

Reliance Capital Builder Fund IV - Series D



January 2018

Scheme Details:

Scheme Name	Reliance Capital Builder Fund IV – Series D
Structure	Close Ended Small Cap Scheme
Fund Manager	Manish Gunwani, Meenakshi Dawar, Jahnvee Shah
Tenure	3 years
NFO Period	29 th December to 12 th Jan 2018
Benchmark Index	S&P BSE 200

As we step into 2018, there are multiple tailwinds for equity markets – a) global macro upswing could improve global trade, b) stable commodity price to support manufacturing / exports, c) gradual bottoming of NPA cycle & capex recovery, d) india at a cusp of stronger cyclical recovery, e) strong domestic equity participation, f) favorable political backdrop & reform thrust before key election, and g) normalization of GST & demon. In this backdrop, the outlook for equity markets remains constructive from a long term perspective.

In our conjecture, Reliance Capital Builder Fund IV – Series D is well positioned to capitalize on emerging themes in 2018. The reforms in 2017 should gradually translate into economics gains as well as earnings recovery. It also needs to be noted that macro risks have been rising in the form of rising oil prices & inflationary pressures, rising bond yields, and increasing possibility of fiscal slippages while domestic liquidity remains strong. In a momentum drive equity market, an open ended scheme with large inflows could face challenge of deployment. In an environment like this a close ended architecture allows fund manager to take optimal investment decision to build portfolio of conviction stocks without having to worry about inflows / outflows.

Though the markets are vulnerable to intermittent corrections however in a recovering economic & earnings cycle, there is scope for high alpha generation in small to midcap space provided it is a well-crafted portfolio.

Fund Feature & Investment Strategy

- The fund will focus on scalable ideas which can be potential multibaggers.
- The fund will predominately invest in Small Cap Companies with some allocation to Large & Mid cap companies as well.
- The fund manager intends to build a well-diversified portfolio of 50-60 stocks and it would be agnostic to sector.
- The fund may have high conviction ideas of Reliance Small Cap, which has delivered stellar performance over the long term.
- The focus of the fund would be on 3-4 key themes that would benefit from domestic recovery and ongoing policy reforms such as Unorganized to Organized Play, Govt led Capex, Rural Consumption, China Opportunity, etc.
- Given the risk profile of the fund, it is suitable for aggressive investors seeking alpha over the long term.
- The fund is managed by experienced and credible fund management team and has demonstrated their track record in their existing open ended small cap fund.

Performance Summary of Reliance Small Cap Fund

YoY Performance Table							
Holdings	Dec 17	Dec 16	Dec 15	Dec 14	Dec 13	Dec 12	Dec 11
Reliance Small Cap Fund	64.94	5.04	16.25	95.63	11.86	41.70	(24.72)
Index							
Nifty Free Float Midcap 100	48.42	6.45	7.76	55.07	(5.13)	39.30	(30.17)
Nifty Free Float Smallcap 100	58.91	2.04	8.66	52.52	(7.94)	35.59	(32.53)

* Less than 1 year Absolute returns, Greater than 1 year Compound Annualized returns

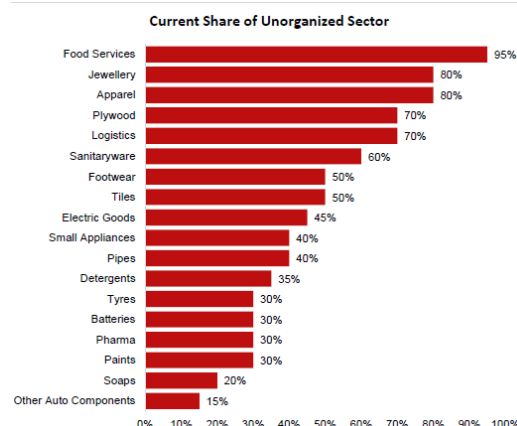
Holdings	Corpus (in crs.)	1M	2M	3M	6 months	1 Yr	2 Yr	3 Yr	5 Yr	7 Yr
Reliance Small Cap Fund	5663	7.7	10.7	22.6	27.7	60.7	31.6	25.1	34.1	24.5
Indices										
Nifty Free Float Midcap 100		7.1	6.7	15.9	17.9	44.4	25.4	18.4	19.4	13.1
Nifty Free Float Smallcap 100		8.7	6.1	20.9	24.8	55.0	27.8	19.8	19.1	12.1

Performance as of Jan 02, 2018

- Reliance Small Cap has shown consistent performance and has outperformed in each of calendar year since inception. The fund has also protected the downside and participated in the upside relative to its benchmark.

Key Investment Themes -

- Unorganised to Organised Theme -
 - The combination of demon and gradual rationalization of GST could lead to a large shift from unorganized to organized gaining market share.
 - GST is a single largest tax reform in India with a long term potential to enhance tax base, better compliance, increase in revenue collection, and improvement GDP growth.
 - Some of sectors like Tiles, Apparels, Retail, Home Buidling, Logisitcs etc have large unorganized share and due to GST unorganized players could lose competitive cost advantage / cash profits they were enjoying in form of tax evasion, circumvention of labour laws & flouting of other regulations.
 - Demonetization has initiated the shift towards formal economy; GST will fast rack the process. As per estimates, GST has potential to add 0.6% to as high as 2.5% to GDP growth rates over the long term.
 - Opportunities – Apparels, Logistics, Building Products etc.



- Rural Theme –
 - There are multiple tailwinds on the anvil – 2 years of decent monsoons, recent MSP hikes, thrust on rural infrastructure, DBT benefits, farm loan waiver, and positive commentary from India Inc on demand to trends to strengthen in 2018.
 - Recently MSP prices have witnessed another year of healthy increase – 8.3% hike granted for Rabi crops. MSP for wheat, the most procured Rabi crop, is up 6.8% – the highest increase in six years.
 - DBT as a tool to improve the efficiency of money spent on subsidies which should also aid rural consumption. Along with rising number of schemes covered, the number of beneficiaries receiving payments via DBT has also increased sharply, from 357m in FY17 to 475m currently. The funds disbursed under DBT have increased – in FY17, INR746b were disbursed, up ~21% from INR618b in FY16. In FY18 so far, INR538b has already been disbursed.
 - The nominal rural wage has remained stable in most part of FY18. However, owing to the sharp fall in inflation, real rural wages accelerated over the last 12 months. After remaining flat YoY in 1HFY17, growth improved to 3.3% in 2HFY17 and further to 4.8% during April-July 2017, the fastest pace in 4 years. The sustained improvement in real rural wages is a positive for rural demand.
 - Government’s various initiatives like Rural Housing, Electrification, Spends in Irrigation and Corp Insurance should aid rural recovery. Also, after poor performance in rural parts of Gujarat elections, there is increasing market anticipation of rural thrust in the upcoming budget.
 - Opportunities – Auto, FMCG, Consumer Durables etc

- China Opportunity –
 - China’s stringent environmental regulations and prioritizing industrial clean ups have led to shutdown of factories or slowdown in many segments like coal, aluminum, chemicals, textiles, paper, cement etc.
 - The increasing costs of compliance & production for many of these industries along with longer working capital cycle have opened new realm of opportunity for Indian players which is added by higher imports tariffs in certain segments like electronics.
 - Opportunities – Chemicals, Metals, Paper Industry etc

- Govt Capex & Bank Recap –
 - India spent Rs 37 trillion (Approx. \$570bn) over FY13-17 on infra, a 9% CAGR. Going ahead there is forecast of infra spend of upto Rs. 56trillion (Approx \$870bn) over FY18-22 over FY18-22, implying a 9% CAGR.
 - Segments like roads, metro projects, affordable housing, defence etc have witnessed increasing thrust from govt. Measures like BharatMala (Rs. 5trn over next 5years), housing for all by 2022, smart cities & AMRUT schemes of Rs 2trn, target power capacity expansion of 100GW solar projects & 60GW wind projects by 2022, metro capex of ~Rs1-2trn in 5yrs, sagarmala investment of ~Rs12 trn in next 15yrs, etc are steps in right direction that could provide growth impetus.

- The gradual progress under IBC / NCLT and recap of PSU banks should pave way for sustainable economic growth and recovery in credit growth.
- Opportunities – Infra, Construction, Cement, Industrial, NBFC, Banks etc

- Other Key Themes – Niche Plays
 - Areas where technological disruption or evolution is helping the business dynamics. For e.g entertainment industry witnessing reasonable shift driven by technology (content offering through digital platform) and helping players like Saregama & others.
 - Opportunities – Entertainment, Healthcare, Service Sector Etc

Key Risk Factors:

- Small & Mid Cap stocks are vulnerable to liquidity shock in case of severe downturn in the market and also the business cycle gets impacted the most in a deteriorating economic cycle. Thus, they are high risk and high return strategies.

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