

Dear Investor,

Jan 07, 2026

वसुधैव कुटुम्बकम् - Our Gift City Chapter
 ("One Earth, One Family, One Future")

Three months back, Chanakya Capital received final approval for setting up its Branch at the Gift City, Gandhinagar. We will soon be launching our AIF for investments in India. For our existing and prospective NRI and other offshore investors, our motto continues to remain:

“Never settle for anything less than what you deserve. It’s not right, it’s self-respect.” – Chanakya

We remain humble and curious in our commitment to enable our investors accomplish financial prosperity in their life. We chose 'Chanakya' to be our Persona because it connotes "Strategic Economic Transformation". We continue to be a student as well as practitioner of that. We will keep sharing our thoughts about life, business and the world in this post – to share our learnings, and partake in your leavings.

Our next AIF would be an outbound fund to provide you access of high-quality and reasonably valued companies, globally. As we propose to approach international investors, we looked at our past returns, also in US \$ terms. This becomes important as, in the future, we would like to invest your money also in best investment opportunities globally.

Recent under -performance by the Indian stock markets compared to global indices—excessive optimism in select market segments vs. unnecessary pessimism about India:

For the last one year, our performance figures, in Rupees and in \$ terms, are mentioned in Table 1 below. What we are seeing makes me both happy and confused at the same time. Why such a disconnect between rupee and dollar return over the last one year, while our long-term returns are quite satisfying? A lot has changed in India for the better, including system – wide improvement in the Indian institutional framework, and also a lot of resilience in the performance of Indian businesses, led by quality management.

Table 1: Chanakya’s performance relative to global indices, presented in both INR and USD \$ terms (figures in %)

<i>Period</i>	<i>TWRR NIFTY 50 TRI (In %)</i>	<i>Chanakya TWRR INR (In %)</i>	<i>Chanakya TWRR USD (In %)</i>	<i>MSCI Emerging Markets (In %)</i>	<i>MSCI World IMI (In %)</i>
Since Inception	9.27	16.49	12.43	6.82	11.66
7 years	10.68	17.97	13.83	8.31	14.33
5 years	10.06	22.78	17.85	4.66	11.57
3 Years	11.29	21.29	18.09	16.24	20.42
1 Year	6.92	17.89	12.66	31.38	20.98

We also looked at possible explanations for the above, as given in Table 2 below.

Table 2: Performance of select constituents of the MSCI Index over time.
(figures in %)

Period	MSCI Taiwan IMI Index (In %)	MSCI Korea IMI Index (In %)	MSCI China IMI Index (In %)
Since Inception	18.92	8.55	2.18
7 Years	21.93	10.21	4.30
5 Years	16.35	4.30	-3.29
3 Years	33.00	23.04	11.24
1 Years	38.00	93.36	31.47

All returns are as an 31st December 2025

While numbers don't lie, recent spurt in return figures of the South Korean market, and to a lesser extent, of the Taiwanese market, appears largely due to:

- Tech and related supplier firms becoming the market favourites, and
- A bit of irrational exuberance in case of such stocks

Largely, depreciation of rupee over the last one year has led to underperformance of our \$ return last year. We are no expert to analyse depreciation of the rupee, despite every economic parameter of India, like inflation and GDP growth, improving considerably during the year. We haven't looked at the fundamentals of other major emerging economies in recent times, honestly, any time. Hence, we choose to remain silent about these two aspects.

"The future of an illusion"

"If the night is long, dreams are many". – a Chinese saying

In the context of last year spurt in prices of "tech – type" stocks in select markets, a recent piece by Nobel Laureate Joseph E. Stiglitz does an incisive dissection of certain current economic 'anomalies'.

Why, then, is GDP still growing (though not as robustly as it did under President Joe Biden), with the stock market reaching new highs and inflation remaining below the levels critics had warned about? There are multiple explanations for this apparent strength. With respect to the stock market, the boom is actually very narrow, confined largely to a handful of tech giants: Alphabet, Amazon, Apple, Meta, Microsoft, Nvidia, and Tesla.

And yet, these companies' valuations reflect expectations of long-term monopoly profits that may never materialize. (This is especially true for Tesla, owing to Elon Musk's embrace of Trump, which has alienated many consumers.) I am among the many commentators who see today's valuations as the product of a bubble, one that has been sustaining not only the stock market but the entire economy. The massive capital expenditures on AI have been offsetting the weakness in the rest of the economy. But like all such bubbles, this one will eventually burst. Precisely when is anyone's guess; but with so much of the economy riding on one sector, the collapse will inevitably be felt widely." – Mint, Joseph E. Stiglitz, 01 Jan 2026,

In 2025, stellar performance of MSCI indices may largely be attributed to very high returns in case of a very narrow band of markets – USA, South Korea and Taiwan. Such spikes in valuation have a high probability of return to the mean. I can't predict how/when/extent etc. of any such normalization in case of any asset market, stocks, gold, or silver. I am just of the opinion that quality companies – FAANG, Samsung, as well quality Indian companies, will give decent return over time, irrespective of occasional blips as seen in Table 1.

What we in Chanakya understand is the future of India and the businesses we choose to invest in. We continue to remain quite optimistic about these, irrespective of the last one-year figures in Table 1. Possible causes of the above gap in performance gaps doesn't really matter to us. We keep on going deep into the minds of the management and investing for you, for the long-term.

Culture influences zone of competence.

Compared to societies like USA, Europe, and India, a culture of deference permeates society and manufacturing organizations in China, South Korea, and Japan. This has helped these countries become manufacturing power houses. Germany and Nordic countries have also excelled in manufacturing, not for the same reason, but due to a renaissance earlier, followed by emergence of an entrepreneurial society, and thereafter nurtured by the ecosystem of Mittelstand in Germany, and MITI+ Keiretsu in Japan. I must confess that my knowledge of this history is at the best frugal.

In India, business transformation began only in 1992. Even now, manufacturing remains dominated by traditional business classes. The true renaissance businesses here are IT, pharma and financial services — led by well-educated, enlightened entrepreneurs. In fact, services businesses in India are largely dominated by the new-age entrepreneurs. The Indian culture has been an enabler:

“स्वदेशे पूज्यते राजा, विद्वान सर्वत्र पूज्यते” - “A king is respected in his own country, but a learned person is respected everywhere.” (Old Sanskrit sayings)

“विद्यां ददाति विनयं, विनयाद् याति पात्रताम्” - “Knowledge gives humility; from humility comes worthiness.” (Old Sanskrit sayings)

No wonder India and Indians excel in knowledge and service businesses.

Market Efficiency – through the prism of the Market for Corporate Control

Recently, I came across a very interesting book about the process of the turnaround of a sick South Korean bank, KFB, owned by the South Korean Government via a majority stake acquisition by the in PE investor Newbridge Capital in 2000, and its subsequent sale by the to Standard Chartered Bank in end-2004.

* Money Games – Weijian Shan, Wiley, 2021

In December 2004, HSBC explored discussions with Newbridge Capital for the sale of their shares, plus that of the Korean government, in the now well-functioning Korean bank. However, these discussions dragged on. Eventually, Standard Chartered Bank acquired the entire stake from Newbridge Capital and the South Korean government.

My own ex-employer UTI Bank, (now Axis Bank), also went through a phase of significant changes in large ownership stakes during the period January 2001–2005. Just a week after I joined the UTI Bank, a major announcement was made regarding its proposed merger with the Global Trust Bank (GTB). This came as a shock to many of well-wishers of the Bank, and in due course, the deal fell through in light of revelation of questionable practices at GTB. Otherwise, the promoter of GTB, Mr. Ramesh Gelli, would have ended up with a controlling stake in what is now Axis Bank.

In November 2001, immediately after the 9/11 shock, CDC Ventures acquired a stake in UTI Bank at ₹34 per share. They remained invested with two board positions and did make meaningful contribution to strengthening the bank's systems and processes. In June 2003, CDC sold its entire stake to HSBC at ₹90 per share. HSBC continued as an investor in the Bank for some time thereafter.

The transformed Korean Bank KFB had its first CEO, with a background in retail banking, appointed by Newbridge. His lack of understanding of corporate credit, combined with the hierarchical culture prevalent in South Korea, turned out to be a mini-disaster. Does this not remind us of more recent episodes in Indian banking as well? Axis Bank itself passed through another tumultuous phase subsequently, particularly after the departure of Dr. P. J. Nayak, the CEO who had played a central role in building the institution and was also my mentor. Looking at all this, the following lessons come to my mind:

1. The quality of ownership is extremely important.
2. Private equity investment is generally not the best form of ownership for institution-building, if its time horizon is limited. Institution-building typically requires 20–50 years of vision and commitment from owners. However, PE investment at times helps to stabilize and also switch orbits by augmenting resources of a firm.
3. Systems and processes must be strengthened by internal managers. External insights help create awareness of best practices elsewhere in the business and the implications of alternate paths of action.
4. Clarity of objectives and performance measurement is a key dimension in both transformation and institutional renewal.

I am of the view that the transformation of the Indian banking system has been more impactful than that seen in South Korea. In fact, in my assessment, this is equally true for the broader financial market system in India. Why, then, is it that South Korean manufacturing companies are world-class across several segments, while very few Indian manufacturing companies have achieved global leadership so far?

Indian companies have to do a lot of catching up at the global level of business excellence.

Over the last one year, the South Korean stock market index increased by a whopping 76%! Bulk of this may be attributed to increase in share prices of stocks in memory chip suppliers, defence and select nuclear firms. Such companies have been the flavour of the year across the globe. However, it is less than heartening that none of the Indian companies in these businesses have scale, brand – image and track – record as a global market leader. In our opinion, only your investee company, Samvardhana Motherhood Group, is already on the path of global market leadership in its business.

At times, I wonder whether listed Indian companies are as committed to innovation as the best global names—Alphabet, Apple, Eli Lilly, Nippon Steel, Netflix, and others. As of now, I find it difficult to think of any Indian company that could join this league in the next decade. The relevant issues include the following:

- India needs a new breed of entrepreneur who can think very creatively and execute with passion and precision at the highest level and at a high scale, globally.
- Will this happen in India in the next 10 years? Of course, it will.
- Will one of India's largest listed companies accomplish this? In my view, it is most likely that an Indian firm from the services sector would reach this level.
- However, a far more enlightened, innovative, ambitious, and driven ownership along with an exceptional CEO would be required for this to happen. I hope that at least one of the Indian companies rises to the occasion over the next 10 years. I would be deeply disappointed if no such innovative management were to emerge in the world's fourth-largest economy. Of course, a new age tech company may zoom to the top league over the next 10 years.
- I also wonder whether most Indian companies may continue to remain stuck in the past.

The Seven Deadly Sins of Corporate Exuberance.

In a recent issue, The Economist discusses “The Seven Deadly Sins of Corporate Exuberance.” We choose to reproduce one of the ‘sins’ below:

“Lazy” circularity

“When markets soar, so does their tolerance for corporate complexity. Silicon Valley is testing the limits, with the AI ecosystem now characterised by circular spending and webs of crossholdings. Consider Nvidia, the leading supplier of AI chips. It owns stakes in Core Weave, which buys its chips to rent out to others, and is investing in AI, which buys Nvidia’s chips to run its models. It will also put up to \$100bn into OpenAI, giving the maker of ChatGPT more cash to buy Nvidia’s chips. For its part, OpenAI—which is also part-owned by Microsoft, its biggest supplier of computing power—has a stake in Core Weave and could soon own 10% of Advanced Micro Devices, Nvidia’s main competitor.

Enthusiasts say all this is little different from the “vendor financing” arrangements common in other industries. Cynics see parallels to the “round-tripping” practices of energy traders and internet firms in the late 1990s. In such deals—known as “Lazy Susans”—often no goods or services were actually exchanged, though both parties recorded revenue to hit earnings targets. Which label sticks to the AI deals will depend on whether companies follow through with their investment promises.” –The Economist, Nov 12th 2025, pg. 56-57

However, in financial markets, it is often difficult to segregate facts, intuition and theory. How do we then take a view on proposition in this article? A simple and commonsensical way could be to analyze emerging conditions incrementally this intro-making statement.

The incremental effect of the AI-related investments is obviously going to be highly productive for mankind. The core idea appears to be right. However, the process underlying the said circular investments lacks the clarity that physicists abide by.

“We should instead use the theory only to calculate the incremental effects of the sea on the motion of an electron in the hydrogen atom, over and above its effects on the mass and charge. - pg.132

There is the story of how he informed Halley of one of his most fundamental discoveries of planetary motion. "Yes" replied Halley, "but how do you know that? Have you proved it?" Newton was taken aback- "Why, I've known it for years," he replied. "If you'll give me a few days, I'll certainly find you a proof of it"- as in due course he did.” – Models Behaving Badly, Emanuel Derman, Free Press, pg. 98

Of course, in some years’ time, hopefully financial markets would ensure course correction to detox some of these “circular” investments. Even if such investments turn out to be a bubble, it might not significantly affect prosperity of the mankind. Doesn’t this happen regularly in open economies? In case of quality large Indian managements, so far I don’t see a significant degree of lazy circularity.

Sparkling Idea I: Uttarakhand villages put curbs on gold and booze at weddings.

Wonderful to see sparks of progress emerging in India, especially in the interiors!

"DEHRADUN/UTTARKASHI: Villages in Uttarakhand's Garhwal region have begun enforcing new wedding norms - limiting women to wearing only three gold ornaments and banning alcohol - as part of a community-led effort "to bring simplicity and equality back into marriage rituals". The rules, passed recently by village panchayats in Chakrata's tribal belt and in Uttarkashi's Dunda block, aim to reduce

wedding expenses, end displays of wealth and protect families from the rising costs of social expectation.

In Chakrata's Kandhad and Indroli villages, the panchayat ruled that women would be permitted to wear only a nose pin, mangalsutra and earrings at weddings. Families that violate the restriction will be fined Rs 50,000, residents said. The resolution, which was passed unanimously, followed informal discussions among women who said the rising cost of gold and social expectations around ornaments were placing a disproportionate burden on poorer households. "For weddings, women are invited for a community meal - it's part of our tradition before the marriage of the elder son," said Leeko Devi, 45, from Kandhad. "But gold had turned that into a burden.

Every year, the pressure grew more ornaments, more judgment. Now, we've decided we'll all wear the same three pieces, and that's enough."

After the ornament rule was adopted, attention turned to liquor. "We've started talking about banning liquor too," Devi said. "It doesn't add anything meaningful to our ceremonies. It just turns weddings into shows of wealth."

Residents said these steps were necessary to address growing social pressure on families to organise weddings that display wealth, whether through jewellery, catering or alcohol. "Ornaments used to symbolise happiness," said Arjun Singh, a village elder in Kandhad. "Now they symbolise anxiety. People don't sleep at night before their daughter's wedding, wondering how they'll afford the jewellery and gifts."

Tikam Singh, 56, who supported both resolutions, said the changes were long overdue. "There was music, some food, and the rituals. Now it's DJs, imported liquor, staged photos. This isn't us. These rules bring the ceremony back to its centre." – The Times of India, Shivangi Azad & Ashish Mishra, 07 Nov, 2025.

Sparkling Idea II: India's blockbuster labor reforms

"The government's changes promise to liberalise the country's vast jobs market

Economists and investors have long warned that India's onerous and byzantine labour laws are preventing the country from capitalising on its vast and youthful demographics. Attempts at reform have frequently run into political resistance. This changed late last month, when Prime Minister Narendra Modi pushed through a sweeping deregulatory package that promises to ease compliance burdens for businesses, improve flexibility, and raise security for workers across the jobs market. For a country that aspires to reach "developed nation" status by 2047, the measures mark an important step forward.

On their own, the reforms are unlikely to deliver the sustained 7.8 per cent annual growth India needs to reach its high-income goal by the time of its independence centenary. For that, the government must pair it with land reforms, investments in education, and better infrastructure. Still, the labour law changes are significant reforms: by making better use of the country's close to 1bn-strong working-age population, they have given India a solid foundation on which to build." – Financial Times, Dec 01, 2025

Sparkling Idea III: Reading Newspaper, now a must for students in government schools in UP and MP

"An order issued by additional chief secretary (basic and secondary education) Partha Sarthi Sen Sharma, on December 23 says newspapers, both English and Hindi, should be made an integral part of the daily reading culture of schools." – The Times of India, Isha Jain, Dec 26, 2025

To me, these are some of the long – term structural reforms India has been awaiting. Hopefully, we will see more of these in the future.

Portfolio Composition and Risk

In our overall portfolio, top 15 stocks currently account for 85% of total investment. The overall sectoral break up of our investment portfolio is given in following Table 3.

Table 3: Chanakya PMS - Portfolio Sectoral Allocation as on December 31, 2025

Sector	Allocated Portfolio %
Banks & NBFCs	51
Holding Companies	13
Metals & Minerals	10
Industrials	9
Auto & Auto components	7
Consumer Goods	2
Logistics	1
Others	7

Source: HDFC Fund Accounting

Compared to the portfolio composition on August 12, 2025, the weight of Banks & NBFCs has increased from 47% to 51%, while the weights of Holding Companies have reduced from 17% to 13%. The allocation to Others has also decreased from 8% to 7%. The weights of Metals & Minerals, Industrials, Auto & Auto Components, Consumer Goods, and Logistics have remained unchanged. These changes mainly reflect stock price movements in the underlying portfolio.

Table 4: Chanakya PMS - Investment Performance* as on December 31, 2025

Over the last near 7 ^{1/2} years of our investments, the overall performance of our portfolios is given below in Table 4.

Period	Portfolio (in %)	Nifty 50 TRI (in %)
Since Inception (13.08.2018)	16.50	13.37
7 Years	17.98	14.71
5 Years	22.80	14.68
4 Years	19.63	12.10
3 Years	21.31	14.32
2 Years	15.46	10.97
1 Year	17.89	11.88
6 Months	3.95	2.92
3 Months	9.03	6.33

Source: HDFC Fund Accounting

*Net of all expenses and fee

While in the recent months the Indian stock market have continued to be volatile, new economic measures like GST rationalization and labor reform have impacted market prices of shares of your investee companies quite

well. Moreover, the financial performance of almost each of your investee companies has also been improving steadily.

Table 5: Chanakya PMS – Select Performance and Risk measure

Time Frame (As on 30 th Nov 2025)	3 Yrs
Beta	0.99
Jenson Alpha	7.25
Stock Selection efficiency	20.70

* Source: Finalyca Portal and HDFC Fund Accounting

The above risk and return measures reflect the robustness of our long-term investment process. In light of the longer period performance figures above, we would re-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

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