

## A LETTER TO INVESTORS

**Dear Investors,**

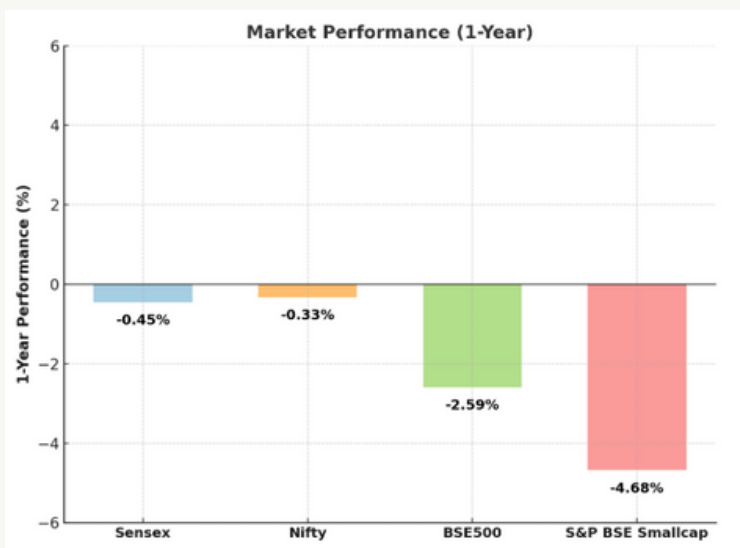
We hope you're doing well even though your portfolios may not be!

Picture this: A crowd of concerned investors standing outside our office in Gurugram, each holding up a placard with their burning questions. "When will the portfolio recover?", "What happened to those 7 stocks?", "Should I stay or should I go?", "Are you still confident in your thesis?"- and honestly, we don't blame them!

The recent market downturn has indeed left many of us feeling like we're in the middle of a protest march we never signed up for. But here's the thing, we've heard every one of these questions (and a few more colourful ones), and we believe each deserves a thoughtful, transparent answer.

Consider this note our response to that imaginary crowd of placards, where we address your concerns head-on, share what we're seeing from the trenches, and most importantly, explain why our conviction in the small and mid-cap opportunity remains as strong as ever. So grab a cup of tea, and let's have an honest conversation about where we are and where are we headed as a fund house.

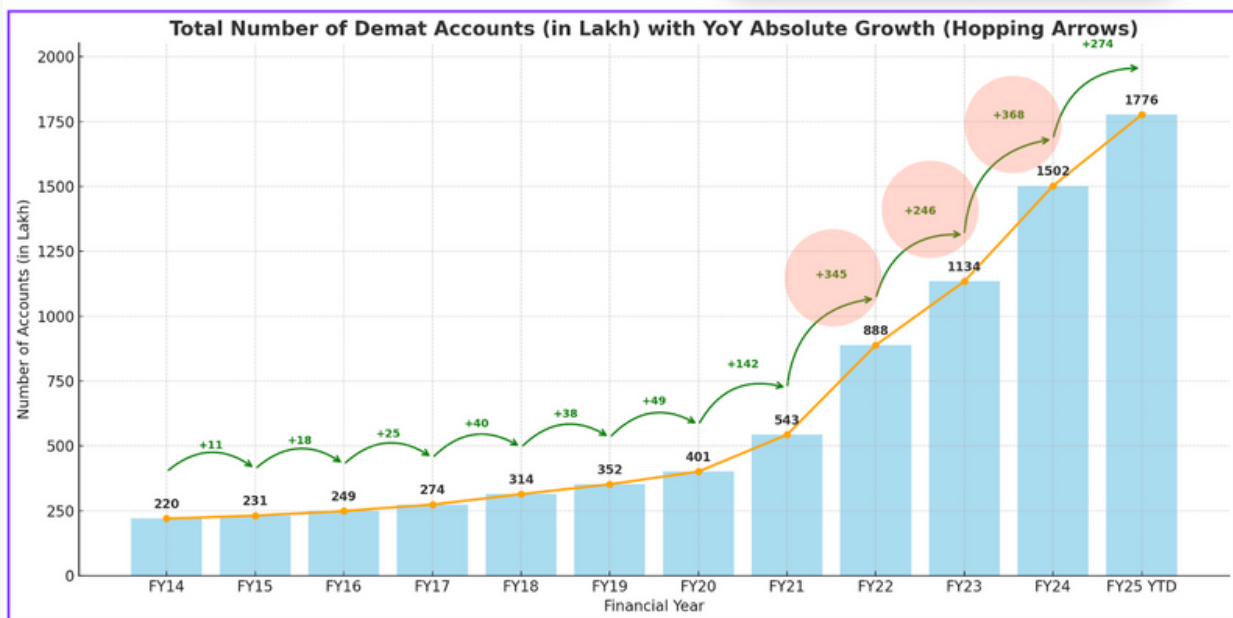
First things first. Look at this chart showing 1 year performance of all the major indexes in India.



Source: Green Portfolio

This subdued performance is largely a reflection of ongoing global and domestic uncertainties ranging from persistent geopolitical tensions and volatile oil prices to tighter financial conditions and cautious investor sentiment. Geopolitical events in regions like the Middle East alongside spillover from trade disputes and policy changes in the West, have all contributed to heightened volatility and risk aversion in riskier asset classes such as small and mid caps.

There's a narrative that's been set in the market- Geopolitical Uncertainty, Low Credit Growth, Subdued Demand. Agreed! But look at this chart below. The chart represents how the dynamics have shifted from "300+ New Accounts in last 10 years" to "300+ new Accounts in an year."



Source: Green Portfolio

Many investors who came into the market over the last 4-5 years have, in all likelihood, never experienced a full market cycle. For these participants, this correction might be their first major test, a reality shock that challenges the bullish sentiment bred during years of strong returns and rapid portfolio growth. While there is limited data to confirm this, it's reasonable to assume a considerable segment is facing its first real downturn, prompting anxiety and panic selling.

This is what we call **Neutralising Euphoria**.

Understanding this dynamic helps us appreciate the temporary nature of the current market behaviour and reinforces why disciplined investing remains critical during such times.

The next step that is important to analysing current market situation is:

### **Understanding Market Cycles.**

Traditional textbooks show predictable market cycles, but the current reality defies these patterns. When geopolitics drives markets amid widespread uncertainty, conventional wisdom breaks down. These uncertainties often defy the traditional textbook concepts.

The next concern has really been beaten to death already yet it remains crucial to address it with a fresh perspective. I could attach 100s of screenshots on Trump's changing mood swings but I think these two screenshots would suffice.

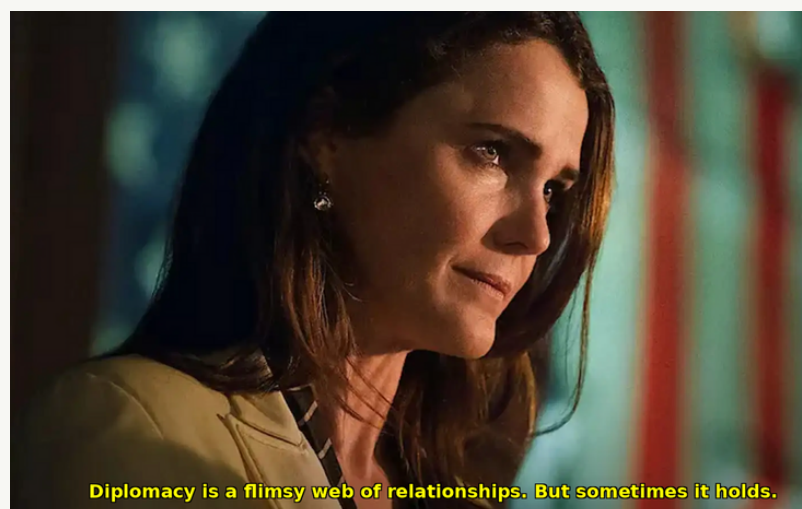


Source: X (formerly known as Twitter)

To summarise:

1. **Policy Volatility:** Trump's unpredictable tariff changes adding market uncertainty, but creating unexpected diplomatic shifts
2. **Global Realignment:** Long-term rivals India and China finding common ground as de-dollarisation gains momentum due to BRICS.
3. **Broader Conflict:** This isn't US vs India, it's US vs a multipolar world order emerging rapidly

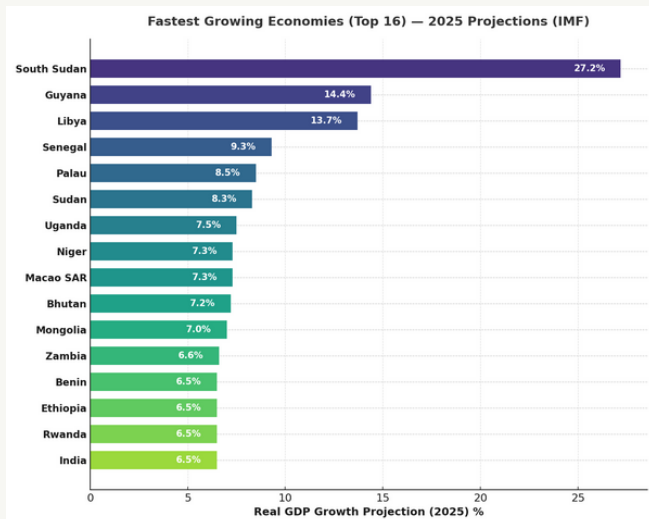
Recently, at our company town hall, we were discussing macro factors and how geopolitics have been shaping **The New World Order**- be it Russia-Ukraine, India-Pakistan, Israel-Gaza, US-China. But no matter what we say or what we do, these diplomatic relationships are important for global stability. Yes, the intensity of effects is plunging with increasing fragmentation. But it is important. One of our team mates quoted a dialogue from "The Diplomat" show on Netflix where US ambassador to UK says:



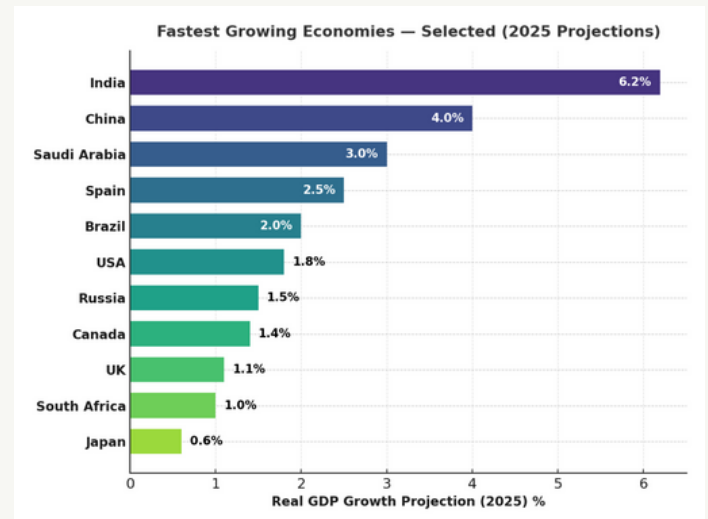
Source: The Diplomat, Netflix

We've spent considerable time unpacking the global macro environment and its challenges. While it's often easy to attribute market setbacks to external factors, it's equally important to ground ourselves in the India story, the fundamentals that truly matter over the long haul. So, let's shift our focus to India's growth trajectory, explore the key domestic economic metrics, and assess why, despite global headwinds, the growth engine remains robust and full of potential.

We'd like you to look at the two charts below.



Source: IMF



Source: IMF

The global economic narrative is nuanced, and focusing solely on “fastest-growing” countries can lead to distortions if the math behind base effects is overlooked. India's position as the highest-growing major economy is often challenged by headline-grabbing stats from smaller nations, but these comparisons fail the test of scale.

### The Illusion of High Growth from a Small Base (*Left Chart*)

Take countries like Libya and Uganda, recent years have seen their growth rates eclipse India's on paper. But a deeper look exposes the illusion: Libya's GDP hovers around \$44 billion while India's is over \$4 trillion. When small economies double, their absolute impact remains minuscule; if Libya somehow grew by 100%, it would still barely touch India's GDP, let alone its global relevance.

### Why the Narrative Needs Context (*Right Chart*)

Global commentary loves percentage comparisons, but numbers divorced from context create misleading storylines. For genuine impact, the size of the economy must enter the conversation—India's growth is meaningful because it moves the needle on worldwide output, while smaller nations slip under the radar, regardless of their stunning growth rates.

## True Peers, True Impact

Thus, the only honest “apple-to-apple” comparisons are among economies of similar scale: China, the US, or Japan. India’s continued outperformance within this elite club cements its growth story not just as statistical, but as transformative for global economics.

If I were to speak about 4 pointers that further strengthen our beliefs in Bharat’s story, they’ll be:

**1. GST Rationalisation:** The pro-reform move is expected to stimulate the MSME sector and make India’s tax system more efficient and growth-friendly.

**2. Capex Cycles:** In FY25, private sector capex in India surged by 66% from FY22, reaching ₹6.56 lakh crore. Although planned private sector capex is projected to moderate to ₹4.89 lakh crore FY26, it will still significantly exceed pre-2023 levels, reflecting sustained corporate investment momentum even as companies adopt a more cautious outlook for the upcoming year.

**3. Above Normal Monsoons:** Data shows agricultural output was strong during both normal and above-normal monsoon years, while below-monsoon years clearly recorded weaker growth, barring a few exceptions. Despite rainfall at 108% of the long-period average (LPA) in FY25, agricultural output grew 4.6%. Data as in FY26 remains yet to be seen.

**4. Upcoming Festive Season:** GST rationalisation is going to have a domino effect on the upcoming festive demand, especially in the passenger vehicle segment. 2025 outlook: Online festive sales expected to jump 20–27% YoY, led by stronger rural and middle-class demand, and widened e-commerce participation.

## ***Addressing the Elephant in the Room:***

It is finally time to address the elephant in the room. While we have diligently shared detailed macroeconomic and microeconomic analyses shaping India and global markets, what truly matters to investors is stock-specific conviction. Rather than sidestepping the tough questions, we want to transparently confront the reality of performance at the stock level. The following table highlights the drawdowns in some of our top holdings from their respective buy prices, an honest reflection of market pressures and volatility. This is not merely an acknowledgment of challenges but the precursor to a deeper explanation of why we remain steadfastly invested in these companies despite near-term setbacks. Our conviction is rooted in long-term structural fundamentals, strong sector tailwinds, and sustainable competitive advantages that we believe the market will ultimately recognize.

## 1. HFCL Ltd.

| Data Point       | Q1FY26 (in cr) | Q4FY25 (in cr) | Q1FY25 (in cr) | YoY Change | QoQ Change |
|------------------|----------------|----------------|----------------|------------|------------|
| Revenue          | 871            | 801            | 1,158          | -24.8%     | +8.8%      |
| EBITDA           | 28             | -36            | 175            | -83.8%     | +179%      |
| PAT              | -29            | -83            | 111            | -126%      | +65%       |
| Order Book       | 10,480         | 9,967          | —              | +36% YoY*  | —          |
| Stock Drawdown** | -50% from ATH  | —              | —              | —          | —          |

At first these, numbers might look bad, especially on YoY basis but hear us out once. When we first invested in HFCL, the company was going through a weak phase. But today, we see it standing at the cusp of a big turnaround.

Here's why:

- HFCL already has a huge order book of over ₹10,000 crore. This gives strong visibility for revenues in the next 2 years.
- In FY26, its optical fibre cable (OFC) revenues are set to double, supported by rising global demand and expansion in their ribbon cable capacity.
- At the same time, HFCL is moving up the value chain with its own telecom products like routers and 5G devices, which can meaningfully improve margins.
- Defence is another big story. Starting from Q2FY26, HFCL will begin monetising tactical cables, thermal sights, and electronic fuzes, opening a new high-margin revenue stream.

Now, here's the latest positive update:

HFCL has just received approval from the Andhra Pradesh government for 1,000 acres of land to set up defence manufacturing facilities.

- **In Phase I, 329 acres will be allotted.**
- **In Phase II, the remaining 671 acres will follow.**

These facilities will make artillery shells, grenades, and TNT filling units, a direct entry into the core defence manufacturing ecosystem.

### So what does this mean for investors like us?

HFCL is no longer just an OFCC player. It's building multiple growth engines, telecom products, defence, exports, and long-term service contracts. The company is trading more than 50% below its all-time high, close to 52-week lows. At these valuations, with so many structural drivers kicking in, we believe the downside is limited while the upside over the next 2–3 years is significant.

The story is shifting from cyclical weakness to execution-led growth and we want to stay invested before the market re-rates the stock.

## 2. Paramount Communications Ltd

| Data Point                | Q1FY26 (in cr) | Q4FY25 (in cr) | Q1FY25 (in cr) | QoQ Change | YoY Change |
|---------------------------|----------------|----------------|----------------|------------|------------|
| Revenue From Operations   | 451            | 507            | 321            | -11%       | +40.50%    |
| EBITDA                    | 15             | 32             | 27             | -53%       | -44.44%    |
| Profit before Tax         | 25             | 25             | 26             | 0%         | -3.85%     |
| Profit after Tax          | 18             | 19             | 25             | -5%        | -28.00%    |
| Stock Drawdown (52 weeks) | -52.04%        | —              | —              | —          | —          |

When we first invested in Paramount Communications, it was with the belief that the company had all the ingredients of a classic turnaround. We entered the stock near ₹40, saw it rally to ₹120, and have since witnessed it come back to around ₹40. This kind of volatility may look worrying on the surface, but it reflects the tough, transformative journey Paramount has been through.

The company came close to bankruptcy in 2016. But over the years, through prudent debt reduction and operational scaling, Paramount rebuilt itself step by step. One of its biggest achievements was breaking into the US export market, where revenues grew from almost zero in 2020 to more than ₹400 crore by 2025. Paramount even became the largest supplier of power cables into the US import market, proving its ability to compete globally.

The recent correction in stock price was triggered by the US imposing 50%+ tariffs on Indian cable imports, a sharp headwind that hit Paramount directly. But here's where the story gets interesting: rather than being stuck, the company is redirecting its export capacity towards the growing Indian domestic market.

India's power and infrastructure build-out is massive, and cable demand is only going to rise. Even if tariffs stay high, Paramount has the ability to sell domestically at slightly lower margins but much higher volumes, creating a strong cushion for growth.

### **For us, Paramount embodies what a turnaround story should look like:**

- A company that survived near-bankruptcy and came back stronger.
- A proven track record of scaling new markets.
- Financial discipline in reducing debt.

And the flexibility to adapt to global shocks by leveraging India's own growth story. That's why we continue to stay invested with conviction. The current price doesn't reflect the company's true potential, but over the medium to long term, we believe it will.

### 3. Coastal Corporation Ltd.

| Data Point                | Q1FY26 (in cr) | Q4FY25 (in cr) | Q1FY25 (in cr) | QoQ Change | YoY Change |
|---------------------------|----------------|----------------|----------------|------------|------------|
| Revenue From Operations   | 183.66         | 157.08         | 132.81         | +17%       | +38.29%    |
| EBITDA                    | 16.09          | 4.48           | 9.52           | +259%      | +69.01%    |
| Profit before Tax         | 7.67           | 0.05           | 4.3            | +15240%    | +78.37%    |
| Profit after Tax          | 5.76           | -1.03          | 3.05           | +659%      | +88.85%    |
| Stock Drawdown (52 weeks) | -32%           | —              | —              | —          | —          |

The story of Coastal Corporation has tested investor patience, but we are finally beginning to see signs of the positive inflection we were waiting for. After repeated delays over the last two years, the company's ethanol plant is now fully operational — a development that changes the earnings profile in a meaningful way.

In FY25, Coastal reported revenues of ₹628 crore with ₹4 crore in PAT. What excites us is that the ethanol unit alone is projected to contribute ₹300 crore in revenue and ₹18 crore in PAT, providing a fresh growth engine for the business.

This shift is important because Coastal's traditional shrimp export business has been under pressure. With US tariffs crossing 50%, the company's core exports have suffered, and this has been visible in the stock's correction. But now, with ethanol revenues kicking in, Coastal has built an alternate stream of earnings that can offset these challenges and bring stability.

For us, the investment thesis has not changed, it has simply been delayed. Coastal's ability to diversify beyond exports and build a strong domestic presence through ethanol gives us confidence that the turnaround is sustainable.

#### **We see this as the beginning of a dual-engine growth story:**

- Shrimp exports, which will recover over time as global trade stabilizes.
- Ethanol production, which offers immediate revenue visibility and profitability.

With both engines in place, we believe Coastal is well-positioned to deliver a durable rebound in earnings and unlock shareholder value over the medium term.

## 4. DCX Systems Ltd.

| Data Point                | Q1FY26 (in cr) | Q4FY25 (in cr) | Q1FY25 (in cr) | QoQ Change | YoY Change |
|---------------------------|----------------|----------------|----------------|------------|------------|
| Revenue From Operations   | 222.16         | 549.96         | 138.08         | -60%       | +60.89%    |
| EBITDA                    | 0.27           | 10.22          | -4.81          | -97%       | +105.61%   |
| Profit before Tax         | 10.63          | 28.47          | 5.29           | -63%       | +100.95%   |
| Profit after Tax          | 4.06           | 20.70          | 2.94           | -80%       | +38.10%    |
| Stock Drawdown (52 weeks) | -30%           | —              | —              | —          | —          |

When we look at DCX Systems, we see a company that is building the foundation for a long-term growth story in India's defence and aerospace sector. On the surface, the latest results showed pressure on margins and profitability, which may raise questions. But underneath, there are multiple structural tailwinds and growth levers that strengthen our conviction.

DCX today sits on an order book of nearly ₹2,697 crore, providing revenue visibility for the next two years. It counts global defence majors like Lockheed Martin and Elta Systems among its clients, proving its credibility as a trusted partner. In addition, its subsidiaries are scaling rapidly — Raneal has already crossed ₹350 crore in revenues and brings valuable backward integration, while NIART Systems is developing proprietary radar safety solutions for the railways. These ventures give DCX both near-term execution strength and long-term optionality.

What excites us further is the company's strategic joint venture with Israel's Elta Systems to manufacture radar systems in India. This is a billion-dollar opportunity in the making, with strong relevance for both domestic and global defence markets. Add to this the government's Make in India push and the extension of export incentives to SEZ units, and DCX is operating in one of the strongest possible policy environments.

Yes, near-term challenges exist, margins are currently suppressed due to delayed BoM reimbursements, and investors will have to wait for better clarity on financial normalisation. But importantly, DCX is debt-free, generating strong operating cash flows, and investing prudently in high-potential ventures. These are the hallmarks of a company building for the long run.

For us, DCX remains a conviction hold not because everything looks perfect today, but because the pieces are in place for a significant payoff over the next 2–3 years. With its strong order book, global partnerships, and emerging high-margin product lines, we believe DCX is positioning itself as a key beneficiary of India's defence indigenization and global supply chain realignment.

## 5. Srivari Spices Ltd (SME)

| Data Point                | H1 (in cr) | H2 (in cr) | % Change |
|---------------------------|------------|------------|----------|
| Revenue From Operations   | 61         | 53         | +15%     |
| EBITDA                    | 9          | 9          | 0%       |
| Profit before Tax         | 7          | 7          | 0%       |
| Profit after Tax          | 5          | 5          | 0%       |
| Stock Drawdown (52 weeks) | -59%       | —          | —        |

We entered Srivari Spices in 2024, at a time when the company was steadily expanding its presence in the spices and atta segments, while also preparing to enter the high-margin cold-pressed oil business. This segment has significant profitability potential, and for us, it was a key reason to invest early.

What makes Srivari unique is its strong moat around purity and quality. With superior manufacturing processes and strict adherence to standards, the company has consistently delivered operating margins above 15%- a rare feat for an SME in the FMCG space.

The big milestone now is that the cold-pressed oil unit has commenced operations, with sales expected to reflect from H1FY26 onwards. Given that SMEs only report results twice a year, short-term stock price movements may continue to be sentiment-driven, but the underlying fundamentals remain intact.

Beyond product expansion, Srivari is also scaling geographically, entering Orissa, Karnataka, and Mumbai, all high-potential markets for its products.

One challenge we keep in mind is the company's limited free cash flow conversion, since much of its profits are tied up in working capital. However, this does not change our medium- to long-term conviction. With new product verticals, geographic expansion, and proven profitability discipline, we believe Srivari is well-positioned to deliver meaningful growth and value creation over time.

We also met with the promoter recently and did a podcast with him. Watch now:

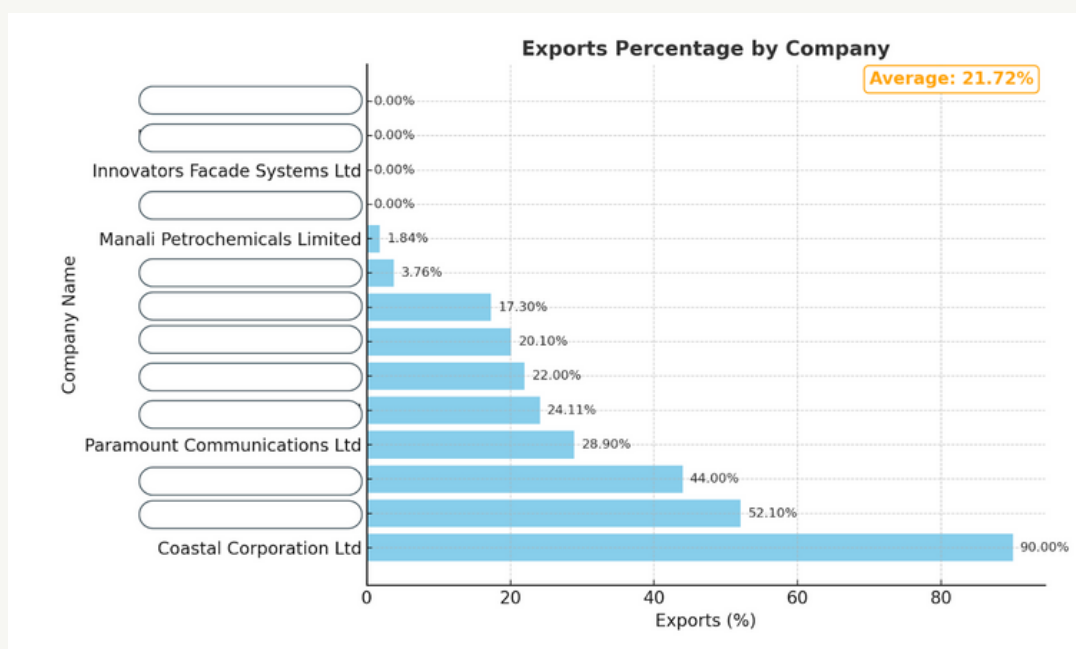


We hope these conviction stories set the tone for why we remain confident despite near-term volatility. While the macro picture gives us direction, it's the specific fundamentals of our portfolio companies, their order books, earnings visibility, valuations, and domestic growth drivers that truly strengthen our conviction. In the following section, we'll shift focus to these micros, highlighting how attractive PE levels, robust order flows, and strong India-linked exposure position our portfolio for sustainable long-term gains.

Major concern weighing on investors today is geopolitical risk. Markets globally are adjusting to conflicts, trade realignments, and shifting capital flows — in fact, equities just saw their worst selloff in 29 years, as the tide turned from momentum-driven to fundamentally-driven investing.

For our portfolio, however, the direct impact is limited. Our average domestic exposure stands at only 21%, and the top 15 companies derive minimal revenue from exports, with negligible exposure to the US. This shields us from the worst of global trade and currency shocks. At the same time, our continuous dialogue with company leadership ensures we remain on top of strategic plans and responses to evolving risks.

This positioning allows us to navigate global uncertainty with greater confidence, while keeping our focus on companies whose fundamentals remain strong and insulated from external volatility. Look at the chart below.

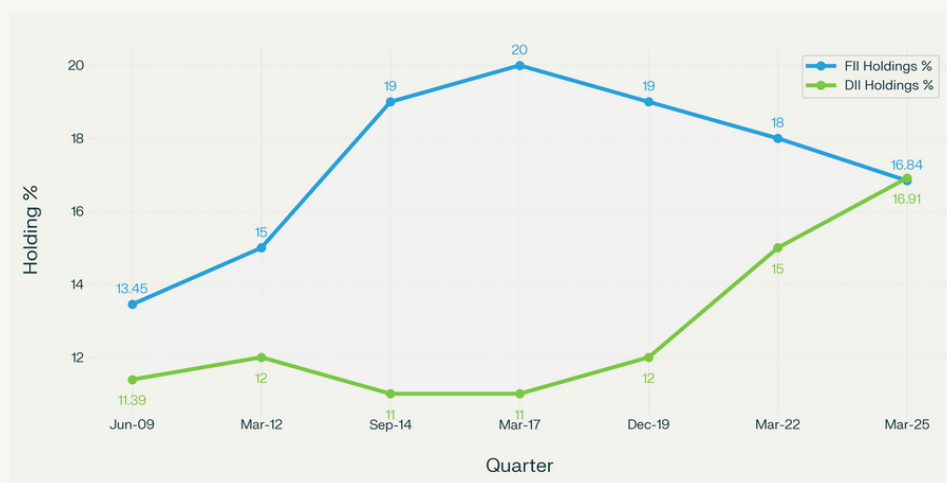


Source: Green Portfolio

For decades, the pulse of the Indian equity market was defined by foreign institutional investors (FIIs). A day of heavy FII buying could lift the indices, while a wave of selling would send them tumbling. But that dependency is steadily fading.

Today, domestic institutional investors (DIIs) are emerging as the new anchors of the market. Rising household savings, SIP inflows, and growing trust in equities as an asset class have created a steady domestic flow that cushions against foreign volatility.

This shift is not just cyclical, it's structural. Indian markets are no longer hostage to global risk-on/risk-off cycles the way they once were. The growing DII participation over FII flows gives India's equity market greater stability, depth, and resilience- a foundation that strengthens the case for long-term investing.



Source: Money Control

## Patience Rewards: The FORCE MOTORS Case Study

In investing, conviction is often tested not in days or months, but over years. Force Motors is a perfect example of how patience, backed by a sound thesis, can create meaningful rewards. For a long time, the stock tested investors' resolve as the company worked through industry cycles and internal restructuring. But those who stayed the course are now beginning to see the results with earnings scaling up, new product launches gaining traction, and the market finally recognizing the value that was always there. Have a look at the chart below.



By the way, we entered the stock at 1000 and exited at 10,000 levels. And stock went on too 22,000. We made our returns, missed out on some but that's the beauty of the markets, you cannot time them.

While we've shared the key themes and conviction stories driving our portfolio, we also know that every stock we hold has its own journey worth telling. Covering each one in detail would make this note far too long, but rest assured, our team is closely tracking every development and managing your portfolio with care. If you'd like to know more about specific holdings, our RMs are always just a call away.

As we enter the festive season, we want to leave you with reassurance and gratitude. Your trust gives us the responsibility and motivation to navigate markets with discipline and conviction. We remain fully committed to protecting your capital and compounding it meaningfully over the long term.

We wish you and your loved ones a season filled with joy, peace, and prosperity while we continue working diligently in the background to grow your wealth.

And remember, As Charlie Munger says:



**Source: Green Portfolio Office**

Also, last week, we hosted a live webinar on YouTube where our fund managers discussed the current market landscape, our investment strategy, and answered questions from investors. The session covered both macro trends and portfolio insights, providing a deeper understanding of how we are positioning for the months ahead. [Link:](#)  **YouTube**

**Divam Sharma and Anuj Jain**  
**Your fund managers**  
**Green Portfolio**