

Old Bridge Mutual Fund Newsletter



OLD BRIDGE
ASSET MANAGEMENT

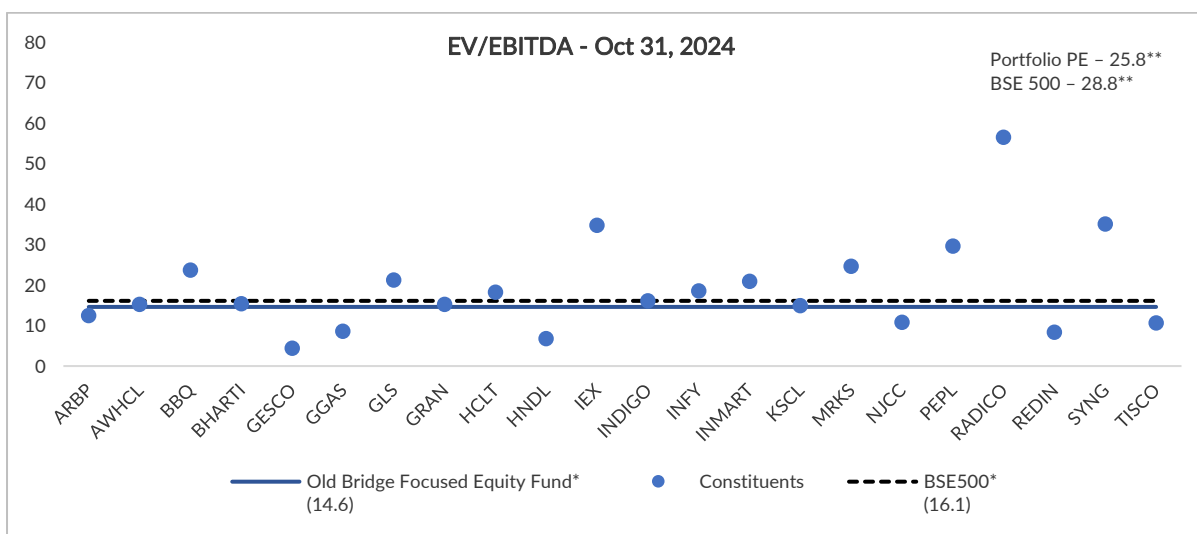
Current marketplace

Finally, a month where the markets seem to be correcting. NSE500 has largely given away all returns generated in the past 6 months, being down 8% from its peak. Number of events including the global uncertainty around the new administration in the US have been contributors to this fall. Domestic liquidity continues to remain strong – and the FPI trends are not unidirectional.

The other element was the results – quarter two was quite a shocker at the aggregate levels as the growth metrics seem to have completely disappeared. Is this temporary and just a post-election phenomenon – or is this structural in nature? The next two quarters will be critical to determine the direction of the future trend.

Despite this correction – stocks/ valuations have not gotten any cheaper. Our Portfolio valuations of Old Bridge Focused Equity Fund remain competitive vs the broader marketplace.

Portfolio Valuations



* Excludes financial services exposure in the portfolio and benchmark

** PE excludes Financial Services and Bharti Airtel exposure in the portfolio and benchmark

Old Bridge's Focused Equity Fund exposure in Financial Services is in Shriram Finance, which was trading at **PE - 14.9x, PB - 2.3x on 31.10.24**

Earnings have been considered for **Trailing Twelve Months** of Sept'24

Source – ACE Equity, Old Bridge, Ambit Institutional Equities

Portfolio metrics

In our last update, we have highlighted valuation risks and the difficulty of buying stocks at a reasonable price. **In the same breadth we have been trying to navigate the portfolio towards addressing the global markets and further acknowledging Corporate India's role in the global supply chain as provider of services or goods**

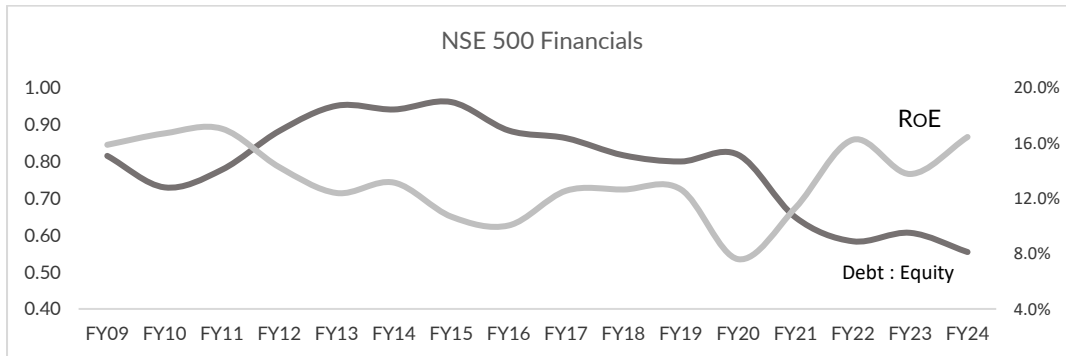
In this direction **pharmaceuticals remain our top exposure** – these companies made >20% of our portfolio and were amongst the top performers during the quarter. Other stocks with similar characteristics account for an additional ~35%.

NSE500 – What the past foretells

At the end of September, all the NSE500 companies had declared their annual financial statements for the March financial year end 2024. **A read through of the numbers essentially corroborated the fact that markets trade at these multiple just for the quality of these statements.** RoE's are mid-teens, leverage/ debt on balance sheet at their historical lows. Cash flows are at their historical highs. It's difficult to find a business that is losing money in an economy that has managed the worst crisis in the last decade.

On the other hand, if one had to look for growth metrics, most of the businesses at current levels of profitability could expand capacity by 20% and their leverage levels would not change.

The negative on this table – we are making cyclical highs in profitability margins; RoE expansion is absent in this subset. Probably the worst conclusion is for the lending businesses – corporate India is so significantly cash surplus/ solvent, the ability to price debt is virtually absent to this pool of customers.



Source – ACE Equity, Old Bridge

A forecast reading through these numbers

The start of the leverage cycle could be around the corner, but it may come in from the most unexpected quarters – working capital. The cost of doing business, as well as when capex is complete – could mean a scale up in capital employed.

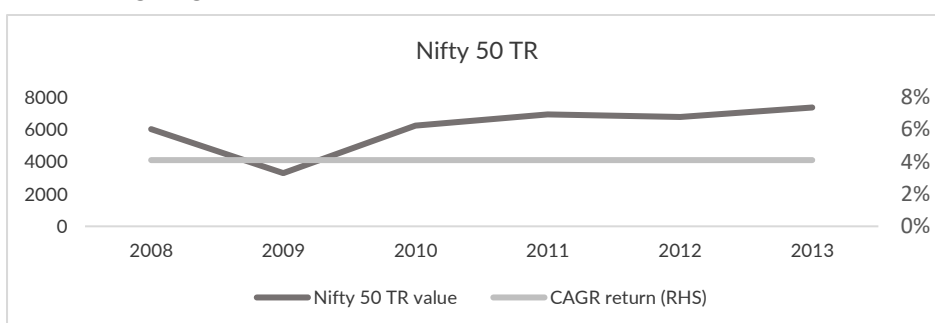
The deterioration would most probably come from the Government and businesses that are linked to Government expenditure. This will be much more difficult to manage – and would have a domino effect. Compared to pre-2024, most governments even at the state level focused on efficiency of capital – this time around it seems to more socialist in nature. While socialism has its positives, any transfer of capital, without a compensating economic activity leads to inflationary pressures. This is a global trend that seems to be ongoing, and this is not relegated to just India. While most corporates have tightened their belts during the pandemic, this time around they may not have the choice of being as capital efficient as in the past.

The economy over the course of the decade will chug along, **we continue to be bullish on the volume led manufacturing growth, but the valuation cycle is not in favour to pick any significant** trend out here. The capex may continue, and the volume throughput would exist, albeit with **lower margins and capital efficiency. Add debt** to this cycle. Trade realignments and surplus capacities in some industries would normalise margins.

The Future

We can't really foretell how this would evolve, but if a combination of a working cycle deterioration and a margin contraction would mean that there could be a lull in the growth cycle for a while. Along with the current valuation spike - the market returns could normalise for the rest of the decade.

We sign off this update with a chart of how the future can take away from some experience of the past. 2008 to 2013, the NIFTY returned single digit return.



Source – Bloomberg

To emphasise differently – one may have to look at rotating out of the most favoured segments of the marketplace to generate returns. Two things will we think will work – **avoiding consensus** and **finding a few businesses** that can generate incremental returns.

Continuing from our last newsletter in September...

Navigating the narrative

Over the years cyclical has been the only constant. Winners of yesterday have often not been the winners of tomorrow. Cyclical has been witnessed in the past over longer time frames

Exhibit 3 – Returns from different SENSEX components over 10 yrs

	Theme	Market Cap (INR bn)			CAGR returns p.a.	
		Dec-03	Dec-07	Dec-13	Dec'03 - Dec'07	Dec'07 - Dec'13
					4 yrs	6 yrs
Sensex*	Index	5,800	20,250	21,250	37%	1%
Winners of yesterday ≠ Winners of tomorrow						
L&T	Infrastructure	130	1,215	990	75%	-3%
NTPC ^	Energy	720	2,070	1,130	30%	-10%
ACC	Infrastructure	40	190	210	48%	2%
ICICI Bank	Corporate Bank	180	1,355	1,270	66%	-1%
ONGC	Commodities	1,140	2,645	2,470	23%	-1%
Different winners in 2013						
HUL	Consumers	450	470	1,235	1%	17%
Tata Motors	Consumers	145	285	1,105	18%	25%
Dr. Reddys	Exports	110	125	430	3%	23%
TCS ^	Exports	640	1,055	4,255	18%	26%

* Sensex refers to Index values rounded off to the closest 100

^ TCS & NTPC listed in 2nd half of CY24. Returns considered from Dec'04
 Above companies are SENSEX components in as on 31/12/07 or 31/12/13

Source Bloomberg.

Past performance may or may not be sustained in future

Market cap is defined as no. of shares outstanding at the end of the respective calendar year* x "Share price outstanding at the end of the respective calendar year.

In hindsight, Manufacturing and Energy would have been a great theme to invest in 2019 when consumers were doing well. Consumers & Exports turned out to be the best place to be in 2007-08 amidst the optimism around capex and infrastructure in the marketplace.

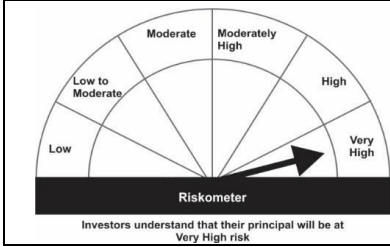
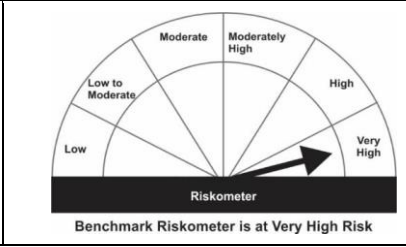
Portfolio inclusion would be potentially in sectors and companies that have a larger international footprint and has established their right to win vs competition. These would be companies that can generate cash flow – without any subsidies or protectionist measures. This will help us navigate any slowdown in the domestic macros.

Old Bridge Focused Equity Fund – Our value proposition

- A non-consensus portfolio
- Focus on capturing all changes in one Portfolio - The strategy focuses not only on **“what we own”** but also **“what we don't own”**
- **Early movers** in any transition – Keep valuations favorable.

RISK O METER

Old Bridge Focused Equity Fund (An Open-ended Equity Scheme investing in maximum 30 stocks) (multi cap)

This product is suitable for investors who are seeking*:	*Risk-o-meter	
	Scheme	Benchmark (BSE 500 TRI)
<ul style="list-style-type: none"> Capital appreciation over long-term Investing in a concentrated portfolio of equity and equity related instruments of upto 30 companies 	 <p style="text-align: center;">Investors understand that their principal will be at Very High risk</p>	 <p style="text-align: center;">Benchmark Riskometer is at Very High Risk</p>

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

For latest riskometer, investors may refer to the Monthly Portfolios disclosed on the website of the Fund viz.

www.oldbridgemf.com

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