

# Strategy Memo

June 2024

## Strategy Memo

### **Pure Contra Continues its Winning Streak; Industrials, Communication, Utilities, and Real Estate Drive Growth for May'24**

May'24 was a mixed bag for the Indian equity markets with Nifty50 declining by 0.52% for the month while our benchmark index, the BSE500 TR, gave positive returns of 0.83% for the month. Notably, Small and Midcap stocks once again delivered substantial outperformance in May'24 compared to the Largecaps.

Though our Pure Growth strategy outperformed Nifty50, it underperformed its benchmark index i.e. BSE500 TR by 126bps with absolute negative returns of 0.43% for the month of May'24. On the other hand, our flagship Pure Contra strategy continued its winning streak and once again beat not just the Nifty 50 index but also the BSE500 TR index by a notable margin as it delivered an excellent return of 2.69% for the month (186bps outperformance to our benchmark – BSE500 TR Index). Since inception, both our Pure Growth and Pure Contra strategies have outperformed the benchmark on a CAGR basis by a healthy 303bps and 928bps respectively.

In May'24, we observed that Communications, Industrials, Utilities, Real Estate and Consumer Discretionary which also includes Auto outperformed the index. On the other hand, IT, Healthcare, Consumer Staples, Financials, and Energy underperformed the index by giving negative returns for the month. Our Pure Growth strategy benefited from our overweight position in Consumer Discretionary (including Auto) and Communication Services as well as our underweight position in IT, Consumer Staples, Financials, and Energy. Stocks that showcased notable outperformance in this strategy for the month included Balkrishna Industries, HPCL, Bharti Airtel, CIE Automotive, Ajanta Pharma, Aurobindo Pharma, Bank of Baroda, and Engineers India. On the flip side, eClerx, Jio Financial Services, Indian Hotels, RBL Bank, Maruti Suzuki, Indus Towers, Religare Enterprises, One97 Communications, KDDL, Sun Pharma, Wockhardt, ICICI Bank, Ultratech Cement, and Varun Beverages were amongst the main laggards.



*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, AnandRathi, MotilalOswal Financial Services etc.*

Our Pure Contra strategy was supported by our overweight calls on Consumer Discretionary, Industrials, and Utilities along with underweight calls on IT, Consumer Staples, Financials, and Energy. Stocks that significantly contributed to overall returns included TVS Holdings, Kirloskar Brothers, Vedanta, HPCL, REC, M&M, L&T, Power Grid Corp, CIE Automotive, and Thomas Cook, amongst others. On the other hand, Aarti Industries, Tata Motors DVR, Indus Towers, Jain Irrigation, Indian Bank, RBL Bank, Bank of Baroda, Lupin, KDDL, Suven Pharma and Aditya Birla Sun Life AMC weighed on the overall performance of our portfolio.

In this strategy note, we will discuss one of the stocks that have outperformed in the recent past. We continue to like the company and it continues to be a part of our **'Pure Contra' strategy**. The company is 'Vedanta Ltd'.

### **About Vedanta Ltd**

Vedanta Ltd (VDL) is a leading global natural resources conglomerate operating across India, South Africa, Liberia, and Namibia. It is the largest private-sector producer of Zinc, Lead, Silver, Aluminium, Iron ore, Oil & Gas, and Ferrochrome in India.

VDL is promoted by its parent company Vedanta Resources Ltd (VRL) which is owned by Mr. Anil Agarwal who also serves as Non-executive Chairman of the company. Mr. Anil Agarwal is the Executive Chairman of VRL and founded the group in 1976. Over the last four decades, he successfully grew the group from a domestic miner into a global natural resource group with a world-class portfolio of resource assets that are structurally amongst the lowest-cost producers in their industries.

### **Debt restructuring and deleveraging at VRL to lead to re-rating of VDL**

Vedanta Ltd (VDL) trades at a discount to its peers mainly on account of higher leverage of its parent, Vedanta Resources Ltd (VRL). We believe that this discount will narrow over a period of time once VRL starts to significantly deleverage its balance sheet. In Jan'24, parent VRL successfully restructured its

\$3.1 Bn bonds and pushed its maturity by two years to FY27, which entails an incremental interest rate of ~4.8% to ~14%. The debt (including interest) obligation in FY25E/26E is \$1.6–1.8 Bn, which can be met by promoters' stake sale, brand fee, and dividends from its subsidiaries. VRL has deleveraged its balance sheet by \$3.5 Bn over the last two years and touched ~\$6 Bn by FY24-end. It has laid down a plan to further deleverage by \$3 Bn over the next three years. The reduction in VRL debt will not be at the cost of VEDL debt increase. The debt reduction at VRL will be via brand fees and dividends and partially by internal accruals. The management targets a brand fee of ~\$1.3 Bn, and a dividend of \$4.5 Bn during FY25–27E, which would help in interest payment as well as debt reduction. Furthermore, VDL's promoters raised their stake in the company by 19.6% (stake up from 50.1% to 69.7%) from Dec'20 to Nov'21 at a weighted average price of Rs 242/share. During that period, it earned a DPS of Rs 186 too. As a result, its net purchase price is Rs 57/share only. With debt at VRL still high, promoters have shown flexibility wherein they are open to selling their stake in VDL, which will provide additional liquidity and help pare down debt. From Mar'23 to Feb'24, promoters sold a 7.8% stake (currently holds 62% stake in VEDL) and garnered ~Rs 74 Bn. Further dilution by promoters cannot be ruled out to facilitate further VRL deleverage.

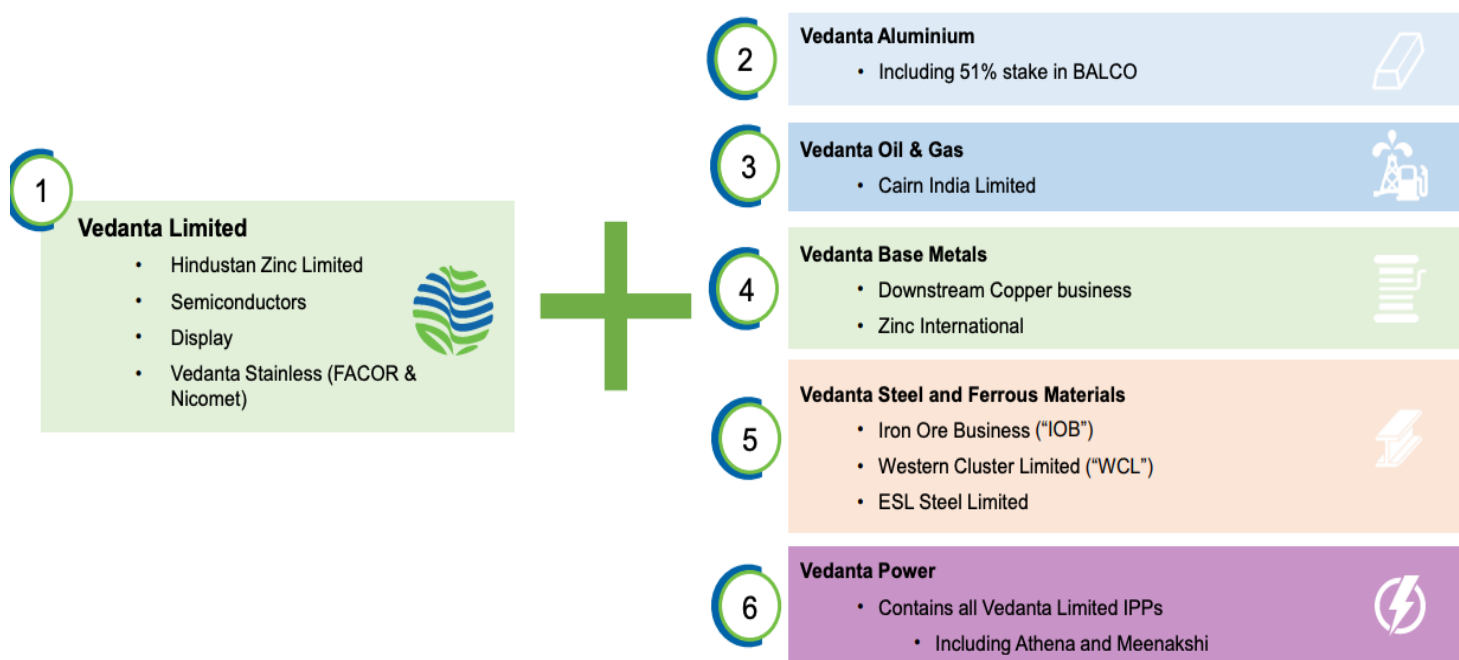
### **Business re-structuring to lead to further re-rating**

VEDL announced a demerger plan in Oct'23 across its existing business verticals. It plans to demerge into six independent 'pure play' companies with an aim to simplify the corporate structure and unlock stakeholder value. It has started getting NOCs from its lenders and management has guided that it has submitted the scheme to Stock Exchanges (SE) and the proposal is on track. After receiving the necessary approvals from SE, the scheme will be filed with NCLT. It plans for the business re-structuring to be effective by the end of FY25 which should help in further re-rating of the stock as the demerger would make it possible for investors to buy pure play assets or businesses in which they are interested instead of buying the entire company.

The plan for re-structuring is as per the chart given below where Vedanta Ltd (VDL) will be split into 6 companies with 1) **VDL** keeping its stake in Hindustan Zinc along with its Vedanta Stainless business and its future endeavours in semiconductors and display panels, 2) **Vedanta Aluminium** which will host its aluminium business along with its stake in Balco, 3) **Vedanta Oil & Gas** which will have Cairn India's field, 4) **Vedanta Base Metals** which will have groups

downstream copper business along with its international zinc business, 5) **Vedanta Steel and Ferrous Materials** which will host the company's iron ore business as well as its steel business (which is up for sale) and 6) **Vedanta Power** which will also contain the groups IPPs, including Athena and Meenakshi.

### Shareholders to receive shares in five new listed entities demerged from Vedanta Limited:



### Improving COP, capacity expansion, and higher commodity prices to lead to EBITDA growth

For its aluminium business, VDL successfully commissioned a 1.5mtpa alumina refinery in Apr'24, taking its total capacity to 3.5mtpa. We believe it will be able to fulfil 62% of the requirement in FY25. The remaining 1.5mtpa is expected to be commissioned in Q4FY25 and shall debottleneck and increase capacity further by 1mtpa by FY27. The full ramp-up of the alumina plant will enable VDL to meet 100% of the requirement (40% in FY24). Additionally, its bauxite mine, Sijimali block (12mtpa) in Odisha, is expected to start mining from Q4FY25 and reduce imports, thereby saving on freight costs. All in all, this would result in a saving of over \$150/t by FY27E versus FY24.

The company's Indian Zinc business is amongst the lowest-cost producers in the world and would be in the first decile of most efficient cost producers globally. With rising zinc and silver prices, we expect the company's EBITDA from the zinc and silver business to grow substantially in FY25.

The management has guided \$1.9 Bn of growth Capex for FY25 to be split as follows: \$0.4 Bn for Oil & Gas business, \$0.4 Bn for Zinc expansion projects, \$0.8 Bn for aluminium and power, and the rest for others. This should lead to significant volume growth, especially in the Aluminium business.

We believe that higher commodity prices, higher volumes from capacity additions, and lower cost of production due to backward integration will lead to an EBITDA CAGR of 25%+ over FY24-26E. This should drive further re-rating for the company as well as generate substantial cash flows that can be distributed as dividends.

## Outlook, Financial Performance, and Valuations

We expect VDL to report a revenue CAGR of 7.7% over FY24-26E while EBITDA and PAT are expected to grow at a CAGR of 26% and 126.9% (lower base in FY24) respectively over the same period. ROEs are expected to expand from 4.1% in FY24 to 51.8% and 61.3% in FY25 and FY26 respectively.

Considering an EV/EBITDA of 5.1x estimated EBITDA of FY25 and 4.3x estimated EBITDA of FY26, robust EBITDA growth of over 25%, and continued deleveraging, we believe the stock remains attractive at the current market levels. Thus, we remain positive on the stock.

Particulars (Rs Cr)	FY23	FY24	FY25E	FY26E
Net Sales	1,47,309	1,43,727	1,56,162	1,66,634
EBITDA	34,423	35,198	48,021	55,874
<i>EBITDA Margins (%)</i>	23.4	24.5	30.8	33.5
Adj. PAT	10,574	4,239	16,290	21,827
EPS (Rs/share)	28.4	11.4	43.8	58.7
Net Debt	57,903	71,484	69,944	64,466
<i>RoE (%)</i>	20.6	4.1	51.8	61.3
<i>RoCE (%)</i>	19.3	20.9	29.9	32.0
EV / EBITDA (x)	6.8	7.0	5.1	4.3
PER (x)	16.5	41.2	10.7	8.0
P/BV (x)	4.4	5.7	5.4	4.5

Source: Industry

## Risk to our thesis

- 1) Fall in commodity prices including Zinc, Aluminium, Crude Oil, Silver, Iron Ore, and Copper
- 2) Inability to reduce debt at the Parentco level as per its guidance
- 3) Significant stake sale by Parentco in VDL at one go which would put pressure on stock price due to supply overhang

**Happy Investing!**

Nishit Master

## Summary of Portfolio Changes Made in May'24

In May'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
ONE 97 COMMUNICATIONS LIMITED	SOLD	1.9%	Change in top management could lead to higher uncertainty in business
BANK OF BARODA	BOUGHT	2.0%	Low relative valuation with good asset quality
JIO FINANCIAL SERVICES LIMITED	SOLD	2.0%	Partial profits booked

### Contra Strategy changes

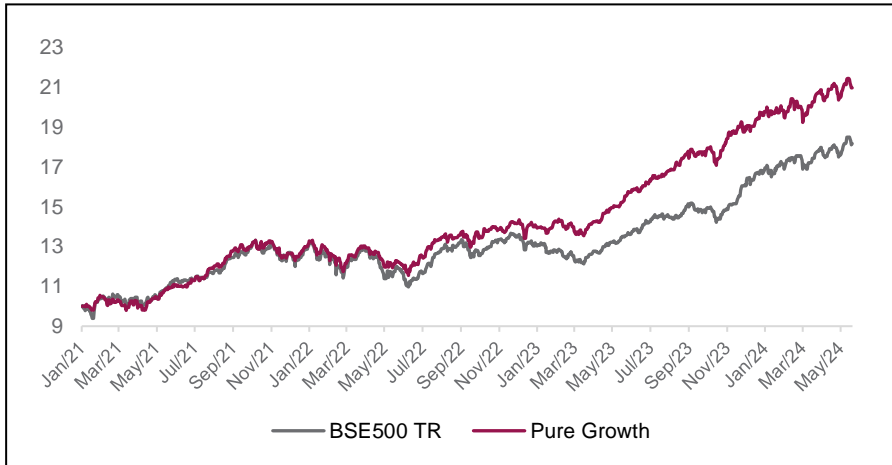
Scrip Name	Action	Weight	Remark
ADITYA BIRLA SUN LIFE AMC LTD	BOUGHT	2.0%	Trading at a significant discount to peers. Change in management can lead to business turnaround.
ORIENT ELECTRIC LIMITED	BOUGHT	1.0%	Improved demand for cooling products with expected margin expansion in FY25
LARSEN & TOUBRO LIMITED	BOUGHT	3.0%	Strong core business denoted by very low working capital requirement
BANK OF BARODA	BOUGHT	1.0%	Added position; low relative valuation with good asset quality

# Axis Pure Growth

31<sup>st</sup> May 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 TR
2024 (YTD)	6.7%	8.8%
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**
<b>Growth</b>	-0.43%	4.26%	8.87%	34.54%	28.60%	21.94%	22.32%
<b>BSE500 TR</b>	0.83%	5.19%	17.75%	34.70%	23.27%	18.07%	19.29%

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

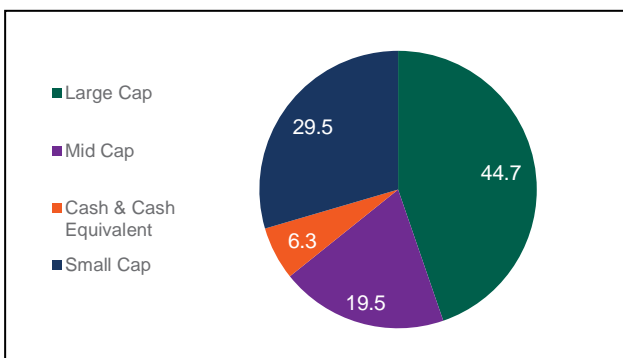
## Risk Assessment

	Growth	BSE500 TR
Sharpe Ratio	1.19	0.88
Volatility	12.9%	14.1%
Portfolio Beta	0.78	1
Max Drawdown	-13.2%	-17.6%
Information Ratio	0.40	
Average Turnover Ratio	0.56	

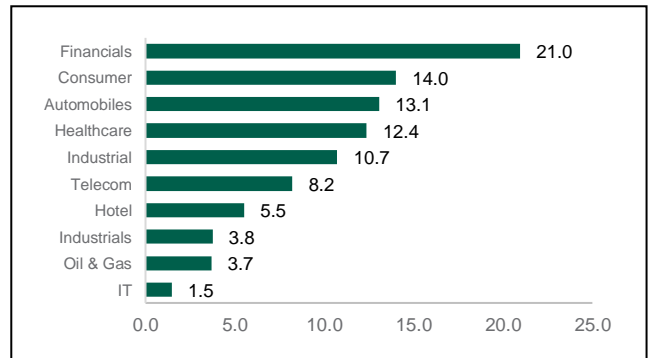
## Key Portfolio Ratios

	Growth	BSE500 TR
PE	28.55	25.85
PB	3.97	4.05
ROE	13.91%	15.70%
Dividend Yield	0.64%	1.09%

## Market Capitalization



## Sector Allocation



## MANAGED ACCOUNTS

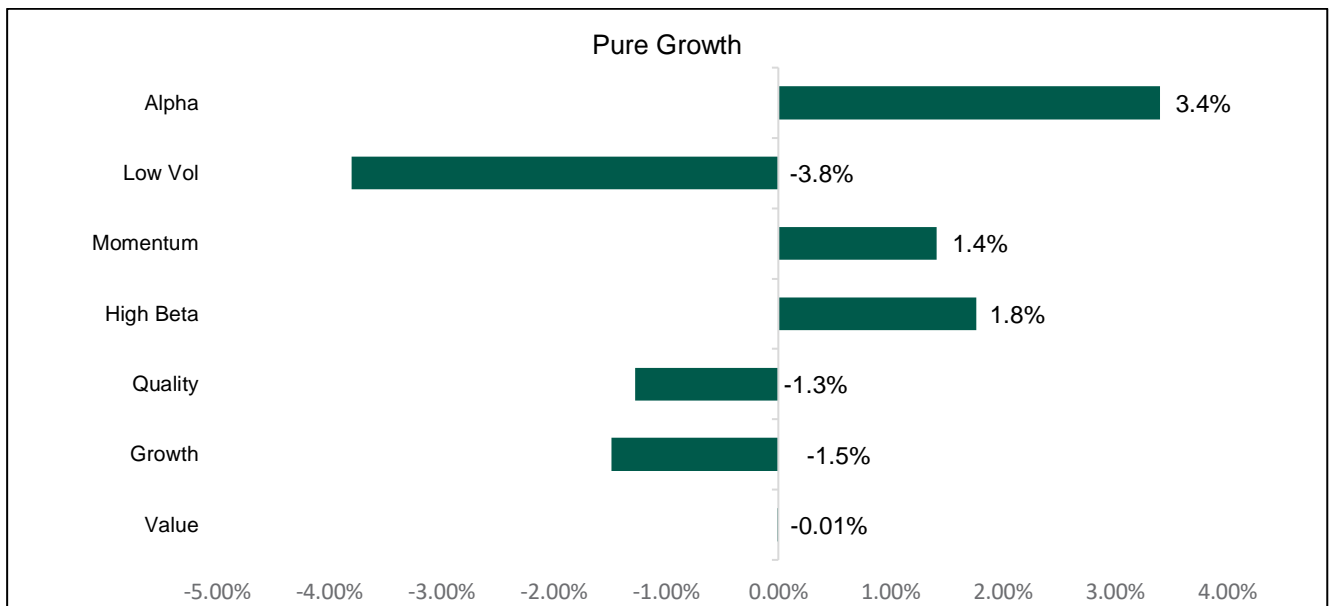
## Top 10 Holdings

Scrip Name	Market Cap (Cr)	Weight
Bharti Airtel Ltd	8,17,783	8.2%
ICICI Bank Ltd	7,80,888	6.3%
Maruti Suzuki India Ltd	3,98,458	5.8%
Indian Hotels Co Ltd	83,057	5.5%
Gillette India Ltd	24,436	5.2%
Varun Beverages Ltd	1,94,836	5.0%
CIE Automotive India	20,652	4.8%
Jio Financial Services Ltd	2,21,984	4.3%
Ajanta Pharma Ltd	28,982	4.0%
KDDL Ltd	3,128	3.8%

## Portfolio Characteristics

	Growth
Number of constituents	25
Mcap Largest (Cr)	11,86,022
Mcap Smallest (Cr)	3,128
Mcap Average (Cr)	1,96,423
Mcap Median (Cr)	73,133

## 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.

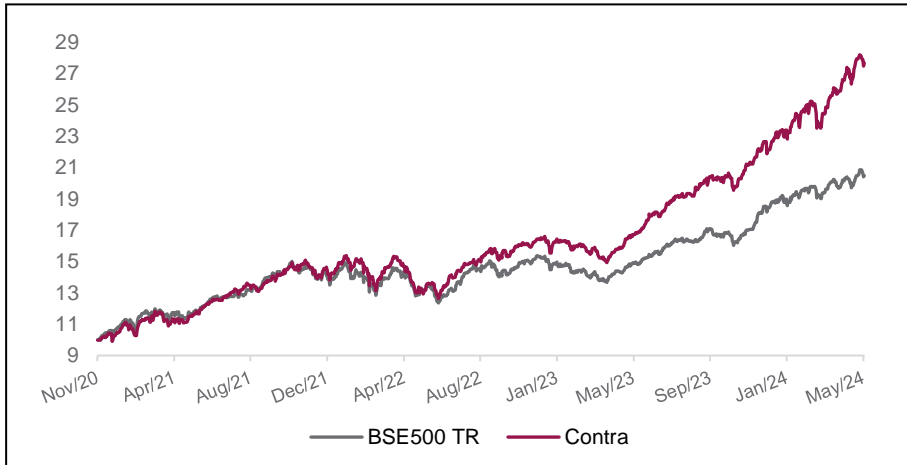


# Axis Pure Contra

31<sup>st</sup> May 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 TR
2024 (YTD)	21.1%	8.8%
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**
<b>Contra</b>	2.69%	12.07%	27.99%	59.08%	41.50%	29.53%	32.06%
<b>BSE500 TR</b>	0.83%	5.19%	17.75%	34.70%	23.27%	18.07%	22.78%

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

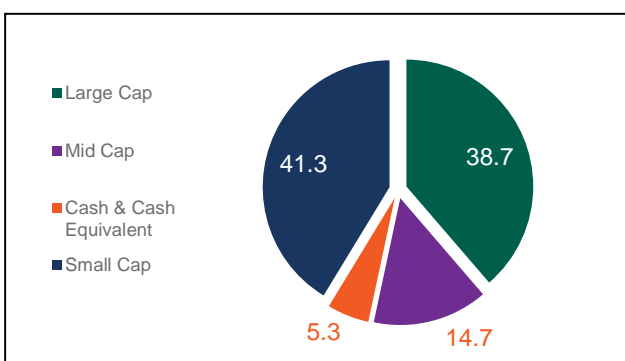
## Risk Assessment

	Contra	BSE500 TR
Sharpe Ratio	1.62	1.11
Volatility	15.5%	14.1%
Portfolio Beta	0.98	1
Max Drawdown	-17.9%	-17.6%
Information Ratio	1.35	
Average Turnover Ratio	0.61	

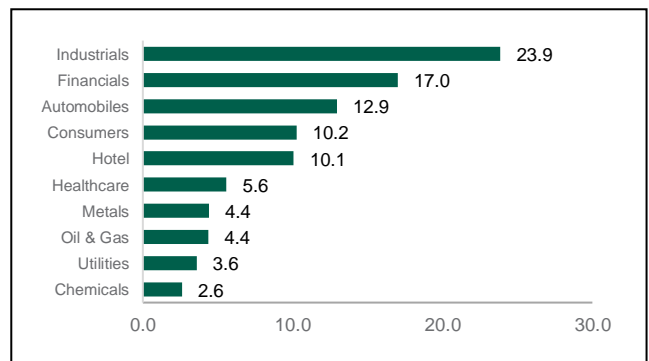
## Key Portfolio Ratios

	Contra	BSE500 TR
PE	18.62	25.85
PB	3.97	4.05
ROE	21.31%	15.70%
Dividend Yield	1.58%	1.09%

## Market Capitalization



## Sector Allocation



## MANAGED ACCOUNTS

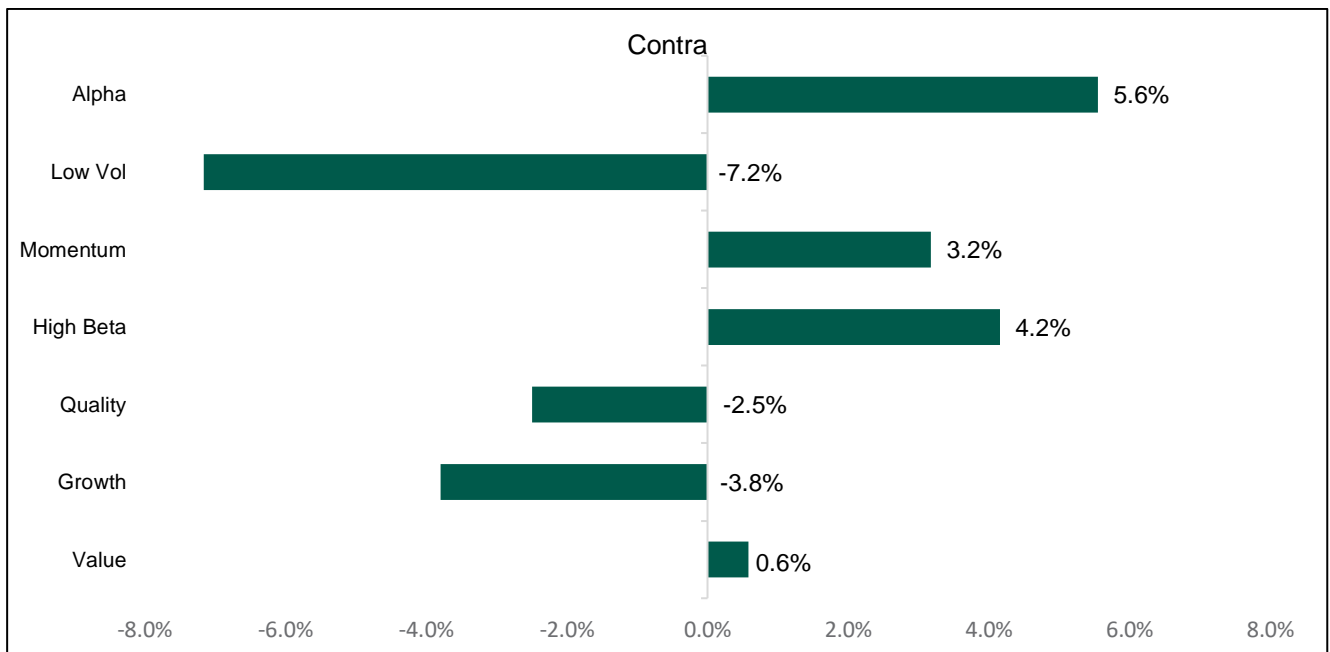
## Top 10 Holdings

Scrip Name	Market Cap (Cr)	Weight
Indus Towers Ltd	91,453	6.9%
Thomas Cook (India) Ltd	9,690	5.5%
Mahindra & Mahindra Ltd	3,35,734	5.2%
Indian Hotels Co Ltd	83,057	4.5%
Vedanta Ltd	1,67,237	4.4%
TVS Holdings Ltd	24,223	4.4%
Hindustan Petroleum Corp	73,133	4.4%
ITC Ltd	5,43,585	4.1%
Bank of Baroda	1,39,058	3.9%
CIE Automotive India Ltd	20,652	3.9%

## Portfolio Characteristics

	Contra
Number of constituents	28
Mcap Largest (Cr)	7,80,888
Mcap Smallest (Cr)	3,128
Mcap Average (Cr)	1,37,372
Mcap Median (Cr)	48,678

## 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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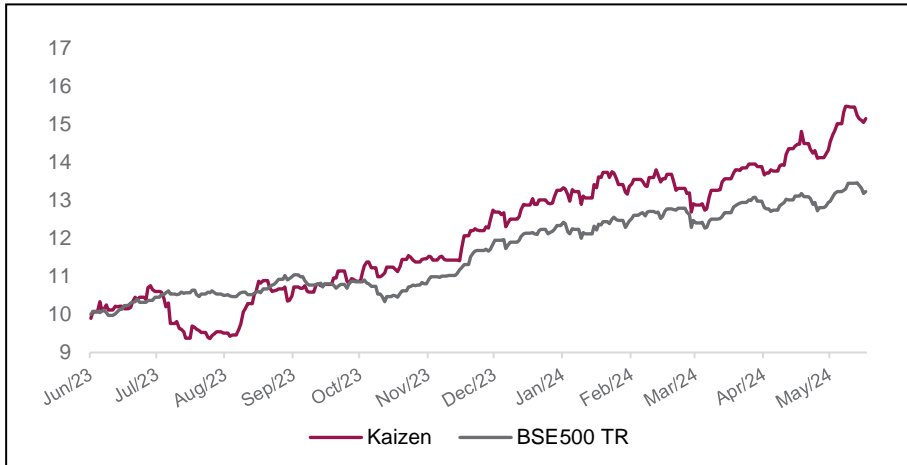
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# Axis Kaizen

31<sup>st</sup> May 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 TR
2024 (YTD)	14.7%	8.8%
2023	29.3%	21.6%

\*effective 15 June 2023

## Portfolio Performance

Particulars	1 month	3 months	6 months	Since Inception
<b>Kaizen</b>	4.70%	11.37%	27.44%	48.31%
<b>BSE500 TR</b>	0.83%	5.19%	17.75%	32.21%

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

## Risk Assessment

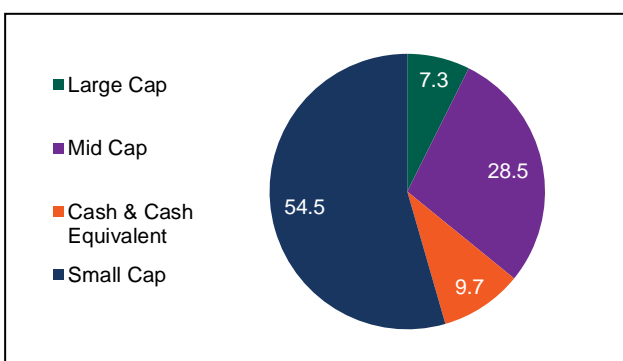
	Kaizen	BSE500 TR
Sharpe Ratio	2.12	2.35
Volatility	19.5%	10.7%
Portfolio Beta	1.01	1
Max Drawdown	-12.9%	-17.6%
Information Ratio	1.00	
Average Turnover Ratio	0.41	

## Key Portfolio Ratios

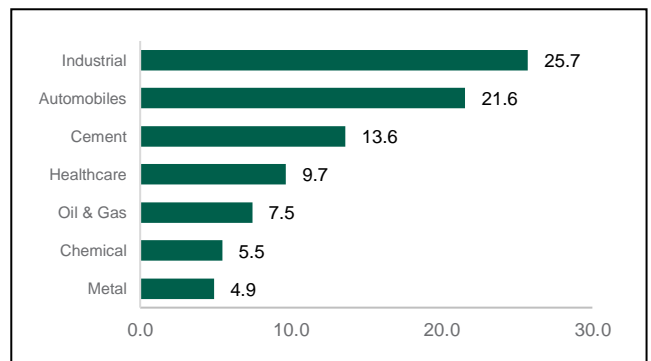
	Kaizen	BSE500 TR
PE*	14.75	25.85
PB	3.42	4.05
ROE*	22.79%	15.70%
Dividend Yield	1.02%	1.09%

\*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



## MANAGED ACCOUNTS

## Top 10 Holdings

Scrip Name	Market Cap (Cr)	Weight
VoltAmp Transformers Ltd	10,506	14.9%
Kesoram Industries Ltd	5,706	9.9%
Balkrishna Industries Ltd	60,119	8.3%
Kirloskar Pneumatic Co Ltd	7,740	7.8%
Hindustan Petroleum Corp	73,133	7.5%
Sansera Engineering Ltd	5,543	6.8%
CIE Automotive India Ltd	20,652	6.5%
AurobindoPharma Ltd	73,318	5.5%
SRF Ltd	68,133	5.5%
Ratnamani Metals & Tubes	23,831	4.9%

## Portfolio Characteristics

	Kaizen
Number of constituents	14
Mcap Largest (Cr)	73,318
Mcap Smallest (Cr)	2,362
Mcap Average (Cr)	31,890
Mcap Median (Cr)	23,831

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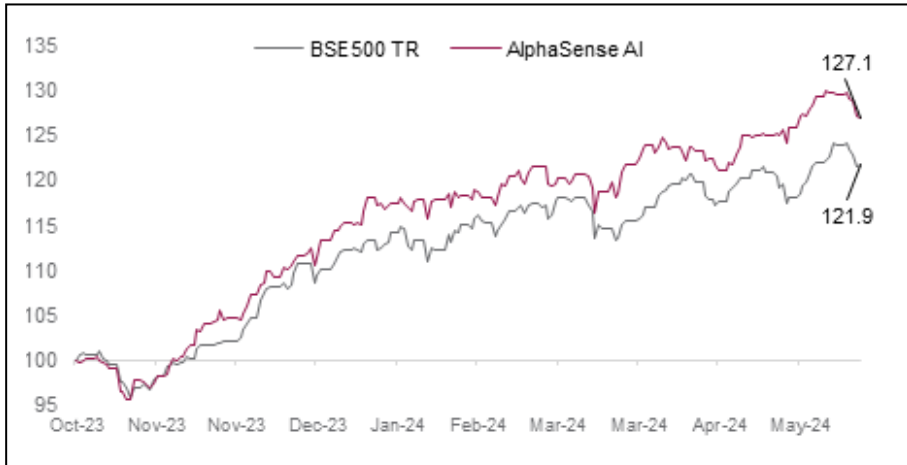
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# AlphaSense AI

31<sup>st</sup> May, 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 TR
2023*	15.2%	12.3%
2024 (YTD)	10.3%	8.5%

\*inception date 10<sup>th</sup> Oct 2023

## Portfolio Performance

Particulars	1 month	3 months	6 months	Since inception**
AlphaSense AI	1.5%	6.4%	19.8%	27.1%
BSE 500 TRI	0.6%	4.9%	17.2%	21.9%
Alpha (bps)	93	144	260	517

(\* Net of all charges) (\*\*Since 10<sup>th</sup> Oct. 2023)

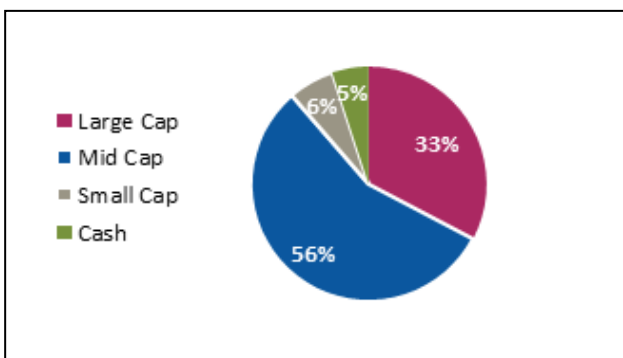
## Risk Assessment

	AlphaSense AI	BSE500 TR
Sharpe Ratio	1.68	1.36
Volatility	12.5%	11.7%
Portfolio Beta	0.80	1.00
Max Drawdown	-4.7%	-5.2%
Information Ratio	0.60	

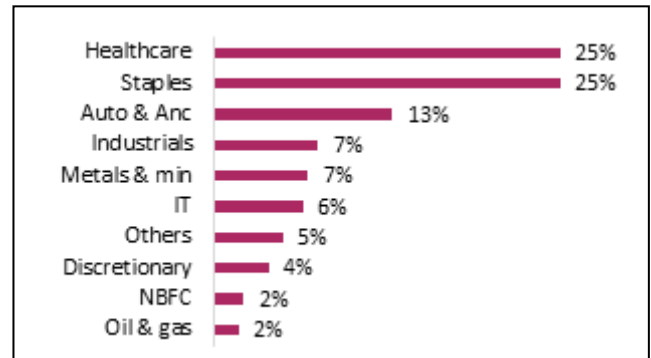
## Key Portfolio Ratios

	AlphaSense AI	BSE500 TR
PE	25.90	26.18
PB	7.97	3.55
ROE	30.78%	13.26%
Dividend Yield	2.68%	1.13%

## Market Capitalization



## Sector Allocation



## MANAGED ACCOUNTS

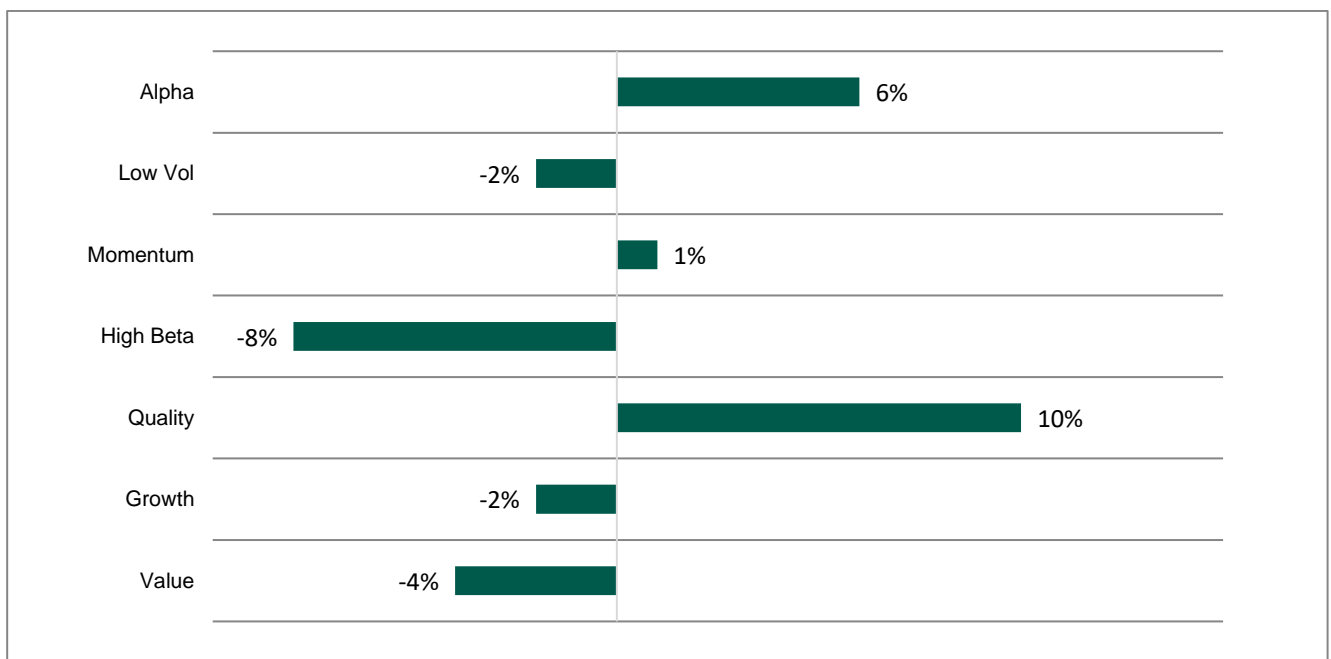
## Top 10 Holdings

Scrip Name	Market Cap (Cr)	Weight
COLGATE-PALMOLIVE (INDIA)	56,061.30	8.1%
ABBOTT INDIA LTD.	49,208.08	7.7%
AJANTA PHARMA LTD.	22,261.84	7.4%
BAJAJ AUTO LIMITED	1,48,424.88	7.0%
BRITANNIA INDUSTRIES LTD.,	1,13,982.89	6.7%
ORACLE FINANCIAL SERVICES SOFTWARE	35,021.08	6.3%
NESTLE INDIA LTD.	2,24,983.17	6.0%
AIA ENGINEERING LTD.	33,364.80	5.6%
NARAYANA HRUDAYALAYA	22,013.27	5.3%
SUPREME INDUSTRIES LTD.,	52,528.38	4.9%

## Portfolio Characteristics

	AlphaSense AI
Number of constituents	20
Mcap Largest (Cr)	5,60,828
Mcap Smallest (Cr)	19,293
Mcap Average (Cr)	95,699
Mcap Median (Cr)	51,347

## 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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