AIF FACTSHEET

NOVEMBER 2024

Renaissance
THE SCIENCE OF INVESTING

Renaissance Investment Managers

Dear Investors,

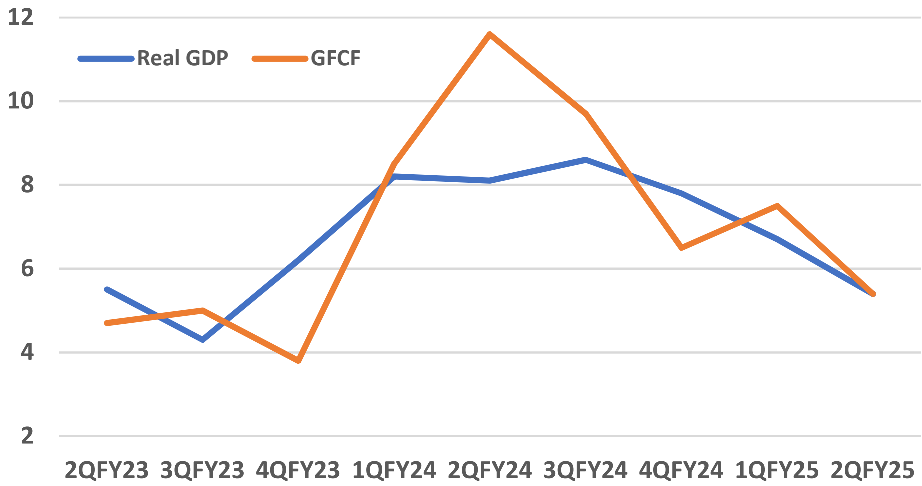
2Q GDP print confirms what was already known – a cyclical slowdown

2QFY25 Real GDP growth of 5.4% yoy, was 100-150bps below market consensus and RBI expectations, led by a sharp slowdown in Capex or GFCF, which was up 5.4% vs 7.5% in 1Q and 11.6% in the base quarter (2QFY24). Private consumption growth decelerated to 6.0% from 7.4% in 1Q, but came ahead of the Capex growth, after lagging behind for seven straight quarters. In terms of Real GVA (supply side), the slowdown came from Industrial segment, which saw sharply lower growth at 3.6% vs 8.3% in 1Q. Within Industrial segment, growth in manufacturing was merely 2.2% (vs 7.0% in 1Q), partly due to the base effect (14.3% growth in 2QFY24).

This cyclical slowdown is primarily an outcome of: (1) lower govt. capex (i.e. fiscal drag); (2) slowdown in credit growth (tightening in unsecured retail credit); (3) higher interest rates (i.e. tight monetary policy); (4) heatwaves and extended monsoon rains.

Weak 2Q GDP print has prompted cuts in the consensus FY25 GDP growth forecasts, to a 6.0-6.5% range from 6.5-7.0% previously. This may suggest that chances of an RBI rate cut have improved in the coming 3-4 months, despite recent uptick in the food inflation. We also expect government-capex to come back with a vengeance in 2H, and consumption growth to pick up based on: (1) improved hiring trends, especially in IT and BFSI sectors; (2) likely decline in inflation; (3) probable rate cuts; and (4) improving outlook on agricultural output and wages.

Growth in Real GDP and in GFCF (%)



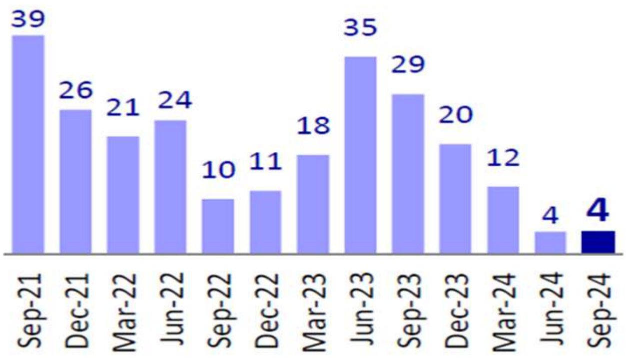
Source: Broker reports

Commodities and Consumption sectors drag down profit growth; expect 2H to be better

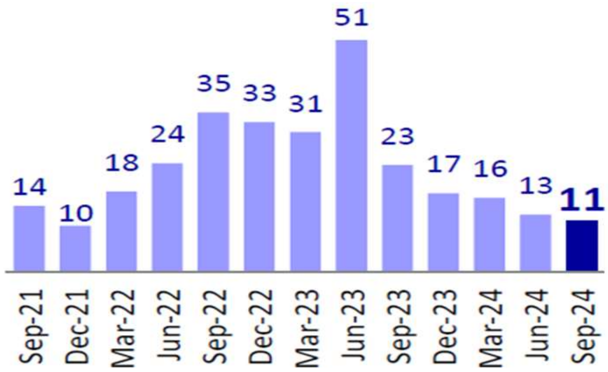
In 2QFY25, the combined revenues of ~4400 listed-companies rose 7.3% yoy (vs. 9.4% in 1Q), while PAT growth slowed down to 1.5% (4.5%). For non-financial companies, aggregate topline grew by 4.5%, while profits were down 9% [Source: CMIE]. Corporate profit growth in the non-financial sectors was impacted by weak topline growth and/or margin pressure in Commodities (Oil/Gas, Metal, Chemical and Building-Material) and Consumption sectors (FMCG, Autos). The best results, in terms of profit growth came from Banks, Insurance, Capital Goods and Healthcare/Pharma sectors. Earnings in the IT services sector broadly came in line with expectations.

For the Nifty-50 companies, 1HFY25 EPS growth was 4% (11% excluding Metal/Oil/Gas). FY25 EPS forecasts have seen cuts of 2-3% post 2Q results, and FY25 EPS is now projected to grow at 5-7%. Nonetheless, the FY26 EPS growth expectations remain healthy at over 15%.

Nifty-50 PAT growth (%)



Nifty-50 PAT growth, ex Oil & Gas and Metals (%)



Source: Broker reports.

Markets stabilizing as FII selling moderates; near-term consolidation to continue

Unprecedented FPI outflows of INR 940bn (US$11.2bn) in October pulled down all the major stock indices; Nifty-50, Nifty-100, Nifty MidCap-100 and Nifty SmallCap-100 were down by 3-7% in October, with maximum drawdown of 9-11% seen during November from late-September market peak. However, thanks to strong domestic net-flows into equity mutual funds (INR 420bn in October, +22% vs Sept.), reduced FPI outflows in November (INR 190bn) and Maharashtra state-election results, the markets are showing signs of some stability; major stock indices moved between -0.3% to +0.5% in the month of November.

We expect indices to consolidate in the near-term, as FPI flows may remain negative (volatile at the very least) because of a strong dollar and India's expensive valuations relative to other EMs. Markets also await Trump's inauguration and a fresh outlook on interest rate cuts by the FED and the RBI. Most importantly in our view, markets await a pick-up in India's GDP growth and in corporate earnings growth in 2HFY25.

Valuations and outlook—time to be selective

At roughly 24,400 level currently, Nifty-50 index is priced at a 1-year forward P/E of 21x on consensus earnings estimates, which is marginally ahead of the last 10-year average valuations (20x). We remain constructive from a medium-to-long term perspective, and believe that markets now primarily offer a compounding opportunity, driven by earnings growth. We expect Nifty-50 index to deliver about 10% return over next one year.

A largely 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 in pockets that we expect would deliver a higher amount and/or longevity of earnings growth at reasonable prices (such as IT, Pharma, Industrials & Capital Goods, Telecoms 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

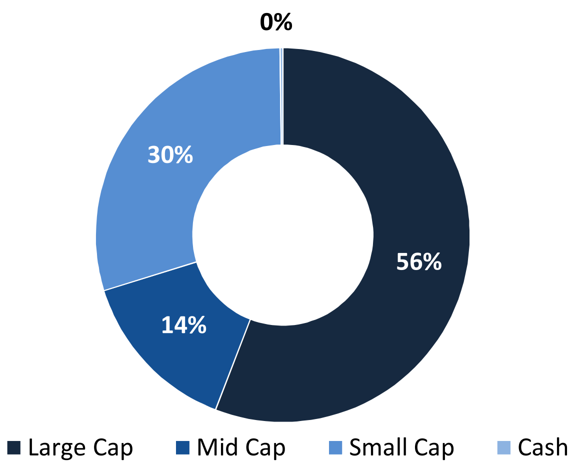
Pre-Tax Returns **(As on 30th September 2023)**

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 (%)	13.5	23.4	30.0
ROE (%)	13.7	14.0	16.0
P/E	41.5	33.8	25.8

Top Holdings

Company	Weight(%)
HDFC Bank Ltd	8.31%
Tech Mahindra Ltd	5.85%
Larsen & Toubro Ltd	5.52%
Infosys Ltd	5.29%
ICICI Bank Ltd	4.81%

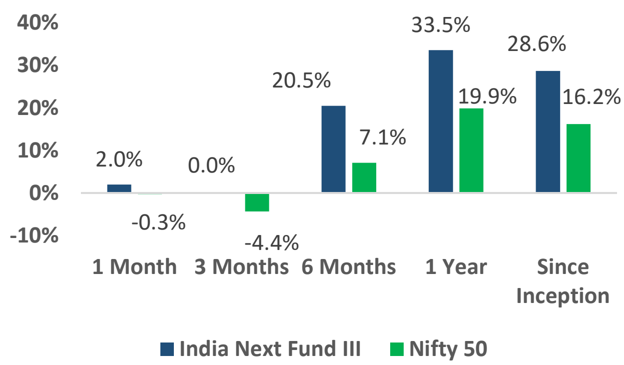
Renaissance India Next Fund III - Risk

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

	Portfolio	Index
Std Dev	15.78%	13.92%
Sharpe Ratio	1.71	0.95
Beta	0.95	1.00
Treynors Ratio	0.28	-
Information Ratio	1.61	-

Returns

Calculation Benchmark: IISL Nifty 50



Fund and Benchmarks returns are Pre-tax

Sectoral Weights

Sector	Weight(%)
BFSI	37.13%
IT & Tech	22.29%
Pharma & Chemicals	11.53%
Industrials	8.17%
Consumer Discretionary	7.37%

The performance related information provided herein is not verified by SEBI.

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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.