**31 December 2021**

# 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**

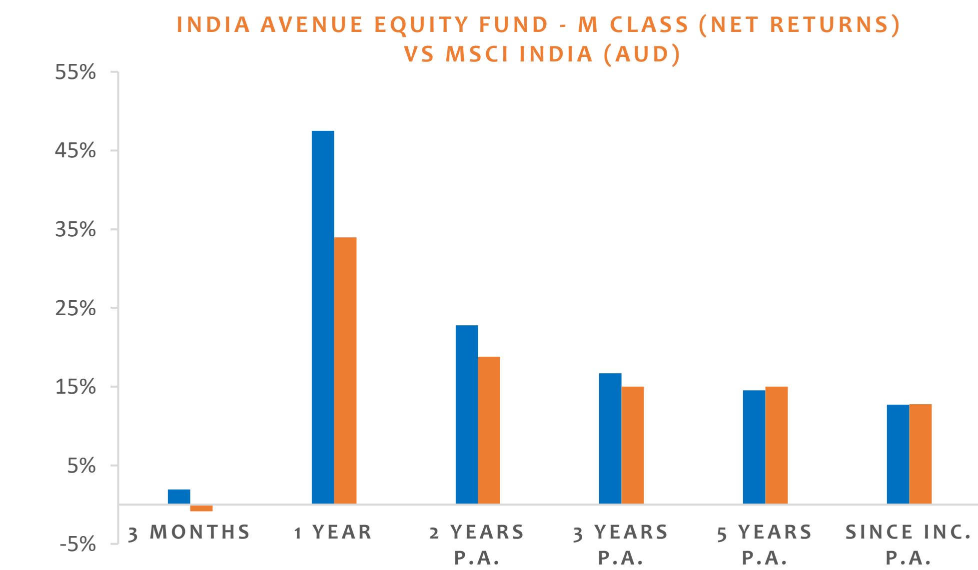
## Fund Rating

**Lonsec Rating: Recommended***

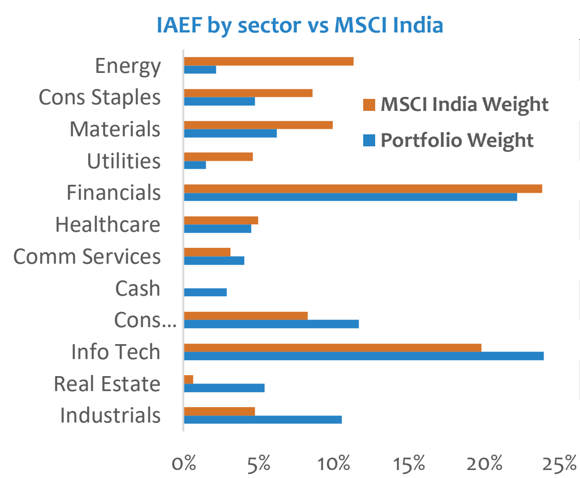
## Fund Facts

| | |
|---|---|
| **Fund Manager** | **India Avenue Investment Management** |
| **Portfolio Manager** | **Mugunthan Siva** |
| **Structure** | **Registered Investment Management Trust** |
| **Inception Date – M Class** | **6th September 2016** |
| **Fund Size** | **A$70.06m** |
| **NAV** | **M Class 1.8174**<br>**H Class 1.7979**<br>**L Class 1.4326** |
| **Base Currency** | **AUD** |
| **Responsible Entity** | **Equity Trustees Limited** |
| **Custodian** | **Apex / BNP Paribas** |
| **Auditor** | **KPMG** |
| **Benchmark** | **MSCI India in AUD** |
| **Distribution Frequency** | **Yearly 30th June** |
| **Management Expense Ratio** | **M Class 1.10% p.a.**<br>**H Class 1.50% p.a.**<br>**L Class 0.95% p.a.** |
| **Buy-Sell Spread** | **0.35% / 0.35%** |
| **Performance Fees** | **Excess Return above Benchmark** |
| **M & H Class** | **10%, high watermark** |
| **L Class** | **15%, high watermark** |
| **FY21 Distribution** | **0.0 cpu** |

## Fund Returns and Characteristics: 31 December 2021




| M Class | 3 months | 1 year | 2 years | 3 years | 5 years | Since Inception |
|---|---|---|---|---|---|---|
| **Fund Returns (net)** | **1.89%** | **47.49%** | **22.77%** | **16.72%** | **14.53%** | **12.71%** |
| MSCI India (AUD) | -0.86% | 33.98% | 18.76% | 14.96% | 14.99% | 12.75% |
| **Relative Performance** | **2.75%** | **13.51%** | **4.01%** | **1.76%** | **-0.46%** | **-0.04%** |




| Top 10 Stocks | Sector | Weight |
|---|---|---|
| HCL Tech | IT | 4.86% |
| Bajaj Finance | Financials | 4.12% |
| Tata Consult Serv | IT | 3.70% |
| Infosys | IT | 3.35% |
| Aurobindo Pharm | Pharma | 3.03% |
| Redington India | IT | 2.98% |
| Ave Supermarts | Con Staples | 2.94% |
| Brigade Enterpris | Real Estate | 2.94% |
| Indian Energy Ex | Financials | 2.76% |
| Tanla Platforms | IT | 2.76% |

*Source: MSCI*

| H & L Class | 3 months | 1 year | 2 years | 3 years | Since Incept. H Class (06/04/17) | Since Incept. L Class (19/04/21) |
|---|---|---|---|---|---|---|
| **H Class (net)** | **1.75%** | **46.58%** | **22.11%** | **16.14%** | **11.71%** | |
| **L Class (net)** | **1.75%** | **-** | **-** | **-** | | **42.76%** |
| MSCI India (AUD) | -0.86% | 33.98% | 18.76% | 14.96% | 12.70% | 33.31% |

***Past performance is not an indicator of future performance. Above returns are calculated based on the exit price of 31st December 2021, net of fees and assuming reinvestment of dividends. Returns after 1 year are annualised. The only difference between the M, H and L class are the management and performance fees charged. The underlying investments of each class are identical.***

# Avenues

## 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. The Fund has a bias towards companies which are experiencing strong growth driven by India's fundamentals. The Indian economy's robust ecosystem provides a tailwind for these companies which benefit from participating in growing addressable markets. Additionally, if they have sound management and a strong business moat, it makes a compelling case for long-term investment.**

## Fund Identifiers

| Identifiers | ARSN | ISIN | APIR Code |
|---|---|---|---|
| M Class | 611374586 | AU60ETL04826 | ETL0482AU |
| H Class | 611374586 | AU60ETL04784 | ETL0478AU |
| L Class | 611374586 | AU60ETL28148 | ETL2814AU |

| | Citi Code | Morningstar |
|---|---|---|
| M Class | NFCK | 41512 |
| H Class | NF2H | 41828 |
| L Class | | 44362 |

## Contact Details

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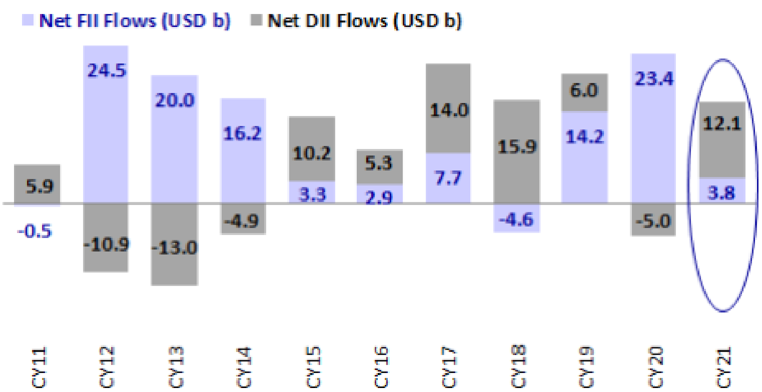
## Fund and Market Commentary

The India Avenue Equity Fund achieved a return of 47.49% for the year ending 31st December 2021, outperforming its benchmark MSCI India (AUD) by 13.51%. Over 2021, both India's equity market (up 28.42% in local currency terms), a depreciating AUD (4.14%) and significant outperformance created wealth for our clients. The month of December saw Indian equity markets rise 2.61% in local currency terms. However, in AUD terms the MSCI India (AUD) rose only 1.17%, as the Australian Dollar appreciated against the Indian Rupee over the month.

Despite the increasing spread of Omicron and its potential impact, the threat of Fed tightening or reigning in its balance sheet and sticky inflation, Indian equity markets continued to rise as local investors kept the market buoyant. In fact, local investors (DII Flows in Chart below, FII's are foreign investors into Indian equities) continue to have an increasing presence in India's equity markets and drove the increasing breadth of the rally in CY2021.




***Source: Motilal Oswal – Bulls & Bears Report***

As we highlighted in our November fact sheet, the continued shift towards financial assets by Indian investors is increasingly driving markets. Local investor behaviour is more aligned the positioning of our fund, whereas foreign investors tend to focus mostly on large and liquid plays.

### Contribution to Return – 12 months

| Top 10 Stocks | Contribution |
|---|---|
| Indian Energy Exchange | 5.08% |
| Redington India | 3.42% |
| Infosys | 1.97% |
| Bajaj Finance | 1.88% |
| HCL Technologies | 1.78% |
| UPL | 1.76% |
| Hitachi Energy | 1.71% |
| Avenue Supermarts | 1.70% |
| Brigade Enterprises | 1.70% |
| Tanla Platforms | 1.48% |

6 of our top 10 contributors to returns are stocks which are not constituents of the MSCI India benchmark. These holdings have been in the portfolio for over 12 months and are increasing in weight as the broader marketplace becomes aware of the potential of their businesses relative to their valuations. Examples include Hitachi Energy and Tanla Platforms which have benefitted from broader thematics of renewable energy and digitisation, as well as price discovery of a broader set of investors.

Please refer to ***Outlook for Indian Equities – 2022 and beyond*** for our views on what could play out over the next 2-5 years for Indian equities. bit.ly/IndianEqOutlook

# Avenues

## India Macro & Micro News

The UN Department of Economic and Social Affairs stated that India is the leading contributor in terms of talent to the world. Their view was founded on India's low-cost advantage, but also due to its well-developed education system, highly technical capabilities (particularly in IT/Software), some of the best universities in the world, and capabilities to navigate complex situations. Around one-third of all engineers in Silicon Valley are of Indian origin, and approximately 10% of the world's largest tech companies have CEOs of Indian origin.

The Society of Manufacturers of Electric Vehicles (SMEV) stated that total electric vehicle sales in India are likely to reach around 1m units this year, about equal to what was sold in the previous 15 years, owing to the high traction seen by electric two-wheelers. They also noted that the government's recent good reforms in EV policy are a game-changer and a decisive move to "guarantee a cleaner and greener transportation industry, lowering dependency on expensive/filthy liquid fuel.

In India in 2021, 42 start-ups became unicorns (valuations of $1bn), compared to only 8-10 unicorns in 2018/2019/2020 and surpassed the United Kingdom (UK) as the third largest ecosystem with the most unicorns. Increased internet usage and penetration, emergence of new segments and players, favourable demographics in India, increased first-time users have contributed significantly to increasing private capital chasing unicorns in India.

The Government of India's Emergency Credit Line Guarantee Scheme (ECLGS), (implemented in 2020) to help MSMEs affected by the COVID-19 pandemic, has prevented 1.35m businesses from going bankrupt, saving 15m jobs.

***Source: IBEF.org***

## India's Improving Macroeconomics

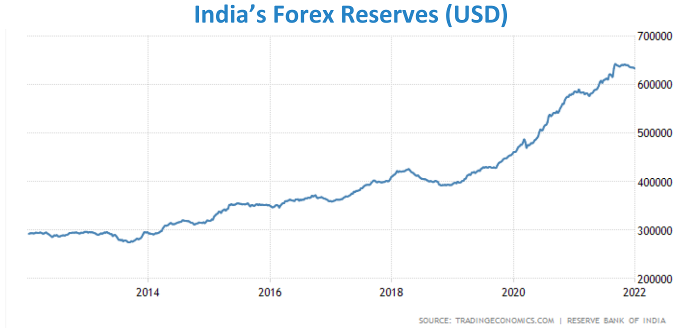
Over the past decade Indian equity markets have risen significantly in response to rising P/e's globally as interest rates have receded and global liquidity increased. However, equity markets in India have also responded to the country's improving macroeconomics. The table below illustrates improvements in key measures of India's improving economy.

| | 2011-2012 | 2021 |
|---|---|---|
| Current Account to GDP | -4.8% | -1.3% |
| Forex Reserves | US$300m | US$633m |
| Cash Rates | >8% | 4% |
| Inflation | >8% | 4.9% |
| Corporate Tax | 32% | 25% |
| Government Debt to GDP | 67% | 85%e |
| GDP Growth | 5% | 8.4% |

***Source: tradingeconomics.com***

India's improving macroeconomic position has contributed to reducing volatility of its equity markets and currency. The Current Account Deficit-to-GDP which has typically hovered between 1-2% of GDP, was as low at 4.8% during India's fragile five days in 2011-2012. Additionally, during that period, inflation was structurally higher at 7-8% leading to much higher cost of capital than today. This reduced the corporate capacity to repay debt and led to lower capital formation / private investment than required to drive economic growth.

**India's Forex Reserves (USD)**




India has built up a substantial bank of forex reserves in USD. This provides greater capacity to reduce the volatility of the currency, when required.

Additionally, India's reliance on oil imports, is currently being overshadowed by the positive impact of services exports (mainly IT Outsourcing), reducing the need for capital flows to support the INR.

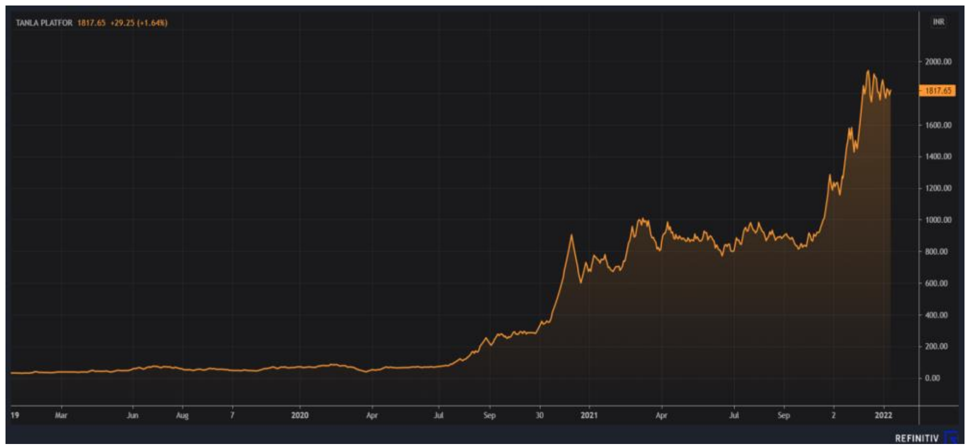
During the fragile five period, India experienced high inflation, sub-par growth relative to needs to generate employment and investment. This led to a weak external position and therefore a volatile currency and poor returns from equities. Equity markets rallied in 2014-2017 on the potential of the BJP / Modi Government. Whilst there was an initial J-curve of slowing growth (reform indigestion, crippling of the cash economy), we are likely to witness improving productivity going forward for the following reasons:

- Shifting to organised formats, leading to a broadening tax base (GST regime)
- Improving infrastructure spend to reduce bottlenecks and lower logistics costs
- Digital and financial infrastructure in place to allow less slippages, greater transparency, and inclusiveness
- Land and labour reform to increase productivity and yield from these resources

# Avenues

## Global digitisation to provide tailwinds for Tanla Platforms (mkt cap A$4.6bn)

The India Avenue Equity Fund built a position in Tanla Platforms in 2020 with an average entry price of Rs.976. The price of the stock at the time of writing is Rs.1788. The thought process behind buying the stock was a play on digitisation which leverages from India's strong and improving digital infrastructure to provide for the local population and global customer base.




***Source: Money Control***

Aspects of India's improving digital infrastructure include the country being the lowest cost data provider, with data costing close to 8c per gigabyte, over 700m smart phone users and 750m internet connections. There is a significant shift occurring towards a digital transformation for individuals and enterprises.

Tanla Platforms (originally Tanla Solutions) was set up (1996) as communications method for consumers and corporates, which then evolved towards more significant usage of messaging services. Today the company is the one of the global leaders as a Cloud Communication provider and continues to innovate and raise the bar through enhanced speed, ease and simplicity of their Cloud Solutions.

In the ***Communication Platform as a Service*** (CPaaS) space, Tanla had over 800bn interactions processed in FY21, with 42% revenue market share and over 1bn customers. 2021 has been a marque year for Tanla, with the successful launch of two significant platforms, Trubloq and Wisely. Trubloq is the world's first blockchain-enabled CPaaS stack, processing over 270bn transactions thus far and Wisely, the patented cutting-edge digital marketplace for enterprises and mobile carriers offering private, secure and trusted experiences.

### Key Performance Indicators

| | FY21 | FY20 | FY19 | 2 Year CAGR |
|---|---|---|---|---|
| Revenue (INR cr.) | 2342 | 1943 | 1004 | 53% |
| Gross Margin | 24.7% | 20.1% | 14.3% | 31% |
| EBITDA (INR cr.) | 434 | 185 | 97 | 111% |
| PAT (INR cr.) | 356 | -211 | 30 | 244% |
| EPS | 25.3 | -14.8 | 2.6 | 212% |
| Cash (INR cr.) | 584 | 201 | 155 | 94% |

Whilst the current historical P/E for FY21 comes in at just over 70x, the company's potential growth rate, given its market share in a rapidly growing addressable market, is significant.

### Our Focus and Experience

**The founders of IAIM worked together at ING Investment Management in Australia and India over a period spanning from 2003-2013.**

**Our rich experience in investing in Indian equity markets is aided by our local network (fund managers, stockbrokers, corporates and other market participants in India).**

**This, alongside our singular focus on India as an investment region, provides our clients with significant insights on investing in this fast-growing region.**

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# Avenues

India Avenue Investment Management

## Our Philosophy

**IAIM's investment philosophy focuses on three key aspects:**

1. **India will be a high GDP growth region relative to other regions given its strong fundamentals.**
2. **Equity markets in India are relatively inefficient, allowing active fund managers to benefit from their research and knowledge relative to passive investors.**
3. **Locally based asset managers in India have an advantage relative to global investors when it comes to investing in Indian equities due to their knowledge of the local laws, business principles and overall ecosystem.**

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*India Avenue Equity Fund's Target Market Determination is available on our website:*

[www.indiaavenueinvest.com/our-fund](www.indiaavenueinvest.com/our-fund)

*A Target Market Determination is a document which is required to be made available from 5 October 2021. It describes who this financial product is likely to be appropriate for (i.e. the target market), and any conditions around how the product can be distributed to investors. It also describes the events or circumstances where the Target Market Determination for this financial product may need to be reviewed.*

*[1] Lonsec Disclaimer: The Lonsec Rating (assigned April 2019) presented in this document is published by Lonsec Research Pty Ltd ABN 11 151 658 561 AFSL 421 445. The Rating is limited to "General Advice" (as defined in the Corporations Act 2001 (Cth)) and based solely on consideration of the investment merits of the financial product. Past performance information is for illustrative purposes only and is not indicative of future performance. It is not a recommendation to purchase, sell or hold India Avenue Investment Management Limited's product, and you should seek independent financial advice before investing in this product. The Rating is subject to change without notice and Lonsec assumes no obligation to update the relevant document following publication. Lonsec receives a fee from the Fund Manager for researching the product using comprehensive and objective criteria. For further information regarding Lonsec's Ratings methodology, please refer to Lonsec's website at: http://www.lonsecresearch.com.au/research-solutions/our-ratings*