



Dear Investors:

Over nearly 12 years of deploying capital in India's listed universe, one thing has nearly always held true for us – Our consistent outperformance during smallcap drawdowns – We have outpaced *BSE Smallcap* in 15 of the 16 smallcap drawdowns¹ we have seen since our inception in early 2011. First half of C2022 was no different. *Minerva India Under-served* closed the first half of C2022 with a **+4.6%** gain (net; in INR terms), vs. **-15.9%** decline (gross; in INR terms) in *BSE Smallcap*, and **-7.9%** decline in the *Nifty50*. At the end of June, we were up **+46.2%** over the past year, vs. **-1.8%** decline in *BSE Smallcap*, and **+0.8%** gain in the *Nifty50*. Half of our holdings were up YTD in the first half, including 3 of our top-5 holdings.

At the end of June, our book (ex-financials) was trading at 7.7x F2023E (Mar) EBITDA, a sharp discount vs. nearly 15x for *NiftySmallcap50* (ex-financials) and 17x for *Nifty50* (ex-financials). These headline discounts are even steeper in cash terms – We were trading at 9x F2023E operating cash flows at the end of June, or a very elevated 60% discount vs. *Nifty50*'s 23x (see [here](#)). Despite handily outpacing benchmarks YTD, our valuation differentials have remained sticky because of materially better underlying earnings performance. At this time, we expect to outpace *Nifty50*'s F2023E (Mar) EBITDA growth by at least +10%.

We own some of the biggest value disconnects in listed India. Between F2017A and F2023E (Mar), most *Nifty50* constituents are set to witness significant multiple expansion, despite YTD drawdowns. If current F2023E (Mar) estimates hold, *Nifty50*'s (ex-financials) 6-year earnings CAGR would be in the very low teens, handily trailing the high-teens price CAGR over this period. Underlying multiple expansion has been particularly elevated at the likes of *Reliance* and Technology names. Despite nearly 3x as much growth as *Nifty50*, *Minerva India Under-served*'s current book has bizarrely seen material multiple contraction over this period², setting us up for what we believe should be a continued period of incremental alpha capture for us. While we haven't participated in declines YTD, we retain healthy cash levels to engage aggressively if there were any indiscriminate sentiment spillover in our holdings.

Street expectations have been remarkably sanguine, despite stagflationary conditions. While recent policy actions have seemed to embrace inflationary risks, public posturing had often reeked of denialism earlier this year. Nearly across industries, we noted inflationary headwinds on underlying demand, be it at consumer staples distributors, or nearly every other tractor dealership (across OEM and regions) that cited increased prices as a major headwind to demand.

It's surprising then how comfortable the street was with F4Q22 (Mar) earnings. In May alone (as the F4Q22 earnings season drew to a close), *Nifty50*'s median F2023E (Mar) EBITDA estimate was revised lower by >2%, while *NiftySmallcap50*'s median EBITDA estimate got sliced by >7% during the month. These are unequivocally sharp cuts within a barely 3–4-week earnings period, street cheers notwithstanding.

We continue to see material downside risks to earnings estimates³ - Consider the parallels vs. F2008, which was the last time input costs had accelerated sharply – In contrast to today, utilization levels across Indian manufacturing rose during F2008 and headline manufacturing names saw +15-30 bps margin expansion, despite cost headwinds. At the end of last month, in the face of established demand headwinds in India's

¹ We have defined smallcap drawdowns here as two or more months of consecutive declines in *BSE Smallcap* (subject to cumulative declines being at least -1%).

² All but one of our current holdings saw their multiples contract between F2017A-F2023E.

³ We also note material below-the-line risks, given that close to half of *Nifty50* components (ex-financials) debt is floating.



bottom-half, street was somehow still able to conjure significantly higher 50-100 bps margin expansion in the same names for F2023E (Mar).

Pssst.....stag-freakin-flation is hurting the bottom-half globally, but worse so in India. Within emerging Asia, while major ASEAN markets have more than recovered from their pandemic employment losses, other countries such as China, Vietnam, and India haven't been as effective in fully recapturing lost jobs (as yet). Nonetheless, regardless of subsequent underlying growth, aggregate consumer spending growth (in real terms) has remained largely lackluster across emerging Asia. What those flattish aggregate employment numbers grossly hide though is the intense purchasing power pain at the bottom of the pyramid. Be it a consequence of better fiscal response during pandemic, or continued fiscal support (admittedly because of more room to do so in certain economies), in our view the bottom half consumer at most EM peers is better positioned today than their Indian counterparts. As we share this quarter-end update, several ASEAN economies have already announced plans to support the bottom half consumer⁴, whose purchasing power has been undeniably severely dented.

Our work on spending pattern divergence in India confirms that the pain is clearly concentrated in at least India's bottom half, where pre-Covid savings rate was already insignificant. Situation clearly worsened further since the onset of Covid - Since the beginning of C2020 until end of F2022 (Mar), central minimum wage revisions (+10%) had trailed consumer price inflation, particularly stretching India's bottom-half households. 90%+ of all manufacturing labor contractors we speak with confirm that actual wage revisions have tracked (and have often been lower) than minimum wage revisions. To be clear, even pay for full-time employees in large organized manufacturing in India just about kept pace with inflation over this period.

Unsurprisingly, the inevitable lack of pricing power is accordingly showing up in muted volume growth (that too in nominal terms) and sharp margin contractions in staples categories such as packaged food and non-premium footwear, where India is materially trailing the recovery at its emerging market peers (in contrast with the narratives dished out around us). When one witnesses thorough inability of say a footwear maker (that sells pairs priced at <\$2) to pass through elevated costs, or a biscuit maker (that sells most packs priced at almost a dime) narrating similar challenges, it's foolhardy to not accept that we have already been in the middle of a stagflationary storm for at least 3/4th of India. In fact, our checks across staples categories are now disturbingly suggesting low single-digit volume contraction in packaged food category over the past few months, an unheard scenario in distant memory.

It's critical to note that except in case of Philippines, minimum wage revisions (since onset of Covid) in none of the countries listed below in the exhibit had trailed consumer prices, and therefore India's real minimum wage growth has handily trailed vs. this peer set. Critically, we don't see a near-term respite as fiscal stance will likely remain unyielding here, understandably so.

Note that China started imposing restrictions in Shanghai from late January onwards, which significantly dragged C1Q22 revenue and profitability for comparable EM constituents. Accordingly, we separated China from EM peer average in the exhibit below, and instead showed it separately.

⁴ Malaysia has announced support of ~73 ringgits for the bottom 40%. Indonesia meanwhile has announced assistance to ~20 mil households and 2.5 million street food vendors. We note that Malaysia had raised its debt ceiling to 65% of GDP last year, while Indonesia had waived the ceiling for 3 years as pandemic surged. With or without the ceiling, these economies still have more room for a central fiscal response vs. India.

Exhibit 1 – Indian staple food and footwear categories have trailed emerging and frontier market listed peers on growth and cost pass-through

in Million			EV/C2022E	Revenues			Gross Margin			Notes
Company	Country	Key Products	EBITDA	Mar-19	Mar-22	% Chg	Mar-19	Mar-22	% Chg	
Packaged Food										
Britannia	India	Biscuits	33x	INR 27,990	INR 35,505	27%	42%	38%	-4%	~1/2 of the business comes from packs priced in the INR 5-10 range
Nestle India	India	Confectionery	43x	INR 30,030	INR 39,807	33%	58%	52%	-6%	
ADF Foods	India	Frozen packaged food	NA	INR 641	INR 1,082	69%	46%	55%	10%	Exports (primarily to US) make >95% of business
Prataap Snacks	India	Chips; Namkeen	17x	INR 3,065	INR 3,615	18%	31%	24%	-7%	
DFM Foods	India	Snacks	NA	INR 1,318	INR 1,416	7%	41%	37%	-4%	Category growth overall declined sharply from 15-20% pre-Covid
Venky's	India	Poultry	NA	INR 8,287	INR 12,294	48%	28%	21%	-7%	
Median for India			33x			30%			-5%	
Minerva SA	Brazil	Packaged meat		BRL 3,975	BRL 7,628	92%	17%	16%	-1%	Despite a heavy export contribution, particularly to China
Marfrig Global Foods	Brazil	Packaged meat	3x	BRL 10,080	BRL 22,341	122%	9%	16%	6%	
BRF SA	Brazil	Packaged meat	7x	BRL 7,359	BRL 12,041	64%	21%	9%	-11%	53% organic growth ; Packaging costs made ~15% of COGS
Grupo Nutresa (Cold cuts)	Colombia	Cold Cuts; Biscuits	12x	COP 2,245,742	COP 3,597,442	60%	44%	38%	-6%	
Charoen Pokphand	Indonesia	Feed; Shrimp; Poultry; Pork	15x	IDR 14,455,252	IDR 14,295,430	-1%	12%	17%	5%	Despite sharp increases in wheat, crude palm oil, and milk powder
Indofood CBP	Indonesia	Noodles; Dairy; Snacks	10x	IDR 11,255,645	IDR 17,188,508	53%	34%	34%	1%	
QL Resources Berhad	Malaysia	Packaged Seafood	21x	MYR 898	MYR 1,373	53%	11%	11%	1%	43% organic growth
Grupo Bafar SAB de CV	Mexico	Packaged meat	NA	MXN 3,580	MXN 5,807	62%	31%	26%	-4%	
San Miguel Food and Beverage	Philippines	Poultry; Dairy products	6x	PHP 75,655	PHP 83,054	10%	14%	15%	1%	Price for frozen tuna (key raw material) was up +19% vs. 1Q19
Thai Union Group	Thailand	Packaged seafood	10x	THB 29,369	THB 36,271	24%	15%	18%	3%	
GFPT PCL	Thailand	Poultry	9x	THB 3,966	THB 4,009	1%	13%	14%	1%	Well entrenched 40%+ domestic share in chocolates and biscuits
Ülker Bisküvi	Turkey	Biscuits; Chocolates	5x	TRY 1,942	TRY 5,886	203%	28%	31%	4%	
Median for China peers			21x			7%			-11%	
Median for EM peers (ex-China)			10x			57%			1%	
Footwear (Non-Premium)										
Bata India	India	Sports and Casual footwear	24x	INR 6,794	INR 6,652	-2%	43%	32%	-11%	Specifically cited higher prices as a headwind to volume growth
Relaxo Footwear	India	Sports and Casual footwear	45x	INR 6,357	INR 6,982	10%	53%	47%	-5%	
Mirza International	India	Leather footwear	NA	INR 2,870	INR 4,446	55%	51%	31%	-20%	>2/3rd of stores are outside Metros and Tier-1 cities
Liberty Shoes	India	Sports and Casual footwear	NA	INR 1,439	INR 1,266	-12%	52%	53%	0%	
Khadim	India	Sports, Casual, and Formal footwear	4x	INR 2,067	INR 1,562	-24%	33%	38%	5%	Material and other mfrg exp drove ~500 bps drag yoy in gross margin
Median for India			24x			-2%			-5%	
Fortune Shoes	Bangladesh	Sports and Casual footwear	NA	BDT 345	BDT 365	6%	28%	22%	-6%	Adjusted for sale of Texas Clothing Holding Corp in May 2019
Grendene	Brazil	Casual footwear	10x	BRL 515	BRL 631	22%	51%	49%	-2%	
Yue Yuen Industrial	Hong Kong	Sports and Casual footwear	3x	\$2,372	\$2,394	1%	18%	17%	-1%	3/4th of footwear sales come from exports (primarily to EU)
Service Industries	Pakistan	Sports and Casual footwear	NA	PKR 6,037	PKR 8,680	44%	20%	19%	-1%	
Pan Asia Footwear	Thailand	Sports and Casual footwear	NA	THB 204	THB 201	-1%	10%	8%	-1%	
Median for China peers			16x			-12%			0%	
Median for EM peers (ex-China)			7x			6%			-1%	

Notes: All numbers are reported in local currencies (in millions); Valuation multiples are from end of June 2022; Wherever organic growth is materially different from headline numbers, they are noted accordingly (in green); Chinese peers are shown separately because of lockdown impact in C1Q22.

Source: Reuters; Company reports



While we aren't currently mandated to invest outside India or establish short positions here, we believe that Indian staples names today have significantly less pricing wiggle room vs. their EM peers, and consequently offer some of the most compelling shorts in conjunction with long pairs at fellow EMs, particularly within select ASEAN markets.

While several parts of India have traded off YTD, there is still considerable froth in certain parts such as Chemicals. While our holdings are industry agnostic, we continue to steer clear of frothy situations in commoditized spaces such as Chemicals, which still appear dangerously over-owned to us. Be it on volume, pricing, or margins, we see considerable mispricing of underlying uncertainties across the board here:

- ***China's agrichem space is now normalizing.*** Depending on which part of this pack one picks, the ubiquitous 'China+1' theme is painted generously in this industry. While China's 'Zero Covid' policy has expectedly made it imperative that sourcing channels get broadened, we have yet struggled to find Chinese players that have noted any material sudden sourcing shift at their clients for diversification reasons. Nonetheless, what is clearer is that China's chemicals space had been particularly hit by an accelerated focus on cutting emissions (including complete freeze in 3 of the last 4 months in C2021), given its carbon-intensive nature⁵. At a time when logistics bottlenecks (particularly at Chinese ports⁶) were pronounced, this really hit China's agrichemicals market in particular. Not surprisingly, India has been among the beneficiaries here. Post clarification of emissions policy in late 2021 though, agrichemicals production (both materials and upstream) in China is expected to move towards normalization in 2022. We note that for the first time in a year, majority of Chinese agrichemical names saw upside revisions to C2022E estimates in June.
- ***What's next for price tailwinds?*** We estimate that pricing alone had contributed nearly +30% to revenue growth in Indian chemical names over the past couple of years, and about +8% over the last 6 months alone. Several of these companies have now cited significant cost headwinds and have already begun to see margin contractions. Nonetheless, there still seems to be an unquestionable underlying bias on the street to extrapolate 'rainbow and blue skies' pricing environment here. What could possibly go wrong?

In an otherwise unequivocally commoditized space, we note a near disregard towards pricing uncertainties in Indian chemical names, even as they are getting increasingly apparent.

⁵ In 2020, Chemicals had the third-highest carbon emission footprint in China, only trailing power generation and steel.

⁶ Average wait times (across vessel types) in Shanghai are now back to June 2021 levels, and transpacific shipping costs are also back to where they were a year ago.



In the last quarter, we significantly increased exposures in two legacy holdings (a \$300 mil Beverages name, and a \$750 mil Technology holding), while paring exposures in a Packaging name (offered significantly less asymmetric upside vs. when we had initiated this position last year) and our Paper holding (purely because of risk-management guidelines around capping single-security exposures). We also initiated a new exposure in a \$100 mil Technology name. Here are some of our recent thoughts on new and select legacy holdings:

Increased electric vehicle and export penetration remain significant long-term growth drivers for a key auto-part holding of ours, as LED lighting content continues to shift higher; OEM exposure remains favorable too. >3% of 2W sales in May were EVs. That's about +80 bps share gain vs. January, at a time when traditional OEMs have been relatively reluctant to self-cannibalize. We note about a fifth of all footfalls at dealers during last Diwali were interested in an EV purchase, indicating what we believe is significant latent demand. We estimate that ~2/3rd of all electric two-wheelers produced in India in F2022 (Mar) came with 'only-LED' lamps (which is the biggest contributor to our holding's business), significantly higher than 'only LED' penetration for the industry⁷ in general.

Similar to EVs, overall exports continue to grab a larger share of production, as India continues to be marked as a key export hub for two-wheelers⁸. While slightly less accretive than the EV shift, this shift's magnitude is expectedly larger⁹ – We estimate that in F2022 (Mar), export lamp revenues made ~17% of industry-wide lamp revenues, even as exports made a materially lower 13% of domestic vehicle production.

Favorable OEM penetration (non-Hero and non-Bajaj) also continues to assist in CPV expansion. Expectedly, the worst of the two-wheeler distress has been within mass OEMs such as Hero and Bajaj. However, just under half of our holding's revenues at the beginning of F2022 were from OEMs such as TVS, Suzuki, and Yamaha, where not only CPVs were higher but also exports is a significantly higher contributor at these OEMs. That has expectedly somewhat decoupled our holding's earnings from the broader two-wheeler space. By our estimate, if Indian two-wheeler production grows at a 6-7% unit growth rate over the next 3 years, industry lamp revenues should conservatively grow at >16% annualized rate over this period, and our holding (because of the underlying favorable OEM mix) should be able to grow revenues in the high-teens over this period.

Continued highly accretive mix shift at our top-auto parts holding would contribute to 60-130 bps of 'conservative' annual margin expansion for at least the next 6-8 years; Import substitution in traction motors is a material optionality here. Our biggest holding today has multiple value creation levers, be it in terms of accretive domestic product mix shifts (and this part of the story has legs!!), accretive geographic mix shifts, opportunistic distressed capacity grabs to assist expansion, or material unpriced optionality within two-wheelers.

- 1. We see further 70%+ upside from the current wheels business within the next 2-3 years**, assuming metal prices remain at current levels, and Indian PV market grows at no more than a 10% annualized pace (a pace materially below current street expectations), and just about captures its pre-pandemic rate in the current fiscal. We are working with the hypothesis of about 5-7% annualized share points

⁷ ~12% of domestic two-wheeler production in India came with 'LED-only' lamps, and ~40% of production came with at least some LED content in base models.

⁸ Mentions of 'India' within the Big-4 investor documents in Japan has accelerated meaningfully in recent years; Between F2020 and F2022, two-wheeler exports rose >25%, even as domestic two-wheeler sales declined nearly 25%.

⁹ Lamp CPVs are also higher in export models



shift from steel to alloy rims (and this is our dominant value creation driver in this situation), and scrappage driven demand in commercial vehicles. By our estimate, close to a fifth of India's road transport capacity at the end of F2022 (Mar) had aged beyond 20 years.

2. **Material (unpriced) traction motor optionality within electric two-wheelers.** Few industries are better positioned to structurally benefit from India's state-sponsored time-bound subsidies (aka production-linked-incentives) than automotive parts. In electric powered vehicles, traction motors generate torque that is independently and directly delivered to the wheels, and there is no end-to-end manufacturing of these motors locally. The plan is to get into end-to-end domestic manufacturing of these motors, which have hitherto been imported from China. Our understanding is that a major Japanese OEM (where this holding of ours is well entrenched) had issued an RFQ for two-wheeler traction motors, and we anticipate a final decision on this by mid-2023.

In a still fledgling EV environment, ~80-90K traction motors are being used monthly in domestic two-wheeler assemblies and the overall market should breach the INR 10 bil annual run-rate within the next couple of quarters. While we aren't pricing this yet, this new business has more than an even chance of being > tenth of consolidated EBITDA within the next 3-4 years.

Also, we are now expecting supply chain related headwinds to begin easing towards the end of the current calendar. Given that 1. more mature node fab capacity will be coming online next year (and the likes of TSMC have now announced plans to shift capacity away from leading edge nodes¹⁰), and 2. Depleted inventory levels at dealerships globally, we see a gradual remission of supply-chain and demand headwinds across the automotive supply chain from late 2022 onwards.

We materially increased exposure in a beverages name after it sold off on temporary margin headwinds.

One of our top-5 positions is a beverages name that has significantly benefited from a highly accretive shift of capacity away from country liquor, and towards its in-house consumer brands (where ENA is the input), particularly as it has expanded in intermediate categories¹¹ (lying between IMIL and IMFL) and now also in the premium IMFL category. However, given low frequency of excise-driven price revisions in the industry (once/twice a year), they have expectedly faced near-term margin pressures recently. This however has absolutely no negative structural connotations. We therefore used post earnings weakness to increase our exposure here.

We see little reason to suspect their ability to replicate what they have done in Rajasthan to other states where we see significant ramp-up in the intermediate 'value plus' category over the next several years. The fact that ethanol blending can eliminate near-term cash burn as the new category develops makes it an extremely compelling situation for us.

We note that underlying capacity would expand by nearly +60% in the current fiscal, and then by another +40% by F2025E (Mar). Critically, we expect this doubled capacity to gradually move away from ethanol manufacturing and country liquor over time. In steady state (post excise tariffs catching up with inflation,

¹⁰ Because of heightened inventory levels at consumer electronics clients. As of mid-year, chip shortage should drive about 4-5% cut to global PV sales, a bit ahead of the 3-4% cut expected at the end of March. More than 2/3rd of this cut however is in NA and Europe, where electronic content-per-vehicle is significantly higher.

¹¹ Several key states already have an excise policy in place for this 'intermediate value-plus' category, including Rajasthan, Haryana, West Bengal, Punjab, and Chattisgarh.

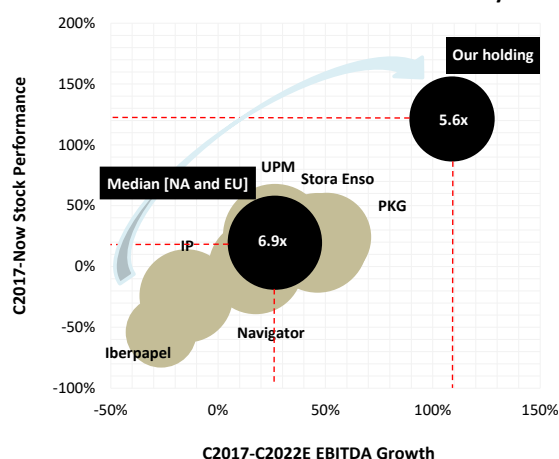
and ‘value plus’ consumer markets developing in new states), we expect EBITDA margins to be stickily closer to mid-20s or higher, considerably ahead of mid-teens at this time.

Among the growthiest and most profitable names within global forestry universe; Bizarrely, also among the cheapest. In a country, that lists among the most richly valued names on the planet (across just about any industry), we own one of the growthiest and most profitable forestry names, which incidentally is also among the cheapest.

With China yet to get back to pre-pandemic demand levels, and clear demand acceleration in paper packaging (across container board and FBB) elsewhere, 2022E is on pace to comfortably be the fastest growth year for paperboard in more than a decade. To put that in perspective, global paper packaging market is expected to grow by >12,000 MT this year, which is at least 50% higher growth than any year since 2010.

We believe that we are in a quasi-goldilocks pricing environment for integrated local paper producers (please refer to our [April 2022 strategy update](#)¹² for our detailed thoughts on this situation) – Global prices across all pulp grades continued to move higher in C2Q¹³, even as domestic eucalyptus prices remained flattish in Odisha and Gujarat, and domestic converters and end-use paper clients continued to report a very robust demand environment. We conservatively value this paper holding of ours >70% ahead of where it trades., or at mid-30s premium over the peer set in **Exhibit 3**. Even assuming continued poor price discovery, we will be disappointed if underlying earnings growth by itself doesn’t help us incrementally capture +30% on this holding in the current fiscal alone.

Exhibit 3 – Valuation stack for NA and EU forestry



*Notes: Bubble sizes indicate EV/C2022E EBITDA;
Source: Reuters; Company reports*

Accelerated deployment on pre-pandemic roadmaps could potentially translate into headwind for tech-spending (excluding public cloud related investments) in the coming years; We initiated a small tech exposure in C2Q on a vendor that services clients ‘beyond Fortune 1000’. While the global tech meltdown of 2022 is one of the sharpest in distant memory, investors would be remiss if they disregard the fact that this space has had one of the sharpest multiple expansions in recent years – If one were to look at multiple expansion between C2017 and now (assuming F2023E estimates hold up), no *Nifty50* sector shows as large a disconnect between underlying earnings and prices as Technology does. We are all however prisoners of recent memory.

Despite the YTD cuts, we remain particularly wary of Indian large-cap tech names. Our interactions across major tech spenders in NA and Europe suggests a likely peaking of digital transformation spends in the 2021-

¹² Since our April update, domestic uncoated paper prices are up by >10%.

¹³ At the end of C1Q22, marginal production cost for South American BHK pulp (Bleached Hardwood Kraft) price in China (CIF) was about in line with what we saw in C1Q19 (pre-pandemic) and yet BHK prices were still below C1Q19 levels.



2023 period, with potential deceleration in most parts beyond this period. In particular, our discussions suggest two distinct headwinds at Fortune 500 clients:

1. **Accelerated deployments of long-term roadmaps can potentially drive deceleration at large Indian vendors that are focused on Fortune-500 clients.** Our discussions suggest that digital transformation roadmaps for most Fortune 500 clients were significantly brought forward over the past couple of years. While enterprise software spends will decelerate the least because of continued migration to cloud¹⁴, we suspect that digital transformation spending within the largest clients could see material deceleration beyond the current fiscal.
2. **Offshore Development Centers (ODCs) at Fortune 500 clients will continue to gradually in-house technology services.** Even though the subsequent impact on IT Services in-sourcing (through offshore development centers) 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. Consider this → Between 2015 and onset of pandemic, gross leasing of commercial real estate by captive centers had nearly tripled and they accounted for more than a fifth of all leased commercial office space. We note that a natural counter by Indian large-cap IT services companies to mitigate this has been to manage these ODCs during early-stage ramp-ups, which however is just a transitory offset. We are now working with the hypothesis where we expect to see this trend firm up particularly within Fortune 500 clients in relatively predictable environments (big-box retail, healthcare etc.)

While we are certainly wary of most large Indian technology services names, we did identify value within a ~\$100 mil Southern Indian business that focuses 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 for Indian technology services vendors – In F2022 (Mar), these two industries accounted for a single-digit contribution to their revenues, vs. a sizeable 1/4th of the business for the *Nifty50* technology components¹⁵. Geographically, about a fourth of the business is outside NA and Europe, and that share has more than doubled within last 3-4 years. We initiated a low single-digit exposure in this name in the second quarter, and conservatively expect to capture at least 50% upside here within a 3-year period.

Stay safe! Feel free to reach out if you have any questions. We are available 24/7 to address your concerns.

Thanks,

Piyush Sharma

¹⁴ Recent CIO survey by Bernstein suggested that barely 30% of workloads are on public cloud, vs. ~20% 3 years ago

¹⁵ Contribution of these two industries in Indian midcap tech names drops to 16-17%, vs. 25% for *Nifty50* components

Performance benchmarking

	India Under-served	Nifty	S&P BSE 500	S&P BSE Midcap	S&P BSE Smallcap	EurekaHedge India	India-focused CE Funds*
Trailing 1 year	46%	1%	-1%	-4%	-2%	0%	-14%
Trailing 3 yr CAGR	32%	10%	12%	14%	20%	11%	3%
Trailing 10 yr CAGR	20%	12%	12%	13%	14%	10%	9%
Since inception CAGR	18%	9%	10%	10%	10%	7%	7%
2022 YTD	5%	-8%	-10%	-13%	-16%	-9%	-15%
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	22%	17%	18%	20%	24%	13%	16%
Sharpe Ratio	0.81	0.46	0.48	0.47	0.42	0.36	0.34

Source: BSE, NSE, EurekaHedge, Bloomberg

Note: Returns are until the end of June 2022; 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.

*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)	\$513	>> Median holding's market cap is \$338 mil
Avg. weighted institutional ownership	11.9%	>> Median institutional ownership of current holdings is 10.7%
Avg. weighted free float of book	41%	
Net Exposure	89%	
Avg. weighted F2023E (Mar) EV/EBITDA	7.7x	>> vs. 14.9x (Nifty Smallcap 50), and 17.0x (Nifty 50)
# of positions	16	

Note: Characteristics are as at the end of June 2022



Meet your investment manager

Piyush Sharma, born and raised in India, has been running the Minerva India Under-served strategy since early 2011. The strategy focuses on investing in uncrowded and institutionally under-owned 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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