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Dear Investors,

Performance

Below is the performance of the Emerging Corporates India Portfolio (ECIP) as of 31st December, 2017. Our equity allocation is ~49% spread into 13 companies and balance is in liquid schemes.

Portfolio Performance	Equity Allocation as on 31.12.2017	Total Portfolio Returns	Benchmark Returns
Since Inception (not annualised)	49.21%	11.48%	23.25%
December Quarter (not annualised)		6.16%	17.4%

• Benchmark is an average of the BSE Smallcap and BSE Midcap Index
• Returns are time weighted and after management and performance expenses.
• 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.
• Inception Date is 28th April 2017.

We will judge ourselves based on at-least three years of performance as our strategy is designed to capture opportunities that, in our understanding and estimation, should work over a three to five year period. Any movements in our favor or against us, in the interim, are just market volatility. While market volatility is not irrelevant because it has a bearing on our returns, it is just that it is not something we have control over or can time over a short-period. We think that market volatility on the downside will help us towards allocating more and on the upside, might force us to trim/ exit allowing us a return more than we had expected but also leading to a re-investment risk. While our intention is to buy and hold it for the stated period, we are not price agnostic in making this decision. We shall gradually start reducing weights *(from higher weights to 3%)* as more and more optimism builds into the price and if the market does not give us even a 14% return from ~CMP to our estimation of "blue-sky scenario price five year hence", we shall get out completely *(from 3% to zero).*

It is pertinent to note that we will not buy some of the stocks we own at ~CMP *(with fresh money received today)* but we continue to hold them. We have a buying criteria and a selling criteria independent of each other and we take buy and/ or sell decisions as and when any criterion gets triggered. There is a large range in between where we do nothing and thus, holding a stock already bought in a client account when trading in the *"do nothing"* range does not tantamount to buying it at ~CMP in another client account *(while one may argue of a cost anchor bias in this approach, we think that this approach lets us optimize returns at each individual investor level over his holding period versus a model portfolio approach).*

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We added five more Companies in this quarter. A brief description on each of these Companies is given below:

Company 1

The first Company that we bought in this quarter is a diagnostic Company. The Indian diagnostic industry is interestingly placed with many number of small fragmented players and four pan-India players. Increase in evidence-based treatments, changing disease profiles, increase in health insurance coverage, rising income levels, demand for lifestyle diseases-related healthcare services and increase in preventive health check-ups, etc create an opportunity for the diagnostic industry to grow at ~15% for a long time. The Company bought by us has been growing at 20%+ and has margins of 35%+ over the last five years. Its growth rates as well as margins are the highest in the industry. The higher margins are in-spite of the fact that the tests offered by it are the cheapest in the industry.

The Company has a strong competitive advantage today on the costs front because of a few important decisions taken by the founder in the early stages of the Company. These decisions were:-

- Creating volumes through being a central kitchen to the front-end laboratories versus peers more focused on the front-end
- Lesser variety of tests but focus on high-volume tests *(biochemistry tests focus)*
- Focus on tests that are not time-sensitive versus peers focusing on time-sensitive tests.
- Focus on tests that require lower human intervention and the output is in the form of a number *(maximum automation)*

The above decisions gave the Company huge volumes in its target tests that led to a significant cost advantage versus peers at the test level. At each test level, the price that the Company offers is only possible owing to the volumes it does for that test and the volumes that it does are only possible because of the price it offers for that test, creating a virtuous loop. It would require a competitor to burn a lot of money to catch-up with the investee Company and the investee still sits on margins of 35%+ allowing it to disrupt itself to protect from an irrational competitor.

The Company has used its cost advantage in the B2B space *(being central kitchen for front-end labs)* to start a wellness focused brand. This brand now contributes more than 50% of its revenues and is growing upwards of 30% *(this is the only well-recognised wellness brand in the country)*, and is significantly margin accretive to the Company margins. Since the Company is not focused on improving margins at the consolidated level, the margin gains here can be further used to offer better rates in the B2B segment. If you were to do a wellness tests through any other Company, it would be more expensive for you anywhere from 30% to 100% *(or more)*.

The Company also has a radiology business which is still in its initial stages but with the same strategy of offering scans at discounted prices by generating high volumes. All the incremental capex would be towards this business *(base business is asset light)*. Given the under-penetration of these facilities in the country, this could also possibly add value in the long-term.

When we were doing our work on the Company, we checked with doctors and independent labs about their opinion on the Company. The responses we got were mixed and some said that they do not trust the reports of this Company. While no one had convincing answers for stating so *(the Company's lab equipment is* *from globally acclaimed vendors),* they were just skeptical. We went a step ahead and performed tests with this Company and a peer and compared the results, which matched. Our understanding currently is that, given the disruptive pricing of the Company, there is some sense of disbelief amongst the eco-system with regards to the pricing and the incentive systems are also mis-aligned. We feel confident of this pricing being a result of a well-thought out business model by the founder than anything else. If and when regulations get stricter and there are price caps imposed, this Company could actually significantly benefit from the same.

Company 2

The next Company that we bought got recently listed and is into the life insurance industry. We do think that the Life Insurance business also fits into the "Emerging Corporates" framework given the following:

- LIC losing market share structurally *(value migration towards private sector).*
- Within the private sector, the Top 7 players taking share away from the bottom.
- Very high protection gap
- Financialization of savings led growth rate apart from the general per capita GDP linked growth.
- Industry is now past its regulatory woes that hurt growth post 2008 because of mis-selling of ULIPs.
- A very scalable business as proven across the world with limited disruption risk.

Within the life insurance space, we think that the investee Company is best placed to take advantage of the opportunity landscape owing to the following:

- Company has a far superior product mix than its peers. On a total premium received basis, its pure protection business is 22% compared to low single digit for its peers.
- This product mix leads to the investee company having the highest New Business Margins of 22% versus 10%-15% for peers.
- The product mix of competitors is more tilted towards ULIPs which are market dependent and can face outflows in a market crash. Compared to the same, non-ULIPs are more sustainable.
- Company gives historical data of embedded value and its 7 year average Embedded Value growth rate is 20%. Compared to the same, peers give only 2 - 3 years embedded value data making it difficult to understand sustainable Embedded Value growth rate.
- While Company is amongst the top 3 private sector player continuously based on New Business Premium received, its quality of premiums received is better as explained above.

While this Company trades at a premium to peers based on a Price/ Embedded Value basis, we think that this premium is well deserved based on the points give above. We bought this on Day 1 of the listing at about a 7% premium to issue price. We believe this to be a long-term compounder candidate.

Company 3

The next Company we bought is a Non-Banking Finance Company focused on MSMEs *(LAP and unsecured),* consumer durables and two-wheelers.

The current founder of the Company bought a stake in an ailing NBFC focused on wholesale lending from a large business house in 2010 and then roped in a large private equity player in 2012 who infused capital for a majority stake *(with the large business house exiting).* Since then, the Company has undergone a major turnaround. The company has diversified the balance sheet away from wholesale financing, with the share of this segment declining from 90% in FY10 to 7% now. The Company currently has ~60% of its book catering two MSMEs through LAP (42%) and unsecured working capital business loans (18%) and ~33% is into retail including consumer durables (13%), two-wheelers (10%), affordable housing and used car loans (~10% combined) and the wholesale book is just ~7%.

The LAP book (42%) is a low RoE business and the non-LAP book (~50%) is a higher RoE business. The Non LAP book is growing much faster than the LAP book. Also, within the non-LAP book, the consumer durables piece, which is the growing much faster than Company average, has just broken even in Q4FY17 (after 4 years) and should provide significant delta to the RoA/ RoE. We think that, over the next 3 years, this business could transform into a 17%-18%.

We like the following about the Company;-

- Good underwriting performance and conservative provisioning as evidenced by 1% NNPA at 90 days past due (amongst the best in class amongst its peer-set).
- Proven management execution on scaling up and transforming business from low single digit RoE to about 13% now. Management has executed on what it has guided.
- Presence in segments which have huge growth tailwind allowing it grow at 25%
- Stated policy to have positive asset liability match - borrow long and lend short.
- Good feedback on the promoter and on the credit appraisal standards employed by the Company
- Good accounting practices – amortizing their fee income over the tenor of the loan. Undergoing full audit of their books every quarter by a Big Four *(versus limited review done quarterly by auditors for peers)*

Events like bank recapitalization and bottoming out of interest rates could possibly be construed as factors that will end the good times for NBFCs. While NBFCs could lose out to Banks on account of these factors, we think that the market is large enough to allow a small player like our investee Company to grow at a reasonable pace. Also, there are some advantages that NBFCs have with regards to lending small tickets to large number of borrowers over Banks with regards to assessing credit based on cash-flows, turnaround-times, use of technology/ algorithms, etc *(this advantage might not be negated by a 50-100 bps of interest rate movement)*. We are cognizant of the higher risks in this stock owing to leverage as compared to any other investment and thus, we have initiated position with a lower weight of 2% versus our normal initiating weight of ~3%.

Company 4

The next Company is a niche player in contract research and manufacturing for clinical trials done by Innovator companies for their patent pipeline. It works on developing the process chemistry and then manufacturing the intermediates. Its business is spread across Phase I, II and III and post-patent commercial molecules. As drugs move from Phase I to Phase II to Phase III to commercial, the revenues from that specific molecule would roughly increase by order of magnitude of 5x-10x. Off-course, not all drugs will clear every Phase and thus, there will be drugs that drop out as well. This business does not follow a linear growth model as revenues pick up drastically as molecules shift from one Phase to another and could even have a drop if a molecule drops in a particular Phase. Over the last 7 years (2018E over 2011), the business has grown at 14%. Once a molecule is commercialized, the innovator buys bulk quantities that could last for 2-3 years and thus repeat orders do not happen in this period. Three of Company's molecules commercialized in 2014 and its revenues saw a sharp jump in the year on this account. Since repeat orders do not happen immediately, it appears as though revenues have stagnated but it's just because of the nature of its business and not because the Company is losing out to competition. The repeat orders have started from FY17 and grown in FY18 and should now be an annuity stream going forward. To summarize, this is a niche business with very high margins (35 %+), very high RoCEs and not many companies in India have this capability. This business also has a switching cost for the customer as it's not easy to change the CRAMS player in the innovative stage because of process chemistries being developed by them.

An interesting part of Company's business though is its in-house R&D pipeline. Over the last 15 years, Company has spent INR 600+ crores on its in-house R&D pipeline without getting a single rupee of revenue from the same yet. R&D has averaged 17% of its revenues over this period. This R&D is completely expensed in its Income Statements *(no creation of intangibles in the balance sheet)*. Company has 13 drugs in its pipeline – one of which is an Alzheimer drug - undergoing Phase II clinical trials currently. There has been no new drug for Alzheimer discovered since 2003. Recently, two of its peer failed their Phase III clinical trials leaving the investee Company as the only player in the race *(within the route the investee has taken for Alzheimer – there will be others doing trials using different routes)*. Failure of these drugs for peers was essentially on account of side-effects that forced a dosage reduction and reduced positive effects to no better than a placebo. Investee Company's drugs has not reported any negative side effects so far *(thus on the side-effects end, it is better – but we do not yet know how it fares on the positive effects).* Also, if Company clears Phase II, it would out-license this drug to a larger Company which would entail a monetisation opportunity in the form of a significant up-front fee *(it does not have financial wherewithal to do Phase III on its own)*. The R&D pipeline of the Company gets a negative value currently as all R&D is expensed out and market looks at P/E based on EPS post expensing out of the R&D. FY20 will be a crucial year for the Company as the results of the Phase II trials come out. We think that even if the trials fail, it might be not be a very negative outcome from an investing perspective (buying at the price we entered) if the Company realizes the futility of its R&D pipeline and either shuts it down or does a slump sale *(they might continue burning cash though, in which case as well, investors might not still lose money as this scenario is baked into the price already – it would restrict the upside though)*.

Thus, to cut the long story short, we think it's a moated core business valued fairly *(about ~18x-20x FY19 post R&D expected EPS)* with huge option value of NCE pipeline for which we are not paying anything *(this is a free lottery ticket)*. It is also important in these type of Companies to ensure that there is no leakage through expenses claimed as R&D. Our study of financial statements and promoter background does not indicate of anything that arouses suspicion. Off-course, this stock requires us to have a lot of patience as new drug development cycles are long and delays are in years and not in months. We are well aware that this journey might be very lumpy/ non-linear and have taken a five year view on this currently *(only time can tell if we walk our talk!).*

Company 5

This Company has a 70 acre land bought in 1959 in a prime area in in Mumbai with a large unexploited monetization potential. The Company uses this land to run exhibition centers and has three IT buildings that are fully leased out. The exhibition center run by this Company is the only one in Mumbai suitable to hold large-scale exhibitions *(with presence of various permanently air conditioned halls ranging from an area of 2,000 Sq. Mts to 20,000 Sq. Mts.)*. Its exhibition center is generally booked a year in advance for key dates with advance payment *(negative working capital)*, owing to the lack of alternate locations. The largest B2B global exhibition organizer in India held four out of the six exhibitions in Mumbai at this center in 2017. Our understanding is that the exhibition center business in India is at a nascent stage, with a huge scope for growth, with the availability of space being a key constraint. The exhibition market in India is less than 15% of the Chinese exhibition market. Also, we believe that many of the exhibitions that can happen in Mumbai do not happen because of lack of availability of space. There is competition coming up in Mumbai over the next couple of years for the exhibition business but we think that **a.** our investee Company's area is much bigger than estimated area of competitor and thus, risks of large exhibitions shifting to competitor is low; **b.** increased space might only bring more exhibitions to Mumbai and **c.** competitor is incurring land cost at today's price versus virtually zero for our investee company giving us a structural cost advantage.

The Company has large expansion plans increasing its space in the exhibition business as well as constructing new IT buildings. Its entire expansion will be funded by internal accruals without resorting to any debt *(net-cash balance sheet currently)*. We believe that the demand tail-wind along-with location advantage gives the Company an opportunity to utilize its expanded capacity and maintain good return ratios.

We are well aware that developing real estate in India is generally prone to delays and this idea would require us to stay patient. Also, there is always a question of growth post this land being fully developed. However, we think that such a point is at-least 8-10 years away and buying the Company at the price we have entered would give a very good yield when the full monetisation potential of the land is exploited.

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

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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 October 14, 2014 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.