Strategy Communique

Q3

CY 2022

UNIFI INVESTMENT MANAGEMENT

Review :

Q3 - CY 2022

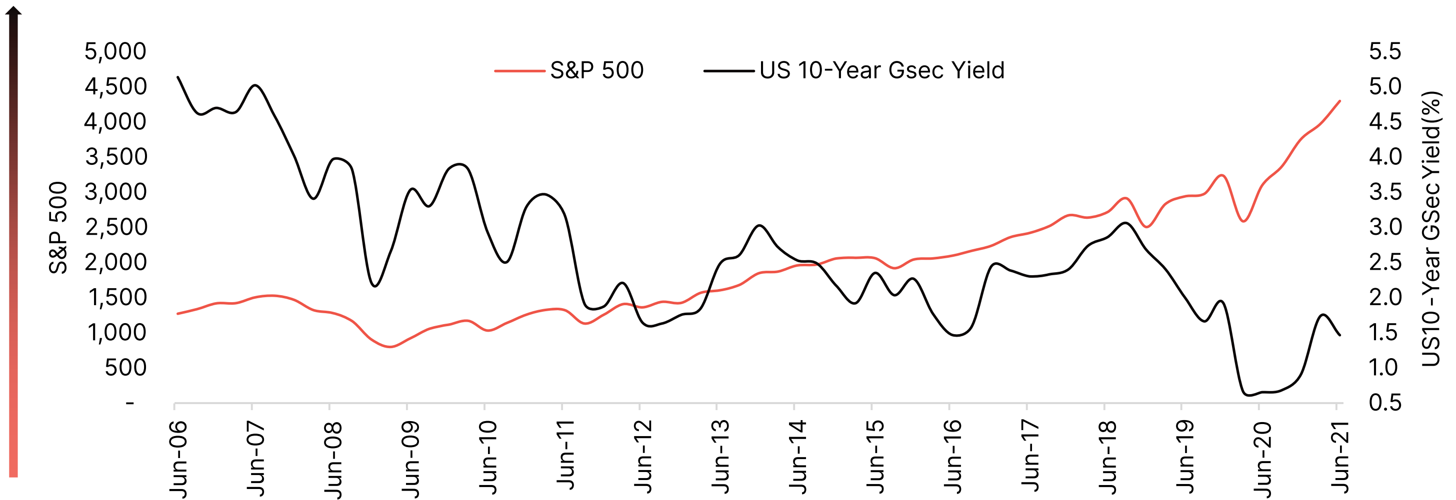
UNIFI INVESTMENT MANAGEMENT

We usually write sparingly on the Macros. Macros run a relatively low elasticity when seeking absolute returns in relatively stable emerging markets, such as India. However, 2022 has been a year of significant macro upheaval, and a moment here will contextualize the complexity of the environment. This is important to appreciate the risk/reward currently prevalent before we shift our focus back to the bottom-up.

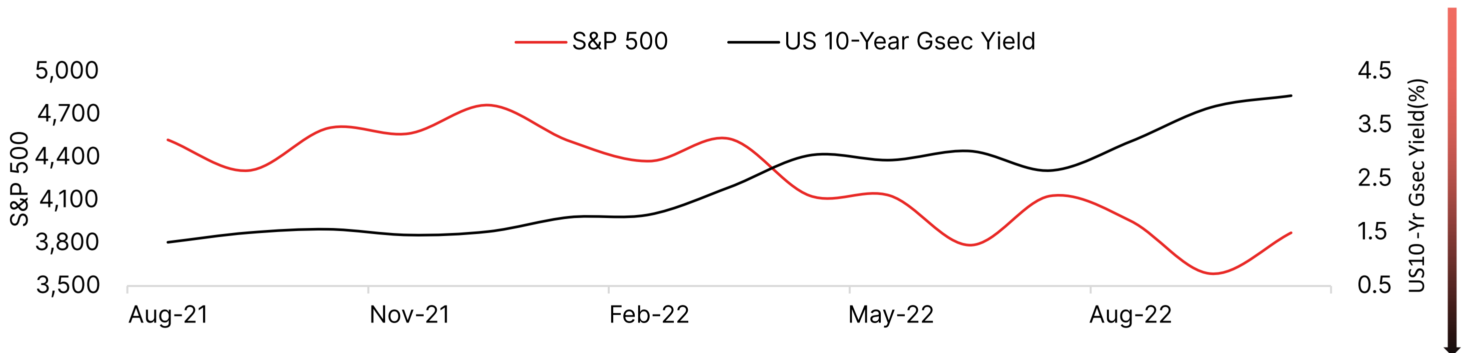
Cutting through the Macro

Over the last decade, the global monetary policy system burdened itself with the primary objective of delivering growth through a medium of very negligible cost of capital. An extended phase of such marginal costs lent to the artificial stimulation of excess demand, exerting tremendous inflationary pressure across all asset classes – physical or intangible. This spawned the beginning of economic unsustainability because when the cost of capital is cheap, in some combination, consumers tend to over-pay for all factors of an economic value chain – land, labor, and capital. Further, the forceful measures taken by central banks during the pandemic accelerated the consequences on all such assets, eventually reflecting in the inflationary value of the underlying equity holding such assets. This is essentially an economic theory, but as they were implemented with abandon over the last many years, the markets played out as they ought to have – i.e., create a period of unsustainable surplus and eventually give it up. And these trends played out equally between the primary markets [venture capital funding conceptual ideas] before transmitting to the secondary [capital] markets.

To skip the details in favor of brevity, this is how the bubble played out in the US: as quantitative easing began in the late-2010s, the US 10year GSec fell from ~4% to <1% while the S&P 500 compounded at ~12% CAGR.



When capital is cheap, all assets command a premium. When the glut recedes, interest rates rise, and risks adjust to reality. Over the past 15 months, as the FED increased interest rates, US GSec increased from 1% to 4%, while the S&P 500 gave away ~17% from its peak of the previous year. And there is more tightening to come, as evidenced by the US Fed's general guidance that intends to be "sufficiently restrictive." This means yields will rise, and it remains to be seen how much more US equities will reprice themselves.



A similar passage of play played out in almost all countries worldwide for the past 18 months. However, interest rate reversals, and money supply, are the only variables that can be formally controlled, as monetary policymakers cannot control the most integral end of the economy – demand and supply. This leaves the door open for the markets to reprice themselves. The result is a complex system of unpredictable output, constantly evaluated by the stock markets, basis the strength of each underlying economy.

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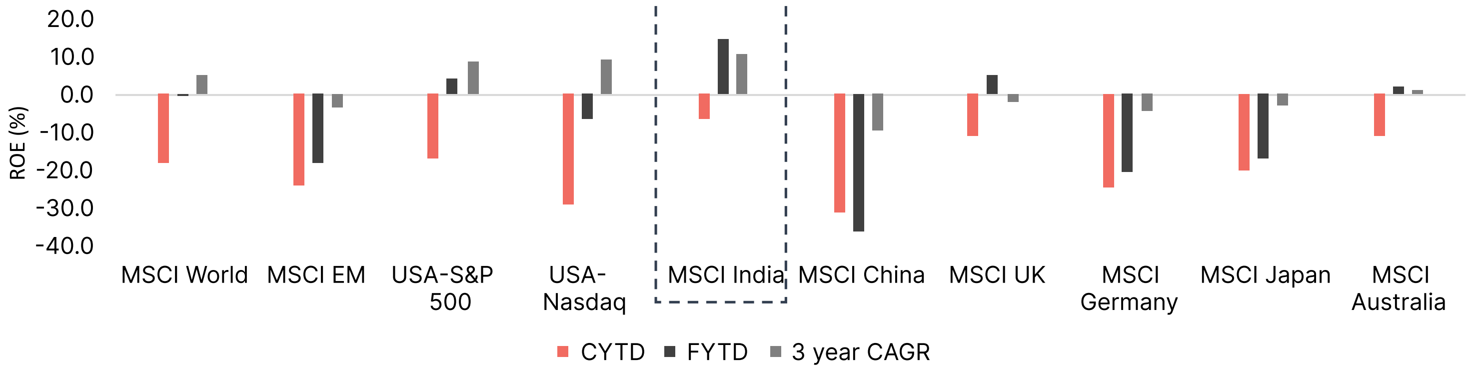


As of 15th November 2022

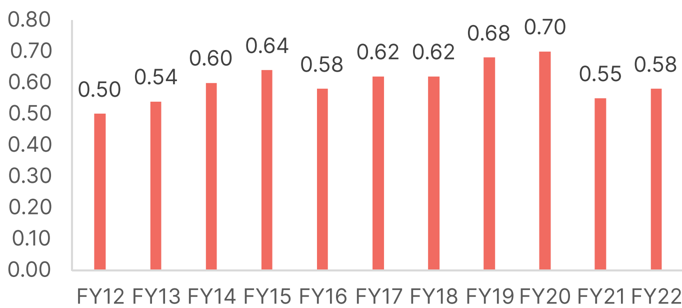
In the context of this complexity, we distill the macros into a simple framework to address what this means for managing equity risk in India. Accordingly, we ask ourselves the following questions: How is India faring? And what are we suggesting to manage equity risk?

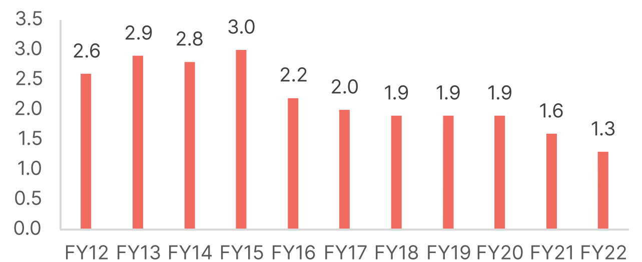
How is India faring?

As an emerging market, India cannot be immune to worsening global macros.

However, the underlying strength in a new capital formation cycle, credit growth, and a resilient domestic consumption cycle place India in a different macroeconomic trend from the rest of the World. While this is evidenced by past returns as showcased above, going ahead, this is primarily because India's credit cycle has run inversely proportionate to the West's. Between 2015 – 2021, India curtailed its lending while the West was in an expansionary phase. This resulted in negligible domestic capital formation and limited economic multiplier. The West, in this period, enjoyed a liberal flow of capital and an expansionary private sector. The situation now stands reversed. Corporate India, with its strong balance sheets and policy support across the breadth of manufacturing and agriculture, is in the midst of a new phase of growth and witnessing renewed demand within India.

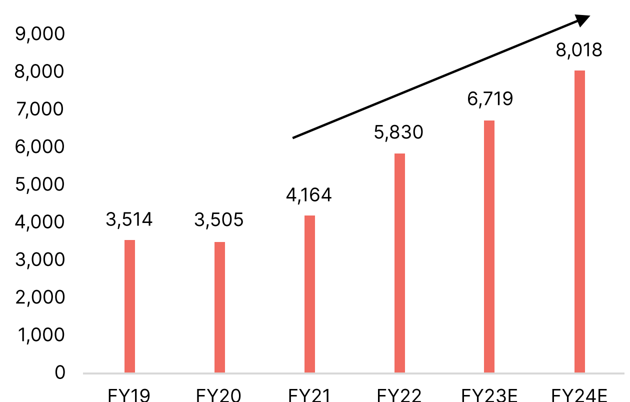
We support this with a few facts. Since FY15, Indian firms have materially deleveraged their balance sheets. The debt to EBITDA ratio of the top 500 corporates in India decreased from 3x to 1.3x. Resultantly, the rate hike cycle in India has had little or no impact on earnings or growth plans. On the other hand, India Inc has witnessed strong economic resilience post-pandemic phase, reflecting higher credit growth. India's system credit growth has touched a multi-year high of ~17% in Nov '22, led by robust consumption demand. As India's capacity utilization in the manufacturing sector is running above its long-term average, the construct of the next phase of private CAPEX cycle is robust and financially sustainable.





In FY 2022, Corporate India witnessed the best-ever delta in terms of an increase in the cumulative profit pool in the last two decades. They continue to defend that base well despite the current inflationary cycle.

India is the only economy that provides growth rates of this magnitude at scale with greater appreciation to capital allocation, governance, and the Government's willingness to do what it takes to support the domestic industry. After going through a challenging earnings growth cycle in the last decade, Nifty 50's cumulative profit pool has doubled in the previous 3years. The last time corporate India enjoyed this fundamental strength was more than a decade back. The markets are ultimately discounting this pace of growth despite the challenging global macro environment. And this is responsible for India's equity market performance relative to other major economies.



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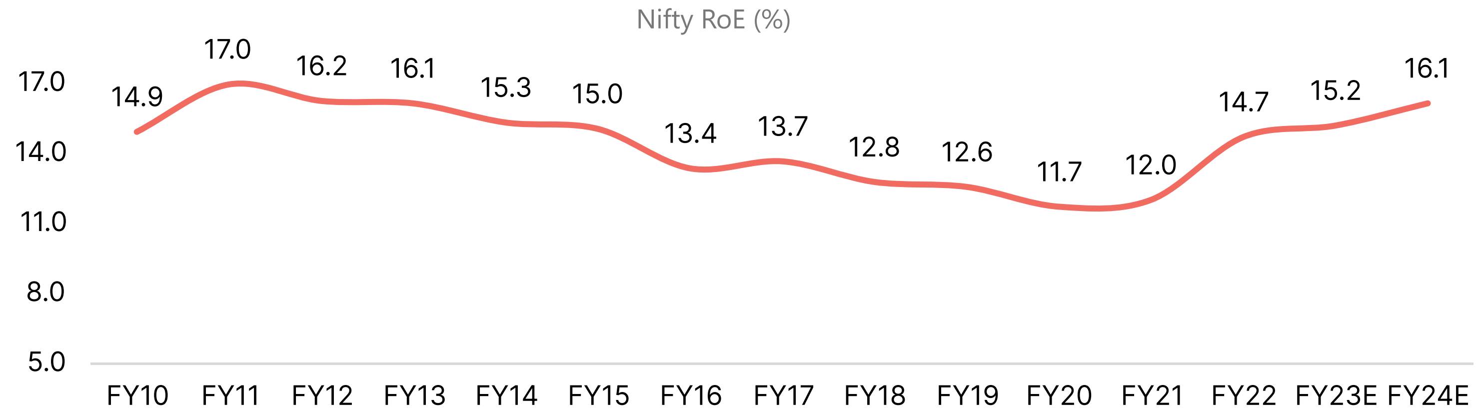
.. and doing this with Capital Efficiency

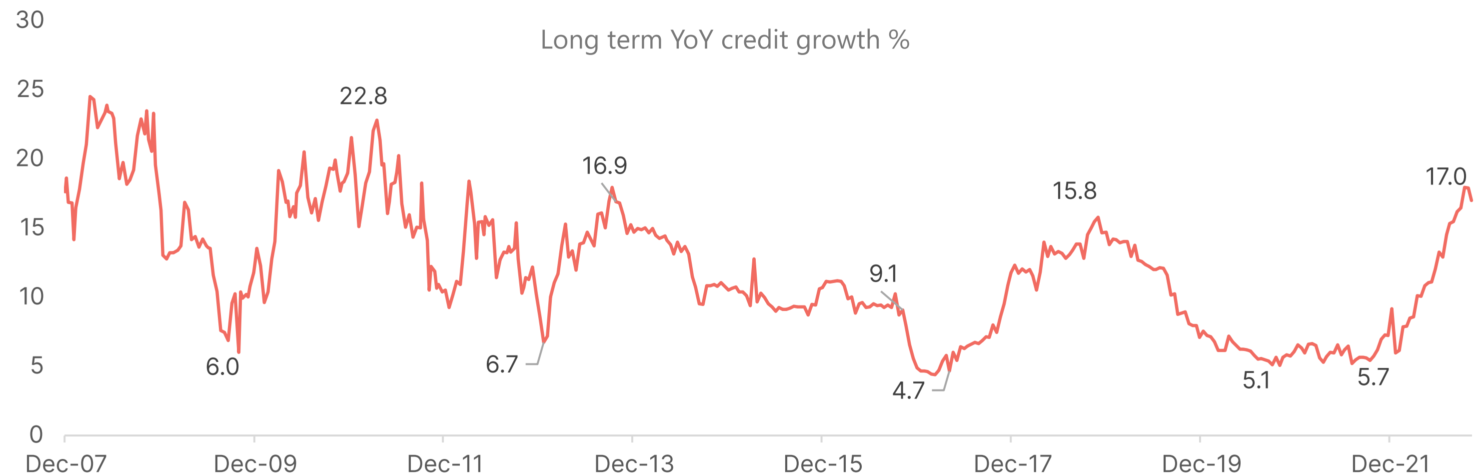
While earnings growth and profitability metrics remain the focal point of a firm's journey, value creation is unsustainable without the discipline of capital allocation. The primary pillars of the value creation journey are earnings growth and the firm's ability to reinvest capital at better returns than the cost of capital, especially in an environment where the cost of capital is on its way up.

In a nutshell, earnings growth only creates shareholder value if a company generates returns over the cost of capital, and this is reflected in Corporate India's financials. With the corporate balance sheets today in significantly better shape, Return on Incremental capital has much been higher than historical trends, resulting in the expansion of earnings and an appreciation in the value of equity delivering such earnings.



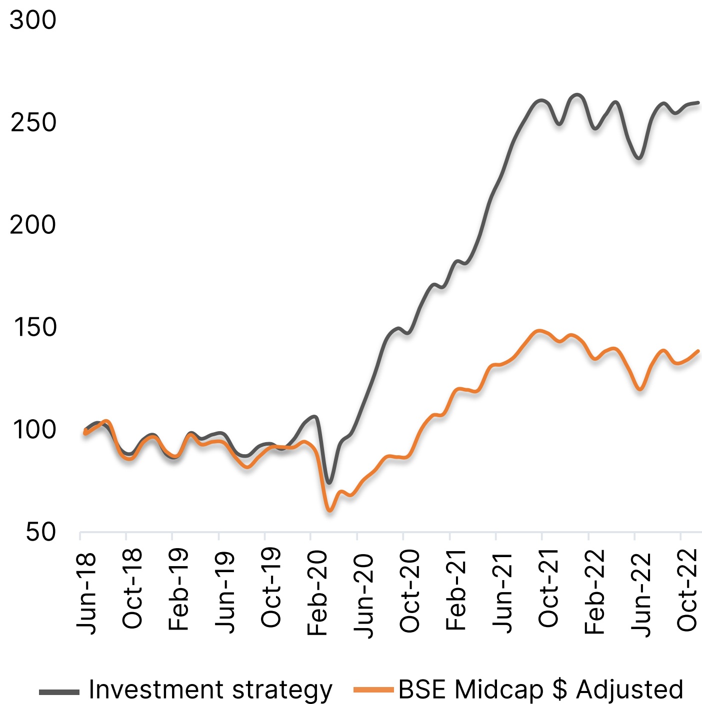
What are we suggesting to manage equity risk?

The robust offtake of credit dictates the making of a new economic cycle. And financial enterprises are the first to capture the multiplier effects, ahead of other parts of the economy. As a result, credit presents a significant opportunity. As of October, this year, India's systemic credit growth reached a multi-year high of 17%, driven by strong consumer demand. This figure is anticipated to rise with a new investment cycle. Further, a rising interest rate environment coupled with benign credit costs will help banks report robust earnings over the next few years.

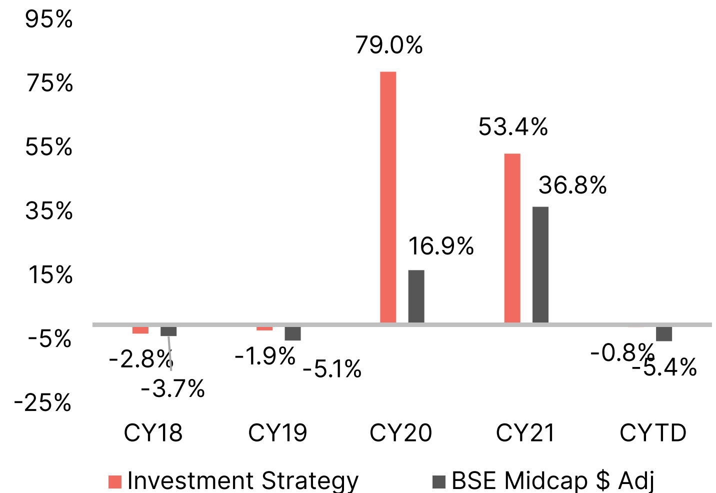


The depth of India's domestic consumption and manufacturing franchise are other great opportunities currently. Due to healthy wage inflation in the formal economy, disposable incomes have risen at a healthy pace. Coupled with pent-up disposable incomes over the two pandemic years, there has been a noticeable improvement in premium and discretionary consumption, property absorption, and financialization of savings. While we have mentioned this statistic in our previous notes, it may be worth repeating that the percentage of households in the upper and high-income groups grew from 8% in 2005 to 24% in 2018. And by 2030, this percentage is estimated to reach 51%. With this change in the profile of household incomes, all cohorts of discretionary consumption will grow while newer categories will be created.

We have drawn from the strength of India's macros highlighted in the previous sections and referenced it with a firm's exhibiting strength in sections of the economy described above in evaluating (A) earnings growth and (B) capital efficiency in determining if they merit a place in portfolio. This has resulted in a portfolio with a blended average earnings growth of c.50% over FY23 and FY 24, with capital efficiencies of 23%. While the macros play a role in the regular pricing of securities, the strength in earnings and ability to defend capital efficiency will culminate in portfolio returns over the medium term.



Duration	Strategy performance (Series A)	BSE Midcap (Adjusted for Rs/$)
1 Year	4.17%	-3.27%
2 Years	27.07%	17.80%
3 Years	42.0%	14.77%
CYTD	-0.83%	-5.36%
Since Inception	24.03%	7.61%



In closing

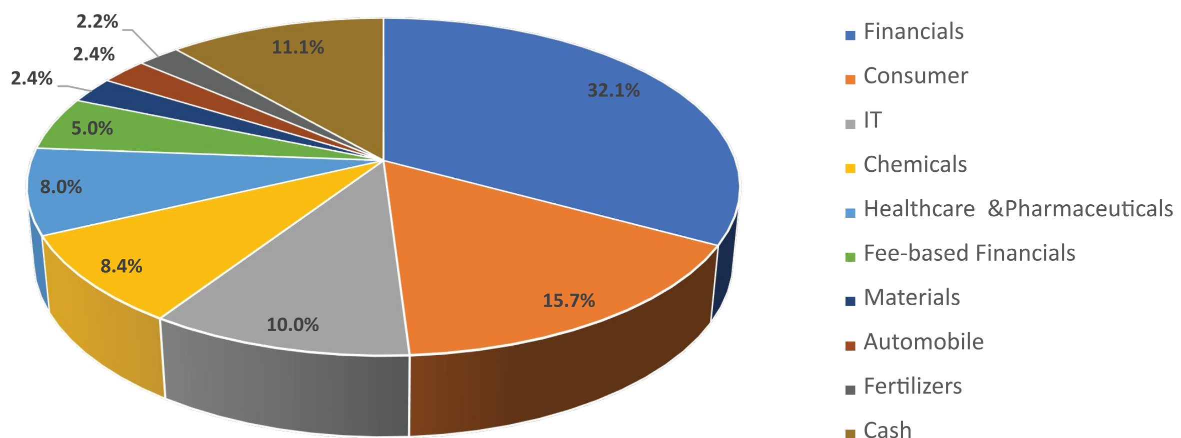
As one of the World's fastest-growing economies, India is naturally home to businesses with very high growth rates. And growth companies derive most of their value from the future, which is fair. In a cycle of monetary tightening and higher cost of capital, the premiums typically paid for growth compress, and their equities' value is drastically repriced. To us, this boils down to not evaluating companies through a prism of buying cheap or high-growth companies at all costs, which is the basic premise of value and growth. To us, high-quality growth businesses are a balance between a proven and profitable business model, a sustainable competitive advantage, financial productivity in the form of cash generation and return on equity, and the ability to sustain and compound this into the future.

India, as a basket, has typically commanded high growth multiples as the depth of formalization and consumption the country offers is unique and truly one of its kind.

The rapid adoption of India's technology stack [digital payments, identity, formalization, payments, and tax systems] is transforming a vast, inefficient, informal cash economy into an unthinkable new-age economy, surprising even the most optimistic India watchers from a few years ago. This is creating productivity at a scale unseen before, and all of this will eventually be captured in the equity value of India's most efficient firms. This has led to investors to reimagine how they view and value India's equities. And again, in various measures, our portfolio advice is an outcome of this.

At the cost of repetition, the macros today are complex and difficult to price. As markets react to the high frequency of news flow and price them in real-time, we tread a line of caution and constantly evaluate risk and reward. In a nutshell, this means not overpaying for growth and not overstaying our welcome when an investment objective has been achieved.

RANGOLI INDIA FUND - Sector allocation



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Summary of Results from the Quarter Q2 - FY 20223

Company	Brief background and Investment rationale
SBI	SBI reported strong set of numbers led by strong sequential loan growth (+4.8% QoQ), improvement in margins (+30bps QoQ) and moderation in slippages & credit cost. Loan growth has come in at a healthy rate of 4.8% QoQ & 20.8% YoY. SBI is currently running ahead of system growth of 16.5% YoY (As on Sep'22). Although ~21% YoY loan growth has come in on a lower base of 6.5% YoY but even on YTD basis (Apr-Sep'22), SBI is running ahead of system growth. We are estimating loan growth of 14-16% for FY23. Margin improved by 30bps QoQ to 3.3% led by passing on of hike in interest rates and improvement in CD ratio. SBI also has excess SLR, which will help in funding loan growth. Post reporting minimal gross slippages of 40-70bps during 2QFY22 to 4QFY22, SBI reported elevated slippages of 1.4% in 1QFY23. However, in 2QFY23 gross slippages moderated back to 0.3%. Net slippages were at -0.4% vs 0.7% in 1QFY23. On the back of negative net slippage for the quarter, credit cost moderated to 42bps vs 63bps in 1QFY23 resulting in improved PCR of 78% vs 75% in 1QFY23. SBI is expected to report an RoA of ~90bps vs 67bps in FY22 and RoE of 17.4% vs 13.3% in FY22. Key risks would include deterioration of asset quality leading to higher-than-expected credit costs, higher treasury losses, and lower-than-expected loan growth.
AXIS	Axis Bank's Q2 FY23 performance was better than expectations led by improvement in margins, higher loan growth and benign credit cost. Axis reported strong ~4.2% sequential growth in loan book led by growth across verticals. Margins improved by 36bps QoQ to ~4% led by better spreads. Improvement in margins has come as a complete surprise to the street as earlier in 1QFY23, management has indicated that they will reach to 3.7-3.8% of margins over the next 8-10 quarters. On the margin improvement, management mentioned that improvement in margins is structural in nature (no one-offs) and it intends to maintain margins at around current level. Opex continues to be elevated due to investments. Asset quality has further improved and is among the best in peers given Net NPA of 0.5% and restructuring at ~0.4% of loans. Net slippages continued to be modest at 0.3% vs 0.4% in 1QFY23. Lower net slippages over the past 5-6quarters has the led the bank to report suboptimal credit cost of 20-30bps in the past couple of quarters. The bank has outstanding COVID provision of 69bps. We expect the bank may report an RoA / RoE of ~1.6% / 16% in FY23E led by improvement in margins and credit costs Vs 1.2% / 12% in FY22. Key risks would include a deterioration in asset quality leading to higher-than-expected credit costs and lower-than-expected loan growth.
CG Consumer	Crompton Greaves Consumer reported revenue decline of 4% YoY to Rs.1,331cr, on account of high base last year due to pent up demand post covid. Despite a lower offtake in stocking up inventory by the channel, the company delivered ahead of industry growth rates, on the back of market reach initiatives, product innovation and premiumization. The company was able to mitigate commodity inflation through price hikes, product mix improvement, and aggressive cost reduction. As a result, the gross margin improved sequentially at 31%. We expect Crompton to deliver headline growth that is ahead of the industry. The company reported a PAT of Rs. 131cr (down 17% YoY) during the quarter. Crompton is amongst India's most profitable players in the consumer durables space with best-in-class growth, margins, and capital efficiency. We continue to like the company given their execution and expect them to benefit from this phase of consolidation and growth in household spending on durables. Key risks to the investment could emanate from a drop in consumer sentiment, and steep inflation in raw materials.
Sonata Software	Sonata delivered revenue growth of 4%(INR) QoQ and 1.8% (US$) in CC terms to $ 58mn, with still some pending revenues due to supply-side issues. International IT services (IITS) revenue growth was led by Microsoft Dynamics services (2% QoQ US$), Modern Validation and Dev Eng Mgmt Ser (7% QoQ US$) and Open-Source Digital Platform Services (6.5% QoQ US$). Microsoft Digital Platformation Services (-0.2% QoQ US$) and Managed cloud services (-9% QoQ US$) was soft this quarter. IITS EBITDA margin came in at 25.9%, a decline of 70 bps QoQ and absolute EBITDA of domestic business came at INR 47cr up 7% QoQ. Overall EBITDA margin for the quarter stood at 11%, up +200bps QoQ and down 3% YoY. Company reported overall PAT of Rs. 112cr in this quarter registering QoQ growth of 5%. Domestic Product Services (DPS) revenue was up 72% YoY. Investment in senior leadership in past few quarters resulted in 2 large deal wins in this quarter. Management aspires to double international IT service revenue in the next 4 years on back of large deals. Key risks: Slowdown in the USA and Europe and cuts in discretionary IT spending by enterprise clients.

ICICI Securities

ICICI Securities' revenue grew 1% YoY to 865cr in Q2 FY23. The broking segment revenue declined 17% Q-o-Q due to lower cash volumes (ISec is more dependent on cash volumes). The focus on growing derivatives volumes continued and ISec gained market share to 3.7% vs 3.4% in Q1 FY23. The broking allied offerings such as margin trading, prime and other fees supported revenue growth sequentially. The total retail and allied income was Rs.505cr. The distribution revenue, which is 18% of consolidated revenue, grew 5% YoY across mutual fund, life insurance and other products. The corporate finance revenue of Rs.52cr is cyclical as depends upon primary issuances which remained weak for the quarter. The revenue from corporate finance in the same period last year was high due to heighted capital market activities. This resulted in consolidated PAT degrowth of 15% YoY to Rs. 300cr.

ISec continues to make investments in technology and branding and expects to gain market share in the derivative segment that has benefited the discount brokers. We like business resilience given the improving share of non-brokerage revenues in sales, technology leadership, continuing consolidation of the user base and high RoE of 50%.

Key risks would arise from a downcycle in equity markets leading to lower volume turnover and lower deal flow for corporate finance.

Narayana

Narayana reported revenue growth of 22% YoY to Rs. 1,142cr. India business delivered revenue growth of 19% YoY to Rs. 910cr. The revenue growth in India business is largely driven by higher occupancies as ARPOBs (Average Revenue per operating Bed) remained flat. On the backdrop of higher occupancies, the EBITDA margin in India business increased to 21% in this quarter vs 19% in Q1FY23. Cayman business has seen a recovery post the covid wave in Q1. Cayman business reported revenue growth of 48% YoY to US$29Mn and EBITDA Margin recovered to 40%+. Driven by strong growth in both the Indian and Cayman operations, consolidated PAT increased by 70% YoY and 52% QoQ to Rs. 169cr.

There has been delay in Cayman capex and this will now be operational in H2FY24 (will increase beds from 100 to 150). On the domestic front, the company has recently acquired a hospital in Bangalore and also working on green field projects in Kolkata and Raipur. These projects would increase the capacity by 30% over the next 3-4 years. We continue to be positive on the sector given the changing lifestyle (more hospitalization) and higher household income. Narayana has one of the best governance standards and balance sheets in the industry. Over the last few years, the company is successfully reducing the dependence on cardio by focusing on departments like Onco and Neuro. Covid has given a fillip to Cayman hospital and this business is on strong footing. Given the sector tailwinds and company's growth strategy, we remain positive on this name.

Key risks include new hospitals taking more time to reach breakeven and any changes in the Cayman government policies.

IIFL Wealth

IIFL Wealth is amongst the largest wealth and alternate asset managers in India. Revenue/EBITDA/PAT grew YoY by 22%/45%/21% to Rs.383cr/Rs.204cr/Rs.173cr respectively in Q2 FY23. Company manages 2.7 lakh cr of AUM that grew 5% YoY - the wealth business is 2.1 lakh cr and asset management is 0.56 lakh cr. The AUM flows were driven by net new inflows of Rs.6,104cr - Rs.6051cr in wealth management and Rs.53 cr in asset management. Over the past 3 years, the company transitioned revenue and costs from an upfront to a trail earning distribution model. We expect the cost to income to be 45% for FY23 vs 52-54% earlier as the employee variable expenses are linked to recurring revenues. This alignment will aid margins.

We like the business given the sector tailwinds as HNI Wealth expected to grow faster than the industry and the shift of assets from physical to digital. IIFL Wealth has an industry leading business model, demonstrated executional capabilities and a strong leadership and management team.

Key risks would include slowdown in net new inflows and any employee/client attrition.

Atul Ltd

Atul recorded revenue growth of 19% YoY to Rs. 1,487cr. EBITDA and PAT delivered growth of 1% each YoY to Rs. 220cr and Rs. 148cr respectively. The performance chemical segment delivered revenue growth of 7% YoY led by growth in the Polymers and Bulk chemicals segment. The high energy costs and declining realizations have impacted the profitability of the Performance Chemicals segment. The Life Science segment recorded revenue growth of 65% YoY led by growth in the crop protection business. In the Life Science business, the ramp-up in new capacities for API business has been subdued due to delays in approvals, leading to upfront fixed costs and negative operating leverage. The price of key raw materials increased by 20-200% in the last financial year. The company has taken significant price hikes to pass on input costs. The management has been confident of a complete passthrough over the next few months. Gross margin was flat on a YoY basis. Apart from the raw material inflation, the surge in coal price and logistics cost globally impacted profitability. In H2 FY23, the capacity ramp-up should be significant with margin recovery.

Atul is one of the largest integrated chemical companies in India. The company’s growth is underpinned by its leadership position in key chemistries/products, exposure to multiple end-use industries and the maximization of its upstream/downstream capabilities. This has helped the company build a sustainable business model complemented by its self sufficiency in feedstock and supported by the expansion of its existing product lines and entry into the value-added product market. The company is in the midst of capacity expansion across sub-segments to strengthen its position in existing product markets and Review-Q3 CY2022 | 10 increase its share of downstream products. The company is incurring a total capex of Rs. 1700cr over FY23-24.

The key risks would be softening of spreads in key products and the delay in the commercialization of capex.

Polycab

Polycab delivered revenue growth of 7% YoY to Rs.3,332cr, aided by strong volume growth in cables & wires segment, which grew at 12% YoY. The company was able to drive 15% volume growth on account of distribution expansion and market share gains from unorganised players. The FMEG segment revenue declined 11% YoY to Rs.305cr, on account of high base of previous year and lower offtake in fans portfolio. Polycab was able to improve EBITDA margin YoY to 12.8%, thanks to operating leverage and optimum inventory hedging mechanism. As a result, EBITDA was up by 41% YoY to Rs.428cr. Overall, PAT grew at 35% YoY to Rs.271cr.

Polycab is the market leader in Cables & Wires with 24% market share of the organised market. In the last 5 years, company has built a consumer durable portfolio of reasonable scale to leverage the existing distribution network. We remain positive about the medium-term earnings due to strong traction in B2B cables business, pickup in real estate demand and expanding product categories in the FMEG segment. The company has showcased good pricing discipline in a tough raw material market, enabling them to maintain normalised margins going forward.

Key risks include further escalation in metal prices, slowdown of demand.

Tamilnad Mercantile Bank

TMB bank reported 3.1% QoQ / 11.1% YoY growth in advances. Sequential growth was led by Retail & Corporate book which grew by 14.5% and 4% QoQ. YTD growth (Apr-Sep) for the bank till 1HFY23 stands at 3.2%. Management has given loan growth guidance of 11-12% for FY23 & FY24 but the bank is confident of delivering loan growth above 12%. Margins improved to 4.47% vs 4.1% in Mar'22 led by improvement in cost of deposit and increase in Credit-Deposit ratio to 81% vs 75% in Mar'22. As of now, management has cautiously not passed on any rate hike to its customers. The management will take decision on passing on of rate hike in its next strategy meet. Management have mentioned that current level of margins of ~4.5% are not sustainable and sustainable margins will remain be in the range of 4-4.25%. Cost to assets stood at 2% in 2QFY23 & 2.2% 1QFY23 vs our expectation of 2.2% for FY23. Cost ratios will start inching upwards as the bank initiates its branch expansion plans.

Gross NPA & NNPA have remained stable at 1.7% & 0.9% over the last 2 quarters. PCR has also remained stable at 44%. Gross slippage stood at 1% & 1.5% for 2QFY23 & 1QFY23 vs 1.6% in FY22. Net slippages were Nil for 1Q and 10bps for 2QFY23. Credit cost stood at 40bps for 2QFY23 & 52bps for 1HFY23 vs our estimates of 1% for FY23. Management has given guidance of 50bps for credit cost for FY23 & 50-75bps for FY24. We continue to build in gross slippage of 1.5% for FY23. SMA 1 & 2 stands at 3.3% & 2.8% respectively. Management mentioned that SMA nos need to be seen in relation with net slippages numbers. SMAs nos are higher but the bank is able to maintain extremely low net slippages. TMB is expected to report an RoA of ~1.6% and RoE of 15% FY23 vs RoA of 1.3% & RoE of 16.6% in FY22.

Key risks would include deterioration of asset quality leading to higher-than-expected credit costs, higher treasury losses, and lower-than-expected loan growth.

DCM Shriram

DCM Shriram reported revenue growth of 28% YoY at Rs. 2,740cr. EBITDA and PAT recorded a degrowth of 7% and 19% at 270cr and 128cr, respectively. The revenue and profitability decline in the current quarter were primarily driven by the Chloro-alkali segment. Though Caustic Soda's revenue and profitability was strong, the fall in construction activities and recession worries globally continue to impact the PVC demand. The same has been reflected in global PVC price which has witnessed a decline of ~35%, both on a YoY and QoQ basis. The sugar segment registered expansion in volumes with the rebase of opening inventory. The distillery business was steady-state, and the sugar volumes are expected to continue to remain strong in the financial year. However, the operating profitability in the sugar segment was weaker due to lower yields at the end of the recovery season and an increase in the cane cost. Also, there was a one-off cost of Rs. 15 cr on the account of revision in wages w.e.f. Oct. 2018. Agri-business had performed steadily across verticals. Fenesta's exceptional business performance has continued while the Cement was a drag due to input cost inflation. The current unfavourable demand-supply dynamics and elevated energy costs have led to a decline in profitability for the Chloro-alkali segment.

The company is predominantly present in Chloro-alkali and sugar segments along with agriculture products like fertilizers, bio seeds and other farm solutions. The company continues to reinvest cash in the existing business by debottlenecking capacities and expanding the ethanol facility. Further, the company has announced entry into chlorine/ hydrogen downstream products namely Epichlorohydrin, Hydrogen peroxide and Aluminium chloride. These are value-added segments within the chlorine value chain and will contribute positively toward overall profitability improving incremental capital efficiency. The company is placed for a sustained growth trajectory with an improved balance sheet amidst a strong business cycle with a cumulative capex of Rs. 3500cr to be commercialised in the next 12-15months.

Key risks: Unexpected regulatory developments in Sugar/Ethanol business and cut down of the strong Caustic Soda cycle in the international market.

eClerx

The Q2 FY23 revenue came in at a strong Rs.650cr implying a strong 5.3% sequential growth partially aided by a strong dollar. EBIDTA margins were 27.9% compared to 26.7% in Q1FY23 and 31.6% in Q2FY22. Adjusting for one-offs the adjusted PAT came in at Rs115cr vs 103cr in Q1FY23 and Rs101cr in Q2FY22. There has been a 12% sequential increase in the cost of tech sub-contracting which has hurt margins. Other expenses also have increases 2% qoq to Rs67cr which had increased sequentially by 17%. This is on account of higher travel spends (on account of opening up of economy) and return to office costs

Management updated its margin guidance in the 28-32% range as against in the 28-30% range. From a revenue outcome management is confident of delivering double digit growth for FY23. Deal pipeline is strong but conversions are taking longer.

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There can be an impact in the medium term though difficult to quantify. 70% of the business is discretionary with the balance being non-discretionary. Their strategy of reducing client concentration seems to be making progress. Number of $1MM+ client has increased from 36 to 43 over the course of last year.

Key risks would be sharp recession in the US leading to slower than expected growth, global banks routing more work to their captive centers, big roll-offs or a general trend away from offshoring work to India.

Summary of Portfolio Valuation

As on Dec 14, 2022	FY 23E
Wt. Avg PE	18.0x
Wt. Avg PB	4.1x
Wt. Avg ROE	23%
Wt. Avg Mcap	$ 13,730 mn

	Market Cap ($ mn)	PBT ($ mn)		YoY	PAT ($ mn)		P/E	ROE
Company	**14th Dec'22**	**Q2 FY22**	**Q2 FY23**		**FY 22**	**FY 23E**	**FY 23E**	**FY 23E**
Atul	2937	24	24	3%	73	85	35	15%
Axis Bank	35020	507	867	71%	1575	2389	15	16%
CG Consumer	2735	26	19	-28%	70	71	39	23%
CMS Info	604	8	10	23%	27	35	17	21%
Coromandel	3400	85	120	41%	185	228	15	26%
DCM Shriram	1639	28	28	0%	129	115	14	16%
eClerx	841	16	21	26%	51	56	15	26%
ICICI Securities	1997	57	49	-14%	167	146	14	45%
IDFC First Bank	4726	22	92	325%	18	255	19	10%
IIFL Wealth	1945	23	27	20%	70	83	24	22%
Narayana	1882	14	24	69%	41	69	27	32%
Polycab	5431	32	43	34%	103	140	39	20%
SBI	67507	1266	2186	73%	3830	5747	12	17%
Sonata	941	15	18	23%	45	56	17	42%
TMB Bank	922	34	43	26%	99	111	8	15%

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

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.

UNIFI INVESTMENT MANAGEMENT

Risk	Mitigants
Coronavirus Impact	The impact of the ongoing Coronavirus outbreak in India and the rest of the World can be multifold. The lockdown-related slowdown in consumption can affect several sectors. 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.
Geopolitical risks	Geopolitical tensions globally can disrupt the 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 [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 can continue to affect our holdings in Banks and NBFCs.
Foreign Exchange risk	The foreign exchange system continues to be guided by global developments. 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 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.
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 the 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 and EV vehicles are in the relative infancy stage and have a strong growth curve ahead of them.
Softness in IT product spends	The convergence of 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.