

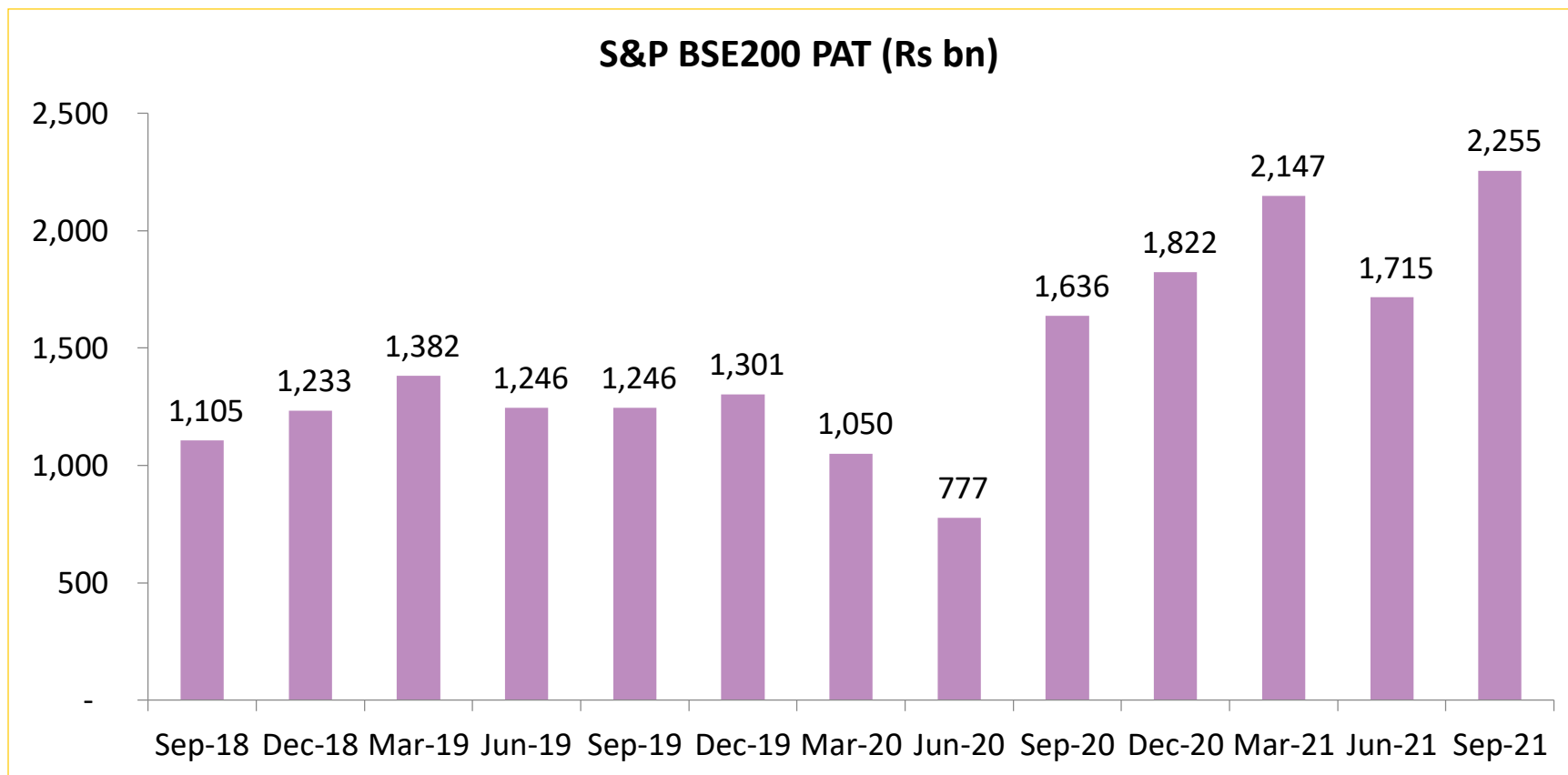


IDFC MUTUAL FUND

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S&P BSE200 profit at all time high levels; even in a weak quarter

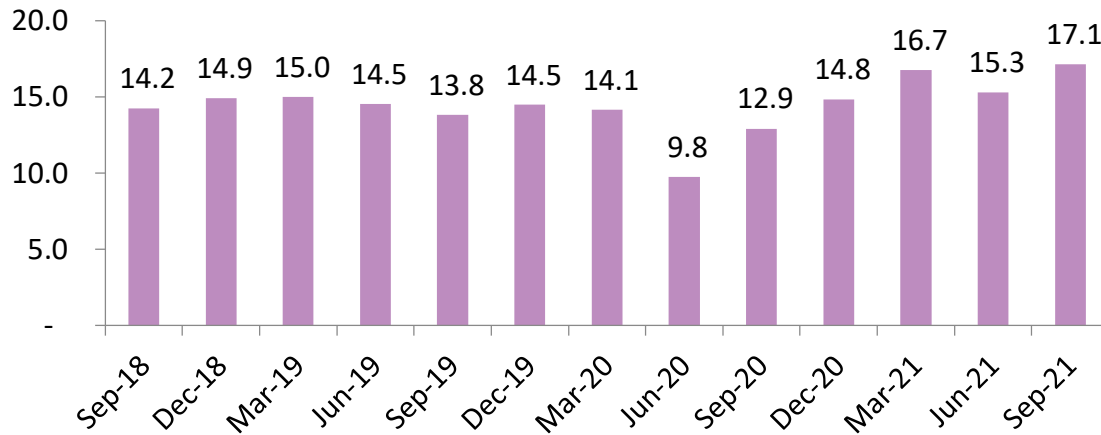
- S&PBSE200 Profits in Sept-21 were Rs 2,255 bn (2,25,500 cr); up from Rs 1,715 bn in Q1 FY22
- Profits were boosted from sectors like Metals and Oil & Gas, which had record high profitability



Source: Bloomberg

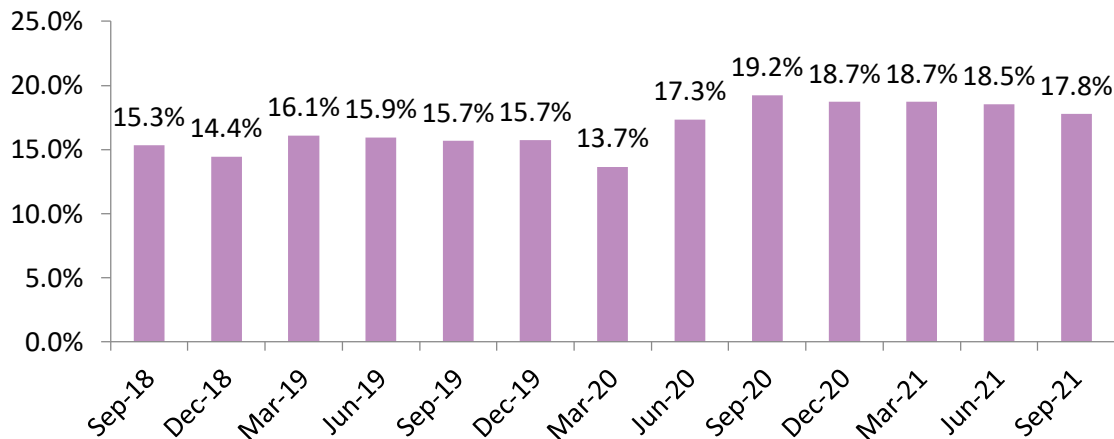
Sales at record high; margins dip due to high input costs

Absolute Sales (Rs trn)



- Sep-21 Sales (Rs 17.1 trn) higher than Sep-19 levels (Rs 13.8 trn)
- Sales were also at highest ever levels

Absolute EBITDA (%)

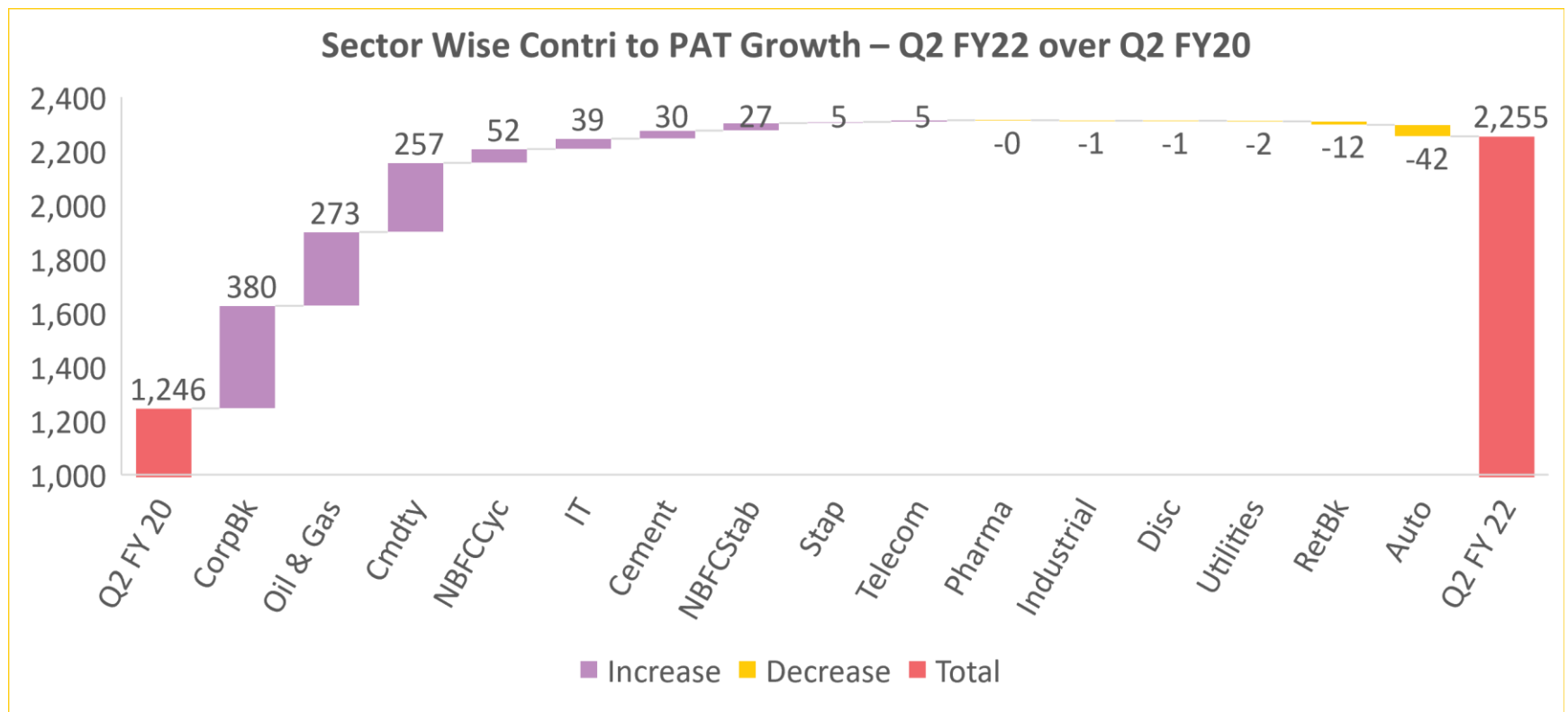


- Sep-21 Margins at 17.8% falling 70 bps QoQ and 140 bps YoY.
- Despite the fall in the current quarter, margins are significantly higher than the 15-16% range pre-pandemic

Source: Bloomberg

Q2FY20 PAT growth drivers - Corporate Banks, Oil & Gas & Metals

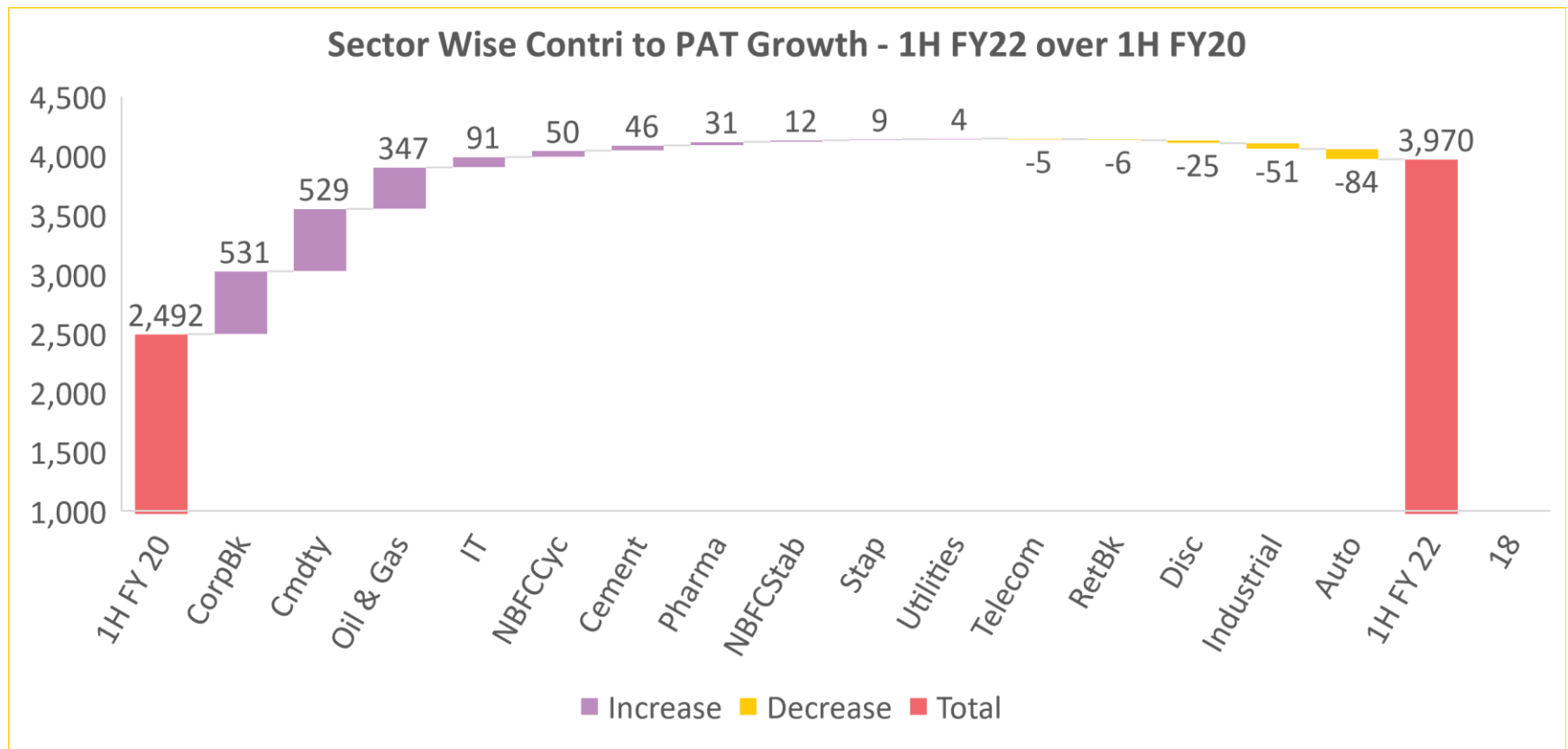
- Swing in profits driven by Commodities (Metals), Corporate Banks and Oil-Gas
- Sectors like Auto saw a negative swing on account of operating deleverage (low sales on account of semiconductor shortage) and high commodity prices



All Figures are in Rs bn; Source: Bloomberg

PAT Drivers - 1HFY22 v/s 1H FY 20

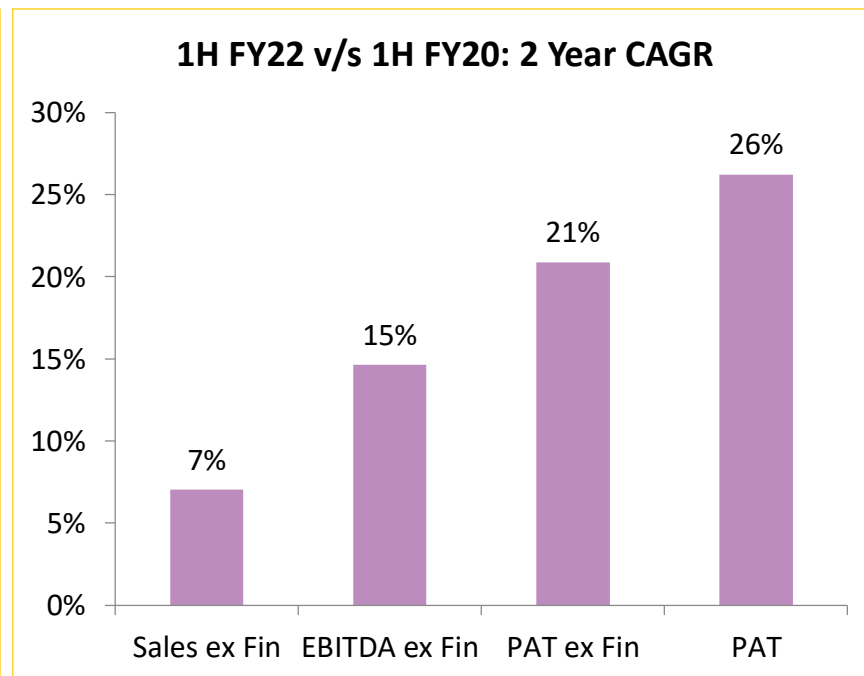
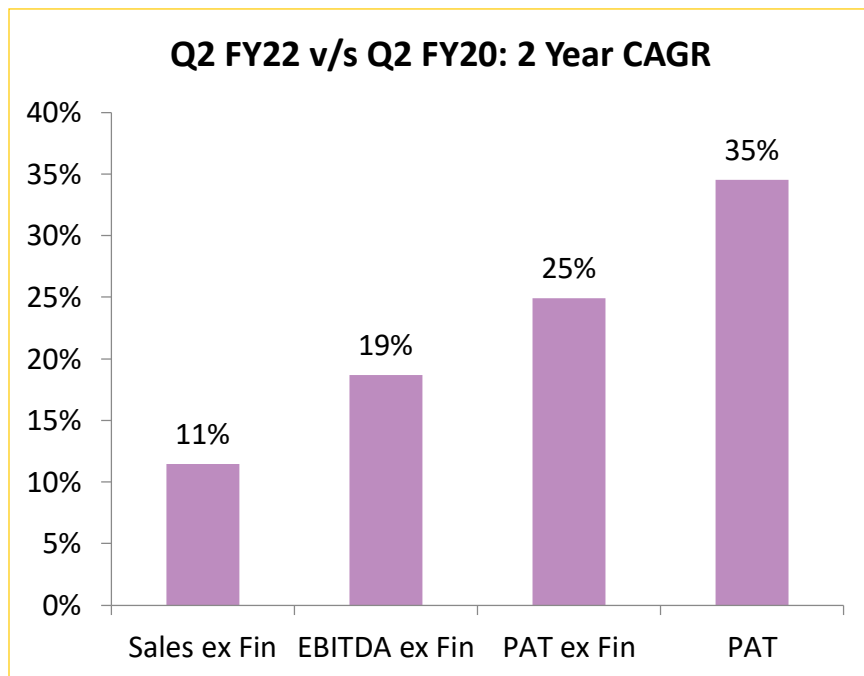
- 1H FY 22 profits are at Rs 3,970 bn (3,97,000 cr) compared to Rs 2,492 bn (2,49,200 cr), a jump of 59%
- Drivers of 2H are the same as 2Q – Corporate Banks, Oil & Gas and Metals



All Figures are in Rs bn; Source: Bloomberg

Q2 and 1H FY22 Earnings Snapshot

- Q2 Sales growth as compared to Q2 FY 20 was at 11% CAGR; Profits grew 35% CAGR
- 1H FY 21 Sales CAGR as compared to 1H FY 20 was 7% CAGR; EBITDA and PAT CAGR was 15% and 26% CAGR

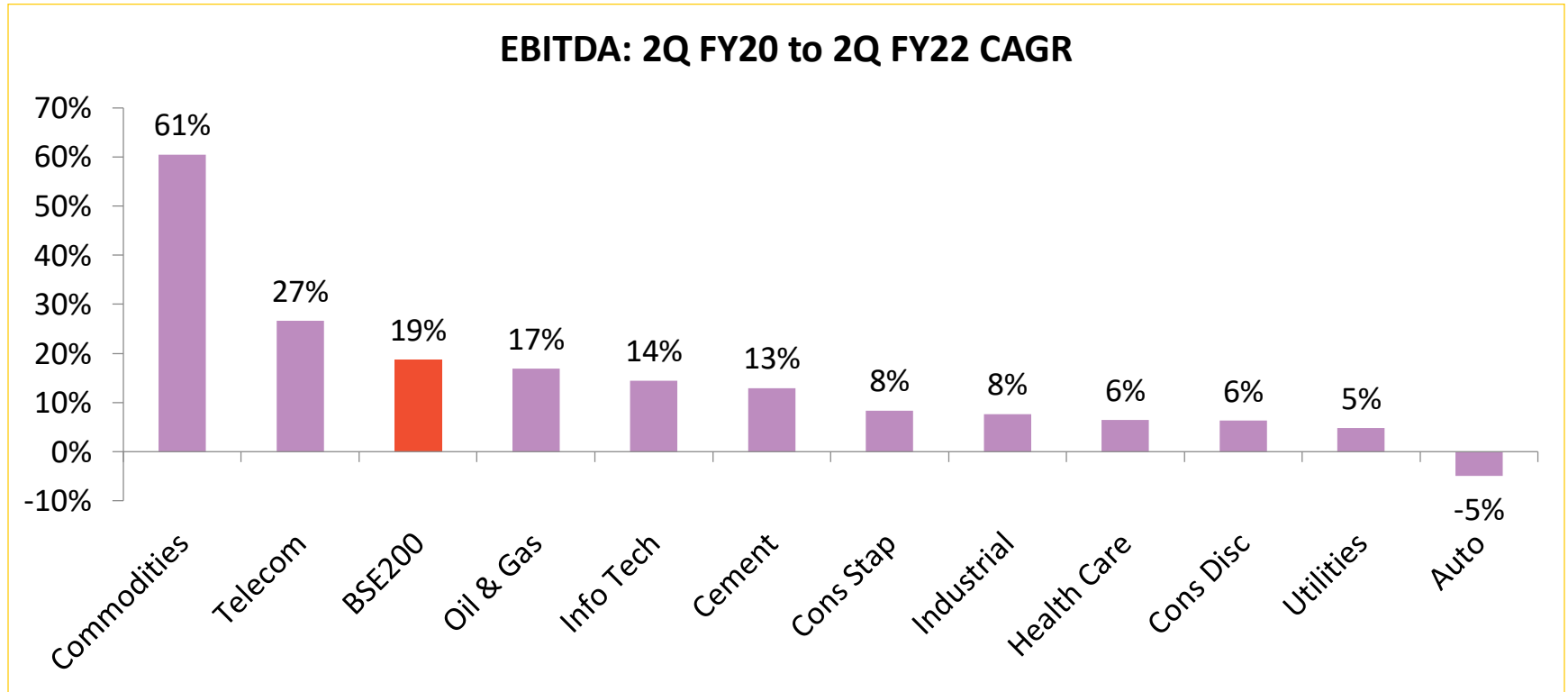


Source: Bloomberg

Q2 FY 22: Sector Wise EBITDA Growth

Commodities & Telecom gain; Auto only sector where EBITDA was lower than Q2 FY 20

- S&P BSE200 EBITDA growth of 19% CAGR
 - Commodities and Telecom grown higher than S&P BSE200
- All other sectors except Auto reported EBITDA higher than pre-pandemic (Q2 FY20) levels

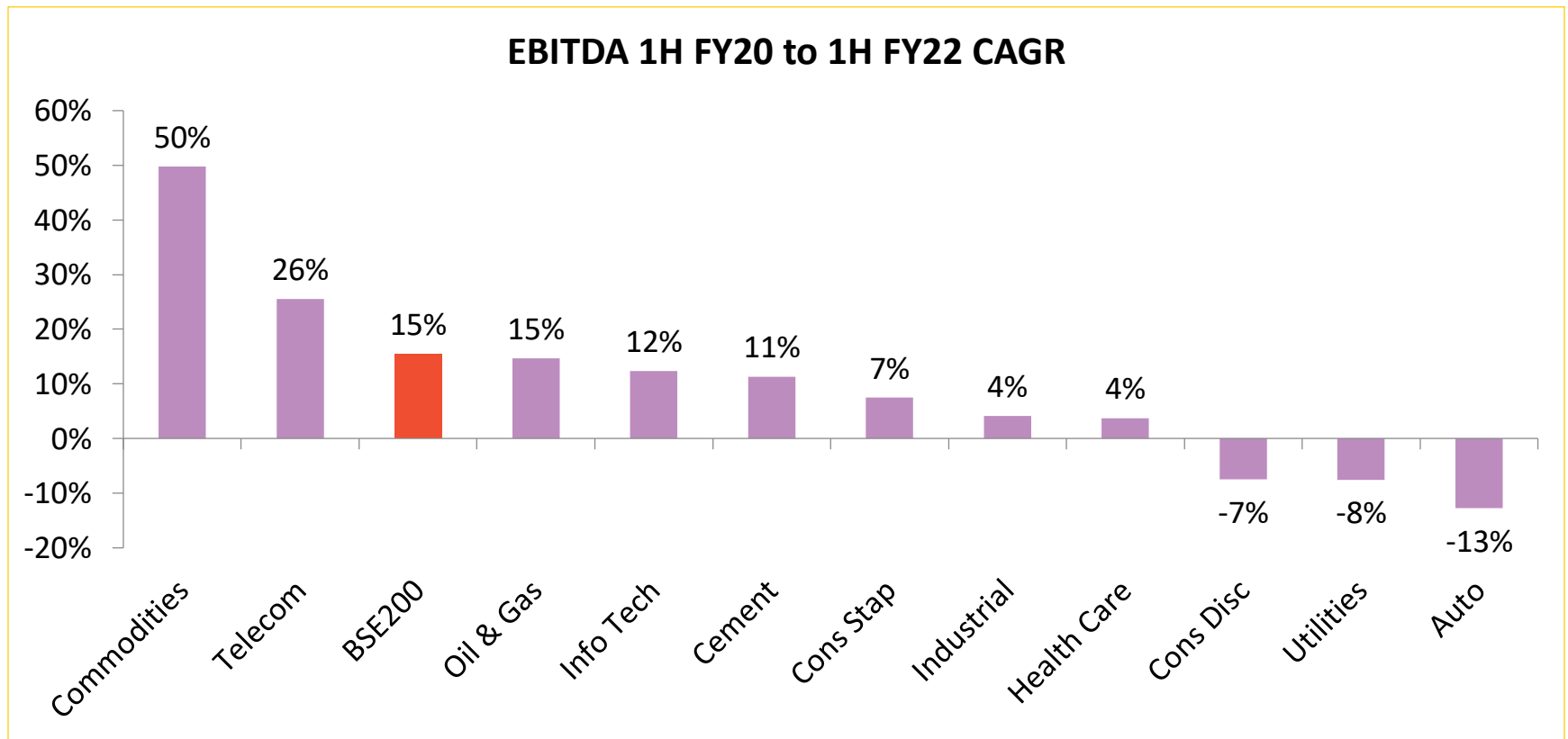


Source: Bloomberg

1H FY22: Sector Wise EBITDA Growth

1H trends similar as 2Q FY 22

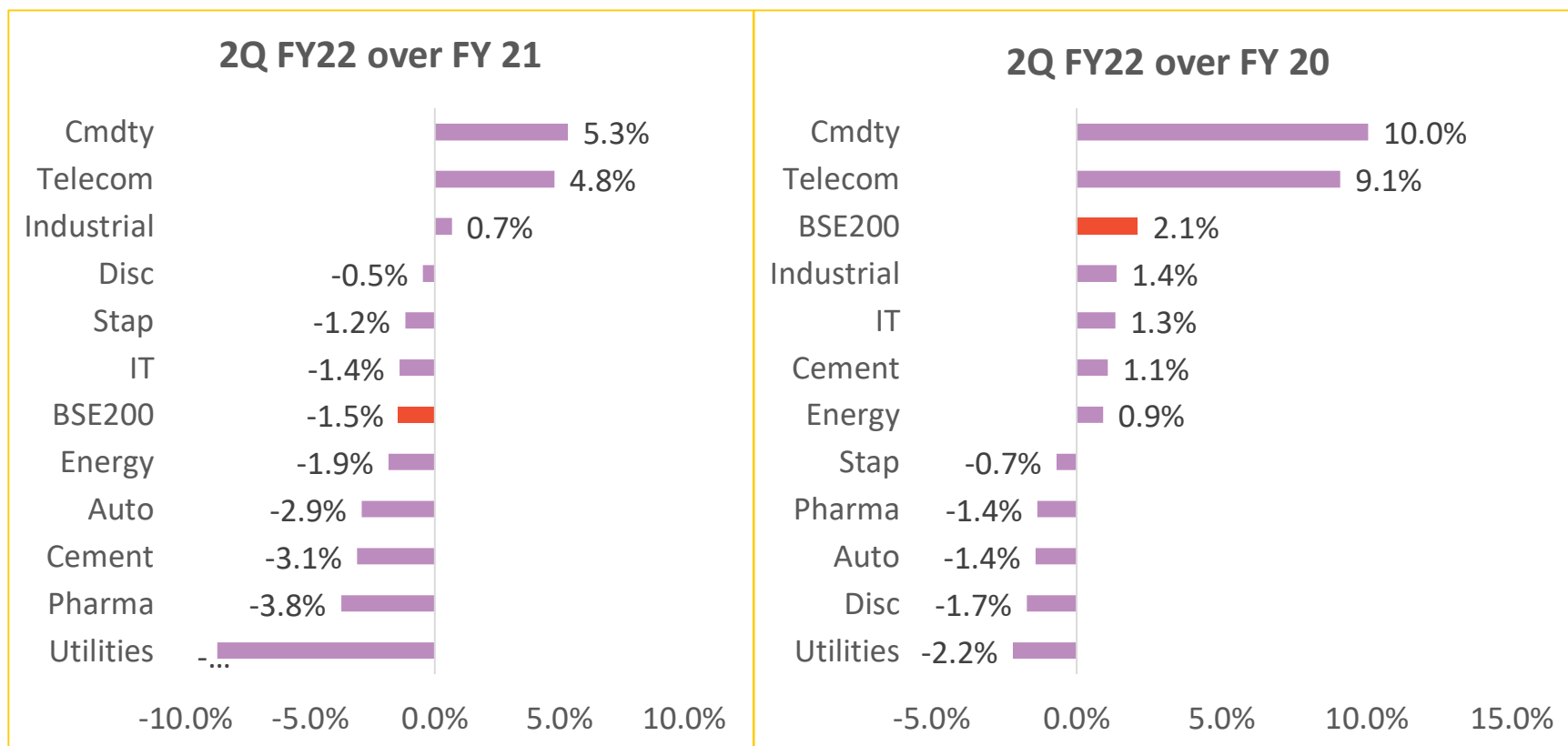
- Again in 1H PAT growth of only 2 sectors - Commodities & Telecom was higher than S&P BSE200 PAT Growth
- In 1H 3 sectors – Consumer Discretionary, Utilities and Auto had a PAT lower than 1H FY 20



Source: Bloomberg

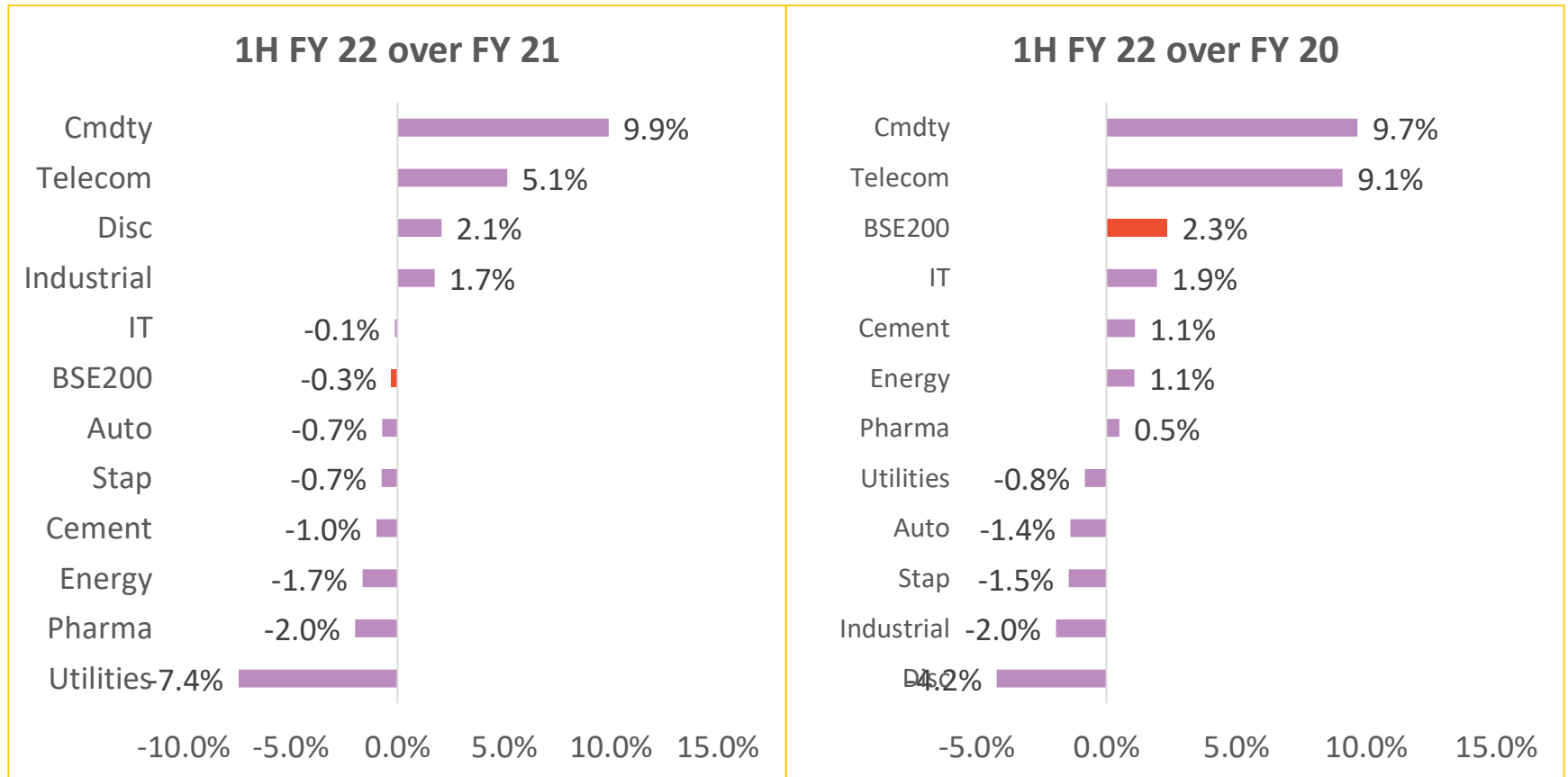
Q2 EBITDA margins under pressure across sectors YoY

- S&P BSE200 EBITDA Margin was lower 1.5% on a YoY basis – most sectors saw a dip in margins on a YoY basis. Only two sectors Commodities & Telecom saw a sharp jump in margins
- As compared to Q2 FY20, margin was 210 bps higher and driven by Commodities and Telecom



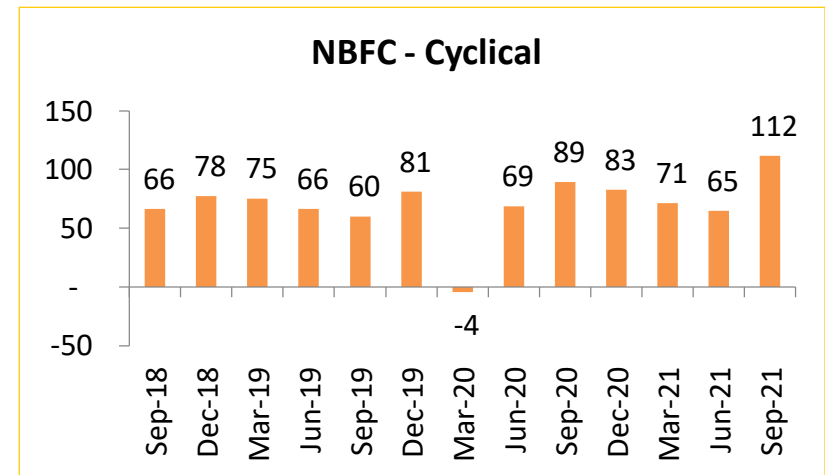
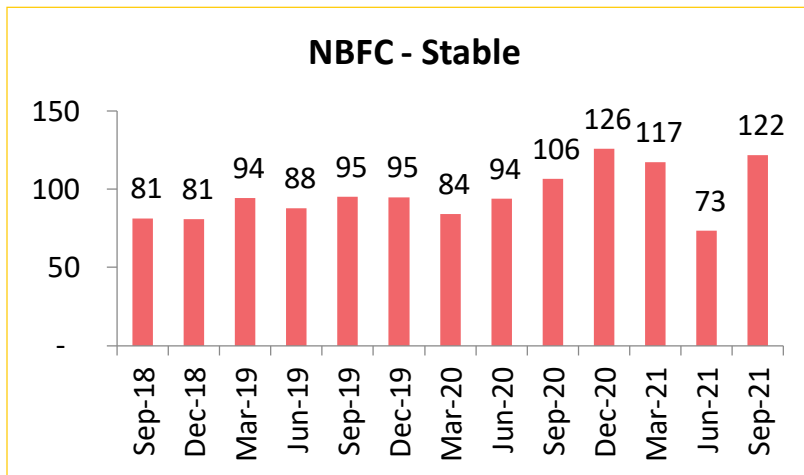
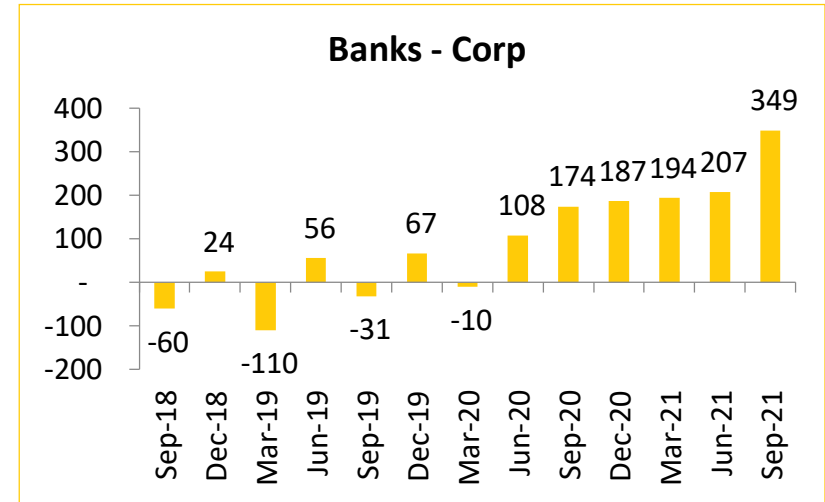
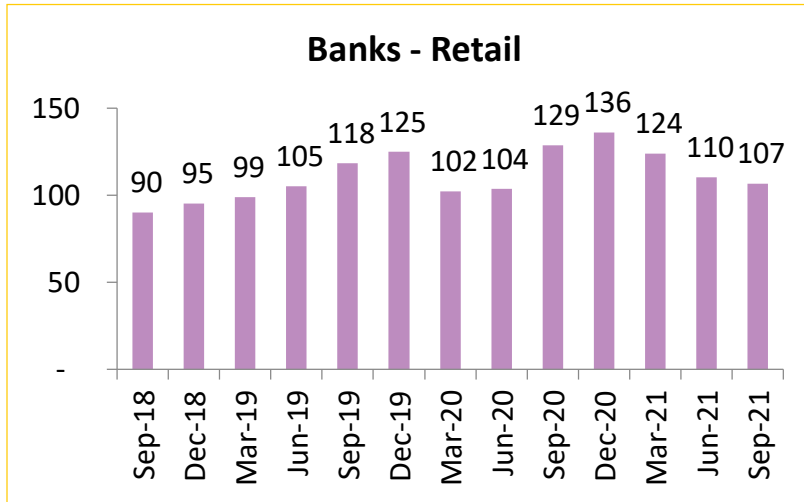
Source: Bloomberg

1H EBITDA Margins compared to 1H FY21 and FY20



Source: Bloomberg

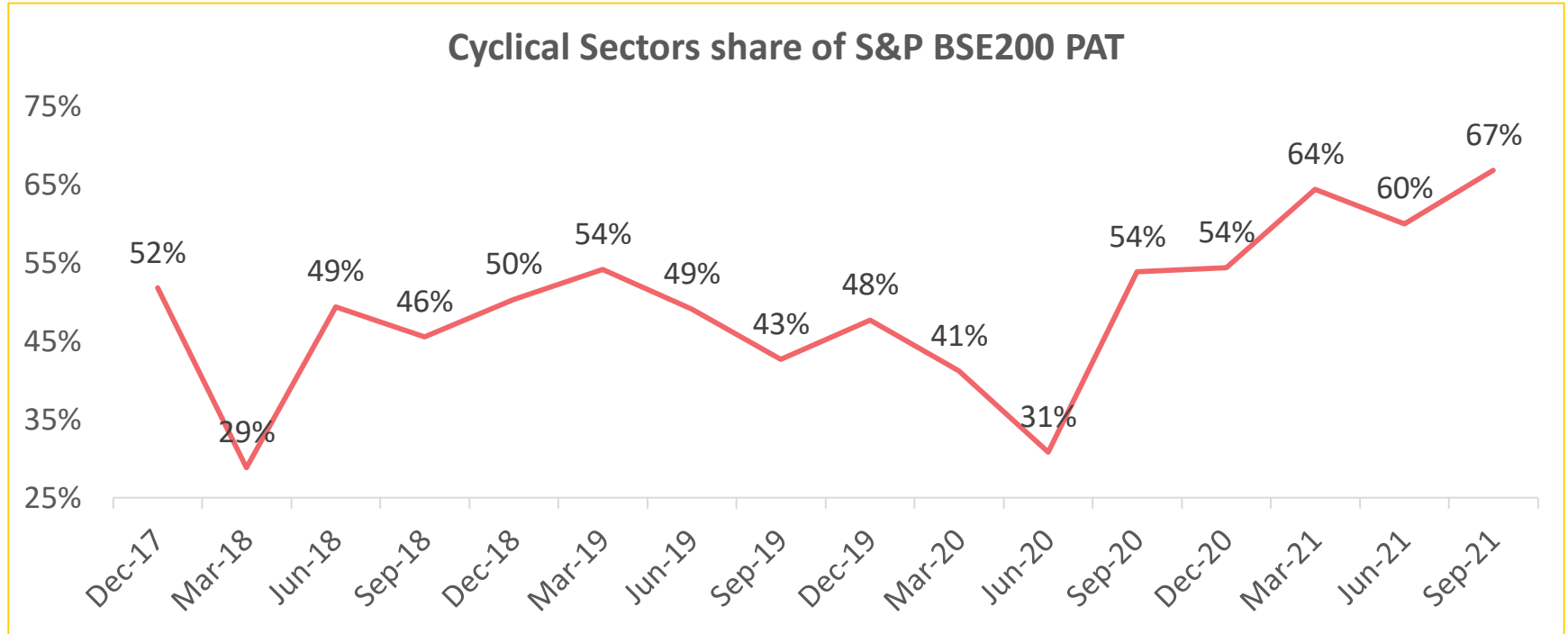
Financials: Sharp upswing in Corporate Bank profitability



Source: Bloomberg

Significant increase in Cyclical Sectors share of S&P BSE200 PAT

- Share of Cyclical Sector PAT in BSE 200 averaged ~ 45% from Dec-17 to Dec-20
- In the last 3 quarters, Cyclical Sector share in PAT has jumped to > 60% hitting a peak of 67% in Sep-21

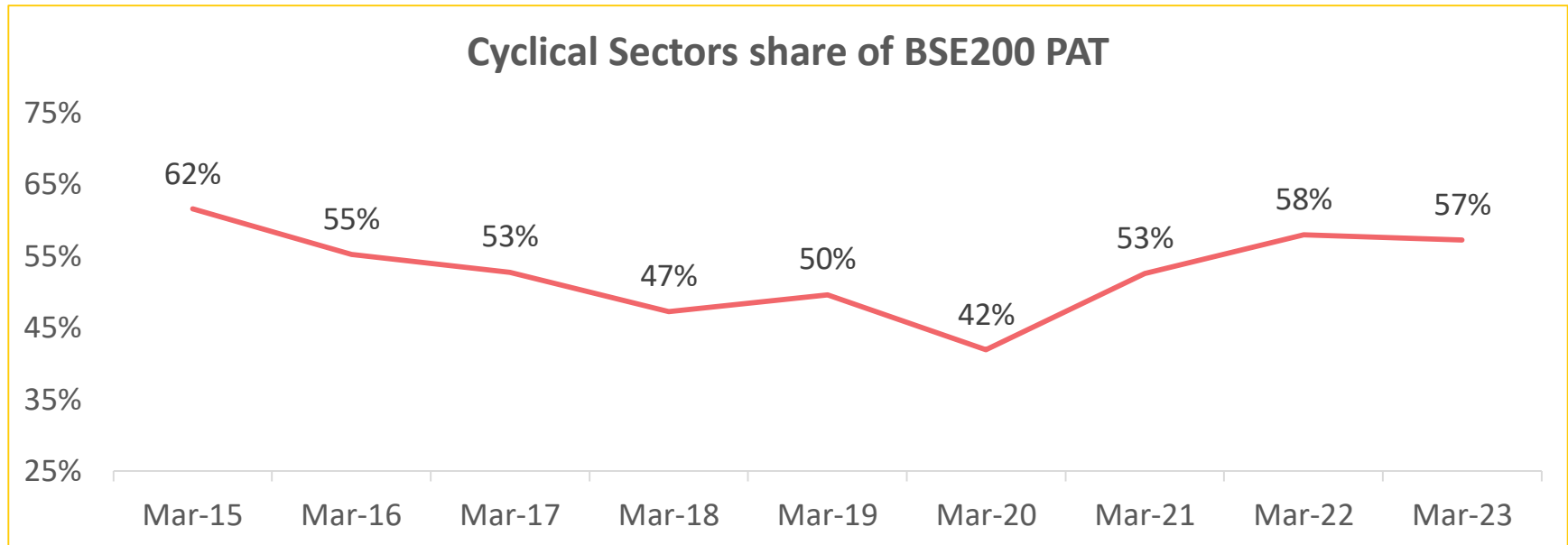


PAT in Rs bn	Dec-17	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21	Jun-21	Sep-21
Stable Sectors	544	578	586	602	612	633	634	714	680	617	538	754	830	764	686	749
Cyclical Sectors	585	234	572	503	621	749	611	532	621	433	239	881	992	1,383	1,029	1,506
<i>Cyclical Share of PAT</i>	52%	29%	49%	46%	50%	54%	49%	43%	48%	41%	31%	54%	54%	64%	60%	67%

Source: Bloomberg

Cyclical share of S&P BSE200 PAT seems to have bottomed in FY20

- Share of Cyclical sectors in S&P BSE200 PAT seems to have bottomed at 42% in FY20
- This share is expected to go up to 57% in FY 23, which is lower than the >60% share seen in the last 3 quarters

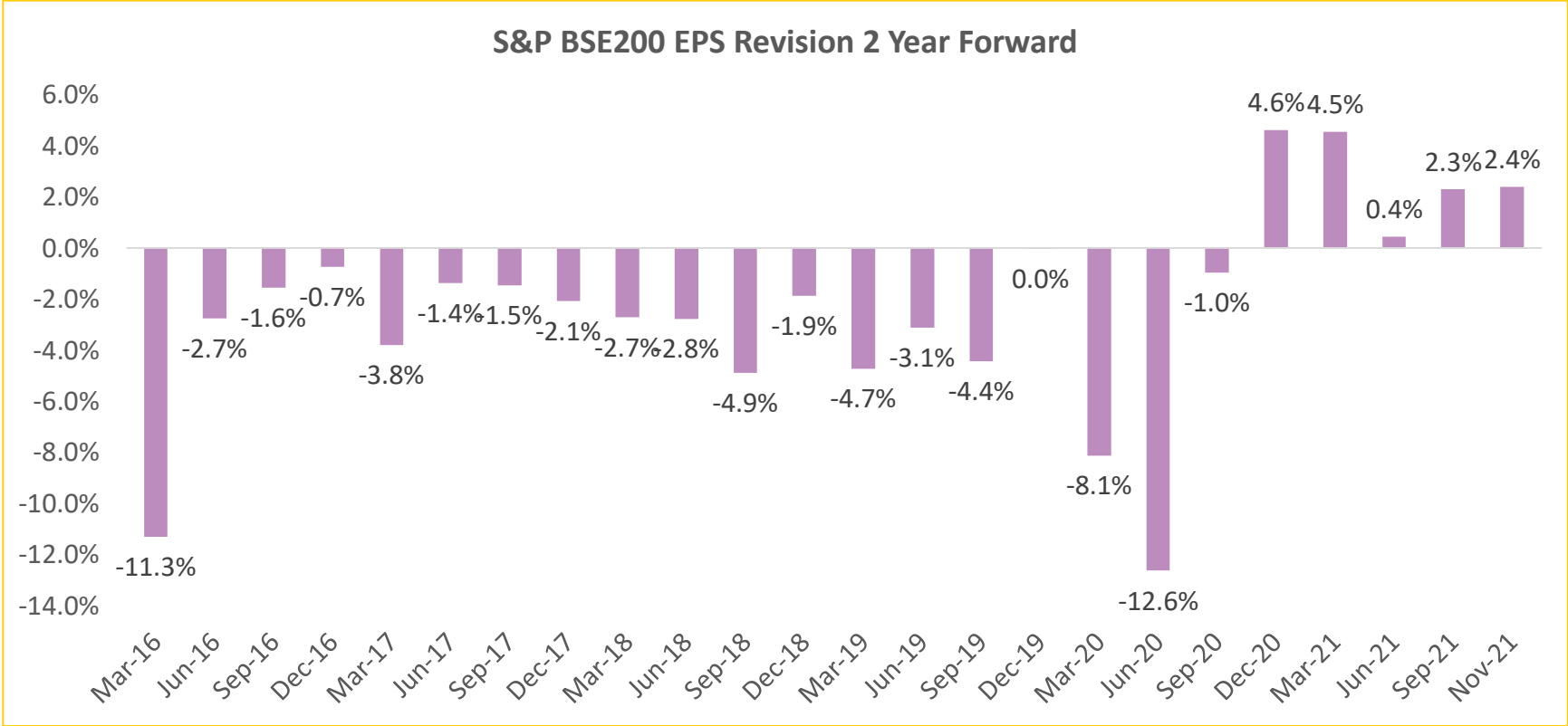


PAT in Rs bn	Mar-15	Mar-16	Mar-17	Mar-18	Mar-19	Mar-20	Mar-21	Mar-22	Mar-23
Stable Sectors	1,510	1,766	2,023	2,181	2,501	2,755	2,901	3,474	4,219
Cyclical Sectors	2,418	2,176	2,257	1,951	2,461	1,987	3,208	4,787	5,635
Cyclical Share of PAT	62%	55%	53%	47%	50%	42%	53%	58%	57%

Source: Bloomberg

Upgrades to FY23 Estimates continue in 2Q FY22

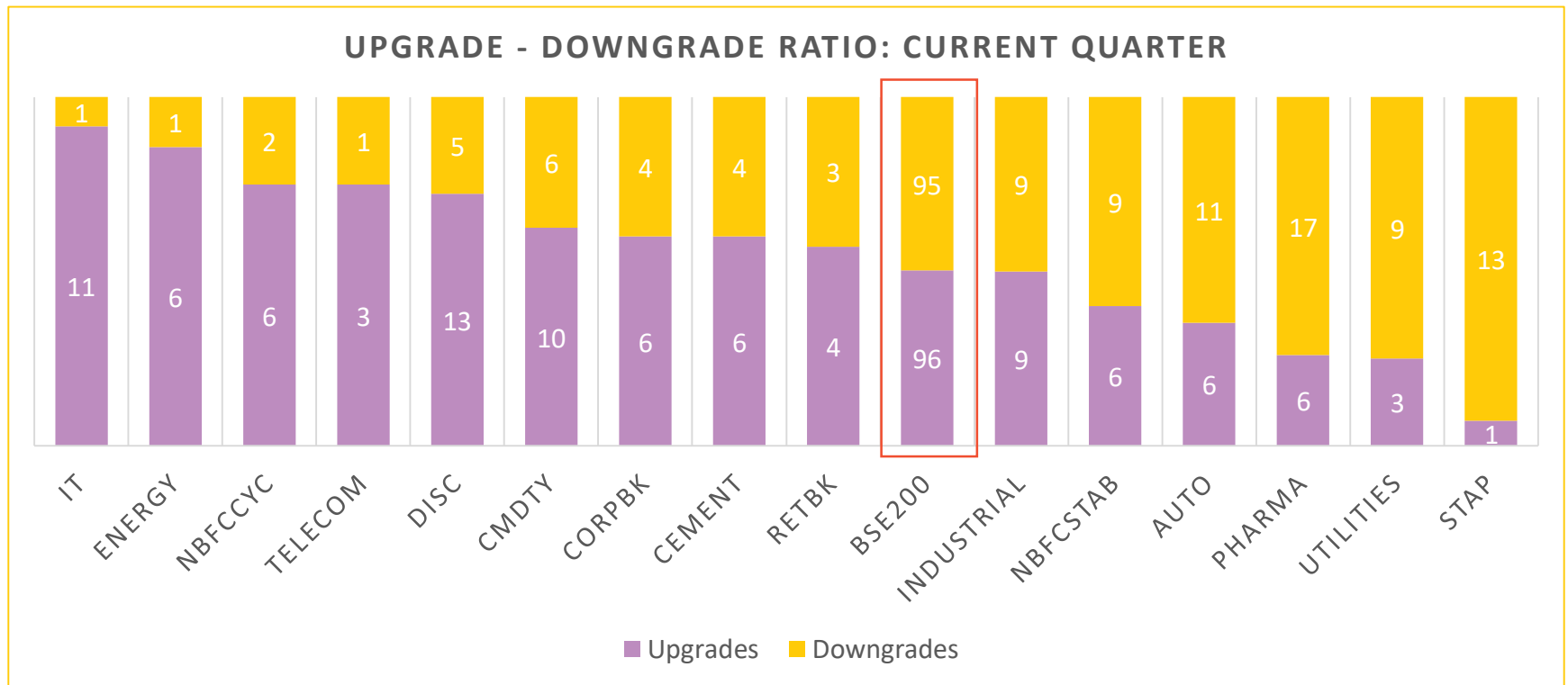
- Upgrades to FY 23 estimates continued for the 5th consecutive quarter
- First time since the 2008 GFC that the BSE 200 has seen 5 consecutive quarters of upgrades



Source: Bloomberg

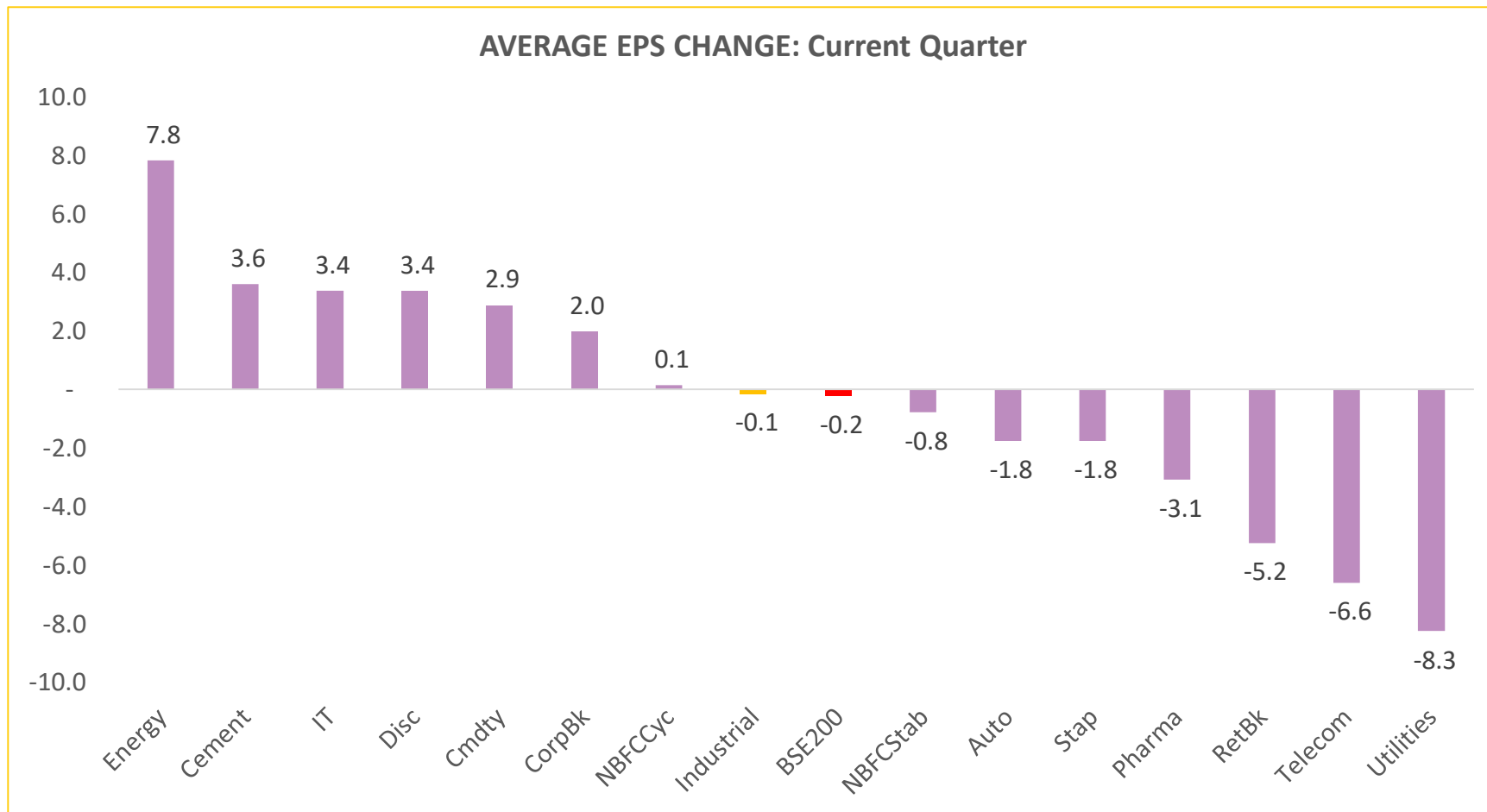
FY 23 Estimates: Breadth of Upgrades narrowed

- Despite the BSE200 EPS upgrade, for the first time after 4 quarters, S&P BSE200 stocks saw more downgrades than upgrades
- The Index EPS upgrade was driven by a narrow range of stocks within Metals and Corporate Banks
- Staples had the worst ratio with 13 downgrades to 1 upgrade – driven by margin concerns on account of high input costs



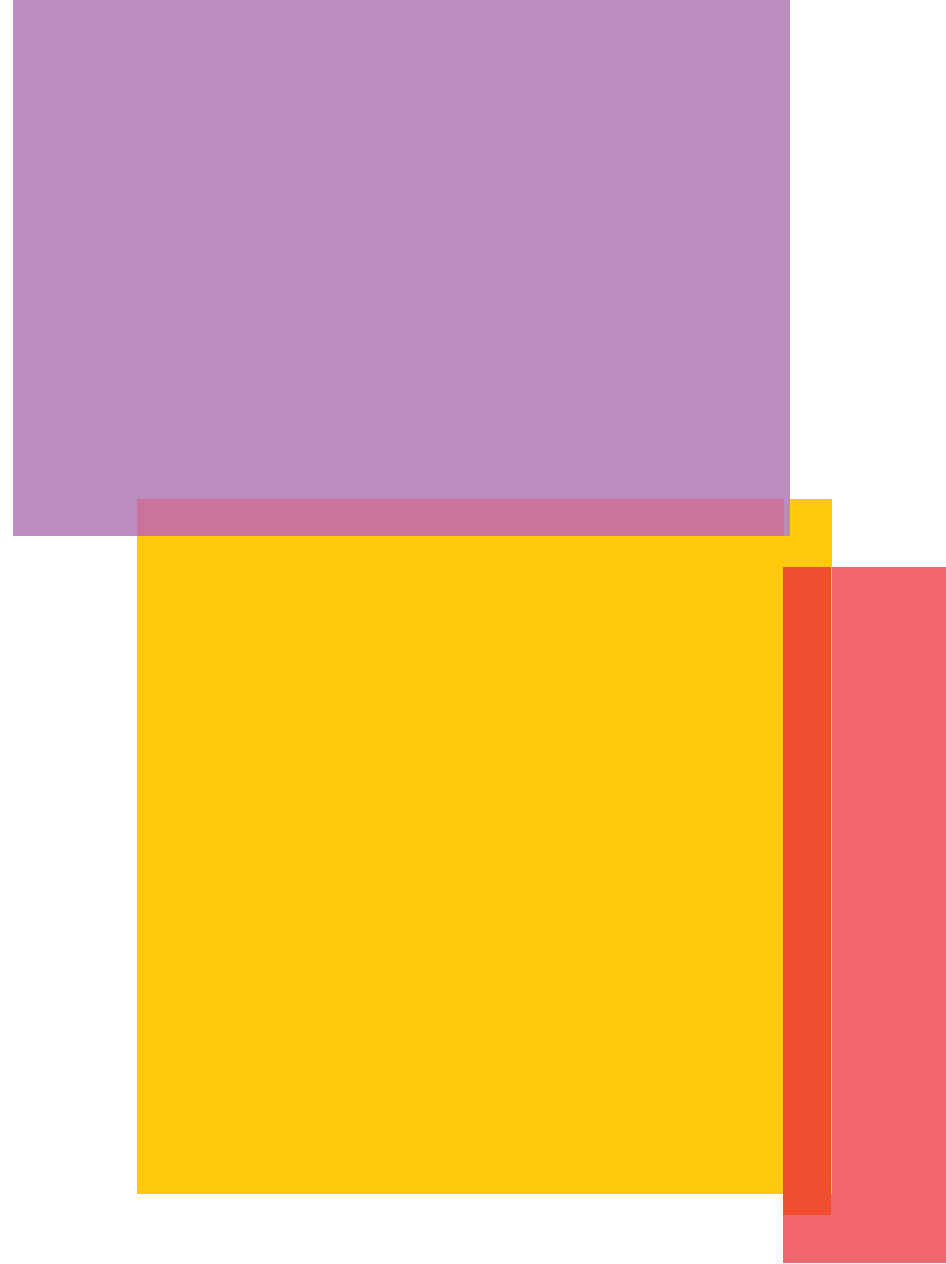
Source: Bloomberg

FY 23 Estimates: Breadth of Upgrades narrowed



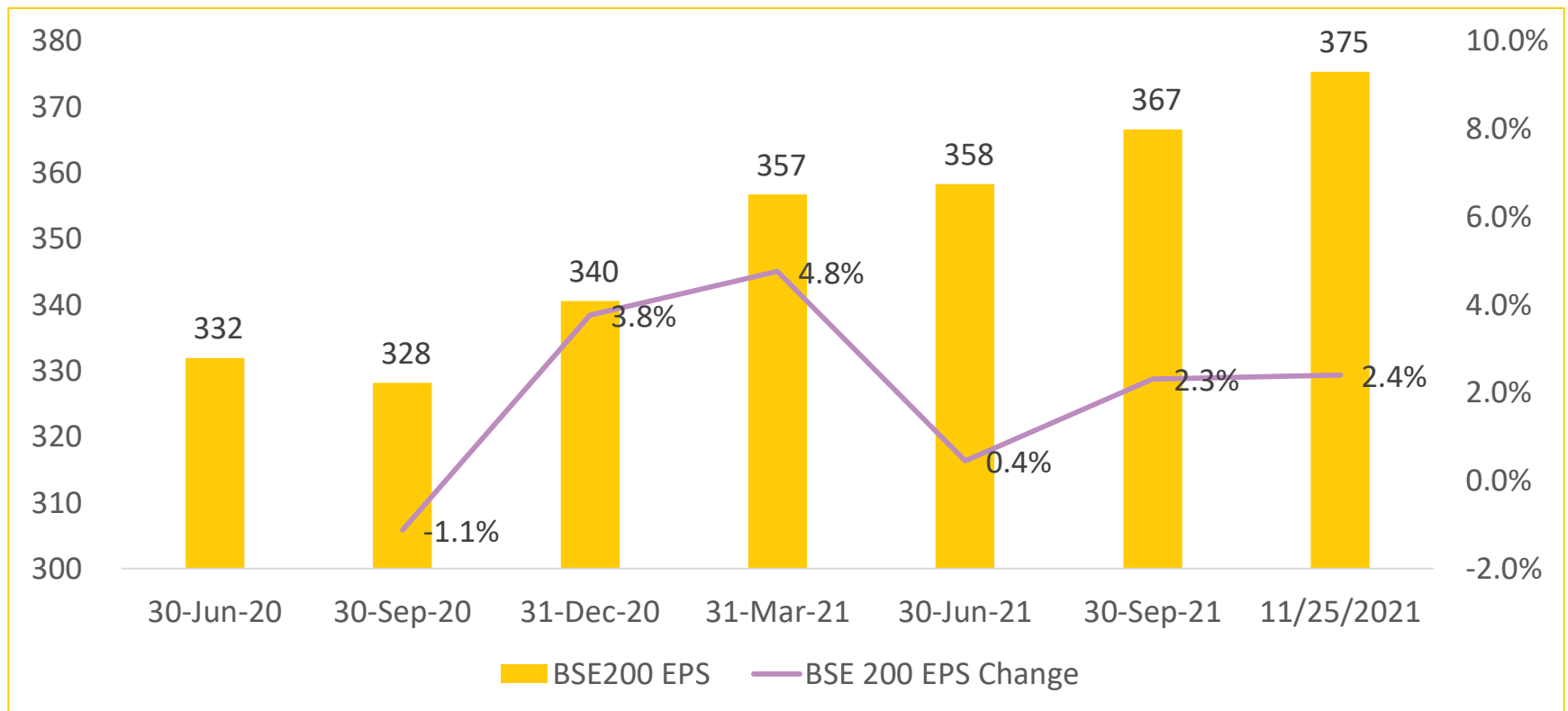
Source: Bloomberg

TREND IN FY23 ESTIMATES OVER THE LAST 5 QUARTERS



Trend in FY 23 EPS Estimate: S&P BSE200

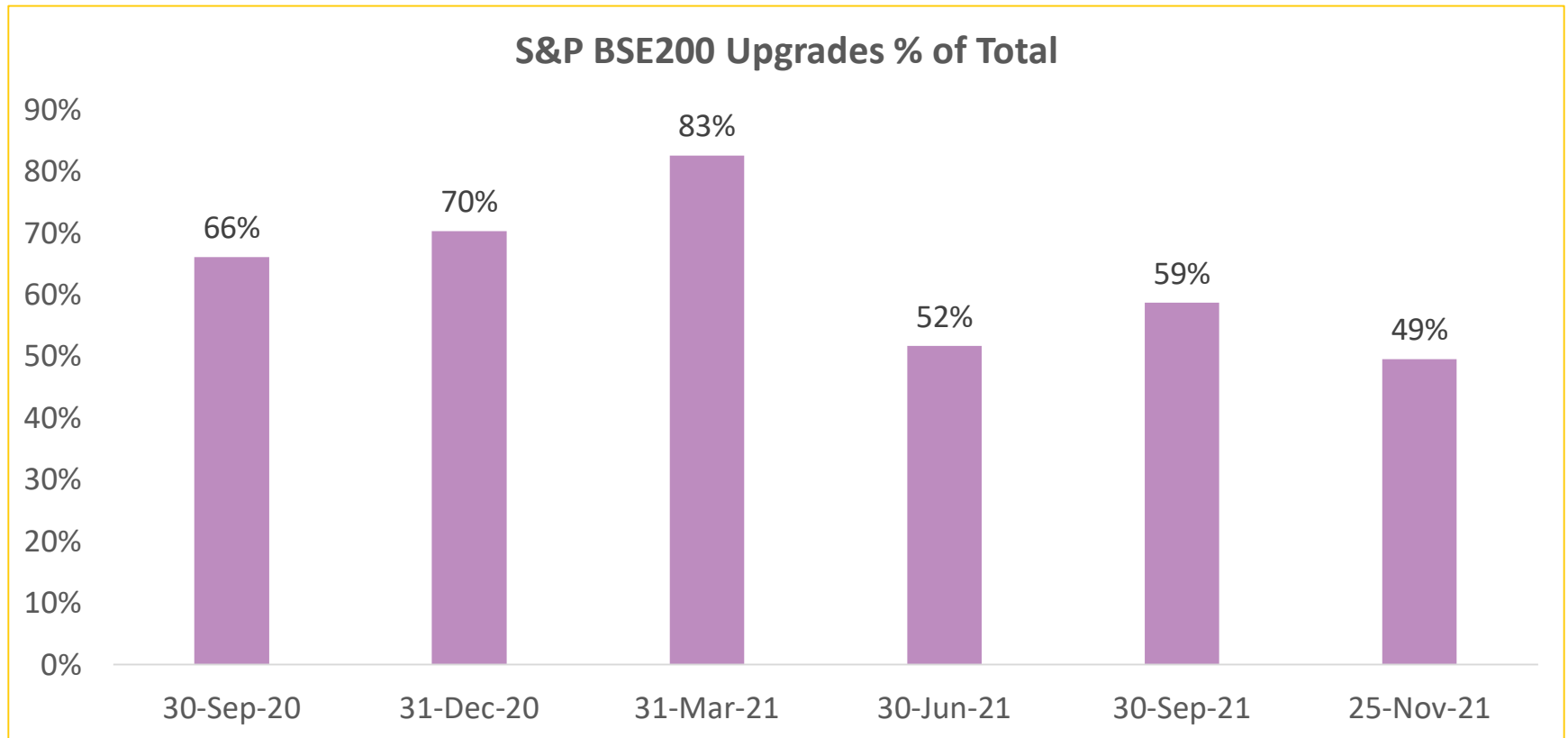
- FY 23 EPS estimate for S&P BSE200 has moved from a bottom of 328 in Sep-20 to 375 in Nov-21, an increase of 14%



Source: Bloomberg

Trend in Breadth of upgrades for FY23 Estimates

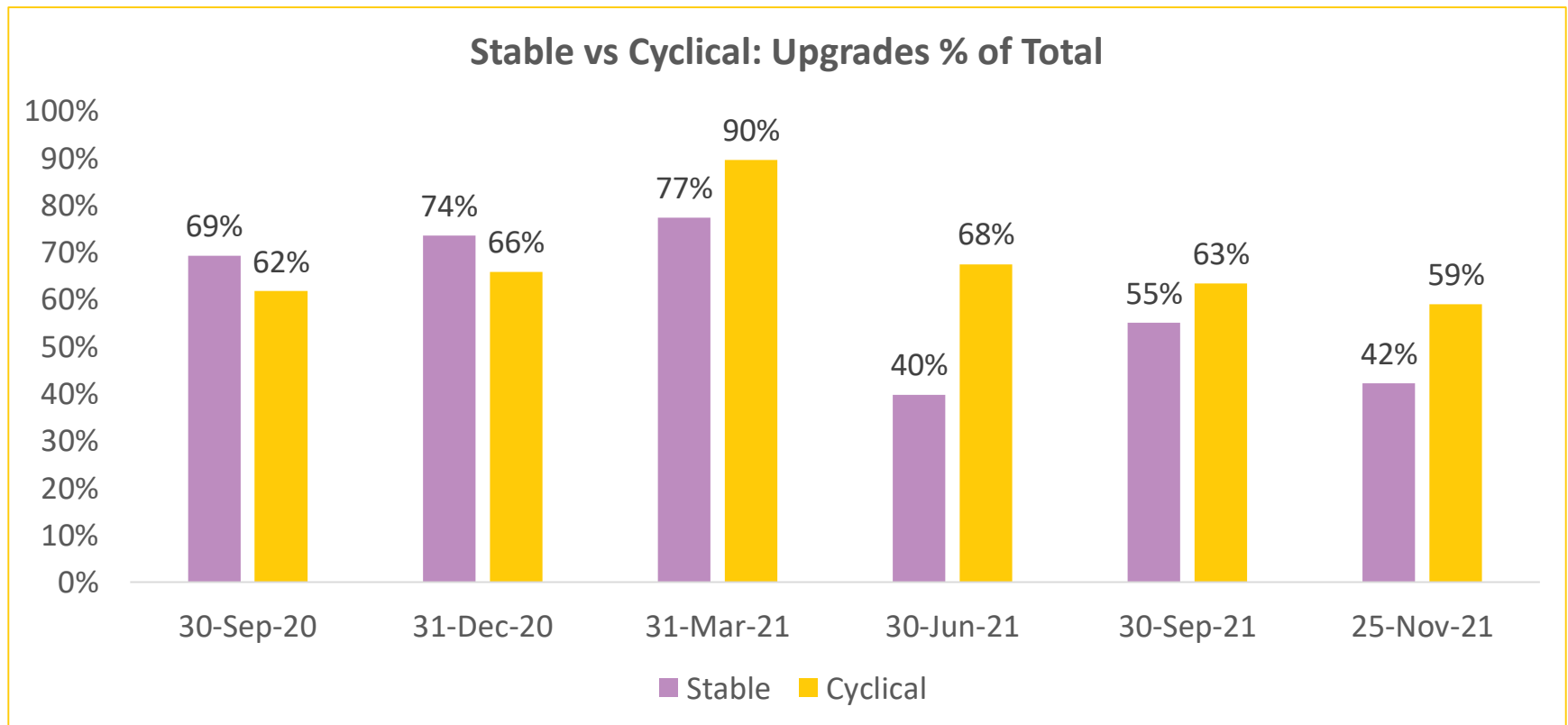
- Breadth of upgrades has narrowed, with current quarter reporting more downgrades than upgrades



Source: Bloomberg

Trend in Breadth of upgrades: Stable v/s Cyclical

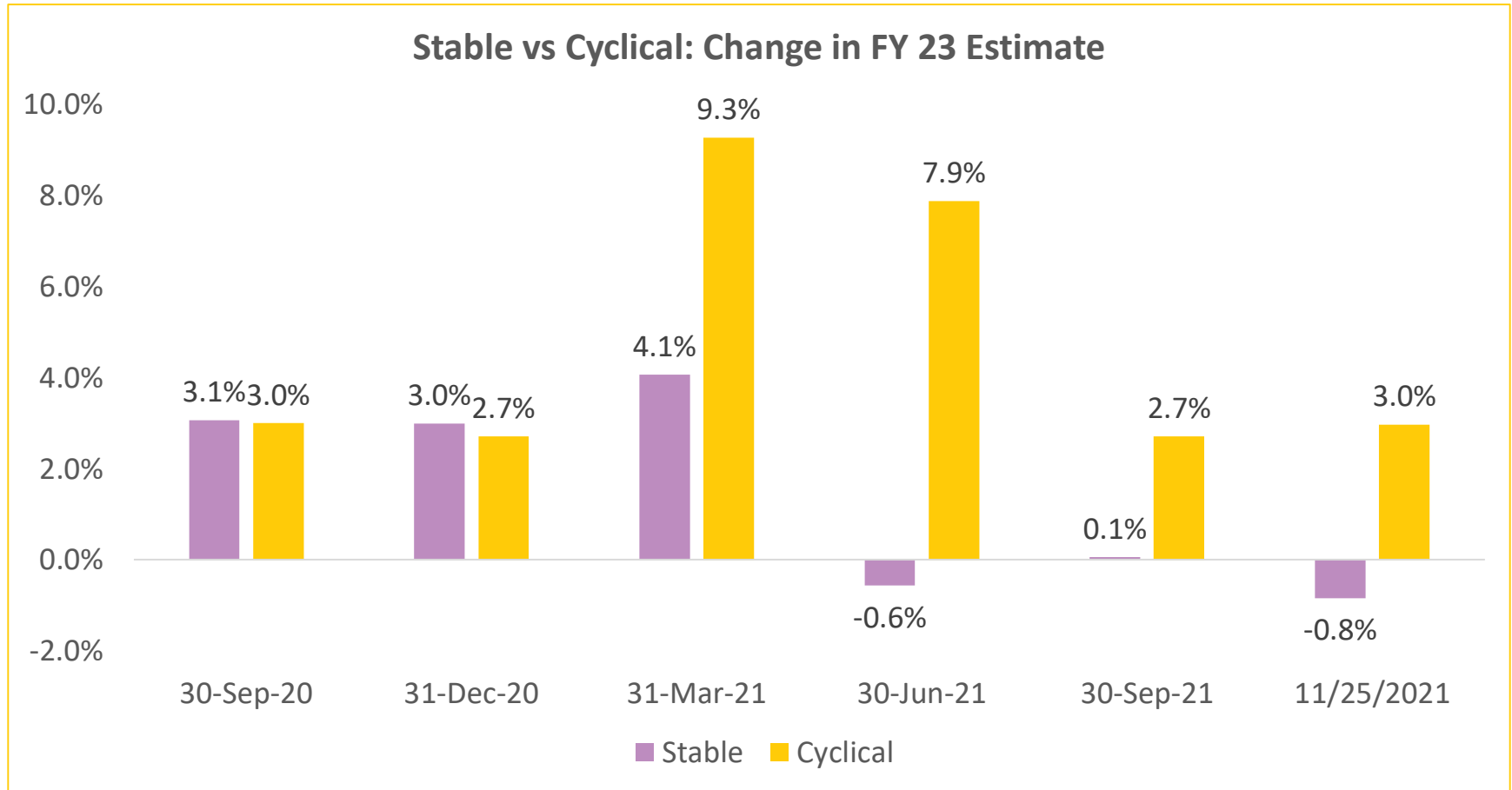
- For the last 4 quarters, cyclicals have seen significantly higher upgrades than downgrades.
- Stable sectors, on the other hand have seen more downgrades than upgrades in the current quarter and even in the quarter ended Jun-21



Source: Bloomberg

Trend in FY 23 EPS Estimates: Stable vs Cyclical

- In terms of absolute level of EPS, Cyclical sector EPS has seen a much higher upgrade



Source: Bloomberg

Trend in FY 23 EPS Estimates: Sector Wise

- Commodities and Cement saw 6 consecutive quarters of EPS upgrades
- Sectors like Corp Banks and IT also saw a strong upgrade cycle
- On the flip side, FMCG estimates have been stagnant

	Sep-20	Dec-20	Mar-21	Jun-21	Sep-21	Nov-21
Banks - Retail	-0.9%	1.8%	4.3%	-0.9%	-1.2%	-2.8%
Banks - Corp	-0.9%	6.8%	13.2%	5.9%	0.3%	2.3%
NBFC - Stable	1.6%	0.4%	5.4%	0.1%	-0.8%	-0.3%
NBFC - Cyclical	0.1%	2.6%	14.4%	-2.6%	0.0%	1.3%
Auto	14.5%	5.7%	17.0%	1.7%	-2.8%	-1.8%
Consumer Discretionary	0.3%	0.9%	6.5%	-2.4%	1.2%	1.3%
Consumer Staples	0.6%	0.0%	0.0%	-0.5%	-0.4%	-1.0%
Information Technology	5.8%	7.3%	4.9%	-0.3%	1.4%	1.0%
Health Care	8.0%	3.0%	1.7%	0.6%	1.3%	-1.9%
Cement / Building Mat	18.9%	15.8%	6.2%	4.5%	7.4%	3.1%
Industrials	-4.1%	5.4%	4.4%	3.7%	-1.8%	0.7%
Commodities	4.9%	11.7%	11.0%	34.5%	6.7%	6.1%
Energy	1.5%	-6.2%	7.2%	0.3%	3.9%	6.3%
Utilities	2.9%	-2.7%	2.0%	0.7%	3.1%	-1.3%
Telecommunication Services	30.6%	4.4%	-37.0%	-32.4%	-18.2%	-151.7%
BSE200	3.0%	2.8%	6.9%	4.1%	1.6%	1.4%
Stable	3.1%	3.0%	4.1%	-0.6%	0.1%	-0.8%
Cyclical	3.0%	2.7%	9.3%	7.9%	2.7%	3.0%

Source: Bloomberg

Trend in Breadth of upgrades: Sector Wise

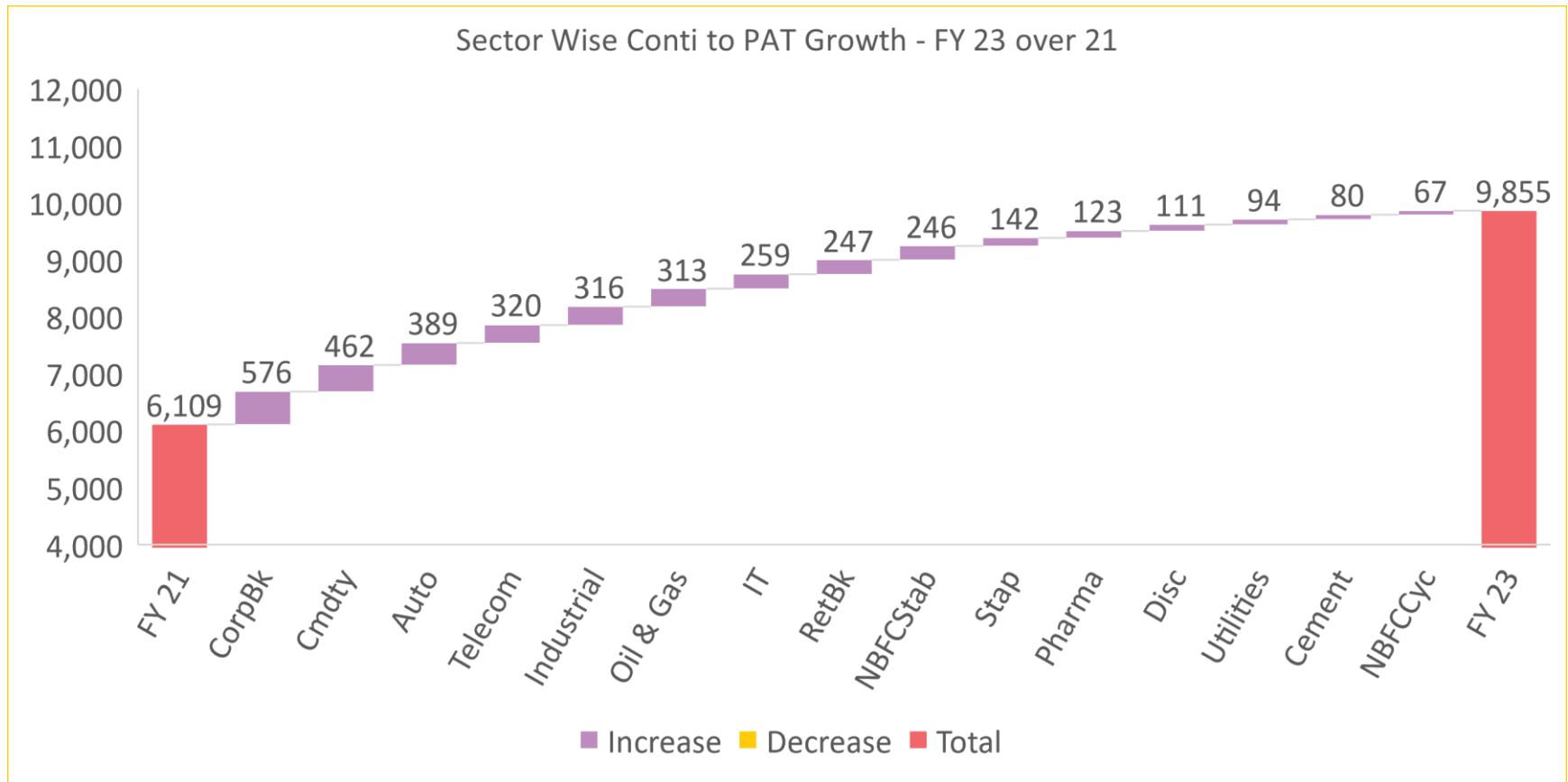
- Commodities & Cement have seen more upgrades than downgrades in each of the last 6 quarters
- IT & Corp Banks have a positive upgrade/ downgrade ratio (5 out of last 6 quarters)

	Sep-20	Dec-20	Mar-21	Jun-21	Sep-21	Nov-21
Banks - Retail	57%	71%	86%	14%	43%	57%
Banks - Corp	33%	78%	100%	89%	56%	60%
NBFC - Stable	54%	67%	87%	50%	40%	40%
NBFC - Cyclical	75%	88%	88%	38%	38%	75%
Auto	75%	76%	88%	41%	18%	35%
Consumer Discretionary	79%	65%	89%	28%	72%	72%
Consumer Staples	54%	79%	64%	44%	63%	13%
Information Technology	80%	100%	100%	33%	83%	83%
Health Care	76%	76%	57%	43%	61%	26%
Cement / Building Mat	89%	90%	100%	80%	100%	60%
Industrials	25%	43%	86%	75%	50%	44%
Commodities	67%	81%	88%	81%	69%	63%
Energy	71%	29%	100%	71%	86%	86%
Utilities	88%	33%	70%	55%	73%	27%
Telecommunication Services	75%	50%	50%	25%	25%	75%
BSE200	66%	70%	83%	52%	59%	49%
Stable	69%	74%	77%	40%	55%	42%
Cyclical	62%	66%	90%	68%	63%	59%

Source: Bloomberg

Sector Contribution to Absolute PAT Growth

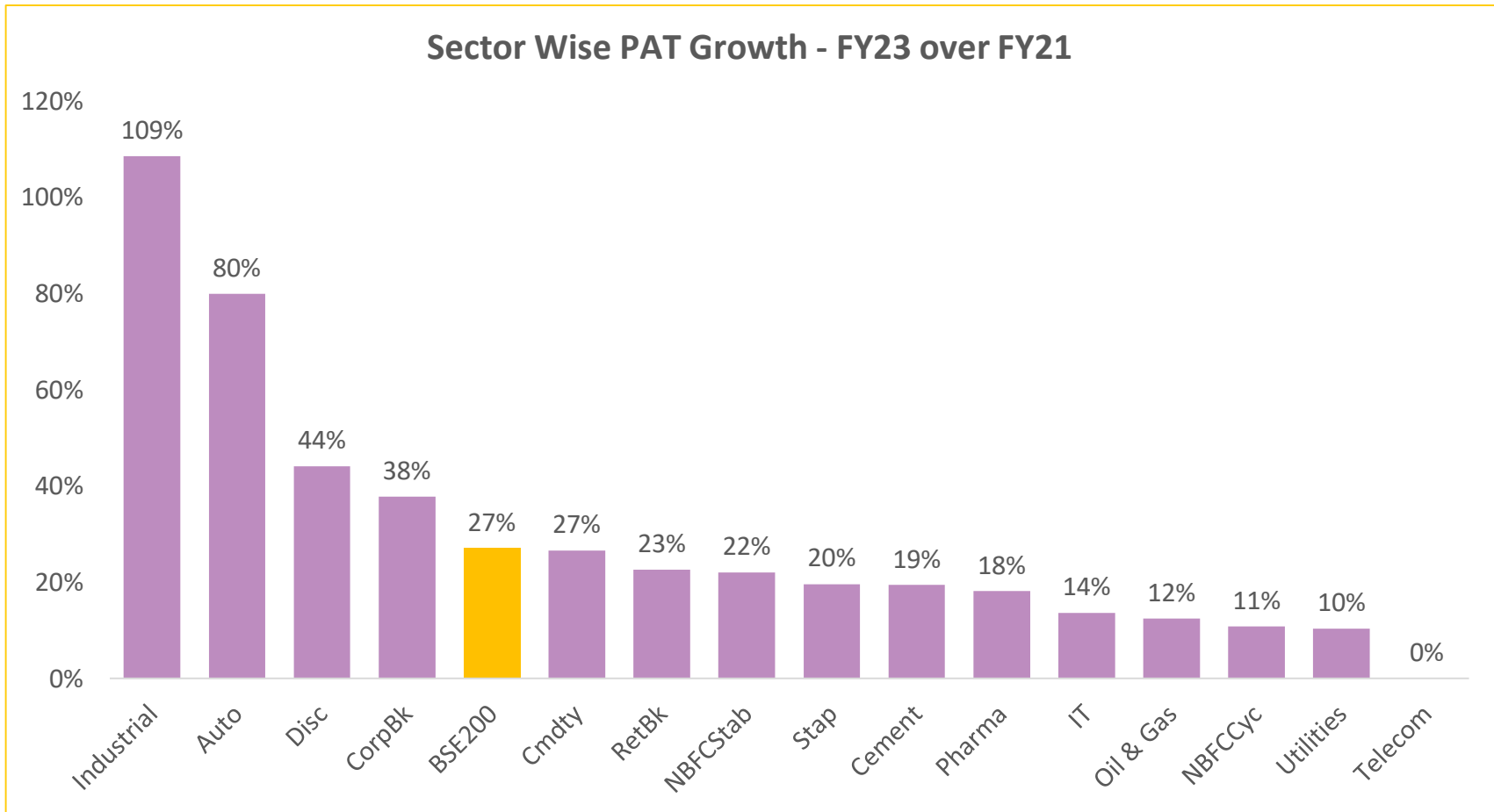
- Key drivers of Earnings from FY 21-23: Corporate Banks, Commodities, Auto and Telecom
 - Commodities turn around has played out; Corp Banks also has largely played out
- Turn around in Auto and Telecom profits will be the key drivers of FY23 profitability



Source: Bloomberg

Sector Wise PAT Growth

- Cyclical and Discretionary sectors expected to have the highest PAT growth



Source: Bloomberg

Profit Summary: Sector Wise (Absolute)

- Q2 S&P BSE200 PAT clocked Rs 2,255 bn. Annualizing this number gives a PAT of Rs 9,020 bn
- Given the run rate of Q2 profits in a weak quarter the FY23 estimate of Rs 9,855 bn seems achievable
- Sectors like Commodities, Energy and Corp Banks seem to be running ahead of the FY23 ask rate
 - analysts are expecting some moderation in Earnings for these sectors
- On the flip side, sectors like Auto & Telecom need to turn around in order to deliver FY 23 PAT
- Turnaround in these sectors will be key for meeting FY 23 estimates

SectorWise Absolute PAT	Q										FY			
	Jun-19	Sep-19	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21	Jun-21	Sep-21	Mar-20	Mar-21	Mar-22	Mar-23
Banks - Retail	105	118	125	102	104	129	136	124	110	107	450	492	582	739
Banks - Corp	56	-31	67	-10	108	174	187	194	207	349	18	642	929	1,218
NBFC - Stable	88	95	95	84	94	106	126	117	73	122	483	503	570	749
NBFC - Cyclical	66	60	81	-4	69	89	83	71	65	112	186	295	299	362
Auto	29	68	90	-6	-97	72	132	150	-13	26	178	174	374	563
Consumer Discretionary	37	38	38	15	-5	25	46	40	13	37	126	103	156	214
Consumer Staples	85	95	91	82	73	94	94	95	88	101	346	330	409	472
Information Technology	190	200	209	203	192	219	241	214	242	239	795	887	1,012	1,146
Health Care	61	70	43	60	71	87	73	80	92	70	234	310	360	432
Cement / Building Mat	55	34	36	67	34	53	71	87	71	64	167	188	228	268
Industrials	53	46	63	26	-32	54	57	73	3	46	191	94	258	411
Commodities	136	187	113	208	8	156	265	412	407	444	627	766	1,420	1,228
Energy	243	205	232	219	171	301	300	411	317	478	954	1,185	1,277	1,498
Utilities	87	110	72	38	78	137	102	118	94	107	349	433	464	527
Telecommunication Servic	-44	-50	-54	-35	-89	-60	-89	-38	-54	-45	-363	-292	-77	27
BSE200	1,246	1,246	1,301	1,050	777	1,636	1,822	2,147	1,715	2,255	4,742	6,109	8,261	9,855
Stable Sectors	634	714	680	617	538	754	830	764	686	749	2,755	2,901	3,474	4,219
Cyclical Sectors	611	532	621	433	239	881	992	1,383	1,029	1,506	1,987	3,208	4,787	5,635

All Figures are in Rs bn; Source: Bloomberg

Suggested Actionable

- Balanced Advantage remains a preferred strategy for first time or conservative investor
- Add Value focused strategy as a tool to diversify or broaden core equity allocation
- Small Cap focused strategy remains an essential component in Value “toolkit” for diversification
- Not the time to increase equity allocation, reallocate existing allocation
- Still a market to buy on “dips” rather than “reduce equity allocation”

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