

IIFL SPECIAL OPPORTUNITIES FUND - SERIES 4

(A Scheme of IIFL Private Equity Fund- Category II Alternative Investment Fund)
All data are as on February 29, 2020 and denominated in INR



Investment Theme

The scheme seeks to generate long term capital appreciation through investment in Equity and Equity related instruments of to be listed companies. The fund aims to provide individual investors the opportunity to participate primarily in IPO and Pre-IPO events as institutional investors.

Key Terms

Launch Date	24-Aug-17
Bloomberg Ticker	NA
Scheme	Close Ended Scheme
Category	Category II Alternative Investment Fund
Benchmark Index	S&P BSE IPO Index

Fund Details as on 29th February, 2020

Committed Capital (INR in Cr.)	1706.07
Drawdown Capital (INR in Cr.)	1706.07
NAV - Fund Level (INR)	10.7561*

*Refer the second point of the note section

Schedule of Charges

Class of Units	Class A Units - units offered by the Fund and subscribed by Investors (further sub classified into Class A1, A2, A3, A4 and A5), Class B Units- Units offered by the Fund and subscribed by IIFL Group or such other persons as nominated by Sponsor/Co- Sponsor involved in management, distribution or advise to the Fund.
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Management Expense (p.a % age of daily net assets)	Class S (Sponsors) - 0.10% Class A1 - 2.00% Class A2 - 1.75% Class A3 - 1.50% Class A4 - 1.00% Class A5 - 0.75%
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Admin. Expense	Upto 0.15% p.a. of daily net assets
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Set up Fee	Upto 2.00% of Aggregate capital commitment
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Hurdle Rate	Internal Rate of Return of 10% p.a.**
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Performance Fees	10% of return over and above the Hurdle Rate without catch-up for Class A1, Class A2, Class A3 and Class A4. For Class A5 investors 7.50% of return over and above the Hurdle Rate without catch-up (as detailed in PPM)
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**Refer the third point of the note section

Investment Manager

IIFL Asset Management Limited (IIFL AMC)

Fund Manager Profile

- Dr. Rahul Salvi

Dr. Rahul Salvi is an alumnus of JBIMS with an MBA in finance and working with IIFL since 2011. Dr. Rahul in his prior assignment was involved in identifying opportunities in the Pharma, Technology, Hospitals and midcap space in the Indian stock markets and also handling a few key client portfolios by developing alternate equity strategies for clients to generate portfolio alpha. Prior to that he has had a brief stint in a boutique investment banking firm based out of Mumbai.

Refer to point 4 of notes for brief on Co-Fund Manager

Portfolio holding vs Performance (Since Inception)

Scheme/Benchmark	Listed (%)	Unlisted (%)	Overall (%)
% of portfolio holding	35.21	48.45	-
Scheme Returns (XIRR)	18.65	-	4.17
S&P BSE IPO Index	24.04	-	-

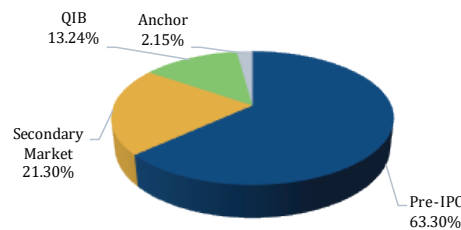
Fund level returns are shown in the above table; Past performance may or may not be sustained in future;
Returns are as of 29th February'20

Risk Ratios

Beta	NA
Sharpe Ratio	NA
Information Ratio	NA
Treynor Measure	NA
Volatility	5.23%

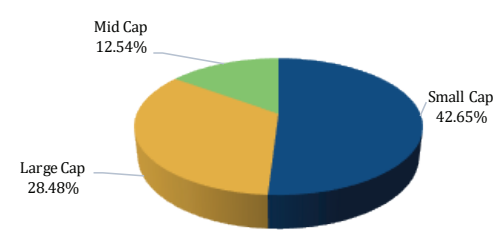
All risk ratios are calculated since inception

Type of Investment



Calculation on the basis of current portfolio value

Market Capitalization



Current Portfolio Holdings

S. No	Company	Weightage
Listed Portfolio Holdings		35.21%
1	SBI LIFE INSURANCE COMPANY LIMITED	8.65%
2	HDFC STANDARD LIFE INSURANCE COMPANY LTD	5.21%
3	ICICI LOMBARD GENERAL INSURANCE COMPANY LIMITED	3.71%
4	INDIAN ENERGY EXCHANGE LIMITED	3.14%
5	CREDITACCESS GRAMEEN LIMITED	2.80%
6	UJJIVAN SMALL FINANCE BANK LIMITED	2.46%
7	RELIANCE NIPPON LIFE ASSET MANAGEMENT LIMITED	2.01%
8	BANDHAN BANK LIMITED	2.01%
9	RBL BANK LIMITED	1.39%
10	TCNS CLOTHING CO. LIMITED	1.35%
11	IRCON INTERNATIONAL LIMITED	1.34%
12	VARROC ENGINEERING LIMITED	0.58%
13	STERLING AND WILSON SOLAR LIMITED	0.30%
14	GALAXY SURFACTANTS LIMITED	0.25%
15	CAPACITE INFRAPROJECTS LIMITED	0.02%
Unlisted Portfolio Holdings		48.45%
16	NATIONAL STOCK EXCHANGE OF INDIA LIMITED (NSE)	14.11%
17	NSDL E-GOVERNANCE INFRASTRUCTURE LIMITED	12.79%
18	NORTHERN ARC CAPITAL LIMITED	8.22%
19	NAZARA TECHNOLOGIES LIMITED	3.28%
20	BIKAJI FOODS INTERNATIONAL LIMITED	2.88%
21	EQUITAS SMALL FINANCE BANK LIMITED	2.63%
22	NATIONAL SECURITY DEPOSITORY LIMITED	1.95%
23	CDE ASIA LIMITED	1.12%
24	PARKSONS PACKAGING LIMITED	0.92%
25	ROSSARI BIOTECH LTD	0.56%
26	CASH AND CASH EQUIVALENTS*	16.34%
Total		100.00%

Calculated on the basis of current portfolio value

*Includes investments in bonds, debt mutual funds, cash balance and other receivables; Fund has begun receiving the drawdown proceeds against the final drawdown due to which high cash is visible in portfolio

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IIFL Asset Management Limited (Investment Manager)

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Tel: (91-22) 4876 5600 • Fax: (91-22) 4646 4706 • CIN: U74900MH2010PLC201113 • SEBI AIF Category II Registration No: IN/AIF2/12-13/0015

Portfolio Details (Top 5 Holdings)

1. National Stock Exchange Of India Limited (NSE)

National Stock Exchange (NSE) is the leading stock exchange in India and the fourth largest in the world (by number of trades done on any exchange). NSE also ranked first among global exchanges in terms of stock index option and currency option trading volumes. NSE is ranked second among global exchanges in terms of single stock future contracts trading volume and currency future contracts trading volume. Its total revenue increased 16% YoY in FY19 to INR 3,515 Cr on the back of 15% growth in transaction income to INR 2,409 Cr and 15% growth in other income to INR 487 Cr. Transaction income grew strongly owing to 40% %YoY volume growth in Equity Options. Transaction charges from currency futures, though contributes to just 5% of transaction, grew at stellar pace of 82%. EBITDA grew 11% YoY to INR 2,441 Cr as other expenses grew 35% to INR 766.7 Cr while employee expenses grew in line with revenues. This also resulted in EBITDA margin contraction to 69.5% in FY19 from 72.5% in FY18. Excluding onetime gain of INR 169.7 Cr from sale of investment in associates, PBT grew to INR 2,404 Cr from INR 2,197 Cr in FY18. Including the gain from sale of investment, it reported 22.6% ROE for the year. In related developments, SEBI concluded the co-location case in April 2019 which paves way for NSE to access capital markets post 6 months.

2. NSDL e-Governance Infrastructure Limited

NSDL e-Governance Infrastructure Ltd. (the Company) is engaged in providing IT enabled e-Governance Services, inter-alia comprising Tax Information Network (TIN), Electronic Accounting System in Excise & Service Tax (EASIEST), Central Recordkeeping Agency (CRA) for National Pension System, acting as a Registrar for Unique Identification Authority of India (UIDAI) including providing AADHAAR authentication services as Authentication Service Agency (ASA) & e-KYC services as KYC Service Agency (KSA), National Judicial Reference System (NJRS), Ezeewill Service and Vidya Lakshmi Portal for education loan applicants.

NSDL e-Governance reported a stable financial performance; revenues from operations grew at a CAGR of 28%, from INR 464 Cr in FY16 to INR 756 Cr in FY19. EBITDA has grown at a CAGR of 19% and PAT has grown at a CAGR of 18% respectively over the same period. NSDL e-Governance reported an EBITDA margin of ~22% and PAT margin of ~16% in FY19 and has a strong operating leverage owing to fixed nature of its expenditure hence the operating margins are expected to improve going forward. NSDL e-Governance has consistently delivered healthy returns on its shareholders' equity with an ROE in the range of 25 to 30% in last 4 years and ~20% during FY19.

3. SBI Life Insurance Company Limited

VNB margin has continued its upward trajectory and improved by 1% to 18% -

combination of 4% improvement owing to product mix improvement and 3% reduction due to interest rates going down. Persistency across tenors has also improved and mortality experience remained the same.

In product mix, ULIPs are down to 43% from 50% and non-par products' contribution increased from 36% to 50%. Both group and individual non-par performed well on back of guaranteed savings product which offered 5.5-6% IRR for longer tenor investments. The change in product mix is made possible by SBI Bancassurance channel focussing on protection and non-par. Among non-par, it also started focusing on annuity (1-1.5% of APE currently) through conversion of group retirees into annuity, NPS annuity and individual annuities.

Management mentioned that it has about Rs 480 cr exposure to stressed financial entities in its investment book and accordingly made provisions for expected losses of Rs 67 Cr. These coupled with new business strain from non-par business, resulted in reduction in profits.

4. Northern Arc Capital Limited

Northern Arc Capital Limited (NACL) is a non-banking financial company setup with the objective of bridging the gap between companies who serve financially excluded customer segments (Originators) and debt capital markets. The initial focus of the Company was MFI sector, where, besides providing loans, it pioneered various instruments including Tier II Bonds, securitisation, assignment and credit enhancement structures. As it built scale, the Company diversified into providing financing solutions to other sectors which include Small Business Lending, Affordable Housing Finance, Vehicle Finance, Agri Finance, Corporate Finance and Consumer Finance. It currently works with more than 165 Originators across sectors and 130 investors. The Company is on strong growth trajectory with 4.1x jump in volumes in FY14 - FY19 period. As of 31 Mar 2019, the company has gross loan book of ~Rs 3,560 Cr and generated profit after tax of INR 103 Cr in FY19. Its management is well reputed in the industry for business development and its extensive understanding of various streams of businesses it deals in.

5. HDFC Standard Life Insurance Limited

HDFC Life reported APE growth of 38% and VNB margin of 27.5% in H1 FY20 on back of increasing non-par savings and protections plans. It has also improved on persistency and distribution. Persistency improved across tenors with 13th month and 61st month ratios increasing to 89.1% and 54.2% respectively. In distribution, direct channel accounted for 21% up from 17% and bancassurance reduced from 67% to 54% for H1 FY20.

Based on higher share of higher margin products in product mix, focus on interest rate risk management, high persistency ratios and increased share of direct channel, we expect the company to sustain these high margins.

Fund Commentary

Market Update:

- The last month has been a roller coaster ride for the markets. Initially, there was a kneejerk reaction on the downward side to the budget followed by an equally swift recovery. The Nifty then consolidated near levels of 12000 before a major global selloff was triggered by fears related to the Coronavirus.
- Nifty and Sensex indices fell 6.3% and 5.9% respectively during the month. Mid cap and small cap indices tracked the fall of Nifty. S&P BSE MidCap and S&P BSE SmallCap indices fell 5.3% and 6.4% respectively.
- Global indices had performed much worse owing to supply chain dependencies on China. S&P 500 and Euro Stoxx 50 indices fell 8.2% and 8.3% respectively.
- Travel restrictions and general curtailment led to Crude falling by 13% with Brent Crude closing at USD 50.5 per barrel. While INR has depreciated only by Rs 0.8 per USD during the month of Feb, it has since then touched Rs 74 per dollar owing to volatility.

Primary Market Update:

- As mentioned in earlier communication, COVID-19 played havoc with markets including IPOs. This will push expected recovery to further late timelines.
- While SBI Cards IPO sailed through with high over subscription in QIB and NII categories on back of quality business and parentage, we expect companies to go into wait and watch mode.

Portfolio Update:

The Fund has invested Rs 10 Cr in Rossari Biotech Limited in pre-IPO capital infusion into the company. It is one of the leading specialty chemicals manufacturing companies in India based on sales for Fiscal 2019 providing customized solutions to specific industrial and production requirements of its customers primarily in the FMCG, apparel, poultry and animal feed industries through its diversified product portfolio comprising home, personal care and performance chemicals; textile specialty chemicals; and animal health and nutrition products. Rossari Biotech has doubled its revenues to Rs 516 Cr in two years to FY19. It has good and consistently improving margins. EBITDA margin has expanded from 9% in FY17 to 18% for H1 FY20. With tax rate cut, company is bound to further improve its margins. Its EBITDA and PAT for FY19 are Rs 78 Cr and Rs 46 Cr respectively.

During the month fund has exited investment in IRCTC Limited.

Deployment Pipeline

• Pre – IPO Pipeline

Some of the pipeline Pre-IPO opportunities which the fund is evaluating.

Proposed Investment I – Deal Size of INR 500 Cr

- i. It is a housing finance company with operations in 60 districts across 12 states with focus on western and southern states.
- ii. Its loan book grew at 64% CAGR in last 4 years to cross INR 3,100 Cr as on 30 September 2019 and maintained high asset quality with GNPA less than 0.9%.
- iii. It has received 3 credit rating upgrades in last 6 years and has no negative asset liability mismatches.
- iv. It is expected to go for listing in next 18 months and is looking to raise up to INR 500 Cr in pre-IPO round.

Proposed Investment II – Deal Size of INR 250 Cr

- i. It is a north India based small finance bank with AUM of more than INR 4,500 Cr and deposit base of more than INR 3,500 Cr
- ii. It operates in 11 states with more than 400 branches and about 15 lakh customers
- iii. Its loan book grew at CAGR of ~48% in last three years to cross INR 4,500 Cr and deposit base grew to more than INR 3,500 Cr in less than 3 years from receiving SFB licence
- iv. It is expected to go for listing in next 18-24 months and is looking to raise up to INR 250 Cr in pre-IPO round.

Proposed Investment III – Deal Size of INR 500 Cr

- i. It is one of the fastest growing QSR chains in India with about 200 stores and more stores on the way.
- ii. In addition to store count growth, the company has been delivering double digit same store sales growth.
- iii. These two factors together resulted in revenue CAGR of more than 60% over last 4 years.
- iv. The company is looking to go for listing in next 12 – 18 months and looking to do a pre-IPO round of Rs 500 Cr.

Proposed Investment IV – Deal Size of INR 200 Cr

- i. The Fund is evaluation Rs 200 Cr secondary purchase of one of the unlisted portfolio companies.
- ii. The deal is in negotiation stage. The company is likely to go for listing in next 12 months.

We are actively evaluating these pipeline investments and should be able to close the deals subject to Regulatory approvals.

• IPO Pipeline:

Apart from the Pre-IPO deal pipeline highlighted above, we are also evaluating various upcoming IPO opportunities to invest through the Anchor/QIB route

Performance of Portfolio Companies:

Several of our portfolio companies declared results for Sep – Dec 2019 quarter and nine months ending with Dec 2019 during the month. Brief on results are mentioned below.

National Stock Exchange of India

9M FY20 operating revenue grew 14% YoY inline with market growth and reached Rs 2,522 Cr. However, owing to higher growth in employee expenses, EBITDA margin reduced to 70%. 9M FY20 EBITDA was Rs 2,009 Cr up from Rs 1,871 Cr for same period last financial year.

While the return ratios were high in FY19 owing to Rs 172 Cr gain from sale, lower tax in 9M FY20 helping maintain ROE at 25%.

National Securities Depository Limited

Revenues from dematerialisation of stocks of unlisted companies helped company grow its depository revenues at 18% to Rs 184 Cr in 9M FY20. Total operating revenue grew 14% YoY to Rs 237 Cr in 9M FY20.

However, increase in expenses, particularly employee expenses at higher rate resulted in slightly lower operating profit growth. Operating profit for 9M FY20 was Rs 87 Cr and operating profit margin was 37%. It generated net profit of Rs 93 Cr for 9M FY20.

Bikaji Foods international

Company has shown good revenue growth of ~25% in last 2 years led by increased penetration in its core markets of Rajasthan, Bihar & Assam. Also, new markets of UP, Punjab, Uttarakhand & Gujarat have started contributing. It maintained same revenue growth rate in 9M FY20.

Margins have taken a hit as company got impacted due to higher raw material prices. Also, due to import ban on Malaysian palm oil, Bikaji got hit in 3QFY20 due to high oil prices as well.

Company has been increasing brand presence and also increased ad-spend by appointing Mr. Amitabh Bachchan as brand ambassador to strengthen the brand.

TCNS Clothing Co

Recent slowdown in consumer market has impacted its sales. Also airport stores which contribute to ~5% of sales were impacted by shutdown of Jet Airways as most of its airport stores were in Jet terminals. It has been consolidating its multi brand outlet channel to remove the non-performing stores to better employ its sales team.

Company has been expanding into tier 2 and 3 cities to fuel growth. It has also made investment and efforts into e-commerce channel. It has appointed brand ambassador for one of the brands and spending on advertising for brand building.

It revenue from operations for 9M FY20 increased 8% YoY to Rs 929 Cr. Its gross margin (unaccounted for fabrication charges) remained stable at 67%. Growth in advertising and other expenses resulted in lower margins.

Note:

1. In accordance with Regulations 10 (d) of AIF, IIFL Wealth Finance Limited (Co- Sponsor) has invested Rs. 5 Crore in the Scheme. Additionally, IIFL Wealth Finance Limited has invested Rs. 1 Crore in the scheme under share class A1.
2. NAV mentioned in the factsheet is the fund level NAV and factors in all income & expense incurred/accrued. Kindly get in touch with Investor Relation for NAV of your respective share class
3. Post tax post expenses Internal Rate of Return of 10% p.a. (on CAGR basis) on net capital contribution from the date of allotment for Class A1, Class A2, Class A3, Class A4 and Class A5 investors (as detailed in PPM).
4. Co-Fund Manager – Mr. Amit Mehta
Mr. Amit Mehta, Principal, IIFL AMC, has over 13 years of investing experience in India. Mr. Mehta joined IIFL AMC in 2016 and has been a key member of Private Equity team. In his career he has worked on various sectors such as Financial Service, Consumer & Healthcare. He is a MBA from IIM Ahmedabad and B.Tech from IIT, Nagpur. His previous assignment includes stints at marquee Private Equity funds such as MayField Fund and Motilal Oswal Private Equity.
5. The Scheme is fully drawn.
6. The data stated herein is as of February 29, 2020, unless specifically stated.

Disclaimer:

Securities investments are subject to market risks and there is no assurance or guarantee that the objectives of the Fund will be achieved.

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