

# Amala

## Emerging Asia Fund

Quarterly Commentary

1st Quarter 2019

<b>FUND INFORMATION</b>	<b>Dear Investors,</b>
<b>FUND OBJECTIVE</b> To achieve long-term capital growth by investing in equity and equity-related securities of emerging companies in Asia whose businesses are geared towards domestic demand.	Our fund ended the first quarter of 2019 with gains of 3.7%. Most markets in the region recorded gains with Indian mid small cap indices gaining 3.2% while gains in Indonesia, the Philippines & Thailand were 5.5%, 4.6% and 6.7% respectively. The Malaysian index was down 1.6% for the quarter. Some Asian currencies too gained which added to the underlying equity performance with the Indonesian Rupiah up 1%, Thai Baht up 1.9% while the Indian Rupee and the Philippine Piso were range bound.
<b>LAUNCH DATE</b> 7 <sup>th</sup> July 2015	
<b>FUND SET-UP</b> Cayman Islands Regulated Fund	The fund had very limited trading activity during the quarter. We sold our holding and took good gains in an Indian textile company that we have owned for nearly 3 years. In addition, we sold a couple of smaller sized holdings in India and the Philippines. We had limited shareholder activity during this quarter with one investor redeeming from our fund.
<b>INVESTMENT MANAGER</b> Amala Capital Management Ltd, Cayman Island	<b>Reflecting on an existing investment</b>
<b>INVESTMENT SUB-MANAGER</b> Nivalis Partners Limited, Hong Kong	Our investment philosophy is to own high-quality businesses with a history of solid and consistent profitability run by honest and competent people. We endeavor to pay sensible prices to own such businesses. As we noted in our earlier letters too, valuations for most quality businesses have been elevated. We have attempted to own quality businesses with the above traits which are currently facing a near term challenge in their business environment. In this letter we are sharing our thought on one such investment in India which has been challenged on delivering growth.
<b>ADMINISTRATOR</b> DBS Bank, Hong Kong	In our 1Q 2016 investor letter we wrote about our ownership in an Indian credit rating company.
<b>CUSTODIAN</b> DBS Bank, Hong Kong	<i>We own a credit rating agency in India. To us this is a unique opportunity the Indian stock market presents to own such a franchise. Currently the core business revolves around bond and bank loan rating. As per a paper by the Reserve Bank of India outstanding domestic debt securities account for 33% of GDP. The share of financial institutions and corporates account for only 5%. The corporate share is a miniscule 1.1%. China, a newly developed bond market is at 25% and 9% while it is 89% and 22% in the US which is probably the most sophisticated and developed market.</i>
<b>SUBSCRIPTIONS / REDEMPTIONS</b> Monthly : Minimum initial investment USD 100,000 Subsequent investment USD 50,000 Notice : Subscription: 5 days Redemption: 30 days	
<b>MANAGEMENT FEE</b> 1.50%	
<b>PERFORMANCE FEE</b> 10% with a high watermark	
<b>FUND ELIGIBILITY</b> Professional Investors	



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*Clearly India is an under penetrated market and has been so for the last two decades. There are continuing challenges on liquidity, trading volumes, depth and width of participation etc. Indian State-owned banks currently have an estimated 70% share of outstanding loans. These institutions are currently quite challenged as they must clean up balance sheets while limiting fresh lending. Thus, we feel there is an opportunity for the bond market to become larger and a more main stream source of fund raising. This in itself is a large opportunity and a quality way to participate in the new growth cycle in India. Additionally, with the current market being very plain vanilla there is room for sophistication involving different borrower/ lender profiles and varied term structures. Being a consulting type business, the economics of the credit rating business are very good. Again, here we are paying up for quality with the expectation that this company delivers on its three years earnings outlook. The demand for such services is derived from capital raising plans (and thus new projects and expansions) means that there is a risk of delays and postponements*

During 2015-16 we have bought the stock in the Rs. 925-1100 range and our average cost is Rs. 1056. At those levels we have paid 28-30 x trailing earnings. The dividend yield then was a decent 2%. Over the last 3 years, since we wrote about the company, revenues and profits have compounded at 9% and 12% respectively. Profitability has been solid with ROE in the 30% range. The company has stepped up its dividend payout from 50% to about 75% of profits. The achieved growth in absolute terms is reasonable and is in line with its 5-year performance of 10% cagr in its revenues and profits. Growth is also credible considering the low economic activity in India particularly relating to new project investments. On its part, the company has made investments in hiring people to create a Small & Medium Enterprise (SME) rating business. It has been successful having become the second largest SME rating agency and this business contributing an estimated 10% of revenues.

During these almost 4 years of our ownership the stock has traded in the range of Rs. 900-1700 while currently trading at near Rs. 1000. With the earnings growth achieved in the last 3 years the stock now trades at 20x trailing March 2019 earnings. We have cumulatively collected dividends (including specials) in excess of Rs. 175 during our ownership period. The current dividend yield on the stock is nearly 4%.

We note that while the company has delivered growth the big expectation especially from the Modi government was of a strong Indian economic recovery. Clearly macro growth of that higher order has so far eluded India. We believe this factor clearly has some bearing on returns thus far and its growth outlook. In addition, the more recent non-banking finance company (NBFC) funding crisis triggered by a large-scale default by the triple A rated IL&FS (a very large NBFC with over US \$ 10 bn of borrowing) too has affected the debt market in India. There is fear in the market that SEBI(the Indian capital market regulator) may issue guidelines(who pays for the credit rating issuer or buyer) to credit rating companies which could affect their profitability. Debt market investors are increasingly questioning the sanctity of corporate ratings in the light of the recent events. We note a similar fear was evident post the housing mortgage crisis in the US during 2008-9.

The stock now trades at 18x FY 20 expected earnings with a dividend yield in excess of 4%. We continue to own this company and maintain our investment rationale that this is a high-quality business which has near term growth challenges. However, we are excited by the large medium to long term growth opportunity relating to the Indian debt market including SME corporates. In addition, we feel that some of the recent crises relating to shadow banking could act as a catalyst to hasten the market development.

## **Travel**

During this quarter we attended a broker conference in Bangkok meeting Thai companies. We met up with our portfolio company and a couple of other very interesting companies. We are particularly impressed by a bank sponsored card & unsecured lending company and a couple of smaller consumer product companies. We also visited Singapore to meet our fund investors and some other prospects.

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## Outlook

The first quarter has clearly ended on a fairly optimistic note with strong gains in stock market indices across both developed and emerging markets. Market participants are clearly more hopeful of a resolution of the US-China trade related issues. The US Fed has already signaled its dovish stance on future rate increases and the slow glide path. While some of these macro factors are positive we note that there is increasingly more evidence of a slowing global economy.

Our portfolio now comprises of 26 solid and unique businesses across India and Asean. We feel most of our companies are on track to deliver on our internal expectations of business growth and profitability. At the same time our search for solid investment ideas continues while we remain patient and committed to our investment process.

We would like to thank each of you for entrusting us with the management of your money.

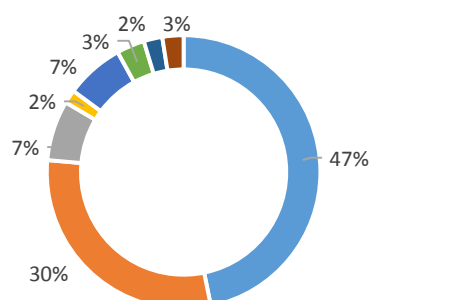
## Ayaz Motiwala

### Fund Performance

		Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Year
2019	NAV	99.59	98.95	103.90										
	% Chg.	-0.6%	-0.6%	5.0%										3.7%
2018	NAV	121.86	119.89	118.82	118.62	117.07	109.92	110.31	106.08	97.30	93.07	99.11	100.18	-16.2%
	% Chg.	2.0%	-1.6%	-0.9%	-0.2%	-1.3%	-6.1%	0.4%	-3.8%	-8.3%	-4.3%	6.5%	1.1%	
2017	NAV	100.40	102.88	106.95	110.92	110.61	113.58	114.44	110.69	110.27	113.15	114.31	119.52	19.7%
	% Chg.	0.5%	2.5%	4.0%	3.7%	-0.3%	2.7%	0.8%	-3.3%	-0.4%	2.6%	1.0%	4.6%	
2016	NAV	96.25	93.76	97.63	100.83	99.22	102.13	104.00	105.89	104.99	106.72	100.29	99.86	1.2%
	% Chg.	-2.4%	-2.6%	4.1%	3.3%	-1.6%	2.9%	1.8%	1.8%	-0.8%	1.6%	-6.0%	-0.4%	
2015	NAV						100.00	99.71	98.11	97.58	98.49	97.74	98.63	-1.4%
	% Chg.							-0.3%	-1.6%	-0.5%	0.9%	-0.8%	0.9%	

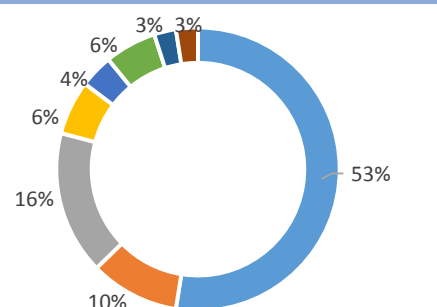
Cumulative return since 07 July 15 **3.9%**

### Country Exposure



India Indonesia China Singapore  
Philippines Malaysia Thailand Cash

### Sector Exposure



Consumer Communication Financials  
Materials Health Care Technology  
Industrials Cash

Investments in equity markets are subject to market risk, idiosyncratic risk, liquidity risk, and currency exchange rate risk. The fund may use financial derivative instruments as a part of the investment process. This document does not constitute an offer to sell, or a solicitation of an offer to buy shares in Amala Fund. We will not make such offer or solicitation prior to the delivery of an offering memorandum, the operating agreement or articles of association, a subscription booklet, and other materials relating to the matters herein. Before making an investment decision, we advise potential investors to read these materials carefully and to consult with their tax, legal, and financial advisors. The materials have not been reviewed by the regulatory authority of any jurisdiction. Investment is open only to accredited investors as defined by the relevant legal jurisdiction of residence and/or nationality. We have compiled this information from sources we believe to be reliable, but we cannot guarantee its accuracy. We present our opinions without warranty. Past performance is no guarantee of future results. © 2019 Amala Capital Management Ltd. All rights reserved.

