31 Mar 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 31 Mar 2022 | 1-Year *31-Mar-21* | 3-Years *29-Mar-19* | 5-Years *31-Mar-17* | 8-Years *31-Mar-14* | 10-Years *31-Mar-12* | Since Inception *14-Nov-06* |
|---|---|---|---|---|---|---|
| DSP Strategy | 8.90% | 12.71% | 8.36% | 15.26% | 13.02% | 10.98% |
| Average India UCITS fund | 10.54% | 10.66% | 7.98% | 9.80% | 8.88% | 6.88% |
| MSCI India USD | 17.86% | 12.81% | 11.07% | 9.70% | 8.64% | 6.74% |
| 20:80 Composite Index | 20.96% | 15.32% | 9.94% | 13.39% | 10.71% | 7.29% |

*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):** $17bn as of 31 Mar 2022

**Total Sub Fund Assets:** ~$9.5 mn as of 31 Mar 2022

**Strategy AUM:** ~US$ 1,819 mn as of 31 Mar 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

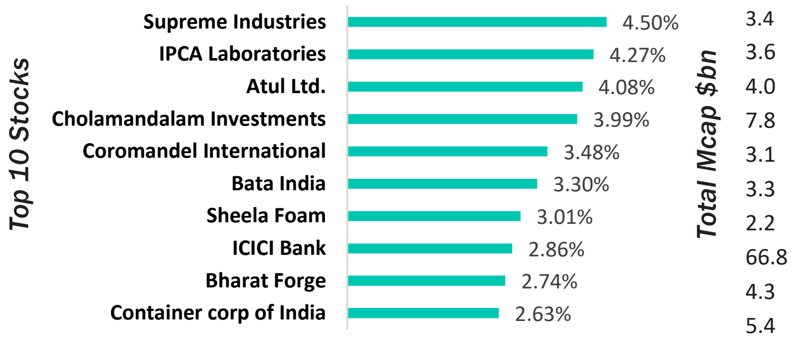
**Global Distributors:** DSP Global Services (Mauritius) Limited

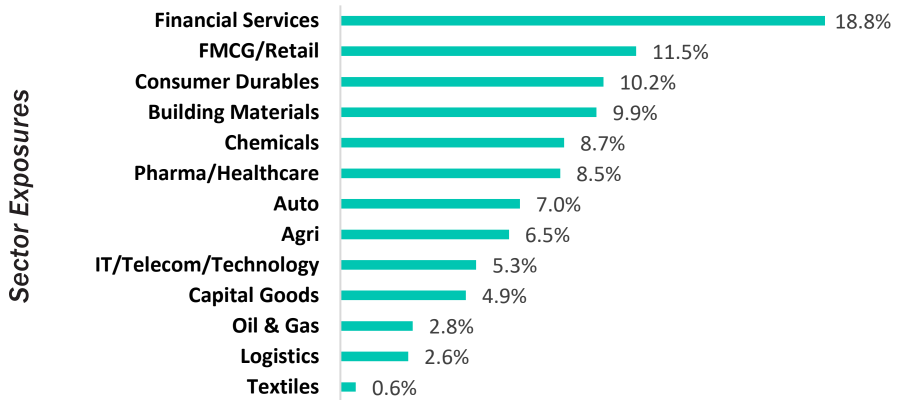
**Administrator:** HSBC Securities Services (Ireland) DAC

**ISIN:** IE00BK0WZ337

**Bloomberg Ticker:** DSPIESU ID EQUITY

## PORTFOLIO CHARACTERISTICS




| Portfolio Metrics* | FY21 | FY22E | FY23E |
|---|---|---|---|
| EPS Growth | 15.4% | 18.0% | 22.6% |
| P/BV | 8.4 | 6.8 | 5.8 |
| ROE | 18% | 17% | 18% |

| Fund Construct | Details |
|---|---|
| Number of Stocks | 55 |
| Portfolio Turnover (last 12m) | 29% *(for DSP Strategy)* |
| Cap-wise split *(for DSP Strategy)* | Small Cap – 75.1%, Mid Cap – 15.9%, Large Cap – 6.2%, Cash – 2.8% |

*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$ 1.8 BN, AS ON 31 MAR 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

For Indian equities, rising crude oil always poses a threat as India is the 2nd largest oil importer. We did a deep dive to evaluate the impact of rising crude oil on MSCI India. We concluded that ~17% of MSCI India 2022 earnings directly benefits from higher oil prices (upstream oil and gas producers, metals), 18% is adversely impacted (including autos, cement, staples) and almost two-thirds (65%) will largely have neutral to very little impact. This suggests that the direct earnings impact is limited. Frontline indices have remained flat to marginally negative since start of the year, but this may not depict the true picture as there remain stocks which are now down ~40-45% from recent peaks. While the geopolitical situation is a terrible humanitarian crisis, duty calls, and we continue to look for opportunities to add to our portfolios (either existing or new stocks).

During the month, we took a new position in Coforge Ltd – an Indian multinational information technology with
- a very high revenue per client (~USD 1.7m in Q3FY22, versus typical rates of ~USD 1.2m),
- one of the lowest client concentrations (top 10 clients only account for ~36% of revenue) and
- an extremely strong order book (providing revenue visibility for the next 2 years)

which are building blocks of our investment rationale in the company. The stock now has corrected ~25% YTD and the valuation seems comfortable for entry at this moment.

We also further increased our positions in i) Tata chemicals which is in the business of soda ash, crop protection and allied chemicals ii) Suprajit Engineering - which is the third largest control cable manufacturer in the world and the largest producer of halogen bulbs in India iii) Eclerx services – which is an India IT consulting and outsourcing multinational company providing solutions to fortune 500 companies iv) Balakrishna industries – is a tyre manufacturing company, down ~24% last month (but our fundamental thesis remains intact) v) JK Cement – one of the largest white cement manufacturer in the world, down ~25% in the last couple of months (again our fundamental thesis remains intact) vi) Thermax - a leading producer of sustainable energy solutions, down ~7% intra month.

Financials remain our top pick by weight, and we continue to remain positive on the sector. Credit growth is showing signs of improvement across all segments and asset quality has remained largely stable. It is expected that Covid related challenges are now behind us as mobility is back at pre-covid levels. Within this sector, we own not just some high-quality banks, but also leading insurance companies, a gold financier, and NBFCs (non-banking financial companies). We also remain bullish on retail, consumer durables, agricultural inputs and building materials. For this month's deep dive, we wanted to share our views on Cholamandalam Investments, one of the companies in the financial services sector.

What makes Cholamandalam Investments (Chola) a sector leader, and how is it poised to grow further? This is detailed for you in the 'Stock Spotlight' section below:

## STOCK SPOTLIGHT

### Cholamandalam Investments

- Chola belongs to the Murugappa group (over 120 years of existence) and is one of the leading NBFCs in the country. The company has a consistent track record, with ~30% earnings CAGR and ~18% ROE over the last 10 years

- The diversified loan book (including vehicle financing, loan against property, home loans, consumer personal loan) remains the best in the industry which has helped Chola to get an edge over peers.

- Its loan book has grown at a CAGR of ~20% over the last decade compared to industry average of ~10% and has also delivered an average ROA of ~2% over the same period.

- The company has very strong presence across the country with more than ~1200 branches and a customer base of ~1.8m customers. The company focuses on the small and medium enterprises segment with ~80% of its presence in tier III and IV towns. Rural demand is expected to pick-up going forward, which should ague well for Chola. It has also now partnered with more than 10 fintech companies to improve its digital footprint.

- Chola also follows ESG based lending and does not engage with industries which pose a threat to the environment. The company also believes in maintaining "Responsible products" and focuses on first time borrowers and new to credit customers ensuring financial inclusion of sections of society including micro business owners.

### 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 Class reaches 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

Mar’22 for markets was dichotomous. In the first half of the month, the MSCI India USD Index was down ~-2.51% and MSCI India Smallcap Index was down ~-1.5%, presumably a reaction to geopolitical events. The second half though witnessed a sharp recovery post the US Fed rate hike announcement (ironic, and not an April fool’s joke!) with MSCI India up ~3.8% and MSCI India Smallcap up ~4.1%. For the month/YTD, MSCI India was ~+3.6%/-2% and MSCI India Smallcap was ~+4.6% /-6.6%, while other emerging markets (Russia and China primarily) pulled MSCI EM’s performance down to ~-2.5%/-7.3%.

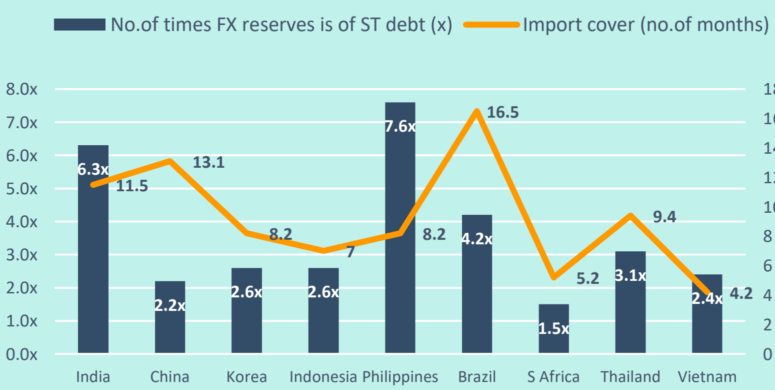
Massive FII outflows, but dare we say the markets have held up pretty well. FIIs have sold a whopping ~USD 14.5bn worth of Indian equities this year. Counted from Oct’21, this number rises to ~USD 20bn. This is the largest FII selling ever in absolute terms, and even the FII selling during 2008’s Global Financial Crisis pales in comparison. But is this how one should see it? We think it is important to see these outflows in the context of market-cap. The outflows so far are 0.6% of current market cap while it was 2% back in 2008, and hence this probably partly explains why the markets have been somewhat stable (the other part is strong domestic inflows, explained below). Where has this selling come from? 90% has been concentrated in the Banks and IT sectors, with a selling of ~USD 6bn each. The FII equity ownership of the overall Indian market now stands at an 8-year low of ~18.5%. But there does seem to be some respite. For instance, in the last 10 trading sessions, FIIs have cumulatively sold only ~USD 260m compared to ~USD 7bn in the 10 days prior to that. Domestic inflows have been strong, with buying to the tune of ~USD 13bn YTD, nearly balancing the FII outflows. Systematic mutual fund inflows too have remained extremely strong at an average of ~USD 1.5bn over the last 6 months. The total household savings in India is ~USD 700bn each for the last two years. Equities as a component of this is only ~6% compared to similar ratios for the US at 32% and China at 14%, which could indicate a sustainable increase of household savings into the equity markets in the long run.

Valuations and earnings: Nifty 12-month forward PE at 19.9X is ~13% off the peak (22.9X) and is ~1SD above the long-term average. Given all the commodity inflation (both FMCG and Autos RM price indices CYTD22 are up 14% and 16% respectively, the same as in all of CY21!), one would think that a net energy importer like India would actually see massive earnings cuts. In reality however, index level numbers are flat. This is because while FY23 earnings for Autos and Consumer are cut by ~10% and ~5% respectively, they are upgraded by 9% and 17% for Metals and Utilities respectively. That said, if the price spikes sustain for longer, the consequent higher inflation and demand destruction could impact growth which in-turn could create downside risks to corporate earnings estimates (but this is not the base case).

All is well? While FII outflows might suggest something is amiss and that investors are fleeing the country, we think the reality is perhaps the opposite. Oil prices shooting up is certainly a risk for a net importer like India, but the country has sufficient forex reserves of ~USD 620bn (Please see Chart of the Month below) to be able to absorb a crude spike such as now. Granted India is a little expensive on valuations, but it has been so for a while. India’s 12 month forward premium to the MSCI EM (ex-China, Russia) Index has actually come off from 62% to 51% now (after touching 41% briefly a few weeks ago). India’s demographic profile is second to none, with a median age of 28, compared to China at 37 and the World at 31. Given stable politics is a key risk consideration for most investors, the recent win in 4 out of 5 state elections for the incumbent national party probably indicates sufficient strength at the national polls in 2024. The govt. is pro-growth, making and enabling investments in infrastructure, manufacturing (PLI scheme) and digital initiatives, even at the expense of a slightly higher fiscal deficit (6.4% FY23E). A vast majority of corporates (~70% of the top 500 companies) have cleaned up their balance sheets, having deleveraged from 2.4x NetDebt/Ebitda in FY20 to 1.5x in 1HFY22. Several new-age ‘tech’ companies are getting listed, offering new opportunities for investors. Further, there are 99 unicorns (i.e. valuation >=$1bn) in the country now. Growth is what we would watch for closely, and here too, a country like India can offer this at scale. However, we think this is likely to reflect in specific stocks, rather than as a broad brushed approach.

On Covid, India reports ~1200 cases a day, which is less than 1% of the Omicron peak a few months ago. Strong vaccination progress is seen at ~1.8bn doses in all so far, split as ~987m first dose and ~830m second dose. Some states have even done away with their mask mandates. High frequency indicators as well as our own daily lives suggest that activity on the ground has returned to pre-covid levels or higher.

**Char of the month:** India is comfortably placed on FX Reserves to Short term (<1Y) external debt, much better than most other EMs, especially when seen together with the level of import cover offered.



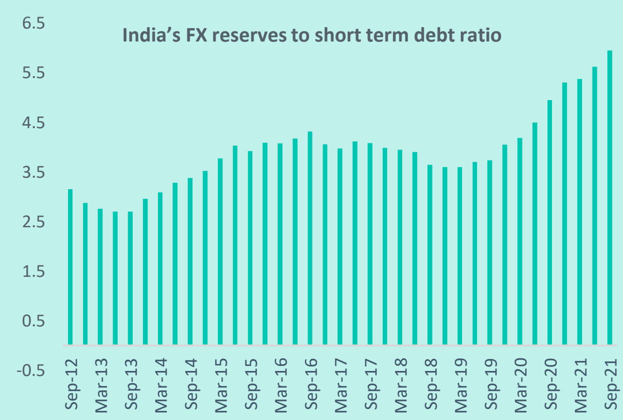




Chart source; Elara. Sources: Internal, Bloomberg, Elara, MOSL, GS. UBS, FPI - Foreign Portfolio Investor. FY - Financial Year, CY – Calendar Year; YoY is Year over Year, EM- Emerging Markets. EBITDA – Earnings before interest, tax, depreciation and amortization, PLI – Production Linked Incentive, 1HY22 – Half year 2022.

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## REGULATORY PERFORMANCE DEPICTION

| Performance In Prescribed Regulatory Format | 31/03/2021 to 31/03/2022 | 31/03/2020 to 31/03/2021 | 31/03/2019 to 31/03/2020 | 31/03/2018 to 31/03/2019 | 31/03/2017 to 30/03/2018 |
|---|---|---|---|---|---|
| MSCI India Index | 17.86% | 76.35% | -30.86% | 6.75% | 10.23% |
| MSCI India Small Cap Index | 21.73% | 117.87% | -41.16% | -12.02% | 15.54% |
| DSP Strategy | 8.90% | 76.75% | -25.53% | -5.51% | 10.34% |

## 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

In this material DSP Global Funds ICAV (the “Fund”) has used information that is publicly available, including information developed in-house. Information gathered and used in this material is believed to be from reliable sources. The Fund however does not warrant the accuracy, reasonableness and or completeness of any information. The data/statistics are given to explain general market trends in the securities market, it should not be construed as any research report/research recommendation. We have included statements opinions recommendations in this document, which contain words, or phrases such as “will”, “expect”,“ should”, “believe” and similar expressions or variations of such expressions that are “forward looking statements”. Actual results may differ materially from those suggested by the forward looking statements due to risk or uncertainties associated with our expectations with respect to, but not limited to, exposure to market risks, general economic and political conditions in India and other countries globally, which have an impact on the Fund and its investments, the monetary and interest policies of India, inflation, deflation, unanticipated turbulence in interest rates, foreign exchange rates, equity prices or other rates or prices etc. The sector(s)/stock(s)/issuer(s) mentioned in this presentation do not constitute any research report/recommendation of the same and the Fund may or may not have any future position in these sector(s)/stock(s)/issuer(s). All figures and other data given in this document are as on March 31, 2022 (unless otherwise specified) and the same may or may not be relevant in future and the same should not be considered as solicitation/ recommendation/guarantee of future investments by the Fund or its affiliates.
The prospectus and KIIDs for the Fund are available at DSP Global Funds ICAV, 5, George’s Dock, IFSC, Dublin 1, Ireland. The prospectus is available in English and the KIIDs are available in English and Swedish. Further, summary of investors rights (in English language) are available on Link. Swiss representative: Carnegie Fund Services S.A., 11, rue du Général-Dufour, 1204 Geneva, Switzerland. Swiss paying agent: Banque Cantonale de Genève, 17, quai de l’Ile, 1204 Geneva, Switzerland. The Fund is domiciled in Ireland. The prospectus, KIIDs, instrument of incorporation and annual and semi-annual report can be obtained from the Swiss representative. The distribution of this material in certain jurisdictions may be restricted or subject to registration requirements and, accordingly, persons who come into possession of this material in such jurisdictions are required to inform themselves about, and to observe, any such restrictions.
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**Disclaimer: Investments in funds are subject to risk Past performance is no guarantee of future returns The money invested in a fund can increase and decrease in value and there is no guarantee that you will get back the full amount invested**

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