THE BLENDED AIF

1st Quarterly Review – May 2019

Executive Summary

Unifi Capital actively manages six bottom up equity strategies that sift through opportunities across the breadth of the market. The mandate is to participate in opportunities that arise from: *a mix of emergent themes, corporate actions and attractiveness of core fundamentals*. Our objective is to deliver superior risk adjusted returns from an absolute perspective. Investments under the Blend fund have accordingly been cherry picked from across 6 distinct funds. In effect, the endeavor has been to identify *"the best of our best".*

The Blend AIF went live on 15th Feb, 2019 and over the last 3 and a half months we have deployed about 75% of the capital. Each of our investments are a function of rigorous bottom up evaluation, and a common thread that runs across each of them may be characterized as follows:

I. Leader in its industry
II. Privy to fundamental tailwinds
III. Strong leadership teams with track record of execution
IV. Good Corporate Governance and financial discipline
V. Insulated from disruption for foreseeable future

In the course of our primary diligence and investment, we have engaged with the managements of all our investee companies (ex-Coal India) in addition to secondary channel checks to triangulate our thesis.

In our maiden communique to you, we are briefly touching upon the rationale behind a few of our large holdings and our thoughts on their future.

Crompton Consumer

Crompton Consumer is one of India's largest players in the consumer durables Industry. After acquisition of Avantha group's entire 34.37% stake in April 2015 by private equity firms Advent International and Temasek (owned by Govt of Singapore), who are the current promoters, the company has transformed into an innovative and capital efficient player with strong management pedigree that has exhibited solid execution over the past 2 years. Crompton is the growth leader in segments spanning premium fans, residential pumps and LED's and over the next two years, has multiple levers to drive growth from forays into newer product areas and from consolidating its leadership across existing product lines.

Leadership, consolidation and profitable growth **-** Crompton derives about 38% of its business from the fan segment and commands 25% of share in the industry. Crompton has grown at 2x the rate of growth of the fan industry, with new product innovations driving profitability as well as opening up the premium market. Lighting at 30%, is their second largest segment and the company has been a significant price-cost leader / disruptor in the segment. This segment has delivered volume growth in excess of 20% and the company is now broadening its target segment to newer high growth areas. Pumps contribute to about 23% of the revenues, and the company has had a breakthrough year in this segment through the introduction of new residential sector product - *"Crest Mini"*. This segment has grown by roughly 30% in FY-19 and with their focus now shifting to expanding their geographical presence and newer industries (agriculture), we expect continued traction. As a part of its future growth initiatives, the company is filling gaps (geysers, coolers, appliances, others) in its product portfolio and has demonstrated notable traction in each of these endeavors.

Over the next two years, the company has operational and financial levers to deliver industry leading earnings growth of ~20%, coupled with strong capital efficiency (RoE ~36%). We are positive on their ability to maintain the momentum in execution and growth over the medium to long term, and our returns should track their progress on these metrics.

Himadri Specialty Chemicals

Himadri Specialty is India's largest manufacturer of Coal Tar Pitch, a key consumable used in the manufacturing of Aluminum. With a 70%+ market share in India, Himadri is a sector leader and controls a significant part of the industry's value chain. The company's use of coal tar from coking coal furnaces as against crude based alternatives, significantly reduces its vulnerability to swings in crude oil price and thereby ensures a more robust business proposition.

Our interest in Himadri is driven by (A) their highly integrated manufacturing processes that make it a sustainable and cost-effective player and (B) it's ability to leverage the manufacturing value chain to foray into higher margin derivative products, namely specialty carbon black (SCB) and advanced carbon materials (ACM), which is now used in the manufacturing of Lithium Ion Batteries

Foray into new, high growth areas - Globally, Specialty Carbon black (SCB) as an industry is growing in healthy double digits buoyed by general strength in global consumption. Any product you see with a premium black finish, from your car's dash board to your tablet, uses specialty carbon black. Himadri has undertaken a 60,000 Tons per annum specialty carbon black capex. This will increase their capacity by 60% and their earnings from SCB is expected to be 2x that of normal carbon black. This foray is expected to strongly contribute to earnings over the next few years.

The second avenue for growth is their foray into ACM which finds key application in Lithium Ion batteries. The accelerating demand for smart phones and electric mobility solutions are optically visible to you and the prospects for incremental demand is strong, thereby driving the demand for ACM. Himadri is amongst a handful of global manufacturers who have perfected the technology for manufacturing this key derivative and is due to integrate its offering into the value chain of large original equipment manufacturers over the coming year.

A large part of the capex in for both SCB and ACM has been completed and is expected to commence commercialization over the next 3 months.

With falling leverage (0.3x), strengthening operating cash flows and capital returns of 19%+, we expect the mix & quality of earnings to improve significantly over the coming 12 months. The company has the potential to deliver earnings growth of 20% in CAGR over the next 3 years and current valuations offer a good margin of safety.

Bank of Baroda

Post-merger with Vijaya Bank and Dena bank in April 2019, Bank of Baroda (BoB) has emerged as India's 3rd largest bank with total advances of Rs. 7 lakh cr. and with strong market share of 22% Gujarat, 10% in Rajasthan, 8.3% in UP, 9.6% in Chhattisgarh and 8% in Karnataka.

Headed by Mr. Jayakumar, a career Citi banker for 23 years, Bank of Baroda has been the first PSU Bank to access a private sector professional at a leadership role. Since 2015, Mr. Jayakumar has significantly strengthened most of the financial and operational parameters of the organization. A significant outcome of his tenure has been to effectively tackle cyclical stress in the corporate loan book. For instance, fresh slippages were lower by 57% in FY19 as compared to FY18. The bank is now done with bulk of stress recognition & provisioning with a coverage ratio of 65%.

With robust growth in advances which is largely driven by Retail loans (primarily housing and vehicle loans) and continued access to low cost funds through retail deposit & CASA franchises, Bank of Baroda is well placed to demonstrate strong earnings growth with an improving credit profile. The current crisis in the debt mutual funds should also divert incremental liquidity into bank deposits thereby helping improve Net Interest Margins (NIM) through lower cost of funds.

Bolstered by the recent Rs.5,042 Cr infusion by the Government of India, Capital adequacy continues to be strong for BoB and shall compensate slightly lower capital level in case of Dena bank. Overall, we believe that Bank of Baroda is well placed to benefit from upturn in the credit cycle given its access to low cost deposit, improving asset quality and capable professional leadership at the helm. Even with a conservative

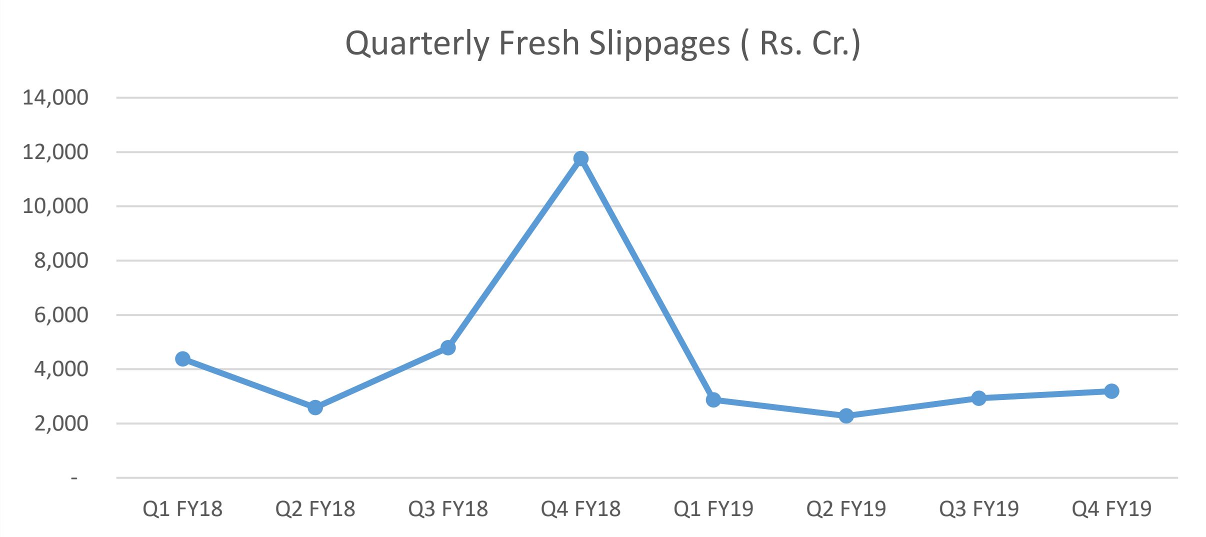
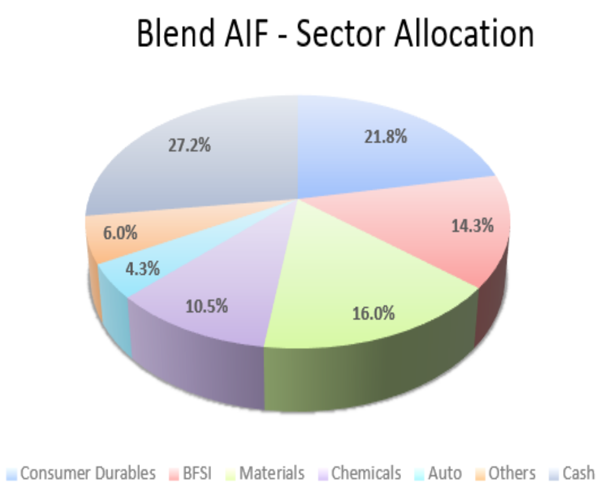


Exhibit 1: Bank of Baroda Quarterly Slippages (Rs. Cr.) over last 8 quarters

assumption of no recovery from net NPAs, the amalgamated entity is trading at an attractive P/B of 0.9x with an expected ROE of 10% in FY 20. Over the coming year, we expect strong traction in earnings driven by core growth and reversal of provisions.

Key Portfolio Metrics

The following schema illustrates the broad sectoral and thematic allocation for the Blend Fund.



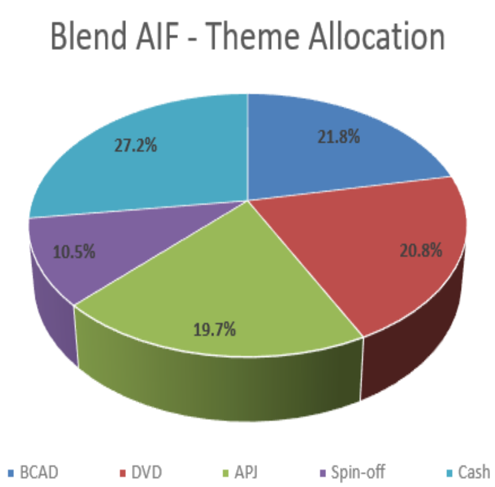


Exhibit 2: BLEND AIF allocation as on 31st May 2019

It is imperative to highlight here that each investment in the fund has been made on its own merit and the portfolio characteristics are merely a by-product of the process.

In sync with Unifi's philosophy, the aggregate portfolio has low leverage, demonstrates potential for strong earning's growth and has reasonable valuations.

Valuation Parameters (As on 31st May 2019)	FY2019	FY2020E
P/E Ratio *	15.1	11.5
Earnings Growth *	16.8%	22.9%
Debt Equity Ratio	0.19	0.12
ROE %	21%	20%
PE/ Growth Ratio	0.89	0.50

**Adjusted for one-off to make figures representative*

We are continually monitoring the environment for opportunity to profitably deploy and our cash position is an outcome of our investment process and not a call on cash per se. We are comfortable with the fundamental thesis with which we are constructing our portfolio and are closely monitoring the financial and operating environment of our investee companies. In about three months from now, we will be writing to you again with updates on the fund and delving deeper into our other holdings. The timeline to communicate with you has been chosen bearing in mind the results season, which accords us the opportunity to comment on the operating performance of the businesses we own.

In closing, we encourage you to write to us, or your relationship manger for a detail portfolio review and understanding our proposition at greater granularity.

With best wishes,

K Sarath Reddy
Founder and CIO

UNIFI AIF 3 – BLENDED Fund

BLEND fund cherry picks from across the portfolio of companies that Unifi manages across each of the 7 distinct funds. In effect, the endeavor is to be able to identify the “the best of our best”. This fund aims in cutting down the investors switching cost and effort in migrating between best opportunities at any diverse point of time.

NAV/Unit	
Opening NAV as on 14-Feb-2019(Start Date)	100
Closing NAV as on 31-May-2019	103.64

Exposure Summary:

Companies	Exposure*
COAL INDIA	10.95
CROMPTON GREAVES CONSUMER ELECTRICALS	10.60
BANK OF BARODA	9.71
HIMADRI SPECIALITY CHEMICALS	8.10
VIP INDUSTRIES	5.76
SHEELA FOAM	5.14
GARWARE WALLROPES	5.07
IIFL**	4.58
TVS SRICHAKRA	4.31
INTELLECT DESIGN ARENA	3.57
SUVEN LIFE SCIENCES	2.38
AARTI DRUGS	1.90
NAVIN FLUORINE INTL	0.45
POLYCAB INDIA	0.33
Total	72.85%

*Percentage of total AUM as of 31st May, 2019

**IIFL – Total weight of the de-merged entities

FUND DETAILS

Launch Date:
14 Feb 2019

Scheme AUM:
INR 1.33 bn

Theme AUM[1]:
INR 10.87 bn

Firm AUM:
INR 44 bn

No. of Investors:
85

Investment Manager:
Unifi Capital Pvt Ltd.

Tenure:
5 Years or 200% absolute return whichever is earlier

Custodian
Kotak Mahindra Bank

Reporting:
Quarterly Review

Hurdle Rate:
12% Per annum compounded

Fees:
1% per annum of AUM payable monthly and 20% of profits earned above the hurdle rate. The management fee would be offset from our share of Profits.

[1]AUM under Blend Fund - in PMS as well as AIF as of 31st May, 2019

Annexures:

Financial Details of Portfolio Companies

(Rs. in Cr)	Sales		Operating Profit		PAT		D/E Ratio	ROE
Company	**Q4 FY'19**	**FY'19**	**Q4 FY'19**	**FY'19**	**Q4 FY'19**	**FY'19**	**FY'19**	**FY'19**
COAL INDIA	28,546	1,00,051	8,213	24,649	6,027	17,464	-	74%
CROMPTON GREAVES CONSUMER	2,174	4,479	164	584	141	401	0.55	43%
BANK OF BARODA	5,067	18,684	-	-	-991	433	-	-
HIMADRI SPECIALITY CHEMICALS	583	2,377	123	537	72	307	0.26	18%
VIP INDUSTRIES	435	1,785	39	225	25	145	0.15	25%
SHEELA FOAM	535	2,141	56	209	38	134	0.04	18%
IIFL HOLDINGS	1,941	7,236	-	-	295	965	-	-
GARWARE WALLROPES	290	1,018	51	192	37	126	0.17	21%
TVS SRICHAKRA	580	2,382	56	259	16	103	0.57	14%
INTELLECT DESIGN ARENA	396	1,450	47	128	42	131	0.10	13%
SUVEN LIFE SCIENCES	253	664	105	224	68	150	0.04	15%
AARTI DRUGS	459	1,561	56	207	27	90	0.87	17%
NAVIN FLUORINE INTL	244	955	52	218	36	149	-	14%
POLYCAB INDIA	2,444	7,956	263	1,014	137	500	0.10	18%

Information on Fund Risk Management

Price Risk: Stock markets are volatile and may decline significantly in response to adverse issuer, political, regulatory, market or economic developments. Different parts of the market and different types of equity securities may react differently to these developments. For example, small cap stocks may react differently than large cap stocks. Issuer, political or economic developments may affect a single issuer, issuers within an industry, sector or geographic region, or the market as a whole. Unifi AIF 3 – BLEND Fund adopts a bottom up approach towards investing. Also, various macro events and its implications are considered to reduce the overall negative impact on portfolio.
Loss of Capital: All investments in securities present a risk of loss of capital which is an outcome of various events like macro events or something internal to the company. The Fund would seek to moderate this risk of loss of capital through a careful selection of investments.
Liquidity Risk: This represents the possibility of not honoring redemptions upon closure of fund due to illiquidity of the portfolio. Also, it is possible that the realized price from selling the security might be lesser than the valuation price as a result of illiquid market. The Fund would ensure that at a significant portion of its investments can be liquidated at prevailing market prices.
Risk of Key Personnel: This represents loss of one or more key personnel of the Fund Management team who are responsible for managing the Fund's portfolio. The process of investment and fund management is institutionalized and hence procedure driven. This reduces the risk of loss of key personnel.
Concentration Risk: This represents risk of concentration of investments in few opportunities. This risk is minimalized as individual position weightage isn't allowed to go beyond 10% of the Investible Funds.
Leverage Risk: This represents risk of leverage risk at the investee company level. This risk is minimalized through prudent selection of investments.