



Charting New Frontiers: Our Journey in India's Innovation Landscape

In the fast-changing world of business, many companies rely on time-tested methods, clinging to traditional moats and established processes. However, these areas often hold the potential for out-of-the-box thinking and innovation. Occasionally, this results in big ideas that has the potential to scale profitably and create lasting value for all stakeholders.

At Union Mutual Fund, we had launched the Union Innovation & Opportunities Fund with an aim to uncover and invest in such transformative opportunities. Over the past 15 months, this journey has provided valuable learnings, not only for our investors but also for us as a team. We delved deeper into companies, dissected problem statements, and examined technologies to identify India's most innovative companies. Along the way, we learned invaluable lessons: how to distinguish between impactful and superficial innovation, the intricacies of early-stage investing, and the pivotal role of visionary management teams.

Innovation in the Indian Context

India's competitive market, evolving regulations, and brand power make it a challenging yet enriching environment for innovation. This scheme aims to capture innovative opportunities within India's listed equity space.

Through our research, we identified six distinct categories of innovation shaping the Indian market:

- **New Products & Services**
Businesses introducing fresh offerings to the market, such as platforms transforming how we order food or access services.
- **New Processes**
Companies adopting advanced methods, like NBFCs using digital technologies to streamline loan disbursals.
- **New Government Initiatives**
Enterprises leveraging policies such as PLI schemes, especially in electronics manufacturing and clean energy.
- **New Use Cases of Government Initiatives**
Innovations where businesses leverage the potential of government schemes, for instance, battery chemical companies supporting the growth of electric mobility.
- **New Territories or Customer Segments**
Brands expanding into unexplored markets or targeting emerging consumer bases, such as luxury products catering to rising affluence.
- **New Management and Promoters**
Visionary leaders redefining business models and fostering innovation to adapt to dynamic environments.

Four Key Learnings from India's Innovation Landscape

Over the past 15 months, several trends have emerged, driven by factors such as evolving demographics (the rise of Gen Z), increasing rural workforce participation, government schemes (PLI incentives), and shifts in global geopolitics (pseudo-deglobalization). These trends provided further impetus to innovators. Here's what we learned:

Cash burn/losses ≠ Sustained growth

Indian consumers are focused on value delivery. Moreover, we have seen consumer behaviour is of high intelligence with word of mouth being key advertorial medium. We have seen a mere cash burn for short period does not get converted in long term sustained growth and market share gains. So, beware of these pitfalls!

Proven economic moats can be breached using differentiation.

Long standing economic moats like distribution prowess, low-cost products may not be banked on for long. Look at the trends towards direct-to-consumer products (D2C), high-cost SUVs. They underscore a key human need to differentiate from the crowd – despite the economic price.

Beware of innovation traps

Like value traps, there are innovation traps: businesses which seem to innovate but do not create shareholder value over long period. There is good growth which enables companies to thrive, there is bad growth which is not sustainable and vertical fall in growth awaits post such unsustainable growth time. Innovation for the sake of innovation is where we learnt to distinguish. Ultimately, innovation must lead to growth for complete ecosystem: for its employees, government, Indian economy, capital owners and consumers alike. Beware of innovation traps – there are many!

Management team is super critical.

Innovations are done by people, management along with its vision is super critical. Time and again, a good management having handle of all four factors of product (land, labour, capital, and entrepreneur) with great vision is the cool weapon to have. Due to dynamic nature of business environment these innovative companies are facing, we must possess this cool weapon. This factor will tell us subtle science and exact art of value creation when overall visibility is quite dim. (quoting Prof Snape of Harry Potter). Great innovators know how to attract talent, control attrition, and empower the people!

We encourage investors with a higher risk appetite to participate in this fund with at least a five-year investment horizon. Together, let's unlock the potential of India's innovation landscape. **Happy investing!**

TOP 10 OVERWEIGHT/ UNDERWEIGHT STOCKS.

(Data is as of December 31, 2024)

(as a % of net assets)

TOP 10 OVERWEIGHT POSITIONS	UNION INNOVATION & OPPORTUNITIES FUND	NIFTY 500 INDEX	OVERWEIGHT
Zomato Ltd. _____	5.71%	1.05%	4.66%
Info Edge (India) Ltd. _____	5.02%	0.37%	4.65%
AFFLE (INDIA) LTD. _____	3.01%	0.06%	2.95%
Ami Organics Ltd. _____	2.90%	0.00%	2.90%
KAYNES TECHNOLOGY INDIA LTD. _____	2.91%	0.11%	2.80%
PB FINTECH Ltd. _____	2.97%	0.38%	2.60%
GE Vernova T&D India Ltd. _____	2.64%	0.12%	2.53%
Garware Hi-Tech Films Ltd. _____	2.27%	0.00%	2.27%
Awfis Space Solutions Ltd. _____	2.25%	0.00%	2.25%
CarTrade Tech Ltd. _____	2.24%	0.00%	2.24%

TOP 10 UNDERWEIGHT POSITIONS	UNION INNOVATION & OPPORTUNITIES FUND	NIFTY 500 INDEX	UNDERWEIGHT
HDFC Bank Ltd. _____	0.00%	7.31%	-7.31%
ICICI Bank Ltd. _____	0.00%	4.90%	-4.90%
Reliance Industries Ltd. _____	0.00%	4.47%	-4.47%
Infosys Ltd. _____	0.00%	3.67%	-3.67%
ITC Ltd. _____	0.00%	2.44%	-2.44%
Bharti Airtel Ltd. _____	0.00%	2.31%	-2.31%
Larsen & Toubro Ltd. _____	0.00%	2.30%	-2.30%
Tata Consultancy Services Ltd. _____	0.00%	2.27%	-2.27%
State Bank of India _____	0.00%	1.66%	-1.66%
Axis Bank Ltd. _____	0.00%	1.65%	-1.65%

Source: I&O leaflet available at unionmf.com

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UNION INNOVATION & OPPORTUNITIES FUND

(An open-ended equity scheme following innovation theme)

This product is suitable for investors who are seeking*:	Riskometer
• Capital appreciation over long term • Investment predominantly in equity and equity related securities of Innovative Companies	 The risk of the scheme is very high risk

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

Note: The scheme riskometer is evaluated on monthly basis and the above riskometer is as per the evaluation of the portfolio date as on January 31, 2025.

For details regarding the Scheme, please refer the Scheme Information Document of the Scheme available on our website.