



Investor Update - 02

Azurean India Equity Fund 1

(SEBI registered Category III AIF)

"The secret to getting ahead is getting started."

Azurean Investment Managers Private Limited

(support@azurean.in)

Dear Investor,

We are pleased to share our 2nd quarterly investor update of Azurean India Equity Fund 1, a Category III AIF, that commenced operations on October 9th, 2024.

The benchmark Nifty 50 index touched an all-time high of 26,216 on 26th Sep 2024, while the Nifty Midcap 100 index and Nifty Smallcap 250 index peaked two days earlier. From the highs, the Nifty 50 index is down 10.3% while the mid and small cap index were down 15.1% and 18.9% respectively. Factors that lead to the correction in the market were weaker than expected earnings over the past couple of quarters, geopolitical issues such as tariff wars and continuous FII selling. While near-term challenges exist, especially on the possibility of additional US trade tariffs, we believe Indian equities would deliver returns that are commensurate to the corporate earnings growth. Analysts estimate earnings growth of 12% - 14% for the next two years and hence we expect healthy market returns over the coming years.

Since inception (from 9th Oct 24), the benchmark Nifty 200 index is down by 8.6%, and during the same time frame the fund NAV has fallen by 6.4 %. Some of the outperformance that we had in the December quarter has reversed in the March quarter.

In FY2025, the returns from equities were positive despite the correction in the second half of the year. The large, mid and small cap indices generated positive returns in the range of 6%-8% for the year. On a 3 year CAGR basis, the performance of mid and small cap indices still remains superior to that of large cap indices.

As on 28-Mar-25	1 year return	3yr CAGR	5yr CAGR	10yr CAGR
Nifty 50	6.3%	10.0%	22.1%	10.7%
Nifty Midcap 100	8.0%	19.7%	34.4%	14.8%
Nifty Smallcap 250	5.7%	16.2%	36.6%	na
Nifty 200	6.2%	11.7%	23.9%	11.4%
Gold INR	31.4%	19.9%	16.7%	13.2%

Government bond yields over the last one year have come down BY ~40bps as the RBI cut policy rates by 25 bps during the year. The benchmark 10yr government bond yield ended the year at 6.6% versus a yield of 7.0% at the beginning of the last year. With yields coming down by 40bps during the year, duration fund generated returns this year ahead of equity returns.

Gold rallied strongly during the last year and has done exceptionally well appreciating 29% in rupee terms. Azurean India Equity Fund 1 is an India equity focused fund and does not have any exposure to other asset classes.

Changing Geopolitical Landscape added to volatility

In the last three months, Nifty 50 index corrected by 10% but recovered most of the losses in March, and closed the quarter down by 0.5%. Most sectors performed poorly with the exception of the Banking and Financial Services Sectors. The correction in the quarter was driven by concerns around the likely imposition of US tariffs and its impact on the profitability of companies. Hence, the sectors that have high exposure with sales to the US such as Software and Pharmaceutical have taken a significant hit. As outlined, on 2nd April 2025 US imposed reciprocal tariffs on the imports into the country. The tariff that is applicable to India is 26% and this is lower than the rate that has been proposed for other Asian economies. Pharmaceutical imports into the US have been excluded from the imposition of this tariff and hence this sector has not be negatively impacted, even though tariffs on Pharmaceuticals in the future cannot be ruled out. If these tariffs continue for a period of time, growth estimates of the US and other economies would get impacted.

After strong growth in earnings in the last 4 years (post covid), profit growth started decelerating in FY25. Compared to the initial expectations in earnings growth of 15% at the start of the year, FY25 is likely to end with an earnings growth of 6%. Even, after the recent correction in small and mid cap companies, valuations in this segment are still elevated. The trailing 12 month price earnings (P/E) multiple of midcap and small cap index are 32x and 29x respectively (*Source: NSE website*), which is at a premium to the long period average

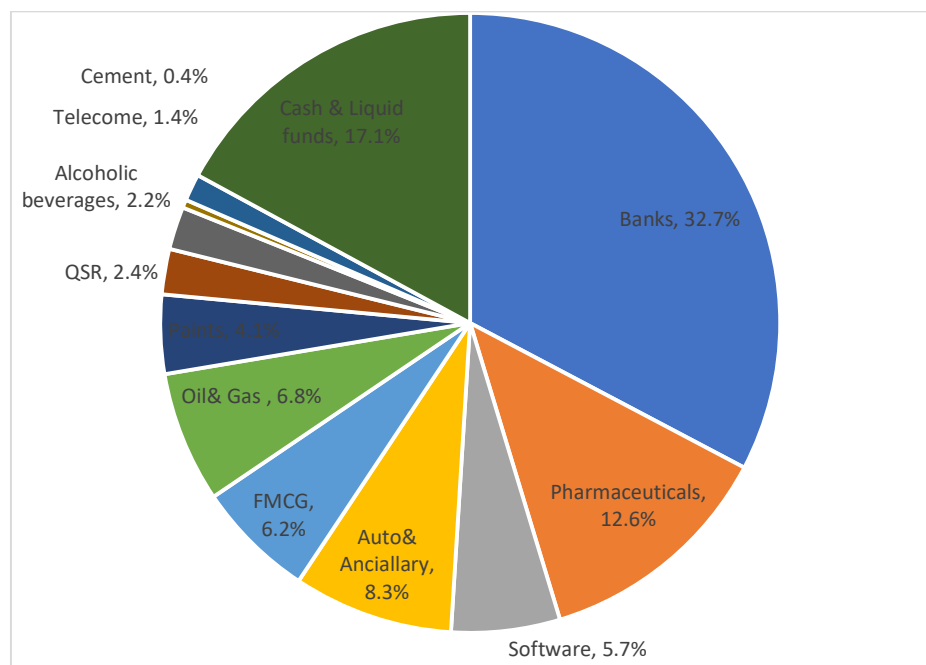
Top Performing sectors	4QFY25
Financial services	6.6%
Metals	5.1%
Banks	1.4%
Infrastructure	-0.1%

Bottom performing sectors	4QFY25
IT	-14.9%
Pharmaceuticals	-9.7%
Automobile	-6.7%
FMCG	-5.7%

Portfolio Positioning

Despite recent correction in the mid and small cap-oriented companies, our preference is still towards large cap- companies as the mid and small cap companies are richly valued. Hence, a large part of the portfolio is deployed in large cap-oriented companies. We have selectively added exposure to a few mid and small cap-oriented companies where we are optimistic on the sectoral outlook and valuations are attractive. Cash levels in the fund have moved up from 9% at the beginning of the quarter to 17% at the end of the quarter. We propose to generate alpha through sector allocation and stock selection as opposed to aggressive cash calls. However, we would keep sufficient cash in the portfolio to benefit from investment opportunities in a volatile market.

Exposure to Large size companies	Exposure to Medium size companies	Exposure to Small size companies	Cash level
66.4%	5.2%	11.3%	17.3%



The Fund's exposure to Private Banks increased during the quarter, due to relative outperformance of the sector. Our exposure to lending businesses has been through large private banks. We are also positive on some Non-banking finance companies in retail finance and affordable housing finance segment with above sector growth and attractive return ratios. We would look to add some exposure in this segment.

The Pharmaceuticals sector has been a significant overweight position in the fund. As these companies derive substantial portion of revenue and earnings from exporting generic formulations to the US, the sector has been impacted in the quarter in anticipation of tariffs on exports to the US. We believe, Indian pharmaceutical manufacturers account for bulk of the generic medicines consumed in the US and are one of the lowest cost producers and hence would be able to pass on the cost increases.

We have increased exposure to domestic consumption growth such as consumer staples and paints during the quarter. We believe, the impetus given by the Union Budget 2025, by reducing the income tax burden on individuals will gradually improve the consumption lead growth in the economy.

The notable underweight positions are in commodities - Cement, Metals and Oil & gas sectors and Software. The Fund's exposure to various sectors and companies is shown in the Annexure-1.

Earnings growth slows down in FY25

After a strong growth in earnings of nearly 20% per annum post Covid (FY20 to FY24) for Nifty 50 companies, earnings growth started decelerating in the current financial year. For FY25, Nifty50 companies aggregate profits estimated to grow by only 6% y-o-y. Earnings growth outside the Nifty50 companies has been more subdued during the current financial year. However, most of the brokerage houses are forecasting earnings growth CAGR of 13% to 14% for the coming two years. Capital goods, Telecom and Banking & Financial services sectors have been the key driver of earnings growth in FY25, while sectors such as consumer staples & discretionary, cement have seen a sharp slowdown/decline in earnings growth for the year.

Macro-Economic update and outlook

Bond yields in India are benign, but elevated in developed countries

Bond yields have been declining in India, with the ten-year government bond yields coming down to 6.6% from 7% a year ago. The Union Budget has maintained tight fiscal prudence with a lower fiscal deficit target of 4.5% for FY26. Also, as widely expected by the market participants, RBI in its monetary policy in March has cut policy rate by 25bps to 6.25% easing bond yields. RBI is further expected to bring down rates in its April policy as well, as inflation has been benign.

After a hundred basis point cut in its policy rates during calendar 2024, the US Fed has maintained a pause in 2025 so far. During its March policy meeting US Fed has upped Inflation estimation to 2.7% while reducing the GDP growth estimate to 1.7% for 2025, and now builds in two rate cuts during the current calendar year. Meanwhile the focus of US macro is shifted from the Fed to the White house and President Trump.

Yields on the ten-year Japanese government bonds have moved up further to 1.5%. Bond yields in the Eurozone have also been firm especially on the back of the expected rise in government spending on defense in the changed geopolitical environment. German ten-year bond yield moved up to 2.7% as the newly elected government planned to spend US\$1trn on beefing up its defense.

GDP recovers to 6.2% in Q3 from low 5.4% in Q2

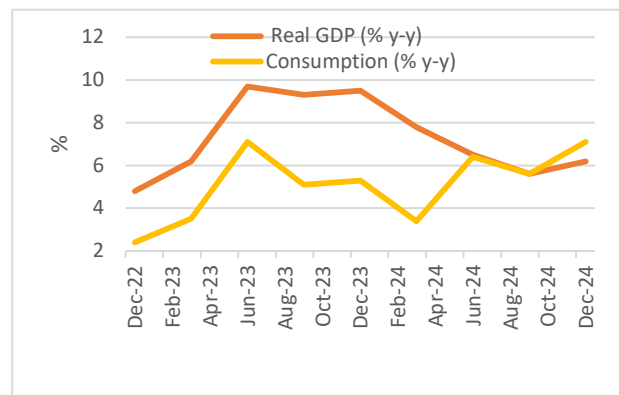
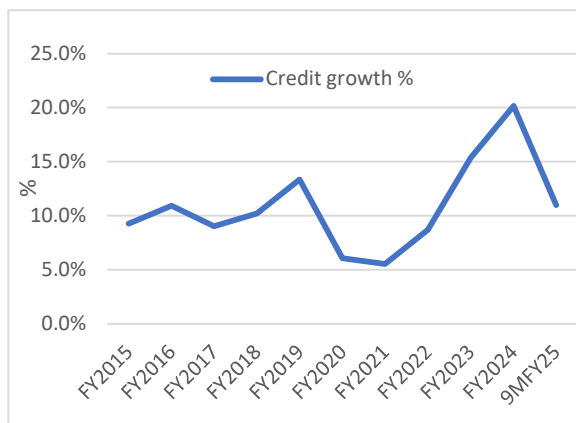
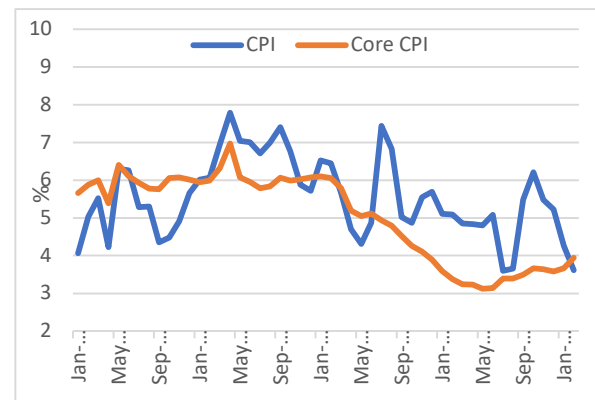
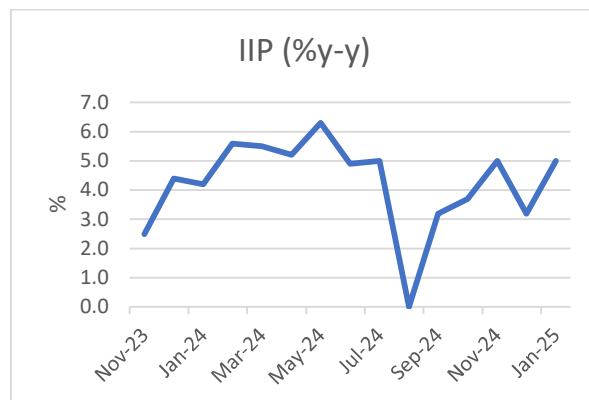
India's GDP growth rate recovered to a healthy 6.2% in 3QFY25, from the low of 5.4% in Q2. The improvement in GDP growth was driven by recovery in private consumption and a strong growth in exports. RBI projects full year GDP growth to be at 6.4% for FY25 and 6.7% in FY26. We are sanguine about the growth prospects of the Indian economy in the medium to long term. As CPI inflation has been moderating at 3.6% in Feb25, and RBI projections for FY26E inflation are benign at 4.2%, we believe RBI policy measure would be focused on aiding higher growth.

Union Budget FY2025-26

Union Budget for FY26 focused on maintaining high fiscal prudence, bringing down fiscal deficit to GDP ratio by a further 40 bps to of 4.4%. Despite maintaining fiscal discipline, the government managed to maintain a healthy growth (+ 9.8%) in allocation to capital expenditure at Rs11.2 trn. Budget also made substantial changes to personal tax rates and slabs thereby reducing the tax burden on individuals. These changes are likely to reduce the tax burden to the tune of Rs1 trn thereby helping to boost the personal consumption expenditure. Government has kept growth momentum on the capital expenditure side and added stimulus to the consumption lead growth while sticking to fiscal prudence. This has been achieved by curtailing revenue expenditure and subsidies. The Finance ministry is factoring in a healthy nominal GDP growth rate of 10% during FY26.

Rs bn	FY23	FY24	FY25 RE	FY26 BE	FY25 yoy	FY 26 yoy
Corporation tax	8,258	9,111	9,800	10,820	8%	10%
Personal Income tax	8,464	10,584	12,715	14,531	20%	14%
Goods & Services Tax	8,491	9,572	10,619	11,780	11%	11%
Customs Duty	2,134	2,331	2,350	2,400	1%	2%
Excise Duty	3,190	3,054	3,050	3,170	0%	4%
Gross tax Revenue	30,542	34,655	38,535	42,702	11%	11%
Capital Expenditure	7,400	9,492	10,184	11,211	7%	10%
Subsidies	5,310	4,123	3,834	3,834	-7%	0%
Gross fiscal deficit	17,378	16,546	15,695	15,689		
Nominal GDP	2,69,496	2,95,357	3,24,114	3,56,979	10%	10%
FD/GDP	6.4%	5.6%	4.8%	4.4%		

India is well placed to deal with US tariffs related uncertainties



As GDP growth rates recovered to 6.2% in Q3FY25 from the lows of Q2, driven by revival in personal consumption growth which was lagging, India is well placed to maintain strong growth rate into the next financial year. Inflation has been moderate with both the core CPI and as well as headline CPI inflation recording below 4% for the latest month. Most of the macroeconomic parameters and their outlook is looking solid for India. Good growth in services exports and surplus in services is helping to negate the impact of merchandise deficit thereby helping overall current deficit to be well within the control. While the US tariffs are

likely to have an impact on overall GDP growth of world, with this strong macro fundamentals, India is well placed to deal with potential. US government has already placed import duties of 25% on steel, aluminum, automobile and on some of the auto-parts. We are hopeful that India and US will have a good bilateral deal on the trade front soon, which could be a win-win for both the countries.

We are grateful for your trust and confidence in the fund. We are managing only a single fund, and our total focus and energies are on delivering the best possible risk adjusted returns. We are totally committed to this fund with the fund managers/Sponsors of the fund contributing Rs. 25cr to the fund.

Details of the fund exposure and risk disclosures are in the annexures.

A handwritten signature in blue ink that reads "Sampath Reddy".

Sampath Reddy, CFA
(Fund Manager)

A handwritten signature in blue ink that reads "Reshma Banda".

Reshma Banda

Annexure 1- Detailed Portfolio Position

Company Name	Weight	Sector	Comment
ICICI Bank	9.7%	Banks	Exposure to banks increased. Within the lending businesses, our exposure is towards the larger private sector banks. The larger banks are well placed for absorbing credit shocks and growing at good pace, with stable profitability
Axis Bank	8.7%		
HDFC Bank	7.8%		
Kotak Mahindra bank	6.5%		
Total Banks	32.7%		
ZyduS Lifesciences	5.1%	Pharmaceuticals	Maintain significant overweight position, more so to the companies that are exposed to export oriented business. Valuations are attractive
Dr Reddy's Lab	5.1%		
Lupin	2.4%		
Total Pharma	12.6%		
	3.3%	Software	Reduced exposure. Our exposure in IT is only to sector leaders. Mid and small cap IT services companies are trading at rich valuations owing to superior growth in the recent past. Our belief is that superior growth of mid and small cap growth is not sustainable
TCS	2.4%		
Infosys	5.7%		
Total IT			
Maurti Suzuki	3.5%	Auto & Ancillary	Exposure in automobile sector is to the companies that have good market share with strong balance sheet and are embracing the EV transition.
Bajaj Auto	2.6%		
Varroc Engineering	2.2%		
Total Auto	8.3%		
Hindustan Unilever	3.4%	Consumer	Increased exposure to FMCG sector. Tax stimulus in the budget to aid revival in consumption growth
Marico	1.3%		
Britannia Industries	0.7%		
Procter & Gamble Hygiene and health	0.8%		
Total Consumer	6.2%		
Mahanagar Gas	2.6%	Oil & Gas	Exposure in the Oil & Gas sector is to the cash rich companies that are trading at low price to earnings multiples
Petronet LNG	2.6%		
Bharat Petroleum	1.6%		
Total Oil & Gas	6.8%		
Asian Paints	2.2%	Paints	Increased exposure. Reasonable valuations. Concerns about new entrants taking away market share are priced in
Kansai Nerolac	1.9%		
Total Paints	4.1%		
Sapphire Foods	2.4%	QSR	Focused play on India QSR, Focused on two formats KFC, PZH
Sula Vineyard	2.2%	Alcoholic beverages	Long term growth outlook is strong
Ramco cement	0.4%	Cement	Cement realisations to improve
Bharti Airtel	1.4%	Telecom	Increased exposure
Cash- liquid fund	17.1%	Liquid assets	
Total	100.0%		

Annexure-2- Q2FY25 Financial performance of portfolio companies

Company Name	Revenue Rs Cr		%	Operating Profit Rs cr		%	Net Profit Rs cr		%
	Q3FY25	Q3FY24		Q3FY25	Q3FY24		Q3FY25	Q3FY24	
Axis Bank	32,162	28,865	11.4%	2,210	2,416	-8.5%	6,779	6,520	4.0%
HDFC Bank	85,040	78,008	9.0%	-3,181	-15,764	-79.8%	18,340	17,718	3.5%
ICICI Bank	47,037	40,865	15.1%	-9,106	-3,473	162.2%	13,847	11,515	20.3%
Kotak Mahindra bank	16,633	14,495	14.7%	-1,133	-3,975	-71.5%	4,701	4,265	10.2%
Dr Reddy's Lab	8,381	7,237	15.8%	2,273	2,023	12.4%	1,404	1,381	1.7%
Lupin	5,768	5,197	11.0%	1,356	1,038	30.6%	859	619	38.8%
Zydus Lifesciences	5,269	4,505	17.0%	1,388	1,102	26.0%	1,026	790	29.9%
Infosys	41,764	38,821	7.6%	10,115	9,137	10.7%	6,822	6,113	11.6%
TCS	63,973	60,583	5.6%	17,034	16,388	3.9%	12,444	11,097	12.1%
Bajaj Auto	13,169	12,165	8.3%	2,751	2,415	13.9%	2,196	2,033	8.0%
Maurti Suzuki	38,764	33,513	15.7%	5,076	4,440	14.3%	3,727	3,207	16.2%
Varroc Engineering	2,075	1,885	10.1%	186	176	5.7%	-45	384	-
Kansai Nerolac	1,922	1,919	0.2%	235	244	-3.7%	662	152	335.5%
Hindustan Unilever	15,818	15,567	1.6%	3,695	3,665	0.8%	2,989	2,508	19.2%
Marico	2,794	2,422	15.4%	533	513	3.9%	406	386	5.2%
Asian Paints	8,549	9,103	-6.1%	1,637	2,056	-20.4%	1,128	1,475	-23.5%
Britannia Industries	4,593	4,256	7.9%	843	820	2.8%	582	556	4.7%
Procter & Gamble Hygiene and health	1,248	1,138	9.7%	371	310	19.7%	269	229	17.5%
Sapphire Foods	757	666	13.7%	134	122	9.8%	13	10	30.0%
Swiggy	3,993	3,049	31.0%	-726	-526	38.0%	-799	-574	39.2%
Sula Vineyard	200	203	-1.5%	53	72	-26.4%	28	43	-34.9%
Mahanagar Gas	1,758	1,569	12.0%	314	449	-30.1%	225	317	-29.0%
Petronet LNG	12,227	14,747	-17.1%	1,248	1,706	-26.8%	867	1,191	-27.2%
Bharat Petroleum	1,13,166	1,15,499	-2.0%	7,456	6,199	20.3%	3,806	3,181	19.6%
Ramco cement	1,983	2,111	-6.1%	279	397	-29.7%	182	82	122.0%
Bharti Airtel	45,129	37,900	19.1%	24,597	19,815	24.1%	16,135	2,876	461.0%
Mahindra & Mahindra	41,470	35,299	17.5%	8,231	6,224	32.2%	3,624	2,977	21.7%
Wipro	22,319	22,205	0.5%	4,540	4,198	8.1%	3,367	2,701	24.7%
Hitachi Energy	1,620	1,274	27.2%	167	68	145.6%	137	23	495.7%
Bayer Cropsciences	1,057	955	10.7%	20	128	-84.4%	34	93	-63.4%

Risk Disclosures

Concentration risk	Portfolio is well diversified across sectors and market capitalization segment
Leverage	Fund has no leverage. Fund made investments in lending companies such as Banks & NBFCs that have capital adequacy above the regulatory norms.
Realization risk	All of the equity investments of the fund are in listed equities
Foreign investment risk	Fund does not have any investments in foreign entities
Strategy risk	Fund's portfolio is managed as per the strategy outlined in the PPM. There is no change in investment strategy of the fund.
Fees	Fees ascribed to the investment manager is as per the PPM
ESG risk	We look to invest in companies that follow good ESG practice

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