

FACTSHEET

JANUARY 2023



Renaissance Investment Managers

Dear investors,

India Budget 2023 – Progressive & Prudent

Union Budget 2023 can be summed up as a Progressive and Prudent budget. The finance minister continued its focus on higher capital expenditure, support to rural economy and digitalisation of Indian economy. Key budget estimates like growth in tax collections and disinvestment targets amongst others appear reasonable and the roadmap towards fiscal consolidation is well articulated. Continuity in policy direction and realistic estimate provides much appreciated stable environment for long term investing in the country.

The budget recognises and acknowledges the emergence of Indian economy as an oasis in the economically challenged global economic environment and the world is looking upon India to step up its role of the fastest growing major economy in the world. The government has taken a pragmatic approach towards this ambitious pursuit.

The finance minister has focussed on reinvigorating economic growth; yet done that with long term sustainable approach avoiding falling prey to short term impulses, given that it was supposedly an election budget. The government has laid major emphasis on significantly accelerating capital expenditure as the corner stone for driving growth. As result, the aggregate central government capital expenditure has been increased by 33% to 10.5 trillion. Within infrastructure, the capital outlay on railways is slated to increase by 50% to Rs 2.4tn and 9x when compared to the outlay for FY14. Apart from railways, allocation has increased across sectors like defence, rural housing, other transportation (roads & ports) and urban infrastructure. The capex now stands at an all-time high of 3.3% of GDP. **The budget is focused towards increasing productivity and efficiency by ensuring quality spending.**

To drive the rural & agri economy, the FM made a slew of announcements. Foremost, the food subsidy program has been continued for another financial year. Importantly, the target for agriculture credit has been further increased to Rs 20tn (vs. Rs 18tn last year). In addition to improved availability of credit, the budget proposes a fund to encourage agri-startups by young entrepreneurs. With the view to improve the agri productivity, there have been plenty of announcements to facilitate better quality of seeds, investments in digital infrastructure and skill development. Allocation under Pradhan Mantri Awas Yojana (PMAY) have increased to Rs790bn, which is 66% higher than the Rs 275bn budget allocation made in FY22. This will continue to boost affordable housing segment.

In the post covid era, Digitisation has been at the heart of all new initiatives taken by the government. India's Digital Public Infrastructure is the most advanced globally and even superior to the developed world. The budget further emphasises on harnessing the power of technology by initiatives like (a) use of PAN as the common identifier for all digital systems (b) setting up 100 labs for developing applications for 5G services (c) expanding the scope of documents that can be shared through Digilocker and many more initiatives so as to make digitisation all pervasive in business and governance.

Given the buoyancy in tax collections, GST revenues for FY23 has been revised upwards by 9.5% to Rs 8.6tn. Similar has been the case for personal and corporate tax collections. In the last budget, government chose to build conservative and realistic estimates to ensure that the fiscal deficit targets also appear credible. The same approach continues for FY24 as well. Total tax revenues are budgeted to increase by 11.7% on back of expected nominal GDP growth of 10.5%. To delight the middle class and offset the impact of rising inflation, personal tax rebates have been increased and there has been reduction in effective personal tax rates. The government has demonstrated fiscal discipline by adhering to FY2022-23 BE target of 6.4% fiscal deficit and continued the path of fiscal consolidation with a projected fiscal deficit of 5.9% for FY2023-24.

In the absence of any exogenous shocks, the budget maths is conservative and credible. **Despite being the last budget before central elections, the government has resisted the temptation to be populist and focussed on fiscal prudence.** The continuing structural reforms like PLI to facilitate India's emergence as global manufacturing hub, revival of private sector capex cycle and healthy consumer spending will continue to provide growth impetus to the economy.

On the global front, we are most likely reaching towards the end of the rate hike cycle. The US fed chair has acknowledged that the series of rate hikes have started to have the desired disinflationary impact on the economy. While there could be further minor rate hikes going ahead, we believe the bigger question now is how long the high interest rate scenario would continue. The jury is out on when the cycle would reverse. I believe greater clarity would emerge on the same over the next 2 quarters which would then set the tone for rate cuts in India as well.

Equity markets are a volatile beast and volatility could emerge from different corners, sometimes anticipated and most of the time unanticipated. We are going one such volatile times. But India has taken several structural initiatives which are unlikely to be perturbed by short term volatility. A combination of thrust to manufacturing and focus on infrastructure to support manufacturing will go a long way in improving India's global competitiveness. We believe the stage is set for change in long term growth drivers of the economy. We have reconciled with this fundamental shift couple of quarters back. Consequently, our portfolios have done extremely well and we continue to remain sanguine on the inherent strengths of our portfolio companies to deliver superior risk adjusted growth.

Happy investing!

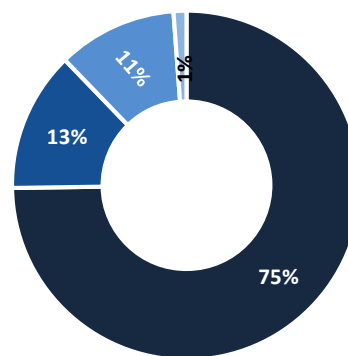
Pawan Parakh

Portfolio Manager

Investment Strategy

- Focused portfolio of 20 - 25 stocks
- High Conviction Ideas
- Investing across businesses which are at different states of their business lifecycle
- Capable of delivering sustainable, market-leading growth
- Reasonable Valuation

Portfolio Capitalization



■ Large Cap ■ Mid Cap ■ Small Cap ■ Cash

Top Holdings

Company	Weight(%)
HDFC Bank	7.86%
ICICI Bank	7.69%
Sun Pharmaceuticals	6.62%
ITC	6.56%
Bharti Airtel	5.99%

Top Sectorial Weights

Sector	Weight(%)
Banks & Finance	31.96%
Capital Goods & Engineering	15.46%
FMCG	14.70%
Pharmaceuticals	12.59%
IT Consulting & Software	7.56%

Portfolio – Fundamental Attributes

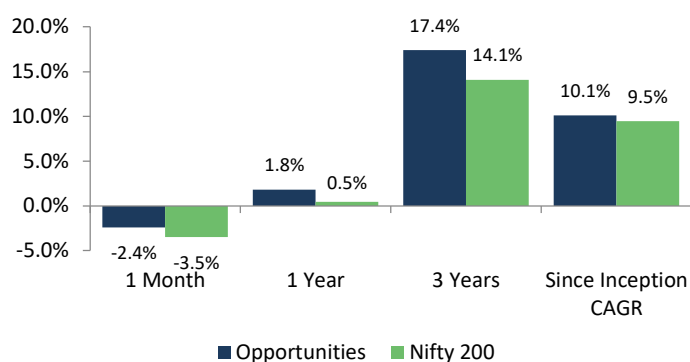
Particulars	FY23E	FY24E
PAT growth (%)	21.60%	30%
ROE (%)	16.30%	18.20%
P/E	29.5	28.4

Portfolio – Risk Attributes

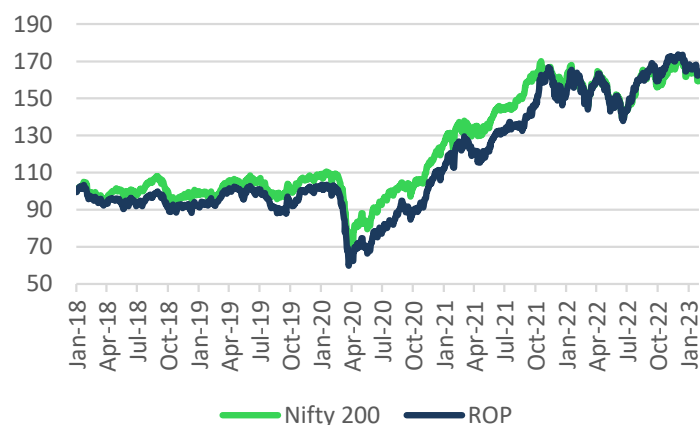
(Last 12 Months)

	Portfolio	Index
Std Dev	17.35	17.08
Information Ratio	0.24	0.0
Sharpe Ratio	-0.29	-0.38
Beta	0.96	1.0
Treynors Ratio	-0.05	0.0

Returns



Returns

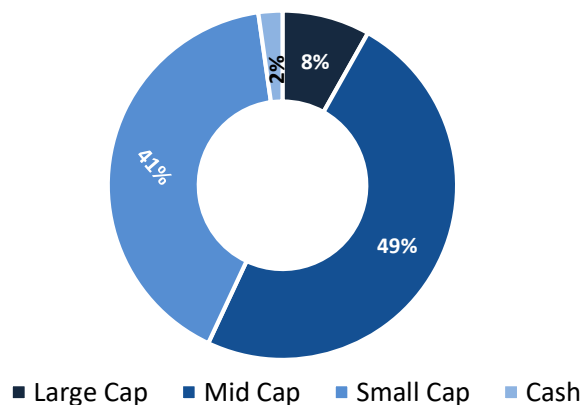


* Returns are for all clients on TWRR basis

Investment Strategy

- High growth business at early stage
- Focused approach – Around 25 stocks
- Midcaps which can grow sustainability to become tomorrow's Large Caps
- Long term approach to realise the full potential
- Flexibility to take exposure in Small caps which can be mid caps of tomorrow

Portfolio Capitalization



Top Holdings

Company	Weight(%)
Cummins India	6.34%
Aptech	5.70%
IDFC First Bank	5.68%
Aditya Birla Fashion & Retail	5.25%
VIP Industries	5.08%

Top Sectorial Weights

Sector	Weight(%)
Banks & Finance	20.68%
FMCG	18.77%
Capital Goods & Engineering	10.13%
Pharmaceuticals	7.46%
Automobiles & Logistics	7.00%

Portfolio – Fundamental Attributes

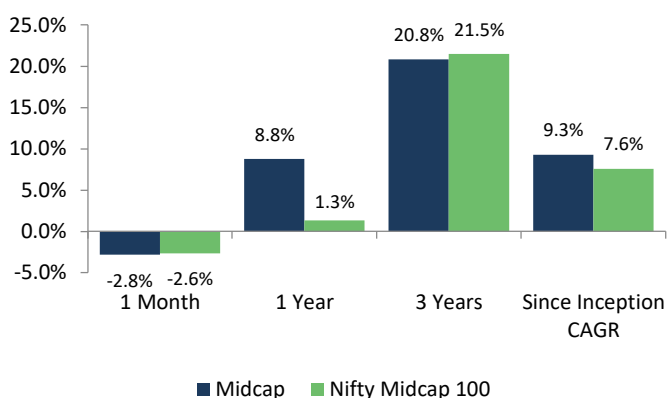
Particulars	FY23E	FY24E
PAT growth (%)	16.50%	48.0%
ROE (%)	15.5%	18.0%
P/E	25.1	26.3

Portfolio – Risk Attributes

(Last 12 Months)

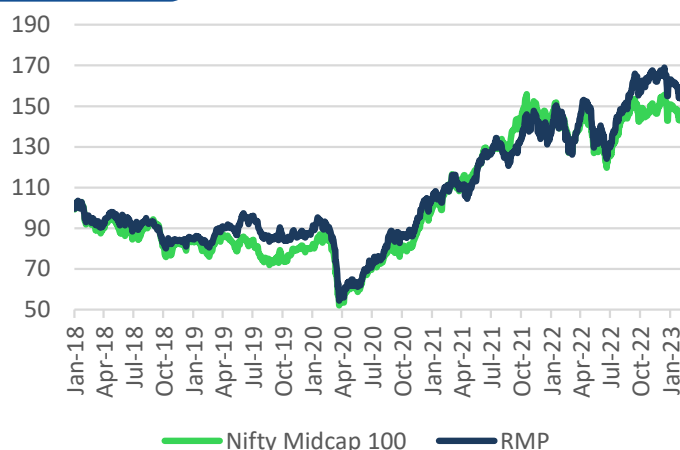
	Portfolio	Index
Std Dev	19.84	19.82
Information Ratio	0.96	0.0
Sharpe Ratio	0.10	-0.28
Beta	0.92	1.0
Treynors Ratio	0.02	0.0

Returns



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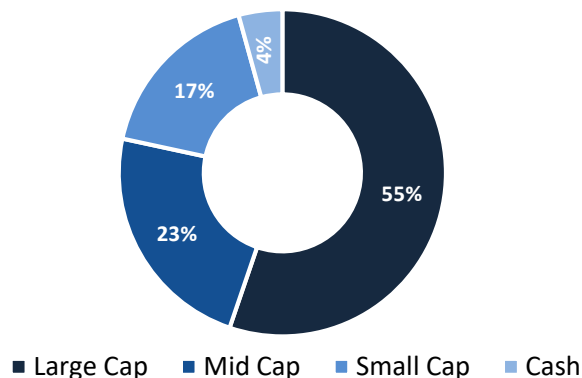
Returns



Investment Strategy

- Concentrated portfolio of 20-25 stocks.
- Focus on generating absolute returns over a 3 year period
- Market cap of more than INR 3000 Cr
- Capitalization Agnostic
- Additional layers apart from our SQGARP frame of low leverage (less than 0.5) and ROE>15%

Portfolio Capitalization



Top Holdings

Company	Weight(%)
HDFC Bank	7.45%
Larsen & Toubro	7.34%
ICICI Bank	7.26%
ITC	5.66%
Reliance Industries	5.61%

Top Sectorial Weights

Sector	Weight(%)
Banks & Finance	27.37%
FMCG	19.06%
IT Consulting & Software	12.61%
Capital Goods & Engineering	11.88%
Oil & Gas	5.61%

Portfolio – Fundamental Attributes

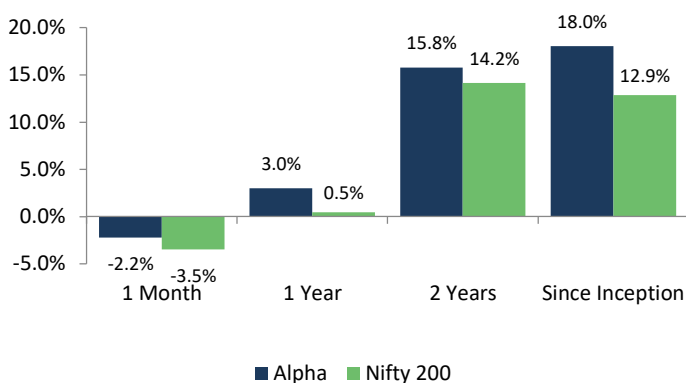
Particulars	FY23E	FY24E
PAT growth (%)	20.06%	26.7%
ROE (%)	18.1%	21.80%
P/E	30.0	26.6

Portfolio – Risk Attributes

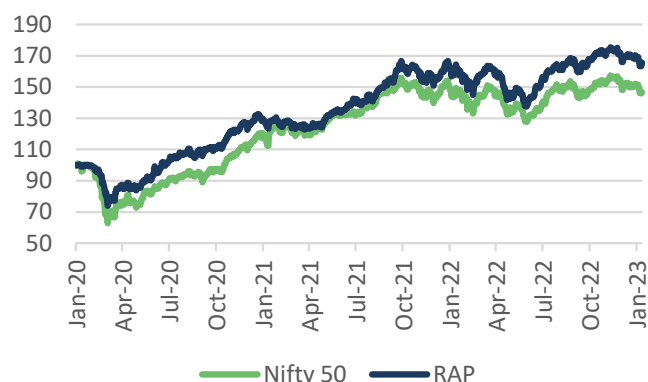
(Last 12 Months)

	Portfolio	Index
Std Dev	16.57	17.08
Information Ratio	0.49	0.32
Sharpe Ratio	-0.23	-0.38
Beta	0.92	0.08
Treynors Ratio	-0.04	0.93

Returns



Returns



Investment Strategy

Dynamic Thematic Portfolio

Theme 1

India Economic Recovery (19th April 2018 to 15th June 2022)

Theme 2

(Current Theme)

Growth & Income

Growth



Income

SUSTAINABLE QUALITY GROWTH AT REASONABLE PRICE

- ❑ Indian GDP growth of 7% in next 3 years
- ❑ Focus on investing in growth sectors
 - ✓ Consumer Discretionary
 - ✓ Capital Goods
 - ✓ Financials
 - ✓ IT & Retail

INFLATION HEDGE

- ❑ Focus on Income Yields
- ❑ Business with strong pricing power
 - ✓ Utilities
 - ✓ Telecom
 - ✓ Pharmaceuticals
 - ✓ Real Estate

Portfolio Capitalization

68%

13%

19%

0%

■ Large Cap

■ Mid Cap

■ Small Cap

■ Cash

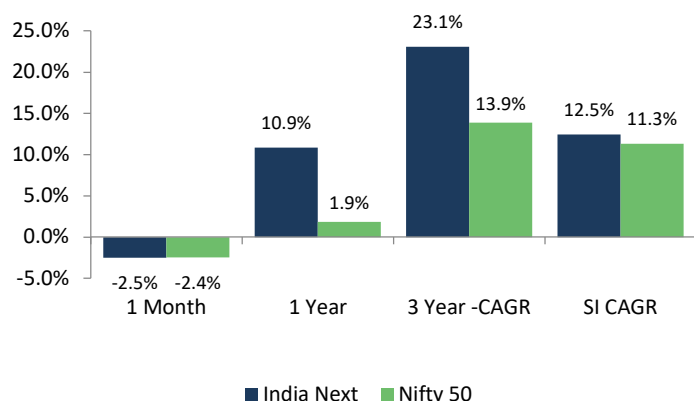
Top Holdings

Company	Weight(%)
ITC	8.63%
State Bank of India	7.74%
ICICI Bank	7.04%
HDFC Bank	6.14%
Sun Pharmaceuticals	5.89%

Sectoral Weights

Sector	Weight(%)
Banks & Finance	27.95%
Capital Goods & Engineering	21.53%
IT Consulting & Software	13.83%
Pharmaceuticals	11.24%
FMCG	8.63%

Returns



Returns



* Returns are for all clients on TWRR basis

Investment Philosophy

Sustainable Quality Growth At Reasonable Price (SQGARP)



Sustainability

Companies with sustainable and durable business models.



Quality

Superior quality businesses as demonstrated by Competitive edge, Pricing power, ROE, FCF.
Good quality and competent management teams.



Growth

Business that can deliver superior growth over medium term to long term.



Price

Ability to invest at reasonable valuations. Fair value approach to valuations.
Focus on economic value of business.

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