

**This product is suitable for investors who are seeking\*:**

- Long Term Capital Appreciation.
- Investment in equity/equity related instruments of the companies in Information Technology Sector.

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

**Scheme Risk O Meter**

RISK - O - METER

Investors understand that their principal will be at Very High Risk

**Benchmark Risk O Meter**

RISK - O - METER

**Nifty IT 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.**

### About the Sector\*

The Indian Information Technology sector in FY22 stood at ~\$190 billion. The IT industry now accounts for 8% of Indian GDP, contributes to over half of services exports. The sector employs ~50 lakh people.

India has the largest base of quality IT talent in the world and the offshore-based companies have best access to this talent. Additionally, deep expertise, presence across technologies like cloud and digital in multiple domain areas and best-in-class execution makes India well-suited to enable holistic digital transformation for clients.

The sector comprises of companies providing 4 broad groups of services: IT services, Engineering, Research & Design (E-R&D), Business Processing and Outsourcing (BPO) and Hardware. In terms of clients, the BFSI sector is the largest customer, followed by manufacturing, and retail.

The largest market for Indian IT services is US, followed by Europe (including UK).

Constituents of the Indian IT Sector	
IT Services	~\$100 billion
E-R&D	~\$40 Billion
BPO	~\$35 Billion
Hardware	~\$15 billion
Largest Clients of Indian IT Sector	
BFSI	~25-30%
Manufacturing	~20%
Retail	10%
Largest Markets for Indian IT Sector	
USA	~50%
Europe (Including UK)	~30%

\*Information based on NASSCOM Strategic Review/ Gartner

### Segments within the IT Sector

**IT Services:** Some of the largest listed companies in India belong to the sector. Indian service providers have increased their market shares at the expense of global peers. IT spending increases in automation and collaboration tools is likely to benefit this sector.

**E-R&D:** A large proportion of work in IT related research and design is still done in-house for large companies. However, there is large scope for the outsourcing of these services to companies with specialized departments in this field.

**Business Processing & Outsourcing:** BPOs had seen growth slowing down due to a shift from offsite to onsite and increased automation before the pandemic. However, post the pandemic we are seeing momentum in offshore deals and growth seems to be reviving in the segment. Generally, the sector is characterized by strong cash flows and dividends and reasonable valuations.

**Digital Platforms:** Provide platforms to connect market players and are re-imagining traditional business models.

### Sector Update: Near Term

• IT Over the past two years, the global IT services sector saw sharp surge in the IT spends driven by the need to catch-up on under-investment in digitization. A large part of these investments went into cloud, as it became even more critical enabler in Covid. It gave enterprises the agility on scale, resilience, quick deployment as well as the benefit of low upfront capex. Companies across verticals and geographies underwent a rapid enterprise-wide transformation. This led to higher-than-trend spends on technology and in turn benefiting the Indian IT services industry.

Particular (\$bn)	FY08	FY09	FY10	FY11	FY12	FY13	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY21	FY22
Indian IT exports - Nasscom	41	47	50	59	69	77	88	98	108	117	126	136	147	150	178
Growth %	31%	16%	5%	19%	16%	11%	14%	12%	10%	8%	8%	8%	8%	2%	19%

- The growth rates for the Indian IT industry which were in high single digit range in pre covid years, saw a sharp jump of over 2x in the last two years. Technology modernization became a key priority across enterprises and was viewed as necessary and strategic, this led to enormous amount of demand uptick in a very short period of time.
- Most of these spends were on areas like Cloud migration, Digital transformation, Analytics, Data, and Customer experience. The Indian IT companies not only had deep domain knowledge and strong partnership credentials but also had the ability to sharply ramp up the execution, which helped them capture this opportunity well. The rapid surge of projects and the ask of quick execution from clients led to immense need of talent, leading to over 2x jump in the hiring intensity for the Indian IT industry.
- Going ahead too, the growth rates for the IT services industry is likely to remain elevated compared to pre covid years driven by companies continuing to focus on the core transformation journey. The expectations of the industry bodies as well as market research organizations like Nasscom, Gartner etc. also remain optimistic as they expect these accelerated techs spends to continue for next couple of years.

### Sector Update: Medium Term

- Market Leaders as well as laggards emphasize the critical role of technology in building resiliency, improving experience and building new revenue streams. Hence, many clients are adopting a core transformation, which is a multi-year journey. (F- 500 clients have indicated their acceleration of digitization and digitalization initiatives).
- Clients are still in the early phase of cloud migration with only a minor portion of workloads. on the cloud. Cloud penetration is currently at ~25%, which is expected to rise to ~50% in coming couple of years. Their transformation journeys include (1) infrastructure migration to the cloud, (2) adoption of cloud native technology stack and (3) new ways of collaboration among organizations, resulting in a strong multi-year increase in technology spending across industries.
- The digital transformation and cloud migration is likely to be a ~3-5-year journey for organizations which is a benefit to the sector.

### Quarter Update

The quarter has started on a weak note with large Indian IT companies indicating slowdown and deal deferrals from the US clients. The margin defense which appeared strong at the start of the calendar year is also starting to look weak as companies are seeing headwinds related to pricing and onsite hirings. The deal wins though continue to remain strong, the market research agencies like ISG and Gartner too, continue to remain buoyant on the outlook for IT services spends. As the quarter will progress, we will get more clarity on the near term outlook on the IT services spends as well as cost management. From a medium term outlook though the sector should see better momentum as slowdown/recessionary phase in the global markets in the past was followed by higher outsourcing to countries like India.

### Valuations

Valuations of the IT sector in terms of P/E ratio increased ~30- 40x in Jan 2022 when investors the world over started chasing tech stocks in the aftermath of the COVID-19 pandemic. However, with rise in interest rates the rub-off effect of market correction spread across highly valued tech stocks overseas and at home, with Nifty IT currently quoting at ~20 times Price to Earnings multiple. The valuations for the sector are at reasonable levels now compared to the peak we saw at the beginning of the calendar year. Some midcaps which saw valuations climb very high have also corrected .

### Positions taken in the IT Sector

- The Core IT services exposure is down to ~80% from over 90% earlier. The fund has added non-IT services companies for diversification and risk mitigation. The Portfolio is skewed towards large cap stocks as of now due to valuation comfort as well as better positioning of large companies in the current scenario. Digitalization and cloud migration is the key theme. The fund would be looking for an opportune time to move back to mid-small caps from large caps within IT services.
- The fund had reduced allocation in the mid and smallcap companies at the start of the year and continues to remain a large cap skewed fund for now.

**Fund Snapshot**

<b>Type of Fund</b>	An open-ended equity scheme investing in the Information Technology sector
<b>Benchmark (Tier-1)</b>	Nifty IT TRI
<b>AUM</b>	Rs. 6781.12 Crores
<b>Inception Date</b>	28th December 2015
<b>No of Holdings</b>	35
<b>Fund Managers</b>	Meeta Shetty (Managing since 9th March 2021), Arvindkumar Chetty (Overseas Investment) (Managing Since 01-Dec-22)

**Investment Objective**

The investment objective of the scheme is to seek long term capital appreciation by investing at least 80% of its net assets in equity/equity related instruments of companies in the Information Technology (IT) sector.

**Market Cap Allocations**

Large Cap	Midcap	Smallcap
86.90%	7.21%	5.89%

**Sectoral Allocation**

Sector	Allocation
Information Technology	81.44
Telecommunication	8.86
Capital Goods	2.39
Services	2.26
Consumer Services	2.1
Financial Services	0.7

**Portfolio Construction\***

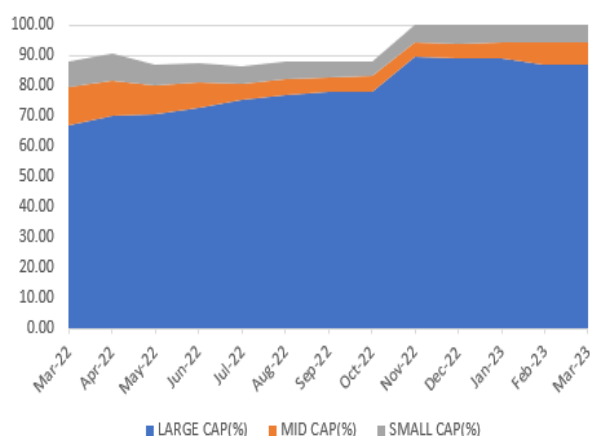
The fund manager builds the portfolio around the following parameters:

- Endeavors to invest according to Growth at Reasonable Price.
- Prefers companies that have a long term potential for growth.
- Looks for structural stories: companies with strong balance sheets and the ability to invest in emerging technologies.
- Fund usually has significant allocations to top 5 stocks in the portfolio

\*Based on current scenario and may change in the future

**Fund Statistics**

Statistic	Portfolio	Benchmark
Std Deviation	22.75	24.65
Beta (Slope)	0.87	NA
Sharpe	1.13	0.98
R-Squared	0.95	NA
Treynor	2.46	NA
Jenson	0.37	NA

**Market Cap Movement of the Portfolio**

\*Large, Mid and Small Cap are defined as follows:

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

**Top 10 Portfolio Holdings**

Stock	Allocation
Infosys Ltd.	23.55
Tata Consultancy Services Ltd.	18.45
Ltimindtree Ltd.	8.48
HCL Technologies Ltd.	8.46
Bharti Airtel Ltd.	7.53
Tech Mahindra Ltd.	7.02
Wipro Ltd.	2.16
Persistent Systems Ltd.	1.93
Cyient Ltd.	1.85
Coforge Ltd.	1.46