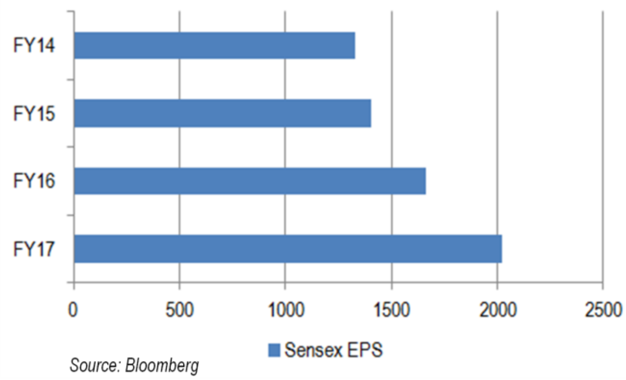
Dear Investor,

On the back of poor fourth quarter results of the last year, adjusted profits of the 30 Sensex companies declined 2.2% in FY15 as sales grew an anemic 2.3%. In June last year, market analysts had projected a profit growth of 15-16% for the same FY15. Given no major change on the ground & continuing weak demand across most of the sectors, a few brokerage houses have now also halved their earlier high double-digit growth estimates for FY16 & instead shifted focus to FY17 & FY18.

SENSEX 30

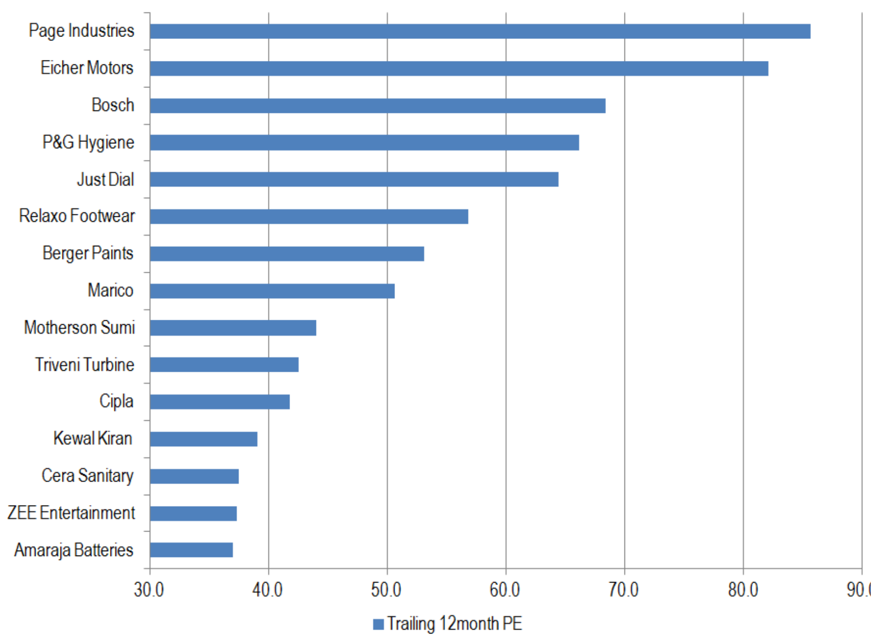
	Q4FY14	Q4FY15	YOY growth(%)
Net sales	5,40,705.83	5,08,544.16	-5.95
PAT	63,865.19	31,665.84	-50.42
Adjusted PAT	64,471.80	58,487.76	-9.28
	FY14	**FY15**	**YOY growth(%)**
Net sales	22,05,075.62	22,56,475.56	2.33
PAT	2,35,624.01	2,06,885.63	-12.20
Adjusted PAT	2,38,115.97	2,32,786.12	-2.24

Compiled by BS Research Bureau — Source: Capitaline

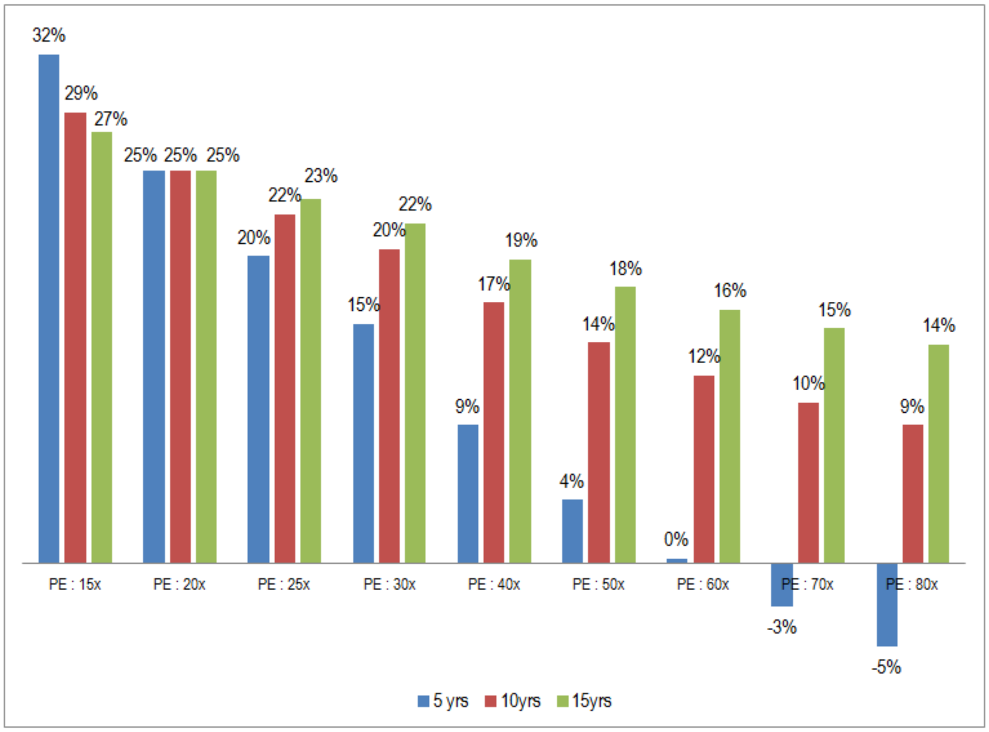


I am not writing to judge these estimates nor am I hazarding a guess on the Sensex earnings – they are not only too complex but also quite ephemeral & thus of little use to us when we invest in individual businesses.

In this back-drop of overall slow earnings growth, companies with strong earnings momentum have not been many. Market seems to have caught the fancy of such companies' esp. those known to have an economic moat (entry barrier) around their businesses. Few such companies now trade at an all-time high PE multiples making us question if quality & growth can be bought or held at any price.



It may be worthwhile to analyze the kind of return expectations that an investor may have when buying into such high PE stocks. The chart below lists out the annual investment returns (CAGR) that may be expected by buying stocks at different entry PE ratios & holding them for different periods. It has been assumed that earnings would continue to grow by 25% per annum for as many years and exit PE would normalize to the average PE of the market, 20x at the time of selling. So, a stock bought at a PE of 50x with other conditions being the same would give a return of 4% if held for five years.



A couple of observations can be made:

- Higher the entry PE, longer has to be the holding period for better returns
- Even after 15 years of earnings growth rate of 25% per year, one is unlikely to get a 20% return on the investment if the acquisition price is >40xPE
- For anything bought at >30xPE, a holding period of less than five years would give a return lower than the long term passive market returns of 16-17%. If there is any drop in the earnings growth, returns would further drop (for 20% growth, return would be 11%)
- For anything less than 25xPE, investment returns would beat the market returns provided company keeps growing by 25%. At 20% CAGR growth, return would drop to 15% for a five year holding period
- It will be difficult not to make good returns if the acquisition is made at <20xPE. Even if the company grows at 20%, returns would still beat the market

This analysis definitely does not suggest that the companies mentioned above will give sub-par investment returns; it does help to provide a framework to gauge the importance of earnings growth & holding period on the expected returns. A higher earnings growth of say 30% would give better returns but even at 25%, earnings become 3x over five years, 9x over 10 years & close to 30x over 15 years. Not many companies achieve that!

At Snowball Capital, we constantly ask ourselves if we have the ability to foresee such high earnings growth over long periods. We work with our assumptions to check what may happen if the growth drops to 20% or to 15% for couple of years. We also try not to forget Warren Buffett's saying "You pay a high price in the stock market for a cheery consensus". It is not that we do not like growth, but we do not like paying for it.

While selecting our portfolio companies, there are two important factors that we analyze:

1. Why are customers buying the product / service from the company and why would they keep buying into the future. Or in other words why would it be challenging for a competitor to take those customers away
2. Can we pay a price to acquire the above business where we do not really have to think or worry too much about the earnings growth rate in the future

Apart from qualitatively mulling about the first point, there are also a number of quantitative factors that associate with such companies in our portfolio. Typically, many of them would already be market leaders or significant second in their category – this helps us to be less speculative (& hence less likely to err) while estimating future success of their products / services. Across many cases, it also gives scale benefit to the company which a competitor may find it difficult to match. On the other hand, if the industry is fragmented then these companies might have some cost benefit which again may put the competitor at a disadvantage.

Such companies would also have a history of reporting strong financials – consistent growth in sales & profits (though might not have happened <u>every</u> year), sticky operating margins, limited working capital requirements, more cash generation than consumption, easily serviceable debt or no-debt at all and above average returns on deployed capital / equity. We lay a lot of emphasis on <u>consistency</u> as that helps us to judge both the business & the management quality. It is seldom that we come across a business with above qualities & poor management though we prefer to bet on the 'horse' and not the 'jockey'.

Second point above on 'price' is really the key though more often than not both the points do not occur together. As seen above in the returns expectation chart, a good quality company when bought at a high PE may turn out to be a disappointing stock if the high expected earnings growth fails to materialize. We prefer to get both – good business & a good stock! Our experience suggests this combination happens when:

- Some under-researched / under-owned small cap companies get neglected by the market (even a small business can have all the qualities of a good business)
- Uncertainty in a particular sector may lead the market to avoid stocks in that sector
- Low growth visibility over the next couple of years may dampen investors' interest
- Overall macro concerns make investors switch out of equities in general
- A surprise negative event results into bad quarterly numbers – market sells such stocks even if the problem is solvable & temporary in nature
- A spin-off from a parent results into a separate listing of a good business

Though not exhaustive, a number of our portfolio companies would fall into one of these buckets. Our long term outlook for the acquired business gives us a competitive advantage to think & act differently from the market. Our lower acquisition price (with respect to the estimated value) not only keeps us less perturbed in case of lower earnings growth or any unexpected event but also helps us to avoid a big mistake (& permanent loss of capital), if we are proven wrong.

Given below is a snapshot of our portfolio companies:

Parameters	Portfolio Wt. averages#
10-yr Sales CAGR	16.5%
10-yr EPS CAGR	19.3%
5-yr Sales CAGR	12.3%
5-yr EPS CAGR	9.0%
5-yr Avg. ROE	22.0%
TTM PE*	13.4x
FCF / EV Yield %^	6.0%

*# 19 companies; *TTM: Trailing 12month; ^FCF: Free Cash Flow (post reported capex)*

As expected, sales & earnings growth of these companies has come down – this is probably the main reason why market seems to be un-interested & is pricing them as if their earnings will never achieve better growth. At 13.4xPE, portfolio is >30% cheaper than the Sensex (trading at TTM PE of ~20x) despite reporting very healthy ROEs & cash flows. Further, usage of leverage is very low: 10 out of 17 companies (excl banks & NBFCs) are debt free and others but one have 'debt service ratio of >8x' (with one at 2.5x). This also helps in insulating the portfolio from any balance sheet related troubles.

In the next few pages, I will attempt to explain in some detail a few of our bigger positions which have under-performed the markets after which I will also touch upon some of the new positions added over the last six months.

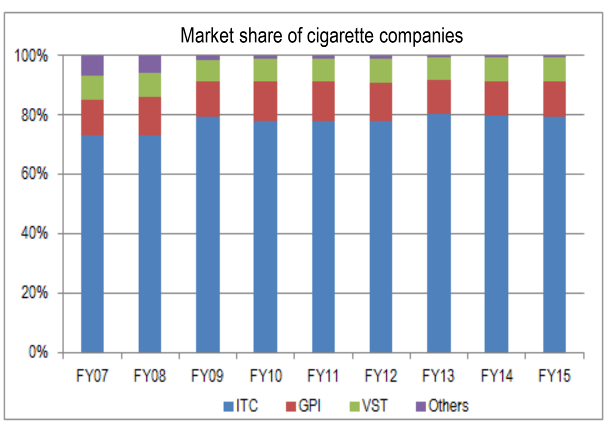
Godfrey Philips

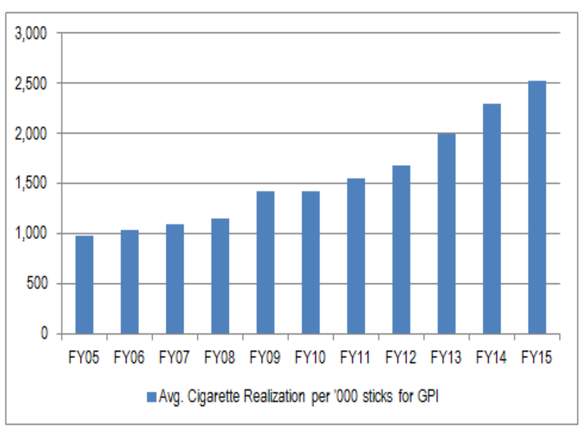
GPI is the second largest cigarette company in India with about 12% market share. The cigarette industry has been reeling under high excise & VAT duties and thus has witnessed a volume decline over the last two years. GPI is no exception.

GODFREY PHILLIPS
INDIA LIMITED

Despite this, we have a positive stance on the company because of the following reasons:

- People seldom change their cigarette brand (market share of GPI has broadly remained the same over the last 10 years)
- Companies successfully pass-on the price increase to the customers (cigarette prices have increased by an average 10% every year over the last decade)
- GPI reflects these industry characteristics & is trading at an attractive valuation





Source: Company filings

Let us consider some numbers as of FY15 end (which saw flattish sales & ~17% <u>decline</u> in profits over FY14):

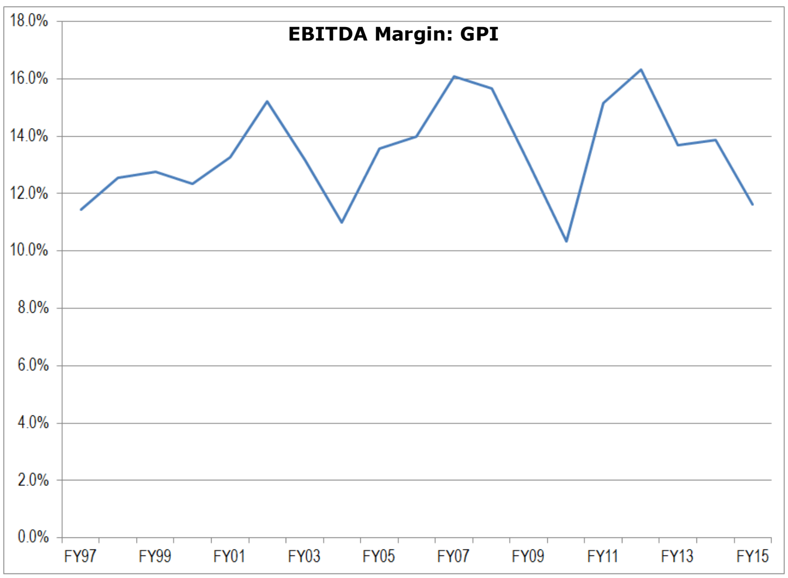
CAGR / Averages	20-year	15-year	10-year	5-year
ROE	23%	20%	20%	20%
BVPS growth	15%	14%	15%	15%
EPS growth	10%	9%	12%	11%
Sales growth	11%	11%	13%	12%

Source: Company filings; BVPS is Book Value per share

- The numbers are remarkably consistent across various time periods highlighting stickiness of the industry
- This consistency is despite these periods being replete with regulatory hurdles like advertising ban in 2004, prohibition of smoking at public places in 2008, health & graphical warnings in 2010 & 2012 and much higher (than WPI) excise duty hikes over 2013-2015
- Given the current management, though GPI has not grown like other FMCG companies, its earnings growth at ~10% has been quite resilient

On valuation, let us again look at the picture simplistically with very conservative assumptions. As per its FY14 annual report, GPI generated a free cash flow of Rs1.75bn (FY15 annual report not yet published). Assuming company is able to grow it by just 5% over the next 5 years & then keep it constant thereafter (that is company stops growing completely) it would generate ~Rs2.5bn FCF in FY19 & following years. The present value of such a stream of consistent cash flows when discounted at 12% would amount to ~Rs22bn. Adding to this the value of 5 acre vacant factory land at Andheri in Mumbai, overall value of the company could well be in excess of Rs27bn – that too on such conservative assumptions (current market cap is ~Rs25bn)

Though ascertaining the trigger is always speculative, it could come from company's announcement on land sale / development or a pick-up in margins which seem to be at a trough & may mean-revert, as shown below.

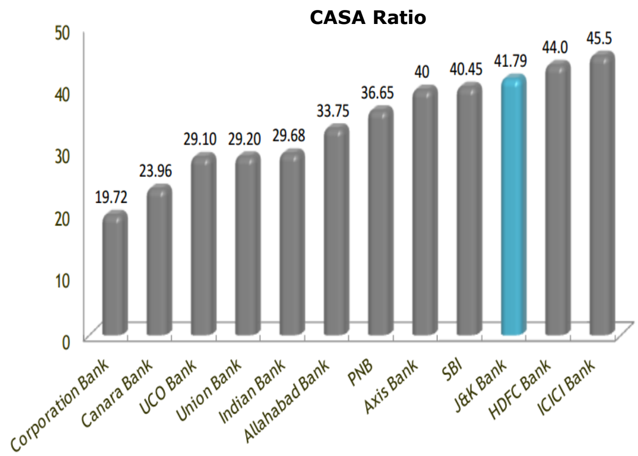


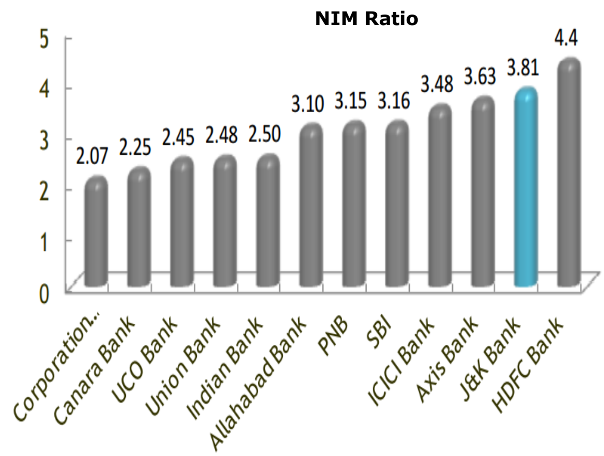
Source: Company filings

J&K Bank

Simplistically, a bank can be compared with a trading company which buys a certain product & sells it at a higher price to its customers. Similarly, a bank raises deposits (& pays interest) and lends the same to its customers at a higher rate. And it is this price (lending rate) of the product which is the main determinant behind customer's decision, making the industry quite competitive on the lending side. Given this, a player with a lower cost of deposits would always tend to have an advantage VS others in the industry. It is here that J&K Bank scores over most of the other banks.

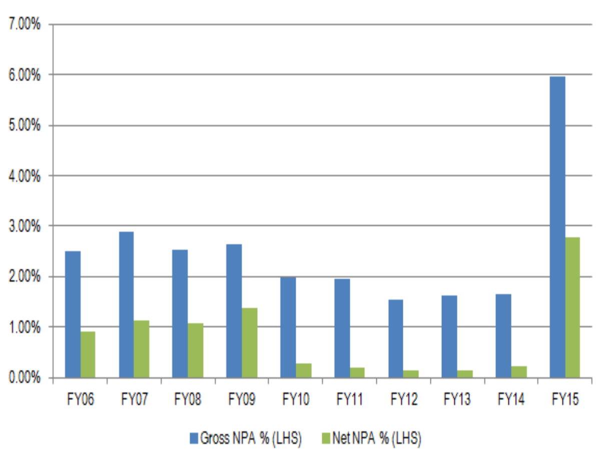
Predominantly focused on the state of J&K with ~2/3rd of the state's share in both advances and deposits, J&K Bank counts >7mn account holders out of the state's total adult population of 8.6mn. Its branch network (which is >2x of SBI, PNB and HDFC Bank put together), gives it a perennial source of low-cost deposits in the form of current & savings accounts (CASA). Bank's CASA & NIM (net interest margin) ratios are one of the highest in the industry.

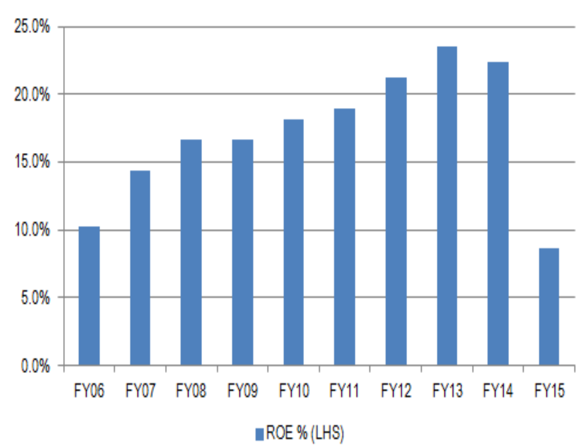




Source: J&K Bank's Jun-15 Presentation (available at www.jkbank.net)

Though the low-cost deposits do make the banks valuable, delinquencies on the lending side can also fritter that value away. This is what happened to J&K Bank last year when it reported a significant increase in bad loans – its gross NPA increased from 1.6% in FY14 to 5.9% of advances in FY15 & as a result ROE dropped from 22.3% to 8.6%.

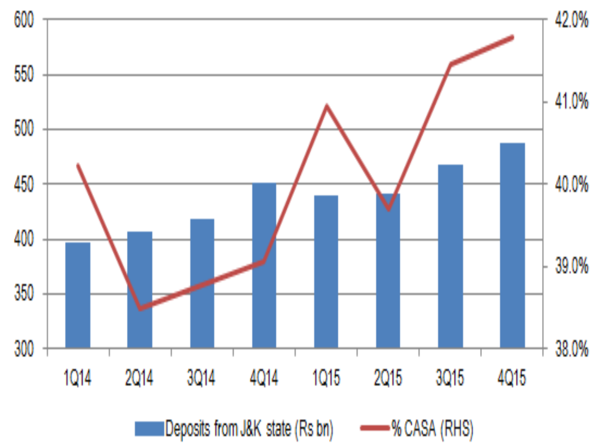


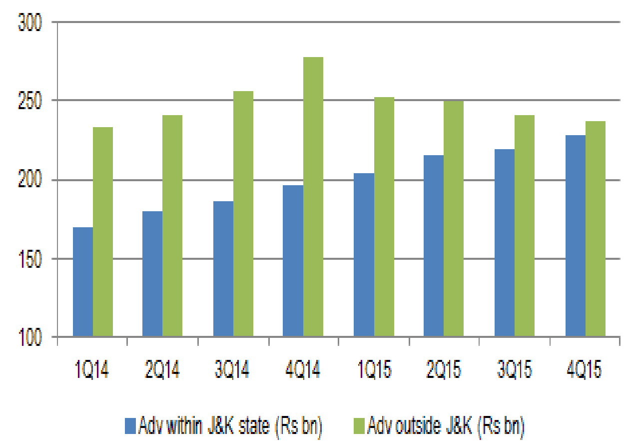


Source: Company filings

<u>I clearly swung my bat early</u> – given the ensuing weakness in the economy and J&K Bank's lack of lending ability outside J&K, I could have waited for a better opportunity. Further, the problem got compounded with the floods in the state around the same time.

Fortunately, this misadventure on the assets-side has had little impact on the bank's liabilities side – it has continued to report a quarter on quarter increase in deposits within the state of J&K in FY15.





Source: Company filings

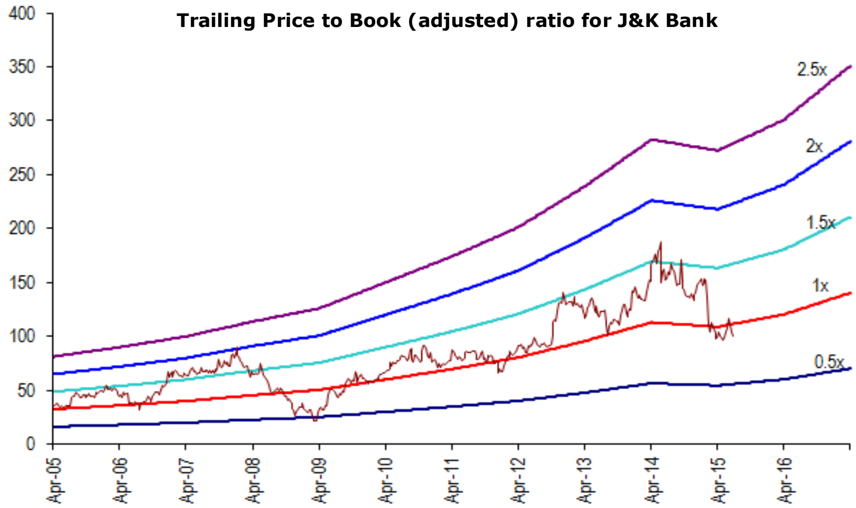
It also seems that the management is now focusing more within J&K – advances within the state have been increasing steadily whereas there has been a decline in the advances outside the state with J&K now accounting for 49% of total advances up from 41% in FY14.

Though it is difficult to gauge when the recovery would happen as it might be linked to overall macro recovery, Mr. Mushtaq Ahmad, Chairman of the bank does seem to believe that the worst is over as per the last 4Q15 concall:

Mushtaq Ahmad: I would simply say that the worst is behind us. Last year I think number one, there was a very major slippage in two or three accounts. Then followed by these floods for seven months, you can imagine that we were only managing the problems created by these floods. So therefore the total focus on the business what is totally diluted and diverted going forward I think a good year is ahead of us and we do hope that we are going to be in the same environment where we were in the last three to four years.

Source: 4Q15 Analyst call transcript

In terms of the current valuation, market does seem to be pricing-in the worst – the stock is trading close to its trough (except during GFC days) with respect to its adjusted book (adjusted for post-tax impact of Net NPA & restructured assets). We continue to remain invested in the stock.



Source: Snowball Capital, Company filings

Hindustan Media Ventures Ltd (HMVL) / Jagran Prakashan

हिन्दुस्तान
दैनिक जागरण

HMVL & Jagran are the leaders in publishing Hindi newspapers in the states of Bihar & UP respectively. As these two stocks together account for one of the biggest positions in the portfolio, it may be worthwhile spending time on the industry.

Some of the common characteristics running across these businesses which make them interesting to invest are:

- People seldom change their habit of reading a particular newspaper. Given each paper has its own style & layout, readers over a period of time get used to seeing & reading in a certain format
- Apart from main editions covering major cities in a state, these newspapers have multiple sub-editions for every 100-150kms covering local areas & providing local news. For e.g. in UP, Jagran has 11 main editions & 71 sub-editions covering the length & breadth of the state. Given a limited advertising potential in any region, it may not be economically viable for a new entrant to set-up printing, news collection & distribution facilities, making each market a monopoly / duopoly at best
- This allows the dominant paper to charge advertising rates which are 1.5-2x of the next newspaper in that area. Also such players generally have higher selling price per copy than others in the same area

Advertising Rates (Rs per ad*)	Kanpur	Delhi	Agra	Patna	Ranchi	Bhopal	Raipur
Strongest player in the region -->	(DJ)	(DJ)	(AU)	(H)	(H)	(DB)	(DB)
Amar Ujala (AU)	1,021	894	1,045	NA	NA	NA	NA
Dainik Jagran (DJ)	1,650	2,118	715	1,243	473	NA	NA
Hindustan (H)	425	1,500	350	2,820	820	NA	NA
Dainik Bhaskar (DB)	NA	350	NA	NA	500	1,400	650
Nai Duniya (ND)	NA	610	NA	NA	NA	743	387
Prabhat Khabar (PK)	NA	NA	NA	520	560	NA	NA
Nav Bharat Times (NBT)	NA	1,540	NA	NA	NA	400	NA

** Rates considered for a 'Business' classified; Taken from www.releasemyad.com*

Price per copy *	Kanpur	Delhi	Agra	Patna	Ranchi	Bhopal	Raipur
Strongest player in the region -->	(DJ)	(DJ)	(AU)	(H)	(H)	(DB)	(DB)
Amar Ujala (AU)	3.5	3.5	3.0	NA	NA	NA	NA
Dainik Jagran (DJ)	4.0	5.0	3.5	3.0	4.0	NA	NA
Hindustan (H)	3.5	4.5	3.5	4.0	5.0	NA	NA
Dainik Bhaskar (DB)	NA	5.0	NA	2.5	3.5	5.0	4.0
Nai Duniya (ND)	NA	4.0	NA	NA	NA	2.5	2.5
Prabhat Khabar (PK)	NA	NA	NA	4.0	5.0	NA	NA
Nav Bharat Times (NBT)	NA	4.5	NA	NA	NA	NA	NA

** Saturday news paper rates*

Rates of regional market leaders highlighted which also happen to be the highest in the region

Further, Bihar, Jharkhand & UP have recorded one of the fastest growth rates in literacy over the last decade, which together with increasing per capita income (at the lowest end of the income pyramid) have acted as a natural tailwind for the industry[1]. This is reflected in the higher advertising & circulation growth for the Hindi print industry in the overall Indian print industry, as shown below.

Print media language market mix

INR billion	2010	2011	2012	2013	2014	Growth in 2014	2015P	2016P	2017P	2018P	2019P	CAGR (2014-2019)
English market	**79**	**83**	**86**	**91**	**96**	**5.2%**	**101**	**105**	**109**	**113**	**118**	**4.2%**
Advertising	53	57	59	62	65	4.8%	69	72	76	80	83	4.9%
Circulation	26	26	27	29	31	6.0%	32	33	33	34	35	2.4%
Hindi market	**58**	**62**	**68**	**75**	**83**	**10.5%**	**92**	**100**	**109**	**120**	**131**	**9.4%**
Advertising	37	41	45	50	54	9.8%	60	67	75	83	92	11.2%
Circulation	21	22	24	26	29	12.0%	31	33	35	36	38	5.6%
Vernacular market	**56**	**63**	**69**	**76**	**84**	**9.8%**	**92**	**102**	**113**	**125**	**138**	**10.5%**
Advertising	36	42	46	51	57	11.8%	64	72	82	92	104	13.0%
Circulation	20	21	24	26	27	6.0%	29	30	31	33	34	4.6%
Total print market	**193**	**209**	**224**	**243**	**263**	**8.3%**	**284**	**307**	**332**	**358**	**387**	**8.0%**

Source: KPMG in India analysis, Industry discussions conducted by KPMG in India

Though there are concerns regarding digitization affecting the print industry, there may be certain structural factors that make our print industry (esp. Hindi) different from the west.

- Cost: Monthly subscription with door-step delivery would cost >$20 in the US[2] whereas the same would be $2-2.5 in India making it a very low cost item in the overall household monthly expenditure
- It is estimated that single copy sales (at news-stands) have declined at a rate 2-3x of the decline in the subscription sales in the US given the cost of buying ($1 an average on weekday & $2 on Sundays) and convenience of reading on a mobile device. In contrast, Japan which primarily has subscription sales (due to its efficient home delivery service), still accounts for 5 out of top-10 most circulated dailies in the world. Its daily circulation of 43mn cater to an adult population of ~ 110mn VS 44mn circulation in the US for ~245mn adult population[3]. In India, given newspapers are conveniently delivered at our door-step[4] (at marginal cost of $2-3 a year to the reader), the effect of internet on subscription may not be significant, whenever it happens

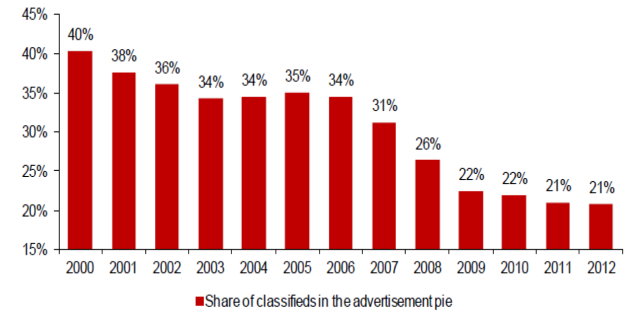
[1] https://en.wikipedia.org/wiki/Indian_states_ranking_by_literacy_rate; https://en.wikipedia.org/wiki/List_of_Indian_states_by_GDP

[2] https://nytimesathome.com/hd/1000/form; https://service.usatoday.com/subscriptions/index.jsp?pub=UT

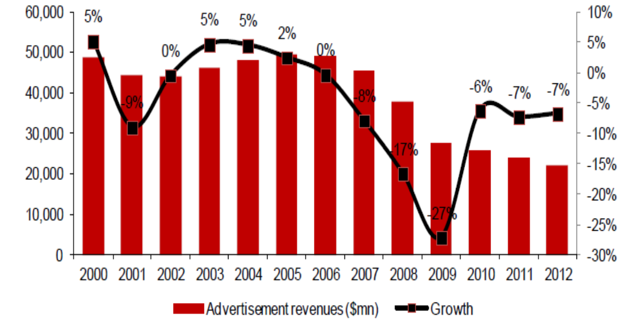
[3] http://www.nippon.com/en/currents/d00097/

[4] http://ccs.in/internship_papers/2011/253_do-you-know-how-a-newspaper-reaches-you_anubhuti-sharma.pdf

- Decline in the advertising revenues in the US, which started in 2006, was primarily driven by classifieds (text ads for auto, real estate, recruitment & others like obituaries), as they were the first (& most fitting) to move online. Share of classifieds decreased from 34% in 2006 to 21% in 2012. Given classifieds are more of an urban phenomenon, they account for only ~5% of the overall advertising revenue for Hindi newspapers; which are more dependent upon display & govt. ads. These categories may be more resilient to moving online esp. when these dailies generate close to 55-60% of the advertising from the local markets.



Source: Newspaper Association of America, Macquarie Research, January 2015



Source: Newspaper Association of America, Macquarie Research, January 2015

Further with India's current internet penetration at ~15% (VS 68% in the US in 2006 when the decline started) digitization impact, if any, on the Hindi dailies may actually be quite some time away (esp. when states of Bihar, Jharkhand & UP even lag behind the national average in internet penetration)[5].

In effect, companies in this industry offer most of the characteristics that one associates with a good business:

- Steady & growing demand for products without customers wanting to switch
- Significant free cash flow generation: Generation is far higher than utilization
- Consistency in financials over a period of time
- High capital return ratios

Few details on these companies are:

Last 5 years	Jagran	HMVL	DB	Amar Ujala#
Advertising CAGR	13.3%	12.5%	11.5%	11.9%
Circulation CAGR	14.8%	13.0%	15.6%	12.2%
EBITDA CAGR	6.5%	16.9%	11.5%	2.9%
EBITDA Margin	23%	19%	27%	12%
ROE	24%	19%	25%	17%
PEx TTM	16.4	10.9	19.7	NA
FCF* / EV yield	6.2%	5.2%	2.2%	NA

** FCF on FY14 numbers as FY15 annual reports yet to be published*

 # Amar Ujala financials taken from its IPO prospectus

[5] http://data.worldbank.org/indicator/IT.NET.USER.P2; http://updateox.com/india/state-wise-internet-users-in-india-census-2011/

Given similar business models (except Amar Ujala, which seems to have inferior economics due to limited regions / cities with monopolistic status), our choice of HMVL and Jagran is primarily driven by valuations. Other factors that work in their favor are:

- Since five years of its UP edition launch, HMVL has considerably increased its circulation in the state which now accounts for almost $1/3^{rd}$ of its revenue. With the company managing to bridge its advertising rates with the leader (currently ~40% of Jagran's rates up from 20-25% two years back), its UP operations are already making low double-digit margins. Maturing of various editions in the state will further increase the profitability of the company going forward
- HMVL also has ~Rs5bn in cash on the balance sheet which is $1/3^{rd}$ of its market cap – though one has to keep a watch on how the management utilizes that cash
- On the other hand for Jagran Prakashan, management's capital allocation strategy has been superior in the industry. Apart from buying back (when the shares were cheap) & higher dividends (current yield close to 4%), management diluted at a higher price (Rs125) through the sale of treasury shares instead of selling at Rs90 when Nai Duniya was acquired. They have also put excess generated cash to work by acquiring related businesses – Mid Day in 2010, Nai Duniya in 2012 and Radio City in 2015, where synergy benefits could be meaningful over a period of time.

We continue to remain invested in HMVL & Jagran Prakashan.

Some of the other new positions added in the portfolio over the last six months are discussed briefly below.

Phoenix Lamps

PHOENIX

Have you ever looked at the brand of your 4w or 2w head-lamp? It is very likely to be Halonix or Phoenix! Company is a market leader in head-lamps with dominant shares of ~50% in passenger cars, >70% in LCVs, >50% in M&HCVs and 85% in 2w & 3w in the Indian OEM market. It also caters to the replacement market in India (~10-15% share) and markets abroad through its exports to >50 countries (primarily Europe). Unfortunately, under Actis PE, Phoenix has had quite a checkered history since its acquisition by the PE fund in 2006. Though auto business was always very profitable, company's foray into CFL was quite disastrous. With Actis selling the CFL business to another of its fund in 2014 and then recently selling-out to Suprajit Engineering, Phoenix Lamps (with only the profitable headlamp business) now comes under a great management team. Given similarities with the existing Suprajit's cable business – mass manufacturing, dominant domestic market shares with the lowest per unit cost, growing exports & replacement business, it may not be a too different business for Suprajit to manage. In its first full year of only auto sales, Phoenix reported consolidated profits of Rs220mn on sales of Rs3.65bn with an ROE of 19% in FY15 & currently trades at ~14x on a trailing basis. Given the business franchise, I believe that both the earnings & multiple of the company are quite under-rated (for comparison, Suprajit trades at ~29x on a trailing basis).

Indraprastha Gas

Anyone driving or living in Delhi would know IGL – it is the only company retailing / supplying natural gas to vehicles (as CNG) and commercial & domestic establishments (as PNG). With > 325 gas stations at vantage points & associated infrastructure (compressors / pipelines), it is a natural monopoly in the city. Though IGL's freedom to price gas has been challenged by PNGRB[6], both the HC & Government have sided with the company. Despite the substitution of domestic gas with costlier RLNG, IGL has been able to increase its per unit operating profit at 4.5% CAGR over the last 5 years (VS 2.3% over 10 years) – this has helped the company to consistently report ROEs in excess of 20%. Its parentage (GAIL & BPCL together own 45% of IGL) not only helps the company in securing gas but also enables it to make opportunistic acquisitions in the same business. IGL has recently acquired 50% stakes in CUGL (supplying gas in certain cities in UP) & MNGL (in Pune) at quite attractive valuations which together could add ~10% to the company's earnings. Regulatory push towards cleaner fuel, increasing vehicular traffic & favorable economics (natural gas VS petrol / diesel and naphtha / furnace oil) would continue to drive the future growth for the company. IGL generated a free cash flow of Rs3.9bn in FY14 (FY15 annual report yet to be published) which on the current EV (adjusted for acquisitions made) of Rs49bn gives a yield of close to 8%, making it quite attractive for such a steady business.

Shriram Transport

Unlike a bank whose franchise comes from its liabilities side (as assets are competitively priced), for an NBFC it comes from the assets side (as liabilities carry similar cost). NBFCs typically try to cater to those areas / customers which banks find it tough to serve. One such area is 'used trucks' which are normally bought by an erstwhile truck driver / helper looking to upgrade into an owner. As these STOs (single truck owners) are quite mobile (with their collateral – trucks) & have limited formal banking history owing to a cash economy, it becomes difficult for a bank to lend. Shriram Transport with its 750 branches, 775 rural centers & almost 10,000 field executives seems to have perfected this business where almost 2/3rd of the collection happens in cash. Company's expertise in valuing the asset & its vast network has helped it to manage delinquencies (Net NPA < 1% consistently) despite a 20% CAGR in advances over the last 5 years (43% CAGR over 10 years!). Even post this growth, industry is primarily in the hands of private un-organized financiers which control 60-65% of market, providing enough room for the company to grow in future. Last quarter, market gave an opportunity when one of its subsidiaries in construction equipment finance (~5% of loan book) reported high NPAs, increasing the consolidated Gross NPA by 80bps on an overall book of Rs520bn. This incremental accounting impact of ~Rs5bn (with secured assets) shaved-off >Rs60bn from the market cap of the company, providing us an opportunity to buy the stock. Shriram Transport has generated an average ROE of 20% over the last five years & trades at TTM 2.0xPB VS its historical average multiple of 2.6x.

[6] Supreme Court ruled in favor of IGL: http://corporates.bseindia.com/xml-data/corpfiling/AttachHis/8E8DDB7A_7E9B_43AD_A32E_6F841411EC96_111600.pdf

Sun TV

Covered in our last Investor Update, Sun TV has recently been buffeted with adverse news flows. We were definitely caught off-guard (& got perturbed to some extent) when the Ministry of Home Affairs denied the renewal of Sun TV's channels on security reasons. Though there might not be any swift outcome given lengthy court proceedings (some reports also give an inkling of how it may be politically motivated), we cannot ignore the possibility of Sun TV not getting final approvals. We definitely do not think that Sun TV can ever be closed down given their reach, number of people they employ directly & indirectly and overall economic contribution to the southern states. If pushed to the wall, the current promoters may be forced to sell-out which could actually be a blessing in disguise for the company in the long-run. If not, there could be some kind of an out-of-court-settlement which general public might never come to know about. In either case till the dust settles, it would affect the morale of employees; company would find it difficult to recruit professionals, management bandwidth would get stretched and business may suffer. Some of this already gets factored-in with the market capitalization down ~20-25% since the day of announcement. Recent private transaction where Star has acquired MaaTV (sales Rs3.5bn & profits Rs650mn) in the Telugu market for supposedly ~Rs25bn, values the broadcaster at ~7.1xEV/sales or ~38xPE – clearly indicating significant value for SunTV's assets (trades at ~4.3xSales and 15.1xPE) esp. given its higher share in the bigger Tamil market. Given this value & memories of similar episodes at Wockhardt & MCX still fresh in mind (where the existing business was challenged though due to a different reason), we believe that time might be our best friend.

What next?

We continue to remain focused on our approach of quality & value. If we do not get enough opportunities with the right combination, we would prefer to stay in cash rather than deploy capital just to be with the markets. We do understand that in this endeavor there could be some misses though over a period of time, our process should help us to present a good report card. In this regard, we sail in the same boat as we get paid only from profits (and not from invested assets) and also invest our & our family savings in the same stocks. Please do not forget to flag-off any investment idea that you may have come across, if you think it fits into our philosophy.

I also look forward to have a discussion with you over the next few weeks on the performance. Please feel free to write back in case of any suggestions / feedback. It would also be my delight if you could refer your friends or family who might be interested in our services.

Yours Sincerely,

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