TATA HYBRID EQUITY FUND-MAY 2022 UPDATE

(An open ended hybrid scheme investing predominantly in equity & equity related instruments)

TATA MUTUAL FUND

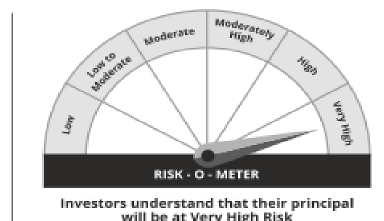
For External Circulation

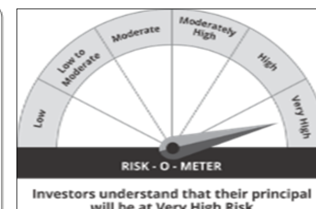
Data as on 30th April 2022

This product is suitable for investors who are seeking*:

- Long Term Capital Appreciation.
- Investment predominantly in equity & equity related instruments (65% - 80%) & some portion (between 20% to 35%) in fixed income instruments.

***Investors should consult their financial advisors if in doubt about whether the product is suitable for them**





Benchmark: CRISIL Hybrid 35+65 Aggressive Index

Mutual Fund Investments are subject to market risk read all scheme related documents carefully

Fund Snapshot

Benchmark (Tier-1)	Crisil Hybrid 35+65-Aggressive Index
AUM	Crores
Inception Date	8th October 1995
Expense Ratio	Reg: 1.98 Direct: 1.04
No of Equity Holdings	34
Fund Manager	Chandraprakash Padiyar (Managing Since 3rd Sep 2018)- Equity; Murthy Nagarajan- (Managing since 1st Apr 2017)- Debt

Fund Statistics

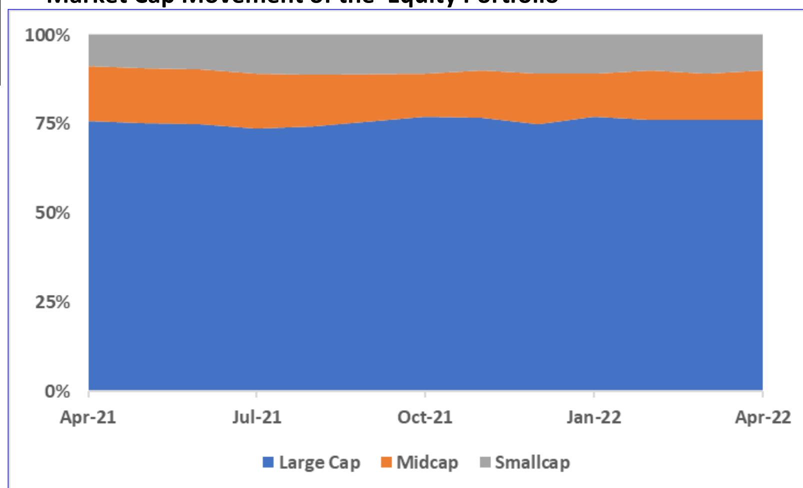
Statistics	Portfolio	Benchmark
Std. Deviation	16.64	14.02
Beta (Slope)	0.15	0.26
R (squared)	1.13	1.00
Sharpe	0.97	1.00
Treynor	0.64	1.05
Jenson	-0.46	NA

About the Fund

Tata Hybrid Equity Fund aims at seeking a combination of equity & debt investments. The scheme actively manages the combination of the equity & debt investments depending upon the existing market conditions & outlook.

It aims to seek an optimum combination of capital appreciation & income opportunities.

Market Cap Movement of the Equity Portfolio



Market Capitalization-wise Exposure (Equity Portfolio)

Large Cap	Midcap	Smallcap
75.84%	13.88%	10.28%

Large Cap: 1st -100th company in terms of full market capitalization
Midcap: 101st -250th company in terms of full market capitalization
Small Cap: 251st company onwards in terms of full market capitalization

Asset Allocation

Equity	Corporate Bonds	G-Secs & SDLs	Money Market Instruments	MF Units	Cash & Equivalents
77.71%	11.77%	1.99%	3.86%	2.56%	1.29%

Top 10 Sectors

Sector	Allocation
Financial Services	26.49%
Information Technology	10.45%
Oil Gas And Consumable Fuels	9.14%
Fast Moving Consumer Goods	8.51%
Automobile And Auto Components	4.42%
Telecommunication	3.61%
Services	3.59%
Chemicals	3.55%
Healthcare	2.68%
Construction	2.38%

Top 10 Holdings

Stock	Allocation
ICICI Bank Ltd.	9.02%
Reliance Industries Ltd.	7.74%
State Bank Of India	7.43%
HDFC Bank Ltd.	5.46%
Tata Consultancy Services Ltd.	5.13%
Infosys Ltd.	4.20%
Bharti Airtel Ltd.	3.61%
Basf India Ltd.	3.55%
ITC Ltd.	3.19%
HDFC Ltd.	2.88%

Investment Philosophy

Equity Component (~78% of the Portfolio)

Portfolio Size: Optimal portfolio size of 25-35 stocks constructed on a bottom up basis.

Stocks in the Portfolio: **~**60% of the portfolio is invested in steady compounders and **~**40% of portfolio is invested in businesses where we expect strong earnings growth over the next few years and where consensus is behind/below our estimates along with room for valuations to improve based on the earnings growth triggers going forward.

Bottom-up Stock Picking: Our Visibility and conviction on triggers with the market not acknowledging the triggers playing out is the key to the stocks being classified as GARP today. The entire portfolio is built with a bottom-up approach.

Sectors Avoided: The fund manager avoids cyclical sectors with potential for high debt. The fund manager also avoids investing in commodities-based businesses as they are influenced by too many factors such as demand and supply and global economic conditions.

Portfolio Turnover: The fund has a portfolio turnover ratio of the equity component of the fund was ~4%. The fund manager generally takes a buy and hold approach to investments.

Outlook for Equity Markets

Medium-to-Long Term Perspective (3-5 Years)

India from our perspective is at the cusp of a capital expenditure upcycle. It is observed from historical analysis that whenever businesses start generating higher return on invested capital over the risk free rate, balance sheet improvement is very strong and the appetite to invest increases on sustainable basis. Over the past 20 years or so we did witness the period of FY03 to FY08 whereby corporate India was generating a spread of 4%-8% over the risk free rate which led to strong pick up in the corporate capex cycle leading to high earnings growth overall for business for a sustained period of time leading to strong equity market returns.

FY23 onwards, the spread earned by corporate India is once again likely to move up beyond 4% over the risk free rate. And we already are aware of the fact that balance sheet health of corporate India is at one of its best levels currently with high free cash expected to be generated over the next few years and the narrative from many sectors like Steel, Power, Chemicals, Pharmaceuticals, Electronics, etc is towards a significant pick up in capex over the next 3-5 years. Government policies on one hand in terms of production linked incentives along with ease of doing business is helping a lot and at the same time Indian competitiveness over other economies like China, Vietnam etc has improved significantly over the years.

India at an Inflection Point

India today stands at an inflection point for a sustained strong economic growth leading to signficant corporate profit growth. Some of the key reasons for us to believe in the same are –

- Strong macro indicators – Forex reserves in excess of US$625 bn, Balance of Payments surplus (FY22 is likely to be the first year where IT services exports will potentially be more than crude imports in the country), Net FDI flows at new high and looks sustainable, Stable Rs-Dollar outlook, Exports specially engineering goods, electronics growing at a fast pace.

- Manufacturing ecosystem in the process of getting built across sectors specially Electronics, Engineering Goods, Chemicals, Pharmaceuticals, Auto and Ancillaries. China + 1 is just the beginning – as and when component ecosystem gets developed over the next few years, India can potentially become a global sourcing hub on its own.

- Infrastructure investment by the government – pipeline for new capex is building up strongly, took some time to reach this stage but now looks ready to grow.

- Banking sector well capitalized and healthy provision coverage ratio – ready to lend aggressively.

- Average Corporate Capacity utilization likely to reach 80%+ in most sectors by FY24 leading to a strong pick up in capex – can already see short cycle orders for capital goods companies bulging to all time highs. Production Linked Incentive Scheme by the government can itself add to US$25bn worth of private corporate capex over the next 3-4 years.

Source – Company Results/Union Budget

Short Term Perspective (6-9 Months)

Q4FY22 earnings season is ongoing. On an overall basis BSE Sensex companies are expected to deliver 20%+ Sales, EBIDTA and PAT growth during the quarter. However as always there will be some sectors delivering better performance and some not so. Oil & Gas, Banks, Auto and Telecom are likely to contribute positively while IT, Commodities, Consumer is likely to report slightly muted performance. Initial result trends confirm the expectations with IT companies delivering lower than expected margin performance.

Indian corporate performance continues to standout among global companies from an earnings delivery perspective in spite of supply chain disruptions and high inflation. FY23 is likely to be another year of healthy double-digit earnings growth for BSE Sensex led by Banks and Telecom.

Source: Bloomberg

Sectoral Positions

The fund is overweight in financial services with respect to the benchmark. The fund has taken significant positions in large cap banks as they will be one of the main beneficiaries of the capex cycle. They also hold a strong position in terms of retail lending as well as raising funds from depositors and the markets. The fund also holds a position in an HFC. The fund holds ~16% in private sector banks, ~7% in a PSU Bank and ~3% in an HFC.

The fund is overweight in the Information Technology sector. The holdings are predominantly in large cap IT services companies (~10% of the portfolio), along with other holdings in smaller companies providing services such as financial services software.

The fund is underweight in the Oil & Gas sector. The sector positions are a play on a) a diversified conglomerate with predominantly a petrochemical business but also with significant revenue from retail and telecom services and b) increasing gas consumption driven by government policies to increase piped gas connections to homes.

The is equal weight in the FMCG sector, with significant positions in businesses involved in personal care, packaged foods and beverages.

The fund manager has taken significant positions in sectors such as Chemicals, Industrials , construction & engineering as they are likely to be beneficiaries of the expansion in capex.

Market Cap Allocations

The equity portfolio is generally dominated by large cap stocks with significant allocations to mid and small caps. Currently ~24% of the equity component of the fund is in mid and small cap stocks. Mid and small cap stocks in the portfolio are generally in sectors such as Industrials, Construction & Engineering, Capital Goods, Cement, Chemicals etc.

Debt Component (~18% of the Portfolio)

- The Current construction of the debt portfolio is biased towards G-Secs and AAA-rated issuers.
- The portfolio consists of ~2% in G-Secs and SDLs, ~3.00% in AAA-PSU Issuers, ~9% in non-PSU bonds.
- The fund also holds ~4% in money market instruments.
- The average maturity of the debt portfolio is 2.08 Years and YTM is 5.99%.
- We hold some papers in sub-AAA categories, however, they are entities with strong parent companies that give substantial financial support
- The focus is on maintaining a high-quality portfolio of liquid securities with an accrual-based strategy.

Mutual Fund Investments are subject to market risk read all scheme related documents carefully