

CIO Monthly Memo

Nov 2023

CIO Memo **SAMVAT 2080 to Bring More Cheers?**

October 2023 proved to be a challenging month for global equity markets, with significant price corrections observed across the board. The prominent benchmark NIFTY 50 Index and the broader NIFTY 500 both experienced a correction of 2.9%, while the NIFTY Midcap 100 Index faced an even steeper decline of 4% during the month. Despite the overall tough market conditions, the NIFTY Smallcap 250 Index demonstrated relative resilience as it outperformed the NIFTY 50, NIFTY 500, and NIFTY Midcap 100 by experiencing a milder correction of only 1.8%.

In October, numerous Smallcap stocks witnessed significant corrections, but it's noteworthy that many of them also rebounded by the end of the month. The global correction was primarily driven by the increase in bond yields in the US markets, with the 10-year treasury yield surpassing the psychological barrier of 5%. However, following the Federal Reserve's decision to maintain rates unchanged and adopt a slightly more accommodative stance regarding interest rate hikes, the 10-year treasury yields receded, leading to a market rebound.

Although Smallcap stocks have maintained their outperformance over both broader and narrower markets in October, the valuation comfort associated with them remains a little lower. Currently, the percentage of stocks trading above the 200-day moving average (200-DMA) is relatively high at 76%, compared to the long-term average of 53%. Consequently, it is reasonable to anticipate some further correction in Smallcap companies in the near term. However, this short-term correction is likely to be tactical in nature, and the long-term structural story for Smallcaps remains robust.

A tactical shift towards 'Quality' investments is expected to yield positive results over the medium term. Nevertheless, the Smallcap segment remains an exciting space, and according to our channel checks, many businesses are thriving, poised to deliver supernormal results over the next three years.

We are pleased to report that despite the broader market correction in October, our flagship strategies – Pure Growth and Pure Contra, maintained their outperformance over their benchmarks. We are also proud to share that our flagship strategies are currently generating double-digit alpha on a one-year basis (after accounting for all expenses). This achievement indeed underscores the effectiveness of our superior allocation process.



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.

Earnings season in line with expectations

While the earnings season is not fully over, most of the key results are out and the trend is quite clear. On the earnings front, more companies have reported inline numbers or have beaten the estimates than have missed them. However, compared to the Q1FY24 earnings season, Q2FY24 was not as great. Nonetheless, it was a decent season overall. On the sector front, the BFSI sector continued to report decent numbers albeit pressure on NIMs; The IT sector reported sluggish numbers barring a few Midcap companies; The Automobile sector continued to report good numbers with healthy margins; The FMCG sector continued to witness sluggishness in revenues on account of higher competition from the regional players. Numbers for the Consumer Discretionary sector were reasonable and were largely in line with expectations. Keeping these results in view, we believe the earnings growth trajectory continues to stay on course to meet FY24/25 consensus expectations. Moreover, the balance sheet strength of India Inc. continues to remain healthy.

SAMVAT 2080 to Bring More Cheers?

The festive season is a pivotal period, as it typically witnesses an uptick in sales growth across various sectors. In particular, the Real Estate sector is currently benefiting from favorable trends, with developers reporting robust pre-sales as we head into the festive season. A pickup in real estate is a positive sign for the economy as it leads to a broad-based increase in the country's overall economic activity.

However, certain segments, such as FMCG, continue to face structural challenges that may take some time to resolve. While upcoming state and general elections could potentially result in increased consumer spending, a strong uptrend in the cycle remains elusive. On a brighter note, except for the FMCG sector, trends in the Automobile and Consumer Discretionary sectors remain positive.

The upcoming wedding season is expected to witness strong spending trends, and consumer spending trends are evolving, with a growing demand for luxury products and services across various segments and categories. We anticipate that this trend will continue in the medium term. Overall, the festive season is likely to bring positive outcomes for businesses and investors alike.

Market correction provides opportunities

The market correction experienced in October can be viewed as a healthy correction, which has helped reduce some of the excesses in the market. While the Smallcap space remains a little challenging, market valuations have moved closer to their long-term averages. Specifically, the NIFTY one-year forward Price-to-Earnings (PE) ratio is slightly above the long-term mean, and the Price-to-Book (PB) ratio is very close to the long-term mean. This suggests that valuations currently provide comfort for long-term investors and also rule out deep corrections. Thus, market corrections are opportunities to build for the long term but the focus will remain on 'quality' at the current juncture.

Conclusion

Indian equities continued to be a raging success over the last three years, outperforming most of the global indices by a significant margin. Valuations continue to remain reasonable at the current juncture and double-digit CAGR market returns over the next three years are very likely. In this strong cycle, investors will continue to benefit by remaining invested and using corrections to build further. SAMVAT 2080 is likely to bring further cheers to the investors and this Diwali, with some market correction in place, is indeed an opportune time to build further.

Wishing Everybody A Very Happy Deepavali and a Prosperous New Year! 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
KOTAK MAHINDRA BANK	Sold	3.10%	Changes in management structure likely to lead to underperformance
ULTRATECH CEMENT LIMITED	Buy	3.00%	Sharp rise in cement prices will lead to jump in profitability.

Contra Strategy changes

Scrip Name	Action	Weight	Remark
CAN FIN HOMES LIMITED	Sold	2.70%	Stock un likely to re-rate in medium term
SUZLON ENERGY LIMITED	Sold	5.00%	Fully valued at current levels. Valuation risks had increased substantially
THOMAS COOK (INDIA) LIMITED	Bought	3.00%	Sharp rise in profitability backed by reasonable valuations

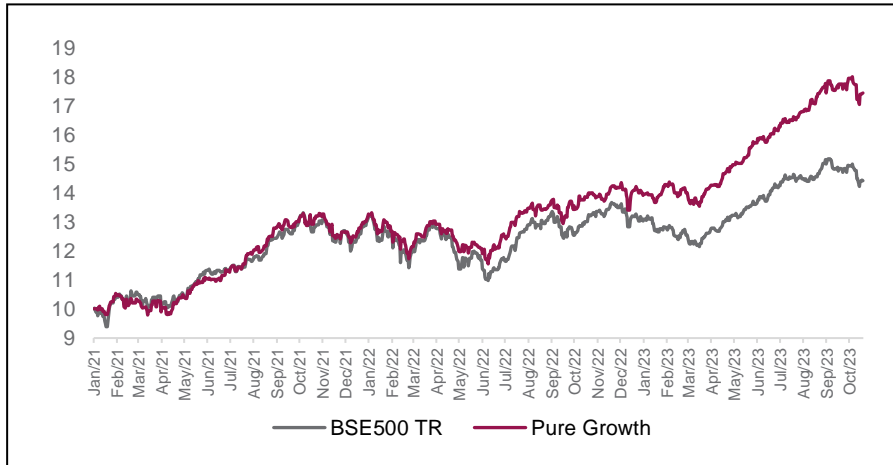
MANAGED ACCOUNTS

Axis Pure Growth

31st Oct 2023

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)	21.8%	9.4%
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*	Since inception**
Growth	-2.20%	4.08%	17.84%	22.85%	14.40%	19.89%
BSE500 TR	-2.86%	-1.42%	10.89%	9.63%	6.74%	13.93%

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

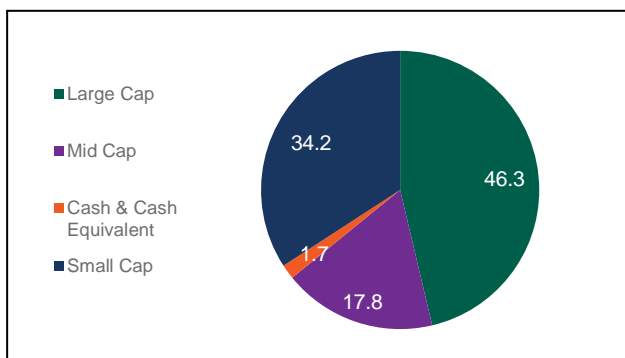
Risk Assessment

	Growth	BSE500 TR
Sharpe Ratio	0.96	0.45
Volatility	13.0%	14.6%
Portfolio Beta	0.77	1
Max Drawdown	-13.2%	-17.6%
Information Ratio	0.80	
Average Turnover Ratio	1.52	

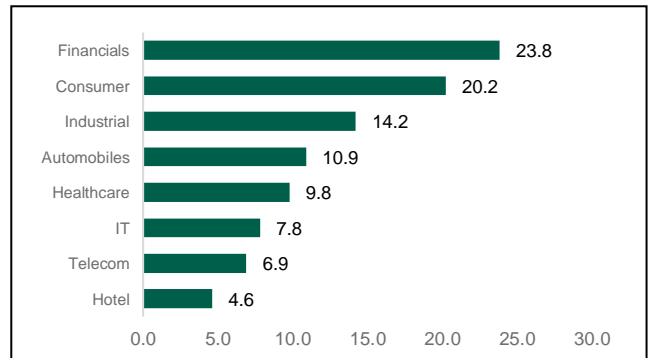
Key Portfolio Ratios

	Growth	BSE500 TR
PE	29.17	24.75
PB	3.96	3.06
ROE	13.58%	12.39%
Dividend Yield	0.81%	1.25%

Market Capitalization



Sector Allocation



MANAGED ACCOUNTS

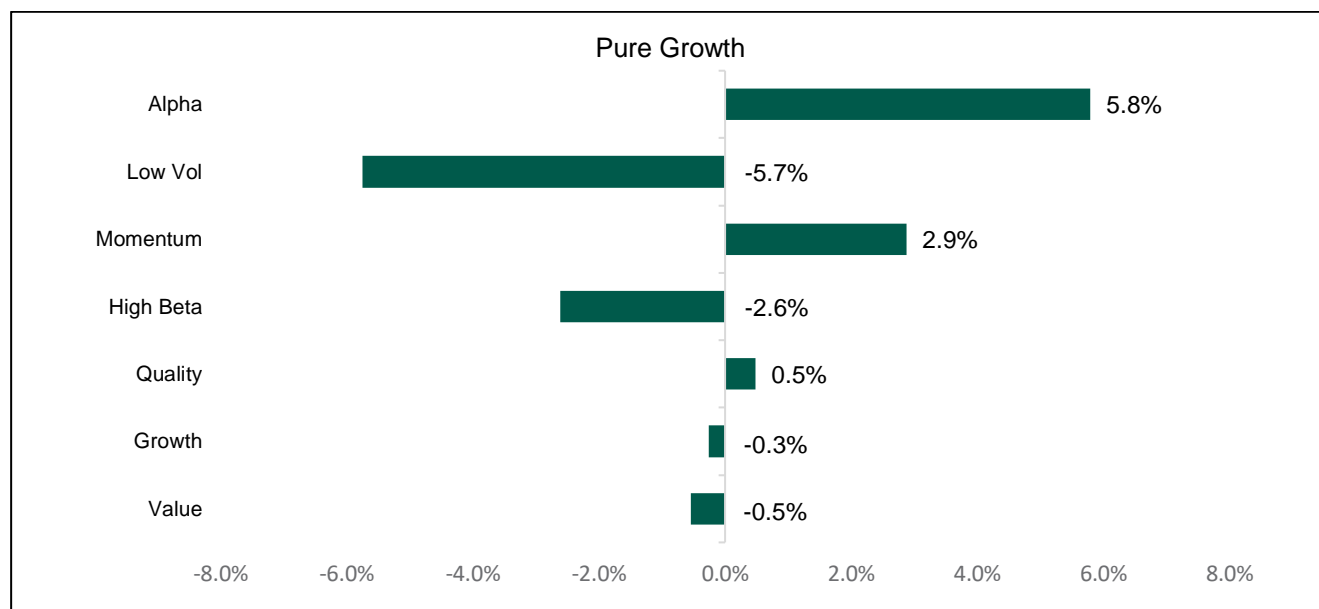
Top 10 Holdings

Scrip Name	Market Cap (Cr)	Weight
ICICI Bank	6,55,287	7.3%
Varun Beverages Ltd	1,31,185	6.8%
Bharti Airtel Ltd	5,47,704	6.6%
KDDL Ltd	3,012	6.1%
Sun Pharmaceutical	2,81,927	6.1%
Rbl Bank Ltd	14,443	6.0%
Maruti Suzuki India Ltd	3,11,396	5.8%
One 97 Communications Ltd	56,931	5.7%
Gillette India Ltd	20,730	5.4%
Carborundum Universal Ltd	20,334	5.3%

Portfolio Characteristics

	Growth
Number of constituents	22
Mcap Largest (Cr)	11,31,724
Mcap Smallest (Cr)	3,012
Mcap Average (Cr)	2,00,033
Mcap Median (Cr)	57,268

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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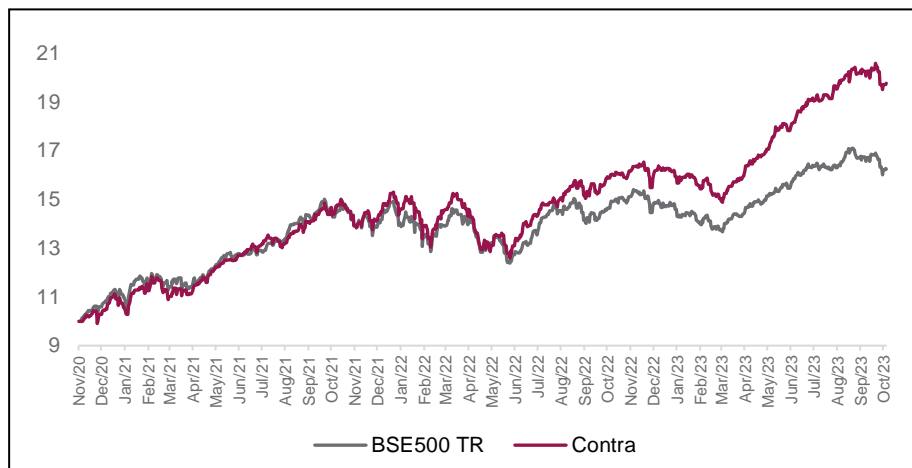
MANAGED ACCOUNTS

Axis Pure Contra

31st Oct 2023

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)	20.8%	9.6%
2022	9.9%	4.8%
2021*	35.7%	31.0%

*effective 01 Jan 2021

Portfolio Performance

Particulars	1 month	3 months	6 months	1 year	2 years*	Since inception**
Contra	-2.44%	2.68%	20.60%	22.26%	15.71%	24.41%
BSE500 TR	-2.86%	-1.42%	10.89%	9.63%	6.74%	18.17%

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

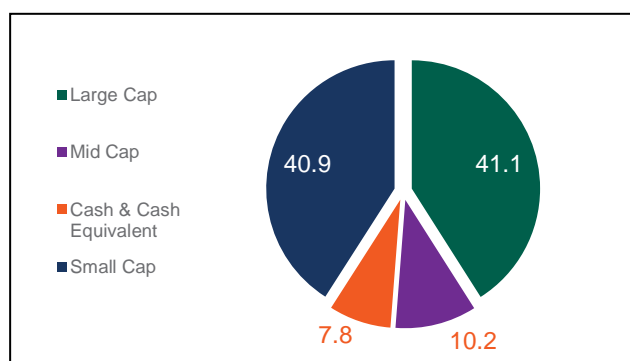
Risk Assessment

	Contra	BSE500 TR
Sharpe Ratio	1.15	0.77
Volatility	15.4%	14.5%
Portfolio Beta	0.96	1
Max Drawdown	-17.7%	-17.6%
Information Ratio	0.97	
Average Turnover Ratio	2.17	

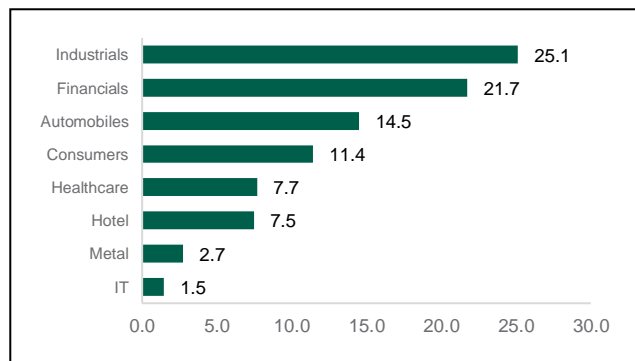
Key Portfolio Ratios

	Contra	BSE500 TR
PE	16.07	24.75
PB	2.72	3.06
ROE	16.95%	12.39%
Dividend Yield	1.98%	1.25%

Market Capitalization



Sector Allocation



MANAGED ACCOUNTS

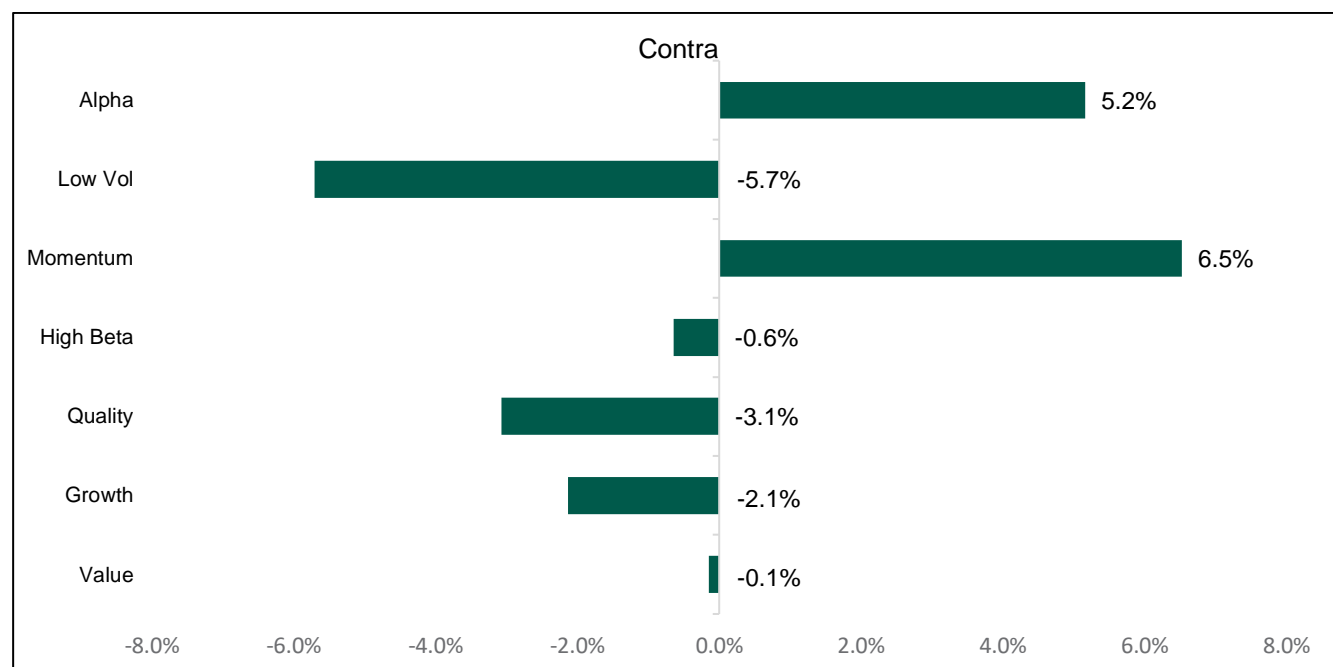
Top 10 Holdings

Scrip Name	Market Cap (Cr)	Weight
ITC	5,44,691	5.8%
KDDL Ltd	3,012	5.6%
State Bank Of India	5,17,895	5.4%
Power Grid Corp Of India	1,92,755	5.2%
Carborundum Universal Ltd	20,334	4.9%
RBL Bank Ltd	14,443	4.8%
CIE Automotive India Ltd	18,094	4.8%
Indian Hotels Co Ltd	57,604	4.5%
SBI Life Insurance Co Ltd	1,34,747	4.4%
Mahindra & Mahindra Ltd	1,84,844	4.4%

Portfolio Characteristics

	Contra
Number of constituents	25
Mcap Largest (Cr)	6,55,287
Mcap Smallest (Cr)	3,012
Mcap Average (Cr)	1,36,660
Mcap Median (Cr)	52,226

Factor Box



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