
DSP MIDCAP FUND

An open ended equity scheme predominantly investing in mid cap
stocks

It's Time To Invest, Once Again

Whether we're talking about socks or stocks, I like buying quality merchandise when it is marked down – Warren Buffett



Source – Bloomberg; Data as on 31 May 2022.

For a long-term investor, drop in stock price (as above) provides an opportunity to buy quality companies at lower prices. Buying quality stocks when they are beaten down helps to lower cost of holding as well as help to benefit when the cycle turns and stocks starts to outperform.

Why are we talking about it?

DSP Midcap Fund has been underperforming the index and category in last 1 year. As every stock has its own cycle with period of high & low returns, similarly, every fund has its own cycle of underperformance & outperformance. What is more important is that are you “ADDING MORE” during such underperformance to get benefit of lower prices. Through this note, we have tried to highlight why this can be one of the best time to take midcap exposure through DSP Midcap Fund.

*To all the curious readers – Stock mentioned in the above chart is of **SUPREME INDUSTRIES (4%)** - Top weight in DSP Midcap fund!*

The sector(s)/stock(s)/issuer(s) mentioned in this document do not constitute any recommendation of the same and the Fund may or may not have any future position in these sector(s)/stock(s)/issuer(s).

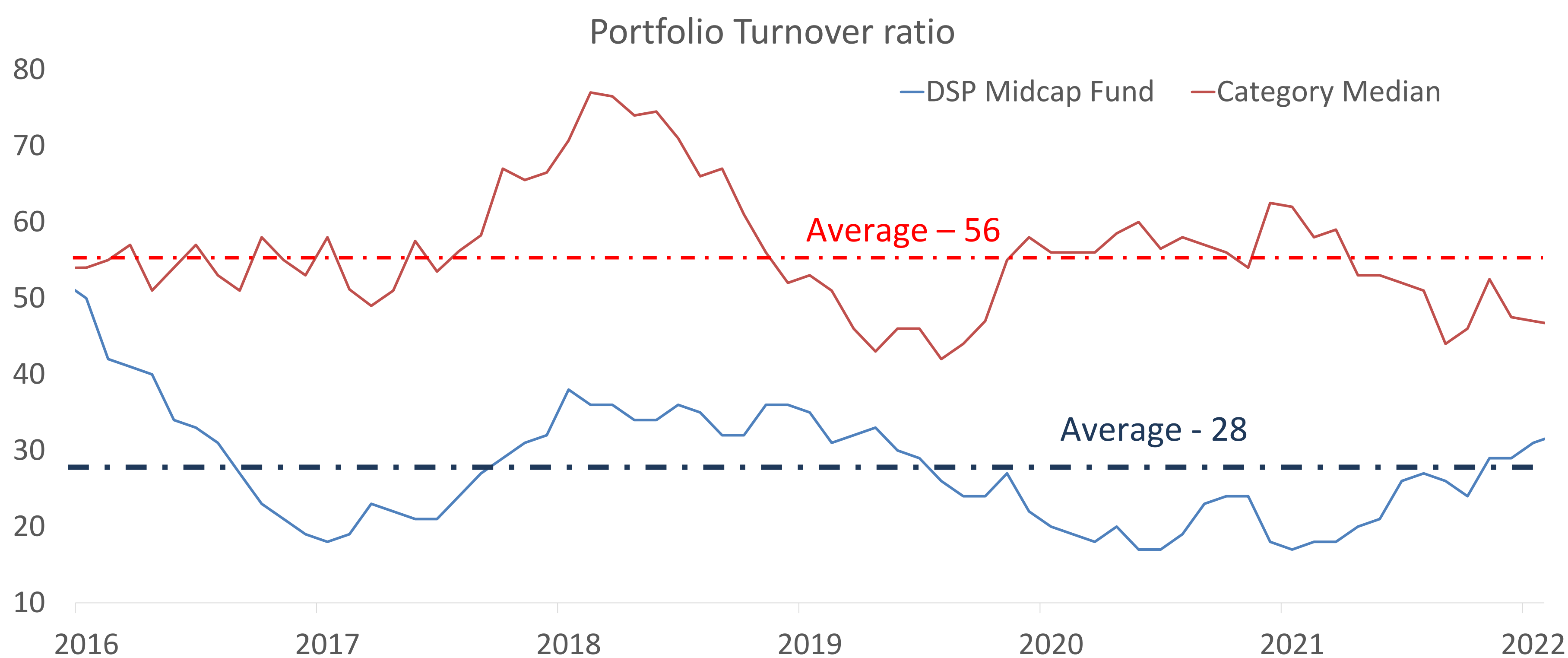
Buy & Hold approach – Sticking to quality stocks with high conviction even if stocks underperform in short term

Patience is a virtue and Long holding periods are often required to nurture businesses.

DSP Mid Cap Fund is actively managed and portfolio companies are selected after a detailed fundamental analysis of the business, management and valuation. Our philosophy is that businesses do not become big overnight and it takes years to build a successful business and hence our portfolio construction approach is aligned to this thought.

Whenever we buy stocks, we intend to hold it for its entire business cycle and will also like investors to invest in this segment with a similar time horizon. *When we have confidence that our companies remain on their growth trajectories and have solid management teams fuelling this growth, we ignore market noise, exercise patience and hold the investments. If business fundamentals remain intact, we will stomach short term volatility*

Fund has lower portfolio turnover compared to category average



Source – MFIE; Data as on 31 May 2022

Fund remains cautious in adding new stocks as we remain focused on quality companies which makes it within our framework (which also includes check on governance parameters by our inhouse Skeptical analyst)

New stocks added	2022	2021	2020	2019	2018	2017
DSP Midcap Fund	7	17	6	11	9	19
Category Median	10	22	19	16	20	22
Nifty Midcap 150	17	35	31	31	36	26

Did you know ?

~33%

of portfolio is held over 5 years

~60%

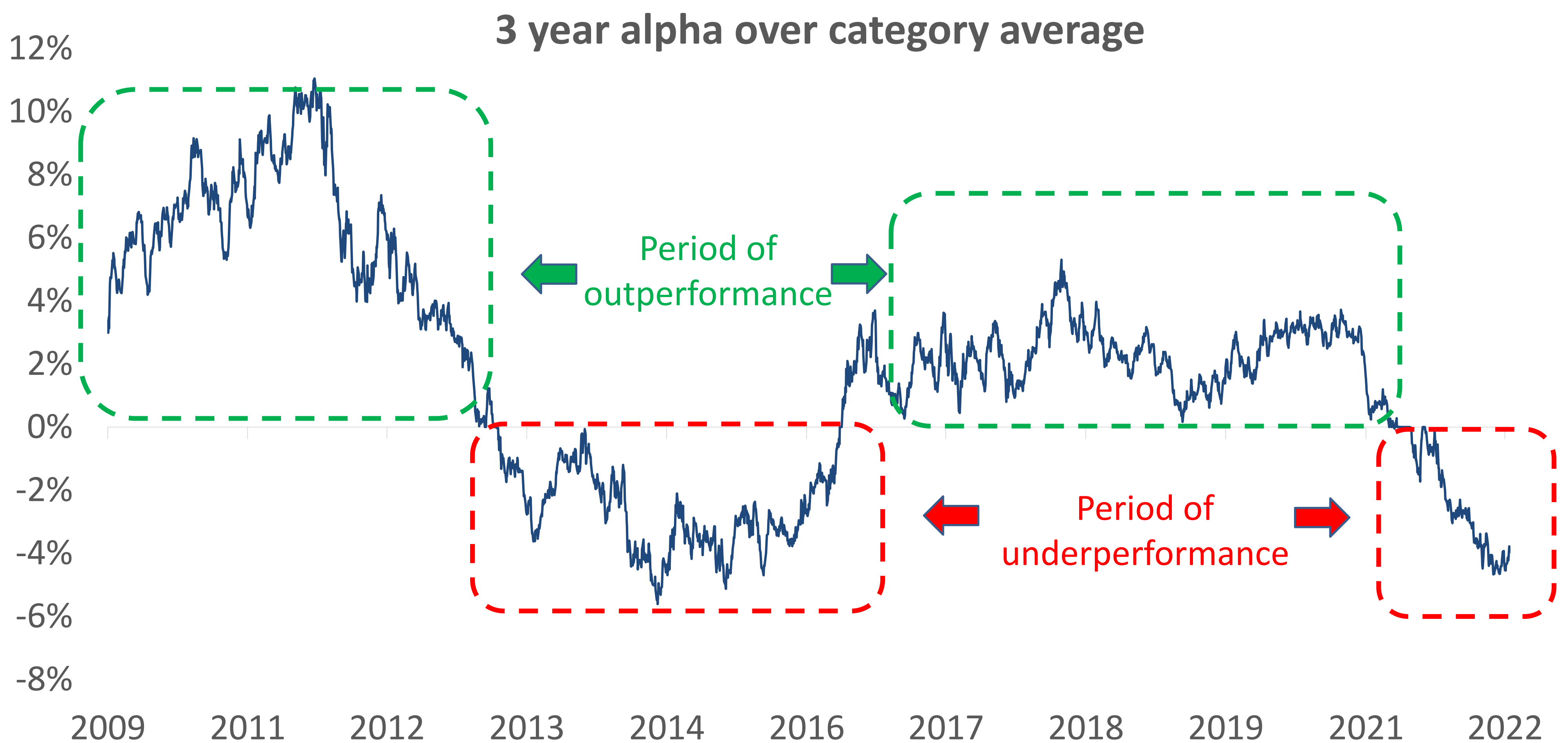
of portfolio is held over 3 years

Source – MFIE, Internal ; Data as on 31 May 2022

Buy & Hold ⇨ Short term underperformance ⇨ Good opportunity !

Having known fund manager's approach of managing the fund, we had done a detailed analysis to study fund's performance vs Category average & we have noticed following observation

Outperformance with category is cyclical; period of outperformance is usually followed by period of underperformance



Source – Internal, MFIE. Data as on 31 May 2022. **Past performance may or may not be sustained in future and should not be used as a basis for comparison with other investments.** There is no assurance of any returns/capital protection/capital guarantee to the investors in the Scheme. For performance in SEBI prescribed format & performance of other schemes by same fund manager, refer annexure in page 8

Investment during period of underperformance can have higher likelihood of beating category average; Higher underperformance has potential to lead to higher outperformance in future

3 year alpha vs Category average	Average future 3 year alpha if invested during period of underperformance	% times future 3 year alpha is positive
0 to -1%	+ 1.1%	80.3%
-1 to -2%	+ 1.7%	95.5%
-2 to -3%	+ 2.3%	100.0%
<-3%	+ 2.7%	100.0%

DSP Midcap fund has underperformed category by ~4.0% on 3 year returns as on 31 May 2022.

Source – Internal, MFIE. Data as on 31 May 2022. **Past performance may or may not be sustained in future and should not be used as a basis for comparison with other investments.** There is no assurance of any returns/capital protection/capital guarantee to the investors in the Scheme. For performance in SEBI prescribed format & performance of other schemes by same fund manager, refer annexure in page 8

Buy & Hold ➡ Short term underperformance ➡ Good opportunity !

Period of underperformance provides opportunity to increase our weights in high conviction stocks at lower price.

Illustration - Top stocks that dragged performance can be amongst top contributors if held during period of underperformance

Period when DSP Midcap fund underperformed category/Index

Period when DSP Midcap fund outperformed category/Index

Performance draggers in Oct 2017 -18

Performance contributor in Oct 2018 -19

Company Name	Oct 2017 - Oct 2018		
	Avg % Wgt	Return (%)	Contribution to Return (%)
MANAPPURAM FINANCE LTD	2.2	-29.3	-1.1
RAMCO CEMENTS LTD/THE	2.1	-16.6	-0.6
PHOENIX MILLS LTD	0.7	-16.3	-0.2
SUPREME INDUSTRIES LTD	2.9	-12.5	-0.5
PI INDUSTRIES LTD	2.5	-3.0	-0.08
SRF LTD *	3.3	3.7	0.07

Company Name	Oct 2018 - Oct 2019		
	Avg % Wgt	Return (%)	Contribution to Return (%)
MANAPPURAM FINANCE LTD	2.6	126.2	2.5
RAMCO CEMENTS LTD/THE	3.4	31.9	1.0
PHOENIX MILLS LTD	1.5	35.2	0.5
SUPREME INDUSTRIES LTD	3.2	25.7	0.8
PI INDUSTRIES LTD	2.6	75.8	1.6
SRF LTD	3.5	60.1	1.8

Benchmark returns - -1%, Fund Returns --4%

Benchmark returns - -2%, Fund Returns +7%

DSP Midcap fund held stocks inspite of negative/flat returns due to high conviction

Source – Factset. Data as on 31 May 2022. Past performance may or may not be sustained in future and should not be used as a basis for comparison with other investments. There is no assurance of any returns/capital protection/capital guarantee to the investors in the Scheme. Benchmark – Nifty Midcap 150 TRI * SRF was high conviction bet & not performance dragger during Oct 2017-18

▶▶ In a nutshell,

- DSP Midcap fund has underperformed recently compared to benchmark & category average.
- Given the buy & hold approach & analysis of past data, we feel that recent underperformance provides an opportunity to you to add on quality midcap companies at lower cost.
- Also, recent correction in stocks in midcap space has made valuations very attractive.



Rationale for holding Top 5 stocks inspite of significant fall

Company Name	~ % Fall from Peak	Reason for holding
Supreme Industries Limited	-30%	<ul style="list-style-type: none"> ○ Largest PVC pipe player with stable market shares of 12 -13% having widest range of product basket in PVC pipes ○ Invested heavily in last 2-3 years (~Rs1000 cr) across the segments and continuing to do so which can drive healthy volume growth in medium term. ○ It has been very prudent in its capital allocation, consistently generated ROCE in excess of 20%, generates strong operating cashflow of more than Rs 1000 cr and has net cash of Rs 500cr on balance sheet despite high capex intensity. ○ We believe growth in medium term will be driven by ramp up of new capacities and cyclical recovery in Agri pipe demand.
Cholamandalam Investment and Fin Co Ltd (CIFIC)	-12%	<ul style="list-style-type: none"> ○ Company has cash cow businesses in form of vehicle finance and loan against property accounting ~92% of AUM ○ Delivered 30%+ earnings growth and 17-18% RoE in last 10 years ○ Strong execution track record under Mr. Vellayan S (current chairman), resilient business model driven by exposure to diversified business segments, healthy growth and return profile with reasonable valuations makes for attractive investment case.
Coromandel International Limited	0%	<ul style="list-style-type: none"> ○ Largest private entity in the Agri input industry in India with dominant market position in key Agri markets of Southern India. ○ Agri industry in India is still in its nascent stage given that 48% of the area under cultivation is still not irrigated and average yield of key crops is ~30-50% lower than global averages. ○ Proactive government steps like NBS, clearing pending subsidies, digitizing land records, Income support schemes and piloting DBT will eventually pave way for balanced nutrient consumption. ○ Over the last 6 years, Coromandel has demonstrated superior performance with EBITDA CAGR of 19% and average ROE of ~22%. Over these years, the company has turned net cash (Rs 3500 cr) from net debt position of ~Rs 2500 cr in FY16. ○ Company is now generating strong free cash flows which can lead to capex cycle over the medium term. This can provide strong visibility of healthy growth going forward. ○ We feel all these to be great drivers of growth for the Agri industry and specifically for the leaders like Coromandel. Valuation remains reasonable at 18x trailing EPS.



Rationale for holding Top 5 stocks inspite of significant fall

Company Name	~ % Fall from Peak	Reason for holding
IPCA Laboratories Limited	-31%	<ul style="list-style-type: none"> ○ One of the lowest cost manufacturer of several API / intermediates. & forward integrated player on the formulation side across the globe ex USA. ○ 56% of IPCA's current formulation business is backward integrated with own APIs. ○ IPCA's India formulations business continues to grow (FY19-22 CAGR of 15%) faster than the market driven by its key molecules as well as expansion of its basket in newer therapy areas. ○ India formulations accounts for 43% of FY22 sales and 55% of its operating profit. We expect growth momentum in this business to sustain led by its planned implementation of new divisions, addition of marketing personnel and field force expansion in FY23. ○ IPCA's exports business is good mix of branded biz in CIS/Africa and generic markets in Europe. At IPCA's small scale of formulation sales in these markets and backward integration with own API we believe there is huge scope to grow these businesses profitably. US FDA approval remain an optionality.
Atul Ltd	-25%	<ul style="list-style-type: none"> ○ A diversified chemical company strategically investing across the divisions to expand and de-bottleneck capacity, enter downstream and adjacencies, new products, backward integration, investing in product approvals, new products having sustainable solutions etc. ○ Last 2 years has been challenging for Atul because of covid led disruptions and crude price volatility leading to flat EBITDA. Margins kept eroding during FY22 led by continuously increasing input cost, logistics cost, power & fuel and lower export incentives. We feel some of these issues are transitory and should gradually improve. ○ The most important element which is giving us conviction is its aggression on capex. Capex has inched up during FY22 where company spent ~Rs 600 cr and is currently undertaking capex worth Rs 1700 cr. Overall capex is equally split between basic and specialty products. ○ All this can bring additional revenue of Rs 2k-2.5k cr. It is expecting to commission most of these projects during FY23.

EBITDA – Earning before interest, debt & amortization, ROCE – Return on Capital Employed, API – Active Pharmaceutical Ingredient, CIS – Commonwealth of Independent States, FDA – Food & Drug Administrator - US. The sector(s)/stock(s)/issuer(s) mentioned in this document do not constitute any recommendation of the same and the Fund may or may not have any future position in these sector(s)/stock(s)/issuer(s). The investment approach / framework/ strategy / portfolio / other data mentioned herein are dated and currently followed by the scheme and the same may change in future depending on market conditions and other factors. Data as on 31 May 2022

Annexure - Scheme Performance in SEBI Prescribed format (Growth option)

Historical Returns (As per SEBI format) with investment of ₹ 10,000

	This fund		Nifty Midcap 150 TRI [^]		NIFTY 50 TRI [#]	
	<u>CAGR</u>	<u>Current Value</u>	<u>CAGR</u>	<u>Current Value</u>	<u>CAGR</u>	<u>Current Value</u>
1 Year	-0.38%	₹ 9,962	10.28%	₹ 11,028	7.9%	₹ 10,790
3 years	14.35%	₹ 14,956	19.23%	₹ 16,959	13.03%	₹ 14,447
5 Years	9.85%	₹ 15,998	13.65%	₹ 18,964	12.97%	₹ 18,403
since Inception	14.49%	₹ 82,069	13.73%	₹ 73,922	11.16%	₹ 51,824
NAV / Index Value	₹ 82.07		₹ 13,185		₹ 23,958	

Date of allotment: **Nov 14, 2006.**

Period for which fund's performance has been provided is computed based on last day of the month-end preceding the date of advertisement

Different plans shall have a different expense structure. The performance details provided herein are of **Regular Plan.**

Since inception returns have been calculated from the date of allotment till **May 31, 2022**

Past performance may or may not be sustained in future and should not be used as a basis for comparison with other investments

Rolling returns have been calculated based on returns from regular plan growth option.

[^] **Fund Benchmark** [#] **Standard Benchmark**

Annexure - Performance of other schemes managed by same fund manager

All Funds managed by Vinit Sambre							
Sr. No.	Period	1 Year		3 Years		5 Years	
		Scheme return (%)	Benchmark return (%)	Scheme return (%)	Benchmark return (%)	Scheme return (%)	Benchmark return (%)
1	DSP Small Cap Fund	17.93	9.1	22.97	17.11	11.82	9.28
2	DSP Top 100 Equity Fund	0.24	8.29	7.99	13.44	7.56	12.71
3	DSP Healthcare Fund	(3.61)	(7.9)	26.42	19.93	NA	11.36
4	DSP Focus Fund	(0.09)	8.08	9.38	14.25	8.07	12.4

All Funds managed by Resham Jain							
Sr. No.	Period	1 Year		3 Years		5 Years	
		Scheme return (%)	Benchmark return (%)	Scheme return (%)	Benchmark return (%)	Scheme return (%)	Benchmark return (%)
1	DSP Small Cap Fund	17.93	9.1	22.97	17.11	11.82	9.28

Data as on 31 May 2022.

Different plans shall have a different expense structure. The performance details provided herein are of regular plan, growth option.

Past performance may or may not be sustained in future and should not be used as a basis for comparison with other investments

Annexure - Performance of other schemes managed by same fund manager

All Funds managed by Jay Kothari

Sr. No.	Period	1 Year		3 Years		5 Years	
		Scheme return (%)	Benchmark return (%)	Scheme return (%)	Benchmark return (%)	Scheme return (%)	Benchmark return (%)
1	DSP Regular Savings Fund	2.68	1.82	6.27	8.2	4.61	7.74
2	DSP Global Innovation Fund of Fund	NA	(0.21)	NA	15.84	NA	13.1
3	DSP Equity Opportunities Fund	1.75	8.99	13.55	16.22	10.58	13.18
4	DSP Focus Fund	(0.09)	8.08	9.38	14.25	8.07	12.4
5	DSP World Energy Fund	(2.64)	33.21	7.61	19.92	5.35	14.58
6	DSP Value Fund	2.8	8.08	NA	14.25	NA	12.4
7	DSP World Agriculture Fund	(14.05)	(0.21)	9.59	15.84	7.29	13.1
8	DSP India T.I.G.E.R. Fund	16.55	8.29	13.56	13.44	9.64	12.71
9	DSP Small Cap Fund	17.93	9.1	22.97	17.11	11.82	9.28
10	DSP World Mining Fund	10.6	2.53	29.58	25.16	20.4	18.15
11	DSP Top 100 Equity Fund	0.24	8.29	7.99	13.44	7.56	12.71
12	DSP Healthcare Fund	(3.61)	(7.9)	26.42	19.93	NA	11.36
13	DSP World Gold Fund	(17.37)	(12.27)	14.24	19.39	5.97	11.76
14	DSP Global Allocation Fund	(5.4)	(0.43)	10.6	11.62	7.91	10.52
15	DSP US Flexible Equity Fund	3.61	4.23	19.67	20.31	15.69	17.37
16	DSP Natural Resources And New Energy Fund	4.57	29.12	16.57	19.03	11.08	13.46
17	DSP Equity Savings Fund	5.09	5.13	7.52	8.63	6.62	8.69

Data as on 31 May 2022.

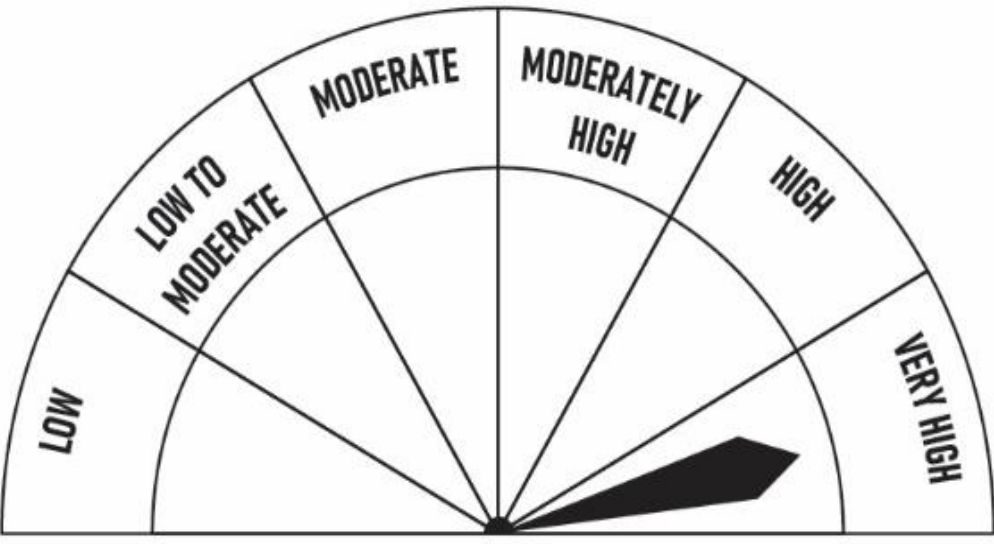
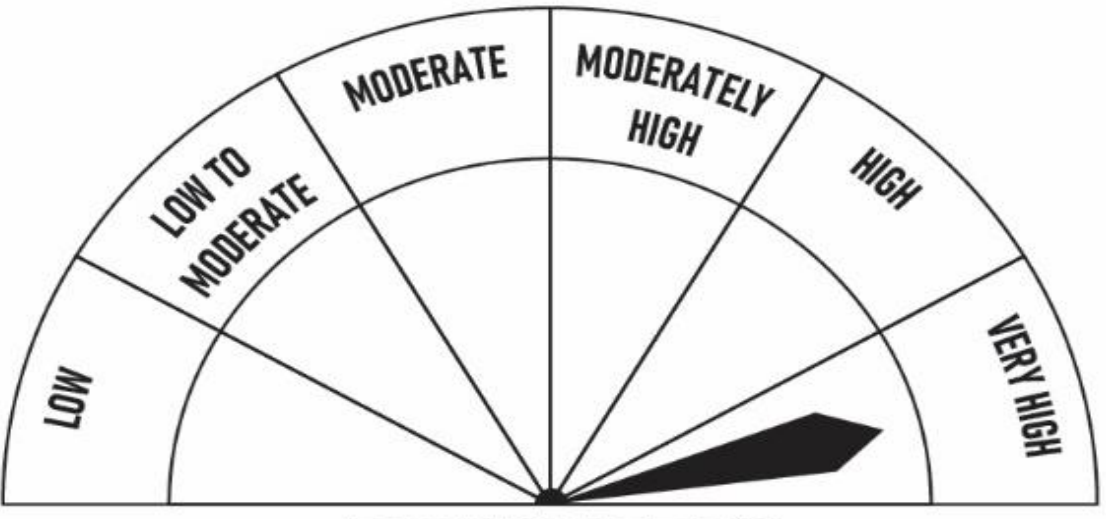
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Disclaimers

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The strategy mentioned has been currently followed by the Scheme and the same may change in future depending on market conditions and other factors. Large-caps are defined as top 100 stocks on market capitalization, mid-caps as 101-250 , small-caps as 251 and above.

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

Scheme	Product Suitability	Riskometer	
		DSP Mid Cap Fund	Benchmark - Nifty Midcap 150 TRI
DSP Mid Cap Fund (Mid Cap Fund - An open-ended equity scheme predominantly investing in large mid cap stocks)	This open-ended equity Scheme is suitable for investor who are seeking* <ul style="list-style-type: none"> • Long-term capital growth • Investment in equity and equity-related securities predominantly of midcap companies 	 <p>RISKOMETER</p> <p>INVESTORS UNDERSTAND THAT THEIR PRINCIPAL WILL BE AT VERY HIGH RISK</p>	 <p>RISKOMETER</p> <p>INVESTORS UNDERSTAND THAT THEIR PRINCIPAL WILL BE AT VERY HIGH RISK</p>

*Investors should consult their financial advisors if in doubt about whether the Scheme is suitable for them.