

CIO Monthly Memo

August 2024

CIO Memo

New Challenges; New Opportunities

Recent Performance and Market analysis

July 2024 was another strong month for Indian equities with a broad-based rally across most equity asset classes. The narrow Large cap index NIFTY 50 inched up by 3.9% during the month while the broad market index NIFTY 500 grew by 4.3% over the same period. The NIFTY Midcap and NIFTY SmallCap indices grew by 5.8% and 4.9% respectively during the month.

While July was very strong for Indian equities, August has been quite challenging so far. In the first 15 days of the month, NIFTY 50 has corrected by more than 3% while the Smallcap indices have corrected by more than 5% which is quite significant. The correction has been led by both macroeconomic as well as microeconomic factors.

Coming back to the performance in July 2024, we are happy to share that all our strategies have beaten the benchmark by an excellent margin. Pure Contra and Pure Growth strategies beat the benchmark by a decent margin but the top-performing strategy for the month was Axis Kaizen (manufacturing strategy) which saw an astounding return of 9.5% in the month. On a one-year basis, Axis Kaizen is up 75% which is beating most of the strategies by a significant margin. Moreover, our most successful strategy, Pure Contra (as measured in terms of AUM), was up 66% on a one-year basis. Our quant strategy, Alpha Sense AI also delivered market-beating performance during the month.

While July was a strong month for Indian equities, clear challenges have emerged that could lead to both time and absolute corrections. However, it is important to note that market corrections are crucial, as once the market enters into the zone of irrational exuberance, the risk of ending it in tears for all investors increases significantly.



Naveen has over 21 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.

Q1FY25 Earnings Season not much encouraging but decent scope for Recovery

FY24 was an astounding year from a corporate earnings perspective. NIFTY 50 earnings grew by 25% during the year, with each quarterly earnings season seeing more upgrades than downgrades, resulting in a consistent rise in benchmark earnings expectations. However, post Q1FY25 earnings season, the earnings expectations have come down marginally as NIFTY 50 earnings forecast for FY25/26 have been broadly cut by 2%.

Q1FY25 saw a significant number of companies missing the expected earnings projections which resulted in overall downgrade. The number of Smallcap companies missing expectations was quite significant, given that the base was quite high too. Thus, the Smallcap Index correcting by almost 5% in the first two weeks of August is not very surprising. The reasons for sluggish earnings were many but seasonality and general elections stood out. This year's summer was very intense which led to lower footfalls at retail outlets and in general had an impact on the economy. The General Elections meant that government spending remained subdued during the quarter which impacted a considerable number of sectors.

The earnings of the Banking sector were a little weaker than expectations with challenges emerging on credit costs. FY24 was a year of low credit costs and thus the increase in credit costs from such a low base was expected. However, the slight rise in credit costs surprised the market and the sector has been witnessing de-rating post the earnings season. This de-rating has resulted in banking stocks trading at very reasonable valuations as the market now believes that the peak of this asset cycle has passed and return ratios are unlikely to improve for most banks from hereon. We see this view to be a little short-sighted as banks offer decent value at current levels and risk-reward is turning quite favorable.

Auto, IT, and FMCG (to some extent) sectors reported numbers that were in line with or slightly better than expectations. The IT sector was the top-performing sector during the month but, in our view, the sector

growth has still not been inspiring enough to justify large allocation at this juncture. Overall, the earnings season was not very positive, but the challenges appear short-term. Over the next three quarters, earnings could recover, with healthy traction likely to be maintained.

Global Macro Challenges in abundance but still in the manageable zone

The recent rate hike by the Bank of Japan (BoJ) shook the markets around the world and the spectre of the yen carry trade unwinding came to haunt investors globally. Needless to say, Indian equities are also significantly exposed to this investment theme with estimations ranging from 2 lac crores and above. While Indian equity markets declined after the BoJ's rate hike but the decline was less than many of the global markets around the world.

The yen carry trade unwinding is a serious long-term risk but it will depend on many factors. The depreciation of the yen has led to inflation challenges but Japanese exports becoming more competitive is a long-term positive for its economy. Thus, yen carry trade may unwind in the long-term to some extent but it may not hurt the markets around the world as the initial reaction indicated.

US recession risks have increased but the rate cuts are also nearing. The chances of the US Fed cutting rates in its September meeting are now almost certain, with another rate cut expected within this calendar year. India's Reserve Bank of India could also cut rates in the near future which will be positive news for the economy. In conclusion, while macro challenges are emerging, the high possibility of interest rates trending lower over the next two to four quarters will be a net positive for economic growth.

**Conclusion: Change in Investment Style Expected;
Return Opportunities Galore**

The recent correction in the equity markets is helpful and some more correction will be very healthy. Over the short term, the market breadth is likely to narrow but over the medium to long term, the broader market will continue to do well. In the last memo, we talked about low-volatility investing making a comeback. We are increasingly seeing signs of this playing out. Growth is also becoming the more dominant strategy in the market. With the change in interest rate cycle, the market is likely to focus on low volatility and growth investing.

In this context, we continue to look for opportunities across our strategies that fit well in the aforementioned themes. Indian equities are well-placed to deliver healthy returns despite the prevailing short-term challenges. Hence, market dips should be utilized to invest more as balance sheet strength continues to remain healthy, which limits downside challenges but opens up notable upside potential. Overall, we are not very worried about the short-term correction at this juncture but will continuously monitor for long-term signals. We are currently seeing some style shift but opportunities across a wide range of sectors continue to offer excellent potential for healthy returns.

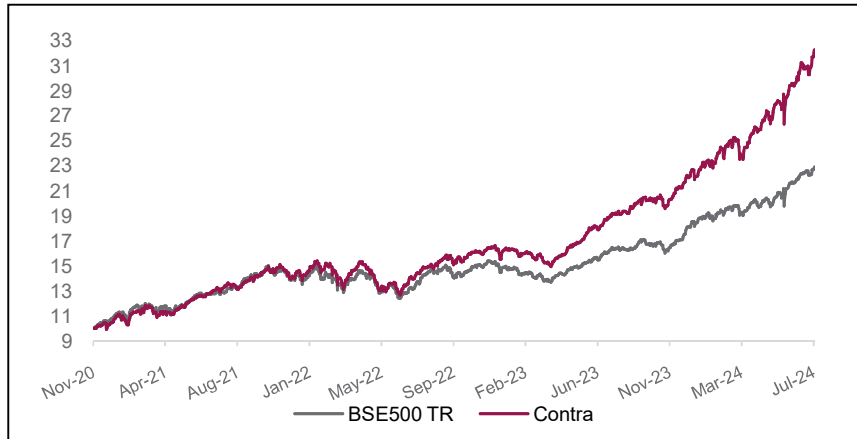
Happy Investing!
Naveen Kulkarni

Axis Pure Contra

31st July, 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 TRI
2024 (YTD)	41.2%	21.6%
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	8.10%	19.71%	35.60%	66.99%	47.36%	32.81%	35.96%
BSE500 TRI	4.44%	12.74%	19.57%	38.94%	27.70%	21.08%	25.39%

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

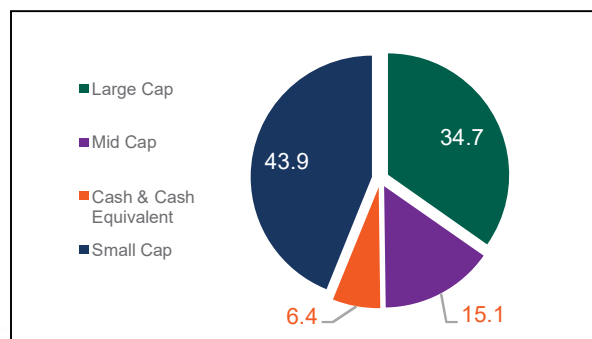
Risk Assessment

	Contra	BSE500 TR
Sharpe Ratio	1.78	1.26
Volatility	16.3%	14.6%
Portfolio Beta	1.01	1
Max Drawdown	-17.9%	-17.6%
Information Ratio	1.51	
Average Turnover Ratio	0.55	

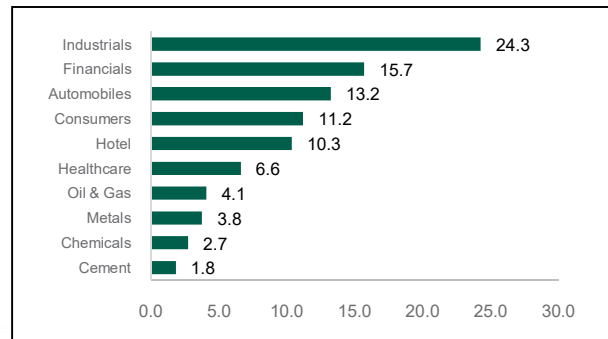
Key Portfolio Ratios

	Contra	BSE500 TR
PE	20.22	27.93
PB	4.29	4.33
ROE	21.22%	15.39%
Dividend Yield	1.41%	1.07%

Market Capitalization



Sector Allocation



MANAGED ACCOUNTS

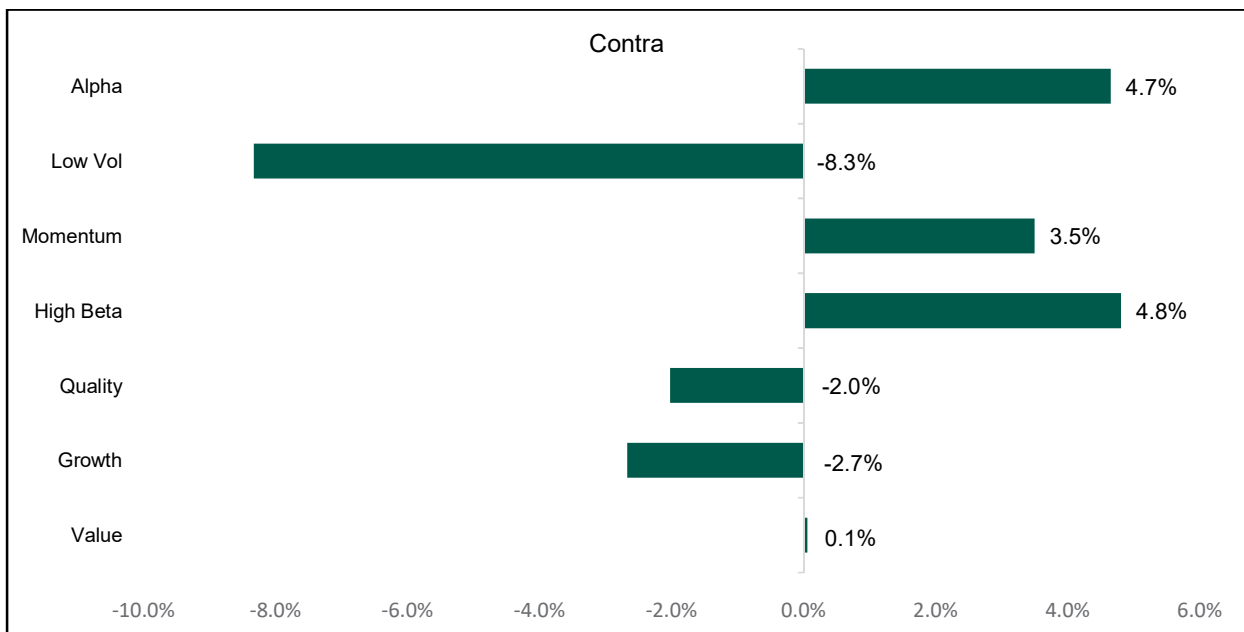
Top 10 Holdings

Scrip Name	Market Cap (Cr)	Weight
INDUS TOWERS LTD	1,12,379	7.3%
THOMAS COOK (INDIA) LTD	9,742	5.9%
MAHINDRA & MAHINDRA	3,33,633	5.2%
TVS HOLDINGS LTD	27,247	4.5%
INDIAN HOTELS CO LTD	87,427	4.4%
KIRLOSKAR BROTHERS LTD	15,800	4.3%
HINDUSTAN PETROLEUM	82,804	4.1%
ITC LTD	6,18,579	4.0%
KDDL LTD	4,363	3.9%
VEDANTA LTD	1,65,136	3.8%

Portfolio Characteristics

	Contra
Number of constituents	28
Mcap Largest (Cr)	8,19,886
Mcap Smallest (Cr)	4,363
Mcap Average (Cr)	1,43,020
Mcap Median (Cr)	55,026

Factor Box



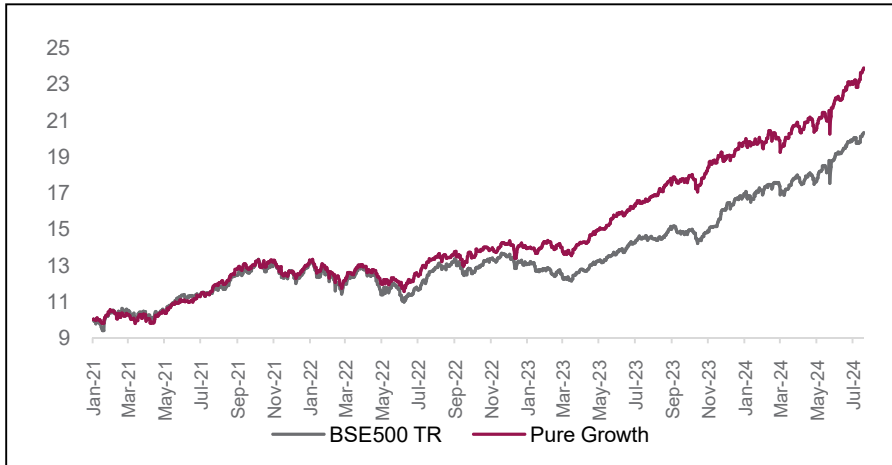
The Factor Box provides relative factor exposure vis-à-vis a given benchmark. For instance, if the Growth factor exposure in a portfolio is 23% and the Growth factor exposure of the Benchmark is 20%, it indicates that your portfolio is "Overweight" on Growth with respect to the benchmark. A positive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

31st July 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 TRI
2024 (YTD)	20.8%	21.6%
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	5.54%	12.76%	18.23%	40.09%	32.08%	25.24%	25.49%
BSE500 TRI	4.44%	12.74%	19.57%	38.94%	27.70%	21.08%	22.09%

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

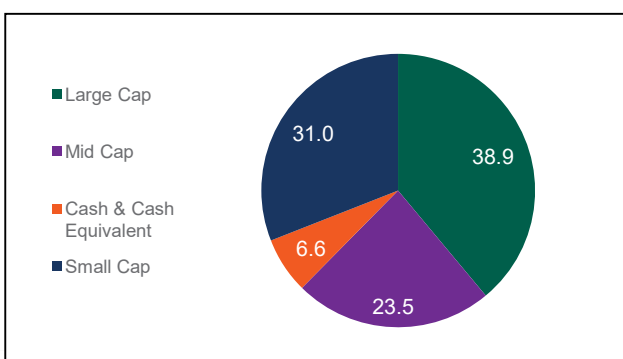
Risk Assessment

	Growth	BSE500 TRI
Sharpe Ratio	1.38	1.04
Volatility	13.5%	14.6%
Portfolio Beta	0.80	1
Max Drawdown	-13.2%	-17.6%
Information Ratio	0.46	
Average Turnover Ratio	0.57	

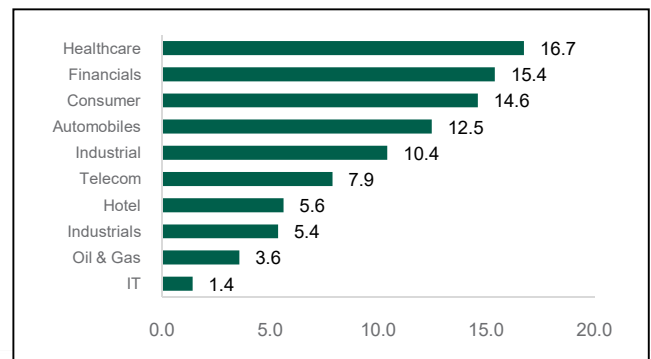
Key Portfolio Ratios

	Growth	BSE500 TRI
PE	28.14	27.93
PB	4.33	4.33
ROE	15.40%	15.39%
Dividend Yield	0.74%	1.07%

Market Capitalization



Sector Allocation



MANAGED ACCOUNTS

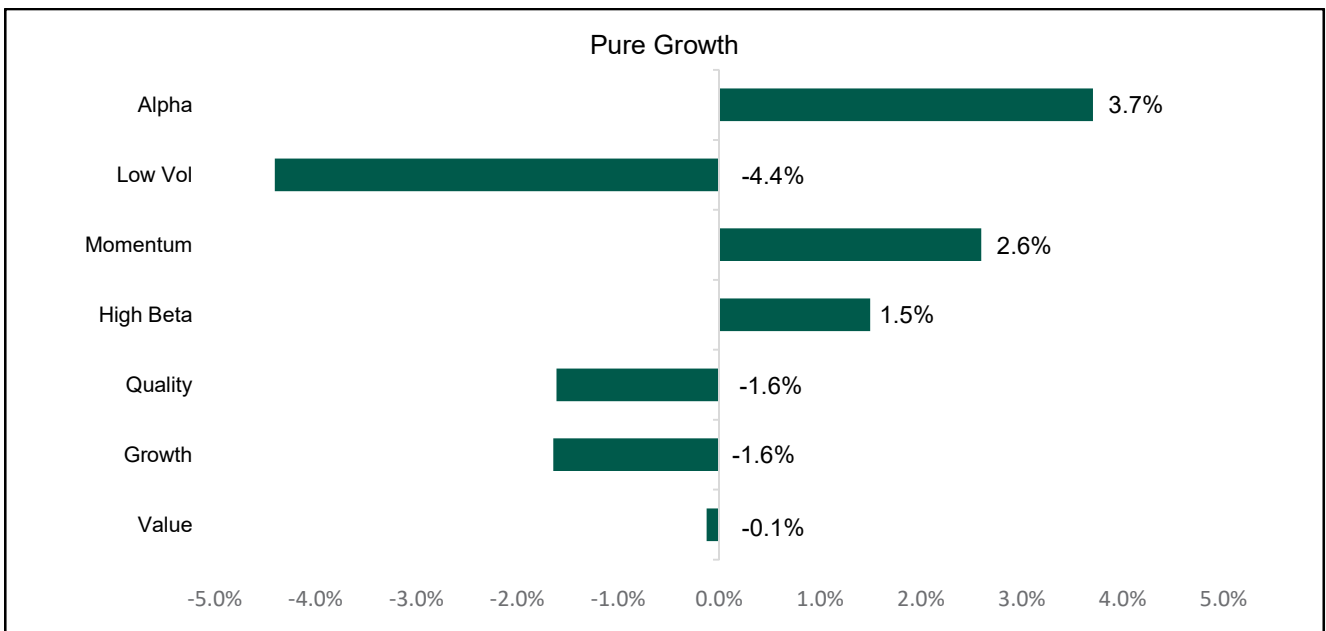
Top 10 Holdings

Scrip Name	Market Cap (Cr)	Weight
BHARTI AIRTEL LTD	8,68,326	7.9%
AUROBINDO PHARMA LTD	86,678	6.1%
ICICI BANK LTD	8,19,886	6.0%
INDIAN HOTELS CO LTD	87,427	5.6%
MARUTI SUZUKI INDIA LTD	3,84,164	5.4%
INDUS TOWERS LTD	1,12,379	5.4%
GILLETTE INDIA LTD	26,129	5.0%
VARUN BEVERAGES LTD	1,93,559	4.8%
KDDL LTD	4,363	4.7%
CIE AUTOMOTIVE INDIA LTD	20,692	4.7%

Portfolio Characteristics

	Growth
Number of constituents	24
Mcap Largest (Cr)	12,51,326
Mcap Smallest (Cr)	4,363
Mcap Average (Cr)	2,07,553
Mcap Median (Cr)	71,639

Factor Box



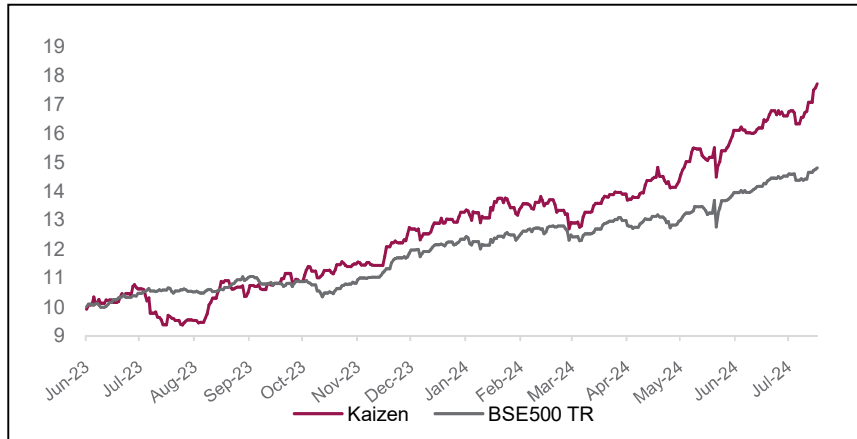
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Axis Kaizen

31st July, 2024

Investment Objective: Axis Kaizen strategy focuses on manufacturing theme with exposure to 11 sectors. The core investment style is quality along with growth, and with a focus on under-represented segments of Indian listed markets.

Cumulative Performance: Returns



Annual Performance (%)

Year	Kaizen	BSE500 TRI
2024 (YTD)	32.4%	21.6%
2023	29.3%	21.6%

*effective 15 June 2023

Portfolio Performance

Particulars	1 month	3 months	6 months	1 Year	Since Inception**
Kaizen	9.45%	20.89%	27.99%	75.41%	60.87%
BSE500 TRI	4.44%	12.74%	19.57%	38.94%	41.26%

(* Net of all charges) (**Since 15th June, 2023)

Risk Assessment

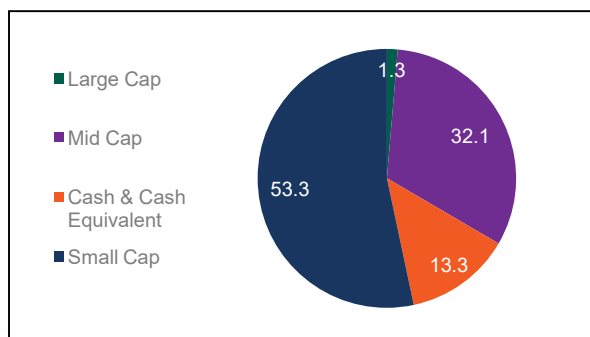
	Kaizen	BSE500 TRI
Sharpe Ratio	2.68	2.62
Volatility	20.1%	13.1%
Portfolio Beta	0.99	1
Max Drawdown	-12.9%	-17.6%
Information Ratio	1.27	
Average Turnover Ratio	0.54	

Key Portfolio Ratios

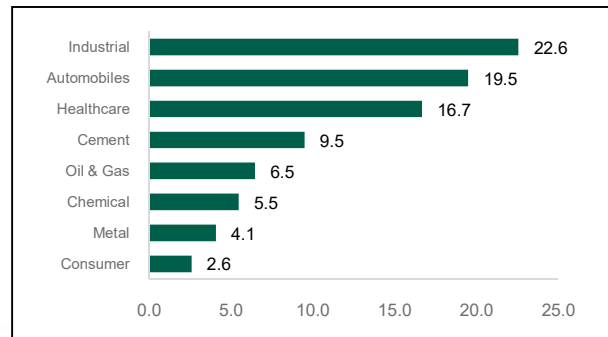
	Kaizen	BSE500 TRI
PE*	17.64	27.93
PB	4.02	4.33
ROE*	22.34%	15.39%
Dividend Yield	0.83%	1.07%

*PE and ROE ratios are for profitable companies in the portfolio. PB and Dividend Yield ratios are inclusive of all stocks in the portfolio.

Market Capitalization



Sector Allocation



MANAGED ACCOUNTS

Top 10 Holdings

Scrip Name	Market Cap (Cr)	Weight
VOLTAMP TRANSFORMERS	13,670	13.4%
KESORAM INDUSTRIES LTD	6,508	9.5%
SANSERA ENGINEERING	7,504	7.0%
BALKRISHNA INDUSTRIES	60,474	6.9%
HINDUSTAN PETROLEUM CORP	82,804	6.5%
KIRLOSKAR PNEUMATIC CO LTD	8,205	6.1%
CIE AUTOMOTIVE INDIA	20,692	5.6%
SRF LTD	75,206	5.5%
AUROBINDO PHARMA LTD	86,678	5.3%
SUVEN PHARMACEUTICALS	25,271	5.1%

Portfolio Characteristics

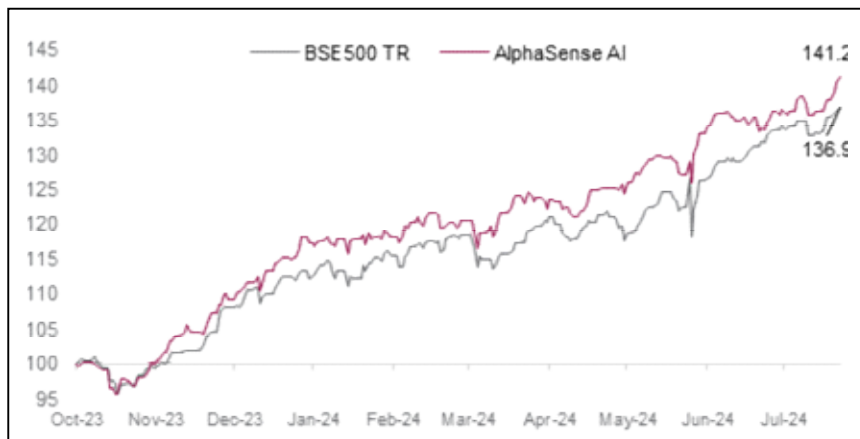
	Kaizen
Number of constituents	15
Mcap Largest (Cr)	1,26,782
Mcap Smallest (Cr)	5,804
Mcap Average (Cr)	41,674
Mcap Median (Cr)	25,271

AlphaSense AI

31st July, 2024

Investment Objective: Stock investment endeavors to achieve consistent outperformance in the long term through diversified investment of 'Winners'. The 'Adaptive Investing' strategy applies a unique approach to deliver alpha by applying equal exposure to 'Core' and 'AlphaSense' factors.

Cumulative Performance: Returns



Annual Performance (%)

Year	AlphaSense AI	BSE500 TRI
2023*	15.2%	12.3%
2024 (YTD)	22.6%	21.9%

*inception date 10th Oct 2023

Portfolio Performance

Particulars	1 month	3 months	6 months	Since inception**
AlphaSense AI	5.9%	12.9%	18.8%	41.2%
BSE 500 TRI	4.4%	12.7%	19.6%	36.9%
Alpha (bps)	146	11	-73	433

(* Net of all charges) (**Since 10th Oct. 2023)

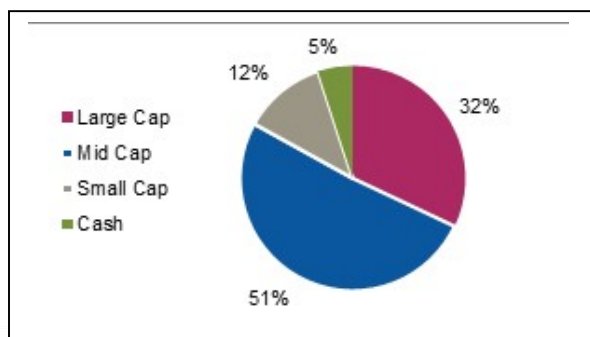
Risk Assessment

	AlphaSense AI	BSE500 TR
Sharpe Ratio	2.72	2.12
Volatility	12.9%	14.5%
Portfolio Beta	0.67	1.00
Max Drawdown	-4.7%	-6.7%
Information Ratio	0.44	

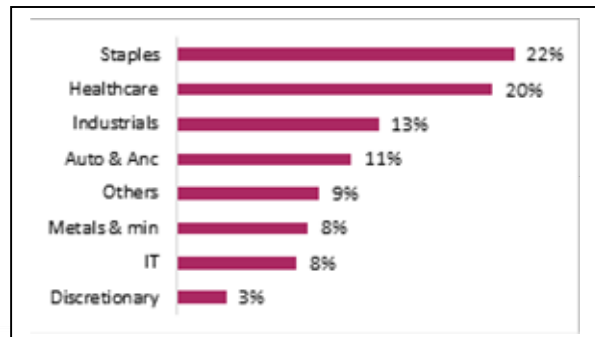
Key Portfolio Ratios

	AlphaSense AI	BSE500 TR
PE	33.99	28.90
PB	12.93	4.50
ROE	38.03%	15.53%
Dividend Yield	1.35%	1.29%

Market Capitalization



Sector Allocation



MANAGED ACCOUNTS

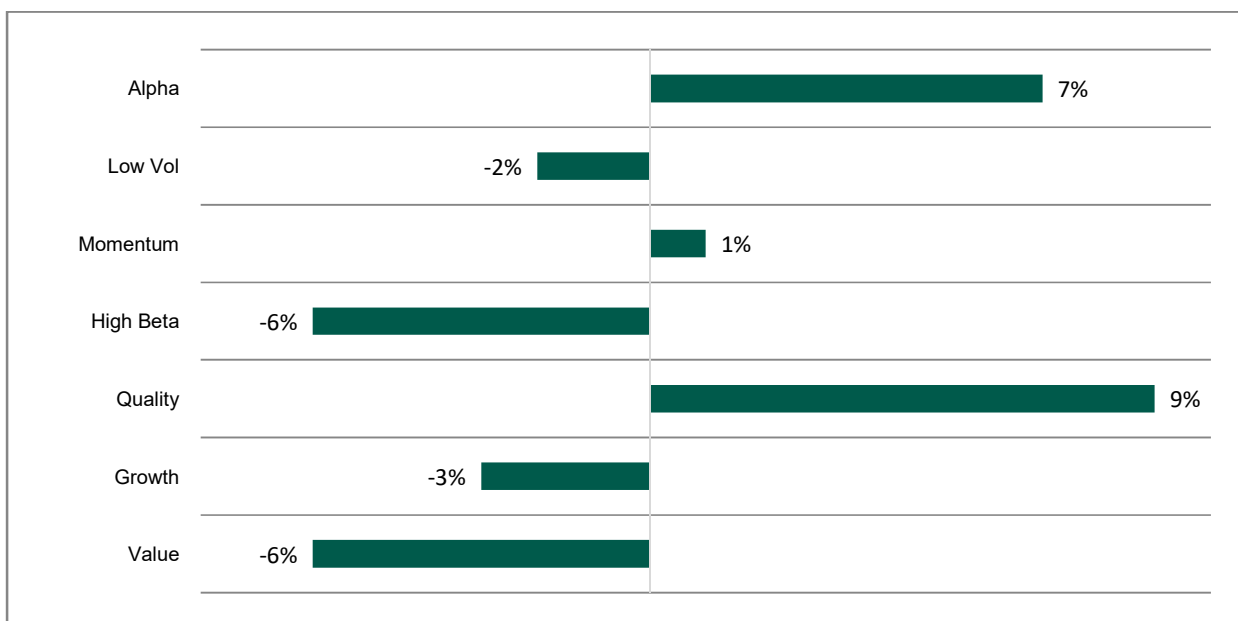
Top 10 Holdings

Scrip Name	Market Cap (Cr)	Weight
ABBOTT INDIA LTD.	49,208.08	8.1%
COLGATE-PALMOLIVE (INDIA)	56,061.30	7.7%
NESTLE INDIA LTD.	2,24,983.17	7.4%
AIA ENGINEERING LTD.	33,364.80	7.0%
BRITANNIA INDUSTRIES LTD.,	1,13,982.89	6.7%
AJANTA PHARMA LTD.	22,261.84	6.3%
J.B. CHEMICALS & PHARMA	21,606.07	6.0%
SUPREME INDUSTRIES LTD.,	52,528.38	5.6%
CUMMINS INDIA LTD.,	50,165.25	5.3%
PERSISTENT SYSTEMS	44,304.22	4.9%

Portfolio Characteristics

	AlphaSense AI
Number of constituents	20
Mcap Largest (Cr)	2,24,983
Mcap Smallest (Cr)	9,017
Mcap Average (Cr)	78,270
Mcap Median (Cr)	54,295

Factor Box



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