

# L&T India Special Situations Fund

March 2013

## Adding style diversification to your portfolio

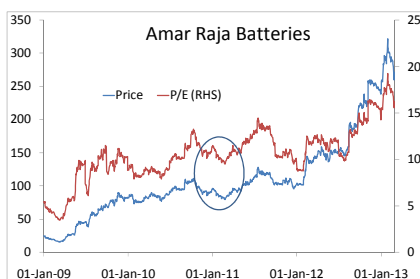


**Soumendranath Lahiri** is the Fund Manager of L&T India Special Situations Fund.

He is **Head - Equities** at L&T Investment Management. He has over 21 years of experience, of which 17 years is in equity markets in India. Prior to joining L&T Investment Management, he was Head of Equities at Canara Robeco Mutual Fund. He has also worked with Fortuna Capital and DSP Black Rock in his previous assignments. He holds a B.E. degree in Mechanical Engineering and an MBA from Indian Institute of Management, Bangalore.

**Rajesh Pherwani** is the Fund Manager for foreign securities.

- ✓ **The Fund adds style diversification to your portfolio**
- ✓ **A well differentiated product focused on identifying companies going through special situations**
- ✓ **Ability to harness opportunities across the market spectrum**
- ✓ **Well diversified portfolio**



Source: Ace Equity, February 2013

Since its launch in May 2006, L&T India Special Situations Fund has delivered a strong long-term performance with its differentiated investment strategy of investing in stocks that are going through special situations. In this edition of Fund Insights, we talk about the fund's unique investment strategy, product and portfolio positioning and also highlight some of the reasons for fund's strong performance over the past few years.

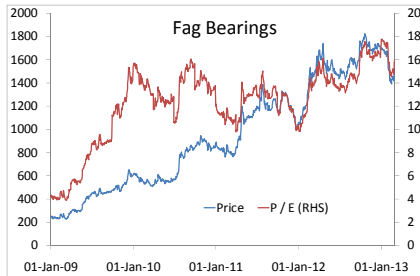
L&T India Special Situations Fund is focused on creating long-term value through a diversified portfolio built around high conviction stocks in Special Situations. Special Situations are unusual circumstances that companies sometimes find themselves in – either in terms of their business or their stock price – or both. These could include turnarounds, new business streams, underappreciated growth, asset plays, corporate actions, or could simply be companies whose stocks have fallen out of market favour. Thus the Fund provides access to those situations in the stock market that have the potential to deliver superior returns if spotted early, analysed carefully and held onto for the right amount of time.

### Add style diversification to your portfolio

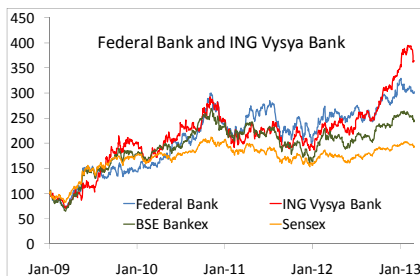
For investors, this fund helps in adding style diversification to their portfolio because of its differentiated investment strategy. However, unlike a sector or a capitalization focused fund, L&T India Special Situations Fund maintains a well diversified portfolio and does not have any sector or market capitalization bias. As a result, its risk attributes are not considerably different from diversified equity funds, making it an interesting investment option to hold as a part of investor's long term investment portfolio. We believe this kind of investment approach has the potential to deliver significant alpha over longer term without assuming undue risk.

### So what has worked for the fund over the past few years?

L&T India Special Situations Fund's strong performance over the years can be mainly attributed to its superior stock selection. The Fund's investment strategy of capitalizing on upside potential in companies going through special situations has clearly helped the fund in delivering performance. The Fund's stock selection across various sectors such as banking, industrial products, auto ancillaries, and software has majorly contributed to the fund's performance. For example, the Fund started building position in Amar Raja Batteries in early 2011 and since then the stock has been re-rated on account of improved fundamentals. The firm has benefitted from growth in the automotive battery replacement market and maintained high ROE over the past few years mainly on account of enhanced profit margin and asset utilization. The Fund has also benefitted from mid cap banking stocks such as Federal Bank and ING Vysya Bank which have been



Source: Ace Equity, February 2013



Source: Bloomberg, February 2013. Rebased to 100 as on 01-01-2009

## TOP TEN POSITIVE BETS (%)

as at 28.02.13	Fund	Benchmark
ING Vysya Bank	3.30	0.19
Federal Bank	2.89	0.33
Idea Cellular	2.50	0.38
HCL Technologies	2.63	0.79
Amar Raja Batteries	1.74	0.00
Fag Bearings	1.61	0.00
JK cement	1.48	0.00
Bharat Petroleum	1.80	0.42
Shree Cement	1.43	0.15
Hero Motocorp	1.84	0.65

Source: Internal, Bloomberg, Benchmark: BSE 200

## CAPITALISATION BREAK-UP (%)

as at 28.02.13	
Large cap	64.58
Mid cap	25.93
Small cap	5.59
Cash and equivalent	2.90

Market capitalisation cut offs used for large cap and mid cap are Rs. 10,000 crore and Rs. 2,000 crore respectively. Source: ICRA MFIE.

amongst the best performers in the banking space over the past few years.

Some of the other key contributors to the fund's performance include companies such as Shriram Transport Finance which has a significant competitive advantage in financing used commercial vehicles, mid size IT firms such as Infotech Enterprises and Mindtree, auto ancillaries firm Fag Bearings, supply chain solution provider Redington India Limited as well as some of the companies from materials and pharmaceutical sectors. In essence, the Fund's success in identifying outperformers across the market spectrum has aided the fund's performance.

## Current Portfolio Positioning

L&T India Special Situations Fund currently has a well diversified portfolio spread across sectors and market capitalisation. As at February end, the Fund was marginally overweight the banking sector with a good mix of large cap and mid cap names. Banks are expected to benefit once we move into an interest rate easing cycle. Within the sector, the Fund has notable overweight positions in ING Vysya Bank which has been seeing strong improvement in its operating efficiency. The Fund is also overweight some of the mid size private banks such as Federal Bank and Axis Bank. Amongst the larger banks, the fund has an overweight position in ICICI Bank as the bank has seen improvement in terms of its capital allocation and is also benefitting from contribution of its life insurance subsidiary. The other overweight sectors include auto ancillaries and media & entertainment. The Fund Manager expects auto ancillaries stocks to benefit from higher exports and continues to hold quite a few stocks in this space. Fund's exposure to media and entertainment sector is in select stocks such as Sun TV, Jagran Prakashan and Siti Cable Network. In the software space, the Fund has overweight positions in companies such as HCL Technologies, MindTree and KPIT Cummins Infosystems which could benefit from improving economic scenario in the United States. The Fund Manager also expects a few telecom companies to do well, given the reduced intensity of competition and some of the regulatory issues getting resolved. The Fund holds Idea Cellular and Bharti Airtel in the portfolio. The Fund also has notable exposure to firms in oil & gas and petroleum sectors as they are likely to gain from recent reform measures. Some of the other overweight positions include, FAG Bearings and mid cap cement stocks such as JK Cement and Shree Cement. In contrast, the Fund has a large underweight stance in consumer non durables. This is primarily due to concerns around valuations following surge in their stock prices over the past 1-2 years. The Fund also has underweight position in Auto but has exposure to select companies such as Hero Motocorp and Tata Motors.

On the whole, the Fund continues to focus on stock selection across the market spectrum to create long-term value for its investors.

**TOP 10 HOLDINGS (%)**

as at 28.02.13	Fund	Benchmark
ICICI Bank Limited	5.57	4.72
Reliance Industries Limited	5.24	5.70
HDFC Limited	5.17	4.60
Tata Consultancy Services	4.11	3.50
ING Vysya Bank	3.30	0.19
HDFC bank	3.26	4.66
ITC Limited	3.20	6.40
State Bank of India	3.15	2.20
Federal Bank	2.89	0.33
ONGC Ltd	2.68	2.63

Source: Internal, Bloomberg  
Benchmark: BSE 200

**Why L&T India Special Situations Fund?**

Identifying special situations calls for skill, experience and rigorous research. These pre-requisites mirror L&T's investment philosophy which is centered on delivering consistent long-term investment performance. At L&T Investment Management, we follow a disciplined investment approach with "fundamental research" as the foundation of our investment decision making process.

We believe L&T India Special Situation Fund's well differentiated investment strategy aimed at delivering long term performance coupled with our research based disciplined investment approach makes it an ideal investment option for investors looking for differentiated product with long-term wealth creation potential.

**Mutual funds investments are subject to market risks, read all scheme related documents carefully.**

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