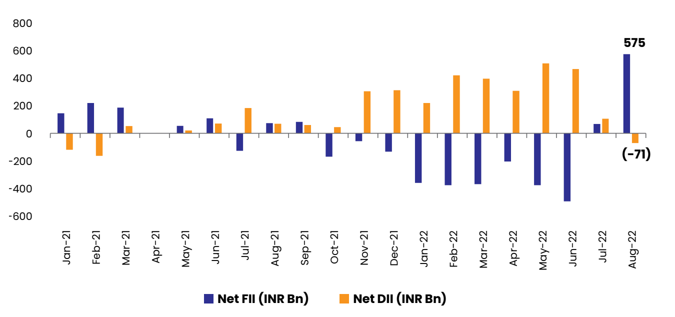
Market Outlook

September 2022

Market Update

The strength in markets continued in August with markets reporting a second consecutive month of positive returns. Volatility was high as global markets corrected sharply towards the end of the month, led by renewed fears of sharp interest rate hikes and resultant spike in US 10-year Gsec yields. Dollar Index also hit a new high, triggering another bout of risk-off globally. Amidst all this, Indian equities outperformed major global markets. NIFTY50 ended up 3.5% for the month, while S&P BSE Mid-cap and S&P BSE Small-cap 250 indices outperformed large-cap indices. Except IT sector, all the other sectorial indices closed in green with S&P BSE Power, Capital Goods and Consumer Durables indices gained sharply around 15%, 8% and 8% respectively. The strength in the markets was also helped by the resumption of FII inflows. After 10 months, FIIs were net buyers in the month of August'22 to the tune of USD 6.8 bn (16 month high). DII's who were the backbone of liquidity all along, chose to book profit for the first time in last 15 months to the tune of USD 890 mn.

FII and DII Monthly Net Flows



Source: Bloomberg, Axis Capital

Macro Update

On the macro front local datapoints have been positive. Along expected lines, RBI raised the repo rate by 50 bps to 5.4%. Helped by favourable base, India's GDP rose strongly by 13.5% in June'22 quarter. CPI inflation, eased to a 5-month low 6.7% in the month of July down from 7.0% in June'22. Also, WPI inflation eased to 13.9% in July'22 which had spiked to 15.9% during the month of June'22.

GST Collection rose 28% to INR 1.43 lakh crore in August'22 and have remained over the INR 1.40 lakh-crore mark for the sixth straight month. Direct tax collection too is showing robust growth, increasing by 40% in the current fiscal year till July vs. the same period last fiscal year. The rise was largely on account of rising personal and corporate taxes (up by 52% and 34% respectively).

Brent Crude prices also like equity markets were volatile but eventually closed at USD 95/bbl. INR remained relatively stable throughout the month, outperforming most global currencies.

Quarterly Earnings Update-June 2022

Corporate earnings continue to remain strong, Core NIFTY50 companies (ex-financial, TTMT, Telco & OMC) reported strong Revenue/ EBITDA/ PAT growth of 36%/ 25%/ 27% respectively, partly helped by lower base and high inflation. Core NIFTY50 EBITDA margin contracted by ~190 bps YoY to 21.4%, however, marginally better than estimate of 21%. Strong operating earnings growth was reported by Auto, Consumer Discretionary, Oil & Gas (ex OMC) and Utilities, while weakness was seen in OMCs, PSU Bank, Metals, and IT services. (Source: Antique Research)

Market Outlook

Indian equities have shown remarkable resilience over the last couple of months. This is particularly noteworthy given the continued volatility in global markets. On the economy front, India has stood out with outlook for GDP growth continuing to be over 7% for FY23 in a world where economies are struggling to avert recession. The added opportunities for Indian manufacturing on the back of China+1 move as also increasing competitiveness of Indian companies because of high power costs elsewhere in the world, is adding to the optimism. Domestic demand outlook is

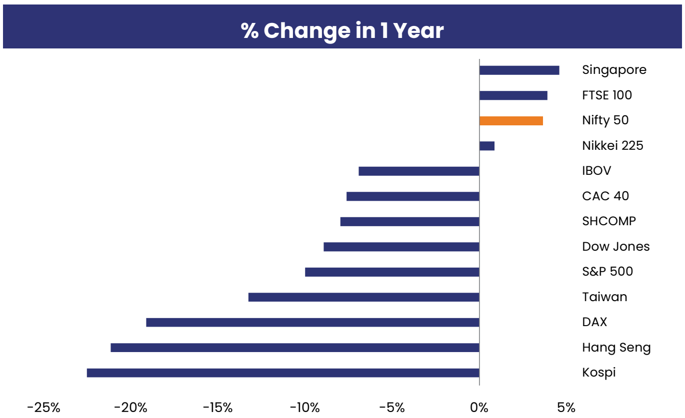
FY period: April-Mar, CPI: Consumer Price Index, WPI: Wholesale Price Index FII: Foreign Institutional Investors, GST: Goods & Services Tax, DII: Domestic Institutional Investors Fed: US Federal Reserve, IIP: Index of Industrial Production, GSec: Government of India Dated Securities, GOI: Government of India, FDI: Foreign Direct Investment, CAD: Current Account Deficit, YTD: Year To Date, CY: Calendar Year, WTI: West Texas Intermediate

Inflation numbers released with 1 month lag, Core Sector number released with 1 month lag, IIP number released with 2 month lag

Source: NSDL, PTI, ANI, Bloomberg, BSE, NSE, Abakkus Estimates, RBI very strong led by increasing spending in the ensuing festival and wedding season – the first normal one in three years post Covid related shutdowns. Both rural India – led by record agricultural produce and high agri product prices, and urban India – led by income level increases particularly in the IT services and financial sector; is seeing increased activity and that gives confidence of a strong economic outlook.

From a global investor perspective, Indian equities are coming back in focus, given the resilient economy and currency. A view of moving away from EM funds and China funds into India specific funds is also slowly gaining pace. This flow should act as an added strength for Indian equities.

Global indices Performance



Source: Bloomberg, updated as on August 31st, 2022

Although Indian markets looked relatively better, this very sharp outperformance in the global context has surprised lot of market participants. While we continue to believe that Indian equities will do much better than most global markets, in the absolute near-term select euphoria is being witnessed in the markets. The recent moves have been more allocation related and also momentum based. News flows globally will continue to lead to high volatility and patience and careful discretion should be the strategy going forward.

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Abakkus Growth Fund - 1

A Close Ended Category III AIF

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September 2022

Fund Update

There has been underperformance over the last couple of months in the portfolio. Allocation and momentum based investing have been at the forefront and our style of fundamental based investing have been at the back seat. Past few months have been a capital allocators market where certain performing names/sectors continued to see more investor interest vs a stock pickers market where investors allocate to individual bottom-up ideas. Our exposure to IT services and commodities have also hurt in the very near past, though we continue to have a positive view on them given the outlook as well as valuations for them.

We have dissuaded from chasing momentum, particularly in Capital Goods sector, where valuations are now at decadal highs. While this strategy can lead to a small drag in returns in the near term, we remain confident of a more stable and sustained performance over the next couple of years. This confidence stems from the fact that portfolio valuations today are inexpensive both on an absolute and relative basis and growth rate plus ROE is better than market averages. Portfolios are comfortably valued around 11-12x PE FY24e multiple with decent mid-teen earnings growth expectations.

We are tracking and reviewing portfolios and portfolio companies on a continuous basis. We would be making some selective changes with fresh investments into stocks will be likely beneficiary in the upcoming festive season provided valuation in our comfort zone.

During the month we increased our financial sector exposure and have taken fresh exposure in one of the top 5 private banks of India. During covid, it was severely hit on both asset and liability side. However, stress on its Vehicle finance + micro finance books was much lower than the industry and strong traction was seen in deposits. Its turnaround in the last few quarters has been stellar given the fact that one-third of its assets were impacted. We expect credit growth and profitability to be strong on account of revived demand in MFI and vehicle finance; bright corporate outlook on the government's infra push; sturdy balance sheet (72% coverage, INR 30 bn provision buffer, 1.2% of loans) and strong liquidity and capitalisation. At 1.4x book for an 15% ROE profile, we feel risk reward is favourable for investors. We also completely exited two holdings, in one we booked profits and in the other media sector investment we had a change of view. Post covid the shift of advertising revenue from cable to online has been much faster than earlier anticipated. Also due to margin pressure in end user industry the absolute ad spend too is tepid. While post the merger, it will be an MNC and past issues of corporate governance will cease, in the near term there is no earnings growth trigger and hence the exit.

Fund Performance as on August 31, 2022

Period	1 Month (%)	3 Months (%)	6 Months (%)	1 Year (%)	2 Years (%)	3 Years (%)	Since Inception CAGR (%)	Since Inception Absolute (%)	FY21 (%)	FY22 (%)	FY23 YTD (%)
Abakkus Growth Fund – 1	1.4	0.5	(5.9)	(7.7)	35.6	26.2	19.1	106.3	119.3	38.8	(9.4)
S&P BSE MIDCAP	5.6	9.8	8.8	6.5	31.7	23.6	12.6	63.4	90.9	19.5	5.4
S&P BSE 200	4.5	8.7	7.6	5.6	27.4	19.2	12.9	65.2	74.3	19.9	3.5
NIFTY50	3.5	7.1	5.7	3.7	24.9	17.2	12.2	61.1	70.9	18.9	1.7

** Unaudited Pre-Tax, Post Expenses (except entry and exit charges)>1 year CAGR Returns &<1 year Absolute Returns as on August 31, 2022. Inception Date is July 12, 2018. Unaudited Performance data for Investment Manager and scheme provided hereunder is not verified by any regulatory authority and Past performance may or may not sustain in the future. The Fund level performance is based on TWRR and investor returns may differ, based on their class, tier, fee structure and point of allotment of units. Please refer the link to check AIF Benchmark returns: https://www.crisil.com/en/home/what-we-do/financial-products/alternate-investment-funds-benchmarks.html

Top 10 Holdings as on August 31, 2022*	
Route Mobile Limited	Mastek Limited
ICICI Bank Limited	HCL Technologies Limited
Polycab India Limited	UPL Limited
Jindal Stainless Hisar Limited	Hindware Home Innovation Limited
State Bank of India Limited	Max Financial Services Limited

*The current portfolio holdings may or may not be a part of the future portfolio Holdings and may or may not be a part of all client portfolios.

e=estimated

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CRISIL Category III AIF Benchmark Data as on March 31, 2021

Index	1 year (%)	2 years (%)	3 years (%)	5 years (%)	Since inception^ (June 30, 2013) (%)
Abakkus Growth Fund-1	117.22	21.42	NA	NA	NA
CRISIL Category III AIF Benchmark	60.31	14.03	9.71	12.00	15.77

As per SEBI Circular SEBI/HO/IMD/DF6/CIR/P/2020/24 dated 5 February 2020, details of industry benchmark and AIF level performance versus Benchmark Reports are available at https://www.crisil.com/en/home/what-we-do/financial-products/alternate-investment-funds-benchmarks.html

The CRISIL AIF Index - Cat III is for data as on 31st March, 2021 and 170 schemes that have completed at least one year since their first close as on 31st March, 2021 have been considered for the computation. Two schemes belonging to Category III have been excluded because of incomplete/ inconsistent data. The returns refer to post-expense, pre-carry, pre-tax values. Returns for more than one year are annualized. CRISIL is yet to release sub-categorized benchmark performance data for Long only CAT 3 AIF. The scheme returns are calculated based on quarterly NAVs. Scheme return is measured based on its asset weighted returns, which are calculated using quarterly returns and asset under management of the share classes in the scheme. Detailed methodology for the same is available here

https://www.crisil.com/content/dam/crisil/what-we-do/crisil-aif-benchmarks/crisil-alternate-investment-funds-benchmarks-methodology.pdf

^Since availability of at least three schemes, i.e., 30 June 2013.

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https://www.crisil.com/en/home/what-we-do/financial-products/alternate-investment-fundsbenchmarks.html

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