

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 6th September 2016

Fund Size \$31.9 million

NAV Wholesale: 1.0239
Retail: 1.0208

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 0.35% / 0.35%

Performance Fee** 10% of the excess return above the benchmark

FY20 Dividend Wholesale: 0 cpu
Retail: 0 cpu

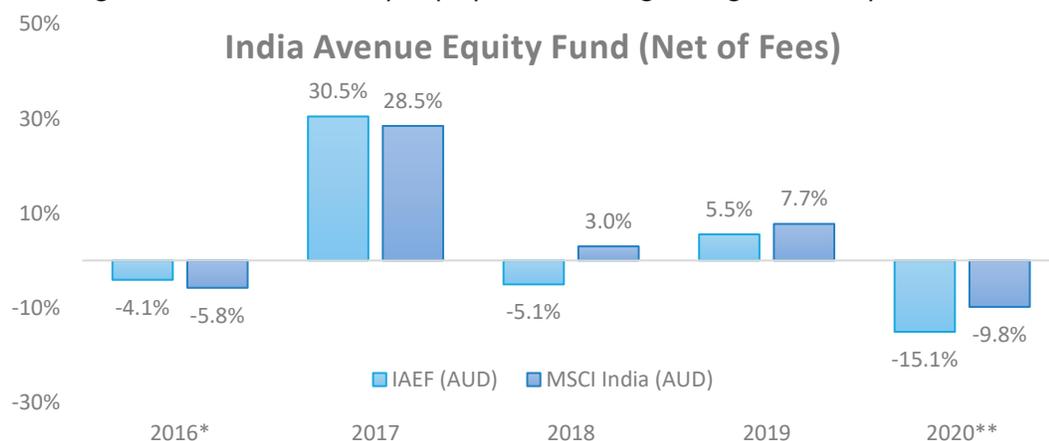
** Subject to a high watermark

Fund and Market Commentary: August 2020

India's markets continued to recover, rising nearly 10% over the last 3 months in AUD terms. Whilst the number of infections from COVID-19 continue to rise in India, company earnings were generally above expectations for the Q12021, driven predominantly by cost cutting initiatives. The rally has been broader, with greater participation from Mid and Small Caps, after bearing the brunt of the selling in March 2020. This broader rally led to the fund beating the benchmark by 1.54% in August.

Foreign institutional investor (FII) inflows recorded US\$6.1bn in the month of August, making it the highest monthly inflow in 10 years. This has been driven by fast-moving economic indicators (e.g. electricity consumption, Google mobility data on consumption spending and railway freight loads) showing that demand is approaching normalcy faster than expected. Rural India is also doing well, with limited impact from Covid as well as a bumper Monsoon, providing a fillip to demand. Furthermore, on a company level, commentary suggests that supply pressures are easing, and costs are being reduced and capex delayed to "manage" earnings.

Our approach focuses on a broader set of Indian companies, not just the ones typically found in Global/Emerging Market funds or Emerging market indices. Our locally based advisors in India have a strong record of identifying tomorrow's winners. We feel this is an important ingredient to generate long-term growth, rather than purely investing in companies which already have success priced in. We remain patient and vigilant, knowing that this is the best way to play the India long-term growth story.



Strategy	3 Months	6 Months	1 Year	2 Years (p.a.)	3 Years (p.a.)	Since Inception (p.a.)#
IAEF (Wholesale)	9.77%	-15.99%	-10.55%	-8.90%	-1.98%	1.59%
IAEF (Retail)	9.65%	-16.18%	-10.98%	-9.54%	-2.44%	
MSCI India	9.51%	-10.09%	-6.17%	-3.55%	3.00%	4.92%
MSCI India Small and Mid Cap	14.37%	-11.64%	-5.60%	-10.51%	-5.11%	0.89%
Excess vs. MSCI India	0.26%	-5.90%	-5.27%	-5.34%	-4.98%	-3.33%
Excess vs. MSCI India Small and Mid Cap	-4.60%	-4.35%	-4.95%	1.62%	3.13%	0.70%

Past performance is not an indicator of future performance

Above returns are calculated based on the exit price of 31st Aug 2020 assuming reinvestment of dividends

#Inception Date: Wholesale 6th Sep 2016, Retail 6th April 2017

Excess returns illustrated above are for the India Avenue Wholesale Fund. The only difference between the Wholesale and Retail funds are the management fees charged. The underlying investments are identical.

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

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India's Woolies!

In Australia, Woolworths is a household name known to everyone due to its brand and its presence in our daily lives. 20 years ago, Woolworths was focused on expanding the number of supermarkets, then came the productivity loop and Walmart like everyday low pricing, then came the new formats in addition to Big W, Petrol Stations, Dick Smith etc. These days the profitability of the business is predictable as the market is known and margins or same store sales do not change much. However, if we replay the past and add a massive young population, under-penetration of supermarkets, with significant swing towards organised retailing to come, then we have the ingredients for a strong and sustainable growth business for the next decade.

The fundamentals of India's large and youthful working age population are resulting in strong and sustainable growth opportunities across many industries. The increasing attention from Walmart and Amazon would hint that retailing is one such industry. The market size of retailing in India is expected to grow at 12% p.a. to around US\$1.4trillion by 2024. The drivers of growth for this industry are numerous and include:

- India's average age of 27 across a population of 1.3bn
- A shift from unorganised retailing towards organised given reforms such as Demonetisation and GST placing pressure on smaller businesses (unorganised was as high as 90%)
- Consumer preference in urban locations towards malls / format experiences
- Rising ticket sizes/person i.e. increasing preference for aggregated purchasing
- Increasing smartphone and internet penetration as well as increasing digital acceptance by customers is leading to e-tailing growing at circa 30% p.a.
- Technology evolution in connecting with the consumer

One format thriving over the last few decades have been the rise of supermarkets/hypermarkets in India. There are now several players and close to 4000 of them, with several players continuing to enter the fray. Previously this was the domain of India's Kirana stores i.e. single store, family operated, small business.

Avenue Supermarts, listed on India's stock exchanges in March 2017, with an IPO price of around Rs.300. It now trades three years later at close to 8x that price (market cap A\$29bn). Through its main brand D-Mart, the company is focused on the supermarket/hypermarket concept as an owner/operator. The company was founded in 2000 and operates 214 stores as at the end of FY20.

Financial Years	2016	2017	2018	2019	2020
Stores	110	131	155	176	214
Area million sq. ft	3.3	4.1	4.9	5.9	7.8
Revenue (mn)	85750	118810	150090	199160	246750
Profit (mn)	3180	4830	7850	9360	13500
Store Size	30000	30992	31613	33523	36449
Sales per sq. ft. (mn)	281360	311200	327190	356470	328790
Profit Margin	3.7%	4.1%	5.2%	4.7%	5.5%

India Macro & Micro News

- Prime Minister Narendra Modi's Government announced incentives for electronics manufacturers -- eligible for a payment of 4% to 6% of their incremental sales over the next five years. This has attracted US\$ 1.5 billion from over 20 companies. The companies that have shown interest includes Samsung, Foxconn, Wistron Corp. and Pegatron Corp. These programs are aimed at increasing India's manufacturing share in its GDP and is estimated to generate US\$ 153 billion worth of manufactured goods over the next five years and create about one million jobs directly and indirectly.
- Apple has started assembling its affordable second-generation iPhone SE (2020) in India that will reach authorised retail stores and online channels very soon. Apple started assembling iPhones in India in 2017 with iPhone XR and iPhone 11 being assembled by Foxconn at its Chennai plant and iPhone 7 and new iPhone SE by Wistron in Bengaluru.
- Exports of agricultural commodities during March to June 2020 increased by over 23% YoY. Agricultural exports as a percentage of India's agricultural GDP has increased to nearly 10% while agricultural imports have declined to 4.9% indicating a surplus and decreased dependence on imports. Whilst there has been a substantial increase in exports in the last decade, with India being one of the top producers of agricultural products globally, India does not figure among top exporters given a lack of promotion and awareness of India's agri-trade. This sector is thus being heavily promoted.

DMart is comprised 52% Food (Groceries, Food & Veg, Beverages and Snacks), 20% Non-Food (Home, Personal Care and Toiletries) and 28% General Merchandise (Bed, Bath, Home, Toys, Garments and Footwear).

Profitability is not just being driven by new stores, but also by increasing store sizes and sales per square metre. Profit margins are also high relative to most retailers globally as the company benefits from operating leverage.

At a population of 1.3bn, today it works out to about 370,000 people per store across the industry. Compare that to Australia's < 10,000 per supermarket. As the company continues to drive its store openings in clusters, witnesses continued rise in its sales per square feet and benefits from its "DMart on Wheels" strategy (home-delivery), profitability should grow substantially (expected to double in the next 4 years from A\$260m in FY20). However, given competition from significant players such as Walmart, Amazon and India's own Reliance and Future Retail will mean that this opportunity will eventually mature over the next decade and companies in the space will go from trading at 50-60x multiple to a market multiple. However, for now the multiple seems more rational given the steep ascent of profitability. The company also uses Walmart's playbook by operating in clusters where it has a strong understanding of customer behaviour in that cluster. Globally what might be accepted as a cluster could be a 200-300km radius. However, in India that reduces to 50km given logistical issues (travel time).

The opportunity for Avenue Supermarts is through continued roll-out of stores in clusters. After an initial focus on urban based clusters, the potential for roll-out to smaller towns and cities is significant as organised retailing continues to penetrate. As India's GDP per capita rises from just over US\$2,000 towards China's \$10,000 plus, it should underpin growth for organised retailing for the next two decades. However, the survivors will be those who can embrace technology, consumer preferences and build strong logistics and efficient supply chains. Avenue Supermarts is well poised to participate!



Source: www.forbesindia.com

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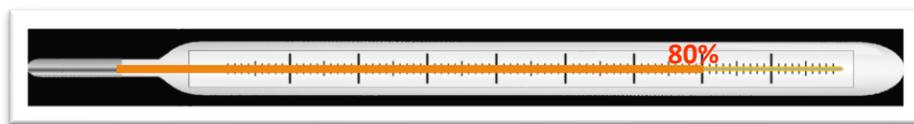
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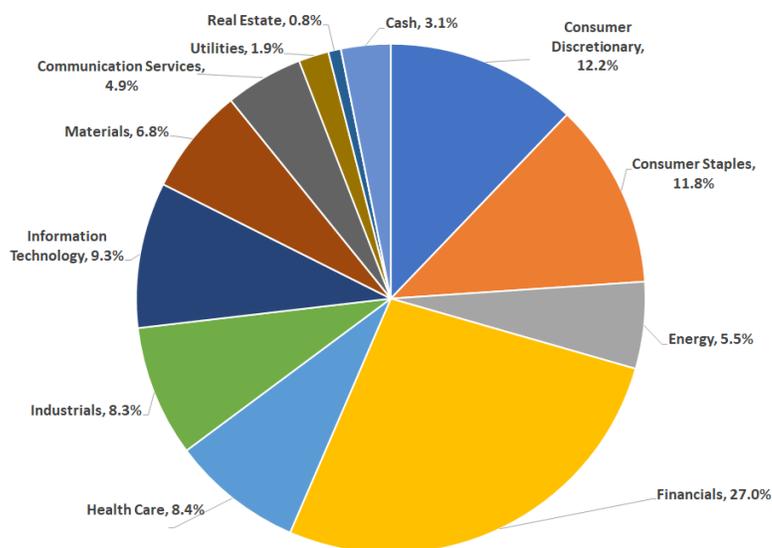
The focus of the fund is to invest in companies which generally have a high component of their revenue generated locally in India. This provides significant leverage to the local economy's strong growth potential.



Top 20 Stocks

Name	Industry	Weight
HDFC Bank	Banks	4.6%
Reliance Industries	Oil & Gas, Retail & Telco	4.5%
Maruti Suzuki	Automobiles	3.9%
Kotak Mahindra Bank	Banks	3.9%
Infosys	IT Services	3.8%
Bajaj Finance	Non-Bank Finance	3.7%
Tata Consultancy Services	IT Services	3.6%
HDFC	Housing Finance	3.4%
ICICI Bank	Banks	3.3%
Info Edge	Interactive Media and Services	2.8%
Avenue Supermarts	Hyper/Super Markets	2.8%
Divi's Laboratories	Pharmaceuticals	2.4%
Bharti Airtel	Communication Services	2.2%
Indian Energy Exchange	Power Trading	2.2%
Nestle India	Consumer Staples	2.1%
Escorts	Tractors and Moving Equipment	2.1%
Torrent Power	Utilities	1.9%
Motherson Sumi Systems	Auto Ancillaries	1.9%
Syngene International	Pharmaceuticals	1.8%
Symphony	Coolers & Air Conditioners	1.7%

Sector Allocation as at 31st August 2020



Source: India Avenue, Thomson Reuters

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