TATA BANKING AND FINANCIAL SERVICES FUND

April 2023

(An open-ended equity scheme investing in the Banking and Financial Services Sector)

TATA MUTUAL FUND

For External Circulation

Data as on 31st Mar 2023

This product is suitable for investors who are seeking*:

- Long Term Capital Appreciation.
- Investment in equity/equity related instruments of the companies in Banking and Financial Services sector in India.

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

Scheme Risk O Meter

Investors understand that their principal will be at Very High Risk

Benchmark Risk O Meter

Benchmark: Nifty Financial Services TRI

(It may be noted that risk-o-meter specified above is based on the scheme characteristics. The same shall be updated in accordance with provisions of SEBI circular dated October 5, 2020 on Product labelling in mutual fund schemes on ongoing basis.)

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

Sectoral Update

Overall, the sector is strengthening. Credit growth is picking up, retail credit quality is healthy. FY23YTD has seen ~16% credit growth after 3-4 years of single digit growth. Asset quality issues are behind us and should improve further. Cheque bounce rates have been dropping from the peak in August-20, and we are below the pre-covid rates. This points to improving financial security of households.

There has been an improvement in corporate asset quality, with no emerging systemic stress. Business momentum is coming back and collections are strong. Stress levels of SME loans, especially in the Microfinance segment should improve with the economy. However, cost pressure due to rising inflation is hurting poor families. We are still not seeing broad based improvement of unemployment figures.

Large private sector banks and PSU bank were always comfortable on liabilities side of the business. However, importantly many mid/small sized banks have improved liabilities profile in last 3 years by focusing on increasing retail/granular/stable deposits. Banks have more than 40% of funding coming from retail (60%+ for large banks). Net stable funding ratio is more than 115%+ for all the banks. Banks have comfortable liquidity with credit to deposit ratio of 75-80% and SLR investment of 18-20%. Large cap names are expected to deliver 15-17% of EPS growth while mid/small size banks are expected to deliver 25% plus EPS CAGR over next 2-3 years.

Interest Rate Environment

The Reserve Bank of India raised rates by 250 bps since May-22 in order to tackle rising CPI inflation. It is also taking steps to tighten liquidity in the system through withdrawal of accommodation. G-Sec yields have been rising, with the 10-year benchmark yields at ~7.20%. Corporates that had been issuing Commercial Papers are moving to borrowing from Banks as the funding costs of the latter are lower, allowing corporates to borrow at lower rates. The Credit to Deposit Ratio is 75-80% showing there is headroom available for banks to grow without commensurate increase deposit rates.

Source: Internal Research/Bloomberg/RBI/Credit Suisse/CMIE

Way Forward

- Banking is essentially a cyclical business. As the sector sees a cyclical recovery, there can be strong improvement in earnings. As growth becomes broad based, earnings growth is also likely to grow accordingly.
- In a rising rate environment, banks have the pricing power, while NBFCs and HFCs are at a disadvantage as banks have the ability to borrow from depositors at significantly lower costs.
- As banks become stronger on asset quality, they could become more comfortable with increasing their unsecured loan books. This could allow them to build on interest margins.
- With the pickup of credit growth, it would be important to look at businesses able to deliver above average growth and have potential to surprise on earnings.
- Risk of interest rate aggression (Banks capturing higher yielding loans from other NBFCs/HFCs) may play out. Valuations of NBFCs/HFCs are not reflective of the same.
- There is increasing pressure on NBFC players as banks have been capturing market share. Banks are aggressively issuing credit cards and are building share in areas such as Consumer Durable finance at the cost of NBFCs. In other areas such as vehicle fleet finance, some NBFCs have entered into co-financing arrangements with Banks.
- Smaller banks are seeing relatively cheaper valuations and may see a long runway for growth as the cycle turns around.

Segments in the Portfolio

Banks (~69% of the portfolio)

This segment of the portfolio largely comprises of major private sector banks (~57% of the portfolio), with some holdings in large PSU banks as well (~9% of the portfolio.). Large banks have the capacity effectively raise funds from the market and have the capacity to distribute financial services as well.

Financial Services (~20% of the portfolio)

This segment is dominated by housing finance corporates (~11% of the portfolio). These companies may see relatively lower stress in the coming months as a large portion of their loan portfolio is lent out to salaried workers. This segment of population is likely to see lower stress levels in the coming months. The balance is in financial services companies that are involved in businesses such as NBFC, Microfinance, Investment company etc. which make up ~9% of the portfolio.

Insurance (~6% of the portfolio)

Life Insurance companies (4% of the portfolio) make up the majority of this segment. Life Insurance companies are steady state compounders who have a long runway for growth over the long term. The fund also holds a private sector general insurance company.

Fund Snapshot

Benchmark	Nifty Financial Services TRI
AUM	Rs. 1276.87 Crores
Inception Date	28th December 2015
No of Holdings	
Expense Ratio	Regular Plan: 2.12 Direct Plan: 0.60
Fund Manager	Amey Sathe: Managing Since 14-Oct-21

Fund Statistics

	Fund	Benchmark
Std. Deviation	21.29	23.91
Beta (Slope)	0.84	NA
Sharpe Ratio	0.74	0.74
R-Squared	0.95	NA
Treynor	1.56	NA
Jenson	0.06	NA

Sector Allocations

Sector	Allocation
Banks	69.37
Financial Services	22.02
Insurance	5.71

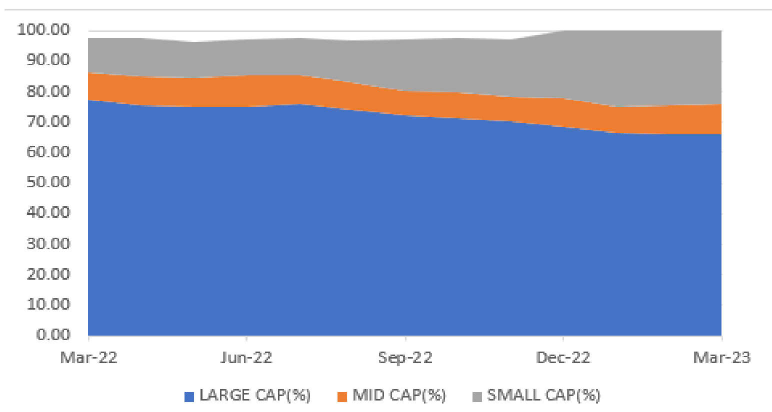
Market Cap Allocation of the Fund

Large Cap	66.07%
Midcap	9.86%
Smallcap	24.07%

Top 10 Stock Allocations

Stock	Allocation
ICICI Bank Ltd.	13.46
HDFC Bank Ltd.	13.11
Axis Bank Ltd.	8.61
HDFC Ltd.	8.14
State Bank Of India	6.56
Kotak Mahindra Bank	5.02
Karur Vysya Bank Ltd.	3.56
Rbl Bank Ltd.	2.98
IDFC First Bank Ltd.	2.93
Indian Bank	2.68

Market Capitalization Trend of the Fund



*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