

# Strategy Memo

November 2023

# Strategy Memo

## Consistency of outperformance continues even in a down month

After a splendid run since Apr'23, the month of Oct'23 witnessed consolidation for the markets. The NIFTY50 Index, which represents Largecap stocks, registered a drawdown of 2.84% over the month. The broader BSE500TR Index, which is the benchmark for both our Pure Growth and Pure Contra strategies, marginally underperformed the Nifty50 Index, with a drawdown of 2.86% over the same period.

We are happy to report that both our Pure Growth and Pure Contra strategies have maintained their outperformance compared to their benchmark index – BSE500 TR even in a month where markets corrected significantly and were challenging. In Oct'23, both our Pure Growth and Pure Contra strategies outperformed their benchmark by 66bps and 42bps respectively (net of expenses). Over the past year, both strategies have consistently outperformed their respective benchmarks by 13.22% and 12.63%, respectively (net of expenses), a performance that we are extremely proud of.

In Oct'23, we observed that all major sectors, except for Real Estate, posted negative returns for the month. Sectors such as Consumer Discretionary, Consumer Staples, Real Estate and Energy outperformed the markets while Financials, Healthcare, Materials, Industrials, Utilities and Telecom lagged behind. Our Pure Growth strategy benefited from our overweight position in Consumer Discretionary and Consumer Staples as well as our underweight position in Utilities and Industrials, which contributed to positive alpha for the month. Stocks in this strategy that showcased notable outperformance included KDDL, One97 Communications, Ultratech Cement, Linde India, and TTK Prestige. On the flip side, CIE Automotive, Indian Hotels, Praj Ind, RBL Bank, Carborundum Universal, Sun Pharma, Jio Financial and Tech Mahindra were among the main laggards.

In our Pure Contra strategy, our overweight calls on Consumer Discretionary and underweight calls on Financials and Materials helped us generate Alpha.



*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, AnandRathi, MotilalOswal Financial Services etc.*

Stocks that significantly contributed to achieving alpha included Welspun Corp, Suzlon, KDDL, Power Grid, SBI Life, Kirloskar Brothers, Voltamp Transformers, and Suven Pharma, amongst others. On the other hand, RBL Bank, Jain Irrigation, Carborundum Universal, Indus Towers, Indian Hotels, and Bank of Baroda weighed on the overall performance of our strategy.

In this strategy note, we will discuss the Q2FY24 results along with the upgrade/downgrade cycle for each sector and our sectoral positioning in each strategy.

### Better-Than-Expected Q2FY24 Results

Q2FY24 proved to be a favourable quarter from an earnings perspective, with Nifty50 earnings experiencing a substantial YoY growth of 28%. This notable increase in earnings was primarily attributed to the transition from loss to profit by companies such as Tata Motors, BPCL, and JSW Steel. In the automotive sector, besides Tata Motors, other companies including Maruti, M&M, Eicher, Hero Motocorp, and Bajaj Auto performed well, benefiting from improved margin performance due to lower raw material prices.

The Private Sector Banks, including HDFC Bank, ICICI Bank, Kotak Bank, and IndusInd Bank, also delivered strong performances, with each witnessing a growth of at least 20% YoY. This positive earnings trend reflects the overall health and resilience of these sectors during Q2FY24.

The IT Sector lagged during Q2FY24, wherein names such as Tech Mahindra, LTI Mindtree, and Wipro witnessed earnings decline while TCS and Infosys witnessed single-digit earnings growth. In Metals, we witnessed earnings decline by Tata Steel and Hindalco, while in the Agrochem sector, UPL disappointed with a 90% YoY decline in earnings.

In both our Pure Growth and Pure Contra strategies, we continue to remain underweight in IT, Metals, Agro Chemicals, and Chemical sectors which have disappointed in Q2FY24.

Despite a few sectors disappointing, it is heartening to note that Nifty50 stocks delivered healthy overall earnings growth of 28% YoY. Consequently, the consensus EPS estimates for Nifty50 has increased by 1-2% for FY24 as well as FY25.

The results from the analysis of 49 companies in the Nifty 50 index (excluding Adani Enterprise) indicate a positive trend. Of these companies, 73% have either beaten or met the expectations for both earnings and revenue. This suggests a promising outlook for the future, indicating a broad-based growth in earnings across the Nifty50 index. The majority of companies performing well in both earnings and revenue is a positive sign for the overall health of the index.

### Nifty Q2FY24 (Results Considered)

Results Considered	Earnings			EBITDA			Revenue		
	Beat	In Line	Miss	Beat	In Line	Miss	Beat	In Line	Miss
49	19	17	13	20	16	11	10	26	13

Note: Not considered Adani Enterprise in this study

### Broader Market Profitability Crosses Rs 12 Tn

We tracked the trailing earnings of the last 4 quarters for the broader market, i.e., the NSE500 universe. It is heartening to see that the trailing 4 quarters' earnings for the NSE500 universe have crossed Rs 12 Tn and are now Rs 12.43 Tn as of the end of Q2FY24. This represents a healthy 26% growth over TTM earnings at the end of Q2FY23. A few sectors that are driving this strong growth include Autos, Discretionary, Financials, Oil & Gas, Utilities, and Transport. Sectors such as Metals, Building Materials and Telecom have seen earnings de-growth while IT, Chemicals and Pharma have witnessed muted growth during this period.

## Sector-wise Net profit for NSE 500 – Trailing 4 Quarters (In Cr)

	Q2FY20	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q2FY24	Growth %
Auto & Anc	36,212	40,331	42,081	45,088	43,028	49,650	57,353	15.50%
Staples	34,044	42,652	43,919	45,919	49,516	51,167	51,944	1.50%
Discretionary	18,283	21,470	24,360	25,563	30,085	30,501	31,057	1.80%
Financials	85,507	2,69,282	2,95,407	3,25,923	3,87,050	4,22,052	4,48,298	6.20%
IT	81,462	1,05,164	1,06,797	1,09,167	1,14,293	1,17,849	1,18,865	0.90%
Oil & gas	1,00,204	1,63,364	1,42,301	1,31,123	1,28,660	1,73,424	2,09,327	20.70%
Metals & min	58,266	1,47,291	1,19,152	99,487	88,438	76,782	76,168	-0.80%
Industrials	31,188	33,254	34,465	36,668	37,174	37,386	40,485	8.30%
Build Mate	22,387	32,381	29,296	28,432	23,965	22,436	28,301	26.10%
Healthcare	28,133	41,786	39,280	41,744	39,045	41,068	43,207	5.20%
Utilities	27,165	52,660	54,488	55,146	59,631	63,288	73,665	16.40%
Transport	2,462	-1,624	-1,495	97	4,152	8,632	10,470	21.30%
Agri&Chem	12,424	24,919	25,999	26,702	31,842	27,988	26,267	-6.20%
Tele & Media	-19,015	13,207	13,347	11,188	12,474	13,107	12,719	-3.00%
Others	12,486	25,407	17,533	17,011	16,661	18,422	15,787	-14.30%
<b>Total</b>	<b>5,31,208</b>	<b>10,11,545</b>	<b>9,86,930</b>	<b>9,99,258</b>	<b>10,66,015</b>	<b>11,53,755</b>	<b>12,43,913</b>	
<b>Ex Oil and Gas</b>	<b>4,31,004</b>	<b>8,48,181</b>	<b>8,44,629</b>	<b>8,68,135</b>	<b>9,37,354</b>	<b>9,80,330</b>	<b>10,34,586</b>	
<b>Total Growth</b>	<b>5%</b>	<b>-2%</b>	<b>1%</b>	<b>2%</b>	<b>7%</b>	<b>8%</b>		
<b>Growth ex Oil and Gas</b>	<b>7%</b>	<b>0%</b>	<b>3%</b>	<b>8%</b>	<b>5%</b>	<b>6%</b>		

## Broader Market Profitability Crosses Rs 12 Tn

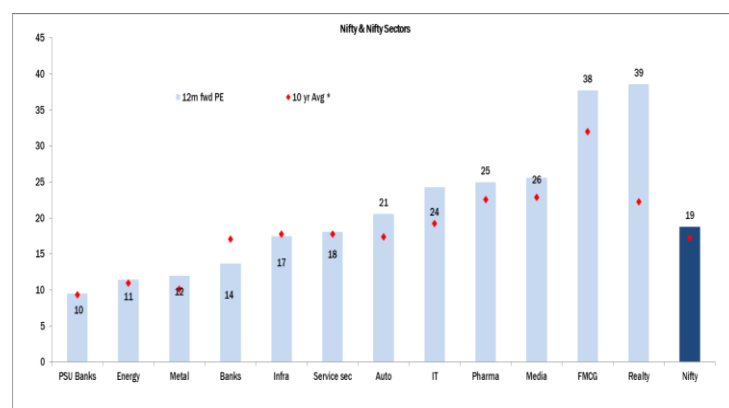
We tracked the trailing earnings of the last 4 quarters for the broader market, i.e., the NSE500 universe. It is heartening to see that the trailing 4 quarters' earnings for the NSE500 universe have crossed Rs 12 Tn and are now Rs 12.43 Tn as of the end of Q2FY24. This represents a healthy 26% growth over TTM earnings at the end of Q2FY23. A few sectors that are driving this strong growth include Autos, Discretionary, Financials, Oil & Gas, Utilities, and Transport. Sectors such as Metals, Building Materials and Telecom have seen earnings de-growth while IT, Chemicals and Pharma have witnessed muted growth during this period.

## Nifty50 Valuations

Currently, the NIFTY50 Index is trading at 19x from a one-year forward PER multiple, which is only slightly above its 10-year average. Thus despite the recent run-up in the equity markets, NIFTY50 valuations are

not significantly different from its long-term averages. Sectors that are trading at PER multiples significantly above their long-term average include Metals, IT, Pharma, Media, FMCG and Real Estate, while the sectors that are trading cheaper than their long-term averages include Banks and Infra.

The chart below shows the current one-year forward multiple for NIFTY50 and various sectors along with their last 10-year average multiple :



## Our View

Q2FY24 earnings season has turned out to be better than expected and has led to 1-2% upgrades in NIFTY50 earnings estimates for FY24 and FY25 respectively. Even on the valuation side, despite the strong run-up we have witnessed since Apr'23, the NIFTY50 index is trading close to its long-term average and thus is not in the euphoria zone. Thus strong earnings, reasonable valuations, and a strong growth outlook for India vis-a-vis other major economies bodes well for the Indian equity market's performance in the medium to long term. We thus recommend our investors to stay invested and utilize any short-term volatility to increase their equity market exposure.

## Happy Investing!

Nishit Master

## Summary of Strategy Changes Made in Oct'23

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

### Pure Growth Strategy Changes

Scrip Name	Action	Weight	Remark
KOTAK MAHINDRA BANK	SOLD	3.10%	Changes in the management structure likely to lead to underperformance
ULTRATECH CEMENT LIMITED	BUY	3.00%	A sharp rise in cement prices will lead to a jump in profitability

### Pure Contra Strategy Changes

Scrip Name	Action	Weight	Remark
CAN FIN HOMES LIMITED	SOLD	2.70%	The stock is unlikely to re-rate in the medium term
SUZLON ENERGY LIMITED	SOLD	5.00%	Fully valued at current levels; Valuation risks had increased substantially
THOMAS COOK (INDIA) LIMITED	BUY	3.00%	Sharp rise in profitability backed by reasonable valuations

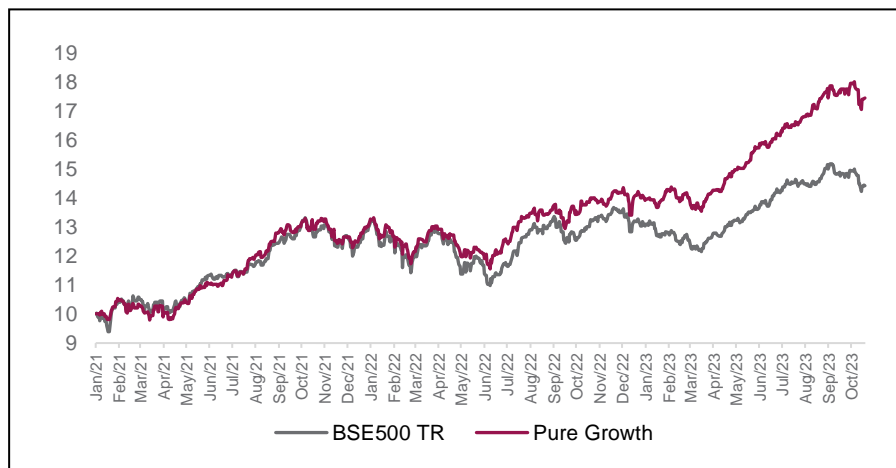
## MANAGED ACCOUNTS

## Axis Pure Growth

31<sup>st</sup> 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**
<b>Growth</b>	-2.20%	4.08%	17.84%	22.85%	14.40%	19.89%
<b>BSE500 TR</b>	-2.86%	-1.42%	10.89%	9.63%	6.74%	13.93%

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

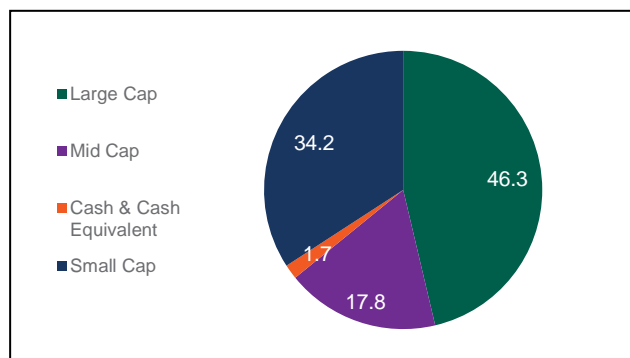
## Risk Assessment

	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	

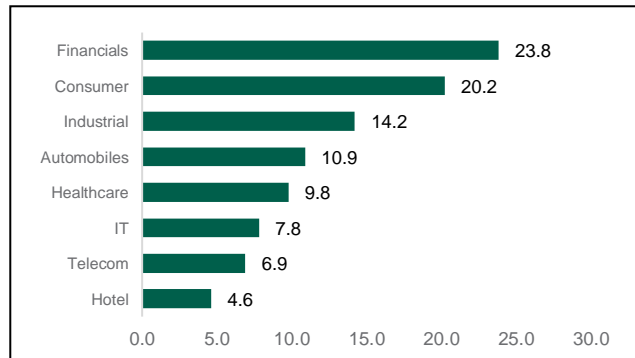
## Key Portfolio Ratios

	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

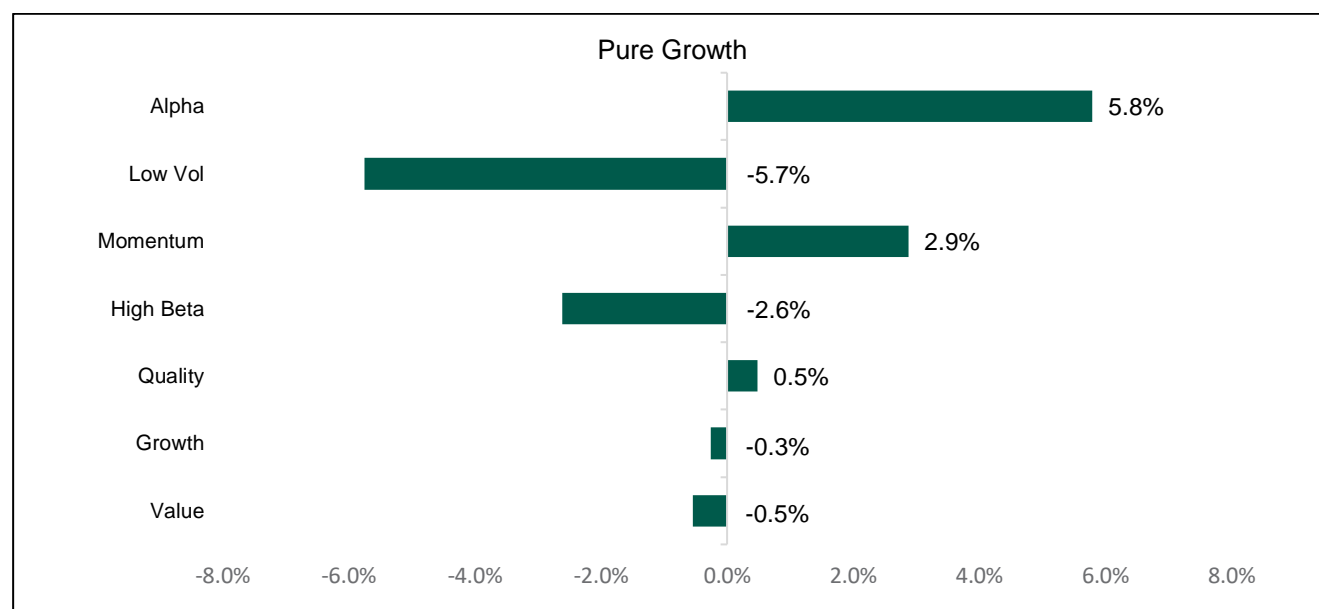
## Top 10 Holdings

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.

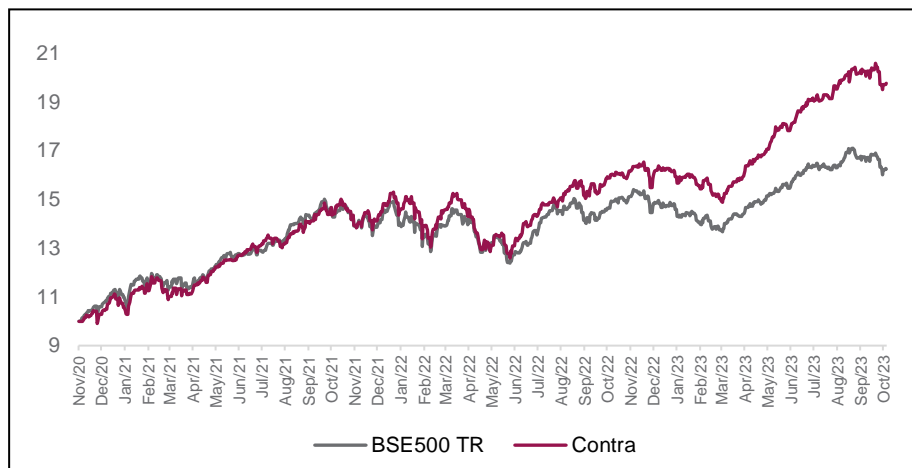
## MANAGED ACCOUNTS

## Axis Pure Contra

31<sup>st</sup> 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**
<b>Contra</b>	-2.44%	2.68%	20.60%	22.26%	15.71%	24.41%
<b>BSE500 TR</b>	-2.86%	-1.42%	10.89%	9.63%	6.74%	18.17%

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

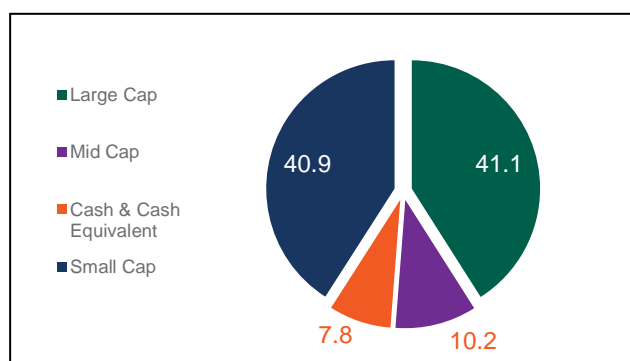
## Risk Assessment

	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	

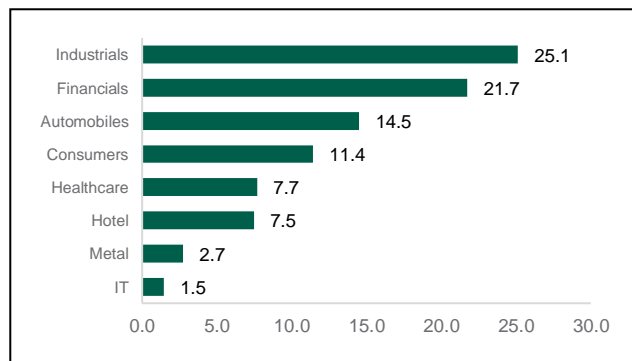
## Key Portfolio Ratios

	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

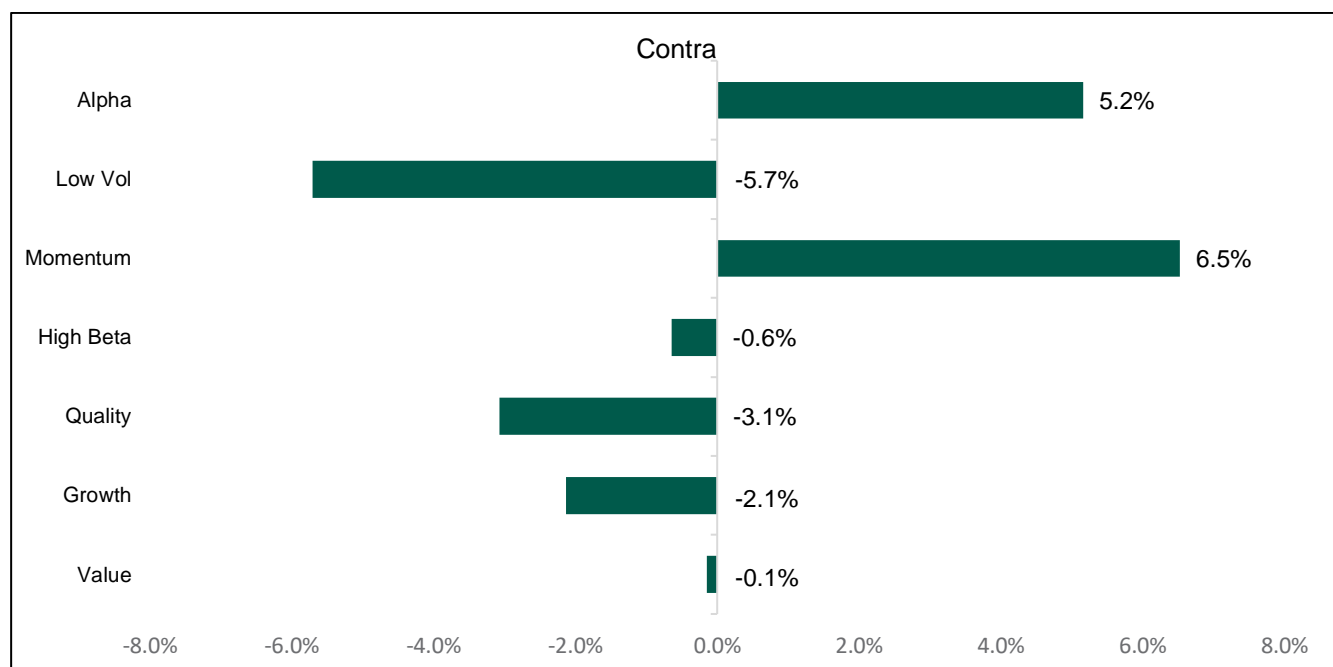
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Power Grid Corp Of India	1,92,755	5.2%
Carborundum Universal Ltd	20,334	4.9%
RBL Bank Ltd	14,443	4.8%
CIE Automotive India Ltd	18,094	4.8%
Indian Hotels Co Ltd	57,604	4.5%
SBI Life Insurance Co Ltd	1,34,747	4.4%
Mahindra & Mahindra Ltd	1,84,844	4.4%

## 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



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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