TANTALLON INDIA FUND

The Tantallon India Fund is a fundamental, long-biased, India-focused, total return opportunity fund, registered In the Cayman Islands and Mauritius. The Fund invests with a 3-5 year horizon, in a concentrated portfolio (25-30 unlevered positions), market cap/sector/capital structure agnostic, but with strong conviction on the structural opportunity, scalable business models, and in management's ability to execute.

Tantallon Capital Advisors, the advisory company, is a Singapore-based entity, set up in 2003, holding a Capital Markets Service License in Fund Management from the Monetary Authority of Singapore.

Performance, in USD

(*Inception on September 1, 2015*)

	Tantallon India Fund	MSCI India	Over/(Under)perf
October 2015:	+1.36%	+0.93%	+0.43%
2015 YTD:	+1.22%	-1.70%	+2.92%
2014:	nm	+24.4%	nm
Inception:	+1.22%	+0.05%	+1.17%

Compound Returns	7.57%	Volatility	3.67%
3 month US T-bill	+0.08%	Sharpe Ratio	2.04

FUND DETAILS

The Tantallon India Fund

AUM USD 14,000,000

Investment Advisor: Tantallon Capital

Minimum Investment: USD 5,000,000

Administrator: Trident Trust Company (Mauritius) Ltd

Fees: 1.5%pa Management fees; 7.5% on annual returns in excess of 7.5% USD hurdle for Founder shares (Founder shares will only be available until 30th November 2015)

Domicile: Mauritius

Dealing: Monthly

Feeder funds US Feeder and Non-US Feeder (Cayman Islands)

Lawyers: Maples & Calder; Shearman & Sterling LLP; Rajah & Tann Singapore LLP

Auditor: KPMG

Contact: Alex Hill (alex@tantalloncapital.com)

October returns for The Tantallon India Fund clocked in at +1.36%. *Looking back over the past several weeks, what really stands out is the market's palpable 'disappointment' over both the September quarter results, and Nitish Kumar's victory in the Bihar state elections, raising questions over the 'Modi mandate.'*

First, on the election results. Quite frankly, **we are enthused by the thoughtfulness of the Indian electorate.** *Despite the hype, the Bihar election was not a Modi-referendum.* Instead, ***Nitish Kumar, the incumbent, was re-elected with a resounding majority in Bihar because he delivered on a well-defined growth agenda,*** creating employment, systematically improving road and power infrastructure, and meaningfully restoring law and order to a State that was historically notorious for the absence of the same.

The message from the electorate is clear – (a) the BJP victory last summer was not a blank check for Modi; (b) it is clear now, that the BJP was voted in last summer on a well-articulated platform for growth, reform, and good governance; and (c) now, Modi and the BJP need to deliver. There is no room for lethargy or complacency. The time for sound bytes, sloganeering, and blaming gridlock in the Upper House, is past. Modi needs to reach out to, and co-opt the Opposition in order to initiate broad industrial reforms, and move forward. *The electorate is aware, and watching, and will only reward performance.*

We believe that the Bihar defeat, following on the heels of the Aam Admi Party's victory in Delhi is a not-so-subtle wake-up call for Modi, the BJP at large, its allies, and the bureaucracy. *We believe that it is the best thing that could have happened because it creates a sense of urgency, and a focus on deliverables, that had somehow been lost in the 'feel-good' and the complacency of a much improved macro environment in India over the last six months.*

Are we just being unduly optimistic?

- Modi is ultimately, a pragmatist, who has every intention of being re-elected in 2019.
- Expectations have been re-set – India is a democracy; and Modi now realizes that he has to work within the constraints of a democratic process.
- Modi is now crystal clear he has to deliver on good governance, ensure the enabling conditions for investment and job creation are in place, and drive the bureaucracy to follow-through and implement the policy goals and initiatives.

To the more 'doubtful,' we would simply point to the policy initiatives announced in the recent week (immediately following the Bihar election results): (i) the restructuring of the debt and the reforms announced for the bankrupt state electricity Boards are far-reaching in their implications, and specifically designed to ensure that the Boards do not lapse back into bankruptcy; (ii) specific (higher) taxes on services and auto fuels to fund infrastructure investments, (iii) a very low Minimum Support Price (MSP) hike on a number of crops (despite the temptation to be more populist) in order to continue to be explicitly supportive of the Reserve Bank of India's inflation targeting framework, (iv) a slew of FDI initiatives to boost investments, and (v) the commitment to kick-start the capex cycle by boosting government capital spending by 40%, restarting stalled projects, and accelerating project approvals and the timeline for new auctions to allocate natural resources to the private sector. ***Modi does gets it.***

Shifting gears to the second quarter results. **There is no question that the earnings for the quarter were 'below expectations.'**

- The ***industrial economy is still in 'slow-burn,'*** and sub-optimal utilization rates across the industrial space, were a drag on margins

YEAR	RETURNS	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEC
Inception	+1.22%												
2015	+1.22%									-0.14%	+1.36%		

and earnings. Not a surprise necessarily, given the anemic industrial production data over the last 18 months, and the still-nascent investment cycle; but, clearly, consensus estimates were too high.

- ***Weak rural demand.*** Again, not a surprise given poor monsoons, and the government's deliberate efforts to scale back rural subsidy programs, while holding MSPs in-check in order to contain inflation/inflationary expectations – but, obviously not good news for the FMCG, building materials, agrochemicals, farm equipment and automobile companies.
- The disconnect between the well-managed and well-capitalized private sector financial institutions (HDFC Bank, Kotak Bank, Bajaj Finance) who continue to take market share while maintaining credit discipline, and the ***less well-capitalized public sector institutions struggling to absorb rising delinquencies***, continues to be stark.
- The ***commodity space remains severely challenged*** – in part, on account of low utilization rates and weak global pricing, but, importantly, because the market is yet to appropriately (re)price assets that are almost certain to earn sub-par returns given the mis-match between the cost of production and a structurally 'weaker-for-longer' commodity price outlook.
- The ***disappointing releases in the pharmaceutical space*** where several of the larger companies have struggled with both a slew of FDA warning letters negatively impacting production, as well as a slow-down in approvals of new generics, and the consequent hit to exports into, and revenues from the US.

Amidst the general earnings malaise, we did want to highlight a key holding in the Fund, **Zee TV.** Given rising competitive intensity and sluggish rural demand, the FMCG, e-commerce, telecom, banking, and automobile companies are investing aggressively in brand building and promotions, with Zee being the key beneficiary. Zee is poised to break-out to the upside on revenues (with advertising revenues tracking well ahead of the market) and margins (improving utilization rates, better pricing, and scale economies).

- Total advertising spending in the country is tracking at just 0.3% of GDP, and TV advertising only accounts for 40% of total advertising in the country. There is substantial room for advertising spending/rates on TV to go up. For Zee specifically, advertising growth over the last 12 months is tracking at 20%+ (versus the overall market growing at 15% or so).
- New rural measurement of ratings (that started last month, in October) will help Zee monetize its general entertainment channels – the new measurement will target 160m households (up from 70m primarily urban households), and will give advertisers much greater confidence in Zee's content outreach.
- Domestic subscriptions growth tracking at 20%+ CAGR on the back of Phase 2 and Phase 3 digitalization being rolled out across the country.
- On margins, our expectation is that we will see 100bp of margin improvement annually over the next three years, and 30% blended EBITDA margins in the Financial Year ended March 2019.
- Strongly FCF generative, and with U$300m in net cash on the balance sheet currently, we expect management to continue to augment the 25% payout with a deliberate balance between special dividends and share buy-backs.

As we continue to recalibrate our expectations of India's 'new normal,' **we would reiterate our standing conviction in (i) a strongly pro-growth government with their feet being held to the fire by a thoughtful and aspirational voter, (ii) a credible Central Bank committed to inflation-targeting, and (iii) entrepreneurial risk capital being committed at the bottom of an investment cycle.**

- Amidst significant uncertainty and global growth concerns, *India stands out as the world's fastest-growing large economy, with an expanding growth differential vis-à-vis China.* ***We believe that the emerging growth upturn in India will be sustainable, of high quality, and with few(er) imbalances relative to history.***
- There has been a healthy re-set of unreasonable expectations from a year ago, and given the pull-back in markets, ***we would make the case that the market is now under-estimating the aggregate positive impact of incremental reforms.***
- Our conviction is that we are at the start of a structural shift, with domestic retail investors looking to invest in marginal change (retail equity flows are tracking at US$1bn+ per month), and ***with less than 3% of domestic household assets in equities, there is a long way to go.***

In closing we would like to highlight that the Founder Shares will only be available until the end of November 2015. Please do let us know if you would like us to reach out to you for a follow-up, or if we can address any questions or issues you might have.

Portfolio Overview

Top 5 Positions	Sectoral Break-down:	As % NAV	Sector Performance	MTD Performance
Natco Pharma Ltd	Agriculture:	2%	Agriculture:	-0.15%
Kotak Mahindra Bank Ltd	Autos:	7%	Autos:	-0.11%
Bajaj Finance Ltd	Building Materials:	13%	Building Materials:	-0.03%
Asian Paints Ltd	Consumer Discretionary:	18%	Consumer Discretionary:	+0.31%
Orient Cement Ltd	Financials:	19%	Financials:	+0.56%
	Industrials:	20%	Industrials:	+1.32%
	Infra Backbone:	7%	Infra Backbone:	-0.22%
	IT Services:	3%	IT Services:	-0.30%
	Pharmaceuticals	11%	Pharmaceuticals:	-0.02%

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