TANTALLON CAPITAL

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 Full Performance
June 2018:	-5.58%	-1.31%	-4.27%
2018 YTD:	-16.65%	-8.13%	-8.52%
2017:	+59.14%	+36.84%	+22.30%
2016:	-5.79%	-2.90%	-2.89%
2015:	+0.24%	-7.53%	+7.77%
Inception:	+25.26%	+21.17%	+4.09%

Compound Returns	+8.27%	Volatility	+19.81%
3 month US T-bill	+1.91%	Sharpe Ratio	0.321

FUND DETAILS

The Tantallon India Fund

AUM USD 36,000,000

Investment Advisor: Tantallon Capital

Minimum Investment: USD 1,000,000

Administrator: Trident Trust Company (Mauritius) Ltd

Fees: 1.5%pa Management fees
12.5% on annual returns in excess of 7.5% US$ hurdle rate compounding annually

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)

The Tantallon India Fund closed down -5.58% in June, after expenses, bringing the second quarter to a very disappointing close. Since the Fund's inception, this is the fourth drawdown in excess of 10%; clearly, very uncomfortable, and reflecting heightened risk aversion globally, and specifically, the sell-off in small and medium sized companies as markets look to recalibrate risk/reward

- Higher energy prices are inherently inflationary, and we should expect the Reserve Bank of India to be alert in asserting its inflation-fighting credentials. *Yes, the markets are singularly focused at this point on the loss of monetary policy/flows support; instead, we would reiterate that the RBI's commitment to keeping inflation in check, and avoiding the damaging boom/bust cycles of the past, remains central to our conviction in continuing to build exposure to Indian equities.*
- Coincidentally, we have also seen the local securities regulator, SEBI, enforce over the last two months the unbundling of small and medium sized companies from the portfolios of prospectus-defined domestic large cap funds in an effort to better align stated fund objectives with implicit retail investor risk appetite and tolerance for volatility. *SEBI's hard deadline for the unbundling process was June 30, 2018, and our sense is that the process – and the selling of smaller stocks out of large cap portfolios – has largely been completed.*
- Continued US$ strength (perhaps, anticipating higher US real rates) remains a (short-term?) headwind for emerging markets and currencies – *and the Indian rupee has certainly been sold down over the last three months.*
- Trump's trade war is now 'official.' The sell-off in Chinese industrial stocks and the sharp 3% correction in the yuan versus the US$ since the end of May would seem to be suggesting that the complexity and inter-dependence of global supply chains will take toll on global trade, corporate profitability and the willingness to commit to significant new capex. *In our portfolio, the shrimp exporter, Apex, the IT Services companies (Intellect Design and Cyient), and Natco (generic pharmaceutical) are the most exposed to the risk of incremental tariffs.*

In the face of the market's volatility, and the uncertainty over global trade, geo-politics, customs unions, and the unwinding of QE, **we are encouraged by the mounting evidence of resurgent (and resilient) Indian growth, and the fact that the companies in the portfolio are delivering on increased volume/revenue visibility, on margin uplift, and on sustained earnings growth.**

- *We are impressed by the growing confidence being articulated by companies (across sectors and the market cap spectrum) on underlying domestic demand, rising utilization rates, credit availability, political and fiscal stability, and in a nascent industrial capex cycle.*
- *For the record, in aggregate, the companies in our portfolio posted a 26% y-o-y increase in EPS for the fiscal year ended March 2018, and we have raised our estimates for FY19e.*

The last few weeks have also given us an opportunity to go through literally, dozens of recently released corporate Annual Reports for the fiscal year ended March 2018. At the

YEAR	RETURNS	JAN	FEB	MAR	APR	MAY	JUN	JULY	AUG	SEP	OCT	NOV	DEC
Inception	+25.26%												
2018	-16.65%	-1.87%	-7.58%	-1.07%	+3.20%	-4.66%	-5.58%						
2017	+59.14%	+8.34%	+8.73%	+6.73%	+6.54%	-1.20%	+0.23%	+4.30%	-1.47%	-0.69%	+5.64%	+6.79%	+4.21%
2016	-5.79%	-8.33%	-9.98%	+11.86%	+2.10%	+1.89%	+5.44%	+6.40%	+1.66%	-0.74%	-1.69%	-9.26%	-2.83%
2015	+0.24%									-0.14%	+1.36%	-2.09%	+1.14%

risk of gross over-simplification, we would highlight the following:

- ***Private corporate capex and profitability is arguably at its lowest level since 1996*** – thanks to weak commodity prices, the disruptions of demonetization and the implementation of GST, and importantly, the massive loan loss recognition/provisioning imposed by the RBI on the public sector banks.
- That said, what is increasingly clear is that ***underlying volume growth, rising utilization rates, and strong operating leverage is being reflected in sustained margin uplift and very strong earnings/cash flow growth.***
    - Services, private sector financials, cement, steel, passenger and commercial vehicles, tourism, infrastructure, specialty chemicals, logistics, renewables, agriculture, and niche IT Services are demonstrating strong sequential volume/revenue growth, and importantly, resilient pricing/margins.
- What is also clear is that ***production capacities are stretched; as utilization rates rise, we believe we are on the cusp of a new, extended investment cycle.***
- ***Corporate India has continued to de-leverage*** – a decade of restrained capex, the public sector banks being required to enforce scheduled loan repayments, and on interest coverage norms, greater working capital discipline, and the continued divestment of non-core assets.

The company that we would like to highlight this month is ***Intellect Design Arena***, a technology services company designing customized digital financial products. Intellect Design's core strength is in customizing mobile banking solutions for global banking and financial services companies confronting (i) the disintermediation of the traditional brick and mortar channels, (ii) the competitive imperative to deliver on strong data analytics, customer services, and ease of use, (iii) increasing regulatory scrutiny and oversight, and (iv) the growing complexities in trying to integrate legacy platforms and decades of piece-meal technology solutions.

We expect consolidated revenues to conservatively compound at 18%+ annually over the next three years with meaningful risk to the upside. *Our base case is for the current US$40m/quarter revenue run-rate to accelerate to US$100m/quarter over the next three years.*

- We believe that Intellect Design is at a key inflection point, with two of its twelve core product suites already generating revenues, and another five suites in the process of being implemented by new clients.
- Given the focused investments in building deep domain knowledge and unique IP-driven product suites, and the investments made in building out a comprehensive global sales and marketing network, we believe that the market is structurally under-estimating the potential to both win new clients, as well as to increase wallet share from their existing clients.

We expect profits to compound at 45%+ annually over the next three years and for ROE/ROCE to double to 15%+.

- On our base case assumptions, we expect operating margins to expand by 500bp to 12% over the next three years on the back of revenue acceleration, higher licensing fees driving mix improvement, and strong operating leverage.
- Visibly improving working capital cycle, moderate incremental capex requirement, and strong cash flows to drive meaningful balance sheet deleveraging.

To conclude, heightened global risk aversion notwithstanding, our conviction in India's idiosyncratic, structural opportunity is intact; we would be urge investors to look through the current volatility to intentionally build exposure to Indian equities.

- **India is poised to deliver GDP growth compounding at a 7%+ run-rate over the next three years.**
- We have systematically re-underwritten our conviction on our portfolio holdings delivering on sustained revenue growth, margin uplift, and on **earnings and cash flows compounding at 15%+ annually over the next three years.**
- **The recent market pull-back would appear to be overdone** given our benign outlook on Indian inflation/interest rates, the potential upside from a multi-year investment cycle, and the long runway opportunities in industrialization, urbanization, consolidation, financial intermediation, digitization of the real economy, enhanced agricultural productivity, and growth in rural incomes and discretionary spending.

Please do let us know if you would like a follow-up conversation, or a catch-up in the next few days.

Portfolio Overview

Top 5 Positions	Sectoral Break-down:	As % NAV	Sector Performance	MTD Performance
Bajaj Finance Ltd	Financials:	37%	Financials:	-0.57%
Kotak Mahindra Bank Ltd	Consumer Discretionary:	16%	Consumer Discretionary:	-0.55%
HDFC Bank Ltd ADR	Consumer Staples:	11%	Consumer Staples:	-1.55%
Titan Co Ltd	Materials:	10%	Materials:	-0.84%
Zee Entertainment Enterprise	Technology:	6%	Technology:	-0.15%
	Industrials:	6%	Industrials:	-0.06%
	Health Care:	5%	Health Care:	-0.68%
	Real Estate:	4%	Real Estate:	-0.47%
	Energy:	3%	Energy:	-0.69%
	Utilities:	2%	Utilities:	-0.33%
	Retail:	1%	Retail:	+0.30%

