

# White Oak India Digital Leaders Portfolio



Performance <sup>1-9</sup>	Q2 2022	Inception Cumulative
Portfolio	-18.2%	-26.7%
S&P BSE 200 TRI	-9.2%	-11.4%
Outperformance (bps)	-903	-1537

Other Indices		
Nifty India Digital	-20.1%	-29.5%
S&P BSE 100 Largecap	-9.2%	-11.3%
S&P BSE 150 Midcap	-9.6%	-13.5%
S&P BSE 250 Smallcap	-13.5%	-18.5%

Note : The format of the performance table is changed w.e.f May 31, 2022, to have a consistency of representation across all the product materials.

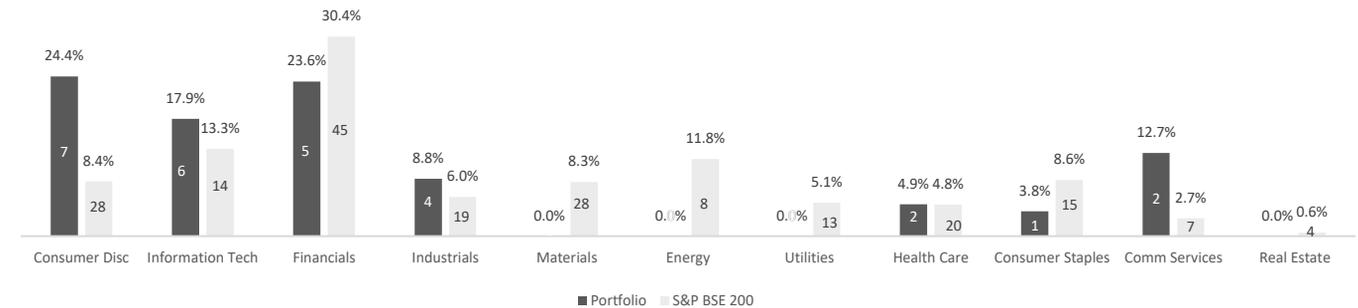
## Market Cap Attribution Since Inception (%)<sup>11</sup>

	Portfolio		Benchmark		Attribution		
	Avg Wt	Total Return	Avg Wt	Total Return	Selection Effect	Allocation Effect	Total Return
Large Cap	55.5	-24.5	86.8	-11.4	-7.2	0.0	-7.2
Mid Cap	24.8	-27.7	13.2	-11.3	-4.1	0.0	-4.1
Small Cap	14.0	-31.7	0.0	0.0	0.0	-2.9	-2.9
Cash/Fut/Other	5.7	0.0	0.0	0.0	-	-	0.5
Total	100.0	-25.2	100.0	-11.4	-11.3	-2.4	-13.8

## Sector-wise Attribution Since Inception (%)<sup>12</sup>

	Portfolio		Benchmark		Attribution		
	Avg Wt	Total Return	Avg Wt	Total Return	Selection Effect	Allocation Effect	Total Return
Comm Services	11.7	-32.5	2.8	-14.5	-2.2	-0.2	-2.3
Consumer Disc	17.0	-31.6	7.5	-3.3	-5.1	1.0	-4.1
Consumer Stp	4.6	-1.3	7.9	-0.2	-0.1	-0.4	-0.5
Energy	0.0	0.0	10.9	3.8	0.0	-1.4	-1.4
Financials	24.4	-16.9	30.8	-14.7	-0.4	0.2	-0.2
Health Care	4.2	-51.0	5.1	-14.2	-2.1	0.0	-2.0
Industrials	7.2	-34.4	6.0	-11.3	-1.7	0.0	-1.7
Information Tech	25.2	-25.8	14.1	-22.4	-0.6	-1.3	-1.9
Materials	0.0	0.0	9.3	-21.9	0.0	0.8	0.8
Real Estate	0.0	0.0	0.6	-25.9	0.0	0.1	0.1
Utilities	0.0	0.0	4.9	14.8	0.0	-1.0	-1.0
Cash/Fut/Other	5.7	0.0	0.0	0.0	-	-	0.5
Total	100.0	-25.2	100.0	-11.4	-12.2	-1.6	-13.8

## Sector Exposure<sup>9</sup>



## Investment Objective

The objective is to invest in companies that are emerging as leaders in the digital era by being at the forefront of innovation and technology implementation in their respective sectors.

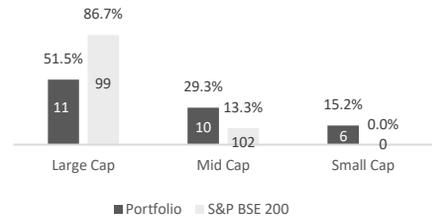
## Portfolio Facts

Structure:	Discretionary PMS
Firmwide AUM: <sup>3,5</sup>	₹ 38,831 Cr
WO India Digital Leaders AUM: <sup>3</sup>	₹ 86 Cr
Minimum Investment:	INR 50 Lakhs
Exit Load:	Nil
Benchmark:	S&P BSE 200 TR

## Portfolio Characteristics<sup>10</sup>

Wt. Av. Market Cap (INR Cr)	158,011
No. of Holdings	27

## Market Cap Classification<sup>9</sup>



Classification as per Securities and Exchange Board of India (SEBI) guidelines for Mutual Funds. Additional information on the classification methodology is available upon request.

## Top 20 Holdings & Key Contributors / Detractors

Scrip Name	Weight (%)	Scrip Name	Weight (%)
ICICI Bank	11.4	Campus Activewear	3.8
Info Edge India	8.1	3M India	3.7
Titan Company	7.3	Bajaj Finserv	3.2
Infosys	6.5	Dr Lal Pathlabs	3.1
FSN E-Commerce	4.9	ICICI Lombard	3.0
Cholamandalam Inv	4.6	Dixon Technologies India	2.4
Saregama India	4.5	L&T Technology Services	2.3
Persistent Systems	4.5	Intellect Design Arena	2.1
Vedant Fashions	4.0	Coforge	1.8
Hindustan Unilever	3.8	Metropolis Healthcare	1.8
<b>Total</b>			<b>86.8</b>

Q2 2022 Key Contributors	Ending Weight (%)	Total Return (%)	Contribution to Alpha (bps)
3M India	3.7	+10.9	+56
ICICI Bank	11.4	-3.2	+31
Hindustan Unilever	3.8	+9.8	+23
CAMS	1.3	-2.0	+17
CarTrade Tech	1.8	+2.2	+13

Q2 2022 Key Detractors	Ending Weight (%)	Total Return (%)	Contribution to Alpha (bps)
Persistent Systems	4.5	-28.6	-106
Titan Company	7.3	-23.5	-101
L&T Technology Services	2.3	-40.6	-96
Mphasis	1.7	-32.1	-96
Bajaj Finserv	3.2	-35.9	-87

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# White Oak India Digital Leaders Portfolio



## Performance Review

The portfolio was down 18.2% in Q2 2022, underperforming the benchmark by -903bps. The key contributors include 3M India (+10.9%), ICICI Bank (-3.2%), and Hindustan Unilever (+9.8%) whereas Persistent Systems (-28.6%), Titan Company (-23.5%), and L&T Technology (-40.6%) were the key detractors.

## Market Review

In Q2 2022, S&P BSE 200 index was down 9.2%, outperforming most global indices. US equities (S&P 500) and MSCI World were down by 16%, and MSCI EM was down 12%.

FIIIs were net sellers to the tune of US\$15bn in Q2 2022, while net buying by domestic institutional investors (DIIs) was US\$14bn. For the quarter, the Rupee depreciated by 4.0% while the benchmark 10-year G-Sec yields rose from 6.9% to 7.4%.

Commodities were mixed, with Brent up 12% and the S&P GSCI Industrial Metals Index down by 25%.<sup>13</sup>

For the quarter, Utilities, Energy and Government owned companies outperformed as did Consumer Staples. IT Services, Materials, and Health Care were the key underperforming sectors. On a YTD basis, Utilities and Energy are the best performing sectors while IT services is the worst performing sector.

## Q2 2022 Key contributors

**3M India** is 75% owned subsidiary of 3M Company, USA. It manufactures and markets highly innovative and technical products across four major segments – safety & industrial, transportation & electronics, healthcare and consumer care in India. The parent, 3M USA, is a global, diversified technology and science Company with more than 120,000 patents and considered to be one of the most innovative companies in the world. 3M India leverages on the technical know-how of its parent to launch new products into the India market to maintain technology leadership. The company is expected to be a key beneficiary of the PLI schemes in auto and electronics with its niche offerings. It outperformed due to the strong quarterly results with recovery in both top-line growth and EBITDA margins, which were adversely affected due to Covid.

**ICICI Bank** is one of the leading private sector banks in India. Given the under-penetration of credit, Indian banking sector offers a long runway for growth. Well run private sector banks are gaining market share from poorly run government owned banks, which account for two thirds of the industry. Post the leadership change in 2018, the new management is leveraging on the wide distribution franchise, new risk-based pricing approach and digital offerings to accelerate market share and return ratios. Bank continues to improve its margin and core profitability with decline in NPAs.

**Cartrade** is the leader in B2B auctions of used vehicles and the #2 player in online auto classifieds in India. The B2B auctions segment is driven by a shift towards organized technology led platforms offering an omnichannel experience and expansion in the share of used vehicles within the installed base. Growth in the online auto classifieds segment is driven by under-penetration of digital ad spends, market share gains from offline advertising mediums and a structural increase in car ownership. A profitable duopoly market structure presents scope for good operating leverage and margin expansion. The company's leadership team has decades of experience in the automotive and technology sectors. CarTrade has several growth optionalities including cross-selling insurance & loans products and providing repair & maintenance services.

## Q2 2022 Key Detractors

**Persistent Systems** is a mid-sized IT services company with deep domain expertise in healthcare, life sciences and financial services verticals, and a niche positioning in adjacent areas such as health-tech and fin-tech. The company has forged strong partnerships with leading enterprise software ecosystems such as Salesforce, Appian, and Snowflake. It also has strong capabilities in product engineering services with the likes of IBM, CISCO, Intuit and Dassault Systems as key customers. The business has de-risked its revenue base, lowered client concentration and increased number of large accounts. The company has many levers to drive healthy cash flow growth over the next few years. The stock underperformed along with the IT Services sector as investors are concerned about demand going forward due to expectations of a recessionary environment.

**Bajaj Finserv** is a leading diversified financial services firm with three key business units: (1) Bajaj Finance (BAF), (2) Bajaj Allianz General Insurance (BAGIC), and (3) Bajaj Allianz Life Insurance (BALIC). BAF is India's leading consumer lending franchise. Leveraging its industry-leading technology deployment, it straddles across consumer, SME, commercial, rural and mortgage segments with an enviable track record of prudent risk management. BAGIC, the group's multiline general insurance business, is the second-largest and among India's most profitable private general insurance companies. BALIC, the group's life insurance company, continues to see strong growth and improving profitability and has the potential to scale up multi-fold over time. In its Q4FY22 results, BAF guided for continued investments in technology and elevated opex vs expectations. BAGIC also witnessed a 450bps surge in loss ratio to 68.6% as compared to Q4FY21, on account of increased severity of non-Covid health claims and higher crop claims in Kharif season. These could have further put pressure on the stock, in our view.

**Titan** is India's leading jewellery retailer. The industry is dominated by unorganized players, which account for 70% of the market share, thereby presenting a long runway for growth for organized players like Titan. The company has consistently gained market share on the back of strong execution by the management. We expect the company to continue to do well as it (a) expands aggressively in smaller Indian cities and (b) strengthens its positioning in the large wedding jewellery segment. Recent underperformance is likely on account of worries that (a) high inflation could weigh on discretionary spending, and (b) there could be a repeat of the 2013-15 regulatory-headwind phase wherein authorities had imposed a series of restrictions on gold imports. We believe Titan is in a much stronger position to navigate any such headwind now as the gold sourcing mix has changed materially since then.

# White Oak India Digital Leaders Portfolio



## Quarterly macro update

In the following paragraphs, we discuss some key topics, including recent developments on the macro-economic front and important highlights from the 4QFY22 earnings season.

Most high-frequency activity indicators, such as credit growth, power consumption, E-way bills generation, railway freight, auto sales, and property registration, point to a steady revival in the economy. This is also reflected in tax collections which is ahead of the usual run rate and likely to support higher government spending. Industrial growth also remains buoyant, with IIP up by 7% YoY and the core sector growing at 14% YoY for FY23td. Latest RBI survey indicates improving utilisation levels, which along with accelerating end demand, is leading to higher capacity additions across sectors.

Despite recent challenges around global growth and disruptions in supply chain, India's merchandise exports have gained market share, growing by 9% CAGR between FY19-22. The overall exports mix has also been improving with growing contribution from value-added items such as Engineering Goods, Specialty Chemicals, and Electronics.

The bulk of the recent concerns originates from high energy prices, which is not unique to India alone but attracts much attention given the higher dependence on imports (India imports 85% of its crude oil requirements). But, at least, there is little evidence to suggest that India is disproportionately affected by rising oil prices – the sensitivities of macro variables to oil prices is in-line with what is observed for most other EMs. Further, an underappreciated aspect is that the vulnerability of macro variables such as CAD due to a higher oil import bill has reduced materially over the years due to faster economic growth and exports compared to the oil consumption. Also, an adequate level of Fx reserves (US\$600bn, 10 months' import cover) provides policy levers to navigate the prevailing macro environment.

### Oil price sensitivities

Economy	Impact of 10% rise in global crude oil prices	
	Current Account (% GDP change)	Inflation (pp change)
Brazil	0.07	0.67
Chile	-0.36	0.83
China	-0.14	0.18
India <sup>1</sup>	-0.40	0.35
Indonesia	-0.30	0.10
Korea	-0.81	0.20
Malaysia	0.16	0.30
Mexico	-0.16	0.61
Philippines	-0.60	0.40
Poland	-0.19	0.21
Saudi Arabia	2.07	
South Africa	-0.30	0.25
Taiwan	-0.26	0.15
Thailand	-1.33	0.40
Turkey	-0.54	0.18
Vietnam	-0.50	0.10

Source: HSBC Global Research, White Oak

Estimates based on net crude oil trade

<sup>1</sup> For India numbers reflect US\$10/bbl increase in oil prices

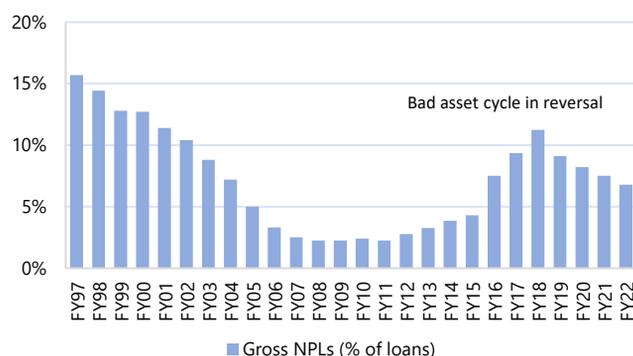
The recent uptick in inflation (7.8% in April and 7.0% in May) prompted the RBI to hike the repo rate by 40bps in an off-cycle policy meeting in May, followed by a 50bps increase in the June monetary policy meeting. To reduce the pass-through of elevated global prices into domestic inflation, the government announced measures such as lowering excise duties on diesel and petrol, restricting agri exports, and increasing fertilizer subsidies.

Despite the near-term spike, India's CPI is not much above the upper end of RBI's tolerance band (2%-6%). Besides, India's core services inflation is at a reasonably contained level of approximately 4%.

Nifty earnings grew by 20% YoY in 4QFY22, in line with consensus expectations. Generally, companies in consumer-facing sectors reported steep input cost inflation, although some of it has already been passed through price hikes. As has been the case in the previous quarters, companies in our portfolio tend to be market leaders and have been better positioned to navigate through an inflationary environment and continue to report market share gain from the weaker peers. Historically, in our observation commodity price fluctuations get passed through the food chain and absorbed by consumers, with hardly any lasting effect on business economics or value.

Among other sectors, banks reported strong YoY earnings growth as asset quality trends were healthy and system loan growth hit double digits. Fresh slippages were controlled while balance sheets strengthened with improving provision coverage ratios. In fact, the improvement in earnings trajectory over the last two years has been characterized by improving fundamentals with corporate India's leverage at a decade low.

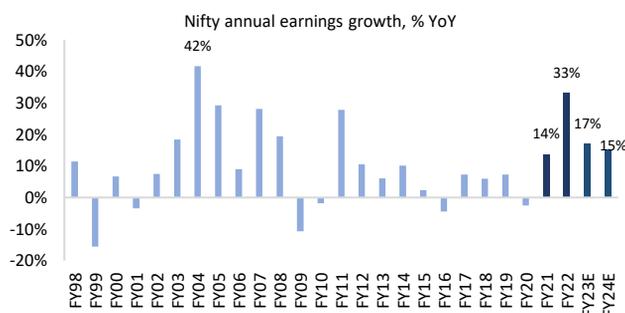
### Improved asset quality for India's banking sector



Source: Bloomberg, Jefferies, White Oak

At a headline level, Nifty earnings for FY22 grew by 33% YoY, at its highest pace since FY04. Despite the mild downgrades of 1-2% over the quarter, per consensus estimates, earnings are projected to grow by 16% CAGR for the next two years. In the context of rising concerns about global growth, it is worth re-iterating what we highlighted in the 2021 Newsletter (The India Premium, click [here](#)), that given its well-diversified corporate mix, India's earnings have generally been more resilient than EM peers during previous downcycles.

### FY22 earnings growth the best since FY04



Source: Bloomberg, White Oak

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## Notes:

(1) Performance is calculated basis time weighted rate of return method net of all fees and expenses; Individual client performance may differ. Past performance is not indicative of future results. Performance shown since January 5, 2022, as client monies were managed from this date. Performance related information provided herein is not verified by SEBI. Returns have been calculated using Time Weighted Rate of Return (TWRR) method as prescribed by SEBI (2) S&P BSE 200 Total Returns Index. CAGR : Compound Annual Growth Rate (3) All data is as of June 30, 2022. (4) All returns and % changes are in INR terms unless otherwise stated. (5) Refers to aggregate assets under management or advisory for White Oak Capital Management Consultants LLP. (6) Source: Bloomberg, Factset. Further details are available upon request (7) Inception Date : January 5, 2022 (8) Returns for 1 year and less than 1 year are absolute returns, while more than 1 year are CAGR. (9) The number inside the bars denote the number of companies in each classification. (10) SI : Since Inception (11) FactSet's Attribution Analysis. Performance is gross of fees, taxes and expenses. Market Cap Classification as per Securities and Exchange Board of India (SEBI) guidelines for Mutual Funds. Performance related information provided herein is not verified by SEBI. (12) Factset's Attribution Analysis: GICS Classification. (13) Source: Bloomberg, further details are available upon request. Performance is gross of fees, taxes and expenses. Performance related information provided herein is not verified by SEBI.

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