

INDIA POWERED BY INNOVATION

HDFC INNOVATION FUND

Investing in the future today

NFO Period: June 27 - July 11, 2025



Distributed By



What is Innovation?

Process of introducing new ideas, services, or products – or improve existing ones – to create value, solve problems, and maintain a competitive edge

Product Innovation

Radical*

Disruptive**

Incremental\$

Process Innovation

Notable change from “business as usual”, enabling the company to use unique capabilities, function efficiently, adapt quickly, creating cost / quality advantages

Business Model Innovation

Challenges conventional wisdom about revenue streams, cost structures, and customer engagement strategies

*Radical Innovation occurs when companies understand changing consumer values or behaviour, and accordingly develop new products or services, thus paving way for new markets and creating unique solutions for customers. Such new products or services could be created by bypassing intermediaries or harnessing technology; **Disruptive Innovation occurs when companies introduce products / services that are very unique and superior. Such products / services could use technologies that could potentially challenge the traditional existing approaches companies; \$Incremental Innovation: For existing lines of product / services, companies make improvements. Such improvements are done using existing technology, and are directed at the existing market. When investing in companies that are innovating incrementally, the Fund Manager will endeavour to identify companies whose incremental innovation is higher than the indexed average

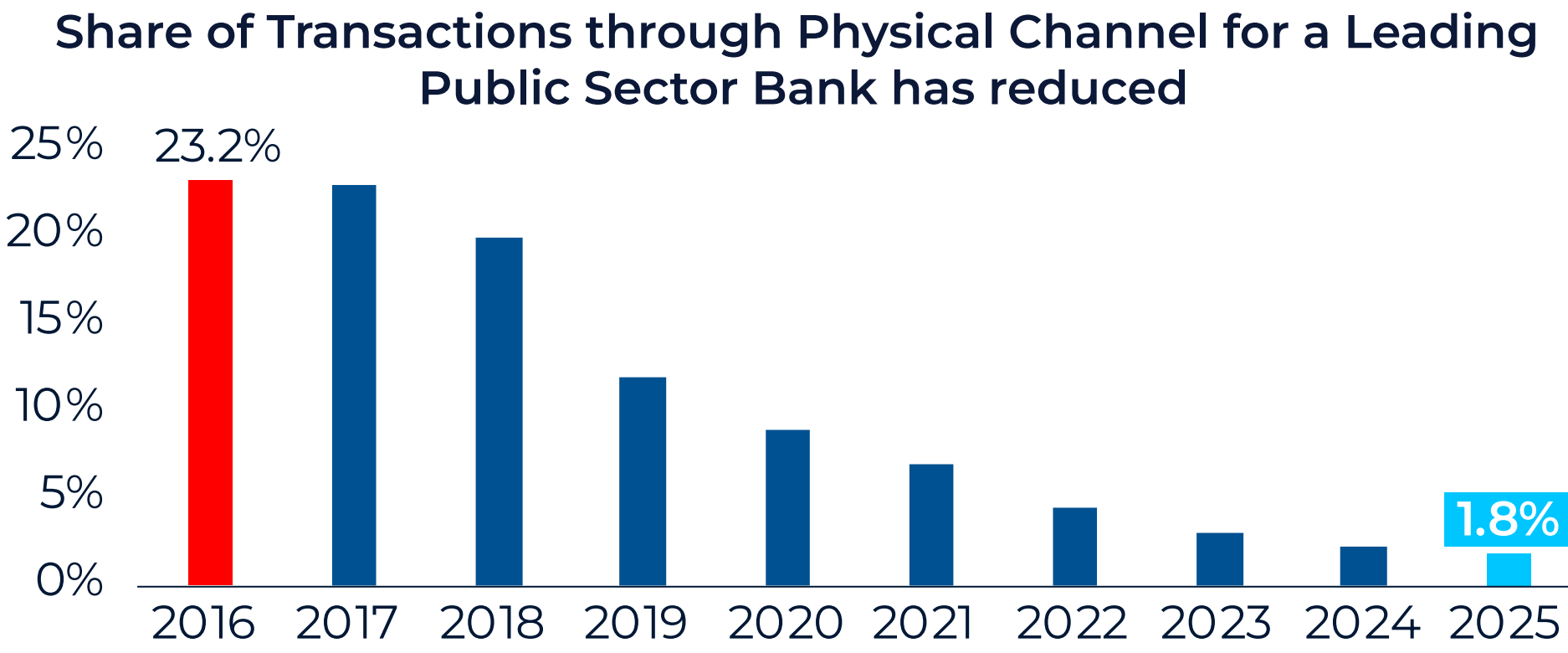


Innovation in Indian Context

From Tradition to Transformation

Financial Services – UPI has been Transformational

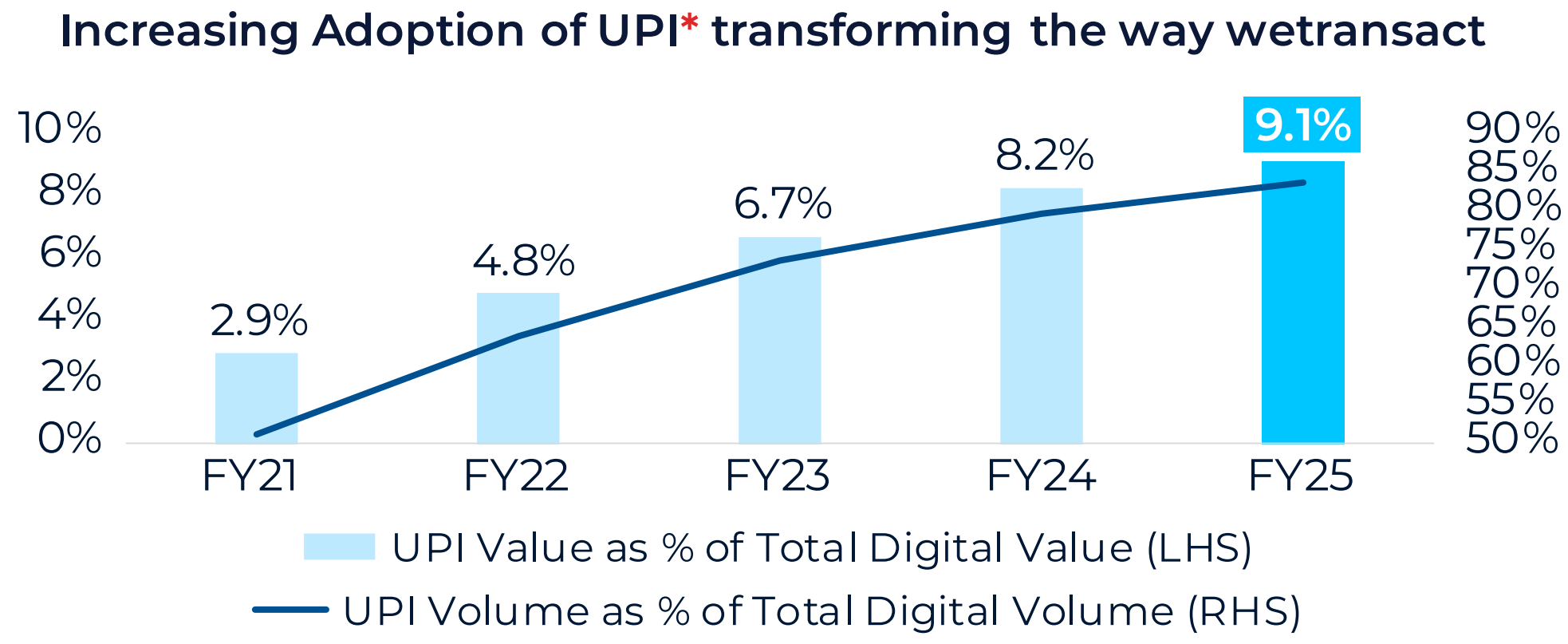
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Source: Motilal Oswal, *UPI: Unified Payments Interface

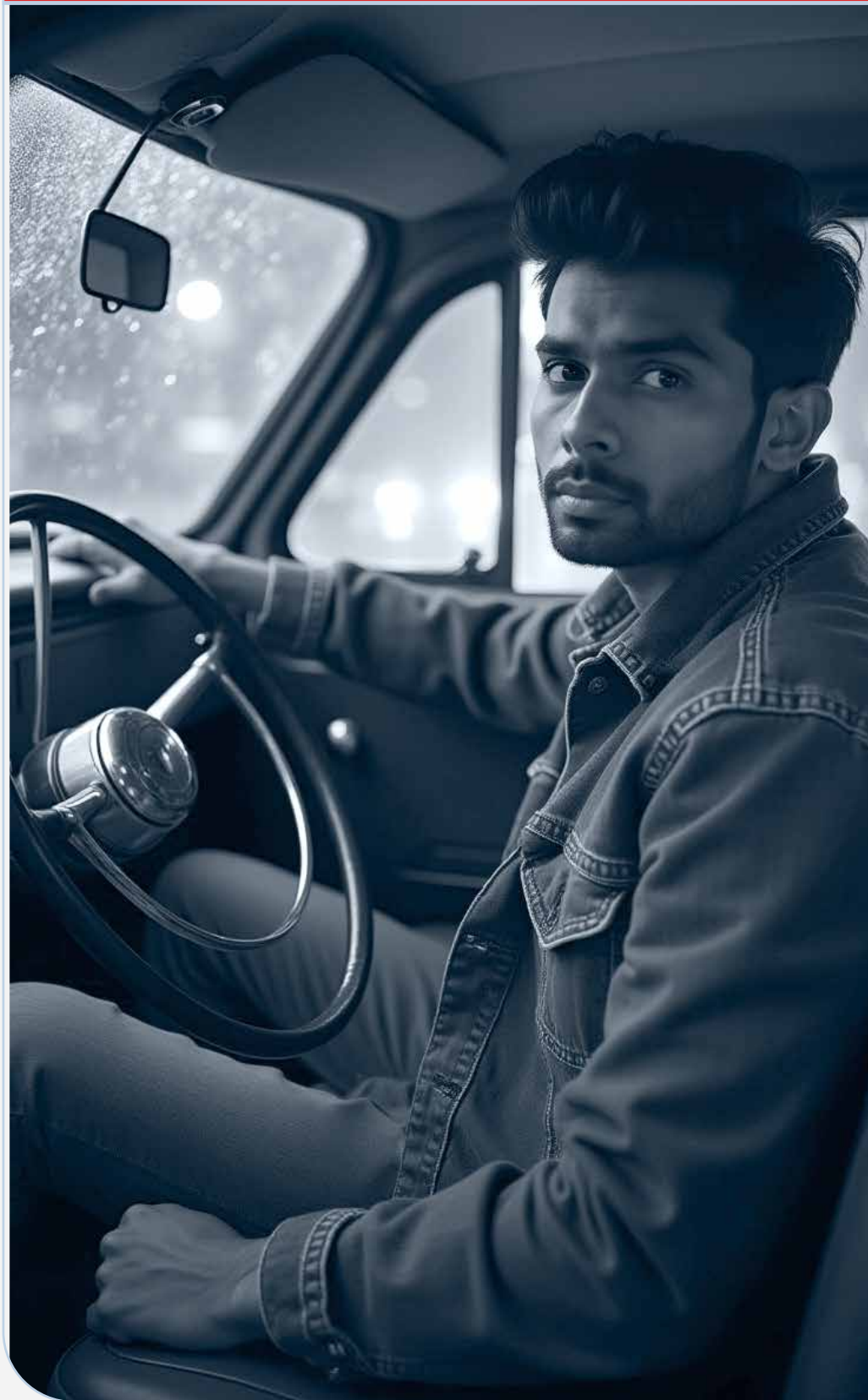
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NOW



Autos – Design Innovation leading to Market Share Gains

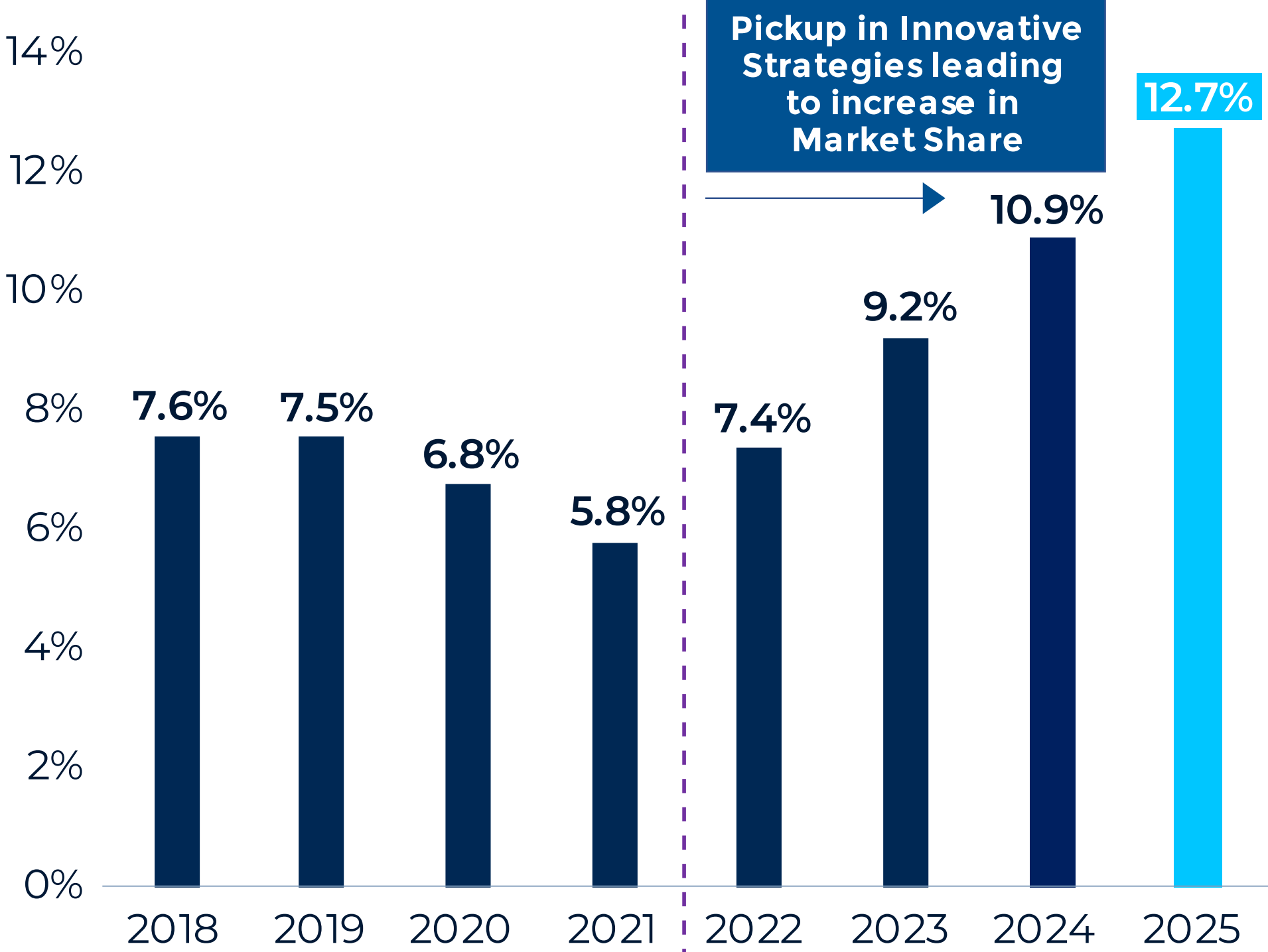
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NOW



Design Innovation of Leading Indian Auto Manufacturer leading to Gains in PV* Market Share



Source: Kotak Institutional Equities; *PV: Passenger Vehicles

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Key Parameters of **US's Apache**

Service Ceiling (metre)	6,100
Range (kilometres)	476
Motor Rotor Diameter (metre)	14.6
Length (metre)	17.7
Height (metre)	3.9
Max Speed (km per hour)	293
Max Take-Off Weight (kilograms)	10,433
Price (in US\$ million)	40-54

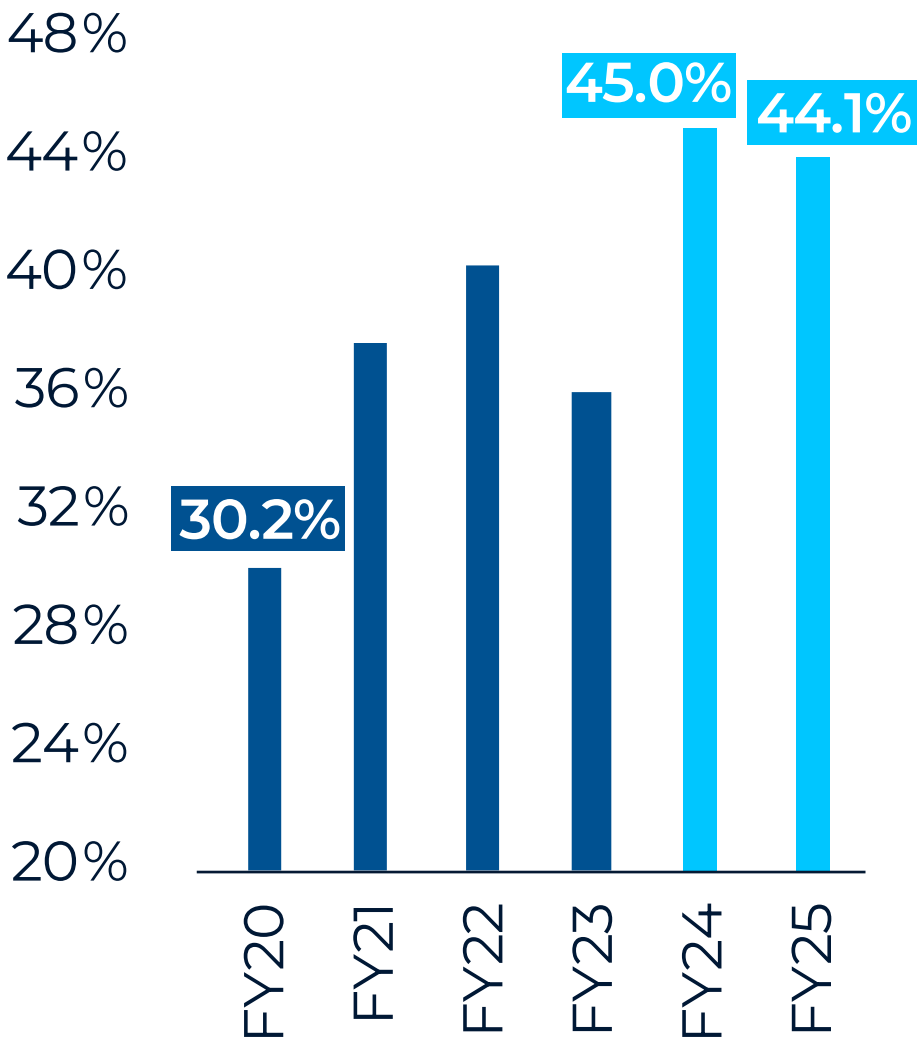


Key Parameters of **India's Light Combat Helicopter**

Service Ceiling (metre)	6,500
Range (kilometres)	550
Motor Rotor Diameter (metre)	13.2
Length (metre)	15.8
Height (metre)	4.7
Max Speed (km per hour)	268
Max Take-Off Weight (kilograms)	5,800
Price (in US\$ million)	20-24

India's Defence Capital Expenditure as a % of Total Defence Budget has risen

Defence Capital Expenditure
(As % of Total Defence Budget)



Source: Ministry of Defence, Standing Committee on Defence report, Company data, CLSA, Budget Documents

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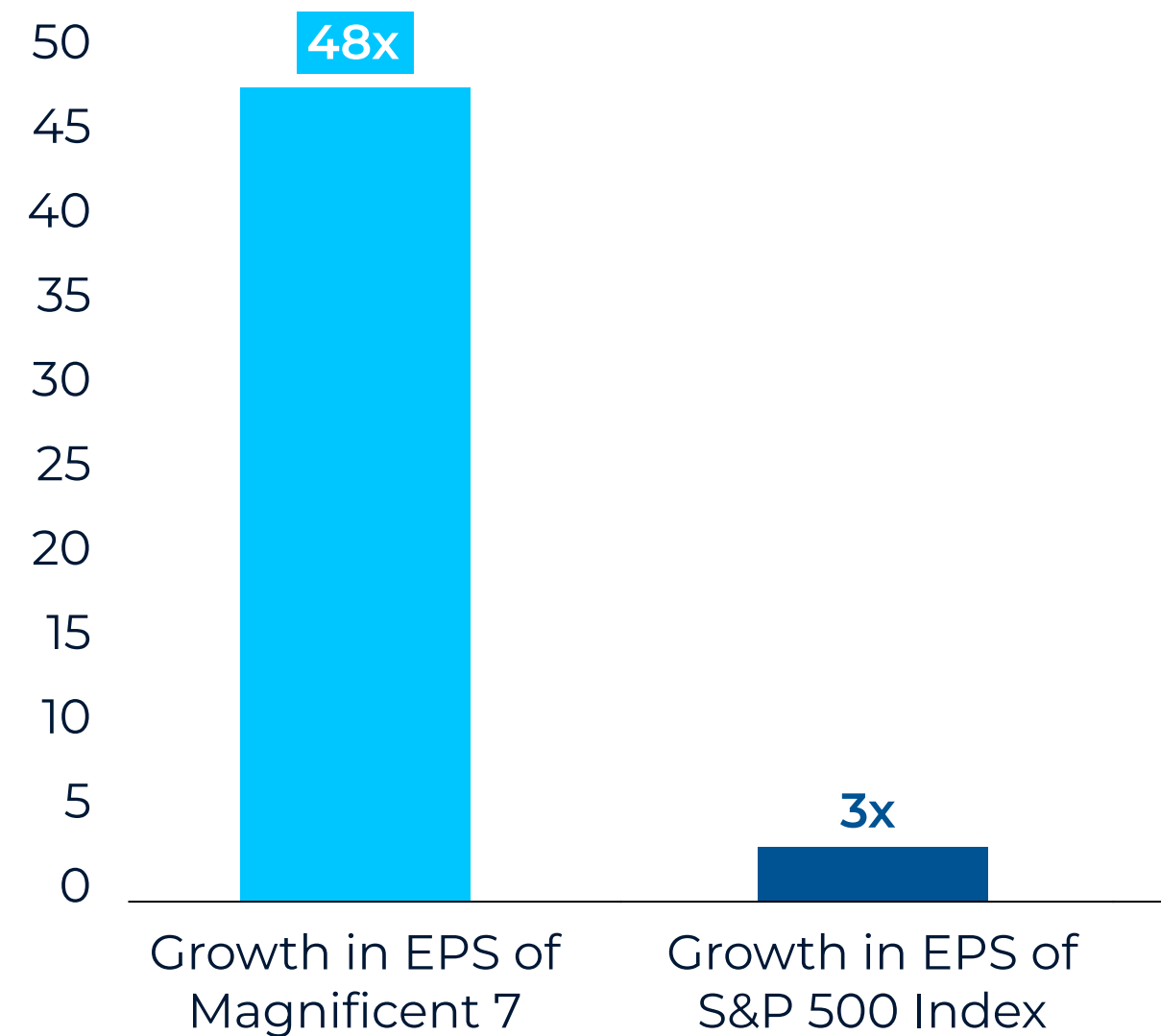
Staying Ahead of the Curve

Innovation important for Economic Prosperity
and Market Leadership

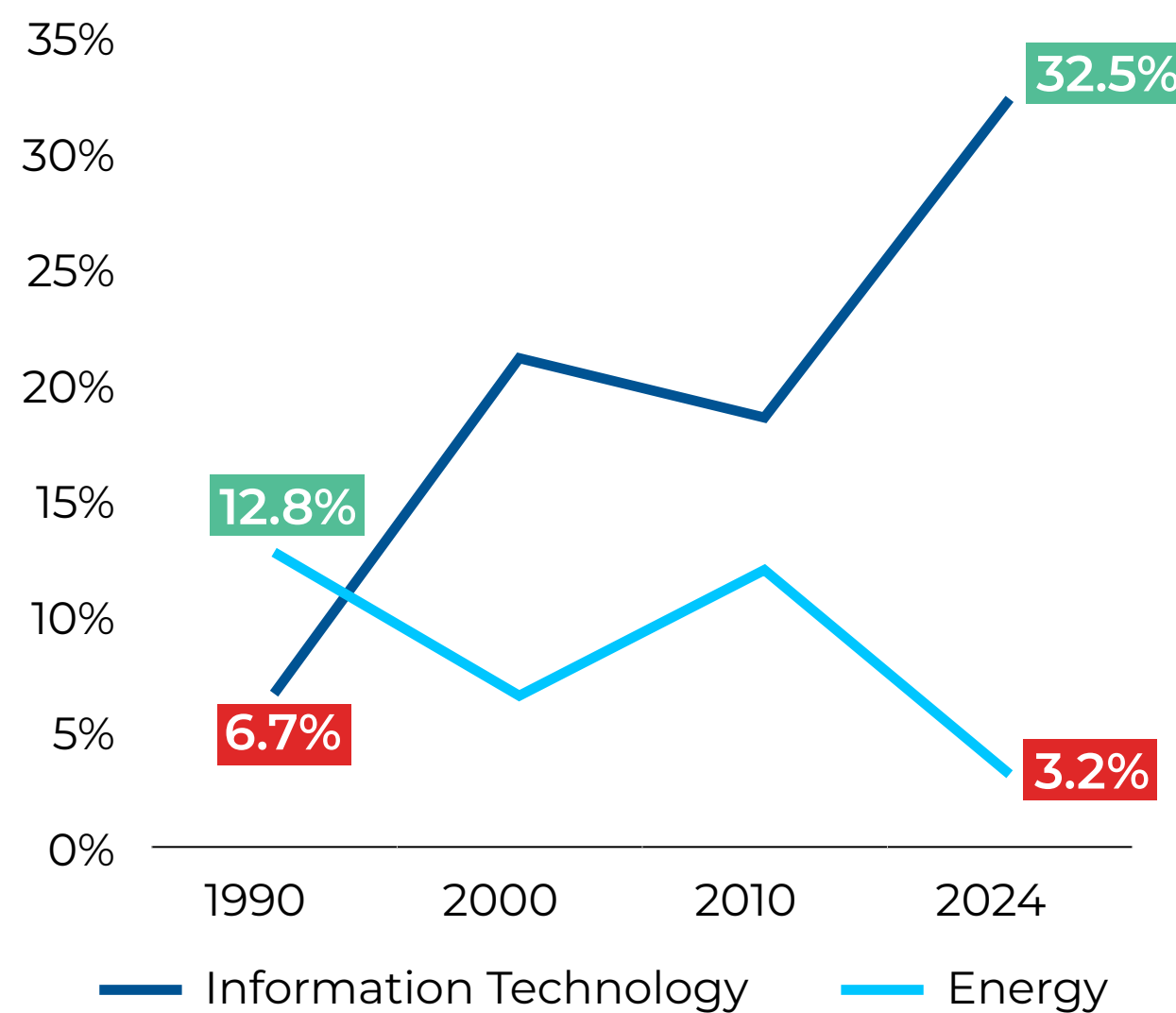
Higher Contribution to Profit Pool led Innovators to be “Wealth Generators” across countries

Sectors that have contributed to the overall profit pool of the broad equity market index curve have witnessed an increase in weightage over time compared to the laggards

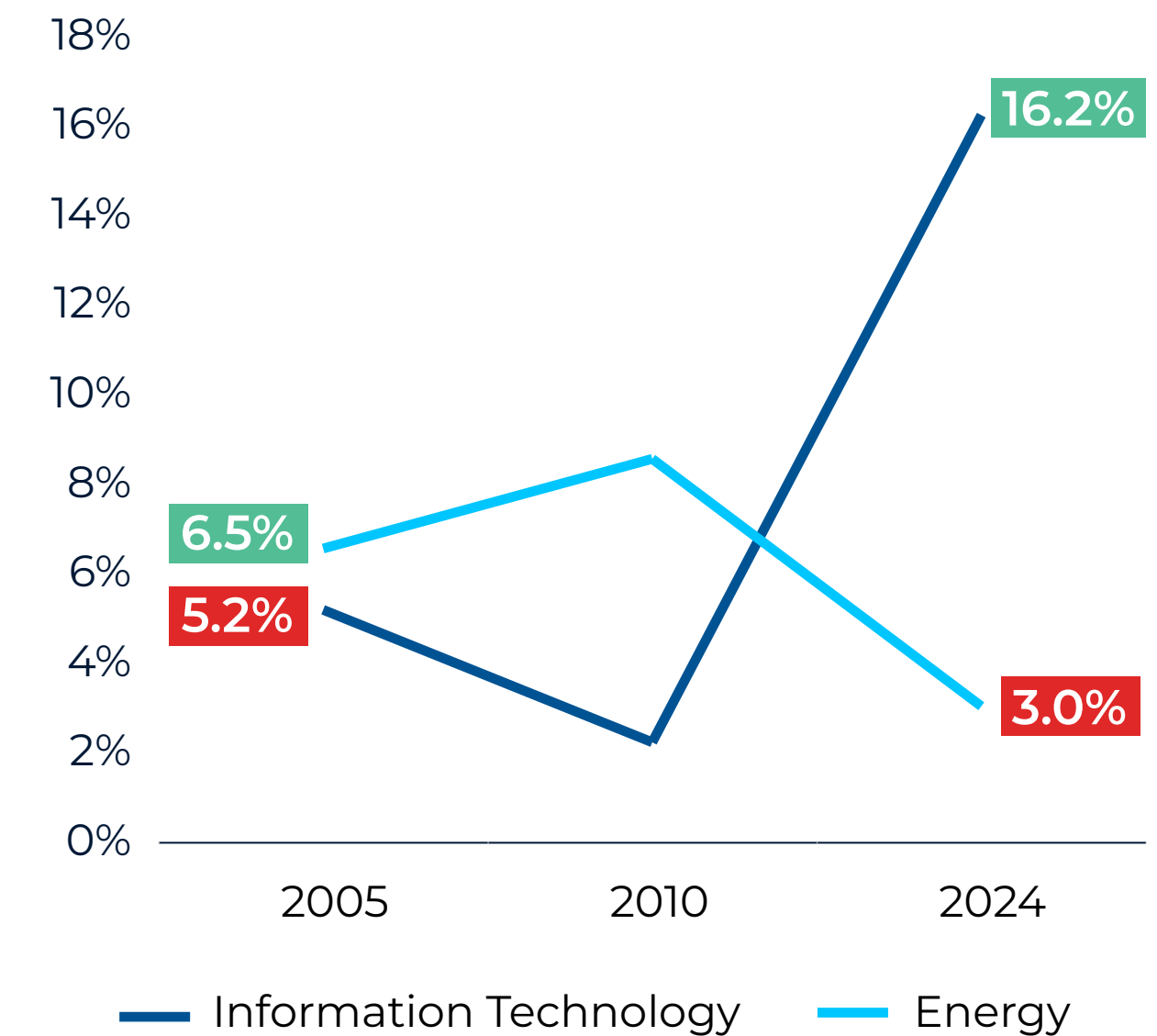
EPS* of the Magnificent 7 has grown at a much higher pace than between 2004 and 2024



Weight of Information Technology in S&P 500 Index increased, while Energy decreased



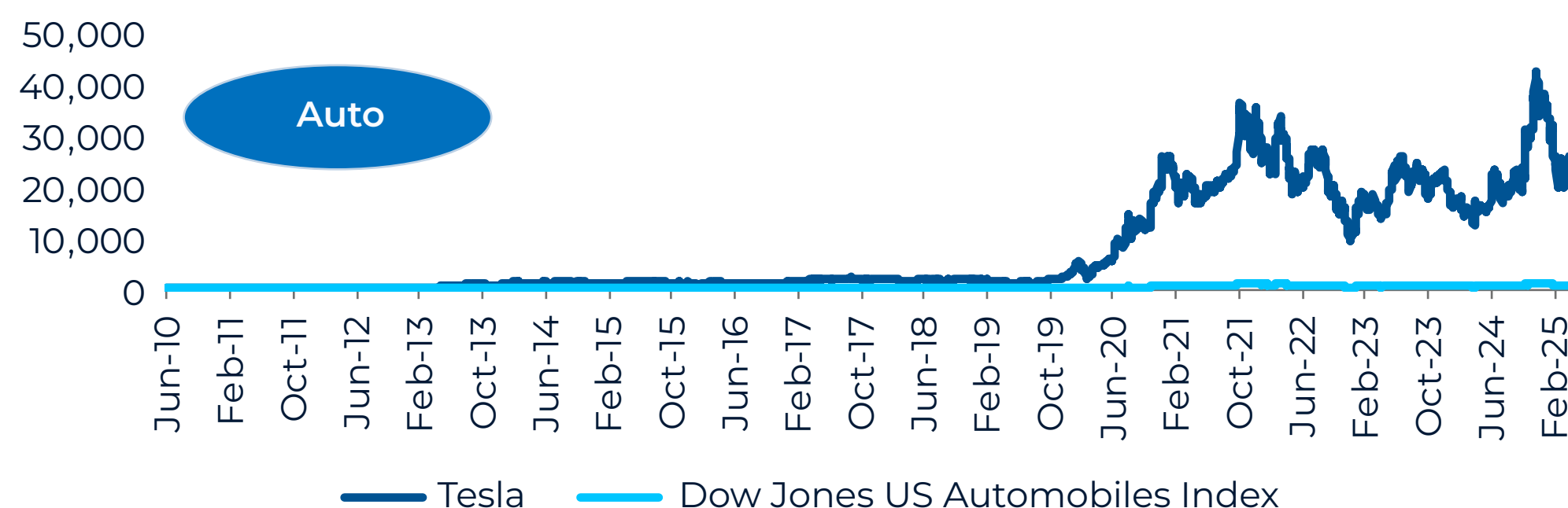
Weight of Information Technology in CSI 300 Index (Shanghai Stock Exchange) increased, while Energy decreased



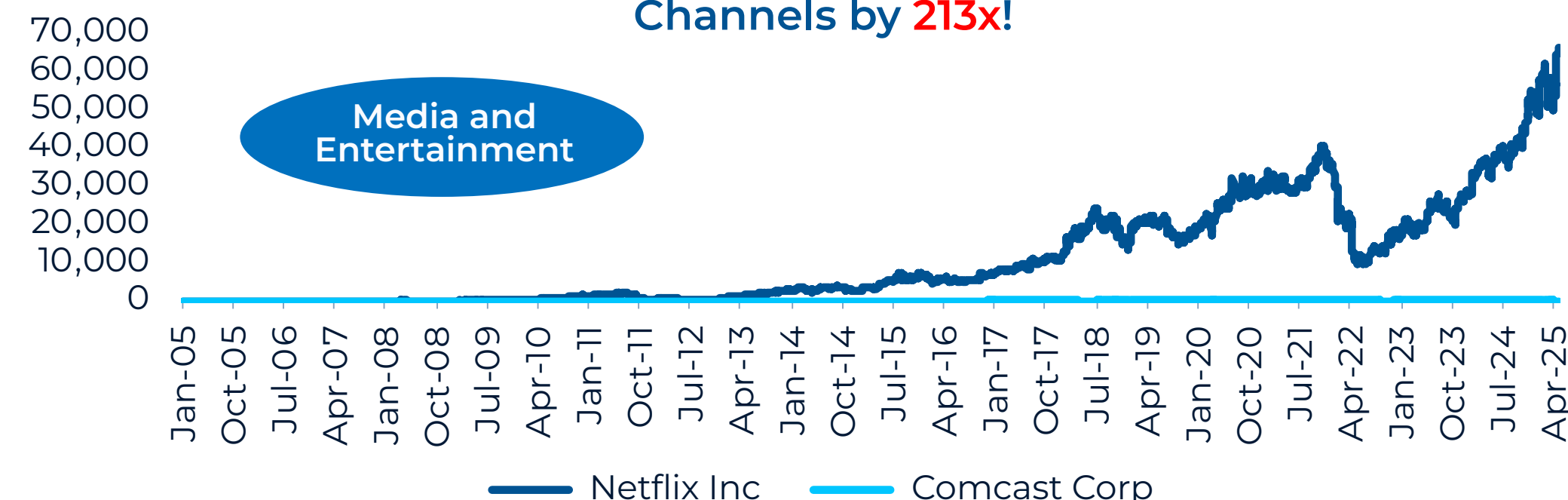
Source: Bloomberg, NYU Stern, Morgan Stanley; *EPS: Earnings per Share; Data for EPS as of December 2024; Years indicate Calendar Year-end years.
Sectors referred above do not constitute a research report or an investment advice / recommendation by HDFC Mutual Fund / AMC.

Innovation can happen *not just in Technology!*

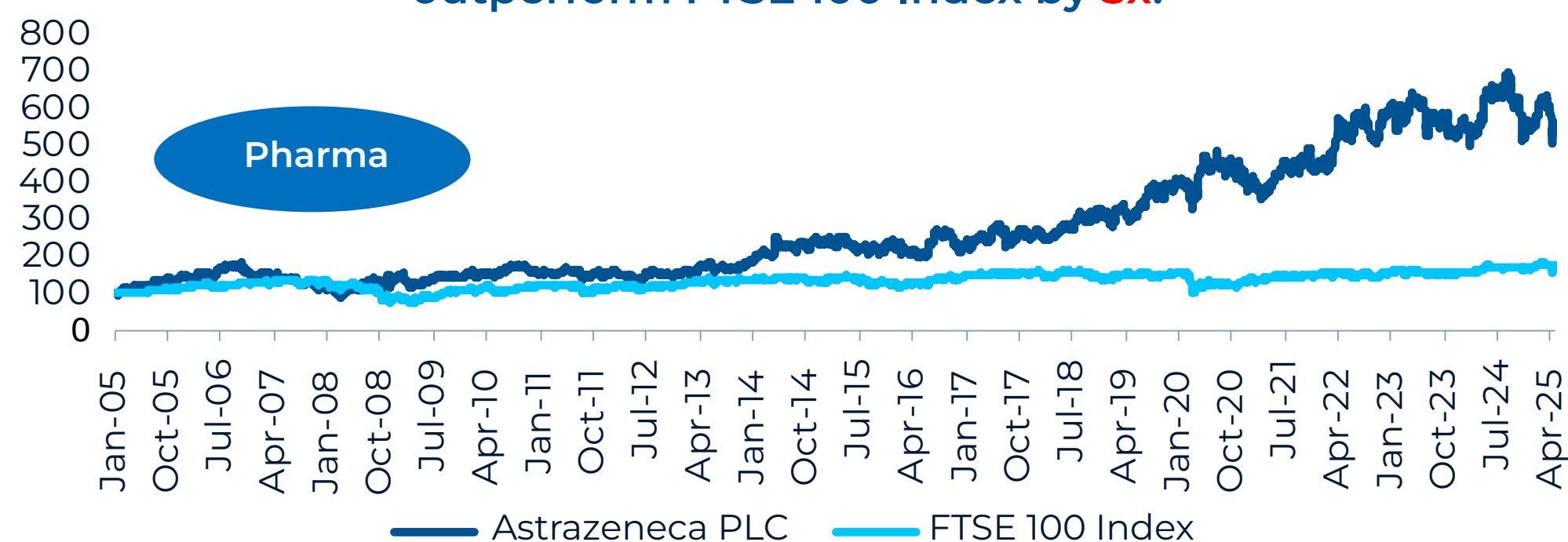
Transition from Fossil Fuel-based Cars to Electric Vehicles has led Tesla to outperform the Auto Index by **~30x!**



Increased usage of Online Streaming Platforms has led Netflix to outperform Traditional Media and Entertainment Channels by **213x!**



Continuous Innovation in drug manufacturing has led AstraZeneca outperform FTSE 100 Index by **3x!**



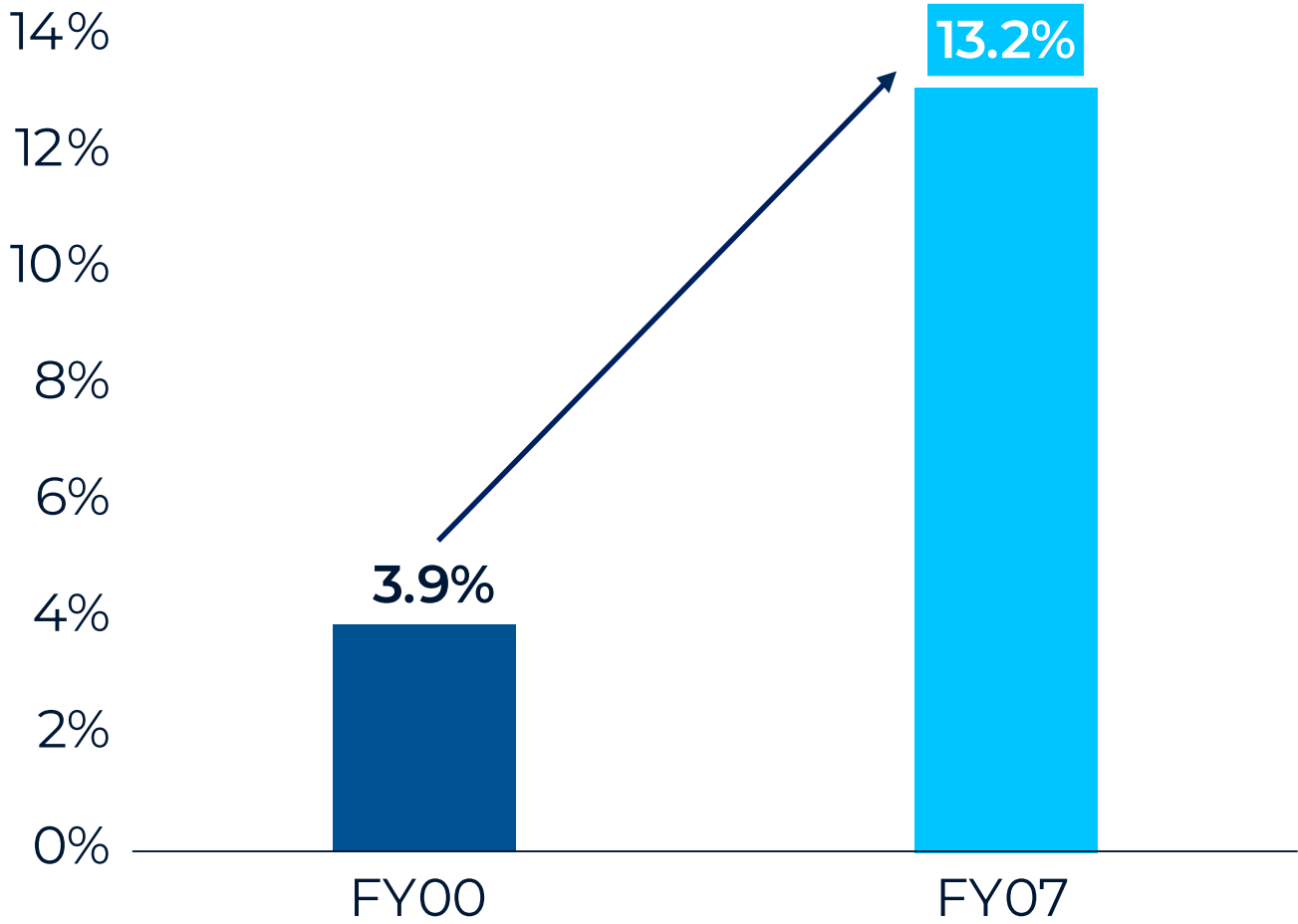
Innovation is democratic with examples of companies across different sectors, that have adopted innovative strategies, providing the potential for wealth creation



Source: Bloomberg. Data as on April 30, 2025; Prices of Tesla and Dow Jones US Automobiles Index have been rebased to 100 as on June 28, 2010. Prices of Netflix Inc and Comcast Corp have been rebased to 100 as on January 03, 2005. Prices of AstraZeneca and FTSE 100 Index have been rebased to 100 as on January 04, 2005. **Stocks / Indices referred above do not constitute a research report or an investment advice / recommendation by HDFC Mutual Fund / AMC.**

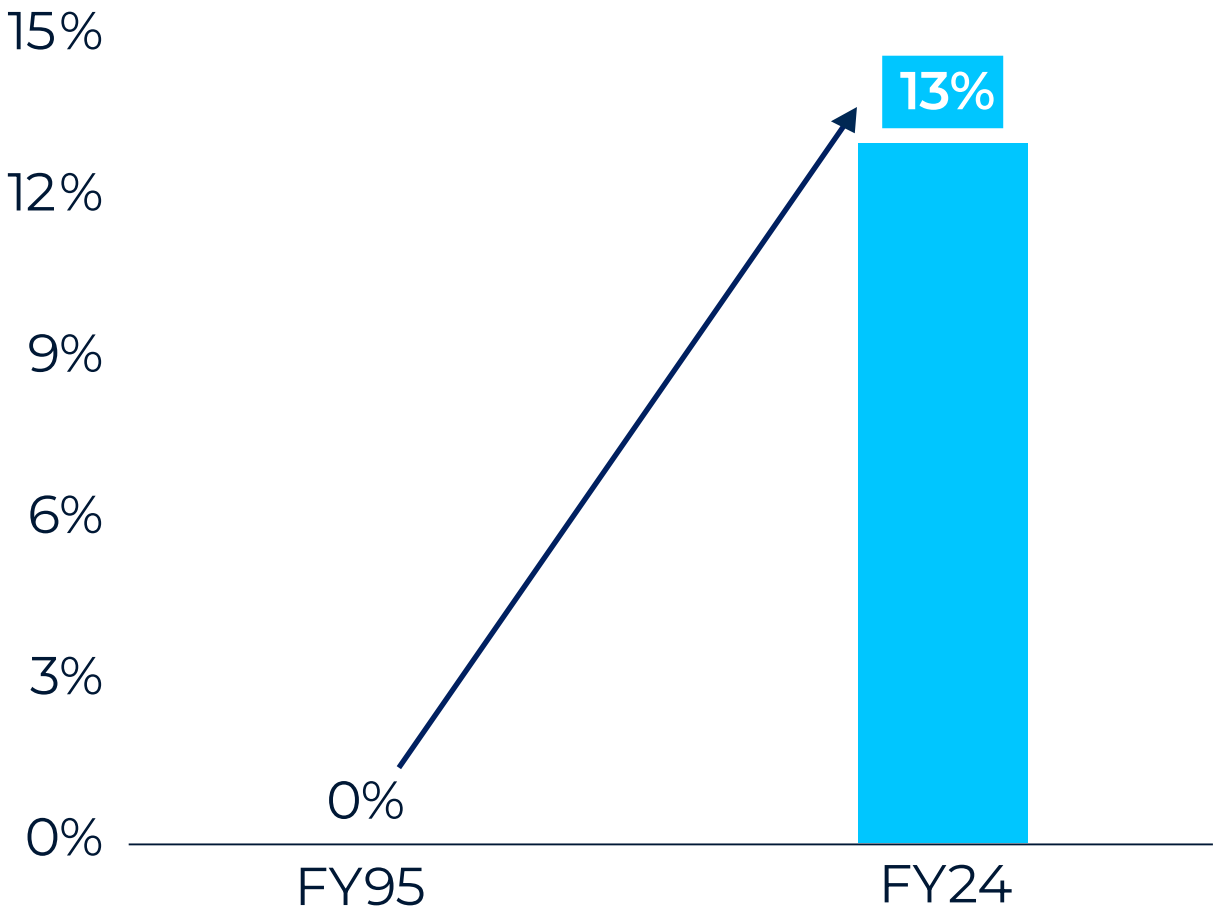
Even in India, Sunrise Sectors have grown disproportionately

Rise in Weight of Telecommunications in NIFTY 50 Index between FY00 and FY07



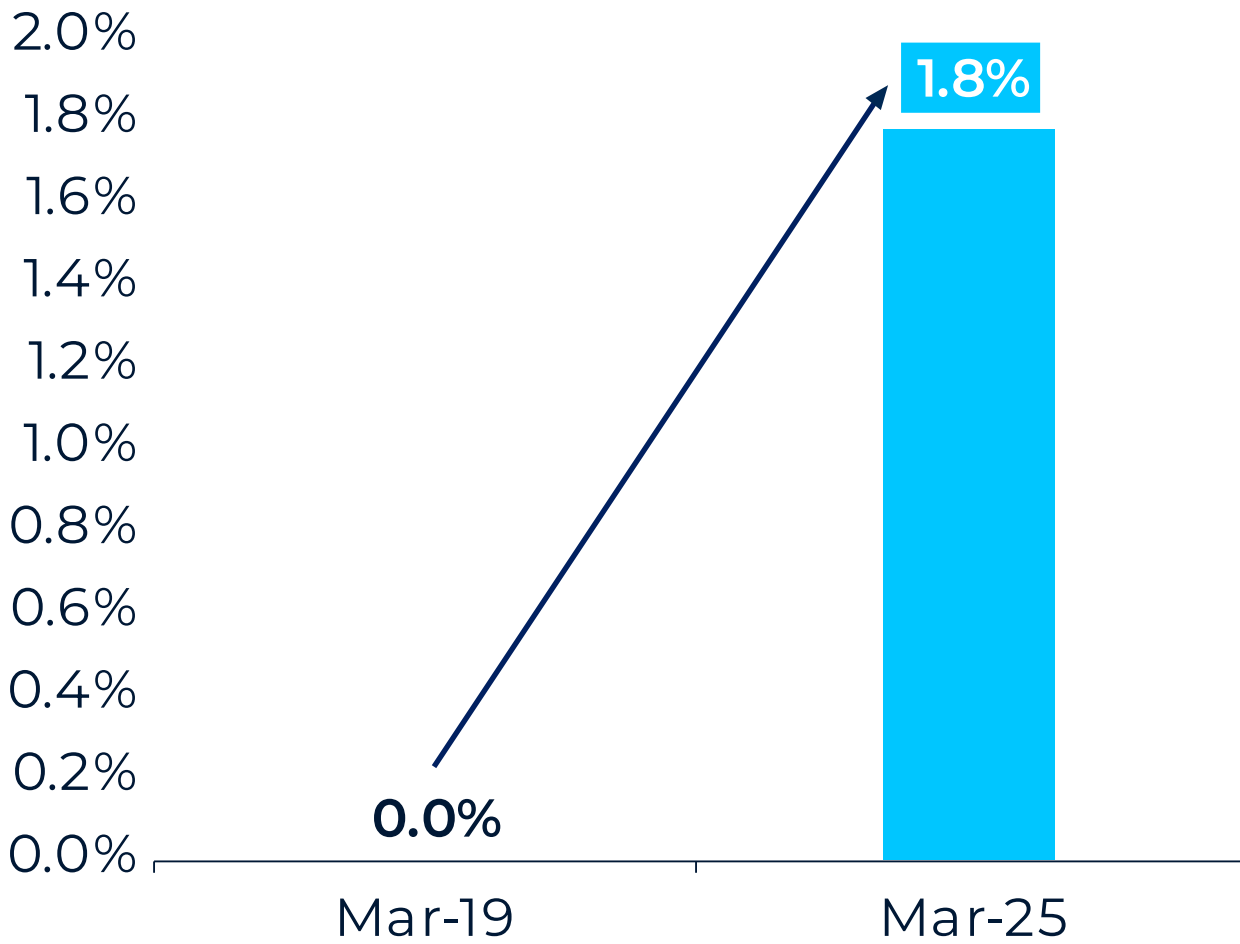
Disruptive growth due to introduction of private sector companies and new technologies like 2G, which subsequently led to a surge in mobile phone subscribers and decrease in cost of data

Rise in Weight of Information Technology in NIFTY 50 Index between FY95 and FY24



Growth of IT sector weight was based on high growth in the sector driven by offshoring, application outsourcing, ERP** Implementation and new IPOs

Weight of New Age Companies in NIFTY 500 Index has increased



Multiple New Age companies have made way to the listed universe in the last 6 years with their weightage in the Index rising with time

Source: www.niftyindices.com (Capturing the Pulse – July 2024), NAASCOM, Industry Reports; **ERP: Enterprise Resource Planning

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Innovation in India bridging Potential & Progress

Innovation remains key to India's Growth Ambitions

Key Pillars supporting the Rise of Innovation in India

01



Strong Entrepreneurial
Culture improving India's
Global Innovation Rankings

02



High Talent Availability and
Lower Salary Gaps

03



Improved Funding
Environment

04



Strong Digital Public
Infrastructure key for
Growth of Startups

05



Supportive Government
Initiatives

06



Increasing Adoption of
Innovative Strategies by
Different Sectors

India climbing up the Global Innovation Rankings

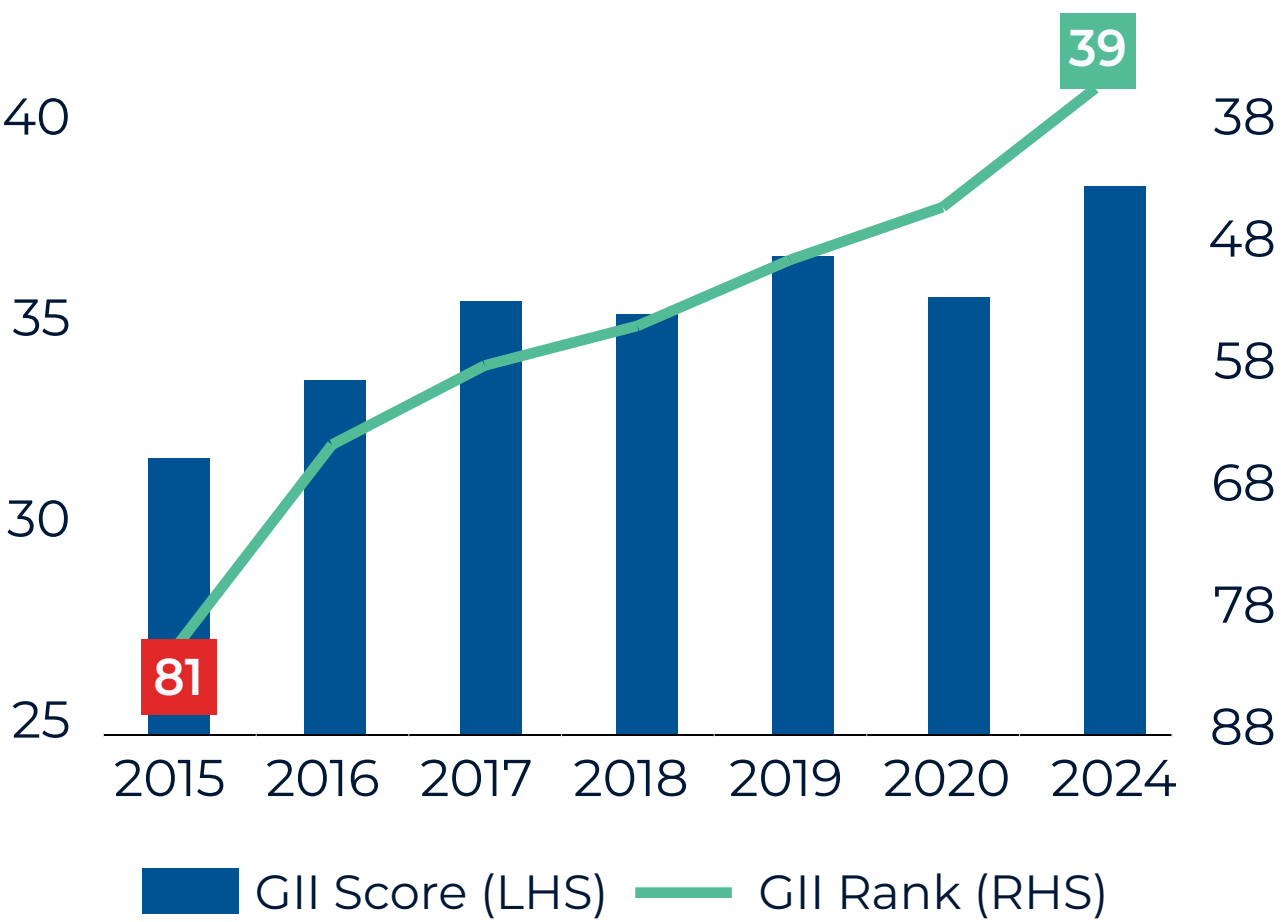
Despite India being well-placed against other countries in the Global Innovation Index, its GDP per capita is lower than countries like Brazil and Indonesia → *Signals that there is significant headroom to add value*

India's patent applications surged by 44.6% in 2023

Surge in electromobility within India

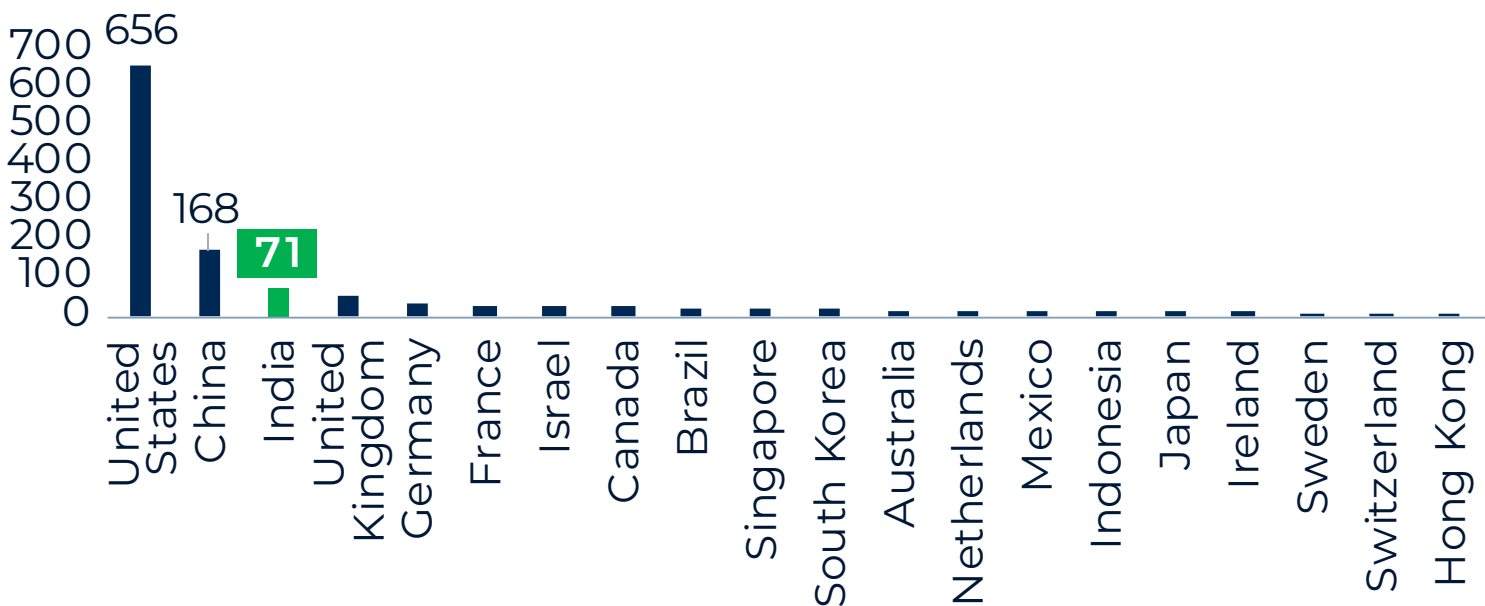
India's ranking on parameters like Knowledge and Technology and Market Sophistication (Funding Environment) in *GII at 22 and 23 respectively

India's Ranking has been improved in the Global Innovation Index* (GII)



Countries	GII Score	GDP per capita (in US\$, Current Prices)
Switzerland	67.5	104,523
US	62.4	85,812
Korea	60.9	36,129
China	56.3	13,313
Japan	54.1	32,498
India	38.3	2,711
Brazil	32.7	10,214
Indonesia	30.6	4,958

India ranks 3rd in Number of Unicorns globally



Higher focus on evolving drivers of growth in different fields like Generative Artificial Intelligence

Country	Total Generative AI Funding (in US\$ billion)	Number of Generative AI Patents	Number of Generative AI Startups
USA	28+	5300+	1000+
UK	0.8+	550+	150+
Japan	0.2+	2000+	45+
Israel	1+	200+	45+
EU	2.7+	1700+	280+
India	0.7+	750+	230+

Source: Global Innovation Index Database, WIPO (2024), NAASCOM, International Monetary Fund (World Economic Outlook – April 2025), World Population Review (2024)

Large Talent Pool, Lower Salary Gaps and Improving Innovation Ecosystem – India’s Case for Talent Retention



Indian Workforce highly skilled

One of the top in terms of AI skills penetration	2 nd largest in terms of AI/ML** BDA@ talent pool, globally	3 rd globally, in terms of installed supply of Cloud professionals
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India’s Case for Higher Retention of Talent

1

Geopolitical challenges creating uncertainty

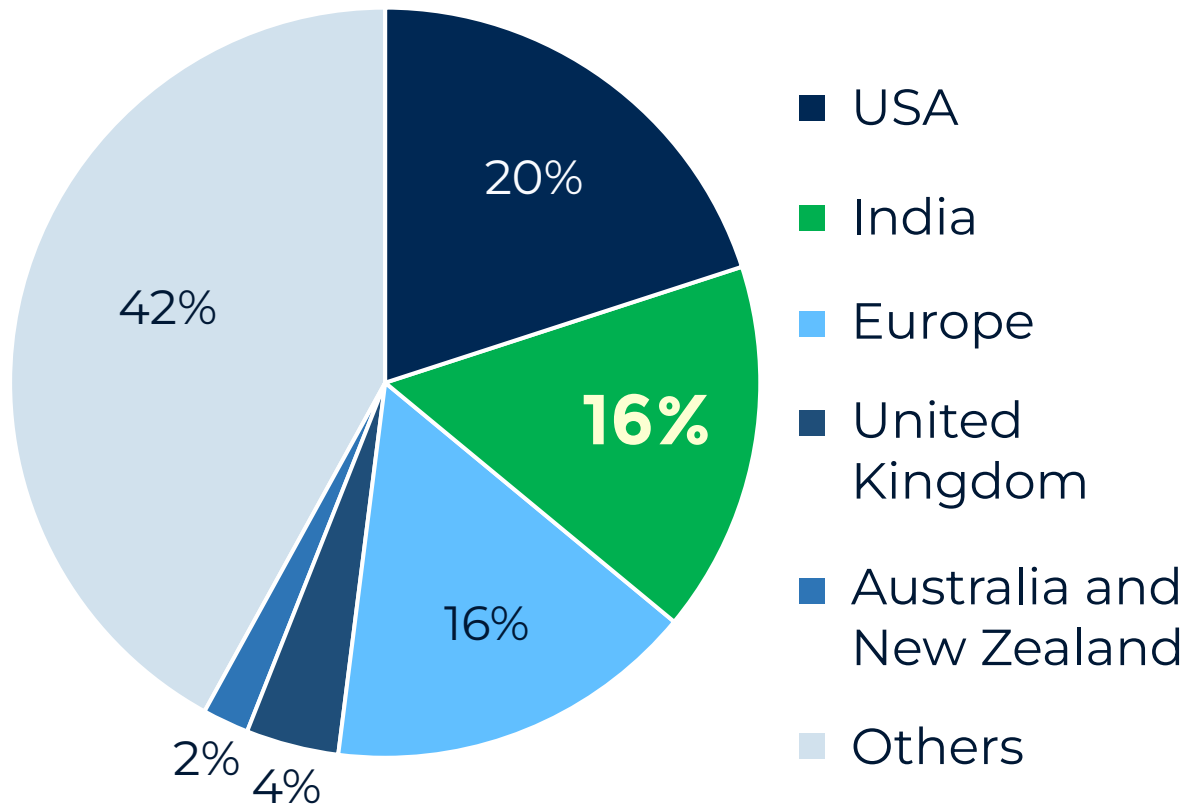
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India’s rising global economic standing leading to better career opportunities

3

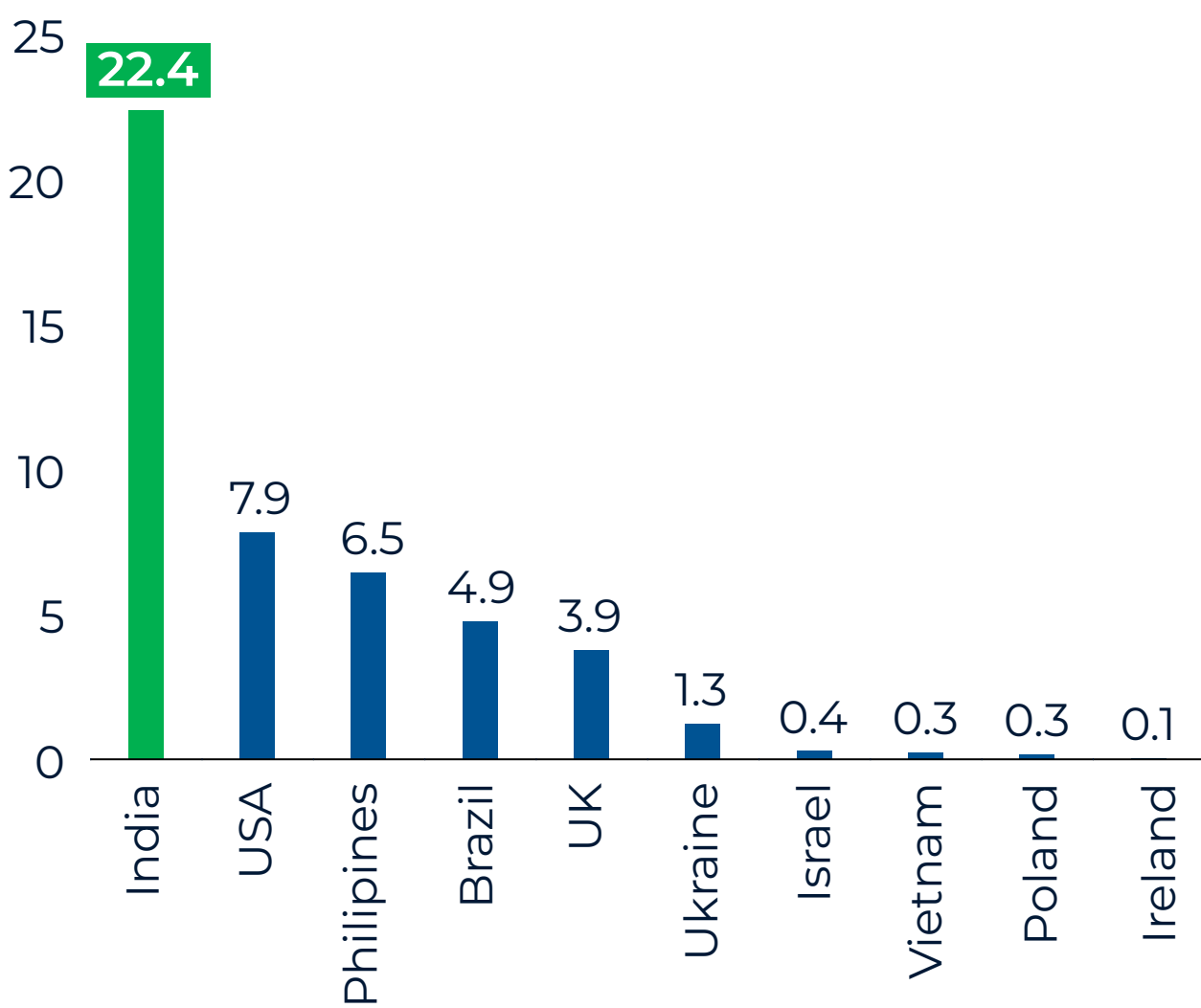
Lower salary gap between US (on a Purchasing Parity Basis) and India

Country-wise Tech Talent Distribution (%)



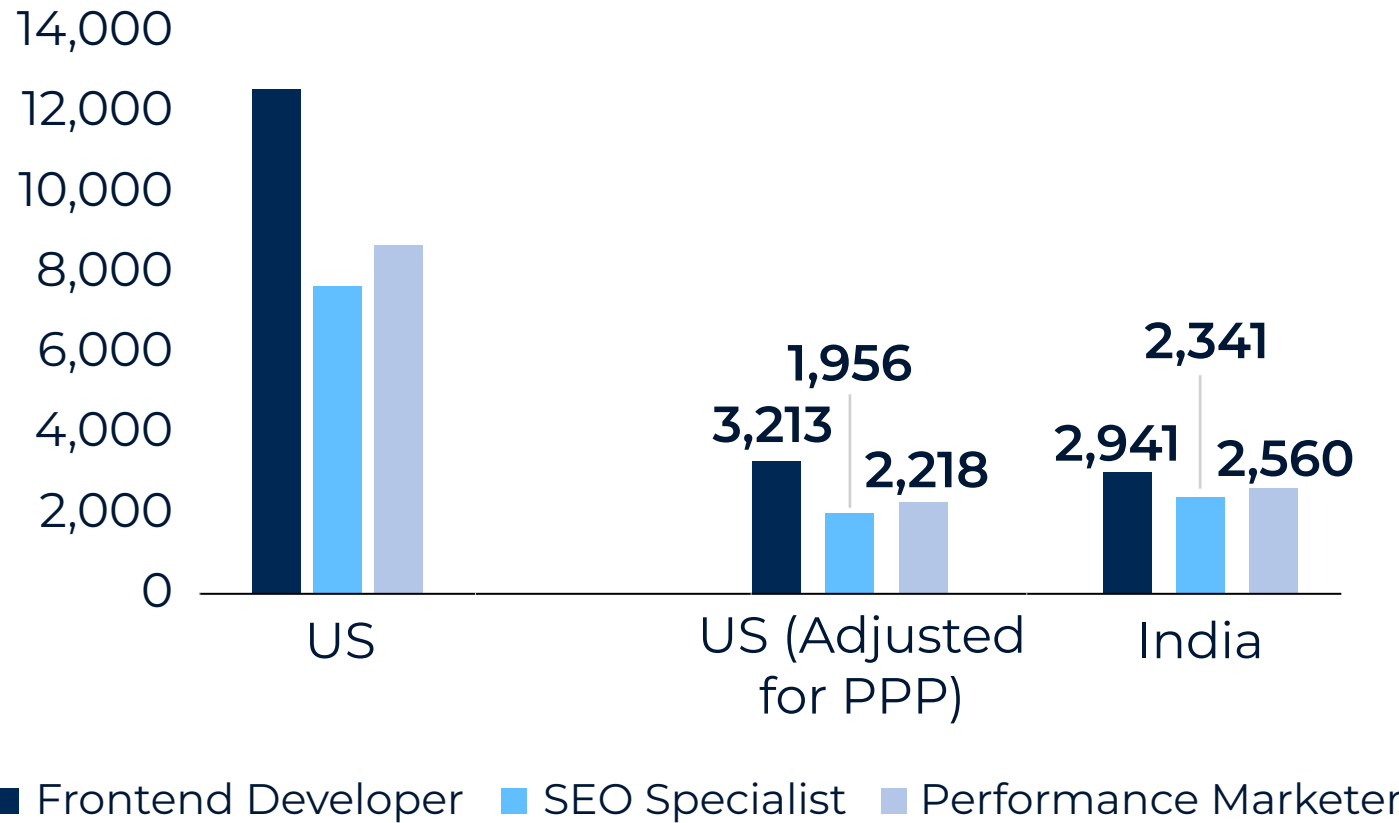
Note: Data excludes China

Yearly STEM Graduates (in lakh)



Note: STEM is an abbreviation for Science, Technology, Engineering and Mathematics

Salary Gap (in US\$) between US on a PPP* Basis and India has been low



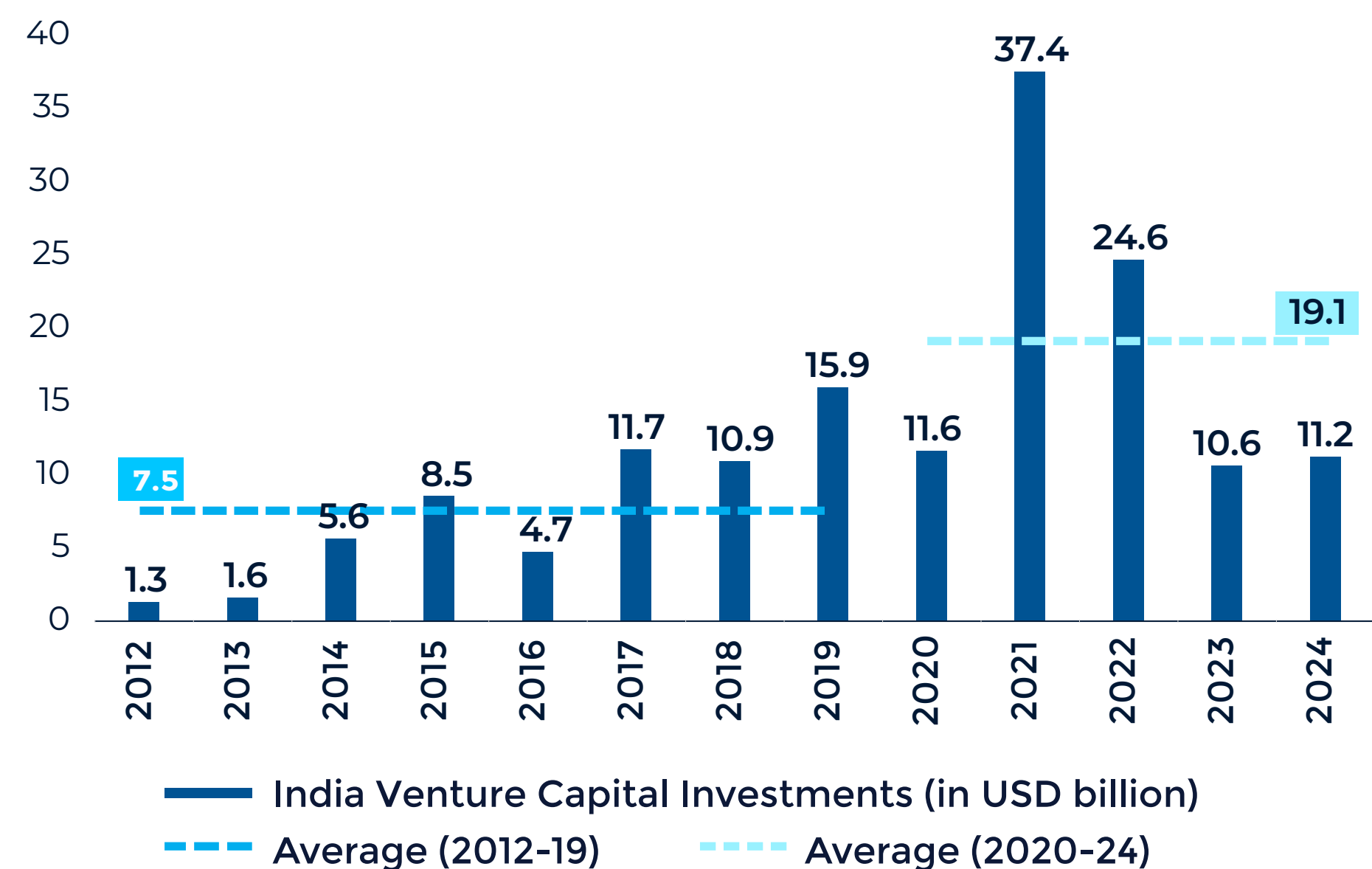
Source: EY, Publicly Available Information; India Salary Guide (2024) by Uplers; **AI/ML: Artificial Intelligence/Machine Learning; @BDA: Business Development Associate; All data as of 2023; *PPP: Purchasing Power Parity; PPP Factor between India and US: 3.8:1

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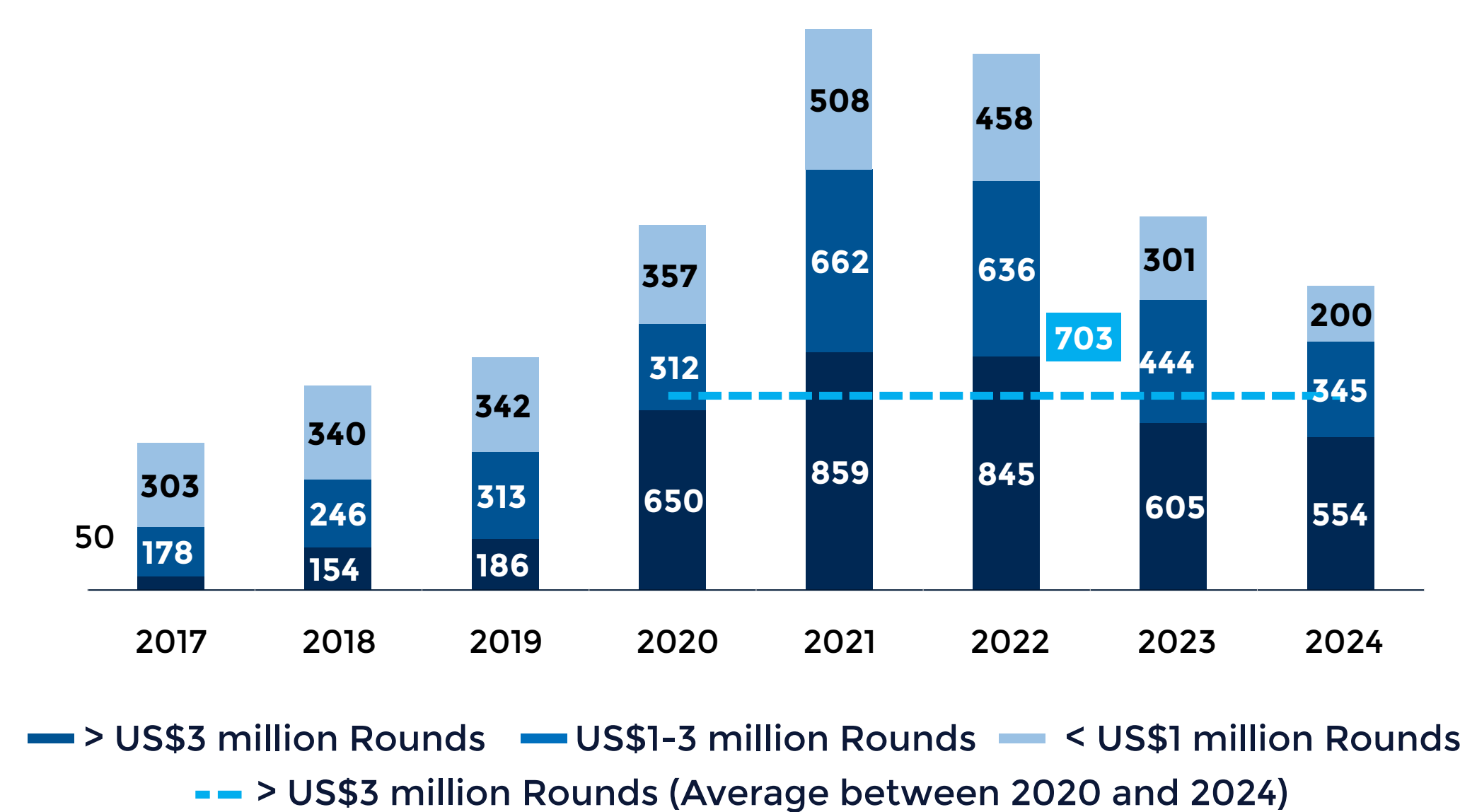
Improved Funding Environment indicating Confidence in Upcoming Innovation

India's Venture Capital (VC) Investments and Seed Funding has improved with greater than US\$3 million rounds seed funding accounting for 50.4% of the funding in 2024, compared to 9.4% in 2017 → **Indication of a shift from traditional industries to a knowledge-based economy**

India VC Investments have remained healthy



Seed Fund in India on Strong Footing

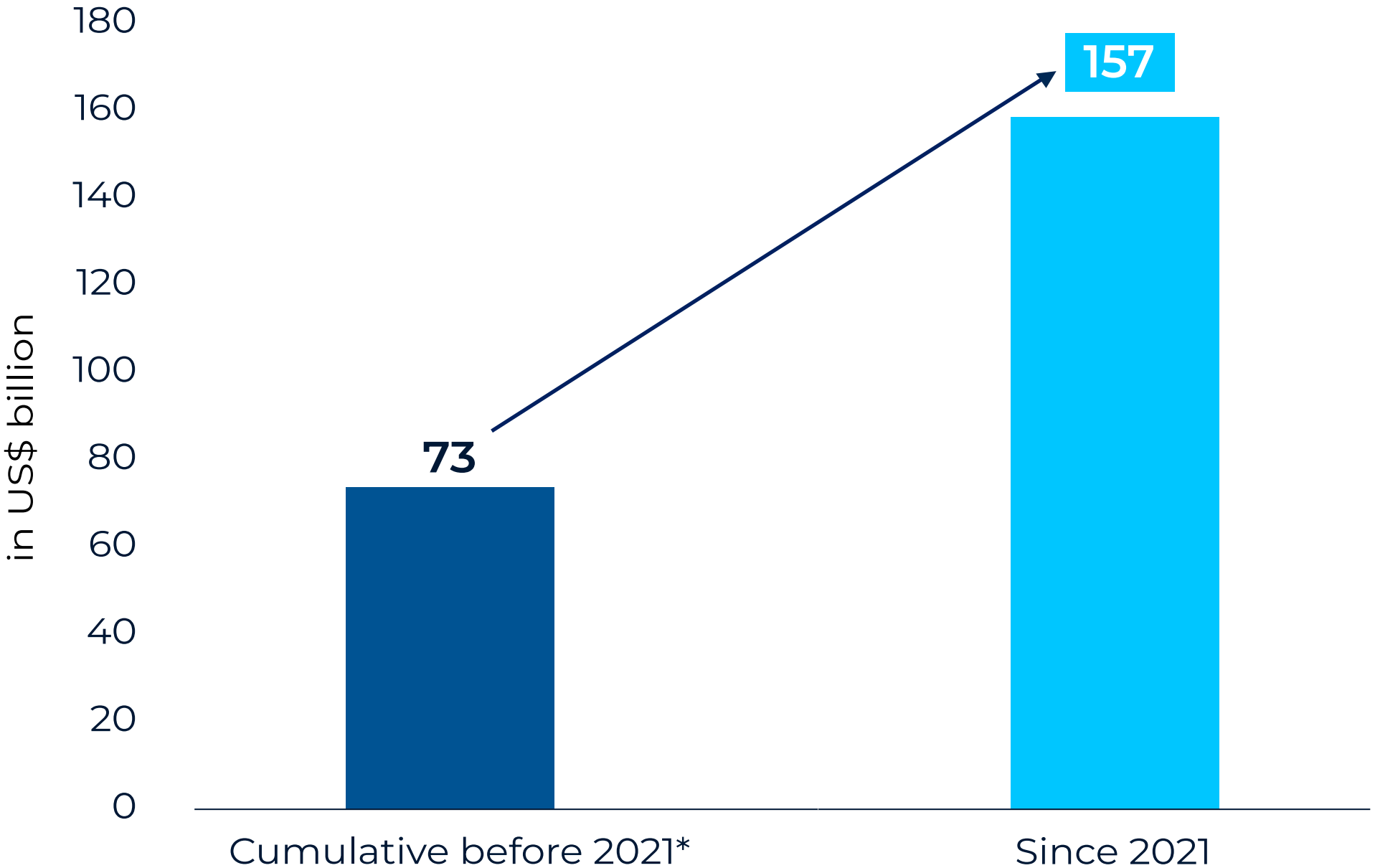


Source: Tracxn, Indus Valley - Funding Trends (2024)

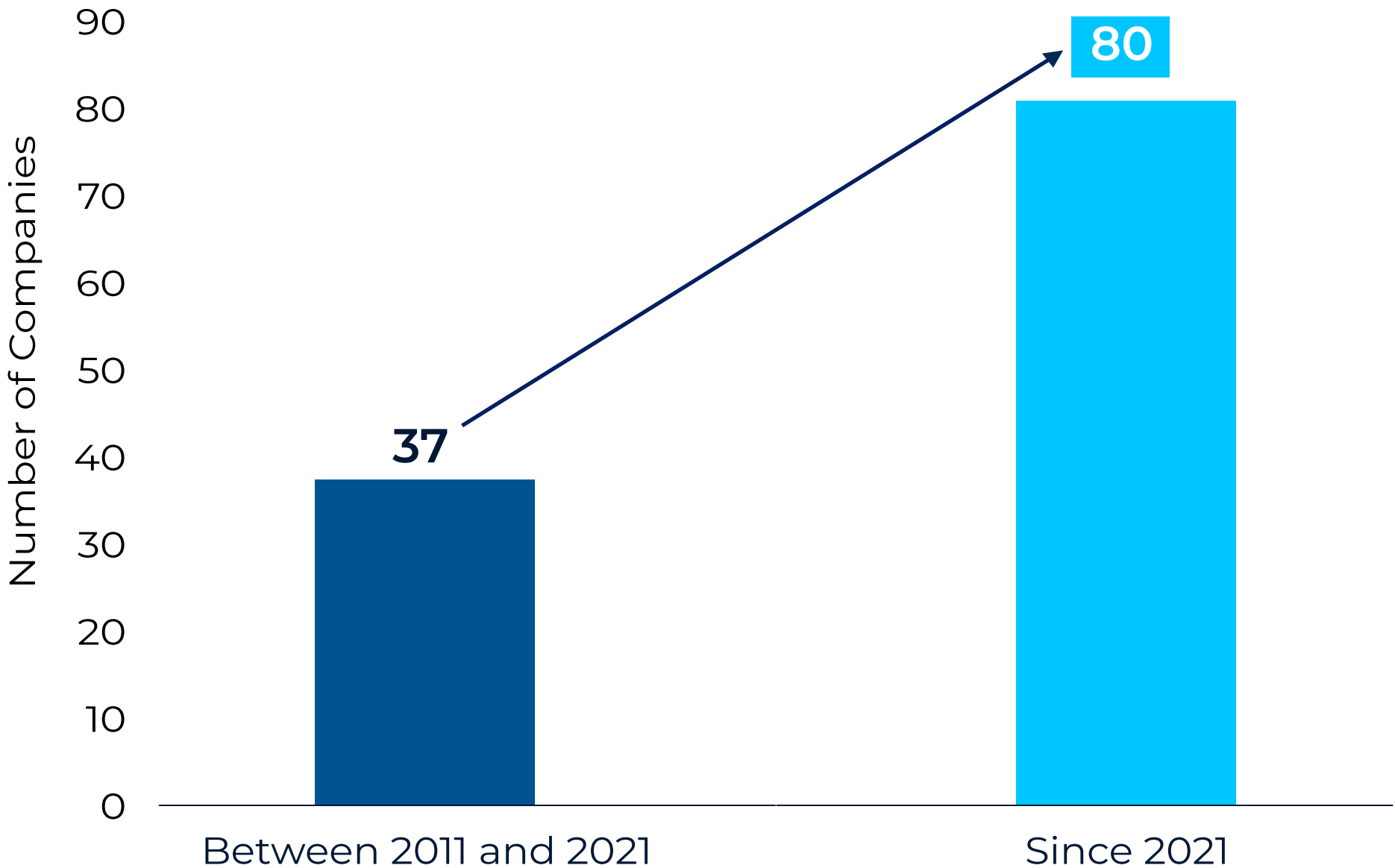
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VC-Funded IPOs have been healthy with a ~2x rise in number and market cap of IPOs since 2021

Exit Environment of VC-Funded Companies has been healthy (market cap)



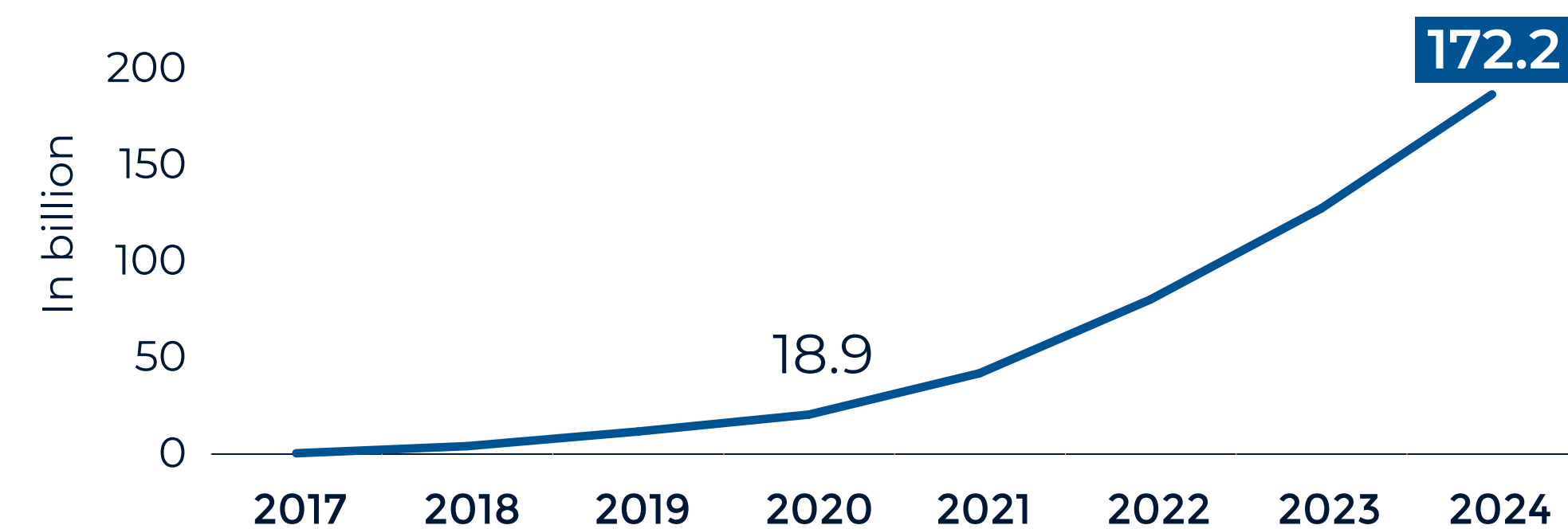
Strength of VC-backed IPOs has see a notable rise



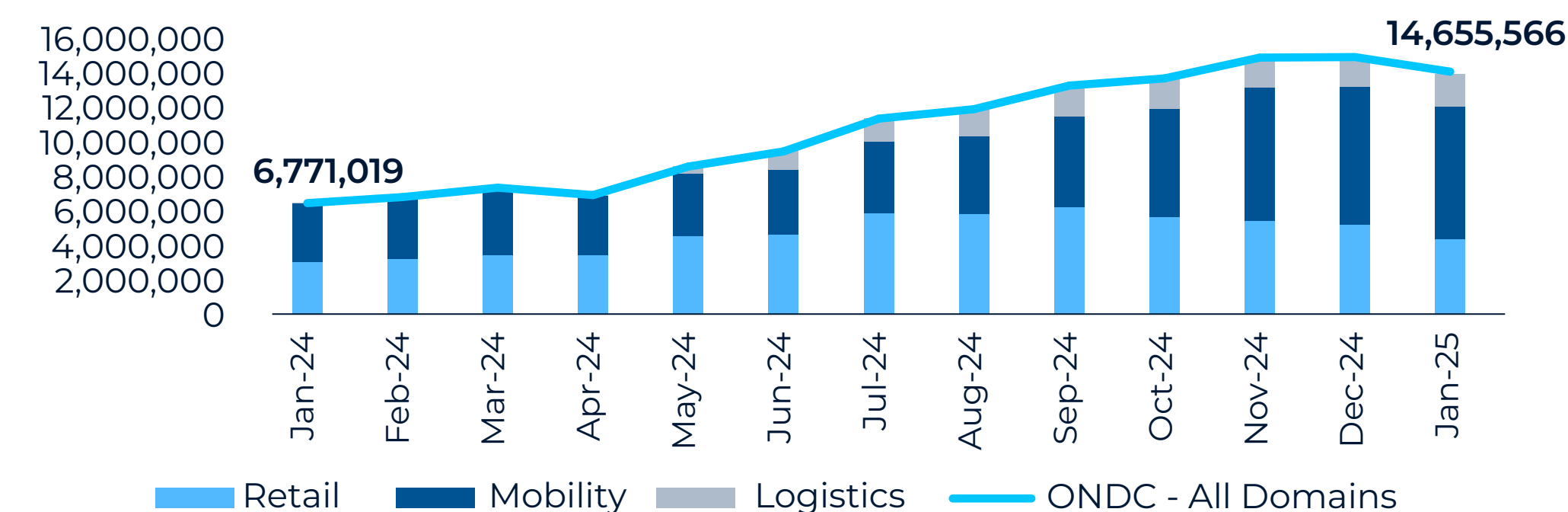
Source: Tracxn, Indus Valley - Funding Trends (2024); Data as on January 17, 2025; *Number of VC-Funded Companies that have gone for an IPO before 2011 was 50 and between 2011 and 2021 was 37

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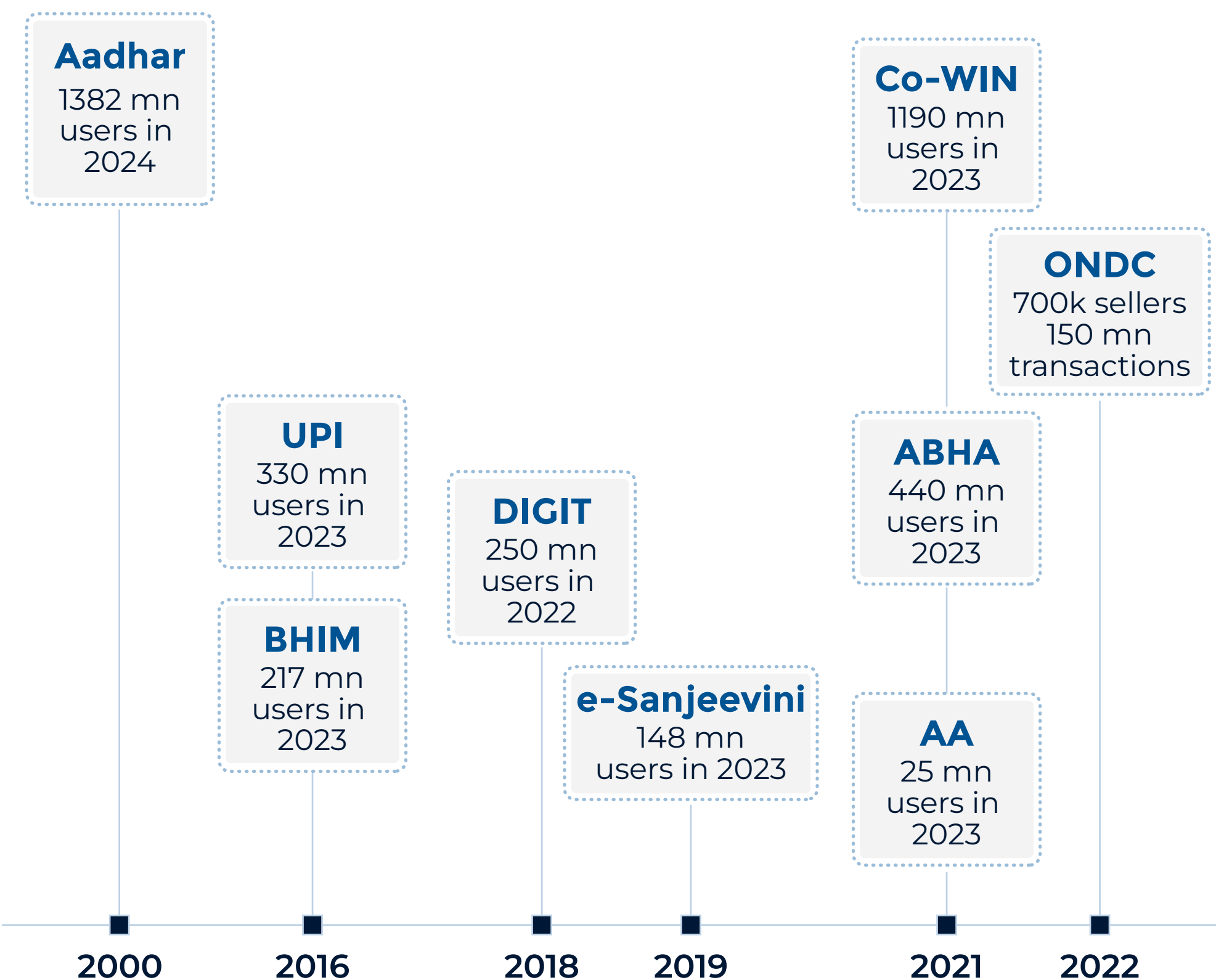
~9x Increase in UPI Transaction Volume since the Pandemic



~2x Increase in ONDC** Network Orders across All Domains



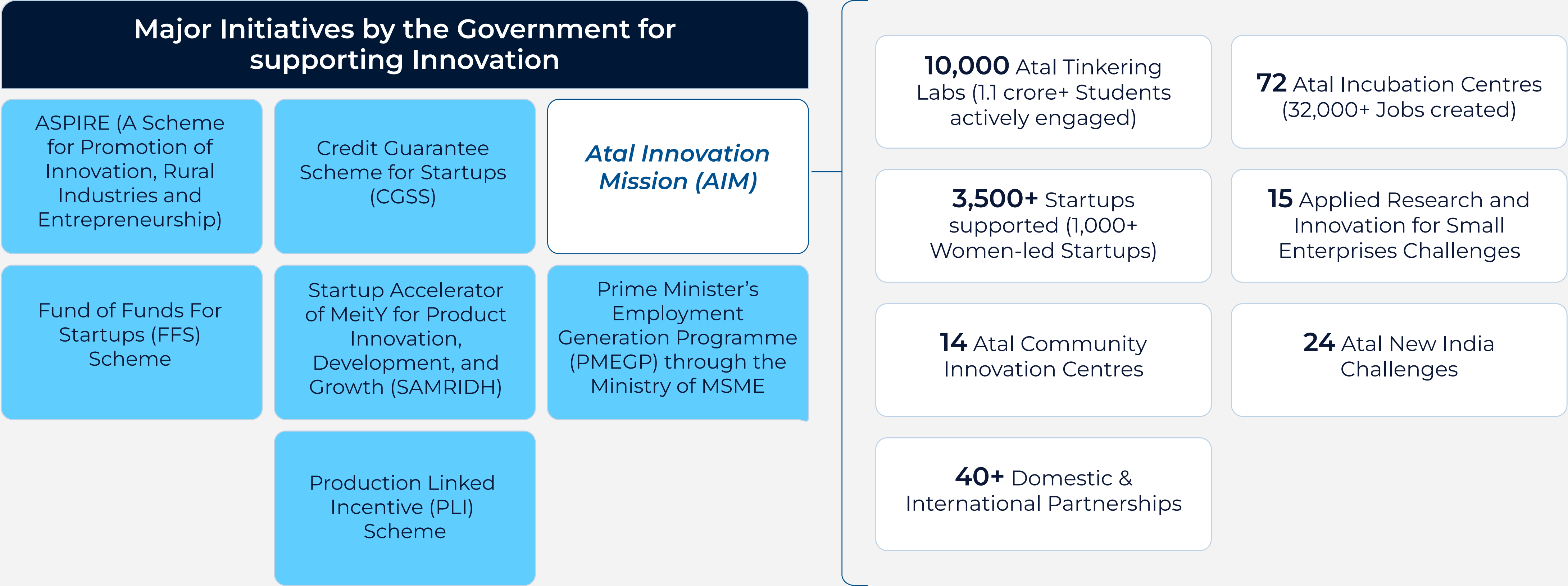
Key Digital Infrastructure Initiatives



Source: National Payments Corporation of India, **Open Network for Digital Commerce (ONDC) Website, Motilal Oswal, Indus Valley - Funding Trends (2024)

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Government Initiatives supporting Innovation Ecosystem



Source: Indian Brand Equity Foundation, PwC Reports, Atal Innovation Mission

Objectives of a Few Schemes mentioned above: (1) **CGSS** is aimed at providing credit guarantee up to a specified limit against loans extended by Member Institutions to finance eligible borrowers viz. Startups as defined in the Gazette Notification issued by the Department for Promotion of Industry and Internal Trade and amended from time to time. (2) **ASPIRE** scheme aims to support the establishment of Livelihoods Business Incubation (LBI) centers. These centers are intended to foster entrepreneurship and promote startups in the agro-industry. (3) **PMEGP** aims to generate employment opportunities by establishing micro-enterprises in both rural and urban areas.

About **HDFC Innovation Fund**

Core Portfolio

- ▶ Aims to invest at least 80% of its net assets in equity and equity related instruments, which focuses on companies that are adopting innovative themes and strategies
- ▶ Fund Manager will endeavour broadly identify innovating companies based on:
 - Product / Service Innovation
 - Process Innovation
 - Business Model Innovation

Portfolio Construction

- ▶ Bottom-up approach to stock selection
- ▶ Diversified across different sectors and market capitalizations
- ▶ Companies who are innovators or early adopters of new technologies / strategies with focus on growth and longer-term profitability
- ▶ Companies who are part of value chain of emerging themes / trends globally

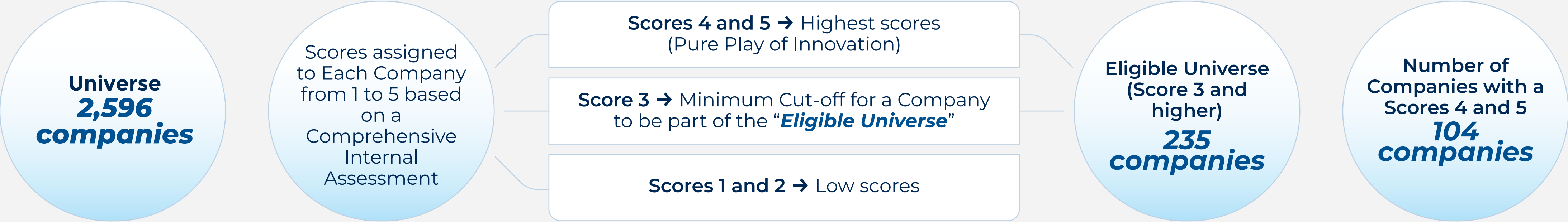
Focus on Quality Companies

- ▶ Companies who are targeting to grow higher than the industry with market share gains
- ▶ Focusing on emerging market leaders and profit pool leaders
- ▶ Consider stage and trajectory of industry cycle and take a risk-adjusted view
- ▶ Strong Management with an ability to capitalize on opportunities while managing risks
- ▶ Good corporate governance, ESG sensitivity and transparency

Valuation Discipline and Strategic Approach

- ▶ Valuation looking from a medium to long-term perspective with focus on unit economics
- ▶ Holistic approach to valuations without relying solely on traditional parameters like P/E or P/B
- ▶ Considering the long term nature of investments in the Scheme, stock selection will be strategic and long term in nature, instead of tactical

Eligible Universe for HDFC Innovation Fund



Macroeconomic Sectors*	Sectoral Split of the Eligible Universe (% of Number of Companies)	Macroeconomic Sectors*	Sectoral Split of the Companies with Scores 4 and 5 (% of Number of Companies)	Market Cap Category	Market Cap Split of the Eligible Universe (% of Number of Companies)	Market Cap Split of the Companies with Scores 4 and 5 (% of Number of Companies)
Consumer Discretionary (Auto & Auto Ancillaries and E-Commerce)	22.1%	Pharma and Healthcare	27.2%	Large Cap	19.1%	24.0%
Industrials (including Defence)	20.9%	Consumer Discretionary (Auto & Auto Ancillaries and E-Commerce)	23.3%	Mid Cap	23.8%	25.0%
Pharma and Healthcare	16.6%	Industrials (including Defence)	17.5%	Small Cap	57.0%	51.0%
Information Technology	14.5%	Information Technology	11.7%	Number of Companies	235	104
Commodities (including Chemicals)	8.1%	Commodities (including Chemicals)	9.7%			
Fast Moving Consumer Goods	6.4%	Utilities	4.9%			
Utilities	5.1%	Financial Services	4.9%			
Financial Services	3.8%	Fast Moving Consumer Goods	1.0%			
Services	2.1%	Services	0.0%			
Energy	0.4%					
Number of Companies	235	Number of Companies	104			

Source: Industry Classification by AMFI (April 29, 2025), SEBI Categorization of Large Cap, Mid Cap and Small Cap Stocks as of December 2024; *Macroeconomic Sectors as defined by AMFI. As per SEBI Circular dated October 6, 2017 and December 4, 2017. Large Cap companies means 1st - 100th company in terms of full market capitalization, mid cap companies mean 101st - 250th company in terms of full market capitalization and Small Cap companies mean 251st company onwards in terms of full market capitalization or such other companies as may be specified by SEBI from time to time.

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High Growth commands a Valuation Premium



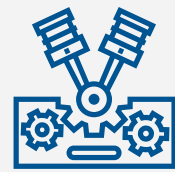
Growth run rate for Innovative Companies significantly ahead of the Traditional Peers → **Commanding a Valuation Premium**

Company	Ratio of Market Cap to Net Sales (March 2025)	3-year CAGR Growth in Net Sales (%), as of March 2025
One of the Leading Insurance Companies	1.7	9%
Leading Online Insurance Tech Company	14.7	52%
One of the Leading Indian Supermarkets	4.5	24%
Leading Indian Quick Commerce Platform	9.6	69%
Leading Fashion and Beauty Retailer	1.3	22%
Leading Indian Beauty and Personal Care Online Retailer	6.4	28%

Source: Motilal Oswal
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Investing in this Fund can provide an investor an exposure to industries across different market caps that are adopting innovative strategies

Industries that can form part of the Universe*



Auto and Auto
Ancillaries



Pharma &
Healthcare



Energy (Power &
Utilities)



Information
Technology and
Software



Defence, Industrials



Chemicals,
Agrochemicals and
Fertilizers



Consumer Goods

*Note: The industries mentioned above are indicative and can include more industries.

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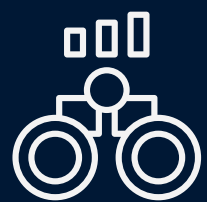
Why invest in HDFC Innovation Fund?



Exposure to companies that are adopting innovative strategies through the development of new products, processes or business models



Opportunity to participate India's next leg of economic growth led by companies who are innovators or early adopters of new technologies / strategies



Exposure to good quality companies with medium to long-term growth drivers across multiple market caps and sectors



Well-defined Methodology for selecting companies to form a part of the portfolio



25 years of track record of HDFC Mutual Fund with an experienced Investment / Equity Research Team

Risks	Mitigants
Slowdown in domestic economy and consumption → A large part of innovation ecosystem caters to the domestic economy which could get impacted in the event of an economic slowdown	Drivers of Macroeconomic growth continue to be on a strong footing
Slowdown in Funding Environment	There has been a step up in Venture Capital / Private Equity funding, which is helping the development of the innovation ecosystem in the last few years. With healthy exit environment, this should continue
Adverse Government policies for the innovation ecosystem	Government has undertaken multiple initiatives to support the innovation ecosystem
Lower talent retention in the country	A strong funding environment, India's rising global standing and lower salary gap (in PPP terms) should help in talent retention in the country

Particulars	HDFC Innovation Fund
Type of Scheme	An open-ended equity-oriented scheme following the innovation theme
Investment Objective	To generate long-term capital appreciation / income by investing in companies that are adopting innovative themes and strategies. There is no assurance that the investment objective of the Scheme will be achieved.
Benchmark Index	NIFTY 500 (Total Returns Index)
Fund Manager(s) ^{\$}	Mr. Amit Sinha
Investment Plans	<ul style="list-style-type: none">• Direct Plan• Regular Plan
Investment Option	Under Each Plan: Growth, Income Distribution cum Capital Withdrawal – Payout and Reinvestment of IDCW
Minimum Application Amount	During NFO Period Purchase / Switches: ₹100/- and any amount thereafter During continuous offer period (after scheme re-opens for repurchase and sale): Purchase / Additional Purchase / Switch: ₹100/- and any amount thereafter
Load Structure	Exit Load: <ul style="list-style-type: none">• In respect of each purchase/switch-in of units, an Exit load of 1% is payable if units are redeemed/switched-out within 1 month from the date of allotment.• No Exit Load is payable if units are redeemed / switched-out after 1 month from the date of allotment. In respect of Systematic Transactions such as SIP, Flex SIP, STP, Flex STP, Swing STP, Exit Load, if any, prevailing on the date of registration / enrolment shall be levied.

^{\$}Fund Manager Overseas investment – Mr. Dhruv Muchhal

For further details, refer SID and KIM available on www.hdfcfund.com and at Investor Service Centres of HDFC Mutual Fund

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Under normal circumstances, the asset allocation (% of Net Assets) of the Scheme's portfolio will be as follows:

Types of Instruments	Minimum Allocation (% of Net Assets)	Maximum Allocation (% of Net Assets)
Equity and Equity related instruments following the innovation theme	80	100
Equity and Equity related instruments of companies other than those mentioned above	0	20
Units of REITs and InvITs	0	10
Debt securities and Money Market instruments	0	20
Units of Mutual Fund	0	20

For complete details, please refer to the Scheme Information Document on www.hdfcfund.com

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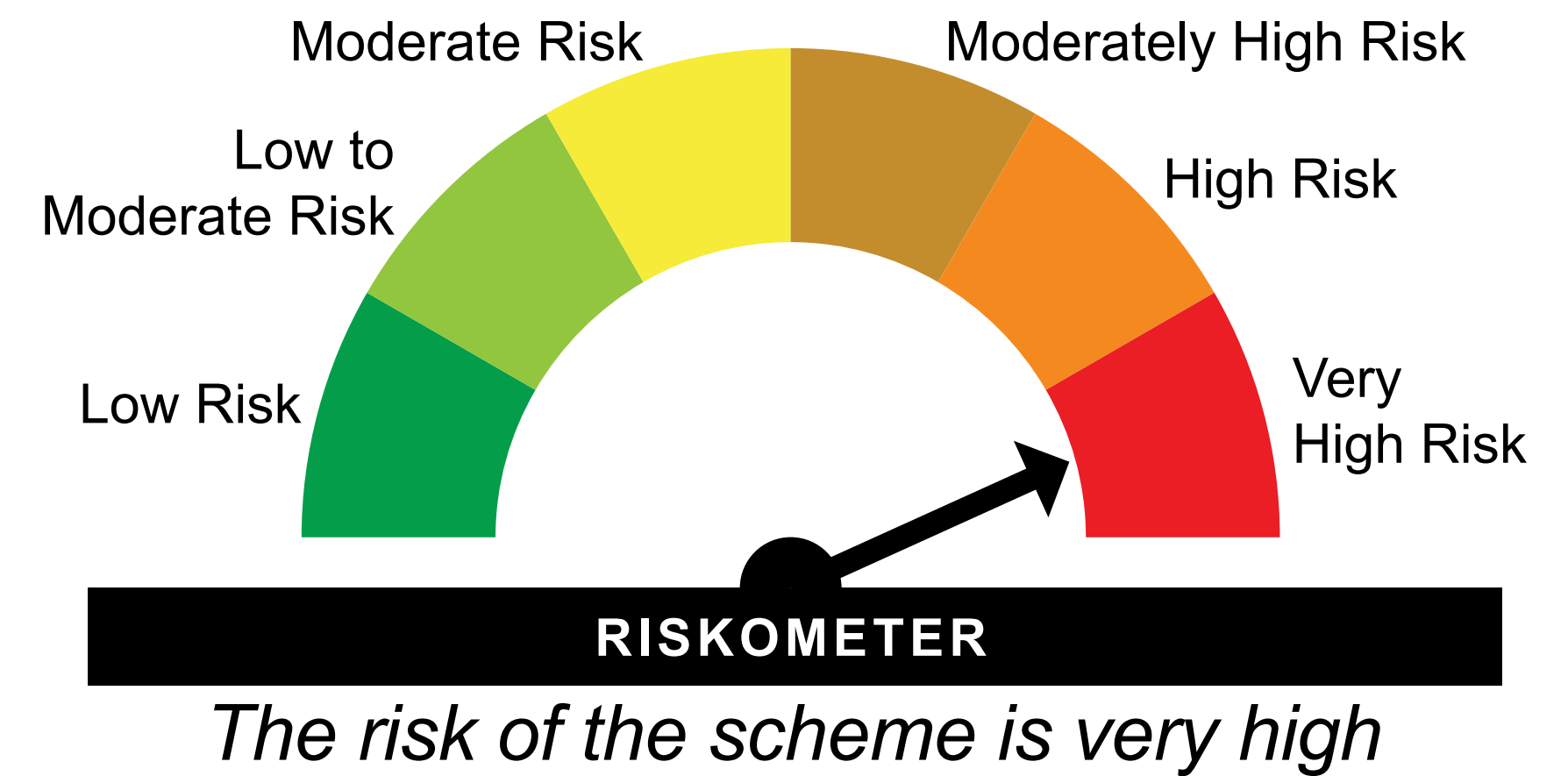
HDFC Innovation Fund (An open-ended equity-oriented scheme following the innovation theme) is suitable for investors who are seeking*:

- Capital appreciation over long term
- to invest in equity and equity related instruments of companies that are adopting innovative themes and strategies

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

#The product labeling assigned during the NFO is based on internal assessment of the scheme characteristics or model portfolio and the same may vary post NFO when the actual investments are made. For latest riskometer, investors may refer to the Monthly Portfolios disclosed on the website of the Fund viz. **www.hdfcfund.com**

Scheme Riskometer#



The Scheme being thematic in nature carries higher risks versus diversified equity mutual funds on account of concentration and theme specific risks.

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Mission: To be the wealth creator for every Indian

Vision: To be the most respected asset manager in the world

Thank You

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