

Dear Investors and Partners,

As we pen this letter, we're once again reminded of the enduring bravery of our armed forces standing sentinel at our borders. It's their vigil that allows us the privilege of debating market trajectories and dissecting balance sheets, ensuring our "business as usual" remains just that. A heartfelt salute to them as we navigate the currents of the financial world.

The past six months have certainly kept us on our toes, with a few notable events rippling through the usual market hum.

First, there was the familiar sabre-rattling around **US tariffs**. The rhetoric, as is often the case, was louder than the actual bite, at least from where we stand. While global trade dynamics are always in flux, the noise from Washington felt more like a recurring soundtrack than a new symphony. And while one side might be busy celebrating what they believe are masterstrokes in negotiation, perhaps even selling a few more copies of "The Art of the Deal," it's worth remembering that a counterparty is thinking in decades. It has quietly accumulated rather large reserves in gold and other forms over the last couple of decades and cannot be dismissed as a pushover. If anything, the ongoing recalibrations in global supply chains could, in the medium to long term, position India as a net beneficiary. We've seen these tariff tantrums before, and in spite of the more aggressive play this time, our stance remains to filter out the noise and focus on the fundamental strengths of the underlying companies.

Closer to home, a brief but tense **India-Pak war** introduced a dose of uncertainty – though, if we're being candid, the 'uncertainty' for most of us was perhaps less about the eventual outcome (some things are, shall we say, a known variable in this equation) and more about the 'hows, whats, and whens' of the proceedings. Thankfully, the clouds of conflict were short-lived, and a semblance of normalcy was restored relatively quickly. While such events invariably cause a flutter in the markets, they didn't prompt any knee-jerk reactions or strategic shifts within our portfolio. Of course, had the situation escalated to the unthinkable – a nuclear exchange – well, that would have been an entirely 'out of syllabus' question for our investment framework. We've all heard the apocryphal tale of the gutsy trader during the US-Cuban missile crisis who supposedly went aggressively long, figuring that if the missiles flew, his portfolio would be the least of his worries. While the bravado makes for a good story, we must humbly admit that our contingency planning for Armageddon is still a work in progress.

Perhaps a less headline-grabbing, yet arguably more significant event for the financial ecosystem, was a crucial **judgment concerning the Insolvency and Bankruptcy Code (IBC)**. A recent meme-worthy remark by a former Pakistani Air Chief—who invoked "center of gravity" without quite knowing what he meant—highlighted how strategic-sounding phrases can sometimes mean nothing. Ironically, in contrast, the Honourable Supreme Court's judgment¹ annulling JSW Steel's acquisition of Bhushan Power and Steel has, in our view, hit the actual center of gravity of India's Insolvency and Bankruptcy Code (IBC): the finality of resolution plans.

The ruling, which retroactively nullifies a ₹19,700 crore acquisition *after* implementation had begun, citing technical deviations like the use of optionally convertible debentures and delayed timelines, undermines one of the few stable pillars in India's distressed asset framework. For JSW, the financial setback is significant—loss of EBITDA contribution, sunk investments in plant expansion, and reputational drag. But the systemic damage is greater: it injects legal uncertainty into every concluded resolution, risks chilling

¹ Please note, I'm not getting into the merits of the case itself, just its *gravity* - pun intended.

investor appetite, and threatens to make India's IBC regime less investable. Where the Air Chief's "center of gravity" was a punchline, the IBC's just took a direct hit.

At present, most banks are operating in a favorable credit cycle, which has kept their corporate loan books relatively stable. However, this ruling makes the corporate loan books of banks—especially public-sector banks, which are heavily reliant on corporate lending—considerably riskier. As long as the economy stays stable, everything seems fine. But when the cycle turns, and it will at some point, these banks might skip a stage, moving straight from "okay" to "very bad"—bypassing the "bad" phase entirely—and might even land squarely in the "what the *&%#" zone. The added uncertainty from this judgment compounds the risk, particularly for institutions already vulnerable to the cyclical nature of corporate lending. This development warrants close monitoring, as the long-term health of our banking system hinges on a robust and predictable insolvency framework.

Portfolio Update

Our two largest investment segments—private lending companies and chemicals (including agrochemicals)—experienced significant declines in the first two months of the year, mirroring the broader market correction. However, both segments have demonstrated a sharp and encouraging recovery since then. On a fundamental level, the global agrochemical industry is beginning to show early signs of a rebound. Most markets, with the notable exception of Latin America, are witnessing an improvement in underlying demand. Latin America, which faced severe supply chain disruptions in the latter half of last year, appears to be stabilizing and may soon follow the global trend towards recovery.

In many key regions, volume growth in agrochemicals has resumed after a prolonged period of weakness. While realization growth (price improvement) remains subdued for now, we anticipate a gradual uptick as re-stocking gathers momentum across the supply chain. Our portfolio has exposure to both domestic and international agrochemical businesses, allowing us to participate in the broader global recovery while also benefiting from region-specific tailwinds.

Beyond agrochemicals, the broader chemicals sector is also beginning to show nascent signs of improvement, particularly in terms of pricing. However, the extent of recovery varies significantly across different sub-segments and individual companies. Our investments in this space are not purely cyclical plays; rather, they are backed by strong company-specific drivers. These include a shift toward higher-margin product mixes, gains in market share driven by competitive positioning, supply-side tightening across the industry, and strategic advantages from vertical integration that have reduced exposure to raw material price volatility. One of our featured investments in this sector is discussed in greater detail later in this newsletter.

On the private financiers' front, our large-cap exposures weathered the market correction quite well. However, we have now rotated our positions entirely into small- and mid-cap names within this segment. We believe the risk-reward profile is far more attractive in this part of the market. Within the lending space, the microfinance segment—which varies in significance across different companies—seems to be showing early signs of bottoming out after a particularly difficult year in 2024. In fact, several banking and NBFC

names with even partial microfinance exposure were recently trading at or below book value, presenting attractive entry opportunities for long-term investors.

In addition, we have initiated a position in a Quick Service Restaurant (QSR) company. The discretionary consumption space is increasingly offering compelling investment opportunities, with several high-quality names exhibiting strong potential for long-term scalability and growth. Our current watchlist is heavily populated with ideas from this sector, and we expect more actionable opportunities to emerge here as consumer sentiment continues to strengthen.

While I am not an advocate of the freebie culture, it's important to acknowledge the potential economic impact of schemes like *Ladli Behna*, which are expected to inject nearly ₹45,000 crore directly into the hands of consumers. Similarly, the intensifying competition among states to roll out similar welfare programs could result in even more disposable income flowing into the hands of the public. Furthermore, the recent ban of hyper-aggressive trading firms like Jane Street—whose presence often translated to increased market inefficiencies and costs—can have a comparable effect; after all, money saved by retail investors is money earned. Collectively, these developments could serve as a tailwind for the consumer discretionary sector, which has been languishing in a prolonged slowdown over the past few years. With greater liquidity at the bottom of the pyramid, we may see a revival in demand, particularly in consumer discretionary categories that have historically benefited from incremental income support.

Stock discussion

To give a clearer picture of how we think about such transformations, we want to walk through the reasoning behind one of our more meaningful holdings—a quiet heavyweight that sits at the crossroads of India's industrial, agricultural, and infrastructure ambitions.

This company plays a key role in powering the nation's productive capacity. It is a leading domestic producer of essential industrial chemicals like nitric acid, a critical supplier of crop-specific nutrition that goes well beyond commoditized fertilizers, and the dominant domestic force in Technical Ammonium Nitrate (TAN), the primary material for mining and infrastructure projects. In each of its domains, it is not merely a participant but a market leader, a position earned over decades of steady execution.

However, for much of its history, this operational strength was paired with a major weakness: a volatile earnings profile. The business was masterful at producing its downstream products but was largely at the mercy of global markets for its most critical feedstock, ammonia. The price of ammonia, as we have witnessed, is a wild ride, capable of swinging from \$160 to \$800 per tonne based on geopolitical winds and supply-demand whims. This dependency meant the company's profitability was often a feast-or-famine affair, creating an earnings unpredictability that the market, with its love for linear growth, has always found unsettling. Ironically, that very volatility is what drew us in. We saw a management team that wasn't just going to ride the cycle, but was working actively to bring it down.

The company's first, and foundational, strategic move was a capex project positioned towards risk management: the backward integration into ammonia production. Constructing a massive ammonia plant was not about chasing growth for its own sake. On a standalone basis, the return on this specific investment is adequate, but certainly not great. The real value lies elsewhere. By securing its primary raw material via a long-term gas contract with benchmark-linked pricing, the company effectively traded the violent swings of the spot ammonia market for a predictable, manageable production spread. It was a move to de-risk the foundation, to build a fortress on solid ground rather than shifting sands. It marked the start of the company's shift from a cyclical operator to one with more structural resilience.

With this stable foundation in place, the company embarked on its second, and arguably more exciting, strategic act: a major expansion in its high-value downstream product, Technical Ammonium Nitrate (TAN). TAN is the lifeblood of the core economy; it is the key ingredient in the explosives used to blast through earth and rock to access coal for power, limestone for cement, and stone for infrastructure. This is not a business one can enter lightly. The highly explosive nature of the material, underscored by incidents like the 2020 Beirut port disaster, means regulatory scrutiny is immense and the technical and safety requirements create formidable entry barriers. Furthermore, any potential entrant must first solve the ammonia puzzle—securing a reliable supply line for this key raw material.

Herein lies the second pillar of our thesis. As India is a net importer of TAN, this expansion is a clear and powerful import substitution play. The company, being the established leader, is uniquely positioned to capture this deficit. It has intelligently located its new facility in the eastern part of India, placing production right at the doorstep of the country's mining and industrial heartland, a smart logistical move that turns what was once a geographic disadvantage into a competitive edge. While the ammonia plant provides stability and insulates from shocks, this TAN expansion is the high-return growth engine. This is the "kicker" to the earnings profile—and a clear boost to the company's return on capital.

While specialty chemical companies get a premium multiple, what is specialty and what is commodity is often decided by the finance professionals based on what returns a particular company makes in a particular period. We like companies dealing in a few commodity chemicals for two reasons:

- If the product is difficult to handle or voluminous to carry, the threat of import is limited.
- If the project takes several years to come fruition (because of environment clearance, red tape, large capex and several years of low asset turnover), there is a reasonable degree of visibility on the return profile of the product.

These two major projects are supported by astute strategies in its other verticals. In crop nutrition, the focus has pivoted decisively away from selling simple commodity fertilizers towards providing sophisticated, crop-specific nutrient solutions that command better margins and build stickier customer relationships. In industrial chemicals, a brownfield expansion in nitric acid is set to further bolster the company's market leadership and cash flows.

A Business Transformed: Before vs. After Strategic Capex

Parameter	Pre-Transformation Profile	Post-Transformation Profile
Earnings Profile	Cyclical & volatile, exposed to global commodity shocks.	Resilient & more Stable, with a largely insulated base.
Raw Material Sourcing	High dependence on volatile imported Ammonia.	Captive production creating a stable internal spread.
Business Model Focus	Reacting to and managing input cost volatility.	Driving value-added growth from a stable foundation.
Key Growth Driver	Subject to downstream price cycles and macro factors.	High-ROCE, import-substitution expansion in TAN.
Return on Capital	Moderate and subject to cyclical swings.	Higher, more consistent, and structurally enhanced.
Strategic Moat	Leadership in end-products, but with a vulnerable supply chain.	Fortified leadership with high entry barriers and supply chain control.

Our investment thesis was never about one project in isolation—it was about recognizing a broader transformation taking shape. We saw a company steadily shifting from being a solid but volatile business into one with real structural advantages and resilience. It was a move from unpredictable earnings to a more stable profit profile, and from merely decent returns to sustainably strong returns on capital. We began building our position at a time when the market was largely focused on short-term margin pressures caused by raw material cost spikes. Now, that longer-term strategy is becoming more apparent, and the stock's valuation has started to catch up to the progress the company has made. This transformation hasn't gone unnoticed. As the business delivered and the market caught on, the company naturally became one of our top three positions. But with the valuation now reflecting much of the heavy lifting that's been done, the risk-reward profile is less compelling than it was at our entry point. Therefore, we believe it is prudent to trim our position, having been fortunate to participate in this re-rating journey driven by the shift in strategy.

Book Recommendation: Playing the Long Game

This half-year, I'd like to recommend a truly thought-provoking work: **"Finite and Infinite Games" by James P. Carse**. It's one of those books that, once read, subtly changes how you perceive the world and the nature of human endeavor.

Carse offers a powerful way to look at life using the simple idea of two kinds of play. A finite game, he argues, is played to win and conclude; its boundaries are fixed, its rules are set, and its players aim for a definitive end that crowns a victor. Think of a chess match, a corporate race to a quarterly target, or even a political campaign. An infinite game, conversely, is played with the sole purpose of continuing the play itself. Here, the rules may change, the boundaries are fluid, and players strive not to end the

game, but to keep it going, inviting more to participate. Carse uses examples from different areas of life and ideas from famous thinkers like Plato, Nietzsche, and Freud to explain his point. Even the nuanced observations of writers like Proust find echoes in this exploration of how we approach our endeavors—whether by aiming for fixed outcomes or embracing open-ended possibilities.

Written nearly four decades ago, *Finite and Infinite Games* has lost none of its insight or relevance. Its core ideas feel remarkably fresh, offering a clear and powerful lens through which to view the challenges and choices we face today.

Consider the complex theatre of international relations, such as the long-standing dynamic between India and Pakistan. Actions within this arena can sometimes transcend the calculus of immediate, finite wins or losses. When a nation employs strategic patience or fundamentally alters the terms of engagement – perhaps by revisiting longstanding treaties not for an outright, game-ending victory but to ensure it can continue playing and adapting indefinitely – it arguably shifts its approach. It moves from playing a series of finite games, each with defined battles and potential conclusions, towards engaging in a much larger, infinite game. As Carse posits, infinite players don't just operate within the existing rules; they play *with* the rules and boundaries to ensure the game continues, ideally shaping the evolving play to their enduring advantage. This isn't about seeking a final triumph that silences all opposition, but about ensuring one's own "strength" – the capacity to keep playing, to adapt to surprise, and to influence the unending unfolding of history.

This lens is equally powerful when turned towards the world of business and investment. In "*Finite and Infinite Games*," Carse distinguishes between players who seek to win specific contests and then exit (or move to the next discrete game), and those who play with the broader, overarching intent to continue the game indefinitely. The strategic decision by our portfolio company discussed earlier – to backward integrate its operations offers such an example of such infinite game thinking. While such a move might appear merely incremental or even temporarily inefficient when viewed through a short-term, finite lens focused on immediate cost-benefit, it fundamentally alters the structure and resilience of the business for the long haul. It's a strategic pivot that reduces exposure to upstream volatility, secures the reliability of its supply chain, and, crucially, erects higher barriers for potential new entrants.

Finite players in an industry tend to compete vigorously within the existing rules; they play to win the current iteration of the game. Infinite players, in this instance, quietly work to reshape those rules, to redefine the game itself, thereby extending their strategic advantage across time. By embedding more of the value chain internally, it is not simply tweaking its margins for a better quarterly report—a finite win. Instead, it is deepening its strategic moat, making the entire business more robust, more "anti-fragile" to use Nassim Taleb's term. This is about building a business that can weather unforeseen storms and continue to play, adapt, and thrive. In a global landscape increasingly characterized by rapid change, unforeseen disruptions, and the pervasive pressure for short-term optimization, moves like these are powerful reminders. They illustrate that durable, lasting success often comes not merely from playing harder or faster within the established confines, but from thoughtfully, and sometimes

radically, designing the game differently. It's about shifting from a mindset of winning battles to one of ensuring you're always able to play the war, no matter how the front lines shift. Carse's work encourages us to ask: are we playing to win, or are we playing to keep playing, and by doing so, perhaps achieving a more profound and lasting form of success?

We thank you again for your trust. Please feel free to reach out to us, should you have any suggestions, questions, or feedback.

Best regards



Parag Jhawar

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