



Dear Investors:

Team Minerva wishes you a happy and safe Diwali!

For all the talk of how India's headline valuations are well appreciated (and have therefore influenced a conservative positioning), a quarter of all Asia-centric multi-country strategies were still overweight on India in September, an extent only trumped by Japan¹. So, while the narrative around where headline India trades (and accordingly arguably being at risk of a material drawdown) might appear 'well-telegraphed', strategies weren't positioned as such in C3Q24. 'Well-telegraphed' tag often, and ironically enough, comes with hindsight, and "obvious" catalysts of the event(s) are then identified with a predictable late 'duh'.

In C3Q24, *Minerva India Under-served* was up **+5.4%** (net; in INR), vs. **+7.2%** (gross; in INR) gain in *BSE 500* and **+9.6%** (gross; in INR) gain in *BSE Smallcap*. Over the past 5 years, *Minerva India Under-served* was up **+30%** annualized (net; in INR), vs. **+21%** annualized (gross; in INR) gain in *BSE 500* and **+34%** annualized (gross; in INR) gain in *BSE Smallcap*. Over >13 years of deployment, *Minerva India Under-served* is up **+19%** annualized (net; in INR terms), vs. **+13%** and **+15%** annualized gains (gross; in INR terms) in *BSE 500* and *BSE Smallcap* respectively. Importantly, this decade-plus alpha wasn't driven by skewed asset-class driven prints in 2014, 2017, 2021, or 2023. To see how our return streams capture alpha vs beta (often used by discerning allocators as a tool to identify long-term performance repeatability², click [here](#)). To see how *Minerva India Under-served* fared vs. *BSE Smallcap* and *Nifty50* in the 5 years following prior *BSE Smallcap* peaks, click [here](#). This should be particularly helpful to those who are habituated to generalize outcomes based on size.

We didn't initiate any new exposure in C3Q24, and ended the quarter with 32% liquidity on the sidelines, which was our highest liquidity position since early C2013. The +7% sequential quarterly increase in our liquidity was largely driven by us considerably trimming an auto parts holding³, which was our third biggest position getting into the quarter. We would stress that liquidity is NOT a tactical positioning for us. Instead, it is simply an outcome of our established security and industry-specific exposure guardrails, and our firm sensitivity to how uncertainty and growth get priced. If it's not getting effectively priced in our view, we don't engage. If elevated liquidity occasionally makes us appear like chimps, then we would gladly smile and hoot if we have to. To evaluate how liquidity levels have historically influenced (or not) our subsequent alpha capture, click [here](#) – It's easy to conclude that for strategies with high tracking errors, liquidity levels alone do not overly influence subsequent alpha capture.

Our three highest gainers in the quarter were a spirits name (+61%), an auto parts name (+37%), and a packaging name (+35%). Our worst performing position in the quarter was a forestry name (-17%), which partly reversed its +68% gain from C2Q.

"To generalize is to be an idiot. To particularize is the alone distinction of merit" - William Blake (1757-1827). Lest the undertones of this letter sound overly despondent, it's critical to appreciate that not everything in India is rich and it's ingenuous to generalize in the manner that Indian domestic advisors typically do (speculating on outcomes based on 'size'). While we clearly remain critical (and have remained so for a while) of how poorly uncertainties are priced in nearly all parts of India today, we nonetheless pick positions in the same market, not to be theoretical beneficiaries of the usual amplified sentiment but because the sheer breadth of this market allows us to identify select idiosyncrasies at a great price. The loud

¹ 45% of multi-country strategies were overweight Japan. In contrast, a third of all multi-country strategies were underweight on China.

² *BSE 500* was used as the benchmark

³ Despite the considerable cut, this was still our third biggest holding at the end of C3Q24



street claptrap around ‘small’ vs ‘mid’ vs ‘large’ does little else other than feeding noise in decision making. It deserves to be called out.

India is replete with woefully asymmetric payoffs, but where are the canaries?; Foreign equity inflows into China and India are getting increasingly country-specific, vs. being a part of global/regional EM fund flows.

Valuations, be it within listed or private assets, remain inexplicable for vast majority of India, and are set up for near certain and significant pain at some point. We remain very convinced that Indian equities would struggle to attract global bottom-up allocators at this time, even as passives are designed to fall in line. In our view, deep cuts, as opposed to a minor correction, are required at this time. This valuation absurdity is pronounced in spaces such as the consumer electronics supply chain, where we note >750% premium for a leading assembler of consumer electronics in India (servicing largely locally⁴) over some leading Taiwanese⁵ and Chinese peers. Today, cross-border investors can essentially grab about 2/3rd of former’s growth at a tenth of the price by owning the latter. In fact, these premiums appear even more farcical when you stack the Indian assembler against players much up the value chain – For instance, try reconciling the 600-1100% premiums over China-based key wireless and laptop component producers, such as one of displays⁶ and another of cameras⁷, both of which are significantly more deeply entrenched within global and Chinese OEMs⁸ across geographies. These are fundamentally unequivocally untenable valuations. Indian headline names today offer among the most woefully asymmetric payoffs we have seen in our investing lifetimes.

If there were a profession that only priced ‘earnings’, it would have been obsolete in India today. Expectedly, in poor price discovery markets, immediately visible growth gets overpriced the quickest, and that remains the case today as well – We now regularly evaluate names where visible (but clearly unsustainable!!) growth is getting capitalized at extremely elevated multiples, setting these names up for a quick one-two punch that couples sharp pull-back in growth expectations at some point within the next 1-4 years, WITH significant multiple contraction. While we have previously called out extreme speculation in Delhi NCR residential real estate, some other interesting disconnected names we recently evaluated included 1. a name where gensets make a third of revenues, and where vast majority of the growth in recent years came from an MSME lending sub, a non-core business incorporated barely 5 years ago and one where depressed provisioning simply reflects relatively unseasoned loans, or 2. a freight car manufacturer where sharp rises in railway budgets in recent years are being generously extrapolated, or 3. A high-voltage cables producer, which in our view, has been a disproportionate beneficiary of residential real-estate builds⁹ (and pull-back in speculative activity here should begin to reflect within 2 years) and this can’t be offset by power capex. Between extremely elevated valuations and potential sharp deceleration down the line, such names are only fodder for momentum seekers. These situations however have nothing on what we are citing next.....

It’s the investors that are likely on anabolics, and not this music cash cow they are piling into. This is an extreme illustration of how here-and-now optically high growth is getting priced in India today. As we write this quarter-end letter, this legacy music label street darling has more than doubled YTD. No amount of

⁴ Nearly entire growth has come from displacing imports

⁵ We are referring to players that have already established themselves in more complex supply chains. *Foxconn*, for instance, now controls 40% of the global AI server market, and is well underway in its EV assembly business.

⁶ Displays made about 85% of *BOE Technology Group’s* C2023 revenues. Depending on the smartphone, only cameras (and occasionally 5G chipsets) account for higher value content than displays. We note that *BOE* has increasingly taken share away from Korean producers over the past 5 years, and has routinely been among the biggest beneficiaries of patent grants in United States in recent years.

⁷ Smartphone optical components made up 85% of *Sunny Optical Technology’s* C2023 revenues

⁸ Chinese wireless OEMs now control nearly 30% share of the global wireless market, and a hefty 60% of India’s wireless market

⁹ Real estate accounted for ~40% of growth over the last 5 years, despite making under a fifth of the business in F2019 (Mar)



proverbial growth enhancing anabolic steroids can be fed to this aged cash-cow to bring it remotely close to where investors are pricing it.

The reason this has surfaced as a street darling is because **1.** underlying revenues grew at a heady 30%+ pace over the past 5 years, **2.** repeated postulation that this label has only (!!) released little over 11,000 songs (out of about 30,000 songs catalog) on digital platforms, and **3.** Underlying assumption that subscriber adds will continue at the current pace. Let's scrutinize each of these:

- 1. Does this growth have legs?** We note that internet users in India more than doubled over the last 5 years, driving about +80% increase in YouTube's subscribers over this period. Subscriber adds within audio streaming platforms also more than doubled over this period. Revenues for labels however was about twice that pace. As optically marvelous as this appears, this is merely heady growth that has been typical¹⁰ in labels' digital presence in early years as terrestrial radio listeners and time spent on terrestrial radio decline. By our estimate, growth should decelerate towards mid-to-high single-digit range beyond F2029E. Ability to retain and engage would then be largely driven by high-quality music content, and value of legacy catalogues would expectedly decline.
- 2. We believe that nearly all materially monetizable songs on the existing catalog are now publicly released. Catalog size is now largely irrelevant.** As of last week, this label's 1200th song in its released catalog (in terms of views) was from a 2004 movie and barely had 1.5 mil lifetime views across this label's *YouTube* channels. Our discussions with several music industry experts confirmed that nearly anything in this label's catalog that is materially monetizable has already been released (something that the management reluctantly agreed to as well). The size of its catalog therefore is largely irrelevant in this case. India's youth population (13-24 years) today forms >60%+ of its music-listening audience, and increasingly their consumption is skewed towards songs released over the last decade. Older catalogs (once juiced out through recreated music) can't drive growth.
- 3. We remain sufficiently skeptical of this label's ability to create/acquire quality content.** We see almost no evidence of continued quality content creation. We also didn't note credible efforts to create a content funnel through artist management. Our analysis of this label's >750 songs released on *YouTube* over last five years yielded the following:
 - Viewership share of new songs was barely 9%. In contrast, viewership share of old songs (From 90's and early 2000s) was nearly 85%¹¹. Another 9% viewership came from old songs that were recreated over the last 5 years. Essentially, contribution from new songs was under 10% (and majority of it was from a single movie album released earlier this year). Over the last decade, fewer than 10 new songs¹² of this label can be considered 'hits'.
 - Movie related music-acquisition remains abysmal. This label barely owns 4 music licenses for albums of top-150 highest grossing movies of last 5 years. Until the movie referenced above was released earlier in this calendar, their last hit movie album was released 11 years ago and was produced by a related production house.

¹⁰ Entire music streaming subscriber growth between C2014 and C2019 in US is attributable to fewer terrestrial radio listeners and lower hourly consumption per radio listener. In the subsequent 5-yr period however, the fall off from radio contributed less than 40% of streaming subscriber growth, and now contributes insignificantly.

¹¹ In terms of song count, old songs released over the last five years significantly outnumber new and recreated songs; 664 old songs (just under 90% of total songs released) vs. 61 and 33 new and recreated songs respectively (~4 and ~8% of the total songs released).

¹² Excluding songs that were recreations



- When it comes to artists, there are no more than 5 independent songs that cross 25 mil views on *YouTube*, which reflects this label's continued struggle to create a funnel of artists.

While value of existing catalog would continue to decline, we do see material optionality from potential recreations. We note an increasing trend of recreating classics, and note that about 750 songs of this label from the existing catalog can be profitably recreated¹³. Despite assigning a generous value to potential recreations, we were still thoroughly unable to reconcile with current valuations. We find it bizarre that there is hardly any discussion around highly questionable sustainability of current heady growth rates.

Depending on how sanguine we want to be, we value this name at least 40% below where it trades today, and wouldn't be surprised if it loses 3/4th or more within 5 years, if not sooner.

Elsewhere, perceived "safety" in headline Indian names continues to be priced even poorly. In our view, tactical positioning in India's consumer staples is often akin to paying an insurance premium that is significantly larger than the likely damage from the insured contingency. Consider this → In our most recent checks within food and personal care distribution network, we noticed more consumer downtrading than we have seen in recent years. Unsurprisingly, some names within India's headline staples pack, such as *Hindustan Unilever*, *Asian Paints* (for some bizarre reason, it is still categorized as a CPG name in India), *ITC*, and *Tata Consumer* had seen their F2025E (Mar) estimates pared down by -8%, -11%, -7%, and -9% respectively in the first three calendar quarters of this year, or about in line with estimates cuts seen within *Nifty Smallcap50* names (ex-financials) over this period. Nonetheless, this "safety" today is available at a median price of >60x F2025E (Mar) earnings. You can also juxtapose these valuations and underlying earnings revisions vs. those of *Minerva India Under-served* [here](#).

As for finding canaries, we have simply stopped looking because we are anyways well past reasonably priced territory at this point. Essentially, current prices are mostly irreconcilable with even the most sanguine street estimates, let alone our tempered expectations. No matter what the event is/are, or when it/they occur(s), current valuations for headline India (for the most part) are grossly unjustifiable and aren't just a minor deterrent as often characterized. We would rather not own an extremely overpriced asset than own one and second guess as to how and when such disconnected prices correct. Skating on thin ice isn't the same as investing, even as India's domestic investors have long since blurred these lines.

Not that liquidity flows have any power to alter the intrinsic worth of anything, but it's nonetheless also imperative to call out a widely peddled narrative on liquidity - While it's believed that growing interest (and potential inflows) in China would come through global/regional fund flows (suggesting that India will be an incremental beneficiary of such flows), YTD data in China suggests that Chinese fund flows are increasingly getting country-specific – Just China-dedicated passive vehicles (not even including 'Greater China' dedicated funds) account for nearly all flows into China YTD¹⁴. So much so, that in the first 3 quarters of this calendar, for every dollar that entered China through global EM funds, about 45 dollars came through China dedicated passives. Even India's net inflows last year were entirely driven by India-dedicated funds, suggesting that both of these EM components are now more dependent on country specific allocations, even as they remain overwhelmingly passive in nature. Accordingly, the 'regional piggybacking' narrative is flimsy at best.

¹³ We assign a 20% probability of a recreated song being a 'Superhit/Hit', which can yield lifetime revenues of ~Rs. 150 Mn (~90% realized over the first five years). We assign 80% probability of a 'Moderate hit', which can yield lifetime revenues of ~Rs. 30 Mn. Given limited resources of this label, we expect 10% of songs to be recreated in-house while the rest through partnerships, where label would receive ½ of revenues.

¹⁴ Based on *EPFR* data. Active funds across all categories were China net sellers in the first 3 quarters.



India's hefty price tag belies sluggish non-farm employment and poor capacity creation; Earnings expectations remain stretched and are priced to disappoint. There is little that we haven't already previously communicated about our concerns around headline India's valuations, and these continue to look even more absurd vs. EM and frontier peers, particularly within Asia. At the end of C3Q24, *MSCI India*, which incidentally is comprised of what many domestic investors view as "reasonably-priced" large-caps, was trading at about +150% premium¹⁵ over peers within *MSCI Asia (ex-Japan)*, which we believe is one of the very few listed equity pockets globally that can couple reasonable/attractive prices with reasonable expectations, capacity builds (through robust domestic and offshore flows), often more fiscal room to stimulate, and a broader consumer that isn't struggling (or isn't struggling nearly as much as prices suggest). For reasons detailed below, we re-iterate our view that headline India today remains one of the least attractive listed equity pockets within EMs:

1. ***Capacity builds and non-farm employment growth remain underwhelming in India, and we don't see credible evidence of a material upshift either.*** By our estimate, the current median capacity utilization of manufacturing names within *Nifty100* (excluding Metals and Energy) is somewhere in the late 70s. In an uncertain demand environment, project proposals notwithstanding, we see little reason for penciling in large build ups in capacities, despite street's now perennial chatter around private capex breakout. Unsurprisingly, aggregate capex for *Nifty100* manufacturing names is expected to inch-up by barely +4% and +2% in F2025E (Mar) and F2026E (Mar) respectively. Meanwhile, India also continues to underpace when it comes to external capital for capacity builds - Contrast the FDI flows seen within ASEAN (ex-Singapore) and Mexico over the past few years as supply chain derisking gained ground – Over the last 3 years, ASEAN (ex-Singapore) received about \$240 billion in inward FDI (from outside the trade bloc; with significant flows from Chinese businesses) while Mexico received \$100 billion (also with significant inflows from Chinese businesses). For context, a collective market of these two that is about 35% larger than India, received almost 2.5x what India received as FDI over this period.
2. ***The broader Indian consumer remains among the most stressed within EMs.*** Most major EM markets (and even leading frontiers¹⁶) have seen minimum wage revisions that were large enough to offset what has been one of the steepest inflationary periods in distant memory. India however has been one of the few laggards, and this continues to reflect in evident pain for the bottom half, even as it gets partly masked by significant shift of labor back to farms, which then gets spun into broader street narrative of "rural revival". Our discussions in rural India however mostly point towards a consumer that sees a subdued/weak festive season¹⁷, and this does not sync with somewhat buoyant management commentary. We note visible challenges because of erratic rainfall – Farmers point towards damage to crops such as mustard, pulses, wheat, cotton, and sugarcane. Bihar meanwhile experienced droughts early in the season, which severely impacted production. Later on, North Bihar had to deal with floods, which delayed harvest of crops such as paddy, maize, and pulses. This has significantly impacted yields. Likewise, coastal Andhra also faced significant crop damage because of late precipitation.

As things stand, Dalal street's median pre-tax earnings CAGR for C2023-C2026E for the entire Indian consumer pack (Discretionary + Staples) is in the low-teens, or about in line with EM peers listed in

¹⁵ Which translates to nearly +165% premium vs *MSCI Emerging Markets* peers

¹⁶ Real minimum wages in Viet Nam, for instance, have grown at a double-digit pace over the last decade

¹⁷ Mass-market 2W dealers (*Hero, Bajaj, and HMSI*) have some of the highest inventory overhangs we have seen in a long while



Exhibits 1a and 1b below. We believe that street expectations are set up for likely negative surprises in India, while valuation premiums for these names remain irreconcilable.

- 3. Expectations for most major EM components remain at odds with Dalal street's rose-tinted estimates for headline India.** Predictably, despite continued cuts in this calendar, Dalal street expectations have still been overly sanguine and earnings performance (relative to expectations) has trailed most major EM peers in recent quarters¹⁸ (see **Exhibits 1a and 1b**).

Exhibit 1a – C1Q24 % beat/miss and Beat/Miss ratio

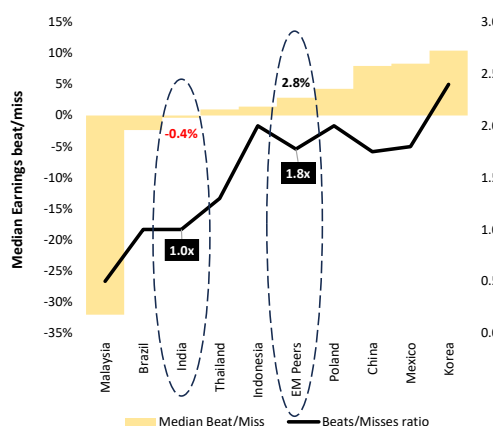
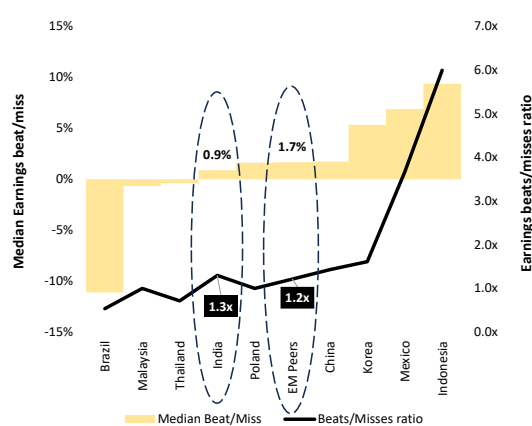


Exhibit 1b – C2Q24 % beat/miss and Beat/Miss ratio



Notes: Financials, Materials, and Energy components were excluded to minimize volatility in beats/misses; Selected components had at least one published earnings estimate at the time of the earnings release; Beat/Miss ratio reflects number of companies beating consensus estimate for every company missing; Above EM peers make close to 2/3rd of collective weight of India's MSCI EM peers; We picked each market's large-cap benchmark as the proxy.
Sources: S&P Global Market Intelligence; Company reports

Secondary issuance attracted significant interest again, as investors ignored experiences from prior peaks.

It's typical for several headline Indian smallcaps to get active on secondaries around market peaks. The current cycle has been no different, except that the discounts offered were much larger because of even more stretched valuations (see **Exhibit 2**). It's notable that headline smallcap secondary issuers in India have historically significantly underpaced over the next 5-years. In the 2014 cycle, the 18 headline issuers reported a median decline of -60% over the next 5-years, vs. nearly +70% median increase for *BSE Smallcap*. The 2017 cycle was relatively a bit more tolerable – The 15 headline smallcap issuers reported a median decline of -1% over the next 5-years¹⁹, vs. more than +60% median increase for *BSE Smallcap*.

Exhibit 2 – Dilution from secondaries [Today vs. prior exuberant periods] – From 2 yrs before peak to a year after

Minerva India Under-served				Nifty Smallcap 100		
Period	Companies diluting	% Chg. in Shares O/S	Discount offered	Companies diluting	% Chg. in Shares O/S	Discount offered
2012 - 2015	3	9%	0%	18	14%	3%
2015 - 2018	2	7%	4%	15	14%	7%
2022 - 2024	1	5%	12%	16	8%	12%

Source: Company Reports

¹⁸ Over the last few quarters, a fourth or more of all *Nifty50* names (ex-financials) have missed street's expectations by >5%.

¹⁹ *Minerva's* 3 secondary issuers outpaced the benchmark after the 2014 cycle, but the 2 issuers of the 2017 cycle had underpaced subsequently.



We would highlight some of our recent emerging thoughts/updates on select holdings:

Sharp pullback in mill operating rates, higher pulp prices, and persistent inflation will likely accelerate closure of non-integrated uncoated paper capacity in Europe. C2023 had seen one of the worst years on record for paper consumption (across all grades) in Europe and NA. Uncoated wood-free (UWF) demand was down about -26% in Europe, and about -14% in US, bringing mill operating rates to record lows and rendering at least a fifth (very conservatively!) of EU producers at risk vs. imports (see **Exhibit 3** on next page). While UWF demand in Europe this year expectedly has risen sharply off of weak comparisons of last year (even as US demand remained weak), it still remains about 10% below C2022's restocking cycle. Meanwhile, for non-integrated European players, pulp price rise this year and persistent inflation has more than offset this year's gains from improved operating rates, putting non-integrated capacity in Europe at even more risk. Further, we note that while UWF price gains were easier to push through earlier this year, we noticed clear hesitation from European buyers to accept paper price increases in Europe from May onwards.

BEK pulp prices in Europe were up +25% since last December. Despite the recent pulp price reversal since July (after global pulp mill operating rates fell to low 80s in August²⁰), BEK prices in Europe were still up about +25% YTD by end-September. Also, it's critical to note that this reversal came after European pulp rates had reached record premiums over Chinese rates earlier this year. We do note that there was about 1.5 mil tons²¹ of wood pulp at European ports at beginning of September, or about a fifth of annual requirement that gets serviced through imports. These levels however shouldn't be viewed as unusually elevated. Importantly, in October's first week, *Suzano* announced that it would be taking market-related downtime and would slash 4% of its production, effectively offsetting more than a fifth of its most recent capacity expansion. We suspect that more pulp downtimes can be announced in Latin America, and this could likely prevent pronounced BEK price declines.

Non-integrated UWF paper capacity in Europe gets even more uncompetitive. We expect accelerated share gains for Asian and Latin American paper producers shipping to Europe. This should keep price pressures muted in intra-Asian trade. As at the beginning of this year, about 2/3rd of hardwood pulp requirement in Europe was sourced from the market (i.e. was sourced by non-integrated mills), with majority coming from imports (principally from Latin America²²). We estimate that little over 3.5 mil tons of uncoated wood-free (UWF) capacity²³ in Europe (excluding Russia) is dependent on market pulp. With operating rates near record lows, we expect heightened UWF capacity closures. Consider this → Even *UPM*, which is one of the more efficient UWF operations in Europe, had announced shut down of its PM3 machine at Nordland in Germany (which we believe was dependent on market pulp) in May. This would take out 280K tons by the end of this calendar. By our estimate, UWF cash cost for the 20th percentile European producer increased by >3% YTD (see **Exhibit 4** on next page), or a bit ahead of UWF price increases, further pressuring bottom quintile producers.

We are increasingly noting other factors that can all accelerate mill closures in Europe - Further depreciation in the Indonesian rupiah, continued declines in container rates²⁴, stable pulp prices, and softness in domestic

²⁰ Primarily because of *Suzano's* Cerrado mill coming online at the end of July. This added about 2.6 mil/tons annually to global BEK capacity (or about 6-7% increase; At a cash production cost of little over \$80/ton, or less than a third of then Latin American average). While Indonesian pulp producers are relatively more competitive when selling into China, they aren't nearly as competitive (or have the capacity) to compete with Latin American producers when selling in Europe and NA. Further, significant part of Indonesian pulp capacity is at integrated mills.

²¹ Source: *Europulp* port inventory data

²² Half of Latin American pulp production is sold globally to non-integrated mills (Source: *FisherSolve*)

²³ Out of total UWF capacity of 5.6 MT (excluding Russia and specialty grades)

²⁴ By early October, container rates had fallen to almost early C2024 levels, and sharply off July peak

UWF demand will almost certainly drive out marginal European producers. Another key potential headwind in Europe can come from implementation of *The European Deforestation Regulation* (EUDR), which is set to increase paper production costs in Europe. As per the regulation, commodities and products cannot be sold in Europe unless they are deforestation-free. The associated due-diligence required to confirm this will certainly add materially to compliance costs, further jeopardizing competitiveness of non-integrated European mills that source pulp externally and are part of more complex supply chains. While at the beginning of October, EUDR's implementation was delayed by a year²⁵, *EU Commission* is committed towards its implementation. Market chatter in Europe also remains consistent with our view that UWF capacity cuts are not only required, but can potentially accelerate.

If this occurs, likely acceleration in European shipments from Asia²⁶ should ensure that domestic uncoated free sheets²⁷ in India are unlikely to see heightened pricing pressure from ASEAN imports.

We note that mill operating rates for writing and printing paper in China were closer to 90% in mid-2024 (highest in more than 6 years), while most leading Indonesian producers also reported very high operating rates. Nonetheless, we see enough legroom for these producers to profitably increase European shipments (by maxing out or switching capacity), and are confident that domestic pricing for uncoated writing and printing paper likely has a solid floor from current levels.

Exhibit 3 – Uncoated cost curve for Europe (as in C4Q23)

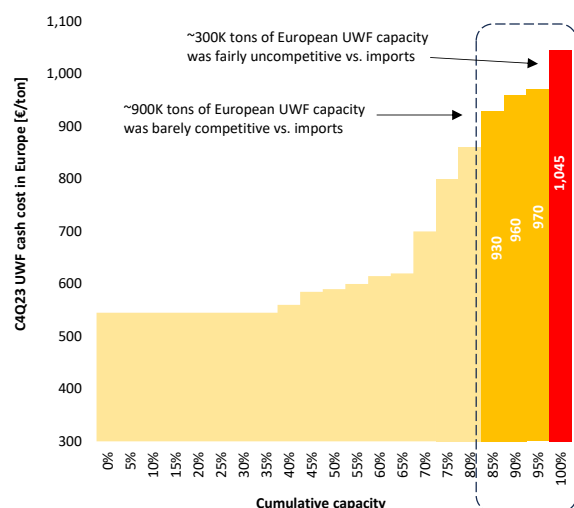
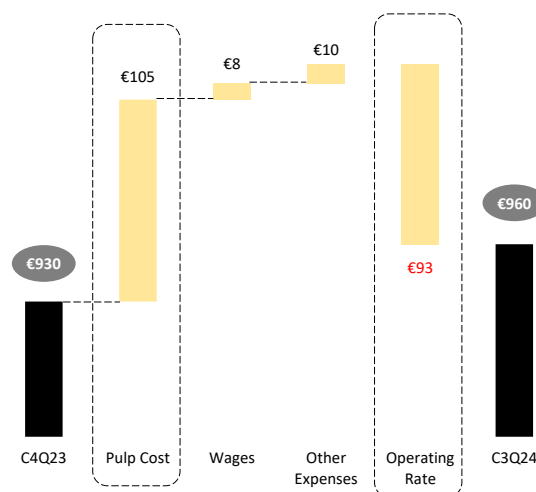


Exhibit 4 – Est. cash cost walk for 20th %ile in C2024 YTD



Notes: Navigator, Sylvamo, and Iberpapel are the only fully-integrated uncoated wood-free (UWF) players in Europe. About 95% of Mondi's UWF capacity is fully integrated. This accounts for about half of all UWF capacity in Europe; There is no tariff in EU on uncoated paper originating from Indonesia and China; We believe we have been generous in labeling 80th percentile European capacity as 'not uncompetitive'. By our estimate, cash cost (in EUR; landed in Paris) for a Chinese player such as Nine Dragons, which itself isn't competitive vs. Indonesian peers, should be between EUR 600-650/ton at the end of C3Q24.

Assumptions: A 5% decline in mill operating rates typically leads to a 3.5-4% increase in cash production costs for uncoated freesheets; 0.85 tons of BEK pulp is required to make a ton of UWF freesheet; We assumed that European industry-wide UWF operating rate at the beginning of C2024 was 80%, or about 4-5% higher vs. the European paper industry overall; We assume 2% cut in UWF capacity YTD, which is a slight acceleration vs. capacity cut rate of last few years.

Sources: Internal estimates, Fastmarkets Analytical Cornerstone, RISI, CEPI, EMGE, NVG, TARIC

²⁵ EUDR initially came into force in mid-2023, and gave stakeholders 18 months for implementation

²⁶ Everything else held the same, Asian uncoated (cut-size) exporters prefer Europe vs NA because of product conformity - Most countries typically use A4 office paper (8.27 x 11.7 inches), while the United States typically uses 8.5 x 11 inches office paper. The equipment adjustment required to switch the line to US size somewhat reduces the line efficiency for some non-US producers.

²⁷ Free sheets (coated and uncoated) should account for <20% of our holding's F2025E (Mar) revenues



While uncoated free sheets are unlikely to see pricing pressure from Asian imports, uncoated cut-size's (aka copier paper, which should make close to 40% of our holding's revenues in F2025E) pricing is anyways typically stable, despite BEK gyrations. With the exception of tail events, domestic cut-size pricing typically does not react wildly to global hardwood pulp moves.

In case BEK prices have a sharp pullback, we still don't see this as a very large drag for this holding of ours - In the subsequent 12 months succeeding 2 of the 3 prior BEK peaks, EBITDA expanded for our forestry holding. The lone exception was the March 2011 BEK peak – In F2012 (Mar), our holding battled higher material, chemical, and energy costs – Elevated material and chemicals²⁸ costs accounted for >600 bps adverse impact, and lower access to linkage coal²⁹ accounted for 275 bps adverse impact on margins.

Paperboard pricing would likely remain capped, but we enter F2026E (Mar) with a much less volatile paperboard business. Globally, paperboard remains significantly oversupplied, with mill operating rates in mid-70s, and as low as early 70s³⁰ in Asia. Accordingly, we are cognizant of pricing uncertainty even from current levels, because import intensity in this piece can remain high. To be clear, the challenge in this business is purely on pricing at this time, since BCTMP pulp prices have actually seen a double-digit decline YTD³¹. We note that we are getting close to the launch of the *Valmet* installed BCTMP line coming online at our holding's Gujarat facility³² by end of this calendar. Why is this important? - Historically, BCTMP was entirely imported and this contributed to significant variability in our holding's profitability. Since the newly installed line would internally produce hard-BCTMP, which makes about 3/4th of overall BCTMP requirements at our holding, this would meaningfully reduce embedded pulp-price volatility in this business.

Given the current operating environment, steady-state profitability, depressed earnings (because of unusually high wood prices in India), and underlying grade mix at this holding of ours, we struggle to see how this name does not trade to a premium over NA and EU peers, let alone the near 50% discount where it trades today³³.

Our views on our theatrical exhibition holding are never driven by box-office fickleness. We have previously shared enough evidence to support that since the beginning of C2022, we have seen nothing incrementally materially adverse and structural in Indian box office that would be suggestive of the fact that good content does not attract theatrical collections. Our individual perceptions around what makes "good content" can often differ, but widely liked content more often than not gets theatrical footfalls - As poor a reading as Hindi content has had in this calendar (down INR 15 bil), Malayalam (up INR 13 bil) and Telugu (up INR 10 bil) original content collections have been stellar.

As we move into C2026, the biggest tailwind would come from English content, with several pushed out tentpoles from this year getting released³⁴. Meanwhile, **1. IMAX** contribution would continue to increase, **2. Screen mix** would continue to shift towards more profitable Southern markets, and **3. Business** would

²⁸ Caustic soda prices rose ~50% in F2012 (Mar)

²⁹ On April 3, 2012, GOI issued a Presidential directive to CIL to sign FSAs with power producers in which CIL was required to assure at least 80% of the committed coal delivery with a penalty clause on shortfall of supply.

³⁰ Until onset of the pandemic, global paperboard operating rates averaged in the high-80s, vs. mid-70s now

³¹ USD; delivered in China

³² Paperboard accounts for 80% of this facility's production

³³ This compares with the average 10% discount vs. NA and EU peers over the past decade

³⁴ In the first 3 calendar quarters this year, English collections were down -41%, making it handily the worst performing content



continue to go asset-lite. Going forward, a third to half of all screen openings will be on a model where the mall developers spend 50-75% of the screen set-up cost. Another 15-25% of screen openings, principally within second-tier cities, will be on a franchised model (with our holding receiving 7-10% of revenues). Essentially, more than half of all new screens will come with significantly higher operating returns, well more than offsetting even 3-4% lower occupancies. At the end of C2Q24, our theatrical exhibition holding made 7% of our book, and was trading at just over 11x depressed F2024E (Mar) EBITDA³⁵, and prices none of several potential tailwinds over the next few years.

After taking a breather over the last 2 years, alloy penetration within rims is back over 40%; Aluminum knuckle shipments started at our biggest auto parts holding. On its way to near 100% penetration now, alloy share within wheel rims in the EU has ramped between 3-3.5% annually over the past decade. Penetration in North America is also north of 90%, with steel rims restricted to only a handful of off-the road trucks (*Jeep Wrangler* etc.) and select low value sedans (*Nissan Altima* and certain base trims of *Toyota Corolla* etc.). We have observed similar traction in other major markets, where alloy penetration nears or exceeds 90% - Japan (now exceeding 90%) and China (nearing 90%) have both seen penetration increasing between 2-3% annually over the last 5 years. Accordingly, in low-40s now, it certainly isn't a stretch to pencil in about a mid-single digit increase in alloy penetration in India over the next half a decade.

Elsewhere, we expect an even faster acceptance in aluminum knuckles penetration, admittedly from a much lower base. A decade hence however, we believe that aluminum knuckles content per vehicle³⁶ would match or exceed alloy rim content in passenger cars. This remains among the very few auto parts names we see around where we don't need planks of robust growth in domestic passenger³⁷ or CV sales to capture value. We also note close to INR 2.5 billion in likely debt paydown in the current fiscal, which at current prices should value this holding at just over 7x F2026E (Mar) EBITDA by the end of this fiscal, or about 25-30% discount to its much less profitable pre-pandemic self.

Not just gin, but 2 other key spirits brands of recent years are now showing solid leadership. Since mid-2021, we have held a position that was largely (and still is) a manufacturing name that manufactured extra neutral alcohol and ethanol, besides country liquor, where brands rarely transcended state borders. Our interest however lies(d) elsewhere → Around the same time, they were entering premium spirits (aka 'IMFL' in India). While we have been pleasantly surprised by traction within its craft gin brand, we also see impressive progress in a whiskey and a vodka brand. We have previously communicated that we have little reason to doubt that its craft gin brand would eventually replicate its mid-teens share in Delhi NCR and UP nationally. Importantly however, its progress, particularly in the mid-range whiskey space, and to a lesser extent, in the mid-range vodka space now appear equally impressive. We believe these two brands have more than an even chance of grabbing 20%+ and 10-15% national share respectively within the next 3-5 years. To be clear, we aren't discussing small contributions here – We estimate the size of the domestic mid-range whiskey segment at INR 106 bil³⁸, size of the domestic mid-range vodka segment at INR 14 bil, and size of the premium craft gin segment at a little under INR 2 bil, with the latter two predictably outgrowing the former.

³⁵ That compares with just under 15x pre-pandemic average

³⁶ Current knuckles CPV is about INR 10K/vehicle. Subsequent alloy shifts in lower control arm and upper control arm would double the alloy knuckles CPV

³⁷ Alloy rim production is running at full utilization, even as steel rim production expectedly remains muted because of tepid passenger and CV sales

³⁸ All segment sizes are based on ex-distillery prices



Once rolled out nationally at scale, by our estimates, our holding's brands in above 3 segments can collectively contribute north of INR 3 bil in EBITDA (on today's segment size). For context, that's more than our F2025E (Mar) EBITDA est. of INR 2 bil³⁹ for this holding. We maintain that this is a key 'sleeper' holding of ours, and one which wouldn't appeal to momentum seekers, since only near-term clearly visible growth is getting priced in India today. We believe that it's incredibly rare now to own positions that can couple outsized business upside with material re-rating. We believe we own a few, but none bigger than this.

Sticky content continues to profitably migrate to digital platforms for a key holding of ours. Digital now contributes just under a third of our news broadcasting holding. Today, our holding owns, by some distance, the most followed news channel on *YouTube*⁴⁰. At a time when news consumption continues to become increasingly multi-platform⁴¹ and hyper-local in nature, our holding now offers a highly strengthened digital localized proposition for more precise targeting. At under 7x F2025E (Mar) depressed EBITDA, this position trades at over 20% discount to its increasingly irrelevant pre-pandemic average, with cash making more than a third of valuation.

We usually aren't beneficiaries of indiscriminate multiple expansions. That said, we can't stress enough on the fact that multiple expansion that is driven by anything other than a structural elevation in underlying growth and/or profitability is largely transitory and is accordingly found out once the liquidity binge subsides. Past is just a source of pride and confidence, but it's only the present positioning that is the source of true comfort. *Minerva India Under-served's* positioning has always been to steer clear of highly priced profitable growth. More importantly though, while we have been able to pick superior long-term sustainable growth, we haven't overpaid for this. Our current positioning remains consistent with this framework.

Please let us know if you have any questions.

Thanks,

Piyush Sharma

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³⁹ This should include about INR 150 mil in negative EBITDA contribution from premium spirits, vs. negative INR 250 mil in F2024A (Mar)

⁴⁰ Subscriber base now exceeds 100 million. Its flagship news channel now has close to 70 mil subscribers. For context, *Zee News's* flagship channel has about half as many, while *TOI's* flagship channel has just over 4 mil subscribers

⁴¹ *Comscore* | #Reinvent: *EY-FICCI* Media and Entertainment Outlook, March 2024



Performance benchmarking

	Minerva India Under-served	Nifty 50	S&P BSE 500	S&P BSE Midcap	S&P BSE Smallcap	Eurekahedge India	India-focused CE Funds*
Trailing 1 year	15%	31%	39%	53%	52%	23%	35%
Trailing 5 yr CAGR	30%	18%	21%	28%	34%	14%	15%
Since inception CAGR	19%	12%	13%	15%	15%	8%	10%
2024 YTD	12%	19%	24%	34%	34%	15%	25%
2023	28%	22%	25%	46%	48%	20%	26%
2022	18%	6%	3%	1%	-2%	-7%	-2%
2021	92%	23%	30%	39%	63%	25%	20%
2020	18%	15%	17%	20%	32%	20%	12%
2019	-10%	12%	8%	-3%	-7%	1%	3%
2018	-6%	3%	-3%	-13%	-22%	-7%	-5%
2017	17%	29%	36%	48%	60%	29%	31%
2016	9%	3%	4%	8%	2%	3%	1%
2015	22%	-4%	-1%	7%	7%	6%	-1%
2014	34%	31%	37%	55%	69%	39%	49%
2013	21%	7%	3%	-6%	-11%	-6%	6%
2012	39%	28%	31%	38%	33%	14%	28%
2011	-11%	-25%	-27%	-34%	-43%	-25%	-31%
Annualized Volatility	21%	16%	17%	20%	23%	12%	16%
Annualized Volatility (+ve)	14%	11%	11%	12%	13%	7%	9%
Annualized Volatility (-ve)	15%	12%	12%	15%	17%	9%	12%
Sharpe Ratio	0.8	0.5	0.6	0.6	0.6	0.3	0.4

Source: BSE, NSE, EurekaHedge, Bloomberg

Note: Returns are until the end of September 2024; Our performance is net of execution charges and mgmt. fees, but before incentive fees; Our management fees are accrued monthly for reporting purposes. Since the fee is actually charged and calculated quarterly, compounding of the fee charge leads to us conservatively reporting slightly lower returns vs. client actuals; Sharpe was calculated by using since-inception monthly returns and is based on an Rf of 5%. Sortino was 1.12.

*US-based close-ended funds, with returns adjusted for INR/USD movements.

Strategy Snapshot

Characteristic	Notes	
Top 5 positions as % of book	47%	
Avg. weighted market cap of book (mil)	\$703	>> Median holding's market cap is \$503 mil
Avg. weighted institutional ownership	14%	>> Median institutional ownership of current holdings is 11%
Avg. weighted free float of book	42%	>> Median free float is also 42%
Net Exposure	68%	
Avg. weighted F2025E (Mar) EV/EBITDA	11.1x	>> vs. 21.4x (Nifty Smallcap 50), and 22.5x (Nifty 50)
Avg. weighted current P/B	2.9x	>> Median P/B was 3.6x
# of positions	13	

Note: Characteristics are as at the end of September 2024



Meet your investment manager

Piyush Sharma, born and raised in India, has been running the Minerva India Under-served strategy across offshore and onshore structures since early 2011. The strategy focuses on investing in uncrowded and institutionally under-owned/orphaned situations within Indian smaller smallcaps. Essentially, strategy's focus is to capitalize upon flawed overly-generalized narratives within poor price discovery pockets. Having spent time with Citigroup and Bombay Stock Exchange in India, he moved to United States in early 2000s, where he covered stocks within Business Services, Autos, Consumer Products and Financials with Sanford Bernstein, Longbow Research, and Avondale Partners, working in teams that received accolades from leading institutional research arbiters, including Institutional Investor (II) and Greenwich Associates. Piyush received an MBA from University of North Carolina at Chapel Hill, MS from MNNIT, and BS in Accounting from University of Allahabad.

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