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
March 2019:	+9.08%	+8.73%	+0.35%
2019 YTD:	+3.44%	+6.97%	-3.53%
2018:	-22.79%	-8.63%	-14.16%
2017:	+59.14%	+36.84%	+22.30%
2016:	-5.79%	-2.90%	-2.89%
2015:	+0.24%	-7.53%	+7.77%
Inception:	+20.02%	+28.90%	-8.88%

Compound Returns	+5.22%	Volatility	+20.50%
3 month US T-bill	+2.38%	Sharpe Ratio	+0.139

FUND DETAILS

The Tantallon India Fund

AUM USD 32,000,000

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 up +9.08% in March with the broad market out-performing the large cap index for the first time in months, underpinned by expectations of strong earnings growth for the small and mid-cap universe, and a surge in foreign portfolio inflows into the market. The focus is now completely on the next General Elections *(slated for April 11-May 22, 2019)* and (rising) expectations of Modi managing to retain a Parliamentary majority.

To re-iterate our stance on the General Elections:

- *We are intensely mindful of how poorly the 'markets' have done projecting election and referendum outcomes in the last five years.* **That said, our expectations remain centered around a Modi victory, albeit with a smaller majority than in 2014.**
- A Modi "loss" would, no question, be a market dampener. However, as in previous election cycles, we would expect the markets to absorb the "disappointment," and devolve to a fundamental assessment of (i) the stability and the strength of the institutions, (ii) underlying reform momentum, and (iii) the outlook/sustainability for growth.
- ***Bottom-line, irrespective of the election outcome, we believe that Modi's structural reforms have been well-institutionalized, and will sustain a new investment cycle, and our growth outlook.***

We now expect another 75bp-100bp of policy easing over the next 12 months.

- *Fact:* at a broad level, growth in M3 (broad measure of money supply) has been lagging nominal GDP growth since December 2016. *Modi has remained fiscally disciplined, allowing the RBI the flexibility to now start to ease counter-cyclically.*
- India's growth soft-spot in the fourth quarter of 2018 was triggered by tight systemic liquidity and risk aversion following the IL&FS default last October. *We would specifically highlight the RBI's recent announcement of a US$ swap window* to address domestic liquidity concerns, strengthen the deposit base for the domestic banks, reduces hedging costs, and incentivize Foreign Portfolio Investments in domestic debt instruments.
- With inflation now trending below the Reserve Bank of India's inflation-targeting framework, and bolstered by central banks globally signaling a collective 'pause,' *the RBI delivered its second successive interest rate cut last week, reducing the benchmark repo rate by 25bp to 6%.* **We believe that the RBI will continue to be "accommodative."**

The Monsoon watch resumes.

75% of India's annual rainfall occurs during the Southwest Monsoon (June – September) season, and given India's historically poor irrigation infrastructure, the monsoons remain crucial to the agrarian economy. *With the Australian Meteorological Bureau recently signaling a 70% probability of an El Niño event, concerns have started to build over the likelihood of a poor monsoon season in India.*

- 75% of India's agrarian output is monsoons dependent. So, ***a poor monsoon season will weigh on sentiment, and importantly, on inflationary expectations*** – assuming the risk of a spike in agri-commodity prices.

YEAR	RETURNS	JAN	FEB	MAR	APR	MAY	JUN	JULY	AUG	SEP	OCT	NOV	DEC
Inception	+20.02%												
2019	+3.44%	-6.16%	+1.05%	+9.08%									
2018	-22.79%	-1.87%	-7.58%	-1.07%	+3.20%	-4.66%	-5.58%	+1.29%	-2.30%	-12.87%	-2.31%	+9.47%	+0.46%
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%

- *In contrast, we believe that proactive policy intervention to prevent 'hoarding' of agri-commodities, and the judicious use of the country's surplus store of grains will significantly moderate the risk of spiking agri-commodity prices.*
- ***The economic drag (agriculture accounts for 15% of the country's GDP) is only seen in the year subsequent to a poor monsoon season*** when agricultural output / rural cash flows / rural purchasing power / rural demand actually declines.
  - *Specifically, a poor monsoon would be negative for agro-chemicals, seeds/agri inputs companies, autos, and rural demand focused consumer companies.*

Bottom-line, we are much more sanguine than the markets at this point – not because we have a specific view on the distribution and/or the extent of the rainfall expected in the current monsoon season (!), but, because ***we believe that the economic impact of a potentially poor monsoon season will likely be minimal over the next 12-18 months.***

Key risks to assess:

- Domestically, (i) continuity to Modi's reforms and anti-corruption platform; (ii) fiscal constraints in an election year limiting government spending; and (iii) delayed/impaired transmission of the RBI's monetary easing.
- Externally, (i) higher energy prices *(which remain our major concern)*, and increasingly unpredictable geo-politics and trade conflicts negatively impacting global growth / risk appetite / flows, creating a potential drag for Indian risk assets and in particular, for the rupee.

The stock we would like to highlight this month is ***DLF Limited,*** India's largest property developer. Having painfully restructured the business into two distinct verticals, rental income-focused commercial properties in the one, and pure development (both residential and commercial) assets in the other, management has finally succeeded in consolidating the family's stake into the listed entity (eliminating any potential conflicts with minority investors), while de-leveraging the balance sheet of the listed entity (allowing for the effective monetization of a valuable land bank).

DLF is a prime beneficiary of the new Real Estate Regulatory Act (RERA) which enforces explicit restrictions on the marketing / sale of new property projects in order to protect consumers, and strict guidelines on revenue / cash flow recognition on customer deposits in escrow accounts.

- RERA has effectively eliminated the highly disruptive unorganized sector, as well as balance sheet constrained developers who lack the capital to invest upfront in land acquisition and infrastructure development.
- Importantly too, shrinking supply, and a limited pipeline of new product launches, has allowed real estate prices to stabilize after almost five years of declines.

We expect DLF to deliver on robust positive free cash flows compounding at close to 30% annually over the next 3-5 years (versus the market's more muted expectations of about 15% growth).

- Having delivered on a quarterly sales run rate of about Rs.6bn per quarter (despite the overall weakness in residential property markets), as sentiment/pricing improves, we expect DLF's sales run-rate to rise to about Rs.8bn+ per quarter, while maintaining operating margins in excess of 35%.
- We expect the commercial rental portfolio (that has currently leased out 28m square feet) to deliver on Rs.18bn+ of post-tax cash flows, compounding at about 12% annually on the back of both rental rate increases and increased leasing of space.
- The deleveraging of the balance sheet will yield significant interest savings.
- *What we are not yet 'building-in' is management's 'roadmap' to selling down Rs.130bn in unsold inventory in completed, prime location projects, and their ability to selectively monetize the land bank through strategic asset sales.*

To conclude: we do expect the markets to remain volatile as India goes to the Polls over the next six weeks. On the ground, strong rural consumption trends, a nascent capex cycle, and our expectations of policy reform continuity/momentum would suggest that India's idiosyncratic growth opportunity is intact. We would urge investors to take the long view, and to continue to increase their allocation to Indian equities.

- **We are on the cusp of a new investment/consumption up-cycle.** *Irrespective of the election outcome, India's structural reforms and domestic economy stand poised to deliver on sustained real GDP growth compounding at 7%+ annually over the next 3-5 years.*
- **We see credit growth and profit margins inflecting higher.** *We expect our portfolio companies to deliver on earnings and cash flows compounding at 15%+ annually over the next three years.*
- **We find valuations and the risk/reward compelling** – especially in the small and mid-cap space – given the prospects of sustained revenue and earnings growth, and the likelihood of further easing by the Reserve Bank of India.

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:	35%	Financials:	+4.38%
Titan Co Ltd	Consumer Discretionary:	21%	Consumer Discretionary:	+1.24%
HDFC Bank Ltd	Materials:	11%	Materials:	+1.16%
Kotak Mahindra Bank Ltd	Consumer Staples:	9%	Consumer Staples:	+0.67%
Zee Entertainment Enterprise	Real Estate:	8%	Real Estate:	+0.56%
	Technology:	6%	Technology:	+0.47%
	Industrials:	5%	Industrials:	+0.41%
	Energy:	3%	Energy:	+0.13%
	Retail:	2%	Retail:	+0.06%
	Health Care:	0%	Health Care:	+0.00%
	Utilities:	0%	Utilities:	+0.00%

