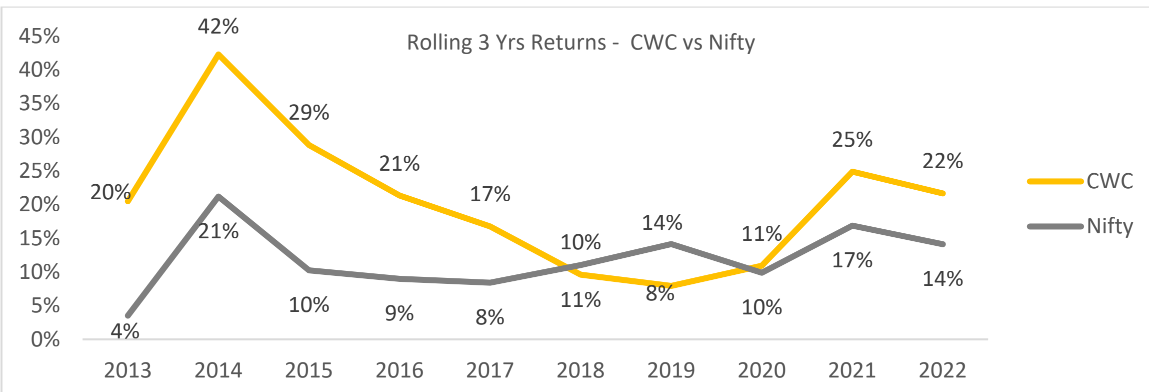
Dear Partner,

We completed 12 years at CWC, and the table below summarizes our returns[1] over different time-periods.

Time	CWC INR CAGR %	Nifty INR CAGR %
1 year	-9.5%	4.3%
3 years	21.6%	14.1%
5 years	11.1%	11.4%
10 years	17.7%	11.8%
Since inception	18.0%	10.1%

The chart below shows the 3 year rolling CAGR for CWC and Nifty. A key reason returns suffered during calendar 2018/2019 was because of the mistakes made in the emerging leader bucket (something we began in 2016). Since then, we made a few corrections to emerging leaders, and more recently have changed the playbook for this bucket (more in the letter below).



The theme of this letter is long-term reflection. We took some time off toward the end of last year for a long overdue team offsite. The key focus was on past decisions and mistakes[2] – reflection on our journey so far and thoughts for the road-ahead. We share the highlights of our offsite discussion, as well as touch upon two transactions – a new addition (Paytm) and a sale (Max Financial).

CWC offsite discussion:

At the offsite, we reviewed historic decisions, looked to identify mistakes, and see if we could improve decision making going forward. We dive deeper into three aspects:

A. Studying our buy decisions;
B. Studying our sell decisions; and
C. Emerging leaders – a new playbook

[1] As at December 2022

[2] Incidentally, Utpal gave a talk on the multiple dimensions of mistakes at the CFA India Society in early Sept 2022. The link to his talk is given here - https://twitter.com/CFASocietyIndia/status/1618264564323483648?t=SP4mSEW1233U3J_QiRtc7A&s=08

CWC decision-making: The big picture

<u>We made less than four key decisions per year</u>: Over the past 12 years[3], we have taken 61 decisions. Of these, 45 were key decisions (either a 3%+ position *<u>or</u>* a position held for 3 years); this makes it less than 4 key decisions a year.

The following three points capture the essence of these 45 key decisions:

i. The table below breaks down the 45 key decisions between current and past holdings along with the holding period and performance (classified in to 4 buckets) – big winners (returns > than Nifty *<u>and</u>* CWC), good calls (returns better than Nifty but less than CWC returns), opportunity loss (positive returns but lower than Nifty) and capital loss (negative returns).

No of positions	Current holdings	Past holdings	Total	Distribution of total decisions			
				Big winner	Good call	Opportunity cost	Capital loss
> 5 years	6	3	**9**	4	2	1	2
3-5 years	2	9	**11**	7	3	1	0
1-3 years	4	13	**17**	3	5	1	8
< 1 year	4	4	**8**	3	0	0	5
Total	**16**	**29**	**45**	**17**	**10**	**3**	**15**

ii. The table below is a detailed breakdown of the current 16 names.[4]

Current Portfolio (# cos, weight)	Total	> 5 years	3-5 years	1-3 years	<1 year
Big winners	7 cos, 39.5%	2 cos, 18% TCOM; Jubi	2 cos, 13% BAF, Titan	2 cos, 5% IHCL, Sona Comstar	1 co, 3.5% Metro
Good call	3 cos, 18.7%	2 cos, 15% HDFCB, Aptech		1 co, 3.7% UPL	
Opportunity Loss	1 co, 1.3%	1 co, 1.3% Repro			
Capital Loss	5 cos, 23.8%	1 co, 3.8% AFL		1 co, 4% Max Financial*	3 cos, 16% Star Health, TCS, Info Edge

** - this has been subsequently sold, and we discuss more in this letter*

iii. For the remaining 29 past holdings, 12 were held for more than three years, only one resulted in capital loss. Of the balance 17 held for less than 3 years, nine resulted in capital loss.

Over the next three sections, we delve deeper into our buy and sell decisions, and then discuss the new playbook for emerging leaders.

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[3] Inception to September 2022

[4] As of September 30, 2022

A. Studying our buy decisions:

Of the 45 key buy decisions, 20 were for companies held for more than 3 years.[5] The insights, as we dive deeper into these 20 companies, are as follows:

i. **Errors of commission have been low and majority of decisions resulted in big winners:** 11 of our 20 key buy decisions turned out to be big winners and only two resulted capital loss. In order to understand better the impact of these losses, we simulated portfolio returns by adding back those losses. This resulted in net weighted average returns of the portfolio marginally increasing only from 17.7% to 18% indicating historically low errors of commission.

ii. **The hit rate of big winners gets better if we focus on our top-4 names (historically, these have been 50-55% of the portfolio); also a large part of these return have been driven by improving fundamentals and not multiple re-ratings:** Only 10 companies have been part of our top-4 since inception.[6] The table below summarizes source of returns (fundamentals / sizing) for these 10 companies.

Top 4 position	Leadership - classification	How did we fare	Number of years		CWC IRR returns during holding period			
			Held	As top 4	Total (C = A+B)	Buy and hold returns (A)	Sizing delta (B)	Sizing as a % of total (D = B/ C)
HDFC Bank Ltd (HDFCB)	CL	Good call	11	11	19.3%	17.3%	2.0%	10%
Tata Comm. Ltd (TCOM)	NL to CL	Big winner	10	10	35.0%	23.9%	11.2%	32%
Maruti Suzuki India Ltd (Maruti)	CL	Big winner	8	6	37.0%	23.9%	13.1%	35%
Jubilant foodworks Ltd (Jubi)	CL	Big winner	7	6	27.0%	18.7%	8.3%	31%
Bajaj Finance Ltd (BAF)	NL to CL	Big winner	4	4	35.7%	31.6%	4.2%	12%
Divi's Laboratories Ltd (Divi's)	CL	Big winner	4	3	33.4%	32.4%	1.0%	3%
Britannia Inds Ltd (Britannia)	NL to CL	Big winner	9	3	57.9%	33.9%	24.0%	41%
Persistent System Ltd (PSYS)	NL	Opportunity loss	4	2	5.0%	-4.0%	9.0%	180%
Hero Motocorp Ltd (Hero)	CL	Good call	4	1	20.3%	11.3%	9.0%	44%
Wockhardt Ltd	Emerging / spl situation	Big winner	2	1	118.0%	86.0%	32.0%	27%

CL = Clear leader *NL = Near Leader*

Some more takeaways for these 10 companies:

- **Top-4 names have an even better hit ratio for big winner:** Of the 10 decisions, seven have been big winners, two were good calls and one was an opportunity loss. Of the two good calls, HDFCB was a big winner for 11 years but its recent underperformance moved it a notch lower to a good call (this is probably due to merger uncertainties; whatever be the reason, this is our largest weight today and we are very excited about it).

- **We have held these companies for long periods of time and improved our understanding of these businesses:** the average holding period of the top-4 position is ~6 years

- **Sizing has been a contributor to returns for all our top-4 names:** The above table summarizes buy and hold and sizing returns for all names during the period in which they were held. There is more information in Annex 1 on how we have reacted to drawdowns in the past. As we go

[5] 25 decisions (either current or past) are/ were more than 3% but held for less than 3 years.

[6] We have excluded Star Health from the top-10 study because, at the time of the offsite, it was held for less than a year – however, we remain very excited on Star Health.

beyond the top-4, the *only* notable name with negative sizing returns has been Titan (34% buy and hold IRR vs 30.5% for CWC Titan returns).

– **Source of returns was primarily improving fundamentals as opposed to multiple expansion:** If we look deeper on what drove returns (revenue growth vs margin vs multiple expansion), we see from the table below that multiple expansion is not a large driver of returns (in fact, Jubi has seen a small correction in multiples, and HDFCB[7] a very large correction).

Stock*	Buy and Hold - Absolute^			Common size			Contribution
	Revenue growth	Margin improvement	Multiple expansion	Revenue growth	Margin improvement	Multiple expansion	Revenue + Margin
HDFCB	19.1%	3.7%	-4.6%	105%	20%	-25%	125%
TCOM	1.7%	12.8%	10.1%	7%	52%	41%	59%
Maruti	10.9%	4.8%	7.4%	47%	21%	32%	68%
Jubi	11.1%	9.8%	-1.0%	56%	49%	-5%	105%
BAF	25.5%	4.0%	12.8%	60%	9%	30%	70%
Divis	23.5%	-2.3%	2.7%	98%	-10%	11%	89%
Britannia	9.9%	18.3%	3.9%	31%	57%	12%	88%

^returns for individual companies are de-constructed considering the period from the beginning of the FY in which the position was initiated till the end of the FY in which it was sold or FY2022 (if it's still in the portfolio).

**In this table, we have only included positions held as top-4 position for 3 years or more.*

B. Studying sell decisions

Of our 29 sell decisions, we looked deeper into names held for more than 3 years before sale and tested for 3 things (did they do well while we owned them, did they do well after we sold them, and are they still on our radar as portfolio contenders).

- 12 names were held for more than 3 years before we sold them (table below). Seven of these were bigger winners when we held, and only two of these seven did better than CWC post our exit (Page Industries, Divi's). Only Page Industries remains actively on the portfolio radar. The bottom half of the table below shows that we have sold when our core thesis breaks, sometimes even when valuations are undemanding.

Name	How did they do while we owned them	Reason for sale	Are they a potential portfolio candidate
Returned lower than CWC post sale			
Maruti	Big winner	Thesis break	No, but watch list
Britannia	Big winner	Valuations	Yes
Intrasoft	Capital loss	Thesis break	No
Hero Motocorp	Good call	Thesis break	No, but watch list
Symphony	Big winner	Thesis break	No
Endurance	Big winner	Opportunity cost (switch to Sona)	No, but watch list
Xelpmoc	Big Winner	Thesis break	No

[7] We strongly believe that this should reverse as the merger uncertainties settles and the HDFCB continues delivering and demonstrating leadership as it has throughout its history, and especially in the past few quarters

Name	How did they do while we owned them	Reason for sale	Are they a potential portfolio candidate
Returned much better than CWC post sale			
BSE	Good call	Thesis break	No
Page Industries	Big winner	Valuations	Yes
Praj	Good call	Thesis break	No, but watch list
Divi's	Big winner	Thesis break	No
PSYS	Opportunity cost	Thesis break	No

- For the 17 names held for less than three years, we lost money in nine names. We exited these companies when our thesis broke. Eventually, only three out of these nine names went on to outperform CWC post exit.

C. Emerging leaders – a new playbook

We have, across several past letters, discussed our problem with emerging leader or challenger positions. A look back at the clear and near leaders show that decisions have been good, but the emerging bucket has been painful, and we have decided to change the playbook here. Below we discuss -

i. why we originally had this bucket, and what went wrong;

ii. why we still pursuing them (despite these not doing well for us so far); and

iii. change in playbook going forward.

i. **Why we owned these and what went wrong:** We owned the smaller challengers because we believe that in a world pivoting to digital, there is leadership opportunity for both incumbents and challengers. We initially began with a much higher weight for challengers (both individually and collectively), and this hurt us in calendar years 2018 and 2019 when some companies went through a bad patch (low liquidity made things worse as we could not exit these). This also dragged our 3-year rolling returns during that period. The table below shows the change in total weights for emerging leaders over time.

Leadership	2016	2017	2018	2019	2020	2021	YTD Sep 22
Clear leaders	59.6%	60.4%	64.6%	65.8%	72.9%	69.6%	62.4%
Near Leaders	19.5%	24.4%	20.3%	17.7%	13.2%	18.9%	21.6%
Emerging leaders	7.8%	8.3%	6.6%	6.2%	4.8%	4.2%	4.0%

ii. **Why we still pursue them:** The logical conclusion so far would be to just drop this bucket and do more clear and near leaders – we had low errors of commission on the clear and near leaders whereas the emerging names have been painful and taken-up time. However, we did an exercise, which was an eye opener. We realized that owning a portfolio of names that we passed (errors of omission) versus the ones we owned (with the same weights) resulted in at least 4.5% points addition to 5 year net CAGR (3.5% from the names we passed, and 1% added back for the names we owned).

This simulation is ***not*** cherry picking the best emerging leaders – we picked those names where the company was in an important and emerging theme, where the company showed signs of leadership, where there was strong earnings momentum and the only reason we did not buy was because it was difficult for us to wrap our head around terminal value.

We believe the opportunity cost is meaningful enough to pursue this bucket. We brain-stormed at the offsite and decided to revamp our playbook for this bucket and see if we can benefit from these names.

iii. **Change in playbook going forward:** When we began the emerging leader bucket in 2016, we used the same playbook as we did for the clear and near leaders – strong belief in terminal value, larger and fewer positions, and most importantly keep adding if there was near term pain. We made *incremental* changes in 2019 after a painful experience, which were

a) reduced individual and overall weight;

b) put more emphasis on the management team for smaller companies; and

c) sought alignment wherever possible (investing alongside promoters in Kabra and Zen).

However, these amendments were still part of the same playbook (belief in terminal value and continuous addition on near term weakness). At the offsite, we realized that we needed to rethink this playbook – by its nature, terminal value will be fuzzy in an emerging theme, and adding on near term pain may not make sense in a path dependent world where terminal value is a lot less certain compared to clear/ near leaders. Where we will not compromise is our belief of leadership and high corporate governance, but we will favor near term earnings and be more liberal around the fuzziness of terminal value *for this bucket*.

Like before, the total bucket will be hard capped at 10%, but we will pursue even small individual weights (as low as 1%) and will be also be a lot more nimble here. Also like before, if we get comfort on terminal value, we will move the name to the near/ clear bucket.

We recently applied this playbook when we added Paytm (more below). This remains a work in progress and we will see over time if we can fix this lucrative but painful bucket (not only could it add to risk and weight adjusted returns, but will also allow us to closely monitor the emerging theme through a leader, and help us understand both the challenger and incumbent perspective).

Adding Paytm to our emerging leader bucket:

We built a 1.5% position in Paytm taking into account both the new playbook for emerging leaders as well as the discussion we had on new models in the BFSI space (covered in our last letter). Paytm is attempting to build a financial super app for the next 100 mn Indians. It is building a model where:

a) digital payments act as the acquisition funnel (85 mn monthly MTU); and

b) loans disbursal as monetization engine (~4.5% take rate on disbursal). Lending engine leverages technology across *all* business functions – sourcing, pre-underwriting, and collections.

This architecture is expected to create a business model, which has:

(i) a low average ticket size (~ INR 9,400),

(ii) high throughput (INR 10,000 cr quarterly disbursal growing at >30% QoQ),

(iii) low cost (negligible CAC and low cost to serve), and

(iv) low capital consumption (using partner B/S who do the actual underwriting).

We built our position at an undemanding valuation (~6x 1 year forward contribution after a 75% correction in IPO price), when there was no cash burn and cash on the balance sheet accounted for ~25% of market cap. *We believe that if we are right we could make >50% CAGR*.

Additionally, PhonePe, a major competitor of Paytm, raised $350 mn at a pre money valuation of $12 bn in Jan 2023. Per their CEO Sameer Nigam, PhonePe intends to focus on certain new business verticals[8] including lending (lending is key to our thesis, and Paytm has a clear head start here). Despite this, Paytm is available today at ~35% of PhonePe's value.

However, there are risks: a) technical overhang on the Chinese shareholding (31%); and b) threat of potential RBI regulatory changes. If Paytm manages to scale this business over time, it could build a moat and emerge as pure end-to-end digital lender without using its balance sheet.

We have built a small position, and will closely track both the potential path to terminal value as well as the risks and will churn more nimbly, if needed.

Selling Max Financial:

Our initial hypothesis on Max Financial was based on:

a) Life insurance as a preferred way to participate in household savings shifting towards financial assets since CY2014. This was due to significant under-penetration of protection products and consolidated market structure with private players gaining share from government run LIC.

b) Max as the best partner among life insurers: We understood that given lack of product differentiation, distribution matters the most in life insurance and Max had:

    a. Best in class agency channel with highest productivity (adjusted for product mix); and

    b. A stable, strategic and highly underpenetrated Bancassurance channel in Axis bank, which had signed definitive agreements to acquire 30% share in Max Life.

With the share purchase agreement between Max and Axis, we bought Max believing the relationship will provide consistent growth for long periods at reasonable terms given it was in Axis interest to do so.

Initial ramp up followed by hypothesis break due to Axis' open architecture policy

Our hypothesis played out well in FY21/22 as Max' Value of New Business (VNB – proxy for annual profit) grew at 31% CAGR over FY20-22. However, starting 4Q22, Axis started signaling interest towards being

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[8] *"We look forward to delivering the next phase of our growth by investing in new business verticals like insurance, wealth management and lending, while also facilitating the next wave of growth for UPI (Unified Payments Interface) payments in India."*

fully open architecture[9] which meant Max was no longer its preferred life insurance partner. We got various signals towards the same:

a) Introduction of Bajaj as another national partner: Max wallet share in Axis fell from 80%+ to <70%
b) Equity investment in another Life insurance: Bought ~10% of Go-Digit Life insurance
c) Willingness to add more partners: Our channel checks highlighted that Axis is willing to add more life insurance partners in FY24. Also, IRDA allowed banks to add up to 9 insurance partners (the limit was 3 earlier)

Overall, addition of other life partners removes the consistency and stability of Max' growth and breaks our hypothesis on Max having a stable Bancassurance partner. While the stock was cheap when we sold it (~1.5x FY24 EV – lower than our entry multiple), we decided to exit given our hypothesis break.

Concluding thoughts:

Calendar year 2022 has been a tough one globally, but India managed to dodge a bullet despite record FII selling. Higher starting valuations in India along with compelling valuations overseas make it tempting to trim India. We leave you with two thoughts: (a) most investors overestimate India's near term growth but underestimate its longer-term durability and runway; and (b) India's illiquidity cuts both ways, and for longer-term investors building positions during volatility is a great opportunity.

Coming specifically to a bottom up discussion (something we are much more comfortable with), a couple of points to chew on: (a) beyond returns itself, the quality of returns matter a lot – when we began, we made a commitment that we would like to evaluate ourselves on returns made with a concentrated low churn portfolio and the letter above demonstrates that we have kept to this commitment; and (b) we want to resolve an apparent dichotomy – we have owned our current top 4 positions[10] for between 4-12 years and are very excited about each name and yet the total weight of these 4 is at the lowest of ~42%. We want to clarify that this low weight is not because we are less excited about these, but because we have one of the strongest pipeline of contenders of clear and near leaders with both existing portfolio names (TCS, Info Edge, Titan, Metro, Go fashion, Sona Comstar and UPL) as well as names on our radar (Trent, Nykaa, Dmart, Delhivery, PB Fintech). Valuation of several of these have come down materially, and at the right valuation and/or better understanding, we may be fortunate to build one of the strongest clear and near leader portfolio CWC has ever had.

Thank you for your trust and patience.

Warm Regards,

Nimit Tanna
Feb 1, 2023

[9] Banks follow either an a) open architecture policy wherein they allow free sale of insurance products from multiple companies; or b) a closed loop policy wherein they only allow sale of one or two (typically the insurer they promote) insurers' products.

[10] Excluding Star Health

Annex 1: Drawdowns and how we dealt with them

One of our strengths has been quality of capital, and we took advantage of this along with our conviction and insight driven approach to add sizing gains during periods of volatility.

There were 8 times we added during drawdowns of more than 25% to our current top 4 positions (see table below).

Stock	Number of times	
	Stock fell > 25%	We added near the bottom
Jubi	5	2
TCOM	4	3
BAF	3	2
HDFCB	1	1