

India Avenue Investment Management is a boutique firm, focused on providing investment solutions for investors seeking to gain from benefit from India's multi-decade growth story. Our firm is domiciled in Sydney, Australia and has strong connectivity through its network in India. This includes our team in India, our fund advisers, stockbrokers, and other industry participants. This allows us to provide deep insights to our clients when it comes to investing successfully in the world's leading growth economy.

FUND DETAILS

Fund Manager	India Avenue Investment Management
Structure	Registered Investment Management Trust
Inception date	6th of September, 2016
Fund size	A\$107.3m
Base currency	AUD
Responsible Entity	Equity Trustees Limited
Custodian	Apex / BNP Paribas
Benchmark	MSCI India NR (AUD)
Distribution Frequency	Yearly as at 30 June
Management expense ratio	1.5% p.a. (H Class)
Buy-sell spread	0.35% / 0.35%
Performance fees	10% of excess above benchmark (H Class)
ARSN Number	611374586

FUND OBJECTIVE

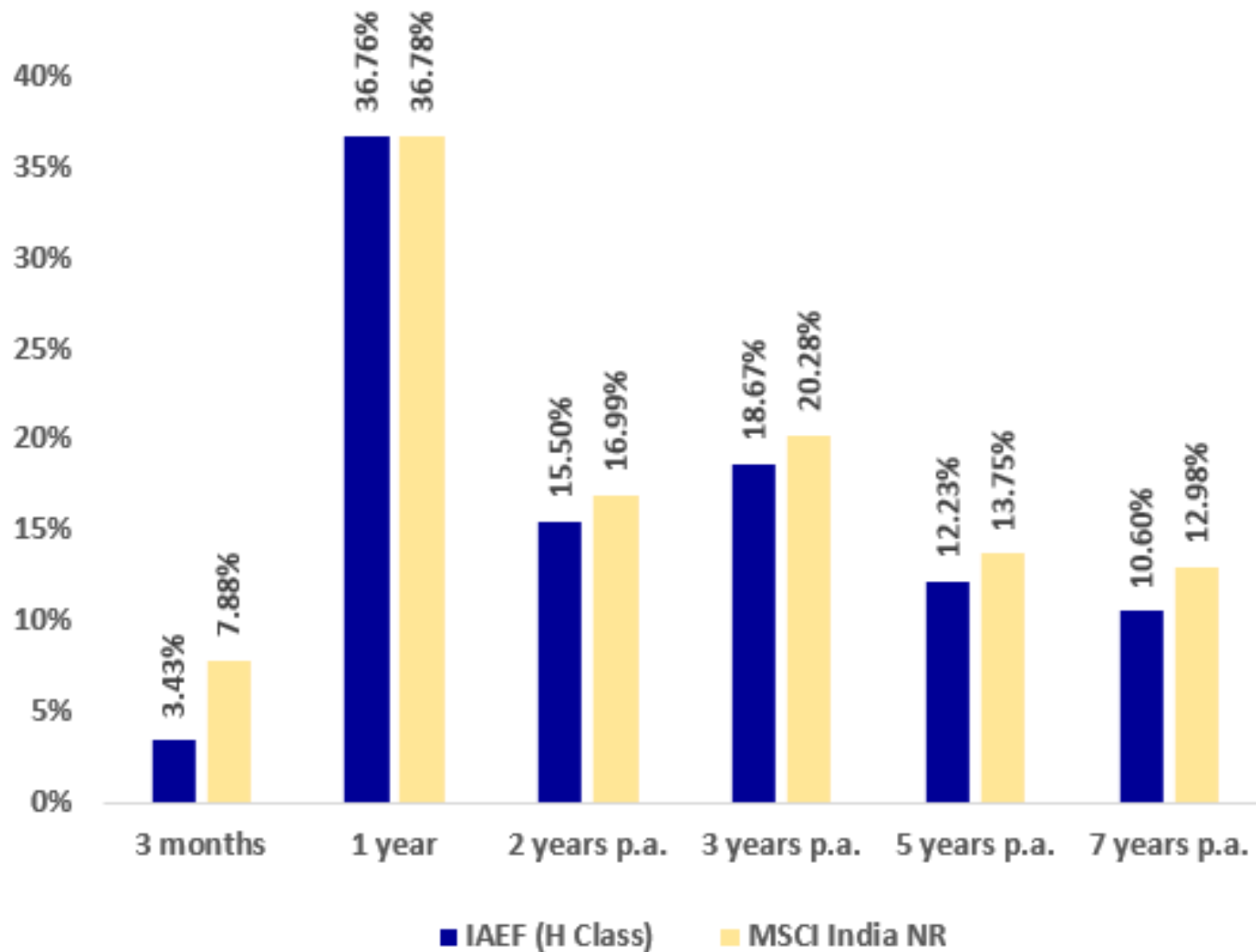
The India Avenue Equity Fund is a registered, unlisted unit trust, which invests in listed companies trading on Indian stock exchanges or on other exchanges, with significant exposure to India's economy. The Fund aims to outperform its benchmark in AUD terms, after fees and over rolling 5-year periods.

FUND RATING

Lonsec : Recommended ¹
(refer to the disclaimer section on page 5)

INVESTMENT PERFORMANCE

**India Avenue Equity Fund
H Class vs MSCI India India (Net Returns) in AUD
30 April 2024**



Source: MSCI

*Performance is calculated on a post fee, post-CGT and withholding taxes paid in India.

COMMENTARY

The Fund returned 3.43% (H Class Units) over the last three months to 30 April 2024, underperforming its benchmark by 4.45%. Over the last 12 months the Fund returned 36.76%, underperforming its benchmark by 0.02% over the period. In 2024 so far, the MSCI India's returns have been driven by increased passive flows from global asset allocators, when it became evident in early December that the Modi-led BJP was likely to triumph at the upcoming National Elections (results to be announced on June 4th, 2024). This has led to underperformance of our actively positioned portfolio in the short-term.

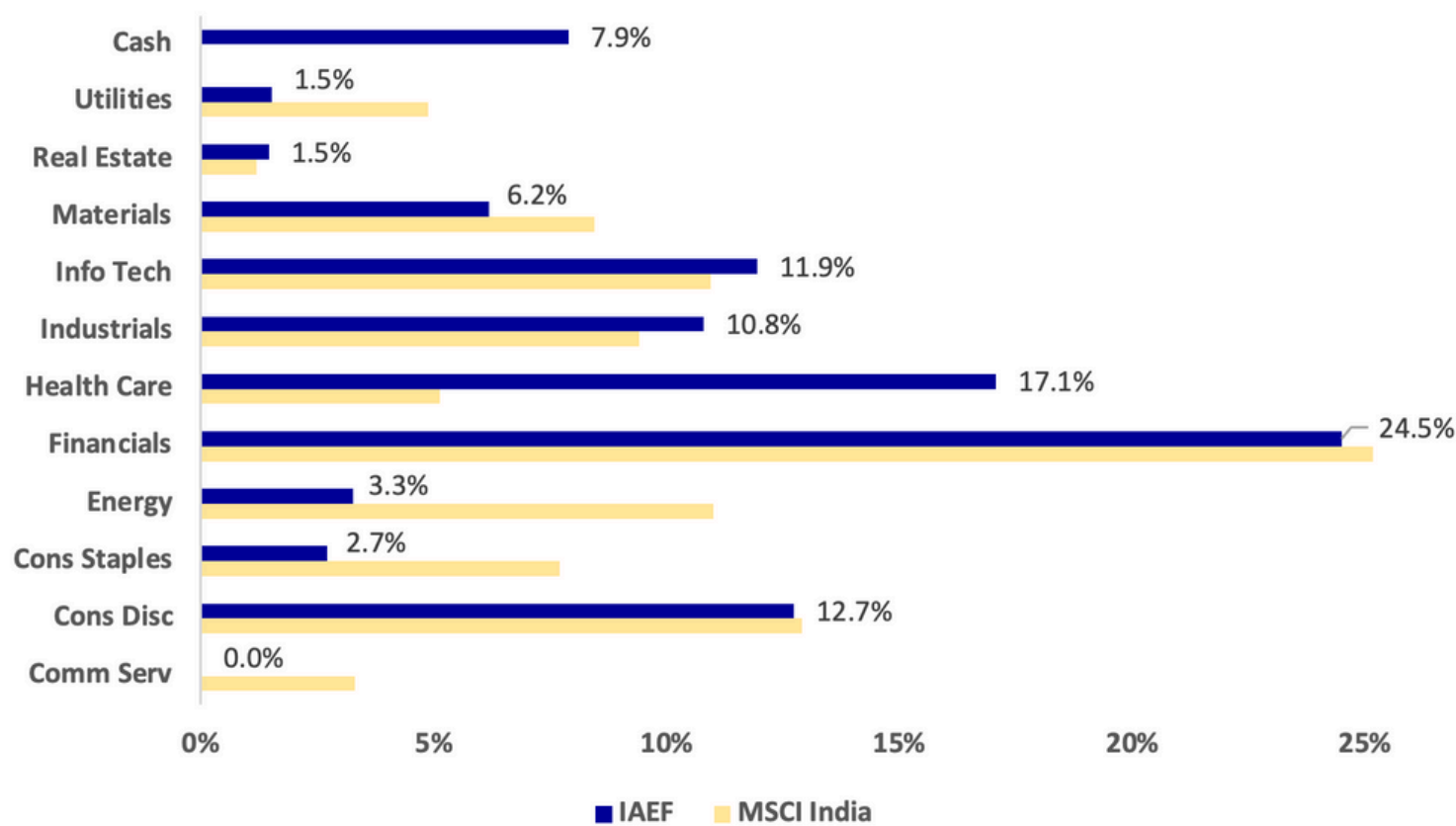
Industries driving returns this year include Energy, Utilities and Government owned Banks. Typically, these are categories which the Fund is structurally underweight to. Our proposition is aligned to identifying undervalued (where possible) growth opportunities which may be typified by leading players in emerging addressable markets, cyclical industries returning to strength or companies which are undervalued relative to their fundamentals.

As a result of this positioning the India Avenue Equity Fund's structural positioning tends to be biased towards the value style and small and mid-cap stocks (due to the vast opportunity set of 6,000 plus listed stocks, of which our universe is approximately the top 1000 stocks). MSCI India, our benchmark, is capitalisation weighted, with the top 10 stocks being approximately 35% of the exposure. It is our view that the growth potential of most the "mega cap" stocks is largely understood due to the level of broker research available.

Past performance is not an indicator of future performance. Above returns are calculated based on the exit price of 31st March 2024, net of fees and assuming reinvestment of dividends. Returns of longer duration than 1 year are annualised. Performance calculations are not inclusive of any rebates.

SECTOR EXPOSURE

IAEF vs MSCI India - Sector Composition
as at 30 April 2024



Source: Foresight Analytics

PORTFOLIO CHARACTERISTICS

Filters	IAEF	MSCI India
Return on Invested Capital	12.1%	11.8%
Gross Profit Margin	41.8%	38.3%
Asset Growth 3 years	14.8%	12.7%
Forecast LT Sales Growth	13.5%	12.0%
Earnings Growth 12m Forward	14.1%	13.5%
Book to Price	3.7x	4.1x
P/E Forward 12-mth	17.9x	22.5x
Free Cash Flow Yield	3.80%	3.45%
Exposure to Inflation	0.14	0.11
Exposure to Oil Return	0.25	0.21
Beta	1.07	1.00
Mkt Cap	\$35.7bn	\$94.5bn

Source: Foresight Analytics

TOP 10 STOCKS

Companies	Sub sectors	Weight
Bajaj Finance	Non-Bank Lender	4.6%
HDFC Bank	Private Bank	4.3%
Hero MotoCorp	Automobile	3.7%
Aurobindo Pharma	Healthcare	3.3%
ICICI Bank	Private Bank	3.1%
Interglobe Aviation	Transport Services	2.7%
Tata Motors	Automobile	2.5%
Infosys	IT Outsourcing	2.4%
Bharat Petroleum Corp.	Energy	2.3%
Amara Raja Energy & Mobility	Auto Components	2.3%
Top 10 Weight		31.1%

HIGHLIGHTS

- The Fund is overweight to Healthcare (almost exclusively Pharmaceuticals), Information Technology (IT outsourcing firms, with a global client base) and Industrial (playing to the themes of Infrastructure, Capex) sectors.
- We have reduced the exposure to Financials (Banks), Consumer Discretionary (Auto/Auto Ancillary) and Real Estate (Developers) sectors in 2024.
- We expect to see IT exposure rise over the rest of the year, given Indian tech firms are well placed to win market share in the global outsourcing/consulting, cloud migration, digital enablement and artificial intelligence integration.
- India's Pharma industry is also poised to make global market share gains in generic drug manufacture, given strong balance sheets, low-cost production and upcoming patent expiries.
- Over the last 12 months the Fund has benefited from rising valuations assigned to Automobile stocks, increasing sales and a focus on rising EV penetration of Tata Motors (CV/PV) and Hero MotoCorp (2w).

- The P/E discount is close to 20% to the benchmark, illustrating that the growth story can be bought with a backdrop of reasonable valuations.
- From a quality perspective, the more important biases for our positioning are ROIC over ROE and Gross Profit Margins over Profit Margins.
- Interestingly, the Fund's positioning has a positive bias towards rising rates and oil prices, which we see as potential risks given the current environment for inflation and geo-political risks. These are also economic factors which can put a handbrake on India's GDP growth in the short to medium-term.
- The focus of the Fund is more on Asset Growth, rather than Earnings Growth.
- Market cap is a significant discount to the benchmark market cap. This is driven by our positioning as highlighted later in this document, but also due to the top heaviness of the Index (top 10 companies by market cap are close to 35% of the weight of the MSCI India, with average market cap of A\$170bn).

- The Fund's weighting to its Top 10 continues to increase through rising incremental exposure to larger cap companies is occurring with conviction rather than diversification.
- Over the month of April, we increased exposure to Bajaj Finance (housing, personal finance), Hero MotoCorp (leading 2-wheel manufacturer), Aurobindo Pharma (US generic pharma) and Interglobe Aviation (leading market share in aviation).
- Amara Raja Energy & Mobility (due to strong outperformance) has carried itself into our top 10. The company is evolving from lead acid battery manufacturing for most OEMs in India and across 50 countries. It is also developing Li-ion cells, battery packs and charging solutions for EV's and the telecom industry. The company has a state-of-the-art gigafactory in the works.

ATTRIBUTION HIGHLIGHTS

Sector Selection – Value Add			Stock Selection – Value Add		
Real Estate	(ow)	1.60%	Financials		2.70%
Cons. Staples	(uw)	1.34%	Industrials		2.06%
Healthcare	(ow)	1.03%	Healthcare		1.97%

Sector Selection – Value Detraction			Stock Selection – Value Add		
Cash	(ow)	-2.44%	Cons. Discretionary		-2.25%
Financials	(ow)	-1.00%	Utilities		-0.99%
Utilities	(uw)	-0.94%			

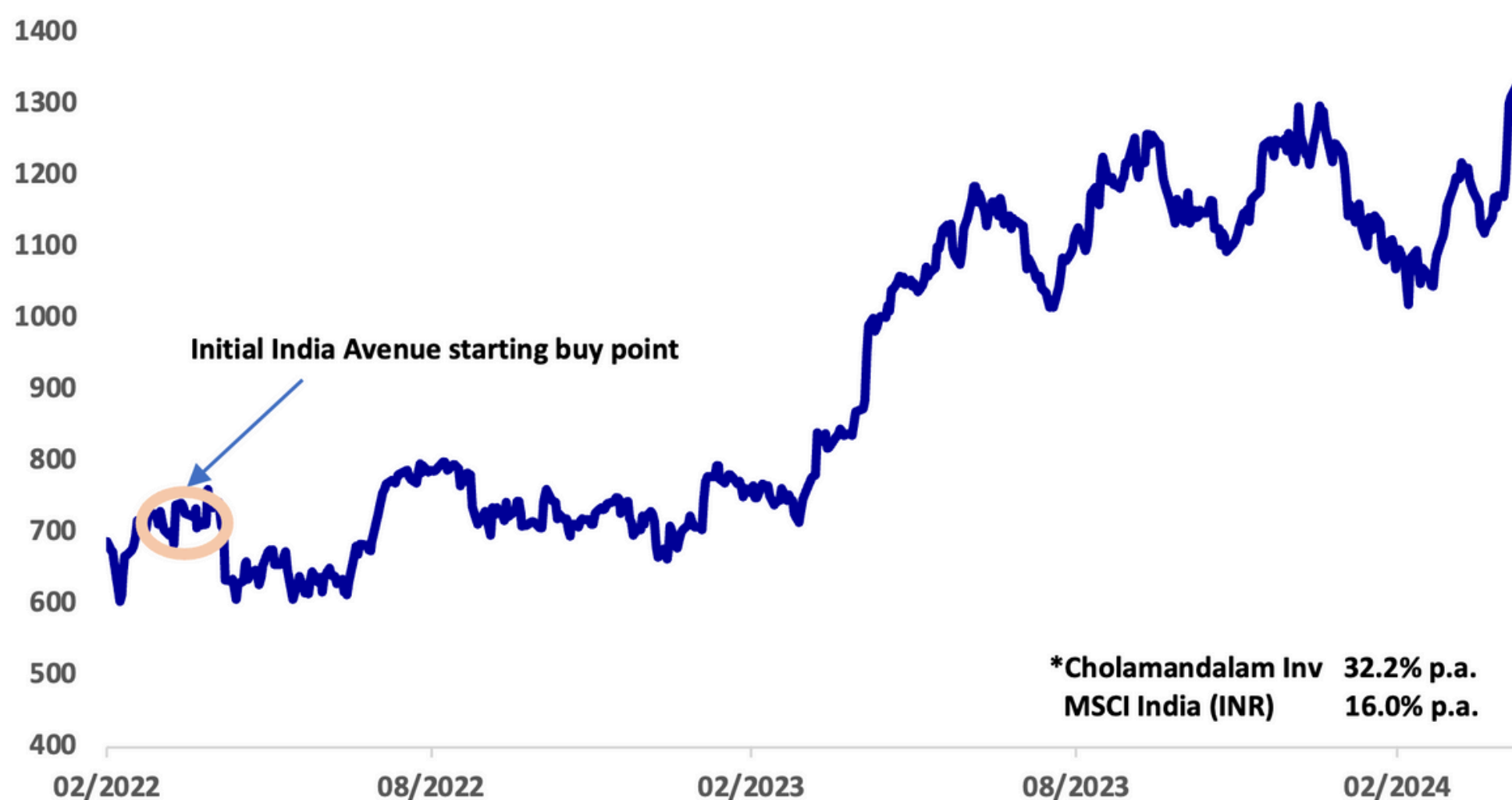
Source: Foresight Analytics

SUMMARY

- Over the last 12 months the Fund’s attribution indicates a strong positive contribution from stock selection, primarily driven by Financials, Industrials and Healthcare.
- Detraction in stock selection occurred in Consumer Discretionary and Utilities.
- In sector allocation the Fund benefitted from being appropriately overweight in Real Estate and Healthcare sectors as well as underweight Consumer Staples.
- Holding some Cash (as markets continued to rally), being overweight Financials and underweight Utilities lead to a negative contribution from sector selection.

OUR STOCKS

Playing to India’s rising wealth and financialisation - Cholamandalam Investment & Finance (market cap A\$18.6bn)



Source: MSCI, Yahoo Finance *Graph of stock price vs benchmark from 28/02/2022 – 10/05/2024 (IAEF holding period, average purchase price Rs. 814)

The Cholamandalam Investment and Finance company is part of the Murugappa Group (established in 1900), one of India’s leading conglomerates, headquartered in Chennai. The Group has leadership position in many industries and has forged many strong relationships globally. The Chola brand is significant within the Murugappa Group, forged over 45 years across India, with a work force of over 54,000 and over 1,380 branches. The non-bank financial company has A\$27bn in assets under management across 3.6 million customers.

The company is involved in vehicle loans, mortgages, consumer and personal loans, SME loans, stock broking and distribution of financial products. Over FY24, the company registered asset growth of 37% (25% CAGR over the last 15 years) and profit growth of 27% (43% CAGR over the last 15 years). Net interest margins were 7.5% over FY24 and ROE was over 20%. Additionally, net non-performing loans fell to 2.3% compared to 3.1% in FY23. Essentially the business focuses on MSME’s and leaves the banking to larger institutions to the Banks.

90% of locations are in Tier III-VI cities (84% rural) and over 30% in the South (which has a far higher GDP-per-capita, than the rest of India). On the funding side, over 75% comes from Bank Term Loans, Securitisation and Debentures (private).

Shareholders include 50% held by promoters (Murugappa Group), 26% by foreign investors such as Capital Group, Vanguard, Blackrock, and Norges Bank. Local Mutual Funds hold 17% of the stock. Cholamandalam Investment & Finance is unlikely to be held by many active Global or Emerging Market investors due to its valuation (4-5x book, 28x P/E). However, the nature of its compounding growth story is likely to be best understood by local investors who have a command of the demographic opportunity, financialisation and the microeconomics of MSME’s.

Please refer to the latest company presentation

https://files.cholamandalam.com/Chola_Investor_presentation_Mar_24_ed48769955.pdf

CAPITALISATION

	IAEF	Top 500	MSCI Cap Band
Large Caps (Top 100)	46.0%	74.2%	A\$16-368bn
Mid Caps (Next 150)	13.4%	17.4%	A\$4.8-16.0bn
Small Caps (Next 250)	28.5%	8.4%	A\$0.6-4.8bn
Micro Caps (Outside Top 500)	4.2%	0.0%	< A\$0.6bn
Cash	7.9%	0.0%	
Total	100%	100%	

Source: Foresight Analytics

INDIA AVENUE'S ADVISERS

Adviser	Style	No. of Stocks
1	Growth and Quality	20-30
2	Business Cycle, Value	10-20
3	Intrinsic Value	20-25
4. Portfolio Overlay	Completion Strategy, Large Cap	10-15
India Avenue Equity Fund	Value, SMID Caps	50-70

OUR NETWORK

India Avenue's network in India, apart from our advisers mentioned above, also includes our team based in Mumbai, our panel of stockbrokers (including strategists, economists, and analysts) and access to industry experts and company management.

Currently the focus of our network is on India's National Elections, being held in India from 19 April to 1 June 2024 in seven phases (four of which are complete as at 13 May 2024), to elect 543 members of the Lok Sabha. The votes will be counted, and results declared on 4 June 2024. The incumbent party, the Bharatiya Janata Party (BJP led by Narendra Modi) will be contesting for a third successive term. Close to 970 million will be eligible to vote, which accounts for 70% of India's 1.44bn population.

The consensus view is that the BJP will return to power for another five-year term from 2024-2029. The BJP, having won 303 seats in the 2019 elections, with a clear majority, is aiming ambitiously for 400 seats and another clear majority. So far in early indications the turnout at the polls has been lower than expected, which could lead to some volatility around the outcome. Post the election, the next key date will be in July, when the full budget for FY24-25 will be delivered. This will indicate the Government's focus going forward.

INSIGHTS

- The Indian market regulator, SEBI has provided uniform clarification for regulated investment managers in terms of the capitalisation categories they choose to invest in. This provides greater investor understanding when choosing a fund.
- We segregate our Fund's positioning in the same manner. Given that the growth of investment from domestic investors (via mutual funds) has been significant and rising over the last 10 years. It holds significance for our structural positioning.
- Our portfolio has maintained a bias towards Small Caps and "Value" to capitalise on the investing preferences of locally based investors. The greatest mis pricing of securities occurs in the Small and Micro Cap segment, given limited institutional investment and broker coverage.

- The investment process applied by the Fund is focused on "insourcing stock selection" from locally based fund managers in India. Our edge comes from these advisory partnerships via an investment mandate with these fund managers. We refer to these managers as our advisers.
- These fund managers have significant track records built on investing in India's local corporate ecosystem, which holds a significant IP advantage in our view.
- This brings a deeper, more insightful understanding of regulation, local politics, market size and growth and most importantly, an understanding of local founder behaviour and treatment of minority shareholders (given India's stock market cap is more than 40% held by locally based founders).

Website

Our Research

Invest Now

In the Media

FUND DETAILS

30.04.2024	H Class
NAV	1.8252
Management Fee	1.50%
Performance Fee	10% of excess
FY23 Distribution	0.0972
ARSN	611374586
ISIN	AU60ETL04784
APIR	ETL0478AU
Morningstar Code	41828

DISCLAIMER

Equity Trustees Limited (“Equity Trustees”) (ABN 46 004 031 298) (AFSL 240975), is the issuer and Responsible Entity for the India Avenue Equity Fund (“the Fund”). Equity Trustees is a subsidiary of EQT Holdings Limited (ABN 22 607 797 615), a publicly listed company on the Australian Securities Exchange (ASX: EQT). The Investment Manager for the Fund is India Avenue Investment Management Australia Pty. Ltd. (“IAIM”) (ABN 38 604 095 954) (AFSL 478233). This publication has been prepared by IAIM to provide you with general information only. In preparing this information, we did not take into account the investment objectives, financial situation or particular needs of any particular person. It is not intended to take the place of professional advice and you should not take action on specific issues in reliance on this information. Neither Equity Trustees, IAIM nor any of their related parties, their employees, or directors, provide any warranty of accuracy or reliability in relation to such information or accept any liability to any person who relies on it. Past performance should not be taken as an indicator of future performance and no guarantee of performance, the return of capital or a particular rate of return is given. You should obtain a copy of the Product Disclosure Statement before making a decision about whether to invest in this product (indiaavenue.com.au/our-fund/).

Any and all forward looking statements are expressions of our intent, belief or current expectations with respect to market conditions. Readers are cautioned not to place undue reliance on these statements. It is not intended to take the place of professional advice and you should not take action on specific issues in reliance on this information. You should consider its appropriateness regarding your particular objectives, financial situation and needs and consider obtaining independent advice before making any financial decisions.

India Avenue Equity Fund’s Target Market Determination is available on our website: www.indiaavenue.com.au

A Target Market Determination is a document which is required to be made available from 5 October 2021. It describes who this financial product is likely to be appropriate for (i.e. the target market), and any conditions around how the product can be distributed to investors. It also describes the events or circumstances where the Target Market Determination for this financial product may need to be reviewed.

1 Lonsac Disclaimer: The Lonsac Rating (assigned March 2023) presented in this document is published by Lonsac Research Pty Ltd ABN 11 151 658 561 AFSL 421 445. The Rating is limited to “General Advice” (as defined in the Corporations Act 2001 (Cth)) and based solely on consideration of the investment merits of the financial product. Past performance information is for illustrative purposes only and is not indicative of future performance. It is not a recommendation to purchase, sell or hold India Avenue Investment Management Limited’s product, and you should seek independent financial advice before investing in this product. The Rating is subject to change without notice and Lonsac assumes no obligation to update the relevant document following publication. Lonsac receives a fee from the Fund Manager for researching the product using comprehensive and objective criteria. For further information regarding Lonsac’s Ratings methodology, please refer to Lonsac’s website at: <http://www.lonsacresearch.com.au/research-solutions/our-ratings>

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