

o3 Special Situations Portfolio

Newsletter – April 2023

Dear Investor,

At the outset, I would like to take this opportunity to thank you for investing and showing interest in the Special Situations Portfolio (SSP).

This being the first newsletter written for SSP, we would like to articulate the way we define a **special situation** and what is our process of investing:-

1. Companies which are emerging from a difficult period; either due to company or industry specific issues but with improving prospects going forward resulting in a visible change in operating parameters. The improving prospects can be because of
 - change in the outlook for the industry,
 - impact of change in regulations,
 - corporate restructuring or change in the management,
 - increased demand for the products of the industry,
 - company having won new business or customers,
 - new capacities coming for the company, etc.
2. The aim 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.
3. It is important that the improved prospects should not be reflected in the financials because then only we can buy with margin of safety.
4. We will continue to hold a stock till the time external, internal conditions and operating parameters of the company make us believe that there is high likelihood of growth in revenue, profits and cash flows without equity dilution and raising significant debt. (Point 1, 2, 3 and 4 is what we are defining as investing in a special situation)

5. We are looking for sustainable and growing cashflows. Secondly, when companies don't have the use of cash they are generating, they should distribute it to shareholders.
6. We would like to concentrate the portfolio in 15-20 companies; where we have high conviction, have a good understanding of the business risks, the future potential of the company and margin of safety when we are investing based on our interaction with the management, competitors, customers, credit rating history and tracked it for at least 3 years.
7. We would like to value companies on the potential cash they will generate in future, or the tangible assets of the company or its net worth (book value in case of lending institutions and regulated utilities). (Point 5, 6 and 7 is our process)

The scheme returns for the quarter were 2.46%. The best three stock performers for the quarter were: Apar (+39.7%), ACE (+33.91%) and TD Power (+33.90%). The worst three stock performers for the quarter were: Sobha (-25.26%), Savita Oil (-21.22%) and JM Financial (-16.64%).

We have investments in few themes and we will evaluate the set of companies in each theme at the end of each quarter.

Capital goods and ancillary industry: - We have 6 companies in this space: - Action Construction Equipment, Kirloskar Brothers Ltd., TD Power, Triveni Turbine, Apar Industries and Savita Oil Technologies. Besides revival in capital goods space and strong competitive position in the relevant business we are looking for companies which have: -

- Geographically diversified revenue base and the management focus continues on it.
- Diversified end markets.
- Have diversified product basket in last few years and the management focus continues on it.

- Historically have added new customers and expanded the distribution network.
- Management should be working on growing after-market business and after-market should be a sizable opportunity. The results for KBL, TD Power, Triveni Turbine, ACE and Apar industries were good with increasing orderbook and improved margins.

In the case of Savita, the margins were under pressure despite good growth in revenue because of the sharp fall in base oil prices. This was similar to what happened in Apar’s specialty oils business. Based on the management commentary we expect the worst of the inventory write-off to be behind in this business.

We have built a sizable position (approx. 5%) in Savita Oil Technologies. The current market cap is Rs 1,661 crore with cash of Rs 427 crore at September 2022 and on an average PAT for last 5 years is Rs 162 crore. We find the stock to be cheap and with good growth prospectus in future as it is an ancillary to growth in industrial activity.

Rs in Crore	Q3FY22				Q3 FY23				
	Company Name	Net Sales	Operating Profit (Excl OI)	PBT	Profit after tax	Net Sales	Operating Profit (Excl OI)	PBT	Profit after tax
	Action Construction Equipment Ltd.	436.6	39.4	36.9	27.4	556.3	61.9	62.0	46.7
	Apar Industries Ltd.	2,221.3	115.8	73.9	54.9	3,916.9	346.7	229.8	169.9
	Kirloskar Brothers Ltd.	725.3	43.2	28.9	20.0	957.5	149.3	119.4	89.2
	TD Power Systems Ltd.	179.8	21.8	24.8	19.5	205.3	33.3	28.8	20.1
	Savita Oil Technologies Ltd.	767.2	74.3	74.6	58.5	908.6	41.6	37.0	28.7
	Triveni Turbine Ltd.	225.2	45.1	48.1	35.7	325.8	63.1	70.0	52.6

Source: ACE Equity

Equipment renting and Leasing business: - We have two companies in renting and leasing business. One is in the space of renting cranes (Sanghvi movers) and other is in the space of renting ships and offshore vessels (GESCO). The results of both companies were good. In an inflationary environment asset owner in a segment where demand supply is tight; do well as the cost of building new assets increases. Hence existing owners are able to charge better rates.

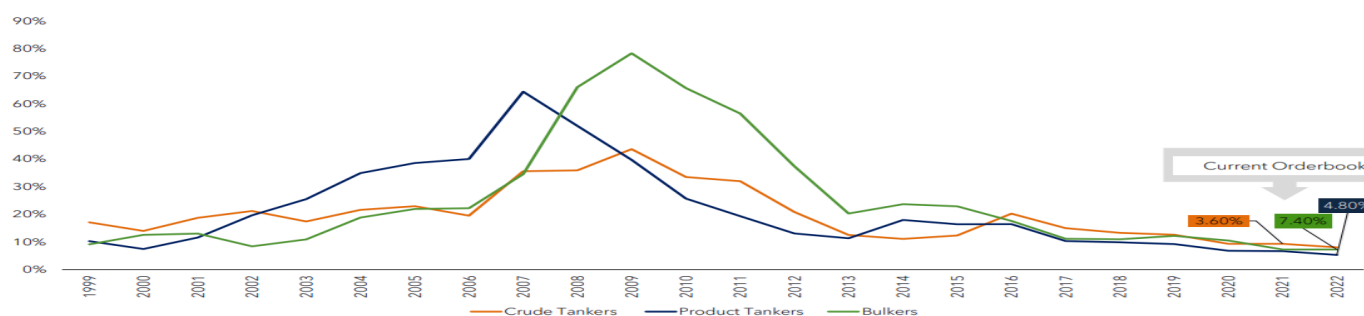
Rs in Crore	Q3FY22				Q3 FY23				
	Company Name	Net Sales	Operating Profit (Excl OI)	PBT	Profit after tax	Net Sales	Operating Profit (Excl OI)	PBT	Profit after tax
	Sanghvi Movers Ltd.	79.3	35.7	9.9	8.8	122.5	75.2	46.4	34.8
	The Great Eastern Shipping Co. Ltd.	938.6	464.0	199.6	205.3	1,421.0	763.0	628.9	627.2

Source: ACE Equity

LOWEST ORDER BOOK TO FLEET RATIO



Historic Order Book as a % of fleet (Calendar Year)



GE Shipping - Q3 & 9MFY23 Results
Sources: Industry Reports

In case of GESCO which is one of the large position in the portfolio the current order book for shipping industry remains at the lowest point in last 20 years.

Auto space: - We have two auto ancillary companies in the portfolio; Suprajit Engineering and Menon Bearing. The type of companies in auto ancillary space we are looking for are: -

- which manufacture an important component for an auto OEM,
- have a history of entering new geographies & adding new customers,
- have developed new products to expand the market & moved up the value chain,
- are involved with the OEM at an early stage of a new model development,
- are focused on developing aftermarket business.

In the case of Suprajit the LDC acquisition has started making operating profit of 3.7% (EBITDA) in Q3FY23 versus loss of -4.5% (EBITDA) in Q1FY23. Management expects this business will also have double digit margins over time. Menon Bearing has entered the brakes segment for MHCV/ LCV/ Heavy duty vehicles and aftermarket in this quarter.

For both Suprajit and Menon Bearings exports are more than 50% and 30% respectively. The last few years have not been good for the global automotive industry, but both have done well and expanded the geographical footprint. Recovery in global auto sales will be beneficial for them.

Rs in Crore	Q3FY22				Q3 FY23				
	Company Name	Net Sales	Operating Profit (Excl OI)	PBT	Profit after tax	Net Sales	Operating Profit (Excl OI)	PBT	Profit after tax
	Suprajit Engineering Ltd.	479.3	54.1	44.7	31.7	692.1	80.9	51.0	38.0
	Menon Bearings Ltd.	49.1	9.0	7.1	5.3	49.7	12.5	10.3	7.7

Source: ACE Equity

Real estate: - We have three residential real estate companies in our portfolio, Sobha, Kolte Patil and Ashiana Housing. For all the three companies' area sold, collections and per square feet realizations have been improving for the quarter and on rolling 12-month basis. Based on the 9 month results it is expected that FY23 would be one of the best in terms of sales and realizations for the companies in residential real estate. The revenue and profits are booked in P&L when the completion of the project and delivery happens. Hence it will take a few more quarters to get reflected in P&L.

Rs in Crore	Q3FY22				Q3 FY23				
	Company Name	Net Sales	Operating Profit (Excl OI)	PBT	Profit after tax	Net Sales	Operating Profit (Excl OI)	PBT	Profit after tax
	Ashiana Housing Ltd.	45.0	(3.7)	(7.4)	(3.8)	127.7	10.3	12.7	9.1
	Kolte-Patil Developers Ltd.	240.3	30.5	11.5	5.7	368.1	(25.5)	(36.8)	(27.7)
	Sobha Ltd.	622.3	150.3	81.2	61.0	868.2	88.8	35.1	31.8

Source: ACE Equity

Operational performance:

	Q1 FY21	Q2 FY21	Q3 FY21	Q4 FY21	Q1 FY22	Q2 FY22	Q3 FY22	Q4 FY22	Q1 FY23	Q2 FY23	Q3 FY23
Ashiana Housing											
Area booked (Isq ft.)	0.81	2.29	3.57	8.30	1.51	4.51	4.20	4.53	3.34	4.90	9.00
Area booked (Isq ft.) over last 12 months	0.81	3.10	6.67	14.97	15.67	17.89	18.52	14.75	16.58	16.97	21.77
Value of area booked in crores	273.0	76.0	132.0	300.0	52.0	166.0	170.0	186.0	152.0	240.0	485.0

Value of area booked in crores in last 12 months	273.0	349.0	481.0	781.0	560.0	650.0	688.0	574.0	674.0	748.0	1,063.0
psf realizations in Rs	3,373.0	3,323.0	3,686.0	3,609.0	3,460.0	3,678.0	4,028.0	4,093.0	4,557.0	4,904.0	5,373.0
Sobha											
Area booked (Isq ft.)	6.50	8.92	11.34	13.38	8.96	13.49	13.23	13.42	13.59	13.37	14.77
Area booked (Isq ft.) over last 12 months	36.58	35.14	35.81	40.13	42.59	47.16	49.05	49.10	53.73	53.61	55.15
Value of area booked in crores	487.7	689.9	887.6	1,072.0	682.9	1,030.2	1,047.5	1,109.6	1,145.0	1,164.0	1,424.7
Value of area booked in crores in last 12 months	2,590.6	2,598.2	2,759.7	3,137.2	3,332.4	3,672.7	3,832.6	3,870.2	4,332.3	4,466.1	4,843.3
psf realizations in Rs	7,494.0	7,737.0	7,830.0	8,014.0	7,626.0	7,637.0	7,919.0	8,265.0	8,431.0	8,709.0	9,653.0
Kolte Patil											
Area booked (Isq ft.)	3.10	3.50	5.60	8.50	4.00	6.70	8.60	7.80	6.10	5.60	11.30
Area booked (Isq ft.) over last 12 months	23.00	21.50	18.90	20.70	21.60	24.80	27.80	27.10	29.20	28.10	30.80
Value of area booked in crores	164.0	194.0	331.6	510.0	248.6	429.0	561.0	501.0	444.7	367.0	716.0
Value of area booked in crores in last 12 months	1,198.1	1,124.1	1,047.7	1,199.6	1,284.2	1,519.2	1,748.6	1,739.6	1,935.7	1,873.7	2,028.7
psf realizations in Rs	5,228.0	5,517.0	5,961.0	5,988.0	6,261.0	6,370.0	6,489.0	6,418.0	7,260.0	6,622.0	6,339.0

Source: Company presentations

Travel and Tourism: - We have three companies in travel and tourism space Taj GVK, Sinclairs and Accelya Solutions. Two own hotels and the third one is in software product business (revenue accounting, revenue assurance, revenue management, sales and incentive management) for airline companies respectively. The results of Taj GVK and Accelya have been good, but Sinclairs were poor in comparison to YoY on a higher base.

Rs in Crore	Q3FY22				Q3 FY23				
	Company Name	Net Sales	Operating Profit (Excl OI)	PBT	Profit after tax	Net Sales	Operating Profit (Excl OI)	PBT	Profit after tax
	Accelya Solutions India Ltd.	87.2	30.9	22.9	17.0	112.0	39.9	33.5	25.2
	Taj GVK Hotels & Resorts Ltd.	82.0	28.7	20.5	12.5	105.4	33.1	25.8	17.3
	Sinclairs Hotels Ltd.	14.8	8.2	7.6	5.8	13.7	5.4	5.4	4.0

Source: Company presentations

NBFC's: - We have two NBFC's in leading space: MAS Financial and JM Financial. This is one business where we want promoters having significant stake in the business. Lending is a business of taking calculated risks and we want to look for promoters who are ready to not grow when the risk adjusted returns are not good.

For MAS loan book grew by 32% and JM Financial it grew by 35% yoy and net NPA have been at 1.6% and 2.23% respectively. The profits for a lending institution are with a lag to growth in loan book. Hence we expect the profits to improve for both JM and MAS Financial.

The profits of JM fell because of the fall in profits of asset reconstruction business and IPO funding business.

Rs in Crore	Q3FY22				Q3 FY23				
	Company Name	Net Sales	Operating Profit (Excl OI)	PBT	Profit after tax	Net Sales	Operating Profit (Excl OI)	PBT	Profit after tax
	JM Financial Ltd.	836.8	628.9	348.7	260.8	804.2	615.0	321.6	240.3
	MAS Financial Services Ltd.	180.0	143.0	55.2	41.1	262.4	203.6	70.5	52.7

Miscellaneous: -

We have two companies here; one is a bankruptcy case (Orchid Pharma) and the other one is negatively impacted by currency headwinds (Sharda Cropchem) in short term.

In case of Orchid there were certain delays in few shipments which led to flattish sales and hence the performance was not in line with our expectations.

For Sharda Cropchem the results for the quarter were better than the previous two quarters in terms of margins but the margins were lower than last year because of currency headwinds. The company buys its raw material in USD and realizes bulk of its sales in Euro, a depreciating Euro and an appreciating Dollar are unfavorable for Sharda's sales and margins. Euro depreciation against USD (down 12% YoY against USD in 3Q) continued to dent profitability. Gross margin in Europe were 29% versus 33% last year, in NAFTA 26% versus 28% last year, in LatAm 24% versus 15% last year and rest of the world is 30% versus 20% last year.

Rs in Crore	Q3FY22				Q3 FY23			
	Net Sales	Operating Profit (Excl OI)	PBT	Profit after tax	Net Sales	Operating Profit (Excl OI)	PBT	Profit after tax
Orchid Pharma Ltd.	161.4	14.1	(10.6)	(10.6)	159.8	13.7	6.7	6.7
Sharda Cropchem Ltd.	879.8	188.4	135.8	102.2	1,017.3	206.9	143.4	108.4

Warm regards
Yours sincerely,

Himanshu Upadhyay

Vice President and Portfolio Manager

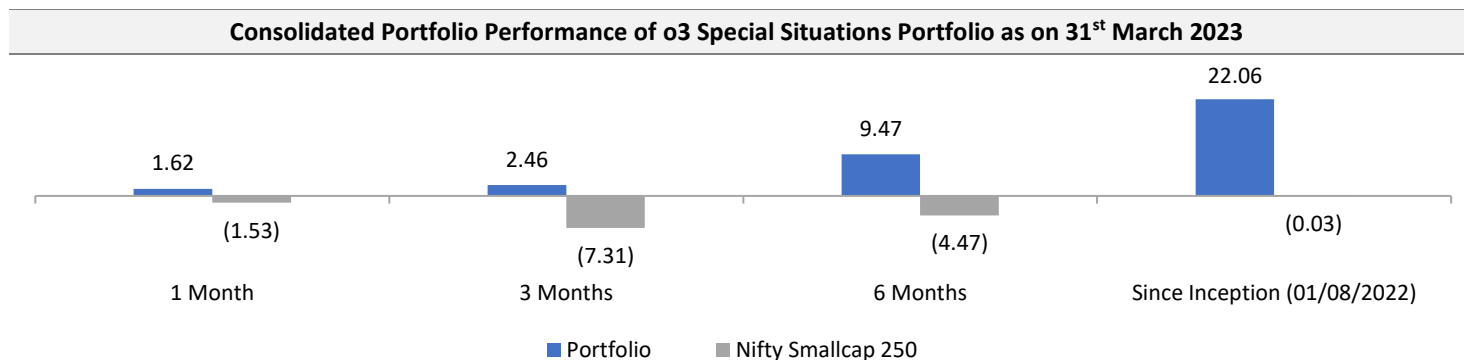
Top 5 Holding of o3 SSP Portfolio - as on 31 st March 2023			o3 SSP Model Portfolio GICS Sector Weights	
Name	GICS Sector	Weight		
Apar Industries	Industrials	6.94%	Industrials	25.00%
Great Eastern Shipping Co	Energy	6.42%	Consumer Discretionary	17.50%
Ashiana Housing	Real Estate	5.82%	Real Estate	16.50%
Sanghvi Movers	Industrials	5.09%	Materials	10.50%
J M Financial	Financials	4.99%	Financials	9.50%
		29.26%	Energy	6.00%
			Information Technology	4.00%
			Health Care	3.00%

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 31 st March 2023		Model Portfolio Composition as on 31 st March 2023	
EPS(E) CAGR (2022 to 2024)	46.55%	Large Cap	0.00%
Portfolio PE (1 year forward PE, based on FY24)	15.61	Midcap	0.00%
Average Age of Companies	39 Years	Small Cap	92.00%
Average Market Cap (INR Cr)	3,773	Cash	8.00%

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

*As on last working day of the month i.e. 31st March 2023.



- Benchmark is Nifty Smallcap 250, as the portfolio invest more than 65% in small cap stock as defined by AMFI, hence Nifty Smallcap 250 is chosen as benchmark
- Since inception date stated is considered to be the date on which the first client investment was made under the investment approach

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 performance related information provided here is not verified by SEBI nor has SEBI certified the accuracy or adequacy of the contents of this Document.*

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