2 October 2019

Dear Partners,

Summary messages

- Our performance has held up well in a tough environment. Performance is up ~9% YTD
- Global growth is slowing down. However, the US China trade war offers significant structural opportunities for Indian companies, especially in Specialty Chemicals
- Growth in India has also slowed down. Part of the slowdown is attributable to a push to a more tax compliant economy. However, lack of credit and poor Govt. messaging/actions also contributed by denting confidence.
- The Govt. is signalling strong intent to revive growth and is correcting errors.
- Tough market conditions should continue to favour the kind of companies Solidarity likes to invest in. After a long period of time, valuations in many names now look very attractive.
- We are using the opportunity to initiate many new positions and add to existing names.

Performance

The past few quarters have been quite a roller coaster. The table below summarizes performance aggregated across all portfolios[1].

From Inception

For Anchor partner					PMS License (Aggregate across all accounts)			
DATE	NIFTY	NIFTY500	SOLIDARITY		DATE	NIFTY	NIFTY500	SOLIDARITY
FY15	24.6%	30.1%	67.2%					
FY16	-7.5%	-5.9%	-0.1%					
FY17	18.9%	24.0%	22.4%		FY17	19.2%	24.3%	20.5%
FY18	10.2%	11.5%	18.6%		FY18	10.2%	11.5%	19.2%
FY19	15.0%	8.5%	6.0%		FY19	15.0%	8.5%	7.1%
H1FY20	-1.7%	-3.7%	8.9%		H1FY20	-1.7%	-3.7%	9.0%
Cumulative XIRR	**10.5%**	**11.3%**	**20.8%**		**Cumulative XIRR**	**11.9%**	**10.8%**	**15.6%**
Note: We operated with an Investment Advisory license till 11 May 2016 post which we migrated to a PMS License								

Any Investment approach has trade-offs. Our focus on moats, disciplined management teams and clean Balance sheets enabled us to escape the carnage witnessed in broader markets since 1 Jan 2018. However, our approach will underperform in a raging bull market when risk management tends to become an afterthought. We are comfortable with this trade off as Capital protection must take priority over growth.

Commentary on the Environment

Before we explain portfolio actions taken in this quarter, we'd like to summarize what we see happening around us and the opportunity they provide.

Global growth is under pressure. The JPMorgan global manufacturing index saw its fourth month of contraction — the longest decline since 2012. Many large economies like Germany are showing

[1] Solidarity constructs individual portfolios based on time of entry. Hence, portfolio performance in individual accounts may vary a bit with aggregate performance

recessionary trends. The ongoing US China trade war and uncertainty around Brexit is further adding to poor sentiment. Politicians, around the world, are struggling to manage inequality and this is resulting in rising nationalism as they try and protect jobs. "The power of the repeated lie is being used to win power and to hold on to it".

The trade war between the US/China is opening up new avenues for countries to gain market share in global supply chains. The battle on tariffs are just the opening salvo in what will become a battle for hegemony between an established superpower and an emerging one. This will lead to realignment of global supply chains as supply chain reliability takes precedence over cost. Countries have begun to offer tax sops to companies willing to set up manufacturing capacity to take advantage of this opportunity with India being no exception. Indian companies have a competency and cost edge in Specialty Chemicals and Pharmaceuticals. We will discuss in a subsequent section in this letter how we are acting on this opportunity.

Global equity markets continue to get support from low interest rates. The stock of debt trading at negative interest rates continues to rise at ~USD 16 Trillion. If interest rates continue to stay low, and Central Banks continue to stay accommodative, valuations of Equities will hold as Cost of Capital stays suppressed and corporations issue debt while continuing to buy back their stock.

There is clearly a slowdown in economic growth in India as well. Reported economic growth is at a six year low and the economy confronts a stressed financial sector where extent of problems in NBFC books that have funded Real Estate are still not clear. Banking/NBFC stocks with significant exposure to Real Estate seem to have no floor at present. Pessimism is in vogue. It has now been over 5 years where Corporate Earnings growth in India has been tepid and some commentators have begun questioning whether India is trending towards a structurally lower rate of GDP growth[2].

There are always multiple reasons for a slow-down. A large part of the current slowdown is the inescapable side effect of the regulatory clean up the Govt. is attempting and drying up of Credit post ILFS. However, poor Govt. messaging post the July budget perhaps worsened the problem.

The first effect of a regulatory clean-up will be to dampen growth

- Trucks have witnessed a significant drop in demand because the implementation of GST (fewer stoppages, faster turnaround times), coupled with increase in Axle load, has resulted in significant increase in capacity of a trucking company
- The Bankruptcy Code is resulting in a change in promoter behaviour and will have positive long term consequences for the economy. However, in the short term, it is causing job losses. The risk of losing a company is making promoters repay debt rather than make fresh Investments as they look to heal Balance Sheets.
- GST is causing job losses in the informal sector as the formal sector gains share – however, as the formal sector is more productive, the net employment creation is negative in the short run.

The regulatory clean up unfortunately coincided with the ILFS default, the third shock to the system in as many years (the other two being demonetization and GST) which set in motion a system wide risk

[2] https://timesofindia.indiatimes.com/blogs/toi-edit-page/the-new-definition-of-success-for-emerging-countries-like-india-5-is-the-new-7-the-reasonable-standard-for-growth/

aversion for lending to non AAA NBFCs. Consequently, credit flow in the economy has still not normalized

- The ILFS collapse started a chain event where Credit in the economy has become severely curtailed. Distribution channels are now coming under the GST ambit. Those who were habituated to cash dealings (undisclosed income) cannot swiftly move all their business to a legitimate way of doing things as that would attract tax scrutiny of poor income disclosure in prior years; hence, even as they cannot access credit from NBFCs, they are at present not acceptable credit risk for Banks who have more stringent lending standards based on cash flow visibility
- GST tax collections have been significantly lower than Govt. expectations- partly due to low GST rates; but also due to GST complexity and also due to lack of understanding on what set-offs can be legitimately claimed. The fund crunch, frauds in claiming GST credit has led the Govt. to delay payments of GST Credits resulting in a cascading working capital issue through the economy

None of the above are permanent issues which should result in structural head winds to growth.

Poor Govt. messaging and some policy errors have compounded the weakness in consumer and business confidence. And lack of confidence is what feeds a slowdown as "narratives become self-fulfilling" - consumers hold back on spending, the channel tightens inventories, Banks tighten credit standards all which combine to start a vicious cycle.

- The BJP was always perceived as more business friendly. However, on more than one occasion some bureaucrat would declare the NBFC crisis over. At a time when most NBFCs are still not getting access to funding, this causes one to wonder if the Govt. was cognizant of ground realities; and the Chief Economic Advisor, in a televised program, asked business not to come to the Govt. for aid when they were struggling which amplified concerns on whether the Govt. was becoming hostile to business
- Morgan Housel of Collaborative Fund makes a very pertinent observation that "everything in Finance is in the context of expectations". Amidst a decline in wealth from falling Real Estate and stock prices, some easing of LTCG tax and more were expected from the budget. However, the budget instead raised taxes on the rich. Excesses of Income tax officials were widely circulated on social media which further created a fear psychosis. The Indian Express reports LRS remittances in July 2019 at their highest ever.
- FIIs do not pay Capital Gains taxes in most overseas markets. An attempt to mask the true fiscal deficit and imposition of additional taxes on FIIs dented attractiveness of the Indian market for Foreign investors

Amidst rising pessimism/cynicism, new frauds being unearthed, the key challenge is to revive animal spirits and confidence to get consumers to increase spending. Current GDP growth in India looks poor when compared to its own past. While current growth rates are not adequate, (5% growth feels like a recession), things are not as bad as they seem, especially when compared to what is going on elsewhere in the world. China is slowing down faster than India, more so than its government would want others to believe. In the US there is constant talk of recession. And the ECB still has to keep monetary policy very loose despite the fact that the Govt. Bonds of most major economies in Europe trade at near or below zero

The structural underpinning of the Indian economy are still intact – a large population, growing middle class, improving infrastructure that will improve productivity, a stable government with a strong

mandate, inflation under control, rising FX reserves. Recent events have done damage more to sentiments than to these structural drivers.

It is in this context that the Govt. announcements on Corporate Tax cuts are so important. 94% of companies in India pay <26% tax – so one does not expect significant benefits for the vast majority of companies. However, the signals the tax cuts send are important. The Govt. is messaging that:

- It is willing to make course corrections to mistakes
- It is not anti- business and will do what it takes to revive the economy
- That it recognizes that tax rates in India have to be globally competitive
- It is committed to a more tax compliant economy

It is futile to forecast when the economy will move to a faster growth trajectory as no one knows what causes sentiment to turn. The system is slowly but surely getting cleansed and this augurs well for longer term growth. We need to have the courage to look beyond the current pessimism and focus on the longer term prize.

Key actions taken in the last quarter[3]

Tough market conditions should continue to favour the kind of companies Solidarity likes to invest in (companies with large market opportunity, structural tail winds for medium/long term growth, leadership positions and run by disciplined management teams).

Our choices have also been influenced by the significant valuation wedge in the market

- On the one hand are Consumer companies where everyone feels good about earnings and cash flow prospects.
- On the other extreme are many names (example select Power Utilities) which trade at valuations that are close to decadal lows despite healthy Balance Sheets.

On business attractiveness alone, Consumer companies would be undisputedly the companies to own. However, Valuations in a large part of the Consumer universe are hard to justify on first principles. Hence, we continue to be very selective in participating here. Consumer companies we buy need to satisfy the following conditions: Opportunity for 20%+ growth, segment dominance, opportunity for premiumisation/ability to expand into adjacencies and delivering our targeted IRRs under assumption of mean reversion of multiple to ~45X earnings on exit. Valuations matter - the last 18 months have given us numerous examples that when Earnings disappoint, the best of Consumer names correct by over 40% as presumed sustainability/longevity of earnings get a reality check.

We find a large part of our non-Consumer watch list now coming into an attractive valuation zone. This has allowed us to initiate some new positions while adding to existing positions in some names.

A few of the positions discussed below (JSW Energy, Mayur, Max Life) have short term earnings uncertainty. The short term outlook is what attracts most focus. However, the reality is that the short term (period less than 3 years) contributes less than 15% to the value of a company growing at 15%+ as most of the value of a company resides in its terminal value. We ask you to take a 5 year perspective so we can focus on the medium/long term. Uncertainty in short term earnings are acceptable to us

[3] This commentary is being provided in the interests of transparency. This is not a recommendation to buy and we reserve the right to change our minds.

as long as medium term conditions/triggers for growth exist, the company's business model is not fragile and prevailing valuations price in the uncertain short term outlook.

We initiated positions in Divi's Labs (Clear Leader)

- Divi's provides Custom Synthesis solutions (development of a process for production of patented molecules) to Pharma companies and also supplies APIs (Active Pharmaceutical Ingredients) for Generic products. Custom Synthesis is the Holy Grail for CRAMS[4] as you are embedded deeply inside Innovator Pharma supply chains.
- Divi's has relationship with 6 out of the top 10 big pharma innovators for > 10 years now. Business is sticky and very high margin (> 45% EBITDA Margin) as IP confidentiality, chemistry skills and supply reliability are more important than cost and you have the natural edge in being the manufacturing partner when the drug goes into Commercial production
- Custom synthesis & Generic API global outsourced market together is USD 25-35 B market (Big Pharma wants to focus on Innovation and Marketing) while Divi's is < USD 1 B company. Hence the growth opportunity is still large.
- In generic APIs, Divi's is global market Leader for 10 molecules and top 2 global leader for 18 out of 30 molecules it makes. It enjoys absolute dominance in its key top 3 molecules with > 50% market share. Cost leadership is a function of scale and chemistry skills and it is very hard to dislodge a leader.
- Indian API manufacturers (especially Divi's) can benefit from additional growth tailwinds such as environmental crackdown by the Chinese Govt on API manufacturers. Moreover, concerns on quality are now centre stage especially after discovery of some carcinogenic products in drugs where the API was supplied by Chinese vendors[5]
- A criticism one often hears is that Divi's is a Capital intensive business. For sure Capital intensive companies are not as high ROCE as Consumer names; however, Capital Intensive businesses can be good investments if they can re-invest their cash flow for growth over long periods of time. Divi's has grown from ~350crs to ~4900crs over the last 15 years without any Equity dilution, by essentially reinvesting internal cash flow generated into capex and has raised long term debt only once over that period
- Divi's has embarked on a Cap Ex program which is substantially higher than what it had invested historically signalling higher growth opportunity ahead. We believe at our entry price it provides a low risk compounding opportunity. We would have ideally liked to buy it at a lower valuation – however, growth prospects look strong. When a company is on a strong growth trajectory, one year forward multiples can be misleading. Hence we have taken an initial positon and will look to add over time or on price declines

We added significantly to our JSW Energy position (Emerging Leader)

- JSW Energy has ~ 80% of its capacity tied up under PPA. With limited manufacturing capacity coming on stream, the Power demand/supply gap will shrink over the next few years benefitting players like JSW Energy who have spare capacity to sell in the Merchant market.
- Moreover, with a Debt/Equity <0.9, ~2000 Cr Free Cash Flow Generation (post interest expenses) JSW Energy is well placed to invest for future growth (among the favourably placed to win troubled Power Assets at the NCLT).

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[4] Contract Research and Manufacturing Services

[5] https://www.moneycontrol.com/news/business/pharma-wrap-ranitidine-carcinogen-impurity-scare-and-rising-problem-of-drug-contamination-4436981.html

- JSW Energy, has displayed significant capital allocation discipline in the past, and the cash generation means that the Market Cap/Enterprise Value ratio only keeps increasing over time as debt is repaid, even if additional power generation capacity is not being added.
- And at current market price it is trading below replacement cost and at <5X Free Cash Flow.

Our call on JSW Energy is a non-consensus call. What do we see that others do not?

- Perhaps the market is unconvinced about how JSW Energy will utilize its Free Cash (does not trust Capital Allocation discipline post its announced intent to launch Electric Vehicles, now officially rescinded). *However, JSW Energy has been very prudent on Capital Allocation in the past.*
- Alternatively, the market is worried about terminal value of Thermal power players given the thrust on renewables. *However, India needs Coal for base load, PPAs are long term, and almost 40% of JSW Energy EBITDA is from renewables at present*
- It's a truism that markets chase momentum. *The market may just be waiting for clear visibility of growth.*
- Finally, the market tends to use P/E ratio for valuation and on P/E terms (~15X trailing) JSW Energy does not appear cheap. *However, P/E is a short cut for valuation - ultimately what matters is cash flow and not accounting profits*.

We initiated a position in Max Financials (play on Max Life Insurance)

- Life Insurance is a decadal and more growth opportunity. India's Insurance penetration is very low and as awareness increases, more people will buy Life Insurance (penetration) and people will enhance their cover as Incomes increase (consume more). In an industry that offers long term growth prospects, there can be many winners as there is space for many players.
- Max is a well-run franchise reflected in high persistency (renewal) ratios and amongst the most productive Agency channels (own sales force) in the country. Max Life is distributed by Axis Bank with ~57% of its business originated by Axis Bank. However, its partnership with Axis Bank expires in Sep 2021 and uncertainty of whether the partnership will be renewed hangs heavily over the stock price. Bank led distribution is a key success factor in an Insurance company's growth.
- The market tends to place a huge premium on certainty. However, what is key is to understand what expectations are embedded in the stock price. The current stock price implies a complete termination of business from Axis Bank. That is a plausible, but a low probability scenario
    - The RBI is discouraging Banks from owning a majority stake in Insurance companies. Even if that hurdle is surmounted, building an Insurance company from scratch for Axis Bank will be very tough, especially when Banking is becoming a tougher business by the day and Axis as a franchise has struggled in the last few years. If Axis wants to buy an Insurance company, no real Asset of the scale of Max is readily available.
    - Exiting the Max relationship completely to sign up a preferential agreement with another Insurance partner will be detrimental to Axis Bank interests as Max provides significant Fee Income from renewal commissions and customer satisfaction will be at stake. Max has invested heavily in the relationship with integration of technology, trained employees stationed at Axis Branches, all of which will have to be replicated afresh. And employee/branch productivity takes time to build.
- Our base case assumption is that Axis Bank will

- Either stay with "open architecture[6]".Max Life will continue to be a partner, but without exclusivity. Axis will on-board other Insurance company to offer more choice to its customers and also negotiate better terms with Max Life. Hence, Max Life new business and new business margin from the Axis Bank channel may see some volume de growth/flat growth for a while as new partners gain share of the Axis Bank relationship
- Negotiate a high minority equity stake in Max Life and look to drive more Max Life business through its branches to maximize the Equity value of its stake

- Insurance companies are valued based on "Embedded Value" (Net Worth + Present value of future Profits of policies in force) plus a multiple of "New Business Margin" (NBM: present value of future profits from Insurance policies sold in the current year).
- The current Market Cap of Max Life is ~15000 Cr of which about ~9300 Cr comes from Embedded Value. EV remains un-impacted by future uncertainty as long as renewals are un-impacted. The Balance valuation from "NBM" is at present ~7X NBM vs ~35-67X FY 19 for its larger peers (perhaps reflecting the stable distribution partnerships the larger peers have).
- In our base case scenario, we believe that the NBM from the Axis Channel will be impacted. However, after an initial drop/no growth phase, Max should be able to grow its New Business Margin by 15-18% long term and hence valuations should re rate to ~15-25X NBM of the new NBM base by FY 23 to reflect the long term growth potential and lifting of the uncertainty around the distribution partnership. In this scenario, Max should trade between 1000-1200/share by FY23 (compared to ~420/share today), based on different scenarios of how much volume and NBM it drives from the Axis Bank channel[7]
- In the worst case scenario (the Axis Bank distribution agreement is not renewed), we believe Max Life would be adversely affected. Max Life has a strong proprietary channel as well as Bank distribution partnership with other Banks. However, a loss of the Axis Bank relationship would mean that fixed costs would need to be absorbed over a lower base and hence aggregate NBM will take a hit. However, we estimate the value of the franchise will still be close to 550/share by FY 23 due to its strong proprietary channel which is delivering very strong growth in the last few years. In this eventuality, we will exit as the competitive position of the franchise will be impaired without a strong distribution partner.
- Given it is rational for Axis Bank to continue with Max life, the upside/downside risk is very strongly in favour at present and merits the initial position we have taken.

We added to our position in Mayur Uniquoters (Emerging Leader)

- Mayur Uniquoters is a manufacturer of synthetic leather and caters mainly to footwear, automobiles (car OEMs), auto replacement and furnishing industries. It is the market leader with ~2X capacity of its nearest peer. It is run with discipline with focus on profitability and ROCE over growth. As an example, Mayur supplies to Maruti's replacement channel (through Maruti), but not to Maruti for its factory rolled out cars due to poor margin offered on the latter.
- The last 3 years have been challenging for the business and it has not delivered much operating profit growth and FY20 seems to be no different. The Footwear industry which is ~45% of their business has struggled post demonetisation; customers are asking for higher credit period/

[6] Sell Insurance products of other companies in addition to Max Life with no allegiance to one partner

[7] When Banks on board a new partner, they may drive all incremental growth to a new partner to avoid impacting economics of old partners to ensure a win-win relationships as the old partner's cost structure would have been built to support a certain base volume of business.

lower prices and management has chosen not to compromise on margins for growth. In the current financial year, domestic 4 wheeler OEMs are struggling and the replacement channel has also struggled due to lack of credit in the system.

- However, conditions for medium term growth exist as both the leather and the Auto industry have good prospects for both growth and premiumisation. Moreover, Mayur is introducing products in adjacent categories (Poly Urethane (PU) based artificial leather), setting up a plant closer to its core footwear customers (South India) and has also opened up new blue chip customer relationships (Mercedes, MG Motors, Kia Motors). India imports PU based artificial leather from China and Mayur's PU plant which is going on stream in a few months should result in a growth boost. Shipments to Mercedes (much higher margin) should start in FY 21 with prospects of other European Auto OEMs also signing up as customers. The drop in Corporate tax rates should allow Mayur to price its products more competitively in segments where the Unorganized sector competes (~60% of the market)
- The economic conditions pose short term growth uncertainty for the business. However, the valuations provide a very compelling entry point. Mayur has been a 20%+ post tax ROIC business for over a decade, its competitive position is improving, it has ~180 Cr of net cash on its Balance sheet, and adjusted for new tax rates, trades at almost no growth valuations of 9X FY 19 Operating cash flow
- When growth returns, (say FY21), and conditions/triggers for growth exist, we should expect the stock to re rate to 14-15X Operating cash flow and provide significant upside from growth and valuation re rating.

We took an initial position in Neogen Chemicals (Emerging Leader) which we explain in more detail

We mentioned earlier of how the US China trade war is resulting in global supply chains being reset. India has an edge in Pharma and Specialty Chemicals supply chains from multiple factors – IP Compliance, eco system, good environmental track record, knowledge base and cost. We believe this will provide multi-year opportunities to companies in Specialty Chemicals whose business models are more relationship based rather than those who compete in spot markets (more vulnerable to China supply returning).

Neogen is a ~240 Cr Revenue company (FY19) specializing in making intermediates based on Bromine and Lithium chemistry. Bromine is a building block for many Agrochemical and Pharma molecules. Lithium has uses in refrigeration, polymers etc. As ~80% of Neogen Revenue comes from Bromine, we will keep our analysis focused on Bromination.

Neogen has always been a well-run company with a decadal Revenue growth of ~20% and PAT growth of ~30%. The US China trade war provides it with an additional tail wind, ironically when China is running short of Bromine supply.

India is strategically advantaged in supply of Bromine

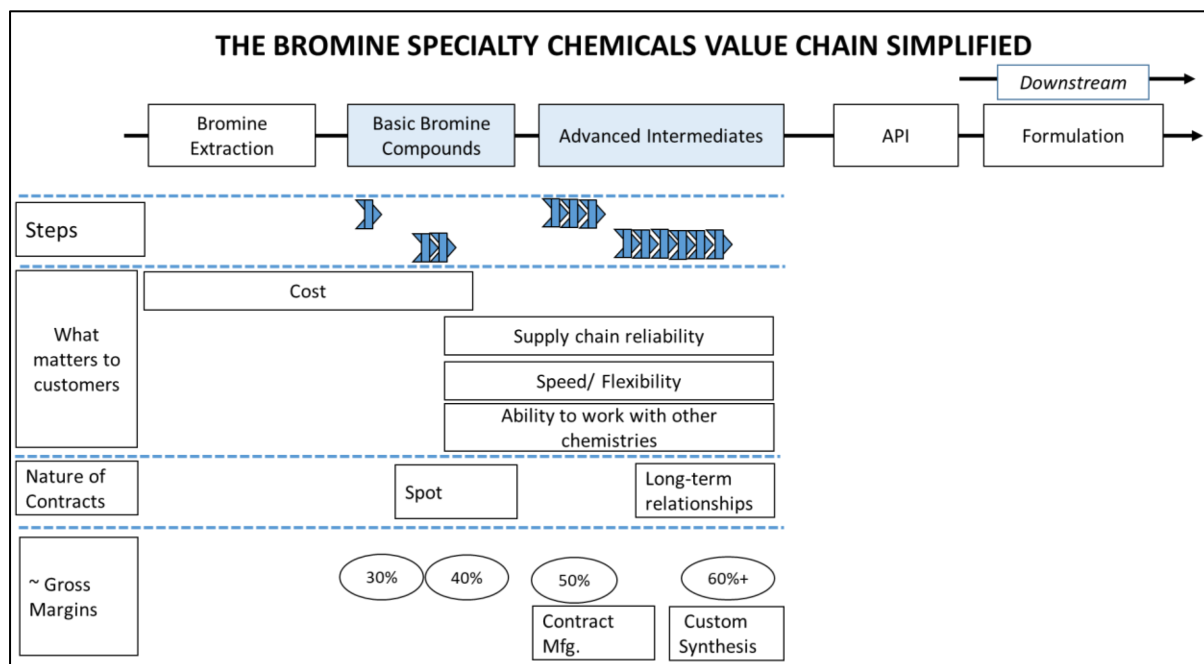
- Bromine is extracted either from sea water or from underground water sources and the extraction consumes significant energy. India is blessed with an inexhaustible supply of Bromine and a low cost of extraction due to the Rann of Kutch (low lying area flooded by the sea and blessed with abundant high intensity sunshine).
- Only Israel and Jordan have lower/comparable costs due to high concentration of Bromine in the water of the Dead Sea. However, neither of these countries have intent to build expertise

in more Specialty Bromine compounds and focus more on Commodity Bromine (application in flame retardants)

- Chinese companies have historically extracted Bromine from ground water resulting in depletion of water levels which has led the Chinese Govt. to order closure of several Bromine plants. China is a cold country and hence extracting Bromine from sea water is not very economical. China was historically a big exporter of Bromine compounds but has seen its production de-grow over last few years and is now a net importer of Bromine and basic Bromine compounds
- As Bromine is hazardous to transport and requires specialized containers, higher transportation costs render China uncompetitive in Basic Bromine compounds.

Neogen is attempting to migrate down the industry value chain where it is more strategically embedded in customer value chains and in turn generates higher margins and ROCE. As global MNCs look to de risk their supply chains from China, it provides an opportunity for Neogen to pitch itself as an alternate source, and over time upsell more complex value added products once credibility is established.

- As a molecule undergoes various steps before becoming an API, the value of the molecule increases as it travels downstream. While basic Bromine compounds earn ~30/40% Gross Margin, more complex compounds which require multiple steps or require a combination of Bromination with other chemistries could be as high as ~50/60%.
- As Bromine is hazardous, it's a win-win for customers and vendors if more steps can be completed within an existing facility which provide savings on both transportation costs and inventory holding costs



Hence, a credible hypothesis for faster growth, as well as a more lucrative business model which is higher margin and ROCE exists. And as India enjoys both cost and availability advantages, one can argue that conditions exist for high longevity of growth.

But can promoters seize the opportunity? We are investing in technocrats who have handled adversity well and who are well capitalized to invest for growth

- Neogen was founded by Dr Haridas Kanani, a first generation entrepreneur who in the 1970s set up a company that extracted Bromine from the Rann of Kutch. A flash flood destroyed his plant and post repayment of all dues over a decade, he set out to make Basic Bromine compounds in the 1980s. The company is now run by him and his son (Dr Harin Kanani, PhD IIT Mumbai)
- The company has ~75% of its revenues from products developed through in house technology/process IP
- And while their existing Infrastructure had growth constraints, they were fortuitous to acquire Solaris from the Gautam Thapar group which gave them 40 acres in Baroda where they can expand their activities. A recently completed IPO provides them the financial ability to undertake capital expansion to build credibility with customers to deliver at higher scale.

We believe Neogen can grow bottom line at about 25-35% over the next 3-5 years through growth and margin expansion as more of its business moves downstream. Moreover, internal cash generation with some external debt can fund capital expenditure

- The past track record is strong. Over the last 10 years, Neogen grown their bottom line by ~30% CAGR while maintaining strong Capital utilization efficiency (ROIC >20%).
- And initial success of downstream migration is visible. Over the last 5 years, the share of its business from downstream has increased from ~10% to ~25%

Neogen was a ~ 240 Cr Revenue, 21 Cr PAT (FY 19). Many well run Chemical companies in India have compounded PAT by ~18-20% for the last 15 years starting from a much larger revenue base (Divi's Labs, PI Industries, Aarti, Atul). A small starting base, long run-way of growth and a management team that inspires confidence means we have been willing to pay ~25x FY20 EPS for an initial position. Cash flow based valuation metrics can be misleading when a company is re-investing aggressively for growth.

Key risks are related to execution. Neogen will undertake more Capex in the next 3 years than it has done in the last 20 years of its existence. And companies need to evolve as they scale. We will look to add to our positions as we see more evidence of downstream migration.

Over the last 24 months we have been cautious on valuations. Current market circumstances now offer many opportunities to participate as pessimism is widespread but valuations are pricing in uncertainty.

Please reach out to us if you would like to put more Capital to work. We will be happy to have a conversation and advice on what is right for you given your personal circumstances and Asset Allocation at present.

With my best wishes

Manish Gupta
Chief Investment Officer