

# Old Bridge Mutual Fund Newsletter



OLD BRIDGE  
ASSET MANAGEMENT

## The Breadth of Optimism

This is our second newsletter since we started investing in the MF format at the beginning of this year. The year continues to be good. The breadth of gains in the market continues to be exhilarating. This has helped us navigate our portfolio which stands with gains of simple annualized 41.98% since inception\*(pls refer table). We are probably seeing the best part of market cyclicity at this point.

The positives of the current cycle:

- Close to historical highs in cashflow generation by corporate INDIA
- Most incremental capital expenditure is being funded by internal accruals. Leverage seems to be a distant problem if at all
- Debt Equity of the top 500 companies (NSE500) continues to be at historical lows (since 1999)
- Buoyant capital markets, which makes access to funds easy. Equity has never been cheaper for corporates
- Conversation around solvency is off the table. It is difficult to find a company that reports a loss

The negatives of the trade:

- Valuations are at an all-time high
  - Market Cap: GDP is the second highest in the world
  - PE multiples are trending higher
- Current market valuation captures all potential growth till 2030
- Execution risk is at a reasonable high, valuations are susceptible to any macro event
- If cash generation continues at the current level with no opportunity of capital investment
- Trouble at household leverage remains an issue. Delinquencies at the bottom end of the population pyramid seem to have reared their head

We are currently in a phase where it's almost impossible to segregate how much markets have delivered a return and what has been our internal contribution to returns. This holds true for most managers and investors as all returns are being delivered by PE expansion rather than any significant growth in earnings.

Circa back to financial year end 2018, where the breadth of the market was negative, and a handful of stocks were moving at their all-time high. In contrast, today the tiding is completely different. It's a buoyant market and everything seems to be doing well.

## Changing Tides

The changing tide has exhibited quite a bit of cyclicity. The sectors and indices that drove 2018-19 returns are different from the pockets of optimism today.

The below table aptly captures how different companies in different sectors have behaved in the past – and if you were in alignment of the trade opportunities existed – but they were mostly the most non consensus trades that existed.

Exhibit 1 – Annualized returns of companies in 2018-19 vs 2023-24

| Sr. No | Company            | Theme         | Returns (% annualized) |                      |
|--------|--------------------|---------------|------------------------|----------------------|
|        |                    |               | 2018-19 <sup>^</sup>   | 2023-24 <sup>*</sup> |
| 1      | Asian Paints       | Consumer      | 25%                    | 2%                   |
| 2      | HDFC Bank          | Private Bank  | 17%                    | 2%                   |
| 3      | Hindustan Unilever | Consumer      | 20%                    | 7%                   |
| 4      | JSW Energy         | Energy        | -13%                   | 73%                  |
| 5      | BHEL               | Capital Goods | -29%                   | 119%                 |
| 7      | SBI                | Public Bank   | 4%                     | 21%                  |
| 8      | Sun Pharma         | Manufacturing | -13%                   | 45%                  |
| 6      | HAL ~              | Defence       | -24%                   | 122%                 |
| 9      | NIFTY50            |               | 9%                     | 24%                  |
| 10     | NIFTY Mid 150      |               | -6%                    | 46%                  |
| 11     | NIFTY Small 250    |               | -17%                   | 49%                  |

<sup>^</sup> 2018-19 returns are annualized returns from 31.12.17 - 31.12.19

<sup>\*</sup> 2023-24 returns are annualized returns from 31.12.22 - 30.08.24

~ Hindustan Aeronautics Ltd was listed in Mar'18

Source – Bloomberg

Past performance may or may not be sustained in future.

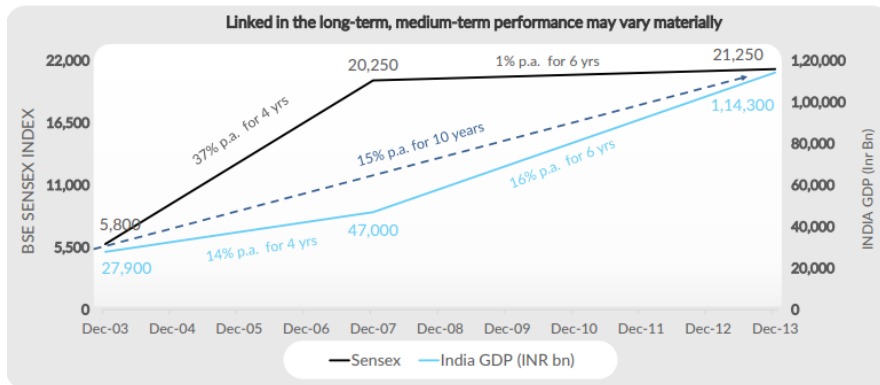
## The narrative

India's on a strong footing, "so markets will continue to do well"

Corporate balance sheets, Government's thrust on enabling trade, India's growing role in global trade should bode well for India's growth trajectory. In the long run, markets and economy converge, but not without medium term gyrations...

The narrative on markets and the economy today feels like year 2007 or even year 2000. In the 5-6 yrs after, only one of the two played out.

Exhibit 2 – Sensex growth coincides with Economy in the long run, disparate in the medium term



Source – Bloomberg, Budget Documents, Government of India

## Markets are pricey...

It's true.

## Navigating the narrative

Over the years cyclicalty has been the only constant. Winners of yesterday have often not been the winners of tomorrow. Cyclicalty seen above, 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           |
| <b>Sensex*</b>                             | <b>Index</b>   | <b>5,800</b>        | <b>20,250</b> | <b>21,250</b> | <b>37%</b>        | <b>1%</b>       |
| 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 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.

## Winners of tomorrow?

We like the manufacturing/ defence/ energy opportunities, and we believe they have the potential to do well, but we believe the time to start being in these segments was probably four years back. Here we think the earnings may catch up to the PE multiple – the expansion of these themes is largely done. At today's prices in these industries, we are taking a cyclical business and giving it a structural valuation multiple.

Our portfolio and thereby our incremental ideas rests in India's leap in infrastructure creation and re-orientation of global trade. This will create leadership for some industries from India in the global economy. India Inc. is likely to solidify its position in sectors with demonstrated scale and competitive advantage as new sectors emerge\*\*. Services should lead this trend. As on Aug 31, 2024 our portfolio represents > 50% of the companies having an exposure to the global trade and are competitive sans subsidies. We will increasingly become large in the global value chain.

## Trickling impact...

Derivative of the above will drive the narrative for some sectors. A chunk of our exposure is here. An example of this is Real Estate in Bangalore is a function of IT wages, and if this continues to be inflationary – as an industry it will continue to do well.

If we're right, the cashflows emerging out of some of our businesses have the potential to be at a scale which has been unseen in the past. These fundamentals should help us navigate market volatility better.

\*\*Did you know?

India houses 20% of world's semi-conductor chips designers Source – KPMG, Jun'24  
 Amazon's largest global office and Goldman Sach's 2nd largest global office is in India

## Eastern headwinds

In our maiden letter, we had discussed the rising share of China's exports in the global landscape. The rising share has come with prohibitively aggressive pricing

Brunt is being felt across sectors across the globe – Chemical companies, Steel mills, Solar PV module manufacturers, EV companies et al

The pain appears equally accentuated in China, if not more. It's not only restricted to the deserted factories, retreating global businesses from China, but also in the marketplace in which the Chinese industry is prominent

The chart below captures c. 3 yr stock performance (USD returns) of 4 life science chemical companies in China with the China Small Cap index and one of the larger chemical companies from India. These businesses have lost 50%-75% of their value in the last 3 yrs.

Exhibit 4 – USD returns of Chemical companies in China, China Small Cap Index, A large chemical company from India over 2022 -24



Source: Bloomberg

The intensity of aggression in exports has been severe as China struggles to drive growth in a sombre local market. Should the intensity continue, it would lead to a wave of consolidation across multiple sectors. Should intensity reduce, one may see significant uptick in industries most impacted hitherto. Timing, however, remains to be seen. Our pencils are sharp, as we wait for a catalyst.

## Portfolio Summary of Old Bridge Focused Equity Fund

As a Focused Fund, our largest deviations from the benchmarks are 20%+ in Pharma & Healthcare and just one business in financial lending compared to its large Index representation. It is as important to focus on 'what not to invest in' as also 'what to invest in'. The above two will be a mainstay for a while.

Into 2030, scale and size of businesses will transition as some companies/ businesses increase market share in the global arena – they will consolidate their markets. This we think will be the key driver for incremental growth till the end of the decade. Valuations in this pocket are high, but extremely competitive compared to the rest of the market place.

### Performance\*

| Period  | Scheme Returns (%) | Benchmark Returns (%) | Additional Benchmark Returns (%) | Value of investment of Rs.10,000 |                 |                           |
|---|--------------------|-----------------------|----------------------------------|----------------------------------|-----------------|---------------------------|
|   |                    |                       |                                  | Scheme (Rs.)                     | Benchmark (Rs.) | Additional Benchmark (Rs) |
| Old Bridge Focused Equity Fund – Regular Plan -Growth |                    |                       |                                  |                                  |                 |                           |
| Last 6 Months*  | 52.22              | 37.39                 | 31.44                            | 12,618                           | 11,875          | 11,576                    |
| Since Inception                                       | 41.98              | 40.53                 | 33.15                            | 12,530                           | 12,443          | 11,998                    |
| Old Bridge Focused Equity Fund – Direct Plan -Growth  |                    |                       |                                  |                                  |                 |                           |
| Last 6 Months*  | 53.58              | 37.39                 | 31.44                            | 12,618                           | 11,875          | 11,576                    |
| Since Inception                                       | 43.30              | 40.53                 | 33.15                            | 12,530                           | 12,443          | 11,998                    |

Returns as on August 31,2024 (The last Business Day of the month)

Past performance may or may not be sustained in future.

Different Plans i.e. Regular Plan and Direct Plan under the scheme have different expense structure.

Benchmark: BSE 500 (Total Returns Index), Additional Benchmark: NIFTY 50 (Total Returns Index)

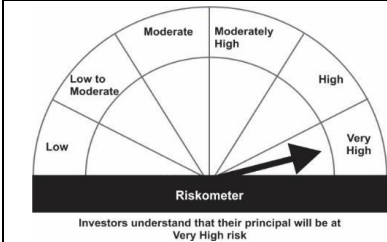
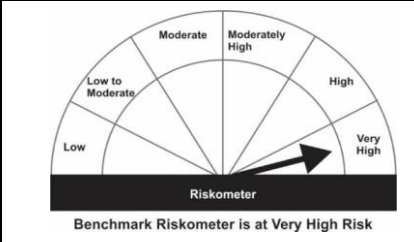
Inception Date: January 24, 2024.

Returns less than 1 year period are simple annualized. Face Value per unit: Rs. 10

\*Performance has been calculated simple annualized growth rate of the scheme for the past 6 months from the last day of month-end preceding the date of advertisement. The scheme is managed by Mr. Kenneth Andrade and Tarang Agrawal since inception.

## 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"> <li>Capital appreciation over long-term</li> <li>Investing in a concentrated portfolio of equity and equity related instruments of upto 30 companies</li> </ul> |  |  |

\*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](http://www.oldbridgemf.com)

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