Dear Investors,

In April 2024, the geopolitical tensions re-emerged in the Middle East as Iran launched more than 300 drones and missiles towards Israel. This stoked fears of retaliation from the latter leading to a wider and long drawn conflict. This has also put upward pressure on commodity prices. Bloomberg commodity index inched up 2% in April in USD terms. The hotter-than-expected inflation print in the US further weighed on global sentiments with the markets now expecting fewer than two 25 basis points (bps) cuts by the year-end, after previously expecting three.

Against this backdrop, the MSCI Developed market index fell 3.8% in April in USD terms. Emerging markets was flat but outperformed their developed market counterparts despite the strengthening of the dollar. The dollar index was up 1.7% in April in USD terms. Within the EM basket, Hong Kong led the gains as investors reacted to the pledge by China's regulator to boost liquidity and a better earnings outlook also supported the optimism. Gold was the talking point of the month. The safe-haven metal prices touched all time high of USD 2,391.93 per ounce. This price increase was spurred both by geopolitical tension and central bank buying.

In India, Mid and Smallcaps recovered after a hiatus of two months, gaining 7.1% and 9.6% respectively in April in INR terms. In comparison, the Nifty50 index inched up 1.2% in INR terms. Sectoral performance showed broad based gains with Metals leading in response to surging commodity prices globally. The prices of aluminum, copper and zinc have risen >10% in the month, while steel prices have declined ~6% in the same period. Real estate and Utilities were the other top performing sectors in the month, while IT and Pharma were the only two which witnessed a decline.

Nifty50 is currently trading at 20.2x in terms of 12-month forward PE, which is a slight premium compared to its long-term average. We believe the valuation premium is justified due to its long period of growth, improving capital efficiency and strong balance sheets. After a long period, we believe India is at the cusp of an inflection in capex cycle, driven by macro-economic stability, indigenisation thrust, aggressive de-carbonisation, push for higher global value chain and infrastructure drive, especially in freight & logistics. These factors are creating a confluence of opportunities for capex cycle to lift off. We expect a massive window of capex opening up, on account of policy push via PLI, indigenisation, digitisation and strategic infrastructure – Railways, Defense and Power.

Prime Minister Narendra Modi-led BJP in its 2024 manifesto emphasised on policy continuity and also increased the scope of areas of priority (viz. Housing, Ayushman Bharat, Physical and Digital Infrastructure), along with some big-bang political agenda, such as Uniform Civil Code, Implementation of Citizenship Amendment Act and One Nation, One Election. The manifesto focuses on broad-based development through various government programs and initiatives that will have socio-economic impacts.

- Infrastructure development (Roads, Railways, Airports, Metros, Inland Waterways, Shipping)
- Manufacturing (developing India as Global Manufacturing Hub) and
- Capex will remain the key priorities.

Key economic proposals include the focus on making India a key manufacturing hub (Electronics, Defense, Aviation, Railways, Renewable Energy), strengthening digital and physical infrastructure, and empowering Micro Small and Medium Enterprises (MSMEs). Providing piped natural gas connections to all major cities and towns is outlined as another priority.
We believe investments opportunity in capex exists in following areas. A lot more will come up over period.

China +1

Supply chains are shifting out of China, triggered by US-China trade war, rising costs and policy uncertainty. This offers immense opportunity for India. While doubts are being raised about India's ability to scale up, the experience of making consumer electronics, especially mobile phones, lends lot of confidence in terms of the long-term growth. Additionally, supply side reforms, ease of doing business and Production Linked Incentive (PLI) Scheme are gradually propelling a supply chain shift away from China. India along with Vietnam and Mexico are the beneficiaries of this.

Railways – Fulcrum of government capex

A sector that has been at the fulcrum of government capex in the past few years has been the railways (massive rise in allocation) amid mandate for development, especially in keeping pace with high demand for freight and passenger travelling.

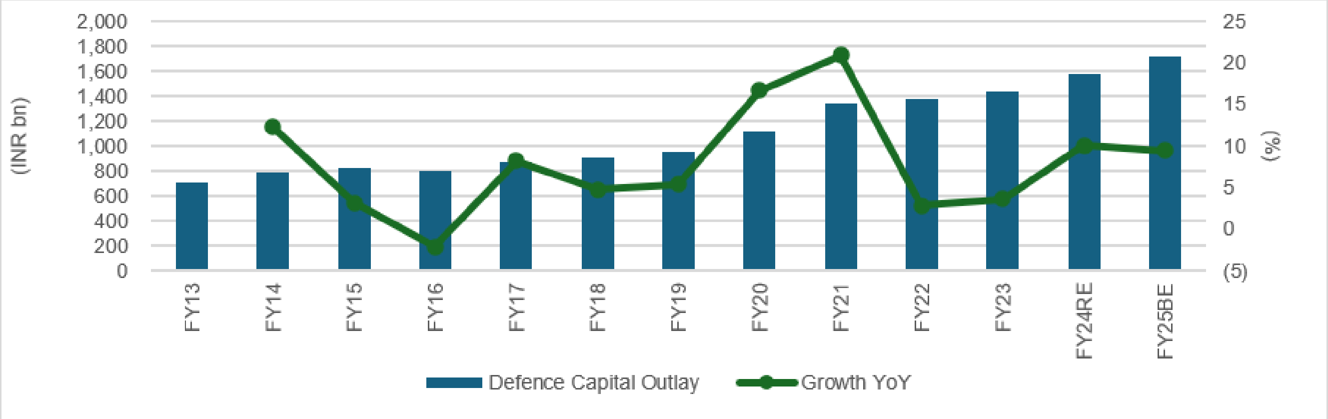
- The rolling stock opportunities in Indian railways are arising at present through passenger coaches (expansion & upgradation), electric locomotives, metro coaches and freight wagons. Passenger coaches opportunity involves both expanding the number of coaches in use and replacing the existing stock of about 60,000 (old technology ICF coaches) with the new technology LHB (Linke Hoffman Busch)/Vande Bharat coaches.
- Locomotives: In line with the target to achieve 100% electrification, the government has indicated adding 1,500 locomotives in FY25. New locomotive manufacturing presents opportunity for manufacturers of components and assemblies such as braking systems, axles, traction motors, bogie frames, rectifiers among others.
- The Indian Railways is aggressively expanding track network and renewing tracking along with gauge conversion and doubling of lines. During 2004-14, 14,985 RKM of rail track work was done whereas in the last 9 years (2014-23), 25,871 RKM of track laying work has been done. In FY23, every day 14 kms of tracks were laid and the target for FY24 was to achieve 16 kms of track laying per day. Dedicated Freight Corridor Corporation is deploying mechanised track laying using new track construction (NTC) machines for the first time in India. This method has a productivity of 1.5 km of track laying per day, compared with only 200 meters achieved in the traditional manual method. Network augmentation is expected to see a capex pipeline of ₹6 trillion versus actual capex of ₹1.42 trillion through FY17-21.
- Electrification is another big opportunity.

Defense Capex: Here for the long haul

PM Modi's Atmanirbhar Bharat scheme in defense emphasises on indigenization to reduce import bill and resolve issues related to foreign equipment. The Ministry of Defense has announced policy initiatives such as:

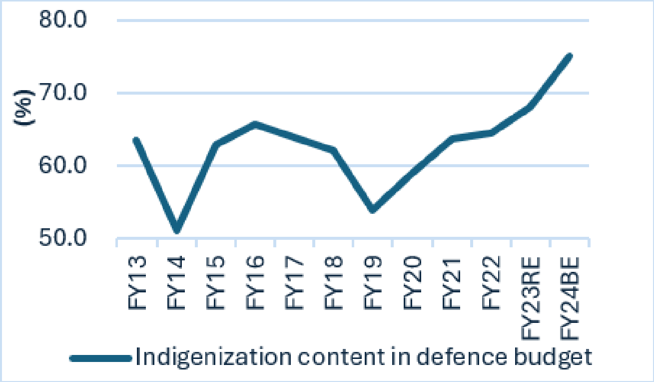
- Allocation of 75% defense budget to domestic procurement in FY24RE vs 68% in FY23RE
- Import embargo on items since 2020 which have been specified under seven positive indigenization lists
- Setting up of strategic partnership model
- Hiking FDI in defense to 74% under the automatic route and
- Establishing two defense industrial corridors (DICs) in Uttar Pradesh and Tamil Nadu.

Focus on capex expenditure, especially amid higher indigenisation, has seen defense outlays increasing from ₹91,400 crore in FY17 to a record high of ₹1.7 lakh crore in FY25BE.



Source: *Union Budget, ASK IM Research*

Source: DDP Dashboard, PIB

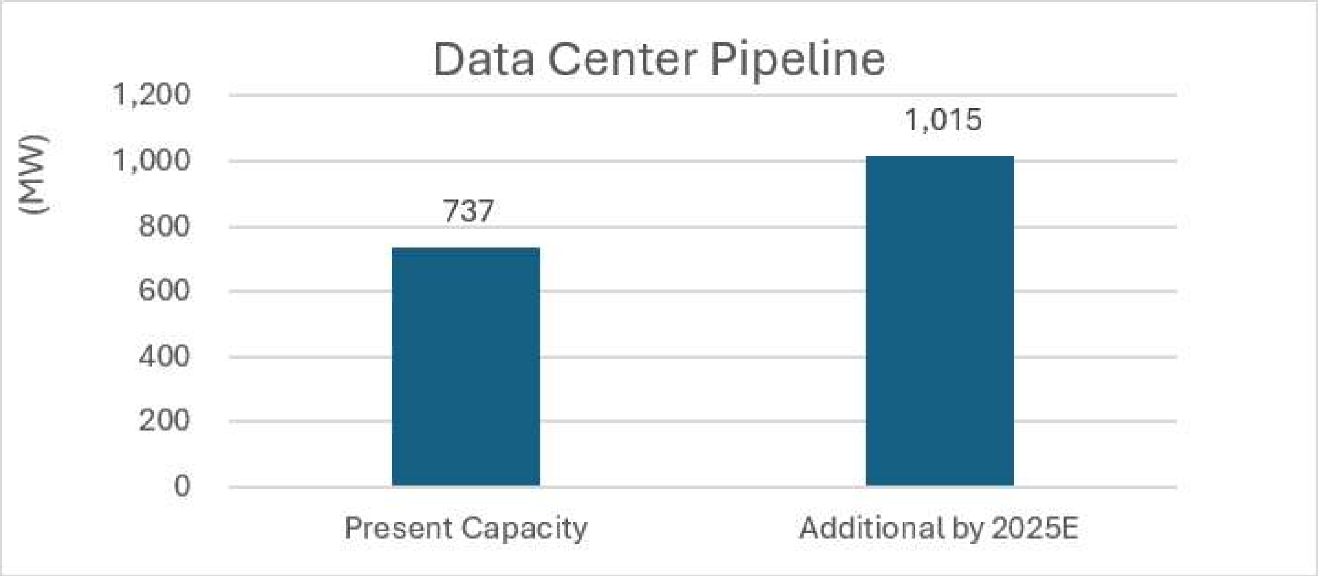


Source: Defence Standing Committee Report

Data Centers – Digital push

With the rampant digital transformation in India, sharp rise in data usage, growing requirement for cloud infrastructure and data localisation norms, data centers are emerging as a key source for capex in the digital space. India is on the cusp of a data center evolution. From a small, fragmented industry, co-location data centers (DC) are transitioning into large set-ups.

India currently has 138 third-party colocation data centers operated by 52 players. About 72% of this capacity is concentrated within five players, while 90% of the total capacity is among nine DC operators. The total IT capacity on power supplied is 737MW, which may grow to 1,752MW by 2025.



Source: Biswanger & Anarock 2022

Power Sector – New energy, green H2 to see massive capex thrust

- We believe large capacity additions will not only take place in renewable energy (RE) space but also in thermal power segment.
- To ensure a reliable power supply, ~80 GW of thermal capacity is required by FY31. The capacity addition is restarting after long.
- Expected addition in solar power may continue to attract investors. The total capacity of 300 GW is expected to be added on the RE front (including hydro) by FY30E, thereby incurring a capex of ₹14 lakh crore. By 2030, India aims to cross 450 GW RE goalpost.
- Establishing energy storage systems (ESS) has emerged as a critical step for the power sector. The cost of battery energy storage in India is expected to fall from ₹7 cr/MW in 2021-22 to ₹4.3 cr/MW in 2029-30. PWC, however, expects the requirement to be as high as 550 GW, with mobility applications making up for 392.7 GWh.
- The Union Cabinet approved National Green Hydrogen Mission. The initial outlay for the Mission will be ₹19,744 crore, including an outlay of ₹17490 crore for the SIGHT program, ₹1,466 crore for pilot projects, ₹400 crore for R&D, and ₹388 crore for other Mission components. The government is targeting 5 million tonnes of annual Green Hydrogen manufacturing by 2030.

We have increased our allocation to this part of the market and are continuously looking for new opportunities. Many more opportunities will emerge over the period. We have also launched ASK Lighthouse Portfolio which focuses on these areas.

Happy investing!
Mr. Sumit Jain
Deputy CIO, ASK Investment Managers Ltd

ASK Investment Managers

Investment Approach Update

In April 2024, the portfolio outperformed BSE 500. In consumer space, Patanjali Foods and Astral increased by 13% and 6% respectively. Radico Khaitan and Sai Silks rose 2% each in April. Titan declined by 6% last 1 month.

In Financial services space, REC, SBI and Cholamandalam Finance increased by 12%/10%/3% respectively. Bajaj Finance and Bajaj Finserv declined by 2%-4% last month. Among the other names, Bharat Electronics, Divi's Labs, APAR Industries, Polycab, Navin Fluorine and Bharti Airtel increased by 16%/16%/13%/12%/10%/8% respectively in the last one month. Mankind Pharma and APL Apollo increased by 3-4% in last one month. Reliance, Indian Oil and SRF had +/-2 % movement in last 1 month. L&T and Sona BLW declined by 5-11% in the last one month.

Portfolio Inclusions

1. Adani Port & SEZ: The largest private operator in India with capacity of 607 million tonnes (mt), APSEZ has evolved from operating just two ports (Mundra and Dahej) in FY11 to a portfolio spanning 14 ports across the country, resulting in market share gain to 26% from 10% in FY13. Improved reach, strategic port locations, operational efficiencies, and a comprehensive range of integrated service offerings (logistics, SEZs, etc.) have contributed to APSEZ's remarkable growth, with volumes soaring to more than four times the levels recorded in FY11.The string of ports in its portfolio with parity between east/west coast and ability to handle all types of cargo, makes it key beneficiary of port volume growth in the country. It is the only integrated player with presence across logistics segment, providing rail operations, warehousing and transport solutions. Currently the segment contributes 10% to the revenue and is likely to increase going forward.

2. Titagarh Rail Systems Limited: A market leader in domestic wagon manufacturing industry. The top four players account for around two third of market share across tendering with Indian railways. TRSL has been able to increase its market share across tendering with Indian railways since FY19. Its market share has increased from 21% in FY19 to 28% in FY23. The robust order book of ₹27,466 crore offers strong visibility. The pending order book includes unexecuted order for 19,259 wagons. The order book comprises of ₹6,790 crore orders for passenger coaches for metro rail, ₹7,026 crore order from Vande Bharat JV with BHEL. Across rolling stock ₹7,530 crore order is for wagon, while ₹6,300 crore order is for JV with wheel sets with RK Forging. The backward integration is expected to increase wallet share with customers. TRSL has entered into strategic alliance with Sidwal enterprises, an Amber group company to provide air conditioning systems for Vande Bharat coaches and metro coaches. This alliance can also help in globalizing its metro opportunity as it can bid for orders across Europe as well.

3. Varun Beverages: The per capita consumption in India is significantly lower than developed markets like U.S. and Germany and even the developing markets like Brazil and China. India's per capita soft drinks consumption is expected to grow at double-digit CAGR in the medium term. The company introduced value energy drink brand 'Sting' four years ago which has been hugely successful. The brand now accounts for >10% of VBL's India volumes and is on track to grow at healthy double-digit rate going ahead. Moreover, Varun Beverages is strengthening its foothold in Africa continent, which offer strong growth prospects in medium to long term.

4. Bharti Airtel Partially paid (PP): It helps to strengthen our existing Bharti Airtel position and enhances effective telecom sector exposure where we expect strong growth tailwinds in medium to long term.

Portfolio Exits

1. ICICI Bank and AU Bank: We have cut the overall financial sector exposure and used the liquidity to increase exposure to manufacturing, industrial and railways, where we expect strong earnings growth momentum in the medium to long term.

2. Berger Paints: The company is underperforming in the overall markets led by with weak near-term performance. The increased competition is likely to have adverse impact on near term earnings growth.

3. Page Industries: We have replaced it with Varun Beverages, which offer strong earnings growth in the medium to long term.

4. JSW Infra: We booked the profits and replaced it with Adani Ports, which is available at a relatively attractive valuation.