14th October 2020

Aurum Small Cap Opportunities
Quarterly Portfolio Update – Q2, FY 20-21

Dear Investors,

As the pandemic continues to spread across the world and more so in India, many economists and financial analysts have expressed fears of a severe economic impact. Capital markets, however, are pointing to a more optimistic picture of the future. The feel that we are getting from channel checks on the ground also don't paint as a grim a picture. Record agricultural output, demand surge in the two and four wheeler automotive bookings, residential real estate seeing strong revival in some pockets and pick up in manufacturing activity point to a strong economic recovery with the gradual lifting of the lockdown over the last quarter. GST collections for September 2020 at INR 95,480 Crores was ~4% above September 2019 collection of INR 91,916 Crores! A growth of about 4% over September 2019 was indeed a pleasant surprise especially when many sectors such as hospitality, airlines, leisure, entertainment and allied businesses are still severly impacted.

We may not have a preventive cure or a vaccine yet for Covid-19 but the medical fraternity globally has surely made a lot of progress in understanding the virus and accordingly tweaking treatment protocols that are producing conducive results with patient recoveries improving substantially, hospitalization needs getting moderated and case fatality rate going down drastically. Resultantly, most countries including ours have taken quite an aggressive stance on relaxing lockdowns and easing restrictions.

In our opinion amongst the key drivers of our economic growth going forward, the following will surprise many:

- Rural consumption aided by just unleashed farm sector reforms
- Manufacturing sector catalysed by 'Aatmanirbhar Bharat' & China+1 theme
- Digital transformation taking wings to make a difference within India and to the world

The Coming age of Digital India

In this quarterly update we share our thoughts on how digital transformation is going to be a game changer for many businesses and our economy at large. Over three years ago we had dedicated one of our quarterly updates to highligt the power of JAM (Jandhan, Aadhaar, Mobile) trinity and how it will completely change the way Government transacts with its citizens. True to its potential, on the back of JAM we have seen the roll out DBT on a national scale to disburse subsidies and several other financial support programs where monies have been directly credited to the 'real' beneficiaries. When this money was spent on goods and services, it had a multipier effect on the rural economy. A very clear demonstration as to how digital technology can be transformative!

One of the ads in the ongoing IPL season shows money being transferred by the bridegroom to his sister in law without her having any app – simply on the basis of her mobile number. Courtesy UPI (United Payment Interface), something which was unthinkable only a few years back has become a reality! UPI allowed for smooth transfer of money for millions of people and small businesses everyday during the lockdown. Above all, its free!

Similarly the Govt has created and deployed or is in the process of deploying several other such software stacks such as eKYC, Digital Locker and National Health Stack amongst others. We strongly believe this digital backbone that is being put in place will completely change the way business is done positively impacting almost all walks of economy. Illustratively, we are presenting some of the sectors which are going to witness complete change due to digital transformation:

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Agriculture and allied businesses

The passing of the following three legislations in the last concluded session of Parliament freeing the farmers from APMCs thereby giving them free market access is historic.

- Farmers' Produce Trade and Commerce Bill *(APMC amendment bill)*
- Farmers (Empowerment and Protection) Agreement of Price Assurance Farm Services Bill, *(Contract Farming bill)*
- Essential Commodities Act (amendment)

We strongly believe that this reform will lead to redistribution of income to the larger base of farmers (having a higher consumption multiplier) thus kicking up a virtuous agri economic cycle. The unleashing of these reforms also set the stage for optimal deployment of digital platforms to enhance productivity and substantially dis-intermediate the current 'farm to fork' supply chain thereby creating value for both the farmer and the end consumer.

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The entire agricultural activity can be broken up into land ownership, bank credit, core farming (ploughing, sowing & harvesting), input management (application of fertilizer, pesticides & irrigation), harvesting, post harvest (sorting, packaging and storage) and market access to sell the produce. More than two dozen agri tech startups focused on one or more of the these activities have been funded by well known VCs with most of them creating a mobile based platform to aggregate players from the eco-system and applying data science to provide advisory & other services to members of the platform. As more members join and the data richness increases, machine learning and AI is being deployed to optimize the advice being provided to each member of the platform. On the basis of near 'real time' information on weather, soil conditions, sowing pattern, pest attacks, harvesting trends and many other such data points being collated at individual farm level, AI based predictive models of output and end farm gate prices help farmers take better decisions with respect to what to sow, type of inputs they should use to optimize costs as well as output and where (which mandi) / when to sell. With ease of payments (thanks to Smartphones & UPI), very soon farmers will start using these tech platforms in a big way to buy inputs and sell their produce directly to buyers without the need of an 'Aadatiya' or a broker. Along side we will also see banks, insurance companies, warehousing service providers and millers also connect to such platforms and actively engage and transact with the farmers.

Digital Healthcare

This pandemic catalysed the mainstreaming of many digital healthcare platforms who enabled large parts of the population to book diagnositic tests, do online consultations, order medicines and store health records. Pharmeasy, NetMeds, 1mg and the likes became household names.

As per a recent report published by FICCI and BCG - *surveys conducted across doctors and patients highlight that 85% of the clinicians used digital platforms for patient interactions during the lockdown. 50% of the clinicians found these platforms to be an effective medium for providing care. Additionally, 60% patients* *across metro and tier 1 cities reported they would continue using digital platforms for primary care in the post COVID world due to the fundamental benefits of shorter waiting time and easy access to qualified doctors. In addition, as per reports, the lockdown period saw teleconsultation services being accessed by over 2000 small towns, with 80% patients being first time users.* (Source: http://www.businessworld.in/article/Open-Digital-Health-Ecosystem-A-Game-Changer-For-India-And-The-Healthcare-Industry-FICCI-BCG-Report/30-09-2020-326422/)

The Government has launched an ambitious program of creating National health ID for its citizens that can store health records and also building a National Health Stack that would allow all the players of the healthcare ecosystem to seamlessly communciate and transact with one another.

In a post pandemic period, thanks to technology, India may leapfrog in its healthcare delivery systems in the same way as we leapfrogged from old world wired communication systmes to most modern cellular communication systems in the last 20 years

In a country where both healthcare professionals and infrastructure is in short supply, rapid digital transformation can make healthcare reach the masses. In a post pandemic period, thanks to technology, India may leapfrog in its healthcare delivery systems in the same way as we leapfrogged from old world wired communication systems to most modern cellular communication systems in the last 20 years. We recently came across an interesting healthcare start-up that aggregates hospital Operation Theater (OT) capacity with affiliated Doctors and then brings on the platform patients who can plan daycare surgeries with their choice of doctors and hospitals on the basis of spare OT capacity available. This is one illustration of how a country starved of healthcare infrastructure can optimally sweat its existing assets as it builds more.

Digital BFSI

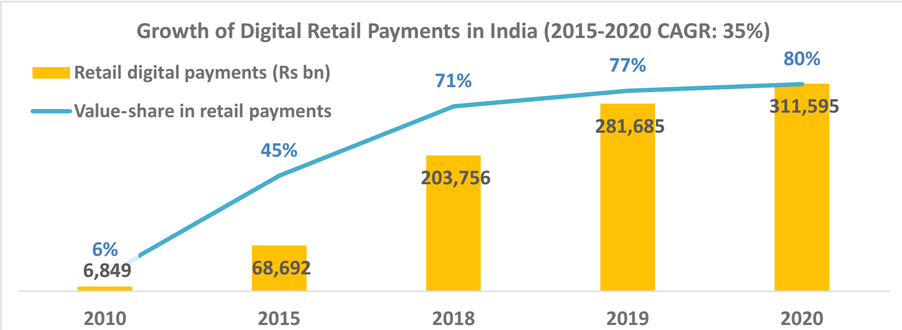
The BFSI sector has been on the forefront of embracing digital transformation and has been reaping its benefits for last many years. From transferring funds to booking Deposits, from paying bills to buying mutual funds, from applying for a loan to buying an insurance policy everything is now possible with the click of a button on a single screen (be it mobile or laptop). Imagine the convenience for a consumer and the opportunity to cross sell for a provider! As a cherry on the cake, the cost of transacting has come down too for both the parties.

With JAM trinity firmly in place and UPI as its backbone, the payments arena is truly democratized. Be it wallets (Amazon Pay, PayTM etc) or payment companies (PayU, Citrus etc) or Banks UPI has brought all of them on an even footing.

At 12,000+ million, UPI accounts for about 38% of retail digital transactions by volume

The growth of digital payments has been stupendous as can be seen in Fig 1 below.

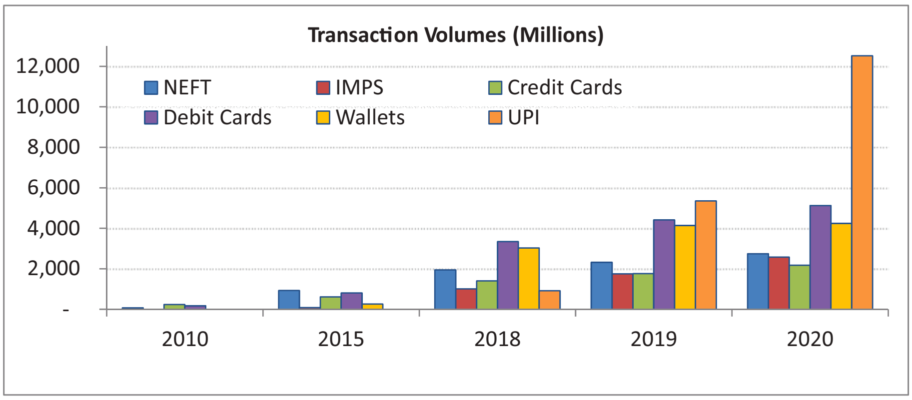
Fig 1: Digital transaction % of retail transaction value



Source: RBI, NPCI, NRC Research

Within this transformation, at 12,000+ million, UPI accounts for about 38% of transactions by volume (Fig 2). The remaining ~60% volume is accounted for by IMPS, NEFT, Credit card, debit card, wallet, cheques, etc. Being more granular and smaller in ticket size, in value terms UPI is still only 7%. The growth has been stupendous and will continue to be transformative.

Fig 2: Digital retail payments & their contribution to the total retail payments pie



Source: NPCI, RBI, NRC Research.

Many Indian tech companies have been on the forefront of helping banks and financial institutions worldwide in their journey of complete digital transformation and this remains one of the most promising opportunities for India tech companies over the next 3-5 years.

We have had a strong bias on the digital transformation theme for over 2 years now and most of our portfolios comprise of atleast one stock that resonates this theme. One stock in this theme which we hold in many of our portfolios is Majesco.

Majesco is the Indian holding company of Majesco Inc, a Nasdaq-listed, US headquartered Insurance software product company.

WHAT ATTRACTED US TO MAJESCO?

- **Investment Thesis – Migration to IT Software Products:** We believed, banking, insurance and other sectors had developed their IT infrastructure on patchwork legacy systems & software. However, given the emerging complexity and competitive intensity they would have to migrate to bespoke IT software products for their industry, which were easy to implement and upgrade on an ongoing basis. **While an uphill task, we believed that Indian companies could innovate, 'build & sell' world class software products.**

- **Large Insurance market:** US alone has over 5,000 insurers, with USD $1000 bn+ in aggregate premiums. The industry was operating on legacy systems & was on cusp of an upgrade cycle, driven by increasing regulations, need for digital transformation, increased business complexity & competitiveness.

- **Long-term moat:** The insurance IT software product space is dominated a by few companies, globally. Development & acceptance is a long cycle and even large traditional IT companies would find it difficult to build from scratch and execute in the medium term. Majesco had accumulated years of domain expertise & credibility in a valuable niche market, with few peers. A strong product development roadmap ensured an ever-widening moat.

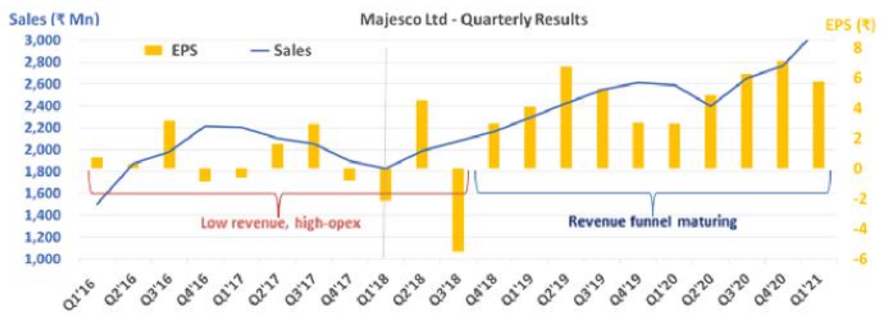
- **A "rare" pure product play, with market-validated product:** Majesco received strong reviews from leading trade analysts, one of only 3 "leaders" in Gartner's magic quadrant (Property & Casualty), global **customer base of 150+**, including **44 large ($1 bn+) insurers** *(as of March 2017)*. Company was also selected as key partner for the prestigious & transformative IBM led, Metlife Insurance Platform project.

Majesco was a pure product play with a global customer base including 44 large ($1 bn+) insurers (as of March 2017)

A PATIENT JOURNEY:

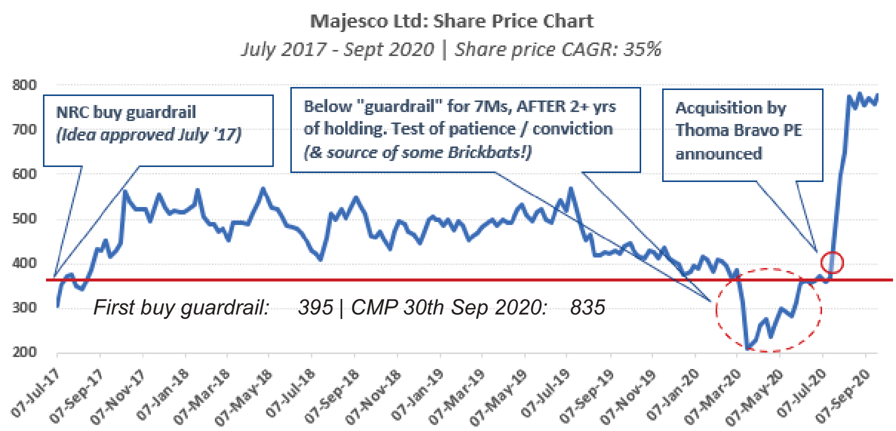
1. Earnings Stabilization:

Three years ago Majesco had relatively high fixed-opex (fully expensed development costs – a conservative policy), long customer decision cycles and one-off nature of software-license revenues. However, we could clearly see a maturing sales funnel and growing AMC & SaaS revenues smoothening the topline trajectory. Fixed costs would then start working in Majesco's favour, with incremental sales beyond break-even accruing disproportionately straight to bottom-line. As a "product" company, Majesco had high upfront costs with low & lumpy revenues in its initial phase of growth. It did not fit the familiar IT-Services company mould of smooth, predictable earnings.



Majesco US has been bought by Thomas Bravo Private Equity giving a multi bagger exit to investors

2. Uncertainty on Value Recognition:



Our investment thesis acknowledged that Majesco could likely remain under-valued for a while. However, we believed that underlying business growth, operating leverage & future value discovery would compensate for a long investment horizon.

This conviction was borne out when Thomas Bravo Private Equity acquired the business for effectively **~3.5x Majesco's previous closing market cap**, resulting in a robust pay off on our patient investment.

Warm regards,

Sandeep Daga

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