ALCHEMY INVESTMENT MANAGEMENT

Alchemy India Long Term Fund-Quarterly Newsletter July 2017

NAV: 289.07 AUM: USD 83.66 mn *Bloomberg Ticker: ALCINDA KY <EQUITY>*

Brief Objective*

To generate long-term capital appreciation by investing in (i) listed Indian equities, (ii) PIPES on listed Indian equities and (iii) IPO and pre-IPO opportunities.

Investment Strategy

Long-short fund with a long bias. The fund will be principally long and will not run a consistently short position. However, based on market conditions, the investment manager reserves the right to use discretion to take a short position either to hedge the portfolio or profit from opportunistic short calls.

Investment Philosophy

Growth at a Reasonable Price

This approach is rooted in the hypothesis that India is a high-growth economy and that the best way to benefit is to identify and invest in companies that are best equipped to take advantage of the emerging domestic and global opportunities.

Invest for the Long Term

The intention is not to trade in and out of investments to capture short-term volatility. However, at appropriate and opportune moments, the Fund may seek to tactically hedge its exposure by taking short positions on NIFTY futures and/or a basket of stocks.

Market Overview

Yes we can! Yes we did! India finally implemented the much awaited and the most significant reform of current times - The Goods & Service Tax (GST) or as India's Prime Minister referred to as the "Good and Simple Tax". However, it has been anything but simple to get several state governments run by different political parties, some consuming states, some producer states, to give up a large part of control over their revenues in favour of the central government, though they will be compensated for any loss of revenues for a period of 5 years.

As is widely reported and expected, the GST is likely to unleash massive productivity and efficiency in the economy and also give a big push to the formalisation of the economy. Yes there will be pain and an adjustment period in the interim but that is to be expected when such a complex reform is implemented at such a scale. However, barring a small minority of naysayers, most people agree that it is a great step which will accrue significant benefits in the long run for all stakeholders. There are many people who

** The fund objectives are merely a target and there are no assurances that it would be achieved.*

have asked me what if some people decide to not be part of the GST? And I tell them – Look at what happened to the "kaali peeli" taxi? (cabs plying in Mumbai are called black & yellow taxi's). They resisted change, refused to reform, formed unions and are now consigned to insignificance because likes of Uber and Ola have taken over a decent size of market share. We believe it is going to be extremely difficult for businesses to operate outside the ambit of GST, because for that, the whole value chain has to be outside the ambit of GST and that seems to be very difficult in the new evolving scenario. So over time, we believe almost all businesses excluding agriculture will have to be part of the GST system. This will greatly enhance formalisation, make tracking of economic data more scientific and credible and significantly improve tax compliance. We believe that the short term possible negative impacts of GST are highly exaggerated and the potential long term benefits to industry and government tax collections are highly underestimated.

Our extensive interactions with our Indian investor base which is spread across service and industry sectors indicate the following trends

1. Small traders and unorganised players are going to find it very tough to comply with new compliance rules and transparency and hence are likely to lose market share significantly or would have to shut shop

2. GST has made investment in some form of automation/digitisation for backend and accounting processes absolutely necessary

3. Tax outgo is likely to increase in sectors which were less tax compliant - jewellery, textiles, real estate, trading etc.

4. Larger well organised players seemed well prepared and will likely benefit the most - specifically in getting better set offs and in logistic costs

5. Sin goods will see some visibility and stability in tax incidence - e.g. Cigarettes, liquor.

6. As was the case post demonetisation, demand for certain goods actually went up as consumers adjusted their cash by buying real estate or luxury goods. In the case of GST many clients reported spike in sales pre GST to avail benefits of lower pre GST prices! Also several businesses have used GST as an alibi to attract customers to stores by giving discounts and clearing up old inventory. This may actually lead to good volume growth in some consumer product categories instead of a slowdown in sales due to destocking as feared by many

7. There is a clear preference to invest in financial assets and away from physical assets. And we believe this trend is just getting started.

Alchemy India Long Term Fund-Quarterly Newsletter July 2017

NAV: 289.07 AUM: USD 83.66 mn *Bloomberg Ticker: ALCINDA KY <EQUITY>*

We believe India is entering a very interesting phase in its economic cycle. Never before in the past have we seen such significant and rapid change in the business environment being brought about by - changing regulatory landscape, reforms and deleveraging coupled with advent of technology driven disruption - in such a short period of time. Implementation of Aadhar, focus on financial inclusion, direct benefit transfers, Demonetisation, GST, RERA (new real estate regulation act), corporate sector deleveraging, consolidation in several sectors, opening up of new sectors to FDI, enhanced competition from e-commerce and internet business models, digitisation have all created tremendous pressure on business models and aggregate corporate profitability. While India continues to offer structural growth opportunities, it will simultaneously test management capabilities and abilities to adapt and cope with rapid change and disruption. We are increasingly becoming mindful in evaluating our portfolio companies which have such capabilities, as the leaders of tomorrow may not necessarily be that of yesteryears.

FUND OVERVIEW

*Alchemy India Long Term Fund has returned 27.9%** (net of all fees and expenses) for first half 2017 versus the BSE 500 Index (In USD) which returned a 25.3%. The INR appreciated by 5.0% against the USD.*

***Past performance are not an assurance to future performances*

Table 1: Top Contributors & Detractors of Fund Performance

AILTF Top Contributors	Stock Return (USD)	Contribution to Fund Return
Escorts Ltd.	123.90%	5.40%
Bajaj Finance Ltd.	71.90%	3.50%
VMART Retail Ltd.	79.00%	2.80%
Bajaj Finserv Ltd.	50.80%	2.60%
BEML Ltd.	61.00%	2.20%
AILTF Top Detractor		
Alphageo (India) Ltd.	-4.60%	-0.10%
Axiscades Engineering Technologies Ltd.	-13.70%	-0.30%
Syngene International Ltd.	-10.50%	-0.40%
Multi Commodity Exchange Ltd.	-14.50%	-0.50%
Dynamatic Technologies Ltd.	-6.00%	-0.50%

Indian equities had a good and steady 1HCY17 and the same is reflected in our fund performance. The table above breaks down our best and worst performing ideas for the period on the basis of their contribution to the overall fund performance.

Escorts Ltd. has been the biggest contributor to our fund performance this year. Escorts Ltd's tractor business is the main driver for the company accounting for 79% of revenues and all the EBIT. The other smaller verticals are Railways (+ve EBIT), Construction (-ve EBIT) and Auto (-ve EBIT). Escorts tractor volumes halved from 101k in YE March'14 to 51k in YE March'16 (50% capacity utilization) on the back of weak monsoon in the country. Our bet on Escorts is based on (i) recovery in tractor volumes as 2 years of El Nino impact recedes (ii) sharp jump in margins aided by volume recovery, introducing new and better products, improving spares business and aggressive cost cutting exercise focussing on material and employee costs & (iii) restructuring or shutting down loss making businesses. Over the past 12 months, since we bought the stock is up 200% with YE March'17 seeing tractor volumes up 24%, Tractor EBIT improving 210bps to 10.3%, loss making auto business divested and construction losses halved.

Bajaj Finance and **Bajaj Finserv** have often been discussed earlier and continue to deliver for the fund.

VMART Retail is a new investment in the portfolio. The company is a value retailer of apparels focused on Tier II & III towns in India with 140 stores in operation with skew towards states in North and Eastern part of India. The company is typically the first organized retailer in the town that enters with a large 8000 sqft air conditioned store. It’s a steady 20% ROCE business with a large external opportunity to tap into rising rural consumer aspirations. The company was impacted by negative operating leverage in YE March'16 when slower sales growth led to EBIT decline, which provided us an attractive entry point to buy the stock. However, investments in back-end, technology, sourcing and customer loyalty programs have seen sales growth and margin recover. The confidence is helping store growth accelerate from 15-20 per year to 20-25 per year all funded only through internal accruals.

BEML was a detractor last year but has done well in 1HCY17. The stars seem to be aligning here for the company with YE March'18 expected to see all 3 divisions Mining, Railways & Defence performing well in unison along with the company being put up for strategic sale by the government. The strategic sale will need a consortium of buyers to bid due to its varied business which may add to complexity of the sale but will help unlock real estate value in the land owned by the company in Bangalore city.

Dynamatic Technologies, was the biggest detractor due to it large weight in the portfolio. It’s an old position that has done very well for us but the performance got impacted on order deferrals by clients in Aerospace and Auto.

We have exited, **Multi Commodity Exchange** as we were not as enthused as the street on introductions of options trading in commodities to help pick up volumes in near term.

Syngene International, which provides contract research and manufacturing services to the pharmaceutical industry, had a fire in one of its laboratories which has impacted its financial and stock performance. We have since increased our allocation to the stock as we remain convinced in the opportunity to scale despite this setback which is evidenced from rising client engagements with existing clients and adition of new clients since the event.

Axiscades Engineering's top 2 accounts Airbus and Caterpillar account for more than 50% of the company's revenues as per our estimates. The company's performance has got impacted as the former has pushed in price cuts and the latter is not growing due to challenges with its industry.

New stocks added to the portfolio other than VMART Retail (discussed above) are:-

Avenue Supermart was one of the most successful IPO's of the year where we managed to get a small allocation (1.0%) for our fund. It owns and operates the 'D-Mart' chain of retail stores in India. It is one of the most profitable and successful retail chain in India with 131 stores (4.1mn sqft) across 11 states with offering in consumer staples, FMCG, general merchandise and apparel for consumers. The company owns the underlying retail stores thus saving 4-5% on lease rental costs, which helps it to drive down costs and operate the business at 15% gross margins and 8% EBITDA margins generating mid teen ROCE despite being in a growth phase adding 20-25 stores a year. We see tremendous scope for growth given that the model is proven and D-Mart's market share is just about 0.3% and 3.3% respectively of US$616bn retail market and US$55 organised retail market in the country, which itself it growing in double digits.

Greaves Cotton is a R&D focused engine manufacturer in India with a 70% market share in 3-Wheelers /Small 4 Wheeler Cargo segment driven by low cost engines, better mileage and 3000+ strong distributor network in the country. Despite growth challenges over the past few years the company had a free cash generating, net cash balance sheet with 20% ROE. We see 3 growth pillar emerging and have hence invested in the stock.

(i) It has developed a LEAP range of engines which (a) expands its market offering upto 3.5 tonnes capacity from upto 1 tonne currently (b) meets current Euro IV norms and is in advantageous position to meet Euro VI norms applicable in India from April 2020 (c) can work on multiple fuel sources Petrol / Diesel / CNG (d) is targeted for South East Asian markets along with India.

(ii) Expanding in Power Gensets and Farm Equipment market with the launch of Tillers.

(iii) Using its current network to launch a pan India Third Party Branded Spares network positioned in between the expensive OEM network and cheaper mom-and-pop shops.

Oracle Financial Software Solutions (OFSS) is a global leader in Core Banking Solution with its key products; Flexcube & Oracle Banking Platform (OBP). It's a steady business with high profitability (EBITDA margin 40%, ROE 30%). We expect demand for core banking solutions to accelerate with consumer demand, strong bank balance sheets, disruptive digital technologies and emergence of Fintechs as various estimates suggest that global banks are underinvested in technology and continue to struggle with legacy systems which lack scalability and adaptability with new technologies. Its newer offering, OBP is a unique product which takes a modular approach to the implementation of Core Banking Solution thereby significantly reducing the risk of erstwhile complete roll-out and could be a harbinger for breaking through in large deals.

United Spirits has undergone significant restructuring of operations and strategy post its acquisition by Diageo in 2012, which is not visible as yet in its financial performance. Like:-

(i) Stronger focus on core Prestige & Above brands (60% of portfolio)

(ii) Restructruing of popular brand business by (a) keeping states like Maharashtra & Karnataka where there is ease of doing liquor business (ii) franchising out territories where they believe a local partner can add better value & (c) exiting loss making operations

(iii) Bringing down manufacturing facilities from 96 to 74 with a target to reach 30 in 2-3 years and laying off excess workforce

(iv) Ongoing sell off of non-core.

The sharp fall in United Spirits stock price on back of concerns on GST and Supreme Court directed ban on selling liquor along national highways gave us an attractive opportunity to re-enter the stock.

Alchemy India Long Term Fund-Quarterly
Newsletter July 2017

NAV: 289.07 AUM: USD 83.66 mn *Bloomberg Ticker: ALCINDA KY <EQUITY>*

Alchemy India Long Term Fund Performance (%)[1]

	Jan	Feb	Mar	Apr	May	June	July	Aug	Sep	Oct	Nov	**Dec**	**YTD**
2017													
Fund Performance	7.3	5.9	6.8	4.6	-0.3	**1.0**							**27.9**
Benchmark*	5.9	6.1	6.8	3.7	1.2	**-0.5**							**25.3**
2016													
Fund Performance	-10.7	-13.2	16.5	2.9	1.1	3.9	8.4	2.5	2.5	3.3	-10.4	-1.2	**1.7**
Benchmark*	-8.0	-9.1	14.4	1.9	2.4	1.9	6.0	2.2	-0.7	1.2	-8.1	-0.6	**1.3**
2015													
Fund Performance	6.4	4.7	4.0	-6.5	0.0	0.9	5.7	-9.5	0.3	1.7	-1.1	3.8	**9.6**
Benchmark*	8.5	0.9	-4.8	-4.7	2.8	-1.1	2.6	-9.5	0.5	2.5	-3.2	1.2	**-5.3**
2014													
Fund Performance	-5.3	3.5	15.8	0.7	13.5	7.7	4.0	4.3	2.5	2.0	2.8	-1.4	**60.4**
Benchmark*	-5.1	3.5	11.1	0.2	12.8	4.5	0.2	2.3	-1.1	4.5	2.5	-4.2	**33.9**
2013													
Fund Performance	-2.5	-10.0	-5.3	6.6	-2.0	-10.3	-3.6	-13.7	13.1	10.2	0.8	6.0	**-13.7**
Benchmark*	3.9	-7.4	-2.2	4.6	-3.3	-8.9	-4.8	-12.3	11.5	11.5	-2.3	3.9	**-8.6**
2012													
Fund Performance	20.5	5.4	-4.1	-1.0	-10.1	4.8	-0.5	2.1	15.7	-3.0	9.0	0.9	**42.5**
Benchmark*	21.5	6.3	-5.7	-3.5	-12.7	6.6	-0.3	0.6	14.9	-3.8	4.2	1.0	**27.6**
2011													
Fund Performance	-13.3	-5.8	13.9	6.7	-0.8	1.5	6.4	-11.7	-4.7	2.8	-16.5	-10.6	**-31.3**
Benchmark *	-12.7	-2.3	9.9	0.5	-4.0	1.1	-0.9	-12.5	-7.4	6.1	-15.4	-7.5	**-38.9**
2010													
Fund Performance	-0.1	1.2	6.5	7.0	-10.2	5.4	4.8	4.0	11.6	-0.4	-7.1	3.4	**27.0**
Benchmark *	-4.3	0.5	8.7	3.4	-7.9	4.2	1.9	-0.2	14.8	1.5	-7.0	5.9	**21.2**
2009													
Fund Performance	-8.3	-7.1	2.5	11.1	43.5	0.0	7.7	5.6	3.9	-3.2	4.3	5.3	**74.6**
Benchmark *	-5.8	-8.9	8.5	19.2	41.6	-1.7	7.5	0.3	10.3	-4.1	8.3	3.5	**97.4**
2008													
Fund Performance						-1.7	4.3	-0.2	-11.8	-24.4	-10.0	10.0	**-32.4**
Benchmark *						-11.2	7.1	-1.1	-18.9	-30.5	-8.8	12.3	**-45.7**

Note: Fund commenced on 11th June 2008.

**USD-adjusted performance of the benchmark S&P BSE500 index. Past performance is not the indicative of the future performance.*

[1] Returns presented are for Class B shares of Alchemy India Long Term Fund Limited and are net of fees and expenses. Fees charged to individual investors may vary and, as such, returns achieved by investors may differ from those shown above.

ALCHEMY
INVESTMENT MANAGEMENT

Alchemy India Long Term Fund-Quarterly Newsletter July 2017

NAV: 289.07 AUM: USD 83.66 mn — *Bloomberg Ticker: ALCINDA KY <EQUITY>*

#Performance Since Inception In USD (%)

	Absolute	CAGR
AILTF	189.1%	12.4%
S&P BSE 500*	48.9%	4.5%

* USD-adjusted performance of the benchmark S&P BSE 500 index.
# Past performance is not indicative of future performance
** All performance numbers shown above are net of fees and expenses.
Note : Fund commenced on 11th June 2008.

#Performance Since Inception In INR (%)

	Absolute	CAGR
AILTF	336.3%	17.7%
S&P BSE 500*	124.7%	9.4%

* Performance of the benchmark S&P BSE 500 index.
# Past performance is not indicative of future performance
** All performance numbers shown above are net of fees and expenses.
Note : Fund commenced on 11th June 2008.

Weight by Market Cap (%)

Less than USD380mn	14.3
Between USD380mn and USD3bn	46.4
Greater than USD3 bn	29.9
Total	**90.6**

Net/Gross Exposure (%)

Net Exposure	90.6
Gross Long	90.6
Gross Short	0.0

Sectoral Breakup (%)

Industrials	29.9
Financials	19.6
Consumer Discretionary	17.0
Consumer Staples	6.5
HealthCare	6.5
Information Technology	5.6
Materials	3.8
Energy	1.7
Total	**90.6**

Data as on 30th June 2017

ALCHEMY
INVESTMENT MANAGEMENT

Alchemy India Long Term Fund-Quarterly
Newsletter July 2017

NAV: 289.07 AUM: USD 83.66 mn *Bloomberg Ticker: ALCINDA KY <EQUITY>*

Key Fund Facts#	
Master Fund	Alchemy India Long Term Fund Ltd (Mauritius)
Feeder Fund 1-US Taxable Investors	Alchemy India Fund (Cayman) Partners, LP
Feeder Fund 2- Non US & US Tax Exempt Investors	Alchemy India Equity Fund (Cayman) Ltd.
Manager	Alchemy Investment Management Pte. Ltd (Singapore)
Launch Date	June 11, 2008
Strategy	Long Short with Long bias
Benchmark	S&P BSE 500
Management Fee	1.5% p.a (Payable Monthly)
Performance Fee	15% of profits (Payable Yearly, High Water-Mark Applicable)
Minimum Initial Investment	USD 500,000
Minimum Subsequent Investment	USD 100,000
Subscription Period	First working day of the month
Subscription Charge	Up to 2%
NAV	Monthly
Lock in	1 year hard lock
Redemption	Calendar quarterly post expiry of lock-in period. Notice period of 45 days
Exit Load	No Exit load
Fund Administrators	**Master Fund:** Deutsche International Trust Corporation (Mauritius) Ltd. **Feeder Fund 1:** Custom House Global Fund Services Limited, Malta **Feeder Fund 2:** CIM Fund Services Ltd, Mauritius
Auditors	KPMG
K1 Providers	KPMG

 # These are not the complete terms; please refer the PPM for Complete details.

Contact: **Mr. Manoj Tambe**

Alchemy Investment Management
11th Floor, MYP Centre, 9 Battery Road, Singapore 049910
Tel: (+65) 6597-7084|Fax: (+65) 6410 9590 | Mobile: (+65) 9101-4225
Email: clientservicing@alchemysingapore.com

ALCHEMY
INVESTMENT MANAGEMENT

Alchemy India Long Term Fund-Quarterly Newsletter July 2017

NAV: 289.07 AUM: USD 83.66 mn *Bloomberg Ticker: ALCINDA KY <EQUITY>*

General Risk factors

- Investments in financial instruments or other products carry significant risk, including the possible loss of the principal amount invested. Financial instruments or other products denominated in a foreign currency are subject to exchange rate fluctuations, which may have an adverse effect on the price or value of an investment in such products.

- Please read Offer Documents (includes Private Placement Memorandum and Subscription Agreement)/ Investment Agreement carefully before investing. Investors are expected to understand the risk factors associated with investment & act on the information solely at their own risk.

- As a condition for providing this information, you agree that Alchemy Investment Management Pte. Ltd., its Group or affiliates (collectively, "Alchemy") do not accept any liability in any way arising to them for any loss or damage (whether direct, indirect or consequential), from any use of this document or the information contained herein.

General Disclaimers

- Information and opinions contained in the document are disseminated for the information of authorized recipients only and are not to be relied upon as advisory or authoritative or take in substitution for the exercise of due diligence and judgement by any recipient. This document and its contents has not been approved or sanctioned by any government authority or regulator.

- This document does not constitute an offer to sell or a solicitation of an offer to buy any securities. Any such offer or solicitation will be made only by means of the appropriate confidential Offering Documents/ Investment Agreement that will be furnished to prospective investors. Before making an investment decision, investors are advised to review the confidential Offering Documents/ Investment Agreement carefully and consult with their tax, financial and legal advisors. This document contains depiction of the activities of Alchemy and the advisory services that it provides. This depiction does not purport to be complete and is qualified in its entirety by the more detailed discussion contained in the confidential Offering Documents/ Investment Agreement. Any reproduction or distribution of this document, as a whole or in part, or the disclosure of the contents hereof, without the prior written consent of Alchemy, is prohibited.

- Performance estimates contained herein are without benefit of audit and subject to revision. **Past performance does not guarantee future results.** Future returns will likely vary and investment results will fluctuate. In considering any performance data contained herein, prospective investors should bear in mind that past performance is not indicative of future results, and there can be no assurance that the Fund will achieve comparable results or that the Fund will be able to implement their investment strategy or achieve their investment objectives will achieve comparable results.

- The information and opinions contained in this document may contain "forward-looking statements", which can be identified by the use of forward-looking terminology such as "may", "will", "seek", "should", "expect", "anticipate", "project", "estimate", "intend", "continue" or "believe" or the negatives thereof or other variations thereon or comparable terminology. Due to various risks and uncertainties, including those set forth under the Private Placement Memorandum/ Investment Agreement actual events or results or the actual performance of the Fund may differ materially from those reflected or contemplated in such forward-looking statements.

- Index performance and yield data are shown for illustrative purposes only and have limitations when used for comparison or for other purposes due to, among other matters, volatility, creditor other factors (such as number and types of securities) An index does not account for the fees and expenses generally associated with investable products. The S&P BSE 500 Index serves as a comprehensive representation of the Indian economy, covering all 20 major sectors in the country. The index comprises of the top 500 companies listed on the Bombay Stock Exchange, with selection based on a combination of average float-adjusted market capitalization, average value traded, and average total market capitalization. Rebalancing occurs semi-annually on the third Friday of June and December, after the markets close.

Investor(s) are invited to ask questions and obtain additional information, concerning the contents of this document or any other relevant matters, which shall be provided, to the extent the Investment Manager possesses such information or can acquire it without unreasonable effort or expense.