Annual Letter to Partners FY 20

2 April 2020

Dear Partners,

Covid-19 has been a tail risk event. We debated whether we should send our Annual Letter out as per timelines we work with or wait for more clarity to emerge. We decided to share our perspectives based on how we see things today. If facts change, and we need to change our approach, you will hear from us.

In this letter we

1. Provide an update on our performance (Page 2)
2. How we intend to navigate the road ahead. (Pages 3-5)
3. Share the key Investment themes of interest. (Pages 5-9)
4. Share rationale underlying our largest positions (Pages 9-19)
5. Discuss a few mistakes made during the year and what we learnt from them (Pages 19-20)

Summary

- We have had a disappointing year on an absolute basis (down ~15%), primarily because of Covid-19. On a relative basis, we have outperformed relevant benchmarks by ~ 11-13%.
- We made two key errors this year. We should not have added to our position in Shaily Engineering till performance improved. And we underestimated sentiment against Thermal Assets on account of ESG risks. Further, we need to reconsider our minimum free float Market Cap hurdles for Small Caps.
- The situation at present is highly uncertain and evolving. We don't expect a significant "first order" impact of Covid-19 on our portfolio construct where companies could go bankrupt or default on loans. Excluding financials, all our non-financial portfolio companies have a Debt/EBITDA < 2.5
- We will however see "second order" impacts as feedback loops work their way across sectors. But the extent of these will depend on how and when the global and domestic economy starts stabilizing.
- Our North Star continues to be 3-5 year time horizons. Our portfolio construct is designed around secular themes and companies with strong competitive positions who will continue to gain market share. Valuations, at present, are very strongly in favour. Hence, we expect good outcomes over the next 3-5 years.
- However, in the short term, volatility could be high as hope and fear collide.
- Our top 10 positions constitute ~65% of the portfolio in aggregate and we have provided more detail on their Investment thesis.

Solidarity Performance update[1]

For Anchor partner					Since PMS License (Aggregate across all accounts)			
DATE	NIFTY	NIFTY500	SOLIDARITY		DATE	NIFTY	NIFTY500	SOLIDARITY
FY15	26.8%	32.6%	67.2%					
FY16	-9.9%	-8.6%	-0.1%					
FY17	18.9%	24.0%	22.4%		FY17 (part year)	16.3%	20.8%	18.0%
FY18	10.2%	11.5%	18.4%		FY18	10.2%	11.5%	19.2%
FY19	14.9%	8.4%	6.0%		FY19	14.9%	8.4%	6.8%
FY20	-26.3%	-27.9%	-14.9%		FY20	-26.3%	-27.9%	-15.4%
Cumulative TWRR	**4.3%**	**4.9%**	**14.1%**		**Cumulative TWRR**	**2.2%**	**1.4%**	**6.3%**
Note: We operated with an Investment Advisor license till 11 May 2016 post which we migrated to a PMS License								

This has been a year of two parts. Our performance till 28 Feb, and in the month of March. We were up ~24% till the end of February and then a "tail risk" event wiped out all gains and we ended the year down ~15%. We are of-course disappointed by the mark downs in portfolios

We believe portfolio NAVs at present are not representative of true value

A draw down of ~35% within a period of 3 weeks (1 March – 23 March) is a very rare occurrence. Significant price dislocation happens during a period of crisis – and is most acute in Small and Mid-Caps. This is because of a vicious cycle at play. At times like these, many fund houses face redemptions, while inflows freeze. Algorithmic trading enhances selling pressure. And the need for fund managers to provide liquidity within a finite time window means no option but to sell, even when the market has very poor liquidity. At the same time, Buyers wait for an even better price.

Prices being offered at present – as a broad generalisation – are reflecting prices being offered by desperate sellers and not the true worth of companies. A revival of sentiment or a serious buyer can easily move their prices by 20-30% in a very short duration of time.

Could we have navigated this year better?

We made two key errors this year. We detail these in a later section of the letter.

- The first error was committed in Shaily Engineering - this is only the second time in my career as a Fund Manager that I have a position which is down over 50%. We added to our loss making positions in Shaily Engineering because the price was very attractive because we expected better execution which did not happen. And then could not course correct because of poor liquidity.
- Secondly, we underestimated "ESG[2]" risks in our Thermal Asset positions because valuations were very compelling. In aggregate, these positions were < 10% of our portfolios – however, they have impacted our performance.
- In hindsight, what we could have done differently is have higher thresholds in the Free Float Market Cap of Small Caps we invest in. We ask you for a 5 year perspective because we believe the Free Float Market Cap of each Investment will be > 1000 Cr in 3-5 years which will give us enough liquidity to exit if needed. However, the mark downs in the interim have been extreme due to reasons explained above. We will immediately revisit this number for more prudence for risk management.

While we are certain to make other errors in the future, we are determined not to repeat past mistakes.

[1] We operated with an Investment Advisor license till 11 May 2016 post which we migrated to a PMS License

[2] Environment, Social and Governance risks

Should we have cut positions and created cash in early March?
We would not have sold to create cash, just because of the Corona Virus threat, because we would not have anticipated a 35% correction in 3 weeks. This is a very rare occurrence. The last two decades have seen several global epidemics from SARS in 2002 to H1N1 in 2009 to the Ebola outbreak in 2014. The Corona Virus first broke in late December/early January. It was not declared a global pandemic by WHO till 11 March.

While cutting positions and re-entering looks theoretically elegant, it is always at the cost of long term returns. 80% of return are made on 20% of trading days and if one missed these days, returns are significantly impacted. Selling during such periods provides emotional relief for a few days/weeks but one inevitably regrets these actions a few months down the road when sentiment turns. Churn, just to manage market volatility, not only interrupts compounding, also creates tax incidence which further drags long term returns. We do churn – but only when we believe valuations are euphoric, or we have been wrong on a position.

If we create cash at every sign of fear/uncertainty, we will have no compass to guide us. We will end up trading stocks rather than acting long term.

Navigating the road ahead
Most important at present is to not lose sight of our time horizons. Time horizons affect Investment choices, more so in an environment like the present. What may provide emotional comfort in the short term (sell and wait on side lines), may not be right if one is taking a 3-5 year perspective. We remain focused on what earnings and competitive positions could be 3-5 years out.

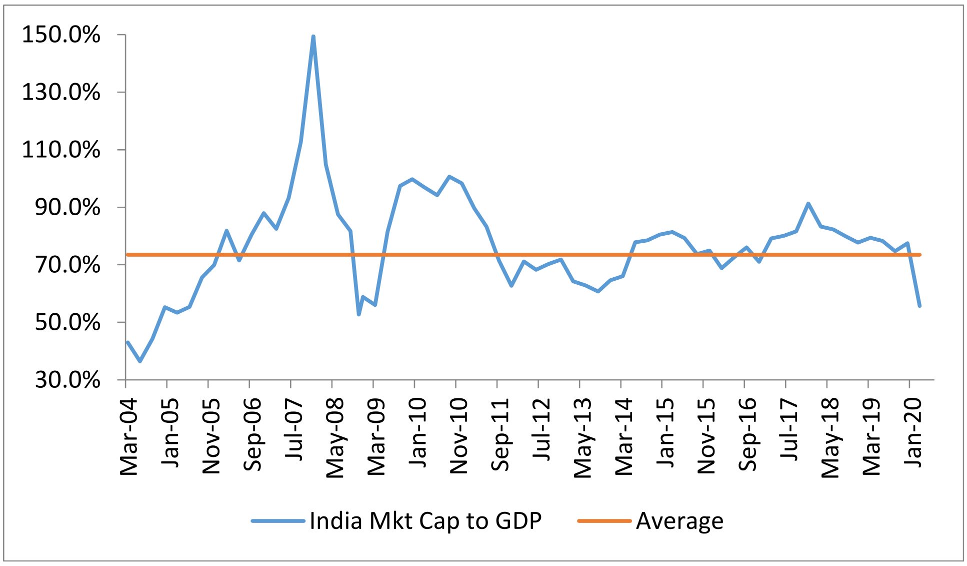
FY 21 will be a challenging year for almost all portfolio companies. Even now, the situation in India is still evolving and we do not know when the Govt. will start allowing the economy to function normally Forecasting short term earnings is an exercise in futility – not only because it is next to impossible at present in a rapidly evolving scenario, but also, because it is not actionable analysis. Stock prices discount long term cash flows and the near term 1 or 2 years cash flow contribute less than 15% of a growing company's valuation.

Similarly, trying to estimate when the market will bottom is futile. In the short term, stock prices move on sentiment. When fear is pervasive, no amount of analysis can tell us what course the markets will take in the short term. We expect the near term to be highly volatile as fear and hope collide.

Our goal remains unchanged - to identify 15-20 companies, who can grow earnings/cash flow for long periods of time, with a fair degree of predictability (*secular compounding*) barring impacts of tail risk events. There are many companies who we believe will do well because, while they may be impacted in the short term, they have secular tail winds for long term growth and are improving their competitive positions. We see significant opportunity for well-run Indian companies across sectors to gain market share from rivals.

And valuations have become extremely attractive now, almost close to the market bottom in 2008[3]. Over time, these should trend higher. However, they may go further lower before they trend higher. If we stay true to good process, we should have a good result in 3-5 years from a combination of earnings growth and valuation expansion.

[3] Data Source: SBI Caps



Portfolio Construct

Risk Management

Partners are aware that we stay away from highly indebted companies and don't invest in non-Financial companies where Debt/EBITDA exceeds 2.5

Non Financials Portfolio	Net Debt H1 FY 20	EBITDA TTM	Net Debt/EBITDA
India Mart	Cash +	137	0
Symphony	Cash +	198	0
Paushak	Cash +	48	0
Mayur Uniquoters	Cash +	99	0
Garware Technical Fibres	Cash +	173	0
Divi's Laboratories	Cash +	1842	0
India Energy Exchange	Cash +	195	0
Sequent Scientific	154	165	0.93
Hester Biosciences	62	67	0.93
United Spirits	1996	1518	1.31
Neogen	93	59	1.58
Fairchem Specialty	475	246	1.93
SRF limited	3137	1459	2.15
Varun Beverages	3240^	1447	2.24
Shaily Engineering & Plastics	135^	54	2.40
^Estimated as of FY20e			
Table omits a Utility which we are exiting at present			

Our portfolio construct (shaded light blue in the chart below) has very limited exposure to companies who will face direct first order impacts from Covid-19 that could fundamentally impair their Balance Sheets or threaten their survival. However, we are in uncertain terrain at present and revenue stress on companies will be a function of by when the economy is allowed to recover and how feedback loops will impact other portfolio companies. New themes will emerge once the dust settles because Covid-19 may impact how individuals, companies and Govts behave in future. For example, in India it may just be the stimulus to upgrade public health infrastructure or boost demand for Insurance.

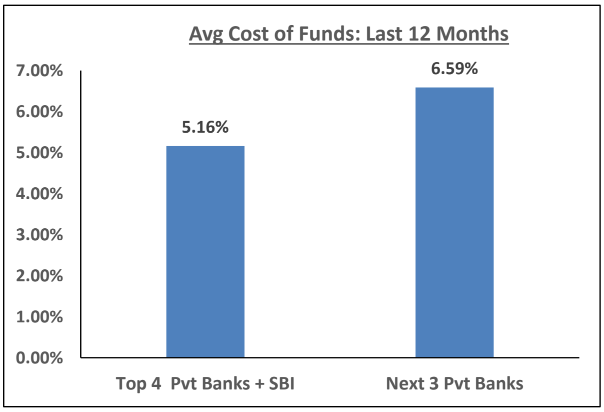
US/European companies may bring more production of critical materials in-house. We will act as trends are clear – but as of now, we don't see a need to change our fundamental portfolio construct.

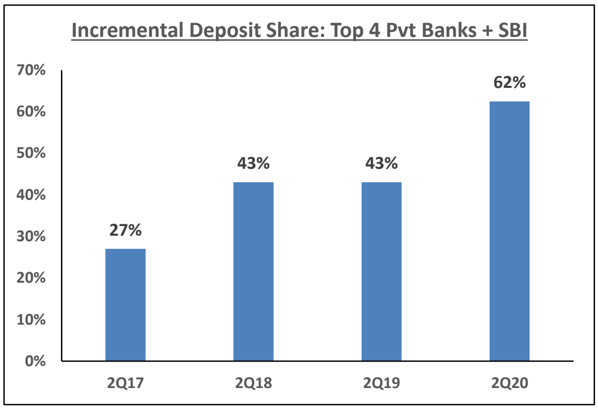
MOST IMPACTED				LEAST IMPACTED
Airlines	Export - Consumer Discretionary	Top tier Private Banks	Life Insurance	Utilities with PPAs
Hotels	Real Estate	AAA NBFCs	Specialty Chemicals - Pharma, Food, Agri	Telecom
Multiplex	Non AAA NBFCs	Large Cap IT	Animal Healthcare	FMCG
	Lower Tier Private Banks	Consumer discretionary		Domestic Pharma
% of Solidarity portfolio				
NEGLIBLE	<5%	~50%	~40-50%	~5-8%

In the section below, we share a few <u>secular trends</u> which we see at present which have influenced our choices. We also share the brief Investment thesis underlying our 10 largest positions in aggregate[4]

India Financial Services – the strong are getting stronger.
In every aspect of Financial Services (Banks, NBFCs, Insurance…) the strong are getting stronger.

<u>Banks</u>
Banks enjoys natural tail winds of growth in a growing economy due to the need for Credit (that funds discretionary consumption). The top 4 Private Banks (HDFC Bank, ICICI Bank, Axis Bank, Kotak Bank) (+ SBI) have the lowest cost deposits with a significant edge over other players in the system. This gives them a huge competitive edge of being ability to choose segments they want to lend to. They are further gaining market share of deposits[5]. *We have large positions in HDFC Bank, ICICI Bank*





[4] These positions may not be the 10 largest in each partner account as we design customized portfolios for time of entry. We are also sharing this in the interest of transparency. We reserve the right to change our opinions.
[5] Analysis courtesy data provided by Ambit Capital

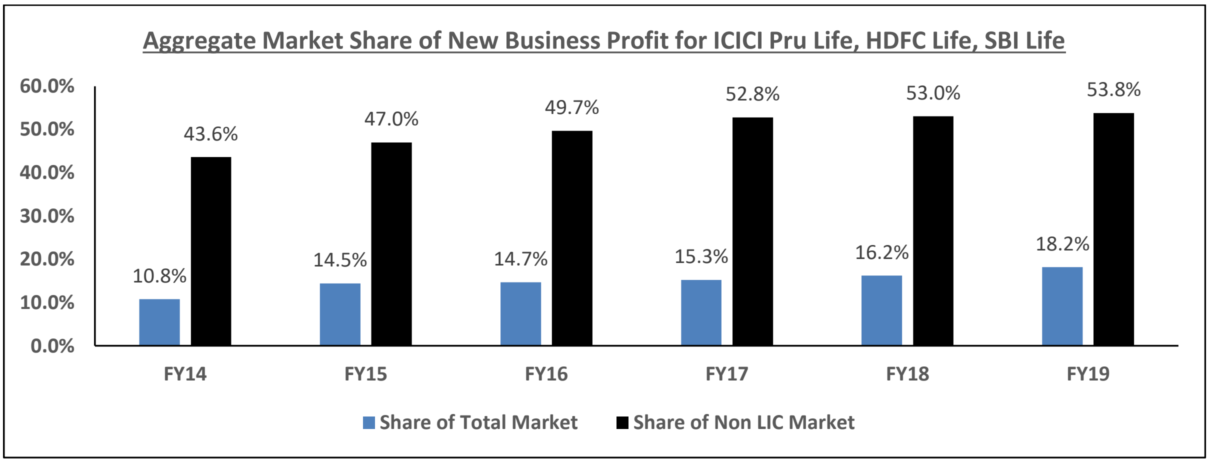
NBFCs

In NBFCs, the men are being separated from the boys. Post the ILFS crisis, the market is making a clear distinction between NBFCs it is willing to lend to at a competitive price, others it is lending at a higher risk premiums, and most it is unwilling to lend to, at any price. Many whole sale funded NBFCs targeting Developers will not survive. This will have significant competitive implications for players like HDFC in segments such as Developer Loans where one can expect both increase in market share and margins as competitive intensity dramatically reduces. *We have a position in HDFC Limited.*

Life Insurance

While Indians have traditionally bought Life Insurance through ULIPs[6], we believe the "Protection" industry is at a very early stage in its Life Cycle. India has crossed the tipping point of USD 2000/capita where Term Protection witnesses a spurt in growth both from desire and ability of individuals to protect their families in the event of their demise[7]. Term Protection is a high margin product with significant run way for growth. Protection contributes about half of the aggregate "New Business Margin[8]" earned by Life Insurance and has been growing at >50% over last 3 years as "Protection" gains share of the Consumer Wallet.

This is also an industry where the 3 largest private players (HDFC Life, ICICI Pru Life, SBI Life) have a very strong edge vs the rest of the field. This is due to the trust/familiarity of their brand and distribution partnerships with Banks which provides a huge competitive edge vs other players. They are gaining market share from rivals and we expect this trend to only get stronger[9].



[6] ULIP – Unit Linked Insurance Plans are Savings products where the Insurance is ~10x of annual premiums

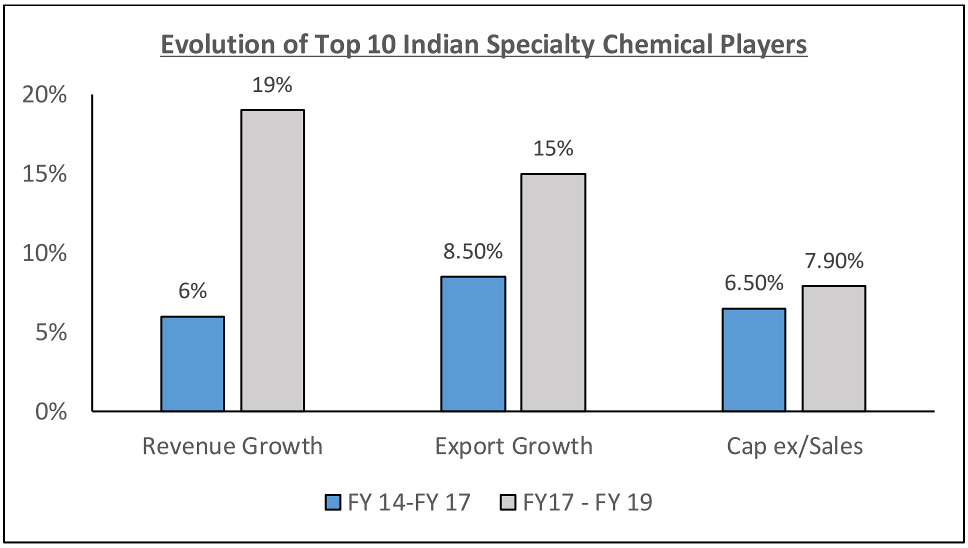
[7] https://economictimes.indiatimes.com/markets/expert-view/hdfc-life-remains-cautiously-opportunistic-on-market-says-ceo/articleshow/65964231.cms

[8] New Business Margin is the NPV of profits estimated on a Life Insurance policy based on assumptions on mortality rates, renewals, interest rates, costs etc.

[9] Analysis courtesy data provided by Ambit Capital

Rising geopolitical tensions between US China will add impetus to the "China + 1" opportunity

The West started de-risking from China in 2017 – Indian Chemical companies have been benefitting from this trend and the step up in growth and investment for future growth can be seen in the chart below[10]. We expect this trend to further gather pace.



The West benefitted from China's rise between 1990s and 2016. Between 1990 -2008, Chinese labour prices helped provide more purchasing power to the Western consumer and kept inflation low in a symbiotic relationship. Between 2008 -2016, China's stimulus helped the world recover from the 2008 economic collapse. However, with the second largest GDP in the world, China now sees itself as a super power which is challenging the hegemony of the US; which in turn is now denying China access to critical semiconductor technology.

The geopolitical chess board is being realigned in a new kind of Cold war. The US wants to reduce its dependence on China for strategic products. For example, 97% of all Antibiotics to the US have an origin in China[11]. No US company – in any sector, strategic or otherwise- should want a supply chain deeply reliant on a country which is emerging as an adversary. Add to this, recent events such as China's crack down on pollution, and the lack of transparency demonstrated by China post out-break of the Corona virus has further exposed the fragility of their supply chains over dependence on China. Indian companies have an opportunity to be a strong second supply source for MNCs in many sectors. Indian Specialty Chemical companies have a unique advantage over almost every other geographical location (outside China) based on the presence of a raw material eco-system, skill, labour cost advantages and credibility with IP protection and willingness to invest in pollution control technologies like Zero Liquid Discharge. They also have the ability to backward integrate into raw materials they were sourcing from China. This theme provides strong growth with hedge against a completely India domestic focused portfolio. *We have positions in a few Specialty Chemical companies which are discussed in a later section.*

More resources directed by Govts to the bottom of the pyramid

Till the last decade, wealth inequality was an issue "across" countries. However, it is now increasingly an issue "within" a country as well. A decade of low interest rates has propped up Asset prices

[10] Source: Avendus https://www.avendus.com/india/avendus-eye/recent-developments-in-china-expected-to-significantly-benefit-indian-specialty-Chemicals-industry

[11] https://www.cfr.org/blog/us-dependence-pharmaceutical-products-china

benefitting the wealthy disproportionately, worsening inequality[12]. And those at the bottom of the pyramid are the most affected during any economic dislocation as at the present time. We expect Govts to redirect more resources to the bottom of the pyramid. *We have a position in Hester Biosciences (an Animal Vaccine company).* There are other companies within our portfolio offering Consumer products which should benefit from increasing purchasing power at the bottom of the pyramid (*Varun Beverages, Symphony*)

Businesses will need to be more socially conscious
In India, we foresee more Govt. intervention in businesses, and even more in businesses that provide an essential good but are perceived to be making unfair profits. Businesses we own, must be able to earn their ROE on merit of value they provide and not through practices which are "deemed" unfair, even though they may be core to business profitability. As an example, all operating profit from Multiplexes come from sales of Food and Beverages at vastly inflated prices. Allowing consumers to carry their own snacks into theatres will significantly impact profitability.

"ESG" has moved from a buzzword to a trend
Climate change risks are becoming louder in all discussions. Fund Managers are now boycotting companies with a low "ESG – Environmental, Social, Governance" quotient. Utilities have not performed for a decade and are now trading at valuations not seen for 15 years. The dividend yield on Blue Chip Utility stocks like NTPC now exceeds G Sec yields. However, poor ratings on ESG, especially for Thermal Assets, means Blue chip companies like NTPC can trade at very attractive valuations and remain value traps because large Fund Managers may not want to touch them because their mandates require them to comply with ESG ratings.

Rising inequality will result in more economic nationalism.
Govts will struggle to create jobs. Not surprisingly, developed world countries are becoming more inward looking on trade and immigration. This will have implications for business models built on cost arbitrage alone, but which lack a technology or skill based differentiation. One should expect additional tariff/non-tariff barriers to preserve jobs in Industries where skills are fungible and cost the primary basis of competition (example Textile exports)

More debt monetisation to follow
A global stimulus is necessary at present to ward off massive unemployment but who is going to pay for it? Developed world Debt/GDP is already at an all-time high. Italy's per capita GDP has not grown for over 15 years, debt ratios are climbing and it needs to raise more resources at present to manage the fall out of Covid-19. Central Bank experimentation is now in unchartered territory of negative interest rates and purchase of Equities. Over USD 13 Trillion of world debt is now trading at negative yield. The Japanese Central Bank has been printing money to buy Equities and has now doubled its upper limit target of buying Equities through ETFs to USD 113 Bn a year to offset the impact of Covid 19[13]. The side effects of excessive debt monetization will show their fangs one day, through inflation or some other means. *We counsel having an exposure to Gold [14].* You can read more on our views on this topic on our blog on this topic our website.

[12]Even in a rich country like USA, 27M Americans do not have Health Insurance. More than 10% of working Americans were employed in restaurants, hotels and entertainment venues. The coronavirus has put more than 15 million of these jobs at risk. Source: FT/Bloomberg

[13] Source: Financial Times. https://www.ft.com/content/fd403436-674a-11ea-800d-da70cff6e4d3

[14] Many partners have asked us to execute an Equity only mandate and we may therefore not hold Gold in your portfolios. Please let us know if you would like us to and we would be happy to do so

Rise of the shared economy with implications for category share of the Consumer Wallet
As per capita GDP grows, discretionary consumption grows exponentially. However, a finite consumer wallet, desire to spend on experiences, upgrade to new gadgets and the rise of the shared economy means shifting consumer preferences on how the wallet is deployed. For example, BVR Subbu, the former President of Hyundai in India estimates that every Uber/Ola on the road takes away the demand for 4-5 cars[15]. We therefore need to be cognisant on categories we choose and not extrapolate how categories evolved in other countries to India.

Valuations in this theme have also been challenging for a while but the recent correction has offered us an opportunity as many companies in our Watch List are now trading at attractive prices. We are focused on categories which we believe will gain share of the Consumer wallet and which are at much earlier stages of the industry growth life cycle. *We are invested in United Spirits, Symphony and Varun Beverages.*

Digital business models taking share from off line models
The share of Digital in overall economic activity is increasing. Digital business models are providing significant advantage to players through price discovery and convenience. Further, at scale, they are very capital light and typically very low/negative working capital businesses resulting in them earning very high ROEs. Digital businesses also tend to be winner takes all with the leading player having almost all the industry profit pool and with entrenched positions which are very hard to dislodge. *We have positions in India Mart and India Energy Exchange.*

Investment rationale underlying our 10 largest positions[16]
We explain the rationale underlying our large positions in the section below.

Our largest sectoral position at present is in well run Private Banks
Banks are not very high ROE businesses. However, they can be an attractive investment despite not being a very high ROE because well run Banks have a natural tail wind for growth (~1.5X of nominal GDP) and large amounts of Capital can be reinvested at 3-5% spreads over Cost of Equity (13%).

A Bank's NPAs and growth will be impacted in a slowing economy. This is only to be expected. However, this depends on variables which are yet to play out – how deep and prolonged will the recession be? Assuming one does not see large job losses and the economy starts reviving within 2-3months, the top tier Banks should be impacted, but significantly less than others as they are lending to the relatively highest Credit rated customers (explained below). Job losses may result in a spike in NPAs in the short term, but no high "Loss Given Defaults[17]". With Credit Bureau's tracking Credit history, a defaulter will not get another loan unless they have repaid old dues or settled with the Bank. So while the Corona virus event may cause an impact on short term results, it is unlikely Banks will not recover dues over time because a defaulting borrower gets shut out of the Credit market unless they pays or settle. The quality of data on Credit history and implications of default are a key differentiator from a decade ago.

Our portfolio choices in Banking are based on the belief that the only sustainable advantages in Banking are a low cost deposit franchise and a fundamentally conservative culture of lending. These

[15] https://www.businesstoday.in/current/slowdown-blues/auto-slowdown-the-lady-doth-protest-too-much-methinks/story/374129.html
[16] We discuss our Investment Rationale to share our thought process. This is not a recommendation to buy at the current price. We reserve the right to change our minds.
[17] Loss Given Default is the loss to the bank post recovery of any money from defaulters from sale of collateral or settlement

form the foundation on which the sustainability of the franchise rests. This is borne by history as only 3 banks in India (HDFC Bank, Kotak Bank and City Union Bank have managed NPAs well across cycles)

A low cost deposit base allows you to choose the credit risk you want to take and maintain consistency in growth

- There is low Brand loyalty in sourcing Credit – we want the cheapest rates. However, we don't readily move funds lying idle in Savings Accounts. Similarly, cash management for corporates is sticky. Hence, the low cost deposit ratio, or share of Current Accounts and Savings Account deposit in the overall deposit mix is "the" key source of advantage and this deposit base is very hard to build. Having the lowest cost deposits allows you to choose the kind of risk you want to take and hence cherry pick customers. It defines your "Right to Win".
- Mid-sized Banks who are disadvantaged in not having lower cost deposits have no option but to pursue segments which the leaders choose not to pursue – which are typically, riskier customers. The collapse of Yes Bank will make things even more difficult for mid-sized Banks as they will struggle to raise deposits and subordinated Capital at rates competitive with larger Banks; thus pushing them into riskier areas like unsecured loans to earn a decent ROE
- Lending franchises who do not have their own low cost deposit base – other than genuine AAA NBFCs – are structurally weaker business models. They depend on wholesale funding and any crisis in the economy completely shuts off their funding tap. Which causes them to slow down growth and be in survival mode to meet their repayment obligations till the funding environment is normalized

A fundamentally conservative culture of lending which prioritizes Asset Quality over growth will minimize credit losses

- Banks cannot deliver high growth, high margins and low NPAs for sustained periods of time. This is an impossible trinity. Banks which weathered every storm over the last two decades (HDFC Bank, Kotak Bank) have conservative lending practices (and risk pricing discipline) at the core of their approach.
- Pursuit of rapid growth in Banking has never ended well because it is typically accompanied by laxity in risk underwriting standards. Yes Bank seemed to be an exception to this principle till the truth revealed itself.

Doubt on the Integrity of the Management team/quality of books is reflected in Valuation multiples

- Above everything else, when evaluating a Lending Institution, one needs to be able to trust the Management team disclosures explicitly. Accounting for NPAs in Banks/lending institutions is opaque and judgemental. NPAs always hit with a lag and ability to ever green loans means that one needs to trust both competence and integrity of the CEO to represent the true underlying state of affairs.
- In the absence of certainty of what is the true quality of the Book, valuations which are based on Multiple of Book Value have limited meaning. A bank that looks very cheap on valuation could be a value trap as the market is signalling that it does not trust the true value of its Book

We own very large weight positions in HDFC Bank (Clear Leader) and ICICI Bank (Clear Leader)
HDFC Bank is perhaps India's most secular compounding story with over two decades of superior growth backed by prudent risk taking on the back of a strategy which is simply "common sense rigorously applied".

HDFC bank an excellent track record of consistent growth. Earnings per Share has grown at 23% CAGR over the last 15 years with a high degree of consistency. Management's discipline in lending and recovery has seen the bank successfully navigate one crisis after another wherein most other banks stumbled, while continuing to gain market share. HDFC Bank's average net NPAs over FY09 to FY19 have been 0.31%, substantially lower than that of its peers. Such consistent performance has helped build credibility, which is why HDFC bank has always traded at a premium valuation to its peers.

HDFC Bank not only has the lowest Cost of Funds, and lowest cost of operations, but is also the market leader in multiple categories like Cash Management, Credit cards, Auto loans. HDFC bank's focus on granularity in the Loan book, and avoiding high risk sectors/promoters means it is less vulnerable to external shocks (~70% of its loan book today is Retail and SME)

There is still headroom to gain market share as it has <10% share of overall Credit market share and Public sector banks still account for ~65% of the system. There is a big opportunity to grow in rural and semi urban areas which the bank is aggressively looking to penetrate where they can outcompete PSU Banks on Technology and customer service. Hence, even on a higher base, we see opportunity for 15-18% growth over long periods of time (assuming system loan growth will be ~ 10-12%)

The stock has seen a strong price correction because

- Covid- 19 has coincided with a potential leadership change with a new CEO expected to be appointed shortly to succeed Aditya Puri. This is not a variable that changes our Investment thesis as we believe cultures are institutional and successful organizations have strong processes which define how things are done. While a single leader can destroy a Bank, it takes more than one to create a great one. We see what Apple has delivered under Tim Cook post Steve Jobs.
- There have been concerns raised by some Analysts that a slowing economy will impact HDFC Bank more than other banks as they have a greater share of unsecured loans in their mix. Share of the unsecured loan book and Credit Card debt has been increasing over the years, (it today accounts for ~17% of loan book and approx. 24% of profits). HDFC Bank, by virtue of its cost position, does not need to chase customers with poor Credit Scores. Management has explained that ~80% of these loans are to salaried employees who are mainly employed with the Government or with strong corporates[18]. Moreover, as we explained earlier, a short term default need not imply losses (even with unsecured loans) because you need a good credit history to avail loans in future.

We once again reiterate that one's approach needs to be tailored to time horizon. An investor looking to optimize for short time horizons may not want to live with the above uncertainty and exit. That is not a wrong decision because it works well with the time horizon they have in mind.

As long term investors in Banks, what matters to us is not the short term earnings profile of a company but its long term competitive position and Credit discipline (bulk of value resides in terminal value). We will track how HDFC Bank navigates the current slowdown. The key question to evaluate will be whether the rise in NPAs – if they happen - reflect short term challenges to the economy or a break down in credit underwriting discipline to chase more growth. There is a DNA of conservatism and prudent lending in the Bank. One should not jump to conclusions and bet against a franchise of this pedigree by over-looking its track record, solely based on assumptions of defaults which have not happened, especially when the Govt. has the ability and willingness to provide stimulus. Pessimism is already reflecting in the valuations at present which are close to 2 standard deviations below mean.

ICICI Bank

The Investment case is of a Bank transforming itself into a franchise akin to HDFC/Kotak Bank on its approach to risk management. What has changed about ICICI from a few years ago is their superior, top decile cost position in deposits which does not require them to pursue riskier credit, significant migration of the book to more granular credit and no surprises on NPAs vs guidance. In their new CEO, they have a leader who is willing to sacrifice growth for Asset Quality, and hopefully can change

[18] Company disclosure

the organization DNA. As market participants get more confidence that the underlying culture of the Bank is changing, we expect the multiple to re-rate upwards. Is their evidence that the culture is changing? ICICI Bank is one of the few banks that over the last two years has had no divergence in its reported Asset quality vs that assessed by RBI. ICICI Bank has had little exposures to large Corporates who have imploded in 2019. In addition, ICICI Bank has many subsidiaries which contribute to its valuation and who have leadership positions in Life Insurance, Asset Management and Retail Broking.

Axis Bank

In some accounts, we also have initial positions in Axis Bank. They too have a strong retail franchise, are pivoting to a more conservative stance and rebuilding their management team. The new CEO set too high expectations on ROE and slippages too early which the Bank subsequently disappointed on. A bank's NPAs are also a function of the external environment – therefore no Bank should guide on slippages without reference to assumptions on external environment. The CEO has a stellar track record at HDFC Life. We will look to add as we get more confidence on execution or on price declines.

Specialty Chemicals

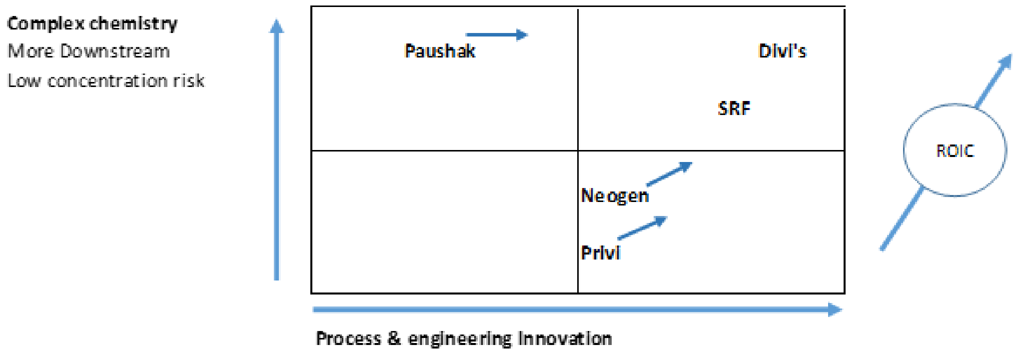
Many Indian Specialty Chemical companies already have reputable positions on merit. Leading Indian Specialty Chemical companies[19] have compounded EBITDA at ~ 15-20% for close to two decades. They now have the additional tail winds of MNCs need to de risk from China which is reflecting in more confident commentary and aggressive Capital Expenditure plans.

Covid -19 will impact Specialty Chemical companies indirectly from feedback loops from global supply chains and from logistical challenges if the economy is under lock down. However, all our choices are part of supply chains in critical sectors which should be more resilient to recessions - Pharma, Food (Agro Chemicals) and FMCG

There are a lot of companies to choose from. We use the following framework to make choices

a) We have a bias for companies which have leadership, more value add/downstream (or on that journey) and doing more complex chemistry. These companies typically have more relationship based models (rather than selling in spot markets) and hence should improve their margins over time from more value add.
b) We also seek companies who focus on driving "Process and Engineering excellence" as this will drive higher margins and Asset Productivity over time from better Asset Utilization, reducing the number of steps to produce a molecule or using more efficient methods to reduce Energy consumption
c) The company should have risk taking ability to invest for growth and not be satisfied with status quo
d) Lastly, we eliminate companies who have excessive product concentration risk

[19] Some examples: Divi's Labs, PI Industries



The two questions we are asked most frequently in Specialty Chemicals is why we are investing in businesses with relatively lower ROIC[20] (example SRF) and in companies that do not generate FCF (almost all on our portfolio excluding Divi's Labs)

Specialty Chemical companies generate good ROIC when their pace of growth slows down

a) A company which sets up a greenfield site will have significant upfront capital intensity due to Investments in shared assets like utilities, pollution control plants/equipment.
b) A company, having fast growth through a large cap ex program will have lower reported ROIC as a large share of Capital Employed is Capital Work in Process vs a larger company. Additionally, plants take time to ramp up to full capacity
c) A well-run Specialty Chemical companies should see both Margins and Asset Productivity improving over time through process and Engineering innovation. As a product increases in Revenue, there is less downtime as a plant runs longer campaigns. And as explained earlier, good management teams find innovative ways to reduce time, raw material and energy costs via innovating on the processes used to reach the final product.
d) ROIC also keeps improving over time as the Asset is depreciated. The useful life of a Chemical company plant is typically much higher than the rate at which the plants are depreciated. A significant share of maintenance cap ex is also invested in debottlenecking which increases throughput.

The table below shows the ROIC of a more mature Specialty Chemical company vs those who are smaller and in a more aggressive phase of growth

	FAST GROWTH, LOW BASE		MATURE, HIGH BASE
REVENUE/GROWTH	**Neogen**	**Privi**	**Atul**
Revenue FY 19 Crs	239	1091	4038
Revenue growth (FY14-19)	26%	16%	10%
EBITDA growth (FY14-19)	31%	24%	16%
RE INVESTMENT			
Cap ex FY 14- FY 19/GFA FY 14	493%	134%	93%
ROIC			
ROIC (pre tax) FY 19	25%	16%	31%
ROIC (pre tax) Ex CWIP FY 19	24%	18%	34%

[20] ROIC – Return on Invested Capital

The right way to evaluate Chemical companies Capital allocation is not through reported ROIC but to examine what Equity IRR they will generate on each unit of Cap ex they do, based on first principle assumptions of Margins and Asset Turns at scale.

The second query is that these businesses do not generated Free Cash Flow (FCF). This is not true if one studies the track record of Industry leaders like Atul and Divi's Labs. Specialty Chemical companies we own will easily generate FCF if they choose not to reinvest for 20%+ growth. What is key is that companies generate Operating Cash Flow which can fund the future Cap ex growth without Equity Dilution or raising excessive Debt.

However, Manufacturing companies unlike Consumer companies, are not Asset Light. They have to reinvest into Assets for growth and they need Working Capital. Their lower ROE vs Consumer companies reflects in the fair valuation multiple that they should trade at vs Consumer companies. However, compared to Consumer companies, they offer much higher opportunities for growth and because they are much earlier on the Industry growth life cycle at much more reasonable valuations.

Our three largest positions in Specialty Chemicals are in[21] Divi's Labs, SRF and Neogen Chemicals

Divi's Laboratories (Clear Leader)
Divi's provides Custom Synthesis solutions (development of a process for production of patented molecules) to Innovator Pharma companies and also supplies APIs (Active Pharmaceutical Ingredients) for Generic products. Divi's is the gold standard of the Indian API industry with a strong track record of ~19% top-line growth over last 15 years without equity dilution. Global API market is $140-160bn today, at < $1bn scale Divi's has huge headroom to grow.

Divi's has strong credibility with Big Pharma Innovators and is well entrenched as a Custom Synthesis supplier as one needs both chemistry skills and customer trust on IP protection. It also has absolute dominance in key Generic API molecules it is present in. Divi's has maintained a post-tax ROIC Post tax of 25-30% over long periods of time, while being debt free, which is quite rare for a B2B manufacturing co.

Divi's is well poised for strong growth both on its merit, and now due to the additional tail winds due to China issues discussed earlier. Divi's capex program over the next few years should be significantly higher than what it has invested historically, which should translate into good growth over the next 3-5 years.

SRF (Clear Leader)
SRF has 3 business verticals - Fluorine based Chemicals/Refrigerant Gases, High grade Packaging Films and Technical Textiles. Our primary Investment thesis is based on the Fluorine based chemical segment where they have a highly differentiated franchise. SRFs Technical Textiles business serves the role of a Cash Cow and they are attempting to build a differentiated position in Films by leveraging the group's R&D capabilities.

Fluorine based chemistry is seeing greater application due to higher efficacy and environmental compatibility. Given fluorine is a very reactive element, it requires specialised equipment and can take as long as 8-10 years to build expertise and establish customer credibility. Currently there are only 3 players in India including SRF with meaningful presence. SRF used Carbon Credit proceeds invest in R&D and now has a significant pipeline of patents and 80% of its Specialty chemical revenues comes from molecules backed by proprietary technology.

[21] The size of positions may vary across partners depending on valuations at time of entry

SRF has tail-winds on its own merit but will additional benefit from "China+1". SRF has been investing in Cap ex quite aggressively over the last few years which has depressed reported ROCE as a large share of Assets are not fully utilized or will be in WIP. We believe ROCE in the Chemical business should expand to 25-30% over time.

Neogen Chemicals (Emerging Leader)
Neogen is a Specialty chemical company which makes intermediates based on Bromine and Lithium chemistry. Bromine based accounts for 80% of their sales and is the focus of our analysis

India has strategic advantages in sourcing of bromine as it enjoys an inexhaustible supply of Bromine and a low extraction cost from the Rann of Kutch. It is a prime beneficiary of global supply chains being reset away from China because China is disadvantaged in sourcing of Bromine. China has historically extracted bromine from ground water which has led to ground water depletion and China has closed down several bromine plants. China is now a net importer of Bromine.

This provides an opportunity for Neogen to pitch itself as an alternate source, and once credibility is established, it can over time upsell more complex value-added products. Initial success has been demonstrated as 25%+ of sales today comes from downstream products vs ~ 10% about three years ago. And products developed through in house technology contribute to ~ 75% of Sales today.

Neogen has delivered revenue growth of ~20% CAGR and PAT growth of ~30% CAGR over last decade. Erstwhile growth constraints have been overcome with acquisition of Solaris facility from Thapar group and recent IPO funding used to pay down debt. Neogen plans to undertake more capex in the next 3 years than it has done in the last 20 years of its existence. 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.

Life Insurance
We believe the Insurance industry can grow at well over 15%+ for over a decade because they are very early on the growth life cycle on the more relevant and profitable "Life Protection".

The impact of Covid-19 on the Life Insurance sector in the short term could come via an impact on growth of new policies and lapse in renewals. However, one should also expect people to be more sensitive to protecting them families due to the mortalities because of Covid-19.

Partners will observe that instead of large positions in one or two Life Insurance companies, we have a bouquet of a few. HDFC Life, ICICI Pru Life and SBI Life are core holdings and are strongly entrenched positions because of their strong brands and distribution partnership with key bank (Banks serve as a key channel for selling Insurance). HDFC Life and ICICI Pru are play on India (Metro/Tier 1) whereas SBI Life on Bharat (Beyond tier 1). Max Life has been a "Special Situations" investment which was bought more because of the large valuation discount to fair value. In our considered view, it has a weaker strategic position in the Industry vs the leaders.

One reason why many Investors stay away from Life Insurance is because the accounting is hard to understand. We are not as apprehensive about these concerns because

- Life Insurance earn profits over multiple years on each policy sold; however, all the upfront sales commissions are recognized in Year 1 ("new business strain"). Despite this accounting policy and having surplus Equity Capital, the leading Insurance companies are reporting very healthy ROEs which have exceeded 18% in each of the last 5 years
- The Industry is regulated by IRDAI which has access to assumptions on critical variables like mortality etc.
- There is significant transparency provided to Investors on assumptions and sensitivity of financial numbers to variance in key assumptions

The second reason players tend to shy away is because of concerns on whether LICs entry into protection will impact market share of players. Regulations in India do not permit differential pricing of products based on geographic location. LICs core customer base is mid-town/rural India where mortality is higher than in Urban India. Hence, LICs pricing for protection – everything else remaining the same – is significantly higher than the Private players.

The third reason could be ambiguity on what happens to these companies in an environment of declining interest rate risks. Many Insurance companies have folded up in Europe and Japan because they promised guaranteed returns, obligations which they could not fulfil when interest rates declined. However, in a Capital starved economy like India with significant funding requirements, a dramatic decline of interest rates is a low probability scenario. Moreover, declining interest rate risk sensitivity is principally on guaranteed return products which are a small part of all insurance company premiums today.

The reason we have bet on all three companies today, is because it is not clear at present who amongst them will be the clear winner in the long run. A basket approach allows us to de risk ourselves from company specific execution risks and participate in the long-term growth prospects of the life insurance sector.

HDFC Life
HDFC Life is majority owned by HDFC Limited. HDFC life is perhaps the best on Innovation on new products and on execution. It has consistently gained market share to become the private sector market leader. However, in our opinion, its business model also carries relatively more risk vs others given a large share of its premium today comes from guaranteed return products which are vulnerable in an environment where interest rates dramatically decline.

ICICI Prudential Life
ICICI Prudential Life is majority owned by ICICI Bank and it currently enjoys exclusive distribution with ICICI Bank. It is following the most conservative, customer friendly strategy and it enjoys best in class persistency (policy renewal) ratios today. However, its ULIP focused approach has seen it lose market share over the last 2 years during weak capital market conditions. It is trying to rectify that by focussing on high volume mass category in ULIPs and growing its market share in the protection business.

SBI Life
SBI Life is majority owned by SBI and also enjoys exclusive distribution with SBI. It has industry leading cost ratios and has the best ability to cross sell to customers through its enviable country wise branch network which has not been penetrated fully.

Thesis on other top 10 positions

United Spirits (Clear Leader)
The Indian Alcohol industry is poised for strong growth as its starting point is low per capita consumption, favourable demographics, changing attitudes where drinking alcohol is no longer a social taboo, increasing propensity to consume branded liquor, and a trend towards premiumisation.

The Industry structure is very favourable with three players dominating the premium segment (United Spirits, Pernod Ricard and Radico Khaitan). Strong entry barriers exist due to prohibition of Advertising and restricted access to distribution access as Govts.

Since Diageo took control, one has seen changes on multiple fronts: premiumization of the portfolio by focusing on prestige & above categories, franchising lower margin and high Working Capital brands, increase in A&P spending, while driving cost efficiencies by rationalising the number of manufacturing sites & employee count. All this has been done while reducing Working Capital resulting in cash generation which has been used to repay debt. We believe USL will surpass its "mid to high teen" EBITDA guidance in a few years.

While the risk of prohibition exists, Alcohol contributes a fairly large share of state excise collections. Prohibition results in mixed success - consumption of spurious liquor results in increase in deaths while revenue shifts to nearby states as people cross the border to buy Alcohol. This however remains a large event risk which we manage by capping position size at 5%

Mayur Uniquoters (Emerging Leader)
Mayur Uniquoters is a manufacturer of synthetic leather and caters mainly to Footwear, Automobile (car OEMs), Auto replacement and the Furnishing industry. 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 margins offered on the latter.

The last 3 years have been challenging for the business and it has not delivered much operating profit growth. The Footwear industry which is ~45% of their business has struggled post demonetisation; customers are asking for higher credit period/ 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 ~~3000 Cr of 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 later this year with prospects of other European Auto OEMs also signing up as customers. The current economic conditions pose short term growth uncertainty for the business. However, Mayur has been a 20%+ post tax ROIC business for over a decade, its competitive position is improving, and it has ~180 Cr of net cash.

India Mart (Emerging leader)
India Mart operates as a B2B product and service listing platform primarily for SME's that allows buyers to discover vendors for specific products & services. The business model enjoys network effects as there is a virtuous cycle of more buyer participation driving more seller participation.

India Mart today is the dominant market leader with 60% market share (Nearly 10x its nearest competitor). India Mart is debt free with over 750 Cr cash while their competitors are Private Equity funded and losing money. Their product database has been painstakingly created over the last 10 + years offline interactions with various SME businesses. This is a big edge which is hard for any new entrant to replicate. Business model enjoys very favourable economics with an infinite ROIC on the core business

Our hypothesis is that the business can grow for 18-20% + CAGR over long periods and profits should grow faster with better ARPU's and operating leverage. There is a large scope to increase penetration within the SME space in India and business enjoys strong pricing power with its customers. Large corporates are an untapped opportunity.

Given high cash flow generation of core business, future capital allocation will be critical to the Investment thesis. We take comfort that in the past, management has shown discipline and had pulled the plug on business venture where long term profitability became challenged.

Hester Biosciences (Emerging leader)
Rising inequality is emerging as a key global issue, with various Govts and NGOs looking to improve the incomes of those at the bottom of the pyramid. Govts are attempting to increase farmer incomes by increasing the productivity/longevity of their farm animals & poultry through vaccination. Vaccines are very low cost products[22] that can have a disproportionate positive impact on farmer incomes as they offer protection from life threatening diseases and drastically improves livestock mortality rates.

Despite India having one of the largest farm animal population in the world, penetration of animal healthcare products is low as the challenge today is low awareness and not affordability. As product awareness increases, we expect Hester Bio one of the early movers in this industry to benefit strongly. Hester has over the years invested in building a distribution network deep inside India which can be used to push poultry and animal healthcare products.

Additionally, a global initiative by FAO (UN Body) to completely eradicate PPR (goat plague) by 2030 involves spending USD ~150mn over next 3-4 years on vaccines. Globally there are very few serious Animal vaccine players as poultry and Animal vaccine industry has high entry barriers due to biohazardous manufacturing involving viruses, tough distribution economics for a low-cost product, tedious product registration requirements by country & need for scale. This is a significant opportunity for Hester who has set up a Nepal plant to cater to this opportunity. Technology will be a key differentiator and Hester has launched innovative vaccines such as thermostable vaccines effective in high temperatures.

Hester has attained leadership in key products (Top 2 player in Domestic poultry vaccines and Top 3 in domestic animal vaccines like Brucella, PPR and Goat pox). Promoter has exhibited good balance between growth and tighter working capital management. It is also setting up manufacturing facilities in Africa where at present most Animal vaccines are imported. Hester has established good credibility with the Bill and Melinda Gates foundation, who have provided $14mn funding for their under-construction animal vaccine plant in Tanzania.

From its current scale of <200crs Hester Bio has a huge headroom for growth, however pace of growth is uncertain given unpredictable nature of FAO tenders and domestic business being partially driven by lumpy Govt. orders. As Hester enters and scales new geographies, investments in expanding management bandwidth will be key to success. With a Debt/EBITDA < 1, Hester is well positioned to face a tough environment.

Garware Technical Fibres (Emerging leader)
Garware manufactures Technical Textiles catering to needs of the fishing, aquaculture, sports, agriculture, defence, shipping and the infra sectors. Its Business model has evolved from commodity fabrics to designing highly customised products tailored to solving a problem for customers (70% of sales in 2019).

This approach has resulted in significant market share in key product categories. It is the domestic market leader in Fishing Nets (65% market share) and shipping ropes, and has almost monopoly status in aquaculture in Scotland & Canada. It currently has a portfolio of 20,000 SKUs which will be hard for competitors to replicate. As more value is created for the customer, customers are more willing to allow pricing premium. This is reflected in its financial numbers as EBITDA has expanded from 10% in FY 2015 to ~18% in FY 2019 with a ROIC post tax of ~30% in FY 2019 – quite exceptional for a Manufacturing B2B business.

[22] ~2 Rs a dose for Poultry, ~7 Rs a dose for PPR, and ~40 Rs a dose for Brucella

There is a long runway of growth as Garware is still a USD 140M company while the total Technical Textiles market is worth USD 165 B. There are multiple drivers of growth – ability to expand into new segments, new markets and upsell higher margin products. Company's sales growth over the last 5 years has been tepid at 8% CAGR as even though the higher margin export sales (58% of mix in 2019) has grown at 12% CAGR, domestic sales growth has been sluggish at 4% CAGR primarily due to delay in offtake of defence products, weak agriculture growth and increasing competition in commodity fishing and shipping products.

Our hypothesis is that bottom-line should grow at 15% over long periods as exports continues to grow well and domestic sales growth revives as defence spending and fisheries picks up.

Mistakes made during the year and what we learnt from them
Solidarity is a very strongly process driven firm. Mistakes are an inevitable part of our journey and we introspect on them, develop learnings, so we have a stronger process.

Shaily Engineering
Shaily Engineering is a supplier of high precision injection moulded plastic components and assemblies, primarily to MNCs overseas. Shaily's products are differentiated from commodity injection moulders and that is reflected in significantly higher Gross Profit margins which are almost 50% higher than some other publicly listed injection moulding companies in India.

Shaily Engineering was on a high growth path (EBITDA CAGR of 21% between FY 13-FY 18), and had a Free Float Market Cap of ~400 Cr when we first invested

In FY 19, a large overseas customer, which was 50% of Shaily revenue, commenced a global Inventory correction which resulted in Earnings disappointing vs expectations. The business seemed to be recovering in FY 20 before it got hit by multiple external shocks almost simultaneously in February 2020. The same customer announced a product recall (6 Cr, < 3% of Shaily turnover) of a product which was manufactured at Shaily, due to the presence of a substance in the end product which has not been attributable to Shaily. GST disputes led to seizure of some company moulds. Both these provided the trigger for a large player to sell. And even as this happened, the Corona virus struck. This led to another round of panic selling at any price. Hence, what was a good franchise available at cheap/fair prices in Feb 2020 is now trading at ~5x FY20 EV/CFO.

What should we have done differently?

- Our first error in FY 19 was we paid too high an entry price for a business which was very highly exposed to one customer
- We should not have added to our full position on price declines in FY 20, till execution showed up in reported numbers. While we find medium term growth prospects and valuations attractive, we have exhausted our risk management limits and cannot take advantage of current bearishness.

Having made these errors, we should not compound them further by exiting at distressed prices.

- Shaily should generate an EPS of ~ 25-27/share in FY 20 (CMP 240/share)
- FY 21 should be a weak year for Shaily. It is fair to expect some shipments to overseas customers will be delayed as Discretionary items should be impacted the most during recessionary conditions. However, Shaily's Pharma business is growing very rapidly and we expect it to cushion declines in the more discretionary part of the portfolio; this is also higher margin vs other product categories.
- More importantly, it has the strength to weather a soft year as the company is generating adequate cash flow. Annual Finance cost obligations are ~15 Cr while Cash generated from

Operations will be ~36-40 Cr in FY 20. Even if volumes dip, the company should be able to meet Finance obligations with Debt/EBITDA < 2.5 and undrawn bank lines of over 50 Cr.

- If we assume conditions in Europe/US normalize by FY 22 (the company's shipments there are the same they were in FY 20), growth in Pharma and in new product lines being launched means that the company's performance could be significantly better in FY22 vs FY20. Shaily has a significant opportunity to benefit from "China+1". Categories like Furniture/Toys are large growth areas for market share capture from China. Shaily has signed its first large blue chip customer in Toys (Spin Master[23]).

The stock price at present does not reflect the true value of the franchise. The current stock price – while factoring in uncertain short term outcomes and disappointment on execution - also reflects the panic of a distressed seller in the absence of liquidity to absorb the selling pressure.

<u>We didn't take the ESG risk as seriously as we should have in our Investment considerations</u>
We have discussed in an earlier section about how ESG is becoming mainstream. For much of this year, we thought we should be contrarian because valuations were so much in favour and India's largest fund houses were large holders of Thermal Assets. However, after more consideration and actions of Blackrock and Fidelity to sell down Thermal Assets, we decided not to fight a trend and re-allocate Capital elsewhere, especially in in the current market correction. We now look at ESG ratings, where available, when evaluating companies.

Concluding remarks
We are disappointed by how FY 20 performance has ended. However, we don't see reason to panic or change course. Our Investing approach has evolved since we started ~6 years ago through our experiences and will evolve further over time. We are more confident in our approach, have stronger check lists and our debates cover more angles than they did earlier.

The key principles on which we are building our franchise will always remain constant: discipline on following a good process, partners interests always come first, complete alignment of my family's interests, transparency in thought process and to never compromise on integrity in the pursuit of commercial gains.

We will be delighted to have a personal conversation.

With my best wishes,

Manish Gupta
Chief Investment Officer

[23] Spin Master is a Canadian global toy and entertainment company marketing consumer products for children