12 April 2025

Dear Partners:

The purpose of our letters is to provide transparency in our thinking, so you understand the rationale underlying our actions.

Topics.

Summary Messages

- Performance is TWRR of 25.7% last 5 years vs 26.3% for BSE 500TRI and 23.7% forNIFTY50TRI. These elevated numbers reflect the low base of Covid bottom of March 2020.
- The big macro change since our last communication is a massive "U" turn in American foreign and trade policy. The US is primarily targeting China's unfair trade practices but also raising tariffs on allies. No one can say what the contours of the new global trade system will be.
- We believe Manufacturing for the World from India will be a very attractive decadal theme. Manufacturing cannot be reshored quickly, if at all. It requires long-term capital commitment, time to build credibility with customers, a predictable policy environment and both hard and soft skills.
- The Western World is looking to India as an ally. Lower tariffs vs China should be an additional edge. However, choices need to be more nuanced on companies with differentiated positions, more strategic linkages in supply chains, which don't enjoy State subsidy support and are more immune to dumping from China.
- We maintain our earlier stance of realism on return expectations. US policy changes and a prolonged US China trade war are major global head winds to growth and inflation. Impact on earnings will be felt by Indian companies as well.
- While we are confident of direction, trajectory is uncertain. Hence, we need to be more cautious about entry valuations, especially regarding export-oriented themes.
- Our portfolio is well diversified (across growth themes, geographies, end industries) and consists of many resilient businesses which are not easy to replicate. Based on our understanding of the facts today, we don't see the need to change positions. However, the world is in flux. We will change our minds if new facts emerge that require us to do so.

Important Disclosures – please refer to disclaimer on last page.

- We disclose position names for transparency and not as recommendations to buy/sell.
- We reserve the right to change our minds and may not be able to inform you if we do.
- We customize portfolios based on valuations at the point of entry and cash available for deployment. Hence, all positions may not be held in your account.
- Performance in individual accounts may vary from aggregate performance.
- Past performance does not guarantee future results.

Goals

Our goal is to earn ~15%+ post fees, rolling 5 years with prudent risk taking. We don't aim to chase the highest returns in short term horizons. Under the assumption that the Index returns ~10-11% IRR this decade from current levels, the approach aims at beating the BSE500 by 3% per annum (BSE 500TRI by ~1.5% per annum) every rolling 5 years[1].

15% IRR is not a guarantee. Like a team batting first, it is a target basis how we read playing condition at present and assuming the Indian economy will grow ~11% in nominal terms.

Re-iteration of our core beliefs we use to make investment choices

There are multiple approaches to investing. They principally differ in time horizons in which one thinks, belief in cash calls, red lines on risk. All choices will work well in particular environments.

Our path is one that we can stick with long term.

- We want to embrace Quality, long-term thinking and partnering with people we can trust as a way of life. This is a "stamina over speed" approach as medium intensity "returns" via sustainable compounding are compensated with longer "n". A "Quality" mooring ensures low probability of permanent loss of capital.
- Our definition of "Quality" is investing with an "ownership mindset": ~18%+ sustainable ROE[2], promoter that thinks long term, prioritizes resilience over speed, and operates with a "win-win" mindset with its ecosystem of environment, customers and minority shareholders.
- Over the long term, stock prices are slaves to earnings growth. Hence, we invest in businesses that can deliver high probability long term secular earnings compounding. As their earnings grow, stock prices will inevitably follow. These are typically companies in industries with secular tail winds, are leaders of their industry or niches and are expanding their competencies and edge.
- Entry valuations matter. But short-term earnings multiples for companies at a very early stage of their life cycle can be very misleading as it is very hard to fairly price growth longevity. The risk of over-paying by 10-15% can be managed by stretching time and position sizing.
- We will never chase the wrong risks (compromise on governance) to boost returns irrespective of how attractive valuations are. This will reflect in poor performance during raging bull markets.
- We will be willing to embrace some illiquidity in the portfolio to take advantage of our size and fish where larger firms cannot. The downside of this approach is that illiquidity results in much higher stock price volatility, which in the short term is indistinguishable from risk.
- Investing with an "ownership mindset means the bar for exit due to valuations alone will be high. However, we are allocators of capital and not permanent owners of businesses. Greed can drive prices of companies well above fair value. We will exit when we encounter euphoria and if we can allocate to better opportunities.
- We will occasionally break the "ownership mindset" approach to buy into "renters" (not great businesses as they are less than 18% ROE, but available very cheap and could evolve into compounders over time). We will do this sparingly when the upside/downside is strongly in favour, we are aligned with promoter thinking, see a trigger for value-unlocking and don't find opportunities in our core bucket.
- "Solidarity" implies alignment of interests – hence CIO family positions will be in 100% alignment.

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[1] The NIFTY50TRI has returned ~12% over last 10 and 15 years.

[2] 16%+ for Banks.

Performance update

Aggregate across all partner accounts					
Performance (in TWRR)	**1 Year**	**2 Year**	**3 Year**	**5 Year**	**Since Inception^**
SOLIDARITY- PRUDENCE	13.9%	17.1%	7.7%	25.7%	**16.8%**
S&P BSE500 TRI	6.0%	21.9%	13.7%	26.3%	**15.5%**
Data as of 31 Mar 2025					
^ From 11 MAY 2016 -Start date of scheme					
Solidarity performance is net of all fees & expenses					
Performance data provided in the above table is not verified by SEBI					

The new Trumpian world

Within 8 weeks of being sworn in, Trump has voted alongside Russia at the UN against allies, threatened to annex Greenland, threatened to cut defense aid to Ukraine, exit NATO, pulled the US out of the Paris climate change agreement, defied the US judiciary, created chaos in global supply chains and sparked a global Equity market sell-off. What is driving this thinking?

Facts

- China is running a ~USD 1 Trillion trade surplus with the rest of the world.
- Chinese companies enjoy state support and dump surplus capacities on the world. They do this via using select countries e.g. Vietnam as trans-shipment points.
- China restricts entry to its market, so its trade surplus is not balanced through services. You cannot take a UBER or use Facebook or Google or Amazon in China.
- NATO allies have not funded their share of Defense spending vs commitments.
- The US has borrowed money from China to buy Chinese goods. This has enhanced Chinese economic power and hence Chinese military power which is now almost at par with the US.
- Chinese technology in many sectors (semiconductors an exception) is at par or above the US[3].
- Unlike other empires that funded wars through tribute, the US has funded wars through Debt.
- The US Debt is now approaching unsustainable levels, especially considering unfunded liabilities.

[3] The Deep Seek AI model was developed by a Chinese hedge fund at a fraction of the cost of US peers whilst delivering great results. Cars made by China are priced at a fraction of US made cars with more advanced features.

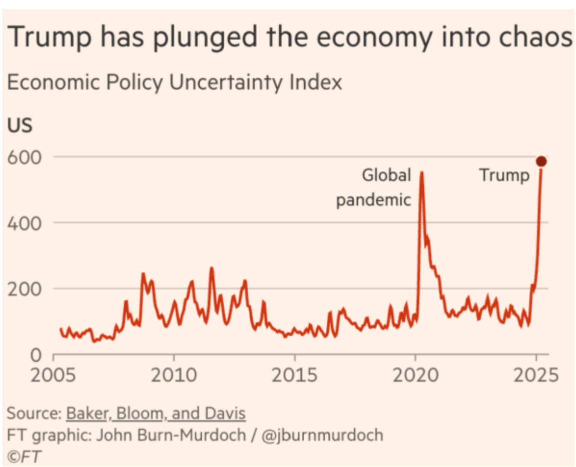
Beliefs driving US policy change thinking.

- The US should focus resources on China as the primary adversary.
- The way to limit Chinese military power is to limit its economic and technological growth.
- The US should not entangle itself in foreign wars.
- Allies need to pay for US support/protection.
- The prior rules-based order does not work for the US any-more and as the most powerful nation in the world it can define the rules which other nations need to adhere to for access to its markets.
- Chinese firms have exploited US tariff treaties with Mexico to flood the US with cheap imports which in turn has hollowed out the US industrial base. Tariffs are needed to plug these loopholes.
- A temporary recession in the US economy may not be a bad thing if it lowers interest rates and help refinance the USD 9 Trillion US debt that is maturing this year.
- Bringing back Manufacturing at home by giving tariff protection will aid Deficit reduction while also creating a job boom in the US.

Enacting some of the changes resulted in chaos in both physical and financial markets.

The administration's new tariffs announced on 2nd April caused supply chain chaos. Some companies declared force majeure, read here. And some stopped shipping vehicles to the US. Some CEOs immediately froze cap ex plans.

Financial markets sold off. Some commentators, including the Singapore PM, voiced concerns about a 1930s type of trade war and a world that is "more arbitrary, protectionist, and dangerous"[4].



The Bond markets too rebelled with the USD 10 yr yield breaking 4.5% - which would create significant head aches for the US to refinance its debt (USD 9 Trillion this year alone).

The collapse in stock prices made many of Trump's closest financial backers speak out against his trade policies when they perhaps realized that consequences of tariff actions were not thought through and there was no coherent strategy being followed.

[4] Singapore PM

On 9th April, Trump reversed his stance offering a 90-day reprieve to 75+ countries while maintaining high tariff rates on China. This resulted in a significant bounce back of Equity markets.

Navigating the uncertainty of a new world

The primary tool partners need to use to navigate uncertainty is Asset Allocation – exposure to different Asset Classes and making adjustments as needed.

Within the Equity bucket allocated to us, we don't intend to navigate uncertainty via cash calls unless the whole portfolio is trading at euphoric valuations. There are a few reasons for this.

- History has shown us that despite every crisis, well run companies recover earnings and come back stronger with enhanced market share.
- As the strategy is Quality, resilience and diversification, portfolio earnings should not collapse.
- You cannot buy back the quantity you want at the price you want.
- High risk of price whiplash.

The US seems determined to reduce its trade deficits. The specific path forward is unknowable, especially when US actions don't seem very rational and appear to be economic suicide. One must reflect on the basis of advice Trump is receiving. Peter Navarro, Trump's key advisor on tariffs, has written several books including The Coming China Wars (2006) and Death by China (2011). In his books, he has quoted an economics expert "Ron Vara". It is now coming to light that "Ron Vara", is fictional and an anagram of his name "Navarro". Who can know what salvo is coming next or what the short term holds?

We see three potential scenarios emerging medium term.

#	Medium term Scenario description	Probability	Rationale
1	• US reverts to policies pre-Trump status quo	• Very Low	• The US has initiated a new world order which it is unlikely to reverse. • For Trump, high tariffs are ideology. Listen to interview here of 30 years ago.
2	• Trade deals between US and individual countries	• High – Base case scenario	• US cannot bring Manufacturing back home cost effectively. • Policies lack the support of people they intend to benefit, e.g. US Autos or Gas fracking cos.
3	• US China trade tensions escalate to 1930s type of trade war as EU and US also escalate	• Possible but unlikely	• China has escalated. EU has threatened tariffs on Big tech. • Gold prices are reflecting this risk. • Will be political suicide for Republicans – America does not have a pain sharing culture unlike Japan.

We believe in Scenario 2 as base case premised on three core assumptions.

- The US cannot re shore Manufacturing quickly at scale for medium technology products.
- The future of supply chains will be more integration with likely allies rather than adversaries.
- In many categories, Indian companies are building a global edge with differentiated positions that will be hard to replace.

Scenario 3 is a tail risk scenario which needs to be managed by Asset Allocation.

The US cannot reshore Manufacturing quickly at scale for medium technology products.
In many sectors, the US needs to rely on imports as industrial capacity does not exist[5]. The financial elite in the US have aided this as being capital light was good for stock prices. This resulted in a culture of financialization (making money from financial engineering) rather than one that "builds things". The quality struggles at Boeing are a good example of how hard it is to reverse a deterioration in culture.

Why will a company add capacity when a new administration may reverse policy after 4 years and leave a company with an uncompetitive asset? If a company is forced to buy from higher cost US suppliers, how does it remain competitive in exports (Nike vs Adidas, Boeing vs Airbus, or Tesla vs BYD?).

One cannot set up plants or make them competitive quickly.

- Setting up Manufacturing can take anything between 3-5 years.
- Manufacturing requires both a hard edge (economies of scale, engineering talent, cost competitiveness) and soft edge (process know how, knowledge passed down over time, culture).
- Qualifying a new vendor or site for strategic supplies can take years.
- You need a complete ecosystem – an ICE car can have ~30000 parts.
- Competitors in emerging markets are not standing still and are widening the gap.

For a better understanding of this, read this blog here.

New supply chains more interlinked with likely allies.
When supply chains can be used as weapons, national security concerns will reflect significantly more in strategic supply chain decision making by businesses than they did earlier.

- If China is America's principal adversary, why would you, for example, be heavily reliant on them for Antibiotics or for Contract Manufacturing of a patent protected drug?
- And would you not ask patriotic American CEOs why they were sourcing so much from China and strengthening it economically and for a plan to reduce that over time?

India is part of the solution as it is an ally and no threat as an adversary.

- The US/Europe are seeking a symbiotic relationship with India who is seen more of an ally rather than a potential adversary. There are separate trade agreements being negotiated between the US/Europe/UK and India. These countries want more access to our markets.
- Hence, tariffs on Indian products should remain lower than on Chinese which will support relative competitiveness of Indian companies and market share gains in global supply chains.

[5] The US had 295K+ small and medium manufacturing shops in 2001 which has reduced by ~25% by 2023 as the next generation is not keen to continue in this field.

'Boeing to source more parts from India'

Boeing To Setup Factory To Convert 737 Passenger Planes To Freighters: Report

Sahil Gupte, Boeing India's president, said there was a requirement to convert more than 1,700 passenger planes worldwide into freighters in the next 20 years with over 600 coming from Asia

Airbus C295 aircraft's manufacturing facility to come up in Vadodara

GE, HAL To Make Fighter Jet Engines In India As Modi Wins Landmark Deal

Micron commits to setting up semiconductor manufacturing unit in India, bolsters PM Modi's ambitions

Schaeffler India bolsters "Make in India" initiative with Savli plant expansion

Attracted by govt support, Alcatel-Lucent hunts partners to Make-in-India

Apple bets big on India, plans to shift 18 per cent of global iPhone production to India

Samsung, LG shift away from China toward India as production base

Google seeks suppliers to move Pixel production to India, partner with Indian suppliers

US Tech Giant Hewlett Packard Embraces 'Make In India': Plans to Manufacture High-Volume Servers Under PLI 2.0

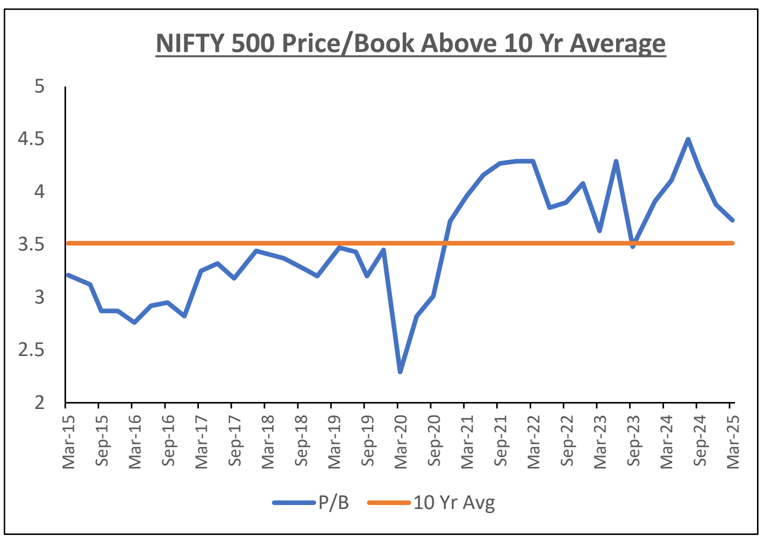
VANDE BHARAT EXPRESS: ***A Make in India Success Story***

Make In India initiative: Defence ministry go ahead for Rs 84,000 crore projects

Harley 2.0: Not just Make in India, but Make With Indians: Global CEO Zeitz

Empirical evidence as well show leading companies like Apple in the US, Agro Chemical companies in Europe and Automotive companies sourcing more from India, example read here.

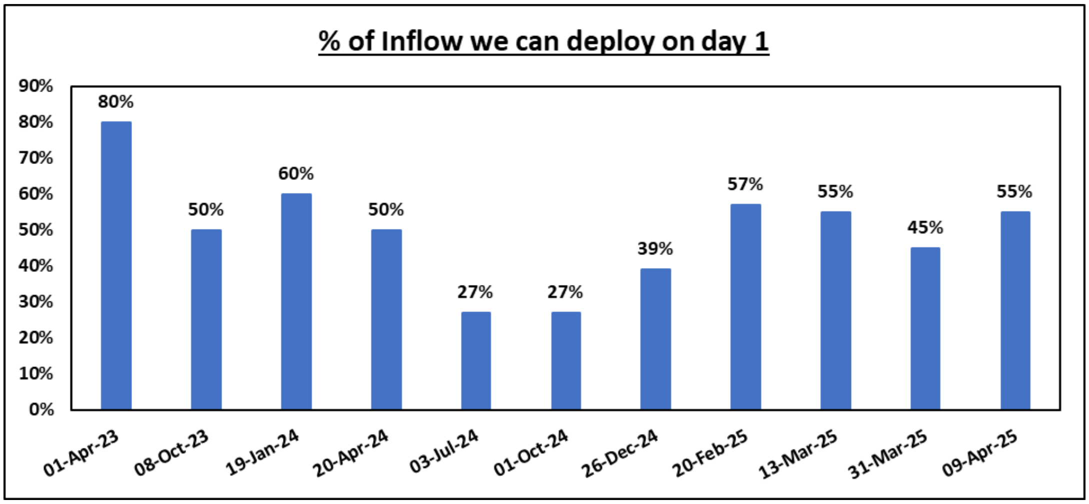
We re-iterate our earlier messages about realism in return expectations for Indian markets.
Valuations in aggregate are still above long-term averages, even as many businesses (IT, Banks) are becoming more commodified and lower growth vs the past and deserve to trade at lower than historical bands.



Short term macro uncertainty will weigh on business plans till there is clarity on the new trade order. Corporations will suspend strategic outsourcing decisions and cut discretionary budgets as a precaution. Tariffs are inflationary and will impact customer spending. China will dump its excess capacity elsewhere. This will surely impact Indian companies as well through linkages.

Markets hate uncertainty. If one cannot estimate earnings, there is a lower bias to fair value. Hence, we need to be more conservative on entry valuations one is willing to pay vs earlier, especially for export-oriented themes.

If we initiated a new account, the chart below shows how much we would be able to deploy on Day 1. While the market correction brought many new names into play, the poor liquidity means we cannot take large position sizes.



The upside risk to markets and valuation floor is FII behaviour.

Strong returns earned since Covid (25%+ IRR) have made investors forget that long term the Market generates ~12% return (NIFTY returns over the last 10 and 15 years). A 12% Rupee return is very attractive for FIIs from India which is still primarily a domestic driven economy, and which may still be the fastest growing large economy in the world.

Global investors have ~65% of Equity allocations to the US at present while it is ~25% of World GDP. Non-US investors own ~USD 18 Trillion of US Equities. US actions have eroded trust. Even as Germany seems to have woken up from its slumber. The end of American exceptionalism[6] means some portion of Equity allocations could move to other markets, just for risk management purposes. Some portion of this could flow to India. If FII flows into India resume, unknowable at present, it could provide market support.

Hence, while we are cautious, we are never very greedy for initial positions.

[6] American exceptionalism is the belief that the United States is unique and superior as it followed a rules-based order vs other nations.

Key actions Q4FY25
Partners may have observed significant activity in Q4. How does that sync with an ownership mindset?

We are allocators of capital in businesses we want to own permanently. But our horizon for decision making is rolling 5 years. There is some trade-offs between these objectives.

In the short term, prices move basis greed and fear. Hence, if we believe that individual stocks prices are trading at valuations wherein outcomes over the next 5 years in a position (stretched to 10 years for a company we really like) are unlikely to beat the Index[7], we need to reallocate capital to better opportunities. And there is the need for risk management in an illiquid name – you cannot exit when you want to at the price you would like. There is always the risk of exiting too early, but then our goal is ~15% IRR with consistency and prudence, not to capture the highest possible upside.

Trimmed: Shaily and Bharti Airtel
We trimmed our position in both Shaily and Bharti, companies we have owned since 2018. The Shaily decision primarily reflected risk management on the back of extreme valuations (40X+ EBITDA). Bharti is very mature on growth life cycle and the Option value upside of a Vodafone-Idea collapse is declining as the Govt is determined for Telecom to be a 3-4 player market.

Exit from STAR Health
We bought STAR Health because of low Health Insurance penetration and a core need for everyone to have Health Insurance. STAR had ~32% market share in Retail Health, which implied the best cost structure supported by the largest agent network. The ability to reprice premiums over time meant lower underwriting risks over a cycle vs Banks/Life Insurance and more predictable ROE.

However, we underestimated the weak position of the Health Insurer in the value chain between intermediaries unwilling to accept commissions linked to claims and unregulated Hospitals who are overtreating medical conditions. While a dominant market share is a good starting point – in a mono-liner, it also means limited room for growth. This causes management to take sub-par decisions, for example attempt Group Health, which in our view is never a profitable proposition as it has low loyalty and is won by the lowest bidder via a periodic RFQ.

Health dynamics have also changed post Covid. The incidence and severity of Health insurance claims has increased. These are solvable problems via premium increases. But the high premium increases needed to manage Claim Ratios while earning an 18%+ ROE will result in new entrants porting out your best customers by pitching lower premiums and will impact growth from new subscribers which is key to keeping Claim ratios under control as new customers subsidize older ones.

We are not sure what the management can do differently to deliver secular growth with an 18% ROE, even as the playing field is getting more competitive. Constant media reports of Health Insurers denying genuine claims makes it hard to hold on with an ownership mindset. Doubt is not a pleasant state of mind. We thought it better to exit and re-allocate to higher conviction ideas.

These decisions released cash.

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[7] Simple math is assuming best case 20% decadal earnings growth and 25-30x PE multiple at exit to calculate derived IRR vs the ~11-12% the Index may do long term.

Doubled up on Restaurant Brands Asia.

We see possibility of an Asymmetric upside from current prices. The RBA team is executing well in India and showed immense foresight in raising ~500 Cr Equity to strengthen its Balance Sheet so it can continue investing for growth. The 16% equity dilution hurts, but what is right for the business is always right for shareholders. We believe Indonesia is a solvable problem and if they separate that Asset from the India Balance Sheet, the stock will re-rate massively.

Significant increase in position size in Shivalik BiMetal Controls.

Detailed investment thesis shared on 28 March 2025, read here.

Axis Bank built to large weight.

It is a rare large cap today that offers potential for both growth and valuation re-rating.

The steep market correction brought many companies in our Watch List into play.

Sansera Engineering – initial position.

Sansera is a leading supplier of high precision engineering components predominantly for the Automotive industry (~88% of mix[8]). They have leveraged their engineering competency to enter adjacencies over time (Aerospace in 2010, Industrials in 2019 and recently Semiconductors). Adjacencies have superior margins as they require much higher precision. We estimate non-Automotive adjacencies to contribute 25%+ of cumulative profits by FY29 and even higher over time.

Sansera has executed well with ~16% CAGR over the past decade, well ahead of the Automotive industry. We believe it can grow at a similar pace due to multiple tailwinds (higher OEM outsourcing, premiumisation, global vendor consolidation). We expect both customer additions & wallet share gains in both Auto and non-Auto segments in both India and overseas.

There are tariff uncertainties, but Sansera should continue to benefit from + 1 tailwinds (many Auto component suppliers in Europe are exiting the business and derisking from China is real). Customers rarely switch suppliers based solely on costs given the high lead times and investments made in product design, testing, and development with trusted suppliers. Sansera is witnessing an increase in RFQs. It has a strong order book (Exports is ~62% of order book vs ~30% of Sales[8]). It is embarking on a large Capex program (2,100 Cr over 3-5 years[8]) to execute this order book.

Profit growth should be faster due to better product and geographic mix (more non-Automotive and more Exports. Operating leverage should also come from efficiencies and scale.

Sansera is a resilient business – significant management team depth beyond promoters, a Debt free balance sheet and a well-diversified customer base with whom Sansera enjoys longstanding sticky relationships. It has seldom seen a fall in profits. The business is getting more de-risked over time on all dimension – end user segments, customers within segments, products, and geographies.

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[8] Source: Sansera IP.

The market perhaps has concerns on Sansera's Auto ICE exposure due to threat from EVs. (74% of mix, Motorcycles and Scooters are ~37% and ~7%[8]). Sansera is well positioned to navigate this change due to its unique capabilities. Their precision engineering skills make them a more suitable partner for EVs as they have more stringent noise/vibration parameters. Few peers have capabilities in Aluminium Forgings needed for making vehicles lighter. Hence, the ICE business that is lost should get replaced by EV products supplied by Sansera itself. Sansera already works with many of the top 2W EV OEMs in India where the kit value/vehicle it sells is higher vs that it sold to its ICE[8] customers. Hence, no net business/vehicle should be lost in the EV transition.

Sansera has domestic market leadership in their key products (example: largest Connecting Rods[9] player in domestic 2W and PV[10] space). This stems from domain expertise built over time and cost competitiveness from unique capabilities like building ~50% of CNC machines inhouse vs buying from external vendors.[11]

Sansera's skill sets are differentiated. This reflects in penetrating Aerospace and Semiconductor segments. Others may learn these skills over time. However, it is hard to build customer trust. Customers do not change strategic suppliers without a strong reason. Hence, competition's focus will be on winning new programs, not attacking existing ones. Sansera too has demonstrated its evolution as share of more value-added products is increasing. Hence, we believe Sansera can generate 18-20% pre-tax ROCE while growing profits 15%+ for long periods of time.

We find current valuations reasonable (EV/EBITDA of ~12.5x FY25e) basis longevity of PAT growth improving business quality (more exports, non-auto) and ability to generate 18%+ ROEs with moderate leverage.

This is a position where we have significant room to add on price declines.

<u>Polyplex – initial position, Special Situations</u>

We primarily seek companies that can deliver secular earnings compounding. However, in the absence of adequate opportunities in such names, we will consider investing in well-run businesses in Cyclical industries which also show business model resilience and trigger for value unlocking.

Polyplex is a packaging film manufacturer (Primarily BOPET [12]films). End Industry is mainly Consumer and Pharma, hence global demand is secular. However, there is volatility in Earnings because entry barriers are low resulting in excess capacities getting added when industry enjoys high Profits (upcycle) and the resultant overcapacity subsequently results in weaker profits (downcycle). The industry is in a downcycle at present.

While the industry is largely commoditized, Polyplex is a very well-run company within the industry with a more differentiated portfolio which results in lower cyclicality vs the industry and where Polyplex earnings cyclicality should reduce over time.

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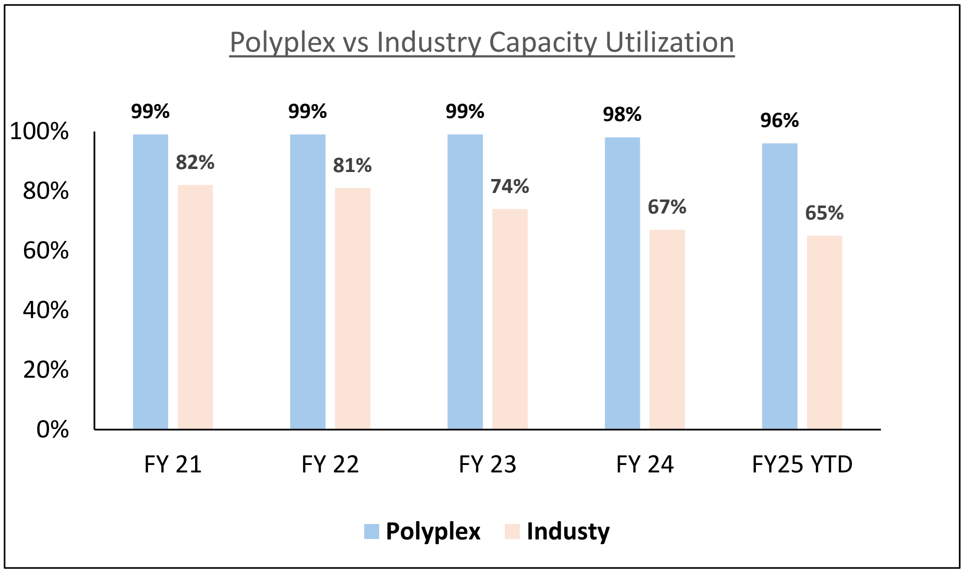
[9] Connecting Rods link the Piston to the Crankshaft, converting the Piston's reciprocating motion into the Crankshaft's rotational motion.

[10] Source: Spark IC.

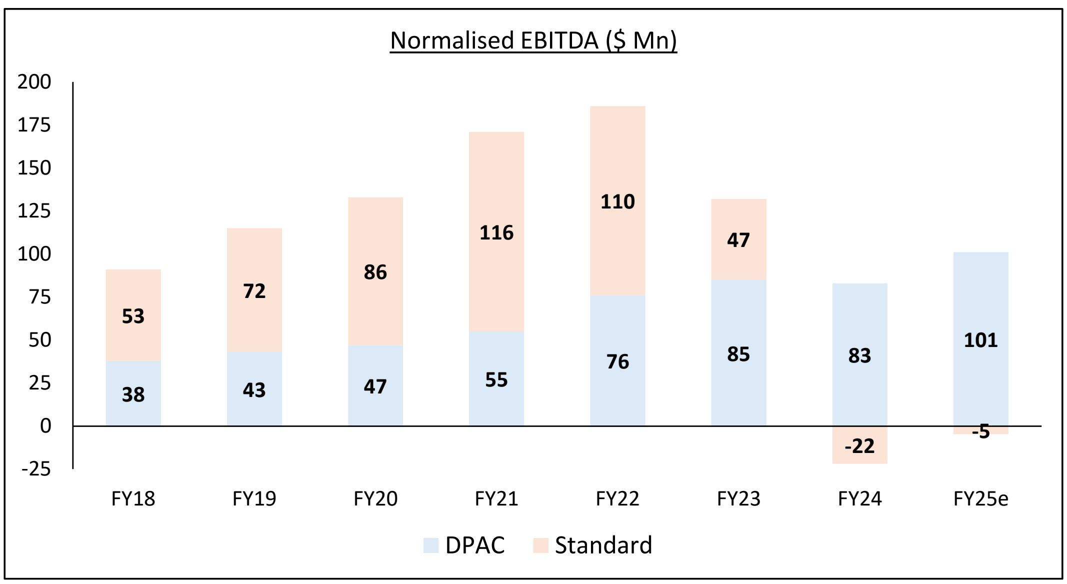
[11] Source: Mgmt. estimate.

[12] BOPET films is a clear, flexible, and transparent/ translucent material derived from PET resin that offers high tensile strength, heat resistance and strong barrier properties.

Polyplex has high-capacity utilization over time[13] despite cycles which suggests it is a vendor of choice



The quality of earnings have improved over time as the share of more specialty films (DPAC[14]) has increased, thereby reducing overall Profit cyclicality. Specialty Packaging films include Silicon coated films, PV Solar films etc. These are customized, IP driven solutions that require longer gestation periods/higher trial costs and therefore have limited competition.



[13] Data sourced from Polyplex Investor Presentation
[14] DPAC which stands for Differentiated Product, Application or Customer

Polyplex is a leader and a resilient franchise.

- Market leadership: Polyplex is global No 2 player (ex China) in thin BOPET (~50% of Sales).
- They enjoy cost leadership from backward integration into PET resin, diversified manufacturing footprint across the globe resulting in lower duties, logistic costs and faster lead times. Hence, they have better margins vs the industry in aggregate.
- Its USA manufacturing presence provides more certainty amidst Tariff threats.
- Due to the share of Specialty products, it has generated profits even at the bottom of the current down cycle.
- Resilient Balance Sheet: Net cash company and ability to invest Capex when peers are challenged will result in stronger competitive positioning[15] when the cycle recovers.
- Revenues are diversified across multiple geographies globally with no customer concentration.

Polyplex provides strong downside protection with potentially high upside.

- Polyplex has demonstrated healthy 14% BVPS[16] compounding over the past 15 years. This should continue via high single digit to low double-digit volume growth with better Profit/Ton as product mix continues to improve.
- Our entry price is attractive (<1x Price/Book).
- The Polyplex promoter group sold 24% of their shareholding to Al Ghurair Group (UAE) in October 2023 at 1,560/share (~1.4x Price/Book at that date, in a weak environment).
- While the current promoter is still in control of Polyplex, there are Call/Put options in place between promoter and acquiror exercisable over the next few years (formula undisclosed).
- We believe the strike price for the balance stake sale should be higher as that change strategic control and as the business quality has improved since 2023 from both higher capacity and more value-add mix.
- There can be an additional upside kicker if industry sentiment improves. While Polyplex financials are showing improvement, current valuations still reflect pessimism (~55% drop from all time high price).
- The "Put/Call option" should trigger an Open offer due to change of control within a visible timeline, which gives us the right to exit if we choose not to stay for compounding.

A 3% base position is a good experiment in a company with a decent value creation track record, shown resilience with improving business quality, no governance concerns and where a trigger for value unlocking in a finite time frame is visible.

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[15] ~$220Mn overall Capex incurred/ to be incurred across USA, India, others. Post its US expansion, Polyplex is expected to be largest/most competitive thin BOPET player there.

[16] Book value includes dividends paid.

Investment thesis for the Top 15 positions

Details on thesis, historical financials and valuations were shared on 4 April 2025, please read here.

Summary observations

Ownership mindset: Quality+ Resilience + Compounding as corner stone of approach.

- Ownership mindset: 14 of Top 18 positions have continued in FY2025 vs FY2024, ~3% of positions are "Special Situations".
- Concentration in best ideas: Our top 15 positions are ~83% of the portfolio.
- Quality: All positions[17] can be 18%[18]+ "structural[19]" ROE with nil or modest leverage.
- Resilience: Significant Balance Sheet strength. All 3 Banks have very high Capital Adequacy. ~75% of non-Banking positions by weight are Net Cash or with Debt/EBITDA <1.5
- Structural Earnings trajectory strong: Earnings growth of the top 15 positions basis position weight is ~20% FY19-FY24 and ~15% 9MFY25[20].
- Diversification: ~50% of the portfolio are domestic themes (Banking, Telecom, Digital) and ~50% are largely export themes (Manufacturing).
- ~30% of the portfolio is in companies offering Stability to the portfolio but with "low to mid-teens" earnings growth. Most of these happen to be Large Cap.
- ~70% of the portfolio are in companies with prospects of much higher growth as they are early on growth life cycle with more volatility expected in both growth and stock prices. These are typically Micro and Small Caps.

Portfolio more tilted towards Longevity/Asymmetry vs last year.

- The 30/70 ratio was about 40/60 last year and declined largely due to reduction in position size of Bharti Airtel and as most opportunities we see today are in smaller market cap names.
- Valuations of Large Cap Banks we own are reasonable, not very attractive: growth is slower, ROEs are declining, uniqueness is eroding, competitive intensity is increasing and there is more regulatory scrutiny. We don't want to overweight them just because they look better positioned short-term.
- We urge you not to think Small/Large Cap (volatility) but rather risk of capital loss (Balance sheet strength). A small cap with no Debt is less risky (but more volatile) than a Large Cap Bank with 10:1 leverage.

[17] Exception of PolyPlex which is a Special Situations play.
[18] Banks an exception where 16-18% is a good ROE.
[19] Structural ROE is defined by us as the ROE of the business model at steady state earnings.
[20] Note this metric is not "Profit After Tax" but the earning metric relevant to evaluate progress for the business.

<u>A natural question may be are we too overweight Manufacturing and to the US?</u>

Company Name	Weight % (31 March 2025)	% of FY24 sales Domestic	Exports	US sales	Remarks
Yasho Industries	6.6%	37%	63%	29%	
Kama Holdings (SRF)	5.8%	45%	55%	11%	
Shaily Engineering	5.6%	25%	75%	15%	
RACL Geartech	5.6%	22%	78%	2%	
Neogen Chemicals	5.4%	73%	27%	7%	
Garware Technical Fibres	4.5%	40%	60%	~10%	
Shivalik Bimetal Controls	4.2%	48%	52%	28%	US sales -75% is Shunt Resistors that is Tariff exempt.
Sansera Engineering	3.1%	70%	30%	9%	
Pix Transmission	2.7%	43%	56%	NA	
Polyplex	2.6%	17%	83%	27%	US sales largely from its US manufacturing facility.
TOTAL	**45.9%**				

Building just a domestically oriented portfolio or reducing weight to export themes is being reactive and taking long term investment decisions basis what seems safe now. That is not in our long-term interests. We are looking for "what will work this decade", not "what will work now".

Most of our Manufacturing positions have uniqueness (strategic integration in supply chains, unique competencies, not reliant on state support to be competitive). They are not dependent on exports or the US alone. These positions may be more volatile short-term due to tariff uncertainty, but may be 18-20%+ ROCE, 18%+ ROE with 15-20% decadal longevity of earnings growth.

The risk to these positions are

- Tariff structure where customers have no choice but to build capacity/source from the US.
- A grand trade deal between the US and China that disadvantages India. For example, Chinese companies commit to set up Manufacturing at scale in America.

We believe both the above are low probability outcomes. Meanwhile, these companies are not sitting still and will look to diversify into other markets.

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We look forward to speaking with you at our quarterly call on the 19th of April at 12pm IST.

Thank you for your trust,

Manish Gupta
Manjeet Buaria
Anirudh Shetty
Pratik Jain
Aman Thadani

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