EAST GREEN CAPITAL

Dear Investors!

We begin this letter with the hope that the readers and their near and dear ones are safe and collectively we are past the worst of the pandemic. The first quarter of FY 2021-22 has been a mixed bag for investors in India. We saw a surge in Covid-19 cases in the second wave, resulting in a horrible human tragedy. However, the business environment during this period showed remarkable resilience. There were multiple reasons for this.

- *Firstly*, many businesses were better prepared this time as compared to the first wave.
- *Secondly*, export led sectors were impacted less due to the improving situation in their target markets.
- *Thirdly*, there were tailwinds supporting commodities, chemicals and pharma.
- *Fourthly*, we did not see a complete national lockdown and many states and businesses were spared.

This does not mean that the picture has been rosy for all businesses; small and medium enterprises, in particular, are still struggling. However, there was enough for the equity markets to sustain an upward trajectory during this period. For one, most of the factors (policy, macros, growth rebound) driving the market before the second Covid-19 wave were still very much around (refer https://eastgreencapital.com/will-the-current-market-rally-continue/, our blog dated 3rd March 2021). Additionally, the equity market, with its forward-looking bias, was already pricing equities for earnings post recovery.

The rise in the stock market during the second Covid-19 wave resulted in some commentary about the equity market being "heartless" and detached from reality. The confusion was unnecessary. The market prices equities for their future earnings and cash flows. As mentioned above, for many businesses, future earnings looked bright and hence it would have been illogical if the prices of these equities didn't reflect that reality. Expectedly, sectors such as travel and leisure, which were hit badly in the pandemic did not see any uptick in stock prices for some time. Successful investing requires level headedness and awareness of behavioural biases. Staying dispassionate and reading business data would have made these commentators realise that the market was indeed being rational!

It is hazardous to try predicting the future, but if we extrapolate from the experience of the second wave, we can hope that the impact of a potential third wave on the markets might be limited. Businesses and society can be expected to be a little better prepared and hopefully the improved vaccination numbers will keep the human suffering to a minimum.

Our approach during this period of uncertainty was to stick to sectors and companies that would be impacted least (or positively) by the second wave of Covid-19. Accordingly, we selected preferred companies in IT, pharma, chemicals and industrials spaces. The IT services sector continues to be the biggest beneficiary post Covid-19 induced lockdowns. Globally, all businesses have realised the importance of spending on technology and fast-tracking such projects. This is displayed in the strong earnings numbers and order books of IT companies. Indian chemicals and API industries are expected to be our next IT/generic pharma - sectors where Indian industry has shown remarkable leadership. The chemicals and API stories are backed by a desire of customers to de-risk from China, the support now being provided by the Indian government but most importantly by the ambition of the management teams. We continue to track these and other sectors where Indian entrepreneurs are expected to generate significant wealth for shareholders.

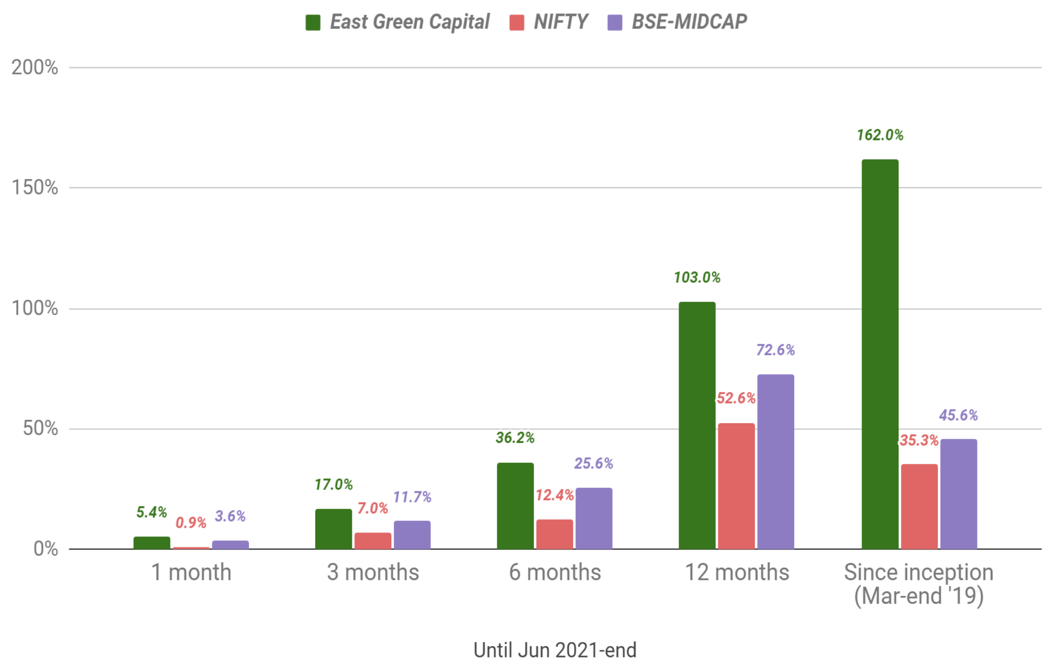
Past performance:

At East Green Capital, we prefer companies and sectors displaying robust growth trajectory as well as positive stock price uptrend. In Q1 FY 2021-22, most such opportunities existed in the small-cap and midcap segments in sectors mentioned earlier. This was reflected in our portfolio and contributed to our outperformance. We do not have a bias for any sectors, themes or market cap segments and will keep modifying our portfolio to make the most of the opportunities presented by Mr. Market.

We must emphasize our utmost discipline in sticking to quality names with proven management track records, sufficient liquidity and stock price movements justified by business fundamentals. You would have noticed that in a bull market like the current one, there are many “strategies” promising quick money. To quote Warren Buffett “Only when the tide goes out do you discover who's been swimming naked.” Fortunately, there is no need to swim naked. There are enough opportunities in the market to generate sustainable returns without undue risks and we very much intend to keep finding these.

We would also encourage you to judge any portfolio or strategy on the basis of returns across varied time periods in both bull and bear market scenarios. In this respect, East Green Capital’s return profile is testament to our robust process.

Return across different time periods ending Jun 2021:

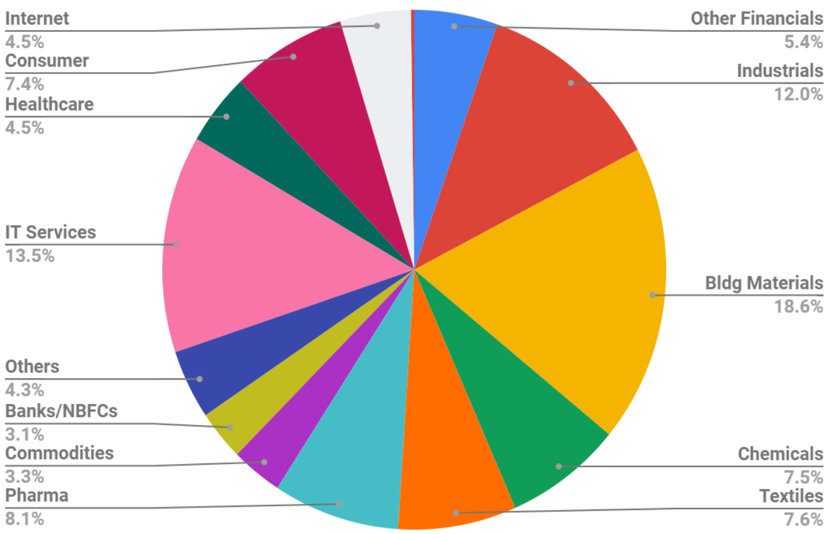


Note: *Individual portfolio returns may differ slightly depending on their time of investment and subsequent capital addition/withdrawals.*

Please visit https://eastgreencapital.com/historical-performance/ for more performance metrics

Present portfolio:

Here's how our model portfolio looks as on date (30th Jun 2021):



Please visit https://eastgreencapital.com/our-portfolio for exact stock weights.

Changes in this Quarter:

1. Sold a small finance bank due to rising risk of NPAs from SME borrowers
2. Added companies in the industrials space, expected to benefit from the positive capex cycle
3. Bought a textile company to benefit from the demand upswing in this sector
4. Added two chemical companies and raised stake in an existing pharma name
5. Replaced an IT company with suboptimal results with another IT co displaying better growth prospects
6. Bought two financial advisory firms to benefit from ever increasing retail interest in equities

The way ahead:

Our focus in Q2 will be on sectors and companies displaying secular growth as well as those that begin to benefit due to recovery from Covid-19, or are seeing a cyclical upturn. There will be market corrections from time to time but we believe that the India story is overall bullish. Our robust risk management process and agile approach are geared to generate a sustainable return while protecting the portfolio from adverse events.

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