



## Firm & Strategy Overview



| People | Processes | Performance |

**March 2024**

This is a marketing communication. Please refer to the Prospectus and KIID for more information on general terms, risks, and fees. Investors should only invest in the Fund once they have reviewed the Prospectus and KIID before making any final investment decisions.

# The DSP Group – Long History

## Successful time-tested legacy in the Indian financial markets

**160+**

**Years of existence (DSP Group)**

Among the oldest financial firms in India

### Founders of BSE

The family behind DSP Group included a founding member of the Bombay Stock Exchange

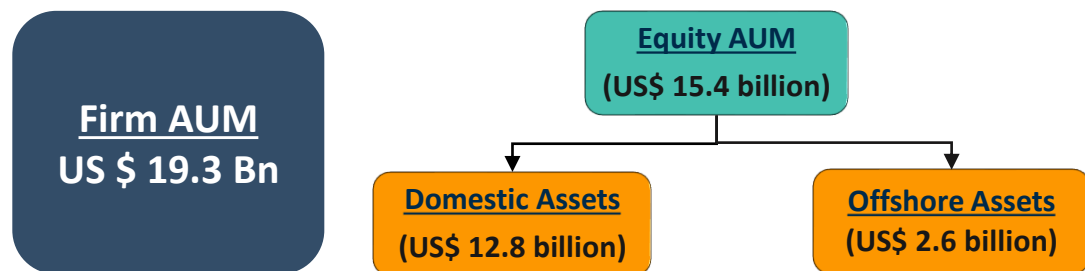
### Market Pioneers

Key figure in the professionalization of capital markets in India

**26 years**

In the Indian asset management industry

1. Core Business : Only Investment Management
2. Ownership that allows long term thinking : Family-owned and professionally-managed
3. Decades of good investment practices : from joint ventures with Merrill Lynch and BlackRock
4. Strong corporate access : DSP Group brought many of the top 300 companies in India to capital markets for the first time
5. Experienced Talent : 28-member Equity Investment team, having witnessed many market, economic & business cycles



Source: Internal, Data as on March 2024; USDINR rate assumed 83.1164

**DSP**

# Our Principles

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1. Mindset: Long Term Alpha generation (~200-700) bps of alpha across strategies since inception
2. Investors First: Close funds when margin of safety is low / valuations are sky high
3. Investment Frameworks are sacred: Build transparency, clarity & alignment with Investors
4. Sustainability: Gradually building ESG frameworks in our portfolios; signatory to UNPRI
5. Minimize Risk approach: 10<sup>th</sup> Man concept via “Skeptical analyst” to minimize accidents due to accounting frauds/ bad governance
6. Owners Mindset: via Long Term employee stock ownership plan & hence long term investment decisions
7. Skin in the Game: The DSP Group family invests their wealth in DSP Funds. DSP employees too invest in DSP Funds.

Source: Internal. Alpha is defined as the excess return over benchmark. Bps = Basis points. ESOP = Employee Stock ownership plan

# Our Edge

| # | Potential alpha sources | Taking advantage of                        | DSP's Primary Alpha Source? | Comments   |
|---|-------------------------|--|-----------------------------|--|
| 1 | Research                | Non-consensus calls / early-movers         | Yes                         | <ul style="list-style-type: none"> <li>- Focus on RoE and Earnings Growth</li> <li>- Emphasize sustainable investing</li> <li>- Historical examples such as IPCA Labs, Symphony, SRF, Coromandel etc.</li> </ul> |
| 2 | Behaviour               | Inherent human biases                      | Yes                         | <ul style="list-style-type: none"> <li>- Conviction through diversified yet focused portfolio</li> <li>- Long-term investment horizon</li> <li>- Low turnover</li> </ul>   |
| 3 | News flow               | Information arbitrage                      | No                          | <ul style="list-style-type: none"> <li>- We do not prioritize trading / short-term views</li> </ul>  |
| 4 | Technical               | Liquidity squeezes, sudden fund flows etc. | No                          | <ul style="list-style-type: none"> <li>- We do not prioritize technical charts analysis and subsequent trading</li> </ul>  |

Source: Internal; The sector(s)/stock(s)/issuer(s) mentioned in this note do not constitute any recommendation of the same and the Fund may or may not have any future position in these sector(s)/stock(s)/issuer. ROE = Return on Equity. **Past performance is not a reliable indicator of future results**

# Equity Investment Team



**Vinit Sambre (24)**  
Senior Vice President  
Head - Equities



**Rohit Singhanian (23)**  
Senior Vice President  
Co-Head – Equities

## Portfolio Managers / Analysts / Sector Responsibilities

## Investment Strategists

### PMs



**Gaurav Pant (18)\***  
SVP, PM



**Abhishek Singh (15)**  
AVP, PM



**Bhavin Gandhi (16)**  
AVP, PM



**S. Natraj (23)**  
VP, PM



**Jay Kothari (19)**  
SVP, Lead Investment Strategist & Global Head – International Business

### PMs / Analysts



**Charanjit Singh (15)**  
VP, Capital Goods, Infra, Power Utilities, Consumer Durables



**Resham Jain, CFA (17)**  
VP, Small & Mid Caps, Agri inputs, Textiles, Chemicals, Retail



**Chirag Dagli (20)**  
VP, Healthcare



**Souvik Saha (6)**  
Senior Manager, Investment Strategist



**Dhaval Gada (13)**  
VP, Banking and Financial Services



**Abhishek Ghosh (15)**  
AVP, Small & Mid Caps, Transportation



**Suryanarayanan Manian, CFA (14)**  
VP, Long Short, Pre-IPO



**Ashish Tekwani (3)**  
Assistant Manager, Investment Strategist

### Analysts



**Aniket Pande (9)**  
AVP, IT and FMCG



**Tanuj Kyal (4)**  
Senior Manager, Long/ Short



**Nilesh Aiya (12)**  
AVP, Forensic Research



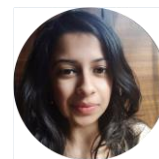
**Vaibhav Shah (5)**  
Senior Manager, Auto & Metals



**Prateek Mandhana (6)**  
Senior Manager, Long/short



**Venkat Samala (4)**  
Manager, Long/ Short



**Chaitra Nayak (7)**  
Senior Manager ESG Analyst



**Keval Ashar (2)**  
Analyst

Source: DSP, as on March 2024. Years in brackets ( ) is years of experience. \*Gaurav is the Portfolio Manager dedicated for the India long/short hedge fund.

# Equity Investment Team

## Dealing Team



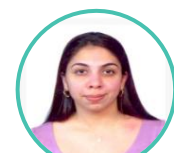
**Suketu Mehta (22)**  
SVP, Investments  
Equity



**Chirag Darji (18)**  
VP, Investments  
Equity



**Shashank Shah (19)**  
AVP, Investments  
Equity



**Avan Sanga (22)**  
Senior Manager,  
Investments Equity



**Varsha Patel (13)**  
Officer,  
Investments Equity



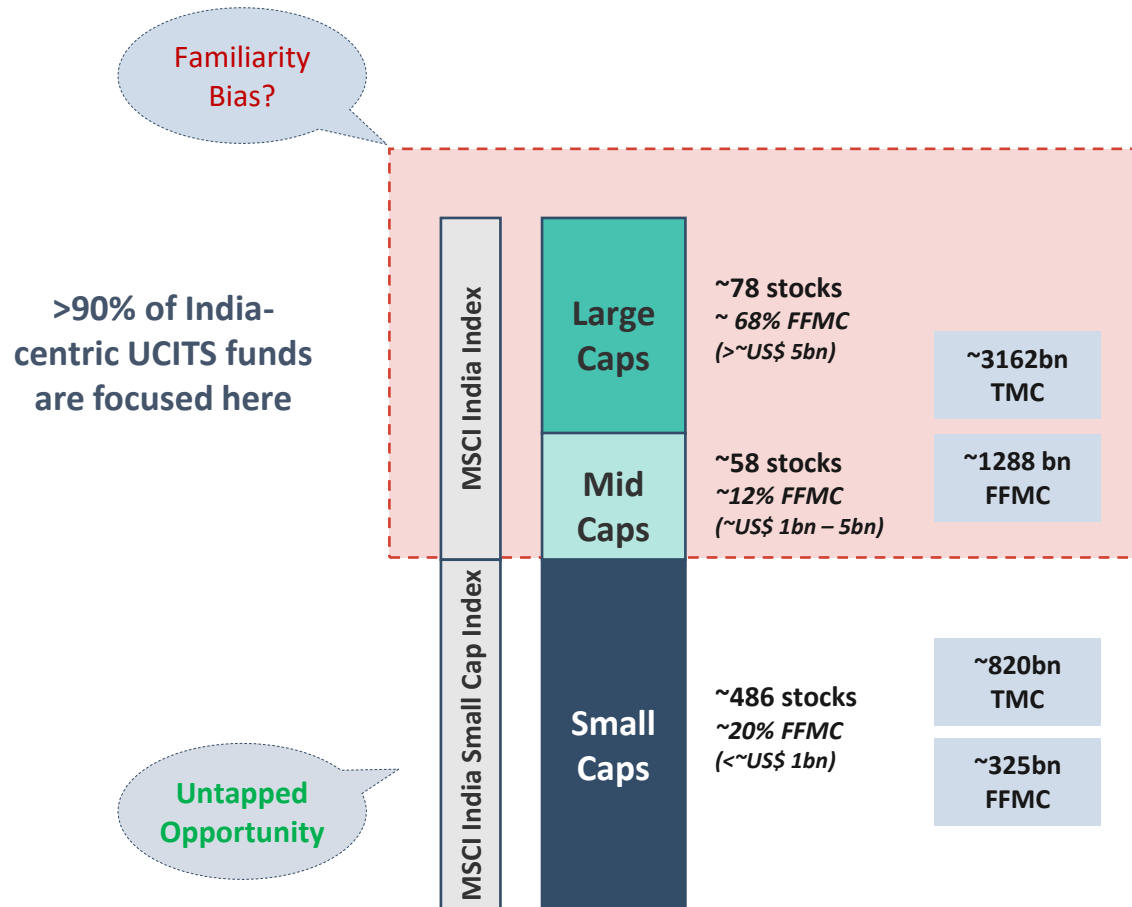
**Palak Doshi (9)**  
AM,  
Investments Equity

Source: DSP, as on Mar 2024. Years in brackets ( ) is years of experience.

# The Opportunity



# Where to invest in India? The Equity Investment Landscape

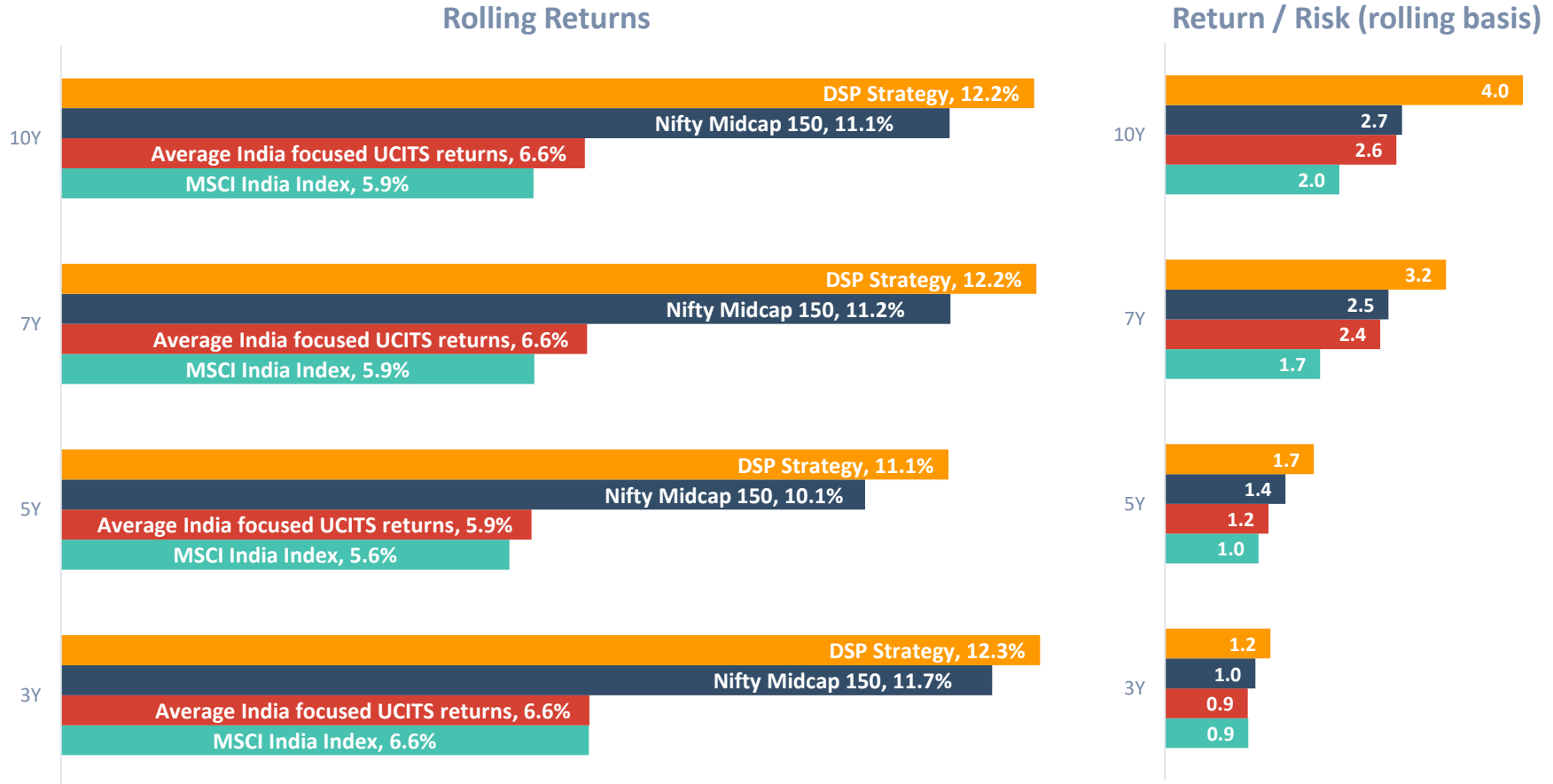


**There is a significant investable market beyond the large and mid caps**

Source: MSCI. Market cap data as on 4 April 2024. TMC = Total Market Cap, FFMC = Free Float Market-Cap. Indices are unmanaged and used for illustrative purposes only and are not intended to be indicative of any fund's performance. It is not possible to invest directly in an index. Past performance is not a reliable indicator of future results. All figures are in USD.



# How Small caps performed? Active management generated superior return/risk



**Our actively managed small and midcap oriented strategy has generated superior return/risk**

Source: Bloomberg; Note: Returns data from Jun 2007 to Mar 2024. Indices are unmanaged and used for illustrative purposes only and are not intended to be indicative of any fund's performance. It is not possible to invest directly in an index. Past performance is not a reliable indicator of future results. All figures are in USD. The DSP Strategy has been implemented since 14 Jun 2007 through certain products managed by DSP Asset Managers Pvt. Ltd., which are not available for investment in any jurisdiction except for India.

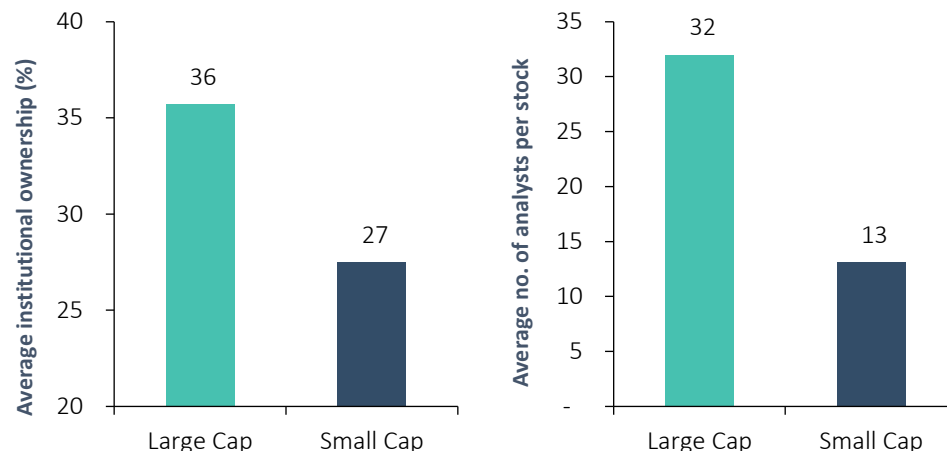
# Alpha elements? low ownership, sparse research and high diversification

## 1 Large & Mid Cap Alpha waning; Small Cap presents alpha opportunities

**~4.1%**  
**alpha**  
**CAGR since inception**

of the DSP Strategy over the MSCI India Index

## 2 Small-Cap stocks tend to be under-owned and under-researched



## 3 MSCI India Small Cap is more diversified, offering variety in stock picks

| Diversification      | MSCI India Index | MSCI India Small Cap Index |
|----------------------|------------------|----------------------------|
| GICS Industry        | 41               | 51                         |
| No. of stocks        | 101              | 260                        |
| Top 10 concentration | 46.7%            | 13.2%                      |

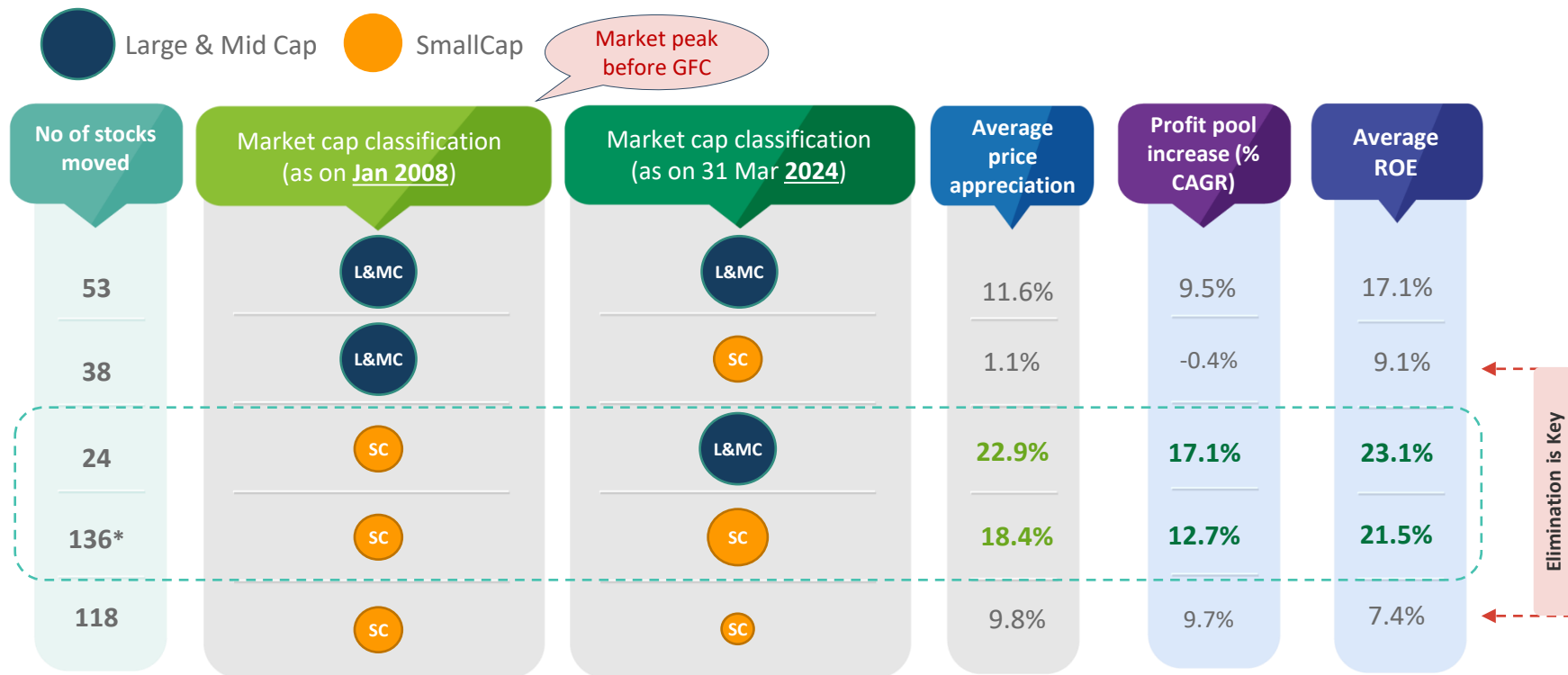
## 4 Lower correlation of MSCI India Small Cap vs MSCI India

| Correlation Matrix         | MSCI AC World Index | MSCI EM Index |
|----------------------------|---------------------|---------------|
| MSCI India Index           | 50%                 | 67%           |
| MSCI India Small Cap Index | 43%                 | 59%           |
| <b>DSP Strategy</b>        | <b>34%</b>          | <b>43%</b>    |

Source: Bloomberg, ACE Equity, Internal. Note: Large cap is represented by MSCI India Index and Small Cap is represented by MSCI Small Cap Index. For Panel 2 - Institutional holding is as per latest available qtlly data (Mar'21/Jun'21) and Analyst coverage is as of 11<sup>th</sup> July'21; For Panel 3 - holdings data is as of 11<sup>th</sup> July'21. Correlation data since inception of the fund. Indices are unmanaged and used for illustrative purposes only and are not intended to be indicative of any fund's performance. It is not possible to invest directly in an index. **Past performance is not a reliable indicator of future results.** The DSP Strategy has been implemented since 14 Nov 2006 through certain products managed by DSP Asset Managers Pvt. Ltd., which are not available for investment in any jurisdiction except for India. CAGR = Compounded annual growth rate. Alpha is defined as the excess return over benchmark.

# Which companies generate wealth? High ROE and Earnings growth companies

- We analysed data from Indian Large cap, Mid cap and Small cap companies over the past decade to understand their return potential
- Historically in the Indian markets, a combination of healthy ROE and high earnings growth has resulted in superior price performance

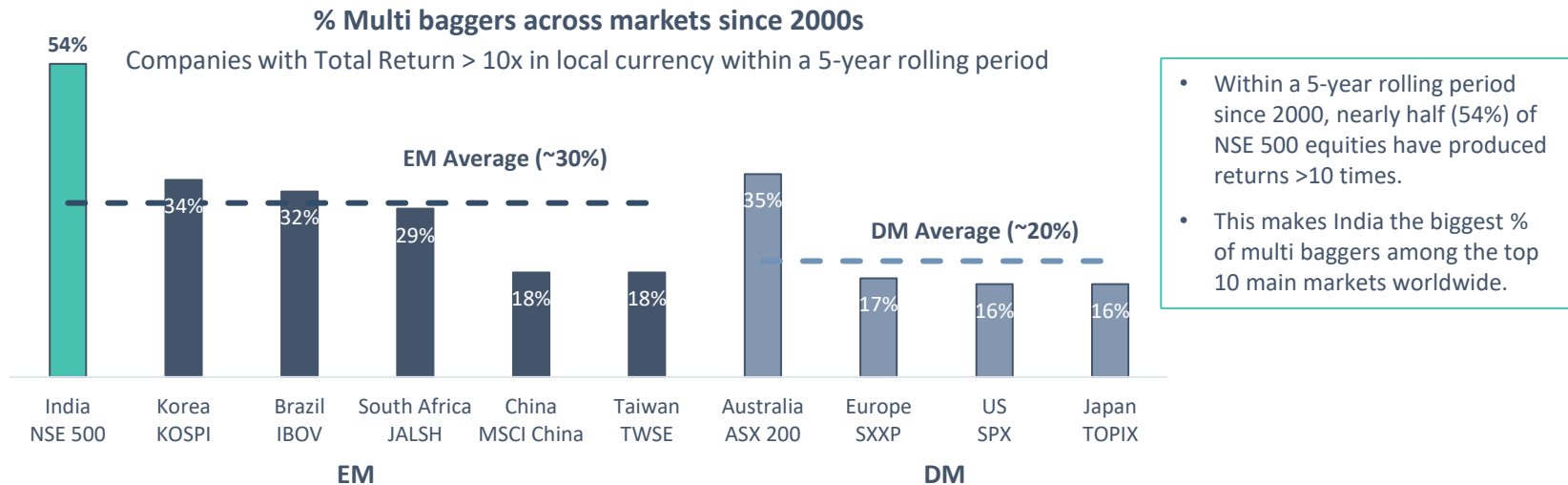


There is a sizable pool of high-quality companies that have the potential to provide superior returns

Source: Elara Capital, [MOSL Wealth Creation Studies in India]; \* companies with an average 10Y RoE > = 16%, used so as to categorize companies within Small Caps; Constituents of Nifty 500 Index as on 31 March 2024 are back tested from the peak of 2008. All returns in INR terms. To understand the table better, we take an example of the third row. We considered all the stocks in the Nifty 500 index, and classified them as Small Cap, Mid Cap and Large Cap based on MSCI definition – please see Appendix. Over the period Jan 2008 market peak to November 2021, we found that 26 companies grew from being Small Caps to Large & Mid Caps, with an average price appreciation of 22.6%, Profit pool increase of 16.9% and an average ROE of 23.6%.

# Fertile land: India has delivered the highest proportion of multi baggers

India has some of the largest proportion of multi baggers among 10 major markets globally



## Common traits of multi baggers

| 1. Growth  | 2. Capital allocation   | 3. Inexpensive starting valuations   | 4. High promoter holding   | 5. Small/mid-cap bias  |
|--|---|--|--|--|
| The median sales CAGR for multi baggers was 25%, while the median profit CAGR was ~37% | Most multi baggers had ROE and Cash ROIC exceeding 15% during their outperformance, with around 3/4 <sup>th</sup> showing rising ROEs | About 70% of the companies have either traded at less than 1x LTM P/B ratio or below 10x NTM P/E ratio | Multi baggers typically saw majority promoter ownership (58%) & lesser institutional investment (23%) at the beginning of their growth trajectory. | About half of the multi baggers in India had an initial market cap of less than US\$50mn |

Source: Goldman Sachs Global Investment Research

# Investment Philosophy



# Portfolio Manager: Vinit Sambre

Vinit Sambre heads the equity team at DSP and has been with the firm since 2005.



“Patience, embracing volatility and owning capital efficient businesses run by capable managers for long periods of time is my source of wealth creation”

## Experience

- 24 years of investment experience across 4 major market cycles
- In-depth knowledge of Indian equities, specifically in the small and mid-cap space
- Successfully delivered on a variety of mandates including concentrated thematic portfolios

## Style

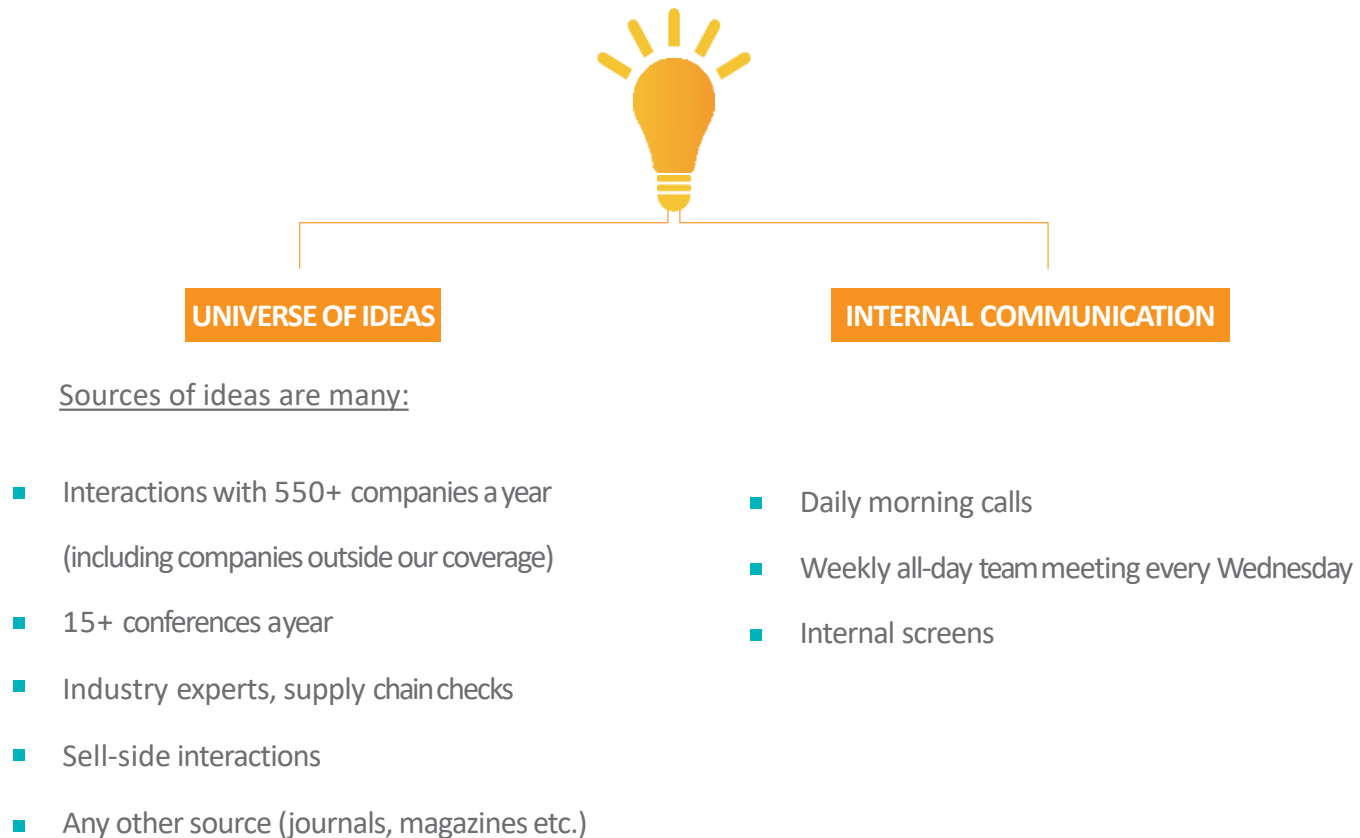
- Buy & Hold
- Low Turnover
- Demonstrated capability to identify and back high quality managements / promoters through cycles

## Recognition

- Recipient of several awards during his tenure

Source: Internal

# Investment Idea Generation



Source: Internal

# Investment Philosophy – Focus is sustainable long term wealth creation

- Fundamental bottom-up analysis, preferring companies exhibiting:
  - a) Scalability of business
  - b) Identifiable and sustainable moats
  - c) Consistent high Return on Equity over the cost of capital
  - d) Incremental capital allocation in equivalent or better ROE businesses
  - e) Stakeholder awareness and responsible governance
- Long-term investment horizon, turnover ratio ~25% (weight management through cycles).
- Sell Discipline - Profitable positions where valuations rise to unjustifiable levels, or positions where investment thesis not unfolding as envisioned.



## What we are wary of

- Capital misallocation
- Poor Governance
- Long-term business disruption
- Adverse regulatory changes

**Our edge: Temperament, Research capability and eliminating behavioral biases**

Source: Internal

**DSP**

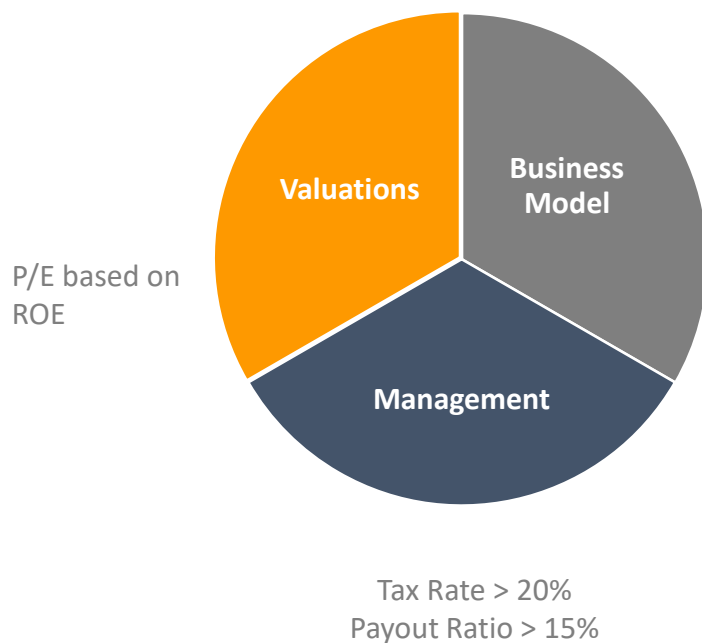


# Pillars of stock selection

| Business  | Management   | Valuation  |
|---|--|--|
| <p><b>Simple &amp; predictable</b><br/> <b>Jubilant Foods</b> – Leading QSR player<br/> <b>Ramco Cement</b> – Most profitable south based cement player.<br/> <b>Supreme Industries</b> – Largest polymer processor</p> <p><b>Large &amp; high growth potential sectors</b><br/> Financials, Consumer, Agriculture</p> <p><b>Competitive advantage</b><br/> <b>Supreme Industries</b> – Diversified plastic manufacturer, scale advantage, large geographical distribution and higher value added products.<br/> <b>IPCA</b> - Lowest cost manufacturing<br/> <b>Ramco Cement</b> – Lowest cost and most efficient cement producer<br/> <b>Voltas</b> – Brand &amp; Distribution</p> <p><b>Positive Cash Flows &amp; High ROE</b><br/> 5 Year avg ROE of some of our investee companies<br/> <b>Supreme Industries</b> (~24%, till FY21)<br/> <b>Jubilant Foods</b>(~20%, till FY21)</p> <p><b>Businesses at the cusp of a turnaround</b><br/> Identified companies like Atul Ltd and SRF Ltd early in their cycle which showed:<br/> <b>Consistent profit growth</b><br/> <b>Massive turnaround in ROE</b><br/> <b>P/E re rating</b></p> | <p><b>Credible &amp; Capable managements</b><br/> SRF which moved from being a small cap to a mega cap in the last 7 years.<br/> <b>Profit Growth – 33%</b><br/> <b>Price Appreciation – 46%</b><br/> <b>Average ROE – 16%</b></p> <p><b>Passion &amp; Ownership of promoters</b><br/> Basic check for all portfolio companies</p> <p><b>Past track record</b><br/> Basic check for all portfolio companies</p> <p><b>Prudent capital allocation</b><br/> <b>Coromandel International</b> - Superior capital allocation strategy</p> | <p><b>Valuation to be looked at in conjunction with strength of business and quality of management</b></p> <ul style="list-style-type: none"> <li>• Bought Symphony at 14 P/E in Dec 2012.</li> <li>• Company showed earnings growth of over 35% from Q1 FY 14 to Q3 FY 15</li> <li>• Held the stock as valuations rose from 14x to 90x</li> <li>• Trimmed position in 2015 as valuations and growth were not in conjunction and fundamentals were marginally declining</li> </ul> |

Source: Internal, Jarvis; The sector(s)/stock(s)/issuer(s) mentioned herein does not constitute any research report/recommendation and our strategy may or may not have any future position in these sector(s)/stock(s)/issuer(s).

# Investment Framework



3 Yr. Avg. ROE >16%

5 Yr. Avg. EBITDA Growth > 13%

5 Yr. Avg. PAT Growth >13%

Margin Increase: EBITDA Growth > Sales Growth

Earnings per share (EPS) Growth variation <100%

Net Debt/EBITDA < 3x

Positive free cash flow yield

Receivables, Inventory & Payable days variation < 30 days

~75% of our portfolio meets these criteria.

The balance ~25% includes companies that we believe are on the cusp of turnarounds and may not satisfy one or more of these criteria today

## Quantifying metrics to evaluate the 3 pillars

Source: Internal. The DSP Strategy has been implemented since 14 Nov 2006 through certain products managed by DSP Asset Managers Pvt. Ltd., which are not available for investment in any jurisdiction except for India. The data mentioned in this presentation do not constitute any research report/recommendation of the same and the metrics being followed by the DSP Strategy may change in future, Internal, Nov 2021. EBITDA = Earnings before interest ,taxes, depreciation. ROE = Return on Equity

# Learnings through time

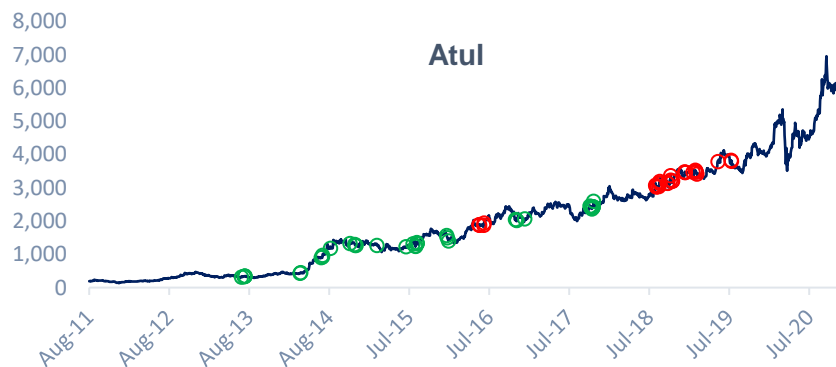
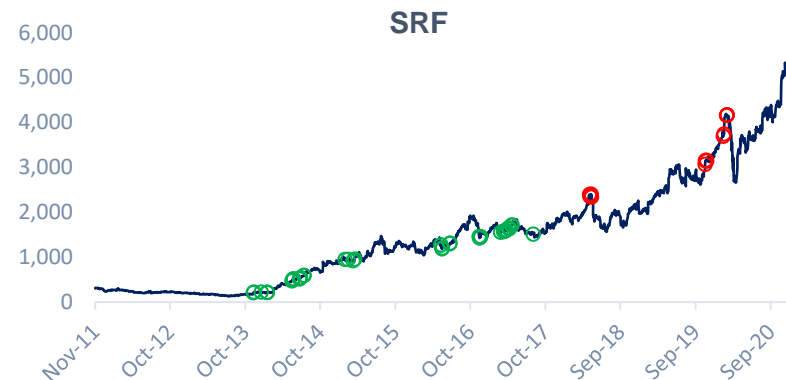
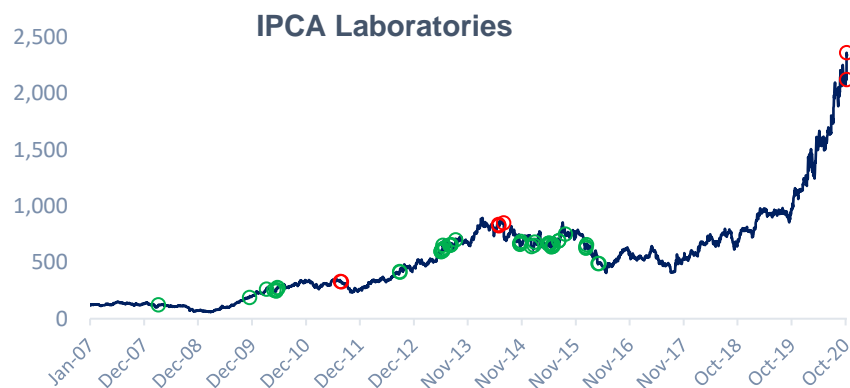
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1. Deep analysis of historical business cycles (over 10-15 years), not merely management's future guidance- *Atul Ltd*
2. Bottom up company research is more useful than predicting macro. *Cholamandalam Finance*
3. Temperament – Ignoring noise and not reacting to every news
4. Contra-cyclical plays – use temporary disruption / downcycles to buy good companies. *Infosys / Eicher*
5. Significant dispersion within each sectors, active stock picking is important. Eliminating losers is the key. *Bajaj Finance / IB*
6. Don't forget learnings from past mistakes, general tendency is to forget them in a bull market. *Stopped fresh inflows into flagship small cap fund in the interest of investors*
7. We are working with long term mindset and seek investor with long term capital of over 5 yrs. *Buy & Hold philosophy*

Source: Internal. The sector(s)/stock(s)/issuer(s) mentioned herein does not constitute any research report/recommendation and our strategy may or may not have any future position in these sector(s)/stock(s)/issuer(s).

# Patience

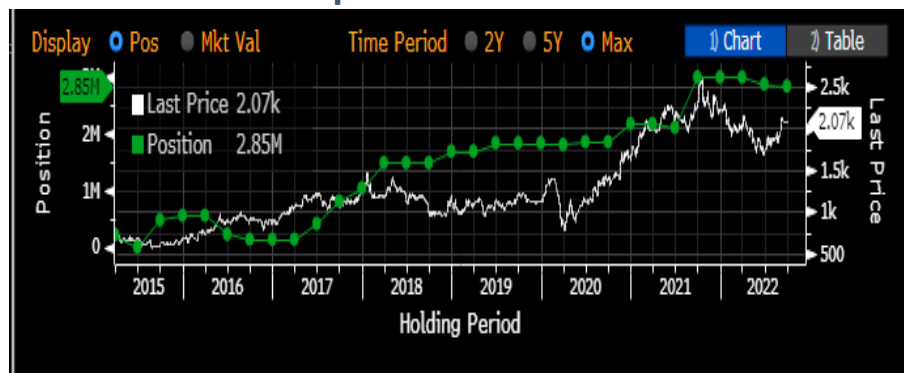
- ▶ Simple scalable business
- ▶ Large opportunity
- ▶ Strong Cash flow, ROCE
- ▶ Avoiding noise and not processing each & every information



# Patience – Temporary disruption is an opportunity

- ▶ Use temporary disruption to double down
- ▶ Not easy when the stock goes through correction
- ▶ Deep understanding of business cycle, fundamentals and management attributes gives us the confidence
- ▶ Low impact cost during such period

## Supreme Industries



## Gujarat Gas



## Dhanuka Agritech



The above chart indicates the price point at which we transacted the stock. Green suggests purchase and red suggest sell.

Source: Internal, The sector(s)/stock(s)/issuer(s) mentioned in this presentation do not constitute any research report/recommendation of the same and the Representative Portfolio may or may not have any future position in these sector(s)/stock(s)/issuer(s). Source: Internal, Bloomberg

# Sizing

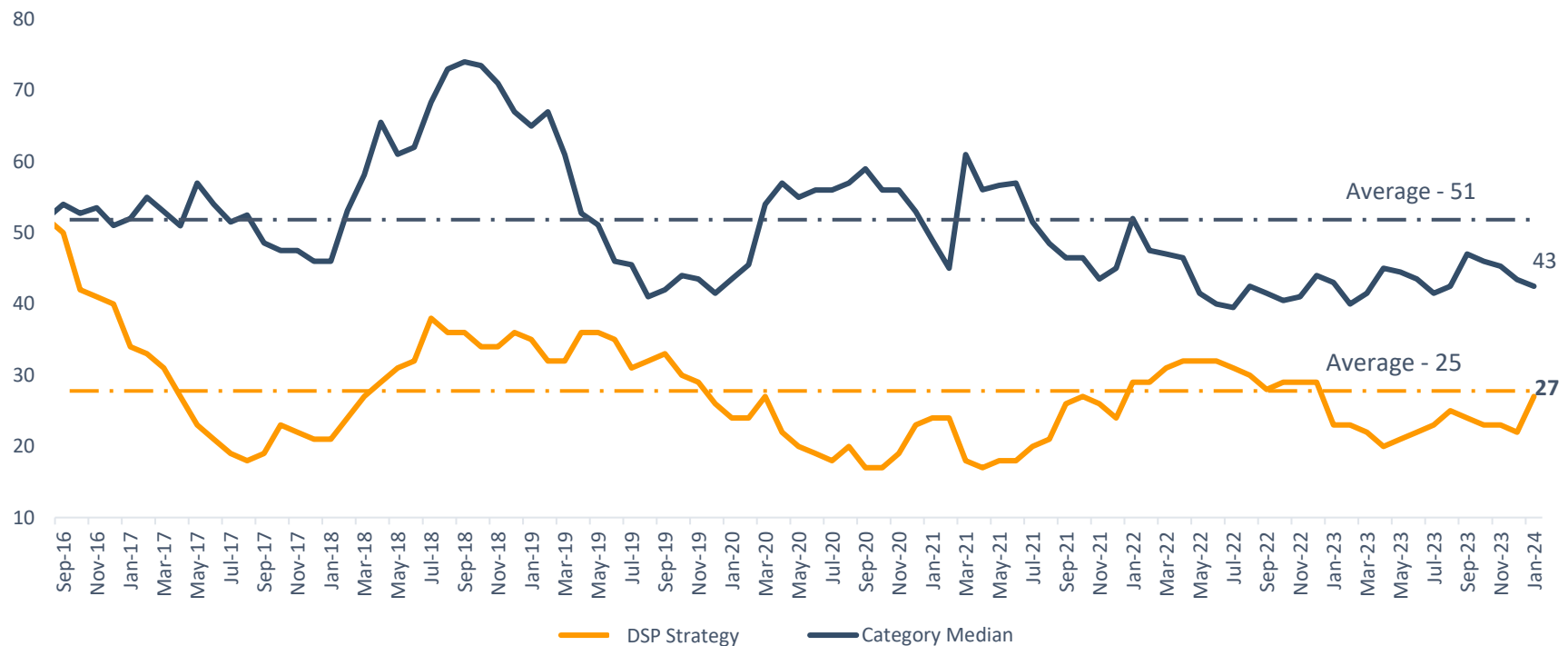
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1. Driven by conviction, upside and sense of business cycle and valuation cycle
2. High conviction, low to medium business cycle, reasonable valuation, long term businesses – 5-7%
3. High conviction, low to medium business cycle, high valuation – 2-4%
4. High conviction, medium to high business cycle, high valuation – 1-2% and gradually build during temporary distress.

## Buy and hold approach – align with our guidance to investors

- In stock market, money is made by investing in capital efficient businesses for long term – patience

Portfolio Turnover ratio



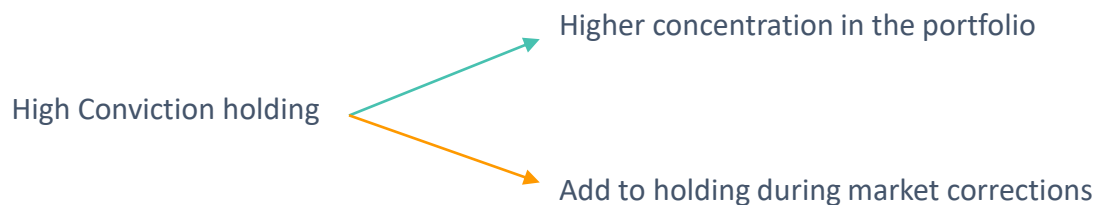
Fund follows BUY & HOLD Approach resulting in lower portfolio turnover ratio vs Peers

# Buy & Hold philosophy

- Align holding periods of investee companies with their entire business cycles
- Portfolio sizing depends upon our assessment of how the company ranks on our philosophy.

| TOP 5 GAINERS- LAST ~5 YEARS * | RETURN MULTIPLIER | TOP 5 GAINERS*        | RETURN MULTIPLIER | HOLDING PERIOD (YEARS) | PERIOD HELD      |
|--------------------------------|-------------------|-----------------------|-------------------|------------------------|------------------|
| SRF Limited                    | 7.21x             | SRF Limited           | 117.64x           | 14.91 Years            | Mar'07 to Jan'22 |
| Atul Limited                   | 4.30x             | Eicher Motors Limited | 41.58x            | 5.1 Years              | Mar'09 to Mar'14 |
| IPCA Laboratories              | 3.94x             | Bajaj Finance Limited | 16.89x            | 5.6 Years              | Sep'08 to Mar'14 |
| Coromandel International       | 2.71x             | Bayer Cropscience     | 10.68x            | 11.5 Years             | Sep'08 to Feb'20 |
| Supreme Industries             | 2.37x             | GRUH Finance Limited  | 8.40x             | 4.8 Years              | Mar'08 to Dec'12 |

Representative Indian mid cap equities portfolio data. Source: FactSet. The sector(s)/stock(s)/issuer(s) mentioned in this document do not constitute any recommendation of the same. The representative portfolio may or may not have any future position in these sector(s)/stock(s)/issuer(s).



**Strong business + quality management = ignore noise, hold, add opportunistically**

Source: Internal, as of Aug 2023. The sector(s)/stock(s)/issuer(s) mentioned herein does not constitute any research report/recommendation and our strategy may or may not have any future position in these sector(s)/stock(s)/issuer(s).



# Sell Discipline

Profitable positions where valuations rise to unjustifiable levels

Trim / book profits

**Symphony** – In 2015, when the valuation scaled to unprecedented levels and concerns around growth arose due to early monsoons, we trimmed our position marginally to reflect the growth concerns

Positions where investment thesis not unfolding as envisioned

Cut losses / Sell

Significant deterioration in fundamentals  
Corporate governance issues  
Fraud or misrepresentation of facts

**Navkar Corp** – Adverse regulatory changes coincided with high-capacity addition which hurt the return ratios.

| TOP 4 LOSERS *                     | PRICE DECLINE | HOLDING PERIOD (YEARS) | PERIOD HELD      | AVG WGT DURING HOLDING PERIOD | Learnings   |
|------------------------------------|---------------|------------------------|------------------|-------------------------------|---|
| Pennar Engineered Building Systems | -79%          | 3.2                    | Sep'15 to Dec'18 | 0.7%                          | Capex heavy businesses require clear visibility of growth               |
| Titagarh Wagons Ltd                | -77%          | 2.3                    | Mar'11 to Jul'13 | 1.2%                          | Capex heavy businesses require clear visibility of growth               |
| Navkar Corp Ltd                    | -72%          | 2.6                    | Mar'16 to Dec'18 | 0.7%                          | Be watchful about adverse regulatory changes and capital misallocation  |
| Indo Count Industries              | -66%          | 2.2                    | Oct'16 to Dec'18 | 0.8%                          | Fortified our core beliefs of not purely relying on management guidance |

\* Representative Indian mid cap equities portfolio data

Source: FactSet. The sector(s)/stock(s)/issuer(s) mentioned in this document do not constitute any recommendation of the same. The representative portfolio may or may not have any future position in these sector(s)/stock(s)/issuer(s).

## Mistakes - a source of learning.



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# Strategy Characteristics, Performance and Risks



# Differentiated from the typical Indian benchmark (MSCI India)

**Not our portfolio!**



| Stocks                    | Total Market Cap<br>in USD bn | Weight in<br>MSCI India Index |
|---------------------------|-------------------------------|-------------------------------|
| Reliance Industries       | 241.2                         | 8.51%                         |
| ICICI Bank                | 92.1                          | 5.34%                         |
| Infosys                   | 74.6                          | 4.68%                         |
| HDFC                      | 131.9                         | 3.83%                         |
| TCS                       | 168.2                         | 3.30%                         |
| Bharti Airtel             | 87.2                          | 2.60%                         |
| LARSEN & TOUBRO           | 62.1                          | 2.38%                         |
| Axis Bank                 | 38.8                          | 2.25%                         |
| Bajaj Finance             | 53.8                          | 1.90%                         |
| Kotak Mahindra Bank       | 42.6                          | 1.84%                         |
| <hr/>                     |                               |                               |
| MSCI India Index (top 10) | 10Y Avg ROE                   | 10Y PAT CAGR                  |
|                           | 15.9                          | 14.2%                         |

**This is our portfolio!**



| Stocks                   | Total Market Cap<br>in USD bn | Weight in<br>DSP Strategy<br>Portfolio |
|--------------------------|-------------------------------|--|
| IPCA Laboratories        | 3.8                           | 4.46%                                  |
| Phoenix Mills            | 6.0                           | 4.22%                                  |
| Alkem Laboratories       | 7.1                           | 4.05%                                  |
| Supreme Industries       | 6.4                           | 3.41%                                  |
| Bharat Forge             | 6.3                           | 3.37%                                  |
| Coromandel International | 3.8                           | 2.93%                                  |
| The Federal Bank         | 4.4                           | 2.85%                                  |
| Uno Minda                | 4.7                           | 2.78%                                  |
| Hero Motocorp            | 11.3                          | 2.55%                                  |
| Jk Cement                | 3.8                           | 2.52%                                  |
| <hr/>                    |                               |  |
| DSP Strategy (top 10)    | 10Y Avg ROE                   | 10Y PAT CAGR                           |
|                          | 16.5                          | 14.2%                                  |

Source: MSCI, Elara Research. Total Market-Cap, data as of 31 March 2024. Indices are unmanaged and used for illustrative purposes only and are not intended to be indicative of any fund's performance. It is not possible to invest directly in an index. Past performance is not a reliable indicator of future results. The DSP Strategy has been implemented since 14 Nov 2006 through certain products managed by DSP Asset Managers Pvt. Ltd., which are not available for investment in any jurisdiction except for India. \* Trailing ROE and EPS have been provided. Also, top 10 weights have been rebalanced to 100 for the purposes of the portfolio ROE and EPS calculations.

# DSP Strategy Characteristics

|  |   |
|--|---|
| Number of Stocks                             | 54  |
| Cap-wise split (DSP Strategy)**              | Mid Cap – 67.83%, Small Cap – 20.82%, Large Cap – 7.67%, Cash – 3.68% |
| Portfolio Turnover (last 12m) (DSP Strategy) | 30%   |
| Strategy AUM                                 | ~US\$ 1,934mn.  |
| Weighted Average Market Cap                  | ~USD 4.8bn.   |
| Active Share                                 | ~96% vs. MSCI India index, ~74% vs Benchmark                          |

| Metrics (US\$)                      | 5 Years      | Since Inception |
|-------------------------------------|--------------|-----------------|
| <b>Return(CAGR)</b>                 |              |                 |
| Fund                                | 11.93%       | 11.17%          |
| Benchmark (Nifty Midcap 150)        | 18.82%       | 11.66%          |
| MSCI India                          | 11.56%       | 7.07%           |
| <b>Volatility %</b>                 |              |                 |
| Fund                                | 20.95%       | 28.67%          |
| Benchmark (Nifty Midcap 150)        | 23.92%       | 31.59%          |
| MSCI India                          | 20.68%       | 26.52%          |
| <b>Risk Free Rate</b> (3m US Libor) | <b>2.36%</b> | <b>1.63%</b>    |
| <b>Sharpe Ratio</b>                 |              |                 |
| Fund                                | 0.46         | 0.33            |
| Benchmark (Nifty Midcap 150)        | 0.69         | 0.32            |
| MSCI India                          | 0.44         | 0.21            |
| <b>Beta</b>                         | 0.83         | 0.88            |
| <b>Tracking Error</b>               | 7.94%        | 8.46%           |

| Portfolio Metrics* | FY24 | FY25E | FY26E |
|--------------------|------|-------|-------|
| EPS Growth (%)     | 26%  | 32%   | 22%   |
| P/E (x)            | 38.8 | 31.9  | 26.3  |
| P/BV               | 7.4  | 6.3   | 5.3   |
| ROE                | 17%  | 19%   | 19%   |

## Sector Exposures

|                       |        |
|-----------------------|--------|
| Capital Goods         | 14.49% |
| FMCG/Retail           | 12.43% |
| Financial Services    | 11.89% |
| Auto                  | 11.62% |
| Pharma/Healthcare     | 11.01% |
| Building Materials    | 8.05%  |
| IT/Telecom/Technology | 6.80%  |
| Chemicals             | 4.71%  |
| Agri                  | 4.40%  |
| Oil & Gas             | 2.69%  |
| Consumer Durable      | 2.08%  |
| Logistics             | 1.15%  |

Source: Internal, all returns are net of fees, as of Mar 2024; Indices are unmanaged and used for illustrative purposes only and are not intended to be indicative of any fund's performance. It is not possible to invest directly in an index. **Past performance does not predict future returns.** The DSP Strategy has been implemented since 14 Nov 2006 through certain products managed by DSP Asset Managers Pvt. Ltd., which are not available for investment in any jurisdiction except for India. Market-cap split based on MSCI classifications. \*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. AUM = Asset Under Management. \*\*The above market capitalization of stocks is based on SEBI classification. Cap-wise split data as of 29 Feb 2024.

# DSP Midcap Strategy – Liquidity Analysis

| % to Total Mkt Cap | Cur.AuM \$1.77bn | Est.AuM \$2bn | Est.AuM \$2.5bn | Est.AuM \$3bn | Est.AuM \$3.5bn |
|--------------------|------------------|---------------|-----------------|---------------|-----------------|
| <=1%               | 34%              | 32%           | 25%             | 17%           | 16%             |
| 1-3                | 60%              | 62%           | 47%             | 53%           | 49%             |
| 3-5                | 2%               | 2%            | 21%             | 24%           | 30%             |
| 5-7                |                  |               | 2%              | 2%            |                 |
| 7-10               |                  |               |                 |               | 2%              |
| <b>Total</b>       | <b>96%</b>       | <b>96%</b>    | <b>96%</b>      | <b>96%</b>    | <b>96%</b>      |

| % to FF Mcap | Cur.AuM \$1.77bn | Est.AuM \$2bn | Est.AuM \$2.5bn | Est.AuM \$3bn | Est.AuM \$3.5bn |
|--------------|------------------|---------------|-----------------|---------------|-----------------|
| <=10%        | 94%              | 91%           | 89%             | 84%           | 84%             |
| 10-20        | 2%               | 5%            | 7%              | 11%           | 10%             |
| >20          |                  |               | 1%              | 1%            | 2%              |
| <b>Total</b> | <b>96%</b>       | <b>96%</b>    | <b>96%</b>      | <b>96%</b>    | <b>96%</b>      |

| Days to Cash | Cur.AuM \$1.77bn | Est.AuM \$2bn | Est.AuM \$2.5bn | Est.AuM \$3bn | Est.AuM \$3.5bn |
|--------------|------------------|---------------|-----------------|---------------|-----------------|
| 1 day        | 14%              | 13%           | 12%             | 11%           | 10%             |
| 3 days       | 30%              | 28%           | 24%             | 21%           | 19%             |
| 10 days      | 58%              | 54%           | 49%             | 45%           | 41%             |
| 20 days      | 80%              | 76%           | 68%             | 62%           | 58%             |
| 40 days      | 93%              | 91%           | 88%             | 85%           | 80%             |
| 60 days      | 97%              | 96%           | 93%             | 91%           | 89%             |
| 90 day       | 99%              | 98%           | 97%             | 96%           | 94%             |
| >90 days     | 1%               | 2%            | 3%              | 4%            | 6%              |

| Days to Liquidity | Cur.AuM \$1.77bn | Est.AuM \$2bn | Est.AuM \$2.5bn | Est.AuM \$3bn | Est.AuM \$3.5bn |
|-------------------|------------------|---------------|-----------------|---------------|-----------------|
| 1                 | 5%               | 5%            | 5%              | 5%            | 5%              |
| 1-3               | 6%               | 6%            | 4%              | 0%            | 0%              |
| 3-10              | 19%              | 18%           | 15%             | 18%           | 15%             |
| 10-20             | 18%              | 11%           | 10%             | 10%           | 10%             |
| 20-40             | 31%              | 38%           | 37%             | 27%           | 20%             |
| 40-60             | 13%              | 7%            | 12%             | 18%           | 26%             |
| 60-90             | 2%               | 8%            | 8%              | 7%            | 7%              |
| >90               | 7%               | 7%            | 9%              | 15%           | 17%             |
| <b>Total</b>      | <b>100%</b>      | <b>100%</b>   | <b>100%</b>     | <b>100%</b>   | <b>100%</b>     |

**Participation rate - 25%, FX Rate - 82.25, Average Volume - Avg Vol D30**

## DSP Midcap Strategy – Valuation

| No. of Companies | Particulars             | Total Weights (%) | P/E - FY26E | P/BV - FY26E | ROE-FY26E | Growth-FY26E |
|------------------|-------------------------|-------------------|-------------|--------------|-----------|--------------|
| 18               | Less than 20x P/E       | 30%               | 13.8        | 2.4          | 16.6%     | 23.0%        |
| 20               | Between 20x and 30x P/E | 33%               | 24.9        | 5.2          | 20.7%     | 18.7%        |
| 16               | Above 30x P/E           | 29%               | 40.6        | 8.5          | 20.6%     | 20.6%        |

Source: Bloomberg, Mar 2024

## Large Part of Portfolio consist of category leaders

These companies are category leaders in the respective segments / sub-segments.

| Company                  | Segment / Sub-segment                          |
|--------------------------|--|
| Atul                     | Largest in several speciality chemicals        |
| Chola investment         | Largest CV financier                           |
| Supreme Industries       | Largest plastic pipes player                   |
| Bata                     | Largest Footwear company                       |
| Sheela Foam              | Largest Mattress & Foam manufacturer           |
| Coromandel International | Largest Phosphatic player                      |
| Phoenix mills            | Largest mall operator                          |
| Tata Chemicals           | Largest Soda Ash & Salt manufacturer           |
| Jubilant Foods           | Largest QSR Player                             |
| Kajaria                  | Largest Tiles manufacturer                     |
| Polycab                  | Largest cable player                           |
| Container Corporation    | Largest container rail operator                |
| IPCA                     | Largest Branded pain medicine company in India |
| Cyient                   | Global leader in aerospace ER&D                |
| APL Apollo               | Largest structural tubes player in India       |

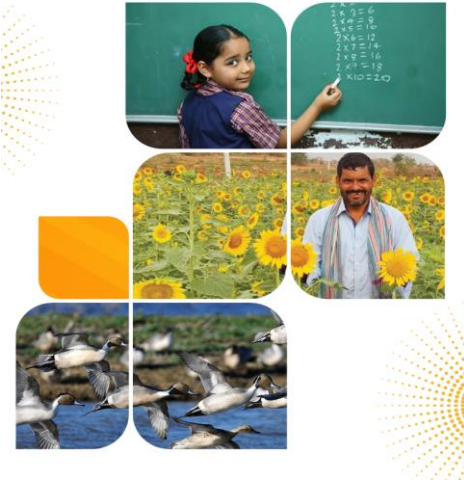
**Some of these sectors are available only in Small / Mid Market Capitalization**

The sector(s)/stock(s)/issuer(s) mentioned herein does not constitute any research report/recommendation and our strategy may or may not have any future position in these sector(s)/stock(s)/issuer(s). These are for indicative purpose only. Actual portfolio may be different.

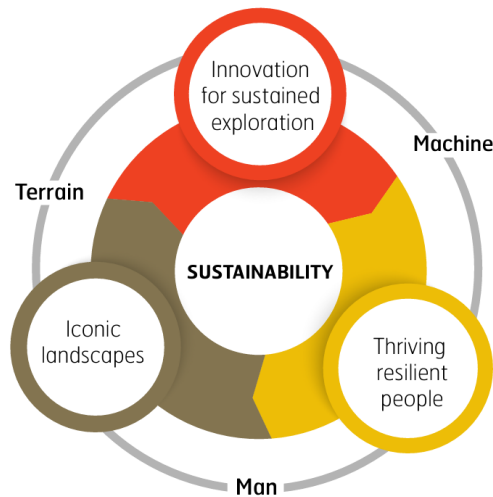
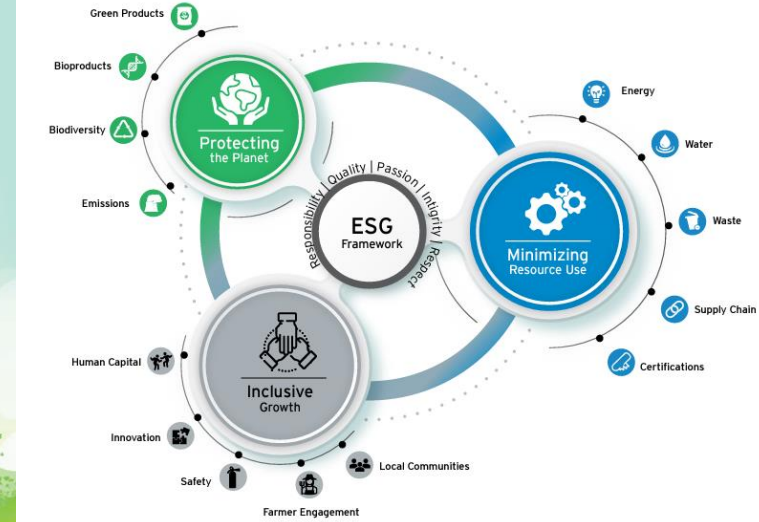
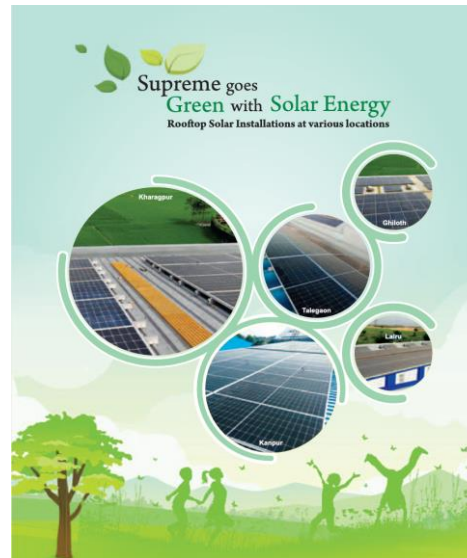
# "Sustainability" emerges as a common word across annual reports in India

## Coromandel

Nurturing A Sustainable Tomorrow



## Supreme Industries



## Eicher Motors



## Serving the society

The founder of our Company devoted half a day every day of his adult life to serve the society. The business enterprise he established invariably contributed in serving the society. His legacy of perseverance and exemplary service has been the inspiration for team Atul ever since its inception in 1947.

Strive not to be a success, but rather to be of value.  
- Albert Einstein

### Education

- Provided quality primary education to 4,446 children in 70 villages through trained Aul staff.
- Distributed writing material to 4,548 students of 34 schools in 17 villages.
- Supported 3,393 students by enhancing educational practices in their schools.
- Provided support to set up computer laboratories in two primary schools benefiting 400 students.
- Promoted self-paced learning among 300 secondary students using tablets through a tablet laboratory.



- Supported 192 students by improving educational practices in a tribal school.
- Provided need-based support to 136 children living in difficult conditions.
- Imported relevant therapy sessions to 31 special children.
- Issued scholarships to 21 needy students.
- Strengthened digitization and created a portal to conserve about 80,000 ancient manuscripts.

### Empowerment

- Trained 805 youth in 13 vocational courses.
- Trained 176 youth in collaboration with National Bank of Agriculture and Rural Development.
- Supported 111 micro-entrepreneurs by providing training and bank loans.
- Formed 29 self-help groups for empower 348 women.
- Assisted 937 families to avail benefits of government schemes.



### Health

- Developed 2,552 nutrition gardens in 79 villages benefiting 12,780 people.
- Conducted 10 women-specific health camps benefiting 1,247 adolescent girls and women.
- Organized 35 blood donation camps in 21 villages; 3,258 units of blood were collected.
- Conducted 35 eye camps benefiting 5,876 patients; 4,727 patients were provided with spectacles.
- Supported 185 families to renovate their toilets.

### Relief

- Provided financial assistance to 34 needy and critically ill patients.
- Offered financial assistance to 20 COVID-19 patients.
- Provided blood units to 140 poor and abandoned patients.
- Assisted in setting up two COVID-19 care centers benefiting 1,400 patients.
- Supported five hospitals with medical equipment to treat COVID-19 patients.



### Infrastructure

- Developed four model anganwadis in three villages benefiting 140 children.
- Renovated five schools benefiting 2,407 students.
- Constructed community halls in two villages.
- Built toilet blocks in three primary schools and in a village talpa.
- Erected the first floor of a school benefiting 300 students.

### Conservation

- Collected 218 tonnes of waste from which 196 tonnes were recycled.
- Installed 15 kWh solar power plant generating 22,500 kWh energy annually in a tribal school at Hosur, benefiting 192 students.
- Installed solar pumps consuming 44,520 kWh green energy annually, benefiting 38 farmers and 38 agriya family members.
- Built toilet blocks in three primary schools and in a village talpa.
- Erected the first floor of a school benefiting 300 students.
- Planted 48,000 trees to preserve biodiversity.



## Atul Ltd.



# Possible risks of investing in small cap companies

Investing into small cap and mid cap companies could come with a variety of risks such as, but not limited to

Business model might not scale

Liquidity risk

Corporate governance concerns

Key-man (promoter) risk

Volatility in returns

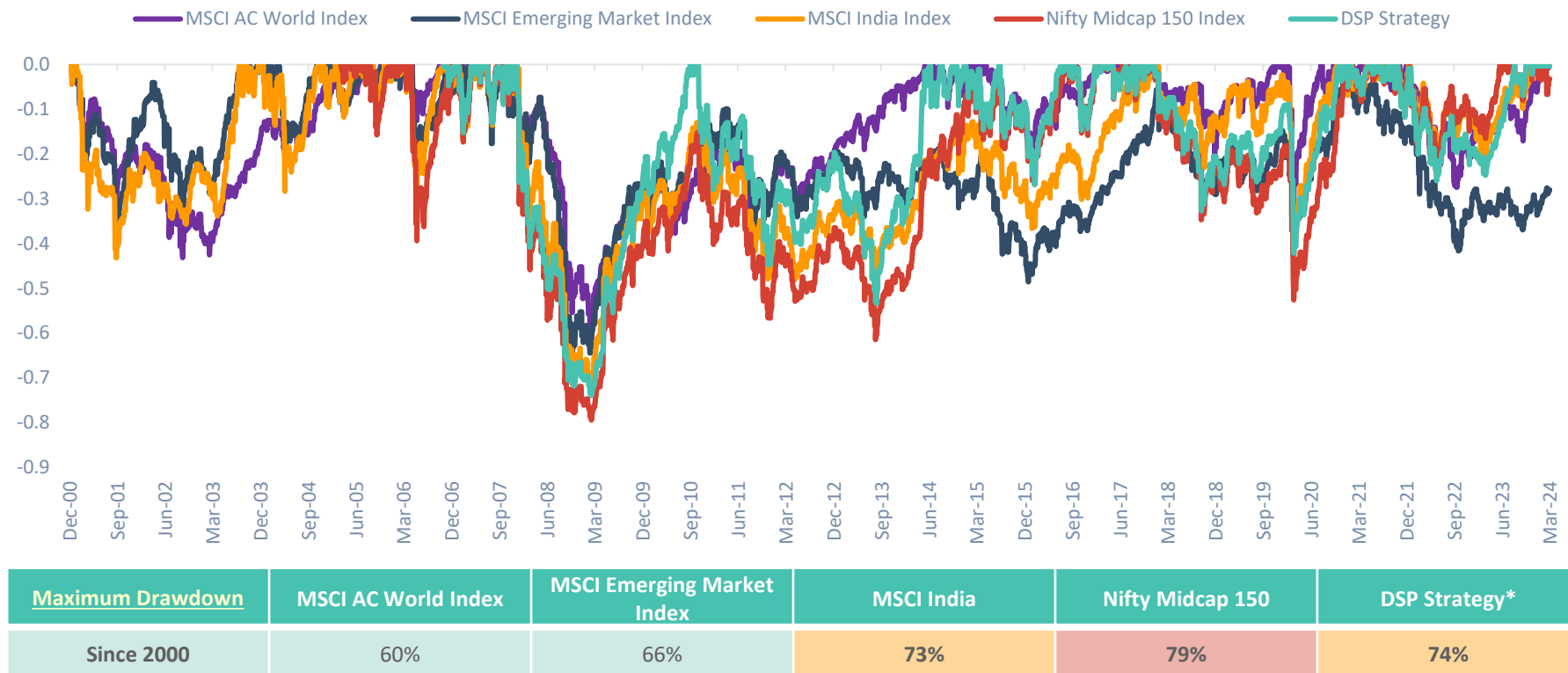
Unproven business models

Insufficient data on businesses

Additional country risks for international investors may also apply such as political risk, currency risk, macro risk, regulatory risk, sovereign risk, economic risk to name a few.

# Maximum drawdowns

A **drawdowns analysis** suggests that an actively managed India small cap funds is not different from the large & mid cap index...



Source: Bloomberg, Data from Dec 2000 to Mar 2024. \*Data from DSP Strategy from Nov 2006. All figures in USD

# Strategy Performance track record

| USD CAGR Performance as on 28 Mar 2024.<br>Compared with all UCITS funds focused on India. | 1-Year<br>31-Mar-23 | 3-Year<br>31-Mar-21 | 5-Year<br>29-Mar-19 | 8-Year<br>31-Mar-16 | 10-Year<br>31-Mar-14 | Since Inception<br>14-Nov-06 |
|--|---------------------|---------------------|---------------------|---------------------|----------------------|------------------------------|
| DSP INDIA EQUITY/MIDCAP STRATEGY*  | 31.50%              | 8.20%               | 11.97%              | 12.76%              | 14.37%               | 11.17%                       |
| <b>Ranking</b>   | <b>29</b>           | <b>37</b>           | <b>9</b>            | <b>5</b>            | <b>1</b>             | <b>2</b>                     |
| No of funds  | 71                  | 65                  | 58                  | 51                  | 46                   | 21                           |
| Quartile Position  | 2                   | 3                   | 1                   | 1                   | 1                    | 1                            |
| MSCI India USD   | 36.83%              | 12.33%              | 11.54%              | 11.61%              | 9.69%                | 7.07%                        |
| Nifty Midcap 150 TR  | 55.19%              | 21.16%              | 18.85%              | 17.37%              | 17.74%               | 11.66%                       |

Note: \*Performance <= 1-year given above is for DSP India Equity Fund ( DSPIESU) and for >1yr performance is of Representative Mid Cap Strategy

| CY Performance      | 2023     | 2022      | 2021      | 2020     | 2019      | 2018      | 2017      | 2016     | 2015      | 2014     | 2013      | 2012     | 2011      | 2010     | 2009     | 2008      | 2007      | 2006<br>(from 14th Nov) |
|---------------------|----------|-----------|-----------|----------|-----------|-----------|-----------|----------|-----------|----------|-----------|----------|-----------|----------|----------|-----------|-----------|-------------------------|
| DSP Strategy        | 30.60%   | (11.60%)  | 25.84%    | 20.54%   | 6.9%      | (17.7%)   | 48.8%     | 8.6%     | 2.4%      | 66.8%    | (10.0%)   | 40.5%    | (38.7%)   | 34.9%    | 129.2%   | (66.4%)   | 73.5%     | 3.7%                    |
| <b>Ranking</b>      | <b>3</b> | <b>17</b> | <b>16</b> | <b>8</b> | <b>19</b> | <b>54</b> | <b>12</b> | <b>2</b> | <b>10</b> | <b>2</b> | <b>41</b> | <b>2</b> | <b>35</b> | <b>2</b> | <b>2</b> | <b>30</b> | <b>10</b> | <b>28</b>               |
| No of funds         | 41       | 41        | 42        | 43       | 44        | 63        | 60        | 56       | 55        | 54       | 51        | 49       | 46        | 41       | 39       | 38        | 34        | 32                      |
| Quartile Position   | 1        | 2         | 2         | 1        | 2         | 4         | 1         | 1        | 1         | 1        | 4         | 1        | 4         | 1        | 1        | 4         | 2         | 4                       |
| MSCI India USD      | 20.81%   | (7.95%)   | 26.23%    | 15.55%   | 7.58%     | (7.30%)   | 38.75%    | (1.43%)  | (6.12%)   | 23.87%   | (3.8%)    | 26.0%    | (37.2%)   | 21.0%    | 102.8%   | (64.6%)   | 73.1%     | 5.1%                    |
| Nifty Midcap 150 TR | 43.70%   | (6.40%)   | 45.29%    | 22.42%   | (1.55%)   | (19.94%)  | 65.79%    | 3.80%    | 4.72%     | 59.14%   | (12.55%)  | 42.18%   | (41.93)   | 24.97%   | 123.74%  | (71.61%)  | 100.07    | 5.41%                   |

Dsp India Equity/Midcap Strategy has beaten average India focused UCITS returns on a 1,3,5,8,10 & Since Inception basis

Source: MSCI. Internal, Bloomberg, data as of Mar 2024. DSP Strategy returns are net of fees. Indices are unmanaged and used for illustrative purposes only and are not intended to be indicative of any fund's performance. It is not possible to invest directly in an index. **Past performance is not a reliable indicator of future results.** The DSP Strategy has been implemented since 14 Nov 2006 through certain products managed by DSP Asset Managers Pvt. Ltd., which are not available for investment in any jurisdiction except for India. Alpha is defined as the excess return over benchmark.

# ESG / RISK Framework

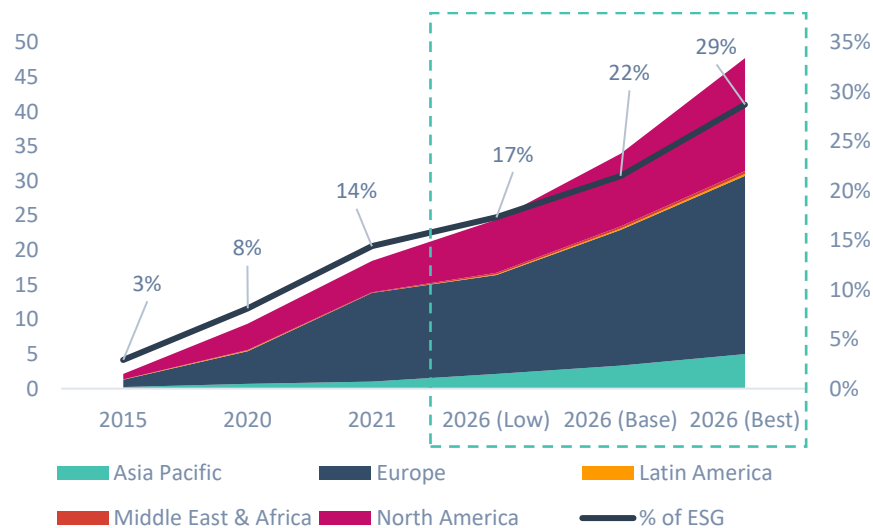


Further information about the sustainability-related aspects of the Fund is available at the following website [[Link](#)].

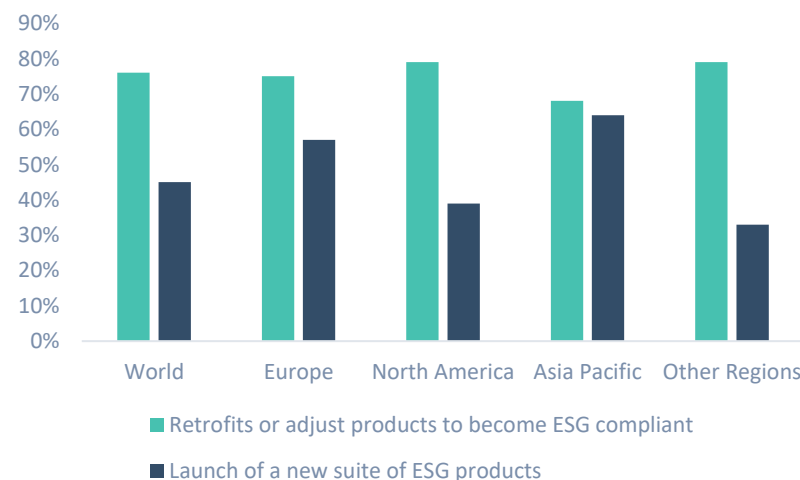
# Market sentiments on ESG

- ESG will continue to mature while it recalibrates. While we move towards maturity from an ESG process oriented approach to outcomes we observe a shift towards **supporting ESG improvers**.
- Market demand is driving the growing use of alternative data, industry-specialized resourcing, **de-siloing of the ESG function**, forward-focused analytics.
- In investment analysis, **accepted and well-demonstrated links to fundamentals** are being researched over the re-rating of 'obvious' thematic winners.
- Regulators are **attempting to curb greenwashing** from mislabelling and misuse sustainability claims in financial products by way of scrutiny and new regulations
- **Impact confusion** associated with ESG products will intensify, there will be even more uncertainty in 2023 about what constitutes "real" impact.

## Global ESG AuM by region



## Innovation lags enthusiasm in the creation of ESG funds



# Responsible Investment

## RI Policy & Engagement Policy

### Our two-pronged Responsible Investment Approach

#### ESG Integration

To drive robust ESG integration in our investment process via policies, protocols and procedures.

#### Active ownership

To drive accountability for adverse impacts amongst portfolio companies through continuous engagement and monitoring.

### International network & forums

A proud participant of:



Signatory of:



**DSP**

<https://www.climateaction100.org/whos-involved/investors/>

Sources: Industry sources

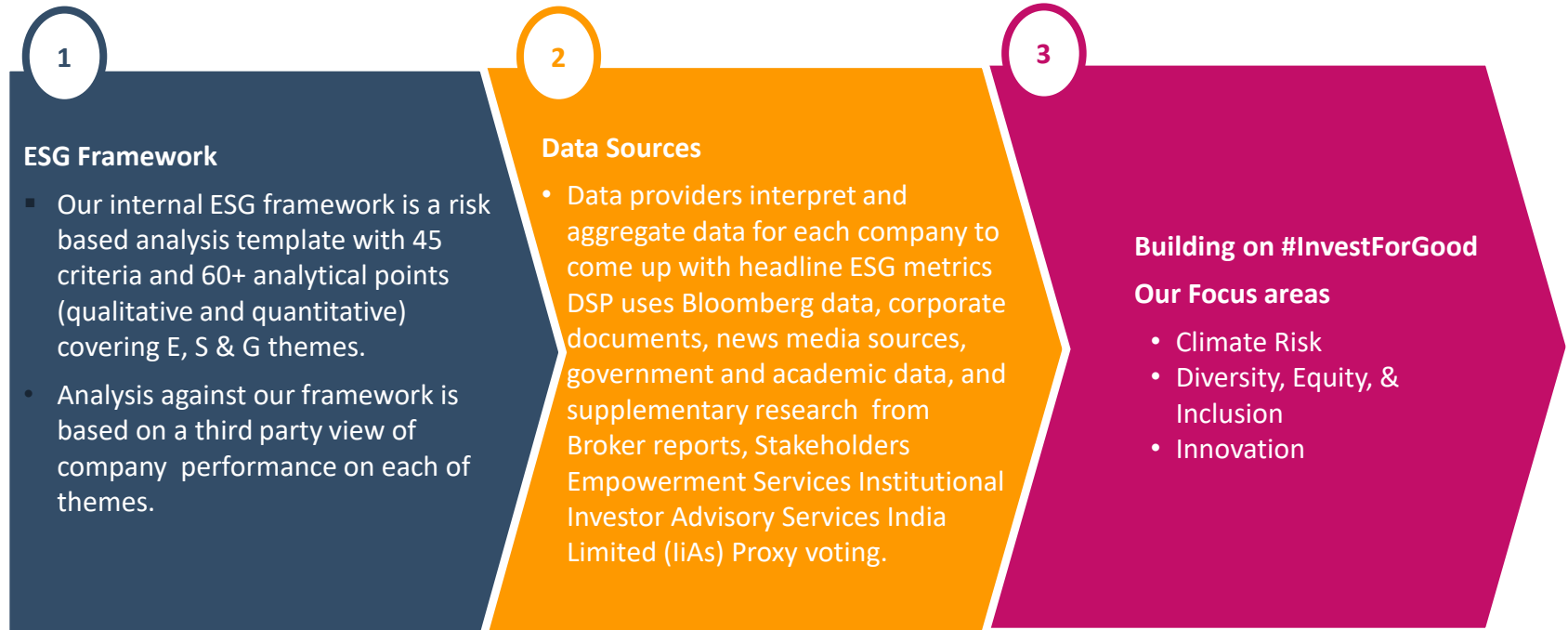
### Outreach

- Collaborates with lead investors on CA100+ engagements for three companies in the hard to abate sector.
- Participated in the UNPRI conference, 2022 at Barcelona and a panelist speaker on domestic [sustainable palm oil organized by the CRB at Delhi](#).
- Media articles on [ESG & Investment thesis](#), [Climate risk and fiduciary duty](#)
- The investment team including analysts and portfolio managers participate in discussions on ESG topics. Some examples include discussions on sector specific material issues, climate risk, planetary boundaries, energy transitions and food system transitions.

# ESG integration

## Two pronged approach

1. **ESG INTEGRATION:** We have a [Responsible Investment policy](#) and a ESG Framework guiding our ESG Integration approach.



2. **ACTIVE OWNERSHIP:** Material ESG issues from the internal framework/ MSCI are researched and compiled along with other fundamental parameters and stock recommendations. We are formalizing engagements based on planned engagement milestones . Engagement with companies - CXOs, board members and investors relations teams, including proxy voting.

# ESG Investment Process



## ESG Framework & Database

The ESG framework is central to our responsible investment approach.

- It comprises of a proprietary risk-opportunity structure consisting of scored criteria and data points. Together, these constitute 45 scored criteria and 60 analytical data points covering the breadth of material environmental, social and governance topics.
- The sustainability criteria described involves collating and analysing data on; stakeholder environmental/social concerns, greenhouse gas emissions profile, long & short term climate targets, forest land, biodiversity, water & wastewater, energy, circular economy, innovation, human rights, decent work, diversity, human capital management, data privacy, product quality, safety, supplier engagement, selling practices and access & affordability etc.
- On governance we research on related party transactions, board & key management personnel (KMP) remuneration, board independence, promoters pledging, audit quality, controversies and credit rating parameters to name a few.

## Engagement

Engagement motivations are two-fold; to mitigate risk and generate positive impact. The process has been structured as follows; open dialogue on material ESG criteria >> ask for clarifications/additional information or support the company in understanding the issue at hand >> suggest best practices with targeted and time sensitive outcomes >> in severe cases set up guardrails >> monitor outcomes.

The firm stewardship committee and active voting on company resolutions, with the help of a proxy voting firm are also part of the engagement process.



# Engagement Tracking: The Rationale

|                       |   |     |                 |                                 |   |
|-----------------------|---|-----|-----------------|---------------------------------|---|
| Company               |   |     |                 |                                 |   |
| ISIN                  |   |     |                 |                                 |   |
| Macro Economic Sector | Consumer Discretionary  |     |                 |                                 |   |
| Sector                | Consumer Durables   |     |                 |                                 |   |
| Industry              | Consumer Durables   |     |                 |                                 |   |
| Reporting Frameworks  | BRR   |     |                 |                                 |   |
| Report Assured        | 0   |     |                 |                                 |   |
| Analyst Reco          | Buy   |     |                 |                                 |   |
|                       | Score   | %   | Engagement Area | Engagement Theme                |   |
| E                     | 7   | 50% |                 | Carbon footprint, Traceability, | GHG emissions reported<br>Emission Reduction plan exists  |
| S                     | 6   | 75% |                 |                                 | DEI strategy  |
| G                     | 8   | 89% |                 |                                 | Gender diversity  |
| ESG                   | 21  | 68% |                 |                                 | Innovation strategy<br>Products services with Environmental or Social objectives<br>Board Oversight |
| Type of engagement    | Meeting   |     |                 |                                 |   |
| Engagement Rationale  | <p>The company has a focus on providing new product features using innovation, with a focus on product safety. The company has obtained certifications for MDF varieties from FSC, CARB Certification Grade, emission zero. It reports 60% of costs are attributed to raw materials. And the company reports 15% of its raw material is imported. The company does have basic/generic disclosure on sustainable raw material sourcing. The company has an opportunity to improve disclosure on raw material traceability, and information of biodiversity impact of operations. Based on the global industry peer set, companies with over 50% of assets (2020) based in the U.S. or Europe had at least 60% of their products externally certified to sustainable sourcing practices e.g., Forest Stewardship Council (FSC) or Programme for the Endorsement of Forest Certification (PEFC). Currently, the company has certifications for its MDF varieties only. The company is lacking quantitative disclosure on its carbon footprint, safety metrics, and water usage.</p> <p>Being involved in the "forest products" sector and being dependent on a product with bio diversity impacts some of the best practices of responsible operations include</p> <ol style="list-style-type: none"> <li>1. Certification of products on sustainable sourcing practices</li> <li>2. Traceability of raw material</li> <li>3. Commitment to not operate in biodiverse /fragile or ecologically sensitive areas</li> <li>4. Clear targets with regard to land use and reforestation</li> </ol> <p>On Governance front key issues in the past pertained to high loans/ advances by related parties and high managerial remuneration. On related party loans they have improved significantly in FY22. On remuneration, while the ratio seems to be high, financial performance has been good and hence no specific engagement is needed on this front.</p> |     |                 |                                 |   |
| Engagement Outcomes   | <p>The company has on boarded a consultant to have a ESG roadmap focusing on strategic material issues to the business. The company plans to disclose on its carbon emissions and strategies on a reduction plan shortly after. Based on the information provided by the IR representative the company only harvests plantation timber. Its exposure to imported timber is concentrated in a single geography due to a structural scheme offered by the country (Gabon). Previously, the company has had exposure to Myanmar. The company has recorded a impairment loss for asset in Gabon. On raw material pricing risk, the company highlighted normal fluctuation from farmers shifting to cash crops, with a favourable ROI. We have requested the company to consider reporting data on raw material import exposure, certification on sustainable sourcing of products, traceability and biodiversity impacts.</p>   |     |                 |                                 |   |
| Engagement Milestones | We have requested the company to consider reporting data on raw material import exposure, certification on sustainable sourcing of products, traceability and biodiversity impacts.   |     |                 |                                 |   |
| Next steps            | TBC   |     |                 |                                 |   |
| Monitoring required   | Yes   |     |                 |                                 |   |

# Engagement Tracking: Collaboration & Next Steps

## Engagement on key aspects of ESG

To

Cc Ghosh, Abhishek (India); Singhania, Rohit (India); Sambre, Vinit (India); Aiya, Nilesh (India); Kothari, Jay (India); Gandhi, Bhavin (India)

This message was sent with High importance.



As active investors in India, we firmly believe ESG is an important aspect in building sustainable and scalable businesses of the future. DSP Investment Managers is a signatory to the [UNPRI](#) and we have formally adopted a [Responsible Investment](#) policy. As long-term investors, DSPIM engages in a dialogue with companies. We believe that our long-term success and contribution to sustainable development depend on our engagement and active monitoring of the companies invested in. On behalf of our clients, we have an interest in understanding the corporate governance and sustainability framework of the companies in addition to their operation and strategy.

We use engagement interactions to facilitate an open dialogue, with targeted and time sensitive outcomes that better inform our investment decisions. We realised that issues highlighted by third party agencies do not take business realities and complexities into account while following their “template based” approach to ESG rating. Hence, we have a dedicated team looking at various aspects of ESG. The ESG team works closely with sector experts to arrive at issues that we believe are key to responsible investing. We have conducted detailed research on Century Ply board and we have identified two key issues on which we would appreciate additional information from your end.

**Raw material sourcing, traceability and certification:** Raw material sourcing practices are a material issue to the sector. I appreciate you mentioned the company sources 100% plantation timber. Can you please elaborate on the same and provide the following;

- Certifications: Data on the number of products and types of certification on sustainable sourcing
- Traceability: Data on 15% (timber logs and veneer) imported raw material (the geographies and quantities)
- Insight on future raw material sourcing strategies

Something to consider on the regulation front is that recently a group of 27 countries including Gabon are part of a voluntary partnership, Forest and Climate Leaders’ Partnership ([FCLP](#)), to reverse forest loss and land degradation by 2030. Similarly, Gabon’s government declared to have all forest concessions to be Forest Stewardship Council (FSC) certified by 2022 (or maybe delayed to 2025).

**GHG emissions:** Can you please provide the GHG emission profile of the company including both, operational and supply chain emissions? I appreciate your communication on GHG emissions and emission reduction plans being on the agenda for FY2023-24. I suggest preparing to respond to the Carbon Disclosure Project (CDP) questionnaire, which is a best practice. It is a comprehensive exercise which can help with planning on actions to improve sustainability.

Please keep me posted when you have more insight and direction on your collaboration with the ESG consultant you plan to onboard. I would be happy to connect.

Thank you

Best,  
Chaitra Nayak,  
ESG Analyst - Investments

# Sceptical/ Forensic Analysis

We manage risks by rigorous forensic research (refer to the detailed framework at the end) on investee companies.

We aim to identify and mostly avoid companies which depict below characteristics:

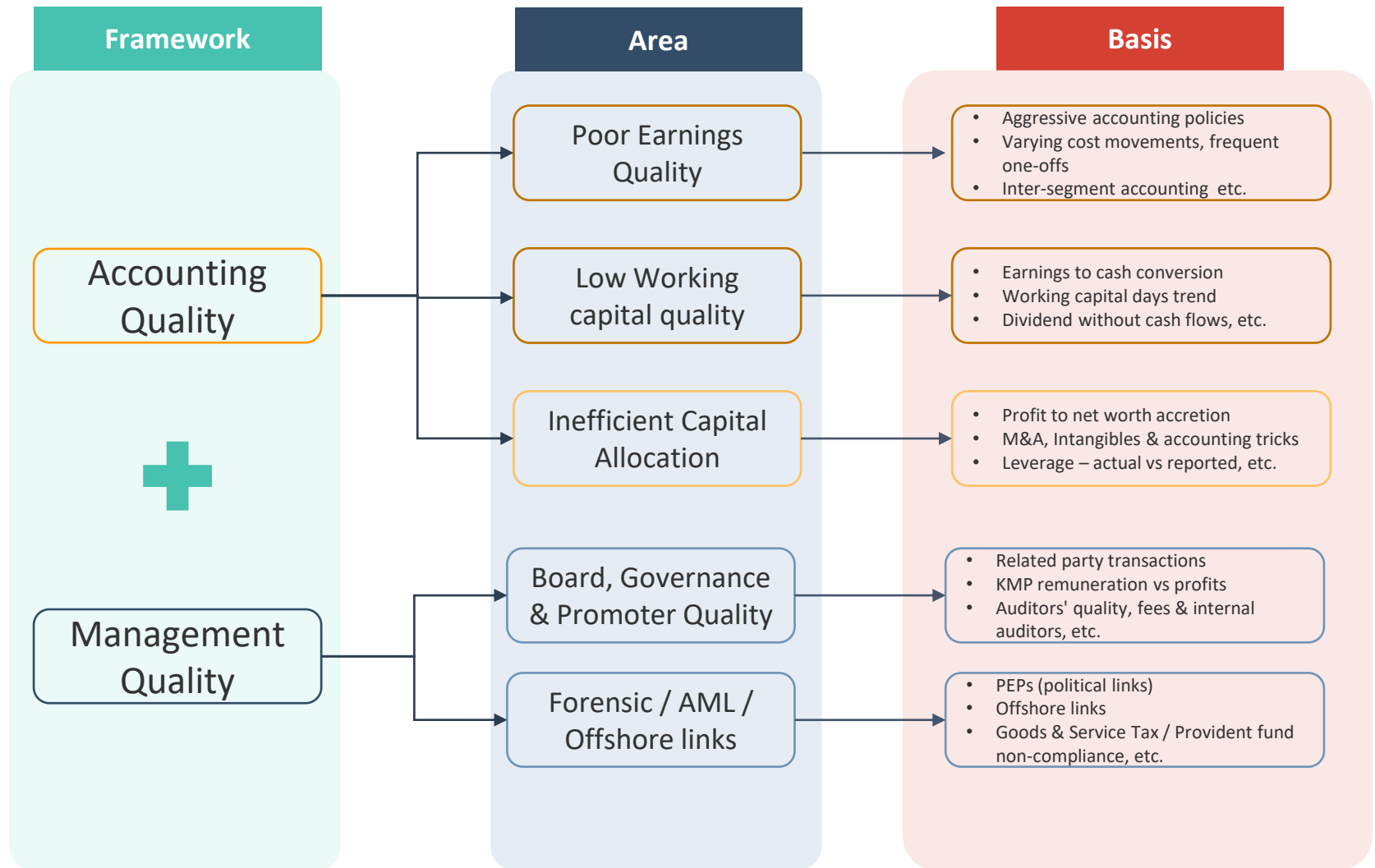
1. Poor earnings quality, aggressive accounting and consistently overstating earnings
2. Manipulated cash flows which mask the real picture
3. Bad capital allocation and high Balance sheet (BS) risk
4. Poor Board, Governance and Promoter background/ quality



## Ultimate objective:

Value of accident avoided is almost always underappreciated until one occurs. By having a specialist in the team, we aim to increase our rigor on forensic research part and avoid most accidents instead of being part of them.

# Governance Framework:



# Investment Risk Management at DSP

## Portfolio Risk Monitoring

- Independent Risk & Quantitative Analysis team (RQA)
- Regular Risk meetings to “Hold a Mirror” to portfolio risk
  - Macro stress testing
  - Sector & style exposure & returns monitoring, market trends
  - Tolerance limits for stop losses and drawdown

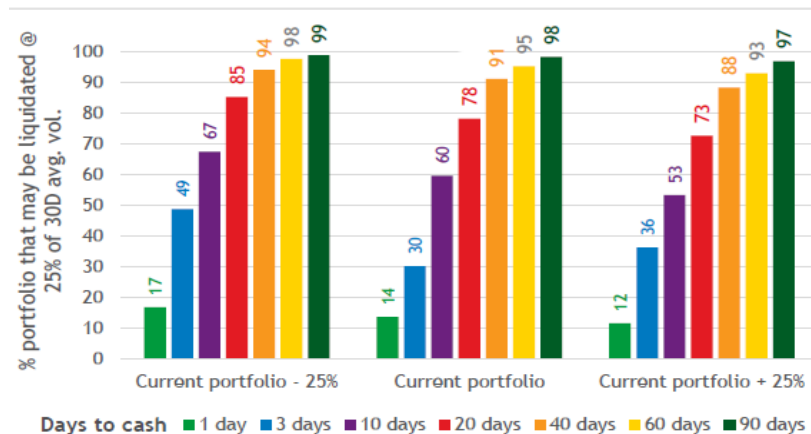
## Key Inputs

- Stock level contribution to risk
- Predicted vs delivered volatility & beta
- Factor risk breakdown of portfolio, including NAV at risk analytics
- Tactical indicators for monitoring reversal risks

## Position Level Monitoring

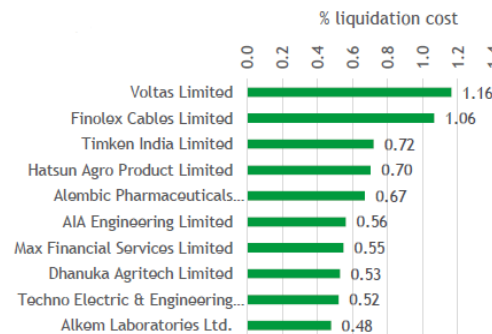
- Constant review of performance: large winners / losers
- Constant monitoring of investment thesis with research team

Indicative: It takes ~10 days to liquidate 60% of the DSP Strategy portfolio



Current portfolio +/-25% refers to the assets (AUM) in the strategy increased or decreased by 25%, as two alternative scenarios, to depict how liquidity of the portfolio could change under these new AUMs

## Top 10 scrips by liquidation cost



## Worst 3-day drawdowns

| n-th worse redemption | 3-day redemption | Date      | AUM (INR cr) |
|-----------------------|------------------|-----------|--------------|
| 1                     | -4.16%           | 07-Jan-13 | 1,316.09     |
| 2                     | -3.95%           | 08-Jan-13 | 1,320.58     |
| 3                     | -3.89%           | 04-Jan-13 | 1,317.74     |
| 4                     | -2.78%           | 20-Jan-09 | 434.49       |
| 5                     | -2.68%           | 16-Jan-09 | 433.27       |

Since 01st Jan 2008

Source: Internal; Note: Investment process is subject to change. Charts / Tables depicted are purely illustrative in nature. The above information is only for illustration purpose and should not be construed as recommendation of the stocks. To explain the worst-3-day-drawdown table, the first row represents the biggest redemption ever seen by the fund, in a consecutive-3-day period, which in this case was about 4.16% of AUM and occurred on 7th Jan 2013. AUM = Asset Under Management

# Fund Terms and Structure



# Fund Terms

**Objective\*:** The DSP India Equity Fund (the “Fund”) aims 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.

**Investment philosophy :** Bottom-up approach to stock picking.

**Universe:** It is anticipated that the Fund will invest across the entire range of capitalizations (across large cap, mid cap and small cap), however there will be a focus on mid cap and small cap companies. The Fund is actively managed in reference to Nifty Midcap 150 Index, by virtue of the fact that it uses the Index for performance comparison purposes. However, the Index is not used to define the portfolio composition of the Fund and the Fund may be wholly invested in securities which are not constituents of the Index.”

**Diversified:** Typically portfolio of ~50 stocks across market capitalization

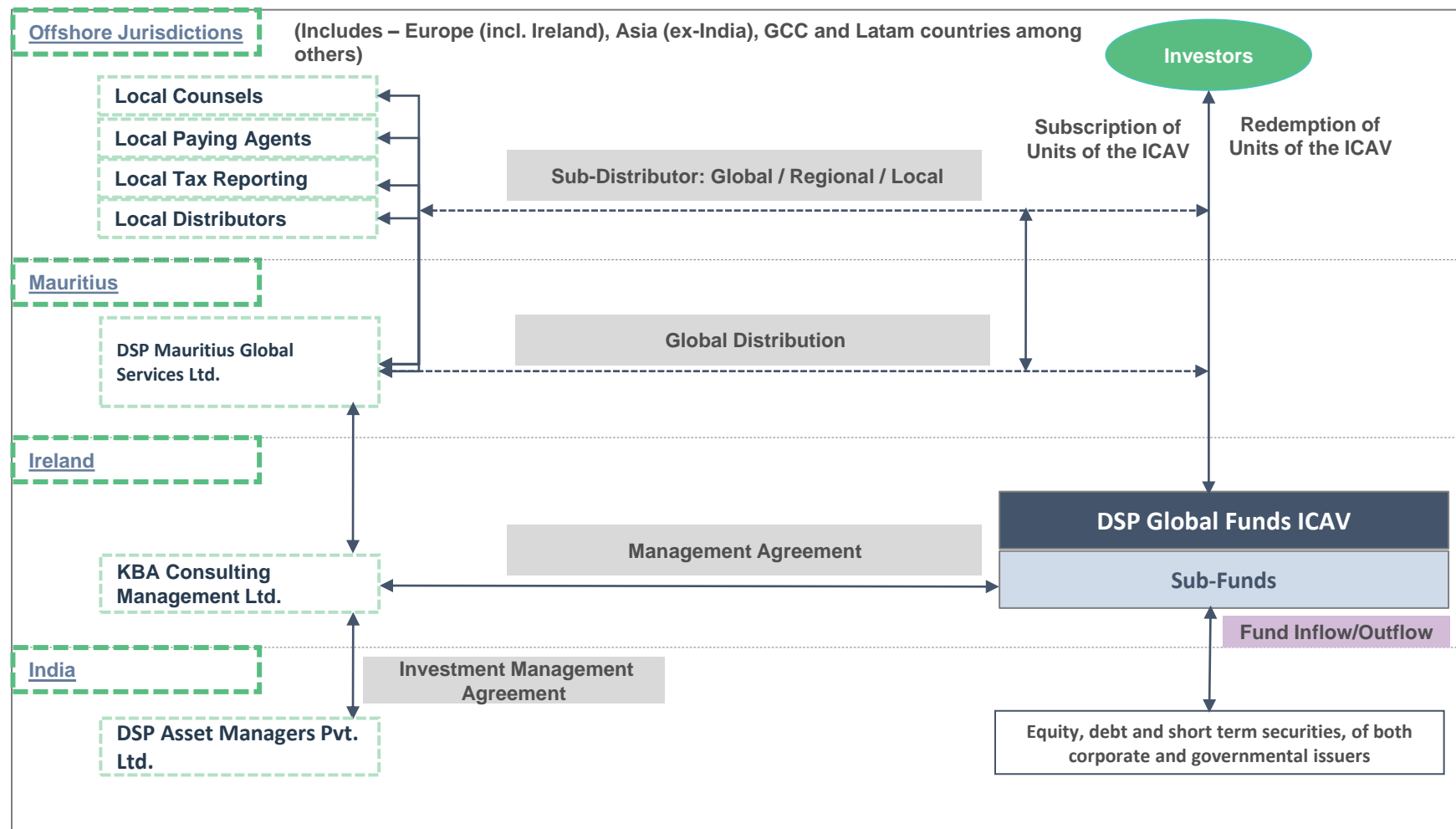
**Risk management:** Governed by a robust risk framework; No leverage;

|  |   |
|--|---|
| <b>Fund Structure</b>                                      | DSP India Equity Fund is a compartment of DSP Global Funds ICAV, an umbrella UCITS V compliant ICAV   |
| <b>Share class</b>   | Seed Class  |
| <b>ISIN code</b>   | IE00BK0WZ337  |
| <b>Investment manager</b>                                  | DSP Asset Managers India Pvt. Ltd.  |
| <b>Domicile</b>  | Ireland   |
| <b>Inception Date</b>                                      | 15 March 2021   |
| <b>Reference Currency</b>                                  | USD   |
| <b>Dealing and Valuation</b>                               | Daily   |
| <b>Administrator</b>                                       | HSBC Securities Services (Ireland) DAC  |
| <b>Depository Services</b>                                 | Depository – HSBC France, Dublin Branch   |
| <b>Management Company</b>                                  | KBA Consulting Management Limited   |
| <b>Seed Share Class – Total Fee and Operating Expenses</b> | (i) 0.70% of the Net Asset Value of the Seed Class when the Net Asset Value of the Fund is up to \$150 million; or<br>(ii) 0.60% of the Net Asset Value of the Seed Class when the Net Asset Value of the Fund is greater than \$150 million and up to \$300 million; or<br>(iii) 0.40% of the Net Asset Value of the Seed Class when the Net Asset Value of the Fund is greater than \$300 million |
| <b>Other fees</b>  | As set out in the Prospectus  |

Note: The Fund’s Net Asset Value may have an elevated volatility due to its investment policy. The fees and charges paid by the Fund will reduce the return on your investment. Certain costs paid by the Fund will be charged in specific currency and exchange rate fluctuations may cause these costs to increase or decrease when converted into local currency of the investor. Source: Internal; \*There is no guarantee that the fund will achieve its objective.

# DSP Global Funds ICAV: Structure

- ▶ DSP GLOBAL FUNDS ICAV - An umbrella type Irish collective asset-management vehicle with segregated liability between Funds



Note: The Fund's Net Asset Value may have an elevated volatility due to its investment policy.

Source: Internal; \*There is no guarantee that the fund will achieve its objective.



# Seed share class - Pricing

Passive India ETFs



~70 bps

**FUND AUM THRESHOLD**

**Management Fee**

**Operating expenses\***

**Total Expense Ratio**

US\$ 0 to US\$ 150 mn

45 bps

+

25 bps

=

70 bps

US\$ 150 to US\$ 300 mn

35 bps

+

25 bps

=

60 bps

> US\$ 300 mn

15 bps

+

25<sup>#</sup> bps

=

40 bps

Step  
down

Step  
down

\* Operating expenses are capped at 25 bps, irrespective of AUM.

# Operating expenses can reduce over time with economies of scale.

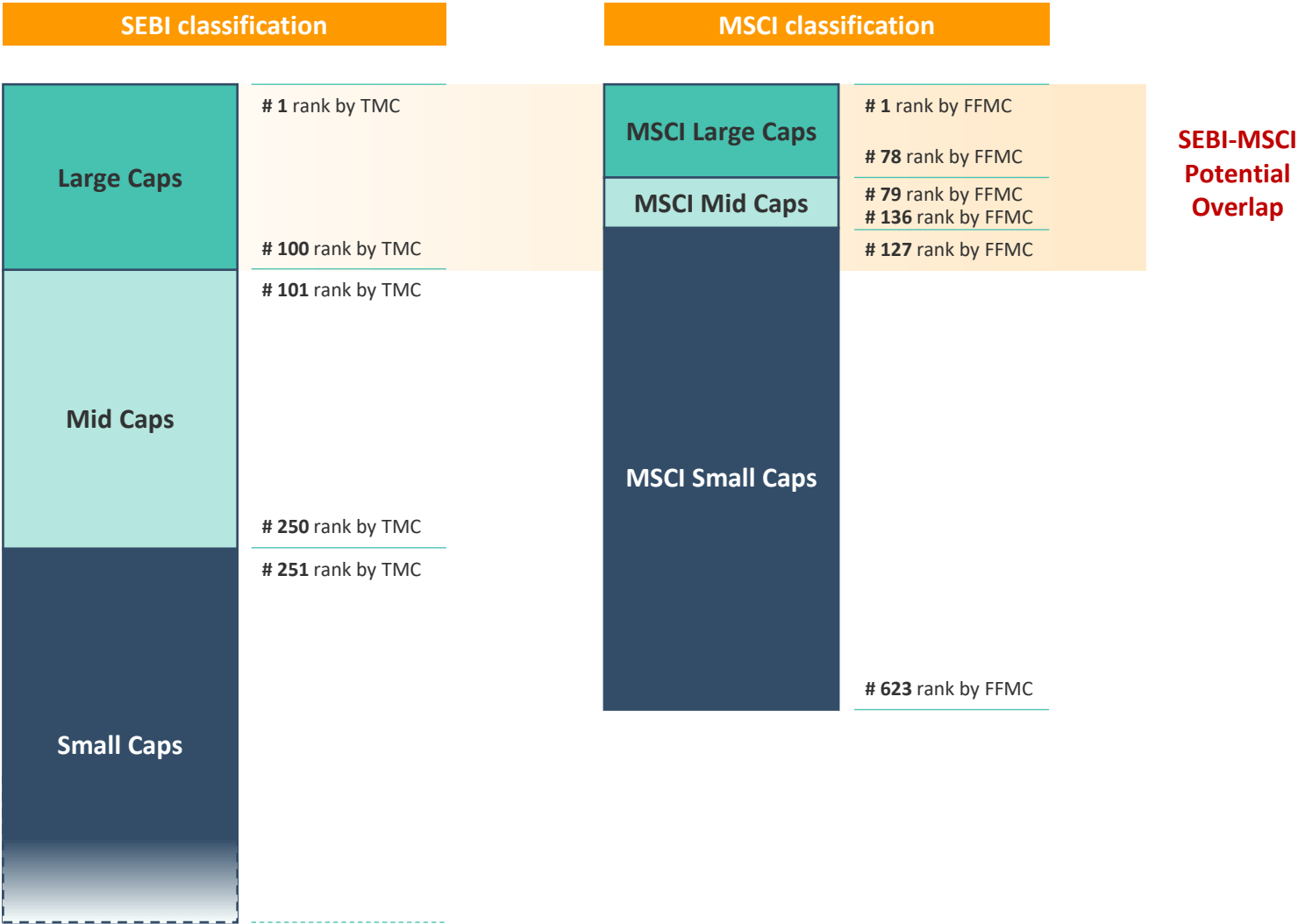
Bps = Basis points. AUM = Asset Under Management

Other fees: As set out in the Prospectus, if any

# Appendix



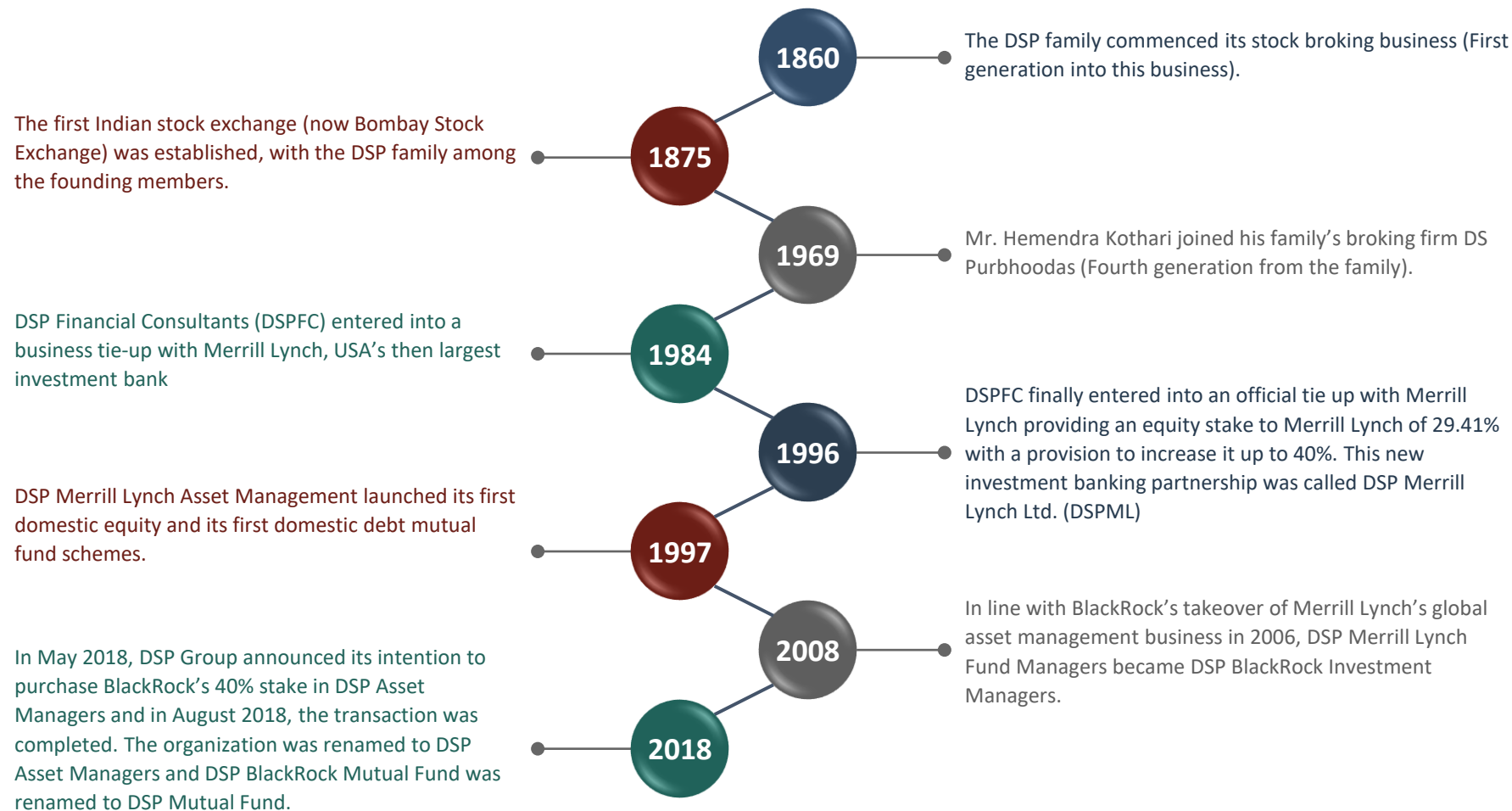
# Market-cap Classification: SEBI versus MSCI



Source: MSCI, SEBI, as of 4 April 2024. SEBI is Securities and Exchange Board of India, the Indian securities market regulator. TMC = Total Market Cap, FFMC = Free Float Market-Cap. Indices are unmanaged and used for illustrative purposes only and are not intended to be indicative of any fund’s performance. It is not possible to invest directly in an index.

# Evolution of DSP

The DSP Group, headed by Mr. Hemendra Kothari is one of India's oldest financial services firms having commenced its stock broking business in the 1860's



Source: Internal

# DSP Organization Structure - Senior Management



Source: Internal

## Incentives aligned to investment objectives

| Factors driving performance - Analysts   | Share |
|--|-------|
| Model Portfolio outperformance   | [ ]%  |
| Research process - Fundamental attributes - Thesis, Extent of variation on chosen fundamental parameters | [ ]%  |

| Factors driving performance –Portfolio Mangers             | Share |
|--|-------|
| Fund performance vs. Benchmark 3Y and 1Y (rolling returns) | [ ]%  |
| Research process and adherence to framework                | [ ]%  |

Source: Internal; Actual allocations to each factor may be discussed over a call.

# Offshoring/Manufacturing : The office and factory to the world

- PLI should garner cumulative capex of ~USD 60 billion over next 4-5 years and could fast-track the capex plans of private sector by at least two years

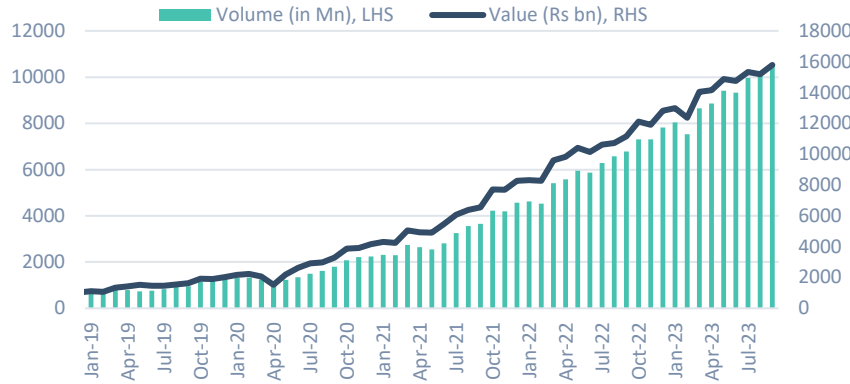
| Category                     | Overall PLI Incentive committed (Rs. Bn) | Committed/ Likely Investment/ Capex (Rs. Bn) | Asset Turnover (x) | Incremental Revenue over 5-year period (Rs. tn) | Employment (Direct + Indirect) | Duration   | Companies  |
|------------------------------|--|--|--------------------|---|--------------------------------|------------|--|
| Mobiles                      | 410                                      | 110  | ~25x               | 10.5  | 5,00,000                       | FY22-FY27  | ▪ Samsung, Foxconn Hon Hai, Rising Star, Wistron and Pegatron. Lava, Bhagwati (Micromax), Padget Electronics, UTL Neolyncs and Optimus Electronics.  |
| Pharma                       | 150                                      | 100  | ~3x                | 2.9   | 1,00,000                       | FY21-FY29  | ▪ Aurobindo Pharma Group, Hetero Group, Karnataka Antibiotics and Pharmaceuticals Limited, Kinvan Pvt. Ltd, Natural Biogenex   |
| Pharma – API/KSM             | 63                                       | 54   |                    |   |                                |            | ▪ Siemens Healthcare, Wipro GE healthcare, BPL Medical Technologies, Nipro India Corporation, Sahajanand Medical Technologies, Integris Health, Poly Medicure.   |
| Pharma - Medical Devices     | 28                                       | 9  | 3-4x               | 1.7   | 4,00,000                       | FY22-FY27  | ▪ 42 firms, including Daikin, Panasonic, Syska and Havells, with committed investment of Rs. 46bn have been provisionally selected as beneficiaries under the production linked incentive (PLI) scheme for the white goods sector.   |
| White Goods & LED            | 62                                       | 79   |                    |   |                                |            | ▪ Jindal India Solar, Shirdi Sai Electricals, Reliance & Adani Infrastructure have emerged as the lowest bidders for the PLI scheme for solar PV manufacturing   |
| Solar PV                     | 45                                       | 175  | ~4x                | 3.5   | 1,50,000                       | 5 years    | ▪ Nokia India, HFCL, Dixon Technologies, Flextronics, Foxconn, Coral Telecom, VVDN Technologies, Akashastha Technologies, and GS India   |
| Telecom                      | 122                                      | 30   | ~20x               | 2.4   | 40,000                         | FY22-FY27  | ▪ 60 companies including Amul, ITC, HUL, Britannia Industries, Parle Agro, Tata Consumer Products and Nestle   |
| Food                         | 109                                      | 61   | ~4-5x              | 1.2   | 2,47,730                       | FY22-FY27  | ▪ Hyundai Motor India, Suzuki Motor Gujarat, Ashok Leyland, Mahindra & Mahindra (M&M), Hero MotoCorp, Bajaj Auto, Ola Electric Technologies have been approved for the Production Linked Incentive (PLI) Scheme for the automobile sectors.  |
| Automobile & Auto Components | 260                                      | 425  | ~4-5x              | 2.3   | 7,50,000                       | FY23-FY28  | ▪ Applicants are Dell, ICT (Wistron), Flextronics, Rising Stars Hi-Tech (Foxconn), and Lava. They include Dixon, Infopower (JV of Sahasra and MITAC), Bhagwati (Micromax), Syрма, Orbic, Neolync, Optimus, Netweb, VVDN, Smile Electronics, Panache Digilife, HLBS, RDP Workstations, and Coconics |
| IT Hardware                  | 50                                       | 24   | ~20x               | 3.3   | 1,50,000                       | FY21-FY25  | ▪ NA   |
| Speciality Steel             | 63                                       | 400  | ~1x                | 2.0   | 5,25,000                       | FY23-FY28  | ▪ NA   |
| Textile                      | 107                                      | 190  | ~3x                | 3.0   | 7,50,000                       | FY23-FY28* | ▪ Participation from 10 companies — Reliance New Energy Solar (RIL subsidiary), Hyundai Global Motors, Ola Electric, Mahindra & Mahindra, Larsen & Toubro, Amara Raja Batteries, Exide Industries, Rajesh Exports, India Power Corporation, and Lucas-TVS  |
| EV Battery                   | 181                                      | 450  | ~1x                | ~2.2  | -                              | FY23-FY28  | ▪ Vedanta, Foxconn to form JV to bid for PLI   |
| Semiconductor                | 760                                      | 2300   | ~0.4x              | ~4.6  | 1,35,000                       | FY23-FY27  |  |
| <b>Total</b>                 | <b>2,410</b>                             | <b>4,407</b>                                 |                    | <b>39.6</b>                                     | <b>37,47,730</b>               |            |  |

| Category                             |                                |
|--------------------------------------|--------------------------------|
| PLI manufacturing commenced/ Awarded | ▪ Mobiles                      |
|                                      | ▪ Pharma - Bulk Drugs & API    |
|                                      | ▪ Pharma - Medical Devices     |
|                                      | ▪ IT Hardware                  |
|                                      | ▪ White Goods & LED            |
|                                      | ▪ Solar PV                     |
|                                      | ▪ Telecom                      |
| PLI awarding currently in process    | ▪ Food                         |
|                                      | ▪ Automobile & Auto Components |
|                                      | ▪ Speciality Steel             |
|                                      | ▪ Textiles                     |
|                                      | ▪ EV Battery                   |
|                                      | ▪ Semiconductor                |

**India's export market share to almost double to 4.5% by 2031**

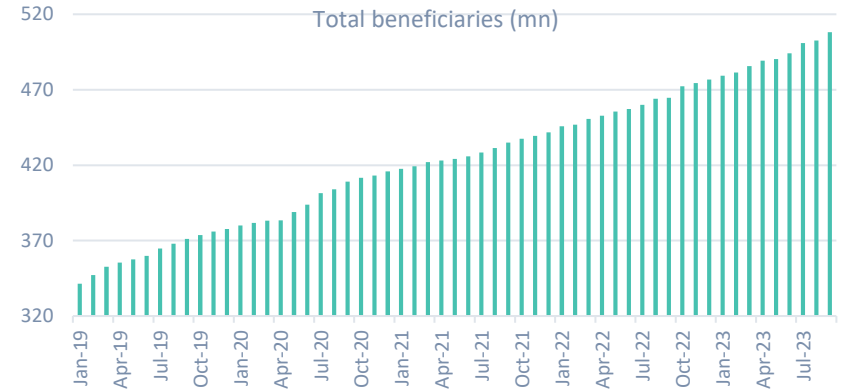
# Digitalization: India Stack (UPI, ONDC, OCEN) enabling Inclusive growth

## UPI payments



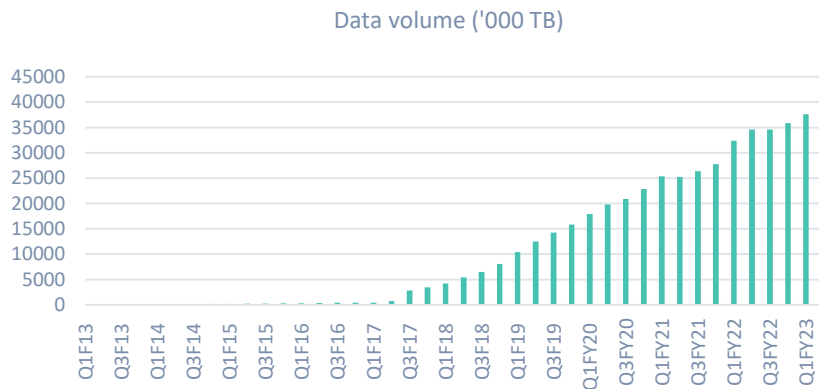
Source: NPCI, UBS

## Jan Dhan bank accounts (mn) driving financial penetration



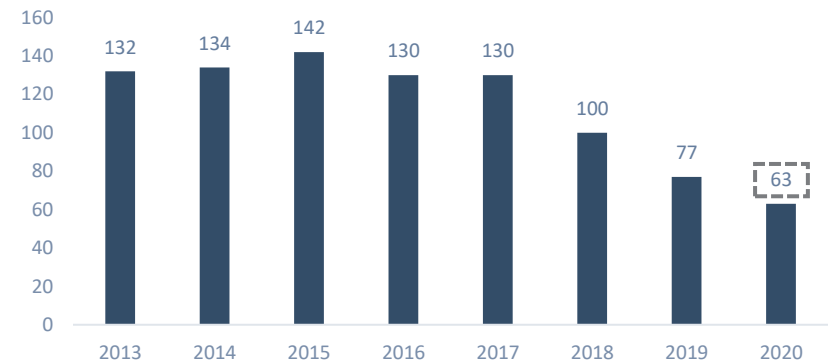
Source: UIDAI, UBS

## Digital boom – supportive of financialization theme



Source: TRAI, UBS

## Ease of doing business



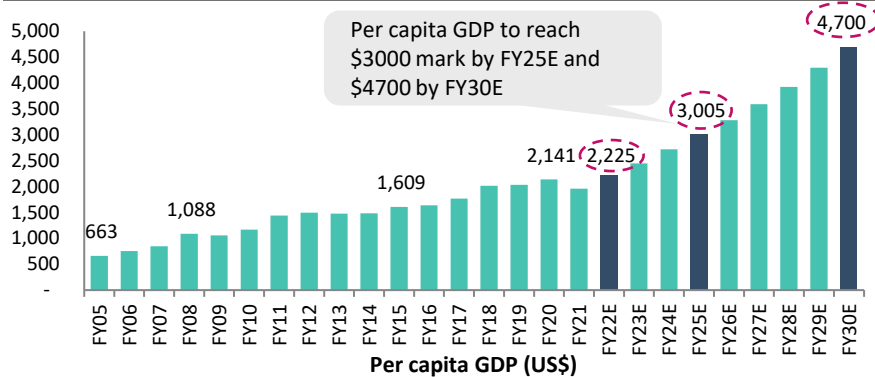
Source: World Bank, UBS

# Digital transformation at population scale



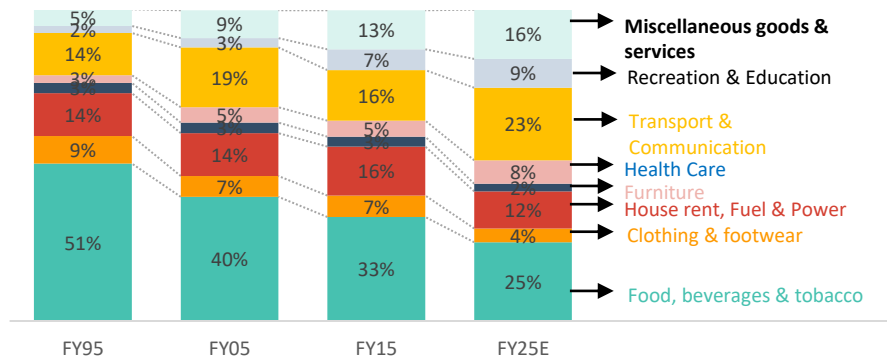
# India's consumer story at an inflection point as it crosses \$2000 per capita income mark

**#1: India has crossed the \$2,000 per capita income mark – which has been an inflection point for non-linear jump in discretionary spend in other countries**



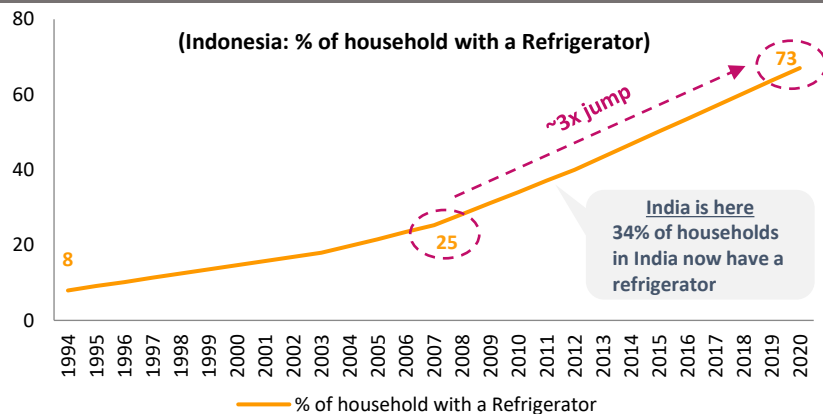
Source: GoI, Spark Capital Research

**#2: Discretionary spending rises as increase in income level drives households to shift their focus from providing only the basic necessities to discretionary spending**



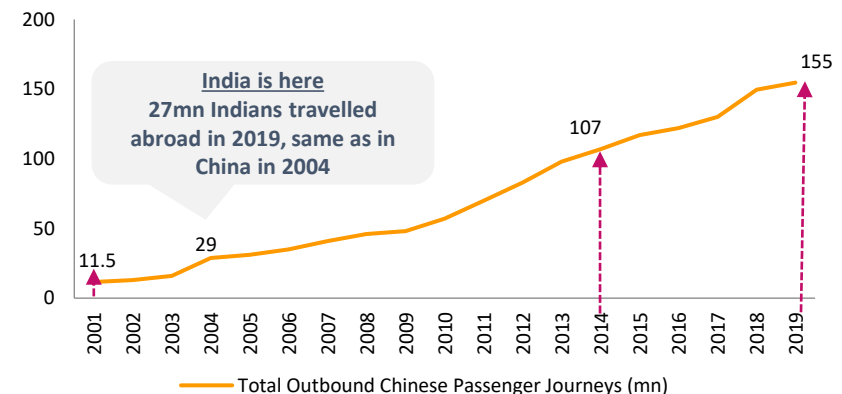
Source: CSO, Spark Capital Research Transport includes purchasing a car, 2-Wheelers etc.

**#3: Sharp jump in consumer durable penetration from Indonesia; Penetration of durable products rises very sharply once a country crosses a \$2000 per capita mark**



Source: World Bank, Spark Capital Research

**#4: Outbound travel from China jumped nearly 10x by 2014 from 11.5mn in 2001**

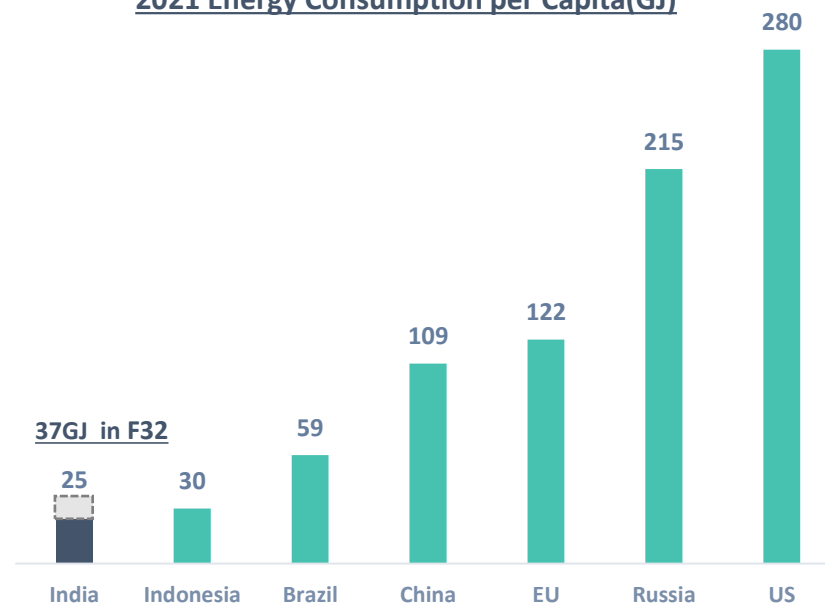


Source: World Bank, Spark Capital Research

# Energy Transition: India's energy transformation

| Exajoules                     | 2021        | 2031E       | Investment, \$bn |
|-------------------------------|-------------|-------------|------------------|
| Oil                           | 8.5         | 10.9        |                  |
| Gas                           | 2.2         | 3.9         | 126              |
| Electricity                   | 20.3        | 39.5        | 429              |
| Solar Manufacturing Equipment |             |             | 10               |
| Hydrogen                      | 1           | 1.9         | 70               |
| Electric Vehicles             |             |             | 86               |
| Ethanol                       | 0.5         | 1.3         | 5                |
| <b>Total</b>                  | <b>32.5</b> | <b>57.5</b> | <b>726</b>       |

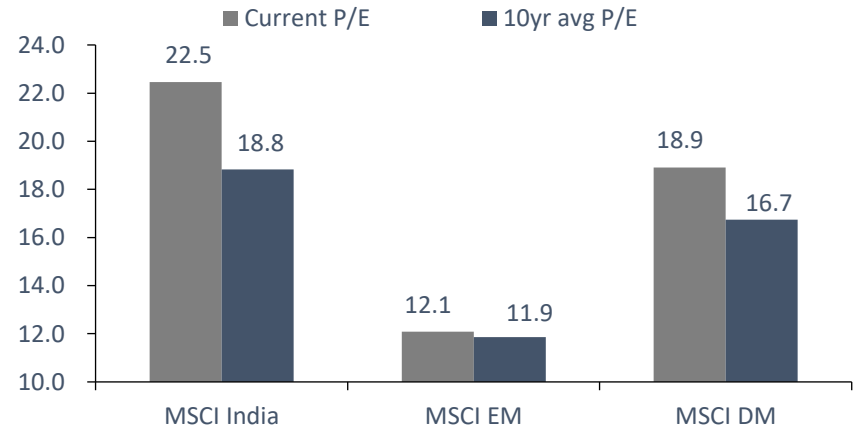
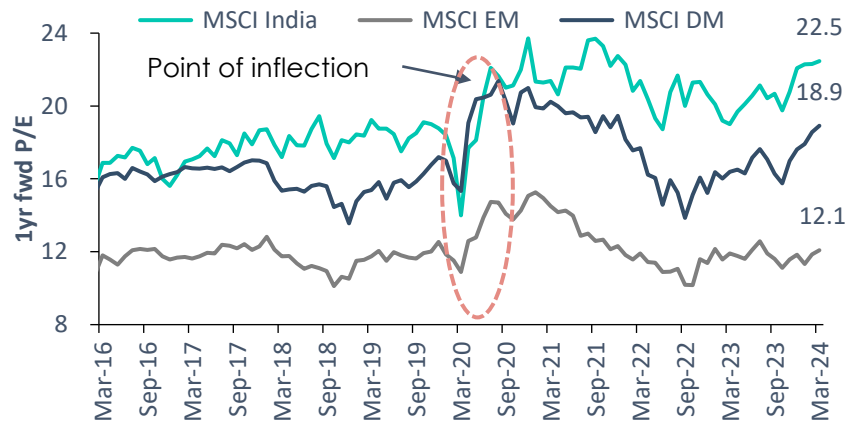
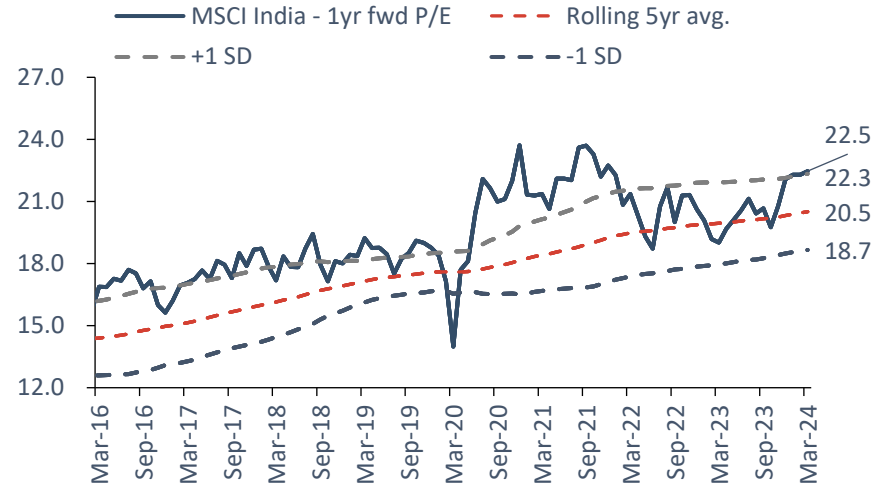
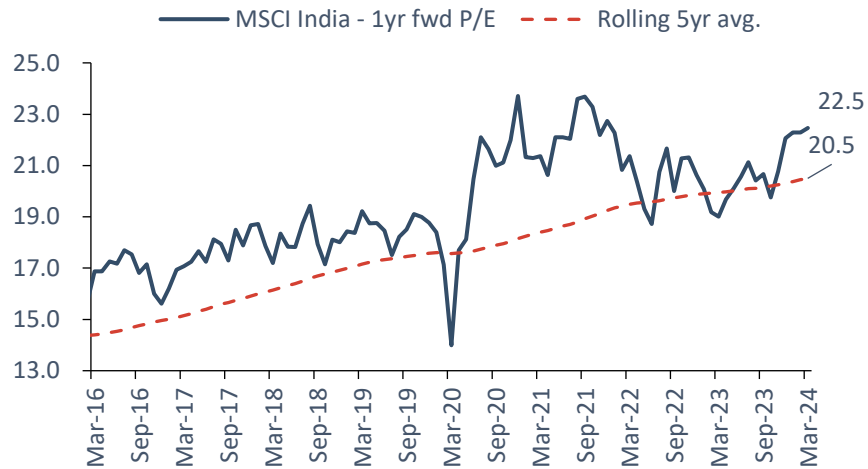
2021 Energy Consumption per Capita(GJ)



Meeting Incremental Energy Demands through Renewables

Source: CEIC, Morgan Stanley Research forecasts

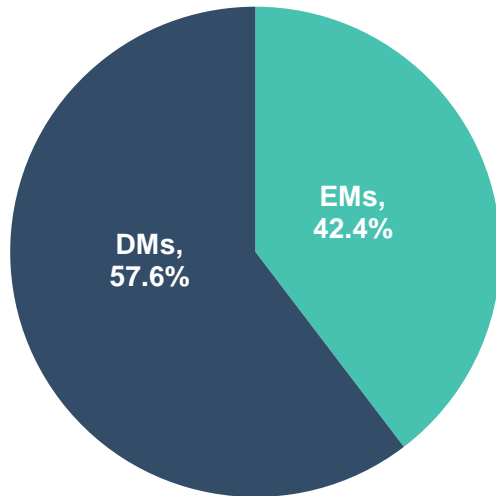
# India Valuations:



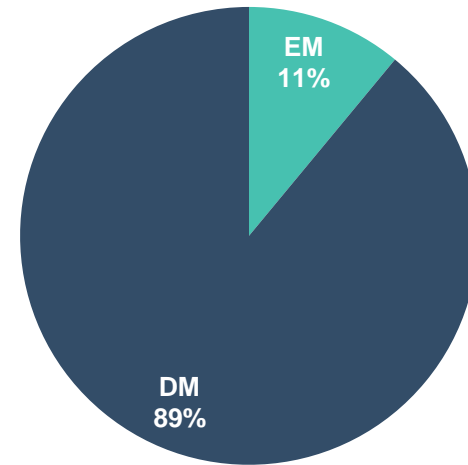
Source: Bloomberg , Ambit research 31<sup>st</sup> Mar'24.

# EMs under-represented in Global Equities compared to Global GDP

Global GDP Weights

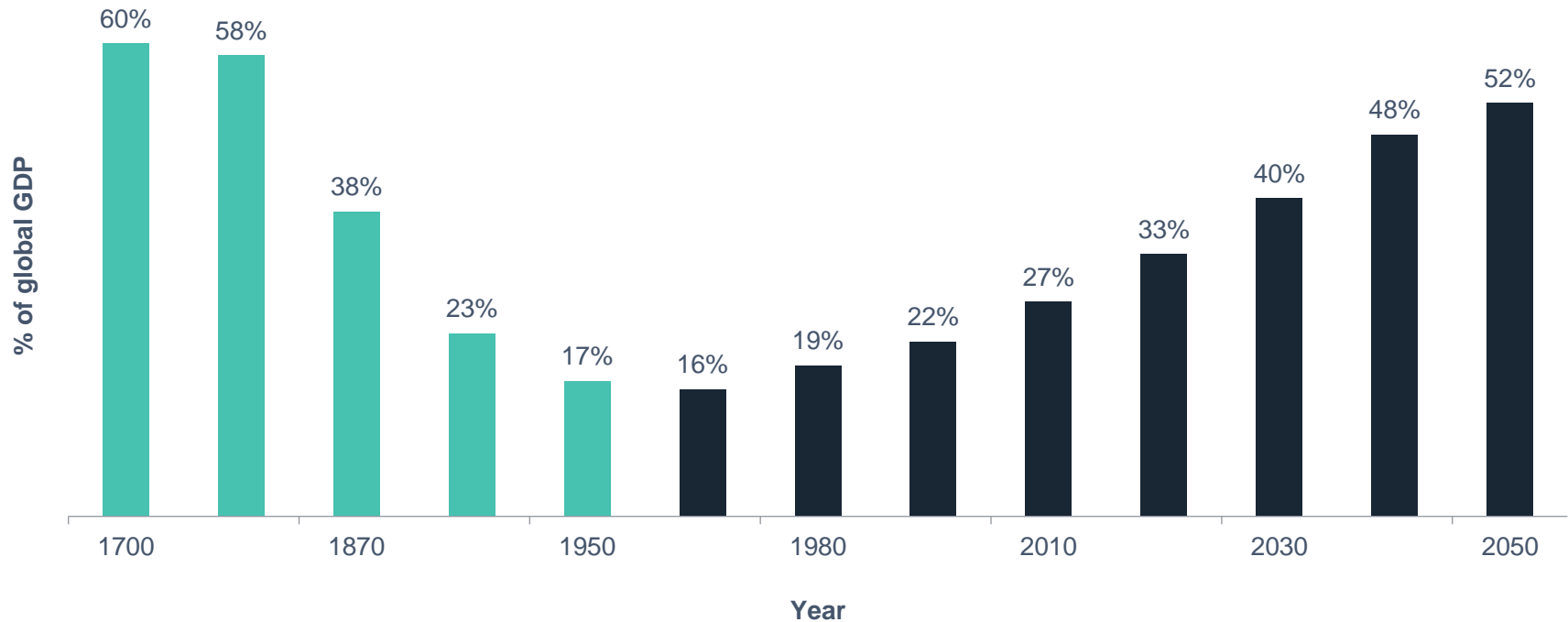


Global Equity Weights



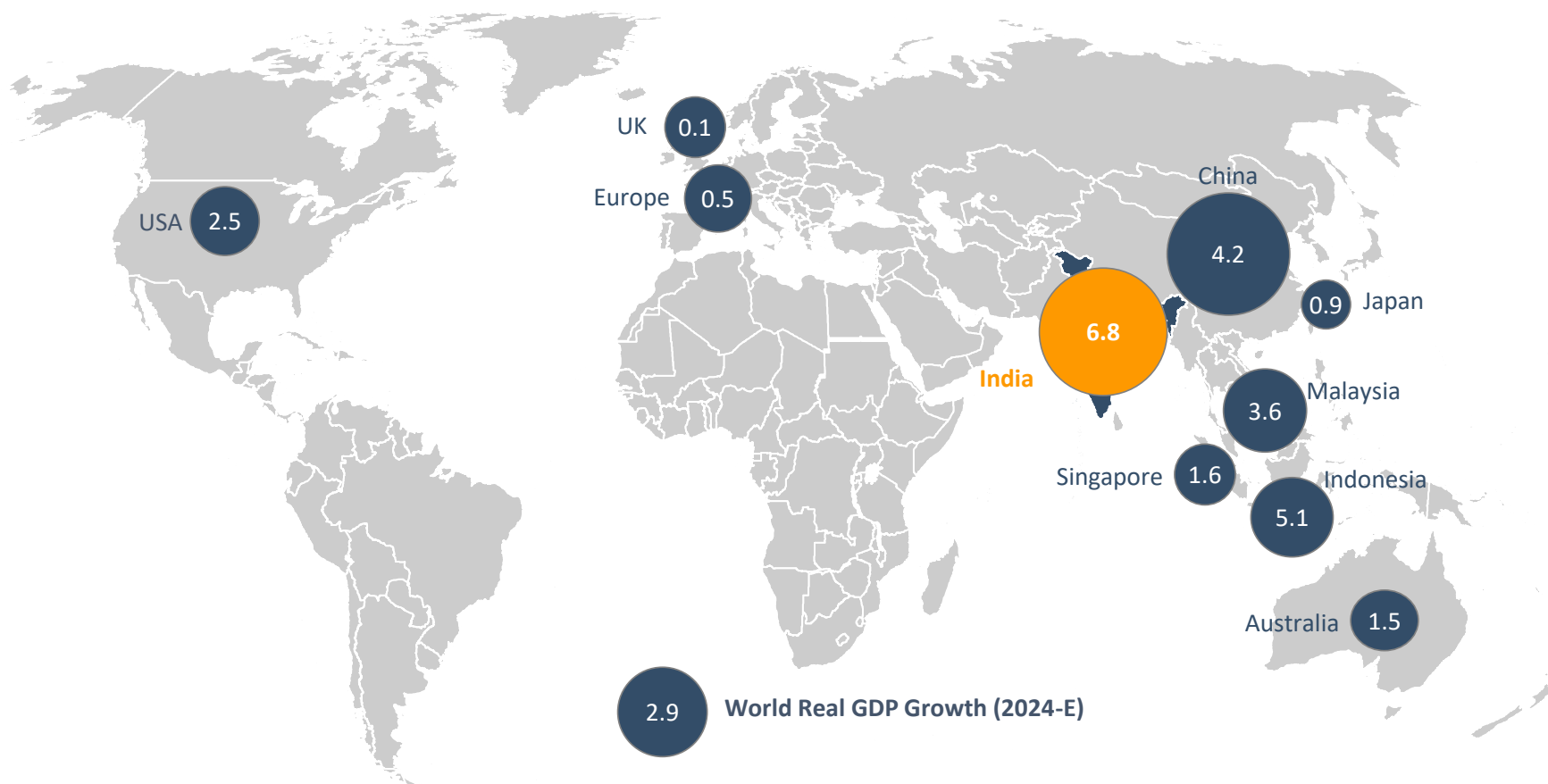
Source: IMF, World Economic Outlook Database, Morgan Stanley Research, Dec 2023; \*DM = Developed Market, EM = Emerging Market.

## Asia's Share in World GDP is steadily rising



Source: ADB, Morgan Stanley Research

# India – Among the fastest growing large economies in the world\*

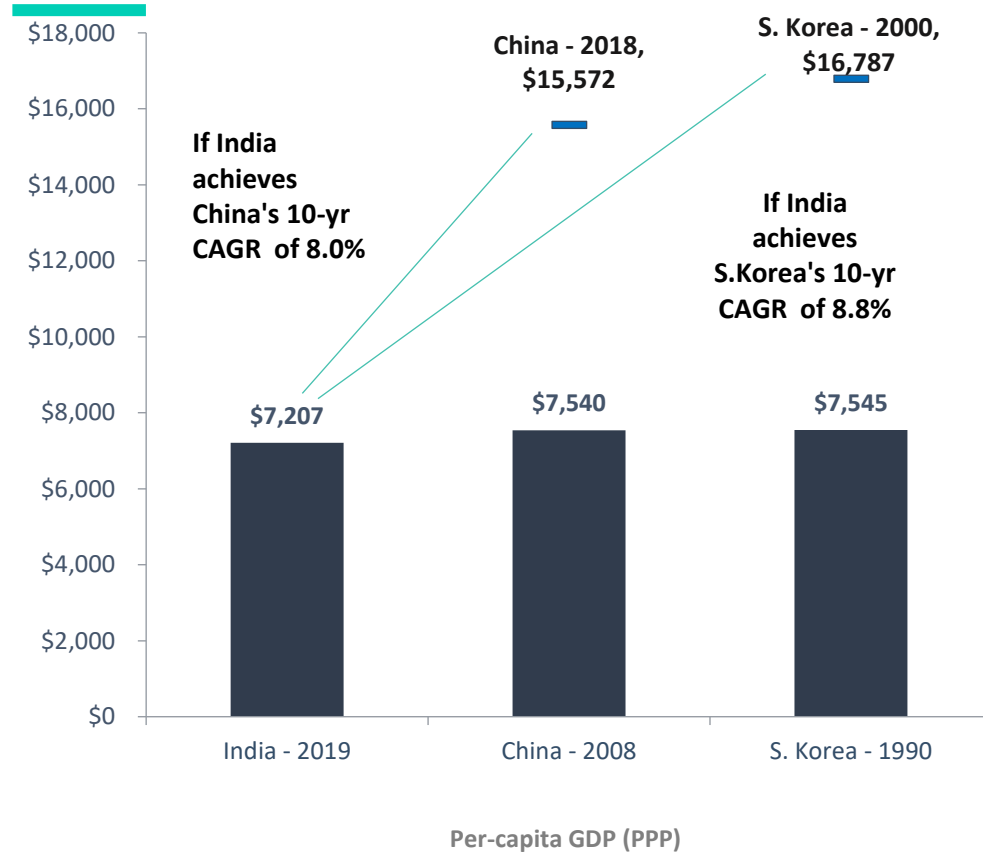


|     | ACWI World | US    | Europe | Japan | UK   | China | India | Brazil | Australia | MSCI EM |
|-----|------------|-------|--------|-------|------|-------|-------|--------|-----------|---------|
| 10Y | 8.5%       | 12.1% | 4.4%   | 6.5%  | 2.9% | 1.3%  | 9.9%  | 1.5%   | 4.4%      | 2.9%    |
| 15Y | 11.1%      | 14.4% | 8.2%   | 7.3%  | 7.5% | 3.9%  | 11.1% | 2.9%   | 8.9%      | 6.1%    |
| 20Y | 7.7%       | 9.4%  | 5.8%   | 4.3%  | 4.8% | 6.5%  | 10.7% | 7.9%   | 7.7%      | 6.4%    |

| CAGR         | 10Y   | 15Y   | 20Y   |
|--------------|-------|-------|-------|
| USDINR Cross | -3.2% | -3.3% | -3.2% |

Source: Morgan Stanley Research, as of 4 April, 2024. \* Large economy refers to economies above US\$ 1.5 trillion in GDP.

# Is sustained 9 - 10% nominal GDP growth for a large economy even possible?



- China/South Korea grew per capita GDP at 8.0% / 8.8%, respectively, for 10 years from levels similar to India's US\$7,207 PPP adjusted 2018 per capita GDP.
- To convert to nominal GDP growth, we factor 1.5% population growth (assumed).
- **So 9 to 10% nominal GDP growth is certainly possible, over a 10 year period or longer.**

## 4 key themes which we believe will play out for India going forward

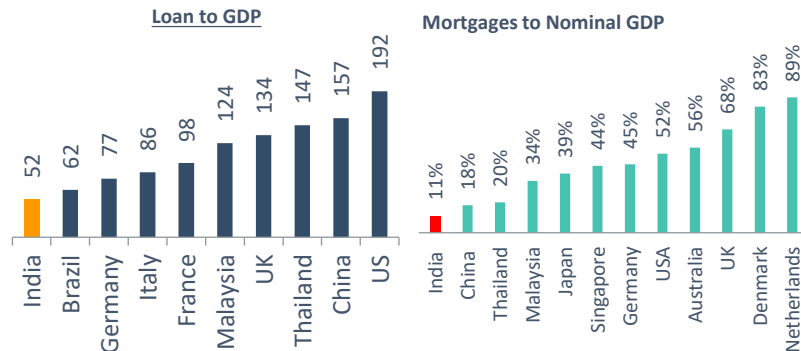
- 1 Penetration of Financial Services
- 2 Consumption story fast forwarded by Digitization
- 3 Infrastructure boom
- 4 Export Opportunities

Source: Goldman Sachs Global investment Research

# India: Structural, not tactical

## 1 Banking, Insurance, Loans, mortgages, mutual funds all underpenetrated

|               |          |                |          |
|---------------|----------|----------------|----------|
| Population    | 1,380 mn | MF Accounts    | 120.2 mn |
| Bank Accounts | 1,571 mn | Demat Accounts | 77.2 mn  |



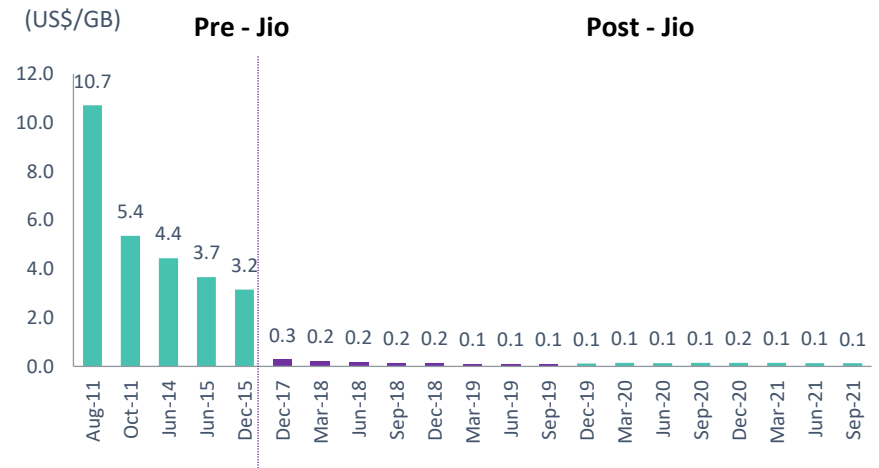
## 3 Tremendous runway for infrastructure growth

- HIGHWAYS** – only 2.3% of network, 64.5% of traffic
- PORTS** - ~224 ports versus China's ~2400 as of CY20
- AIRPORTS** - ~137 airports versus China's ~241 as of CY20
- RAILWAYS** - freight: 23.6 kmph; passengers: 50 kmph
- POWER** – 25% T&D losses
- HOUSING** – affordable housing schemes targeting 29mn households by 2022, across rural and urban areas

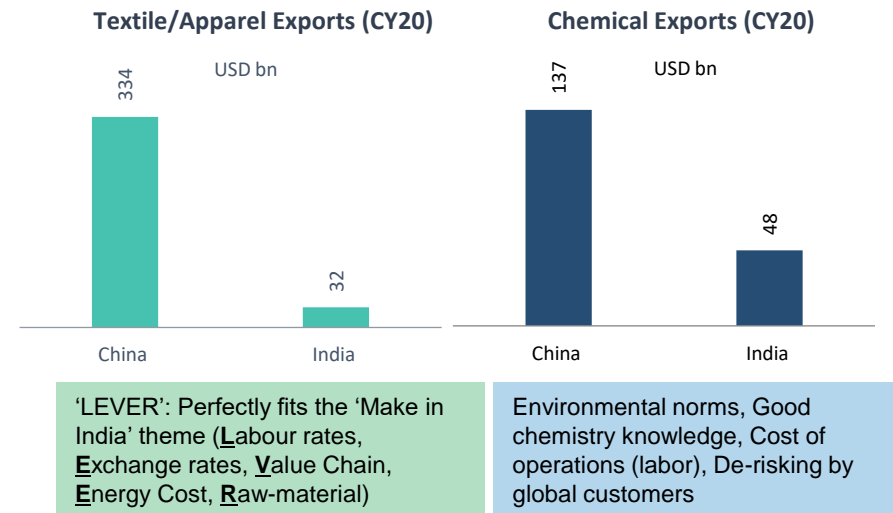
Source – Spark Capital Research,

**DSP**

## 2 Falling data costs boosting consumption



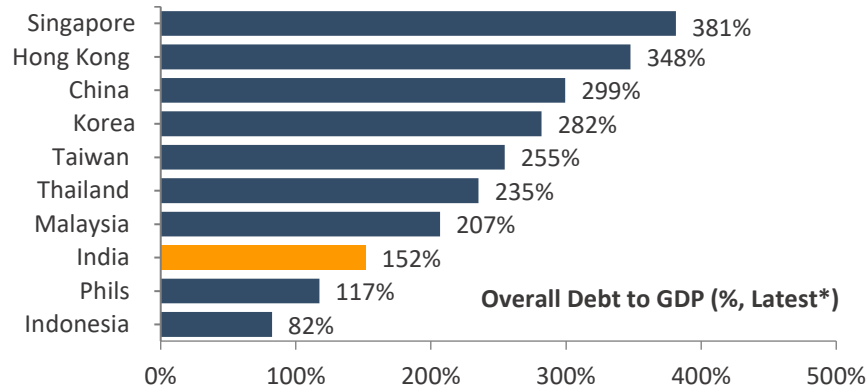
## 4 Export opportunities in Textiles and Chemicals



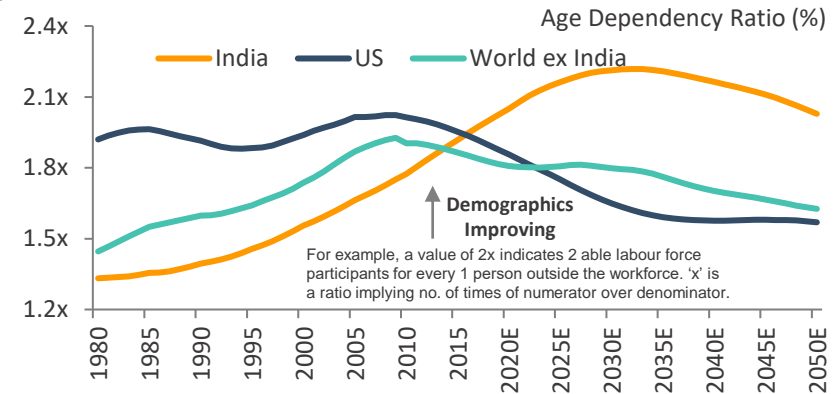


# India Well Positioned on 3Ds: Debt, Demographics and Deflation

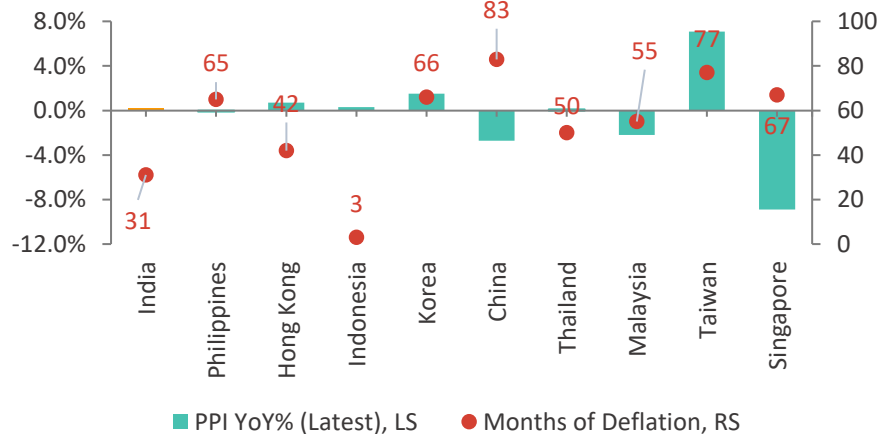
## 1 Debt: 7 out of 10 AXJ Countries Have Debt Above 200% of GDP



## 2 Demographics: Working age population improving in India



## 3 Deflation: India well placed combo of PPI & prior deflation



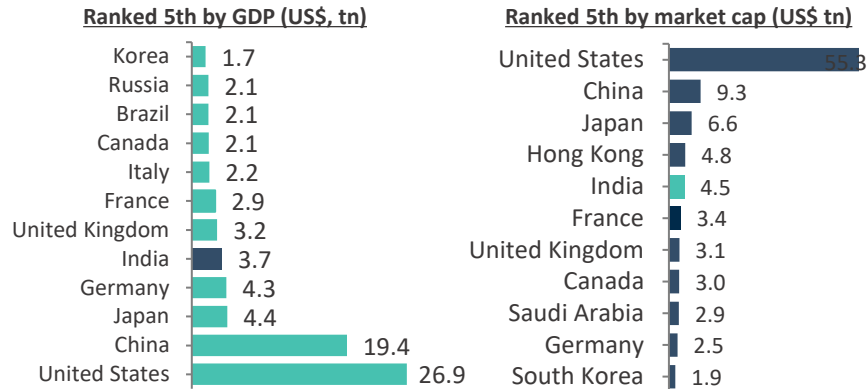
## 4 5 Key Reforms to Push Capex Higher

- **Reduction in corporate tax** to bring at par with Asian countries and **abolition of retrospective taxation.**
- **Factor market reforms** to ensure ease of doing business.
- **Production Linked Incentive(PLI)** schemes to develop indigenous manufacturing capabilities.
- Launch of National Infrastructure Pipeline , Gati Shakti, National Asset Monetisation Plan and Development Finance Institution to give a fillip **to infrastructure development.**
- **Revision of MSME definition** to encourage MSMEs to grow in size while creating an enabling environment to foster innovation & investment.

Source: Morgan Stanley (Panels 1,2 and 3), DSPIM (Panel 4).. There is no guarantee that any forecast make will come to pass. For Panel 1, \*Data as of 1Q23. For Panel 3, \*Latest as of Jul-19 for Malaysia, Sep-19 Philippines, Feb-20 for Thailand, Jun-20 for Indonesia and Dec-23 for others.

# Why should one consider a direct India exposure? (i.e. not via EM)

## 1 India expected to be 3rd largest economy in ten years



## 2 Low representation in global indices

### MSCI All Country World Index

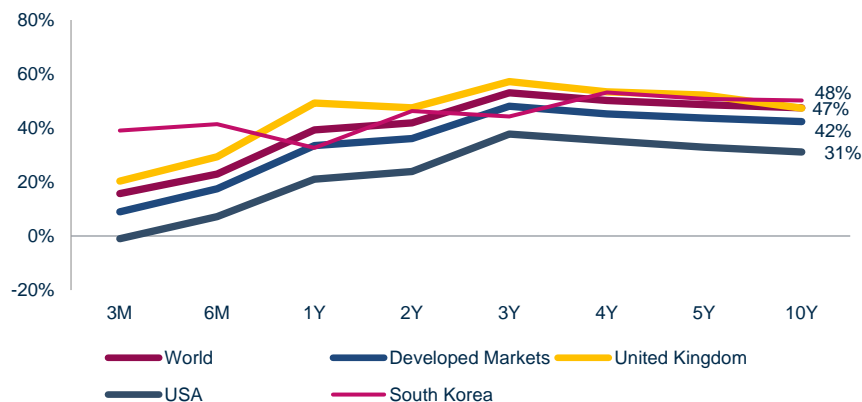
| Country     | Holding |
|-------------|---------|
| USA         | 63.3%   |
| Japan       | 5.5%    |
| UK          | 3.5%    |
| France      | 2.9%    |
| Canada      | 2.8%    |
| Germany     | 2.1%    |
| India       | 1.8%    |
| South Korea | 1.3%    |
| Others      | 16.8%   |

### MSCI Emerging Markets Index

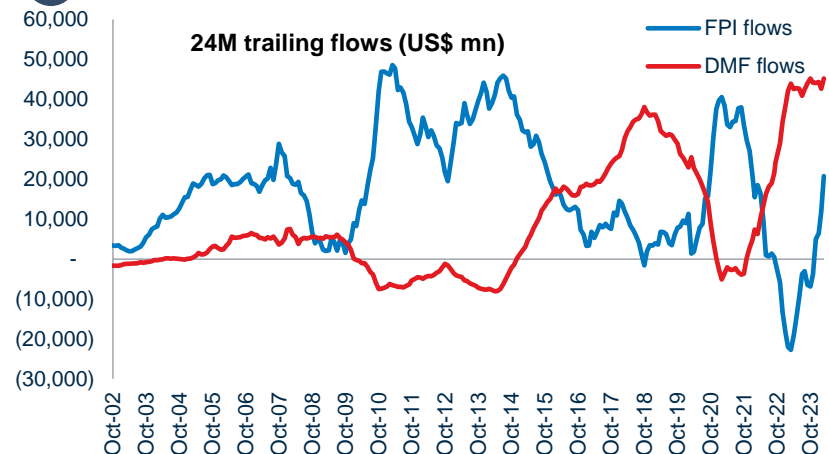
| Country     | Holding |
|-------------|---------|
| China       | 25.3%   |
| India       | 17.8%   |
| Taiwan      | 17.5%   |
| South Korea | 12.7%   |
| Others      | 8.8%    |
| Brazil      | 5.2%    |

India is only 1.5% of MSCI ACWI, but contributes ~3% to world GDP and market-cap.

## 3 Low correlation of India with global markets



## 4 Domestic flows outpacing foreign flows



Source: Morgan Stanley, as on 4 April 2024 (World – MSCI All Country World Index, DM – MSCI The World index; USA – MSCI USA; UK- MSCI United Kingdom). MSCI India index data based on total returns with dividend reinvestment. It is not possible to invest directly in an index. For Panel 4, FPI is Foreign Portfolio Investors registered with Securities and Exchange Board of India (SEBI), DMF is Domestic Mutual Funds.

# India - Well-diversified across sectors

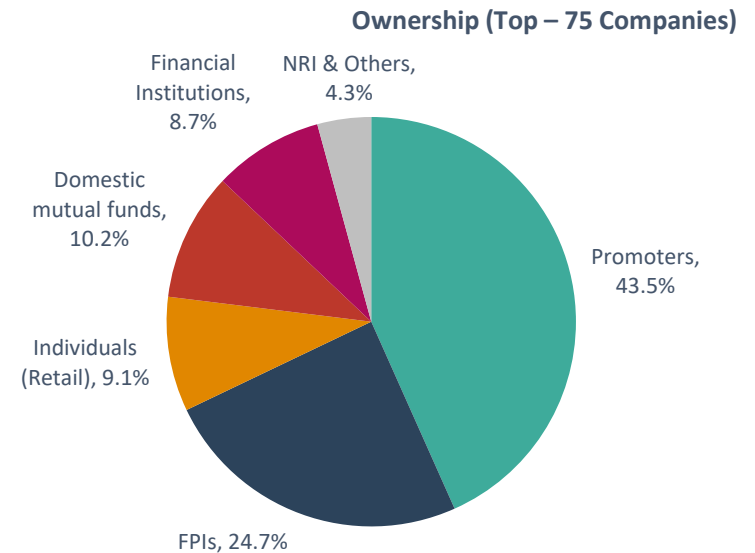
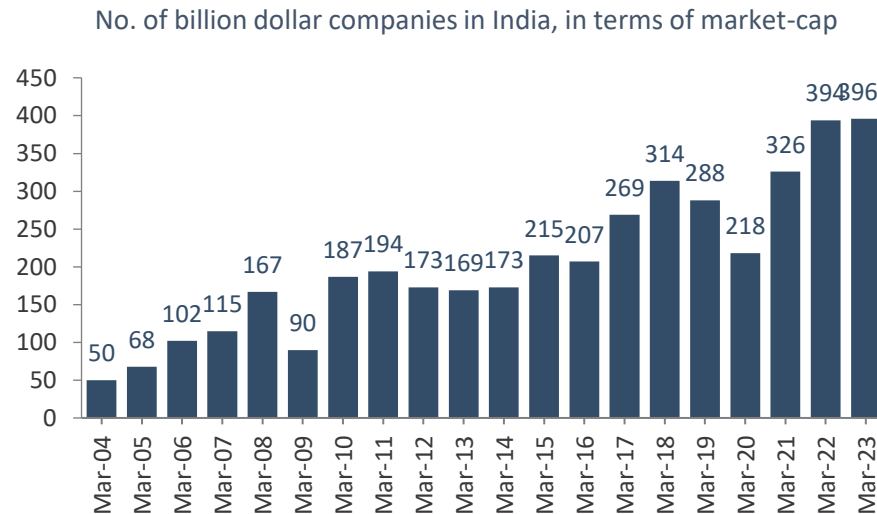
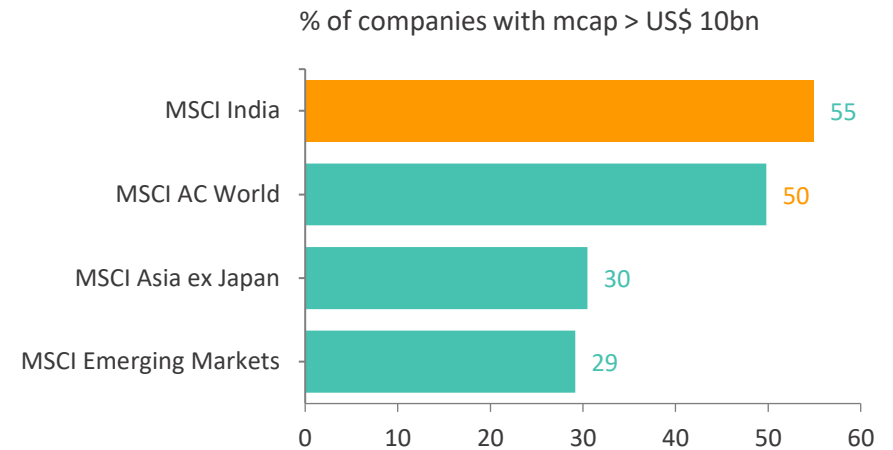
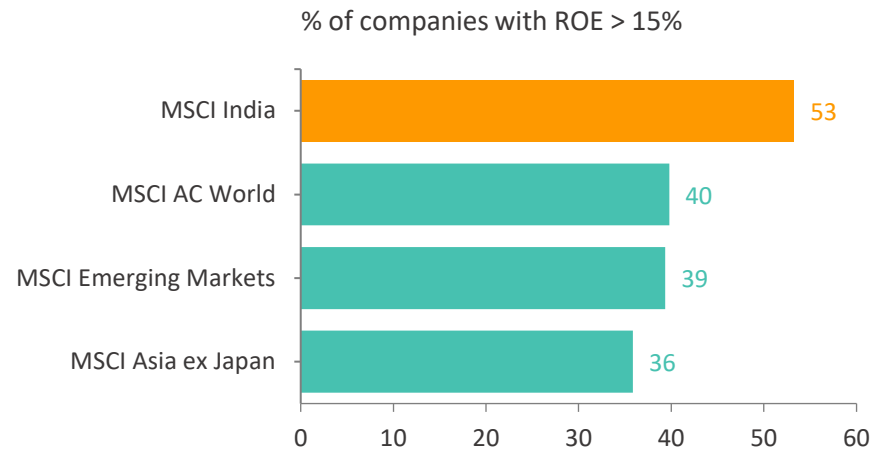
| MSCI Sectors                | India        | China        | Korea        | Taiwan       | Hong Kong    | Singapore    | Malaysia     | Indonesia    | Australia    |
|-----------------------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
| Energy                      | 11%          | 4%           | 1%           | 0%           | 0%           | 0%           | 1%           | 4%           | 5%           |
| Materials                   | 8%           | 4%           | 6%           | 3%           | 0%           | 0%           | 8%           | 8%           | 22%          |
| Industrials                 | 9%           | 5%           | 12%          | 2%           | 15%          | 14%          | 8%           | 5%           | 5%           |
| Consumer Discr              | 13%          | 30%          | 8%           | 2%           | 6%           | 2%           | 5%           | 3%           | 6%           |
| Consumer Staples            | 8%           | 5%           | 2%           | 1%           | 2%           | 2%           | 12%          | 8%           | 4%           |
| Financials                  | 25%          | 17%          | 10%          | 12%          | 44%          | 52%          | 40%          | 62%          | 35%          |
| Health Care                 | 5%           | 4%           | 5%           | 0%           | 0%           | 0%           | 3%           | 2%           | 10%          |
| Information Technology      | 12%          | 6%           | 50%          | 77%          | 0%           | 0%           | 2%           | 0%           | 2%           |
| Communication Services      | 3%           | 21%          | 5%           | 2%           | 1%           | 15%          | 8%           | 9%           | 2%           |
| Utilities                   | 5%           | 3%           | 0%           | 0%           | 11%          | 2%           | 13%          | 0%           | 1%           |
| Real Estate                 | 1%           | 2%           | 0%           | 0%           | 21%          | 13%          | 0%           | 0%           | 6%           |
| <b>Top 2 Sector Weights</b> | <b>37.7%</b> | <b>50.2%</b> | <b>62.7%</b> | <b>89.1%</b> | <b>65.0%</b> | <b>67.8%</b> | <b>53.3%</b> | <b>70.6%</b> | <b>57.2%</b> |

India is well diversified across sectors

As on 4 April 2024 | Source: Morgan Stanley. Based on MSCI Indices

Indices are unmanaged and used for illustrative purposes only and are not intended to be indicative of any fund's performance. It is not possible to invest directly in an index. Past performance is not a reliable indicator of future results

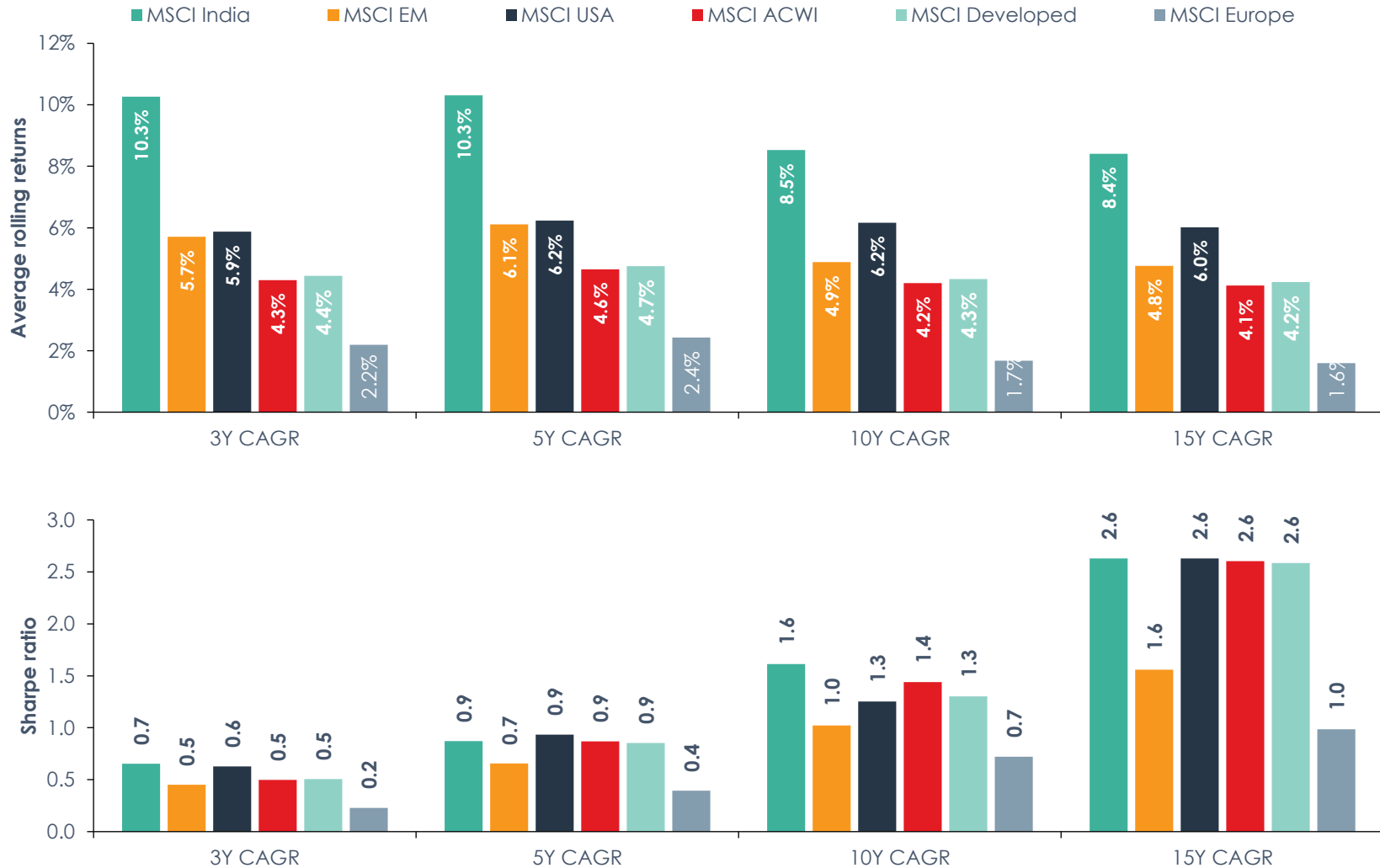
# Indian companies are competitively placed with respect to the world



Source: \*Morgan Stanley Research, Dec 2023

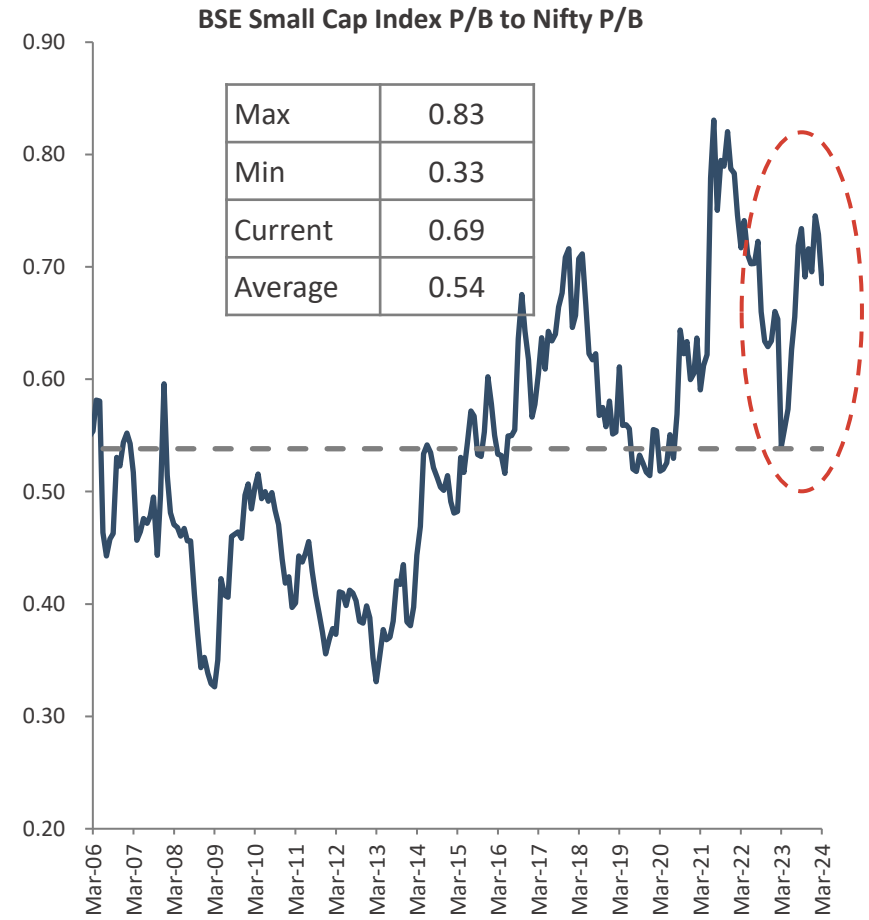
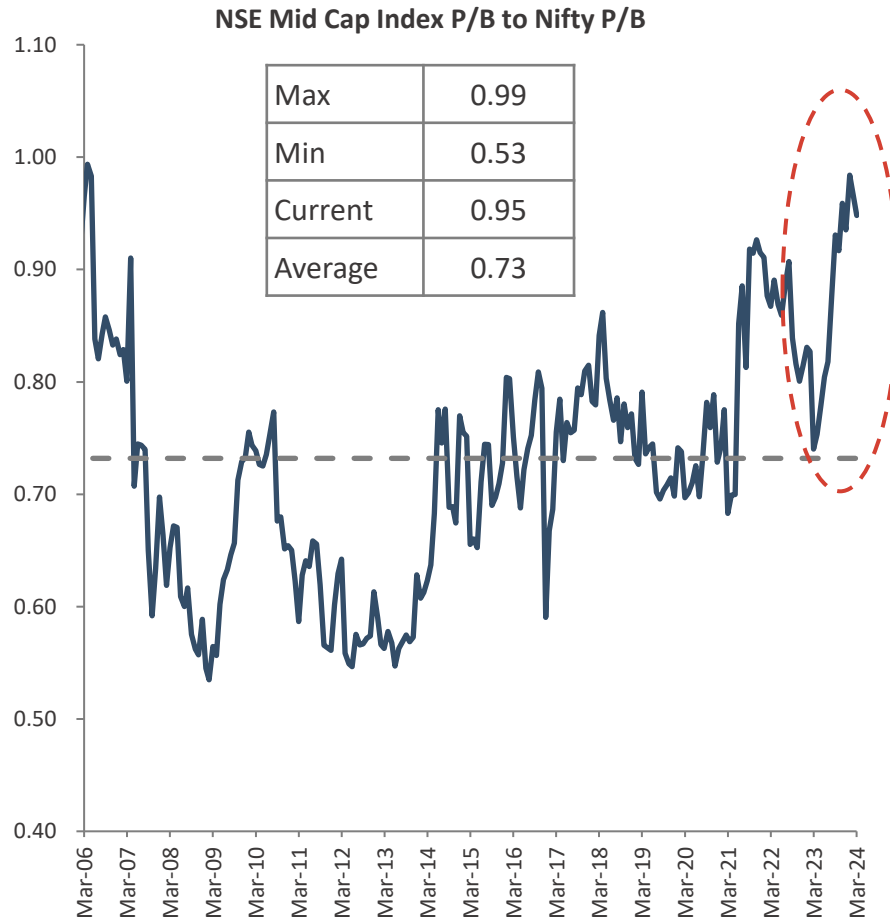
**Promoter group holding has decreased from 54% in 2007 to 44% in 2023\***

# Active managers have consistently outperformed passive



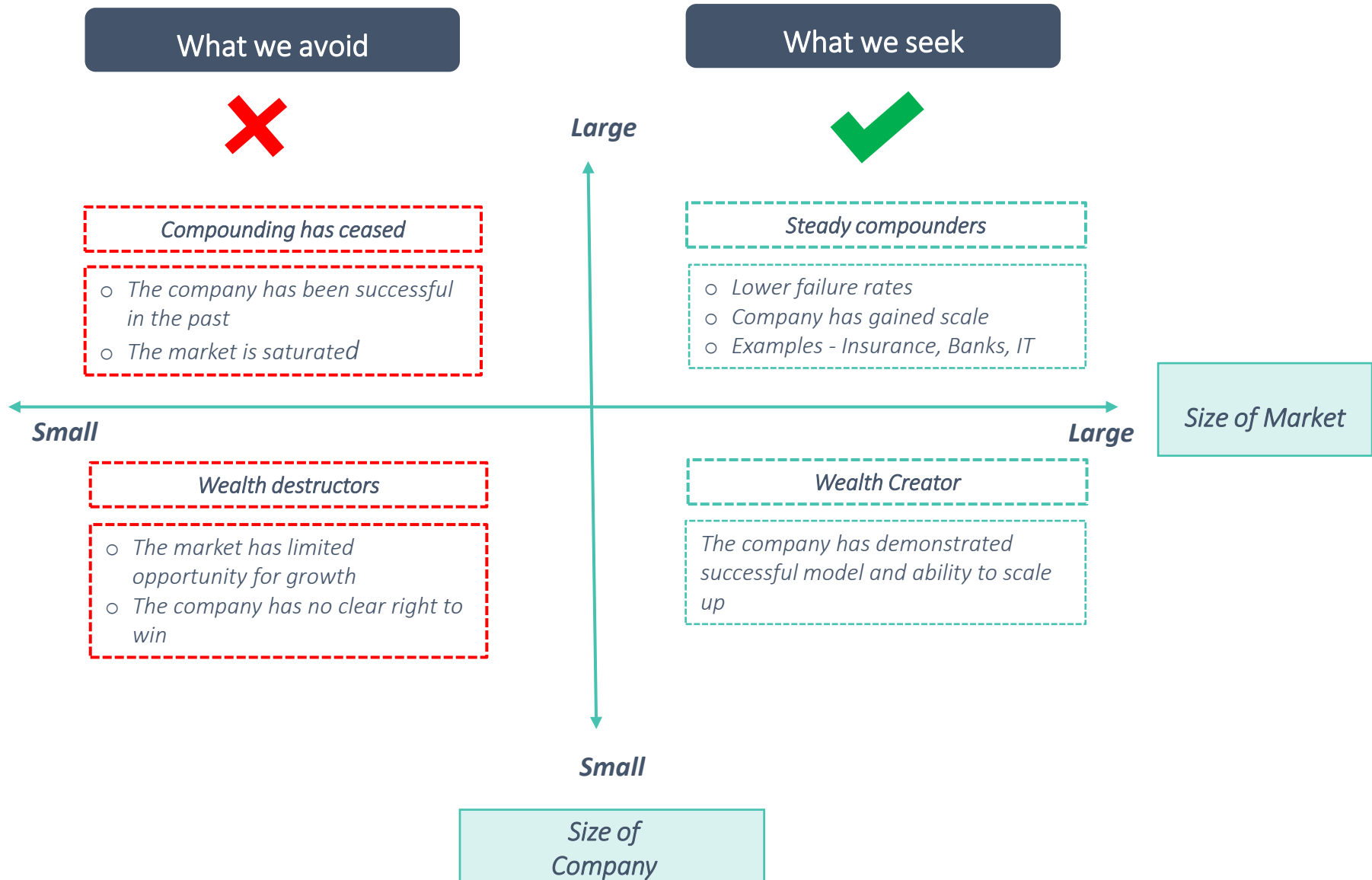
Note: We have analyzed all mutual funds classified as "Mid Cap" & "Multi Cap" as per SEBI for this analysis, with rolling annualized weighted average returns as per respective fund AUM. Sharpe ratio has been calculated as the average of rolling 3/5/10/15 year returns divided by the standard deviation of all 3/5/10/15 year returns respectively. Mutual funds with less than 3 year AUM history have been excluded from this analysis. All returns are calculated in USD terms. Latest data as of 31<sup>st</sup> Mar'24.

# Small and Mid Cap Valuation Differential



Source: Bloomberg , Ambit research 31<sup>st</sup> Mar 2024.

# Business Model – Identifying large opportunities



# Business Model - Competitive advantages (Moats) are what we looking for....

Company may not be able to create value and fend off competition if it does not have moats in spite of large opportunities. Key sources of competitive advantages that we look for include

| Intangibles                     | Cost Structure  | Network Effect   | Switching costs   |
|---------------------------------|---|--|---|
| Brands/Patents and Regulations* | Lower cost of production which stem from process, location, scale or access to unique assets. | The value of a product increases for both new and existing customers as new customers join the network | Cost (time, hassle, capital or risk) that customer would incur from one producer or service provider to the other |
| Eicher                          | SBI Life  | CONCOR   | Infosys   |

**Not All Moats are equally valuable** Most businesses have no moats (our default assumption for evaluating any new company) or have legacy moats i.e. no ability to reinvest in the business. We look for companies which have either large reinvestment opportunity or capital light businesses which do not need significant capital to grow



# Business Model - Quality of business

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- ▶ Facets of quality are
  - **Capital Intensity** – Amount of capital which can be reinvested in the business
  - **Capital Efficiency** – Returns generated on capital employed (*Superiority of ROCE*)
- ▶ Simple businesses (with optionality of complementary extensions) with growing market shares
- ▶ Quality of the business is displayed through its ability to generate superior (spread over the cost of capital), consistent, predictable and durable ROCE.
- ▶ ROCE along with growth defines the magnitude of value created by the business
- ▶ Size of the opportunity determines capital reinvestment which in turns drives growth
- ▶ Cashflows (not earnings) defines the true character of business
- ▶ Both quality of business and management are indispensable.
- ▶ ROCE of the business is function of the character of business where as ROE of business is function of Business + Management.

# Management – Alignment of interest with shareholders

## Capital allocation

- ▶ Ability to know where to allocate capital (and where to deny it)
- ▶ Remain focussed on few areas of competence
- ▶ Investing in areas with similar or higher ROCE

## Capital Distribution

- ▶ The capital to be distributed back to share holders in excess of
  - Funding future growth
  - Funding on acquisition
  - Building contingencies

## Other Facets

- ▶ Integrity and passion
- ▶ Stakeholder relationship – with not only shareholders, but also employee, vendors, customers
- ▶ Governance standards
- ▶ Past Track record of the management

**Key traits of competent management = Capital Allocation + Capital Distribution**

# Valuation - Price Value Gap (*way we think about valuation*)

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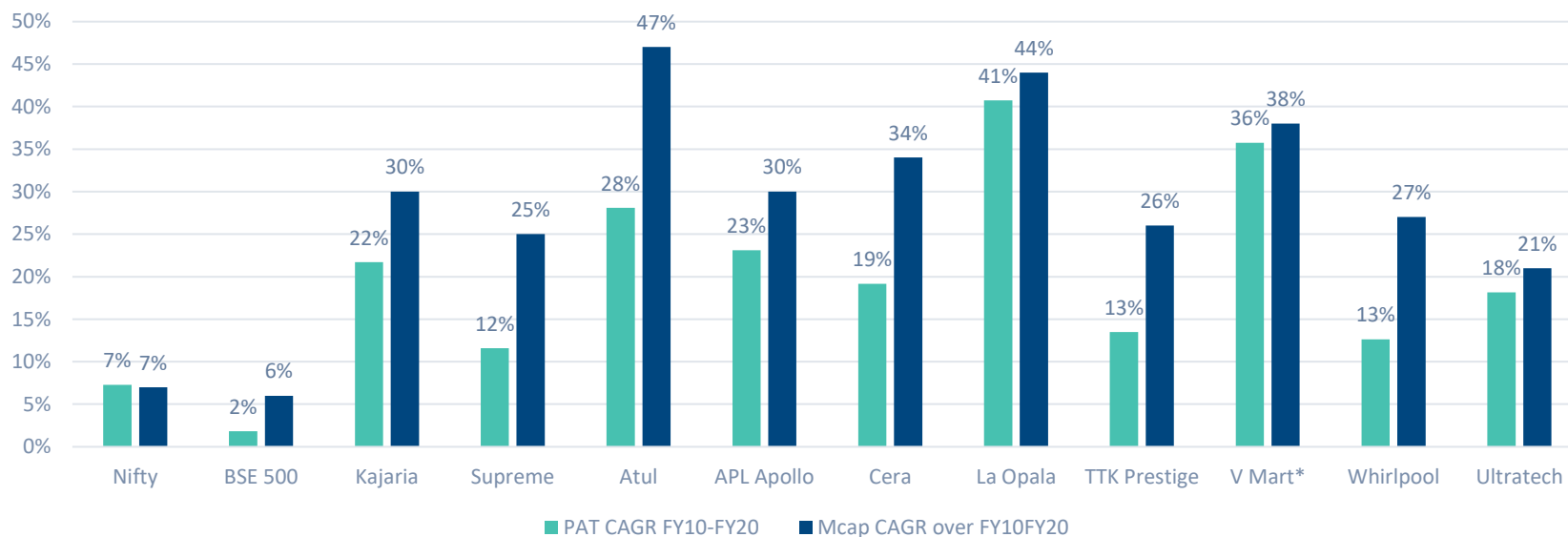
- ▶ **Margin of Safety** : We scout for Margins of safety = Gap between Intrinsic Value and Price
- ▶ **Stock returns generally mirrors the earnings growth** (unless the stock is incorrectly priced to begin with).
- ▶ **Focus on entry multiples**: We focus on the entry multiples which we pay for the businesses. If entry multiples are chosen properly , we can be assured of **stock returns = earnings growth**.
- ▶ **Re-rating is not our base case**: The stock re-rating can be significant driver of overall returns as the market changes its perception on the stock – “Re-rating” however is not our base case for valuation
- ▶ **Business cycle critical to judge value**: Companies in early or mid-cycle can cover up for moderately higher valuation; Late cycle companies with excessive valuations are untenable.
- ▶ **Stocks held for momentum**: We may not be comfortable in buying companies which are in late cycle and excessively valued, however there will be stage where our core holding get significantly “re-rated”. These are then shifted from “Core portfolio bucket” to “held for momentum tactical bucket” and are sold as the momentum starts to fade.

**Stock Returns can be derived as = Earnings Growth x Valuation multiple Change**

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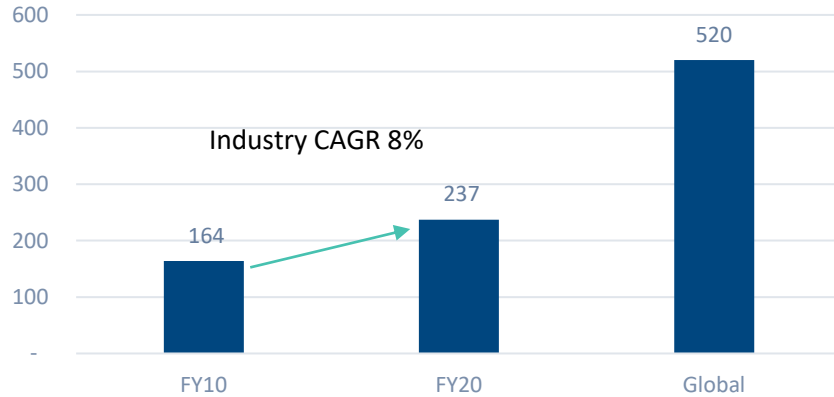
# Earnings resilient for category leaders

- ▶ Leaders of under penetrated category witnessed strong earnings growth between FY10-FY20
- ▶ Earnings decoupled with economy
- ▶ Thus, Category leaders has showcased wealth creation over long period of time

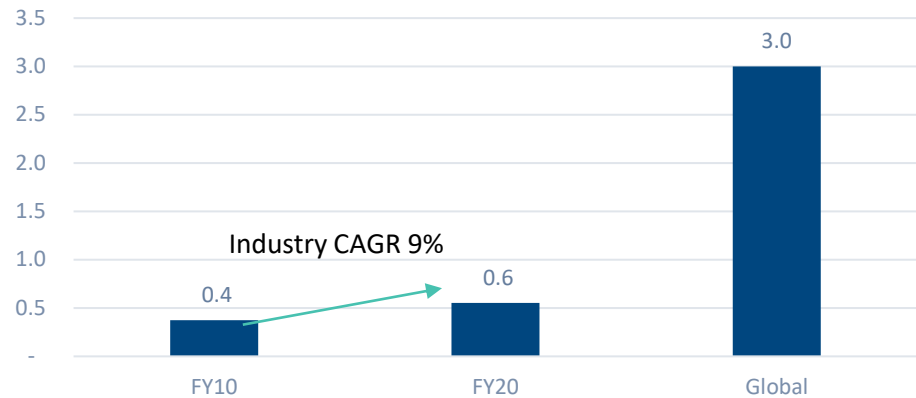


# Per capita trending upwards- Still long way to go vs global peers

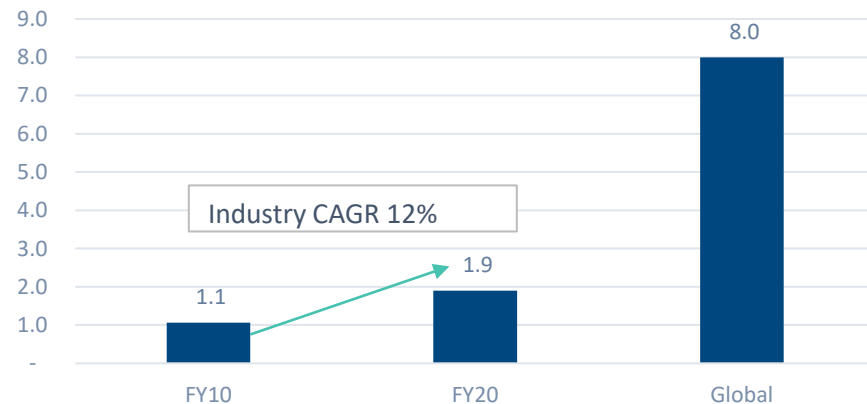
Cement per capita ( in kg)



Tiles per capita (in sq metre)



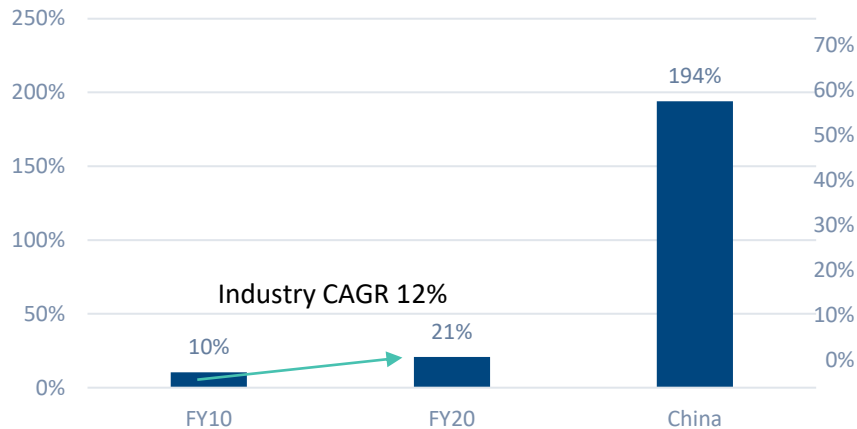
PVC Pipes per capita ( in kg)



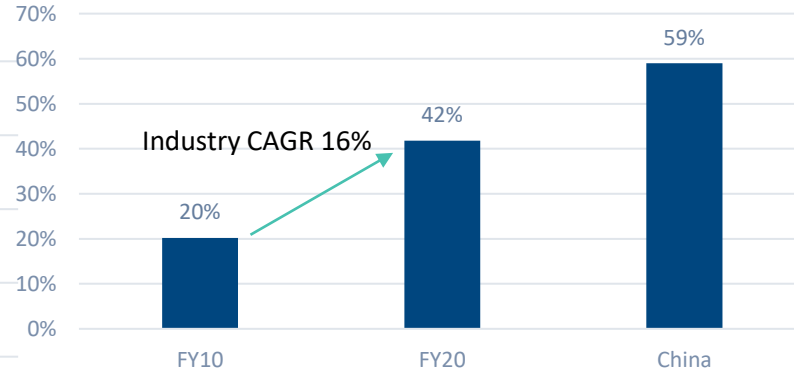
- ▶ Per capita increased across categories in last decade
- ▶ Healthy industry growth driven by increase in per capita despite sluggish economy.
- ▶ Categories still underpenetrated w.r.t to global peers augurs well for long term growth

# Growth in consumer durable led by higher penetration

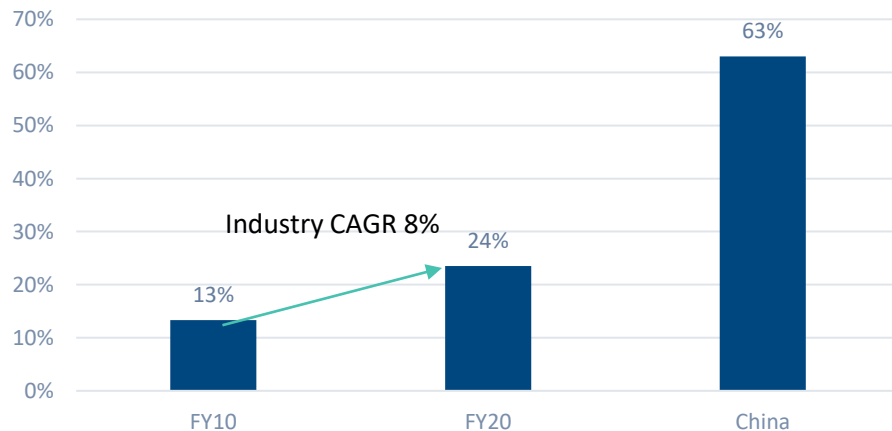
## Air condition penetration



## Refrigerator penetration



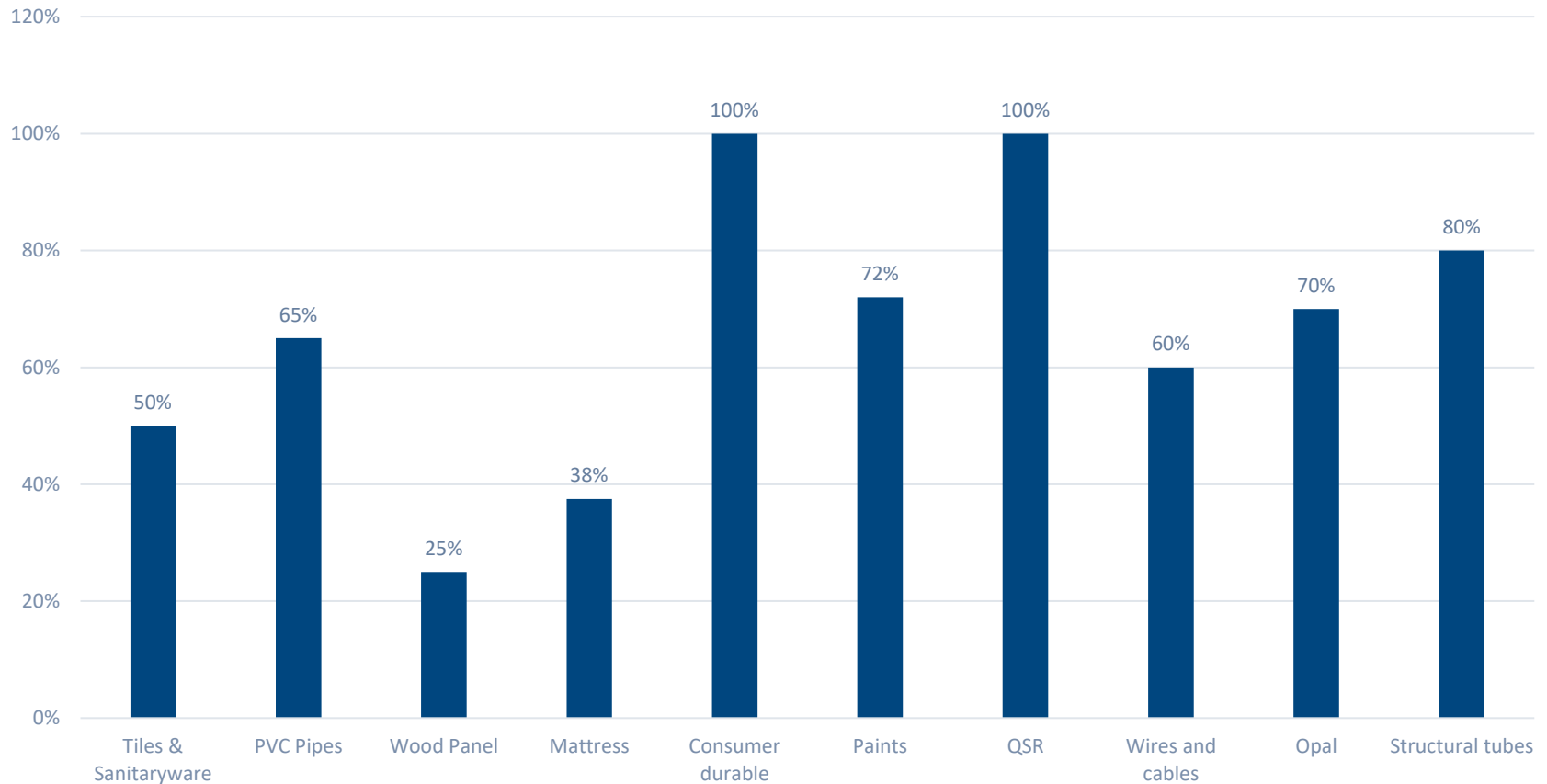
## Washing Machine



- ▶ Penetration levels in consumer durable increased structurally in last decade
- ▶ Ease of financing , availability of electricity contributed to increase in penetration
- ▶ Under penetration compared to global peers to drive long term growth
- ▶ Selecting right categories is important. eg. Refrigerator grew at 16% while Washing machine grew at 8%

# Shift to organized segment creates opportunity

Market share organised (%)



# Case Study 1: Bharat Forge

1

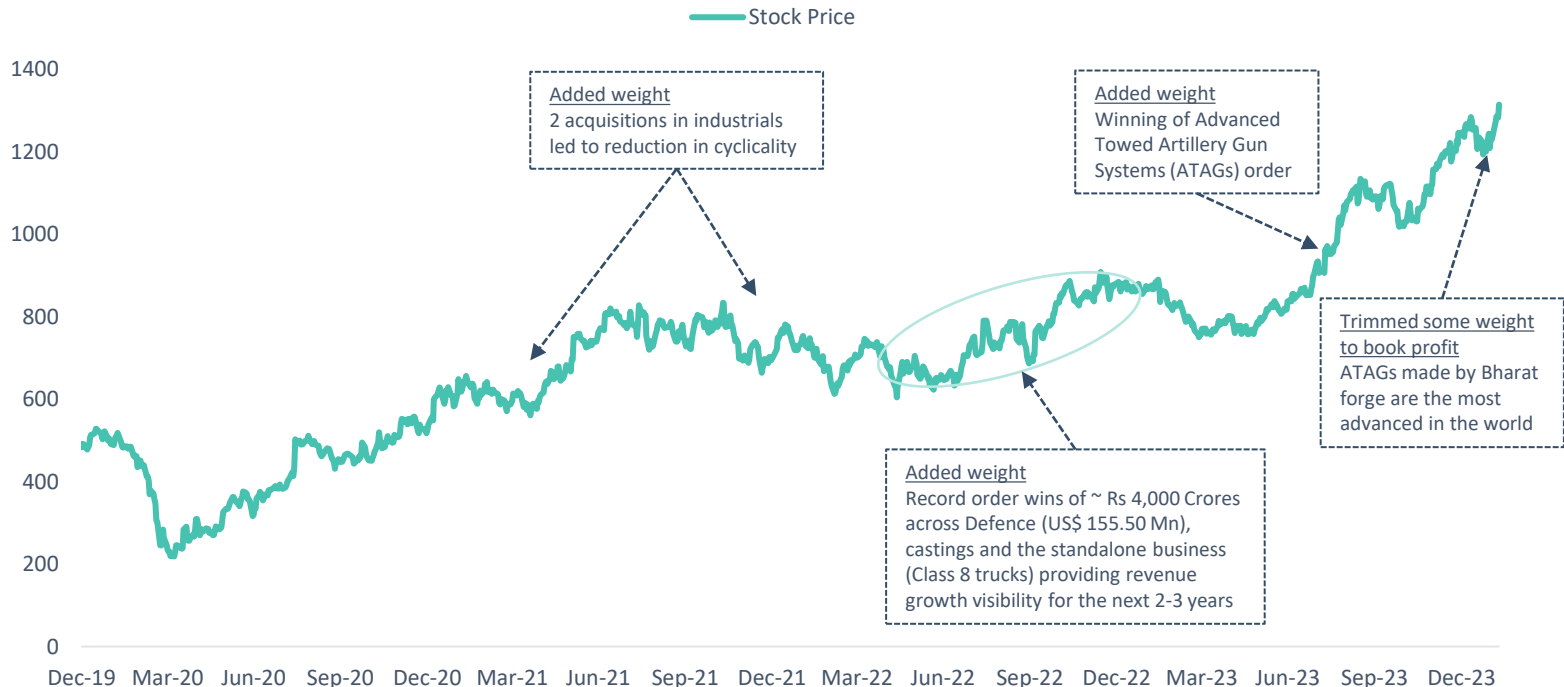
## Idea generation

- a. Growing revenue from non-CV business (39% in FY08 to 59% in FY23) reducing cyclicality
- b. Capex in high gestation defense & aerospace business finally showing revenue visibility (~7% revenue share in FY23)

2

## In depth company analysis

| Business   | Management   | Valuations   |
|--|--|--|
| <ul style="list-style-type: none"> <li>Incrementally becoming component to system player</li> <li>One of the largest, efficient &amp; innovation-led forging companies in the world</li> <li>Customer base includes virtually every global automotive OEM and Tier I supplier</li> </ul> | <ul style="list-style-type: none"> <li><u>Long-term strategic vision</u> evident in decade-long investment in defense sector.</li> <li><u>Judicious capital allocation</u> into PVs, industrials (to reduce cyclicality) &amp; aluminum &amp; electric vehicles (emerging businesses)</li> <li><u>Effective succession planning</u> in place for organizational continuity.</li> </ul> | <ul style="list-style-type: none"> <li>Increasing diversification, reducing cyclicality, investing in emerging &amp; high entry barrier businesses is changing company's profile.</li> <li>Previous investments now started yielding results leading to better return ratios</li> <li>This positive trend contributes to potential upward re-rating of valuation multiples.</li> </ul> |





# Case Study 2: Alkem Laboratories

1

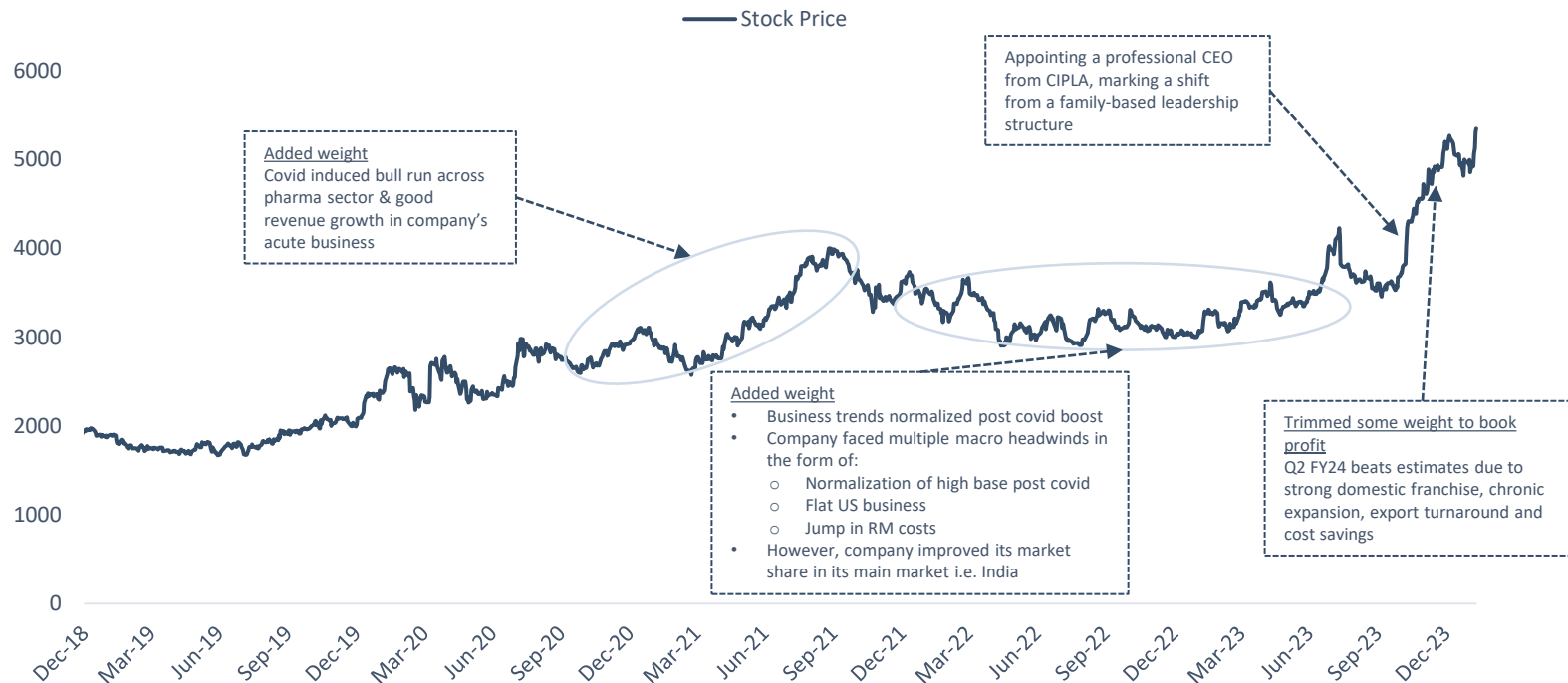
## Idea generation

- a. Growth Levers for the pharma sector: Lower per capita consumption, ageing population to increase, rising awareness of healthcare, increasing lifestyle related diseases & increasing insurance penetration
- b. Lower revenue mix of chronic growing at a faster pace
- c. Significant FCF generation

2

## In depth company analysis

| Business   | Management   | Valuations  |
|--|--|---|
| <ul style="list-style-type: none"> <li>The company gets &gt;35% of its business from top 10 brands which establishes their ability to create larger brands</li> <li>Leading player in the acute care and a fast-growing player in the chronic care (overall market share increased from 3.6% to 4.1% in the past 3 years)</li> </ul> | <ul style="list-style-type: none"> <li>Strong management with the ability to maintain business revenue across cycles</li> <li><u>Ability to pivot itself to trade generic business</u> (largest in India) despite getting cannibalized in its core branded business</li> <li><u>Decent Capital allocation history</u> (average of &gt;15% ROCE in the last 5 years)</li> </ul> | <ul style="list-style-type: none"> <li>Strong growth levers of industry coupled with proven track record of Alkem makes it an ideal candidate to play domestic healthcare industry</li> <li>Given the industry framework, it can grow without large capital requirement resulting in very high FCF generation &amp; superior return ratios</li> </ul> |



# Case Study 3: Phoenix Mills

1

## Idea generation

- a. Phoenix provides relevant real estate space for brands with much higher footfalls. Most of the malls are at prominent destination in key cities
- b. Higher real estate cost & large size land parcel within the city makes it a higher entry barrier business
- c. Per capita grade A malls are significantly lower in India, which provides very high growth visibility in coming years
- d. With rising urban population, rising income levels & aspirations, demand for quality real estate for retail will remain high
- e. Strong unit economics

2

## In depth company analysis

| Business   | Management   | Valuations   |
|--|--|--|
| <ul style="list-style-type: none"> <li>Evolved from a single retail destination in early 2000s to the pioneer of retail-led mixed-use developer in the country</li> <li>India's largest owner and operator of Grade A retail mall with 9 Malls having leasable area of ~74 Mn sq ft across 6 cities and 4 in pipeline with 23 Mn sq ft.</li> <li>It also has mixed-use assets encompassing commercial space of ~14 Mn sq ft and ~12 Mn sq ft in pipeline. It has 2 hotels &amp; 1 more is expected in next 2 years.</li> </ul> | <ul style="list-style-type: none"> <li>Mall development is a long gestation business requiring meticulous real estate selection, timely execution, &amp; enduring brand relationships which phoenix has evidently showcased over last 2 decades.</li> <li>Despite growing its real assets at brisk pace, it has maintained its capital structure by getting renowned partners like CPPIB, GIC at SPV level</li> <li>Very high focus on capital efficiency at unit level reflecting in its return ratios of mature malls (40%+ in the flagship mall &amp; 22%+ in the top 4 malls)</li> </ul> | <ul style="list-style-type: none"> <li>Strong industry potential coupled with strong free cash flow generation provides good visibility of growth for next many years</li> <li>Better way to play discretionary spend theme across categories &amp; at a relatively reasonable valuations</li> </ul> |



# Case Study 4: Supreme Industries

1

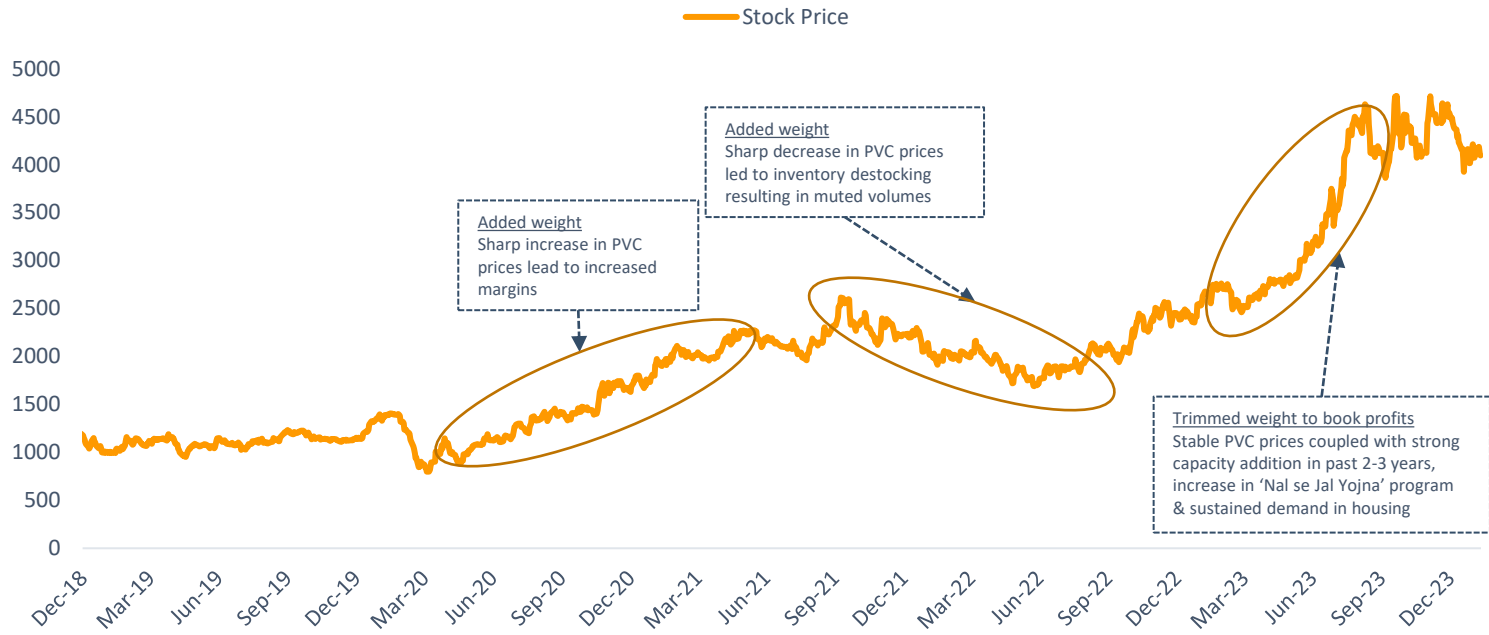
## Idea generation

- a. Per-capita PVC pipe consumption significantly lower than even world average (11kg vs 30 kg), this demand is set to increase led by high Infra spends, Nal se Jal yojna & sustained demand in housing
- b. PVC pipe industry is very consolidated with the top 5 players contributing ~40% of market share reflected in the strong pricing power
- c. Growth prospects of Pipe industry to be high due to improving completion rate of real estate projects and revival in demand for agri-pipes

2

## In depth company analysis

| Business   | Management   | Valuations   |
|--|--|--|
| <ul style="list-style-type: none"> <li>Largest PVC pipe company in India with market share of ~12-14% &amp; strong focus on ROCE</li> <li>The company has been steadily improving capex intensity (average capex improved from ₹2.4 Bn in FY 16-18 to ₹4.2 Bn in FY 21-24) while maintaining Superior balance sheet across cycles</li> </ul> | <ul style="list-style-type: none"> <li>Supreme industries has consistently generated healthy ROE (average ~25% in the last decade) with respectable market shares across categories (business with low ROEs have been divested in the past)</li> <li>It is likely to grow at ~15% CAGR for the next 5 years led by increased capex intensity, market share gains from both organized &amp; unorganized players &amp; introduction of new polymer-based products</li> </ul> | <ul style="list-style-type: none"> <li>When the company was added to the portfolio it had attractive valuations (mid 20s PE), high return ratios (ROE&gt;20%), superior balance sheet resilience across economic cycles and robust FCF generation</li> </ul> |



## Composite BM Performance (Since Dec 2000)

| Average Daily Rolling Return | 3Y    | 5Y    | 7Y    | 10Y   |
|------------------------------|-------|-------|-------|-------|
| MSCI India Index             | 13.6% | 12.0% | 10.4% | 9.4%  |
| Nifty Midcap 150 Index       | 11.8% | 10.7% | 10.7% | 11.5% |

| Return / Risk (Rolling basis) | 3Y   | 5Y   | 7Y   | 10Y  |
|-------------------------------|------|------|------|------|
| MSCI India Index              | 0.89 | 0.98 | 1.30 | 1.74 |
| Nifty Midcap 150 Index        | 0.96 | 1.50 | 2.33 | 2.75 |

Source: Bloomberg. Data from Dec 2000 to Mar 2024. Past performance is not a reliable indicator of future results. Large & mid cap active composite consists of stocks with total market cap rank between from 1 to 100. Small Cap active composite consists of stocks with total market cap rank between from 101 to 250. All figures in USD

## Benchmark Performance, as of months ending

|                        | 31/03/2023 to<br>31/03/2024 | 31/03/2022 to<br>31/03/2023 | 31/03/2021 to<br>31/03/2022 | 31/03/2020 to<br>31/03/2021 | 29/03/2019 to<br>31/03/2020 |
|------------------------|-----------------------------|-----------------------------|-----------------------------|-----------------------------|-----------------------------|
| MSCI India Index       | 29.00%                      | -12.17%                     | 17.86%                      | 76.35%                      | -30.86%                     |
| Nifty Midcap 150 Index | 55.23%                      | -5.23%                      | 20.64%                      | 108.26%                     | -36.00%                     |
| DSP Strategy           | 31.50%                      | (8.91%)                     | 8.90%                       | 76.75%                      | (25.53%)                    |
| MSCI ACWI Index        | 21.15%                      | -9.11%                      | 5.68%                       | 52.21%                      | -13.02%                     |
| MSCI USA Index         | 28.26%                      | -10.00%                     | 12.55%                      | 56.71%                      | -8.95%                      |
| MSCI Europe Index      | 11.21%                      | -0.97%                      | 0.83%                       | 41.75%                      | -17.92%                     |
| MSCI Japan Index       | 23.20%                      | -7.04%                      | -8.36%                      | 36.94%                      | -8.53%                      |
| MSCI UK Index          | 6.49%                       | -4.54%                      | 8.88%                       | 29.48%                      | -26.36%                     |
| MSCI China Index       | -18.98%                     | -6.76%                      | -33.48%                     | 41.23%                      | -7.76%                      |
| MSCI Brazil Index      | 17.85%                      | -27.50%                     | 15.46%                      | 42.38%                      | -43.66%                     |
| MSCI Russia Index      | 0.00%                       | -10.00%                     | -100.00%                    | 36.80%                      | -19.90%                     |
| MSCI EM Index          | 5.34%                       | -13.27%                     | -13.27%                     | 55.13%                      | -19.80%                     |
| MSCI Developed Index   | 23.15%                      | -8.57%                      | 8.58%                       | 51.76%                      | -12.10%                     |

Source: Bloomberg, Internal. All returns in USD terms, as of 31<sup>st</sup> Mar 2024. The DSP Strategy has been implemented since 14 Nov 2006 through certain products managed by DSP Asset Managers Pvt. Ltd., which are not available for investment in any jurisdiction except for India. India Focused UCITS refers to a composite of all funds that invest into India via the UCITS platform. The custom 20:80 Index is an index weighted as 20% MSCI India Index and 80% MSCI India Small Cap Index. Large & mid cap active composite consists of funds falling in the large cap category as defined by the Indian regulator SEBI – Securities and Exchange Board of India. Small cap active composite consists of funds falling in the mid cap category as defined by the Indian regulator SEBI. For further details on MSCI and SEBI categories, please refer to the slide in the Appendix titled 'Market-cap Classification: SEBI versus MSCI'.

# Disclaimer

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