

# Kaizen PMS Letter

November 2025

# Kaizen Memo

**Dear Fellow Investors,**

After seeing some pullback in Jul/Aug'25, markets saw a recovery in October'25. BSE500 delivered a return of 4.27% in October, while Kaizen PMS gained by 3.47%. Since inception (15th June 2023) Kaizen has delivered a CAGR of 20.38% versus BSE 500 return of 18.52%.

## Markets Overview

India currently presents itself as an ideal hedging opportunity for global investors. This favourable position is primarily a result of the country's economic growth being substantially propelled by robust domestic cyclical factors, meaning its expansion is resilient and less dependent on unpredictable global economic trends.

In November 2022, the trailing price-to-earnings (P/E) ratio of the Nasdaq Composite—a major benchmark for technology stocks in the United States—was essentially at par with the P/E ratio of India's Nifty 50 index, with both valuations sitting around 21 times trailing earnings. However, since that point in late 2022, the valuation trajectory of the Nasdaq Composite has dramatically diverged. The P/E multiple for the Nasdaq rapidly and significantly expanded, reaching a high point, or peak, of 39 times earnings. While this valuation has recently undergone a modest correction, it still remains at a substantially elevated level of 36 times earnings.

This indicates that, relative to the Nifty 50's valuation as of November 2022, the Indian market offers a comparatively more reasonable entry point and a potential defensive investment against the currently stretched valuations seen in major developed markets, such as the technology-heavy Nasdaq.

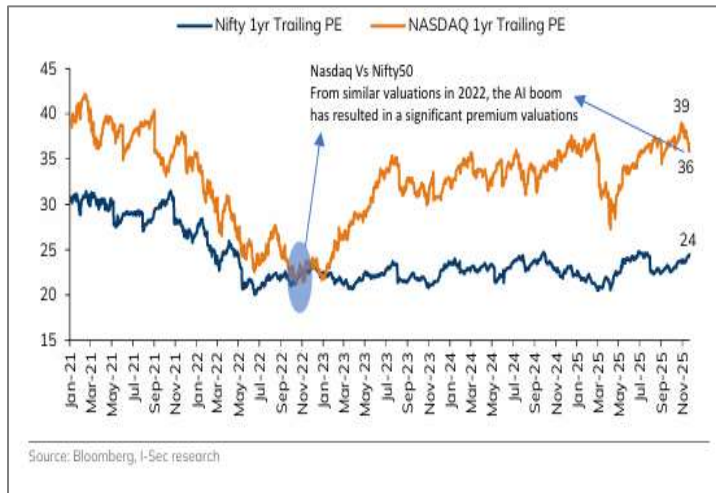


Neeraj brings nearly two decades of invaluable experience in the financial services industry, encompassing diverse roles in corporate banking, equity research, and investment management. In his capacity as a Fund Manager, he assumes the responsibility of delivering superior risk-adjusted returns that align with the specific mandates of our clientele.

In his most recent position, Neeraj served as the Director and Head of Research at Equirus PMS, where he oversaw the research process as well as played an active role in generating investment ideas within its Multi-cap PMS scheme. Prior to this, Neeraj held the position of Vice President – Equities, within the Investment Management Team at Franklin Templeton India, which managed portfolios with assets exceeding \$6 billion in domestic funds and over \$3 billion in offshore funds. Neeraj's rich and varied experience also includes significant roles at prominent Indian banks and multinational investment banks, including ICICI Bank, Axis Bank, Lehman Brothers, and Nomura Securities.

Neeraj is passionate about analysing businesses and thrives on conducting hands-on, ground-level research by engaging with customers, vendors, and company management.

Neeraj is an engineer from M.N.I.T. Jaipur and he did his P.G.D.M./MBA from the Indian Institute of Management Kozhikode. Neeraj is also a CFA charter holder from the CFA Institute, USA.



In this note, we would like to highlight our recent stock addition in the Kaizen Strategy: ZF Commercial Vehicle Control Systems India.

## ZF Commercial Vehicle Control Systems India

### Executive Summary

The company is exceptionally well-positioned to capitalize on the confluence of regulatory tailwinds, technological shifts, and sustained economic growth in India. Its leadership in advanced braking and vehicle control systems, coupled with a strategic pivot towards e-mobility and next-generation safety technologies (ADAS), provides a clear and compelling growth trajectory. We believe the current market valuation does not fully reflect the significant earnings growth potential driven by upcoming mandates and increasing technology adoption in the Indian commercial vehicle sector.

### Investment Thesis

**Our recommendation is predicated on three core pillars:**

**Regulatory-Driven Growth & Technology Penetration:** The Indian CV industry is at a major inflection point. ZF CV is a direct beneficiary of several upcoming, high-value regulatory mandates:

- Electronic Stability Control (ESC) for Buses

(September 2025): Management has guided for a near doubling of ESC volumes (from ~1,800 units/month to ~3,800 units/month). As a market leader, ZF CV is set to capture the lion's share of this mandated business, providing an immediate and significant revenue uplift.

- **Advanced Driver Assistance Systems (ADAS) Draft Mandate:** The government's push for advanced safety features like Advanced Emergency Braking (AEB) and Lane Departure Warning Systems (LDWS) is a game-changer. ZF CV, leveraging its global parent's portfolio, is actively collaborating with all major OEMs. Management estimates the content per vehicle (CPV) could increase from the current ₹40,000-₹44,000 to nearly ₹1,00,000 over the next two years as these technologies are adopted. This represents a structural re-rating of the company's revenue potential.

**Dominance in the E-Mobility Transition:** The accelerating adoption of electric buses, driven by State Transport Undertakings (STUs) and the GCC model, plays directly to ZF CV's strengths. The company is a key supplier of critical, high-margin components for electric buses, including **e-compressors and Electronic Braking Systems (EBS)**. As the bus market electrifies, ZF CV's role will become even more integral, securing a strong foothold in this high-growth segment.

### Robust Financials & De-risked Business Model:

- **Strong Aftermarket Presence:** The aftermarket business provides a stable, counter-cyclical revenue stream that cushions the business from the inherent volatility of the OEM production cycle. New opportunities, such as the mandated retro-fitment of trailer EBS/ABS for fuel carriers, will further strengthen this segment.
- **Strong Parentage:** Being part of the global ZF Group provides unparalleled access to cutting-edge technology, a global supply chain, and engineering prowess, creating a formidable competitive moat.

## Valuation

While ZF CV trades at a premium to the broader auto ancillary market, this is justified by its technological leadership, high entry barriers, and superior margin profile. The forward earnings potential from the ESC and ADAS mandates is not yet fully priced in. We project an earnings CAGR of over 20-25% for the next three to four years, which supports a higher valuation multiple. The stock offers significant upside from current levels as the market begins to factor in the full impact of these regulatory tailwinds.

## Risks & Mitigants

- **CV Cyclicalities:** A sharp downturn in the domestic CV market could impact OEM volumes. Mitigant: This is partially offset by the growing, high-margin aftermarket business and the non-discretionary nature of regulatory-driven demand.
- **Export Headwinds:** Geopolitical tensions and tariffs pose a risk to export growth, particularly to the US market. Mitigant: Management is actively working on supply chain adjustments. Furthermore, the domestic growth story is the primary driver of our thesis.
- **Regulatory Delays:** A potential delay in the final ADAS notification could shift the timeline for this revenue stream. Mitigant: The ESC mandate is confirmed for September 2025, providing near-term visibility. The ADAS mandate is a question of "when," not "if," given the global push for vehicle safety.

## Conclusion & Recommendation

ZF Commercial Vehicle Control Systems India is a best-in-class technology leader at the cusp of a multi-year growth cycle. The company offers a rare combination of defensive characteristics (strong aftermarket, established leadership) and aggressive growth triggers (regulatory mandates in ESC/ADAS, e-mobility).

We actively seek companies that have strong balance sheets, defined by low to moderate net debt, and excellent operating cash flows. Our focus is on businesses that strive for sustainable double-digit earnings growth. Although these companies may experience some volatility, they usually recover quickly during market upturns, demonstrating their resilience and potential.

As always, we remain focused on long-term value creation, leveraging our investment expertise and discipline to navigate market fluctuations. Your trust and support are greatly appreciated. Thank you for investing with Kaizen PMS.

## Happy Investing!

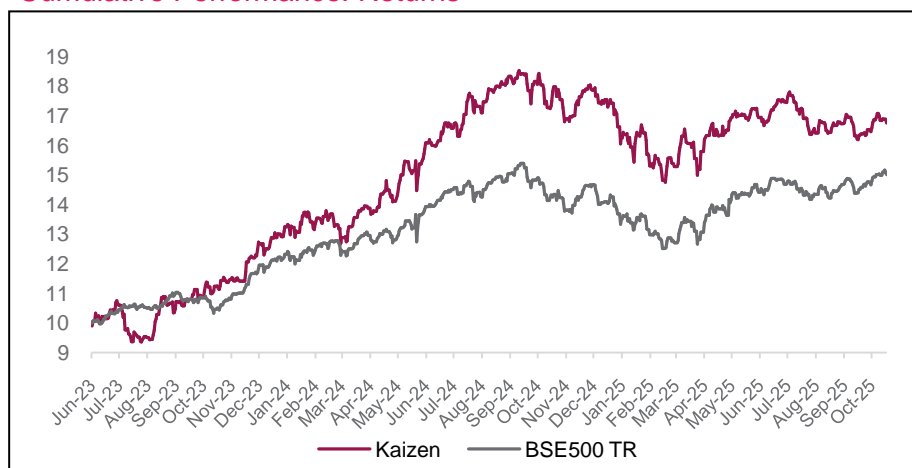
Neeraj Gaurh

# Axis Securities Kaizen

31<sup>st</sup> October, 2025

**Investment Objective:** Axis Securities 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
2025 (YTD)	-5.3%	6.9%
2024	30.0%	15.8%
2023	27.6%	21.3%

\*effective 15 June 2023

## Portfolio Performance

Particulars	1 month	3 months	6 months	1 Year	2 Years (CAGR)	**Since Inception
<b>Kaizen</b>	3.47%	-3.37%	1.30%	-8.30%	19.00%	20.38%
<b>BSE500 TR</b>	4.27%	3.72%	8.33%	5.32%	19.63%	18.52%

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

## Risk Assessment

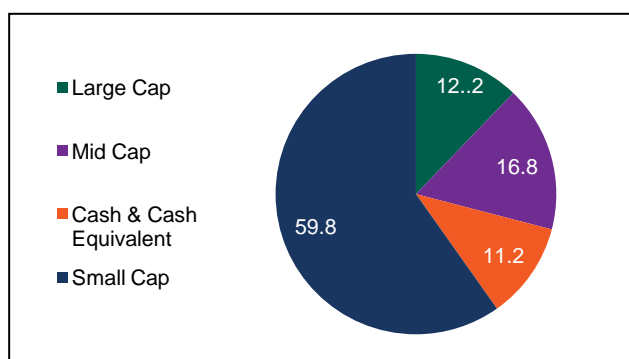
	Kaizen	BSE500 TR
Alpha	2.3%	
Beta	1.00	1.00
Sharpe Ratio	0.77	0.89
Std Deviation	18.5%	13.5%
Upside Deviation	14.9%	
Downside Deviation	14.9%	
Up Capture ratio	105.2	100
Down Capture ratio	99.4	100
Sortino Ratio	0.86	0.89
Information Ratio	0.18	
Max Drawdown	-20.4%	-18.7%
Average Turnover Ratio (Annual)	0.57	

## Key Portfolio Ratios

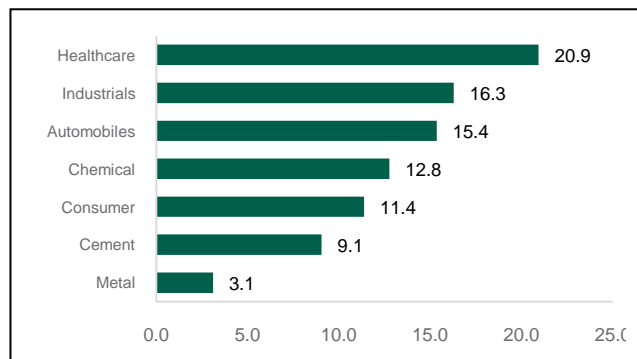
	Kaizen	BSE500 TR
PE*	40.78	25.35
PB	5.12	3.58
ROE*	12.56%	14.36%
Dividend Yield	0.63%	1.15%

\*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**

Scrip Name	Market Cap (Cr)	Weight
ACUTAAS CHEMICALS LTD	9,630	9.7%
ULTRATECH CEMENT LTD	3,30,335	9.1%
SANSERA ENGINEERING LTD	8,426	7.3%
SRF LTD	84,807	7.1%
JUBILANT INGREVIA LTD	11,188	5.6%
KPR MILL LTD	38,505	5.6%
CIE AUTOMOTIVE INDIA LTD	17,062	5.3%
AJANTA PHARMA LTD	31,363	4.7%
ORIENT ELECTRIC LTD	4,841	4.3%
KIRLOSKAR PNEUMATIC CO	8,137	4.3%

**Portfolio Characteristics**

	Kaizen
Number of constituents	19
Mcap Largest (Cr)	3,30,335
Mcap Smallest (Cr)	4,186
Mcap Average (Cr)	44,338
Mcap Median (Cr)	17,062

### 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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