UNIFI CAPITAL

# Review | Q3 FY2026

## Acknowledging Context

The preceding twelve months were a trying environment for investment-related macros. India's nominal-GDP growth touched decade lows, urban consumption remained hesitant, tariff disruptions introduced a layer of uncertainty across multiple sectors, while progress in AI capabilities raised questions about the terminal value of several elements of the Technology stack. In such an environment, even fundamentally sound businesses face unreceptive market conditions. These are conditions that test a conviction-driven approach, and we have held ours.

The months since Q3 FY 2026 have produced a cluster of developments that, taken together, represent a meaningful shift in India's enabling environment. The Union Budget for FY 2027 arrived with genuine demand intent, while GST rationalization provided an additional fillip to consumption demand within the quarter itself. The India-US interim trade framework removed a tariff overhang that had distorted capital allocation and suppressed earnings visibility across export-linked sectors for the better part of a year. And the RBI, having delivered 125 basis points of cumulative easing through 2025, chose to pause, the transmission now diffusing through deposit rates, credit costs, and better borrowing conditions.

Over all, while Unifi's investment thesis remains unchanged, the operating conditions have changed. India's GDP is expanding ahead of consensus, and at an absolute quantum. Private consumption is finding its footing after an extended period of demand hesitancy. The credit cycle is transmitting at a better pace into the real economy. Macro turns of this kind tend to accumulate quietly and reveal themselves in earnings over the quarters that follow.

## India, State of the Economy

**GDP: A Strong Quarter, and a Revised Framework:** India's real GDP growth for Q3 FY 2026 (Oct-Dec 2025) came in at 7.8%, ahead of most expectations of c.7.3-7.5%, and a meaningful improvement from 6.2% in the corresponding quarter of the previous year. The full-year estimate for FY 2026 has now been revised upward to 7.6% under the newly released national accounts series with base year 2022-23, which provides a more contemporary and structurally accurate picture of the economy, capturing GST data, digital transaction flows, and a spectrum of other economic activity that the previous series underweighted.

The composition of Q3-FY2026's growth is particularly encouraging. Manufacturing GVA expanded in double digits for the fifth consecutive quarter; a run of industrial momentum that speaks of structural capacity additions and not merely cyclical demand. Services GVA growth accelerated to 9.5%, a seven-quarter high, anchored by financial and professional services. Agricultural output, while growing at a more measured pace of 3.1% for the full year, benefited from above-normal monsoons and healthy reservoir levels entering the Rabi season. These are headline numbers that describe an economy that is broadening its growth base.

For monetary policy, the implications point toward a structural improvement in transmission rather than further rate action. With real GDP growing above 7.5% and inflation running near 2%, India is in a good configuration: the real policy rate is now significantly positive, giving the RBI meaningful room to respond to encourage demand without sacrificing fiscal prudence. For private final consumption, the triple tailwind of rate cuts, GST reforms, and a recovering rural economy creates a more compelling demand outlook than India has seen in several years.

Private investment is a closely watched variable. The budget's capex thrust, combined with improving corporate cash flows and declining borrowing costs, presents the right conditions for the private investment cycle to re-engage. Historical patterns suggest a lag of two to four quarters between monetary easing and a material uptick in private capex. If that pattern holds, the second half of FY 2027 could see a meaningful acceleration in investment demand – a development that would raise the quality and sustainability of growth beyond where it stands today.

The significance of these numbers runs deeper than the headline rate. In aggregate, India's GDP trajectory in a complex global environment is good. As the Chief Economic Adviser noted, India is on course to cross the $4 trillion GDP mark in FY 2027, making it the world's third-largest economy by nominal GDP. That structural trajectory and the earnings ecosystem it creates remain the central investment thesis for patient, bottom-up investors.

## A brief on Artificial Intelligence

We are selective about the trends on which we generally offer a view. Most narratives that animate markets in the short run do not materially alter the earnings trajectory of the businesses we own. Artificial Intelligence is the exception, not because the narrative is loud, but because the underlying capital deployment is of scale [At c.1%+ of US GDP], but because our portfolio exposure to the Technology stack demands a considered response.

The dominant narrative in 2026 has been that AI is on the cusp of rendering categories of white-collar work obsolete and fundamentally restructuring labour markets at a pace that policy cannot absorb. It is our opinion that this will seek to displace a certain quantum of highly vintaged, low-value-added activity that has seen limited productivity initiatives over the past many years.

Our portfolio exposure to the technology stack is across Banking Products, Healthcare and Transaction Processing, select IT services, and Product distribution. We remain constructive on the opportunities artificial intelligence presents to strengthen capabilities and expand revenue potential across our portfolio companies. We touch on the specific dynamics at the holding level in the review section. The headline, however, is this: we have looked carefully at this question, and we are not concerned. [Kindly refer page 4 for an update on our holdings].

## Q3 FY 2026 Earnings Update

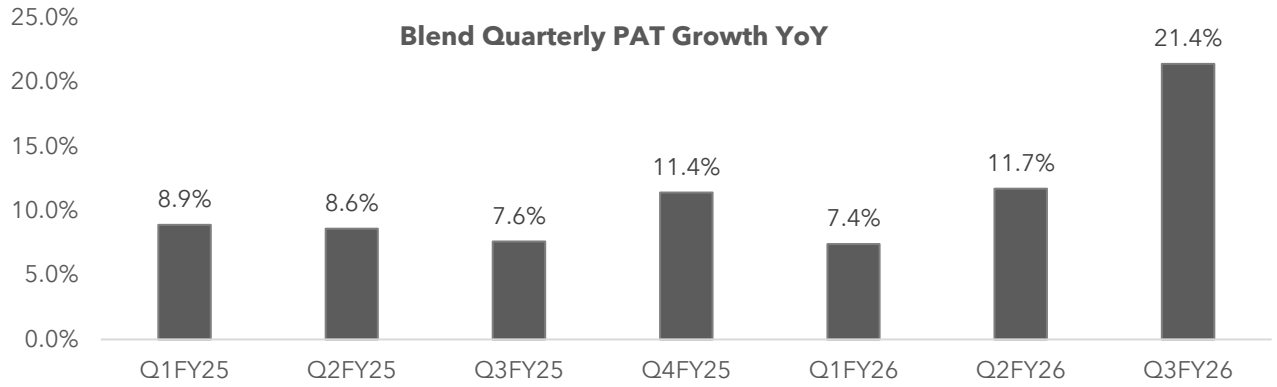
**The Broader Market** |Q3 FY 2026 delivered a measurably better earnings season than the first two quarters of the year. Aggregate earnings across the NSE-500 universe rose approximately 14% YoY, the strongest result in eight quarters, and a meaningful departure from the single-digit growth and persistent estimate revisions that had characterised much of FY 2025 and the first half of FY 2026. Excluding financials, the growth rate was stronger still, at approximately 16%.

The sectoral composition of the beat was broad-based rather than concentrated. Capital goods companies continued to report strong order inflows and improving execution, with operating leverage increasingly visible in earnings. Healthcare held its footing – hospital ARPOBs rising, CDMO pipelines building, and domestic formulations growing steadily. Pharma companies with exposure to regulated markets benefited from a more stable US pricing environment. In automobiles, the festive season was a genuine demand catalyst – volumes, realizations, and dealer inventory levels all moved in the right direction. EMS and consumer electronics players continued to benefit from structural demand tailwinds and import substitution. Even within financials, where headline growth was muted, asset quality remained broadly benign, and the worst of the NIM compression now appears to be behind the sector.

The picture was not uniformly positive. Certain large-cap technology services companies continued to report subdued revenue growth amid elongated deal cycles and cautious discretionary IT spending. Cement sector earnings disappointed on margin pressure while consolidation in retail-facing businesses reported weaker-than-expected volumes.

| BSE 500 | Adj PAT Cr | | |
|---|---|---|---|
| **Sector** | **Q3 25** | **Q3 26** | **YoY %** |
| | | | |
| **Automobiles** | 22,347 | 21,958 | -2% |
| **Banks-Private** | 49,550 | 51,596 | 4% |
| **Banks-PSU** | 47,142 | 53,831 | 14% |
| **Capital Goods** | 11,867 | 14,659 | 24% |
| **Cement** | 5,536 | 4,412 | -20% |
| **Consumer** | 15,440 | 17,320 | 10% |
| **EMS/ Durables** | 2,017 | 2,761 | 37% |
| **Pharma & Healthcare** | 16,332 | 18,233 | 12% |
| **Technology** | 33,626 | 36,539 | 9% |
| **Utilities** | 25,378 | 24,553 | -3% |

**Portfolio Growth** | Unifi's Blend strategy recorded weighted-average PAT growth of 21% YoY in Q3 FY 2026 – the highest quarterly earnings growth in seven quarters and the culmination of an anticipated trajectory. The numbers reflect not the fortune of a single good quarter, but the delayed recognition of investments that were building through difficult market conditions.




What gives us greater confidence than the headline number, however, is its composition. Healthcare, financial services, agriculture, and select technology positions each contributed meaningfully; overall, the growth is distributed rather than concentrated. A broad earnings delivery of this kind is, a more reliable signal than one carried by a handful of outperformers, and the more instructive number to hold in mind as FY 2027 approaches.

There were, however, two specific holdings where the quarter did not unfold as hoped. The first is in infrastructure – a South-India-based company operating in the roads and water space. We believe the trough in this company's earnings and cash flow cycle is now behind us. The order book is healthy, the structural demand for India's infrastructure build-out is intact, and we see meaningful recovery over the next two to four quarters as execution re-accelerates and working capital normalizes. The second is in cash logistics management, a company operating in a segment that is directly correlated with the velocity of the formal economy. A series of one-offs has marred reported earnings for the year, but the sequential build in volumes has begun, and we expect this to show up progressively in numbers over the coming quarters. Both businesses are covered in more detail in the company review section.

# Portfolio Review

## Credit | Portfolio Composition of 17%

Margins troughing, Credit compounding

India's credit cycle has regained its footing. System loan growth has recovered to approximately 13.6% YoY as of mid-February, broad-based across corporate, retail, and MSME segments, after a period of deliberate moderation driven by regulatory caution on unsecured lending and a softer demand environment. The policy backdrop remains constructive: CPI inflation at 2.8% in January, 125 basis points of cumulative repo rate cuts delivered since the easing cycle began, and liquidity well-supported through open market operations and a phased CRR reduction. The RBI's decision to hold rates in February is best read not as a signal of caution, but of confidence, an acknowledgement that transmission is now beginning to work.

The initial phase of the easing cycle was, as expected, margin-dilutive. Asset yields reset downward swiftly; deposit costs adjusted with a lag. That asymmetry is now substantially resolved. Deposit repricing is largely complete across most institutions, exit margins are stabilising, and the sequential improvement in net interest margins that several managements have guided toward appears credible. Asset quality, meanwhile, has remained a source of comfort. Outside the contained stress in microfinance and smaller-ticket unsecured credit, segments to which our portfolio has minimal exposure, corporate books are performing well, retail delinquencies show no systemic stress, and credit costs across the sector remain disciplined. Growth is not being purchased at the expense of underwriting rigour.

Our banking exposure is concentrated on franchises that combine balance-sheet strength with a clear trajectory of improving returns. We hold one of India's largest public-sector banks, an institution that has undergone a genuine structural rehabilitation over the past several years. Legacy stress is largely behind it; loan growth is diversified across corporate and retail; capital buffers are comfortable. The franchise is now in a position to grow without stretching its risk appetite, and return ratios have improved to a degree that the stock's valuation does not yet fully acknowledge. Among our two mid-sized south-based banks, one has already demonstrated the fruits of its transformation – tighter underwriting, management renewal, and process .

discipline — translating into materially stronger asset quality and return ratios that now compare favourably with those of larger peers. The market has recognised this, and the valuation reflects it. The second is earlier in its journey; the foundational changes are firmly in place, and we expect the operating metrics to compound from here as the structural improvements work through the P&L. In the private sector, our holding is a high-quality, well-governed franchise whose relatively modest market share, provides a long runway for above-system growth.

## Hospitals & Healthcare | Portfolio Composition of 10-12%

Operating Leverage Meets Structural Demand

India's private hospital sector continues to deliver well. ARPOBs continues to rise as the large listed chains deepen their tertiary care offerings, while improving operational discipline is bringing down average length of stay. After a prolonged period of consolidation post-COVID, capacity expansion is back on the agenda — and notably, new beds are reaching breakeven significantly faster than historical norms, a sign of better execution and stronger underlying demand.

We hold two positions in this space. The first is a leading East-South chain with strong roots in the affordable and mid-market segments — a part of the market that is often underpenetrated by the premium-focused players. After years of investment and operational restructuring, its India business is now beginning to show meaningful margin expansion. The overseas business has been a consistent performer, and the recent international acquisition is being absorbed into the system, adding a longer runway for growth. The second is a South-focused hospital that continues to execute well.

Across both holdings, free cash flow visibility has improved materially, and reinvestment decisions are being made with more discipline than we've seen historically. We see a combination of operating leverage, structural demand, and healthier balance sheets making this one of the more durable themes available in the market today.

## Product Distribution – Portfolio Composition 9%

Hardware, Cloud, ICT upgrade cycle

The structural demand environment for enterprise and consumer technology remains firmly intact. Product cycles are compressing, innovation is accelerating obsolescence and opportunity in equal measure, and the enterprise shift toward cloud, cybersecurity, and SaaS is broadening the addressable market for technology distributors well beyond the traditional hardware stack. Alongside this, the consumer technology landscape is evolving — premiumisation is real, upgrade cycles are shortening, and connectivity is deepening across retail, education, and small business segments in ways that sustain volume even as unit prices rise.

Our holding in this space is a leading ICT distributor with commanding market positions across India and the Middle East — a franchise built on a highly defensible business of efficiently moving technology products from vendor to customer at scale. The business enters the current period with several tailwinds in close alignment. Data centre deployments across the region are accelerating, creating demand for infrastructure hardware that flows directly through distribution channels. Laptop volumes are recovering, supported by firming average selling prices and an enterprise refresh cycle that has been deferred for longer than usual. And in mobility, new product launches from its anchor vendor are driving renewed consumer momentum.

The more important development, however, is the removal of a distraction rather than the arrival of a tailwind. The company's Turkish operations had weighed on reported numbers — and on market perception — for several quarters, introducing a geography-specific loss into a business that is otherwise performing well. That overhang has now been excised through a disposal. What remains is a more focused franchise — one whose India and Middle East operations have continued to grow with discipline amid the noise. With the distortion removed, the market's attention should return to the underlying earnings quality of a business that is compounding quietly in a strong technology distribution corridor.

## IT and Technology – Portfolio Composition 12-14%

The recent correction in technology stocks has been driven less by earnings revisions and more by a shift in market perception. Artificial intelligence has moved from being viewed as a productivity enabler to being interpreted as a labour substitute of scale

and markets have extrapolated that transition rapidly. Historically, such phases compress valuations first and examine business models later. In practice, enterprise technology adoption tends to be gradual,

governed by regulatory constraints, switching costs, and integration complexity rather than capability alone. The result is often a period of sentiment volatility without a commensurate change in revenue durability. Against this backdrop, our holdings operate closer to infrastructure than to discretionary IT spending.

One of our key holdings is a core banking software leader, embedded within virtually every activity involved in running and growing a financial services organisation. The need it serves is not linked to people-led revenues and is largely resistant to displacement by automation. Such platforms operate as regulated systems of record – transaction processing, compliance, audit trails and risk controls depend on continuity rather than reinvention. Artificial intelligence, in this context, acts as an extension layered on top of the architecture, improving decisioning and monitoring rather than replacing the underlying system. As banks modernise channels and scale digital volumes, switching risk rises materially, reinforcing vendor longevity and pricing power. The result is a business whose relevance increases with technological change rather than diminishes because of it.

Another key holding within the portfolio operates in the healthcare services and business process domain, a sector where value is created by solving structural complexity and process inefficiencies within a highly regulated system. This business combines deep domain expertise with technology-led workflow design, embedding automation, analytics, and AI throughout the claims lifecycle, revenue cycle management, and clinical support functions. The outcome is not merely cost arbitrage, but measurable improvements in accuracy, speed-to-pay, and customer experience for clients who face mounting operational and regulatory pressures. As American Insurance firms and Hospitals increasingly prioritize productivity and end-to-end process integration, specialized operators of this nature become more strategic, not less, reinforcing long-term relevance and client stickiness. the company has been using automation for several years now to improve productivity and deliver savings for clints and now that journey continues with AI.

Another holding in the portfolio specialises in managing transaction complexity across industries such as financial services, retail, media, and digital commerce. Its proposition is rooted in process optimization, and extract measurable productivity gains. As enterprises shift from scaling headcount to scaling efficiency, such specialised operators become more embedded within client decision cycles. Deal momentum has remained strong, reflecting both the increasing relevance of its offerings and the premium clients place on partners who can deliver precision, speed, and cost transparency in the current environment.

[For further nuance: https://sagilityhealth.com/case-studies-landing/ and https://eclerx.com/insights/customer-stories/ ]
Overall, we have moderated the exposure to broad-based, horizontal IT services. The selective positions we hold are where differentiated capabilities [engineering-led services, domain-specific digital transformation, and platform modernization] lead to an investment case in the current environment. In each of these cases, the investment is more about bottom-up inflection: smaller bases that allow for sharper growth acceleration, improving margin structures through operating leverage, and the ability to win share in a cost-conscious environment.

## Asset Management Company | 4-5%

Our two AMC holdings represent distinct but complementary expressions of this opportunity. The first is an industry leader, strong fund performance, uptick in SIP market share, and a management team that has demonstrated the operational discipline to convert AUM scale into earnings quality. As flows accelerate, this franchise is positioned to benefit disproportionately, given the operating leverage inherent in the asset-light model. The second is a recovery story, a credible franchise where improved investment performance is beginning to reverse a period of net outflows. The early signs of stabilisation are visible; if sustained, the re-rating potential is material. Together, they offer what we consider a well-constructed position in one of India's most structurally advantaged industries: one to compound, one to recover.

## Agriculture – Portfolio Composition 5%

Strong Season and Execution

The Rabi season is playing out broadly in line with expectations, supported by healthy soil moisture levels, well-stocked reservoirs, and a government that remains committed to supporting farm incomes through price support by healthy soil moisture levels, well-stocked reservoirs, and a government that remains committed to supporting farm incomes through price support mechanisms and input subsidies. Rural demand continues to hold up, and the structural case for increased

input intensity in Indian agriculture remains intact.

Our fertilizer-focused holding delivered as per expectations. The complex fertilizer business continues to gain ground in its core southern and eastern markets, with volume growth reflecting both market share gains and underlying category expansion. Margin performance was encouraging — the business continues to benefit from its backward integration, which provides meaningful insulation against input cost volatility. The retail and crop advisory network is maturing, driving higher throughput and deeper farmer relationships, while the specialty nutrients portfolio is scaling up and beginning to contribute meaningfully to the mix.

Beyond fertilizers, the crop protection segment delivered a recovery quarter, with volumes picking up after the inventory corrections that weighed on the industry in prior periods. The business continues to invest in its product pipeline, and early signs of channel restocking are encouraging.

The balance sheet remains strong, cash generation is healthy, and the company is reinvesting with discipline. As farm economics remain supportive and input adoption continues to deepen across the smallholder segment, this business is well-placed to compound through the cycle.

## Automobiles – Portfolio Composition 6%

A Singular Bet on Market Share Gains

Within the Indian automobile sector, the portfolio's exposure remains intentionally concentrated in a single original equipment manufacturer whose execution has consistently exceeded the industry's baseline. The government's GST rationalisation has broadened demand across vehicle categories, reflecting a deeper structural shift in the economy: as incomes rise and connectivity improves, personal mobility increasingly transitions from discretionary purchase to functional necessity.

Against this backdrop, the holding represents a domestic franchise that has both enabled premiumisation and successfully moved up the value chain, an outcome that has proven elusive for established incumbents. The result has been structurally higher realisations, resilient margins, and growth differentiated not merely by volume but by product mix.

The company continues to outpace industry growth, supported by sustained market-share gains across internal combustion and emerging electric platforms. Its electrification strategy remains economically grounded, prioritising profitability and platform readiness over premature scale, allowing incremental gains in wallet share as adoption gradually evolves.

This passenger vehicle franchise is complemented by a meaningful presence in farm equipment, where favourable agricultural conditions have supported steady tractor demand. The segment's cash generative and relatively counter-cyclical nature provides balance to the broader automotive exposure.

Taken together, diversified demand drivers, disciplined capital allocation and consistent execution position the business as a structurally advantaged participant in India's mobility expansion, with the capacity to compound through both cyclical and secular phases.

## Pharma, Specialty API – Portfolio Composition 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.

The other company is 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.

## Outlook

With an active share of roughly 90%, the portfolio is deliberately constructed to be meaningfully different from benchmark composition. As a result, short-term performance will not always mirror market movements, as returns are driven primarily by the operating performance of individual businesses rather than by sector weightings or index trends. Periods of divergence, both favourable and otherwise, are therefore inherent to a conviction-led approach, particularly in phases when market sentiment moves faster than underlying fundamentals. Over time, however, outcomes tend to converge toward earnings delivery, which remains the principal anchor of the portfolio's return profile.

Earnings across the portfolio continue to progress on a healthy trajectory, supported by operating leverage and improving demand visibility across several holdings. The cadence remains driven by company-specific execution rather than broad market momentum. Given current earnings visibility and prevailing valuations, the portfolio remains positioned for steady progression rather than episodic outcomes. Accordingly, no material change in course is warranted. The emphasis continues to be on allowing underlying businesses to compound while avoiding reactions to short-term market sentiment, and we remain comfortable with where the portfolio stands today.

This comfort stems less from near-term forecasts and more from the nature of the earnings streams themselves – balance sheets remain conservative, competitive positions intact, and growth drivers largely internal rather than cyclical. Under such conditions, price volatility often exceeds volatility in business performance. Our approach therefore remains anchored to observing operating metrics rather than market movements, permitting time for execution to translate into valuation recognition.

Our investment philosophy remains anchored in rigorous bottom-up research, selective sector allocation and disciplined valuation – with capital preservation at its core. Allocations vary across mandates, but the objective is consistent: to deliver meaningful absolute returns while limiting drawdowns.

The following sections outline our investment strategies and provide a performance summary for Q3 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 Q3 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

| As of March, 2026 | FY 26e |
|---|---|
| Wt. Avg PE | 20.7x |
| Wt. Avg PB | 4.1x |
| Wt. Avg ROE | 18.7% |
| Wt. Avg Mcap | Rs. 97,643cr |

## BCAD

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

| As of March, 2026 | FY 26e |
|---|---|
| Wt. Avg PE | 20.8x |
| Wt. Avg PB | 4.6x |
| Wt. Avg ROE | 19.7% |
| Wt. Avg Mcap | Rs.111,385cr |

## 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.

| As of March, 2026 | FY 26e |
|---|---|
| Wt. Avg PE | 21.3x |
| Wt. Avg PB | 4.7x |
| Wt. Avg ROE | 19.9% |
| Wt. Avg Mcap | Rs.101,238cr |

## 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.

| As of March, 2026 | FY 26E |
|---|---|
| Wt. Avg PE | 19.4x |
| Wt. Avg PB | 2.1x |
| Wt. Avg ROE | 18.9% |
| Wt. Avg Mcap | Rs.155,270 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.

| As of March, 2026 | FY 26E |
|---|---|
| Wt. Avg PE | 18.7x |
| Wt. Avg PB | 3.4x |
| Wt. Avg ROE | 16.9% |
| Wt. Avg Mcap | Rs. 200,531Cr |

## 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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