

# SUNDARAM ALTERNATIVES

India

The **GINORMOUS** Opportunity



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*SUNDARAM ALTERNATES*  
UNEARTHING OPPORTUNITIES

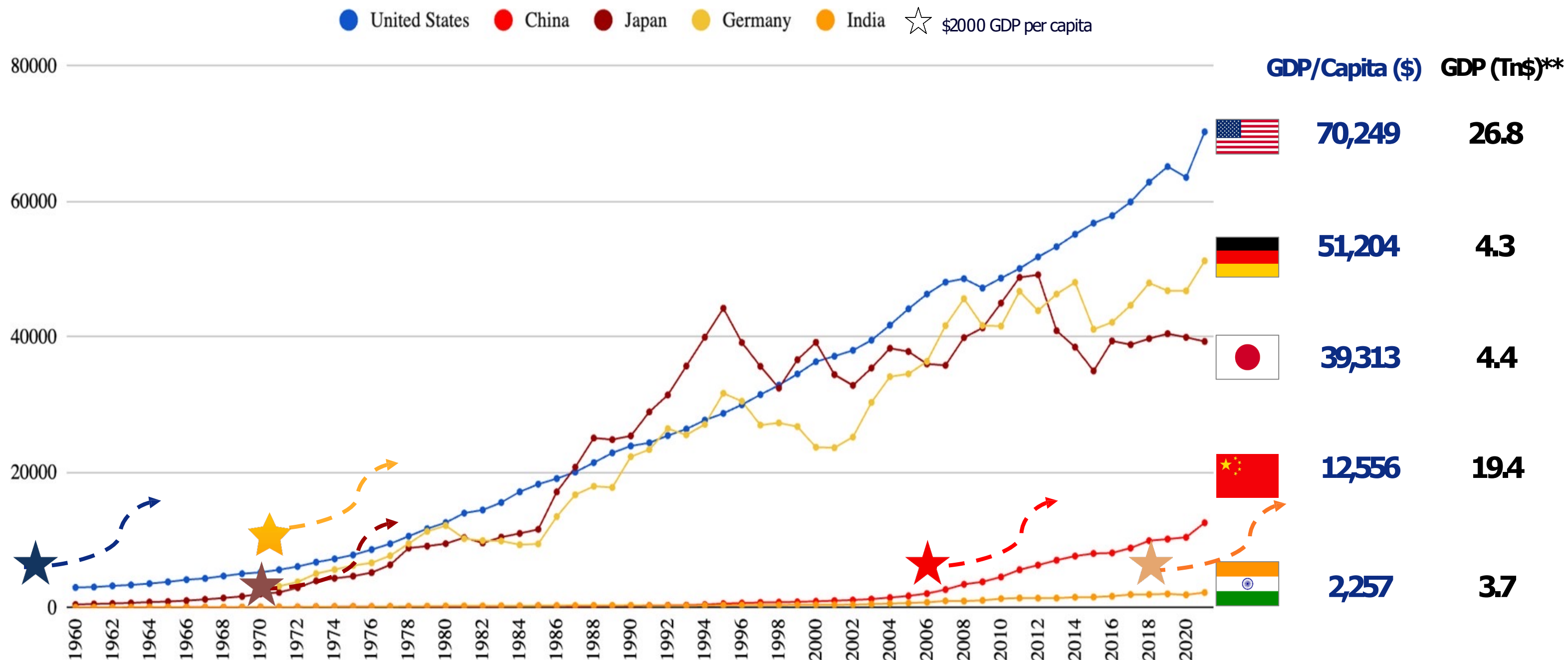
01

# Structural shifts in the world's leading economies



# How structural changes unfolded in world's leading economies?

Before and after Per capita GDP(\$) cross threshold mark of \$2000 for world's top 5 economies



With GDP per capita at the inflection point, India is set to witness a steep growth runway, similar to the world largest economies.



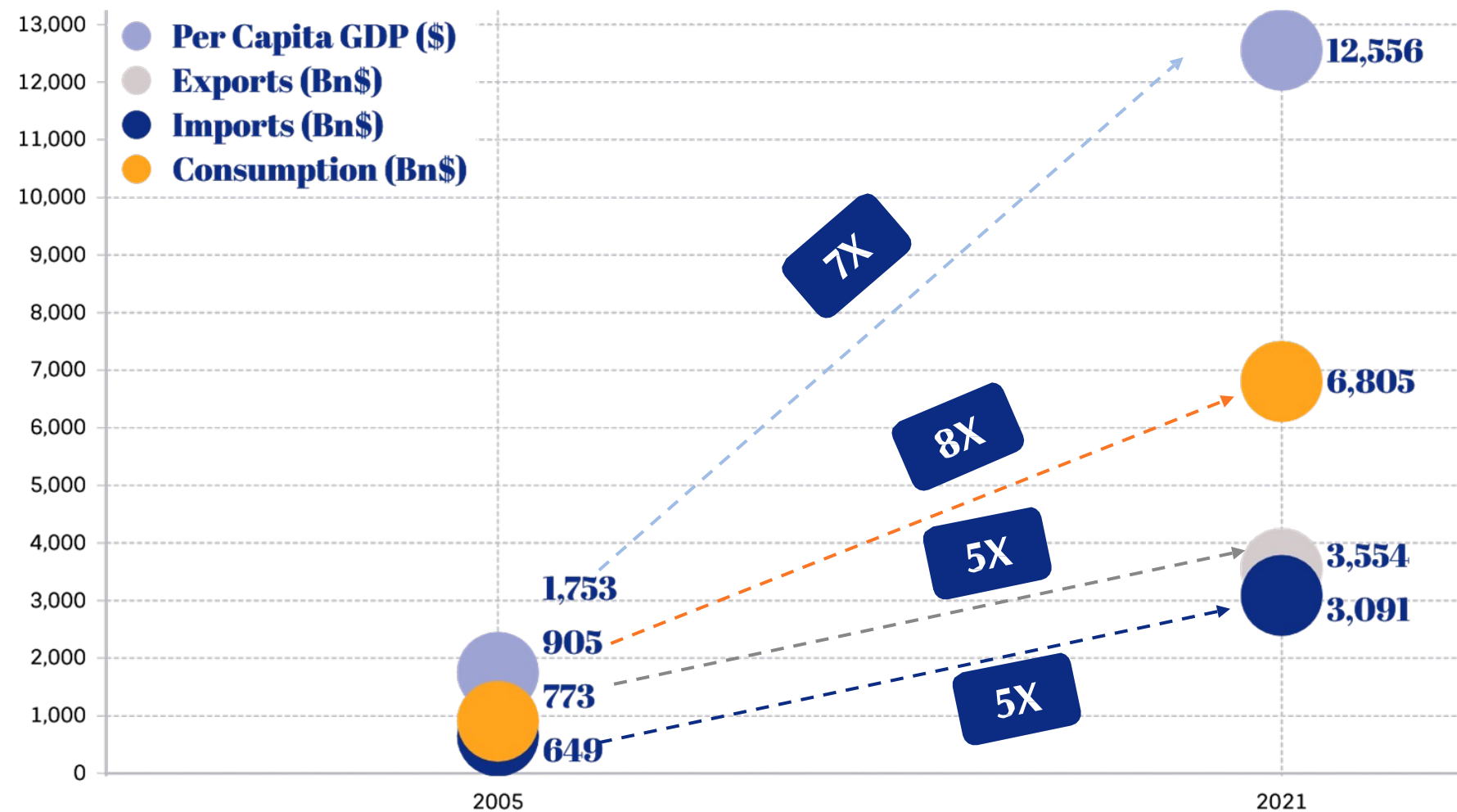
# A closer look at what transpired in China & USA

## All output parameters indicate a steep curve : Economic supercycle



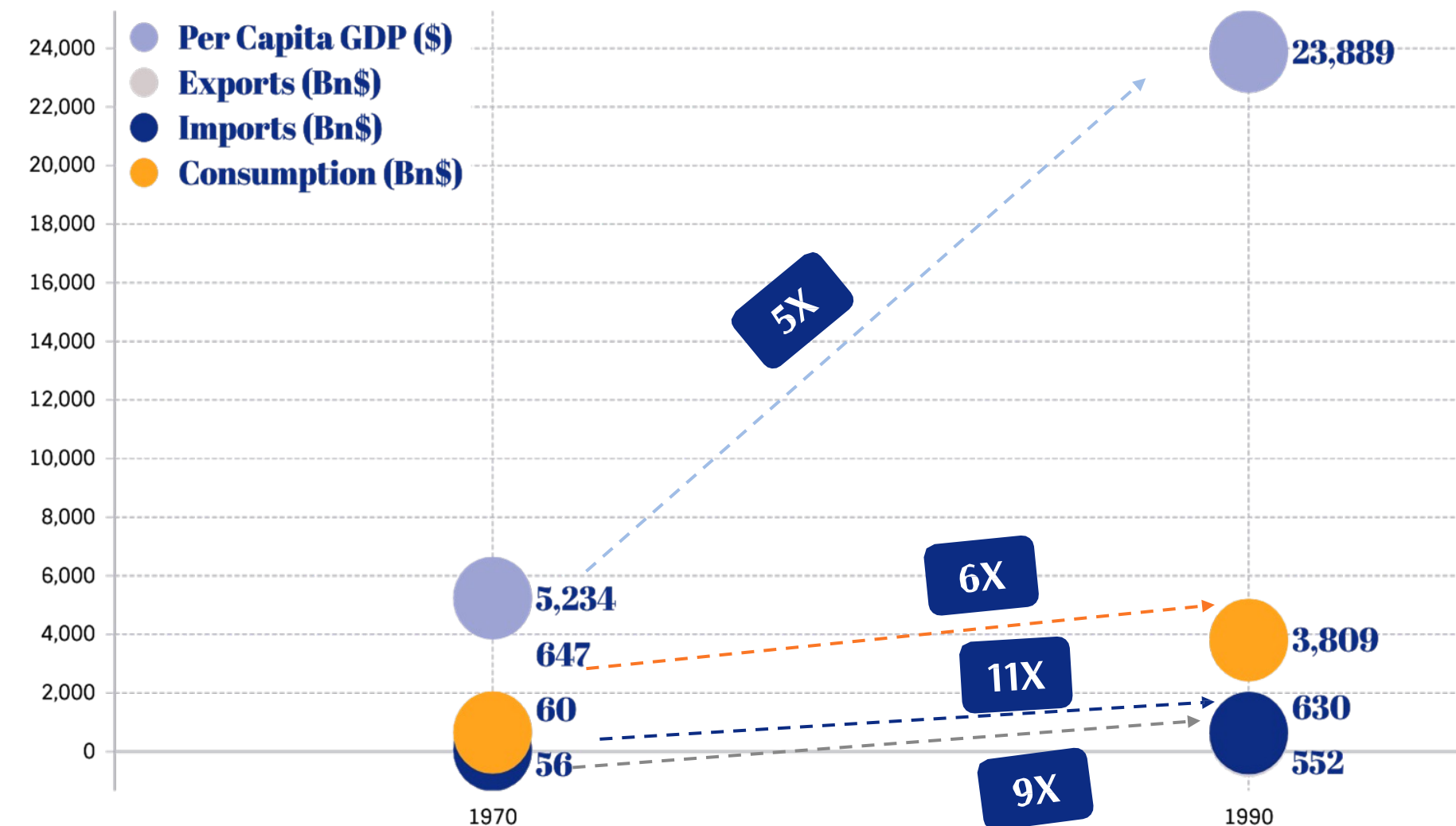
### Journey post \$2000/capita GDP: China

China's growth attained its inflection point as soon as it crossed \$2,000 GDP per capita in **2006**.



### Journey post \$2000/capita GDP: USA

USA crossed the \$2,000 GDP per capita in **1950s**, but reached the inflection point in **2 decades**

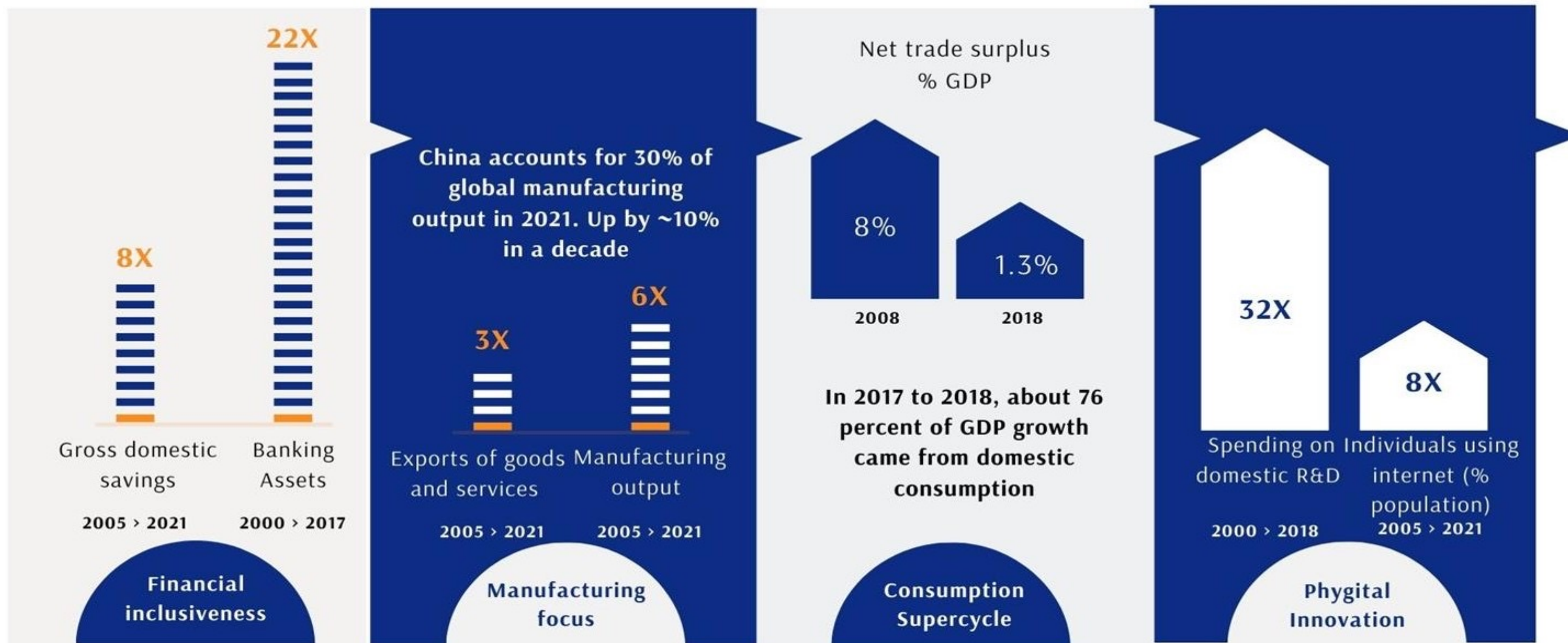


Decades post the threshold GDP is crossed have witnessed sharp uptake in multiple economic indicators

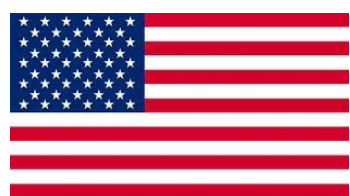


# Evident Structural Changes

**4 themes** that emerged as the key drivers of the growth acceleration of the **leading economies** post crossing the threshold of \$2,000 per capita GDP.

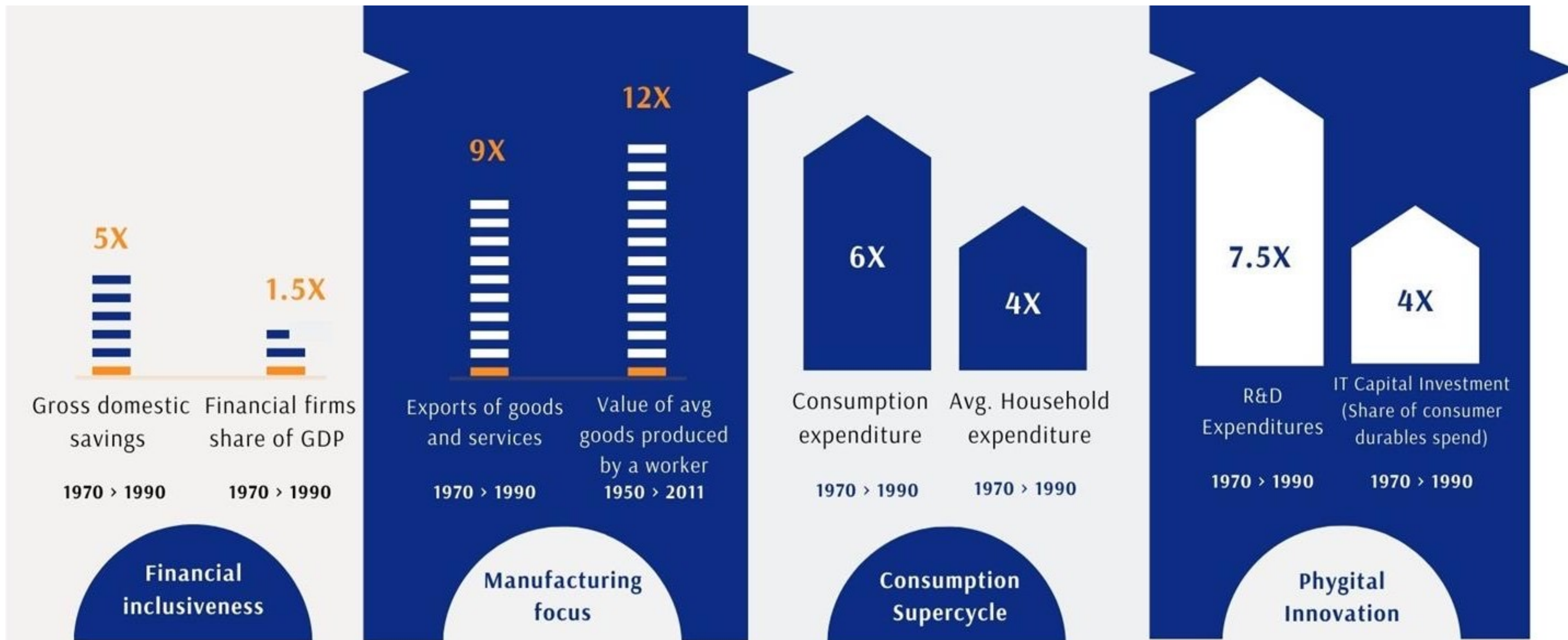






# Evident Structural Changes

**4 themes** that emerged as the key drivers of the growth acceleration of the **leading economies** post crossing the threshold of \$2,000 per capita GDP.







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02

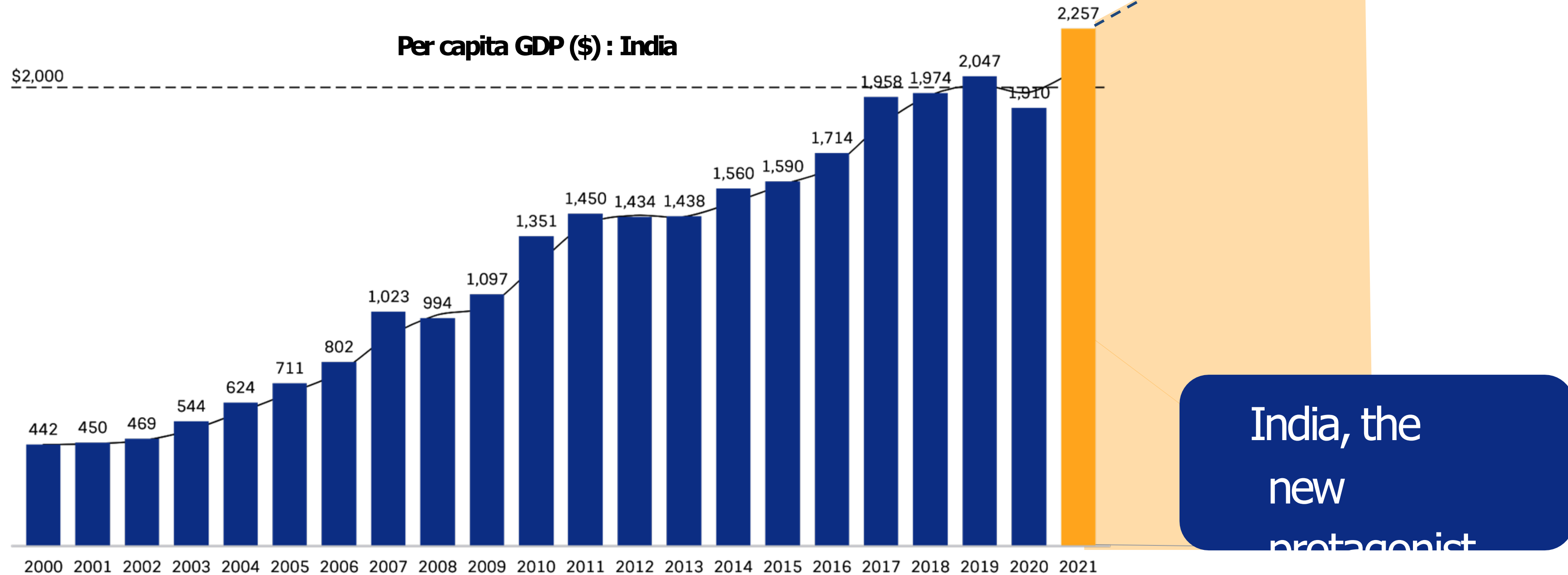
# Structural shifts orchestrating the India Growth Story





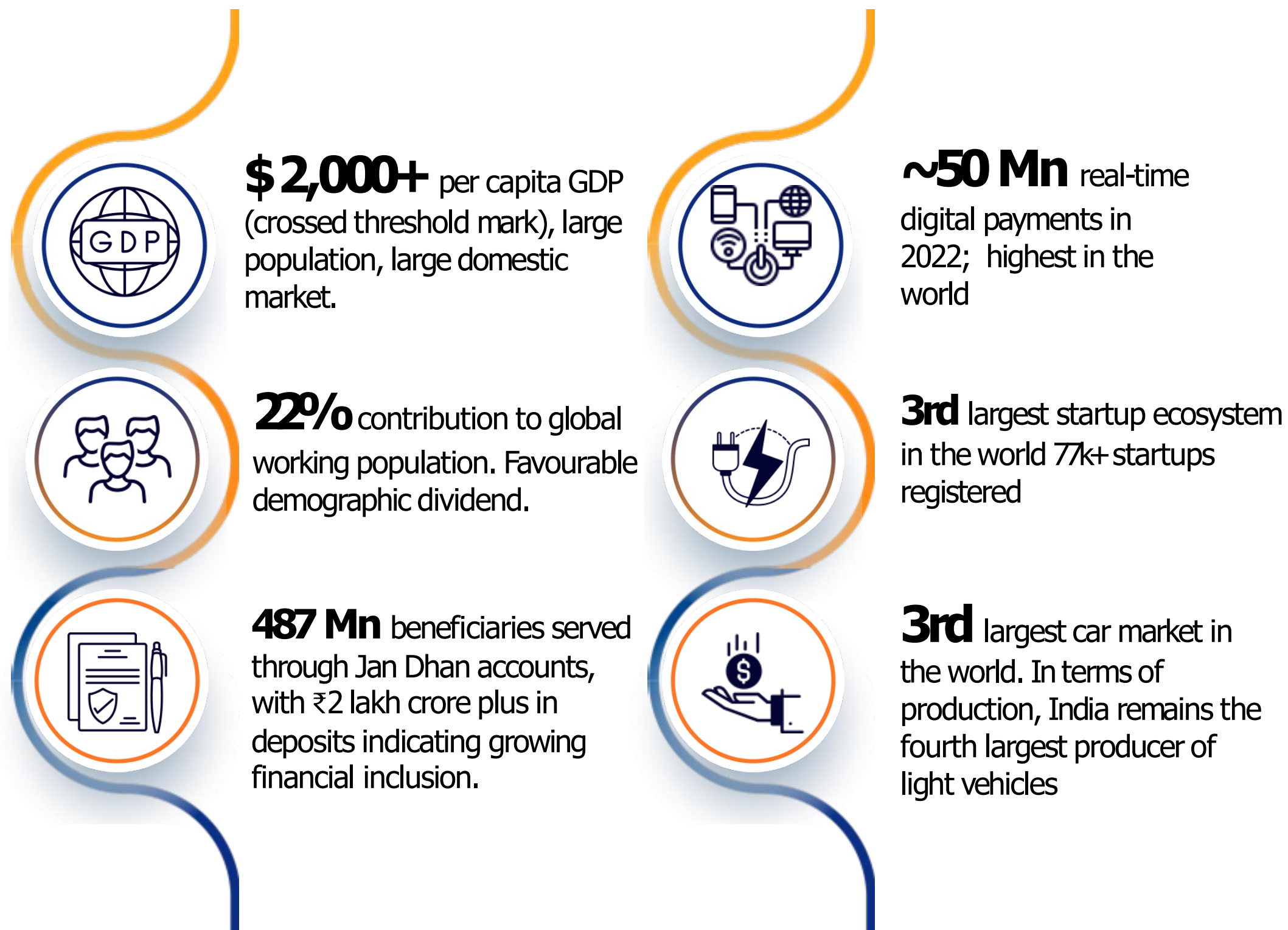
# India on the pathway to exponential growth

US & China's transformation story evident in India as well

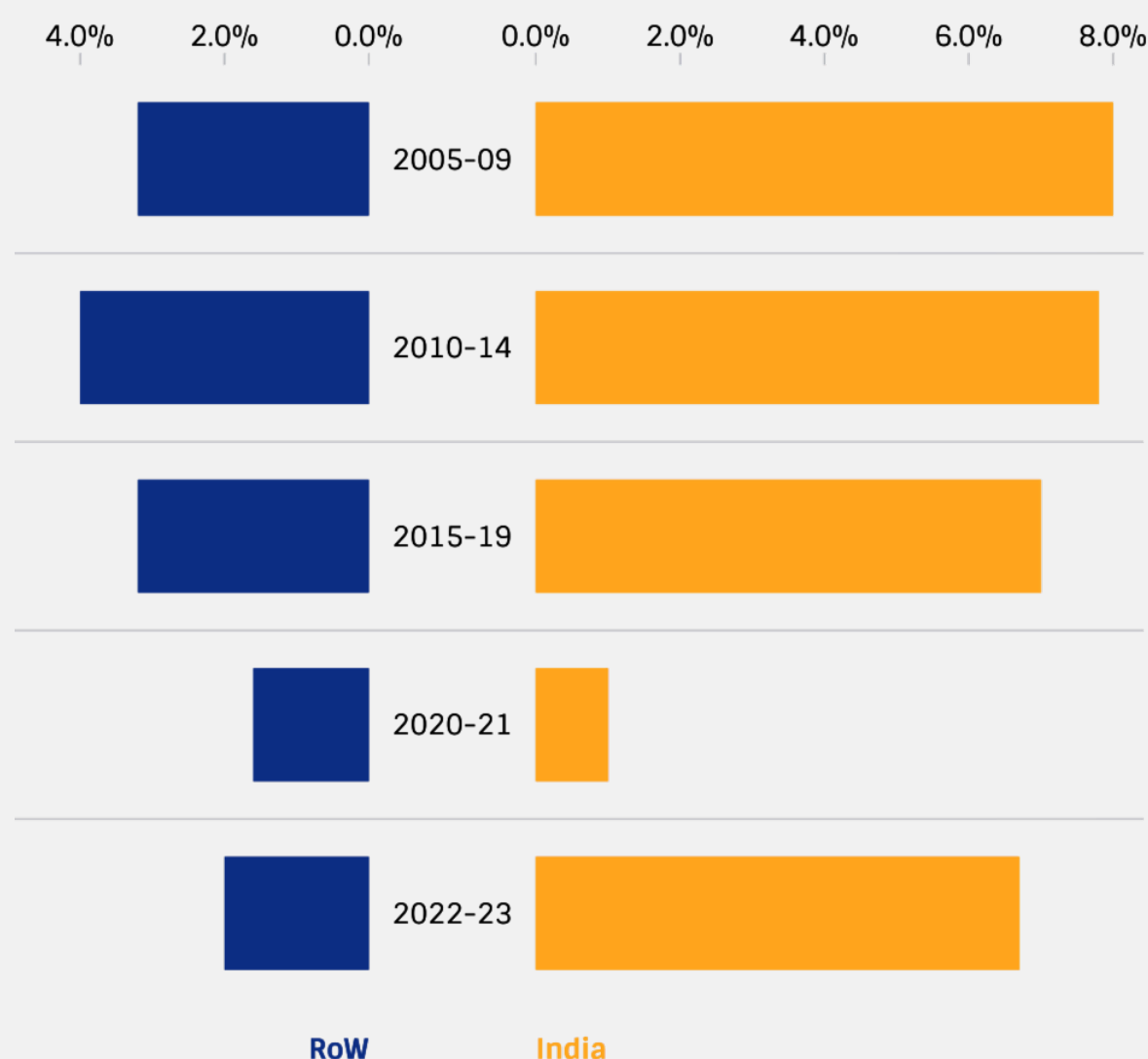




# Structural change in India visible across parameters



**India's Growth vs The World**





# Factors enabling the structural change in India (the input parameters)

360 degree shift : internal and external, enabling a precipitous growth in the Indian economy.

A look at few of the factors:



## Policy reforms

**Production Linked Incentive (PLI) Scheme :** Strategic opportunity for India to become a prominent global manufacturing player. Potential to add **4% to GDP per annum** in terms of incremental revenues

**Progressive tax reforms:** GST implementation for fulfilling the 'One nation, One tax, One market' vision.



## Govt. initiatives on digitization

**UPI :** **2,348 transactions/sec** and an average of over ₹10 lakh crore /month worth of transactions

**Open Network for Digital Commerce (ONDC)** completed 4,000 successful transactions as part of beta testing

India's digital infrastructure template is a new model for development around the world



## Demographic Advantage

**Demographic dividend:** CII reported that if the Indian demography is productively employed, India will leapfrog to a **\$9 trillion economy** by 2030

**Growth of aspirational middle class:** Elite & Affluent Households will more than **double**, and Aspirers will increase by **50%+by 2030**



## Global tailwinds

**Chins Plus One:** Friendshoring approach & China +1 enabling India to emerge a preferred destination for manufacturing.

**Share in Emerging markets (EMs):** India's share among the emerging economies has steadily risen to 14.8% in **2022 (2X growth from 2020)**





**SUNDARAM ALTERNATES**  
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03

# Green shoots visible across the 4 multiplier themes in India





# 4X4 Multiplier effect

4 key themes aligned to  
**India : the next economic superpower**

India over the next decade will address the financial inclusiveness story with the help of digitisation, big data and large capital availability. Household debt to GDP will improve to match peers. Lending segments like Affordable housing, MSME, Vehicle finance and unsecured loans will grow multi-fold as customers shift from unorganised lenders to organised.



Next decade will define the turnaround of Indian Manufacturing sector. Import substitution driven by PLI, Exports driven by India's cost competitiveness and focused infra spending by Govt. are key building blocks for the growth in manufacturing. Electronics, Chemicals, Auto and Engineered goods will be major beneficiaries. Under infra spending railways and defence to see major shift in spending.



**Financial Inclusiveness**

Growing per capita income, multiplying affluent households, large GenZ population will drive a multi decade growth in organised retail and discretionary spending. Auto, dine-out, travel, entertainment, health, education sectors, consumer electronics etc will benefit from premiumisation trend.



UPI, Big data, ONDC, Account aggregator initiatives of the government are likely to redefine the cost of services. With growing young population, affordability, access to cheap data, burgeoning smartphone users is likely to drive significant growth in online penetration across various service segments. Traditional companies embracing technology and tech startups with stable unit economics are opportunities to invest

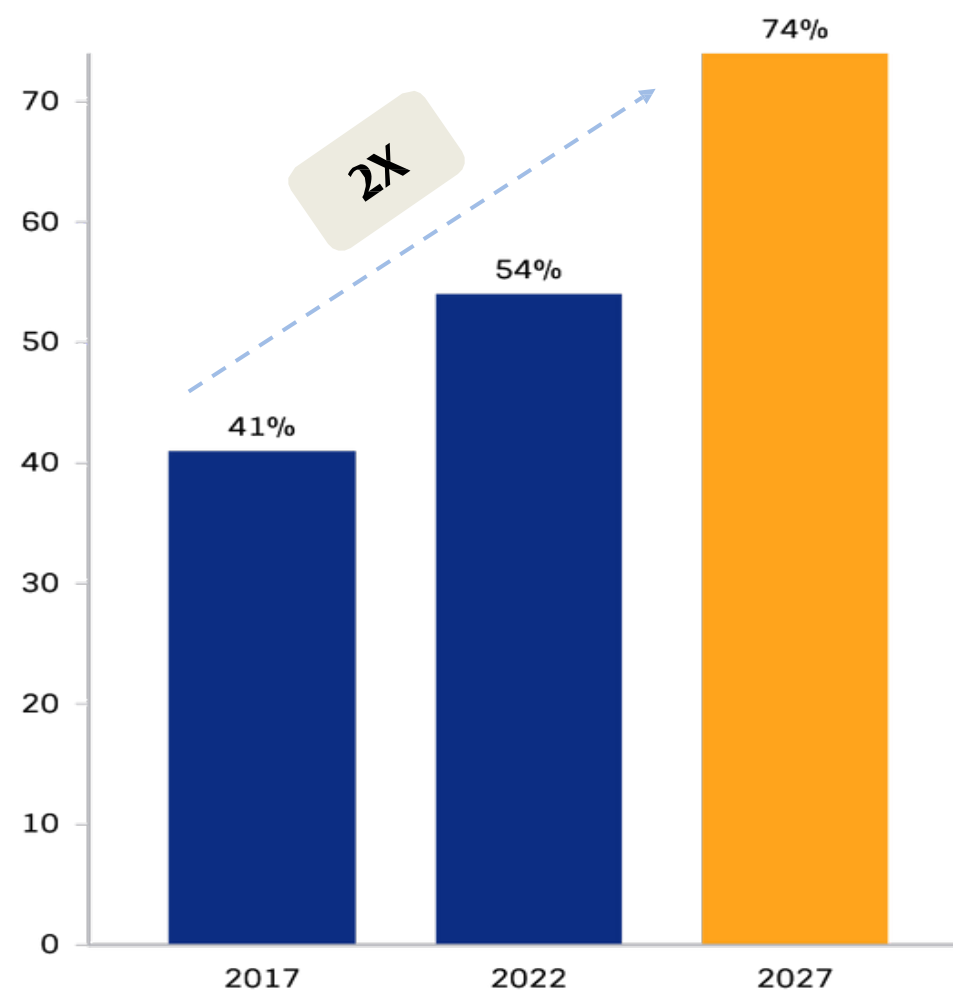


## Evident Structural Changes

## Theme 1: Financial Indusiveness

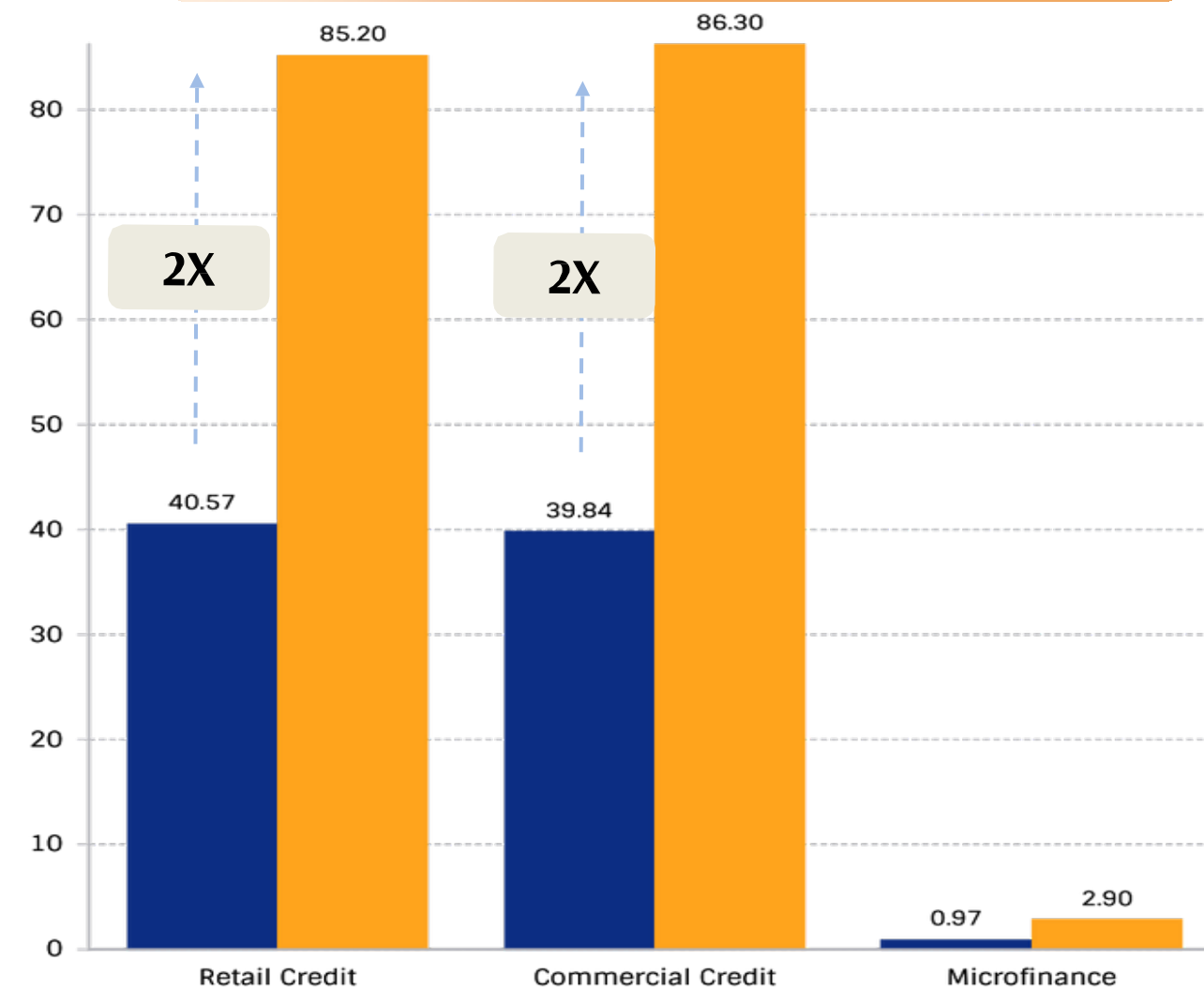
Increasing financial penetration, large population, strong financial markets

Financial assets as a percentage of total assets



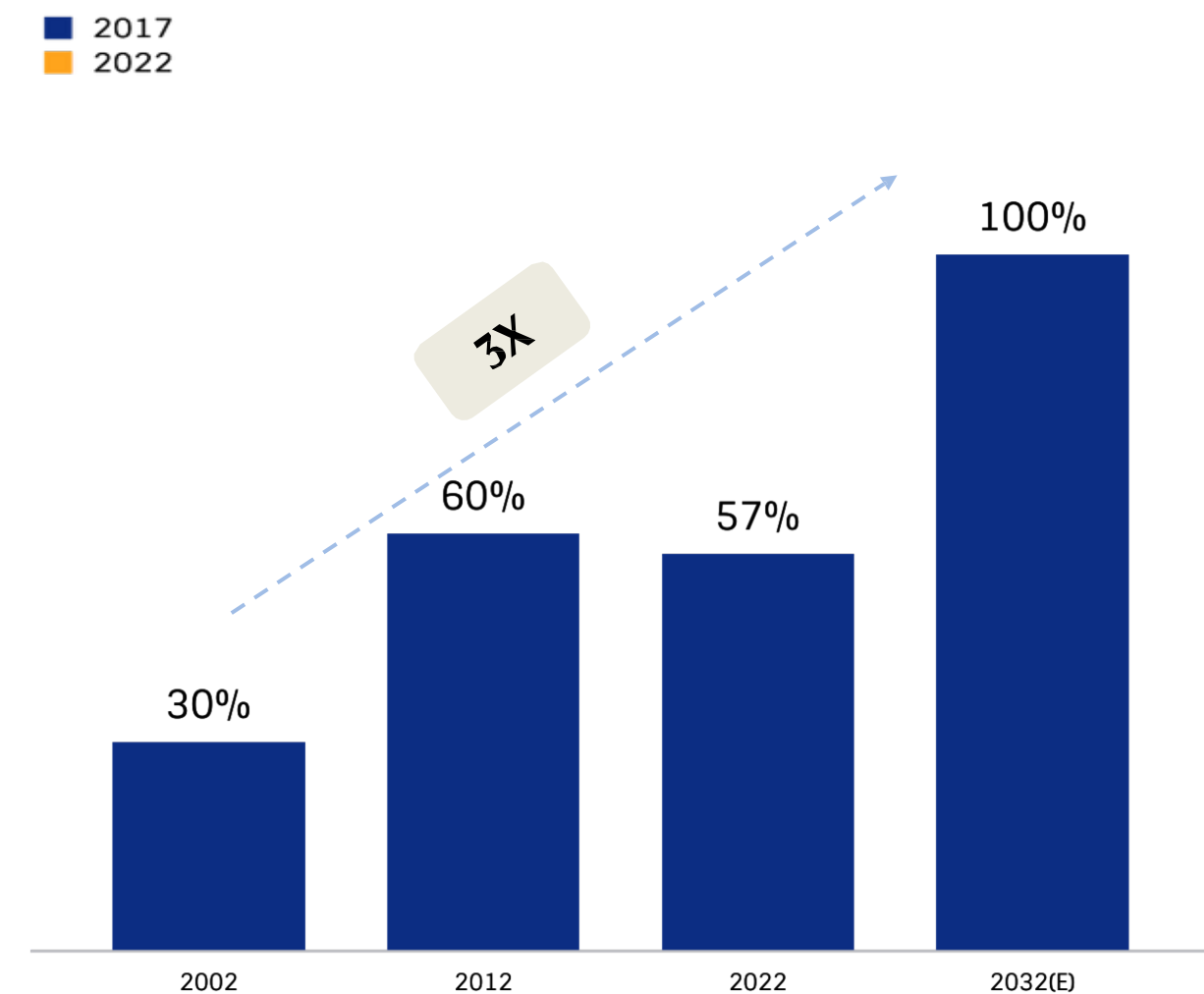
Financialisation of savings inching closer to global peers. Immense penetration opportunity across asset classes.

Lending growth in India



Private banks are spending ~0.25% of their assets on technology, to boost their lending and loan servicing capabilities.

India: Overall Credit / Nominal GDP



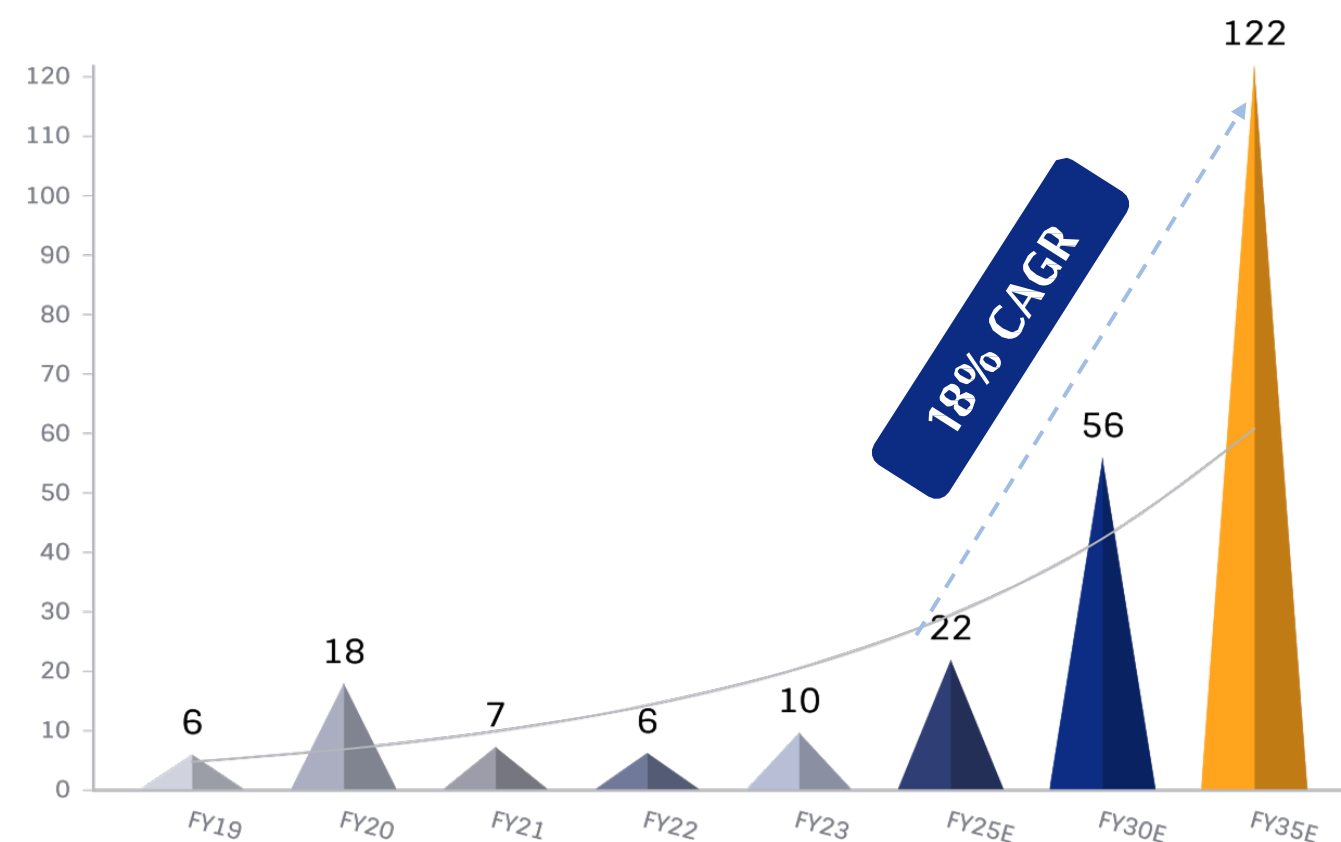
Revival in capex cycle and strong digital architecture should drive a boom in credit creation. Credit to GDP can increase to 100% In 10 yrs to catch up with peers.

## Evident Structural Changes

### Theme 1: Financial Indusiveness

Opportunity of growth in individual (Credit card) and MSME credit

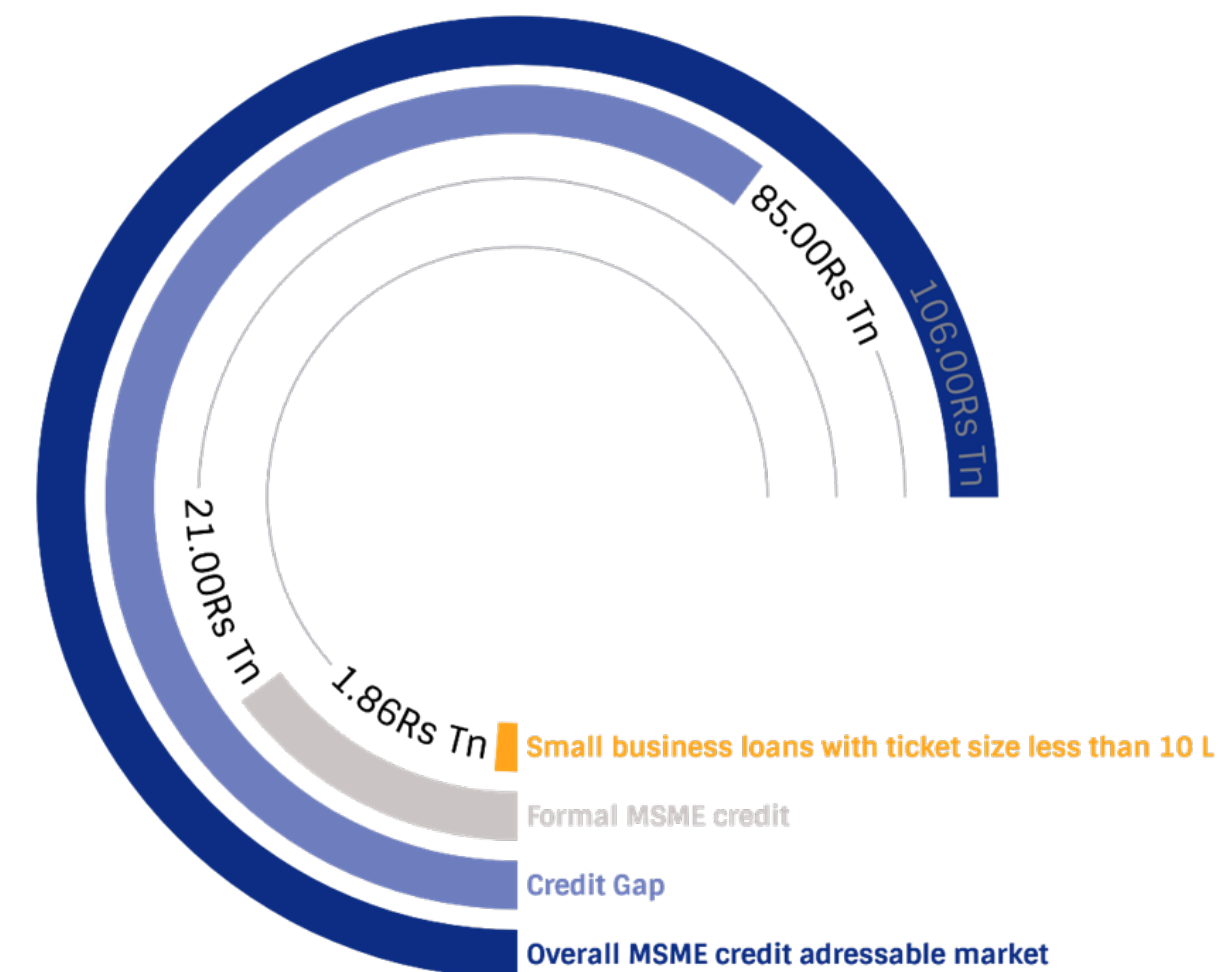
#### Credit card spends in India



1

Credit card spends set to more than double due to rising consumerism and digitisation of Indian economy. Credit card spends as a percentage of PFCE also has huge scope of growth.

#### MSME lending in India



2

Business loans with ticket size <1MnRs account for only 9% of formal MSME credit, indicating a huge opportunity

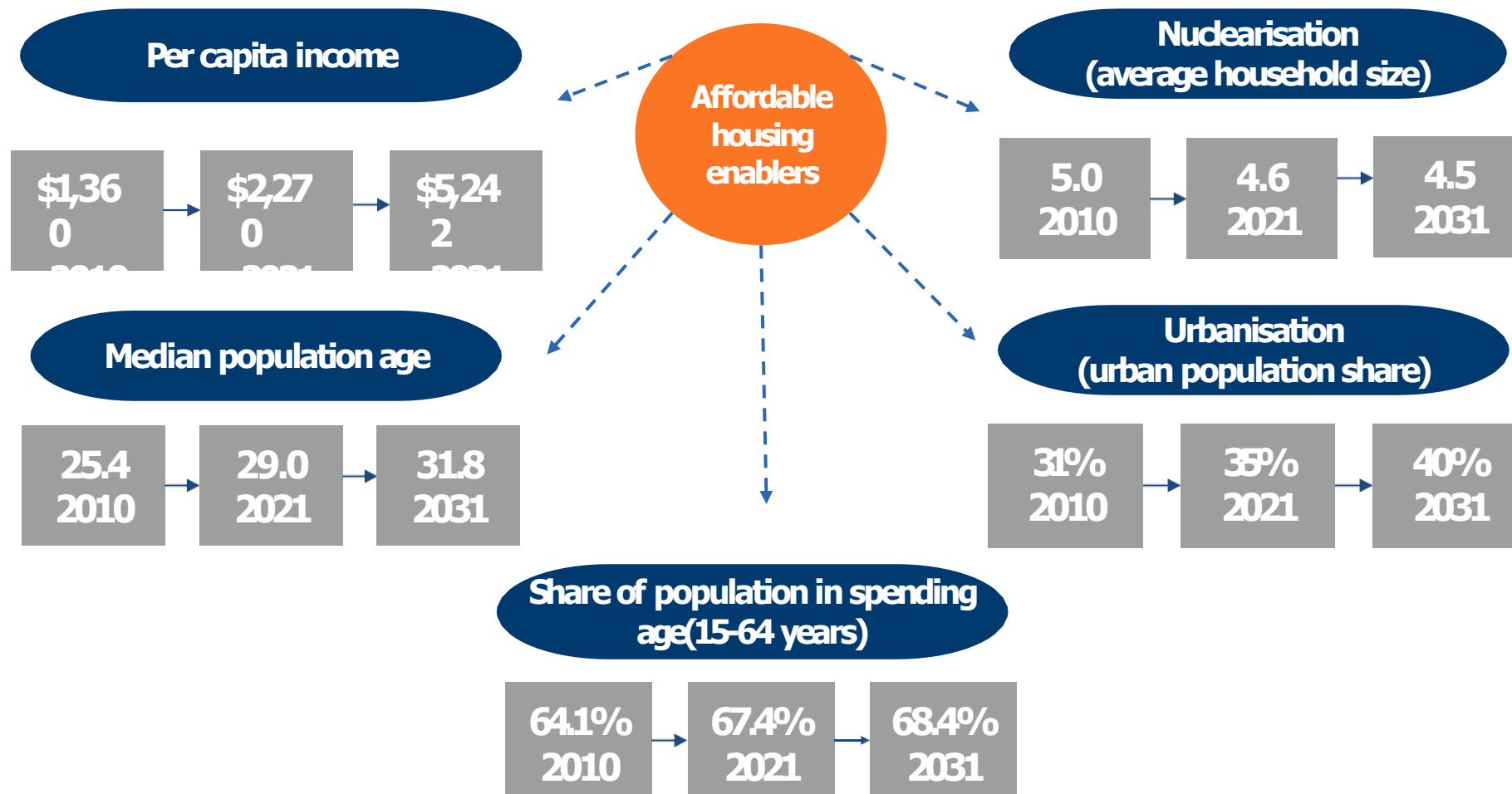


# Evident Structural Changes

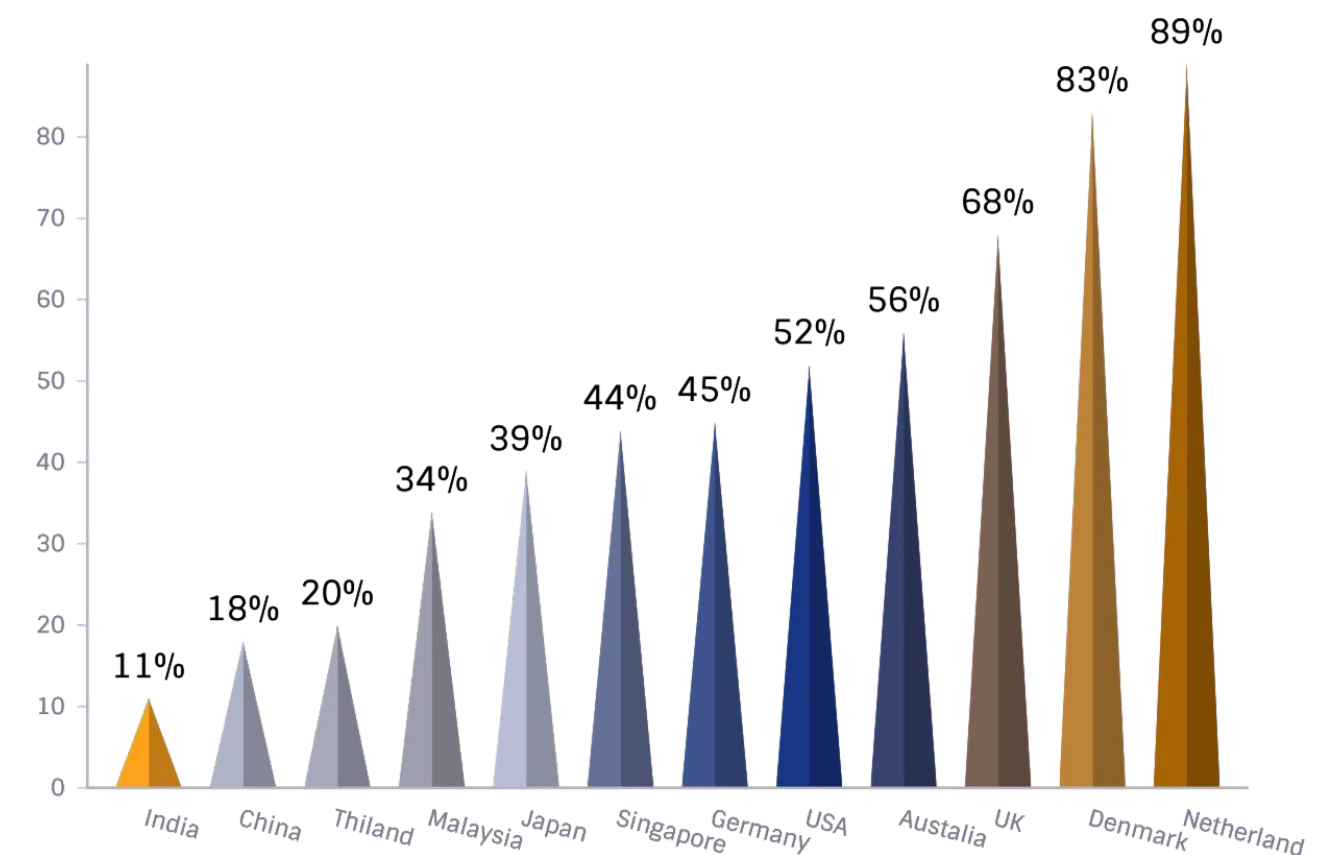
## Theme 1: Financial Indusiveness

Incremental potential of growth in household debt

### India's Housing growth drivers



### Mortgage/Nominal GDP in India



1

Strong momentum of growth with indicators across urbanisation, population demographics and income levels.

2

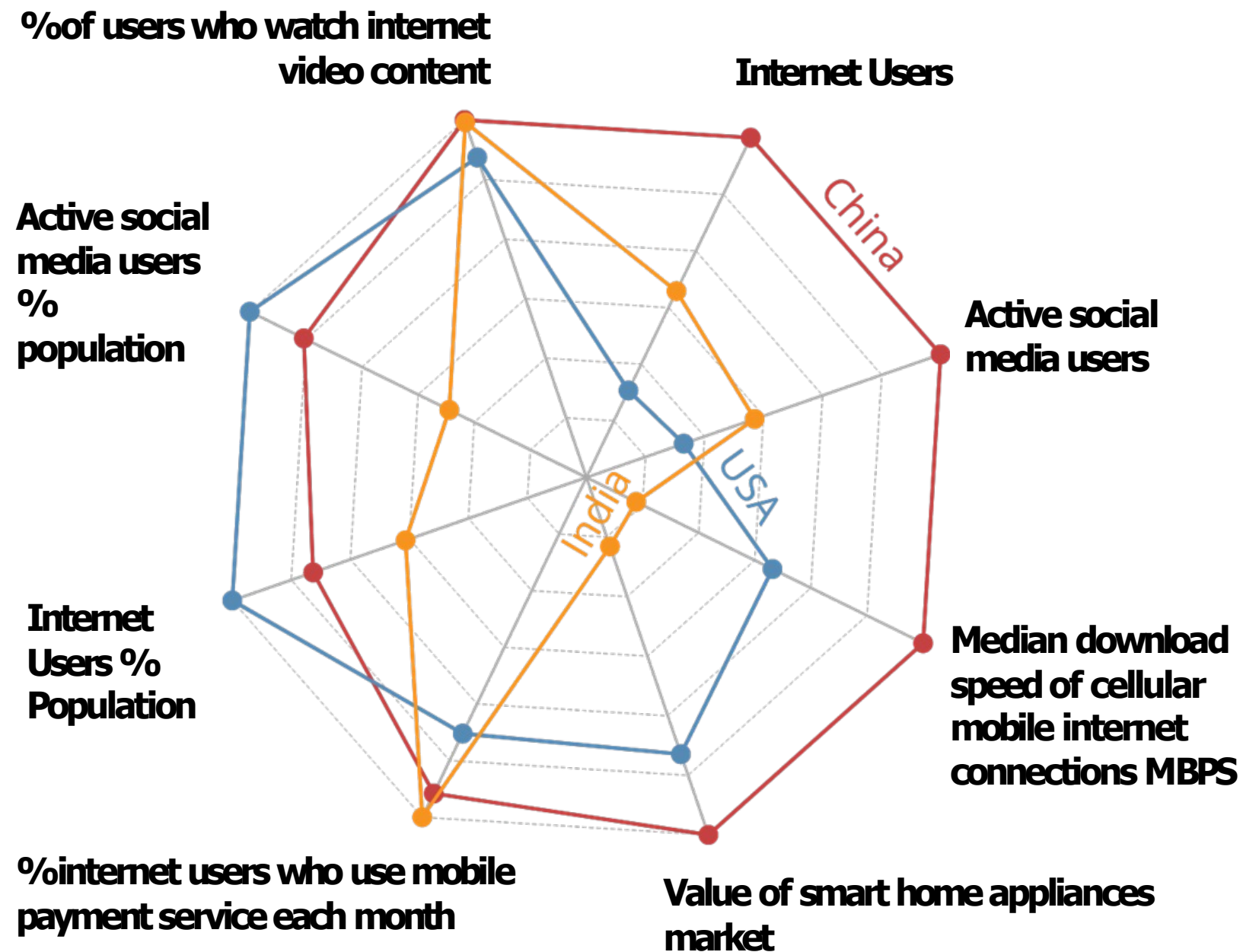
India's Mortgage/nominal GDP vs other countries has enormous potential of growth. Connecting the property ecosystem will expedite the speed of socio-economic change in the country

## Evident Structural Changes

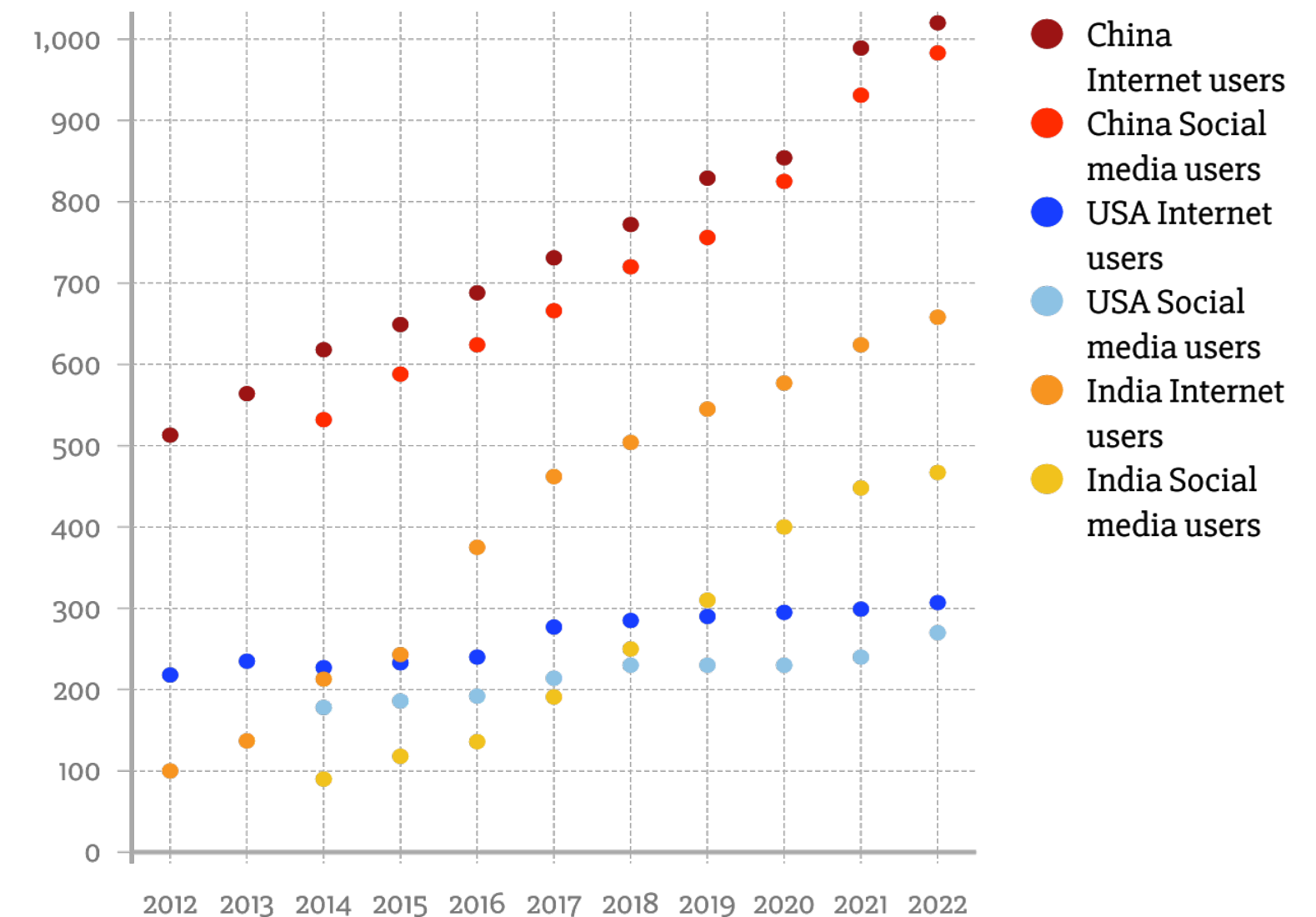
## Theme 2 : Phygital Innovation

India a strong contributor to digitisation globally with further potential to grow across parameters

India, China, USA across digital metrics



Internet and social media users India, China, USA



India shows high appetite for digital consumption across domains. Ecommerce penetration in India is expected to be faster than developed nations.

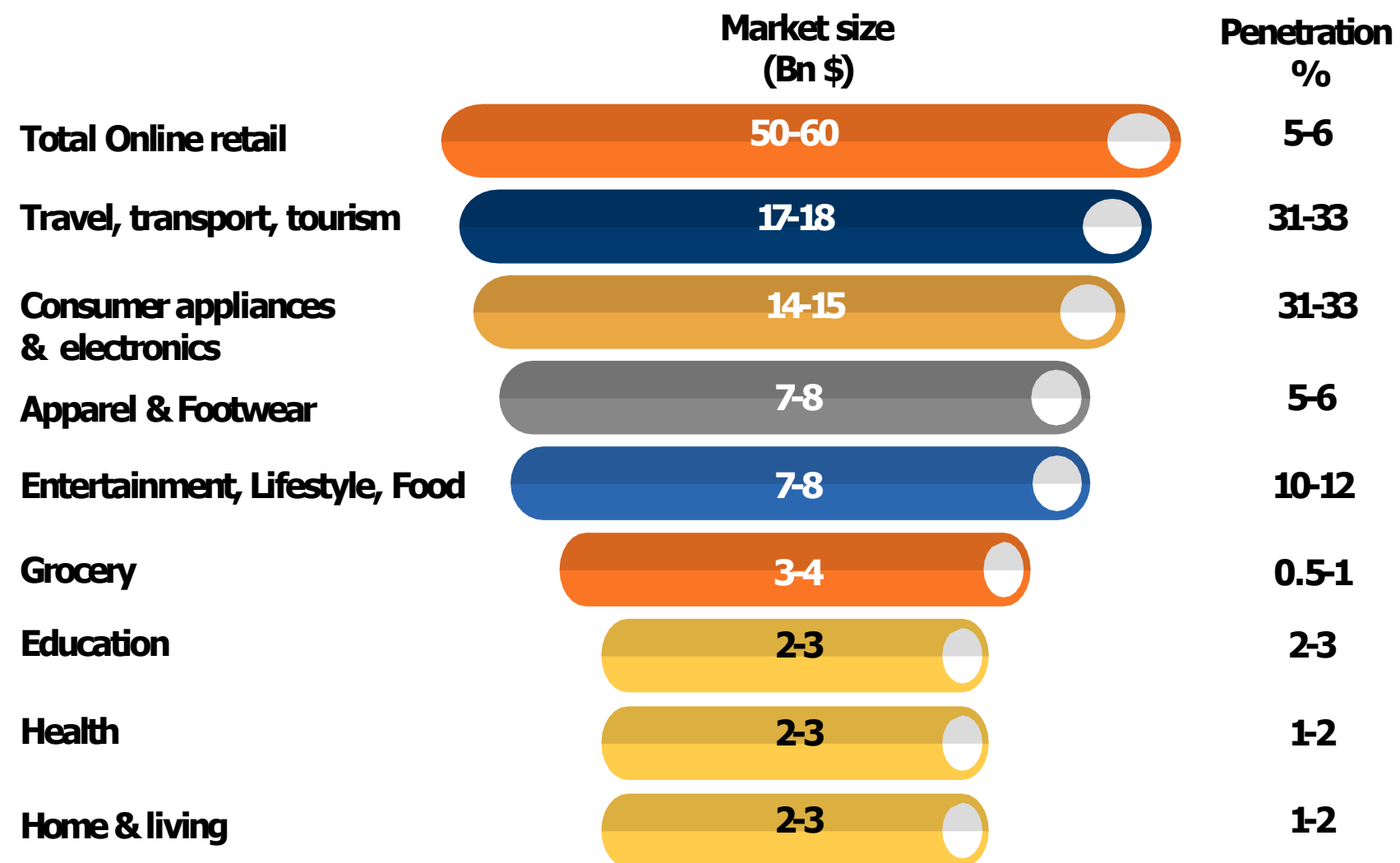


## Evident Structural Changes

## Theme 2 : Phygital Innovation

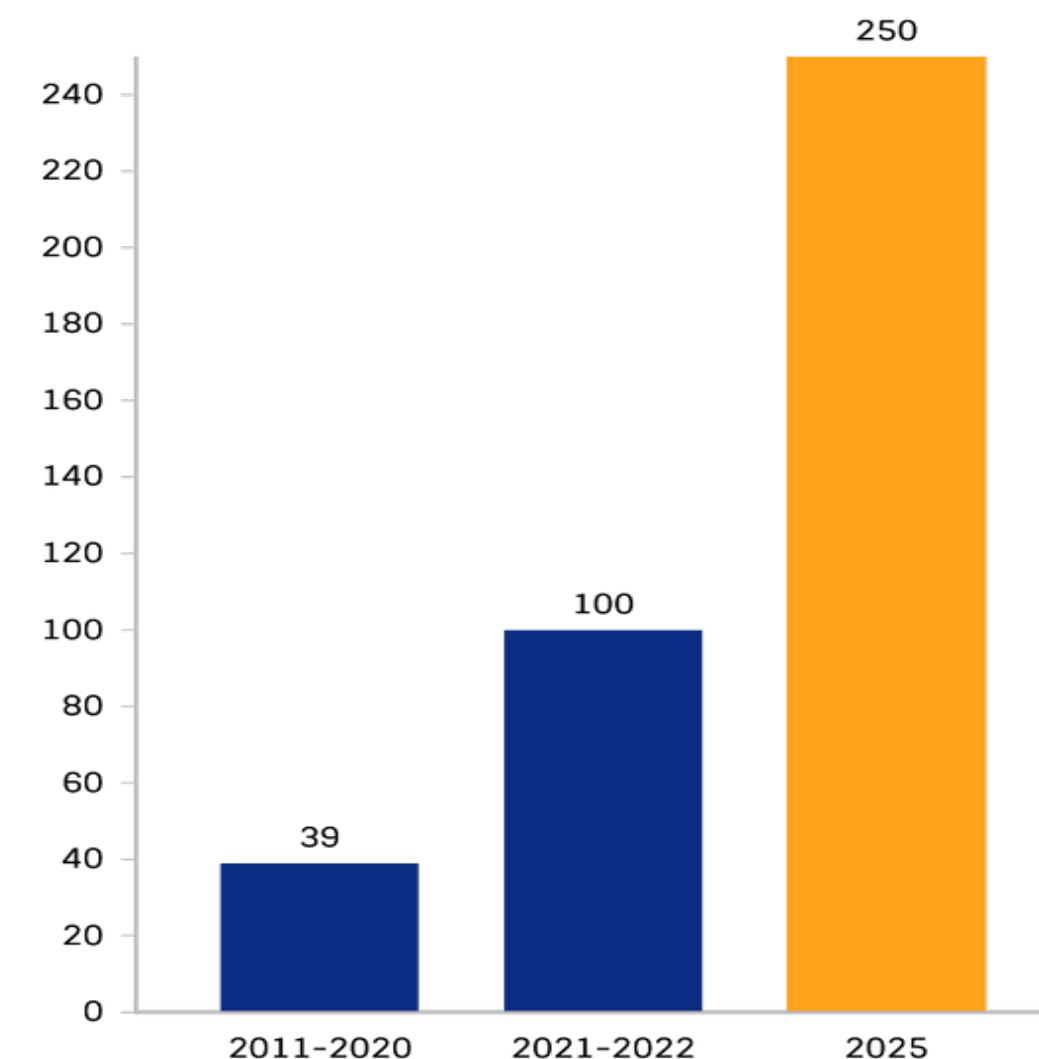
Increasing digitisation and innovation facilitating growth of new and emerging businesses.

Penetration across industries



Huge scope of increase in penetration levels across industries

Number of Unicorns in India



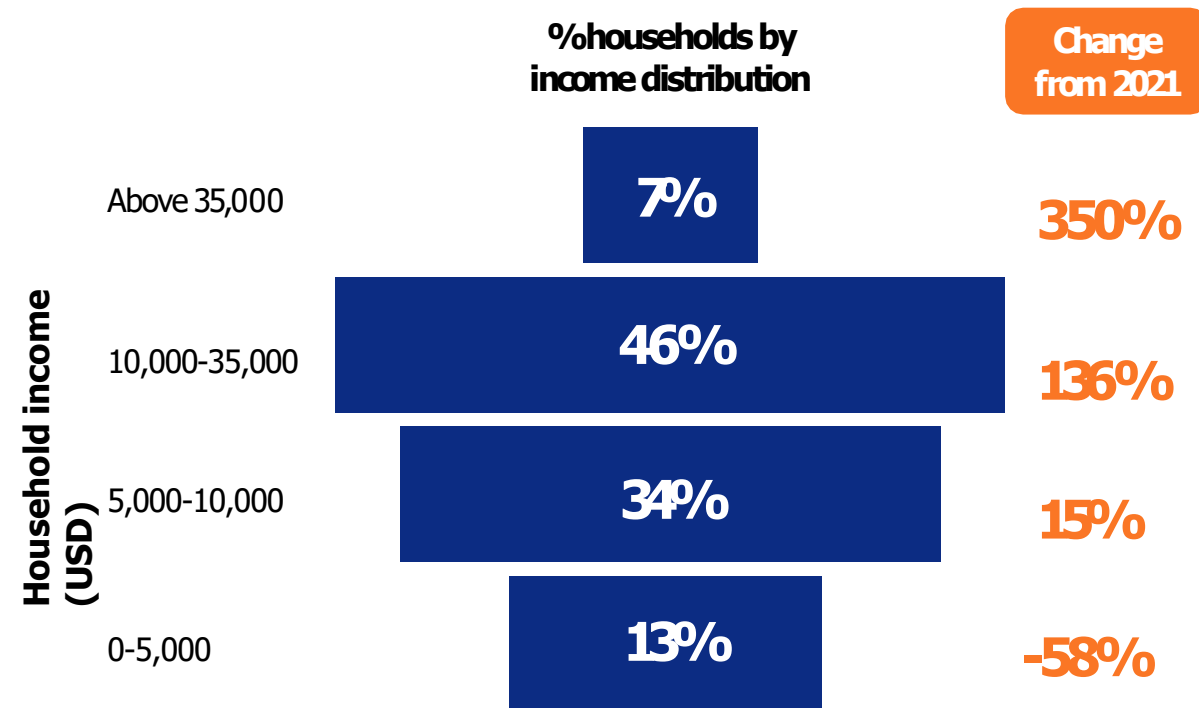
Online beauty, fashion, food, logistics, insurance have potential to grow faster than traditional businesses

## Evident Structural Changes

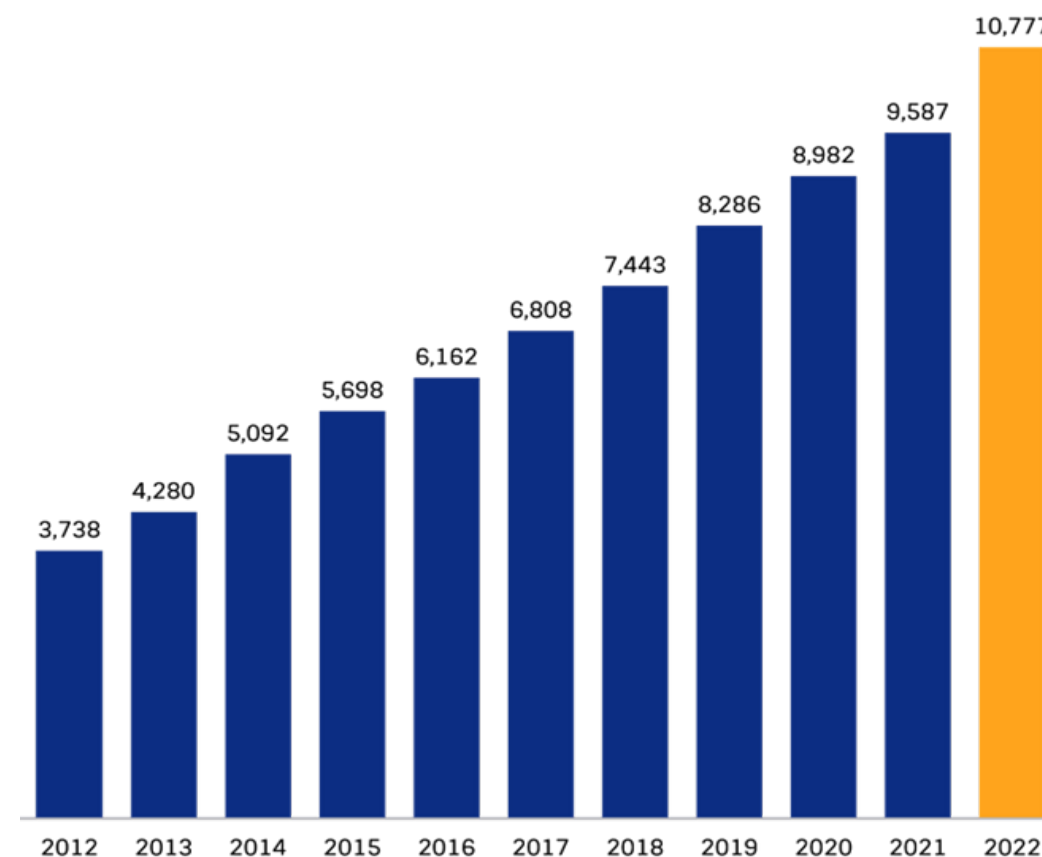
### Theme 3 : Consumption Supercycle

When China crosses \$2500 per capita in 2008, it saw a significant boost to discretionary spending for a long period.

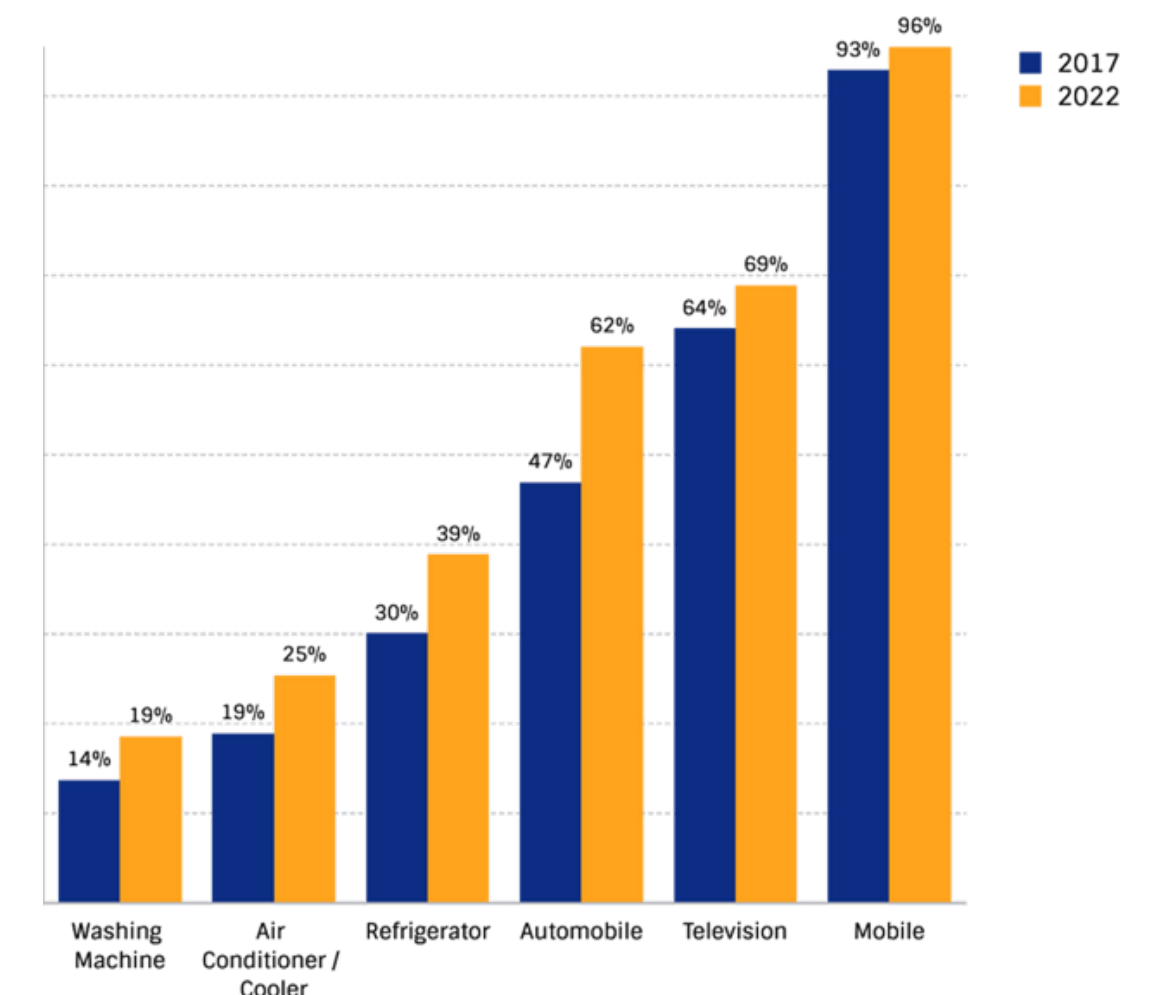
India's income pyramid by 2031



Employee costs of NSE 500 companies (₹ Tn)



Penetration of consumer durables in India



Discretionary consumption is set to rise as India crosses the \$2,000 GDP per capita mark, as witnessed in fast-growing economies



Discretionary spending on recreation, entertainment, transportation, healthcare, retail and luxury set to grow



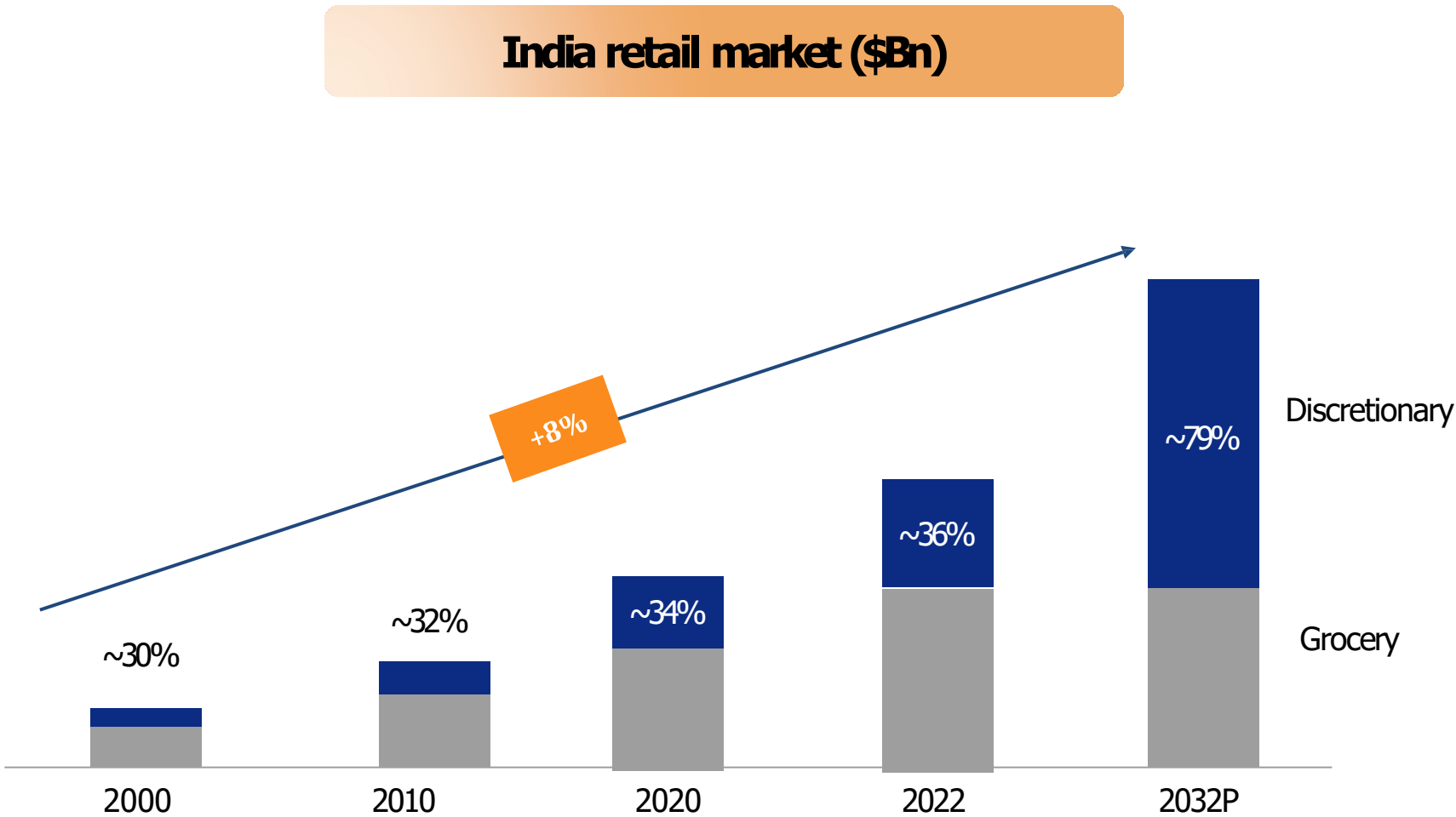
Urban consumption to drive discretionary spending, as affordability reaches a decadal high, coupled with rising incomes and falling EMIs



# Evident Structural Changes

## Theme 3 : Consumption Supercycle

Online beauty, fashion, food, logistics, insurance have potential to grow ahead of traditional business. Such high growth companies are now available at reasonable valuations vs traditional companies.



Key pointers	Period	India	Period	China	China 2006
GenZ + Millennial population (mn)	FY21	708	2021	648.65	604.27
GDP per capita (current USD)	2021	2,256.60	2022	12,732.55	2,099.23
% of luxury cars over total market	FY22	1.80%	2022	16.90%	lower than 6%
Outbound travelers (mn)	2021	8.6	2022	26-30	34.5
Apparel industry	FY22	59.3	2021	199	69
Pure alcohol market size (bn litres)	2021	2.9	2021	8.08	5.37
Jewellery value (USD bn)	FY22	70.9	2021	52.29	29
KFC stores	FY22	364	2022	8,168	1,822
Pizza Hut stores	FY22	413	2022	2590	254
McD stores	FY22	330	2022	2391	784
Zara store	FY22	21	2022	603	7
H&M stores	FY22	48	2022	445	0



The wealth effect is likely to drive HH to shift focus on discretionary spending like recreation, entertainment, transportation, healthcare and luxury. Potential winners: D-Mart, Trent, Titan, PVR, Rainbow, Sapphire, Westlife



With India at \$2500 mark, some of the segments like organized retail, branded apparels, QSR, health and travel are poised to see robust growth. Growth potential is multifold in majority of discretionary segments compared to staples.

## Evident **Structural Changes**

### **Theme 4 : Manufacturing Focus**

Manufacturing will become a key contributor along with service for growth

#### 3 pillars of manufacturing growth in India



The scheme currently covers 15 sectors with annual investment and sales targets. If all firms deliver as promised, incremental revenues are expected to be more than US\$400bn or over 10% of GDP.



Friendshoring approach & China +1 enabling India to emerge a preferred destination for manufacturing



India is the 3rd largest defence spender and the 2nd largest arms importer in the world. Import substitution & localisation of Defence Manufacturing over the next 5 years offers a 5Tn\$ opportunity.



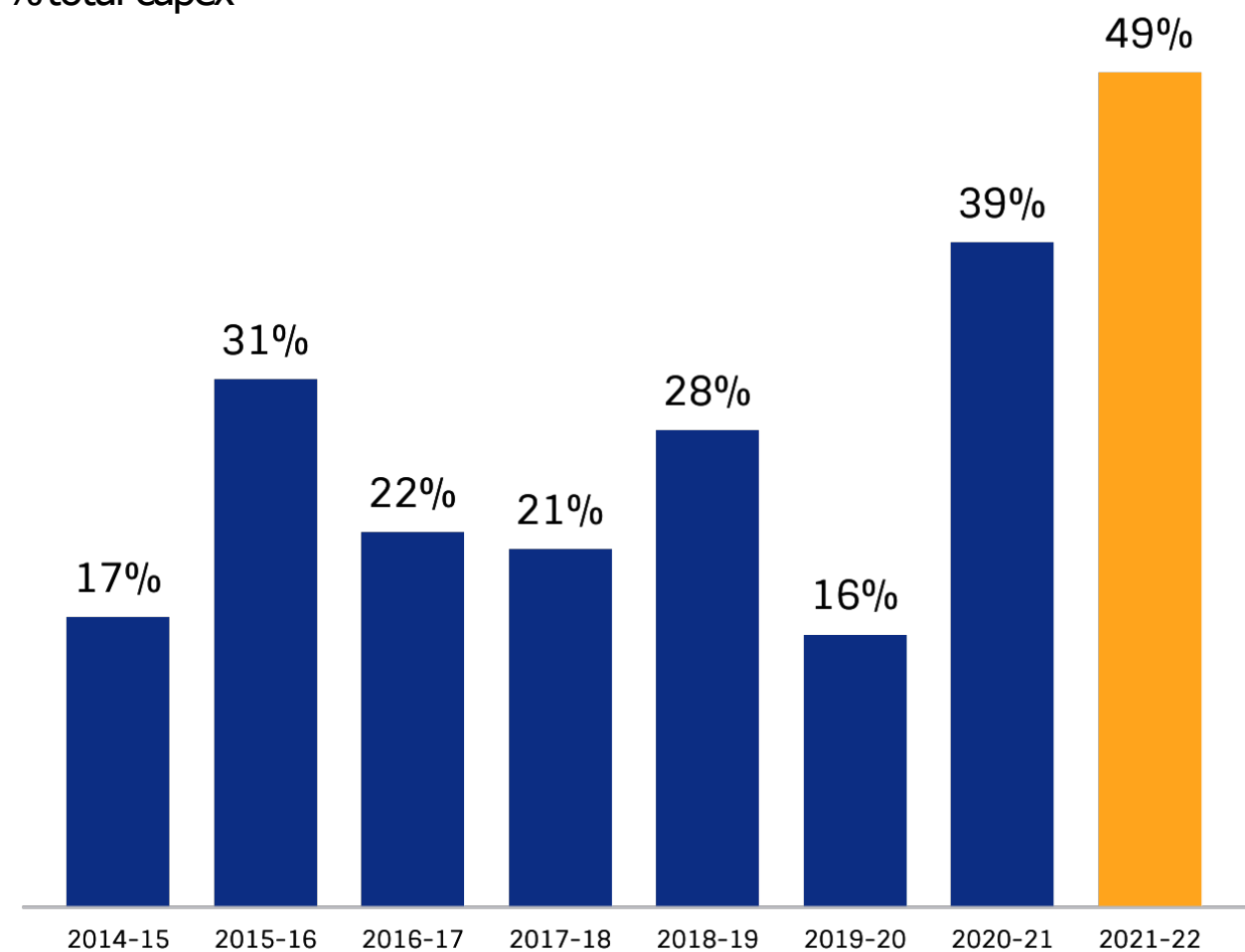
# Evident Structural Changes

## Theme 4 : Manufacturing Focus

Manufacturing will become a key contributor along with service for growth

### India's increasing share of manufacturing in total capex

%total capex



In some specific sectors, India’s competitiveness has increased and it has increased share in global exports. PLI scheme has been launched to boost this growth. The manufacturing sector in China is almost 2x that of India.

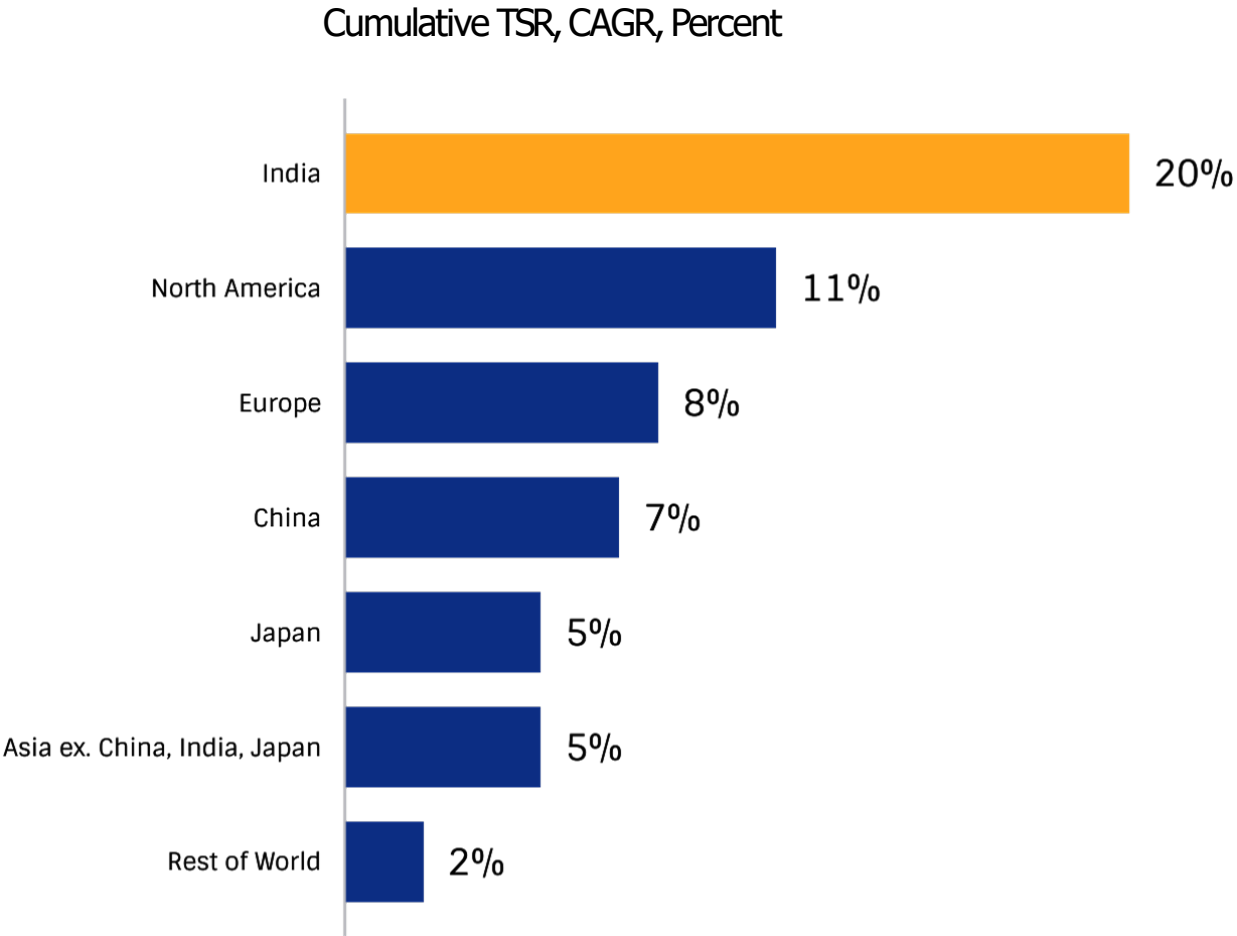
Industries	Key Insights
Chemicals	China +land PLI are drivers - India has potential to become speciality chemical hub
Electronics	Exports by Apple, Samsung, PLI scheme are key drivers Cost advantage over US / Europe
Automotive	Auto component manufacturers are seeing export opportunity as well as import substitution
Railways	Railways seeing a capacity creation post DFC
Defence	Opportunity worth ₹5 Tn due to import substitution & localisation of defence manufacturing over the next 5 years

Evident Structural Changes

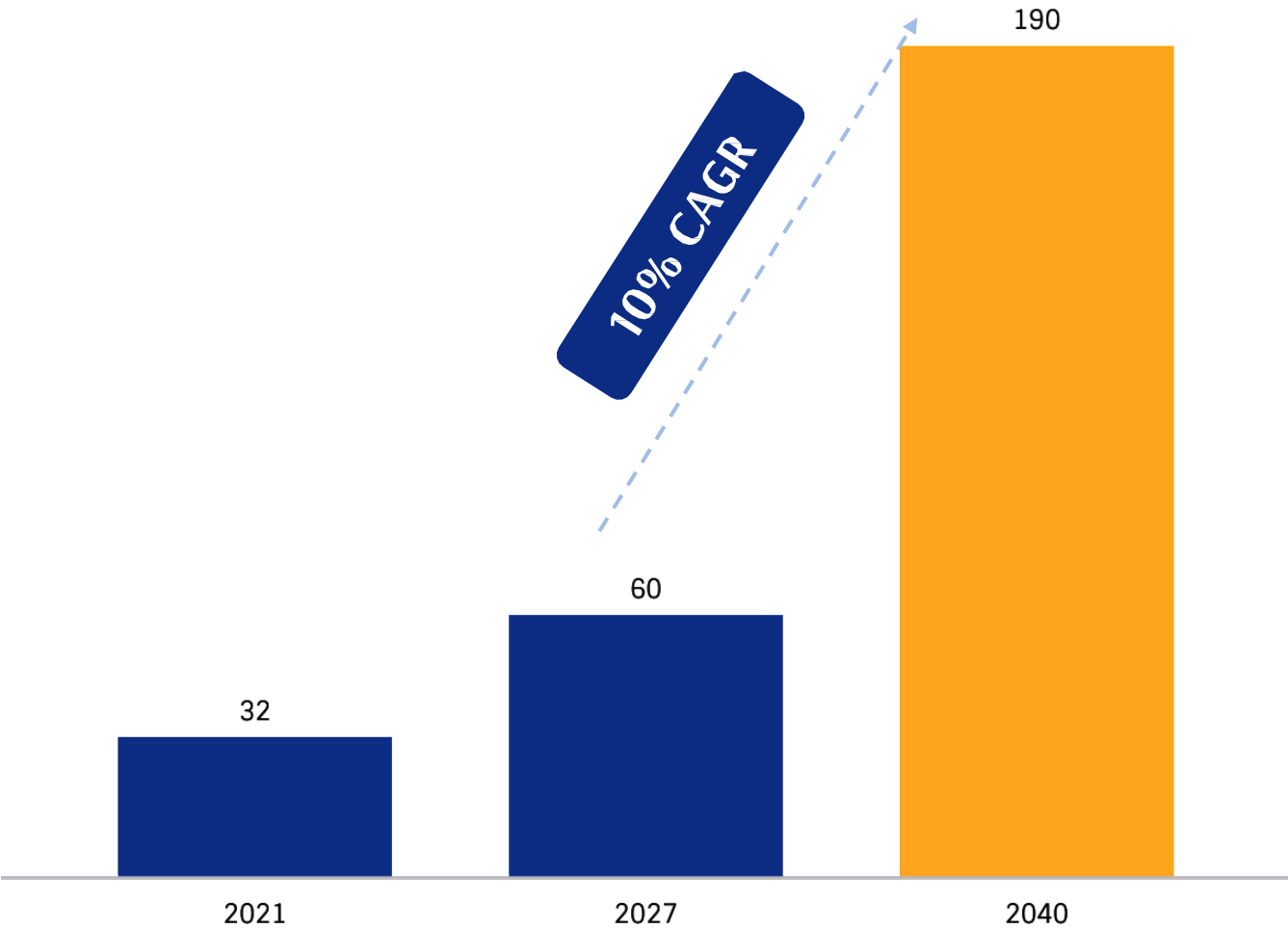
Theme 4 : Manufacturing Focus

India to become a global hub for speciality chemicals

TSR performance trends of top chemical companies across geographies



India speciality chemicals market, USD Bn



India is expected to account for more than 20 percent of incremental global consumption for chemicals over the next two decades



India is expected to become a \$850-1000 Bn chemicals market by 2040, taking 10-12% share of the global chemicals market

Source -: Capital IQ, McKinsey

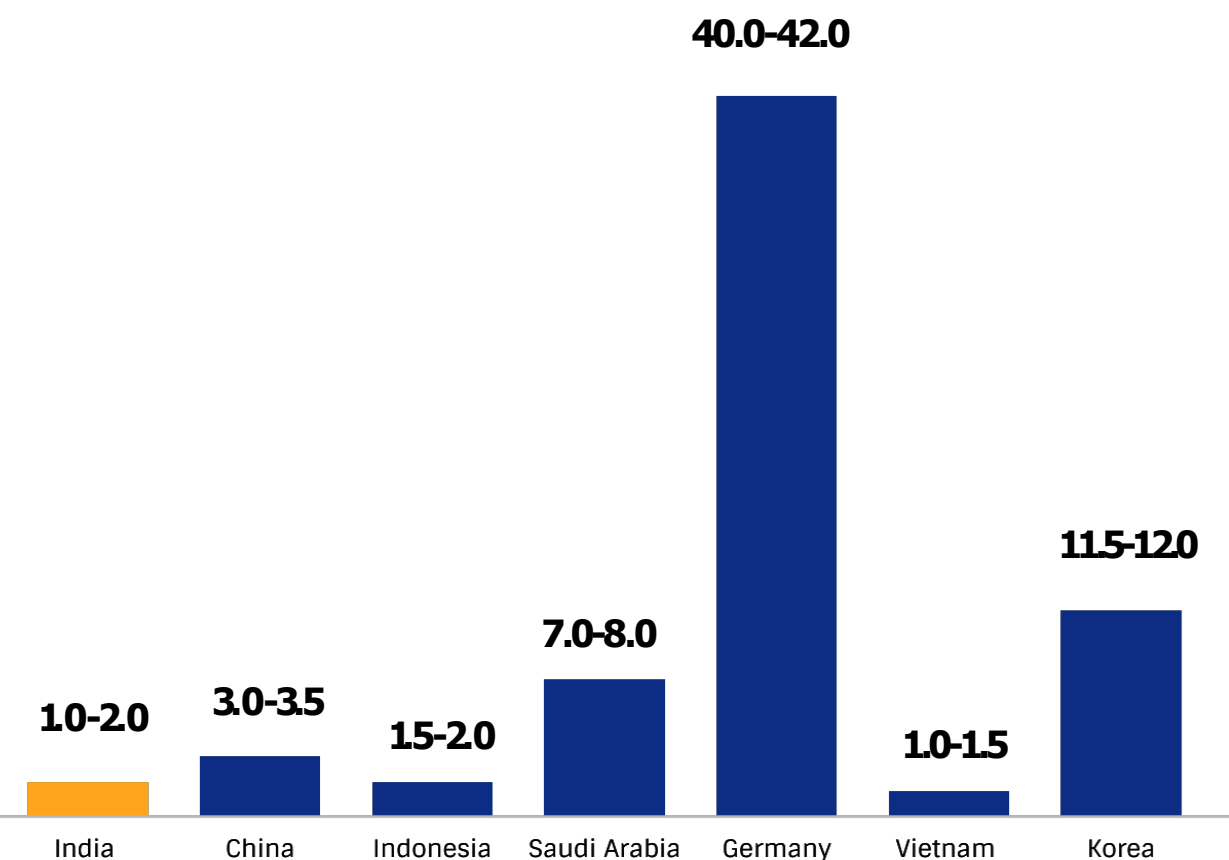


# Evident Structural Changes

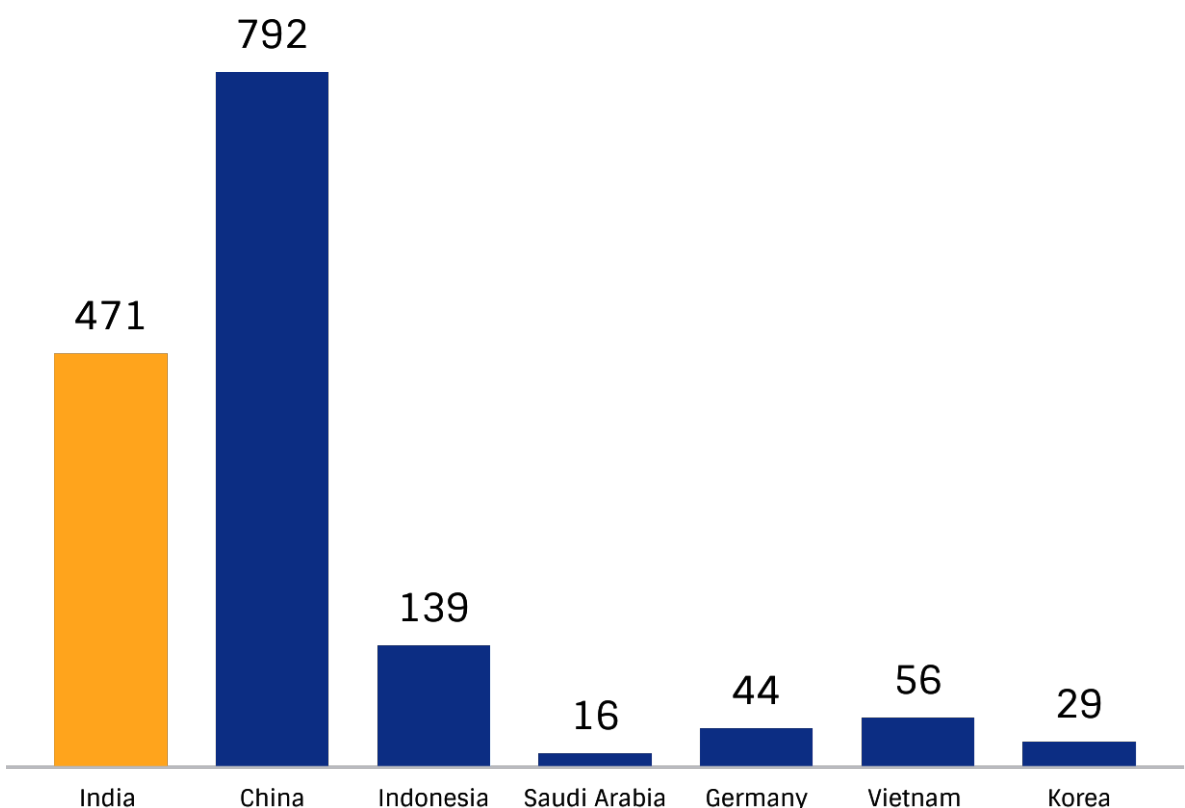
## Theme 4 : Manufacturing Focus

India’s low labour costs and competitive utility cost make it a promising hub for manufacturing

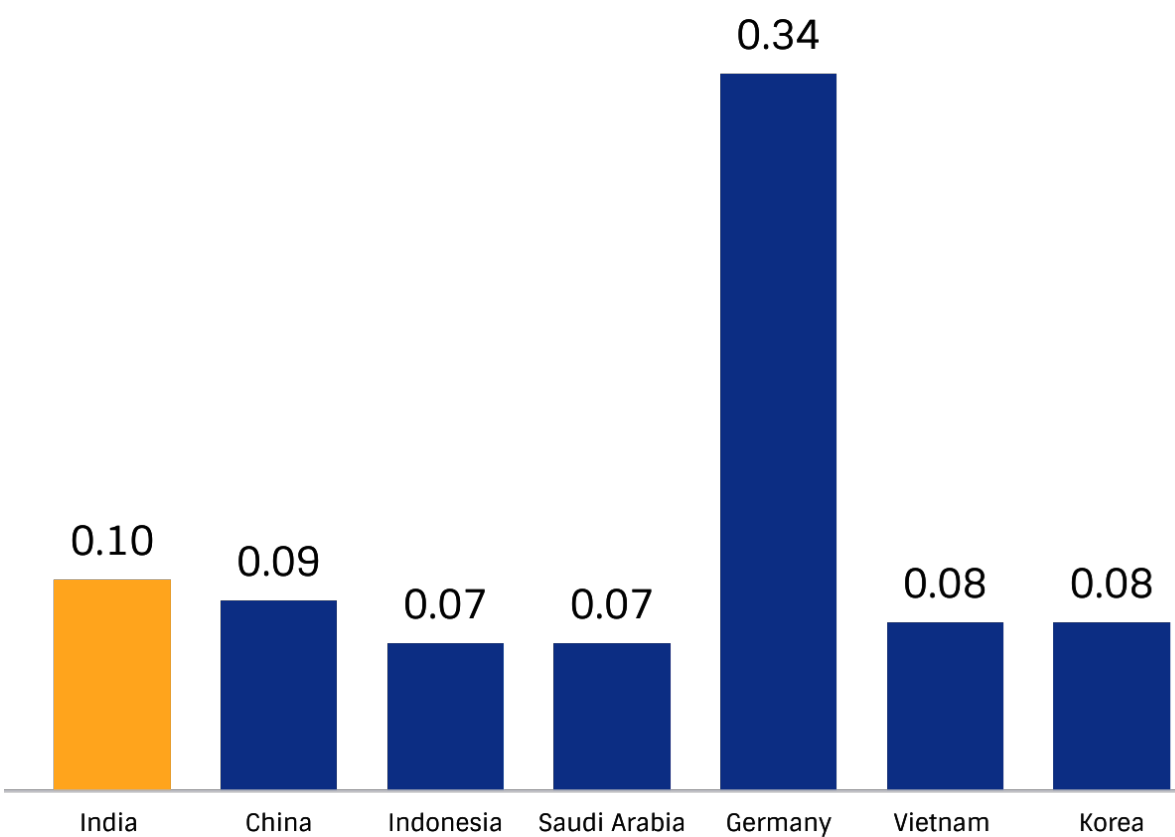
General labour costs  
(2020, USD/hr)



Total Manpower  
(2021, Mn)



Industrial grid electricity  
(2022, USD/kWh)



India’s infrastructure costs, across construction, material, and machinery , are up to 70 percent lower than other global chemical manufacturing hubs. Similarly, India’s material costs are 4.5x lower vs Germany and 3x lower vs Saudi Arabia



**SUNDARAM ALTERNATES**  
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04

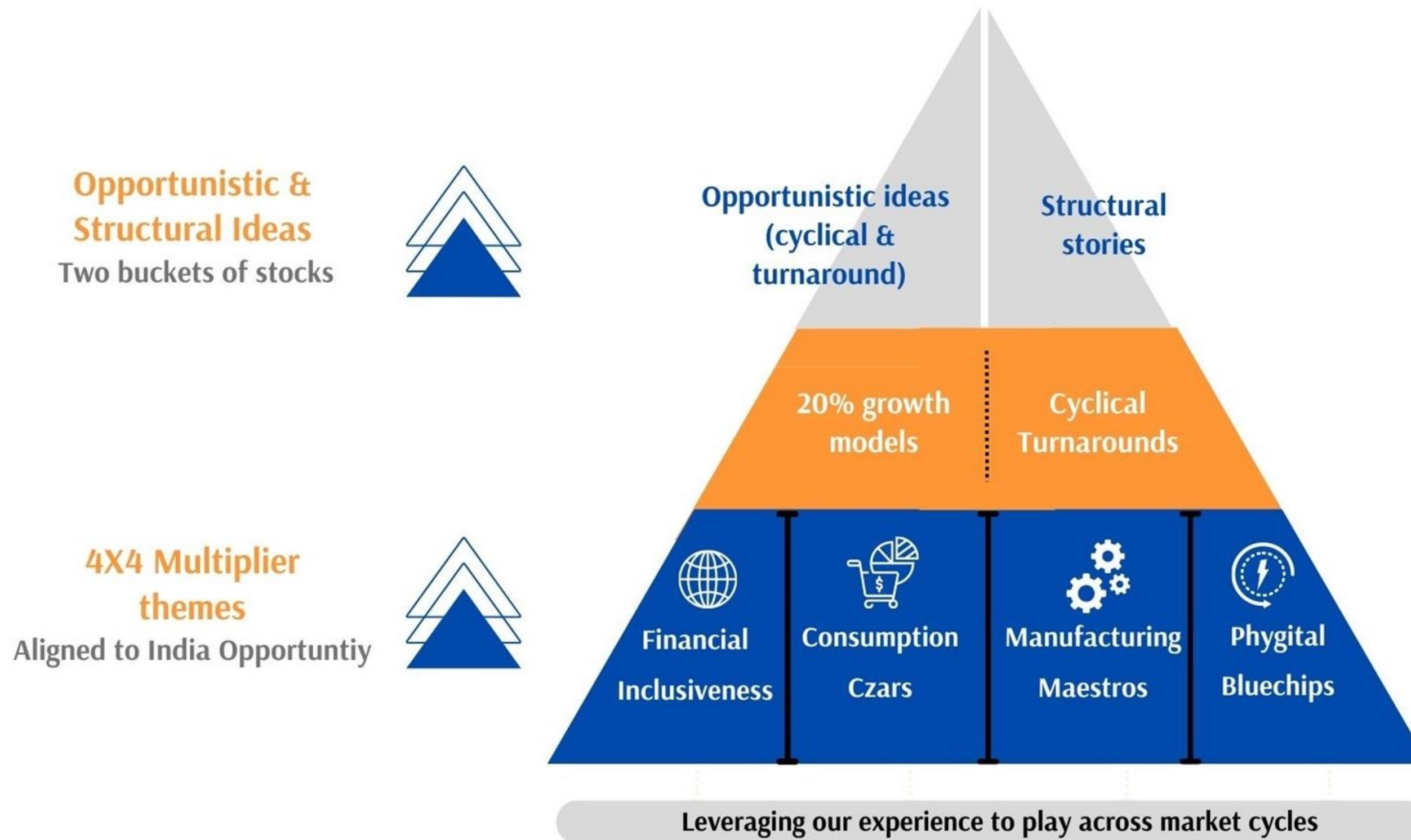
**Sundaram  
Alternates  
capitalising  
on the right  
opportunities**

**Atlas II**





## Atlas II investment framework



- Structural high growth stories tend to get underappreciated in short term mostly
- Low liquidity in mid & small cap space do offer large value opportunities during market down cycles
- Cyclical businesses provide excellent contra opportunities during weak industrial cycles

# Atlas II Investment Themes

## Structural Equities

### Quality of Business

- Scalability – How big is the opportunity?
- Self Sustaining business models – 3Q Financial framework
- Strong differentiating factor in business
  - What is the key competitive advantage:
  - Is it cost competitiveness, a superior brand leading to higher pricing power or pure execution?

### Quality of Financials

- Ability to double earnings in 4-5 years
- Growth = Reinvested Cash x RoIC
- Businesses with min. ROIC of 15%
- Higher cash generation leads to higher reinvestment: OCF/ EBITDA >50%
- Debt to Equity: <0.5x – low debt helps navigate business tough times

### Quality of Management

- Past execution track record
- Vision of management
- High sustainable growth
- Past record of identifying and investing in profitable opportunities
- Good corporate governance track record

## Opportunistic Equities

### Leveraging Market Volatility

The market in its inherent volatile nature provides pockets of cyclical / turnaround opportunities at attractive valuations. Such pockets also provide lucrative risk-reward opportunities at different facets.

### Investing in Turnaround Opportunities

- Clear Entry – Exit strategy
- Extremely attractive Risk – Reward
- Sufficient Margin of Safety

### Investing in Value Opportunities

- |                              |                            |
|------------------------------|----------------------------|
| • Under appreciated business | • M&A                      |
| • Niche businesses           | • Spin Offs / Split        |
| • Management turnarounds     | • Out-of-favour industries |

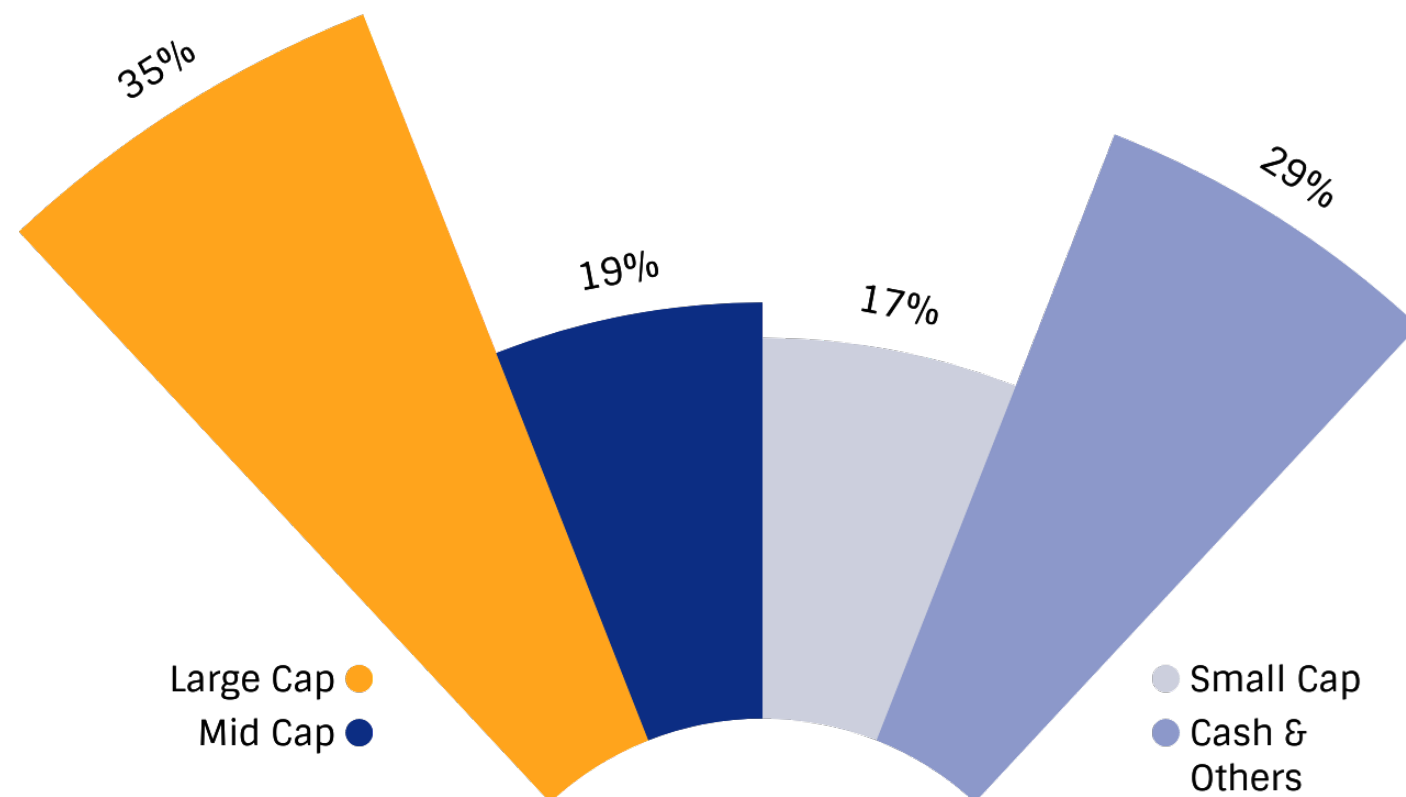


## Atlas II at a glance

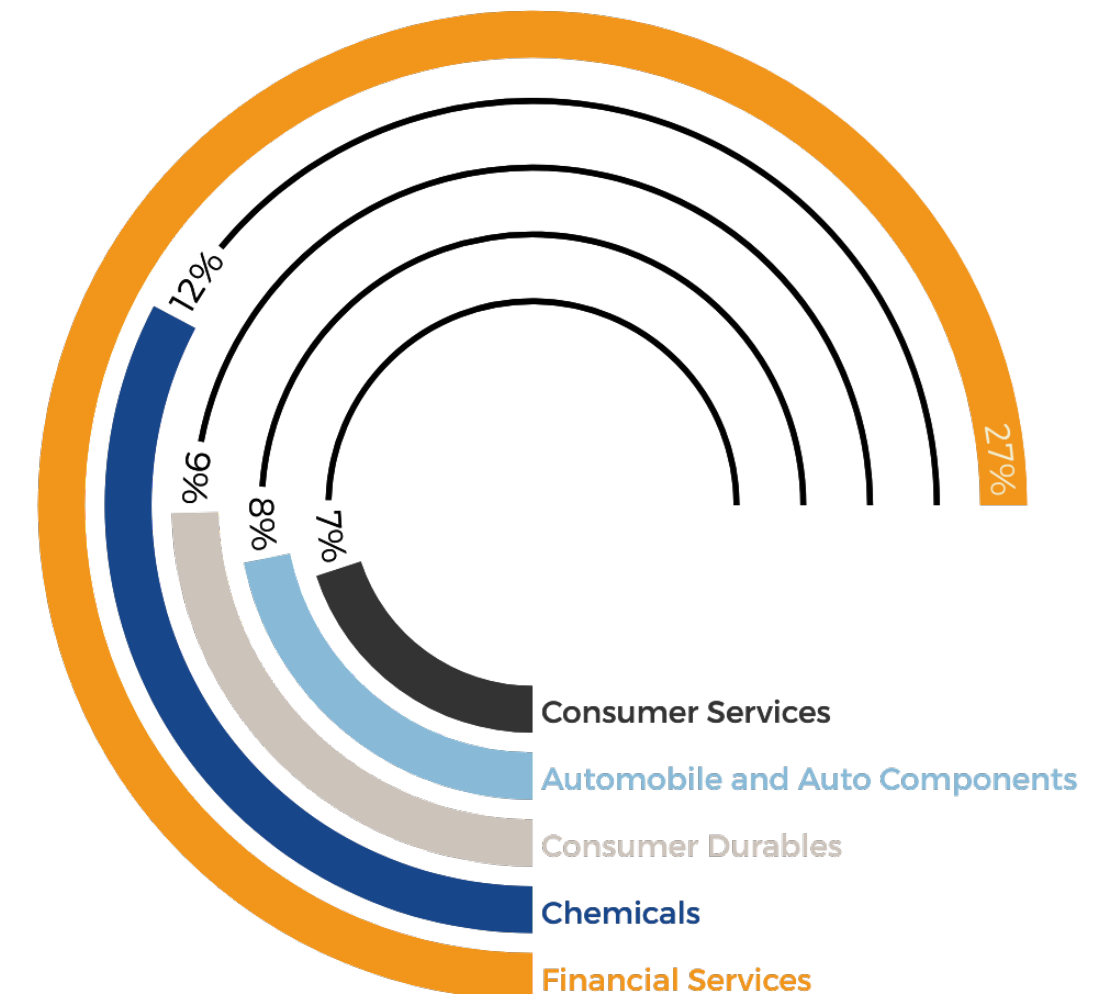
**1** | Launch : Dec 2022

**2** | Funds collected have been deployed into stocks of various sectors to the extent of 71% as at 30th of Apr 2023

### Allocation across market capitalization



### Top 5 Sectors



### Top 5 stock holdings

ICICI BANK LTD
AXIS BANK LTD.
AU SMALL FINANCE BANK LTD
TITAN COMPANY LTD
NAVIN FLUORINE INTERNATIONAL LTD

05

# Atlas II

## Fund terms





## Investment Objective

The primary objective of the Fund will be to carry on the activity of a Category III AIF, as permissible under the AIF Regulations so as to generate absolute total returns by adopting a bottom-up investment process. The portfolio will be a multi cap portfolio with investments in large, small and mid-cap stocks, as well as units of other Category III AIFs, with the objective of seeking long term capital appreciation. The Fund would have a concentrated target portfolio of about 20 (twenty) stocks which would typically range between 15 (fifteen) to 25 (twenty-five) stocks. The number of Portfolio Entities in the portfolio is indicative and would be determined by the Investment Manager based on the opportunities, available funds for investment and market conditions.

The Fund's investments will focus predominantly on structural growth stories and a portion of allocation to cyclical turnaround stories so as to achieve the objective of the Fund.

The Fund will invest across market caps and will be sector agnostic.

### Drawdown

**Initial Drawdown** – 30%  
**Subsequent Drawdown**  
– At discretion of  
Investment Manager

**NAV Frequency**  
Monthly

### Investment Manager

Sundaram Alternate  
Assets Limited

### Sponsor

Sundaram Finance  
Limited



**Fund Name : Sundaram Alternative Opportunities Fund – Atlas Sr II**

**Fund Structure** : Close Ended Category III AIF

**Tenure**: 6 years from the date of first closing; extendable by 1 year post approval from investors

## Capital structure and fees

Class	Minimum investment	Management fee p.a.	Hurdle rate with high watermark	Performance fee
<b>d</b>				
A1	Rs. 1 crore – 5 crores	2.50%	Not applicable	Not applicable
A2	Rs. 1 crore – 5 crores	2.25%	10% IRR (pre-tax) p.a.	15%

## Exit Load (Adjustment to NAV on exit)

Exit Window	Adjustment to NAV on Exit
<12 months from final closing or final drawdown whichever is later	5% of NAV plus applicable taxes, duties and levies (i.e. exit value)
> 12 month <= 24 months from final closing or final drawdown whichever is later	4% of NAV plus applicable taxes, duties and levies (i.e. exit value)
> 24 month <= 36 months from final closing or final drawdown whichever is later	3% of NAV plus applicable taxes, duties and levies (i.e. exit value)
> 36 month <= 48 months from final closing or final drawdown whichever is later	1% of NAV plus applicable taxes, duties and levies (i.e. exit value)
> 48 months from final closing or final drawdown whichever is later	Nil
Exit Window	<b>Hard lock-in: Nil</b> Redemption allowed from the immediate quarter of the final closure/drawdown whichever is

### OTHER TERMS:

- Administrative Expenses: Up to 0.25% p.a.
- Organizational Expenses: Up to 2.00% (as applicable)
- All expenses indicated are excluding applicable taxes
- Management fees will be calculated on the daily average AUM and charged monthly in arrears
- Drawdown: Initial Drawdown – 30%; Subsequent Drawdowns – At discretion of Investment Manager



# Fund Management



## VIKAAS M SACHDEVA

*Managing Director*

- Vikaas M Sachdeva Managing Director, Sundaram Alternates Vikaas is an industry veteran with over three decades of experience.
- In the course of his career, he has held several influential and senior management positions across marquee financial service organizations viz. Edelweiss Asset Management, Enam Asset Management, Birla Sun Life AMC Ltd., and ING Investment Management.
- He has a broad range of interests across functions like sales, distribution, marketing, Investment banking, product, and customer service.
- Vikaas was erstwhile member of the Mutual Fund Advisory Committee (MFAC) and Association of Mutual Funds of India (AMFI). He's a jury member for the India Fintech Forum



## MADANAGOPAL RAMU

*Fund Manager & Head, Equity*

- Comes with rich 16-year capital market stint from an analyst to head of research to fund manager & Head of Equity for last 6 years.
- Astute business understanding across sectors, strong affinity for number crunching, qualified cost accountant and management degree from BIM Trichy.
- Sundaram Emerging Leadership Fund (S.E.L.F.) ranked 2nd among Best Funds in the Mid and Small cap space at the India's Smart Money Manager Awards 2021.
- SISOP and PACE earned 4 and 3 stars respectively in the Multi Cap category, and S.E.L.F. received 3 stars in Small & Mid Cap category in PMS Bazaar's PMS Rankings FY 20-21, powered by CRISIL.

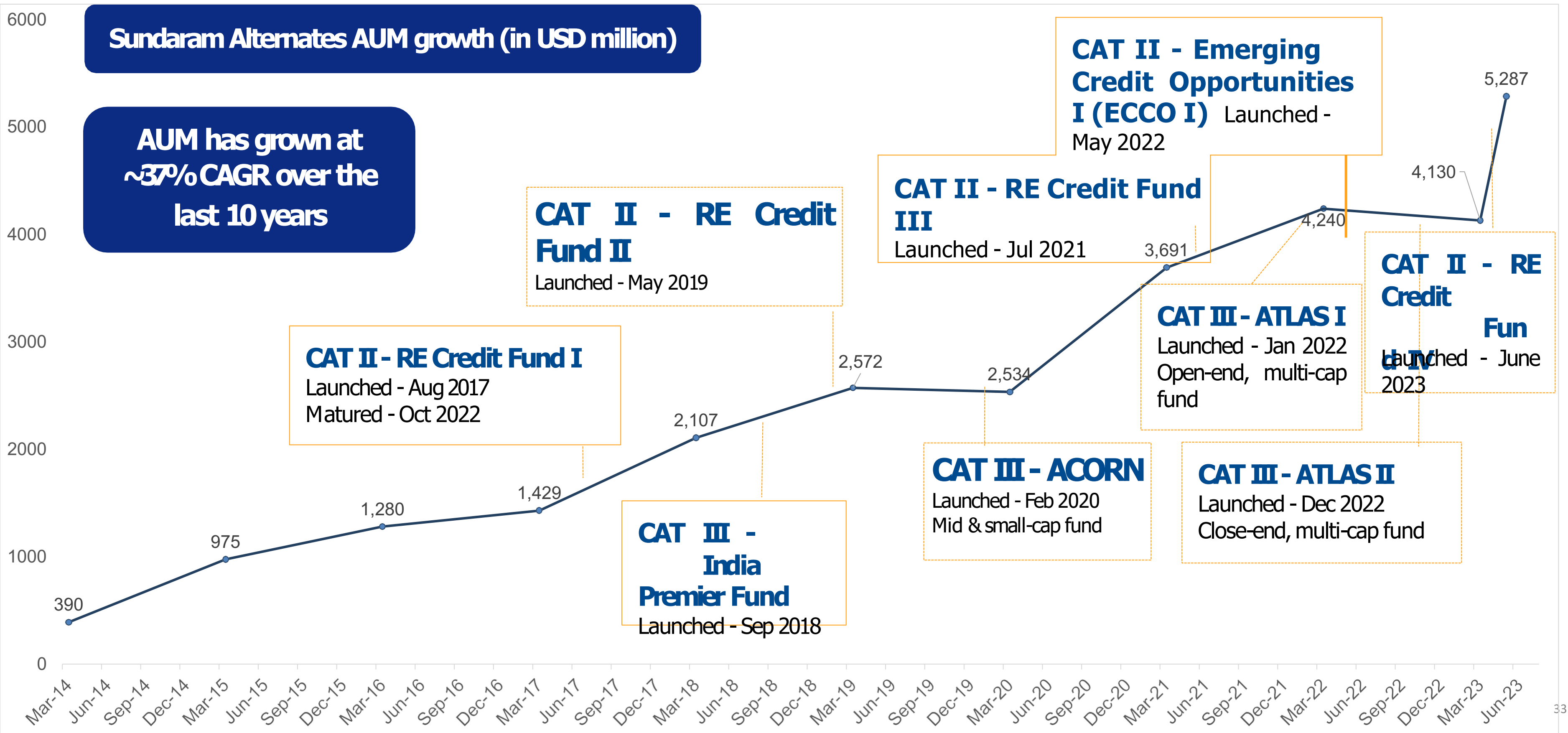


## PRASHANT N KUTTY

*Assistant Fund Manager*

- Over 15 years equity research experience and actively managing funds for last 1 year.
- Worked with top tier capital market companies like HDFC Securities, Standard chartered securities and Emkay securities before 6-year current stint in Sundaram Mutual Fund.
- Closely tracked Consumption sector for over 10 years; has special affinity in identifying mid and small cap stocks.
- Astute business acumen understanding across sectors & likes playing with numbers, he holds an MBA from BVIMSR, Mumbai University.

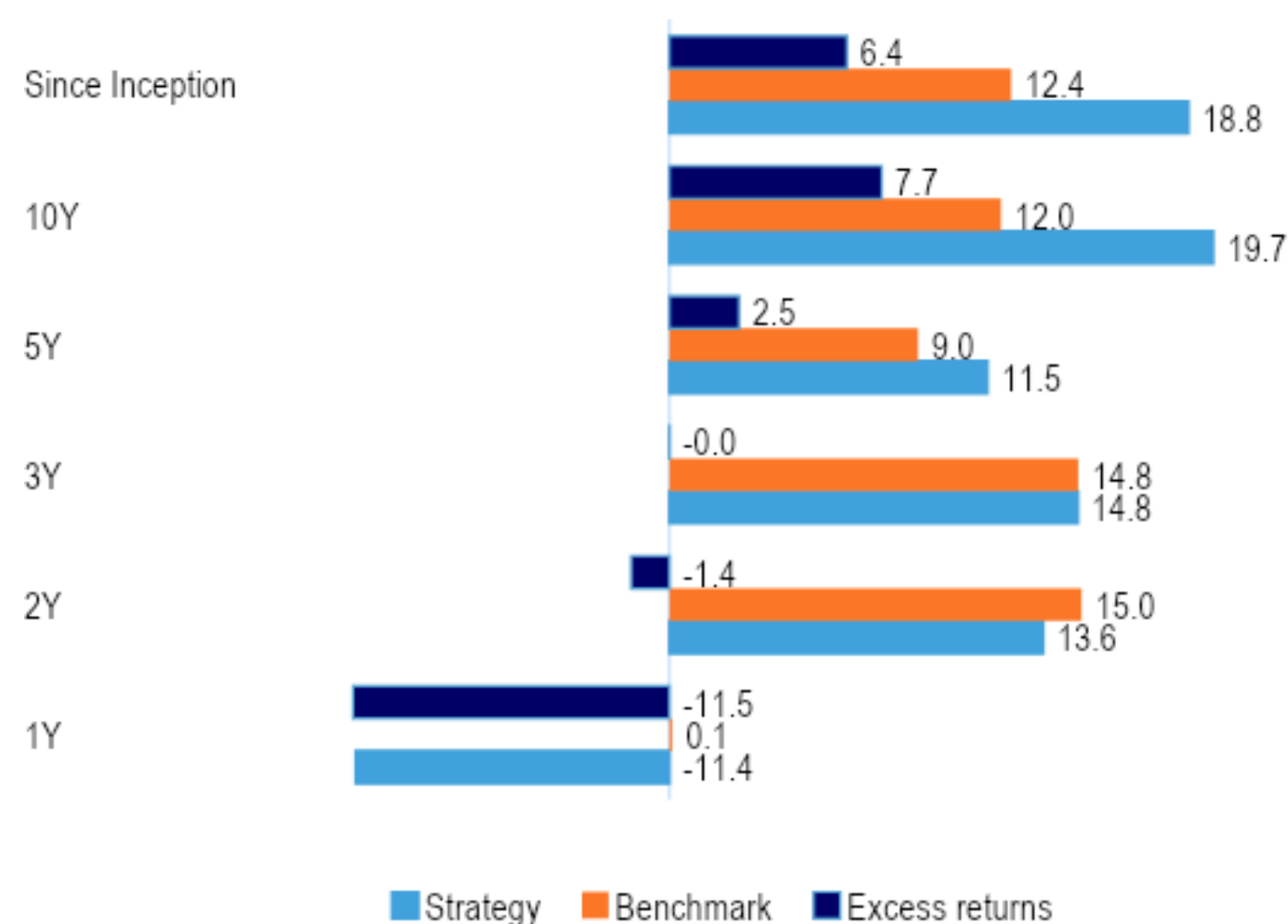
# Our rapidly growing AIF platform





## Our track record in identifying Opportunistic Equities : Sundaram Voyager

- With a track-record of over a decade, our Voyager portfolio has delivered an impressive alpha of ~6% since its inception.
- The portfolio has grown ~7.0x vs ~3.7x in the benchmark. Rs. One crore invested in 2011 has made Rs. 3.3 Cr more than the benchmark in this time period.
- We are certain that the reasons for the consistent out-performance has been 1. Disciplined investment in to compounding and 2. Meaningful investment into mid and small cap opportunities in cyclical sectors.



### Stability across market, economic and investment cycles

Year	Strategy (%)	Benchmark (%)	Excess Returns
2011	0.2	-9.6	9.9
2012	20.0	31.8	-11.9
2013	23.4	3.6	19.8
2014	72.8	37.8	35.0
2015	5.3	-0.7	6.0
2016	4.4	3.8	0.6
2017	49.2	35.9	13.3
2018	-12.1	-3.4	-8.7
2019	15.3	7.7	7.6
2020	32.6	16.7	15.9
2021	42.2	30.2	12.1
2022	-7.0	3.0	-10.0
2023 YTD	15.3	10.5	4.8

### Resilient performance

The down-capture ratio of <100 is indicative of the overall outperformance of the portfolio vs the benchmark in down-market conditions

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Investors can invest directly into the Fund by subscribing to Class

C1 units with a management fee of 1.75% p.a. or Class C2 units with management fee of 1.50% p.a.; hurdle rate of 10% and performance allocation of 15%.





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# THANK YOU

We look forward to  
scaling new peaks with  
you