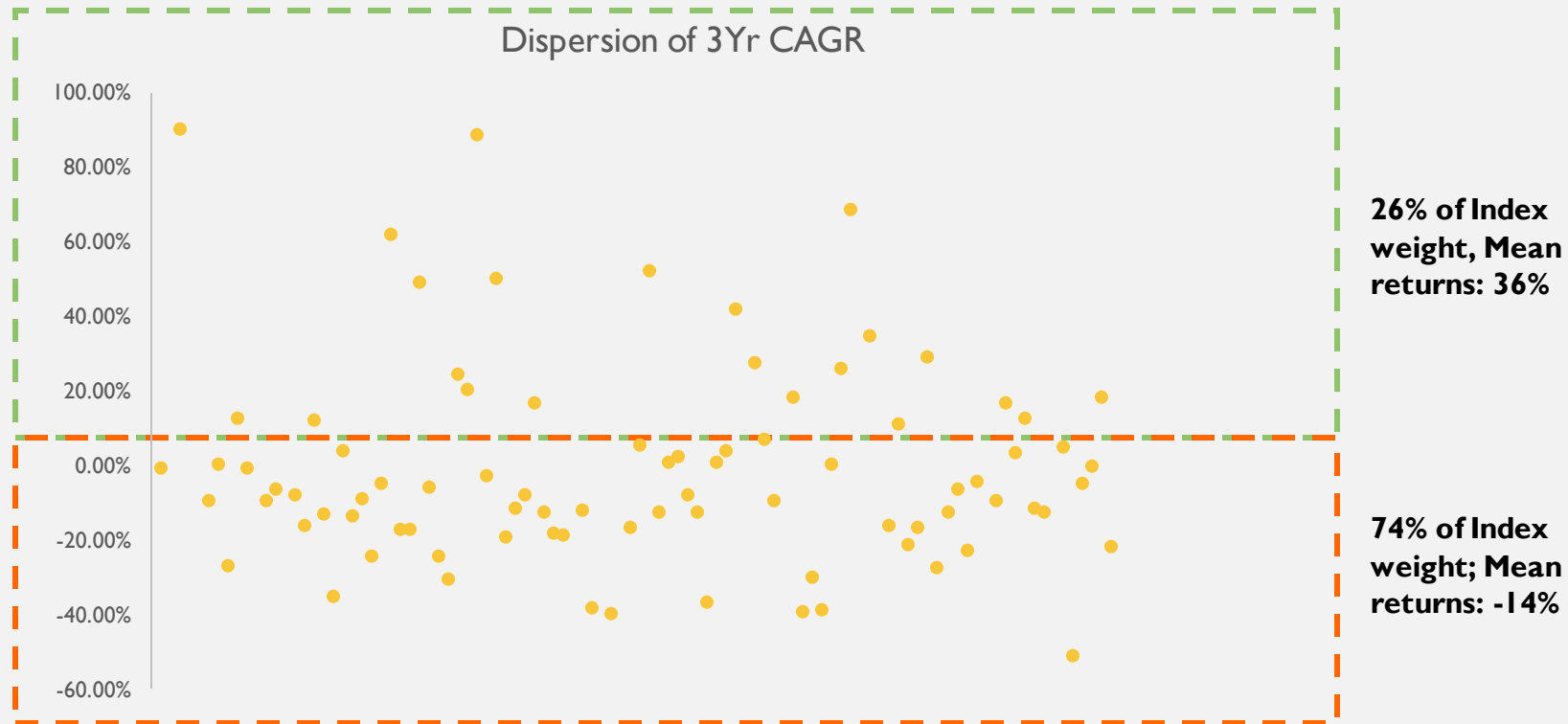


# IOP – Set to seize the opportunity

November 2020

**Smallcaps offers a larger opportunity for Alpha generation**

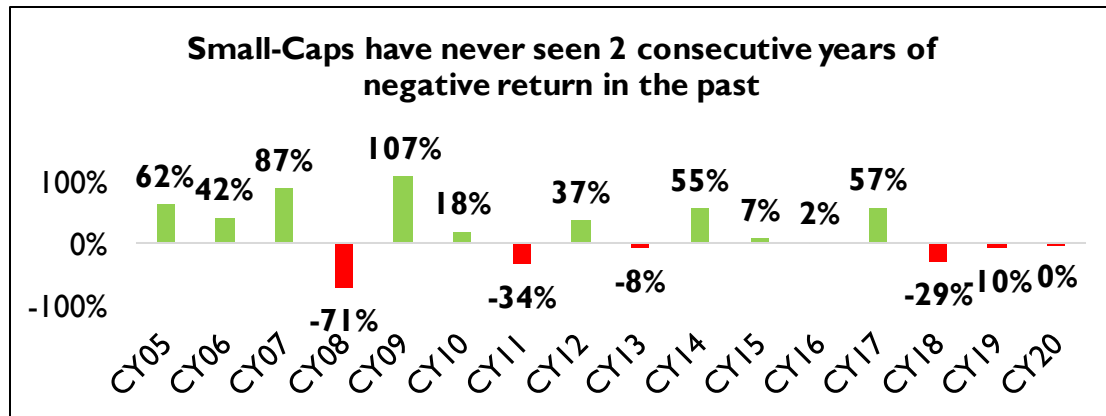
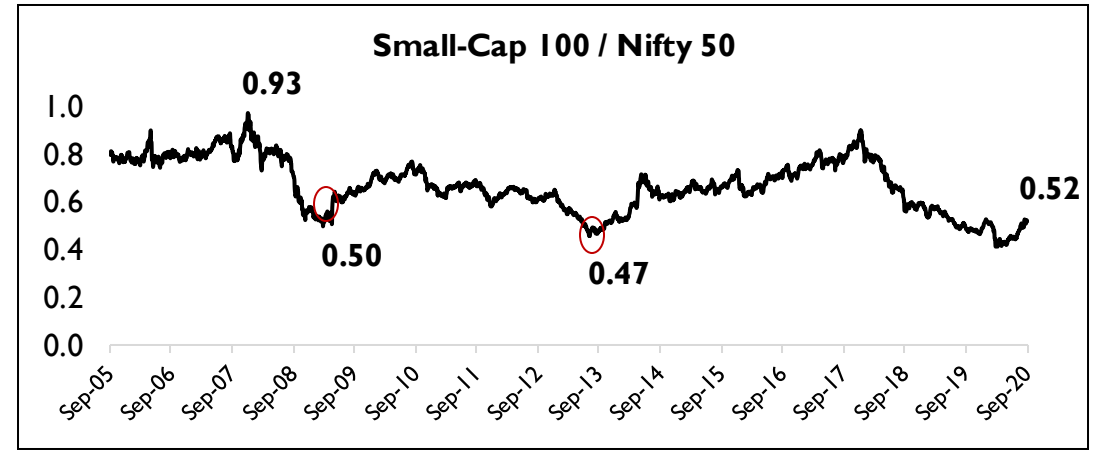
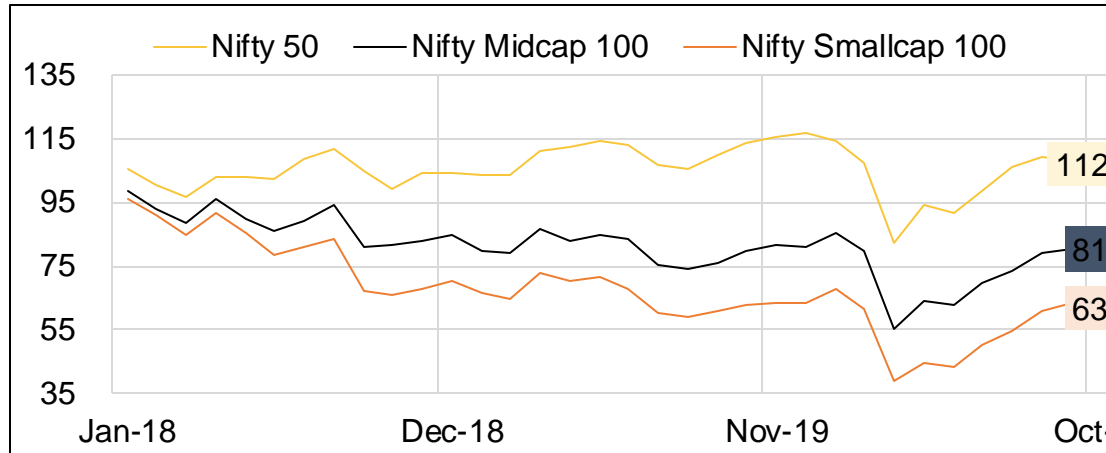
# Smallcaps offer a larger opportunity for Alpha generation



- Top 20 stocks account for 31% of Index weight but contributes 230% of the total price returns
- Nifty Smallcap 100 Returns for 3 years: -8.4%
- Dispersion averages out the overall returns of the portfolio
- Wide dispersion of returns in small caps provides scope for bottom-up stock picking

Source: MOAMC internal research. Disclaimer: Data from Sep 30, 2017 till Sep 30, 2020. The above is for representation purpose only and should not used for development or implementation of an investment strategy. Past performance may or may not be sustained in future.

## Why now? - Expect smallcaps to bounce back with economic recovery



- Over the last 2-year period, small caps have underperformed both large caps and midcaps and this is unlikely to sustain and now is time to grab the opportunity
- The long term relationship between Small Cap 100 and Nifty 50 indicates that we are at or nearing a trough

Source: MOAMC Internal Research, Data as on 31.10.2020

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# IOP has a successful performance track record ...

Canfin, Dhanuka, Mahanagar Gas, Alkem, Birla Corp; 2% alpha since inception

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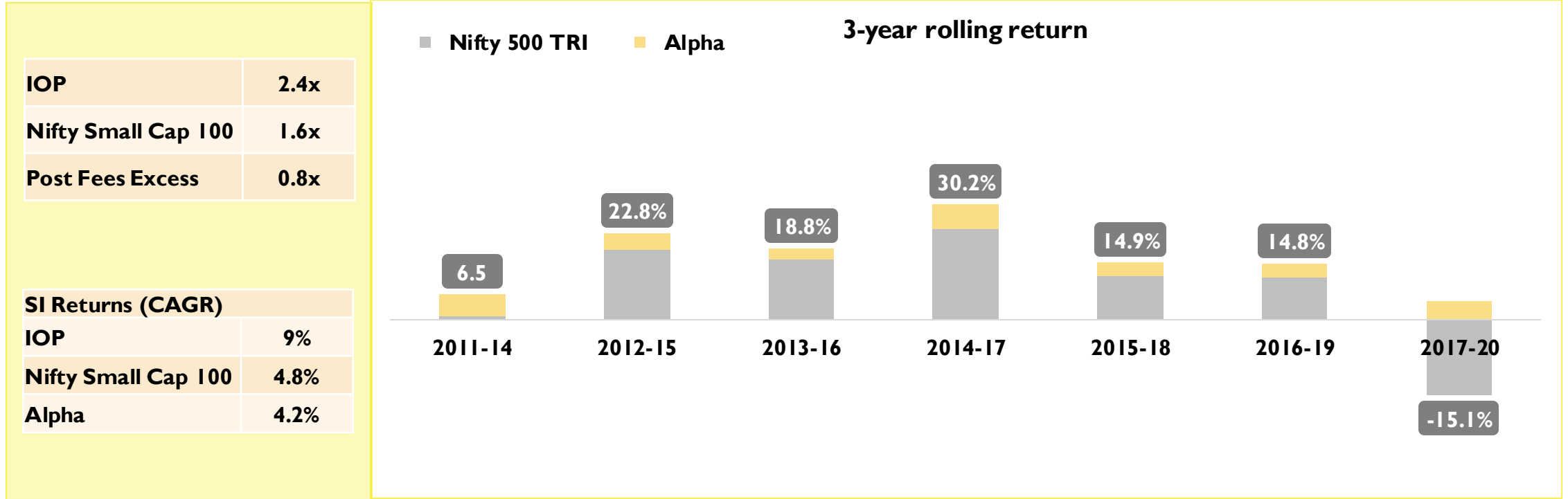


# IOP: Legacy of identifying multibaggers

|                   | Above average RoE | Strong PAT CAGR | Stock Price CAGR | Alpha CAGR |
|-------------------|-------------------|-----------------|------------------|------------|
| Can Fin Homes     | 21%               | 17%             | 3%               | 10%        |
| Dhanuka Agritech  | 22%               | 10%             | 11%              | 14%        |
| Mahanagar Gas     | 24%               | 26%             | 14%              | 21%        |
| Alkem Labs        | 18%               | 15%             | 11%              | 14%        |
| Birla Corporation | 7%                | 32%             | 1%               | 8%         |

Source: MOAMC Internal Research Disclaimer: 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 any investment strategy. It should not be construed as investment advice to any party. The stocks may or may not be part of our portfolio/strategy/schemes. Past performance may or may not be sustained in future.

# Unbroken positive 3-yr rolling returns till Mar-19

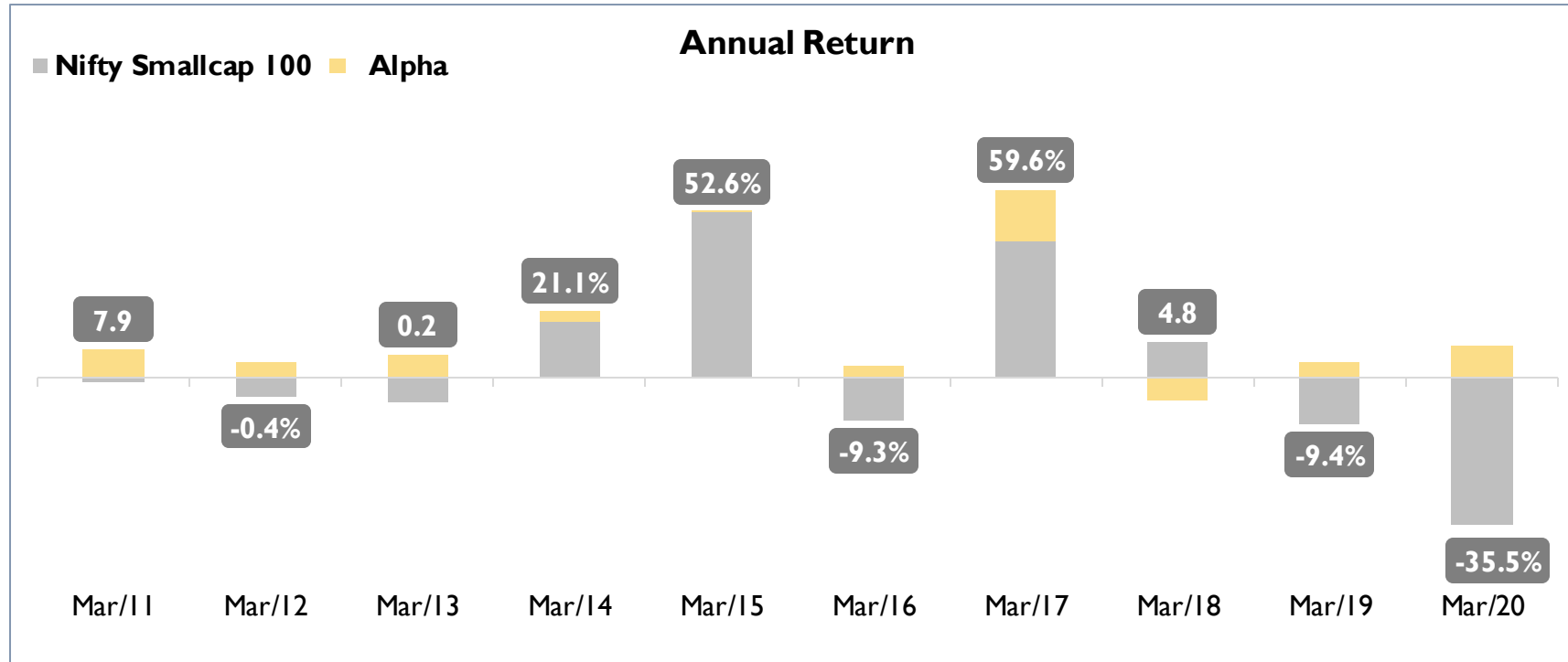


**Multi-decadal opportunity to buy into small caps**

Source: MOAMC Internal Research

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# Positive alpha in 9 out of 10 years



## Multi-decadal opportunity to buy into small caps

Source: MOAMC Internal Research, Data as on 31.8.2020

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# QGLP for small caps can be nuanced

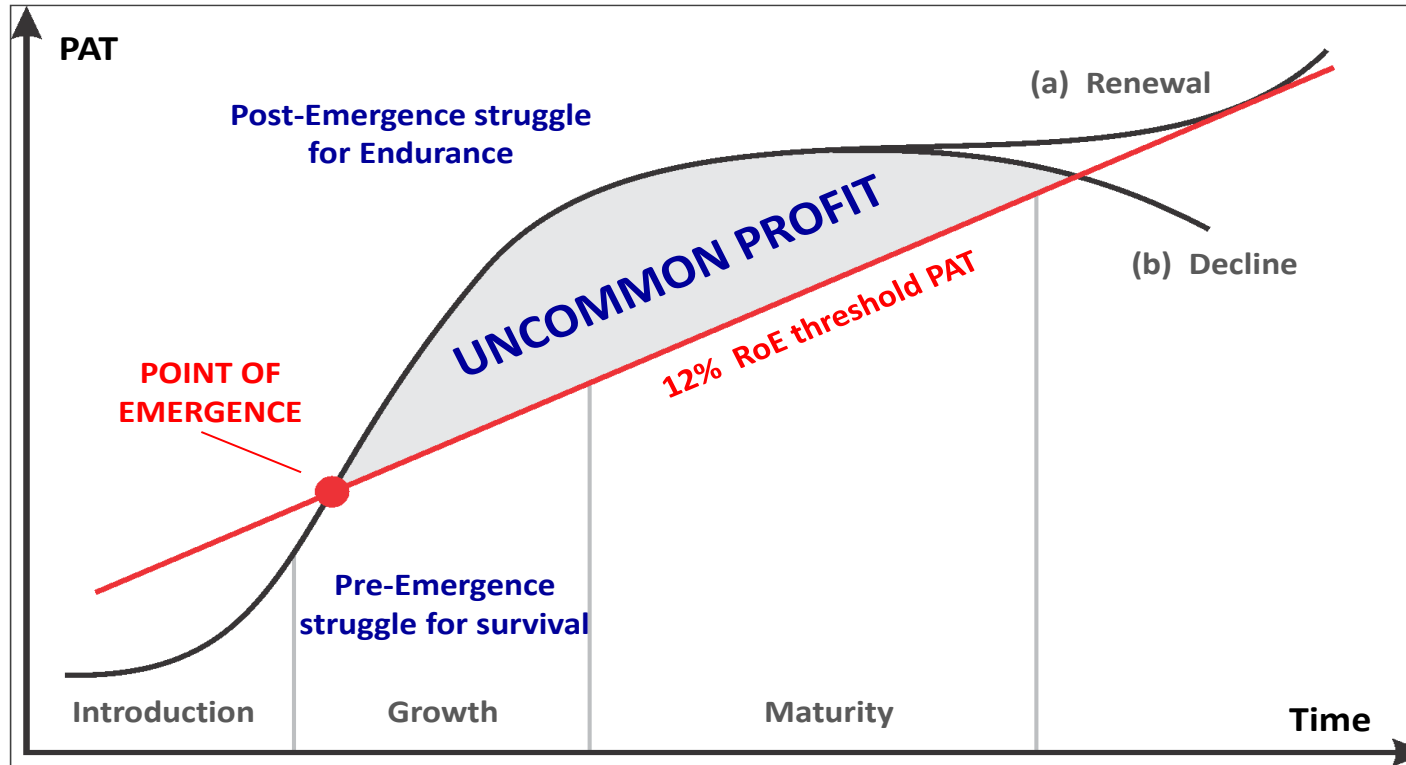
## QGLP for small caps is somewhat nuanced

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- **Q** : In some cases, for small caps, quality is not necessarily proven but emerging
- **G** : Growth of small caps is strongly correlated to economic growth
- **L** : Small caps have a long growth runway, given huge opportunity and small size
- **P** : P stands for both, Price and Patience

## Q : In some small caps, Quality not necessarily proven but Emerging

**Emergence** : When a company's Return on Equity (RoE) exceeds Cost of Equity (CoE)



Source: 18<sup>th</sup> Motilal Oswal Annual Wealth Creation Study, 2013

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# What happens when companies Emerge and then Endure

**Endurance** : Companies sustaining RoE higher than CoE, post Emergence

| Company   | Year of Emergence | 5-year post emergence (%) |         |            |           |
|---|-------------------|---------------------------|---------|------------|-----------|
|   |                   | PAT CAGR                  | Avg RoE | Price CAGR | Rel Perf. |
| Manappuram Finance  | 2007              | 123%                      | 28%     | 70%        | 64%       |
| Shriram Transport   | 2001              | 56%                       | 28%     | 85%        | 60%       |
| Shriram City Union  | 2004              | 45%                       | 24%     | 70%        | 58%       |
| Accelya Kale  | 2008              | 36%                       | 31%     | 60%        | 56%       |
| Titan Industries  | 2003              | 53%                       | 33%     | 85%        | 46%       |
| Emami   | 2007              | 31%                       | 35%     | 33%        | 27%       |
| GRUH Finance  | 2003              | 33%                       | 24%     | 60%        | 22%       |
| Asahi India Glass   | 2002              | 25%                       | 43%     | 51%        | 21%       |
| Blue Dart Express   | 2001              | 22%                       | 23%     | 45%        | 20%       |
| Cera Sanitaryware   | 2008              | 36%                       | 24%     | 29%        | 17%       |
| Source: 18th Motilal Oswal Annual Wealth Creation Study, 2013 |                   |                           |         |            |           |

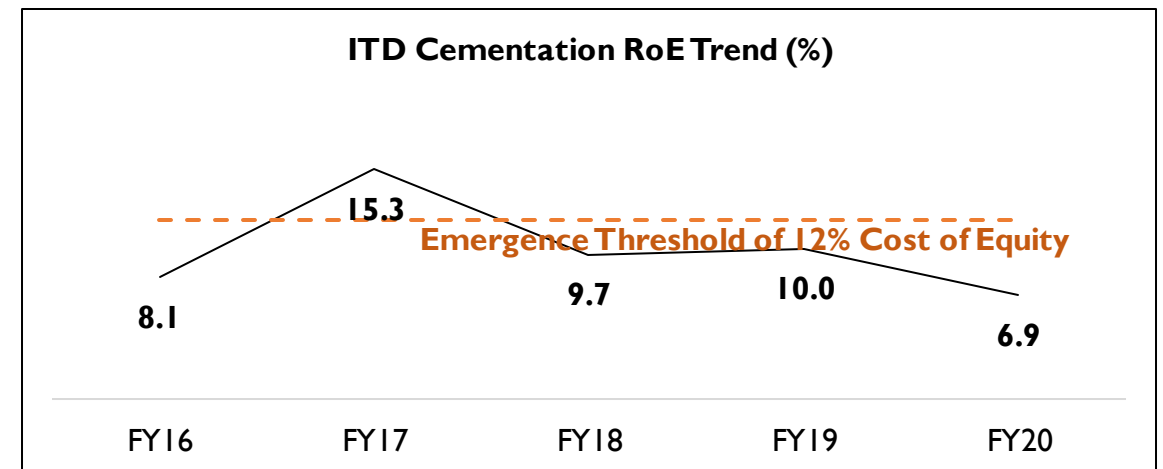
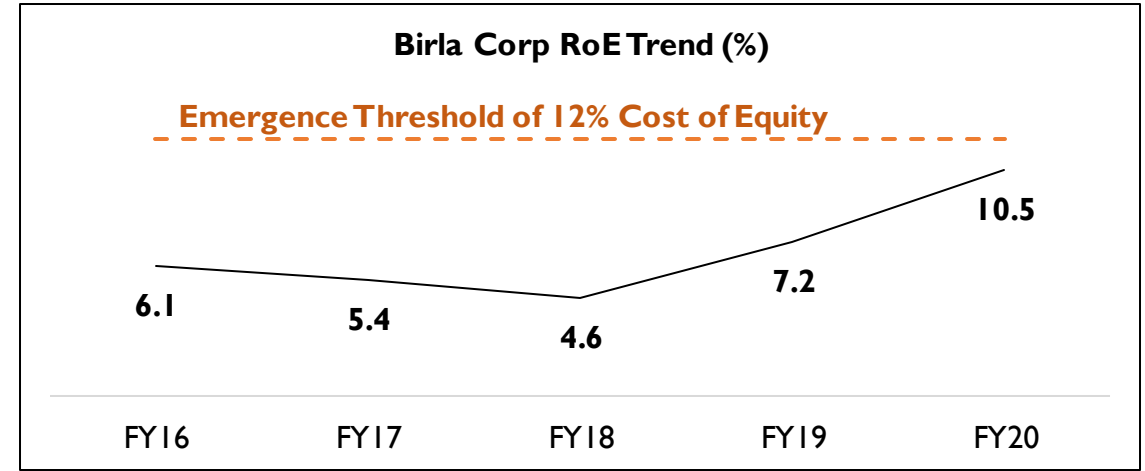
Source: MOAMC Internal Research, Data as on 31.8.2020

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# Some IOP companies on the verge of Emergence

➤ **Birla Corp** likely to cross Emergence threshold soon on the back of robust cement demand

➤ **ITD** has already done it once; it should repeat with economic recovery

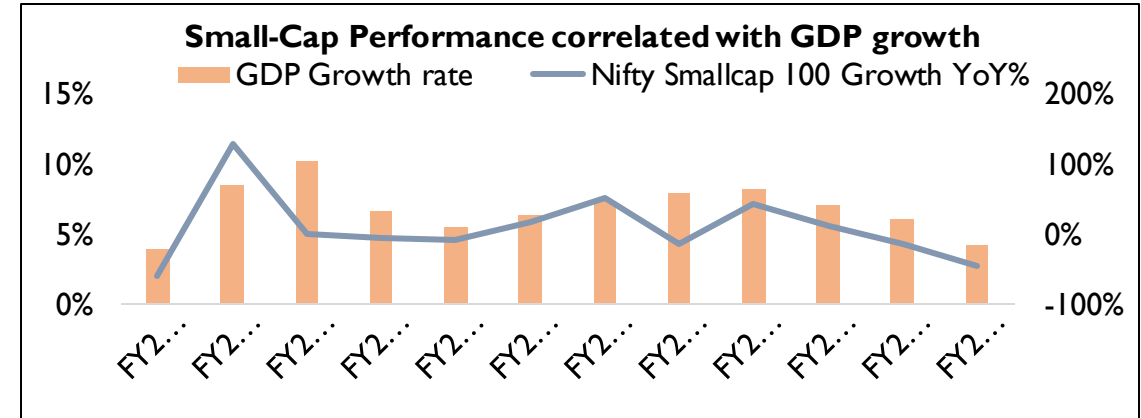


Source: MOAMC Internal Research, Data till FY20

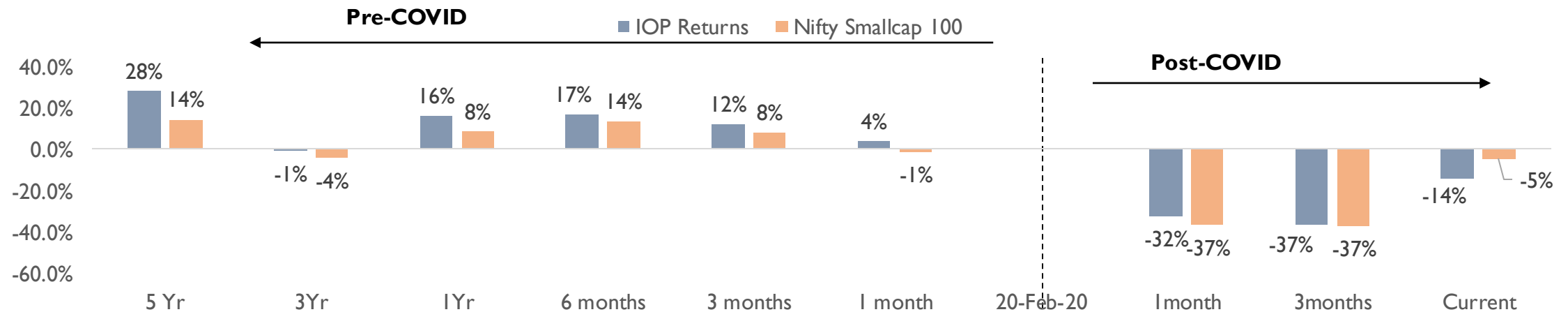
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# G : Small caps growth is strongly correlated with GDP growth

- Pre-Covid economic recovery saw IOP beginning to outperform.
- However, Covid has significantly set back both the economy and IOP
- Post-Covid green shoots of economic recovery visible
- FY22 should see full impact



## Absolute Returns Pre and Post COVID

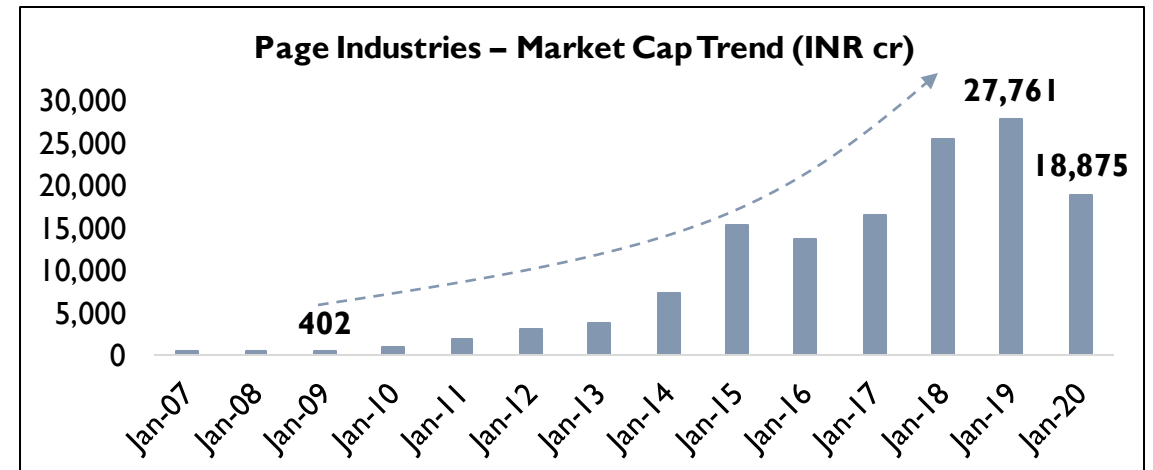
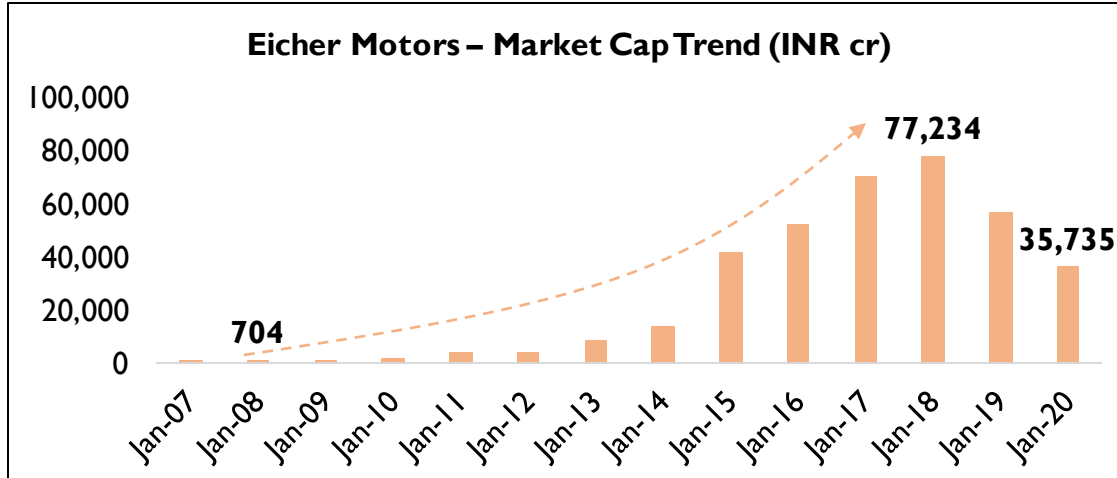
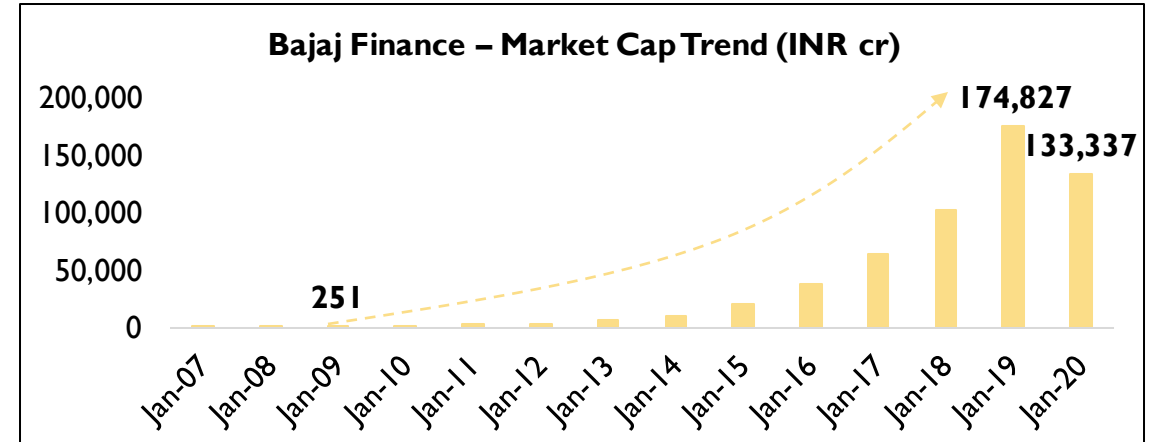


Source: MOAMC Internal Research, Data as on 30.9.2020

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# L : Small caps can grow 100x in 10 years

- Many businesses in India offer huge growth potential
- Small caps, given their size, have a long runway for growth
- The full benefit of this is reaped by those investors who hold for the long term
- The key – high quality of management

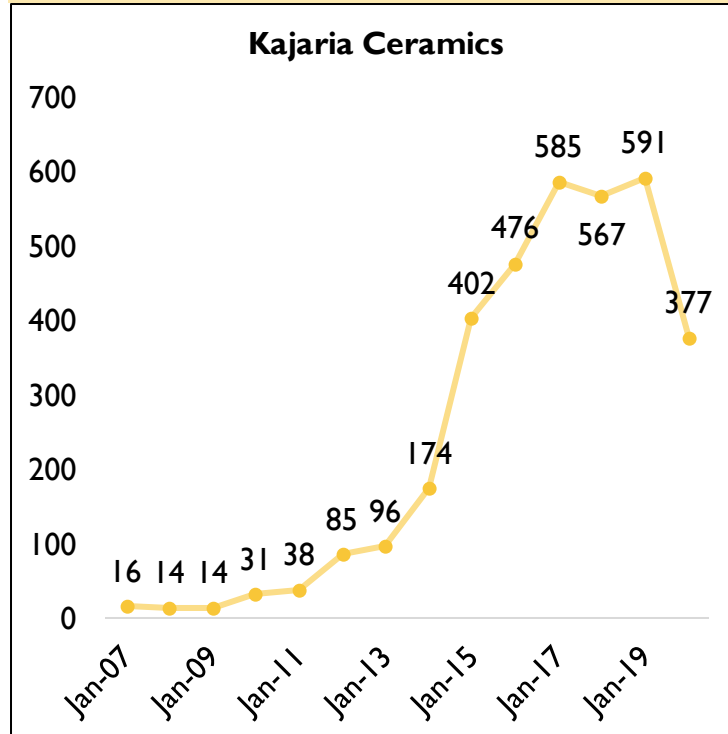


Source: MOAMC Internal Research, Data as on 31.1.2020

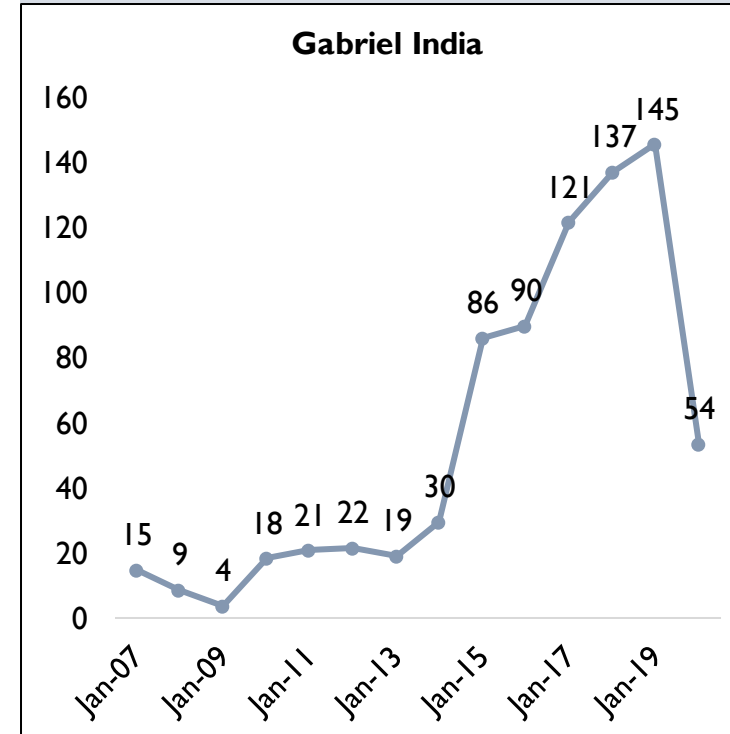
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# P : Stands for both Price and Patience

Rarely do small caps rise steadily one way like Kajaria Ceramics...



... or Gabriel (down 60% in 2009), before rising handsomely



Making money in small caps needs the vision to see, courage to buy and patience to hold

Source: MOAMC Internal Research

Disclaimer: Past performance may or may not be sustained in future. The above graph is used to explain the concept and is for illustration purpose only and should not be used for development or implementation of an investment strategy.

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# Key stocks in our holdings

**Kajaria, Aegis Logistics, Alkem, ICICI Sec, Qness, ITD**

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# High conviction stocks

## Aegis Logistics

- Increase LNG imports due to increased demand
- Competition unlikely to eat into volumes
- Underpenetrated market
- Capacity expansion

## Alkem Labs

- Shift from acute to chronic would improve margins over the long term
- company aims to maintain its pace of 10-12 launches per year over the next 3-4 year
- ALKEM's US sales are likely to deliver 16% CAGR at ~USD420m over FY20-22E

## Mahanagar Gas

- Volume Growth:4-6% in the medium term
- Sustainable margins
- Monopoly
- Strong dividend payout of 55%

## Birla Corp

- Capacity expansion to enable higher growth than industry
- Profitability on an overall basis expected to remain strong; Premium sales in trade segment grew 41% in FY 20
- Additional revenue streams launched

## ICICI Securities

- Beneficiary of regulatory led consolidation
- 27% of NSE active client base and 20% of market turnover up for grabs
- Low risk to distribution yields
- Cost to Income ratio can come go below 50%

## Kajaria Ceramics

- Net cash balance sheet and superior brand, will help capitalise on market share gain
- Earnings estimates have been revised, given the commentary by management on production and demand traction

# High conviction stocks

## Qess Corp

- Poised to benefit from labour reforms.
- The sharp bounce back in the urban unemployment (to 11% from COVID-19 peaks of 31%)
- Staffing firms tend to gain during phases of job market recovery
- Addressing key investor concerns in areas of capital allocation, balance sheet and governance
- Stock is currently trading at ~13x FY22 EPS at ~40% discount to Teamlease
- Cheap valuations also provide adequate margin of safety.

## ITD Cementation

- Bright mid to long-term prospects: Significantly de-levered balance sheet
- Blended efficiency of 50% across operational work-sites - Significant recovery expected by Q3.
- Cost control measures: Negative operating leverage | HFY21 will result in PAT breakeven for FY21E.
- Stands to benefit from the strong upcoming order pipeline in Roads, Marine and Urban infrastructure projects
- ITD has won new orders worth INR 60 bn in FY20 taking total order book to INR 107 bn.
- Strong B / S and strong order book will limit downside

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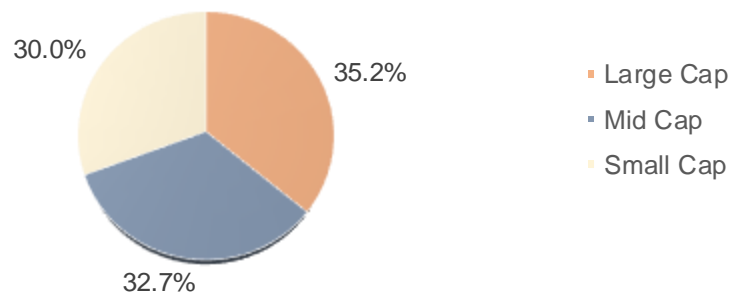
# Portfolio Performance

Alpha of 0.5% CAGR since inception

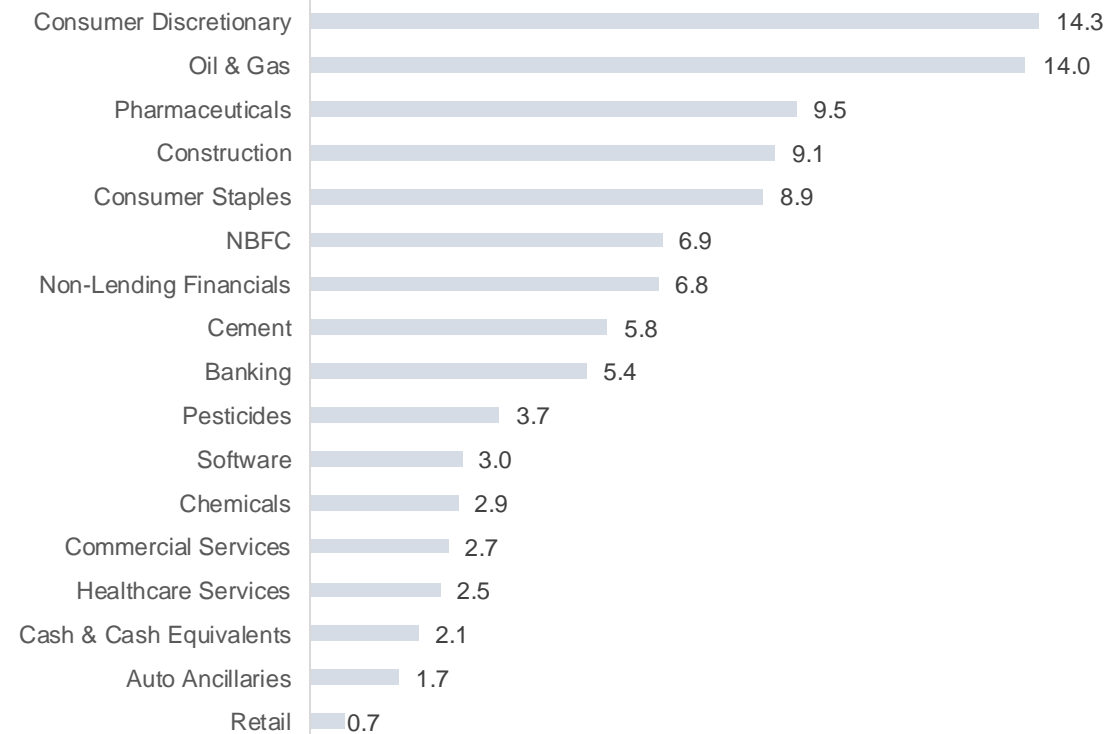
# Portfolio Allocation

## Top 10 Holdings & Market Capitalization

| Scrip Name               | % Holding |
|--------------------------|-----------|
| Reliance Industries Ltd. | 8.4       |
| Alkem Laboratories Ltd.  | 8.0       |
| Kajaria Ceramics Ltd.    | 7.8       |
| TTK Prestige Ltd.        | 7.1       |
| Can Fin Homes Ltd.       | 6.9       |
| ICICI Securities Ltd.    | 6.8       |
| ITC Ltd.                 | 6.5       |
| Birla Corporation Ltd.   | 5.8       |
| Mahanagar Gas Ltd.       | 5.6       |
| ICICI Bank Ltd.          | 5.4       |

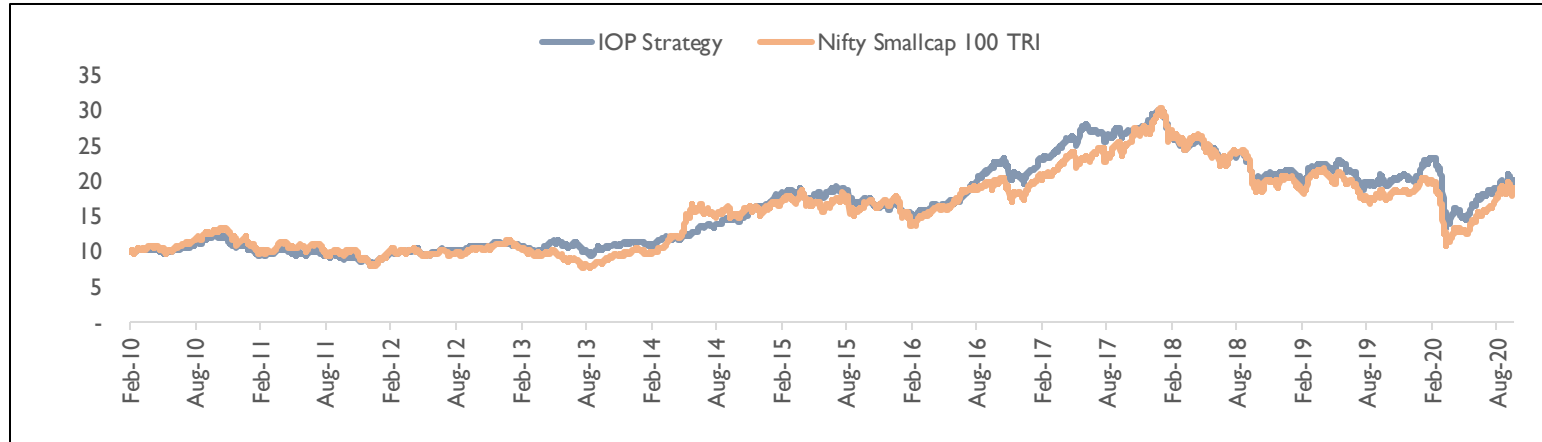


## Sectoral Allocation

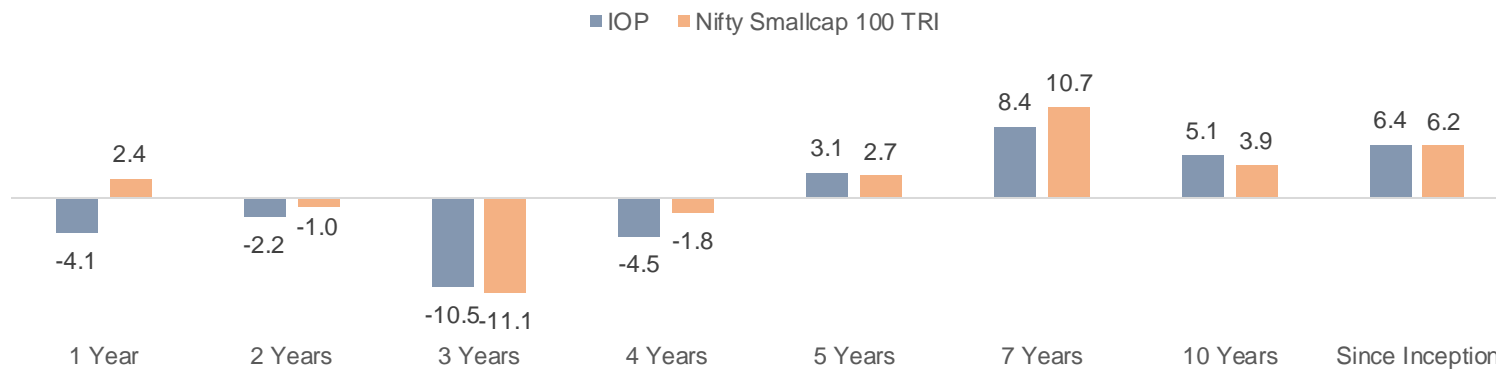


IOP Strategy Inception Date: 15<sup>th</sup> Feb 2010; Data as on 31<sup>st</sup> October 2020; Data Source: MOAMC Internal Research; RFR: 7.25%; \*Earnings as of June 2020 quarter and market price as on 31<sup>st</sup> October 2020; Source: Capitaline and Internal Analysis; Please Note: Returns up to 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.

# Portfolio Performance



1.9X  
1.9X



IOP Strategy has delivered a CAGR of 6.4% vs. Nifty Smallcap 100 TRI returns of 6.2%, an outperformance of 0.2% (CAGR) since inception (15<sup>th</sup> February 2010)

IOP Strategy Inception Date: 15<sup>th</sup> Feb 2010; Data as on 31<sup>st</sup> October 2020; Data Source: MOAMC Internal Research; RFR: 7.25%; \*Earnings as of June 2020 quarter and market price as on 31<sup>st</sup> October 2020; 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.

**Small Cap stocks are a volatile and unpredictable lot...**

**...but may provide the greatest opportunities for upside**

**To earn super-normal returns with small cap stocks:**

- **Be patient**
- **Never exit looking at rear-view performance**
- **Double up at extremes if possible**

**Thank You!**

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