

# Value Strategy

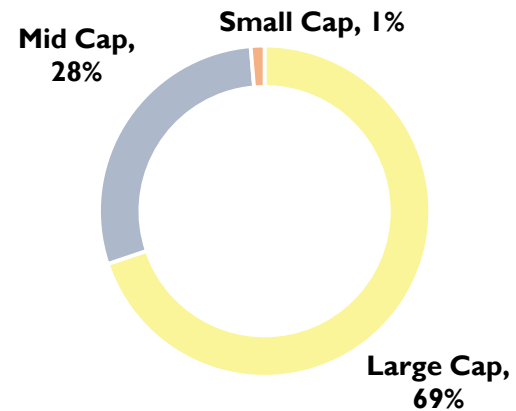
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July 2021

# PORTFOLIO SNAPSHOT

## QGLP in PRACTISE

### Market Cap Mix



### Quality

RoE: 19%

### Growth

23% PAT CAGR over FY2` – 23E

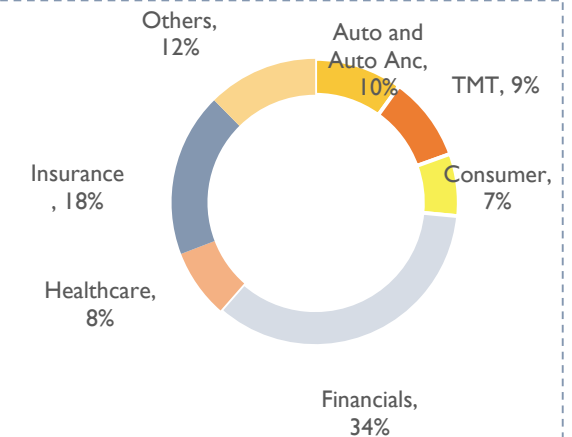
### Longevity

Portfolio Tilt towards Long Term Themes of Value Migration, Reforms, Consumer Behavior Changes

### Price

PE: 19x FY23; PEG: 1.5x FY23E

### Sector Mix



Data as on 30<sup>th</sup> June 2021

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. \*Excluding Bharti



# Quality

## QUALITY OF BUSINESS

Profit Pool

Consumer Facing

Disruption Quotient

Competitive Intensity

RoE 18%

## QUALITY OF COMPANY

RoE > Cost of Equity

Positive Operating Cash Flow

Sustainable Competitive Advantage

Positive Operating Cash Flow

## QUALITY OF MANAGEMENT

Unquestionable Integrity

Demonstrable Competence

Growth Mindset

Skin In the Game

>90% of Portfolio is B2C

# Growth

Growth

REVENUE GROWTH

VOLUME

PRICE

MIX

MARGINS

GROSS

OPERATING

FINANCIAL

REVENUE GROWTH

High

G

$G^2$

Low

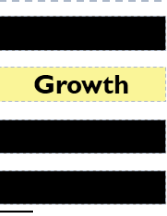
X

$g$

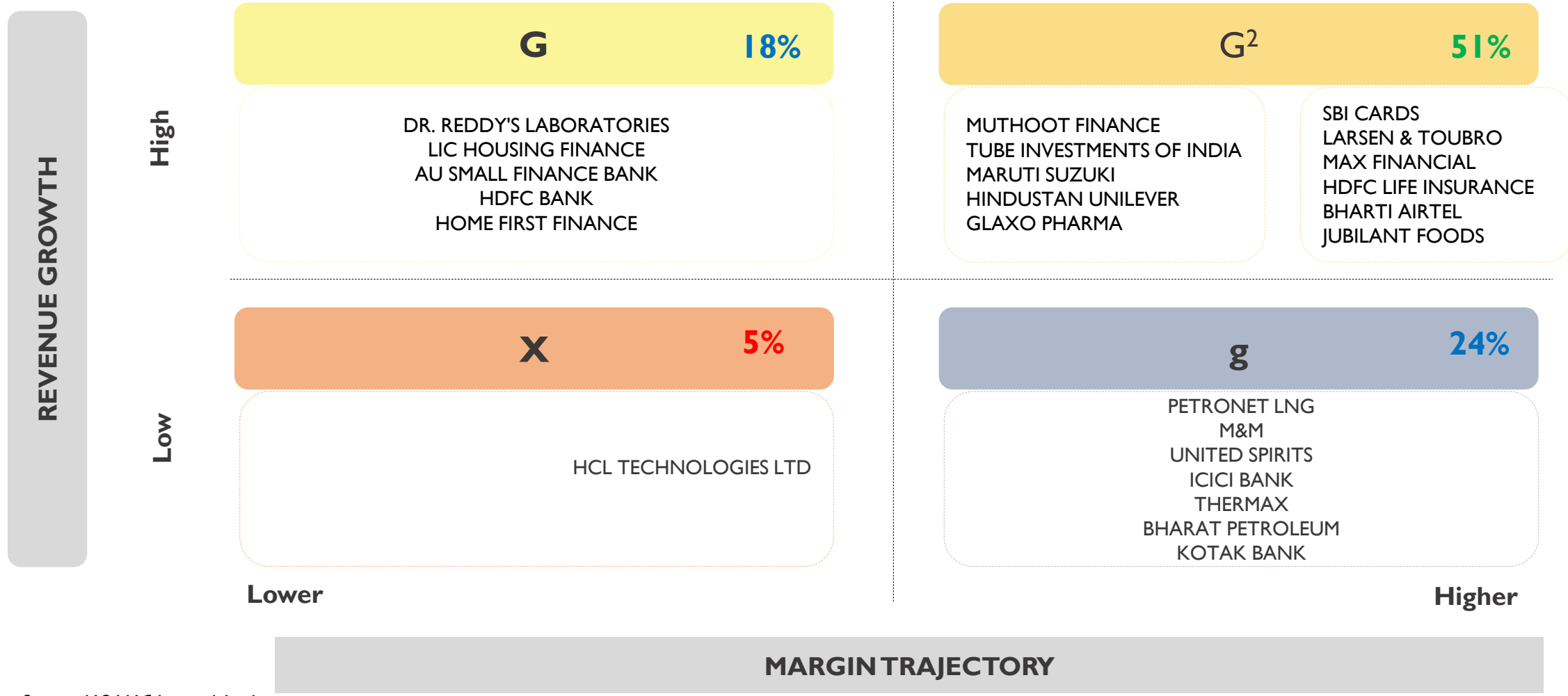
Lower

Higher

MARGIN TRAJECTORY

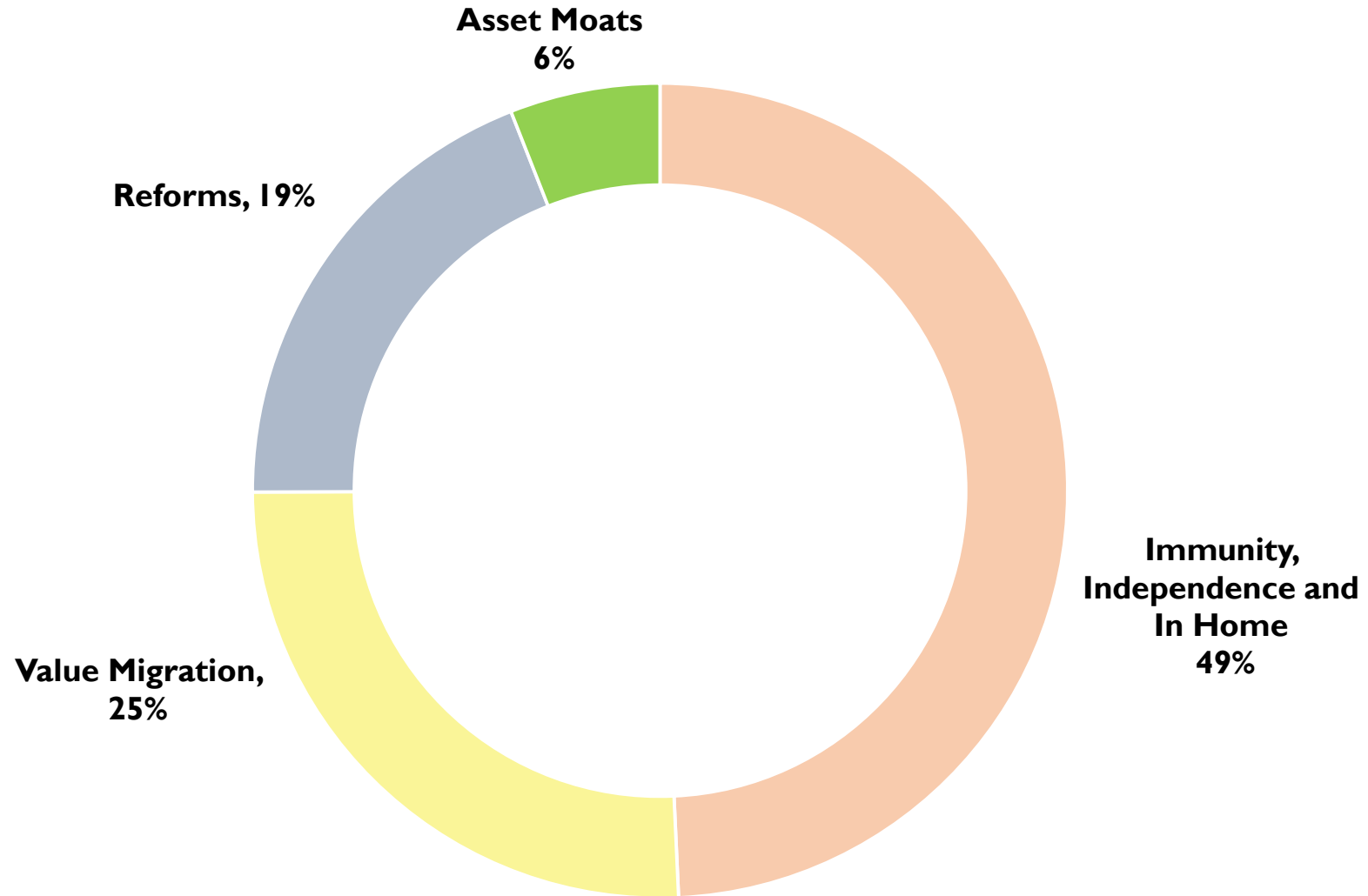


# Growth in the Portfolio

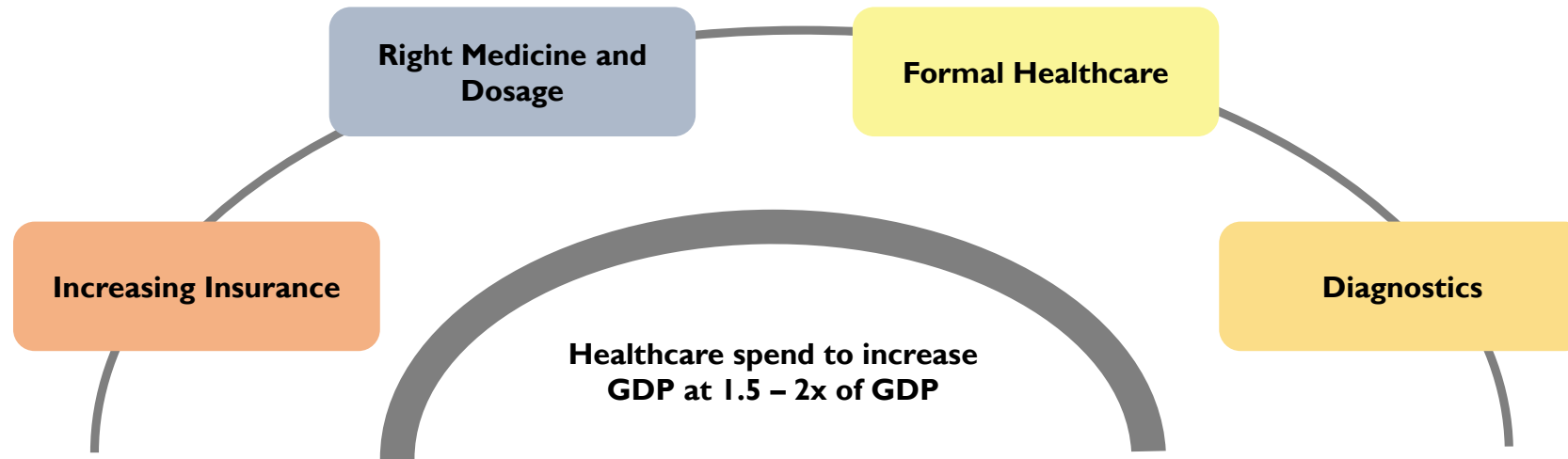


Source: MOAMC Internal Analysis

# Longevity Framework



## Immunity Boost – Increasing Awareness towards Health



	GDP per capita (USD mn)	Year	HC spend as a % of GDP (then)	HC spend as a % of GDP (now)
India	2,087	2018	3.7	3.6
China	2,094	2006	3.9	5.0
US	1,977	1950	4.6	17.1
Japan	2,038	1970	4.4	10.9

Source: MOAMC internal analysis

The above Table is used for illustration purpose only and should not be used for development or implementation of an investment strategy

## Independence - Insurance

A structural growth story that comprises a large portion of the portfolio

### Little to no risk on the asset side

- Within BFSI; we believe non-lenders; especially life insurance players are unique plays on structural growth; with little to no risks on the asset side of the business.
- This is unlike the lenders; where growth is fraught with NPA risks.

### Deeply moated brands

- Barriers to entry: Brand and distribution play a crucial role
- Top 5 players account for ~90% of total industry market share.
- We expect most of the growth to accrue to Top 5 players as they continue to build on their existing strengths.

### Capital efficient businesses

- A capital efficient business with ~25% RoE for the successful players
- Growth funded internally without shareholder dilution.
- This ensures that all growth flows in to existing shareholders; a classic recipe for long term compounding.

### Multi-decadal growth opportunity

- Long growth runway: With 92% protection gap (as per Swiss Re)
- We see life insurance as a structural play
- 18% allocation in life insurance companies is a testimony of our very high conviction on this sector.



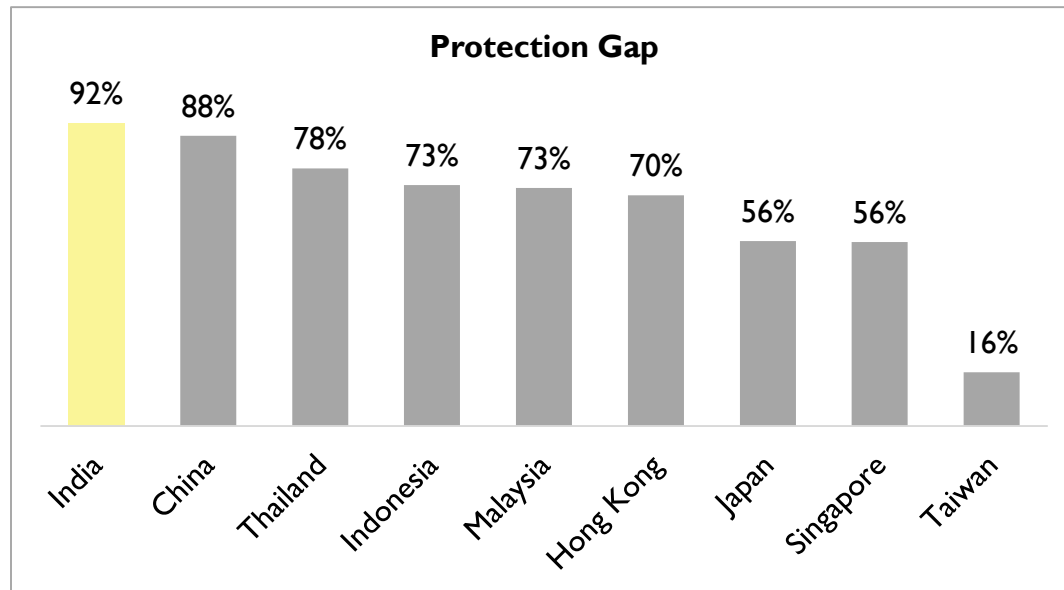
# Insurance – an underpenetrated market

A structural growth story that comprises a large portion of the portfolio

## Demand

A long runway for growth

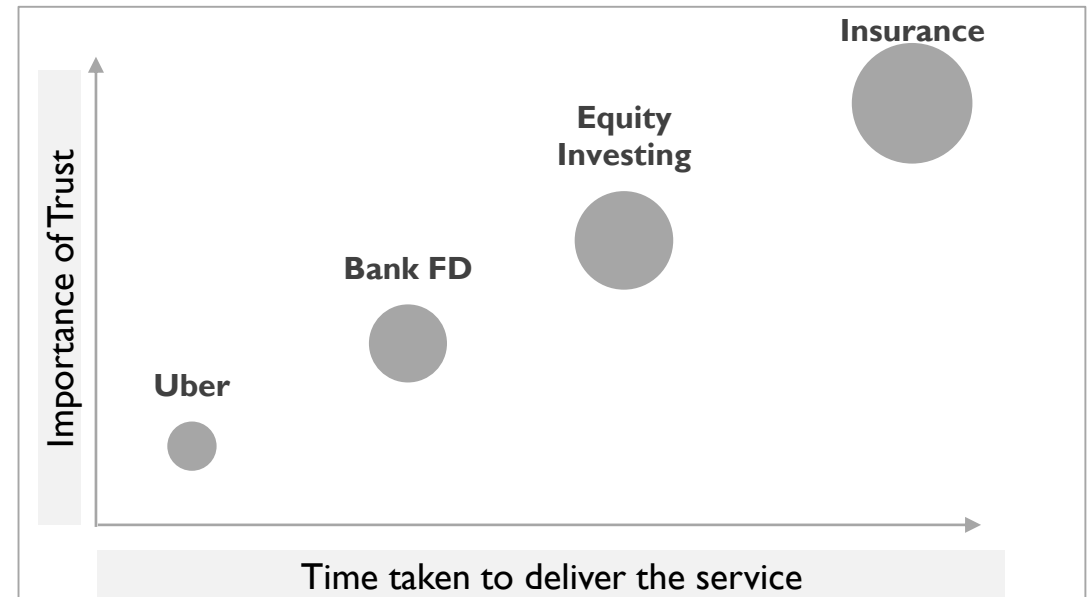
Low coverage provides a large opportunity for life insurers



## Economic Designation

Companies can charge for moats

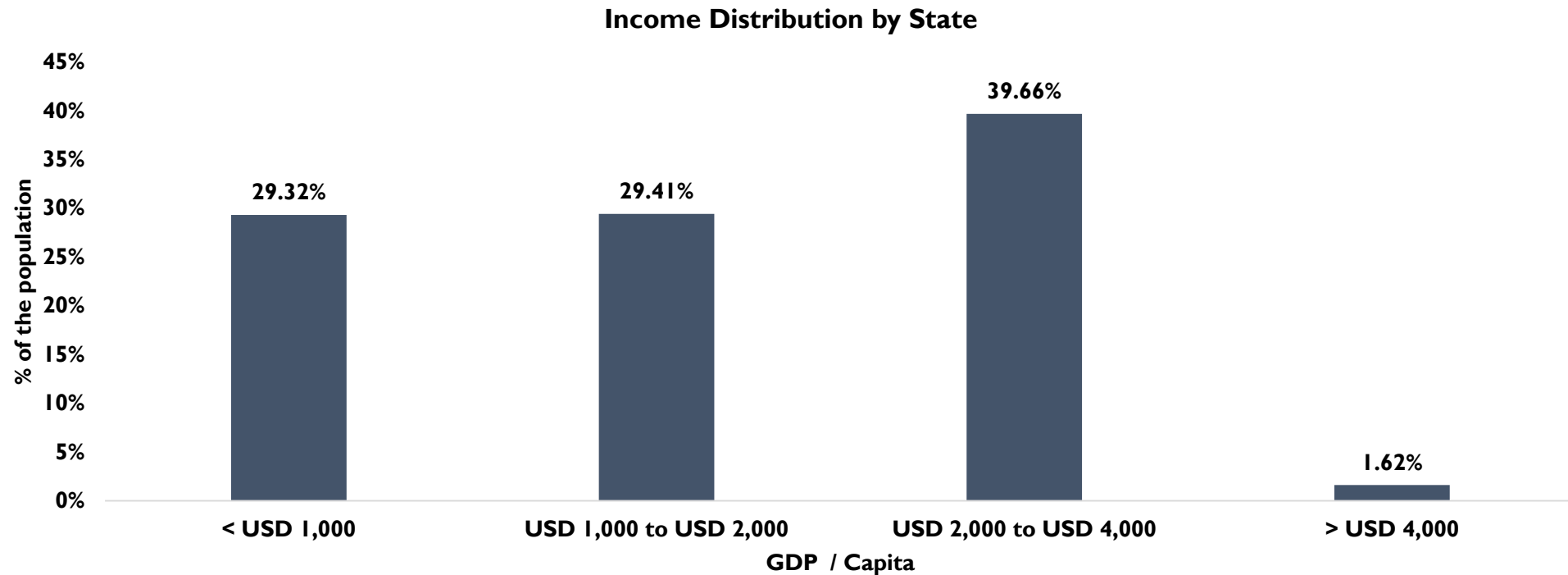
How much premium can you charge?



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.

## In Home Consumption – More and Better!



- About 29% of the population is making the transition USD 1,000 to USD 2,000. They are candidates **for basic consumer products**.
- About 40% of the population is making the transition from USD 2,000 to USD 4,000, where discretionary spend becomes USD 3,000. This category is likely to invest in **premiumization**.

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 used for development or implementation of an investment strategy.  
Source : CCI City Income database, BCG Analysis

## Value Migration

## Types of value migration

**Inter-country migration**  
The Indian IT and Pharma sectors have seen value migration from western geographies owing to lower cost and niche capabilities

**Inter-industry migration in same country**  
In India, value has migrated from Railways to Airlines, facilitated by low-cost, non-frills airlines.

**Inter-company migration in same industry**  
Value has migrated from the public sector to the private sector in the Indian Banks and Telecom spaces.

**One segment to another in same company**  
Telecom service operators have seen value migrating from Voice to Data.

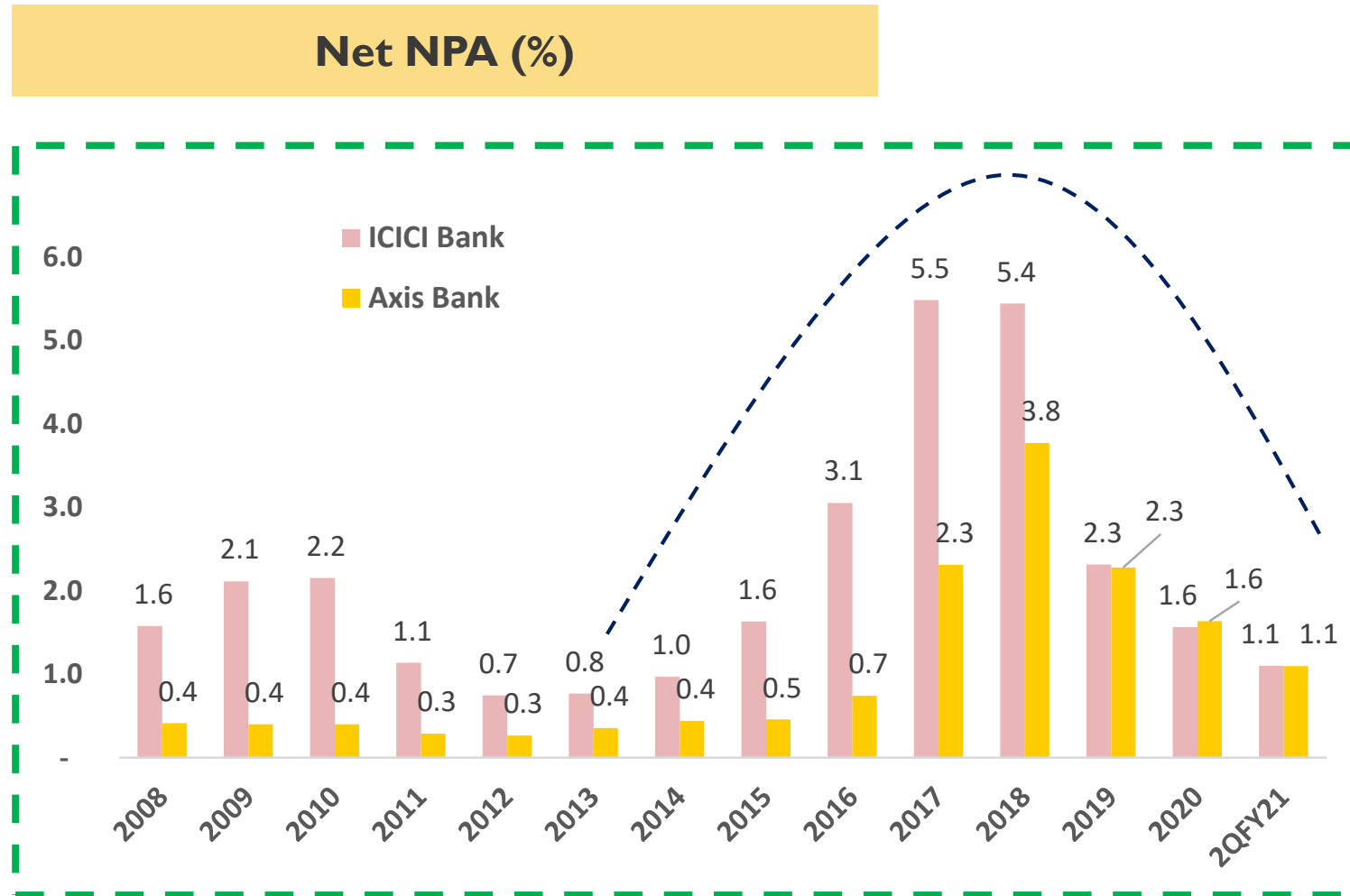


## Value Migration – 25 Years and Counting



- Consistent increase in share of incremental credit disbursal
- Consistent market share gain by private banks at the expense of PSB's
- Better project finance evaluation skills, risk management, dynamic leadership/management and investments in technology(including digital) are some of the key factors responsible for value migration over the years

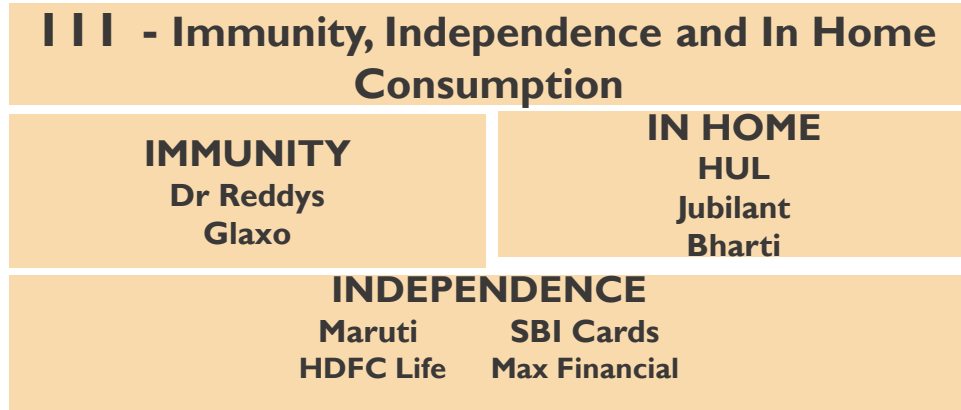
Reforms – NNPA numbers back to pre-stress



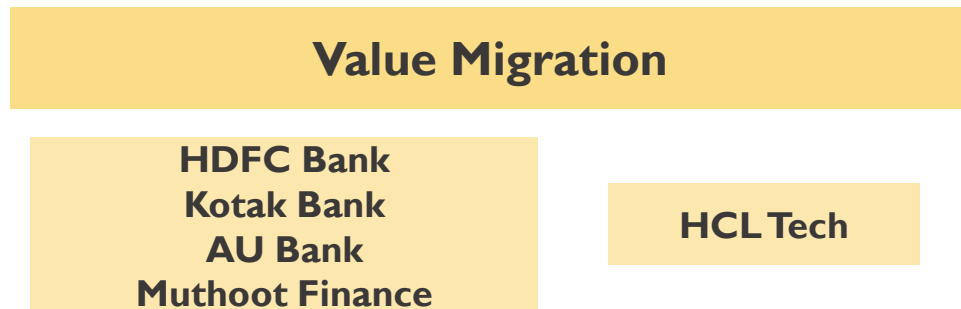
- Net NPA numbers back to pre-covid levels
- Strong banks flush with liquidity - ready to fuel the recovery led credit demand

# Longevity

1



3



2



4



# Price

Price

***“It's far better to buy a wonderful company at a fair price than a fair company at a wonderful price”***

***“There is no Value without growth. There is no such thing as Value Stocks or Growth stocks. They are not two different categories!”***

**Warren Buffet**

	FY20	FY21	FY22e	FY23e
Earnings Growth	12%	21%	24%	22%
P/E	34x	28x	23x	19x

Source: Bloomberg Consensus Estimate

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# Portfolio Construct



# Portfolio construct

Price

Sector Split	
Financials (Lenders)	34%
Insurance	18%
Health Care	8%
Autos	10%
Consumer	7%
Telecom and Technology	9%

TOP 10 Stocks	65%
Active Ratio	71%

**Weighted Market Cap at INR 2,00,224 Crores**

Value Strategy Inception Date: 18<sup>th</sup> Feb 2003; Data as on 30<sup>th</sup> June 2021; Data Source: MOAMC Internal Research; RFR: 7.25%; \*Earnings as of Dec 2020 quarter and market price as on 30<sup>th</sup> Apr 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.

# Portfolio Positioning



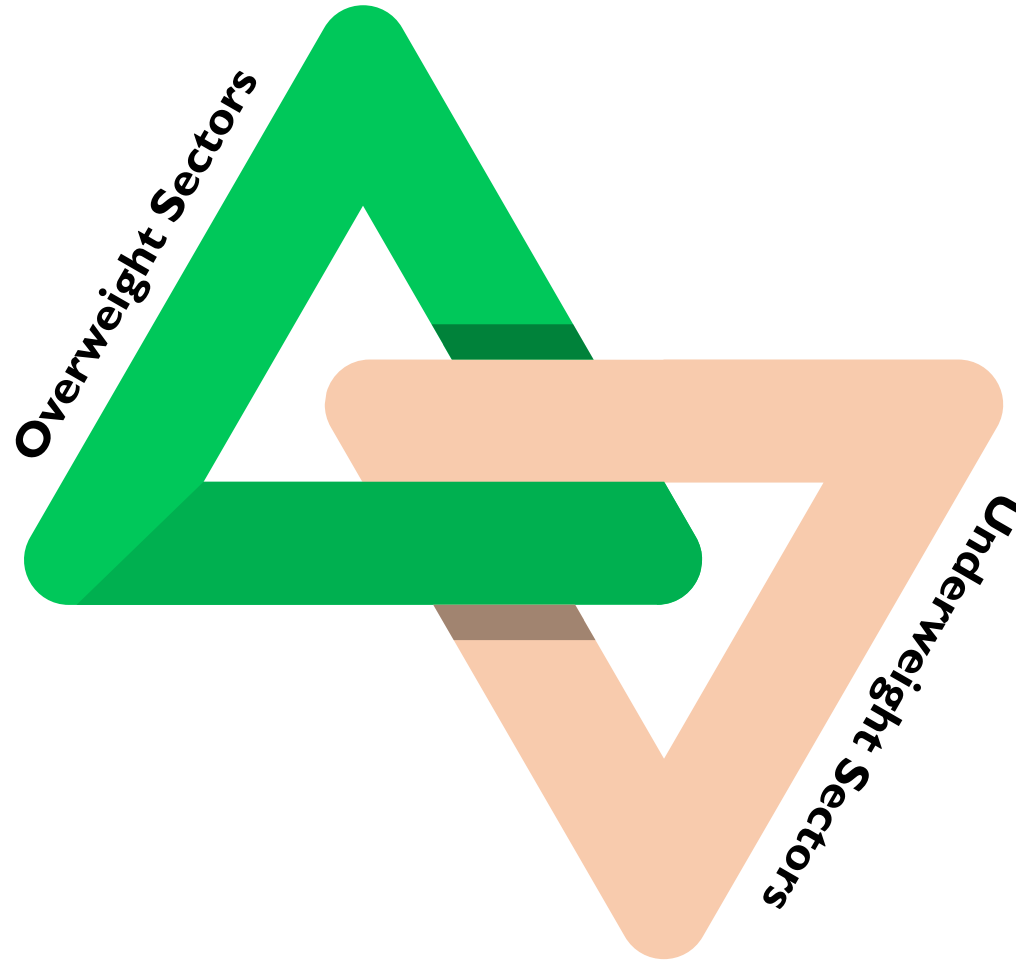
Pharmaceuticals



Consumer Discretionary



Insurance



IT



Consumer Staples



Banking



# ICICI BANK

## Best man at the helm in what was always a good franchise

ICICI Bank under the leadership of Mr Sandeep Bakhshi; in our view should be a very different bank than in the past. All our checks suggest a clear focus on 'risk'; in what's already a good liability franchise (45%+ CASA).

## Significant value creation in subsidiaries

ICICI Prudential Life Insurance Company, ICICI Securities, ICICI Lombard General Insurance Company; have already been listed on the bourses; while we expect ICICI Prudential Asset Management to list in the next 12-24 months

## Strong growth outlook

We expect ICICI Bank to report 40% PAT CAGR over next 3 years time; taking its RoE from mid-single digit to ~14%-15% levels.

## Re-rating to be gradual

Ex-subsidiary valuation; ICICI Bank trades at a P/B of 1x; which is at a substantial discount to intrinsic value; given our expectation of steady-state 16-18% RoEs. We believe as the bank delivers; it should re-rate gradually.



## MAX FINANCIALS

### Strong underlying insurance business

With best in class metrics (20%+ VNB Margins, 20% RoEVs) and growth track record (20%+ EV compounding).

### Axis Bank overhang on verge of resolution

Axis Bank emerging as the single largest shareholder with 18% stake, subject to regulatory approvals.

### Holdco structure to collapse

Expect Max Life shares to be listed in the next 12-18 months.

### Attractively valued

Max is at 15x EVOP v/s 35x for HDFC Life, despite business metrics and growth being quite similar.



## HINDUSTAN UNILEVER

### Lowered competition intensity

Over the last 4-5 years, competition intensity has decreased in the FMCG space in India. This has increased margins for all players in the market. It is likely to continue over the next few years.

### Increased exposure to Food and Beverages

With the acquisition of Glaxosmithkline Consumer Healthcare, F&B revenue contribution to the portfolio in the previous financial year is likely to have been ~35%. Additionally, the F&B market in India is larger than the home care market.

### Larger players poised to benefit

In the current environment, along with themes such as the formalization of the economy continuing to play out, a large market player with a strong balance sheet, control on distribution and supply chain is likely to benefit.

### Strong quarterly results

HUL has beaten earnings expectations over the last quarter and has been using this period to expand market share.



## Dr. REDDY

### Promoter owned – Professionally run

- New CEO was well empowered and consequently had taken hard steps to re-shape the business to become fitter, profitable and more predictable. Margins have moved from 20% to 25% in 2 years and RoE from 11% to 16%.

### Strong R&D capability

- With a strong R&D lineage, higher productivity focus with lower product concentration have led to lower volatility in performance.

### Leadership positioning strengthening across markets

- With the existing dominant presence in US, two emerging geographies where they will be gaining dominance in future viz India and China. This would happen in conjunction with expanding therapy menus viz Injectibles

### Growth Mindset

- High quality growth and well governed business available at reasonable valuations of ~30x P/E with 17% RoCE for FY21. Their aspiration to be the most productive pharma company in India alongwith being the Top 5 player in Domestic market is setting up the company nicely for the next few years as well



# HDFC Bank

## Multi-decade track record

- Stellar track record of minimum 16% RoE and minimum 19% growth in any given year over the last 20 years; despite multiple corporate and retail cycles over these years

## Strong liability franchise

- 42% CASA, 5.0% cost of funds; on the asset side equal mix between corporate and retail assets which provides the right flexibility to maneuverer growth / risk

## Beneficiary of transition to digital

- Virtual RM platform; automated digital lending, through which cost to income has declined from 45% to 39% over last 3 years

## Smooth CEO transition; Attractively valued

- Smooth transition in CEO from Mr Aditya Puri to Mr Sashidhar Jagdishan; internal leader taking charge bodes well to maintain culture and franchise continuity.
- The bank is trading at 2.9x TTM P/B. Prospects of 20%+ growth / 18% RoE.





## HDFC LIFE

### Best brand, distribution, innovation culture

- HDFC Life; enjoys the best brand equity with the 'HDFC' brand
- Has the most entrenched distribution architecture with over 200 partners for distributing its life insurance products
- Innovation leader

### Margin expansion expected

- Strong top-line growth; given significant under-penetration of insurance in the country
- Room for margin expansion (from ~25% currently to ~50%)
- Share of pure protection in the overall business mix expected to improve

### Significant optionality from non-life business

- In India, life insurance companies are prohibited from selling indemnity based health insurance plans.
- We expect this to change; thus presenting a large option value, which is not discounted by any investor or analyst today.

### Potential to become a USD 100 bn market cap company

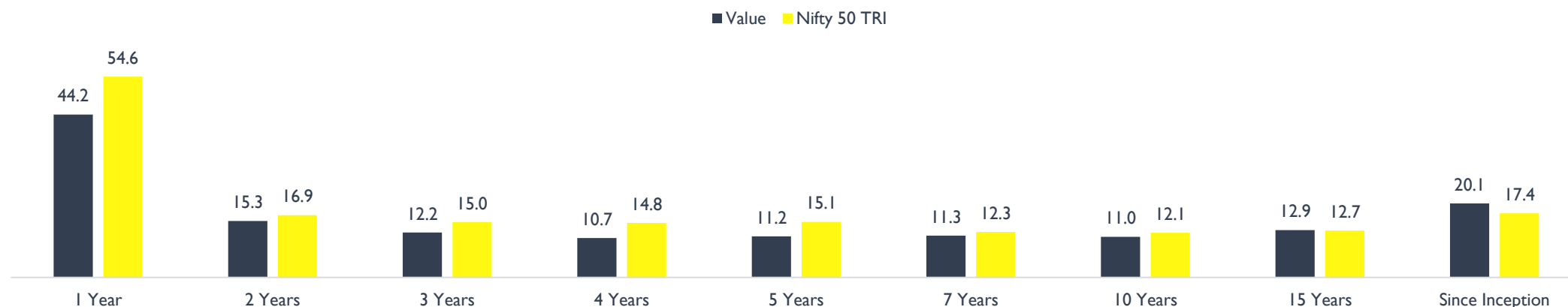
- HDFC Bank is India's most valued bank with market cap at ~USD 100b. We see HDFC Life on a similar trajectory going forward; and it has all the tenets to be another USD 100b market cap company as HDFC Bank.



# Performance

# Fund Performance

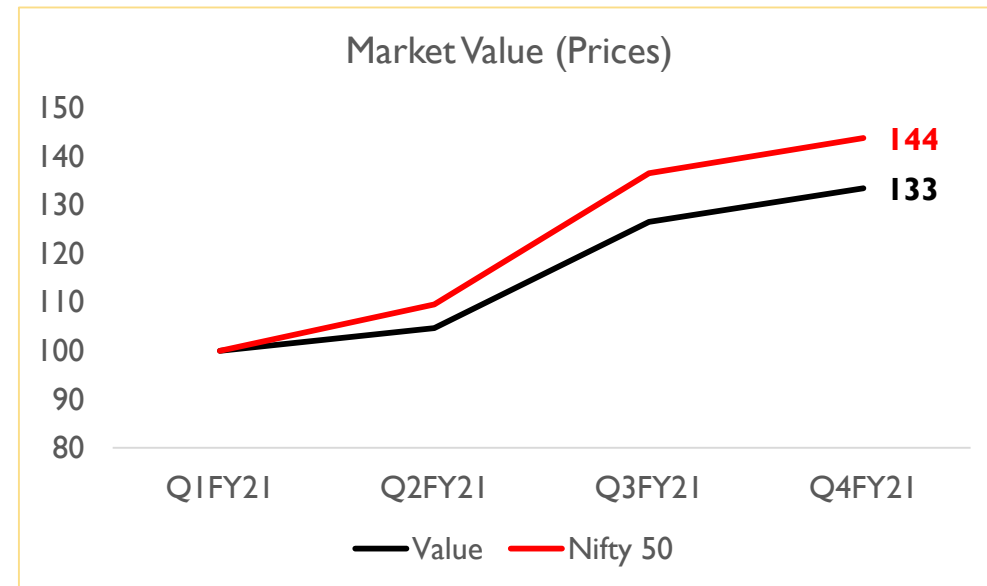
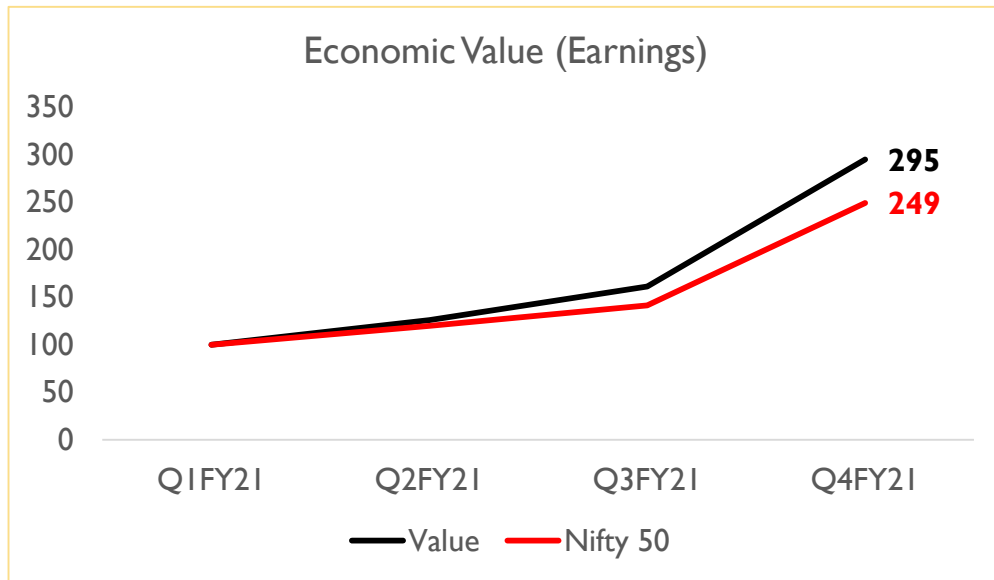
	CY18	CY19	CY20	CY21TD*	Since Inception
Value (Including Dividends)	-4.8%	21.6%	4.8%	14.0%	20.1%
Nifty (Total Returns)	4.6%	13.5%	16.1%	13.2%	17.4%
<b>Alpha</b>	<b>-9.5</b>	<b>8.1%</b>	<b>-11.4</b>	<b>0.8%</b>	<b>2.7%</b>



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# Portfolio Earnings Performance

	Q4FY19	Q1FY20	Q2FY20	Q3FY20	Q4 FY20	Q1FY21	Q2FY21	Q3FY21	Q4FY21
Value Portfolio Earnings	26%	22%	25%	20%	-6%	-14%	26%	28%	83%
Nifty Earnings	15%	11%	-1%	12%	-20%	-25%	20%	18%	76%



# Investor Performance

**Value has delivered >10% return over 5 Years 74% of the time compared to 66% of Nifty**

**Value has delivered Alpha over Nifty on a 5 year Basis 66% of the times**

<i>Rolling Returns</i>	<b>Value PMS</b>	<b>Nifty</b>
5 year rolling returns < 0%	1%	0.1%
5 year rolling returns > 10%	74%	66%
5 year median return	13.2%	12.7%
3 year alpha (instances)	54%	
5 year alpha (instances)	66%	

As of end May, 2021

# Thought leader

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**Raamdeo Agrawal**  
**Chairman, MOFSL**

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- Raamdeo Agrawal is the Co-Founder of Motilal Oswal Financial Services Limited (MOFSL).
- As Chairman of Motilal Oswal Asset Management Company, he has been instrumental in evolving the investment management philosophy and framework.
- He is on the National Committee on Capital Markets of the Confederation of Indian Industry (CII), and is the recipient of "Rashtriya Samman Patra" awarded by the Government of India.
- He has also featured on 'Wizards of Dalal Street' on CNBC. Research and stock-picking are his passions which are reflected in the book "Corporate Numbers Game" that he co-authored in 1986 along with Ram K Piparia.
- He has also authored the Art of Wealth Creation, that compiles insights from 21 years of his Annual 'Wealth Creation Studies'.
- Raamdeo Agrawal is an Associate of Institute of Chartered Accountants of India.

## Fund management team

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### **Shrey Loonker**

- Shrey has been managing our PMS Strategy since August 2017.
- He has 14 years of overall experience in equity research and fund management.
- Before joining Motilal Oswal AMC, he was associated for 11 years with Nippon India MF and last as Fund Manager – Banking Fund. He has also worked with Ernst & Young.
- Shrey is a qualified Chartered Accountant (CA) and a Chartered Financial Analyst (CFA) from CFA Institute, USA.



### **Susmit Patodia**

- Susmit has been co-managing our PMS Strategy since February 2019.
- He has an overall experience of 13 years in equity markets, with close to 10 years with Motilal Oswal Group.
- His previous stints were with Accenture where he worked as a Management Consultant across industries. He has also worked with Franklin Templeton AMC.
- Susmit has a Post Graduate Diploma in Management from IIM Bangalore (MBA).

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*Stay safe*