



Dear Investors:

In 2+ decades of investing and advising across geographies, capital structure, and industries, we haven't seen as much of a dichotomy in global listed equities as we see today. While US listed equities was the epitome of indiscriminate multiple expansion over the past couple of years, most of emerging Asia (ex-India) didn't really see such disconnects.

While it's been rather natty to routinely side with 'bottom-up' managers in India in recent years, we strongly believe that the real mettle of bottom-up strategies should eventually show up in numbers this year and next. As has been the case in nearly every smallcap drawdown over the past 11+ years, *Minerva India Under-served* outpaced during the muted smallcap drawdown we saw in the first quarter. We ended up **+8%** in the first quarter, vs. **-1%**, **-3%**, and **-4%** declines in *Nifty50*, *BSE Midcap*, and *BSE Smallcap* respectively.

While global equities (generally speaking) have corrected meaningfully to now largely reconcile with global growth run-rate since the beginning of 2020, we retain our view that India's headline indices don't stack competitively on growth-adjusted valuations (just yet). China (mainland and HK-listed), Thailand, and Korea make ~60% of *MSCI Emerging Asia*, and are all expected to handily outpace India's earnings growth (ex-financials and outliers) over the next couple of years¹. Accordingly, we find it hard to reconcile *Nifty50*'s premium (ex-financials and outliers) with underlying estimates momentum or growth expectations. Nonetheless, India's impressive breadth positions several underlying constituents extremely well for meaningful inclusion in bottom-up books, except that most allocators aren't bottom-up, their public posturing notwithstanding. Expectedly then, our work on India's institutionally under-owned/orphaned space wouldn't resonate well with allocators that fail to appreciate poor price discovery in this space and are rather more appreciative of overly generalized broader narratives. Our focus on India's 'quirky' market microstructure has always superseded our view on the country, and we don't see any good reason for a course change. We aim to capitalize on poor (yet liquid and reasonably liquid) poor price discovery pockets, and that's where *Minerva India Under-served* has camped for 11+ years.

It's never the same, but is it different enough? *MSCI ACWI* (All-Country-World index) started this year trading in the high-teens. Last time, the index stickily traded above that range was between mid-1998 and mid-2002. G7 real 10-yr yields averaged little over +3% over that period. In sharp contrast, today G7 10-yr papers scarily yield about -4% in real-terms, on average, relatively backstopping stocks in several of these markets. Interestingly, at a time when US still remains, relatively speaking, among the most richly valued listed pockets globally, it was the long duration bondholders there that got bludgeoned in the first quarter. With little else backstopping Indian headline index constituents, both onshore and offshore investors in India may be better off underweighting these names.

Street's 'heady' collective entitlement can lead investors to ignore canaries. While the street continues to dish out the domestic private capex acceleration narrative, we see scant evidence to corroborate this unabated optimism. Be it environmental clearances at federal or state level, or current utilization levels, we see little reason to side with this view. Industrial environmental clearance approvals plummeted across major industrialized states in C2021², and application growth decelerated to a three-year low. The prevalent optimism likely comes off of elevated clearances in C2020 and anticipation of lagged capex spends. We would however caution investors from this 'convenient' read-through – The F2009 (Mar) and F2013 (Mar) spikes didn't really translate into any acceleration in private capex spends in subsequent years, and that was despite higher utilization levels back then vs. what we saw either pre-*Covid* or today. Furthermore, we will accentuate upon the underlying granularity of ongoing capital formation – our checks suggest that the key

¹ With the exception of South Africa, nearly all major EMs would report as good or better earnings vs. India's *Nifty50* over the next 2 years.

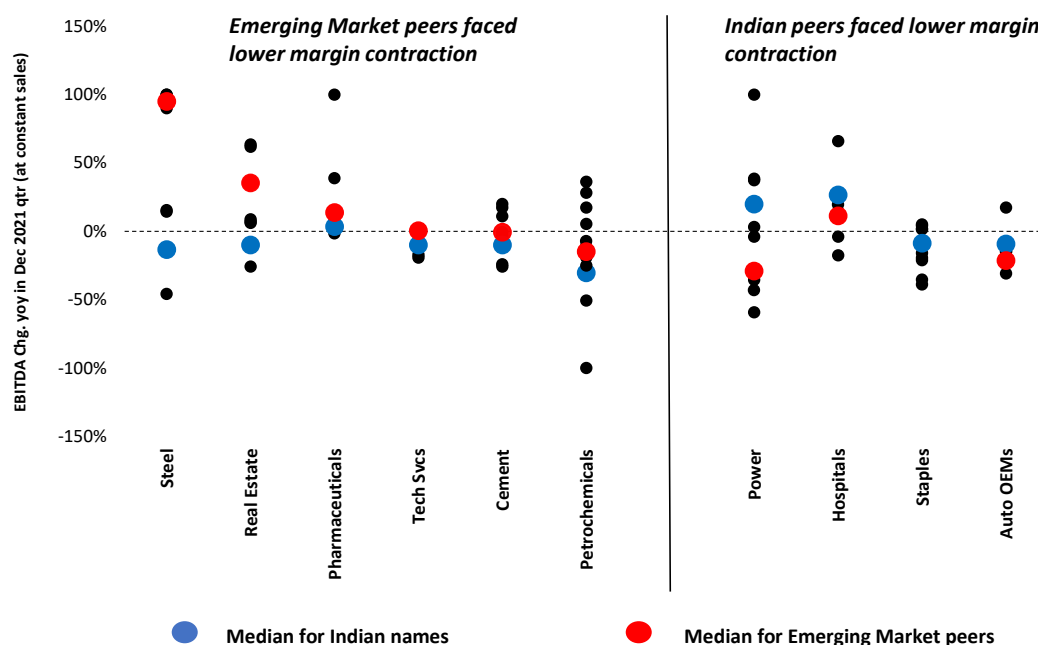
² Industrial environment clearances in Gujarat hit a 4-year low. Haryana was an exception among major states, with approvals inching up.

driver remains public spending and select private spends (renewables, metals, real estate etc.). We do not view this as reflective of any broad-based turnaround in domestic manufacturing.

In our view, while production-linked incentives certainly accelerate natural trends such as electrification, and pre-established cases of import substitution (handset assemblies etc), they do not structurally catapult domestic manufacturing. We certainly appreciate the need for state incentives in perennially capital-intensive situations such as wafering and foundries within the semiconductor space, which incidentally is also common in East Asia. Unsurprisingly then, more than a third of the targeted capex under these announced production linked schemes is in semiconductors, and majority of that involves setting up fab capacities, likely within mature nodes that aren't quite the priority for Taiwanese and Korean giants³. Accordingly, we see relatively better integration of these capacities in automotive applications⁴ vs. in electronics. All said, limited (and distant⁵) 50-100 bps push to GDP (best case), and a significantly lower contribution to manufacturing employment simply does not help us reconcile broader growth expectations with current elevated Indian multiples, especially within well-owned street darlings.

At a time when profitability is getting stretched across industries globally, we see absolutely nothing to suggest any relatively superior margin stability in India either (see **Exhibit 1**, which lays down yoy EBITDA contraction/expansion across comparable peers in India and emerging markets for the December quarter). Accordingly, we continue to struggle to justify India's extremely elevated premium vs EM peers in general, and emerging Asia peers in particular.

Exhibit 1 – EBITDA contraction (assuming constant revenues) in Dec 2021 qtr: India vs Emerging Market peers



Notes: We only picked industries where we could identify at least 2 comparable peers (stacked for size and business) vs. at least 2 Indian names. Only headline benchmark constituents across the capitalization spectrum were included for this exercise.

Source: Company Reports

³ 2/3rd of TSMC's revenues come from sub-16 nm nodes, and nearly their entire growth is coming from sub-7 nm nodes. In sharp contrast, vast majority of SMIC's (China's biggest foundry) revenues come from >40 nm nodes.

⁴ Automotive applications are largely built upon legacy mature node technologies, even as the need for advanced node chips is accelerating because of technology trends.

⁵ India's first domestic fab capacity won't come online until 2024

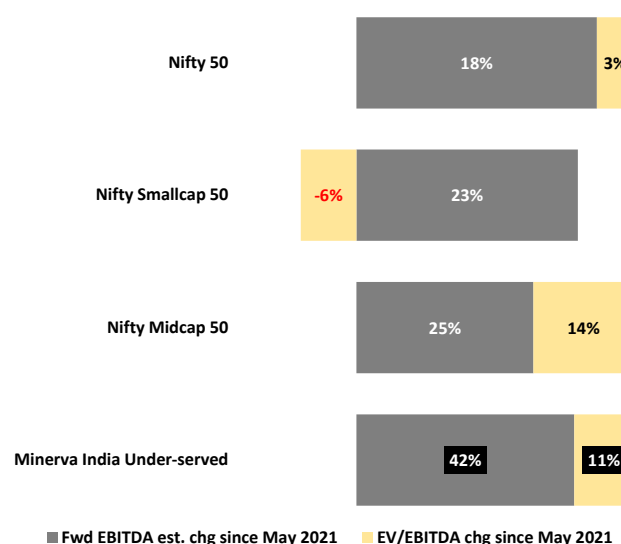


Another gut punch to previously stressed global supply chains. The Russo-Ukrainian conflict was another gut punch to the global semiconductor supply chain. As we write this quarter-end letter, chip shortage by itself is expected to drag back global passenger vehicle sales by 3-4% in 2022E. Unsurprisingly, the biggest impact is in Europe, which is the most electrified vehicle market globally⁶. There was also a small matter of the world's busiest container port (Shanghai) reeling under *Covid* induced bottlenecks, primarily as a result of challenges around trucking linkages. This only further exacerbated supply shocks for electronics - We note that Shanghai's export tonnage primarily comes from neighboring Jiangsu and Zhejiang provinces, which are major hubs for electronics, semiconductors and textiles. While alternative networks were being created to partly offset the Shanghai challenge, these recent events are significant impediments to global supply chains. We note that containers moved per vessel were already at record levels prior to the conflict and China's *Covid* surge, and most new large vessels won't add to global vessel capacity until after 2022, leaving limited room to offset recent incremental supply headwinds. Effectively, we don't see supply chain bottlenecks going away this year, period!

Idiosyncratic earnings identification has driven our 'sustainable' alpha capture. Since our holdings aren't obvious beneficiaries of liquidity-induced (and often indiscriminate) multiple expansion, we tend to almost always outpace during periods of receding liquidity. Consistently avoiding institutional darlings does come with these benefits. Over this past year, a vast majority of our alpha capture was built upon superior (and sustainable) earnings growth vs. broad-based multiple expansion.

Interestingly, we saw multiple expansion [**+11%**] at a time when Indian headline smallcaps saw multiples contract [**-6%**] (see **Exhibit 2** that benchmarks multiple and EBITDA expectation shift between May 2021 and March 2022). Critically, underlying earnings expectations for our names have handily outpaced peers without relative multiple expansion. Despite nearly doubling over the past year, *Minerva India Under-served* ended C1Q22 trading at barely 8.4x F2023E (Mar) EBITDA, vs. nearly 18x for *Nifty 50* and *Nifty Smallcap 50*.

Exhibit 2 – EBITDA and Multiple change since May 2021



Notes: Above exhibit shows forward EBITDA estimate growth and EV/EBITDA multiple expansion/contraction between May 2021 and March 2022; Financials and outliers were excluded; Only names that were index constituents in May 2021 and March 2022 were considered. Source: Reuters

Given significant current value and (more importantly) earnings differentials, we would be disappointed if our since-inception annualized alpha vs. Indian headline small and midcaps doesn't expand materially from high single-digit now to double-digits within the next year.

⁶ ~45% of the estimated chip-related production cuts in 2022E have been in Europe



While we didn't initiate any new exposure over the past 3 months, we marginally added to our exposure in a key auto part holding, and a media name that is going through a significant realignment of its business.

We see our second biggest holding benefiting from continued acceleration in ongoing PV shift towards alloys. Consider the ongoing steel-to-alloy shift at India's biggest OEM - *Maruti Suzuki*'s only model that comes with alloys as standard option in the base version is *XL6*, which was launched as early as August 2019. Incidentally, *Maruti* had only launched 2 new models in the prior 4 years. However, by our estimate, 40% of all *Maruti* models planned between 2022E and 2024E (including new launches, generation shifts, and facelifts) would likely have alloys as standard fits in the base models. Consider the overall pace of alloy penetration (across models) at even this 'mass' OEM – alloy penetration has doubled from 12-13% barely three years ago to >25% now, suggesting a 3-4% annual shift in even India's most value-centric OEM. In their top-selling models such as *Baleno*, penetration is now already close to 60%.

Launches at other major OEMs are even more likely to have alloys as standard options in forthcoming base model launches - We estimate that >70% of all *Hyundai*'s and *Kia*'s new launches over 2022E-2024E will have alloys as standard fits in their base models. Furthermore, we see ongoing vehicle electrification to further accelerate the shift towards alloys⁷ (from 3-4% annual mix shift now, to 4-6% annual shift towards alloys).

We expect our holding to report INR 9-10 billion in alloy revenues in F2023E (Mar), with *Hyundai* and *Kia* making nearly half of this. The only potential temporary headwinds we identify at this point are supply-related bottlenecks, but our discussions suggest that it's unlikely that these will shave anything more low-mid single-digit off C2022E OEM volumes. We believe that steel → alloy shift and continued growth in exports should be able to drive comfortably north of 20% earnings growth in this position for next several years, even conservatively assuming flattish PV sales.

Quasi-goldilocks for our 'paper' holding. If W&P paper demand were back to pre-*Covid* levels, current environment would have been a near perfect sweet-spot for our paper holding. We see several tailwinds in this position at this time:

1. **Domestic uncoated demand continues to recapture pre-pandemic run-rate.** Uncoated paper demand continued to make ground to catch up with pre-pandemic levels. Just under half of national wholesalers had at least recaptured their pre-pandemic rate by mid-March. Overall, we see domestic demand at ~80% of pre-pandemic levels, while pricing continues to steadily inch up. Our holding's volume meanwhile is already at pre-pandemic levels (largely on account of higher contribution from exports over the past few quarters).
2. **Accelerated supply cuts in Europe create a solid floor on global pulp prices.** Between closures at *SCA* and *Stora Enso*, >750K tons uncoated (UWF) capacity in Europe came offline in C2021 alone. Another 1 mil+ tons of *Stora Enso*'s writing and printing paper capacity is now set for divestment. For context, the estimated UWF demand contraction between now and 2030E in Europe would be 500-600K tonnes. While BHKP (bleached hardwood kraft pulp) prices have nearly doubled off of mid-2020 lows, we see a well-balanced global supply outlook over the next 3 years – While BHKP demand is expected to grow by ~3-4 mil tons, ~4-5 mil tons of supply⁸ is expected to come online over this period. Domestic eucalyptus prices in Telangana and AP meanwhile are down vs. the pre-

⁷ This past year, ~30-35% of India's passenger vehicle sales came with alloy fitments

⁸ ~2 mil tons will come online with *UPM* in 2023E and *Cerrado* is expected to add ~2.5 mil tons in 2024E.



pandemic levels of INR 4.4-4.5K/ton, creating a solid profitability sweet spot for local players with farm forestry access.

3. ***Our holding's expanded paperboard facility was bursting at the seams by March end.*** This facility came online at the beginning of the year, and is running well ahead of our ramp-up expectations. Our discussions with board converters in end-March suggested that the only reason this expanded facility hadn't already breached full utilization was because of fiber availability. By end of March, they were likely sitting on a 2-month order book. To put that book in context, a paperboard converter takes no more than 15-20 days from artwork to dispatch. Even the largest paperboard clients are being forced to absorb 30%+ yoy increases in board prices at this time. It's also critical to note that wood sourcing costs and yields⁹ are better in Gujarat (where expanded paperboard facility is located). We note that recent price increases continue to offset the spike in imported BCTMP pulp prices¹⁰, which have increased between 20-25% yoy.

Despite a significant run-up YTD, our paper holding still trades under 5x F2023E (Mar) EBITDA, an inexplicable 45%+ discount vs. North American and European peers.

1x events led a noisy December quarter for a top-5 beverage holding. Series of 1x events in the December quarter led to a 6%+ sequential decline in our beverage holding's EBITDA margin. Shutdowns at two of its plants (floods at an Eastern facility, and power plant overhaul at a Northern facility) and some expected material cost headwinds (primarily bottling and fuel costs) drove this significant sequential contraction. If it hadn't been for the shutdowns though, EBITDA would have been nearly 40% higher for the quarter. We note that both facilities were fully operational by mid-December. We expect >25% earnings growth for this position in F2023E (Mar). While we don't anticipate any incremental multiple expansion in this holding, underlying earnings runway provides an extremely solid platform here for continued alpha capture.

Stay safe! Feel free to reach out if you have any questions. Your investment team is available 24/7 to address your concerns.

Thanks,

Piyush Sharma

⁹ Typical eucalyptus yields in Odisha/Telangana are in the 45-50MT/acre range, assuming fifth year of cutting. Better irrigation in Gujarat leads to better yields (because of more frequent cuts). We note that local sourcing costs in Gujarat run about 8-10% below Odisha/Telangana levels.

¹⁰ ~200-450 kg of BCTMP is required to make a ton of paperboard, depending on the brightness, and is mostly imported.

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	93%	16%	19%	19%	32%	17%	3%
Trailing 3 yr CAGR	33%	13%	15%	18%	25%	14%	5%
Trailing 10 yr CAGR	21%	12%	13%	14%	16%	11%	10%
Since inception CAGR	19%	10%	11%	12%	11%	8%	7%
2022 YTD	12%	-1%	-2%	-3%	-3%	-1%	-6%
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%	24%	13%	16%
Sharpe Ratio	0.77	0.48	0.50	0.50	0.45	0.41	0.38

Notes: Returns are until the end of April 25th 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. All numbers are reported in INR.

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

Source: BSE, NSE, EurekaHedge, Bloomberg

Strategy snapshot

Characteristic	Notes	
Top 5 positions as % of book	61%	
Avg. weighted market cap of book (mil)	\$609	>> Median holding's market cap is \$507 mil
Avg. weighted institutional ownership	12%	>> Median institutional ownership of current holdings is 11%
Avg. weighted free float of book	43%	
Net Exposure	90%	
Avg. weighted F2023E (Mar) EV/EBITDA	8.4x	>> vs. 18.2x (Nifty Smallcap 50), and 17.9x (Nifty 50)
# of positions	15	

Note: Characteristics are as at the end of March 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.

@ps_tarheel

OFFERING DESCRIPTION: Minerva India Under-served is offered on the Right Horizons Financial Services Pvt Ltd.'s platform, a SEBI-registered portfolio manager. Any reference to "Minerva" in this document refers to an investment offering managed by a SEBI-registered portfolio manager.

DISCLAIMER: The information, opinions, estimates and projections contained in this newsletter were prepared by managers of Minerva Funds and constitute its current judgment as of the date of this note. The information contained herein is believed to be reliable and has been obtained from sources believed to be reliable, but we make no representation or warranty, either expressed or implied, as to the accuracy, completeness or reliability of such information. We do not undertake, and have no duty, to advise you as to any information that comes to our attention after the date of this fund brief or any changes in its opinion, estimates or projections. Prices and availability of securities are also subject to change without notice. This is not a prospectus and does not constitute investment advice or an offer or solicitation to buy or sell any designated investments discussed herein. Neither Right Horizons, nor its officers, directors, agents, employees, Minerva Funds' managers makes any warranty, express or implied, as to the suitability of any fund as an investment or of any kind whatsoever, or assumes any responsibility for, and none of these parties shall be liable for, any losses, damages, costs, or expenses, of any kind or description, arising out of this newsletter or your investment in any fund. You understand that you are solely responsible for reviewing any fund, its offering and any statements made by a fund or its manager and for performing such due diligence as you may deem appropriate, including consulting your own legal and tax advisers.

CONTACT US:

Piyush Sharma piyush.sharma@righthorizons.com
Aneel Chitazhi aneel.chitazhi@righthorizons.com
CS Raju raju.cs@righthorizons.com
Sourav Dutta sourav.dutta@righthorizons.com

+1-919-360-0359 [United States]
+91-9567398469 [Gurgaon]
+91-9739010590 [Hyderabad]

