Asymmetric

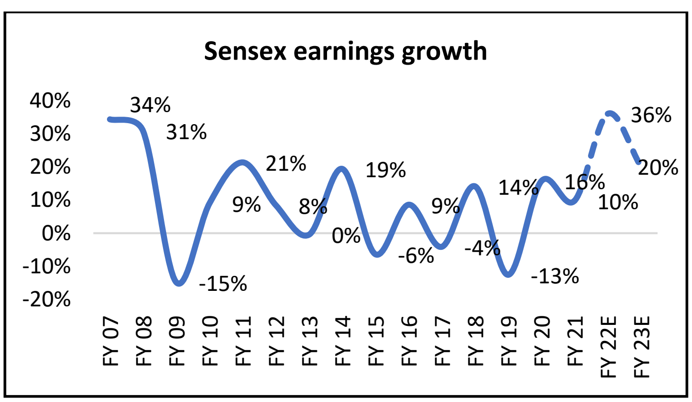
Most people think in stories instead of numbers. They construct a narrative of how they expect things to play out, with perhaps not the best definition of what constitutes risk, as it is something that may derail that narrative. But risk means different things to different people, and by that extension to different firms, and the idea that there is an equilibrium in what constitutes risk is a mistake. In our line of practice of seeking favorable investment outcomes, it is important to appreciate why risk is a factor in constant disequilibrium. So, while the relationship between the raging pandemic and financial markets seem intuitively risky and symmetric, is it so? The numbers are unequivocal in suggesting otherwise.

The old maxim that financial markets are a barometer of the economy long stands modified. Markets have signified a regime change in the new world, representing industry leaders who are consolidating their dominance, and a new monetary policy framework of low interest rates around the World that is repricing equities. So, while there is pain among smaller businesses [organized or otherwise], the leaders have benefited by virtue of their ability to withstand this phase of disruption. Remember, it is an asymmetric world.

We are in a constant state of regression, acutely aware of the changing marketplace, rethinking business models, financial models, the right forecasting horizon, and valuations across the horizons. While individuals are worried about how bad this phase of the pandemic is, the Street is focused on how good things will be for the leaders after the storm passes. And as is the case with most of our companies, and leaders outside our universe, we find that the immediate economic loss is negligible relative to their intrinsic value given the opportunities that lie ahead.

It is Organic

Corporate India is amid its finest earnings growth cycle witnessed in the last 12 years.



The last time corporate India enjoyed this fundamental strength was more than a decade back, fueled with the multiplier effect of capex across the entire spectrum of Indian infrastructure. Today, the confluence of growth drivers are more organic, and sustainable. (A) Strong rural sentiment driven by healthy increase in support prices and two consecutive seasons of bountiful produce have lent strength to all areas of consumption; (B) India is advancing as an alternative sourcing destination to China across a broad spectrum of manufacturing industries [furniture to complex chemicals]. In the process this is also abetting India's decadal effort at import substitution. The multiplier effect of this development across the ecosystem is very healthy and likely to abet enterprise investments in the times to come. Importantly, the Government's willingness to do what it takes to support domestic industry though generous incentivization of new capacities across sectors is commendable and is setting on course a part of the investment cycle. This confluence has resulted in an abundance of consumer and enterprise sentiment, and the confidence to kick start a new cycle of expansion.

A significant difference from the previous cycle is that corporate balance sheets today are in significantly better shape, and have greater cognizance to capital allocation and governance, and to that extent making the cycle more sustainable.

Tail Risk

Data suggests that there is a less than 0.04% chance that a carrier passing through the Suez Canal will face any issues. Entrusted with handling a significant portion of the World's International trade, the controls at Suez have a highly structured approach to underlying risk management. This came to naught earlier this year, as one of the World's largest ships, *MV Ever Given*, collapsed under its own weight*. Apparently, the Suez is not designed to host a vessel as large as the *MV Ever Given* under non-routine circumstances. And neither the Ship, nor the Suez, is designed to manage risks from non-routine events. And it is the non-routine events that define the course of nature and markets; from a virus escaping a lab to the sheer unpredictability of modern monetary policy theory and everything in between.

As professional investors, every investment decision is fraught with non-routine risks. As we advise to your portfolio for times to come, this is a good time for us to re-iterate that we are acutely conscious of the probabilities of such non-routine risks affecting the investment outcomes. As a result, [a] the market caps we are present in today, [b] sectors we have exposure to and [c] our management of absolute exposure is a function of our constant assessment of routine and probability of non-routine risks.

The Investment Approaches wise composition of the Rangoli fund is as below.

Theme wise Allocation (15th Jun 21)

Insider Shadow Fund	35.36%
Deep Value Fund	34.98%
APJ	12.21%
BCAD Fund	8.83%
Spinoff Fund	4.03%
Cash	4.59%
Total	**100%**

Q1-CY21 | Results summary

During the first quarter ended 31st March for CY-2021 most of the strategy's investee firms consolidated their position and delivered industry-leading growth. The fund's holdings are well diversified and poised to benefit from the normalization of the economy post the covid second wave.

Pharmaceuticals, at 19% continue to have highest weightage within the portfolio. Both Suven Pharma and JB Chemical delivered good performance in Q1CY21. During the quarter we advised taking 5% exposure to a large-cap pharma company, Lupin ltd. The company has faced prolonged subdued profitability due to pricing pressure led by consolidation of buyers, stiff competition, sluggish legacy product sales, regulatory hurdles, and leverage to support the inefficacious acquisitions. Meanwhile, it continued to reinvest significant portion of its profitability in research and development [R&D] and building capabilities. Going forward, Lupin is fairly placed with a robust pipeline of specialty drugs to be launched over the next 3 years in US, Europe, and key emerging markets. We also advised taking 5% exposure to FDC Ltd as the company has taken many initiatives to improve domestic sales distribution and medical representative (MR) productivity which will drive future earnings growth.

At 17%, financials constitute the second largest segmental exposure. Our thesis that large banks like SBI, ICICI and Axis would report strong earnings driven by lower asset quality challenges was clearly visible in the Q1CY21 results (detailed in company section). Other major sector exposure includes Fee-based financials (14%), Digital connectivity (11%), Textile materials (10%), Information Technology (7%) and Paper products (7%). During the quarter, we advised buying Tata communication, a play on rising digital penetration and connectivity. We also advised adding Indian Energy Exchange Ltd (IEX), which is India's largest electricity exchange. With government's commitment towards power sector reforms to reduce the role of state distribution companies and optimize the cost of energy, IEX is likely to see a multi-year growth.

To fund the above-mentioned new purchases, we recommended trimming exposure in Suven Pharmaceuticals and exit in Chambal Fertilizers, Tech Mahindra, GSFC and CCL products.

The following annexure presents a brief on our top holdings:

Tata Comm	Tata Comm's 4QFY21 revenues were slightly lower in both the Data and Voice segments. Voice segment revenue was down 17.2% QoQ to Rs. 5600cr while Data segment revenue was down 1% QoQ at Rs 3520cr. The latter was impacted on account of slower deal conversion cycles and moderation in UCC (Unified Communications and Collaboration) traffic. EBIDTA was down 3% QoQ to Rs 1020cr on account of 4.6% decline in the data segment to Rs 980 cr. Voice segment EBIDTA came in at Rs 36cr. Net debt declined by Rs 190cr QoQ to Rs. 7800cr. FY21 revenue at Rs 17,100cr was flat YoY while the EBIDTA increased 30% YoY to Rs. 4,300cr. Full-year FY21 capex was at Rs 1420cr, down 11% as against Rs 1600cr in FY20. The company has pretty much resolved its legacy Balance Sheet issues and we are confident that the company should deliver on its double-digit growth targets with steady margins as the economy opens up given strong demand in most of the segments that the company operates in including high quality internet connectivity, network transformation/connectivity, voice solutions, cloud hosting related offerings, security solutions, IoT etc. Key risks would be slower to negative growth in the data segment on account of covid related stress and lower usage of Tata Comm's services e.g., data streaming of live sports or reduced international travel or delays in deal conversion.
ICICI Securities	ICICI Securities delivered a good quarter, with the broking segment growing by 37% YoY and 9% QoQ to Rs.395cr. The company surprised positively with strong client additions at 354,000 clients, primarily through the digital channel. The distribution revenue was up 23% YoY and 31% QoQ due to improvement in mutual fund and insurance revenues. The focus for the times ahead would continue to be on rationalization of human resources and push to digital initiatives. On the back of robust revenue growth and measured operating expenses, PBT was up 112% YoY at Rs.441cr., and PAT was higher by 111% YoY at Rs.329cr. 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 March 2021, the proprietary electronic brokerage platform ICICI Direct had approx. 5.4 Mn operational accounts of whom about 1.6 Mn had traded on NSE in last 12 months. I-Sec is also the second largest non-bank MF distributor with an AUM of Rs.413 Bn. 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. Key risks would arise from a prolonged downcycle in equity markets leading to lower turnover, and heightened competition leading to loss of market share.
Sonata Software	Sonata delivered revenue growth of 16% YoY driven by products division that grew 25% YoY growth, while the IT services segment recovered 6.8% sequentially. Overall EBIDTA margins improved sequentially by 170 bps to 9.6% with services business reporting 28.4%. As a result, earnings at Rs.83cr was up 34% YoY and 54% QoQ. Overall, in FY21, the company delivered revenue growth of 13% YoY and earnings of Rs.243cr (-12% YoY) due to a truncated Q1-21. The outlook for each of their segments in the times to come are good driven by normalization in the European travel industry, traction in Microsoft's core business, and enterprise investment in new age cloud and IT products. Sonata is a key partner to Microsoft in their global product development initiatives and has strong domestic products re-selling business. With the worse of the pandemic induced stress in their travel business behind them, we expect the traction in earnings to return sequentially over

	the next few quarters. There is a trend of better off-shoring that is being witnessed on the back of industry wide work-from-home initiatives, and this is likely to be margin accretive in the times to come. Risks: Slower than expected economic recovery in Europe and cuts in discretionary IT spends by enterprise clients.
JK Paper	JK Paper reported revenue growth of 22% YoY to Rs. 898cr. EBIDTA and PBT increased by 29% YoY and 41% YoY to Rs. 228cr and Rs. 194cr, respectively. The key highlight of Q4FY21 performance was strong turnaround of their subsidiary - Sirpur Paper Mills which broke even at the EBITDA level. JK Paper is play on revival on domestic paper consumption driven by reopening of offices and educational institutions. Further the company is increasing its capacity from 4.36 lakh tonne to 7.42 lakh tonne driven by green field packaging board expansion in Gujarat with capacity of 1.7 lakh tonne and addition of 1.36 lakh tonne from inorganic acquisition of Sirpur paper mills. The medium-term earnings growth would be driven by volume increase, cost optimization and better realization. Key risks would be delay in capacity addition, decline in realization and extended impact of COVID-19.
SBI	SBI reported NII growth of 19% YoY and down 6% QoQ to Rs.27,067cr on interest reversals pertaining to NPAs and impact of interest-on-interest waiver. Hence, NIM was lower at 2.9% compared to 3.1% in Q3. Advances grew by 5% YoY to Rs.25.3 trillion with retail advances forming 43% of the same. The fee income recovered to previous year's levels and was at Rs 8,455cr. Operating profit was up by 7% YoY and 14% QoQ at Rs 19,700cr and PAT was up 80% YoY & 24% QoQ at Rs 6,451cr. The bank surprised positively on the total covid related stress (NPA + Restructuring) being lower than anticipated at Rs.46,416cr. In a covid hit year, the gross slippages were at 1.1% of the book, which is the lowest amongst the top banks in the country. Overall, asset quality improved QoQ with GNPA reducing from 5.44% to 4.98%. The bank made provision of Rs.11,000cr to increase the coverage to 71% on GNPA. With an additional COVID-provision buffer of Rs.11,000cr, the bank is in a comfortable position to take care of any incremental stress in asset quality in FY22. Given the superior performance in controlling stress and improving asset quality in a covid hit year, the bank is expected to deliver on all parameters from the forthcoming year, and eventually migrate to higher double-digit RoEs. The bank has cleaned up its stress in corporate loan book and will be a likely beneficiary in the upcoming credit cycle, thanks to its strong franchise and better underwriting practices. Key risks would include deterioration of asset quality leading to higher-than-expected credit costs and decline in NIMs due to falling yields.
JB Chemicals	JB Chemicals reported revenue growth of 19% YoY to Rs.528cr. EBITDA and Operating PBT registered growth of 35% YoY and 44% YoY to Rs.124cr and Rs.107cr respectively. Domestic business delivered growth of 9% YoY driven by key chronic segments - cardiovascular/anti-hypertensive. MR Productivity had improved from Rs. 3.6 Lakh in FY20 to Rs. 4.4 Lakh in FY21. Exports grew by 31% YoY. Exports Growth was driven by US and South Africa formulations business. Growth in Russia continues to remain muted due to covid as anti-infectives accounts for a major part of Russia business. The company registered 23.4% EBITDA margin as against 20.7% last year on the account of operating leverage and cost optimization initiatives by the new management. We like the company due to the strength of its 4 key brands (Cilacar | Nicardia | Rantac | Metrogyl) and the potential for KKR to accelerate its growth momentum.

	Key risks: Supply chain disruptions, Pricing pressure in Domestic Business and unexpected regulatory developments.
Axis Bank	Axis Bank reported NII growth of 11% YoY and 2% QoQ to Rs.7,555cr on the back of healthy loan book growth and stable NIMs. Advances grew by 9% YoY to Rs.6.23Trillion with retail advances forming 54% of the same. Operating profit increased 17% YoY and 13% QoQ to Rs.6,865cr. On the back of lower provisions [down by 28% QoQ at Rs.3,295cr.], PAT was up 140% QoQ at Rs.2,677cr. The bank's asset quality improved with GNPA and NNPA at 4.06% and 1.12% respectively. The bank surprised positively on the restructured accounts, which was lower sequentially at 0.3% of the loan book and have been adequately provided for at 26%. With an additional COVID-provision buffer of Rs.5,012cr, the bank is in a comfortable position to take care of any incremental stress in asset quality in FY22. The collection efficiency was stable at 98% in March, which is at par with pre-covid levels of 97%. Axis Bank is well placed to get back to normalcy from FY-22 onwards. Given the low cost of deposits and access to capital, the bank is expected to deliver on all parameters from the forthcoming year, and eventually migrate to higher double-digit ROEs. Key risks would include deterioration of asset quality in the covid second wave leading to higher-than-expected credit costs and decline in NIMs due to falling yields.
Garware Technical Fibres	Garware delivered revenue growth of 33% YoY to Rs.335cr. EBITDA and Operating PBT registered growth of 29% YoY and 35% YoY to Rs.71cr and Rs.63cr, respectively. Both domestic and export business contributed to growth in Q4FY21. While gross margin declined by 440bps YoY with increase in the price of polymers and a change in product-mix, EBITDA growth was strong driven by favorable operating leverage. The company successfully completed buyback of Rs. 73 Cr during the quarter. We remain positive on Garware given the company's focus towards value added products (which now makes 70% of overall business), its leadership position in technical textile segment, its relationship with international clientele builds over the past decades and strong balance sheet with cash of Rs. 530cr. The company continues to win new patents and launch new products, which we believe will drive growth and profitability. Key risks: Decline in the prices of Salmon, sharp increase in raw material price and failure of newer products to garner higher market share.
IEX	IEX delivered revenue growth of 35% on the back of strong volume growth across products to Rs.94cr. Their key products like Day-Ahead-Market (DAM) and Term-Ahead-Market (TAM) had reported volume growth of 20% and 31% YoY, respectively. Real-Time Electricity Market (RTM), launched in June-20, formed 17% of volumes in Q4 FY21 growing at more than 30% on a sequential basis. EBITDA and Operating PBT registered a growth of 48% YoY and 54% YoY to Rs.77cr and Rs.64cr respectively on the account of favorable operating leverage. IEX is India's largest electricity exchange and with the government's commitment towards power sector reforms to reduce the role of DISCOMs and optimize the cost of energy, IEX is likely to see a multi-year strong growth. Key risk: Unexpected regulatory environment and slowdown in industrial activity.
DCM Shriram	The company reported Revenue, EBITDA and PBT YoY growth of 14%, 5% and 24% respectively. The revenue growth in this quarter was primarily driven by Plastics (due to higher realization) and sugar segments. This was a seasonally weak quarter for agri-segment, and this resulted in the decline of consolidated EBITDA margin by 140 bps YoY. Overall, FY21 saw 7% revenue growth largely driven by the sugar business, which grew by 34%. But chlor-vinyl segment declined by 12% due to lesser volumes of caustic and realizations, which are expected to bounce

	back in coming years. The earnings for FY21 had degrowth of 7% at Rs. 673cr. DCM Shriram is predominantly present in chlor-alkali and sugar segments along with agriculture products like fertilizers, bio seeds and other farm solutions. The demand for caustic soda is now coming back to pre-covid levels and this is expected to result favorably on numbers in the times to come. Sugar segment consists of sale of sugar, ethanol and power which has hit stable demand through the year with improved realizations. Further, the company has announced entry into chlorine/hydrogen downstream products like Epichlorohydrin, Hydrogen peroxide and Aluminum chloride. These are value added segments within the chlorine value chain and hence will contribute positively towards overall profitability. Key Risk: Unexpected regulatory developments in sugar/ethanol business and decline in caustic soda prices in the international market.
KPR Mills	KPR mills delivered revenue growth of 28% YoY to Rs. 1,118cr. Textile business grew by 26% YoY, led by strong 30% volume growth in garmenting business and better yarn realizations due to favorable demand-supply dynamics. With the commercialization of incremental 5,000 TCD sugar capacity and 40KLPD Ethanol capacity, sugar business grew by 50% YoY. EBITDA and PBT grew by 95% and 145% to Rs. 267cr and Rs. 238cr, respectively. The gross margins accretion is mainly driven by high cotton-yarn spread and operating leverage in garmenting business as the company operates at optimum capacity utilization levels. KPR currently has 105 Mn pieces per annum garmenting capacity and with the new greenfield expansion project of 42 Mn garments, the company will be one of the largest garment exporters in India. In the sugar segment, once the new capex is commercialized by Q3 FY22, the company will have a total of 20,000 TCD sugar capacity and 360 KLPD Ethanol capacity. Both the business segments are progressing well and commercialization of capex in both the segments in the next financial year with drive the medium-term growth and profitability. Key risks: Delay in the ramp-up of Garment Facility and Ethanol Capacity, adverse change in the RoDTEP scheme and Unexpected regulatory developments in Sugar/Ethanol business.
FDC	FDC reported revenue degrowth of 6% YoY to Rs.313cr while EBITDA and PBT registered flattish numbers of Rs. 52cr and Rs.54cr, respectively. Domestic business declined by 8% YoY as anti-infectives [40% of domestic business] continue to suffer due to covid related social distancing and improved hygiene. Key brands ENERZAL and ELECTRAL continue to grow in double digits. The company's niche US exports business catering ophthalmic therapy continue to show good traction. In H2 FY21, the company filed for an Ofloxacin Otic Solutions tallying to total 8 filings and 7 approvals. Two products namely Dorzolamide and Timolol are expected to be commercialized in the US in H1 FY22. The company has successfully registered 2 products in Uzbekistan and added this new territory in the Export formulation business in Q4 FY21. In the last few years, the company has taken a lot of initiatives to improve sales distribution, operating efficiency, and MR productivity. This will drive steady-state growth in the domestic business. Key drivers for exports business will be increase in the capacity, new ANDAs filing in US market and entering new emerging and developed markets. Key risks: Pricing pressure and market share loss in the US Business and unexpected regulatory developments, prolonged slowdown in Anti-infectives.

PORTFOLIO VALUATION METRICS

Weighted	FY 21	FY 22E
Earnings Growth	23.1%	32.9%
Price to Earnings Ratio	28.8	21.0
ROE	25.9%	26.4%
Price to Book Ratio	6.5	5.2
Weighted Avg Market cap (Crs)	72,851	

TOP 10 HOLDINGS

	Weights %
Position 1	10.88
Position 2	8.83
Position 3	7.23
Position 4	7.13
Position 5	7.03
Position 6	6.28
Position 7	6.27
Position 8	5.22
Position 9	4.99
Position 10	4.72
Total	**68.56**

SECTOR EXPOSURE

Sector	%
Pharma	19.1%
Financials	16.5%
Digital Connectivity	10.9%
Materials	9.8%
Fee-based Financials	8.8%
IT	7.2%
Paper & Paper products	7.1%
Exchange	5.0%
Chemicals	4.7%
Others	6.3%
Total	**100%**

**OTHERS INCLUDE INSURANCE AND MEDIA*

CLASSIFICATION OF MARKET CAP

Segment	Basis	%
Large Cap	> $2000mn	44.91%
Mid Cap	> $200mn < $2000mn	55.09%
Small Cap	> $50mn < $200mn	0.00%
Microcap	< $50mn	0.00%
Total		**100%**

Portfolio metrics are as of 15th Jun 2021.

LIQUIDITY ANALYSIS

Segment	% of portfolio
Less than 1 day	100.0%
Between 1 & 3 days	0.00%
Between 3 & 5 days	0.00%
Greater than 5 days	0.00%

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. 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 certain period of time thereby impacting their profitability.
Geo-political risks	Any geopolitical tensions between India and neighboring countries can disrupt supply chain in the region. This might have a non-linear impact on business.
Raw material inflation	India continues to be dependent on the supply of feedstock whose pricing is global in nature. Key categories would be crude, metals, minerals, and natural commodities. Sharp movement in their underlying prices will have a short-term financial impact on the companies. The situation in China (Corona Virus, and political) has the potential to disrupt the supply chain of a few of the investee companies.
Liquidity risk (in case of NBFCs)	The NBFC led liquidity crisis in India has had a systemic effect on the entire economy. The investee companies have been able to tap diversified sources of liquidity on the back of their long-term track record of comfortable asset quality and asset-liability-management (ALM). However, sustained deterioration of the asset quality can continue to affect our holdings in Banks and NBFCs.
Foreign Exchange risk	The foreign exchange system continues to be guided by global developments 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 financial companies, most of the operating companies in the strategies carry nil to moderate debt on their balance sheets with a track record of having managed leverage well in the past. Their leverage is monitored regularly.
Technology Obsolescence	Technological changes can render the products/services of a company obsolete and thereby hurt its profitability and valuation. Such a risk is generally minimized by limiting the aggregate exposure of portfolio to such investments to less than 10% of value.
Governance risk	We avoid advising in companies with a known history of corporate governance issues. Further, in case such issue arises in an existing investment, we advise to stop additional purchases and start optimally exiting the investment.
Concentration risk	At the portfolio level, such risks are minimized by limiting the aggregate exposure of portfolio to such investments to less than 10% of value at the time of investment.
Stock Illiquidity risk	High Impact cost, due to thin trading at the time of buying or selling is endemic to small & mid-caps. We plan our investment decisions, size of the investment and trading strategies to minimize the costs due to illiquidity.
Key Man Risk	Small and mid-caps are frequently managed by a key promoter / person on whom the business is completely reliant and without whom the business would be materially inferior. We generally avoid such names and in cases where we make any exceptions, the aggregate exposure of portfolio to such investments is limited to less than 10% by value.

Slowdown in global consumption	The wallet-share of the investee companies in the global manufacturing value chain, does not pose a significant risk of loss of business to their vendors. New and high growth areas such as Lithium-Ion batteries, EV vehicles are in relative infancy stage and have a strong growth curve ahead of them.
Softness in IT product spends	The convergence to digital software solutions is a 'must do' proposition and the 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.