

CIO Quarterly Memo

April 2024

CIO Memo

Good Start to the Fiscal But Serious Challenges Ahead!

FY25 has indeed commenced on a positive note for Indian equities, yet the global scenario presents a slightly more challenging outlook than what was anticipated at the onset of the calendar year. At the beginning of 2024, federal futures rates indicated expectations of six rate cuts. However, with the year unfolding and inflation data turning out to be hotter than expected, the possibility of rate cuts has diminished. Many economists now predict that there may be no rate cuts throughout the year. While this scenario is somewhat pessimistic, it carries a reasonable probability.

On the flipside, geopolitical tensions continue to rise in the middle-east which does not bode well with equity markets. 2022 was a washout year because of rising geopolitical risks. While the impact of geo-politics is difficult to gauge at this juncture, the global order is being rewritten and the changes are going to be extremely complex to fathom. However, the simplistic way to analyze the challenges is to expect that inflationary headwinds will continue to persist and chances of an easy monetary policy as seen in the last decade will be far less prevalent in this decade.

Nonetheless, FY24 proved to be an exceptional year for equity markets worldwide, with Indian equity markets exhibiting outstanding performance. Throughout the year, Indian equities consistently achieved new all-time highs, accompanied by continuous surges in market volumes. Notably, the broad market index, NIFTY 500, witnessed a remarkable rise of 39% during this fiscal year, while the narrower NIFTY 50 Index appreciated by a commendable 28%, outperforming most key global benchmarks by a significant margin.

The performance of Smallcaps was even more impressive during the year, with the NIFTY Small Cap 250 Index rising by a robust 63%. The broad-based market performance indicated that market participation was well distributed among domestic institutions, foreign institutions, and domestic retail investors. During the year, both domestic and foreign institutional investors invested \$25 Bn in Indian equities. Despite the market reaching new highs, retail market participation remained close to the long-term average, while institutional activity remained robust throughout the year, signalling improved stability.



Naveen has over 20 years of experience in the Financial Services and Telecom sectors. In his previous role, he was responsible for Institutional and Retail research as Head of Research with Reliance Securities Limited. He also served as Co-Head of Research with Phillip Capital India Private Limited in his 11-year long association with the organization.

It is noteworthy that even amidst the exceptional market rally in FY24, Axis Securities PMS strategies have demonstrated their strength by delivering even stronger returns compared to the benchmark. Our flagship Pure Contra strategy has delivered market-beating returns of 62% (post all expenses) while Pure Growth delivered astounding returns of 43% (post all expenses). With such excellent returns, our strategies have outperformed the market returns every year since inception in 2020, showcasing commendable results for a boutique investment management firm.

This consistent outperformance is attributed to our focus on both top-down and bottom-up approaches based on quantitative models, enabling us to beat the market returns across various market and business cycles. While our flagship strategies are completely active by orientation, they still have a robust risk management framework which has helped us to beat the market even during years of negative market returns. All these factors have helped us to scale the AUM growth to more than 35 times since the launch of the flagship strategies in mid-2020.

Q4FY24 Earnings Likely to Remain Constructive

Corporate earnings have been strong throughout the year and every earnings season in FY24 has resulted in a marginal upgrade in earnings. Thus, FY24 earnings for NIFTY are expected to rise by almost 20% YoY which is quite robust. Q4FY24 earnings are expected to increase by 11% YoY, a projection that is likely to be met given the BFSI sector's continued strong credit growth and some easing in pressures on deposit growth. The auto sector also reported healthy volume numbers and should report decent quarterly numbers. IT numbers are likely to be a mixed bag but TCS already reported a decent set of numbers which is marginally encouraging to say the least. Overall, the earnings season should remain constructive, paving the way for double-digit earnings growth for FY25.

Encouraging Outlook for FY25

Consistently strong corporate earnings have meant that Indian corporates have been on a stronger footing than ever. Furthermore, corporates in need of capital have managed to raise capital, deleverage their balance sheets, and manage their capital structure better in the last 3 years. All these factors imply that Indian corporates are well-poised to generate growth without heavily relying on external market conditions as they have sufficient growth capital to deliver sustainable growth. This means that Indian corporates are more likely to continue trading at premium valuations. Hence, any market correction on account of global challenges will be an opportunity to add to the equity portfolio. However, FY25 will provide more opportunities as geopolitical challenges continue to persist. Moreover, the market continues to factor in political stability and any significant runaway rally post elections is also unlikely.

Conclusion

Indian equities are on solid footing; however, return expectations for FY25 are significantly tempered due to the runaway rally in FY24. Favourable General Election results are a significant positive but the market has been factoring this from Dec'23. Thus, a post-election rally seems unlikely. Geopolitical tensions and the global macro scenario will remain a mixed bag, potentially resulting in market corrections. Such corrections should be viewed as opportunities to add to positions, as they can deliver additional alpha to the portfolio. Nonetheless, double-digit returns can be expected from the Indian equities, with Largecaps leading the way. Overall, FY25 is likely to be a good year for Indian equities and is more likely to deliver better returns than most asset classes.

Happy Investing!
Naveen Kulkarni

Portfolio changes:

Our Portfolio changes indicate our strategic stance towards various investment styles, sectors and market cap orientations.

Growth Strategy changes

Scrip Name	Action	Weight	Remark
LINDE (INDIA) LIMITED	Sold	1.70%	Linde has not delivered earnings according expectations while valuations have remained expensive
INDUS TOWERS LIMITED	Bought	3.00%	Significant improvement in receivables means significant re-rating and improvement in future growth prospects
BANDHAN BANK LIMITED	Sold	3.10%	Challenges continue to persist with earnings continuing to lag expectations
BALKRISHNA INDUSTRIES LIMITED	Bought	1.00%	Stock has bottomed out. Scope for business improvement is quite high.
WOCKHARDT LIMITED	Bought	1.00%	New product innovation will lead to solid rerating

Contra Strategy changes

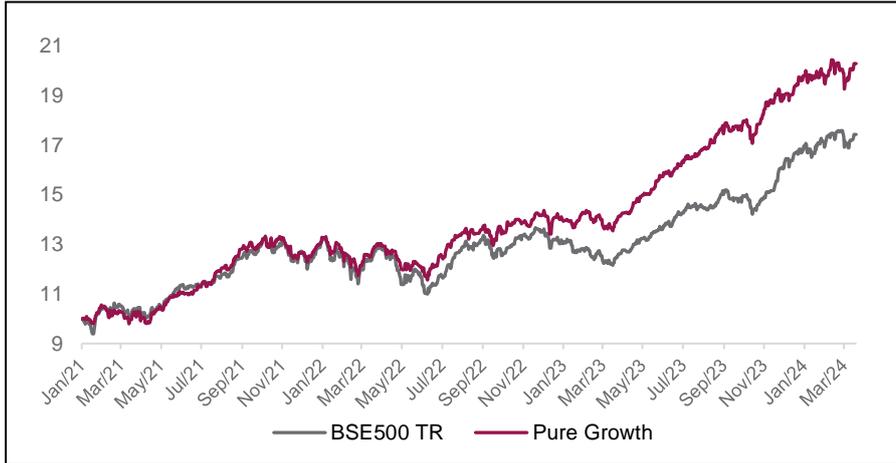
Scrip Name	Action	Weight	Remark
WOCKHARDT LIMITED	Bought	1.00%	New product innovation will lead to solid rerating
GLAXO SMITHKLINE PHARMA LIMITED	Sold	2.90%	Earnings disappointing while stock price rally has been significantly ahead of fundamentals

Axis Pure Growth

31st March 2024

Investment Objective: Axis Pure Growth strategy focuses on parameters comprising sustainable earnings growth, quality, and low volatility. The core investment styles are growth and quality investing while low volatility and alpha investing are other key styles employed depending on the macroeconomic regime.

Cumulative Performance: Returns



Annual Performance (%)

Year	Growth	BSE500 TR
2024 (YTD)	3.6%	4.3%
2023	35.9%	26.8%
2022	8.7%	4.8%
2021*	25.5%	25.8%

*effective 13 Jan 2021

Portfolio Performance

Particulars	1 month	3 months	6 months	1 year	2 years*	3 years*	Since inception**
Growth	1.32%	4.04%	12.98%	43.47%	23.72%	23.98%	22.52%
BSE500 TR	0.86%	4.49%	17.40%	40.16%	17.84%	19.30%	18.82%

(*CAGR Returns) (* Net of all charges) (**Since 13th Jan. 2021)

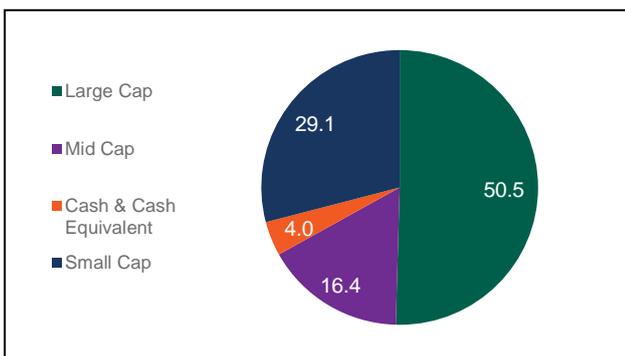
Risk Assessment

	Growth	BSE500 TR
Sharpe Ratio	1.18	0.83
Volatility	13.0%	14.3%
Portfolio Beta	0.78	1
Max Drawdown	-13.2%	-17.6%
Information Ratio	0.48	
Average Turnover Ratio	0.53	

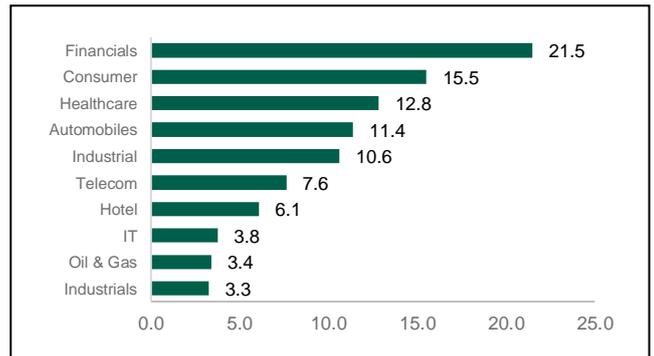
Key Portfolio Ratios

	Growth	BSE500 TR
PE	36.88	26.49
PB	4.92	4.04
ROE	13.34%	14.91%
Dividend Yield	0.63%	1.10%

Market Capitalization



Sector Allocation



MANAGED ACCOUNTS

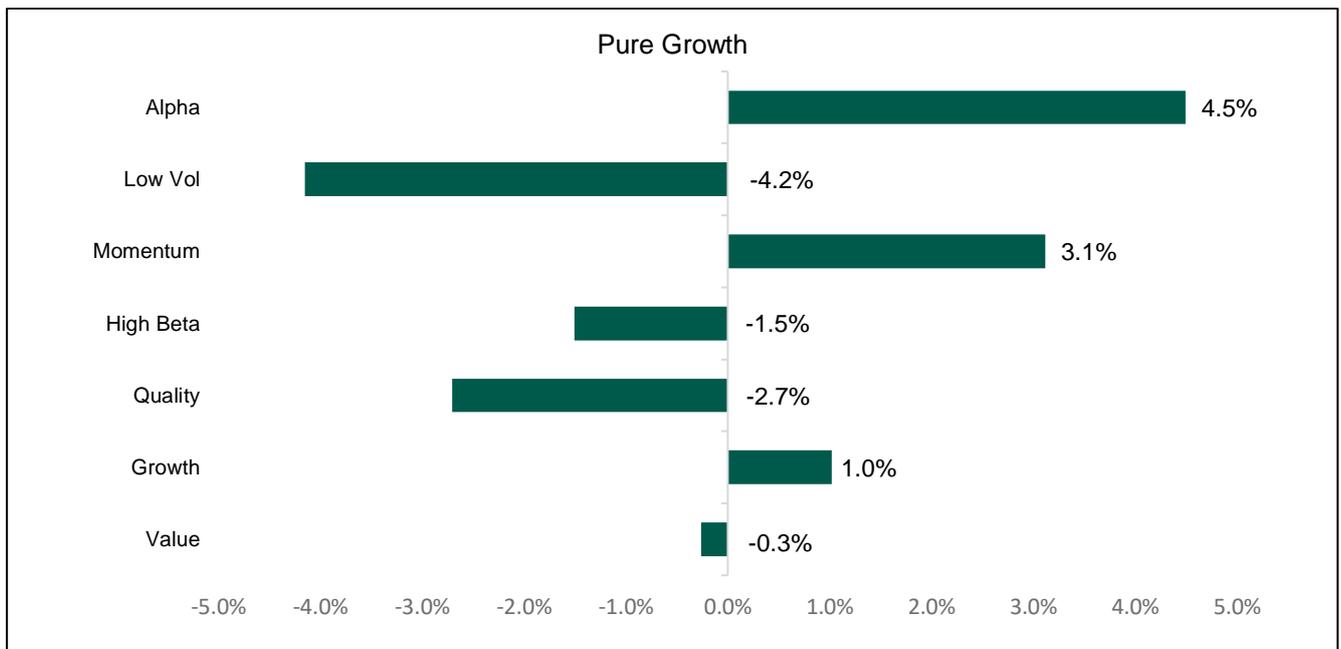
Top 10 Holdings

Scrip Name	Market Cap (Cr)	Weight
Sun Pharmaceutical	3,83,812	7.8%
Bharti Airtel Ltd	7,12,810	7.6%
Varun Beverages Ltd	1,88,425	6.7%
Jio Financial Services	2,34,595	6.7%
ICICI Bank Ltd	7,63,455	6.4%
Indian Hotels Co Ltd	86,132	6.1%
Maruti Suzuki India	4,04,482	6.1%
Gillette India Ltd	21,479	4.9%
CIE Automotive India	18,217	4.3%
Ajanta Pharma Ltd	26,889	4.0%

Portfolio Characteristics

	Growth
Number of constituents	24
Mcap Largest (Cr)	11,74,938
Mcap Smallest (Cr)	3,218
Mcap Average (Cr)	1,91,770
Mcap Median (Cr)	37,046

Factor Box



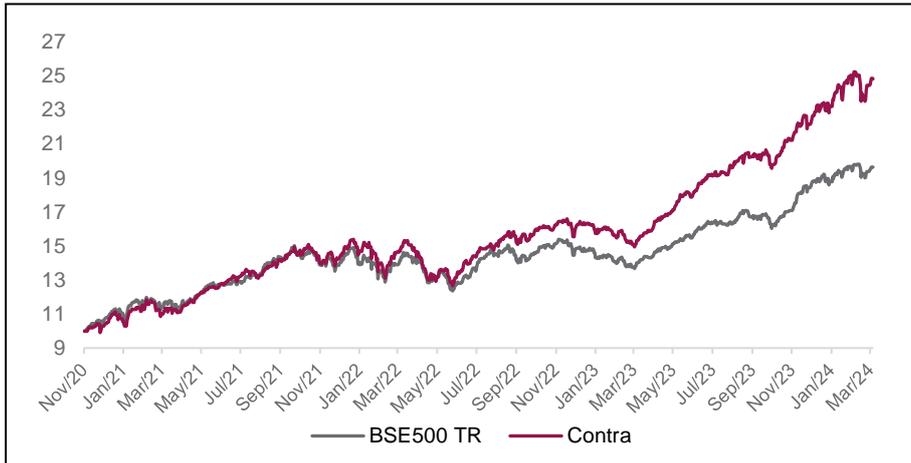
The Factor Box provides relative factor exposure vis-à-vis a given benchmark. For instance, if the Growth factor exposure in a portfolio is 23% and the Growth factor exposure of the Benchmark is 20%, it indicates that your portfolio is "Overweight" on Growth with respect to the benchmark. A positive Value in the above Factor represents that the given portfolio is Overweight in the factor with respect to the benchmark. Similarly, a negative value would represent that the given portfolio is underweight in the factor with respect to the benchmark.

Axis Pure Contra

31st March 2024

Investment Objective: Axis Pure Contra investment strategy focuses on three primary investment styles – Value, Momentum-Alpha, and Special situations investing. Value, Alpha-Momentum form the core factors while Special Situation investing is employed as a satellite factor.

Cumulative Performance: Returns



Annual Performance (%)

Year	Contra	BSE500 TR
2024 (YTD)	8.6%	4.3%
2023	39.5%	26.8%
2022	9.7%	4.8%
2021*	36.5%	31.0%

*effective 01 Jan 2021

Portfolio Performance

Particulars	1 month	3 months	6 months	1 year	2 years*	3 years*	Since inception**
Contra	0.47%	9.41%	22.04%	61.48%	28.28%	29.17%	29.60%
BSE500 TR	0.86%	4.49%	17.40%	40.16%	17.84%	19.30%	22.49%

(*CAGR Returns) (* Net of all charges) (**Since 27th Nov, 2020)

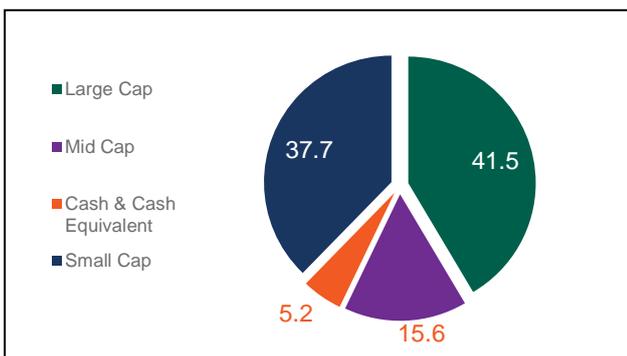
Risk Assessment

	Contra	BSE500 TR
Sharpe Ratio	1.45	1.07
Volatility	15.6%	14.3%
Portfolio Beta	0.98	1
Max Drawdown	-17.9%	-17.6%
Information Ratio	1.04	
Average Turnover Ratio	0.73	

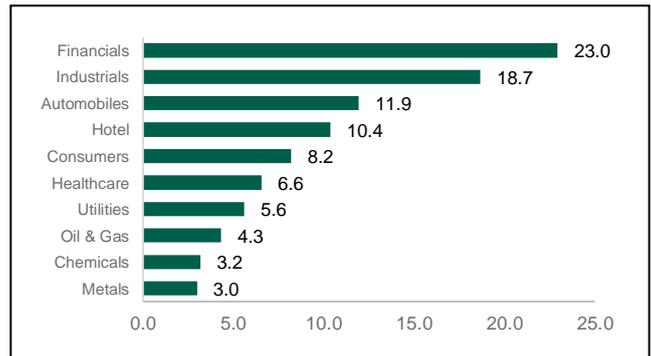
Key Portfolio Ratios

	Contra	BSE500 TR
PE	19.11	26.49
PB	2.99	4.04
ROE	15.63%	14.91%
Dividend Yield	1.96%	1.10%

Market Capitalization



Sector Allocation



MANAGED ACCOUNTS

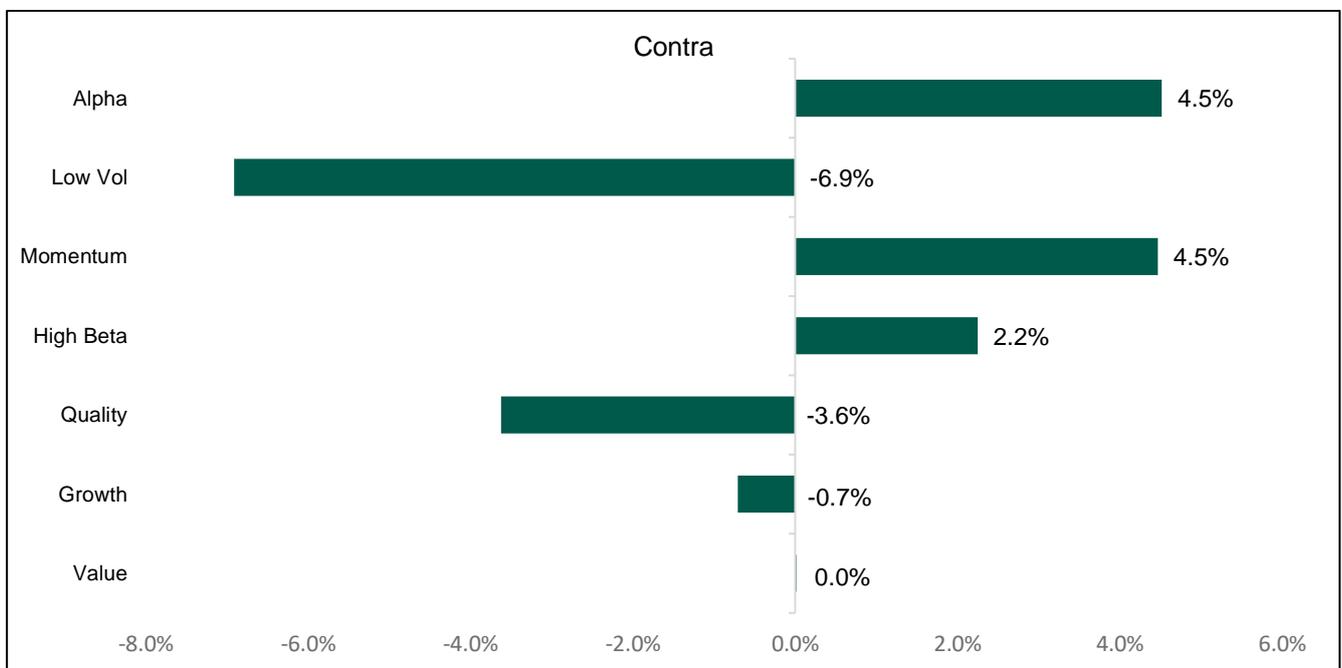
Top 10 Holdings

Scrip Name	Market Cap (Cr)	Weight
Indus Towers Ltd	88,340	6.4%
Power Grid Corp Of India	2,62,045	5.6%
State Bank Of India	6,85,678	5.6%
Indian Hotels Co Ltd	86,132	5.4%
Thomas Cook (India) Ltd	8,241	5.0%
ITC Ltd	5,35,719	4.6%
Mahindra & Mahindra Ltd	2,58,418	4.5%
Hindustan Petroleum Corp	65,665	4.3%
ICICI Bank Ltd	7,63,455	4.0%
Tata Motors Ltd DVR	3,70,854	3.9%

Portfolio Characteristics

	Contra
Number of constituents	26
Mcap Largest (Cr)	7,63,455
Mcap Smallest (Cr)	3,218
Mcap Average (Cr)	1,48,774
Mcap Median (Cr)	69,561

Factor Box



The Factor Box provides relative factor exposure vis-à-vis a given benchmark. For instance, if the Growth factor exposure in a portfolio is 23% and the Growth factor exposure of the Benchmark is 20%, it indicates that your portfolio is “Overweight” on Growth with respect to the benchmark. A positive Value in the above Factor represents that the given portfolio is Overweight in the factor with respect to the benchmark. Similarly, a negative value would represent that the given portfolio is underweight in the factor with respect to the benchmark.

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Risk Disclosure Document (RDD)-Please visit <https://simplehai.axisdirect.in/> go to support and then select downloads & Search for PMS RDD.

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