

TRUMP TARIFF TALES

Could it end up being a **Triumph for India?**



Investor Newsletter

———— May 2025 ————

Trump Tariff Tales – Could it end up being a Triumph for India?

May 5, 2025

Dear Investors,

Markets have been on a roller coaster since first week of April as Mr. Trump rolled out his trade tariffs in a dramatic fashion on April 2, 2025 and then enacted a 90 day pause few days later for all nations except China. In the whole episode that followed involving several rounds of levies on China and subsequent flip flops, the key implications of the US new trade policy appear to point towards i) reduced global trade as indicated by WTO's revised estimate, ii) substantially reduced trade deficit of US likely in coming years with China and few South East countries (China's proxies like Vietnam, Indonesia et al) and iii) opportunity for India to increase its foothold in manufacturing (finally!) by being the viable & friendly alternative to other Asian nations (success of smartphones being replicated to other products within electronics as well as to other products in other sectors). Overall, manufacturing as a theme which has disappointed in last few decades finally appears to be at an inflection point for India and if the government policies remain favourable there could be large wealth creation opportunities that may unfold as corporate India's balance sheet is well placed to address the opportunities and global corporations are increasingly willing to partner local entrepreneurs for the same.

In our current newsletter we take stock of the current US tariff situation through analysis of trade data and draw certain inferences though we appreciate that the environment is extremely fluid with new announcements coming on regular basis. We believe that Mr. Trump's message to the world as well as US corporates is loud and clear which is that US can't afford to have massive trade deficits (particularly with China and its allied countries). In this context, India finds itself in a unique and well-balanced position as its trade surplus with US is quite manageable at ~US\$41bn and its relations with US administration are focused on resolving issues through collaboration rather than conflict. *India has already shown remarkable success in achieving scale in manufacturing of few electronic products in a short span and this may spur large investments in other products as well as other sectors as global corporations hasten their supply chain diversification efforts in the aftermath of tariffs.* We believe that India can materially expand its trade with US by having both higher exports (electronics, chemicals, industrial products) and higher imports (energy, defence, auto, agri products) and in the process achieve a lower % trade surplus vs what it has today. This outcome would take care of two objectives – i) First it would help US in reducing its deficit with China partially if India can successfully do some of the heavy lifting in coming 3-5 years and ii) Second the lower % deficit for US with India on the back of bilateral trade agreement would please Trump as this achieves his objective to some extent. *We note that India has not lived up to its bill in manufacturing in last 15 years but believe that inflection point in India's manufacturing has finally arrived and it could be a durable theme for next 10-20 years.*

In the second half of the letter, we provide the performance snapshot of both our live funds and discuss investment rationale of four of our existing holdings in brief (2 stocks which have done well for us and 2 stocks which have not done well for us till now).

We have divided this newsletter into the following sections: -

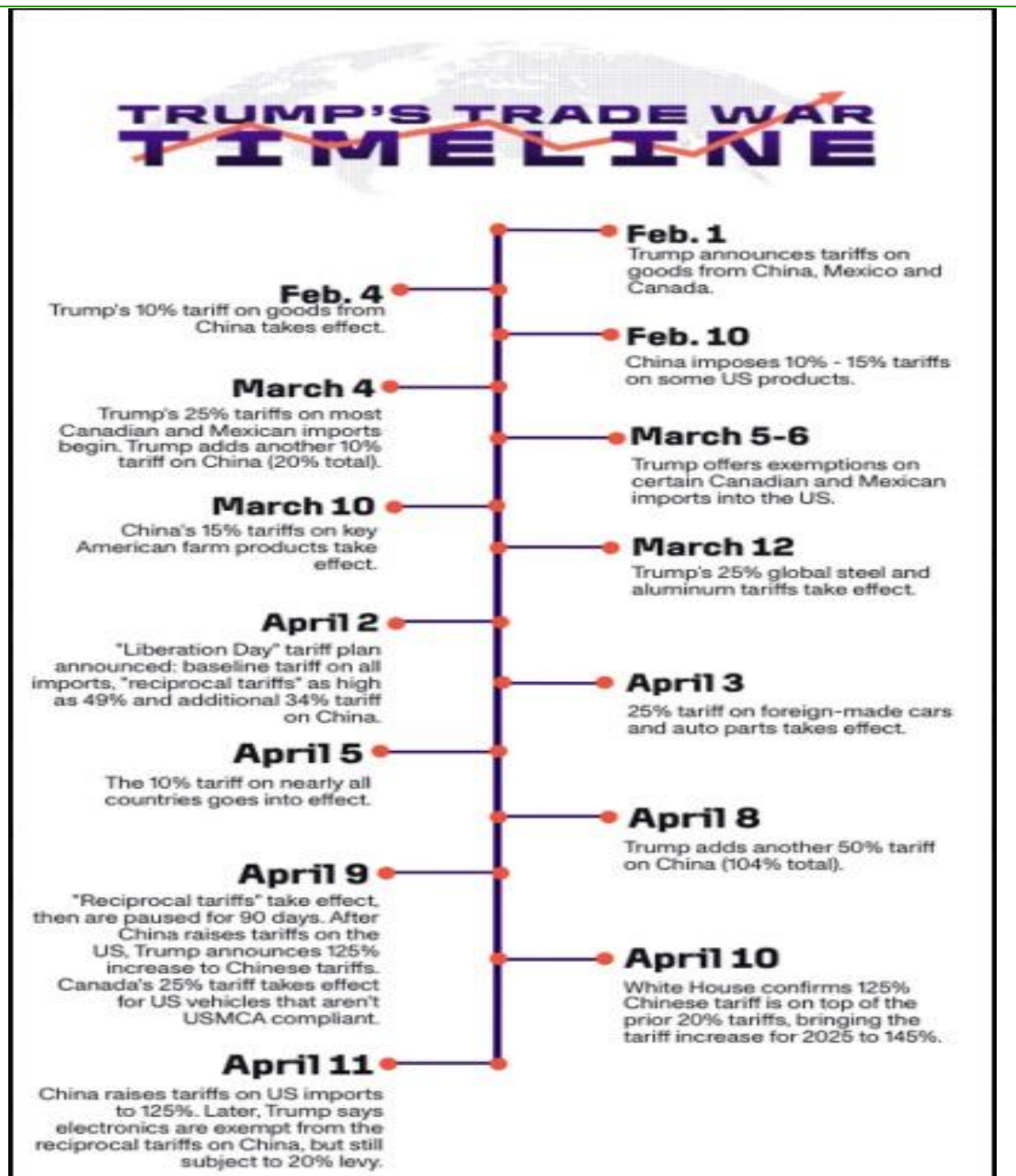
- A. Dramatic April has made global macros more volatile and unpredictable**
- B. US & China are in a logjam, reduced trade between them a certainty**
- C. India well placed with manageable surplus with US; larger trade activity with US likely going ahead**
- D. India's manufacturing has disappointed in past but is likely at an inflection point now**
- E. Key risk for India emanates from higher imports from China and Southeast Asian nations**
- F. Portfolio performance & brief investment rationale on few holdings**

A – Dramatic April has made global macros more volatile and unpredictable

Trump’s tariffs arrived, got paused quickly but are likely to create disruption

The Trump tariff rollout saga turned out to be extremely more dramatic than what markets had expected. The much-anticipated Trump tariffs arrived on April 2 but the magnitude of the tariffs and their method of calculation was just inexplicable and unexpected. Markets got spooked off, a quick pause for 90 days was enacted subsequently on 9th April which resulted in immediate bounce back for the markets but the damage had been already done. US markets have remained volatile with downward bias in YTD CY25 as capital flows may have started moving to other markets and the volatility has increased substantially. US administration has since indicated that it is in talks with various countries on one-to-one basis for finalizing the terms for a favorable trade deal and that trade deals would be signed soon with several nations with India possibly being the first to sign.

Exhibit 1: Trump’s trade offensive has been dramatic



Source: IMF, Monarch AIF

US tariffs are now highest in a century

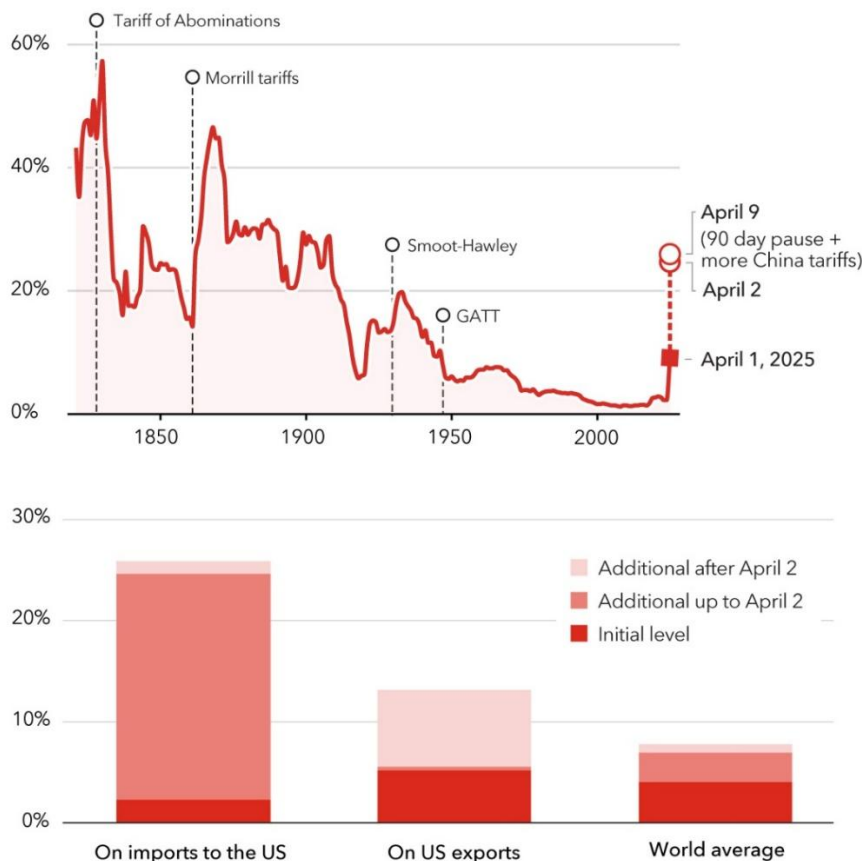
The IMF’s recent blog on economic outlook was termed as “**The Global Economy Enters a New Era**” and rightly so. The IMF wrote and we quote – ‘*The global economic system under which most countries have operated for the last 80 years is being reset, ushering the world into a new era. Existing rules are challenged while new ones are yet to emerge. Since late January, a flurry of tariff announcements by the United States, which started with Canada, China, Mexico and critical sectors, culminated with near universal levies on April 2. The US effective tariff rate surged past levels reached during the Great Depression while counter-responses from major trading partners significantly pushed up the global rate*’.

As per renowned market expert Mr. Ruchir Sharma, the effective US tariff rate is likely to remain well above 10% post various negotiations which would be far higher than the 2.5% tariff rate that prevailed until 2024. The trade offensive adopted by US with the end goal of reducing US trade deficit materially is likely to re-direct supply chains globally and create disruption.

Exhibit 2: US tariffs are highest in a century as per IMF

US tariffs are highest in a century, global tariffs are also rising sharply

Effective average tariff rate, United States



Sources: Haver Analytics; PIIE; Refinitiv Eikon; World Bank and IMF staff calculations.
 Note: Weighted average tariffs on US exports and world average use WITS data for 2022. Includes announced tariffs by the rest of the world on US exports up to April 12.



Source: IMF, Monarch AIF

Global macros (growth, inflation, trade flow) become more volatile and unpredictable

The outlook for global trade, inflation and GDP growth has become hazy in the aftermath of tariff imposition in April and notwithstanding the 90 day pause, the estimates are getting cut downwards by various organizations, experts and sell side alike. We believe that global macros would likely remain volatile and unpredictable in the next few months due to looming uncertainty regarding tariffs but it is quite clear now that global trade dynamics are likely to shift materially and global growth is likely to stay muted. WTO in its 14 April 2025 report cut its forecasts for world trade by 2.9% for CY25 and downgraded GDP growth forecasts for the US (Exhibit 3). IMF revised growth forecasts lower in its 22 April 2025 report for most nations and signaled prospects for higher inflation (Exhibit 4).

Exhibit 3: WTO has cut its estimates for Global trade and GDP growth

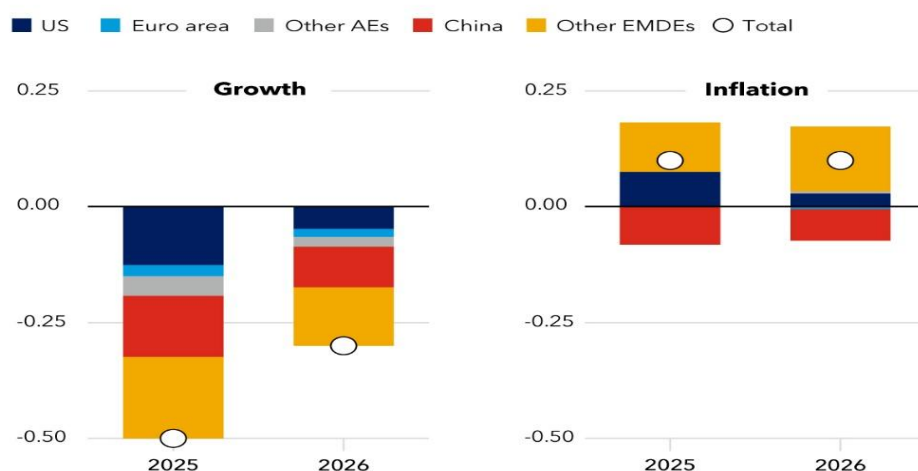
(% Chg annual)			Earlier Forecast		Post Tariffs Revised Forecast		Downward Revision	
	CY23	CY24	CY25	CY26	CY25	CY26	CY25	CY26
World Trade	(1.0)	2.9	2.7	2.9	(0.2)	2.5	(2.9)	(0.4)
Exports								
North America	3.6	2.3	2.2	2.9	(12.6)	(1.2)	(14.8)	(4.1)
Europe	(2.9)	(1.7)	1.4	2.3	1.0	2.5	(0.3)	0.2
Middle East	8.1	3.7	5.2	5.0	5.3	5.1	0.1	0.0
Asia	0.2	8.0	3.3	3.3	1.6	3.5	(1.7)	0.1
Imports								
North America	(2.2)	4.7	2.8	1.6	(9.6)	(0.8)	(12.5)	(2.4)
Europe	(5.0)	(2.2)	2.1	2.7	1.9	2.7	(0.3)	0.0
Middle East	9.0	15.0	6.3	6.8	6.3	6.7	0.1	(0.1)
Asia	(0.7)	4.4	3.2	3.8	1.6	3.8	(1.6)	0.0
GDP Growth								
North America	2.8	2.6	2.0	1.6	0.4	1.1	(1.6)	(0.6)
Europe	0.7	1.1	1.4	1.5	1.2	1.4	(0.1)	(0.1)
Middle East	1.2	1.6	3.2	3.6	3.2	3.5	0.0	(0.1)
Asia	4.3	4.0	4.1	3.8	3.7	3.8	(0.3)	(0.1)

Source: WTO (April 14, 2025 report), Monarch AIF

Exhibit 4: IMF has cut its forecast for growth and expects higher inflation

Global growth revised down significantly, inflation slightly revised up

Forecast change from January 2025, percentage points



Sources: IMF, World Economic Outlook; and IMF staff estimates.

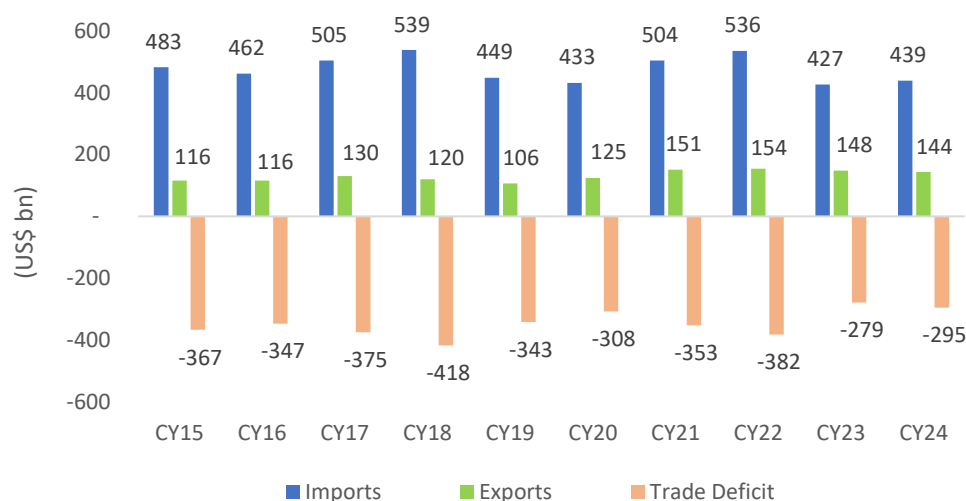
Source: IMF (April 22, 2025 report), Monarch AIF

B – US & China are in a logjam, reduced trade between them a certainty in coming years

US has large trade deficit with China

The US has been running large trade deficit with China through the last many years and it reached high of US\$418bn in 2018 when Trump had started putting tariffs on China in a big way for the first time which were then continued by the Biden administration. The deficit remained on a roller coaster path from CY18 onwards and stood at US\$295bn in CY24 (Exhibit 5). *The US has been long accusing China of engaging in unfair trade practices and IP theft apart from lack of access to the Chinese market for US companies and using currency manipulation for their own economic benefit.* After China joined the WTO in 2001, the trade between US & China grew rapidly which brought lower prices for US consumers and higher profit for US MNCs (as they moved manufacturing to low cost & high productivity locations) but simultaneously resulted in lower jobs in US and high trade deficits.

Exhibit 5: US trade deficit with China has reduced but remains high



Source: US Census Bureau, Monarch AIF

US tried its best to not let its trade deficit expand with China since 2018 but could not prevent the same from other Southeast Nations (possible proxies used by China)

While US tried its best in reducing its trade deficit with China since CY18 but it could not prevent the trade deficit increase with several South East Asian nations like Vietnam, Indonesia and even Cambodia (Exhibit 6). Interestingly in the same period the Chinese exports to these nations increased by almost the same amount by which the trade deficit for US increased with these nations which indicates towards likely routing of supplies of several products through these nations by China in last few years. Vietnam saw ~US\$80bn increase in both areas since 2018.

Exhibit 6: US trade deficit increase matched by higher Chinese exports to few Asian nations

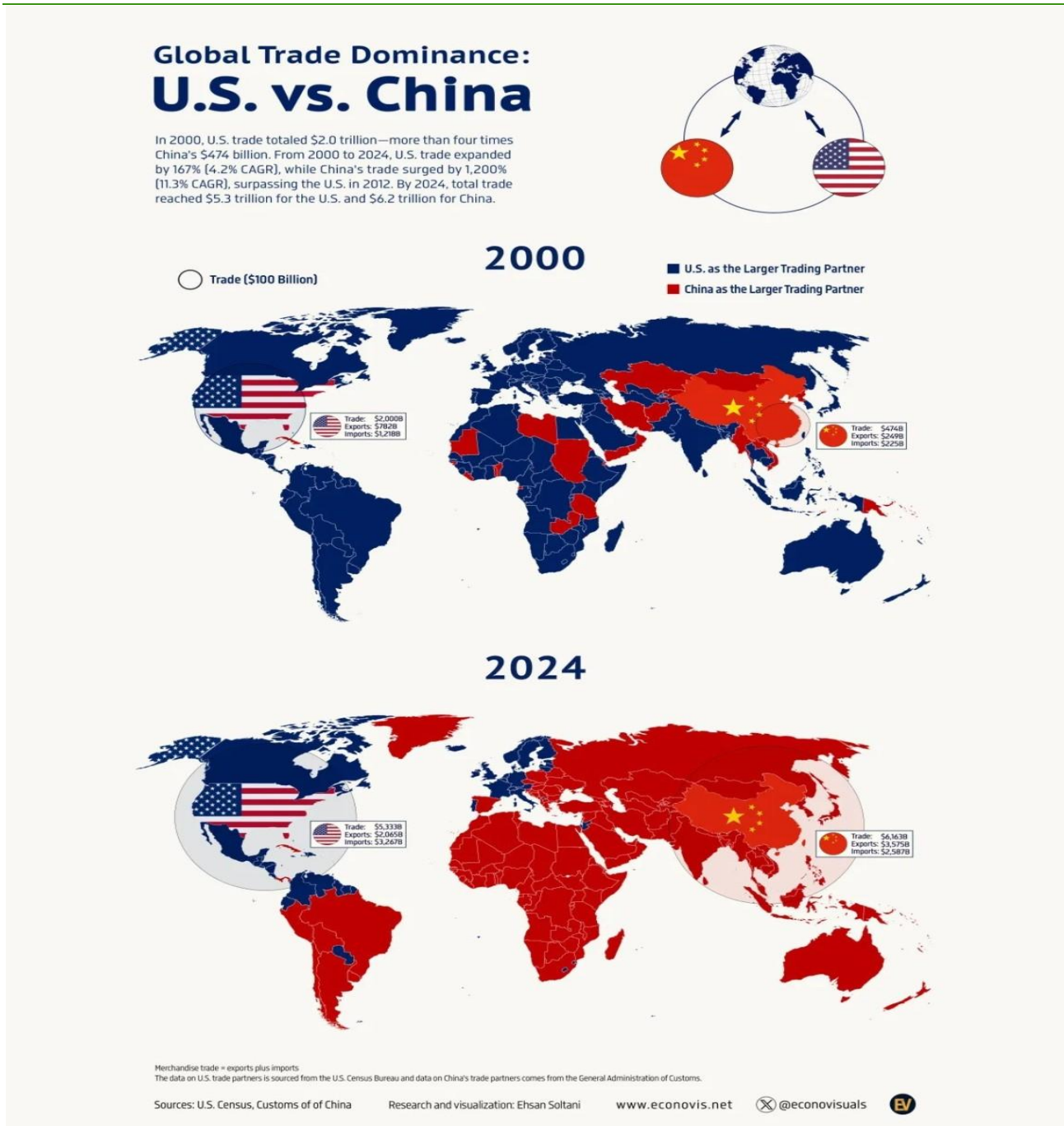
(US\$ bn)	CY15	CY16	CY17	CY18	CY19	CY20	CY21	CY22	CY23	CY24	Chg since CY18
Vietnam											
Trade Deficit of US with nation	-31	-32	-38	-39	-56	-70	-91	-116	-105	-123	84
China Exports to the nation	66	61	72	84	98	114	138	144	138	162	78
Thailand											
Trade Deficit of US with nation	-17	-19	-20	-19	-20	-26	-35	-43	-41	-46	26
China Exports to the nation	38	37	39	43	46	51	69	77	76	80	37
Cambodia											
Trade Deficit of US with nation	-3	-2	-3	-3	-5	-6	-8	-12	-11	-12	9
China Exports to the nation	4	4	5	6	8	8	12	14	13	13	7

Source: US Census Bureau, NBS China, Monarch AIF

China has replaced US in dominating global trade over last two decades

In 2000, the U.S. dominated global trade with US\$2.0tn trade value —over four times China’s US\$474bn. But over the next two decades, China’s rise has been meteoric which the US may not be liking (particularly Trump). While U.S. trade grew to US\$5.3tn by 2024 (CAGR: 4.2%), China surged to US\$6.2tn (CAGR: 11.3%), overtaking the U.S. back in 2012. Through the Belt and Road Initiative and vast infrastructure investments, China has become the top trade partner for much of Asia, Africa, Eastern Europe, and Latin America. The U.S. remains strong in North America, Western Europe, and advanced markets. Amid shifting geopolitics, it’s doubling down on nearshoring and friend-shoring—deepening ties with India, North Africa, and select allies to reduce reliance on China.

Exhibit 7: Global Trade dominance – China overtaking US

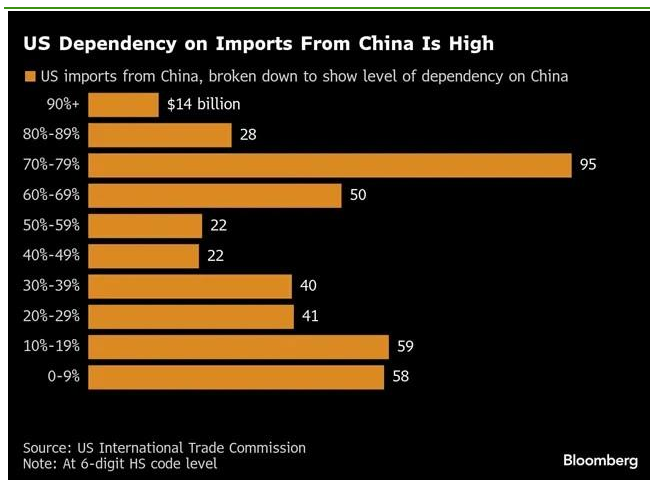


Source: Econovis.net, Monarch AIF

China's supplies to US are of consumer dominated products

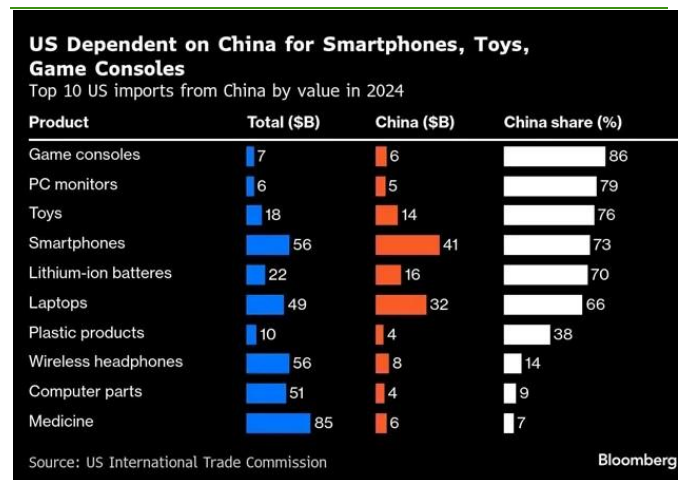
US has high dependence on China for many products spread across various categories and sectors. US has >50% dependency on China for ~US\$200bn of imported goods and China's share in US imports is more than 65% in consumer categories like Laptops, smartphones, PC monitors, toys and Li-ion batteries. Many US based MNCs have benefitted in last 20 years from low-cost manufacturing set up in China and Asia and generated lot of cash flows (and subsequent market value) by selling consumer-based products in both US and global markets. While it would not be easy for these MNCs to shift their supply chain swiftly but we expect their intent for relocation and expansion to materially increase towards other countries and India would be an automatic choice due to large consumer market and host of other advantages & production linked incentive schemes.

Exhibit 8: >50% dependency on US\$200bn of imports for US from China



Source: Bloomberg, Monarch AIF

Exhibit 9: High dependency on electronics and consumer products



Source: Bloomberg, Monarch AIF

China has maintained tough stance on tariff embargo while US has shown desperation for trade deal in last few weeks

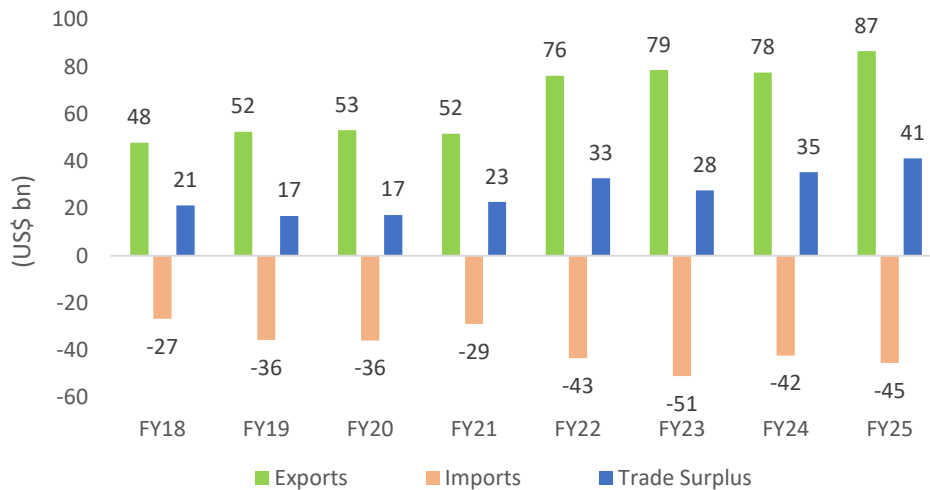
China has maintained a calm yet tough stance throughout the last few months while US has started to show desperation for a trade deal with China in last few weeks. While Trump & his administration has chosen to first act tough with China and then soften their stance in last few weeks, China on the other hand has clearly stated that the US needs to show respect and revoke all unilateral tariffs on China if it needs to solve the problems. We believe that China playing hardball is clearly exposing the fragilities of US and its ill-planned large move on trade war escalation. We believe that while both nations are moving in the direction of talks on the matter soon but there is almost zero probability of things going back to how they stood before Jan 2025 and a protracted trade and economic fight lies ahead. We sense that China is ok with delay in trade deal as the price rise impact of current tariffs is much more damaging for the US and urgency is more for US administration as it approaches the mid-term elections. We also expect high probability of trust deficit derailing talks between US and China which could create further complications for supply chain dynamics globally.

C – India well placed with manageable surplus with US; larger trade activity with US likely going ahead

India’s trade surplus with US is not too large

India’s trade surplus with US stood at US\$41bn in FY25 which is less than 1% of India’s GDP and is a small amount for the US in the context of its trade deficit with other nations like China, Mexico, Canada and Vietnam.

Exhibit 10: India’s trade surplus with US

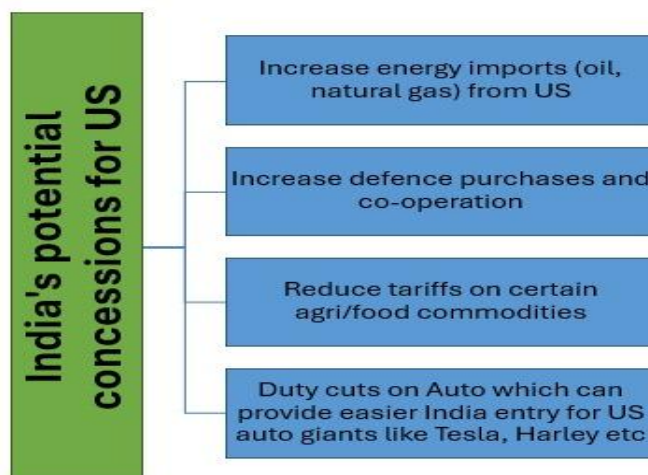


Source: US Census Bureau, Monarch AIF

India & US working quickly on BTA; India has some easy concessions to offer

In recent discussions around the India-U.S. Bilateral Trade Agreement (BTA), both nations have finalized terms to begin formal negotiations, with the first tranche expected to be completed by autumn 2025. The key objectives include boosting bilateral trade—targeted to reach US\$500bn by 2030—while enhancing strategic alignment in energy, defence, and manufacturing. The U.S. aims to sell more oil, gas, and defence equipment to India, while India is positioning itself as a global manufacturing hub amid rising tariffs on China. India has started discussions for tariff reduction on luxury cars and motorcycles. Going forward, the U.S. is pushing for the removal of non-tariff barriers, while India has committed to buying more American energy to help balance the trade surplus. US treasury secretary as well as Trump has mentioned that India could be the first nation to sign trade deal with the US.

Exhibit 11: India’s potential concessions to US for balancing trade surplus



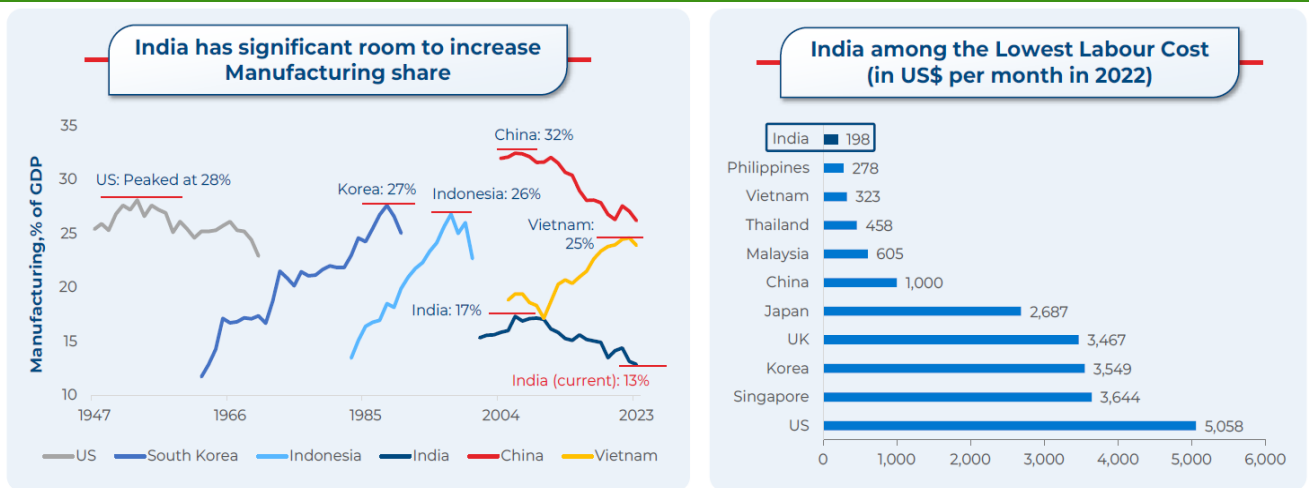
Source: Monarch AIF

D – India’s manufacturing has disappointed in past but is likely at an inflection point now

India’s manufacturing share of GDP fell in last decade but a durable pick up is now on the cards

India has disappointed the optimists in last two decades in terms of not being able to increase the share of manufacturing in GDP (still languishing at below 14% level), but we believe that with balance sheets of private sector as well as banks repaired for good and reforms/incentives (PLIs, custom duties) to produce more locally in place, the manufacturing story would finally play out. India also enjoys significant labour cost arbitrage and is likely to reap the benefits of diversification of supply chain efforts being driven by the developed world with its emerging market nations aimed at reducing risks and overdependence. The recent success of electronics manufacturing (massive scale up in iPhone production & white goods production) is paving the path for similar production scale-up stories in energy related sub-sectors, auto ancillaries, segments of capital goods and chemicals. We are structurally positive on India’s manufacturing potential and expect material improvements in % share of manufacturing in India GDP by 2030 and 2035.

Exhibit 12: India is well placed to drive manufacturing activity led by PLI schemes & reforms



Source: HDFC MF Yearbook 2025, Monarch AIF

Exhibit 13: Manufacturing in India is at an inflection point

Country	High growth phase	Average Real GDP growth in high growth phase	Manufacturing share at start of high growth phase	Manufacturing share at the end of high growth phase
Thailand	1985-1991	9.3%	21.9%	28.2%
China	1990-2005	9.8%	9.1%	32%
Indonesia	1983-1996	6.3%	13.4%	24.1
Vietnam	2010-2022	6.1%	19.2%	25.8%
India	2025-2030	??	~14%	??

➤ Most Asian peers have higher share of manufacturing in GDP

India’s Manufacturing share in GVA targeted to grow from ~14% to 20% by 2030, when GDP could be US \$7 trillion



Source: HDFC MF Manufacturing Fund ppt, Monarch AIF

India's success in electronics would likely get replicated in other sectors as confidence gets developed that supply chain shifts can be done

India's production of electronic goods has quadrupled during FY16-24 and exports have grown 6x in the same period to Rs2.4 lakh crore (Exhibit 14). Mobile phones have led the charge with 8x growth in production value but other categories have started to catch up. The PLI schemes and favourable ecosystem played a big role in attracting investments and making India an ideal place for electronics manufacturing with the success of Iphone production and rapidly growing consumer durable production (AC, Washing Machines & other appliances). The value addition part is also picking pace gradually. The investment announcements by MNCs as well as host of local manufacturers (both OEMs and contract manufacturers) bodes well for the electronics industry and India aims to cross US\$500bn of electronics output (including the output from semiconductor sector) by 2030 (~Rs40 lakh crore).

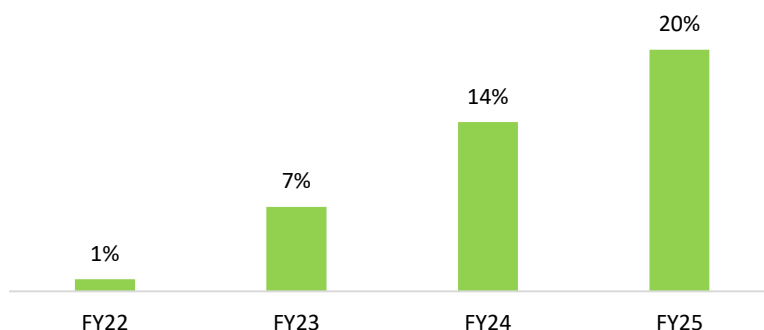
Exhibit 14: Electronic goods growth in India has been stellar

(In Lakh Cr)	FY16	FY20	FY24	Growth Multiple FY16-24 (x)
Total Electronic Goods				
Production	2.4	5.3	9.5	4.0
Imports	2.7	3.8	7.3	2.7
Exports	0.4	0.8	2.4	6.0
Production by Product Segment				
Mobile Phones	0.5	2.2	4.2	8.4
IT Hardware (laptops etc)	0.2	0.2	0.4	2.0
Consumer Electronics	0.6	0.8	1.1	1.8
Strategic Electronics	0.2	0.3	0.45	2.3
Industrial Electronics	0.5	0.9	1	2.0
Wearables & Hearables			0.2	New addition
Auto Electronics		0.4	0.7	New addition
LED Lighting	0.02	0.2	0.3	15.0
Electronic Components	0.4	0.8	0.9	2.3
Total Electronics Production	2.4	5.3	9.5	4.0

Source: MeitY, Monarch AIF

Exhibit 15: Apple scaled up Iphone production in India within 3-4 years

Iphone production in India as % of global production volume



Source: Bloomberg, Monarch AIF

Apple has made a decisive shift in its global manufacturing strategy, with India rising fast as a key production hub for iPhones in last few years. As tensions with China grow and costs climb, Apple is actively diversifying — India now contributes 20% of global iPhone output, a sharp leap from 1% share in FY22. Backed by aggressive investments from Foxconn, Pegatron, and Tata Electronics, the local ecosystem is maturing quickly. Supply chains

are deepening, local value addition has reached 15–20%, and a skilled talent pool is powering rapid scale-up. Apple’s success in shifting the supply chain of its product manufacturing to India would be key confidence booster for local corporates and MNCs alike to achieve something similar in their products and sub-sectors.

India’s success in electronics production has provided confidence to all stakeholders that supply chain shifts can be accomplished and local partnerships with companies having strong balance sheet and hard-working ambitious promoters is the way to go. India has large opportunity to gain market share in US imports and there are certain sectors where India has made considerable progress in last 5-10 years in penetrating the US markets. These include sectors like textiles, pharma, electronics and ceramics. *While India can continue to build its market share in sectors where it has already made a head start but there exists huge opportunity in certain other sectors like renewable energy, semiconductors, EV, footwear, machinery, chemicals, paper and plastics.* India’s unique value proposition for manufacturing (Exhibit 17) is driven by multitude of factors coming together along with availability of capital.

Exhibit 16: India has opportunity to gain market share from China in many sectors

Share in US global imports (in %)

Sector	China	India	Sector	China	India
Chemicals including pharma raw materials, API etc.	9.7	3.5	Shoes, footwear, parts	36.2	1.6
Machinery	16	1.3	Ceramic products, glass and stone, cement products	23.1	6.1
Electrical, and electronics Products	26.1	3	Artificial flowers, umbrella, headgears	59.9	0.5
Textiles, fabric, yarn, fibre, carpets	15.3	16.7	Paper, wood, articles	13.8	1.7
Garments	22	5.9	Clock, medical, furniture, toys, work of art	26.3	1
Made ups, worn clothing	51.8	17.1	Plastics, articles	27.5	1.7
Leather, products	21.9	5.2			

Source: GTRI analysis based on the US trade data (WITS) and DGCI&S Data

Source: GTRI, Monarch AIF

Exhibit 17: India’s unique value proposition for manufacturing



Opportunity is Big!

Strong domestic demand & one of the fastest growing consumer market

Economies of scale

Export potential



Competitive advantage

Well positioned on ‘Factors of Production’ i.e.

Labour & Energy

Land

Capital

Entrepreneurship



Government initiatives & reforms

Measures to enhance project viability

Measures to boost productivity

Measures to increase Total Addressable Market

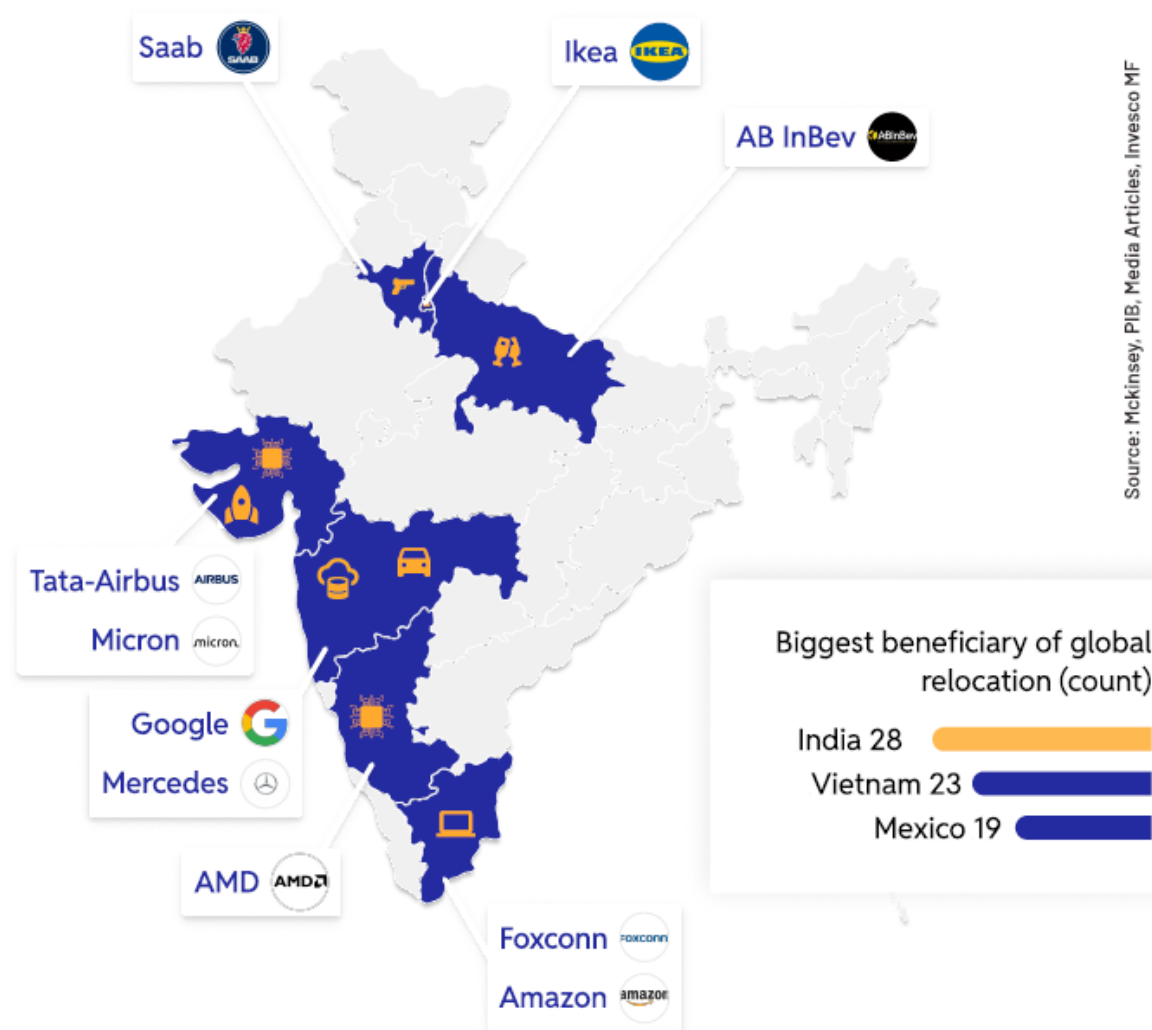
Source: Invesco MF Manufacturing Fund ppt, Monarch AIF

Interest in setting up manufacturing facility in India is real & gaining traction

International companies have been increasing their efforts to relocate manufacturing facilities to countries like India, Vietnam and Mexico in last 3-5 years (Exhibit 18). We expect this trend to intensify in the post tariff scenario where supply chain diversification to friendly locations would get hastened further and decision making could be very quick. If India is successful in signing the BTA with US quickly then the relocation efforts could see a material pick-up in our view as tariff rates on India are already lower as compared to other countries and would get diluted downwards after the BTA gets executed. We have noticed increased mention of India in global companies recent quarterly concalls from the point of view of both growth and incremental investments for capacity creation.

Exhibit 18: India is beneficiary of relocation effort by global companies

Global Interest in India Surges: 984 International Companies Registered from 2021 to 2023, Up from 320 Between 2019 and 2021.



Source: McKinsey, PIB, Media Articles, Invesco MF

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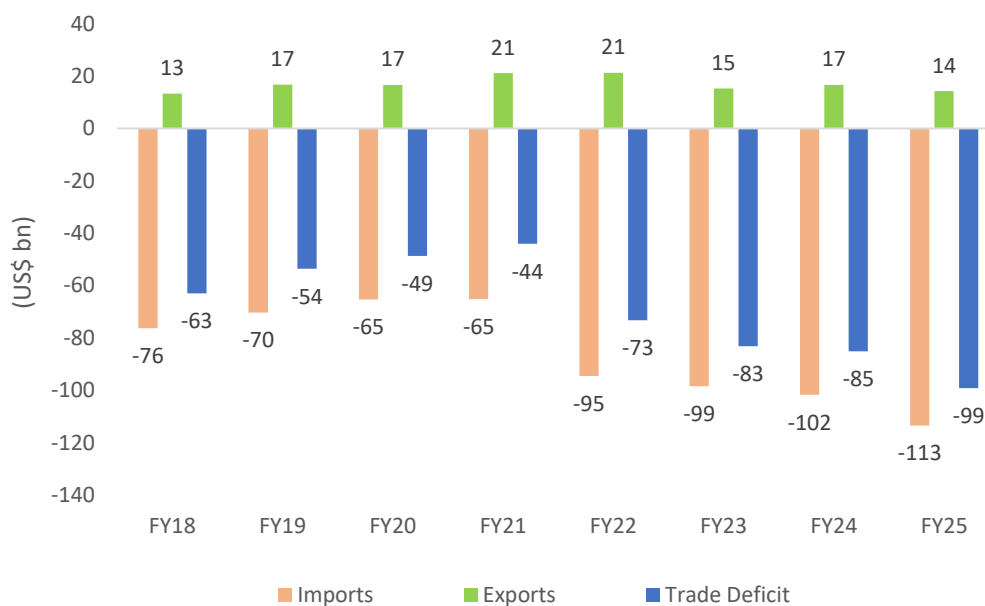
Source: Ionic Wealth, Monarch AIF

D – Key risk for India emanates from higher imports and dumping from China and Southeast Asian nations

India’s trade deficit with China is on the rise

India’s trade deficit with China has doubled from ~US\$50bn in FY20 to ~US\$100bn in FY25. This is led by higher imports of RM and input materials for sectors like Pharma, electronic parts, renewable energy equipment and base chemicals among others. As PLI schemes have led to increased production of finished goods in India it has also led to increased imports of input materials from China. India would be under threat of Chinese imports increasing materially in the wake of large US tariffs on Chinese goods and this could materially impact domestic industries in India. India also has annual trade deficit with Vietnam (~US\$4bn), Thailand (~US\$2.6bn) and Indonesia (~US\$17bn).

Exhibit 19: India’s trade deficit with China



Source: Commerce ministry, Monarch AIF

India is acting proactively on duties and safeguard mechanisms against cheap imports/dumping

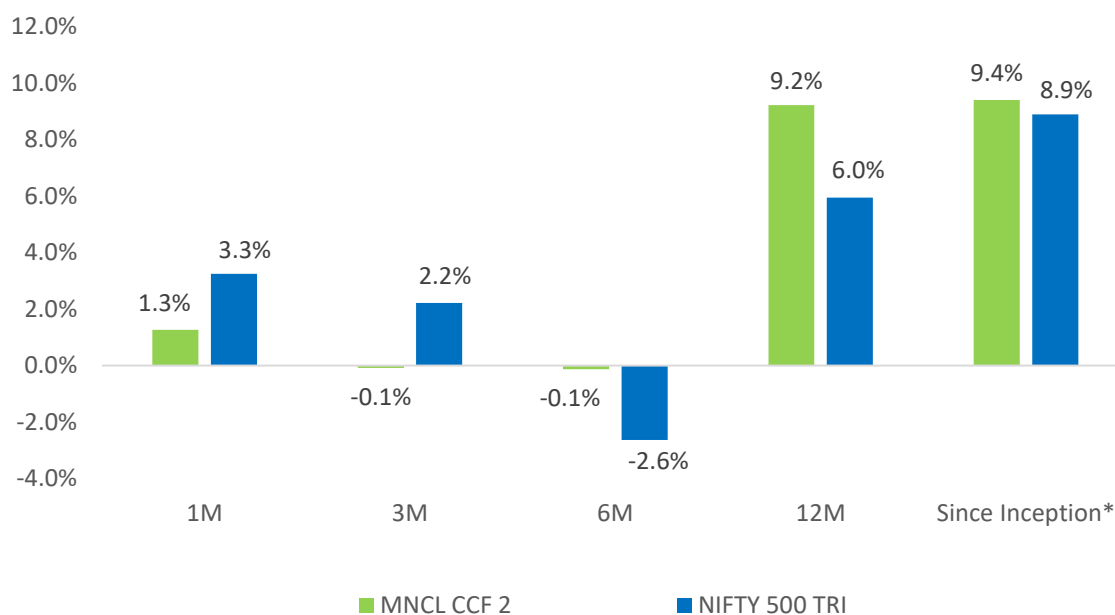
Indian government has started being more proactive in preventing the imports from China and Southeast Asian countries. An inter-ministerial committee for import surge monitoring has been set up with representation from the Commerce Ministry, Directorate General of Foreign Trade, Central Board of Indirect Taxes and Customs and the Department for Promotion of Industry and Internal Trade. India has significantly intensified its efforts to curb dumping, with anti-dumping investigations nearly doubling in 2024 compared to 2023. Ongoing probes span a wide range of products, including solar cells, virgin paperboard, untreated fumed silica, glass fibre, and various chemicals. In the event of a prolonged US-China tariff war, it is likely that the GoI will increasingly resort to trade remedies such as anti-dumping duties to shield domestic industry from unfair Chinese imports while simultaneously signing FTA with other countries. India has recently imposed a 12% provisional safeguard duty on certain steel imports for 200 days. This measure aims to protect domestic steel manufacturers from the impact of rising imports and to ensure fair competition. Strengthening India’s manufacturing base through such protective measures, alongside targeted incentives, will be critical to advancing the long-term vision of ‘Make in India’ in our view. Deepening of supply chain and focus on value addition through backward integration would be critical.

E - Portfolio performance

MNCL Capital Compounder Fund 2

MNCL CCF 2 went live in April 2024 and the current AUM stands at ~Rs800cr. At the end of Apr'25, fund was 91.5% invested into equities and the balance 8.5% was held in liquid/cash instruments. The fund mix in terms of large cap/midcap/small cap stocks stood at 33.6%/0.0%/57.9% as per SEBI classification. At the end of Apr'25, the portfolio had 25 stocks and FY26E P/E stood at 23.3x with an expected EPS CAGR of 30.6% over FY24-26E for the portfolio on an aggregate basis.

Exhibit 20: Portfolio Performance (as at Apr-2025 end - % change)



Source: Yes Bank FA, Monarch AIF, Note: i) *Returns since inception are on CAGR basis, Inception date is 22 April 2024, ii) Returns as on 30 April 2025, iii) Returns are net of all fees and expenses but on pre-tax basis, iv) NIFTY 500 total return index considered for comparison, Please refer the disclaimer

Few Examples from our portfolio & rationale for buying/holding them

Two stocks which have performed well for us and we continue to hold

KRN Heat Exchangers – We have been owning KRN since its IPO in October 2024. Prior to listing, KRN was fully bootstrapped and was founded by Mr. Santosh Yadav (ex-Lloyds) in 2016. KRN is an OEM supplier to the HVAC&R industry, specializing in manufacturing customised heat exchangers for commercial air-conditioning applications, which is heart of HVAC solution. Its customer base includes leading MNCs like Daikin, Schneider, Bluestar and Carrier. KRN has scaled rapidly, growing revenue 4x from INR 76 crore in FY21 to INR 308 crore in FY24. It boasts strong financials with 17-19% EBITDA margins, ROE/ROCE of 30–40%, and a 3-year average asset turnover of 5.9x. KRN raised INR 342 crores in its IPO, with INR 242 crores earmarked for setting up a new integrated manufacturing facility in Rajasthan, which would increase KRN's manufacturing capacity by 6x. Though KRN listed at good premium but on its listing day, KRN traded at an attractive FY26E/27E P/E of 26x/16x for an expected 3Y EPS CAGR of ~53%, thereby implying a PEG of less than 0.5x and we found the valuations fair for entry. KRN is expected to deliver EBITDA/PAT CAGR of 55%/60% over FY24-FY28E led by i) new facility with 6x capacity at Neemrana operationalizing in May 2025, ii) Increasing revenue contribution from exports through new facility – which is a higher margin business, iii) KRN HVAC, wholly owned subsidiary of KRN, being taxed at 15% tax rate and enjoying benefits under RPIS 2024. If our projections are right, then the stock trades at attractive valuations on FY28E. Company may enjoy premium multiples due to criticality of products sold, solid growth and high return ratios.

SBFC Finance – We have been owning SBFC (disciplined NBFC lender focused on MSME space) for over a year as our comfort on Mr. Aseem Dhru as an ex-banker from HDFC Bank and other senior managerial personnel was high. During our channel checks in North and Southern regions, we saw the process and the culture which the management has built within the organization gave us comfort on the sourcing, underwriting and collection practices of the organization despite strong competition from other NBFCs. Management has been executing at par or better than the guidance since its listing. SBFC has diversified its borrowings from primarily banks to other sources without taking a major hit on cost of borrowings as ratings got upgraded from A+ to AA- last year. We believe SBFC can continue to grow at 20%-25% CAGR in the medium term given the opportunity size of the MSME financing. Clermont Group's 53% stake has been amongst the highest promoter holdings in a private equity promoted listed entities in India. At our entry price, SBFC traded at 2.6x/2.4x FY26/27 BV with expected ROAs of over 4% so it cleared our filter of buying high quality franchisee with decent growth prospects. SBFC's NII/PPOP/PAT has grown at a CAGR of 46%/63%/75% over FY22-25 and we expect its PAT to continue to grow at over 20% rate over next few years. We expect ROA to remain in 4.5% range with ROE of 14% by FY27.

Two stocks which have not done well for us and we added in the fall

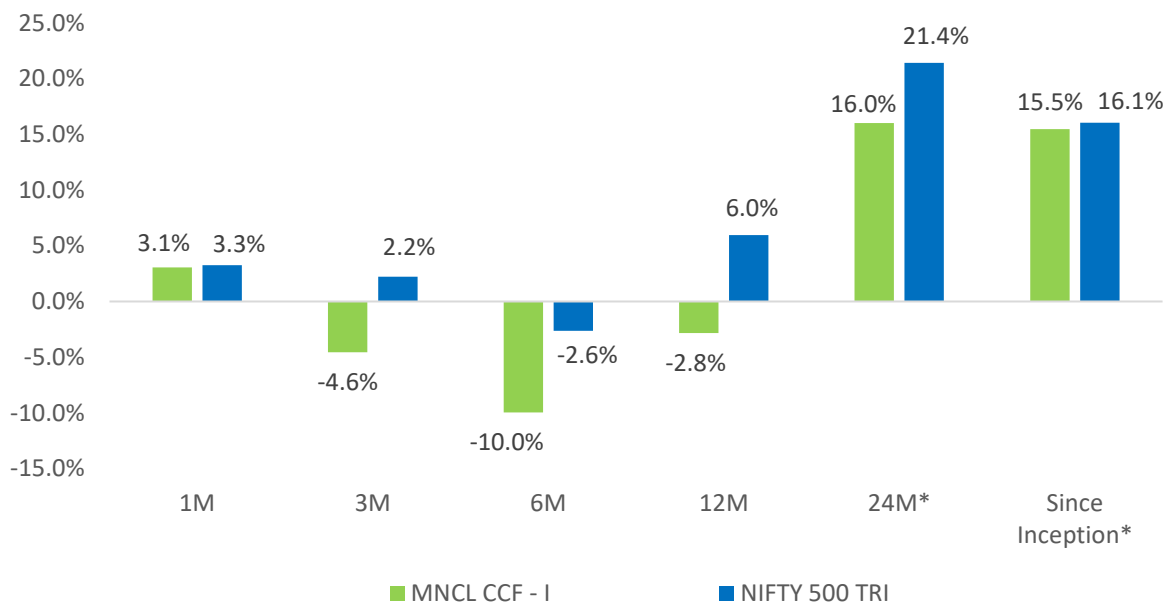
Brigade Enterprises – We entered Brigade in Aug 2024 in MNCL CCF 2 as a play on the real estate cycle which we believe is in the middle period of long range upcycle. Brigade is a South India-based real estate developer with a diversified presence across the Residential, Leasing (Commercial & Retail), and Hospitality segments. Our investment decision was driven by three key factors: i) a robust land bank and strong pipeline of upcoming projects, ii) a healthy balance sheet (debt free in Residential real estate portfolio) supported by consistent and growing operating cash flows, and iii) business run by credible management and favourable market positioning, with a primary presence in high-growth cities like Bangalore and Chennai. Brigade has delivered presales value/volume CAGR of 29%/18% in last 3 years in its residential business while maintaining debt free balance sheet and doing adequate land acquisition. While our investment thesis has remained intact, supported by Brigade's consistent performance, the stock's underperformance in FY25 can be attributed to broader negative sentiment around the real estate cycle which we have used as an opportunity to add onto our positions in last few months. We see Brigade delivering EBITDA CAGR of 22% over FY24-27E and find current valuations attractive.

PNC Infra – We entered PNC Infra as a play on India's road construction space through a credible player with long track record with impressive execution and good order book. However, post our entry the company encountered a black swan event of 1 year ban imposed by MoRTH in Oct 2024 which was later lifted in Feb 2025. Additionally, the order inflows slowed down in FY25 and the stock corrected meaningfully in H2FY25 on account of these two developments and concerns on growth prospects of the road sector in India. We have used the large fall in stock price to add to our positions as we see the stock trading at extremely attractive valuations. PNC enjoys net cash BS and is expected to receive further cash inflow of Rs2900cr from the sale of its HAM assets from KKR in FY26E. Adj for cash (incl KKR money related to asset sale), the stock trades at EV of Rs3500cr which implies only 8x/7x on PE basis on expected FY26E/27E core EPS. This is very attractive situation in our view. On a standalone basis PNC had achieved PAT of Rs850cr in FY24 and Rs610cr in FY23 on a topline of Rs7000-7700cr. Even if we assume flat topline for the company in FY27E (vs FY24) we believe that PAT (without other income) would be in the range of ~Rs600cr on a conservative basis which implies that the stock is currently trading at only 6-7x P/E. PNC is a deep value pick for our fund and we shall look to monitor the progress on new order inflows, execution of existing order book, progress on receipt of money from KKR for already sold 11 HAM projects and any new announcement of sale deal for other ongoing HAM projects.

MNCL Capital Compounder Fund - I

MNCL CCF – I went live in August 2022 and current AUM stands at ~Rs125cr. At the end of Apr’25, fund was invested 87.5% into equities and the balance 12.5% was held in liquid/cash instruments. The fund mix in terms of large cap/midcap/small cap stocks stood at 23.4%/2.8%/61.4% as per SEBI classification. As the end of Apr’25, the portfolio had 13 stocks and FY26E P/E stood at 21.2x with an expected EPS CAGR of 27.1% over FY24-26E for the portfolio on an aggregate basis.

Exhibit 21: Portfolio Performance (as at Apr 2025-end - % change)



Source: Kotak Bank FA, Monarch AIF, Note: i) *Returns for 24M & since inception are on CAGR basis, Inception date is 23 Aug 2022, ii) Returns as on 30 April 2025, iii) Returns are net of all fees and expenses but on pre-tax basis, iv) NIFTY 500 total return index considered for comparison, Please refer the disclaimer

We once again thank you for your investment and trust in Monarch AIF. We immensely value your collective belief in our ability to make the optimal investment decisions on your behalf through our fund.

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We would be happy to hear your feedback and/or any queries.

Warm Regards
 Abhisar Jain, CFA
 Head & Fund Manager
 Monarch AIF

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