

Honesty and Integrity Investment (HNI Investment)

Email for Dec 2019

Dear Friends,

Here are the details of performance of HNI investment based on the share prices as on 31st Dec. 2019

Annualised Returns (IRR) ^{(1) (2) (3) (4)(5)}	HNI Portfolio	Nifty	Sensex
FY13	-10.6%	-5.3%	-3.7%
FY14	112.2%	21.1%	21.3%
FY15	21.6%	25.0%	23.0%
FY16	86.0%	-7.0%	-7.7%
FY17	168.3%	21.9%	20.1%
FY18	66.4%	17.0%	18.8%
FY19	-19.2%	16.9%	18.3%
Q3FY20 – IRR	-6.6%	26.5%	29.6%
Q3FY20 – Absolute Change	-1.7%	6.0%	6.7%
From Inception till 30th Sep 2019	47.1%	11.9%	12.5%
From Inception till 31st Dec 2019	34.2%	14.5%	15.6%

(1) For all HNI clients and promoters (2) Inception was in August 2012 (3) Gross IRRs excluding the impact of HNI investment fees (4) Return during the quarter is reported only when it's adverse i.e. negative or lower than Sensex/Nifty. Quarterly IRRs looks overblown due to compounding effects of short periods (5) Absolute change is calculated based on IRR numbers for the quarter

The portfolio value is marginally down by 1.7% during the quarter. We have 4 liquid stocks which are down by 13.1%, 10.5%, 8.8% and 4.9% from our weighted average price net of dividends. I continue to hold them since there is no change in their long term outlook relative to price paid. In fact wherever clients have additional space, we have added to these stocks. I sleep well with this portfolio. Apart from these four stocks, we have one more illiquid stock for a very small number of clients. This stock is down 42.6% from purchase price. Next 2-3 years will be decisive for this position. I continue to have positive view on this position as well.

Market in mid and small cap segment continue to be in attractive zone. I expect more opportunities to come in next 3-4 months. However Nifty and Sensex which mainly comprise of large cap companies continue to be highly overvalued. This bipolar nature of the market usually does not last that long. Many investors made a mistake by participating in bullish sentiment of mid and small caps in 2017/2018. I fear that they are making the same mistake by investing in large caps now. Let's see what happens after few years.

True owners of Tourism Finance Corporation of India – Promoters of Cox and Kings?

Over 2017 to 2019, Redkite Capital, a NBFC, completed acquisition of Tourism Finance Corporation of India (TFCI) with the help of SSG Capital and Koppara Sajeeve Thomas. The new promoters of TFCI acquired 45.81% stake in TFCI for a consideration of ~570cr (408cr by Redkite Capital, 100cr by SSG and 62cr by Sajeeve Thomas). As per the open offer documents, Redkite capital will be in control of TFCI and SSG capital/ Koppara Sajeeve Thomas will not be in operational control of the company.

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In order to avoid any risks associated with controversial research outcome, we will a) restrict the discussion to Redkite Capital and its ownership without discussing the affairs of SSG capital and Sajeev Thomas and b) restrict the note only to discuss ownership issues without making any accusation or allegations of any fraud. Readers and other researchers should do their own work on both of these aspects. I have done mine but I do not have financial/time bandwidth to deal with the risk associated with disclosing my findings. Additionally I will be attaching documentary proofs in terms of annexures to make the discussion fact based rather than opinion based.

Redkite Capital is a NBFC which nobody has even heard of before this announcement. What's surprising to me was its ability to muster 408cr for the acquisition. So I started looking at its sources of funds. Practically all the money for acquisition has come from loans (no additional equity at all) and now its debt to equity is more than 15x (Annexure 1). What is more interesting is that majority of loans have come mainly from 3 sources (Annexure 2):

- 38% of loans (150cr) are provided by Ezeego One Travels and Tours Ltd ((Annexure 3) which as per AR of Cox and Kings (Annexure 3A) is a company related to Cox and Kings and its promoters
- 26% of loans (108cr) are provided by India Special Situation Scheme 1 which is managed by Griffin Partners which is an entity of SSG Capital ((Annexure 4)
- 21% (85.5cr) are the loans against shares of the TFCI itself which was arranged post the acquisition of a part of the whole purchase (Annexure 2)
- Rest of the small sum was also in form of loans against property, loans from directors/promoters (Annexure 2)

Hence there is very low skin in the game by Redkite Capital or promoters of Redkite Capital. Moreover Redkite did not have any meaningful operations before this acquisition. What is interesting is the large loan provided by Ezeego One Travels and Tours Ltd. Ezeego is an affiliate of Cox and Kings and its promoters. We all know that recently Cox and Kings has defaulted on its loans in spite of having large cash balances on its books. What's more interesting is that TFCI is a lender to Cox and Kings with exposure of 4.5 % of the loan book. It might be much more if we include all related parties and promoter entities of Cox and Kings. But we do not know for sure. Additionally there are few important facts which indicates relationship between Cox and Kings and Redkite Capital

- Redkite Capital is owned by Epitome Multitrade Private Limited, Aparajita Mercantile Private Limited, Monisha Financial Advisory Services Private Limited, Larissa Financial Advisory Services Private Limited and Om Prakash Khandelwal (Annexure 5). These companies in turn are owned by two families (Annexure 6)
 - The Jains - Namita **Jain** and Naresh **Jain**
 - The Khandelwals - Priti **Anil Khandelwal**, Omprakash Khandelwal and Uma KhandelwalCoincidentally the company secretary of Cox and Kings is Rashmi **Jain** and Ex CFO is **Anil Khandelwal**. By name itself it's evident that ultimate owner of Redkite Capital has some connection with Cox and Kings.
- Cox and Kings Foundation, have same managers as ultimate promoters of Redkite Capital (Annexure 7)
- In form 1 of Larissa Financial Advisory Services Private Limited and Monisha Financial Advisory Services Private Limited, the contact details of directors has personal email id of Anil Khandelwal (Ex CFO of Cox and Kings) (Annexure 8)

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- In a POA filed to ROC, Larissa Financial Advisory Services Private Limited has authorised Rashmi Jain (CS of Cox and Kings) for making amendments to its incorporation documents (Annexure 9)
- There is an inter-corporate deposit (ICD) in books of Larissa Financial Advisory Services Private Limited which is shown to be received from CnK which might mean Cox and Kings (Annexure 10)

Though each of the above instances individually might be a coincidence but all of the five, together with the financing provided by Ezeego, is highly unlikely to be a mere coincidence. Hence it's clear. Cox and Kings/promoters provide loans to Redkite/promoters, Redkite buys out TFCI, TFCI provides loans to Cox and Kings/promoters.

So, the real question is who is the true owner of TFCI? Is it promoters of Cox and Kings? If yes, then, clearly a borrower is buying a lender through its shadows and it's a disaster to have financial services company in hands of a defaulting borrower. How can one explain defaulting on one's own debt but also investing through layers of companies to buyout one of the lenders? Also, if it's true then, it's unclear to me how RBI has provided its approval to such an acquisition?

Future actions of all the entities are more interesting now because Cox and Kings has been admitted to Insolvency and Bankruptcy court (IBC). It has been trying to stop this by various means but surprisingly recently has allowed it to happen. It would be interesting to watch the role of TFCI as a member of committee of creditors which decides lot of things in the IBC process. IBC process might also reveal the true exposure TFCI has to Cox and Kings/promoters (if it's more than the disclosed exposure). Remember, PMC Bank fraud came to light because HDIL was admitted to IBC process and in order to submit its due claims under IBC process, PMC bank first had to reveal its true exposure to HDIL. I am eager to see how the story unfolds in future.

You can download the annexures referred above from here

<https://www.scribd.com/document/441300277/Combined-Annexures-v1>

That's it from my side for the quarter. Wish you and your family a very happy new year!!