

# CIO Quarterly Memo

January 2025

## CIO Memo

### It's a Buyers' market!

*Wishing all our investors a prosperous new year!*

December 2024 was again a tough month for global equity markets and NIFTY 50 index declined by 2%. The benchmark NIFTY 50 index corrected by 9% during the quarter ending December after 6 consecutive quarters of positive returns. While the quarter was a challenging quarter but we take some heart in noting that all of our flagship strategies have outperformed the benchmark in an exceptionally challenging quarter. 2024 was a remarkable year which started with bang and was heavily loaded with geopolitical events both in India and abroad. While 2024 was remarkable, but NIFTY 50 returns were modest at just 9% during the year. In 2023, NIFTY 50 delivered 20% returns while 2022 were just 4%. Thus NIFTY 50 CAGR return over the last three years has been 11% which is slower than the NIFTY 50 earnings CAGR of 15%. Thus, over the last three years, NIFTY 50 has derated even with a significant improvement in the balance sheet quality. This can be attributed to negligible participation of foreign institutional investors who have sold more often than bought Indian equities in the last three years.

Thus, with the significant correction in the market, the challenges of over valuation are seemingly getting over. While NIFTY 50 delivered below cost of equity returns in 2024, the small and the midcap indices delivered very strong returns of 23% and 26% respectively. The small and midcap indices have delivered strong returns on a high base of 2023 which was not expected as this is considered to be a low probability event. However, the recent correction has resulted in more than 60% of the top 500 stocks trading below their 200 days DMA (Daily Moving Average) which has resulted in opportunities even in the small and midcap space. However, the returns from current levels will depend on earnings performance and not just valuations.



*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.*

### **Q3FY25 earnings should see improvement- Expectations are tepid**

Q2FY25 earnings missed expectations but impact on the market was more significant than the miss as challenges of over valuation and over supply of equities from various sources led to a significant market correction. For Q3FY25, consensus expectations of earnings are broadly in the zone of 6%-10% YoY growth. The banking sector is expected to report one of the weakest quarters on account of slower credit offtake. Focus will be on asset quality and margins. IT sector has kicked off the earnings season already with TCS reporting decent operating metrics and improving sector outlook. Consumer sector outlook continues to remain weak with DMart reporting healthy revenue growth but weaker margins. Updates from other consumer companies have not been very encouraging. Auto sector is expected to report mixed set of earnings with some degree of margin compression but the sector has reported healthy operating metrics. Chemicals will continue to report weak numbers but petrochemicals sector is expected to see some sequential improvement.

Overall, earnings for Q3FY25 are not expected to be great which means that unless they are disastrous, the market reaction may not be significant. Thus, the chances of positive surprises cannot be ruled out considering the low expectations.

### **It's a Buyers' market**

Any market place works on demand and supply. Higher the price, higher will be the supply and vice versa is an age-old economic principle. Equity markets are also no different. In a nut shell, a portfolio manager's job (with long-only mandates) is to anticipate which set of securities are likely to see a higher future demand that will drive up their prices. A few months back, say July 2024, the market scenario was very different. Any interesting stock idea was a blink and miss. Market was running up on steroids and clearly there was irrational exuberance in the equity markets, especially in the small and midcap space. The demand was far greater than the supply and this led to soaring of stock prices across the board. However, as it happens, higher prices led to higher supply of equities and not only primary issuers joined the selling bandwagon, but foreign institutional

investors also joined the fray in a big way. This led to more supply than demand in the market and stock prices declined significantly in Q3FY25. Currently, less than 5% of the stocks are near their 52-week highs and almost 50% of the stocks have corrected by more than 20% from their 52 weeks high which is quite significant. Also, movement in stocks has been sluggish on good news as there is consistent supply at higher levels. Thus, market orientation has shifted to a buyers' market. This means that the buyer will determine the price to buy securities and sellers are price takers.

This is good from a long-term perspective, however, near term pressures are a challenge. While the market has seen its set of challenges but smart money is likely to make a serious come back. Good news is, Mutual Fund SIP inflows on a monthly basis have crossed 25,000 crores. The smart money movement to unlisted market was rather significant as secondary market had become very expensive. This can shift back to the listed market as valuations have improved and the listed space offers much better risk management. Also, FII selling is likely to get over as valuations are turning reasonable. Thus, balance of demand versus supply is likely to be restored sooner than later. Nonetheless, it's a buyers' market right now and decision making has to be much more informed than just following the momentum trends which have completely fizzled out at this juncture.

### **Conclusion**

The recent correction in the market has resulted in the market moving to an oversold zone technically. However, there is no need to rush to buy momentum plays as there is still enough supply of equities in the market from various sources. The market is quite pessimistic about the earnings prospects on account of the recent slowdown, but then the chances of positive surprises have increased meaningfully as quality of balance sheet of India Inc is still pretty strong. The equity market has de-rated in the last one year and offers valuation comfort. The returns from current levels will be in double digits for patient investors and time in the market will be more critical. This is a buyer's market at this stage which is great news for long term investors and time to build position is now!

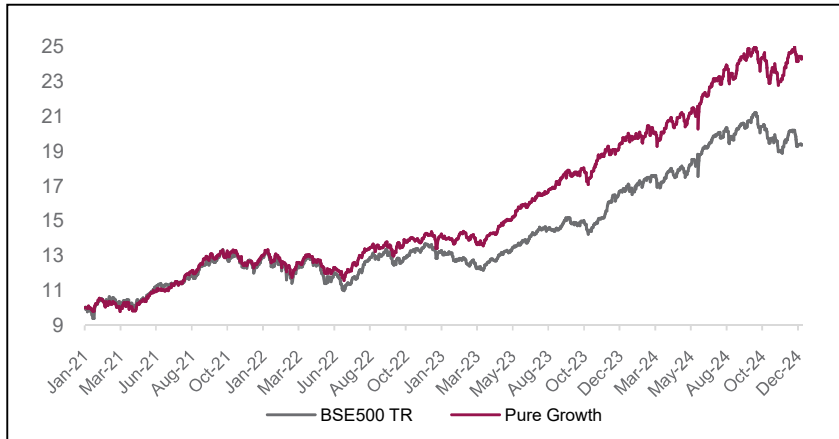
**Happy investing!**

# Axis Securities Pure Growth

31<sup>st</sup> December 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	Pure Growth	BSE500 TR
2024	21.8%	15.8%
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**
<b>Pure Growth</b>	0.66%	-1.96%	6.05%	21.82%	28.40%	21.48%	22.67%
<b>BSE500 TR</b>	-1.50%	-7.79%	-0.74%	15.81%	21.04%	15.36%	18.02%

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

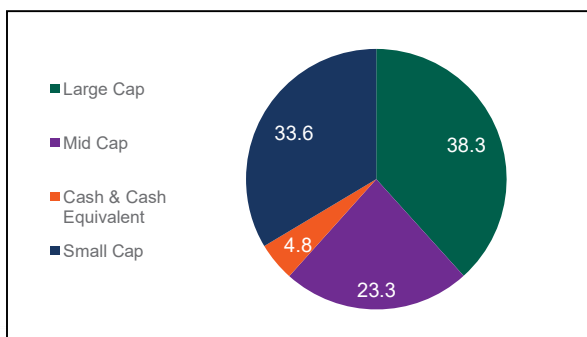
## Risk Assessment

	Pure Growth	BSE500 TR
Alpha	4.6%	
Beta	0.81	1.00
Sharpe Ratio	1.17	0.78
Std Deviation	13.6%	14.5%
Upside Deviation	8.0%	
Downside Deviation	8.9%	
Up Capture ratio	59.6	100
Down Capture ratio	94.9	100
Sortino Ratio	1.22	0.79
Information Ratio	0.63	-
Max Drawdown	-13.2%	-17.6%
Average Turnover Ratio (Annual)	0.58	

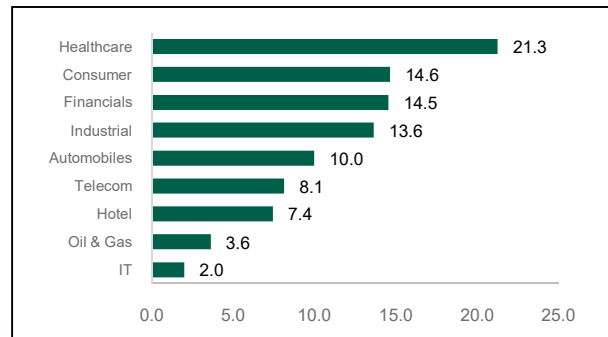
## Key Portfolio Ratios

	Pure Growth	BSE500 TR
PE	29.00	24.14
PB	4.64	3.79
ROE	15.99%	15.21%
Dividend Yield	0.76%	1.13%

## Market Capitalization



## Sector Allocation



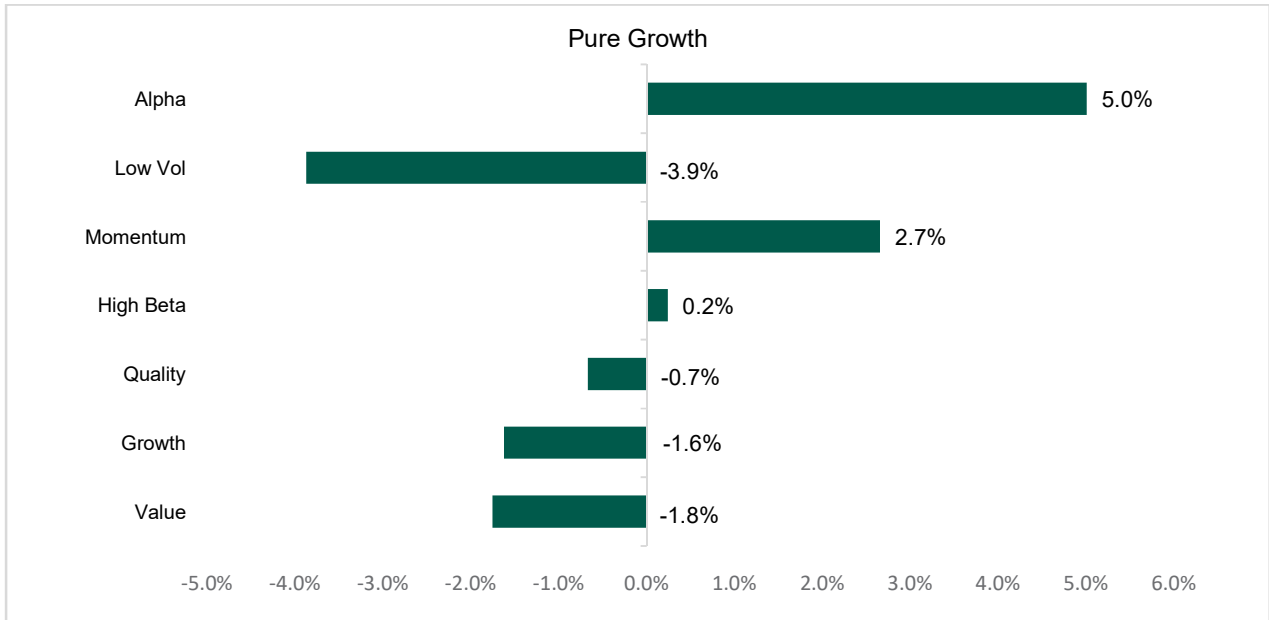
Top 10 Holdings

Scrip Name	Market Cap (Cr)	Weight
BHARTI AIRTEL LTD	9,52,217	8.1%
INDIAN HOTELS CO LTD	1,21,298	7.4%
ICICI BANK LTD	9,03,086	6.1%
GILLETTE INDIA LTD	32,240	5.9%
AUROBINDO PHARMA LTD	75,359	5.5%
VARUN BEVERAGES LTD	2,09,045	4.8%
MARUTI SUZUKI INDIA LTD	3,68,521	4.3%
AJANTA PHARMA LTD	37,452	4.3%
WOCKHARDT LTD	24,099	4.2%
INDUS TOWERS LTD	86,571	4.1%

Portfolio Characteristics

	Growth
Number of constituents	25
Mcap Largest (Cr)	13,10,462
Mcap Smallest (Cr)	3,608
Mcap Average (Cr)	2,10,113
Mcap Median (Cr)	52,941

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 Securities Pure Contra

31<sup>st</sup>December2024

**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	Pure Contra	BSE500 TR
2024	29.3%	15.8%
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**
<b>Pure Contra</b>	-1.18%	-5.92%	-1.76%	29.28%	33.77%	25.22%	28.71%
<b>BSE500 TR</b>	-1.50%	-7.79%	-0.74%	15.81%	21.04%	15.36%	21.00%

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

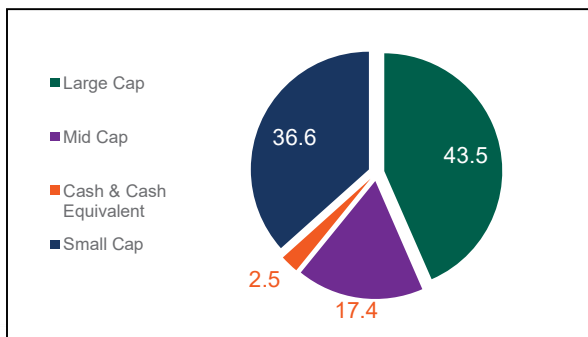
## Risk Assessment

	Pure Contra	BSE500 TR
Alpha	7.8%	
Beta	1.02	1.00
Sharpe Ratio	1.34	0.98
Std Deviation	16.3%	14.5%
Upside Deviation	7.9%	
Downside Deviation	8.6%	
Up Capture ratio	111.4	100
Down Capture ratio	99.1	100
Sortino Ratio	1.29	0.98
Information Ratio	1.09	
Max Drawdown	-17.9%	-17.6%
Average Turnover Ratio (Annual)	1.04	

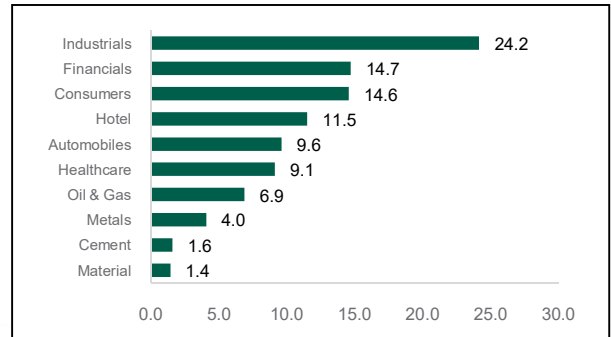
## Key Portfolio Ratios

	Pure Contra	BSE500 TR
PE	19.90	24.14
PB	3.61	3.79
ROE	18.16%	15.21%
Dividend Yield	1.76%	1.13%

## Market Capitalization



## Sector Allocation



## MANAGED ACCOUNTS

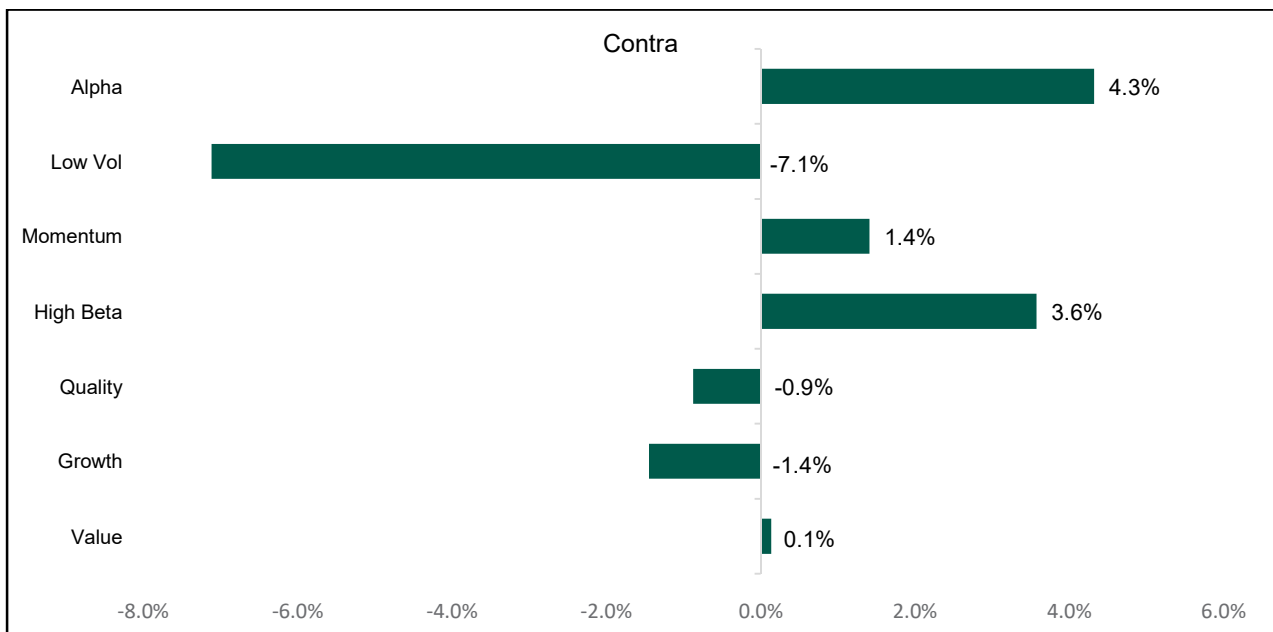
### Top 10 Holdings

Scrip Name	Market Cap (Cr)	Weight
INDIAN HOTELS CO LTD	1,21,298	6.6%
INDUS TOWERS LTD	86,571	6.3%
MAHINDRA & MAHINDRA	3,86,594	5.8%
THOMAS COOK (INDIA) LTD	9,049	4.9%
HINDUSTAN PETROLEUM CORP	82,177	4.6%
LUPIN LTD	1,07,564	4.5%
ITC LTD	5,51,892	4.3%
VEDANTA LTD	1,75,283	4.0%
KIRLOSKAR BROTHERS LTD	18,064	4.0%
ICICI BANK LTD	9,03,086	3.9%

### Portfolio Characteristics

	Contra
Number of constituents	30
Mcap Largest (Cr)	9,03,086
Mcap Smallest (Cr)	3,608
Mcap Average (Cr)	1,49,220
Mcap Median (Cr)	84,374

### Factor Box



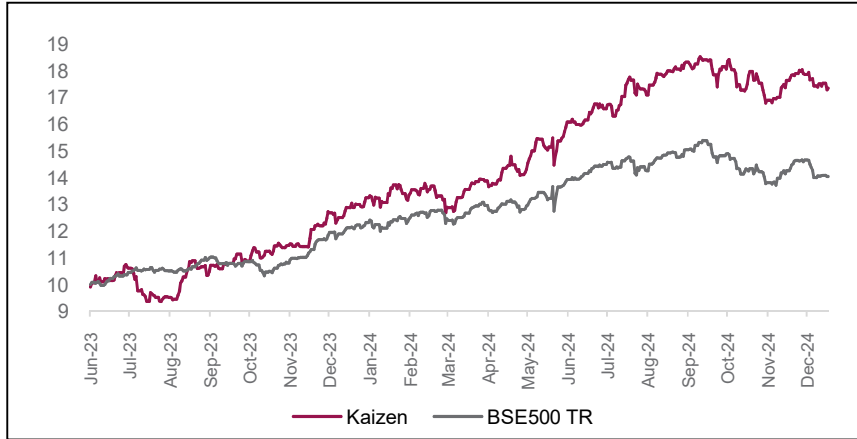
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# Axis Securities Kaizen

31<sup>st</sup>December2024

**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 TR
2024	30.1%	15.8%
2023	29.3%	21.6%

\*effective 15 June 2023

## Portfolio Performance

Particulars	1 month	3 months	6 months	1 Year	Since Inception
<b>Kaizen</b>	-2.05%	-6.06%	6.05%	30.05%	38.62%
<b>BSE500 TR</b>	-1.50%	-7.79%	-0.74%	15.81%	24.51%

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

## Risk Assessment

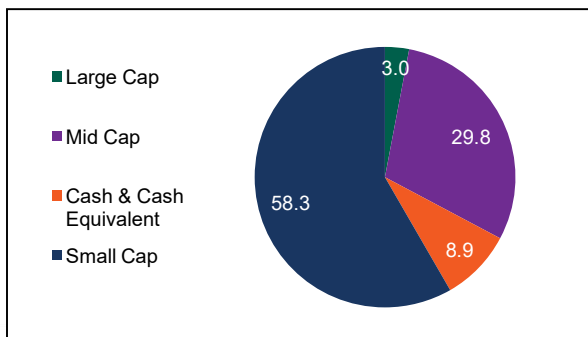
	Kaizen	BSE500 TR
Alpha	14.1%	
Beta	0.97	1.00
Sharpe Ratio	1.67	1.34
Std Deviation	19.1%	13.2%
Upside Deviation	16.1%	
Downside Deviation	16.5%	
Up Capture ratio	112.3	100
Down Capture ratio	93.1	100
Sortino Ratio	1.84	1.21
Information Ratio	1.00	
Max Drawdown	-12.9%	-17.6%
Average Turnover Ratio (Annual)	1.72	

## Key Portfolio Ratios

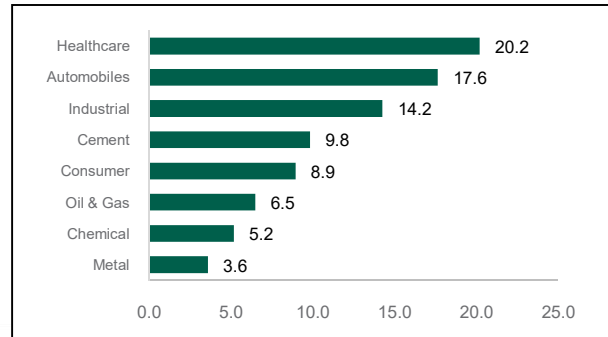
	Kaizen	BSE500 TR
PE*	16.94	24.14
PB	3.83	3.79
ROE*	21.59%	15.21%
Dividend Yield	1.43%	1.13%

\*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





**Top 10 Holdings**

<b>Scrip Name</b>	<b>Market Cap (Cr)</b>	<b>Weight</b>
KESORAM INDUSTRIES LTD	7,027	9.8%
VOLTAMP TRANSFORMERS LTD	9,954	8.7%
SANSERA ENGINEERING LTD	8,898	6.6%
HINDUSTAN PETROLEUM CORP	82,177	6.5%
AMI ORGANICS LTD	9,053	6.2%
BALKRISHNA INDUSTRIES LTD	52,941	6.0%
KIRLOSKAR PNEUMATIC CO LTD	9,646	5.6%
SRF LTD	68,428	5.2%
AJANTA PHARMA LTD	37,452	5.2%
CIE AUTOMOTIVE INDIA LTD	17,790	5.0%

**Portfolio Characteristics**

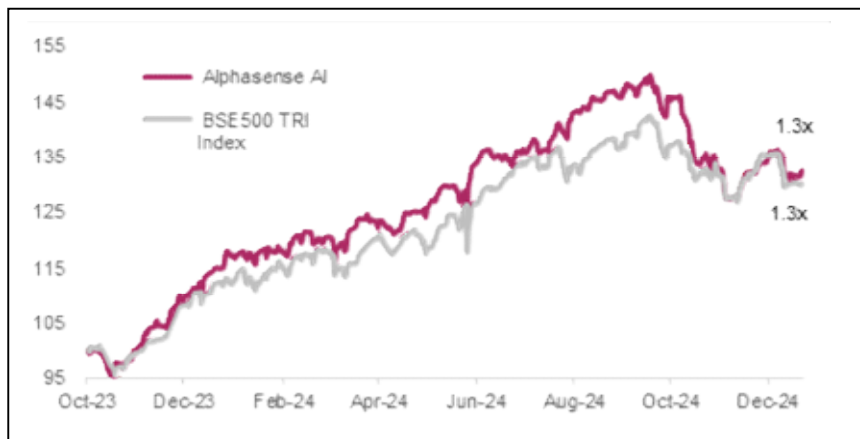
	<b>Kaizen</b>
Number of constituents	17
Mcap Largest (Cr)	1,20,936
Mcap Smallest (Cr)	5,080
Mcap Average (Cr)	36,519
Mcap Median (Cr)	27,823

# Axis Securities AlphaSense AI

31<sup>st</sup> December, 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 TR
2023*	15.2%	12.3%
2024	15.1%	15.8%

\*Inception date 10<sup>th</sup> Oct 2023

## Portfolio Performance

Particulars	1 month	3 months	6 months	1 year	Since inception**
AlphaSense AI	0.3%	-9.7%	-2.2%	15.1%	27.3%
BSE 500 TRI	-1.5%	-7.8%	-0.7%	15.8%	25.3%
Alpha	1.8%	-1.9%	-1.5%	-0.8%	2.0%

(\* Net of all charges) (\*\*Since 10<sup>th</sup> Oct. 2023)

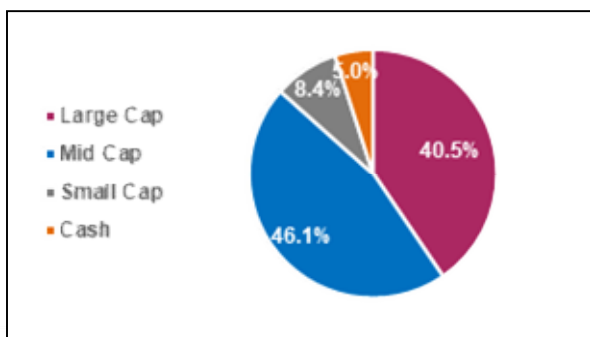
## Risk Assessment

	AlphaSense AI	BSE500 TR
Sharpe Ratio	1.52	1.26
Volatility	13.4%	14.6%
Portfolio Beta	0.84	1.00
Max Drawdown	-11.3%	-8.2%
Information Ratio	0.21	
Average Turnover Ratio (Annual)	2.41	

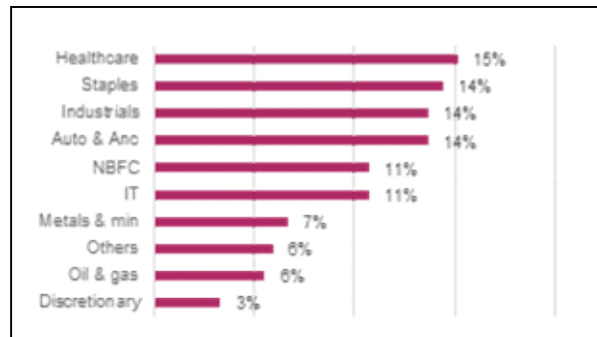
## Key Portfolio Ratios

	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



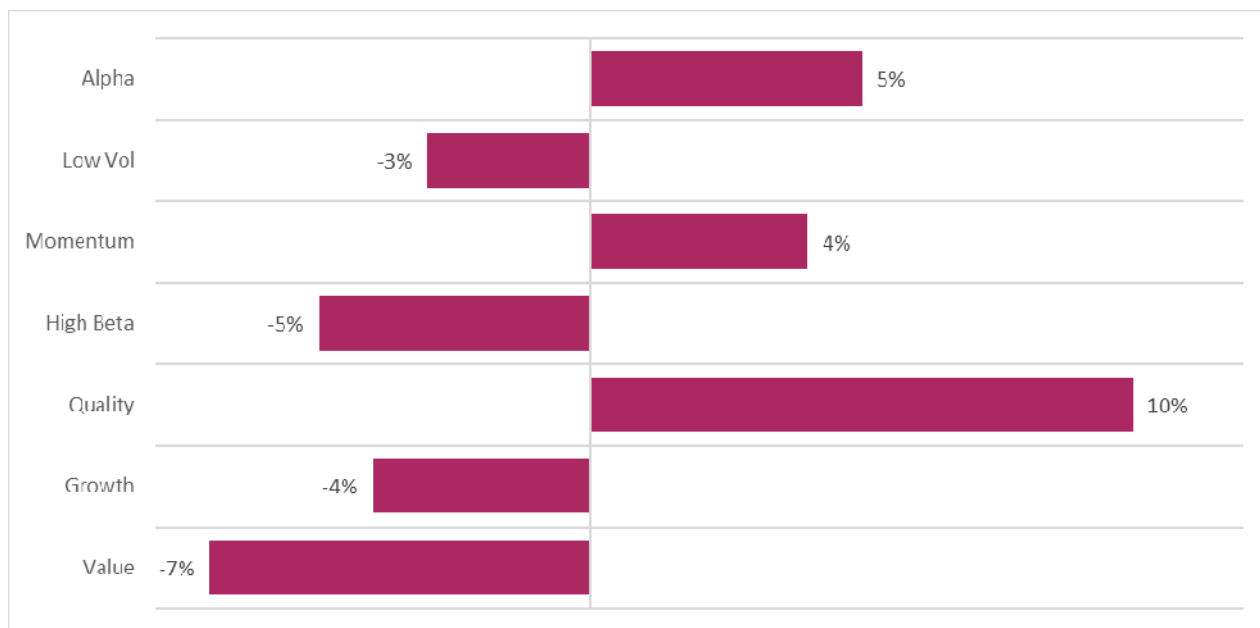
Top 10 Holdings

Scrip Name	Market Cap (Cr)	Weight
Colgate-Palmolive (India)	81,578	8.1%
GlaxoSmithKline Pharma	44,072	7.7%
HCL Technologies Ltd	4,84,696	7.4%
Bajaj Auto Limited	2,76,001	7.0%
CRISIL Ltd	38,868	6.7%
Hindustan Zinc Ltd	2,19,717	6.3%
AIA Engineering Ltd	35,267	6.0%
Gillette India Ltd	34,106	5.6%
Gujarat State Petronet Ltd	21,719	5.3%
Cummins India Ltd	94,276	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



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.

### Risk metric definitions -

- 1) **Upside Deviation** - We take the standard deviation of the difference of strategy and benchmark returns only when the strategy performs better than the index.
- 2) **Downside deviation** - We take the standard deviation of the difference of strategy and benchmark returns only when the strategy performs worse than the index.
- 3) **Up Capture ratio** - We take the ratio of the cumulative returns made by strategy and cumulative returns made by benchmark when we are invested in both strategy and benchmark only on days when the benchmark returns are positive.
- 4) **Down Capture ratio** - We take the ratio of the cumulative returns made by strategy and cumulative returns made by benchmark when we are invested in both strategy and benchmark only on days when the benchmark returns are negative.
- 5) **Sortino Ratio** - Ratio of risk-free adjusted returns to the standard deviation of returns when strategy (benchmark) returns are negative.
- 6) **Information ratio** - Ratio of risk-free adjusted returns to the tracking error, which is the standard deviation of difference between strategy and benchmark returns.

Note- All standard deviations used are annualized and from inception.

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