TATA INFRASTRUCTURE FUND– MAY 2022 UPDATE

(An open-ended equity scheme investing in the Infrastructure Sector)

TATA MUTUAL FUND

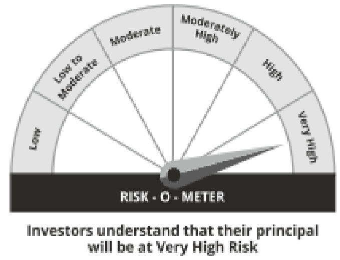
For External Circulation

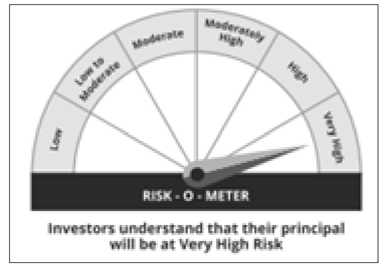
Data as on 30th April 2022

This product is suitable for investors who are seeking*:

- Long Term Capital Appreciation.
- Investment Predominantly in equity / equity related instruments of the companies in the Infrastructure sector in India.

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





Benchmark: S&P BSE Infrastructure TRI

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

About the Fund

When one thinks about infrastructure fund the perception is that the fund will invest in companies linked to traditional physical infrastructure such as roads, highways, electricity networks etc. While such companies/sectors do form an important part of the portfolio, the investment strategy of the fund is better characterized as a play on the capital expenditure (capex) cycle in India. This gives the fund manager a variety of options in terms industries and segments to invest in.

Thus, the fund can invest in sectors that incur large capital expenditure or derive benefit from it. Sectors/companies which the fund can thus invest in are very diverse such as traditional infrastructure assets (roads, highways, telecom, power plants, gas pipeline networks, real estate etc.), engineering & construction companies, manufacturing and automation product companies, building materials etc. If the capex cycle is in the upswing, these sectors are likely to do well.

Capex cycle in India

Since 2009, capex in the economy has been week, driven mainly by government spending. Private sector capex has been weak due to stressed balance sheet caused by high debt. Household capex (in real estate) has seen its own challenges. However, the capex cycle has turned around since last year and has seen a number of positive developments in the past few months.

Government Capex

A major driver of capex is spending by the State and Central governments. Since Covid-19 pandemic started, there were concerns that the stimulus spending would weaken government finances leading to slackened spending on infrastructure (largely physical infrastructure– roads, railways, defence, irrigation etc.). However government spending (while coming in fits and starts) has generally held up.

The Union Budget saw an increase of 35% in FY23 in the outlay for capital expenditure, on an already high base of FY22. The attempt to revive investment cycle is much needed to sustain GDP growth at a higher trajectory of 7-8%. This is mainly driven by productive capex with very realistic and reasonable revenue assumptions including the disinvestment proceeds.

Source: Union Budget

Private Capex

2004-2011 saw a boom in the infrastructure sector, followed by a stressed period from 2011-20. The country saw a surplus of capacity, lower demand, a spate of NPSs and bankruptcies. A lack of capital and confidence in the sector saw capex stagnate. A fall in commodity prices globally also hurt segments such as steel, metals, chemicals and other sector, which kept new players from building up capacity.

In the past couple of years, there have been a number of resolutions and consolidations in the sector, with weaker players exiting the sector. Balance sheets have been cleaned up and are at pre-2004 levels with respect to strong cash flows.

Companies have seen significant deleveraging and there are now large corporate groups with healthy cash balances. The private sector has seen more support from a business-friendly government encouraging capacity expansion through incentives and clearing hurdles.

The rise in commodity prices has benefit specific segments withing the infrastructure sector. There has been a large amount of capacity expansion, with ~100 million tons in cement capacity announced which is likely to come online in the next few years. Steel sector has seen significant capex in the last few months after years of stagnation. These expansions have been driven by a surprisingly high demand and easily available capital, including from foreign financiers.

Household Capex

The Real Estate sector had been going through its own challenges, after years of doldrums in terms of price growth. However there has been a surprising turnaround in the pandemic period. Price increases in real estate after a long time. If this sustains, real estate can see a return as an investment destination.

There has been an upshot in demand for residential real estate. This sector is one the largest employers in the country and significant contributor to GDP and is directly or indirectly linked to other sectors such as cement, pipes, tiles & fittings, steel etc.

Climate Change and Decarbonization

There has been growing concern in this regard, with demands for policies to be translated into action on the ground. Action in the area is driven by the need to reduce carbon footprint with companies setting their own targets to be carbon neutral or zero-emissions. There has been an enormous increase in solar energy capacity. Capacity expansion in this area is a significant opportunity with major buildup over the coming two decades, with spending not being cyclical. For eg: Electric cars and two-wheelers will require a large charging infrastructure.

Valuations

Valuations in this space are still reasonable despite run up in stock prices over the last one year. Most of the stocks are trading near their long term average valuations and comfortably below the levels seen at 2007-08 peak. With expected earnings growth, there is room left for further valuation rerating.

Sector Positions

Private Sector capex is likely to be major driver of the infrastructure sector in the country. The fund currently holds ~35% of the portfolio in the Capital Goods sector (mainly in industrial products and electrical equipment segments), which is likely to be the main beneficiary of the private capex expansion and decarbonization of the economy.

The fund holds ~25% in the construction and construction materials sector, with ~14% of the portfolio held in companies building up physical infrastructure benefitting from government capex. The fund holds ~11% in the Cement sector. The sector has seen major announcement in terms of capacity expansion and is likely to benefit from the upcycle in the real estate sector.

The fund holds ~6% in the Realty sector (residential real estate) considering that the housing cycle is on the upswing with a sharp runup in the past few months. Considering the disparity between size of the sector in terms of contribution to GDP and much lower market cap, this segment could have a long runway of growth. The fund also holds ~2% in the ceramics segment of consumer durables sector.

The fund holds ~14% in the power sector. The government has made major commitments in terms of decarbonization and fighting global warming and climate change. This requires increasing renewable energy capacity which is very low currently. There has been significantly increased funding flowing into the area, with increasing attention paid by investors.

Criteria for Stock Selection

We follow a GARP (Growth at reasonable price approach). The following are the criteria for stock selection:

- Corporate Governance: We look for companies which have good/improving governance practices.
- Growth prospects
- Reasonable valuations

Fund Snapshot

Benchmark (Tier-1)	S&P BSE Infrastructure TRI
AUM	Rs.817.65 Crores
Inception Date	31st December 2004
Expense Ratio	Reg: 2.43 Dir: 1.46
No of Holdings	42
Fund Manager	Abhinav Sharma: Managing since 20-Apr-20

Fund Statistics

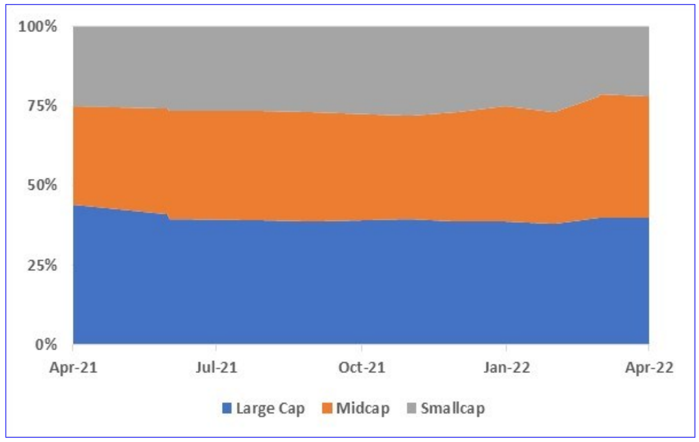
	Fund	Benchmark
Std. Deviation	23.80	28.55
Beta (Slope)	0.20	0.16
Sharpe Ratio	0.77	1.00
R-Squared	0.85	1.00
Treynor	1.76	1.32
Jenson	0.34	NA

Market Cap Allocations

Category	Allocation
Large Cap	40.58%
Midcap	38.51%
Smallcap	20.92%

*Large, Mid and Small Cap are defined as follows:
A) Large Cap: 1st -100th company in terms of full market capitalization
B) Mid Cap: 101st -250th company in terms of full market capitalization
C) Small Cap: 251st company onwards in terms of full market capitalization

Market Capitalization Trend of the Fund



Sector Allocations

Sector	Allocation
Capital Goods	32.66%
Construction	13.62%
Power	12.88%
Construction Materials	11.46%
Realty	5.91%
Services	4.85%
Oil, Gas & Consumable Fuels	4.38%
Automobiles & Auto Components	2.99%
Forest Materials	2.44%
Diversified	1.85%

Top 10 Stock Allocations

Stock	Allocation
Larsen & Toubro Ltd.	7.81%
KNR Construction	4.88%
Astral Ltd.	4.00%
Grindwell Norton Ltd.	3.99%
Power Grid Corp. of India Ltd.	3.96%
NTPC Ltd.	3.89%
Siemens Ltd.	3.68%
ACC Ltd.	3.46%
DLF Ltd.	3.12%
Schaeffler Ltd.	2.99%