

# Gallop ahead with India Opportunity Portfolio V2



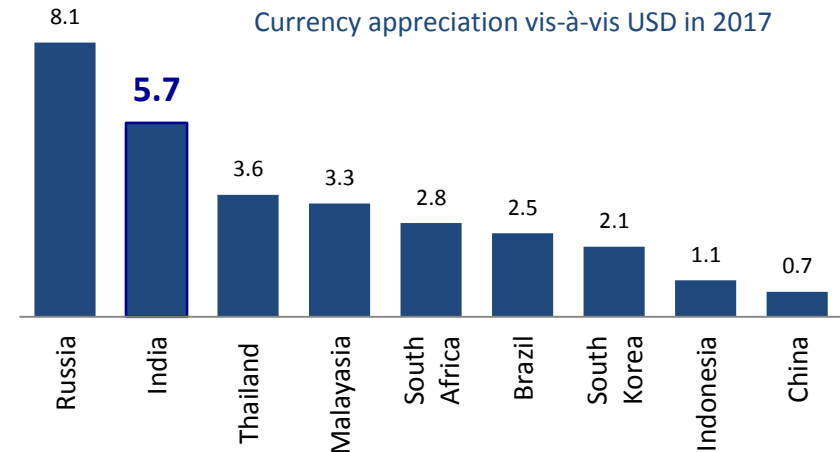
Sep 2018

- Why India and India's scope for long term growth
- Why Small and Midcap portfolio
- Opportunity in Mid and Smallcap segment
- Outperformance in Upcycles
- Themes of IOPV2
- Why Motilal Oswal Asset Management
- Wealth Creation Journey
- Success Stories

# Why India

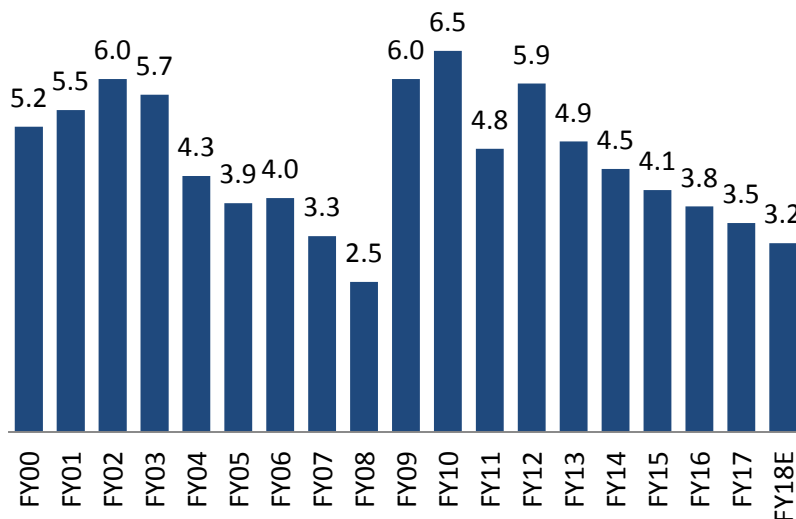
- The Government of India has taken significant initiatives to strengthen the economic credentials of the country, to make it one of the strongest economies in the world.
- Indian companies are gaining a stronger foothold internationally and expanding their international presence by investing overseas.
- The country continues to urbanise at a strong pace driven by a combination of up trending consumption, robust job creation and growing financial penetration.

India is one of best performing EM (Emerging Markets) currency in 2017



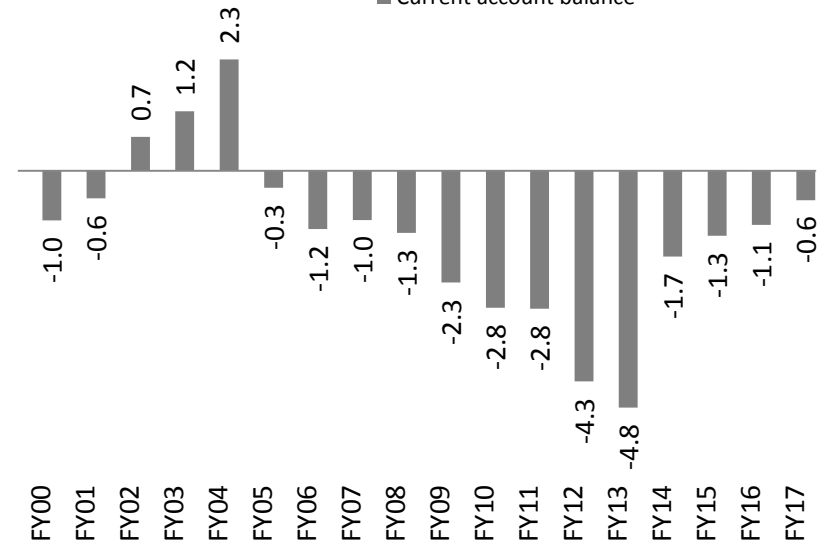
## Improving Fiscal Deficit (% of GDP)

■ Fiscal deficit



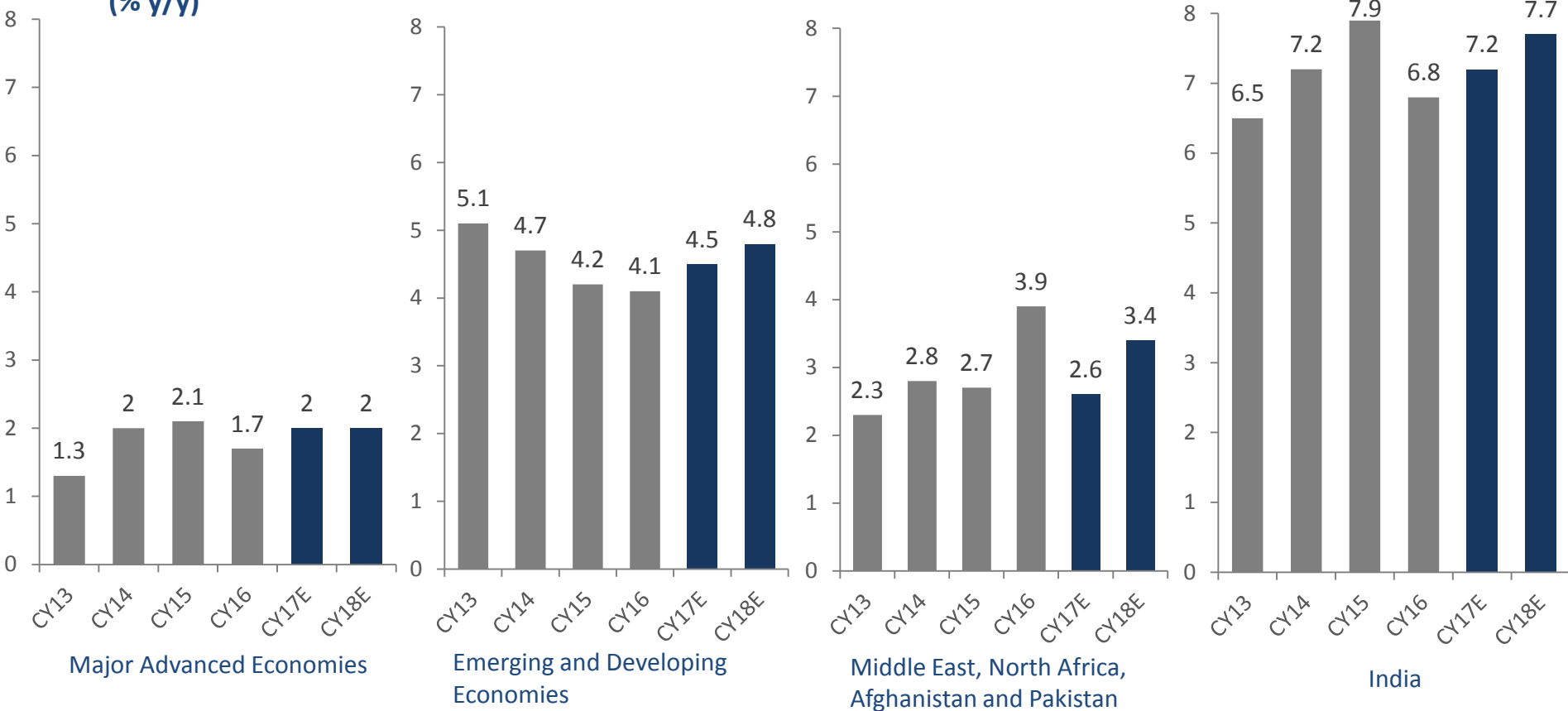
## Lower CAD (Current Account Deficit) over the Years (% of GDP)

■ Current account balance



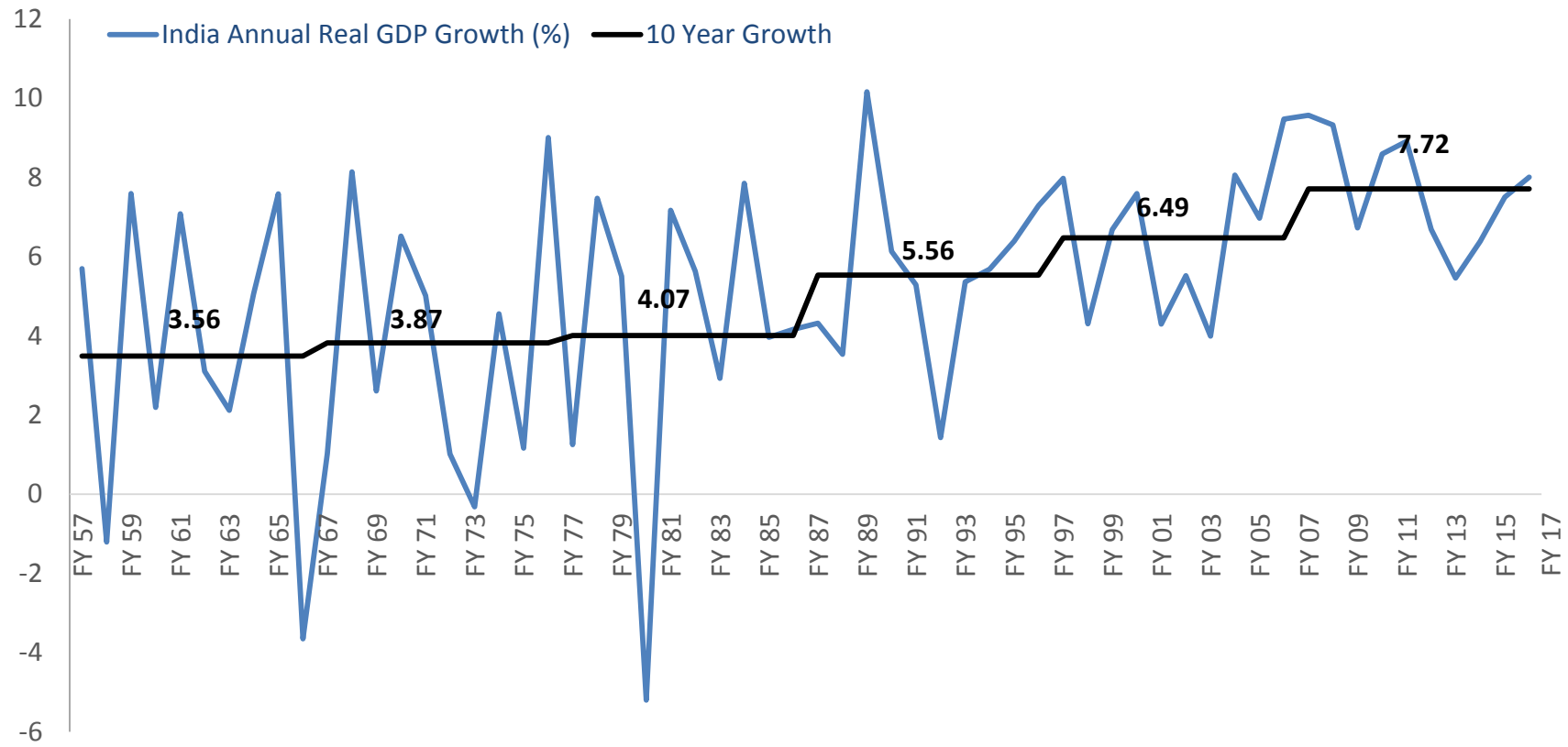
# India stands out among Real GDP Growth

Real GDP Growth  
(% y/y)



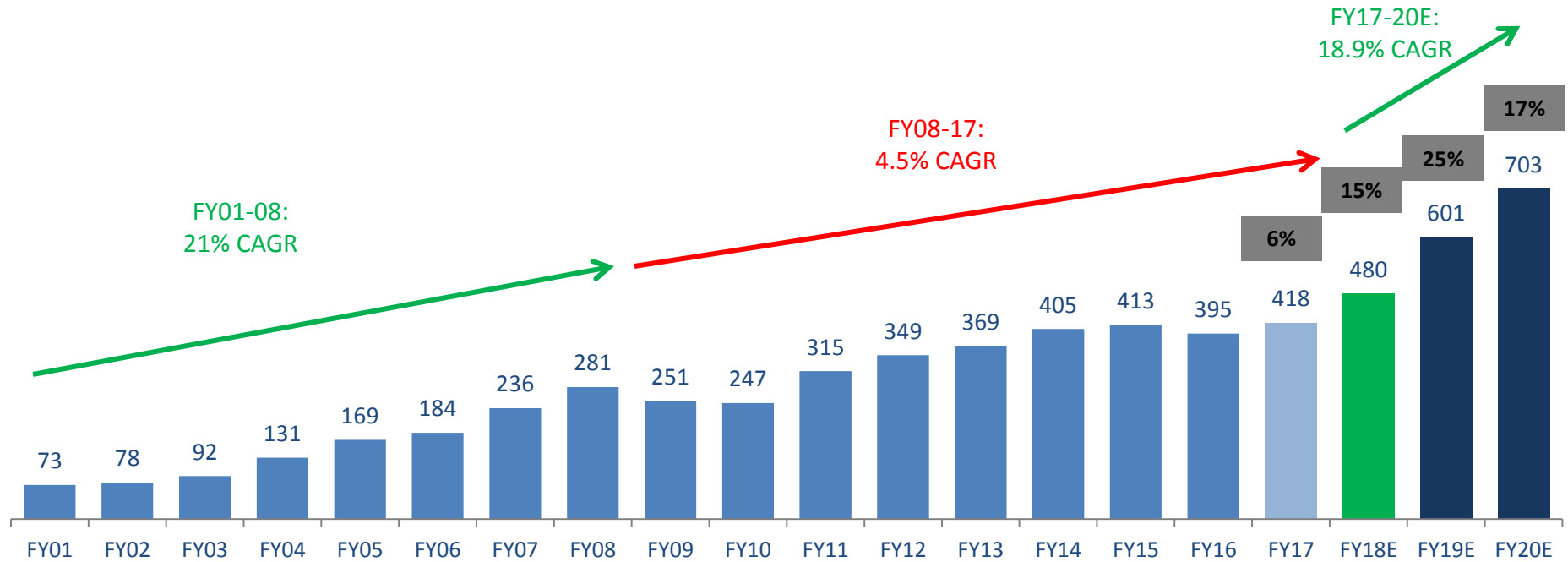
- Emerging Markets continue to remain attractive on Real GDP growth differentials
- India stands out on the Emerging Markets pack on the back of strong fundamentals

# India Long Term Growth Trend



- Every 10 years, from FY1957 to FY2016, we see an upward shift in India's CAGR
- 10 Year average GDP growth has gone from 3.56 to 7.72
- We are now set to enter the next decade of a lift in growth

# Why India – Markets may deliver double digit Earnings Growth



In the long run, the markets always follow the earning pattern. For Nifty, FY17-20E the EPS growth stands at 17% CAGR, which shows the potential upside for the markets growth for 3 year period.

Source: Motilal Oswal Research India Strategy February 2018

The statements made herein may include statements of future expectations and other forward-looking statements that are based on our current views and assumptions and involve known and unknown risks and uncertainties that could cause actual results, performance or events to differ materially from those expressed or implied in such statements. Past performance may or may not be sustained in future.

# Markets return as much as growth in earnings

22-years CAGR of Sensex at 11% is in line as 22-years Sensex EPS CAGR!

	Sensex	YoY	Sensex EPS	YoY
Mar-95	3261		181	
Mar-96	3367	3%	250	38%
Mar-97	3361	0%	266	6%
Mar-98	3893	16%	291	9%
Mar-99	3740	-4%	278	-4%
Mar-00	5001	34%	280	1%
Mar-01	3604	-28%	216	-23%
Mar-02	3469	-4%	236	9%
Mar-03	3049	-12%	272	15%
Mar-04	5591	83%	361	33%
Mar-05	6493	16%	446	24%
Mar-06	11280	74%	540	21%
Mar-07	13072	16%	720	33%

	Sensex	YoY	Sensex EPS	YoY
Mar-08	15644	20%	833	16%
Mar-09	9709	-38%	820	-2%
Mar-10	17528	81%	834	2%
Mar-11	19445	11%	1024	23%
Mar-12	17404	-10%	1120	9%
Mar-13	18836	8%	1180	5%
Mar-14	22386	19%	1329	13%
Mar-15	27957	25%	1354	2%
Mar-16	25341	-9%	1330	-2%
Mar-17	29621	17%	1347	1%
StdDev		31%		14%
CAGR	11%		10%	

Source: Motilal Oswal Securities, MOAMC Internal Analysis | Data as on 31<sup>st</sup> March 2017

CAGR - is an investing specific term for the geometric progression ratio that provides a constant rate of return over the time period; Std Dev - a quantity expressing by how much the members of a group differ from the mean value for the group.

The information provided herein is for illustrative purpose only and should not be construed as an investment advice.; Past performance may or may not be sustained in future and should not be used as a basis for comparison with other investments; Mar-95 is taken as base year

- ▶ Over long periods of time equities do deliver in line with corporate earnings; but it's a known fact that the volatility in share prices is way higher than volatility of earnings themselves.
- ▶ This volatility in share prices results in emotional response of greed in rising markets and fear in falling markets. Mostly these responses are way more exaggerated on upside as well as downside.
- ▶ When evaluated in hindsight after the data plays out; one usually rues that responses were disproportionate to changes in corporate earnings.



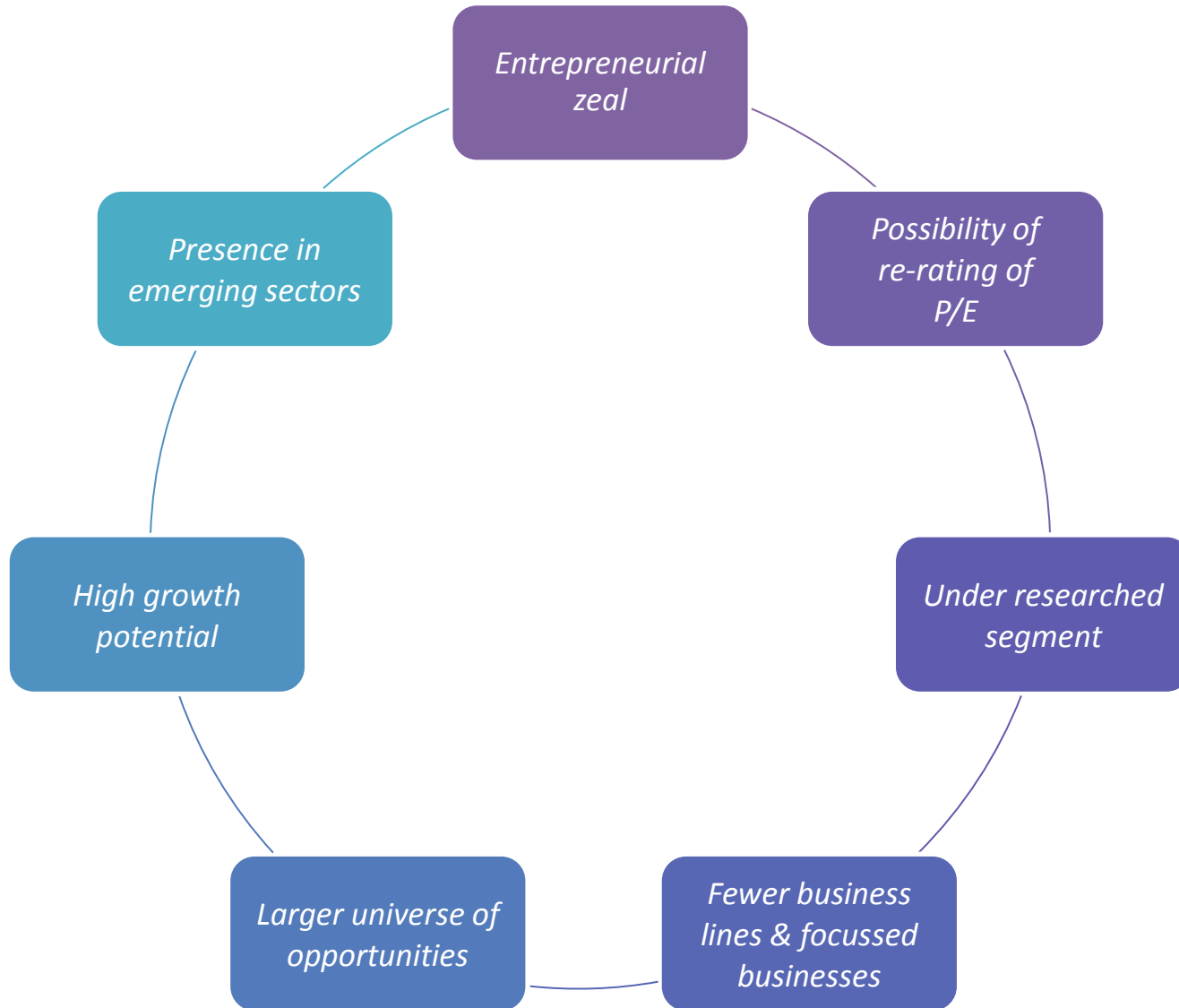
## Wealth creation happens when Small caps and Mid cap become Large cap

Exhibit 16 2011-16: Market cap crossovers: No. of companies and average returns

		FROM (in 2011)					
		Mini	Mid	Mega	New	Demerger	TOTAL
<b>TO (in 2016)</b>	<b>Mega</b>	0	26	71	3	0	100
	<i>Avg Return</i>		31%	8%			
<b>Mid</b>		67	88	25	19	1	200
	<i>Avg Return</i>	39%	9%	-16%			
<b>Mini</b>		2,479	84	2	711	2	3,278
	<i>Avg Return</i>	1%	-20%	-32%			
<b>Delisted, Demerger, etc</b>		397	2	2	2	-3	400
	<i>Avg Return</i>						
<b>TOTAL</b>		2,943	200	100	735	0	3,978
	<i>Avg Return</i>	2%	0%	1%			

- While Large Caps give stability to the portfolio, only 71% of large cap companies remained in large cap category & delivered stable growth of 8%.
- Selective Opportunities lie in the Mid and Small Cap Space to deliver high growth rates. Hence Fund Manager needs to be choosy in stock selection. ~2.3% of small cap companies become mid cap companies & delivered 39% returns while 13% of mid cap companies become large cap companies & delivered 31% returns

Source: Focused Investing – 21st Wealth Creation Study by Raamdeo Agrawal



# Success rate in Small and Midcap Portfolio

## Mid and Small cap... balancing the odds...

Mini, Mid, Mega crossovers – 2000-05, 2005-10, 2010-15

Note: Figures in brackets indicate number of companies

**2000-05: Median return CAGR**  
Market return : 5%

	<b>Mega</b>	158% (1)	55% (17)	21% (59)
<b>TO</b>	<b>Mid</b>	57% (58)	21% (90)	-4% (28)
	<b>Mini</b>	19% (1,039)	-3% (93)	-40% (13)
		<b>Mini</b>	<b>Mid</b>	<b>Mega</b>
			<b>FROM</b>	
<b>Total stocks</b>		1,098	200	100

**2005-10: Median return CAGR**  
Market return : 22%

	<b>Mega</b>	76% (2)	46% (9)	27% (66)
<b>TO</b>	<b>Mid</b>	61% (25)	24% (89)	9% (32)
	<b>Mini</b>	11% (1,465)	4% (102)	-32% (3)
		<b>Mini</b>	<b>Mid</b>	<b>Mega</b>
			<b>FROM</b>	
<b>Total stocks</b>		1,492	200	100

**2010-15: Median return CAGR**  
Market return : 10%

	<b>Mega</b>	68% (3)	33% (24)	11% (71)
<b>TO</b>	<b>Mid</b>	38% (64)	9% (88)	-13% (26)
	<b>Mini</b>	0% (1,841)	-19% (88)	-32% (3)
		<b>Mini</b>	<b>Mid</b>	<b>Mega</b>
			<b>FROM</b>	
<b>Total stocks</b>		1,908	200	100

**Over a 5 year period maximum return is generated from companies crossing from (i) Mini to Mid /Mega and (ii) Mid to Mega**

**Return & Probability Matrix**

<b>Mega</b>	Highest returns Very low probability	Strong returns Low – medium probability	Market returns High probability
<b>Mid</b>	Strong returns Low probability	Market returns High probability	Underperformance Medium probability
<b>Mini</b>	Underperformance Very high probability	Underperformance Medium probability	Massive capital loss Low probability
	<b>Mini</b>	<b>Mid</b>	<b>Mega</b>

From

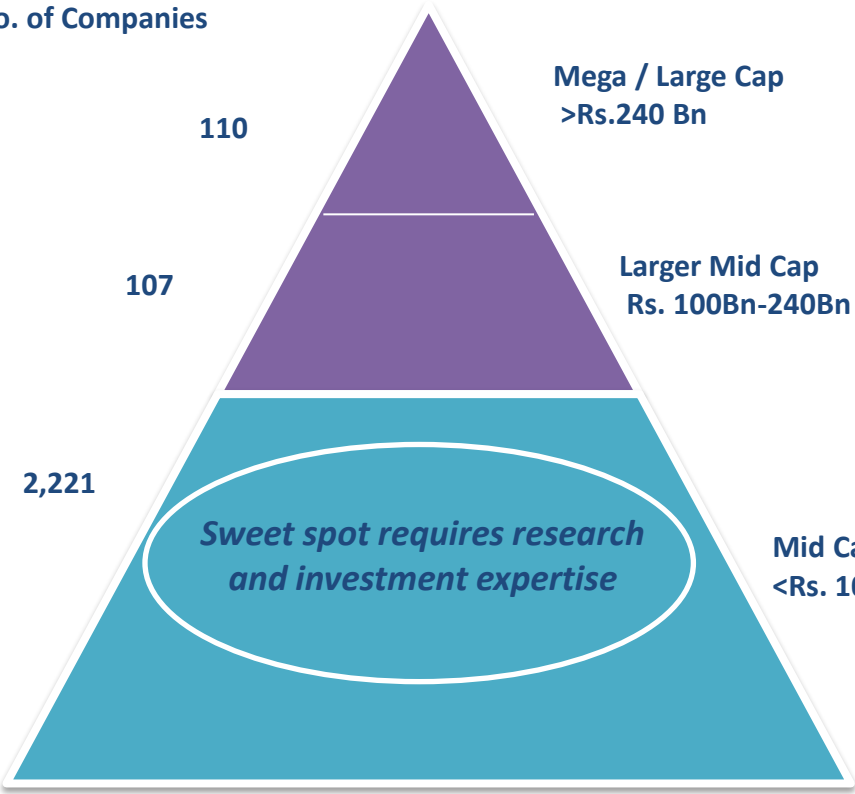
## What it takes to achieve Mid – to – Mega ?

- Identifying quality businesses with quality management
- Distinct value proposition that gives company an edge over its competition
- Avoid value traps

*Expertise in bottom up stock picking is the key to identify multibaggers*

# Targets a unique and relatively untapped opportunity

No. of Companies



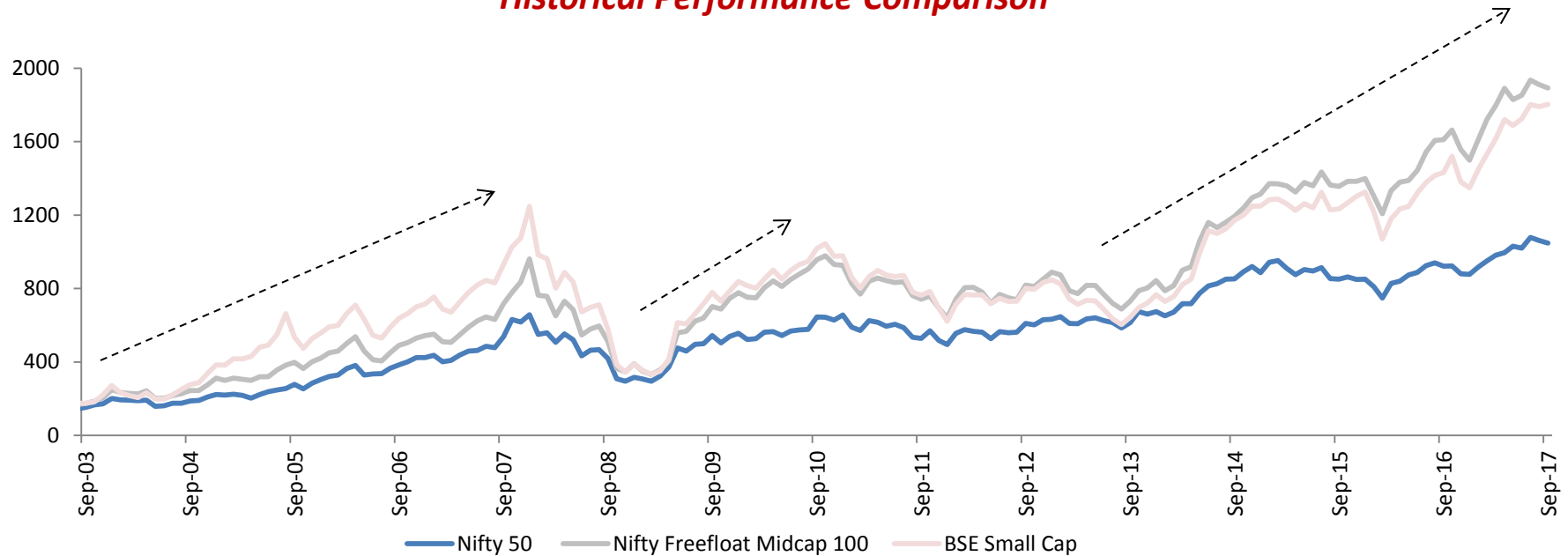
- Extensively researched
  - Moderate Growth
  - High Institutional Holding
- Under-Researched, Under-owned
  - High Growth
  - Demonstrated management history
- Most Difficult Category as many fail at pre-emergence stage
  - Business models not established
  - Massive Growth for survivors

- The sweet spot of the Indian markets is replete with investment ideas in the midcap & small cap space
- Midcaps & smallcap offer excellent balance between strong growth and a demonstrable history of management success

Source : Capitaline & Internal Analysis, Data as on Sep 30, 2017

# Outperformance of Midcaps & Smallcaps in Upcycles

## Historical Performance Comparison



Index	Phase 1			Phase 2			Phase 3		
	Apr 2003	Dec 2007	CAGR (%)	Sep 2008	Dec 2010	CAGR (%)	Sep 2013	Sep 2017	CAGR (%)
Nifty 50	934	6,139	50	3,921	6,135	43	5,735	9,789	14
Nifty Midcap 100	956	9,199	62	3,176	9,361	61	6,998	18,108	27
BSE Smallcap	893	11,135	72	2,959	9,331	67	5,749	16,114	29

Source: Bloomberg; Data as on September 30, 2017;

Note: Above numbers are price adjusted for inflation. The information herein is used for comparison purpose and is illustrative and is not sufficient and shouldn't be used for the development or implementation of an investment strategy. It should not be construed as investment advice to/by any party. Past performance may or may not be sustained in future

## Affordable housing

Focus of government  
on Housing for all by  
2020

## Unorganized to Organized

Implementation of  
GST and e-way bill

## Rural Economy

Focus of government  
on doubling of farm  
income

## Value Migration

Market share gains  
by NBFCs and private  
sector banks from  
PSU banks

- ☞ Motilal Oswal Group possesses legacy in equities for over 3 decades
- ☞ Motilal Oswal AMC is chaired by Mr. Raamdeo Agrawal, one of the most honored and trusted names in the investing world
- ☞ One of the pioneers of PMS business with over 15 years of PMS track record
- ☞ Trusted by over 39,672 HNI investors and with over Rs. 16,711 Crs of AUM as on 31<sup>st</sup> August 2018.
- ☞ Presence across the length and breadth of India

## Basic Traits of our Investing Style

- ☞ We invest in companies with operating leverage than financial leverage
- ☞ We do not believe in “timing the market”, rather we believe in “spending time in market”
- ☞ We do not over diversify
- ☞ The businesses we invest, must have growth potential with economic moat
- ☞ We practise long term Buy and Hold investing style



At Motilal Oswal Asset Management Company (MOAMC), our investment philosophy is centered on 'Buy Right: Sit Tight' principle.

## Buy Right

- **‘Q’uality** denotes quality of the business and management
- **‘G’rowth** denotes growth in earnings and sustained RoE
- **‘L’ongevity** denotes longevity of the competitive advantage or economic moat of the business
- **‘P’rice** denotes our approach of buying a good business for a fair price rather than buying a fair business for a good price

## Sit Tight

- **Buy and Hold:** We are strictly buy and hold investors and believe that picking the right business needs skill and holding onto these businesses to enable our investors to benefit from the entire growth cycle needs even more skill.
- **Focus:** Our portfolios are high conviction portfolios with 25 to 30 stocks being our ideal number. We believe in adequate diversification but over-diversification results in diluting returns for our investors and adding market risk

# Why 'Buy Right : Sit Tight' is significant?

Real wealth is created by riding out bulk of the growth curve of quality companies and not by trading in and out in response to buy, sell and hold recommendations.

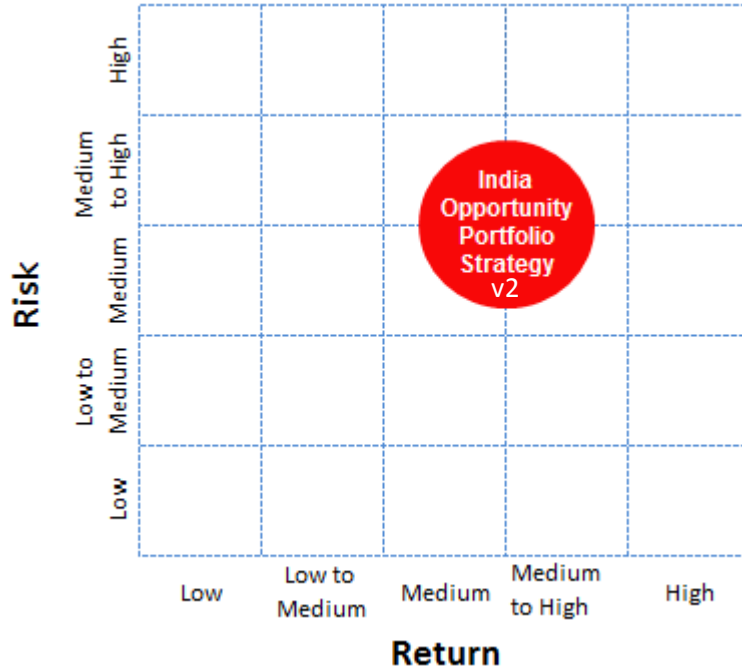
This philosophy enables investor and manager alike to keep focus on the businesses they are holding rather than get distracted by movements in share prices.

An approach of buying high quality stocks and holding them for a long term wealth creation motive, results in drastic reduction of costs for the end investor.

While **BUY RIGHT** is largely the role of the portfolio manager, **SIT TIGHT** calls for involvement from the portfolio manager as well as investor. This brings in greater accountability from the manager and at the same time calls for better involvement and understanding from investor resulting in better education for the latter.

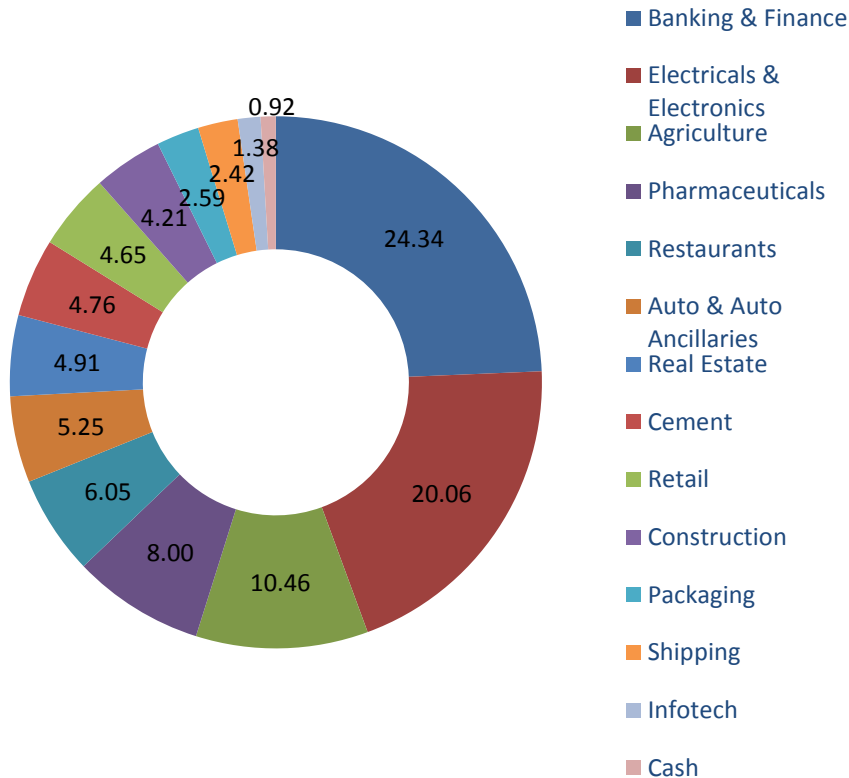
Long term multiplication of wealth is obtained only by holding on to the winners and deserting the losers.

## Strategy construct



- ▶ **No. of Stocks**
  - Around 25 stocks for a portfolio
- ▶ **Scrip Allocation**
  - Not more than 10% in a single stock when at the time of initiation
- ▶ **Sector Allocation Limit**
  - 35% in a sector
- ▶ **Strategy Objective**
  - It aims to deliver superior returns by participating in India Investment and consumption Growth Story
- ▶ **Strategy Focus**
  - Focus is on identifying well run companies that are existing/potential leaders in the field of operations
- ▶ **Investment Horizon**
  - Long Term (3 Years +)
- ▶ **For Whom**
  - Investors who like to invest with a Long-term wealth creation view

## Sector Allocations



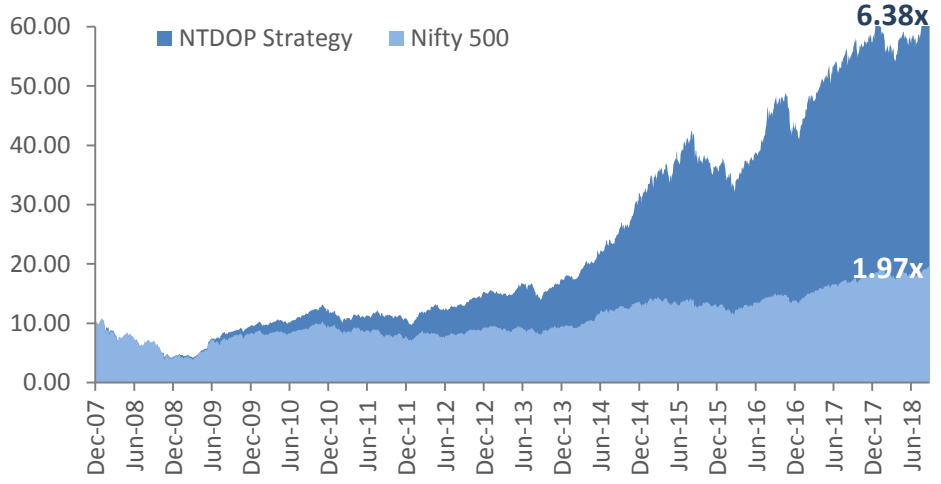
## Top 10 Holdings

Scrip Name	(%) of Market Value
HEG Ltd.	10.62
Gruh Finance Ltd.	8.05
Cholamandalam Investment And Finance Company Ltd.	7.86
Godrej Agrovet Ltd.	6.79
Ipca Lab Ltd.	6.69
Bajaj Electricals Ltd.	6.26
Coffee Day Enterprises Ltd.	6.05
Sundaram Fasteners Ltd.	5.25
Sobha Ltd.	4.91
Jk Lakshmi Cement Ltd.	4.76

Please Note: These stocks are a part of the existing India Opportunity Portfolio Strategy V2 as on 31<sup>st</sup> August 2018. These stocks may or may not be bought for new clients. Past performance may or may not be sustained in future and should not be used as a basis for comparison with other investments. The strategy may or may not have any future holdings in these stocks. The companies mentioned above are only for the purpose of explaining the concept and should not be construed as recommendations from MOAMC.

## Next Trillion Dollar Opportunity (NTDOP)

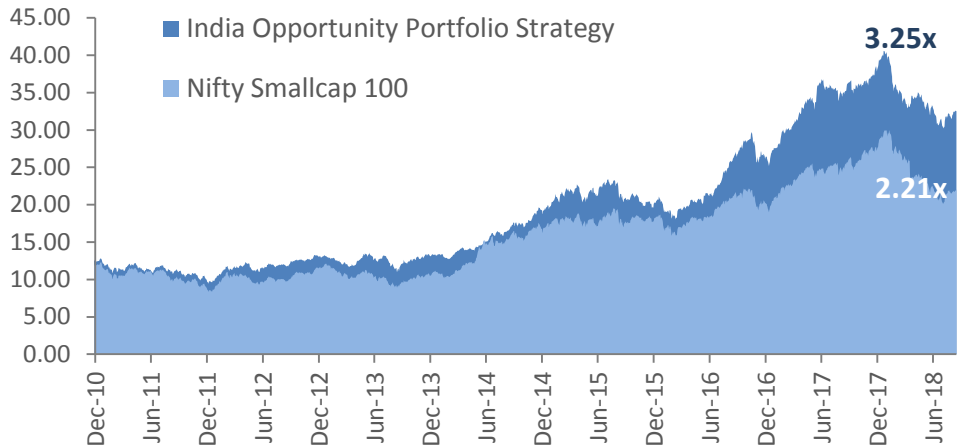
- 10 years track record
- Invests primarily in multi cap stocks with potential high growth
- Concentration on emerging themes which are part of the next trillion dollar GDP growth opportunity



Inception Date – 5<sup>th</sup> December, 2007

## India Opportunity Portfolio (IOP)

- 7 year track record
- Small and Mid Cap Portfolio
- Invests in stocks with potential to grow more than the nominal GDP for next 5-7 years
- Focus is on identifying well run companies that are potential leaders



Inception Date – 15<sup>th</sup> February 2010

The performance shown above is of a model client, performance of an individual client may be different, depending on the time of investment in the strategy  
Data as on August 31, 2018

## *Multibaggers across strategies...*

Stocks	Purchase Date	Purchase Price (INR)	Current Market Price (INR)*	Performance (%)	CAGR (Growth %)
<b>Next Trillion Dollar Opportunity Portfolio</b>					
Page Industries	Dec-07	456	34,417	7441%	49%
Bajaj Finance	Aug-10	63	2,857	4468%	60%
Eicher Motors	Aug-10	1174	28,060	2291%	48%
HPCL	Jun-14	98	254	159%	25%
Bosch	Dec-07	4864	21,990	352%	15%
<b>India Opportunity Portfolio</b>					
Mahanagar Gas	Aug-16	511	866	69%	29%
Aegis Logistics	Aug-16	123	221	79%	32%
Gabriel India	Aug-16	106	140	32%	14%

\* As on 31<sup>st</sup> Aug 2018

The stocks shown above are part of portfolios of model client. The Stocks mentioned above are used to explain the concept and is for illustration purpose only and should not used for development or implementation of an investment strategy. It should not be construed as investment advice to any party. The stocks may or may not be part of our portfolio/strategy/ schemes. Past performance may or may not be sustained in future



**Mr. Raamdeo Agrawal**

Chairman

- Raamdeo Agrawal is the Co-Founder and Joint Managing Director of Motilal Oswal Financial Services Limited (MOFSL).
- As Chairman of Motilal Oswal Asset Management Company, he has been instrumental in evolving the investment management philosophy and framework.
- He has also authored the Art of Wealth Creation, that compiles insights from 22 years of his Annual 'Wealth Creation Studies'.
- He is on the National Committee on Capital Markets of the Confederation of Indian Industry (CII), and is the recipient of "Rashtriya Samman Patra" awarded by the Government of India.
- Raamdeo Agrawal is an Associate of Institute of Chartered Accountants of India.

## Manish Sonthalia



- As one of the founding members of the MOAMC's business, Manish today heads the Managed Accounts business and is the Portfolio Manager for the firm's PMS Strategies and AIFs
- He has been with the Group for over 14 years.
- He has a cumulative 26 years of experience across equity fund management and research covering Indian equity markets.
- He holds a Bachelors Degree in Commerce (Hons) , Chartered Accountancy, Cost & Works Accountancy, Company Secretaries. He has also completed his Masters of Business Administration in Finance from IISWBM.

## Atul Mehra – Associate Fund Manager

- ☞ Mr Atul Mehra has over 10 years of experience as an investment professional
- ☞ He has been with Motilal Oswal for more than 5 years and prior to that he was with Edelweiss Capital for 5 years
- ☞ He did his graduation in BAF (Bachelor of commerce in accounting and finance) from HR College, Mumbai and post-graduation in commerce through MCOM (Masters in Commerce, Accountancy) from Mumbai University
- ☞ He is a CFA Charterholder from CFA Institute, Charlottesville, Virginia, USA.





<b>Mode of payment</b>	By Fund Transfer/Cheque and/or Stock Transfer
<b>Investment Horizon</b>	Long Term (3 Years +)
<b>Benchmark</b>	Nifty Smallcap 100
<b>Account Activation</b>	Next business day of Clearance of funds
<b>Portfolio Valuation</b>	Closing NSE market prices of the previous day
<b>Operations</b>	<ul style="list-style-type: none"><li>- Investments managed on individual basis</li><li>- Third party Custodian for funds and securities</li></ul>
<b>Reporting</b>	<ul style="list-style-type: none"><li>- Monthly Performance Statement</li><li>- Transaction, Holding &amp; Corporate Action Reports</li><li>- Annual CA certified statement of the Account</li></ul>
<b>Servicing</b>	<ul style="list-style-type: none"><li>- Dedicated Relationship Manager</li><li>- Web access for portfolio tracking</li></ul>

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**Portfolio Manager:** Motilal Oswal Asset Management Company Ltd. (MOAMC) | **SEBI Registration No. :** INP 00000670