

Quarterly Update on IDFC CORE EQUITY FUND

Large & Mid Cap Fund - An open ended equity scheme investing in both large cap and mid cap stocks



About the Fund:

The features of IDFC Core Equity Fund are:

- A mix of large cap and mid cap opportunities
- Benchmark sensitive (S&P BSE 200) –Underweight/overweight sector weights depending on fund manager view
- Focus on ‘Quality with Valuation’

The companies are selected on the basis of the following factors;

- **Cash Generating:** Greater flexibility in responding to emerging dilemmas ((PAT + Non-Cash Charges – Including Working Capital) / EBITDA > 33%)
- **Earning superior Return on Capital:** Sustainably create value for shareholders by earning **Return on Capital greater than the Cost of Capital** (Return on Net Worth > 15% or EBITDA / Net Operating Assets > 30%)
- **Ability to repay Debt:** Fixed cost of debt poses a burden on cash flows that are cyclically impacted and therefore debt needs to be at a level that can sustain downturns (Debt / EBITDA < 3)

Fund Positioning:

IDFC CEF			
	Stable	Cyclical	Total
Large Cap	23.4%	30.1%	53.5%
Mid Cap	18.0%	19.1%	37.1%
Small Cap	4.7%	4.7%	9.4%
Total	46.0%	54.0%	

BSE200			
	Stable	Cyclical	Total
Large Cap	53.3%	34.5%	87.8%
Mid Cap	6.2%	5.7%	11.9%
Small Cap	0.0%	0.2%	0.2%
Total	59.5%	40.5%	

Stable Sectors: Retail Banks & NBFCs, IT, Consumer Staple & Discretionary, Auto, HealthCare
Cyclical Sectors: Corp Banks & NBFCs, Energy & Utilities, Industrials, Cement, Commodities, Telecom
Data as on 28th June 2019

Stable & Cyclical Exposure with Top 3 stocks in each sector

Cyclical			Stable		
	IDFC CEF	BSE200		IDFC CEF	BSE200
Banks - Corporate	17.0%	10.6%	Banks - Retail	10.6%	13.5%
<i>ICICI BANK</i>	5.8%	4.6%	<i>HDFC BANK</i>	6.3%	8.7%
<i>STATE BANK INDIA</i>	5.2%	2.2%	<i>RBL BANK</i>	1.9%	0.3%
<i>AXIS BANK</i>	4.5%	2.3%	<i>KOTAK BANK</i>	1.9%	2.8%
Energy	5.7%	10.0%	Information Technology	4.7%	11.7%
<i>RELIANCE INDS.</i>	3.0%	6.7%	<i>INFOSYS</i>	3.1%	4.6%
<i>BHARAT PETROLEUM</i>	0.9%	0.5%	<i>BIRLASOFT</i>	0.6%	0.0%
<i>GAIL INDIA</i>	0.9%	0.4%	<i>MASTEK</i>	0.6%	0.0%
Industrials	11.6%	5.7%	NBFC – Stable	3.2%	11.6%
<i>LARSEN & TOUBRO</i>	4.0%	3.1%	<i>SUNDARAM FINANCE</i>	1.1%	0.0%
<i>AIA ENGINEERING</i>	1.4%	0.1%	<i>ICICI SECURITIES</i>	0.9%	0.0%
<i>KEC INTL.</i>	1.4%	0.0%	<i>MAX FINANCIAL</i>	0.7%	0.1%
Commodities	4.2%	4.4%	Consumer Staples	3.9%	9.9%
<i>JINDAL STEEL</i>	1.2%	0.1%	<i>GLAXOSMITHKLINE</i>	1.5%	0.2%
<i>DEEPAK NITRITE</i>	1.0%	0.0%	<i>NESTLE INDIA</i>	1.1%	0.7%
<i>NATIONAL ALUMINIUM</i>	0.8%	0.1%	<i>COLGATE PALMOLIVE</i>	1.0%	0.2%
Cement / Building Materials	5.8%	2.6%	Auto	7.0%	6.4%
<i>ACC</i>	1.6%	0.2%	<i>MRF</i>	1.7%	0.2%
<i>RAMCO CEMENT</i>	1.4%	0.2%	<i>APOLLO TYRES</i>	1.3%	0.1%
<i>AMBUJA CEMENTS</i>	1.4%	0.3%	<i>MAHINDRA & MAHINDRA</i>	1.1%	1.0%
Utilities	2.3%	2.3%	Health Care	7.8%	4.2%
<i>TORRENT POWER</i>	1.2%	0.1%	<i>IPCA LABS</i>	1.8%	0.0%
<i>NTPC</i>	1.1%	0.9%	<i>SUN PHARMA</i>	1.5%	0.7%
NBFC - Cyclical	1.8%	1.0%	<i>DR REDDY'S LABS</i>	1.4%	0.5%
<i>M&M FIN SERVICES</i>	1.8%	0.2%	Consumer Discretionary	10.3%	4.7%
			<i>FUTURE RETAIL</i>	2.3%	0.2%
			<i>INDIAN HOTELS</i>	2.2%	0.2%
			<i>TITAN</i>	1.6%	0.9%

- Fund maintains its overweight on cyclicals and remains invested in select small caps with high growth potential.
- Focus on relative valuations with improving historical operating metrics is the core philosophy of the fund. Within this framework, mid and small caps after a significant correction in CY18 and YTD trade at more reasonable valuations.
- Weightage of cyclicals, especially Corporate Banks, was increased in the quarter. Infrastructure – Domestic construction, cement and power - is another area of focus.
- Results season was mixed bag for the fund holdings. Sustained downturn in domestic demand impacted Autos, concerns on pricing in US impacted Pharmaceutical sector companies. On the other hand, cement sector, construction companies, corporate banks reported encouraging results.
- With election results on expected lines and political stability for the next term not in question, investor sentiments could improve as compared to uncertainty in 1H CY 19. We believe this could boost sentiments towards mid and small caps, a key pivot for potential outperformance in the coming quarters.

Operating Metrics of the Fund versus Benchmark:

Operating Metrics	IDFC CEF	Benchmark (S&P BSE 200)
FY 19 EPS Gr	33.3%	12.9%
PE Ratio	24.6	23.8
PB Ratio	2.5	2.9

Source: Bloomberg
Data as on 28th June 2019

- On the results front, companies with aggregate weight ~ 15% of the portfolio registered an upgrade in FY 20 earnings by more than 2%, while within the benchmark companies with weight aggregating ~12% were upgraded as per consensus estimates. We believe this reflects stronger growth potential of the underlying portfolio. Companies aggregating 57% of the portfolio reported numbers in line, as compared to 55% within the benchmark (BSE 200).
- Valuation (PE Ratio) appears to be higher than benchmark, due to depressed FY 19 earnings in select sectors like Autos and Pharmaceuticals.

A Review of Last Quarter



Things that worked

- Increased weight of Corporate Banks
- Increased exposure to Consumer Durables
- Increased exposure to Industrials



Things that didn't work

- Maintained over weight in Pharmaceutical sector
- Exposure in Automobile continued to be impacted by weak Q4 FY 19 results, high base would impact H1 FY 20 as well
- Continued overweight on small caps

Current Sector Weights

Sector	Weight in Fund	Weight in Index
Financials	35.1%	36.6%
Auto	7.0%	6.4%
Consumer Staples	4.3%	10.0%
Consumer Discretionary	10.4%	4.5%
Cement / Building Mat	5.8%	2.5%
Health Care	7.8%	4.0%
Information Technology	4.7%	12.0%
Industrials	11.8%	5.6%
Utilities	2.2%	2.2%
Telecommunication Services	0.0%	1.5%
Energy	5.7%	10.3%
Commodities	4.0%	4.3%

Portfolio Stance – Key Overweight sectors:

Industrials:

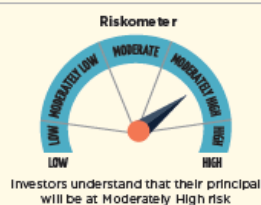
With a strong election result outcome, focus of the returning Modi government should sustain spends on infrastructure. In addition, private sector capital spending appears to be primed for a revival driven by improving capacity utilization and political stability post election results.

Consumer Discretionary:

Consistent growth with stronger growth potential and valuations less demanding than consumer staples. Organised retail is less than 10% of overall retail and has long runway for growth, selling consumer staples and daily necessities where penetration is over 90%. Category penetration of organized players in segments like jewellery, home air conditioning for example, remains key growth drivers.

Healthcare:

Recent setbacks on warnings from US FDA post plant inspection have subdued investor interest in this sector. However, increasing regulatory awareness and improved plant practices should help Indian pharmaceutical industry tide over these issues going forward. Undemanding valuations and trigger of price consolidation in US generics market will be the key drivers for stocks to react positively.



This product is suitable for investors who are seeking*:

- To create wealth over long term.
- Investment predominantly in equity and equity related instruments in large and mid-cap companies.

*Investors should consult their financial advisers if in doubt about whether the product is suitable for them.

Fund Performance

Performance Table								
Scheme Name	CAGR Returns (%)				Current Value of Investment of ₹ 10,000			
	1 Year	3 Years	5 Years	Since Inception Aug 09, 2005	1 Year	3 Years	5 Years	Since Inception Aug 09, 2005
IDFC Core Equity Fund	3.02%	11.45%	10.74%	11.51%	10,302	13,835	16,650	45,410
S&P BSE 200 TRI [#]	8.24%	13.34%	10.99%	13.58%	10,824	14,551	16,840	58,679
Nifty 50 TRI [#]	11.39%	13.93%	10.53%	13.82%	11,139	14,777	16,490	60,392

Performance based on NAV as on 28/06/2019. Past performance may or may not be sustained in future.

The performances given are of regular plan growth option. Regular and Direct Plans have different expense structure. Direct Plan shall have a lower expense ratio excluding distribution expenses, commission expenses etc. [#]Benchmark Returns. Current Index performance adjusted for the period from since inception to June 28, 2007 with the performance of S&P BSE 200 price return index (Benchmark)

Other Funds managed by the Fund Manager

Period	Managing Since	Benchmark Index	1 Year		3 Years		5 Years	
			Scheme Return (%)	Benchmark Return (%)	Scheme Return (%)	Benchmark Return (%)	Scheme Return (%)	Benchmark Return (%)
Fund Manager Name: Mr. Anoop Bhaskar								
IDFC Core Equity Fund	30-04-2016	S&P BSE 200 TRI	3.02%	8.24%	11.45%	13.34%	10.74%	10.99%
IDFC Multi Cap Fund	30-04-2016	S&P BSE 500 TRI	0.56%	6.54%	7.99%	12.87%	10.80%	10.73%
IDFC Sterling Value Fund ^{@1}	30-04-2016	S&P BSE 500 TRI	-5.18%	6.54%	12.09%	14.02%	11.81%	13.55%
IDFC Hybrid Equity Fund ⁴	30-12-2016	CRISIL Hybrid 35+65 - Aggressive Index	2.58%	9.63%	NA	NA	NA	NA
IDFC Equity Opportunity - Series 5	16-03-2018	S&P BSE 500 TRI	-3.33%	6.54%	NA	NA	NA	NA

Mr. Anoop Bhaskar manages 6 schemes of IDFC Mutual Fund[#].

Performance based on NAV as on 28/06/2019 Past Performance may or may not be sustained in future.

The performance details provided herein are of regular plan growth option. Regular and Direct Plans have different expense structure. Direct Plan shall have a lower expense ratio excluding distribution expenses, commission expenses etc. [@]Current Index performance adjusted for the period from since inception to May 28, 2018 with the performance of Nifty Mid Cap 100 total return index (Benchmark) ¹The fund has been repositioned from a Mid cap fund to a value fund w.e.f. May 28, 2018. ⁴The fund has been repositioned from Balanced category to Aggressive Hybrid category w.e.f. April 30, 2018. [#]The performances of IDFC Equity Opportunity Series 6, which has not completed a year, has not been shown here.

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