

MOTILAL OSWAL
Asset Management

**THINK EQUITY
THINK Q.G.L.P.**

CONTEST



30-year manthan, 1 mantra: QGLP

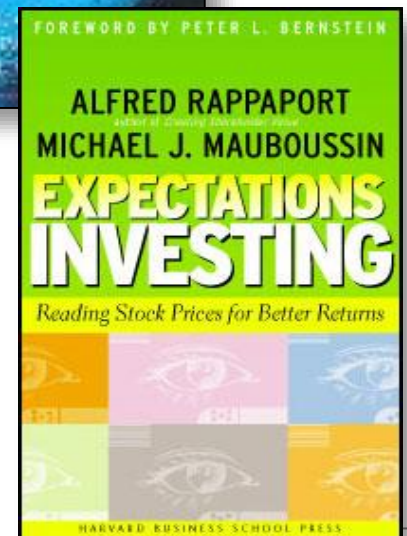
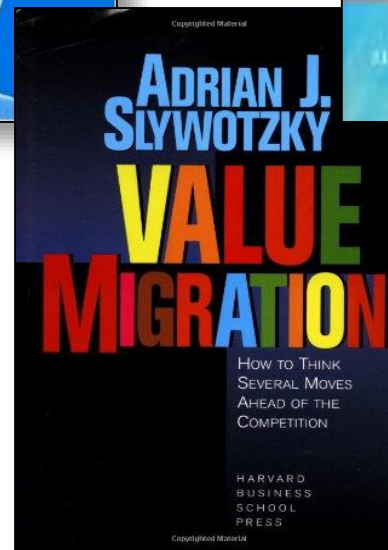
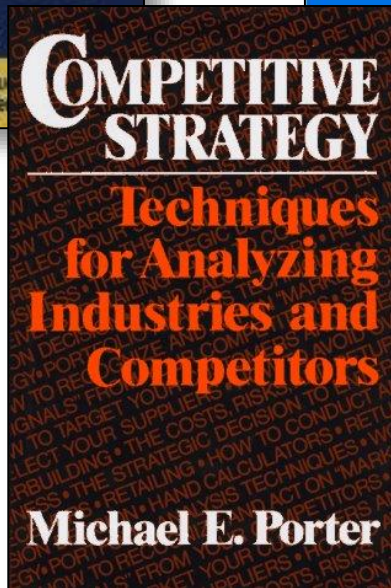
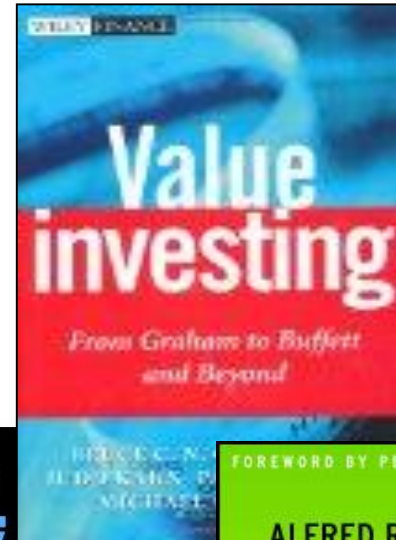
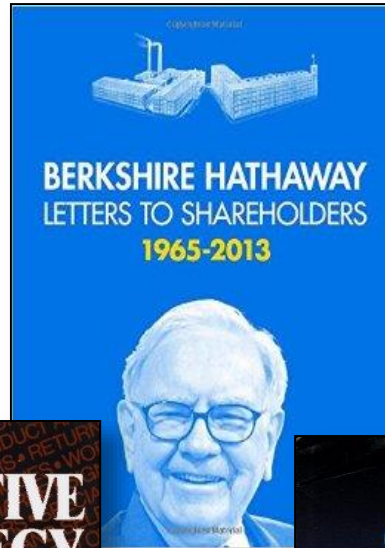
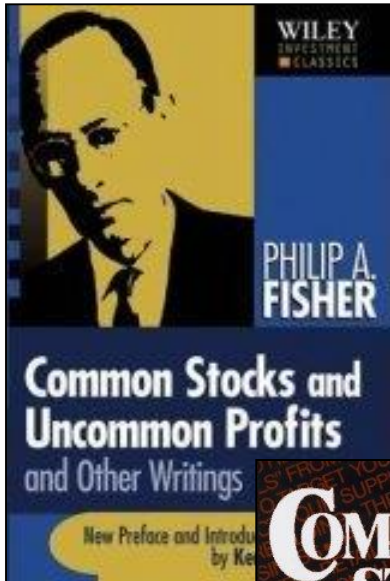
Think Equity Think QGLP Contest 2018 : Backdrop

For more details & clarifications, email thinkQGLP@motilaloswal.com

The manthan (churn)

The *manthan* – Knowledge churn

Wide-range of readings on business & investing



The manthan – Knowledge churn

MOTILAL OSWAL
Asset Management

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CONTEST

Rich learnings from 22 years of Wealth Creation Studies

Inquire
INDIAN EQUITY RESEARCH

A Study on Wealth Creation

19th Dec 2008

| Inquire Rank | FATTEST | CAGR % of adjusted wealth (P1 to P8) | Rank based on size | BIGGEST | Amount of Wealth Created |
|--------------|-------------------|--------------------------------------|--------------------|----------------|--------------------------|
| 1 | Dr Reddy's Labs | 98.0 | 1 | Kind Leaver | 1932.2 |
| 2 | Vijaya Bank | 98.3 | 2 | SB | 729.4 |
| 3 | TVS Sural | 97.7 | 3 | Tata | 704.0 |
| 4 | United Phosphates | 89.0 | 4 | ITC | 378.0 |
| 5 | Coronet Hotels | 85.7 | 5 | State Bank | 462.0 |
| 6 | Hindustan Zinc | 79.9 | 6 | Wipro | 435.0 |
| 7 | Indian Hotels | 79.8 | 7 | Sahara Hotels | 214.4 |
| 8 | H D F C | 76.9 | 8 | Tata Chemicals | 211.2 |
| 9 | Telangana House | 72.6 | 9 | Reliance Ltd | 270.2 |
| 10 | Excel Packaging | 71.6 | 10 | Cadila | 239.5 |

Conclusions:

- ▶ Wealth Creating companies have a substantially high ROE and ROCE.
- ▶ A high correlation is seen between ROE and PE for the Wealth Creation group - luxury 100.
- ▶ Mid cap stocks have a propensity to create wealth faster as compared to the benchmark blue chips.
- ▶ Companies located in the core sector from Wealth Creation.
- ▶ Division of capital goes to the core sector from Wealth Creation.

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INDIAN EQUITY RESEARCH

A Study on Wealth Creation 1995 - 2000

13th Dec 2008

The Biggest ...

| Rank | Company | Market Cap (Rs. Crore) | Amount of Wealth Created (Rs. Crore) |
|------|---------------------|------------------------|--------------------------------------|
| 1 | Wipro | 10000.0 | 10000.0 |
| 2 | Infosys | 8000.0 | 8000.0 |
| 3 | Reliance | 4000.0 | 4000.0 |
| 4 | Tata | 3000.0 | 3000.0 |
| 5 | State Bank of India | 2000.0 | 2000.0 |
| 6 | Reliance Industries | 1000.0 | 1000.0 |
| 7 | ITC | 1000.0 | 1000.0 |
| 8 | Wipro | 1000.0 | 1000.0 |
| 9 | Wipro | 1000.0 | 1000.0 |
| 10 | Wipro | 1000.0 | 1000.0 |

The Fastest ...

| Rank | Company | Market Cap (Rs. Crore) | Amount of Wealth Created (Rs. Crore) |
|------|---------------------|------------------------|--------------------------------------|
| 1 | Wipro | 10000.0 | 10000.0 |
| 2 | Infosys | 8000.0 | 8000.0 |
| 3 | Reliance | 4000.0 | 4000.0 |
| 4 | Tata | 3000.0 | 3000.0 |
| 5 | State Bank of India | 2000.0 | 2000.0 |
| 6 | Reliance Industries | 1000.0 | 1000.0 |
| 7 | ITC | 1000.0 | 1000.0 |
| 8 | Wipro | 1000.0 | 1000.0 |
| 9 | Wipro | 1000.0 | 1000.0 |
| 10 | Wipro | 1000.0 | 1000.0 |

Conclusions:

- ▶ Accelerated growth in New Economy companies combined with faster recognition of business by stock markets have led to disproportionate returns in a short period.
- ▶ In an inflationary phase, investment focus on price of the share rather than price of the company.
- ▶ 80% of the wealth created by multi-baggers has been due to P/E increase.
- ▶ High growth business, which is run by an outstanding management and purchased with a one year pre-book outlook of P/E, has a good chance of being a big winner.

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12TH ANNUAL WEALTH CREATION STUDY

BY RAMDEO AGRAWAL

Thematic Study | 13 December 2007

TOP 10 WEALTH CREATORS (2002 - 2007)

| Rank | Company | Market Cap (Rs. Crore) | 5-Year CAGR (%) | 5-Year Price Appreciation (%) | 15-Year Price Appreciation (%) |
|------|---------------------|------------------------|-----------------|-------------------------------|--------------------------------|
| 1 | Reliance Inds | 12000 | 217 | 110 | 14 |
| 2 | ONGC | 1400 | 100 | 240 | 17 |
| 3 | Infosys | 1300 | 100 | 100 | 17 |
| 4 | Wipro | 1200 | 100 | 100 | 17 |
| 5 | ITC | 800 | 100 | 100 | 17 |
| 6 | State Bank of India | 1000 | 100 | 100 | 17 |
| 7 | Wipro | 1000 | 100 | 100 | 17 |
| 8 | Wipro | 1000 | 100 | 100 | 17 |
| 9 | Wipro | 1000 | 100 | 100 | 17 |
| 10 | Wipro | 1000 | 100 | 100 | 17 |

Conclusions:

- ▶ Margins are found when markets are tilted to large business opportunity, positive changes or sustained growth, stocks are guaranteed when one grows overnight.
- ▶ Stock market reaction (short term) will be directly related to corporate profit, and boom in earnings & momentum.
- ▶ At a crucial juncture, margin of safety in the market is low. However, very high liquidity can result in rich returns of value for capital sent some time.

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Great Good Guesse

13TH ANNUAL WEALTH CREATION STUDY (2002 - 2008)

Thematic Study | 17 December 2008

TOP 10 WEALTH CREATORS (2003 - 2008)

| Rank | Company | Market Cap (Rs. Crore) | 5-Year CAGR (%) | 5-Year Price Appreciation (%) | 15-Year Price Appreciation (%) |
|------|---------------------|------------------------|-----------------|-------------------------------|--------------------------------|
| 1 | Reliance Inds | 12000 | 217 | 110 | 14 |
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| 10 | Wipro | 1000 | 100 | 100 | 17 |

Conclusions:

- ▶ Understanding of Great Good Guesse companies is critical to investment success.
- ▶ Clear time to buy Great Good Guesse (particular brand) at reasonable price, as interest rates are likely to remain low for quite some time.
- ▶ Customers companies are best avoided.
- ▶ Market is likely to see a sector churn - dominance of commodities will probably give way to users of commodities.
- ▶ Corporate profit boom of last five years is likely to continue. However, we have probably seen the market bottom of last five years & volatility is possible.

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15TH ANNUAL WEALTH CREATION STUDY (2005-2010)

UU Investing

Creating wealth from the unknown and unknowable

Thematic Study | 14 December 2010

TOP 10 WEALTH CREATORS (2005 - 2010)

| Rank | Company | Market Cap (Rs. Crore) | 5-Year CAGR (%) | 5-Year Price Appreciation (%) | 15-Year Price Appreciation (%) |
|------|---------------------|------------------------|-----------------|-------------------------------|--------------------------------|
| 1 | Reliance Inds | 12000 | 217 | 110 | 14 |
| 2 | ONGC | 1400 | 100 | 240 | 17 |
| 3 | Infosys | 1300 | 100 | 100 | 17 |
| 4 | Wipro | 1200 | 100 | 100 | 17 |
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| 7 | Wipro | 1000 | 100 | 100 | 17 |
| 8 | Wipro | 1000 | 100 | 100 | 17 |
| 9 | Wipro | 1000 | 100 | 100 | 17 |
| 10 | Wipro | 1000 | 100 | 100 | 17 |

Conclusions:

- ▶ UU investing after appropriate research, has been the preferred way for investment in the market.
- ▶ High growth rate remains the most reliable indicator of future wealth creation.
- ▶ 15% - 20% return on investment through 2005 - 2010 has been up my UU investing approach in the market.

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14TH ANNUAL WEALTH CREATION STUDY (2004-2009)

Winner Categories

Category Winner

Thematic Study | 17 December 2009

Conclusions:

- ▶ Blue chip are backbone of dividend, and offer an overall, if not more, growth potential than lower quality companies, but with less risk.
- ▶ In investing, there is a profitable substitute for quality. Understanding quality of the business, ability to pay profit and profitability, is not added to dividend growth and longevity.
- ▶ Most Blue Chip enjoy strong valuation, in trading when they buy, and dividend yield and P/E, also consider growth rate, relative to market, and earnings growth potential.
- ▶ In India, only top 20 Blue Chip have significantly outperformed benchmark index like Sensex Index.

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16TH ANNUAL WEALTH CREATION STUDY (2006-2011)

Blue Chip Investing

Creating wealth from dividends

Thematic Study | 1 December 2011

Conclusions:

- ▶ Economic Moat protects profits and profitability of companies from competitors.
- ▶ Extended CAP (competitive advantage period) of Economic Moat Companies (EMC) leads to superior levels of profits and stock returns.
- ▶ Over 2002-2011, EMCs in India have outperformed benchmark indices.
- ▶ Break of Economic Moat causes wealth destruction.
- ▶ Breaks are poised to reach new highs in the next 12 months.

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17TH ANNUAL WEALTH CREATION STUDY (2007-2012)

Economic Moat

Fountainhead of Wealth Creation

Thematic Study | 12 December 2012

Conclusions:

- ▶ Economic Moat protects profits and profitability of companies from competitors.
- ▶ Extended CAP (competitive advantage period) of Economic Moat Companies (EMC) leads to superior levels of profits and stock returns.
- ▶ Over 2002-2011, EMCs in India have outperformed benchmark indices.
- ▶ Break of Economic Moat causes wealth destruction.
- ▶ Breaks are poised to reach new highs in the next 12 months.

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18TH ANNUAL WEALTH CREATION STUDY (2008-2013)

Uncommon Profits

Emergence & Endurance

Thematic Study | December 2013

Conclusions:

- ▶ Succession Profits in companies - Uncommon Wealth Creation in stock markets.
- ▶ Successful Emergence of Value Creation is very rare, a strong corporate focus on a sustainable business significantly increases the probability.
- ▶ Endurance of Value Creation is mainly threatened by disruptive technological changes, major regulatory changes, and capital substitution.
- ▶ State-owned companies have become marginalized in Wealth Creation with their share slipping from 55% in 2007 to 1% in 2013.
- ▶ The next 5 to 10 years will witness the old-regime expansion is favorable for long term investing.

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19TH ANNUAL WEALTH CREATION STUDY (2009-2014)

100x

The power of growth in Wealth Creation

Thematic Study | December 2014

Conclusions:

- ▶ 100x stocks are few. Finding them requires "wider to scan, longer to live, and the patience to hold".
- ▶ Make investments only in the most profitable 10% opportunities.
- ▶ The 10% process is captured in 100x - Size, Quality, Growth, Longevity and Price.
- ▶ The underlying economic cycle, the improvement in 10% industry is key, and all other factors (P/E Ratio).
- ▶ Quality does not guarantee growth, and in turn, rapid long term wealth creation.

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Warren Buffett's investing process



- a) A business we understand;
- b) Favorable long-term economics;
- c) Able and trustworthy management; and
- d) A sensible price-tag.



— *2007 Annual Letter*

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The *mantra*: QGLP

“QGLP – Quality, Growth, Longevity, reasonable Price”

Quality of business x Quality of management

- Stable business, preferably consumer facing
- Huge business opportunity
- Sustainable competitive advantage
- Competent management team
- Healthy financials & ratios

Growth in earnings

- Volume growth
- Price growth
- Mix change
- Operating leverage
- Financial leverage



Price

- Reasonable valuation, relative to growth prospects
- High margin of safety
- Prefer stocks with PEG of around 1x

Longevity – of both Q & G

- Long-term relevance of business
- Extending competitive advantage period
- Sustenance of growth momentum

High quality business x High quality management

Quality of business

- Large profit pool
- Size of opportunity
(eg IT, Pharma, Financials)
- Competitive landscape
 - Monopoly (Bosch), Oligopoly (OMCs)
 - Dominant market share
(Asian Paints, United Spirits)
- Niche / Strategic opportunity
(Eicher, Page Industries)
- Favourable demand-supply

Quality of management

- Unquestionable integrity
 - Impeccable corporate governance
 - Concern for all stakeholders
 - Preferably paying full tax and a well-articulated dividend policy
- Demonstrable competence
 - Excellence in strategy & execution
 - Sustaining competitive advantage
- Growth mindset
 - Long-range profit outlook
 - Efficient capital allocation

G – Growth in earnings

- **Understanding short-term Growth is a science but Understanding long-term Growth is an art**
- **Growth is a lollapalooza of C, V, P, M**
i.e. Cost, Volume, Price, Mix
(lollapalooza is a big effect from large combinations of factors)

G – Growth in earnings

High earnings growth situations

- Value Migration – flow of value (profit & market cap) from outmoded businesses to superior businesses (e.g. wired telephony to wireless, public sector banks to private banks, etc)
- Sustained industry tailwind
- Small base with large opportunity
- New large investment getting commissioned
- Inorganic growth through M&A
- Consolidation of competition
- Operating & Financial leverage
- Turnaround from loss to profit

L – Longevity



Longevity of both Quality and Growth

- Long-term relevance of the company's products & services
- No breakdown of the business model in the foreseeable future
- Extending competitive advantage period:
 - maintaining edge over peers through innovation, strengthening of brands, deepening distribution, etc
- Sustenance of growth momentum:
 - huge opportunity size
 - periodic new product launches / capacity expansion
 - non value-dilutive inorganic growth

P – Price

**Reasonable Price i.e. well below intrinsic value,
leaving good Margin of Safety**

- Several valuation approaches possible
- Some proprietary formulas –

1. Payback ratio

Less than 1x is almost a sure shot formula for multi-bagger

$$\text{Payback ratio} = \frac{\text{Market Cap}}{\text{Next 5 years PAT}}$$

2. PEG (PE to [future] Growth)

Less than 1x improves chances of huge wealth creation

QGLP: Case Studies

QGLP Case Studies



1. RBL Bank
2. Alkem Laboratories
3. Sterlite Technologies

Disclaimer

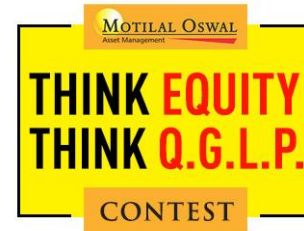
The companies discussed here are for illustrative purposes only, and should not be construed as investment advice.

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RBL Bank

Company background



- RBL Bank is one of India's fastest growing private sector banks with an expanding presence across the country.
- The Bank offers specialized services under six business verticals:
 1. Corporate & Institutional Banking
 2. Commercial Banking
 3. Branch & Business Banking
 4. Agri Business Banking
 5. Development Banking and Financial Inclusion
 6. Treasury and Financial Markets Operations.
- It currently services over 4.9 million customers
 - network of 266 Branches, 199 Banking Outlets and 369 ATMs
- RBL Bank's current market cap is around INR 22,000 crores

RBL Bank – QGLP in a nutshell

QGLP – Quality, Growth, Longevity, reasonable Price

Quality of business x Quality of management

- Massive value migration from state-owned banks to private banks
- RBL has more than doubled customer base in last two years to nearly 5 mn
- RBL's GNPA (1.4%) and NNPA (0.8%) at reasonable levels
- RBL's return ratios on a steady uptrend



Price

- Current P/E of 33x is rich, but defensible considering robust 34% EPS CAGR
- 3-year target price of INR 1,145 at exit P/E of 30x
- Robust 30% return CAGR; BUY

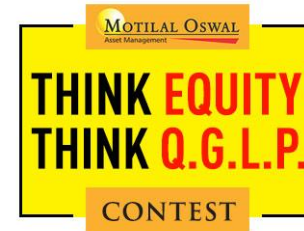
Growth in earnings

- Long growth runway – RBL's profits are a fraction of private banks' profits
- Vision 2020 on track : 30-35% CAGR in advances with 1.5% ROTA
- Assets to double from INR 62,000 crores to INR 128,000 crores
- Expect FY18-21 EPS CAGR of 34%

Longevity – of both Q & G

- Longevity of Quality – High focus on Effective Risk Management and Asset Quality
- Longevity of Growth – Multi-decadal opportunity for private banks in India

Q – Quality



Quality of Business



- Banking in India is a large and secular business
 - Under-penetrated: bank credit to GDP at 51% (China 250%; USA 150%)
 - 20-year CAGR: deposits 17%, credit 18%
- Relentless Value Migration from state-owned banks to private banks

Porter's Five Forces – Moderately favourable competitive landscape

| Force | Comment | Sector Score |
|----------------------------------|---------|-------------------|
| 1. Inter-firm rivalry | High | 0 |
| 2. Bargaining power of customers | Medium | 0.5 |
| 3. Bargaining power of suppliers | Low | 1 |
| 4. Threat of new entrants | Medium | 0.5 |
| 5. Threat of substitutes | Low | 1 |
| TOTAL | | 3 out of 5 |

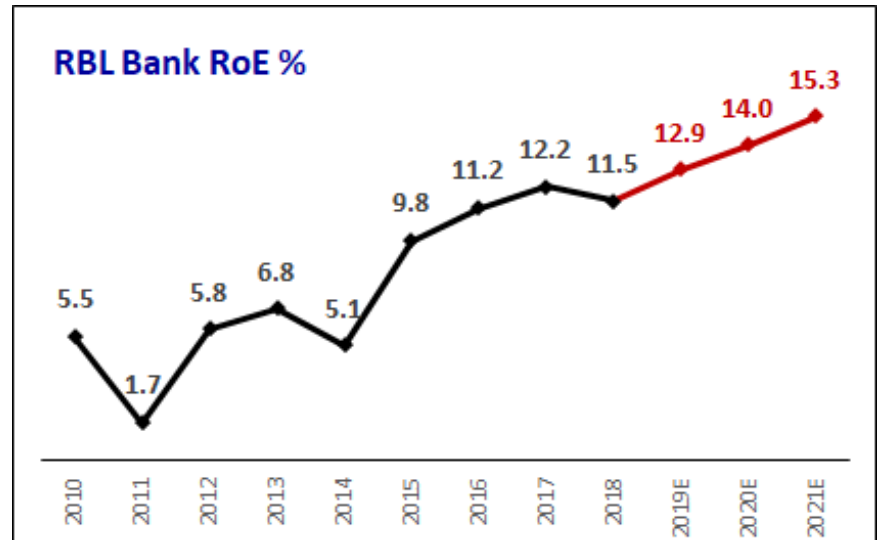
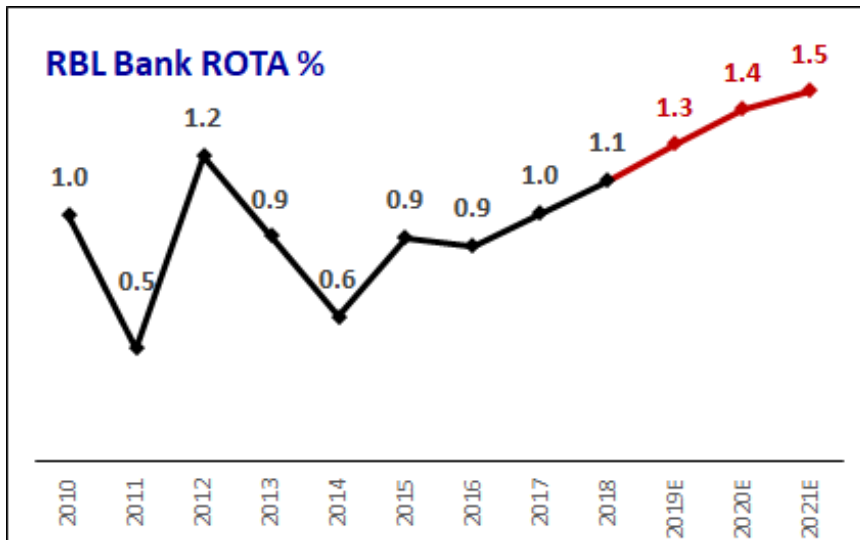
Q – Quality



Quality of Business (continued)



- RBL has more than doubled customer base in last two years to ~5 mn
- RBL's GNPA (1.4%) and NNPA (0.8%) at reasonable levels
- CASA ratio is steadily recovering over the last 4 years
— from 18% in FY15 to 24% in FY18
- RBL's return ratios – on a steady uptrend





☐ Quality of Management

➤ Unquestionable Integrity

- High quality of underwriting and disclosure
- High skin in the game – outstanding ESOPs at 9.4% of capital base, and ~50% of employees covered under ESOP plan
- Senior management own over 5% of the bank

➤ Demonstrable Competence

- New management inducted in 2010
- Led by Vishwavir Ahuja — rich 20-year experience with Bank of America, including as head of India operations
- Demonstrated capability by turning around old, regional bank into a modern, pan-India bank
- Strong board and professional team

➤ Growth Mindset

- 30-35% CAGR in advances targeted through FY20



G — Growth in earnings

- **Long growth runway**
 - RBL's profit is a fraction of total private sector bank profits

| <i>(INR crores)</i> | FY18 | FY21 E | |
|------------------------------|-------------|---------------|-----------------------------------|
| Private sector banks' PAT | 45,000 | 75,000 | <i>(@18% CAGR – last 10-year)</i> |
| RBL Bank's PAT | 635 | 1,725 | <i>40% CAGR</i> |
| RBL PAT as % of total | 1.4% | 2.3% | |



G — Growth in earnings

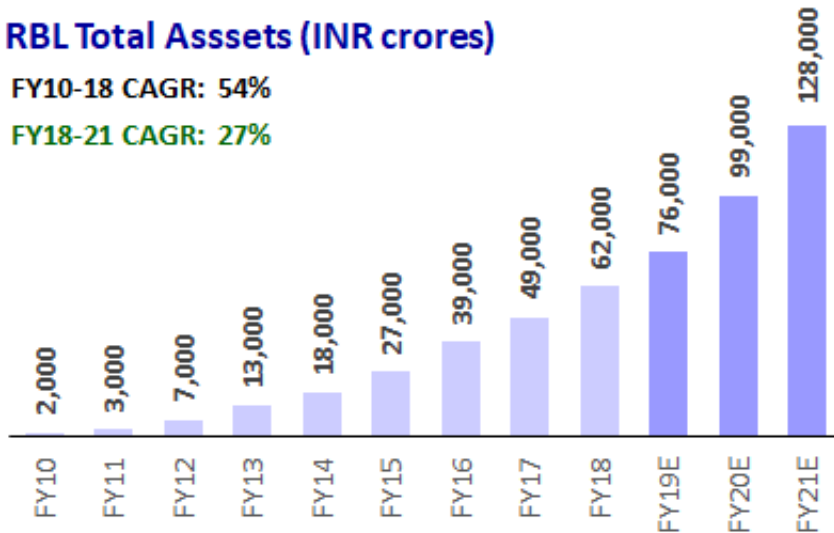
- Vision 2020 on track : 30-35% CAGR in advances with 1.5% ROTA
- Assets to double from INR 62,000 crores to INR 128,000 crores
- Expect FY18-21 EPS CAGR of 34%



RBL Total Assets (INR crores)

FY10-18 CAGR: 54%

FY18-21 CAGR: 27%

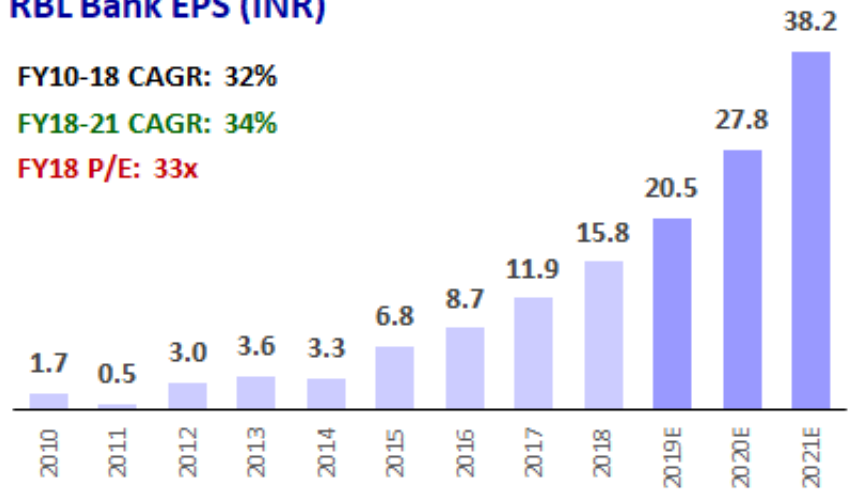


RBL Bank EPS (INR)

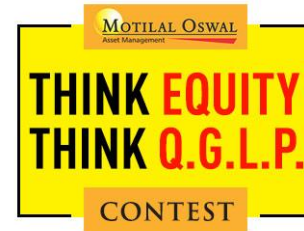
FY10-18 CAGR: 32%

FY18-21 CAGR: 34%

FY18 P/E: 33x



L — Longevity



❑ Longevity of Quality

- High focus on Effective Risk Management and Asset Quality

❑ Longevity of Growth

- Multi-decadal opportunity for private banks in India
- RBL's small base in a large profit-pool sector helps ensure longevity of earnings growth



P — Price

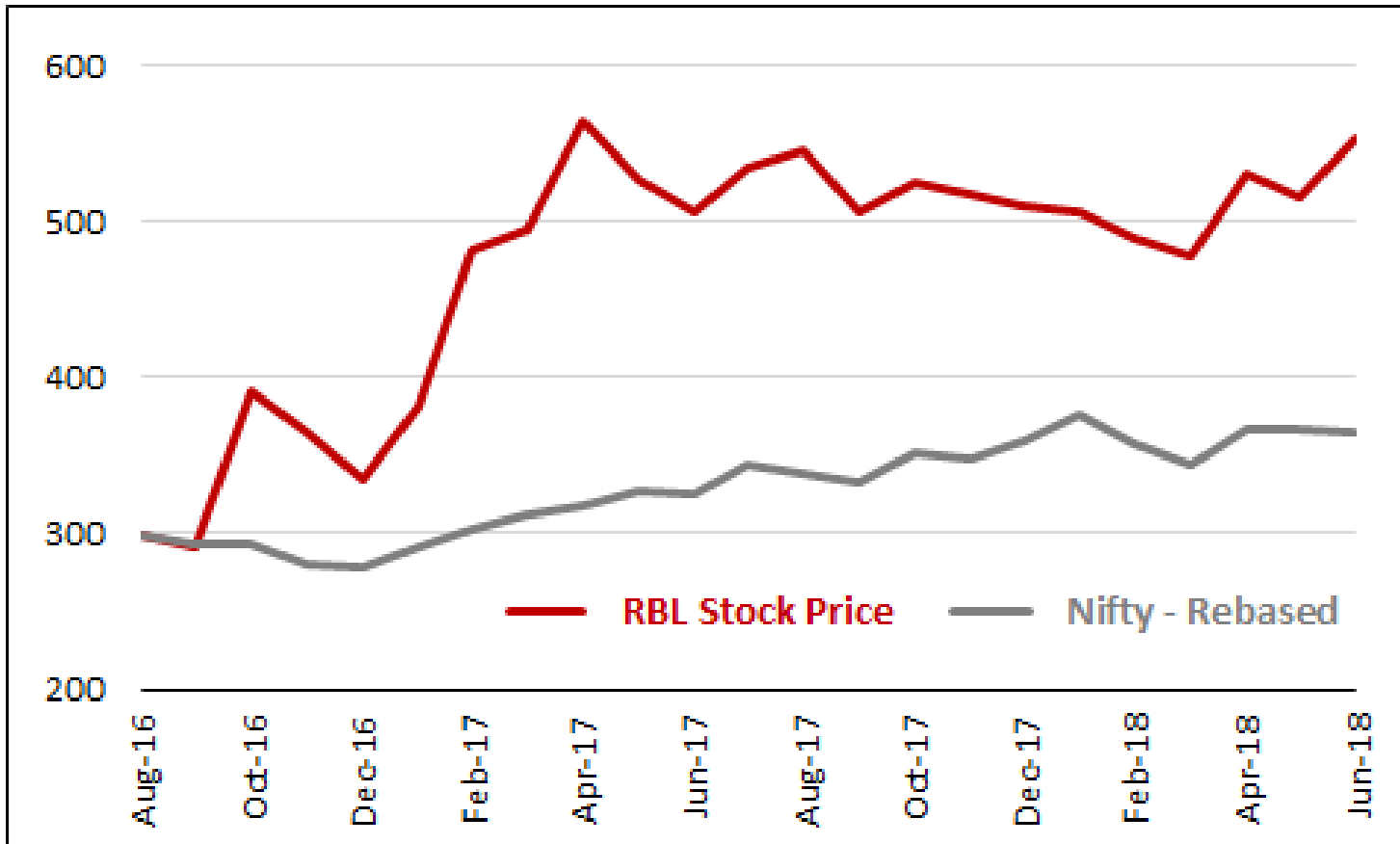
Valuation rich, but defensible considering robust PAT growth

- Current P/E 33x and P/B 3.3x
- FY21 P/E 14x and P/B 2x
- 3-year target price of INR 1,145 at exit P/E of 30x
- **Robust 30% return CAGR; BUY**



| INR crores | FY18 | FY21 E | CAGR |
|--------------------------|------------|--------------|------------|
| Total assets | 62,000 | 1,28,000 | 28% |
| ROTA | 1.1% | 1.5% | |
| PAT | 635 | 1,725 | 40% |
| EPS (INR) | 15.8 | 38.2 | 34% |
| Exit P/E (x) | 33 | 30 | |
| Mkt Cap | 21,900 | 52,000 | 33% |
| Stock price (INR) | 522 | 1,145 | 30% |

Expect RBL Bank's stock outperformance to continue



Risks & Concerns



- Loan book is not sufficiently seasoned
- 14% of RBL's FY18 loan-book is micro-finance
- Attracting and retaining human capital will remain a challenge

Alkem Laboratories

Company background



- Alkem is one of the largest pharma companies in India with a domestic market share of 3.4%.
- Currently, it has 14 manufacturing facilities across five locations in India and two manufacturing facilities in the US.
- Over time, Alkem has built a strong capabilities in R&D, marketing and distribution. Currently, it has one of the best reach in urban and rural areas.
- Its strong R&D capability has led to its 13 brands now featuring among top 300 brands in India (a feat not many companies have achieved).
- Using India as the cash cow, Alkem has successfully adopted the M&A route to venture into the US market in 2011. Since then, US revenues today are sizeable at US\$ 200 mn (20% of total revenue).
- Alkem's current market cap stands at INR 25,800 crores.

Alkem Labs – QGLP in a nutshell

QGLP – Quality, Growth, Longevity, reasonable Price

Quality of business x Quality of management

- Alkem has a strong domestic franchise:
7th rank in India Pharma Market
- MR productivity is one of the highest in India
- Zero leverage with last 5-year average RoE of 20%
- High skin in the game – promoters hold 66% stake



Price

- P/E of 39x FY18 is defensible considering 25% earnings CAGR, rising RoE and near-zero debt
- Target Price of INR 3,700 (35x FY21E EPS)
- Expect 3-year return CAGR of 20-25%

Growth in earnings

- India, US and Rest of World all in growth mode
- Improving MR productivity driving EBITDA margins, up 500bp over FY15-18 to 16.5%
- Expect 3-year PAT CAGR of 25%

Longevity – of both Q & G

- Indian Pharma Market has the potential to grow at 10-15% for long; Alkem has the ability to grow faster than the market
- Enough headroom to improve margins – US business has just broken even

Q – Quality

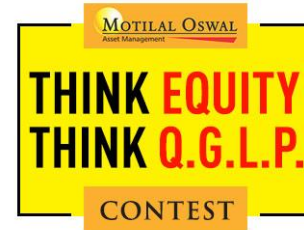


Quality of Business

Porter's Five Forces – Fairly favourable competitive landscape for pharma

| Force | Comment | Sector Score |
|----------------------------------|---------|---------------------|
| 1. Inter-firm rivalry | Medium | 0.5 |
| 2. Bargaining power of customers | Medium | 0.5 |
| 3. Bargaining power of suppliers | Low | 1 |
| 4. Threat of new entrants | Low | 1 |
| 5. Threat of substitutes | Medium | 0.5 |
| TOTAL | | 3.5 out of 5 |

- Strong domestic franchise: 7th rank in India Pharma Market
- High penetration in the rural market
- MR productivity one of the best in industry at INR 6.5 mn per year per MR
- This has helped the company to clock higher volumes in the Acute segment (85-90% of India revenues) v/s peers, leading to 17% revenue CAGR in the India business over the last 5 years (800bp industry outperformance).
- Healthy Balance Sheet: Zero leverage with last 5-year average RoE of 20%
- Low asset intensity: FCF generation is robust at 45% of PAT



❑ Quality of Management

➤ Competence

- 7th largest company in the Indian pharma market with market share of 3.4% v/s no. 1 ranked Sun's market share of 6.2%.
- 13 brands feature among the top 300 brands in India – best-in-class
- Company has also embarked on acquisitions in the US and India, and has been managing them well to address future growth

➤ Integrity

- Healthy track record of corporate governance
- High skin in the game – promoters hold 66% stake in the company
- Concern for minority shareholders: Steady dividend payout of 15-17%

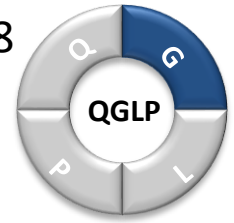
➤ Growth Mindset

- With India as a cash cow, the company has successfully transformed its US business through investments in well thought-out areas of R&D and M&As
- The US business achieved EBITDA break-even in FY18

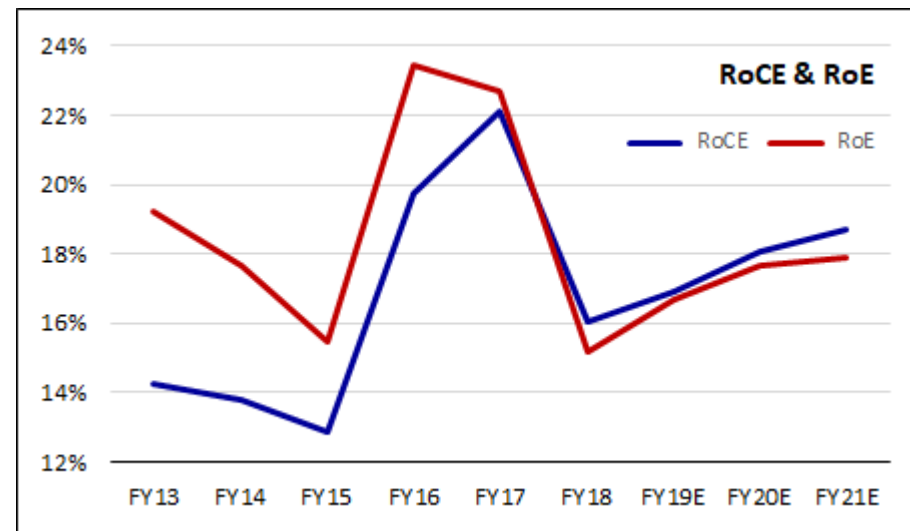
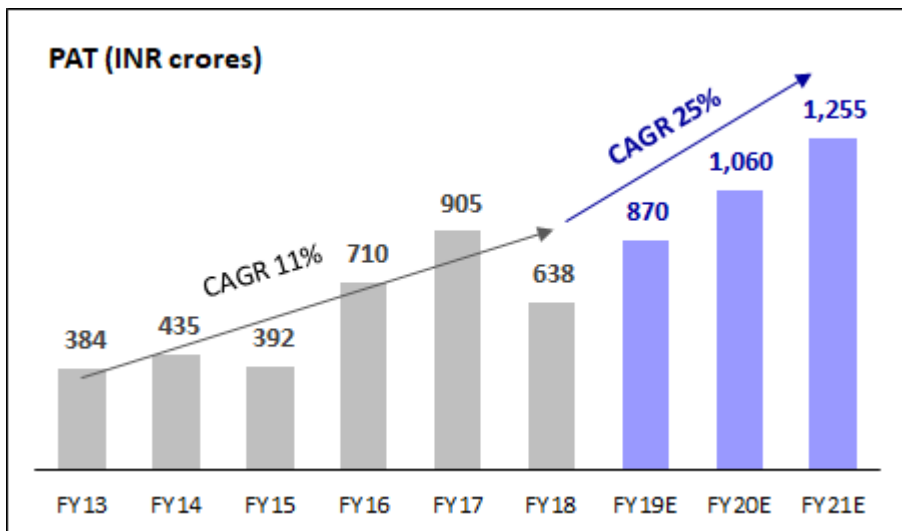
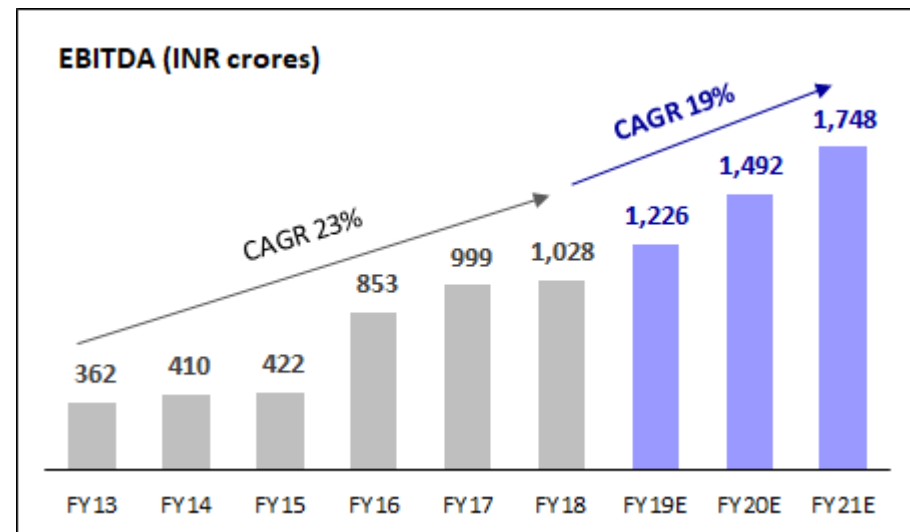
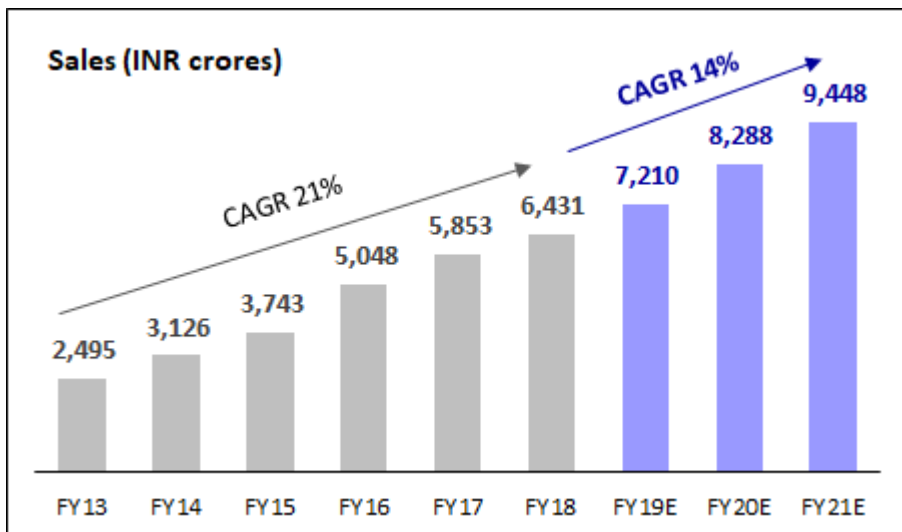


G — Growth in earnings

- FY15-18 CAGR: Sales 20%, EBITDA 35%, PBT 28%;
PAT CAGR lower at ~18% due to higher taxation 13% in FY15 to 26% in FY18
- Improving MR productivity: In spite of hiring of 1,500 MRs over the last 2 years, EBITDA margins are up 500bp over FY15-18 to 16.5%
- Expect 12-15% revenue CAGR over next 3 years led by –
 - India business (70% of revenues) well placed to grow at mid-teens
 - US business (25% of revenues) set to grow at 12-15%
 - RoW business (10% of revenues) will grow at 10-15%
- Expect EBITDA margins to expand 250bp min over the next 3 years, led by operating leverage
- As a result, expect PAT to clock 25% CAGR over the next 3 years

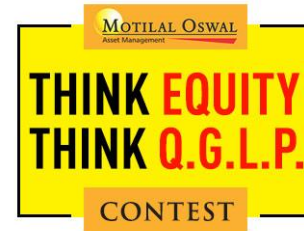


G — Growth in earnings



L — Longevity

- Indian Pharma Market has the potential to grow at 10-15% for long; Alkem has the ability to grow faster than the market
- Alkem's continued investments in building manufacturing/technology assets imply sustained growth visibility
- Enough headroom to improve margins
 - US business has just broken even
- Lean balance sheet ensures continued free cash generation to handle adversities, if any



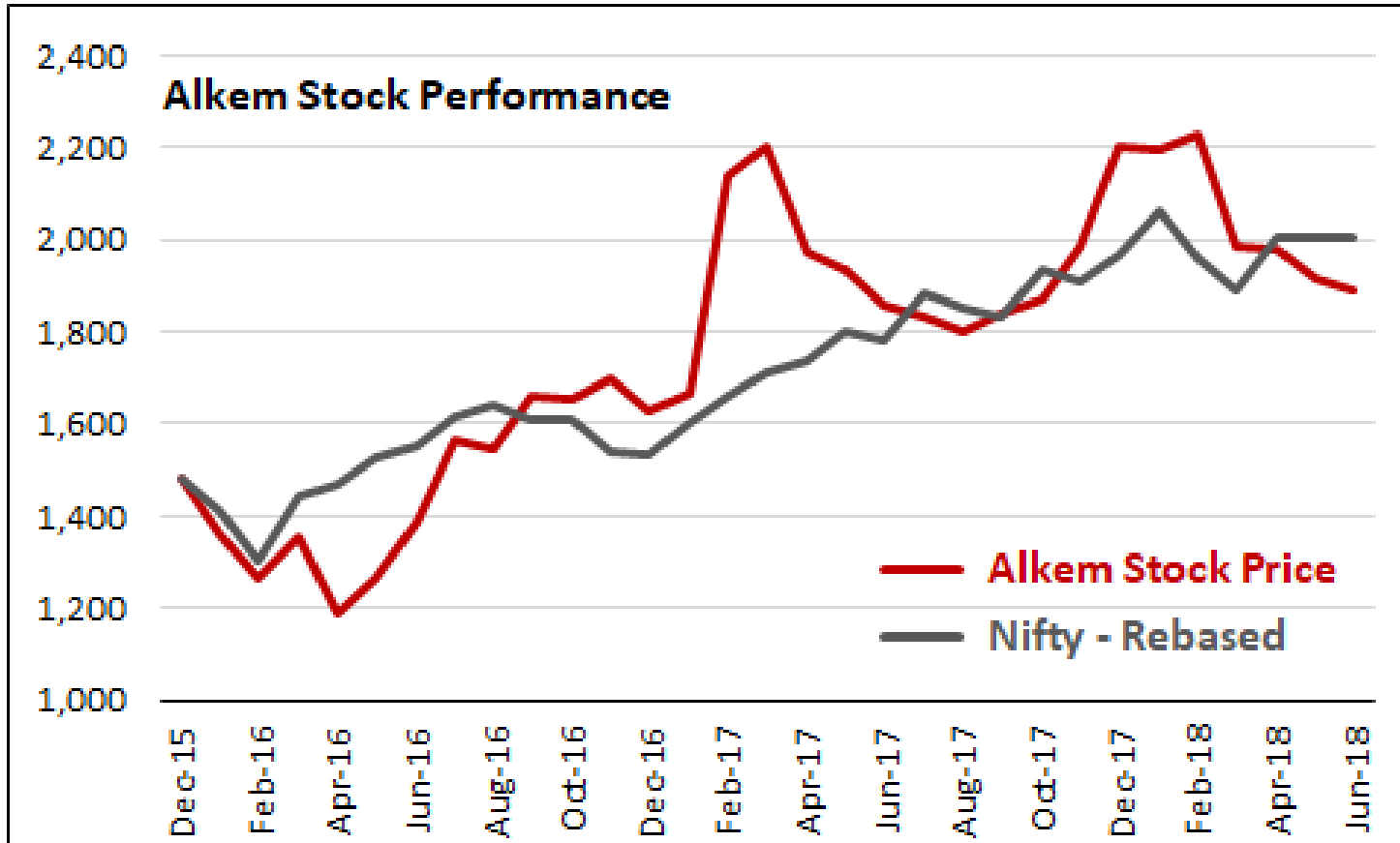
P — Price

- P/E of 39x FY18
- We believe the valuation is defensible considering:
 - 25% Earnings CAGR over FY18-21E
 - expansion in RoE by 250 bps over the next 3 years
 - Lean Balance Sheet with Net D/E of 0.1x
- Target Price of INR 3,700 (35x FY21E EPS)
- **Expect 3-year return CAGR of 20-25%**



| INR Crores | FY18 | FY21 E | CAGR |
|--------------------------|--------------|--------------|------------|
| Revenues | 6,431 | 9,448 | 14% |
| EBITDA Margins | 16.4% | 18.5% | |
| PAT | 638 | 1,258 | 25% |
| EPS (INR) | 53.4 | 105.0 | 25% |
| Exit P/E (x) | 39 | 35 | |
| Mkt Cap | 25,800 | 44,233 | 21% |
| Stock price (INR) | 2,100 | 3,700 | 21% |

Expect Alkem to recover from recent underperformance



Risks & Concerns



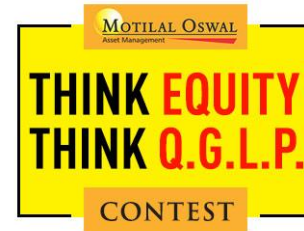
- Near-term threat to earnings –
 - Regulatory risks in the US and
 - Price-cap initiative from the Indian government
- Higher than anticipated rise in prices of key starting materials sourced from China

THINK EQUITY
THINK Q.G.L.P.

CONTEST

Sterlite Technologies

Company background



- Sterlite Technologies is a leading global provider of optical fibre, the fastest known medium for high-speed data networks.
- It manufactures optical fibre from sand, and is forward integrated to offer broadband services and network & telecom solutions.
- In India, 45% of all data travels on Sterlite Tech's solutions.
- Globally, the company is present in over 100 countries.
- Sterlite Tech has a current market cap of INR 13,500 crores.

Sterlite Tech – QGLP in a nutshell

QGLP – Quality, Growth, Longevity, reasonable Price

Quality of business x Quality of management

- Steady Value Migration from voice to data
- One of 7 global, fully integrated companies which make optical fiber
- Global cost leadership
- Order Book INR 5,200 cr, +73% YoY, executable over 1.5-2 years



Price

- TTM P/E of 35x
- No case for major de-rating given FY18-21 earnings CAGR of 30%, and RoE robust at 30%+
- FY21E target price of INR 700 offers 27% return CAGR

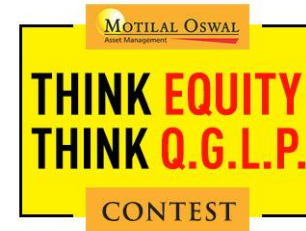
Growth in earnings

- 5G wave will drive global demand for optical fibre cables
- Opportunities in Bharat Net/NFS/ Smart Cities space
- Expect 20% CAGR in India OFC demand
- Expect 3-year earnings CAGR of 30-35%

Longevity – of both Q & G

- Long track record with marquee clients
- Presence in China confirms sustainable competitive advantage
- 5G rollout offers long growth runway
- Company is growing inorganically as well

Q – Quality



□ Quality of Business

- Steady value migration from voice to data
- Inclination of consumers towards high-speed internet
- One of 7 global, fully integrated companies which make optical fiber
- Cost leadership
- Order Book of INR 5,200 cr, +73% YoY, executable over 1.5-2 years



Porter's Five Forces – Attractive competitive landscape

| Force | Comment | Sector Score |
|----------------------------------|---------------|-------------------|
| 1. Inter-firm rivalry | Low | 1 |
| 2. Bargaining power of customers | Medium | 0.5 |
| 3. Bargaining power of suppliers | Low | 1 |
| 4. Threat of new entrants | Low | 1 |
| 5. Threat of substitutes | Low-to-Medium | 0.5 |
| TOTAL | | 4 out of 5 |



☐ Quality of Management

➤ Unquestionable Integrity

- Strong Board of Directors comprising of 50% Independent Directors
- No significant Related Party Transactions
- Concern for minority shareholders – 15% Dividend Payout despite capex

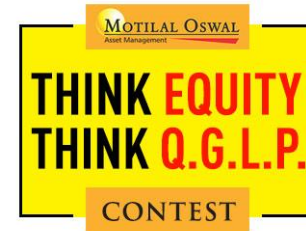
➤ Demonstrable Competence

- Power transmission business de-merged in 2015 for focus on OFC
- Global cost leadership in optical fibre
- Healthy terms of trade: Working capital less than 60 days
- RoE consistently rising; currently over 30%

➤ Growth Mindset

- Optical fibre capacity to double over next 3-4 years
- Phased capex of INR 1,200 crore
- Recently acquired Metallurgica Bresciana, a European OFC manufacturer
- Strategic guidance of PAT of US\$ 100 mn by FY20 v/s US\$ 50 mn in FY18

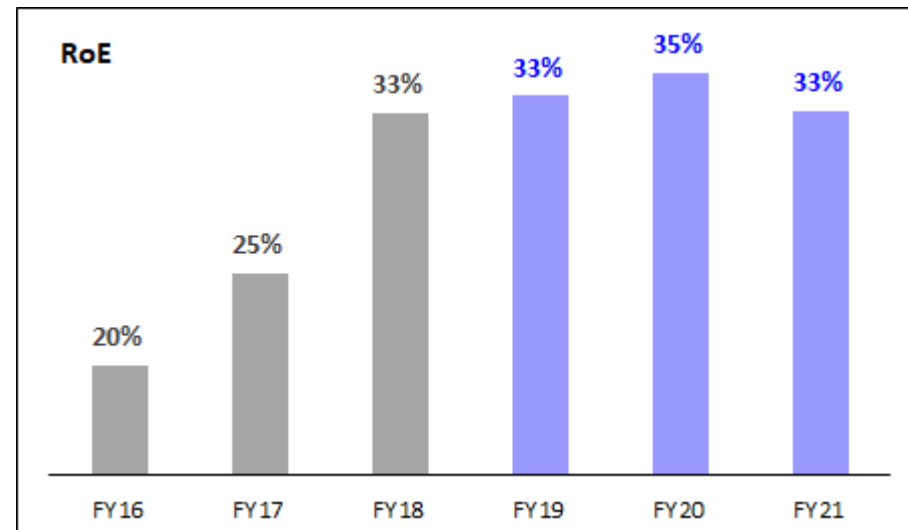
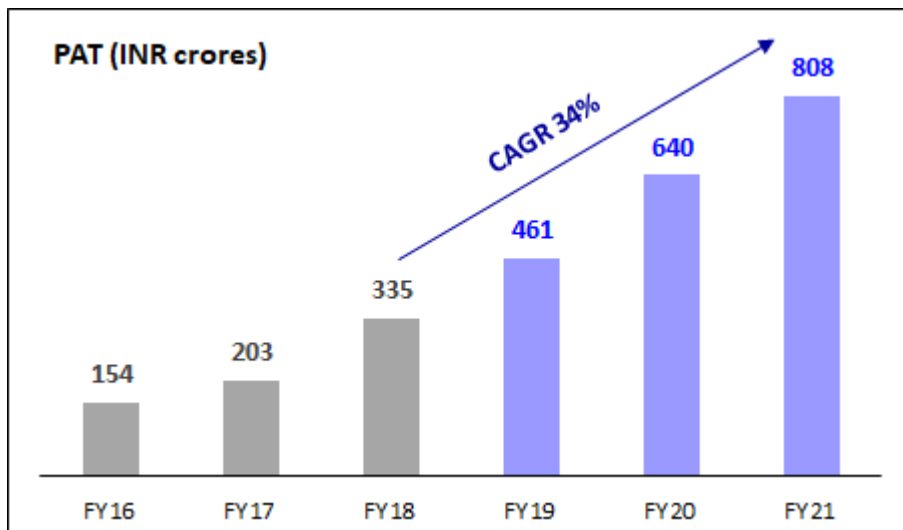
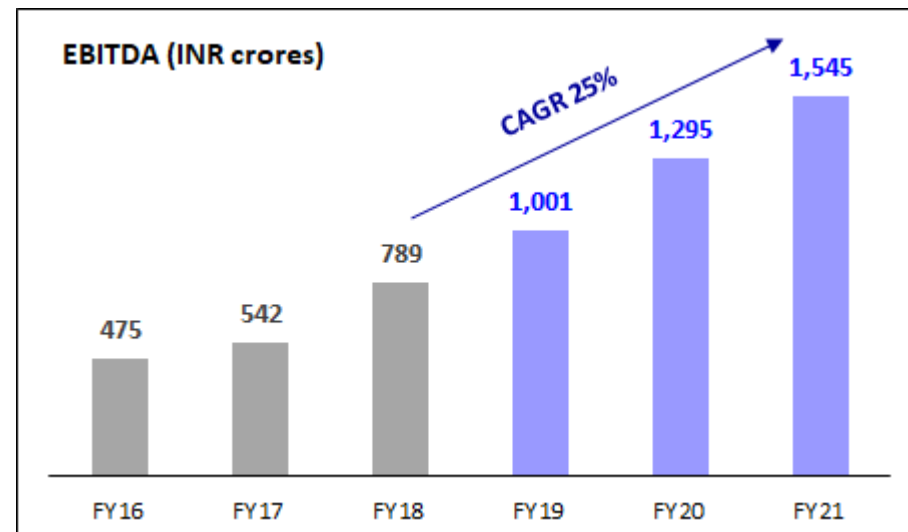
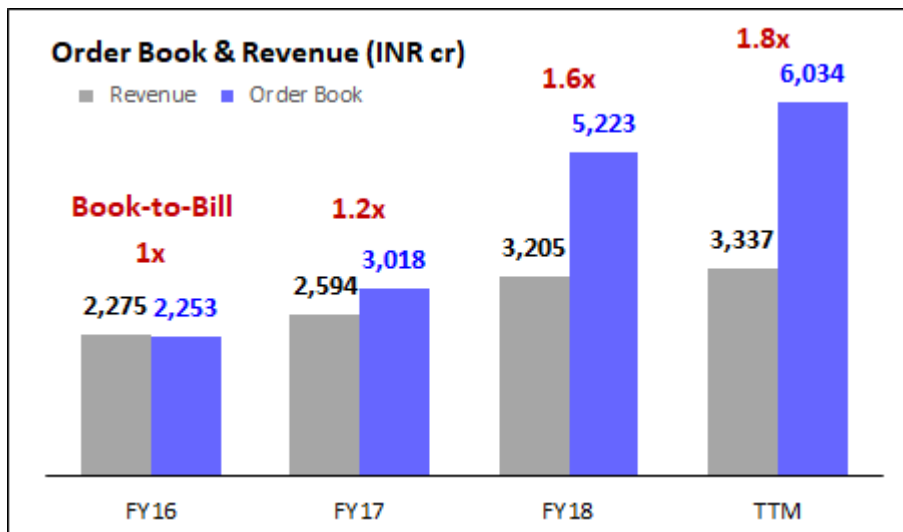
G — Growth in earnings



- 5G wave will drive global demand for optical fibre cables
- Robust opportunities in Bharat Net / NFS / Smart Cities space
- Expect 20% CAGR in India OFC demand
- Sterlite Tech is doubling Optical Fibre capacity from 30 mn fkm (fibre km) to 60 mn fkm in 3-4 years
- Management has given strategic guidance of US\$ 100 mn PAT by FY 2020, effectively double that of FY 2018
 - Acquisition of Metallurgica Bresciana is likely to expedite this target
- Expect 3-year earnings CAGR of 30-35%



G — Growth in earnings

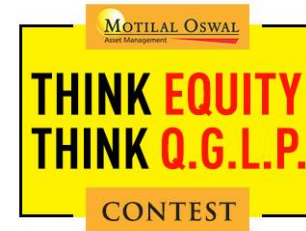


L — Longevity

- Long track record with marquee clients
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P — Price

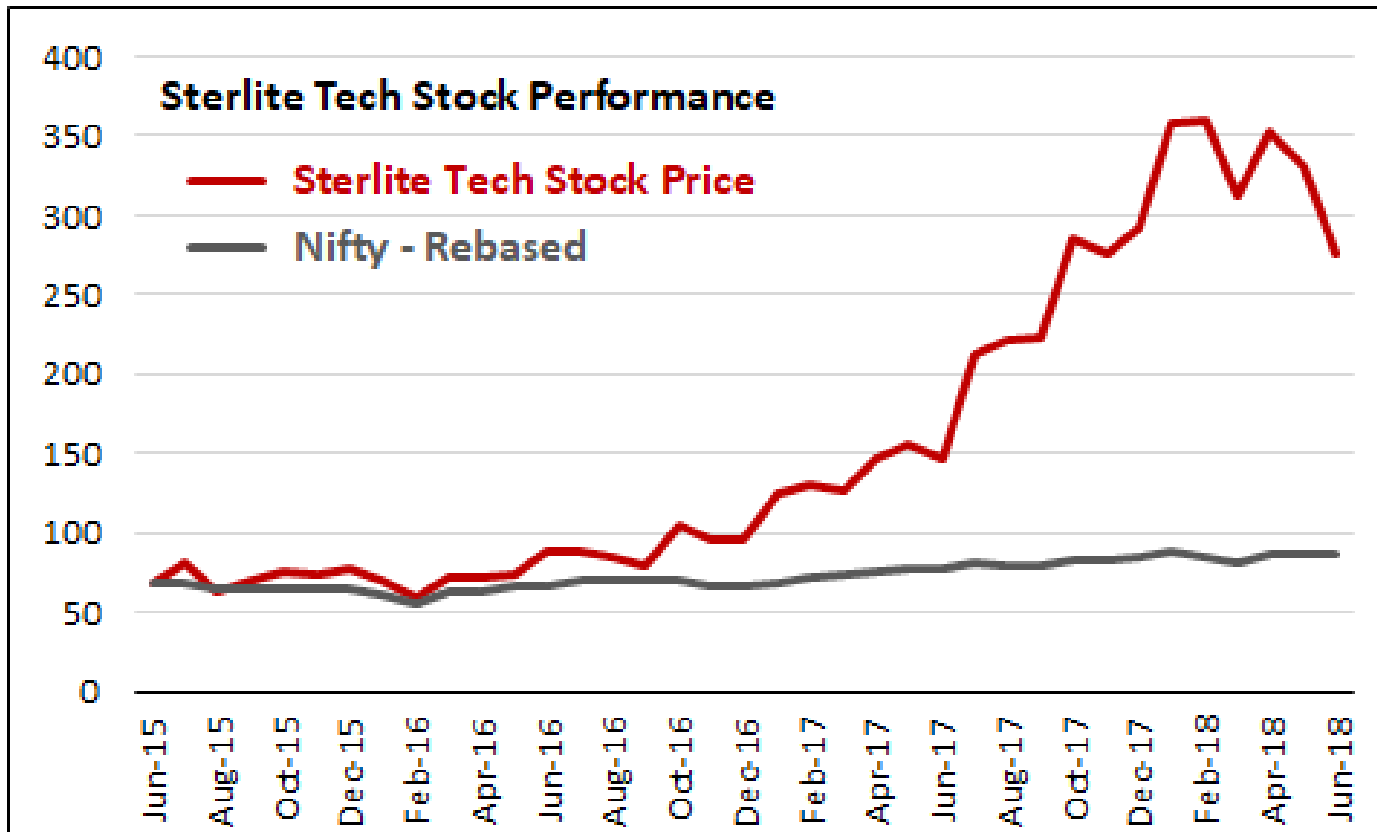


- Stock is currently trading at TTM P/E of 35x; FY18 P/E of 41x
- No case for major de-rating given –
 - FY18-21 earnings CAGR of 30%
 - RoE robust at 30%+
- **FY21E target price of INR 700 offers 27% return CAGR**



| INR Crores | FY18 | FY21 E | CAGR |
|--------------------------|------------|------------|------------|
| Revenues | 3,205 | 6,631 | 27% |
| EBITDA Margins | 24.6% | 23.3% | |
| PAT | 335 | 808 | 34% |
| EPS (INR) | 8.4 | 20.2 | 34% |
| Exit P/E (x) | 41 | 35 | |
| Mkt Cap | 13,600 | 28,300 | 27% |
| Stock price (INR) | 340 | 700 | 27% |

Expect Sterlite Tech's stock outperformance to continue



Risks & Concerns

- Optical Fibre prices tend to be contingent on action of Chinese manufacturers
- Demand growth may taper off once 5G rollout is complete





**Best wishes for your participation in the
Think Equity Think QGLP Contest, 2018**

For more details & clarifications, email thinkQGLP@motilaloswal.com