TANTALLON CAPITAL

July 2016

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.

The Tantallon India Fund closed +6.37% in July, after expenses, with the markets starting to internalize an inflection point in the corporate earning cycle in India, and the growing sense that global policy makers are quite constrained in their ability to act decisively and 'normalize' interest rates and monetary policy – and hence, the renewed quest for visible growth/yield.

The markets remain volatile and skittish; amidst the noise and the uncertainty, we have tried to keep it 'simple:'

1. Poised at the start of a new investment cycle, ***India will deliver on a 7%+ real GDP growth trajectory;***
2. A ***pro-reform, pro-growth Modi government*** is committed to delivering on sustained job creation and real income growth;
3. We have conviction in our portfolio companies ***compounding earnings at a 15%+*** annual run-rate over the next 3 years.

We believe that the Policy Tailwinds initiated by the Modi government will be a powerful, sustained, long-duration investment thematic.

- Despite the market's initial ho-hum response, the ***ratification of the GST Constitutional Amendment Bill in the Upper House on August 3, 2016, and by the Lower House on August 8, is a BIG deal*** (the Bill has been stuck in acrimonious debate in Parliament for a decade!).
    - *We would make the case that the introduction of GST (hopefully, by mid-2017), is the most crucial piece of Indian legislative and tax reform undertaken to-date, and will mark a key inflection point in the market's assessment of the runway for growth over the next decade, and the risk/reward and potential valuation upside assigned to the Indian investment opportunity.*
    - The ***one nation-one tax regime will convert the 29 states into a single market,*** with a single indirect tax, levied concurrently on goods and services across the country, replacing the highly inefficient, prone-to-evasion, current array of confusing and over-lapping central and state taxes (such as value added tax, excise duty, service tax, central sales tax, additional customs duty, and special additional customs duty!).
    - ***We expect that tax compliance and collections will improve, AND that structurally lower costs and tax rates will be a nice pick-up for corporate earnings, and in particular for autos, staples, retail, media, pharma, industrials, and cement companies.***
    - *The key beneficiaries in our portfolio are Asian Paints, Blue Dart, Eicher Motors, Natco, PVR, Sun Pharma, Titan, and Zee TV.*

Performance, in USD

(*Inception on September 1, 2015*)

	Tantallon India Fund	MSCI India($)	Over/Under Full Performance
July 2016:	+6.37%	+5.47%	+0.90%
2016 YTD:	+7.69%	+5.73%	+1.96%
2015:	+0.24%	-7.53%	+7.77%
2014:	nm	+21.92%	nm
Inception:	+7.95%	+4.94%	+3.01%

Compound Returns	+8.70%	Volatility	+21.55%
3 month US T-bill	+0.26%	Sharpe Ratio	+0.392

FUND DETAILS
The Tantallon India Fund

AUM USD 15,000,000

Investment Advisor: Tantallon Capital

Minimum Investment: USD 5,000,000

Administrator: Trident Trust Company (Mauritius) Ltd

Fees: 1.5%pa Management fees; 12.5% on annual returns in excess of 7.5% USD hurdle

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)

- In addition, we would reiterate that the recent passage of the ***Land Reform Bill, the Minerals and Mining Bill, and the new Bankruptcy Code, are significant game-changers,*** improving the ease of doing business in the country, but, importantly, providing the transparent framework necessary to encourage corporate risk appetite and a sustained investment cycle.

Rural India is poised to surprise disproportionately on the upside, in terms of pent-up consumption demand, as well as infrastructure and investment spending.

- Four successive harvest failures, exacerbated by the government looking to rein-in wasteful rural subsidies and minimum agricultural support prices, did see a significant contraction in rural demand.
- The current monsoon season has been bountiful, allowing for *the area under cultivation to grow 6% y-o-y to ~80m hectares, the highest it has been in almost a decade.*
- ***As rural incomes recover on the back of higher output and stabilizing agri-commodity prices, we expect to see a sharp revival in rural consumer sentiment and demand.*** *We expect that the*

YEAR	RETURNS	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEC
Inception	+7.95%												
2016	+7.69%	-8.33%	-9.98%	+11.86%	+2.10%	+1.89%	+5.44%	+6.37%					
2015	+0.24%									-0.14%	+1.36%	-2.09%	+1.14%

consumer-oriented companies with a strong rural interface will see disproportionate growth and market share gains, translating to strong volume/revenue momentum and a sustained uplift in margins.

- *Our preferred consumer/rural interfacing beneficiaries include: Asian Paints, Bajaj Finance, Cholamandalam Finance, Eicher Motors, HDFC Bank, PVR, Shree Cement, Titan, and Zee TV.*

The stock we wanted to highlight this month is ABB India, a precision engineering company with a core competence in power and automation technology, manufacturing transformers, switch-gears, breakers, capacitors, power line communication equipment, relay controls, inverters, and turbochargers. *Thanks to its parent's comprehensive product portfolio, localized, low-cost manufacturing, and stellar execution record, ABB India today sits in the sweet spot of the massive investments into automation technologies globally, and into the domestic power grid and transmission networks, and the explicit focus on renewables.*

Our investment case is quite straightforward:

- ***Localization and Operating Leverage:*** Through the downturn, ABB India stayed ahead of the curve, investing aggressively into expanding their local manufacturing footprint, and building out their product portfolio to ensure portfolio relevance and cost competitiveness. *As the Indian Cap.Ex. Cycle turns, mix improvement and higher utilization rates will drive strong operating leverage.*
- ***Export Hub for ABB Global:*** *Over the next 4 years, we expect exports from ABB India to service ABB's global network will account for 50% of revenues* (currently, exports account for just 15% of consolidated revenues) thanks to the Indian subsidiary having invested in the capacity, and having established significant global cost competitiveness across multiple product segments. *Any rupee depreciation will be a further tail-wind.*

Fit-to-compete, lean cost structure: Despite the collapse in industrial capex over the last 5 years, we have been thoroughly impressed by management's focus on improving the cost structure, investing in operational efficiencies and logistics, and on deliberately managing the working capital cycle lower. The business is 'fit-to-compete,' and poised to deliver on significant margin expansion as the order book builds providing visibility on the top-line.

Over the next 5 years, we are most excited by, and are closely tracking the opportunity for ABB India in:

- ***Power Generation and transmission*** is a US$50bn+ opportunity for the sector over the next five years on the back of the Modi government's push to deliver 'Power for All.' ABB India's product suite and cost competitiveness will translate to significant market share gains as the government ramps up its investments on new sub-stations, upgrading older sub-stations, and expanding the transmission grid.
- The government's resolve in building out the ***Green Energy Corridor*** (GEC) reflects both the commitment to be more sustainable, and a desire to layer-in greater grid self-sufficiency (as opposed to having to depend on imported coal or be held hostage to volatility in global energy prices). Renewables currently account for 15% of consolidated revenues, and our sense is that the GEC is a US$5bn+ opportunity for ABB India over the next five years thanks to ABB's global product suite explicitly focused on renewables, and on large scale solar farms in particular.
- The government's US$130bn investment program to significantly enhance both the ***passenger and the freight rail network*** is already visible in the tenders being floated by the Rail Ministry over the last three months. Given its product portfolio, the capacity built, and the increasing cost competitiveness versus the Chinese manufactures, we see a significant market share growth opportunity for ABB India over the next five years in a segment where it has historically had only a token presence.

On the financials:

- Thanks to the new capacity creation through the downturn, scale benefits, and mix improvements, we expect revenues to rise 50%+ over the next 3 years, with blended EBITDA margins expanding by 400bp+.
- Given the operating leverage, we expect EPSe to compound at 40%+ over the next 3 years, with room for improvement on the current 30% payout.

To conclude:

- Our convictions stand on Indian ***demographics and consumption***; ***structurally lower borrowing costs;*** and a government-spending driven ***new investment cycle.***
- A visible recovery in demand and inherent operating leverage will drive our ***portfolio companies delivering on earnings compounding at a 15%+ clip over the next 3 years.***
- We ***expect the passage of GST will be the cornerstone of Modi's pro-reform investment agenda,*** *and will be a significant positive catalyst, not just for the real economy, but, in re-setting market expectations on earnings and potentially, the market multiple.*

Please do let us know if you would like a follow-up conversation, or a catch-up.

Portfolio Overview

Top 5 Positions
Bajaj Finance Ltd
Kotak Mahindra Bank Ltd
Asian Paints Ltd
Natco Pharma Ltd
HDFC Bank Ltd - ADR

Sectoral Break-down:	As % NAV
Agriculture:	4%
Autos:	8%
Building Materials:	14%
Consumer Discretionary:	19%
Financials:	22%
Industrials:	11%
Infra Backbone:	10%
IT Services:	0%
Logistics:	3%
Pharmaceuticals	9%

Sector Performance	MTD Performance
Agriculture:	-0.02%
Autos:	+0.91%
Building Materials:	+0.50%
Consumer Discretionary:	+1.33%
Financials:	+2.58%
Industrials:	+0.07%
Infra Backbone:	+0.38%
IT Services:	0.00%
Logistics:	-0.05%
Pharmaceuticals:	+0.69%