28 Feb 2022

# DSP INDIA EQUITY FUND

This is a marketing communication. Please refer to the prospectus of the UCITS and to the KIID before making any final decisions. This document is intended only for professional clients and / or qualified investors.

DSP INVESTMENT MANAGERS

## INVESTMENT STRATEGY

**The investment objective of the DSP India Equity Fund ("Fund") is to achieve long term capital appreciation from a portfolio that is substantially constituted of equity and equity related securities of mid cap and small cap companies.**

## PERFORMANCE TRACK RECORD

| USD CAGR Performance as on 28 Feb 2022 | 1-Year *26-Feb-21* | 3-Years *28-Feb-20* | 5-Years *28-Feb-17* | 8-Years *28-Feb-14* | 10-Years *29-Feb-12* | Since Inception *14-Nov-06* |
|---|---|---|---|---|---|---|
| DSP Strategy | 10.29% | 15.87% | 9.86% | 16.66% | 12.44% | 10.95% |
| Average India UCITS fund | 10.73% | 13.25% | 8.99% | 10.80% | 8.26% | 6.81% |
| MSCI India USD | 16.29% | 14.82% | 11.57% | 10.36% | 7.66% | 6.53% |
| 20:80 Composite Index | 19.00% | 18.09% | 10.65% | 14.50% | 9.65% | 7.03% |

***Source: Internal. Please refer footnote for the disclaimers.***

## KEY FUND CHARACTERISTICS

**Fund:** DSP India Equity Fund

**Fund Structure:** UCITS ICAV (Sub Fund of DSP Global Funds ICAV)

**Investment Manager:** DSP Investment Managers Private Limited

**Investment Area:** India Equities

**Total Firm Assets (DSP Investment Managers):** $16.5 bn as of 28 Feb 2022

**Total Sub Fund Assets:** ~$9.4 mn as of 28 Feb 2022

**Strategy AUM:** ~US$ 1,772 mn as of 28 Feb 2022

**Share Class:** Seed Class

**Launch Date:** 15 March 2021

**Base currency:** USD

**Currency Classes:** Available USD and EUR

**Domicile:** Ireland

**Dealing Day (DD):** Daily

**Notice (Subscription Redemption):** 9:30 pm (Irish time) on the relevant DD

**Website:** https://www.dspindia.com/ucits

**Prospectus and KIID:** Link

**Settlement (Subscription):** After 3 business days from DD

**Settlement (Redemption):** Within 5 business days from DD

**Management Company:** KBA Consulting Management Limited

**Auditors and Tax Advisors:** Grant Thornton

**Legal Advisor to the ICAV as to Irish law:** Zeidler Legal Services

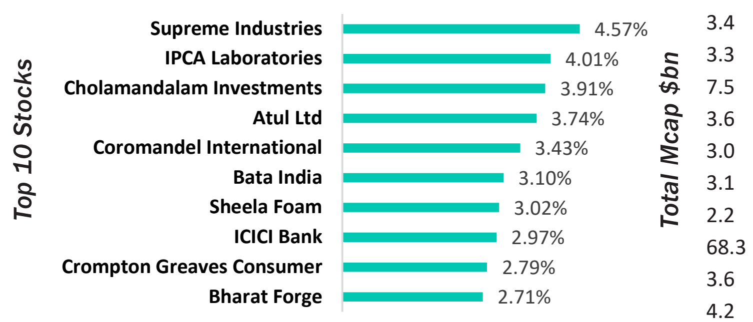
**Global Distributors:** DSP Global Services (Mauritius) Limited

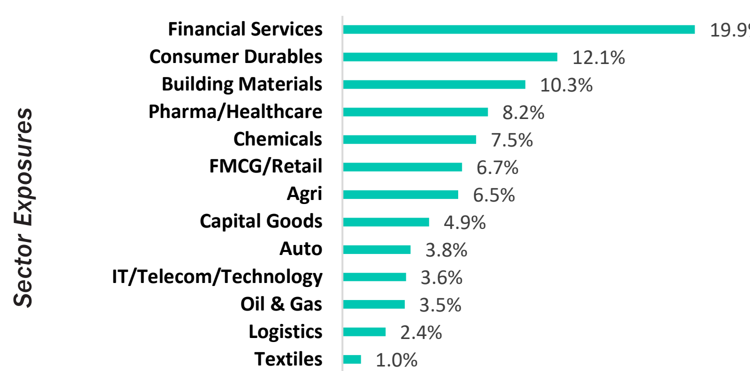
**Administrator:** HSBC Securities Services (Ireland) DAC

**ISIN:** IE00BK0WZ337

**Bloomberg Ticker:** DSPIESU ID EQUITY

## PORTFOLIO CHARACTERISTICS




| Portfolio Metrics* | FY21 | FY22E | FY23E |
|---|---|---|---|
| **EPS Growth** | 15.4% | 19.6% | 24.3% |
| **P/BV** | 8.4 | 6.7 | 5.8 |
| **ROE** | 18% | 17% | 18% |

| Fund Construct | Details |
|---|---|
| **Number of Stocks** | 54 |
| **Portfolio Turnover (last 12m)** | 29% *(for DSP Strategy)* |
| **Cap-wise split** *(for DSP Strategy)* | Small Cap – 75.7%, Mid Cap – 14.6%, Large Cap – 7.8%, Cash – 1.9% |

*The portfolio metrics displayed are estimates of the anticipated development of the portfolio holdings when measured against certain metrics. Some computations may also have extreme values removed from the calculations. These estimates are not intended to be an estimate or representation of future performance of the fund. The investment which is herein promoted concerns the acquisition of shares in a UCITS fund and not in a given underlying asset such as shares of a company as these are only the underlying assets owned by the fund. The Fund is actively managed by the Investment Manager without reference to a benchmark index. Note: S.I. is Since Inception of DSP Strategy. The 'average India UCITS returns' refers to the average returns of all India focused UCITS equity funds listed on Bloomberg. The Custom 20:80 Composite Index, the benchmark for the ICAV is a customized 20% MSCI India Index and 80% MSCI India Small Cap Index. It is not possible to invest directly in an index. Past performance is not a reliable indicator of future results. The Fund is subject to capital gain tax in India whereas the return/performance shown for the DSP Strategy is not subject to such tax.

**^THE DSP STRATEGY HAS BEEN IMPLEMENTED SINCE 14 NOV 2006, AUM ~US$ 1.9 BN, AS ON 28 FEB 2022 THROUGH CERTAIN PRODUCTS MANAGED BY DSP INVESTMENT MANAGERS PVT. LTD., WHICH ARE NOT AVAILABLE FOR INVESTMENT IN ANY JURISDICTION EXCEPT FOR INDIA.**

# DSP INDIA EQUITY FUND

DSP INVESTMENT MANAGERS

## FUND MANAGER COMMENTARY

In CYTD 2022, DSP Strategy is down -8.20% vs. its benchmark -9.53% and MSCI India small cap index -10.58%. After the recent correction MSCI India is now trading at 20.7x NTM/PE which is down ~8% down from start of the month and ~13% from its peak (mid Jan-2022).

While the frontline indices are down ~8-10%, there are stocks which have corrected ~35-40% from their recent peaks. We have no way of knowing how the current geopolitical situation will pan out, but we continue to focus on our bottom-up stock picking strategy, remaining aligned to our low-turnover high-research philosophy and investment framework. This correction hence has given us an opportunity to increase allocation in our high conviction stocks. For example, during the month, we took a new position in Suprajit Engineering - which is the third largest control cable manufacturer in the world and the largest producer of halogen bulbs in India. We also further increased our positions in i) Max Financial services - one of the largest non-bank insurance companies in India - down ~13% in Feb'22 ii) Linde India - a leading supplier of industrial gases and related products - down ~2-3% intra-month iii) Tata chemicals which is in the business of soda ash, crop protection and allied chemicals - down ~10% in Feb'22 iv) Dixon technologies, a leading contract manufacturer of electronics and a beneficiary of the Production Linked Incentives scheme PLI- down ~8% intra-month v) Thermax, a leading producer of sustainable energy solutions - down ~18% intra-month and vi) Cyient - a leading multinational technology company focused on engineering, manufacturing, data analytics, and networks and operations - down ~12% in Feb'22.

For this month's deep dive, we wanted to share our views on the specialty chemicals sector which represents 7.5% of the portfolio. What excites us about this theme?

The Indian chemical industry is relatively small, at USD ~145bn in annual revenues (compared to USD ~4.2trn globally, so less than 3%). However, it has been growing steadily. In fact, the country has now become a net exporter of chemicals (+USD 3bn in 2021), from previously being a net importer (-USD 7bn in 2019). From it's current base, the industry is expected to grow ~15% over the next decade. Within this, leading companies could grow their earnings even faster, and this is what excites us. Over the last decade, China has become the dominant global player with more than a ~30% global market share in specialty chemicals. In the last few years however, stringent environmental norms have forced many Chinese companies to either shut shop or work at curtailed production levels. This has disrupted the global supply chain and provided an opportunity for Indian companies to emerge as an alternative supplier for the global market (*China plus one strategy*). Many Indian companies have increased their production capacities to capture share in this segment.

One of our top portfolio holdings in this space is Atul Ltd., which is one of the largest integrated chemical companies in India. The company has been around for nearly 75 years now and has a diversified business model with 900 product offerings in polymer, aromatic and crop protection segment. The company benefits from its strong distribution network of 2,250 distributors and 38,000 retailers and brand equity. It also has a large geographically presence through various marketing subsidiaries in Asia, Europe, North America, South America and Africa serving about 4,000 customers across 92 countries.

What makes Atul Limited a sector leader, and how is it poised to grow further? This is detailed for you in the 'Stock Spotlight' section below:

## STOCK SPOTLIGHT

- **Atul Limited** is the largest producer of para-Cresol, para-Anisic aldehyde and para-Anisic alcohol in the world with an annualized production of ~35,000 metric tonne which are largely used in aromatic, pharma and consumer staple industries. This performance and other chemical segment accounts for ~65% of revenues and ~70% of exports.
- The company remains debt free due to higher cash flow generation. It has a healthy ROCE of ~24% and a 5-year earnings CAGR of ~22% lead by robust growth and profitability.
- Atul has been able to expand its margin mainly due to superior R&D over the last few years. The company has continuously reduced its fixed cost owing to backward integration.
- The company uses coal, salt and derivatives of crude oil as key resources for manufacturing. The recent volatility in crude oil possess a near term challenge but being the market leader in its segment, it has better pricing power and hence should be able to sustain its margins.
- The company has increased its capacity every year on back of strong demand. This capex expansion has been mainly funded by internal accruals. We expect the sales growth to be ~25% CAGR for the next couple of years
- The management remains extremely focused on environment, society, and sustainability. Examples include moving to achieve net zero liquid discharge for its key products, work on providing free education, empowerment for skill development, local infrastructure development, greening through plantation etc.

We feel all these to be great drivers of growth for the sector and specifically for the leaders like Atul Limited.

### AVAILABLE SHARE CLASSES

| Share Class | CCY | Distribution Policy | Launch Date | Initial Offer Price | Minimum Holding | Minimum Initial Subscription | Redemption Fee |
|---|---|---|---|---|---|---|---|
| **Seed Class*** | USD | Accumulation | 15 March 2021 | 10 USD | 1,00,000 USD | 1,00,000 USD | None |
| **Class A Unhedged** | USD | Accumulation | August 2021 | 10 USD | 1000 USD | 1000 USD | None |
| **Class A Unhedged** | EUR | Accumulation | - | 10 EUR | 1000 EUR | 1000 EUR | None |
| **Founder Class**** | USD | Accumulation | - | 10 USD | 1,00,000 USD | 1,00,000 USD | None |

*The Seed Class is a founders share class and will be open for subscriptions until the Class reaches US$50 million in net assets or such other period as may be determined by the Directors.
**The Founders Class is a founders share class and will be open for subscriptions until the Classreaches US$50 million in net assets or such other period as may be determined by the Directors.

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DSP INVESTMENT MANAGERS

## MARKET UPDATE

Just when it seemed that the Covid uncertainty is largely behind us, geopolitical risk has come to the fore. This has increased risk-off sentiment over the last few weeks. Since the start of 2022, the MSCI EM index is down ~4.9%, MSCI DM is down ~7.9% and MSCI India USD is down ~5.5%. From their recent peaks (mid Jan-22), the MSCI India is down ~10.4% while MSCI India Small Cap is down ~15%. While our hearts go out to those affected by this humanitarian crisis, duty beckons, and a common question we get is how the Indian market and economy are impacted.

**Implications of the Russia-Ukraine conflict:** India's trade partnership with both countries (combined) is ~1.7% of total imports, so it is not very material. However, when we look past the headline number, there are some aspects to be watchful of:

1. Crude: India is the world's 3rd largest oil importer and consumer. Hence, rising crude oil prices pose a challenge. For India, every USD 10/barrel increase in crude prices leads to an additional USD 12.5bn trade deficit. While this might sound alarming given the current oil price spike, net oil imports as a percentage of GDP has actually fallen from 5.7% (USD 111/bbl in 2013) to ~3.3% (assuming USD 85/bbl in 2022, *please see Chart of the Month below*).
2. Inflation: Continuing from the above point, rising crude oil and commodity prices can further spike inflation levels by ~40bps. Regardless, inflation in India has been elevated with CPI ~6% in Jan'22. This is mainly due to i) higher trend in food inflation, driven by Covid 3rd wave related supply-side shocks; ii) trends in global commodity prices; and iii) the cyclical trend in aggregate demand. We expect food inflation to be contained given three consecutive normal monsoons, ample water in reservoirs and record high food grain stock at 88m tonnes (3x of required buffer norms).
3. Sector-wise impact: i) Cement companies to see margin impact from higher RM prices, as 40% of road freight cost is exposed to diesel, ii) Chemical, fertilizer and consumer discretionary companies may witness supply disruption leading to higher prices as potash, ammonia, sunflower oil, barley and others are largely imported from Russia. iii) Defense: India earlier imported certain air defense systems from Russia. Given the Indian govt's push for indigenization, ~80% of all defense equipment incrementally are expected to be insourced. iv) Pharma: Russia represents (only) ~4% of revenues of the sector in India. While the impact to sales may be limited, the declining Ruble could pose currency risk. Our team continues to monitor the developments, looking for impact to our coverage companies.

**Flows and valuations:** In CYTD22, FIIs have been net sellers in Indian equities to the tune of ~USD 9.2bn while DIIs have played 'the balancer', investing ~USD 8.5bn. The monthly systematic inflows have been strong at ~USD 1.5bn. With the recent correction, Nifty 12M forward PE is now at 19X which is ~17% off the peak of 22.9X, and 1SD above the long-term average. This PE multiple has come off from the peak on account of two factors: a) ~10% price correction and b) an upward revision in earnings over the last 3 months and earnings roll over.

**Interesting highlights from the 3QFY22 results season:**

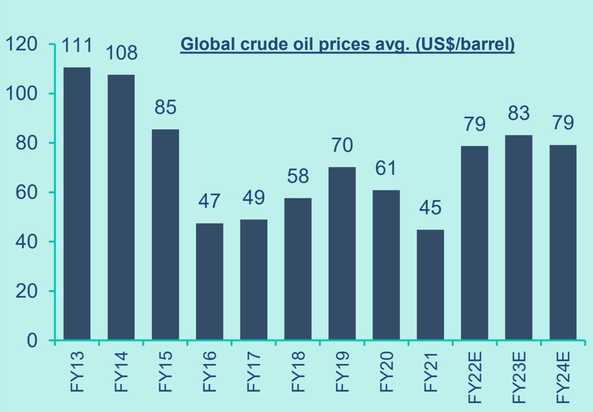
**Banks**: India's overall credit growth in the last quarter was ~8%. This is up from ~6%, but still low, and which we expect will pick up given the NPA cycle is behind us. However, for the top private banks, credit growth was much better at ~16-18% (on average), driven by broad based loan growth. Healthy trends were observed in retail loans +18% (YoY) and the SME segment +25% (YoY). Core operating profit rose 9% (YoY) helped by NIM expansion and fee income.

**Consumer companies** reported numbers which depicted higher demand growth in metros and tier 1 cities. For example, one of the largest paint companies reported a 26% YoY revenue growth which was despite a high base last year. Another leading consumer staples company reached its decade high market share of 27% during the same period. The company also reported EBITDA margin of 25% which was maintained largely due to lower advertisement spending. However, higher inflation, rural slowdown and delayed price hikes remain near term concerns for the sector.

**New Age businesses**: 2021 was the year of IPOs in India (too), with ~USD 18bn being raised in primary markets. While most IPOs listed at steep premiums, much of that initial spark is now extinguished. One of India's biggest payments' banks is ~65-70% below its offer price. One of the largest online food delivery aggregators is down ~38% from its listing price. The biggest online beauty retailer in India (which is profitable, a rarity in the startup world) is also down 35% from its listing price. An online marketplace for second-hand cars has lost ~70% of its market cap since IPO. As a team, we have preferred companies with strong fundamentals, even if it meant evaluating but sitting out of many IPOs.

**On Covid**, the Omicron wave in India turned out to be mild, supported by strong vaccination progress at ~90%+coverage (first dose) and ~75%+ (second dose). High frequency indicators suggest that activity on the ground has returned to pre covid levels.

Chart of the month: Oil prices impact India because it is a net importer, however the import bill as a % of GDP has become more manageable



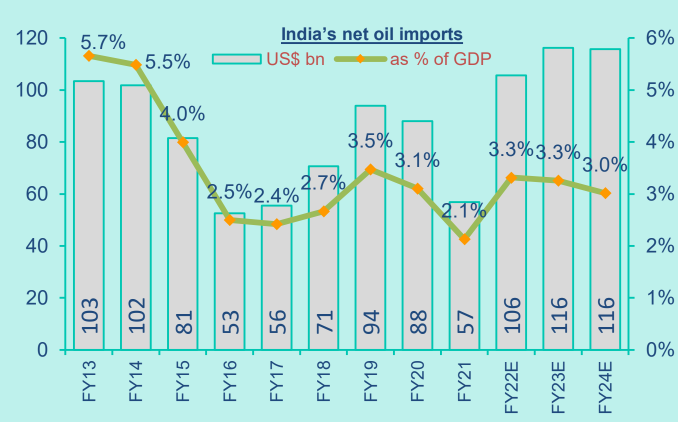




Chart source; UBS. Sources: Internal, Bloomberg, Elara, GS. FPI - Foreign Portfolio Investor. FY - Financial Year, CY – Calendar Year; YoY is Year over Year, EM- Emerging Markets. DM – Developed Markets, CPI – Consumer Price index, SME: Small and midsize enterprises, EBITDA – Earnings before interest, tax, depreciation and amortization, IPO – Initial public offering. NIM - Net interest margin

# DSP INDIA EQUITY FUND

DSP
INVESTMENT MANAGERS

## REGULATORY PERFORMANCE DEPICTION

| Performance In Prescribed Regulatory Format | 26/02/2021 to 28/02/2022 | 28/02/2020 to 26/02/2021 | 28/02/2019 to 28/02/2020 | 28/02/2018 to 28/02/2019 | 28/02/2017 to 28/02/2018 |
|---|---|---|---|---|---|
| MSCI India Index | 16.29% | 29.10% | 0.88% | -5.77% | 21.17% |
| MSCI India Small Cap Index | 19.68% | 38.44% | 1.51% | -26.17% | 32.28% |
| DSP Strategy | 10.29% | 25.30% | 12.62% | -16.55% | 23.26% |

## POTENTIAL RISKS

The value of investment in the Fund may be affected by the following risks:

1. Market Risk: The Fund can invest in equities which may be affected by market risk (the risk of an investment losing its value due to changes in economic conditions).
2. Investment in India: The Fund will invest primarily in India. India is an emerging economy and investment carries with it often substantial risks.
3. Derivative and Counterparty Risk: The Fund will enter into various financial contracts (derivatives) with other parties. There is a risk that the other party to a derivative will become insolvent or fail to make its payments which may result in the Fund and your investment suffering a loss.
4. Liquidity Risk: The Fund can be invested in financial instruments that may have low levels of liquidity.
5. Currency Risk: Changes in the exchange rate between the base currency of the Fund and the designated currency of unhedged share classes of the Fund expressed in a currency other than the base currency of the Fund may lead to depreciation in the value of the shares of that share class.

For a complete overview of all risks attached to this Fund, refer to the section entitled “Risk Factors” in the Supplement and the Fund’s prospectus.”

## DISCLAIMERS



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