

7th August 2015

IDFC Classic Equity Fund

So where's the growth?

Recent volatility in Indian equity market and poor corporate results of 2015 has led many to believe that growth story of Indian economy will continue to be challenged. On aggregate level, Nifty delivered poor earnings growth in FY2015 with Nifty EPS falling by ~7% (even after adjusting for one offs, Nifty earning grew by ~3% only). Even the first quarter results of FY16E hasn't seen any big recovery on topline. However, as always averages are deceiving. A few businesses are growing rapidly while a few others have seen their earning collapse. On aggregate the earnings growth may look muted but it doesn't correctly indicate the growth that many businesses continue to achieve. **At portfolio level, we continue to like these growing businesses and that's where the core part of Classic Equity Fund is invested in. For FY15, the median earning growth of our portfolio stocks was 19%.**

What is our investment positioning?

IDFC Classic Equity Fund is a diversified equity fund positioned to participate in the growth story of India. In our opinion, a business derives its value from its current earnings and expectation of sustained growth in earnings which in turn is dependent on the efficient utilisation of capital. A well-managed business that is growing its earnings on sustainable basis will continue to be valued dearly and deliver above market returns. And that's the underlying philosophy of Classic Equity Fund. **We are investing in businesses that are scalable and growing their earnings and cash flows. And as the cash flows and earnings increase, market cap will follow.**

So what are our preferences?

The Portfolio Construct:

Being a diversified fund, all sectors of the market are well represented in the portfolio. However, there are clear preferences as far as stock level allocations are concerned. The main constituents of the portfolio are (*Data as on July 31, 2015*):

- *Consumption: 35%*
- *Investments: 19%*
- *Exporters: 16%*
- *Financiers: 25%*

Consumption: We continue to like the consumption story of India but our focus is clearly on sector leaders. In the current challenging growth environment also, these players have been able to maintain or increase their market share which will keep them in good stead as the industry growth normalise.

Key Holdings (as on July 31, 2015):

Company	Industry	Portfolio Weight	Sector Positioning	Remarks
Maruti Suzuki	Auto	3.77%	Market Leader	Largest passenger car manufacturer in India. Continues to gain market share in the domestic passenger car segment (currently at ~53% compared to ~46%, a couple of years back). Has been able to grow both margins and net profit despite overall weak demand environment.
Colgate Palmolive	Consumer Non Durables	3.47%	Market Leader	Largest player in oral care in India. Have been growing its market share (Current market share well above 50%) despite entry of new player (Oral-B). Well placed to grow profit as the demand scenario stabilises.
Voltas	Construction Project	3.87%	Market Leader	Largest company in the Air Conditioner space. Grown at a significant higher clip than competition in past few years. Continue to maintain its leadership.

Capex Cycle recovery – slow but definitely underway

Investment economy continues to suffer due to stressed balance sheet and low growth. While the broad-based capex recovery will take time, we are finding opportunities in the select sub-segments that continue to see traction. We have taken selective exposure to the space through companies that are financially healthy and are operating in these select sub-segments.

Key Holdings (as on July 31, 2015):

Company	Industry	Portfolio Weight	Debt/Equity	Remarks
Inox Wind	Industrial Capital Goods	3.88%	0.1x	One of the fastest growing players in fast growing renewable energy space. One of the few unleveraged players in the industry. Grown its revenue by ~70% in FY15. Poised to deliver strong growth in the current year as the new capacities come on-stream.
J Kumar Infra	Construction	1.75%	0.3x	One of the few unleveraged contractor in the EPC space. Well placed to grow its revenue and profitability as execution takes place.

Two pillar of Indian export story – Healthcare and Information Technology: Different challenges, different stance

We also like the export story of India and continue to hold positions in pharmaceuticals sector. Our preference is towards the large players in pharma space as they are much better equipped to deal with the regulatory challenges and have large balance sheets to invest for future growth opportunities.

Key Holdings (as on July 31, 2015):

Company	Industry	Portfolio Weight	Remarks
Glenmark Pharma	Pharmaceuticals	4.0%	Strong pipeline of launches in USA provides strong visibility of growth. Received 5 approvals in the last quarter after a lacklustre FY15.

The other part of export story, Information technology sector is undergoing a structural change at the moment with newer areas of analytics, cloud, mobility and social (commonly known as digital) impacting the traditional application development and maintenance work. While the opportunities in these new areas are large, ability of Indian IT players to reinvent themselves and adapt to the new world order is something that will decide the winners and losers in this space. So the focus needs to be on the companies that are investing in these newer technologies and are well equipped to take advantage of this growing opportunity. We are maintaining a cautious stance on this space.

Financiers

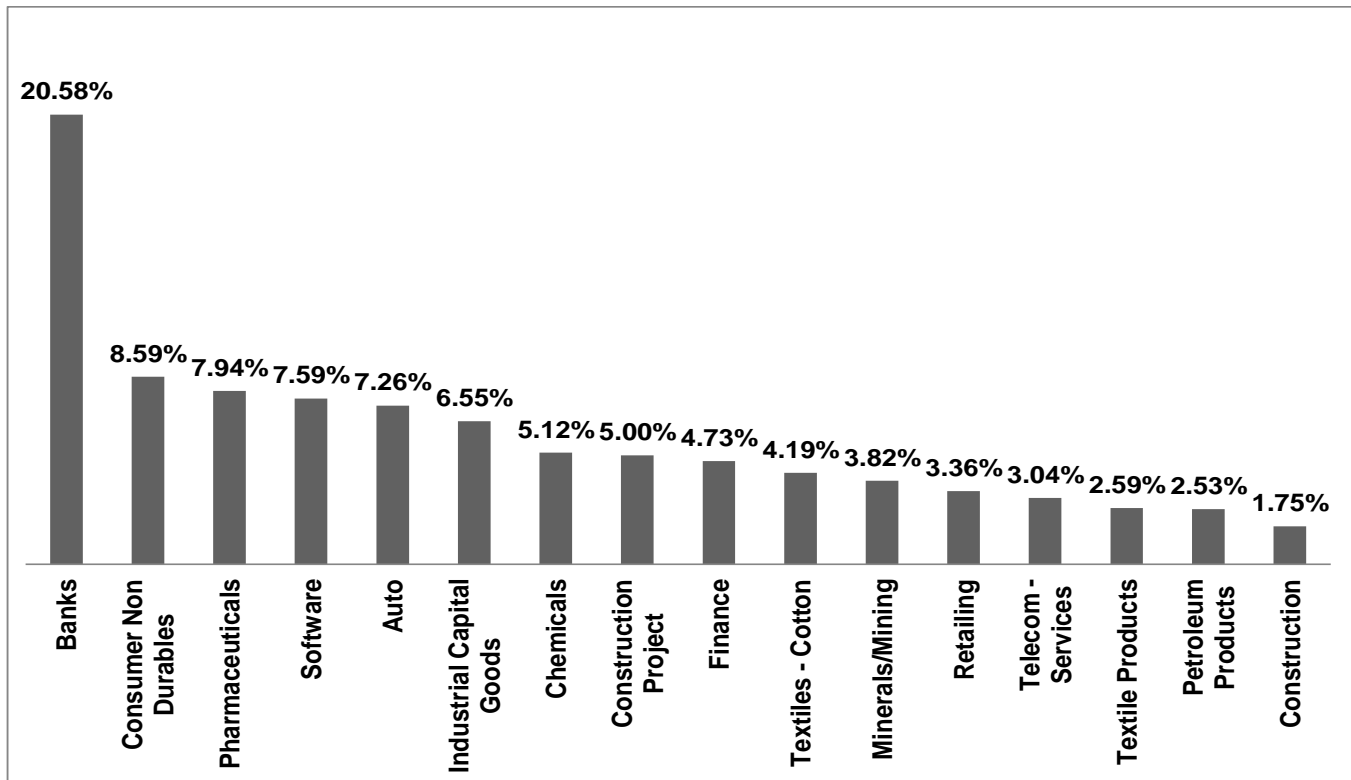
The story of stress on banking system in India is well documented. The NPA stress continues to weigh heavily on banks as corporate India has failed to unleveraged itself so far. Given this background, we are positive on financiers that have been able to manage their stress levels well and have been able to grow in overall weak credit cycle. Clearly the private sector banks and NBFCs have shown ability to adapt in the underlying macro environment, are much better capitalized and have continued to gain market share and that's where our preference lies. We hold banks like HDFC Bank, Yes Bank, Axis Bank, DCB Bank in line with our view.

Key Holdings (as on July 31, 2015):

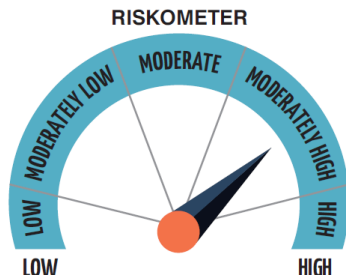
Company	Industry	Portfolio Weight	Current RoE	Remarks
SKS Microfinance	Finance	4.50%	24%	Leading micro-finance company in the country. Play on the movement from unorganised to organised credit in rural India.

In nut shell we continue to invest in companies that are:

- Revenue/ growth leaders in their respective segment;
- Cash flow generating;
- Unleveraged/ low leverage

Classic Equity Fund – Sector break-up (as on July 31, 2015)

Average market capitalisation (as on July 31, 2015)

Portfolio Market Cap: 100,000 crores
 BSE200 Market Cap: 142,000 crores

PRODUCT LABEL:

IDFC Classic Equity Fund

This product is suitable for investors who are seeking*:

- Create wealth over a long period of time
- Investment predominantly in equity and equity related instruments across market capitalisation

Investors understand that their principal will be at moderately high risk. *Investors should consult their financial advisers if in doubt about whether the product is suitable for them.

Fund Manager Name: Mr. Ankur Arora
Scheme Managed: IDFC Imperial Equity Fund
Option: Regular Plan Growth (NAV as on June 30, 2015 ₹per Unit): 27.5134

 #CNX Nifty
 ##S&P BSE Sensex

Period	NAV per Unit (₹)	Scheme Returns ^	Benchmark Returns #	Alternate Benchmark Returns ##	Current Value (₹) of Standard Investment of ₹10,000		
					Scheme ^	Benchmark#	Alternate Benchmark##
Mar 16, 2006 (Since Inception)	10.0000	11.50%	10.80%	10.61%	27,513	25,936	25,537
Jun 30, 2014 To Jun 30, 2015	24.5001	12.30%	9.95%	9.31%			
Jun 28, 2013 To Jun 30, 2014	18.7777	30.29%	30.09%	30.83%	NA		
Jun 29, 2012 To Jun 28, 2013	17.8832	5.00%	10.67%	11.28%	NA		

Option: Direct Plan Growth (NAV as on June 30, 2015 ₹per Unit): 28.0064

#CNX Nifty ##S&P BSE Sensex

Period	NAV per Unit (₹)	Scheme Returns ^	Benchmark Returns #	Alternate Benchmark Returns ##	Current Value (₹) of Standard Investment of ₹10,000		
					Scheme ^	Benchmark#	Alternate Benchmark##
Jan 01, 2013 (Since Inception)	19.9808	14.50%	14.65%	15.06%	14,017	14,063	14,188
Jun 30, 2014 To Jun 30, 2015	24.7064	13.36%	9.95%	9.31%			
Jun 28, 2013 To Jun 30, 2014	18.8353	30.98%	30.09%	30.83%	NA		

Scheme Managed: IDFC Classic Equity Fund
Option: Regular Plan Growth (NAV as on June 30, 2015 ₹per Unit): 31.7022

#S&P BSE 200 ##CNX Nifty

Period	NAV per Unit (₹)	Scheme Returns ^	Benchmark Returns #	Alternate Benchmark Returns ##	Current Value (₹) of Standard Investment of ₹10,000		
					Scheme ^	Benchmark#	Alternate Benchmark##
Aug 09, 2005 (Since Inception)	10.0000	12.37%	13.64%	13.85%	31,702	35,438	36,091
Jun 30, 2014 To Jun 30, 2015	27.2731	16.24%	12.01%	9.95%			
Jun 28, 2013 To Jun 30, 2014	20.8720	30.48%	34.23%	30.09%	NA		
Jun 29, 2012 To Jun 28, 2013	18.7996	11.02%	8.69%	10.67%	NA		

Option: Direct Plan Growth (NAV as on June 30, 2015 ₹per Unit): 32.2554

#S&P BSE 200 ##CNX Nifty

Period	NAV per Unit (₹)	Scheme Returns ^	Benchmark Returns #	Alternate Benchmark Returns ##	Current Value (₹) of Standard Investment of ₹10,000		
					Scheme ^	Benchmark#	Alternate Benchmark##
Jan 01, 2013 (Since Inception)	22.8039	14.92%	15.44%	14.65%	14,145	14,305	14,063
Jun 30, 2014 To Jun 30, 2015	27.5037	17.28%	12.01%	9.95%			
Jun 28, 2013 To Jun 30, 2014	20.9376	31.17%	34.23%	30.09%	NA		

Scheme Managed: IDFC Equity Opportunity - Series 3

Regular Plan Dividend Option (NAV as on Jun 30, 2015 ₹ per Unit): 13.2642

Fund Performance - The scheme has only Dividend - Payout option.

Period	NAV per Unit (₹)	Scheme Returns ^	Benchmark Returns #	Alternate Benchmark Returns ##	Current Value (₹) of Standard Investment of ₹10,000		
					Scheme ^	Benchmark#	Alternate Benchmark##
Feb 28, 2014 (Since Inception)	10.0000	23.58%	29.66%	24.05%	13,264	14,143	13,332
Jun 30, 2014 To Jun 30, 2015	12.9400	2.51%	11.36%	9.95%			
					NA		

Greater than 1 year returns are Compounded Annualised Returns. ^ Past performance may or may not be sustained in future. # S&P BSE 500 ## CNX Nifty

Scheme Managed: IDFC Equity Opportunity - Series 3

Direct Plan Dividend Option (NAV as on Jun 30, 2015 ₹ per Unit): 13.4923

Fund Performance - The scheme has only Dividend - Payout option.

Period	NAV per Unit (₹)	Scheme Returns ^	Benchmark Returns #	Alternate Benchmark Returns ##	Current Value (₹) of Standard Investment of ₹10,000		
					Scheme ^	Benchmark#	Alternate Benchmark##
Feb 28, 2014 (Since Inception)	10.0000	25.17%	29.66%	24.05%	13,492	14,143	13,332
Jun 30, 2014 To Jun 30, 2015	13.0007	3.78%	11.36%	9.95%			
					NA		

Greater than 1 year returns are Compounded Annualised Returns. ^ Past performance may or may not be sustained in future. # S&P BSE 500 ## CNX Nifty

Disclaimer:
MUTUAL FUND INVESTMENTS ARE SUBJECT TO MARKET RISKS, READ ALL SCHEME RELATED DOCUMENTS CAREFULLY.

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