

## o3 Thematic Opportunities Portfolio

Monthly Newsletter – May 2023

Dear Investor,

The long-term theme of the Thematic Opportunities Portfolio (TOP) – Consumption, highlights not only the growth opportunities, but also the changing trends in the consumption pattern. With financial transactions getting more and more digital, the credit card industry in India has seen stupendous growth in the last 5 years and it is expected that growth trends in the adoption and usage of credit cards would gain further traction in the next 5 years.

In this month's newsletter, we would be discussing the evolution / drivers of the credit card industry in India. We have **SBI Cards and Payment Services** in the TOP portfolio.

- India has traditionally been a debit card market and earlier the facility of credit card was perceived to be for wealthy individuals. This perception was due to the card companies focusing only in metro areas, with limited marketing efforts in non-metros and stringent documentation requirements.
- In the last decade, with rising income levels, rise in working population and expanding footprints by the financial institutions, there has been a significant growth in the number of credit card issuances. The number of active credit cards have increased from 29 Mn in FY2017 to nearly 88 Mn in FY2023.
- The rising per capita income is bringing a change in the spending patterns and so is the requirement of high value transactions. Credit cards are the preferred option as they offer multiple benefits like:
  - Interest free credit as per the billing cycle – can be in the range of 15 to 50 days.
  - Points earned can be redeemed as cash back or other options.
  - Interest free EMI's on high value transactions.
  - Co-branded credit cards can offer significant value for the end user depending on the user lifestyle – it can be for shopping, travel, food & beverages, etc.
  - The above options are not available in UPI transactions – where the money gets immediately debited from the account without any additional benefits.
- The online spending proportion in the retail spend is on a rise – it has increased from 44% in FY2020 to 57% in FY2023.
- The financial institutions along with new age fintech companies have been leveraging the digital revolution in India to accelerate the adoption of credit cards in India. The digital on-boarding process has been a significant booster for credit card issuers to tap the customers without setting up marketing infrastructure, especially in smaller cities.
- With the branch presence in smaller cities, the banks can capture the credit card demand by leveraging their branch network – even in tier 3 and 4 cities.

### Monthly Updates:


GST collection for April 2023 is at a record level of INR 1.87 Tn. This is a growth of 13% versus March 2023 (INR 1.67 Tn) and a growth of 12% on a YoY basis. The total number of e-way bills generated in the month of March 2023 was at 90 million versus 81 million e-way bills generated in February 2023. The revenues from the domestic transaction during April 2023 was up by 16% on a YoY basis.

### 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 (FY23-FY25) | Avg. Market Cap (INR Bn) | Price Earnings Ratio (FY25) |
|----------------|-------------------|--------------------------------------|--------------------------|-----------------------------|
| TOP            | 19.09%            | 30.42%                               | 1,125                    | 27.16                       |

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

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

| Period                       | TOP    | BSE 500 TRI |
|------------------------------|--------|-------------|
| 1 Month                      | 5.17%  | 4.59%       |
| 3 Months                     | 1.62%  | 2.07%       |
| Since Inception (16/11/2022) | -1.79% | -2.91%      |

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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