Strategy Memo

August 2024

Strategy Memo

Outperformance Continues in July 2024 for both Pure Contra and Pure Growth Strategies

July 2024 continued to be a strong month for the Indian equity markets, with the Nifty50 increasing by 3.92% for the month, while our benchmark index, the BSE500 TR, delivered even more impressive returns of 4.44%. Notably, Small and Midcap stocks outperformed Largecaps once again in July 2024.

Our Pure Growth strategy outperformed its benchmark index, the BSE500 TR, by 109bps with returns of 5.54% for July 2024. Moreover, our flagship Pure Contra strategy, too, continued its winning streak, surpassing the BSE500 TR index by a notable margin of 336bps with an excellent return of 8.1% for the month. We are happy to share that since inception, both our Pure Growth and Pure Contra strategies have outperformed the benchmark on a CAGR basis by healthy margins of 340bps and 1057bps respectively.

In July 2024, IT, Healthcare, Consumer Staples and Consumer Discretionary (including Auto) sectors outperformed the index. Conversely, Real Estate, Materials, Financials and Energy sectors underperformed the index. The only sector which gave negative returns in the month was Real Estate.

Our Pure Growth strategy benefited from an overweight position in Consumer Discretionary (including Auto) and Healthcare, along with an underweight position in Financials, Materials, Real Estate, and Industrials. Notable outperformers in this strategy for the month included Wockhardt, Aurobindo Pharma, Indus Towers, HPCL, Ajanta Pharma, Sun Pharma, Maruti Suzuki and KDDL. On the downside, RBL Bank, Bank of Baroda, eClerx, Jio Financial Services, Varun Beverages and Elecon Engineering were among the main laggards.

Our Pure Contra strategy was bolstered by overweight positions in Consumer Discretionary and Healthcare, along with underweight positions in Financials, Real Estate, and Materials. Stocks that significantly contributed to overall returns included Indus Towers, Lupin, REC, SBI Life Insurance, Voltamp Transformers, HPCL, Kirloskar Brothers, Tata Motors DVR, Suven Pharma, KDDL, ITC, Aditya Birla Sunlife AMC, Wockhardt, Aarti Industries, L&T, Orient Electric, and Thomas Cook, among others. Conversely, RBL Bank, Vedanta, Bank of Baroda, Jain Irrigation, Ambuja Cements and ICICI Bank adversely impacted the overall performance of our portfolio.

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 19 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.

In this strategy note, we will discuss a stock that has underperformed in the last month. But we believe significant value exists in this stock. We continue to like the company and it continues to be a part of our 'Pure growth' strategy.

The company is '**Elecon Engineering**'.

About Elecon Engineering Ltd

Elecon Engineering Company Limited is an Indian multinational company headquartered in Anand, Gujarat. The company specializes in the manufacturing of industrial gear and material handling equipment. Elecon is one of the largest Asian manufacturers of industrial gears and material handling equipment for core major sectors like power, steel, cement, sugar, paper, mining, and rubber to name a few.

Elecon was founded in 1951 by Late Shri Ishwarbhai B. Patel in Goregaon, Mumbai. The company later relocated to Vallabh Vidhyanagar, Gujarat in May 1960. It became a publicly listed company on the Bombay Stock Exchange Limited in June 1962 and later on the National Stock Exchange of India Limited in November 2006.

Business Segments

Elecon Engineering operates in two key business segments that cater to various industries including Fertilizers, Coal, Cement, Lignite, Power, Textiles, plastic, Steel, Ports, and Defence among others:

Material Handling Equipment (MHE) (15% of consolidated revenues): In 1951, the company started as a specialized conveyor system manufacturer and evolved into an EPC player. This was followed by the company becoming a top-tier bulk material handling equipment manufacturer in India. Eventually, it decided to completely vacate the EPC business and focus solely on equipment manufacturing and supply. Elecon's MHE Division offers comprehensive solutions including Stacker Reclaimers, Conveyors, Crushers, Feeders, Wagon Tipplers, and more.

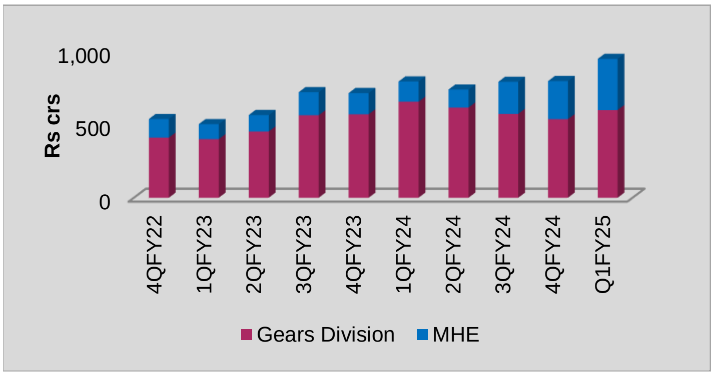
Industrial Gears (85% of consolidated revenues): In 1963, Elecon ventured into manufacturing power transmission equipment and established an independent Gear Division in 1976. With over six decades of expertise, Elecon stands as Asia's largest industrial gearbox manufacturer with a presence across all the continents. The company's industrial gearboxes, including helical and spiral bevel helical gears, worm gears, parallel shafts, right-angle shafts, fluid couplings, geared couplings, flexible couplings, planetary gearboxes, and custom-built gearboxes, cater to diverse industries such as sugar, steel, paper, defence, marine, and more.

Strong Order inflows and revenue growth

Elecon's order inflows for FY24 stood at Rs 1601 Cr, reflecting a 15% YoY growth. The company's order book at the end of FY24 reached Rs 796 Cr, representing an encouraging growth of 11.5% YoY. It is important to note that Elecon's order book cycle is relatively short, with most orders received at the start of the year typically being executed within the same fiscal year. Even in Q1FY25, despite some slowdown in business activity due to elections, the company's order inflows grew ~10% YoY to Rs 545 Cr, while its order backlog increased by 19.4% YoY to Rs 947 Cr, indicating strong near-term growth prospects. The current order book comprises 63% from the Gears division and 37% from the MHE division.

Elecon's revenues grew 26.7% YoY in FY24 on the back of strong business traction which translated to a 49.7% YoY profit growth. Q1FY25 has been weak for Elecon due to a slowdown linked to General Elections where clients, both PSU and private segment, slowed down their investment plans. Q1FY25 revenues for the company de-grew 5.3% YoY while profitability remained almost the same during this time (1% growth). We believe that as stability continues to improve post-elections, which is already largely evident, Elecon is poised to witness stronger business traction. We expect H2FY25 to be significantly stronger than H1FY25 as well as H2FY24. We thus believe that the company can deliver its guidance of 15% YoY growth for the entire fiscal.

Quarterly Order Backlog Trend



Consolidated Financials

Particulars (Rs Cr)	FY22	FY23	FY24	FY25E	FY26E
Revenues	1,212	1,530	1,937	2,236	2,765
EBITDA	246	339	474	524	651
EBITDA Margins (%)	20.3	22.2	24.5	23.5	23.6
Consolidated PAT	140	238	356	400	496
FDEPS (Rs/share)	6.3	10.6	15.8	17.8	22.1
P/E (x)	97.1	57.4	38.4	34.1	27.5
RoCE (%)	17.8	25.5	32.4	29.8	30.6
RoE (%)	14.3	20.4	24.7	22.6	23.2

We expect Elecon's consolidated revenues to increase by 21% CAGR over FY24-27, led by strong order inflows and order backlog. We expect its EBITDA to increase by 20.9% CAGR over the same period even though we don't factor in any benefits of better pricing power driven by high demand environment. The growth would be led by both Gears and MHE segments with MHE growing faster than Gears.

Outlook, Financial Performance, and Valuations

In the Union Budget FY25, the government maintained its capital expenditure target at Rs 11.11 Tn, consistent with the Interim Budget, marking a 17% increase over FY24 RE and 11.1% over FY24 BE. The government aims to boost private Capex through viability gap funding and has allocated Rs 1.5 Tn in long-term interest-free loans to states for infrastructure development. Additionally, Elecon is focusing on export markets where the company has bagged a few OEM orders which are expected to scale up in the future. The company targets to achieve 50% of its revenues from exports by FY30 from the current ~34%. We anticipate Elecon's consolidated revenues to grow at 21% CAGR from FY24 to FY27, while its PAT is expected to grow at 21.6% CAGR over the same period.

At the current price, the stock is trading at a PER of 34.1x and 27.5x FY25E and FY26E estimated earnings which we believe are already conservative. With the company generating healthy RoEs and RoCEs of ~23% and 30% respectively, we believe the company is reasonably valued.

Risk to Our Thesis

1) Significant delays in ordering activity and execution
2) Global economic slowdown impacting demand

Happy Investing!

Nishit Master

Summary of Portfolio Changes Made in July'24

In July'24, we made the following changes to both our portfolios to factor in the changing market dynamics.

Growth Strategy changes

Scrip Name	Action	Weight	Remark
JIO FINANCIAL SERVICES LIMITED	SOLD	4.0%	Booked profit on significant run-up of stock without corresponding business traction or new product launch
ELECON ENGINEERING COMPANY LIMITED	BOUGHT	2.5%	Strong growth visibility in domestic as well as export markets

Contra Strategy changes

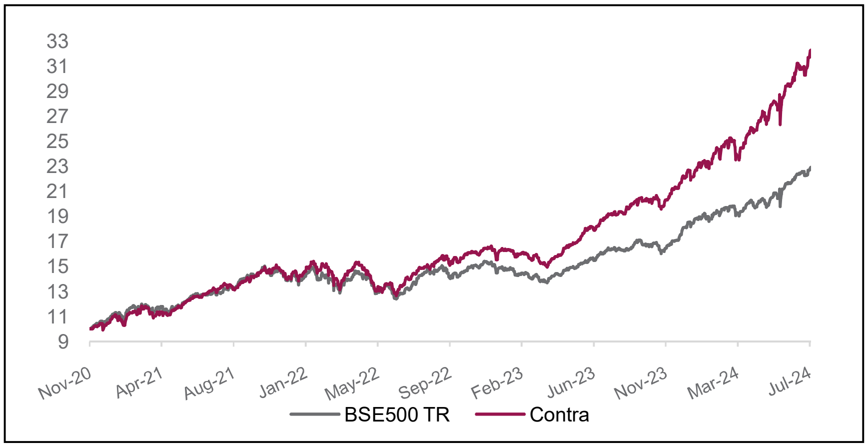
No Actions taken

Axis Pure Contra

31st July, 2024

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 TRI
2024 (YTD)	41.2%	21.6%
2023	39.5%	26.8%
2022	9.7%	4.8%
2021*	36.5%	31.0%

*effective 01 Jan 2021

Portfolio Performance

Particulars	1 month	3 months	6 months	1 year	2 years*	3 years*	Since inception**
Contra	8.10%	19.71%	35.60%	66.99%	47.36%	32.81%	35.96%
BSE500 TRI	4.44%	12.74%	19.57%	38.94%	27.70%	21.08%	25.39%

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

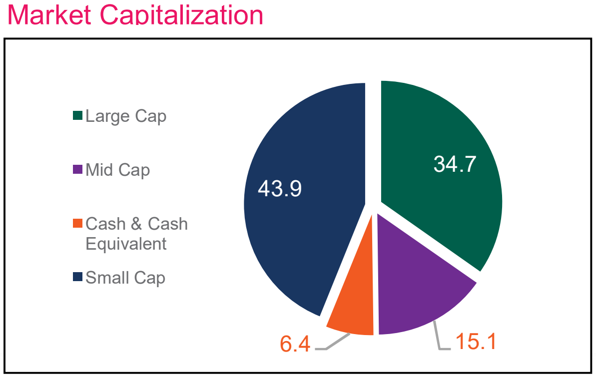
Risk Assessment

	Contra	BSE500 TR
Sharpe Ratio	1.78	1.26
Volatility	16.3%	14.6%
Portfolio Beta	1.01	1
Max Drawdown	-17.9%	-17.6%
Information Ratio	1.51	
Average Turnover Ratio	0.55	

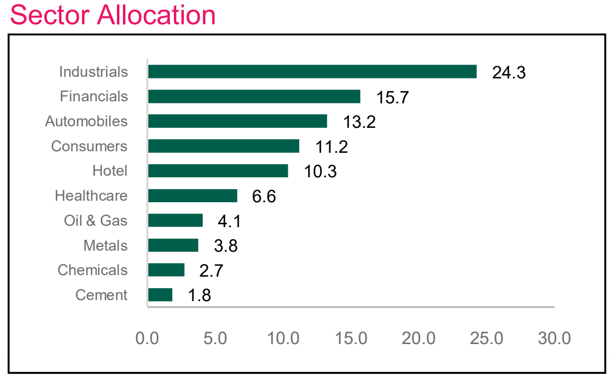
Key Portfolio Ratios

	Contra	BSE500 TR
PE	20.22	27.93
PB	4.29	4.33
ROE	21.22%	15.39%
Dividend Yield	1.41%	1.07%

Market Capitalization



Sector Allocation



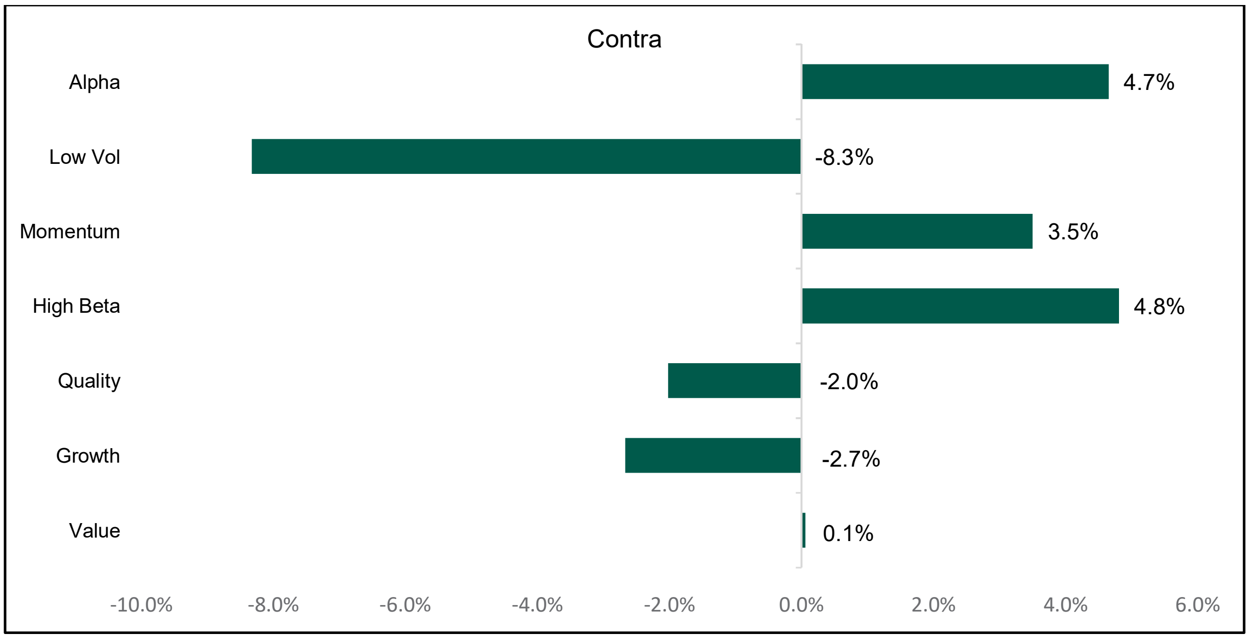
Top 10 Holdings

Scrip Name	Market Cap (Cr)	Weight
INDUS TOWERS LTD	1,12,379	7.3%
THOMAS COOK (INDIA) LTD	9,742	5.9%
MAHINDRA & MAHINDRA	3,33,633	5.2%
TVS HOLDINGS LTD	27,247	4.5%
INDIAN HOTELS CO LTD	87,427	4.4%
KIRLOSKAR BROTHERS LTD	15,800	4.3%
HINDUSTAN PETROLEUM	82,804	4.1%
ITC LTD	6,18,579	4.0%
KDDL LTD	4,363	3.9%
VEDANTA LTD	1,65,136	3.8%

Portfolio Characteristics

	Contra
Number of constituents	28
Mcap Largest (Cr)	8,19,886
Mcap Smallest (Cr)	4,363
Mcap Average (Cr)	1,43,020
Mcap Median (Cr)	55,026

Factor Box



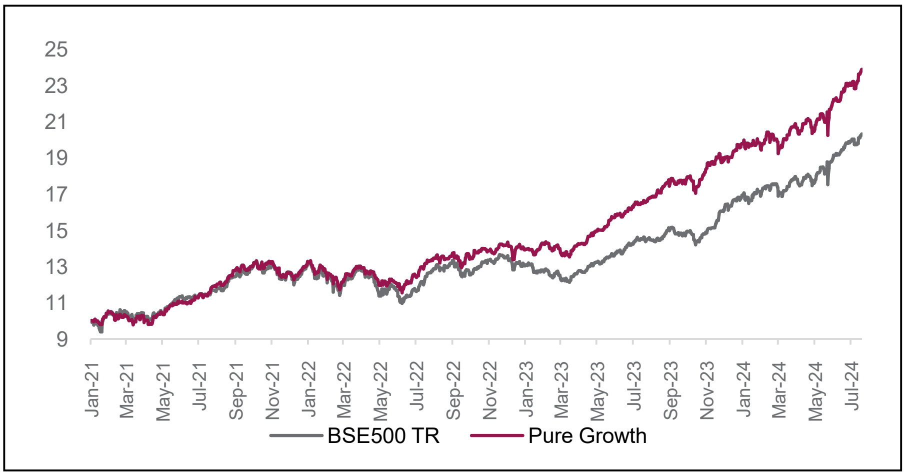
The Factor Box provides relative factor exposure vis-à-vis a given benchmark. For instance, if the Growth factor exposure in a portfolio is 23% and the Growth factor exposure of the Benchmark is 20%, it indicates that your portfolio is “Overweight” on Growth with respect to the benchmark. A positive 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.

Axis Pure Growth

31st July 2024

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 TRI
2024 (YTD)	20.8%	21.6%
2023	35.9%	26.8%
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*	3 years*	Since inception**
Growth	5.54%	12.76%	18.23%	40.09%	32.08%	25.24%	25.49%
BSE500 TRI	4.44%	12.74%	19.57%	38.94%	27.70%	21.08%	22.09%

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

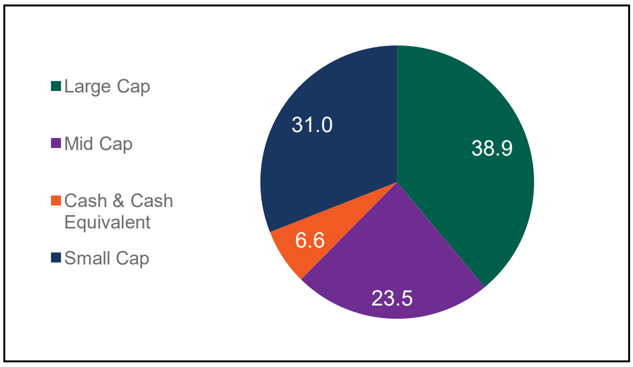
Risk Assessment

	Growth	BSE500 TRI
Sharpe Ratio	1.38	1.04
Volatility	13.5%	14.6%
Portfolio Beta	0.80	1
Max Drawdown	-13.2%	-17.6%
Information Ratio	0.46	
Average Turnover Ratio	0.57	

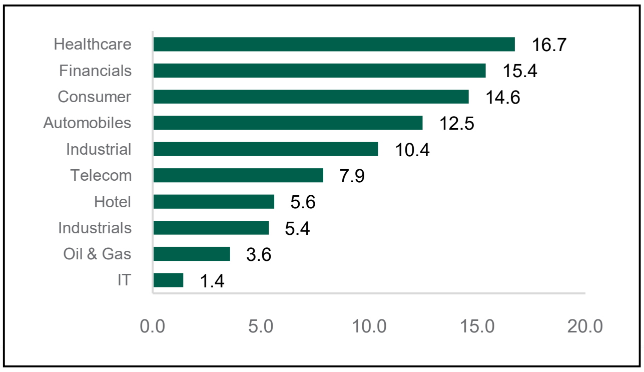
Key Portfolio Ratios

	Growth	BSE500 TRI
PE	28.14	27.93
PB	4.33	4.33
ROE	15.40%	15.39%
Dividend Yield	0.74%	1.07%

Market Capitalization



Sector Allocation



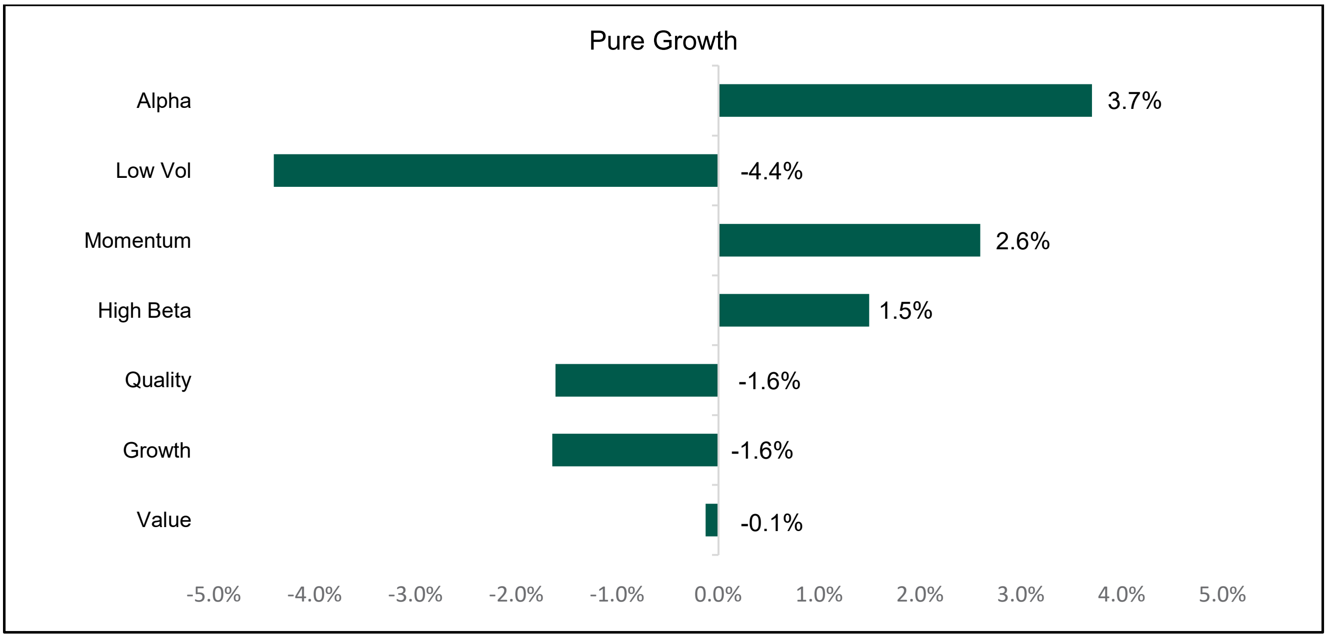
Top 10 Holdings

Scrip Name	Market Cap (Cr)	Weight
BHARTI AIRTEL LTD	8,68,326	7.9%
AUROBINDO PHARMA LTD	86,678	6.1%
ICICI BANK LTD	8,19,886	6.0%
INDIAN HOTELS CO LTD	87,427	5.6%
MARUTI SUZUKI INDIA LTD	3,84,164	5.4%
INDUS TOWERS LTD	1,12,379	5.4%
GILLETTE INDIA LTD	26,129	5.0%
VARUN BEVERAGES LTD	1,93,559	4.8%
KDDL LTD	4,363	4.7%
CIE AUTOMOTIVE INDIA LTD	20,692	4.7%

Portfolio Characteristics

	Growth
Number of constituents	24
Mcap Largest (Cr)	12,51,326
Mcap Smallest (Cr)	4,363
Mcap Average (Cr)	2,07,553
Mcap Median (Cr)	71,639

Factor Box



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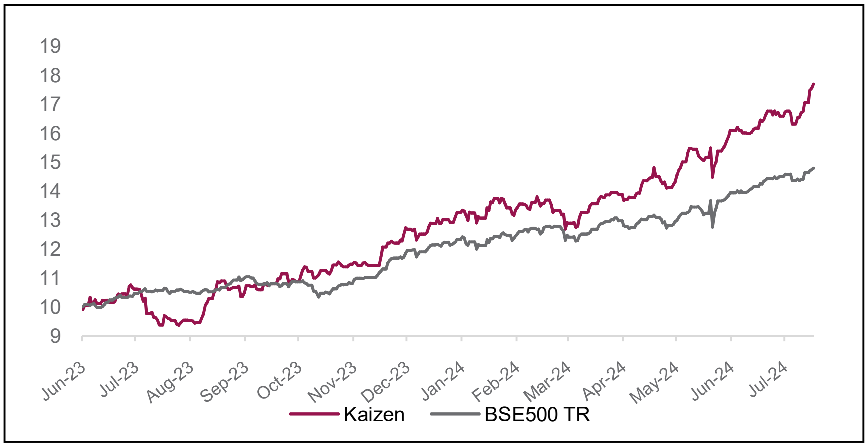
Axis Kaizen

31st July, 2024

Investment Objective: Axis 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 TRI
2024 (YTD)	32.4%	21.6%
2023	29.3%	21.6%

*effective 15 June 2023

Portfolio Performance

Particulars	1 month	3 months	6 months	1 Year	Since Inception**
Kaizen	9.45%	20.89%	27.99%	75.41%	60.87%
BSE500 TRI	4.44%	12.74%	19.57%	38.94%	41.26%

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

Risk Assessment

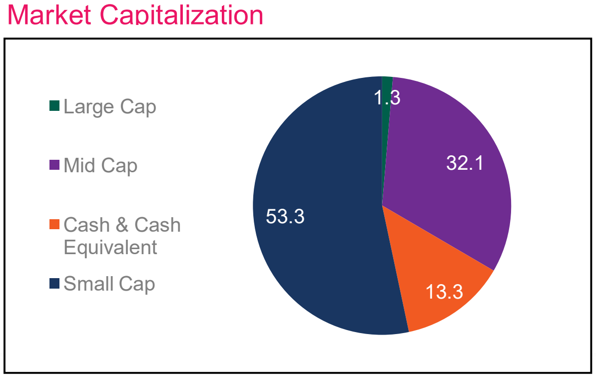
	Kaizen	BSE500 TRI
Sharpe Ratio	2.68	2.62
Volatility	20.1%	13.1%
Portfolio Beta	0.99	1
Max Drawdown	-12.9%	-17.6%
Information Ratio	1.27	
Average Turnover Ratio	0.54	

Key Portfolio Ratios

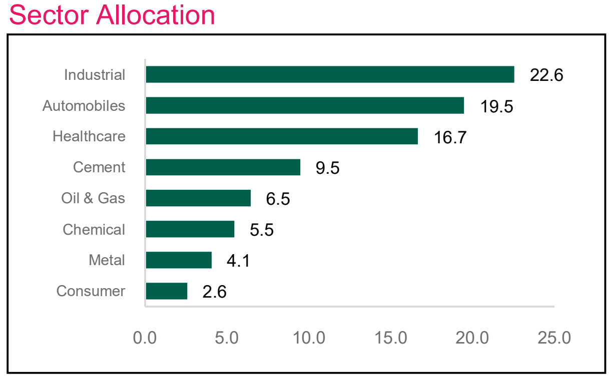
	Kaizen	BSE500 TRI
PE*	17.64	27.93
PB	4.02	4.33
ROE*	22.34%	15.39%
Dividend Yield	0.83%	1.07%

*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
VOLTAMP TRANSFORMERS	13,670	13.4%
KESORAM INDUSTRIES LTD	6,508	9.5%
SANSERA ENGINEERING	7,504	7.0%
BALKRISHNA INDUSTRIES	60,474	6.9%
HINDUSTAN PETROLEUM CORP	82,804	6.5%
KIRLOSKAR PNEUMATIC CO LTD	8,205	6.1%
CIE AUTOMOTIVE INDIA	20,692	5.6%
SRF LTD	75,206	5.5%
AUROBINDO PHARMA LTD	86,678	5.3%
SUVEN PHARMACEUTICALS	25,271	5.1%

Portfolio Characteristics

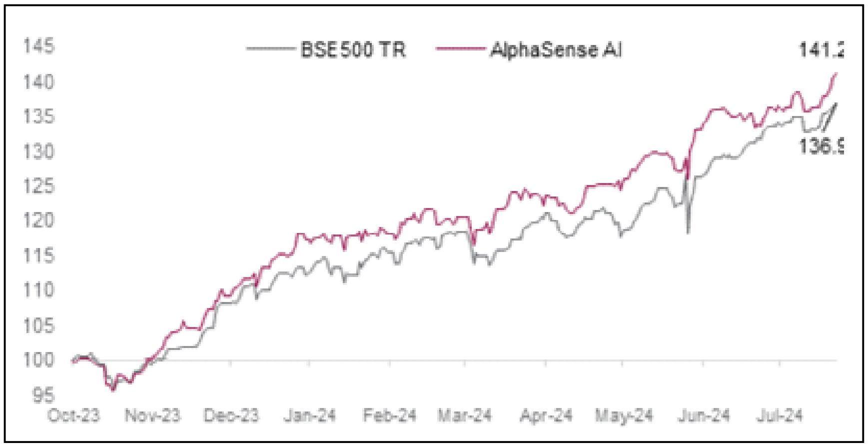
	Kaizen
Number of constituents	15
Mcap Largest (Cr)	1,26,782
Mcap Smallest (Cr)	5,804
Mcap Average (Cr)	41,674
Mcap Median (Cr)	25,271

AlphaSense AI

31st July, 2024

Investment Objective:Stock investment endeavors to achieve consistent outperformance in the long term through diversified investment of 'Winners'. The 'Adaptive Investing' strategy applies a unique approach to deliver alpha by applying equal exposure to 'Core' and 'AlphaSense' factors.

Cumulative Performance: Returns



Annual Performance (%)

Year	AlphaSense AI	BSE500 TRI
2023*	15.2%	12.3%
2024 (YTD)	22.6%	21.9%

*inception date 10th Oct 2023

Portfolio Performance

Particulars	1 month	3 months	6 months	Since inception**
AlphaSense AI	5.9%	12.9%	18.8%	41.2%
BSE 500 TRI	4.4%	12.7%	19.6%	36.9%
Alpha (bps)	146	11	-73	433

(* Net of all charges) (**Since 10th Oct. 2023)

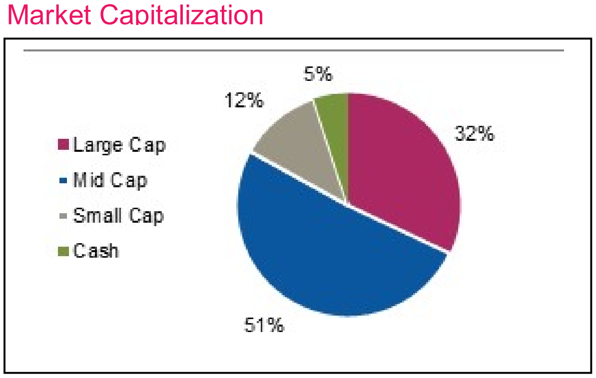
Risk Assessment

	AlphaSense AI	BSE500 TR
Sharpe Ratio	2.72	2.12
Volatility	12.9%	14.5%
Portfolio Beta	0.67	1.00
Max Drawdown	-4.7%	-6.7%
Information Ratio	0.44	

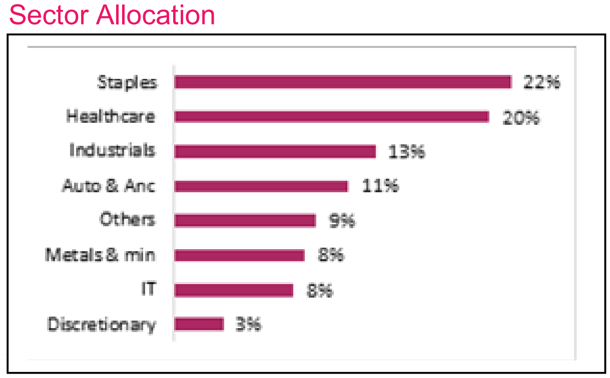
Key Portfolio Ratios

	AlphaSense AI	BSE500 TR
PE	33.99	28.90
PB	12.93	4.50
ROE	38.03%	15.53%
Dividend Yield	1.35%	1.29%

Market Capitalization



Sector Allocation



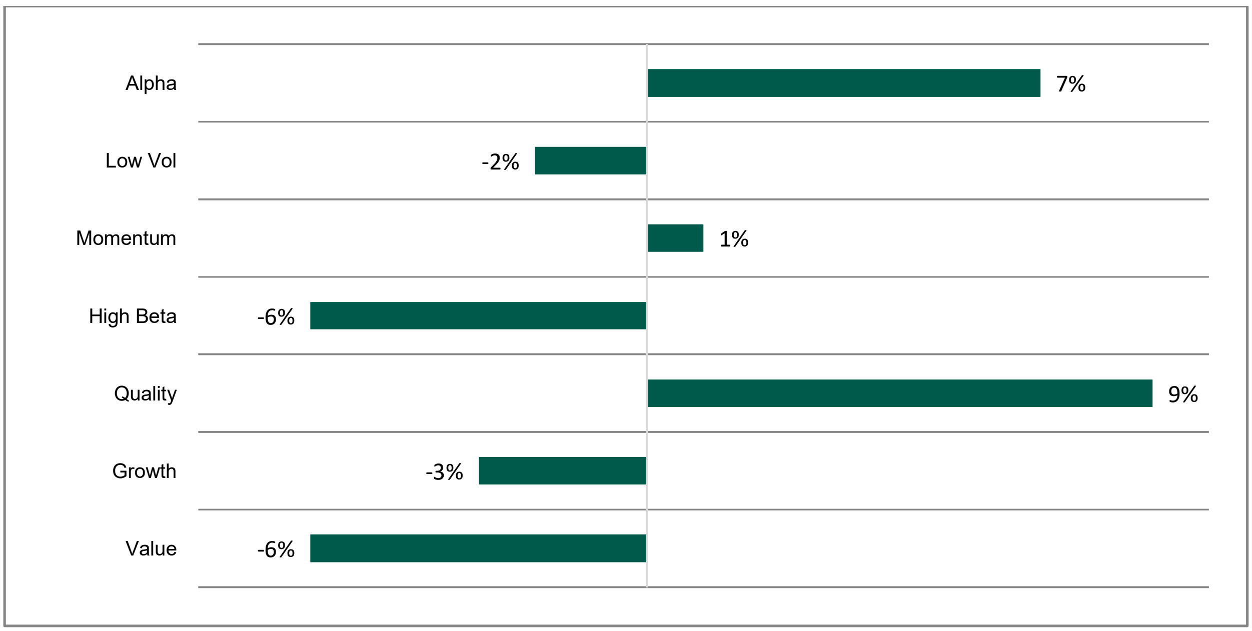
Top 10 Holdings

Scrip Name	Market Cap (Cr)	Weight
ABBOTT INDIA LTD.	49,208.08	8.1%
COLGATE-PALMOLIVE (INDIA)	56,061.30	7.7%
NESTLE INDIA LTD.	2,24,983.17	7.4%
AIA ENGINEERING LTD.	33,364.80	7.0%
BRITANNIA INDUSTRIES LTD.,	1,13,982.89	6.7%
AJANTA PHARMA LTD.	22,261.84	6.3%
J.B. CHEMICALS & PHARMA	21,606.07	6.0%
SUPREME INDUSTRIES LTD.,	52,528.38	5.6%
CUMMINS INDIA LTD.,	50,165.25	5.3%
PERSISTENT SYSTEMS	44,304.22	4.9%

Portfolio Characteristics

	AlphaSense AI
Number of constituents	20
Mcap Largest (Cr)	2,24,983
Mcap Smallest (Cr)	9,017
Mcap Average (Cr)	78,270
Mcap Median (Cr)	54,295

Factor Box



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