Dear Investor,

Sep 02, 2025

Seven years at your service makes us feel honoured, obliged, and young. Thank you!

This Newsletter is in the spirit of a teen-ager that characterizes us as of now. We have learnt, survived, evolved, and now do have credentials to climb higher orbits.

In this Newsletter, we strive to share what our eyes perceive around us of the ideas that draw out curiosity. Recently, we began posting some of our world-views as LinkedIn posts. Excerpts from there are included here.

Last week, we received in – principle approval for our Gift City Branch, which is likely to become operational soon.

Beginning of a Luminous Journey – Seven Years of Chanakya PMS

On August 12, 2025, Chanakya Capital completed its seven years journey as a PMS provider. We launched Chanakya PMS because we felt that making our investors wealthy was, and remains so forever, the most important endeavour for us.

Our investment thought process has always been about understanding how the world, especially our choice of investee firms, really works. Someone said that good work had aesthetic appeal. We keep on discovering that all the time. In our research, the most important question is why is it like this and why is it not like the best in the world.

There have been quite a few eureka moments in our journey. The biggest eureka moment came with the learning that "more is different." Learning more and more about a right company is the path to unravel its distinctiveness and beauty.

We work to acquire a lens to truth about the mind of the management, and imagination about what there could be. It is about mastering the technique of counterpoint; about a diverse yet deeply connected view of businesses and organisations.

In our mind, a key question always is whether we can make future predictions without recourse to adjustable parameters. In case of robustness of an investment portfolio, Mr. Nassim Taleb refers to this as anti – fragility. However, we strive beyond that - with curiosity about the long – term evolution of the world and our set of investee firms.

For our research and knowledge, we strive to achieve:
1. Conceptual depth
2. Empirical validation, and
3. Simplicity.

The Outcome and the Flow:

Albert Einstein, when asked how he would feel if a recent experiment had failed to confirm to his theory of general relativity, replied "I would have to pity the dear Lord, the theory is correct anyway."

We choose to borrow our conviction from Mr. Einstein. Our CAGR, more so if adjusted for underlying portfolio risk, adds a lot to our self-belief in what we practice, robustness of our investment process, and the meaningfulness in what we do. All this also teaches us to continue to remain humble, curious, and foolish, in our ways, for all times to come.

About the boundaries of ignorance and creativity – for us, the usual investment manager-types?

"Every discovery increases the boundaries of ignorance."– Terry Pratchett, science fiction writer

In Chanakya, we appreciate the contradictions characterising any business entity we find worth learning from. Our sense of possible set of numbers helps guide and calm our minds in case of a familiar business, not only so in case of path-changing firms. Almost invariably, we end up with the realization that the cards we hold are always going to be incomplete.

"There are two aspects of creativity. One is about fantasy, imagination, dream, emotion and passion. On the other side, there is craft. Now, craft is totally cold-blooded, objective, surgical and mathematical. These are the things that are going in opposite directions but art works along these two contradictions." – The Sunday Express Magazine, Alaka Sahani, Aug.03, 2025

A bit of comfort comes from a similar feeling expressed earlier by a Physics Nobel Laureate:

"It can be a disadvantage rather than an advantage to compute so accurately…After all, the perfect computation simply reproduces Nature, it does not explain Her." – Philip Anderson, Nobel Prize address, 1977

How do we then arrive at a conclusion in our investment business?

The Calculus of Investments – How to arrive at a Conclusion

In my first course in solid state physics, I came across a term "infinitesimally large". I was intrigued by its looks and confused by its actual meaning viz. "very small!" I was and am still fascinated by the real-life applications of the wonder of "infinitesimally large physics"– from semi – conductors to the LinkedIn platform!

Very recently, I came across another profound scientific wonder that calculus is:

"Calculus succeeds by breaking complicated problems down into simpler parts. That strategy, of course, is not unique to calculus. All good problem-solvers know that hard problems become easier when they're split into chunks. The truly radical and distinctive move of calculus is that it takes this divide-and-conquer strategy to its utmost extreme — all the way out to infinity. Instead of cutting a big problem into a handful of bite-size pieces, it keeps cutting and cutting relentlessly until the problem has been chopped and pulverized into its tiniest conceivable parts, leaving infinitely many of them. Once that's done, it solves the original problem for all the tiny parts, which is usually a much easier task than solving the initial giant problem. The remaining challenge at that point is to put all the tiny answers back together again. That tends to be a much harder step, but at least it's not as difficult as the original problem was." – Steven Strogatz, Infinite Powers, Atlantic Books, Pg. XV

In my mind, a long – term focused exploration in the investment process follows a similar path. One needs to keep on peeling layers of information and beliefs into components, simple and natural enough for our clear understanding. Thereafter, one begins to integrate the most appropriate eureka bits into a valuation process leading to a natural-like answer – all the way out to infinity.

Power doesn't grow in a straight line.

How would recent US tariff hike in case of India and the other BRIC countries ultimately pan out? A logical answer to this riddle could get me or you the Nobel Prize for Economics as well as Peace. Therefore, let us apply our mind to this, in light of a very interesting economic framework, mentioned in a recent insightful article in The Economist.

"Few will know that Hirschman invented the index to measure something else: the economic power wielded not by firms but by countries. It appeared in a book examining trade as a source of "political pressure and leverage". Hirschman rejected the naive belief that because trade is voluntary and mutually beneficial, it is geopolitically innocuous. Benefits can be mutual without being symmetrical. And if one country depends less on a relationship than its partner, it can extract concessions by threatening to walk away.

The German economist would not have been surprised by President Donald Trump's tariffs or indeed China's own attempts at economic coercion, which include export restrictions on vital inputs, such as rare earths. It is, therefore, a good time to revive the spirit of his inquiries, according to Christopher Clayton of Yale School of Management, Matteo Maggiori of Stanford University and Jesse Schreger of Columbia Business School.

In their models, big economies—hegemons—can make demands of smaller ones by subjecting them to economic sticks and carrots. The losses a country suffers if it rejects such demands are a measure of the power the hegemon yields. Smaller countries can try to protect themselves in advance by decoupling and diversifying their economies. To dissuade countries from insulating themselves, a hegemon might promise not to exploit its power too much. It might say, "Do business with me. I'm not going to bully you like crazy later. I'm only going to bully you a little bit," as Mr Maggiori has put it.

Power does not grow in a straight line. It tends to shoot up as a hegemon's market share nears 100%. There is an enormous difference between claiming most of a market and claiming almost all of it. The same is true of hard-to-replace inputs. There is a big difference between having few substitutes and none or nearly none. This result makes intuitive sense. If a hostile America provides 80% of a country's foreign financial services, the country's other providers would have to expand their sales by 400% to replace it (an increase from 20 to 100 equals growth of 400%). If America instead provides 90%, the alternative providers would have to expand by 900%. An increase in market share of ten percentage points makes a 500 percentage-point difference. A small increase in a large market share yields disproportionate gains in power.

The same is true in reverse. Even small efforts to decouple from an abrasive hegemon can diminish its power by a surprising degree. America's rivals are, for example, experimenting with alternatives to the dollar in international finance. These alternatives do not have to match the dollar in order to erode America's financial clout. If they can capture even 10% of the market in small and medium-size countries, they can make a big difference, according to the authors. Going from 1% of the market to 10% can reduce American financial power as much as going from 10% to 50%, they argue. According to this logic, currencies like China's yuan can defang the dollar even if they never dethrone it." – The curvature of power, The Economist, July 26, 2025, page 66

There could be wisdom in defiance. An optimal response by a nation like India to the recent large tariff hike by the USA could be:

A. Decouple and diversify their economic market
B. Enhance own market share of critical domestic markets – an increase in market share of 10% makes impact equivalent to 500% of deduction in pain arising from deficit therein
C. If possible, extract concessions by threatening to walk away, and
D. Keep on becoming stronger as an economy and nation.

How well the Government of India performs against the above framework would materially reshape some of the key assumptions in our investments. While the MoF and PMO officials might not have read this article in The Economist, I would trust their intelligence, experience and depth to hopefully endow them with a common-sensical understanding of this framework.

We are working on our answers.

Optimising the Path to Development – via Patna and Coimbatore!

Can a nation streamline its process of development from start to finish? Perhaps difficult, but not unlikely

However, as in the case of a business organisation, a nation too can try to solve key challenges proactively. In my recent visit to my hometown Patna, in the state of Bihar, I came across two very interesting media write – ups about ongoing progress there:

"*Educated Jeevika Didi's Lead to Drop-in Fertility Rate and Rise in Economic Empowerment Among Families in Bihar"* – Hindus*tan,* 29th June 2025

"*Bihar Launches India's First E-Voting Pilot with 80% Mobile Turnout*" – Dainik Jagran, 29th June 2025

While all these are very positive developments, we would like to reiterate that shift to a higher orbit of overall development and prosperity requires a much higher quality of institutions and economic eco – system in India. My usual ground – level learning from some common people about their perception of improvements in Patna is always insightful about this.

Discussions with Mr. Amit Kumar, cab owner in Patna – June 27, 2025

1. He is originally from Samastipur and stays in Patna in apartment with his wife and two kids. His father passed away when he was only three. His mother stays with him. His elder brother passed away Covid 19. He and his brother got two of their sisters married, and they are now settled happily.
2. Infrastructure has improved a lot in Patna over time, being the capital of the state. Patna always used to have good roads. With many new flyovers, ease of travel has improved considerably. There is a feeling of safety in Patna, much more improved than what it used to be earlier.
3. He owns this cab and also runs for long hours every day. Consequently, he hardly has any time to interact with friends and relatives. Like himself, he finds many of his peers also in business, and also quite busy in their personal lives. All of them are in some small business. This was not the case before his generation in Bihar.

4. As such, he wasn't very aware of any recent change in the thinking process of people around him. However, he believes that people like have become more focused and optimistic about the future. They expect Bihar to progress industrially and commercially a lot in the next 10 years.
5. He was quite appreciative of the work done by the current Chief Minister, Mr. Nitish Kumar in the areas of infrastructure law and order. However, he and other youngsters also feel that not much economic progress has been taking during his rule, despite there being a lot of scope and need thereof.
6. Amit thinks that caste is still going to play a big role in the coming state assembly elections in Bihar. RJD has its captive vote bank of yadavs. Yadavs vote for Laloo, despite knowing that he already did any to improve their economic conditions. However, they believe that anyone else also won't do anything. Hence, they decide to vote for their caste person.

Discussions with Mr. Ajay Raj, aged 20 years, B. Com, manning a newspaper and magazine shop of his father in Patna, Boring Canal Road

1. He has just now finished his B. Com and has begun higher education. He took some coaching for his B. Com. As of now he has less clarity about what he would like to do in the future.
2. His father told that Bihar used to have a jungle raj till 2005. After that, BJP and Nitish government has improved everything a lot in the state. Law and order has improved a lot. Electricity is available all the time. Other infrastructure also has improved a lot.
3. Among various newspapers, the maximum sale is of Hindustan in Hindi and Times of India in English. However, aspirants for competitive exams go buy The Hindu. Journalists and other intellectuals buy Indian Express.
4. Over time, he has seen that all the people, he and his family helped in their time of need didn't come to their support when they needed it. He doesn't understand why society have become so self-centred. Everyone is striving for betterment of their lives. On my query about change in the thinking process of people in Bihar, he mentioned that behaviour of girls has changed a lot. They have become far more aggressive and non – conventional. He said that if you saw around Boring Road, a major Commercial Centre in Patna, in the evening would see many more girls smoking than boys. He also mentioned that rate of unsocial behaviour and incidents, including crime, nowadays has gone up sharply among women in Bihar, it hasn't changed or perhaps even declined marginally in case of men.

Discussions with a seasoned woman banker in Patna

1. In Patna, attire of young girls has become as hep as in Bombay. The interesting thing is that boys here hardly stare at such girls!
2. Smoking per se has come down in Patna even among men. She didn't agree that smoking has increased considerably among girls in Patna.
3. In her residential area, there are a lot of girls staying in hostels or rented apartments during their coaching stint. These girls are from smaller places in Bihar and in Patna, they feel free for the first time in their life. Consequently, quite a many of them are indulging in the type of expressive behaviour mentioned here.

Discussions with Mr. Jagannathan, Videographer and part – time Uber cab driver in Coimbatore

In my recent visit to Coimbatore, he shared his version of the recent shift in the city culture. Interestingly, migration of people there from smaller places has an impact similar to observed in case of Patna.

1. *Life is very fast nowadays. You have to work hard.*
2. *Coimbatore is well known for niceness, sir, here. We don't speak harsh here and all. Yes, it's a very nice city.*
3. *But now all the state people came here, so it's collapsed.*
4. *I don't speak harsh. But coming from other district or other city or other state, they are speaking very harsh.*
5. *Lot of people from North India are here for working.*
6. *In all employment or mill or construction, all North Indians are there. So they speak in harsh language? No, sir. We don't understand that language.*

Why is all this important for our investments?

In my mind, the above "observations "signal something like what physicists term as "phase transition", – viz. changes from one state to another. 80% of the voters use mobile phones for voting – in the "state of Bihar!" Improved education among self-help group women members has led to a stable fertility rate among the lower strata women - in the "state of Bihar!" At the same time, the recently achieved Metro character of Patna has:

1. Ushered in a Metro – type of efficient as well as impersonal work as well as social culture, and
2. Increased openness in societal mores is catalysing a new age behaviour among the youth in the Metro of Patna. This all is despite the fact that a recent survey ranked Patna among the bottom five cities in India in respect of women's safety.

Overall, I think this signals resurgence in the life and soul of Bihar – after a very, very long, dark phase, centuries. What the people in Bihar have been doing by itself might not represent the overall process of development of India. However, this could be seen as a gradual emergence of a metro – centred "Sanskritization" of the life of the Indian youth. It remains to be seen whether this credibly signals the Indian economy making a shift to a higher level of orbit. This could be an important factor in our investment analysis. Of course, much more needs to be done to enhance quality of institutions and the overall economic eco-system in India.

"Good news often goes unreported, especially if it happens gradually."– Winning the war against cancer, The Economist, July 19, 2025, pg. 7

The recent Jane Street imbroglio in the India stock market

Questions posed by the recent Jane Street Saga in the Indian stock market could have genesis in:

– gaps in the extent market micro – structure?
– significant information asymmetry between large and small investors?
– lesser calibre of Indian AMCs?
– shallowness in the Indian stock – market?
– market manipulation by select offshore investors?
– inadequate surveillance mechanism?

I think that each of the above causes are equally applicable in case of failure of any market mechanism. Please recall the pre–- NSE and NSDL era for your equity investment in the Indian stock market. Such type of transgression will take place occasionally in our securities markets, in fact in any market. I'm sure that the Indian regulators will institute robust mechanisms, and also add precision to the safeguard principles and market micro – structure for investment in the Indian securities for the protection and fairness in case of any investor, including:

Portfolio Composition and Risk

In our overall portfolio, top 15 stocks currently account for 84% of total investment. The overall sectoral break up of our investment portfolio is given in following table.

Table 1: Chanakya PMS - Portfolio Sectoral Allocation as on August 12, 2025

Sector	Allocated Portfolio %
Banks & NBFCs	47%
Holding Companies	17%
Metals & Minerals	9%
Industrials	9%
Auto & Auto components	7%
Consumer Goods	2%
Logistics	1%
Others	8%

Source: HDFC Fund Accounting

Compared to portfolio composition on May 31, 2025, the weight of Industrials has increased by 1%, while the weights of Banks & NBFCs and Logistics have reduced by 1% each. The weights of Holding Companies, Metals & Minerals, Auto & Auto Components, and Consumer Goods have remained unchanged. These shifts are primarily attributable to movements in the underlying stock prices.

Table 2: Chanakya PMS - Investment Performance* as on August 12, 2025

Over the last 7 years of our investments, the overall performance of our portfolios is given below in Table 2.

Period	Portfolio (In %)	Nifty 50 TRI (In %)
1 Month	-4.15	-2.40
3 Months	2.80	-1.01
6 Months	12.35	7.09
1 Year	6.42	1.83
2 Years	18.49	13.63
3 Years	21.62	12.72
5 Years	27.03	18.14
Since Inception (13.08.2018)	15.82	12.85

Source: HDFC Fund Accounting
**Net of all expenses and fee*

The recent months in the Indian stock market have been volatile, while the economy – related measures have been improving quite well. Moreover, the financial performance of almost each of your investee companies has also been improving steadily.

Table 3: Chanakya PMS – Select Performance and Risk measure

Time Frame	1 Yr	2 Yrs	3 Yrs	4 Yrs	5 Yrs
Return *(As on 31 July 2025) (%)*	5.22	18.19	23.47	19.52	28.70

Time Frame *(As on 31st July 2025)*	3 Yrs
Beta	0.92
Jenson Alpha	8.79
Stock Selection efficiency	29.66

** Source: Finalyca Portal and HDFC Fund Accounting*

The above return numbers reflect robustness of our long-term investment process. In light of the longer period performance figures above, we would emphasize that your investment portfolio is becoming more resilient to economic as well as market shocks, though not insulated to these.

With best regards,
Rajesh Tiwari

And on behalf of the new world out there,
Gautami Desai and Team Chanakya