

SBI ENERGY OPPORTUNITIES FUND

ENERGISING INDIA. ENERGISING YOUR PORTFOLIO.

NFO Period:

06th Feb - 20th Feb 2024

An open-ended equity scheme following the energy theme.

Scheme Riskometer:



RISKOMETER
Investors understand that their principal will be at very high risk

This product is suitable for investors who are seeking¹:

- Long term capital appreciation.
- Investment in equity and equity related instruments of companies engaged in and/or expected to benefit from the growth in traditional & new energy sectors & allied business activities.

¹Investors should consult their financial advisers if in doubt about whether the product is suitable for them.

**First Tier Benchmark Riskometer:
Nifty Energy TR Index**



RISKOMETER
The benchmark riskometer is at Very High risk

Indian Energy Theme – A multi decade Aatmanirbhar Bharat story



India among the largest and fastest growing energy markets



Stable policies combined with past underinvestment in select segment of value chain could improve cash flow from extant business



With a shift from combustion to electrification, energy consumption ex of coal & oil to grow at 6.4% CAGR through 2050



Redeployment of cash flow from traditional energy business into green energy could enhance value



India's natural advantage in green energy to result in India moving from energy deficiency to energy self-sufficiency



Energy segment is underrepresented in the broader market index; valuations reasonable

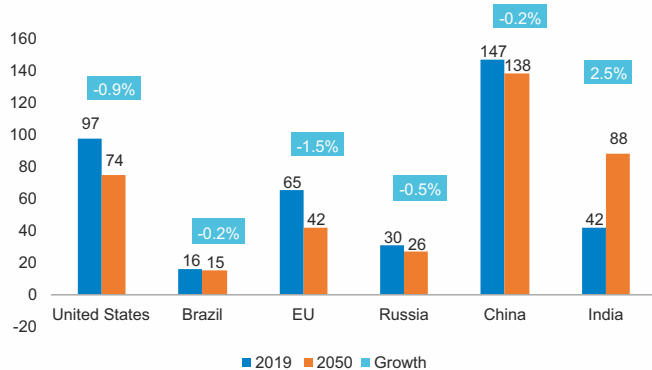


Energy self-sufficiency could insulate government policies from external turbulence like oil price spike

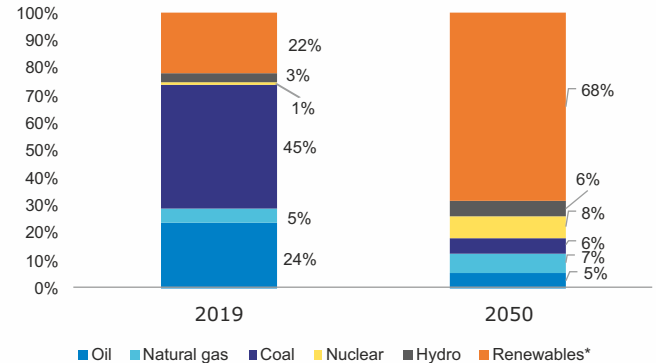
Source: BP Energy Outlook 2023; 2050 estimates are for Net Zero scenario, SBIMF research

India is expected to be the fastest growing energy market in the world

**Primary Energy Consumption
(in Exajoules)**



**India's Primary energy consumption by fuel
(% share)**

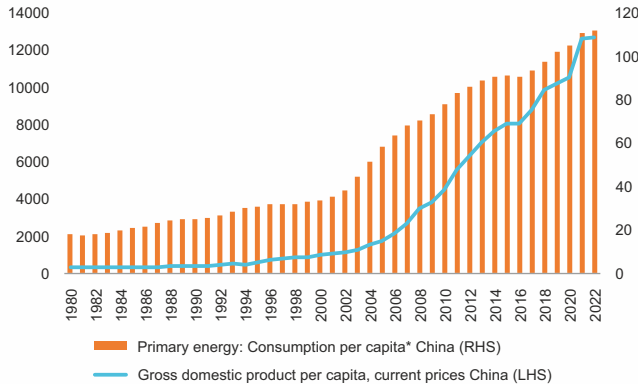


- India is world's 3rd largest energy market and is expected to be the fastest growing energy market globally through 2050
- India's primary energy consumption is expected to grow at 2.5% CAGR through next three decades. Excluding coal & oil, energy consumption is expected to grow by 6.4% as share of renewables will increase to 68% vs 22% at present

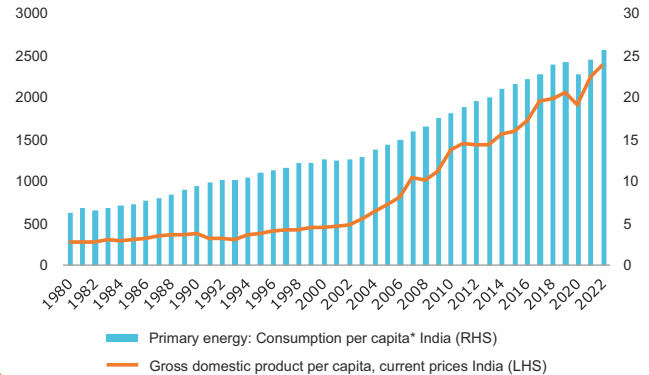
Source: BP Energy Outlook 2023; 2050 estimates are for Net Zero scenario
*Renewables include wind, solar, geothermal, biomass, biomethane and biofuels

Energy consumption directly correlated to GDP growth

Per capita Income (USD) & Energy consumption in China (Gigajoule)



Per capita Income (USD) & Energy consumption (Gigajoule) in India



- India's per capita energy consumption is 1/3rd of global average. China's consumption is 4.4x of India and Korea is 9.5x of India. Peers like Thailand, Indonesia and Vietnam are also at 2.75x, 1.4x and 1.8x of India
- Energy consumption in an economy is directly linked to economic growth. With India expected to be the third largest economy in the world, its per capita energy consumption could also witness significant rise

Source: KPMG 2023 Global Energy Outlook; IMF World Economic Outlook, SBIMF Research;

*In this review, primary energy comprises commercially-traded fuels, including modern renewables used to generate electricity

Tailwind from favorable government policies – Traditional energy

Shift from energy deficiency to energy self-sufficiency could insulate government policies from external turbulence

Oil Value Chain

- Remunerative realisation for domestic Oil and Gas along with favourable exploration and production policy to encourage growth in domestic production
- Auto fuel subsidy has been eliminated. Stability in crude price has provided government the necessary backdrop for policy impetus

Gas Value Chain

- Government targets to increase the share of natural gas from current ~6.5% to 15% by 2030. Accordingly, national gas grid has been expanded by 40% over past 5 years. Emphasis has been laid on expansion of city gas distribution (CGD) networks by bidding out districts covering 95% of the population
- Unified tariff with principle of one nation one grid has been implemented

Power Value Chain

- Impetus on domestic coal production will ensure fuel security
- Reforms in power transmission and distribution will ensure that this ecosystem builds the necessary capacity to facilitate growth in efficient manner

Source: The green shift - The low carbon transition of India's Oil & Gas sector report by Ministry of Petroleum and Natural Gas, SBIMF research.

Tailwind from favorable government policies – Green Energy

India's Commitment in COP 26 - 'Panchamrit' Strategy



By 2070, India will achieve the target of Net Zero



Carbon intensity of the economy would be reduced to less than 45% by 2030



By 2030, India will meet 50% of energy requirement from renewable energy



Non-fossil energy capacity will reach 500 GW by 2030



Reduce total projected carbon emissions by one billion tones from now onwards till 2030

Subsequent Government Initiatives



Green Hydrogen Mission – Make India the global Hub for production and export of Green Hydrogen



PLI to develop solar and hydrogen value chain locally



Ethanol Blending programme - Targets 20% blending in petrol by FY26 and 5% blending in diesel by CY30



Biogas blending obligation will be voluntary till FY25. Subsequently, mandatory blending obligation would start from FY26



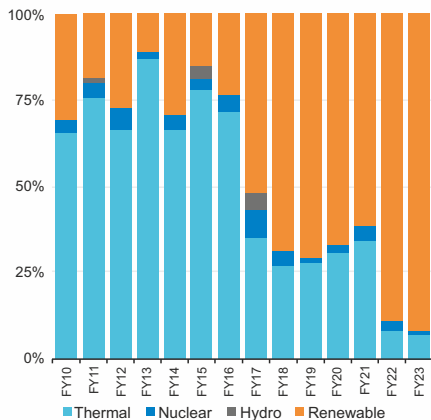
Launch of National Clean Air Mission and Jal Shakti to clean rivers

Source: The green shift - The low carbon transition of India's Oil & Gas sector report by Ministry of Petroleum and Natural Gas, SBIMF research.

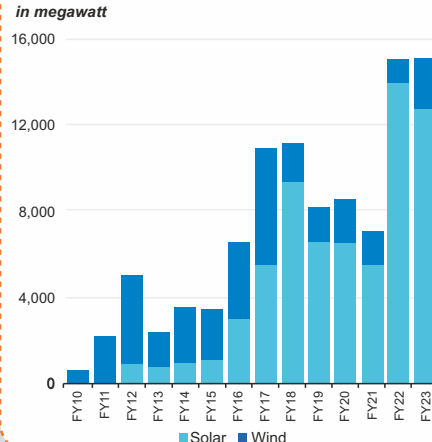
India is indeed walking the green talk

Climate Change Performance Index (CCPI 2023) puts India at best among G-20 countries

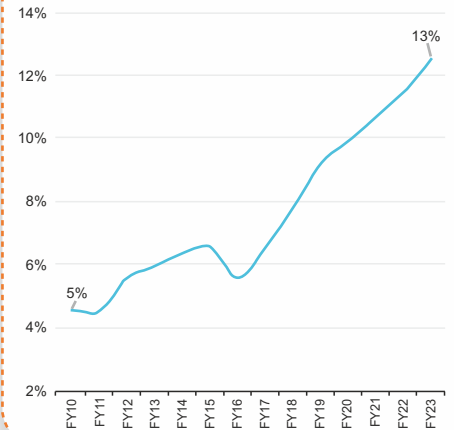
Renewable energy accounts for 92% of the capacity addition



Under renewables, Solar power capacity has seen significant growth



Share of renewable energy in total energy generation is improving rapidly



Source: SBIMF Research

Global adoption of clean energy - India at an advantage

1

Global Climate related policy is gaining further traction with 198 countries recently agreeing to accelerate effort to limiting global warming to 1.5 degrees vs 2 degrees as formalized in Dec 2015 COP agreement

2

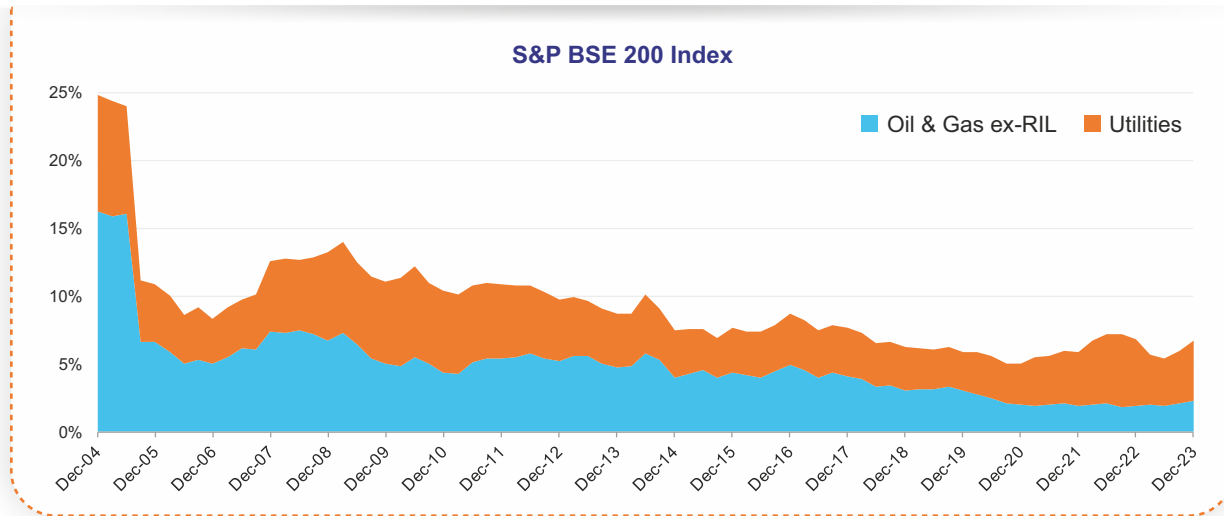
Directionally, green energy policy of India is aligned with global goals. India is in fact the driving force behind some of the global climate policies. International Solar Alliance and International Bio Energy Alliance were floated and signed in India

3

Solar value chain and Hydrogen value chain is the key to achieve these global climate goals. Today China holds 85% market share and 50% market share in the key elements of Solar and Hydrogen value chain. With China+1 strategy in place, India has tremendous scope given its competitiveness

Note: GHG – Greenhouse Gas. Source: The green shift report by Ministry of Petroleum & Natural Gas; Paris Agreement; Climate Action Tracker; Intergovernmental Panel on Climate Change

Energy segment is under-represented in the broader market index

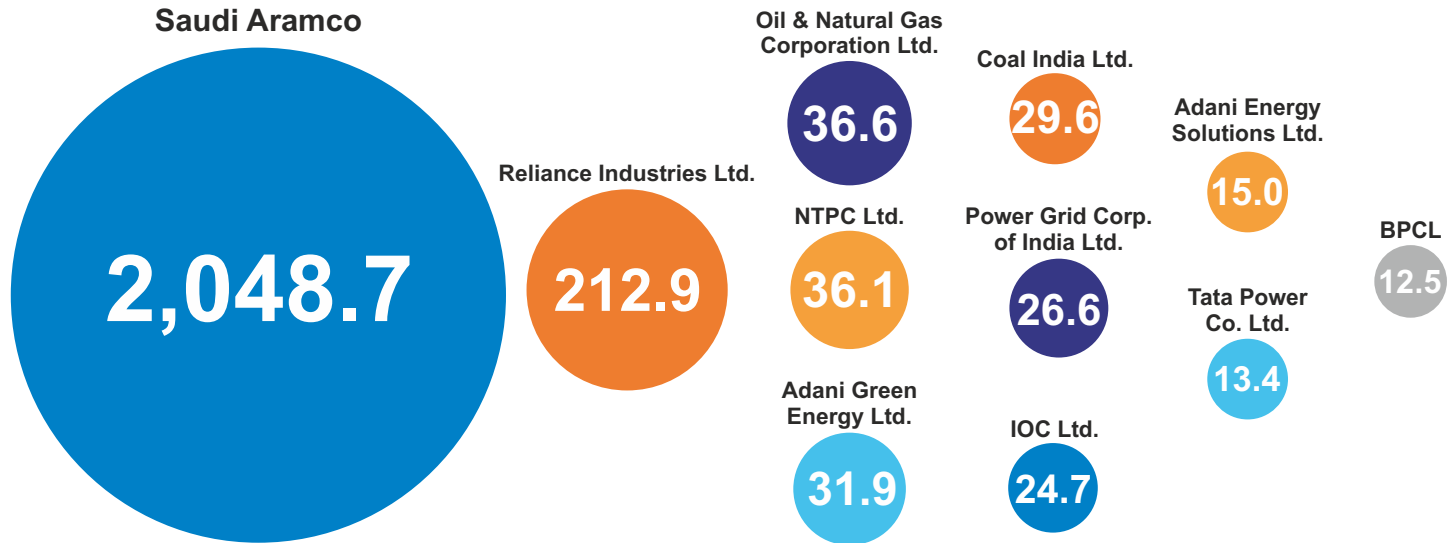


- Weight of Energy sector (Oil and Gas ex-RIL + Utilities) fell from 24.86% in Dec 2004 to 6.75% in Dec 2023
- Sector is under-represented in the index because of issue with profit pool and valuations assigned to the available profit pool
- Both these issues are potentially getting addressed with policy reforms in the traditional energy segment and simultaneous impetus on green energy

Source : Bloomberg, SBIMF research

One Global Energy Company > Entire Nifty Energy Index

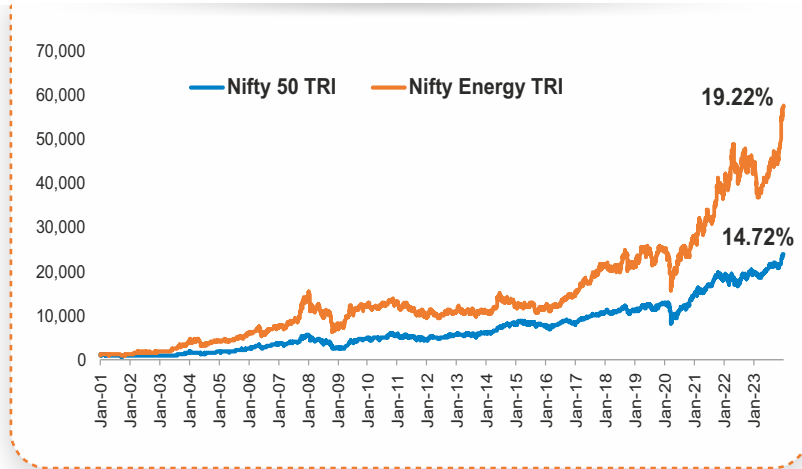
Market-cap (USD Bn.)



Long Potential runway for growth given the
Largest Global Energy Company is 4.6x of the entire Nifty Energy Index

Source: SBIMF research, data as on January 18, 2024

Reasonable sector valuations despite historical outperformance



Period	Nifty Energy TRI (%)	Nifty 50 TRI (%)
1 Year	30.61	20.73
3 Years	28.22	17.34
5 Years	21.09	16.23
10 Years	17.90	14.57
Since Inception	19.22	14.72

Nifty Energy TRI (%)

Nifty 50 TRI (%)

Past performance and valuation:

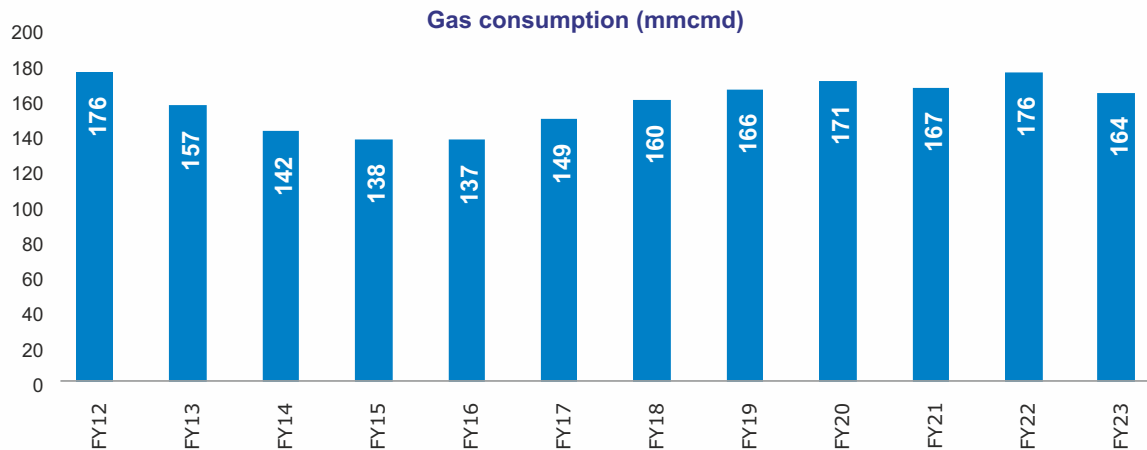
- Nifty Energy TRI Index has outperformed the Nifty 50 TRI both on Short & Long-term basis
- However, Nifty Energy Index is trading at a discount relative to Nifty 50 TRI and valuations are reasonable even in absolute terms despite the outperformance
- Nifty Energy Index Trailing P/E at 15.8x is at a 25% discount to Nifty 50 TRI

Source: MFI Explorer, SBIMF research. Data as on Dec 29, 2023

Where do we see opportunities in Energy as a theme?



Natural Gas : Value chain about to turn corner (1/2)

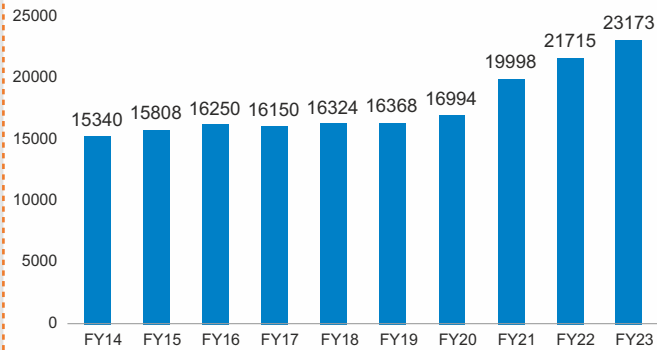


- Gas consumption has declined by 0.6% CAGR over the past decade
- However, we are at an inflection point as policy environment has been very conducive. Additionally, infrastructure across the value chain has seen significant investment over the past five years. Domestic gas production growth has already begun to inch up since FY23. Gas import terminals have increased from 30mtpa to 53mtpa

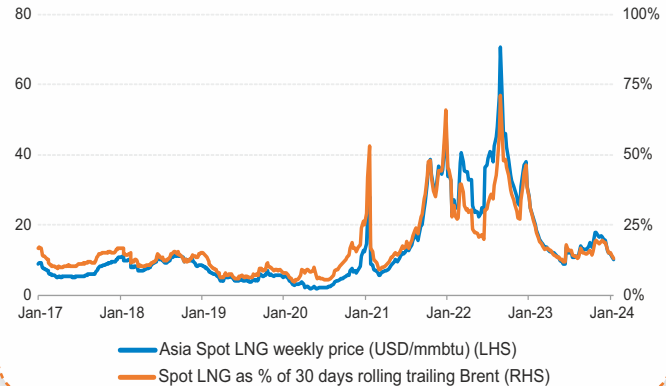
Note: MMCM – Million Metric Standard Cubic Meters per Day. MTPA – Metric Tons Per Annum. Source: Ministry of Petroleum & Natural Gas.

Natural Gas : Value chain about to turn corner (2/2)

Gas grid length (km)



Global LNG price is normalising and is expected to remain soft given potential supply glut

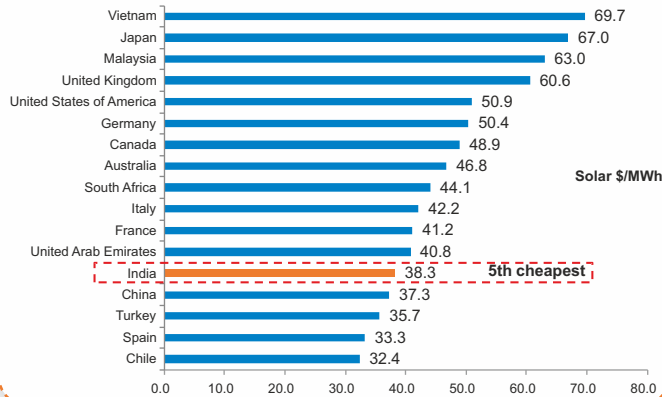


- National gas grid has grown by 40% over past five year and is expected to further grow by 25% by FY27e. Last mile city gas distribution network has been growing at a high double digit growth. Execution of infrastructure in the regions awarded in recent bidding rounds can take population coverage to 95%
- Growth in physical infrastructure along with favorable government policy and favorable global gas price can result in Indian Gas consumption inching up and benefitting the value chain

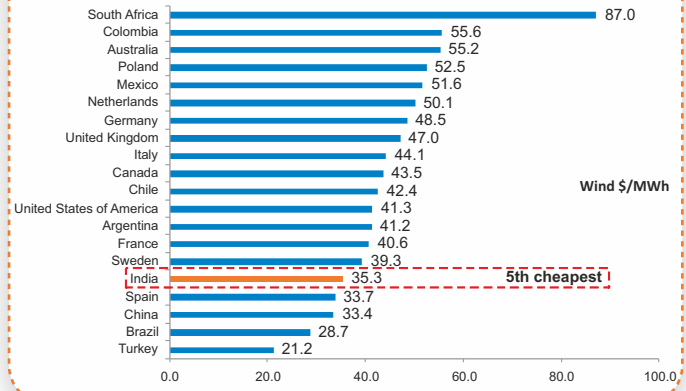
Source: Ministry of Petroleum & Natural Gas, Reuters, Bloomberg

New Energy: India can attain global leadership (1/2)

India among the cheapest solar power LCOE producers in the world



India ranks fifth globally for onshore wind LCOE, among large geographies



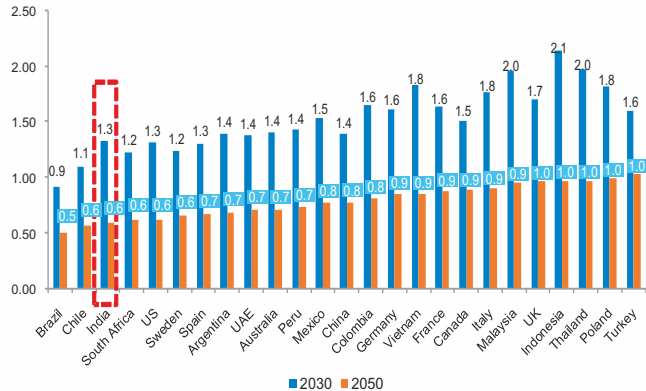
- India is already competitive in solar despite huge dependence on China which presently controls *85% plus global share in key element of solar ecosystem
- India has several other offsetting natural advantages which could get further fortified with development of local value chain
- Additionally, India has trilogy of solar and wind power peaking at different time of the day plus hydro power availability which acts as an economical and renewable form of battery substitute

Note: LCOE: Levelized Cost of Energy. Source: SBIMF Research BNEF, Bernstein analysis, *Jefferies Research

New Energy: India can attain global leadership (2/2)

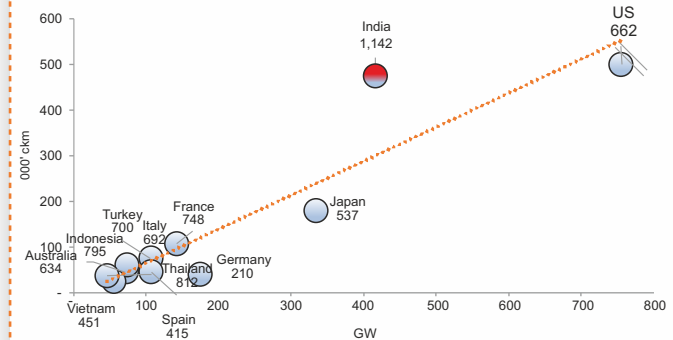
India has the potential to be one of the lowest cost hydrogen producers globally

Green Hydrogen Production Cost Estimates (\$/kg)



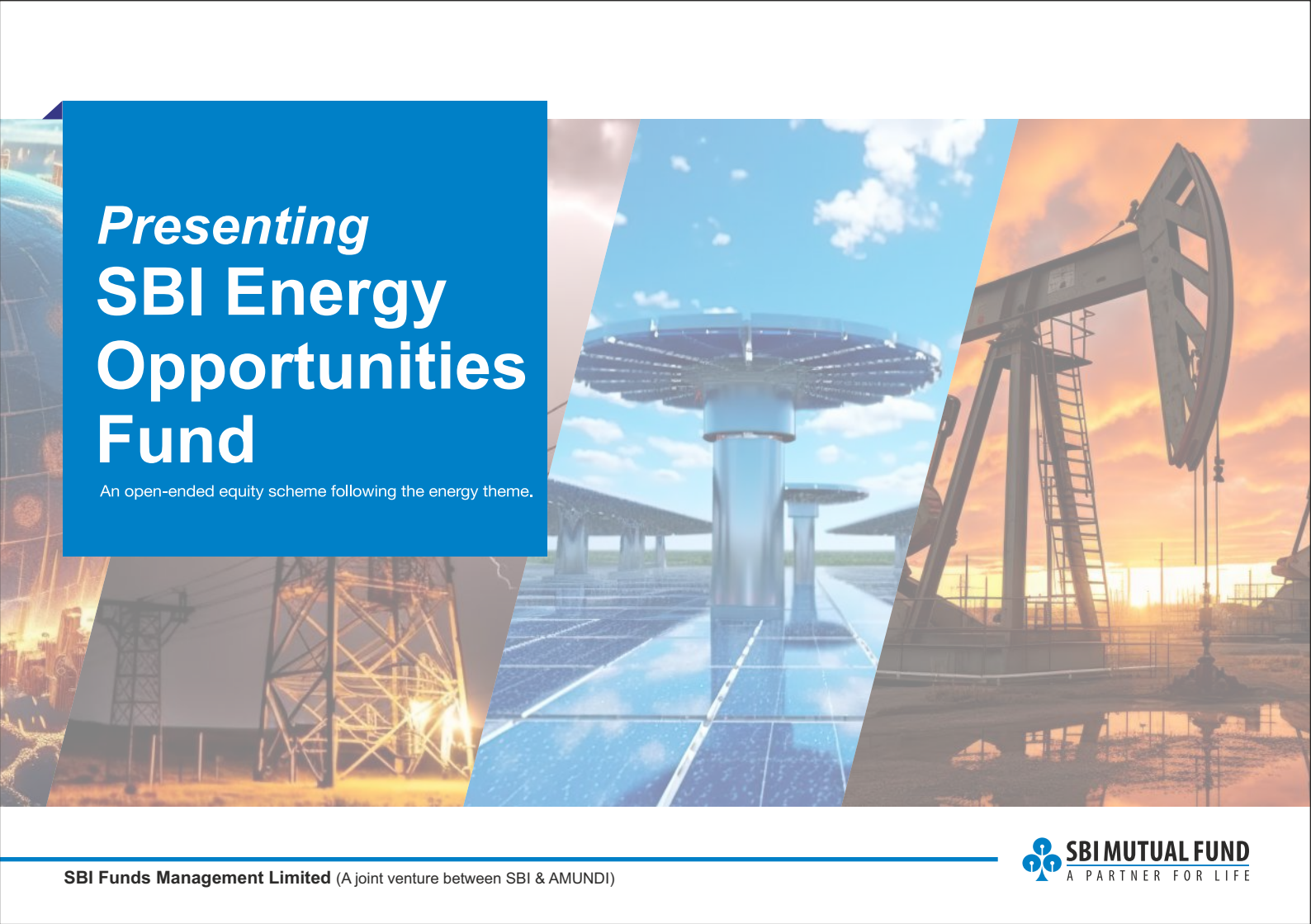
India's Transmission length to GW of installed capacity (ckm/ GW) is higher than nearly all countries benchmarked

Transmission length vs. Installed generation capacity (ckm/GW)



- Competitively priced renewable power and strong grid feeds into advantage in Green hydrogen
- Headline difference in hydrogen generation cost seems low. However, abundant local demand may result in significantly lower delivered cost
- Hydrogen is very costly to transport. Thus, major export focused downstream investment to consume hydrogen may also come in India

Source: BNEF, Ministry of Finance, Bernstein analysis



Presenting **SBI Energy Opportunities Fund**

An open-ended equity scheme following the energy theme.

Investment Universe – The Energy Value Chain

Power Ancillaries

Energy EPC, Power T&D value, Heavy Electrical Equipment, Energy efficiency plays (manufacturing electrical equipment's for production, transmission & distribution of energy)

Green Energy

Companies undergoing energy transition, Solar value chain, Wind power value chain, Hydrogen value chain, Battery value chain (companies making components of new energy), Bio energy value chain (companies involved bio energy value chain), alternate fuel (companies making components of new energy)



Oil Value Chain

Upstream (Oil Exploration & Production), Integrated refining and marketing (Refineries & Marketing), Standalone refining (Refineries & Marketing), downstream petrochemicals (Chemicals & Petrochemicals companies) and base oil processors (companies engaging in activities such exploration, production, distribution, transportation and processing of traditional & new energy), lubricants, oil field services (Oil Equipment & Services)

Gas Value Chain

Gas transmission (Gas Transmission/Marketing), LNG terminal (LPG/CNG/PNG/LNG Supplier), City gas distribution (LPG/CNG/PNG/LNG Supplier)

Power Value Chain

Coal producer (Coal), power generation, power transmission, power trading

The above-mentioned sectors, sub sectors are for illustrative purpose. The same may or may not form part of the index/portfolio at all points in time.

Portfolio Construction Strategy : Barbell Strategy

TRADITIONAL ENERGY

Usage of fossil fuel can reduce due to focus on Net zero. However, core investments may fall faster leading to rise in profitability

Stable and conducive policy environment to result in steady and predictable growth

Traditional energy business could gain global competitiveness in extant business due to availability of cheap green energy
Redeployment of cash flow from traditional energy business into green energy can further enhance value



**Portfolio strategy:
Barbell portfolio approach**



with mix of traditional energy
and new energy



NEW ENERGY

Multi decade growth as share of renewable power in our energy mix will increase from 22% to 68% by FY50

India's competitiveness in green energy and additional support from government policy will ensure localization of entire value chain and thus the profit pool could become sizeable in long term

Positive economic and political externality plus global push could ensure steady policy support

An optimal mix of traditional & new energy and power utility companies helps in reducing return volatility and offer better risk adjusted returns.

Source SBIMF Research, The above is just for illustrative purposes, For complete details on Investment strategy, please refer Scheme Information Document.

SBI Energy Opportunities Fund : Fund Facts

Scheme Name

SBI Energy Opportunities Fund



Type of Scheme

An open-ended equity scheme following the energy theme



Investment Objective

The investment objective of the scheme is to provide investors with opportunities for long term capital appreciation by investing in equity and equity related instruments of companies engaging in activities such as exploration, production, distribution, transportation and processing of traditional & new energy including but not limited to sectors such as oil & gas, utilities and power. However, there can be no assurance that the investment objective of the Scheme will be realized.



Plans & Options

Regular & Direct Plan. Both plans provide two options – Growth Option and Income Distribution cum Capital Withdrawal (IDCW) Option



Application Amount

- Minimum Investment Amount: Rs. 5000/- and in multiples of Re. 1 thereafter;
- Additional Purchase Amount: Rs. 1000/- and in multiples of Re. 1 thereafter



Fund Managers

Mr. Raj Gandhi
Mr. Pradeep Kesavan (overseas securities)



Benchmark

Nifty Energy TR Index



Exit Load

For Ongoing basis: 1% of the applicable NAV - If units purchased or switched in from another scheme of the fund are redeemed or switched out on or before 1 year from the date of allotment.

NIL - If units purchased or switched in from another scheme of the fund are redeemed or switched out after 1 year from the date of allotment.



Disclaimer

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



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