

# Avenues

## Fund Objective

The India Avenue Equity Fund is a registered, unlisted unit trust, which invests in listed companies trading on Indian stock exchanges with 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<sup>1</sup>

## 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	\$51.4m
NAV	M Class: 1.4512 H Class: 1.4421 L Class: 1.1484
Base Currency	Australian Dollars
Responsible Entity	Equity Trustees Limited
Custodian	Mainstream / BNP Paribas
Auditor	KPMG
Benchmark	MSCI India in AUD
Distribution Freq.	Yearly at 30 June
Management Expense Ratio	M Class: 1.10% H Class: 1.50% L Class: 0.95%
Buy-Sell Spread	0.35% / 0.35%
Performance Fee***	10% of excess return above benchmark for both the M and H Class, 15% for L Class
FY20 Dividend	M Class: 0 cpu H Class: 0 cpu

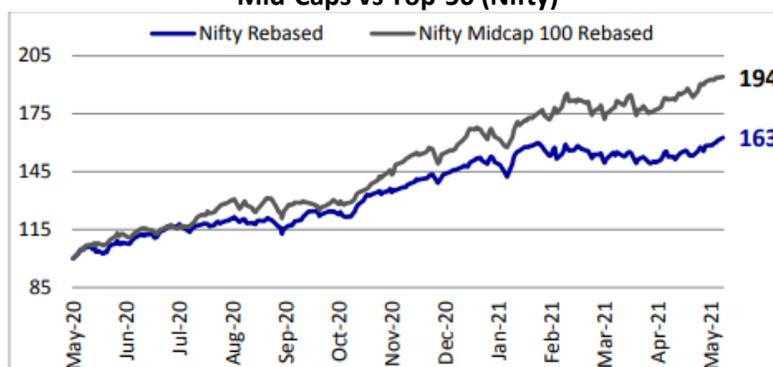
\*\* M Class inception date

\*\*\* Subject to a high watermark

## Fund and Market Commentary: May 2021

The India Avenue Equity Fund (IAEF) returned 55.6% over the last 12 months in AUD terms, outperforming its benchmark by 11.4%. The outperformance generated by the Fund continues to be driven by good stock selection. The broader participation across markets since 2020 has been beneficial to the Fund's investment strategy to invest with greater breadth across the market cap spectrum compared to its benchmark. Whilst India's large and mega cap stocks may appear expensive relative to their emerging market peers due to the country's favourable long-term fundamental tailwinds, several companies which are lower down the cap curve have benefitted from abundant global and local liquidity as a risk-on environment prevailed. The valuations of these small and mid-companies, due to having less broker coverage, were more forgiving, post the COVID-19 retracement of markets.

### Mid-Caps vs Top-50 (Nifty)



Source: Motilal Oswal

As India's 2nd wave of COVID appears to have peaked in May (and looks likely to recede by July 2021), investors have focused on opportunities ahead. India's strong vaccination drive has seen close to 250 million vaccinated at a pace of 2-3 million per day. This has led to optimism on approaching "herd immunity" status at some point later this year.

## Our Unique Approach

Our approach focuses on a broader set of Indian companies, not just the ones typically found in Emerging Market funds or indices. Our advice partners in India have a strong track record of identifying tomorrow's winners. This is an important ingredient to generate long-term growth and in our view is the best way to invest in India.

Strategy	3 Months	6 Months	1 Year	2 Years (p.a.)	3 Years (p.a.)	Since Inception (p.a.)#
IAEF (M Class)	11.57%	23.00%	55.58%	7.72%	8.70%	9.09%
MSCI India	10.13%	18.71%	44.20%	7.98%	10.92%	10.36%
<b>Excess Return</b>	<b>1.44%</b>	<b>4.29%</b>	<b>11.37%</b>	<b>-0.26%</b>	<b>-2.23%</b>	<b>-1.28%</b>
IAEF (H Class)	11.45%	22.73%	54.91%	7.23%	8.18%	7.60%
MSCI India	10.13%	18.71%	44.20%	7.98%	10.92%	9.97%
<b>Excess Return</b>	<b>1.32%</b>	<b>4.03%</b>	<b>10.71%</b>	<b>-0.75%</b>	<b>-2.74%</b>	<b>-2.36%</b>
IAEF (L Class)						14.44%
MSCI India						12.25%
<b>Excess Return</b>						<b>2.19%</b>

Past performance is not an indicator of future performance.

Above returns are calculated based on the exit price of 31<sup>st</sup> May 2021, net of fees and assuming reinvestment of dividends. Returns after 1 year are annualised

#Inception Date: M Class 6<sup>th</sup> Sep 2016, H Class 6<sup>th</sup> April 2017, L Class 19<sup>th</sup> April 2021

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 professionally managed and carefully selected listed companies

## Fund Identifiers

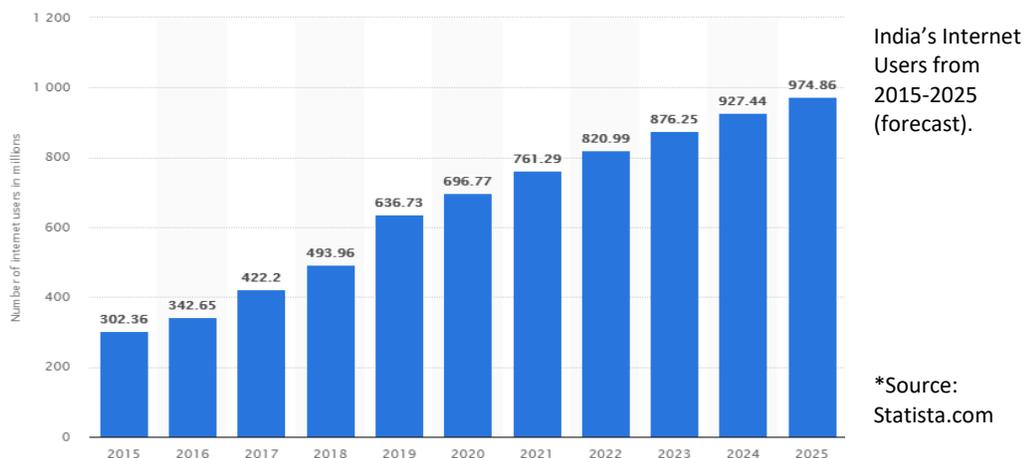
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## India's Digital Infrastructure Enabling Fight Against COVID

The pace of growth in India's digital infrastructure has accelerated significantly since the reforms put in place by the Modi Government (Demonetisation, GST). Today India's smartphone users stand at approximately 760 million. This has also accelerated the pace of internet penetration to above 750 million users\* (most of India's users are via smartphones, rather than desktops). India is now the second largest on both accounts only to China. The pace of adoption is rising rapidly due to the impact of the pandemic.



Although many businesses are battling to stay afloat, the new normal has opened the doors to greater acceptance of digital platforms & tools and remote working environments. Sectors like education (particularly ed-tech), health and wellness, software, work from home enablers and e-commerce have paved the way to combat the pandemic. India's digital shift is helping its population and corporates to overcome difficult times, with an opportunity to prosper greatly from the fast pace of adoption and potential sustainability post the pandemic.

Several companies in the India Avenue Equity Fund have thrived from this digital transformation in the country. These include:

- **Info Edge (India)**, which is seen as India's only pure internet company, thriving from greater internet penetration in its core business of Naukri.com (India's equivalent to Seek.com), 99 Acres (akin to Realestate.com) as well as investments in internet driven start-ups, which have experienced rising valuations e.g., Zomato, Policy Bazaar.
- **Redington (India)** is benefitting from the push towards work from home and digital enablement. This has led to rising market share not only in India, but also across other emerging and frontier markets. Redington distributes the most well-known global brands in computers/parts/ancillaries to customers.
- **Avenue Supermarts** is benefitting from its online supermarket channel called DMart Online which allows for home delivery or self-pick-up. The transition to a big grocery brands has accelerated from "neighbourhood style" purchasing.
- **Bharti Airtel** is India's leading mobile telecom company which is growing its subscriber base at 4.2 million per month over the last 6 months. Bharti has not become involved in a bidding war with Reliance JIO and has focused on providing premium value-added services to its subscribers.

## India Macro & Micro News

- India's Central Bank (RBI) forecasts that the economy will grow 9.5% in FY22 and announced US\$2bn plus of support to contact intensive industries like hotels and tourism to help them recover from the pandemic (IBEF/RBI).
- PM Modi addressed the Nation recently stating that all citizens above 18 years of age will be administered the vaccine for free. The Government also extended the provision of free food grains to 800m people till November 2021 (IBEF).
- India's Industrial Production surged 134% in April 2021 on a year-on-year basis, the biggest increase it had ever encountered. This was driven by low base effect compared to the lockdown, but also exceeded expectations significantly (tradingeconomics.com).
- India's Gig sector is expected to increase to US\$455bn by 2024, growing at 17% p.a. India is likely to have 350m jobs by 2025, presenting a huge opportunity for job seekers (ASSOCHAM, IBEF).
- India's 63m MSME's make up 29% of the country's GDP. The Government has introduced many initiatives such as Digital India, Make-in-India, Start-Up India and Skill India to promote e-commerce to make MSME activity scalable as it recognises that this sector is a huge employer (IBEF).

## Why have returns from India been so strong post COVID-19

India underlying long-term fundamentals of a significant, youthful, and entrepreneurial population continues to underpin strong long-term returns from its listed companies, which are well managed and have a financial and operating moat.

It sounds too simplistic, but in truth it is. With a population of 50x that of Australia and New Zealand put together and a low and rising GDP per capita, India's productivity is set to grow significantly as reforms create efficiencies and its dependency ratio drops.

2018-2020 however, saw a period where India's long-run GDP growth slowed from a pace above 7% annualised to 3.3% in the December 2019 quarter. This slow down was related to indigestion of reforms (included crippling India's cash economy which was 20% plus of the economy) as well an increasing compliance and governance burden/cost for companies. Additionally, during the decade from 2010-2020, there was low levels of investment due to lower capacity utilization, high cost of capital and lack of infrastructure. This led to significantly low levels of capital formation. Consumption and credit were the only surviving drivers of the economy during this period.

However, the table below indicates that market falls are recovered quickly in India. This is usually due to a return to fundamentals tailwinds, abundant liquidity and risk-on sentiment driving markets. The last two falls have taken a bit longer to recover, given their greater significance and the question marks they posed on a more terminal slowing of India's growth story. Falls experienced in the last 5 years (BSE 500 – a broad index covering 500 of India's largest stock and approximately 93% of market cap):

*Indian markets – ideal to buy and hold?*

Period (mm/yy)	% Fall	Time to Recover	Reason
09/16 – 12/16	12%	47 days	Demonetisation
01/18 – 03/18	12%	61 days	Profit Taking
08/18 – 10/18	17%	451 days	Slowing Growth
01/20 – 03/20	39%	226 days	COVID-19

The strong upward move witnessed in Indian equity markets since the impact of COVID-19 in March 2020 has in part been a recovery, but is also mean reversion from India's period of languishing GDP growth (2018-2020) and corporate profitability (2010-2019). With lower cost of capital, abundant liquidity, increasing utilisation of capacity and a Central Bank and Government focused on growth, it is likely that markets should remain upbeat, with improving earnings and new opportunities for some companies.

The broadening of markets has also assisted in stronger recovery for active managers who can identify growth companies which have a steeper positive trajectory than might have been anticipated. We are noticing several companies who provide improving or strong guidance are being re-rated upwards significantly. This reflects a positive environment for active management given dispersion between the winners and losers should increase.

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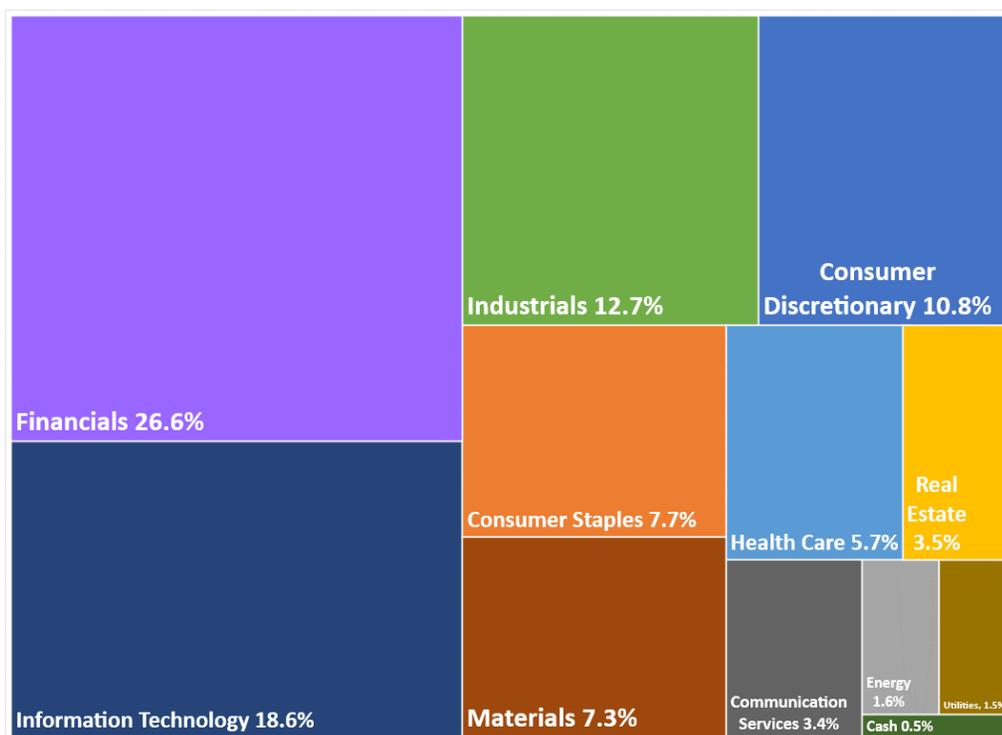
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## Top 20 Stocks

Name	Industry	Weight
Bajaj Finance	Consumer Finance	4.37%
Infosys	IT Services	3.94%
HDFC Bank	Banks	3.86%
Redington (India)	Electronic Equipment & Components	3.55%
Tata Consultancy Services	IT Services	3.39%
Kotak Mahindra Bank	Banks	3.11%
Kaveri Seed Company	Food Products	3.09%
HCL Technologies	IT Services	3.04%
Indian Energy Exchange	Capital Markets	2.93%
ICICI Bank	Banks	2.61%
HDFC	Mortgage Finance	2.50%
Aurobindo Pharma	Pharmaceuticals	2.39%
Maruti Suzuki India	Automobiles	2.37%
Abb Power Products & Systems	Electrical Equipment	2.31%
Info Edge	Interactive Media & Services	2.29%
Motherson Sumi Systems	Auto Components	2.18%
Avenue Supermarts	Food & Staples Retailing	2.16%
Divis Laboratories	Life Sciences Tools & Services	2.08%
Cyient	Software	1.95%
UPL	Chemicals	1.91%

## Sector Allocation



Source: India Avenue, Thomson Reuters

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