

CIO Monthly Memo

February 2024

CIO Memo

Well Begun is Half Done!

The month of January began on a positive note, with Smallcaps and Midcaps delivering robust returns while the NIFTY 50 remained relatively flat. Both Largecap indices like NIFTY Next 50 and the broader market index such as NSE 500 posted healthy returns during the month. Following the scintillating performance of December 2023 and the overall astounding success of 2023, January 2024 continued the positive trend. We are delighted to report that all our strategies, including the flagship Pure Contra and Pure Growth strategies, outperformed the benchmark by a considerable margin in January 2024.

During the month, Energy, PSU Banks, and Realty emerged as the top-performing sectors, while private banks, led by HDFC Bank, experienced poor performance. HDFC Bank witnessed a significant correction following the release of its Q3FY24 results, attributed to evident margin and cost pressures. Of particular concern was the slower deposit growth compared to credit growth, which was not well received by market participants. However, this correction has led to HDFC Bank's valuations becoming more attractive, as the stock has seen both price and time corrections. Moreover, the private banking sector as a whole has witnessed a contraction in multiples over the past year. In addition to banks, the Media and FMCG sectors also witnessed corrections during the month.

Q3 Results Encouraging

While the banking sector grappled with significant challenges such as rising costs, slower deposit growth, and increasing competitive intensity, the IT sector reported inline numbers, contributing to its positive performance during the month. Although medium-term challenges persist for the IT sector, the market sentiment suggests that the worst may be over for the sector. Notably, the quarter witnessed more companies beating expectations than missing them, with over 70% of NIFTY 50 companies meeting or exceeding expectations. Several major companies, including Reliance Industries, Maruti, Bajaj Auto, and HCL Tech, surpassed expectations, underscoring the robustness of corporate earnings. The consistency in corporate earnings over the past couple of years has been remarkable, leading to an improvement in earnings trajectory and a re-rating of Indian equities across the board.



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.

PSU Companies Well-placed to Deliver Strong Performance

PSU companies are exhibiting robust earnings growth coupled with solid consistency, leading to consistent outperformance of PSU stocks. Over the past few months, we have increased our allocation in PSU stocks across strategies as these companies have begun to deliver on key business and financial parameters. Prime Minister Modi's vocal support for PSU companies during parliamentary sessions over the past year is a significant positive factor. His commentary in these sessions is indeed encouraging for PSU companies to further enhance their performance. Additionally, it fosters a healthy competitive environment, and even non-performing PSUs have begun to show signs of improvement.

The improvement in the performance of PSU companies appears quite sustainable over the medium term. The market also believes that the continuance of the current political disposition will continue to aid in the performance of PSU companies moving forward. Therefore, it is highly probable that the outperformance of PSU companies will persist over the medium term.

Mcap of PSU, % of Total Mcap



Market Valuations Not Cheap; But Double-Digit Returns Likely in FY25

The current market valuations are not cheap by any means. However, the fundamental factors driving the market are reasonably strong, with double-digit earnings growth expected. While the global interest rate cycle remains uncertain and risks of de-rating persist, the likelihood of significant de-rating seems slim. There are risks of time correction, which can eventually lead to de-rating, but time correction is a lesser challenge, and markets tend to revert back to earnings growth and deliver corresponding returns over time. Therefore, earnings growth remains the most critical factor for equities in the long term, and current trends suggest good consistency and persistence in earnings growth.

Conclusion

2024 has begun on a positive note with the broader market delivering decent returns in the month of January. While it will be too optimistic to expect a repeat of 2023 returns in 2024, the market is still likely to deliver healthy returns, thanks to the consistent earnings growth. Overall, we maintain the belief that staying invested will prove beneficial in the long run.

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
EClerx Services Ltd	BOUGHT	2.0%	Strong play on data analytics and process improvement solutions available at reasonable valuations
RBL BankLimited	SOLD	2.1%	Lowering allocation due to margin pressure and slight uptick in asset quality issues
ICICI BankLimited	SOLD	1.2%	Lowering allocation due to margin pressure

Contra Strategy changes

Scrip Name	Action	Weight	Remark
Hindustan Petroleum Corporation Limited	BOUGHT	2.0%	Expect EBITDA to double on normalized numbers in three years on capacity expansion
Indus Tower Ltd	BOUGHT	1.0%	Indirect play on Idea, Vodafone's continuity of business
RBL Bank	SOLD	0.9%	Lowering allocation due to margin pressures and slight uptick in asset quality pressure

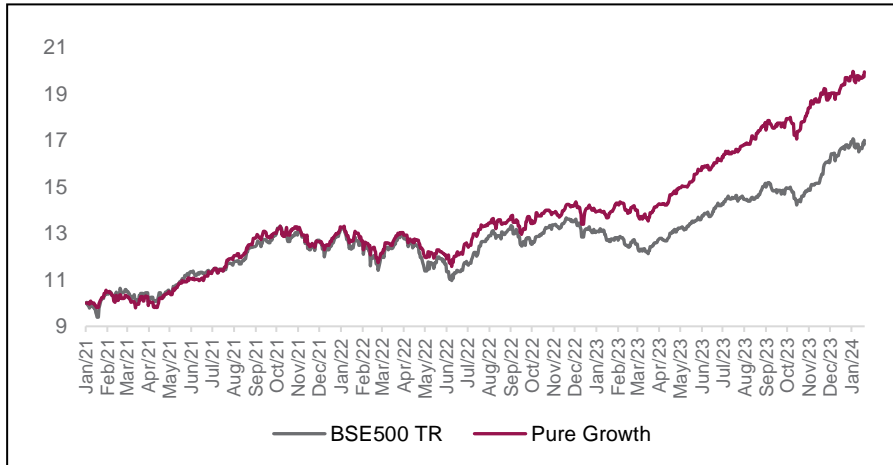
MANAGED ACCOUNTS

Axis Pure Growth

31st Jan 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
2023 (YTD)	35.8%	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	2.54%	13.84%	18.49%	41.46%	22.86%	24.50%	23.23%
BSE500 TR	1.92%	17.88%	16.20%	33.42%	16.47%	21.89%	18.95%

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

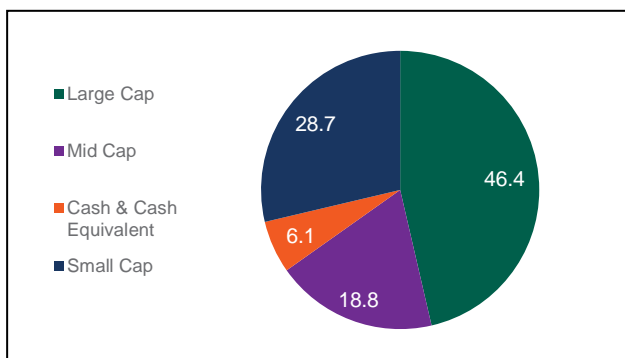
Risk Assessment

	Growth	BSE500 TR
Sharpe Ratio	1.24	0.83
Volatility	13.0%	14.4%
Portfolio Beta	0.77	1
Max Drawdown	-13.2%	-17.6%
Information Ratio	0.56	
Average Turnover Ratio	1.48	

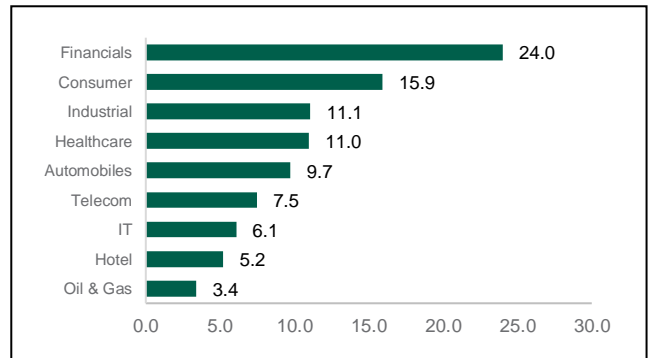
Key Portfolio Ratios

	Growth	BSE500 TR
PE	34.12	18.67
PB	4.44	3.42
ROE	13.01%	13.13%
Dividend Yield	0.65%	1.11%

Market Capitalization



Sector Allocation



MANAGED ACCOUNTS

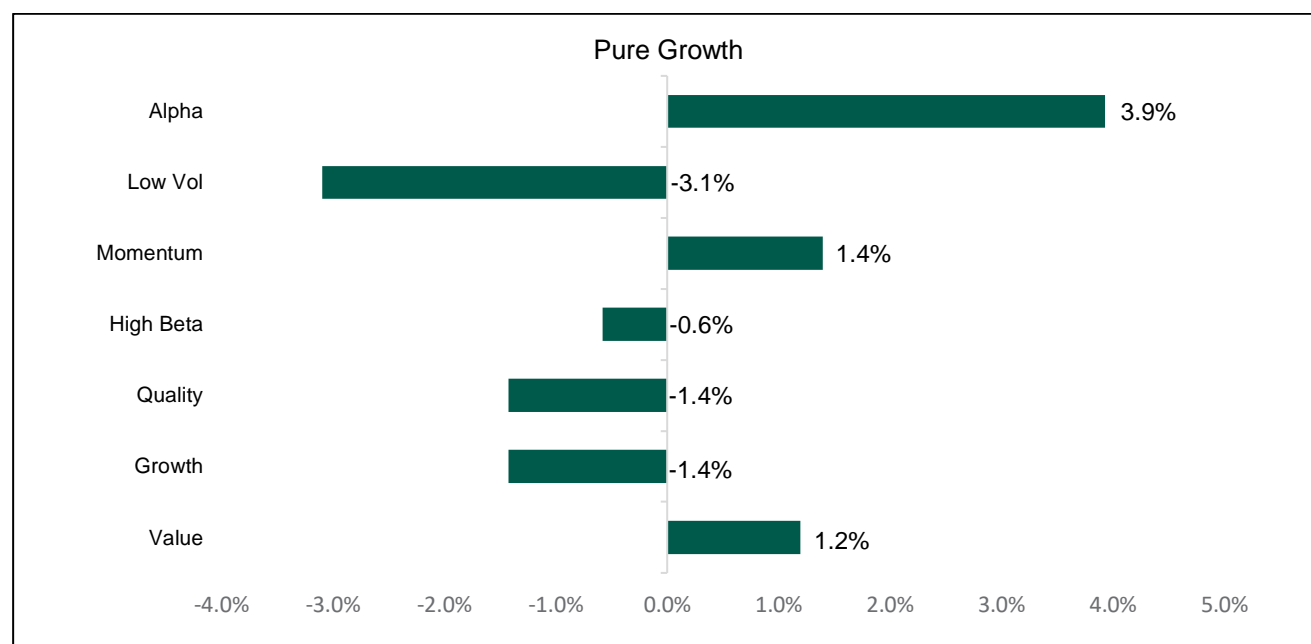
Top 10 Holdings

Scrip Name	Market Cap (Cr)	Weight
Bharti Airtel Ltd	6,75,344	7.5%
Sun Pharmaceutical Indus	3,52,382	7.0%
Varun Beverages Ltd	1,73,946	6.3%
ICICI Bank Ltd	7,24,016	6.1%
Indian Hotels Co Ltd	72,118	5.2%
Gillette India Ltd	22,327	5.1%
Maruti Suzuki India Ltd	3,39,954	5.0%
Jio Financial Services Ltd	1,75,986	4.8%
CIE Automotive India Ltd	18,832	4.7%
KDDL Ltd	3,436	4.5%

Portfolio Characteristics

	Growth
Number of constituents	22
Mcap Largest (Cr)	10,98,811
Mcap Smallest (Cr)	3,436
Mcap Average (Cr)	1,91,671
Mcap Median (Cr)	41,837

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.

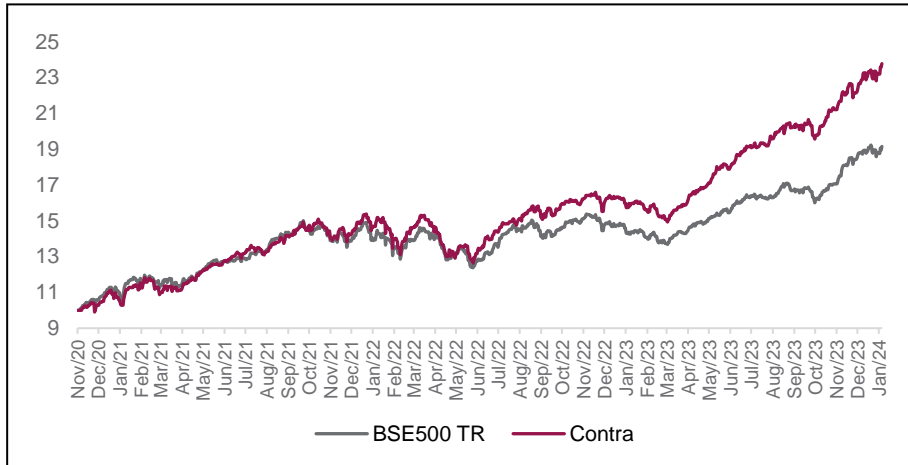
MANAGED ACCOUNTS

Axis Pure Contra

31st Jan2024

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
2023 (YTD)	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	4.91%	19.95%	23.15%	48.18%	24.93%	30.58%	29.63%
BSE500 TR	1.92%	17.88%	16.20%	33.42%	16.47%	21.89%	22.81%

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

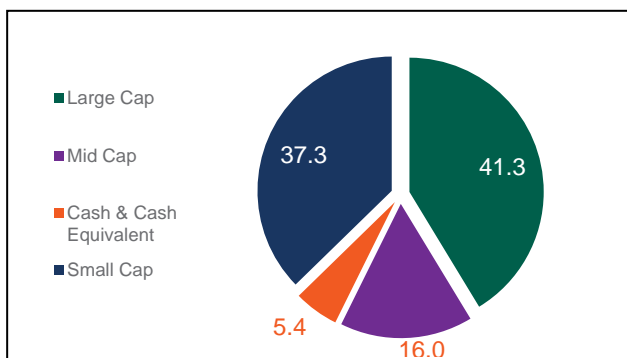
Risk Assessment

	Contra	BSE500 TR
Sharpe Ratio	1.46	1.08
Volatility	15.4%	14.3%
Portfolio Beta	0.96	1
Max Drawdown	-17.9%	-17.6%
Information Ratio	1.02	
Average Turnover Ratio	1.90	

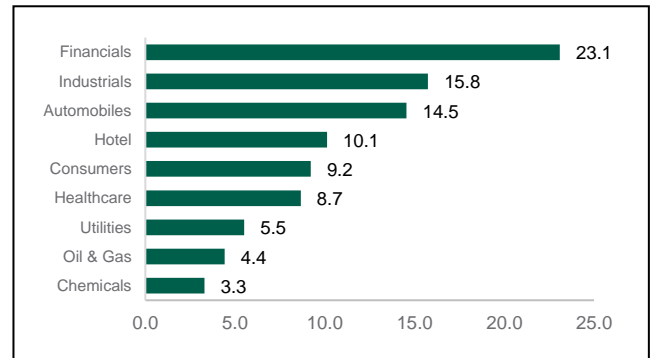
Key Portfolio Ratios

	Contra	BSE500 TR
PE	18.75	18.67
PB	2.91	3.42
ROE	15.50%	13.13%
Dividend Yield	1.71%	1.11%

Market Capitalization



Sector Allocation



MANAGED ACCOUNTS

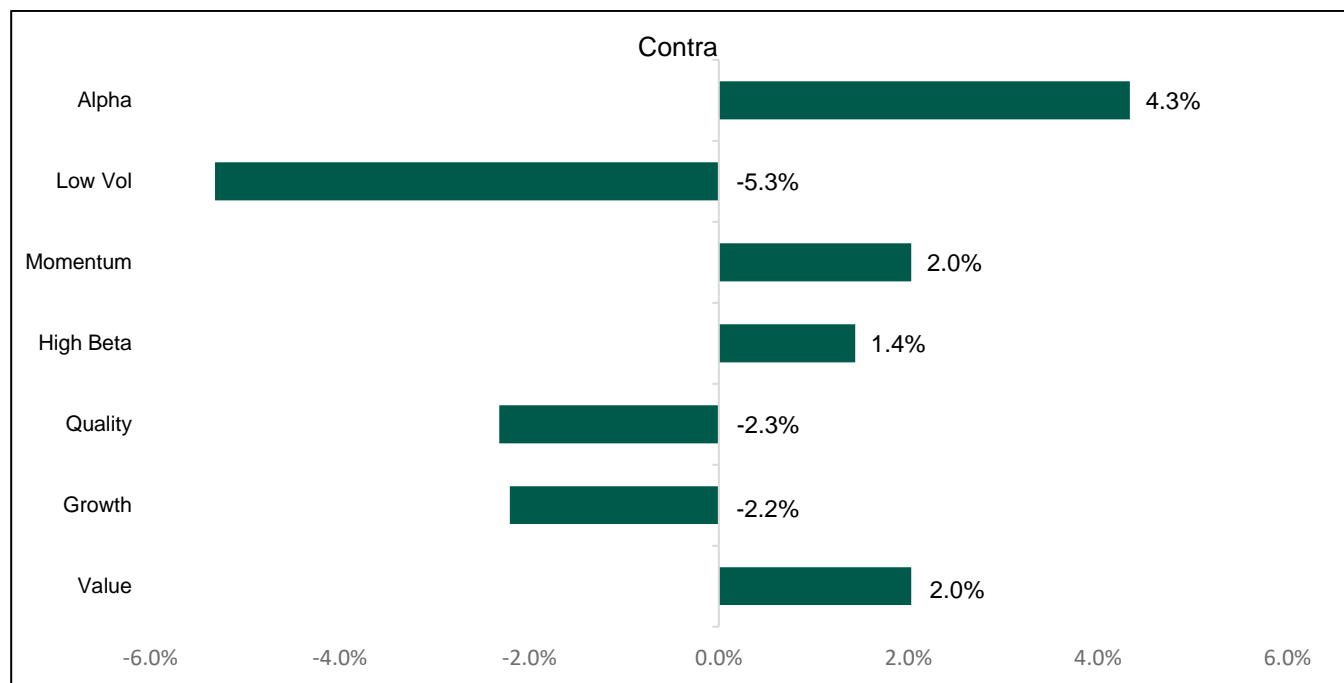
Top 10 Holdings

Scrip Name	Market Cap (Cr)	Weight
Power Grid Corp Of India	2,54,976	5.5%
Thomas Cook (India) Ltd	8,290	5.4%
State Bank Of India	5,72,692	5.0%
ITC Ltd	5,37,538	5.0%
Indian Hotels Co Ltd	72,118	4.7%
Indus Towers Ltd	59,383	4.4%
Hindustan Petroleum Corp	76,467	4.4%
KDDL Ltd	3,436	4.3%
CIE Automotive India Ltd	18,832	4.2%
Mahindra & Mahindra Ltd	2,14,534	4.1%

Portfolio Characteristics

	Contra
Number of constituents	25
Mcap Largest (Cr)	7,24,016
Mcap Smallest (Cr)	3,436
Mcap Average (Cr)	1,53,476
Mcap Median (Cr)	72,118

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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