

# The Upper Edge

Quarterly Investors' Digest

# 2024 Q1



UpperCrust Wealth  
FAMILY WEALTH OFFICE

# Profit in Public Hands

JANUARY 2024 | ISSUE 4

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# Redefining the Narrative of Government Ventures

Notes from My Inbox



By Durgesh Pandya  
Chairman, UpperCrust Wealth

"The only way to make sense out of change is to plunge into it, move with it, and join the dance."  
- Alan Watts

Government-owned business have historically accumulated a lot of infamy - be it the rude hostesses in Air India, or the non-existent customer service at MTNL, or even the lunch hours at SBI branches.

Other than select oil and power businesses, the government was doing a pretty shoddy job at being enterprising. Traditionally, investing in CPSEs (companies in which the government has a direct stake of 51% or more) would turn out to be a drag on one's portfolio.

If one had invested in CPSEs between 2004-14, whether by tracking the BSE PSU index or investing in a CPSE ETF, the return would've been 93% (Nifty 50 grew by 320% in the same period)!

But things are changing and fast! Look at the post pandemic era for example. From 2020 to now, investing in CPSEs would have yielded an outperformance of about 100% over the Nifty 50.

And this trend is here to stay!



## Notes from My Inbox

From being viewed in bad light to being the reason behind their success, the government's support has transitioned from being a crutch to a solid moat - a story that we find quite appetising!

We've identified 5 large opportunities, which will transform the way we look at CPSE, and how much money we can make from investing in them.

### 1 Privatisation

Where it's clear that the government has no business being in business, it has been withdrawing. Air India has been a classic example and hope fully someday it will be BPCL.

### 2 Consolidation

The mega consolidation in PSBs in 2020 saw 10 banks merge into 4. But there are several still left to go through value unlocking from merging brands, overheads, systems and processes.

### 3 Dilution

Despite the infamy gathered by the government, some businesses have been doing exceptionally well, but them being unlisted meant investors don't get a share of profits. That's changed for the better with LIC and HAL being listed, and several like ITDC still in the works of getting listed.

### 4 Transformation

From revising pay scales to improving performance measurement, working in a PSU has undergone massive changes. Look at the result in PSU banks on NPAs reducing and growth coming back of decades of inactivity. That's a positive change with a runway and potential mirrors.

### 5 Enhancement

The one thing this government has nailed is fiscal stimulus. And who better to take advantage of this than CPSEs themselves? Contracts across defence, power and rail are obviously going to CPSEs since these sectors are still dominated and controlled by the government.

As we venture into uncharted waters in the new year, it is only fair that while we always rely on moats to steer clear of ambushes in the market, we must also find our anchors -the CPSE story, one that is yet to unfurl completely and could be that decadal story we need to propel the UpperCrust Wealth Fund!

In this edition of The Upper Edge, hop on board a journey where we bring out our CPSE- tracker, disclose key insights into finding these gems, and how it all fits into the moat-esque way of life we follow around here.

As Bollywood fanatics would say, "Picture abhi baaki hai mere dost"!

As always, I invite you to get in touch via [mail@uppercrustwealth.com](mailto:mail@uppercrustwealth.com) if there is any aspect of our service to you that requires attention.

# The Simple Math Behind Scaling Up



By Manish Shah  
Executive Director, UpperCrust Wealth

## THE QUICK TAKE

India's fiscal push is likely to continue driving growth. GDP going 2x over the next 7 years will only result in much higher benefits for CPSEs.

India is now the 5th largest economy in the world, with a GDP of US\$ 3.7 trillion. In just the last 5 years, it has grown 1.4x, thanks to the aggressive fiscal push. India's budgetary capex has grown 2.4x in the last 5 years, catalysing an unfathomable multiplier effect.

So massive is the government's support, that spend on rail is up 1.3x, power generation is up 1.2x, defence capex is up 1.6x and spend on roads is up 2.7x. While this spend impacts several dimensions, the one direct benefit is for companies involved in directly implementing this spend.

A majority of this fiscal stimulus is in sectors which are still heavily owned, controlled and operated by the government. Naturally, the direct beneficiaries are companies that win these orders, and see a direct impact in the form of earnings growth, valuation re-rating and stock price appreciation.

Naturally, several CPSEs have been multi-baggers over the last 5 years, giving up to 13x returns in short periods. But let history not fade the future for you. By 2030, India will become the 3rd largest, hitting a GDP of US\$ 7.3 trillion.

That's 2x in the next 7 years for the overall economy. Now, imagine what will happen to individual stocks!

## Market Update

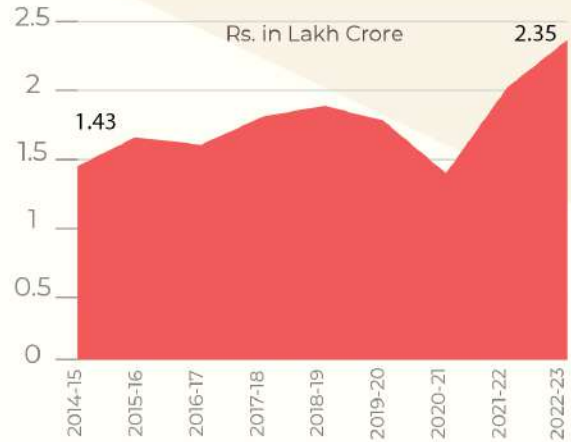
Government's aggressive spending has been a key growth driver

CAPEX BUDGET



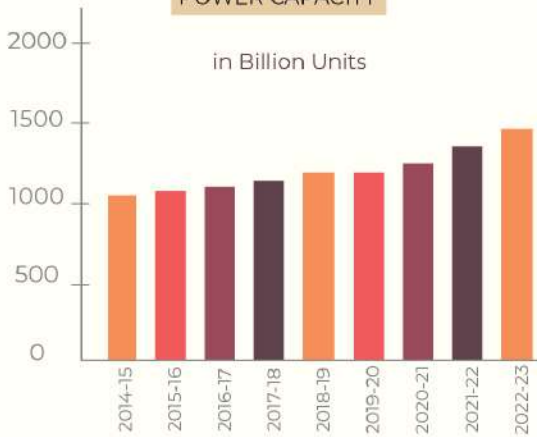
3,000 new trains over the next 5 years, will only increase the rail spend

RAIL BUDGET



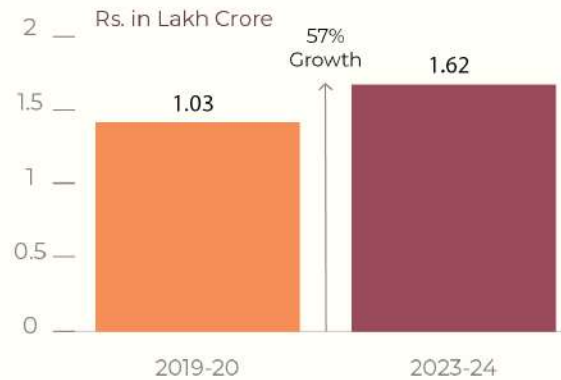
Massive revamp of power transmission yet to happen

POWER CAPACITY



Defence spend has gone up meaningfully over the last few years

DEFENCE CAPEX OUTLAY

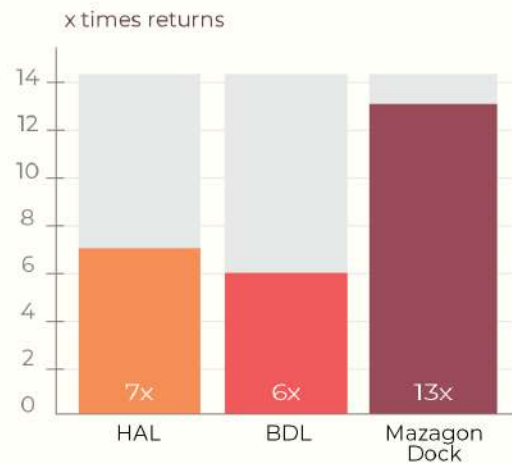


Higher spend has resulted in robust order books for companies like HAL

HAL'S ORDER BOOK



Defence stocks have been multi-baggers, led by earnings & valuations



# Catching The “Ratna Express”



By Yash Joshi  
Director - Private Wealth, UpperCrust Wealth

## THE QUICK TAKE

The reclassification of CPSEs from one title to the next in the ratna system provides for a value unlocking opportunity that gives supernormal returns

A noteworthy truth about gemstones is that they are a symbol of prosperity. And, just like these gemstones, some companies start small and look rather unattractive for long periods, and are only found in their crystalline magnificence after transitioning from one form to another!

A multitude of these companies, when found at the right time, can we even migrate in value from being small-and-mid caps to large caps! Just in the past year, while the Nifty gave about 18-20% return, stocks like IRFC and PFC went 3x, being reclassified as large caps once investors realised the value they possess.

Just like in the private world, there are CPSEs that climb up the ladder in a scheme that was set up back in 1997, giving them a shot at being gems in investors' portfolios, and at redeeming themselves from their regressive reputation.

While the scheme has existed for more than two decades, it is only recently that we've seen a revival of the relevance of a term that was last heard of in the courts of Akbar - Ratnas!

In fact, in the last year, among the Nifty Midcap stock winners of 2023, the entire top 5 line up has been dominated by this category of CPSEs that gave 2-3x returns, as they upgraded from being Miniratnas to Navratnas, and from Navratnas to Maharatnas.



## Sector Analysis

CPSEs need to accomplish certain criteria to be classified as a Miniratna, and then scale up the ranks.

While the reclassification gives them the ability to invest higher amounts of money without government approval, it is the scale-upgrade that matters more in orbital changes, and also drives higher valuations.

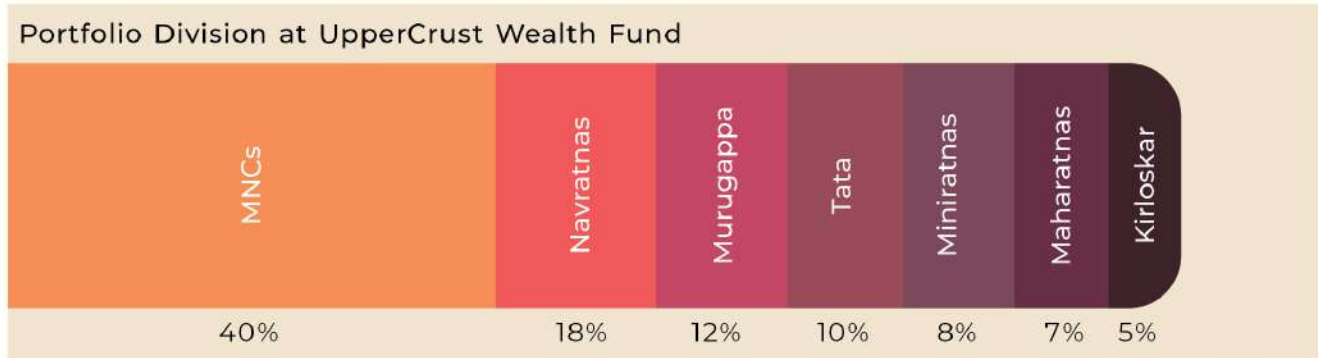
	Eligibility
Miniratna	Should be profitable for 3 consecutive years or earn a net profit of a minimum of Rs. 30 crore in 1 of 3 years
Navratna	Should score 60 or more on a test that depicts dependability and profitability using various metrics
Maharatna	Should have average net worth of > Rs. 15,000 crore and average net profit of > Rs. 5,000 crore for 3 years

**Rail Vikas Nigam Limited** successfully transitioned from a Miniratna to a Navratna, owing to its ability to efficiently implement the multitude of railway infrastructure projects that came its way, driving a stock price increase of 169%.

Just in 2023, we've also seen how Rural Electrification Corporation, a mid-cap Navratna company, not only transitioned into a large-cap, but also into a Maharatna, owing to a combination of high power demand and immense government support, driving returns of 274%.

Both these companies witnessed significant valuation re-rating, with RVNL seeing 1-year forward PE multiples go from under 10x to above 26x now, while REC saw multiples go from 2x to 8x, all within a year of the reclassification!

While the Maharatna title is the current end goal of the 68 Miniratnas, 16 Navratnas and the 300+ CPSEs that are yet to scratch the surface, the opportunities to find transitional value pockets are innumerable!



It's a good thing that the UpperCrust Wealth Fund's exposure to these is about a third of the entire portfolio!



# Peer-to-Peer: Beyond the Usual



By Dipen Shah  
AVP - Alternative Investments

## THE QUICK TAKE

Diversify your portfolio with an exciting opportunity to directly lend to your peers and earn an interest that is far higher than an FD, powered by our friends at LenDenClub

We have been talking a whole lot about equities and storylines around that asset class, but we've heard the age-old phrase that one must not put all their eggs in one basket - and this alternative investment option is all about that!

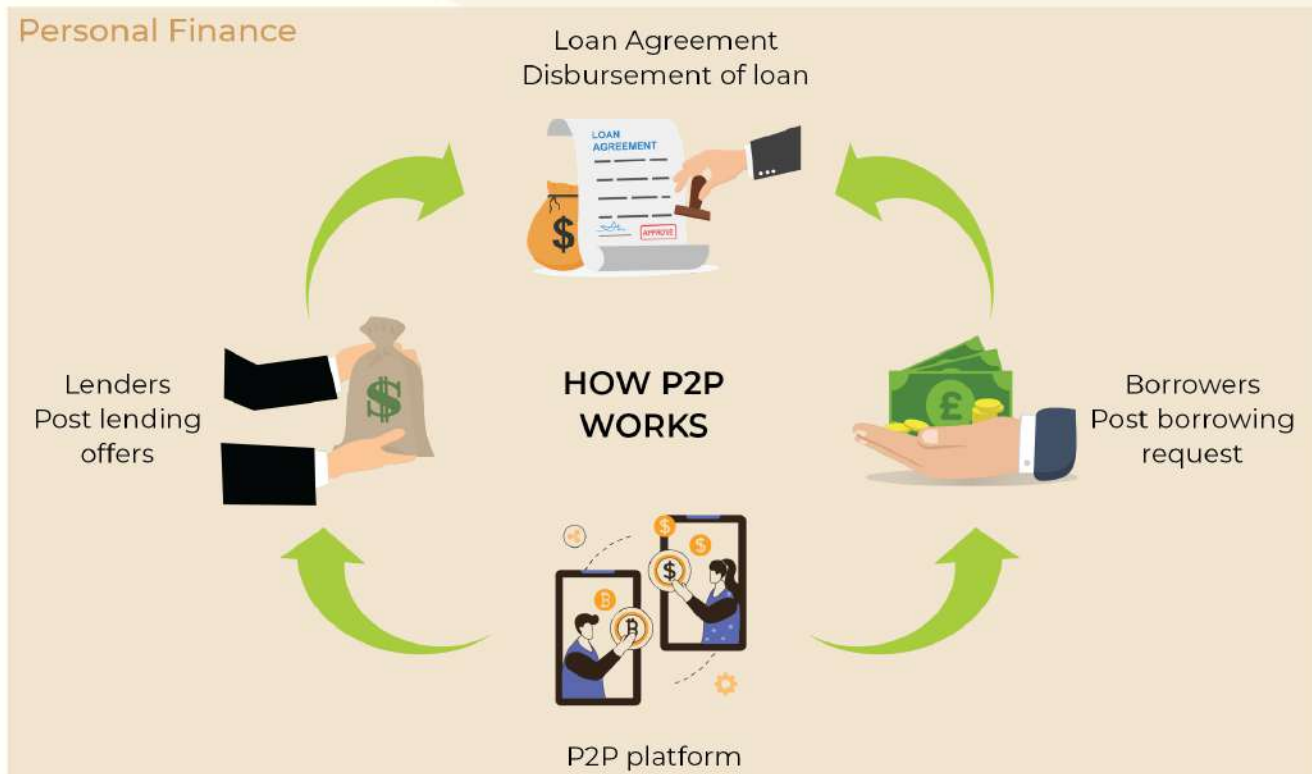
Presenting peer-to-peer lending, a trending new idea for you to consider, where individuals lend money directly to borrowers through online platforms, thereby cutting out middlemen like banks and other financial institutions.

If you log onto a P2P lending platform, such as LenDen Club, the space connects you to a lender if you need to borrow money, or connects you to a borrower if you wish to lend money.

For borrowers, it just provides ease of access to money, on a timely manner, with negligible paperwork, and without much intervention. However, for lenders, it's an investment opportunity that can yield up to 12% returns, while minimising risks.

Technology enables these platforms to not just thoroughly check the borrowers' profiles within seconds, but also effectively distribute a single lender's money across hundreds or even thousands of borrowers, thereby reducing risk, while still maintaining returns.

## Personal Finance



But to further reduce for investors, it is important to choose the right P2P platform. Platforms can differ not just in terms of who they lend to and how rigorous their risk mitigation is, but also across their size, scale, systems, processes and technology.

Since LenDenClub is the top-most P2P lending platform in the country, with more than 1 crore registered users backing this product, we couldn't resist the opportunity to partner with them and offer our investors a chance to invest in a modern and sleek fixed-income product.



With an ROI of up to 12%, immediate liquidity, entirely digitised processing, and multiple investment options including SIPs, this product definitely racks up well amongst its traditional alternatives of FDs, debt mutual funds and other fixed income products.

Reach out to us to enquire about this exciting opportunity to diversify your portfolio. Send us an email on [mail@uppercrustwealth.com](mailto:mail@uppercrustwealth.com) or call us on +91 72289 56639.

# Creating Safety Nets

By Team UpperCrust

## THE QUICK TAKE

The markets being at an all-time high provides an opportunity to stick to fundamentally strong plays, which our moat strategy is perfectly aligned with.

EQUITY	DEBT	GOLD	INTERNATIONAL
Positive over the medium to long term given India's positioning, fiscal stimulus and potentially supportive monetary policy	Inflation being under control could result in rate cuts, leading to lower yields and capital appreciation	Likely to continue being a safe haven as volatility remains heightened in a rapidly changing economic environment	A reversal in monetary policy and evasion of recessionary trends to result in positive global sentiment
Higher exposure to growth visibility, structural plays, and valuation comfort	Longer term debt to benefit from currently high yields and potentially higher prices	Steady allocation to Gold to add cushioning to portfolios	Markets like China, Taiwan and Korea look attractive for the growth potential they have to offer



## Strategic Partnerships

We believe strategic partnerships are a major driver of the success of any business. We are committed to creating milestones, with all our partners.

As we scale newer heights, we want to take a moment to thank our growth partners for their long term relationship with us.

### Fixed-Income Investments Growth Partners





## UpperCrust Updates and Performance

as of December 31, 2023

1,086

↑ Up 14% QoQ

New SIPs started in the  
last quarter

Rs. 721 crore

↑ Up 3% QoQ

Total assets under  
management

2,309

Total family investment  
accounts



## Investment Philosophy at UpperCrest



Quality Management

Free Cash Flow

Capital Allocation

In the ever-evolving world of portfolio management, it's essential to have a clear and consistent philosophy.

### Quality Management

Great businesses aren't just about impressive numbers; but also about the people behind them. We firmly believe that the quality of a company's management team is a significant determinant of its long-term success.

Our focus is to identify those leaders who not only have a vision but also the capability to execute that vision.

We look for teams that are transparent, ethical, and have a proven track record of steering their companies through both good and challenging times.

### Free Cash Flow

Cash is king, as the old adage goes. In investing, free cash flow stands as a testament to a company's financial health and its ability to generate profits beyond its operating and capital expenses.

By focusing on companies with robust free cash flows, we're targeting businesses that have the financial flexibility to invest in growth, weather economic downturns, and provide returns to shareholders.

It's this financial prowess that often sets apart the great companies from the merely good ones.

### Capital Allocation

Having cash is one thing, but knowing where and how to deploy it is another. Superior capital allocation is about making strategic decisions that will yield the best returns.

Whether it's reinvesting in the business, acquiring companies, or returning capital to shareholders, we value companies that demonstrate a knack for allocating capital judiciously.

Our goal is to identify those companies that not only generate cash but also know how to use it to compound wealth over time.



## Why One Should Choose A PMS

01

Unlike most options, a PMS incorporates the highest level of **personalisation** towards your portfolio. Executed by experts in the field of stocks, bonds, direct MF schemes, index funds, and ETFs, your portfolio will be tailored to your liking



02

Investors can expect complete **transparency**, wherein every transaction and its cost are informed and explained efficiently. Bound by law, this makes PMS a trustworthy place to park your funds



03

With fund managers constantly working on optimising the portfolio, the probability of a PMS **outperforming the market** is fairly high. Even the UpperCrust Wealth Fund outperformed the S&P BSE 500 index in 2023, delivering a 41% return, while the index gave 24%!



04

While making money is a top priority, saving your money is one too! Rigorous **checks and balances** are undertaken throughout the process of managing your money to ensure they abide by all the regulations and your risk appetite



05

Since a PMS allows for the fund managers to charge a fee on the profits made once it crosses a certain benchmark, it is an **added incentive** for the PMS to ensure they put their best foot forward and make the investor the highest return possible







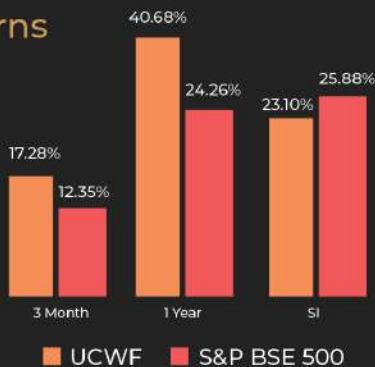
## Moat Financial Services Private Limited (Investment Manager to UpperCrust Wealth Funds)



### UpperCrust Wealth Fund

A portfolio made of high-quality stocks, with strong moats, meant to compound over the long-term and generate wealth

#### Returns



Portfolio Name: UpperCrust Wealth Fund

Co-Portfolio Manager: Manish Shah

Inception Date: January 20, 2022

Benchmark: S&P BSE 500 TRI

Investment Style: Core and Satellite (Value-Growth Fund)

Custodian: Orbis

Banker: IndusInd Bank

AMC Name: Moat Financial Services

SEBI Reg. No.: INP000004482

Total no. of subscribers: 51



### UpperCrust Growth Fund

Diversified multi-asset portfolio investing in stocks, MFs, ETFs, and bonds to generate long-term capital appreciation and constant risk-adjusted returns



### UpperCrust One Fund

A non-discretionary fund, custom built to suit your needs. Made by you and our team of experts, so you see your money grow first hand



## Life At UpperCrust



There has been a lot of talk about finding pockets of value and unlocking said pockets throughout this newsletter, therefore, it is only fair that this theme should transcend into the physical plane of existence in a way that makes an impact, while also showcasing the hospitality that we're known for!

This is reminiscent of the UpperCrust Wealth Conclave 2023 which turned out to be a stellar success, commemorating yet another year of curating a space that stands as a testament to the innovation in wealth solutions, tailored-made for your needs.

What transpired in the 6-hour, knowledge-filled evening, on an auspicious date as usual, is something that the youth these days describe as the "you just had to be there" moment.

An event like no other, where people of all ages came together to not just celebrate UpperCrust crossing the Rs. 600 crore AUM mark but to chart out a course at the sea of uncertainty that is life and how to navigate through it in a



## Life At UpperCrust



### Veterans Of The Evening

Mr A. Balasubramanian (MD and CEO of Aditya Birla Mutual Fund)

Mr Peshotan Dastoor (President of UTI AMC)

Mr Ashutosh Soni (Director of Harvish Jewels)

Mr CA Sachin Deorukhakar (Founder of CFO SME),

Mr Bhavin Patel (Founder of LenDen Club),

Mr Krishan Sharma (Behavioural Finance Expert)

From networking opportunities and friendly conversations to absorbing the intellect of investing veterans, it was a night to remember for clients and team members alike.

Not to mention the sumptuous meal at the end of it all as the ensemble unwound for the day!

All of this to ensure you end up being wealth-abundant at the end - whether it was about the India growth story, the evergreen method of investing in precious jewels, the modern space of peer-to-peer lending or unlocking the secrets of the mind of an investor!

# My Nation, My Pride Invest in Bharat



<https://www.uppercrustwealth.com>

For any suggestions and feedback,  
please write to us at  
[mail@uppercrustwealth.com](mailto:mail@uppercrustwealth.com)

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New Delhi | Bengaluru | Kochi

