

India Special Opportunities Portfolio

July 2022



**ADITYA BIRLA
CAPITAL**

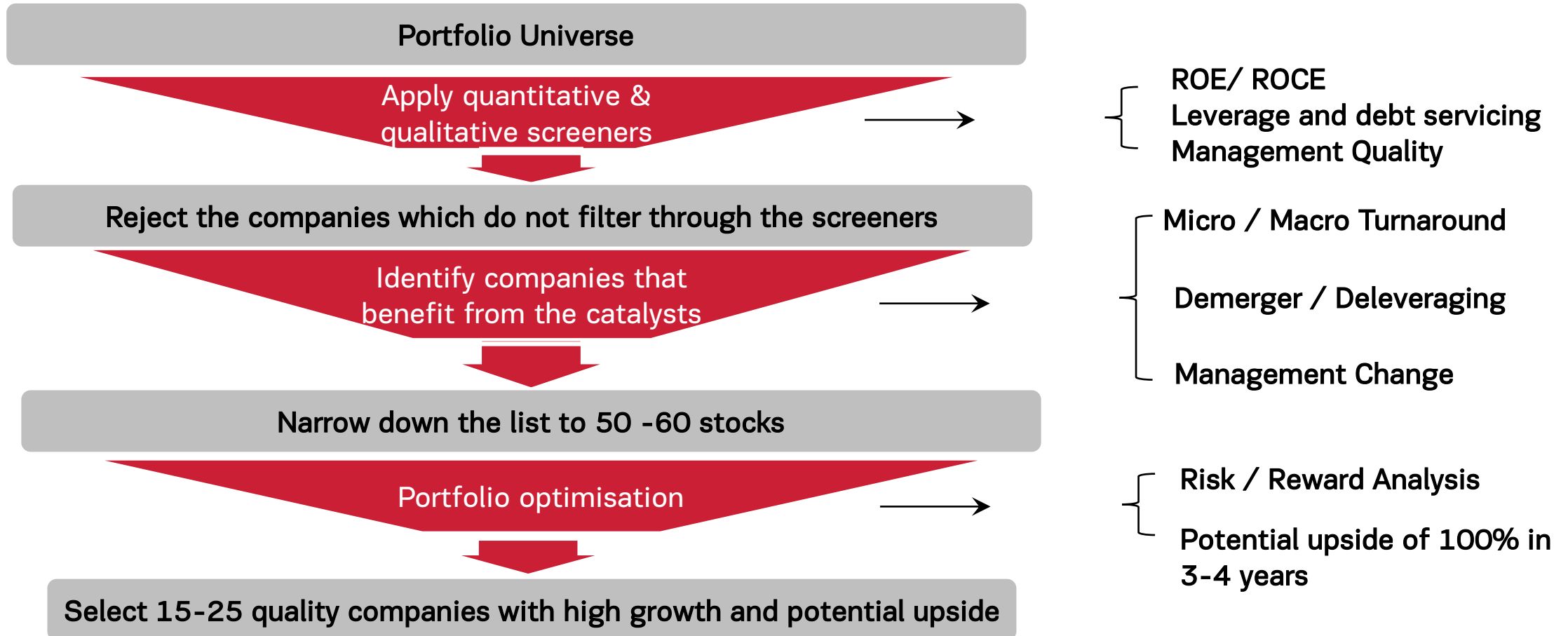
PROTECTING INVESTING FINANCING ADVISING

India Special Opportunities Portfolio – Broad concept

The core focus would be on companies that are primed to benefit from the catalysts mentioned below:

Portfolio Construct		
Portfolio Weight	Catalysts that drive stock selection	Rationale
65% - 70%	<ul style="list-style-type: none">• Micro turnaround• Macro / Change in business cycle• Management change• Deleveraging• Demerger	Higher upside potential with catalyst expected to play out over a period of 2-3 years
30%-35%	<ul style="list-style-type: none">• Mid to large cap potential• Secular growth names	Consistent performers

India Special Opportunities Portfolio – Investment Process



Fundamentally strong companies help to provide downside protection

Quantitative factors

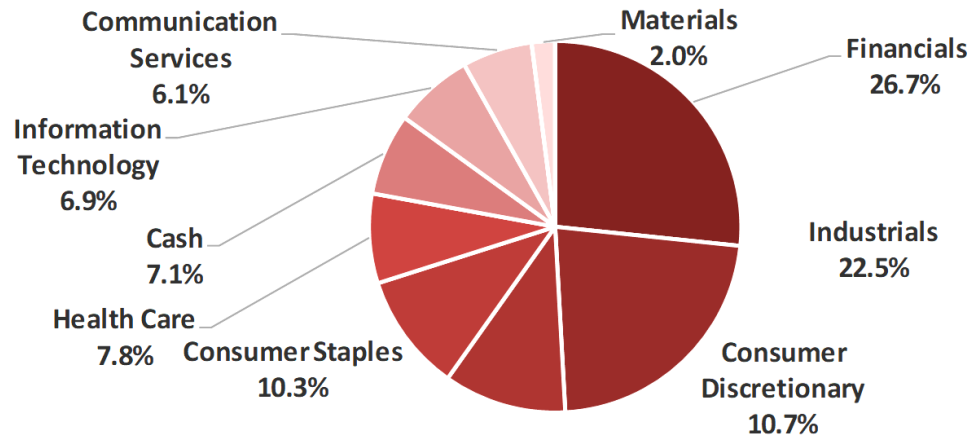
- Strong balance sheets
- Good capital allocation track record
- High return on capital over a longer time frame

Qualitative factors

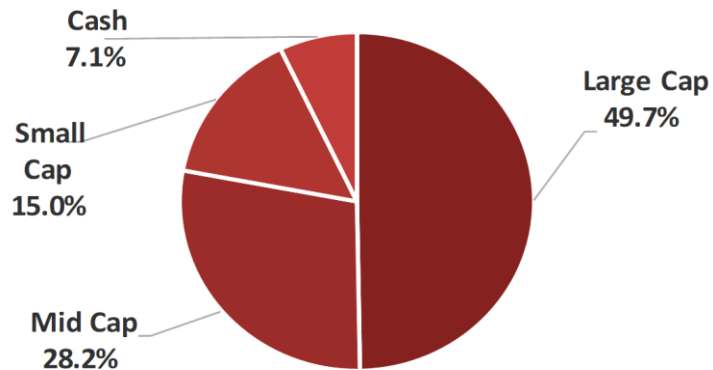
- High corporate governance
- Established business model
- Prominent market share
- Skilled management

Model Portfolio structuring

Sector Allocation



Market Cap



Top 10 Holdings & Weights

Top 10 Portfolio Holdings	% of Net Assets
HDFC Bank Ltd	7.2
ICICI Bank Ltd	6.2
Kotak Mahindra Bank Ltd	5.3
Trent Ltd	5.2
Axis Bank Ltd	5.0
ITC Ltd	4.6
Bharti Airtel Ltd	4.5
AIA Engineering Ltd	4.4
Persistent Systems Ltd	4.4
Container Corp Of India Ltd	4.2

Market Cap Categorization as per Average Market Capitalization of listed companies during the six months ended June 30, 2022. Source: AMFI

Current Model Portfolio

Portfolio vs. Benchmark *(Higher Growth/ROEs with low leverage)*

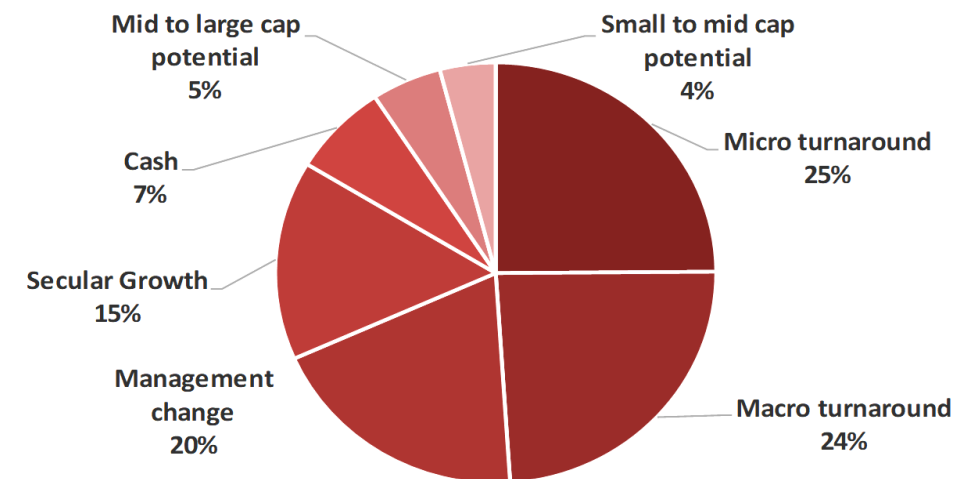
PE (x)	FY22A	FY23E	FY24E	Prem/Disc to benchmark (FY24E)
ISOP	30.5	24.6	20.5	21.2%
NSE 500	23.6	20.9	16.9	
NIFTY	24.5	21.1	17.2	

ROE (%)	FY22A	FY23E	FY24E	Prem/Disc to benchmark (FY24E)
ISOP	15.3%	16.6%	17.9%	8.7%
NSE 500	14.8%	15.3%	16.5%	
NIFTY	14.6%	15.6%	16.6%	

EPS growth (%)	FY22A	FY23E	FY24E	Prem/Disc to benchmark (FY24E)
ISOP	27.1%	23.0%	20.1%	10.9%
NSE 500	22.8%	15.0%	18.1%	
NIFTY	20.4%	15.9%	17.6%	

Net Debt to Equity (%)	FY 22	Prem/Disc to benchmark
ISOP	-11.6%	-266%
NSE 500	7.0%	
NIFTY	9.1%	

Catalysts



* Financials excluded in calculation of D/E

Source: All ratios are based on Bloomberg consensus estimates.

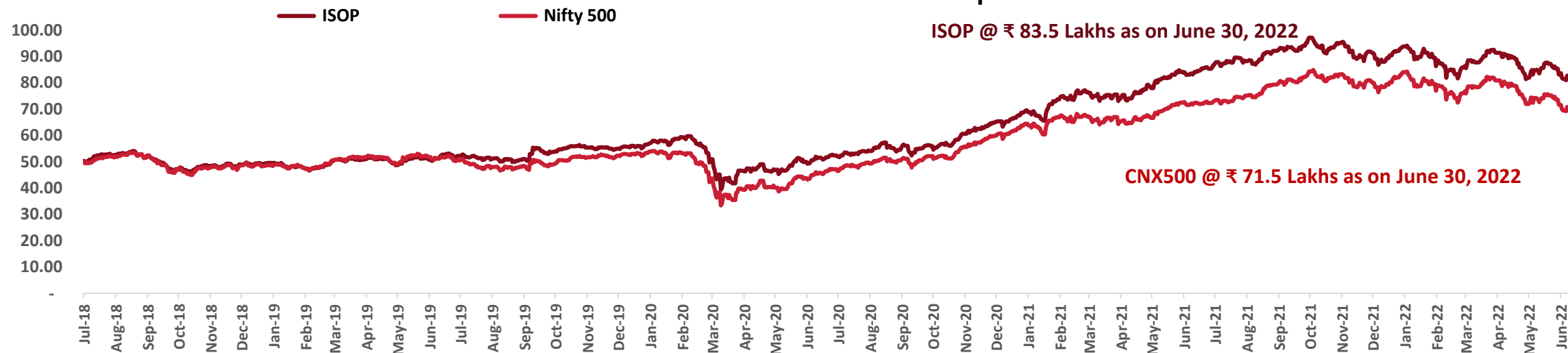
Note: Premium/Discount to benchmark Nifty 500 is listed for the period FY23E.

ISOP Performance



Returns (%)	Absolute				CAGR		
	1 month	3 month	6 month	1 year	2 year	3year	Since Inception (14/06/2018)
India Special Opportunities Portfolio	-4.7%	-6.5%	-7.6%	-1.3%	28.2%	16.7%	13.5%
Nifty 500	-5.2%	-10.1%	-10.7%	-0.6%	25.7%	11.5%	9.2%

Growth of 50 lakhs invested at inception



Disclaimer :

Past performance of any product does not indicate its future performance. The returns of investment approaches are calculated using TWRR method and considers all inflows and outflows and market value of entire portfolio for computation of performance . It is calculated net of all expenses and fees. Investment approach level performance reported above is not verified by SEBI.

Case Studies

Business :- Industrial Machinery

- ❑ Current Market Cap : 20,505 Cr (as of June 30, 2022)
- ❑ AIA Engineering is a niche player in the value-added, impact abrasion, and corrosion resistant high chrome metallurgy segment with current capacity of 200,000 Mtpa

Catalyst Playing out :

- ❑ Entry into high potential gold and copper ore markets (addressable market ~1.2mn Mtpa), which account for ~40% plus of the overall market bodes well from a medium-term perspective, as they have been traditionally stronger in metals like iron ore.

Investment Rationale

- 90-95% of the mining demand is currently being serviced by conventional and forged mill internals. With the industry moving from cost of parts to total cost of ownership, there is a huge opportunity for AIA to convert users to high chrome mill internals.
- Despite the overall challenging environment, AIAE is continuing with its capex plans to fuel long-term growth (FY21 capex at Rs.250 cr.).
- Volumes are expected to pick up from FY22 onwards as demand normalizes. The company has net cash of Rs.1,460 cr. after dividend payment in March 20.
- Valuations at 29x FY22 P/E are reasonable for the quality of the franchisee (RoE of 14.4% in FY22E) along with long runway for growth

Business :- Materials

- ❑ Current Market Cap : 69,077 Cr (As on June 30, 2022)
- ❑ Shree Cements Ltd. (SRCM) is the largest cement manufacturer in North India and among the top cement manufacturing groups in the country with annual capacity of 29.3 m.t. with manufacturing plants at Beawar, Ras, Khushkhera, Suratgarh, Raipur and Jaipur in Rajasthan and Laksar (Roorkee) in Uttarakhand.

Catalyst Playing out :

- ❑ Cement industry dynamics are likely to see a significant change post the industry consolidation witnessed over the last 3-4 years. Higher capital cost, non availability of new limestone mines and difficulty in setting up new capacities all mean advantages for incumbents

Investment Rationale

- SRCM stands out within the cement industry for the following reasons:
 - Consistent capacity addition providing volume growth visibility
 - Volume growth is expected to be higher than industry, leading to consistent market share gain in the coming years.
- This will make SRCM the largest beneficiary of expected sector upturn; (c) industry leading RoE at 18%; (d) Strong balance sheet with net cash position, which is expected to sustain in the medium term.
- While the industry demand may fall in the short term due to Covid disruptions, demand for Shree may fall lesser than industry & the strong cash levels in the is expected to benefit Shree.

Business :- Communication

- ❑ Current Market Cap: 3,82,567 Cr (as of June 30, 2022)
- ❑ Bharti Airtel is a leading global telecommunications company with operations in 17 countries across Asia and Africa. The company ranks among the top three mobile service providers globally in terms of subscribers at 279 mn.

Catalyst Playing out :

- ❑ Bharti Airtel is well positioned to benefit from the improving sector dynamics led by improvement in ARPUs. Improving data usage, lower selling & distribution expenses, growth in home broadband & positive outcome of AGR issues bode well for the telecom sector.

Investment Rationale

- In contrast to fears, the company has witnessed only limited churn post RJio's recent Jio fiber launch (35-40% of recent plan renewals were annual). The recently launched 'Xstream' website and app (rebranded version of Airtel Thanks) offer wide content, which should further increase FTTH subscriber stickiness.
- ARPU accretion from broadband subscribers (2x ARPU v/s voice only subs) is likely to contribute to growth. We expect consol. EBITDA CAGR of around 25% over FY20-22 due to the above mentioned reasons.
- While the steady EBITDA performance, deleveraging and the improving FCF position have protected the stock even in the current weak market, an incremental upside would hinge on pricing actions & positive regulatory verdicts.

Business :- Financials

- ❑ Current Market Cap: 6,667 Cr (as of June 30, 2022)
- ❑ The Multi Commodity Exchange of India (MCX) is India's first listed commodity derivatives exchange that facilitates online trading of derivatives transactions.

Catalyst Playing out :

- ❑ MCX is the market leader, by trading turnover, in the Indian commodity exchange space, with 91% market share. Launch of new products (index futures), participation from mutual funds, portfolio managers and AIFs, is expected to lead to higher liquidity and gradual traction in option trading.

Investment Rationale

- MCX is best positioned to capitalise on spate of regulatory changes which are expected to provide strong growth levers to exchange turnover. These include launch of new products (index futures), participation from mutual funds, portfolio Manager and AIFs which will lead to higher open interest and in turn higher liquidity and gradual traction in option trading.
- We see multiple triggers/initiatives to drive growth in traded value such as :(a) custodian issues are resolved and two entities have been approved to offer custodian services (b) adding unique client codes through corporates, physical market players and banking subsidiaries distribution channel (c) adding new products (d) getting the gold from domestic refiners to be approved as deliverable commodity.
- Valuations are currently at 30x FY22 P/E

Trent Limited – Mid to large cap potential



Business :- Retail

- ❑ Current Market Cap : 38,542 Cr (as of June 30, 2022)
- ❑ Trent is one of the leading players in the Indian retail industry with a series of established brands in various retail segments
- ❑ Trent operates in multiple retail formats in both the value and lifestyle segments such as Westside (lifestyle), Zara (lifestyle), Star Bazaar (Hypermarket) and Landmark (books and music)

Catalyst Playing out :

- ❑ One of the few retailers to get the business model right, having 95% private label, and 53% gross margins along with consistent SSG (average of 9% over FY13-17), resulting in industry leading margins and RoCE of (9.7%/15% in FY18)

Investment Rationale

- Trent was among the earliest entrants in the organised retail sector in India and has focused on developing a robust business model in each of the retail formats pursued. Trent is pre-dominantly present in high growth / profitable women wear portfolio (~60 efficiently managing supply-chain / inventories which itself creates a strong entry barriers for peers.
- Zara, where Trent has a 50% stake (in the JV with Inditex), is a jewel in the company's crown. Going forward, we expect Zara to record ~12% YoY revenue growth. As of 31st March'20, Trent has Rs.840 cr. in cash balances and in liquid debt funds, indicating the company has strong cash position.

Business :- Banking

- ❑ Current Market Cap: 4,86,848 Cr (as of June 30, 2022)
- ❑ ICICI Bank is one of the leading private sector banks in India. It is the third largest bank in India in terms of assets and fourth in term of market capitalization

Catalyst Playing out :

- ❑ ICICI Bank has made changes at the senior management level with the appointment of Mr. Sandeep Bakhshi as MD and CEO of the bank to oversee all operations of the group

Investment Rationale

- Changes at the senior management level with the appointment of Mr. Sandeep Bakhshi as ED and COO of the bank to oversee all operations of the group.
- While the bank's balance sheet is superior than its peers given the construct of its loan book, near term performance can be contingent upon the recovery path for the sector in a post Covid environment.
- Adequate CET 1 capital of 15.7%, strong deposit franchise & technology leadership is expected to help ICICI Bank tide over the Covid crisis in a better way.
- Valuations are at a significant discount to the private banking space at 2.8x FY22 P/B, offering a high margin of safety.

India Special Opportunities – Portfolio Construct



Portfolio Name	India Special Opportunities
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 & income in the form of dividends. It can also invest in money market instruments & units of mutual fund. ISOP portfolio aims to invest in stocks that are primed to benefit from the following catalysts – Micro turnaround, Macro turnaround, Management Change, Deleveraging, Demerger, Mid to Largecap potential, Secular growth companies. 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	Dhaval Mehta , Salvin Shah
Tenure	Minimum 3 years
Minimum Investment	Rs 50 lakhs
Management fee	2.5% per annum
Performance fee	Nil
Operating expenses	Please refer to Appendix A- Client Fee Schedule



A Balasubramanian, MD & CEO

- A Balasubramanian has over 29 years' experience in the Mutual Fund Industry and has been with ABSLAMC since inception. Previously worked with GIC Mutual Fund. Currently, he is on the Board of Governors of SEBI established National Institute of Securities Markets (NISM).
- He has done Diploma in Financial Management, AMP from IIM, Bangalore, MBA from GlobalNxt University, Malaysia, Advanced Management Programme from Harvard University.



Anil Shyam, Head- Alternate Business & ETF

- Anil Shyam is Head of Alternate Business at Aditya Birla Sun Life AMC Limited. He has over two decades of experience and has been associated with the organisation since October 2007.
- He has previously worked at AK Capital Services Limited, Cholamandalam AMC Limited, JM Financial Asset Management Private Limited and at ICICI Prudential AMC Limited.
- He holds a Bachelor's Degree in commerce and Master's Degree in Finance & Control from Himachal Pradesh University, Shimla.



Dhaval Mehta, Portfolio Manager (Equity)

- Has 9+ years of experience in equity research and portfolio management. Dhaval's main domain expertise is in Consumer Staples & Discretionary, Retail, Building Material, Cement and Media sector.
- Prior to joining ABSLAMC, Dhaval worked with ASK Investment Managers as Portfolio Manager. At ASK, he used to manage assets over \$200mn and have delivered stellar performance across investment cycles. Prior to ASK, he has worked with Emkay Global Financial Services, Ventura Securities and Infosys.
- Dhaval is an MBA from Narsee Monjee Institute of Management Studies Mumbai and have done its Bachelor of Engineering from D.J Sanghvi College of Engineering Mumbai.



Salvin Shah – Portfolio Manager (Equities)

- Has 9+ years in Portfolio Management and Equity Research, Salvin has extensive experience in managing Indian Equities. His endeavor is to maximize returns for the investors while keeping an eye on portfolio risk. He has been successful at identifying themes and stocks at a very early stage which has resulted in multi-bagger returns for the investors.
- Prior to joining ABSLAMC, he worked with Sanctum Wealth Management as Co-fund Manager in their PMS business. Before Sanctum, Salvin was a part of equity research team at Edelweiss Securities and Athena Investment Management.
- He is a member of Institute of Chartered Accountants of India (ICAI) and a commerce graduate from Mumbai University.

Risk Factors associated with investments in Equity & Equity related securities:

- Risk arising from the investment objective, investment strategy, asset allocation and quant model risk:
- Market risk, political and geopolitical risk and risk arising from changing business dynamics, which may affect portfolio returns. At times, portfolios of individual clients may be concentrated in certain companies/industries. The performance of the portfolios would depend on the performance of such companies / industries / sectors of the economy.
- The portfolio proposes to invest in equity and equity related securities. Equity and Equity related securities by nature are volatile and prone to price fluctuations on a daily basis due to both macro and micro factors.
- The value of the portfolio will fluctuate as the daily prices of the individual securities in which they invest fluctuate and may be worth more or less than its original cost, at a given point in time.
- In respect of investments in equity and equity-related instruments, there may be risks associated with trading volumes, settlement periods and transfer procedures that may restrict liquidity of investments in equity and equity related securities.
- The value of the portfolio may be affected generally by factors affecting securities markets, such as price and volume volatility in the capital markets, interest rates, currency exchange rates, changes in policies of the Government, taxation laws or policies of any appropriate authority and other political and economic developments and closure of stock exchanges which may have an adverse bearing on individual securities, a specific sector or all sectors including equity and debt markets.
- Within the regulatory limits applicable at any point in time, the Portfolio Manager may choose to invest in unlisted securities that offer attractive yields. Securities, which are not quoted on the stock exchanges, are inherently illiquid in nature and carry a larger amount of liquidity risk, in comparison to securities that are listed on the exchanges or offer other exit options to the investor, including a put option. This may however increase the risk of the portfolio. The liquidity and valuation of the portfolio's investments due to their holdings of unlisted securities may be affected if they have to be sold prior to their target date of disinvestments
- Investment made in unlisted equity or equity-related securities may only be realizable upon listing of these securities. Settlement problems could cause the portfolio to miss certain investment opportunities.
- Investors may note that Portfolio Manager's investment decisions may not always be profitable, as actual market movements may be at variance with anticipated trends.
- Though the constituent stocks of most indices are typically liquid, liquidity differs across stocks. Due to the heterogeneity in liquidity in the capital market segment, trades on this segment may not get implemented instantly.
- The portfolio may have higher concentration towards a particular stock or sector, at a given point in time. Any change in government policy or any other adverse development with respect to such a stock or the sector, may adversely affect the value of the portfolio.
- The portfolio also proposes to invest in derivative instruments. The Portfolio manager intends to use exchange traded derivatives as a hedging tool & does not intend to take any naked positions. Nevertheless, trading in derivatives market has risks and issues concerning the use of derivatives that investor should understand. Derivative products are specialized instruments that require investment techniques and risk analysis different from those associated with stocks and bonds.

- Derivative products are leveraged instruments and can provide disproportionate gains as well as disproportionate losses to the investor. Even a small price movement in the underlying security could have a large impact on their value. Execution of such strategies depends upon the ability of the Portfolio Manager to identify such opportunities. Identification and execution of such strategies to be persuaded by the Portfolio Manager involve uncertainty and decision of the Portfolio Manager may not always be profitable. No assurance can be given that the Portfolio Manager shall be able to identify or execute such strategies.
- The risks associated with the use of derivatives are different from or possibly greater than, the risk associated with investing directly in securities and other traditional investments. As and when the product trades in the derivatives market there are risk factors and issues concerning the use of derivatives that investors should understand. Derivative products are specialized instruments that require investment techniques and risk analysis different from those associated with stocks and bonds. The use of a derivative requires an understanding not only of the underlying instrument but also of the derivative itself.
- Derivatives require the maintenance of adequate controls to monitor the transactions entered into, the ability to assess the risk that a derivative adds to the portfolio and the ability to forecast price or interest rate movements correctly. There is a possibility that loss may be sustained by the portfolio as a result of the failure of another party (usually referred as the “counter party”) to comply with the terms of the derivatives contract. Other risks in using derivatives include the risk of mispricing or improper valuation of derivatives and the inability of derivatives to correlate perfectly with underlying assets, rates and indices. Thus, derivatives are highly leveraged instruments. Even a small price movement in the underlying security could have a large impact on their value.
- The use of a derivative requires an understanding not only of the underlying instrument but also of the derivative itself. Derivatives require the maintenance of adequate controls to monitor transactions entered into, the ability to assess the risk that a derivative adds to the portfolio and the ability to forecast price or interest rate movements correctly. There is a possibility that loss may be sustained by the portfolio as a result of the failure of another party (usually referred as the “counter party”) to comply with the terms of the derivatives contract. Derivative trades involve execution risks, whereby the rates seen on the screen may not be the rate at which ultimate execution takes place. The options buyer’s risk is limited to the premium paid, while the risk of an options writer is unlimited. However, the gains of an options writer are limited to the premiums earned. The writer of a put option bears the risk of loss if the value of the underlying asset declines below the exercise price. The writer of a call option bears a risk of loss if the value of the underlying asset increases above the exercise price. Investments in index futures face the same risk as the investments in a portfolio of shares representing an index. The extent of loss is the same as in the underlying stocks. Risk of loss in trading futures contracts can be substantial, because of the low margin deposits required, the extremely high degree of leverage involved in futures pricing and potential high volatility of the futures markets.
- The derivatives market in India is nascent and does not have the volumes that may be seen in other developed markets, which may result in volatility in the values. The Portfolio Manager may, from time to time, invest any un-deployed funds in Liquid Portfolio of PMS or in money market instruments. Though the portfolio of liquid funds comprises of short-term deposits, government securities and money market instruments, they cannot be considered as totally risk free. This is because liquidity patterns and short term interest rates of the government change, sometimes on a daily basis, thereby making the fund susceptible. Liquid Portfolio returns are not guaranteed and it entirely depends on market movements.
- Disclaimer: The views expressed above are the views of the Fund Managers of India Special Opportunities Portfolio. They should not be construed as 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.**
- **Regulatory Disclosure: All investors have the option to invest directly with ABSLAMC-Portfolio Manager**

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PROTECTING INVESTING FINANCING ADVISING

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