

# Avenues

## 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 Rating: Recommended\*

## Fund Facts

Fund Manager	India Avenue Investment Management
Portfolio Manager	Mugunthan Siva
Structure	Registered Managed Investment Trust
Inception Date	6 <sup>th</sup> September 2016
Fund Size	\$21.9 million
Unit Price	Wholesale: 1.1179 Retail: 1.1104
Base Currency	Australian Dollars
Responsible Entity	Equity Trustees Limited
Custodian	Mainstream / BNP Paribas
Auditor	KPMG
Benchmark	MSCI India in AU\$
Distribution Freq.	Yearly at 30 June
Management Expense Ratio	Wholesale: 1.10% p.a. Retail: 1.50% p.a.
Buy-Sell Spread	0.50% / 0.50%
Performance Fee**	10% of the excess return above the benchmark
FY18 Dividend	Wholesale: 0.67 cpu Retail: 0.67 cpu

\*\* Subject to a high watermark

## Fund and Market Commentary: November 2018

Indian equities and the Rupee recovered from the October lows rising 7.1% (AUD terms) and 2.6% respectively, supported by falling bond yields (around 25bps) and declining Brent crude price which have fallen significantly from their early October high of US\$86 to below US\$60. As we have discussed in prior notes, Oil is a key import for India given that they import around 80% of their overall consumption. Hence lower prices are often a fillip for India's Government fiscal policy and balance sheet as well as reducing costs for consumers. However, evidence shows that equity returns in the long term are driven by company fundamentals rather than oil prices. Whilst higher oil prices (\$80 plus) puts pressure macroeconomically and India's share markets and currency (in the short term), it can often provide cyclical weakness in what is a long term structural long-term story.

Company reporting season for 2QFY19 finished in November and were largely in line with expectations, with earnings growth of around 15% y-o-y for the NIFTY 50 universe, marking the second consecutive quarter of mid-teens earnings growth (1QFY19 at 16% y-o-y) At the sector level, earnings growth in Financials, Industrials and Materials exceeded consensus expectations while Healthcare, Telecom and Energy missed earnings estimates. Foreign investors turned net buyers in Indian equities as they saw an opportunity to add positions into the cyclical weakness after the sharp sell-off in September and October.

India's GDP in Q2FY19 slowed to 7.1% y-o-y. The downward surprise was mainly attributed to slower growth in private consumption expenditure and deteriorating exports. Pleasingly, capex continued to accelerate at a double-digit growth rate for the third consecutive quarter and provides further evidence that the capex cycle is picking up. Inflation for October 2018 slowed to 3.3% on account of lower than expected food inflation particularly in rural India. Food inflation has kept inflation low for some time now and well in line with the RBI's inflation target of 4%+/- 2% range. October trade deficit increased by US\$ 3bn m-o-m to US\$ 17bn as the surprisingly lower oil imports in September was offset by higher imports in October catching up with oil demand growth.

## India Avenue Equity Fund Performance (in AUD and net of all fees)

Wholesale	1 Month	3 Months	6 months	1 year	2 years (p.a.)	Since Inception
IAEF	4.76%	-11.00%	-2.83%	-7.27%	9.72%	6.13%
MSCI India	7.12%	-7.58%	2.98%	1.20%	14.12%	8.65%
iShares India ETF	7.06%	-7.94%	2.90%	0.27%	12.89%	7.08%

Retail	1 Month	3 Months	6 months	1 year	2 years (p.a.)	Since Inception #
IAEF	4.71%	-11.59%	-3.16%	-7.83%	-	2.22%
MSCI India	7.12%	-7.58%	2.98%	1.20%	-	7.08%
iShares India ETF	7.06%	-7.94%	2.90%	0.27%	-	5.45%

## About India Avenue

India Avenue Investment Management (IAIM) is a boutique investment company focused on providing investment solutions for clients in Australia and New Zealand who seek exposure to India's growth potential through its capital markets.

The India Avenue Equity Fund is managed by the team at IAIM and has a bias towards companies which are experiencing strong growth through rising local demand. The Indian economy's robust ecosystem provides a tailwind for several well managed and carefully selected listed companies

## Fund Identifiers

Identifiers	Wholesale	Retail
ARSN	611 374 586	
ISIN	AU60ETL04826	AU60ETL04784
Citi Code	NFCK	NF2H
Morningstar	41512	41828
APIR Code	ETL0482AU	ETL0478AU

## Contact Details

India Avenue Investment Management Australia Pty Ltd  
AFSL 478233 | ABN: 38 604 095 954  
Level 3, 183 Macquarie Street,  
Sydney, NSW 2000, Australia  
T: +612 8937 2487  
E: [info@indiaavenueinvest.com](mailto:info@indiaavenueinvest.com)  
W: [www.indiaavenueinvest.com](http://www.indiaavenueinvest.com)

## Company Revenue Generated Locally



Source: Bloomberg

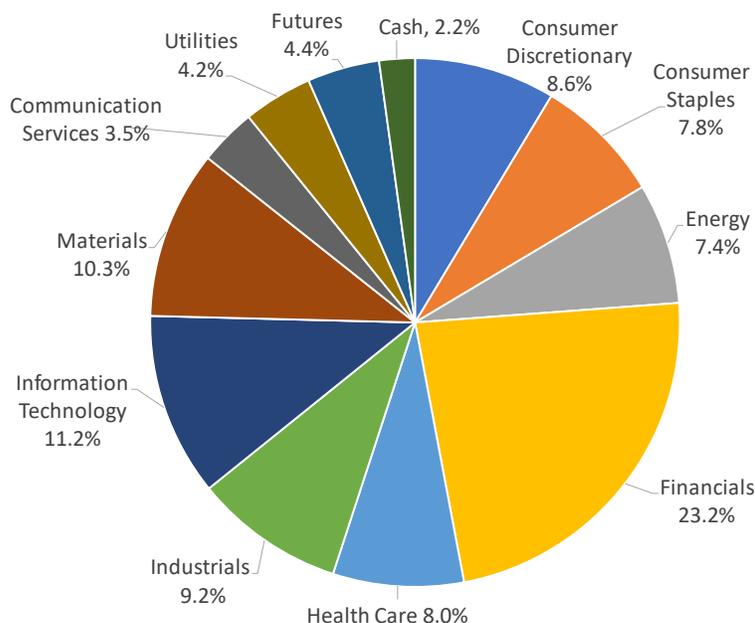
The focus of the portfolio is to generally invest in companies which have a high component of their revenue generated locally in India. This provides significant leverage to the local economy's strong growth potential.

## Top 10 Stocks

Name	Industry	Weight
Sun Pharmaceuticals	Pharmaceuticals	4.9%
Infosys	IT Services	3.9%
ICICI Bank	Banks	3.7%
Mahindra & Mahindra	Automobiles	3.5%
HDFC Bank	Banks	3.4%
Reliance Industries	Oil & Gas	3.2%
Wipro	IT Services	2.6%
State Bank of India	Banks	2.5%
NTPC	Power & Renewables	2.5%
Kotak Mahindra Bank	Banks	2.1%

Source: India Avenue, Bloomberg

## Sector Allocation



## India Macro News

- India's growth has been "very solid" over the past four years, IMF's Chief Economist Maurice Obstfeld said. He praised the reforms like GST and the Insolvency and Bankruptcy Code carried out by the government. Obstfeld is set to retire this month and will be succeeded by Gita Gopinath, the second Indian to be appointed to the position
- The Ministry of Commerce & Industry is creating an action-oriented plan to highlight specific sector level interventions to bolster India's march towards becoming a US\$5 trillion economy before 2025. The focused plans will be on boosting services sector contribution to US\$3 trillion, manufacturing to US\$1 trillion and Agriculture to US\$1 trillion
- GST introduced last year has led to 'household savings' due to a more tax efficient system. An average Indian household is saving up to Rs 320 every month on purchase of commonly used goods. GST has not just made India one tax market, it also removed double layers of tax which was prevalent previously

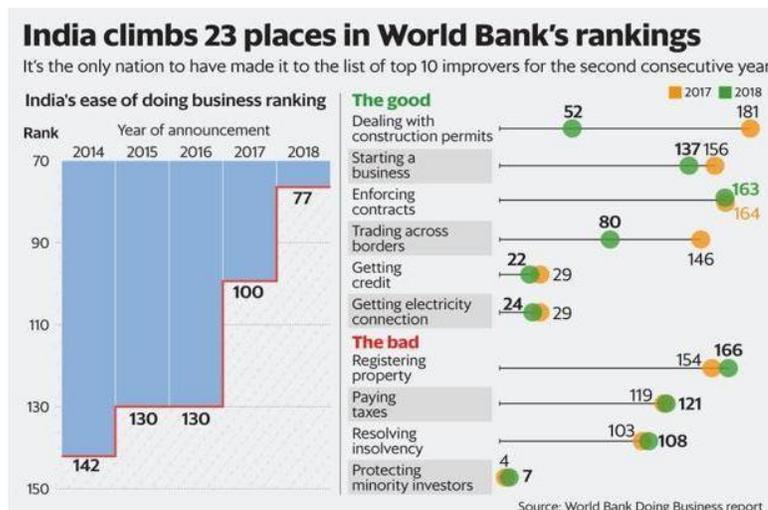
## India Micro News

- Indian M&A hit an all time high of US\$125bn this year, almost double last year's deal flow. The acquisition of online Indian retailer Flipkart by Walmart was the highlight this year for acquisitions. The number of announced deals grew 9.3% from a year ago and witnessed the busiest annual period since records began in 1980
- India's media consumption has been growing at a CAGR of 9% over the past six years. This is almost twice that of China and 9 times that of the US, a study by BCG said. India is one of the few countries where most media mediums are growing and this is expected to continue in the future. For example, video consumption on OTT (direct streaming over-the-internet) is actually supplementing TV, versus cannibalising it

## Thematic: World Bank's Ease of Doing Business 2019 Report

The World Bank's Ease of Doing Business study assesses how the regulatory environment of a country is conducive to starting and operating a business. The World Bank runs the survey every year and analyses data from across 190 economies to come up with an overall ranking as well as a ranking for each individual category. There are 10 categories which include factors such as starting and running a business. Examples include procedures to start a business, dealing with construction permits, getting credit, enforcing legal contracts, protecting minority investors, resolving insolvency etc.

For the 2019 survey, India's rank climbed 23 positions to 77<sup>th</sup> from 100<sup>th</sup>. This bodes well for Prime minister Modi, whose objective since he was elected was to get India in the top 50 by 2020. In fact, since Modi has been in power, India has jumped 65 places from 142<sup>nd</sup> to 77<sup>th</sup> and is the only country to rank among top 10 improvers for the second consecutive year. A major reason for this rapid improvement is the momentum of reforms introduced by Modi to remove red tape, streamline processes and reduce bureaucracy. The infographic below shows the rapid improvement.



As per the 2019 report, India's performance improved in 6 out of the 10 indicators. The biggest improvement since last year was the Dealing with Construction Permits rank which improved 129 places to 52<sup>nd</sup> from 181<sup>st</sup> as India streamlined building permits and improved building quality controls. Starting a business also jumped 19 notches as procedures were made easier through consolidation of multiple application forms and introduction of goods and services tax (GST). Trade across borders also increased markedly to 80 in 2018 to 146 in 2017. Importantly for listed shareholders, India ranks 7<sup>th</sup> in the world for protection of minority investors (remarkably Australia is ranked 64<sup>th</sup>) as shareholder rights, corporate transparency and disclosures are amongst the best in the world.

Indian companies, particularly those that are listed, will thrive from this as opening up trade will produce more customers, improving efficiency will reduce costs of doing business resulting in better margins and thus profitability. Inevitably this will lead to higher returns for investors.

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