AIF FACTSHEET

OCTOBER 2024

Renaissance

THE SCIENCE OF INVESTING

Renaissance Investment Managers

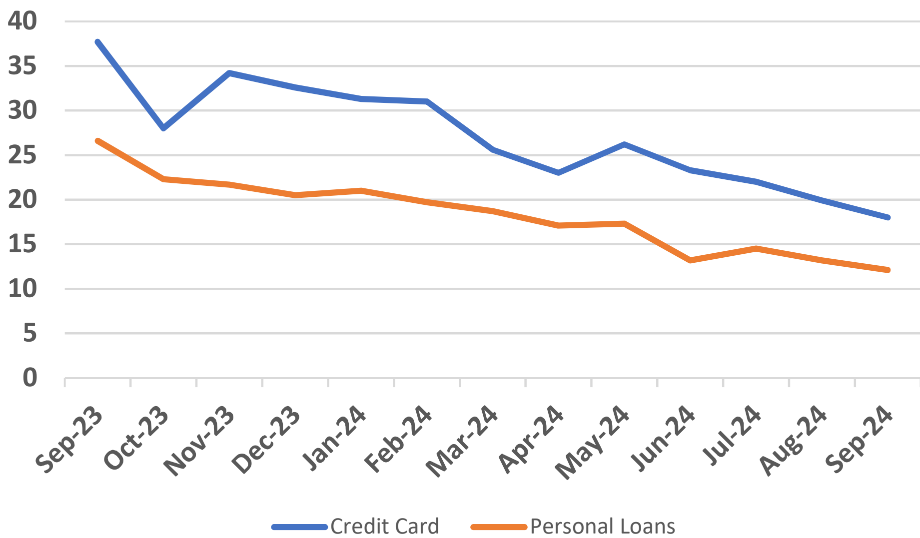
Dear Investors,

Hitting a softer growth patch

India's economic indicators have been pointing to growth moderation in recent months. The widespread demand softness is primarily caused by lower government capex spending and credit tightening in the retail unsecured (consumption) segment. In 1HFY25, central government's capex was down 15% yoy, merely 37% of the annual budget vs. 52% in 1HFY24.

Nonetheless, we believe this slowdown is temporary, and a pick-up is likely in 2HFY25, even as the government might undershoot its FY25 capex budget of INR 11.1 trillion. The required monthly capex spending for 2H is INR 1.16tn, compared to INR 0.69tn per month incurred in 1H. Further, banking-sector liquidity has eased since July/August, and overall credit and deposit growth rates remain healthy. Finally, the real estate sector is likely to witness a surge in pre-sales in 2HFY25.

Growth in outstanding Credit Card and Personal Loans (%, YoY)



Source: Broker Report

Weak 2Q earnings season so far, led by commodities and consumer companies

While the market appeared nonchalant about earnings slowdown post 1QFY25, the 2Q earnings season has made it sit up and take notice. For the 1150+ listed companies that have reported 2Q so far, the aggregate topline growth is 7.5% yoy, but the profits are down 5.2% [Source: CMIE]. Furthermore, aggregate Revenue/PAT growth of 34 Nifty-50 companies was 5%/0% yoy in 2Q, dragged down by Oil & Gas, Metals, Cement, and FMCG sectors. Nonetheless, earnings from the BFSI, IT and Pharma sectors have broadly met the expectations. Overall, FY25 consensus estimates of Nifty-50 EPS have seen 1-2% downgrades so far, and now the expected EPS growth is around 6-7% this year.

Markets to remain in consolidation-mode in the near term

All major stock indices (Nifty-50, Nifty-100, Nifty-200 and Nifty-500) are now down 8-9% from their peaks seen in late September. A slowdown in India's macros and earnings has come at a time, when market valuations were somewhat punchy (10% above historical average) and China has unleashed massive monetary and fiscal stimulus. Further: (1) India is seeing rising equity supply (IPOs, QIPs); and (2) 10-year bond yields in the US have moved up sharply, causing dollar to strengthen. All these factors have combined to drive significant FPI outflows from India. Net FPI equity outflows in October were INR 940bn (US$11.2bn), highest ever in a month, well ahead of the INR 610bn outflows seen in March 2020. Nonetheless, domestic equity inflows remain robust (>INR 340bn in September) and supportive of markets.

Market valuations and outlook

At roughly 24,000 level currently, Nifty-50 index is priced at a 1-year forward P/E of around 21x on the consensus earnings estimates, which is about 5% ahead of the last 10-year average valuations (20x). Broader market may remain range-bound in the near-term, driven by volatility in FPI flows (China stimulus) and temporary moderation in corporate earnings growth. Nonetheless, we remain bullish from a medium-to-long term perspective, and believe that markets now primarily offer a compounding opportunity, driven by earnings growth. Our outlook of 13-15% Nifty EPS growth for FY26 remains intact.

Mid-cycle correction in a bull market—time to be selective

A side-ways market with narrowing breadth, aligns favorably with our investment approach of building focused portfolios of quality companies that can deliver sustainable growth over the medium to long term. We are invested in pockets having attractive valuations (e.g. private sector financials, housing NBFCs, select PSUs), as well as pockets that we expect would deliver higher amount and/or longevity of earnings growth at reasonable prices (such as IT, Pharma, Industrials & Capital Goods, Telecoms, Capital Markets etc.). This should protect our portfolio in the events of any intermittent corrections. We continue to maintain our disciplined and stock selection process to ensure long term, sustainable returns for our investors.

Happy Investing

Pankaj Murarka
Founder & CIO

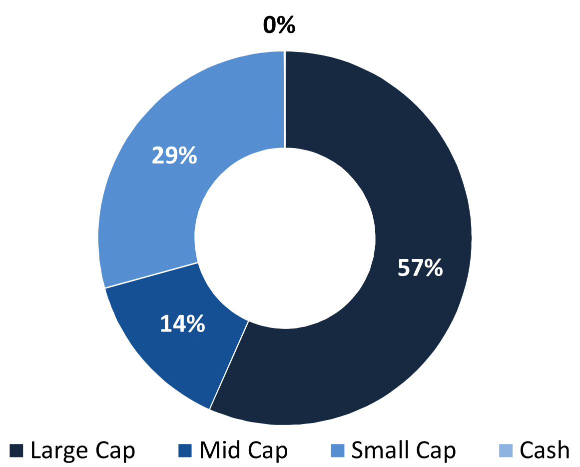
Pre-Tax Returns **(As on 30th September 2023)**

Fund / Index	1 Year	2 Years	3 Years	5 Years
CRISIL AIF Index – CAT III (INR)	15.5%	7.0%	20.6%	13.5%
INDIA NEXT FUND II	15.1%	N/A	N/A	N/A
INDIA NEXT FUND III	N/A	N/A	N/A	N/A

N/A – As the respective fund has not completed 1yr, 2yr, 3yr and 5yr as on 30th September 2023. Returns for more than one year are annualized.

Theme: India Growth 2.0

Portfolio Capitalization



Portfolio Highlights

Particulars	FY24	FY25E	FY26E
PAT growth (%)	22.3	34.0	22.9
ROE (%)	14.8	14.5	16.2
P/E	40.5	30.1	24.9

Top Holdings

Company	Weight(%)
HDFC Bank Ltd	8.45%
Tech Mahindra Ltd	5.84%
Larsen & Toubro Ltd	5.64%
Infosys Ltd	5.32%
ICICI Bank Ltd	5.03%

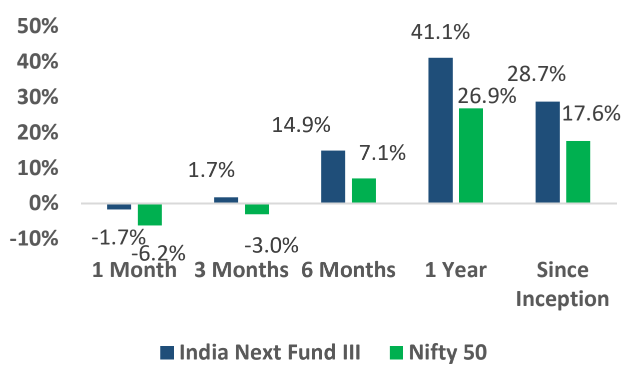
Renaissance India Next Fund III - Risk

Time Period: Last 12 Months
Calculation Benchmark: IISL Nifty 50

	Portfolio	Index
Std Dev	15.39%	13.38%
Sharpe Ratio	2.24	1.51
Beta	0.96	1.00
Treynors Ratio	0.36	-
Information Ratio	1.66	-

Returns

Calculation Benchmark: IISL Nifty 50



Fund and Benchmarks returns are Pre-tax

Sectoral Weights

Sector	Weight(%)
BFSI	38.38%
IT & Tech	21.61%
Pharma & Chemicals	12.17%
Industrials	8.44%
Consumer Discretionary	7.18%

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Investment Philosophy

Sustainable Quality Growth At Reasonable Price (SQGARP)

Sustainability	Companies with sustainable and durable business models.
Quality	Superior quality businesses as demonstrated by Competitive edge, Pricing power, ROE, FCF. Good quality and competent management teams.
Growth	Business that can deliver superior growth over medium term to long term.
Price	Ability to invest at reasonable valuations. Fair value approach to valuations. Focus on economic value of business.