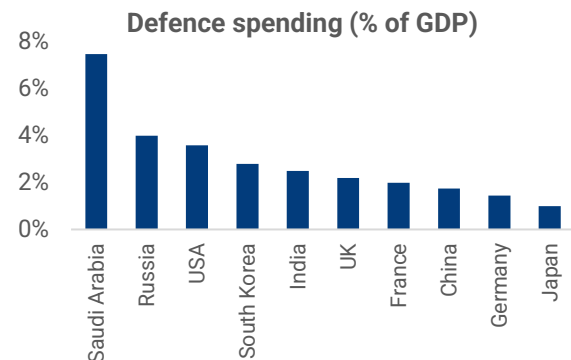


Defence a focal point of every economy:

Global military expenditure rose for the eighth consecutive year in 2022 to reach an estimated \$2,240 bn, the highest level ever recorded by SIPRI. Despite the 3.7% Y-O-Y increase in spending, governments around the world spent an average of 6.2 per cent of their budgets on the military, or \$282 per person. This happened despite of challenging economic environment and rising inflation, across the globe. In the year 2021 the top 10 spending countries spent covers more than 75% of the total world spendings, while India's spending as a percentage of GDP has remained constant unlike other countries.

Rank	Country	Spending (USD bn)	% of global spending
1	USA	877	39%
2	China	292	13%
3	Russia	86	3.9%
4	India	81	3.6%
5	Saudi Arabia	75	3.3%
6	UK	69	3.1%
7	Germany	56	2.5%
8	France	54	2.4%
9	South Korea	46	2.1%
10	Japan	46	2.1%

Source: Philip Capital India research

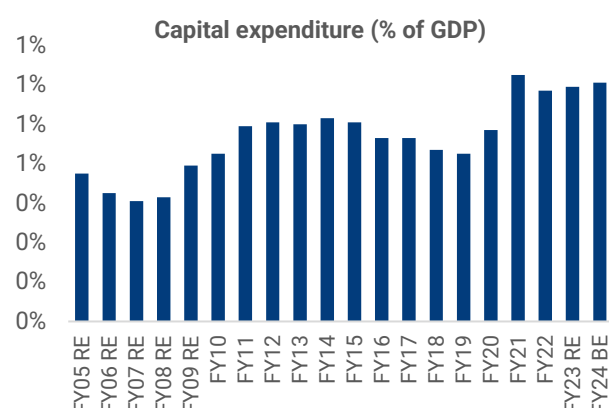
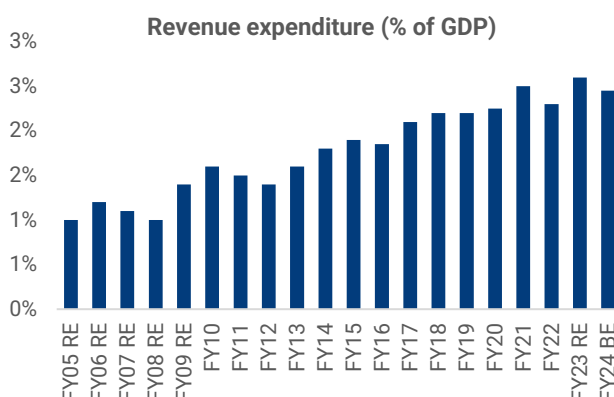


Budgeted allocation for Indian defence:

The Union Budget for FY23-24 allocated a total budget of Rs 5.9tn, which is 13% of the total budget and the capital allocations pertaining to modernization and infrastructure development of the defence services has been increased to Rs 1.6tn representing a rise of Rs 102bn (6.7%) over the previous FY. India's defence expenditure has been growing consistently, but over the past few years, the increase is largely attributed to higher pension due to the implementation of the OROP scheme and sharp increase in salaries due to the implementation of the 7th Pay Commission recommendations. Defence capex picked up from FY20, recording a healthy 12.5% CAGR over FY19-23BE while revenue expenditure saw a lower CAGR of 4.4% because of the following factors:

- * OROP and Pay Commission recommendations were implemented, which gave headroom to allocate a higher budget for capital expenditure.
- * recruitment was lower due to the pandemic.
- * several high-value platforms such as submarines, fighter aircrafts, communication systems, helicopters, and armoured vehicles were inducted.

With the favourable policy initiatives such as AGNIPATH Scheme, we are likely to see accelerated defence capex over the next 10 years (Rs 27tn) vs. the past 10 years (Rs 9.7tn).



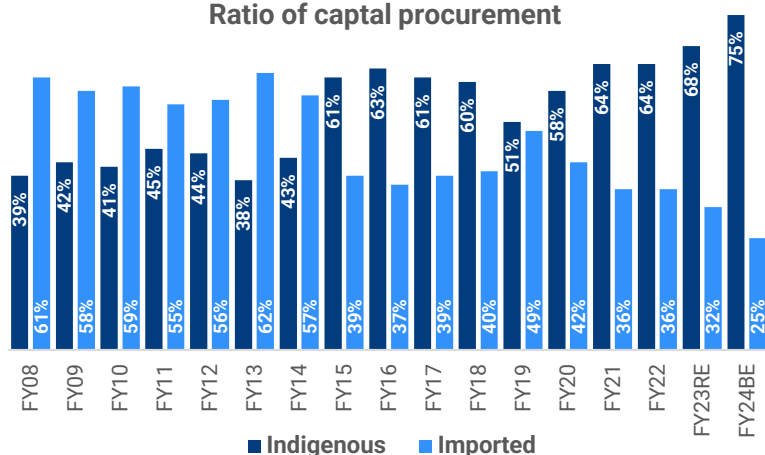
Source: Philip Capital India research

Indian defence sector picking up pace:

The defence sector was privatized in 2001 but it did not attract much traction as PSUs and OFBs were highly favoured. To address this issue the GOI recently introduced various measures like:

- * Excise/customs duty exemptions enjoyed by DPSUs were discontinued to provide a level playing field to private companies.
- * Customs duty exemptions on imported equipment were removed.
- * Industrial licensing was simplified – a large number of parts/components were de-licensed and the validity of industrial licenses was increased (to 15 years from 7 years).

Ratio of capital procurement



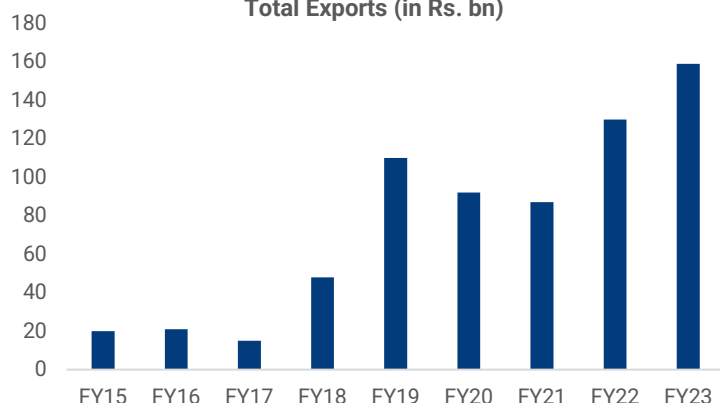
Source: Philip Capital India research

To improve domestic capability within the defence sector the GOI has laid out clear guidelines to sprout shoots within the dormant sector such as:

- * Priority given to Indian players having indigenous products.
- * Incentive to meet at least 30% Indian components in equipment not manufactured within India.
- * Incentive for foreign vendor to tie up with Indian entity for domestic production with technology transfer.

Previously, India imported more than 60% of its defence requirements which reduced due to various government initiatives like “Make in India” and “Aatmanirbhar Bharat”. The GOI is focusing on increasing indigenous defence manufacturing to become self-reliant as Rs. 3.5 Tn (USD 47bn) contracts were awarded between April 2015 and Aug 2020 and an expected Rs. 5.5 Tn (USD 70bn) contracts are to be awarded within the next 5 years.

Total Exports (in Rs. bn)



Source: Philip Capital India research

Conducive environment has developed a strong ecosystem which has led to increase in India's defence exports relative to its previous years. India's defence exports grew 5.5x between FY15-19. India has a substantial cost advantage over its global peers due to its large skilled workforce, which allowed global original equipment manufacturer to use India as a base for production and exports. The Indian government has set up a target to grow its defence exports to Rs 350bn by FY25 from Rs 116bn in FY22 via the following steps:

- * DPSUs and Ordnance Factory Board (OFB) are mandated to increase export revenue share to at least 25% by 2025.
- * Setting up exports promotion cell to promote defence exports through coordinated action.
- * Positioning defence expo and Aero India as major global events to showcase India's capabilities in defence manufacturing.

Opportunity of USD 110bn spread over 6-8 years:

At this point in time, India prioritizes increasing its defence budget through import substitution. There is a significant opportunity, as there is a potential order pipeline worth US\$ 110 billion to be spread out over the next 6-8 years. This opportunity stands out due to the strong visibility of orders, primarily because the projects involve products that have already been developed or acquired through technology transfer from foreign suppliers, despite the fact that the cumulative revenues for FY23 stood at US\$ 8 billion.

A dawn of new prospects:

Government backing, strong order book with reasonable valuations makes a case for defence as a sector to

Average ROE (%)	FY 23	FY 24E	FY 25E
Indian Companies	20.3	21.8	23.7
US counterparts	24.4	23.3	32.0
European counterparts	16.7	15.8	15.7

be looked upon. High domestic requirements with a potential of earning a high export share with healthy ROE makes defence as an industry an attractive play in the portfolio. This evolving ecosystem has turn out to be a boom for small

and emerging players. With focus on indigenisation, streamlining procurement with focus on quality outputs, and the Make in India initiative, the government has provided opportunities for small defence players to contribute to the domestic supply chain, collaborate with larger companies, and showcase their capabilities.

Key names in our portfolio under this sector:

Company	Edelweiss Large & Mid Cap Fund	Edelweiss Mid Cap Fund	Edelweiss Flexi-Cap Fund	Edelweiss Small Cap Fund	Edelweiss Long Term Equity Fund (Tax Saving)	Edelweiss Focused Equity Fund
Bharat Electronics Ltd.	1.28%	1.99%	1.97%	-	2.25%	3.44%
Bharat Dynamics Ltd.	-	1.43%	0.92%	1.06%	0.94%	-
Solar Industries India Ltd.	-	2.57%	-	-	-	-

Data as on 29th Sep 2023

The above stocks may or may not be the part of the portfolio in future and should not be construed as any recommendation.

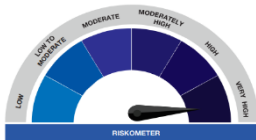
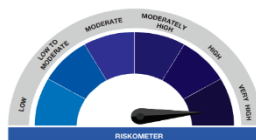
Disclaimer:

The purpose of this product is to offer a brief & simplified rationale behind our investments in certain businesses/themes in our long only portfolios. This is not meant to be an elaborate research report or a recommendation. In this note we explain why we are positive about the aerospace & defense sector. This Note is for information purposes only for distributors and does not constitute an offer or recommendation to buy or sell any scheme of Edelweiss Mutual Fund. This also does not constitute an offer or recommendation to buy or sell any financial products offered by Edelweiss. Any action taken by you on the basis of the information contained herein is your responsibility alone and Edelweiss Asset Management Limited (the AMC)/Edelweiss Trusteeship Company Limited/ Edelweiss Mutual Fund or its directors or employees will not be liable in any manner for the consequences of such action taken by you. The AMC takes no responsibility of updating any data/information in this material from time to time. The information shall not be altered in any way, transmitted to, copied or distributed, in part or in whole, to any other person or to the media or reproduced in any form, without prior written consent of the AMC.

Fund risk-o-meter:

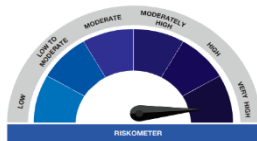
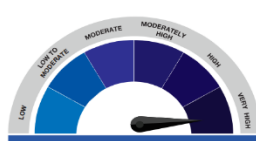
Edelweiss Large and Midcap fund

(An open-ended equity scheme predominantly investing in both large and midcap stocks)

	Scheme risk-o-meter	Benchmark risk-o-meter (NIFTY Large Midcap 250 - TRI)
<p>This product is suitable for investors who are seeking*:</p> <ul style="list-style-type: none"> • Long term capital growth. • Investment predominantly in equity and equity related securities of large and mid cap companies. 	 <p>Investors understand that their principal will be at a very high risk</p>	
*Investors should consult their financial advisers if in doubt about whether the product is suitable for them.		

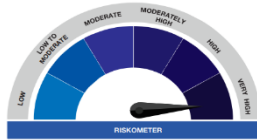
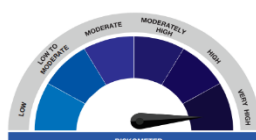
Edelweiss Mid cap fund

(An open-ended equity scheme predominantly investing in mid cap stocks)

	Scheme risk-o-meter	Benchmark risk-o-meter (NIFTY Midcap 150 - TRI)
<p>This product is suitable for investors who are seeking*:</p> <ul style="list-style-type: none"> • Long term capital growth. • Investment predominantly in equity and equity related securities of Mid cap companies. 	 <p>Investors understand that their principal will be at a very high risk</p>	
*Investors should consult their financial advisers if in doubt about whether the product is suitable for them.		

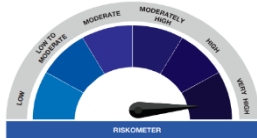
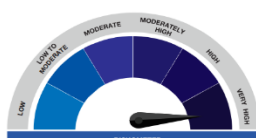
Edelweiss Flexi cap fund

(An open-ended equity scheme predominantly investing in small cap stocks)

	Scheme risk-o-meter	Benchmark risk-o-meter (NIFTY 500 - TRI)
<p>This product is suitable for investors who are seeking*:</p> <ul style="list-style-type: none"> • Long term capital growth. • Investment predominantly in equity and equity related securities of companies across various market capitalization. 	 <p>Investors understand that their principal will be at a very high risk</p>	
*Investors should consult their financial advisers if in doubt about whether the product is suitable for them.		

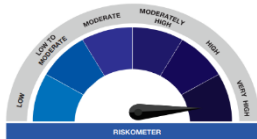
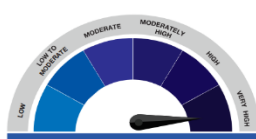
Edelweiss Small cap fund

(An open-ended equity scheme predominantly investing in small cap stocks)

	Scheme risk-o-meter	Benchmark risk-o-meter (NIFTY Smallcap 250 - TRI)
<p>This product is suitable for investors who are seeking*:</p> <ul style="list-style-type: none"> • Long term capital growth. • Investment predominantly in equity and equity related securities of small cap companies. 	 <p>Investors understand that their principal will be at a very high risk</p>	
*Investors should consult their financial advisers if in doubt about whether the product is suitable for them.		

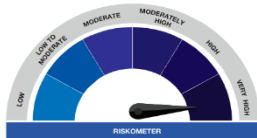
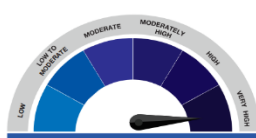
Edelweiss Long Term Equity Fund (Tax Saving fund)

(An open-ended equity linked savings scheme with a statutory lock in of 3 years and tax benefit)

	Scheme risk-o-meter	Benchmark risk-o-meter (NIFTY 500 - TRI)
<p>This product is suitable for investors who are seeking*:</p> <ul style="list-style-type: none"> • Long term capital growth. • Investment in equity and equity related securities that will be locked in for first three years. 	 <p>Investors understand that their principal will be at a very high risk</p>	
*Investors should consult their financial advisers if in doubt about whether the product is suitable for them.		

Edelweiss Focused Equity fund

(An open-ended equity scheme investing in maximum 30 stocks across market capitalization)

	Scheme risk-o-meter	Benchmark risk-o-meter (NIFTY 500 - TRI)
<p>This product is suitable for investors who are seeking*:</p> <ul style="list-style-type: none"> • Long term capital growth. • To generate income by investing in equity and equity related instruments and derivative segment of up to 30 companies. 	 <p>Investors understand that their principal will be at a very high risk</p>	
*Investors should consult their financial advisers if in doubt about whether the product is suitable for them.		

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