TATA INFRASTRUCTURE FUND– JUNE 2021 UPDATE

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

TATA MUTUAL FUND

For External Circulation

Data as on 31st May 2021

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**

Investors understand that their principal will be at Very High Risk

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 on the cusp of turnaround

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.

Government Capex

The government has been the main source of capex in the past decade, especially in areas such as irrigation, defense, power (especially in nuclear power). Urban & rural housing, water etc. well before the pandemic there were concerns that government capex would slow down. However, these apprehensions were laid to rest in the budget presented by the government. The resolve of the government to invest in infrastructure can be seen in the fact that NHAI awarded more projects in 2021 than in 2020 or 2019. Procedural delays that were seen pre-pandemic have improved. Government spending is likely to continue to be a key driver for infrastructure.

Private Capex

Over the past decade, due to a general global and domestic slowdown, accompanies by an unfavorable commodity cycle and stressed balance sheets resulted in a slowdown in private sector capex. However in the past year there has been a turnaround in this segment.

Commodity prices have increased in the past year, which helps commodity-based businesses such as steel, metals, chemicals etc. Cash and balance sheets of steel companies have seen an improvement.

National Company Law Tribunal (NCLT) resolutions and the new bankruptcy resolution process have resulted in consolidation in these sectors as these companies as they have either exit the business or taken over by MNCs or larger competitors. The focus of the sector has shifted from reducing debt to enhancing capacity.

Many steel companies are running at high capacity utilization and in last two months there have been announcements of capex worth ~65,000 crores among private steel companies alone. There has been increase in capex in sectors such as pharma, cement and chemicals and as capex has been muted for such a long time, this represents a significant jump.

Another driver for private sector capex is the government focus on making India a manufacturing hub. The PLI scheme is a key expression of this intent, with ~45,000 crores worth of projects approved with many undertaken by MNCs.

Household Capex

Outlook in the residential real estate segment has improved significantly after years of stagnating. Select companies have seen a significant increase in pre-sales and the there have been an increase in the number of residential project launches. This has been driven by end user demand due to two key reasons.

The first being that due to low interest rates, housing is more affordable due to lower EMIs. Secondly, as Work from Home culture has taken hold, many companies have indicated that a hybrid working life is likely to prevail, resulting in workers looking for housing with a home office included.

Once the cycle picks up in this segment due to end-user demand, prices are likely to increase, which may drive further investment in the segment.

Many unorganized players in the real estate business have exited the business, resulting in consolidation towards more larger companies. This has been due to stringent regulations in the sector, specifically the Real Estate Regulation Act (RERA).

Other Long-Term Themes the Fund Manager is Positive On

The 3 components of capex– government spending, private sector capex and household capex are all on the upswing, a scenario that was last seen in 2004-5. We are very positive on the theme due to the following:

- MNCs are looking to diversify their manufacturing facilities and supply chains, which until now were heavily based solely in China. This trend has been heavily accelerated by the pandemic. India is the only country which has the scale to match China. This has already been to some extent in the pharma sector and may soon expand to the automobiles and capital goods sectors.

- Global focus on reducing carbon emissions and increasing penetration of renewables, along with new technology are a key driver for the power and energy sector. Select companies have major plans to expand in this segment.

- Government policy to increase the use of natural gas as an energy source.

Valuations

The sector is likely to see an earnings upgrade after several years. Valuations have increased in line with the broader market, but are still well below the peak and have not reached the long term average yet.

Sectoral Positions

Capital Goods and Manufacturing (~33% of the portfolio)

This segment is likely to see the first benefit of an increase in private sector capex and government policy to increase manufacturing in India. The key beneficiaries would be MNCs with strong parents and access to technology.

Valuations in this segment have gone up but are still much lower than the peak. Positive earnings surprises may be seen in this segment.

Construction (~21% of the portfolio)

We remain positive on this sector. It is likely to benefit from the government and household capex. Fund manager has to exercise careful selection due to turmoil within the sector but macro tailwinds remain strong.

The fund manager is positive on the residential real estate segment as it is seeing a turnaround after a long period of stagnation. ~11% of positions in the Construction sector are in the residential real estate segment. There has been a consolidation in segment from unorganized businesses towards more organized players.

Cement & Cement Products (~12% of the portfolio)

Benefits from infrastructure and residential real estate spending are likely to benefit this sector. The sector has a diverse consumer base ranging from large scale projects to residential construction. During the pandemic, there were concerns that demand would fall, however it remained stable, showing the resilience of the sector.

Fund manager will maintain allocations at current levels as valuations have gone up. Increasing capacity that is in the pipeline may put some downward pressure on pricing.

Power Utilities (~10% of the portfolio)

This sector saw significant corrections in the past few years. However, the sector may see a turnaround, with increasing capex from the government. Weaker companies are out of business or have been acquired by large companies.
There is increasing capex in the renewable space which may see value created going ahead.

The government has taken steps to reduce losses of distribution companies and has recently passed a law which encourages private participation in this business.

Oil & Gas (~10% of the portfolio)

The fund holds significant positions in the gas transmission/distribution segment of this sector (7% of the portfolio). Fund Manager has a long-term positive view on the sector due to government policy to increase gas consumption.

Criteria for Stock Selection

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

- Corporate Governance. We look for companies which have good/improving governance practices.
- Growth prospects
- Valuations with potential for triggers leading to upgrades in a 1-2 year time frame
- Liquidity: Our objective is to keep the portfolio sufficiently liquid.

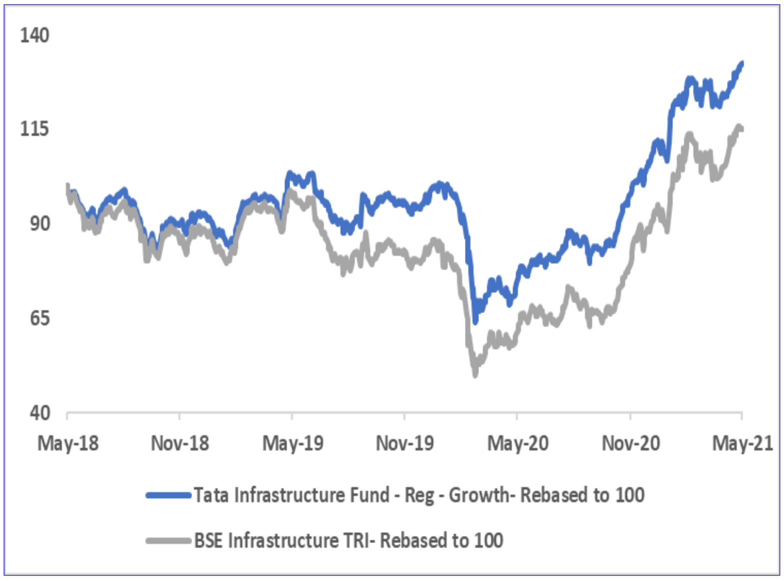
Fund Snapshot

Benchmark	S&P BSE Infrastructure TRI
AUM	Rs.630.63 Crores
Inception Date	31st December 2004
No of Holdings	34
Fund Manager	Abhinav Sharma: Managing since 20-Apr-20

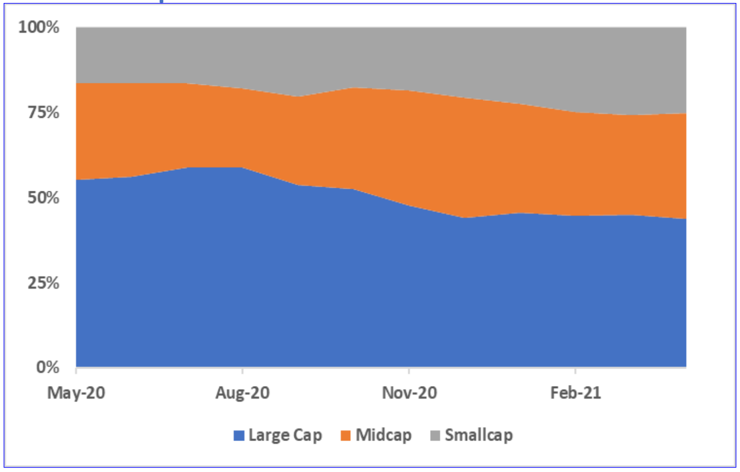
Fund Statistics

	Fund	Benchmark
Std. Deviation	26.03	30.28
Beta (Slope)	0.82	1.00
Sharpe Ratio	0.11	0.06
R-Squared	0.90	1.00
Treynor	0.97	0.48
Jenson	0.40	NA

NAV Movement of the Fund



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

Market Cap Allocations

Sector	Allocation
Large Cap	41.23%
Midcap	32.94%
Smallcap	25.83%

Sector Allocations

Sector	Allocation
Industrial Manufacturing	32.87%
Construction	20.74%
Cement	11.59%
Power	9.93%
Oil & Gas	9.53%

Top 10 Stock Allocations

Stock	Allocation
Larsen & Tuobro Ltd.	10.02%
KNR Construction	5.41%
Astral Ltd.	4.85%
Power Grid Corporation Ltd.	4.63%
Grindwell Norton Ltd.	4.31%
Siemens India Ltd.	4.20%
Ultratech Cements Ltd.	3.33%
ABB Ltd.	3.25%
Grasim Industries Ltd.	3.20%
3M India Ltd.	3.16%