

Portfolio Management Services

Aditya Birla Sun Life AMC Limited

(A subsidiary of Aditya Birla Capital Limited)



ADITYA BIRLA
CAPITAL

PROTECTING INVESTING FINANCING ADVISING

Innovation Portfolio

- The portfolio will be invested in :
 - ✓ Companies which are beneficiaries of the fast-changing landscape across industries (innovation led)
 - ✓ Companies that have a scalability in the form of market size over the next decade (secular growers)
- Objective is wealth creation with lower volatility
- Well diversified multicap portfolio of 15-25 stocks across secular sectors, with less exposure to commodity cyclicals.

Portfolio Construct

Category	Weight	Rationale	Stocks
Innovation	50%-75%	Capture maximum value in fast changing landscape across industries through product or process innovation.	Bayer CropScience, Biocon, HDFC Life Insurance
Secular Growth	25%-50%	Scalability in the form of market size over the next decade	Bharti Airtel, Metropolis Healthcare

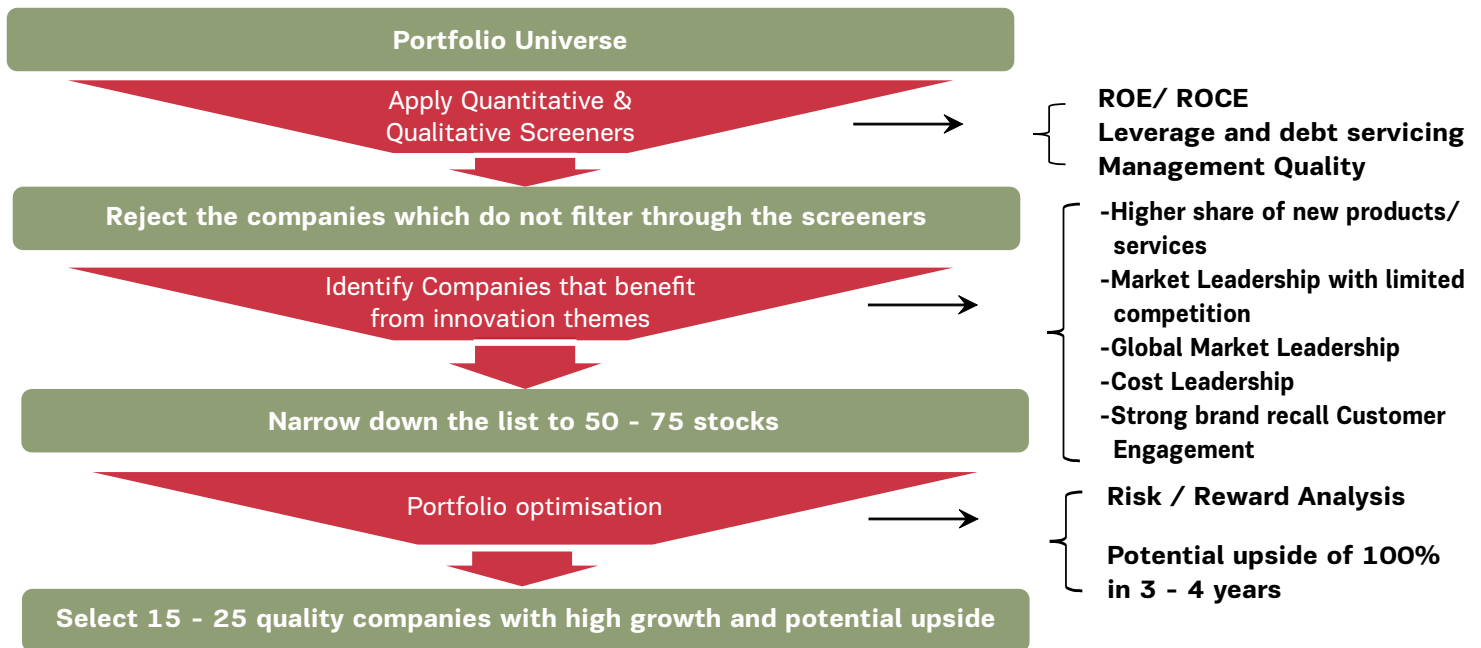
What is Innovation?

- Innovation is new, differentiated and profitable way of doing business.
- It is a **new way** of doing business, new systems of products & services or new interactions & forms of engagement between your organization & customers.
- Innovation must be able to **sustain & return** its weighted cost of capital
- It should be **relevant and significant** to the organization.
- Nearly 2000 examples of innovations were analyzed & from this emerged the framework of ten types of innovation by Larry Keeley in his work 'Ten types of innovation'.

Category	Innovation type	Company characteristics (Inclusion Criteria)
Business Model	Profit Model	Top quintile ROCE/ROE vs. Sector
	Network	Highest number of service centres vs. peers leading to higher resales and customer retention
	Organisation Structure	Strong cross sell franchise leading to lower customer acquisition cost for new products
	Process	Cost leadership in production and capex vs. peers
Product Offering	Product Performance	Improving share of new products, Market leadership in existing categories
	Product System	Number of complimentary products launched vs. peers
Customer Experience	Service	Client retention, Customer Persistency
	Channel	Sector leading distributor network, lower working capital intensity vs. peers
	Brand	Strong brand recall reflected in market leadership in both B2B and B2C segment
	Customer Engagement	Market share gains through customer engagement

Parameters	Exclusion Criteria
Profitability	<ul style="list-style-type: none"> • Bottom quintile ROCE/ROE vs. Sector • Loss for 3 consecutive years
Balance Sheet	<ul style="list-style-type: none"> • Debt/Equity > 1.5 • Bottom quintile Working Capital intensity
Cash Flow	<ul style="list-style-type: none"> • Operating Cash Flow <0 • Cumulative FCF for last 5 years <0

Investment Process:



Current Portfolio Allocation

Industry allocation	% of Net
Financials	30.9
Health Care	14.5
Materials	12.7
Information Technology	9.1
Consumer Discretionary	8.9
Consumer Staples	7.5
Energy	5.9
Industrials	4.6
Communication Services	4.4
Cash	1.5

Portfolio Data as on Nov 30, 2020

Market cap bias	Weight %
Largecap	71.3%
Midcap	21.6%
Small Cap	5.7%
Cash	1.5%

Portfolio Data as on Nov 30, 2020.

Market Cap Categorization as per Average Market Capitalization of listed companies during the six months ended 30 June, 2020.
Source: AMFI

Portfolio vs Benchmark- Higher Growth/ROE's with lower leverage

PE (x)	FY20A	FY21E	FY22E	Prem/Disc to benchmark (FY22E)
Innovation	46.7	41.0	30.0	
Nifty 500	22.1	27.7	22.0	36.4%
Nifty	19.5	25.2	19.4	

ROE (%)	FY20A	FY21E	FY22E	Prem/Disc to benchmark (FY22E)
Innovation	11.9%	13.0%	15.5%	
Nifty 500	9.1%	9.1%	10.8%	43.1%
Nifty	11.0%	10.0%	11.8%	

EPS growth (%)	FY20A	FY21E	FY22E	Prem/Disc to benchmark (FY22E)
Innovation	12.0%	13.9%	36.6%	
Nifty 500	-4.9%	-5.7%	26.0%	40.9%
Nifty	-1.7%	-5.0%	29.9%	

Net debt to Equity (%)	Fy20	Prem/Disc to benchmark
Innovation	4.1%	
Nifty 500	58.7%	-
Nifty	57.7%	

Top 10 Portfolio Holdings

Sr. No.	Company Name	% to Net Assets
1	HDFC Bank	10.6
2	ICICI Bank	8.1
3	Bajaj Finance	7.3
4	Reliance Industries	5.9
5	Persistent Systems	5.7
6	Metropolis Healthcare	5.3
7	HDFC Life Insurance	4.9
8	Cipla	4.7
9	Larsen & Toubro	4.6
10	PI Industries	4.6

Equity Outlook

Indian Stock Markets have been amongst the best performing global markets in past 3 months, with a broad - based rally across large, mid and small caps. India stands tall among the Emerging Markets, attracting USD 6.5bn of foreign flows during these difficult and unprecedented times. While Covid 19 threat does loom large, sentiments have turned positive, marked by a few events (1) US elections resulting in a Democrat President but a Republican Senate, (2) falling number of active Covid-19 cases in India, (3) improving high frequency indicators (4) positive surprise in 2QFY21 earnings, and (5) Success of Covid vaccine trials. Sectors such as Banking, Metals, Pharma, and IT continued to lead the market higher. Market breadth improved and mid and-small caps performed better than large caps.

On the domestic front, data on Covid has shown improvement as the number is falling by more than 50% from the peak. High frequency indicators are suggesting a strong recovery, aided by festival season and pent-up demand. Most activity indices are inching towards pre-Covid levels as the economy opens up.

The Government too has announced a series of measures to boost growth and monetary policy has been accommodative with policy rates unchanged. Recently, MPC revised its FY21 real GDP growth forecast by a sharp 200bps to -7.5% y-y from -9.5% y-y in October. RBI expects real GDP to turn positive + 0.1% in Dec-20 quarter and +0.7% in Mar-21, with risks broadly balanced. Further in FY22 they see growth at 21.9% in 1Q and 6.5% overall in H1.

The key message here is to remain invested in good businesses. Even after this rally, we find value in lot of companies including small and mid cap names, which could deliver strong returns over the next 2 -3 years. Also, few other indicators like the Yield Gap ratio, Market Cap to GDP continue to point towards healthy returns in equities in the medium term.

We continue to stick to our strategy of identifying companies which have good managements, strong balance sheets, and are seeing a turnaround in earnings trajectory due to macro/ micro factors, along with ownership of structural high growth names. While the near term business environment is reliant on the vaccine for Corona & how fast the economy bounces back, the long term growth story of India remains intact

Portfolio Update

We have adopted a balanced approach in the portfolio. The portfolio invests in companies which are either innovation led beneficiaries of the fast- changing landscape or are market leaders in nascent sectors (huge potential for future growth).

In the month of November, Bajaj Finance, Reliance Industries, ICICI Bank, Larsen & Toubro and HDFC Bank have contributed positively to the portfolio We have exposure to Covid resistant sectors like Healthcare, Telecom, Chemicals, and own sector leaders in other sectors like Banks, Retail and Industrials.

(Source: Bloomberg, ABSLAMC Internal Research)

Disclaimer: The views expressed above are the views of the Fund Managers of Innovation Portfolio and should not be construed as an investment advice. Investments in securities are subject to market risks and there can be no assurance or guarantee that the objectives of the Product will be achieved. Past performance may or may not be sustained in future.

Portfolio Key facts


Portfolio Name	Innovation Portfolio
Structure	Discretionary PMS
Nature	Open ended
Market cap	Multi cap
Investment Approach	The portfolio invests or proposes to invest in listed equity & equity related instruments with the aim of generating long term capital appreciation &/or income in the form of dividends &/or bias towards any market cap segment etc. as mutually agreed by the client & fund manager. It can also invest in money market instruments & units of mutual fund. Features of the companies can include – High quality with consistency in growth, high ROE, low leverage & high potential for growth. It is a portfolio which can be tailored as per the specific investment preference of the client. Stock selection is done through a combination of ‘Bottom up’ approach i.e. analyzing the fundamental attributes of the company & competition & ‘Top down’ approach i.e. analyzing the macro economic factors & industry growth characteristics.
No of stocks	15-25
Investment Manager	Aditya Birla Sun Life AMC Limited (ABSLAMC)
Portfolio Manager	Vishal Gajwani, Natasha Lulla
Recommended Investment Horizon	Minimum 3 years
Minimum Investment	Rs 50 lakhs
Taxation	Investors are advised to seek consultation from their Independent Financial Advisor / Tax Advisor before making any investment decision.

Risk Factors and Disclaimers:

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Regulatory Disclosure: All investors have the option to invest directly with ABSLAMC-Portfolio Manager.

For any service related queries, please contact us:

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