



Multi-Act Equity Consultancy Pvt. Ltd.

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Dear Investors,

Performance

Below is the performance of the Emerging Corporates India Portfolio (ECIP) for Q3FY22 and as of Dec 31st, 2021. Our closing equity allocation for older clients as on Dec 31st, 2021, was ~85% spread into 19 companies.

Portfolio Performance	Total Portfolio Returns	New Benchmark	Old Benchmark
CAGR since Inception (<i>Annualised</i>)	17.5%	15.0%	14.6%
Q3FY22	-1.9%	0.9%	2.0%
Q2FY22	6.6%	12.2%	12.1%
Q1FY22	5.1%	13.9%	17.1%
FY21	79.2%	94.0%	104.7%
FY20	-13.2%	-30.3%	-33.0%
FY19	13.3%	1.2%	-6.5%
FY18 (<i>Since Inception - April 28, 2017</i>)	9.7%	10.2%	10.5%

- *New Benchmark is an average of the BSE Smallcap Index, BSE Midcap Index and Nifty*
- *Old Benchmark is an average of the BSE Smallcap Index and BSE Midcap Index*
- *Returns are time weighted and after management and performance expenses.*
- *Management and performance fees are deducted as and when due*
- *The actual returns of clients may differ from client to client due to different portfolio and timing of investment*
- *Past performance is no guarantee for future performance*
- *Benchmark calculations reflect total returns (including dividends)*
- *Returns for less than 1 year are not annualised*
- *Inception Date is 28th April 2017*

Our portfolio continued to lag the benchmark, but the extent of the lag is reduced versus the last two quarters (Q1FY22 and Q2FY22). At the sectoral level, we have a ~26% allocation to Lenders and ~18% allocation non-lending financial institutions (1 General Insurer, 1 Life Insurer and 1 AMC). The entire financial sector, be it lenders or non-lending financial services institutions, have significantly underperformed the broader indices, causing our performance drag.

Calendar Year 2021 Return	
Nifty	25%
BSE Small-Cap	61%
BSE Mid-Cap	37%
Bank Nifty	12%
AMC we own	-18%
Life Insurer we own	-4%
General Insurer we own	-8%
ECIP Portfolio	10%

If one looks at CY2021, our call on financials and financial services seems mistimed. However, if one looks at valuations of financials today as against the market, we are of the view that they offer a better 1–3-year prospective return relative to the market. At the portfolio level (*all these stocks from the financial sector put together*), have continued to deliver intrinsic value growth while their stock prices have not moved or worse still, fallen. We remain confident that the market will take cognisance of the improving valuation comfort in these stocks accompanied with steady growth prospects and reasonably high confidence on longevity and sustainability of earnings, especially versus the rest of the market.

Further, as we stated in the last newsletter, over the last 18 months, we possibly drifted more towards safety. To put simply, we did not possibly position ourselves for significant short term alpha generation. We have now addressed that aspect of portfolio construction through allocation of capital (*about 18% of current portfolio value divided into four stocks*) to stocks that are not widely covered and/or have a special situation attached to them. We think that these stocks will create room for no-market correlated alpha generation. While we have done our due diligence in choosing the best ideas, if we are wrong, the losses can be material. However, we think that even if we are right on two of them and the third is a dud (*no return but no significant loss*) and one is a disaster (*50% loss*), the winners should still compensate us handsomely.

We will briefly talk about these ideas that we have recently added:

An erstwhile software testing Company transforming into a global delivery centre with growing ER&D contribution (unlocking value through merging unlisted Indian entities into the listed entity)

Until now, this Company, owned by a French software Company, was focused exclusively on business assurance, quality assurance and software testing for the banking, insurance, and financial services industries. The Parent had two unlisted entities in India, one engaged in non-BFSI software testing and the other engaged in Engineering R&D (ER&D). This structure of one listed and two unlisted entities in India did not lend itself to clean corporate governance. In Jul'20, the parent appointed a new CEO who comes in from Infosys and one of his top priorities was to develop and scale up the India based delivery centres. As a part of this plan, the Parent also decided to merge the unlisted entities into the listed entity at a favourable swap ratio. Between end of FY21 to FY26, employee base at the India level could go up 4x (30% CAGR). While revenues could lag employee growth due to higher off-shore mix, it should still be very healthy. More importantly, the ER&D business should grow faster than the other verticals increasing its salience (*ER&D could be ~50% by FY26*). ER&D is a large opportunity and Companies catering to this opportunity trade at very high multiples currently (*~50x P/E*). We think that if the management delivers on its promise (*we are seeing industry leading revenue growth traction in 6MFY22*) and the opportunity landscape plays as per our expectation, there is a significant re-rating potential in this Company.

A leader in water purifier space undergoing demerger and change of management

The Company, through its subsidiary, owns a household brand synonymous with the water purifier space – a market leader in a concentrated market where two brands control ~80% of the market. Currently, the Company is in the process of demerging this subsidiary into a separate entity, that will be listed on the exchanges. Further, the promoters will sell their stake in the subsidiary to one of the largest Private Equity Funds in the world (*promoters need to sell stake to meet their debt obligation*). This Private Equity player has already showcased its playbook through acquisition of another consumer durable Company in India in 2015 and creating significant value for shareholders since then (*we feel confident of the PE firm's ability to bring in best-in-class management*). When we look at the financials of the No.2 player in the industry, the business indicates strong economics – high ROE; negative working Capital; high Free-cash generation; Operating margins in the ~20% range which are the best in the consumer durable space; growth rates have been tepid in the last 5 years, but the under-penetration of the category should allow for reasonable growth

going forward. In comparison with the No 2 player, our investee Company does have poor numbers currently. But we feel that under the new management, there are many low hanging fruits that could be plucked, especially given the scale advantage over the No 2 player. This is a 3-to-5-year journey where we think significant value could be extracted. Against peers in the consumer durable space trading at 5x P/Sales, this Company trades at ~3.0x sales (*giving zero value to residual business*) and arguably has the potential to have much better financials than the consumer durable industry average.

Turnaround story in the kitchen appliances space

This is a south-based branded kitchen appliances player operating in LPG Stoves, Mixer Grinders, Table-Top Wet Grinders and Pressure Cookers space. Until FY16, the Company used to participate in Government's public distribution scheme which created a drag on return ratios due to high working capital intensity. Also, since these tenders were lumpy in nature, it led to a high volatility in growth and profitability for the company. The management however has shifted focus away from this business (*NIL contribution over the last 4 years*) and is now focusing purely on the branded B2C business.

From its Mar'17 revenue base of INR 400 crs to INR 860 crs in FY21, it's revenue CAGR of 21% has been industry leading. It's execution on e-commerce has been very strong with ~30%+ revenues coming from this channel (*ahead of peer-set*). While the Company needed to spend very heavily on advertising to scale up (~11% of Revenues), it has now reached an inflection point where ad-spends do not need to grow in the same proportion as it's revenues. Company spends nearly the same on ad-spends in absolute amounts as its competitor which is 3x its revenues (*giving scope for operating leverage going forward*). Thus, while profitability has started coming in only recently, we think there is significant scope for margin expansion over the next 3 years. As against peer-set which trades at 3x-5x sales, this Company trades at slightly above 2x sales, thus giving room for re-rating (*we think that over the next 2 years, it's margin profile should be at industry average*).

A small housing finance Company with best-in-industry asset quality

We have invested in a relatively small PSU promoted housing finance Company focused on the affordable housing space, which had the best asset quality performance in the financial industry during COVID. It's PSU parentage and best-in-industry asset quality track record provide it with a best-in-industry cost-of-funds within HFCs (*while the parentage is PSU; it's run by a CEO from the Private Sector, thus giving it the best of both worlds*). It's cost of funds is better than the largest HFC in the country which is more than 20x its size (*even after adjusting for the higher Commercial Paper mix in borrowings, cost of funds of our investee Company is better, owing to a higher share of NHB borrowings*). It is a pure-play home loan Company with near zero developer exposure. Further, more than 70% of its loans are to the salaried class. While competition from Banks has been intense, this HFC has over-time managed to grow, without diluting it's underwriting, by penetrating deeper geographically and focusing more on self-build homes versus flats. We think its small size allows it a few more years of growth at-least. In addition to this bottom-up thesis, we also like the housing finance business from a top-down perspective owing to a visible turnaround in the real-estate sector. At around 2x FY23 P/B (*building in a small capital raise in FY23*) with ROEs of 16%-18%, we think this provides a compounding opportunity plus a possible re-rating kicker.

Further, we have ~15% cash in older accounts, which should allow us to take advantage of opportunities in case of a market correction. In the last 18 months, our cash calls also appear mis-timed as markets have largely gone up one-way but we have been benefited from cash calls historically and continue to believe that this will enable us to add higher prospective return relative to the market, especially from today's starting point.

We understand that CY2021 was a subdued year for our investors especially from a relative return calculation. There's a significant part of our portfolio that has grown its intrinsic value but owing to a poor price performance, has become cheaper. We think if there is a meaningful market wide correction, if market participants recognize the valuation comfort in this segment, our performance should see a leg up. Additionally, as explained above, we believe our new additions have the potential for meaningful alpha creation. And we still have a cash buffer that can be deployed in a correction at an attractive prospective return.

We thank our investors for sticking with us in difficult times and we take comfort that we are well-placed for a material relative 12–24-month outperformance and higher prospective returns from today's starting point.

Thank you for a patient reading.

Regards

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Statutory Details: Portfolio Manager – Multi-Act Equity Consultancy Private Limited (Registration No. INP000002965)

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Note:

1. All cash holdings and investments in liquid funds, is considered for calculating the performance.
2. All performance data are reported net of all fees and all expenses (including taxes).
3. The above performance numbers are not verified by the SEBI

Disclosure as per Global Investment Performance Standards (GIPS®) –

Multi-Act Equity Consultancy Pvt. Ltd. claims compliance with the Global Investment Performance Standards (GIPS®). You can refer to the GIPS Compliant performance presentation here. Multi-Act Equity Consultancy Pvt. Ltd. has been independently verified by M/s. M. P. Chitale & Co., Chartered Accountants for the periods April 1, 2011 through March 31, 2019. The verification is available upon request. MAECL has claimed GIPS compliance for the Financial Year 2021 and such performance numbers shall be made available upon request.

Verification assesses whether (1) the firm has complied with all the composite construction requirements of the GIPS standards on a firm-wide basis and (2) the firm's policies and procedures are designed to calculate and present performance in compliance with the GIPS standards. Verification does not ensure the accuracy of any specific composite presentation.

The Composite representing the Emerging Corporates India Portfolio was created on 28th April 2017. Performance has been compared with Total Return of the Index. For Emerging Corporates India Composite, blended benchmark of BSE 500 (50% weight) and BSE Mid Cap Index (50% weight) has been used. The Gross Return is before all expenses (except Brokerage). Net Return is after all actual expenses. A complete list of composite descriptions, policies for valuing portfolios and calculating performance fees are available on request.

Multi-Act Equity Consultancy Pvt. Ltd. is an independent SEBI registered Portfolio Manager. The firm maintains a complete list and description of composites, which is available upon request. This ECI Composite includes all discretionary fee paying portfolios that are being managed with the objective of generating capital appreciation by investing in companies that in the opinion of the Portfolio Manager are "Advantage Period Companies" which are enjoying a "competitive advantage period" that is likely to last for at-least 5 years and are available at a valuation that offers margin of safety relative to the growth opportunity landscape. The portfolio manager has also the discretion of not being fully invested if he is not able to find ideas that meet the above criteria along with valuation criteria, thus, indirectly taking an asset allocation call between Equity and Cash (& Cash Equivalents).

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Risk factors

General risk factors

- a. Securities investments are subject to market risks and there is no assurance or guarantee that the objective of the investments will be achieved.
- b. Past performance of the Portfolio Manager or its affiliates does not indicate its future performance.
- c. Investors are not being offered any guaranteed or assured returns i.e. either of principal or appreciation on the Portfolio.
- d. As with any investment in securities, value of the Client's Portfolio can go up or down depending on the factors and forces affecting the capital market.
- e. The Portfolio Manager is neither responsible nor liable for any losses resulting from the operations of the Portfolios.
- f. The investments made are subject to external risks such as war, natural calamities, and policy changes of local / international markets which affect stock markets.
- g. The Portfolio Manager has renewed SEBI PMS registration effective December 04, 2020 and has commenced its portfolio management activities with effect from January 2011. However, the Portfolio Manager has more than 10 years of experience in managing its own funds invested in the domestic market.