

# Your key to

## India's Next Trillion Dollar of GDP Growth



**MOST**  
**NEXT**  
Trillion Dollar  
Opportunity Strategy

December 2017



India's Next Trillion Dollar Opportunity (NTDOP)



Small and Mid Cap (SMID) Market Opportunity

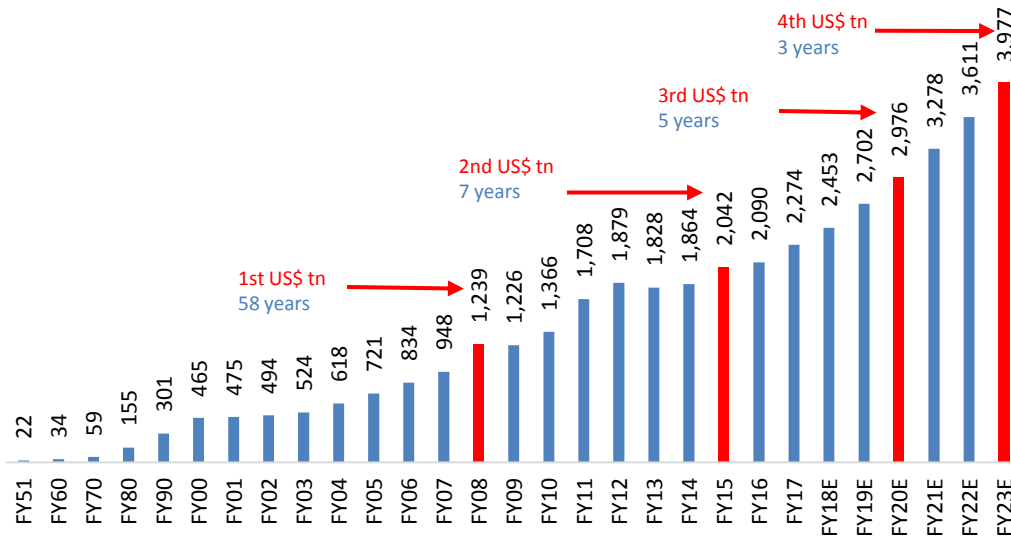


Why Motilal Oswal PMS?



NTDOP Strategy details

# Trillion Dollar GDP



Source: statisticstimes.com

| Contributors In GDP | FY77 | FY87 | FY97 | FY12 | FY15 | FY16 |
|---------------------|------|------|------|------|------|------|
| Agriculture         | 37%  | 31%  | 26%  | 16%  | 17%  | 17%  |
| Industry            | 25%  | 26%  | 28%  | 31%  | 30%  | 29%  |
| Services            | 36%  | 42%  | 46%  | 53%  | 53%  | 54%  |

Source: statisticstimes.com

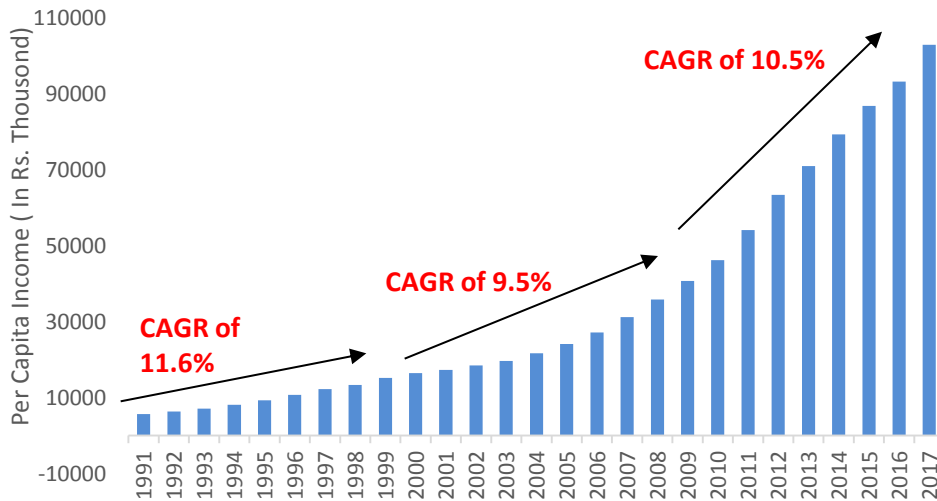
Above forward-looking graphs/statements are based on external current views and assumptions and involve known and unknown risks and uncertainties that could cause actual results. Past performance may or may not be sustained in future and should not be used as a basis for comparison with other investments.

- India has joined the club of countries with a Trillion Dollar GDP in FY08
- It took our GDP almost 60 years to reach 1<sup>st</sup> US \$ trillion; but only 7 years to reach the 2<sup>nd</sup> US \$ trillion.
- GDP is expected to reach next US \$ trillions in faster successions.
- Overall robust service sector enabled by strong GDP growth
- Service sector driven by rapid productivity improvement is expected to lead future GDP growth
- Due to sustained growth in consumer income, manufacturing sector to be a key growth driver
- Dependency on agriculture is expected to reduce as witnessed in developed countries
- Higher contribution of service sector in GDP would reduce the volatility in GDP growth

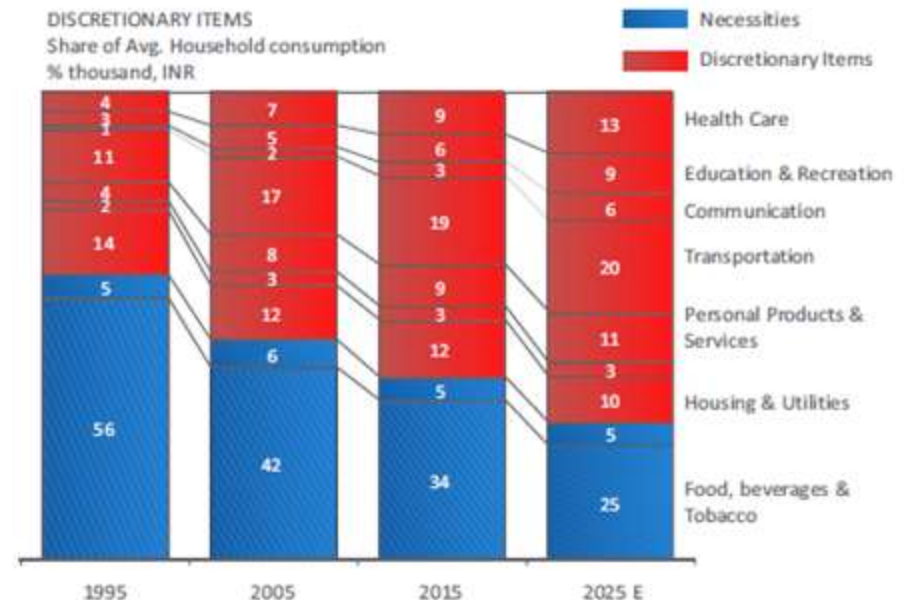
# Rising discretionary spending

Discretionary spending is expected to increase disproportionately going forward

Discretionary spending will rise from 52% in 2005 to 70% in 2025



Past performance may or may not be sustained in future and should not be used as a basis for comparison with other investments.



Above forward-looking graphs/statements are based on external current views and assumptions and involve known and unknown risks and uncertainties that could cause actual results.

- Per capita GDP has grown to Rs. 103,007 in 2017 from Rs. 31,206 in 2007
- Higher per capita GDP to increase disposable income

# Some themes that benefit from GDP growth

## Consumption

- Increasing consumer spending
- Retailing
- Consumer durables
- Passenger Vehicles
- Utility Services

## Banking and Financial Services

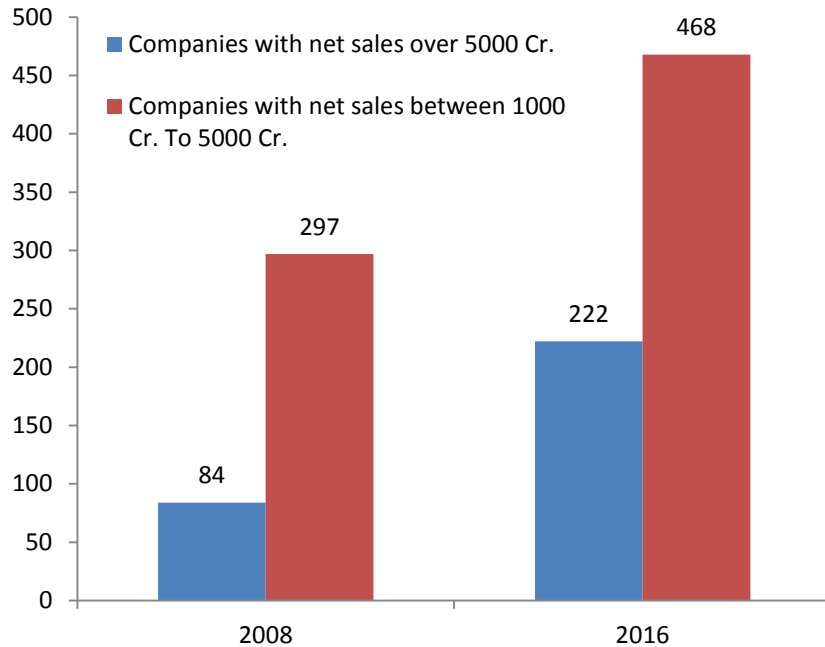
- Beneficiary from high GDP growth and savings rate
- Banks
- Broking
- Insurance
- NBFCs

## Infrastructure and Related Services

- Benefit from Government Spending
- Power
- Cement
- Capital Goods
- Construction
- Real Estate
- Engineering

These are illustrative in nature and can change from time to time based on the outlook of the portfolio manager.

# The Small And Mid Cap opportunity



- Companies with net sales over Rs. 5000 Crs. have increased by ~4 times from 2008 to 2016
- Companies with net sales of Rs. 1000 Crs. to Rs. 5000 Crs. have increased by ~2 times from 2008 to 2016

| Market Capitalization | Number of Companies |             |
|-----------------------|---------------------|-------------|
|                       | 2008                | 2017        |
| <1000 Cr.             | 2579                | 3174        |
| 1000 Cr. - 5000 Cr.   | 185                 | 449         |
| 5000 Cr. - 10000 Cr.  | 37                  | 132         |
| >10000 Cr.            | 53                  | 241         |
| <b>Total</b>          | <b>2854</b>         | <b>3996</b> |

- Small and Mid Cap companies of 2008 have transformed into today's Large Cap companies
- The number of Large Cap companies (> Rs. 10000 Crs.) has almost quadrupled since 2008

Source : Capitaline

# Markets return as much as growth in earnings

**21-years CAGR of Sensex at 10% is exactly the same as 21-years Sensex EPS CAGR!**

|        | Sensex | YoY  | Sensex<br>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%  |

|        | Sensex | YoY  | Sensex<br>EPS | YoY |
|--------|--------|------|---------------|-----|
| Mar-07 | 13072  | 16%  | 720           | 33% |
| Mar-08 | 15644  | 20%  | 833           | 16% |
| Mar-09 | 9709   | -38% | 820           | -2% |
| Mar-10 | 17523  | 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% |
| StdDev |        | 32%  |               | 14% |
| CAGR   | 10%    |      | 10%           |     |

Source: Motilal Oswal Securities, MOAMC Internal Analysis | Data as on 31<sup>st</sup> March 2016

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.



# Characteristics of Mid cap market



Larger stock universe



Relatively under owned and under-researched companies



Fewer business lines and focused businesses



Attractive valuation as compared to large caps

# Why Motilal Oswal PMS?

Amongst India's leading PMS providers, with Assets under Management of approx Rs. 14,619 Crores and trusted by over 31,534 HNI investors

NTDOP Strategy has consistently outperformed the benchmark across market cycles over last 10 years.

Overall PMS track record of over 14 years since its inception in 2003.

Data as on 30<sup>th</sup> November 2017

Investments in Securities are subject to market and other risks and there is no assurance or guarantee that the objectives of any of the strategies of the Portfolio Management Services (PMS) will be achieved. Investors in the PMS Product are not being offered any guaranteed/assured returns. Past performance of the portfolio manager does not indicate the future performance for any of the strategies.

# Our investment philosophy – ‘Buy Right : Sit Tight’

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

## Buy Right

### QGLP

- **‘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 20 to 25 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.

# Wealth Creators - Buy and Hold strategy

| Stock                | Purchase Date | Adjusted Purchase Price | Market Rate as on | % Growth |
|----------------------|---------------|-------------------------|-------------------|----------|
|                      |               |                         | 30-Nov-17         |          |
| Page Industries Ltd. | Dec-07        | 456                     | 22,349            | 4797%    |
| Bajaj Finance Ltd.   | Aug-10        | 63                      | 1,727             | 2662%    |
| Eicher Motors Ltd.   | Aug-10        | 1174                    | 29,944            | 2451%    |
| Emami Ltd.           | Oct-12        | 292                     | 1,311             | 349%     |
| HPCL                 | Jun-14        | 98                      | 417               | 325%     |
| Bosch Ltd.           | Dec-07        | 4864                    | 20,334            | 318%     |

- BUY & HOLD strategy, leading low churn, lower costs and enhanced returns
- A business is prudently picked for investment after a thorough study of its underlying hidden long-term potential.
- “We don't get paid for activity, just for being right. As to how long we'll wait, we'll wait indefinitely.”-Warren Buffett

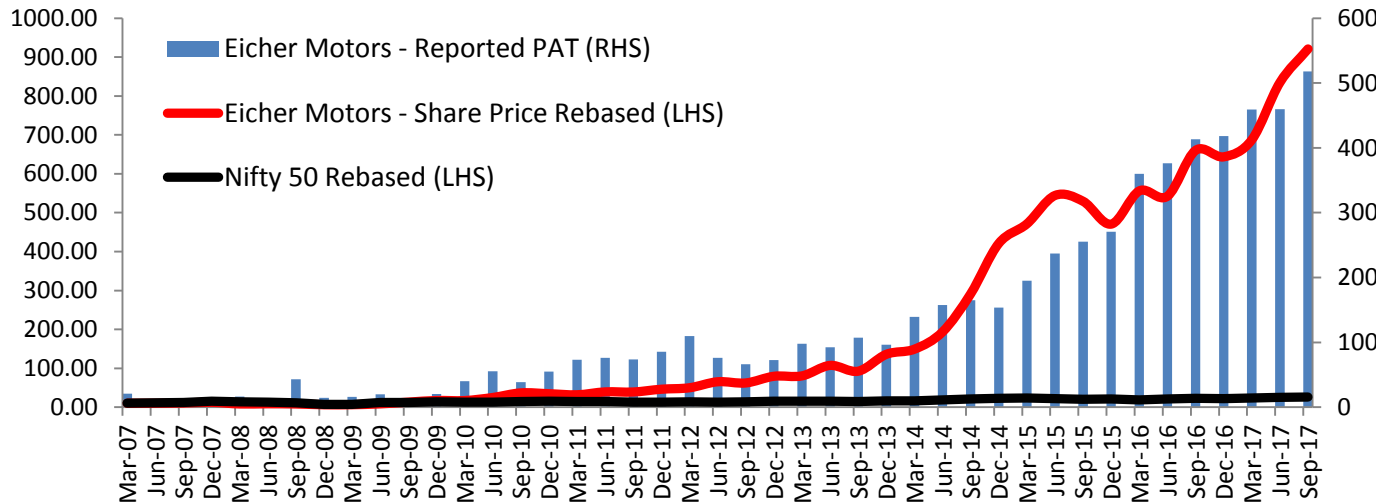
The average holding period of scrips currently held under the Strategy is over 4 years and 9 months

| No. of Scrips | Holding Period         |
|---------------|------------------------|
| 2             | Since Inception        |
| 10            | >5 Years               |
| 5             | > 2 Years but <5 Years |
| 7             | <2 Years               |

Source: MOAMC Internal Analysis

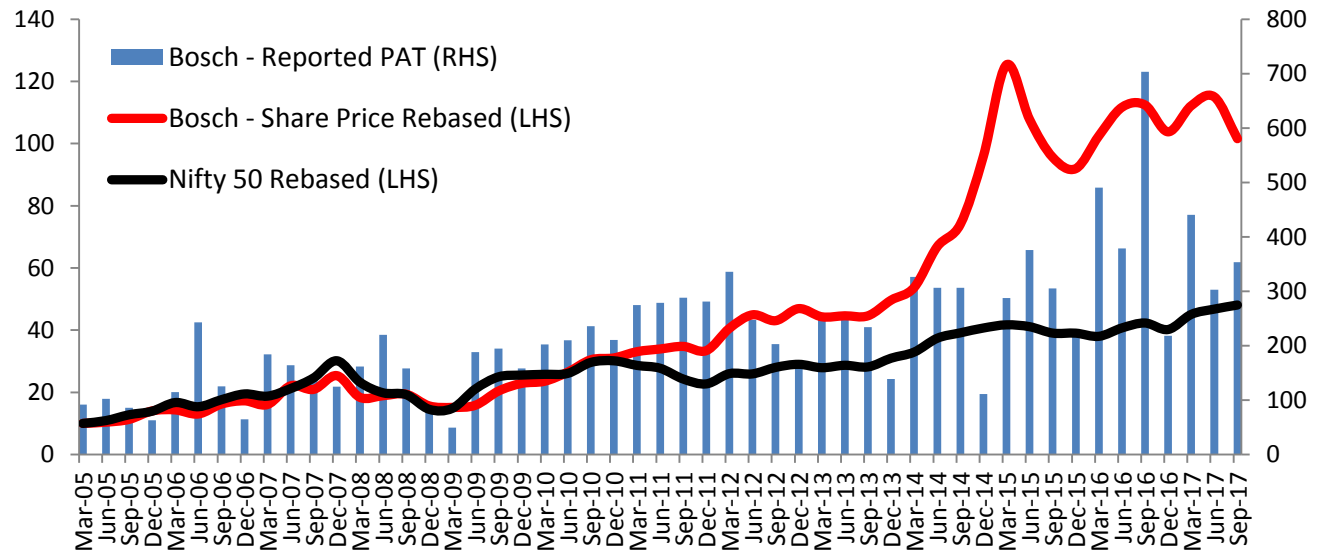
Please Note: The given stocks are part of portfolio of a model client of NTDOP Strategy as on 30<sup>th</sup> November 2017. The stocks forming part of the existing portfolio under NTDOP Strategy may or may not be bought for new client. Past performance may or may not be sustained in future and should not be used as a basis for comparison with other investments. Name of the PMS Strategy does not in any manner indicate its future prospects and returns. The Company mentioned above is only for the purpose of explaining the concept and should not be construed as recommendations from MOAMC.

# Earnings growth drives stock prices



**PAT Growth: 36%;**  
**Stock Price: 54%;**  
**Nifty 50: 10%**

**PAT Growth: 11%;**  
**Stock Price: 20%;**  
**Nifty 50: 13%**



Data as on 30<sup>th</sup> September, 2017

The stocks mentioned above are used to explain the concept and is for illustration purpose only and should not be used for development or implementation of an investment strategy. It should not be construed as an investment advice to any party. Past performance may or may not be sustained in future.

## Focus on return on net worth

- Companies which are likely to earn 20-25 % on its net worth going forward.

## Margin of safety

- To purchase a piece of great business at a fraction of its true value.

## Focus on Next Trillion Dollar GDP growth

- The focus is on buying companies that will benefit out of the Next Trillion Dollar GDP growth.
- Buying stable earnings / cash flows in reasonably priced assets

## Long-term investment view

- Strongly believe that “Money is made by investing for the long term”

## Bottom up approach

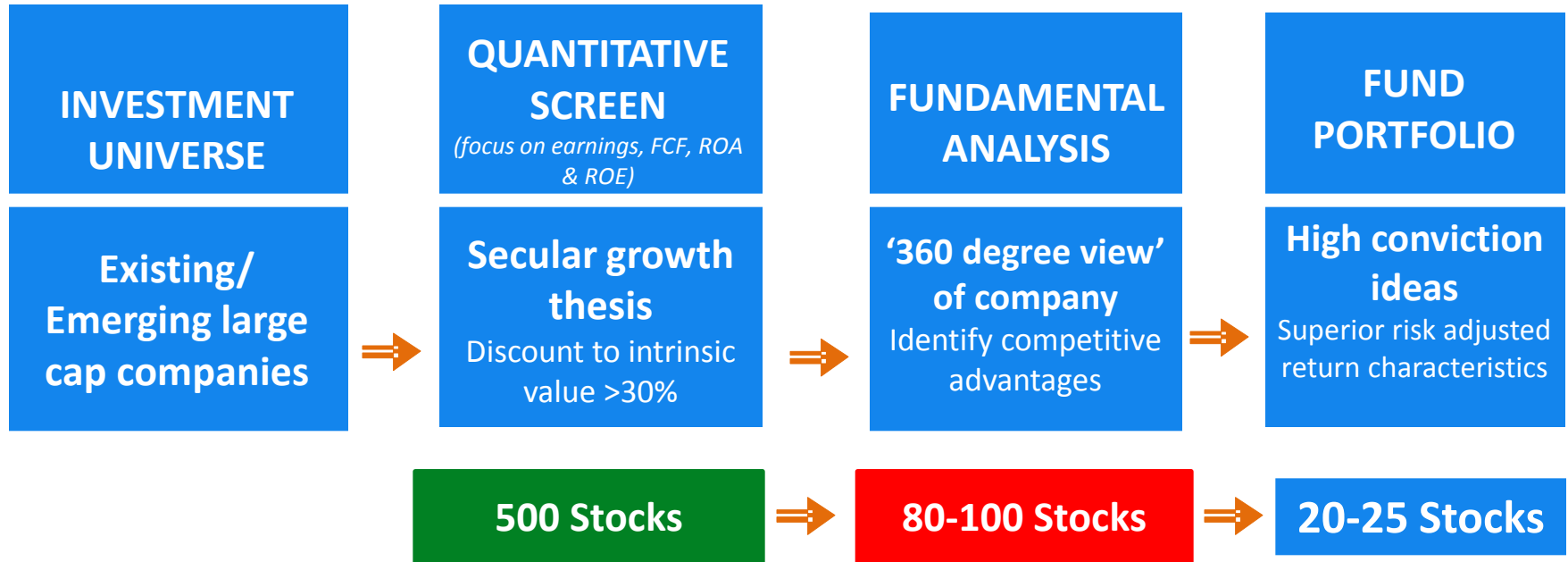
- To identify potential long-term wealth creators by focusing on individual companies and their management bandwidth.

## Focused strategy construct

- The portfolio consists of 20-25 stocks

# Rigorous investment process

Top Down analysis: market views, thematic drivers, winner categories, category winners





# Next Trillion Dollar Opportunity Strategy



Strategy objective



Risk- Return matrix



Strategy construct



Model Holding



Performance



Risk analysis



Fund management



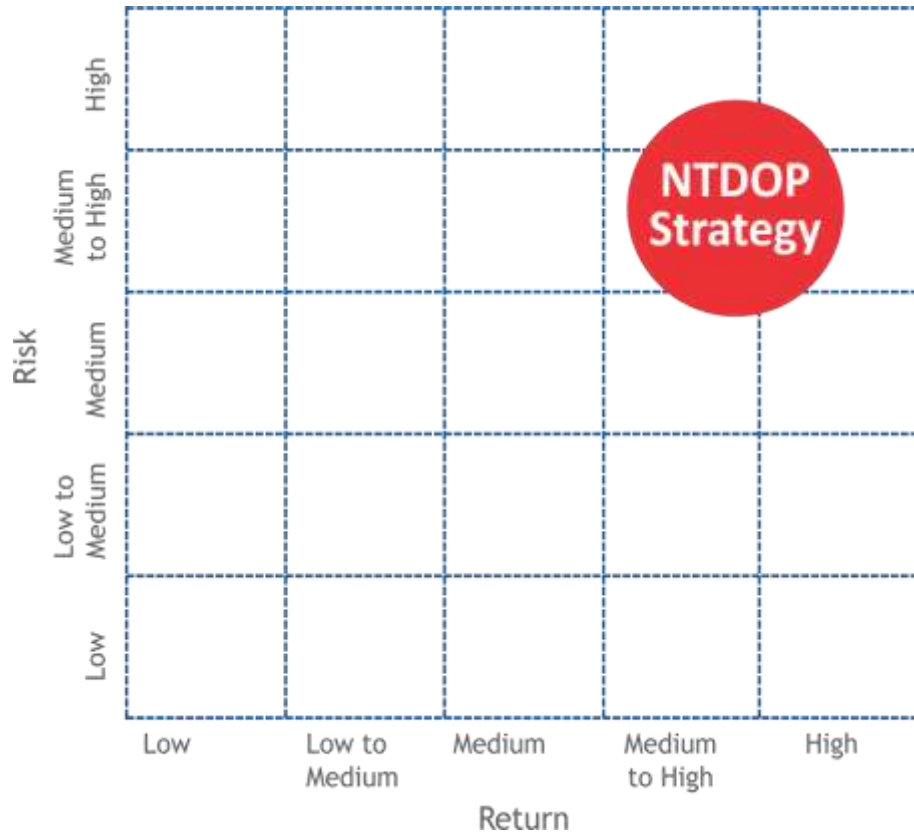
Strategy structure

# 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

# Risk-Return matrix & strategy construct



## Investment horizon:

- Medium to long term (3 Years +)

## For Whom:

- Investors who like to invest with a long-term wealth creation view.

## Strategy Construct

### Market capitalization

- Maximum market cap at the time of buying new idea is 30000 Cr.

### No. of stocks

- 20 to 25 stocks for a portfolio

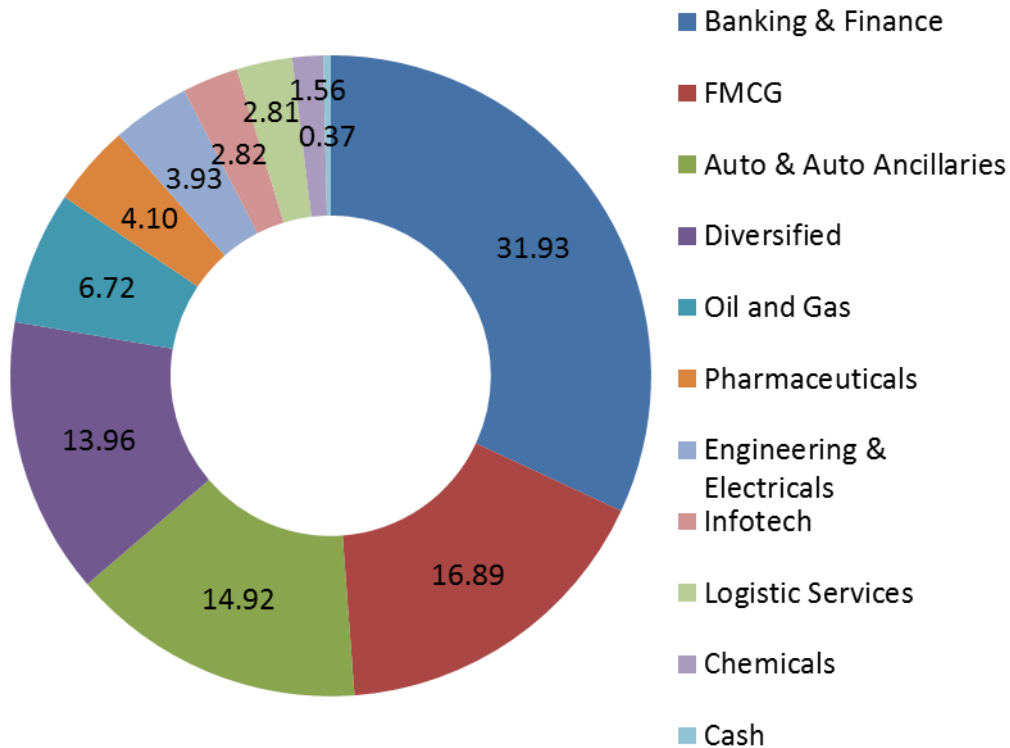
### Scrip allocation

- Not more than 10% in a single stock at the time of initiation

### Sector allocation limit

- 35% in a sector

## Sector Allocations



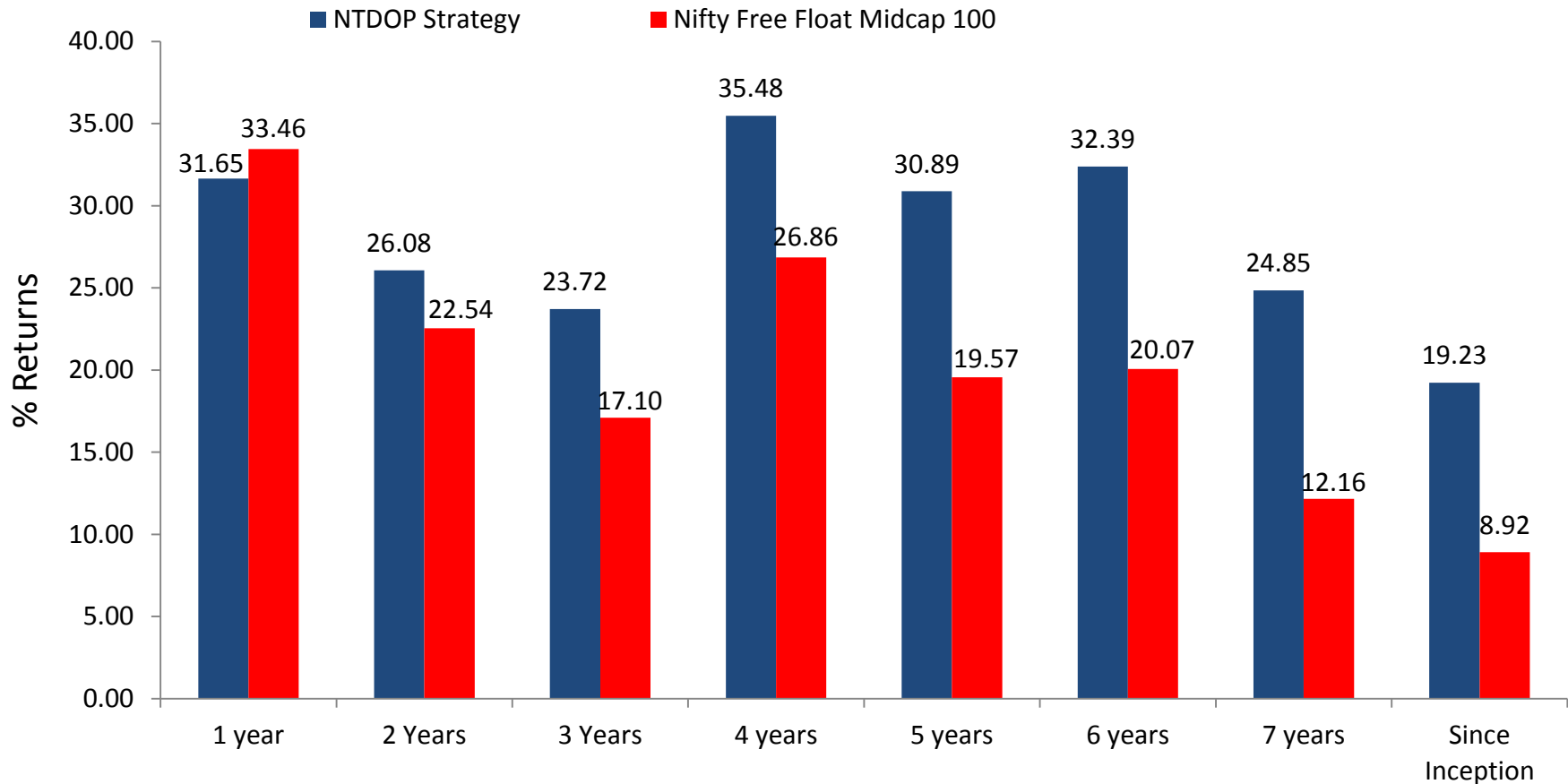
## Top 10 Holdings

| Scrip Names                          | % Holdings |
|--------------------------------------|------------|
| Kotak Mahindra Bank Ltd.             | 10.47      |
| Voltas Ltd.                          | 9.97       |
| Page Industries Ltd.                 | 8.85       |
| Bajaj Finance Ltd.                   | 8.44       |
| Eicher Motors Ltd.                   | 6.50       |
| Max Financial Services Ltd           | 4.76       |
| Bosch Ltd.                           | 4.63       |
| Hindustan Petroleum Corporation Ltd. | 4.26       |
| City Union Bank Ltd.                 | 4.26       |
| Godrej Industries Ltd.               | 3.99       |

Please Note: These stocks are a part of the existing NTDOP Strategy as on 30<sup>th</sup> November 2017. 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 present or 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.

# Performance snapshot

Since Inception NTDOP has delivered 19.23% returns vs Nifty Free Float Midcap 100 Index returns of 8.92% delivering an alpha of 10.31%

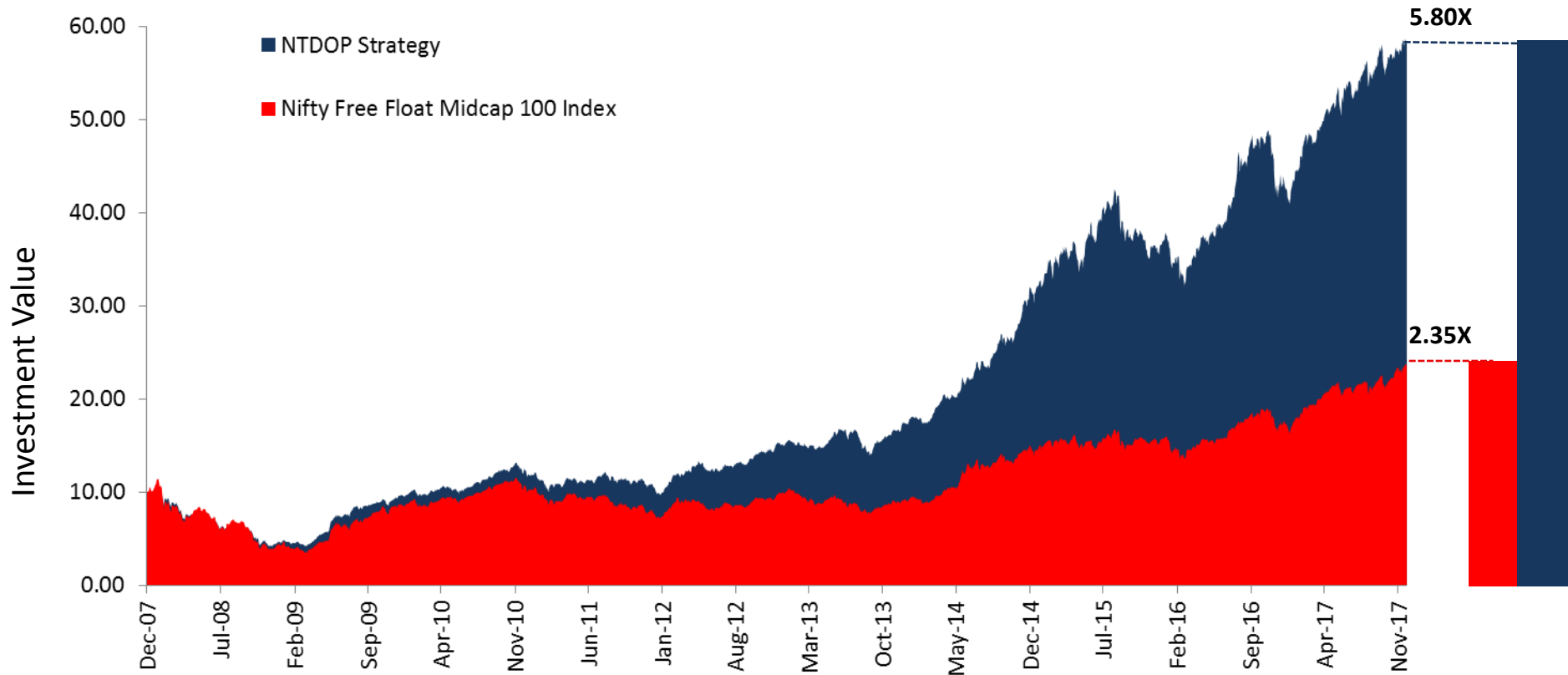


\*Strategy Inception Date: 11/12/2007.

Please Note: The Above strategy returns are of a Model Client as on 30<sup>th</sup> November 2017. Returns of individual clients 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 a basis for comparison with other investments. Returns below 1 year are absolute and above 1 year are annualized. Strategy returns shown above are post fees & expenses.

# Performance since inception

The chart below illustrates Rs. 1 crore invested in NTDOP Strategy in December 2007 is worth Rs. 5.80 cr as on 30<sup>th</sup> November 2017. For the same period Rs. 1 crore invested in Nifty Free Float Midcap 100 Index is now worth Rs. 2.35 cr.

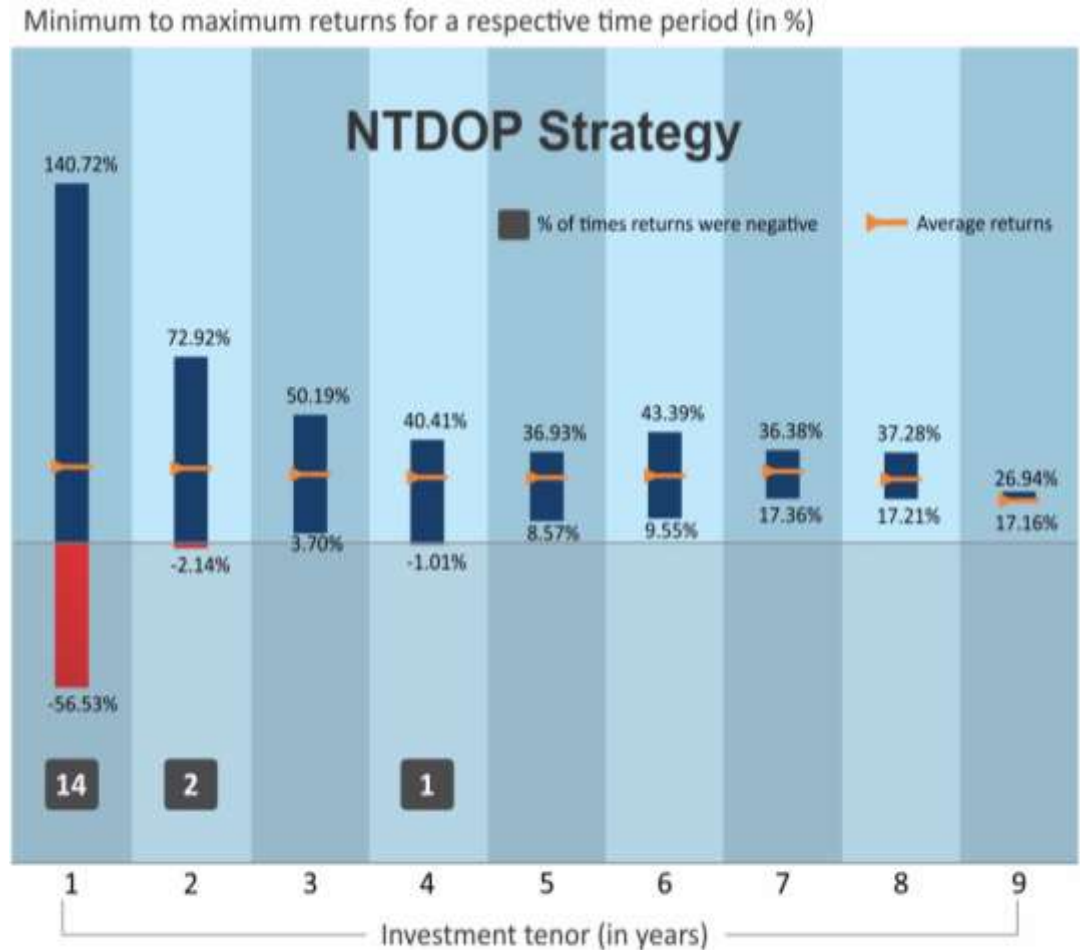


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# Rolling Returns Performance

- ▶ The data shows rolling returns of the NTDOP Strategy over various time frames.
- ▶ It is worth noting that on 1 year rolling basis, the returns are in a very wide range. The best return made by the Strategy is 141% and the worst return is -56%.
- ▶ As we increase the time horizon, the outcomes narrow significantly from the average.
- ▶ For instance, if we consider the 5 year time frame, historically the best return (CAGR) is 37%, least return is 8% and average return is 26%.
- ▶ It may also be noteworthy that the negative returns above 2 years rolling periods are zero, barring 4 years rolling returns which is only 1%.



Total number of time periods: 1year: 3,116; 2years: 2,752; 3years: 2,387; 4years: 2,022; 5years: 1,656; 6years: 1,291; 7years: 926; 8years: 561; 9years: 206;

Source: MOAMC Research | Data as on 30<sup>th</sup> September, 2017

Please Note: The Above strategy returns are of a Model Client as on 30<sup>th</sup> September 2017. Returns of individual clients 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 a basis for comparison with other investments. Strategy returns shown above are post fees & expenses. Returns above 1 year are annualized.

# Risk analysis

The NTDOP strategy has outperformed the benchmark with a lower level of volatility and has managed to deliver strong returns while offering defensive characteristics, reducing losses during periods of market downturn but participating in the upside.

| 5 Years Data       | Portfolio | Benchmark* |
|--------------------|-----------|------------|
| Beta               | 0.89      | 1.00       |
| R <sup>2</sup>     | 78.14     | 100.00     |
| Up Capture Ratio   | 116.20    | 100.00     |
| Down Capture Ratio | 65.99     | 100.00     |
| Sharpe Ratio       | 1.10      | 0.60       |
| Standard Deviation | 17.81     | 17.24      |

**Source : Motilal Oswal AMC, Data as on 30/09/2017, returns annualized using model strategy**

**\*Nifty Free Float Midcap 100 Index**

The data and analysis provided herein do not constitute investment advice and are provided only for informational purposes. It should not be construed as an offer or the solicitation of an offer, to buy or sell securities. Past performance may or may not be sustained in future.





**Mr. Raamdeo Agrawal**

Chairman

- ▶ Mr. Raamdeo Agrawal is the Co-founder, Joint Managing Director of Motilal Oswal Financial Services Limited and Chairman of Motilal Oswal Asset Management Company Ltd.
- ▶ He is the brain behind the “QGLP” (Quality Growth Longevity & favorable Price) investment Process and its ‘Buy Right, Sit Tight’ investing philosophy.
- ▶ He is also the driving force behind the MOFSL Groups highly awarded research. He has been authoring the annual Motilal Oswal Wealth Creation Study since its inception in 1996.
- ▶ He is an Associate of Institute of Chartered Accountant of India and a member of the National Committee on Capital Markets of the Confederation of Indian Industry.
- ▶ He has also authored the book “The Art of Wealth Creation” which compiles insights from 21 “Wealth Creation Studies”.
- ▶ He has been awarded the Rashtriya Samman Patra by Central Board of Direct Taxes for a consistent track record of highest integrity in tax payments for a period of 5 years.



**Mr. Manish Sonthalia**

Fund Manager

- Mr. Manish Sonthalia heads the Equity Portfolio Management Services at Motilal Oswal Asset Management Company Ltd. He also, serves as the Chief Investment Officer and the Director of the Motilal Oswal India Fund
- He has over 22 years of experience across equity fund management and research covering Indian markets and has been with Motilal Oswal for over 11 years.
- He holds a Bachelor Degree in Commerce (Hons), ICWAI, CS, MBA-Finance, FCA
- He has authored a paper 'A Rising Consumer Class' on Indian markets, published by the Global World Economic Forum in year 2010.
- He is frequently interviewed by leading Media channels in India as well as globally. He has contributed various articles on Finance and Capital Markets in various Journals.

# Strategy structure

|                            |  |
|----------------------------|--|
| <b>Mode of payment</b>     | By fund transfer/cheque and/or stock transfer  |
| <b>Investment Horizon</b>  | Medium to long term (3 Years +)  |
| <b>Benchmark</b>           | Nifty Free Float Midcap 100 Index  |
| <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 and 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 000000670

**THINK EQUITY**  
**THINK MOTILAL OSWAL**

**MOTILAL OSWAL**  
Asset Management  
**PORTFOLIO STRATEGY**

**BUY RIGHT**  
**SIT TIGHT**