

# Strategy Memo

February 2023

# Strategy Memo

## Earnings to Drive Future Growth

Jan'23 proved to be a challenging month for the market with the benchmark index BSE200 declining a little over 3.5% during the month. However, I am glad to share that both our core strategies Pure Growth and Pure Contra outperformed the benchmark by 100bps and 147bps respectively (after factoring in cost). The market decline was primarily led by the fall in stocks of one of the largest Indian conglomerates along with the pressure that followed in the banking sector after a US-based research house published a report on high leverage in the said group and the cancellation of the FPO by the flagship company of the conglomerate. With the noise surrounding this event slowly fading, we believe the markets will now pay attention to other events for direction.

On the macro front, the global economy is now at that fag end of the interest rate hiking cycle with inflation cooling to some extent. Furthermore, with the US still witnessing a fairly strong employment scenario, the focus of major global economies, which have been avoiding a hard landing thus far, will switch to earnings growth. This, in turn, will determine the market direction in the near future.

### Q3FY23 earnings slightly weaker than anticipated

Nifty50 stocks delivered an earnings growth of 11% YoY and 9% QoQ in Q3FY23 which was 2% below the consensus estimates for the quarter. While the Financials, Automobile, FMCG, and Power sectors did better than expectations, sectors including Metals & Mining, Oil & Gas, Industrials, and Telecom disappointed for the quarter. In terms of earnings growth, sectors such as Auto, Financials, FMCG, Telecom, Industrials, and IT witnessed healthy double-digit earnings growth YoY. Moreover, the Cement sector made a comeback QoQ with 40% QoQ growth though it posted earnings de-growth on a YoY basis.



*Nishit, through his diverse experience in both Buy side and Sell side firms brings in a fresh perspective on markets at Axis Securities. As Fund Manager, he is responsible for generating superior risk adjusted returns for customers as per their mandate.*

*Nishit has more than 16 years of experience in the financial services industry and has worked with various companies like ING Investment Management, Kotak Mahindra Bank, Elara Capital, Reliance Securities, Anand Rathi, Motilal Oswal Financial Services etc.*

Factoring in the Q3FY23 earnings season, we reduce our FY23 earnings estimates for Nifty50 by ~1% as seen from the table below.

| Sector       | FY23 EPS   |             |             |             | Upgrade/Downgrade after Q3 | FY23 EPS contribution |
|--------------|------------|-------------|-------------|-------------|----------------------------|-----------------------|
|              | Post Q4    | Post Q1FY23 | Post Q2FY23 | Post Q3FY23 |                            |                       |
| Financial    | 300        | 306         | 320         | 330         | 3.2%                       | 40.8%                 |
| IT           | 107        | 102         | 101         | 101         | 0.7%                       | 12.5%                 |
| Oil & Gas    | 127        | 129         | 123         | 114         | -7.3%                      | 14.1%                 |
| FMCG         | 49         | 48          | 49          | 50          | 3.2%                       | 6.2%                  |
| Power        | 41         | 37          | 36          | 37          | 2.7%                       | 4.6%                  |
| Industrial   | 35         | 36          | 39          | 38          | -2.7%                      | 4.7%                  |
| Pharma       | 30         | 31          | 31          | 30          | -0.2%                      | 3.8%                  |
| Metals       | 79         | 76          | 70          | 56          | -19.6%                     | 6.9%                  |
| Automobile   | 39         | 39          | 35          | 39          | 10.8%                      | 4.8%                  |
| Cement       | 8          | 6           | 5           | 5           | -4.0%                      | 0.6%                  |
| Telecom      | 11         | 10          | 9           | 9           | -5.9%                      | 1.1%                  |
| <b>Total</b> | <b>826</b> | <b>820</b>  | <b>817</b>  | <b>810</b>  | <b>-0.9%</b>               |                       |

Sectors that witnessed meaningful earnings cut include Metals & Mining, Telecom, Cement, and Oil & Gas while sectors seeing notable earnings upgrade include Automobile, Financials, FMCG, and Power.

We now estimate Nifty50 earnings growth to be 16% in FY24 and 13% in FY25 on the back of 10% earnings

growth in FY23 as seen from the table below. Our Nifty50 EPS estimates for FY24 and FY25 now stand at 936 and 1059 respectively which means Nifty50 is currently trading at ~19x and ~17x FY24 and FY25 earnings respectively.

| Sector        | Nifty EPS  |            |             | FY24 EPS contribution | FY25 EPS contribution |
|---------------|------------|------------|-------------|-----------------------|-----------------------|
|               | FY23       | FY24       | FY25        |                       |                       |
| Financial     | 330        | 373        | 431         | 39.8%                 | 40.7%                 |
| IT            | 101        | 113        | 128         | 12.1%                 | 12.0%                 |
| Oil & Gas     | 114        | 132        | 143         | 14.1%                 | 13.5%                 |
| FMCG          | 50         | 58         | 63          | 6.2%                  | 5.9%                  |
| Power         | 37         | 42         | 41          | 4.5%                  | 3.8%                  |
| Industrial    | 38         | 43         | 53          | 4.6%                  | 5.0%                  |
| Pharma        | 30         | 35         | 39          | 3.8%                  | 3.7%                  |
| Metals        | 56         | 64         | 72          | 6.8%                  | 6.8%                  |
| Automobile    | 39         | 56         | 62          | 5.9%                  | 5.9%                  |
| Cement        | 5          | 7          | 8           | 0.7%                  | 0.7%                  |
| Telecom       | 9          | 15         | 20          | 1.6%                  | 1.9%                  |
| <b>Total</b>  | <b>810</b> | <b>936</b> | <b>1059</b> |                       |                       |
| <b>Growth</b> | <b>10%</b> | <b>16%</b> | <b>13%</b>  |                       |                       |

## Earnings growth of Pure Growth and Pure Contra Strategies

Companies in our Pure Growth strategy have delivered a robust 27% earnings growth YoY and 7% earnings growth QoQ in Q3FY23. Growth was led by 22% YoY revenue growth and marginal margin expansion. Amongst companies in our Pure Growth strategy, ICICI Bank, HDFC Bank, Kotak Mahindra Bank, RBL Bank, Bharti Airtel, Maruti Suzuki, EIH Limited, Coromandel International, Siemens India, Linde India, and Praj Industries posted impressive earnings growth of over 20% YoY while TTK Prestige and Tech Mahindra witnessed YoY de-growth in earnings.

Companies comprising our Pure Contra strategy have delivered an encouraging growth of 7% YoY and 9% QoQ in Q3FY23. The growth has been relatively tepid due to the loss reported by Tata Steel in the quarter. Excluding Tata Steel, however, the earnings growth for the Pure Contra universe is 40% YoY and 18% QoQ which is phenomenal. Companies such as ICICI Bank, SBI, Bank of Baroda, RBL Bank, EIH Limited, Maruti Suzuki, ITC, and Hindustan Oil Exploration Company have witnessed strong growth. This quarter was particularly strong for Tata Motors which turned profitable after reporting a loss in the last 7 quarters before Q3FY23.

### Key sectoral takeaways from the quarter

Below, we summarize key sectoral trends from Q3FY23 results and management commentaries post these results. These provide a glimpse of what we can expect from these companies moving forward.

**Financials:** System credit growth remained strong at 16% YoY, which was led by healthy traction in both retail as well as the corporate book. Most banks reported an uptick in margins by 10-30bps QoQ on continued asset re-pricing benefits. We believe the possibility of margin expansion continuing for one more quarter is quite high, post which it would witness slight moderation. On the earnings front, while we expect benefits from net negative slippages to not continue in FY24 which may result in earnings moderating in the next year, we believe they will still be very impressive. We also believe that concerns about

the banking exposure of the Adani group are getting overplayed and hence the sector should do well in the coming quarters.

**Automotive:** Sector benefited from easing supply-chain pressures with better deliveries, lower sequential raw material costs, and better realization. Exports remained a pain point, especially for 2-wheeler companies with a drag from exports expected to continue for a few more quarters. Passenger Vehicle and Commercial Vehicle demand continues to remain strong while tractor demand is surprisingly holding up. 2-wheeler demand remains muted, especially for lower CC and in rural areas. We expect earnings growth for PV and CV players to remain strong for the next few quarters due to an improved supply chain and a lower base.

**Information Technology:** Most IT companies reported inline operating performance for the quarter. HCL Tech and Persistent Systems reported strong QoQ revenue growth while margins witnessed sequential improvement for most companies. In terms of guidance, the companies have been slightly more circumspect about their near-term growth prospects primarily due to their concerns over the possibility of delays in decision-making by clients. Nonetheless, order wins for the quarter have remained strong for most companies.

**Industrials:** Most large Industrial companies witnessed margin expansion (except for L&T) due to lower commodity prices. Execution remained strong on the back of a healthy order backlog. Though order inflows have moderated a bit in the quarter on account of the high base in the previous years, management commentaries on growth prospects remain encouraging. Defence equipment manufacturers suffered from the slowdown in execution due to the lack of availability of components from Russia and also faced margin headwinds as they tried to tap alternate suppliers which were costly.

**Consumers:** Q3FY23 witnessed broad-based growth deceleration for most Consumer Discretionary companies which led to operational miss. However, Consumer Staple growth was broadly in-line with a positive surprise in gross margins due to better pricing. Commentary on rural demand improved which can lead to better performance for Consumer Staples moving ahead. Hospitality names continued to outperform with Q3FY23 being the best quarter ever for most of the companies. Their near-term outlook remains equally encouraging.

**Healthcare:** The pharma universe witnessed a low double-digit revenue growth led by steady growth in India. On the other hand, price erosion in the base portfolio of most companies' US business partially offsets market share gains, new product launches, and traction in speciality/complex products. We believe companies having a sizable presence in speciality/complex products such as Sun Pharma should do well in the near to medium term.

**Cement:** Q3FY23 marked the start of a cyclical recovery in cement margins after decade-low margins in Q2FY23. The margin improvement was led by lower

energy cost and efficiency of scale as volumes in the quarter grew by double-digits YoY for most of the companies. Companies have been attempting price hikes in Q4FY23 which have a better chance of absorbing such price hikes since volume growth remains high. We expect Q4FY23 margins to be better than Q3FY23 margins due to higher realization and lower costs.

In the absence of any clear direction and growth showing initial signs of slowing both in India as well as globally, we expect markets to be challenging for the next few months. Hence, it will be imperative for us to be agile in our portfolio management approach to take advantage of any temporary mispricing in the market and generate alpha for our clients.

Happy Investing!  
Nishit Master

### Summary of Portfolio Changes made in Jan'23

In Jan'23, we made the following changes to both our portfolios to factor in the changing market dynamics.

#### Growth Strategy changes

| Scrip Name              | Action | Weight | Remark   |
|-------------------------|--------|--------|--|
| PRAJ INDUSTRIES LIMITED | BOUGHT | 3%     | Big opportunity in 2G Ethanol and CBG business; Order inflow robust and revenue traction visible |

#### Contra Strategy changes

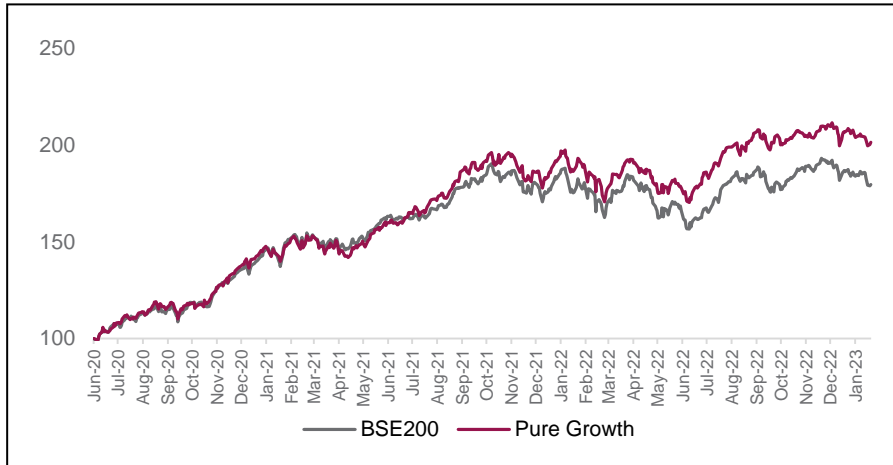
| Scrip Name                   | Action | Weight | Remark  |
|------------------------------|--------|--------|---|
| ICICI BANK LIMITED           | SOLD   | 4.3%   | Trimmed position to reduce portfolio risk. Negative news on Adani group is adding pressure on the Bank stocks |
| CAMLIN FINE SCIENCES LTD     | BOUGHT | 3.0%   | An increase in Hydroquinone prices and the start of production of Venillin from Catechol is a key trigger     |
| CESC LIMITED                 | SOLD   | 2.3%   | Delay in a price increase from the regulator despite cost increases   |
| NEULAND LABORATORIES LIMITED | SOLD   | 3.2%   | Export demand is weak which is expected to hit earnings in the coming quarters                                |
| WIPRO LIMITED                | BOUGHT | 5%     | Low valuations even though the demand environment still remains strong  |

# Axis Pure Growth

31<sup>st</sup> January 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 | BSE 200 |
|------------|--------|---------|
| 2023 (YTD) | -2.5%  | -3.5%   |
| 2022       | 10.0%  | 4.2%    |
| 2021       | 31.5%  | 27.0%   |
| 2020       | 43.8%  | 42.7%   |

## Portfolio Performance

| Particulars    | 1 month | 3 months | 6 months | 1 year | 2 years* | Since inception** |
|----------------|---------|----------|----------|--------|----------|-------------------|
| <b>Growth</b>  | -2.53%  | -2.80%   | 4.30%    | 6.58%  | 19.98%   | 31.02%            |
| <b>BSE 200</b> | -3.53%  | -3.52%   | 1.46%    | 0.82%  | 14.38%   | 25.78%            |

(\*CAGR Returns) (\* Net of fees) (\*\*Since 15th June, 2020)

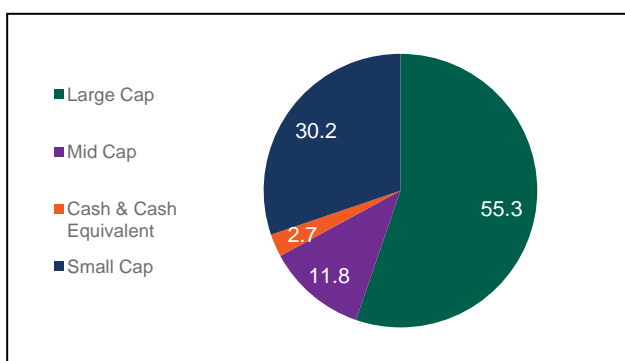
## Risk Assessment

|                        | Growth | BSE 200 |
|------------------------|--------|---------|
| Sharpe Ratio           | 1.53   | 1.15    |
| Volatility             | 15.5%  | 16.1%   |
| Portfolio Beta         | 0.85   | 1       |
| Max Drawdown           | -13.3% | -17.7%  |
| Information Ratio      | 0.68   |         |
| Average Turnover Ratio | 1.52   |         |

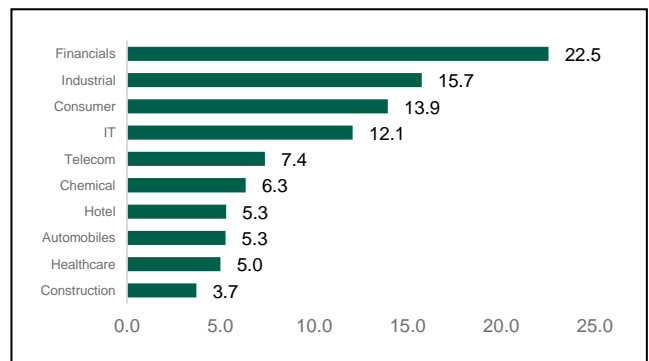
## Key Portfolio Ratios

|                | Growth | BSE 200 |
|----------------|--------|---------|
| PE             | 28.41  | 23.64   |
| PB             | 4.38   | 3.03    |
| ROE            | 15.40% | 12.99%  |
| Dividend Yield | 0.88%  | 1.38%   |

## Market Capitalization



## Sector Allocation



## MANAGED ACCOUNTS

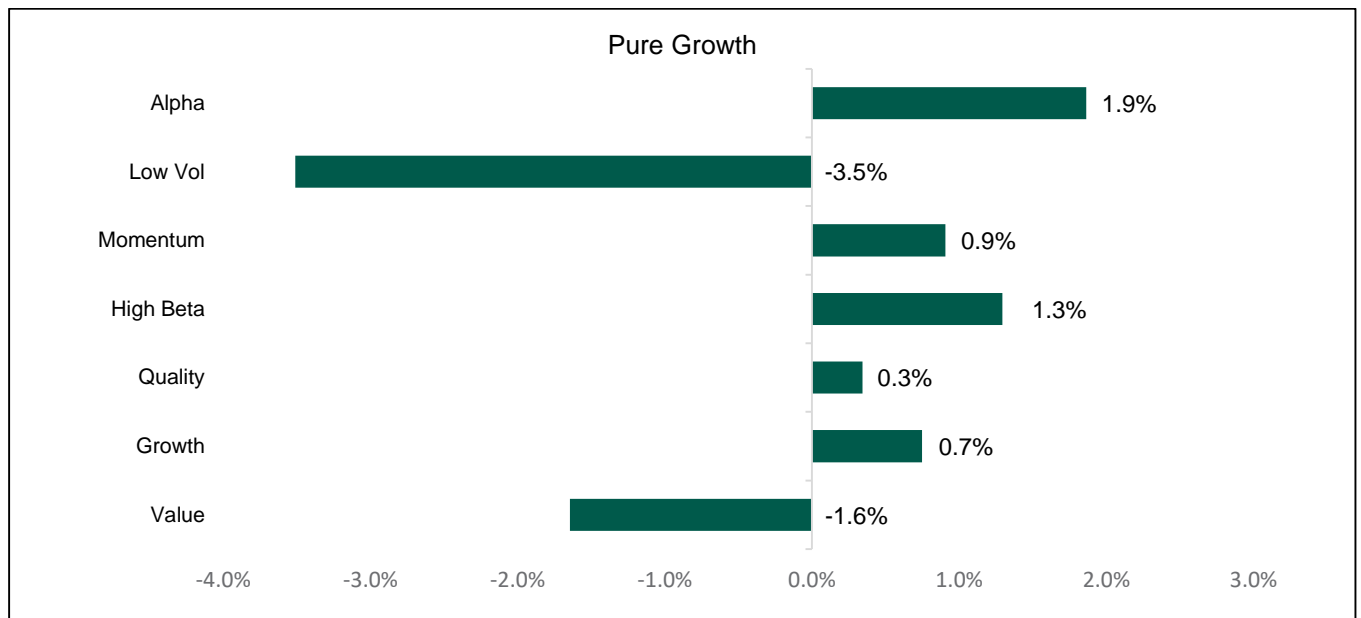
## Top 10 Holdings

| Scrip Name          | Market Cap (Cr) | Weight |
|---------------------|-----------------|--------|
| ICICI Bank          | 5,96,015        | 8.5%   |
| Bharti Airtel       | 4,50,127        | 7.1%   |
| Carborundum Uni.    | 18,358          | 6.1%   |
| KDDL Ltd.           | 1,337           | 6.1%   |
| Infosys             | 6,58,298        | 5.5%   |
| RBL Bank            | 9,281           | 5.5%   |
| Varun Beverages     | 74,429          | 5.5%   |
| EIH                 | 11,519          | 5.3%   |
| Maruti Suzuki       | 2,67,397        | 5.3%   |
| Sun Pharmaceuticals | 2,41,175        | 5.0%   |

## Portfolio Characteristics

|                        | Growth   |
|------------------------|----------|
| Number of constituents | 22       |
| Mcap Largest (Cr)      | 8,93,590 |
| Mcap Smallest (Cr)     | 1,337    |
| Mcap Average (Cr)      | 2,01,782 |
| Mcap Median (Cr)       | 81,180   |

## 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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The Returns are calculated using the Time Weighted Rate of Return (TWRR) at an aggregate strategy level. The performance-related information is not verified by SEBI. All details related to portfolio holdings and sectors provided above are for Model Portfolio. Returns & Portfolio of the client may vary as compared to Investment Approach aggregate level returns due to various factors for example entry/execution of portfolio or investment, additional investment, client approvals, client specific requirement, any withdrawals, expenses charged, dividend income or due to other reasons. Past performance may or may not be sustained in future and should not be used as a basis for comparison with other investments.

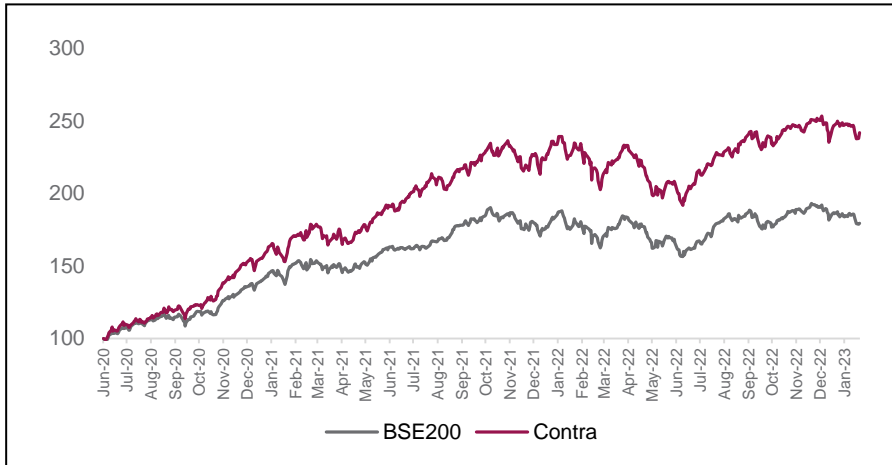


# Axis Pure Contra

31<sup>st</sup> January 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 | BSE 200 |
|------------|--------|---------|
| 2023 (YTD) | -2.1%  | -3.5%   |
| 2022       | 7.6%   | 4.2%    |
| 2021       | 47.0%  | 27.0%   |
| 2020       | 57.5%  | 42.7%   |

## Portfolio Performance

| Particulars    | 1 month | 3 months | 6 months | 1 year | 2 years* | Since inception** |
|----------------|---------|----------|----------|--------|----------|-------------------|
| <b>Contra</b>  | -2.06%  | -1.67%   | 8.02%    | 4.97%  | 25.77%   | 40.67%            |
| <b>BSE 200</b> | -3.53%  | -3.52%   | 1.46%    | 0.82%  | 14.38%   | 25.78%            |

(\*CAGR Returns) (\* Net of fees) (\*\*Since 15th June. 2020)

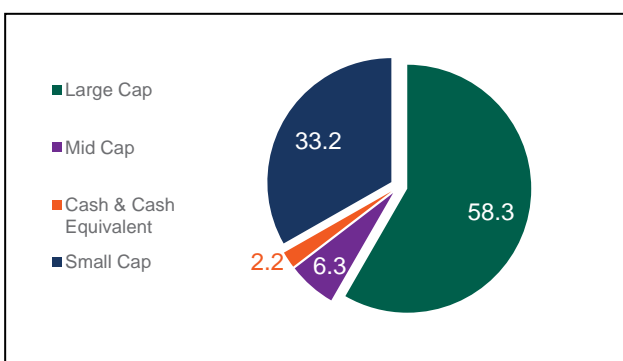
## Risk Assessment

|                        | Contra | BSE 200 |
|------------------------|--------|---------|
| Sharpe Ratio           | 1.75   | 1.15    |
| Volatility             | 19.0%  | 16.1%   |
| Portfolio Beta         | 1.05   | 1       |
| Max Drawdown           | -18.9% | -17.7%  |
| Information Ratio      | 1.71   |         |
| Average Turnover Ratio | 2.06   |         |

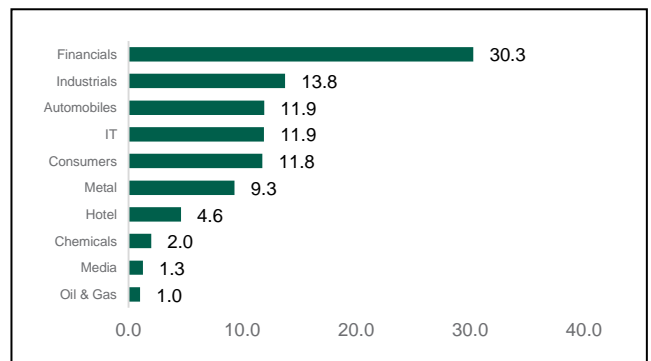
## Key Portfolio Ratios

|                | Contra | BSE 200 |
|----------------|--------|---------|
| PE             | 16.79  | 23.64   |
| PB             | 2.55   | 3.03    |
| ROE            | 15.19% | 12.99%  |
| Dividend Yield | 1.97%  | 1.38%   |

## Market Capitalization



## Sector Allocation



## MANAGED ACCOUNTS

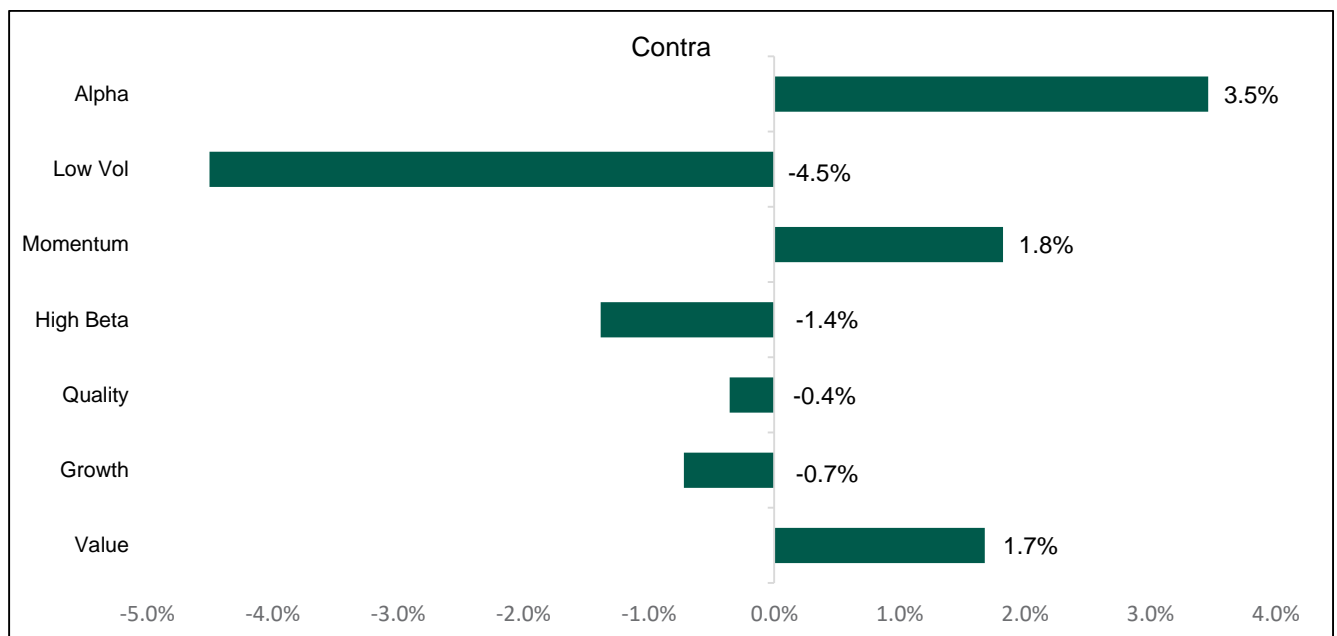
## Top 10 Holdings

| Scrip Name               | Market Cap (Cr) | Weight |
|--------------------------|-----------------|--------|
| St Bk of India           | 4,71,532        | 9.8%   |
| ICICI Bank               | 5,96,015        | 5.9%   |
| Carborundum Uni.         | 18,358          | 5.7%   |
| M & M                    | 1,68,341        | 5.3%   |
| Infosys                  | 6,58,298        | 5.2%   |
| Bank of Baroda           | 78,863          | 5.2%   |
| SBI Life Insurance       | 1,09,641        | 5.0%   |
| Wipro Ltd.               | 2,23,264        | 5.0%   |
| EIH                      | 11,519          | 4.6%   |
| Maruti Suzuki India Ltd. | 2,67,397        | 4.4%   |

## Portfolio Characteristics

|                        | Contra   |
|------------------------|----------|
| Number of constituents | 26       |
| Mcap Largest (Cr)      | 6,58,298 |
| Mcap Smallest (Cr)     | 669      |
| Mcap Average (Cr)      | 1,49,893 |
| Mcap Median (Cr)       | 78,863   |

## Factor Box



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