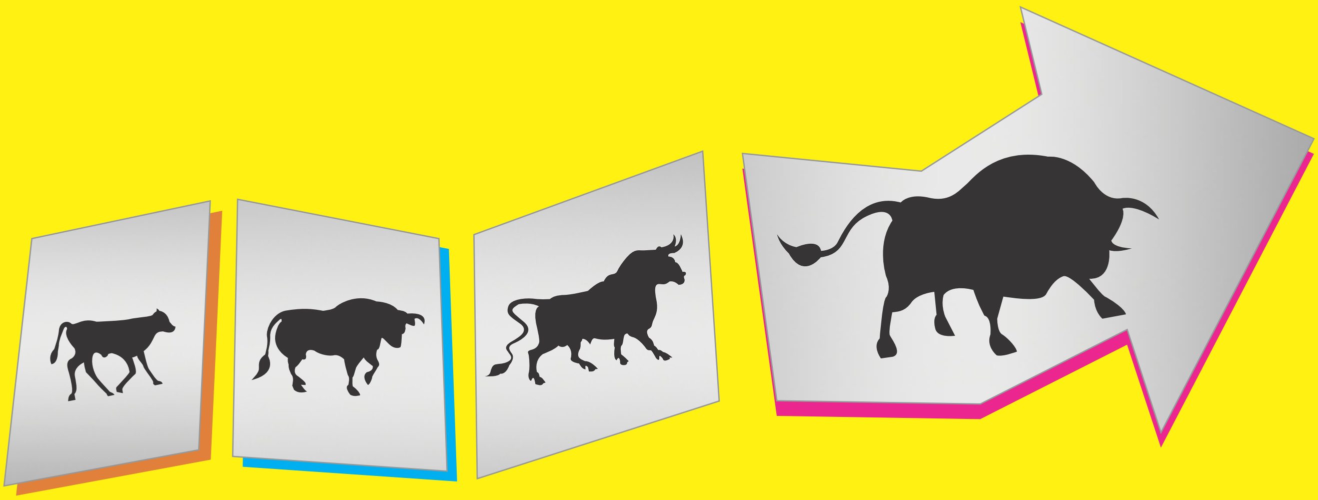
MONTHLY Communique

As on 31st June 2021



BUY RIGHT : SIT TIGHT

Buying quality companies and riding their growth cycle

Déjà vu: Is FY22 a new avatar of FY04?

Navin Agarwal
(MD & CEO - Motilal Oswal AMC)

> **History doesn't repeat itself, but it does rhyme.**
>
> **- Mark Twain**

The Nifty 50 currently is up 77% from the Covid low of 8,600 in March 2020. This brings back memories of FY04, when the Nifty almost doubled from 934 in April 2003 to 1,800 in April 2004. This sharp bounce actually sustained for the next four years, during which the Nifty went up another 3x to 5,200 by April 2008. Which brings us to the key question – Is FY22 a rhyme of FY04? In other words, can we see the upcycle in stock markets continuing? So, it's an interesting exercise to discuss the similarities between FY04 and FY22, and what it would take for the FY04-08 cycle to rhyme over the next four years.

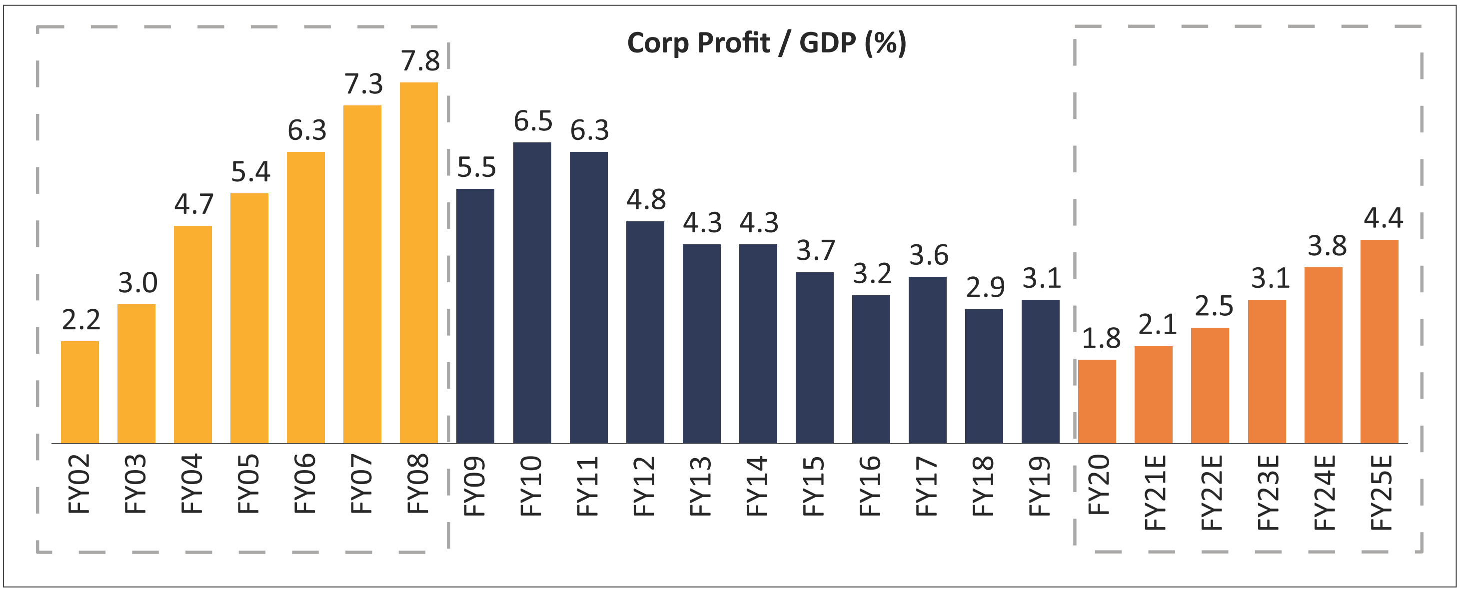
First the similarities –

GDP growth – coming off lows: FY03 GDP growth was a low 3.8%. FY04 was the year of recovery to 8% GDP growth, which sustained over the next four years. Likewise, FY21 GDP growth is estimated to be an all-time low of -8%, and FY22 a smart recovery at 10%+

Source: MOSL, Data as on 31st May-2021.

Corporate Profits recovery: FY04 Corporate Profit to GDP was a low 4.7% which rose all the way to 8% over the next four years. Similarly, FY22 Corporate Profit to GDP is expected to be low at 2.5% , which should rise over the next four years.

Corporate profits to GDP has fallen to around same level as in 2002



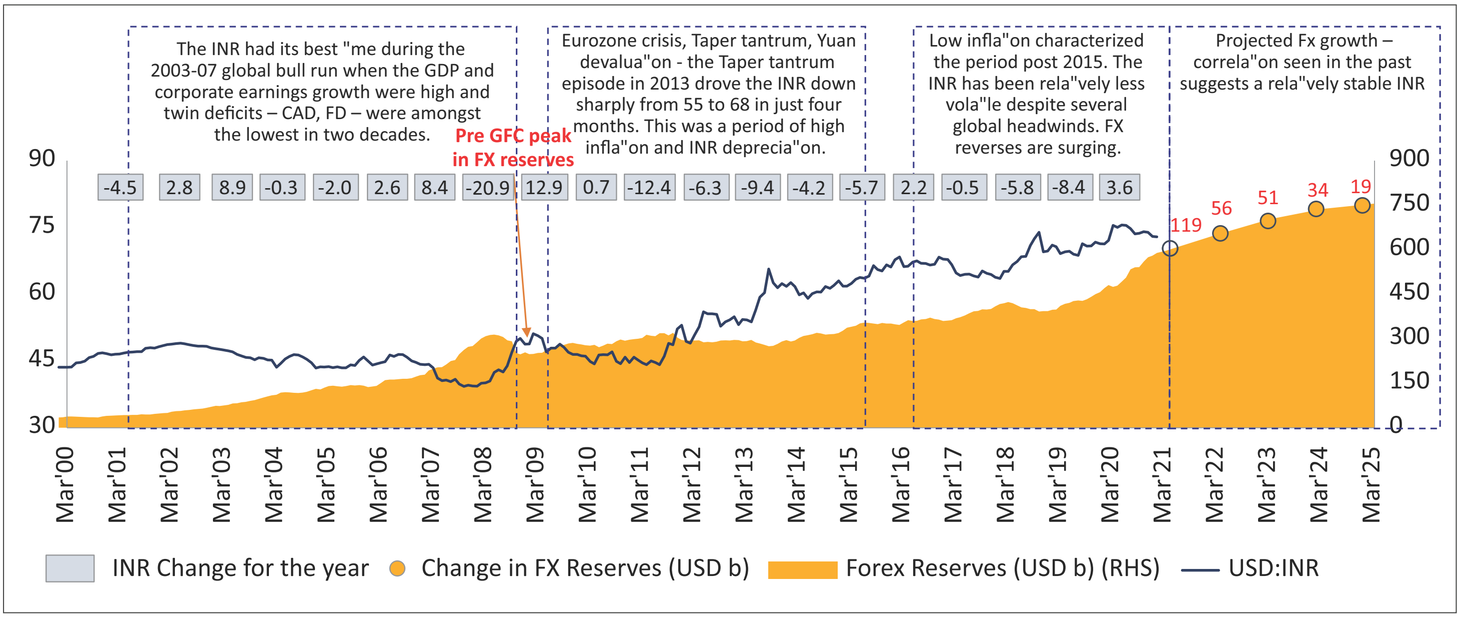
Source: MOSL, Data as on 31st May-2021.

Benign interest rate: In FY04, 10-year GSec yield was about 5.4%. Currently too it is a benign 5.9-6%.

Robust fund flow: In FY04, FII flows were USD 9.5 bn, high by then standards. We ended FY21 with FII flow of USD 37 bn.

Stable rupee, healthy forex reserves: In FY04, the rupee was stable around INR 45 to the USD with USD 150 bn of forex reserves. Currently, the rupee is holding itself around INR 75, with about 600 bn of forex reserves.

- On the currency front, the INR has displayed remarkable stability given the underlying record forex reserves (USD583b). The INR depreciated 0.7% in Feb'2021.

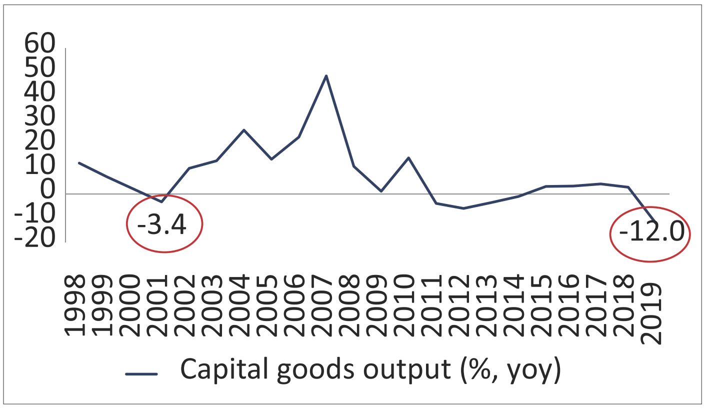


Source: MOSL, Data as on 31st May-2021.

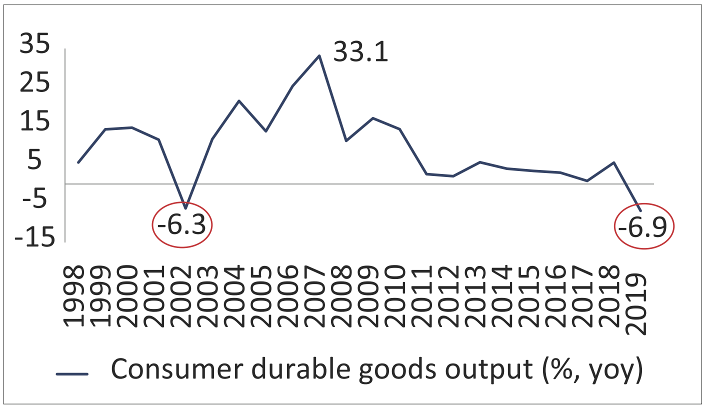
Having understood the similarities between FY04 and FY22, it's equally if not more important to assess what it will take for the FY04-08 rally to rhyme over FY22-26.

Capex-led growth: This is arguably the single-most distinctive feature of the FY04-08 growth story. Fueled by global liquidity led demand, capital goods output growth went from -3% in FY01 to as high as 50% in FY07. This led to broadbased GDP growth, driving up discretionary consumption from a low -6% in FY02 to a high 33% in Fy07.

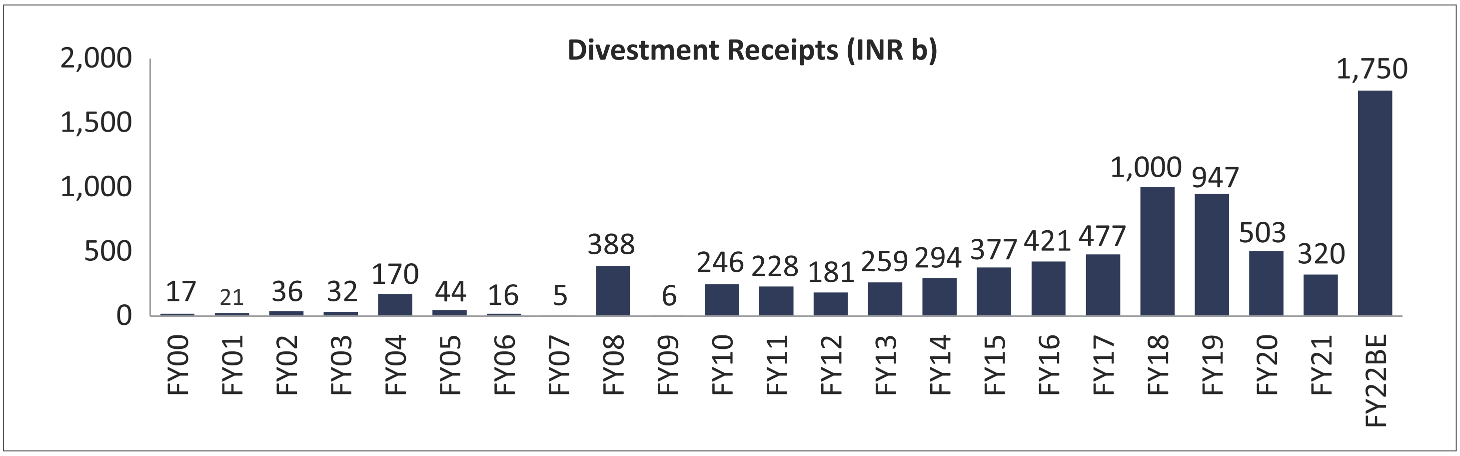
Cap goods output has contracted sharply



Discretionary consumption has taken a hit as also seen in 2002

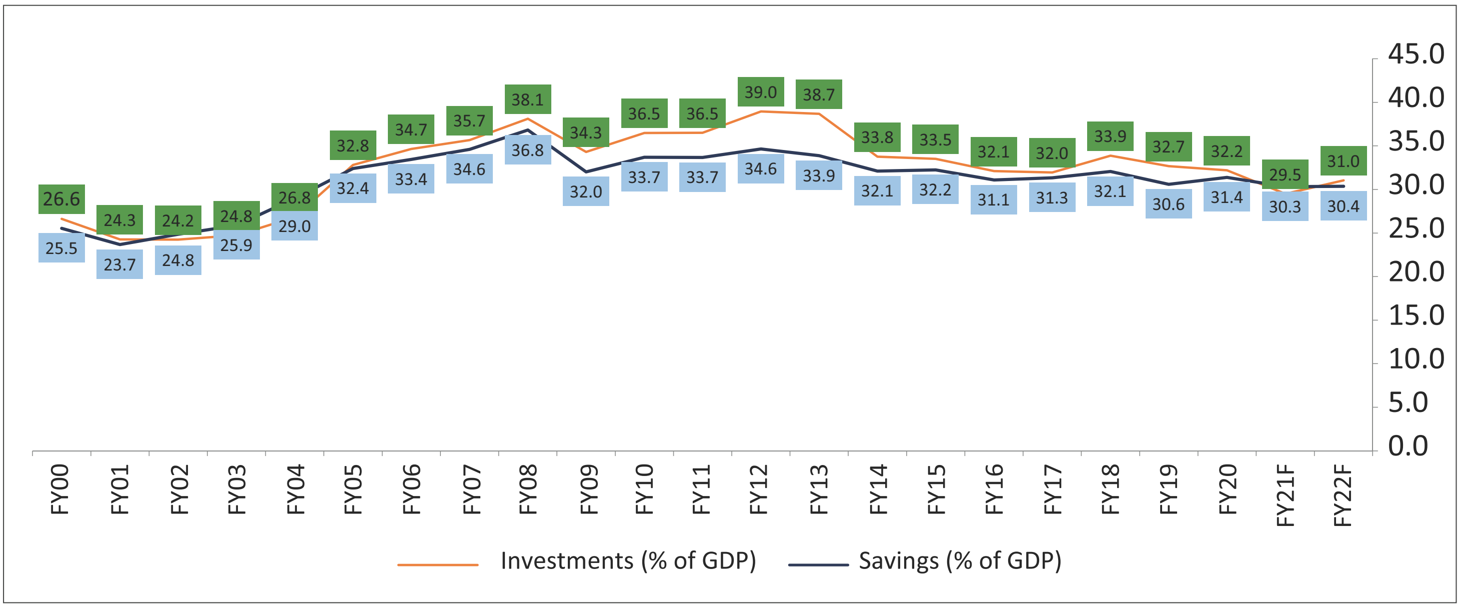


Source: Spark Capital, Data as on 31st May-2021.



Source: Spark Capital, Data as on 31st May-2021.

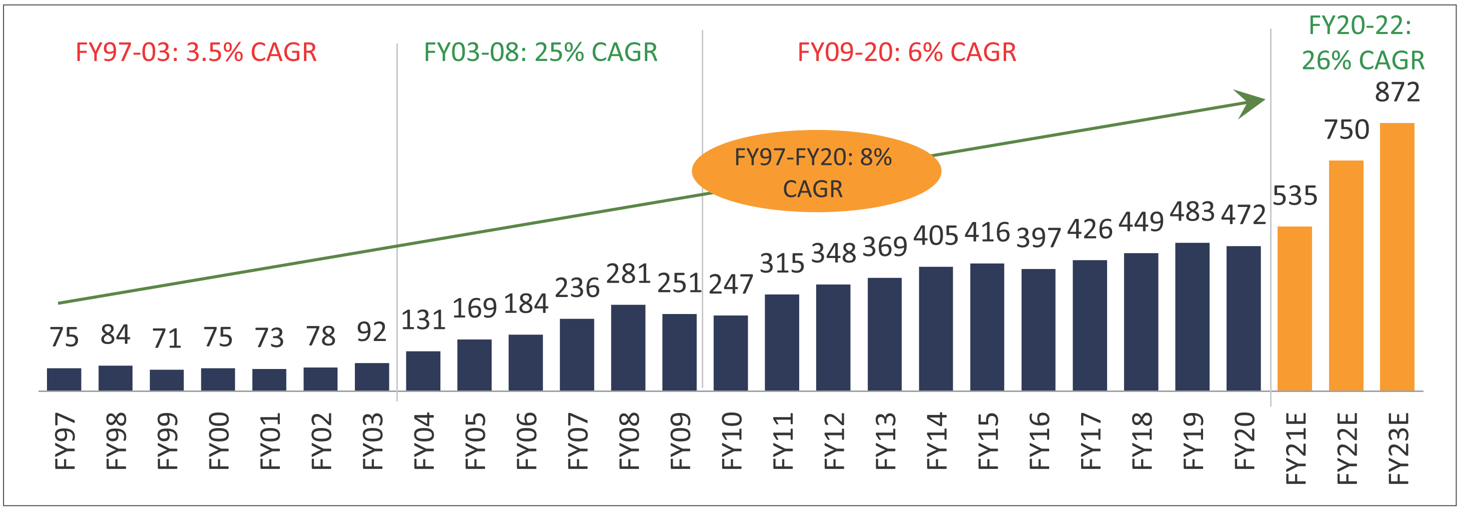
Higher savings and investment rates: A corollary to capex-led growth is high savings and investment rate in the economy. Between 2002 and 2007, savings rate jumped 10 percentage points—from 25% of GDP to almost 35%. This figure currently stands at 30-31%, and needs to pick up going forward. The same is true of Investment to GDP which is down to sub-32% from almost 40% in FY08.



Source: MOSL, Data as on 31st May-2021.

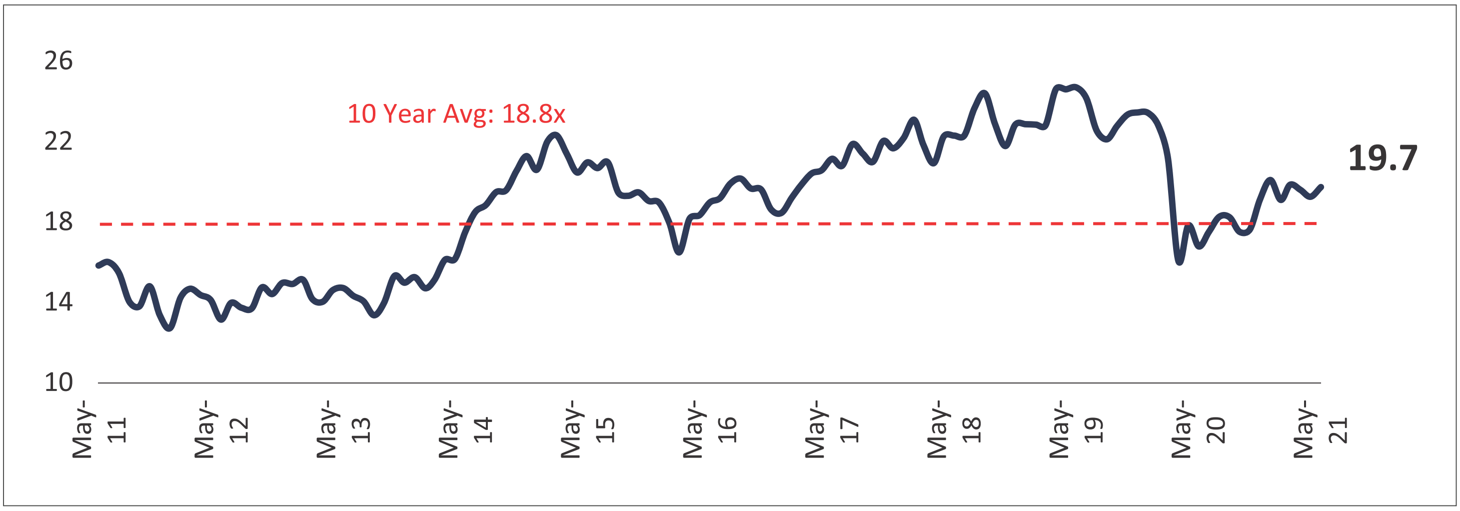
Sustained Corporate Profit Growth & no major valuation derating: The nascent recovery in corporate earnings growth seen in 3Q and 4Q of FY21 need to sustain into FY22 and beyond. In terms of valuation, market P/E is definitely higher than long-period average. But this can be explained by way of low interest rates and expected high growth rates. Further, even in terms of Market Cap to GDP, India is at around 100%. Many countries are at much higher levels.

Nifty EPS

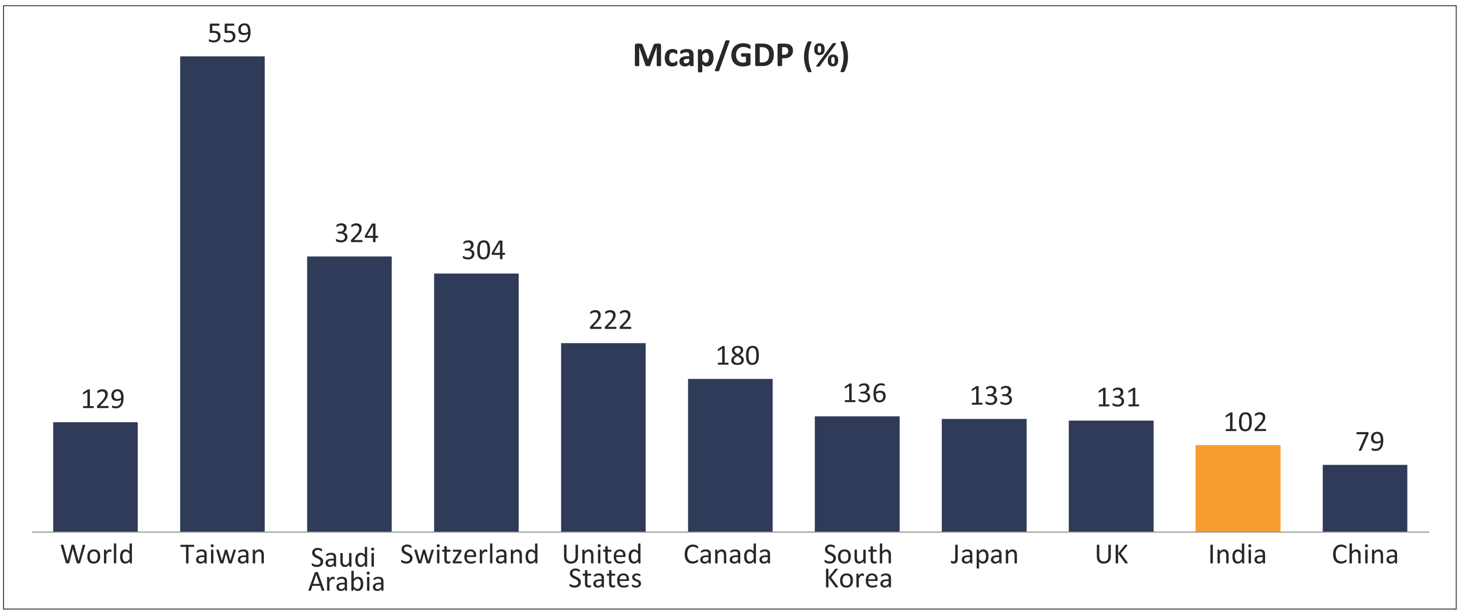


Source: MOSL, Data as on 31st May-2021.

NIFTY P/E (x) - 1 Year Forward



Source: MOSL, Data as on 31st May-2021.



Source: Bloomberg, Data as on 31st May-2021.

Risks to the hypothesis:

The central idea of comparison is to draw inferences from history and identify patterns, if any, and their probability of reoccurrence. There are a few inherent risks to this resemblance between FY04 and Fy22.

i) A protracted second wave could hurt interstate trade thereby delaying growth. Since the spread has affected rural India far more adversely as compared to the first wave, it is likely to have a greater impact on rural demand. Also, one cannot rule out successive waves led by further virus mutations.

ii) Secondly, higher and rising commodity prices will have a direct bearing on producer margins. Last year corporates took to aggressive cost rationalizations and protected their bottomlines in the face of a harsh and complete lockdown. This may not be possible in a year which has seen considerable increases in input items induced by a commodity prices boom.

iii) Finally, a faster and unexpected increase in bond yields & interest rates can derail the recovery of corporate profit pools, and also dampen valuations.

The uncertainty arising from the above factors may last longer than localized lockdowns – however the long term impact on corporate earnings is likely to be minuscule.

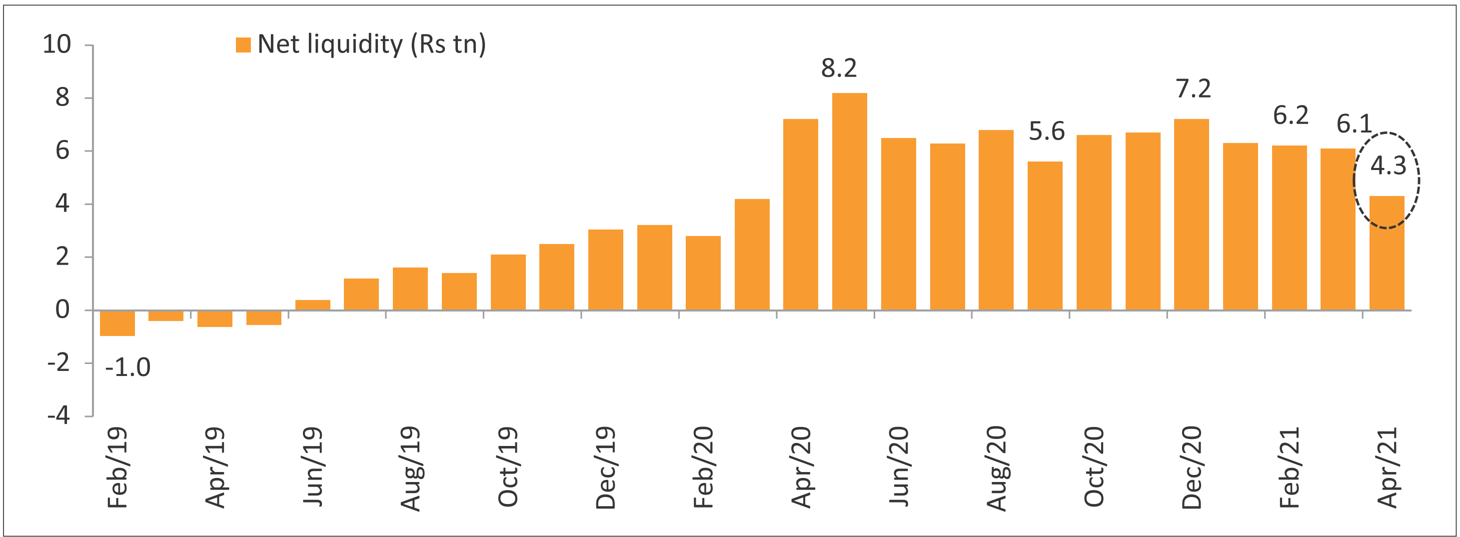
In conclusion

Financial history is replete with examples of patterns which resemble periods of economic cycles - both uptrends and troughs. Macroeconomic trends and specific data points indicate a lot of similarities in FY04 and Fy21.

As such the backbone of the recovery remains very strong.

Four reasons which warrant a high level of optimism are:

#1: Net liquidity in the system is high at Rs. 4.3tn – which is likely to keep the interest rate low in the economy.



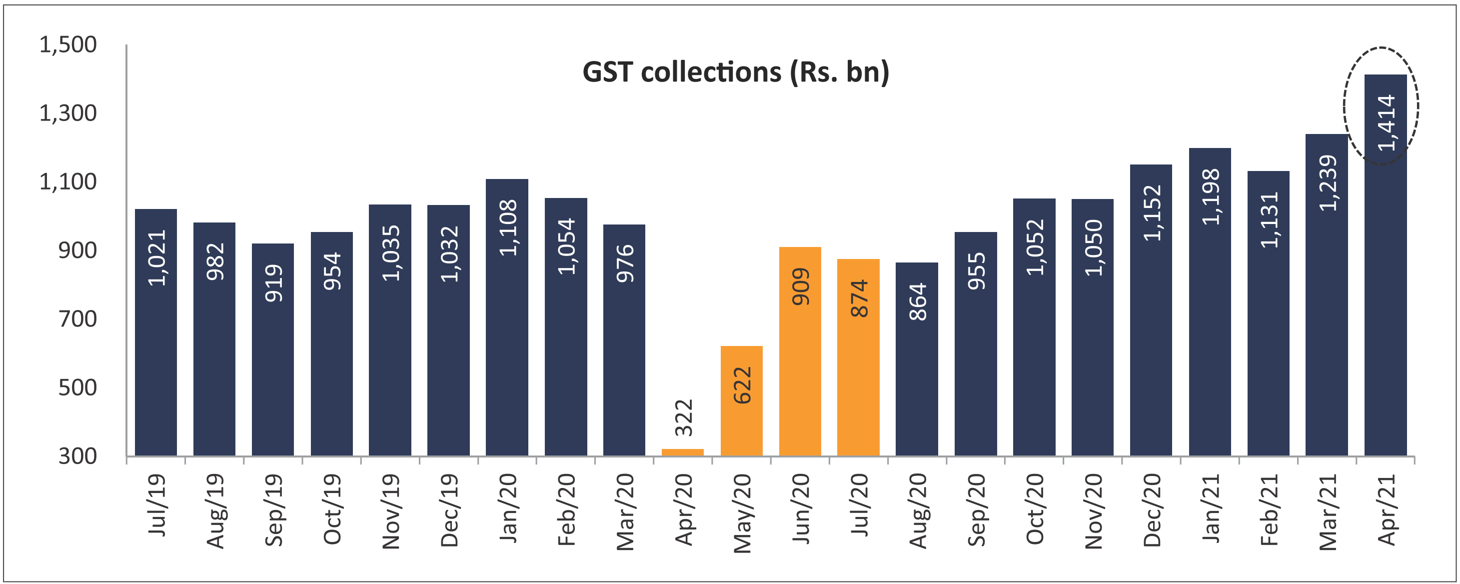
Source: MOSL, Data as on 31st May-2021.

#2: Banks are sitting on excess SLR (40.7% yoy jump) to keep interest rate low; Also, Banks' CASA jumped by Rs. 5.8tn in a year when India's GDP contracted.

Rs.tn	Mar-21	Mar-20	Delta	YoY growth %
Deposits	151.1	135.7	15.5	11.4%
Borrowings	2.4	3.1	-0.7	-21.0%
SLR securities	44.6	37.4	7.2	19.3%
SLR Ratio	29.05%	26.94%		--
SLR Requirement	18.00%	8.69%		--
Excess SLR	11.05%	8.69%		--
Excess SLR	11.05%	8.69%	7.2	19.3%

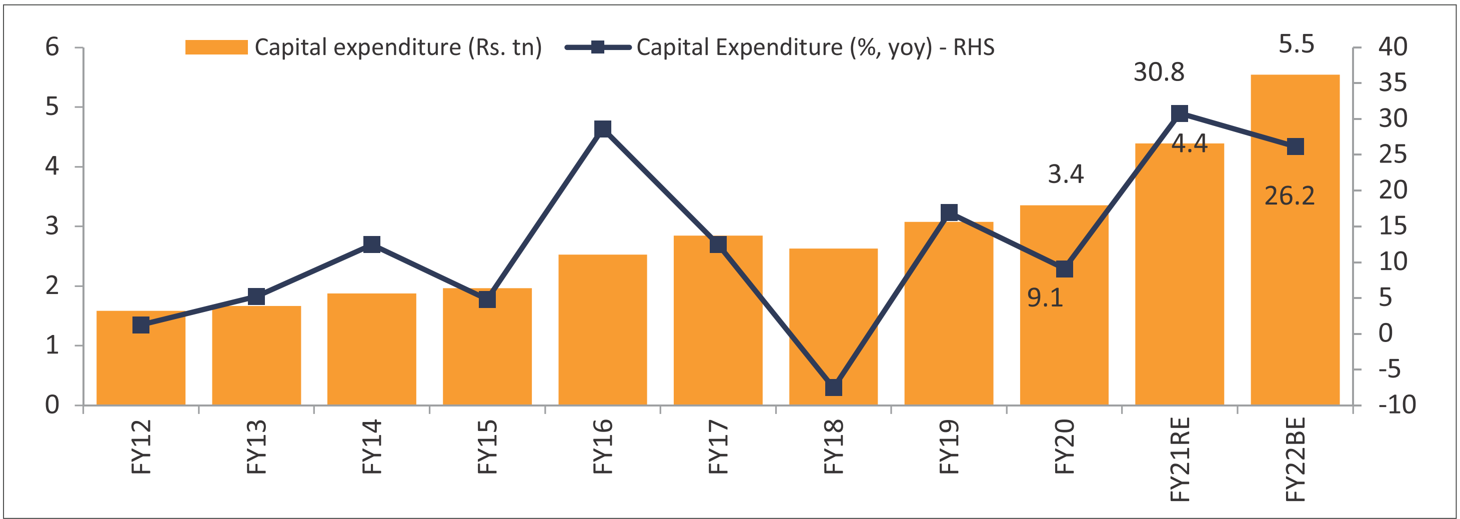
Source: MOSL, Data as on 31st May-2021.

#3: India's GST collections jumped to Rs. 1.4tn, the highest-ever monthly collections; it should provide some buffer to both the Centre and the States to spend



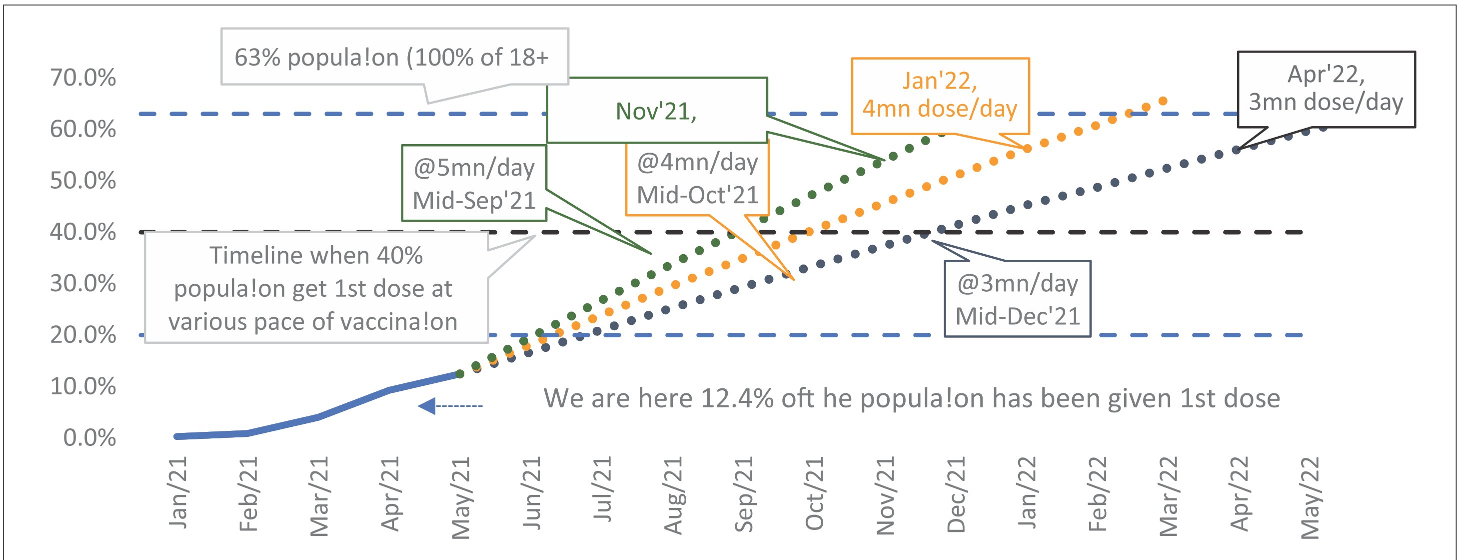
Source: MOSL, Data as on 31st May-2021.

#4: Govt. is likely to continue with its expansionary fiscal policy with clear focus on Capex to drive growth



Source: MOSL, Data as on 31st May-2021.

Lastly, the most important landmark for any country today is the percentage of vaccinated population. Studies have showed that once a country covers 40% of its population with all doses of vaccination the cases drop sharply. India can cross that threshold by mid Sept'21 assuming a pace of vaccination at 5mn doses a day.



Source: Spark Capital, Data as on 31st May-2021.

As per government sources nearly 50 crore doses, including 16 crore additional doses for states and private hospitals are in pipeline. Further import requirements for vaccines are being eased at the policy level. These are all welcome developments.

"Optimism is a strategy for making a better future. Because unless you believe that the future can be better, you are unlikely to step up and take responsibility for making it so", said Noam Chomsky.

We all will do well with an additional jab of optimism in these trying times.

Stay Safe and Stay invested.

Regards,
Navin Agarwal

References:

1: India's Dream Run, 2003-08 Understanding the Boom and Its Aftermath
http://www.igidr.ac.in/images/stories/India-Dream-Run.pdf

Value Strategy

Investment 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. Value is a large cap* oriented strategy where investments are made with long term perspective with industry leaders.

*The selection of the stocks will be based on the criteria of strategy at the time of initial ideation and investment made as per the model portfolio of the strategy

Details

Fund Manager	:	Shrey Loonker
Co-Fund Manager	:	Susmit Patodia
Strategy Type	:	Open ended
Date of Inception	:	18th February 2003
Benchmark	:	Nifty 50 TRI
Investment Horizon	:	3 Years +

Market Capitalization

Market Capitalization	% Equity
Large cap	68.7
Mid cap	29.0
Small cap	1.4

Top 10 Holdings

Particulars	% Allocation
Max Financial Services Ltd.	12.2
ICICI Bank Ltd.	11.7
SBI Cards And Payment Services	6.6
HDFC Bank Ltd.	6.2
Dr. Reddy's Laboratories Ltd.	5.1
HDFC Life Insurance Company Ltd	5.0
HCL Technologies Ltd.	5.0
Tube Investment of India Ltd.	4.7
Bharti Airtel Ltd.	4.4
Larsen & Toubro Ltd.	3.9

Data as on 31st May 2021

Top Sectors

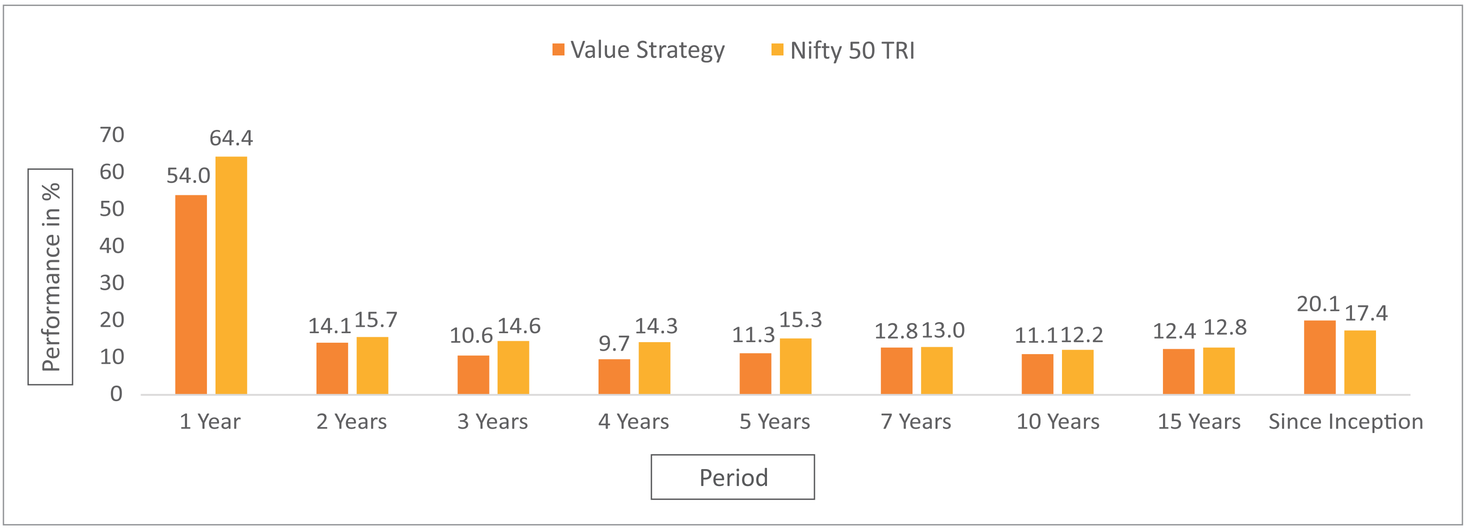
Sector Allocation	% Allocation*
Banking	21.2
Non-Lending Financials	17.2
NBFC	14.4
Pharmaceuticals	9.0
Consumer Staples	6.7
Auto	5.2
Software	5.0
Cash & Cash Equivalents	0.9

Data as on 31st May 2021 *Above 5% & Cash

Key Portfolio Analysis

Performance Data (Since Inception)	Value	Nifty 50
Standard Deviation (%)	18.6%	18.7%
Beta	0.9	1.0

Data as on 31st May 2021



Value Strategy Inception Date: 18th Feb 2003; Data as on 31st May 2021; Data Source: MOAMC Internal Research; RFR: 7.25%; *Earnings as of December 2020 quarter and market price as on 30th April 2021; Source: Capitaline and Internal Analysis; Please Note: Returns up to 1 year are absolute & over 1 year are Compounded Annualized. Returns calculated using Time Weighted Rate of Return (TWRR) at an aggregate strategy level. The performance related information is not verified by SEBI. All portfolio related holdings and sector data provided above is for model portfolio. Returns & Portfolio of client may vary vis-à-vis as compared to Internal Approach aggregate level returns due to various factors viz. timing of investment/ additional investment, timing of withdrawals, specific client mandates, variation of expenses charged & dividend income. Past performance may or may not be sustained in future and should not be used as a basis for comparison with other investments.

Next Trillion Dollar Opportunity Strategy

Investment 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. Focus is on businesses benefitting from growth in GDP.

*The selection of the stocks will be based on the criteria of strategy at the time of initial ideation and investment made as per the model portfolio of the strategy

Details

Fund Manager	: Manish Sonthalia
Strategy Type	: Open ended
Date of Inception	: 03 rd August 2007
Benchmark	: Nifty 500 TRI
Investment Horizon	: 3 Years +

Market Capitalization

Market Capitalization	% Equity
Large cap	48.4
Mid cap	47.2
Small cap	4.7

Top 10 Holdings

Particulars	% Allocation
Voltas Ltd.	12.2
Kotak Mahindra Bank Ltd.	9.6
ICICI Bank Ltd.	6.8
Max Financial Services Ltd.	6.3
L&T Technology Services Ltd.	5.8
Gland Pharma Ltd.	5.1
Page Industries Ltd.	4.6
Eicher Motors Ltd.	4.6
Ipca Laboratories Ltd.	4.1
Tech Mahindra Ltd.	3.8

Data as on 31st May 2021

Top Sectors

Sector Allocation	% Allocation*
Banking	19.2
Consumer Discretionary	16.9
Software	13.4
Pharmaceuticals	10.5
Consumer Staples	10.1
Non-Lending Financials	6.3
Oil & Gas	5.2
Cash & Cash Equivalents	-0.2

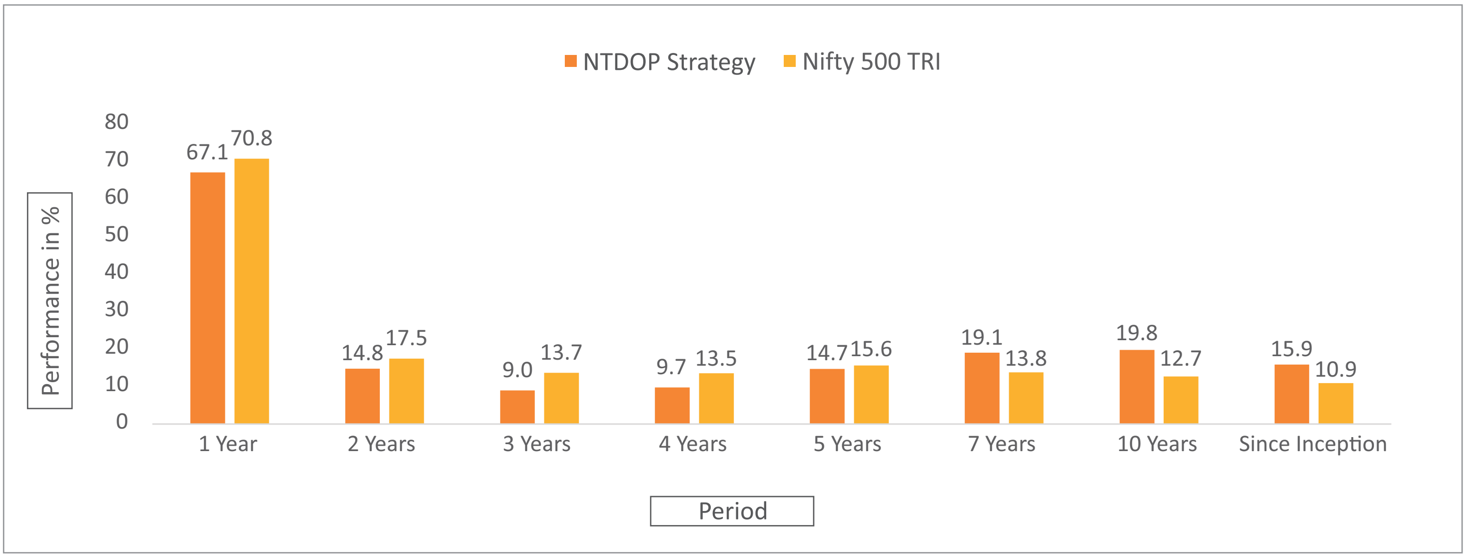
Data as on 31st May 2021

*Above 5% & Cash

Key Portfolio Analysis

Performance Data (Since Inception)	NTDOP	Nifty 500
Standard Deviation (%)	17.4%	17.9%
Beta	0.9	1.0

Data as on 31st May 2021



NTDOP Strategy Inception Date: 3rd Aug 2007; Data as on 31st May 2021; Data Source: MOAMC Internal Research; RFR: 7.25%; *Earnings as of December 2020 quarter and market price as on 30th April 2021; Source: Capitaline and Internal Analysis; Please Note: Returns up to 1 year are absolute & over 1 year are Compounded Annualized. Returns calculated using Time Weighted Rate of Return (TWRR) at an aggregate strategy level. The performance related information is not verified by SEBI. All portfolio related holdings and sector data provided above is for model portfolio. Returns & Portfolio of client may vary vis-à-vis as compared to Investment Approach aggregate level returns due to various factors viz. timing of investment/ additional investment, timing of withdrawals, specific client mandates, variation of expenses charged & dividend income. Past performance may or may not be sustained in future and should not be used as a basis for comparison with other investments.

India Opportunity Portfolio Strategy

Investment 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. The strategy is for investors who are keen to generate wealth by participating in India's growth story over a period of time.

The selection of the stocks will be based on the criteria of strategy at the time of initial ideation and investment made as per the model portfolio of the strategy

Details

Fund Manager	: Mr. Manish Sonthalia
Strategy Type	: Open ended
Date of Inception	: 15th Feb. 2010
Benchmark	: Nifty Smallcap 100 TRI
Investment Horizon	: 3 Years +

Market Capitalization

Market Capitalization	% Equity
Large cap	7.9
Mid cap	24.7
Small cap	55.6

Top 10 Holdings

Particulars	% Allocation
Kajaria Ceramics Ltd.	9.2
Birla Corporation Ltd.	8.5
ICICI Securities Ltd.	7.1
Can Fin Homes Ltd.	5.8
Mahanagar Gas Ltd.	5.7
VIP Industries Ltd.	5.3
Alkem Laboratories Ltd.	5.1
Max Financial Services Ltd.	4.5
Blue Star Ltd.	3.7
Quess Corp Ltd.	3.4

Data as on 31st May 2021

Top Sectors

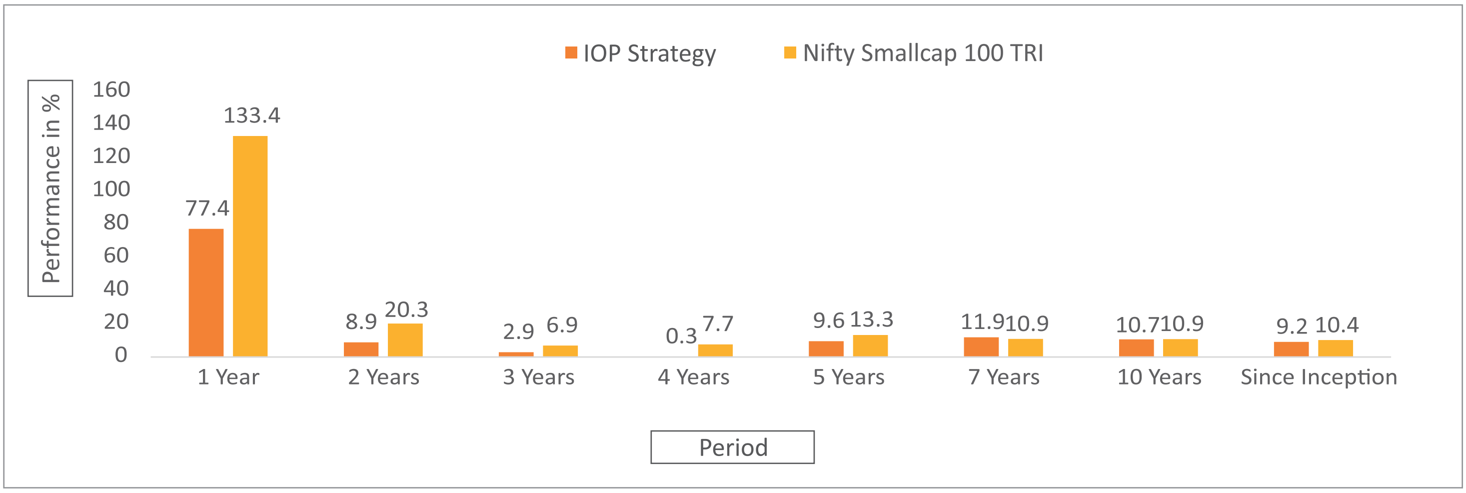
Sector Allocation	% Allocation*
Non-Lending Financials	14.8
Consumer Discretionary	13.7
Pharmaceuticals	11.1
Construction	10.8
Cement	8.5
NBFC	5.8
Oil & Gas	5.7
Cash & Cash Equivalents	11.7

Data as on 31st May 2021 *Above 5% & Cash

Key Portfolio Analysis

Performance Data (Since Inception)	IOP	Nifty Smallcap 100
Standard Deviation (%)	17.4%	17.9%
Beta	0.9	1.0

Data as on 31st May 2021



IOP Strategy Inception Date: 15th Feb 2010; Data as on 31st May 2021; Data Source: MOAMC Internal Research; RFR: 7.25%; *Earnings as of December 2020 quarter and market price as on 30th April 2021; Source: Capitaline and Internal Analysis; Please Note: Returns up to 1 year are absolute & over 1 year are Compounded Annualized. Returns calculated using Time Weighted Rate of Return (TWRR) at an aggregate strategy level. The performance related information is not verified by SEBI. All portfolio related holdings and sector data provided above is for model portfolio. Returns & Portfolio of client may vary vis-à-vis as compared to Investment Approach aggregate level returns due to various factors viz. timing of investment/ additional investment, timing of withdrawals, specific client mandates, variation of expenses charged & dividend income. Past performance may or may not be sustained in future and should not be used as a basis for comparison with other investments.

India Opportunity Portfolio V2 Strategy

Investment Objective

The Strategy aims to deliver superior returns by investing in stocks from sectors that can benefit from India's emerging businesses. It aims to predominantly invest in Small and Midcap stocks* with a focus on identifying potential winners. Focus on Sectors and Companies which promise a higher than average growth.

*The selection of the stocks will be based on the criteria of strategy at the time of initial ideation and investment made as per the model portfolio of the strategy

Details

Fund Manager	: Mr. Manish Sonthalia
Strategy Type	: Open ended
Date of Inception	: 5th Feb. 2018
Benchmark	: Nifty Smallcap 100 TRI
Investment Horizon	: 3 Years +

Market Capitalization

Market Capitalization	% Equity
Large cap	6.2
Mid cap	27.1
Small cap	66.4

Top 10 Holdings

Particulars	% Allocation
Aegis Logistics Ltd.	7.9
Mahanagar Gas Ltd.	7.3
Kajaria Ceramics Ltd.	6.6
Can Fin Homes Ltd.	5.8
JK Lakshmi Cement Ltd.	5.7
ICICI Securities Ltd.	4.7
Godrej Agrovet Ltd.	4.7
Sundram Fasteners Ltd.	4.6
VIP Industries Ltd.	4.0
Avanti Feeds Ltd.	3.8

Data as on 31st May 2021

Top Sectors

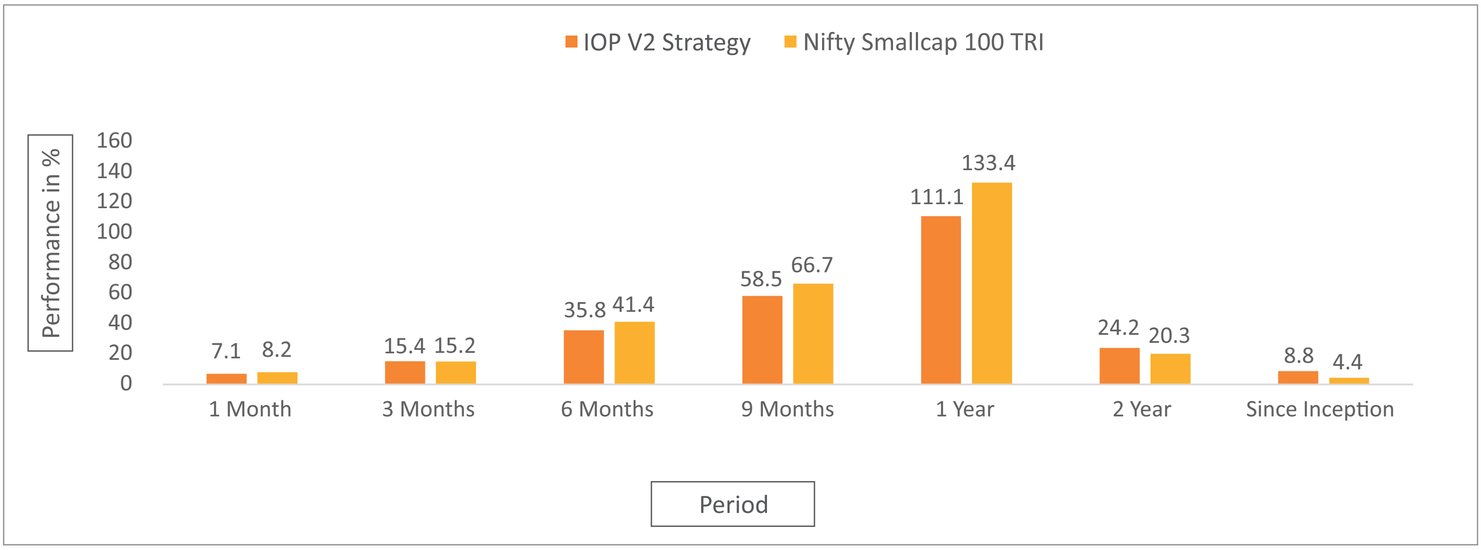
Sector Allocation	% Allocation*
Oil & Gas	15.1
Consumer Discretionary	12.7
Consumer Staples	9.7
Pharmaceuticals	9.4
Non-Lending Financials	8.4
Cement	8.2
Construction	8.1
Auto Ancillaries	8.0
NBFC	5.8
Cash & Cash Equivalents	0.3

Data as on 31st May 2021 *Above 5% & Cash

Key Portfolio Analysis

Performance Data (Since Inception)	IOP V2	Nifty Smallcap 100
Standard Deviation (%)	18.8%	20.1%
Beta	0.8	1.0

Data as on 31st May 2021



IOP V2 Strategy Inception Date: 5th Feb 2018; Data as on 31st May 2021; Data Source: MOAMC Internal Research; RFR: 7.25%; *Earnings as of December 2021 quarter and market price as on 30th April 2021; Source: Capitaline and Internal Analysis; Please Note: Returns up to 1 year are absolute & over 1 year are Compounded Annualized. Returns calculated using Time Weighted Rate of Return (TWRR) at an aggregate strategy level. The performance related information is not verified by SEBI. All portfolio related holdings and sector data provided above is for model portfolio. Returns & Portfolio of client may vary vis-à-vis as compared to Investment Approach aggregate level returns due to various factors viz. timing of investment/ additional investment, timing of withdrawals, specific client mandates, variation of expenses charged & dividend income. Past performance may or may not be sustained in future and should not be used as a basis for comparison with other investments.

Business Opportunities Strategy

Investment Objective

The investment objective of the Strategy is to achieve long term capital appreciation by primarily investing in equity & equity related across market capitalization. It aims to predominantly invest in emerging themes with focus on themes like affordable housing, agricultural growth, GST and value migration from PSU banks to Private Sector Banks.

The selection of the stocks will be based on the criteria of strategy at the time of initial ideation and investment made as per the model portfolio of the strategy

Top 10 Holdings

Particulars	% Allocation
Max Financial Services Ltd.	14.7
ICICI Bank Ltd.	12.8
HDFC Bank Ltd.	10.6
Tata Consultancy Services Ltd.	10.3
Kotak Mahindra Bank Ltd.	9.4
Larsen & Toubro Infotech Ltd.	6.8
HDFC Life Insurance Company Ltd.	6.4
Eicher Motors Ltd.	5.4
Hindustan Unilever Ltd.	4.9
Asian Paints Ltd.	4.8

Data as on 31st May 2021

Details

Fund Manager	: Mr. Manish Sonthalia
Associate Fund Manager	: Mr. Atul Mehra
Strategy Type	: Open ended
Date of Inception	: 18th Dec. 2017
Benchmark	: Nifty 500 TRI
Investment Horizon	: 3 Years +

Top Sectors

Sector Allocation	% Allocation*
Banks	32.9
Non-Lending Financials	21.1
Software	17.1
Auto	9.9
Consumer Staple	9.7
Consumer Discretionary	7.0
Cash & Cash Equivalents	-0.2

Data as on 31st May 2021 *Above 5% & Cash

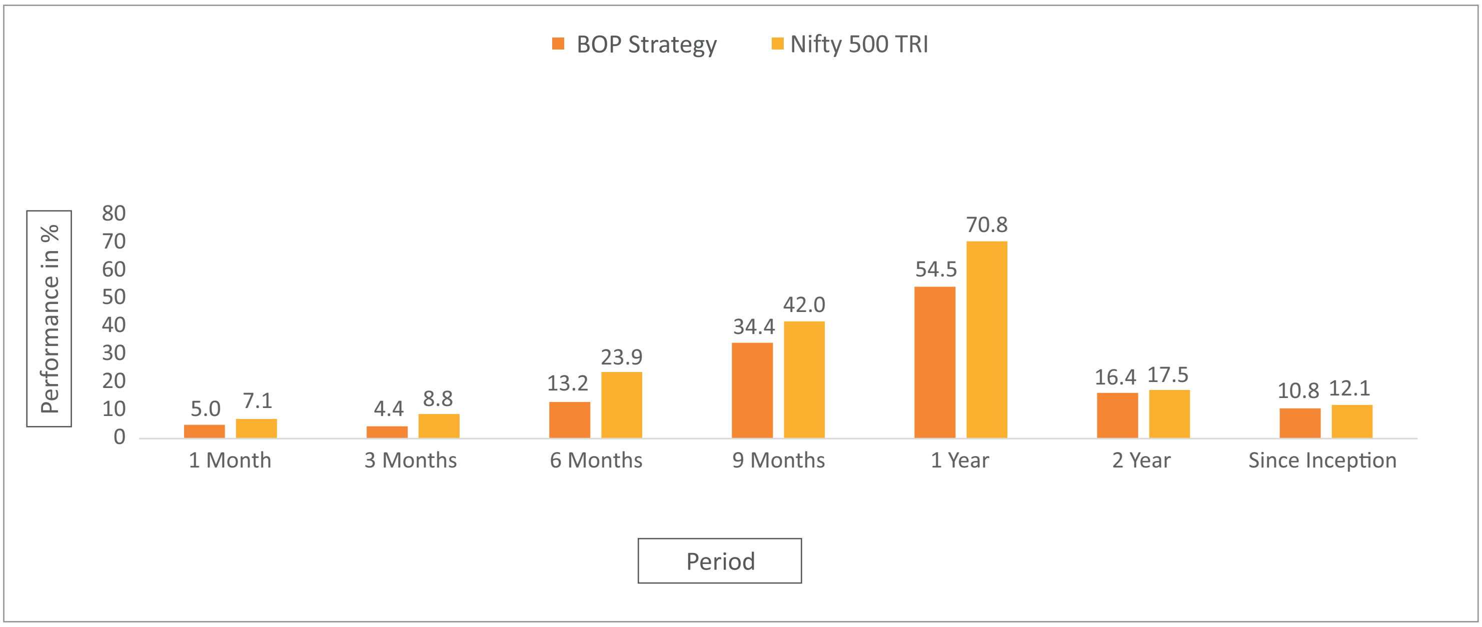
Market Capitalization

Market Capitalization	% Equity
Large cap	75.9
Mid cap	17.3
Small cap	7.0

Key Portfolio Analysis

Performance Data (Since Inception)	BOP	Nifty 500
Standard Deviation (%)	17.8%	17.9%
Beta	0.9	1.0

Data as on 31st May 2021



BOP Strategy Inception Date: 16th Jan 2018; Data as on 31st May 2021; Data Source: MOAMC Internal Research; RFR: 7.25%; *Earnings as of Deecmber 2020 quarter and market price as on 30th April 2021; Source: Capitaline and Internal Analysis; Please Note: Returns up to 1 year are absolute & over 1 year are Compounded Annualized. Returns calculated using Time Weighted Rate of Return (TWRR) at an aggregate strategy level. The performance related information is not verified by SEBI. All portfolio related holdings and sector data provided above is for model portfolio. Returns & Portfolio of client may vary vis-à-vis as compared to Investment Approach aggregate level returns due to various factors viz. timing of investment/ additional investment, timing of withdrawals, specific client mandates, variation of expenses charged & dividend income. Past performance may or may not be sustained in future and should not be used as a basis for comparison with other investments.

Stock Rationale (quarter ending 31st March 2021)

Value Strategy

Entry Rationale:

United Spirits(UNSP):

- From an industry structure perspective, the total spirits market is 622 M Cases and Local/Country is still over 50% of the same. There has been nearly no growth for the last 5 years in the market. It would be fair to assume that slower economic growth makes it difficult for recruitment into the Organised Spirits market. The only segments that have grown is the P&A segment which is dominated by Pernod and UNSP. Hence we believe we are at the bottom of the industry growth cycle

- P&A actually showed a volume growth despite 25% of their sales (On-Premise) being severely impacted. Overall volume decline was just 4% in Q2. Couple of key factors like A) Duty Free Collapse B) In Home Consumption increasing and that favours spirits over beer.

- It is interesting to note that unlike Cigarettes, it is very clear that most of it is only for state finances and there is no social implication to the same and this led to reversal of hikes. Also, According to the data provided by the CIABC, sales of alcoholic beverages in states that imposed a tax increase of 25% or more is lower by 45% for the period of May-August, while sales for states that imposed no tax hike or marginal increase, it is only 12% lower year-on-year

Mahindra & Mahindra(M&M):

- M&M has dominant market share of 40%. From FY08-12, volumes went up 2x. Volumes from FY12-20 are up only 30%. If we believe that the agri revolution is upon us and the infra cycle is set to start, the tractor growth trajectory could be materially higher than what we have seen in the last few years.

- M&M is actually the leader in the LCV segment in India ahead of Tata Motors. The gap between Tata Motors and M&M used to be 100 bps which has now opened upto 300 bps+. This is considered to be the fastest growing segment of the market. This segment contributes ~50% to total Auto Sales for MM. LCV segment is also estimated to grow fast owing to the need for last mile delivery. On passenger UV segment with many changes and with strong launch pipeline which had gone dry since XUV500, it is believed this segment would also witness huge recovery. Hence with demonstrated change in the capital allocation policy, it is possible to think that one can retain the ideal PE of the core business

Home First Finance Company

- **Focus on 'core housing loans' and low-risk 'salaried segment' lowers business risks and makes the company stand out amongst peers** - As the spreads in core housing loans are the lowest, most HFCs try and utilize the regulatory leeway in order to prop up spreads and ROAs by diversifying in high yield - high risk segments like LAP and developer financing. Another tool which HFCs use to expand spreads is to focus more on the Self Employed segment which typically offers an extra yield of ~100 bps over the salaried segment. HFF has stuck to the core business model of 'housing loans' which comprises 92% of its AUM, with almost three-fourth of customer mix from the 'salaried segment' which makes HFF a safer company to invest in.

- **Technology driven scalable business model-**HFF established a differentiated technology framework with customized systems and tools, enhancing convenience for customers as well as increasing operational efficiency. Since FY17, HFF has invested Rs. 200mn in I.T. systems. HFF has entered into arrangements with third party service providers through whom it obtains additional information such as fraud related data, banking, investment cum taxation related data, and vehicle ownership of customers, which enables HFF with underwriting, and to identify areas of concern and take quick and accurate decisions. HFF has also deployed proprietary machine learning customer-scoring models to assist it with effective credit underwriting. The seamless integration and availability of data across platforms and users enables HFF to process loans in a paperless manner and with quick turn-around time of 2 days compared with industry average of 7-8 days.

- Strong track record of growth; long runway ahead-HFF has demonstrated robust growth in AUM over FY18-20 at 63% CAGR, one of the highest amongst listed financials. The base is remains low at Rs. 39bn as on Q3FY21; combined with established presence in 60 housing clusters (important cities), we believe there is a long runway for accelerated growth. (Although much lower than what was achieved in the past).

- Superior asset quality; Strong collection efficiency despite Covid-Since inception in 2010, HFF's GNPA has never crossed the 1% mark despite undergoing demonetization which severely impacted most NBFCs/HFCs catering to the self-employed segment. Collection efficiency has recovered to 96-98% ((by number of EMI payments and paying customers), vs 63-64% in May'20.

Exit Rationale:

ITC: With emerging concerns of ESG and cigarette regulation to get stricter, the core cash flows and the valuation could continue to come under pressure. Our channel checks also indicate that the consumer business post the unlock has lost steam showing that they benefitted from the rising tide and may not have created brand leadership yet.

Axis Bank: The banking sector is facing growth challenges outside of the Housing Finance segment. With valuations now touching 2x P/B, growth is imperative for the stock to do well from hereon. We think that credit growth for large banks will be delayed out by 3-4 Qs. We are also using the proceeds to add to our conviction of SBI Cards

NTDOP Strategy

Entry Rationale:

SBI:

- **A differentiated bank**: Despite the govt. ownership, SBI is far superior than other PSU banks (on liabilities franchise, NIM and asset quality). On long term asset quality it has been better than some pvt. sector peers (ICICI Bank and Axis Bank) .The bank thus ticks right on strong management and quality parameters.
- **Surprising positively on near & medium term challenges**: After recovering from the long-drawn corp. asset quality cycle (2013-18), the bank has been best-in-class in tackling 2018-20 NBFC/real estate/mid-corp and 2020 COVID asset quality shocks to the system, thanks to revamped systems and processes and conservative underwriting.
- **Steadily scaling up market-leading subsidiaries**: Benefitting from professional management, at arm's length to the parent, and a largely untapped bank customer base, all of SBI's subsidiaries are rapidly gaining market share with healthy RoEs and now account for c.40% of the bank valuation.
- **Re-rating to continue**: The bank trades at 0.9x FY22 parent BV and 1.2x FY22 consol. BV. The RoE forecast to recover >14-15% over FY22-24E., will thus drive rerating in the valuation as the visibility builds over coming quarters.

Exit Rationale:

City Union Bank: Regional banks would face greater challenges in managing the asset quality post Covid. This is thematic call on all small banks with low ROA. Small bank stocks with a low ROA are a structural disadvantage. Any restructuring event will have a disproportionate impact on these stocks. Valuations have come down significantly in high ROA banks and gives an opportunity to consider them over small banks.

IOPV2 Strategy

Entry Rationale:

VIP Industries

- Domestic air travel, marriages, tourism and schools are all starting to reopen and we believe in 6 months to 1year, these four main drivers to the luggage industry will be back to preCovid levels. In fact there can be a strong pentup demand which can surprise demand in the industry, which is not built in our base case.
- During such times the competitive positioning of VIP is only getting strong as the smaller unorganised players are getting marginalised and even competition from a large competitor like Samsonite is much lower and they have closed many stores in the country.
- Further, VIP has reworked on their cost structures significantly on both the sourcing cost and fixed cost items. Sourcing only from Bangladesh and India is the goal 2-3yrs down the line which provides high GM benefits. The significant flab on operating costs that VIP had built over the years has also been ruthlessly cut down. As sales recovers, the margins delivered by the company can surprise significantly on the upside.
- VIP has a market cap of ~5400Cr for a company that can deliver 300Cr+ of profits in couple of years. Given the strong ROE track record of 20%+, consistent dividend payout and the kind of multiples attributed to a consumer brand in India, we believe VIP offers excellent risk reward at the current price.
- Option value of i) any adverse taxation impact on sourcing directly from China improves VIPs competitive positioning significantly ii) execution by the new CEO recruited recently iii) stronger than expected bounce back due to latent demand in the system.

Bluedart Express:

- The demand supply equation in the air cargo market is turning favourable as demand for delivery of goods has stepped up post Covid while supply of planes to carry the goods is the same number and will hover around in this vicinity for atleast 2yrs. This ensures a favourable pricing scenario going ahead.
- Blue Dart is one of the two players in the country that owns a fleet of freighters for transportation of goods and is well positioned to benefit from the situation. It is a focused player with a long term track record of quality on time delivery allowing it to charge a premium and making it one of the preferred partners for corporates and ecommerce participants.
- The last 5yrs has been tumultuous for the company due to various external and internal factors, which are now behind. This is evidenced in the financial performance over last 2 quarters where the company is delivering close to peak profit margins without much increase in demand over the previous 5yrs. Given the expected improvement in demand and 65% fixed cost structure of the company, profits can surprise significantly over the next 3yrs and the current entry point is quite attractive

Exit Rationale:

Bajaj Electricals: Stock has moved up by 200% in FYTD and is now ~10,000Cr MCap company for a company that may deliver ~350Cr of Profits in FY22 ie trading at 28xFY22 earnings. The company seems to be now well appreciated by the markets with significant positives priced in. While Bajaj Electricals may continue to do well in the near term, risk reward seems balanced and we have better ideas to enter into which are still underappreciated

BOP Strategy

Entry Rationale:

Maruti Suzuki:

- Market leadership (~50% market share) in a highly under-penetrated market
- India has ~30 cars per 1000 individuals, vs 980 for US; 200 for China
- Strong understanding of the market, most trusted brand, value for money
- Strong long term beneficiary of increasing discretionary spends

Safari:

- Strong owner-operator, significant market share gains (2% to 16% over 8 years)
- Structural demand tailwinds; unorganized to organized, offline to online
- Improving RoE profile with shift in sourcing from China to India, Bangladesh

Exit Rationale:

Bata India and Titan:

- Exited Bata and Titan to accommodate newer ideas; Maruti and Safari

Risk Disclosure And Disclaimer

Portfolio Management Services | Regn No. PMS INP 000000670

Our PMS services are available in direct mode, to know more, write to us at pmsquery@motilaloswal.com

For any PMS queries please call us on +91 81086 22222 / 022-4054 8002 (press 2 for PMS)
or write to pmsquery@motilaloswal.com or visit www.motilaloswalmf.com