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CIN: U67120PN1993PTC074692

Date: 30th September 2017

Dear Investors,

Performance

Below is the performance of the Emerging Corporates India Portfolio (ECIP) as of 30th September, 2017. Our equity allocation is ~40% spread into 8 companies and balance is in liquid schemes. We started this scheme on April 28, 2017 and we do not think that anything can be read into our performance so soon. We have taken long-term *(5 year)* calls on these Companies and short-term price swings in our favour or against us do not determine the validity of our thesis or the lack of it.

Portfolio Performance	Equity Allocation as on 30.09.2017	Total Portfolio Returns	Benchmark Returns
Since Inception (not annualised)	41.37%	5.00%	4.98%
September Quarter (not annualised)		1.54%	4.98%

- 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.

Our Core Company universe suggests a prospective return that is slightly better than the last quarter but not yet close to where we feel we have a comfortable margin of safety *(our 5 year simple average prospective return of top 15 ideas is 15.4% as on Sep 30, 2017 versus 14% as on June 30, 2017)*. We take weights in Companies in a structured manner initiating when we feel the prospective returns are above the bare minimum barrier and adding as prospective returns get better. Our decision to sit on “cash” or “invest in stocks” is guided by these numbers and not by an endeavor to time the market. We think that it is paramount for us to not get lost in the cacophony of noise around overvaluation of indices or global-macro or geo-political risks, etc but to put our heads down and work on the Companies under our current coverage, add new Companies to the coverage that meet our investment criteria and understand better the variables that drive specific Company performance. We are determined to widen our coverage universe to include more Companies that are chasing huge growth tailwinds, have a competitive advantage and are run by enterprising and clean managements. Our experience shows that valuations can become favorable all of a sudden *(especially in smaller Companies)* and one ought to be prepared beforehand to act decisively when such an opportunity arises.

The four portfolio Companies that we highlighted in the last newsletter reported their Q1FY18 numbers between the last newsletter and now. While not alarming, quarterly results of these companies were below our expectation. It should be noted that our view of any Company is generally based on a 5 year investment horizon and thus, we will not react to quarterly gyrations, unless we realize of a serious flaw in our understanding of the Company. We take time researching a Company and understanding the competitive advantages and most Companies actually drop out in the research phase and do not enter our Core Universe at all. It behooves us to stay patient with respect to the few Companies that actually enter the Core universe and then in the portfolio and not be perturbed by an off-quarter. We do understand and appreciate that no Company can perform in a perfectly linear manner *(except in Ms Excel).*

We added four more Companies in this quarter, three of which were added in the last ten days of September. A brief description on each of these Companies is given below:

Company 1

This Company has created network effect based internet businesses. Its flagship business is a "job portal" which is a clear leader in terms market share (~60%+ traffic share) as well as cash-flows and profitability (50%+ margins and improving). This business operates at a negative working capital and requires insignificant capital expenditure for growth. The network effect at play *(more employers owing to more employees and more employees owing to more employers)* for this piece leads to a winner takes all business dynamics and cash cow type financial metrics. The management has used the cash-flows of this business to invest into several other business opportunities. Two of these investments – a real estate portal (100% ownership) and a restaurant search portal (46% ownership) - are in their early stages and we think that over time, as they mature, their financial metrics should look similar to the "job portal business". Also, the opportunity landscape for these two businesses is even bigger than the core "job portal" business.

In our understanding, the management has been prudent with its capital and multiple data points suggest that it has become a leader in each of its three main businesses by spending far lower than competition and has never used capital as a tool for customer acquisition. We think that by buying this Company, we actually get access to a venture capital firm that has an excellent record in identifying, scaling and nurturing businesses with a long-term horizon.

Company 2

This Company is the largest online matrimony portal in India *(1.9x Revenues of Number 2 and 5.5x Revenues of No.3 – based on FY16 data).* The Company is particularly strong in Southern India with a 70%+ market share. The Company has also developed more than 300 community matrimony sites catering to needs of communities based on religion, caste or sub-caste *(as most marriages in India are within the same castes/ sub-castes).* The detailed sub-classification ensures that members who want to get married only within their community are not approached by outside-of-community members.

A prospective bride would register on a website that has the most number of bridegrooms and vice versa. The large active user base of the Company *(Company's active user base accounts for 50% of total online active users for matrimonial purposes)* creates a network effect, difficult for competition to break. As this business does not have repeat customers *(as members go out of the network when they get married)*, it is important to constantly advertise. However, the scale of this Company gives it the advantage to spend the most on advertising *(its advertising spend equals the revenue of No.3)*. This business has a typical cash-cow dynamics whereby members pay in advance leading to a negative working capital and "no capital employed" requirement in the business.

Until the year 2016, the Company was not focused on profitability and was trying its hands at different verticals apart from core match-making operations. In the year 2017, the Company rationalized its operations by getting out of its non-core businesses, reduced its off-line presence and reached a scale that gave it good profitability. A first-cut glance at the numbers indicates the possibility of margins shored up *(through temporary cost-cutting)* just for the IPO but a deeper study done by us gives us reasons to believe that the matchmaking margins are sustainable and should in-fact improve going forward.

The Company was also embroiled in a legal case over a shareholding claim in the Company on which the Company had to incur INR 100 crs over the last 7 years. However, there has been a settlement done now and the settlement money will be paid by Dec'2017. The other concern generally expressed on this Company is the risk that dating apps like Tinder pose to its business. We are of the opinion that dating and marriage are distinct domains that serve different purposes and one is not a substitute to the other.

Company also has commenced allied matrimony services including providing photographers for weddings, providing directory of vendors that might be needed for weddings and providing directory of wedding venues. These businesses are still at a nascent stage and are burning some cash but opportunities exist to scale them up.

This Company recently got listed and was over-subscribed by 4 times. We had worked on this Company and felt a price ~20% below the IPO price would be reasonable to initiate a position. The stock actually fell 20% post listing and we initiated the position we had planned post the fall.

For both the Companies above, we often debate whether "Google" can disrupt their offerings. Our understanding is that "Google" is a generalist and it can easily disrupt Companies acting as mere aggregators without any domain depth *(like it has disrupted another Indian listed Company that provided contact details of shops/ restaurants, etc listed on the portal)*. However, where the depth of domain required is high, it is difficult for Google to compete with specialists *(and we think that the key portals owned by both these Companies have a high domain depth)*. Having said that, it is important for us to be vigilant and track changes closely.

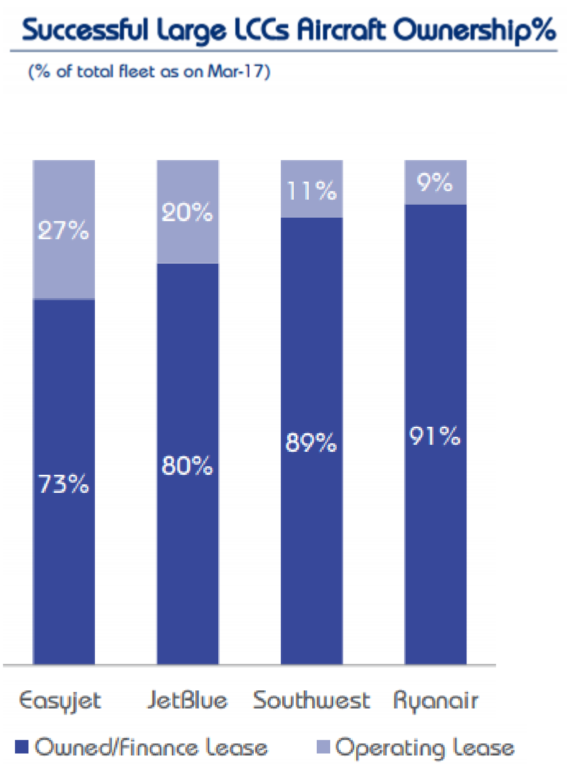
Company 3

The next Company where we initiated a position is India's largest airline with a ~40% domestic market share. An old joke in the airline Industry goes as *"If you want to be a Millionaire, start with a billion dollars and launch a new airline"*. However, if one digs deeper, there have been outliers like RyanAir and Southwest Airlines that have sustained lower cost of operations, have good financial metrics *(small but sustained excess returns over cost of capital)* and have created good shareholder wealth over the years *(Ryanair – 20 year CAGR of 19.7% - and Southwest Airlines – 20 Year CAGR of 10.6%).*

Off-course, one can argue that it is not possible to spot these outliers ex ante. However, in case of the Indian carriers, we have an airline that is already proven itself over the last 10 years emerging as an airline with the lowest cost per available seat kilometer *(CASK in Industry parlance)* in India and amongst the best adjusted CASK at the global stage *(considering that if global companies come to India, the India specific costs like fuel and airport charges are same for all)* garnering ~40% domestic market share. Company's large airplane orders *(it is Airbus's largest customer today with an order of 430 aircrafts – being the anchor buyer for its A320 NEOs)* gives the Company a significant advantage on fleet ownership costs owing to discounts offered on the list price. The huge scale relative to Indian peers gives it an advantage in structuring maintenance contracts *(though this advantage will not exist against global peers who would have similar or bigger scale)*. Other operational efficiencies have been created by having a uniform fleet, maintaining a young fleet, having quicket turnaround times, etc *(these can be copied by peers in theory but none have matched in practice)*. With excellent execution and some luck *(a significant player going out of business, another player going through turmoil and change of hands and a public sector carrier* *consistently losing share)*, the Company has gained market share from 14.1% in CY2009 to 40.5% currently. From 2009 to 2017, Company has gained market share every year without exception. Also, except in 2012, when the Company suffered a marginal operating loss owing to high oil prices, it has earned profits in each year from 2011 to 2017.

In terms of understanding the opportunity landscape, India's air trips per capita stands at 0.08 which is amongst the lowest in the world compared to 0.3 in China, 1.2 in Europe and 1.8 in North America. It is evident that the scope for growth in passengers travelling by air in India is immense. The slope of the growth curve is most sensitive to affordability as represented by price per ticket and a benign oil price allows tickets to priced cheaper resulting in faster growth as reflected by an industry passenger carried growth rate of 21.5% in CY15, 23.2% in CY16 and 17% in 8MCY17.

The Company has so far operated on a "sale and leaseback model" of ownership and has recently announced its intention to partially own its planes. While the investor community is concerned by this as owning is capital intensive, we understand that owning planes can actually help the Company further reduce its CASK *(its CASK if it owns the planes would be lower versus leasing)*. The Company could not have scaled up to its present fleet without "sale and leaseback" but now that it has reached this scale, owning planes can be an incremental source of competitive advantage going forward *(no other airline in India has the financial wherewithal to own its planes versus INR 8,000 crs of free cash available with this Company post recent dilution)*. The successful low cost carriers at the global stage also own most of their planes *(further validating our understanding that owning gives better CASK)*.



While the earnings of the Company would be cyclical and stock price generally very volatile owing to news-flows, we have taken a long-term call on the structural demand drivers and sustainability of Company's lowest cost per available seat kilometer (CASK) relative to peers. We expect the stock to be volatile and will use the volatility to add more to our initiating weight.

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Company 4

This is India's largest artificial leather *(PVC leather)* company and only amongst the two companies in Asia to be approved to supply to North American automakers *(Ford and Chrysler).* The major end user industries of artificial leather are footwear, auto, furnishing, fashion luggage, marine, etc. Our understanding is that while at the surface, this might look like a commodity business, a deeper study reveals that few Companies have cracked global quality, process efficiency in terms of low rejection rates, the design spread and scale-led cost benefits *(capacity is 2x that of the next largest player).* The quality conscious OEMs do not have a choice beyond three or four players *(though there is a huge unorganised market for the lower end PVC leather).* Also, once the customers get used to the quality and consistency of supply, they do not experiment too much leading to some switching cost. This Company caters to almost every organized footwear Company *(Bata, Paragon, VKC, Relaxo, etc),* most auto OEMs domestically *(focused on premium cars)* and is approved by Chrysler and Ford in America *(export realizations are 3x of domestic*).

The last three years have been slow growth for the Company due to some of its large footwear customers reducing their contribution from 80%+ to 50%+, demonetization hurting footwear significantly and realizations coming down due to raw material prices (crude-linked). Also, there has been a feud between the promoter and his son which, in our opinion, has led to some slowness in decisions regarding setting up a PU leather plant for which money was raised *(son has now left the Company)*. However, our understanding is that both these issues are behind us and the Company could now be turning the corner. Company has, after a significant delay, purchased the land for the PU plant *(which is a big import substitution opportunity)* and should start operations by FY19. The Company has been in talks with European global Auto OEMs for years and if something materializes, it would be a step-up in growth for the Company *(Company's new plant set-up in FY14 is built to global standards – it has already undergone multiple inspections by a European Company and the next inspection is due Nov, 2017)*. A decent growth in base business *(normal industry growth plus growth as more applications shift from natural to artificial leather due to "animal cruelty" and high price of natural leather – 5x of artificial leather)* plus opportunities from PU/ export order wins place the Company at an interesting point. Financials metrics are very solid with ~30% core ROCE over the last 8 years, decent cash-flows and pay-out *(including buybacks)*.

Regards
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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.