

# 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	\$19.3 million
Unit Price	Wholesale: 1.2050 Retail: 1.2015
Base Currency	Australian Dollars
Responsible Entity	Equity Trustees Limited
Custodian	Fund BPO / BNP Paribas
Auditor	KPMG
Benchmark	MSCI India in AU\$
Distribution Freq.	Yearly at 30 June
Management Fee	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
Dividend History	Wholesale: 1.16% Retail: 1.15%

\*\* Subject to a high watermark

## Market Commentary: April 2018

The India Avenue Equity Fund rose **10.1%** over the last year. Since inception<sup>#</sup>, the fund is up **13.1% p.a.** and has outperformed the index **after fees** by **0.51% p.a.** Indian equities recorded a sharp recovery in April 2018 after two months of decline, rising 5.9%. The RBI kept rates on hold during the month as they lowered their inflation forecast, despite the rise in Oil prices. Market sentiment was also supported by a normal monsoon forecast for June-September 2018 and upbeat corporate earnings.

CPI inflation declined for the third consecutive month to 4.3% in March 2018 and for the financial year fell to 3.6% compared with 4.5% last financial year. Food inflation fell to 2.8% in March 2018 led by a sharp decline in milk products, vegetables and cereals.

One area of concern over the past few months is the rise in Brent crude prices, given India's reliance on Oil imports. This will have flow on effects to India's current account and fiscal deficits and the market has started to price this risk in with a weaker rupee and higher bond yields. However, India's macro outlook remains steady in our view, due to stable CPI inflation and a normal monsoon forecast which should contain food prices. Additionally, GST revenues are likely to increase further on better tax compliance, which could improve Government finances and realise the fiscal deficit targets. For example, GST revenues reached a new record in April, reaching 1 trillion rupees (A\$20bn) in April alone. We have been watching the weaker rupee closely, but given we continue to be particularly bearish on the AUD, we feel this is not currently a major concern. In fact, whilst the Rupee has declined by 4.0% this year, the AUD has also declined by 3.6% meaning the AUD/INR cross has been relatively flat and thus has not detracted meaningfully from returns.

Furthermore, our top two stocks, Sun Pharma and Infosys derive most of its revenue from the US and provides some protection against a further USD/INR decline, if this eventuates.

## Fund Performance (Performance in AUD, net of management fees and fund expenses)

Wholesale	3 months	6 months	1 year	Since Inception <sup>#</sup>
IAEF	0.27%	0.36%	10.14%	13.07%
MSCI India	0.46%	2.48%	11.55%	12.56%
Excess vs MSCI India Index	-0.19%	-2.12%	-1.41%	0.51%
iShares India ETF	0.12%	1.43%	9.21%	10.51%
Excess vs MSCI India ETF	0.15%	-1.07%	0.93%	2.56%
Retail	3 months	6 months	1 year	Since Inception <sup>#</sup>
IAEF - Retail	0.16%	0.14%	9.79%	10.83%
MSCI India	0.46%	2.48%	11.55%	12.19%
Excess vs MSCI India Index	-0.30%	-2.34%	-1.76%	-1.36%
iShares India ETF	0.12%	1.43%	9.21%	9.78%
Excess vs MSCI India ETF	0.04%	-1.29%	0.58%	1.05%

Past performance is not an indicator of future performance

Above returns are calculated based on the exit price of 30th April assuming the reinvestment of dividends

#Inception Date: Wholesale 6.9.16, Retail 6.4.17

^Returns above 1 year are annualized

## 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	AU60ETL047
Citi Code	NFCK	NF2H
Morningstar	41512	41828
APIR Code	ETL0482AU	ETL0478AU

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## Company Revenue Generated Locally



Source: Bloomberg

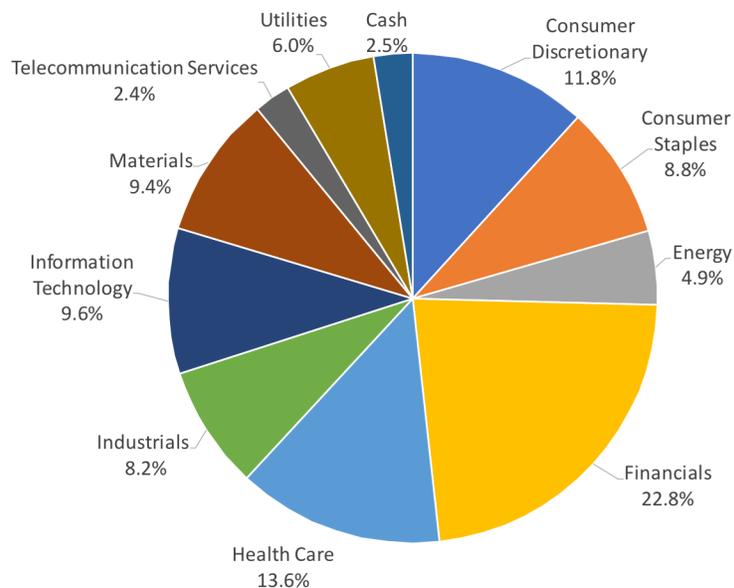
The focus of the portfolio is to generally invest in companies which have a high component of their revenue generated locally in India. This provides significant leverage to the local economy's strong growth potential.

## Top 10 Stocks

Name	Industry	Weight
Sun Pharmaceuticals	Pharmaceuticals	6.0%
Infosys	IT Services	4.5%
Mahindra & Mahindra	Automobiles	4.2%
NTPC	Power and Renewables	3.5%
Cipla	Pharmaceuticals	3.4%
Kotak Mahindra Bank	Banks	3.3%
ICICI Bank	Banks	3.1%
Hindustan Unilever	Household Products	2.8%
Larsen & Toubro	Construction & Engineering	2.8%
HDFC	Housing Finance	2.5%

Source: India Avenue, Bloomberg

## Sector Allocation



## India Macro News

The World Bank forecasts India's growth rate to be 7.3% for India this year and 7.5% for 2019 and 2020 supported by a sustained recovery in private investment and private consumption. They noted that the country's economy has recovered from the effects of demonetisation and the Goods and Services Tax

As per the BP Energy Outlook 2018, India's natural gas consumption will almost triple by 2040 and be the largest growth market for global energy by 2040. In order to meet the demand and reduce the dependence of imports, the Government has taken several steps to enhance domestic natural gas production through several policy initiatives

**By the year 2021, around 60% of the country's GDP is expected to be derived from digital products and services.**

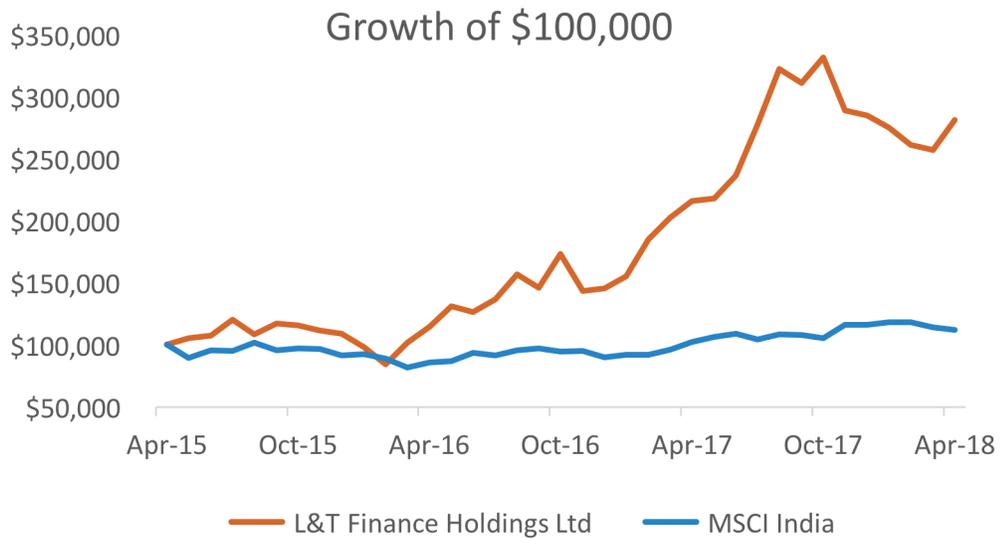
Created through the use of technologies such as Artificial Intelligence, the Internet of Things and cloud computing, among others according to Microsoft.

## India Micro News

**The Insurance industry is expected to grow to USD 280 billion by 2020 from USD 85 billion today.** This has been driven by an increase in FDI and government schemes to provide insurance cover to people due to a growing middle class, rise in disposable incomes and greater awareness for insurance coverage

**The credit to micro, small and medium enterprises (MSMEs) is expected to grow at 12-14% over the next five years, helped by higher lending by non-banking finance companies to the segment.** Non-banks, with their niche positioning, differentiated product offering, market knowledge and large unmet demand will capture market share from the banks

## Stock Story: L&T Finance Holdings



- L&T Finance Holdings (LTFH) is a non-banking financial company'(NBFC's) and part of the conglomerate giant Larson & Toubro. It is listed in India with a market cap of US\$5.4bn
- The business is involved in several aspects of the financial services spectrum, which includes wholesale finance, housing finance, rural finance, investment management and wealth management
- LTFH continued to run-down de-focused products as reflected in the decline of their share to 2% as at Q4FY17 from 5% in Q3FY17
- The company's strength in rural finance makes it one of the fastest growing NBFC's in this sector. They are involved in multiple financing to this segment, like Farm Equipment Finance, Two-wheeler Finance and Microfinance
- The company's focus is on increasing RoE for each business and increasing market share in each category. It has grown its overall RoE from 9.8% in FY16 to 15% in FY18 and is aiming for at least 18% by FY20
- LTFH reported PAT growth of 31% CAGR over the last 3 years and AUM growth of 20% CAGR. They have been increasing market share of high margin businesses like rural and housing and have made this a focus as part of their retailisation of their balance sheet
- Rural and housing finance is set to be a big beneficiary for the company going forward given the significant tailwinds from structural factors like a growing middle-class segment and urbanization. Rural finance is set to benefit from the tractor industry as good monsoons are expected this year. This industry is expected to grow at 18-20% this year
- The focus is also on expanding micro loans. Microfinance business witnessed a YoY growth of 39% in disbursement, along with a book growth of 59%

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