# Indian Entrepreneur Portfolio
# February 2019

Delivered Results, Concept and Positioning

ASK Investment Managers Limited

ASK INVESTMENT MANAGERS

## Key Investment Objectives

- **Capital Preservation** over a period of time
- **Capital Appreciation** over a period of time

## Achieved through…

- Long term Investments in high quality companies with strong growth prospects

# Capital Preservation

Unparalleled track record of Low Volatility

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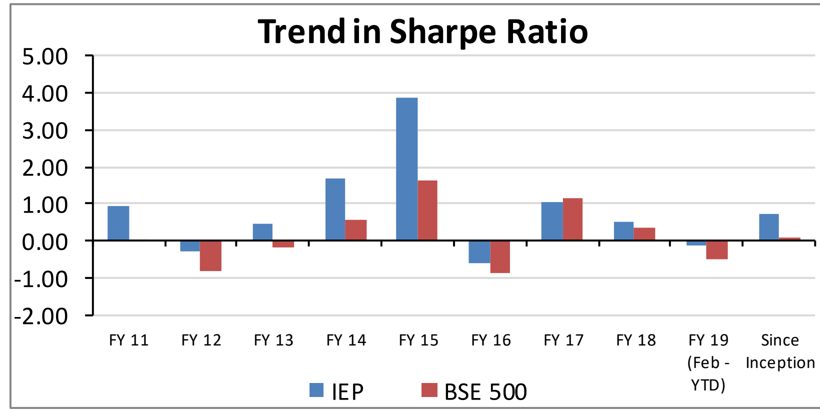
## We cater to investor's desire for a relatively stable portfolio very well

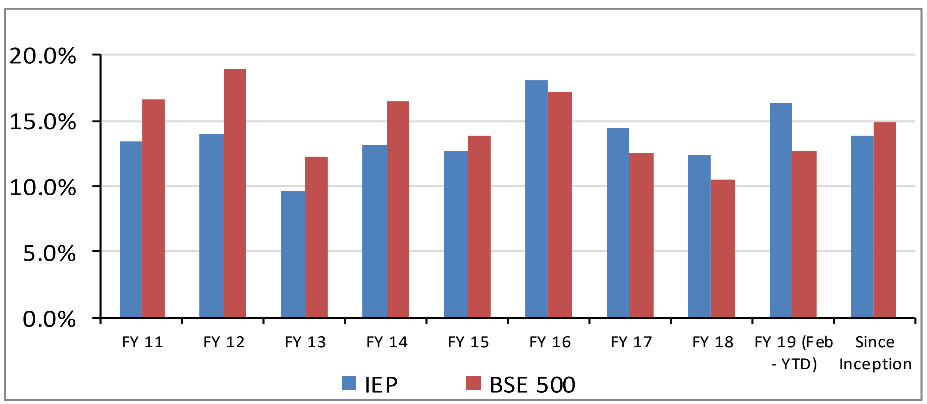
### FY-wise Drawdown Analysis of IEP

| | Max Drawdown | | FY Performance | | FII Net Inflows (USD Bn) |
|---|---|---|---|---|---|
| | IEP | BSE 500 | IEP | BSE 500 | |
| FY 11 | -18% | -20% | 22% | 7% | 24 |
| FY 12 | -14% | -25% | 3% | -9% | 9 |
| FY 13 | -4% | -10% | 13% | 5% | 26 |
| FY 14 | -7% | -16% | 34% | 17% | 14 |
| FY 15 | -2% | -7% | 73% | 33% | 18 |
| FY 16 | -15% | -20% | -5% | -8% | -2 |
| FY 17 | -17% | -12% | 25% | 24% | 8 |
| FY 18 | -5% | -11% | 15% | 12% | 3 |

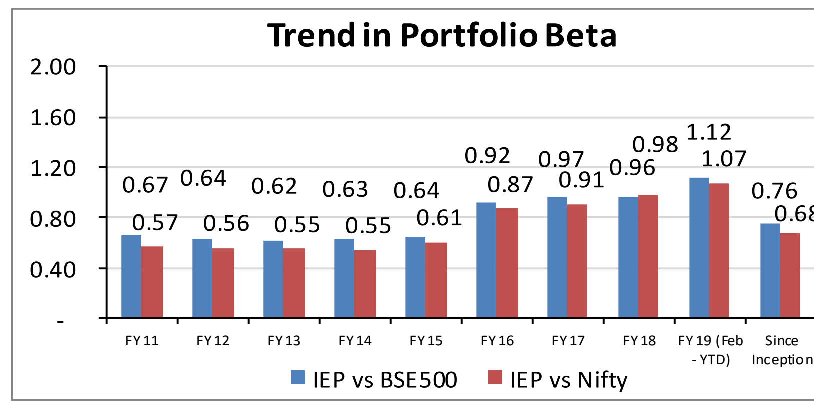
### Superior Sharpe Ratio




### Delivered low volatility (Standard Deviation) since inception




### High growth portfolio with low beta




- Historical Drawdown is measured as the biggest fall of the portfolio after touching the previous peak during the year.
- Sharpe ratio measured as annualized mean of daily Portfolio returns over Risk Free Rate (RFR) divided by the annualized Portfolio Standard Deviation of daily returns. RFR assumed at 8% pa.
- Historical Volatility is computed based on standard deviation of daily returns
- Performance figures are net of fees and expenses. Portfolio returns are composite returns of all Integrated Clients as on 28 Feb 2019. Returns for individual client may differ depending on time of entry in strategy. Past performance may or may not be sustained in future and should not be used as basis for comparison with other investments. Returns for FY are absolute returns

# Capital Preservation

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## Years when Life Highs are attained by Portfolio Companies

| IEP Company Name | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | Number of Years Life-Highs are attained since 2008 | Number of Years in existence since 2008 | % of Years where Life-Highs are attained since 2008 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Asian Paints Ltd | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 11 | 11 | **100%** |
| Astral Polytechnik Ltd | 1 | 0 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 10 | 11 | **91%** |
| Bajaj Finance Ltd | 1 | 0 | 1 | 0 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 9 | 11 | **82%** |
| Bajaj Finserv Ltd | 1 | 0 | 0 | 0 | 1 | 0 | 1 | 1 | 1 | 1 | 1 | 7 | 11 | **64%** |
| Britannia Industries Ltd | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 11 | 11 | **100%** |
| Cholamandalam Investment and F | | | 0 | 1 | 0 | 0 | 1 | 1 | 1 | 1 | 1 | 6 | 9 | **67%** |
| Dalmia Bharat Ltd | | | | 1 | 0 | 0 | 1 | 1 | 1 | 1 | 0 | 5 | 8 | **63%** |
| Divi's Laboratories Ltd | 1 | 0 | 0 | 0 | 1 | 1 | 1 | 1 | 1 | 0 | 1 | 7 | 11 | **64%** |
| Eicher Motors Ltd | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 0 | 10 | 11 | **91%** |
| Havells India Ltd | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 0 | 1 | 1 | 1 | 10 | 11 | **91%** |
| IndusInd Bank Ltd | 1 | 1 | 1 | 0 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 10 | 11 | **91%** |
| Kotak Mahindra Bank Ltd | 1 | 1 | 1 | 0 | 0 | 0 | 1 | 1 | 1 | 1 | 1 | 8 | 11 | **73%** |
| Minda Industries Ltd | 1 | 1 | 1 | 0 | 0 | 0 | 1 | 1 | 1 | 1 | 1 | 8 | 11 | **73%** |
| Motherson Sumi Systems Ltd | 0 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 0 | 1 | 0 | 8 | 11 | **73%** |
| MRF Ltd | 0 | 0 | 1 | 0 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 8 | 11 | **73%** |
| Page Industries Ltd | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 0 | 1 | 1 | 10 | 11 | **91%** |
| PI Industries Ltd | 1 | 1 | 1 | 1 | 0 | 1 | 1 | 1 | 1 | 1 | 1 | 10 | 11 | **91%** |
| Pidilite Industries Ltd | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 11 | 11 | **100%** |
| Shree Cement Ltd | 1 | 1 | 1 | 0 | 1 | 1 | 1 | 1 | 1 | 1 | 0 | 9 | 11 | **82%** |

** NOTE - Dalmia Bharat (DBL): Due to corporate action wherein DBL and OCL are being merged into new entity Odisha Cement Ltd., DBL is being reflected as OCL in the portfolio currently. OCL will be later renamed as DBL, which would then be suitably incorporated.*

Source: Bloomberg

Data considered from CY 2008 as the base till CY 2018

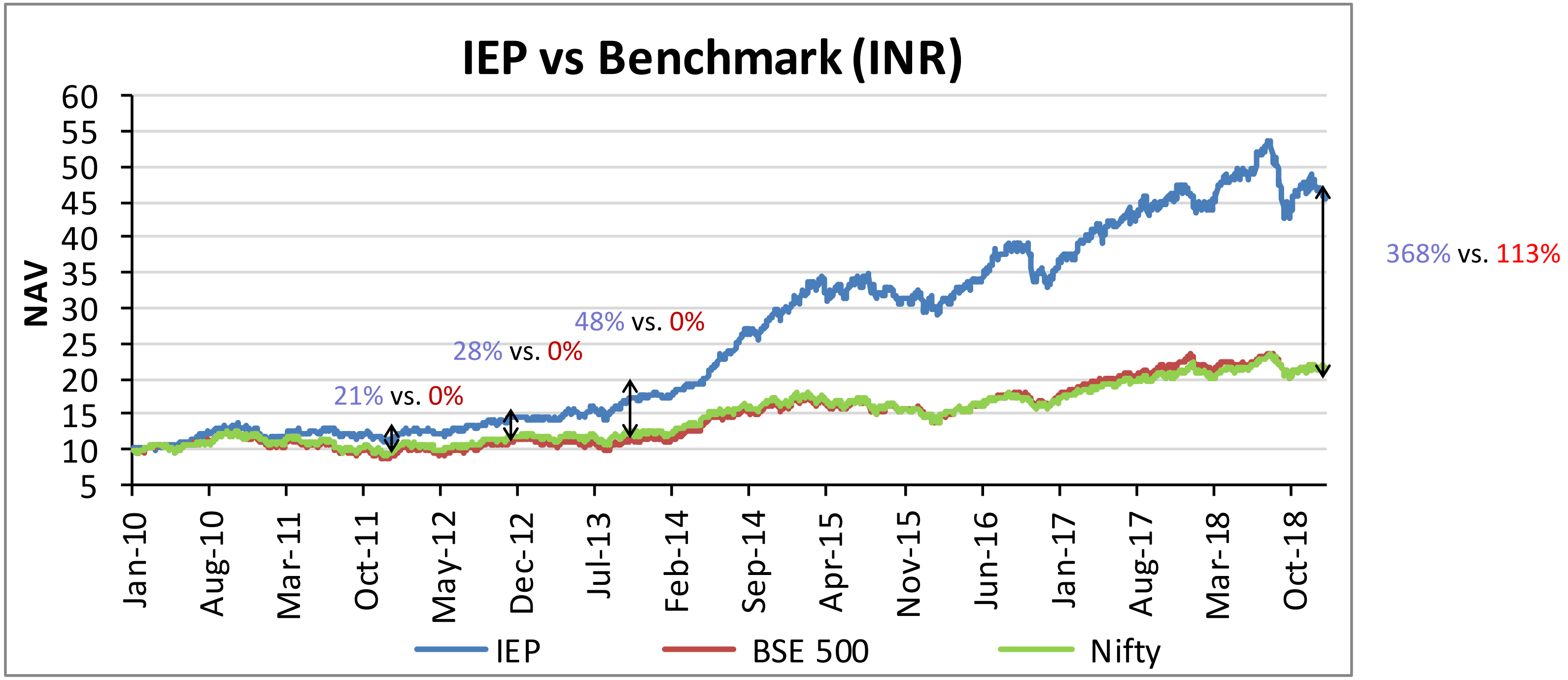
# Capital Appreciation

Low volatility in the portfolio actually aids portfolio appreciation

## Consistently beating benchmarks since inception

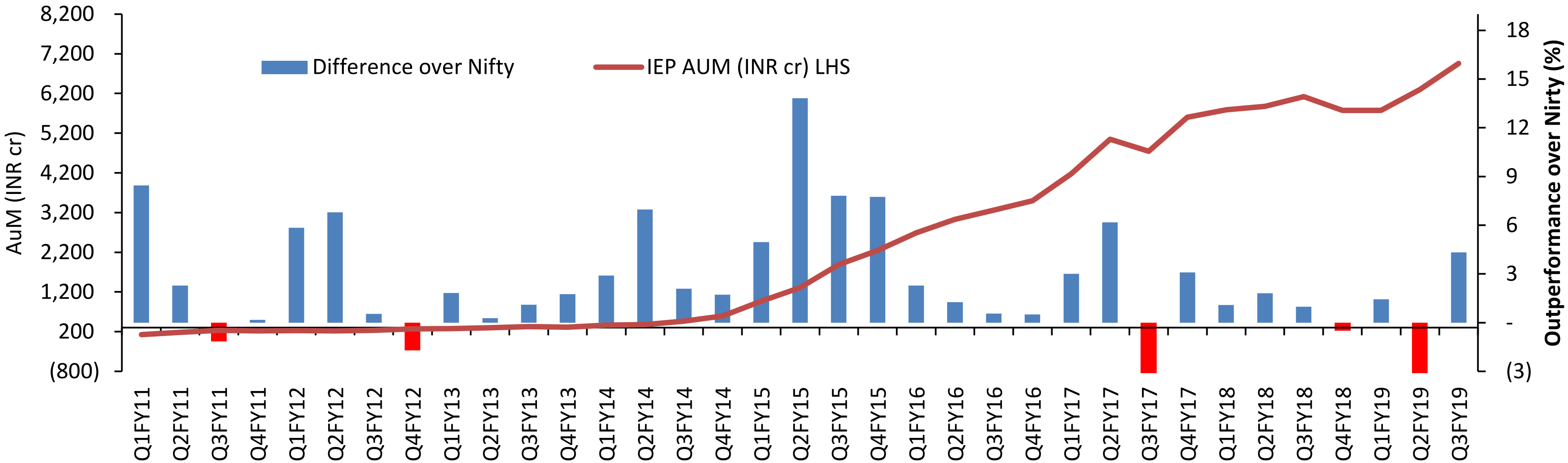
| (INR) | FY 11 | FY 12 | FY 13 | FY 14 | FY 15 | FY 16 | FY 17 | FY 18 | FY19 YTD (Feb-19) | CAGR since April 2010 |
|---|---|---|---|---|---|---|---|---|---|---|
| IEP | 21.7% | 2.8% | 12.8% | 34.5% | 73.0% | -4.5% | 24.9% | 14.5% | 4.1% | 18.8% |
| BSE 500 | 7.5% | -9.1% | 4.8% | 17.1% | 33.2% | -7.8% | 24.0% | 11.8% | 0.5% | 8.4% |
| Nifty | 11.1% | -9.2% | 7.3% | 18.0% | 26.7% | -8.9% | 18.5% | 10.2% | 6.7% | 8.4% |

Portfolio returns are net of Fees and Expenses. These are composite returns of all Integrated Clients as on 28 Feb 2019. Returns for individual client may differ depending on time of entry in the strategy. Past performance may or may not be sustained in future and should not be used as basis for comparison with other investments. Returns for FY are absolute returns




**The strategy has been able to generate returns continuously even while markets were flat between Oct 11, Jun 12 and Aug 13.**

# Quarterly Outperformance




IEP has outperformed the Nifty for **30 out of 35 quarters** since inception

# Indian Entrepreneur Portfolio: The Strategy

1. Identify **large** and **growing** business opportunities.
2. Identify businesses with competitive advantage that are **significant sized** (min Rs.100cr of PBT) **but not a large part** of the opportunity: Enables growth from both **market share gains** and **growth of the opportunity size** and can sustain for multiple years.
3. The **quality of the business** should be good to be able to fund strong growth through internal cash generation
    - We seek over 20% compounded growth from each business that we buy and target over 25% growth from the portfolio
    - To fund this growth, the business ROCE should be over 25% so that growth can be funded and there are surpluses for dividend
4. The **management should have the drive** and have skin in the game to deliver **compounded growth** period after period (uncompromised corporate governance is a must)
    - Hence, invest into businesses with an identifiable business house at helm with minimum 25% stake
5. We seek to identify such businesses **at reasonable discount to value** and stay invested for a length of time and make money as EPS compounds

Note: * Promoter / Family stake of at least 26% is desired in portfolio companies, except in rare and fit cases.

# Indian Entrepreneur Portfolio: Strategy explained with examples

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- We are not market cap focused but only quality (high ROCE) and growth (high non dilutive compounded EPS) focused as these parameters alone generate returns
  - If size of opportunity is not a constraint then even very large Indian businesses with sustained competitive advantage can compound well. Some of the largest businesses in the country have been growing the fastest and in a more sustained manner.
  - Our Pure play Indian businesses can tend to be midcaps because there the size of the opportunity would be a constraining factor if the business is very large. (For example, Reliance may not be part of the portfolio because it is a very large part of the petro-chem opportunity itself and would need to find new areas to grow where its track record may not be proven). The portfolio has names like Astral Poly which while strongly growing is focused on Indian opportunity only and are hence small.
  - Indian businesses can be large if there is large presence of unorganized players and there is a shift of market towards organized players. This is demonstrated in businesses like branded garmenting (Page industries)
- We seek such businesses at reasonable discount to value and stay invested for a length of time and make money as EPS compounds

**Most of the portfolio is explained by these themes at all points in time indicating consistency in approach towards philosophy based investing.**

# Portfolio Research Methodology and Filtration

| | |
|---|---|
| **500** | Top 500 as per market capitalization |
| **306** | Only companies > 25% promoter / family holding (except in very rare and fit cases)<br>Universe of Entrepreneur and/or Family Owned Business = 306 cos |
| **210** | Condition of minimum PBT of INR 100 cr (USD 16 mn) |
| **123** | Subjective evaluation on management quality, their integrity, vision, past track record, execution, capital allocations and distribution skills, corporate governance standards etc. |
| **59** | Quality of Business (Capital Efficiency) – Minimum ROCE of 25% |
| **20** | Two more filters for selection of stocks a) Minimum 20 to 25% earnings growth over the next 3 to 5 years without capital dilution and b) Price-Value gap (margin of safety) of 20%<br>Indian Entrepreneur Portfolio |

# Long Term Performance of Portfolio Companies

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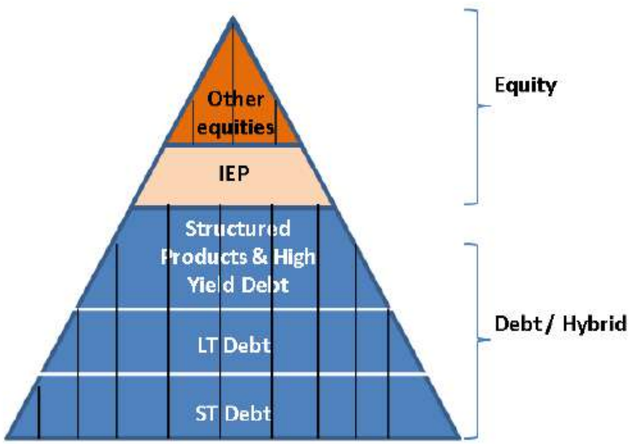
| IEP companies performance over last 5 years (CAGR) as on FY18 | | | | | |
|---|---|---|---|---|---|
| **Company Name** | **Sales** | **OP** | **PBT** | **ROCE*** | **PAT** |
| Asian Paints Ltd | 9% | 13% | 13% | 49% | 12% |
| Astral Polytechnik Ltd | 21% | 22% | 25% | 26% | 25% |
| Bajaj Finance Ltd | 35% | 37% | 36% | 20% | 35% |
| Britannia Industries Ltd | 10% | 29% | 34% | 97% | 32% |
| Cholamandalam Investment and Finance | 25% | 26% | 27% | 21% | 26% |
| Dalmia Bharat Ltd** | 25% | 25% | 25% | 12% | 45% |
| Divi's Laboratories Ltd | 12% | 9% | 9% | 29% | 7% |
| Eicher Motors Ltd | 25% | 47% | 42% | 100% | 46% |
| Havells India Ltd | 13% | 14% | 17% | 56% | 14% |
| IndusInd Bank Ltd | 27% | 29% | 28% | 16% | 28% |
| Kotak Mahindra Bank Ltd | 24% | 27% | 26% | 13% | 25% |
| Minda Industries Ltd | 28% | 42% | 60% | 30% | 59% |
| Motherson Sumi Systems Ltd | 17% | 22% | 27% | 32% | 26% |
| MRF Ltd | 5% | 12% | 14% | 23% | 14% |
| Page Industries Ltd | 24% | 24% | 26% | 78% | 26% |
| PI Industries Ltd | 15% | 22% | 26% | 28% | 31% |
| Pidilite Industries Ltd | 11% | 18% | 18% | 53% | 18% |
| Shree Cement Ltd | 12% | 9% | 10% | 39% | 7% |
| **Average of IEP Companies** | **19%** | **24%** | **26%** | **38%** | **26%** |
| **Nifty** | **4%** | **10%** | | | **7%** |

** *NOTE - Dalmia Bharat (DBL): Due to corporate action wherein DBL and OCL are being merged into new entity Odisha Cement Ltd., DBL is being reflected as OCL in the portfolio currently. OCL will be later renamed as DBL, which would then be suitably incorporated.*

*Data considered only for FY18. For Banking & Financial companies, we have not considered ROCE, but have considered ROE for the above analysis

# Indian Entrepreneur Portfolio: Have IEP as core of equity portfolio

## The Positioning




| Key Attributes | How IEP Qualifies |
|---|---|
| High degree of predictability & replicability of returns | Buy good quality, non-dilutive, strongly growing businesses.<br>Beta of 0.76 vs BSE500 and 0.68 vs Nifty since inception. |
| Consistency of performance | Philosophy based Process driven investing.<br>Almost equiweighted portfolio minimizing single stock risk. Historically low churn ratios of sub 0.4%.<br>Positive returns across most of the portfolio holdings, indicating the strength of the philosophy and process. |
| Better returns than other asset classes | 19% compounding since inception Vs 9% for BSE 500 as on Feb 28, 2019 |

**Risk Factors and Disclaimer**

**Risk arising from the investment objective, investment strategy and asset allocation**.

Equities as an asset class carry a higher risk in comparison to debt. While risk cannot be totally eliminated, it can be mitigated through a well-designed investment strategy. ASK Investment Managers Portfolios seek to mitigate risk and deliver superior returns through research-based investing. However, this objective may not be fully achieved due to various reasons such as unfavorable market movements, misjudgment by portfolio manager, adverse political or economic developments etc. The PMS is run with an objective to achieve reasonable returns consistently. Given this background the investor investing in the PMS faces the following risks

*(i) Political, economic and / or related risks*

The Asset Value of the portfolio and the liquidity of the shares may be affected by changes in government policy, taxation, interest rates, social and religious instability and political, economic or other developments in or affecting India.

*(ii) Industry risk*

The value of shares of companies in a particular industry may be affected due to factors affecting the industry like changes in government policy on duties, FDI or a foreign country, which is a big market for the industry, may impose restrictions on import etc.

(iii) *The Indian Securities Market*

The Indian stock markets in the past experienced substantial price volatility and no assurance can be given that such volatility will not occur in future. Actual market trend may be in variance with anticipated trends hence, the decisions of the Portfolio Manager may not be always profitable.

*(iv) Liquidity Risk*

Some stocks that the investor might be invested in might not be highly liquid. Though it will be the PMS service providers endeavour to restrict investments in less liquid stocks to a lower limit, there is an exposure of liquidity risk to the investor.

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# Thank You

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