Sundaram India Secular Opportunities Portfolio (SISOP)

• Monthly Update •

Objective: To generate capital appreciation across market cycles by investing in a concentrated set of high conviction stocks.

Target Investors: Designed for investors seeking returns through investments in a concentrated portfolio of companies with sustainable competitive advantages and reasonable valuations.

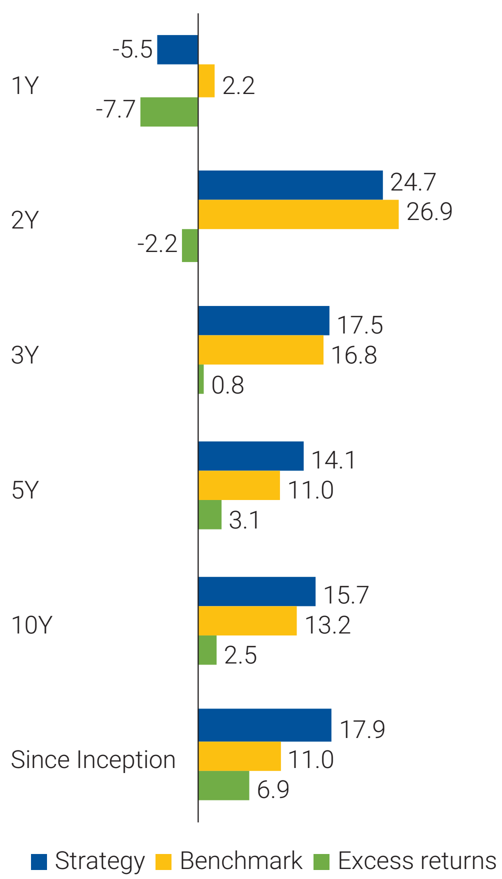
Investment Horizon
Above 3 years

Benchmark
NSE Nifty 500 Index

Inception
February 2010

Fund Manager
Mr. Madanagopal Ramu

PERFORMANCE (%)



THE YEAR OF DEFENSIVES

Our 5-year performance is still a meaningful alpha over broader benchmark, however the YTD performance may look concerning. We will address this and reiterate why our investment philosophy of "growth at right price" is still best suited for long term alpha creation for investors, amidst likelihood of short periods' of underperformance.

Indian Indices (%)	1 Year	5 Years
Nifty Index	1.9	72.5
BSE Auto	21.2	21.1
CSE Capital Goods	24.7	80.4
Nifty Fin.Serv	-1.4	77.6
BSE Con.Discre	5.5	48.4
Nifty Cons.	13.1	67.5
BSE Oil & Gas	7.4	17.4
BSE Healthcare	-4.4	67.8
BSE FMCG	15.2	55.1
BSE Reality	-12.4	47.4
BSE PSU	10.1	0.1
BSE Metal	-5.0	26.8
INSE PSU Bank	20.0	-9.0

The above table is the absolute performance of various sectoral indices in India over 1 year and 5 year period. The above data reflects that sector like Auto & PSU, which have been best performers in last 1-year, have struggled to create value from a long-term perspective given their cyclical and regulatory nature respectively. On the contrary, sectors like financial services index (dominated by private sector banks and NBFC) have suffered on 1-year performance but has still generated higher returns compared to Nifty 50 from a 5-year perspective. Even within consumption basket FMCG (defensive) did much better than consumer discretionary (growth) and within banks, PSU banks did well compared to private sector banks. Power Utilities have generated good returns over last 1 year, but underperformed during last 5-year returns. We don't own any of these defensives/cyclicals in our portfolio either because of the weak long-term growth or less than optimum ROCE.

The market is making some structural assumptions on these stocks which we do not agree. The war induced energy crisis and subsequent performance of utilities in our opinion is cyclical and would be challenged once the base sets in. PSUs doing well in our opinion is getting played out as a deep value recovery story, while their return ratios except for selective ones are still far lower than optimum levels to invest or sustain growth. Importantly during global downturns which is seeing expected outperformance by low ROCE companies will be challenging to sustain.

We also see a lot of sectoral rotation in the market due to nature of the money flowing and their investment horizon. During such period, growth oriented long-term investment approach takes a back seat temporarily. Given the continuous earnings growth, the valuations do turn favorable beyond a point for growth companies, which we are already witnessing now.

A case in point is discussion we have on PSU and Private sector banks. While we agree that worst is behind for PSU banks and their deep valuation discount to Private sector banks, has created a case for outperformance in the short term, but the key profitability metrics ROA is still far lower than comfort levels. Most of the PSU banks generate <1% ROA (our BFSI holding have ~2% ROA) and leverage substantially more than 10.0x (our BFSI holding leverage <10.0x)) to generate high ROE. While this looks good, given current loan growth and low NPA on the old book, if economy slows down and credit costs increases in future, the ROA will see meaningful cuts and ROE would collapse, leading to low capital creation for growth. This is the reason we have always stayed away from low profitable highly leverage business models. Ability of these businesses to outperform in the long term despite economic downturns require a complete turnaround in operations which is far more difficult. It will be interesting too see how these companies perform once the base sets in next year.

This is the same view, we carry on most of the Utilities and PSUs. Most of these companies generate ROCE substantially lower than cost of capital and to our base level of 15%; economic value creation will always be negative. Today given the nature of money chasing the markets, and their recovery from last 5 years downcycle, may lead to outperformance, but sustaining the same will be difficult given the cyclical nature of the variables which are driving this outperformance.

In a nutshell, what we are saying is that our growth-oriented approach to investment has taken a back seat temporarily, but we are convinced about the superior growth in these companies despite economic slowdown compared to defensives and utilities. Given the time correction, some of these stocks are now trading at substantially lower than historical averages and look attractive given the earnings growth profile. After a long period of time, 1 year forward of our portfolio PE is at ~20x, which is equal to Nifty 50 index. Given the >20% growth expectation for our strategy compared to 10% for Nifty 50, we believe our growth stocks have turned value attractive now. We will discuss more about this in our subsequent note.

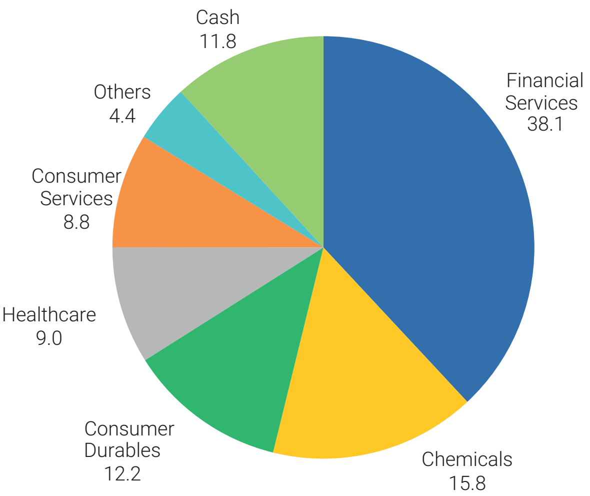
Last 2 years, money chased Indian markets due to US Fed's balance sheet expansion and in addition, due to China slowdown, India saw more flows in 2022. A lot of it can reverse over next 2 years, and therefore can change the basket of performers and underperformers. If you are with good business models at right valuations, then your worries will be the least as the global slowdown takes grip in 2023.

On Gland Pharma

Gland has corrected sharply in last few months, Why? – Gland has been under the scanner in the last few months for few reasons, i) supply issues of syringes and stoppers for their key products like enoxaparin and heparin, ii) sharp drop in growth of ROW markets, iii) higher than expected covid revenues in the base, iv) inconsistent guidance on growth and v) concerns of liquidity crisis at the parent level (Fosun international).

Are concerns getting addressed? – I) Supply chain is slowly getting addressed for Enoxaparin and should see recovery from coming quarter, while Heparin issue might take longer to recover. Heparin volumes saw a sharp rise during covid, which is normalising now. II) Competitive intensity is rising in injectibles, but Gland is growing volumes by adding new partners which is

SECTOR ALLOCATION (%)

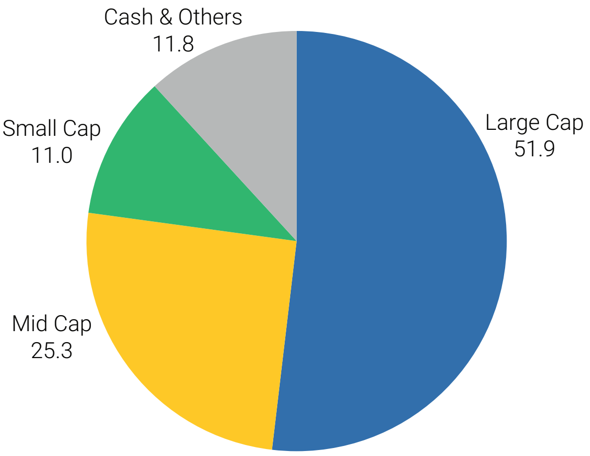


Note: Numbers may not add up due to rounding

WEIGHTED AVERAGE MARKET CAP

₹ 2,29,626 Cr

MARKET CAPITALIZATION (%)



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PERFORMANCE MEASURES – SINCE INCEPTION

Instruments	Strategy	Benchmark
Arithmetic Mean	17.8	11.9
Annualised Standard Deviation	16.3	16.7
Beta	0.8	-
Sharpe Ratio	0.7	0.3
Correlation	0.8	-
Alpha	6.9	-
Tracking Error	10.1	-
Up capture Ratio	103.6	-
Down capture Ratio	72.6	-

visible in the capacity expansion. In majority of the base molecules, Gland and its partners have grown faster than the market in last 5 years which is a testament of the quality of their partners and relationships. III) Owing to high growth in few molecules during covid, management guided for higher growth which was not achieved; with supply chain issue getting addressed, growth will improve in coming quarters, but given the uncertainty in global markets, management has not given any guidance. IV) The parent, Fosun international has debt of RMB 260bn ($35bn) and is looking to reduce debt by selling stakes in their non-core entities. We believe a stake sale of Gland Pharma would be long term positive for the stock, but the near term might remain challenged

Why we still like Gland Pharma – Gland's B2B business model is inherently more resilient and less exposed to execution and pricing risk. Gland's profit share is only 10% of revenues and market share erosion can be mitigated by adding partners. Further, we expect Gland to deliver 15% growth on the back of new products in US along with supply chain challenges resuming in 2 quarters and growth potential in RoW market. As the costs ease out in couple of quarters, the steady state EBITDA margins will likely settle at 30%. However, while there is resilience, Gland is not immune to some fundamental dynamics of the generic market - competition, price erosion and the need to launch new products to sustain growth is essential.

Valuations are now extremely attractive for a high growing business - Gland's B2B business model continues to offer relative protection from pricing erosion and from higher competition. We therefore believe they should trade at a premium to generic peers. At these levels, the stock is trading far cheaper at 18-19x FY25 EPS than many frontline Pharma companies.

PORTFOLIO AND STOCK PERFORMANCE

Led by broad market rally especially of deep value stocks, SISOP closed October with just 1% returns over Nifty 500, which was up 4%. The near-term performance of value stocks has hurt the 1-year performance as well. However, the long-term alpha remains on track with 3Y/5Y/10Y staying at 1%/3%/3%. Banking & financial reversed this month being the best performing index and our overweight stance on private banks helped us recover the underperformance in mid and small cap index. Axis Bank was the best performer giving 24% returns m-o-m and we having highest weight helped us narrow the gap with benchmark. Axis Bank reported a stellar quarter aided by strong retail led advance growth and NIM expansion. Names like Trent which was up 8% and Rainbow which was up 9% also aided SISOP performance. However, couple of stocks hurt the performance of SISOP, Gland Pharma (down 15% mom) and Asian Paints (down 7% mom). Gland saw a weak result and no clarity in guidance led to sharp fall post results. Asian Paints missed street estimates on the margin front and upcoming high base impacted the stock price performance. Astral was also down 9% on the back of sharp fall in PVC prices and thus expected inventory losses in upcoming quarter.

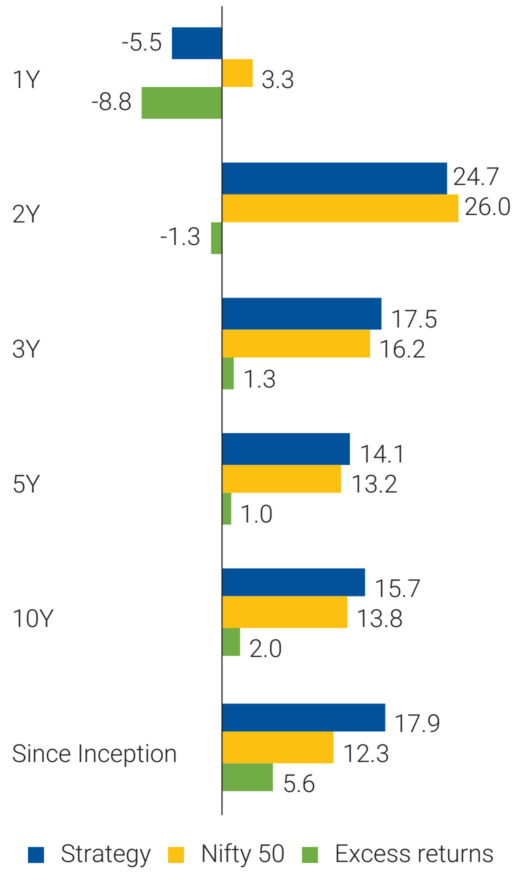
KEY FEATURES

- Concentrated Portfolio - Around 15 stocks.
- Invests across market caps – "Multi Cap" (skewed towards large cap).
- Long term orientation towards portfolio building i.e. >3 years.
- Invest in business with secular growth opportunities.

Compounding Stories

- Companies with growth opportunity > 15%
- Ability to generate > 15% ROIC
- Excellent cash flows from business
- Option to reinvest for growth
- Low D/E to sail through crisis situations and gain market share

SISOP vs Nifty 50 (%)



TOP HOLDINGS

Axis Bank Ltd.

Navin Fluorine International Ltd

HDFC Bank Ltd

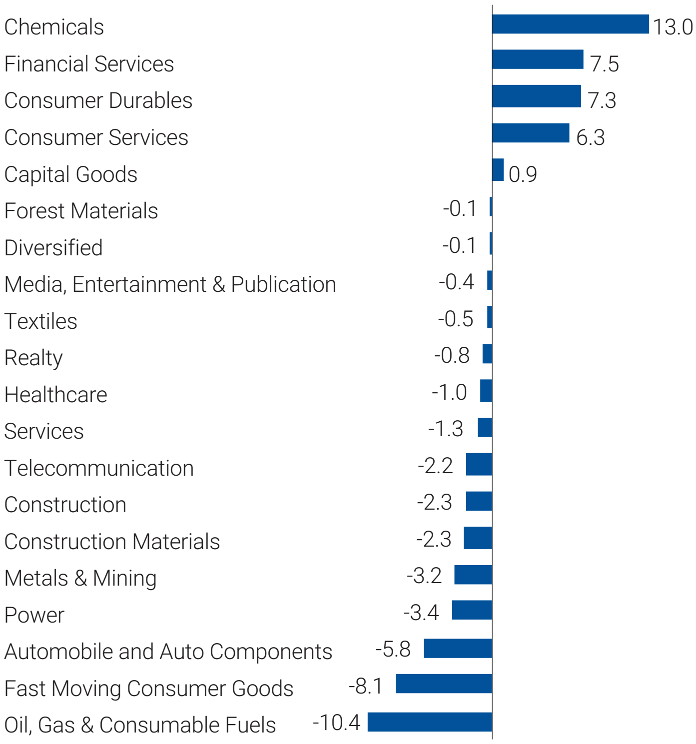
ICICI Bank Ltd

Titan Industries Limited

KEY CONTRIBUTORS

Symbol Name	Unit Cost (₹)	Unit Price (₹)	Gain/Loss (%)
Astral Limited	855	2,031	138
Titan Industries Limited	1,401	2,762	97
AU Small Finance Bank Ltd	314	590	88

SECTOR BETS (%) – UNDERWEIGHT / OVERWEIGHT VS BENCHMARK



CALENDAR YEAR PERFORMANCE (%)

	Strategy	Benchmark	Excess return
2010	58.3	20.7	37.7
2011	1.5	-27.2	28.7
2012	25.4	31.8	-6.4
2013	6.0	3.6	2.4
2014	66.1	37.8	28.3
2015	-2.0	-0.7	-1.3
2016	4.2	3.8	0.3
2017	24.0	35.9	-11.9
2018	-4.3	-3.4	-0.9
2019	15.4	7.7	7.8
2020	25.2	16.7	8.6
2021	36.2	30.2	6.0
2022 YTD	-4.7	2.9	-7.6

Source: Inhouse computation

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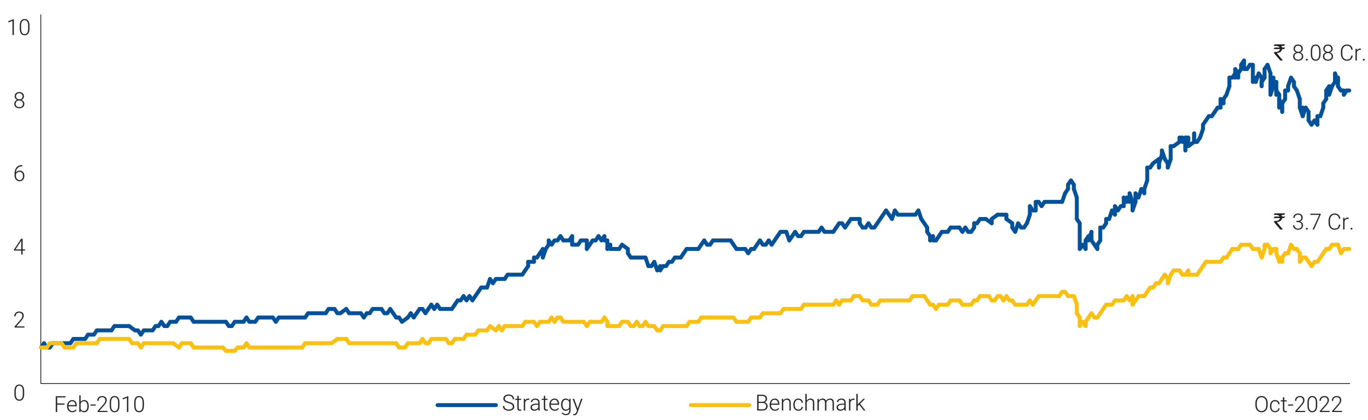

WHY SUNDARAM PMS

- Strong Track Record
- Low Churn
- Time Tested Stock Selection Process
- Reach Across Country
- Transparency
- Strict Adherence to Risk Guidelines
- Shared Research Capabilities

3Q QUALITY APPROACH TO STOCK SELECTION

- **Quality Business**
  Scalable, Growing, Reinvestment opportunities, Strong Moat
- **Quality Financials**
  High ROIC, Excellent Cash Flows, Low DE
- **Quality Management**
  Visionary, Problem solving

CUSTOMER SERVICES

Reporting Statements and Servicing: Monthly performance Statements Transactions, Holding & Corporate action reports, Annual CA certified Statement of the account & Online access

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