India Special Opportunities Portfolio

- Diversified, Multi cap portfolio of 15-25 stocks
- Core focus on companies that are primed to benefit from micro and macro catalysts
- Endeavours to exploit the inefficiencies in the market that leads to mispricing of stocks that are fundamentally strong
- Focus on strong Quantitative filters and Qualitative factors

Portfolio Construct

Portfolio Weight	Catalysts that drive stock selection	Rationale
65% - 70%	• 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%	• Mid to large cap potential • Secular growth names	Consistent performers

Focus on Strong Filters

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

Investment Process:

Portfolio Universe

Apply Quantitative & Qualitative Screeners →

- **ROE/ ROCE**
- **Leverage and debt servicing**
- **Management Quality**

Reject the companies which do not filter through the screeners

Identify Companies that benefit from the catalysts →

- **Micro / Macro Turnaround**
- **Demerger / Deleveraging**
- **Management Change**

Narrow down the list to 50 - 60 stocks

Portfolio optimisation →

- **Risk / Reward Analysis**
- **Potential upside of 100% in 3 - 4 years**

Select 15 - 25 quality companies with high growth and potential upside

Current Portfolio Allocation

Basis the above investment framework the current portfolio is invested as below:

Industry allocation	Allocation %
Financials	25.7
Industrials	13.2
Consumer Staples	12.6
Consumer Discretionary	11.0
Healthcare	11.0
Materials	9.2
Utilities	6.1
Communication Services	2.2
Cash	9.0

Catalyst	Allocation %
Micro turnaround	27.4
Macro turnaround	23.8
Secular Growth	20.5
Mid to large cap potential	7.4
Management change	8.3
Deleveraging	3.6
Cash	9.0

Market cap bias	Weight %
Largecap	54.3
Midcap	28.1
Smallcap	8.6
Cash	9.0

Portfolio Data as on July 31, 2019.

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

PE (x)	FY19	FY20E	FY21E	Prem/Disc to benchmark (FY20E)
ISOP	44.1	33.7	27.6	66.4%
Nifty 500	23.3	20.3	17.6	
Nifty	21.7	18.8	16.4	

ROE (%)	FY19	FY20E	FY21E	Prem/Disc to benchmark (FY20E)
ISOP	14.5%	14.7%	14.1%	11.6%
Nifty 500	12.8%	13.2%	14.2%	
Nifty	13.3%	14.1%	14.9%	

EPS growth (%)	FY18	FY19E	FY20E	Prem/Disc to benchmark (FY20E)
ISOP	22.9%	30.9%	22.0%	104.7%
Nifty 500	13.8%	15.1%	15.0%	
Nifty	13.6%	15.2%	15.3%	

Net debt to Equity (%)	FY19	Prem/Disc to benchmark (FY19E)
ISOP	15.09%	-69.0%
Nifty 500	48.7%	
Nifty	31.6%	

Top 10 Portfolio Holdings

Sr. No.	Company Name	% to Net Assets
1	HDFC Bank	7.8
2	Trent	7.4
3	ITC	7.3
4	ICICI Bank	6.5
5	Torrent Power	6.1
6	Kotak Mahindra Bank	5.1
7	Asian Paints	5.0
8	AIA Engineering	4.8
9	Thermax	4.5
10	Shree Cement	4.3

Equity Outlook

It is a well known fact that equity markets are driven by sentiment in the short run. In the words of Benjamin Graham, "Markets are voting machine in the short term & weighing machines in the long term." The short run factors in the public's popular opinions, which may be also loosely termed as momentum investing whereas what matters in the long term is actual underlying business performance driven by fundamentals of a company.

Currently in India, companies with high promoter pledge, high debt & corporate governance concerns are being exited by investors & we are witnessing a flight of capital to "safer" companies. Most of the MNCs also fall in this bracket. MNCs have more independent management, global economies of scale,higher standards of product quality, brand equity & strong distribution capabilities.

In times of economic stress, they are relatively better placed than others. Their parentage also gives them access to technology expertise, strategy & execution capability. MNCs generally have a higher return on invested capital, cash flows & asset turnover with lower leverage. While they tend to trade at higher valuations, they also reward the shareholders, higher dividend yield being one of it.

The last couple of months have been painful for Indian equity investors mainly due to macro-economic, geopolitical & global uncertainty w.r.t. US-China, US-Iran & Brexit issues. While the companies with weak or deteriorating fundamentals are more affected, even those with strong fundamentals are being temporarily influenced with minimal or no impact on their long term earnings growth trajectory. On the contrary, this scenario presents an opportunity to buy fundamentally well placed companies at a better price.

From a valuation perspective, the Nifty 500 & Nifty Midcap index have corrected by 6% & 15% respectively in the last 1 year. While there might be some pain in the near term, from a 3 year perspective there are ample growth opportunities for the Indian equity investor as the structural growth story of India remains intact.

Portfolio Update

In the month of July, we added Dr. Lal Pathlabs Ltd to the portfolio and exited The Phoenix Mills Ltd from the portfolio.

Dr. Lal PathLabs Limited (DLPL) is an international service provider of diagnostic and related healthcare tests. Based in Delhi, the company offers a broad range of tests on blood, urine and other human body viscera. It is one of the largest players in the highly-fragmented Indian diagnostic services market with an estimated market share of around 3%. Room for growth in terms of attaining higher market share from unorganized players & expanding operations pan India basis provides ample growth opportunities. Over the years, DLPL has built strong brand equity with patients and doctors, particularly in the North region of the country. The strong network of 207 Satellite Labs enable faster turnaround time and the predominantly franchisee-operated ~2,600 Patient Services centers (PSCs) provides access to patients across a wide region.

The Phoenix Mills Ltd: Malls in Mumbai (HSP) & Chennai are showing lower single digit rental growth over the last 2-3 quarters versus a historical double digit growth. In our opinion, improvement in rentals in the near future also looks challenging & have been revised downwards. Phoenix Mills is more of a consumption play & the general slowdown seen in the economy may have a negative impact on the company. Given the liquidity crunch in the financial sector, slowdown in auto sales & other discretionary sectors, we expect reduced footfalls in malls.

Risk Factors and Disclaimers:

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