



Investor Update - 03

Azurean India Equity Fund 1

(SEBI registered Category III AIF)

"No one can predict with certainty which way the next 1000 point will be. Market fluctuations, while no means comfortable, are normal". Peter Lynch

Azurean Investment Managers Private Limited

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Dear Investor,

We are pleased to share our 3rd quarterly investor update of Azurean India Equity Fund 1, a Category III AIF, that commenced operations on October 9th, 2024.

The June quarter witnessed strong performance across equity markets, marked by broad-based gains across segments. The Nifty 200 index rose 10%, while the mid and small-cap indices outperformed with impressive gains of over 16%. The sharp recovery was marked by global headwinds and high volatility during the period. Markets initially corrected following the announcement of higher US import tariffs — which are now expected to be implemented at potentially lower rates than those announced initially on April 2. Additionally, geopolitical tensions, including the Iran-Israel-US conflict and Operation Sindhoor at the India-Pakistan border, exacerbated the uncertainty. Nevertheless, the rebound in stock prices was swift and exceeded our expectations. While we remain constructive on the long-term prospects of the Indian economy, the pace of recovery in market sentiment was much faster than we anticipated.

On the macroeconomic front, government bond yields declined by ~20 basis points over the quarter. The RBI delivered a surprise 50 bps policy rate cut in June, bringing the repo rate down to 5.5%, alongside an unexpected 100 bps reduction in the Cash Reserve Ratio (CRR) to enhance banking sector liquidity. As a result, the benchmark 10-year government bond yield ended the quarter at 6.3%, down from 7.0% a year ago. The dovish stance by the RBI and the proactive liquidity measures significantly supported the recovery in the equity markets.

For the quarter ended June, the benchmark Nifty 200 index was up by 9.8% where as fund's NAV was up by 7.8%. Since inception (from 9th Oct 24), the benchmark Nifty 200 index is up by 0.37%, during the same time frame the fund's NAV is up by 0.7% outperforming the benchmark by 33 bps.

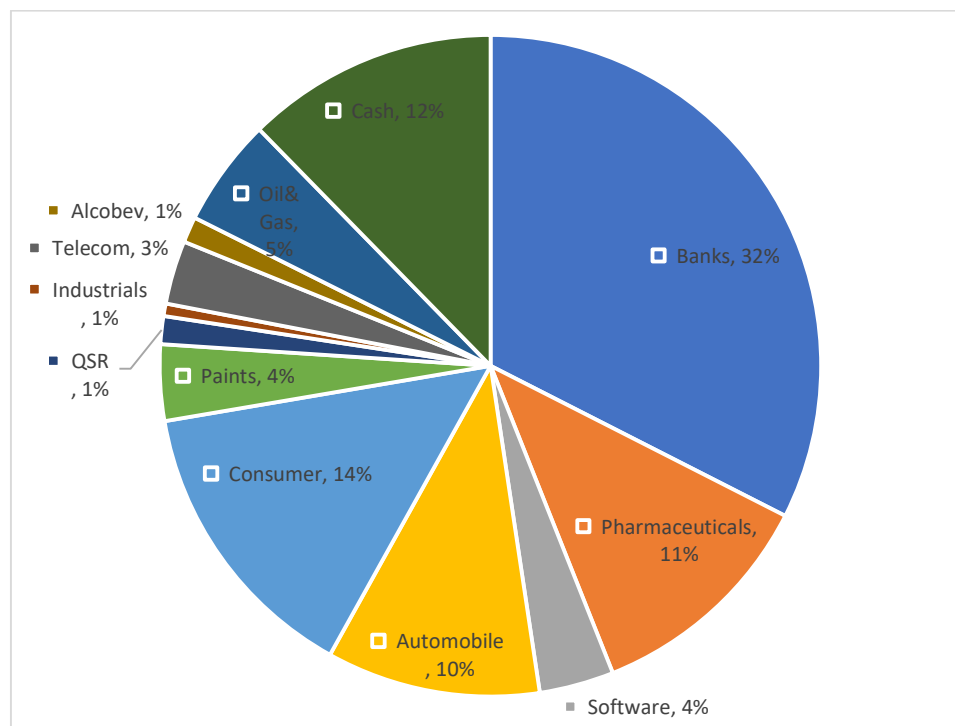
While the June quarter has seen a sharp rebound in mid and small cap indices with ~16% return, the 6-month performance remains tepid. This indicates that the mid and small cap segment stocks have underperformed compared to large cap companies and this is in line with our expectations. We continue to believe that risk reward is more attractive in large cap-oriented companies and hence our portfolio is skewed towards large caps.

As on 30-Jun-25	3 month return	6 month return
Nifty 200	9.8%	6.3%
Nifty 50	8.5%	7.9%
Nifty midcap 100	15.6%	4.5%
Nifty smallcap 250	17.8%	0.3%

Portfolio Positioning and Attribution

We maintain our constructive outlook on equities while emphasizing that the risk-reward remains more favorable in the large-cap segment compared to mid and small-cap equities. Accordingly, we further increased our exposure to large-cap oriented stocks during the quarter. While maintaining this tilt, we also selectively broadened our exposure in the mid and small-cap segments by adding a few high-conviction ideas. Cash levels were reduced from 17% at the beginning of the quarter to 12% by quarter-end. The sharp rebound in stock prices, particularly in June, led to a cash drag of over 150 bps on portfolio performance. Going forward, we intend to generate alpha primarily through sector allocation and bottom-up stock selection, rather than aggressive cash positioning. However, we will continue to maintain sufficient liquidity in the portfolio to capitalize on opportunities in volatile markets.

Exposure to Large size companies	Exposure to Medium size companies	Exposure to Small size companies	Cash level
69%	9%	9%	12%



Top Performing sectors	1QFY25
Nifty Auto	12.1%
Nifty Infra	11.2%
Nifty banks	11.1%
Nifty Energy	8.9%

Bottom performing sectors	1QFY25
Nifty IT	5.6%
Nifty Metals	4.9%
Nifty Pharma	4.3%
Nifty FMCG	2.4%

The Fund's exposure to Private Banks increased during the quarter, mainly due to relative outperformance of the sector. Our exposure to lending businesses has been through large private banks. The exposure to banks have helped as the Nifty bank index moved up by 11% during the quarter. We have added exposure to affordable housing finance companies and Asset management companies during the quarter due to better growth and higher return ratios. Credit growth has been moderate at 9.8% in non-food credit growth in the first 3 months of the year. For the full year, analysts are forecasting credit growth to accelerate to 10 to 12%, which we believe is attractive, though lower than the longer-term mean. The quarterly earnings estimate for the banks is also moderate owing to contraction in net interest margin as the yields on assets are likely to come down faster than the decline in the cost of funds.

The Pharmaceuticals sector has been a significant overweight position. The Nifty Pharmaceutical index was up only 4.3% during the quarter, and higher exposure to this segment has been a drag on fund performance. As these companies derive substantial portion of revenue and earnings from exporting generic formulations to the US, the sentiment towards the sector has been subdued on tariff concerns 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 added domestic formulation retailers and diagnostics companies during the quarter.

Automobiles has been the best performing sector in the quarter, with the Nifty auto index moving up 12%. We have 10% exposure to this sector, spread across passenger cars and two wheelers.

We have increased exposure to domestic consumption growth such as consumer staples and paints. Consumers continue to be a relatively weak performer with the Nifty FMCG index moving up only 2% in 1QFY26. We maintain a significant overweight position in the consumer

sector and expect the impetus given by the Union Budget 2025, to reduce the income tax burden on individuals to gradually improve the consumption growth in the economy.

The notable underweight positions are in commodities - Cement, Metals and Oil & gas sectors and Software/IT. Among these underweight positions, the performance of Metals and IT sectors has been moderate with Nifty Metals and Nifty IT index moving 6% and 5% respectively.

The Fund's exposure to various sectors and companies is shown in the Annexure-1.

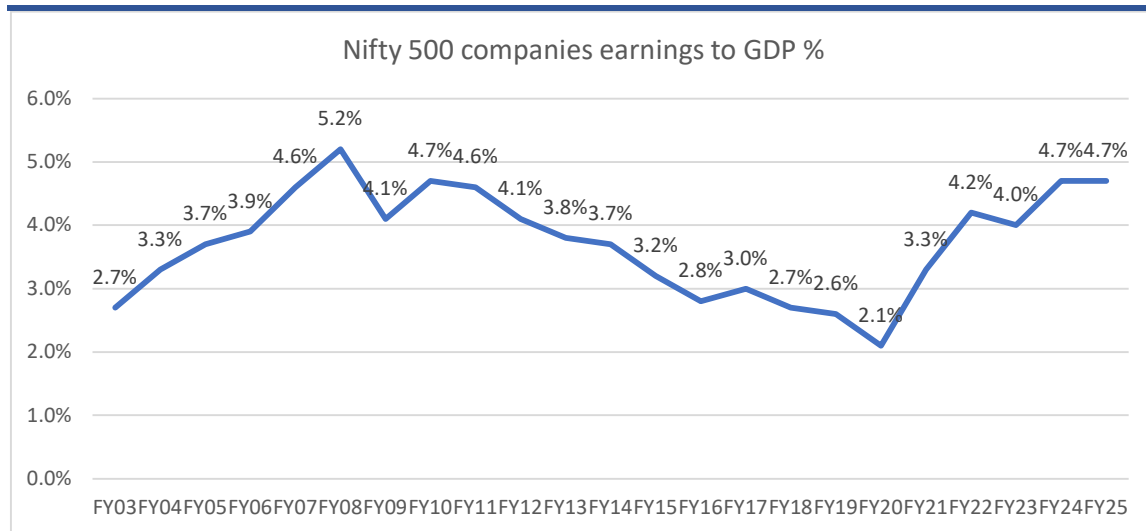
Earnings growth estimate for FY26 are moderate

After a strong growth in earnings of nearly 20% per annum post Covid (FY20 to FY24) for Nifty 50 companies, earnings growth for FY25 moderated to 5.5% in FY25. The companies that are exposed to capital markets such as asset/wealth management companies, capital goods companies linked to renewable energy capex, Telecom and Healthcare companies have grown the fastest during the last few quarters. Consumer staple and cement sector companies' earnings growth has been subdued.

Looking ahead, analysts are projecting a ~12% earnings CAGR over the next two years, though this growth is expected to be back-ended. FY26 is likely to see high single-digit earnings growth (6–9%), followed by earnings acceleration in FY27.

GDP recovers to 7.4% in Q4 from a low of 5.6% in Q2

India's GDP growth rate recovered sharply at 7.4% in 4QFY25, from the low of 5.6% in Q2. For the full year FY25, real GDP growth at 6.5% and Nominal GDP growth at 9.8% have been in line with expectations. Recovery in GDP growth was driven by an uptick in the manufacturing sector and strong government spending. For FY26, real GDP growth is forecasted by economists to be healthy at 6.5%. As inflation is likely to moderate in FY26, the nominal GDP growth would also be similar. Profitability of the corporate sector is healthy, with aggregate Nifty 500 companies' earnings as a percentage of GDP at a multi-year high.



Macro-Economic update and outlook

Benign Macros amidst global uncertainties

India has been enjoying a favorable macro-economic position amidst global uncertainties. Consumer price Inflation for the month of May, stood at 2.83% aided by lower food prices and softer commodities, as compared to the RBI target CPI inflation level of 4%. The inflation outlook over the medium term remains stable, thereby leaving scope for the monetary policy to focus on the growth in the economy.

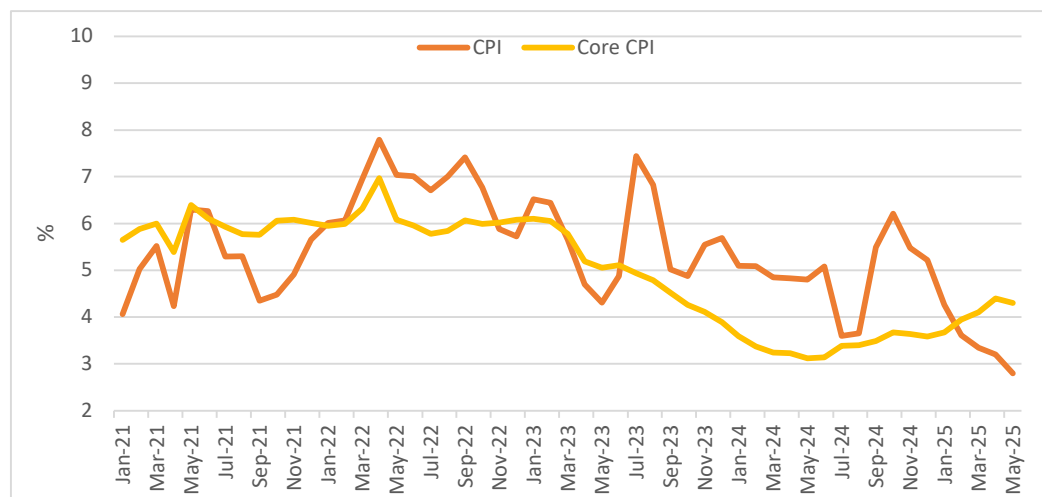
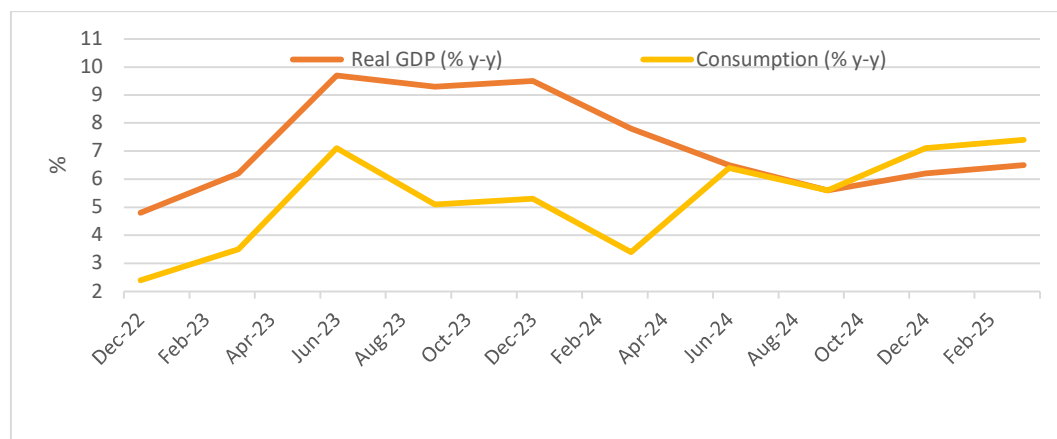
India's current account balance for Q4FY25 was a surplus of USD13.5bn and for FY25, the current account deficit was contained to 0.6% of GDP. Forex reserves remain strong at US\$698bn, which is close to the all-time high.

Benign inflation and fiscal prudence by the union government has aided the monetary policy committee (MPC) to lower the policy/repo rate, thereby bringing down interest rates. Government bond yields have come down to 6.3% from 7% a year ago.

The US Fed maintained a pause in 2025 after a 100 bps cut in policy rates in 2024 with the tariff related inflationary pressure and higher fiscal spending being an overhang. Bond yields in the US and the developed economies are still elevated.

RBI's monetary policy shifted to stimulating consumption growth

In the credit policy meeting on 6th June, the RBI delivered a policy rate cut of 50bps as compared to consensus expectations of a 25bps cut, taking the repo rate to 5.5%. Further, in a surprise move, the RBI announced a 100bps cut in the cash reserve ratio (CRR), which stands at 3% now. Both these measures were a positive surprise for the market with them contributing to an increase in liquidity. The uptick in liquidity has contributed to the fall in interest rates which has brought down borrowing costs and contributed to the buoyancy in the equity markets. RBI now feels that inflation is likely to be well within its target range, with full year FY26 inflation estimate of 3.7% and the focus of the policy has now shifted to growth measures. With this, we believe the inflation-growth dynamics of the policy have shifted in favor of stimulating consumption-leading growth.



As we enter FY26, corporate earnings expectations are moderate, which leaves greater room for positive earnings surprises rather than downgrades. The broader macroeconomic backdrop remains supportive, with India well positioned to sustain healthy growth momentum through the year.

Domestic inflation remains benign, with estimates of CPI staying below 4% for the full fiscal year. The current account balance is at comfortable levels, providing additional macro stability. The RBI's recent monetary measures, including enhanced liquidity and lower interest rates—would gradually stimulate consumption and support credit flow to productive sectors. On the fiscal front, government spending is the key driver, with higher allocations to defence and infrastructure capex, along with income tax relief, which is likely to boost economic activity. While the US trade policy comprising the levy of additional tariffs is a source of external uncertainty. But with India's low dependence on trade exports to the US, tends to mitigate the impact to an extent. Overall, we believe the macroeconomic and earnings outlook is constructive, and the risks are well balanced for long-term wealth creation.

The capital markets have remained buoyant and has witnessed substantial equity capital raise which reflects investor confidence in corporate India's prospects. The quantum of fund raising by corporates through QIPs/IPOs and sell down by private equity investors and promoters has been high recently. We believe that this easy availability of capital is not pricing the risks in terms of execution and demand adequately. This makes us a little cautious on the market as this could hamper pricing power and lead to sub-optimal return on capital.

We are grateful to you for your trust and confidence in the fund and being a part of our journey. We remain committed to optimally managing the fund and delivering the best possible risk adjusted returns. In conclusion, we would like to thank each of our investors and looking forward to continuing a long association ahead.

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


Sampath Reddy, CFA
(Fund Manager)


Reshma Banda

Annexure 1- Detailed Portfolio Position

Company Name	Weight	Sector	Comment
Axis Bank	8.3%	BFSI	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. We have added a small exposure to the affordable housing sector due to a strong growth. We have also added exposure to capital market players- asset management companies due to strong growth
HDFC Bank	7.5%		
ICICI Bank	8.7%		
Kotak Mahindra bank	7.1%		
HDFC Asset Mgmt Co	0.4%		
Nippon Life AMC	0.24%		
Aptus Value Housing	0.28%		
Total Financials	32.5%		
Dr Reddy's Lab	4.8%	Pharma	Maintain significant overweight position, more so to the companies that are exposed to export oriented business. Valuations are attractive. Also added exposure to Pharmacy retailing and diagnostic services companies
Lupin	0.9%		
Zydus Lifesciences	5.0%		
Metropolis	0.39%		
Medplus	0.17%		
Entero Healthcare	0.20%		
Total Pharma	11.5%		
Infosys	1.7%	IT	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	2.0%		
Total IT	3.6%		
Bajaj Auto	2.8%	Auto	Exposure in automobile sector is to the companies that have good market share with strong balance sheet and are embracing the EV transition
Maurti Suzuki	3.4%		
Varroc Engineering	2.3%		
TVS Motors	1.9%		
Total Auto	10.5%		
Asian Paints	1.9%	Paints	Reasonable valuations. Concerns about new entrants taking away market share are priced in
Kansai Nerolac	1.8%		
Total Paints	3.7%		
Hindustan Unilever	4.3%	Consumer	Increased exposure to FMCG sector. Tax stimulus in the budget to aid revival in
Marico	2.6%		

Britannia Industries	2.5%		consumption growth. Relative valuations
Nestle	1.3%		attractive
Procter & Gamble Hygiene and health	2.2%		
Gillette	1.3%		
Sapphire Foods	1.4%		
Sula Vineyard	1.3%		
Total Consumers	16.9%		
Hitachi Energy	0.18%		
GE Vernova T&D	0.19%	Industrial	Exposure to the industrial is through the Power sector Transmission and Distribution. The equipment makers have strong technological advantage
Schneider Electric	0.23%		
Total Industrial	0.60%		
Mahanagar Gas	1.6%		
Petronet LNG	1.7%	Gas and Oil	Exposure in the Oil & Gas sector is to the cash rich companies that are trading at low price to earnings multiples
Bharat Petroleum	2.0%		
Total Gas and Oil	5.3%		
Ramco cement	0.1%	Cement	Reduced exposure
Bharti Airtel	3.1%	Telecom	Increased exposure
Cash- liquid fund	12.3%		
Total	100.0%		

Annexure-2- Q4FY25 Financial performance of portfolio companies

Company Name	Revenue Rs Cr		%	Operating Profit Rs cr		%	Net Profit Rs cr		%
	Q4FY25	Q4FY24		Q4FY25	Q4FY24		Q4FY25	Q4FY24	
Axis Bank	32,452	30,231	7.35%	2,389	2,379	0.4%	7,509	7,630	-1.6%
HDFC Bank	86,779	79,434	9.25%	-7,916	-27,196	-70.9%	19,285	18,013	7.1%
ICICI Bank	48,387	42,607	13.57%	-12,248	-8,421	45.4%	14,354	12,200	17.7%
Kotak Mahindra bank	16,772	15,156	10.66%	-4,051	-5,976	-32.2%	4,933	5,337	-7.6%
HDFC Asset Mgmt Co	901	695	29.64%	731	539	35.6%	639	541	18.1%
Nippon Life AMC	567	468	21.15%	365	291	25.4%	299	343	-12.8%
Aptus Value Housing	1,750	1,365	28.21%	1,479	1,140	29.7%	751	612	22.7%
Dr Reddy's Lab	8,528	7,114	19.88%	1,998	1,831	9.1%	1,587	1,310	21.1%
Lupin	5,667	4,961	14.23%	1,321	997	32.5%	782	368	112.5%
Zydus Lifesciences	6,528	5,534	17.96%	2,126	1,630	30.4%	1,244	1,246	-0.2%
Metropolis	345	331	4.23%	62	80	-22.5%	29	37	-21.6%
Medplus	1,510	1,490	1.34%	136	106	28.3%	51	34	50.0%
Entero Healthcare	1,339	1,034	29.50%	49	29	69.0%	31	21	47.6%
Infosys	40,925	37,923	7.92%	9,874	8,784	12.4%	7,038	7,975	-11.7%
TCS	64,479	61,237	5.29%	16,980	17,164	-1.1%	12,293	12,502	-1.7%
Bajaj Auto	12,646	11,555	9.44%	2,358	2,284	3.2%	1,802	2,011	-10.4%
Maurti Suzuki	40,920	38,471	6.37%	4,844	5,221	-7.2%	3,911	3,952	-1.0%
Varroc Engineering	2,099	1,975	6.28%	547	221	147.5%	23	58	-60.3%
TVS Motors	11,542	9,942	16.09%	1,904	1,455	30.9%	698	412	69.4%
Asian Paints	8,359	8,731	-4.26%	1,436	1,691	-15.1%	701	1,275	-45.0%
Kansai Nerolac	1,817	1,769	2.71%	166	179	-7.3%	102	114	-10.5%
Hindustan Unilever	15,670	15,210	3.02%	3,618	3,535	2.3%	2,475	2,561	-3.4%
Marico	2,730	2,278	19.84%	458	442	3.6%	345	320	7.8%

Britannia Industries	4,432	4,069	8.92%	801	784	2.2%	559	537	4.1%
Nestle	5,504	5,268	4.48%	1,389	1,350	2.9%	885	934	-5.2%
Procter & Gamble Hygiene and health	992	1,002	-1.00%	210	257	-18.3%	156	154	1.3%
Gillette	767	681	12.63%	226	161	40.4%	159	99	60.6%
Sapphire Foods	711.34	631.70	12.61%	106.22	102.95	3.2%	2.02	2.04	-1.0%
Sula Vineyard	126	123	2.44%	28	29	-3.4%	13	14	-7.1%
Hitachi Energy	1,884	1,695	11.15%	238	182	30.8%	184	114	61.4%
GE Vernova T&D	1,153	914	26.15%	252	111	127.0%	186	66	181.8%
Schneider Electric	587	472	24.36%	87	73	19.2%	55	3	1733.3%
Mahanagar Gas	1,865	1,567	19.02%	378	394	-4.1%	252	265	-4.9%
Petronet LNG	12,316	13,793	- 10.71%	1,512	1,104	37.0%	1,095	764	43.3%
Bharat Petroleum	1,11,230	1,16,555	-4.57%	7,737	8,955	-13.6%	4,392	4,790	-8.3%
Ramco cement	419	365	14.79%	44	40	10.0%	36	44	-18.2%
Bharti Airtel	47,876	37,599	27.33%	27,009	19,365	39.5%	12,476	2,068	503.3%

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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