

# This defence MF gave over 100% return in a year. Worth a look ahead of Budget?

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HDFC Defence Fund, the only active fund based on the defence sector, has offered more than 100% return in the last one year. The scheme gave 128.52% return in the said period.

The scheme has offered around 60.16% return in 2024 so far and around 55.25% return in the last six months.

## What is helping defence sector based mutual funds deliver this stellar performance?

“Global military importance has been on the rise in recent years driven by geopolitical tensions such as Russia - Ukraine War, Israel’s Gaza offensive, and Middle East Tension. The world shifting from Unipolar to Multipolar—the rise of economies in Asia Pacific challenging military dominance of Western countries. The trend of protectionism in defence seen in various countries is spreading globally. India’s defence has challenges like ongoing terrorism issues, border issues with neighbouring count countries, large land and coastlines to safeguard,” said Vishal Dhawan, CEO, Plan Ahead Wealth Advisors, a wealth management firm in Mumbai.

He further added that, “According to a report by Jefferies, with an estimated domestic defence opportunity ranging between USD 100-120 billion over the next 5-6 years, the sector anticipates a 13% industry compound annual growth rate (CAGR) from FY23 to FY30. India recorded the highest-ever annual domestic defense production in 2023-24, reaching Rs 1.3 lakh crore in terms of value, which represents a 16.7% growth over the previous fiscal.”

Motilal Oswal Mutual Fund recently launched its index fund based on the defence sector. Motilal Oswal Nifty India Defence Index Fund is India’s first index fund offering exposure to defence stocks listed in India. The fund aims to provide investors an opportunity to participate in the growth potential of the defence sector. Since its inception, the scheme has offered 4.89% return.

## Government strategies helping these funds deliver this performance?

“The Make in India initiative has been the key industry growth driver as the government focused on achieving self-reliance in defence, manufacturing and reducing import dependency. Other government initiatives like the Strategic Partnership Model which aims to enhance private sector involvement in defence production and encourage competition and innovation also favoured the defence sector. Indigenisation Drive: Ministry of Defence has started releasing indigenisation lists, which consist of equipment and platforms that the government aims to completely indigenise by December 2025 and are banning imports on certain defence equipment. Increased Defence Spending: India’s defence spending is among top 5 nations globally and has been ~2.5-3% of GDP,” Dhawan mentioned.

A monthly SIP of Rs 10,000 since the inception of the fund would have been Rs 2.28 lakh, offering an XIRR of 147.90%. A lumpsum investment of Rs 1 lakh made by the investor in the fund since its inception would now be Rs 2.45 lakh, delivering a CAGR of 122.95%. (Source: ACE MF).

## How to make an allocation in this fund? What strategy to follow?

“Defence based major companies are witnessing robust order inflows. For defence companies revenue recognition may be spread out over several years due to the long execution time of defence projects, potentially causing a mismatch between the size of the order book and immediate profitability. The current market optimism for defence stocks has led to stretched valuations. As of July 15, 2024, Nifty

India Defence Index trailing PE is at 71.8 and PB at 19.39 which is more than three times compared to Nifty 50,” commented Dhawan.

He recommended that, “HDFC Mutual Fund will discontinue registering fresh systematic investment plans (SIPs) in its HDFC Defence Fund from July 22, 2024, due to valuation concerns. Based on the above-mentioned reasons investors should try to avoid allocation in these funds.”

Based on yearly returns, the scheme offered 52.05% return in 2023. Since its inception, the scheme has offered 120% return.

The scheme is benchmarked against Nifty India Defence - TRI, which provided a return of 183.65% in the last one year. Over the past six months, it delivered returns of 86.32%.