ASHOKA INDIA EQUITY INVESTMENT TRUST PLC

WHITE OAK CAPITAL MANAGEMENT

Objective

To achieve long-term capital appreciation, mainly through investment in securities listed in India and listed securities of companies with a significant presence in India.

Company Facts

Ticker:	AIE
ISIN:	GB00BF50VS41
Benchmark:	MSCI India IMI[1]
NAV:	163.71p
Share price:	167.00p
(Discount)/ Premium:	2.0%
Number of investments:	65
Total net assets:	£140.73 million
Active share:	75.1%
Launch date:	06 July, 2018
On-going charges ratio[6]:	0.40% p.a.
Gearing:	0%
Discount Control:	Annual redemption facility at or close to NAV
Investment Advisor:	White Oak Capital Management Consultants LLP (India)
Firmwide AUM[4]:	£3.44 billion

Fees & charges

Management fees:	0%
Performance fees:	30% of outperformance (capped)

[1] The Company does not follow this or any other benchmark, it is given for illustrative purposes and for calculation of the performance fee only.

[2] Past performance cannot be relied upon as a guide to future performance.

[3] The funds raised from the IPO got substantially invested at the end of July.

[4] Refers to aggregate assets under management or advisory for the investment advisor, White Oak Capital Management Consultants LLP (India).

[5] The beginning NAV of 98 has been rebased to 100 for comparison with the benchmark and share price.

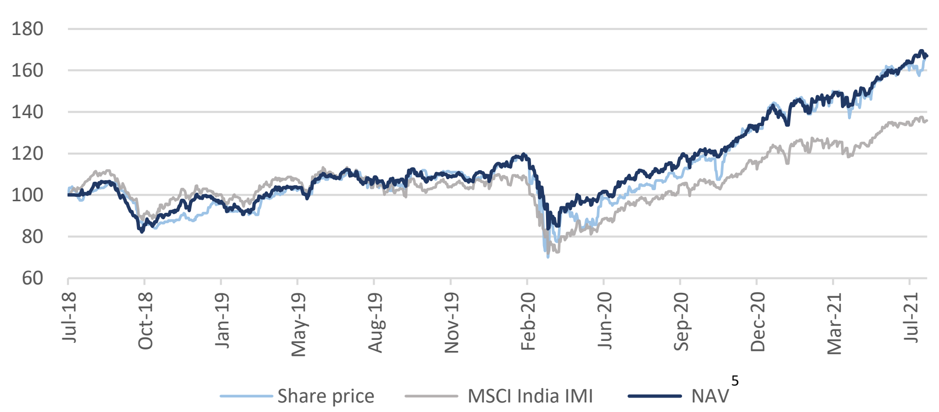
[6] On-going charges ratio calculated on a 6-month moving average of net assets.

Investment Performance[2]

Growth	July 2021	YTD 2021	2020	2019	Since IPO*	Since 31-July-18[3]
AIE NAV	3.0%	22.3%	26.0%	8.8%	67.1%	64.8%
MSCI India IMI	1.2%	15.5%	12.6%	1.3%	35.8%	26.4%
NAV Outperformance	+186 bps	+681 bps	+1333 bps	+744 bps	+3125 bps	+3847 bps
Share Price	2.8%	21.9%	26.3%	18.9%	67.0%	65.4%
Currency (INR/GBP)	-0.8%	-3.7%	-6.4%	-5.3%	-12.2%	-13.2%

*Since IPO: 06 July 2018 - 31 July 2021

Performance since launch (GBp)[2]



Top 10 Holdings (as at 31 July 2021)

Holdings	GICS Sector	% of AUM
1. ICICI Bank	Financials	6.2
2. Infosys	Information Technology	5.0
3. Coforge	Information Technology	4.8
4. Axis Bank	Financials	4.6
5. Laxmi Organic Industries	Materials	4.3
6. Crompton Greaves Consumer Electricals	Consumer Discretionary	3.2
7. Asian Paints	Materials	2.9
8. Nestle India	Consumer Staples	2.9
9. CarTrade	Information Technology	2.9
10. Bajaj Finserv	Financials	2.7
Total		39.6%

Market Cap Classification (as at 31 July 2021)

Market Cap	Portfolio End Weight (%)	MSCI India IMI (%)
Large Cap	41.3%	76.6%
Mid Cap	28.9%	16.7%
Small Cap	26.4%	6.7%
Cash	3.3%	-
Total	100.0%	100.0%

Classification as per Securities and Exchange Board of India (SEBI) guidelines.

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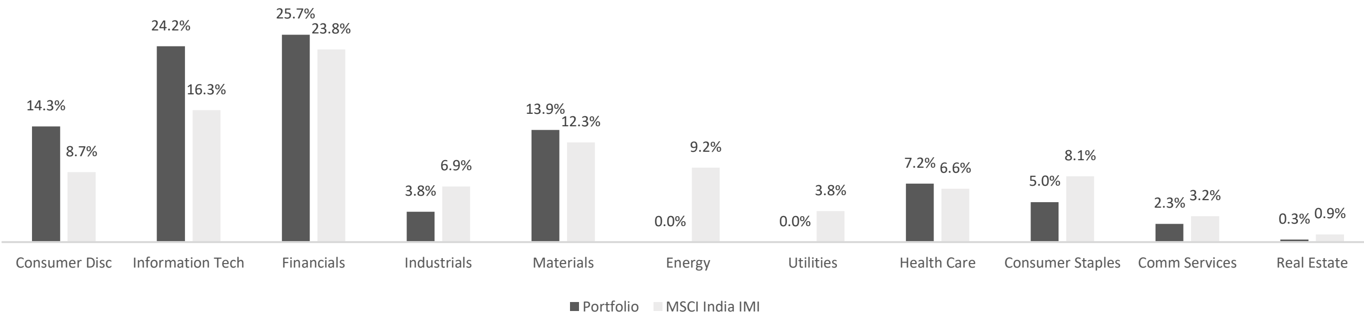
Sector Exposure



Top 5 Contributors and Detractors (July 2021)

Contributors	Ending Weight (%)	Total Return (%)	Contribution to Return (bps)
Coforge	4.8	+21.4	+93
Laxmi Organic Industries	4.3	+18.1	+72
ICICI Bank	6.2	+7.7	+46
Mphasis	2.5	+20.9	+44
Computer Age Management Svcs.	2.5	+19.2	+42

Detractors	Ending Weight (%)	Total Return (%)	Contribution to Return (bps)
Axis Bank	4.6	-6.0	-29
Cholamandalam Investment	1.8	-7.9	-16
HDFC Bank	2.4	-5.5	-14
Cipla	1.6	-6.0	-11
Sequent Scientific	1.0	-6.8	-8

Market Review

In July 2021, MSCI India IMI index was up 1.2%. US equities (S&P 500) were up 1.6%, MSCI World up 1.1%, and MSCI EM down 7.4%[10,12]

In July, FIIs turned net sellers to the tune of US$1.4bn. For year to date, India has seen net inflows of US$6.7bn, among the highest in EMs, ex-China. The Rupee depreciated by 0.8% in the month of July, while the benchmark 10-year G-Sec yields rose by 15bps to 6.2%. The rally in commodities continued with Brent up by 1.6% and the S&P GSCI Industrial Metals Index up by 2.9%, MoM. [14]

Among sectors, materials and communication services outperformed, whereas utilities and energy underperformed during the month.

Performance Review

The Fund was up 3.0% in July, outperforming the benchmark by +186bps. The key contributors include Coforge (+21.4%), Laxmi Organic (+18.1%), and ICICI Bank (+7.7%) whereas Axis Bank (-6.0%), Cholamandalam Investment (-7.9%), and HDFC Bank (-5.5%) were the key detractors.

Year-to-date, the fund is up 22.3%, outperforming the benchmark by +681bps. The key contributors include Laxmi Organic (+98.6%), Coforge (+82.1%), and Intellect Design (+129.1%), while key detractors were Nestle India (-6.6%), Kotak Mahindra Bank (-19.9%), and Multi Commodity Exchange (-10.6%).

Our views on investing in Consumer-Tech companies

The recent listing of Zomato has created a lot of buzz around the internet economy in India. Many consumer tech companies are fundamentally changing the way consumers and businesses interact with each other. Traditional businesses are getting disrupted in more ways than one, and a new crop of digital-native, mobile-first companies is scaling up at warp speed. We believe that these will become a larger part of the market over the next decade and, given the heterogeneous nature of business models, will create large winners and losers.

Over the last few weeks, we have had numerous discussions with our clients and other stakeholders on the opportunity as well as the many concerns around these companies. We present a gist of those discussions in a Q&A format.

There is lot of commentary by market observers and noted investors to avoid loss making companies. How should one approach investing in such companies?

There are two aspects to this question that need to be considered. For one, there is a lack of familiarity among Indian investors when it comes to evaluating loss-making initial public offerings. More stringent regulations for IPOs of loss-making companies led to only a few such companies going public till now. Hence there is a discomfort amongst the broader investor base in investing in such companies. It is very different from the US, which has a long history of loss-making companies going public.

Second is perhaps an underappreciation of the underlying economic model of new-age tech companies. For example, when a traditional manufacturing company builds a factory (which is a physical asset), the expenditure is capitalised as an asset and the value of this asset is depreciated over its useful life, say 20 to 30 years. What do consumer tech companies invest in? Consumer tech companies primarily invest in developing great technology, building brands, acquiring customers, and delivering a great customer experience. In contrast to the traditional companies, these expenditures of the consumer tech companies from an accounting perspective are considered expenses and not assets; hence these companies report 'accounting losses.' However, we all intuitively know that great technology, a well-known brand, and a happy customer base are assets for any business. This new economic and financial model is disruptive to our understanding of existing businesses in India. Hence there is discomfort in investing in such loss-making consumer tech companies.

There could be potentially large value creation opportunities in some of these technology-enabled, emerging business models but envisaging a discontinuous and disruptive future can be a difficult task.

We are witnessing value shifting from physical assets to intangible assets like patents and brands in the last century and to 'ideas and networks' more recently. The most valuable companies in the world today are Apple, Google, Amazon, and Facebook, where the assets are a happy and engaged customer base, innovative products, and powerful networks.

How to think about the long-term opportunity for consumer tech companies particularly in comparison with other countries?

To decipher the size of economic opportunity for these Indian companies, China would be a more relevant benchmark rather than the United States.

Despite starting on its e-commerce journey much later than the US, China's e-commerce penetration at 35% is higher than that of the US at 19%, while India is at 5%. This stark difference reflects the peculiar attributes of China's economy. India and China have very high population density and would find it difficult and expensive to replicate the scale of physical retailing that the US has built over the last century. Due to the population density, real estate as a proportion of per capita income is quite expensive in these countries relative to the US. As such, e-commerce which does not consume prime real estate but instead consumes delivery services, is more suited for India and China as it is fundamentally 'long-labour, short real-estate.'

Consequently, India is likely to leapfrog from traditional mom-and-pop retailing to e-commerce, largely bypassing the build-out of modern retail as seen in western economies, just as we leapfrogged to mobile phones, without a deeper penetration of landlines. Therefore, e-commerce might see faster penetration in India, as has been the case in China, relative to the western economies.

How to approach the valuation of consumer tech companies, many of which may be currently loss-making?

In India, consumer tech companies are in the early habit formation stage, which entails extensive investments in technology, customer acquisition, and delivering a superior customer experience.

As explained earlier, these investments are classified as expenses in accounting, and hence the companies report accounting losses till they achieve a scale where the unit economics of the business is sufficient to cover these investments.

To provide an analogy, let us say a student is pursuing a graduate degree in engineering from a top-ranked institute. She studies for four years before securing a job. Thus, by conventional accounting logic, it may appear as a loss-making exercise (i.e., the cost of education) but it is extremely valuable over the long term as it assures a growing income stream over the next 40-50 years. Thus, just like this example, the near-term losses in the initial stage do not necessarily mean losses in the future as well. Conversely, not all businesses that generate profits today will remain profitable forever as some might get disrupted by the new-age tech companies.

It is precisely the reason why a thoughtful buildout of future cash flows is of paramount importance. When building a DCF model for the new-age tech companies, it is essential to look beyond a narrow time frame to accommodate a discontinuous future. For example, the size of the food delivery market in China is 20x that of India. If we were to assume that India gets to a similar size in 15 years, it would translate into a 20% topline CAGR for the industry. Furthermore, one needs to understand the sustainable unit economics of these businesses and not focus on the current accounting losses.

Due to their strategic assets like a deep tech-stack, well-established brand, large and happy customer base, and strong management teams, many consumer tech companies can enter adjacent categories thereby increasing their potential profit pool. For example, Meituan started with food delivery in China but expanded into multiple adjacent categories, generating tremendous shareholder value (even after factoring in the recent drawdown!).

What are the drivers of unit economics of Food Delivery companies? How can they create value over the long term?

One of the most important metrics to track is the contribution

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margin per order. Even with a stable contribution margin, as the number of orders significantly scales up over the next decade, huge operating leverage shall play out, and accounting losses can convert into large economic profits. The pandemic has accelerated the process, whereby the customers realise the essential nature of this service, with their mindset shifting from a focus on discounts to the value of convenience, thereby improving the unit economics of the business.

With the increasing scale and density of orders, the delivery cost per unit should fall as more orders get batched together for delivery. Similarly, overhead and marketing costs should come down as a proportion of revenues, which amplifies the delta on profits through operating leverage.

What are the challenges and risks which the food delivery companies face?

Certainly, there are risks ranging from competition to regulations. While Swiggy and Zomato have emerged as joint leaders in food delivery based on their superior execution, one of the most credible competitors in the current Indian context who can challenge them is Amazon. However, Amazon's success is not a given as they have previously shut their food delivery business in the US and UK.

There is also emerging competition from direct-to-consumer (D2C) restaurant platforms like Dotpe and Thrive. But considering India's highly fragmented restaurant ecosystem, it will not be easy for these D2C platforms to scale up and pose a risk to Zomato and Swiggy.

The food delivery companies also face potential regulatory risks that can manifest in various forms, such as caps on commission rates, floors on delivery fleet wages, and data sharing requirements with restaurants, to name a few. Early signs of such risks are already being experienced in the US and China.

Aren't private equity/venture capital investors just palming off loss-making companies to public market investors? Is there any money left on the table?

Technology is a high alpha sector given the heterogeneous nature of business models where there will be large winners and losers. Each opportunity would need to be evaluated on its own merits, and it would be absurd to generalise. Even in the US, where you have a well-established venture capital and private equity ecosystem, companies like Google, Facebook, Amazon and others have created massive value after going public while many others have gone bust. While it is early days in India, several of the new-age technology IPOs over the last couple of years have done quite well after listing even as they provided an exit to private equity investors.

What is White Oak's approach to investing in consumer tech companies?

As investors, we focus on identifying dominant companies with fast-growing and large target markets, positive unit economics, and strong management teams. As with all investments, these companies should be attractively valued in our discounted cash flow based OpcoFinco™ framework.

White Oak employs significant research resources to build a deep understanding of various business models within the consumer tech space across emerging and developed markets, including engaging with experts and industry professionals from across the world. In addition, many team members also have global investing experience, which brings about a unique pattern recognition perspective to investing in Indian companies, especially the new emerging businesses.