

Thematic Opportunities Portfolio - Newsletter

Dear Investor,

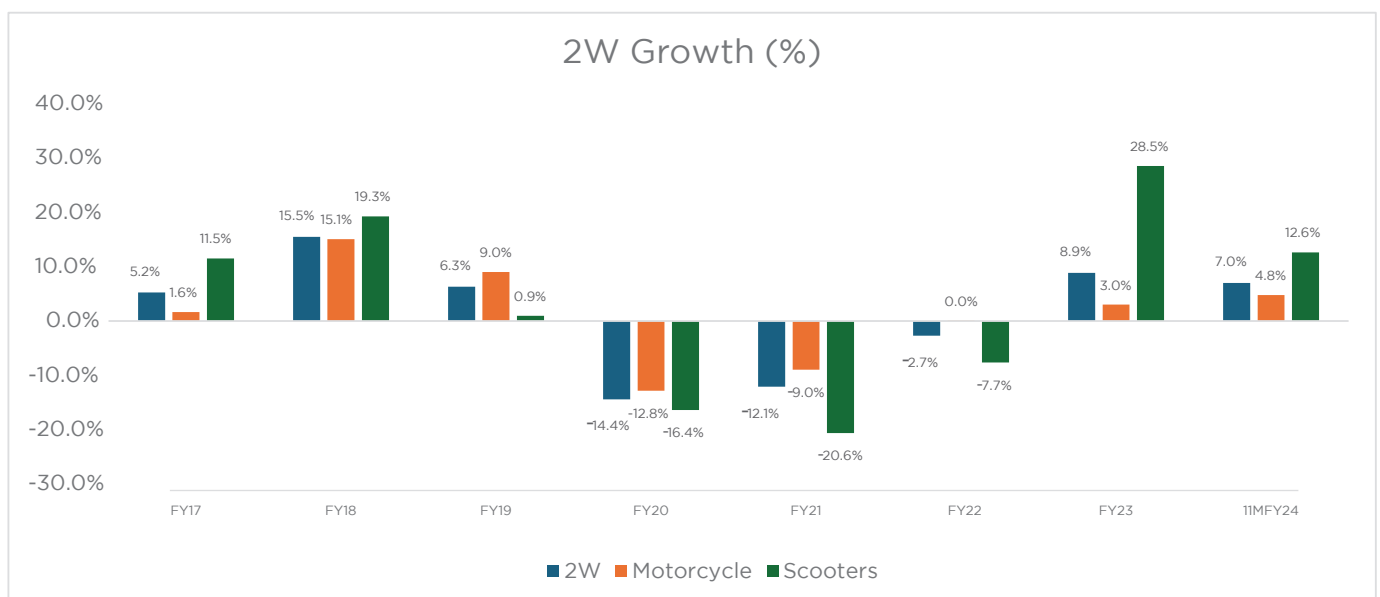
The Indian automobile industry is the third largest automobile market in the world and has been identified as a key sector for the manufacturing growth by the Government of India. With the record capital outlay of INR 11.1 Tn in the interim budget for FY2025 (Source: Budget Documents), it is expected that the proportion of the manufacturing sector would continue to rise in GDP mix.

Post pandemic, the automobile sector has faced challenges like semiconductor shortages and sharp rise in raw material costs, that have delayed the recovery of the sector. With the gradual easing of raw material prices and increased availability of semiconductors, the sector has bounced back in the last 2 years. The sector clocked a volume growth of 12.8% in FY2023 and is expected to deliver high single digit growth in FY2024 (Source: SIAM).

The other key shift in the automobile sector has been the shift towards green mobility –Electric Vehicles (EV). This has been aptly supported by PLI schemes in the Advance Chemistry Cell (ACC) space and the FAME (Faster Adoption and Manufacturing of Hybrid and Electric Vehicles) scheme of Government of India. The incentives to push EV adoption are crucial as the initial capital costs are high as compared to an ICE (internal combustion engine) vehicle.

We believe that EV will take many years to evolve across the various categories considering the prices, availability of charging infrastructure and continuity of subsidies. In the last few years, the EV adoption is led by the 2-wheelers category as the batteries (the engine for an EV) can be swapped easily for charging. There has been a sharp rise in the entry of new players in the 2W EV segment in the last 3 – 5 years trying to capitalize on the 2W EV evolution. However, the industry is witnessing consolidation and now the incumbents are gaining traction with their reach and product offerings.

The 2W category is yet to reach its pre-covid numbers and the prime reason for this is the slow recovery in the motorcycle segment and the slowdown in the rural markets. However, with the changing user profile and more available space, the scooters segments have bucked the trend and have been the fastest growing segment in the 2W category. The scooter segment has grown at 12.6% for 11MFY2024 compared to 7% for 2W category and 7.2% for overall industry including CV and Passenger car segment (Source: SIAM).

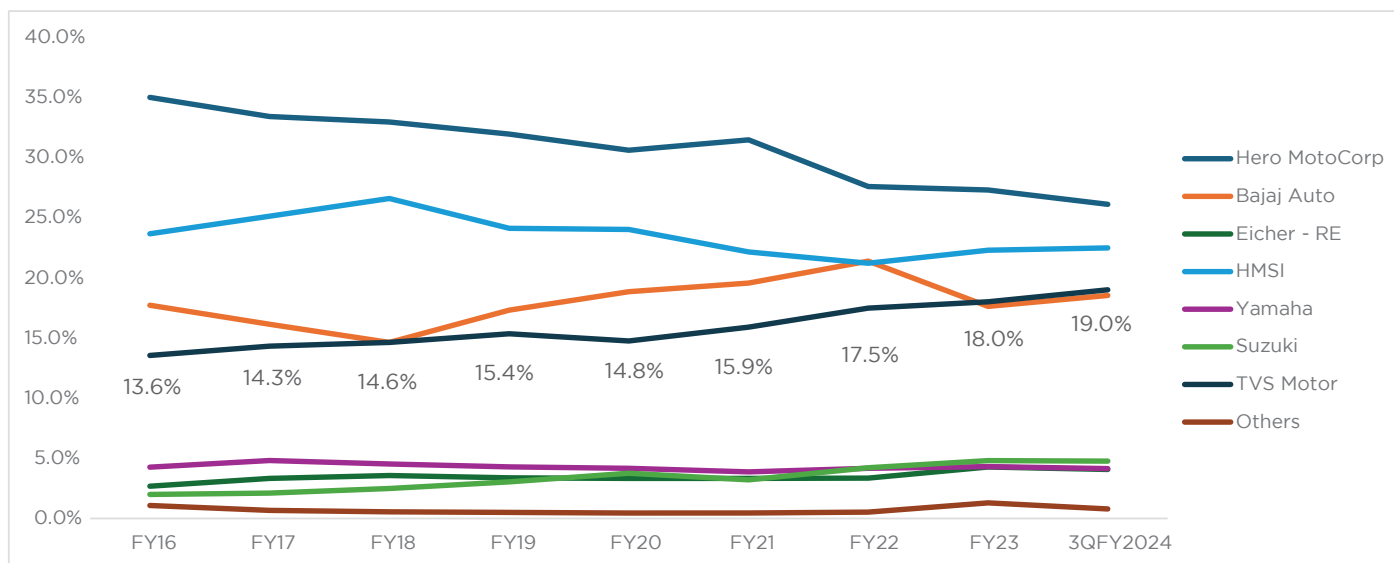


Source: SIAM

In our opinion, an established player with a distribution reach and product offerings for all the 2W segments – motorcycle, scooters, moped, and electric scooters is more likely to deliver higher volume growth as compared to its peers.

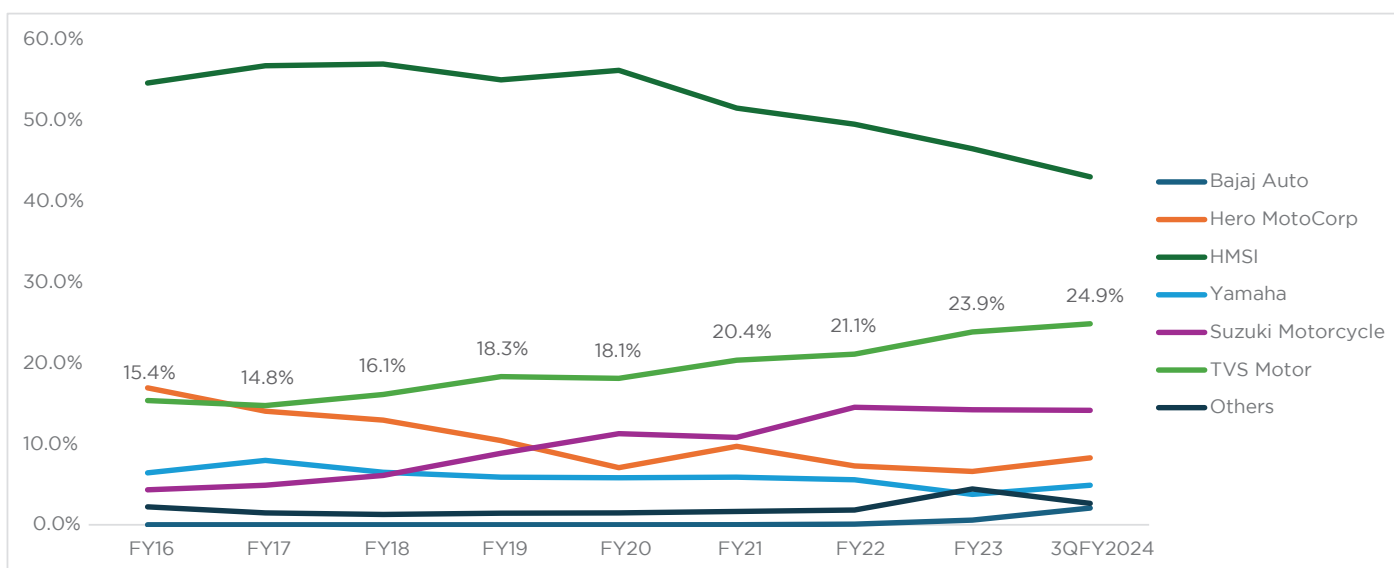
We have TVS Motors in the portfolio and its business model of focusing on scooters in the last decade has enabled it to clock better than industry volume growth consistently.

Industry Volume Share (%)



Source: SIAM

Scooter Segment Volume Share (%)



Source: SIAM

As can be seen from the two charts, TVS Motors focused on the scooters when other large players were totally dependent on the motorcycle segment. The number of product offerings and product quality made TVS Motors the second largest scooter manufacturer in the country with 25% market share. The leader in scooter segment – Honda Motorcycle & Scooters India (HMSI) has lost the market share in the last 7 years.

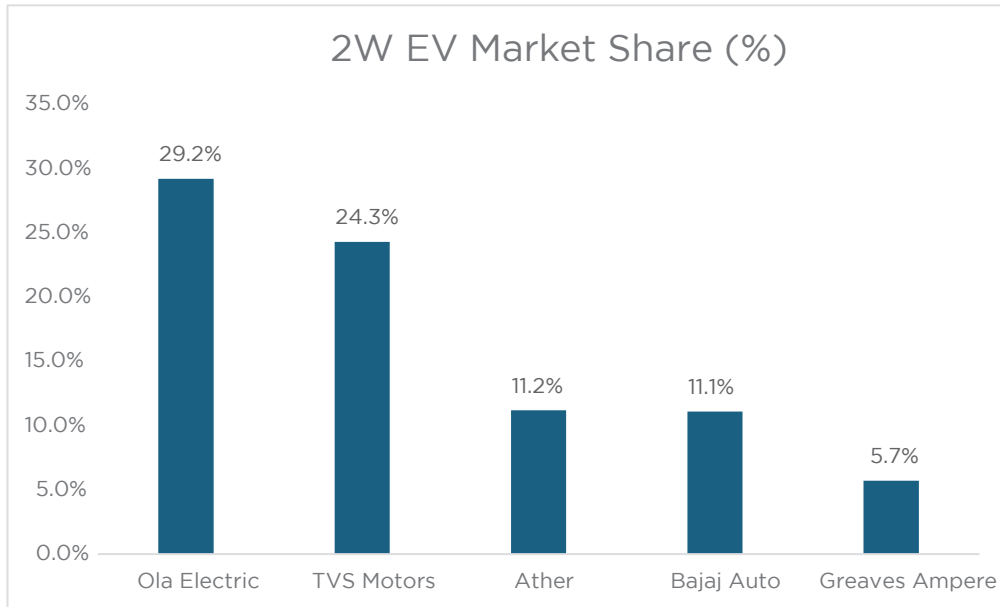
S. No.	Name	Market Share in FY16	Market Share in 3QFY24
1	HMSI	54.7%	43.1%
2	TVS Motors	15.4%	24.9%

Source: SIAM

The next growth engine in the 2W category would be the electric 2-wheelers. With the ease of battery swap options, it is very likely that the EV evolution would be led by the 2W category in India.

The initial spurt in the 2W category was led by new players, who were regional and mainly importing parts and doing assembly in India. These players could not last for long as the product quality was not up to the mark to handle the Indian road conditions. Amongst the incumbents, the 2W EV category is driven by TVS Motors and Bajaj Auto. The other three players in the top five players are established names with deep pockets.

Market share in the 2W EV Segment at 2HFY2024



Source: SIAM

The electric scooter segment constituted 5% of the Indian 2W market. The consolidation in the industry continues as the majority of the 2W EV sales are made by a handful of top players. The top four players have a combined market share of 76%.

We believe that TVS Motors is well poised to capitalize on the scooter segment and the 2W EV evolution in India through the product availability, distribution reach and brand perception of the product quality.

Portfolio Changes:

There are no changes in the portfolio during the month of February.

Warm Regards,
Yours sincerely

Priyank Chandra
Vice President and Portfolio Manager

Disclaimer:

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Top 10 Holding of Thematic Opportunities Portfolio			Overweight / Underweight of Model Portfolio Compared to BSE 500 TRI as on 29 th February 2024	
Name	GICS Sector	Weight		
Sobha Ltd	Real Estate	9.20%	Consumer Discretionary	23.52%
Bharat Electronics Ltd	Industrials	6.11%	Materials	4.95%
Mahindra Holidays & Resorts	Consumer Discretionary	5.78%	Real Estate	4.27%
TVS Motor Company Ltd	Consumer Discretionary	5.77%	Industrials	2.86%
Astral Ltd	Industrials	5.64%	Communication Services	1.26%
SBI Cards And Payment	Financials	5.41%	Consumer Staples	(3.20%)
Sona BLW Precision Forgings	Consumer Discretionary	5.23%	Utilities	(4.45%)
Titan Company Ltd	Consumer Discretionary	5.16%	Health Care	(5.84%)
Nocil Ltd	Materials	4.93%	Energy	(8.98%)
Bharti Airtel Ltd	Communication Services	4.89%	Information Technology	(10.67%)
		58.12%	Financials	(17.72%)

Investment Objective: The approach will be to invest in companies from the sectors selected based on the investment themes that we believe will play out in India over the next several years.

Model Portfolio Details as on 29 th February 2024		Model Portfolio Composition as on 29 th February 2024	
EPS CAGR (2023 to 2025)	25.12%	Large Cap	28.50%
PER to Earnings Growth Ratio (PEG Ratio)	1.42	Mid Cap	24.50%
Average Market Cap (INR Bn)	1,185	Small Cap	33.00%
Average Age of companies	43 Years	Cash	14.00%

- Large Cap: Market cap of the 100th company in the BSE500 TRI (sorted by market cap in descending order)*
- Mid Cap: Market cap below 100th company to the market cap of the 250th company in the BSE500TRI (sorted by market cap in descending order) *
- Small Cap: Market cap lower than the 250th company in the BSE500TRI (sorted by market cap in descending order)*

*As on last working day of the month i.e., 29th February 2024

Consolidated Portfolio Performance of Thematic Opportunities Portfolio 29th February 2024



- Benchmark is BSE 500 TRI, the portfolio is spread across different market capitalization, hence BSE 500 TRI is chosen as benchmark.
- Since inception date stated is considered to be the date on which the first client investment was made under the investment approach.
- Source: Internal, Bloomberg, BSE & Ace Equity.

Disclaimer: 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 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.

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