



December 28, 2021

Portfolio Commentary

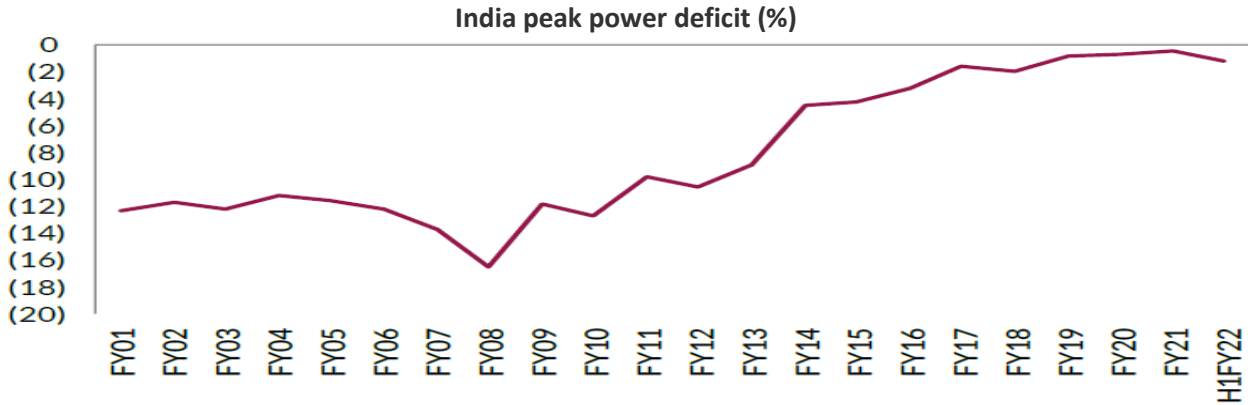
Manufacturing To Drive Next Leg of Growth

India has been steadily gaining share of global manufacturing value add for several years. However, despite the share gains over the years the share in the pie remains abysmally low at 3.2% of the global manufacturing GVA, compared to 12% for agriculture. India's manufactured goods exports grew 42% in CY21YTD, compared to global growth in trade of 27%.

This pandemic has made India emerge as one of the hubs for manufacturing and global outsourcing. Exports also presents India a huge opportunity to expand its footprint globally. China+1 strategy enables India to emerge as one of the big beneficiaries and be an outsourcing hub for auto components and electronics. Pharma is another segment where India can increase its presence globally and with high levels of compliance and regulations India can significantly increase its market share.

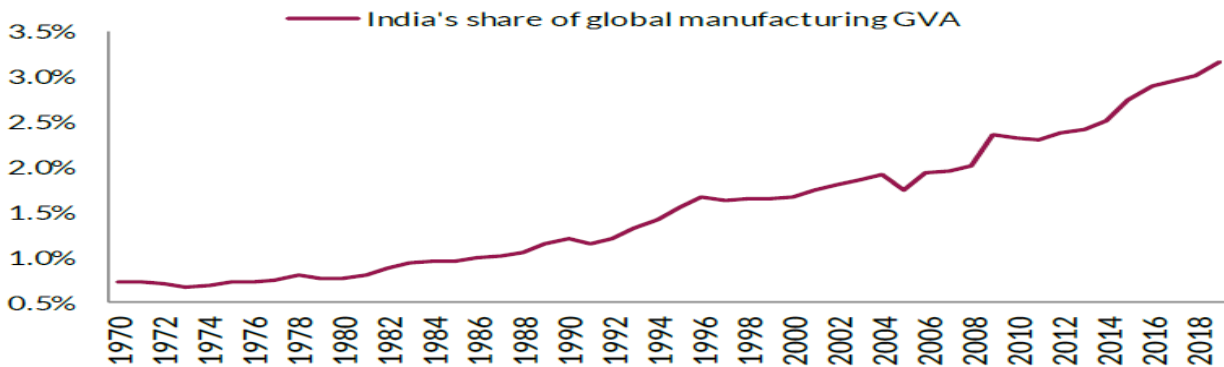
Earlier India suffered 1000-2000 bps cost disadvantage due to poor road network, expensive power and slow clearance at ports. India was an unreliable source of manufacturing for global buyers as there was no predictability in supply timelines. However, heavy infrastructure investments have significantly addressed

several of these disadvantages. Over the years we have seen a significant improvement in cost and supply of power as well helping India grow its manufacturing activities.



Source: CEA, Axis Capital

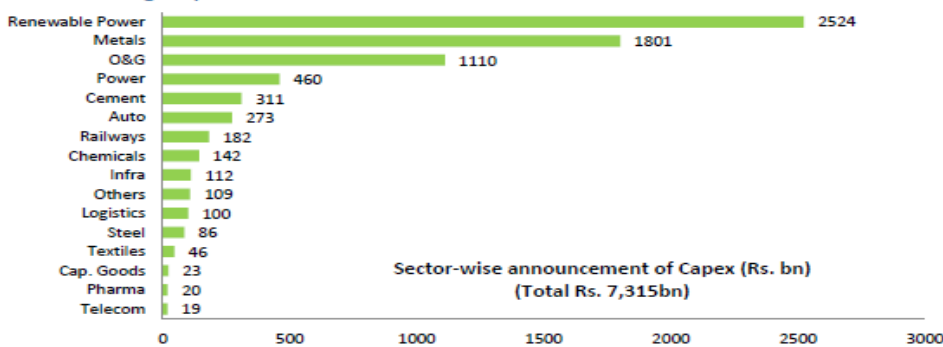
Global suppliers in India also seem to recognize the need of the hour to localize both procurement and production of capital goods. As a result, India is on track to increase its global share in manufacturing.



Source: CEPII, Axis Capital

Further, domestically the Private sector has announced approx. over INR 5.5tn capex while PSUs have announced >INR 1.5tn capex in FY22 (YTD). This will further boost manufacturing as local demand picks up.

#4: Renewable Power, Metals, O&G, Power, Cement, Auto, Railways and Specialty Chemicals are the top sectors with large capex announcements



Source: Spark Capital Research

Booster Shot: Production Linked Incentives

Government to boost manufacturing in India recently came out with PLI in various sectors. Production Linked scheme can possibly boost private sector investments in select sectors. PLI should garner cumulative capex of ~INR 1.7tn over the next 2-3 years and could fast track the capex plans of the private sector at least by two years.

PLI schemes aim to position India as a global manufacturing hub by improving the local supply chain, developing key downstream operations, and incentivizing investments in high-tech production. First introduced in March 2020 targeting 3 sectors has now been expanded to multiple sectors (currently 13 sectors).

It is envisaged that India's total industrial production will increase by over US\$500 billion during the period covering PLI policy implementation. Additionally, the government is also working on reducing compliance burden, improving the ease of doing business, creating multi-modal infrastructure to reduce logistics costs, and constructing district-level export hubs.

Government has earmarked an outlay of approx. INR 3 Lakh Crores for the Production Linked Incentive (PLI) Schemes across 13 key sectors, to create national manufacturing leaders and generate employment opportunities across various industries. PLI framework enables India to take definitive steps, in the near term, to expand the manufacturing potential of the economy.

- Creation of large-scale manufacturing capacity
- Import substitution and increase in exports
- Employment generation

Sectors	Outlay INR Bn	%	Likely Employment opportunity	Likely Incremental Revenues over 5 yr
Semiconductor	760.0	26.2	>2 lakh	approx 15 trillion
Automobile and Auto Components	570.4	19.7	>10 lakh	approx 3 trillion
Electronics	473.3	16.3	>6 lakh	approx 15 trillion
Pharmaceuticals	219.4	7.6	>1.5 lakh	approx 3 trillion
Medical Devices	184.2	6.4	>0.5 lakh	approx 2 trillion
Chemicals	181.0	6.2	>1 lakh	approx 2.5 trillion
Telecom	122.0	4.2	>7.5 lakh	approx 3 trillion
Textile & Apparels	106.8	3.7	>2.5 lakh	approx 1 trillion
Food Processing	109.0	3.8	>5 lakh	approx 1.5 trillion
Metals & Mining	63.2	2.2	>3.5 lakh	approx 1 trillion
White Goods	62.4	2.2	>1.5 lakh	approx 1 trillion
Renewable Energy	45.0	1.6	-	-
Aviation	1.2	0.0	-	-
Total Outlay	2897.9	100.0		

Source: pib.gov.in, Industry, Sanctum Wealth

Production Linked Incentive Schemes in India	
Sectors	Incentives
Mobile/Specified Electronic components manufacturing	4% to 6% for a period of 5 years
Medical Devices manufacturing	5% for a period of 5 years
Critical KSM/DI & API	5% to 20% for a period of 6 years
White Goods (AC's & LEDs)	4% to 6% for a period of 5 years
Telecom & Networking products	4% to 7% for a period of 5 years
Electronic/Technology products	1% to 4% for a period of 4 years
Pharmaceuticals drugs	3% to 10% for a period of 6 years
Food products	4% to 10% for a period of 6 years
Solar PV modules	Based on Sales/Performance criteria & local value addition for a period of 5 years
Advanced Chemistry cell battery	Based on Sales/Performance criteria & local value addition for a period of 5 years
Textile products	Based on Sales/Performance criteria & local value addition for a period of 5 years
Automotive industry & drone industry	Based on Sales/Performance criteria & local value addition for a period of 5 & 3 years
Speciality Steel	4% to 12% for a period of 5 years

Key sectors in PLI

Semiconductors

The Union Cabinet recently approved INR 760 bn scheme to boost semiconductor and display manufacturing. This investment is aimed at making India a global hub of electronic system design and manufacturing. The scheme would provide fiscal support of up to 50% of the project cost and in addition, the Centre would work with the States to set up high-tech infrastructure.

In India electronics manufacturing had increased to \$75 billion over the past seven years and was expected to reach \$300 billion in the next six years.

Automobiles & Auto components

PLI scheme for automobiles & auto components has been approved with focus on pre-approved advanced automotive technology vehicles (EV production) and developing local supply chain for advanced automotive technologies (for all vehicles) – with total outlay of INR 570 bn over the five years starting FY23.

Attractive incentives which are linked to the level of incremental determined sales in both domestic as well as export markets.

OEMs - minimum incentive at 13% of the determined sales value of <INR20b, goes up to 16% for the sales value of >INR40b. An additional 2% incentive for cumulative revenues of INR 100 bn over five years.

Auto components - minimum incentive is 8% of the sales value of <INR 2.5bn and goes up to 11% for sales of >INR 7.5 bn. An additional 5% incentive for components for battery electric vehicles and hydrogen fuel cell vehicles. An additional 2% incentive for the cumulative revenues of INR 12.5 bn over five years.

The government envisages cumulative incremental production of > INR 2 trillion and the creation of 0.75 million jobs.

Pharmaceuticals

PLI scheme for pharmaceuticals will help India become Aatmanirbhar in APIs and boost investments in high-value generics as well.

The PLI scheme will reimburse up to 110% of the committed capex over the scheme period based on expected sales performance. The largest outlay will be on 4 fermentation-based products (Pen-G,7-ACA, Erythromycin Thiocynate, Clavulanic Acid), which will garner ~70% of the capex.

The scheme is expected to generate incremental sales of INR 3 trillion (including exports of INR 2 trillion) over the six-year scheme period.

White Goods

PLI Scheme for Air Conditioners and LED Lights to be implemented over FY22 to FY29 with a budgetary outlay of INR 62.4bn (4-6% incentive on incremental sales over base year FY20).

We believe this shall promote onshore manufacturing of critical components like Compressors, Motors, PCBs, LED chips amongst others and possibly shall help increase pace of import substitution.

Conclusion

As global companies look to diversify their production base and supply chains, efforts by the Indian government towards Aatmanirbhar could be significantly augmented with India's ability to attract hi-tech manufacturing. Focus on laying policies to enable consistency in import of sub-components on par with other ease of doing business especially for PLI based production.

Overall, private industrial capex appears to be getting into a whole new cycle after the pandemic aberration boosted with PLI which will potentially induce capex growth in new age sectors where we are largely import dependent (telecom equipment, mobile, IT hardware, battery, etc). Large players in metals and cement, where utilization levels are elevated and balance sheets are healthy, will continue their capex plans (brownfield in near term and greenfield in medium to long term). Also, pandemic-induced digitization and focus on ESG / energy transition will drive green capex.

With increasing manufacturing on a global scale, India's parleys on FTAs with EU, UK, Canada, and Australia could play a very important factor in achieving this scale. With manufacturing focus at core and enabling policies and support should incentivise production in a WTO compliant manner and act as an inducement for FDI.

In-House Strategies – continue to outperform

Our in-house strategies have significantly outperformed the benchmarks over last 6 months despite volatility in markets. Our flagship Multicap strategy Sanctum Indian Titans outperformed Nifty 50 by 820 basis points while, Sanctum Olympians outperformed Nifty 50 by 90 basis points. Overall, our portfolios continue to remain centred around the themes of housing, manufacturing, and exports opportunities. We have incrementally increased weights to financials and building materials.

Our underlying companies continue to deliver strong growth and we believe that our portfolio is well poised to bear market volatility. Global inflation and pace of rate hikes by fed will be key macro monitorable going forward. We will continue to track performance of portfolio companies and management commentaries post the third quarter end and take appropriate portfolio actions based on parameters within the themes mentioned above.

Performance of In-house PMS Strategies

Performance as on November 30, 2021	1 Month	3 Month	6 Month	1 Year	CAGR		
					2 Year	3 Year	Since Inc.*
Sanctum Indian Titans	-2.9%	1.8%	17.2%	40.3%	26.0%	22.8%	17.2%
NSE200 Index	-3.3%	0.0%	10.0%	34.2%	20.5%	16.3%	15.8%
* Since Inception Returns are from 18-Nov-16							

Performance as on November 30, 2021	1 Month	3 Month	6 Month	1 Year	CAGR		
					2 Year	3 Year	Since Inc.*
Sanctum Indian Olympians	-3.6%	-1.6%	9.9%	24.6%	17.5%	17.7%	13.4%
NSE100 Index	-3.4%	-0.6%	9.3%	32.0%	19.1%	15.9%	13.5%
* Since Inception Returns are from 16-Sep-16							

Performance as on November 30, 2021	1 Month	3 Month	6 Month	1 Year	CAGR		
					2 Year	3 Year	Since Inc.*
Sanctum Smart Solutions	-1.8%	1.6%	16.8%	36.5%	25.0%	18.7%	12.8%
NSE200 Index	-3.3%	0.0%	10.0%	34.2%	20.5%	16.3%	15.8%
* Since Inception Returns are from 03-Nov-16							

Performance is calculated using Time Weighted Returns, net of fees and expenses. Returns over 1 year are compounded annually, returns for less than 1 year period are absolute. Please note that the performance information provided above is not verified by SEBI. Please note that past performance is not a guarantee of future performance.

Sanctum Wealth

Investment & Advisory

Roopali Prabhu

Chief Investment officer

roopali.prabhu@sanctumwealth.com

Hemang Kapasi

Head of Equities

hemang.kapasi@sanctumwealth.com

Rajiv Mehra

Assistant Fund Manager

rajiv.mehra@sanctumwealth.com

Salvin Shah

Investment Analyst, Investment Office

salvin.shah@sanctumwealth.com

Harsh Shah

Investment Analyst, Investment Office

harsh.shah@sanctumwealth.com

Disclaimer

Different types of investments involve varying degrees of risk, and past performance is not indicative of future results. Do not assume that future performance of any specific investment or investment strategy (including the investments and/or investment strategies recommended or undertaken by us) will be profitable. Results may vary over time and from client to client. Any projections or other information illustrated in this presentation which may have been provided to you regarding the likelihood of various investment outcomes are hypothetical in nature, and do not necessarily reflect actual investment results nor should they be considered guarantees of future results. Historical performance results for investment indices and/or categories have been provided for comparison purposes and index returns may vary substantially from past performance in the future. Other investments not considered in the analysis and the recommendations resulting from this analysis may have characteristics similar or superior to those being analyzed. Please remember to contact Sanctum Wealth if there are any changes in your financial situation or investment objectives or if you wish to impose, add or modify any reasonable restrictions to our services.