

## Capturing inefficiencies

Dear Friends,

We hope you've been well. The last quarter for us was about doing the unglamorous work right. Locking in structure, tightening process, and pressure-testing our research stack. We made steady progress on the fund launch, product, and research engine.

### Where We Stand

- Suraag Capital Management Private Limited is set up; the investment trust is constituted. Suraag Capital Fund-I will be a long-only, open-ended India equities vehicle.
- Our SEBI Category III AIF application is filed. We took extra time to reconcile our long-only, concentrated style with drafting quirks in the SEBI AIF regulations. That added weeks, but it removed ambiguity. The goal is simple: build a fund that can be examined any day by any regulator and be found boringly compliant!

### Built on the Tenet of Symmetry

On the fund setup, we have set it up on tenet of Symmetry. (*You would often see this value being mentioned in our communications*).

In plain words- commercially, no alpha=no performance fee.

This design keeps us fully aligned with our investors and forces us to continuously focus on generating risk-managed alpha. Taking direct inspiration from Nick Sleep's framework, we break down the investing alphas into three parts<sup>1</sup>-

- 1) Information (I know a meaningful fact nobody else does)
- 2) Analytical (I have cut up the public information to arrive at a superior conclusion)
- 3) Behavioural (I have the temperament to act when others cannot)

Suraag is engineered for the first two and designed to earn the third.

### Information and Analytical Edge- Our Engine

Information edge is about *coverage and timing*: seeing relevant facts earlier, more completely, and in a cleaner form than the crowd. Analytical edge is about *framing*: cutting those facts through the right mental models so we understand and act on it with discipline.

Every fund lives or dies by the quality of its mental models, what they choose to emphasize, how they weigh judgments, and how consistently they apply that lens.

---

<sup>1</sup> Nick Sleep (Nomad Investment Partnership) Interim letter 30<sup>th</sup> June, 2005  
pg. 60 [https://igyfoundation.org.uk/wp-content/uploads/2021/03/Full\\_Collection\\_Nomad\\_Letters\\_.pdf](https://igyfoundation.org.uk/wp-content/uploads/2021/03/Full_Collection_Nomad_Letters_.pdf)

In today's age, we see it critical for each investment firm to thus, have a custom software to meet their very specific information and analytical demands. For that reason, we have built Vyāpti.

### **Introducing Vyāpti**

Vyāpti (Sanskrit: व्याप्ति – “universality”) is Suraag's in-house data intelligence platform. It was born out of necessity. Vyāpti was developed to address inefficiencies in India's evolving public markets. Vast quantity of unstructured disclosures remain under-analyzed. The platform ingests data from multiple structured and unstructured sources. By organizing this information into a unified schema, Vyāpti enables scalable sourcing/diligence/monitoring for Suraag's investment team.

We continue to deepen our workflows and domain-specific use cases in Vyāpti. At its core, Vyāpti helps us build *information* and *analytical* edge, ensuring cleaner, broader, and faster coverage of Indian disclosures. To date, the platform has processed over 100,000 documents, all updated in near real-time and integrated into our live research stack.

### **Behavioural Edge- The Hardest and Rarest**

Superior data and analysis are only half the story. To generate alpha, they must be coupled with *behavioural edge*. Information tells us what is happening; analysis interprets why. Behavioural insight determines how we respond. Everything we are building, whatever we do is for nothing, if we don't have the right temperament.

Behavioural edge is far harder to replicate than information or analytical edge. We see an advantage in approaching markets with our first-principle thinking, supported by robust processes and the collective wisdom of over a hundred years of experience from our direct advisors and mentors.

In the Indian context behavioural inefficiencies are particularly stark, and three stand out for us.

- Next Quarter Syndrome

Investors, both retail and institutional, remain disproportionately focused on the next quarter, ironically while valuing companies on two/four-year forward multiples. This short-termism not only distorts valuations but actively discourages companies from pursuing back-loaded opportunities that could expand moats over a 2–3 year horizon, simply because of the temporary drag on profitability.

This behaviour particularly causes short-term volatility in lumpy or order-based businesses such as industrials, infrastructure, and consumer-tech companies where performance is inherently uneven across quarters.

Globally, some sophisticated investors practice a refined form of this called “setup-style investing”.

However, Indian markets still lack this maturity. Few investors track and update key operating assumptions such as segment-level EBITDA, pricing power, or customer acquisition costs that actually drive long-term value. Instead, reactions tend to be driven by headline numbers like revenue or profit after tax, both of which are frequently distorted by one-off accounting factors.

These gyrations are particularly helpful for bottom-up fundamental investors, as businesses generally revert back to their steady-states in long-term.

At Suraag, we deliberately scan for such negative triggers in otherwise consistent compounders. A quarter or even a year of weak reported results can often prompt violent market reactions, even when the underlying business remains structurally sound. Our edge lies in distinguishing short-term noise from genuine structural change and having the conviction to act when the market overreacts.

- Earnings Fixation and Illusion of Headline numbers

Earnings obsession behaviour is rooted in India's status as a low-trust society<sup>2</sup>. ~65% of online orders are still Cash on Delivery (COD)<sup>3</sup>. Over two-thirds of Indian household wealth is in physical assets (real estate + gold), with <5% in equities<sup>4</sup> and enforcing a contract still takes nearly four years.<sup>5</sup> World Bank's Ease of Doing Business ranks India 163<sup>rd</sup> of 190 countries on enforcing contracts.

This lack of systemic trust manifests in investor behaviour. There is a very strong preference for dividends (despite tax inefficiencies), cash profits over long-term projects, and obsession with P/E multiples- a flawed metric that includes non-operating income and is anchored on point-in-time snapshots.

A recent example was the IPO of a large retail company, where discussions revolved around its P/E multiple of ~230x and EV/EBITDA of ~69x. Those numbers were fundamentally misleading. Under Ind AS 116, "lease rentals" a key operating cost for any retailer get reclassified as *interest* and *depreciation*, both of which sit below EBITDA. In simple terms, EBITDA looks inflated because rentals disappear from the operating expense line. The Actual economic EBITDA for this concerned company was ~4% vs apparent 15% EBITDA margin reported widely and considered for EVEBITDA calculations.

---

<sup>2</sup> Inspiration: Core Human Motivations | Kunal Shah | Knowledge Project 141 | 29min mark

<https://www.youtube.com/watch?v=nl1PlagzgUo>

<sup>3</sup> <https://timesofindia.indiatimes.com/city/mumbai/cash-on-delivery-remains-a-preferred-mode-of-payment-among-consumers/articleshow/107800864.cms>

<sup>4</sup> <https://mutualfund.adityabirlacapital.com/-/media/knowledgecenter/pdf/are-indians-making-their-money-work-abslamc-whitepaper-250424.pdf>

<sup>5</sup> <https://archive.doingbusiness.org/content/dam/doingBusiness/country/i/india/IND-LITE.pdf>

Note:

*That said, the underlying business is robust. The company has a proven and repeatable model of scaling efficiently, initially expanding through a franchise network to test demand and operational feasibility, and subsequently converting successful franchises into company-owned stores (COCO).*

*This strategy not only improves control but meaningfully lifts profitability at scale. Within our retail coverage, the company exhibits some of the best working-capital turnover ratios (~10x). Additionally, its backward integration into manufacturing enhances gross margins and reduces inventory days. While this adds fixed assets and modestly drags total capital turns to ~3.5x, that figure still ranks among the top quartile of Indian retail businesses.*

*From a pure business model standpoint, this remains one of the strongest unit economics profiles in India's retail universe.*

Now, valuing a retail business purely on reported accounting EV/EBITDA is conceptually wrong. A thoughtful analyst should adjust for lease payments to reconstruct pre-Ind AS 116 financials before comparing multiples across peers.

This analytical laziness extends further when investors compare retail, consumer-tech, and SaaS companies in the same breath apparently because all were once funded by venture capital. But funding source shouldn't define business nature.

**Not every “tech stock” is a technology company!**

We see similar mis-judgments across sectors.

A pass-through pricing business often gets punished when revenues fall with raw material costs, even though EBITDA per unit remains stable and volumes are rising. Likewise, a SaaS firm growing 40% year-on-year traded down by ~20% simply because of a one-time marketing expense compressed margins for a quarter.

- Lack of Business empathy

Most analysts continue to reduce businesses to spreadsheets of PE, EV/EBITDA, or margin grids, chasing narratives and short-term commentary rather than engaging with the true drivers of business. Very little time is spent on how companies actually function, the revenue model, supply chains, industry dynamics.

It's telling that, over the past two years, more than ten management teams have explicitly told analysts that they are **“not astrologers”** when pressed for precise quarterly guidance on revenue or profit<sup>6</sup>.

---

<sup>6</sup> Source: Vyapti search (Suraag Capital's in-house product)

## **The Path Ahead**

At Suraag Capital Fund-I, we are not trying to predict every quarter; rather we learn from new catalyst/triggers it presents. As part of our risk management framework, we will invest in only high-quality businesses at prices we see to be fair or cheap for such businesses. Once risk is appropriately managed, we will act only when we see a clear edge versus the street, whether information, analytical, or behavioural, that can generate alpha for our investors.

As we move toward our first close, our focus remains on refining the research stack, pressure-testing our processes, and staying true to the principle of symmetry.

Markets will be volatile, it's in their nature.

Frankly, we would be surprised if our portfolio experienced *less* volatility than the benchmark. We are looking to capturing inefficiencies, not avoiding them. We will sit through short-term dislocations as the market gradually converges to our worldview.

This is not a bug but a feature.

We consider such volatility the necessary cost of being right consistently.

Warm regards,

**Rishabh Aggarwal**

Founder & CEO

Suraag Capital

rishabh@suraagcapital.com | +91-9818924000