Cohesion MK Best Ideas

Investment Report

April 2025

Cohesion
Accessing India's Growth

Beyond the noise

Cohesion MK Best Ideas, in line with both Indian and global equity markets, experienced a volatile first quarter, delivering returns of -9.29% in USD terms and -12.64% in GBP terms. However, its **robust since-launch performance of 213.87% (USD) and 216.01% (GBP)** continues to stand out — comparing favourably against major international equity markets, local indices, and peer funds, as highlighted in the table below.

31st March 2025 (USD)	Performance (%)
	Since Inception 1st August 2020
Cohesion MK Best Ideas (USD)^	**213.87**
Cohesion MK Best Ideas (GBP)^	**216.01**
Peer Performance**	82.28
S&P 500*	81.44
Nasdaq 100*	78.85
MSCI India*	71.68
MSCI All Country World Index (ACWI)*	61.96
Nifty 50*	62.73
MSCI Emerging Markets*	7.91
MSCI China*	-15.85

Whilst there is a temptation to devote the entirety of this report to discussing and debating the merits of President Trump's tariff policy, we are going to resist in the interests of avoiding verbosity. The subject has been aired in every media, and we can add little to the debate. Such is the fast-moving nature of the international tariff landscape at the moment, any views that we offer are likely to be outdated before they reach you. Indeed, there's a good chance that what we write in the first paragraph could be rendered obsolete by the time we finish writing this report.

It has been said that the four most expensive words in investment are "This time it is different." Whilst each crisis has unique elements that must be assessed differently, there are also basic human factors such as fear and greed that drive the reactions of stock markets to every crisis. In our team we have more than three hundred years of collective experience of successfully managing through previous crises. We have witnessed the common mistakes made time and again by other investors (and of course made some ourselves) and this can allow us to create opportunities for ourselves from the mistakes of others.

*iShares ETF, **FO Equity India TR, FE analytics; ^Gross Asset Value (GAV) returns; Data as on 31st March 2025; Past performance is not indicative of future results.

There was a great deal of money to be made for those who reacted correctly to the Great Financial Crisis, Covid 19 et al and we see many parallels today.

In any sharp market fall, it is notable that price action is often indiscriminate. We have already seen clear evidence of what we can only describe as dumb-money selling. In some cases, this has been the retail investor who had only bought into a particular share because its share price had risen a lot last year. They didn't really know why it had risen and have now bailed out because they don't know how much further it might fall. We have also seen investors selling due to margin or leverage calls elsewhere. We have also witnessed selling that is prompted by the most superficial of analysis. Some of this has been driven by sell-side analysts who have seen a large share price fall and written a narrative that might fit.

Although no-one, including us, enjoys being in an environment like this, we do like the miss-pricings that they create. In very many cases, the collective wisdom of the market about the likely impact of the Trump tariffs on individual companies are wrong. Just plain wrong. Looking at share prices for an explanation of what is going on in companies makes as much sense as looking at umbrella sales for an explanation as to why it is raining. There is a causal link, but you must make sure you are looking at it in the right way.

This report will focus on three key factors that are firmly in our mind when assessing our existing and potential investments today.

Made in the US

We have spent a lot of time recently speaking with our Indian companies. There really is no substitute for the insights that you get when talking to people at the sharp end of industry who are in discussions with suppliers and customers every day. What is clear is that there is a distinct gulf between some of the views that are being expounded by political commentators and the practical experiences within businesses.

Perhaps the clearest example of this involves President Trump's desire to bring manufacturing jobs back to the United States. The sentiment behind this pledge is perfectly easy to understand, however, even the most superficial examination demonstrates that it really isn't a threat to the businesses in which we are invested.

Past performance is not indicative of future results.

We are aware that the management teams of **RK Forgings** and **Dynamatic Technologies**, both share similar opinions. Regarding the timelines for establishing new production facilities in the United States, they have indicated timeframes of at least five years, and more likely closer to ten. It may be possible to construct the physical facilities in a matter of two or three years. It may even be possible to train the highly skilled engineers to operate such machinery in a similar timeframe, but the real challenge is the intensive testing that is demanded by OEM companies such as Boeing, Airbus, Bell Helicopters, Volvo or Ford and their various regulators.

It is crucially important to understand the difference between the manufacture of simple consumer goods, and those of a highly technical nature. In the case of the former, there are still regulatory standards that will be required by regulators to prevent consumers being harmed by defective hammers or toxic paint on children's toys, but nevertheless, such challenges are probably surmountable. Such products could be manufactured in the United States if the US consumer is willing to pay more for them. However, the components made by businesses such as RK Forging and Dynamatic Technologies are, in the most literal sense, life and death matters. If you are manufacturing key components of trains, planes, and automobiles, the most rigorous standards are demanded as there is no room for error at 40,000 feet or 100 miles per hour.

For a new US competitor to emerge and take market share will require a very significant leap of faith by manufacturers and regulators. Indian companies have got relationships that go back decades with the OEM companies. The OEM companies would be risking their entire reputation by switching to a new US-based supplier. **RK Forging components are critical to 60% of all trucks on the road in the US** and irreplaceable in anything approaching the short or medium term. Ultimately, if the US is going to keep trucking safely, they are going to have to just accept the majority of the parts will be Indian made for a very long time to come.

In order for new US based competitors to emerge to serve their home market, there will need to be very substantial fresh capital deployed. With bond yields rising, the cost of that capital is going up.

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We took feedback from the leadership team from **Shilpa Medicare**, one of the leading manufacturers of not only the key ingredients in the everyday medicines found in every drug cabinet in the US but also in patented drugs that address critical diseases. They shared that bringing new supply into many of their markets from a standing start would take ten years for some drugs and twenty in others. Put yourself in the position of a CEO of a US based company. Would you be borrowing expensive capital to invest in a facility with little payback for a decade? Looking back at successive US administrations, there has been an increasing tendency for the new POTUS to sweep away the work of their predecessor. We only have to look at President Biden's swift actions to rescind the Keystone XL pipeline, his rejoining of the Paris Climate Agreement and pausing the construction of the Mexican border wall for examples. Between now and a new facility opening in ten or twenty years there is likely to be several complete changes of government. Would a CEO want to be opening a facility in 2040 to address the tariffs that were imposed back in 2025?

There is also the question of comparative advantage which of course lies at the heart of the very reason for international trade and the deficits created. Countries are not created equally. They have different geographic, geological, resource and demographic features that make them better suited to making and trading different goods and services. India enjoys a massive advantage when it comes to labour. Highly skilled workers are required in many of our portfolio companies.

The management team of Dynamatic Technologies also highlighted that aircraft are called so for a reason — they are crafted with immense skill and precision by highly trained specialists. Put bluntly, India has a very large population of people who crave education, choose to work hard and are intensely proud of the job they have worked hard to earn. They are also willing, and indeed quite happy to work ten-hour days, six days each week, in demanding roles and earn $10-15 per day. It is hard to imagine how any of this can be replicated back in the US.

The conclusion of this for us is that it is hard to conceive how the current trade wars will significantly change the landscape for the wonderful companies in which we are invested. We struggle to imagine Boeing cutting ties with its Global Supplier of the Year or Bell Helicopters turning its back on the company it awarded Best Supplier three years running. For any CEO to rush to raise expensive capital, take on daunting OEM and regulatory hurdles, train a workforce that will be far more expensive than their Indian equivalents and hope that the tariffs have survived not just the next few weeks, but the next few administrations would be a bold, bold move.

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India – the winner of deteriorating US-China relations?

No-one knows who will "win" the trade war between Presidents Trump and Xi. Many commentators close to President Trump have said that he has been "obsessed" with the trade disparity for many years and regards it as nothing short of cheating. The relationship between the US and China has been souring for some time but has deteriorated rapidly over tariffs. There may ultimately be a ladder for the leaders to climb down but if they do so, there will clearly be no love lost between them. This is in marked contrast to the relationship between President Trump and Prime Minister Modi, a man who was described by President Trump as "a great friend". India was initially hit by tariffs towards the lower end of those imposed on other Asian countries and this clearly signals that President Trump regards India as being very different from China, Thailand or Vietnam. There is every chance that India will be able to negotiate these down as President Trump has recognised the calm and conciliatory way in which Prime Minister Modi's government has responded. If President Trump chooses to bear a grudge against the way that China has responded to his Liberation Day, India stands to be a relative winner.

When speaking with high-value-add Indian companies, it is abundantly clear that there is a depth of partnership that does not exist between the US and some Chinese (or indeed other Asian) suppliers. It would be entirely wrong to regard India as simply a low-cost producer of the parts needed by the US. That may be true for commoditised products, however, we can think of countless examples of our portfolio companies actually redesigning the components they are asked to manufacture so that they are more reliable, cheaper, and more accurate than the original specification. Indian companies actually make US companies better and it may now be fairer to describe India as The **Designer to The World** rather than Factory To The World.

India's internal momentum

With the exception of only true closed economies such as North Korea, no country will completely escape from a global recession. With exports accounting for only ~20% of its GDP, India is far more insulated than most — and crucially, its growth is largely driven by domestic factors, with minimal reliance on exports, especially to the US. We would be far less relaxed if we were invested in export fuelled countries such as Germany (44%), Malaysia (68%), Netherlands (88%), Switzerland (76%) or Thailand (65%). It is our belief India would actually continue to generate at least some GDP growth in all but the most severe of global recessions, such is the momentum of its domestic economy.

We have talked in previous reports about the **inevitability of Indian domestic growth**. Much of this is due to demographics and none of that has been changed by the tariff war. Come what may, there will still be hundreds of millions of new aspirational middle-class Indians added over the next few years and they will be buying houses for the first time and demanding the white goods, health care, entertainment and experiences that the West has enjoyed for decades.

Samman Capital is, in our view, a great way of accessing the inevitability of India's population upswings. In India it was the norm for people to save for decades to eventually buy their first house in their 50s or 60s. Today they are buying in their mid-twenties and Samman has a strong suite of financial products to help them in this. Samman battled hard to work through the NBFC crisis and has emerged with its balance sheet strengthening every month. Despite this, it is being punished by the market for the old reputation of its peers. Regular readers of our quarterly reports will remember our excitement about Public Sector Banks back in 2021 at a time when the market couldn't look past their dismal recent history. We identified that they were absurdly cheap and the market was failing to recognise the changes that had taken place. PSBs went on to make a lot of money for us in short order. We see the same potential in Samman Capital. With a cleaned-up business, it could easily command a rating of 2-3x book value.

Indostar were able to sell a similar business for such a rating and we see no reason why Samman can't do the same as they run-off their small legacy housing developer business. Samman is trading on just ~0.3x book and, for us, represents the classic **"cork under water"** with very appealing risk/reward asymmetry that suggests potential **limited downside and substantial upside.**

Past performance is not indicative of future results.

Another company that is sure to benefit from the internal momentum in India is **PayTM**. Started by India's youngest ever self-made billionaire, Mr Vijay Sharma, PayTM is a company we know very well. PayTM has carved out a central role in the Indian mobile payments market, allowing the vast number of smaller retailers, often in remote locations, to seamlessly accept payments from as little as a single rupee. With 1.2bn mobile subscribers in India, the potential is huge. What is especially exciting is the scope for PayTM to offer ancillary financial services, in particular stock broking, insurance and credit. Since 2021, the value of loans offered through PayTM's network has mushroomed from $80million to $3.26 billion and it's still accelerating from here. Retail loans across India are growing at a CAGR of 60%, merchant credit is growing at a CAGR of 45%, as is tech-enabled insurance. The growth potential is huge, independent of the global economy, and PayTM have an enviable position sitting at the heart of it.

We believe that an opportunity for **'certainty' of growth** should become ever more valuable in an uncertain world. Why would someone choose to own Western consumer or financial stocks serving a shrinking, greying and indebted population when you can buy its Indian equivalent that has its best years ahead of it? This is especially true for our portfolio which has, for some time, favoured domestically focused companies over exporters except where they have a clear and enduring competitive advantage.

We commonly ask our companies their views on whether their prospects look brighter in the rear-view mirror or down the road ahead. RK Forgings has grown its EBITDA from $100k at the time when Madhu Kela invested at its IPO in 2004 and now boasts an EBITDA of $100m, a CAGR of ~30% over the last 20 years. They could be entirely forgiven for resting on their exceptional achievements or accepting that they have probably extracted much of the potential value from their sector. That isn't the RK Forgings culture. It may surprise some readers to learn that RK Forgings and many well managed Indian businesses, have Western style ESOP schemes in place to align staff and shareholders. Workers from the shop floor to the boardroom have created very meaningful value for themselves as this has created a powerful sense of collective ambition. They have set their sights on growing their EBITDA to $300-400m over the next few years and have a solid pipeline that puts them well on track towards that. A good example of this is the massive upgrade and extension of the Indian railway network. RK Forgings will be the only private business supplying train wheels and this represents the most visible of order books over many years.

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In recent communications with leadership teams across our portfolio, we observed a consistent theme of long-term optimism. RK Forgings conveyed a strong belief that their journey has a very long way to go. While Dynamatic Technologies vision is that the pace of progress and opportunity over the next decade is expected to far exceed that of the last two. Despite the incredible growth delivered by this wonderful business, the company actually believes that it was held back for much of its history as a lot of defence and aero contracts were reserved purely for government entities rather than being available to private sector businesses with innovative technologies.

Understandably, it feels like the entire attention of the world is on tariffs, but we must remember that progress marches on elsewhere regardless. This is most notable in AI. Every CEO we speak with tells us of the AI enhancements that they are bringing into their business right now. The potential that AI has to make processes more efficient, more accurate and more value-add for customers is immense. This is leading to companies becoming much more valuable, even whilst their share prices may be falling.

Conclusion

When other investors are glued to their screens, their emotions and trading activity governed by the gyrations of markets, it is important to be firmly rooted in investment principles. We are constantly asking ourselves whether the businesses we own are likely to be substantially more valuable next year and the year after? Do they have highly visible order books backed by multi-year contracts? Are they benefitting from demographic, social or technology trends that are unlikely to reverse? Do they have deep moats of competitive advantage that a new competitor would find extremely difficult to cross? We own lots of such businesses and have several more on our watch list.

During times of market volatility, it can sometimes be best to adopt a private equity approach to investment. Take **Shilpa Medicare** as an example, they have invested over $100m on their 300+ PhD's researching and developing new products in the last ten years. This massive research commitment is now beginning to bear fruit as they will have the leading product in the chronically under-supplied purified blood sector. Their albumin technology could easily deliver EBITDA greater than the rest of the company combined. If you owned this company privately, would you be tempted to sell just because someone offered to buy you out on a bad day in markets? No, neither would we. This company has the potential to be valued at a multiple of its current valuation, regardless of anything else that goes on in the world.

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We understand the temptation to try to time the market. However, the old adage of "It is time in the market rather than timing the market" has much to commend it, especially in a market such as India with a powerful tailwind. **An investor who missed out on just the best ten days in the Nifty 50 TR Index over the last twenty years would have cut their return by more than 4% per annum.** For them, the best advice might have been to just get in as early as they could and stay invested as long as possible.

Investing during times of volatility can feel uncomfortable but history shows that these can prove to be the times when courage of conviction is best rewarded. Over the last ten years there have been five occasions when the Nifty Smallcap Index has fallen by more than 20%. **The average subsequent recovery was more than 120%.**

On a PEG ratio of just 0.32, the portfolio looks terrific value even if earnings forecasts were to be shaved back a little. We do not try to predict the very short-term direction of markets, however we are convinced that there is an exceptionally **high degree of downside protection** in many names at these levels and plenty of upside as and when calm returns.

31 March 2025	PE Valuation		Earnings Growth (%)	PEG Ratio
	10YR PE	FY26E PE	FY26E	FY26E
Cohesion MK Best Ideas*	**-**	**19.4**	**61.2**	**0.32**
Nifty 50	22.8	19.8	9.8	2.03
MSCI India	24.9	21.8	10.4	2.10
MSCI India Small Cap	34.3	24.6	4.3	5.70
S&P 500	21.6	20.9	15.1	1.39

Invexa Capital and Bloomberg, 31st March 2025; *Excluded the following companies from PEG ratio calculations: Samman Capital as there was one time write-off impacting PAT and Spicejet as the company is undergoing turnaround; Had we included these companies in the PEG ratio calculation, the ratio would have been even better with a value of 0.12; Past performance is not indicative of future results.

Strategy Performance: Data as at 31st March 2025

Discrete Performance** (%)							
		Q1	Q2	Q3	Q4	YTD	Since Launch: Aug 2020*
USD	2025	-9.29	-	-	-	-9.29	213.87
USD	2024	14.49	18.08	8.14	2.56	49.95	246.02
USD	2023	-7.06	19.14	12.60	14.78	43.12	130.75
USD	2022	-2.22	-13.25	13.45	2.18	-1.68	61.23
USD	2021	11.31	11.01	13.13	1.58	42.00	63.98
USD	2020	-	-	-0.19	15.70	15.48*	15.48
		Q1	Q2	Q3	Q4	YTD	Since Launch: Aug 2020*
GBP	2025	-12.64	-	-	-	-12.64	216.01
GBP	2024	15.47	17.89	2.24	9.60	52.53	261.75
GBP	2023	-8.98	15.71	17.25	9.99	35.83	137.17
GBP	2022	0.71	-6.41	23.69	-5.54	10.12	74.60
GBP	2021	10.40	10.63	16.12	1.15	43.45	58.56
GBP	2020	-	-	1.08	9.35	10.54*	10.54

*August 1st 2020
**net of taxes and fees, gross of performance fees

*Cash deployed cautiously during COVID-19 outbreak and 90% deployment reached by end of February 2021

	Equity	Cash
1st 6 months	45%	55%
1st 12 months	68%	32%
Since Inception	84%	16%

Portfolio – 31st March 2025

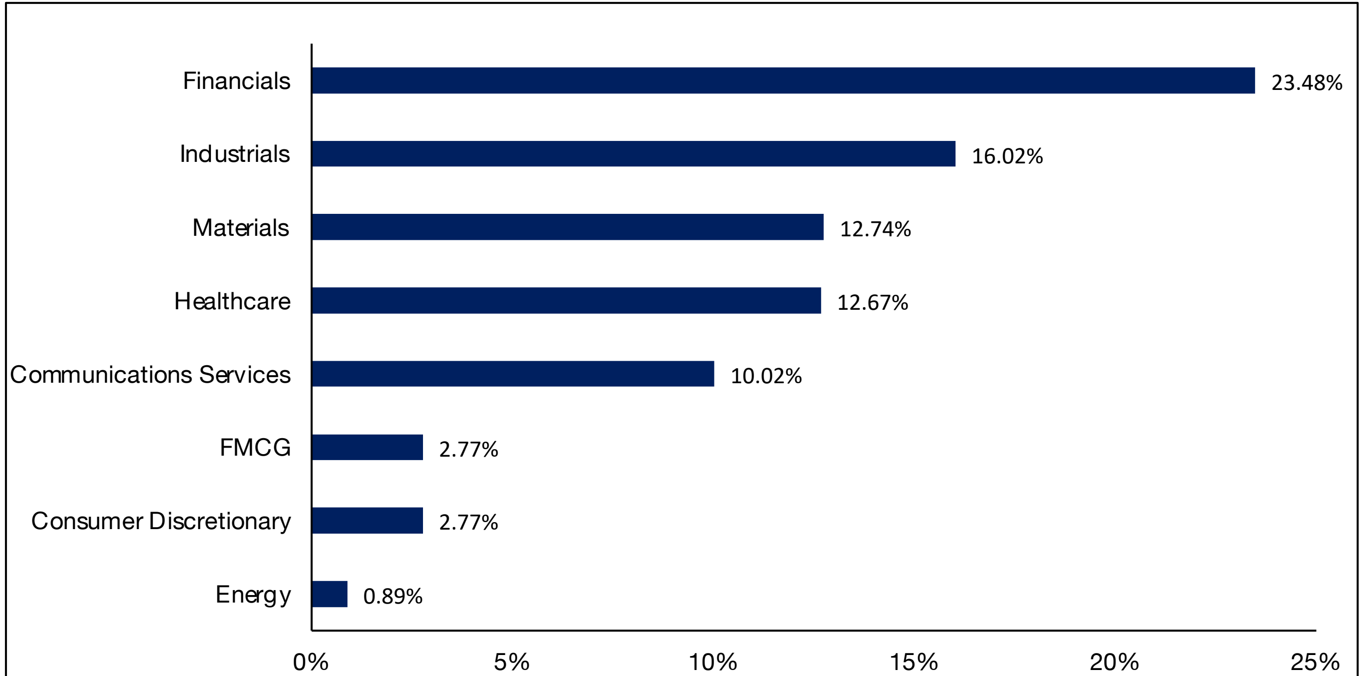
Top 5 Holdings

Security Name	% Holding of Portfolio
Mannapuram Finance Limited	6.58%
Lloyds Metals and Energy Limited (Warrants)	5.93%
Shilpa Medicare Limited	5.42%
Supriya Lifescience Limited	4.68%
Vedanta Limited	4.61%

Past performance is not indicative of future results.

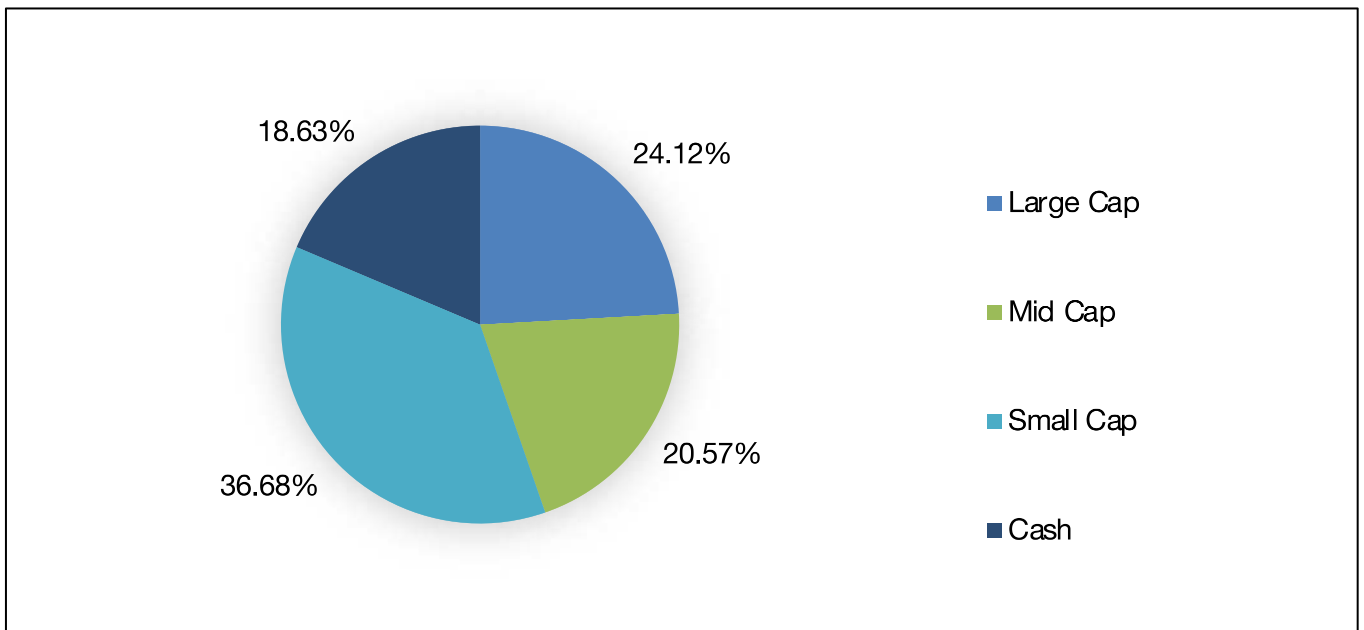
Portfolio – 31st March 2025

Sector Exposure



Portfolio allocations may not add to 100% due to rounding and cash holding

Market Cap Exposure



Market cap breakdown – **Large Cap**: Companies with a Market Cap above US$6 billion,
Mid Cap: Companies with a Market Cap between US$1.25 to US$6 billion, **Small Cap**: Companies below US$1.25 billion

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