



INVESTOR NEWSLETTER – QUARTER ENDED MARCH 2025

A. PAST PERFORMANCE:

Period:	Last 3 Months	Last 6 Months	Last 1 Year	Last 2 Years	Last 3 Years	Last 5 Years	Since Inception
Cumulative Returns							
Portfolio	-2.8%	-10.5%	12.4%	51.5%	72.8%	323.5%	318.0%
Sensex	-0.9%	-8.2%	5.1%	31.2%	32.2%	162.7%	87.7%
Outperformance	-1.9%	-2.3%	7.3%	20.3%	40.6%	160.8%	230.3%
Annualized Returns							
Portfolio			12.4%	23.1%	20.0%	33.5%	31.3%
Sensex			5.1%	14.6%	9.7%	21.3%	12.7%
Outperformance			7.3%	8.5%	10.3%	12.2%	18.6%

Notes:

- 1) Performance details for the Portfolio are before taxes, fees and expenses to make it comparable to Sensex
- 2) AIF license received in Q3 C21. Assets have been transferred into AIF as of 01/11/2021. Returns from Nov-21 onwards are for assets in the AIF
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Sensex was down just 0.9% for the quarter, but this doesn't tell the story at all. Jan-25 was down 4.5%, and Feb-25 was down 4.1%, taking the fall from the Sep-24 peak to 13.2% until Feb-25. Had it not been for the relief rally in Mar-25, the picture for the quarter would have looked quite different. We ended the quarter with Sensex still at ~20x P/E forward, still above its long-term average. The chaos in Small Caps continues to be much higher. From the peak in Sep-24 The Small Cap index was down 24.5% until Feb-25. And despite a sharp 8.3% recovery in Mar-25, it ended the quarter down 15.5%!

Our performance was below Sensex at -2.8%. From the Sep-24 peak, the Portfolio has fallen 10.5% as against 8.2% for Sensex, which is a Down Capture ratio of 128%. This is different from our previous episodes of low Down Capture ratio of ~60% when markets tumbled, driven by the very sharp fall in Small Caps this time around. It has taken much skill to restrict the fall even to these levels by constructing a low beta portfolio and having cash on the books. The silver lining is that we end the fiscal year with solid outperformance of 7.3% to Sensex. Additionally, performance remains consistent, and we have beaten the market materially in all 5 previous calendar years, and 4 of the 5 previous fiscal years (we underperformed in Fy Mar-22).

Performance aside – the world changed this quarter, probably irreversibly. The Trump administration's Ukraine/Europe stance has changed the assumed security blanket that existed since the end of WW2. There is a possibility that the world order moves away from one that is multilateral and rules-based, driven by the United Nations, and led by United States, the hegemonistic behemoth. What may emerge is a system akin to the concert of great powers in the 19th century and first half of the 20th century. But this world was inherently riskier. This itself argues for a meaningful increase in risk premium one should demand to put one's capital at risk in the market.

If that was not enough – the world changed again with Trump's tariff announcements. Deglobalization and decoupling have been debated since Trump's first term, but this is likely to accelerate these trends meaningfully. There is an on-again, off-again, paused-now nature to Trump's announcements so far, which leaves open at least 3 possibilities: i) globalization is going to reduce sharply along with global prosperity and by the way, near-term corporate earnings, ii) this is all a negotiation and we are still in the "globalization" world, in which case impacts are small if at all, and iii) this is really a China trade-war being guised as more. In the second and third scenarios one can project India to emerge a winner in the medium term. But the short term could still be meaningfully impacted, and the impact could be extreme in some sectors. Worth noting here that our total exposure to international revenues is 4% in the Portfolio (measured as international revenue / total revenue weighted by our allocation).



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Key outperformers:

- Cash: We had 16% cash on average this quarter
- Big Banks: HDFC Bank, Axis Bank, and Kotak were all up this quarter
- Life Insurers: HDFC Life and SBI Life were up this quarter

Key underperformers:

- Star Health: Down 24% this quarter. While loss ratio improved a little, stock remained under stress
- Small Caps in general: Yatharth, Updater, SJS, and Karnataka Bank were all down 15-25% given the sharp sell-off in Small Caps

Key changes to the Portfolio:

- Entered Maruti: A slow-down in PV volumes has caused a meaningful correction in valuations and the stock was below long-term average valuations of 22x P/E forward. We believe the slow-down is likely to be shallow, and while there is a slow-down, the growth remains on the longer term volume growth trend of 4% cagr. New introductions in the compact and mini SUV segment have allowed it to recover market share, and we expect this trend to continue with further model introductions. From a near term perspective the inventory levels are unusually low and allows Maruti to have higher sales into its channel despite relatively weak end demand. Further, recent rate cuts and cut in income tax rates bode well for auto demand especially in the PV segment.
- Re-entered IOCL: We first bought IOCL in mid-22 when crude prices had sky-rocketed to \$125 a barrel due to the Ukraine war coupled with the Covid reopening demand. Our first purchase was at INR 73 per share (0.7x P/B) and our final exit was at INR 164 per share (1.3x P/B) in mid-24. The thesis had been crude normalization, which played out. In addition to the benefit from valuation rerating, the stock also had a dividend yield of 7%. This time around crude is relatively low, and the company is enjoying unusually high marketing margins, and yet valuations have declined to 0.8x P/B. We have bought at INR 115-120 per share.
- Sold Castrol: Like IOCL we had bought Castrol in mid-22 as its margins had been impacted due to high crude prices, which we believed would normalize as crude normalized over time. Our initial entry price was INR 114 per share, 12x P/E forward. As the thesis played out the stock rerated and we exited at our high case. Our final price was INR 212 per share, 21x P/E forward. In addition to the benefit from valuation rerating, the stock also had a dividend yield of 6%.

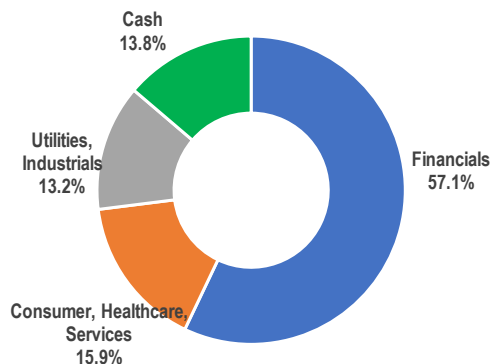
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Portfolio characteristics:

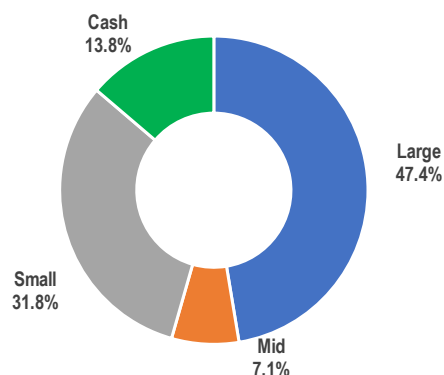
	P/E (forward)	12m EPS Growth (consensus)	PEG Ratio	P/B (forward)	RoE % (forward)	Sharpe Ratio (3 yr)	Beta (3 yr)
Portfolio	16.3x	10.8%	1.5x	2.1x	14.2%	124%	0.6x
Sensex	20.2x	9.5%	2.1x	3.0x	14.9%	29%	1.0x

Note: Portfolio details are ex Life Insurance

Portfolio: Sectoral Mix



Portfolio: Size Mix



Top 10 positions: (of 24 total positions)

HDFC Bank	Quess Corp	IOCL	PNB Housing	Star Health
Axis Bank	SBI Life	HDFC Life	ICICI Pru Life	Federal Bank

Annualized Performance:

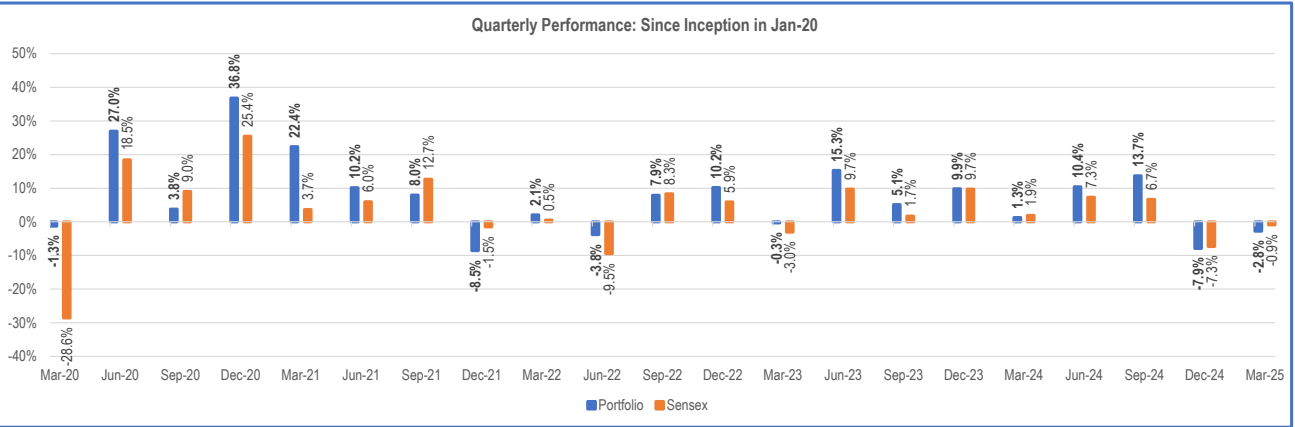
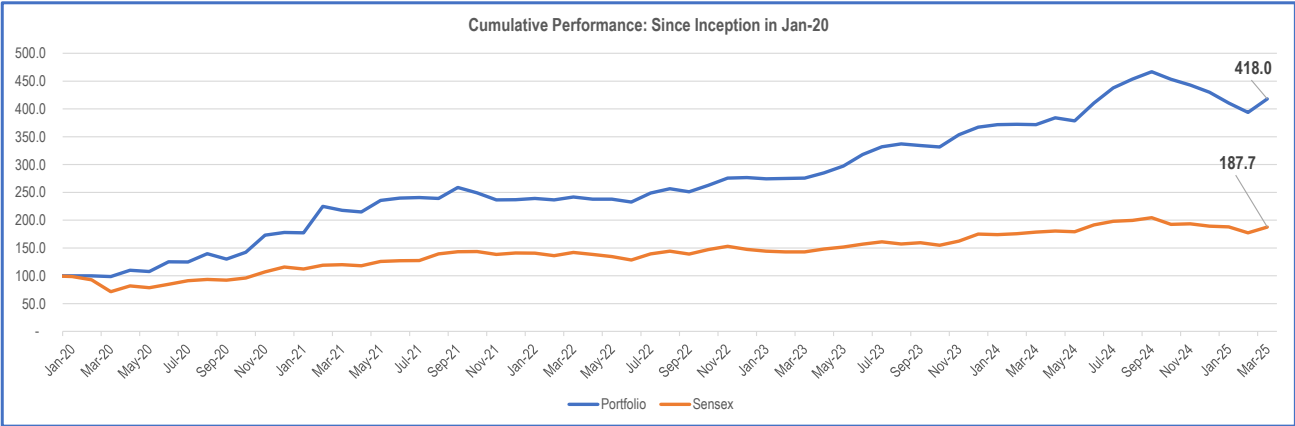
Period:	FY25	FY24	FY23	FY22	FY21
Portfolio	12.4%	34.8%	14.0%	11.1%	120.6%
Sensex	5.1%	24.9%	0.7%	18.3%	68.0%
Outperformance	7.3%	10.0%	13.3%	-7.2%	52.6%

Period:	YTD CY25	CY24	CY23	CY22	CY21
Portfolio	-2.8%	17.1%	32.7%	16.8%	33.2%
Sensex	-0.9%	8.2%	18.7%	4.4%	22.0%
Outperformance	-1.9%	9.0%	13.9%	12.4%	11.2%



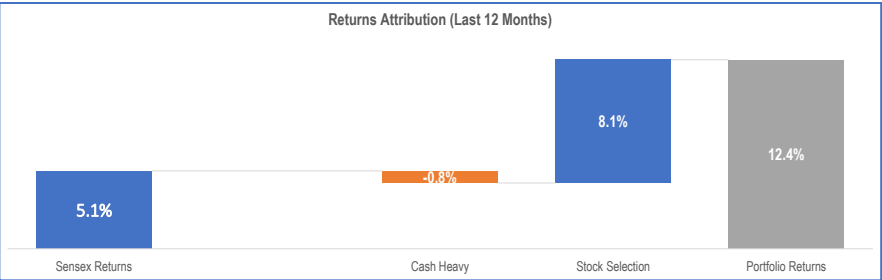
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Monthly performance charts:

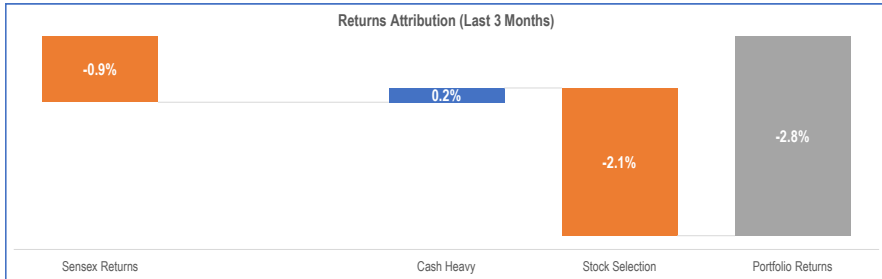


Returns attribution :

Outperformance
For Last Year:
12.4%



Underperformance
For Last Quarter:
2.8%

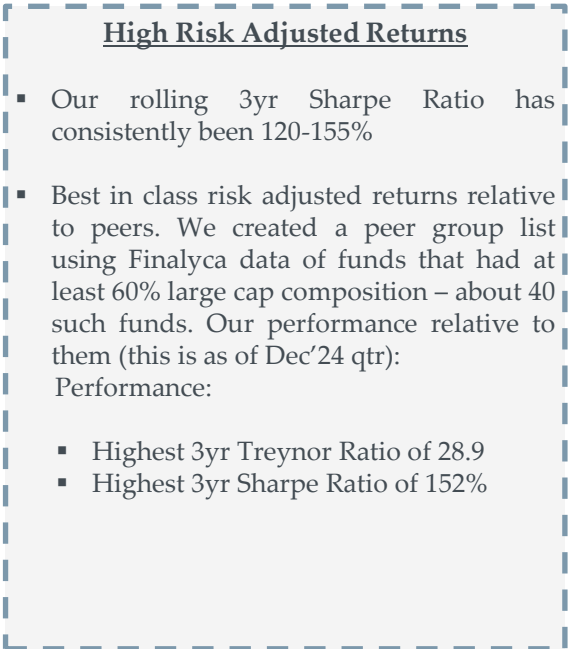
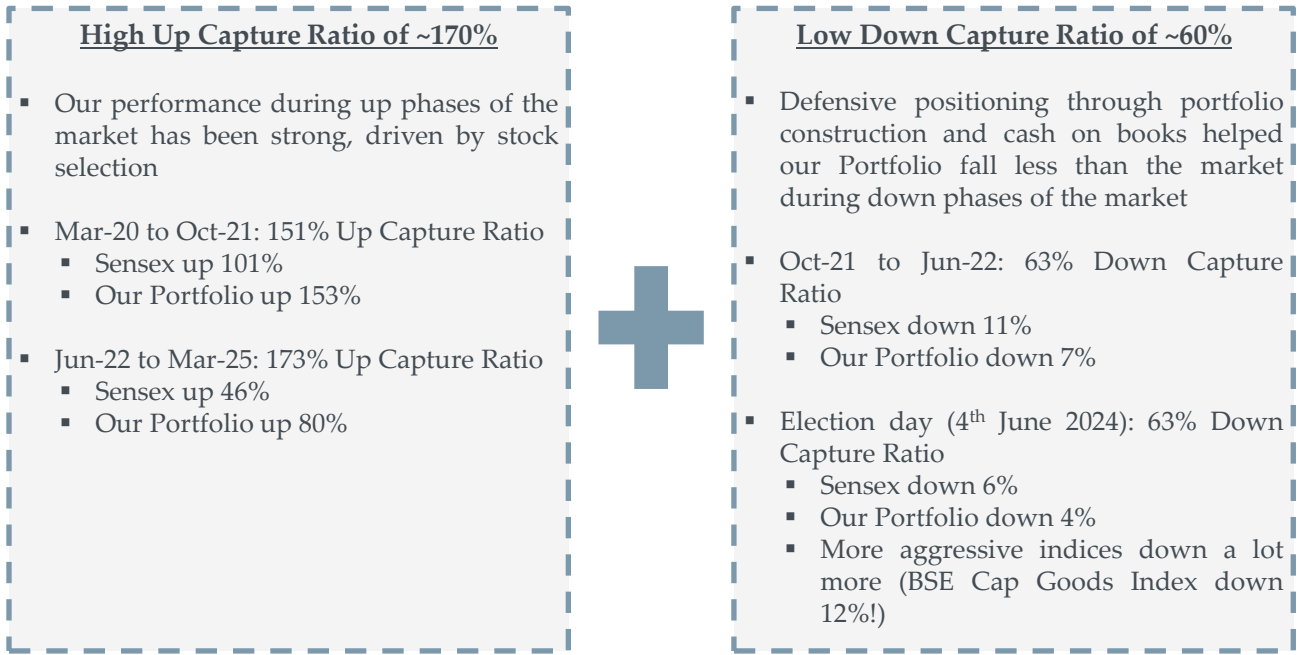


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Superior Risk Adjusted Returns:



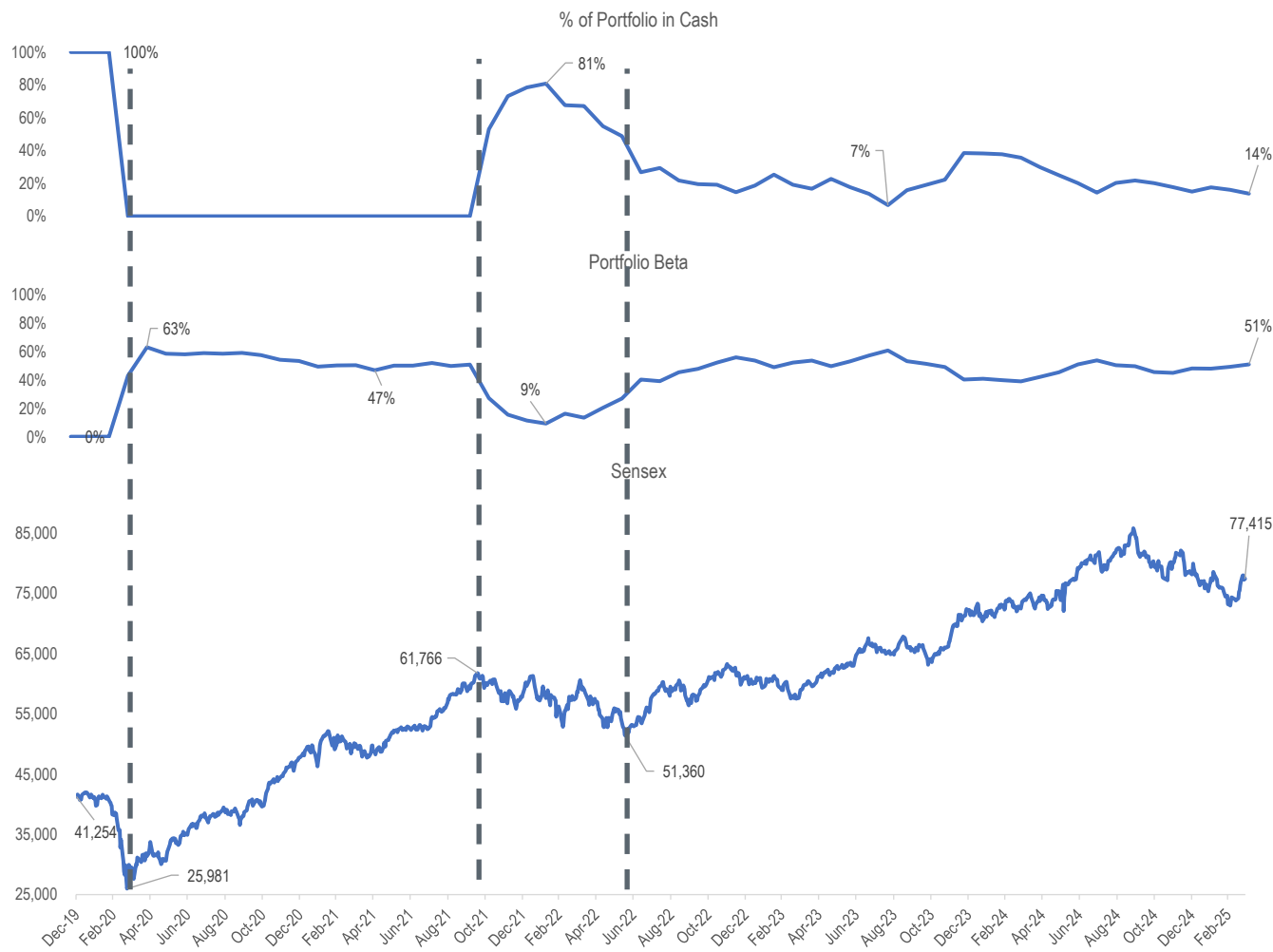


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Our strategy in action:

Our strategy is to buy good companies if they are cheap, and ONLY if they are cheap. If they are not cheap, we stay on the side-lines in cash for periods. Especially for large cap companies we buy them when they trade at discounts to their long-term average valuations and exit them when they start trading above long term average valuations without waiting for peak valuations.

This allows us to capture up market moves (High Up Capture Ratio), reduce our risk positions when markets are expensive, and wait in cash for opportunities when markets become cheap. We have been able to remain in cash for 2 down markets because of this strategy: i) before Covid, and ii) From Oct-21 to Jun-22. This ensures that in down market moves our Portfolio falls less than the market (Low Down Capture Ratio). A high Up Capture Ratio and a low Down Capture Ratio combine to provide our Portfolio with meaningfully higher returns than the market and a high Sharpe Ratio.



Pre-Covid (Jan-20 to Mar-20)	100% in cash before Covid Down Capture Ratio = 0% = Fall in Portfolio / Fall in Sensex = 0% / -29%
Market Bounce Back (Mar-20 to Oct-21)	100% in equity, with Portfolio beta gradually reduced as the markets rallied Up Capture Ratio = 151% = Rise in Portfolio / Rise in Sensex = 153% / 101%
Market Correction (Oct-21 to Jun-22)	Up to 80% in cash Down Capture Ratio = 63% = Fall in Portfolio / Fall in Sensex = -7% / -11%
Market Bounce Back (Jun-22 onwards)	22% in cash on average Up Capture Ratio = 173% = Rise in Portfolio / Rise in Sensex = 80% / 46%

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B. OUTLOOK:

We posited at the beginning of the note that we could well be at the beginning of a new form of world order. If so, this is likely to be noisy. Global macro risks could remain very high in the near term, dominated by news on the trade war.

Our positioning remains very cautious. We have largely reshaped the portfolio over the last 3 quarters to increase the safety margin in the Portfolio. There is a relatively small exposure to exports. We are re-underwriting company models to evaluate what a lower growth world would mean for our current and prospective investments. Which explains why, despite a meaningful correction in the overall market, we still have 13.8% cash on the books.

Big Banks and Life Insurance sectors were already cheap. Some other sectors have also become cheap. Oil & Gas, and Auto OEMs are now more reasonably priced. We think Pharma and IT Services could get there soon.

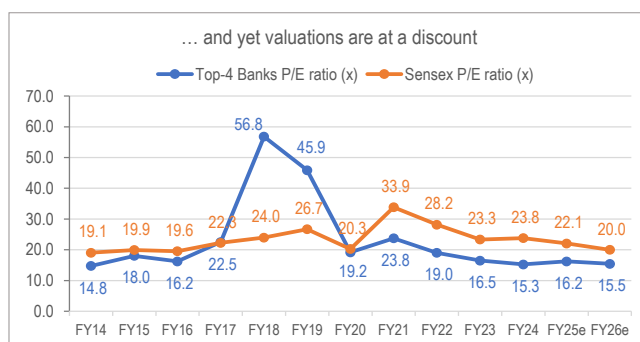
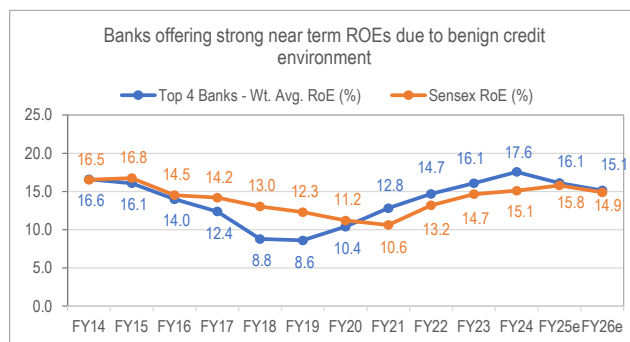
Sector	P/E Mar-25	P/E Mar-24	P/E 10 Yr Avg	vs Mar-24	vs 10 yr Avg	Our View
Auto	20.6x	23.7x	27.9x	-13%	-26%	We have recently entered the PV segment, where recent demand slowdown is allowing us an entry opportunity. We like some auto comps
Banks - Private	15.9x	14.6x	21.0x	9%	-24%	This is our largest sectoral position in the fund. Continues to offer opportunities and has been resilient in the face of a market coming off its peak
Cement	34.2x	30.2x	28.8x	13%	19%	Still expensive both on a absolute and relative basis
Consumer	38.7x	43.3x	42.1x	-11%	-8%	Very expensive, our previous investments here have largely been exited
Healthcare	28.3x	31.3x	27.0x	-10%	5%	We entered 2 years ago when opportunities existed. Fewer opportunities now. Working on hospital names where we have made an investment
Infrastructure	15.6x	25.4x	12.1x	-39%	29%	Very expensive, poor corporate governance, we are staying away
Media	14.1x	16.0x	25.2x	-12%	-44%	While it looks cheap we have studied the companies here and have decided to pass due to risk in business models and / or due to corporate governance
Metals	9.6x	12.6x	10.7x	-24%	-10%	We are beginning to look at steel and aluminium, but still early days as stock prices need to correct further to reflect reality of underlying commodity price
Oil & Gas (ex RIL)	7.1x	8.6x	8.5x	-17%	-16%	We have positions in O&G consuming / distributing companies. Given sharp move down in crude O&G producers may soon become attractive
Specialty Chemicals	29.9x	33.9x	25.6x	-12%	17%	Many of the underlying chemical prices have settled back down to pre-Covid levels. We are studying multiple names here now
IT Services	24.0x	24.7x	21.1x	-3%	14%	Could be impacted in the new trade war world. Demand estimates being revised down sharply. Could become attractive is market overreacts

Data Source: Motilal Oswal

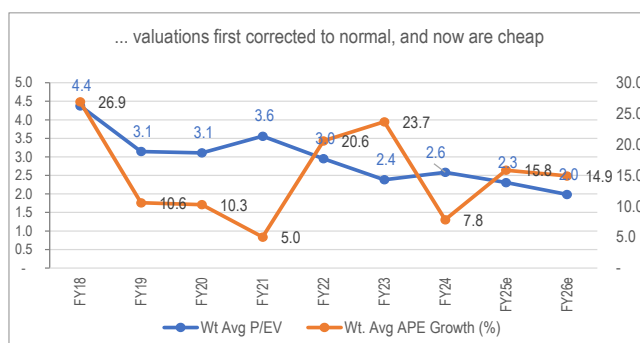
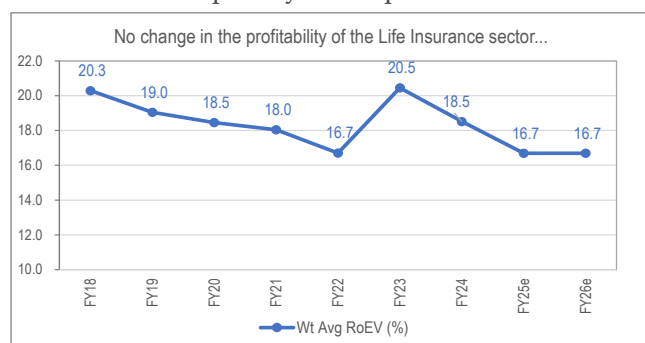
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Portfolio positioning:

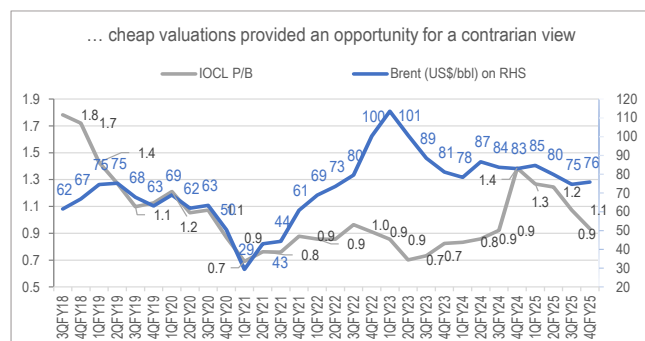
- 1) Continue to be long Big Banks and select NBFCs: Banks are recovering from unsustainably high LDR environment, driven by i) regulatory push by RBI to reduce retail lending, and ii) improving LDR situation of HDFC Bank which was otherwise crowding out deposits. Valuations remain attractive providing a healthy margin or safety. Additionally, in a trade-war global macro outlook, they are likely to be less impacted from export weakness, and that too on a secondary basis..



- 2) Continue to be long Life Insurance: Life insurance is another large sector which is offering a large margin of safety. This is despite good growth in VNB and premiums. Recent regulatory risk spikes are now hopefully in the past.



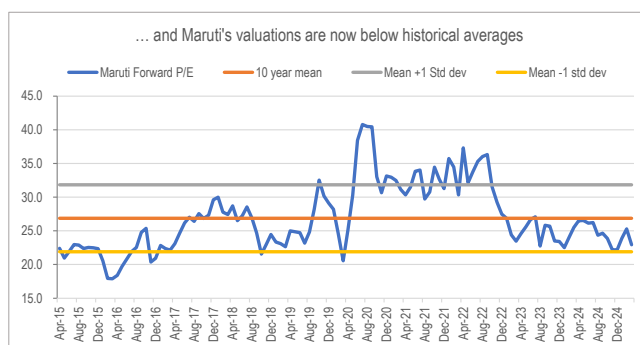
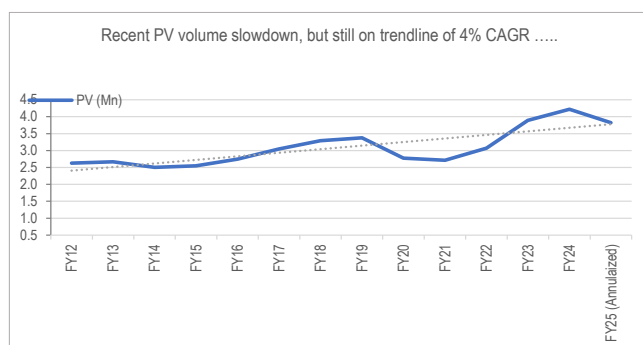
- 3) Oil & Gas has become interesting: For a change, and somewhat surprisingly, both OMCs and producers are attractive. For now, we are long OMCs. They are enjoying unusually high marketing margins and are beneficiaries of low crude prices. Yet valuations have fallen sharply in the risk sell-off.



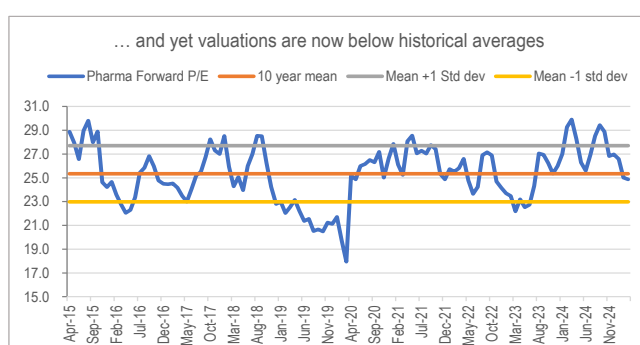
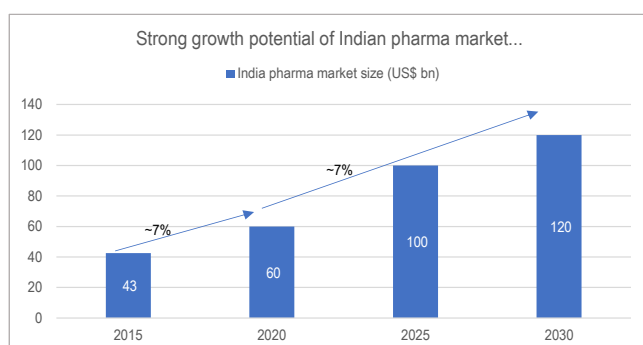
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Portfolio positioning: (continued)

- 4) Recent entry into the Auto sector: We have been long a couple of auto ancillaries that benefit from premiumization (SJS and Lumax), which will allow them to grow at 2-3x of sector volumes. With near term PV volume weakness we have also entered Maruti.



- 5) Some exposure to the Pharma sector: Growth remains consistent. Valuations have fallen sharply and sector valuations below trend now. However, here one has to be more careful due to potential risks of tariffs and other barriers which could be introduced. Also, the high Revlimid profitability is making the sector look cheaper than it really is.



- 6) We are researched and ready on IT Services, if prices come our way: We think that the trade war could easily trigger a recessionary environment in the Western markets. In addition, there could be a direct impact on visas and other elements of services exports which is not yet on the table. IT Services' stocks have corrected, but not enough. Earnings cuts have just started and will be much sharper in our view given there will be likely ramp down of deals. We are hopeful that panic will set in at some point. We are researched and ready.

