Unifi Quarterly Review

2019

June

UNIFI INVESTMENT MANAGEMENT

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Global Economy | Sanity coming back

Following an avoidably loud trade war between key nations and sparking fears of a global economic slowdown, the powers that be took a step back and addressed a few key concerns. The US and China for now have agreed for a truce on trade and are negotiating a mutually amicable deal. Meanwhile, the US Federal reserve has turned dovish on the economy after 4 successive years of economic expansion. While it has maintained rates for the time being, it has signaled possible rate cuts of about 50 bps in the second half of CY 2019. With a trajectory of lower interest rates and improving economic scenario, the US markets have now reclaimed their all-time highs. It has added a record 224,000 new jobs added this June of '19. The Eurozone however continues to grapple with its own slowdown thanks to the trade war over the past year. The ECB has strongly hinted at more stimulus to support the economy.

All said and done, it seems the die is cast for a sustained lull in global interest rates. France has recently issued a 10-year bond at negative interest rates! Gold has spurted in value due to its safe haven status while crude oil prices have started showing higher volatility due to tensions between US and Iran. They are expected to be rangebound around the $65/bbl mark unless tensions escalate further.

India | Policy to the rescue

A lot has happened at home since our last note to you. The NDA has come back with numbers that were probably beyond their belief, and are now projected to have majority representation in the upper house as well by 2021. In a nut shell, NDA 2.0 has the numbers to carry out decisive reforms across different spheres like labor, land and industry. We hope the compliance of GST gets stricter in the times to come, not just because of the significance of GST to the tax kitty, but to abet the growth of the formal economy. Moving on, the RBI in its recent monetary policy, delivered a unanimous 25bps rate cut as well a change in stance to being accommodative. CPI forecasts have been marginally revised upwards for H1 FY 20 to 3-3.1%, and that of H2 was revised downwards to 3.4-3.7%. Noting a slowdown in growth, GDP forecast were revised lower to 6.4- 6.7% in H1 and 7.2- 7.5% in H2. The Q4 FY19 quarter saw a provisional GDP growth estimate of 5.8%, one of the lowest in recent years. Given the domestic slowdown and the global interest rate scenario it can't be termed irrational that the Indian markets expect a further 50bps cut in rates over the next few months. That should augur well for corporate India and abet the next round of capital expenditure

NDA 2.0's first budget has established that the government has firmly set its eyes on achieving the $5Tn GDP target by 2024. Some radical measures like sovereign debt issue in foreign currency, increase in FPI limits, relaxation of rules on single brand retailers, higher foreign ownership in insurance and bank capitalization worth Rs.70,000cr have been announced. The government has decided to stick to its path of fiscal prudence and is in fact looking to improve the fiscal deficit to 3.3% of GDP in FY20. This, along with tapping of foreign shores for sovereign debt will ensure that the domestic debt market doesn't get crowded out for private borrowers and interest rates continue to trend lower. With almost 77% of global sovereign debt yielding below 2%, India can take advantage of this window to fund its public expenditure at very low rates.

However, as things stand today, the economy is witnessing a slow-down in consumption, due to a combination of economic contraction led by lower public expenditure in the runup to the elections, delayed rainfall, and the NBFC-led liquidity crisis. The key policy responses would ideally be to infuse liquidity into the markets and open the purse strings on the public capex side, and neither of this is happening in an emphatic manner. The Union budget has laid out significant plans on expansion of highways, housing, water grids, rural road networks, sanitation, electricity etc., and one hopes the government walks the talk on this sooner than later.

In FY-2019, India grew by 6.8%, still the fastest growing economy in the world. But fathom this: on a $20 Tn economy, at 2% in GDP growth, USA adds an incremental $0.4Tn in economic expansion vs India, which at $2.6 Tn, and 6% adds just $0.16 Tn. The factorial difference is absolute numbers is still on an average 2.5x. The proverbial miles to go, before our policy makers and implementors sleep, are just too very much.

Consolidation

The policy response in the form of budgetary allocations, monetary policy, monsoons, fiscal expansion, and liquidity management will take their own course of time. At our end, being mindful of the macros, we have significantly consolidated each of our fund strategies in a manner that reflect and draw for their own growth paths, and are not excessively dependent on the macros to shape their fundamental outcomes. While we expect pockets of the economies to improve on their earnings cycle, the recovery is clearly firm specific, and not an indication of the health of the macros' or the industry. The delayed monsoons, and lack of spending in the run up to the elections are a worry and firm's need to chart their own strategies in getting over this lull.

Captured below is an outline of each of our investment strategies. We have profiled our top 6 holdings by market value in each strategy. Kindly note that individual portfolios will vary in holdings and proportion based on the timing of the
account opening with Unifi as well as further subscriptions/redemptions that have been made.

Outline of our strategies

BCAD | The fund continues to invest in sectors which are currently witnessing a shift in market share from the unorganized players to the organized ones. With regulatory compliance like GST & RERA getting stringent by the day, it will be incrementally tougher for unorganized, marginal players to continue benefitting from tax and/or regulatory arbitrage. Shifting consumer spending patterns towards branded goods will help leaders in the industry increase their market share and grow at rates which are higher than their overall industry growth rate.

As **on June 30,2019**	
WT. Avg PE	39.5x
WT. Avg PB	8.6x
WT. Avg ROE	25.3%
WT. Avg Market Cap	Rs 14,403 Cr

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Company	Sector	Weight	Market cap, Cr	Revenue, Cr		EBITDA, Cr		PAT, Cr		PE	ROE
				FY19	YoY	FY19	YoY	FY19	YoY		
Crompton Consumer	Consumer Durables	8%	14,553	4,479	10%	584	10%	401	24%	36	43%
Sheela Foam	Consumer Durables	8%	6,499	1,814	9%	182	-1%	133	-1%	49	19%
VIP Industries	Consumer Durables	8%	6,287	1,785	26%	232	14%	145	14%	43	28%
Exide Industries	Auto Ancillaries	8%	17,093	10,588	15%	1,411	14%	736	4%	23	17%
Can Fin Homes	NBFC	6%	4,746	531	4%	474*	4%	297	4%	16	18%
TCI Express	Logistics	6%	2,532	1,024	16%	119	31%	73	25%	34	30%

*Pre-provision Operating Profit

APJ | The fund continues to consolidate its exposure among its top holdings that is expected to have significant fundamental and operating tailwinds in the times to come.

We are in the process of trimming our exposure to a few tail positions and building fresh positions in a few names that offer a combination of good secularity, and margin of safety in earnings growth vs valuations.

As **on June 30,2019**	
WT. Avg PE	15.8x
WT. Avg PB	2.8x
WT. Avg ROE	17%
WT. Avg MCap	Rs 3,791 Cr

Company	Sector	Weight	Market cap, Cr	Revenue, Cr		EBITDA, Cr		PAT, Cr		PE	ROE
				FY19	YoY	FY19	YoY	FY19	YoY		
Navin Flourine	Chemicals	10%	3,494	996	9%	218	2%	149	4%	24	14%
Himadri Specialty	Chemicals	10%	4,400	2,422	20%	559	24%	324	31%	14	20%
Bank of Baroda	BFSI	10%	46,872	18,684	20%	13,478*	12%	433	NA	-	-
Aarti Drugs	Pharma	10%	1,237	1,560	25%	208	4.5%	90	9%	14	17%
MoldTek	Specialty Packaging	8%	748	402	16%	70	13%	32	15%	23	17%
APL Apollo Pipes	Building Materials	6%	3,631	7,152	34%	393	6%	148	-7%	24	16%

*Pre-provision Operating Profit

Spin Off | All key positions in this strategy have fundamentally performed well in FY-19, and as things stand today, they continue to demonstrate the makings of delivering another good year. In a few instances, where our risk management so dictates, we have trimmed positions while taking exposure to new positions that have come into being through the process of a demerger.

As **on June 30,2019**	
WT. Avg PE	23.8x
WT. Avg PB	4.6x
WT. Avg ROE	19%
WT. Avg MCap	Rs 5,100 Cr

Company	Sector	Weight	Market cap, Cr	Revenue, Cr		EBITDA, Cr		PAT, Cr		PE	ROE
				FY19	YoY	FY19	YoY	FY19	YoY		
Intellect	IT / ITES	10%	3,506	1,459	36%	148	143%	88	89%	40	8%
Majesco	IT / ITES	10%	1,539	988	23%	95	-	65	-	24	10%
Mastek	IT / ITES	10%	1,144	1,033	31%	129	36%	101	49%	11	22%
KPIT Technologies*	IT / ITES	10%	2,651	NA	NA	NA	NA	NA	NA	NA	NA
Crompton Consumer	Consumer Durables	10%	14,553	4,479	10%	584	10%	401	24%	36	43%
TCI Express	Logistics	9%	2,532	1,024	16%	119	31%	73	25%	34	30%

*As KPIT Technologies underwent demerger in Q4FY19, the complete full year financials are not available.

DVD / BLEND | The DVD / Blend fund continues to cherry pick ideas from across the 7 distinct themes managed by Unifi, thereby investing in "the best of our best" and participating in opportunities across the breadth of the market. The Ideas thus represent a mix of emergent themes, corporate actions and attractiveness of core fundamentals. We continue to focus on delivering superior risk adjusted returns from an absolute perspective.

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As **on June 30,2019**	
WT. Avg PE	20.1x
WT. Avg PB	2.8x
WT. Avg ROE	17%
WT. Avg MCap	Rs 12,068 Cr

Company	Sector	Weight	Market cap, Cr	Revenue, Cr		EBITDA, Cr		PAT, Cr		PE	ROE
				FY19	YoY	FY19	YoY	FY19	YoY		
Muthoot Finance	NBFC	10%	25,845	4,880	8.8%	3,328*	3.6%	2,103	14%	12	24%
Garware Technical	Material	10%	2,670	1,018	15%	192	19%	126	19%	21	21%
Bank of Baroda	BFSI	10%	46,872	18,684	20%	13,478*	12%	433	NA	-	-
Navin Flourine	Chemicals	10%	3,494	996	9%	218	2%	149	4%	24	14%
Himadri Specialty	Chemicals	9%	4,400	2,422	20%	559	24%	324	31%	14	20%
Crompton Consumer	Consumer durables	5%	14,553	4,479	10%	584	10%	401	24%	36	43%

*Pre-provision Operating Profit

Green | FY2019 has been a challenging year for the Green fund on the back of multiple headwinds – attributable to the macros and also bottom up business challenges faced by few of our portfolio companies. As each of these one-off variables are dealt with, we expect our portfolio companies to recover significant ground in the coming year. The fund continues to invest in sectors that would benefit from India's evolution towards a more "sustainable economy". The investment universe would comprise of well managed businesses offering best in class solutions to address challenges in the areas of Energy, Emissions, Waste and Water.

As **on June 30,2019**	
WT. Avg PE	18.5x
WT. Avg PB	2.8x
WT. Avg ROE	15%
WT. Avg MCap	Rs 3,969 Cr

Company	Sector	Weight	Market cap, Cr	Revenue, Cr		EBITDA, Cr		PAT, Cr		PE	ROE
				FY19	YoY	FY19	YoY	FY19	YoY		
Sudarshan Chemicals	Chemicals	11%	2,224	1,433	9.7%	202	3.3%	87	2%	25	16%
Exide Industries	Auto Ancillaries	11%	17,093	10,588	15%	1,411	14%	736	4%	23	17%
Triveni Turbine	Capital Goods	9%	3,343	856	13%	151	-4%	100	4%	33	23%
Himadri Speciality	Chemicals	9%	4,400	2,422	20%	559	24%	324	31%	14	20%
Suven Life Sciences*	Pharmaceuticals	9%	3,011	NA	NA	NA	NA	165	11%	18	17%
KPIT Technologies**	IT /ITES	8%	2,651	NA	NA	NA	NA	NA	NA	NA	NA

*Financials for Suven Life Science are only for CRAMS division.

**As KPIT Technologies underwent demerger in Q4FY19, the complete full year financials are not available.

The following annexure presents a brief on our top holdings across our fund strategies.

Name of the company	Brief background and Investment rational
Navin Fluorine	Navin Fluorine is India's largest manufacturer of specialty fluoro chemicals. It produces over 60 fluorinated products and more than 40% products are exported to North America, Europe, Middle East and Asia Pacific regions. Navin has four main strategic business units: Refrigeration Gases, Inorganic Fluorides, Specialty Fluorides and CRAMS. While their operating EBITDA grew robustly between FY13-FY18, in FY19 the business performed below its potential resulting in EBITDA growth of just 1.5%. This was due to postponement of several campaigns in CRAMS and spike in input costs. Going ahead, lower raw material prices should boost earnings in FY20 and scaling up on the new CRAMS facility should provide momentum in FY21. On the back of these developments, we expect good growth in earnings over the next 2 years (CAGR), led by:

	• Margin expansion in FY20 & beyond as fluorspar & other raw material prices normalize post spike in FY19. • As the orders postponed in FY19 materialize, capacity utilization can rise in existing CRAMS facility in FY20. • Scaling up on the new CRAMS facility to provide momentum in FY21.
Himadri Speciality Chemicals	Himadri Specialty is India's largest manufacturer of Coal Tar Pitch, a key consumable used in the manufacturing of Aluminum. With a 70%+ market share in India, Himadri is a sector leader and controls a significant part of the industry's value chain. Our interest in Himadri is driven by its ability to leverage the manufacturing value chain to foray into higher margin derivative products, namely specialty carbon black (SCB) and advanced carbon materials (ACM), which is used in the manufacturing of Lithium Ion Batteries. A large part of the capex in for both SCB and ACM has been completed and is expected to commence commercialization over the next 6 months. Over the next two years, we expect a significant change in the quality of the company's financials led by: • Commercialization of the higher margin and RoCE accretive specialty carbon black (SCB) and advanced carbon materials (ACM) facility in H2FY20. • Fall in leverage from current 0.3x and improvement in overall capital efficiency.
Bank of Baroda	Post-merger with Vijaya and Dena in April 2019, Bank of Baroda (BoB) has emerged as India's 3rd largest bank with total advances of Rs.7 Lakh cr. and with strong market share of 22% Gujarat, 10% in Rajasthan, 8.3% in UP, 9.6% in Chhattisgarh and 8% in Karnataka. Headed by Mr. Jayakumar, a career Citi-banker for 23 years, BoB has been the first PSU Bank to access a private sector professional at a leadership role. A significant outcome of his tenure has been to effectively tackle cyclical stress in the corporate loan book. Fresh slippages were lower by 57% in FY19 as compared to FY18. The bank is now done with bulk of stress recognition & provisioning with a coverage ratio of 65%. With robust growth in advances which is largely driven by retail loans (primarily housing and vehicle loans) and continued access to low cost funds through retail deposit & CASA franchises, BoB is well placed to demonstrate strong earnings growth with an improving credit profile. We like BoB on the back of: • Attractive valuations of 0.8x P/B with a projected RoE of 10% in FY 20. • Bulk of the stress being recognized, and provisions taken. • Robust growth in Retail assets on the back of slowdown in competition from NBFCs.
MoldTek	MoldTek is India's largest manufacturer of rigid packaging pails that find application in the paints, lubricants, and now the food industry. Over the last few years the company has made significant inroads in diversifying into packaging for oils, ice-creams, ghee and chocolates, which are significantly higher margin, as well as offer high growth. We expect the company to demonstrate significant earnings growth in the coming years led by: • Operationalization of the captive plants for Asian paints that can contribute significant volume growth. • Cessation of loss-making operations in the middle east via closure of the RAK plant. • Increasing operating leverage by increasing its wallet share in the higher margin food packaging industry.
Aarti Drugs	Aarti Drugs (AD) is engaged in the manufacturing of generic Active Pharmaceutical Ingredients (APIs), Pharma Intermediates, formulations and Specialty Chemicals. It was established in the year 1984 and forms part of Aarti Group of Industries. Their products are sold in 100+ countries and 38% of the revenue is from Exports. AD has a product portfolio of 50+ API molecules and 80+ finished products which are manufactured across its 13 facilities. Therapeutic segments addressed by the company include Anti-biotic, Anti-protozoal, Anti-inflammatory, Anti-diabetic, Anti-fungal and Cardio-protectant. They are a global market leader in 9 out of top 10 APIs manufactured by the company. We expect: • FY20 margins to improve as the company has lowered dependency on Chinese raw materials to 45% vs 55% earlier by developing new processes that use domestically available raw material. • Formulation business, which currently contributes about 13% of its revenues, has significant growth potential. • Potential gains from the pending US FDA approval for one of its facilities.
APL Apollo Pipes	APL Apollo Tubes Limited (APL) is India's largest branded steel tubes manufacturer in the electric resistance welded (ERW) pipes segment. The company has invested significantly in its capacity expansion from 1.3MTPA to 2MTPA in FY18, and upgrading its facilities for manufacture of value-added products. In an industry largely bereft of innovation, the company is known for product innovation, branding, and continuously foraying into newer products and processes that improve its operating leverage. As a capacity and cost leader in the industry, it has significantly consolidated on its leadership, and delivered growth that is significantly higher than that of the industry. Over the next few years we expect the company to deliver:

	• Volume growth of 20%+ led by foray into newer geographies, and better utilization of its new plants. • Earnings growth > the rate of volume growth led by margin accretive product mix, and cost efficiency initiatives. • Better capital efficiencies (RoE 24%) led by institutional channel financing initiatives, and improving its leverage from current levels of 0.6x.
Intellect Design	Intellect Design is an emergent player in the BFSI products space and has over the past few years, carved a niche among players of scale in this industry in several emerging and advanced economies. As the industry goes through a fast pace of digital transformation, and product upgrade cycles, the demand for digital, and cloud-based offerings in the industry is looking up and Intellect has done well to make significant inroads into the space. Between FY15-19, the company has doubled its revenues from $100mn to $200mn, while earnings have moved from losses of Rs.85cr to adjusted earnings of Rs.75cr in FY19. Over the coming years, we expect the company to consolidate its growth in the coming years given significant dial wins, and the strong demand tailwind that the global BFSI industry is now witnessing. • Bid pipeline of USD500mn in the context of recent large-scale wins is promising. • Operating leverage from here on look strong, on the back of stability in operating expenses (R&D).
Majesco	Majesco is an emergent digital insurance player in the American Insurance industry; and has over the past year made significant inroads into the high growth cloud products space. The past year has seen a positive and fundamental shift in the company's direction of growth, with the increased adoption of the annuity led cloud model, and its first ever sale to a tier-1 insurance major in the US. With a key change in leadership last year, the company is well poised to grow with the adoption of digital technologies that the insurance industry in the USA and Europe are now experiencing. After years on investments, FY-2019 was a significant year for the company where is delivered 22% in revenues growth, more than 2x improvement in margins, from 5% to 12%, and significant improvement in earnings to Rs.70cr vs breakeven levels in FY-18. Over the coming years: • The quantum of annuity revenues and quality of earnings is likely to rise, on the back of strong cloud adoption. • Probability of increased wins among Tier-1 insurance companies on the back of new partnerships with IBM and Cap Gemini.
Mastek	Mastek is a small sized IT Services company that is currently focused on the digital transformation in phase in the UK, and counts the Government of UK as its key customer, working with various departments in driving their digital enabled b2c initiatives. Since it's demerger of Majesco, the company has significantly scaled up its service business via multiple acquisitions in the UK and US, and as a next step, is focused on scaling up its US business that has witnessed execution challenges in the past. Between FY2017-19, the company has delivered earnings growth from Rs.37cr to Rs.100cr., and in the coming years, we expect growth to be driven by: • The UK public sector, that is scaling up its b2c outreach initiatives. • The US, which expects to witness growth led by a change in leadership and is witnessing early signs of traction. • Monetizing of its non-core holdings in Majesco, and investing the proceeds to organic and inorganic growth initiatives.
Crompton Consumer	Crompton Consumer is one of India's largest players in the consumer durables Industry. After acquisition of Avantha group's entire stake of 34.4% by private equity firms Advent International and Temasek (owned by Govt of Singapore), the company has transformed into an innovative and capital efficient player with strong management pedigree that has exhibited strong execution over the past 2 years. Crompton is the growth leader in segments spanning premium fans, residential pumps and LEDs and over the next two years, has multiple levers to drive growth from forays into newer product areas and from consolidating its leadership across existing product lines. • Over the next two years, the company has operational and financial levers to deliver earnings growth of c.20%+ in CAGR, coupled with strong capital efficiency (RoE 36%). • This will be led by their ability to maintain the growth momentum in premium fans, b2c and b2b LED sales, and newer high growth areas such as water heaters, residential pumps and air coolers.
KPIT Technologies	KPIT Technologies is a play on automotive embedded electronics space that is seeing fast paced adoption on the back of increased spends in EV, Hybrid and smart vehicles. The Mobility Industry is going through a lot of disruptions, with all leading OEs' increasing investments in electric, automated and connected vehicles. Added to this are Government regulations across the world encouraging the shift to EV's on the back of curbing emission. Over all, tech spend in the area of embedded automotive electronics are witnessing and uptick and KPIT is well placed to ride on the same. For instance, BMW has partnered with KPIT to work on the development of their driverless cars. • On the back of deep client level engagements with leading OE's, KPIT has the ability to deliver industry leading revenue growth with steady margin expansion. • Monetization of their IPs will lead to strong operating leverage over the next few years.
TCI Express	TCI Express was established in 1996 as the express logistics divisions of The Transport Corporation of India. After being hived off as a separate legal entity in FY16, it was renamed as TCI Express. TCI specializes in offering time-definite express logistics solutions for leading manufacturers in India. The company operates on an asset light model, and earns 50% of its revenues from SMEs and the balance from marquee names auto, pharma, engineering, telecom, durables and lifestyle sectors. Over the last two years, TCI Express

	has been making investments to densify its branch network and improve operational efficiencies. • In a volatility crude environment, the company has demonstrated strong pricing and margin discipline and we expect their margins to climb on the back of driving internal efficiencies. • With strong sector tailwinds (solid growth prospects, GST/E-way implementation, govt. thrust on roads), we expect the company to post an earnings CAGR of 20%+ over the next 3 years.
Sheela Foam	Incorporated in 1971, Sheela Foam is one of the leading manufacturers of mattresses in India, marketing its flagship brand 'Sleepwell'. The company also manufactures other foam-based home comfort products as well as technical grades of polyurethane foam (PU Foam) for use in a wide range of industries. The Indian mattress market is about Rs.10,000cr in size of which 65% is unorganized. It is expected that pure branded mattresses as a portion of consolidated revenues will go up from 36% in FY18 currently to 41% by 2023. This will improve overall quality of business and as raw material prices normalize the company should deliver earnings growth of c.30% CAGR in the next couple of years. • Steep correction in TDI which makes up about 40% of raw material should lead to margin improvement in FY20 • This is a net debt free business with a RoE of 24% with an industry leading market share of 22%. • The company has launched low-priced brands 'Starlite' and 'Featherfoam' to take on unorganised players.
VIP Industries	VIP Industries is the market leader in the Indian luggage industry. Founded by Mr. Dilip Piramal in 1971, the company manufactures moulded luggage and soft luggage, including briefcases, suitcases, handbags and vanity cases. VIPs' products are sold through a chain of traditional retailers, in hypermarkets, on online portals and through the CSD. The company has more than 10,000 retail sale points. VIP procures 65-70% of its products from China, and has five manufacturing plants in India and one in Bangladesh. In FY19 operating profit growth slowed to 15% as margins contracted due to higher crude prices and rupee depreciation. We expect margins to improve going forth as the inflationary impact of raw materials and currency recedes; we believe this should lead to resumption of earnings momentum with PAT growth upwards of 25% for FY 20. • Net debt free status with a RoE of 28% and industry leading market share of 60%. • Increasing capacity in Bangladesh plant to decrease risk of currency depreciation from Chinese supplies. • Shift of demand from unorganized luggage to more fashionable branded merchandise like polycarbonate suitcases.
Exide Industries	Exide is the largest manufacturer of storage batteries in India. The company manufactures batteries in a wide range: 2.5Ah to more than 20,000Ah capacities that cover an array of applications. Exide's profitability is expected to improve in FY20 given that 70% of its revenue is from aftermarket and is thus protected against slowdown in auto manufacturer's decline in volume. The company is also focused on technology up-gradation to introduce newer products, thus helping them to improve market share and profitability. • Company is focused on technology up-gradation to introduce newer products, improve market share and profitability. • Joint venture with Leclanche, Switzerland for trading and manufacturing of Lithium Ion batteries, making the company ready for disruption from e-vehicles.
Can Fin Homes	Can Fin is one of the largest Housing finance companies in India catering to the demand in the LIG/MIG segments of the population which deals in affordable housing units. It has a loan book of around Rs 18,400 Cr at Mar 19 with an AUM growth of 17% YoY. Housing loans constituted ~90% of loan book. The company's focus continues to remain on salaried class (71% of total loan book), with negligible exposure to builder loans. It has an average ticket size of 18 lacs in the Housing loans (90% of the book) and average ticket size of less than Rs 5 lacs in the LAP book (around 10% of the book). Southern India continues to be prime driver of the AUM with 72% of the book coming from this region. The asset quality has been stable over the past 5 years with NNPA of only 0.43% at FY 19. We expect them to put up a moderate loan growth of around 20% in the coming years due to: • New branches maturing and the RERA related issues get sorted out (particularly in the Southern markets of Karnataka & TN). • The quasi-PSU profile of Canfin homes ensures good access to funding from Retail deposits, Banks and other FIs. • Repricing of legacy loan book improving spreads in FY 20.
Muthoot finance	Muthoot Finance is the largest gold financing company in India with a network of over 4,480 branches spanning 27 States & UTs. It has a long track record in the gold loan sector with operations dating back to 1939. The company has about Rs 34,000 Cr of retail gold loan AUM as on Mar 2019. With an average loan size of Rs 42,000 and comfortable LTV of around 65%, the company has adequate cushion to withstand any volatility in gold prices. Rated AA/Stable by Crisil, the company has a strong capital adequacy ratio of 26.1%. We expect the company to record steady earnings growth of around 15-20% over the next couple of years. • Low risk gold loan business with high NIMs and extensive branch network. • High capital adequacy along with high RoE obviates the need for equity dilution. • Well diversified borrowing profile with good access to bank funding, public NCDs, commercial paper and other wholesale channels of funding. • Diversification into Home finance, Microfinance and CV finance which now form 11% of the AUM

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Garware technical	Garware Technical is a manufacturer of a diverse range of products such as nets, ropes and coated fabrics, with application in the areas of sports, fisheries, aquaculture, shipping, agriculture, etc. They have two state-of-art manufacturing facilities at Wai and Pune. Their products are marketed in 75 countries and exports now form 58% of revenues, up from 43% two years ago. With innovation (Garware holds 31 patents) driven product performance as the key differentiating factor, Garware prices its products at a premium and has marquee clients. Value added products which formed 45% of revenues 4 years ago, now form 65% of Revenues. Founded in the mid-1970s, the company is currently lead by Mr. Vayu Garware, a Wharton alumnus, with demonstrated experience of having created value for all stakeholders. Over the last 5 years, he has transformed the organization by bringing in professionals with strong credentials and galvanizing the entire organization towards the goal of becoming the most preferred solutions provider in technical textiles. • Pricing power derived from Innovation (Garware holds 31 patents) driven product performance, insulates the business against raw material price volatility. • High share of exports insulates against domestic slowdown. • Potential to deliver double digit earnings growth for next 3-5 years.
Bodal Chemicals	Bodal is among the world's most integrated and largest manufacturers of Dye-Stuff (24% of revenues), DyeIntermediate (61%), Bulk Chemicals (10%) and other specialty chemicals (5%). The company commands 13% market share in India and 3% market share globally in DS. Similarly, in DI, the market share is 25% in India and 6% globally. Its products are primarily used as raw materials in textiles (60% of revenues), leather (30% of revenues) and paper industry (10% of revenues). Exports form ~44% of revenue. Absolute EBITDA grew by merely 2.1% for the company as growth slowed down in FY18 and FY19. This was primarily because the management failed to scale up key projects undertaken to diversify (Liquid Dyestuff & Trion) revenues. Further, the efforts to increase dye-intermediate production at SPS processors (acquired in 2017) failed as the requisite regulatory permissions haven't been granted. However, the company did successfully commission co-gen power plant and Thionyl Chloride projects at Baroda. Further, volume growth should be strong in Turkey and surrounding markets post acquisition of Sener Boya in FY19. These should help the company deliver the company an earnings CAGR of 16% over next two years. • The company is attractively valued given the debt free status, RoE of 18% and P/E of 8.5. • Margin improvement in FY20 & beyond from commencement of Thionyl Chloride & Scaling up of liquid dyestuff. • Operating leverage through higher capacity utilization in Dye-Stuff. • Post scale-up, reduction in losses from Trion & higher profitability from SPS processors.
Suven Life Sciences	Established in 1989, Suven is an Indian life sciences company based out of Hyderabad. The company's business segments include – (a) Contract Research and Manufacturing Services (CRAMS), (b) Drug Discovery Research Services (DDRS), (c) Formulation Development Center and (d) New Drug Discovery. The intent of research division is to develop new chemical entities (NCE), prove their safety and efficacy at a trial scale and then out license / partner with a bigger innovator company for a commercial launch. Suvn-502 is their flagship NCE molecule to treat Alzheimers and is now in proof of concept phase 2 trials wherein the safety and efficacy of the drug is being tested. Company has announced a demerger of its CRAMS division into a new listed company division. As an independent CRAMS company, it will not have to absorb the R&D costs of its research division (about Rs.56cr for FY19) and on account of this Suven Pharma's operating margins will move up from 35% levels to above 40% levels. • Discernible Value Unlocking Opportunity: Demerger will lead to value unlocking in the times to come. • CRAMS division prospects continue to look good and a double-digit PAT growth is discernible. • Any positive trial outcome of their flag ship NCE molecule will lead to potential upside.
Sudarshan Chemicals	Established in 1952, Sudarshan chemicals is globally the 5th largest manufacturer of pigments, which are used as colorants for plastics, coatings, inks, paints, cosmetics, food packaging, automotive paints among others. It commands 35% share of the Indian pigments market. About 40% of revenue is from exports and the company is focused on leveraging its capabilities to emerge as a reliable supplier of high-quality products from India. In the coming years we expect financial performance to be driven by: • Revenue contribution from 2 new major molecules to be manufactured from FY20. • Commissioning of Solvent Dyes which shall be made for the first time in India. • Potential for gross margins improvement by 2% in FY20. • Topline and Margin Growth in FY21 & beyond from (a) Phthalocyanine Capacity & Ball Mill commissioning at Mahad and (b) Additional Solar and Windmill commissioning.
Triveni Turbine	Triveni Turbines is the largest manufacturer of industrial steam turbines in >5 to 30 MW range globally. The Company designs and manufactures steam turbines up to 100 MW at its facilities in Bengaluru and assists its customers with their aftermarket requirement through its global servicing offices. It is present in over 70 countries, having installed over 3000 steam turbines across 18 industries such as Sugar, Steel, Textiles, Chemical, Pulp & Paper, Petrochemicals and more. In the coming times, we expect: • Double digit revenue growth as the Cap-ex cycle in India recovers and demand from sugar Industry (for ethanol distilleries) gathers momentum. • Margin improvement of 2-3% in FY20 as the impact of costs incurred for new product introductions in H2FY19 wanes. • Continued High Dividend pay-out ratio (average 60% for last 3 years).

Risk Management

Risk	Mitigants
Consumption slowdown	All our investee companies have product and category leadership and the financial wherewithal to withstand temporary phases of demand slowdown.
Raw material inflation	The investee companies have strong pricing power, and a track record of taking price hikes to pass on the higher input prices to end customers given their brand recall, product and service efficiency.
Liquidity risk (in case of NBFCs)	Our investee companies have been able to tap diversified sources of liquidity thanks to their long-term history of comfortable asset quality and ALM.
Foreign Exchange risk	Bulk of the revenues of the investee companies are derived from domestic market. The revenue from exports would be minimal for each strategy as a whole, and where relevant, are adequately hedged.
Leverage risk	Except for the financial companies, most of the operating companies in the strategies carry nil to moderate debt on their balance sheets with a track record of having managed leverage well in the past.
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. Further, in case such issue arises in an existing investment, we stop additional purchases and start optimally exiting the investment.
Concentration Risk	High client concentration is a recurrent feature among small and mid-caps. At the portfolio level, such risks are minimized by limiting the aggregate exposure of portfolio to such investments to less than 10% of value.
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 single person on whom the business is completely reliant and without whom the business would be materially inferior. We generally avoid such names and in cases where we make any exceptions, the aggregate exposure of portfolio to such investments is limited to less than 10% by value.
Slowdown in global consumption	The wallet-share of the investee companies in the global manufacturing value chain, does not pose a significant risk of loss of business to their vendors. New and high growth areas such as Lithium Ion batteries, EV vehicles are in relative infancy stage and have a strong growth curve ahead of them.
Softness in IT spends	The convergence to digital software solutions is a 'must do' proposition and our investee companies have exhibited significant traction in competing in this space. A combination of their recent deal wins, and current bid pipelines bode well for the future.

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Please do let us know if you'd like any clarifications regarding your Portfolio account with us. Thank you for placing your trust in Unifi.

Yours truly

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