Investment Hypothesis, Financials & Valuation of Top 15 Portfolio Companies in Solidarity's Prudence Scheme

4 April 2025

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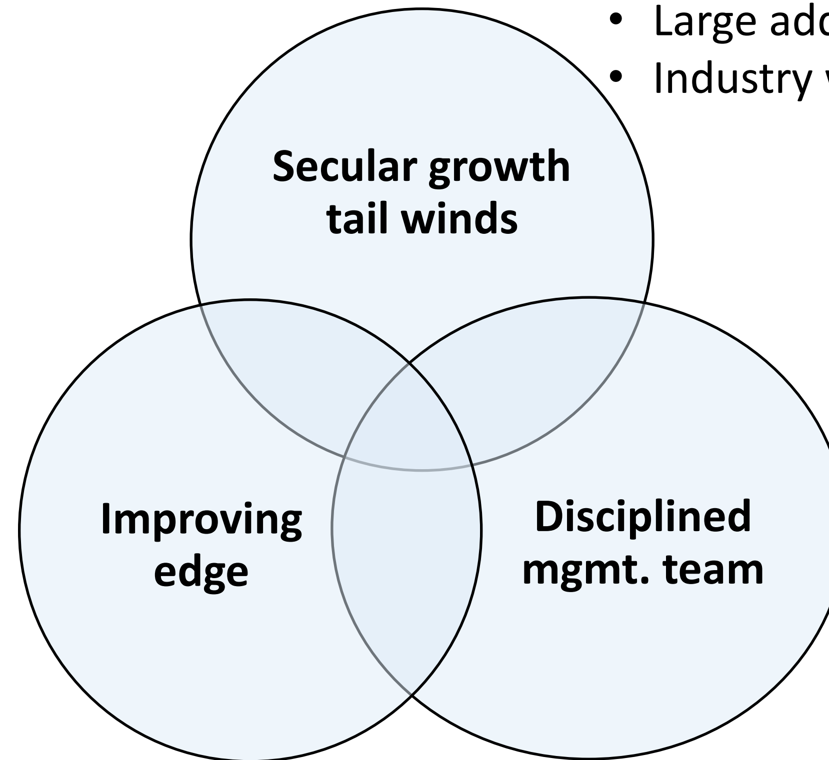
OUR PROCESS: EARNINGS RESILIENCE OVER SPEED

Buying decision	Is this a company that can compound Earnings over long periods of time?
	What is a broadly fair entry price for the quality and its stage of evolution?
	What is the right position size basis expected IRRs?
Sell decision	Hold, trim or sell? Change in opinion or euphoric valuation?

CAN THIS COMPANY COMPOUND EARNINGS FOR LONG PERIODS OF TIME?

- Large addressable opportunity.
- Industry with structural tail winds of growth.



- Favourable industry structure.
- Sector/niche Leadership.
- Edge/competitive differentiation.
- Re-investing for growth
- ROE >18%, 16% for Banks
- Better business today than yesterday.

- Granularity in thinking.
- Team depth beyond promoter.
- Focus on doing a few things well
- Disciplined on capital allocation.
- Prudent use of leverage.

SOLIDARITY
INVESTMENT MANAGERS

LARGE MARKET OPPORTUNITY + SECULAR TAIL WINDS

	Secular decadal theme	Sub Theme	Sample Portfolio names
1	Opportunity to gain market share in global supply chains	Precision Engg.	RACL, Sansera Engg.
		Specialty Chemicals	Kama, Yasho, Neogen
		Technical Textiles	Garware Technical Fibre
		Industrials	Pix Transmission
		CDMO	
2	Growth with industry consolidation in Banking	Banks	ICICI, HDFC, Axis bank
3	Greater deployment of Financialization of savings in risk assets in India	AMCs/Wealth Mgmt.	
		Services to support AMCs	
4	Convenience	Quick Commerce	
5	Digital Business Models and enablers of Digital	Telecom	Bharti Airtel
		B2B Services	India MART
6	Discretionary consumption – “Affordable luxury”	Jewellery	
		QSR	RBA
		Travel and Tourism	
7	Clean energy transition	Battery Chemicals	Neogen Chemicals
8	Solutions that drive productivity in US Healthcare		Inventurus Knowledge Sol
9	Domestic and global investments in electrification		Shivalik Bimetal
10	Explosive use of GLP 1 Drugs for Weight Loss	Injectable devices	Shaily Engineering
		APIs	
11	Global surge in defence budgets		

LEADERSHIP IS KEY FOR SUSTAINABLE EDGE

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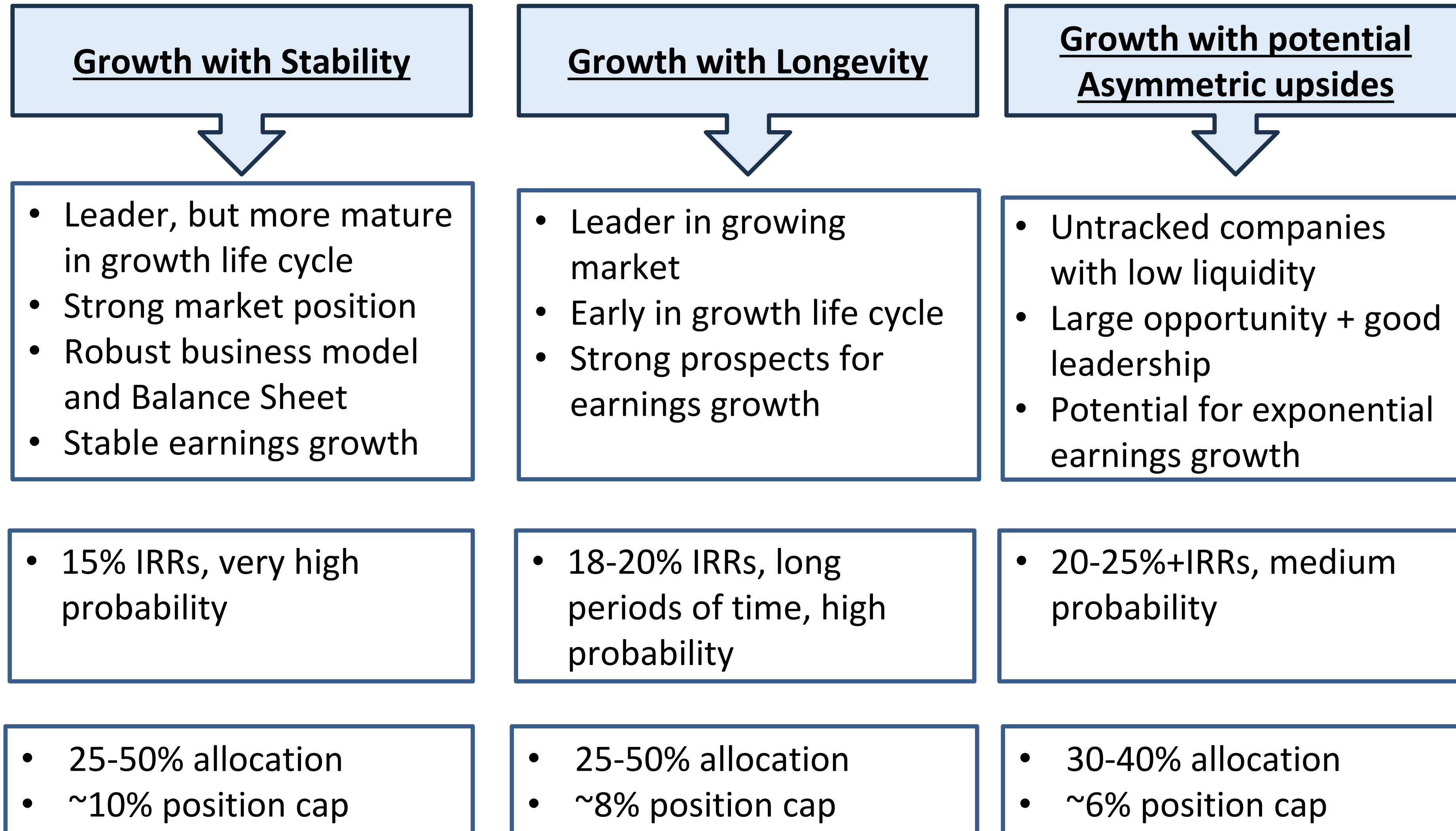
WHAT IS THE ROLE IN THE PORTFOLIO AND HENCE IRR ASK?



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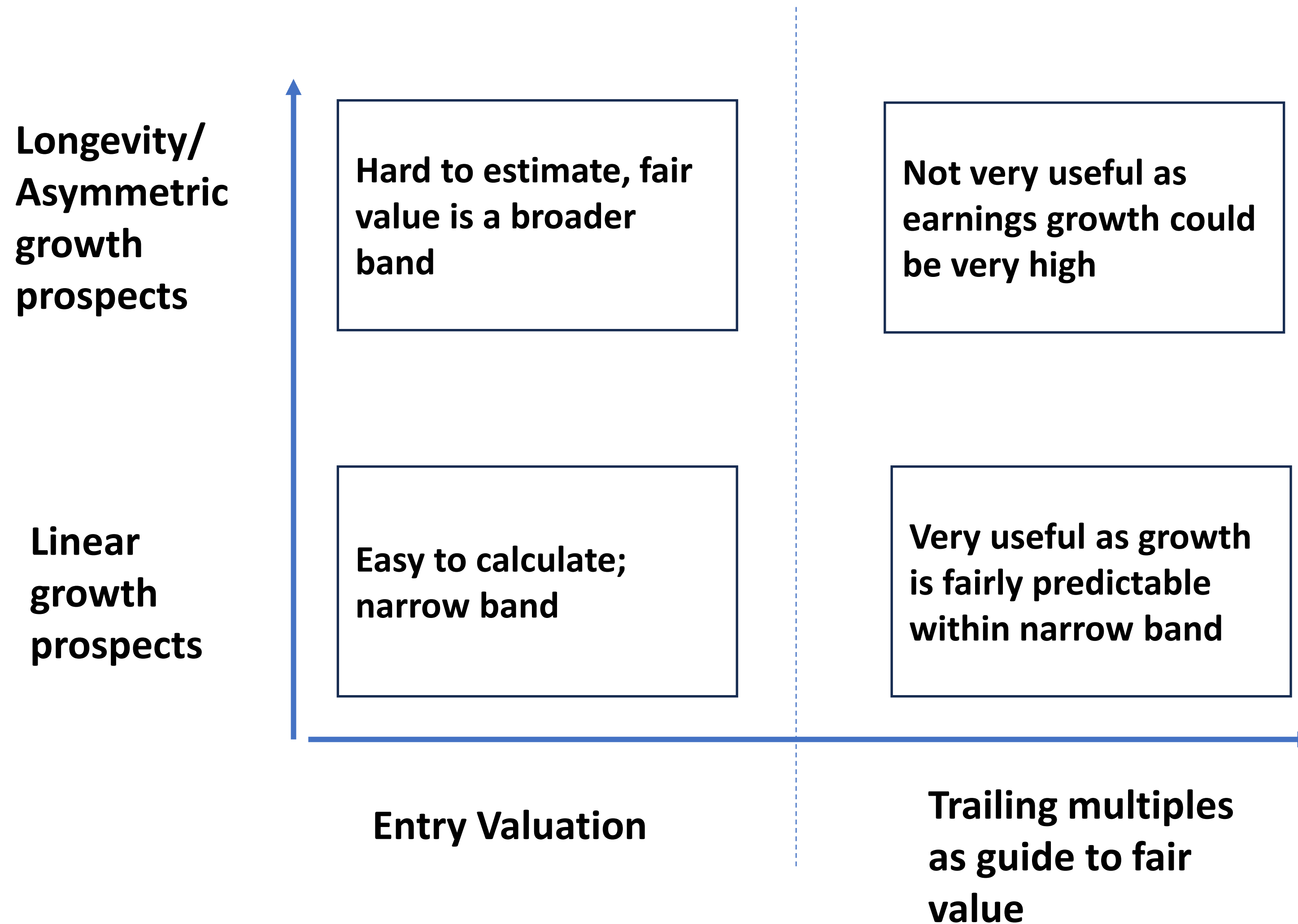
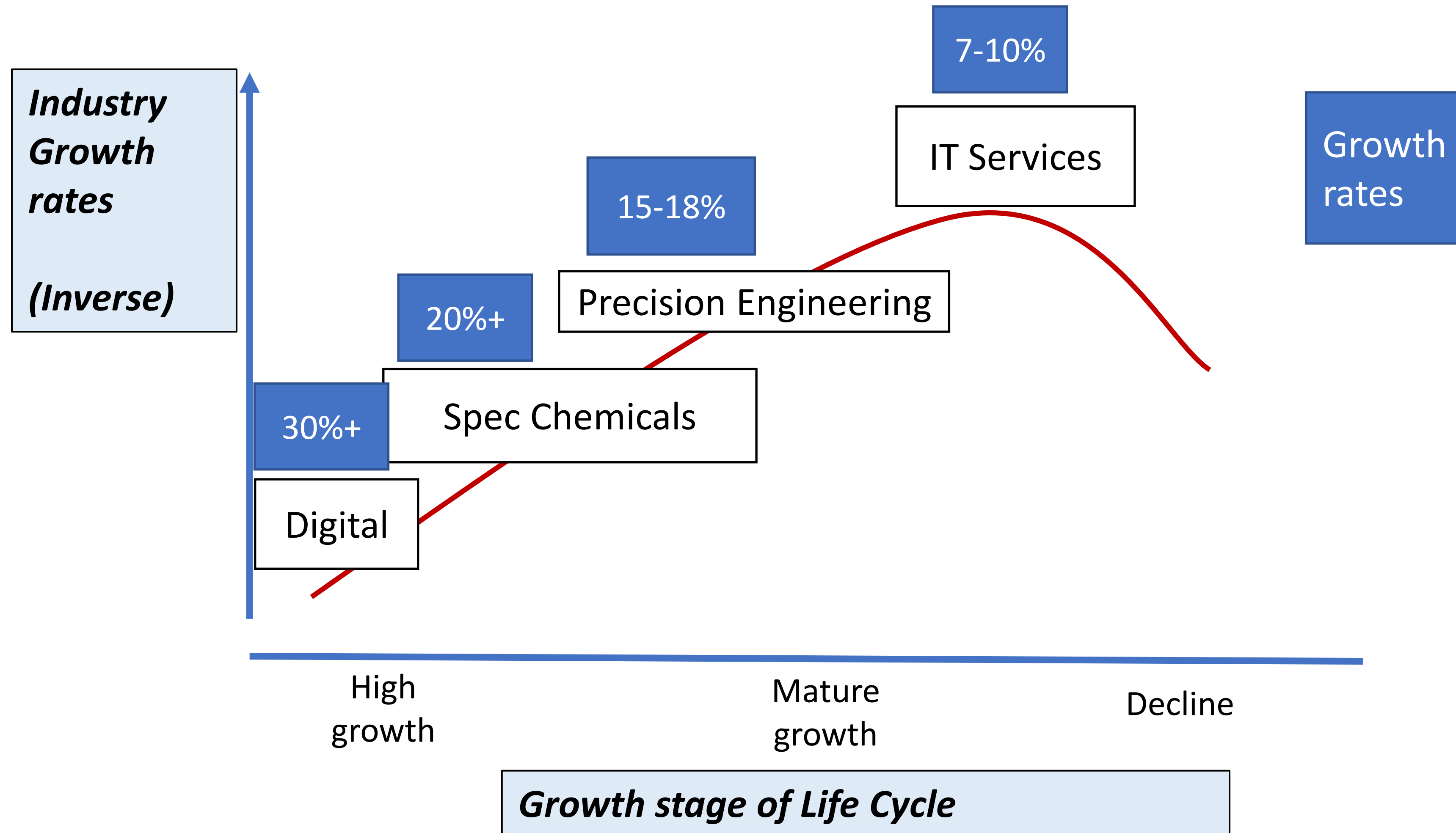
ONE NEEDS NUANCE IN USING TRAILING MULTIPLES AS VALUATION GUIDE



FAIR VALUE DEPENDS ON STAGE OF GROWTH LIFE CYCLE + ROE



HIGH VALUATION MULTIPLES CAN BE JUSTIFIED FOR COS VERY EARLY IN GROWTH LIFE CYCLE AND WITH HIGH ROE BUSINESS MODELS

Approx fair 1 Yr Fwd PE		ROE						
		15%		25%		35%		
Earnings growth estimated next 5 years	0%	9		9		10		Cost of Equity 12%
	15%	12		20		23		
	25%	18		37		45		

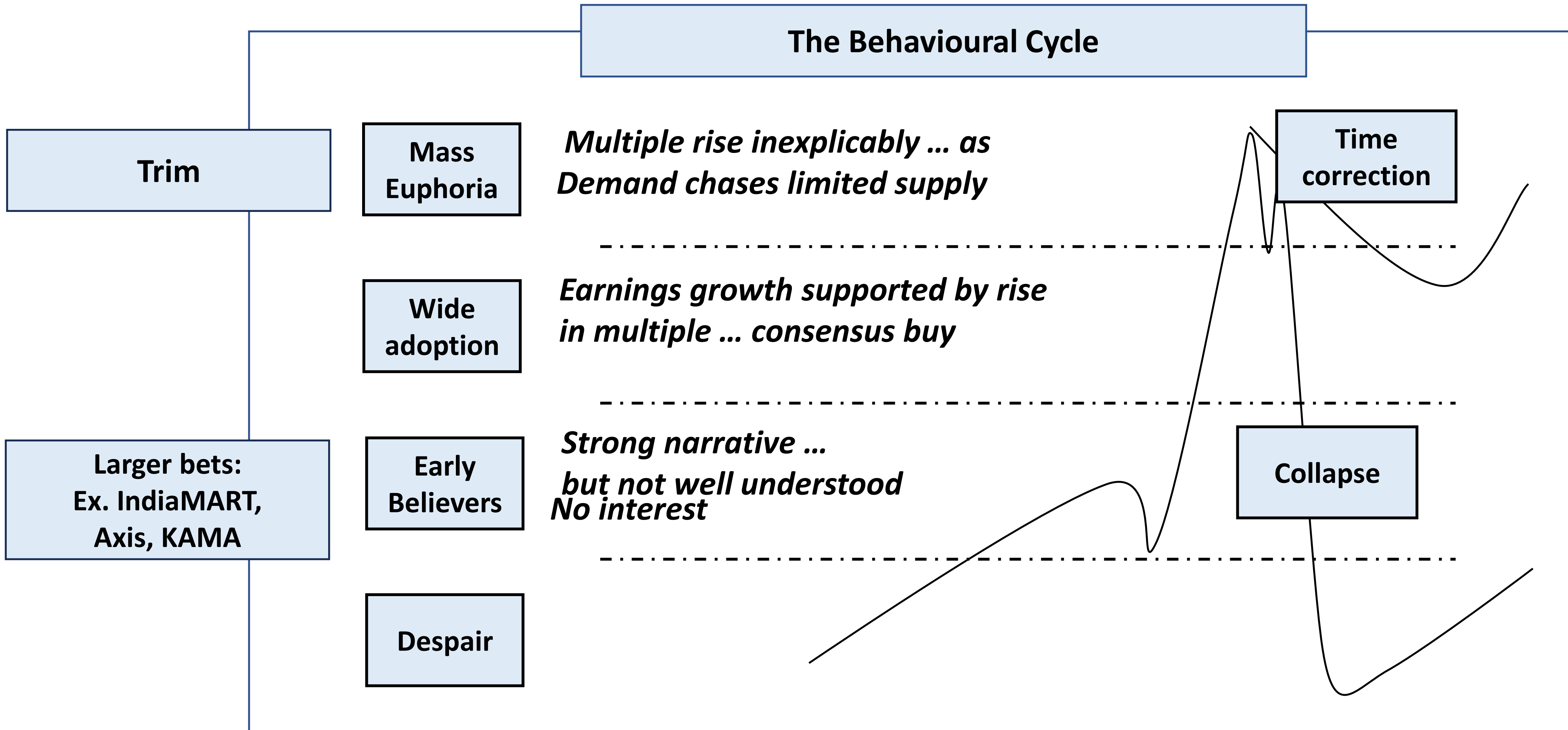
Very few companies can compound earnings at 25% CAGR for long periods at 25%+ ROE.

Hence, paying >40x PE is a rare exception for us.

POSITION SIZING FRAMEWORK

	Phase 1	Phase 2	Phase 3	Phase 4
Stage of company evolution	• Company gets a lucky break • Distressed valuations • However, no clear edge	• Deepening foundations • Widening the moat • Discipline in capital allocation	• De-risked business model • Depth in leadership • Resilience demonstrated	• Flywheel starts spinning
Position sizing				
Good liquidity	• 5%	• 5%	• 6-8%	• 10-12%
Poor liquidity	• 3%	• 3%	• 4-5%	• 6%

SELL DECISION: WE WILL TOLERATE SOME OVER VALUATION BUT WILL TRIM WHEN VALUATIONS GET EUPHORIC



TOP 15 HOLDINGS BY % OF PRUDENCE SCHEME AS ON 31 MARCH 2025

TOP 15 HOLDINGS	% OF SOLIDARITY ASSETS	APPROX. M CAP (RS CRS)
ICICI BANK	9.1	9,50,000
HDFC BANK	8.2	14,00,000
INDIAMART INTERMESH	7.1	12,500
AXIS BANK	6.8	3,47,000
YASHO INDUSTRIES	6.6	2,100
RESTAURANT BRANDS ASIA	5.8	3,100
KAMA HOLDINGS	5.8	8,500
SHAILY ENGINEERING PLASTICS	5.6	8,500
RACL GEARTECH	5.6	800
NEOGEN CHEMICALS	5.4	4,400
GARWARE TECHNICAL FIBRES	4.5	8,300
SHIVALIK BIMETAL CONTROLS	4.2	2,600
SANSERA ENGINEERING	3.1	7,600
PIX TRANSMISSIONS	2.7	2,200
POLYPLEX CORPORATION	2.6	3,800

BANKS – HDFC BANK, ICICI BANK AND AXIS BANK [1/3]

We have invested in top 3 private banks in India

Solidarity chooses to invest in banks which have the following characteristics or are showing progress on the same:

- Lowest cost of funds in the industry (key competitive edge) which allows a bank to choose the credit risk it wants to take.
- Strong control on operating costs.
- Conservative management team which has shown prudence in risk taking and proactively provided for NPAs.
- Healthy capital adequacy which minimizes risk of raising capital at distressed prices.

We believe the banks which will demonstrate the above characteristics will have a long, profitable growth runway:

- Banking is a secular growth story enjoying natural tail winds.
- Inefficiently run PSU banks and lack of competitive advantage of NBFCs and smaller private banks will enable private banks in Solidarity's portfolio to continuously gain market share while earning a healthy ROE.
- ROEs will be in range of 15-17% for these set of banks.

Fin Techs will increasingly attack fee incomes of banks so banks we look to invest in should have a technology stack which helps them compete with these Fin Techs. Also, banks which are of interest to us have other levers on costs which should help offset the pressure on fee income. Being a highly regulated industry, Fin Techs are unlikely to be able to raise deposits and have also come under RBI scanner for irresponsible growth. Hence, they will more likely partner with Banks rather than disrupt them.

BANKS – HDFC BANK [2/3]

HDFC BANK

- Since its inception, the bank has always ticked all the characteristics (discussed previously) we look for while investing in a bank. This has led to strong execution, delivering consistent earnings growth and ROE over ~3 decades.
- Post-merger with its parent HDFC Ltd, the Bank is now ~14.5% of the banking system assets. Given its scale now, it will have growth rates will moderate vs. its history. However, margins and credit quality will be resilient as seen in past which means ROE stays healthy in 15-16% range.
- Also, the bank is running a high Loan to Deposit Ratio (LDR). LDR will improve as the bank continues to grow its deposit book higher than its loan book by calibrating its loan growth downwards. We saw this in FY25, when the bank took a conscious decision to slow down the loan growth until LDR reaches close to its pre-merger levels. The same should continue in FY26. However, this is a temporary issue and once LDR is at a comfortable level, loan growth should accelerate to above industry level and the Bank will again start gaining market share.
- Risks include a slower pace of ramp up of low-cost deposits, which continues to impact NIMs and LDR, resulting slower recovery from the merger challenges. Also, larger than anticipated pressure on fee income which can't be offset by other levers is a risk to maintaining 15-16% ROE.

BANKS – ICICI BANK, AXIS BANK [3/3]

ICICI BANK

- Over the last 15 years, the bank has steadily built a strong retail liability franchise, and its cost of funds are best in class in the industry. It implies that they don't need to lend to risky customers to earn >16% ROE.
- In a departure from the past, since 2018, the bank has focused on profitable growth and not just growing the balance sheet.
- All pieces seem to be in place for them to grow faster than the industry and deliver 16-17% ROE across cycles.
- Risks include larger pressure on fee income than anticipated which can't be offset by other levers, resulting in lower ROEs. Also, the Bank has moved incentive systems to team-based performance vs. individual performance and implications of this in terms of attrition of high performers need to be seen.

AXIS BANK

- Over the last decade the bank has steadily built a strong retail liability franchise, and while it lags ICICI Bank, its cost of funds are best in class in the industry (top 3). It implies that they don't need to lend to risky customers to earn decent ROEs.
- While they had been consistently delivering above-average ROEs, the pursuit of faster growth under the previous CEO led them to venture into risky assets starting in 2012, which resulted in the 2016-2020 corporate NPA cycle.
- Under Mr. Amitabh Chaudhary, since 2019, the liability franchise has become more granular and stickier, leading to improved cost of funds and with increasing the mix of retail in the loan book, yields on assets have increased, thus improving NIM.
- All pieces seem to be in place for them to grow faster than the industry and deliver 15-16% ROE across cycles.
- If our hypothesis is right, there could be further re-rating, reducing valuation discount vs. HDFC Bank and ICICI Bank.
- Risks include larger pressure on fee income than anticipated which can't be offset by other levers, resulting in lower ROEs. Inability to gain market share in low-cost CASA deposits, which impedes loan growth given focus on risk underwriting.

HDFC BANK

Particulars (Rs crores)	FY19	FY20	FY21	FY22	FY23	FY24*	5 year CAGR
Net interest income	48,243	56,186	64,880	72,010	86,842	108,532	NA
Other income	17,626	23,261	25,205	29,510	31,215	49,241	NA
Net Total income	65,869	79,447	90,085	101,519	118,057	157,774	NA
Opex	26,119	30,698	32,723	37,442	47,652	63,386	NA
PPOP	39,750	48,750	57,362	64,077	70,405	94,388	NA
Credit costs	7,550	12,142	15,703	15,062	11,920	23,492	NA
PBT	32,200	36,607	41,660	49,015	58,485	70,895	NA
Tax	11,121	10,350	10,542	12,054	14,377	10,083	NA
PAT	21,078	26,257	31,117	36,961	44,109	60,812	NA
Advances	819,401	993,703	1,132,837	1,368,821	1,600,586	2,484,862	NA
Core BVPS	266.9	304.9	362.6	426.1	495.3	566.6	16%
Capital adequacy %	17.1%	18.5%	18.8%	18.9%	19.3%	18.7%	
GNPA (%)	1.4%	1.3%	1.3%	1.2%	1.1%	1.2%	
NNPA (%)	0.4%	0.4%	0.4%	0.3%	0.3%	0.3%	
PCR % (excluding technical write-offs)	71.4%	72.0%	69.8%	72.7%	75.8%	74.0%	
Core ROE % of bank	16.9%	16.6%	16.8%	16.7%	17.0%	16.9%	

Particulars (Rs crores)	9MFY24*	9MFY25*	YoY growth
Net interest income	79,456	90,604	NA
Other income	31,075	33,604	NA
Net Total income	110,530	124,209	NA
Opex	45,417	50,618	NA
PPOP	65,113	73,591	NA
Credit costs	9,981	8,456	NA
PBT	55,133	65,134	NA
Tax	10,832	15,403	NA
PAT	44,300	49,731	NA
Advances	2,446,076	2,518,248	NA
Core BVPS	551.2	611.8	11%
Capital adequacy %	18.4%	20.0%	
GNPA (%)	1.3%	1.4%	
NNPA (%)	0.3%	0.5%	
PCR % (excluding technical write-offs)	NA	NA	
Core ROE % of bank			

Note: Financials are on Standalone basis.

* HDFC Limited merged with HDFC Bank effective July 1, 2023. Prior period numbers are not comparable.

ICICI BANK

Particulars (Rs crores)	FY19	FY20	FY21	FY22	FY23	FY24	5 year CAGR		9MFY24	9MFY25	YoY growth
Net interest income	27,015	33,267	38,989	47,466	62,129	74,306	22%		55,213	59,972	9%
Other income	14,512	16,449	18,969	18,518	19,831	22,958	10%		17,309	21,247	23%
Net Total income	41,527	49,716	57,958	65,984	81,960	97,263	19%		72,522	81,218	12%
Opex	18,089	21,615	21,561	26,733	32,873	39,133	17%		29,430	31,584	7%
PPOP	23,438	28,101	36,397	39,250	49,087	58,131	20%		43,092	49,635	15%
Credit costs	19,661	14,053	16,214	8,641	6,666	3,643	-29%		2,924	3,792	30%
PBT	3,777	14,048	20,183	30,609	42,421	54,488	71%		40,168	45,843	14%
Tax	413	6,117	3,390	7,269	10,525	13,600	101%		9,987	11,245	13%
PAT	3,363	7,931	16,793	23,339	31,897	40,888	65%		30,181	34,597	15%
Advances	586,647	645,290	733,729	859,020	1,019,638	1,184,406	15%		1,153,771	1,314,366	14%
Core BVPS	152.9	164.8	199.1	231.3	273.4	323.6	16%		313.4	367.6	17%
Capital adequacy %	16.9%	16.1%	19.1%	19.2%	18.3%	16.3%			14.6%	14.7%	
GNPA (%)	6.7%	5.5%	5.0%	3.6%	2.8%	2.2%			2.3%	2.0%	
NNPA (%)	2.1%	1.4%	1.1%	0.8%	0.5%	0.4%			0.4%	0.4%	
PCR % (excluding technical write-offs)	70.6%	75.7%	77.7%	79.2%	82.8%	80.3%			80.7%	78.2%	
Core ROE % of bank	1.5%	7.0%	10.4%	14.7%	17.4%	18.8%					

Note: Financials are on Standalone basis

AXIS BANK

Particulars (Rs crores)	FY19	FY20	FY21	FY22	FY23*	FY24	5 year CAGR	9MFY24	9MFY25	YoY growth
Net interest income	21,708	25,206	29,239	33,132	42,946	49,894	18%	36,805	40,537	10%
Other income	13,130	15,537	12,264	15,221	16,143	22,442	11%	15,676	18,478	18%
Net Total income	34,839	40,743	41,503	48,353	59,089	72,336	16%	52,481	59,015	12%
Opex	15,833	17,305	18,375	23,611	27,041	35,213	17%	25,894	27,662	7%
PPOP	19,005	23,438	23,128	24,742	32,048	37,123	14%	26,587	31,353	18%
Credit costs	12,031	18,534	14,322	7,359	2,653	4,063	-20%	2,878	6,399	122%
Exceptional items					12,490					
PBT	6,974	4,904	8,806	17,382	16,905	33,060	37%	23,709	24,954	5%
Tax	2,297	3,277	2,217	4,357	7,326	8,199	29%	5,978	5,698	-5%
PAT excl. Exceptional items	4,677	1,627	6,589	13,025	21,933	24,861	40%	17,731	19,256	9%
Advances	494,798	571,424	614,399	707,947	845,303	965,068	14%	932,286	1,014,564	9%
Core BVPS	250.4	292.9	324.1	366.9	398.0	478.9	14%	456.5	543.3	19%
Capital adequacy %	15.8%	17.5%	19.1%	18.5%	17.6%	16.6%		16.6%	17.0%	
GNPA %	5.8%	4.9%	3.7%	2.8%	2.0%	1.4%		1.6%	1.5%	
NNPA %	2.3%	1.6%	1.1%	0.7%	0.4%	0.3%		0.4%	0.4%	
PCR % (excluding technical write-offs)	62.0%	69.0%	72.0%	75.0%	81.0%	79.0%		78.0%	76.0%	
Core ROE % of bank	7.3%	2.1%	6.6%	12.2%	18.8%	18.4%				

Note: Financials are on Standalone basis.

* FY23 PAT and ROE are adjusted for exceptional items from Citi acquisition.

INDIAMART INTERMESH

IndiaMART is a leading B2B listing platform for SMEs in India which currently allows buyers to discover products & services, but over time will look to become a more end to end enabler of commerce for its customers.

Multiple long term growth levers

- IndiaMART is a digital platform and will be a beneficiary of customers moving from offline to online. Growth runway exists as there is scope to increase online penetration amongst SMEs in India.
- While today IndiaMART is mainly an online business discovery platform, over time it intends to become an end-to-end ecosystem player by providing broader commerce solutions to SMEs (Ex: accounting , inventory mgmt., logistics enablement & credit facilitation etc), which should increase the addressable market opportunity.
- IndiaMART has levers to grow FCF at ~15% CAGR for long periods through paid user growth, ARPU increase (upsell to gold/platinum packages, price hikes & cross sell of new services), EBITDA margin expansion (driven by operating leverage on customer acquisition, renewal and technology cost) and higher mix of business from customers opting for multi year packages.

Competitive edge and Right to win

- IndiaMART is the category generic for long tail B2B products online with no close competitor at present. Large database of ~1 lac categories across 11.5cr+ products has been built over a decade. Business model enjoys network effects with virtuous cycle of more buyer participation driving more seller participation. Today 100% of buyer traffic is generated organically without ad spends and repeat buyer rates remain healthy at ~55% due to efficient matchmaking algorithm.
- Core business enjoys infinite ROIC and high cash generation (~Rs 550-600 Cr FCF generated) which allows mgmt. to seed new categories over time.
- Key metrics like APRU's & renewal rate for gold/platinum customers (account for nearly all company Profits) remain healthy.

Risks

- Inability to arrest higher than usual churn in entry level Silver customer segment could result in low double digit FCF growth.
- Incorrect assessment of addressable TAM could result in lower long-term paid subscriber growth impacting our FCF growth hypothesis.

INDIAMART INTERMESH

Particulars (Rs crores)	FY19	FY20	FY21	FY22	FY23	FY24	5 year CAGR	9MFY24*	9MFY25*	YoY growth
Operating Revenue	507	639	670	753	985	1197	19%	882	1033	17%
EBITDA	82	149	316	295	255	317	31%	243	392	61%
EBITDA margin %	16%	23%	47%	39%	26%	27%		28%	38%	
PBT before exceptional and share of associate	119	213	400	406	411	497	33%	346	526	52%
PBT after exceptional and share of associate	54	212	397	394	373	454	53%	315	488	55%
PAT after Minority interest & inc share of associate	20	148	287	301	286	334	76%	234	370	58%
PAT Margin %	4%	23%	43%	40%	29%	28%		27%	36%	
Adjusted EPS	3.5	25.5	46.1	48.7	46.4	55.2	74%	39.1	61.7	58%
Net debt*	-685	-931	-2305	-2549	-2551	-2574		-2074	-2738	
Net debt to EBITDA	NA	NA	NA	NA	NA	NA				
ROE %	12.5%	53.6%	17.8%	16.1%	13.9%	19.2%	`			
ROIC % Pre tax	Infinite ROIC	Infinite ROIC	Infinite ROIC	Infinite ROIC	Infinite ROIC	Infinite ROIC				
OCF pre tax	260	259	369	487	538	637	20%			
OCF pre tax to EBITDA %	316%	174%	117%	165%	211%	201%				

*Net debt as of 30 September 2023 & 30 September 2024 (Balance sheet reporting is half yearly).

Note:

1. From FY20 we have adjusted Net Debt, EBITDA, EBIT, PBT, PAT & OCF for IND AS 116, to make it comparable with earlier years.
2. 9M numbers are not adjusted for IND AS 116.
3. Company has adopted IND AS 116 from FY20 onwards.

YASHO INDUSTRIES

Yasho Industries is a Specialty Chemical company which manufactures Consumer chemicals and Industrial chemicals.

Multiple long term growth levers

- Yasho is witnessing significant "+1" opportunities from MNC players in industrial chemicals, especially in lube additives which is a USD 15 bn market where Yasho has <0.1% market share. Yasho offers MNC quality but at 15-20% lower costs vs. European peers and quality & supply chain consistency vs. Chinese peers.
- In lube additives, during COVID, Yasho kept its delivery commitments when many peers declared force majeure, helping Yasho get foot in the door. Having established credibility, customer are seeking more supplies from Yasho to strategically derisk its supply chain as unlike some peers, Yasho doesn't compete with its customers in the end market.
- Yasho commercialized 20,000 MT capacity in Q1FY25 taking their overall capacity to 32,500 MT, which provides growth runway over the next few years. Over long term is poised to grow operating profits at >20% CAGR driven by "+1" opportunity, product mix shifts, operating leverage, and more direct sales.
- Promoters are technocrats (Parag and Dishit Jhaveri are MSc in Chemistry) and shall create new verticals as they have done in the past.

Competitive edge and Right to win

- New entrants face significant entry barriers in lube additives as additives are low cost but critical to performance (high purity requirements), disincentivising the customers to switch vendors easily. A new player looking to enter would take many years to develop products (technology is closely guarded) and get customer approvals. High entry barriers is also explained by highly consolidated global industry with top 6 suppliers commanding majority market share (Ex China).
- The manufacturing edge is the process knowhow, which has been developed over time and retained as "soft knowledge".

Risks

- Balance sheet is extended at present at ~3.8x Net Debt/EBITDA FY25e. Any prolonged delay in ramp up/deep recession in west can impact Yasho's ability to service its principal payments via internal accruals.

YASHO INDUSTRIES

Particulars (Rs crores)	FY19	FY20	FY21	FY22	FY23	FY24	5 year CAGR	9MFY24*	9MFY25*	YoY growth
Operating Revenue	340	297	359	613	672	594	12%	421	486	15%
Gross Profit	105	104	120	214	258	213	15%	150	201	34%
Gross Profit margin %	31%	35%	33%	35%	38%	36%		36%	41%	
EBITDA	37	40	48	92	113	97	21%	68	77	12%
EBITDA margin %	11%	13%	13%	15%	17%	16%		16%	16%	
PBT	17	18	31	71	91	77	36%	54	1	-98%
PAT after Minority interest	12	13	22	52	68	58	37%	40	1	-97%
PAT Margin %	3%	4%	6%	9%	10%	10%		9%	0%	
Adjusted EPS	10.9	11.1	19.7	47.3	59.5	50.8	36%	35.0	0.9	-97%
Net debt*	143	159	146	161	302	537		470	599	
Net debt to EBITDA	3.9	4.0	3.0	1.8	2.7	5.5				
ROE %	26.0%	23.1%	27.6%	30.3%	28.7%	19.7%				
ROIC % Pre tax	15.5%	13.9%	16.5%	22.2%	17.6%	10.3%				
OCF pre tax	59	36	38	35	36	109	13%			
OCF pre tax to EBITDA %	160%	90%	80%	38%	32%	112%				

*Net debt as of 30 September 2023 & 30 September 2024 (Balance sheet reporting is half yearly).

Note:

1. From FY21 we have adjusted Net Debt, EBITDA, EBIT, PBT, PAT & OCF for IND AS 116, to make it comparable with earlier years.
2. Company adopted INDAS116 from FY21.
3. 9M numbers are not adjusted for IND AS 116.

NEOGEN CHEMICALS

Neogen is the domestic market leader in specialty bromine and lithium intermediates. It also has a large opportunity in batteries for electric vehicles - pole position in domestic electrolyte industry and a large opportunity in lithium salts industry.

Multiple long term growth levers

- Neogen has executed well growing operating profits at ~25% CAGR over last decade. Long runway exists as TAM is continuously expanding - from bromine and lithium-based compounds, it forayed downstream into advanced intermediates & custom synthesis in 2018 and recently entered lithium salts & electrolytes for Li-Ion batteries.
- Niti Aayog estimates domestic electrolyte opportunity to be 4000-6000crs. In lithium salts China controls 95% of global supply and west is looking to derisk given overdependence on China.
- Neogen has embarked on a large capex program and given multiple drivers, we think Neogen's topline a decade out can be multi-fold of what it is currently.

Competitive edge and Right to win

- Promoters are technocrats (PhDs from IIT) and Dr Haridas leads the R&D team (~10% of work force).
- Specialty bromine - Neogen is the market Leader in India and 5th largest player globally.
- There is IP in making electrolytes / lithium salt (customised nature, high purity requirements, enhances battery performance, safety). Neogen is front runner (customers sampling their batches, credible tech tie up with Mitsubishi for electrolytes, ahead in lithium salt learning curve, long term relationship for sourcing of scarce RM lithium).
- We think Neogen steady state can make ~20% ROCE, which translates to 18-20% ROE with some leverage.

Risks

- As Neogen is in midst on a large capex program, debt levels will increase meaningfully. Balance sheet strength could be challenged if pace of EV adoption in India is slower than anticipated, any delays in stabilizing core business working capital or in resuming operations post recent fire in Base business plant.
- Li-Ion battery technology is substituted by some other technology where Neogen doesn't have a right to win.

NEOGEN CHEMICALS

Particulars (Rs crores)	FY19	FY20	FY21	FY22	FY23	FY24	5 year CAGR	9MFY24*	9MFY25*	YoY growth
Operating Revenue	239	306	336	487	686	691	24%	491	575	17%
Gross Profit	95	119	135	206	292	299	26%	221	259	17%
Gross Profit margin %	40%	39%	40%	42%	43%	43%		45%	45%	
EBITDA	43	55	61	82	106	105	19%	74	100	35%
EBITDA margin %	18%	18%	18%	17%	16%	15%		15%	17%	
PBT before exceptional and share of associate	29	40	42	54	68	53	13%	30	46	53%
PBT after exceptional and share of associate	29	40	43	55	68	53	12%	30	46	
PAT after Minority interest & inc share of associate	8	28	30	42	47	36	34%	19	32	73%
PAT Margin %	3%	9%	9%	9%	7%	5%		4%	6%	
Adjusted EPS	10.4	12.3	13.4	17.9	20.0	13.5	5%	7.4	12.3	66%
Net debt*	118	136	215	99	265	381		420	473	
Net debt to EBITDA	2.7	2.5	3.5	1.2	2.5	3.6				
ROE %	11.8%	17.8%	16.4%	9.6%	9.8%	4.7%				
ROIC % Pre tax	21.7%	18.0%	19.7%	13.7%	12.9%	8.8%				
OCF pre tax	2	-25	90	6	-24	-25	NA			
OCF pre tax to EBITDA %	4%	-45%	149%	8%	-23%	-23%				

*Net debt as of 30 September 2023 and 30 September 2024 (Balance sheet reporting is half yearly).

Note:

1. From FY20 we have adjusted Net Debt, EBITDA, EBIT, PBT, PAT & OCF for IND AS 116, to make it comparable with earlier years.
2. 9M numbers are not adjusted for IND AS 116
3. Company has adopted IND AS 116 from FY20 onwards.

RESTAURANT BRANDS ASIA

Restaurant Brands Asia (RBA) owns the master franchise to run Burger King (BK) in India & Indonesia, and Popeyes in Indonesia.

Multiple long-term growth levers

- Eating out is a multi-decade growth story in India – rising incomes, consumer acceptance, rising share of women in the workforce, shift to organized players. Large TAM in India can support ~2000 stores in the long run vs. 510 stores at present.

Competitive edge and Right to win

- While entry barriers in this industry to build a pan-India brand are low assuming one has capital, it is very challenging to scale up profitably as it takes 5-10 years to become self-sustaining, i.e., cash flow from operations can fund growth capex.
- One can create an edge if they:
  - Constantly innovate their menus to cater to the local tastes of a country.
  - Build supply chain and restaurant operations such that they can deliver consistent quality everywhere.
  - Have the ability and willingness to spend on building a strong brand equity to have top of mind consumer recall.
  - Lock in good real estate at reasonable terms, which comes only when the brand matures successfully.
- BK India has executed well on the above points despite being present in India for only 10 years and ~47% of restaurants being <3 years old.
- We believe that at a scale of 750-800 restaurants, BK India will be able to earn a post-tax cash ROIC of ~20% as revenue per store moves up, resulting in significant operating leverage (11-12% pre-Ind AS EBITDA margin vs. ~5% today).

Risks

- BK India ADS not scaling up per expectations resulting in subpar economics vs. our hypothesis.
- Continued capital support from the India business to BK Indonesia and Popeyes.

RESTAURANT BRANDS ASIA

Particulars (Rs crores)	FY19	FY20	FY21	FY22	FY23	FY24	5 year CAGR	9MFY24*	9MFY25*	YoY growth
SSSG	29.2%	-0.3%	-35.0%	47.0%	23.1%	2.9%		NA	NA	
No. of stores	187	260	265	315	391	455	19%	441	510	16%
Revenue per store	3.4	3.2	1.9	3.0	3.7	3.9		3.0	2.9	
Total Revenue from Operations	633	841	494	944	1440	1760	23%	1321	1478	12%
Gross Profit	403	540	319	621	956	1180	24%	883	1000	13%
Gross Profit margin(%)	63.6%	64.2%	64.5%	65.8%	66.4%	67.0%		66.8%	67.7%	
Store EBITDA (Pre IND-AS)	53	67	-10	49	119	171		136	155	14%
Store EBITDA margin	8.4%	7.9%	-2.1%	5.2%	8.3%	9.7%		10.3%	10.5%	
Company EBITDA (Pre IND-AS)	15	20	-62	-14	36	75		65	73	12%
Company EBITDA margin	2.4%	2.4%	-12.5%	-1.4%	2.5%	4.3%		4.9%	4.9%	
Net Debt	46	152	-340	-509	-161	-105		-131	-29	
Net debt to EBITDA	3.0	7.5	NA	NA	NA	NA				
ROE %	NA	NA	NA	NA	NA	NA				
ROIC % Pre tax	NA	NA	NA	NA	NA	NA				
OCF pre tax	23	23	-26	17	38	157	47%			
OCF pre tax to EBITDA %	151%	113%	42%	-127%	106%	208%				

*Net debt as of 30 September 2023 & 30 September 2024 (Balance sheet reporting is half yearly).

Note:

1. Financials are of India Business only.

KAMA HOLDINGS (HOLDCO OF SRF) [1/2]

SRF has 3 primary business segments – Chemicals (which is of primary interest to us), Packaging Films and Technical Textiles

- Chemical segment contributed ~70% of operating profits in FY24 and in our estimate ~90% of value.
- Packaging films is a growing segment but with higher earnings cyclicality and lower cross-cycle ROCE.
- Technical textiles is low growth and healthy ROCE, serves the role of cash cow.

Multiple long-term growth levers

- SRF's Chemical business is primarily fluorine-based chemistry.
- Fluorine is finding greater usage in pharma and agrochemical applications and emerging opportunities for fluorine in electric vehicles, solar panels and hydrogen fuel cells suggest a long runway for growth.
- SRF as a leading specialty chemical player will benefit from both China and Europe +1 tailwinds.
- SRF has over time expanded beyond its core (Agro specialty chemicals and refrigerant gas) into pharma specialty chemicals and fluoro-polymers.
- Management continues to invest in new capacities, which can drive 15%+ cross cycle CAGR at 20-25% ROCE.

Competitive edge and Right to win

- Industry structure in India is highly favourable today with 3 credible fluorine based chemical players (SRF, Navin Fluorine and Gujarat Fluorochemicals).
- Fluorine is a highly reactive element, is very difficult to handle and transport and so requires specialized infra/machinery, trained manpower. Investments required are significantly higher than traditional chemistries and there is a long learning curve involved. SRF is significantly ahead on learning curve vs. peers and is well positioned in its core segments.

KAMA HOLDINGS (HOLDCO OF SRF) [2/2]

Risks - SRF

- Impact to chemical business growth assumptions if:
  - Growth slowdown due to inventory correction (slowdown in the West, continued dumping by Chinese players).
  - SRF is unable to migrate to new age refrigerant gas in future.
  - Inability to scale up its new forays into pharma fluoro specialty and fluoro polymers.
- Faster than anticipated radialisation of tyres is headwind to FCF from technical textiles (NTCF segment).

Kama Holdings

- We expect SRF to grow EPS at 15%+ for long periods. However, we expect valuation multiples to correct and the stock to deliver NIFTY level returns.
- Kama Holdings is the holding company of SRF and stock trades at a large discount to NAV of ~82% (close to all time high, well above 5-year average).
- Capital allocation at hold co level has improved since 2020 when Section 80M was introduced in the Income Tax Act dissuading retention of dividends received from subsidiary at hold co level. KAMA has paid out almost all dividends received from SRF since then.
- We expect this discount gap between KAMA & peers such as Bajaj holdings/TATA Investment to narrow over time as capital allocation is very similar (No operating business, some portfolio investments).
- Buying Kama is akin to buying SRF with a margin of safety as one should at least earn similar returns as SRF plus 1-1.5% dividend yield and a chance of a substantial kicker if the hold co discount narrows.

Risks - Kama

- Risk to thesis if SRF earnings growth doesn't come through per our hypothesis.
- High dividend payout ratios at KAMA is key as Hold co discount will narrow if capital allocation perception improves. Tail risk of change/removal of Section 80M.

SRF

Particulars (Rs crores)	FY19	FY20	FY21	FY22	FY23	FY24	5 year CAGR	9MFY24*	9MFY25*	YoY growth
Operating Revenue	7,100	7,209	8,400	12,434	14,870	13,139	13%	9,569	10,380	8%
Gross Profit	3,132	3,522	4,381	6,367	7,477	6,430	15%	4,694	4,913	5%
Gross Profit margin %	44%	49%	52%	51%	50%	49%		49%	47%	
EBITDA	1,297	1,429	2,097	3,069	3,488	2,538	14%	1,889	1,761	-7%
EBITDA margin %	18%	20%	25%	25%	23%	19%		20%	17%	
PBT	827	1,071	1,610	2,586	2,824	1,692	15%	1,249	996	-20%
PAT after Minority interest	642	1,019	1,198	1,889	2,162	1,336	16%	914	725	-21%
PAT Margin %	9%	14%	14%	15%	15%	10%		10%	7%	
Adjusted EPS	22.3	35.5	40.4	63.8	73.0	45.1	15%	30.8	24.5	-21%
Net debt*	3,431	3,719	2,692	2,759	3,243	3,986		4,007	4,513	
Net debt to EBITDA	2.6	2.6	1.3	0.9	0.9	1.6				
ROE %	15.5%	20.7%	17.5%	22.1%	20.9%	11.6%				
ROIC % Pre tax	12.4%	12.2%	17.4%	22.8%	21.7%	12.3%				
OCF pre tax	1,046	1,422	2,000	2,473	3,368	2,430	18%			
OCF pre tax to EBITDA %	81%	99%	95%	81%	97%	96%				

*Net debt as of 30 September 2023 & 30 September 2024 (Balance sheet reporting is half yearly).

Note:

1. FY20 includes profits from discontinued operations.
2. From FY20 we have adjusted Net Debt, EBITDA, EBIT & OCF for IND AS 116, to make it comparable with earlier years.
3. 9M numbers are not adjusted for IND AS 116
4. Company has adopted IND AS 116 from FY20 onwards.

KAMA HOLDINGS HISTORICAL HOLDCO DISCOUNT TO NAV

Particulars (Rs Crs)	FY15	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24	Current
SRF ltd Share Price	198	261	325	392	481	556	1081	2679	2406	2558	2938
No of Shares held by Kama	15	15	15	15	15	15	15	15	15	15	15
Total Investment Value	2974	3923	4885	5882	7222	8350	16241	40231	36008	38101	43731
Market Cap of Kama Holdings	586	881	1971	2741	3883	2551	3911	7793	8101	8395	7823
Discount TO NAV	**80%**	**78%**	**60%**	**53%**	**46%**	**69%**	**76%**	**81%**	**78%**	**78%**	**82%**

Note: Holdco Discount is as of 31st March of each FY

RACL GEARTECH

RACL manufactures Transmission gears, Shafts, and High precision machined parts for the automotive industry.

Multiple long term growth levers

- RACL has built a reputation for its quality and reliability and works with leading brands like BMW, KTM, Kubota, ZF Steering, MAN Trucks which give ample opportunity to scale business with each of these players as well as attract new customers.
- RACL is well positioned to benefit from “+1” opportunities driven by its cost competitiveness, customer trust (Quality/IP), fast turnaround time for new product development.
- Company has leveraged competencies to foray into new products over time (chassis & suspension components, parking lock mechanism, entire gear box assembly, e-axle drive etc.).
- RACL has strong customer visibility and new facilities set up were ramped up quickly. We believe the company can grow PAT at 15-20%+ CAGR for long periods of time as RACL wins both new customers & enhances wallet share over time.

Competitive edge and Right to win

- Good machining competencies – transmission gears have high precision requirements which RACL has been able to meet in the past. There is some soft knowledge base that has been built over the years.
- Willingness to invest in new capacities and wide range of technologies under roof which customers look for in their vendors.
- Track record of excellence - RACL rejection rates are lower than rates agreed with customers. They have never had product recalls or failures in history of company. This has helped them as RACL has never lost a customer.
- Healthy economics: high Gross Profit Margins, ~20% steady state ROCE and 18-20% ROE with modest leverage.

Risks

- Key man risk. Company is still quite dependent on promoter Gursharan Singh, however son’s involvement is increasing.
- In an event of a recession where clients miss their projections and they are unable to compensate RACL with other business, high debt on balance sheet could be an issue.

RACL GEARTECH

Particulars (Rs crores)	FY19	FY20	FY21	FY22	FY23	FY24	5 year CAGR	9MFY24*	9MFY25*	YoY growth
Operating Revenue	190	212	204	271	358	410	17%	303	328	8%
Gross Profit	126	144	143	181	248	294	18%	215	223	4%
Gross Profit margin %	67%	68%	70%	67%	69%	72%		71%	68%	
EBITDA	31	41	51	57	82	96	25%	72	63	-12%
EBITDA margin %	16%	19%	25%	21%	23%	23%		24%	19%	
PBT	17	22	30	33	51	53	25%	42	24	-43%
PAT after Minority interest	9	16	23	24	37	39	33%	31	17	-44%
PAT Margin %	5%	8%	12%	9%	10%	10%		10%	5%	
Adjusted EPS	9.5	15.7	21.8	22.2	34.5	36.1	31%	28.7	16.0	-44%
Net debt*	84	87	106	154	199	280		247	310	
Net debt to EBITDA	2.7	2.1	2.1	2.7	2.4	2.9				
ROE %	14.2%	19.2%	21.8%	18.2%	22.3%	19.2%				
ROIC % Pre tax	15.2%	17.4%	16.4%	14.5%	17.2%	14.7%				
OCF pre tax	16	28	32	18	68	50	25%			
OCF pre tax to EBITDA %	52%	68%	62%	32%	83%	52%				

*Net debt as of 30 September 2023 & 30 September 2024 (Balance sheet reporting is half yearly).

SOLIDARITY
INVESTMENT MANAGERS

SHAILY ENGINEERING

Shaily is a leading supplier of high-end injection moulding plastics to global customers across multiple sectors like home furnishings, healthcare, automotive and FMCG. In coming years, healthcare will be the key revenue and profit driver.

Multiple long term growth levers

- Company has developed drug delivery devices which can result in asymmetric growth over the next 5-7 years as the Company is the one of the very few key players who has a tie-up with most generic pharma companies which are in contention to supply GLP-1 drugs (weight loss drugs) which start going off patent across geographies from FY26.
- Other programs in healthcare such as applicators , insulin will also drive growth.
- Strong credibility with a large Swedish Home Furnishing rationalising suppliers should result in market share gains in home furnishing, which is their largest revenue segment today.
- Multiple program wins for customers such as Honeywell and GE where focus has been on more value-added products.

Competitive edge and Right to win

- Continuous focus on improving capabilities w.r.t designing moulds, technical skills for high precision products like medical devices, processes for high volume manufacturing at lowest cost, etc. gives a sustainable edge vs competition.
- Strong culture of adherence to ESG requirements and understanding global regulations.
- High supply chain reliability – no defects, on time deliveries.
- All of this creates a virtuous circle where customers want to give a higher wallet share in existing products as well as partner with Shaily for new products.
- Steady state, especially with healthcare segment scale-up, EBITDA margins should be >20% with 18-22% company level ROE.

Risks

- Generic version of GLP-1 drugs not taking off per our expectation would mean significantly lower growth and margins vs. our hypothesis resulting in sub-par returns on our investment.
- High customer concentration with home furnishing major could lead to revenue drag if there is a global recession.

SHAILY ENGINEERING

Particulars (Rs crores)	FY19	FY20	FY21	FY22	FY23	FY24	5 year CAGR	9MFY24*	9MFY25*	YoY growth
Operating Revenue	338	336	361	568	607	644	14%	473	569	20%
Gross Profit	129	138	145	210	221	274	16%	194	258	33%
Gross Profit margin %	38%	41%	40%	37%	36%	43%		41%	45%	
EBITDA	53	58	60	82	92	118	17%	82	122	48%
EBITDA margin %	16%	17%	17%	14%	15%	18%		17%	21%	
PBT	30	31	30	47	45	70	18%	48	80	65%
PAT after Minority interest	19	24	22	35	35	57	24%	38	65	70%
PAT Margin %	6%	7%	6%	6%	6%	9%		8%	11%	
Adjusted EPS	4.6	5.7	5.3	7.7	7.7	12.5	22%	8.3	14.1	70%
Net debt*	118	124	197	127	163	182		185	160	
Net debt to EBITDA	2.2	2.1	3.3	1.5	1.8	1.5				
ROE %	14.2%	14.8%	12.1%	9.6%	8.8%	12.5%				
ROIC % Pre tax	14.8%	14.2%	10.6%	11.3%	10.6%	12.8%				
OCF pre tax	77	75	28	61	95	101	5%			
OCF pre tax to EBITDA %	147%	129%	48%	74%	103%	86%				

*Net debt as of 30 September 2023 & 30 September 2024 (Balance sheet reporting is half yearly).

Note:

1. From FY20 we have adjusted Net Debt, EBITDA, EBIT, PBT, PAT & OCF for IND AS 116, to make it comparable with earlier years.
2. 9M numbers are not adjusted for IND AS 116.

GARWARE TECHNICAL FIBRES

Garware is a leading player in specialized technical textiles currently catering to fishing, aquaculture, sports, agriculture, defence, shipping and the infra sectors.

Multiple long term growth levers

- Long runway of growth as Garware is still ~$170mn in sales, while the current addressable market is $1bn and growing.
- Garware has consistently expanded its market opportunity by leveraging understanding of polymers to enter new industries. TAM will further expand as Garware has entered new segments (new geographies for salmon aqua culture, non-salmon aqua culture, allied sport categories etc). In some categories like sport nets and geo synthetics, China + 1 opportunity exists.
- Garware has grown earnings at ~23% CAGR over last decade and we believe earnings can grow at low to mid teens for long periods of time in a predictable manner given 60-65% of Sales is food related.

Competitive edge and Right to win

- Garware uses innovation to solve major customer pain points (reduce cost, longer product life, better environmental sustainability), which improves customer profitability and so permits higher margin and customer stickiness.
- High entry barriers – Customers are hesitant to allow close access to operations, without which one can't develop solutions. Garware has built strong trust over the years resulting in high share of profitable value add solutions (~75-80% of sales). Large portfolio of 20,000 SKUs will be hard for peers to replicate.
- Enjoys market leadership – 35-40% share in global salmon aquaculture with almost monopoly status in key areas like Scotland & Canada; near monopoly in US Tennis and sporting nets, domestic market leader in fishing nets & shipping ropes.
- Business is well diversified across customers and geographies.
- Gross margins of 70%+, ROIC pre-tax of ~45%+ which will improve with scale (very attractive for a B2B business), net cash.

Risks

- Change in customer eating preferences, stricter government regulation around fishing, rise in onshore farming etc.
- Bulk of revenues is towards mature growth end industries (fishing, aqua culture, shipping etc). Any challenges in gaining market share could impact growth prospects.

GARWARE TECHNICAL FIBRES

Particulars (Rs crores)	FY19	FY20	FY21	FY22	FY23	FY24	5 year CAGR	9MFY24*	9MFY25*	YoY growth
Operating Revenue	1018	953	1035	1189	1306	1326	5%	943	1108	17%
Gross Profit	673	657	738	840	886	960	7%	679	802	18%
Gross Profit margin %	66%	69%	71%	71%	68%	72%		72%	72%	
EBITDA	192	178	204	223	230	271	7%	180	221	22%
EBITDA margin %	19%	19%	20%	19%	18%	20%		19%	20%	
PBT	182	179	208	216	223	272	8%	180	212	17%
PAT after Minority interest	126	141	158	165	172	208	11%	139	160	16%
PAT Margin %	12%	15%	15%	14%	13%	16%		15%	14%	
Adjusted EPS	11.5	12.8	15.4	16.0	16.9	20.4	12%	13.6	16.2	19%
Net debt*	-235	-277	-423	-482	-530	-740		-582	-528	
Net debt to EBITDA	NA	NA	NA	NA	NA	NA				
ROE %	19.3%	19.0%	19.5%	17.0%	16.9%	16.9%				
ROIC % Pre tax	39.8%	30.6%	44.5%	37.6%	40.1%	48.9%				
OCF pre tax	183	162	274	115	246	277	9%			
OCF pre tax to EBITDA %	95%	91%	134%	52%	107%	102%				

*Net debt as of 30 September 2023 & 30 September 2024 (Balance sheet reporting is half yearly).

Note:

1. From FY23 we have adjusted Net Debt, EBITDA, EBIT, PBT, PAT & OCF for IND AS 116, to make it comparable with earlier years.
2. 9M numbers are not adjusted for IND AS 116.

SHIVALIK BIMETAL CONTROLS

Shivalik is a leading player in Bimetals/Tri metals, Shunts and Contacts currently catering to auto, switchgear, smart meters

Multiple long-term growth levers

- Shivalik is a dominant player in India and has scope to gain market share globally (~15%+ global market share in both Bimetals and Shunts) due to its strong track record on quality and cost advantage from its end-to-end India manufacturing setup.
- Shivalik has expanded its technology skill sets and deepened customer relationships through wallet share gains and forward integration. The shunts segment will benefit from the ICE to EV transition, an increase in the penetration of smart meters, while Bimetals will benefit from increasing demand of Switchgears, and market share gains globally. We also see scope for market share gains globally in Contacts.
- With Ghumman family taking full ownership control, we expect more investments behind Sales/marketing, R&D, Capex etc
- Expect the overall company to deliver 15-20%+ sales CAGR with faster profit growth (Forward/backward integration, Operating leverage) for long periods. Business is highly derisked, so earnings growth should be secular.

Competitive edge and Right to win

- EBW shunt is a low-cost item but is highly critical, customised and involves long gestation periods. It's used for precise measurement of current flow and needs high-precision welding to ensure metallurgical properties of alloys aren't impacted.
- Bimetals have strict tolerances w.r.t physical dimensions & strength of bonded material and so involve long approval cycles.
- Quality of contact is key to good current flow. Precious metals like silver are consumed, hence a more efficient player can drive better cost savings
- Backed by the above moat, Shivalik can command steady state post tax ROIC of 30-35%+ which is quite rare in B2B businesses.

Risks

- Risk to growth from Prolonged slowdown in end user industries like auto, smart meters, switchgears, etc, either in India or globally.

SHIVALIK BIMETAL CONTROLS

Particulars (Rs crores)	FY19	FY20	FY21	FY22	FY23	FY24	5 year CAGR	9MFY24*	9MFY25*	YoY growth
Operating Revenue	193	187	204	324	470	509	21%	381	376	-1%
Gross Profit	91	75	98	157	218	219	19%	172	162	-6%
Gross Profit margin %	47%	40%	48%	48%	46%	43%		45%	43%	
EBITDA	36	20	36	73	109	106	24%	85	75	-11%
EBITDA margin %	18%	11%	18%	23%	23%	21%		22%	20%	
PBT	32	16	33	70	101	108	27%	77	73	-5%
PAT after Minority interest	25	14	26	55	79	84	28%	59	56	-4%
PAT Margin %	13%	7%	13%	17%	17%	17%		15%	15%	
Adjusted EPS	4.3	2.3	4.4	9.6	13.7	14.6	28%	10.2	9.7	-4%
Net debt*	34	13	-1	29	32	-8		10	-16	
Net debt to EBITDA	0.9	0.7	0.0	0.4	0.3	-0.1				
ROE %	23.5%	11.7%	18.3%	28.8%	29.8%	24.7%				
ROIC % Pre tax	22.2%	11.5%	22.0%	30.3%	33.0%	28.2%				
OCF pre tax	13	46	37	13	92	95	50%			
OCF pre tax to EBITDA %	35%	233%	103%	18%	85%	90%				

*Net debt as of 30 September 2023 & 30 September 2024 (Balance sheet reporting is half yearly).

Note:

1. From FY20 we have adjusted Net Debt, EBITDA, EBIT, PBT, PAT & OCF for IND AS 116, to make it comparable with earlier years.
2. 9M numbers are not adjusted for IND AS 116.

SANSERA ENGINEERING

Sansera makes complex and critical precision-engineered components for the automotive sector, with its competencies being leveraged to enter other industries like defence, semiconductor, aerospace, etc.

Multiple long-term growth levers

- Sansera has historically grown faster than end industry and is well positioned to grow sales at 15-18% in the long term as it benefits from "+1" opportunities and from foray into new verticals.
- The company has leveraged competencies to foray into new segments over time (aerospace, defence, aluminium forgings, semiconductor, etc.), which are higher margin & ROCE businesses and shall help diversify away from domestic auto ICE industry as they become more meaningful to overall profits.
- Expect faster profit growth with better product mix, operating leverage and reduction in finance cost.

Competitive edge and Right to win

- Strong precision engineering capabilities given presence in auto engines which are most critical and have highest technical stringency. Skillsets used to enter segments (aerospace, semiconductor) with more stringent precision norms.
- Enjoys leadership in outsourced 2W connecting rods in India (85-90% market share).
- Sansera is a preferred vendor given strong willingness to invest in capex, wide range of technologies under the roof, cost advantage from market leadership and in house manufacturing ~50% of CNC machines used.
- Sansera is a resilient company given professionally run with strong management depth, demonstrated consistent profit growth historically, net cash company with low customer concentration.
- Healthy economics: 18-20% EBITDAM in steady state leading to ~20% steady state ROCE.

Risks

- Risk to growth estimates from slowdown in export or domestic demand, unfavourable tariffs, execution challenges in new verticals, etc.
- While Sansera has a high share of business from ICE (especially 2W) today, we believe strong technical competencies can be leveraged to enter into EV/Tech agnostic/Non Auto segments over time. Inability to do so if electrification picks up is a risk.

SANSERA ENGINEERING

Particulars (Rs crores)	FY19	FY20	FY21	FY22	FY23	FY24	5 year CAGR
Operating Revenue	1628	1461	1559	1998	2346	2811	12%
Gross Profit	641	580	643	808	930	1124	12%
Gross Profit margin %	39%	40%	41%	40%	40%	40%	
EBITDA	286	219	272	330	373	467	10%
EBITDA margin %	18%	15%	17%	17%	16%	17%	
PBT	178	89	146	178	203	256	8%
PAT after Minority interest	98	80	110	132	148	188	14%
PAT Margin %	6%	5%	7%	7%	6%	7%	
Adjusted EPS	19.1	15.6	21.4	25.3	28.0	35.0	13%
Net debt*	563	564	482	594	649	736	
Net debt to EBITDA	2.0	2.6	1.8	1.8	1.7	1.6	
ROE %	14.2%	10.4%	12.5%	12.9%	12.7%	13.9%	
ROIC % Pre tax	17.4%	10.1%	13.3%	13.7%	14.0%	15.8%	
OCF pre tax	249	260	279	244	300	427	11%
OCF pre tax to EBITDA %	87%	118%	103%	74%	80%	91%	

Particulars (Rs crores)	9MFY24*	9MFY25*	YoY growth
Operating Revenue	2066	2235	8%
Gross Profit	827	927	12%
Gross Profit margin %	40%	41%	
EBITDA	353	388	10%
EBITDA margin %	17%	17%	
PBT	191	211	10%
PAT after Minority interest	141	158	12%
PAT Margin %	7%	7%	
Adjusted EPS	26.3	25.5	-3%
Net debt*	621	878	
Net debt to EBITDA			
ROE %			
ROIC % Pre tax			
OCF pre tax			
OCF pre tax to EBITDA %			

*Net debt as of 30 September 2023 & 30 September 2024 (Balance sheet reporting is half yearly).

Note:

1. From FY19 we have adjusted Net Debt, EBITDA, EBIT & OCF for IND AS 116.
2. 9M numbers are not adjusted for IND AS 116.
3. Company has adopted IND AS 116 from FY19 onwards.

PIX TRANSMISSIONS

Pix manufactures V-Belts which finds application in industrial, automotive and agriculture sectors.

Multiple long-term growth levers

- Pix has a long growth runway as it is gaining market share overseas in a >USD 5 billion industry vs. current revenues of ~Rs 560 crores.
- Exports business (~60%) has a structural tailwind as customers in the West look to derisk supply chains from the top 5-6 global players due to past supply disruptions. With strong track record and comprehensive product portfolio, Pix has reached a stage where marquee global customers have started shifting a part of their business to Pix, which we think can further accelerate as Pix keeps growing given some large customers also have a revenue size threshold to qualify a supplier.
- Domestic business (~40% of sales) - dominant market share in replacement market, which grows at 7-10%.
- V-Belts are industrial consumables which ensure resilient revenues and profits across economic cycles.

Competitive edge and Right to win

- New entrant will take 10-15 years to build a respectable portfolio of ~20,000 SKUs (Pix has ~35,000 SKUs).
- Further, ability to deliver a SKU from thousands of SKU within an acceptable turnaround time is a complexity one needs to master as there are no SKU dedicated lines and each new order needs refitting of moulds to manufacture the respective SKU.
- Even if both the above are achieved, securing business is not easy given belts are a critical component and any malfunction would lead to significant losses for the end customers. Hence, end customers prefer working with suppliers whom they already have trust in.
- High entry barriers is also reflected in the consolidated nature of the industry with top 7 global players commanding a dominant market share and also the fact that no serious Indian player has entered this industry in the last 25-30 years.
- Pix’s steady state post tax ROIC is 18-22% which again demonstrates the competitive edge in their business.
- Promoters prioritise resilience over speed to ensure all commitments are met as credibility is the key and business remains de-risked.

Risks

- US market is a key growth driver. Failure to scale operations or contract losses in this market could significantly impact Pix.
- With three sub-families involved in the promoter group, any internal disputes could pose a risk to the business.

PIX TRANSMISSIONS

Particulars (Rs crores)	FY19	FY20	FY21	FY22	FY23	FY24	5 year CAGR	9MFY24*	9MFY25*	YoY growth
Operating Revenue	309	319	380	449	486	493	10%	364	428	17%
Gross Profit	197	210	246	277	301	311	10%	225	279	24%
Gross Profit margin %	64%	66%	65%	62%	62%	63%		62%	65%	
EBITDA	59	60	110	113	104	120	15%	89	118	33%
EBITDA margin %	19%	19%	29%	25%	21%	24%		24%	28%	
PBT	38	37	87	95	87	111	24%	80	122	53%
PAT after Minority interest	29	30	65	69	65	83	24%	59	90	54%
PAT Margin %	9%	9%	17%	15%	13%	17%		16%	21%	
Adjusted EPS	21.0	22.2	47.6	50.5	47.6	60.9	24%	43.0	66.2	54%
Net debt*	92	76	52	81	14	-87		-45	-138	
Net debt to EBITDA	1.6	1.3	0.5	0.7	0.1	-0.7				
ROE %	13.4%	12.8%	21.7%	18.9%	15.5%	16.8%				
ROIC % Pre tax	14.2%	13.8%	26.1%	21.2%	18.8%	24.0%				
OCF pre tax	61	62	79	76	134	163	22%			
OCF pre tax to EBITDA %	102%	103%	72%	67%	129%	136%				

*Net debt as of 30 September 2023 & 30 September 2024 (Balance sheet reporting is half yearly).

Note:

1. From FY20 we have adjusted Net Debt, EBITDA, EBIT, PBT, PAT & OCF for IND AS 116, to make it comparable with earlier years.
2. 9M numbers are not adjusted for IND AS 116.

POLYPLEX CORPORATION (Special Situations Investment)

Polyplex manufactures packaging films (primarily Thin BOPET) for global needs across packaging & industrial applications.

Multiple long-term growth levers

- End demand is secular and grows at ~5% CAGR. Polyplex is a well run company and has organically grown faster vs industry in the past (~14% BVPS CAGR over 15 years incl. dividends.). Polyplex has maintained high capacity utilisations across cycles and so should be able to sweat large capex programs being incurred over a reasonable timeframe.
- While packaging films industry is largely commoditized, Polyplex has consistently shown superior margins vs industry as they have diversified into differentiated packaging solutions (DPAC) which enjoys higher & more resilient EBITDA and accounts for ~65% of overall operating profit in a good environment.

Competitive edge and Right to win

- Enjoys market leadership in thin BOPET (2nd largest globally Ex China) backed by cost leadership (multiple global manufacturing locations & backward integration), diversified product portfolio with strong technical/sales support.
- Resilient company which has made profits in down cycle, net cash balance sheet, geographically well diversified with no large customer concentration.

Valuation Margin of safety

- Polyplex currently trades at ~1x P/B as industry is in downcycle for past 2-3 years.
- Our buying price offers a good downside protection as promoter had partially sold ~24% stake to a strategic investor at Rs 1560/share (1.4x P/B) in a down cycle with call/put options in place for transacting the balance stake.
- High dividend yield as during up cycle Polyplex has distributed meaningful dividends to shareholders.

Risks

- Balance stake sale done at lower than expected share price which impacts upside potential.
- Weak industry environment (west enters recession, China dumping risk if duties lowered, etc.) impacts EBITDA normalisation journey.

POLYPLEX CORPORATION (Special Situations Investment)

Particulars (Rs crores)	FY19	FY20	FY21	FY22	FY23	FY24	5 year CAGR	9MFY24*	9MFY25*	YoY growth
Volume sales (MT)	252000	274000	306000	323000	360000	338000	6%	248810	254460	2%
Normalised EBITDA ($/kg)	0.46	0.49	0.56	0.58	0.37	0.18		0.18	0.26	
Operating Revenue	4570	4487	4918	6624	7652	6307	7%	4628	5146	11%
Gross Profit	1774	1977	2491	3001	2859	2162	4%	1577	1894	20%
Gross Profit margin %	39%	44%	51%	45%	37%	34%		34%	37%	
EBITDA	731	780	1216	1306	944	357	-13%	255	526	106%
EBITDA margin %	16%	17%	25%	20%	12%	6%		6%	10%	
PBT	657	571	979	1147	711	76	-35%	55	451	723%
PAT after Minority interest	330	282	512	569	348	38	-35%	29	199	577%
PAT Margin %	7%	6%	10%	9%	5%	1%		1%	4%	
Adjusted EPS	103.2	88.2	163.0	181.2	111.0	12.0	-35%	9.4	63.4	577%
Net debt*	-491	-533	-611	-367	-568	-352		-565	-265	
Net debt to EBITDA	-0.7	-0.7	-0.5	-0.3	-0.6	-1.0				
ROE %	12%	9%	17%	17%	10%	1%				
ROIC % Pre tax	23%	21%	38%	35%	22%	2%				
OCF pre tax	628	819	1159	671	988	515	-4%			
OCF pre tax to EBITDA %	86%	105%	95%	51%	105%	144%				

*Net debt as of 30 September 2023 & 30 September 2024 (Balance sheet reporting is half yearly).

Note:

1. Definition: Normalised EBITDA = EBIDTA excluding impact of FX gains and losses but including other income as reported by Company
2. From FY20 we have adjusted Net Debt, EBITDA, EBIT & OCF for IND AS 116, to make it comparable with earlier years.
3. 9M numbers are not adjusted for IND AS 116
4. Company has adopted IND AS 116 from FY20 onwards.

HISTORICAL TRAILING VALUATIONS OF TOP 15 PORTFOLIO COMPANIES

COMPANY NAME	VALUATION METRIC	FY20	FY21	FY22	FY23	FY24	TTM[1]
STABILITY BUCKET							
ICICI BANK	CORE BANK P/B	1.4	2.4	2.6	2.7	3.0	3.2
HDFC BANK	CORE BANK P/B	2.7	4.0	3.3	3.1	2.3	2.8
GARWARE TECHNICAL FIBRES	P/E	17.0	33.0	35.0	34.0	32.5	36.4
AXIS BANK	CORE BANK P/B	1.2	2.0	1.9	2.0	2.0	1.9
LONGEVITY / ASYMMETRIC BUCKET							
KAMA HOLDINGS	HOLDCO DISCOUNT	69%	76%	81%	78%	78%	82%
SHAILY ENGINEERING	P/E	9.0	38.0	57.0	27.0	42.4	99.4
INDIAMART	EV/FCFF	17.8	64.5	25.7	27.0	23.7	15.3
YASHO INDUSTRIES	EV/EBITDA	7.2	10.6	25.3	17.5	23.8	25.2
RACL GEARTECH	EV/EBITDA	3.5	7.2	14.3	14.5	16.2	12.9
NEOGEN	EV/EBITDA	16.4	34.7	51.4	31.0	32.1	34.7
RESTAURANT BRANDS ASIA[2]	MCAP/SALES	N.A.	10.0	5.3	3.1	2.9	1.6
PIX TRANSMISSION	P/E	3.7	7.0	16.8	16.0	22.0	19.7
SHIVALIK BIMETAL CONTROLS	P/E	6.1	12.8	35.8	37.3	35.5	31.7
SANSERA ENGINEERING	EV/EBITDA	N.A.	N.A.	12.1	11.9	13.0	16.4
POLYPLEX	P/B	0.3	0.9	2.3	1.0	0.7	1.0

1. TTM calculation – Share price as on 26-Mar-25 and operating metric basis 12M ended 31-Dec-24.
2. Sales for India business only.

EXPLANATION OF VALUATION METRIC

Valuation Metric	Definition
Core Bank P/B	Core Bank P/B is the price to book ratio ascribed to the core banking business in cases where a material portion of the overall M Cap of the bank can be ascribed to its subsidiaries.
Holdco Discount	Hold co Discount exists when the market cap of the company is less than the total value of the investments it holds. In case of holding companies, we track this discount instead of a PE or PB ratio.
EV/FCFF	Free Cash Flow to Firm (FCFF) = Operating cash flow – Capex IndiaMART, unlike many companies, has FCFF which is significantly higher than its PAT as it doesn't need to invest in working capital and fixed assets to grow the business. Hence, we use this metric.
EV/EBITDA	Enterprise Value (EV) = Market Cap + Debt – Cash We use this valuation approach in companies such as RACL, Yasho etc. which have made significant upfront capital expenditure. In such companies, the current PAT is subdued and doesn't reflect the true profitability as the new capacities are still to reach full utilization, but the depreciation and interest cost starts hitting P&L from day one making PE ratio a less relevant metric.
Mcap/Sales	While EV/OCF is our preferred metric to value RBA, we have shown RBA valuations on M Cap/Sales given today's profits are not reflective of steady state profitability as many new restaurants are still sub-scale. At exit, we ascribe a multiple of 24-26x EV/OCF.

SOLIDARITY
INVESTMENT MANAGERS

LINKS TO OUR PAST NOTES ON PORTFOLIO COMPANIES

Company Name	Links
HDFC BANK	Initial Hypothesis – 2nd April 2020
INDIAMART INTERMESH	Rationale behind increasing position after correction – 3rd Nov 2024
YASHO INDUSTRIES	Initial Hypothesis – 25th Nov 2023
RESTAURANT BRANDS ASIA	Initial Hypothesis – 20th June 2023
KAMA HOLDINGS	Initial Hypothesis – 21st Feb 2023
NEOGEN CHEMICALS	Initial Hypothesis – 5th Jan 2023
AXIS BANK	Initial Hypothesis – 5th Jan 2022
SHAILY ENGINEERING PLASTICS	Increase in Position in Shaily Engineering – 5th April 2024 (Pg 7)
RACL GEARTECH	Initial Hypothesis – 9th Oct 2024
GARWARE TECHNICAL FIBRES	Initial Hypothesis – 2nd Jan 2020
SHIVALIK BIMETAL CONTROLS	Initial Hypothesis – 9th Oct 2024

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