PMS NEWSLETTER | June - 2022

Emerging Corporates India Portfolio

Multi-Act Equity Consultancy Pvt. Ltd.

10th floor, The Ruby Tower, 29 Senapati Bapat Marg, Dadar (W), Mumbai- 400028

Tel +9122 61408989   www.multi-act.com   CIN: U67120PN1993PTC074692

Date: 25th July 2022

Dear Investors,

Performance

Below is the performance of the Emerging Corporates India Portfolio (ECIP) for Q1FY23 and as of June 30, 2022.

Portfolio Performance	Total Portfolio Returns	Benchmark
CAGR since Inception *(Annualised)*	12.7%	10.6%
FY22	8.6%	26.2%
FY21	79.2%	94.0%
FY20	-13.2%	-30.3%
FY19	13.3%	1.2%
FY18 *(Since Inception - April 28, 2017)*	9.7%	10.2%
Q1FY23	-11.6%	-10.2%

- *Benchmark is an average of the BSE Smallcap Index, BSE Midcap Index and Nifty*
- *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 performance continues to be uninspiring for Q1FY23. However, we are enthused with the set-up of the markets and we think reasonable to strong prospective returns can be made from today's starting point. It is important for us to not get bogged down by near term performance and force ourselves into doing something irrational just in the pursuit of near-term out-performance. We know we are at the wrong end of the FII selling trend right now and that might require us to take near-term pain. However, we will embrace near-term pain as we are convinced that this will lead us to do much better over a 3/5-year period.

In this newsletter, we will focus on how we are looking at our holdings in terms of their historical growth track record and return expectations (for the global macro backdrop, refer the Moats and Special Situations newsletter *here*).

The table on the next page lays down how we try to assess our return expectations. We divide the portfolio into compounders, special situations and cyclicals. For compounders, we have shown the last 3/5-year intrinsic growth rate based on what we think are growth drivers for the particular Company. For the compounders segment, our view is that since these Companies are chasing structural growth opportunities and have a long growth run-way, the past is a good guide to the future in terms of growth rates. While we show the same working for special situations and cyclicals, we do think that the future will be different than the history for this segment – and we expect to benefit from better than history growth rates and multiple re-rating kicker.

**Below table is based on the portfolio holdings of Day 1 Account. Clients that have come in at different times might have a different portfolio.*

	Weight	Measure of Intrinsic Value	FY17	FY18	FY19	FY20	FY21	FY22	5 Year CAGR	3 Year CAGR
A. Compounders										
Credit Card Focused NBFC	8.4%	Pre-prov Op. Profits	11,036	17,194	24,793	35,145	40,237	44,300	32.0%	21.3%
Private Sector Bank with highest CASA ratio	7.9%	Book Value per share	209	265	303	348	426	490	18.6%	17.3%
Life Insurer with the most balanced product-mix	7.4%	Embedded Value per share	62	75	91	102	132	156	20.3%	19.9%
Pure-play private sector general Insurer	5.8%	Book Value per share	86	100	119	135	163	187	16.7%	16.3%
Pharmaceuticals Injectables Champion	5.8%	Profit before tax	578	502	686	993	1,335	1,619	22.9%	33.1%
Most profitable listed AMC	5.5%	Profit before tax	800	1,058	1,375	1,653	1,749	1,855	18.3%	10.5%
Life Insurer with large parent distribution might	5.3%	Embedded Value per share	165	191	224	262	333	363	17.1%	17.5%
Housing Finance Company with best asset quality	4.3%	Book Value per share	91	110	132	159	193	227	20.0%	19.8%
Most profitable Pharmaceutical CRAMS player	2.9%	Revenue	543	625	664	834	1,010	1,320	19.4%	25.7%
	53.4%		**Wt. Average Intrinsic Value Growth**						**21.2%**	**19.9%**
B. Special Situations										
Kitchen Appliances player	5.69%	Revenue	401	538	650	676	862	996	20.0%	15.3%
IT business moving from testing to ER&D	5.25%	Profit before tax	37	48	54	54	68	72	14.2%	10.1%
Water Purifier Leader	4.84%	Revenue	2,385	2,318	2,388	2,370	2,151	2,339	-0.4%	-0.7%
Packaged Foods player targeting kids	2.54%	Revenue	342	425	484	508	524	554	10.1%	4.6%
	18.3%		**Wt. Average Intrinsic Value Growth**						**11.6%**	**8.1%**
C. Cyclical Up-tick										
MHCV braking technology MNC	3.40%	Book Value	1,266	1,525	1,779	1,894	1,996	2,114	10.8%	5.9%
Micro-finance led Bank	2.42%	Book Value per share	41	79	94	94	108	108	21.6%	4.7%
Mumbai based exhibition/ commercial RE play	5.25%	Book Value per share	122	144	167	194	218	242	14.8%	13.2%
	11.0%		**Wt. Average Intrinsic Value Growth**						**15.0%**	**9.1%**

Stock-pickers normally have to trade-off between three important variables – quality, value and growth and getting all three together is a rarity. If you want quality and value, you generally have to accept slower growth. If you want quality and growth, you generally have to pay up expensive prices. If you want value and growth, you generally need to go down the quality curve.

Currently, we think it's a rare phase in the market where we get quality, value and growth. Admittedly, most opportunities where all three attributes are available lie in the financial/ financial services space. What makes us think valuations are cheap? If you look from a historical metric, these stocks are available at their near-bottom multiples. And they are available largely due to one single technical factor – Foreign Institutional Investor (FII) selling. Do we know the triggers for reversal of FII selling? We don't. Then, why are we subjecting ourselves to this trend that has been and might continue to be painful from a return perspective, in the near term? The answer is simple – when good to great companies are available at good to great prices – one should not be overwhelmed by transient technical factors; one needs to be thinking in terms of taking advantage of these opportunities rather than shunning them, especially when your time-horizons are longer.

Where can we go wrong? If historical multiples do not have any relevance in predicting future multiples and if they were all bloated due to lower interest rates, our assessment that these stocks are cheap could be incorrect. However, for lenders, we are using history that runs across periods where interest rates were higher and thus, the confidence on multiples is much higher. For Insurance companies and AMCs that do not have a long trading history, a short period of historical multiples in a particular macro backdrop might not lend itself to predicting the future multiples. However, these Companies are compounding their intrinsic value at a robust pace; stock prices have not gone anywhere for ~2.5 years and their prices on a Discounted Cash Flow (DCF) basis seem to offer prospective returns in the lower-teens using conservative assumptions – these are reasonably high absolute return metrics, assuming a significant de-rating of terminal multiples.

Further, we have a sizable allocation to Special Situations (~18%). While we would not get all of them right, we think our pay-offs on the ones we get right can be significant. While the historical intrinsic value growth rates of these Companies are nothing to write home about, the essential thesis here is that future should be meaningfully different from the past. Three of these companies have undergone a promoter change and the fourth is a corporate restructuring. We think meaningful value unlocking opportunity exists for this segment.

Also, we have a small allocation to what we have termed as "cyclicals". We are playing for a cyclical up-tick and thus the last 3/5-year growth rates do not imply similar growth rates for the next 3/5 years. We expect a strong revival here.

And lastly, we have ~17% allocation to cash. This gives us enough dry gunpowder to be opportunistic in case of market corrections.

Overall, we think we are currently well placed in terms of creating a portfolio with a 3/5-year investment time horizon from a prospective return perspective (we think our returns should be led by our compounders piece which has a ~53% allocation; has a ~20% 3/5-year intrinsic value growth rate; is available at a meaningful discount to historical multiples allowing for a re-rating kicker).

Thank you for a patient reading.

Regards
Rohan Advant, CFA
Sr. Portfolio Manager and Associate Director
rohan.advant@multi-act.com

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

Disclaimer

This is an Internal Document and not meant for unlimited public circulation. This document has been solely prepared for the PMS Clients of Multi-Act Equity Consultancy Private Limited (MAECL) and is not meant for circulation to any third party. This Document and the Information do not constitute a distribution, an endorsement, an investment advice, an offer to buy or sell or the solicitation of an offer to buy or sell any securities or any other investment products/strategies mentioned in this Document or an attempt to influence the opinion or behaviour of the Investors/Recipients.

The statements made herein may include statements of future expectations and other forward-looking statements that are based on our current views and assumptions and involve known and unknown risks and uncertainties that could cause actual results, performance or events to differ materially from those expressed or implied in such statements. The Stocks mentioned herein forming part of the existing PMS Investment Approach may or may not be bought for new client. Past performance may or may not be sustained in future and should not be used as a basis for comparison with other investments. MAECL does not provide any guarantee/ assurance of any minimum or maximum returns. Investment in Securities is subject to market and other risks and there is no assurance or guarantee that the objectives of any of the Strategies of Portfolio Management Services will be achieved.

The information is prepared on the basis of publicly available information, internally developed data and other sources believed to be reliable. MAECL does not solicit any course of action based on the information provided by it and the investor is advised to exercise independent judgment and act upon the same based on its/his/her sole discretion based on their own investigations and risk-reward preferences.

The information is meant for general reading purpose, understanding of intended recipient and is not meant to serve as a professional guide and/or the same should not at any point of time be construed to be an invitation for subscribing to Emerging Corporates India Portfolio – Investment Approach. The client may or may not be holding the Stocks mentioned in the newsletter in its/his/her PMS portfolio as the portfolio will vary from client to client depending upon the investment strategy followed by the Portfolio Manager for each client based on the Investment approach selected by the Client.

MAECL, its associates or any of their respective directors, employees, affiliates or representatives do not assume any responsibility for, or warrant the accuracy, completeness, adequacy and reliability of such information and consequently are not liable for any decisions taken based on the same. This information is not intended to be an offer or solicitation for the purchase or sale of any security or financial product. The investor shall at all times keep such information / data and material provided by MAECL strictly confidential and will not use, share or disclose such information to any third party.
It is stated that, as permitted by SEBI Regulations and the Company's Employee Dealing Policy, MAECL and/or its associates, affiliates and/or individuals thereof may have positions in securities referred to in the information provided by it and may make purchases or sale thereof while the information is in circulation. MAECL is not responsible for any error or inaccuracy or any losses suffered on account of any information contained in this document. Neither MAECL nor any of its associates, directors, employees, affiliates or representatives shall be liable for any direct, indirect, special, incidental, consequential, punitive or exemplary damages, including lost profits arising in any way from the information provided by it.

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) were used previously, and the Benchmark has been revised to BSE Smallcap Index (33.33%), BSE Midcap Index (33.33%) and Nifty (33.34%). The Gross Return (wherever mentioned) 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 ECIP 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).

The information provided in this document should not be construed as a recommendation to purchase or sell any particular security. There is no assurance that any securities discussed herein will remain in the composite or that the securities sold will not be repurchased. The securities discussed do not represent the composite’s entire portfolio. Actual holdings will vary depending on the size of the account, cash flows, and restrictions. It should not be assumed that any of the securities transactions or holdings discussed will prove to be profitable, or that the investment recommendations or decisions we make in the future will be profitable or will equal the investment performance of the securities discussed herein.

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.