Budget – Clear focus on infrastructure building

Dear Investor,

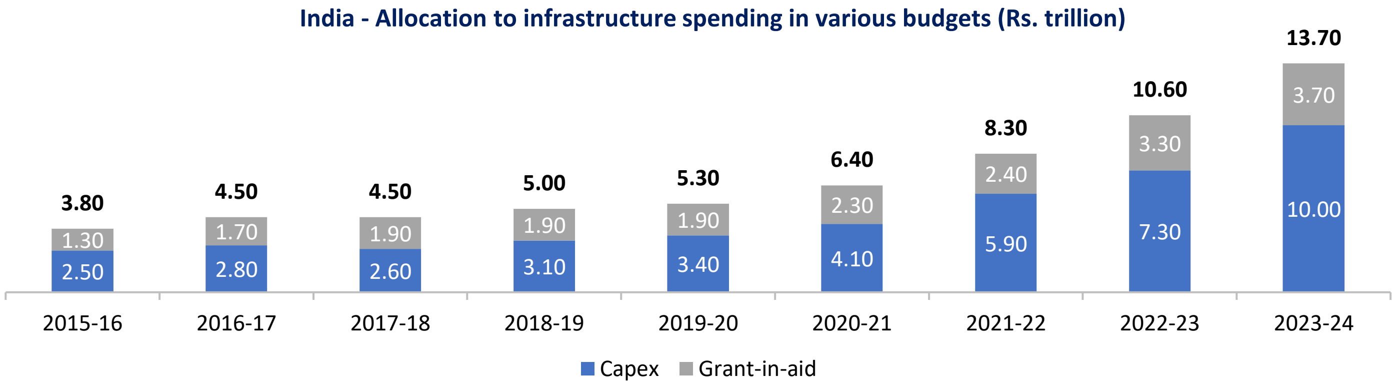
Every February, the most eagerly-awaited economic event is the presentation of the Union budget. For us, the Budget presents the government's thought process about prioritizing where the resources should be headed, and gives us an indication of the growth opportunities in various sectors.

By now, you must have read several analyses about the budget and its implications. In this newsletter, we have chosen to focus on one aspect of this year's Budget, which we think is the most significant.

The continued thrust on creating physical infrastructure.

The focus of this budget has been to continue the thrust on improving India's physical infrastructure. Over the past few years, we have seen significant increases in outlays towards this end. The following charts make this point clear:

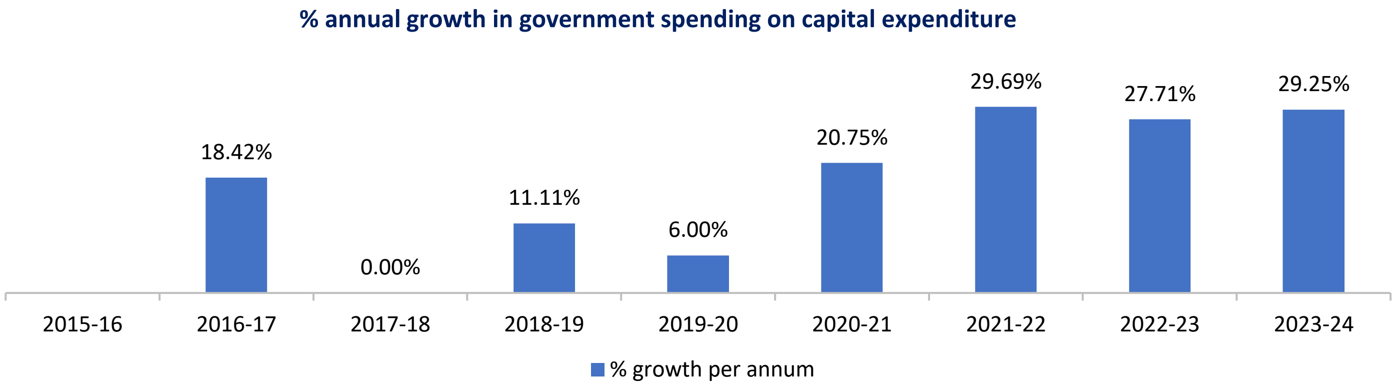
Chart 1 – Fiscal allocations over the years for infrastructure spending



Sources (1) Economic Survey (2) Business Line

This year, the budgetary allocation to infrastructure alone is Rs. 10 trillion or Rs. 10 lakh crores. If one includes the grant-in-aid to various state governments, it is a very impressive Rs. 13.7 trillion. To put it in perspective, this year's allocation to infrastructure development is more than 2.5 times the amount allocated in 2019-20 (i.e., the year just before the Covid pandemic).

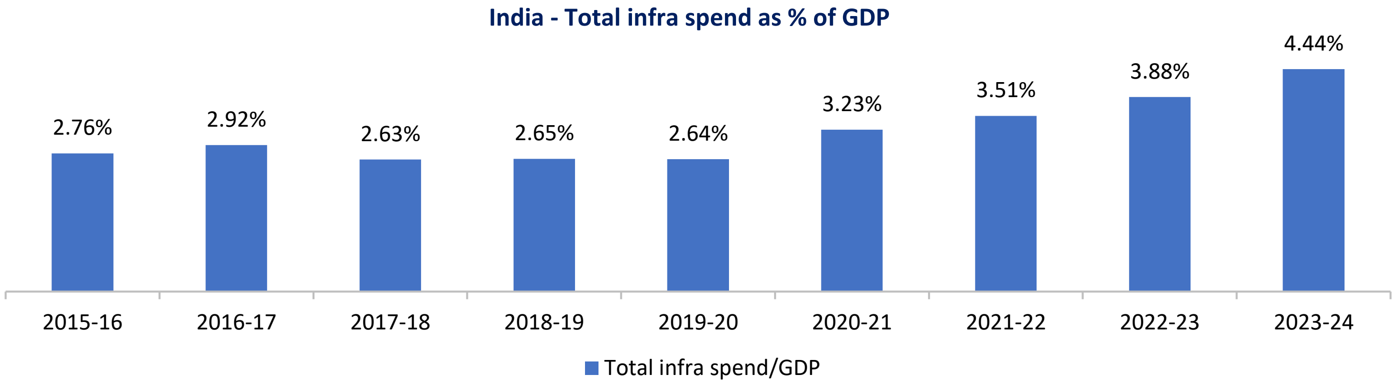
Chart 2 – Annual increases in budgetary allocations towards infrastructure spending



Source: Business Line

In the last four years alone, each year has seen a minimum of 20.75% increase over the previous year, and in the last couple of years, it has continued despite a high base.

Chart 3 – India's spending on infrastructure has increased as % of GDP



Sources (1) Economic Survey (2) Business Line

This year's budget has increased the fiscal allocation towards infrastructure spending to 4.4% of GDP. In the year before the Covid-19 pandemic, it was 2.65% of GDP, and last year it was 3.8%.

Within the sector-wise allocation, Railways have been allocated Rs. 240,000 crores (Rs. 2.4 trillion), which is a 71% rise compared to the Rs. 1.4 trillion allocated last year. Roads have an allocation of Rs. 2.70 trillion, a 24.6% rise compared to last year.

Also, 100 "critical" transport infrastructure projects with an outlay of Rs. 75,000 crores have been announced, to provide first mile and last mile connectivity to ports and manufacturing locations.

50 important tourist spots are planned to get a comprehensive development in collaboration with the respective state governments, including infrastructure, manpower skilling and allied tourist requirements.

Why is this important?

According to a study by S&P done in 2016, the multiplier effect on the overall economy from a spend on Infrastructure is 2.0, meaning every rupee spent on improving the infrastructure leads to two rupees increase in GDP. Going by this assumption, a Rs. 13.7 trillion spend on infrastructure should potentially increase India's GDP by 8.9% compared to what it would have been without this infrastructure thrust.

Further, an IMF study estimates that every $1 million investment in infrastructure leads to creation of between 12-15 jobs in emerging economies. Job creation is surely one of the priorities (and shortfalls) in India. We certainly hope that these initiatives (along with the PLI schemes to boost local manufacturing) would bring about a decent amount of jobs in the country.

Was this unanticipated?

Permit us to point out that in our newsletter of November 2020 (entitled "The coming cyclical shift") we had written about the inevitability of the capital goods stocks coming back to the limelight. At that time, the government had announced its intention (through the National Infrastructure pipeline) of massive capital expenditure. Also, we had witnessed the weight of the capital goods sector to the Nifty 50 Index had fallen in September 2020 to a 2-decade low of 1.7%, indicating virtually very low expectation from the sector.

This is where the Core Value Portfolio's approach to investing becomes relevant. We buy strong businesses when the companies or sectors has seen its stock prices either stagnate or not being hotly pursued by the rest of the market. Putting these two points together, we had built, over the last couple of years, a significant exposure to the capital goods/industrial sectors. Some of these stocks we are still holding, and some we have booked partial/full profits. You would remember that our portfolio had exposure in the following stocks belonging to these sectors:

- Cummins India
- Thermax
- Blue Dart
- Larsen & Toubro
- Container Corporation
- Bharat Dynamics
- RITES
- Honeywell Automation
- Triveni Turbines
- VST Tillers & Tractors

Several of these stocks have contributed well to your portfolio.

The budget is an indicator that these sectors would continue to enjoy favourable tailwinds for the next few years. We shall of course, keep a close watch over the valuations of stocks in these sectors.

Warm regards

Yours sincerely,

E A Sundaram
Chief Investment Officer and Portfolio Manager

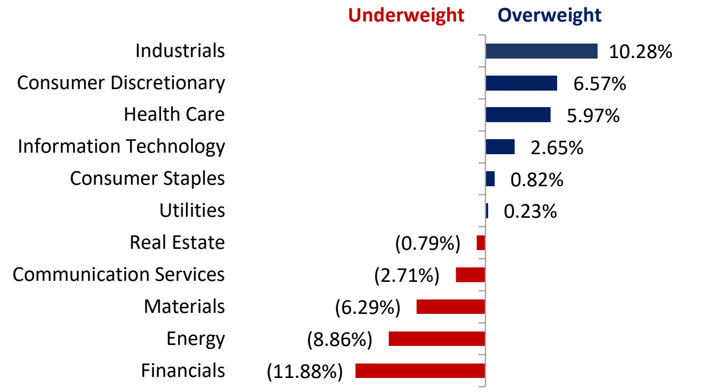
"The best time to get involved with cyclicals is when the economy is at its weakest, earnings are at their lowest, and public sentiment is at its bleakest" - Peter Lynch

Investment Objective: The investment objective is to achieves capital appreciation through investment in a diversified portfolio of high-quality companies, purchased at reasonable valuation.

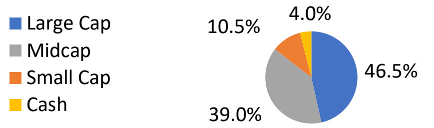
o3 Core Value Investment Approach

Name	GICS Sector	Weight
ITC	Consumer Staples	6.76%
HDFC Ltd	Financials	5.40%
Indraprastha Gas Ltd	Utilities	5.16%
Bosch Ltd	Consumer Discretionary	4.49%
Titan Company Ltd	Consumer Discretionary	3.83%
Sun Pharmaceutical	Health Care	3.72%
Asian Paints Ltd	Materials	3.67%
Larsen & Toubro Ltd	Industrials	3.67%
Maruti Suzuki India	Consumer Discretionary	3.59%
MCX	Financials	3.38%
		43.67%

Regular Model Portfolio Data

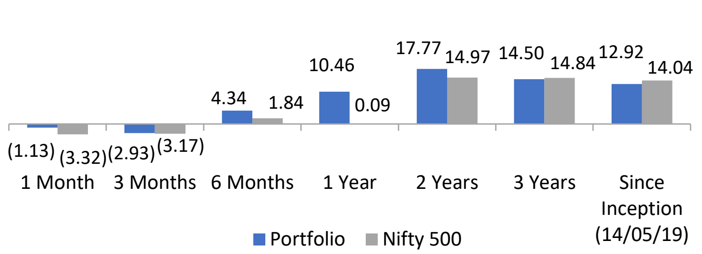


Performance Description	Regular	Concentrated	Nifty 500
Largest Monthly Gain	12.51	11.41	14.52
Largest Monthly Loss	(20.53)	(19.19)	(24.25)
Beta of Portfolio	0.76	0.74	
Standard Deviation (Annualised)	16.62	16.21	
Correlation	0.93	0.92	

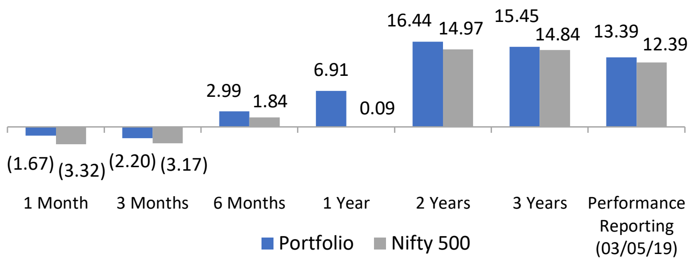


Regular Model Portfolio Composition	
Weighted Average ROCE	22.90%
Portfolio PE (1 year forward PE, based on FY24)	27.50
Portfolio Dividend Yield	1.58%
Average Age of companies	59 Years
Overlap with Nifty 500	20.03%
Total Debt/Equity	0.42
Debt/Equity (Excluding Financial Stocks)	0.09
Sales Growth	20.80%
EPS Growth (FY24 over FY22)	24.05%

Consolidated Portfolio Performance of o3 Core Value Investment Approach Regular Option 31st January 2023



Consolidated Portfolio Performance of o3 Core Value Investment Approach Concentrated Option 31st January 2023



- Benchmark is Nifty 500, the portfolio is spread across different market capitalization, hence Nifty 500 is chosen as benchmark
- Since inception date stated is considered to be the date on which the first active client investment was made under the investment approach
- Industry Classification as recommended by AMFI, all the above data are as of 31st January 2023

Disclaimer: Performance depicted is based on all the client portfolios existing as on such date, using Time Weighted Rate of Return (TWRR) of each client and then computing *arithmetic* average for the overall investment approach. Past performance is no guarantee of future returns. The above portfolio performance is after charging of expenses. *The performance related information provided here is not verified by SEBI nor has SEBI certified the accuracy or adequacy of the contents of this Document. Beta, Standard Deviation & Correlation are from Since Inception period.*