

16 Jan 2026

Dear Partners:

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

Key topics

1. Reaffirmation of goals and principles.	P2
2. Performance update.	P3
3. Perspective on Manufacturing names amidst US tariffs.	P4
4. Investment thesis on Axtel Industries.	P7
5. Update on Yasho Industries.	P7

Summary Messages

- We have not delivered on our goal of 15% IRR post-fees in last five years. We feel the disappointment of letting people down. However, we believe our approach will deliver on the goal over time if we stay true to it and execute on this with discipline.
- We believe we are in a low return decade where the Index will likely return ~10% IRR. We have a Manufacturing heavy portfolio as we believe this theme is where the best opportunities lie this decade. Supply chain de-risking and Clean Energy is a mega theme which will provide large opportunity for 15%+ sustainable earnings growth.
- However, in the short-term Manufacturing seems to face a head wind. The 50% tariffs imposed by the US on India have acted like a trade embargo and earnings of a few companies have been impacted. Stock prices have been impacted more steeply as participants seek certainty.
- We believe earnings in companies that have been impacted are like a coiled spring. Indian companies are a fraction of the overall market size. As the earnings trajectory normalizes in FY 27, stock prices will follow.
- We share our perspectives on Axtel Industries, a Micro Cap we have bought an initial position in.
- We also share our perspective on Yasho Industries where stock price correction has been rational, but excessive. We argue our case for why we believe there is a reasonable probability of earning an Asymmetric upside.

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, over 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 to beat the BSE500 by 3% per annum (BSE 500TRI by ~1.5% per annum) every rolling 5 years¹.

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 ROE², backing promoters that think long term, prioritize resilience over speed, and operate with a “win-win” mindset with their 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 typical 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 multiple 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 favor, 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.

¹ The BSE500 has returned ~10.5% over the last 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	3.0%	11.8%	12.6%	13.4%	16.3%
BSE500 TRI	7.6%	11.6%	16.4%	16.8%	15.6%
Data as of 31 Dec 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					

We believe we are in a ~10% IRR decade for Indian Equities. Our path that targets 15%+ IRRs is

- Stay primarily with leaders in secular trend (*over 80% of the portfolio names*).
- Go where the best opportunities are. Do not hug the Index (*portfolio very different from BSE500*).
- Embrace some illiquidity in smaller companies if prospects will compensate for the volatility (*increasing exposure to Micro Caps*). Manage illiquidity risk by position sizing.
- Stretch time to beat the fade of multiple decline (*think 5 to 10 years*).
- Think like business owners when there are temporary setbacks. Be patient if long term thesis is intact and one is aligned with management decisions.

The approach has worked over longer time periods. Since our inception in 2014³, XIRR for our Anchor partners⁴ has been ~19%. However, we have not achieved the 15%+ IRR goal in the last 5 years. Managing other people's savings is an enormous privilege and we feel the disappointment of letting people down.

While we have made some errors, we retain conviction that the approach will deliver over time if we stick to it with consistency and discipline.

At present, we see 3 challenges, all of which we believe are temporary.

- Very adverse sentiment in QSRs which are trading at decadal low valuations. *Read our recent blog on this topic [here](#)*.
- Sell-off in Microcaps where a fair-share of the portfolio is housed. *This is a side-effect of the approach which cannot be wished away and which we are taking advantage of*.
- Some Manufacturing companies have been impacted by tariffs, but the stock corrections have been excessive. *More commentary later in the letter*.

Our North Star to gauge if we are on track is earnings trajectory. Our portfolio choices have strong trajectories for the period FY19-FY25. There "may" be a stall in earnings for some names in FY26 because of the US Tariffs challenge. But we believe these earnings should rebound in FY27. These companies are like coiled springs – as earnings trajectory reverts, prices will inevitably follow. *We explain this with the recent experience of RACL on Pg 6*.

The Micro-Cap sell-off has come at an opportune time. We thank partners who have invested in our Micro-Cap AIF where we started deploying Capital on 8 Jan 2026. As this scheme is with a 5-year lock-in, we can take bigger positions in Micro-Caps without worrying about liquidity risks in the event of redemptions.

³ Initially Investment Advisors, then through a PMS license in 2016

⁴ Dr Aniruddha and Anjali Malpani were the first investors in Solidarity in 2014. Incidentally, they were amongst the first anchor clients in Aequitas, the fund founded by the late Siddharth Bhaiya.

Please let us know if this scheme is of interest as we will take additional subscriptions once we have invested 170 Cr of the 200 Cr we have raised.

Earnings trajectory of some Manufacturing names have been impacted by tariffs.

Firstly, lets revisit the rationale of a portfolio that is over-weight Manufacturing.

We have a fairly “B2B Manufacturing” weighted portfolio (43%) vs the Index (15%) as this is where we see the best opportunities for the coming decade. The NSE500 is heavily weighted towards Banking and IT Services. Our considered view is that Banking is commodifying rapidly and multiples will continue to trend lower over time and it will be hard to sustain 18% ROE unless you are a leader. IT Services are both mature on life cycle and facing a demand and margin challenge moment (AI, Global Capability Centres etc).

On the other hand, B2B manufacturing is early in growth life cycle with potential for companies to become higher margin/ROIC businesses over time.

There is a push from the Govt to promote Manufacturing. New mega themes are emerging (Energy security, Energy transition) which would require domestic Manufacturing as imports defeat the purpose of energy security.

There is pull from the world as it is looking to de-risk from China. With every retaliatory action by China – for example banning exports of rare earths, export licenses on Silver, or recent retaliatory actions against Japan – the risk of a supply embargo becomes real. Hence, the need for an alternative source “just in case” becomes stronger over the cheapest source for anything strategic. It is bizarre that the US sees China as its largest strategic rival, yet US companies continue to enrich China by having it as a primary partner in most of their supply chains, thereby strengthening China economically and hence militarily.

Europe is becoming very uncompetitive in Manufacturing, especially in power intensive industries (for example Chemicals, Forgings, Castings). Re-shoring in the US has good intent, but in medium technology industries not much traction is evident. And there are practical challenges such as the desire to be Capital light, need to re-build soft knowledge and build an eco-system of suppliers etc.

Indian manufacturing companies could become even better businesses with time. As they gain more exposure to global customers, a virtuous cycle commences - better quality across the board, more credibility with time, new customers, more cash flow that is re-invested into growth and adjacencies, new products which in turn makes the cycle spin faster. Hence, it is high probability that earnings growth from Manufacturing names which have differentiated products will have longevity or even the possibility of an Asymmetric upside.

However, the progression is seldom linear and there will be periods of time when earnings appear to stall. We see this pattern with many of our portfolio choices.

Company	Revenue growth	EBITDA Growth	Period when earnings appeared to stall	EBITDA Margin		
	FY15-FY25	FY15-FY25		FY 15	FY19	FY25
Shaily Engineering Plastics	16%	21%	FY18-FY20	15%	16%	22%
SRF	12%	14%	FY16-FY18	16%	18%	19%
RACL Geartech	14%	18%	FY23-FY25	15%	16%	20%
Sansera Engineering	14%	14%	FY19-FY21	17%	18%	17%
Shivalik Bimetal Controls	18%	21%	FY23-FY25	16%	18%	20%
Pix Transmission	10%	16%	FY21-FY24	17%	19%	28%
Yasho Industries	15%	22%	FY23-FY25	9%	11%	16%
Undisclosed 1	19%	25%	FY21-FY23	9%	12%	14%
Undisclosed 2	14%	20%	FY21-FY23	13%	8%	22%

The Tariff Impact

A 50% tariff is like an embargo. It immediately impacts volumes as businesses freeze non-critical orders preferring to bring down inventories and wait for more certainty. This results in a punch to earnings as negative Operating Leverage hits immediately. Garware and Pix Transmission faced this earnings shock while Shivalik and Yasho grew despite the tariff shock but was lower than our expectations. None the less, weakness in stock prices was felt across all these names as the market starts pricing uncertainty and poorer short-term outcomes. The fact that a very large share of value lies in Terminal Value is true. But in the short-term markets move on greed and fear.

Positions	Approx Weight	Metric (Rs. Cr)	CAGR FY19-25	H1FY25	H1FY26	% of Revenue from the US in FY25
Shivalik Bimetal controls	5%	Core PAT	21.1%	33	43	~24%
Yasho Industries	5%	EBITDA	19.5%	55	66	~23%
Pix Transmission	4%	Core PAT	25.7%	54	37	~20%
Garware Technical Fibres	3%	Core PAT	10.5%	97	69	~10%
Undisclosed 1 -buying at present	2%	EBITDA	17.3%	23	20	~20%
Undisclosed 2- buying at present	1%	EBITDA	38.9%	5	10	~13%

We believe the earning trajectories of a few names will get impacted in FY26 but FY27 earnings should be materially higher than FY25 with or without reduced tariffs. And as earnings revert in FY27, stock prices – like compressed springs – will inevitably follow strongly.

Why should earnings be higher in FY27?

Firstly, there is no reason to believe that the US and India will not sign a tariff deal. CEOs in portfolio companies tell us they will be competitive players in the US market if the surcharge (which is unlikely to be permanent) is removed. Companies report healthy conversations with clients, even as customers await tariff clarity.

Secondly, Indian companies are a small fraction of the global market. Hence, on a small base, companies should be able to grow despite headwinds from the US as loss of Revenue in the US should be compensated from growth in other markets. For example, India is close to signing a FTA with the EU.

Companies have demonstrated resilience.

- The two companies most exposed to the US, Shivalik BiMetal Controls (24% of Revenue) and Yasho (23% of Revenue) grew profits 20%+ in H1 FY26 vs H1FY25 despite tariffs.
- Shivalik has forward integrated in Shunt resistors from Strips to higher margin Components.

- Yasho's new plant is already operating at 50% utilization despite the challenges from the US market. It grew volumes 30% in H1FY26 over H1FY25. And it recently announced a large outsourcing deal with an MNC which should start contributing to Revenue in Q4 FY27. It must be noted that the MNC is funding the Cap-ex, which suggests scarcity of global suppliers and a desire to lock in supply – supporting our “de-risking” hypothesis.

How do we know we are not wrong?

One can never know for sure. We prefer to stick through a negative earnings surprise if we believe it is temporary, we do not disagree with management actions within their sphere of control and if triggers for earnings trajectory to return in a reasonable time frame are visible. As shared earlier, even the best run companies may go through a period of earnings stagnation.

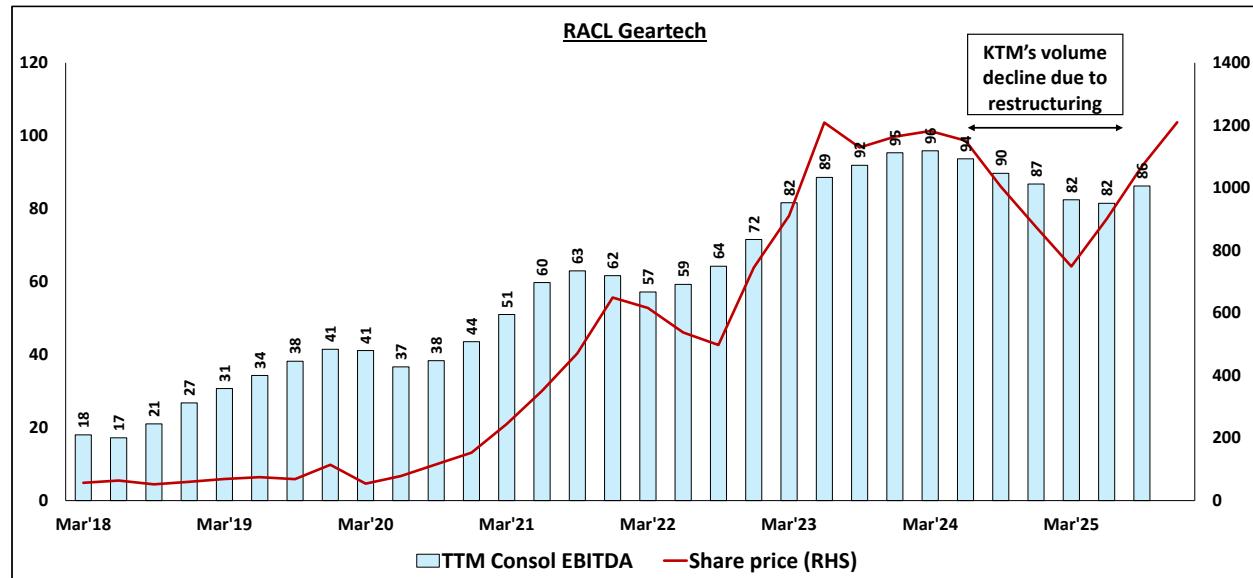
However, hope is not a strategy and hence one needs to be clear about timelines where a hypothesis needs to work. We will draw a red-line if earnings do not recover in FY27 as the business has then not demonstrated the resilience we expect. Till then, unless we discover additional insights that lead us to change our minds, we will be patient.

RACL: coiled spring analogy. Smart recovery post earnings stall due to KTM in FY25

KTM was ~25% of RACLs Revenue of 417 Cr in FY24. KTM went into restructuring in FY25. This caused KTM's contribution to RACL revenue to plummet in FY 25, because of which RACL delivered flat revenue in FY25 over FY24. EBITDA declined (83 Cr in FY25 vs 98 Cr in FY24) as investments for new programs continued to be made. This is akin to the earnings shock to companies because of US tariffs at present.

The EBITDA trajectory is recovering both from higher KTM volumes and growth from other customers. As the market regained confidence in growth trajectory, the stock price recovered.

We had used the RACL stock price weakness to add to our positions. We are doing the same with companies affected by US tariffs at present.



Axtel Industries (~680 Cr Market Cap, ~420 per share, Emerging Leader).

Axtel is a leading Indian supplier of customised food processing systems for leading brands in the Confectionary, Snacks and Spices segment. Axtel designs, manufactures and assembles complete food processing systems which are highly customised and must meet stringent hygiene, safety, and precision engineering norms.

It is a Micro Cap company, yet even at 200 Cr Revenue, it dominates its niche. Axtel remains an undiscovered Microcap story with no institutional shareholders or research coverage. If the Axtel management team communicates with the market and more players understand the story, we expect interest in the stock and valuation multiples to increase.

We believe Axtel can grow bottom-line at ~13-20% over long periods of time (serving the food industry which is early in growth life cycle, from market share gains, Exports and Operating leverage), while converting 75% of PAT to FCF. Axtel can grow at healthy rates while generating strong FCF (ROCE is ~60%+) given unique engineering edge, strong competitive position, and an Asset light business model. Our entry price was at ~25x FCF which offers a roadmap to ~15-20%+ IRRs.

We have initiated a ~3% position weight and may use further price or time corrections to increase our position size. Read our detailed thesis [here](#).

Yasho Industries – an update.

Yasho is a Specialty Chemical company primarily in Consumer and Industrial Chemicals. ~23% of Yasho Revenue comes from the US. It has faced a tariff shock as customers have delayed orders. This happened at a time when Yasho just finished a very large Capacity expansion which resulted in high Balance Sheet leverage. The tariff shock has delayed the plant ramp-up. This has alarmed investors, some of whom have dumped the stock, which has corrected ~35% in the last six months.

In this note, read [here](#), we explain why we are willing to make exceptions on high leverage for select companies, why we believe Yasho is executing well, and why we believe we have a reasonable probability of earning an Asymmetric upside if we stay the course.

Our Q letters take a significant amount of time to write. We intend substituting the Quarterly letter with 2 half yearly letters written end of May and November wherein we can share more Financial updates post Annual and Half-yearly results. However, we will continue to share updates on new investments through a write-up of Investment thesis and blogs on topics that may be of interest.

We look forward to answering your questions on our call on 31st January at 12 pm.

With our best wishes,

Manish Gupta
Anirudh Shetty
Pratik Jain
Aman Thadani

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