UNIFI AIF

STABILITY AND DIVERGENCE

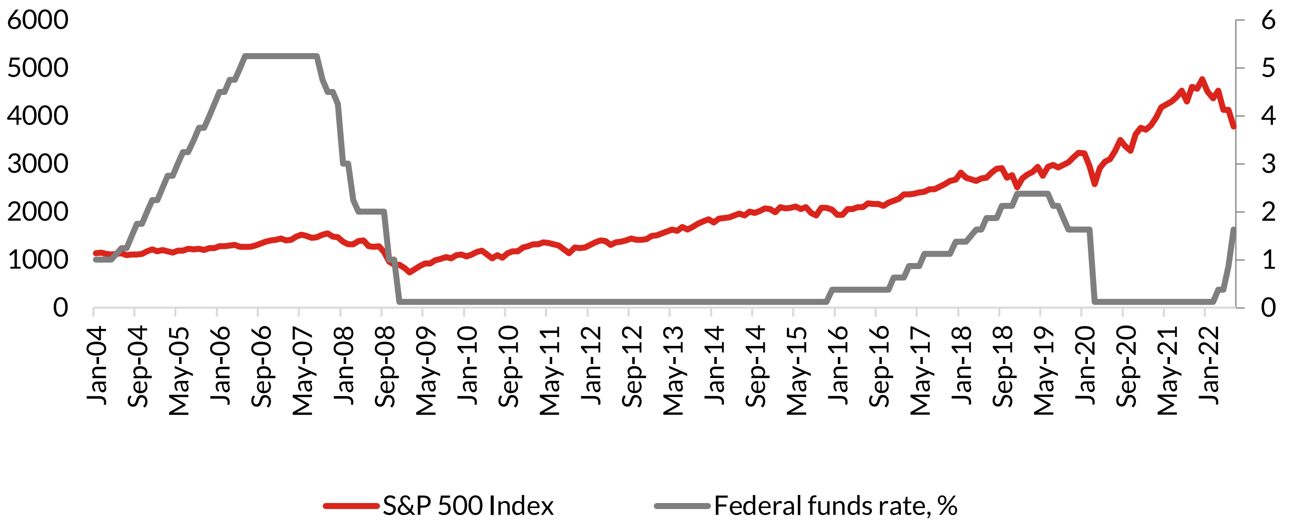
QUARTERLY REVIEW

Q1 FY23

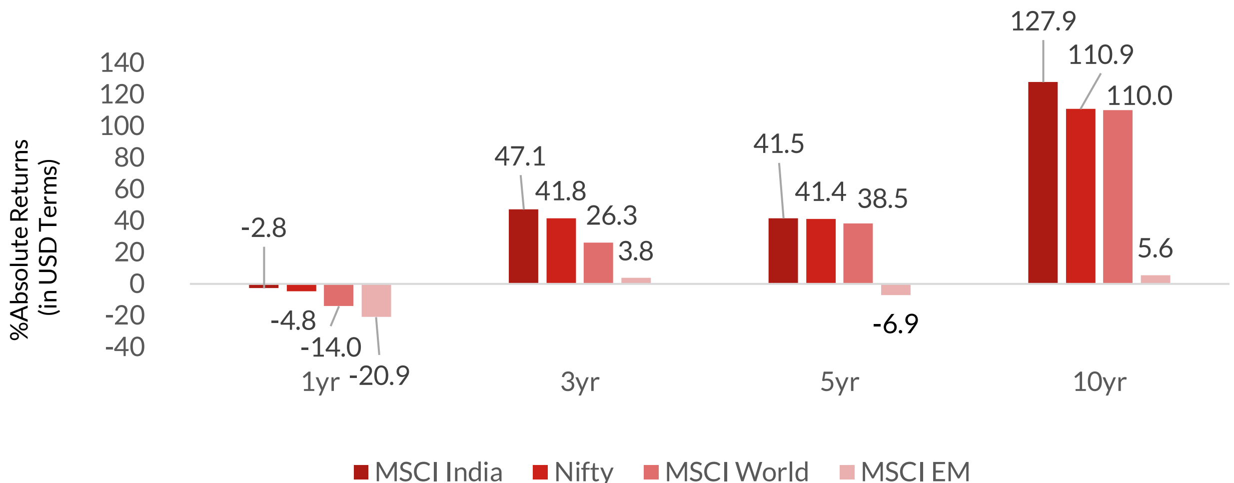
STABILITY AND DIVERGENCE

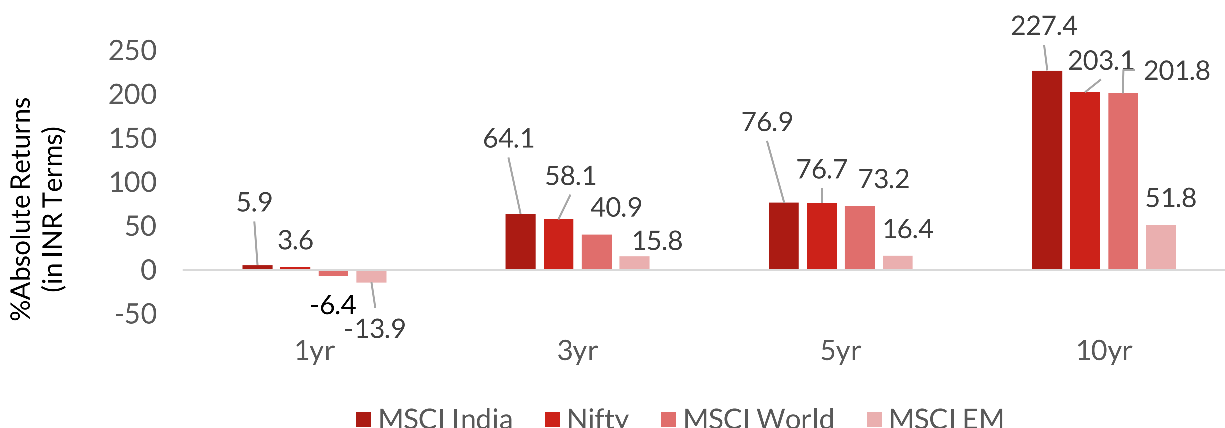
After many summers of liquidity and the virus, this is the summer of economic rationality. By accelerating the pace of interest rate hikes, central bankers worldwide have returned to their primary mandate of ensuring financial stability via aggressive inflation management in lieu of their decade support of economic growth. This is more important than the subject of growth today because anything apart from a minor or steady adjustment in average prices will significantly impact business and household financial decision-making and ultimately affect the economic cycle of consumption and re-investment. The force of economic expansion over the last few years has been so strong that today's overwhelming mandate is to preserve this financial status. Else the specter of inflation risks taking it all away.

The decadal surge in liquidity has strengthened inter-linkages among most financial markets and unwinding this will have consequences on any real economy. As is visible in the chart below, rising rates and the increased cost of capital have lowered the value of equity in the USA and most other global markets.



While most markets have toed this line, India is seemingly writing a different template and is an exception in an increasingly complicated world. To put this in context, Shanghai and the MSCI Emerging Market are yielding little or no returns for ten years now.





Over the last few years, Indian equities have significantly pulled away from most global markets. It is crucial to appreciate the makings of this, or else we risk misinterpreting the sustainability of this direction. Imagining the delta of change underway in India has probably been the most significant challenge on our side of the table.

WHAT IS FUELING INDIA?

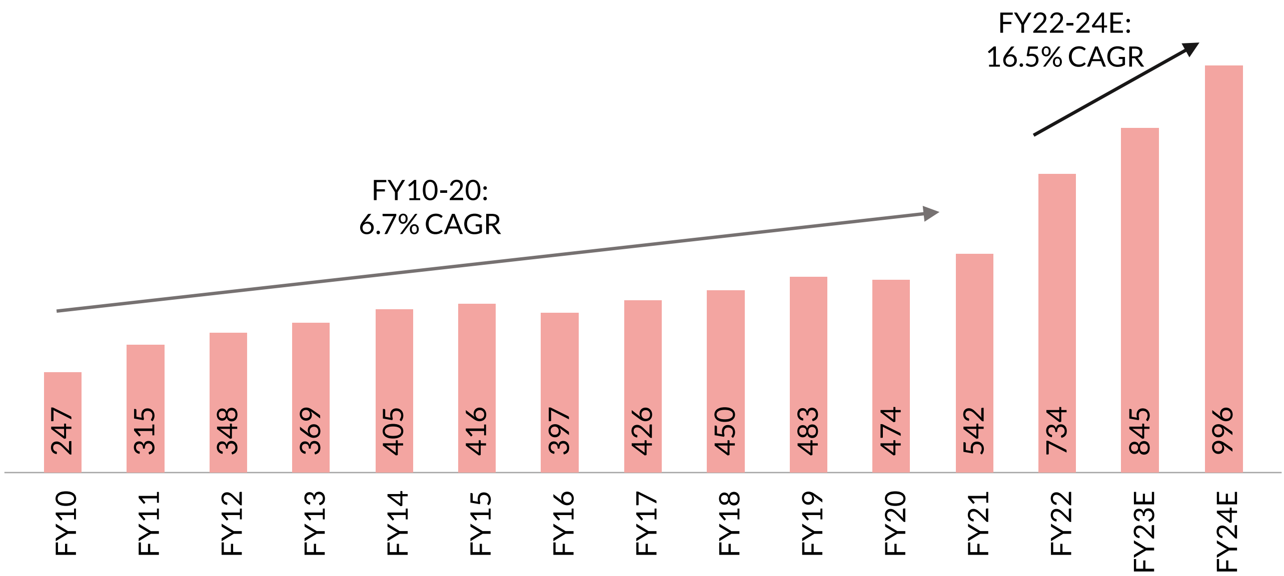
The transformation of India as a canvas is reminiscent of the 19th-century West. A vast domestic market, the only one of its size and depth anywhere in the world, allowing sector leaders to benefit from the size of consumption and create economies of scale. India's rural economies are strengthening at a rapid scale, alongside internal migration, creating a new consumer class, pivoting from consuming sustenance to consuming discretion.

Sensing this depth, India's corporates are embarking on a new scale of investments for the first time in a decade. This phase of expansion is hedged from the excesses of the previous cycle through the visibility of domestic demand and international appetite for sourcing from India. A combination of these events are leading to several areas of the economic multiplier, and for simplicity's sake, they can be attributed to the following.

Magnitude of Earnings growth	New Credit Expansion Cycle
New Investment Cycle	Accelerated Household Incomes

THE SHEER MAGNITUDE OF EARNINGS GROWTH

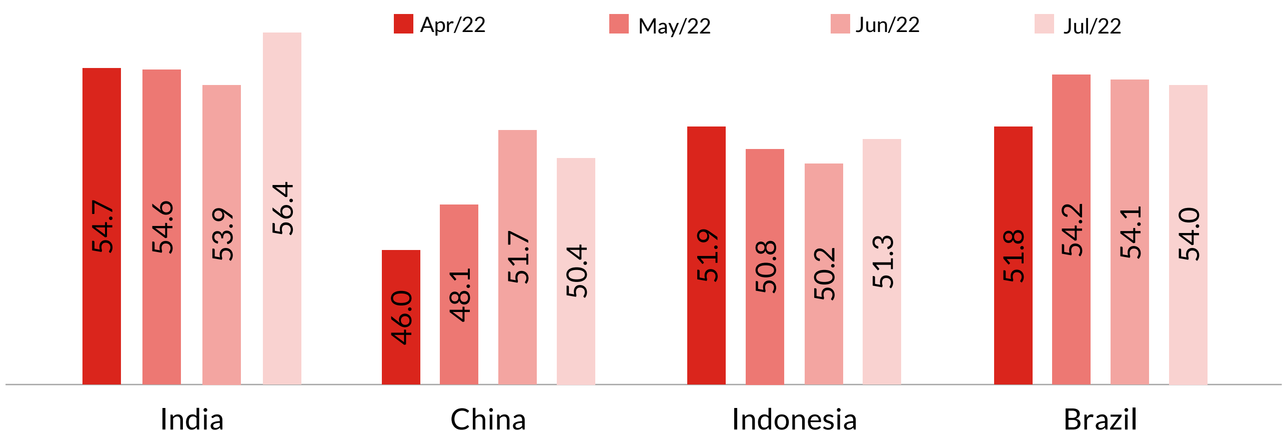
Between FY2010-2020, India's earnings compounded at 6.7% CAGR, and the markets returned 8.5% in CAGR [Nifty]. In FY 2021, earnings were up 14%, followed by another 36% in FY 2022, marking a growth of 55% in 2 years, followed by expectations of 15% in FY 2023. Market returns have broadly followed this trajectory, despite the challenges of Covid, inflation, crude, Ukraine, and supply chain dislocations. Adjusted for exigencies, markets have respected what they always have - underlying corporate earnings. This growth phase has coincided with several other initiatives that will pivot India to the next stage of an economic breakout, furthering the visibility of earnings growth.



A NEW INVESTMENT CYCLE

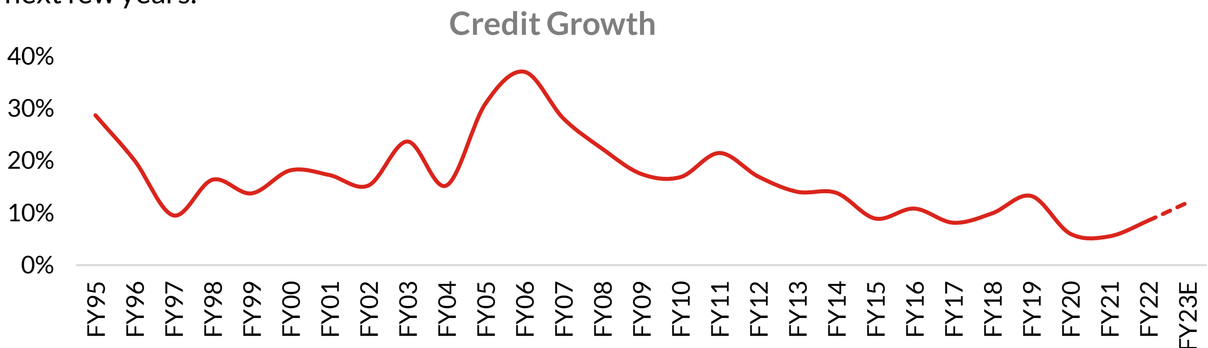
In the past, we have spoken about how India's significant reforms across GST, RERA, UPI, Minimum Support Prices (MSP), and many others are accelerating the formalization of the economy and creating a new cycle of supply and demand. An area that has traditionally been under-discussed is the looming opportunity in manufacturing. India has today emerged as the second-most sought-after manufacturing destination globally, reflecting the scale possible in India. The numbers are a testament. India's manufacturing exports (non-petroleum products) for FY21–22 reached $353bn, vs. $266bn in the previous year, growing 33%. This reflects a surge compared to the pandemic-hit FY20–21 and the pre-pandemic number of $272 billion in FY19–20. The pandemic has disrupted global supply chains with an added dimension of Europe+1 in addition to China+1, kickstarting a cycle of manufacturing across multiple industries and birthing a new investment cycle. And this is not anecdotal; about 80% of all the manufacturing-oriented companies in Unifi's portfolios are either in the midst of a large capex or in the process of monetizing their concluded projects. And almost in all cases, this has followed a long period of demand accumulation and relative surety in pricing power.

Manufacturing PMI



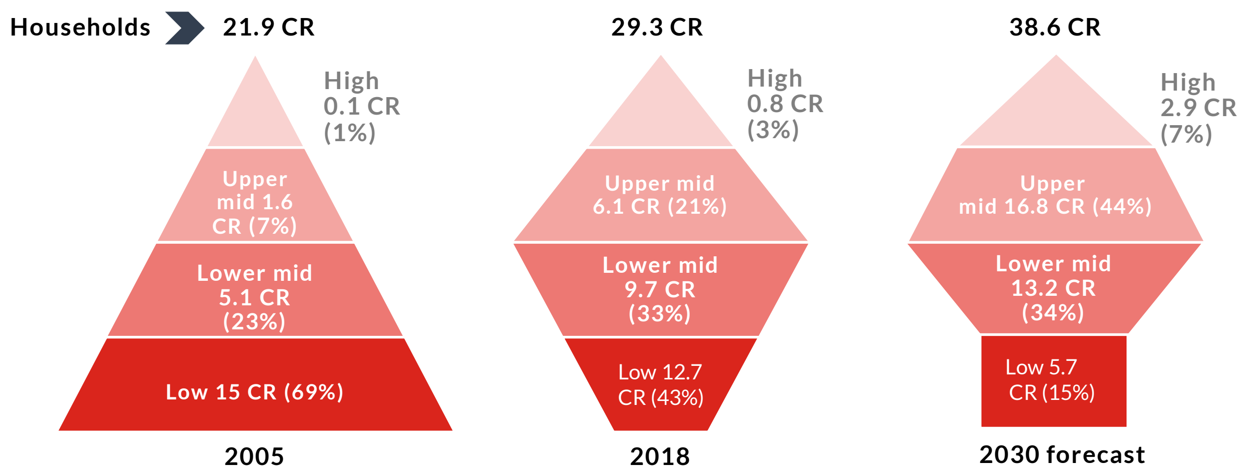
A NEW CREDIT CYCLE

Since 2014, India has gone through one of the most prolonged periods of deleveraging. The debt to EBITDA of India's top 500 corporates [BSE 500] has fallen from 3.3x to less than 1.3x in this period. Consequently, we do not see a meaningful impact of higher interest rates on the current business environment. On the other hand, as current growth rates consume India's capacities and birth a new investment cycle where the cost of capital is generally high, the outcomes are expected to be stronger than that of the previous cycle. An increase in the cost of capital in an under-leveraged system is generally beneficial for equity investors in good businesses, unlike the previous cycles, which had a combination of an over-leveraged system as well as overcapacity. Against this backdrop, India's systemic credit growth touched a multi-year high of ~15.5% in Aug '22. This will likely accelerate in the next few years.



ACCELERATION IN HOUSEHOLD INCOMES

A cursory look at the data on household incomes in India reflects the underlying opportunity across consumerism in India. Presently 1 in 4 households have incomes exceeding Rs.5.5 lakh. Over the next few years, this is expected to rise to 1 in 2 households. These numbers have a significant impact on household consumption and the way they seed India's economic multiplier. The path to increased consumption and premiumization is not just paying for rational product attributes or functional benefits but also for social and psychological reasons for which a customer consumes and pays a premium. This excess household income is available for spending and will drive the demand for discretionary consumption. This is largely responsible for an increase in the visibility of the terminal value of most firms in India that cater to discretionary consumption, which will be a large structural shift.



Note: Low: <INR 2.5 lacs, Lower mid: INR 2.5 -5.5 lacs, Upper mid: INR 5.5 – 27.5 lacs, High: >INR 27.5 lacs
Projections with annual GDP growth assumed at 7.5%
Source: PRICE projections based on ICE 360 Surveys (2014,2016,2018)

PORTFOLIO CONSTRUCTION

As each of these events culminates, and India grows at 7%+ for the years to come, the sector leaders will break out into a bigger scale, while at the other end of the spectrum, it will lift huge numbers of households out of their current base of sustenance consumption. And this is a key component of our mental model as we construct your equity portfolios for the current cycle.

Credit is a significant part of our portfolio today. India has witnessed a sharp recovery in the economy during the post-COVID phase, which is also reflected in strong credit demand. India's systemic credit growth touched a multi-year high of ~15.5% in Aug'22, led by strong consumption demand. With a new investment cycle, this number is expected to improve. Further, a rising interest rate environment coupled with coupled benign credit costs will help banks report a stronger quality of earnings over the next few years.

Better real estate consumption is visible given the low levels of inventory in Tier-1 cities. This has a large flywheel effect on several players in the building value chain from cables & wires, electrical durables, sanitary ware, and other building materials. The sector is generally witnessing an improved demand and pricing scenario, with financial outcomes that are likely to be better than the previous cycle. This is reflected in our exposure to players in this sector.

Over the years, the nature of India's household savings has witnessed a paradigm shift from physical assets to financial assets. This is validated in several ways: systematic investment plans into capital markets by investors at ~Rs.12,000crs per month and the number of demat accounts that have grown 3x over the past 3 years. Trends of financial literacy and access to financial products are significantly higher than in the previous generation and are likely to continue to grow. As the demand and supply sides here mature, the small base of exposure to financial products will accelerate with the rise of incomes. Keeping this in perspective, we have exposure to leaders in this industry.

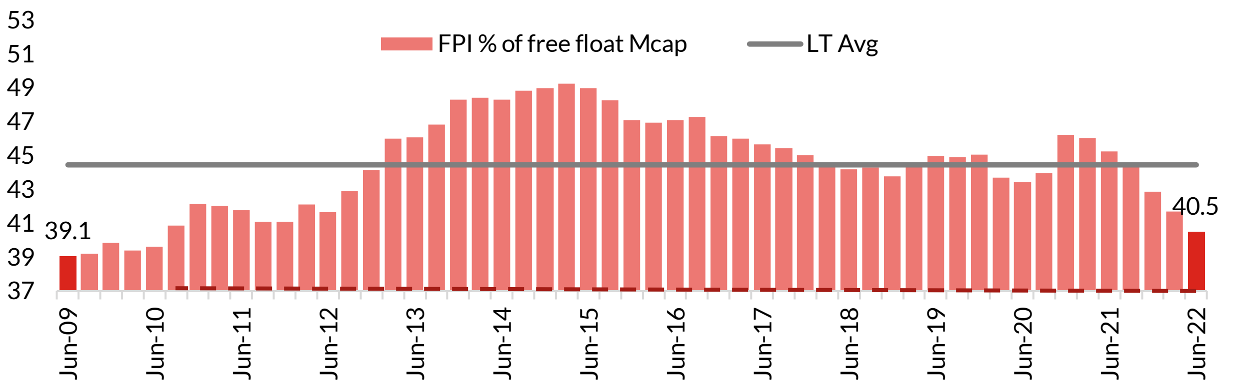
The unprecedented increase in energy prices across many European nations has forced several chemical companies to pair their operations as it becomes unviable to operate at these high costs. This, coupled with China proving to be an unreliable partner, will benefit select Indian Chemical companies that are highly backward integrated and focused on exports. We have predominantly taken exposure to Chemical companies that are category leaders with high backward integration and moving higher up in the value chain. The current global environment would help these companies in the long run.

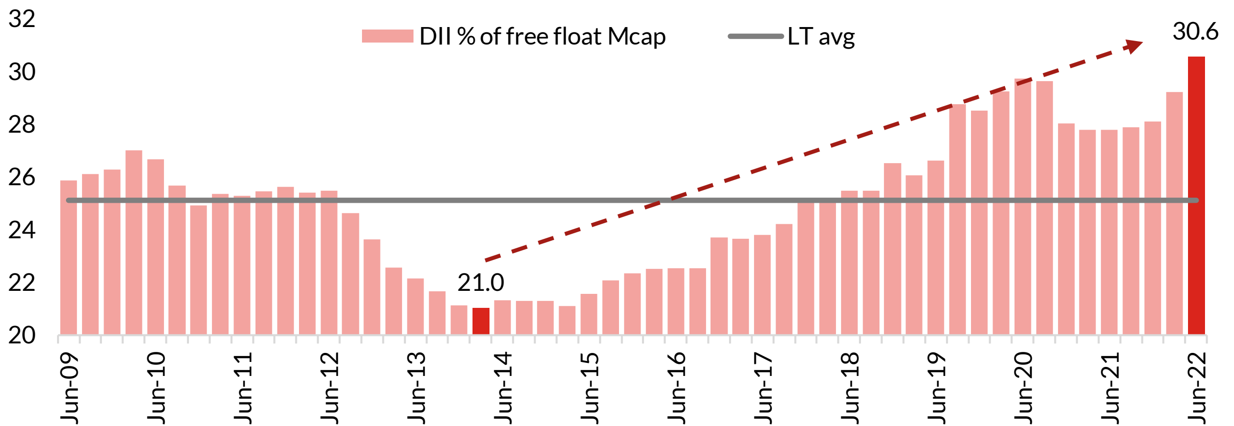
IN CLOSING

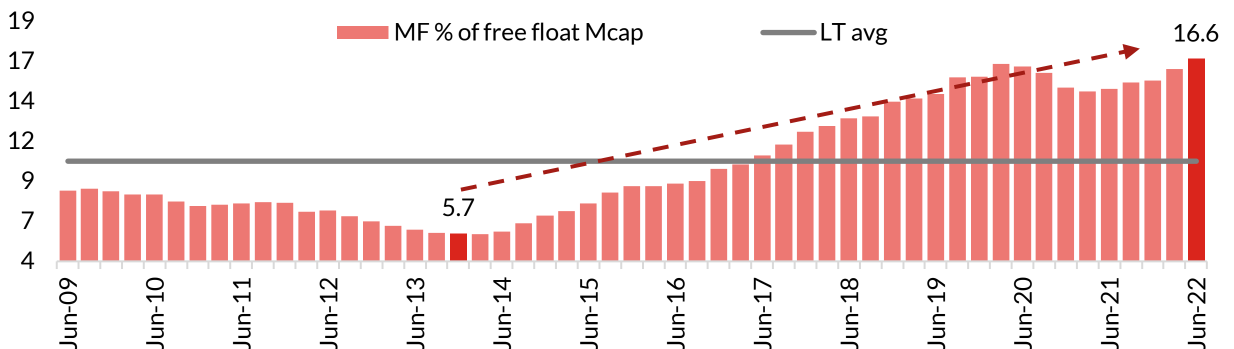
This fundamental breakout in India today is an outcome of piecemeal reforms over many years – impacting the millions in rural hinterlands to urban manufacturing clusters. In between, there is a wave of indigenous technology effort underway in India that is constantly lowering the cost of technology and accelerating the pace of welfare transmission and consumption. India's state-sponsored technology stack is the most sophisticated network of systems worldwide that is at once solving for identity, formalization, payments, and tax systems. And the rapid adoption of these platforms is forcing a vast, inefficient, informal cash economy into a new age and creating productivity at a scale unseen before.

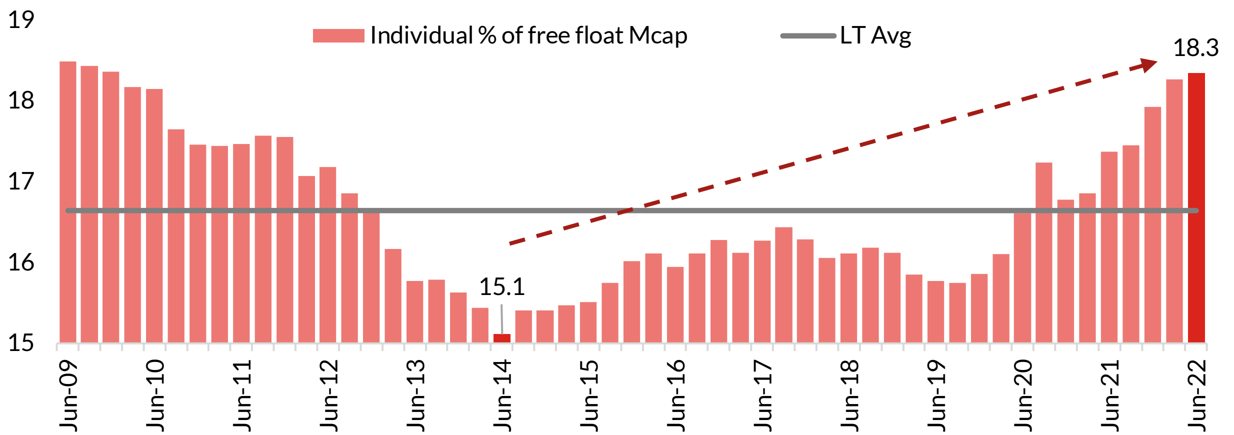
Alongside, it is safe to say that there is no other supply-side mechanism providing the world an option for new manufacturing capital and technology transformation.

This has led domestic investors to reimagine how they view India's equities. The entire performance of Indian equities over the last many years has been driven primarily by domestic investors and is a breakout moment for India. This is even more important as Indian equities are not dependent on the recalibration of funds out of India and will likely follow the direction of a new investment and consumption cycle currently underway.

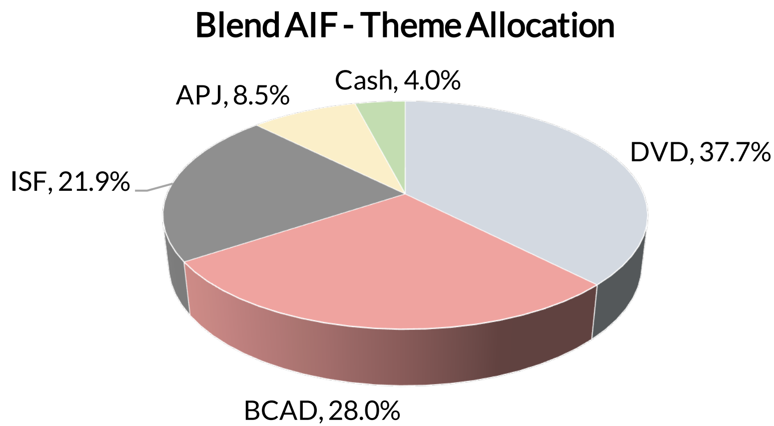




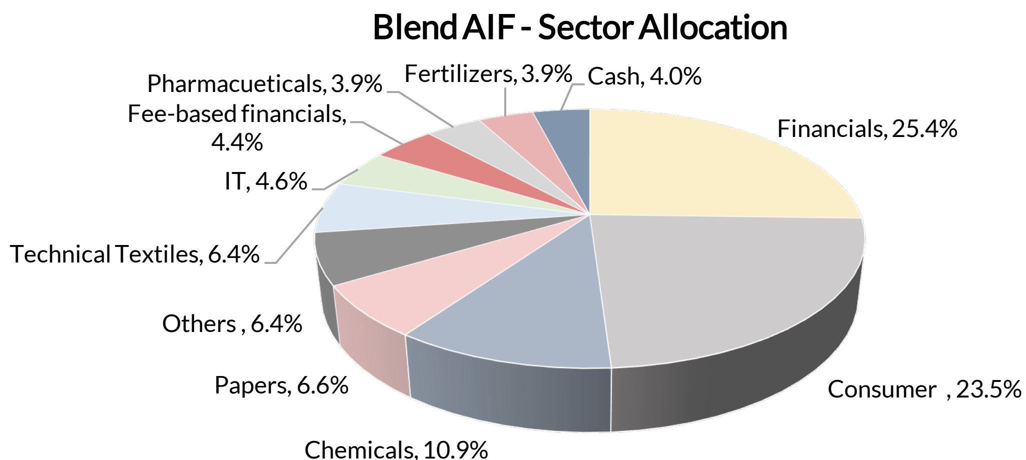




The strategy wise composition of the Blend AIF fund is as below:



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



The following annexure presents a brief on our top holdings:

Company	Brief background and Investment rational
Axis Bank	Axis bank reported a 1% sequential decline in loan book after reporting strong sequential growth in the range of 6.5-7% over the past two quarters as the bank shed off some low-yielding corporate loan book (-6.2% QoQ) in Q1FY23 due to unfavourable risk-reward. Axis has earlier (3Q & 4Q'FY22) demonstrated that it could grow its book aggressively in a short period, and we expect the bank to revert to higher growth levels. Margins improved by 11bps QoQ to 3.6% due to a decline in corporate loan mix, loan book repricing, and few other NIM drivers such as a decline in RIDF bonds and improvement in Credit/Deposit ratio. Opex continued to be elevated at 2.2% vs 2.3% QoQ. Asset quality has further improved and is among the best in peers, given a Net NPA of 0.6% and restructuring at ~0.5% of loans. Net slippages continued to be modest at 0.4% vs 0.1% in 4QFY22. We believe that the Bank's credit cost of 0.2% in 1QFY23 is not sustainable, and realistic credit cost may be ~90bp as credit cost may inch up as net slippages normalize. We expect the bank may report an RoA / RoE of ~1.4% / 14% in FY23E led by improvement in margins and credit costs Vs 1.2% / 12% in FY22. Key risks would include a deterioration in asset quality leading to higher-than-expected credit costs and lower-than-expected loan growth.
CG Consumer	Crompton Greaves Consumer reported revenue growth of 53% YoY to Rs.1,608cr, supported by a low base in the previous year. This was supported by both Lighting and Durables growth of 57% and 53% respectively. Over a 3-year basis, revenue is up by 6% CAGR. In each of the key product segments of Fans and Electric Appliances, the company has delivered growth ahead of industry growth rates, on the back of product innovation, premiumization, and market reach initiatives. The company was able to mitigate commodity inflation through price hikes, product mix improvement, and aggressive cost reduction. As a result, the gross margin was stable sequentially at 31% despite raw material inflation. We expect Crompton to deliver headline growth that is ahead of the industry. The company reported PAT of Rs. 124cr. Crompton is amongst India's most profitable players in the consumer durables space with best-in-class growth, margins, and capital efficiency. We continue to like the company given their execution and growth in household spending on durables. We expect them to benefit from this phase of consolidation. Key risks to the investment could emanate from a drop in consumer sentiment, and steep inflation in raw materials.
SBI	SBI Q1 FY23 results were characterized by healthy growth, a marginal decline in margins, higher treasury loss, and moderation in credit cost. Despite a few one-offs, SBI's 1Q results have been operationally strong with 3% QoQ loan growth, in line with systemic credit growth. Loan growth for the full year FY2023 is expected to be around 15%. NIM declined marginally by 10bp QoQ due to incremental lending towards the international corporate book which earns a lower yield and margins. We continue to be constructive on Bank's margins as the benefit of repo rate hike is yet to reflect in financials.

	Post reporting gross slippages of 40-70bps over the past three quarters, SBI's 1Q slippages were slightly elevated at 1.4% although Net slippages were contained at 0.7% vs -0.5% in 4QFY22. Management mentioned that 28% of 1Q slippages have already been recovered. Considering these recoveries, 1Q slippages would have been at 1% vs the reported number of 1.4%. Credit cost came in at 63bps vs 106bps in 4QFY22. Despite elevated slippages, SBI's gross slippages are lowest among large banks. Assuming ~10bp of margins expansion, moderate opex ratios, 90bps of credit cost, and ~13-14% credit growth in FY23F, SBI is expected to report an RoA of ~77bps vs 67bps in FY22 and RoE of 15.2% vs 13.3% in FY22. 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 Bank	ICICI bank's Q1 FY23 performance was better than expectations led by minimal treasury profits and lower credit costs. The loan book grew strongly by 4.3% QoQ in a seasonally weaker quarter. The bank had earlier reported sequential growth between 0-1% in 1Q of FY18, FY19 & FY20. ICICIB will be one of the key beneficiaries of strong systemic credit growth in FY23 with higher provision buffers built into the balance sheet and a comfortable CET I of 16.5%. The Banks margins were stable on a sequential basis, and the effect of the increase in the lending rates will be visible over next 1-2 qtrs. Slippages were slightly elevated at 2.7%. However, net slippages continue to be lower at 0.2% vs -0.2% in 4QFY22. Reported credit cost came in at 52bps (51bps in 4QFY22) which was largely towards building in contingent provisions, following the trends of 4QFY22. Credit cost should be contained at 0.9% given the bank is carrying higher provision coverage on GNPA, restructured book, and BB & below book. The bank is expected to report an RoA of 1.9% vs 1.8% in FY22 and a RoE of 16% vs 15% in FY22. Key risks would include deterioration of asset quality, higher than expected credit costs, and lower than expected loan growth.
JK Paper	JK Paper reported revenue growth of 116% YoY & 7% QoQ to Rs.1,430cr, supported by the 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 a 7% price hike in Q1 to pass on the increase in raw material & power costs. As a result, EBITDA was up by 122% YoY at Rs.423cr. The company continued to perform well amidst a turnaround in the business at its subsidiary-Sirpur Paper Mills. Overall, PAT came at Rs.264cr compared to Rs. 170cr in Q4FY21 and Rs.104cr in Q1FY22. JK Paper is a play on the revival of domestic paper consumption driven by the reopening of offices and educational institutions. Further, the company has increased its capacity from 4.36 lakh tonnes to 7.42 lakh tonnes driven by greenfield packaging board expansion in Gujarat with a capacity of 1.7 lakh tonnes and the addition of 1.36 lakh tonnes 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 a decline in international pulp prices.

Garware Tech

Garware delivered revenue growth of 25% YoY to Rs. 305cr. EBITDA and PAT registered a decline of 5% and 11% YoY to Rs. 41cr and Rs. 28cr 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 with a few months' lag. The resultant gross margin was down from 74% to 68% YoY. EBITDA growth was further affected by an unprecedented increase in freight costs and partly offset by operating leverage due to strong revenue growth. In addition, the cycle time to dispatch goods to customers in many parts of the world has significantly increased due to the non-availability of containers despite having the materials ready. Though the situation has improved sequentially from Q4 to Q1, there is still some disruption impacting the revenue.

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 strong balance sheet with cash of Rs. 550cr. The company continues to win new patents and launch new products, which we believe will drive growth and profitability.

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.

Polycab India

Polycab delivered revenue growth of 46% YoY to Rs.2,737cr, aided by strong sales in cables & wires segment, which grew at 48% YoY. The company was able to drive 30% volume growth on account of distribution expansion and market share gains from unorganized players. The FMEG segment registered revenue growth of 61% YoY to Rs.308cr, supported by a lower base. Polycab was able to improve EBITDA margin YoY to 11.4% as it took price hikes to pass on the inflation in key raw materials like copper and aluminum. As a result, EBITDA was up by 123% YoY to Rs.311cr. Overall, PAT grew at 195% YoY to Rs.223cr.

Polycab is the market leader in Cables & Wires with 24% market share of the organized market. Over the past 5 years, the company has built a consumer durable portfolio of reasonable scale to leverage its 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 environment, enabling them to maintain normalized margins going forward.

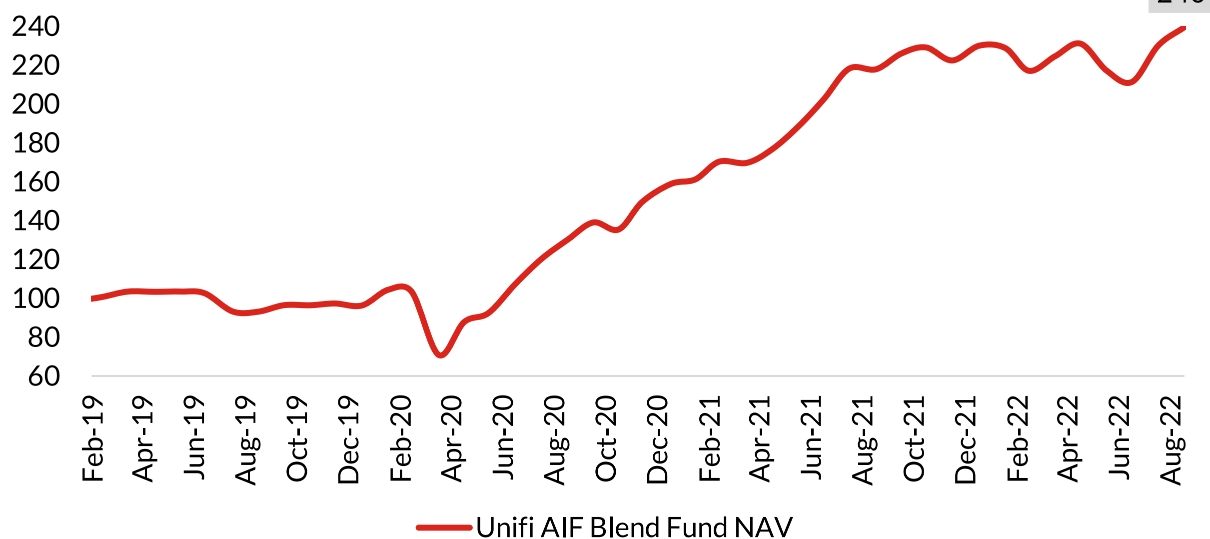
Key risks include further escalation in metal prices, slowdown of demand.

DCM Shriram Ltd

DCM Shriram reported Revenue, EBITDA, and PAT growth of 46%, 54% and 60% YoY to Rs. 2,851cr, 436cr and 254cr, respectively. The revenue and profitability growth in the current quarter was primarily driven by the Chloro-alkali segment. The sugar segment registered expansion in volumes with the rebase of opening inventory. The distillery business was steady-state, and the sugar volumes are expected to continue to remain strong in the financial year. However, the operating profitability in the sugar segment was weaker due to lower yields at the end of the recovery season and an increase in the cane cost. Agri-business had performed steadily except for the Urea business, which incurred losses in the quarter due to elongated maintenance shutdown of the plant impacting the volumes. Fenesta's exceptional business performance has continued while the Cement was a drag due to input cost inflation. The company operated at optimum utilization in both the key products in the Chloro- alkali segment namely Caustic Soda and PVC, with significantly improved unit economics driven by operating leverage and better realizations.

	The company is predominantly present in Chloro-alkali and sugar segments along with agriculture products like fertilizers, bio seeds and other farm solutions. The company continues to reinvest cash in the existing business by debottlenecking capacities and expanding the ethanol facility. Further, the company has announced entry into chlorine/hydrogen downstream products namely Epichlorohydrin, Hydrogen peroxide and Aluminium chloride. These are value-added segments within the chlorine value chain and will contribute positively toward overall profitability improving the incremental capital efficiency. The company is placed for a sustained growth trajectory with an improved balance sheet amidst a strong business cycle with a cumulative capex of Rs. 3500cr to be commercialized in the next 12-15months. Key risks: Unexpected regulatory developments in Sugar/Ethanol business and cut down of the strong Caustic Soda cycle in the international market.
Bector Foods	Bector Foods reported revenue growth of 33% YoY and 20% QoQ to Rs.301cr. Biscuits segment had strong growth of 23% YoY due to increased distribution reach in domestic market and also this quarter had higher exports. Breads continue to have high growth rate, registered a 55% YoY growth on backdrop of QSR business going back to pre-covid level. The gross margin declined to 43.8% in Q1FY23 vs 44.8% in Q4FY22 and 44.0% in Q1FY21 due to higher raw material prices (palm oil and wheat). The EBITDA Margin in this quarter came in at 10.4% vs 10% in Q4FY22. Company registered PAT of Rs. 13cr in this quarter vs Rs. 13cr in Q1FY22 and Rs. 10cr in Q4FY22. Biscuits in India is largely dominated by 3 players controlling almost 70% of the market. Bector is more of a regional player and currently present in NCR region. 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 in registering high growth. In the B2B breads segment, company supplies buns to QSR outlets like Burger King and McD. The B2B breads segment for Bector is growing in higher teens given the rate at which QSRs are growing in India. On the B2C breads segment, the company has now expanded into Bangalore and Mumbai (earlier it was only present in NCR). Given the growth options that 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 entailing a steep increase in raw material prices and demand slowdown.
Sonata Software	Sonata delivered revenue growth of 3.9%(INR) QoQ and 2% (US$) in CC terms, with some back-filled revenues from last quarter. International IT services (IITS) revenue growth was led by Managed Cloud Services (5.6% QoQ USD), Modern Validation and Dev Eng Mgmt Ser (5.1% QoQ US$) and IMS (3.2% QoQ US$). Microsoft digital platform services (2.2% QoQ US$) and Microsoft Dynamic services (0.7% QoQ US$) was soft this quarter. EBITDA margin came in at 26.6%, a decline of 90 bps QoQ and absolute EBITDA of domestic business came at INR 44cr up 11% QoQ. Overall EBITDA margin for the quarter stood at 8%, up +58bps QoQ and flat YoY. The company reported PAT of Rs. 108cr in this quarter registering QoQ growth of 6%. Domestic Product Services (DPS) revenue grew by +42% YoY much higher than average 31% YoY growth for last four quarters, growth was driven by multiyear cloud-based annuity deals. Sonata will continue to invest further in senior leadership, sales and pre-sales teams. Key risks: Slowdown in the USA and Europe and cuts in discretionary IT spending by enterprise clients.

ICICI Securities	ICICI Securities' revenue grew 6% YoY to 796cr. The broking segment revenues decline 19% sequentially due to lower cash volumes offtake. ISec is more dependent on cash volumes and is focused to grow the derivative volumes (gained market share in 1QF23). The focus to build a resilient business beyond broking continues. The broking and allied offerings such as margin trading and other fees supported revenues growth sequentially despite the weak market environment. The total retail and allied income was Rs.476cr. The distribution revenues which are 19% of revenues grew 28% YoY across mutual fund, life insurance and other products. The private wealth management business AUM grew 38% YoY. Corporate finance revenue is cyclical as they are dependent upon primary issuances. This segment revenues were 43crs due to lack of deals considering unfavorable market environment. 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 investment was visible as cost to income was 41% vs 37% last year. This led to a PAT degrowth by 12% to 274crs. We like the business resilience given the share of non-brokerage revenues in sales, agility demonstrated in the broking business, technology leadership, continuing consolidation of the user base and high RoE of >50%+. Key risks would arise from a downcycle in equity markets leading to lower volume turnover and lower deal flow in corporate finance.
Atul Ltd	Atul recorded revenue growth of 37% YoY to Rs. 1,477cr. EBITDA and PAT delivered growth of 14% and 16% YoY to Rs. 268cr and Rs. 191cr respectively. The profitability is adjusted by Rs. 40cr one-off loss incurred due to a fire in one of the company's pharmaceutical facilities. The performance chemical segment delivered revenue growth of 40% YoY led by growth in the Polymers and Bulk chemicals segment. The Life Science segment recorded revenue growth of 38% YoY led by growth in the crop protection business. In the Life Science business, the ramp-up in new capacities has been subdued due to delays in approvals, leading to upfront fixed costs and negative operating leverage. However, the pace of approval and capacity utilization has picked up significantly in the last few months as indicated by the management in the AGM. The price of key raw materials increased by 20-200% in the last financial year. The company has taken significant price hikes to pass on input costs leading to better realizations. The management has been confident of a complete pass-through by Q2 FY23. Gross margin was down 350bps YoY and recovered 100bps QoQ. Apart from the raw material inflation, the surge in coal price and logistics cost globally impacted profitability. In FY23, the capacity ramp-up should be significant with margin recovery. Atul is one of the largest integrated chemical companies in India. The company's growth is underpinned by its leadership position in key chemistries/products, exposure to multiple end-use industries and the maximization of its upstream/downstream capabilities. This has helped the company build a sustainable business model complemented by its self-sufficiency in feedstock and supported by the expansion of its existing product lines and entry into the value-added product market. 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.



KEY PORTFOLIO METRICS

It is important to note that each investment in the fund has been made on its own merit and the portfolio characteristics are merely a by-product of the process. In sync with Unifi's philosophy, the aggregate portfolio has low leverage, demonstrates potential for strong earning's growth, and has reasonable valuations.

Valuation Parameters* (As on 26th Sept 2022)	FY2022	FY2023E
P/E Ratio	31.0x	24.7x
Earnings Growth	40.8%	25.8%
Debt Equity Ratio	0.09	0.08
ROE %	21.1%	21.2%
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 post the 2nd 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.

ANNEXURE

FINANCIAL DETAILS OF TOP PORTFOLIO COMPANIES

BLEND AIF	Market Cap (Rs. cr)	PBT (Rs.cr)		YoY (%)	PAT (Rs. Cr)		P/E	ROE	Portfolio Weight
Company	26th Sept 2022	Q1 FY22	Q1 FY23		FY 22	FY 23E	FY 23E	FY 23E	26th Sept 2022
Axis Bank	2,42,502	2,884	5,528	92.0%	13,025	16,833	14	14%	9.2%
CG Consumer	25,862	125	171	37.0%	577	660	39	27%	7.5%
SBI	5,06,338	8,923	8,360	-6.0%	31,675	40,622	9	15%	6.9%
ICICI Bank	6,28,965	7,698	9,992	30.0%	23,339	28,915	17	16%	6.8%
JK Paper	6,752	148	364	146.0%	544	960	7	28%	6.6%
Garware Tech	7,185	41	37	-10.0%	165	189	38	18%	6.4%
Polycab India	38,983	101	296	193.0%	850	1,021	38	18%	5.4%
DCM	16,183	216	387	79.0%	1,064	1,093	15	19%	4.9%
Bector Foods	2,011	14	16	-12.5%	58	72	28	15%	4.8%
Sonata	7,422	115	143	24.0%	376	460	16	39%	4.6%
ICICI Sec	17,463	417	368	-12.0%	1,383	1,227	14	46%	4.4%
Atul	27,669	222	261	18.0%	605	825	34	17%	4.0%

CLASSIFICATION OF MARKET CAP

Segment	Basis	%
Large Cap	> Rs. 45,000cr	30.3%
Mid Cap	> Rs. 15,000 cr < Rs. 45,000 cr	30.1%
Small Cap	< Rs. 15,000 cr	35.6%
Cash		4.0%
Total		100.0%

LIQUIDITY ANALYSIS

Segment	% of portfolio
1 day	28.7%
Between 1 & 3 days	17.7%
Between 3 & 7 days	22.5%
Greater than 7 days	27.2%
Total	96.1%

RISK MANAGEMENT

Risk	Mitigants
Coronavirus Impact	The impact from the ongoing Coronavirus outbreak in India and rest of the World can be multifold. The lockdown related slowdown in consumption can affect several sectors. How long it takes for sentiment to return in consumption remains to be seen. 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.
Geo-political risks	Geopolitical tensions globally 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 (Corona Virus, and 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 spanning Brexit, US-China trade war, OPEC related developments, and other geo-political issues. 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. Further, in case 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.

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CHENNAI:
11, Kakani Towers 15
Khader Nawaz Khan Road
Nungambakkam High Road
Chennai - 600 006. INDIA
Ph: +91-44- 2833 1556

HYDERABAD:
H No. 6-3-346/1, Road No. 1
Banjara Hills Scotia Bank Building
Hyderabad – 500 034. INDIA Ph: +91-40-4010 2316/17

BANGALORE:
1109, 11th Floor
Barton Centre 84,
M.G. Road
Bangalore - 560 001. INDIA
Ph: +91-80-255 9418/19

MUMBAI:
Shiv Sagar Estate,
A-Block, 8th Floor,
Dr. Annie Besant Road Worli,
Mumbai - 400 018. INDIA

DELHI:
No.818, International Trade Tower, Nehru Place.
Delhi - 110 019. INDIA
Ph: +91-9930112828