

o3 Thematic Opportunities Portfolio

Monthly Newsletter – April 2023

Dear Investor,

In continuation with the last month newsletter, where we highlighted the success of Aero India show and how the Thematic Opportunities Portfolio is positioned to capture this opportunity, there has been some significant order inflows for the listed defense companies and defense sector update from the Government of India in the month of March 2023. We are highlighting some of them to showcase the potential for the Indian Defense sector in the next 3 – 5 years.

- Indian Defense manufacturing sector to cross USD 25 Bn by 2025 with an export potential of USD 5 Bn.
- Priority procurement from domestic industries to continue – with 68% value to come from the domestic industry for FY2023 compared to 58% in FY2021, government is taking it to 75% without linking this to budget. This would give further impetus to domestic defense manufacturers along with MSME industries.
- Increase in indigenization lists – there are more than 400 items through new four indigenization lists. The first 2 lists are for a span of 4 years each, while the third and fourth are for a time span of 5 and 10 years respectively. Through this initiative, India Defense manufacturing sector can get an additional opportunity of INR 4 – 5 Tn over the next 4 – 5 years.
- Indian Defense exports for FY2023 stood at INR 159 Bn – a ten times increase in 6 years. The thrust to increase exports to continue with more products getting added to the export list.
- The armed forces have given orders worth INR 43 Bn to **Bharat Electronics (a part of TOP portfolio)**, INR 82 Bn to Bharat Dynamics, INR 98 Bn to Cochin Shipyard and INR 35 Bn to Garden Reach in the last week of March 2023. The order book of nearly all the companies is nearly 3x – 5x of the annual revenues.
- The expenditure on defense procurement from foreign sources has reduced from 46% to 36% in the last 4 years.
- Development of two defense industrial corridors to speed up – they are getting developed in Uttar Pradesh and Tamil Nadu.
 - The nodal agency for Uttar Pradesh Defense Industrial Corridor has signed 69 MoUs with potential investment of INR 106 Bn. Actual investment of INR 18 Bn has already been made.
 - The nodal agency for Tamil Nadu Defense Industrial Corridor has signed MoUs with potential investment of INR 114 Bn. Actual investment of INR 32 Bn has already been made.
- Launch of Innovations for Defense Excellence scheme involving startups and MSMEs.

Monthly Updates:

GST collection for March 2023 is at INR 1.60 Tn. This is a growth of 13% versus March 2022 (INR 1.42 Tn). The total gross collection for FY2022-2023 stood at INR 18.1 Tn with an average monthly collection of INR 1.51 Tn. The gross revenues for the full year were higher by 22%. The average monthly collection rate during the four quarters was:


- Q1FY23 – INR 1.51 Tn
- Q2FY23 – INR 1.46 Tn
- Q3FY23 – INR 1.49 Tn
- Q4FY23 – INR 1.55 Tn

Portfolio Changes:

There are no changes in the portfolio as we believe that the portfolio is well placed to benefit from the current environment.

Priyank Chandra

Portfolio Manager

 @priyankschandra

Thematic Opportunities Snapshot

Characteristic	Return on Capital	Expected Earnings Growth (FY22-FY24)	Avg. Market Cap (INR Bn)	Price Earnings Ratio (FY24)
TOP	18.96%	36.10%	1,096	32.20
Nifty 500*	20.05%	15.67%	483	17.29

Data Source: Bloomberg & Ace Equity; Data as of 31st March 2023, Forward PE of Index calculated based on eps growth from Bloomberg & current price from NSE site. *Benchmark is Nifty 500. The portfolio is spread across different market capitalization, hence Nifty 500 is chosen as benchmark.

Performance as on 31st March 2023

Period	TOP	Nifty 500
1 Month	-1.48%	0.27%
3 Months	-5.45%	-5.77%
Since Inception (16/11/2022)	-6.44%	-7.24%

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