

# Strategy Memo

July 2023

## Strategy Memo

### India continues to attract FPI flows; Strategy Outperformance Continues

Jun'23 proved to be another strong month for Indian equity markets as our benchmark index BSE500 TRI reported an encouraging return of 4.28% for the month. The said return was supported by the robust investments by FPI in the Indian equity market amounting to \$5.7 Bn during the month. Consumer Discretionary segments such as Autos, Industrials, Telecom, Healthcare, and the Real Estate sector drove this return. On the other hand, Consumer Staples, IT, Financials, and Energy sectors underperformed the market on an MoM basis.

We are proud to report that, once again, both our Pure Growth and Pure Contra strategies posted positive alpha over the benchmark index during the month. Our Pure Contra strategy reported returns of 4.73% (after expenses) in Jun'23 while our Pure Growth strategy, too, delivered an equally satisfactory return of 4.80% (after cost) over the same period. For the Pure Growth strategy, our overweight stance on Consumer Discretionary (including Auto), Industrials, and Communication Services along with our underweight stance on sectors such as Energy, IT, and Consumer Staples generated positive alpha for the month. Stocks that did well for us included KDDL, One 97 Communications, RBL Bank, CIE Automotive, Linde India, TTK Prestige, Religare Enterprises, and SKF while stocks that turned out to be the laggards were Varun Beverages, Praj Ind, Kotak Bank, ICICI Bank, and Coromandel International. In our Pure Contra Strategy, our overweight call on Consumer Discretionary (including Auto), Industrials, and Utilities went right and so did our underweight call on the Energy, IT and Consumer Staple sectors. A few stocks that generated significant alpha for us in this strategy included Can Fin Homes, KDDL, Suzlon, CIE Automotive, Tata Motors DVR, RBL Bank, HOEC, NTPC, Kirloskar Brothers, M&M, and Interglobe Aviation. On the other hand, Coal India, Camlin Fine Sciences, ICICI Bank, and Orient Cement dragged our overall portfolio performance.

In this strategy note, we will discuss a stock that has performed very well for us and continues to be a part of our Pure Contra strategy – **Suzlon Energy Ltd.**



*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 18 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.*

## Changes in regulation to help wind energy generation

India recently amended its wind energy policy to abolish reverse e-auctions. It has returned to the policy of single-stage two envelopes closed bidding which has notably increased the viability of setting up wind energy farms. After introducing the policy of open reverse e-auctions in 2017, capacity additions in the wind sector fell to less than half from 5.5GW in FY17 to 1.7GW in FY18 and remained subdued till FY23, during which the capacity addition in the wind sector inched up to 2.3GW. Now, the reversal of the policy is expected to unleash new vigour in the wind energy sector and we expect accelerated capacity additions in the space. The government of India is planning to add 10GW of wind capacity each year till 2030 which, if successful, may lead to a significant turnaround in the fortunes of players in the sector, including Suzlon.

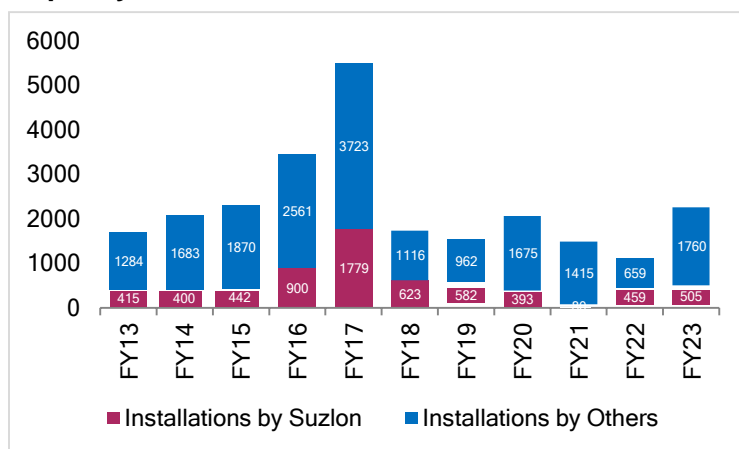
Under the new bidding regime, wind power capacities will come in all 8 windy states ensuring even growth and pooling of tariffs. This, in turn, would ensure that the windy states won't have to bear the extra burden of greater tariffs. The government has also waived ISTS charges for wind capacity achieving COD till Jun'25 thereby increasing its attractiveness for captive, corporate, and industrial users.

The increasing emphasis on wind energy stems from energy planners recognizing its numerous advantages. To ensure a stable, cost-effective, and low-carbon grid, a diverse energy mix is essential and hence it is needed to incorporate all energy sources such as solar, wind, hydro, battery storage, as well as traditional thermal energy. Wind generation increases during monsoons and at night when solar generation is low and thus a combination of wind and solar along with hydra and thermal can create a stable grid with a lower requirement of battery storage, which is expensive. This combination also helps in greater and better utilization of the grid's transmission and distribution capacity.

## Suzlon Energy – Key beneficiary of the change in the regulatory regime

We believe Suzlon Energy stands to benefit significantly from the positive changes in the regulatory regime since it has used these slag years to trim debt and introduce new products that have high market acceptance. Traditionally, Suzlon has enjoyed close to 25-30% market share in the Indian wind energy market except in FY21 and FY20 during which its financial condition had deteriorated significantly due to the lack of working capital to execute projects.

### Suzlon Market Share in Overall Wind Power Capacity Installation



Source: Industry

Suzlon has recently introduced a new product called S144-140/160 which has a rotor diameter of 144m and a hub height option of 140m or 160m. This turbine has a capacity of 3MW+ and can operate at higher PLFs even in low/medium windy sites, thereby reducing the cost of energy generation.

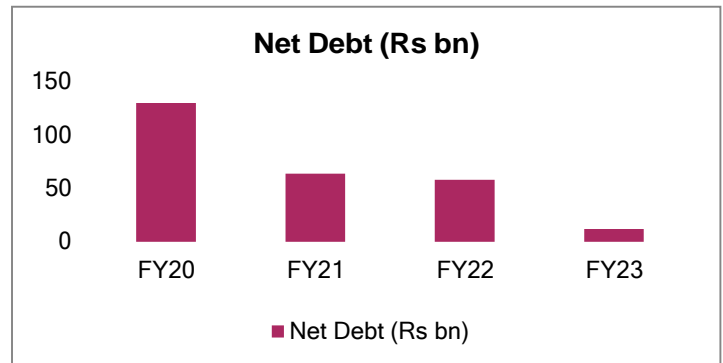
Suzlon started the year FY24 with an order book of 652MW and has since announced orders of ~1040MW FYTD. Out of the new order wins, ~780MW are from the new S144 series, manifesting customers' confidence in Suzlon's new product. In light of the company's improving financial health along with the regulatory environment becoming more conducive, we believe Suzlon is well-placed to continue bagging new orders from its clients. If this materializes successfully, the company would also witness significant improvement in its profitability moving ahead.

For our estimates for FY24 and FY25, we bake in overall wind installations of 3100MW and 3900MW respectively in India and expect Suzlon to command a healthy market share of ~30% in it. We believe this to be fairly conservative since the government itself is targeting to award ~10GW each year. Even a 50% awarding ratio implies installations of ~5,000MW each year and this would be just from the government tenders. The order scenario becomes even more favourable if we factor in additional demand from Corporate, Industrial, and Captive clients. In conclusion, we strongly believe that there is significant room for Suzlon to beat our conservative estimates with respect to installations and revenues.

### Getting financially fit

After the company's IPO in FY06, Suzlon underwent huge debt-driven inorganic expansion, which increased its debt massively to the tune of Rs 127 Bn by FY10. With the global wind energy market slowing down along with the significant increase in competitive intensity, Suzlon started facing significant headwinds from this high leverage. This forced the company to undertake multiple rounds of capital raising as well as selling off its assets, which included a complete exit from its international operations by FY16. The company also underwent multiple rounds of debt restructuring after it defaulted on its FCCB obligations in FY13. With the conversion of debt and FCCB to equity over a period of time along with the rights issue in FY23, the company has been able to pare its debt position. As of FY23 end, the company has a Net Debt of Rs 11.8 Bn. The company has further passed an enabling resolution to raise upto Rs 20 Bn in equity or quasi-equity which may even lend it a debt-free status and free up capital to help execute its already strong order book profitably.

### Movement of Net Debt from FY20 (Rs 130 Bn) to FY23 (Rs 11.8 Bn)



We expect the company to report revenue growth of 25% CAGR from FY23-25E while its EBITDA is expected to grow at a CAGR of 40% over the same period. PAT is expected to grow at a CAGR of 143% over the next two years. We believe our projections are quite conservative as we anticipate Suzlon capturing a 30% market share of installations within the industry, and we are assuming this industry size to be less than 50% of the government targets. However, if the government hits its full targets, our numbers will see a significant positive change

**Key risks to our investment thesis are** 1) Unfavourable scenario of the government changing the policy back to multi-stage open bidding, 2) Loss of significant market share by Suzlon, and 3) Lack of financing which would impact the company's execution capabilities. Though these risks exist, we believe the probability of them materializing is low in the current environment. We thus continue to remain positive on the company's prospects.

**Happy Investing!**

Nishit Master

### Summary of Portfolio Changes Made in Jun'23

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

#### Growth Strategy changes

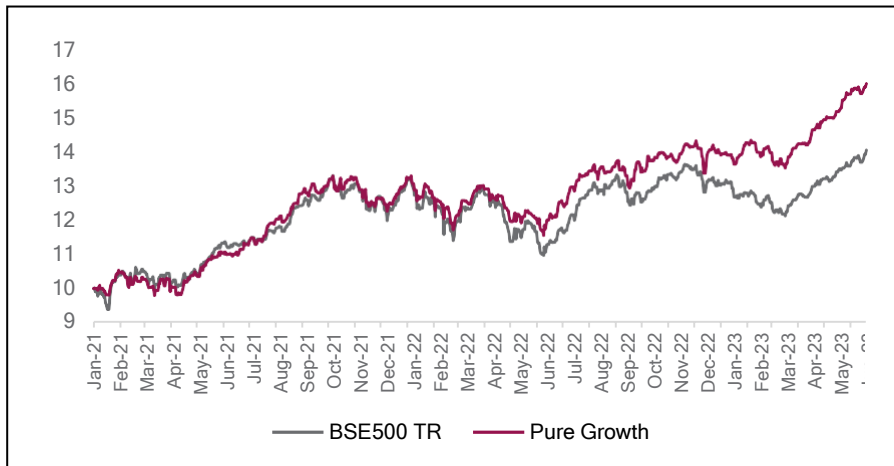
<b>Scrip Name</b>	<b>Action</b>	<b>Weight</b>	<b>Remark</b>
VIP Industries	BOUGHT	4.00%	Revenue growth improving with the possibility of margin expansion

# Axis Pure Growth

30<sup>th</sup> Jun 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)	12.9%	6.8%
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*	Since inception**
<b>Growth</b>	4.80%	15.01%	12.92%	30.92%	18.80%	19.16%
<b>BSE500 TR</b>	4.28%	13.18%	6.78%	23.98%	11.72%	14.84%

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

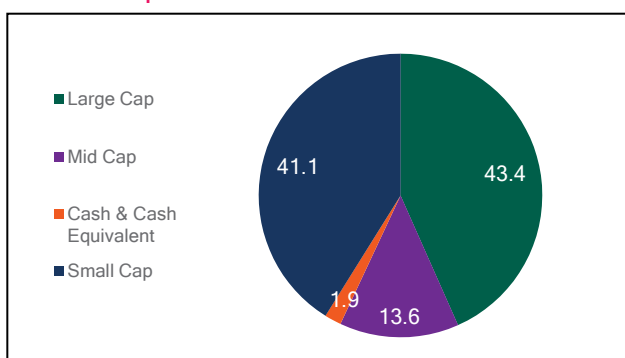
## Risk Assessment

	Growth	BSE500 TR
Sharpe Ratio	0.90	0.51
Volatility	13.3%	15.1%
Portfolio Beta	0.76	1
Max Drawdown	-13.2%	-17.6%
Information Ratio	0.57	
Average Turnover Ratio	1.39	

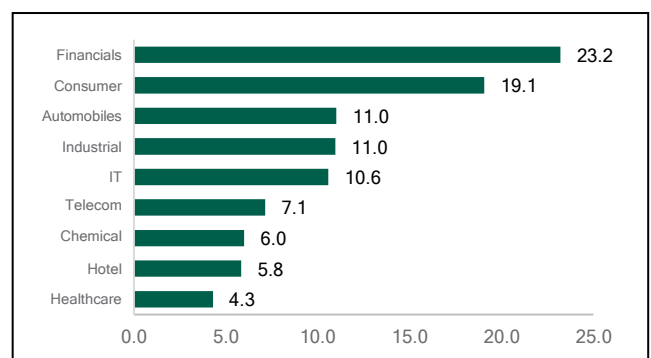
## Key Portfolio Ratios

	Growth	BSE500 TR
PE	26.77	24.42
PB	4.01	3.53
ROE	14.97%	14.38%
Dividend Yield	0.77%	1.36%

## Market Capitalization



## Sector Allocation



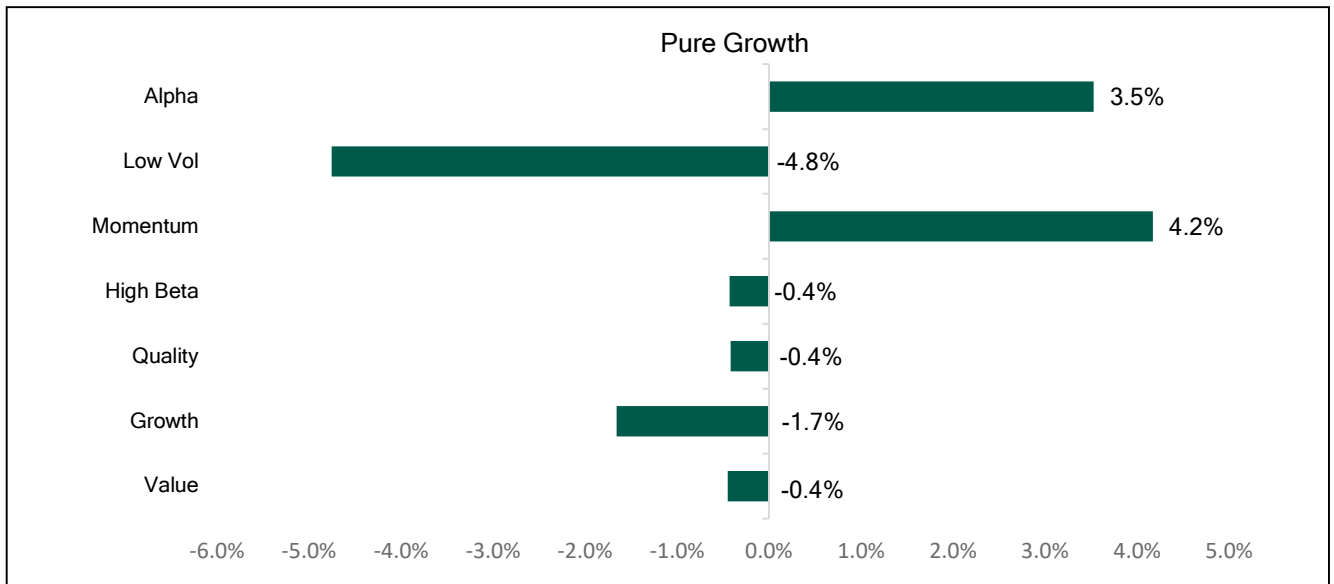
## Top 10 Holdings

Scrip Name	Market Cap (Cr)	Weight
ICICI Bank	6,62,764	8.1%
Bharti Airtel	5,01,192	6.9%
KDDL Ltd.	1,737	6.7%
Varun Beverages	1,04,580	6.4%
Carborundum Uni.	22,793	6.3%
Mahindra CIE Automotive	20,087	6.1%
EIH	14,194	5.8%
One 97 Communications Ltd	53,189	5.8%
RBL Bank	10,913	5.4%
Maruti Suzuki	2,91,486	4.9%

## Portfolio Characteristics

	Growth
Number of constituents	23
Mcap Largest (Cr)	9,67,940
Mcap Smallest (Cr)	1,737
Mcap Average (Cr)	1,98,355
Mcap Median (Cr)	37,236

## 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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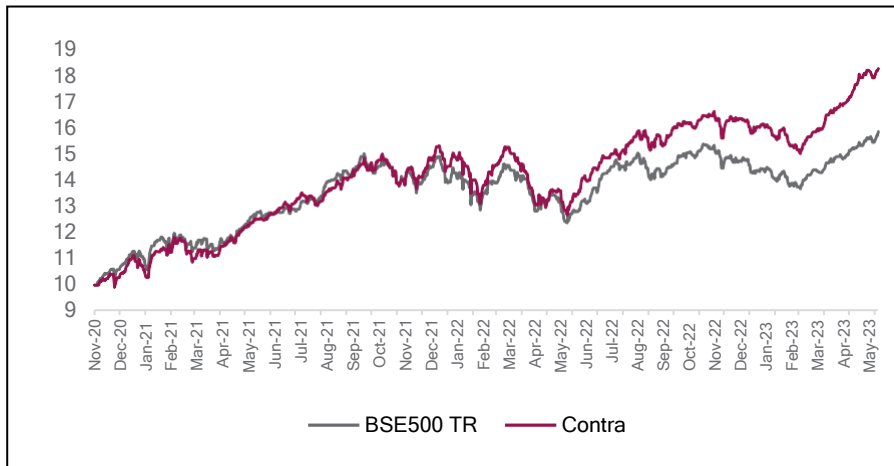


# Axis Pure Contra

30<sup>th</sup> Jun 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)	11.4%	6.8%
2022	10.5%	4.8%
2021*	35.6%	31.0%

\*effective 01 Jan 2021

## Portfolio Performance

Particulars	1 month	3 months	6 months	1 year	2 years*	Since inception**
<b>Contra</b>	4.73%	18.31%	11.40%	34.24%	18.13%	24.13%
<b>BSE500 TR</b>	4.28%	13.18%	6.78%	23.98%	11.72%	19.63%

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

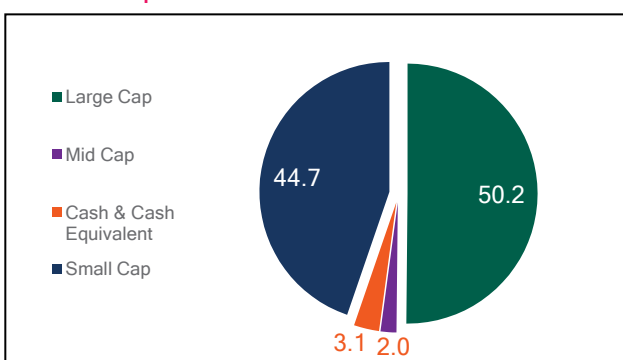
## Risk Assessment

	Contra	BSE500 TR
Sharpe Ratio	1.07	0.82
Volatility	15.9%	15.1%
Portfolio Beta	0.96	1
Max Drawdown	-17.2%	-17.6%
Information Ratio	0.69	
Average Turnover Ratio	2.08	

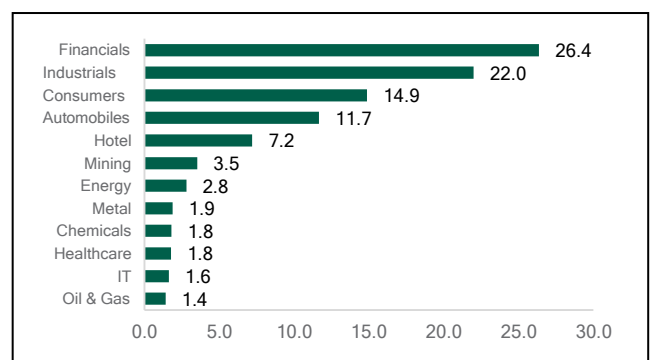
## Key Portfolio Ratios

	Contra	BSE500 TR
PE	16.92	24.42
PB	2.81	3.53
ROE	16.60%	14.38%
Dividend Yield	2.04%	1.36%

## Market Capitalization



## Sector Allocation





## MANAGED ACCOUNTS

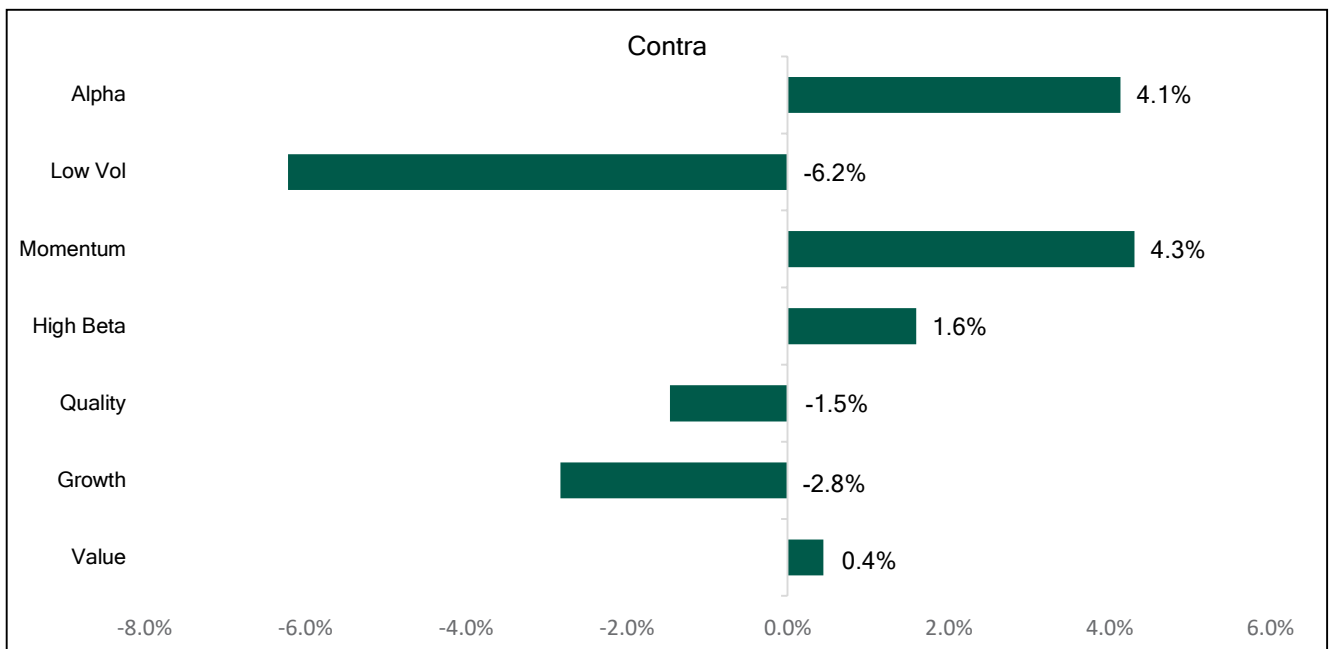
## Top 10 Holdings

Scrip Name	Market Cap (Cr)	Weight
ITC	5,79,021	6.8%
Carborundum Universal Ltd	22,793	6.0%
State Bank Of India	5,25,213	6.0%
CIE Automotive India Ltd	20,087	6.0%
EIH Ltd	14,194	5.2%
Mahindra & Mahindra Ltd	1,82,395	4.8%
ICICI Bank Ltd	6,62,764	4.8%
SBI Life Insurance Co Ltd	1,29,120	4.6%
RBL Bank Ltd	10,913	4.4%
United Spirits Ltd	66,662	4.3%

## Portfolio Characteristics

	Contra
Number of constituents	27
Mcap Largest (Cr)	6,62,764
Mcap Smallest (Cr)	1,737
Mcap Average (Cr)	1,29,074
Mcap Median (Cr)	54,131

## Factor Box



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