



# Thematic Opportunities Portfolio - Newsletter

## Dear Investor,

The consumer confidence survey of December 2023 conducted by RBI indicates that consumer confidence is at a 4-year high. This along with the rise in per capita income, currently at USD 2300, would augur well for the consumption theme, the long-term theme of the Thematic Opportunities Portfolio (TOP). Due to the rise in consumption, there has been a significant growth in the payment volumes and is expected to grow in line with the growth in consumption.

In the last decade, the payment mechanism has shifted decisively towards digital payments like – debit cards, UPI, and credit cards. These have the following characteristics:

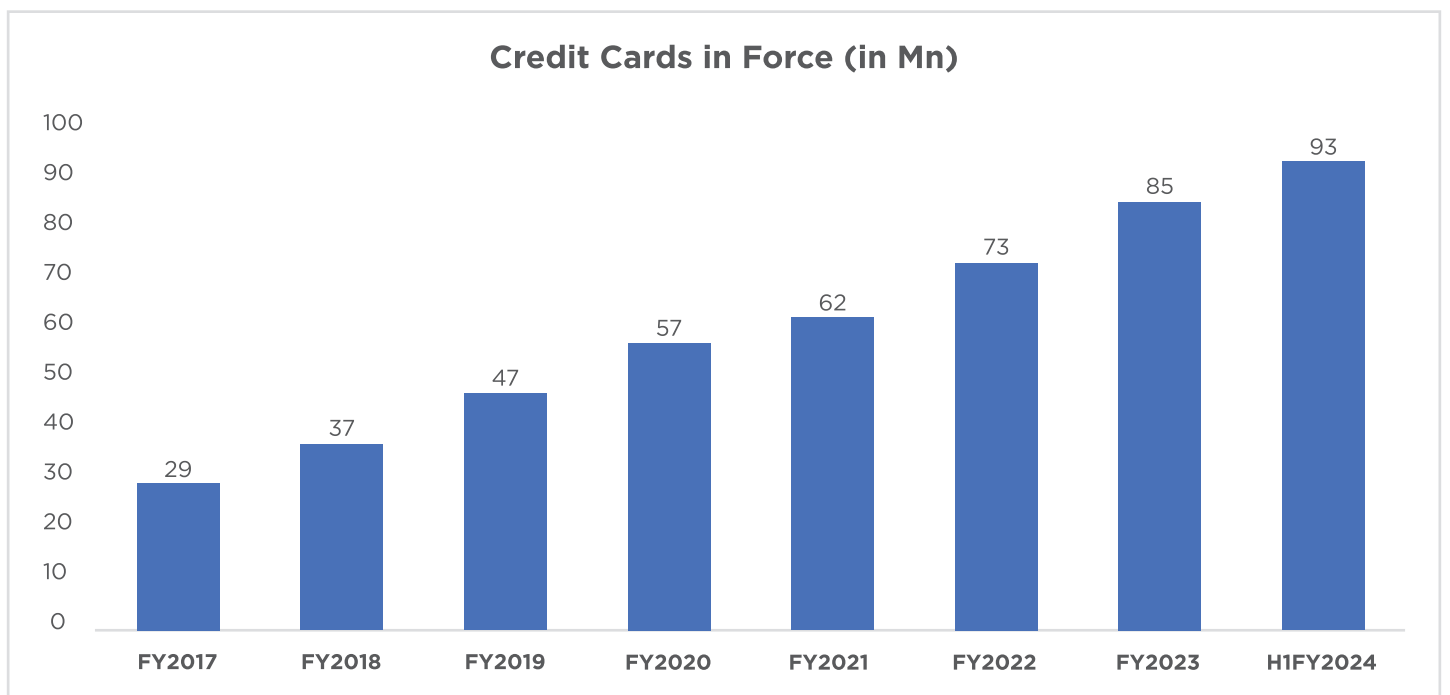
Category	Ticket Size	Credit Availability	Reward Structure
Debit Cards	Small to Large	No	Negligible
UPI	Small to Large	No	No
Credit Cards	Mid to Large	Yes	Yes

## Credit Card Evolution:

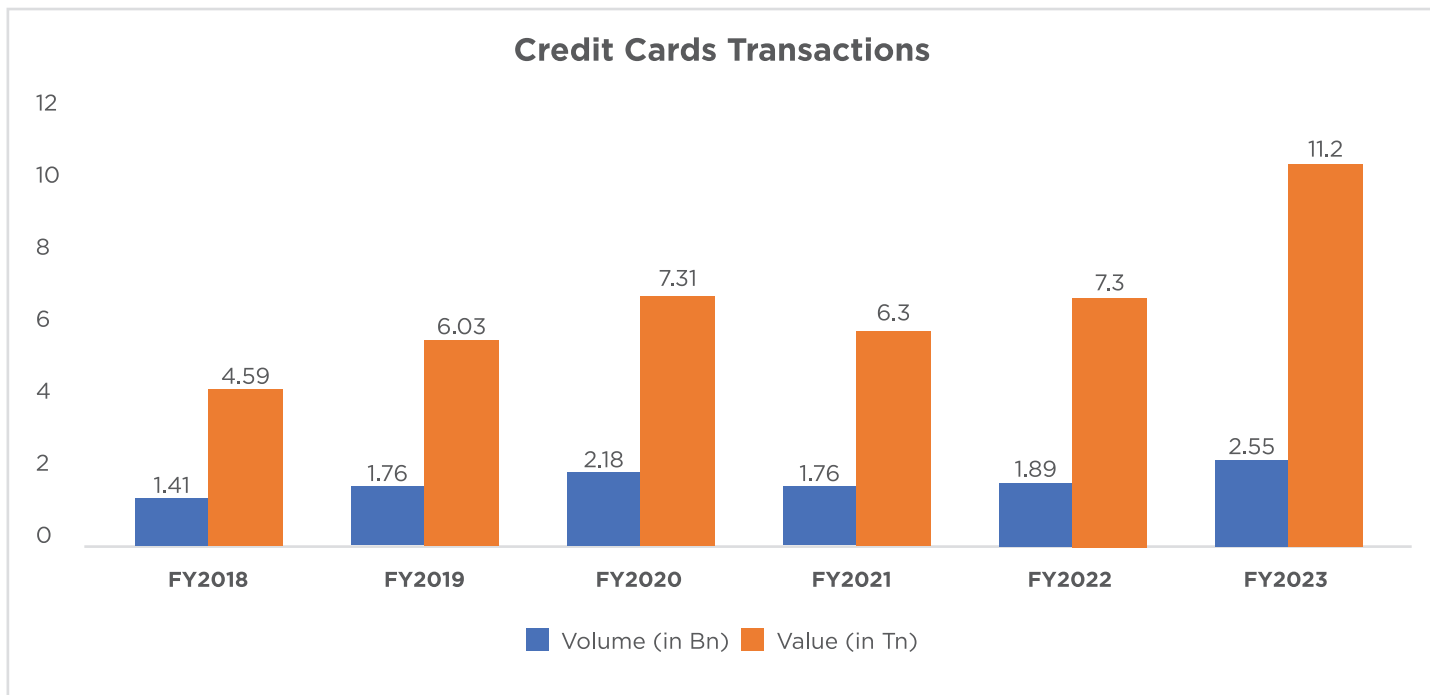
In the ongoing fiscal, credit cards transaction has surpassed debit card transactions. The monthly volumes of credit cards are ahead by nearly 10%, however, in value terms, the credit cards are nearly 2.5x of debit cards transaction values (Source: RBI). This signifies that the usage of credit cards is dominant in mid to large ticket sizes. UPI is the leader in transaction volumes as well as value.

The surge in the credit card usage in India is driven by an ecosystem comprising of:

- Increasing awareness of credit cards as a payment method.
- Smooth onboarding process
- Differentiated product offerings – personalized to user requirements.
- Acceptance on UPI through RuPay credit cards



Source: RBI



Source: RBI

The growth in credit card usage is driven by both segments – online and point of sale (POS). RBI Payments Vision 2025 has outlined that card acceptance infrastructure would increase to 250 lakh touch points.

The market penetration at 93 Mn cards appears small on a pan India basis, however, the penetration in Tier 1 cities is nearly 65% as per RBI. The credit card issuers are now focusing on Tier 2 and Tier 3 cities with an income profile of INR 2 lakhs to INR 5 lakhs.

#### The UPI Factor:

The UPI payment interface witnessed a sharp surge post pandemic considering the ease of usage – just a scan and no touch method. The UPI payment mechanism is the leader in volume and value; however, the rise of this mechanism does not impact the growth of the credit card industry.

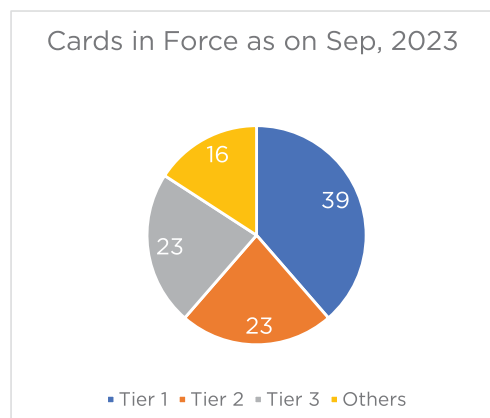
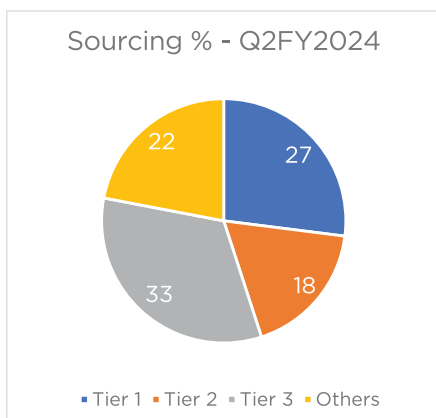
The payments made on UPI are generally low ticket with no credit period availability as the amount is directly debited from the bank account linked to UPI. For a credit card user, the ticket size is generally large as compared to a UPI payment and involves a credit period along with a reward structure. We believe that as the user profile and usage is significantly different, the UPI payment mechanism is not a threat for the credit card industry.

With RBI allowing credit cards to be linked to UPI (through RuPay payment system), the credit card industry can tap UPI transactions potential also for credit card users and push it as an additional marketing feature for new customers.

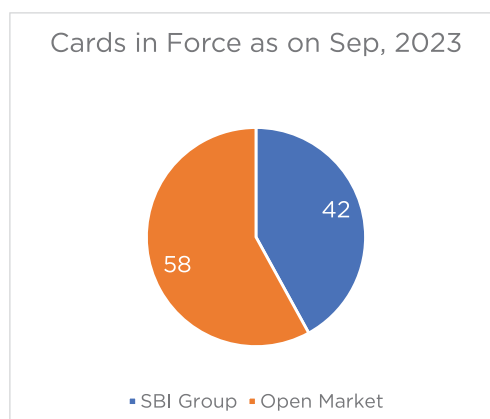
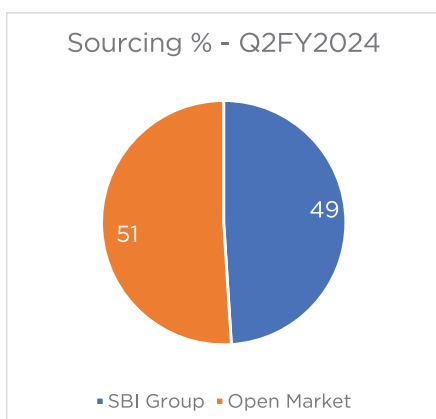
SBI Cards and Payment Services – the second largest credit card issuer in the country with 19.2% market share (source: SBI Cards investor presentation) is one of the holdings in the TOP. We like the company for the following reasons:

- Leveraging SBI branch network for acquisition of clients. With the credit card industry moving towards Tier 2 and Tier 3 cities, we believe that SBI Cards should be able to capitalize on SBI brand equity and trust to acquire clients.
- Tie-ups – SBI Cards has tied up with leading companies in retail, travel, hospitality and other segments considering the customer preferences.
- Customer Interface – SBI Cards, perceived to be lacking in customer service, has taken considerable steps – focus on branding, user friendly mobile application, getting UPI enabled credit card and others to improve customer interface.

With Tier 1 cities having a saturation of 65%, the opportunity lies in going to Tier 2 and Tier 3 cities, and with SBI network (nearly 23,000 branches), SBI Cards is well placed to tap this opportunity. The sourcing data on a city tier and open market basis of SBI Cards reinforces our belief that SBI network is aiding SBI Cards growth. With every quarter, we expect the sourcing proportion of Tier 3 cities and below to improve.



Source: SBI Cards Investor Presentation



Source: SBI Cards Investor Presentation

The cost of funds has gone up in the last 18 months and so there has been some shrinkage in the Net Interest Margins (NIMs). We believe that the uptrend in the cost of funds has stabilized and with card volumes, the absolute profitability of the company will continue to grow. The expected CAGR (%) for FY23- FY25 is at 22.7% as per Bloomberg estimates.

	Q1FY23	Q2FY23	Q3FY23	Q4FY24	Q1FY24	Q2FY24
<b>NIM(%)</b>	12.4	12.3	11.6	11.5	11.5	11.3

Source: SBI Cards Investor Presentation

The NPAs have been stable since the last 9 months and management has indicated that they can remain in this range / improve from the next quarter onwards.

	Q1FY23	Q2FY23	Q3FY23	Q4FY24	Q1FY24	Q2FY24
<b>NNPA(%)</b>	0.79	0.78	0.80	0.87	0.89	0.89

Source: SBI Cards Investor Presentation

### Portfolio changes: The following are the portfolio changes

1. Bharat Electronics – we have exited from model portfolio as it has gone beyond the valuation matrix of the TOP portfolio.
2. NOCIL – increased the weightage by 0.5% to 5%. The traction in the domestic as well as export demand and higher capacity utilization will improve financials.
3. SOBHA – increased the weight by 0.5% to 5.5%. The reasons are the new launches, increasing sales – volume as well as realization and reducing debt. The quarterly business update was also better than expected. Q3FY2024 was the best sales quarter in the history.

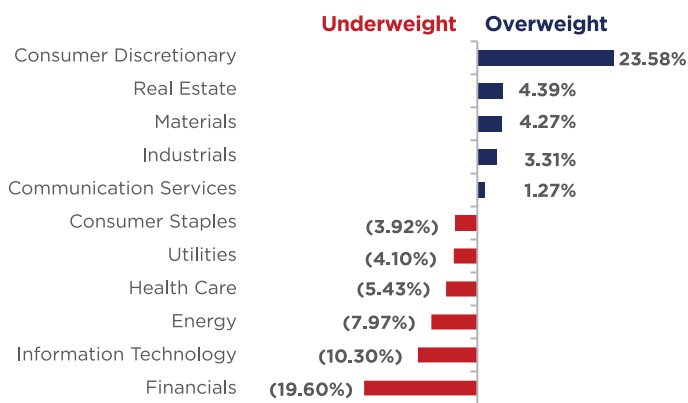
Warm regards,  
Yours sincerely

**Priyank Chandra**  
Vice President and Portfolio Manager

### Top 10 Holding of o3 TOP Portfolio - as on 31<sup>st</sup> December 2023

Name	GICS Sector	Weight
Sobha Ltd	Real Estate	6.49%
Bharat Electronics Ltd	Industrials	6.21%
TVS Motor Company Ltd	Consumer Discretionary	5.71%
Titan Company Ltd	Consumer Discretionary	5.32%
Nocil Ltd	Materials	5.19%
Asian Paints Ltd	Materials	5.18%
Mahindra Holidays & Resorts	Consumer Discretionary	5.17%
SBI Cards And Payment	Financials	5.15%
Astral Ltd	Industrials	5.14%
Sona Blw Precision Forgings	Consumer Discretionary	4.84%
		<b>54.40%</b>

### Overweight / Underweight of Model Portfolio Compared to BSE 500 TRI as on 31<sup>st</sup> December 2023



**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 31 <sup>st</sup> December 2023		Model Portfolio Composition as on 31 <sup>st</sup> December 2023	
EPS CAGR (2023 to 2025)	28.80%	Large Cap	33.5%
PER to Earnings Growth Ratio (PEG Ratio)	1.11	Midcap	19.0%
Average Market Cap (INR Bn)	1,185	Small Cap	33.0%
Average Age of companies	42 Years	Cash	14.5%

- Large Cap: Market cap of the 100th company in the BSE 500 TRI (sorted by market cap in descending order) \*
- Midcap: Market cap below 100th company to the market cap of the 250th company in the BSE 500 TRI (sorted by market cap in descending order) \*
- Small Cap: Market cap lower than the 250th company in the BSE 500 TRI (sorted by market cap in descending order) \*

\*As on last working day of the month i.e., 29<sup>th</sup> December 2023

### Consolidated Portfolio Performance of o3 Thematic Opportunities Portfolio as on 31<sup>st</sup> December 2023



- 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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