

# o3 Thematic Opportunities Portfolio

Monthly Newsletter – July 2023

## Dear Investor,

The auto industry has been regarded as an indicator of economic health. The Indian auto industry is at INR 7.6 Tn employing nearly 45 Mn people and is coming out from a long cyclical slowdown from FY2017 – FY2022. With one of the highest GST contributors to the economy, the government plans to grow the auto industry to INR 15 Tn with employment for 100 Mn people (source – Ministry of Road Transport and Highways). The thrust is visible through various incentives like PLI schemes for auto OEM's & components manufacturer. We believe that following factors would contribute for the auto industry growth:

- Semi-conductor supply chain issues getting sorted.
- The domestic demand is expected to rise considering the rise in per capita income.
- Export potential as Indian players eye the global opportunities due to changing global geo-political situation.

## Monthly Updates:

GST collection for June 2023 is at a record level of INR 1.61 Tn. This is a growth of 12% on a YoY basis. Average monthly GST collection for Q1FY2024 is at INR 1.69 Tn versus INR 1.51 Tn in Q1FY2023 and INR 1.1 Tn in Q1FY2022. The buoyancy in tax collection is expected to continue and the government expects the GST collection monthly base to be INR 1.5 Tn for the fiscal FY2023-24.


## Portfolio Changes:

We have made one change in the model portfolio.

- Sona Comstar in place of TD Power Systems, where we have done profit booking.
  1. Sona Comstar operates in 2 business verticals:
    - Driveline
    - Motors
  2. Sona Comstar has developed a sizeable EV ancillary product portfolio in the last few years and has been spending aggressively on R & D to add more products to the portfolio.
  3. There has been a constant decline in the non-EV revenue, and this is driven by the US and Europe geographies.
  4. Sona Comstar works closely with their customers to develop products based on the requirements. The R & D team focuses on developing new in-house products. The objective is to increase the content per vehicle.
  5. 77% of the order book is from the EV segment. As of now, they have 42 products for 26 customers.
  6. The order book is of INR 238 Bn – 8x FY2023 revenue, at the end of FY2023. There was an addition of INR 80 Bn orders in FY23 with the addition of 7 new customers.
  7. There are 3 R & D centres with 20% of the total on-roll workforce in R & D.
  8. The proportion of revenue from North America and Europe is 43% and 29% respectively. With the situation expected to improve from the current levels and semi-conductor supply situation easing, we expect the auto industry in these regions to do better in FY2024 as compared to FY2023.
  9. The operating margin profile of 25% with return ratios more than 25% comforts us on the balance sheet.
  10. Earnings growth for FY2023 – FY2025 is expected to be 43.9% (as per Bloomberg estimates).

**Priyank Chandra**

Portfolio Manager

 @priyankschandra

## Thematic Opportunities Snapshot

Characteristic	Return on Capital	Expected Earnings Growth (FY23-FY25)	Avg. Market Cap (INR Bn)	Price Earnings Ratio (FY25)
TOP	19.36%	31.90%	1,283	32.60

Data Source: Bloomberg & Ace Equity; Data as of 30<sup>th</sup> June 2023.

## Performance as on 30<sup>th</sup> June 2023

Period	TOP	BSE 500 TRI
1 Month	2.84%	4.28%
3 Months	15.68%	13.18%
6 Months	9.21%	6.78%
Since Inception (16/11/2022)	8.07%	5.07%

Benchmark is BSE 500 TRI. The portfolio is spread across different market capitalization; hence BSE 500 TRI is chosen as benchmark.

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