



Dear Investors:

Haile Gebrselassie is inarguably one of the finest long-distance runners the world has seen. In 2011, while responding to a question on the secret behind his long and successful career, the diminutive Ethiopian said *"It's about being better, being number one, to strive to always be better. Money comes later. If you are planning to only make money and little else, you'll be broke at some point"*. It's from runners like Gebrselassie that we draw our inspiration and discipline (especially the latter). Haile was particularly good at 10K on the track, but he rarely led the group for most of the laps in competitive races. What he ensured however was his remarkable near-rhythmic consistency in training and on race days – arms were bent at right angles, left hand was relatively always lower, posture was erect, and stride was distinctly springy. All races were broken into frames of acceleration, as if a machine was on track. Essentially, there wasn't any significant style drift (incidentally often one of the chief reasons behind material long-term investing underperformance), regardless of who was leading at any time. His success of the best long-distance runners is often planked upon 'fatigue management'. Investing isn't much different, but we argue that it's easier vs. long distance running, especially in poor-price discovery markets in Asia, because vast majority of your "co-runners" are unlikely to manage the fatigue well. Just like Haile, you need to out-manage them on fatigue – Remember that sentiments get fatigued; sustainable cash flow growth doesn't. Over meaningful time frames therefore, only the latter prevails. You won't lead races in all laps, AND there are several laps where leading might actually be counter-productive to your eventual objective i.e crossing that tape after that 25th lap, as Haile Gebrselassie so often did. Fatigue management (read sentiment management in investing) is now critical – If you aren't comfortable taking the back seat selectively, you would be inevitably resigned to taking back seats over longer periods. That's just how it goes!

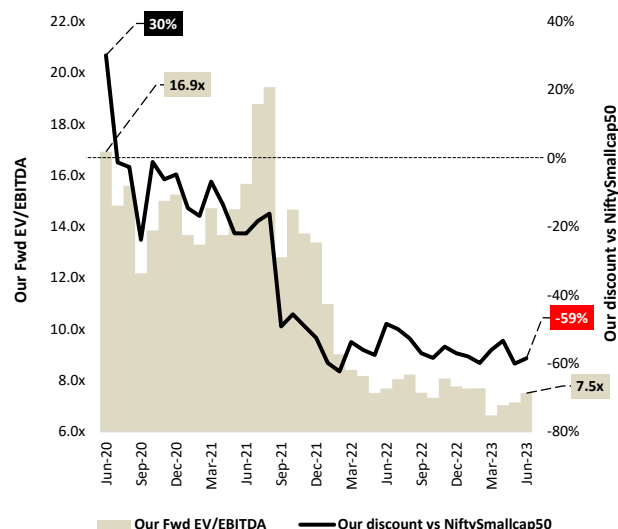
In C2Q23, *Minerva India Under-served* was up **+14.1%** (net; in INR terms), vs. **+20.9%** (gross; in INR terms) gain in *BSE Smallcap* and **+12.6%** (gross; in INR terms) gain in *BSE 500*. Our offshore fund gained **+13.6%** (net; in USD) for the quarter. Over 12+ years of deployment in institutionally under-owned/orphaned part of listed India, *Minerva India Under-served* is up **+18.1%** annualized (net; in INR terms), vs. **+10.7%** annualized gain (gross; in INR terms) in *BSE 500* and **+11.3%** annualized gain (gross; in INR terms) in *BSE Smallcap*. Importantly, this decade-plus alpha wasn't driven by skewed asset-class driven prints in 2014, 2017, or 2021. Since-inception annualized volatility for *Minerva India Under-served* has been **21.2%**, vs. **17.3%** for *BSE 500* and **23.2%** for *BSE Smallcap*. For a strategy that has always remained largely camped within the smaller end of India's small cap space, our volatility has remained materially below that of smallcaps, despite our significantly smaller size exposures. To see our performances across all historical rolling time frames, and associated alpha probabilities, please click [here](#).

Our exposure at the end of C2Q23 was 87.6%, vs. 86.0% at the beginning of the quarter. While we were net sellers in C2Q23 (principally on account of fully exiting a technology holding), sharp gains elsewhere and two recently added exposures for the quarter ended up increasing our net exposure.

We now trade at near-record discounts vs. India's headline smallcaps (and other domestic benchmarks), and are solidly set-up for a likely violent recoil over the next 2-3 years. While we have handily outpaced the broader smallcap universe over the past 3 years (about 12 points of annualized alpha over this 3-year period), it is critical to note that this wasn't driven by broad-based multiple expansion in our holdings. Instead, in sharp contrast with India in general, extremely robust underlying earnings drove an optical multiple contraction for us. Consider the dichotomy vs headline smallcaps for us today → At the end of C2Q23, *Minerva India Under-served* was trading at 7.5x F2024E (Mar) EBITDA, vs. nearly 17x F2021E (Mar) EBITDA 3 years ago. Consequently, our book moved from trading at about 30% premium vs. headline smallcaps 3 years ago to nearly a record -60% discount at the end of June 2023 (see **Exhibit 1** on next page). As

mentioned, this was squarely driven by expansion in significantly superior underlying earnings power vs. headline price underperformance, setting us up for what we believe could be a violent recoil of price discovery over the next 2-3 years. At the end of mid-2023, >3/4th of our holdings (accounting for >85% of our book's value) were trading at discounts vs. their pre-pandemic averages, which is a stark contrast from where majority of *BSE 500* trades.

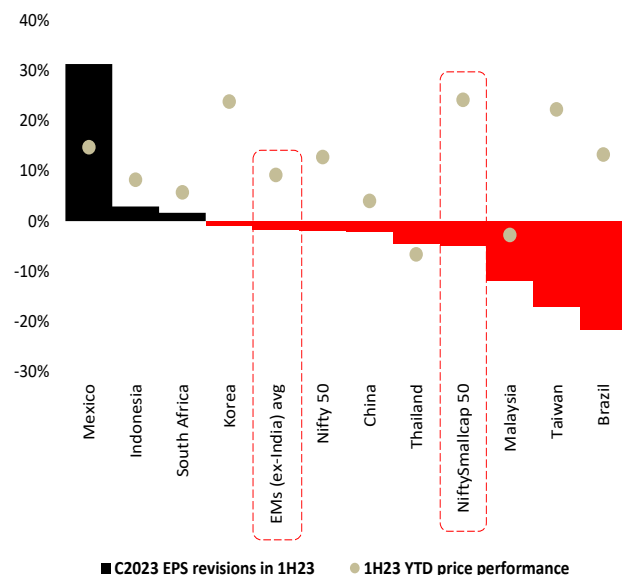
Exhibit 1 – Minerva at record discounts vs headline smallcaps



Contrary to prevalent narratives, we remain cautious on India in general, and India's headline smallcaps in particular. We have noticed sharply expanding broad-based disconnects between underlying earnings and stock prices.

Meanwhile, uncertainties remain virtually unpriced as the street continues to goad on domestic retail investors, vast majority of whom have never really witnessed a double-digit decline year (ever!) for India's headline street darlings. To be clear, while we clearly aren't bunching India alongside markets such as United States, which remain distinctly unattractive on both earnings and valuations, we are certainly wary of where India's headline names (regardless where they lie on the capitalization spectrum) trade today.

Exhibit 2 – C1H23 earnings est revisions vs Price performance



Notes: The most liquid large-cap benchmarks were used for this exercise. Returns were calculated in local currencies. Financials, Materials, and Energy components were excluded to create comparable cohorts. All outliers were adjusted for. Mexico's estimates revisions are skewed by a large beat by Fomento Economico Mexicano in the strong March quarter. However, even excluding this beat, Mexico's earnings estimate revisions (excluding financials, materials, and energy) were the highest among this EM peer set.

Source: Reuters

Sharply expanded disconnects between underlying earnings and prices (particularly within Indian headline smallcaps). Only Korea, Brazil, and Taiwan posted similar expanding disconnects between prices and 2023E earnings estimates in the first half of C2023, but none of these markets are arguably as stretched on headline valuations as headline Indian names are.

Overall, 2/3rd of *NiftySmallcap 50* names (ex-financials, materials, and energy), and 55% of *Nifty50* components saw cuts to 2023E estimates in the first half of the current calendar.

Exhibit 2 stacks 2023E earnings estimates revisions in the first half vs. price performance for EM peer set, *Nifty50* and *NiftySmallcap50*. Financials, Materials, and Energy components were excluded to create more comparable sets. Despite 70% of all peers listed in **Exhibit 2** having better earnings revisions vs *NiftySmallcap50* in the first half of C2023, the latter (ex-financials, materials, and

energy) ran up nearly +24% in the first half, handily ahead of the entire peer set.

India is more intertwined with the world today than during prior downturns. Uncertainties remain virtually unpriced in headline listed names. Dalal street has historically had a somewhat oddly bellicose stance towards the narrative that ‘India is inevitably tied to global economic growth’. Over the past few years, we have specifically pointed towards increasingly jingoistic undertones in street commentary and a sense of near entitlement in the recent past. It is undeniable that prior OECD economic downturns have had a significant subsequent drag on earnings growth trajectory of headline Indian names (see **Exhibits 3a** and **3b**). It is therefore critical to note that getting into F2024 (Mar), >43% of *Sensex* (ex-financials) revenues were generated outside India, significantly higher than ~34% getting into F2002 (Mar) and ~35% getting into F2009 (Mar).

Regardless of what the next few quarters have in store, in our view, uncertainties are virtually unpriced in India, let alone mispriced, when the street is getting accustomed to capitalizing underlying mediocre earnings at the sort of multiples that were hitherto associated with significantly superior growth in both absolute and relative terms.

Exhibit 3a – Sensex (ex-fin) earnings CAGR decline after FY02

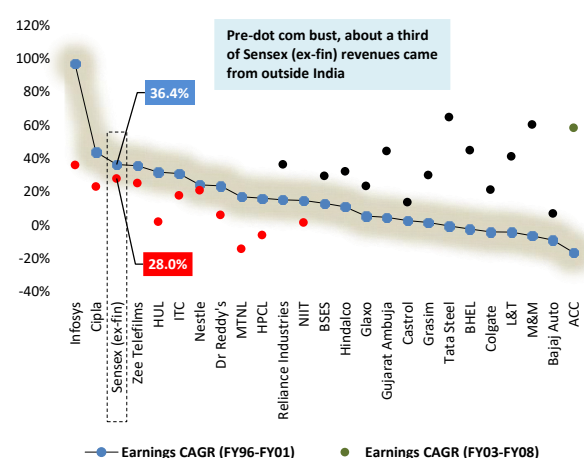
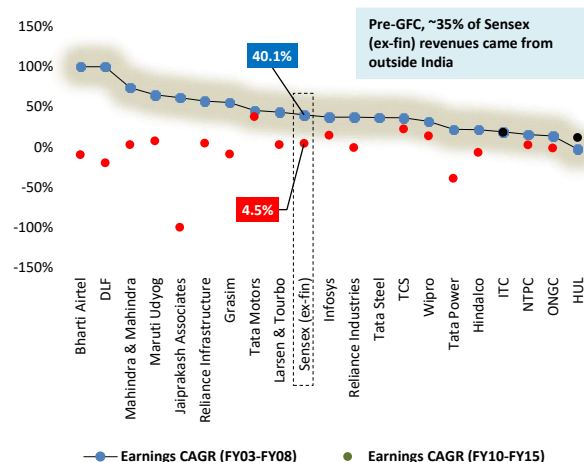


Exhibit 3b – Sensex (ex-fin) earnings CAGR decline after FY09



Notes: We used index components and weights as they were getting into the year of the downturns (FY02 and FY09). The year of the downturn was excluded for both pre and post-crisis CAGRs to offset impact of the ‘low base’ in the crisis year.

Source: Company reports

We see increased down-trading across several consumption categories. We have been increasingly witnessing downtrading across consumer staples categories outside metros¹, but are now also beginning to see increased downtrading in metros (particularly within personal care). Overall, close to 45% of staples distributors nationally are now witnessing downtrading, significantly ahead of what we’ve seen since the depths of the pandemic. Further, we are noting an uptick in price cuts in mass consumption brands, where the pain is apparent.

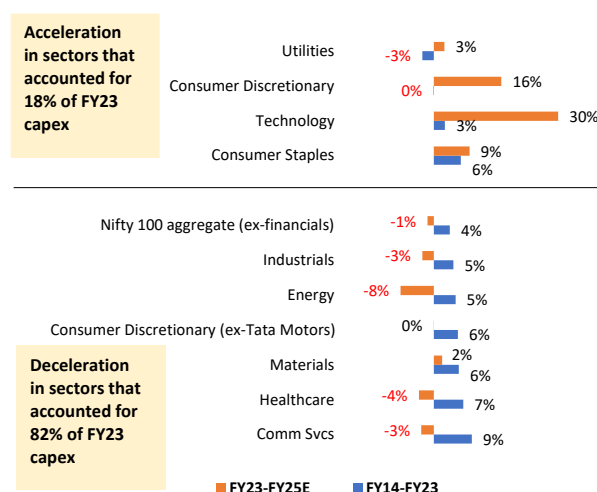
We previously hadn’t seen consumers at certain PV OEMs such as *Maruti* and *Hyundai* being resistant to trim upgrades, but it’s now increasingly visible, suggesting that downtrading is now happening beyond just mass

¹ There are also some indications around struggling demand from typically sticky channels such as hotels and restaurants

staples categories. At both of these relatively mass OEMs, inventory swelled in the first half of the calendar. *Tata Motors'* channels were slightly better but have nonetheless also seen considerable inventory build-up. We are also beginning to see similar trends in two-wheelers in tier-2 cities, which is arguably not a discretionary space, where mass OEMs such as *Hero* have noted an increased share of higher income (relatively speaking) customers of late, as underwriting norms got more stringent.

For the first time over the last year, we are also noting subdued optimism for contractual labor requirements nearly across the country, with particularly soft demand from Consumer Staples and Real Estate, and early signs of demand deceleration in the erstwhile faster growing Automotive space.

Exhibit 4 – Sector-wise capex acceleration/deceleration



Notes: Real Estate was excluded because it only had a single component within Nifty100, which would account for less than 10 bps of Nifty100 aggregate capex in F2024E (Mar).

Source: Reuters

Set up for misses, but priced for large beats - We don't share street's industrial capex "super cycle" enthusiasm. Nearly a quarter of India's aggregate manufacturing capacity, and about an estimated fifth of *Nifty50's* manufacturing capacity remains idle, amidst arguably clouded global visibility. As things stand, we are thoroughly unable to conjure theses that suggest inexplicably synchronized broad-based private industrial capacity build-ups at this time, simply on the ground that state sponsored projects² continue to ramp-up and company balance sheets remain considerably under-levered. We see considerable froth build-ups as such narratives get drawn across the listed industrials landscape³. As things stand, collectively, *Nifty100* (ex-financials) saw capex budgets grow at a muted +4% pace over the last decade, and is now estimated to decline at -1.5% annualized over the next 2 fiscals (see **Exhibit 4**). Communication Services, Healthcare, Materials, Consumer Discretionary (with the exception of *Tata*

Motors), Energy and Industrials are all expected to show capex deceleration over the next 2 fiscals. Collectively, these sectors accounted for nearly 80% of *Nifty100* (ex-financials) capex budgets in F2023 (Mar). Elsewhere, environment clearances data across major states isn't supportive of any broad-based acceleration in private industrial capex either.

Unsurprisingly, insiders have mostly sold than bought within the industrial machinery space (also classified as 'capital goods' by many in India) in the first half of C2023⁴. While, as always, there are some that have executed well ahead of others, Dalal Street has clearly wrapped a swathe around this space. Guess what names such as *KEC*, *Thermax*, *V-Guard* etc. have in common today – Getting into July, they had all missed earnings expectations for at least 2 of the last 3 quarters, all of them had seen insiders being neutral or net sellers in the first half of the calendar, their F2024E (Mar) estimates had seen a median cut in the high-teens in 1H23, their F2024E (Mar) valuations now average at >60% premiums vs. their pre-pandemic averages [and have exceeded their F2008 (Mar) ending levels].....and these were all up between 10-15% in the first half

² We have always steered clear of Indian businesses that have any material dependence on federal and state business relationships.

³ These narratives are often based on 'project announcements' data, which has notoriously been a red-herring of sorts historically. Also read our [January investor letter](#) to know thoughts on why we view 'China plus one' as street hyperbole from India's perspective.

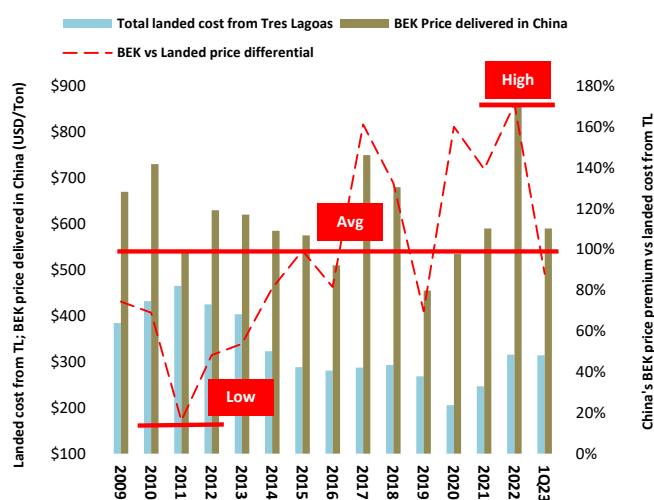
⁴ Nearly twice as many insiders reduced stakes in the first half for every one that increased their stake

of the calendar. We don't have a dog in this raging race, and if this ongoing street romance with industrial machinery ends up setting the pace over the next few laps, we would gladly take a breather and stay off this gravy train.

Retail one-upmanship coming together with increasing investor entitlement in India. When was the last time that ended well? >3/4th of Indian domestic investors today have never really witnessed a painful year for Nifty50 in their investing lifetime. That's how young (and unseasoned) India's domestic retail investor base is. Street's comfort around this group's continued engagement can and should be questioned at this time, because it's foolhardy to ignore growing entitlement within domestic retail investors⁵. 'Fear of loss' for this group typically supersedes 'Fear of missing out' and its best that we keep our judgment on their potential response to reasonably extended period of broad-based panic in abeyance for now. We'll soon know.

NA and EU forestry peers now bizarrely trade at +130% premium over our forestry holding, despite incomparable growth and profitability differentials. In a country that is home to some of the most richly valued names (across industries and capitalization spectrum), certain forestry names remain in relative obscurity. We have held one of them for over a decade now, and are set up well to engage aggressively if panic elsewhere were to spill over within such names.

Exhibit 5 – China BEK prices could be bottoming out



Notes: Transportation cost is calculated from Tres Lagoas (Sao Paulo), Brazil to the port of Shanghai. Truck was assumed as the preferred mode from Tres Lagoas to the port of Santos, which is about 750 kms away. Sources: Company Reports, RISI, USDA, IBGE

Operating rates and demand across Indian paper mills remain extremely strong. Therefore, the only source of potential margin contraction for integrated Indian mills (such as our holding) at this time are price declines, in our view. We note however that domestic uncoated cut-size prices are down only about 4-5% C2023 YTD (in INR terms), even as BEK pulp⁶ (bleached eucalyptus kraft) prices are down by more than a third YTD (in USD terms)⁷.

We have emphasized on several occasions (over 10+ years of owning this forestry position) that the read-through from global BEK pulp pricing volatility to domestic uncoated cut-size⁸ (aka copier) paper grade volatility is trivial at best. To

better understand our views on uncoated cut-size (aka copier) paper's relative margin stability, please refer to our [quarterly investor letter from January](#) this year. There is also a general lack of

⁵ If one had only picked names within BSE 500 where insiders sold in the first half (and this part was completely lapped up by retail investors, with no incremental institutional participation), one would have been up nearly +25% in 1H23, or nearly 2x the best performing index during this period.

⁶ Indonesians (12% of capacity) and Brazilians (47% of capacity) are consistently the lowest cost producers of hardwood pulp, and alongside other capacities in Latin America, control pulp sales in Asia. China is, by some distance, the biggest importer of global hardwood pulp.

⁷ Indian mills that haven't significantly engaged in farm forestry reportedly saw a high single-digit increase in domestic wood procurement cost in the first half of the calendar.

⁸ Uncoated cut-size paper makes about half of our holding's revenues.



appreciation of how this holding has structurally elevated underlying profitability through persistent resource cuts.

For what it's worth, we do not expect BEK prices in China to materially trend lower from here, unless demand comes off significantly. Differential between BEK delivered prices in China and cash pulping costs in Brazil (for the most efficient producer) are now back below historical averages (see **Exhibit 5** on previous page). By our estimate, by the end of C1Q23, the landed cost of general Brazilian hardwood pulp in Shanghai was about 10% shy of the cash pulping cost in mainland China. It's therefore not a surprise that LatAm pulp producers have already announced two price hikes in China since May.

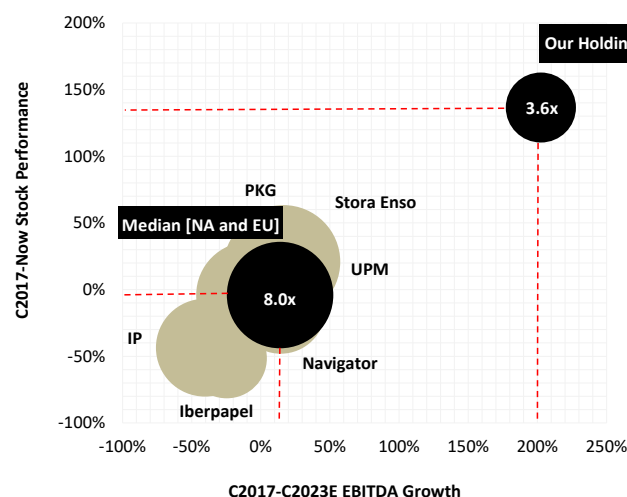
Elsewhere, our checks indicate that domestic FBB (folding box board) prices were down about 10% in the first half of this calendar. However, since BCTMP pulp prices crashed nearly 40% YTD, paperboard margins are certain to improve in F2024E (Mar).

Essentially, margin swings in this business are largely concentrated within general uncoated W&P grades (not 'cut-size') and coated paper⁹. Collectively, these two pieces make only about a fifth of this business.

As we write this, excluding contribution from the incremental 3 quarters of corrugated board business, current estimates suggest a high-single digit decline in F2024E (EBITDA)¹⁰. Despite adding 3 incremental quarters of EBITDA contribution of the newly acquired corrugated board business, and INR 5 billion in debt repayment in the current fiscal [or about a fifth of current debt, implying that only a bit over a third of F2024E free cash flow (post dividends) will be allocated towards paying down debt], pre-tax earnings are estimated to decline in the mid-20s.

Even on depressed estimates for F2024E (Mar), this holding of ours now trades at near record discount to its NA and EU peers, despite incomparable growth and profitability differentials (see **Exhibit 6**). Further, we note that given materially lower exposure to cut-size W&P revenues at these NA and EU peers, their profitability is significantly more volatile than is the case for our holding). We slightly raised our exposure in this name in the first half, and, as indicated previously, will aggressively engage if it draws down any further from here.

Exhibit 6 – Long-term EBITDA growth vs Stock perf vs EV/EBITDA



Note: Bubble sizes indicate EV/2023E EBITDA

Source: Reuters

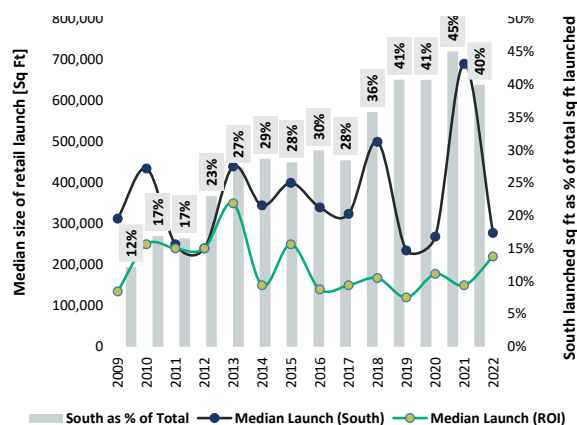
⁹ While the dominant source of uncoated W&P imports in India is Indonesia, China is the dominant source for coated paper imports. In F2023A (Mar), imports of uncoated W&P grades into India doubled, while coated paper and paperboard imports increased >40%.

¹⁰ The median 12-month EBITDA change for our holding following last 3 global BEK peaks was an increase of +18%.



Despite all the chatter, content still drives footfalls in theatrical exhibition; Hindi (original content) is increasingly becoming less significant for domestic box office; We expect Southern rollouts to be materially accretive to profitability as screen additions see a regional shift. With the exception of big budget productions, and regardless of the original language, box office data continues to indicate that content, more often than not, generates better footfalls. If one were to place IMDB 7+ movies that have had a theatrical run of at least 3 weeks in two buckets (Hindi and Southern languages) for 2023 YTD, footfall drift from first to third week is largely similar for both buckets. The challenge is frequency of likable content¹¹, where original Hindi productions significantly lag their Southern peers.

Exhibit 7 – Retail Launches (South vs Rest of India)



Source: Misc. CRE databases

While Southern India has by far the highest number of movie screens in the country, the share of multiplex screens in the mix is abysmal¹², principally on account of hitherto muted mall launches, local taxation frameworks, and price caps¹³. As a result of considerably lower supply, multiplex screen occupancies in Southern India typically run nearly 50% higher vs. Western India. While contribution from concessions is a bit lower in South, Southern screens still typically report 5-10% higher margins vs. our holding's rest of India screen network, with payback periods often being half of what we have seen in Western India¹⁴. We are now beginning to see an accelerated shift towards multiplex screens in the South, somewhat similar to what we saw in Northern and Western parts of India about a decade ago. Just under half of all organic screen additions by our holding in F2023A (and around 40% of planned additions in F2024E) were in Southern India. For context, prior to the SPI acquisition in F2019 (Mar), just about a fourth of our holding's screen network was in the south. National retail launch data clearly suggests that this mix could continue to shift towards South - Nearly half of all mall space coming online over the next 2 years in India are in Bangalore, Hyderabad, and Chennai (in that order), continuing what is a clear accelerating trend of retail launches increasingly shifting to Southern India, with materially higher median for size of launches¹⁵ (see Exhibit 7).

We are now working with the thesis that more than half of all screen rollouts over the next 5 years for our holding will be in Southern India. By our estimate, by F2028E (Mar), nearly 40% of our holding's screens will be in Southern India, vs. about 30% in F2023A (Mar). We note that in F2023A (Mar), original Hindi content made barely a fourth of pan-India box-office collections, and this ongoing screen shift towards South is syncing with India's new box-office realities. Hypothetically, even if concession spends and Hindi box office remain at F2023 (Mar) levels, we estimate that between contribution from premium formats and screen-mix shift towards South, margins within this holding should expand between 150-250 bps over the next 5 years.

¹¹ There are nearly 3x as many 7+ IMDB rated movies from Southern India YTD as Hindi movies

¹² While Southern India accounts for just under half of all single screens in India, it accounts for just a quarter of all multiplex screens.

¹³ AP is capped at INR 150. Telangana is capped at INR 300, with room for higher pricing in premium formats. TN's price caps are in the INR 210-215 range. Kerala's caps vary by municipalities.

¹⁴ It is not inconceivable to see many 5-screen properties in Southern India hit mid-teens EBITDA in the first year itself.

¹⁵ Higher median launch size indicates higher likelihood for need for an anchor theatrical exhibition tenant



In 2+ decades of investing across geographies and industries, we have seen few parallels for this theatrical exhibition holding when it comes to deal discipline and post-integration synergies. In a world that is usually littered with deal failures, this holding of ours stands out. Post the largest ever deal in their history, they now expect to extract ~INR 2.3 billion in operating synergies (65:35 spread between revenue and cost synergies¹⁶), or about a fourth of the newly combined entity's pre-pandemic EBITDA.

This holding is now trading at around 10x F2024E (Mar) EBITDA, and even excluding our margin expansion expectations, we still expect a doubling here within the next 3-5 years.

Why we see an individual craft spirits brand being immensely value accretive over the next decade. Over the next 5 years, volume growth in white spirits in India is likely to be in the low teens, handily outpacing the mid-single volume growth of the overall spirits market¹⁷. Our holding had launched a craft gin positioned for the 'mass-premium' market a bit before pandemic started. Over the past year, we have noticed increased favorable chatter on this brand across channels. Today, with full presence in barely 4 states, and selective city presence in Rajasthan and Maharashtra, this gin is now selling between 35-40K cases/year¹⁸ already, and realistic assumptions suggest that this should be at least a 100K cases brand within the next 3 years, if not earlier¹⁹. As things stand, it's essentially a Delhi NCR brand, with close to 70% of its sales volume coming from the metropolitan area alone²⁰. Elsewhere, to add a context on how fast this market is shaping up nationally, between 'Greater than London Dry', 'Bombay Sapphire', and 'Tanqueray', these three gin brands still didn't manage to sell 100K cases in India in 2021.

We estimate that this gin brand alone could make about 5% of consolidated revenues within 3 years, and mix would progressively continue to shift this way. That would likely account for a high single digit steady-state EBITDA contribution, and most importantly, a fifth or more of intrinsic value. Overall, IMFL (Indian Made Foreign Liquor) should exceed a fifth of this business' revenues within 3 years. Because spirits expansion across states is typically 'stepped' in this case, with relatively lower margin distilling preceding expansion of consumer brands, investors can easily sleep on this in the interim, before waking up to significantly stepped-up profitability within 3-5 years of new distillery set-ups.

Our biggest holding is (unsurprisingly) loaded with most mispriced idiosyncrasies within our book, with multiple operational levers and clear optionalities expected to drive significantly superior earnings growth. Between export revival off of a depressed F2023 (Mar) base, structurally secular thesis on a highly accretive shift towards alloys, unpriced optionality from PV alloy exports and new businesses, and what appears like a near certain acquisition out of NCLT soon, this holding has exceptionally high number of levers to pull.

1. ***While export end-markets aren't particularly robust, relatively improved inventory levels and incremental channel penetration is driving exports rebound off of last year's depressed base.*** We wouldn't be aggressive in extrapolating strength in exports just yet. Our checks across Mid-western United States (across the supply chain, including parts retailers, mobile home and camper

¹⁶ Revenue synergies largely relate to more synchronized programming within overlapping geographies. Cost synergies largely relate to supply chain scale economics and eliminating redundancies.

¹⁷ Source: Euromonitor. Gin would outpace Vodka.

¹⁸ We estimate that the overall 'mass-premium' gin market in India is >200K cases today

¹⁹ Our Gurugram checks suggest that it's now only led by *Bombay Sapphire* and *Tanqueray* within retail channels

²⁰ Credible estimates suggest that Delhi NCR accounts for about a third of India's mass-premium and higher category gin sales. Top-8 cities collectively account for about 40% of the mass-premium and higher category.



dealerships, and parks) doesn't quite suggest a robust trailer sales market. That said, we would accentuate the following: Firstly, this holding's export revenue projections for F2024E (Mar) are already conservative. At INR 5.5 billion estimated in F2024E (Mar), export revenues will still be barely 2/3rd of what they were in F2022 (Mar), even as there is an optical rebound off of last year's low base. Secondly, there are undeniable natural growth drivers here – We note that while mobile homes still predominantly use steel rims, caravans (RVs) and even utility trailers are increasingly shifting towards alloys, driving a highly accretive potential mix shift that has a material secular runway of growth ahead.

2. ***For the first time in distant memory, we are increasingly hearing of downtrading in passenger vehicles, but our expectations remain thoroughly achievable.*** Excluding the incremental opportunities in alloy exports, F2024E (Mar) targets for alloy volumes suggest barely 8-9% growth, which we believe is extremely grounded. To add the context here, consider this → By our estimate, usual domestic alloy growth should be >15% in even flattish markets (i.e. with Indian PV market not growing at all). With muted low-mid single digit PV market growth and consumer downtrading, 8-9% expectations aren't optimistic by any stretch.
3. ***Alloy exports opportunity (for PVs) is now in clear sight and adds a significant optionality here.*** As we pen this quarter-end letter, our holding has responded on 8 RFQs for alloy requirements for OEMs that include the likes of *Stellantis, PSA, and Jaguar-Land Rover*. They have already secured 3 trial orders and expect to deliver a 10-15K wheels/month run-rate in the first year itself. For context, current monthly run-rate of alloy export to the caravan market, where they already have prior existing relationships, is barely 8-12K. Critically, this would be their most profitable business so far, with margins exceeding those of domestic PV alloys. We estimate that PV alloy exports should add EBITDA of about INR 590-640/rim, and can be a massive contributor going forward. It should be noted that this is in addition to their ongoing alloy exports to the caravan market, which by itself are expected to double in F2025E (Mar).

All said, if alloy revenues by themselves don't grow between 15-20% in F2025E (Mar), we would be extremely disappointed. As things stand, PV alloy exports and new businesses (controllers etc.) can themselves deliver an incremental 6-8% and 11-13% incremental EBITDA contribution in F2025E (Mar) and F2026E (Mar) to the legacy business respectively.

As we write this quarter-end letter, this holding trades at around 8.5x F2024E (Mar) EBITDA, which is still a low-mid teens discount vs. its pre-pandemic average. Critically, beyond valuations, underlying idiosyncrasies are the chief planks of our comfort here. Our thesis here remains significantly decoupled from the vagaries of the Indian automotive market at this time, and we see multiple sources that can offset impact from potential domestic PV OEM softness here, should we see one.

We fully exited a technology position that we had initiated about a year ago. We had initiated a low single-digit exposure in a small technology name around this time last year that focused on smaller relationships well beyond Fortune 500. Their clients are typically spread in the \$200 mil-\$2 bil range, and they are particularly under-exposed to retail and healthcare clients, where we see relatively higher in-sourcing risk (structurally speaking²¹) for Indian technology services vendors – These two industries accounted for a single-

²¹ Even though the impact on IT Services in-sourcing (through ODCs) admittedly varies (likes of *Target* have essentially in-housed everything, while likes of *United Health (Optum)* still engage with external vendors extensively), it's hard to dispute the fact that outsourced tech mandates shrink as ODCs ramp up, and several businesses we speak with are aiming towards complete in-sourcing over the next decade.



digit contribution to their revenues, vs. a sizeable 1/4th of the business for the *Nifty50* technology components in F2022. Geographically, about a fourth of the business was outside NA and Europe, and that share had more than doubled within prior 3-4 years.

Over the period of our holding, stock tripled (and had doubled under 6 months of C2023). While we agree that outsourcing from smaller clients might see a somewhat acceleration as technology spending decelerates in the near-term, we were thoroughly unable to reconcile our realistic earnings expectations with these valuations. We fully exited this position in June 2023.

Feel free to reach out if you have any questions. Your investment fiduciaries are available 24/7 to address your concerns.

Thanks,

Piyush Sharma

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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	21%	25%	22%	33%	32%	12%	17%
Trailing 3 yr CAGR	49%	24%	25%	30%	38%	15%	16%
Trailing 5 yr CAGR	20%	13%	12%	13%	15%	8%	6%
Since inception CAGR	18%	10%	11%	12%	11%	7%	7%
2023 YTD	8%	8%	6%	14%	13%	6%	11%
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%	17%	17%	20%	23%	13%	16%
Sharpe Ratio	0.74	0.42	0.42	0.46	0.41	0.20	0.27

Source: BSE, NSE, EurekaHedge, Bloomberg

Note: Returns are until the end of June 2023; 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 1.05.

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

Strategy Snapshot

Characteristic	Notes	
Top 5 positions as % of book	60%	
Avg. weighted market cap of book (mil)	\$605	>> Median holding's market cap is \$391 mil
Avg. weighted institutional ownership	13.7%	>> Median institutional ownership of current holdings is 11%
Avg. weighted free float of book	38%	
Net Exposure	87.6%	
Avg. weighted F2024E (Mar) EV/EBITDA	7.5x	>> vs. 18.1x (Nifty Smallcap 50), and 18.4x (Nifty 50)
Avg. weighted F2023A (Mar) P/B	2.5x	
# of positions	14	

Note: Characteristics are as at the end of June 2023



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 micro and smaller smallcaps. Essentially, strategy's focus is on 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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