

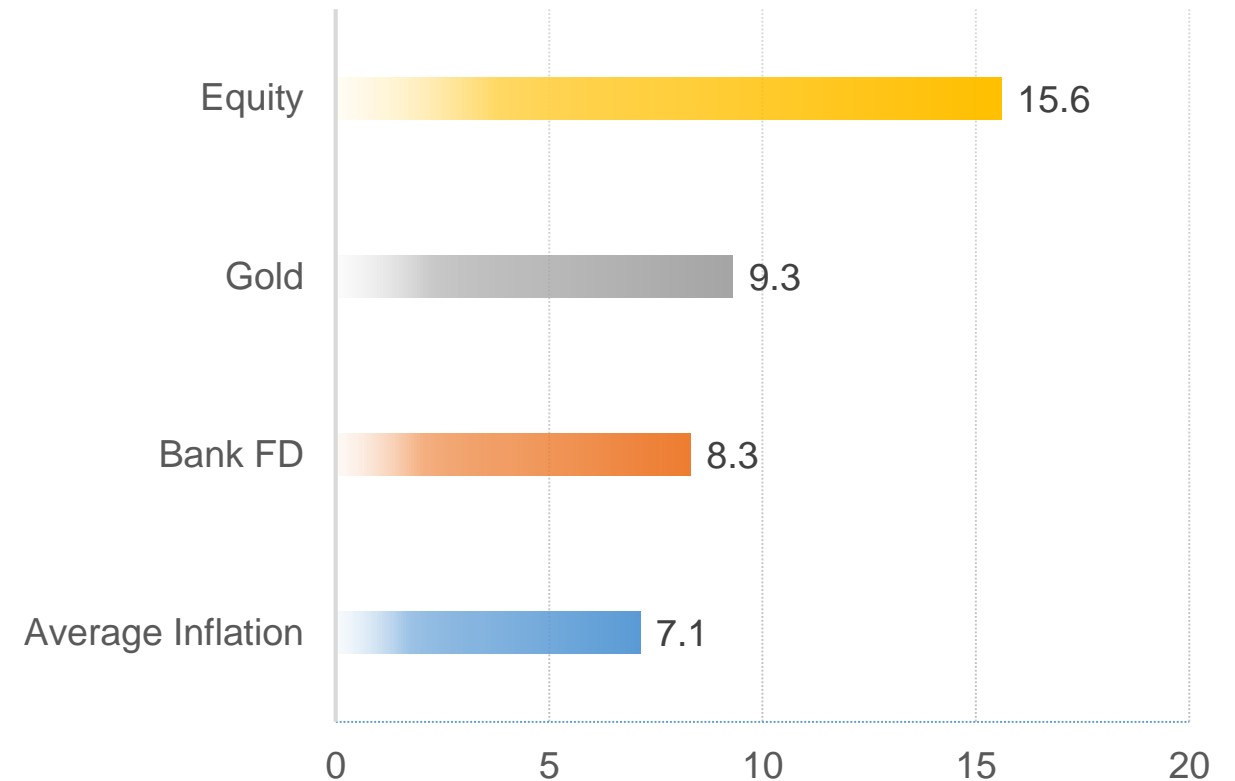


Acumen – Quality Matters

# Equity – An Asset Class

- Equities, while being volatile over short periods of time, tend to be a prudent investment over longer time horizons
- Over the long run equity returns tend to track underlying fundamentals and are determined by the following factors:
  - Long term growth of the economy
  - Growth in corporate earnings
  - Stable financial & regulatory framework
- These components explain nearly all of the stock market returns over extended holding periods

## Equity Has Been A Long Term Wealth Creator



Source: Bloomberg, SBI, Axis AMC Research.

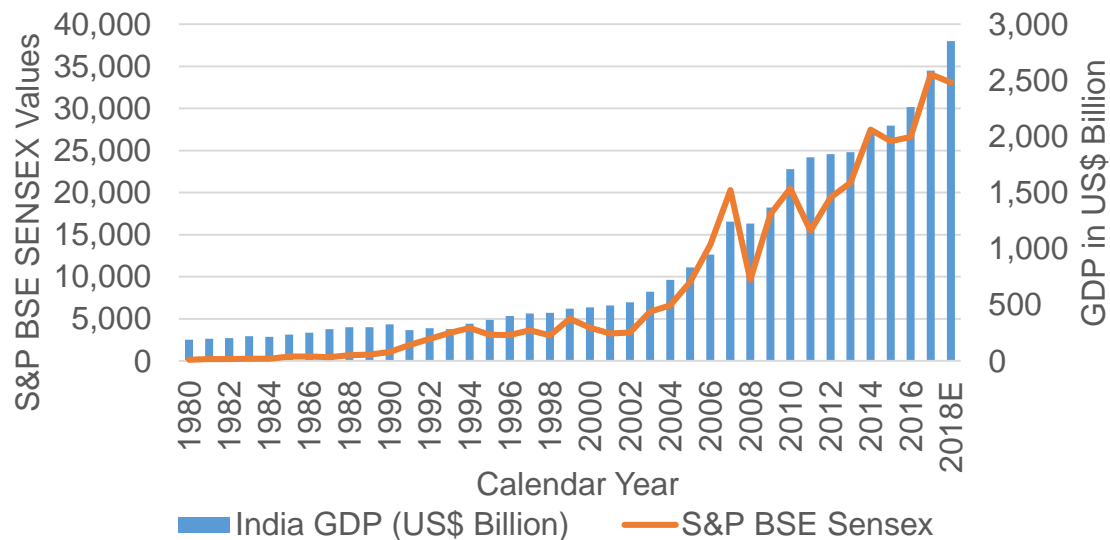
CAGR Returns from 1<sup>st</sup> April 1979 to March 31<sup>st</sup> 2018. Equity performance represented by performance of the S&P BSE Sensex. Gold rate for this illustration refers to the dollar rate per ounce converted to Indian rupees as on each financial year end date. Bank FD & inflation rates are average yearly rates since 1979. **Past performance may or may not be sustained in the future.**

# Long Term Drivers of Equity Markets

In the long run equity markets are driven by two main factors

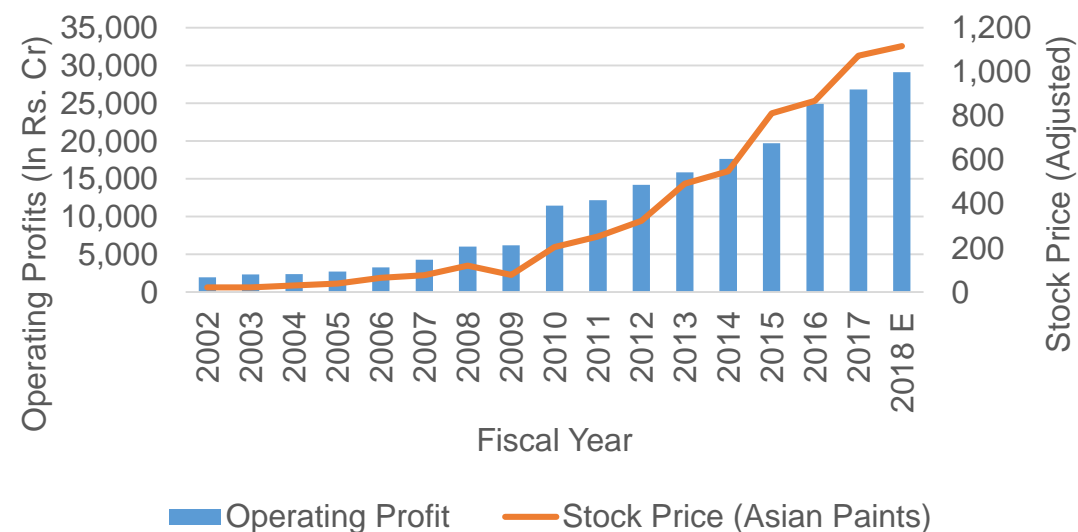
## Macro Economic Factors

As the GDP grows, so does the Stock Market



## Company Fundamentals

Fundamental Growth leads to Growth in Stock Value



Source: Bloomberg, Axis AMC Research.

Data as of March 31<sup>st</sup> 2018. **Past performance may or may not be sustained in the future.** The stocks mentioned are not recommendations by Axis Asset Management Company or Axis Mutual Fund.

# Identifying Quality Companies

While there is no single definition, in our opinion, quality typically connotes a combination of 2 sets of factors

- Quantitative Factors
- Qualitative Factors

## Quantitative Factors

Strong Return Metrics

Stable Cash Flow

High profitability, low debt-to-equity and earnings consistency



## Qualitative Factors

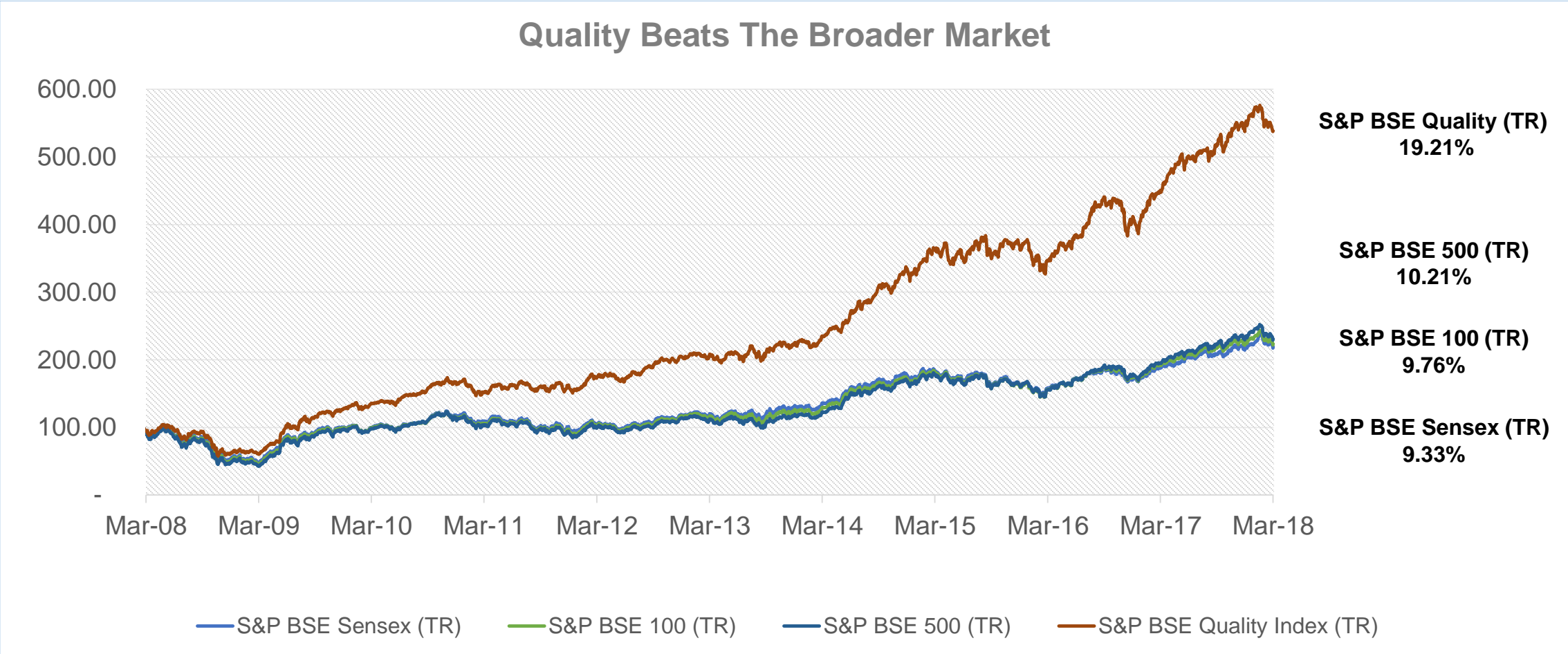
Strong management pedigree

Transparency of operations for investors and key stakeholders

Credible oversight committees & strong internal controls

Sustainable long term business model

# Quality Stocks are Consistent Outperformers



Source: Asia Index Private Limited. Data as on 31<sup>st</sup> March 2018. **Past performance may or may not be sustained in the future.** All returns are calculated on a compound annual growth rate basis and on total return values which incorporate effects of corporate actions in the underlying constituents. All values normalized to 100



## Illustration – Quality Pays

### High ROE Company Performance

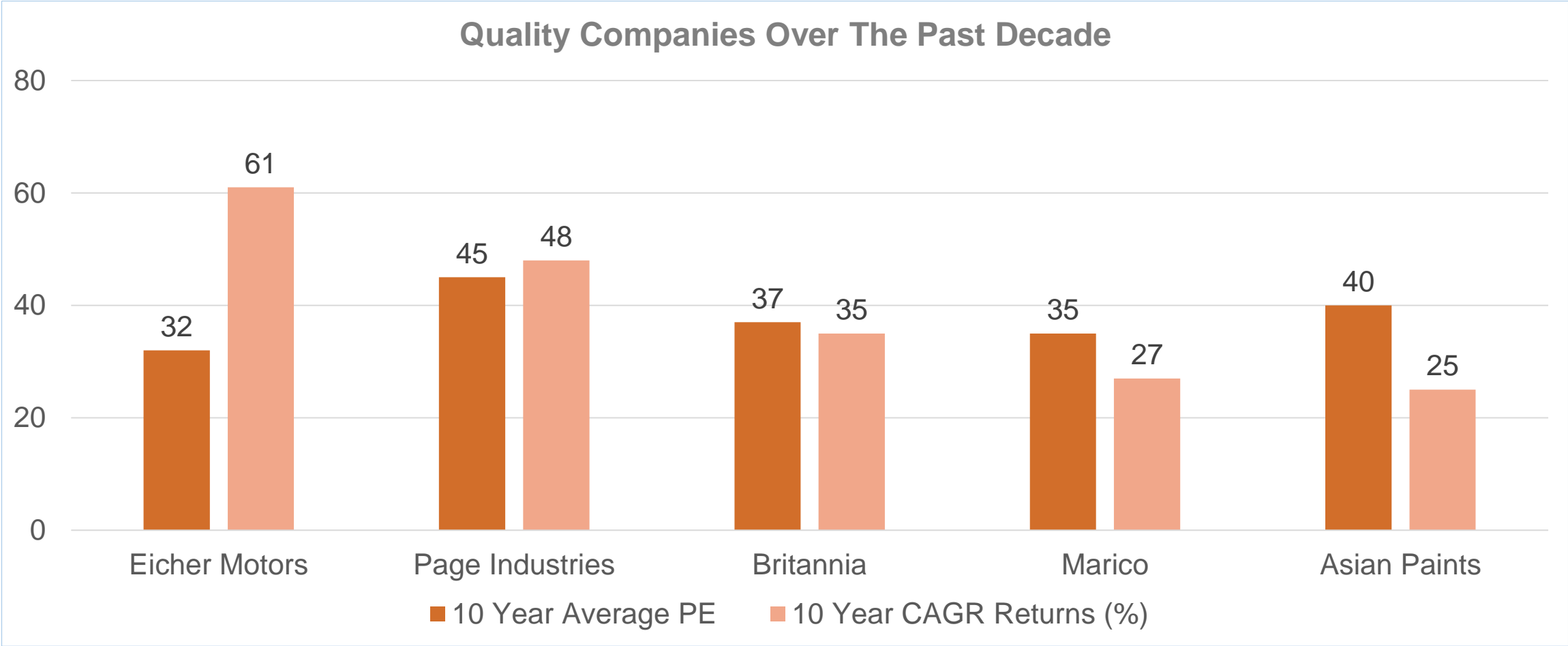
Company	ROE %	5 Yr CAGR
V Guard Industries	25.08	47.23
Page Industries	54.58	44.45
Maruti Suzuki	15.03	44.35
Bajaj Finance	17.80	42.97
Motherson Sumi Systems	28.06	41.22
Shree Cement	18.57	31.33
HDFC Bank	19.82	23.73
Asian Paints	31.40	20.03
TCS	37.77	16.21

### Low ROE Company Performance

Company	ROE %	5 Yr CAGR
DLF	1.60	-1.08
Tata Power Co.	1.98	-1.18
Bharti Airtel	6.29	7.96
Bank of Baroda	6.36	3.23
BHEL	7.68	-5.73
NHPC Ltd	7.98	11.74
State Bank Of India	8.85	5.24
Cipla	12.75	7.81
Oil & Natural Gas Corporation	14.56	0.72

Source: Bloomberg, Axis AMC Internal Research. Data for the period 31<sup>st</sup> March 2013 to 31<sup>st</sup> March 2018. **Past performance may or may not be sustained in the future.** Stocks mentioned may or may not be part of schemes of Axis Mutual Funds. Refer disclaimers at the end of the document. The stocks mentioned should not be construed as recommendations by Axis Asset Management Company or Axis Mutual Fund. The data provided above is solely for illustration purposes only

# Illustration – Quality Pays Contd..



Source: Bloomberg, Axis AMC Internal Research. Data for the period 31<sup>st</sup> March 2013 to 31<sup>st</sup> March 2018. **Past performance may or may not be sustained in the future.** Stocks mentioned may or may not be part of schemes of Axis Mutual Funds. Refer disclaimers at the end of the document. The stocks mentioned should not be construed as recommendations by Axis Asset Management Company or Axis Mutual Fund. The data provided above is solely for illustration purposes only

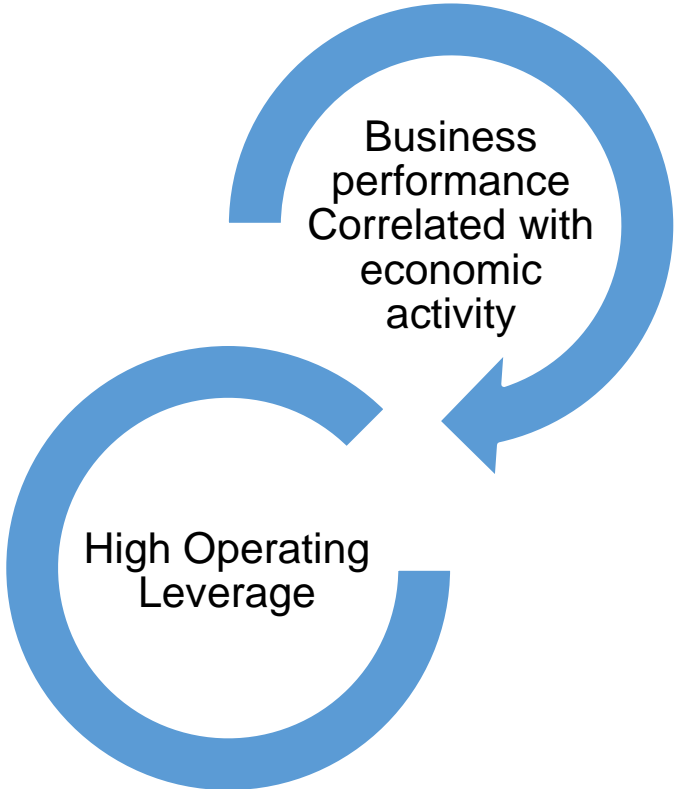
# Recent Events – Commodity Bust!

- Commodities are a cyclical business that work on the demand appetite of the global market. Economic growth is an indicator for commodity demand. In 2013-16 the price of key commodities dropped by up to 60% causing havoc in the commodities market.

Commodity	Fall In Global Prices
Aluminum (US\$/tonne)	11%
Wheat (US\$/tonne)	40%
Steel (HRC US\$/Roll)	40%
Bloomberg Commodity Index	40%
WTI Brent (US\$/bbl)	66%

- The fall in commodities worked positively for India which is a net importer of commodities. However, select industries like Crude oil, steel and Wheat bore the brunt of this fall there by witnessing a deterioration of their respective corporate balance sheets and destroying significant market wealth.

## Attributes of Cyclical Businesses?



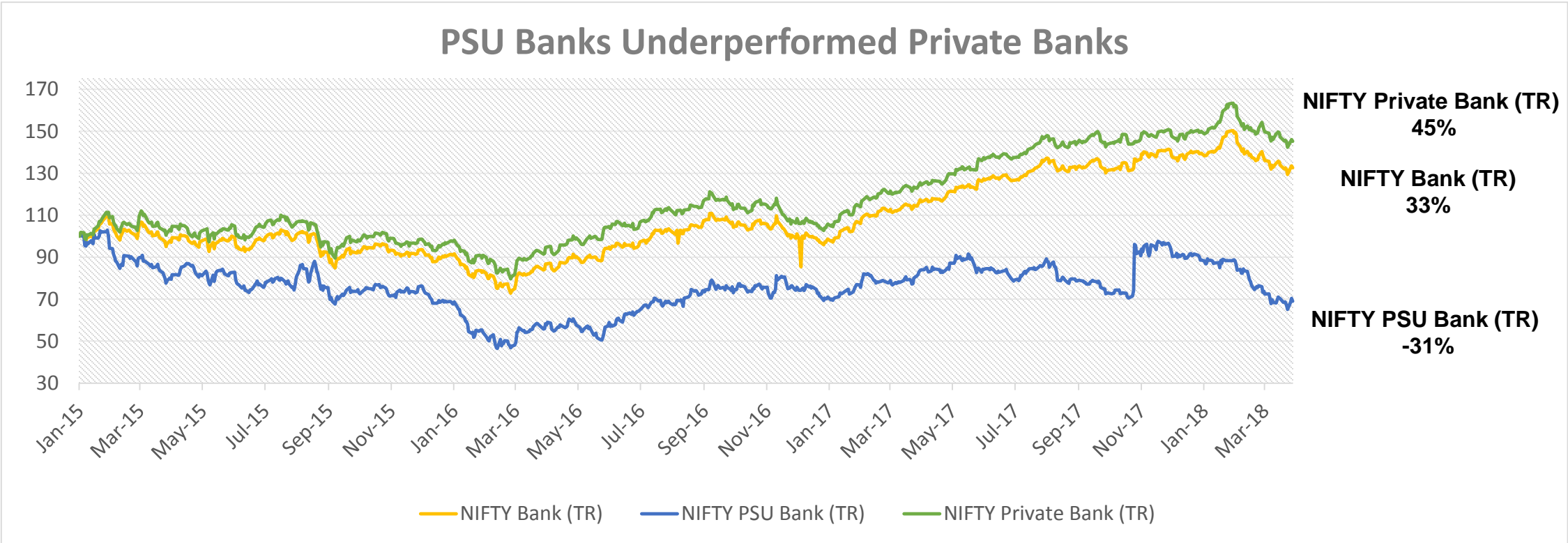
Source: Bloomberg, Axis AMC Internal Research.

Individual commodity prices referenced to the Bloomberg commodity Index denominated in US Dollars normalized to US\$ 100 per constituent contract. Generic prices of individual commodities based on 1-month future delivery contracts collated by Bloomberg used for calculating absolute percentage change of prices from 1<sup>st</sup> December 2013 to 28<sup>th</sup> February 2016



# Recent Events – NPA Cycle

Public sector banks have seen significant decay in asset quality since 2015. As the NPA cycle grew worse, the provisioning norms ate into corporate profits and assets values saw significant erosion leading to a fall in the banks share prices. Large private banks also saw significant NPA`s in their corporate loan books.



Source: Bloomberg, Axis AMC Internal Research.  
 Data for the period 1<sup>st</sup> January 2015 to 31<sup>st</sup> March 2018. Index values normalized to 100 for this analysis. **Past performance may or may not be sustained in the future.**



# Quality – An Axis Experience

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- As Axis, we primarily follow bottom-up stock selection approach with a minimum 2-3-year view on stocks. Bias towards high quality and growth with strong fundamentals are the key look outs for our fund managers to select companies for their portfolios.
- There are four principles that the investment philosophy at Axis is driven by. These are:
  - Strong corporate governance/Strong promoter pedigree,
  - Secular growth rate of the sector, which is anywhere around 1.5 to 2x of GDP;
  - Strong business model, which demonstrates its pricing power in the product category and the business it is in, and ultimately
  - Good ROE's and cash flows
- About 80% to 90% of our portfolio is based on this philosophy and have been continuing with it since our inception in 2009.

# Disclaimers & Risk Factors

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**Past performance may or may not be sustained in the future.** Sector(s) / Stock(s) / Issuer(s) mentioned above are for the purpose of disclosure of the portfolio of the Scheme(s) and should not be construed as recommendation. The fund manager(s) may or may not choose to hold the stock mentioned, from time to time. Investors are requested to consult their financial, tax and other advisors before taking any investment decision(s).

**Statutory Details:** Axis Mutual Fund has been established as a Trust under the Indian Trusts Act, 1882, sponsored by Axis Bank Ltd. (liability restricted to Rs. 1 Lakh).

**Trustee:** Axis Mutual Fund Trustee Ltd.

**Investment Manager:** Axis Asset Management Co. Ltd. (the AMC)

**Risk Factors:** Axis Bank Limited is not liable or responsible for any loss or shortfall resulting from the operation of the scheme. This document represents the views of Axis Asset Management Co. Ltd. and must not be taken as the basis for an investment decision. Neither Axis Mutual Fund, Axis Mutual Fund Trustee Limited nor Axis Asset Management Company Limited, its Directors or associates shall be liable for any damages including lost revenue or lost profits that may arise from the use of the information contained herein. No representation or warranty is made as to the accuracy, completeness or fairness of the information and opinions contained herein. The AMC reserves the right to make modifications and alterations to this statement as may be required from time to time.

**Mutual Fund Investments are subject to market risks, read all scheme related documents carefully.**

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**THANK YOU**