STRATEGY COMMUNIQUE:
Q1: CY 2024

Outside the anxiety of the World's economic environment, India's enduring performance has been a constant. While there are several components, the simplest driver of incremental progress is an aggregate of the Government's massive push on building infrastructure, expansion of the manufacturing economy, rapid indigenization, and technology-led productivity. This is in addition to India's traditionally deep consumption market, which is progressing from unorganized to organized at a population scale. Each of these may not stand out as being individually exceptional in a normative sense, but in a descriptive sense, their effect on the conduct of India's commerce has been compelling.

Economy, buoyant

For the third consecutive quarter, and despite expectations of a lower growth rate, the Indian economy delivered a better-than-expected set of data, growing 8.4% YoY in Q3 and with upward revisions in H1-24. This is as versus the consensus expectation of c.6.5% and is a stand-out piece of statistic, as it is a number that has been hit very few times since 2000. This suggests an annualized growth rate of c.8.0% for FY 2024, and only the 6th instance of such growth in the past 24 years.

A key trend that has played out this year is healthy Fixed Capital Formation but relatively soft private consumption growth. India's Fixed Capital Formation is expected to grow in double digits for FY24 (only the 3rd time in the past 6 years). As a result, India's investment-to-GDP ratio will likely rise to 31.5% of GDP in FY2024, marking the highest rate in the past decade. A large part of this investment surge is directly led by the efforts of the Union Government, which has increased its capex at a CAGR of 37% in the past three years (FY22-FY24) and is budgeted to increase by another 16% in FY25. This presents a good setup for India's manufacturing and allied economy. However, consumption growth of c.3.5% YoY is less than ideal, but hopefully a passing phase.

Underpinning the broader trend is RBI's understanding that India's economy continues to remain extremely strong in the near term, and inflationary concerns are firmly behind. Accordingly, the RBI has introduced its estimated growth rate of c.6.8% to 7.0% for FY 2025 without the urgency to cut interest rates in India. This gives policymakers depth in their reserve to utilize monetary levers to aid growth in future years. This translates to nominal GDP growth of roughly 10-11% in the year ahead, providing the base for India's domestic-focused firms to execute on earnings at a healthy economic multiplier.

Earnings, buoyant

Led by favorable macros, shifting consumption habits, and, more importantly, execution at a firm level, India's aggregate earnings for Q3-2024 across the spectrum of benchmarks Nifty 50, Nifty 100, and Nifty Midcap grew 16%, 24%, and 36%, respectively. As averages homogenize much of the data, the sectoral breakup of the broader Nifty 100 is as follows. Notwithstanding the vagaries of the commodities basket [Oil & Gas, Metals, etc.], earnings growth of the broader sectors spanning Banks, NBFCs, Automobiles, Healthcare, Realty, etc., are in the range of comfortable double digits and running at anywhere between 1.5x to 2.0x of Nominal GDP. This is in parallel to maintaining discipline at a Balance Sheet level.

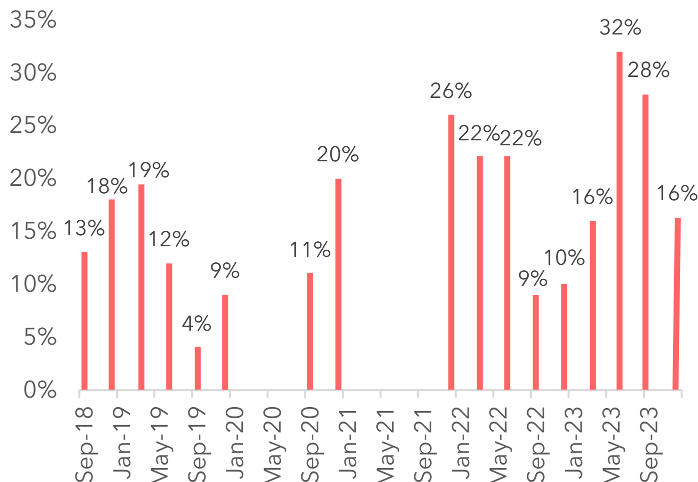
Title: Sector wise Q3 earnings growth of Nity-top100 firms

Sector, Nifty 100, INR, Cr	Dec-22	Dec-23	YoY
Automobiles	11,669	18,581	59%
Banks-Private	33,637	41,368	23%
Banks-PSU	23,524	27,330	16%
Capital Goods	5,008	5,919	18%
Cement	4,400	4,816	9%
Chemicals & Fertilizers	1,454	-752	-152%
Consumer	13,210	14,577	10%
Healthcare	5,585	6,914	24%
Infrastructure	1,316	2,208	68%
Insurance	8,505	10,817	27%
Metals	3,201	9,222	188%
Misc*	2,633	5,684	116%
NBFC	9,962	11,832	19%
Oil & Gas	30,440	43,405	43%
Real Estate	519	657	26%
Retail	1,661	2,118	28%
Technology	26,878	26,604	-1%
Telecom	2,063	2,533	23%
Textiles	511	253	-50%
Utilities	17,734	19,854	12%
NET EARNINGS	2,03,908	2,53,941	25%

[*Zomato, IRCTC, Info Edge, etc]

For the 9 Months of FY 2024, Nifty-100 and Nifty-50 grew reported earnings by c.30%.

Nifty 50, quarterly earnings growth, YoY



Adjusted for the Covid disrupted periods

Broader market earnings are an indication of the overall health of corporate earnings in an economy. It is however important to note that index earnings tend to reduce a large part of the market to one potential investment target, excluding them of their complexity. This is especially key in the context of investing, as aggregate earnings abstracts away firm specificities around risk, reward, and consequently, invest-ability. For absolute return-oriented fund managers and advisers like Unifi Investment, bottom-up risk/reward metrics at a firm specific level continue to be the driver of stock selection, and investment recommendations and management.

The structure behind the numbers

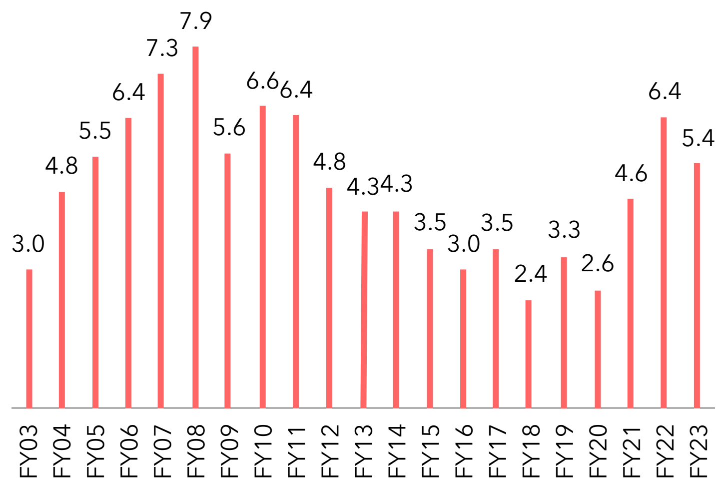
In our previous notes, we touched upon a few macros that are driving India's economic progress. We evaluate a few additional factors here. While rising corporate and household incomes are of a nature that is addressing India's generational shift in consumption, the broad contours of India's economic makeup are undergoing a shift.

Improvement in India's twin balance sheet

The importance of credit multiplier on an economy cannot be overstated. In the years prior to the pandemic, India's economic growth was seriously constrained by very weak balance sheets of the country's banking and corporate sector. While Banks faced headwinds in the form of low asset quality, high non-performing assets, weak returns and tepid efficiency, the corporate sector was amidst a cyclical phase of low growth, which extended their de-leveraging cycle. This restrained the industry's ability and willingness to invest in growth.

This situation has changed tremendously in the past few years. At an estimated value of 4.5% of GDP for FY24, aggregate profits of listed companies continue to remain above the decadal average and nearly double the low of 2.4% of GDP seen in FY18. Importantly, the improvement is not concentrated, and more broad-based with financial and non-financial sectors experiencing higher profits. At the same time, India's listed firms, a proxy for India's organized players, are gaining market share and are amidst of one their best liquidity positions. The banking sector has come out completely from one of its poorest cycles, with record low NPAs and very strong credit growth. This is numerically evident in the systemic credit growth of 14-15%, with 9-10% growth in nominal GDP, for FY24. We note that the higher credit growth is largely led by the retail/personal sector; as households continue to spend on their household investments, while the corporate sector is yet to participate significantly. This is in part a function of a conservative approach to building capacity, aided by a higher share of retained earnings. This credit multiplier of 1.6x-1.7x in bank credit growth-to-GDP growth was last seen in the mid-2000s, when India, along with the rest of the world, was going through an expansionary cycle.

Listed Corporate's Profits to GDP



As we step into a new financial year, we re-examine what we mean by risk/reward. While this is something we have written about a few times in the past, we revisit them as they constitute the basic principles that govern our approach to Investing.

Margin of Safety

India's decadal high nominal growth rate of 10%+, coupled with fast formalization in select sectors has resulted in some of India's finest firms delivering a high rate of earnings growth. However, the valuation expansion in many of such firms has been significantly higher than that of their earnings growth. While it is possible that a few of these companies will continue to

consolidate their position of dominance and grow, we are not be comfortable aligning with such opportunities, where valuations are significantly higher than earnings growth, unless they are significant disruptors/innovators. We prioritize value creation at a portfolio level over the temptation to hold great companies that do not offer a margin of safety to valuations.

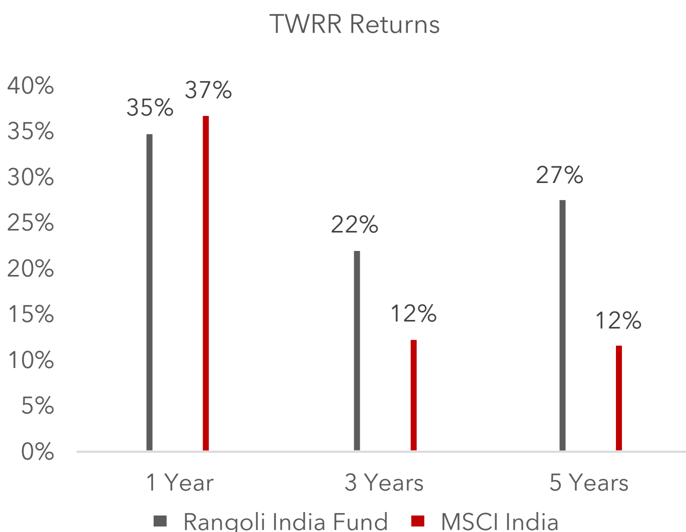
The long term is a series of medium terms

The best of firms experience periods of stunted growth, and we do not confuse the need to stay invested in good companies, or firms we generally like, without regard to growth + valuations. Our objective is to generate absolute long-term performance, and our instincts are to implement the logical next steps and sell when an investment thesis is met. To this extent, we closely monitor the journey to our investment outcomes. This is a corollary to maintaining the margin of safety at a stock and portfolio level, and not just at the time of initial portfolio construction.

Sustainability

Governance is key to realizing an entity's true value in letter and spirit. We look for companies that have acted consistently in all financial and qualitative facets of governance. Long-term business, and equity value creation, are only sustainable when a business checks these boxes consistently. We bake this facet significantly in our evaluation and are comfortable passing opportunities that seem financially attractive but questionable on governance.

Unifi's investment outcomes are a function of the above.

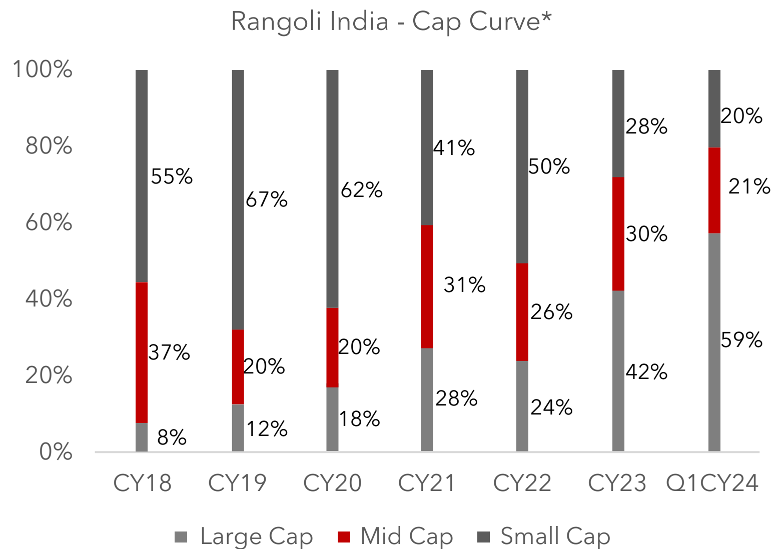


*Returns are post-tax, pre-performance fees, if any

Summary and Portfolio Construction

What makes risk easier to theorize than predict is that it is in a constant state of change. As we come off one of the finest of market cycles, we ask ourselves a few questions: Will the outperformance of the small and mid-caps revert to mean? At a portfolio level, are our current capitalization exposure across small, mid, and large caps optimal given their risk/reward?

In answering these questions, we look at the roughly 2:1 outperformance of India's mid and smaller cap's in conjunction with their earnings growth vs that of the larger caps. In our view, a large part of this performance has been driven by the assumption that the recent phase of high earnings growth can be sustained. While the higher quality firms will continue to consolidate their position and deliver on growth, it is possible that the extent of earnings growth may not merit their forward valuations, in many cases. As we took cognizance of this trend across FY 2024, we moved our investment recommendation towards the firms that had a relatively better construct of risk/reward. The outcome was that such firms were more representative among the large caps.



*Excluding Cash & Cash Equivalents and includes ETF, if any

The size of capitalization present in our recommended portfolio today is not an indication of a bias towards a certain market capitalization. This is a continuation of alignment to practicing growth investing at a reasonable price [GARP]. Given where we are in the cycle today, we see a reasonably attractive upside in the larger companies relative to their performance and valuations.

Summary and Portfolio Construction

We continue to be optimistic about India's financial industry from a portfolio standpoint. The industry has entered a new cycle of growth led by several factors and Q2-24 saw progress for the industry in most of the key parameters. We have advised to cut the exposure in a few firms where the thesis has played out while we continue to advice retaining investments in those that have a good risk/reward metric.

Following a few years of stagnation in IT spending, with better macroeconomic circumstances in the United States, we believe IT spending will rebound. Over the previous few months, we have continued to recommend a high exposure to IT across firms that engage in a wider range of technology spending.

Within healthcare, we stay aligned with a network chain hospital that focuses on the midmarket and is a cost leader in healthcare, focusing on shifting to higher-margin specialities and improving their case mix. We have also advised exposure to one of India's leading generic manufacturers catering to developed economies. After years of pricing-led disruptions, the industry is entering a price consolidation phase with a better outlook on volumes and margins

In others, we have recommended exposure to a few Pharma API companies. One of the company's emphasis is on building a large product portfolio of low-volume and high-value APIs while maintaining high standards of compliance. The company provides services throughout the stages of the product's lifecycle and allows itself to be present across the value chain. The company has been vying to leverage its client relationships in the generic API segment to foray into the CDMO segment. With the change in the ownership structure of the company and hence capital allocation decisions, we expect higher growth potential.

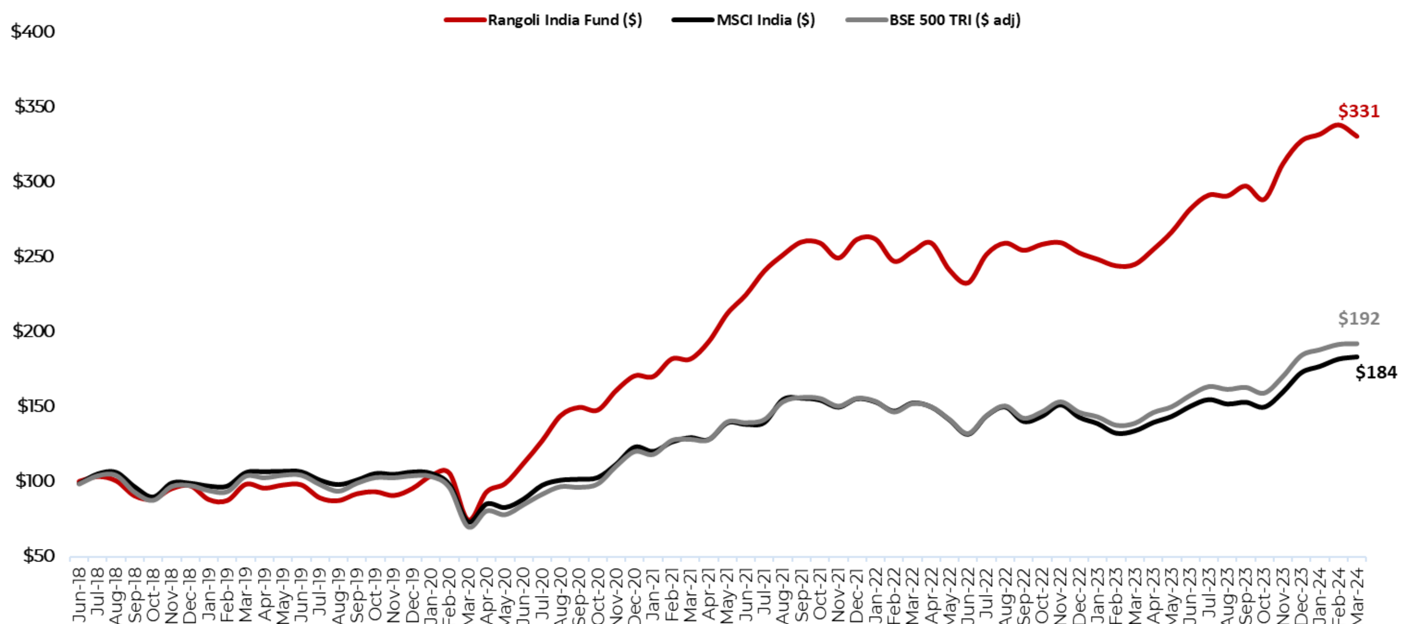
Second Pharma API company have a diversified portfolio across exports and the domestic market. The currency shortages in a few of the addressable countries, a sharp decline in API prices over the past year or so and destocking by customers led to degrowth in revenue and profitability. However, as the prices are stabilising and the new capacities of the company are in the process of commercialisation, the growth in H2 of FY 2025 should be better. Operating leverage from the higher revenue and stable or increase in product prices should add to the better profitability over period.

Our other recommendations are from across industries drawn from the bottom up and experiencing fundamental strength in their performance. Where necessary, we have right sized our positions based on the changes in their risk and reward over the past few quarters. We have taken the gains where our thesis has played out and reallocated them to positions where we believe the risk/reward is more favourable. It's worth emphasizing that the current economic climate is intricate and ever-changing. As the market responds to ongoing news, we remain vigilant, ensuring we are conscious of our investment goals amid the general sense of euphoria.

An outline of companies advised by us has been presented in the following sections, with a performance summary for Q1 CY 24.

*Returns for fund's Series S is post-tax, pre-performance fees, if any

Return



Summary of results from the quarter Q3 – FY 2024

Company	Brief background and Investment rationale
Coromandel	Coromandel reported a 34% YoY decline in revenue for Q3FY24 at Rs.5,464cr. However, the revenue growth number is of less significance as it includes the pass-through of RM cost. The company has recorded volume degrowth of 10% YoY in the fertilizer business due to sub-normal monsoons in key geographies. The company has not dumped inventories in the channel considering the weakness in primary consumption. EBITDA was down 54% to Rs. 358cr. PAT was down 57% YoY to Rs. 228cr. Margins have significantly declined YoY due to inventory losses due to backward integration in Phosphoric Acid, lower subsidy rates for the current Rabi season. The company has increased its Phosphoric acid capacity by 25% and doubled its Sulfuric acid capacity to increase the share of backward integration. In the crop protection business, the revenue declined by 6% YoY, due to destocking in key products in the domestic market. Export business growth was healthy. EBIT margins for the crop protection segment improved from 12% to 14% YoY. The company has announced a cumulative capex of Rs. 2,000cr across verticals to increase the share of the non-subsidized segment. Structurally, the company is well-placed to battle cost inflation with good capital allocation and governance. With a debt-free balance sheet, the company is strongly poised for the next cycle of growth. Coromandel is India's largest privately held non-urea (Phosphatic) fertilizer company with a diversified revenue mix of regulated and unregulated products. It has a 25.5% market share in India's NPK/complex fertilizer consumption. In Crop Protection, Coromandel has taken a slow and measured step to overhaul its portfolio from older generics to a mix of combination and in-licensed products from global innovators. Over the next few years, the company endeavours to reduce the share of subsidized businesses by investing in crop protection and other allied segments. Key risks to the investment could be a significant reduction in RM prices leading to a correction in inventory valuation, unexpected regulatory developments, and the erratic monsoon.
Cyient	Cyient DET business grew 1% CC QoQ and 17% CC YoY at USD 178 Mn, which was broadly in line with expectations. Within the segments, Transportation/Connectivity/Sustainability/ New Growth Areas grew 2.7%/-8.1%/4.9%/5.7% CC QoQ. Growth was lower due to softness in connectivity(communication) industry. EBIT margin came higher at 16.5% with margin expansion of +47 bps QoQ. This margin expansion came on full benefit of SG&A optimisation activities carried by company over last many quarters and rate hikes. DLM reported revenue of Rs 292cr, grew 70% YoY, EBITDA of Rs 23.5cr (margin of 8.1%), and PAT at Rs 14.6 cr. On a consolidated basis revenue came at $ 215Mn, grew 4.7%/23% QoQ/YoY. Adj PAT at Rs 183cr, up 4% QoQ. Company earlier guided for FY24 revenue growth in mid-range of 15-20%. Now it lowered revenue guidance to the lower end of this band at 15%-16% as clients are lowering spending. Given overall order intake and momentum in Aerospace/Defence/Automotive industries revenue growth should remain in double-digits. Company has maintained its margin expansion guidance of 150-250 bps in FY24 over FY23 base of 13.7%. Key Risks - Slowdown in the USA and Europe and cuts in discretionary ER&D spending by enterprise clients.

Dr Reddy's	Dr Reddy's reported a 7% growth in Revenue to Rs. 7,215cr in Q3FY24. North American business reported growth of 9% cc YoY to USD 404Mn driven by market share expansion in the core portfolio, new product launches and integration of the Mayne acquisition, while the overall business grew 5% QoQ. The generics pricing trends in the US have been stable for the past few quarters. The company launched 12 new products in the 9MFY24 and is on track to launch 20 new products for FY24. The company has a target to launch 25-26 meaningful products over the next 2 years (FY25 and FY26). Europe business reported growth of 16% YoY. The growth was driven by leveraging the existing portfolio, contribution from new products and favourable forex. India's business growth was in the mid-single digit after excluding the impact of NLEM and discontinued products. The reported growth was 5% YoY. Russia and CIS business did not grow due to currency devaluation and in cc terms. The company has taken price increases on certain products to offset the impact of currency devaluation. Gross margins are down 20bps QoQ and 70bps YoY. The impact is due to the lumpiness of PLI incentives. EBITDA was flat YoY due to the higher expenses on account of investment in sales- marketing, digitalization, and R&D spending. PAT was up 11% YoY due to higher other income. The cash on books as of Q3 24 is Rs. 7700cr. The company is open to small as well as large deals and the key criteria will be to buy an asset with the products/capabilities which Dr Reddy's does not have. Key risks: In case the price erosion improvement cycle is not sustainable in the medium term, the margins and growth in US business will be at risk. Product contraction towards Revlimid. Any earnings dilutive or non-core acquisition.
Eicher Motors	Eicher's Q3FY24 results came in line with expectations. Sales grew 3% sequentially led by new product contribution and product refreshers supported realization improvements. This was offset by lower exports. Gross margins and EBITDA margins were like the previous quarter at 46.1% and 27.5% respectively. Since FY20 margins have been in the 24% range (as against 30% previously). The trend seems to be reversing despite increased competition. Overall, standalone PAT came in at Rs 915cr, an increase of 34% YoY. Consolidated PAT was Rs. 996cr. In the international market the weak macro environment has been impacting sales. Eicher has trodden this path carefully, by not pushing any channel inventory. The company has maintained its market share in the middle-weight category in the geographies in which it operates. New Launches - The newly launched Himalayan 450 has got good reviews and should help drive growth. This quarter they introduced the Shotgun 650 in North America. In the previous quarter, they launched the Meteor 650. The company has a pipeline of launches to create (sub) categories. It is just a question of appropriate timing. Eicher is a classic example of supply creating demand. This is why they continue to be a dominant force in premium motorcycles. Key Risks - potential slowdown in the 2-W sector, increased slowdown in export markets, delay in new launches and strong traction of competitors' launches in the 250cc and above category.
GMM Pfaudler	GMM Pfaudler delivered an 8% in revenue supported by good execution in the international markets. International revenue grew by 18% while domestic revenue was down 6%. Slower growth in the domestic market impacted the margin negatively. The domestic EBITDA

	margin was down to 12.2% while the overall EBITDA margin was at 13.3%. Lower margins resulted in a degrowth of 4% in EBITDA and 23% in PAT. The margin was impacted by the intense competition due to lower demand. GMM Pfaudler is the leading supplier of technologies, systems and services for the chemical and pharmaceutical industries as well as for many other sectors like Food, Energy etc. It is the largest supplier of anti-corrosive glass-lined reactors to pharma, chemical and other industries where the problem of contamination can lead to poor product quality and has a significant market share globally. It is expanding its product portfolio to cater to mixing, sealing, filtration etc. and has restructured its global business under one Pfaudler brand. While the recovery of the capex in chemical and pharma had deffered in a few geographies due to price erosion, we remain positive on the medium-term demand for the new capex. While the recovery is Pharma is visible, we believe the recovery of capex in the chemical industry by mid of the FY will drive the growth and the operating leverage. Key risks include the prolonged slowdown in the chemical and API prices delaying the capex by these industries and the overall demand slowdown due to higher interest rate.
HCL Tech	HCL Tech reported revenue of Rs 284.5Bn (up 6.7% QoQ in INR terms, up 5.9% QoQ in USD terms). IT / Business Services up 1.9%, ER&D services up 8.7% and Product and Platform (P&P) business up QoQ 32.0% QoQ in CC terms. EBIT margins up QoQ by 135bps to 19.7%. As a result, PAT was up 13.5% up QoQ at Rs.43.5Bn. HCL Tech reduced its overall guidance to 5-5.5% YoY from earlier 6-8% due to a moderate first half of FY24. Even with revised guidance, HCL Tech's revenue growth may outperform its peers in FY24, probably due to a strong deal pipeline. Key Risks – Slowdown in the USA and Europe and cuts in discretionary IT spending by enterprise clients.
Indian Energy Exchange	IEX had volume growth of 16% YoY in this quarter with electricity volume growth at 17% YoY and RECs growth of 7% YoY. The growth in IEX volumes is much higher than the total electricity consumption growth in the country, indicating market share gains. The GNA rules implemented from Oct 1st which led to elimination of transmission charges anomaly across various products and this is resulting in volumes going back to DAM and RTM markets again. On the backdrop of strong volume growth, the company reported 15% YoY revenue growth to Rs. 115cr. Given the operating leverage, EBITDA Margin expanded to 85.6% in this quarter vs 83.1% in Q3FY23. Company reported PAT of Rs. 92cr i.e. a growth of 19% YoY. Company continues to deliver well on volume as well as PAT growth on backdrop of strong demand. IEX has also been the first to market in launching many new products. CERC has done simulations for market coupling, however the overall gains from this process remained insignificant. Notwithstanding the results of the simulations, the Commission felt worth taking forward and do a further analysis on the same. This continues to be a risk for IEX but electricity exchanges market in India has only <10% penetration and implementing this will hurt the innovation. CERC outcome is expected to come in few quarters. Key risks: slowdown in demand and implementation of market coupling.
Infosys	Infosys reported decline of 1% QoQ/YoY CC revenue growth in Q3FY24 at $ 4.6Bn which was broadly within expectation after a moderate Q2FY24. As per company this was in line with their internal growth expectations due to higher-than-expected slowdown in discretionary IT spend, delay in closure, and ramp up of certain large/mega deals. The EBIT margins reduced QoQ by 70bps to 21.2% led by wage hikes. Company reiterated FY24 EBIT margin guidance

	of 20-22% and is on margin expansion strategy. PAT came at Rs 6,113cr down 1.5% QoQ and up 7% YoY. With that Infosys has downgraded its FY24 revenue growth guidance to 1.5-2% YoY CC (from earlier 4-7%) which implies 0.5% sequential growth for Q4FY24. This seems reasonable and unlikely to disappoint. Infosys reported record high TCV of 3.2Bn USD and now revival of revenue growth depends much on ramp-up of large deals with increase in IT spending. With overall expectation of recovery in US macros and some uncertainties, Tier-1 IT is a better place to be in. Key risks: Slowdown in the USA and Europe and cuts in discretionary IT spending by enterprise clients.
ITC	ITC reported revenue growth of 2% YoY to Rs.18,020cr. The company reported weak numbers in cigarette business, though FMCG and hotels continue to do well. The cigarette business delivered 3.6% YoY revenue growth (implied volume growth of 0-1%). The premium segment in cigarettes had done well due to new products launch whereas the mass market segment had muted growth given weaker demand. There has been sharp cost escalation in leaf tobacco but the same has been largely mitigated through product mix, cost management and calibrated price hikes. Accordingly, the EBIT in cigarette business grew by 2.3% YoY to Rs. 4,728cr. FMCG business delivered 7.6% YoY revenue growth. The higher inflation continues to impact rural demand, but ITC has largely premium portfolio and hence it is able to deliver better growth. FMCG reported 23% YoY EBIT growth as company continues to deliver on margins. Given the strong industry tailwinds, Hotel business revenue grew by 18% YoY to Rs. 872cr. High RevPAR led to margin expansion and this segment registered EBIT growth of 56% YoY. Agri business revenue registered 2% YoY decline. The revenue got impacted by government ban on rice and wheat exports. Excluding rice and wheat exports, this segment delivered revenue growth of 14% YoY. Paper continues to be under significant pressure with 10% YoY revenue decline and 51% YoY EBIT decline. Paperboards, Paper and Packaging Segment remains impacted by low priced Chinese supplies in global markets, muted domestic demand, surge in wood cost and high base effect. The consol PAT registered 6.5% YoY growth to Rs. 5,409cr. Agri and Paper which together account for 10% of EBIT continue to drag profitability. Though FMCG and Hotels continue to do well, the weak rural demand and some channel correction impacted cigarette volumes during the quarter. In the medium term, we expect cigarettes to benefit from stable taxation regime and FMCG to do well in the premium segments. ITC should deliver 10-12% PAT CAGR for the next couple of years. Key risks: government taxation on cigarettes, demand slowdown and raw material inflation.
Kewal Kiran	Kewal Kiran delivered revenue growth of 1% YoY to Rs.262cr, on account of lower winter wear offtake. However, the core categories [jeans, shirts, trousers, t-shirts] delivered healthy growth in a tough environment. The company added 13 new stores in the quarter and is on track to double its store count to 700 stores in the next three years, by adding 60-80 stores per annum. EBITDA margins were up from 17% to 19.4% YoY on the back of better product mix and low-cost raw material benefit. As a result, EBIDTA was up by 16% YoY to Rs.39cr. Overall, PAT was up by 24% YoY to Rs.33cr. We like the business as it stands out in the retail spectrum, with control over manufacturing and branding, enabling them to keep most of the margins at their end. In the last decade, they have followed financial prudence and capital allocation discipline and returned 75% of earnings to shareholders. We believe that the rise in

	household incomes will keep up the demand for discretionary clothing allowing the branded players to grow higher and gain market share. Key Risks: Competitive Intensity from MNC brands and private labels of large format stores.
Narayana Hrudayalaya	Narayana reported revenue growth of 6.7% YoY to Rs. 1,204cr. Reduction in the consumables cost and improvement in ARPOB resulted in EBITDA Margin expanding to 23.2% in this quarter vs 22.6% in Q3FY23. The company reported PAT growth of 22% YoY to Rs. 189cr. India business had reported lower revenue growth of 5.4% YoY, and this is due to company's conscious call of changing the payor mix to improve the cash flow situation. This has resulted in lower footfalls but resulted in a higher ARPOB (growth of 10% YoY). Given that the company's facilities in Bangalore and Kolkata are operating at almost peak utilizations, optimization of payor mix will result in better profitability. In the meantime, the company will be doing both brownfield and green field expansions in Bangalore and Kolkata. In the existing facilities, the company is focusing on improving the throughput so that more revenue can be generated without adding too many beds. Cayman business continues to do well with revenue growth of 8.5% YoY in Dollar terms and margins touching a new high as the Oncology department is ramping up. The new Cayman hospital (50 beds) will be commissioned in Q2FY25 and this will give next leg of growth for the Cayman business. With the commissioning of a new hospital, Narayana would have presence in all the important specializations in Cayman. Given the industry tailwinds, management's execution, and the capex plans, we expect the company to deliver 15-20% PAT CAGR over the next 2-3 years. Key Risks: Delay in Capex, government interference in pricing.
Oberoi Realty	Oberoi has delivered pre-sales volume growth of 19% YoY / 43% QoQ . On value terms, the pre-sales growth of 25% YoY and a decline of 18% QoQ. The decline on QoQ basis is largely due to lower sales in the Worli project, this impacted presales as well as P&L. The company has now entered Thane market through its project at Kholset (launched in November). This is a new micro market for Oberoi and the company has priced the project at very competitive rates. This project is seeing increased traction and management's target is to do 500-600cr of annual presales. The company will be launching another project in Thane at Pokhran during Sept 2024. Oberoi has large land parcels in Thane and the success of these 2 projects gives multi-year sales visibility for the company. During the quarter, the company has also bought 15acres of land in Gurgaon thereby marking its first diversification beyond MMR. In the existing inventory, the sales continue to be steady. On the commercial side, the 3 under-construction projects would be ready in the next few months (Borivali Mall, commercial tower and Ritz Carlton Hotel). These 3 projects cumulatively would give an annual annuity income of Rs 700-800cr p.a. with 70%+ margins. The annual rental for all the commercial projects would cross 1,700cr post the ramp-up of the utilisation. On the P&L side, the company reported a revenue decline of 35% YoY to Rs. 1,054cr as the company didn't have many deliveries in the quarter. The occupancy certificates (OC) for Borivali project have been received now and this should help the company to deliver better revenue. The decline in the revenue impacted profitability as EBITDA Margin declined to 48% and PAT declined to Rs.360cr. The real estate sector demand continues to be quite strong at the industry level whereas Oberoi couldn't benefit fully from the same due to lack of new launches. But now the Thane entry should help the company to deliver better sales. Key risks: Delayed projects launches, slowdown in the demand.

Redington	Redington is a global distribution company with a presence across 40 markets and covers the entire gamut of IT products, Smartphones, and offers service & solutions across Managed, Cloud, Logistics. The company partners with 300+ brand associations and services 43,000+ channel partners. Redington's reported revenue growth of 8% YoY. Revenues for Q3FY24 were Rs.23,504cr. India grew 18% YoY, while the global sales were flattish yearly. There has been a slowdown in consumer spending, while enterprise demand and government spending remain strong. There is a sequential improvement in numbers. This is a strong revenue quarter for mobility which has slightly lower gross margins. Gross margins were 5.6% vs 5.8% sequentially. Opex and employee costs have moderated over the previous quarter. As a % of sales, employee cost is 1.3% vs 1.5% sequentially and opex is 2.1% vs 2.2%. The EBITDA margins were 2.2%. Factoring cost for the quarter was 94cr vs 87cr sequentially. Redington under the previous CEO had seen a higher ramp-up in costs which had led to margin reduction. The new CEO - Mr. Hariharan joined in September 2023. He has been associated with Redington for the past 11 years as a board member. The numbers for the quarter reflect the course correction adopted. Working capital intensity remained broadly similar sequentially at 36 days. Normalized working capital is expected to be 35-40 days. We expect the company to deliver a better balance between profitability and growth going forward. From a capital allocation standpoint, the company's return ratio is healthy, and the company continues to pay out 40% of PAT as dividends which results in a dividend yield of 3%. We like Redington given that they are amongst the top 2 ICT distributors across markets it operates in. The company's dominant positioning and financial muscle give it a significant competitive advantage in a business that has high barriers to entry. Redington has created a strong services business - both on 3rd party logistics business and the high-margin cloud business. Redington's broad portfolio and relationships with vendors across segments allow for balanced growth and reduce vendor concentration. Redington has demonstrated robust risk management practices over cycles that help better manage credit, inventory, and currency risks. A significant shift in consumer and enterprise behaviour has led to a higher need for higher computing > leading to shorter product life cycles > and acceptance of premiumization. This tailwind benefits Redington. Key risks are a higher interest rate regime environment, delayed recovery in margins and slowdown/delays in the high-margin enterprise business
State Bank of India	SBI reported PAT of Rs 9,164cr in Q3FY24 vs Rs 14,330cr in Q2FY24 and Rs 16,884cr in Q1FY24. Lower PAT was led by an exceptional item of Rs 7,100cr towards employee expenses. These were non-recurring in nature. (Excluding one-offs, results were relatively better) SBI reported ~5.1% QoQ / 14.4% YoY loan growth which was higher than a few large private sector banks. We expect that FY25 will be a strong year in terms of credit growth led by corporate capex. Margins declined by 7bps QoQ to 3.29%. Margins are likely to stay at around current levels as SBI's CD ratio is still reasonable at ~74%. Cost ratios were higher during Q3FY24 as it included arrears of wage revision. Cost ratios should improve in FY25 led by normalization of wage bill. Gross NPA improved by ~13bp QoQ to 2.42% while Net NPA were stable at 64bps on sequential basis. Gross slippages were stable at 0.6% vs 0.5% in Q2FY24. Net slippages stood at 0.4% vs Nil in Q2FY24. The bank has been reporting gross slippages of ~0.4-0.5% over the past 6 quarters. Credit cost stood at ~8bps vs Nil in Q2FY24. COVID restructured book declined by 8bps QoQ to 0.54%. The bank has provisions of ~35% on the restructured book. SMA I & II has was stable at ~12bps on sequential basis. Key risks would include lower-than-expected loan growth, deterioration of asset quality leading to higher-than-expected credit costs and higher treasury losses

Summary of portfolio valuation

As on Mar 31st, 2024 *	FY 24E
Wt. Avg PE	24
Wt. Avg PB	5.9
Wt. Avg ROE	24%
Wt. Avg Mcap $ mn	31,500

**Only on the direct eq allocation excluding cash & cash equivalents and ETF, if any*

Rangoli India Fund	Market Cap (USD Mn)	PBT (USD Mn)		YoY%	PAT (USD Mn)		P / E	RoE (%)
	As on 31st Mar	Q2 FY24	Q2 FY23		FY 23	FY 24E	FY 24E	FY 24E
Aarti Drugs Limited	551	6.1	6.2	3%	20.6	21.7	25	13%
Coromandel International Limited	4,480	87.4	38.4	-56%	249.7	239.7	19	24%
Cyient Limited	3,089	26.0	30.0	15%	67.7	88.4	35	19%
Dr.Reddys Laboratories Limited	11,757	199.1	219.6	10%	467.2	646.3	18	21%
Eicher Motors Limited	13,790	118.0	155.9	32%	322.5	429.4	32	25%
Glenmark Life Sciences Limited	979	17.1	19.3	13%	57.9	61.8	16	23%
GMM PFAUDLER LTD.	881	4.3	6.0	41%	26.6	29.0	30	26%
HCL Technologies Limited	48,365	653.1	705.3	8%	1,842.0	2,107.5	23	26%
HIL Limited	258	3.8	1.0	-73%	17.6	20.9	12	3%
Indian Energy Exchange Ltd	1,821	12.3	14.6	19%	37.9	42.6	43	40%
Infosys Limited	77,847	1,085.7	1,034.9	-5%	2,991.8	2,962.7	26	32%
ITC Limited	70,082	832.0	802.4	-4%	2,372.1	2,502.3	28	30%
Kewal Kiran Clothing Limited	574	4.4	5.3	21%	14.8	18.4	31	26%
Narayana Hrudayalaya Ltd.	2,986	23.1	25.1	9%	73.3	97.6	31	32%
NIIT Learning Systems Limited	719	6.9	9.4	35%	23.8	26.1	28	22%
Oberoi Realty Limited	6,380	112.9	57.5	-49%	236.1	206.4	31	13%
Redington Limited	1,680	60.1	52.1	-13%	172.7	148.3	11	16%
State Bank of India	69,658	2,365.5	2,317.6	-2%	6,233.1	6,349.9	11	16%

The positions discussed here constitute the key investments under the strategy. Please do not hesitate to contact your relationship manager or advisor to discuss any of these stocks in further detail and our rationale behind the same.

RISK MANAGEMENT

While the environment is buoyant for India in the longer term, in the shorter to medium term, the aftereffects of unforeseen economic linkages from a recessionary West may be a risk. While India remains a largely domestic consumption-oriented economy, a rapid worsening of the economies in the West may affect their balance of trade with the World [including India] in the immediate to medium term. India's Current Account Deficit and foreign exchange reserves may be under pressure if energy prices remain elevated and rise. The recent softening of energy and commodity prices will assist India's macroeconomic case, but there remains the prospect of second or third-order impact from global macroeconomic and geo-political shocks.

Risk	Level	Mitigants
Concentration Risk	Fund	At the portfolio level, such risks are minimized by limiting the aggregate exposure of the portfolio to such investments to less than 10% of the value at the time of investment.
Foreign Exchange Risk	Fund	Fund has invested in only Indian Listed companies and hence the fund's investments do not face any foreign exchange risk at the Fund level.
Leverage Risk	Investee Company/Fund	Fund has not taken any leverage at the Fund level. Except for financial companies, most of the investee 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.
Realization Risk	Investee Company/Fund	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, the size of the investment and trading strategies to minimize the realization risk.
Strategy Risk	Investee Company	Investments are evaluated from a bottom-up and top-down perspective. The fund investments align with the segments of the economy that are emerging and companies that have characteristics which make them the dominant participants in their industry. The investments are assessed through a detailed financial model that captures historical performance and forward estimates based on publicly disclosed documents. The investment team rigorously undertakes quarterly diligence for any change in the investment thesis.
Reputation Risk	Investee Company	Company selection starts with rigorous fundamental analysis and a historical performance review supported by a detailed financial model constructed internally. We have an internally designed governance framework vetted over many years. This governance framework helps us in evaluating companies that meet our internal guidelines. We evaluate the investee companies both at an absolute and relative level. Periodic maintenance diligence of management/ financials has been done for Investee companies.

Extra Financial Risk	Investee Company/Fund	We avoid investing in companies with a known history of corporate governance issues. If such an issue arises in an existing investment, we stop additional purchases and start optimally exiting the investment. Our governance framework helps us in identifying any lapses in corporate governance. We actively monitor all publicly disclosed documents regarding ESG [Environmental, social, and corporate governance]. Any reported misconduct is evaluated by the investment committee for further action.
Geopolitical risks	Investee Company	Geopolitical tensions globally can disrupt the supply chain in the region. This might have a non-linear impact on business.
Raw material inflation	Investee Company	India continues to be dependent on the supply of feedstock whose pricing is global in nature. Key categories would be crude, metals, minerals, and natural commodities. Sharp movement in their underlying prices will have a short-term financial impact on the companies. The situation in China [political] has the potential to disrupt the supply chain of a few of our investee companies.
Key Man Risk	Investee Company	Small and mid-caps are frequently managed by a key promoter/person on whom the business is completely reliant and without whom the business would be materially inferior. We generally avoid such names and in cases where we make any exceptions, the aggregate exposure of the portfolio to such investments is limited to less than 10% by value.

This report and the information contained herein is strictly confidential and meant not for retail investors It may not be altered in any way, transmitted to, copied or distributed, in part or in whole, to any other person or to the media or reproduced in any form, without prior written consent of Unifi Investment Management LLP. The information and opinions expressed in this report have been prepared by Unifi Investment Management LLP and are subject to change without any notice. This report does not constitute a prospectus or disclosure document or an offer or solicitation to buy any securities or other investment. This document is neither approved, certified nor verified by any regulator. The statements contained herein may include statements of future expectations and other forward looking statements that are based on our current views and assumptions and involve known and unknown risks and uncertainties that could cause actual results, performance or events to differ materially from those expressed or implied in such statements. Nothing in this report constitutes investment, legal, accounting and tax advice or a representation that any investment or approach is suitable or appropriate to your specific circumstances. By referring to any particular sector or security, Unifi Investment Management LLP does not provide any promise or assurance of favourable view for a particular industry or sector or business group in any manner. This material is based upon information that we consider reliable, but we do not represent that it is accurate or complete, and it should not be relied upon as such. However, Unifi Investment Management LLP warrants that the contents of this document are true to the best of its knowledge. Neither Unifi Investment Management LLP nor its affiliates or their partners, directors, employees, agents, or representatives, shall be responsible or liable in any manner, directly or indirectly, for views or opinions expressed in this analysis or the contents or any systemic errors or discrepancies or for any decisions or actions taken in reliance on the analysis. The recipient of this material should rely on their investigations and take their own professional advice. Opinions, if any, expressed are our opinions as of the date of appearing on this material only.