ASK Investment Managers

ASK Lighthouse Portfolio

1st Satellite Portfolio from ASK IM

Presenting a portfolio that invests predominantly in a few (3 or 4) focused themes / sectors at a time with deep and large opportunities.

ASK Lighthouse Portfolio

Invest predominantly in a few (3 or 4) focused themes / sectors at a time:
Presenting deep and large opportunities

Where-in structural transformation is underway:
Changes where the extent of impact is high, which are likely to be reasonably durable (not transitory), and sizable in nature

Agile management of Themes :
Flexibility to change themes, keeping the broad investment philosophy intact, as with time, the greater impact of transformational benefits might get saturated

Mix of Top-Down & Bottom-Up Approach:
Themes may be conceived on a top-down or bottom-up basis, while selection of the businesses would be on a bottom-up basis

Current Focus Areas:

- Infrastructure & Engineering
- Energy
- Defence
- Manufacturing
- Railways
- Capital goods
- Allied sectors

ASK Investment Managers

ASK IM's 1st Satellite Portfolio

Theme Selection

Theme Entry Characteristics:

- **Structural changes** (and not short-term) with deep impact and **sizeable** in nature
- Relative **youthfulness** of the theme
- **Capture high growth phase** of a theme, as growth rates could vary between time periods
- Reasonably **durable** and not temporary
- Seek adequate **Margin of Safety**

Diversity:

3 to 4 themes at a time

Dynamism:

Selection of deep contemporary opportunities with potential for dynamism over time

Adequate representation of worthy themes:

- For **narrow** themes, number of stocks will be **lesser**
- For **broader** ones, there could be **more opportunities**
- Hence portfolio could have **15-30 stocks**

Exit of a selected Theme

Theme Exit Characteristics

Relative ageing of the Theme

Residual runway for value creation is limited and the theme is relatively more matured

A large part of the changes are priced in

Better opportunities emerge elsewhere

May not play the complete cycle, a level of residual returns may be left on the table, if the high growth phase of the theme is behind

ASK Investment Managers

How is it different v/s other ASK Portfolios?

Investments likely to happen on the **improvement journey of RoCEs**

Historical **earnings** could be volatile, however during the high growth phase they are **expected to be strong**

Focus is on **capturing the high growth phase**, rather than the durability of the earnings

Idea is not as much about compounding of earnings, and hence **duration of investments may not be as long**

As the portfolio seeks more lucrative themes, it could lead to **relatively greater churn**

Transitioning from one theme to another could result in **high intermittent cash levels**

Key investment objective of capital preservation and capital appreciation will remain unchanged.
Good management quality, strong moat and adequate margin of safety continue to be guiding principles

Key Portfolio Characteristics

Market Cap

Market cap agnostic portfolio

Stock / Sector Limits:

Single stock limit of **10%** to mitigate concentration risk. High sectoral exposure possible to tap the opportunity

Number of Stocks:

Well constructed portfolio of **15-30** businesses. Bottom-up stock selection

Absolute Returns:

Endeavor to deliver absolute returns which should also lead to relative outperformance over a period of time

Exit Load:

Nil

Benchmark:

BSE 500-TRI

Focus Theme: Critical for Alpha Generation

Index Name / 3Y CAGR	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
S&P BSE Consumer Discretionary Goods & Services					28%	17%	20%	21%						
S&P BSE Energy								18%	18%	20%	13%			
S&P BSE FMCG	14%	24%	24%	18%										
S&P BSE Finance					30%		17%		16%	20%				
S&P BSE Healthcare	15%	26%	16%	13%	35%	28%					14%	23%		
S&P BSE Industrials													33%	50%
S&P BSE IT	12%	34%		9%		24%					29%	39%		
S&P BSE Telecom												22%		
S&P BSE Utilities													26%	
S&P BSE Auto	22%	49%	15%	6%	32%	17%	18%							
S&P BSE Bankex			13%		33%		17%		16%	21%	8%			
S&P BSE Capital Goods													25%	44%
S&P BSE Con Durables		40%	27%			16%	25%	33%	20%	31%	10%	29%		
S&P BSE Metal									17%				26%	
S&P BSE Oil & Gas								18%						
S&P BSE Power													32%	41%
S&P BSE Realty								19%		22%		29%		
NSE Nifty PSU Bank Index														48%
NSE Nifty CPSE	32%													44%
BSE 500-TRI	**-1%**	**19%**	**5%**	**1%**	**25%**	**14%**	**14%**	**13%**	**12%**	**14%**	**8%**	**19%**	**18%**	**20%**

Identification of right theme can lead to potential superior performance

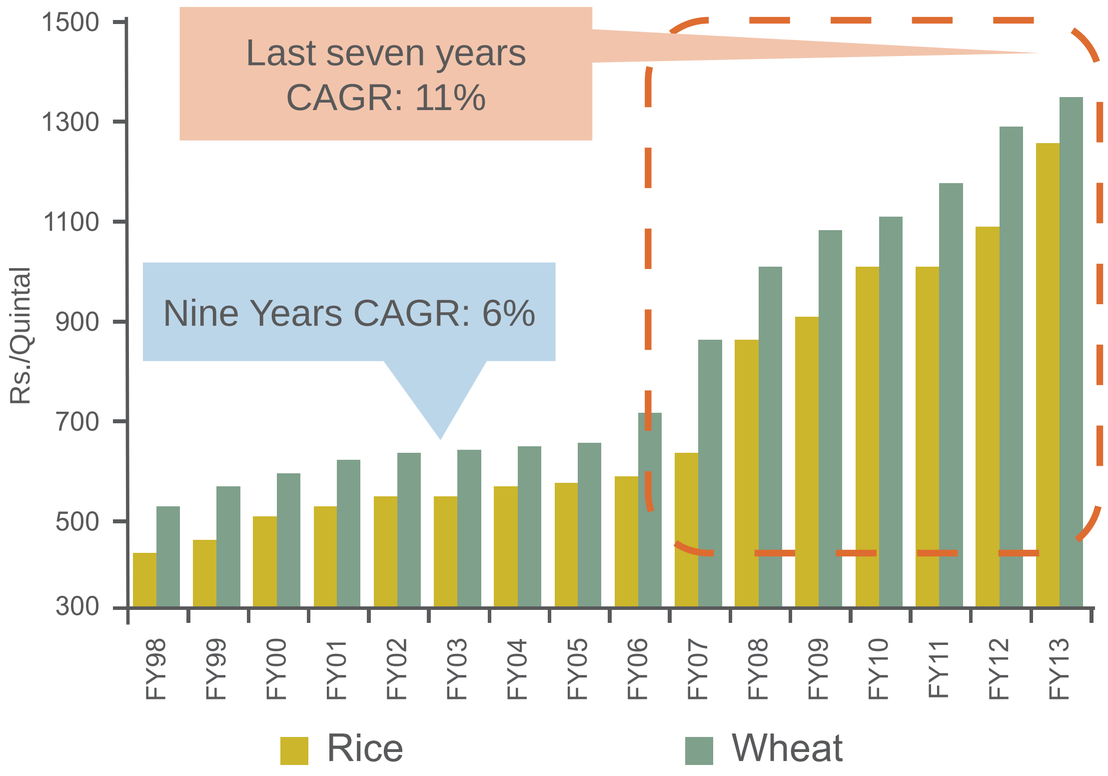
ASK Investment Managers

Source: Bloomberg, ASK IM Research. 3Y CAGR returns as on end of respective CY. Only top 5 performing indices during that CY are highlighted

Consumption Theme: Staples (FMCG) – 2010-12

Rise in MSPs, increased allocations on rural welfare in 2010-12 stimulated low-ticket consumption demand, thereby benefitting FMCG sector.

MSP increase continues to fuel rural growth…



Source: FCI, ASK IM Research

…so does increasing government spend on rural welfare

Rs. Bn	2008-13 CAGR	2009-2010	2010-11	2011-12	2012-13	2013-14
SSA	20%	131	150	204	255	272
MDM	14%	80	94	100	119	132
IAY	15%	88	100	100	120	151
PMGSY	16%	120	120	200	240	217
NRHM	8%	155	171	198	208	212

Source: Finance Ministry, ASK IM Research

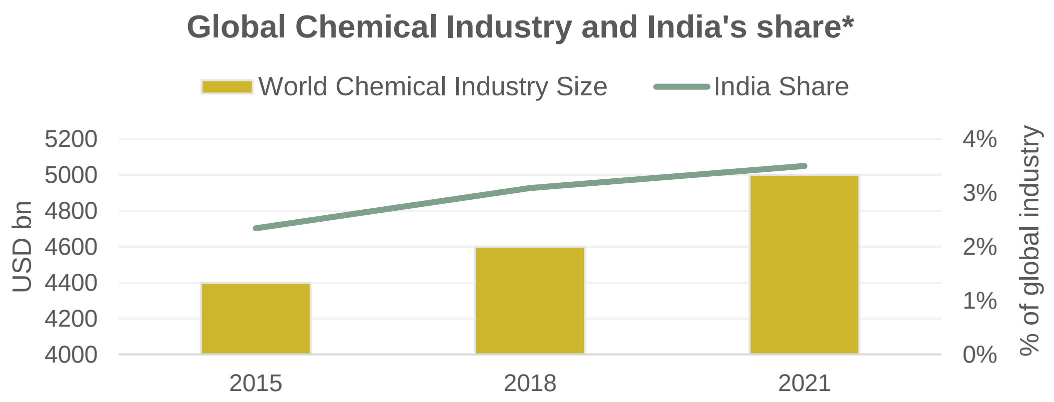
Index Name	2010	2011	2012
S&P BSE FMCG	28%	2%	46%
BSE 500-TRI	18%	-26%	33%

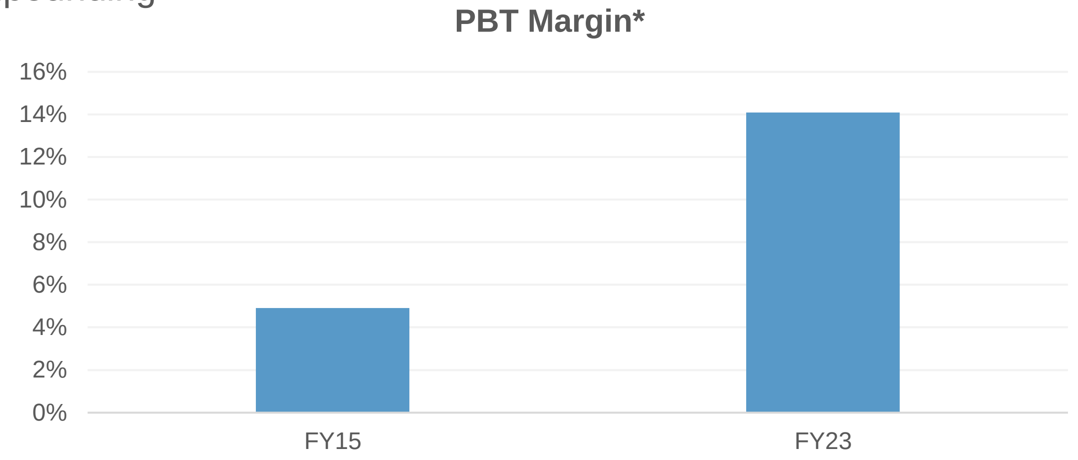
Source: Bloomberg, ASK IM Research

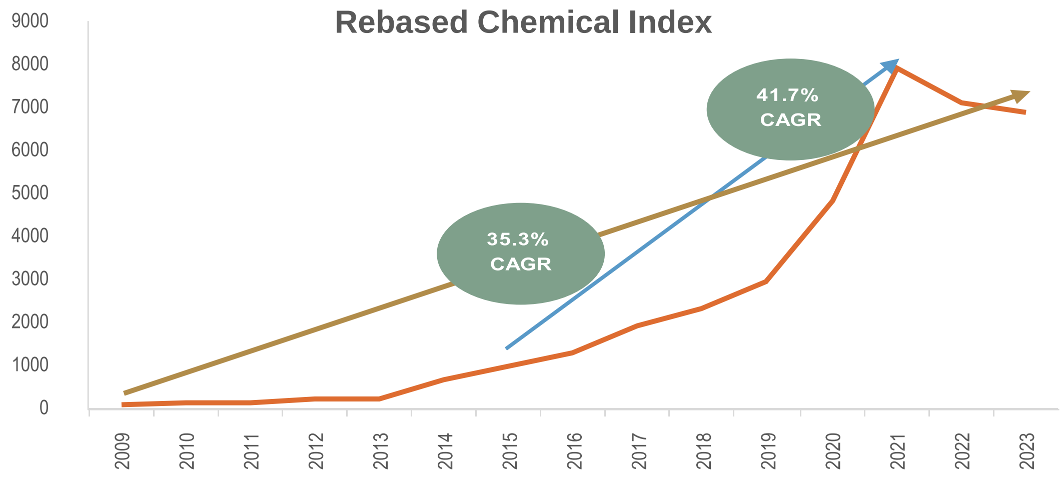
ASK Investment Managers

Exports / Import Substitution: Chemical Industry – 2015-21

India's market share in global chemical industry increased in 2015-2021 driven by faster domestic and export growth leading to increase in revenues and margin improvements translating into superior return compounding







ASK Investment Managers

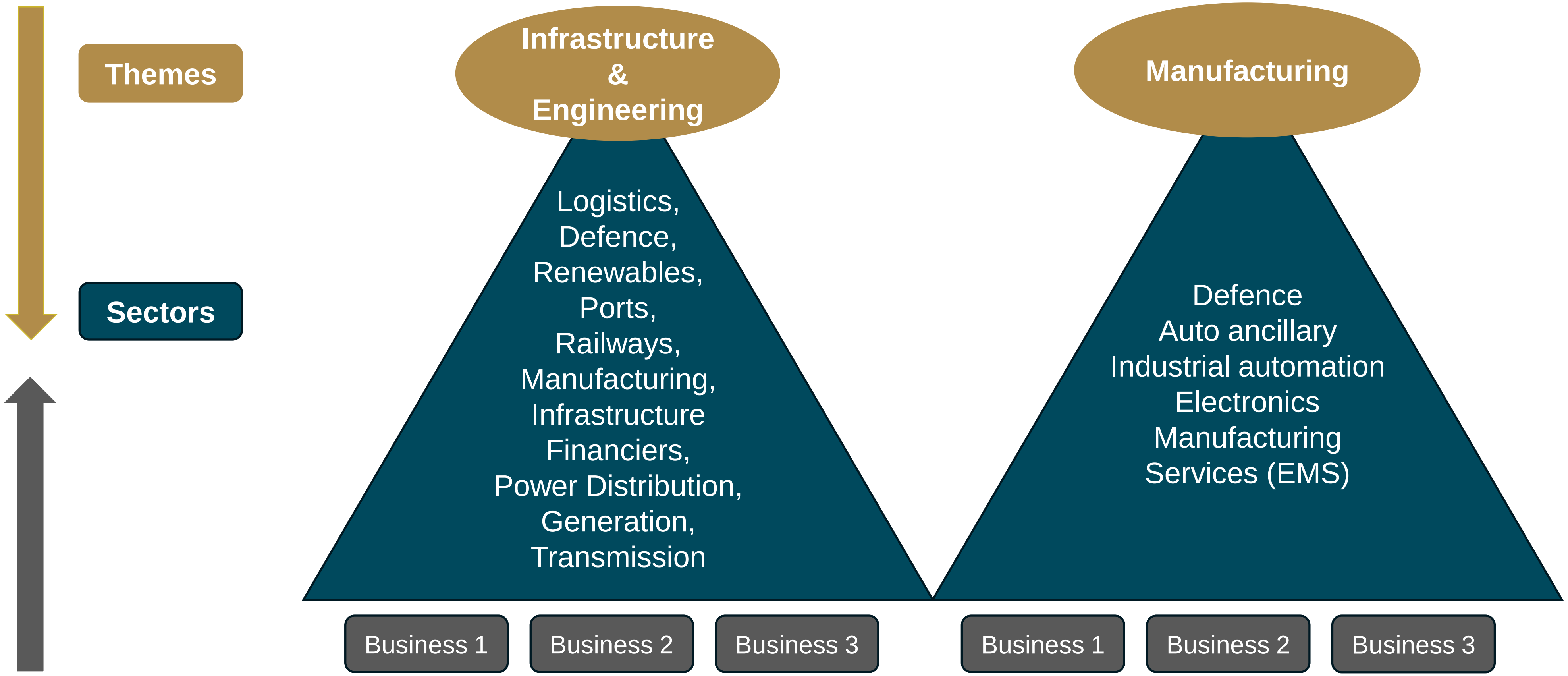
Source: ASK IM Research and company filings,
*Equal weighted index of 6 large chemical companies (SRF, Navin Fluorine, Aarti Industries, Atul Limited, Vinati Organics and Tata Chemical
Above graph is only for reference purpose wherein we have curated the index with equal weighted of above-mentioned large cap companies. The graphs and underlying interpretation may vary if entire universe of companies falling under chemical sector are taken into consideration

Focus Themes: Infrastructure & Engineering, Manufacturing

ASK Investment Managers

Mix of Top-Down and Bottom-up Approach

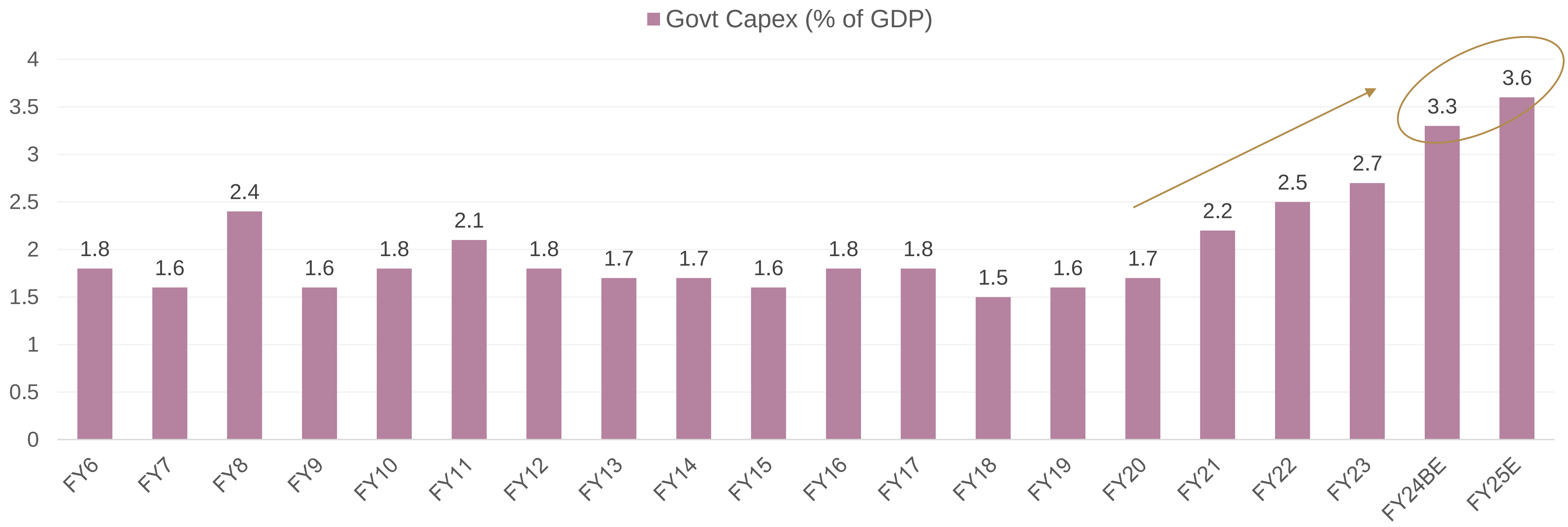
Top-down Theme / sector selection



Bottom-up Business selection

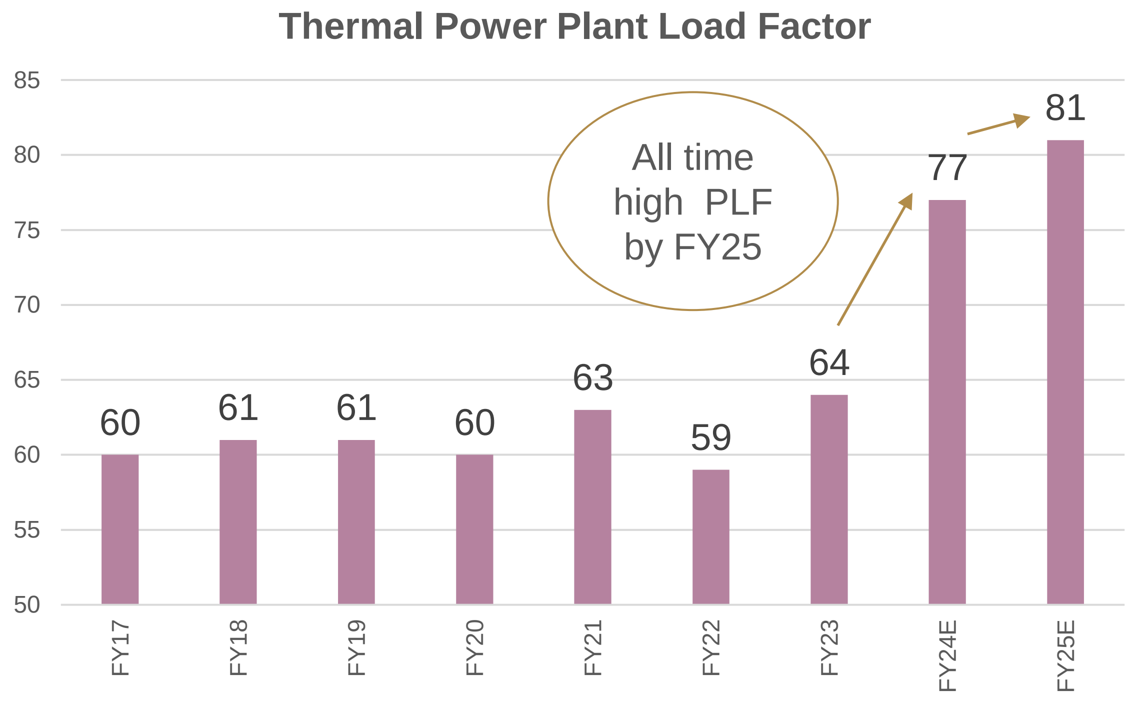
ASK Investment Managers

Considerable increase in Capital Expenditure



Capex budgeted to grow at a faster pace at 3.3% - 3.6% of GDP: highest level in over a decade

Power Sector: Demand growth to surprise positively



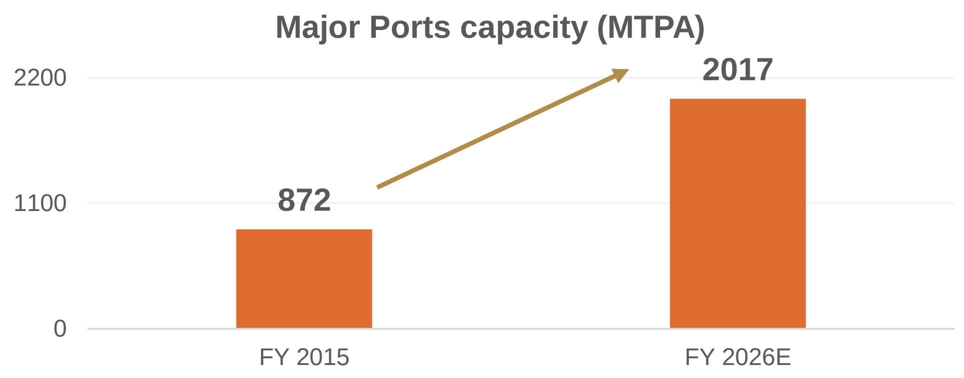
Source: Jefferies, ASK IM Research

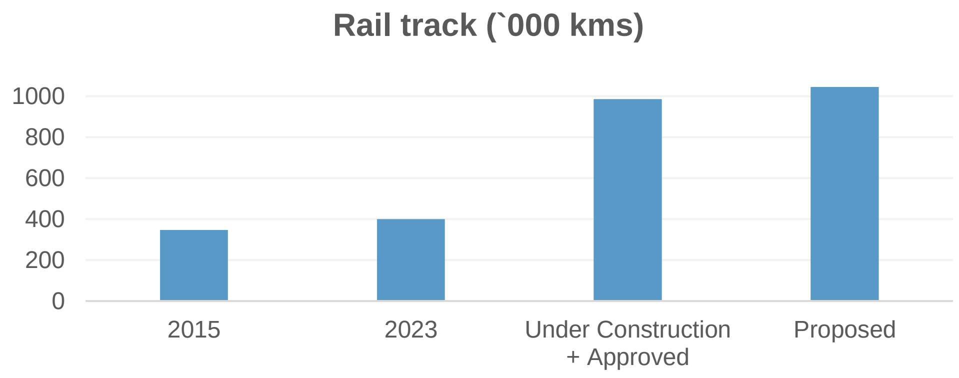
	Installed capacity (GW)			(Rs '000 crs)
	Oct-23	Needed by FY32	Capacity to be added	Opportunity size
Coal	214	260	88	600
Solar	72	365	293	1,172
Wind	44	122	78	390
Nuclear	7	20	13	169
Hydro	42	60	18	252
Others	16	43	27	216
Total	**425**	**900**	**475**	**2,799**

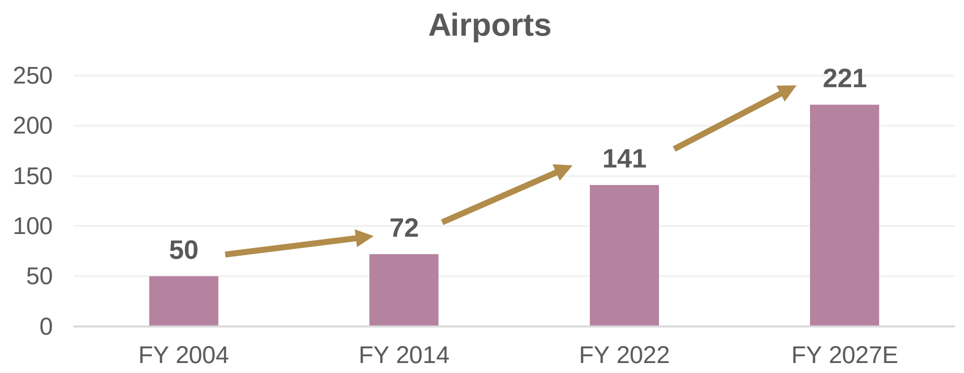
Source: CEA, ASK IM Research

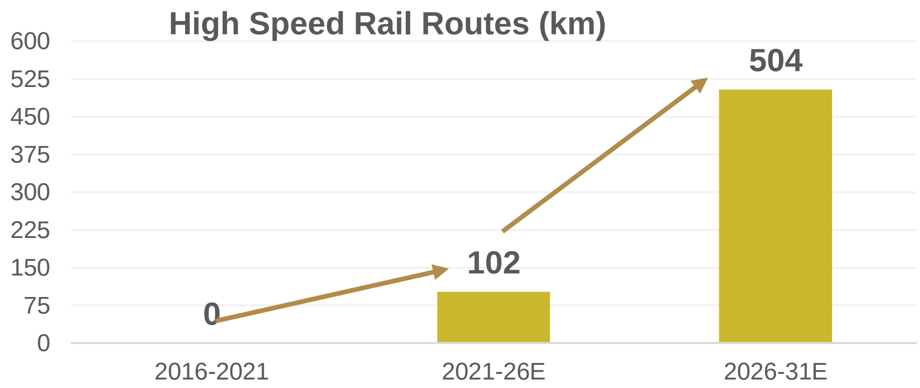
Thermal Power Plant utilization is expected to peak by FY25, led by increase in power demand.
There is need for further capacity installation looking ahead which creates a large opportunity size

Massive Growth in Infrastructure Capacity





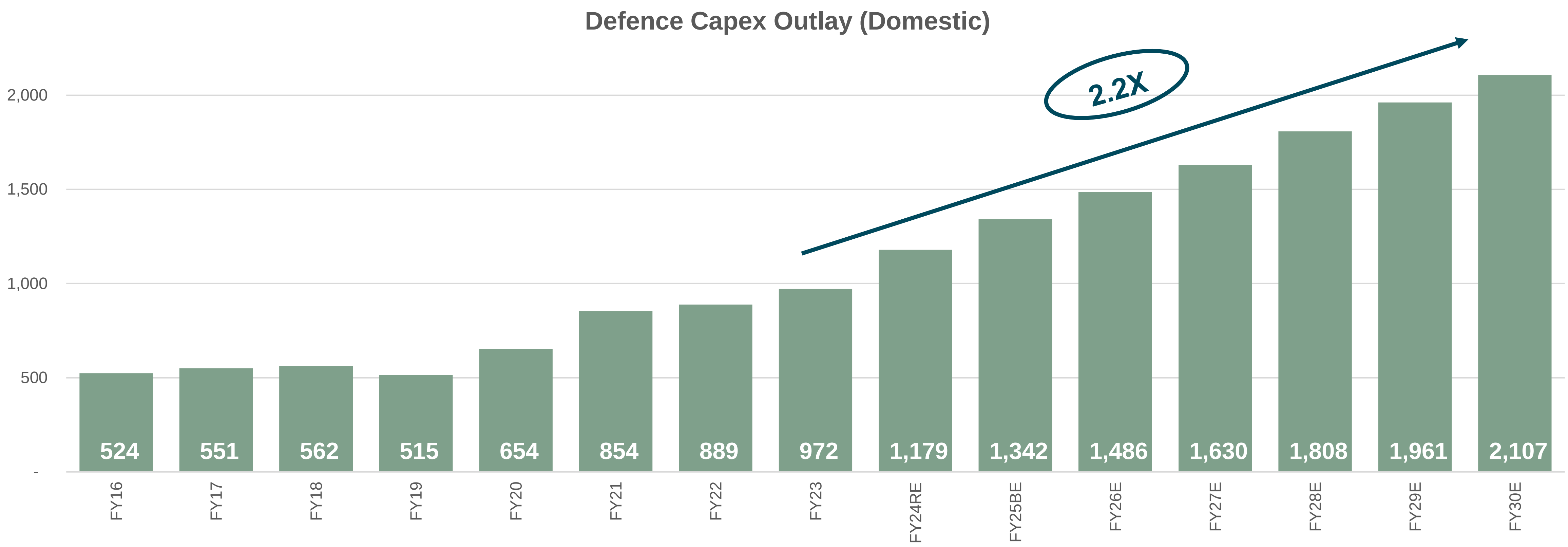




ASK Investment Managers

Source: Kotak, BofA & Edelweiss research

Increasing capex in Defence sector



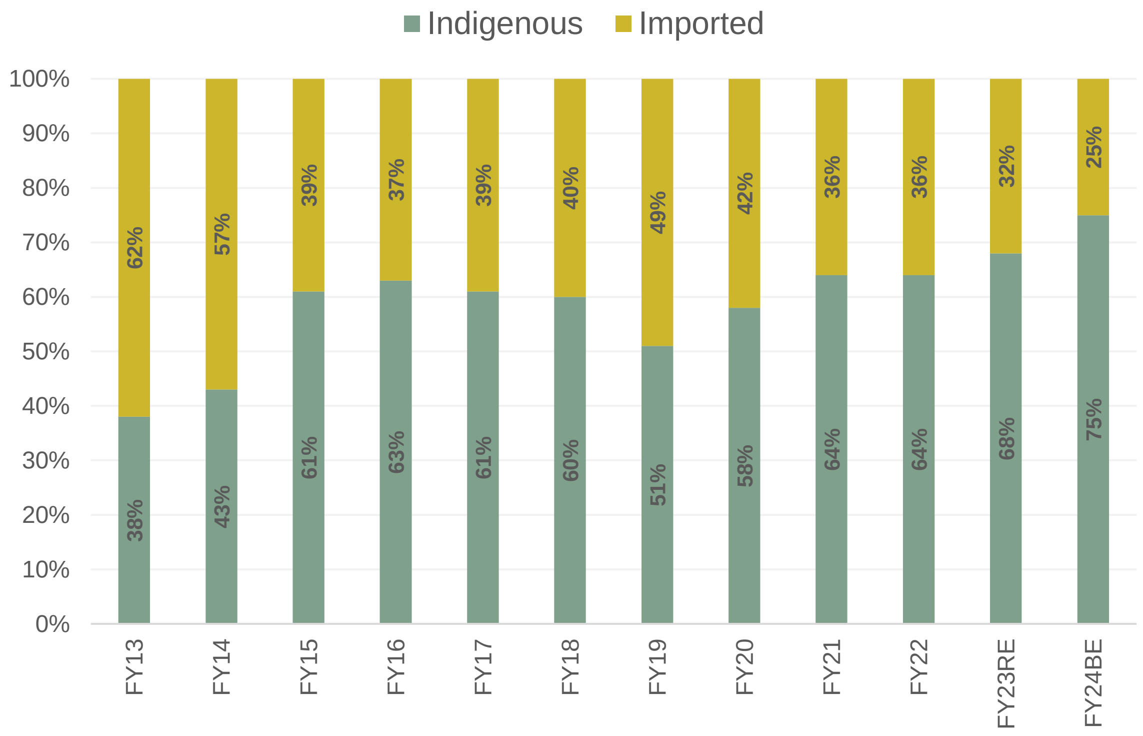
There has been a steady rise in India's capex in Defence, expected to grow in sync with nominal GDP growth rates in years ahead with a steady rise in domestic allocation from 68% to 89%.

ASK Investment Managers

Source: Union Budget, Elara Securities Estimates

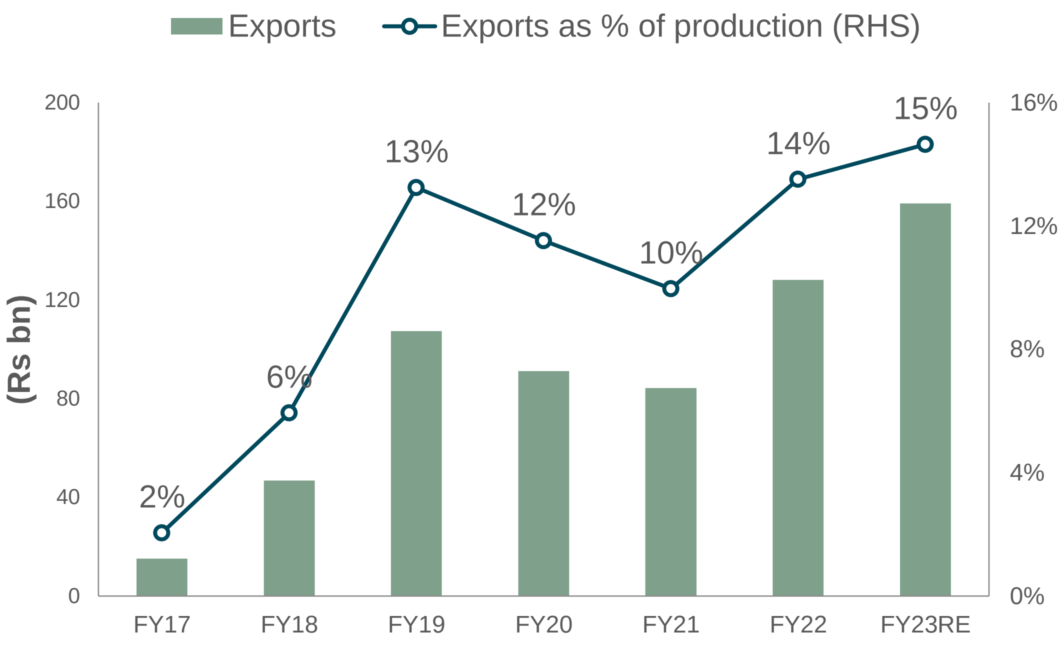
Defence sector: Focus on Import substitution & Export Growth

Ratio of Capital Procurement



Source: Phillip Capital, ASK IM Research

Defence Exports has increased from 2% to 15% from FY17 to FY23



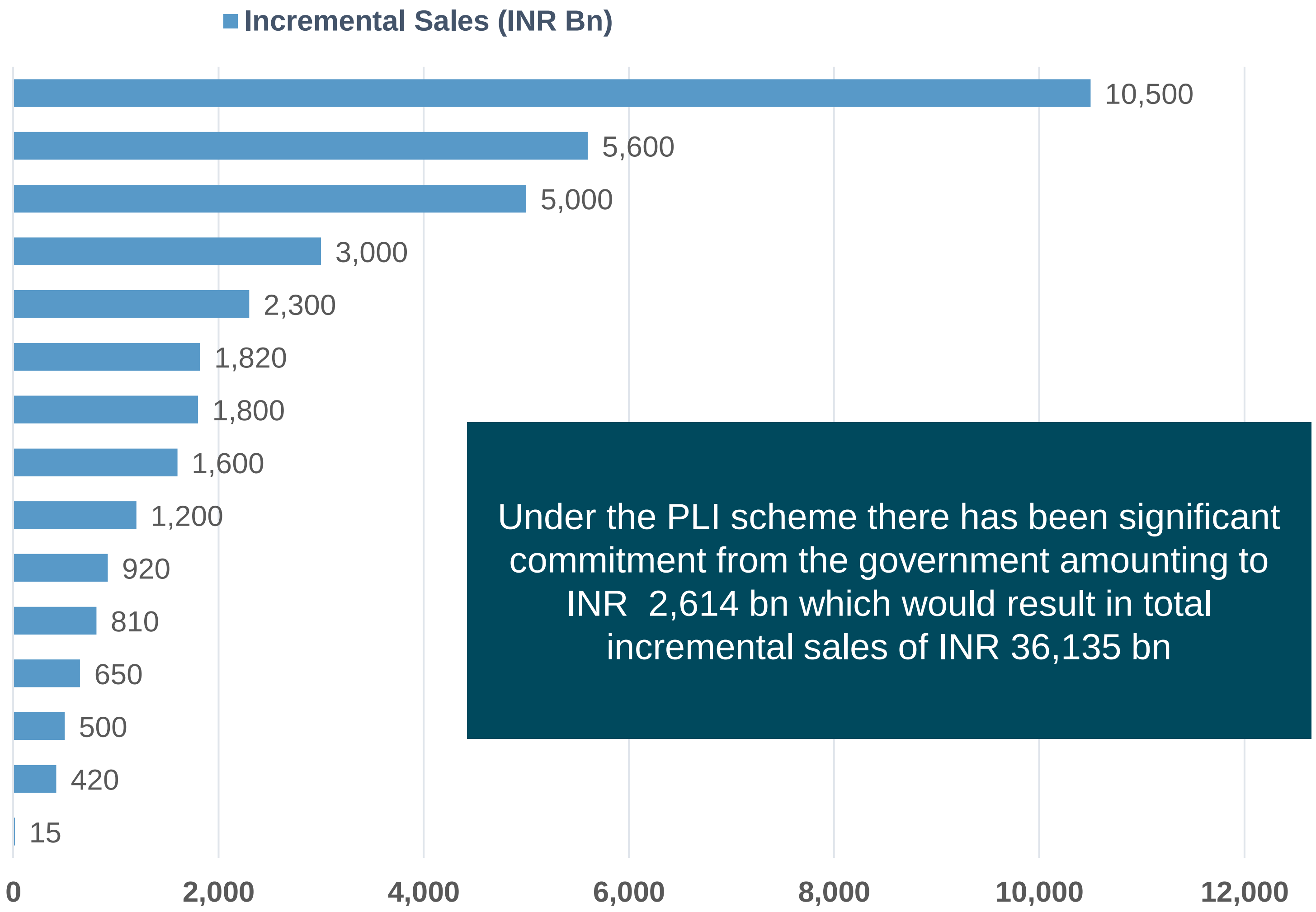
Source: Ministry of Defence, ASK IM Research

Domestic sourcing has been rising, complemented by rising exports; driving growth for the sector

Source: Budget documents, Ministry of Defence, ASK IM Research

PLI Scheme - Incentive to private sector to adopt “Make in India”

Committed Govt. Incentive (INR Bn)	Sector
386	Large Scale Electronics
63	Speciality Steel
760	Semiconductor
107	Textile Products
259	Automobiles & Auto Components
122	Telecom & Networking Products
150	Manufacturing of Pharma Drugs
73	IT Hardware
109	Food Products
181	Advance Chemistry Cell Battery
62	White Goods (Acs & LED)
32	Mfg of Medical Devices
240	High-Efficiency Solar PV Modules
69	KSM/DI/API in Pharma
1	Drones and Components

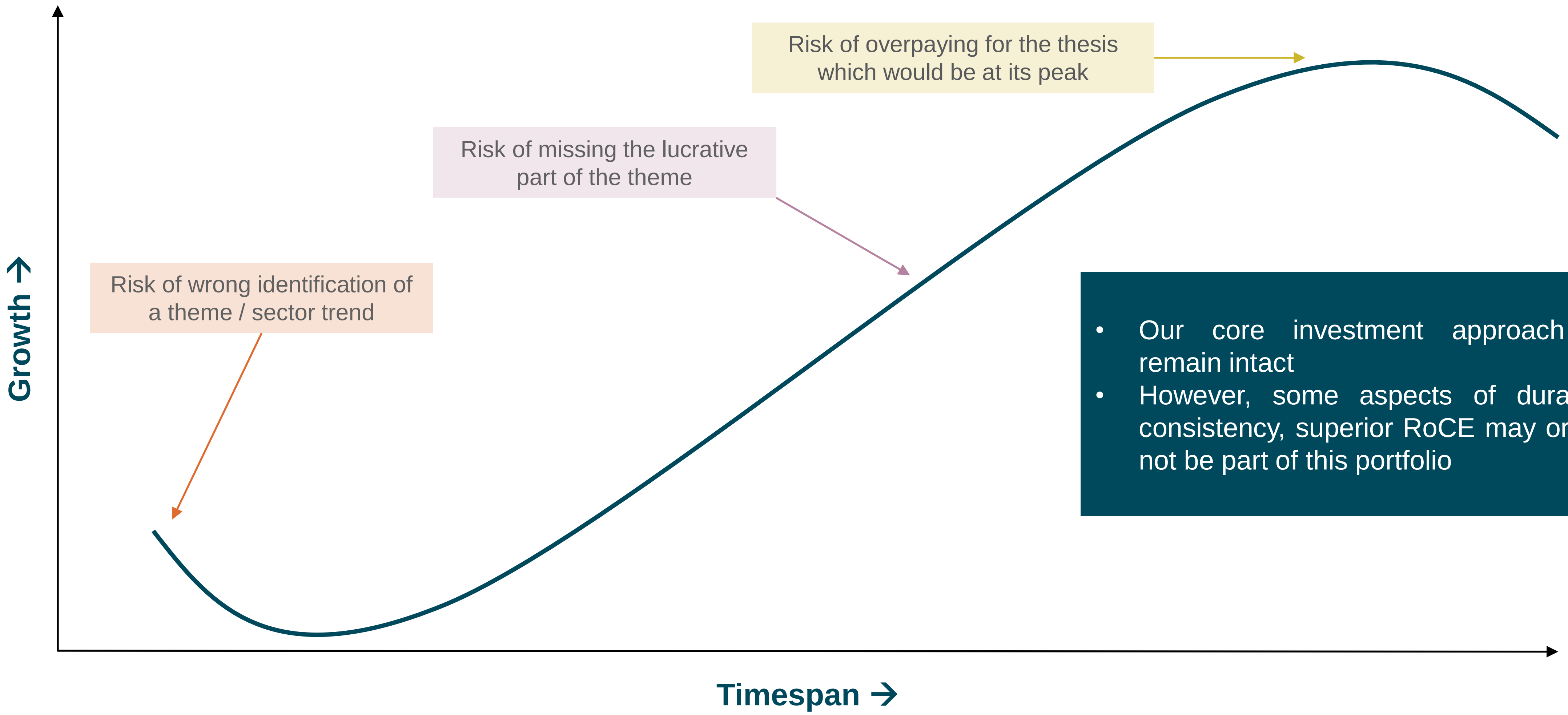


Under the PLI scheme there has been significant commitment from the government amounting to INR 2,614 bn which would result in total incremental sales of INR 36,135 bn

ASK Investment Managers

Source: InvestIndia.gov

Risks associated with this approach



- Our core investment approach will remain intact
- However, some aspects of durability, consistency, superior RoCE may or may not be part of this portfolio

ASK Investment Managers

Public

Case Studies

ASK Investment Managers

Company 1 – Bharat Heavy Electricals Ltd (BHEL)

Infrastructure – Capital Goods

About the Company

Bharat Heavy Electricals Ltd (BHEL) is one of the largest engineering & manufacturing enterprises in India. BHEL has track record of setting up 194+GW power generating capacity installed across India and abroad. More than half of the electricity generated in India comes from BHEL equipment. It is the only company associated with all three stages of India's Nuclear Power Program. It has pan-India presence with 16 manufacturing units, 8 service centres and 150+ project sites.

Industry Outlook

- According to the Central Electricity Authority, energy requirement of India can increase from 1,908 billion units in FY23 to 2,474 billion units by FY27. This will need installed capacity from all sources to increase to more than double to 900 GW (from 425 GW currently)
- BHEL can be a major beneficiary of this mega trend considering its presence across thermal, renewable and nuclear power. BHEL can also be a major beneficiary of upgradation and modernization of sub-critical thermal power plants which were set up before 1980
- In addition to power, BHEL has a significant presence in the Industrial segment in areas like Railways, Defence etc wherein the government's investments are on a strong upward trajectory. BHEL also has opportunities in the exports market like other capital goods companies

Investment Arguments

- Its order book provides robust revenue visibility: Order book at Rs1.08 trillion is ~4x of FY24 revenues. Order booking YTD is up 137% y/y. The upcoming project pipeline is very strong- the current bid pipeline for thermal power plants, to be created by public sector entities, is already around 12.6 GW
- BHEL currently has virtually no competition: BHEL is a significant dominant player in the thermal power equipment market, which is almost a duopoly now. L&T is the only other major player and it has not won any major projects in recent times
- In the Industrial segment, BHEL is working across multiple segments: **Defence -** Its product portfolio comprises of naval guns, castings for tanks, integrated platforms for naval ships, heat exchangers for LCA Tejas etc; **Railways -** in consortium with Titagarh wagons has won orders to supply and service Vande Bharat trains; has received preliminary approval for Train Collision Avoidance System (TCAS)- Kavach (Govt has installed anti collision devices on 1,500 kms on a railway network of ~68,000 kms); Industry 4.0 (has recently bagged its maiden order from a refinery under), where it would be competing with peers like Siemens, ABB etc; **Electrolysers** - has signed MoU with Central manufacturing Technology Institute (CMTI) for joint development of Electrolysers**; Gas Turbines** - has signed Agreement with GE that allows it to supply gas turbines with fuel blends like Hydrogen, Methanol, Syngas etc. and in hybrid configuration as well

Company 1 – Bharat Heavy Electricals Ltd (BHEL)

Infrastructure – Capital Goods

Company Financials

- Expected to significantly improve given high operating leverage: BHEL has a large capacity of ~14GW which is currently grossly under-utilized
- As project execution gathers pace, margins will witness a considerable improvement led by better fixed costs absorption
- This, along with decline in working capital, will drive major improvements in RoCE. Company's cash balances are already high

INR Cr	FY22	FY23	FY24E	FY25E	FY26E
Revenue	21,211	23,365	26,388	30,979	40,911
Growth (%)	**23%**	**10%**	**13%**	**17%**	**32%**
Operating Profit	781	732	431	2,198	5,061
OPM	**4%**	**3%**	**2%**	**7%**	**12%**
PAT	441	470	118	1,429	3,558
Growth	**-117%**	**7%**	**-75%**	**1115%**	**149%**
EPS (Rs.)	1.3	1.3	0.3	4.1	10.2
RoCE	**3%**	**4%**	**3%**	**9%**	**17%**

Company 2 – Syrma SGS Technology Ltd.

Manufacturing – EMS

About the Company

Syrma SGS (Syrma) is a leading and fast-growing domestic Electronics Manufacturing Services (EMS) player in India's non-mobile EMS space. Syrma is riding a massive domestic electronics super cycle, with all key moats in place. Syrma is one of the leaders in providing integrated solutions from concept design to commercialization in high-mix flexible volume products across multiple end-user industries, including exports.

Industry Outlook

India's electronics industry is poised for strong growth over the coming years because of low penetration levels, rising disposable incomes, increased localization, which will increase affordability, as well as various policy initiatives taken by the government such as PLI, Phased Manufacturing Programme (PMP), and Aatmanirbhar Bharat – which should incentivize local manufacturing in India. The total market was Rs 10,564bn in FY23 which should touch Rs 21,540bn by FY27, at a CAGR of 20%, with 90% domestic production. India has significant labour arbitrage which bodes well for the EMS industry. With India's large talent pool, EMS will see strong growth ahead.

Investment Arguments

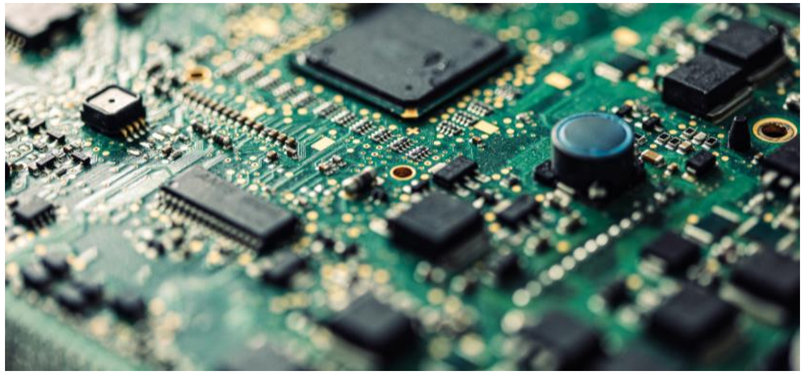
- Diversified end-user industries with greater focus on the high - growth segment: The business model is well-diversified with revenue spread across verticals such as autos, consumer, healthcare, industrials, IT and railways. This gives Syrma exposure to the faster growing segments, and most of these EMS segments are growing at 30%-plus. Concurrently, the diversified model offers an inherent hedge should there be a downturn in specific sectors
- Long standing customer relationships with marquee clients: Syrma's product portfolio, quality and focus on responsiveness and reliability has enabled Syrma to develop strong relationships with well-known customers across the end-use industries that it caters to. The diverse applications of products have helped Syrma build a wide customer base across many end-use industries with cross selling opportunities to existing customers
- Syrma's comprehensive solutions: OEM, JDM and ODM services (design-engineering-manufacturing) backed with strong manufacturing and R&D capabilities is driving growth into new areas (EVs, BLDC tech, smart meters, etc) as well as client adds
- Strong M&A track record, with timely capacity expansions: Syrma acquired SGS in 2021, which boosted its domestic auto and consumer verticals. It also acquired Perfect ID to bolster its RFID business. Syrma has been proactive, but selective in filling its portfolio gaps. Its recent takeover of Johari Digital Healthcare gives its medical vertical, a low contributor, a shot in the arm
- Favorable macroeconomic tailwinds in India: Higher electronics spend, increasing automation, innovative technologies, increasing import substitution opportunities, thrust for domestic manufacturing, PLI schemes and adoption of China+1 strategy are expected to augur well for an EMS industry leader like Syrma SGS

Company 2 – Syrma SGS Technology Ltd.

Manufacturing – EMS

Company Financials

- Management expects the company's growth to outpace the broader industry growth for the next three to five years
- FY25 expected revenue guidance provided by the Management is of Rs 40 - 45 bn
- Gross margins across end-user industries are expected to be stable, we do not expect any contraction
- Management has indicated 7-8% operating margins over a long-term basis



INR Cr	FY22	FY23	FY24E	FY25E	FY26E
Revenue	1,013	2,010	2,970	4,148	5,560
Growth (%)	**16%**	**98%**	**48%**	**40%**	**34%**
Operating Profit	95	203	227	291	425
OPM	**9.3%**	**9.2%**	**6.6%**	**7.5%**	**8.0%**
PAT	56	123	133	167	261
Growth	**-19%**	**119%**	**8%**	**26%**	**56%**
EPS (Rs.)	3.3	6.7	7.5	9.4	14.7
RoCE	**11%**	**14%**	**11%**	**12%**	**16%**

Company 3 – Bharat Dynamics Ltd

Manufacturing – Defence

About the Company

BDL is a ~75% Government-owned Defence PSU. It is the nodal production agency for Tactical & Guided missiles (Anti-Tank Guided Missiles, Surface to Air, Surface to Surface and Air to Air), Torpedoes and Counter-Measure Dispensing Systems. Currently, it is the only entity manufacturing these missiles. The company has an order book position of Rs 20,000cr (~7xFY24e sales). The company has recently forayed in exports and has Rs 2,600cr of export orders.

Industry Outlook

To maintain preparedness for a two-front war and in-view of global supply chain disruptions in defense equipment, the Indian armed forces have increased missile stockpiles by 2x-3x. There is a strong pipe-line for missile ordering (projects include Akash NG, MRSAM, QRSAM, Astra, Nag, HELINA, MPATGM) and BDL expects order intake of Rs 20,000cr over FY24e-27e. Also, since Russia and Israel are major global suppliers of tactical missiles and currently embroiled in conflicts, new OEMs including BDL have been able to get a foothold in the export market and can scale-up this business. BDL targets 25% sales from exports in the next few years.

Investment Arguments

- Robust revenue growth visibility: Order book is strong at Rs 20,000cr (7x TTM sales) and company guidance is of doubling sales in 3 years
- Order pipe-line is very healthy at Rs 20,000cr over FY24-27e
- Significant backward integration undertaken (Seekers, missile tube/fin composites, warheads and propellants), leading to insourcing of ~45% by COGS value. This will increase cost competency with potential for margin improvement and reduce supply chain risks (few missile components were sourced from Russia and Israel, that had led to execution delays in the last 2 years. However, the company has insourced some critical components and mitigated this issue and does not expect disruptions hereon)
- Exports constitute a sizable new opportunity for BDL. The company has started receiving export orders and sees sizable scale with good margins in exports (limited suppliers catering to the global market). The company is also involved in development of many missile programs expected for fruition over next 3-4 yrs (Akash NG, QRSAM, MRSAM, MPATGM, Nag, Helina, Heavy weight torpedoes, VLSRSAM, SAAW, LPAGM, VSHORAD, NGARM, Astra Mk2/3, ULPGM) etc, which creates a sizable future pipe-line

Company 3 – Bharat Dynamics Ltd

Manufacturing – Defence

Company Financials

- Sales guidance of Rs 3000cr for FY24e doubling by FY27e to Rs 6000cr with OPM of 21%-23%
- Order book of Rs 20,000cr of which 60% is from surface to air missile with execution over 4-5 years, 30% from anti-tank guided missiles with execution over 2-3 years and 10% from torpedoes and counter measure dispensing systems

INR Cr	FY22	FY23	FY24E	FY25E	FY26E
Revenue	2,817	2,489	3,051	3,969	5,254
Growth (%)		-12%	23%	30%	32%
EBITDA	726	408	610	794	1,051
OPM (%)	26%	16%	20%	20%	20%
PAT	516	345	574	697	881
Growth (%)		-33%	66%	21%	26%
EPS (Rs.)	28.2	18.8	31.3	38.0	48.1
RoCE	60%	241%	NA*	388%	186%

***Due to cash position in excess of Networth number is -ve**

Biography

Bharat Shah

Executive Director

- Bharat Shah holds a Bachelor’s degree in Commerce from the University of Bombay and a Post-Graduate Diploma in Management from the Indian Institute of Management, Calcutta
- He is also a member of the Institute of Chartered Accountants of India and a member of the Institute of Cost and Works Accountants of India
- He has been on the Board since 2008
- He has over 29 years of experience in the field of investment management and has previously worked at Birla Capital International AMC Limited and Asian Paints (India) Limited

Sumit Jain

Deputy CIO

- Sumit Jain has over 19 years of experience in Indian equity markets. He was actively involved in the conceptualization of the Indian Entrepreneur strategy and currently manages the Indian Entrepreneur Portfolio with an AUM of over USD2.5 billion. He has also been instrumental in building the proprietary valuation models at ASK
- In the past Sumit has worked with ICICI Prudential Life Insurance and First Global Securities in the past. He is a Post-Graduate in Management from Mumbai University. He first joined ASK in October 2005

Sandip Bansal

Senior Portfolio Manager

- Sandip Bansal has a work experience of over 20 years with more than 16 years in equity research
- Sandip joined ASK from SBI Life Insurance where he has been an Equity Fund Manager & was Head of Investment Research, leading research across asset classes. Sandip has also worked on the Sell-side with UBS Securities and Kotak Institutional Equities. Before that Sandip was a business consultant at KPMG and also has banking experience with Citibank
- Sandip is a Chartered Accountant, Company Secretary, and an MBA from IIM, Ahmedabad. Sandip joined ASK in July 2021

Risk Factors and Disclaimer

Risk arising from the investment objective, investment approach and asset allocation:
Equities as an asset class carry a higher risk in comparison to debt. While risk cannot be totally eliminated, it can be mitigated through a well-designed Investment Approach. ASK Investment Managers Portfolios seek to mitigate risk and deliver superior returns through research-based investing. However, this objective may not be fully achieved due to various reasons such as unfavorable market movements, misjudgment by portfolio manager, adverse political or economic developments etc. The PMS is run with an objective to achieve reasonable returns consistently. Given this background the investor investing in the PMS faces the following risks

(i) Political, economic and / or related risks
The Asset Value of the portfolio and the liquidity of the shares may be affected by changes in government policy, taxation, interest rates, social and religious instability and political, economic or other developments in or affecting India.

(ii) Industry risk
The value of shares of companies in a particular industry may be affected due to factors affecting the industry like changes in government policy on duties, FDI or a foreign country, which is a big market for the industry, may impose restrictions on import etc.

(iii) The Indian Securities Market
The Indian stock markets in the past experienced substantial price volatility and no assurance can be given that such volatility will not occur in future. Actual market trend may be in variance with anticipated trends hence, the decisions of the Portfolio Manager may not be always profitable.

(iv) Liquidity Risk
Some stocks that the investor might be invested in might not be highly liquid. Though it will be the PMS service providers endeavour to restrict investments in less liquid stocks to a lower limit, there is an exposure of liquidity risk to the investor.

Disclaimer:
Any information contained in this material shall not be deemed to constitute an advice, an offer to sell/purchase or as an invitation or solicitation to do for security of any entity and further ASK Investment Managers Limited (ASKIM) and its employees/directors shall not be liable for any loss, damage, liability whatsoever for any direct or indirect loss arising from the use of this information. Recipients of this information should exercise due care and caution and read the Disclosure Document (if necessary obtaining the advice of finance/other professionals) prior to taking any decision on the basis of this information which is available on https://www.askfinancials.com/ask-investment-managers/disclosure

ASK Investment Managers Limited (Registration No: INP000008066) has not independently verified all the information and opinions given in this material. Accordingly, no representative or warranty, express or implied, is made as to the accuracy, completeness or fairness of the information and opinions contained in this material. ASKIM has launched direct onboarding facility. This facility shall enable users / visitors to have direct access to ASK IM PMS Investment approaches. These product are also available through existing Distributor/Referral or Channel Partners also. The performance related information provided herein is not verified by SEBI nor has SEBI certified the accuracy or adequacy of the same.

Thank you