"Unifi Capital's Launch of BC AD Business Consolidations After Disruptions"

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Moderator: Ladies and gentlemen good day and welcome to Unifi Capital's Launch of our new theme BCAD Business Consolidations After Disruptions. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing "*" then "0" on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Maran. Thank you and over to you Sir!

G. Maran: Thank you gentlemen. Thank you everyone for joining the call welcome. When we over the years each time we found an opportunity, pursued research and identified some niche markets of such opportunities in market, branded that as a theme and then took it to our clients and raise capital.

Since at least 2010 over the last eight years we have done six different themes. Many of you may be familiar with each of these themes that we did right from Insider shadow in 2010-2011, Deep values at discounts in 2012. The Spin off fund in 2014, Holding company's fund around the same time and APJ 20 in 2015 and the last one we did was Green in 2016. In that series this is something, which we began working on since the time the first gazette of GST came in. You will know I am not a tax expert when I actually read the text of the GST gazette, one thing was clear that becoming compliant with GST for those entities, which are already in compliance with customs, excise, sales tax, service tax, value added tax, CENVAT, MODVAT, for them it was a different type of compliance. We all have had initial teething troubles, but many of them became compliant as evidenced by the increased tax collections gradually in the subsequent month, but for those entities who are noncompliant with these regulations, who are noncompliant with customs, excise, sales tax, service tax, for them to suddenly become GST compliant was a challenge and continues to be a challenge.

The GST since it is an input credit system, I do not want to bore each one of you to explain the input credit, but if you are part of a business, which has multiple links, channels, for someone in between that chain to become GST compliant when his vendor or supplier is not, is a huge challenge, he will lose the input credit and therefore it becomes unviable. So our initial interest is to see what kind of businesses such entities who are noncompliant with regulations, taxes, what kind of businesses you have more of them and therefore identify such businesses and see whether there are organized players in such business because as enforcement becomes more and more stringent and business becomes more and more formalized as economy becomes more and more organized, it is natural businesses shift from such an organized players to other players in the same business who are organized. So that is the intent with which we started looking sector wise to identify such businesses, which have significant portion with unorganized players, but the very word unorganized sector or informal sector, how do we define them? Our challenge started from there itself. If you Google you will get different definitions from different firms, government defines unorganized as any entity employing less than 20 people, some people defined unorganized as more rural oriented, agri oriented, small scale oriented things like that.

From our context the definition of unorganized is simple. In any entity, which is noncompliant with tax regulations, environment regulations, employee welfare regulations or a marginal player

in an extremely fragmented business are all considered unorganized. Entities irrespective of their size 10-member Company or 20-member organization, which is in compliance with all the regulations still considered an organized player.

From that definition we started looking at such businesses, which have large number of marginal players in a fragmented business that also have significant noncompliant entities, which is essentially unorganized sector, but when we began our study to identify businesses, which have this significant unorganized presence what we realized and recognized early on is such a shift in business from unorganized to organized has been happening even prior to GST implementation for various reasons. The reasons can be as simple as demographic change in India, consumption pattern change, which partly could be triggered by demography or it could be big trend like urbanization that has been happening in India at least in the last 10, 15, 20 years or at each business level the reasons could differ, it could be the business dynamics itself to have any organized players or it could be a technology as a disruptor also.

So, we started chronically such businesses where we already could see this shift happening over the last 10, 15, 20 years. If I share with you few examples it will help you to understand. What we mean by the shift can be seen with few examples. For example, if you take jewellery industry retailing industry even today almost 80%, 90% of the industry is unorganized. We have hundreds and thousands of shops in Chennai, Mumbai, Delhi, many metros, regions, urban places, each jewellery shop entrepreneur driven except for two, three, four organized players like Tanishq most of them are unorganized. The size of the industry is approximately between $40 and $50 billion each year, in the last five, six years has been in that range.

Fifteen years back this industry was 100% unorganized, but these two, three players like Tanishq today may have 10%, 15% share and the reason why business shifted from these unorganized one shop, two shop jewellery firms to branded, organized, large jewellery firms across the country and we explained partly by the demography change during this 15 years where today we have almost two third of Indians aged below 34 and the consumption pattern change of this is more comfortable buying a branded player in absence of their comfort with some locally known or unknown unbranded entity. Also, if you see the business angle, when an organized player comes into a trade like jewellery where you have if you ask a jeweller what is your largest cost item in running the shop he will say it is more inventory cost. Inventory cycle in a jewellery business could be on an average four to six months, some products like a coin may have only one month cycle, some products like a high end necklace may have 11, 12 months cycle, on an average it is four to six months and if you are an unorganized player you have to fund the inventory with your own capital, which would be higher cost and since gold being gold, which has daily volatility you need to hedge it and therefore you have hedging cost.

But if you take player like Tanishq who may have 10000 Crores, 15000 Crores annual sales they do not have any inventory cost or hedging cost because they do not even buy the inventory instead they may have long-term leases where they take the gold on lease by paying margins, bank guarantees, fixed deposits, security and convert that into jewellery and as they sell on daily weekly

basis they buy equivalent gold and replenish the lease. So, an organized player has a business advantage because of these reasons and therefore a part of that business has been shifting. It's a different matter it took 15 years to shift 10% of the market from unorganized regional players to branded players.

If you take examples like Asian Paints, in the same 15 years period if you take say 2002 only 30% of the paints sold in India where branded paints and 70% were unbranded or regionally branded or even fake, but during this 15 years urbanization is a huge trend that has changed many business dynamics, which we don't attribute that change to the fact urbanization. Different people come with different assessments, but the fact of this urbanization has had a bigger impact on the customer consumption pattern, awareness levels, the branded company's penetration, advertising and the fact is today almost 70%, 75% of the paint industry is already with branded organized players.

Now during this 15 years period if the industry itself has grown say 10%, 15% per annum due to economy growth, demand growth, housing growth and in that industry if the organized players are increasing their market share from 30% to 70%, 80%, obviously the organized players growth rate will be significantly higher than 10%, 15% industry growth rate, which means when the industry grows 10%, 15% such organized players would have grown 20%, 25% and when such kind of growth happens in businesses that have operating leverage characteristics, the earnings growth can be even higher could be 30%, 35%, 40% like what we have seen in Asian Paints kind of examples. That was not the case it was the previous 10, 15 years. Operating leverage is a simple concept in certain businesses which have say high fixed cost, say for example if you go and invest 100 Crores in a 100 room hotel, at 60% room occupancy you may make a loss, at 70% room occupancy may make a profit and when your room occupancy grows from 70% to 80% your topline may grow 15% around that level, but your earnings may double: that is an example of operating leverage. In other businesses, with significant pricing power coming from brands the operating leverage comes as the business grows because if you are selling say first 1000 Crores through branded products and if you are spending 300 Crores, 400 Crores in brand development and all that the next 1000 Crores may not have proportionate cost and maybe the fifth and sixth 1000 Crores that you do may have a very marginal cost and significant portion of that could be bottomline. So in Asian Paints kind of example when you have a growing industry with significant unorganized players and that business shift from unorganized to organized the organized players grow faster than the industry rate and if that business has operating leverage the earnings grow much faster than their own topline and when such a thing happens over a long period of time consistently that results in PE re-rating and price therefore moves exponentially higher, which is how we end up having Asian Paints kinds of examples with 100x, 120x return in this 15 years period.

So when price moves so much you might have seen me often talking about a simple ratio price of a stock is equal to earnings of the company multiplied by the PE that you pay for it. When you multiply E into P divided by E in a PE ratio, earnings is denominator, earnings E is in nominator strike both you get price it means if price has moved 120 times the earnings would have moved maybe 40, 50 times and the rest came from the PE expansion 15, 20 PE becomes 40 PE so three times PE expansion and 40, 50 times earnings growth and three times PE expansion is 120 times,

130 times price growth, but this 40 times earnings growth would have still come from 14, 15 times sales growth because of the operating leverage characteristics. That does not mean the industry has grown 14, 15 times the industry would have grown hardly 6 to 7 times because of the shift from unorganized to organized, the organized player including Asian Paints have grown 16 times during the same period.

These examples you can find in different businesses like Page Industries another 100 bagger though in the same 15 years stock has moved more or less in the similar range 100 to 140 times and same characteristics exist, but the trigger for the shift from unorganized to organized may defer in Page Industries the reason may differ, but otherwise more or less the impact is same and shareholder returns are similar.

In the last five years we might have seen that happening in few sectors like as simple as dairy where five years back we did not have a single company in dairy industry with billion dollars market cap: what I mean is the milk, paneer, yogurt, ghee and these are all commodity type businesses 10 years back and mostly consisting of cooperatives and small regional unorganized retail people. It was a fragmented market and slowly branded players came in this and when you hear that branded ghee has grown 25% last year that does not mean ghee consumption has grown 25% and it only means the consumption would have grown 2% or 5%, but 20% of the growth the organized players are seeing is nothing but shift of demand from the unorganized players who are serving the market is now getting served by organized players. Sometimes it can come from the consumption pattern change also like we have seen in the yogurt companies. 10 years back we used to make curd at home, today even the restaurants actually buy branded packed curd and serve.

So there are industry level drivers, which drive business from unorganized players to organized. If you take our own industry the industry where all belonged to say stock broking industry and I began my career in 1991 used to have 730 brokers in Bombay Stock Exchange, 165 in Madras and 400, 500 plus in Kolkata, and many other regional exchanges and many of them were doing very well because those days whether you are a small broker, medium broker or large broker each broker can have only four visitors going to stock exchange for doing buying and selling a sense of level playing field those days and brokers did not have any margining requirements, any broker can buy any amount of shares for any client and he had three weeks time to do the settlement and ask why it happen therefore many brokers had equal opportunity to access any size of investors, clients, but when the NSE came in late 1990s started growing aggressively enabling technology VSAT technology that enabled tech-savvy large brokers who can invest in infrastructure to go and put 5000, 6000 terminals across the nook and corner of the country, but the smaller less tech-savvy brokers could not do that. The business has started moving from small less tech-savvy brokers to the larger ones and post 2001 when SEBI started implementing actively margining system initial margin, volatility margin, span margin, ad Valorem margin and the regulations become more and more stringent.

It favoured those brokerage companies, who are well capitalized as against under capitalized brokerage firms because earlier if both the firms were serving 100 investors of different size today

the well capitalized brokerage firm can handle as client who want to put 50 Crores, 100 Crores order the other broker who could not do because he cannot take care of the margin requirements so again that was another reason business has started moving from the fragmented marginal player dominated industry like broking slowly to more tech-savvy well capitalized brokerage firms, which choose to pass the benefit of scale of economics back to the investors by bringing down brokerage rates from 2%, 2.5% in 1991 to 1% and then 0.5% and then 0.2% now below 0.2%, some charging on 0.1% and some do not even charge anything like zerodha kind of disruptors.

So today you can find five broking companies doing almost 50% of the business, which is nothing but business getting consolidated. So like this we have seen time and again many businesses getting consolidated based on way that the technology led disruptions or regulations undergone a change or the business dynamics itself favouring large organized players. You can see that live actually in Mumbai where I presently operating from. Here if you take an example like a medical diagnostic business it is not small business people say between 60000 to 65000 Crores a year and actual numbers if we include the healthcare and hospitals and the broader spectrum of the industry it is many times more, but in such an industry essentially unorganized most of them are regionally branded or unbranded or one shop two shop entrepreneurs driven or two, three doctors joining together and setting up their own diagnostic facilities where the return on capital employed for that guy is on the capital he employs in buying the medical equipment he has to recover by the limited flow of patients who come and avail his service and the largest cost element in such setup will be the investment into the medical equipment where the technology change is quite often and requiring such diagnostic centers to keep constantly investing in the equipments and it has to be the cost has to be apportioned to that limited number of patients who come and avail the service, but if you take a player like Thyrocare who may come and do 100, 120 centers in Mumbai alone offering thyroid blood testing services, but he may not have any medical equipment in any of the centers instead he may have one large facility in Navi Mumbai with 100000, 200000 square feet kind of space and he basically operates in hub and spoke model and scale of economics benefit come by better utilization, more optimal utilization of the capex that he did on the medical equipment and that benefit he passes a major part of that back to the customers by bringing the thyroid testing cost by almost 50%, 60% cheaper.

If you as a consumer walk into Thyrocare for thyroid test as compared to any other street corner diagnostic center the cost you will incur will be between 50, 60 if not more percent cheaper, but the operating margin of Thyrocare could be more than 40% as disclosed in the last year’s balance sheet. It is just the business dynamics that is changing business from otherwise a business that would have been done by the unorganized player it has now been done by organized player like Thyrocare and that explains the reason why lot of private equity is flowing to various diagnostic players who are leaders in the regions who stand to benefit from that shift. So we have been then therefore looking at different sectors to see whether the drivers for that shift from unorganized to organized exist and our idea is to pick such sectors where these drivers exist and then evaluate what kind of companies in the organized sector of such businesses that we should invest in.

Now there are three challenges when we pursue a style like this: first is evaluating the size of the unorganized industry in each of these businesses where you cannot be precise, if you want to be precise you may be wrong, but if you want to be right you need to put some kind of approximate range, which we have done to the extent possible at least in those businesses that we are familiar with and we have been investing over the last 18 years and when you are a fund manager over 18 years you gain some expertise as well as connect and reach among different entrepreneurs listed, unlisted in certain businesses that you had invested in the past and that was extremely helpful for us to validate some of the assumptions that we make, and one, once we identified such businesses second leg is to identify the drivers of that shift that differs from sector-to-sector and it require some time for us to understand how it has happened in other economies. This is where we were little fortunate to get connected with people in the industry as well as in the academic circle, who helped us in creating some kind of template, which they were using in other economies like Philippines, Indonesia, Vietnam, when these markets are closed economies for 30, 40, 50 years and last 10, 15 years they opened up when multinationals want to enter these markets they want to understand what is the size of the industry and how large and what price point they should come in, whom they should compete with and in absence of any local association data or industry government body data they try to use these kind of templates to evaluate such sectors, which have been useful in our context.

Second, we also wanted to evaluate how this formalization of economy happened in other markets, other larger economies. So we best way to evaluate is to look at how different sectoral compositions turned over this long period. For example, if you take this small cap, mid cap index in India today you will find some 10, 15 broking companies in such index and you will not found any of them in 20 years back, which gives an idea how this industry had got formalized and more consolidated and therefore a few consolidated names came into the index.

So, we took few interns students whose mandate was first to take all the 1980 companies which are Russell 2000 Index in US and write two lines about each company in that index just to understand what type of companies come into this index and how these compositions changed over a long period of time every 10 years, which if you link with the size of the economy you will get some kind of idea of what kind of drivers that would have helped these sectors to become more and more formalized. Not that it should happen in same way in India, actually it will completely we would be wrong if we just make those kind of judgements, but what that exercise helped us is to understand what are all the specific drivers such industries have for formalization for the consolidation.

Having done that stage of exercise the third one uncertainty our hope in such a style is even if you are right in predicting the size of the unorganized industry in each business sector and even if you are right in predicting the drivers of that shift and the businesses shift from unorganized to organized how sure are you the company in the organized sector that whose stock that you are buying in the portfolio will benefit from. If you take a last 10-year example in the building material side in the ceramic ware you would have seen industry itself growing significantly due to urbanization and housing growth that resulted in increase demand in ceramic wares and name like

Cera Sanitaryware last 10 years shareholder return has been 100x hundred times. Again different reasons price moved hundred times, earnings moved 30, 40 times, PE expanded, earnings moved 30, 40 times because business itself moved 10, 11 times all that, but the fact is the other player Hindustan Sanitaryware who would have not even given one tenth of this return. So we have the fact you choose Cera or Hindustan in the same business would have had a ten times difference in the way the shareholder returns come, there may be 100s of the company specific reasons like Hindustan Sanitaryware is not pure, it is also in glass manufacturing, low return on capital employed, those are all things, which are essential, this is not just a macro casual theme that you need to spread your investments across and benefit from that. Here there is an element of staff selection, skill set is also required under this theme to pick the winner based on the management's credibility, the management bandwidth to benefit from the shift and its ability to benefit to got the size and there are many other factors that we have used in evaluating investment opportunities that we have done in many of our old themes will continue to use in this theme.

So these three are, first is predicting the size of the unorganized industry, second is identifying the drivers that should shift the business from unorganized to organized, three is investing into specific stocks of one or two companies where the organized players in such industry with operating leverage characteristics makes us to build an universe of 15 to 20 companies would constitute the portfolio. The biggest challenge is how do we build the universe or how do we benchmark these two. Today if we benchmark to Sensex or Nifty or Midcap index, which are all essentially dominated by sectors, which are large and consolidated already. Today if you take Sensex or Nifty almost 35% is banks, 15% IT, almost 11% automobile, 10% oil and gas, which means almost two third of this indices are in these four businesses and all these four businesses are already part of the formalized economy in the consolidated business where you have five oil and gas companies with 90% market share and three automobile companies with 75% market share whether it is two wheeler or three wheeler or four wheeler where you have five banks with 70% of the banking activity in India. So in a highly consolidated business in formal economy you have these players who are significantly dominant in any index you take may not be the right benchmark to take, which is where we started trying to build our own benchmark, which is where we started working along with MSCI who are the worldwide leaders in creating indices and benchmark, so we started working along with them in creating some kind of a customized benchmark, which we can use ourselves to evaluate our own performance and if all goes well in the next probably end of this month we should have that index also ready most likely we will call that as MSCI Unifi business consolidation index, which in turn will have universe of companies in businesses with significant unorganized sector and are likely to get organized, but this benchmark is of no great relevance or importance from your standpoint, which is investor standpoint because as always in any of our themes that we have done in the past our focus is on the absolute return we earn because that is what determines what return, what fee we make, so we do not measure our portfolio performance based on alpha, outperformance, stock quartile returns because we do not even aspire to deliver anything of that sort.

In the next five years if we do 20%, 25% per annum CAGR in this theme and we are extremely happy and you will pay us lot of fees, whether the market went up 40% or not is secondary: we

going up 25% and index goes up 40% is perfectly okay with us, but what is not perfectly okay with us is if index is down 30% and we are down 10% does not mean we have done relatively far superior. Over a long period of time therefore what matters to us and most of the clients we serve if not all the clients we serve is the absolute return that we focus here, therefore we structure this theme more or less in similar commercials return targets like what we have done in APJ 20, in Green where such five years theme with 3x return target that is about 25%, 26% CAGR over this five year period and there is a 1% management fee, which we debit on monthly basis at 1% divided by 12 kind of numbers and which should become mostly from the dividend flow on the companies that we hold so that we may have to maintain any cash levels to take care of this cost and we carefully deploy because this kind of ideas you cannot do stock picking based on three month, six month outlook if we are bidding on business consolidation cycle the cycles are little longer and therefore most likely the churn rates will be very low and therefore we can consider deploying more or less whole of this capital and this 1% cost can always come from the dividend flow in the accounts spread over the year.

At the end of five years period if the portfolio return is higher than 12% per annum, which is the hurdle rate we should get about 20% of the actual return, which is in excess of that 12% and as always this time also any return above 12% when we take 20% share we give full 100% credit of this management fee, which was already incurred by the investor, which means it is 100% at the rate of 12% per annum over a five year period should become about 175 if the portfolio let us say goes to 200 and the balance 200 minus 175: 25% extra return we are eligible for 20% share, which is 5% and since the investor already incurred a cost of 1% in first year, second year, third year like five years we give full credit back and therefore the entire 200 goes back to the investor.

So the actual cost to investor is 1% or 20% share of profit and not both. Unlike other things here in this theme you might have noticed that there is one extra option we give, we have not given any great options in any of older themes. In this theme there are different types of investors, some of them are offshore investors who are also shown interest to invest in and since many of them are having only one PIS account are supposed to have only one account they wanted uniform costing and they had asked for 2% option, which we have provided and therefore as investors we have a choice to choose the first option, which is 2% and second option, which is 1% or 20%, whichever is higher.

So this is the broad contour of the theme and commercial return expectations, hurdles, risks involved to reemphasize and the risks at least in the last two days Tuesday and Wednesday we had conducted few of our client events in Mumbai and what was evident based on the questions they asked is when they try to put the risk thing to simple English language, the risks are when you investing in companies, which are mostly in the B2C domain in a growing business with operating leverage characteristics and unlikely we are going to take earnings volatility in the portfolios, but PE volatility in such stocks is unavoidable and some of them could look like high PE as compared to many of the stocks and strategies that we have used in past and most of our own clients has created a feeling as if in Unifi we always prefer companies with a dirty low PE or high discount to book values or high discount to the investment size they all carry: it is not that way, we need to

look at the price we pay in relation to the quality of the earnings and the consistency of these earnings and that way this portfolio is just an extension of that even though in absolute terms in this theme you may have PE ratios far in excess of what we have seen in some of the other themes that we have managed and therefore in this theme the risk content is more on the PE volatility rather than the earnings volatility and as we discussed earlier price is equal to earnings multiplied by PE and PE volatility could have a significant impact on the price volatility, but let us say we invest Rs.100 and six months later and you are seeing the portfolio down 10%, 20% and during this period the earnings have grown at least 20%, which means the PE has fallen 20%, 30%, 40% is actually a good reason to hold and if liquidity permits probably consider more allocation.

On the other hand if the portfolio is down 10%, 20% because earnings of these companies are down 10%, 20% then we deserved to get punished with the class and its poor stock picking, poor industry selection and as long as we are confident that we are building a portfolio of companies whose earnings are growing 20%, 25% and there is lot of tailwind happening in these sectors for the formalization driven by demography, urbanization, consumption pattern change, regulatory push all that should help these companies to a) maintain the earnings momentum probably gain momentum in earnings in the coming years also, so that way I think we have taken cognizant of all these factors and therefore took a much longer time unlike many of the themes where I have been closely associated in developing these themes I think here is one theme, which we would have taken probably the longest time of these six themes and here I think timing wise maybe in some sectors we are little late, if we are going to bet on sectors where the consolidation is already half way through I do not want to be a trend follower and invest in such sectors. At the same time, we also do not want to be a pioneer by investing in certain trends, which are likely to take place over the next five, ten, twenty years because we do not have that mandate. We have a limited period five years and therefore most optimal thing to do from our side is to identify those sectors where the drivers already exist and we are in somewhere in the beginning first 10%, 20%, 30% of the shift so that we do not take the uncertainty of the shift, but we do not get because our return expectations are not clearly 100x or 50x or 20x and we do 3x in 5 years I do not think we need to take any undue risks to earn those kind of returns in terms of being pioneer and getting far in access ahead of time. So that in a nutshell this is brief on the theme and the structure and the commercial and I will be happy to take questions from each one of you. Thank you very much for taking time out to listen to this presentation. I am ready to take questions now please.

Moderator: Thank you very much. Ladies and gentlemen we will now begin the question and answer session. The first question is from the line of Sumit Nahata. Please go ahead.

Sumit Nahata: Good to have your presentation. Sir what is your take on current market consolidation specifically in small and mid cap segment, what would be your take whether it would still continue or it should get reverse from here?

G. Maran: I am not an expert in predicting markets, market cycles all that, that is too much to ask because we do not track multiple sectors that drive these indices and valuations. Therefore, today where we are is when we run themes as specific as what we are running what is relevant to us is each of these

themes, each of the stocks that we own, how this earnings stream had been and how this earnings growth are likely to be and whether there are any earning shocks in any of these companies. What kind of discussion is more useful and more valuable than predicting the broader market cycles because actually speaking I do not know how to do that and I do not think that is of any great use from our context. Having said that only thing we need to add up here is when we say market we just refer to indices like Sensex, mid cap and these are all indices, which are dominated by few sectors and they do not have any great correlation with book and if you take Indian economy at 6.5% is financial and you have 35% of that in your index and 9% of your economy is construction and we have none of them in index. If financials private sector banks do well market does well and economy need not have to and if construction do badly economy will do badly and markets need not have to, so these are all things, which are in the specific context on which we operate is not that relevant. Thank you.

Sumit Nahata: Okay.

Moderator: Thank you. The next question is from the line of Amit Desai. Please go ahead.

Amit Desai: Good evening that was a very good presentation thank you sir. I have got two questions sir. So far in this theme of unorganized to organized with the detailed study that you have done I would like to know as per your study where have you found the fastest shift so far that is in terms of sectors?

G. Maran: The shift that has already happened or fastest shift, which we think we are likely to?

Amit Desai: Two things the shift, which has already happened and where do you think it is likely to happen going forward?

G. Maran: See the shift has been quite sharp actually in some of the businesses fast does not mean it has to be just two, three years such shifts massive shifts do not happen in two, three years, but it just took five years for the dairy industry the shift to happen quite sharp, but as I mentioned it took 15 years for just 10% in jewellery industry to shift, it is more a function of what are the other characteristics in such business. If in jewellery business still the purchase decisions are taken by 45, 50-year-old women housewife she is not going to be influenced by getting into a branded player like that in a very speed fast manner, but on the other hand for example retailing is one place where that shift could happen very, very sharp. Let us say garment retailing, 10 years back it was unorganized side was probably 80%, 90% today it may not be even be 40%, 50%. Today if you take say a travel luggage market there at least in the high-end space it is getting very formalized very fast, so we have done in about totally about 30, 34 businesses, some businesses for example if you take say auto components industry trend, the OEM market is fully organized because every automobile guy is organized and in turn he deals with the organized components, but if you take the same auto ancillaries replacement market is almost 80% unorganized. Now there are different reasons tax evasion, fake items, but the main trigger what we have identified is many of this auto ancillaries who are leaders in the OEM they have an agreement with their own vehicle maker for example a brake lining company in Chennai and an exclusive brake lining supplier to Maruti my agreement prevents me from selling the same thing to anyone else including the replacement market, so I am

limit, but if Maruti's company authorized service charges are servicing only 30% of the cars and 70% of the service market is still unorganized then this brake lining statistics will also be somewhat similar, but if the automobile population grows like in a inverse pyramid manner and the penetration of the OEMs in the service market also grows significantly like in the last three years and the same pace maintains in the next five years probably 50% to 80% of the cars would be serviced by company authorized service shops, so we will open that sector to go from 85% unorganized to 80% organized in the next four, five years mainly driven by the OEMs penetration in the service market across the nook and corner of the country. That is something, which was an exercise that we have done, which will be of great use in our stock picking as we build in this portfolio.

Amit Desai: Thank you for that answer and I just have one more followup question. I think you mentioned that your portfolio will have about 15 to 20 stocks that is reasonably concentrated and I just wanted to know is there any hunting ground for you in terms of market cap?

G. Maran: No, none of our themes actually if you have seen whether it is holdco or spin off or insider shadow or deep value discounts we had any preference towards market cap of these companies. If I say spin off if Bajaj Auto is demerging Bajaj Finance it comes to our universe it can be a 100000 Crore company and I do not disregard it. If the spin off happens in Crompton Greaves, which is a 20000 Crore company that also comes to our universe. If tomorrow spin off happens in a 2000 Crore KPIT systems also I may consider that. Same way here also we would be agnostic to the size of the companies, which fall in this space, but having said that if you are looking for good return on equity, good characteristics, leaders in the business, but at the same time I do not want to overpay for the visibility the large cap space already have 40 mutual funds and 127 fund managers and 400 analysts sitting in Mumbai and what is that I know, which they do not know are the price to value gap that exist in these companies, which is such people are actively tracking will be little less, so unlikely our portfolio will have a significant number of large cap. At the same time by our size itself for example this theme I think most likely we will have anywhere between 600 to 800 Crores kind of size that is what we think is a capacity that we can manage in this theme. So why because if I am going to invest in 15, 20 stocks and each stock say 30, 40, 50 Crores and this is the size, which we have so 4000, 5000 Crores market cap is where at average level our portfolio will end up with.

Amit Desai: Thank you so much.

Moderator: Thank you. The next question is from the line of Kaustubh Kapse. Please go ahead.

Kaustubh Kapse: Sir I have joined a little later is there a recording available on your site?

G. Maran: Absolutely we will put the audio in our website as well as the transcript we will get it mailed across to you.

Kaustubh Kapse: Excellent. Thank you.

Moderator: Thank you. The next question is from the line of Mandar Kapse. Please go ahead.

Mandar Kapse: Thanks for the presentation. I just wanted to check one thing what would be the minimum amount that one can invest, is it already a number in your fund?

G. Maran: Yes actually we never had any minimum as such in like in any institutional type language in any of our communication, but what we have worked around is sometimes when you do not state as a minimum and the amount gets in to the statutory minimum, which is 25 lakhs operationally since it is not a pooled vehicle, each client we have separate bank account, separate DP account, separate execution accounts and buying and selling is done in the investors name. Let us say you put 10 lakhs and we invest that in 20 stocks, which means each stock we buy Rs.50000 and when you might have noticed that when we buy a stock without buy in one go we buy in two, three, four tranches so that we do not incur the impact cost and which means that Rs.50000 trade if I split in to four and do 10000, 12000 neither of any great interest to you nor great interest to me, but what happens each trade you will have a DP and there will be Rs.25 some Rs.50 this entry so the operating cost of the smaller account is becoming much higher, which is your expense not my income, so what we therefore said is it has to be at least a minimum 10 lakhs if it is additional capital and if it is a new relationship starting together the account size relationship should at least be 50 lakhs.

Mandar Kapse: Fine. Got it. Thank you.

Moderator: Thank you. The next question is from the line of Girish Nagarkar. Please go ahead.

Girish Nagarkar: Good evening sir good presentation. Today or yesterday you must have read that Malaysia is going to scrap their GST as per their political commitment so my question is that it will maybe ahead of the curve, is there any learning on this or it is just a one off thing to be ignored as far as we are concerned?

G. Maran: I think it is safer, quick answer is it is safer to ignore that sir because I do not think that kind of scenario exists in our country and GST was the main election discussion item in Malaysia and second Malaysia is a 70% export dependent economy. India is 18% export dependent economy, basically 80% of India is domestic and in exports dependent economy when you have a taxation structure it is directly puts you in a inferior position than where you are and the significance of any inferior positioning in pricing in export market is going to impact 70% of their economy and therefore it became a big election discussion item and it is unlikely to be that way in India I do not think any government whatsoever who comes is going to take back GST I do not want to even discuss the possibility of the probability.

Girish Nagarkar: Thank you.

Moderator: Thank you. The next question is from the line of Chetan Cholera. Please go ahead.

Chetan Cholera: I just wanted to know do we have any self imposed restriction on investing like in alcohols, hotel or maybe non-veg or something?

G. Maran: At specific account level when investors give specific instructions we clearly follow that. We have two advantages, we do not operate on model account basis to apply singular rule across all points. We already have at least between 30 to 40 accounts, which are all called permission accounts where we send the list to them and they eliminate one or two stocks and we therefore execute the rest and since such a stage do not have active churning we do not do trade every day, so there are many months where you may not find any change in the portfolio holdings and therefore this engagement need not have to be active. In some cases, people say that do not send the list for me to give you permission that you on the other hand you eliminate the following one or two sectors and we follow that, but we do not take that list with some 10, 15 eliminators. If the investor can give list of two, three sectors are 5, 10 stocks we just go to the ODIN and system that we use and block those stocks for such investors and we do not implement them and since we do not follow model account thing such things is possible so when I build a portfolio of 15, 20 stocks it is not that my universe of stocks to buy is only 15, 20 it could be 23 stocks, 24 stocks and I will build 20 out of this 23 for you.

Chetan Cholera: Why I ask because I do not find any of the stocks in any of the scheme like alcohol or hotel because since you guys know hotel better and hotels are doing well, so I thought is there any self- imposed restrictions?

G. Maran: Actually no, but it is a clear miss from our side, but many of these industries where many of these schemes for example if I am betting an APJ I clearly stated that my job is not to find in which sector, which company is doing better and therefore invest in them, we are anyway contrarians and look at businesses like agri, engineering, chemicals, mining and infrastructure and therefore our attention to look at opportunities may be restricted to only few of these sectors instead of many other sectors.

Chetan Cholera: My humble suggestion is just please look at is there some alcohol stocks?

G. Maran: Yes in fact in our listing of this 34 subsectors where the unorganized presence is significant and room for formalization is high for now the sector is actually the breweries and distilleries.

Chetan Cholera: Thank you Maran.

Moderator: Thank you. The next question is from the line of Bhavya Gulati. Please go ahead.

Bhavya Gulati: Thank you Mr. Maran for the lovely presentation. I have two questions, one is that right now the markets are rolling high and your small caps and midcaps are generally at high PE I do not know what your study shows and whatever list you have, but what is your view on the kind of multiple expansion that has happened and would that be sustainable going forward because if you are buying at a high PE even the growth is high unlikely that you will make great returns, so would you have

sort of a discipline on the price to earning that you look at it, it may be high I am not saying high, but is there a discipline that you will have there to be able to pick stocks.

G. Maran: Yes actually yesterday I got a twitter forward and one guy put that index is near all time high.

Bhavya Gulati: Sorry I am not talking about the index I am talking about.

G. Maran: No, I just finish it, index is at all time high and number of stocks with 52 weeks high was 14 and number of stocks at 52 week low was 260, so what it means is sometimes the valuation excesses that we see are not uniformly across all companies. For example if you take our APJ portfolio not that all companies have announced already their March 2018 results, but if you take say December results and then extrapolate or if you wait for a month and then take March results the earnings growth of these companies have been in excess of 20%, 22% per annum year-on-year. The PE at which the trade is still below 18 times, which means it is not an indicator of market if you take small cap index, mid cap index and their PE, their PE number that you get is 30, 35, which is of course super expensive is reflective of highly dominant stocks in such indices. Now why it has happened like that is in the last two, three years most of the assets under management growth because the flow of money to these mangers has been so high the investment universe have not grown proportionately. I will give one statistics, which can help you to put that in the perspective in which you ask the question for example if you take March 31, 2017 market cap of India was near about $2.2 trillion, number of companies with 1 billion or above market cap was 145. Ten years before March 31, 2007 market cap of India was $800 billion, number of companies with above 1 billion market cap was 142, so if I am an institutional investor like mutual fund and I invest in these kind of companies essentially even today 90% of the mutual fund assets are invested in companies whose market caps are in excess of $1 billion. Now if I am a mutual fund investor my assets under management in 2007 was 90000 Crores and 2017 was 800000 Crores and I have ten times more money in a market, which went up three times more market cap, but the universe of stocks I can consider for investment is the same 145 companies that results in higher PE for the same earnings because their expectation of future returns can be lower, but what I am trying to say is that is not uniformly the case across all companies therefore the high PE that we pay today will become a risk if the earnings does not grow at the rate, again the risk comes back to our estimate of the earnings, but at the same time I do not think we will go and buy 50, 60, 70 PE companies casually just because we like that business. I think it will be certainly higher than the PE that we are ourselves paying or holding in our existing themes, but it would not be high enough for us to feel jittery about.

Bhavya Gulati: And what would that range be?

G. Maran: It will be somewhere between I think between 20 to 30 range, but more than PE in isolation we will look at PE in relation to the earnings growth and many other characteristics. I would say 30 PE for Asian Paints may appear cheap, but 12 PE for JSW Steel may appear expensive.

Bhavya Gulati: The nature of the businesses was different?

G. Maran: Yes.

Bhavya Gulati: Thanks.

Moderator: Thank you. The next question is from the line of Nimata. Please go ahead.

Nimata: My question is, is there going to be any overlap in these stocks that you are picking with any of your earlier themes?

G. Maran: Good question. That is something, which we also were discussing internally. We have as I mentioned to you we have done six themes in the past 10 years and each theme had its own merit, demerit, the defined universe where we look for ideas so if I am running a spin off fund I invest only in companies to demerger and I am running a insider shadow fund I invest only in companies where the promoters are buying. Now if there is a company where promoters buying and the companies is doing demerger it is natural the same stock will come in both portfolios and I do not want to deny that as an opportunity to buy in insider shadow just because I hold in spin off, but most likely with whatever limited universe the universe for all the other portfolios already have the universe for this portfolio is partly ready and evolving, but I think the overlap may not be there and even if it is there may not be more than one, two, three out of 20 stocks.

Nimata: Thank you.

Moderator: Thank you. The next question is from the line of Rahul Saunil. Please go ahead. It seems there is no response from the line we will move to the next question that is from the line of Shailendra Kumar. Please go ahead.

Shailendra Kumar: This is a fantastic presentation. We really want you to bother about your pickup of stocks and not the indices, so thanks for doing that and secondly the question, which I have is that you have touched about paint sector, you have touched about healthcare sector where the organization is unorganized to organized they have, which are the other sectors, which you are looking with such opportunities exist?

G. Maran: There are many as I mentioned about 30, 34 I think to help you in linking some of these examples with our broad thought process that the split of discussing these sectors, idea is not to share all these sectors where we have interest, but today I think building materials if you take as a broad industry whether it is plywood or lamination or sanitaryware or tiles or even retailing of such products, these are all businesses, which are essentially unorganized and likely to become organized. We discussed about auto ancillaries how essentially unorganized the replacement markets are and why there is a sound ground for them to get organized and dairy is not something, which is fully organized yet and we are halfway through and we have a good chance to see that is getting organized and there are many businesses in consumer electricals, consumer durables where even though the urbanization related consolidation has been happening for over long time the demography related future demand growth and therefore consolidation from rest of the places like the urban, semi-urban, rural areas there are many such segments are there. Some segments maybe

one or two companies and they have industry by themselves for example if you take temp staffing as a business it is being essentially unorganized, but there are aggregators who are coming in making excellent shareholder returns, so we are keeping our eyes wide open to look for opportunities in the broader spectrum. Probably once we complete this I think June or September quarter I think we sit down with one portfolio review I will give you broader sense of different sectors we have evaluated and why we choose to invest in selective sectors.

Shailendra Kumar: Sure sir. Thanks a lot.

Moderator: Thank you. We have the next question from the line of Rahul Saunil. Please go ahead. I think there is no response sir that was the last question. Ladies and gentlemen I now hand the conference over to Mr. Maran for closing comments. Thank you and over to you Sir!

G. Maran: Thank you very much each one of you for taking time out and it is always a pleasure to talk to you and one of the main feature in every product note that we have done so far each time we launch product is the Q&A part, FAQ part and many people have communicated that to us and that what are all the questions we usually have in the product. We have preempted them in the FAQ and answered and the reason why we delayed printing our brochure is to do this call and listen to each one of you and I had my colleague Gayatri sitting here taking down each question that you had asked so that we will put them in the client perspective and cover them in the FAQ in our product note and have it sent across to you. I am sure you may have many more questions as you read and as you think about the allocation, feel free to shoot them back to us. This is not a kind of strategy where you have to jump invest as it is running away opportunity we have enough time there is no urgency, think aloud, see whether this theme suits your return expectations, your risk tolerance. This is a theme where the returns are likely to be skewed in any case and the returns are going to be uncorrelated to markets. Many of our investors who are invested in five, six different themes that we have done would be aware of the standard disclaimer kind of language we use, but those are all things, which have not played out in those things maybe because you are lucky and we were lucky and even though we say we are uncorrelated in emerging market we also rose faster, but that is not likely to be the case in coming years and therefore it is important that when you take an allocation view in this theme you are taking that allocation view with a five year mandate. Do not evaluate us one year down the line or six months down the line, but evaluate us based on how within the six months down the line the earnings of the company we invested are growing, whether that shift is happening, whether that shift is beneficial to the company that we are investing in, those kind of qualitative assessments are always most welcome, but making a quick judgement call based on how the NAV moved in six months one year just because we are up 40% does not mean we did a great job, just because we are going to be down 20%, 30% does not mean we did a bad job, so maybe even a smaller allocation to this theme if you cannot take larger allocation, but track it closely. Take a smaller allocation but take a five year outlook. Be prepared for the skewness. You may get into a situation where in the six months down the line market may be at all time high and we may be down 10%, 20% in this theme. We may also be in a situation where market may be range bound and this theme maybe up 40%, 50%. So there are some investors who have a natural temperament to that mindset, so be prepared for skewed returns, which are uncorrelated to markets,

I am not getting bullish in market and therefore launching this theme and in the next five years if markets are going to be range bound I am still confident and this is a theme, which can still reach its target, but we need to take the allocation decision by firm thinking and if further questions from you and clarifications from us can help you in getting the clarity by all means fine. Thank you very much again for taking time out and look forward to see you soon. Thank you very much.

Moderator: Thank you very much. Ladies and gentlemen on behalf of Unifi Capital that concludes this conference. Thank you for joining us. You may now disconnect your lines.