

Honesty and Integrity Investment (HNI Investment)

Email for March 2022

Dear Friends,

Here are the details of performance of HNI investment based on the share prices as on 31st March 2022:

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%
FY20	-45.8%	-28.6%	-26.9%
FY21	104.7%	71.1%	68.2%
FY22 - IRR	15.6%	21.7%	20.7%
From Inception till 31st Dec 2021	23.9%	18.4%	18.3%
From Inception till 31st March 2022	26.5%	17.4%	17.3%

(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

We did well during the quarter with portfolio value going up by nearly 11.3% in absolute terms while there has been a decline of about 1% in Nifty/Sensex. However on full year basis for FY22 we have underperformed the markets.

As I have said earlier (in March 2018 and June 2020 newsletter), there is no point evaluating performance over short term and at a single point in time. The good way to look for performance is to look at it over long term and even better way would be to look at the returns from the portfolio of exited stocks. Best way would be to separate luck and capabilities from the outcomes of the better way.

We have exited one stock from the portfolio during the quarter with an IRR of 37.4% (holding period of around 2 years) with around 2x absolute return. As per my conservative assessment nearly 50-60% of the returns generated can be attributed to my capability and we will never know about the exact source of the rest.

We have one significantly underperforming commodity holding for last ~3.5 years in the portfolio. Contrary to market expectations, I strongly believed in long term future of this commodity and hence had bought the stock. Unfortunately due to CoVID induced problems and due to management conservativeness in business investments, production at the company went down significantly in spite of sharp increase in average prices of the commodity. Moreover, higher government royalty and profit share, reduced the profit available to equity holders.

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Fortunately, a private equity backed, capable and experienced industry veteran is now taking over from the current management of the company. With CoVID largely behind us and with new relatively more aggressive and capable management in place, most of the fundamental problems seems to be resolving. Moreover significantly high underlying commodity price and its continued bullish outlook as compared to our initial estimate, seems to have more than made up for leakages in form of high government royalty and profit share.

So in light of this changed circumstances, we have decided to give at least 1.5- 2 more years to see if there are any improvements in the performance of the company (seems highly likely). Had it not been this management change, we would not have given it more than a quarter or two from here. Let's see how things evolve. We always keep our ears and eyes open and can change our opinion instantly if new facts emerge.

That's it for the quarter from my side. Happy to answer any queries that you might have...