Sohum Asset Managers Pvt Limited

Letter to Investors: Update for half year ended Sept 30th, 2022

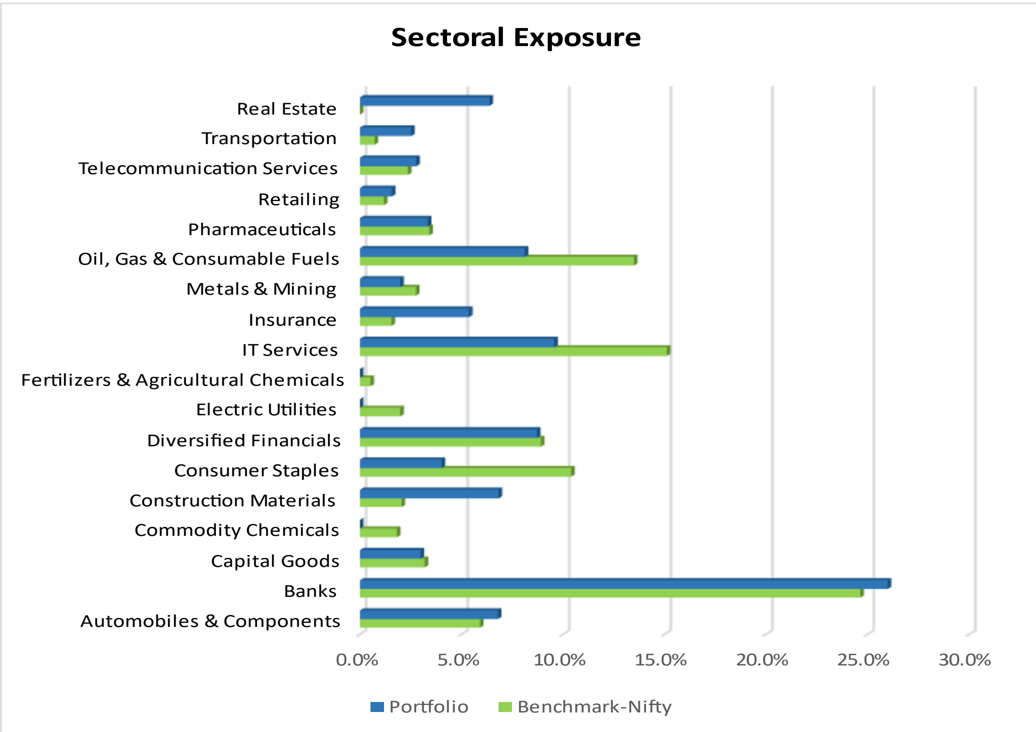
Dear Investors,

Since its inception (23rd May 2022), Sohum India Opportunities Fund has gained 9.96% (pre-tax), net of applicable fees. In the same period, the NSE 50 Index has returned 5.95%, including reinvested dividends. (Nifty 5.09%).

During the September quarter, we have been able to complete our portfolio construction with 99% cash deployed in the market across sectors with a large cap bias. At our core, we have consistently believed in running a 'Growth at Reasonable Price' (GARP) strategy – investing in businesses that offer strong runway for growth, have a fortified balance sheet and which are available at valuations that we consider are below their fair value.

Portfolio Composition

Given an uncertain global environment vs. a much stronger domestic outlook, our portfolio construction has been focused on domestic cyclical plays such as Banking & Finance, Autos, Real Estate, and Telecom. On the other hand, we remain underweight those sectors which are leveraged to global growth, such as Information Technology or where we lack valuation comfort such as consumer staples.



Our large overweight position on the BFSI sector is driven by three underlying trends: a) pick-up in bank credit growth, b) NIM expansion in a rising interest rate environment and c) pristine asset quality. After languishing in single digits for the last three years, we are currently witnessing one of the strongest rebounds in domestic credit growth. Growth in non-food credit increased to 16.7% YoY as of Sep 9, 2022 from 9.7% in end of Mar ’22. The pick-up has been broad-based across retail, MSME as well as large corporates. The stage is also set for an improvement in banking sector NIMs as higher share of repo-linked lending loans is driving faster transmission to loan yields vis-à-vis increase in overall cost of deposits. Lastly, the biggest earnings support for banks is likely to come from multi-decade low credit costs on the back of strong asset quality trends post the Covid clean-up. Valuations for the sector too remain supportive, with most banks trading well below their long-term average multiples.

Apart from the lenders, we also remain positive on the non-lending financial services space as we believe that this sector is likely to be the biggest beneficiary of the ongoing financialization of Indian savings i.e., households saving through financial assets (equity, debt, deposits, life insurance, health insurance etc.). We are choosing to play this mega trend via the two the largest private life insurers as well as the fourth largest (in terms of NSE active clients) discount broker in the country.

Our constructive stance on Indian autos is underpinned by the fact that after suffering its worst downturn in decades, the sector is entering a period of positive demand led by low penetration, replacement cycle amid rising age of India's fleet, and a continued case for shift from shared to personal mobility. Good demand along with falling metal, continued price hikes and operating leverage benefit should drive expansion in EBITDA margins and hence earnings cycle.

Lastly, we believe that India is heading into a construction overdrive led by uptick in housing and unprecedented infrastructure spend. We are confident of a multi-year housing cycle - i) rural housing uptick led by PMAY Grameen allocation, and ii) urban housing, which has decadal low inventory and improved affordability. This is likely to be strongly supported by an increase in infrastructure investments (highways, metro projects, freight corridors, airports and railways) backed by government capex. We are playing this theme through exposure to real estate and capital goods.

Market Outlook

“I predict that the 21st century is going to be Indian century” - Jeff Bezos.

We at Sohum firmly believe in the above too! The combination of strong household balance sheet, corporate balance sheet, government balance sheet & Banking balance sheet has never been witnessed in last 20 years. We have strong engines of growth – consumption, investment & outsourcing. With huge savings potential, significant under investment in equities & strong political capital we are extremely positive on India in this chaotic world.

While we remain sanguine on domestic growth and believe that the Indian economy is at the cusp of a structural take-off, global headwinds in the form of sharp monetary tightening in US, energy crisis in Europe and zero-covid policy in China persists. Nifty is now trading at a P/E of 19x 12-month forward earnings, in line with its long period averages. However, the premium vs emerging markets has expanded notably (MSCI India trading at a premium of 141% v/s MSCI EM) given the relative strength in corporate earnings as well as better macro management (rates/currency/fiscal spending) by the RBI/government. Given that valuations are at a multi-year high premium over EM countries, it could induce some volatility backed by global developments. Our strategy therefore remains to buy on every correction.

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Sohum Investors: Thank You!

As we embark on our journey, we would like to thank all our early investors for their investment and partnership with Sohum Asset Managers. Your collective belief in our ability to make right investment decisions, your support and patience are extremely valuable to us. We wish and hope for our continued and lasting partnership in the coming times.

Regards,

Sanjay H Parekh
Founder and CIO
Sohum Asset Managers Pvt Limited