Haq, ek behtar zindagi ka.

Write-up on

UTI Core Equity Fund

A Large & Mid Cap Fund - An open ended equity scheme investing in both large cap and mid cap stocks

May 2022

What is Value Investing?

Value Investing is a strategy that involves picking stocks which are trading at less than their intrinsic value. Markets often over react to short term news flow or sentiments which gives the opportunity to the value investor to buy a stock below its intrinsic value.

Buying below intrinsic value provides the margin of safety that is the distinguishing feature of value investing. By purchasing a stock at lower valuations, the value investor increases the odds of making money or losing less money if the business does not perform as expected or takes longer to perform. Value investors emphasize on margin of safety over growth and embrace cyclicality and the potential for mean reversion in business fundamentals and valuation. The value investor makes money when the stock trades at intrinsic value - capturing the potential for improvement in business fundamentals and valuations.

To understand value investing in depth, it is also important to understand the concept of intrinsic value. Intrinsic value can be put as the measure of the worth of an asset. There is no universal formula for calculating the intrinsic value of an asset, it could be the present value of future cash flows or the net realizable value of the assets of a company or the book value of the company. The ways to calculate the intrinsic worth could vary from company to company depending on the nature of the business.

UTI Core Equity Fund

An open-ended equity scheme investing predominantly in both large cap and mid cap stocks. The Fund aims to invest in sound companies which provide margin of safety by trading cheaper relative to their history or peers. The Fund follows a top down approach to pick sectors which are available at below mean valuations with reasonable prospects.

Fund Manager

V Srivatsa, B.Com., PGDM (IIM-I)
Managing since May, 2017

Fund Snapshot

as of April 30, 2022

Inception Date	May 20, 2009
Closing AuM	₹ 1,297 Crores
No. of Unit Holders	1,77,454
Benchmark	Nifty LargeMidcap 250 TRI

Investment Framework

01	Investment Style	**Relative Value** Focus on Margin of Safety
02	Stock Selection	**Blend Approach** Top-down for Sector selection & Bottom-up for Stock selection
03	Market Cap	**Large and Mid Cap** Preferred Allocation: Large Cap: Min. 35%, Mid Cap: Min. 35%
04	Internal Limits	**Single Sector** – Lower of 35% or Benchmark plus 12% **Single Stock / Top 10 Stocks** – Max. of 10% / 55%
05	Portfolio Turnover	**Medium Churn** The portfolio will have moderate levels of churn led by value strategy

Investment Philosophy

UTI Core Equity Fund is managed with a distinct relative value philosophy underpinned by Margin of Safety. Our core belief is that a company goes through its own valuation cycle which may vary on account of either macro cycles or company specific factors, and our aim is to capture the inefficiency in the cycle. We would also be on the lookout for growth oriented companies if the valuations are in the comfort zone. In all instances we emphasize the potential for mean reversion in fundamentals and valuation.

With this in mind, we are focusing on value based on the following parameters:

1. Focus on relative value or potential rerating: Amongst the large caps, our focus would be largely on relative value rather than pure value metrics. We would look at long term averages in terms of Price to Book (P/B) or Price to Earnings (P/E) or EV/EBITDA depending on the nature of the business. A stock price goes through valuation cycles driven by the business cycle and also market perception; our attempt is to capture both cycles. To give an example, our initial overweight on ICICI Bank was based on cheapness both on relative and absolute basis as the bank was going through a challenging credit cycle and leadership transition. However, in the last two years, the DNA of the bank has changed and it has started to look more like a retail-oriented bank which deserves a higher multiple than it deserved in the past. Our conviction in this name in the last couple of years is based on the fact that the Return on Asset (RoA) and Return on Equity (RoE) outcomes are likely to be far superior in the next few years than in the last 10 years and consistency of earnings is likely to be better warranting a higher multiple. In this strategy, we would also avoid companies with limited terminal value (coal, print) and companies which fail to generate returns higher than the cost of capital. At the other end of the spectrum, we would not buy a stock only because it has witnessed a debating relative to its averages; it must also trade below its intrinsic value.

2. Cyclicals: Cyclicals, by definition, have variability in the earnings cycle and investors tend to take a pessimistic view at the bottom of the cycle and optimistic view at the top of the cycle, giving value investors a good chance to make money. We would look at both domestic and global cyclicals with the following criteria – we would be buying either at mid cycle or potentially close to the bottom of the cycle, companies with low leverage and companies which have demonstrated low cost advantages. In cyclical businesses, cost management is the key differentiator as selling price differentiation is not possible. Valuation is another important criterion. If the valuation at the bottom of the cycle discounts the best prospects, we would refrain from buying the stocks. Our investments would largely be done when profitability is weak raising the likelihood of a supply side shakeout and we would look at balance sheet-based metrics for evaluation at that stage. And equally we would sell at the top end of the cycle when valuations in P/E or EV metrics are optically cheap.

3. Growth oriented small caps: Businesses with high growth potential are often priced richly and that is a deterrent for value conscious investors seeking margin of safety. In this regard, small caps can offer the combination of growth and value as they are not well discovered by the market and good quality companies could be available at reasonable valuations. Our focus is not in the mainstream sectors but smaller niche sectors. Currently we have exposures in sectors such as textile garmenting, pipes, soda ash, shrimp feeds where the companies in the sector are leaders and have return metrics comparable with the top-notch companies. Given the high risk and high cost of error, we would tend to spread our risks and avoid concentration in the small cap space. Also, there would be high focus on quality of companies as the companies in small caps would be having high RoCE and FCF.

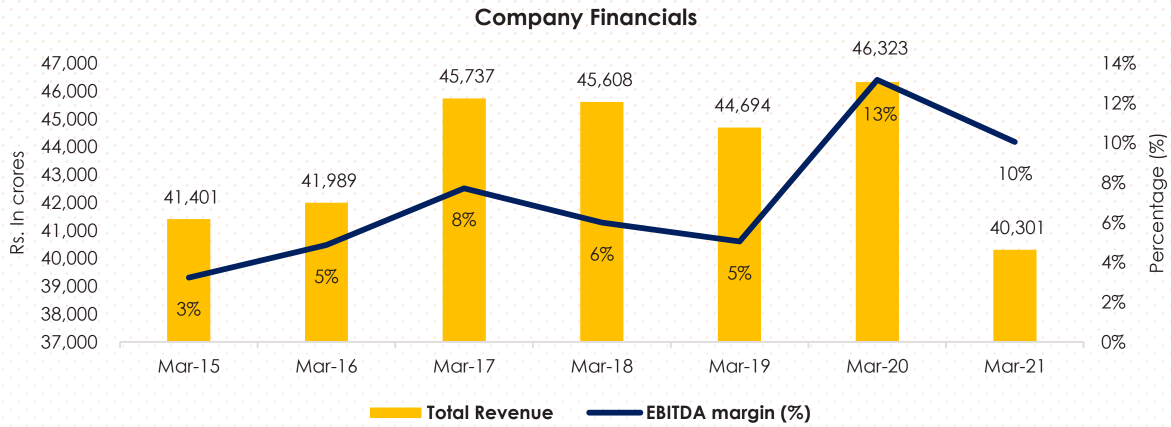
4. Restructuring: Restructuring may offer solid value investing opportunities as the probable payoff in a successful turnaround could be significant. However, this strategy is also fraught with risks, particularly financial risk - weak cash flow/ high leveraged balance sheets/ execution risks. The cost of error can be rather high. In this context, our focus would be to identify good quality companies which have generated relatively high Return on Invested Capital and low leverage but have underperformed on growth and hence getting much inferior valuations than what they deserve. This strategy involves higher margin of safety as we are buying into better quality companies and not taking on undue financial risk. Successful examples of our strategy from the past involves our investment in Wipro and Ambuja Cement where the companies moved into growth orbit in the last couple of years with a change in the management. On a case-to-case basis, we would also be open to genuine turnaround ideas, provided we see visibility of a company earning high Return on Capital Employed (RoCE) and cash flows and the company has low leverage.

A Case Study

Here is an example of a company which is a player in the healthcare sector and can be used to illustrate restructuring:

Fortis Healthcare Ltd. is one of the largest hospital chains in the country with a sizeable presence in the NCR region and northern region. It also owns majority stake in the diagnostics chain which is amongst the top three in India. The company suffered from the acts of the previous management of the company leading to subdued return metrics and writeoffs in spite of having world class healthcare delivery assets. The company changed hands in 2019 and after this change of management, IHH Healthcare, a global healthcare delivery player took controlling stake in the company and revamped the operations of the company.

The company has seen a sharp rise in the margins over the last three years and we believe that the best is yet to come as the margins are still 300-400 bps below the potential margins. The company has also reduced leverage as the parent company infused money in the company and has now charted a growth path.



Source: Fortis Annual Reports

Our thesis on this company was a low-risk restructuring play as the sector outlook was very favourable and we saw very good potential in improvement in margins and RoCE, given the high quality of assets. Valuations for this company remain 20-25% below the sector in spite of very good outperformance in the last couple of years.

UTI Mutual Fund
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Top 15 Active Weights – Investment Rationale (1-7)

ITC Ltd. % to NAV - 4.15 | Active weight – 2.87

The company is headed for a good earnings growth led by two years of no hikes in cigarette taxes and a strong market share recovery in cigarettes. The non-tobacco business will also do well given the cyclical turnaround in hotels, paper and agri sourcing. The FMCG has scaled up well and we expect the FMCG to be a good value driver. Valuations remain cheap and much below the sector average in spite of sector leading earnings growth next year.

State Bank of India % to NAV - 3.82 | Active weight – 2.75

The largest bank in India with very strong liability franchise and play on the credit growth and reversing cycle of asset quality in the Indian banking sector. We believe that the cycle of reversal in asset quality will play out in the next couple of years which will lead to the highest RoA in 10 years and the company is also headed for decent credit growth. The bank also created value enhancing subsidiaries in non-banking financial services in Insurance, AMC and credit cards which are the leading franchises. The bank is reasonably valued at around 1.2x price to book value (P/B) for strong earnings growth and decent RoE.

ICICI Bank Ltd. % to NAV -5.48 | Active weight – 2.57

ICICI Bank is amongst the largest private sector bank with diversified presence in both retail and corporate banking and also owns a range of non-banking financial services which are amongst the leading franchises. The bank has shown very good improvement in the profitability metrics and has one of the best RoA and RoE In the banking sector. The bank model has also changed with bigger share coming from retail. While the valuation of the bank has gone up, we believe it has the scope to rerate, given the best-in-class RoA and growth and value creation from subsidiaries.

Federal Bank Ltd. % to NAV – 3.03 | Active weight – 2.49

The bank is one of the leading regional banks with a very strong liability franchise especially in the NRI segment which has ensured competitive cost of funds which is a key strength for any mid-sized bank. The bank has done a commendable job in maintaining asset quality in the challenging times of Covid. The bank is headed for growth in new areas such as credit cards and auto apart from traditional MSME and gold. The stock is attractively valued at around 1x book value.

Coromandel International Ltd. % to NAV – 2.72 | Active weight – 2.42

Coromandel is one of the leading non urea fertilisers in the country and has a sizeable market share in the NPK fertilisers. It also has a fast-growing crop protection business which it aims to scale. The fertiliser industry has evolved from a highly regulated industry to a semi regulated one and progressing towards a fully regulated business. Coromandel has very good backward integration and sourcing strategies which is key to success in the fertiliser industry. The company is attractively valued for a strong RoCE profile, and we expect the company to profit from low fertiliser under penetration.

Fortis Healthcare Ltd. % to NAV - 2.62 | Active weight – 2.23

A restructuring candidate where the company, though it had very good assets, was mismanaged by erstwhile promoters. The ownership changed hands in 2019 and the company started seeing sharp improvement in operations and also cleaning up of its books. The assets of the company are very attractive and return ratios could improve with better sweating of assets. The company also runs a very profitable diagnostics business which is the third largest in terms of size and valuations of the company are at huge discount to the sector. We see further scope of improvement in margins and valuation rerating.

Emami Ltd. % to NAV - 2.45 | Active weight – 2.17

Emami is a mid-sized FMCG company with varied presence in hair oils, creams and consumer healthcare products. The company has leadership in select categories and historically had the pricing power and higher margins as compared to the competition. The company is trading at lower than sector multiples on account of promoter pledges and issues on growth in core business. However, the promoter pledges have been resolved and the company has new levers of growth in healthcare and also revival in its core brands. Valuations still remain at a good discount to the sector.

FMCG – Fast Moving Consumer Goods; RoA – Return on Assets; RoE – Return on Equity; NPK - Nitrogen, phosphorus and potassium; RoCE – Return on Capital Employed; MSME – Micro, Small and Medium Enterprises

UTI Mutual Fund
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Top 15 Active Weights – Investment Rationale (8-15)

Ajanta Pharma Ltd. % to NAV - 2.29 | Active weight – 2.16

A mid-sized Pharma company with a significant contribution coming from India and branded emerging markets which have high FCF and RoCE. The company is in niche therapies in India and has a leading presence in small countries in Asia and Africa and amongst the top ten players in these markets. The company is also expanding in USA and has scaled up to $80 m in the last five years. It remains a growth-oriented company with a large part of the capex being over and poised to generate decent FCF ahead. The valuations are very reasonable as well.

Axis Bank Ltd. % to NAV - 3.07 | Active weight – 1.99

Axis Bank is amongst the largest private sector banks with diversified presence in both retail and corporate banking and has a strong retail franchise. We expect strong growth in earnings led by a positive turn of the asset quality cycle which would result in high RoA and RoE in the coming years. Valuations are very reasonable given the strong fundamentals and strong upcycle in the earnings.

HDFC Bank Ltd. % to NAV – 5.13 | Active weight – 1.72

HDFC Bank is the largest private sector bank with a strong franchise in retail loans and liabilities. The bank has consistently given 2% RoA in the long term and we remain confident of this sustaining. Valuations remains attractive at around 25% discount to Long term averages.

Cummins India Ltd. % to NAV – 2.07 | Active weight – 1.67

Cummins is the largest diesel genset player in the country with varied presence in diesel gensets, engines for ships, off highway vehicles and railways. The company is also a big sourcing hub for the parent operations in emerging countries. The company is poised for high growth led by an upcycle in the domestic business along with exports which is likely to see tailwinds from emerging economies. Valuations are reasonable given the strong growth in the coming years.

Max Financial Services Ltd. % to NAV - 2.08 | Active weight – 1.62

One of the top four private life insurance companies which has scaled up impressively in the last 20 years in spite of not having a banking parent. Max has seen a change of ownership where Axis Bank has taken a minority stake lending, giving good visibility to the relationships on a long term basis. The fundamental metrics are the best in class and there is scope for valuations to go up in line with the fundamentals.

Mahindra & Mahindra Ltd. % to NAV – 2.06 | Active weight – 1.56

We remain positive on a healthy cycle in the auto segment which has historically been weak for the company but the company has lined up newer product launches which should improve the prospects of the auto division. The capital allocation strategy remains on track and valuations continue to be favourable. Tractor remains a strong franchise for the company.

Aditya Birla Fashion & Retail Ltd. % to NAV - 1.83 | Active weight – 1.56

ABFRL is the largest branded apparel in India with its presence across branded formals, kids wear and ladies wear. The company is foraying into all the branded garment categories and represents a very good play on the huge under penetration in the garments sector in India .

Oracle Financial Services Software Ltd. % to NAV - 1.79 | Active weight – 1.56

Oracle is amongst the largest players in the banking products space where it has a strong product which has vintage of more than 20 years and present in more than 100 countries. The adoption of banking products is gaining traction and the company has a robust product. Valuations are extremely reasonable at 6% FCF and factors in 3-4% long term growth which is clearly achievable.

RoA – Return on Assets; RoE – Return on Equity; FCF – Free Cash Flow; RoCE – Return on Capital Employed

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Top 5 Overweight Sectors – Investment Rationale

Financial Services
% to NAV - 29.24 | Active weight – 4.74

We remain positive on banks within the financial services as they represent the combination of strong valuation comfort and decent earnings growth led by the normalisation of the credit cycle and credit growth and valuation which is at reasonable discount to long term history. The large cap private banks have decent capital adequacy and represent good growth opportunities. We are also positive on the life insurance and AMC businesses as the long-term growth prospects remain good and valuations are comfortable. We would be looking to add NBFC on any correction. Overall, the sector is a high conviction play on reasonable valuations and growth outlook.

Construction
% to NAV – 4.75 | Active weight – 3.60

Construction comprises of both infrastructure and real estate companies, and we are positive on both the cycles. The infrastructure cycle is positive given the strong impetus by the government and real estate is in the cusp of a multi-year upcycle where we are yet to see the best of the cycles. We believe that both the sectors have the potential to offer good growth opportunity at reasonable valuations and there is scope for both valuations to rerate as we are getting returns from the growth of the companies.

Healthcare
% to NAV – 10.23 | Active weight – 3.20

The Healthcare sector is attractively valued as it is coming out of a tough period in domestic Pharma and price erosion in US markets. Valuations have corrected in the last six months across the sector and we see earnings growth in both the segments. The Hospital sector is structurally attractive given huge growth opportunities and the sector undergoing consolidation which are reflected in improving return ratios and cash flows.

Realty
% to NAV – 3.74 | Active weight – 2.05

We continue to be positive on Realty on the back of upcycle which is witnessed after a ten year downcycle. Since there has been significant consolidation driven by healthy wage growth and under peneteration of housing in India, the Realty sector is poised to do well. Valuations, though not cheap, are still not reflective of a multi year cyclical upturn .

Automobile & Auto Components
% to NAV – 7.74 | Active weight – 1.93

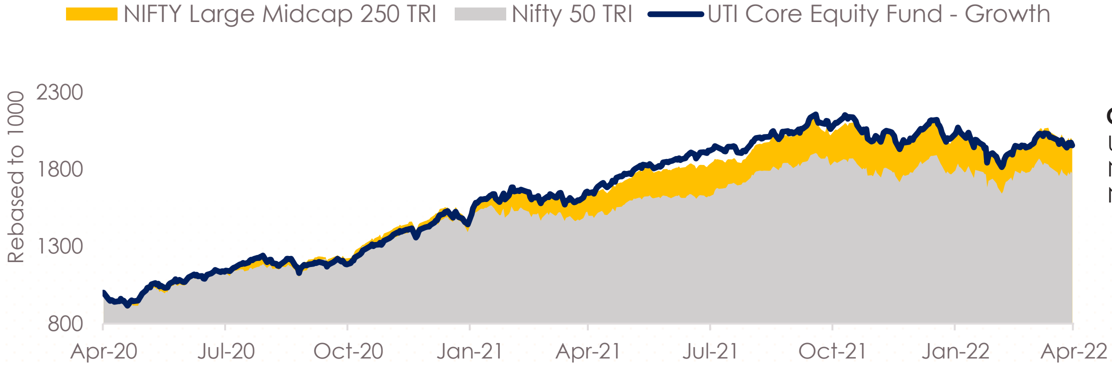
The sector has seen the worst in the last three to five years across passenger cars, 2 wheelers and commercial vehicles on the back of Covid related blues, shortage of semiconductors and the rising costs of ownership. We expect strong cyclical upturn across the three sub-segments and valuations are reasonable from a long-term perspective.

Portfolio Commentary and Outlook

We expect the domestic demand to recover meaningfully in the coming years and a large part of our overweight sectors of financial services, automobiles, construction represents this belief. We do acknowledge that the current geopolitical situation can create near-term inflation pressures which can impede near-term growth; however, from the long-term growth potential, we believe that the above sectors are undervalued. Our strategy is based on a top-down approach of identifying sectors trending at attractive valuations relative to history, coupled with fundamentals and bottom-up of identifying growth oriented small and mid-cap stocks which are undervalued with regards to its growth. We are still cautious on the consumer and retail sector as we believe that valuations have still not corrected meaningfully, and the consumer sector may face near-term challenges in the form of high inflation. We believe that our portfolio is balanced with a focus on value coupled with quality which would ensure sustained outperformance.

NBFC – Non Banking Financial Company; AMC – Asset Management Company; CV – Commercial Vehicles

2 Years Fund Performance



CAGR (%)
UTI CEF – 39.80%
Nifty LM250 TRI – 41.02%
Nifty 50 TRI – 33.13%

Last two years period is a phase of market recovery which followed the significant drawdown phase which bottomed out in Mar-2020. The Fund's relative value philosophy has played out very well during the said period, outperforming the broad market by a wide margin.

UTI Core Equity Fund Performance Vs Benchmark as of 30/04/2022

Period	Fund Performance Vs Benchmark			Growth of ₹ 10,000/-		
	Scheme Returns (%)	B: Nifty LargeMidcap 250 TRI (%)	AB: Nifty 50 TRI (%)	Scheme Returns (₹)	B: Nifty LargeMidcap 250 TRI (₹)	AB: Nifty 50 TRI (₹)
1 Year	18.75	21.68	18.24	11,875	12,168	11,824
3 Years	15.43	18.73	14.66	15,386	16,745	15,080
5 Years	10.59	14.28	14.35	16,546	19,499	19,559
Since Inception	12.14	15.42	12.65	44,113	64,084	46,784

B - Benchmark, AB - Additional Benchmark, TRI - Total Return Index
Past performance may or may not be sustained in future. Different plans shall have a different expense structure. The performance details provided herein are of regular plan (growth option). Returns greater than 1 year period are Compound Annual Growth Rate (CAGR). Inception of UTI Core Equity Fund: May 20, 2009. Date of allotment in the scheme/plan has been considered for inception date. The Scheme is currently managed by Mr. V. Srivatsa since May-2017. Period for which scheme's performance has been provided is computed basis last day of the month-end preceding the date of advertisement. In case, the start/end date of the concerned period is a non-business day, the NAV of the previous date is considered for computation of returns.

Performance of other open-ended schemes managed by the Fund Manager Mr. V Srivatsa

Scheme	Inception Date	Managing Since	Benchmark (BM)	1 Year (%)		3 Years (%)		5 Years (%)	
				Fund	BM	Fund	BM	Fund	BM
UTI Healthcare Fund	28-Jun-99	Mar-17	S&P BSE Healthcare	2.34	4.03	21.60	19.79	12.35	10.87
UTI Hybrid Equity Fund (Equity Portion)	2-Jan-95	Sep-09	CRISIL Hybrid 25+75 Aggressive	16.83	13.95	13.22	14.20	9.48	12.27
UTI Retirement Benefit Pension Fund (Equity Portion)	26-Dec-94	Sep-09	CRISIL Short Term Debt Hybrid 60+40 Fund	11.89	10.39	9.23	11.72	7.24	10.5
UTI Equity Savings Fund (Equity Portion)	30-Aug-18	Aug-18	CRISIL Equity Savings Index	9.23	9.53	8.89	10.40	N/A	N/A

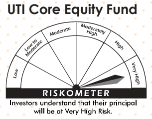
a. Mr. V Srivatsa manages 5 open-ended schemes of UTI Mutual Fund.
b. Date of allotment in the scheme/plan has been considered for inception date.
c. Period for which scheme's performance has been provided is computed basis last day of the month-end preceding the date of advertisement.
d. Different plans shall have a different expense structure. The performance details provided herein are of Growth Option (Regular Plan).
e. When scheme/additional benchmark returns are not available, they have been shown as N/A.

UTI Core Equity Fund
A Large & Mid Cap Fund - An open-ended equity scheme investing in both large cap and mid cap stocks

This product is suitable for investors who are seeking*:
- Long term capital appreciation
- Investment predominantly in equity instruments of both large cap and mid cap companies

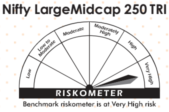
* Investors should consult their financial advisers if in doubt about whether the product is suitable for them

UTI Core Equity Fund



Investors understand that their principal will be at Very High Risk.

Nifty LargeMidcap 250 TRI



Benchmark riskometer is at Very High risk

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