



September 21, 2023

Portfolio Commentary

The “newness” factor

- The trend in PSUs and business-to-government (B2G) sectors like defence and railways has surprised the investing crowd.
- It's essential to realise the importance of “newness” in investing.
- Investors have traditionally ignored the newness factor in emerging themes.
- History is replete with examples of how the evolution of humankind has happened because of new, innovative trends, and technologies.
- Newness matters not only at the macro level but also at micro level.

You might also like our [Policy Makers Still Hard At Work](#) and [Investment Strategy](#) Click [here](#) to read them for free.

The headline indices saw some weakness in the August, declining 2.5%, while the mid and small-cap indices continued to rally, with gains of 3.5% to 4.6%. The continued strength in mid and small-cap indices was partly led by sustained rerating in PSUs across the board.

The trend in PSUs and business-to-government (B2G) sectors like defence and railways has surprised the investing crowd. These sectors were traditionally considered unfit for investments because of extreme business and political volatility. Their earnings were always lumpy, their return ratios were low, and they were not accorded good valuations even when they made considerable profits. Many investors who invested in these companies in the past paid the price in terms of opportunity cost as the stock prices never moved meaningfully while the other parts of the market kept moving.

However, there has been a significant change in the past few years as the government became quite serious about building and improving the country's infrastructure and promoting domestic defence manufacturing. Due to the government's focus and significant order inflows, companies in these sectors saw significant valuation rerating, delivering multi-bagger returns in a very compressed time. Many investors missed the trend because of a lack of commensurate pick up in fundamentals and earnings delivery.

Several investors also shun these sectors as a policy to reduce portfolio volatility. They don't change their stance even when the conditions change, which might lead to short-term underperformance but this approach is good for long-term portfolio compounding because it's vital to stick to the circle of competence in long-term investing.

The story above has one important takeaway. It's essential to realise the importance of "newness" in investing. The biggest wealth gets created in the market when investors are willing to bet on something new. That something could be a new industry trend, a new sector, a new listed company, a new product or a new management. Even when investors stick to their circle of competence in sector selection, they must never overlook the newness factor in companies or sectors they pursue.

History is replete with examples of how the evolution of humankind has been driven by new, innovative trends, and technologies. Those who embrace this newness succeed immensely, and those who ignore this are often left behind.

Here are some examples of how “newness” has defined stock returns in the past three decades.

New Factor	Business Impact	Stock Market Impact
Computers and internet	Remote working, labour arbitrage and IT outsourcing boom	IT companies became significant wealth creators
Housing demand led by increased income post liberalisation	Real Estate boom and mortgage opportunities	Real Estate companies and private banks made significant wealth
Formation of NHAI	Transformation of highways	Infra companies had a big run in the late 2000s
Crash in mobile tariffs	Higher penetration of mobile phones amongst masses	Telecom companies made significant wealth in mid 2000s
Bank balance sheet clean-up	Proliferation of NBFCs	Some NBFCs delivered multi-bagger returns
Crash in data tariffs	Increased data consumption and deep digitisation, high efficiency in business and delivery of government services	New telecom companies and internet start-ups created wealth
Electrification, Rail Infrastructure Upgrade, Defence indigenisation, Civic Infrastructure	Created local demand for material and services	Companies supplying to the concerned industries generated enormous wealth.
COVID and discount broking	4x increase in demat accounts, 7x increase in NSE F&O turnover	Listed discount brokers and depositories delivered multi-fold returns

The above table demonstrates only a few large-scale developments that have led to the growth in business and stock prices. Several other developments have made the economy much more efficient and passed many wealth-creation opportunities.

As mentioned earlier, newness matters not only at the macro level but also at micro level. This means new factors within industries and businesses make a significant difference and sometimes create massive moats for companies to grow sustainably.

Here are a few examples of how newness has helped businesses at the micro level.

New Factor	Business Impact	Stock Market Impact
Aditya Puri as the MD of HDFC Bank	Creation of a world-class Indian bank and India's most valued financial institution	The bank achieved an astounding 16000% return during Mr. Puri's tenure
RK Damani focused on an own-and-operate discount retail model in India	Creation of a highly successful retail chain in India	Stock 5x in 5 years. DMART is one of the most expensive offline retailers in the world.
Facelift of Royal Enfield by Eicher Motors	Eicher Motors became one of the most profitable auto companies in the country	Stock delivered 150x returns in 10 years to 2018
Appointment of Sandip Bakshi as ICICI Bank MD	The "new" manager turned around the business with renewed focus on retail business	Stock has recovered sharply from its crisis lows
Astral pioneering in CPVC plumbing	Became a category creator and garnered huge market share and mindshare. Profit up 118x in 18 years.	Stock price up 473x from IPO in 2007
Titan organising jewellery retail	Titan became one of India's most trusted jewellery brands. Profit up 130x in last 23 years.	Stock is up 745x in last 24 years

These are, again, only a few examples of wealth creation where the companies brought something new to the fore. It obviously comes with a disclaimer that not all new things tried at the micro level succeed. There is a very high failure rate in this space, and therefore, investors need to get on the bandwagon only when the newness starts getting monetised sustainably by the companies.

Newness in Sanctum portfolio

At Sanctum, we understand that betting on something new is always fraught with risk. Therefore, we try to strike a balance between holding established businesses and businesses with a newness element. Our large-cap exposure, which is over 50%, provides stability to the portfolio and consists of companies that have established businesses. Then there is the balance 48% in mid and small-cap exposure, where we have a decent degree of newness.

Here is a table detailing the newness profile of some of our portfolio companies.

Stock Name	New Factor	Business Impact
APL Apollo Tubes	Pioneer and category creator in square and rectangle structural tubes. Induced branding in a commoditised product.	Quickly became a market leader due to newer products and is now the country's largest manufacturer of structural tubes.
Astral Ltd.	Pioneer in CPVC plumbing, got into adhesives (new product)	Astral commands 25% market share in CPVC pipes and has changed the plumbing industry forever.
KEI Industries	Government renewed focus on power infra creation, new focus on house wires (consumer segment)	Sales doubled and profit more than tripled in the last five years.
Craftsman Automation	New listing, new capex in aluminium forging, EV opportunity	The company outpaced industry growth in tough auto cycle and is displaying robust growth as the auto sector recovers.
Century Textiles	Focus shifted to real estate business	Has set bold targets for real estate bookings in FY24 and FY25
Deepak Nitrite	Phenomenal success in Phenol. New capex plans and decent new product lineup, backward and forward integration in Acetone.	Company has demonstrated its capability in executing and monetising large-scale projects. The impact of new initiative is yet to be seen in numbers.

Any new initiative requires capable executors at the top who can put the plan into action and can navigate skilfully when the boat starts rocking. This is why we emphasise the track record of people at the helm of these companies. Business outcomes are generally phenomenal when a great idea meets a great executor.

Our focus on newness and various other factors has helped us deliver stable returns in the Titans portfolio over the years.

Here is how our flagship portfolios have done over time.

Portfolio Performance

Performance as on August 31, 2023	1 Month	3 Month	6 Month	1 Year	CAGR			
					2 Year	3 Year	5 Year	Since Inc.*
Sanctum Indian Titans	-1.0%	8.1%	16.4%	10.6%	7.7%	21.8%	12.8%	14.6%
BSE500TR Index	-0.6%	7.7%	17.3%	11.3%	9.2%	23.3%	12.6%	15.7%
* Since Inception Returns are from 18-Nov-16								
Performance as on August 31, 2023	1 Month	3 Month	6 Month	1 Year	CAGR			
					2 Year	3 Year	5 Year	Since Inc.*
Sanctum Indian Olympians	-1.2%	4.1%	12.2%	5.2%	4.0%	16.6%	10.6%	11.4%
Nifty 50TR Index	-2.3%	4.4%	12.2%	9.5%	7.3%	20.6%	11.8%	13.4%
* Since Inception Returns are from 16-Sep-16								

The detailed performance can be viewed and compared with other PMS performance at this [webpage](#).

Performance is calculated using Time Weighted Returns, net of fees and expenses. Returns over one year are compounded annually; returns for less than one year are absolute. Please note that SEBI does not verify the performance information provided above. Please note that past performance is not a guarantee of future performance.

Sanctum Wealth

Investment and Advisory

Roopali Prabhu**CIO and Head of Products and Solutions**roopali.prabhu@sanctumwealth.com**Hemang Kapasi****Head of Equities**hemang.kapasi@sanctumwealth.com**Rajiv Mehra****Assistant Fund Manager**rajiv.mehra@sanctumwealth.com**Deepak Khatwani****Investment Analyst, Investment Office**deepak.khatwani@sanctumwealth.com**Harsh Shah****Investment Analyst, Investment Office**harsh.shah@sanctumwealth.com**Alekh Yadav****Head, Investment Products**alekh.yadav@sanctumwealth.com

Disclaimer

Different investments involve varying degrees of risk, and past performance is not indicative of future results. Please do not assume that the future performance of any specific investment or investment strategy (including the investments and/or investment strategies recommended or undertaken by us) will be profitable. Results may vary over time and from client to client. Any projections or other information illustrated in this presentation that may have been provided to you regarding the likelihood of various investment outcomes are hypothetical and do not necessarily reflect actual investment results, nor should they be considered guarantees of future results. Historical performance results for investment indices and/or categories have been provided for comparison purposes, and index returns may vary substantially from past performance in the future. Other investments not considered in the analysis and the recommendations from this analysis may have characteristics similar or superior to those being analysed. Please remember to contact Sanctum Wealth if there are any changes in your financial situation or investment objectives or if you wish to impose, add or modify any reasonable restrictions to our services.