

# MONTHLY Communique

MOTILAL OSWAL  
Asset Management

BUY RIGHT  
SIT TIGHT

January, 2017



Dear Investors and my advisor friends,

At the outset, I wish you a Very Happy and a Prosperous New Year.

The last couple of months has been eventful to say the least. Mr. Donald Trump winning presidential elections in the USA and the Prime Minister of India, Mr. Narendra Modi announcing withdrawal of legal tender status of Rs 500 and Rs 1000 currency notes were both unexpected. It is too early to comment on new policy dispensation in the USA and its impact. We do not find ourselves capable at this juncture to comment on possible policy implications. Whatever noises we have heard till now are hinting towards a huge impetus to domestic American economic growth and thrust on fiscal policy boosters for US economy. Large part of the concerns of the last few years has been around lack of growth in the world's largest economy and reliance of global growth on China. If the US economy is on economic boosters it can't spell bad news for global economic growth. I recently read somewhere that what politicians may say to win elections is not necessarily what they may do when they are in power. This is not meant to be a criticism; it is only meant to say that compunctions of the job and deeper insights into balancing politics and economics usually results in rounding the edges and pragmatism takes precedence over sharp policy turns.

In anticipation of expansionary fiscal policy the Fed seems to have decided to tighten monetary policy to balance inflationary pressures. There is a general belief that if interest rates are raised in the USA there will be huge withdrawals by FIIs from Indian markets. While interest rates hike reduces rate differential and reduces attractiveness for bond investors and some hedge fund strategies, for investors who are long term equity investors into India this is not going to matter. Also lets not forget the Indian equity market and foreign exposure in India is too small for them to need to withdraw from India if they want liquidity to invest back in the USA. India is 2% of world market capitalization and USA is nearly 40% of world market capitalization. In the last 10 years there are four instances where foreigners have sold in India in response to some trigger emanating out of developed markets but never for a sole reason related to Indian markets. When the dust settled they bought back more than they had sold, our markets reacted sharply and we were left on the sidelines watching. This happened as recently as December 2015 – February 2016 when foreigners were selling in response to a feared slowdown in Chinese GDP. In a span of 4-5 months Nifty declined from 8,900 to 6,700 only to bounce back to 8,900 by September 2016. Bottomline, FIIs sell for their set of reasons and buy for their set of reasons; do not react to their moves. In 1991 when FIIs first started investing in India, the market cap was Rs 2 lac crores and FII holding was Zero, today we are over 100 lac crores market cap and FII holdings are nearly 25% of the market. (data source: www.moneycontrol.com; Bloomberg)

Now, coming to the event closer to home, the demonetization. As is the popular pre-occupation with a lot many commentators and pundits; within less than 24 hours of the announcement from the PM of India; most of them started doling out views and recommendations like consumption will get finished, banks will benefit, bonds will rally one-way, RBI will cut rates etc etc. Since the time the announcement was made at 9 pm on November 8th, 2016 from that point onwards almost every week the stated objective of the move has been defined and redefined, at last count the RBI has come up with over 35-40 notifications, provisions of the Income Tax Act have been modified and we are seeing a dynamic situation evolve. Its best to acknowledge that we are in the midst of an evolving situation. Some of the conclusions on winners and losers have been drawn up too early in the day and we are already witnessing some of them busted. Contrary to expectation of banks benefiting, it is now understood that lakhs of crores of deposits with banks for which interest needs to be paid and that too amidst lack of avenues of credit disbursal and diversion of attention from NPA recovery, possibility of higher NPAs from MSME segments etc. could result in detracting from banking sector performance rather than enhancing it. Consumption on the other hand has discretionary and non-discretionary spends – cash driven vs. electronic, bank financed vs. self-funded – all types of mix to consumption. Whatever consumption is held up only due to lack of cash or whatever part of consumption depends on financing from banks may eventually bounce back. Benefit of declining interest rates and liquidity flush in the

(Continued overleaf)

system could eventually give a sharp boost to some forms of consumption. That part of consumption which is impacted due to wealth destruction would take some time to recoup but one must note that wealth destruction for some has resulted in wealth re-distribution into the hands of others. Also, note that while redistribution is benefiting weaker sections of economic participants, the very same segments are being hurt by loss of income on account of loss of industrial production. There are arguments to both sides and drawing any conclusion at the current juncture is fraught with risk. In the meanwhile, I'd like to believe the market has more or less factored the damage. Nifty at 18PE and about 60,00,000 crs market capitalization has lost nearly 10% value. A very simplistic back of envelope calculation says that from 18 times forward PE if Nifty has declined to about 16 times forward PE the market has wiped out nearly 1.5-2 years of earnings expectations. While market has declined 10%, many companies have declined by 20-30% and hence a lot of the bad news seems to be priced in with market bracing for more. (data source: www.nseindia.com)

Having said so I for one am very excited with the developments because whatever has happened is causing a distinct tailwind for capital market businesses like broking, mutual funds, insurance etc. Let me explain.

Till a few years back the biggest competition to capital market investing was the Government itself. I distinctly remember when I started working ~1997-98, the RBI used to issue Government of India Relief Bonds which paid investors 11% tax free and of course risk free. If the sovereign pays 11% risk free and tax free, frankly there is no case for anyone to take risk and venture into capital markets. Over the years with a series of reform measures and developments in the economy we now find ourselves in a situation where the risk free rate is closer to 6% and there is pretty much nothing called tax free.

At recent client meets I have been seeking out the youngest person in the room and whenever I find someone below 30 years of age I ask them if they had heard of GoI Relief Bonds and that fact that it was possible to fetch 11% risk free and tax free. I also ask them what is the first number that comes to mind when you hear "interest rate", "home loan rate", "deposit rates" etc etc. For one generation of people interest rates meant 10-12% and nowadays interest rate means 7-8% and most people don't yet realize we are in general way below that range. The latest home loan rates are around 9.1% for 20 years.

Apart from this massive decline in interest rates the other development that excites me about capital markets is that suddenly its not so cool to invest in or for that matter hoard real estate and gold as has been the practice for most Indians!!!

So net-net with interest rates dropping, real estate and gold under pressure and the push towards digital and cashless, these are exciting times for capital market products like bonds, equities, portfolio management services and mutual funds. These trends were already in progress – what with the equity mutual fund industry having crossed 1.20 cr SIP accounts contributing Rs 3,884 crs a month of fixed inflow into equity mutual funds. And this is rising at nearly 4-6 lac new accounts a month. No wonder domestic institutions have been able to buy consistently as FIIs have sold over the last 30-45 days. Whatever has happened since the announcement of demonetization has only accentuated these trends and added tailwinds to the movement! Hopefully this "movement" will translate into a much required "movement" – that of Indians owning more of Indian equities – something that has been on a worryingly declining trend for most of the last two decades. While I am excited, I am surprised no one as yet has identified this as a key agenda or as a key benefit (as an afterthought at least!!!) of the great demonetization of 2016!

Happy investing...and may you live in "interesting" times as the famous Chinese proverb goes!

Yours Sincerely,  
Aashish P Somaiyaa  
Managing Director and CEO

# Value Strategy

## Strategy Objective

The Strategy aims to benefit from the long term compounding effect on investments done in good businesses, run by great business managers for superior wealth creation.

## Investment Strategy

- Value based stock selection
- Investment Approach: Buy & Hold
- Investments with Long term perspective
- Maximize post tax return due to Low Churn

## Details

Fund Manager : Manish Sonthalia  
 Co-fund Manager : Kunal Jadhvani  
 Strategy Type : Open ended  
 Date of Inception : 24th March 2003  
 Benchmark : Nifty 50 Index  
 Investment Horizon : 3 Years +  
 Subscription : Daily  
 Redemption : Daily  
 Valuation Point : Daily

## Top Sectors

Sector Allocation	% Allocation*
Banking & Finance	27.87
Auto & Auto Ancillaries	26.98
Oil and Gas	9.73
Pharmaceuticals	7.86
FMCG	6.68
Infotech	6.03
Alcoholic Beverages and Distilleries	5.03
Cash	0.25

Data as on 31<sup>st</sup> December 2016

\*Above 5% & Cash

## Top 10 Holdings

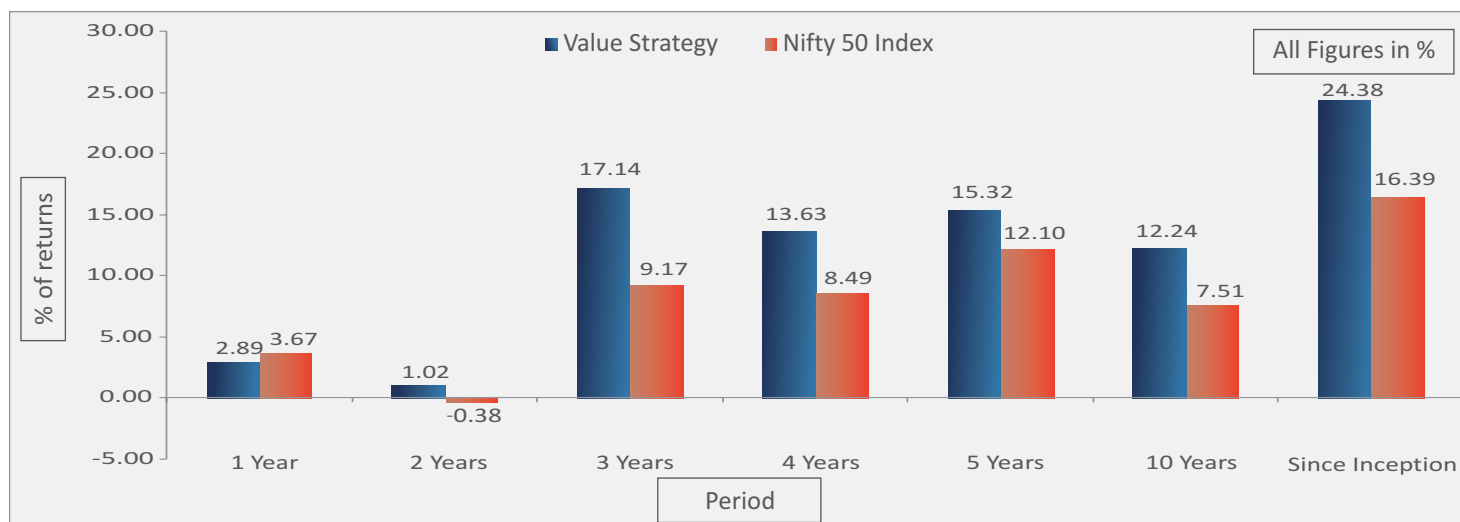
Particulars	% Allocation
Bharat Petroleum Corporation Ltd.	9.73
Bosch Ltd.	9.09
HDFC Bank	8.66
Sun Pharmaceuticals Ltd.	7.86
Kotak Mahindra Bank Ltd.	7.77
Eicher Motors Ltd.	7.70
Asian Paints Ltd.	6.68
State Bank Of India	6.33
Tata Consultancy Services Ltd.	6.03
Hero Motocorp Ltd.	5.14

Data as on 31<sup>st</sup> December 2016

## Key Portfolio Analysis

Performance Data	Value Strategy	Nifty 50
Standard Deviation (%)	21.39%	23.73%
Beta	0.82	1.00

Data as on 31<sup>st</sup> December 2016



The Above strategy returns are of a Model Client. Returns of individual clients may differ depending on factors such as time of entry/exit/ additional inflows in the strategy. The Above returns are calculated on NAV basis and are based on the closing market prices as on 31<sup>st</sup> December 2016. Past performance may or may not be sustained in future. Returns above 1 year are annualized. Please refer to the disclosure document for further information.

# Next Trillion Dollar Opportunity Strategy

## Strategy Objective

The Strategy aims to deliver superior returns by investing in stocks from sectors that can benefit from the Next Trillion Dollar GDP growth.

It aims to predominantly invest in Small and Mid Cap stocks with a focus on identifying potential winners that would participate in successive phases of GDP growth.

## Investment Strategy

- Stocks with Reasonable Valuation
- Concentration on Emerging Themes
- Buy & Hold Strategy

## Details

Fund Manager	: Manish Sonthalia
Strategy Type	: Open ended
Date of Inception	: 11th December 2007
Benchmark	: Nifty Free Float Midcap 100 Index
Investment Horizon	: 3 Years +
Subscription	: Daily
Redemption	: Daily
Valuation Point	: Daily

## Top Sectors

Sector Allocation	% Allocation*
Banking & Finance	26.90
Oil and Gas	17.49
Auto & Auto Ancillaries	16.06
FMCG	14.53
Diversified	6.01
Pharmaceuticals	5.01
Cash	4.57

Data as on 31<sup>st</sup> December 2016

\*Above 5% & Cash

## Top 10 Holdings

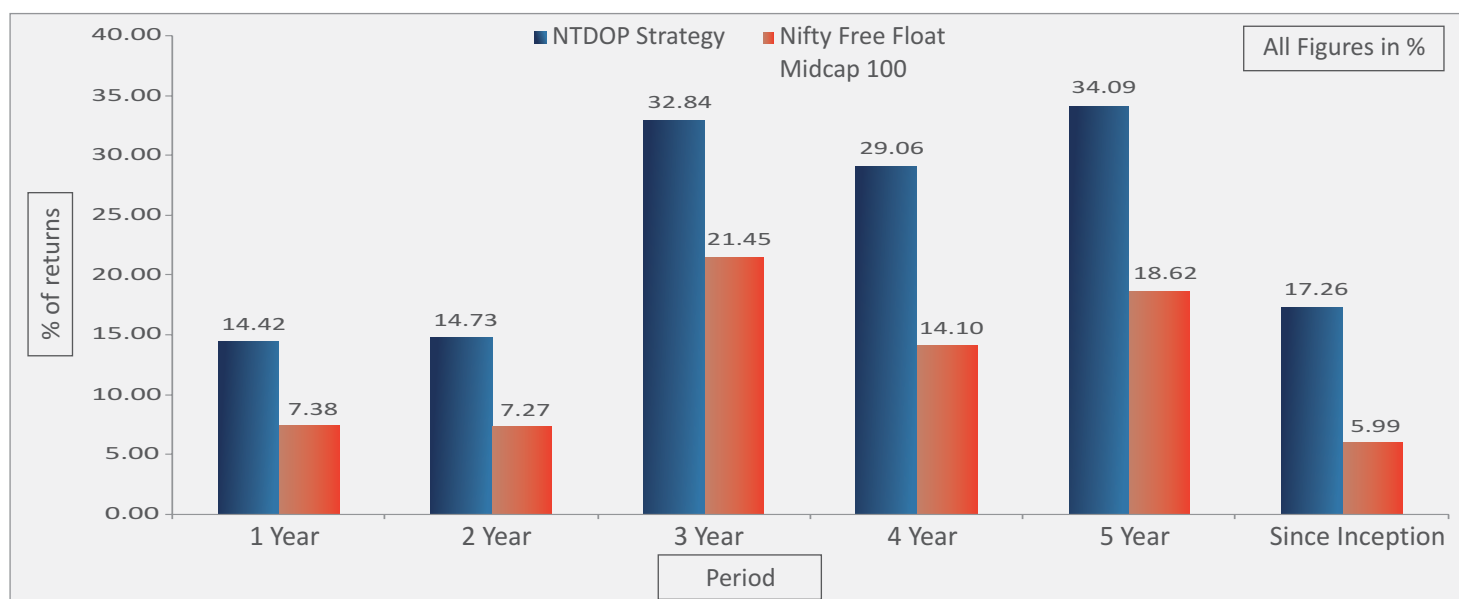
Particulars	% Allocation
Hindustan Petroleum Corporation Ltd.	15.60
Bajaj Finance Ltd.	10.02
Page Industries Ltd.	7.38
Eicher Motors Ltd.	6.83
Bosch Ltd.	6.76
Max Financial Services Ltd.	6.57
Voltas Ltd.	6.01
City Union Bank Ltd.	4.11
Cummins India Ltd.	3.52
L&T Technology Services Ltd.	3.02

Data as on 31<sup>st</sup> December 2016

## Key Portfolio Analysis

Performance Data	NTDOP	Nifty Free Float Midcap 100
Standard Deviation (%)	18.62%	22.72%
Beta	0.71	1.00

Data as on 31<sup>st</sup> December 2016



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# India Opportunity Portfolio Strategy

## Strategy Objective

The Strategy aims to generate long term capital appreciation by creating a focused portfolio of high growth stocks having the potential to grow more than the nominal GDP for next 5-7 years across market capitalization and which are available at reasonable market prices.

## Investment Strategy

- Buy Growth Stocks across Market capitalization which have the potential to grow at 1.5 times the nominal GDP for next 5-7 years.
- BUY & HOLD strategy, leading to low to medium churn thereby enhancing post-tax returns

## Details

Fund Manager : Varun Goel  
 Co-Fund Manager : Kunal Jadhvani  
 Strategy Type : Open ended  
 Date of Inception : 11th Feb. 2010  
 Benchmark : BSE 200 and BSE 500  
 Investment Horizon : 3 Years +  
 Subscription : Daily  
 Redemption : Daily  
 Valuation Point : Daily

## Top Sectors

Sector Allocation	% Allocation*
Banking & Finance	24.98
Cement & Infrastructure	15.08
Pharmaceuticals	14.63
Oil and Gas	12.24
Consumer Durable	12.12
Auto & Auto Ancillaries	9.65
Services	7.15
Cash	0.23

Data as on 31<sup>st</sup> December 2016

\*Above 5% & Cash

## Top 10 Holdings

Particulars	% Allocation
Birla Corporation Ltd.	11.23
Development Credit Bank Ltd.	10.48
Canfin Home Ltd.	9.65
Ttk Prestige Ltd.	7.29
Quess Corp Ltd.	7.15
Aegis Logistics Ltd.	6.70
Ajanta Pharma Ltd.	6.35
Gabriel India Ltd.	6.21
Mahanagar Gas Ltd.	5.54
Dr Lal Pathlabs Ltd.	5.18

Data as on 31<sup>st</sup> December 2016

## Key Portfolio Analysis

Performance Data	IOPS	BSE 200
Standard Deviation (%)	15.60%	15.95%
Beta	0.84	1.00

Data as on 31<sup>st</sup> December 2016



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