

Special Situations Portfolio

Catch them young

April 2024

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Our Team

Public Equities platform driven by a best-in-class team with proven track record in the markets



Manoj Shenoy

CEO & Managing Director

30+ years of experience in the industry, including CEO at IIFL Asset Management, L&T Financial Services, EFG Bank & Anand Rathi Financial Services Limited



EA Sundaram

Executive Director & CIO - Public Markets

34+ years of experience in public equities & fund management, across close/open-ended funds & family offices



Rajesh Keswani

Director - Public Markets

25+ years of experience across asset management and banking platforms



Himanshu Upadhyay

Vice President & Portfolio Manager - Public Markets

15+ years of experience on the buy side in Max Life Insurance, M3 Investments and PGIM India Mutual Fund

Experience Across Leading Financial Institutions Including:

100+

Cumulative Years of Experience



51 Years

Average Age of the Management Team

Why Invest?

Why Small Cap

Small caps have given consistent and good returns over a long period

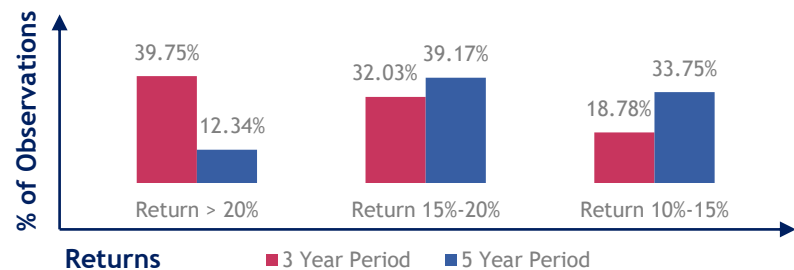
Period*	BSE Sensex	BSE Midcap	BSE Small Cap
5 Years	11.84%	13.22%	15.80%
10 Years	13.11%	18.70%	21.07%
15 Years	10.55%	11.69%	11.23%
01-04-2003 to 04-08-2023	16.22%	18.84%	20.16%

Why Small Cap Now

The Nifty Small Cap 100 Index is still below from its previous peak. Investing when the chips are down is the best time to invest.

Subsequent Returns in 3 & 5 Years when Nifty Small Cap 100 Index has fallen more than 20% from its previous peak

Particulars**	3 Year Period	5 Year Period
Average Absolute Return	69.19%	106.09%
Average CAGR Return	18.64%	15.22%
Total Count	1,283	794
Positive %	97.58%	100.00%
Negative %	2.42%	0.00%



Why Special Situations Portfolio

- High probability of high earnings growth rate
- With high earnings growth rate, rerating of P/E is also expected
- Potential to become large cap company
- Low overlap with other main line products.

*Source: Ace Equity. BSE Sensex, Midcap & Small Cap data as on 04/08/2023. **Source Ace Equity. The Nifty Small Cap 100 Index sample is for the period 06/02/2010 to 04/08/2023. The above performance related information provided here is not verified by SEBI nor has SEBI certified the accuracy or adequacy of the contents of this Document

Introduction to Special Situations Portfolio

The aim is to invest in a business with improving prospects resulting in a visible change in operating parameters but not yet fully reflected in the company's P&L and balance sheet.

**Visible Improvement
in Prospects***

1 *Impact of change in regulations*

2 *Corporate restructuring or change in the management*

3 *Competitors leaving the industry or in very weak position*

4 *Company having won new business or customers*

5 *Company entering new product & geographical markets*

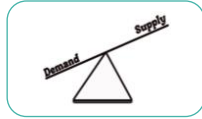
**A few examples from the whole set of situations*

Operating parameters to observe

Improvement in the business is expected to result in sizable improvement in P&L & scale of the business.



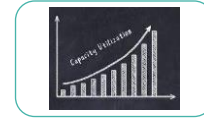
Increasing order book



Demand supply situation is improving for the industry



Debt and interest cost reducing



Capacity utilization is increasing



Increasing geographical presence



Increasing basket of products introduced



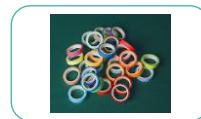
Increasing proportion of aftermarket business



New product approvals and new client addition



New sales and collections increasing YoY



Change in the sales mix for the company

Portfolio Construction

Portfolio Construction

The portfolio is constructed on the following basis

- a) 15 to 20 stocks in the portfolio
- b) Maximum of 35% in a single theme
- c) Minimum 80% portfolio will be constructed over 8-10 weeks, unless market provides an opportunity
- d) Weightage in a stock will depend on the valuation and earnings growth expected over next 3 years in a company
- e) Maximum weight in a stock 10% at the time of investment
- f) Cash is residual

Risk Management & Exit Strategy

Risk Management Strategy

- Companies which have a listed history of at least 10 years
- Company should have Debt Equity ratio less than 0.5 (except for financials)
- The Long-Term credit rating of the company should be atleast BB
- Quarterly daily average value of minimum Rs. 25 Lakh (80% of the portfolio companies should fulfil this criteria)
- Promoters should have more than 50% of free shares
- Company having stable business model
- Company should be less diversified

Exit Strategy

- If the assumption with which the stock was bought becomes invalid for some reason, or
- When the business environment or operating parameters which were leading to growth in the company are no longer existing
- Stock price in our judgment is become unsustainably high
- We find a superior investment opportunity.

Current Themes (1/2)

Small Giants & Turnaround

Good growth due to tailwind in industry, Niche Business, Strong Market Share



Electricity Growth with Disruption

Increased spending on renewable energy and demand is expected to lead to higher spending on transmission and distribution



Portfolio Themes

Real Estate Sector

Residential real estate market has started improving after a prolonged downturn. Policy reforms like demonetization, housing for all, liberalized FDI rules, RERA, Swamih fund, insolvency code and GST have definitely strengthened the sector



Warehousing & Urbanization

Warehousing requirements are expected to grow at a fast pace & significant jump in the percentage of India's population which will reside in Urban centers by 2030



Current Themes (2/2)

Consolidation in and revival of NBFC space

Last few years have been tough for NBFC's & many weaker players have left the business or are not able to grow

NBFC

Corporate debt restructuring

With CIRP guidelines getting implemented many loss-making entities will change hands and go to more professional organisations

Improving outlook for the shipping industry

The demand supply situations in dry, bulk, tankers and off-shore vessels is in favor of ship owners. The situation is likely to continue as the order book is low

Portfolio Themes



Revival in travel and tourism

Post Covid the travel and tourism industry is likely to grow fast and few remaining players will grow faster

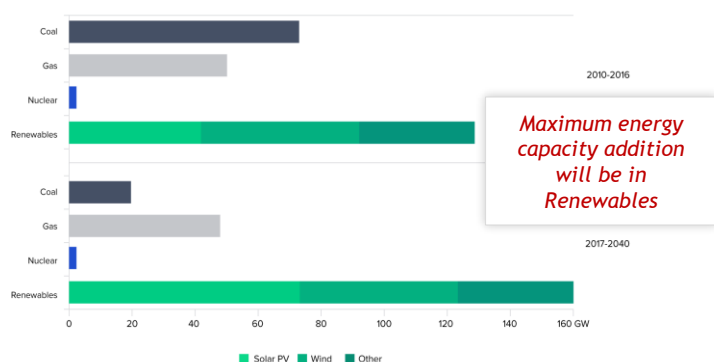


Discussion on few Themes - Electricity Growth with Disruption(1/2)

- Demand for electricity is expected to increase with new demand coming from automobiles, increased penetration of white goods, electrification of railways and automation of factories.
- The disruption will be with renewables playing a much bigger part on the generation side.

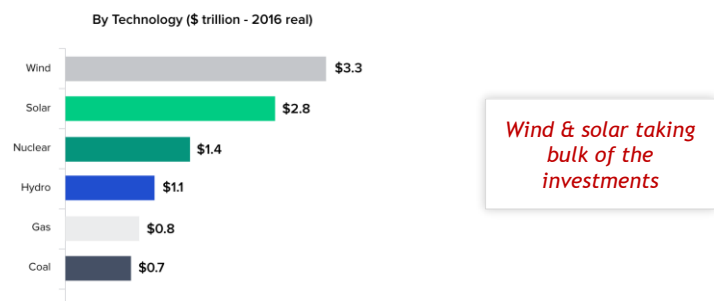
Global spending on electricity generation & capacity addition

Global Average Annual Net Energy Capacity Additions



Source: World Energy Outlook 2017

Future Renewable Investment Trends: 2017-2040



Source: Bloomberg New Energy Finance

India growth in demand and generation capacity

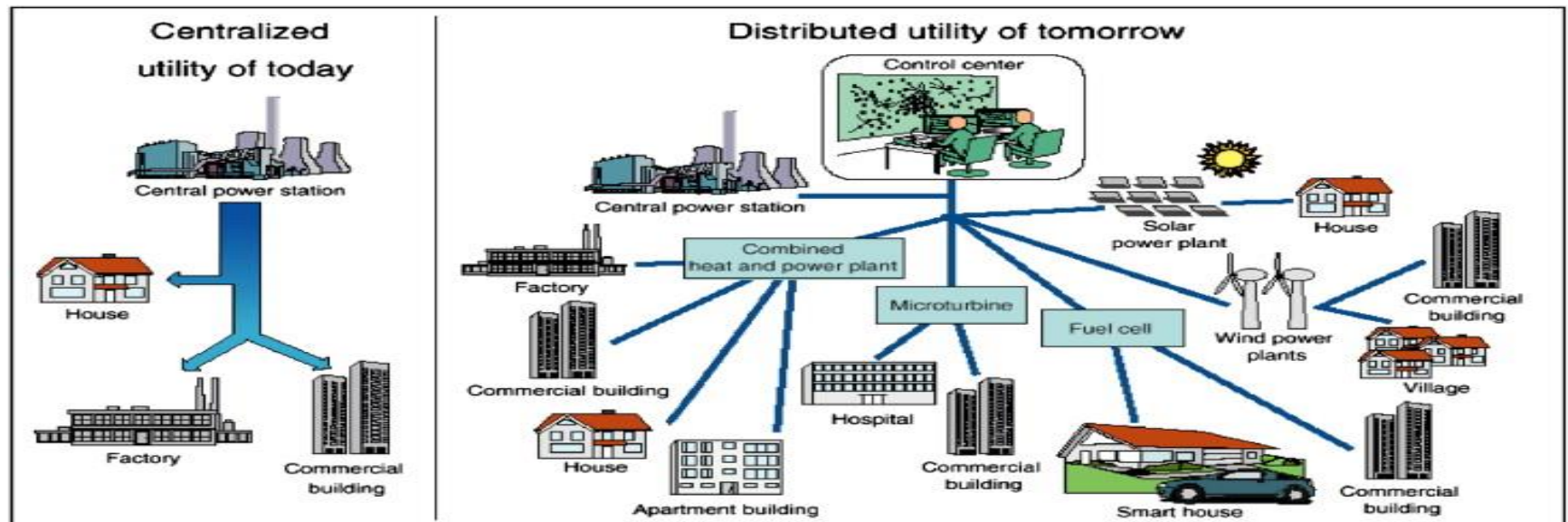
Computations of targeted capacity addition by FY2030 based on COP-26 targets (MW)

	2021	2030		Growth	
	Actual	Base	Target	Base	Target
Demand (MU)	1,280,170	2,127,827	2,127,827	6	6
Capacity (MW)					
Hydro	46,209	60,485	60,485		
Coal	209,295	225,075	225,075	1	1
Gas	24,924	24,924	24,924		
Diesel	510	510	510		
Nuclear	6,780	8,180	8,180		
Renewable	94,434	259,434	447,345	12	19
Capacity (MW)	382,151	578,607	766,518	5	8
Generation (MU)					
Hydro	150,258	183,913	183,913		
Coal	949,473	1,345,191	965,216	4	0
Gas	51,676	65,500	65,500		
Diesel	139	447	447		
Nuclear	42,567	57,325	57,325		
Renewable	134,400	524,600	904,575	16	24
Gross Generation	1,328,513	2,176,977	2,176,977		
Coal PLF (%)	51.79	68	49	3	(1)

Source: CEA, Kotak Institutional Equities estimates

Discussion on few Themes - Electricity Growth with Disruption (2/2)

- Increased spending on renewable energy and demand is expected to lead to higher spending on transmission and distribution for three reasons:
 - Renewable power is a fluctuating form of energy, with lower PLF's (Plant Load Factor) and hence it will require back up sources of energy leading to multiple sources of power (distributed generation),
 - Secondly historically power plants have been near the source of coal or fuel but renewables are not at the same locations and are at different remote locations,
 - As demand will increase more power will need to be carried per line leading to higher spending on transformers and conductors.
- The electricity generation will also become more distributed and the capital goods requirement will move from large BTG (Boiler, turbine and generators) to smaller BTG leading to faster growth in smaller rating capital goods.



Discussion on few Themes - Warehousing

Warehousing requirements are expected to grow at a fast pace, led by E-commerce and GST leading to increased requirement from consumer facing companies.

Estimated Growth in Warehousing

Sector	Transactions FY17-21 mn sq m (mn sq ft)	Transactions FY22-26 mn sq m (mn sq ft)	Changes
E-commerce	3.4 (37)	9.1 (98)	165%
Third Party Logistics	4.9 (53)	7.7 (83)	56%
Total	15.1 (162)	25.4 (273)	68%

Source: Knight Frank Research

Logistics players in India had been maintaining multiple warehouses across states to avoid CST Levy and State Entry Taxes. GST has lowered requirement of having number of warehouses of the companies, but the size of the warehouses required is much larger, making it more operationally efficient.

Comparison of Warehousing Markets

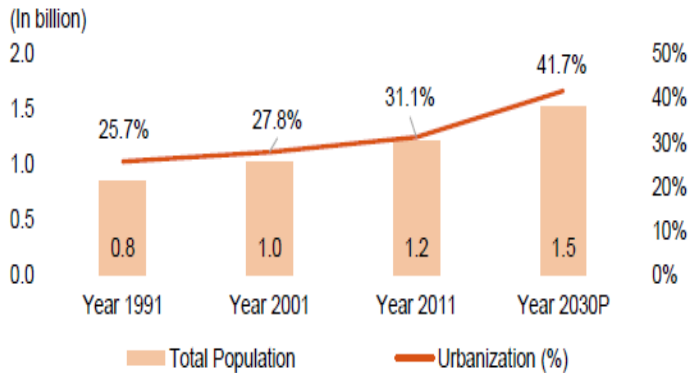
	USA	UK	China	India
Population (mn)	328	6.7	1,397	1,366
Warehousing Stock (mn sq m)	1,446	73	1,060	30.9
Warehousing Stock Per Capita (sq m)	4.4	1.09	0.8	0.02

Source: World Bank, China Logistics Research Association, Knight Frank Research

Discussion on few Themes - Urbanization

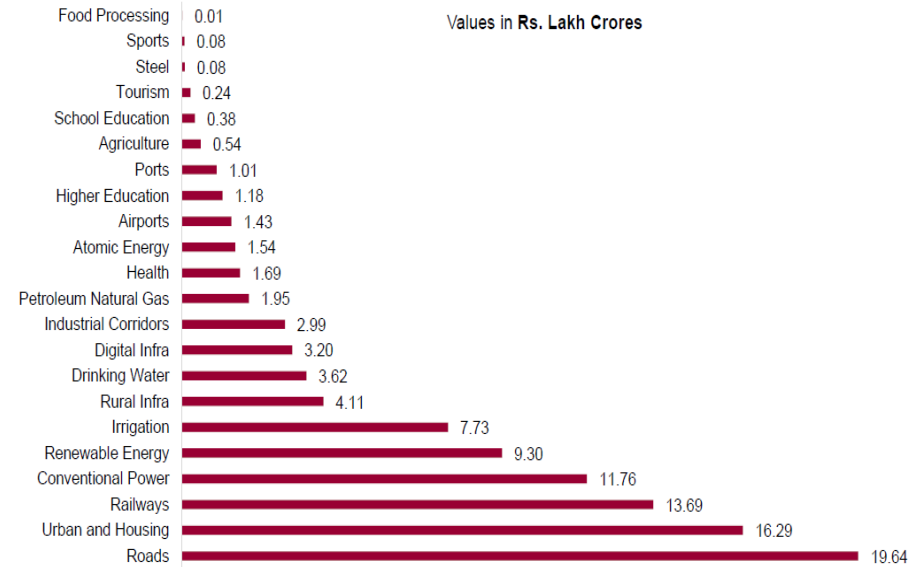
- There is a significant jump in the percentage of India's population which will reside in Urban centers by 2030. The National Infrastructure Pipeline (NIP) of Government of India focuses on the areas of urban transportation, urban housing etc.
- It will also mean increased office space, retail and housing requirements in urban areas.
- This will lead to increased infrastructure spending & demand for construction equipment.

India's Population and Urbanisation (%)



Source: CRIS Estimates, McKinsey Global Institute, P - Projected

Sector-wise Break-up of the NIP



Roads, urban and housing, railways, power (renewable and conventional) and irrigation to comprise ~80% of the NIP

Discussion on few Themes - Small Giants & Turnaround

Small Giants

- These are those companies that fulfill the following conditions
 - Operate in a niche business,
 - Have high market share in the chosen line of business,
 - Good brand recall in the industry they operate,
 - Strong client relationships and important supplier to their customers
 - Have one of the best operational and financial parameters in the relevant industries
 - Also have significant proportion of revenue from exports (globally competitive)
- And run by highly efficient management.
- Some of them are small because the size of the niche they operate is small where profitability is good.
- The reason to look at them currently is because we believe that these companies will have a good growth because of tailwinds in the industry.
 - Manufacturing sector is having tailwinds from revival in economy, globally large companies wanting to diversify the vendor base.
 - Long due revival in shipping.
 - Increased spending in travel and tourism.

Turnaround

- Playing turnaround requires assessing the problems which a company is facing, the capability of the management and organization, probability of various scenarios and the potential upside if things go right. Complete data is not present and hence reliance on your judgement and the thinking you do is important to succeed in these situations.

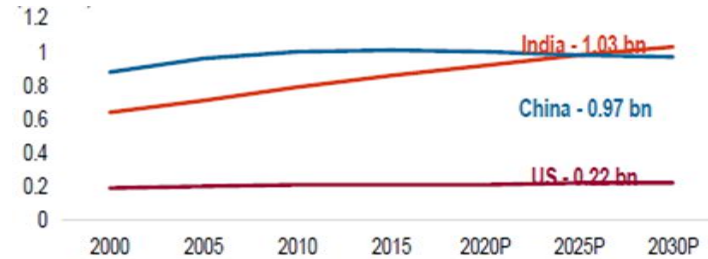
Discussion on few Themes - Real Estate Sector

- Residential real estate market has started improving after a prolonged downturn. The residential real estate market peaked in FY13 at 647 mn sq. ft. of sales and last year it was at 499 mn sq ft. and the urban population has kept growing and is expected to grow further over the next multiple decades.
- In the last upcycle, the market more than doubled from FY09 to FY13.

Real Estate - A Better Regulated Sector Now

- Policy reforms like demonetization, housing for all, liberalized FDI rules, RERA, Swamih fund, insolvency code and GST have definitely strengthened the sector. Real estate sector is emerging as a mature and better regulated sector over the past few years.
- Over the years because of slowdown and more stringent regulations, many smaller players have exited the business. Larger companies with strong brand position in the consumer mindsight have gained market share and with lower cost of capital in comparison to smaller players will further gain incremental market share.
- Work from home, low interest rates, increased affordability, financially stable developers, significant pickup in the prospects of IT sector and increase in salaries etc. will serve as primary demand drivers in the real estate sector.

Working Age Population (15-64 yrs) in billion



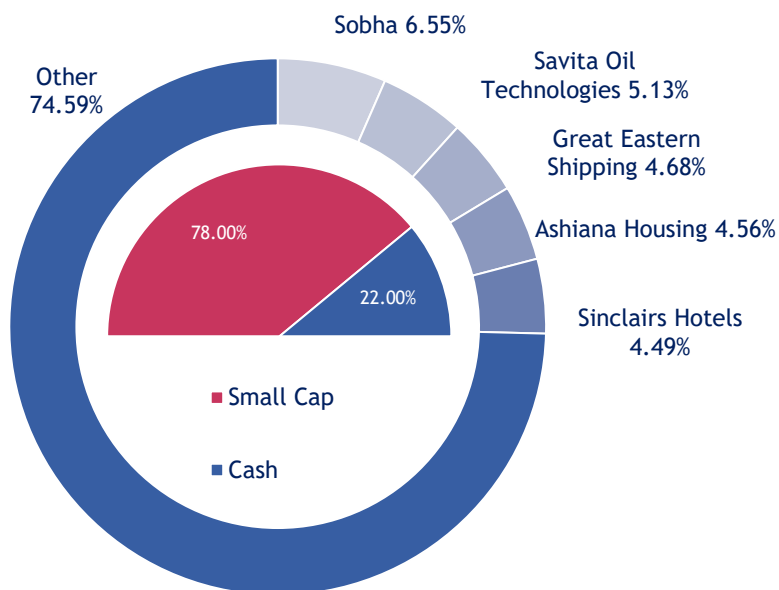
Source: United Nations Population Division (UNDP)

	FY09	FY13	FY17	FY21
Sales area (mn sq. ft)				
Delhi NCR	57.4	130.9	57.8	34.3
Faridabad	7.7	6.3	1.4	0.5
Ghaziabad	13.8	20	9.4	4.6
Gurugram	24.6	38.7	12.2	12.5
Noida	5.8	33.2	8.7	5.7
Greater Noida	4.8	32.4	25.7	10.1
New Delhi	0.7	0.3	0.8	0.8
MMR	49.0	91.7	82.8	97.1
Mumbai	20.9	26	25.7	32
Navi Mumbai	9.0	22.3	16.9	17.1
Thane	19.1	43.3	40.2	48.0
Pune	37.5	56.4	47.9	70.1
Bangalore	35.7	85.3	61.0	49.6
Chennai	15.3	38.3	20.0	17.6
Hyderabad	28.3	36.9	38.8	55.8
Kolkata	14.4	20.5	18.2	13.3
Tier 2 cities	67.6	187.6	165.5	161.3
All India	305.2	647.5	492.1	499.1

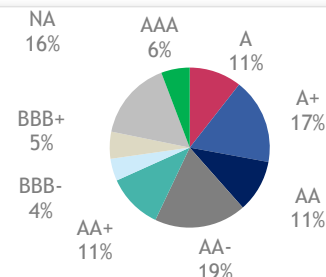
Source: Prop Equity, Kotak Institutional Equities

Portfolio Snapshot

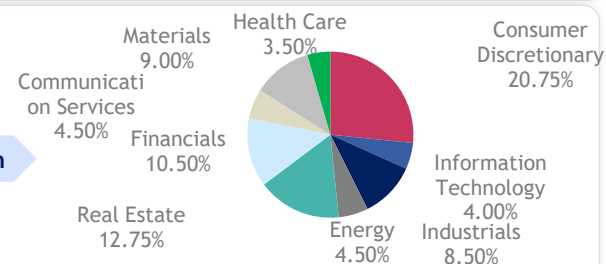
Top 5 Companies



Credit Rating



Sector Allocation



Performance as on 31st March 2024

Name	Portfolio	BSE 500 TRI
1 Month	-2.97	0.86
3 Months	10.55	4.49
6 Months	22.23	17.40
1 Year	71.24	40.16
Since Inception (01/08/2022)	55.59	22.30

Characteristic	EPS(E) CAGR (2023 to 2025)	FY25 PE
① Portfolio	16.03%	14.61

Date Source: Bloomberg & Ace Equity; Data as of 31st March 2024, If EPS estimate are not available on Bloomberg, internal estimate is considered. Benchmark is BSE 500 TRI, as defined by APMI. Performance depicted is based on all the client portfolios existing as on such date, using Time Weighted Rate of Return (TWRR) of each client for the overall investment approach. Past performance is no guarantee of future returns. The above portfolio performance is after charging of expenses. The above performance related information provided here is not verified by SEBI nor has SEBI certified the accuracy or adequacy of the contents of this Document.

Source: Internal, BSE, Bloomberg & Ace Equity.

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Term Sheet

①	Portfolio Managers
o3 Securities Private Ltd.	

②	Investment Vehicle
SEBI Registered Portfolio Management License (PMS)	

③	Auditor
M P Chitale & Co.	

④	Custodian
HDFC Bank/Kotak Bank	

⑤	Benchmark
BSE 500 TRI	

⑥	Suggested Investment Horizon
Minimum of 3 years	

⑦	Stocks in the Portfolio
15-20 Stocks	

⑧	Cash Strategy
Residual	




⑨	Management Fee	Regular Plan	2.50% p.a. fixed OR 2% p.a. fixed with 15% profit sharing on positive alpha over benchmark**
		Direct Plan[#]	1.5% p.a. fixed OR 1% p.a. fixed with 15% profit sharing on positive alpha over benchmark**

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** The Fee is charged on the daily average AUM; debited on a quarterly basis, profit sharing fee is charged annually or on exit. Fees exclusive of GST & third-party charges like Audit fee & Custodian Fee.

Contact Details

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