



**Our Mantra for Wealth Creation**



Over the years, Motilal Oswal Group has conducted various Wealth Creation Studies. These studies and our passion for equity investing have helped us hone a unique and focused investing process that can be summarised in 4 letters - '**QGLP**'.

Where; '**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 and '**P**'rice denotes our approach of buying a good business for a fair price rather than buying a fair business for a good price. QGLP has helped us identify many multibaggers in our portfolios as can be seen in the performance of our PMS schemes



for QUALITY



for GROWTH



for LONGEVITY



for PRICE

Let's look at each of these characteristics in a bit more detail



# QUALITY

Quality of a business/company is reflected in its ability to derive superior returns on capital invested while treating stakeholders in a consistently fair way. This ability should be deep-rooted and hence sustainable.

Quality itself can be characterized into two dimensions - 'Quality Business' and 'Quality Management'

## 1. Quality Business

- A Quality Business is one with a sustained competitive advantage measured by high return ratios, in absolute terms and/or relative to peers. Some good examples of these characteristics can be seen in stocks like HDFC Bank and TCS.
- A Quality Business also has Industry leadership position. Like Bosch India which is the undisputed leader in Fuel Injection System for medium/heavy commercial vehicles and tractors.
- In addition, Quality Businesses typically have a favorable industry structure i.e. they operate in a monopoly, duopoly or oligopoly. Good examples of such industries are Asian Paints and United Spirits.
- Quality is found in secular and stable businesses; preferably consumer facing. A good example of such a business is Colgate which has been present in oral care as an established consumer category for many years.
- Another characteristic of a Quality Business is limited use of leverage on the balance sheet.

## 2. Quality Management

- Quality Management is one which has competence and can be seen in the industry leading margins they command. Infosys and Sun Pharma are good examples of this.
- Quality Management is also characterized by a rational capital allocation policy. A good example is Hero Honda, given its focused investment in core business and high dividend payouts.
- Quality Management believes in rewarding its shareholders with regular dividend. Companies like Colgate and Page Industries are examples.
- Quality Management thinks innovatively in terms of their company's products, processes and selling approach. For example, the management of Pidilite has successfully created new segments/markets through innovation.
- Quality Management is honest and trustworthy. It is also transparent in its dealings and provides adequate disclosures. Infosys is one of the foremost example here.

## GROWTH

Most Investors look for growth while selecting companies for investing. However, growth by itself doesn't mean much. It adds value only when the company earns Return on Capital higher than its Cost of Capital. Hence, Growth is simply an amplifier: good when return exceeds cost of capital, bad when return is below cost of capital, and neutral when return equals cost of capital. Higher growth adds value for high return businesses and detracts value for low return businesses.

Growth can be identified with the following characteristics:

- Is the company in a growing, large and addressable market? P&G in the consumer goods space and Page Industries in the innerwear category are not only in large and growing categories; they also have the products to address various needs of their markets.
- Is the company gaining market share? Sun Pharma and Amara Raja Batteries are good examples here.
- There are various margin growth levers in the company's operations that can help identify growth. For example, Bata's growth in margins happened due to continuous reduction in its employee costs.
- And lastly, the growth should preferably be in a profitable segment. IndusInd Bank is a good example of growth in the profitable private banking space.

## LONGEVITY

The final driver of franchise value is the sustainability of excess return by companies. Over time, economic forces tend to drive down return on invested capital to cost of capital. Hence, a central task for an investor is to assess how long a company earning above its cost of capital can continue to find productive investment opportunities. Stock prices often reflect 10-20 years of value-creating cash flows. Competitive strategy analysis is particularly useful in this effort.

- Longevity can be identified in the long competitive advantage period that a company has. For example, Power Grid Corporation and Container Corporation have a long period of competitive advantage before competition can catch up.
- Longevity can also be seen in understanding growth potential for 10-15 years. For example, the low penetration of the spirits market and United Spirits' critical mass gives a good indicator of the longevity of its growth.

## PRICE

Price of a stock has to be seen in conjunction with Value it offers. Price is what we pay, value is what we get. Therefore, stocks are attractive only when they are priced less than the value perceived in the stock.

Pricing can be evaluated by the following characteristics:

- Discount to historical P/E(Price-Earnings) trading band
- P/B (Price-to-Book) discount
- PEG (Price-Earnings to Growth) ratio
- DCF (Discounted Cash Flow)
- Replacement Value Discount
- Popular/Unpopular idea
- Payback ratio
- Dividend yield.

This is just a short introduction to the concept of QGLP. It has many interesting permutations and combinations. The principles however remain the same. Wealth can be created if QGLP is practiced sincerely, along with the focus and discipline of patience over the years.

It is a process practiced by investing oracles. All Motilal Oswal AMC's offerings, be it Portfolio Management Services or Mutual Funds, practice this process. So go ahead, practice QGLP... and create wealth. And if you do not have the expertise or time to diligently practice this unique wealth creating mantra, all you need to do is invest in any equity fund or strategy by Motilal Oswal AMC.

Happy Investing



for QUALITY



for GROWTH



for LONGEVITY



for PRICE

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