

Progressive Value Growth Fund: "Invisible Corporations That Make Wealth"

Portfolio Performance			Portfolio Allocation (Till Sept 2026)
Period	Portfolio (%)	BSE 500 TRI (%)	
1 Month	5.21	-6.23	
3 Months	11.97	-4.97	
6 Months	36.21	4.94	
1 Year	8.52	-4.10	
Since Inception	-1.26	-3.13	
Allocation (%)			- Auto Ancillaries - BFSI - Consumer Non Durables - Capital Goods - Energy - Speciality Chems - FMCG - Services - Textiles - Cash
Equity		Cash	
96.38		3.62	

Method: Time weighted- Daily valuation method is used for rate of return calculation. Portfolio valuation is done on the date of any external cash flow with daily weighted cash flows. Periodic returns are geometrically linked. Total return includes realized and unrealized gains and income. Calculations are after deduction of transaction charges. Trade date accounting is used for calculations. Accrual accounting is used for fixed income securities. Market values of fixed income securities include accrued income. Accrual accounting is used for a dividend as of ex-dividend date.

Inception Date: 10/10/2024

Distributions: Dividend and interest are assumed as reinvested for the rate of return calculation

Taxes: Calculations are on pre-tax basis

Fees: Calculations are after deduction of fees

Invisible Corporations That Make Wealth

In investing, what is comfortable is rarely profitable.

-Robert Arnott

Sometimes companies listed on the stock exchange are invisible because no one is paying attention to them. This could be because either they are absolutely unknown, or their data is unexplored, or they are misunderstood due to small market size, or they are despised as many analysts think the quality of work/services provided is of low status or unpleasant. Analysts are generally hunting for opportunities using the big data (which is already collected), but no one bothers to gather data on obscure, small or non-strategic companies. One of the biggest truths that causes invisibility is **simple unawareness**. Such companies are hidden, under-researched, not frequently spoken of, no one competes and when no one wants to compete, the profits ultimately sustain. In simple words, the reward for being overlooked is an opportunity for sustainable or at times supranormal profits.

This thesis is also a **double-edged sword**; while the companies are unknown, they face issues related to liquidity in the available float. It can be difficult to build a meaningful position in such companies, just as it can be difficult to exit one. In case of unpleasant developments in the operations, such stocks are beaten down fast. While at the same time, if the market-cap jumps quickly, then such stocks come under the radar of the watch-dog and other surveillance mechanisms. These are the stocks which require dedicated research since the available information is bleak and not known to many. Though the numbers and ratios with an eagle's view or deep dive look good, the intent of the Management becomes the key make or break yardstick. Needless to mention, there is a cost of being **hidden or undiscovered**. Nevertheless, for investors willing to undertake the necessary research and accept the associated liquidity risks, such companies can offer a potentially attractive opportunity. Our portfolio, too has some entities like these which are currently not noticed by many and are reporting sustainable/decent profits.

For the quarter that went by, corporate India seems to have done much better than expected. But this is not restricted to India, there were several other major economies which have also reported robust earnings. As mentioned in our previous notes as well, the focus seems to be shifting towards making India a **manufacturing hub**. Under the current circumstances, the Indian market is not witnessing absence of growth story, but it definitely **lacks a powerful catalyst** which can help compete with global giants.

Around Bazaar:

The latest growth figures of the Indian exports reflect resilience with opportunities opening up in overseas markets. India as a whole is seeing fascinating divergence where the domestic economy and industrial cycle continues to be stronger despite the increasingly challenging external environment where the Indian equities continue to be under pressure from global liquidity/valuation concerns. The country currently appears to be experiencing a capex or **industrial investment cycle** uptick which is not a simple consumer recovery cycle; but this makes the industrial sectors quite interesting. Some interesting combinations seen in the Indian context include good domestic volume growth, export translation benefits and some China+1 opportunities. While the dangerous combination would include increased crude prices with a stronger dollar, increased tariffs coupled with weak global demand.

The large-cap segment has currently borne substantial pressure from FII selling, while the domestic flows have continued to support select smaller companies where mid-caps continue to be in a sweet spot. Remember, the depreciation of the same rupee can be positive for one company and negative for another. This clearly depends on which sector you are currently betting on.

Portfolio Activities:

During the quarter under review, we have booked **partial profits** in 3 stocks where we had earned ~53% in a leading industrial gear box manufacturer, ~125% in a textile stock, and ~150% in a speciality-chem stock. This approach allows us to crystallise a portion of the gains, reduce the portfolio's exposure to potential valuation as well as retain a meaningful position to participate in the company's long-term growth. The decision to book partial profits is driven more by portfolio discipline and risk management rather than any negative change in our fundamental view on the company.

The proceeds are deployed to add a stock which has more than 7 decades of experience in the Indian EPC business. We believe with decades of experience, a strong order book, focus on profitable cash generation, more or less stable Ebitda margins and willingness to reduce the debt on the balance sheet, this stock has the potential of getting re-rated and fetch better returns for long term investors.

Sectors:

The current market correction is gradually making the large-cap vs mid-cap valuation trade-off more interesting where large caps are becoming more reasonably valued, while many mid/small caps still command substantial growth premiums. We are aware of the high external sensitivity which can surface in the textiles, specific agrochemicals and some export heavy specialty chemicals. We continue to stick to the thesis of "small today, probably large tomorrow".

In Q1FY27, we actually witnessed a turning point in the fate of some **textile stocks**, however, the recovery was highly uneven across the entire value chain. Cotton spinning economics was seen recovering, the cotton yarn spreads increased while the margins improved sharply and at the same time apparel and home textile exports were seen increasing their share of pie. The UK-FTA which became effective in July 2026 is anticipated to benefit the fully integrated export-oriented players.

India's capex cycle, infrastructure, manufacturing, mining, material handling and power demand is already creating a favourable environment for **industrial gearboxes** requirement. In addition to this, there is some demand also seen for wind gearboxes, railway/defence specialised gearboxes, precision/application specific gearboxes and conventional auto gearboxes.

With some improvement seen in Pharma sector, early signs of healthy underlying **chemical/pharma capex** are surfacing and some of the **GLE players** have reported strong order visibility (which can continue in the upcoming quarter as well). For many this is a mature market, while soft diversifications in heavy engineering, defence, filtration and drying are also benefiting some of the key players. For the industry, the demand is now available, but the quality of revenue growth and margins will become more important than the topline growth. Many industry experts have now realised that diversification is beneficial only if existing and incremental businesses can achieve acceptable margins, PAT and ROCE.

As far as the Indian **specialty chemicals** sector is concerned, the most important development is the domestic demand recovery and selected high-value chemistries which are doing very well. The industry is not yet in a synchronised global recovery mode owing to uneven global demand, cautious overseas customers and pricing pressure in several products. We continue to stick to stocks which are involved in high-value chemicals, specialty ingredients and select niche intermediates. There is severe weakness seen in one of the **agrochemical players** which we own and we are feeling the pressure of the same.

Key players in the **biotech industry** have been facing constant pricing pressure; the demand has not collapsed yet, however, the incremental revenue is not translating into incremental Ebitda. This is basically due to a number of issues like revenue-recognition timing, sales reversal, lower realisation, higher power/fuel costs and unfortunately adverse product mix. Though this has put a dent in the value of our holdings, the structural demand story of the enzyme industry still remains attractive in the long run.

The Indian **auto components** involved in wires & cables, has been seeing positive demand from the domestic as well as the exports market with healthy volume or higher content per vehicle as well as premiumisation; but the commodity inflation is anticipated to put pressure on the margins. The **bus body building** structurally still looks attractive as there are a number of independent growth drivers like the replacement demand, need for modern fleet of public transport, the increase in state transport undertakings for electric buses, as well as increased requirement of school buses, employee transportation, intercity/private operators and premium coaches. As per channel checks, the deferred exports of bus bodies has gradually started picking up.

The Indian **3PL logistics** industry is broadly becoming positive with structural upcycle rather than a cyclical recovery where outsourcing is gradually moving beyond transportation into integrated warehousing, distribution, fulfilment, and supply chain management. Owing to this, some players are already seen expanding their wings (and helping the increase of Grade-A leasing) while following the strategy of being asset light.

The **stocks in the portfolio** which are specifically from the mid/small-cap universe are witnessing the benefits of the India capex story. Some of these stocks which we hold have export optionality as rupee beneficiary, low crude sensitivity, low debt with moderate ROCE with stable cash conversion. This mixture is quite unusual and powerful at the same time. We have been patiently waiting and we are witnessing some **green shoots** in the portfolio. Select mid and small caps can outperform extending the current trend.

The most important thing is not what happened, but what changed.

-Howard Marks



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