October 7th, 2020

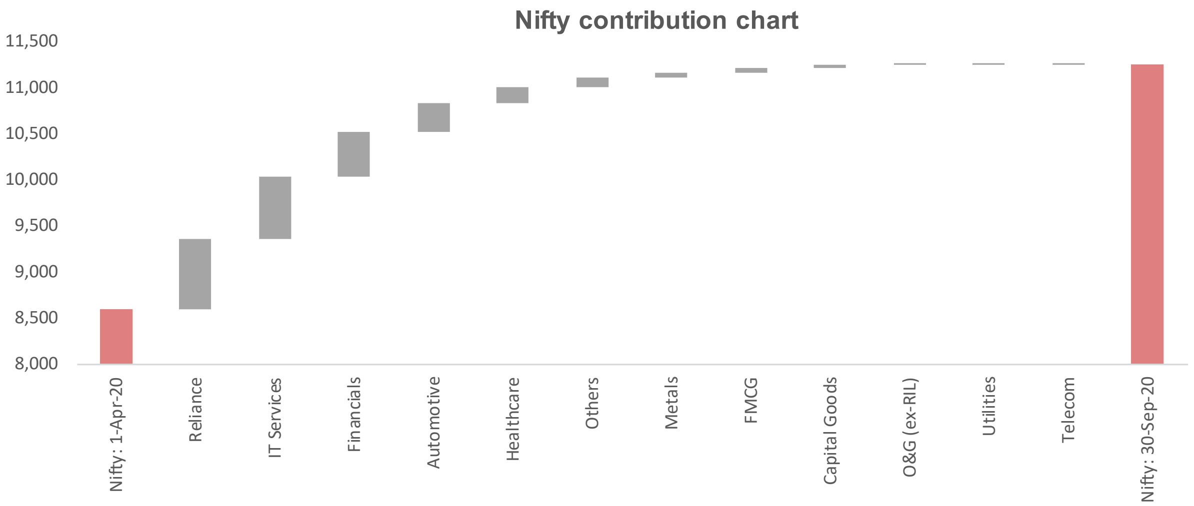
Letter to investors: Update for three months ended September 30, 2020

Dear Fellow Investors,

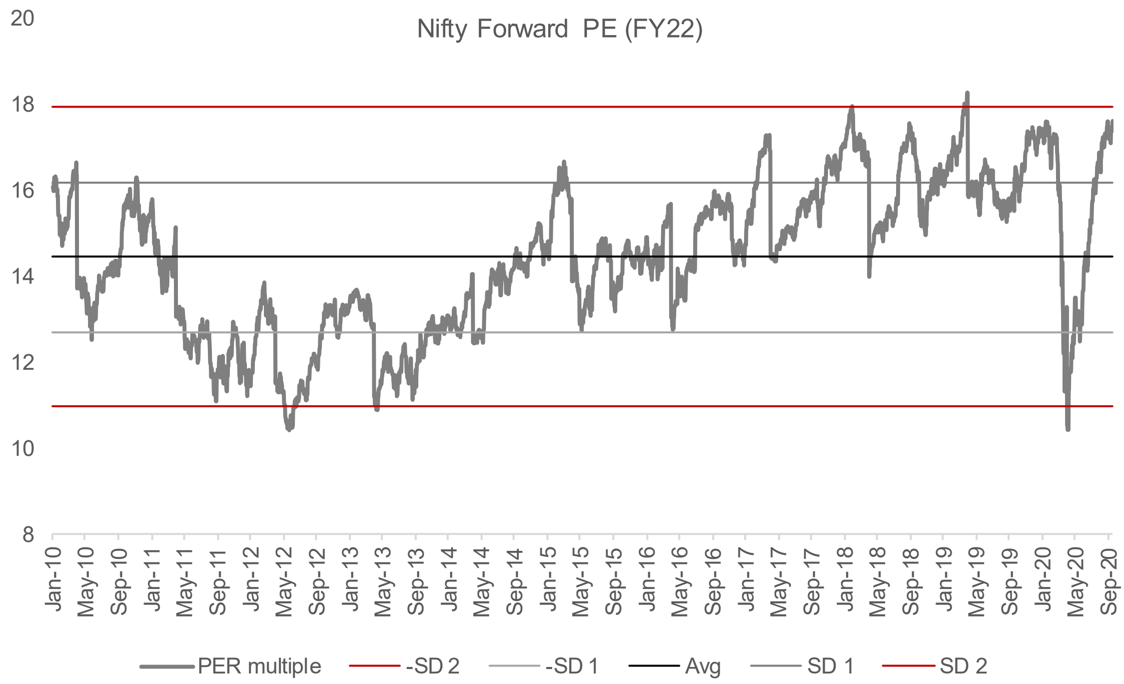
Hope this letter finds you safe.

The last six months have been quite eventful—Nifty rose over 30% from April through September 2020, after falling a similar quantum in the month of March. However, it hasn't been a broad-based rally; top 5 and 10 stocks in the Nifty accounted for 60% and 75% of total returns of Nifty; with Reliance Industries single-handedly contributing 30%. This implies that the balance 40 stocks have accounted for just the 25% of Nifty returns.

Now comes the tricky part—the sectors that ended up outperforming the Nifty accounted for just 31% of the free float weight market-capitalization of Nifty as of March 2020. So, even in a run-away rally like the one we witnessed, in order to outperform the index over the last six months, one would have to have been overweight this relatively small sub-set.



View on markets: From a historical comparison standpoint, markets are now trading two standard-deviations higher than mean (on two-year forward earnings basis), generally considered in the 'over-valued' zone. We are cognizant of the fact that the index composition has materially changed since 2000, as IT Services, FMCG and Financials (which trade at a higher earnings multiple) have replaced commodity, energy and construction businesses (which trade at a much lower multiple), thereby resulting in an upward bias in index multiples. Also, introduction of some life insurance businesses in the index results in optically higher multiple for the index (as life insurance businesses trade at a multiple of EV). Nevertheless, the Covid impact on earnings estimates has broadly been neutralized since we are comparing F22e estimates.



View on 2QF21e earnings: High frequency indicators (like PMI, power consumption, GST collection, crop sowing data etc.) are showing encouraging trends. Based on analysts' earnings estimates compiled by Bloomberg, the revenues and EBITDA for BSE100 Index (excl. Financials) is expected to grow at a negative 17% rate. In our opinion, some sectors might be able to hold on to the cost cuts that they took during the 4Q20 (lower SG&A expenses, lower travel, rentals and employee expenses), which might result in a relatively small beat to what are already subdued estimates.

Buoyant Portfolio: During 2Q, Buoyant portfolio outperformed by c10 percentage points (15.5 percentage points in 1H), which largely makes up for the similar underperformance witnessed in the month of Mar-20. We have gradually reduced the risk in the portfolio— beta of 1.2X at the end of Feb 2020 stands reduced to 0.99X. Similarly, the percentage of small cap holdings in the portfolio has come down to 35.8% vs. 54.4% in Feb 2020. The relative outperformance to benchmark was despite Buoyant portfolio having no exposure to Reliance Industries, and despite being underweight IT Services.

Going forward, we believe that for IT services, the near-term margins can potentially expand and one-time discounts / supply side issues of 1Q should subside. Companies will likely reiterate that one of the quarters in 2HF21 will be at similar levels to last year, with higher margins. Nevertheless, IT services now trade 30% higher than their historical average, and large part of the upside, in our opinion, is baked into current prices.

Reliance, over the last six months has managed to close stupendous deals with strategic/marquee investors—first in their telecom venture, and more recently in their retailing arm. Their traditional business (oil refining and related deals with Aramco) continues to struggle. Nevertheless, to us, there is only a small probability that a telecom business will be able to evolve into a play that manages to dominate the entire ecosystem—from 5G network technology (Qualcomm), to handsets (Google), to platforms and fintech (Facebook). We also believe the stock now trades at 20% premium, even if one assumes deal valuations for the new-age businesses (telecom and retailing), and a zero percent holding company discount.

The portfolio characteristics are listed below:

Times (X)	Buoyant portfolio	Benchmark
Price to earnings ratio (P/E)	23.6	20.3
Enterprise Value to trailing 12M EBITDA	9.2	13.1
Enterprise Value to forward 12M EBITDA	10.0	15.1
Price to book ratio (P/B)	1.7	2.6
Return on common equity (%)	7.4	10.4
Return on capital (%)	6.8	5.8
Beta	0.9	1.0

Source: Bloomberg, Buoyant Capital

For the six months ended September 2020, Buoyant PMS returned 46.9% net of all fees and expenses. The performance of various periods since inception is listed in the table below.

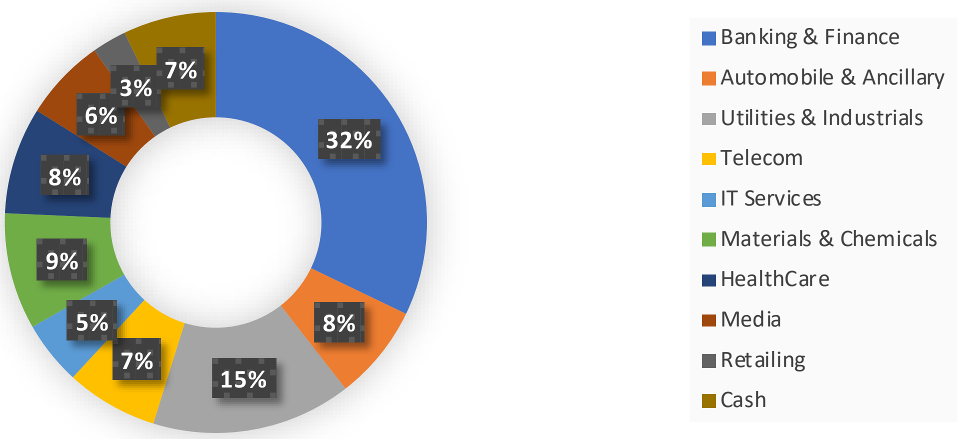
Fiscal year ending March, %	Current year 01 Apr to 30-Sep	FY2017	FY2018	FY2019	FY2020	Cumulative
Buoyant Portfolio performance	**46.9%**	**23.8%**	**53.3%**	**-7.6%**	**-40.5%**	**53.4%**
BSE100 Index	31.4%	14.6%	10.6%	12.4%	-26.6%	37.5%
BSE500 Index	33.8%	17.3%	11.8%	8.3%	-27.5%	37.9%
BSE Small cap Index	54.7%	29.3%	17.7%	-11.6%	-36.1%	33.2%
Nifty Index	30.8%	12.1%	10.2%	14.9%	-26.0%	37.5%

Source: Bloomberg for NIFTY Index, BSE 100 Index and BSE Small Cap Index. Buoyant Portfolio is post-fees and expenses

Note: FY2017 returns for Indices and Buoyant Portfolio are from 01 Jun 2016, the inception date of the portfolio

Buoyant's average cash position for the quarter stood at 8.1% The composite performance above is average across all client portfolios and individual returns will differ due to variations in holdings, the subscription timing and other client-specific circumstances (as mentioned in disclosures on page 6). You should have received your individual account statements via email by now. Please get in touch with us with questions, if any.

Portfolio composition



Top holdings: ICICI Bank, HDFC Bank, Ramkrishna Forging, Max Financial

Buoyant Investors: Thank you!

As always, we would like to thank all of you for your investment and partnership with Buoyant Capital. Your collective belief in our ability to make right investment decisions, your support and patience at testing times and your overall emotional stability are extremely valuable to us. We wish and hope for our continued and lasting partnership in coming times.

Regards,

Buoyant Capital

Disclaimers

Average returns are calculated across all the client accounts (aggregate portfolio) from the data provided to us by Kotak Mahindra Bank's Fund Accounting team – the designated fund accounting partner. Returns are not audited. Individual returns will differ from the average returns presented in this note depending on the composition of portfolio, timing of deposit, withdrawals and fee structure specific to each account. Please contact either of us with any questions about your statement, returns, fees or anything else related to your account.

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