



Investor Update - 01

## Azurean India Equity Fund 1

(SEBI registered Category III AIF)

**"A journey of a thousand miles begins with a single step"**

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**Azurean Investment Managers Private Limited**

(support@azurean.in)

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Dear Investor,

We are pleased to share our inaugural letter to investors as we officially launched Azurean India Equity Fund 1, a Category III AIF, on October 9th. First and foremost, we would like to express our sincere gratitude for the trust and confidence you have placed in us. As we embark on this exciting journey, we remain fully committed to the success of the fund. We are managing only one fund, and our total focus and energies are on delivering the best possible returns. We are totally committed to this fund with a significant part of the savings of the fund managers invested in the fund.

We would like to take this opportunity to share our current market outlook and our approach to portfolio construction and portfolio positioning.

Azurean India Equity Fund1 commenced on 9<sup>th</sup> of October as its first day of NAV. On the same day the Nifty 50 was at 24,982 while Sensex stood at 81,467 levels. Nifty200 was lower by 5.4% on 31st December 2024 from the time of inception of the fund. During the same time frame the fund NAV was lower by 0.4%.

The calendar year 2024 witnessed a notable dispersion in the performance of various market segments. While the Nifty 50 index appreciated 8.8% during the year, Nifty midcap and Nifty small cap indices performed very well with 24% returns each. The superior performance of midcap and small cap indices has now persisted for over three years. The 3-year CAGR of mid and small cap indices stood at 23% and 19% respectively, compared to the 11% CAGR of the Nifty 50 index.

Index return	CY 2024	3 Year CAGR
<b>Nifty 200</b>	<b>13.6%</b>	<b>13.3%</b>
Nifty 50	8.8%	10.9%
Nifty Midcap 100	23.9%	23.4%
Nifty Smallcap 100	23.9%	18.5%

Index return (local currency)	CY 2024
S&P 500	24%
Nasdaq	30%
UK	6%
China (HSCEI)	20%

While earnings growth has been strong in recent years, overall share prices have outpaced this growth, resulting in elevated valuations especially for midcap and smallcap companies. The trailing 12 month price earnings (P/E) multiple of midcap and small cap index are 42.9x and 34.7x respectively (*Source: NSE website*), while the same for Nifty 50 is at 21.8x. Valuations of large cap companies have improved a bit in recent months as the stocks have come down from the peak seen in September. From the Nifty 50 peak of 26,179 on 27<sup>th</sup> Sep, the index is

down 9.7%. while the mid and small cap indices have recovered and ended the year at close to the all-time highs. Among the classes of investors, domestic institutions have been net buyers as they have been witnessing continued inflows, while FIIs have been sellers in the secondary market. During the year 2024, domestic institutions have been net buyers of USD 63bn which is higher as compared to the combined net buying of CY22 and CY23 of USD 55bn. FII net flows (including primary market purchases) during 2024 were negligible, as the inflows in the initial months were offset by the outflows in the latter months of the year.

Typically, FII investments are concentrated in larger companies, while that of Domestic institutions are more spread out across large, mid and small cap companies. Due to the strong inflows with domestic institutions, they have been net buyers in the market as compared to FIIs, contributing towards elevated valuations of mid and small companies.

Pharmaceuticals (+39%), Real Estate (+34%), Automobiles (+23%) and Software (+21%) are the top performing sectors and Consumer and Banking sector (more so private sector banks) were the laggards for the year.

Top Performing sectors	CY 2024
Healthcare	40.2%
Pharma	38.9%
Realty	33.8%
Auto	22.8%
IT	21.4%

Bottom performing sectors	CY 2024
FMCG	-0.9%
Energy	4.9%
Bank Index	5.4%
Metal	8.1%
Infra	15.9%

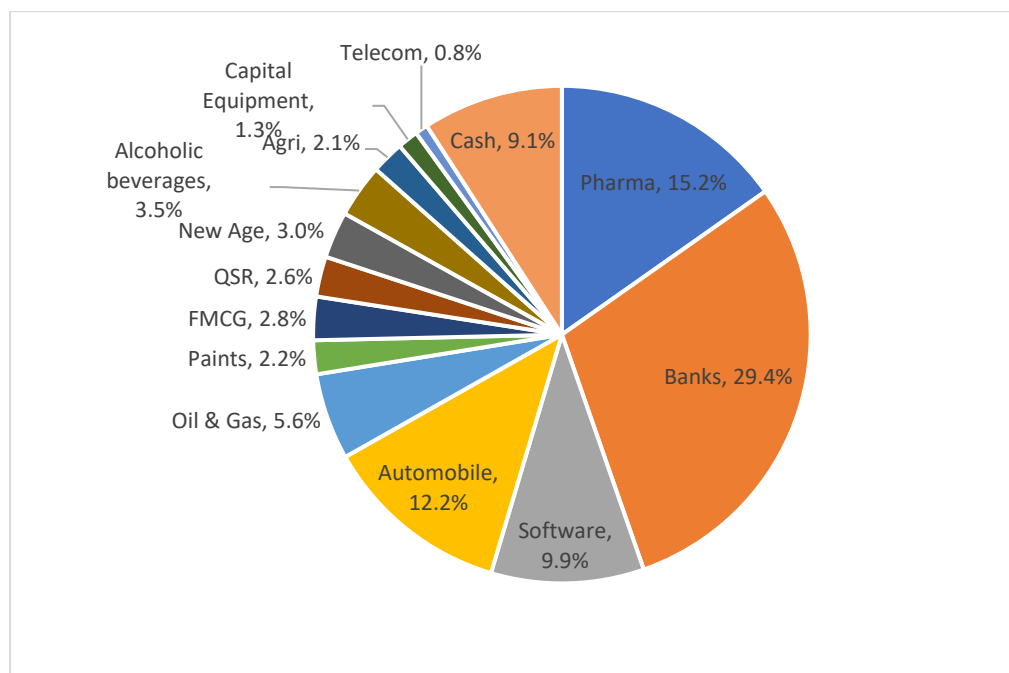
## Portfolio Positioning

The fund was launched on 9<sup>th</sup> Oct and a substantial portion of the corpus was invested over the next 5 weeks. We benefited from this gradual deployment as the Nifty 50 experienced a 5.5% decline during this period. We have not had any sell transaction since the start of the fund, and changes in the cash level are due to the addition of new investors during the quarter. Given that the portfolio has been constructed with ~25 stocks across key sectors and market cap segments, we anticipate that the deployment of new funds into the portfolio will occur at a much faster pace going ahead.

In our view, large cap-oriented companies are trading at relatively attractive valuations as compared to mid and small cap companies. 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 feel the valuations are attractive and the cash level is at 9%. We aim to generate alpha through sector allocation and stock selection across segments as opposed to aggressive cash calls. However, we would like to 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
68.9%	6.6%	15.3%	9.1%



A significant portion of the portfolio is allocated to Private Banks, Pharmaceuticals, and Automobiles sectors where we have significant overweight positions. Notable underweight positions are in commodities - Cement, Metals and Oil & gas sectors and consumer staples. Despite the strong performance of the pharmaceutical sector over the past year, we remain bullish about its prospects. The domestic pharmaceuticals market has been growing at a healthy rate of 10% p.a. and the outlook for generic exports continues to improve. In Generic

exports, Indian Pharmaceutical companies have been targeting complex generics segment with higher profitability, and companies are withdrawing from commoditized products with large number of players. The valuations of the portfolio companies in this sector remain attractive, with many trading at less than 25x P/E.

In the lending businesses we have restricted our exposure to large, well-capitalized private banks. In Q2FY25, we have seen significant deterioration in the Micro Finance Business and have seen an increase in the delinquencies within the unsecured personal loan portfolios. Non-bank finance companies (NBFCs) with superior return on equity in segments like retail lending, infrastructure lending, and affordable housing finance are growing at a faster pace, with higher net interest margin and have a potential to deliver better returns. However, these segments also carry higher risks related to asset quality. We are content with the moderate growth in private banks and their valuations at this juncture.

Among new-age businesses such as e-commerce, quick-commerce, fintech, payment solutions, logistics and ticketing companies and EV players, we like the food delivery and quick commerce business due to their very large addressable market and growth potential. In this space, we have added Swiggy to our portfolio, primarily due to the valuation difference with that of Zomato. For Q2FY25, Swiggy reported a Gross order Value (GOV) of Rs 113bn from food delivery and quick commerce, whereas Zomato reported a GOV of Rs 177bn from similar segments. In terms of topline to market cap ratio, Swiggy is more attractive. Here, we have looked at the relative value approach at this stage and will keep monitoring the profitability path and would act accordingly. We have selectively added stocks from sectors such as Capital Equipment, Paints, Agri-chemicals, Consumer and other segments as shown in the Annexure -1.

### **Earnings growth is the key parameter to watch for**

After a strong growth in earnings of nearly 20% per annum post Covid (FY20 to FY24) for Nifty50 companies, earnings growth started decelerating in the current financial year. For Q2FY25, Nifty50 companies' aggregate profit grew by only 4% y-o-y to Rs 1.92 trillion. Earnings growth outside the Nifty50 companies has been even more subdued.

Barring capital market exposed businesses such as – asset management companies, brokerages, and market infrastructure providers like Depositories (CDSL), Exchanges (BSE), and RTA (CAMS & KFinTech), most of the sectors have seen a slowdown in their earnings growth. Few of the smaller sectors, such as electronic manufacturing services (EMS) and air conditioners, have also exhibited a strong growth. The consumer staples sector, in particular, has faced weakness due to stress in urban consumption. Most of the brokerage reports

suggest that aggregate earnings growth of Nifty50 companies is estimated to be about 8% in FY25, weaker than what we had seen in the last couple of years. However, growth is expected to recover back to the trend line of about 15% in FY26.

### **Buoyant IPO market helping growth and balance sheet strength**

The IPO and QIP markets have been exceptionally strong, with many new companies raising equity capital and getting listed, while already listed companies have also been able to raise additional equity capital through QIP. During CY24, newly listed companies raised a record Rs 1.9 trillion through Initial Public offering, as compared to last year's amount of Rs 576bn. Additionally, listed companies raised equity capital of Rs 1.35 trillion through the QIP (Qualified Institutional Placement) route. This is in addition to the sell down by Promoters and Private Equity investors in listed companies, which was also high.

Overall, a strong IPO market is good, as it helps companies raise equity capital which can be utilized either for growth or towards improving the balance-sheet strength. During 2006/7 one of the mid-corporate promoters, when asked about what are the risks that worry you, I recollect him saying that "Equity capital is so cheap and readily available, my worry is that any of my competitor could raise capital and expand capacity beyond demand, potentially disrupting the market's supply-demand equilibrium". We need to be mindful of the downsides of easily accessible capital.

### **Macro-Economic update and outlook**

#### **Interest rates in India have been steady but rising US yields are a concern**

Interest rates have a significant impact on asset valuations, economic growth and inflation. As expected, the US Fed has been cutting the policy rates from September and have cut rates by 100bps so far. However, from the time of the first rate cut by the FED on 18<sup>th</sup> Sept 24, US treasury yields have only been moving up, with the benchmark 10 year bond yields moving up by almost 100bps points to 4.6%. Persistently high risk-free rates may lead to a correction in the stock prices as funds flow into safer assets. Yields on Japanese government bonds (10 year) have also moved up by 50bps in 1 year to 1.1%. Interest rates in India have been a lot more stable with the 10year bonds at 6.7%. In its December policy meeting, the RBI kept rates unchanged, with monetary policy stance as neutral. While the RBI raised its inflation estimate

for FY25 to 4.8% (up from 4.5%), it also reduced the Cash Reserve Ratio (CRR) by 50 basis points to 4%, injecting durable liquidity of Rs 1.16 trillion into the system. RBI has already been supportive of growth and is expected to begin an easing cycle soon, with its first rate cut expected in Q4FY25.

### **Rupee depreciation**

Post the US presidential elections and the subsequent changes to the policy expectations, dollar began strengthening with the DXY moving from 103.4 to 108.3 level now. Further, the US Fed has delivered a hawkish 25bp cut in policy rate during its December policy meeting and has guided for fewer rate cuts in 2025, which has added to the dollar strength. These factors have led to a stronger dollar and thus Rupee depreciated about 1.3% against the dollar in December alone, which was otherwise stable for most of the year. This has led to overall better performance of Indian IT services during the month.

### **Q2FY25 GDP slowed down to 5.4%, but expected to recover in 2H**

We are sanguine about the growth prospects of the Indian economy in the medium to long term. After a strong GDP growth of 8.2% in FY24 and 6.7% growth in 1QFY25, GDP growth rate slowed down to 5.4% in Q2FY25. We believe the slowdown is temporary and due to delay in government spending on account of elections. RBI projects full year FY25 GDP growth to be 6.6%, with a strong recovery expected in Q3 FY25 at 6.8% and 7.2% in Q4 FY25.

### **Robust Macro economic outlook**

Most of the macroeconomic parameters and their outlook is looking solid for India. Even at lowered GDP growth estimate of about 6.6%, India would be one of the fastest growing large economies globally. The current account deficit estimated at under 1.5% of GDP for the FY25 is very comfortable and the forex reserves at USD 644bn albeit coming down from the peak of USD 700bn appears solid. RBI in its credit policy has forecasted the inflation for FY 25 to be at 4.8% which is at comfortable level. Fiscal deficit, post the spike during Covid period has been coming down. FY25 government may outperform the budgeted fiscal deficit target of 4.9%, and the FY26 fiscal deficit target likely to be closer to 4.5%. Our concern is only about market valuations, rather than fundamentals of Indian economy and its growth prospects. India has got large well-developed capital markets with companies across many segments

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listed. Even during periods of economic slowdown, one could identify pockets of well-priced businesses. Our endeavor is to construct a portfolio that offers an attractive risk-reward profile.

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
Dr Reddy's Lab	5.20%	Pharma	Fund has overweight position in the pharmaceutical sector, more so to the companies that are exposed to export oriented business. Profitability of the companies that have strong presence in US is improving.
Zydus Lifesciences	5.70%		
Indoco Remedies	1.60%		
Lupin	2.80%		
<b>Total Pharma</b>	<b>15.20%</b>		
Axis Bank	8.50%	Bank	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.
ICICI Bank	9.50%		
HDFC Bank	6.90%		
Kotak Mahindra bank	4.60%		
<b>Total banks</b>	<b>29.40%</b>		
Wipro	2.80%	Software	Exposure to the IT sector is towards market 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	4.20%		
Infosys	3.00%		
<b>Total Software</b>	<b>9.90%</b>		
Mahindra & Mahindra	2.70%	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. We have selective exposure to the auto ancillary companies
Maurti Suzuki	3.40%		
Bajaj Auto	3.00%		
Varroc Engineering	3.10%		
<b>Total Automobile</b>	<b>12.20%</b>		
Mahanagar Gas	2.40%	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	3.20%		
<b>Total Oil&amp; Gas</b>	<b>5.60%</b>		
Kansai Nerolac	2.20%	Paints	Reasonable valuations, Good business with balanced exposure to decorative and Automobile paint segments
Hindustan Unilever	2.80%	Consumer	Underweight on this sector due to growth slowdown concerns
Sapphire Foods	2.60%	QSR	Focused play on India QSR, Focused on two formats KFC, PZH
Swiggy	3.00%	New Age	Large market opportunity, strong growth potential
Sula Vineyard	3.50%	Alcoholic beverages	Long term growth outlook is strong
Bayer cropsiences	2.10%	Agri	Captures Agri sector growth
Hitachi Energy	1.30%	Industrial	Strong order book, and margins to improve
Bharti Airtel	0.80%	Telecom	Underweight on the sector
Cash/Liquid funds	9.10%	Cash	
<b>Total</b>	<b>100.00%</b>		

## Annexure-2- Q2FY25 Financial performance of portfolio companies

Company Name	Revenue (Rs cr)			Operating Profit (Rs cr)			Net Profit (Rs cr)		
	Q2FY25	Q2FY24	YoY %	Q2FY25	Q2FY24	YoY %	Q2FY25	Q2FY24	YoY %
Dr Reddy's Lab	8038	6903	16.4%	2,076	2,008	3.4%	1,342	1,482	-9.4%
Zydus Lifesciences	5,237	4,369	19.9%	1,461	4,369	-66.6%	920	803	14.6%
Indoco Remedies	433	482	-10.2%	40	71	-43.7%	-10	35	-128.6%
Lupin	5,673	5,039	12.6%	1,340	918	46.0%	859	495	73.5%
Axis Bank	31,601	27,418	15.3%	1,575	2,609	-39.6%	7,436	6,230	19.4%
ICICI Bank	46,326	38,938	19.0%	-8,120	-3,530	130.0%	13,906	11,351	22.5%
HDFC Bank	83,002	75,039	10.6%	-14,487	-11,560	25.3%	18,627	17,312	7.6%
Kotak Mahindra bank	16,427	13,717	19.8%	-3,806	-1,955	94.7%	5,044	4,461	13.1%
Wipro	22,302	22,516	-1.0%	4,503	3,970	13.4%	3,227	2,667	21.0%
TCS	64,259	59,692	7.7%	16,731	15,746	6.3%	11,955	11,380	5.1%
Infosys	40,986	38,994	5.1%	9,809	9,440	3.9%	6,516	6,215	4.8%
Mahindra & Mahindra	37,924	34,436	10.1%	7,133	5,730	24.5%	3,361	2,484	35.3%
Maurti Suzuki	37,449	37,339	0.3%	4,999	5,312	-5.9%	3,102	3,786	-18.1%
Varroc Engineering	2,081	1,887	10.3%	208	194	7.2%	58	56	3.6%
Kansai Nerolac	1,951	1,957	-0.3%	212	273	-22.3%	120	175	-31.4%
Bajaj Auto	13,247	10,838	22.2%	2,073	2,130	-2.7%	1,385	2,020	-31.4%
Hindustan Unilever	15,926	15,623	1.9%	3,787	3,795	-0.2%	2,595	2,657	-2.3%
Sapphire Foods	695.7	642.64	8.3%	112.02	115.13	-2.7%	-6.24	15.22	-141.0%
Swiggy	3,601	2,763	30.3%	-554	-624	-11.2%	-626	-657	-4.7%
Sula Vineyard	132	134	-1.5%	34	44	-22.7%	14	23	-39.1%
Mahanagar Gas	1,712	1,571	9.0%	399	479	-16.7%	283	338	-16.3%
Petronet LNG	13,022	12,532	3.9%	1,200	1,215	-1.2%	848	818	3.7%
Bayer crosconiences	1,738	1,617	7.5%	184	305	-39.7%	136	223	-39.0%
Hitachi Energy	1,554	1,228	26.5%	110	65	69.2%	52	25	108.0%
Bharti Airtel	41,473	37,044	12.0%	21,846	19,514	12.0%	4,153	2,093	98.4%

## Risk Disclosures

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

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