

SUREFIN INVESTMENTS

June 24, 2013

March 2013 Annual Update on the Surefin India Value Fund

Dear Investor,

Please find below the performance of the fund. This is the performance of the master series. Each of you will receive your individual performances separately. Please find the performance update also on the website at:

<http://www.surefin.com/newsletter.htm>.

Surefin Investments is up 1.1% in the last quarter, registering a 12.1% return since April 1st, 2012 and is up 1220.1% since inception in May 2001 after fees and other expenses¹. This fund has grossed a CAGR of 24.2% over the last 12 years after fees and other expenses.

Total assets managed by Surefin Investments in Public Equity investments (including Surefin India Value Fund)² as of March 31st, 2013 are Rs. 50.9 Crores.

¹Fees are calculated differently for different clients, depending on when they entered the fund. However, now fees are charged at 0% management fees and 25% carry, over a 5% hurdle rate, with high water marks.

² As per Indian Portfolio Management Scheme (PMS) regulations. Includes capital outside the Surefin India Value Fund.

Percentage Return

Date	Surefin IVF	SENSEX	NIFTY	NASDAQ	Russell	S&P 500	Dow Jones
					2000		
May 15, 2001	-	-	-	-	-	-	-
April-02	20.0%	(2.1%)	(0.6%)	(10.7%)	3.0%	(8.2%)	(4.7%)
April-03	9.0%	(12.0%)	(13.6%)	(27.6%)	(26.9%)	(25.1%)	(22.1%)
April-04	154.0%	86.3%	84.9%	49.4%	61.5%	31.9%	28.5%
April-05	42.0%	15.1%	13.6%	(1.5%)	2.7%	3.6%	0.3%
April-06	42.0%	70.8%	64.6%	17.9%	25.1%	10.4%	6.8%
April-07	6.4%	15.9%	12.3%	3.5%	4.6%	9.7%	11.2%
April-08	30.9%	19.7%	23.9%	(5.9%)	(14.1%)	(6.9%)	(0.7%)
April-09	(26.7%)	(37.9%)	(36.2%)	(32.9%)	(38.6%)	(39.7%)	(38.0%)
April-10	36.9%	80.5%	73.8%	56.9%	60.5%	46.6%	42.7%
April-11	12.6%	10.9%	11.1%	16.0%	24.3%	13.4%	13.5%
April-12	11.6%	(10.5%)	(9.2%)	11.2%	(1.6%)	6.2%	7.2%
April-13	12.1%	8.2%	7.3%	5.7%	14.6%	11.4%	10.3%
Percent Change	1,220.1	426.6	396.2	56.7	94.3	25.6	34.1

Performance Evaluation of Surefin India Value Fund

Index Value

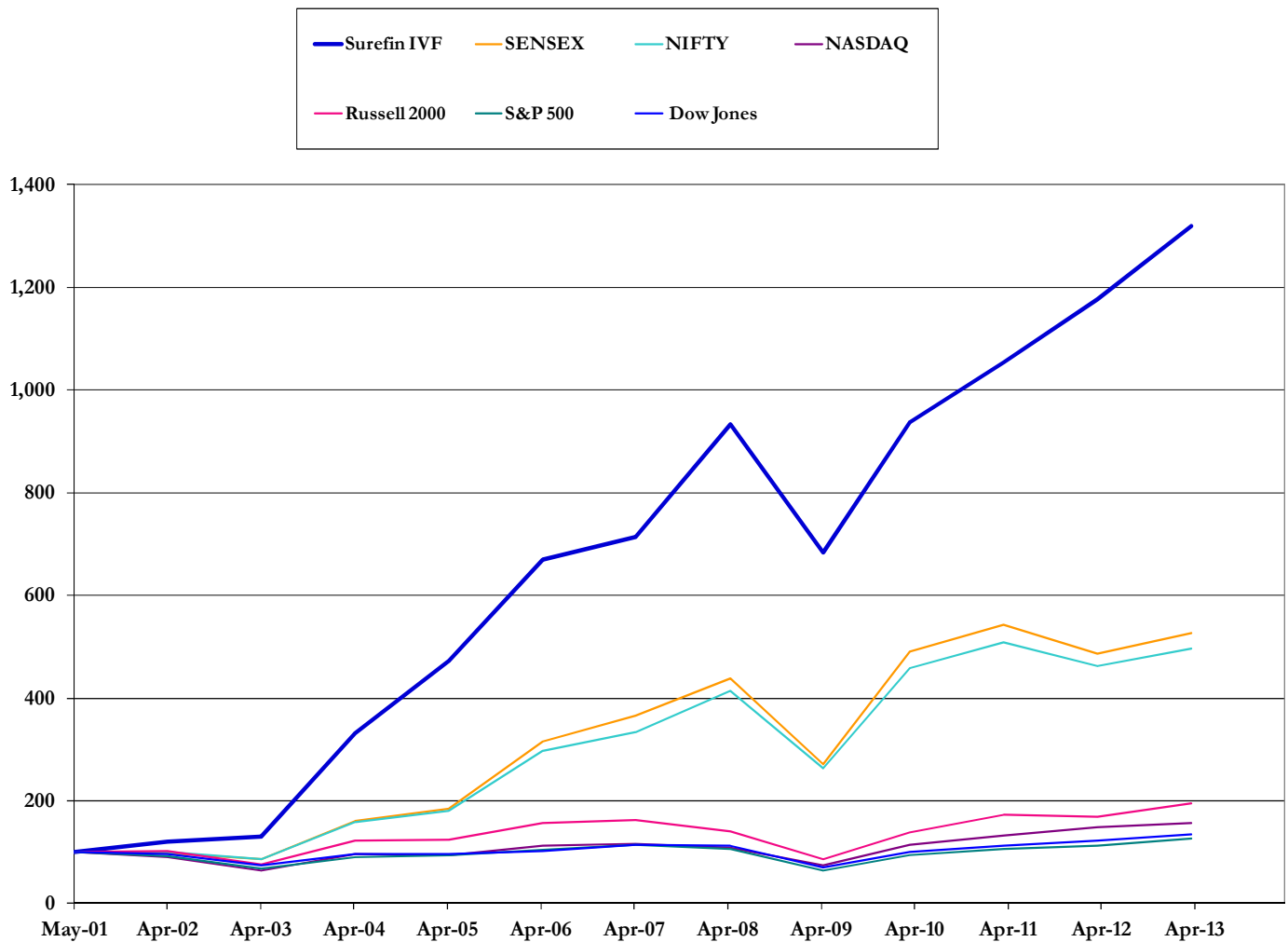
Date	Surefin IVF	SENSEX	NIFTY	NASDAQ	Russell	S&P 500	Dow Jones
					2000		
May 15, 2001	1,000.0	3,577.0	1,145.3	2,085.6	489.6	1,249.4	10,873.0
April-02	1,200.0	3,500.2	1,139.0	1,862.6	504.5	1,146.5	10,362.7
April-03	1,308.0	3,081.0	984.3	1,348.3	368.7	858.5	8,069.9
April-04	3,322.3	5,740.9	1,819.7	2,015.0	595.3	1,132.2	10,373.3
April-05	4,717.7	6,605.0	2,067.7	1,984.8	611.6	1,172.9	10,404.3
April-06	6,699.1	11,280.0	3,402.6	2,339.8	765.1	1,294.9	11,109.3
April-07	7,129.9	13,072.1	3,821.6	2,421.6	800.7	1,420.9	12,354.4
April-08	9,334.4	15,644.4	4,734.5	2,279.1	688.0	1,322.7	12,262.9
April-09	6,845.5	9,708.5	3,021.0	1,528.6	422.8	797.9	7,608.9
April-10	9,370.1	17,527.8	5,249.1	2,398.0	678.6	1,169.4	10,856.6
April-11	10,548.0	19,445.2	5,833.8	2,781.1	843.6	1,325.8	12,319.7
April-12	11,774.9	17,404.2	5,295.6	3,091.6	830.3	1,408.5	13,212.0
April-13	13,200.8	18,835.8	5,682.6	3,267.5	951.5	1,569.2	14,578.5

CAGR **24.2%** **15.0%** **14.4%** **3.8%** **5.7%** **1.9%** **2.5%**

* The returns till 2005 are calculated on an XIRR basis.

* XIRR is the internal rate of return of an investment that does not necessarily have periodic payments. This function is closely related to the net present value function (NPV). The IRR is the interest rate for a series of cash flows where the net present value is zero.

* FY is from 1st April to 31st March.



Portfolio Evaluation and Mistakes

The fund is up 12.1% when the best of the local indices is up 8.2%. In comparison, the BSE mid-cap and small-cap indices in India are down (3.2%) and (12.4%) respectively during the same period. These indices represent smaller companies.

Although, a 4% outperformance (over the larger indices) in any one year is not a remarkable feat, it will lead to huge outsized gains if we can continue doing it over a twenty year time frame. The relative results due to compounding will be pretty astonishing. Suppose we make a return of 12% versus a market return of 8%. After 20 years, we would have an 864% return, versus a return of 366% for the index. Add another 10 years, and the difference is 2895% return versus a 906% return.

However, we are not happy with our absolute results for the year. Low double-digit returns, though good, are not excellent. Compounding looks prettier with higher numbers. We would be happy with a 15% net return to investors in years where the market is generating mid to high single digit returns.

We did not make any mistake in the fund this year.

Returns History and Expectation

During the early part of the year 2009, SEBI had changed the way that PMS providers operated the accounts. SEBI mandated that each provider open separate Demat Accounts for every client and till a Demat Account had not been opened for every client, the PMS provider could not buy securities on behalf of any of the clients. Given the new laws in opening Demat Accounts and the tedious KYC norms by the NSDL and various custodians, it was impossible to meet the deadlines set by SEBI and our buying was in effect frozen for a good part of May 2009. Most stocks rallied soon after and it was painful to sit with cash (that we had hoarded so painstakingly for a period like 2009) and not be able to buy anything due to this back-end and regulatory glitch.

The substantially lower returns in FY 2010 have lowered our overall return substantially (from a 5-year perspective). We have spruced up our back-end operations and team since then to make sure that this does not repeat itself.

Even after taking the back-end and regulatory glitch in 2009 into account, we have outperformed the best of the indices during most periods of time. Our stated expectation is to outperform the indices by over 5% per year. We have just about achieved our objectives there over the last five years and have done this while avoiding huge losses. This outperformance over the index will add up to huge numbers over the next few decades. Also, we have beaten all the indices, with a lot of cash in our hands.

Portfolio Transactions and Allocation

We sold four positions during the year. The details of the positions sold are below:

Industry / Product	Bought	Sold	Months Held	Absolute Return
Balkrishna Industries	Dec, 2010 to Feb, 2011	April, 2012 to Dec, 2012	16 to 18 months	108.0%
Real Estate Related	Sep, 2009 to Oct, 2010	Jan, 2013 to Feb, 2013	40 to 42 months	282.5%
Media Related	Feb, 2009 to Nov, 2010	April, 2012	37 to 40 months	-7.1%
Himatsingka Siede	Mar, 2008 to May, 2008	Sep, 2012 to Oct, 2012	54 to 56 months	-36.8%

We bought no new positions in the fund this year. One of the positions is 25% of the fund. More on this a few pages down.

Our “Expansion Bucket” continues to perform well so far. We sold one of the positions from the bucket completely this year in a company called Balkrishna Industries Ltd. We sold a small portion of our investment in another company (Real Estate Related) from within the expansion bucket that has done exceedingly well.

We have written previously, *“We think we will outperform the local indices in the future. One of the main bases of this conviction comes from our intention to get more invested in the fund.”*

Although a few years is a very short period to measure performance, the fund has outperformed the indices in India and it has done so sitting with a lot of cash and much lower volatility. It has also handily beaten the global and US indices since the inception of the fund.

Concentration of the Portfolio and Asset Allocation – Important

We wrote the following to you last year:

“With the exception of 2009, our largest positions today are probably the cheapest they have ever been on a risk-adjusted basis. By risk-adjusted we mean that we have some no-brainers as large positions in the portfolio. For example, our two largest positions are naturally hedged against any huge fall-out in the markets because of Europe etc. In fact, one of the positions may actually benefit from the ensuing volatility.”

“The investment has all the traits that we love – the company is run by a guy we admire, is very cheap, has high uncertainty but low risk and should get better with time. It is also a large company (over \$1 billion in market capitalization). The stars seem aligned and we have swung at the fat pitch.”

The pay-off of the situation can work out where in three years it may double with a very low chance of losing money. The best case scenario is that the position may triple in value over five to six years. Institutional interest has completely dried up because the “industry” within which the company operated in has changed due to a sale of a large portion of the underlying business. Research houses have suspended coverage, sector funds have been forced to sell, capital deployment is uncertain, and everyone seems to be waiting for the clouds to clear to see where the horizon is. We love that. High uncertainty, low risk is a no-brainer in our mind and we have gone “all-in”. It is a bet on one person, who runs the company and we hope we are correct on him.

In addition to what we have written in last year’s letter (which can be found by clicking [here](#)), we want to give you a flavor of what our largest position is about.

The company is currently into three different industries and has about nine different verticals. Most of these verticals have been formed over the last two years. After the sale of one of the verticals, the company was left over with one crappy business, and a lot of cash. The person in charge is someone who is as much an investor as a businessman. His

past is littered with examples where he opportunistically bought assets in distress and in great speed, which he has either turned around or grown. He has also spun-off assets in a few occasions.

The difficulty for us lay in assessing how he would deploy the excess cash. The amount of money he received was significant, and after returning some of it to shareholder's (which we received), he was still left with a pretty large chunk. He could also take on additional leverage so the assets that he had to manage were multiples of what he had managed before.

We are pleased to report that so far he has done a good job of allocating the capital. He has also used the capital structure intelligently. He has made large investments (\$250 to \$500 MM) with good discipline and decisiveness. . The stock has moved up after our purchase as the uncertainty around capital allocation started to reduce. Our return so far on the investment is decent but we are still holding the position for further gains.

Given that the company has abundant liquidity and unutilized borrowing capacity, it will do *better* if markets fall and so will we. The core businesses are doing okay though there are two verticals that may be a cause of concern and we are watching those closely. Unfortunately I cannot share numbers or specific details on this investment as we are still holding it and may even add to it in the future at the right prices.

We are repeating something we had mentioned in our last annual letter to you because it is going to be important for us going ahead:

Mr. Buffett in his 1965 year letter has an excellent section labeled Diversification. He wrote "*We are obviously following a policy regarding diversification which differs markedly from that of practically all public investment operations. ... We have to work extremely hard to find just a very few attractive investment situations. ... We probably have had only five or six situations in the nine-year history of the Partnership where we have exceeded 25% [in a single investment]. ... We presently have two situations in the over 25% category – one a controlled company, and the other a large company where we will never take an active part. It is worth pointing out that our performance in 1965 was overwhelmingly the product of five investments. ... If you should take the overall performance of our five smallest general investments in 1965, the results are lackluster (I chose a very charitable adjective).*"

He said that the fund had invested more than 25% *only* five or six times in the last nine years! How many fund managers can say that for themselves today?

As on 31 March 2013 we were holding 12 positions that made up about 73% of the fund. The balance was held in cash, money market mutual funds and other current assets. Here is a break-up of the industries we were holding companies in:

Allocation (March 2013)	# of Cos.	% Allocation
Holding Company (Many Industries)	3	31%
Real Estate Linked	2	20%
Agriculture Linked	2	9%
Special Situation	1	8%
Automobiles Linked	1	4%
Other	3	1%
Cash, Money Market (including Margin Money)		27%
Total	12	100%

The “Expansion Bucket” is now a sizeable portion of the fund consisting of four positions totaling about 24% of the portfolio. Two of the stocks in the bucket are of very small companies that are ridiculously cheap. We had written the following last year for one of the small companies:

“One of the companies that we have held for a long time (in substantial quantities) is now in this bucket for us. The revenues of the business has grown over the years, although its profitability ratios have been affected negatively by the soft real estate market in the US and Europe. The market capitalization has fallen considerably over the years to a point where, from now on, any hardening in the US real estate market and / or any growth in capacity of the company will lead to benefits going forward. Hence we are putting it into this bucket from now on.”

This company has been cheap for too many years but we are patiently holding it and will do so unless the business deteriorates - interestingly the exact opposite has happened during the year gone by. Business has actually improved and grown. The stock continues to languish and we continue to wait patiently.

Our cash position in the fund increased during the year. We were sitting on 20% cash at the beginning of the year (March 2012) and 27% at the end of the March 2013 quarter. The cash portion of the fund is now mostly invested in risk-free, money market debt funds in India yielding about 7% annual returns.

Our top five and top eight positions make up 84% and 95% of the non-cash portion of the fund; and 61% and 69% of the total fund, respectively.

Even though our long-term objective was to get more invested in the fund, we did not manage to find any suitors during the year. In general the business environment deteriorated during the year and prices stayed high (till March 2013).

Interviews and Presentations

We presented at the *Value Investor's Congress* in Las Vegas 2013. We also presented an investment idea called Greenply Industries Ltd. The company makes ply-board, laminates, veneers and MDF and has a wide distribution network and a strong brand. The company has a near monopoly in the domestic MDF market (no other organized player and most of it

is currently imported) which it is expanding significantly. It is also expanding other verticals. However, there are some concerns with the heightened margins in some of the commodity-type products that the company. The company currently trades for 7 to 8x times earnings. It has a considerable amount of debt which was taken for an expansion and will either start getting paid back or will be used up for future expansion.

I was interviewed by Oliver Mihaljevic of the *Manual of Ideas*. John and Oliver Mihaljevic run a very efficient and intelligent operation at the *Manual of Ideas* and I want to thank them for the opportunity. Here is the link for the video (<http://www.valueconferences.com/people/instructors/amitabh-singhi/>). It is a very long interview and I apologize in advance for that, but I think it conveys many of our ideas accurately.

The *Outlook Business Magazine* recently published a wonderful issue about Berkshire and Mr. Buffett and the various followers in India and some around the world. I was excited to be featured in this issue. The interview can also be found online at <http://business.outlookindia.com/printarticle.aspx?285701>. The editors at *Outlook Business Magazine* are high quality people, thorough and great at their jobs and I recommend reading this issue. They call it a Collector's Issue and it totally is one. We have bought a few extra copies of this issue and will be to send you a copy should you want one.

Inflation and Currency

We have written before in our letters that India is under a massive siege of inflation. For an example of sustained underlying inflation, we can look to real estate prices.

I do not know a single person who lives in Delhi or Mumbai who can afford living in the houses they are living in based on current market prices and their monthly incomes (not capital gains). Residential rental yields range from 1% (at high-end properties in major metros to 4% in smaller towns). Land prices in rural areas have gone up 8 to 10 times in the last five years.

Real estate, leaving aside some very small pockets, seems to be in a bubble state for quite some time now. The dangerous part of this bubble is that it may not burst any time soon and the general “wealth effect”, which has spread pervasively throughout the country, may continue to distort underlying reality for many businesses for quite some time. It would be interesting to see what would happen if real estate prices were to fall a lot either suddenly or over time.

India has had one long real estate cycle. From 1994 to 1996 prices went up four to six times (across residential and commercial – there wasn't much retail then). From 1996 to 2000, prices were down 30 to 50% in absolute terms. From 2000 to 2004, prices only came back to 1996 levels in nominal terms! And then from 2004 to 2007 (and in many cases till 2011), prices have again gone up five to ten times. History does not repeat, but it does rhyme. The demographics in India have changed dramatically since 1996. Both the demand and supply of real estate have had huge increases. Housing finance is much more pervasive and Indians are much more integrated globally in their buying habits with the rest of the

world than they were back then. However, prices that are unsustainable because they are simply unaffordable will find a way to correct themselves.

Some people argue that real estate is a good hedge against inflation. Extremely exclusive properties do keep their prices over the years. But the same cannot be said for most other real estate properties. Even so called 'secured' yields on rented commercial properties do not hold as property prices fall. Lessees renegotiate and the new reality dawns.

One obvious way of inflation to correct is for prices (in Rupees) to fall. The other way is for foreigners to punish our reckless spending habits (mostly of the government's fiscal and monetary policy, which has always been extremely liberal), which is probably more than half the reason for the inflation, by constantly punishing the INR versus the USD. So in effect in USD terms we are inflating by that much less.

We have said before that over the long-term we expect the INR to continue to weaken against the USD. We have no idea what will happen in the short-term (within a year or two).

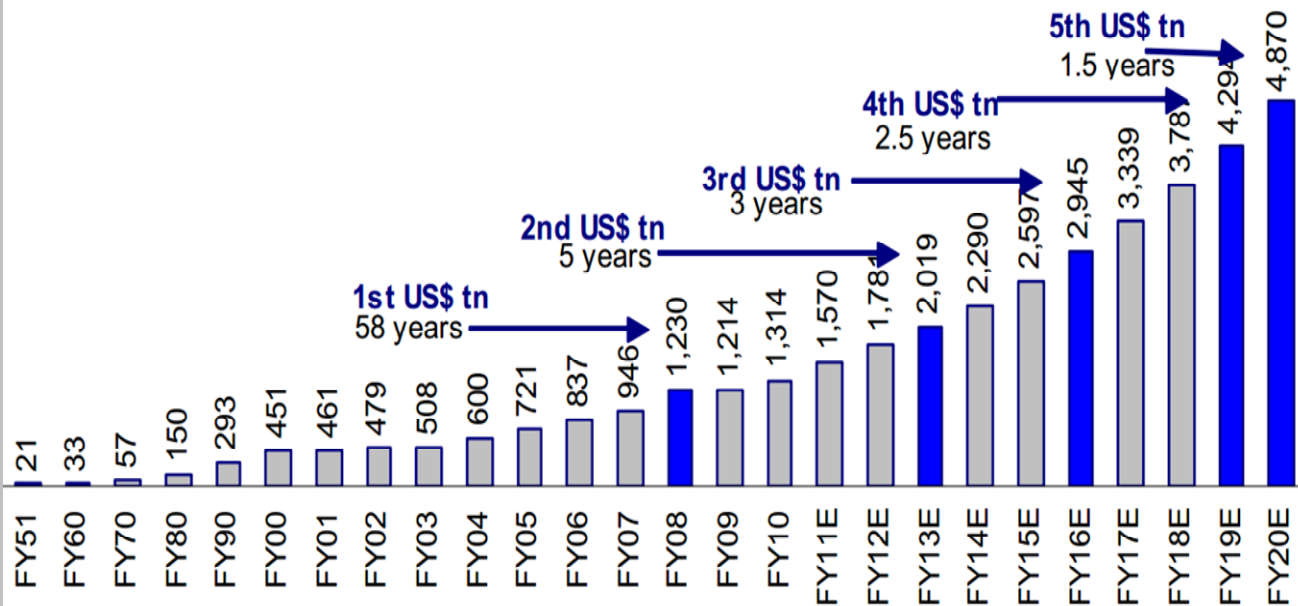
Overall Market Environment and Opportunity

India is a large country with a GDP of \$2 Trillion. It is a country which has been fragmented across various states, languages, religions, cultures, mind-sets and economic strata. Many people have been amazed that it is still united as one country. However our interest in India is primarily financial.

It is always good to be in a place where there is growth. Growth pays for a lot of sins. India has been growing, although sometimes slower than some people would like, year-on-year every year in the last 20 years. In many of the last 10 years, the *nominal* growth rate has been well over 10% with some years being as high as 15%. The numbers reported commonly in the press are for *real* growth, adjusted for inflation.

India Will Add \$1 Trillion to its GDP in 4 Years

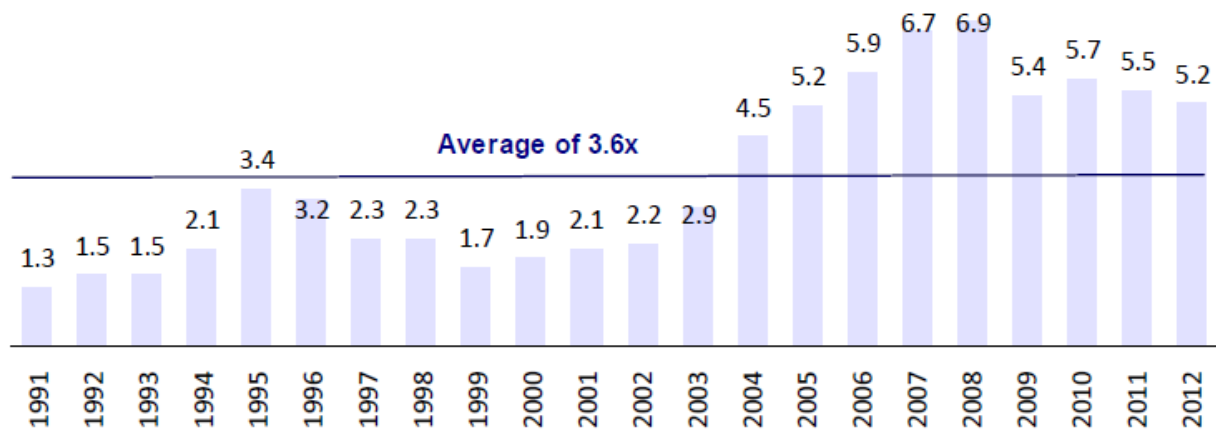
SUREFIN
INVESTMENTS

Services 63%
Manufacturing 20%
Agriculture 17%


Source: Broker Research

And not only is the GDP growing, it is also decently profitable (so far, at least since 2003).

Corporate Profit to GDP (%)

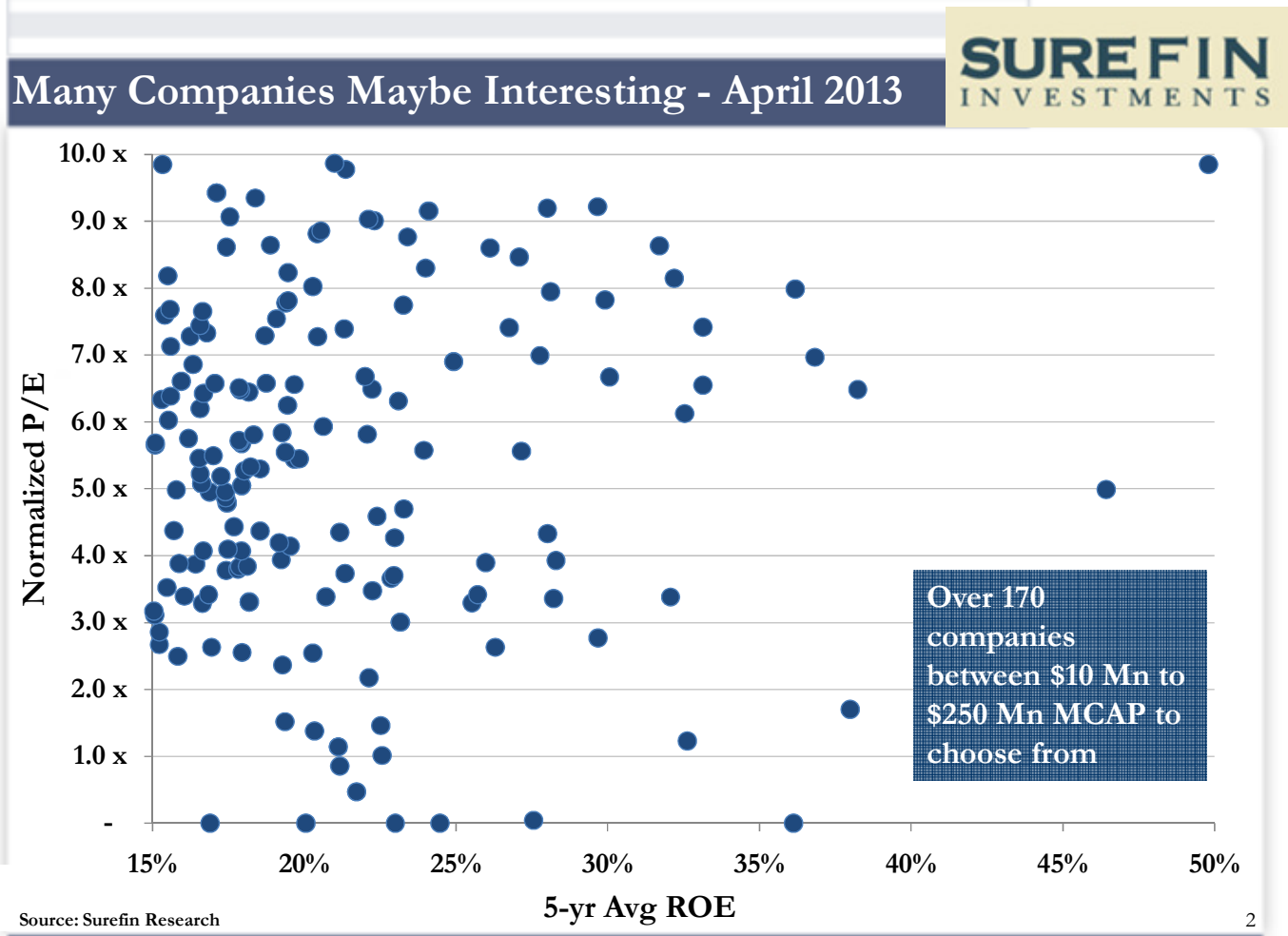


Source: Broker research

Now our job mandate is to find “pockets” of profitable growth protected for some period of time at a suitable price. The good thing with a growing pie is that, over time, it even overlooks occasional mistakes of over paying slightly.

One of the ways is to run “screeners” on potential candidates. Below is an example of a screen we ran recently.

STRICTLY CONFIDENTIAL



It seems from looking at the chart that there are many companies to choose from and there certainly are. However, we have recently noticed that the utility of running “screeners” in identifying stocks has gone down significantly in India. It is one of the reasons why we feel that India is not a market that one can invest into, sitting outside India. Being on the ground and sniffing the hidden gems or cobwebs is very important. Many companies, large and small (contrary to what people think – large companies in India are sometimes much more dangerous as potential investments than their smaller counterparts), have accounting issues or other corporate governance problems.

The most onerous are the ones that are perfectly decent companies, well-run but have serious business headwinds in the horizon or around the corner and where looking at past numbers will be completely misleading. Many times the company itself is oblivious to the generous tailwinds propelling the entire industry and unsustainable margins.

There are many companies (or entire industries) that produce extremely simple goods or services and operate with extremely high operating profit ratios. Also these companies have had explosive growth in size of operations since 2004 (greatly because of the buoyant business environment). Most investors sitting in Singapore or New York cannot get enough of these stocks.

An exaggerated example is a company called Hawkins Cooker Ltd. It makes kitchen appliances, and its primary product is the pressure cooker (for people who do not know what a pressure cooker is, it is worth *Googling* it now). It trades at 34x FY13 earnings. But what is absolutely astonishing - and please be sitting down for this - the stock is up a 110x (yes, that's a hundred and ten times) since 2004!

Now that you are sitting (feeling that longing pang because we did not buy Hawkins) let me continue. Its larger competitor is a company called TTK Prestige Ltd. It makes the same thing. Now, TTK Prestige Ltd. trades at 30x FY13 earnings and the stock is up - and I suggest lying down for this - 200x since 2004.

These companies are in the (currently sexy) bucket called *India Fast Moving Consumer Goods* (these companies are actually in the *Durable Consumer Goods* space). Anything in that space is trading at multiples that ignore many lessons from Ben Graham's *Security Analysis*, the primary one being where he quotes Horace, "Many shall be restored that now are fallen and many shall fall that are now in honor". Lack of historical data, especially across business cycles, is one of the main reasons for this myopic view and the resultant craziness in valuations and returns over the last ten years.

We will stick to investing in what we know and paying a lot less for it than what we think it is conservatively worth. We have no problem with others making money that is not ours to be made.

Now there are many reasons for people to be excited about the opportunity of companies addressing the booming rural market in India (and the boom in India's smaller towns and cities due to hordes of people urbanizing from villages). Rural India has never had it so good. And the best part is that it has gone fairly unnoticed. The reasons for the growth in rural India over the last five years are the following:

- 1) increase in rural wages at a CAGR of almost 20% for the last five years,
- 2) increase in prices of agricultural products, and prices of lands held by farmers,
- 3) penetration of banking (which covers 75,000 out of 600,000 villages in the country) and telecom (with 120 million connections in rural areas) to the remotest parts; and finally
- 4) social empowerment for the absolute bottom of the pyramid through various schemes like UIADAI (<http://uidai.gov.in/>) where 400 million people have been mapped in a biometric database till date and about 600 million will be mapped by 2014 and NREGA (<http://nrega.nic.in/netnrega/home.aspx>).

Most of these things have not been perfectly executed but collectively they seem to be having a *Lollapalooza* effect. It generates an opportunity for companies to address the 300 to 500 million people who were earlier not integrated into the market system for various goods and services. This new potential market is also non-correlated to most of the developments in the western world. As long as there is adequate rainfall (as most of the people in this category are heavily dependent on rainfall for agriculture), this potential market is going to continue to explode. What is most interesting about this market is that it is greatly under-penetrated and very difficult for incumbent leaders in many industries to steamroll newer players in. In fact, many multi-billion dollar businesses are going to be built solely catering to this category.

Our expansion bucket has invested in one company that will benefit greatly from selling its product to this new market. The company continues to strengthen its rural and semi-rural distribution and making its brand stronger each year. The company has a long runway over the next seven to ten years as it continues to cater to this market.

We will continue to look for companies that are positioned to benefit from this opportunity.

One of the most rewarding things about investing in India is that panic sets in much more often than in more mature markets. Increased volatility, with investors with short term holding durations is the best environment for us. We have benefited enormously because of periods like that. And we think we will continue to benefit for a long time to come.

We will continue to look for good investment opportunities and when we cannot find them, we will sit patiently on large amounts of “firepower”. The ability to sit on cash for long periods of time is a huge strength – something we cannot overstate.

All this would not be possible without our fantastic group of investors who all think like businessmen, love discount prices, do not panic when others do and most importantly trust us patiently. So thank you for your support.

We deeply appreciate your faith in us. If you have any questions or thoughts please feel free to get in touch with us.

Warm regards,

A handwritten signature in black ink, appearing to read 'Amitabh Singhi'.

Amitabh Singhi.

Portfolio Manager

Surefin Investments

www.surefin.com