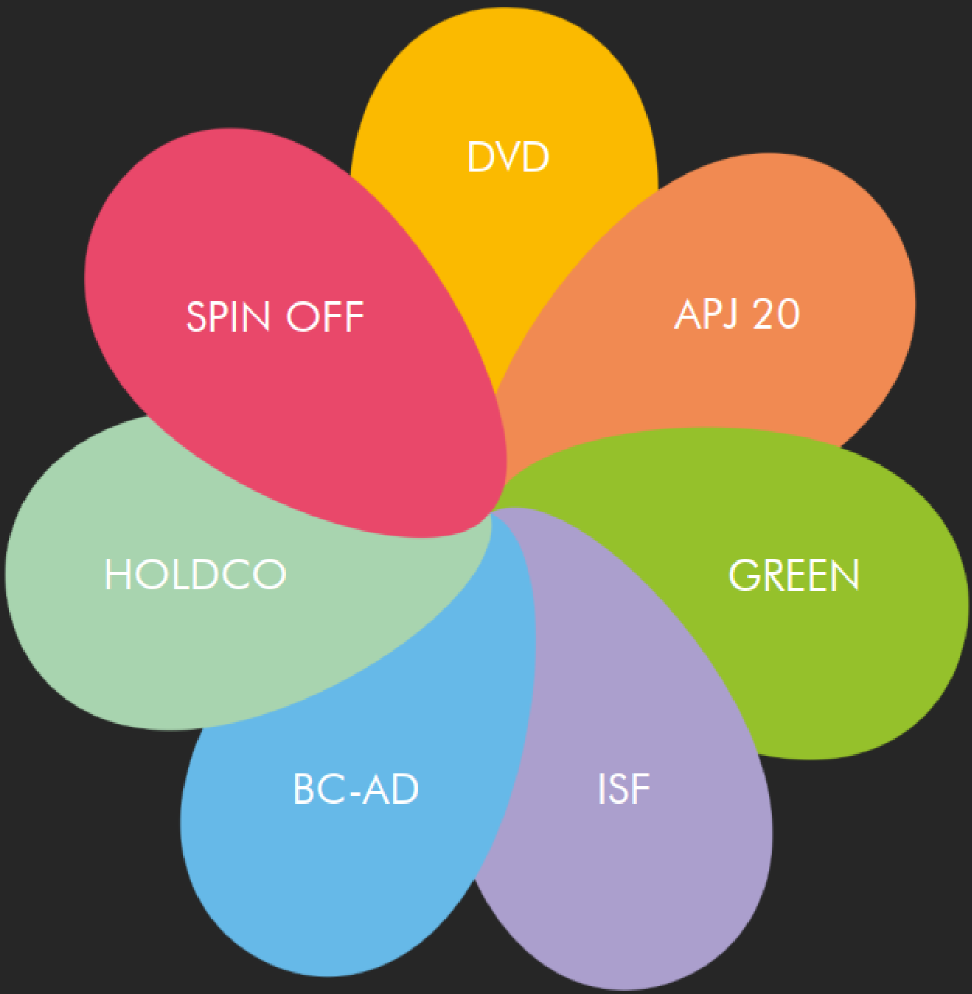
UNIFI Capital




# THE BLEND FUND

6th Quarterly Review – Oct, 2020

## A Preamble

The last six months have been among the most absorbing and trying for us (and most) institutional fund managers. After several years of weak economic / GDP growth, we started the year with an expectation of recovery, amid signs of early green shoots. As the recovery was playing out, the blackest of all Swans hit us. The reaction of most pundits, economists, (and a few of our clients!) were on similar lines: *this will cause long term pain, exit.* We wrote to you in March, urging you to precisely overlook this deduction, and instead consider the actions of the institutions whose responsibility it was to step in, and handle the crisis. The power of this intervention by central banks around the world is visible in the markets and the returns. Policy intervention has also resulted in the divergence we are seeing today between the real economy and financial markets.

## Monetary policy has changed for good

Over the last several years, volatility occurring from exogenous events has dramatically risen and is now occurring with greater frequency. In a bid to insulate the markets from such events, central banks around the world have moved from being mere observers, to being a dominating participant in financial markets. The US Federal Reserve has championed this approach down to a fine template. Their policy basket now has two significant tools: (1) reducing the short-term rates to provide an incentive to investors to invest / bear greater risk, and (2) market stabilization programs where they purchase investments to provide investors with the confidence to follow suit.

With return expectations no longer being met with their local investments, investors are now increasingly looking at emerging markets, and willing to bear incremental risk to seek higher returns. And when large-scale participants, i.e., central banks, and institutional investors, repeat the same linear behavior with capital markets, the whole turns out to be much more than the sum of the parts. So, during the onset of the pandemic when rationalists expected economies and markets to fold, the quantum of liquidity unleashed by central banks saw the basic foundations of economic theory, i.e., demand and supply, take over. As large quantum of liquidity chased a limited pool of assets, prices rose; and as the cost of debt fell, the implied cost of equity increased asset prices further.

Given how petulant markets are today, the Fed has committed to keeping interest rates near zero till 2023, and in the process increased the role of central banks in ensuring market stability. Eventually, the effects of policy are witnessing a transmission into the real economy. The US economy posted a good recovery in August with PMI and Housing statistics beating expectations, and is set to further strengthen in the times ahead.

## Domestic Macros and Markets

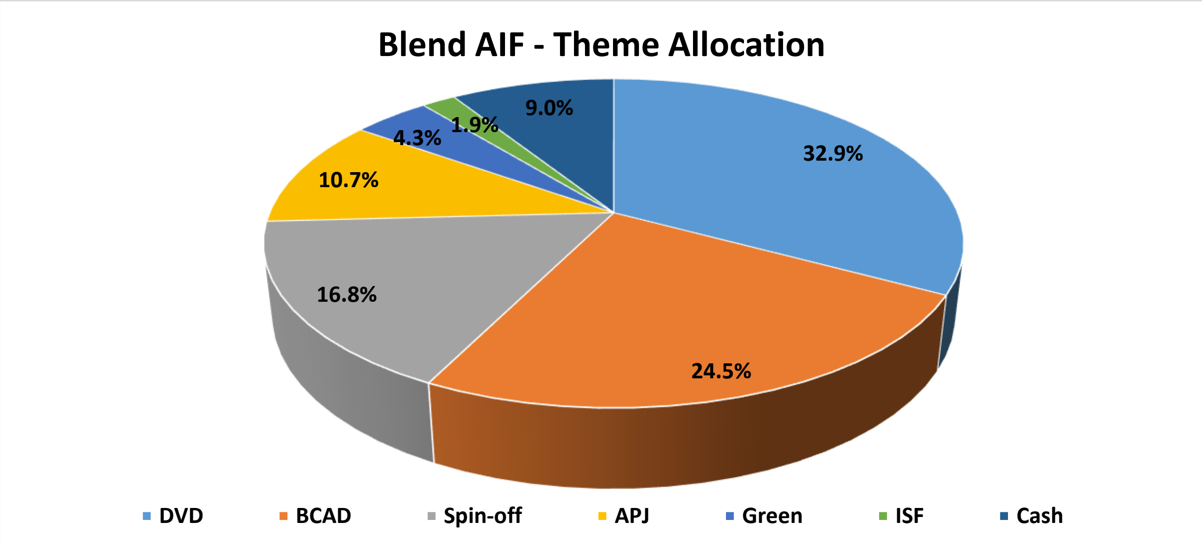
We are not drawing a specific reference to the several economic, regulatory, and political events that have ensued over the past few months; it may be akin to boiling an ocean. India's contraction in real GDP for Q1 FY21 was higher than expected at 23.9%, but with the 'unlock' rolling out rapidly since July, the pace of economic acceleration has been high. For instance, the peak power demand in the first week of September was higher than the levels recorded last year indicating a spurt in commercial and industrial activities. Daily e-way bills generated have also recovered sharply from April to August, indicating better mercantile traction. Collection efficiencies across segments of lending have been improving sequentially in the run-up to the end of moratorium in August 2020. With a sensible restructuring framework in place, banks should be able to address the oncoming spike in delinquencies better, as customers come out of moratorium. Further, the RBI in its latest review has kept the policy rates unchanged with a stance that is accommodative.

## Where do we go from here?

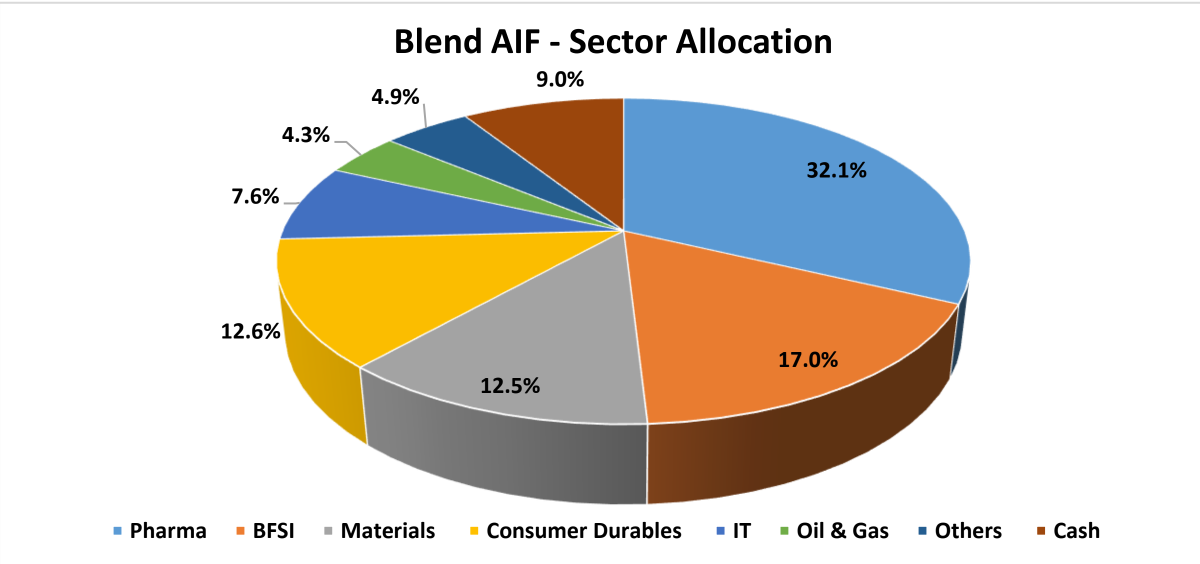
Over the past quarter, much of the action has shifted to the mid-cap and small-cap space as the long-standing undervaluation in some spaces were more striking than ever. Select firms in Pharmaceuticals and Specialty Chemicals performed exceedingly well, driven by fundamental tailwinds. We hold some of these companies. While we note the strong performance of each of these companies, we are also watchful of underlying valuations and are taking appropriate portfolio actions where the fundamentals and valuations do not offer a sustainable margin of safety. While the jury is still out on the damage caused by the pandemic to the overall economy, we are *'cautiously optimistic'* about India's prospects. On the back of good monsoons, and implementation of several policies targeted towards the agricultural segment, rural India is in the midst of the strongest demand and consumption cycle witnessed in years, providing the much-needed fillip for domestic consumption. The recent reforms in agricultural procurement, changes in Essential Commodity Act and Labor Laws can bring in the much-needed turnaround in the Agriculture and Manufacturing segments, and support the domestic consumption thesis. Large B2Bs, where India is a significant leader, have significantly consolidated their prospects (IT Services, Pharmaceuticals and Specialty Chemicals) and the new geo-political realities have warranted a fresh look at India as a manufacturing destination. Global macro factors continue to be favorable for sustained flows into emerging markets like India, enabling RBI to continue to keep interest rates lower for a foreseeable period of time.

We are optimistic that these variables will continue to drive the consolidation of leaders within their sectors. The macros apart, we continue to be obsessively bottom-up focused, and continue to look for opportunities that will benefit from changing trends within the economy.

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




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



## Q1 FY21 | Result summary

The Blend AIF Fund strategy continues to draw from the best opportunities across all of Unifi's investment themes. The fund's holdings across specialty chemicals and pharmaceuticals have benefitted positively from the Covid-induced disruption, and are expected to gain further momentum. Overall, the portfolio is well diversified and positioned to benefit from the normalization of the economy with the investee firms consolidating their position and delivering industry leading growth.

Both from revenue and cost control perspectives, Covid has acted as a tailwind to Indian Pharmaceuticals companies. Of our holdings in Pharma, JB in particular has seen good fundamental momentum, prompting us to increase exposure. In Chemicals, Aarti Drugs has seen a marked improvement in their business dynamics and some of it is structural in nature. This resulted in a ferocious re-rating, as market took note of this hitherto unknown name. Pharma and Chemicals together form 35.1% of the portfolio.

Financials constitute the second largest segmental exposure (17%). With valuations already factoring in near term weakness, we took exposure to two retail focused banks, ICICI Bank and Axis Bank; with strong deposit franchise and strong capital adequacy, they are best positioned to weather the downturn. We also increased our exposure to ICICI Securities owing to the business consolidation witnessed in the broking space.

Rest of the major sectoral exposure include Consumer Durables (12.6%), Textile materials (12.5%) and Information Technology (7.6%). In the IT space, we added Tech Mahindra, which is slated for margin expansions and expected to benefit from the 5G investments by telecom operators globally. As in the past crises, it is fair to expect infrastructure spending to be a pivotal driver of economic recovery. We added KEC, which has an excellent track record in EPC and with a strong balance sheet is aptly positioned to gain. India's increasing consumption of natural gas, along with the failure of domestic production to meet the demand growth, is leading to a spike in imports. Petronet, the largest player in the LNG re-gasification space with back-back long-term contracts, shall be a major beneficiary of this trend. Hence, we chose to allocated 10% to Petronet.

To fund these purchases, we exited Muthoot Finance and Can Fin Homes. Both these financial companies are seeing a renewed bout of price competition and after the rally were trading at fair valuations.  We also sold TVS Srichakra as the execution has been weaker than anticipated. Further, taking advantage of the rally, we moderated our exposure to Aarti Drugs and Suven, and marginally trimmed our exposure to CG Consumer.

### The following annexure presents a brief on our top holdings

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| **Suven Pharma** | Suven Pharma Limited ('SPL', the demerged entity) posted a good set of numbers for Q1FY21, especially considering the fact that the numbers last year had one-off gains on the back of new campaign launches. Revenues for the quarter were up 29% YoY and 28% QoQ and EBIDTA margins were up sequentially from 43% to 48%. Their associate Rising Pharma's (USA) share of profits came in at Rs.10cr for the quarter vs Rs.17cr YoY. Rising pharma had a one-time inventory valuation gain last year as a result of which at the consolidated level, PAT is flattish. Due to the nature of R&D projects billing (about 35%-40% of the business) that could vary among quarters, we typically look at the annual progress rather than quarterly results.<br><br>SPL's revenues arise from contract research services, commercial scale intermediate supplies and select specialty chemicals sales. SPL has also diversified into formulations by building appropriate capacities and obtained USFDA approvals. Business synergies with Rising Pharma will also help shore up the formulations segment. They have launched 2 ANDAs (formulation drugs) in Q1 and look to launch 3-4 ANDAs every year over the next 5 years. SPL is also looking to commercialize 2 more intermediates – one in specialty chemicals and other in pharma this year. The capex (Rs.100cr for FY21) is |

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| | underway to ensure capacities are available on time for the expected growth in commercial segments.<br><br>Potentially limited management bandwidth and slowdown in new research orders in the COVID affected H1FY21 are the key concerns. |
| **Garware Technical Fibres** | Garware's reported a fall of 34% YoY in revenues to Rs.152cr on the back of the pandemic related disruptions. Their EBITDA margins contracted by 6.8% to 11.8% for the quarter, and EBIDTA fell to Rs.18cr vs Rs.43cr YoY. The Synthetic Cordage as well as the Fibre & Industrial products segment was impacted given the circumstances and a recovery is expected in H2 of FY 21. FY21. Gross Margins improved by 6.2% during the quarter as raw material prices softened. With about 60% of revenue coming from Food Industry (aquaculture, fishing, salmon farming) we expect their operations to steadily normalize.<br><br>Key risks: fall in the price of Salmon, a sharp rise in Crude Oil and failure of newer innovative products to garner market share. |
| **JB Chemicals** | JB Chemicals delivered revenue growth of 17% YoY at Rs.522cr, driven by robust growth in exports and API. Operating margins expanded by 8.3% YoY to 29.8%, on the back of which EBITDA grew by 62% YoY to Rs.155cr. Margin expansion was primarily aided by lower sales and marketing spends and INR depreciation against USD. Overall, PBT was up 71% YoY to Rs.157cr and PAT was up 92% YoY to Rs.122cr due to lower taxes and higher other income.<br><br>Post the Q4 results, the company announced a deal whereby private equity firm KKR will take over the company from the promoters at a price of Rs.745/Share. Eventually, KKR shall own between 54% and 64.9% of JB. It has been indicated that the current promoters of JB are likely to continue playing a role, albeit a smaller one. Also, depending on the number of shares tendered in open offer, the existing promoter might continue to hold an estimated 5-10% of the company as compared to the current stake of 55.9%. We like the company due to the strength of its 4 key brands (Cilacar \| Nicardia \| Rantac \| Metrogyl) and potential for KKR to increase the growth momentum.<br><br>Key risks: prolonged economic weakness and supply chain disruptions that can impact the supply and demand. |
| **Aarti Drugs** | Aarti Drugs Limited's (ADL) Q1FY21 reported sales, EBIDTA and PAT growth of 34%, 147% and 282% YoY respectively due to volume growth, better price realisations, product mix, operating leverage efficiencies, lower borrowing costs and tax savings. The growth in revenues were driven in equal proportion by volumes as well as prices. Exports constituted 34% of total sales and APIs continue to be a predominant part of their sales at 85%.<br><br>ADL expects a volume growth of 12+% in FY21 as well as FY22. The capacity additions in Anti-Diabetic and Anti-Inflammatory API segments besides formulations will support the incremental growth. Stringent impurity profiling and quality focus has helped ADL to garner additional business from regulated markets. It also expects an USFDA reinspection by year end and has completed the consultant guided changes to its processes and workflows.<br><br>Delay in formulations product approvals from regulators and any environment / safety related API specific bans are the key downside risks. |

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| **ICICI Securities** | ICICI Securities (ISec) delivered a good quarter, with broking revenues growing by 62% YoY to Rs.356cr. ISec increased its market share in Equity ADTO to 10.7% from 9.1% in Q4 FY20, adding about 90,000 clients in the quarter, taking the total count of clients to 4.86mn. Their distribution revenues decreased by 19% YoY to Rs.80cr as there was a dip in mutual fund AUM while lower customer visits led to drop in non-mutual fund revenues. The focus in FY21 would continue to be on rationalization of human resources and push to digital initiatives. The PBT was up 47% YoY at Rs.259cr, on the back of robust revenue and EBITDA growth. Overall, PAT for the quarter was higher by 70% YoY at Rs.193cr in Q1 FY21.<br><br>I-Sec is a leading tech-based securities player offering a range of financial services including brokerage, financial products distribution and investment banking, with a focus on both retail and institutional clients. As of June 2020, the proprietary electronic brokerage platform ICICI Direct had approx. 4.86 Mn operational accounts of whom about 1.12Mn had traded on NSE in last 12 months. I-Sec is also the second largest non-bank MF distributor with an AUM of Rs.318bn. We like the business due to its absolute technology leadership, continuing consolidation of user base, high RoE of more than 50%+ and access to ICICI Bank's franchise for customer acquisition.<br><br>Key risks would arise from a prolonged downcycle in equity markets leading to lower turnover, and heightened competition leading to loss of market share. |
| **ICICI Bank** | ICICI Bank reported NII growth of 20% YoY at Rs.9,280cr on the back of healthy expansion of NIMs while their non-interest income dropped 27% YoY due to lower fee related transactions, on account of the lockdown. Their cost to income ratio fell to 38% from 44% in FY20, on the back of lower operating expenses. Overall, POP was higher by 15% YoY at Rs.7,014cr. PAT was up 36% YoY at Rs.2,599cr due to higher treasury income generated from stake sale in ICICI Pru Life & ICICI General Insurance. Advances were up 6.5% YoY at 6.3Tn with retail forming 64% of the same.<br><br>The moratorium related book came down from 30% at April end to 17.5% at June end. The same was spread across segments with slightly higher exposure to CV Finance, dealer funding and builder loans. The bank continues to enjoy a strong consumer franchise with a CASA ratio of 44%, one of the highest within the banking industry. The stress in the corporate book has already been adequately provided by the management. The listed status of subsidiaries has provided good liquidity window to the bank enabling higher provisions. The management is confident of being able to manage the moratorium book given the good collections history of the underlying clients. |
| **Axis Bank** | Axis Bank reported NII growth of 19.5% YoY to Rs.6,985cr on the back of healthy expansion in NIMs. Advances grew by 13% YoY to Rs.5.61Tn with retail advances comprising 53% of the same. The cost to income ratio continues to be in control at 38.9% in Q1 FY21. Overall, the PPOP (Pre-Provision Operating Profit) was almost flat at Rs.5,844cr., while PAT was down by 19% YoY on account of higher provisions made in this quarter. The Covid induced moratorium-1 book was 28% at the end of April, within which about 80% are Corporate & SME customers and 70% of Retail customers have paid their June dues, meaning almost 20% of the 28% moratorium customers have started paying their overdues. The bank did not extend the benefit of moratorium-2 to all the customers. It limited the benefit to only 9.7% of the overall book and started focusing on the collections for the remaining book where it reported a 95% collection in the non- |

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| | moratorium retail book which is impressive. While the decline in moratorium book is good, it is critical that the same doesn't slip into NPA in Q2 & beyond.<br><br>Axis should be in a good position to get back to normalcy as operating conditions normalize. Given the low cost of deposits and access to capital raise, the bank should start delivering from FY22 and eventually migrate to higher double-digit ROEs. The expected announcement of a one-time restructuring from RBI will also allow lending institutions like Axis Bank to restructure eligible loans and help the customer move from the NPA buckets back to the standard bucket. That would help lower the stress and the associated provisions lower.<br><br>Key risks would include deterioration of asset quality leading to higher than expected credit costs and decline in NIMs due to falling yields. |
| **CG Consumer** | Revenue for the quarter was down 47% YoY to Rs.720cr., in line with the compressed business days for the quarter. However, owing to intense cost rationalization, EBIDTA margins were maintained at 14% which is remarkable as fixed costs have been managed in sync with operating conditions. PAT was down only 39% at Rs.75cr on the back of lower tax rates. The recovery in volumes for the company started in May, and by June, revenues were at 90% of last year's level. Crompton is amongst India's most profitable and efficient player in the consumer durables space with best in class growth, margins and capital efficiency. We expect them to benefit from this phase of consolidation.<br><br>Key risks to the investment could emanate from drop in consumer purchasing power, translating to lower sales of consumer durables. |
| **Petronet** | Petronet registered a 16% YoY decline in regassification volumes for Q1 FY21 as the months of April and May saw weak demand from the end users. Their EBIDTA however declined by 11% YoY on the back of a 5% hike in tariffs and lower tax rate resulted in a PAT degrowth of 7% YoY to Rs.520cr. The utilization of their Dahej terminal had fallen to a low of 55% in April due to the nationwide lockdown which has now recovered, and is currently operating at usual levels of 105%. The Kochi-Mangalore pipeline which was expected to commission in July has been delayed by 3 months to November and post this, the utilization of their Kochi terminal would improve to 35-40% vs 20% currently. Petronet is a play on India's increasing consumption of natural gas. Domestic production of gas is not on par with demand growth, leading to a spike in imports. Petronet is the largest player in the re-gasification space and has back-back long-term contracts to meet their end user requirements.<br><br>Key risks will be a slowdown in economic activity, leading to lower demand for fuel and aggressive capital allocation to newer projects. |
| **Sheela foam** | Sheela Foam reported a 71% de-growth in domestic revenues to Rs.127cr due to strict lockdown in April and May as they were classified under non-essential products. The company recovered 60% of sales in June, which subsequently improved to 80-85% in July and August. Gross margins were down sequentially as primarily lower end mattresses were sold and lower fixed cost absorption as sales volumes were down. Employee expenses and overheads were down by 32% & 70% QoQ, respectively. However, given the lower sales, EBITDA de-grew by 98% YoY to Rs.1cr. The Spanish & Australian subsidiary continued their good run and contributed Rs.11cr to earnings. Overall, consolidated PAT was down 70% YoY to Rs.12cr.<br><br>Incorporated in 1971, Sheela Foam is one of the leading manufacturers of mattresses in India marketed under its flagship brand 'Sleepwell'. The company also manufactures |

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| | other foam-based home comfort products as well as technical grades of polyurethane foam (PU Foam) for use in a wide range of industries. The Indian mattress market is about Rs.10,000cr in size of which 65% is unorganized. It is expected that pure branded mattresses as a portion of consolidated revenues will go up from 36% in FY18 currently to 41% by 2023. We like the company due to its net debt free status with a RoE of 20% and an industry leading market share of 23%. The company has also launched low-priced brands 'Starlite' and 'Featherfoam' to take on unorganized players.<br><br>Key risks for the business would arise from higher raw material costs, intensive competitive pressure leading to loss of market share and slump in discretionary consumption spends. |
| **VIP Industries** | VIP reported a weak quarter, due to the complete lockdown in April and May and slump in travel, leading to lack of demand for luggage products. As a result, revenues were down 93% YoY to Rs.40cr. The company has cut the monthly fixed costs from around Rs.45cr per month to around Rs.25cr per month to reduce its cash burn in this phase of slowdown. The management is also shutting down about 100 (weaker stores) of its 250 EBOs. In spite of the savings in costs, the EBITDA was negative at Rs.58cr on the back of the weak topline. As a result, PBT came in negative at Rs.67cr. We expect demand for luggage to pick up in 2H FY21 as travel related restrictions eases.<br><br>VIP's products are sold through a chain of traditional retailers, in hypermarkets, online portals and the CSD (defence) network via more than 10,000 retail sale points. VIP procures 50% of its products from China, and has five manufacturing plants in India and one in Bangladesh. The company dominates the luggage industry with a share of 40% in the organized segment. The ongoing demand disruption is expected to weigh heavily on marginal players who form the unorganized segment of the industry.<br><br>Key risks would be disruption in domestic travel, depreciation of INR, loss of market share due to intense competition, disruption in the supply chain from China and sustained slowdown in consumption. |
| **Intellect Design Arena** | Intellect delivered a good set of numbers for the quarter, reporting significant improvement in key areas of (A) recurring revenues and (B) operating margins. While revenues for the quarter came in at \$46mn vs \$49mn QoQ and \$49.4mn YoY, EBIDTA was up almost 5x at Rs.71cr vs Rs.12cr YoY and Rs.64cr QoQ. The steep improvement in margins was driven by 7% QoQ growth in AMC revenues and rationalization of employee and SGA spends. Cloud (+67% YoY) witnessed high growth but on a smaller business base, and the trend is broadly expected to stay positive. The company's end-user base is seeing a shift in consumption patterns as they move from in-premise installations of software to cloud-based applications. From an earnings perspective, the cloud-based model is lucrative in the long run, as it provides the company with annuity revenues. Given the significant reference ability of global installations around the world, we believe over time Intellect will see the conversion of deals from pursuits to closure. Such events are and will continue to be binary and lumpy in the future as well. Given the pace of product consumption by the banks and financial systems around the world, Intellect is expected to report license wins in the current environment as well. Over the rest of the year, the company is expected to improve its operating margins from automation initiatives in delivery of their products.<br><br>Intellect is one of the leading providers of consumer and transaction banking solutions to mid-sized banks around the world with a track record of tier-1 customers around developed and emerging economies. Product revenues are usually lumpy in nature, and |

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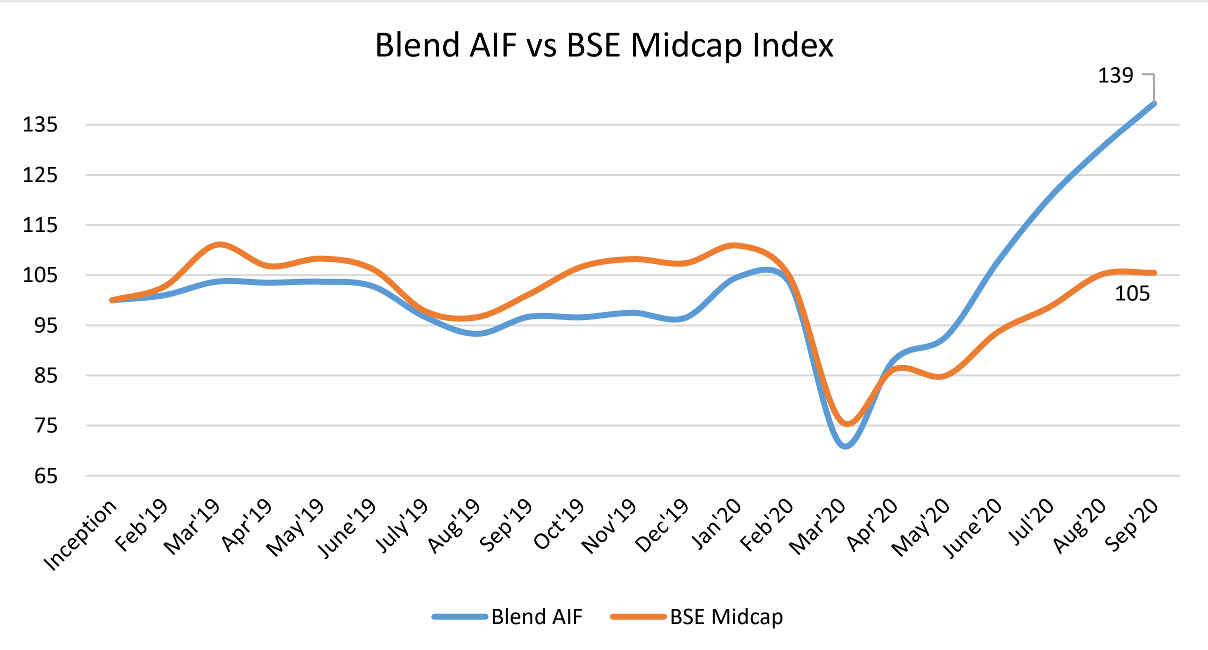
| | large deal closures are binary in nature. Given the pace of product consumption by the banks and financial systems around the world, Intellect is expected to report license wins in the current environment as well. Over the rest of the year, the company is expected to improve its operating margins from automation initiatives in delivery of their products.<br><br>Key risks: Long sales cycles, and delays in discretionary expenditure by their clients. It is important to note that product sales cycles are binary in nature and conventional metrics of earnings over the short term is not the right measure of performance. |
| **KEC International** | KEC reported a decline of 8% YoY in their revenue to Rs.2,207cr on the back of lockdown-imposed restrictions. KEC's diversified order book across several countries helped it stem the decline in revenues despite April being a complete shutdown in India. The international business of KEC was minimally impacted as in most nations power EPC was deemed as an emergency service and there was no disruption to operations. EBITDA declined by 22% YoY to Rs.195cr as employee expenses remained the same and the industry per se does not provide for pyramid rationalization. As construction has now resumed at 95% of its sites and the company is back to pre-Covid execution levels, we expect their earnings to normalize by H2 of FY21. KEC has an outstanding order book of more than Rs.22,000cr resulting in revenue visibility over the next 6-7 quarters. The company has not seen any delays in its payment cycles from key customers namely Power Grid and Indian Railways. KEC is a proxy play for infrastructure in India and we like the company for its ability to navigate the environment cautiously, but profitably.<br><br>Key risks include entail higher receivable cycles and unforeseen project delays. |



## Key Portfolio Metrics

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

| Valuation Parameters (As on 13th Oct 2020) | FY2019 | FY2020 |
|---|---|---|
| P/E Ratio * | 33.2 | 23.4 |
| Earnings Growth * | 21.7% | 25.7% |
| Debt Equity Ratio | 0.17 | 0.14 |
| ROE % | 22.0% | 22.8% |
| PE/ Growth Ratio | 1.5 | 0.9 |

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

We are continually monitoring the environment for any opportunities that have potential to materially improve the portfolio composition. We will be writing to you again post the 2nd quarter results.

In closing, we encourage you to write to us, or your relationship manager for a detailed review of the portfolio and understanding of our proposition in greater granularity.

With best wishes,

K. Sarath Reddy | Founder & CIO
Anand Bhavnani | Fund Manager – Blend AIF

## Annexures:

### Financial Details of Portfolio Companies

| BLEND AIF | Market Cap (Rs. cr) | PBT (Rs.cr) | | YoY (%) | PAT (Rs. Cr) | | P/E | ROE | Portfolio Weight |
|---|---|---|---|---|---|---|---|---|---|
| Company | (Oct 13th) | Q1 FY20 | Q1 FY 21 | | FY 19 | FY 20 | FY 20 | FY 20 | |
| SUVEN PHARMA | 8,878 | 113 | 118 | 4% | 167 | 316 | 28 | 37% | 14.07% |
| GARWARE TECHNICAL | 4,405 | 42 | 23 | -45% | 126 | 141 | 31 | 20% | 12.48% |
| J B CHEMICALS | 7,761 | 92 | 157 | 71% | 193 | 273 | 28 | 18% | 10.33% |
| AARTI DRUGS | 7,340 | 34 | 116 | 241% | 90 | 141 | 52 | 22% | 7.66% |
| ICICI SECURITIES | 15,075 | 176 | 259 | 47% | 491 | 542 | 28 | 48% | 6.87% |
| AXIS BANK | 1,41,134 | 2,078 | 1,428 | -31% | 4,976 | 1,627 | 87 | 2% | 5.1% |
| ICICI BANK | 2,54,666 | 2,793 | 3,183 | 14% | 3,400 | 7,930 | 32 | 7% | 5.06% |
| TECH MAHINDRA | 83,851 | 1,281 | 1,283 | 0% | 4,298 | 4,033 | 21 | 19% | 4.95% |
| CROMPTON CONSUMER | 17,409 | 188 | 101 | -46% | 401 | 443 | 39 | 35% | 4.76% |
| PETRONET | 32,347 | 838 | 696 | -17% | 2,154 | 2,698 | 12 | 25% | 4.27% |
| SHEELA FOAM | 6,358 | 60 | 17 | -72% | 134 | 194 | 33 | 20% | 4.23% |
| VIP INDUSTRIES* | 4,110 | 102 | -67 | - | 145 | 144 | 29 | 24% | 3.62% |
| HIMADRI SPECIALITY** | 2,075 | | | | 324 | 205 | 10 | 12% | 3.01% |
| INTELLECT DESIGN ARENA | 3,026 | 4 | 47 | 100% | 130 | 16 | 189 | 2% | 2.68% |
| KEC INTERNATIONAL | 8,747 | 136 | 97 | -29% | 496 | 566 | 15 | 22% | 1.88% |

**VIP industries FY20 PAT is adjusted for insurance claim*
**Himadri Speciality has not reported Q1 FY21 numbers and are expected to release by Nov 15th 2020*

#### *CLASSIFICATION OF MARKET CAP*

| Segment | Basis | % |
|---|---|---|
| Large Cap | > Rs. 26,600cr | 19.38% |
| Mid Cap | > Rs. 6,950 cr < Rs. 26,600 cr | 45.57% |
| Small Cap | < Rs. 6,950cr | 26.02% |
| Cash | | 9.03% |
| **Total** | | **100%** |

#### *LIQUIDITY ANALYSIS*

| Segment | % of portfolio |
|---|---|
| 1 day | 25.19% |
| Between 1 & 3 days | 38.93% |
| Between 3 & 7 days | 23.40% |
| Greater than 7 days | 12.48% |
| **Total** | **100%** |

### Risk Management

| Risk | Mitigants |
|---|---|
| Coronavirus Impact | The impact from the ongoing Coronavirus outbreak in India and rest of the World can be multifold. The lockdown related slowdown in consumption can affect several sectors. How long it takes for sentiment to return in consumption remains to be seen. A second wave of infections cannot be ruled out. Our investee companies have product & category leadership along the financial wherewithal to withstand temporary phases of demand slowdown and lead consolidation of demand. The BFSI sector could have heightened stressed assets for a long period of time thereby impacting their profitability. |

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| Geo-political risks | The Galwan incident at the Sino-Indian border has increased tensions on both side of the LAC. Even though talks are continuing though the diplomatic channels, both the countries have mobilized troops close to the border. Any flare up can escalate into a full-scale military action between two of the biggest armies of the world, and disrupt supply chain in the region. |
| Raw material inflation | Indian continues to be dependent on the supply of feedstock whose pricing is global in nature. Key categories would be crude, metals, minerals, and natural commodities. Sharp movement in their underlying prices will have a short-term financial impact on the companies. The situation in China (Corona Virus, and political) has the potential to disrupt the supply chain of a few of our investee companies. |
| Liquidity risk (in case of NBFCs) | The NBFC led liquidity crisis in India has had a systemic effect on the entire economy. Our investee companies have been able to tap diversified sources of liquidity on the back of their long-term track record of comfortable asset quality and asset-liability-management (ALM). However, sustained deterioration of the asset quality cycle can continue to affect our holdings in Banks and NBFCs. |
| Foreign Exchange risk | The foreign exchange system continues to be guided by global developments spanning Brexit, US-China trade war, OPEC related developments, and other geo-political issues. Our investee companies in the IT sector are subject to sharp movements in the USD and GBP. They mitigate the same via hedging, but there remains a portion of revenues that continue to be subject to the vagaries in fx movements. Most of our non-IT exposure is to companies that derive their revenues from the domestic market. The revenue from exports would be minimal for each strategy as a whole, and where relevant, are adequately hedged. A sharp depreciation in the INR will affect the import of feedstock (higher prices) which can lead to a brief moment of earnings-related volatility. |
| Leverage risk | Except for the 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 sub-10% levels. |
| Governance risk | We avoid investing in companies with a known history of corporate governance issues. Further, in case such issue arises in an existing investment, we stop additional purchases and start optimally exiting the investment. |
| Concentration risk | At the portfolio level, such risks are minimized by limiting the aggregate exposure of portfolio to such investments to less than 10% of value at the time of investment. |
| Stock Illiquidity risk | High Impact cost, due to thin trading at the time of buying or selling is endemic to small & mid-caps; We plan our investment decisions, size of the investment and trading strategies to minimize it |
| Key Man Risk | Small and mid-caps are frequently managed by a single 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. |