

# Monthly Memo

September 2022

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## Sense and Sustainability!

### Impressive Outperformance!

The month of August 2022 was not an ordinary month for India as it marked the completion of 75 years of Independence. Against this backdrop, the Indian equity markets continued to remain upbeat and closed the month on an excellent positive note. This was notwithstanding the challenges elicited by the Federal Reserve chair Jerome Powell on inflation and growth. His statement “Restoring price stability will take some time and requires using our tools forcefully to bring demand and supply into better balance”, rules out an easing environment any time soon. Instead, it indicates the likelihood of another 75bps rate hike lurking around the corner. Nonetheless, NIFTY 50 delivered an impressive 3.5% return for the month while NASDAQ and Dow declined by 3% and 2.3% respectively. In comparison to the gains delivered by the narrow NIFTY 50 index, more impressive gains were reported by NIFTY 500, NIFTY Midcap 100, and NIFTY Small Cap 250, posting monthly returns of 4.5%, 6.2%, and 5.6% respectively.

While the Indian markets outperformed the western counterparts, we are happy to share that performance delivered by our strategies was largely in line during the month while beating the benchmark handsomely for the current fiscal year. Our Growth and Contra strategies continue to deliver healthy outperformance on longer time frames while remaining true to the predefined investment style and strategy. Furthermore, the strategies continue to help our investors achieve adequate diversification in their equities allocation while providing satisfactory upside.

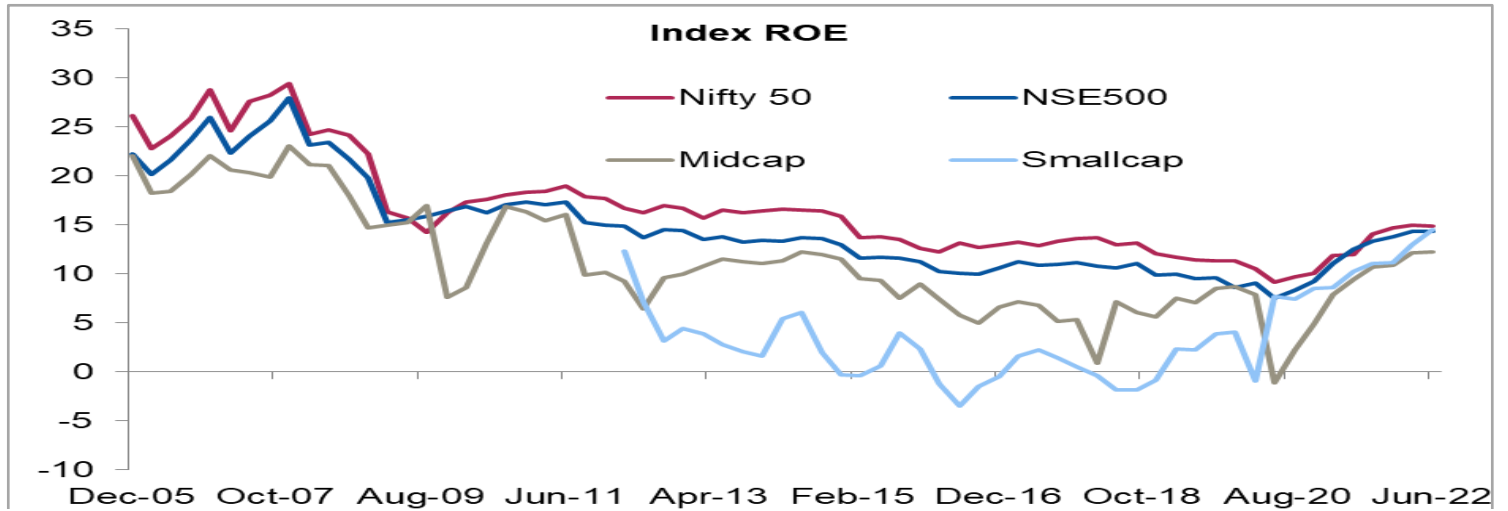
### India Valuation Premium Sustainable

With NIFTY 50 trading at ~19x on FY24E earnings (based on our earnings forecast), the Indian equity market is not cheap by any stretch of the imagination. Consensus earnings estimates are slightly higher by 7-8%, which means the Index trades at ~18x earnings. Considering the historical mean of ~15x, the level of ~18x is indeed not cheap. While the current valuation is premium to the historical valuation, we believe it is sustainable, especially when we factor in the significant improvement in the balance sheet quality and return ratios of India Inc.



*Naveen has over 19 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.*

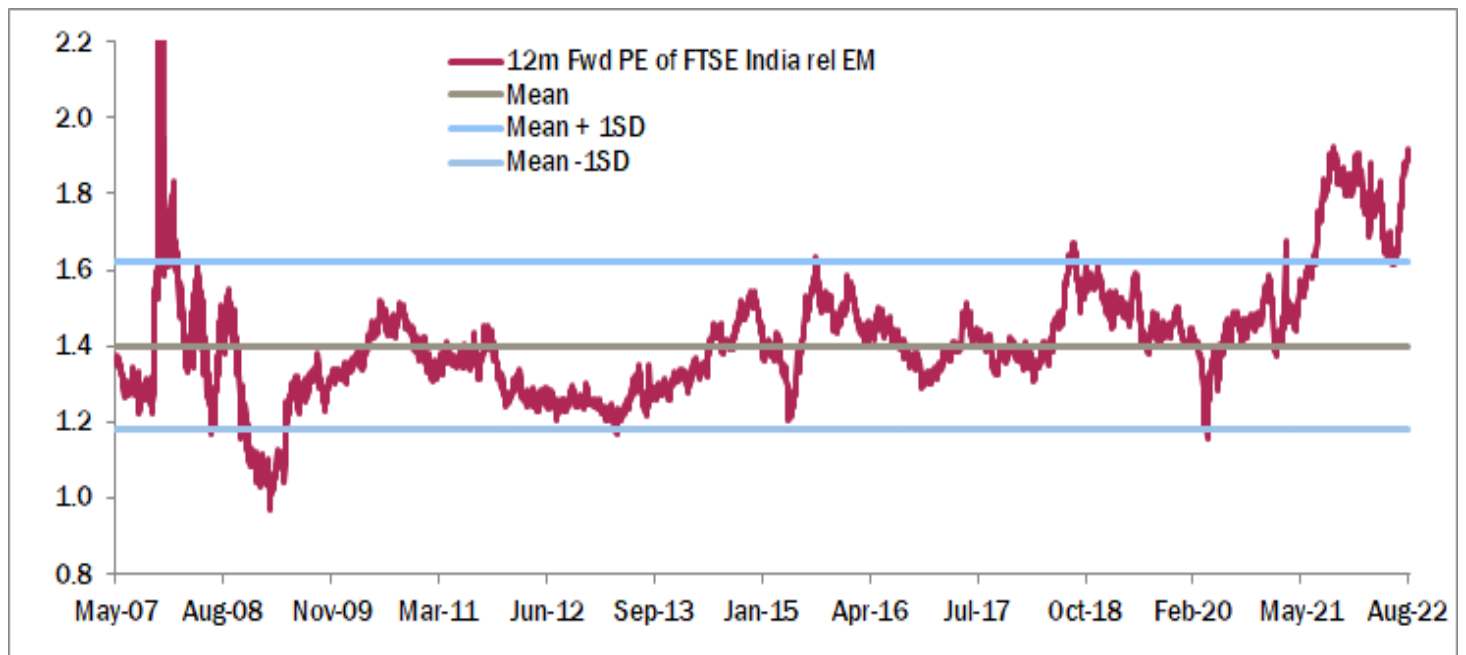
## Index ROE



## Risk Premium of The Indian Equity Market

valuation premium to the emerging markets index.

However, more interesting is the Indian market



The Risk Premium of the Indian equity market has expanded to 90% compared to the emerging markets. While it has expanded vis-à-vis the emerging markets Index, please note that it is also a function of the weaker Chinese market which makes for 35% of the Index. Taiwan is another major constituent of the index which constitutes 16% of the index. The Taiwan Weighted Index is down 20% YTD 2022 while the NIFTY 50 is flat. Thus, while the Indian market premium appears higher, it's largely a function of

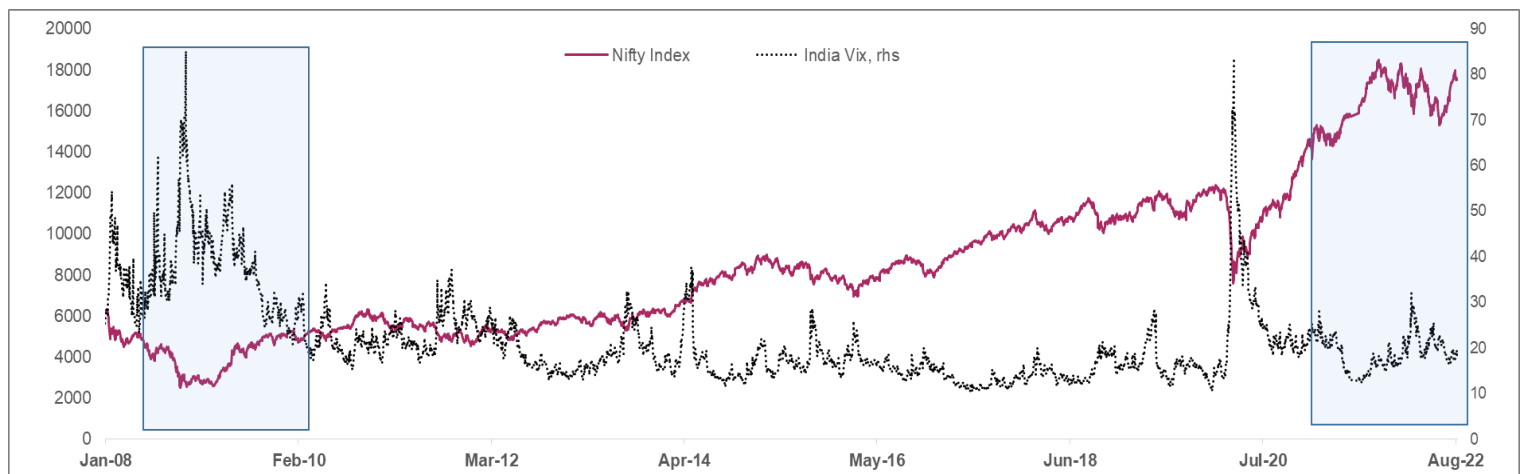
relative performance rather than the Indian market becoming expensive or entering into an irrational exuberance zone.

## Market Volatility and Valuations Paint A Favourable Risk Reward Scenario

In Aug'22, while the India VIX traded at levels slightly lower than the long-term average, it has inched up to the average levels in the last few trading sessions. The India VIX continues to hover in the range of 17-20, which is the optimum level from the risk-reward perspective as it indicates neither panic in the market nor irrational exuberance. Panic levels (above 28) indicate steep correction or excellent opportunities to

invest a large chunk of capital. Irrational exuberance levels, on the other hand, hover closer to 10 and indicate a sell-off in the market. Current VIX levels are closer to the long-term average while valuations are in line with fundamentals, indicating that there is no imminent danger of a major market sell-off. This also indicates that the current market requires patient investing and building a portfolio as the market will present enough opportunities for prudent investors.

## NIFTY Index Vs. India VIX



## Industrials, Autos, Consumption, and Banks Continue to Remain Key Sectors

The Industrials sector has started delivering robust returns after a long time. The order books of companies have started to look quite healthy and profit growth has been improving. Keeping this in view, the sector seems to be well-placed for a strong Capex cycle moving forward. This is being manifested in a few of the high-frequency indicators such as the IIP data or Bank Credit Growth and low-frequency Indicators like the GDP numbers with Gross Fixed Capital Formation, indicating that capital expenditure across the board is seeing a healthy pickup. Stocks have seen a healthy run-up and the returns seem sustainable.

Autos are witnessing good growth too with monthly numbers for Aug'22 indicating growth for all major segments. Consumption themes like Retail are also seeing a good uptick. We are seeing healthy credit growth in Banks and believe they have strong balance sheets to sustain this growth.

## **Festive Season Demand Likely to Be Strong; Inflation Challenges Seem Contained**

The normal progress of the monsoon along with the cool-off seen in a majority of the commodities from their 52W high levels is boosting confidence in the margin recovery for most corporates. Moreover, the sharp recovery in the Services PMI in Jun'22 is further supporting robust recovery in the economic activities in the post-Covid world. The Services sector is likely to perform better in the upcoming months as it did in Q1FY23 (Q1FY21 and Q1FY22 were painful times for the Services sector due to COVID 1.0 and COVID 2.0). Q1FY23 was the first full quarter in the last three years which has been devoid of any Covid-19 disruptions. Keeping this in view, domestic-oriented themes are more likely to deliver superior performance with the upcoming festival demand.

## **Conclusion: Sensible and Sustainable Market in the Offing; Time to Build**

Factoring in all broader indicators, it is increasingly clear to us that the current market is exhibiting an encouraging degree of rationality. Sectors such as IT, which have been facing global macro challenges, have been underperforming while sectors with improving growth prospects like the Industrials have been outperforming. While the market witnessed significant sell-off by the FIIs till Jun'22, they turned into buyers in Jul'22 and Aug'22. Even though global macro challenges persist, the valuations vs. volatility indicate a healthy stock pickers market. Money flows in the market are increasingly appearing to be smart money which has a high degree of rationality as well as sustainability. Considering these factors, it is clear that these are good times for long-term investors for building their portfolios and corrections should be utilized to invest further.

As we have mentioned earlier, the Indian equity markets are offering a decadal opportunity for growth and it's upon investors to grab and grow.

**Happy investing!**

Naveen Kulkarni

### Portfolio Changes:

Our portfolio changes indicate our strategic stance in the market.

### Growth Strategy changes

Scrip Name	Action	Weight	Remark
SKF India Ltd.	BOUGHT	2.00%	Bearings segment seeing sharp all around pick up. SKF is a high-quality company with an excellent track record.
MothersonSumi	SOLD	1.70%	Consistent challenges in international business and slower growth
Indoco Remedies	SOLD	2.60%	The quarterly performance continued to be sub-par

### ContraStrategy changes

Scrip Name	Action	Weight	Remark
Ambuja Cements Ltd.	SOLD	3.30%	The stock was a special situation play with an exit price of Rs 385 on account of the open offer. We exited when the stock breached that price.
SKF India Ltd.	BOUGHT	2.00%	Bearings segment seeing sharp all around pick up. SKF is a high-quality company with a solid track record.
Hinduja Global Solutions Limited	SOLD	3.60%	No clarity on the price of buyback and further utilisation of cash proceeds.
Welspun Corp Limited	BOUGHT	2.00%	Play on global resuscitation of global oil and gas pipeline demand.

**Portfolio Performance**

Particulars	1 month	3 months	6 months	1 Year	2Year*	Sinceinception*
Axis Pure Growth	4.23%	10.99%	10.45%	11.98%	31.12%	37.67%
BSE200	4.49%	8.70%	7.63%	5.61%	26.97%	32.96%

(\*CAGR>Returns)(\* net of fees)

**Top 10 Holdings**

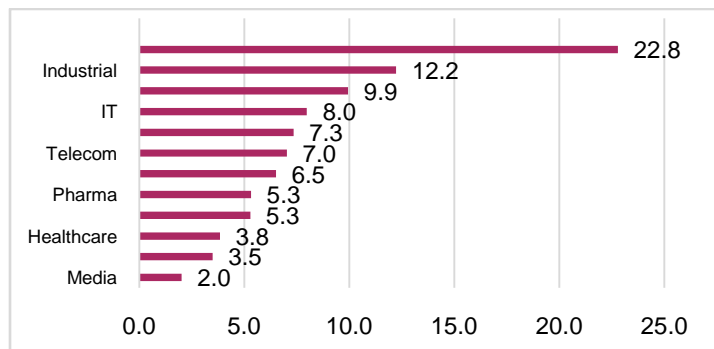
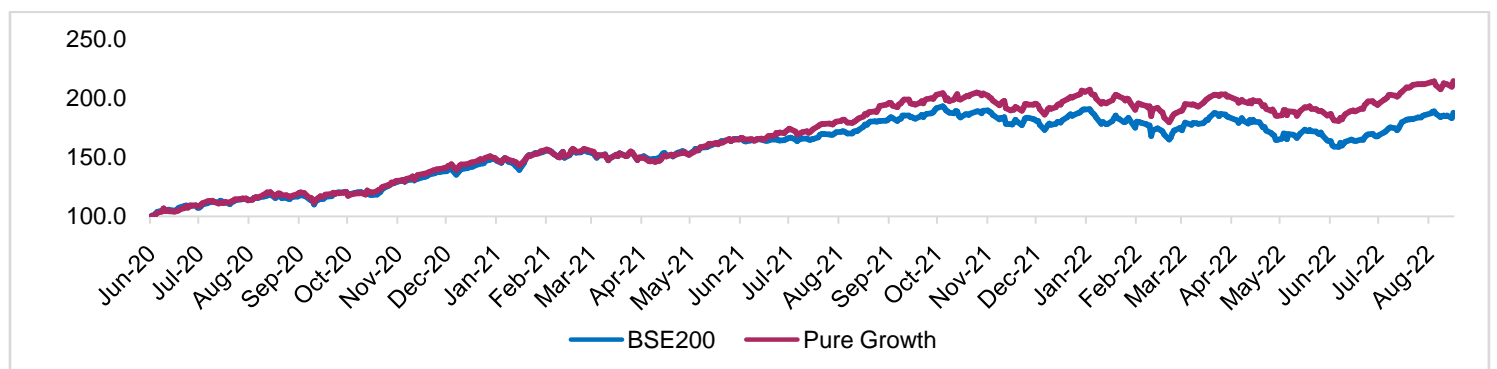
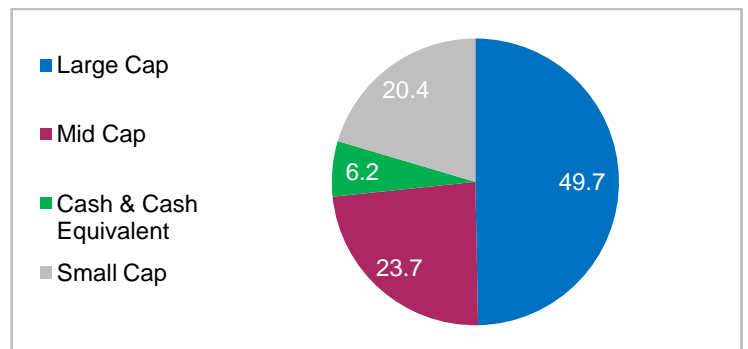
Scrip Name	Weight
ICICI Bank	12.2
Varun Beverages	9.9
Bharti Airtel	6.8
Coromandel Inter	5.8
Maruti Suzuki	5.5
Infosys	5.4
Carborundum Uni.	5.4
Abbott India	5.3
EIH	5.3
Siemens	4.7

**Key Portfolio Ratios**

Wt. Avg. PE	22.4
Wt. Avg. PB	3.7
Wt. Avg. ROE	11.9
Wt. Avg. Mcap	2,18,281.55

**Risk Assessment**

Portfolio Beta	0.90
Information Ratio	0.66
Volatility	17.50
Sharpe Ratio	0.48

**Sector Allocation**

**Market Capitalization**


**Portfolio Performance**

Particulars	1 month	3 months	6 months	1 Year	2Year*	Sinceinception*
Axis Pure Contra	4.59%	12.55%	7.57%	10.81%	41.07%	47.62%
BSE200	4.49%	8.70%	7.63%	5.61%	26.97%	32.96%

(\*CAGRReturns) (\* net of fees)

**Top 10 Holdings**

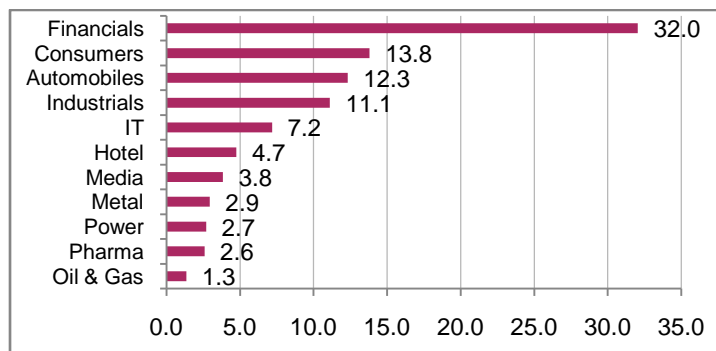
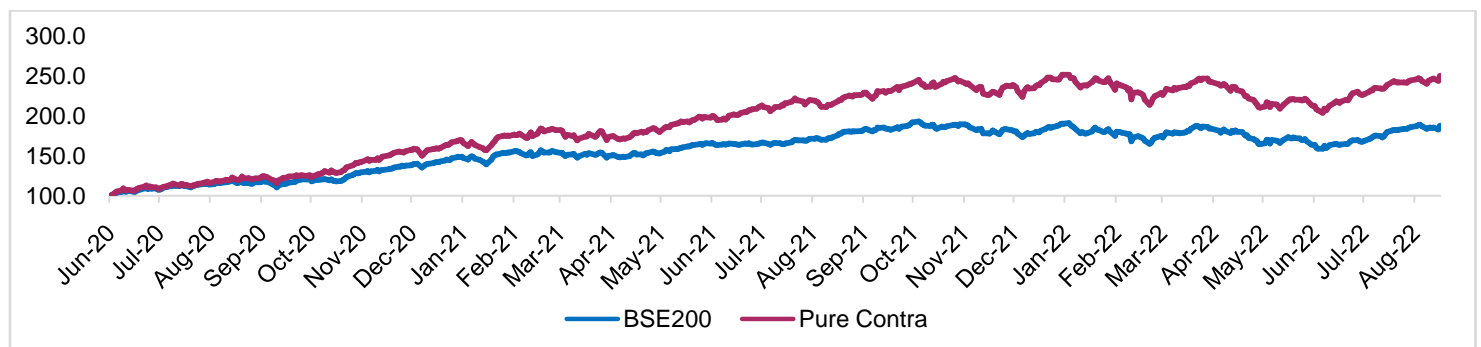
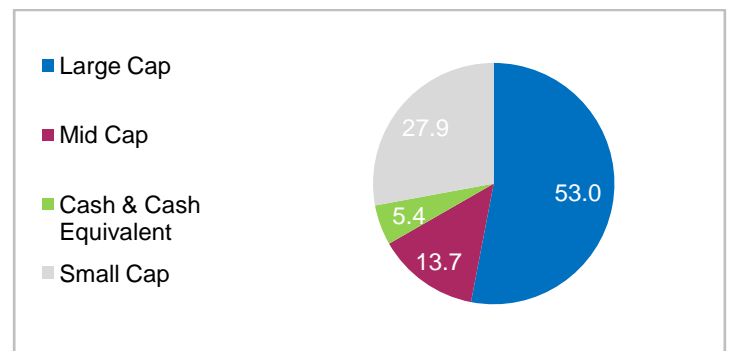
Scrip Name	Weight
ICICI Bank	10.7
St Bk of India	9.8
Bank of Baroda	5.8
SBI Life Insuran	5.7
Infosys	5.3
M & M	5.2
Carborundum Uni.	5.1
Aditya Bir. Fas.	5.1
EIH	4.7
Maruti Suzuki India Ltd.	4.7

**Key Portfolio Ratios**

Wt. Avg. PE	24.57
Wt. Avg. PB	3.13
Wt. Avg. ROE	11.03
Wt. Avg. Mcap	1,81,672.93

**Risk Assessment**

Portfolio Beta	1.08
Information Ratio	0.36
Volatility	21.18
Sharpe Ratio	0.32

**Sector Allocation**

**Market Capitalisation**




### Portfolio Performance

Particulars	1 month	3 months	6 months	1 Year	2Year*	Sinceinception*
Axis Pure Retirement	3.78%	5.81%	6.95%	3.40%	15.43%	20.94%
BSE200	4.49%	8.70%	7.63%	5.61%	26.97%	32.96%

(\*CAGRReturns) (\* net of fees)

### Top 10 Holdings

Scrip Name	Weight
ICICI Bank	11.2
Reliance Industries	10.0
TCS	7.0
SBI Life Insuran	6.1
Cipla	6.1
St Bk of India	6.1
Coal India Limited	5.5
Brookfield India	5.5
United Spirits	5.5
Bharti Airtel	5.3

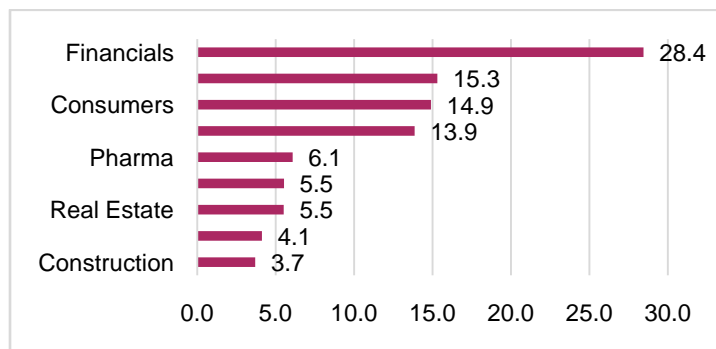
### Key Portfolio Ratios

Wt. Avg. PE	31.3
Wt. Avg. PB	5.0
Wt. Avg. ROE	17.2
Wt. Avg. Mcap	4,78,948.68

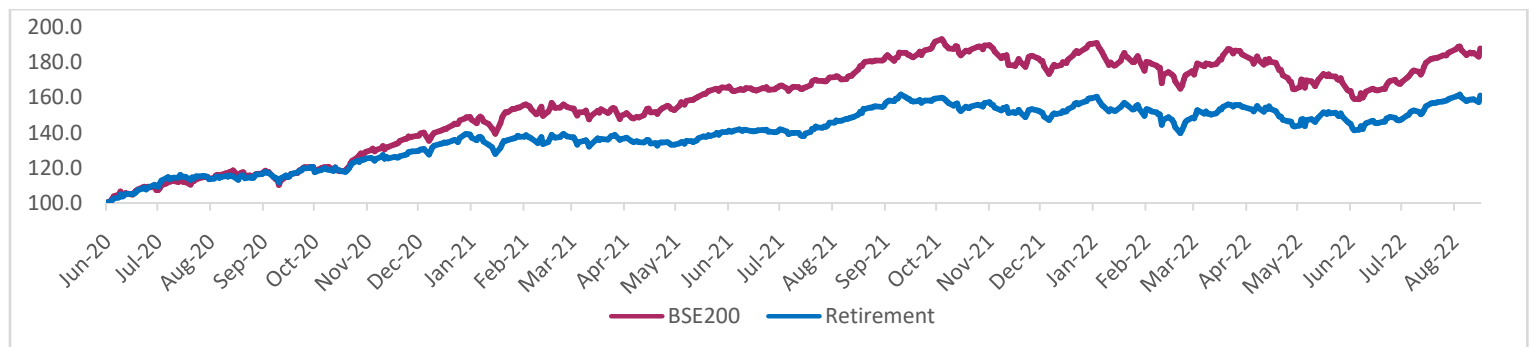
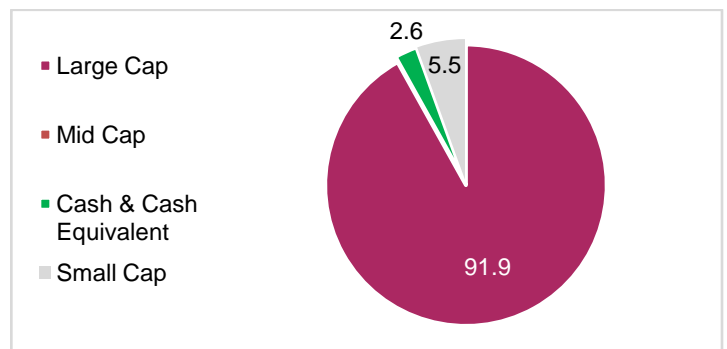
### Risk Assessment

Portfolio Beta	0.85
Information Ratio	0.15
Volatility	15.52
Sharpe Ratio	0.25

### Sector Allocation



### Market Capitalisation



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