of the sector's evolving headwinds. Demand conditions remain soft, with elongated decision cycles and subdued discretionary tech spending. Layered onto this is the deflationary effect of generative AI, which is reshaping delivery models away from traditional people-intensive structures and steadily eroding pricing power.

Against this backdrop, our approach has turned highly selective. We are choosing to back only those businesses that demonstrate three attributes:(1) a smaller revenue base that enables higher growth off a leaner scale, plus a sector leader that will benefit from the return of discretionary spends; (2) a robust, executable order pipeline offering clear visibility over the next 12–18 months, and (3) product leadership in specialized verticals that enjoy stronger structural growth.

In parallel, we have added exposure to a US-based healthcare services firm, a space marked by high-recurrence, non-discretionary spending and durable growth. This complements our selective stance in Indian IT by anchoring part of the portfolio in a structurally stronger, more resilient global services theme.

Agriculture – Portfolio Composition of 5%

Strong Season and Execution

The Indian agriculture sector is poised for a healthy Rabi season, aided by above-normal monsoon levels and comfortable reservoir positions. Structural tailwinds such as higher Minimum Support Prices and improving farm economics continue to underpin rural demand. Within this backdrop, our portfolio comprises two differentiated players that are deeply integrated across the agricultural value chain—one a leader in complex fertilizers and crop advisory solutions, and the other a global innovator in crop protection and bioscience technologies.

Execution-wise, both businesses are at different but encouraging stages of their strategic roadmap: the fertilizer-led company has gained market share in key southern and eastern states, supported by backward integration, efficient distribution, inorganic growth and an increasing focus on value-added products, while the crop protection company is in the midst of a recovery following operational initiatives undertaken last year. Together, they are well-positioned to capture growth driven by firm demand trends, rising input intensity, and supportive policies promoting sustainable agricultural solutions.

Asset Management - Portfolio Composition of 4-5%

Growing Participation

The Indian asset management industry continues to experience strong tailwinds, marked by expanding retail participation, SIP-driven inflows, and greater acceptance of equity ownership. Monthly SIP contributions now exceed ₹29,000 crore, underscoring the increasing breadth of participation. The rise of passive and hybrid strategies, alongside robust participation in mid- and small-cap funds, points to a market that is deepening and diversifying in earnest.

In this space, one of our holdings is an industry-leading AMC benefiting from strong fund performance and a recent uptick in SIP market share. Backed by an experienced leadership and investment team, it stands to gain disproportionately as investor flows accelerate. Our other AMC investment is a turnaround play – a credible franchise where improved fund performance could drive a rebound in net flows and overall equity AUM growth. We are already seeing early signs of stabilization here, and any sustained performance pickup should translate into better market share for this asset manager.

Automobiles – Portfolio Composition of 6%

A Singular Bet on Market Share Gains

Within the Indian automobile landscape, the positioning is deliberately selective, anchored around a single OEM that has demonstrated exceptional discipline in both volume expansion and value creation. At a time when most passenger-vehicle manufacturers are contending with heightened competitive intensity, margin compression, and an uneven trajectory of EV adoption, this OEM distinguishes itself through a resilient operating model and a strategically curated product pipeline.

The company continues to deliver growth ahead of the industry, supported by a series of successful launches across segments that have translated into sustained market-share gains in both ICE and emerging EV categories. Its approach to electrification remains pragmatic—balancing near-term profitability with long-term platform readiness—allowing it to capture incremental wallet share even as consumer adoption patterns evolve.

Further complementing the PV franchise is its entrenched presence in the farm-equipment sector. The ongoing agricultural upcycle has underpinned healthy tractor demand, and the OEM has leveraged this backdrop to deepen its leadership position through superior distribution strength, product reliability, and targeted incremental share gains. The tractor business, with its counter-cyclical characteristics and strong cash-flow profile, provides a stabilizing anchor within the broader portfolio.

Taken together, the company's diversified growth engines, disciplined capital allocation, and consistent operational execution position it as a structurally advantaged leader within the domestic automotive ecosystem—well placed to compound value across cycles.

Infrastructure – Portfolio Composition of 7%

Temporary pain

India's infrastructure sector [road and water] is seeing a measured recovery in sentiment and is amid a conventional cycle. Stress in payment cycles across certain sub-segments continues to weigh on execution momentum. This quarter, progress was further disrupted by unusually heavy rainfall in several key states. Despite a healthy order book, we remain cautious given the slower-than-expected execution ramp-up and the expanding balance-sheet footprint required to support ongoing projects. We are evaluating all available options with prudence.

Pharma, Specialty API – Portfolio Composition of 5-7%

Transitioning into growth phase

We have exposure to two mid-sized pharmaceutical companies, each anchored by a differentiated business model and distinct growth drivers. The first is an API manufacturer building a diversified portfolio of low-volume, high-value products, underpinned by rigorous compliance and full value-chain integration. Its capabilities span the entire product lifecycle, enabling deep customer engagement and sticky relationships. The company is now using its credibility in the generic API space to expand into CDMO services. With a change in ownership and a renewed focus on disciplined capital allocation, we believe it is entering a phase of stronger, more sustainable medium- to long-term growth.

engaged in the research, manufacturing, and marketing of OTC products, supported by globally compliant facilities in India, the UK, and the US (including approvals from the US FDA, UK MHRA, and Australia's TGA). After a modest setback in Q1, the company is poised to benefit from operating leverage, with margin expansion and growth visibility improving on the back of ongoing capacity additions and a healthy pipeline of new product launches.

Overall, Q2 paints a picture of an economy improving beneath the surface, even if earnings have yet to reflect the full benefit of this recovery. Taken together, there is no immediate trigger for a broad-based consumption upturn, barring the GST-related fillip. The supply side remains strong, the structural story remains intact, but the demand cycle will need an accelerator. Capex will continue, because it must, but at a slightly slower pace, and India is unlikely to see an immediate all-encompassing post-COVID demand-heavy cycle of the magnitude that would lift the entire market indiscriminately.

Expectations vs Delivery

The companies that performed well this calendar year were those that grappled with execution/earnings issues last year. Their recovery underscores how quickly fundamentals can turn when underlying business strength is intact.

Security	CYTD % Return
Healthcare Chain	53%
Product Distributor	44%
South-focused Bank	37%
Leading AMC	27%
Leading Fertilizer Co	22%
Leading PV, Tractor Co	22%
Leading PSU	19%

Security	CYTD % Return
Largest Tobacco Co	-9%
Niche API Co	-10%
Challenger AMC	-13%
Growing Pharma Co	-17%
Leading Cash Logistics Co	-28%
South-based Infra Co	-36%
Leading Tech Product Co	-36%

By extension, companies facing a difficult patch this year foresee a better outlook on the execution front starting Q3 and Q4 of FY 2026. As the headwinds begin to ease over the next few quarters, their asset prices will follow the trajectory.

Across our core holdings, the portfolio has mainly behaved as expected. The majority of our nine principal positions have delivered earnings in line with our forecasts, and their share prices will track the fundamental progress of the underlying businesses with reasonable fidelity. A few names on the smaller-cap side are working their way through short-term cyclicality, an entirely natural phase for companies of a particular scale. These periods of temporary dislocation seldom alter our investment case; rather, they are characteristic of franchises that are still compounding from a lower base. We expect the current gap between earnings expectations and market perception to narrow over the coming quarter or two, as the operating environment stabilizes and company-level initiatives begin to flow through. When that happens, these positions should contribute more visibly to portfolio performance, reaffirming the discipline of staying invested through transient noise and backing the longer arc of value creation.

The implications are straightforward | The long-term arc of formalization, digitization, supply-chain reordering, manufacturing competitiveness, the financialization of savings, and institutions consolidating demand remains firmly intact. FY 2025-26 is shaping up to be a period in which the economy consolidates the gains of the previous few years before entering a new demand cycle. In such a backdrop, risk calibration becomes central to portfolio construction. And this is central to Unifi's views on portfolio construction, where valuations are paired with visibility. India will continue to compound. But the immediate term is one in which discipline, not exuberance, will drive performance. As stewards of capital, our task is not merely to participate in the growth story, but to participate selectively, deliberately, and with a sharper appreciation of constraints. The narrative is not the least that India is slowing. It is that certain parts of the economy are maturing, and that markets will price that maturity with greater nuance.

A disciplined framework for investing with controlled risk Our investment philosophy continues to centre on rigorous bottom-up research, selective sector rotation, and tight valuation discipline–applied with an explicit focus on capital preservation. We do not adhere to a model-portfolio construct; allocations differ by mandate, but the underlying objective remains constant: to deliver meaningful absolute returns while containing drawdowns. The year ahead is likely to be characterised by alternating periods of clarity and uncertainty, driven by earnings divergence, regulatory developments, and shifting global macro signals. In such an environment, preserving resilience across portfolios becomes as important as identifying winners. Accordingly, we prioritise businesses with strong balance sheets, predictable cash-flow pathways, and entry valuations that embed an adequate cushion for unforeseen risks.

This framework enables us to participate in upcycles without stretching for momentum, and to maintain composure during bouts of volatility. The emphasis is on building a return profile that is not dependent on benchmark movements but is anchored in durable, repeatable compounding–where risk is consciously managed, and the quality of outcomes is as important as their magnitude.

The following sections outline our investment strategies and provide a performance summary for Q2 FY26. Individual portfolios will vary in holdings and proportions based on the timing of your investments. Please do not hesitate to contact your relationship manager for a detailed review of your portfolios.

Review of Strategies

We have outlined each of our investment strategies in the following sections, along with a summary of how the fundamentals of our key holdings have performed in Q2 FY26. Tail positions that are on their way out of the portfolios have not been discussed. Individual portfolios will vary in holdings and proportion based on the timing of your investment with Unifi. For a detailed review of your portfolios, please do not hesitate to contact your relationship manager.

Blend

The Blend strategy continues to cherry-pick ideas from across the four 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 a mix of emergent themes, corporate actions, and fundamentally attractive bottom-up opportunities. We continue to focus on delivering superior risk-adjusted returns from an absolute perspective.

Nov, 2025	FY 27e
Wt. Avg PE	20.1x
Wt. Avg PB	4.4x
Wt. Avg ROE	20.7%
Wt. Avg Mcap, Rs Cr,	Rs.129,782cr

BC AD

The strategy continues to invest in sectors that are currently witnessing a shift in market share from the unorganized to organized players. As India's economy rapidly grows in scale and sophistication, several sectors are poised to undergo significant changes over the next decade. Most of our invested companies are likely to experience an increase in their market share, as marginal players find it difficult to operate in the new environment

Nov, 2025	FY 27e
Wt. Avg PE	20.1x
Wt. Avg PB	4.6x
Wt. Avg ROE	21.1%
Wt. Avg Mcap	Rs.124,303cr

BCAD2: 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.

Nov, 2025	FY 27e
Wt. Avg PE	20.0x
Wt. Avg PB	3.9x
Wt. Avg ROE	21.4%
Wt. Avg Mcap	Rs. 117,154cr

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, pharmaceuticals, materials, and infrastructure in general

Nov, 2025	FY 27e
Wt. Avg PE	17.1x
Wt. Avg PB	2.4x
Wt. Avg ROE	19.5%
Wt. Avg Mcap	Rs.94,535 cr

ISS

The Insider Shadow Strategy invests in fundamentally sound companies where there has been an increase in the 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

Nov, 2025	FY 27e
Wt. Avg PE	15.8x
Wt. Avg PB	2.9x
Wt. Avg ROE	17.2%
Wt. Avg Mcap	Rs.109,097Cr

Risk

Risk	Mitigants
Geo-political risks	Any geo political tensions between India and neighboring countries can disrupt supply chain in the region. This might have a non-linear impact on business.
Raw material inflation	India continues to be dependent on the supply of feedstock whose pricing is global in nature. Key categories would be crude, metals, minerals, and natural commodities. Sharp movement in their underlying prices will have a short-term financial impact on the companies. The situation in China [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 IT sector are subject to sharp movements in the USD and GBP. They mitigate the same via hedging, but there remains a portion of revenues that continue to be subject to the vagaries in fx movements. Most of our non-IT exposure is to companies that derive their revenues from the domestic market. The revenue from exports would be minimal for each strategy as a whole, and where relevant, are adequately hedged. A sharp depreciation in the INR will affect the import of feedstock (higher prices) which can lead to a brief moment of earnings-related volatility.
Leverage risk	Except for financial companies, most of the operating companies in the strategies carry nil to moderate debt on their balance sheets with a track record of having managed leverage well in the past. Their leverage is monitored regularly.
Technology Obsolescence	Technological changes can render the products/services of a company obsolete and thereby hurt its profitability and valuation. Such a risk is generally minimized by limiting the aggregate exposure of portfolio to such investments to less than 10% of value.
Governance risk	We avoid investing in companies with a known history of corporate governance issues. If such issue arises in an existing investment, we stop additional purchases and start optimally exiting the investment.
Concentration risk	At the portfolio level, such risks are minimized by limiting the aggregate exposure of portfolio to such investments to less than 10% of value at the time of investment.
Stock Illiquidity risk	High Impact cost, due to thin trading at the time of buying or selling is endemic to small & mid-caps. We plan our investment decisions, size of the investment and trading strategies to minimize the costs due to illiquidity.
Key Man Risk	Small and mid-caps are frequently managed by a key promoter / person on whom the business is completely reliant and without whom the business would be materially inferior. We generally avoid such names and in cases where we make any exceptions, the aggregate exposure of portfolio to such investments is limited to less than 10% by value.

Slowdown in global consumption	The wallet-share of the investee companies in the global manufacturing value chain, does not pose a significant risk of loss of business to their vendors. New and high growth areas such as Lithium-Ion batteries, EV vehicles are in relative infancy stage and have a strong growth curve ahead of them.
Softness in IT product spends	The convergence to digital software solutions is a 'must do' proposition and our investee companies have exhibited significant traction in competing in this space. A combination of their recent deal wins, and current bid pipelines bode well for their future.

Thank you for placing your trust in Unifi.

Sincerely

Baidik Sarkar
Head - Research

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