

# Special Situations Portfolio

Newsletter – April 2024

## Dear Investors,

The portfolio performance for the quarter ending March 2024 was 10.55% for the Special Situations Investment Approach (SSP). The top three stocks by contribution to performance were: Sobha, Taj GVK and Orchid Pharma. The top 3 stock detractors were: JM Financial, Sharda Cropchem and Menon Bearings.

## Portfolio Action:

In the last quarter we have trimmed our position in Action Construction Equipment, Apar Industries, Orchid Pharma and Sanghvi Movers. In recently opened accounts, we have added Vardhman Textiles and Sterling tools.

## Theme wise update on the companies we hold in the portfolio:

### Capital goods and construction industry:

Company Name	202212				202312			
	Net Sales	Operating Profit (Excl OI)	PBT	Profit after tax	Net Sales	Operating Profit (Excl OI)	PBT	Profit after tax
Action Construction Equipment Ltd.	556.3	61.9	62.0	46.7	753.1	102.7	114.3	88.2
Apar Industries Ltd.	3916.9	343.2	229.8	169.9	3990.6	405.0	284.4	217.6
Kirloskar Brothers Ltd.	957.5	149.3	119.4	89.2	964.8	123.6	114.3	83.2
Savita Oil Technologies Ltd.	898.3	41.6	37.0	28.7	953.3	85.5	92.3	67.4
TD Power Systems Ltd.	205.3	33.3	28.8	20.1	242.6	39.7	39.7	29.9
Thermax Ltd.	2049.3	161.1	165.2	126.7	2324.4	187.4	309.5	237.4
Vascon Engineers Ltd.	254.0	21.2	17.6	16.5	280.3	27.0	20.3	19.0

Source: ACE Equity

The results for the capital goods companies have been good and order book remains robust for all the companies. Both exports and domestic business is seeing good traction for these companies. The stocks in this space have done pretty well in last 1 year and this sector has helped the portfolio perform well in last year.

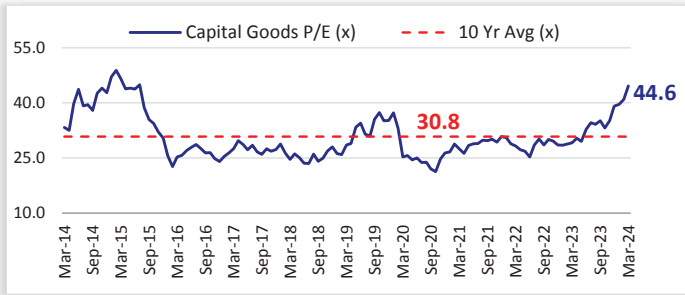
## Movement of Stock Price:

Company Name	31-Mar-23	29-Dec-23	28-Mar-24	Quarterly Return	Yearly Return
Action Construction Equipment Ltd.	406.90	829.15	1426.65	72.06%	250.61%
Apar Industries Ltd.	2504.90	6053.40	6978.90	15.29%	178.61%
Kirloskar Brothers Ltd.	410.25	888.05	1095.05	23.31%	166.92%
Savita Oil Technologies Ltd.	237.05	352.05	458.80	30.32%	93.55%
Thermax Ltd.	2292.70	3081.50	4192.35	36.05%	82.86%
TD Power Systems Ltd.	158.80	260.05	296.70	14.09%	86.84%
Vascon Engineers Ltd.	24.85	70.10	61.20	-12.70%	146.28%

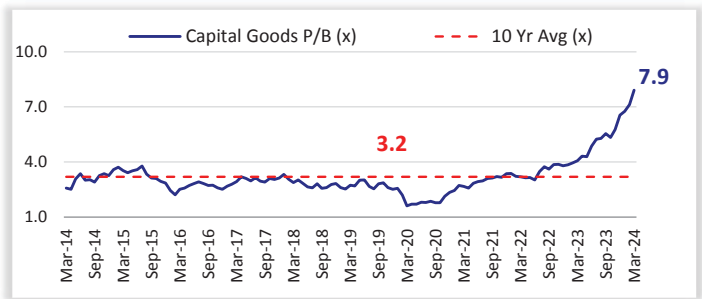
Source: ACE Equity

The valuations of companies in capital goods have risen quite materially and recently opened accounts will have relatively lower exposure to this sector.

### 12-month forward Capital Goods P/E (x)



### 12-month forward Capital Goods P/B (x)



Source: Bulls and Bears India Valuations Handbook, March 2024 Edition, Motilal Oswal Financial Services.

## Travel and Tourism:

Company Name	202212				202312			
	Net Sales	Operating Profit (Excl OI)	PBT	Profit after tax	Net Sales	Operating Profit (Excl OI)	PBT	Profit after tax
Accelya Solutions India Ltd.	112.0	39.9	33.5	25.2	124.7	45.9	40.0	30.9
Sinclairs Hotels Ltd.	13.7	5.4	5.4	4.0	14.1	5.8	6.4	5.5
Taj GVK Hotels & Resorts Ltd.	105.4	33.1	25.8	17.3	111.1	40.4	34.6	24.2

Source: ACE Equity

We have three companies in this space. The performance of the companies has been good and continue to show steady growth both in top line and bottom line.

## Real Estate:

Company Name	202212				202312			
	Net Sales	Operating Profit (Excl OI)	PBT	Profit after tax	Net Sales	Operating Profit (Excl OI)	PBT	Profit after tax
Ashiana Housing Ltd.	127.7	10.3	12.7	9.0	184.1	32.7	34.6	27.8
Kolte-Patil Developers Ltd.	368.1	-25.5	-36.8	-26.6	75.8	-36.7	-63.7	-59.5
Sobha Ltd.	868.2	88.8	35.1	31.8	684.9	74.1	21.4	15.1

Source: ACE Equity

P&L for the real estate companies is volatile as the revenue recognition is based on completion of the projects. Hence looking at the area booked, value of area booked, per square feet realization, construction spend, collection and debt on the balance sheet is important. Most of the projects which are being launched should have better profitability as the per square feet realization have increased across the micro markets and are seeing good sales traction.

### Operating parameters for the real estate companies we have in the portfolio:

Company Name	Q1 FY23	Q2 FY23	Q3 FY23	Q4 FY23	Q1 FY24	Q2 FY24	Q3 FY24
<b>Ashiana</b>							
area booked ( lsq ft. )	3.34	4.9	9	8.59	6.53	5.92	3.35
area booked ( lsq ft. ) over last 12 months	16.58	16.97	21.77	25.83	29.02	30.04	24.39
value of area booked in crores	152	240	485	436	436	326	174
value of area booked in crores in last 12 months	674	748	1063	1313	1597	1682	1371
psf realizations in Rs.	4557	4904	5373	5075	6684	5500	5189
<b>Kolte Patil</b>							
area booked ( lsq ft. )	6.1	5.6	11.3	9.7	9.3	9.8	9.8
area booked ( lsq ft. ) over last 12 months	29.2	28.1	30.8	32.7	35.9	40.1	38.6
value of area booked in crores	445	367	716	704	701	632	746
value of area booked in crores in last 12 months	1936	1874	2029	2232	2488	2753	2783
psf realizations in Rs	7260	6622	6339	7225	7545	6426	7579
<b>Sobha Realty</b>							
area booked ( lsq ft. )	13.59	13.37	14.77	14.78	13.94	16.86	16.64
area booked ( lsq ft. ) over last 12 months	53.73	53.61	55.15	56.50	56.86	60.35	62.22
value of area booked in crores	1145	1164	1425	1463	1464	1724	1952
value of area booked in crores in last 12 months	4332	4466	4843	5197	5516	6076	6602
psf realizations in Rs	8431	8709	9653	9898	10506	10223	11732

Source: Company presentations and press releases

The important aspect to track for real estate companies from here on is how do they manage the cash they will be generating and a large portion of it will be spent in acquisition of land for future development. One of the biggest mistake for a real estate company can happen is in acquisition of land. There are three types of errors in land acquisition: -

1. Buying land at high prices or having low profit or revenue share in a project which leads to low returns on a project,
2. Buying land which takes too long a time for getting approvals leading to project delays,
3. Buying large land in far off places based on expectation of future growth of city limits (Speculative land purchase)

The other mistake which real estate companies do is over leveraging the balance sheet in good times. The opportunity size is big in real estate for companies which are disciplined in capital allocation, have good understanding of the customers in markets where they are present and having good execution abilities. The companies in the portfolio have been disciplined till now and we expect that they will maintain it in future.

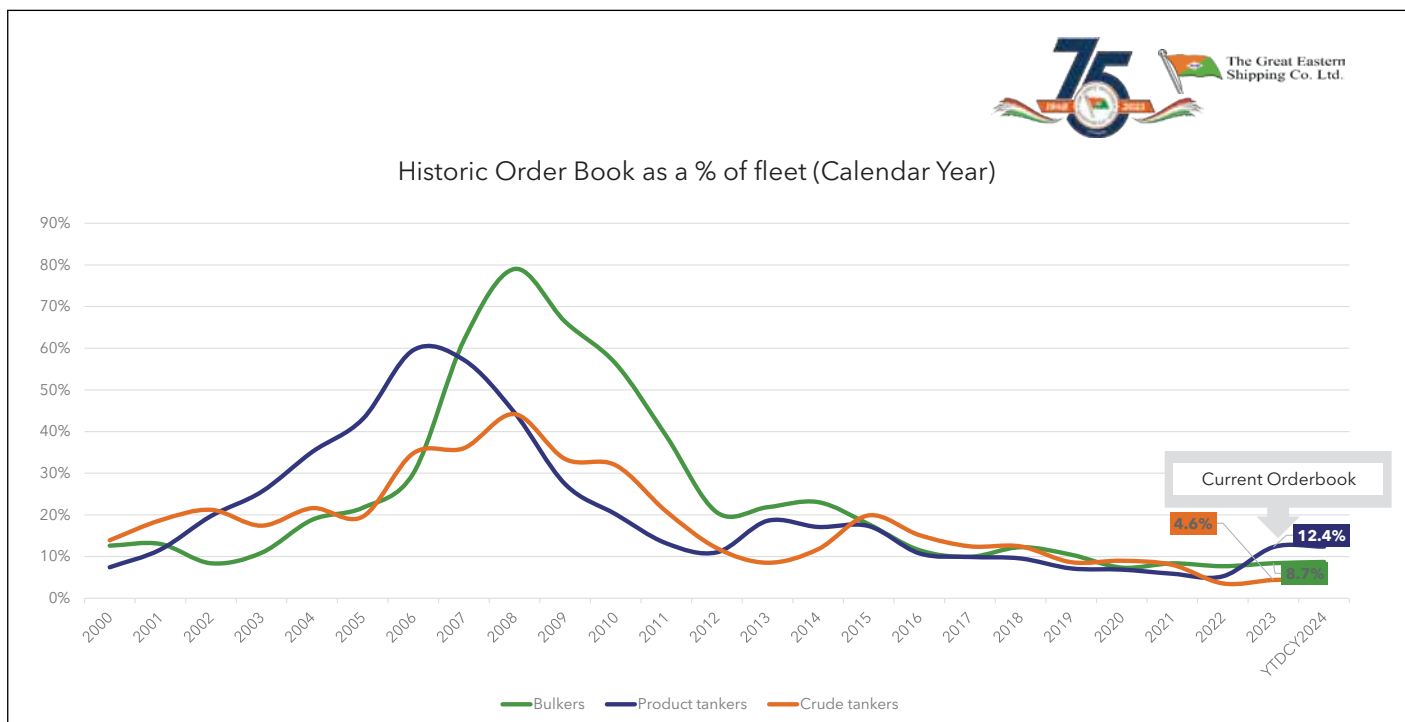
### Equipment Renting and leasing activity:

Company Name	202212				202312			
	Net Sales	Operating Profit (Excl OI)	PBT	Profit after tax	Net Sales	Operating Profit (Excl OI)	PBT	Profit after tax
The Great Eastern Shipping Company Ltd.	1421.0	763.0	628.9	627.2	1245.1	642.5	539.7	538.2
Sanghvi Movers Ltd.	122.5	75.2	46.4	34.8	167.0	114.8	82.0	61.3

Source: ACE Equity

The yields on assets have been good for both the companies resulting in good cash flows. Great Eastern Shipping is using its cash flows to opportunistically replace the older vessels, paying dividends and accumulating cash (Rs 2760 cr at the end of Q3 FY24) in the balance sheet. It expects to use this cash in times when the price of ships fall. In case of Sanghvi Movers they have expanded their fleet and done a capex of Rs 405 cr till Q3 in FY2024.

The order book for ships remain low as a % of the fleet and also the order book for Jack up rigs at 3.6% of the current fleet is low. Hence we maintain a positive view on both the divisions of the company.



Source: GESCO Q3 FY24 presentation

## Auto Ancillaries:

Company Name	202212				202312			
	Net Sales	Operating Profit (Excl OI)	PBT	Profit after tax	Net Sales	Operating Profit (Excl OI)	PBT	Profit after tax
Menon Bearings Ltd.	49.7	12.5	10.3	7.7	51.5	9.5	7.3	5.5
Sterling Tools Ltd.	207.8	28.1	18.5	13.9	231.9	26.1	17.5	13.6
Suprajit Engineering Ltd.	692.1	80.9	51.0	38.0	724.2	87.3	57.2	40.2

Source: ACE Equity

We have added Sterling tools in the portfolio of the recently opened accounts. Sterling tools is the second largest fastener manufacturer in India and has entered the motor control unit(MCU) in its subsidiary Sterling Gtake E-mobility Limited (SGEM). Motor Control Unit is an important component in Electric Vehicles. SGEM is the largest MCU manufacturer in India; it has 20 business contracts & 40 live customer programmes.(Source: Sterling Tools Investor Presentaion)

The EBITDA margins for Menon Bearings and Sterling Tools have been lower than last year but for Suprajit some improvement was there in comparison to the same period last year.

## Agrochemicals:

Company Name	202212				202312			
	Net Sales	Operating Profit (Excl OI)	PBT	Profit after tax	Net Sales	Operating Profit (Excl OI)	PBT	Profit after tax
Sharda Cropchem Ltd.	1017.3	194.5	143.4	108.4	632.5	46.7	12.1	4.6
Dhanuka Agritech Ltd.	393.4	51.8	54.3	46.1	403.2	62.2	55.8	45.4

Source: ACE Equity

The revenue of Dhanuka were flattish but the gross margins expanded as the raw material prices have fallen but higher depreciation because of new plant starting at Dahej led to flattish bottom-line. In case of Sharda the fall in prices of agrichemicals and weaker demand in Europe and NAFTA has led to fall in revenue. The fall in raw material led to revaluation of the inventory and it has further affected the profitability. The company has stated in the quarterly investor presentation that it is expecting Q4FY24 to better.

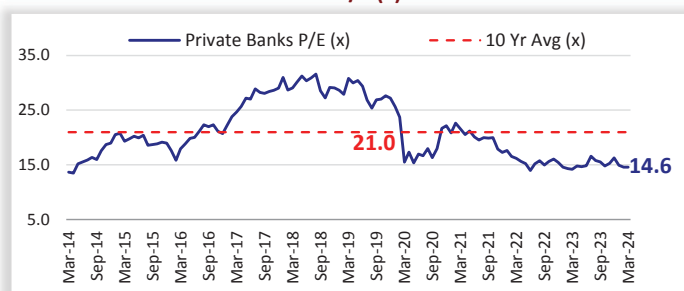
## Lending Institutions:

Company Name	202212				202312			
	Net Sales	Operating Profit (Excl OI)	PBT	Profit after tax	Net Sales	Operating Profit (Excl OI)	PBT	Profit after tax
DCB Bank Ltd.	1071.7	724.4	153.4	113.9	1374.1	987.9	170.5	126.6
MAS Financial Services Ltd.	244.8	202.5	69.4	51.9	306.1	258.4	86.9	64.4
JM Financial Ltd.	922.8	617.0	321.6	240.3	1224.5	806.1	417.1	321.6

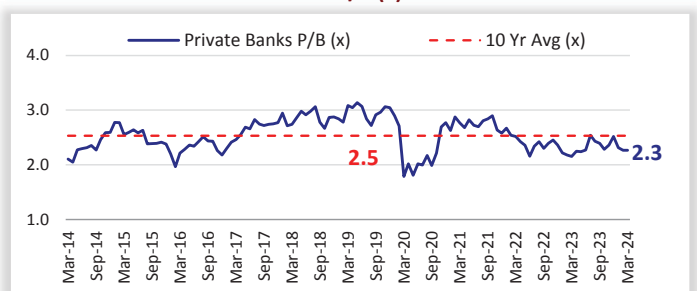
Source: ACE Equity

The results of the financial companies we own have been good. We like financial institutions which are in lending space as the valuations are cheap in comparison to historical valuations.

### 12-month forward Private Banks P/E (x)

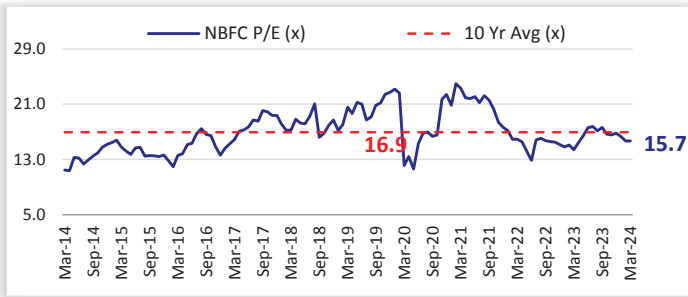


### 12-month forward Private Banks P/B (x)

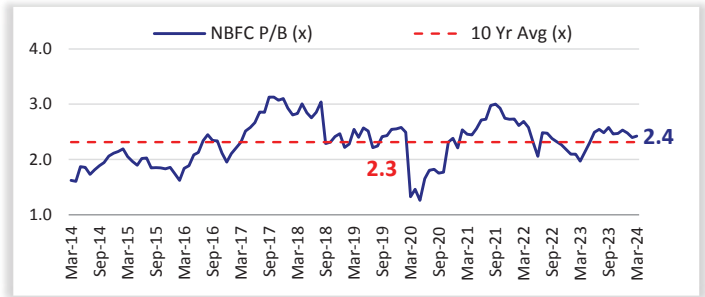


Source: Bulls and Bears India Valuations Handbook, March 2024 Edition, Motilal Oswal Financial Services.

### 12-month forward NBFC P/E (x)



### 12-month forward NBFC P/B (x)



Source: Bulls and Bears India Valuations Handbook, March 2024 Edition, Motilal Oswal Financial Services.

### Others:

Company Name	202212				202312			
	Net Sales	Operating Profit (Excl OI)	PBT	Profit after tax	Net Sales	Operating Profit (Excl OI)	PBT	Profit after tax
Navneet Education Ltd.	264.3	10.3	61.6	41.5	258.8	4.0	-12.9	-16.7
Vardhman Textiles Ltd.	2370.5	178.5	125.8	95.1	2329.5	244.2	200.4	150.7
Orchid Pharma Ltd.	159.8	13.7	6.7	6.7	220.6	35.4	30.2	30.2

Source: ACE Equity

We have added Vardhman Textiles for the recently opened accounts. It is one of the largest spinners in the domestic market and has installed capacity of 12 lakh spindles, accounting for 2% of the total installed spindles in India. The group is also among the top three woven fabric manufacturers in India, with grey and processed fabric capacity of 1,550 looms and 170 million metre per annum, respectively. It is an approved supplier to large retailers, such as Wal-Mart, GAP, Hennes & Mauritz and Aditya Birla Fashion & Retail Ltd etc. (Source: Company Annual Reports)

We like Vardhman textiles for the following reasons:

1. they are conservative in capital allocation (don't expand until and unless they are confident of a project),
2. have long term relationships with the customers,
3. have the ability to develop new products in line with the current fashion,
4. very focused on cost of operations and modernization of the plants,
5. even though they buy cotton from October to March for the whole year consumption they hedge it whenever the prices are high or keep only limited inventory
6. want to grow in a sustainable profitable way without too much leverage on the balance sheet.

Most companies in yarn and fabric space leverage the balance sheet for capex in good times and in bad times are not able to pay the interest or are not focused on modernization or keeping the costs low or do inventory mismanagement which can lead to huge write-offs.

For Orchid pharma, the results were good and two new products Ceftazidime & Avibactam contributed to the good results in this quarter. Enmetazobactam has been approved in Europe and USA. Orchid is the first company from India, ever to have invented a new drug which has received a New Drug Approval (NDA) from USFDA. It is a significant development in addressing the global need for affordable and efficacious drugs to combat Anti-Microbial Resistance (AMR). Orchid will start getting royalty on the sales of Enmetazobactam once sales start in the above geographies.

In case of Navneet, results were subdued because of issues in publishing business because of lower-than-anticipated offtake of channel inventory, an unprecedented increase in paper prices, and a recent surge in the resale of second-hand books, as no major change in curriculum in last 6 years. On the stationery side while the exports marginally de-grew by 1% and the domestic business grew by 11% year on year.(Source: Company presentation)

Warm regards

Yours sincerely,

**Himanshu Upadhyay**

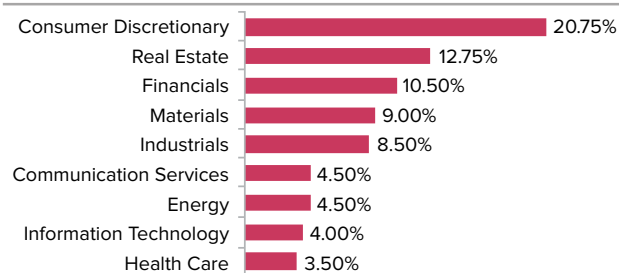
Vice President and Portfolio Manager

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### Special Situations Portfolio Top 5 Holdings

Name	GICS Sector	Weight
Sobha Ltd	Real Estate	6.55%
Savital Oil Technologies Ltd	Materials	5.13%
Great Eastern Shipping Co Ltd	Energy	4.68%
Ashiana Housing Ltd	Real Estate	4.56%
Sinclairs Hotel Ltd	Consumer Discretionary	4.49%
		<b>25.41%</b>

### SSP Model Portfolio GICS Sector Weights



### Investment Objective

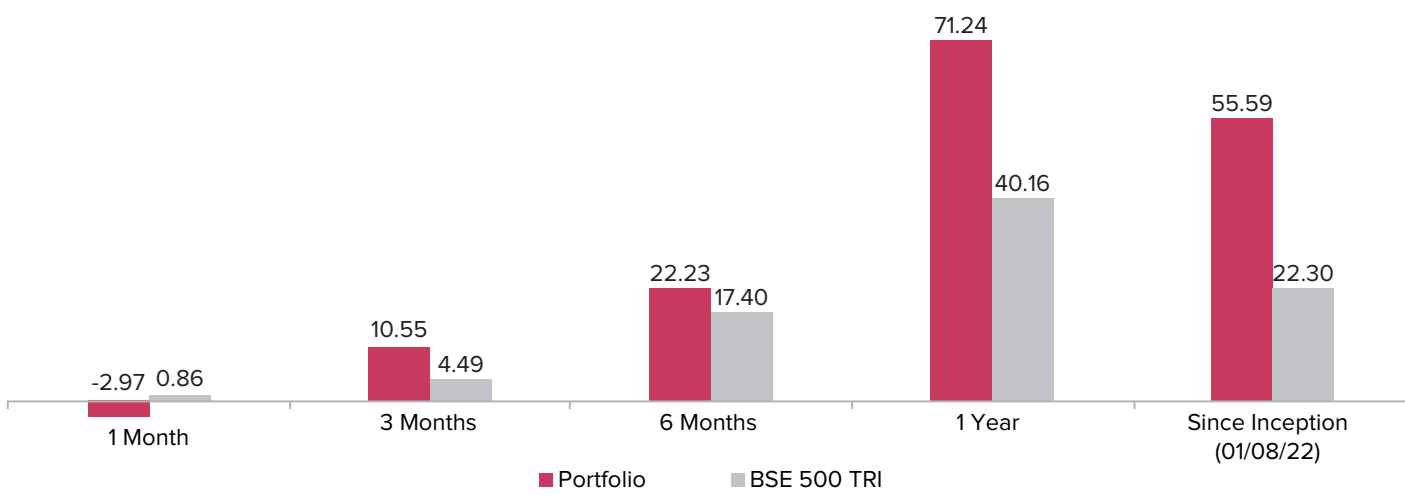
Investment Objective: The investment objective is to invest in a business with improving prospects resulting in a visible change in operating parameters but not yet fully reflected in the company's P&L and balance sheet.

Model Portfolio Details as on 31st March 2024		Model Portfolio Composition as on 31st March 2024	
EPS(E) CAGR (2023 to 2025)	16.03%	Large Cap	0.00%
Portfolio PE (1 year forward PE, based on FY25)	14.61	Midcap	0.00%
Average Age of Companies	44 Years	Small Cap	78.00%
Average Market Cap (INR Cr)	5,133	Cash	22.00%

- Large Cap: Market cap of the 100th company in the BSE 500 TRI (sorted by market cap in descending order)\*
- Midcap: Market cap below 100th company to the market cap of the 250th company in the BSE 500 TRI (sorted by market cap in descending order)\*
- Small Cap: Market cap lower than the 250th company in the BSE 500 TRI (sorted by market cap in descending order)\*

\*As on last working day of the month i.e. 28th March 2024.

### Consolidated Portfolio Performance of Special Situations Portfolio as on 31st March 2024



- Benchmark is BSE 500 TRI
- Since inception date stated is considered to be the date on which the first client investment was made under the investment approach

Source: Internal, BSE, Bloomberg & Ace Equity

**Disclaimer:** Performance depicted is based on all the client portfolios existing as on such date, using Time Weighted Rate of Return (TWRR) of each client for the overall investment approach. Past performance is no guarantee of future returns. The above portfolio performance is after charging expenses. *The above performance related information provided here is not verified by SEBI nor has SEBI certified the accuracy or adequacy of the contents of this Document.* All clients have an option to invest in the above products / investment approaches directly, without intermediation of persons engaged in distribution services.

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