Birla Sun Life Resurgent India Fund – Series 2

(A closed ended equity scheme)

1 November 2016

Birla Sun Life Mutual Fund

Birla Sun Life Resurgent India Fund – Series 2 is a 3.5 year closed ended equity fund with an intent to generate long term capital appreciation by investing in equity and equity related securities that are best positioned to benefit from Indian growth resurgence.

Why do we think 'achhe din' are here

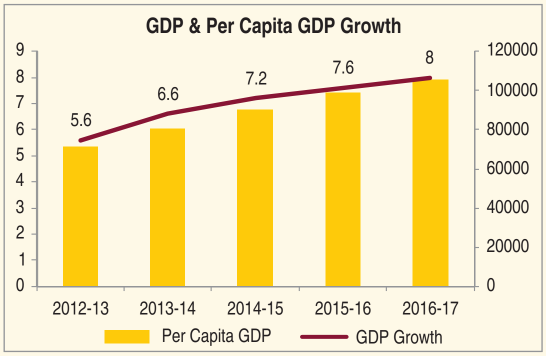
Indian economy is already becoming one of the fastest growing economies amongst the world's largest dominant economies with low inflation and an accommodative interest rate regime.

Resurging Growth + Lower inflation & interest rate + Government Reforms = Potentially Strong Returns in Equity

Resurging Growth

Consumption J-curve - An economy enters the consumption J-Curve, where the per capita income (GDP) crosses 1000$. History has shown that the economy doubles its size in the next 6-8 years when it enters the Consumption J-curve (Countries like US, UK, South Korea and Japan are examples of the same.

This is also a time when in the consumption moves from staples/necessities to discretionary.

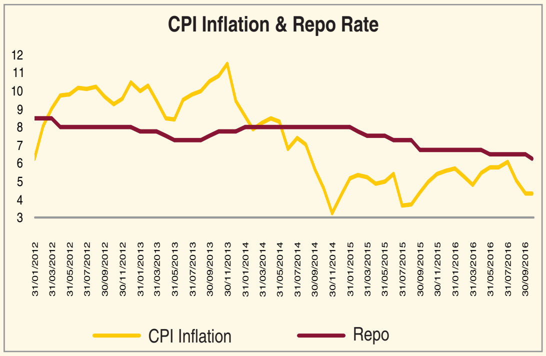


Source: Finance Ministry, statisticstimes.com

Lower inflation & interest rate

RBI & GoI have played their roles to perfection in stimulating growth by cutting interest rates while lowering fiscal deficit & managing inflation

Gradually rates transmission is also seen with bank MCLR coming down resulting in India Inc's cost of borrowing as well as cost to consumer reducing



Source: Bloomberg, RBI

Govt. Spending

The govt. expenditure for Q1FY17 grew at 18.8% (4 times higher than last year). Govt. spending is focused on key sectors that have higher multiplier effect, catalyze growth through domino effect. Like roads, railways and power has gone up by 24%, 49% and 20% respectively for this fiscal year.

Govt. Reforms

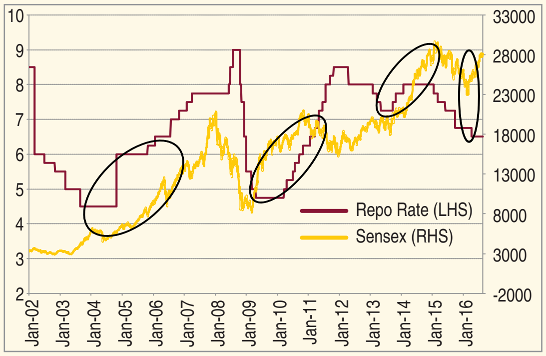
Increasing Transparency - E- Auction of National resources, resolving tax issues of FPIs & clear road map on GAAR

Increasing Efficiency - Fuel price deregulation to minimize subsidy impact on GDP, Direct Benefit Transfer, Crop insurance for Farmers to minimize impact on purchasing power in rural areas, passing of GST

Inclusive Growth – Jan Dhan Yojana, Aadhar implementation, social security program for poor

Returns in Equity

- Historically, there has been a strong co-relation between the rate cut cycle in the economy, easing inflation and the performance of the equity markets
- The markets have normally rallied over the next 1-3 years of every rate cut cycle delivering CAGR returns in the range of 15%-30% for a 3 year period.



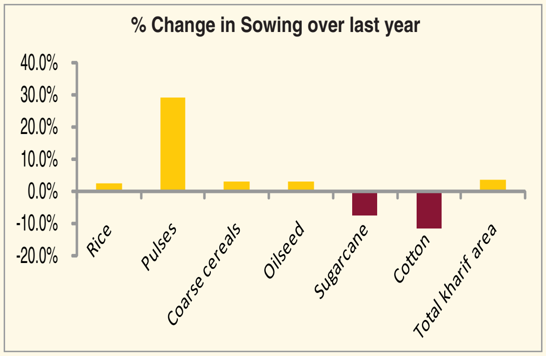
Source: RBI, Bloomberg

Key Drivers of Current Growth Cycle

Consumption Drivers

Monsoon: Current year monsoon was 97% of Long Term Average; Rural consumption will revive with a strong monsoon this year, that has resulted in significantly improved irrigation levels.

- Sowing has been highest in past 3 years
- La Nina effect, which was responsible for this monsoon, generally has a multi-year effect. This is a much needed boost for sustenance of growth in rural consumption.

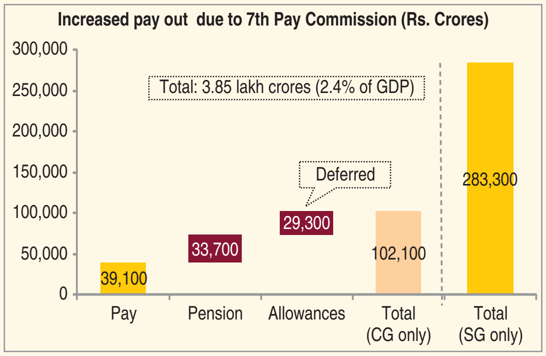


Source: IIFL Research

7th Pay Commission

7th Pay Commission will catalyze Consumption through increased cash in hands of government employees & pensioners. Total Impact of incremental spend of ~ Rs 3.8 Lakh Cr over next 3 years (~2.4% of GDP).

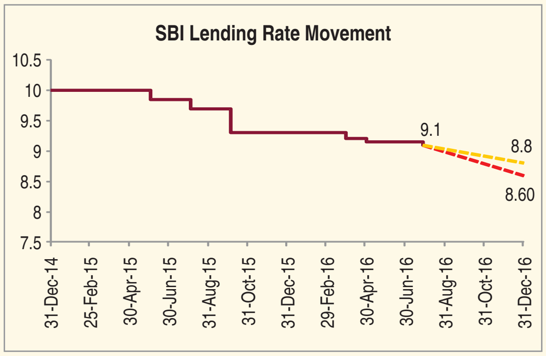
The increased consumption by 7th PC beneficiaries is likely to be focused in sectors like consumer durables, consumer discretionary & home improvement.



Source: Bloomberg, BSLAMC research

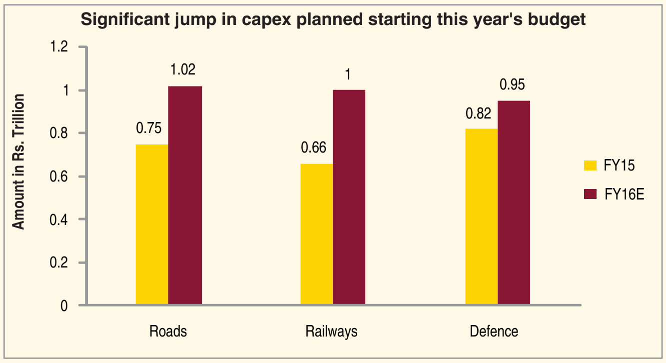
Interest Rate Easing

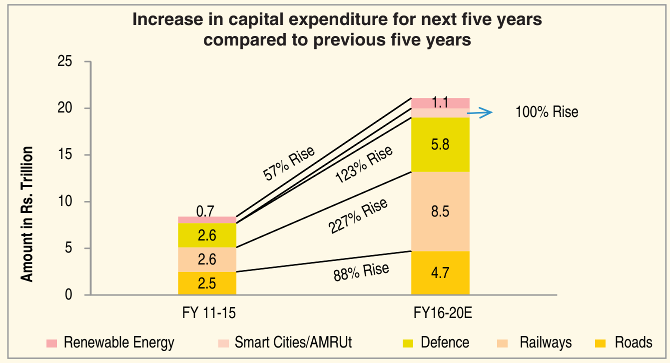
With interest rate transmission already underway through the new MCLR regime and RBI's commitment to lower rates further basis lower inflation, borrowing rates will further come down resulting increased spending on account of access to retail finance & higher affordability.



Source: SBI, BSLAMC research

Investment Drivers





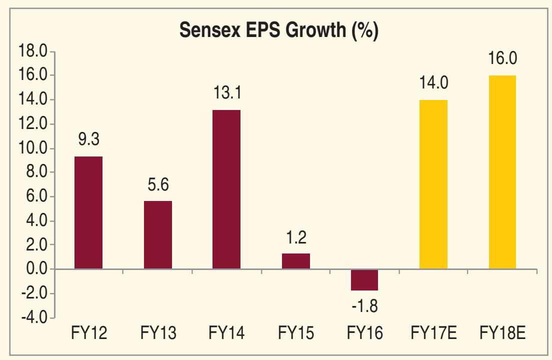
Source: Bloomberg, BSLAMC research

Infra development and catalyzing fixed capital formation remains high on govt. agenda with infrastructure and key sectors (roads, railways & defense) being on priority.

The 12th Five Year Plan (2012-17) has proposed a spend of over Rs. 21.1 trn on the govt. capex spending resulting in huge order books for companies in infrastructure and capital goods related sectors.

Corporate India is already benefiting from the growth resurgence

Corporate Earnings have rebounded after bottoming out in the 1st quarter of CY16. Index returns could track earnings growth trajectory even without rerating on account of earnings growth. Sectors like cement, FMCG, consumer durables & auto are leading with double digit growth rates. The auto sales, especially the two wheelers and commercial vehicles have been robust. The air passenger growth has been in double digits for over two years now. The exports growth moved into positive territory in June delivering 1.27% it has sustained since then & has clocked 4.6% growth by 30th September.



Source: Bloomberg, BSLAMC research

When the wave of Economic Growth comes, almost everything gains, but some key sectors gain more than others:

a. Banks and Finance – Banks/Housing Finance/NBFCs

- Stable inflation is expected to make room for more rate cuts in future which will in turn stimulate consumption leading to bigger demand from consumers across HFCs, Consumer Loans etc
- Housing finance companies are likely to benefit from lowering borrowing rates by further expansion in their Net Interest Margins (NIMs) & increase in demand for housing; financial sector companies have improved in EPS by 4-6% over broad on average
- RBI driven asset quality review has helped put the peak of Non Performing Loans (NPL) behind & bottoming of the underlying credit cycle. With efforts on recoveries, next cycle of growth is beginning - Long & quality cycle ahead with improving growth, risks & rates
- New payment bank licenses will bring about more financial inclusion – higher consumer base for financial services and better control on leakages.

b. Consumer Durable & Consumer Discretionary

- Better sowing & expectations of good harvest is expected to sober retail inflation further, while also providing impetus to rural consumption. Consumer durables & 2 wheelers segment expected to benefit.
- 7th Pay Commission has started releasing large sums of cash that will benefit discretionary spending. Over 2.4 cr people (within Central & State Govt.) will be given their pay hikes and pensions along with arrears. This will lead to significant jump in demand for white goods, automobiles etc over the next 2-3 years.

- Long term drivers for the sector are:
- Demographics – lower dependency ratio implying higher earning youth population which is eager to spend
- Affordability – easy & improved access to consumer finance as well as improving per capita incomes
- Low penetration – lower penetration across almost all durable goods is a huge opportunity for companies as it keeps competition low

c. <u>Infrastructure, Cement & other Capital Goods</u>

- Large scale infrastructure being developed – roads / ports / railways. Government's thrust on road development up from 18km/day to 30km/ day. Rail projects like DFC etc already on track.
- Capital goods sector will benefit from rising infrastructure developments and manufacturing demands.
- The government, in July, approved the first-ever policy for the capital goods sector envisaging creation of over 21 million new jobs by 2025.
- Immediate opportunity lies in Government's focus on building Smart Cities, Roads, Railways & Ports; Cement & other Building materials sectors are expected to be one of the biggest beneficiaries of GST in addition
- Very low penetration in sectors like cement in India; generally, these sectors see huge jump in demand growth in initial years of urbanization (India still at 32.5% urbanization rate). e.g. India's cement demand could grow by 6-9% p.a. over next 10-15 years (currently ~200 kgs compared to 500 kgs world average); along with price increases, the revenue growth could be more than 17% p.a. in coming 2-3 years.

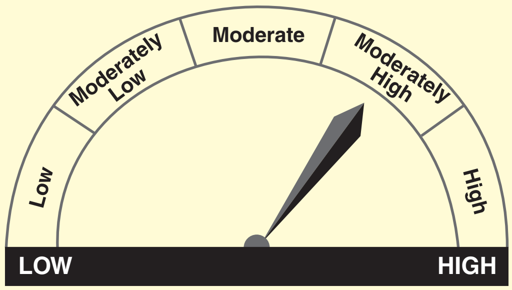
d. <u>Auto & Auto Ancillaries</u>

- One of the fastest growing markets in world, Indian Automobile industry expected to be world's 3rd largest by end of FY 2016-17.
- Significant FDI investment under the 100% automatic approval route benefiting with new capital & technology transfer happening faster and more prospects of exports in addition to the strong domestic demand
- Benefits from a large number of engineers and technicians being available along with other raw materials at low cost
- Big beneficiary of GST implementation; also to benefit from GOI's technology modernization fund for Auto Industry
- Immediate opportunity – 7th Pay Commission pay hikes & arrears are putting significant amount of cash which will heighten demand for autos; Monsoon is also likely to boost a sustained rural consumption ; GST could be huge benefit with large cost savings

Investment Philosphy

- **<u>Investment Universe</u>**
  - Portfolio to invest across all the market cap spectrum
  - Portfolio to focus on companies experiencing high growth in sales, earnings growth, ROI etc. Currently the portfolio is able to screen companies with growth potential of 20% CAGR & higher
  - Take advantage of opportunities in IPOs and QIBs
- **<u>Investment Style</u>**
  - Fund will follow a largely bottom up approach. The goal is to invest in a selection of focused companies who have demonstrated an ability to achieve market-beating results over long periods.
  - Each investment is expected to be from a medium to long term perspective; while the fund endeavours to maintain a low churning ratio, it can also book profits at opportune times
- **<u>Portfolio features</u>**
  - A relatively more focused portfolio of around 35-45 stocks, spread across 5-8 sectors
  - Selection parameters to include business fundamentals like – nature and stability of business, prospects of future growth and scalability, expected growth in earnings, financial strength and track record.
  - Portfolio to be relatively more aggressively positioned with 30-60% allocation to Mid & Small caps; may invest upto 70% in large caps to reduce volatility and manage impact of market volatility

Product Features

Scheme Name	Birla Sun Life Resurgent India Fund – Series 2
Fund Manager	Mr. Satyabrata Mohanty
Scheme Type	A closed ended equity scheme
Scheme objective	The investment objective of the scheme is to provide capital appreciation by investing primarily in equity and equity related securities that are likely to benefit from recovery in the Indian economy. The Scheme does not guarantee/indicate any returns. There can be no assurance that the schemes' objectives will be achieved **This product is suitable for investors who are seeking:** • Long term capital growth • Invests primarily in equity and equity related securities that are likely to benefit from recovery in the Indian economy. Investors should consult their financial advisers if in doubt about whether the product is suitable for them.  Investors understand that their principal will be at **moderately high** risk
Scheme Benchmark	S&P BSE200
Asset Allocation	**Equity & Equity related securities:** 80%-100%; **Cash, Money Market & Debt instruments:** 0-20%
Liquidity	The scheme will have duration/tenure of 3.5 years from and including the date of allotment. The NAVs of the scheme will be announced on every Business Day. No redemption or repurchase will be permitted prior to maturity of the Scheme. The scheme will be listed on NSE / BSE and/or any other recognized stock exchanges as may be decided by AMC from time to time and the Unit holders who wish to redeem units may do so through Stock Exchange at prevailing listed price on such Stock Exchange.
Plans/Options	**Regular Plan and Direct** Plan;** Both plans will have two options: Growth and Dividend. **Dividend option will have two facilities:** Payout and Sweep.
Load Structure	**Entry Load :** NIL **Exit Load :** NIL

For detailed scheme features please refer to SID/KIM