

*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

<b>Fund Manager</b>	India Avenue Investment Management
<b>Structure</b>	Registered Investment Management Trust
<b>Inception date</b>	6th of September, 2016
<b>Fund size</b>	A\$125.0m
<b>Base currency</b>	AUD
<b>Responsible Entity</b>	Equity Trustees Limited
<b>Custodian</b>	Apex / BNP Paribas
<b>Benchmark</b>	MSCI India NR (AUD)
<b>Distribution Frequency</b>	Yearly as at 30 June
<b>Management expense ratio</b>	1.50% p.a. (H Class)
<b>Buy-sell spread</b>	0.35% / 0.35%
<b>Performance fees</b>	10% of excess above benchmark (H Class)
<b>ARSN Number</b>	611374586

## FUND OBJECTIVE

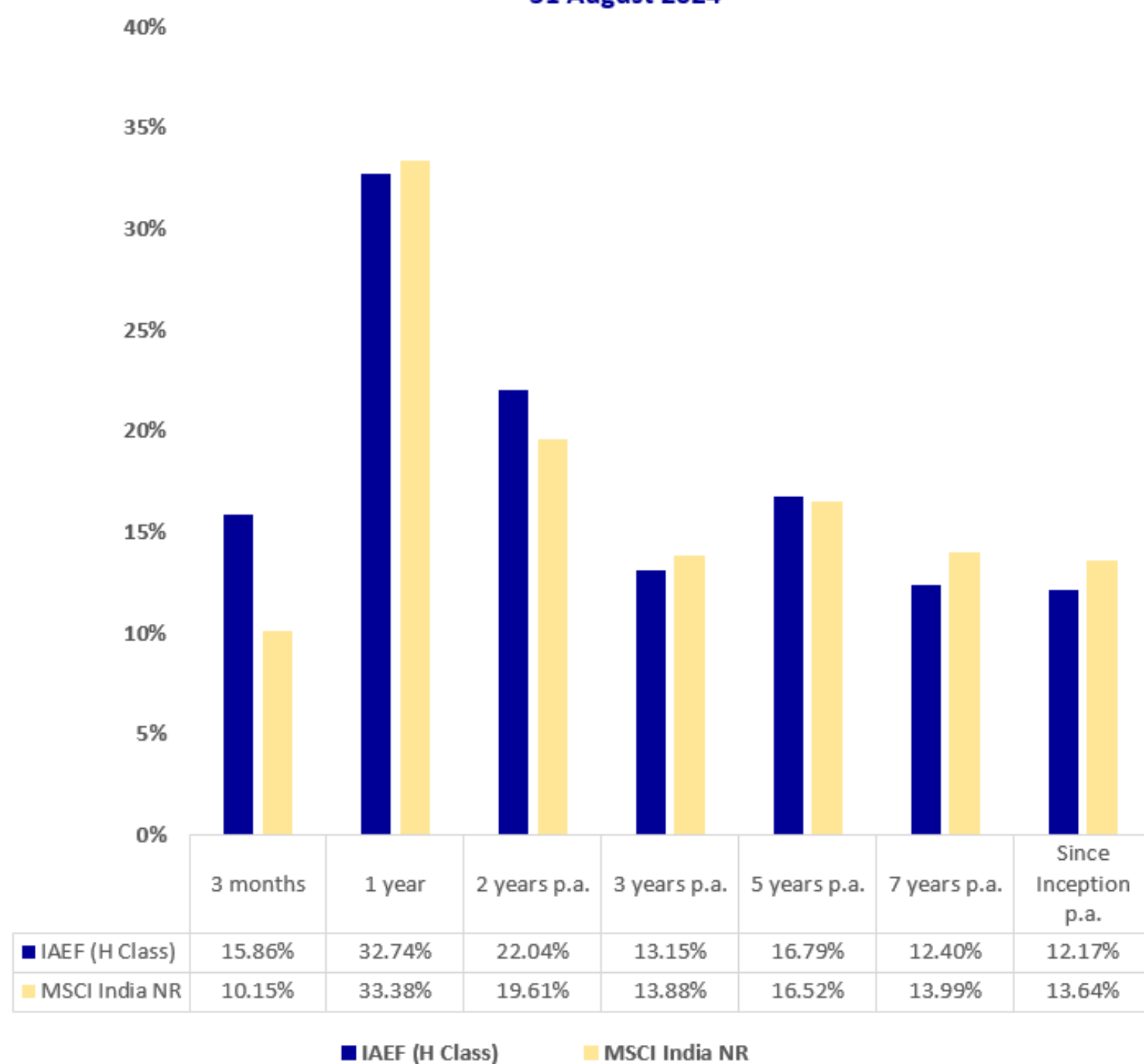
The India Avenue Equity Fund is a registered, unlisted unit trust, which invests in listed companies trading on Indian stock exchanges or on other exchanges, with significant exposure to India's economy. The Fund aims to outperform its benchmark in AUD terms, after fees and over rolling 5-year periods.

## FUND RATING

Lonsec : Recommended <sup>1</sup>  
(refer to the disclaimer section on page 5)

## INVESTMENT PERFORMANCE

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



*Performance is calculated on a post-fee, post-CGT and with holding taxes paid in India. Past performance is not an indicator of future performance. Returns are calculated based on the exit price of 31st August 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.*

## COMMENTARY

The Fund returned 15.86% (H Class units) over the last three months to 31 August 2024, outperforming its benchmark by 5.71%. Over the last 12 months it returned 32.74%, underperforming its benchmark by 0.64% over the period. The Indian economy's rebound post-pandemic has been strong, driven by government capital expenditure, infrastructure projects, and a focus on manufacturing. The equity market has correspondingly rallied significantly since its low point in March 2020, which has been highly rewarding for investors.

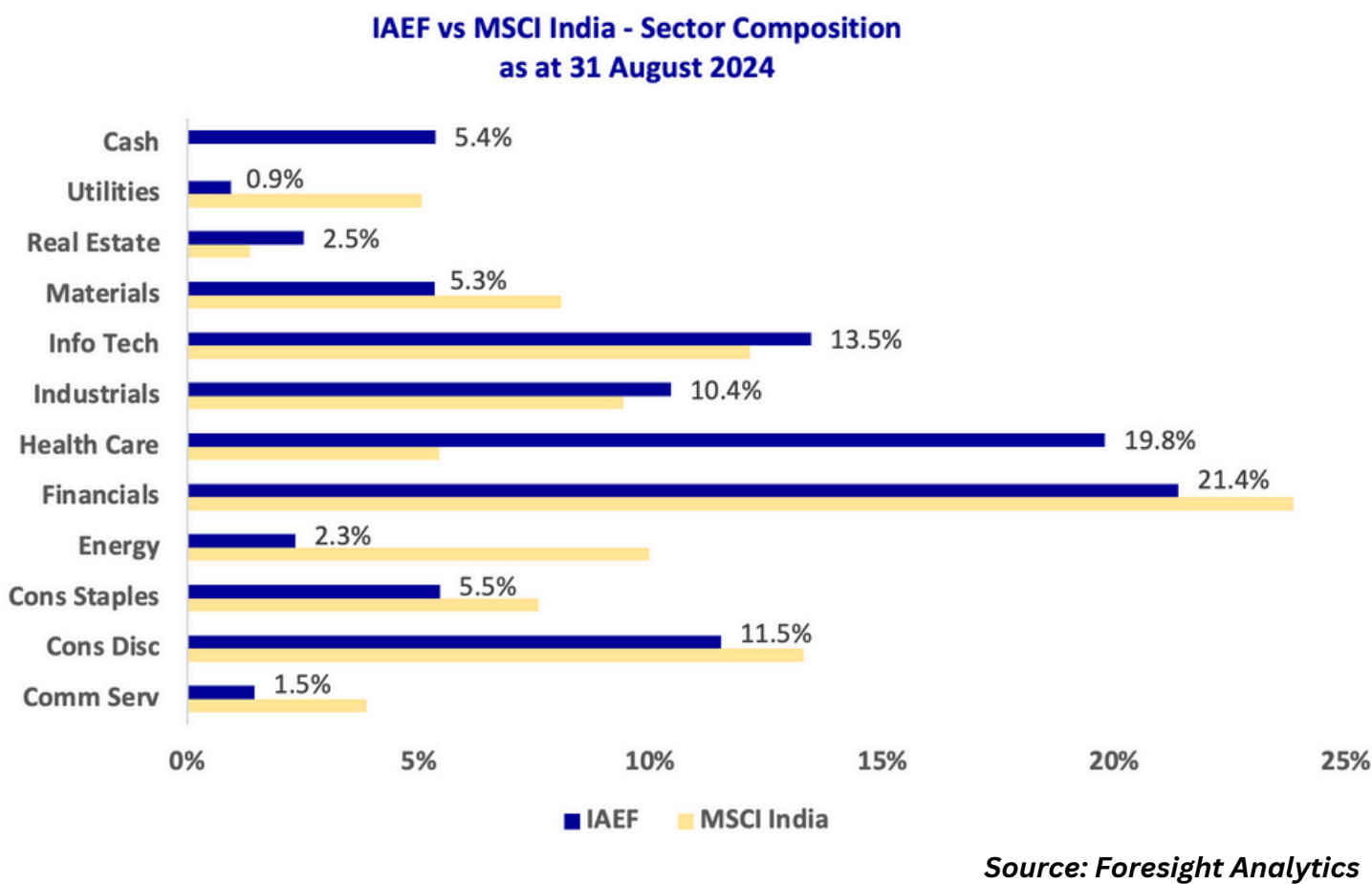
The Fund continues to be a beneficiary of its alignment to what local investors are buying. This is significant as local investors have been the incremental buyer, adding US\$35bn predominantly through monthly investment plans into local mutual funds.

The outperformance of small and mid-cap stocks in recent years highlights the benefits of improved infrastructure, digitisation, and government spending. Profit pools have broadened, with MSME's now more significant in their contribution relative to pre pandemic. It's interesting to see how the valuation gap between mid/small cap and large cap stocks has closed, with some mid and small caps even surpassing their larger peers in valuation due to faster earnings growth.

From here, its sustained earnings growth that will lead to outperformance rather than mean reversion or catch up. Monitoring corporate earnings growth of our portfolio companies relative to the broader market, seems like a prudent strategy.



SECTOR POSITIONING



PORTFOLIO CHARACTERISTICS

Filters	IAEF	MSCI India	Factor Perf. (12m)
Return on Invested Capital	14.4%	13.7%	-1.76%
<b>Gross Profit Margin</b>	<b>48.6%</b>	<b>40.1%</b>	<b>6.31%</b>
Asset Growth 3 years	14.6%	13.1%	-13.45%
Forecast LT Sales Growth	14.3%	13.5%	-6.62%
Forecast LT Earnings Growth	18.4%	18.1%	-2.51%
Price-to-book	4.8	4.5	1.71%
<b>P/E Forward (Mar-26)</b>	<b>20.6</b>	<b>21.7</b>	<b>7.44%</b>
Free Cash Flow Yield	3.3%	3.0%	-0.45%
Dividend Yield	1.0	1.0	3.15%
<b>Beta</b>	<b>1.1</b>	<b>1.0</b>	<b>1.96%</b>
<b>Market Cap</b>	<b>\$38.2bn</b>	<b>\$94.7bn</b>	<b>13.66%</b>

Source: Foresight Analytics

TOP 10 STOCKS

Aurobindo Pharma	Pharmaceuticals	3.69%
Cholamandalam Inv & Finance	Non-Bank Lender	2.98%
Infosys	IT Outsourcing	2.93%
Interglobe Aviation	Aviation	2.68%
Hero Motocorp	Autos / 2-wheelers	2.56%
Amara Raja Batteries	Auto Components	2.37%
HCL Technologies	IT Outsourcing	2.37%
Marksans Pharma	Pharmaceuticals	2.25%
HDFC Bank	Private Bank	2.23%
Bajaj Finance	Non-Bank Lender	2.13%
<b>Top 10 Weight</b>		<b>26.2%</b>

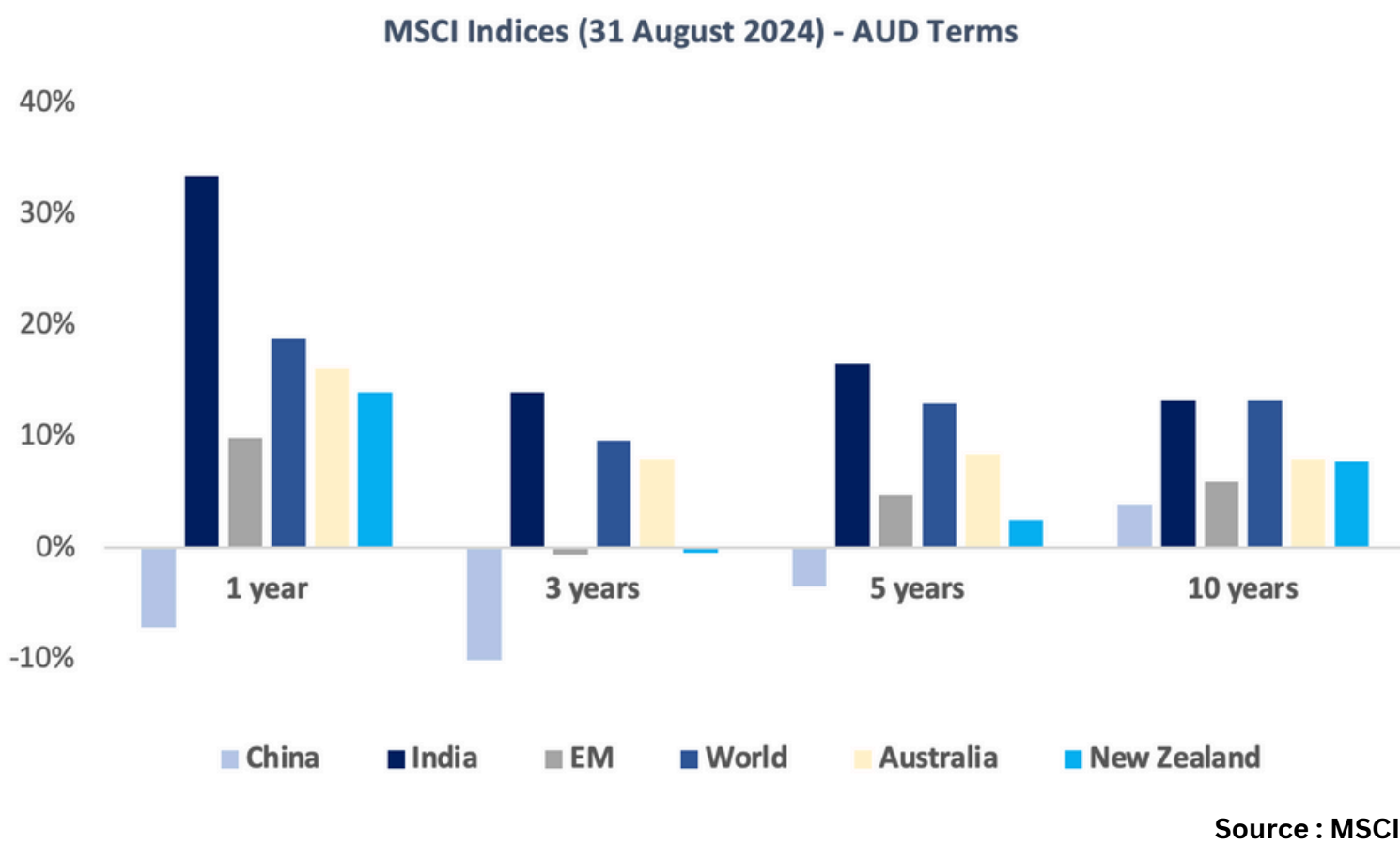
HIGHLIGHTS

- Our overweight position in Healthcare (predominantly Pharmaceuticals) continues to rise. The Fund is 14% overweight in this sector but diversified across several companies. The thesis remains that India has the capacity to produce generic medicines at scale for the rest of the world due to price and capacity.
- Notably the Fund is now underweight Financials, despite the underperformance of the sector over the last year. Margins are expected to be tight due to competitiveness for deposits and the potential of rate cuts. Additionally, there are some signs of stress in unsecured segments and rising credit costs.
- The Fund also continues to remain overweight in Info Tech. India continues to increase its share in global outsourcing. India’s IT Industry is the likely enabler of productivity for global businesses seeking greater efficiency.
- The weighting to Consumer Staples has increased slightly with the addition of exposure to Hindustan Unilever and Colgate Palmolive. India’s monsoon has been favourable, and it is expected to have a positive effect on the rural economy.

- We have listed the positive characteristics biases of the Fund relative to the benchmark. The P/E discount of the Fund has dropped to 5% (from a more significant 20-25% a year ago). This indicates most of the value bias the Fund benefitted from has now converged. This factor has substantially outperformed the market over the last 12 months.
- Gross Profit Margin is another factor where the Fund has a superior margin to the benchmark. This factor tilt has also been contributed to the outperformance.
- The Fund’s market cap tilt was the most significant contributor to outperformance over the benchmark over the last 12 months.
- Growth tilts did not contribute to alpha as investors were more focused on value over the last 12 months.

- Over the last 18 months the Fund has experienced a strong period of outperformance. Some profit taking has taken place and increased conviction in the funds larger holdings have now been reduced in favour of greater stock specific diversification. Typically, the Fund holds position weights of between 0.5% and 4.5% across the 65-70 stocks in the portfolio.
- Some large private bank exposures like ICICI Bank, Axis Bank and Bajaj Finance have been trimmed back in weighting in favour of companies which are expected to continue to see robust earnings. However, Cholamandalam, Bajaj and HDFC Bank remain in our top 10 holdings. Pharma (Aurobindo and Marksans) and Info Tech (Infosys and HCL Tech) remain dominant.
- Stocks like Marksans Pharma and Amara Raja Batteries have performed exceptionally in 2024. These companies are currently not constituents of the MSCI India Index.

**INDIA VS ROW**

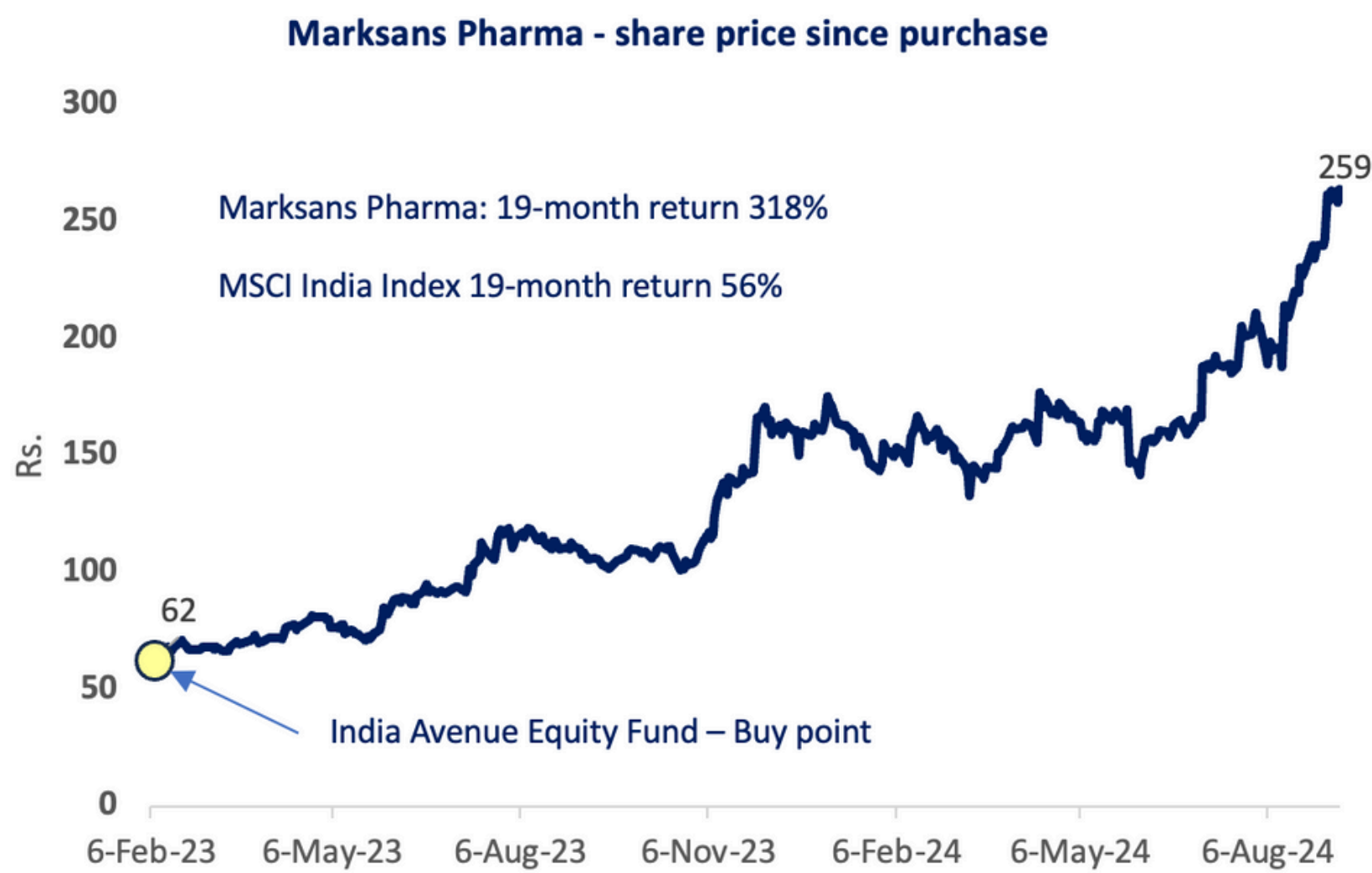


**SUMMARY**

- India continues to be the best performing region for equity investment in comparison to other typical equity categories for consideration by asset allocators. The last five years have been a strong period for earnings growth and sustained local investment.
- The contrasting performance of India and China have led to more investors questioning the best format for investing in emerging markets. Typically, most have chosen broader mandates like EM and Asia ex-Japan. The newer version seems to be EM ex-China.
- The dispersion across various regions is significant, with China and New Zealand having negative returns over the last 3 years in AUD terms. The MSCI World has been held up by the US markets, whereas Australia has fared reasonably over the last 12 months.
- Over the last 10 and 20 years, India’s equity markets have benefitted from robust corporate earnings growth, improving macro fundamentals and rising local equity market investment.

**OUR STOCKS**

**Urban Consumption alive and kicking (market cap A\$12bn)**



Source : Yahoo Finance. Graph of stock price, indicating India Avenue Equity Fund initial buy point. Average buy price is Rs.75. Returns calculated are in INR terms.

Marksans Pharma (market cap A\$2.2bn) is a listed company domiciled in Mumbai, India whose core capabilities are strategic low-cost manufacturing, active product registrations and front-end distribution in pharmaceuticals. The company focuses on key areas where they can drive growth and have been able to experience significant growth through local and international demand for their products. They operate four accredited manufacturing units and four R&D centres across the US, UK and India.

In their 1QFY25 result the company recently announced 18% year-on-year growth in revenue and 26% growth year-on-year in EBITDA. This was driven by increase share of existing customer wallets and new product launches. Gross, EBITDA and Net Profit margins all rose over the last 12 months.

The company generates 42% of revenues from the US, 42% from UK/Europe, 11% from Australia and New Zealand and the remaining 5% from the Rest of the World / Middle East. 75% of revenues come from sale and distribution of OTC Generics prescription drugs, nutritional supplements and private label OTC across four categories (Gastrointestinal/Laxatives, Pain Management / Analgesic, Cold & Cough and Anti-Allergy).

In 2005, Marksans Pharma acquired 60% of Nova to have an established base in Australia. Nova is engaged in R&D and marketing of generic OTC products and is also the leading supplier of Branded Generic and Private Label products in Australasia.

Please refer to the latest company presentation

<https://www.marksanspharma.com/pdf/investor-presentation-august-2024.pdf>



**CAPITALISATION**

	IAEF	No. Stocks	Top 500	MSCI Cap Band
Large Caps (Top 100)	47.8%	31	68.9%	A\$18.6-366bn
Mid-Caps (Next 150)	16.6%	12	20.2%	A\$5.8-18.6bn
Small Caps (Next 250)	15.2%	12	11.0%	A\$2-5.8bn
Micro Caps (Outside Top 500)	15.0%	15	0.0%	<\$2.0bn
Cash	5.3%		0.0%	
<b>Total</b>	<b>100%</b>	<b>70</b>	<b>100%</b>	

Source: Refinitiv

**INSIGHTS**

- The Fund has a bias towards companies in the A\$0.5-6.0bn range relative to the Top 500 by market cap (which covers over 90% of market cap). 30% of its allocation lies in this range, whereas it is only 11% of the Top 500 stocks by market cap.
- We continue to be structural believers in the alpha rich segment <A\$6bn but have become more cautious and selective in this segment due to valuations. Several companies within this segment are well managed, profitable and leaders in their segment. However, in our view the growth of that segment is still yet to play out. Thus, these companies are well positioned to capture a significant share of the industry’s profitability.
- Our micro-cap exposure is diversified, with each company having an average holding of less than 1% of the portfolio. By industry it is also diverse, spread amongst unique industries like Cement, Waste Management, QSR, Hospitals, Seeds, Air Conditioners, Biscuits etc.
- We have also increased our cash holding closer to 5% given higher valuations and to take advantage of any opportunities which may arise.

The investment process applied by the Fund focuses on “insourcing stock selection” from locally based fund managers in India, which we refer to as our investment advisers.

- Our investment advisers are typically fund management companies based locally in India. It is our philosophical view that portfolio managers and analysts who have managed money and analysed companies from a local perspective, have far more insightful knowledge on the local corporate environment and the ecosystem a company operates within. This will include their consumers, competitors, suppliers, service providers.
- The pre-requisites for our advisory partners are local insights which we can decipher through their long track records, face-to-face interviews and conversations and network discussions.
- Our portfolio overlay strategy has shifted from a bias towards large caps (via a portfolio filter) to a bias towards quality. Our completion strategy focuses on portfolio complementarity, addressing beta aspects of the portfolio which may be missing from the underlying adviser’s portfolio construction. We have a cap of 20% on any overlay strategies.

**INDIA AVENUE’S ADVISERS**

Adviser	Style	No. of Stocks
DSP	Growth and Quality	20-30
Old Bridge	Business Cycle, Value	10-20
Bandhan	Intrinsic Value	20-25
Portfolio Overlay (India Avenue)	Completion Strategy, Quality	10-15
<b>India Avenue Equity Fund</b>	<b>Value, SMID Caps</b>	<b>50-70</b>

**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. Every month we include some insights from our network:

- GDP growth for the first quarter of the FY25 year came in at 6.7%, which was slightly lower than expectations. This was off the pace of the previous two quarter but was a buoyant number, given the high base of the previous year. Manufacturing and Services drove growth (particularly construction). GDP was also backed by a pick-up in private consumption and investments, despite it being an Election quarter.
- In the September and December quarter it is expected that 7% plus growth can occur due to a normal monsoon and festival demand from an improving rural environment. The Government also indicated no signs of slowdown in infrastructure spending, which should continue to drive growth.
- Exports continued to grow well above the pace of import growth at 9% compared to 4%. India’s focus on being self-sufficient and manufacturing/exporting and aiding to its macro strength and stability. However, we continue to monitor efforts to drive skilling of the labour force and employment opportunities as a long-term contributor.

[Website](#)

[Our Research](#)

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## FUND DETAILS

31.08.2024	H Class
NAV	1.9701
Management Fee	1.50%
Performance Fee	10% of excess
FY24 Distribution	0.0955
FY23 Distribution	0.0972
ARSN	611374586
ISIN	AU60ETL04784
APIR	ETL0478AU
Morningstar Code	41828

## DISCLAIMER

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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](http://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.

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