11 October 2025

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. Implications of a new world order. P3
4. We continue to be cautious about incremental deployment. P5
5. Supply chain de-risking as a theme is alive and well. P5
6. Detailed thesis on Sansera Engineering. P7
7. Answers to interesting questions P17
    a. Why stay invested in Neogen at 5x Mcap/Sales?

Summary Messages

- We are in a new multi-polar world order where trust in the US is eroding. This will have multiple consequences. Amongst others, we expect de-risking to continue to be a mega theme.
- The developed world governments are now facing the threat of a Debt trap. We expect higher inflation and higher long-term interest rates. All things remaining the same, higher long-term yields should result in lower Equity valuation multiples than where they are at present.
- We maintain our earlier cautious stance that valuation multiples in aggregate need to decline further and hence we re-iterate we are in a low-return decade for Equities in India (vs past decade). The % we can deploy on Day 1 remains ~50% as we wait for more favorable entry points in companies of interest.
- 50% tariffs imposed by the US on India are like a trade embargo. Hence, we expect short term challenges to earnings of some companies in the portfolio with US exposure.
- However, US unilateral actions are a stark reminder to all that one should not have all eggs in one basket. Indian companies signing strategic deals in Manufacturing – including with US companies suggest de-risking supply chains continues to be a mega theme.

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 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], 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	1.2%	11.6%	11.3%	17.1%	**16.8%**
BSE500 TRI	-5.5%	15.5%	16.1%	20.7%	**15.4%**
Data as of 30 Sep 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					

<u>A new world order</u>

The US is pivoting to national interest. But while doing so, the US President is alienating allies and decimating the closely cultivated foreign policy of the US. The US continues to act unilaterally (pulled out of Climate change agreement) and arbitrarily (different tariffs for select companies and countries).

<u>Key implications</u>

- The world is getting schooled in Kissinger[3]. Geopolitics is about interests, not friendships. We see faster evolution to a multipolar world order with multiple alliances. *Example Saudi Arabia and Pakistan defense agreement.*
- Primary emphasis on self-sufficiency. *Eg Battery Energy Storage Systems in India to support Renewables for greater energy security.*
- De-risking of supply chains as all eggs cannot be in one basket. *India will be a key beneficiary in select sectors, despite short term hiccups due to tariffs.*
- Higher inflation. *Needed to get Government Debts under control.*
- Higher long-term interest rates. *More Debt issuances need higher interest rates to clear.*

<u>Prices of precious metals reflect de-risking from USD exposure.</u>

The US is the back office of the global financial system and clears most trades. Active de-risking from the US Dollar is now a strategic necessity to avoid getting locked out. And with the US acting unilaterally, the tail risk of your USD reserves getting frozen is not theoretical anymore. The recent price move of Precious Metals reflects these concerns as there is no other credible alternative to the USD at present. About a third of all Gold mined since 2022 has been bought by Central Banks.

Long-term interest rates will stay high or head higher

Governments in the developed world are already running 6-7% deficits while they need to spend more on Defense and climate change. Artificial Intelligence will make a lot of capitalists very rich, but in the short term it will destroy jobs. Demographics is already a problem, and this will add to Govt need to fund more social spending. Cutting social spending leads politicians to lose their jobs, which makes it impossible to do. There is talk of France potentially needing an IMF bailout.

Morgan Stanley is now advocating a 60/20/20 portfolio of Equities/Debt/Gold vs a traditional 60/40 Equity/Debt portfolio. As capital gets diverted to hard Assets like Gold, there will be lower demand for Govt Debt which will require a higher yield to entice buyers.

[3] "To be America's enemy is dangerous, but to be America's friend is fatal".

Govt in the developed world will need to tolerate higher inflation to grow nominal GDP so that Debt/GDP remains under control and they don't fall into a Debt trap. Long term interest rates have started climbing higher.

We re-iterate the need for realism in return expectations from Equities in India

India has been more responsible in its macro management vs the Developed world. We have more Debt capacity to invest vs the developed world and to manage shocks. However, we cannot be immune to what is happening in the developed world on interest rates. Higher long-term interest rates imply higher Cost of Capital and hence lower fair value for Equities.

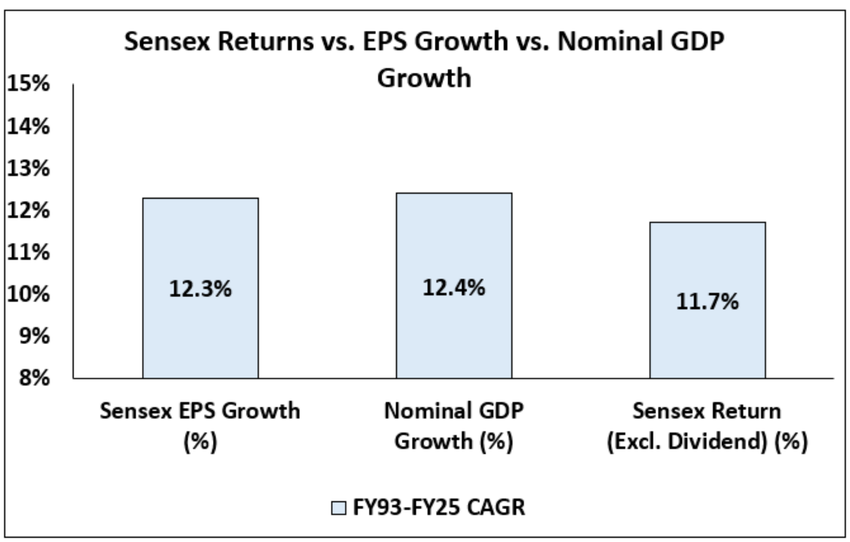
India Govt debt/GDP versus other major economies over time

Year	US	UK	China (Augmented)*	Japan	India
2008	73%	52%	~38%	197%	66%
2013	100%	79%	~50%	230%	67%
2018	105%	80%	~100%	233%	70%
2024	123%	96%	~100-130%	237%	82%

*General Government + Local govt financing vehicles debt

Source: Trading Economics, IMF

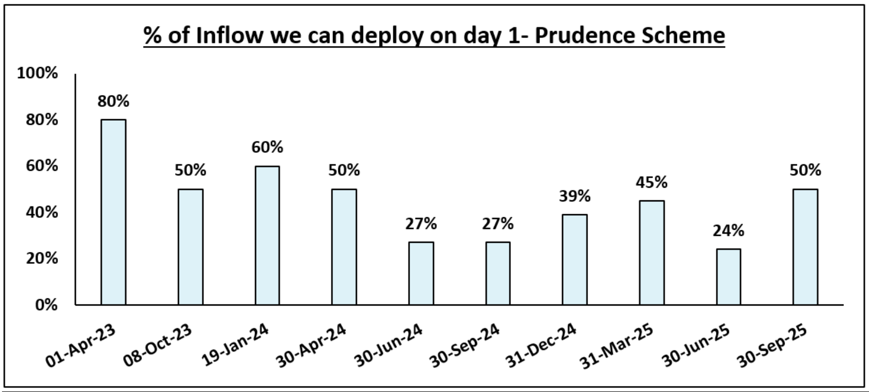
Over the long term in India, Equity market returns have broadly been in line with nominal GDP. However, as valuation multiples at present are much higher than long term averages, some mean reversion implies that equity returns over the next decade could be lower than nominal GDP growth.



Source: White Oak Capital

SOLIDARITY
INVESTMENT MANAGERS

For fresh deployment, we continue to look for more attractive entry valuations. % We can deploy on Day 1 remains low.



We continue to believe in Manufacturing out of India for the world as an attractive theme

Politicians will not acknowledge that one cannot re-shore skill and capital-intensive manufacturing quickly and cost effectively at scale. Soft knowledge – the kind that cannot be documented in manuals – takes years to build. Additionally, SME manufacturing businesses – for example Forging/Machining where soft knowledge is key - can carry succession risk with the next generation not showing interest in continuing the family business. From large businesses too, there could be lip-service of on-shoring, but there are practical issues of the risks of stranded assets if policy reverses and whether actions will follow promises given considerations of "stock price". Years of "financialization" means any pivot from "capital intensive" to "capital light" will be punished by stock markets, strategic imperatives be damned.

Countries and companies will continue de-risking adopted post Covid.

Trump's differential tariffs for buying Russian Oil on Europe vs China vs India, the image of European leaders being lectured by Trump in the Oval Office, Zelenskyy being bullied in front of TV cameras has schooled the world about need to both build and protect yourself from "strategic leverage".

Hence, countries and companies will seek to insulate themselves from one partner on whom they are excessively reliant. It could be China or any other single source. Countries and companies should not have all eggs in one basket.

Amidst short term earnings challenges, we take our cues from Terminal Value.

50% tariffs are like a trade embargo. We expect short-term challenges to earnings growth. However, for any well-run company, most of the value resides in Terminal Value[4]. As we invest with an "ownership mindset", this is where we remain focused.

Businesses, including American cos, are signing deals with Indian companies despite the threat of tariffs. Strategic sourcing agreements – in the thick of tariff challenges– is a strong validation of the credibility of these companies and them being businesses with high Terminal Value.

[4]In DCF, Terminal value is the estimated value of the business beyond the immediate foreseeable period.

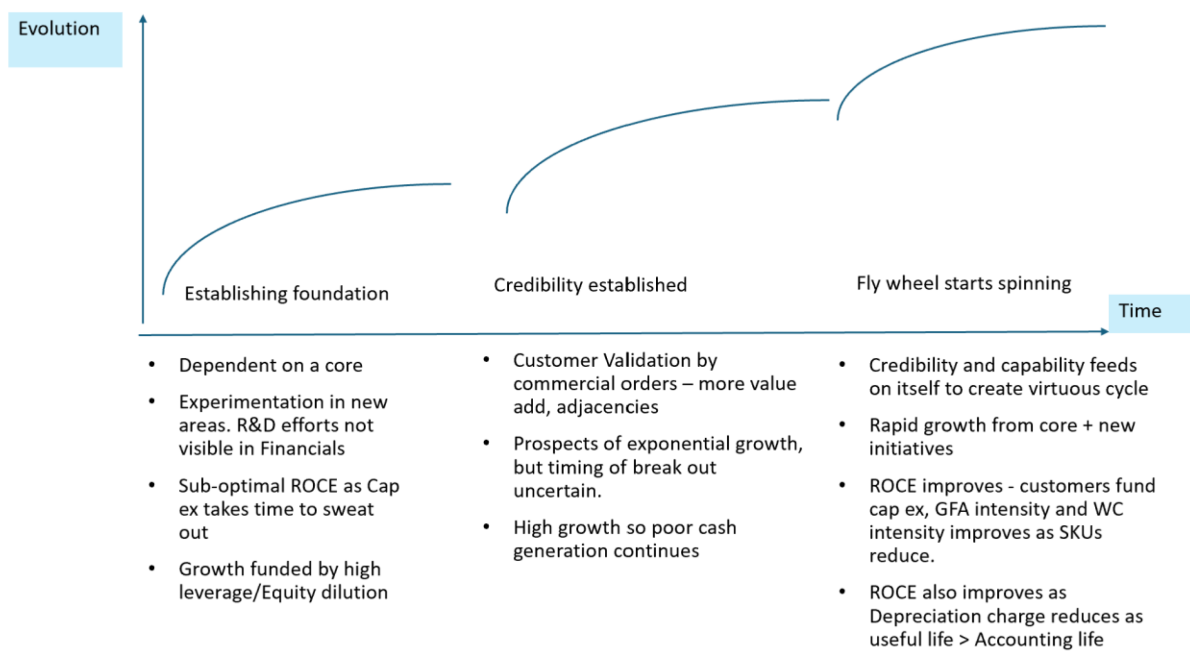
Here are some strategic collaborations signed by our portfolio companies in the last quarter.

	Announcement	Comments
SRF (Kama)	Entered into a strategic agreement with Chemours, a US based global chemistry firm. Chemours' seeks to leverage SRF's manufacturing capabilities to source advanced fluoropolymers and fluoroelastomer.	This is a testament to SRF's complex chemical production capabilities and will drive further growth in their fluoropolymers business.
Yasho	Signed a 15-year agreement with a global MNC for supply of Lubricant Additive with an annual contract of ~ 150 Cr starting end FY 27. The MNC will be funding the Capex to build the facility.	A 15-year agreement and customer funding Capex signals respect for quality and customer intent to lock in Manufacturing capacity given scarcity of quality suppliers. Once quality and reliability are demonstrated at scale, sourcing relationship could scale exponentially.
Neogen	JV with Morita of Japan for Battery Salts.	Morita has 30 years' experience in Lithium Salts and therefore will help Neogen reduce learning curve on quality and cost. JV gives instant credibility with global eco-system and Japanese quality at Indian costs for anyone looking for a non-China source. Also implies Neogen could have very strong market share for Electrolytes in India given high purity requirements that affect Battery life.
RACL	**Prestigious German Car Manufacturer:** The company was nominated as a Tier 1 supplier for a parking lock mechanism specifically designed for EVs by a German car manufacturer. This elevates RACL from a component supplier to a system supplier. **German E-Bike Manufacturer:** RACL received a nomination from another German customer to supply gears for pedal-assisted electric bicycle gearboxes, marking its entry into the premium e-bike market. **Technical Agreement with ARRK Engineering.** This partnership aims to combine ARRK's expertise in design, prototyping, and virtual simulation with RACL's manufacturing strengths.	New wins and partnerships provide credibility to the longevity hypothesis.

Sansera Engineering	Recently secured a long-term contract with Airbus valued at Rs 160 Cr p.a. for manufacturing of Airborne Intensive Care Transport Module (ICTM) for Airbus's light and medium transport aircraft programs.	This reflects strong prospects of their Aerospace division and large order, direct supply to OEM suggests deepening of relationship with Airbus.

Sansera Engineering (~8,900 Cr Market Cap, ~1440 per share, Clear leader)
We invest with an ownership mindset, seeking companies that can compound Earnings at 15%+ CAGR for long periods with 18%+ core steady state ROE and modest leverage. That would require a

a) Large and growing market opportunity.
b) Identifiable competitive edge vs peers.
c) A management team with the courage to make investments that may pay off in the long term, even if it impacts ROCE in the short term.
d) Paying valuations that are broadly reasonable in the context of the longevity of growth, moat and steady state ROCE of the business.



The chart above is a simple framework we use when we think about evaluating long-term prospects and fair entry valuations of well-run B2B businesses like Sansera.

- This helps us in identifying businesses that have prospects for Longevity/Asymmetric upsides because of investment being made to enhance competitive edge vs businesses that are cheaper basis trailing valuations but are not investing sufficiently for long-term growth.
- Progress will not always be reflected in reported financials. Benefits from technical tie ups, Investments through the P&L account, inefficiency from learning curves during ramp of a new product etc. can reflect in lower EBITDA than steady state EBITDA.
- Low reported ROCE/low cash generation is not a concern if it can be justified due to strategic investments the company is making for a better tomorrow, which may depress reported ROCE.

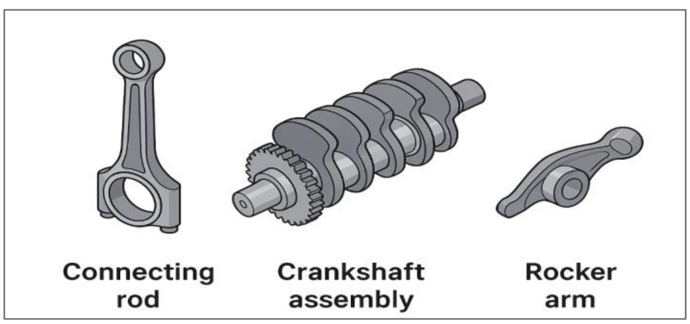
- When there is opportunity for "Longevity" or "Asymmetric upsides", we will be mindful of entry valuations, but never be very greedy for the first 3% weight. Trailing multiples needs more cushion in such scenarios.

We believe Sansera has all the ingredients to deliver on longevity with improving ROCE.

- Sansera has the potential to deliver 15-18%+ Sales CAGR and 18-20%+ PAT CAGR over long periods as it's a beneficiary of structural trends.
    - + 1 tailwinds in Exports, Electric vehicle penetration, and potentially exponential growth in the high entry barriers Aerospace, Defense, Semiconductor segment ("ADS") from a small base.
    - The management has grown the company 2x the domestic market growth rate [5]and continues to re-invest behind people, Capex and new competencies. This is observable in its strong market position across key products, growing customer base and product basket. They are one of the few Indian auto component suppliers to transition to value-added segments such as Aerospace and Semiconductor.
- EV risk to their business is minimal as they are winning EV orders at a higher kit value versus ICE.
- The reported ROCE of the business has declined over time due to investments made in new growth areas, which are not fully utilized. We expect Pre-tax ROCE to improve to 20%+ over 5 years.
- Our initial position is ~3.5% at present and we will use further price or time corrections to increase our position size.

What does Sansera do?
Sansera is a supplier of high precision forged and machined components for OEMs both in India and globally (~69% of Sales is domestic). They have ~88% exposure to the Automotive segment, with the rest from higher margin segments like Aerospace, Defense, Semiconductor (ADS).

While they have a basket of 80+ product families[6], nearly 2/3rd of their Sales at present come from 3 broad products (Connecting rods, Rocker arms, crankshaft with assembly). Over time, we expect the share of Sales from new products (mainly ADS segment) to increase as % of mix.



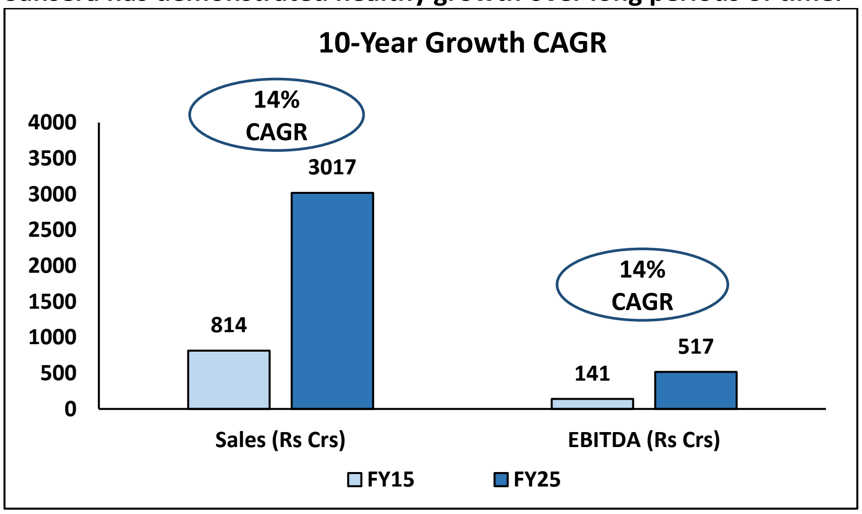
What do their key Automotive products do?
Connecting rods: It is the link between the piston and the crankshaft which allows the piston's up-and-down movement to be passed to the crankshaft.
Rocker arms: It is the part that controls the opening and closing of the engine's valves which at the right timing lets fuel/air in and exhaust out.
Crankshaft: It turns up-and-down motion of the piston into spinning motion that eventually turns the vehicle's wheels.

[5] Sansera domestic Sales versus domestic OEMs volumes produced.
[6] Sansera IP

Some products within Aerospace segment
Door Fitting: An integral part of the door assembly, which is crucial for maintaining the structural integrity and pressurization of the fuselage.
Outer Fork: A primary structural component of the landing gear that holds the wheel assembly.
Actuation gimbal: A key component in actuator systems that control flight surfaces, landing gear, and other vital mechanisms.

In a later section, we explain why these products are complex to do and have high entry barriers.

Sansera has demonstrated healthy growth over long periods of time.



Healthy growth has been accompanied by improvement in earnings quality, resilience in business model and building of management depth

- The business today is well diversified across end industries (2W- is 44%, PV is 19%, CV is 10% and non-Automotive is ~12% of Sales respectively), customers (largest customer is <15% of Sales) and geographies (International is ~31% of Sales).
- Company was founded in 1981 by Mr. S Sekhar Vasan but over time has evolved into being professionally run, led by Mr. B R Preetham (current CEO), who has been with Sansera since 1992.
- Sansera has proven credibility with marque OEM brands (Maruti, Bajaj, Toyota, BMW, Volvo etc.) which reflects deep customer trust (over 60% of Sales are from customers with greater than a decade-long relationship). Sansera also claims it has never lost a customer[7].
- With foray into ADS segment, Sansera has evolved from primarily a critical Automotive engine component vendor to manufacturer of complex high precision parts for high technology industries.
- Post recent fund raise, Sansera has a debt free balance sheet.

[7] Source: Management discussions.

Business evolution over time

Particulars	Decade back	2025
End industries	Automotive ICE Engine focused	Automotive- 88% of Sales Within this EV/Technology agnostic products are ~15% of Sales Non-Auto 12% of Sales
Product families	50+[8]	80+
Products	Connecting rod Rocker arms Crankshaft Gear shifter forks	**+** **Automotive** Steering, suspension and chassis components EV/Hybrid drivetrain components Braking system components **Non-Automotive** Aerospace parts (engine casings, actuation parts, lighting, seating, door, aerostructure parts) Semiconductor equipment components Defense components for helicopters, submarine rockets, radar etc. Industrial, Agri and Offroad vehicle components
Technical competencies	High precision steel forging + machining	+ Aluminum forging Anodizing Assembly Complex Machining and tooling + clean room for ADS segment Titanium handling (Aerospace)

[8] This is as of FY-19, Source: Spark Institutional Equities.

Key customers logos	Maruti Bajaj Auto Honda Toyota etc.	+ Airbus, Boeing, SAAB, Bombardier HAL, Elbit Systems North American Semicon Fab Equipment OEM Tesla, General Motors, Volvo, Daimler, VW group, Harley, BMW Motorrad, TVS
Gross block [9]	~550 Crs	~2,700 Crs
Customer concentration	Largest customer was ~35% of Sales	Largest customer <15% of Sales
Geography Mix	Exports -~23% of Sales[10]	Exports - ~30% of Sales

Long growth runway backed by expanding market opportunity and Sansera competencies
We view Sansera primarily as a company of "portfolio of competencies" rather than an "Auto component" company given their precision engineering skillsets through which they can expand into new categories.

Sansera has the potential to grow aggregate Revenues at mid-teens and Profits at high teens over the next decade as multiple levers for growth are visible, such as:

- Strong Revenue scale up in ADS segment as flywheel should take effect. Management expects strong growth here over the next few years.
- Market share gains in the Export market as Sansera is a beneficiary of + 1 tailwinds.
- Historically grown ahead of domestic industry, outperformance expected to continue.

Strong Revenue scale up in ADS segment as fly wheel should take effect
Sansera took a strategic decision to leverage its competencies and diversify revenues by foraying into the higher margin ADS segment nearly a decade ago. ADS takes significant time to build credibility, but once it's established, it can result in meaningful growth as customers ramp up business quickly.

For a segment that is just ~125 Cr of Sales, Sansera has invested ~200 Cr in Capex till date, hired a dedicated CEO for ADS and has built a large, dedicated 400-member team[11] which reflects their belief in long-term scalability of this segment.

The ADS segment accounts for ~125 Cr Sales (~5% of Sales) but is nearly ~25% of overall new business order book, which signals strong customer visibility. In fact, Sansera management has guided Sales to grow to 280-300 Crs in FY26 and aspires to reach 800-1,000 Crs over 3-5 years. While the future is unknowable, below are some data points that support the case for non-linear growth.

Aerospace (~80% of ADS Revenue FY25)

- The size of the opportunity is quite large. In Aerospace Sansera currently makes 1500 parts whereas the broader market for Aerospace parts can be as high as 1 million parts.[12]

[9] Excluding Right of use asset.
[10] This is as of FY16, Source: Ace Equity.
[11] Source: Management discussions.
[12] Source Boeing earnings call. Figure includes parts like Fasteners etc. which Sansera does not cater to.

- India can be a beneficiary as Aerospace component supply chain realigns (West faces headwind from cost disadvantages and quality/succession issues in SME units whereas one cannot rely extensively on China). The Boeing supply chain is still 80% sourced [13]from US suppliers. Former MD of Airbus India believes there is a 10x growth opportunity over next decade for the domestic industry.
- Sansera has evolved to making larger, more complex parts over time (From seating/lighting to actuation, landing systems, engine casings) which are considered very critical to flight safety.
- Sansera is primarily a tier 2 supplier for leading OEMs like Boeing and Airbus. Recent 160 Cr "ICTM"[14] tier 1 order win from Airbus suggests further deepening of relationship.
- Past constraints (Covid, largest customer Boeing faced internal challenges) which impacted historic growth have now eased (Boeing is now guiding for production ramp up[7]).

Technical expertise built in Aerospace was subsequently leveraged to enter the Defense and Semiconductors space.

- Defense segment can be a beneficiary of the indigenization of defense theme in India and rise in geopolitical conflicts globally. Sansera has a ~30% stake[15] in MMRFIC (Manufacturing of sub system for Radars), where there is scope for meaningful growth if they can demonstrate successful trials, as there is a large import substitution opportunity.
- Sansera recently won a $12Mn order (With LOI for up to $30Mn p.a. in 3 years' time) for machined parts from a global Semiconductor Fab equipment manufacturer. We anticipate further opportunities as proven success is a strong reference to attract new global customers and because the domestic Semiconductor industry will grow rapidly through import substitution backed by govt support[16].

Well positioned to capture + 1 market share in global Auto comp landscape

European Auto Component suppliers face a very challenging period at present (Profits have been impacted due to slowing customer demand, higher inflation, energy costs & interest rates, shift to Electric vehicles, greater Chinese competition thus impacting their ability to invest in Capex to support new launches). This presents a significant opportunity for Indian Auto component players as India has natural advantage of ~20-25% lower cost, [17]availability of talent, well established supply chain and ability and willingness to invest.

Sansera has won multiple orders over the last few years[18] by replacing existing West based suppliers or via outsourcing.

- Won General Motors order in North American market by replacing a financially challenged local vendor.
- Gained wallet share with Volvo as their existing supplier went out of business.
- Sansera has won business as global OEMs are now outsourcing components that were done in house earlier.

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[13] Source: Boeing earnings call.

[14] Airborne Intensive Care Transport Module.

[15] Sansera has the right to increase it's stake up to 51%.

[16] India Semiconductor mission offers 76,000 Crs in fiscal support to incentivize domestic manufacturing. 10 Semiconductor projects with proposed cumulative investment of ~1.6 lac Crs has been announced so far.

[17] Management estimate.

[18] Source: Management discussions.

We believe International Revenues could >20% CAGR growth

Sansera enjoys strong visibility in this segment. Global business accounts for 31% of Sales but ~62% of order book[19]. Global market opportunity is quite sizeable and Sansera has also seen an increase in RFQs [20] because of global OEMs strategic need to derisk their large supply chain dependence on China given rising geopolitical tensions.

This is visible in their results. For example, in Connecting rods (Sansera's largest product) their global market share in light vehicles and CV had increased from ~1% to 2.3-3%[21].

Sansera enjoys trust with marque customers globally (GM Motors, Tesla, Harley Davidson, KTM, Stellantis, Ducati). Europe and Japan 4W markets are unexplored today and In India Sansera works with Toyota, BMW Motorrad, Daimler, VW, which could open global opportunities in the future.

Historically grown ahead of domestic industry, outperformance expected to continue

Sansera has historically achieved Revenue growth at double the pace of the underlying industry and we expect its domestic segment to grow at low to mid-teens Revenue growth over the long run.

- Outsourcing trend- Sansera has benefited from rising trend of OEMs outsourcing complex component production (Examples Yamaha, TVS), with scope for gains as some domestic OEMs (Such as Hero, HMSI, and TVS etc.) still perform critical component (Connecting rods and Crankshafts) manufacturing in-house.
- EV is a tailwind rather than a headwind for Sansera (EV Scooter Kit value is higher versus ICE and multifold increase Motorcycles[22]) as they are well placed with Aluminum forgings technology (benefits from light weighting tailwinds) and with a dedicated EV/hybrid component mfg. site.
- Sansera has widened its product portfolio through the addition of suspension, braking, steering, and chassis components etc.
- Sansera has consistently added new customers over time and there is scope to gain wallet share with recently added customers (TATA Motors, M&M, Force motors, Volvo Eicher).

Sansera is expanding its moat, which can drive margin expansion

Sansera's moat stems from strong and deep trust with marquee customers which results in strong market leadership in its core segments. Trust has been built based on

- Strong willingness to invest (integrated set up, large engineering team, in house CNC machine building capabilities)
- Deep competencies built that are needed to manufacture its core products as they are critical parts of the Automotive engine.
- Successful transition from Automotive to high entry barrier ADS segment.

Strong willingness to invest

Sansera has expanded its Gross block by ~19% CAGR over the past decade and our customer checks suggest that they are a preferred vendor given end-to-end integrated set up (design, Forging, machining,

[19] This includes ADS global business.

[20] In FY24 RFQ increased to 20-25 per week versus ~4-5 inquiries per week a year prior. Source: Management discussions.

[21] Sansera IPO prospectus. Data is over the period CY 2015 to CY 2020.

[22] Management estimates.

heat treatment and some assembly), strong 500+ member engineering team and healthy track record on quality, reliability and delivery.

Their manufacturing facilities are highly automated, involving robotics and company is unique in its ability to build its own CNC machines in-house (~50% of CNC machinery) which gives it a 20-30% cost advantage.[23]

They have sacrificed some margin by investing behind tough to do Aluminum forgings (complex dimensions/shapes, strict surface finish aesthetics requirements) which is now winning them EV/hybrid projects in India and globally.

Manufactures critical Automotive components

Within the Automotive component landscape, Sansera's products are more complex given they are critical, precision components forming part of the vehicle engine.

- These products require high strength to weight ratio as they must withstand thousands of high-impact compression and tension cycles per minute but light enough to minimize reciprocating and rotational inertia.
- Stringent quality standards as the material is subject to high levels of stress and even microscopic defects can lead to failure at high RPM. High quality forging is key to ensure good strength and fatigue resistance.
- High machining tolerance standards to ensure good surface finish as there is interaction with other moving parts and to ensure vibration/noise parameters at high speeds are met.

Sansera enjoys market leadership

- Connecting rods (~36% of Sales)- Sansera is the largest 2W and PV Connecting rod manufacturer in India and a top 10 player globally.
- Rocker arms (~16% of Sales)- Sansera is the largest 2W and PV Rocker arm manufacturer in India.
- Crankshaft assembly (~15% of Sales)- one of the leading players for 2W segment in India.

Successful transition to higher entry barrier ADS segment

ADS space has high entry barriers due to highly critical nature of products, stringent regulatory compliance, time consuming process to validate products, complex supply chain and need for specialized expertise, dedicated mfg. sites, wide basket of low volume/high value SKUs.

Foray into Semiconductors represents a big leap forward given the industry operates at nanometer scales and precision norms are even higher than Aerospace (<5 Micron precision machining given highly complex geometries and intricate features, Class 1000 clean room requirement).

This is an industry that requires a significant gestation period to build customer trust and competencies and offers high margin visibility as cannot be disrupted overnight.

Current financial metrics like ROCE don't reflect strength of business franchise

In the past Sansera has enjoyed 18-20% Pre-tax ROCE. Current ROCE at < 15% is suppressed as

[23] Source: Management discussions.

- Sansera has made Capex investments that are not utilized fully which has resulted in lower GFA turns (Current GFA turns at ~1x is well below the long-term average). Current pre-tax ROCE on an N-2 years [24] basis is ~18%.
- Sansera has meaningfully expanded its product basket and added new technologies like Aluminum forging in the last few years. Multiple products are currently under development phase and so Operating leverage from mass production is yet to kick in.

Key financial metrics	FY15	FY19	FY25	Comments
Sales	814	1,624	3,017	
Gross Profit margin (%)	58%	57%	59%	
EBITDA margin (%)	17%	18%	17%	Scope for Operating leverage exists
PAT margin (%)	7%	6%	7%	
Pre-Tax ROIC (%)	19%	18%	14%	
Net debt/EBITDA	1.8	2.0	-0.3	
Gross Fixed Asset Turns	1.5	1.2	1.1	Plant not fully utilized
Debtor days	67	61	55	
Inventory days	61	55	61	
Payable days	23	34	44	
Others liabilities days	14	20	16	
Other assets days	16	17	15	
NWC Days	107	79	71	

**FY19 data has been used as FY20 metrics were impacted by Covid.*

We believe Sansera can be ~20%+ Pretax ROCE 5 years out

We expect ROCE to improve from current levels, primarily driven by better margins from exports, improving product mix towards ADS and an increase in asset turns.

- EBITDA margins should improve due to superior product mix (ADS segment is expected to be steady state 25-30% EBITDAM and carries low US tariff uncertainty,[25] Exports can be 4-5% higher EBITDAM versus company level) and Operating leverage (Improving capacity utilizations, products move from development to commercial scale).
- Sansera has embarked on a significant Capex program (~1,580 Crs over past 5 years), which they should be able to sweat over coming years given healthy customer visibility [26] which will in turn drive improvement in asset turns.
- This will be some offset from increase in NWC days as share of Exports increases which will result in higher debtor days given longer shipping time and higher inventory days due to international warehouses for just in time supply to customers.
- We expect steady state PATM to be ~10%+ (led by improvement in EBITDAM, savings in Depreciation and Finance cost % Sales) which should drive improvement in core ROE% to 18-20%.

[24] NFA is taken on an N-2-year basis.
[25] Products either have exemption or are shipped to customer locations in India or ROW.
[26] Current order book position is healthy at ~2,000 Crs, nearly double versus 3 years prior.

Where the ROCE could settle in the long run is hard to predict today (Sansera may continue to invest ahead of time in capacities/technologies, may set up North America facility to mitigate tariff impact/Meet USMCA RVC norms[27]), however we expect trajectory to be positive as share of ADS segment (can be 25%+ steady state ROCE) increases over time.

Particulars	**Currently**	**FY30**		**Comments**
		Scenario 1	**Scenario 2**	
Sales	100	100	100	
EBITDAM %	17%	18%	20%	Better product mix (ADS, Exports) Operating leverage, automation
Depreciation % sales	6%	4%	4%	
EBITM	11%	14%	16%	
Finance cost % sales	2%	1%	1%	
Other income % sales	1%	1%	1%	
PATM	7%	10%	11%	
GFA turns	1.1	1.30	1.30	More efficient production runs Increase in capacity utilizations ADS has higher SS GFA turns of ~2x
NFA turns	1.7	2.25	2.25	
NWC days	71	80	100	Longer Debtor and inventory cycle with Exports Higher inventory days in ADS give wider SKU range
Net debt/EBITDA	-0.2	0.5	0.75	Minimal use of debt
ROCE pre-tax %	14%	20%	22%	Improvement in ROCE and ROE with better Margins and Asset turns ADS Steady state ROCE could be > 25%
ROE %	9%	18%	20%	

*Solidarity estimates.

We believe our buying price offers reasonable valuations for an initial position
Sansera is a resilient business run by a highly competent management with scope for longevity of growth with improving ROCE.

Trailing valuation multiples (reported PE TTM is ~39x) can be misleading when reported ROCE are sub-par and there exists scope for Profit growth upside from faster growth in the higher quality business (ADS). If we use normalized margins (10% PATM), our buying over last 12 months has been at ~ ~25x TTM PE. We believe fair valuations can be a bit higher when transformation into a higher ROCE business is reflected in reported financials.

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[27] Under USMCA, auto parts must have 65% of their value from USA, Mexico, or Canada to qualify for preferential duty-free trade.

Our variant perception versus the market is that we believe Electric vehicles are a tailwind rather than a headwind, ROCE should improve with better capacity utilizations and mix change, and ADS can be a more meaningful share of Profits in the long run.

ADS scenarios (Rs Crs)	FY25	FY30 Conservative	FY30 Base	FY30 Optimistic
ADS Revenue	125	750	1,000	1,200
ADS EBITDAM %	20%	25%	27%	30%
ADS % share of total EBITDA	5%	15%	20%	25%
Company level Sales CAGR (FY25-FY30)		17%	18%	20%
Company level EBITDA CAGR (FY25-FY30)	-	19%	21%	22%

*Solidarity estimates.

Sansera is a "Clear Leader" with potential for longevity. Hence, price and/or time correction can be used to further increase the position size.

<u>Answers to interesting questions</u>

Why stay invested in Neogen when it trades at 5x Mcap/Sales?

Traditional valuation metrics based on reported numbers are very relevant in linear growth stories, however, might not be as useful when one encounters companies with potential for non-linear growth which can drive asymmetric returns. In these scenarios, one needs some broad estimates of what Profits/cash flow can be some time out and discount back to today to estimate fair entry prices.

Neogen Chemicals has a very strong growth track record (~22% Revenue CAGR over past 15 years). It has grown by entering adjacent product categories over time by leveraging its chemistry expertise.

In the last few years, Neogen Chemicals has forayed into Battery Chemicals. There is hardly any Revenue from this segment today, but it can become the dominant share of Revenue for Neogen over the next decade. This is because market for Electrolytes in India will grow exponentially from rising demand for Electric Vehicles and Battery Energy Storage Systems ("BESS") penetration in India and global sourcing of Lithium Salts from a low-cost non-China source.

Time period	1990s	2000s	2010s	2020 -2025
New segment Foray	Simple Bromine molecules Lithium Bromide	Forward integration into Bromine and lithium derivatives	Moved downstream into Advanced Intermediates & CSM	Battery chemicals (Electrolytes, Lithium Salts) Tech ties up with MUIS for Electrolytes and Morita for Lithium Salts Buli Chem acquisition- N Butyl Lithium expertise for Pharma, Agri

				Foray into Semiconductor chemicals

Battery Chemicals can be a decadal and more opportunity given strong tailwinds and Neogen's strong competitive position

EVs and BESS (Key for shift towards Renewable energy[28]) are key to India's Energy Security given India's high dependency on Oil imports at present.

While dependence on Chinese imports for Lithium-ion batteries is very high today, the GOI has been pushing for localization of capacities via support from PLI scheme, subsidies for EVs, viability gap funding and energy storage obligation for BESS. One can expect further GOI support (Anti-dumping duties, localization norms) once domestic capacities are set up, like what is happening in Solar modules/cells[29] at present.

Large players (Reliance, TATA, JSW, Exide, Amara Raja, Ola etc.) are expected to set up Lithium-Ion battery capacities and estimates peg the total opportunity at ~100+ GWH by 2030 which translates to a ~1 lac MT market for Electrolytes.[30]

Neogen is in pole position for Electrolytes at present (30 years+ experience in Lithium chemistry with established supply chain for Raw Material security, MUIS technology tie up[31] adds to credibility as it helps meet high purity requirements and establish a technologically advanced plant). We believe Neogen can be a domestic leader with 50-75% market share as there exists only 1 other domestic player today and import of Electrolyte is not very practical given prohibitive transportation costs due to the corrosive nature of Electrolytes and very short shelf life of ~3 months.

China with 95% market share today dominates the global Lithium Salt supply chain and hence creates strong imperative for customers to derisk their supply chain. There exist regulatory tailwinds such as the US IRA act which offers substantial subsidies[32] to cell makers under the condition that battery material isn't sourced from China as it is deemed a foreign entity of concern.

Neogen is well positioned in the global landscape as it can offer a cost competitive, quality and stable pricing alternative to China given its chemical expertise and Morita tech tie up which enhances their credibility.

While at present there is some uncertainty given high US tariffs, there exists a sizeable demand for a non-China source for Lithium Salts (Estimated to be ~1.41 lacs MTPA by 2030). Hence, even ~5% market share can translate to a sizeable opportunity for Neogen over time.

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[28] BESS is needed for integrating intermittent renewable energy and stabilizing the electricity grid.

[29] GOI is supporting localisation via PLI scheme, custom duty on imported modules/cells and domestic sourcing via ALMM (Approved List of Models and Manufacturers) for grid connected/govt projects.

[30] By FY26 end Neogen Chemicals is expected to have 32 K MT of Electrolyte and ~5,500 MT of Lithium Salt capacity.

[31] MUIS is a JV of Mitsubishi Chemical Corporation and UBE Corporation, global leaders in electrolytes with 30-year track record. Neogen is the first recipient globally of MUIS's proprietary Electrolyte manufacturing technology license.

[32] Tax credits of up to $35 per KWh.

Valuations
Neogen's current Mcap is ~4,000 Crs. We believe the base business should be valued at ~2,000 Crs (25x Trailing PE for a ~800 Cr Sales business with 10% normalized PATM and which could grow about 15-18% CAGR at about ~18% ROE).

The future profits and pace of growth of Battery Chemicals segment is unknowable. It will reflect the confluence of opportunity (market size, how much is imported vs manufactured in India), market share (competitive response, backward integration by cell players) and Neogen execution (quality, delivery timelines).

Peak Sales potential basis capacities being set up at present is ~2,500-3,000 Cr Sales, which should translate to ~450 Cr EBITDA and ~200 Cr PAT at ~18-20% ROE. Neogen aspires to reach this target by FY28, or latest FY29. Even if we assume this to be achieved by FY30, that can drive very attractive return upside. The dominant position Neogen can command in an industry at very early stage of its life cycle should translate into very attractive valuation multiples. While industry players are currently importing Batteries from China, a 100 GWH demand for Batteries for FY30 could result in Electrolyte supply shortages in India unless Neogen/Gujarat Fluoro announce additional capacities.

Additionally, there exist optionality's from new opportunities where there is no firm visibility of commercialization today (Other Battery chemicals, Semiconductor chemicals).

Our belief is that when one sees a reasonable chance of an Asymmetric Upside, one must be patient. Stock prices can do nothing for long periods of time and then suddenly move exponentially when more participants buy into the narrative. We agree the future is unknowable – hence risks from delays or execution challenges should be managed through position sizing and not building very large positions too soon.

You can read about detailed thesis underlying these positions and other companies of interest to us on our website at www.solidarity.in

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We look forward to speaking with you at our quarterly call on the 1st of November at 12pm IST.

Thank you for your trust,

Manish Gupta
Anirudh Shetty
Pratik Jain
Aman Thadani

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