



IDFC MUTUAL FUND

# IDFC EQUITY OPPORTUNITIES -SERIES 2

STAY INVESTED ... as Closed End Fund Rolls-over for 3 Yrs



# Context

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## **Roll-over of closed ended fund 'IDFC Equity Opportunities - Series 2' for 3 yrs.**

- What is the basis of this rollover?

Considering the current environment for equity investment, we strongly believe that the operating leverage theme which was also the founding theme of the fund still remains conducive for Investors to remain invested for a further period of 3 years.

- Is there a change in the underlying theme?

No, there is no change in the underlying theme. We continue with theme of operating leverage. However the portfolio construct will be modified basis fund manager's discretion and thought process.

## **Roll-over Features**

- Current size: 335.74 crs ( as on December 31, 2016)

- Min. cut-off: Minimum corpus requirement to carry out the rollover of the Scheme shall be INR 50 crs

- Fund Manager: Rajendra Mishra

# Portfolio Strategy

We look for companies,

- Operating at low capacity utilization and are therefore operating at below optimal margins
- Sensitivity of earnings to capacity utilisation is very high; and as the demand picks up these companies can show big swing in profitability
- Consolidating businesses
- Have a relevant and established product or service
- Credible history and promoter background

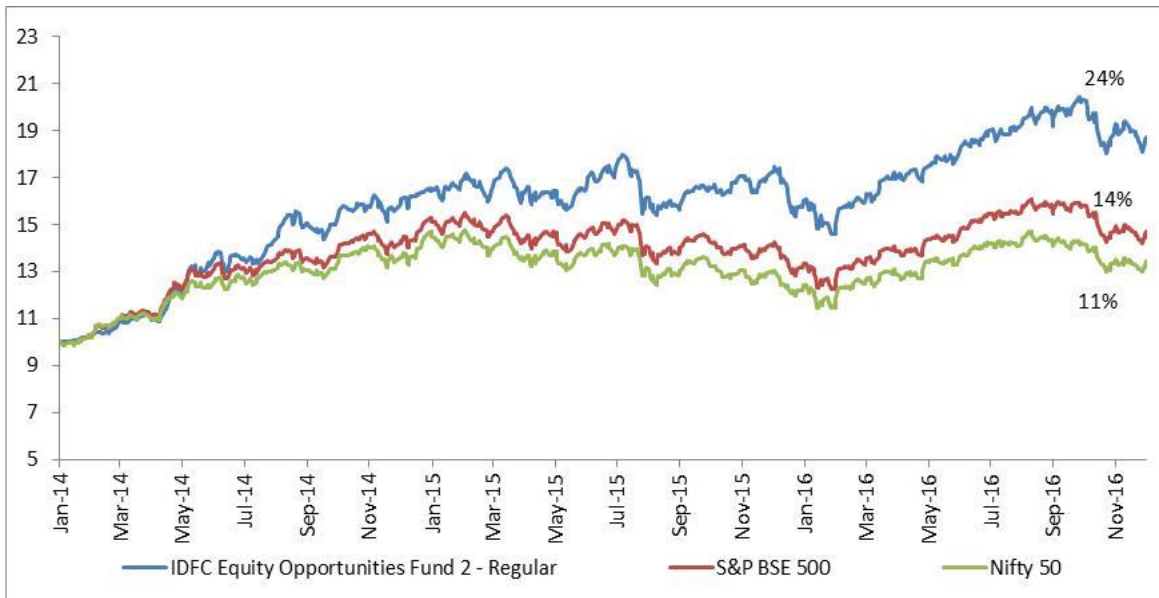
EQOS2

Active Management

Diversified Portfolio  
built on **Operating  
leverage theme**

# Fund Performance .. (since fund inception - Jan2014 to Dec2016)

## Fund outperformance over Benchmark (cagr)



### Returns as on 30th December 2016

Scheme Name	Since Inception (cagr)
IDFC Equity Opportunity - Series 2 - Reg - Dividend	24%
S&P BSE 500	14%

Return also includes dividend paid  
Launch Date: 31<sup>st</sup> Jan 2014

*Disclaimer: Past performance may or may not be sustained in future  
Refer slide no. 18 for detailed performance disclosure*

## Attribution

List of Companies & Sectors, that contributed the highest return to the portfolio over past 3-yrs.

Companies	Total Absolute Return (%)	Contribution to Portfolio return (%)	% Average Weight
KPR MILL LTD	793.9	17.6	5.7
PC JEWELLER LTD	23.8	12.1	0.7
AEGIS LOGISTICS LTD	448.6	12.1	4.8
MOTHERSON SUMI SYSTEMS LTD	136.6	9.0	4.3
KOTAK MAHINDRA BANK LTD	117.5	6.6	4.9
GREAVES COTTON LTD	117.3	5.5	3.7
PETRONET LNG LTD	174.9	4.8	2.7
BHARTI INFRATEL LTD	99.1	4.7	3.4
PTC INDIA LTD	44.6	4.4	3.7
BHARAT FINANCIAL INCLUSION L	86.9	4.1	3.3
TATA CHEMICALS LTD	85.2	3.1	3.2
MONSANTO INDIA LTD	97.5	3.0	0.7
MANGALORE REFINERY & PETRO	150.5	2.9	2.7
ENGINEERS INDIA LTD	55.6	2.9	2.7
TIMKEN INDIA LTD	151.5	2.7	0.3

Sectors	Total Absolute Return (%)	Contribution to Portfolio return (%)
Consumer Discretionary	232.4	46.0
Energy	258.0	20.1
Industrials	89.2	18.4
Materials	90.7	17.6
Financials	161.2	9.7
Utilities	18.5	6.3
Information Technology	19.0	5.5
Telecommunication Services	99.1	4.7

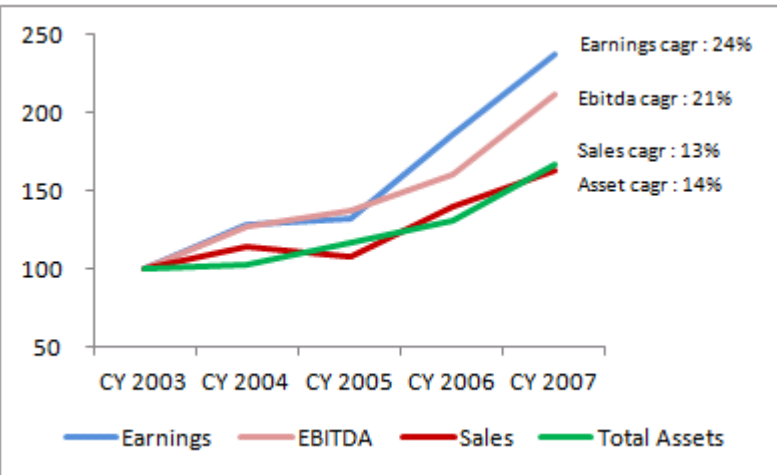
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THEME (Operating leverage)  
&  
Portfolio STRATEGY

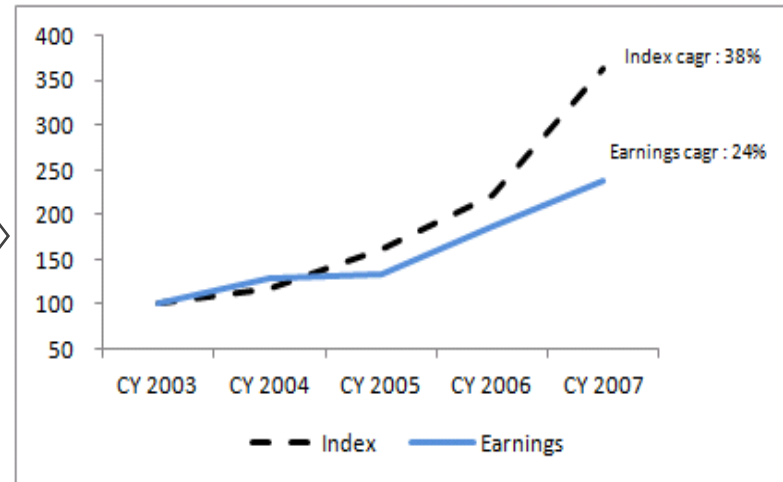
# How 'Operating leverage' played out ... in past

As Revenue grows, capacity utilisation (Asset Turnover) improves, and Margins expand  
 i.e. **Profits grow faster than Sales**,  $\Delta(\text{Earnings}) > \Delta(\text{Sales}) > \Delta(\text{Assets})$   
 ( $\Delta$  - implies change over a time-period)

## BSE-500: CY2003-2007 (pre-GFC\*)



Op. leverage played out ... driving mkt rally



(Note: All data rebased to 100 in CY2003)  
 \*GFC - Global Financial Crisis of 2008

- Pick up in External and Internal Demand Environment
- Robust Global and Domestic GDP growth
- Increasing RoEs

**Operating leverage played out significantly during CY2003-07**

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Operating leverage arises when incremental production costs do not rise proportionately for each additional incremental unit of production and sales.

### Key Drivers

1. Higher Capacity utilisation/ Asset turnover
2. Product mix improvement / better pricing (hence higher margin/profitability)
3. Consolidation in the Industry (leading to pricing power hence better margins)

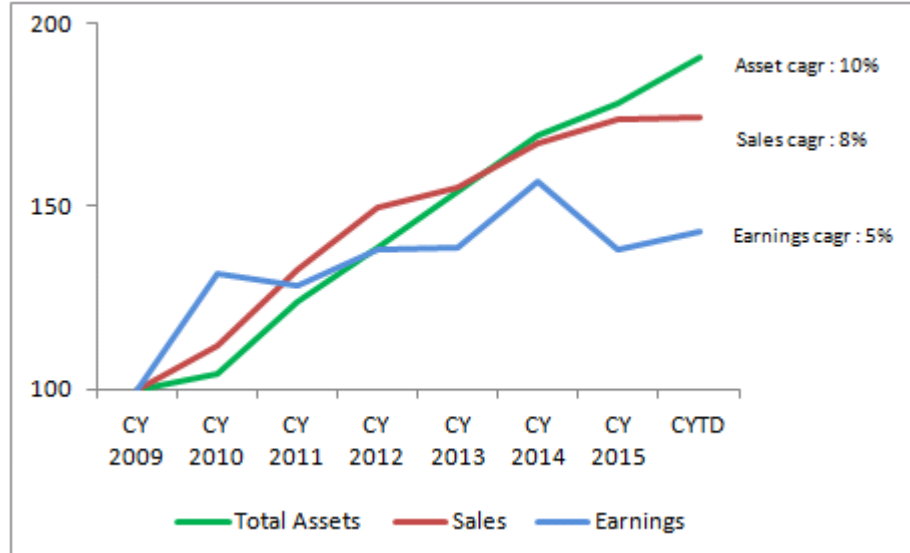
**These factors contributed to  
Operating leverage playing out significantly during CY2003-07**



# Why 'Operating leverage' is inherent ... currently

Capacity build-out (w.r.t. assets/overheads etc.) ahead of future Sales  
i.e. **Assets/Sales grow faster than Profits**,  $\Delta(\text{Assets}) > \Delta(\text{Sales}) > \Delta(\text{Earnings})$   
( $\Delta$  - implies change over a time-period)

**BSE-500: CY2009-2016** (post-GFC\*)



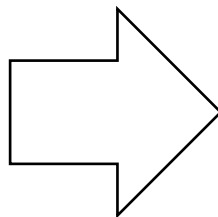
(Note: All data rebased to 100 in CY2009)

\*GFC - Global Financial Crisis of 2008

**Operating leverage inherent in the Economy ..., But yet to fully play out**

# EQOS2 portfolio - Examples of Op. Leverage

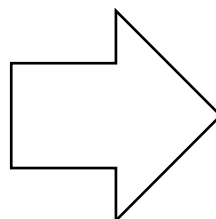
A Portfolio co. (Textile sector)	FY10-16
	(x)
Asset growth (Gross block)	2.2
Revenue growth	3.2
Pat growth (adj.)	4.2



Mcap growth **7.4x**  
(over Fy10-16)

Op. leverage **fully played out**

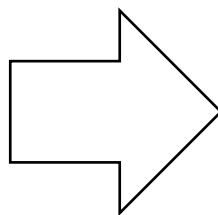
A Portfolio co. (Energy sector)	FY10-16
	(x)
Asset growth (Gross block)	2.5
Revenue growth	2.5
Pat growth (adj.)	2.1



Mcap growth **3.3x**  
(over Fy10-16)

Op. leverage **partially played out**

A Portfolio co. (Energy sector)	FY10-16
	(x)
Asset growth (Gross block)	3.0
Revenue growth	1.2
Pat growth (adj.)	1.1



Mcap growth **0.9x**  
(over Fy10-16)

Op. leverage **yet to play out**

(Source: Capitaline)

**Stock selection approach is to capture Op. leverage ... before it plays out**

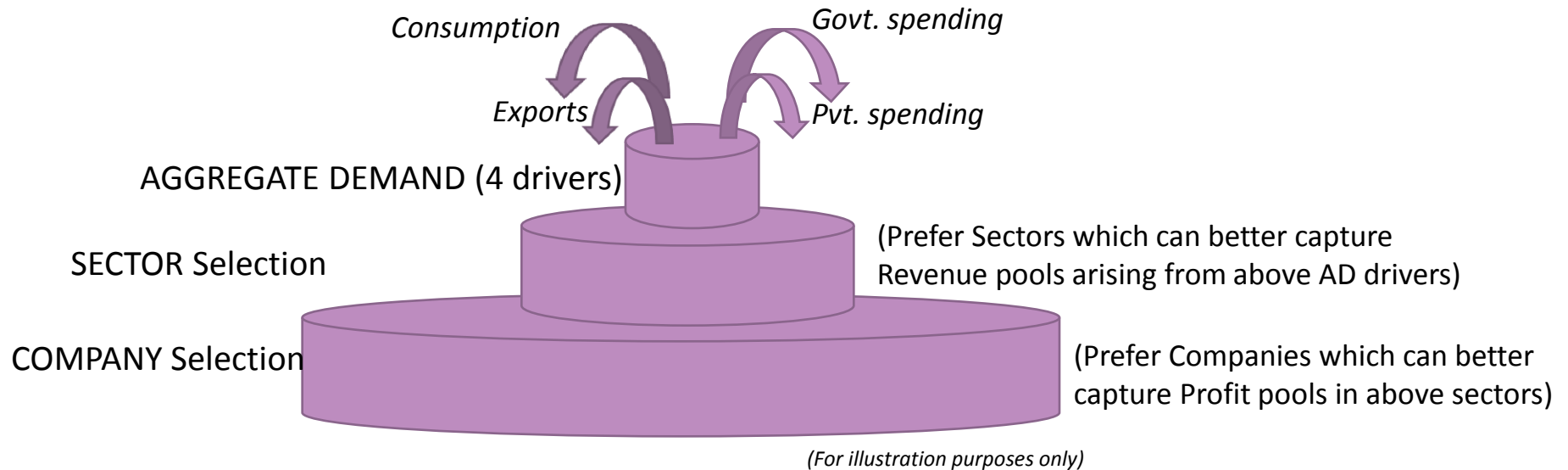
# Portfolio Strategy

## Capturing OPERATING LEVERAGE

AGGREGATE DEMAND (AD) pushes-up GDP in the Economy

→ which in-turn creates REVENUE pools for SECTORS

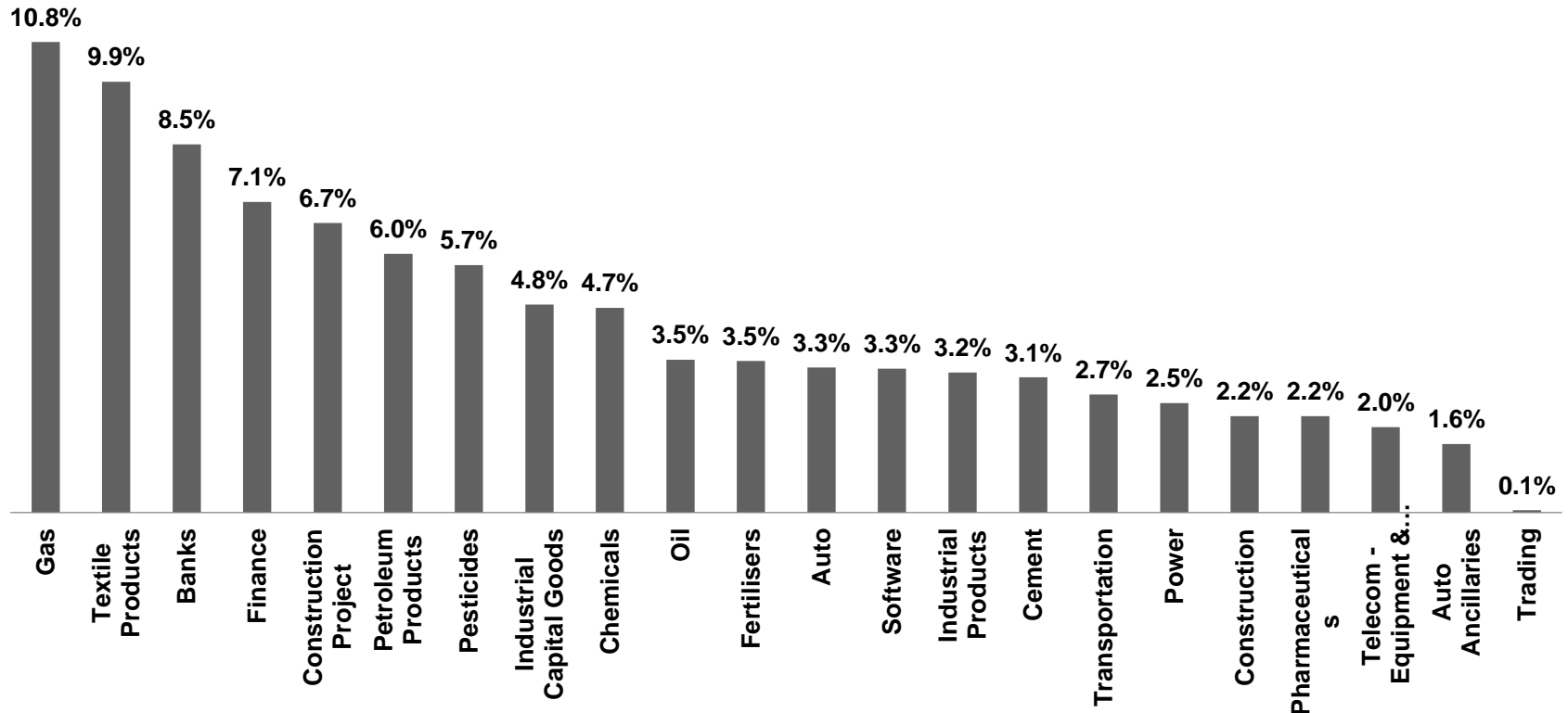
→ which in-turn expands PROFIT pools for COMPANIES



## 'WATERFALL' FRAMEWORK

# Current Portfolio aligned to key drivers of AD

Currently, AGGREGATE DEMAND is driven by 'Govt. spending' and 'Consumption', while 'Pvt. Investments' and 'Exports' remain weak



(Data as on 30<sup>th</sup> Dec-2016)

**Portfolio has concentration around Sectors (witnessing Govt. spending, Consumption)**

- e.g. Govt. spending: Infra/Construction, Energy
- e.g. Consumption: Chemicals/Fertilizers, Agri, Textiles, Auto

# Commonality of exposure with 'Idfc Infra Fund'

Sr. No.	IDFC EQOS - 2	Industry	Port. Wts
1	Adani Ports & SEZ Ltd.	Transportation	2.72%
2	Adani Transmission Limited	Power	0.77%
3	Bharat Electronics Limited	Industrial Capital Goods	2.46%
4	Cairn India Limited	Oil	2.09%
5	Engineers India Limited	Construction Project	4.05%
6	GAIL (India) Limited	Gas	2.03%
7	J.Kumar Infraprojects Limited	Construction	1.27%
8	Larsen & Toubro Limited	Construction Project	2.61%
9	MRPL	Petroleum Products	3.21%
10	Oberoi Realty Limited	Construction	0.95%
11	Praj Industries Limited	Industrial Capital Goods	1.26%
12	PTC India Limited	Power	1.75%
13	SREI Infrastructure Finance Limited	Finance	0.49%
14	The Ramco Cements Limited	Cement	3.11%
15	Petronet LNG Limited*	Gas	3.94%
	<b>Total</b>		<b>32.70%</b>

**Fund Manager: Rajendra Mishra**

Sr. No.	IDFC INFRASTRUCTURE FUND	Industry	Port. Wts
1	Adani Ports & SEZ Ltd.	Transportation	3.95%
2	Adani Transmission Limited	Power	4.11%
3	Bharat Electronics Limited	Industrial Capital Goods	1.95%
4	Cairn India Limited	Oil	4.98%
5	Engineers India Limited	Construction Project	7.93%
6	GAIL (India) Limited	Gas	1.78%
7	J.Kumar Infraprojects Limited	Construction	4.50%
8	Larsen & Toubro Limited	Construction Project	4.21%
9	MRPL	Petroleum Products	1.57%
10	Oberoi Realty Limited	Construction	1.05%
11	Praj Industries Limited	Industrial Capital Goods	2.48%
12	PTC India Limited	Power	0.52%
13	SREI Infrastructure Finance Limited	Finance	1.92%
14	The Ramco Cements Limited	Cement	0.02%
15	Indraprastha Gas Limited*	Gas	10.10%
	<b>Total</b>		<b>51.07%</b>

**Fund Manager: Rajendra Mishra**

*\*Though not identical, both the companies are from similar space (Gas chain)  
Data as on 30<sup>th</sup> December 2016*

~33% wt. of IDFC EQOS-2 portfolio (across 15 stocks) ... is common to IDFC Infra Fund

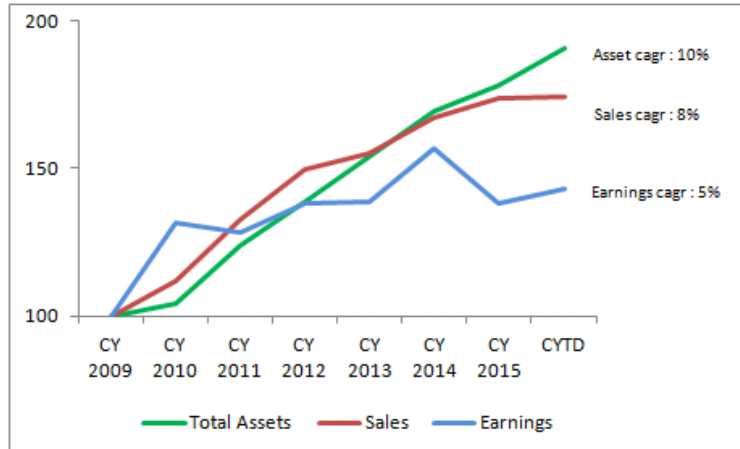
**While both Funds have different Theme/Strategy, most ideas centered around Govt. spending (in Infra space) are common to both the funds**

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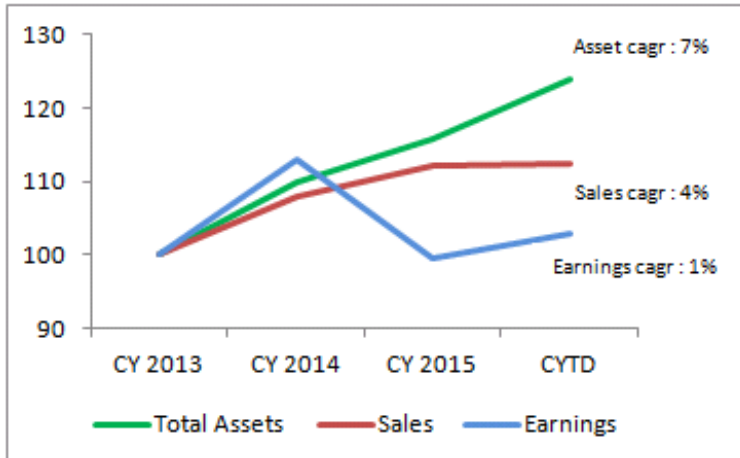
# Annexures

# What about recent 3-yr rally ?

## BSE-500: CY2009-2016 (post-GFC)

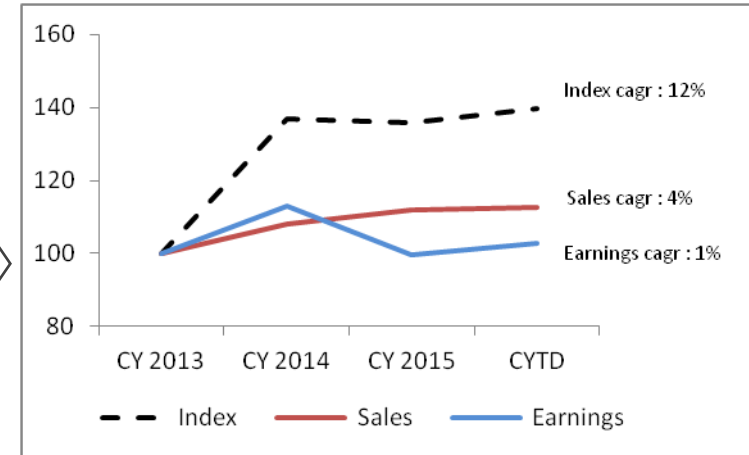


## BSE-500: CY2013-2016 (last 3-yrs)



(Note: All data rebased to 100)

Op. leverage  
yet to fully  
play out, ...  
still mkts  
rallied



(Note: All data rebased to 100)

# Portfolio Holdings

(as on December 30, 2016)

Top 15 Companies	Industry	% of NAV
K.P.R. Mill Limited	Textile Products	5.71%
Aegis Logistics Limited	Gas	4.86%
Kotak Mahindra Bank Limited	Banks	4.29%
Arvind Limited	Textile Products	4.21%
Tata Chemicals Limited	Chemicals	4.12%
Engineers India Limited	Construction Project	4.05%
Petronet LNG Limited	Gas	3.94%
Coromandel International Limited	Fertilisers	3.48%
Tata Motors Limited	Auto	3.34%
Infosys Limited	Software	3.31%
MRPL	Petroleum Products	3.21%
The Ramco Cements Limited	Cement	3.11%
UPL Limited	Pesticides	2.89%
Dhanuka Agritech Limited	Pesticides	2.80%
Reliance Industries Limited	Petroleum Products	2.74%

	IDFC EQOS-2 (Fund)	BSE500 (Index)
P/E	22.4x	23.5x
P/B	2.6x	2.5x
RoE	12.3%	10.8%

Source: Bloomberg (as of 30-Nov-16 portfolio)



# Product Label

## IDFC Equity Opportunity - Series 2

### Riskometer



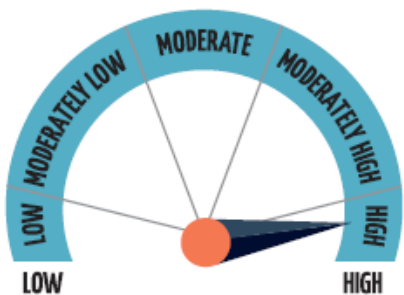
Investors understand that their principal will be at Moderately High risk

**This product is suitable for investors who are seeking\*:**

- Long-term capital growth
- Investment predominantly in Indian as well as overseas Equity and Equity related securities in either growth stocks or value stocks or both without any capitalization bias

## IDFC Infrastructure Fund

### Riskometer



Investors understand that their principal will be at High risk

**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 of companies that are participating in and benefiting from growth in Indian infrastructure and infrastructural related activities.

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

# Performance

**Fund Manager Name: Mr. Rajendra K Mishra** (w.e.f. 31/8/16)

**Scheme Managed:** IDFC Equity Opportunity - Series 2 Regular Plan Dividend Option (NAV as on Dec 30, 2016 ₹ per Unit): 18.7252

Period	NAV per Unit (₹)	Scheme Returns ^	Benchmark Returns #	Alternate Benchmark Returns ##	Current Value (₹) of Standard Investment of ₹10,000		
					Scheme^	Benchmark#	Alternate Benchmark##
Jan 31, 2014 (Since Inception)	10.0000	24.01%	14.18%	10.68%	18,725	14,717	13,442
Dec 31, 2015 To Dec 30, 2016	17.2905	8.30%	3.78%	3.01%	NA		
Dec 31, 2014 To Dec 31, 2015	16.0871	7.48%	-0.82%	-4.06%	NA		

**Scheme Managed:** IDFC Equity Opportunity - Series 2 Direct Plan Dividend Option (NAV as on Dec 30, 2016 ₹ per Unit): 19.0636

Period	NAV per Unit (₹)	Scheme Returns ^	Benchmark Returns #	Alternate Benchmark Returns ##	Current Value (₹) of Standard Investment of ₹10,000		
					Scheme^	Benchmark#	Alternate Benchmark##
Jan 31, 2014 (Since Inception)	10.0000	24.77%	14.18%	10.68%	19,064	14,717	13,442
Dec 31, 2015 To Dec 30, 2016	17.5788	8.45%	3.78%	3.01%	NA		
Dec 31, 2014 To Dec 31, 2015	16.2821	7.96%	-0.82%	-4.06%	NA		

Funds in the Equity Opportunities series have only Dividend Payout Option. However, the NAV is adjusted to the extent of dividend declared for computation of returns. # S&P BSE 500, ## Nifty 50

**Fund Manager Name: Mr. Rajendra Kumar Mishra** (w.e.f. 27/6/13)

**Scheme Managed:** IDFC Infrastructure Fund Regular Plan Growth Option (NAV as on Dec 30, 2016 ₹ per Unit): 12.4682

Period	NAV per Unit (₹)	Scheme Returns ^	Benchmark Returns #	Alternate Benchmark Returns ##	Current Value (₹) of Standard Investment of ₹10,000		
					Scheme^	Benchmark#	Alternate Benchmark##
Mar 08, 2011 (Since Inception)	10.0000	3.86%	-1.11%	7.00%	12,468	9,373	14,827
Dec 31, 2015 To Dec 30, 2016	11.2621	10.71%	-2.05%	3.01%	NA		
Dec 31, 2014 To Dec 31, 2015	11.2804	-0.16%	-8.91%	-4.06%	NA		
Dec 31, 2013 To Dec 31, 2014	7.8794	43.16%	22.71%	31.39%	NA		

**Scheme Managed:** IDFC Infrastructure Fund

**Option:** Direct Plan Growth (NAV as on Dec 30, 2016 ₹ per Unit): 13.0726

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)	8.8847	10.14%	0.91%	8.30%	14,714	10,370	13,756
Dec 31, 2015 To Dec 30, 2016	11.6209	12.49%	-2.05%	3.01%	NA		
Dec 31, 2014 To Dec 31, 2015	11.4919	1.12%	-8.91%	-4.06%	NA		
Dec 31, 2013 To Dec 31, 2014	7.9226	45.05%	22.71%	31.39%	NA		

# Nifty Infra, ## Nifty 50

*Disclaimer: Past performance may or may not be sustained in future*



IDFC MUTUAL FUND

# Risk Factors & Disclaimer

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

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# THANK YOU...



*Sources: Internal compilation, Bloomberg data, Broker research*