Strategy Communique

Q3

CY 2021

UNIFI INVESTMENT MANAGEMENT

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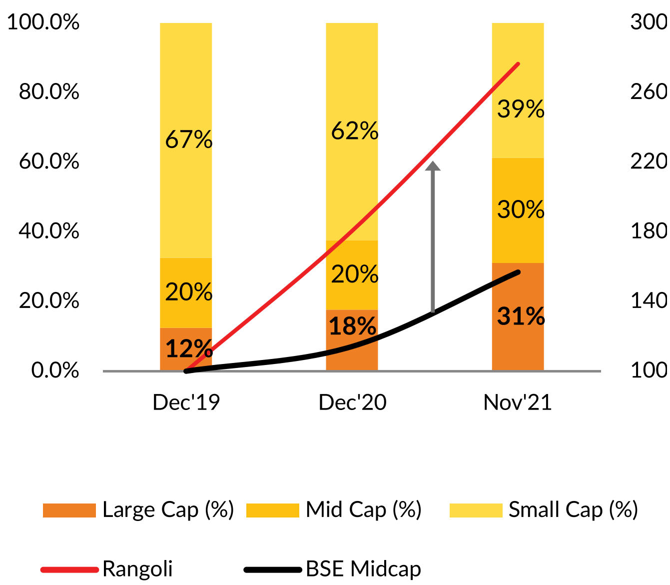
How are we thinking?

The strategy's approach to investment management has always shunned the comfort of consensus in pursuing absolute value. As India's equity stack continues to scale all- me highs, the underlying principle of seeking absolute growth at reasonable valuation remains a constant. Resultantly, we have advised to re-look all the positions to right size them, given how the risk/ reward has changed over the past few months. We have advised to take the gains where the thesis has played out and re-allocate them to positions where the risk/reward is more favourable.

A key trend visible in the portfolio is the build-up in exposure to significantly larger firms. How did we advise about this? Was this seeking comfort in the wisdom of the crowds? Or a boom-up conclusion similar to that of strategy's traditional approach? In equities, oversimplification is a gross challenge as it concludes without the depth required to build a significant position and stay the course of that thesis. For example, there are a few ways of looking at a firm like State Bank of India. You could look at it as a large cap that is likely to move with the index and, to that extent, participate in what the market gives you. Or look at it as a cyclical that is poised for recovery. Or select the same name boom-up, through layers of research, drawing insights from the fundamental strengths that SBI has demonstrated over its past, with an eye on its weakness. This strength of conviction shows up in allocation, and Allocation x Upsides = Absolute Returns.

The following chart depicts the change in capitalization of Rangoli Strategy along with how returns have followed in the same cycle. The market cap classification in the following chart is as per AMFI's definition,



In most cases where we have advised to book the gains, prices continue to remain at elevated levels. Why have we then increased the prospect of own reinvestment risk? Warren Buffet summed this up in the best manner possible: the line between investment & speculation becomes blurred when most investors have recently enjoyed triumphs. Nothing sedates rationality like large doses of effortless money. Aer a heady experience like that, normally sensible people dri into behaviour akin to overstaying their welcome, which seldom ends well. Since ideas are invisible, people underestimate the extent to which they can go in and out of fashion. Accordingly, we don't risk overstaying the thesis

The Investment Approaches wise composition of the Rangoli Strategy is as below.

Theme wise Allocation (8th Dec 21)

Deep Value Fund	40.86%
APJ	20.86%
Insider Shadow Fund	19.68%
BCAD Fund	13.78%
Cash	4.82%
Total	100%

Results summary

We are comfortable with the earnings salience of the companies and what they are doing to seed leadership for the mes to come. The strategy continues to build concentration in seeking such leadership, delivering results above expected lines, consolidating their position, and delivering industry leading growth.

At 20%, Financials constitute the largest segmental exposure. We are looking at the beginning of a new credit cycle. The incremental impact of restructurings and big-name corporate defaults is largely behind us. With leaner corporate balance sheets on the back of strong cash flow generation, improved collection efficiency, and faster pace of recoveries vis-a-vis slippage, the lenders in the strategy are well capitalized to now focus on growth with improved margins and capital efficiency.

Increasing per capita computing power at an enterprise and consumer level continues to take technology spending higher. Deep computing around the current generation of the technology stack is re-architecting traditional system architecture to cloud-nave applications. We see sustained 12% 18% 31% 20% 20% 30% 67% 62% 39% 100 140 180 220 260 300 0.0% 20.0% 40.0% 60.0% 80.0% 100.0% Dec'19 Dec'20 Nov'21 Large Cap (%) Mid Cap (%) Small Cap (%) Rangoli BSE Midcap 2 tailwinds in these areas for a lot more me to come. This signifies the second-largest exposure to IT services and Digital Connectivity at 19%.

Chemicals at 17% form the third-largest exposure. China has been a major global supplier across various sectors for the past few decades with most of the market share and presence across the value chain. The immensely subsidized exports coming from China affected Indian companies catering to the exports market. But, Covid has made many companies de-risk the supply chain by diversifying to another geography. The Investee companies have built a sustainable business model complemented by its self-sufficiency in feedstock and supported by the expansion of its existing product lines and entry into the value-added product's market.

While asset pricing is based on smooth parabolic models [Gaussian], prices do not represent linearity in the real world. They are more like bird scrawl. Recent price moves in commodities (across Oil, Coal, Iron ore, Copper, and Aluminium to name a few) can anything but be captured by traditional approaches to modelling. The resultant decline in their underlying equity value is sharp, severe and the portfolio impact acute. In cases where we the fund had exposure to the commodity basket, we have advised to right size the allocation.

India's households continue to consume with enthusiasm. [Relatively speaking] Despite acute commodity inflation, consumer majors have shown remarkable resilience in cost pass-throughs, and demand salience has not been an issue. While we are cautious of supply-chain challenges and the persistence of inflation, we believe the medium-term impact on the portfolios is transitory. We remain optimistic about the consumer-facing names in the portfolio.

Other major sector exposure includes Fee-based financials (9%), Digital Connectivity (8%), Metals (7%) & Consumer (5%). We have advised 7.5% exposure to Chemplast Sanmar. The company has prominent leadership in

Suspension and Paste PVC in India. The profitability growth for the company will be fueled by favorable business cycle in key products, technological advantages, operating leverage, and largescale debt reduction from the IPO proceeds. We have also advised 5% exposure of Crompton Greaves consumer. Crompton is amongst India's most profitable players in the consumer durables space with best-in-class growth, margins and capital efficiency. We like the company as we expect it to benefit from this phase of consolidation.

During the quarter, we also recommended existing the exposure in key holdings namely IEX and Garware to fund the new purchases, aligned with philosophy of constructing the portfolio with a favorable risk-reward equation.

The following annexure presents a brief on the top holdings

Company	Brief background and Investment rationale
SBI	SBI reported NII growth of 11% YoY and 13% QoQ to Rs.31,183cr on account of improvement in NIMs sequentially. Advances grew by 6% YoY to Rs.25.3 trillion with retail advances forming 42% of the same. Operating profit was up by 10% YoY down 5% QoQ at Rs 18,078cr and PAT was up 67% YoY & 17% QoQ at Rs 7,626cr. The bank surprised positively on asset quality with annualized gross slippages of 0.6%, which came in much lower than large private banks. The restructured book was also low at 1.2% of the book. Overall, asset quality improved sequentially with GNPA at 4.9% compared to 5.3% in Q1 FY22. The bank continues to maintain a high coverage of 70% on the same, leading to NNPAof1.4%. With an additional COVID-provision buffer of Rs.6,000cr, the bank is in a comfortable position to take care of any incremental stress in asset quality in FY22. Given the superior performance in controlling stress and improving asset quality in a covid hit year, the bank is expected to deliver on all parameters from the forthcoming year, and eventually migrate to higher double-digit RoEs. The bank has cleaned up its stress in corporate loan book and will be a likely beneficiary in the upcoming credit cycle, thanks to its strong franchise and better underwriting practices. Key risks would include deterioration of asset quality leading to higher-than-expected credit costs and decline in NIMs due to falling yields.
Sonata Soware	Sonata delivered revenue growth of 20% YoY driven by IT services division that grew 26% YoY, while the domestic product segment also grew 16% YoY. Overall EBIDTA margins expanded sequentially by 480 bps to 12.8% mainly led by margin expansion in domestic product segment at 5.6% vs. 3.7% QoQ. As a result, earnings at Rs.91cr was up 52% YoY and 5% QoQ. The outlook for each of their segments in the mes to come are good driven by normalization in the European travel industry, traction in Microsoft's' core business, and enterprise investment in new age cloud and IT products. Sonata is a key partner to Microsoft in their global product development initiatives and has strong domestic products re-selling business. With the worse of the pandemic induced stress in their travel business behind them, we expect the traction in earnings to return sequentially over the next few quarters. There is a trend of beer off-shoring that is being witnessed on the back of industry wide work-from-home initiatives, and this is likely to be margin accretive in the mes to come. Key Risks: Slower than expected economic recovery in Europe and cuts in discretionary IT spends by enterprise clients.
Axis Bank	Axis Bank reported NII growth of 8% YoY and 2% QoQ to Rs.7,900cr. Advances grew by 10% YoY to Rs.6.21Trillion with retail advances formed 56% of the same. The operating expenses were higher by 36% on a YoY basis due to higher employee costs and general expenses. As a result, operating profit was down 14% YoY and 8% sequentially. On the back of lower provisions [62% YoY at Rs 1,735 Cr], PAT was up by 86% YoY at Rs 3,133 Cr. The bank's asset quality improved sequentially with GNPA rao and NNPA ratios at 3.88% and 1.16% respectively. The net slippages were at 0.5% of the book, of which majority came from secured retail book, which is a comforting. The bank surprised positively on the restructured accounts, which was low at 0.6% of the loan book and have been adequately provided for at 23%. With an additional COVID-provision buffer of Rs.5,012cr, the bank is in a comfortable position to take care of any incremental stress in asset quality and get back to normalcy from H2 FY22 onwards. Given the low cost of deposits and access to capital, the bank is expected to deliver on all parameters from the forthcoming year, and eventually migrate to higher double-digit ROEs. Key risks would include deterioraion of asset quality in the covid second wave leading to higher-than-expected credit costs and decline in NIMs due to falling yields.
ICICI Securies	ICICI Securities continued to deliver steady revenues. The broking segment was flat sequentially and YoY. Strong client additions continued at 5,83,000 clients, primarily through the digital channel. The distribution revenue was up 63% YoY led by improvement in both mutual fund and non-mutual fund revenues. The company continues to add new partnerships and sell through channels beyond ICICI Bank. 77% of the new client additions has been through the non ICICI bank channel. The PBT was up 29% YoY at Rs.476cr, and PAT was up by26% YoY at Rs.352cr. -Sec is a leading tech-based securities player offering a range of financial services including brokerage, financial products distribution, and investment banking, with focus on both retail and institutional clients. As of Sept 2021, the company had ~2.3Mn customers who had traded on NSE in last 12 months. I-Sec is also the second largest non-bank MF distributor with an AUM ofRs.483 Bn. This is a strong business due to its absolute technology leadership, continuing consolidation of user base, high RoE of

more than 50%+, increasing share of non-brokerage revenues in the sales mix and access to ICICI Bank's franchise for customer acquisition.

Key risks would arise from a prolonged downcycle in equity markets leading to lower turnover, and heightened competition leading to loss of market share.

Tata Comm

Tata Comm's Q2FY22 revenues grewby1.7% QoQ at Rs. 4,174cr(down 5.2% YoY), led by 1.1% growth in the Data business (sequentially), while Voice revenue increased 2.9%. The 5% YoY decline from high base reflects reduction in collaboration traffic to pre-Covid levels. EBIDTA increased 13% QoQ to Rs. 1110cr, primarily on account of lower network operating costs and a few onetime benefits of about Rs50cr. Consequently, EBIDTA margin expanded 150bps QoQ to 25.5%. Tata Comm's adjusted PAT was Rs. 413cr(42% QoQ).

Data revenue/EBITDA increased 1%/12.6% qoq at Rs.3,140cr/Rs. 1,049cr, with margins at 33.4% (340bps qoq increase). Within Data, revenue for Core Connectivity (the Traditional segment) remained flash while EBIDTA increased 7.9% to Rs1,028cr implying strong margin expansion of 320bps to 45.9%. Digital Platform & Services (the Growth segment) – which contributes now 12% to EBITDA – saw 2%/61% revenue/EBITDA growth to Rs. 856cr/Rs. 121cr.

The deal funnel is healthy and is expected to drive revenue. The company sees beer traction in small and big deals and good double digit orderbook in data business (beer than what it has seen lately). The order book increase has been both in India and as well internationally the company is now focusing on both large and small deals (earlier large deals). The margin guidance for FY22 stood at 23-25% and capex guidance stood at USD250mn driven by new orders, maintenance capex (2% of revenue), and strategic capex. It may spend higher to tap growth opportunities.

Key risks would be slower to negative growth in the data segment on account of covid related stress and lower usage of Tata Comm's services e.g., data streaming of live sports or reduced international travel or delays in deal conversion or new technologies come in to replace fibre at reasonable cost.

Chemplast Sanmar

Chemplast has a prominent leadership in Suspension and Paste PVC in India along with Caustic soda and chlorine derivatives. The profitability growth going forward will be fuelled by favourable business cycle in key products, technological advantages, operating leverage, and large-scale debt reduction from the IPO proceeds. The management has turned around the business and has revamped it with a targeted approach. With attractive valuations and clear growth directions along with a more prudent balance sheet, the company will capitalize on its growth in respective segments and consolidate its positions among its peers and substitute imports.

Chemplast delivered strong revenue and EBITDA growth of 81% and 162% YoY to Rs. 1,673cr and 346crrespecvely. PAT was Rs. 151crvs losses in Q2 last year. Volume in \Specialty business and Suspension PVC business grew by 26% and 16% respectively YoY in H1 FY22. With strong profitability spreads, EBITDA grew by 119% and 118% respectively YoY in both segments in H1 FY22. From the IPO proceeds, the company has repaid Rs. 1240cr debt resulting in a net cash balance sheet. The company plans to debottleneck Suspension PVC capacity by 10% and expand Paste PVC capacity by 50% in FY22 and FY23 respectively. In addition, the company has the infrastructure to expand its S-PVC capacity 3x and, at current spreads, the capex payback period has shrunk to <2 years.

Key risk: Decline in PVC prices globally and inability to maintain gross profit spread, Unwarranted expansion in a commodity business.

DCM Shriram

DCM reported Revenue, EBIT and PAT YoY growth of 3%, 40% and 33% respectively to Rs. 2,109cr, 252cr and 158cr respectively. The revenue growth in this quarter was primarily driven by the Chloro- alkali segment but the sugar segment had mildness in volumes and is expected to recover from Q4. Agri-business was flash YoY. The company operated at 90%+ utilization in both the key products in the Chloro- alkali segment namely Caustic Soda and PVC, with significantly improved unit economics driven by operating leverage and beer realizations. Current supply challenges globally and especially in China are expected to act as a tailwind for the Chloro- alkali segment.

DCM Shriram is predominantly present in Chloro-alkali and sugar segment along with agriculture products like fertilizers, bio seeds and other farm solutions. The company continue to reinvest cash in the existing business by debottlenecking capacities and expanding Ethanol capacity. Further, the company has announced entry into chlorine/hydrogen downstream products namely Epichlorohydrin, Hydrogen peroxide and Aluminium chloride. These are value-added segments within the chlorine value chain and will contribute positively towards overall profitability improving the incremental capital efficiency. The company is placed for a sustained growth trajectory with an improved balance sheet amidst a strong business cycle.

Key Risk: Unexpected regulatory developments in Sugar/Ethanol business and cut down of strong Caustic soda and PVC cycle in the international market.

CG Consumer

Crompton Greaves Consumer reported revenue growth of 14% YoY to Rs.1,385cr. Both the segments, Lighting (up 8% YoY) and Consumer durables (up 18% YoY), delivered ahead of industry growth led by consolidation of the larger players. In each of the key product segments [Fans (17% YoY), Lighting, Pumps, and other Electric Appliances (35-40%YoY)], the company delivered ahead of industry growth rates, on the back of product innovation, premiumization and market reach initiatives. The company was able to mitigate commodity inflation through price hikes, product mix improvement and aggressive cost reduction. As a result, Gross margins was stable sequentially 32%. We expect this trend to continue, along with headline growth that is ahead of the industry. Company reported PAT of Rs. 170cr(up by24% YoY; 83% QoQ).

Key risks to the investment could emanate from drop in consumer sentiment, and steep inflation in raw materials.

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Hindalco

Hindalco reported revenues of Rs. 47,665cr (up 53% YoY and 15% QoQ) and EBIDTA of Rs. 8,048cr(up 56% YoY and 19% QoQ). PAT(continuing ops) for Q2 FY22 was at Rs. 3,427cr (up 67% YoY and 5% QoQ). Novelis reported shipments of 968kT in Q2 FY22 (up 5% yoy). Sales in Q2 FY22 were at USD 4.1Bn (up 59% YoY) and were driven by increased shipments, improved product mix and higher aluminium prices. EBIDTA was USD 553Mn for Q2 FY22, up 21% YoY. EBIDTA per ton in Q2 FY22 was USD 571/ton up 13% YoY. (At an all-me high). In the domestic operations Aluminium metal sales in Q2 FY22 (322KT) was almost in line with previous quarter and down 6% YoY, Aluminium VAP (value added) production at 84KT higher 35% YoY in Q2 FY22. Domestic sales were 49% of total metal sales (vs 38% in Q1 FY21) while VAP sales 25% of total metals sales (vs 21% in Q2 FY21). AL India Q2 FY22 EBIDTA was a record Rs. 3,247cr up 173% YoY. EBIDTA margins were a record 42% vs 37.5% in Q1FY22. EBIDTA/ton in Q2 FY21 was about USD 1363. For reference EBIDTA/t in Q1FY21 was USD 1053. FY21 EBIDTA/t was USD 518/t (and USD 399 in FY20). In the domestic copper business Q2 FY22 revenues were Rs. 9,587cr (up 101% YoY) on account of higher copper prices. Q2 FY22 EBIDTA was Rs. 352cr (as against Rs. 242cr in Q2FY21).

Consolidated net debt reduced to Rs. 48,011cr in Q2 FY22 from Rs. 51,913cr in Q1FY22. Management expects aluminium prices to sustain at higher levels due to supply side measures taken in China and overall market being in deficit this year. The company would focus management bandwidth on downstream VAP products rather than expanding upstream despite LME AL prices being elevated.

At Novelis, the expansion project at Zhenjiang, China is expected to begin early 2022 with investments of $375MM over 3 years. This includes a new cold mill, automotive casting house, recycling capabilties, hot mill upgrade etc. Novelis' expansion of recycling, casting, and rolling facilities in Pinda, Brazil have started production and ramping up well. Novelis announced $130MM investment for plant upgrades at Oswego US, resulting in additional 124Kt hot mill capacity and enhanced finishing capabilities for automotive sheets

Key risks would a steep decline in LME AL prices, reduction in beverage can demand and continued chip shortage impacting auto volumes for Novelis..

Portfolio Valuation Metrics

Weighted	FY 21	FY 22E
Earnings Growth*	34.2%	62.6%
Price to Earnings Ratio	22.4	15.9
ROE	19.5%	27.1%
Price to Book Ratio	4.5	4.1
Weighted Avg Market cap (USD Mn)	11,104	

Top 10 Holdings

	Weights %
Position 1	10.46%
Position 2	9.30%
Position 3	9.06%
Position 4	8.95%
Position 5	7.90%
Position 6	7.41%
Position 7	5.24%
Position 8	4.83%
Position 9	4.83%
Position 10	4.76%
Total	**72.74%**

Sector Exposure

Sector	%
Financials	19.53%
IT	18.61%
Chemicals	17.35%
Fee-based Financials	8.95%
Digital Connectivity	7.90%
Metals	6.76%
Consumer	4.83%
Paper	4.61%
Materials	4.11%
Pharmaceuticals	2.52%
Cash	4.82%
Total	**100%**

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Classification of Market Cap

Segment	Basis	%
Large Cap	> $2000mn	63.97%
Mid Cap	> $200mn < $2000mn	36.03%
Small Cap	> $50mn < $200mn	0.00%
Microcap	< $50mn	0.00%
Total		**100%**

Liquidity Analysis

Segment	% of porolio
Less than 1 day	92.63%
Between 1 & 3 days	7.37%
Between 3 & 5 days	0.00%
Greater than 5 days	0.00%
Total	**100%**

Risk Management

Risk	Migants
Coronavirus Impact	The impact from the ongoing Coronavirus outbreak in India and rest of the World can be multifold. The lockdown related slowdown in consumption can affect several sectors. The investee companies have product & category leadership along the financial wherewithal to withstand temporary phases of demand slowdown and lead consolidation of demand. The BFSI sector could have heightened stressed assets for a certain period of me there by impacting their profitability.
Geo-political risks	Any geo political tensions between India and neighboring countries can disrupt supply chain in the region. This might have a non-linear impact on business.
Raw material inflation	India continues to be dependent on the supply of feedstock whose pricing is global in nature. Key categories would be crude, metals, minerals, and natural commodities. Sharp movement in their underlying prices will have a short-term financial impact on the companies. The situation in China [political] has the potential to disrupt the supply chain of a few of the investee companies.
Foreign Exchange risk	The foreign exchange system continues to be guided by global developments. The investee companies in the IT sector are subject to sharp movements in the USD and GBP. They mitigate the same via hedging, but there remains a portion of revenues that continue to be subject to the vagaries in fx movements. Most of the non-IT exposure is to companies that derive their revenues from the domestic market. The revenue from exports would be minimal for each strategy as a whole, and where relevant, are adequately hedged. A sharp depreciation in the INR will affect the import of feedstock (higher prices) which can lead to a brief moment of earnings-related volatility.
Leverage risk	Except for financial companies, most of the operating companies in the strategies carry nil to moderate debt on their balance sheets with a track record of having managed leverage well in the past. Their leverage is monitored regularly.
Technology Obsolescence	Technological changes can render the products/services of a company obsolete and thereby hurt its profitability and valuation. Such a risk is generally minimized by liming the aggregate exposure of portfolio to such investments to less than 10% of value.
Governance risk	We advise not to invest in companies with a known history of corporate governance issues. If such issue arises in an existing investment, we stop additional purchases and start optimally exiting the investment.
Concentration risk	At the portfolio level, such risks are minimized by liming the aggregate exposure of portfolio to such investments to less than 10% of value at the me of investment.
Stock Illiquidity risk	High Impact cost, due to thin trading at the me of buying or selling is endemic to small & mid-caps. We plan the investment decisions, size of the investment and trading strategies to minimize the costs due to illiquidity.Key Man Risk Small and mid-caps are frequently managed by a key promoter / person on whom the business is completely reliant and without whom the business would be materially inferior. We generally avoid such names and in cases where we make any exceptions, the aggregate exposure of portfolio to such investments is limited to less than 10% by value. Slowdown in global consumption The wallet-share of the investee companies in the global manufacturing value chain, does not pose a significant risk of loss of business to their vendors. New and high growth areas such as Lithium-Ion batteries, EV vehicles are in relative infancy stage and have a strong growth curve ahead of them.

This is neither an offer to sell nor a solicitation of any offer to buy any securities in any fund managed by us. Any offering is made only pursuant to the relevant information memorandum, together with the current financial statements of the relevant fund, if available, and the relevant subscription application, all of which must be read in their entirely. No offer to purchase securities will be made or accepted prior to receipt by the offeree of these documents and the completion of the appropriate documentation. Please refer to the Private placement memorandum before making a decision.

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