



February 2020

# Motilal Oswal Business Opportunities Strategy



**BUY RIGHT**  
**SIT TIGHT**

# Motilal Oswal Business Opportunities Strategy

## ► About Business Opportunities Strategy

- BOP is a multi-cap strategy with a balanced mix of ~62% Large Cap allocation, ~27% Mid Cap allocation and ~10% Small Cap allocation
- The PMS Strategy will invest in a high conviction concentrated portfolio of minimum 20 stocks
- Index agnostic: ~74% away from benchmark Nifty 500

## ► Investment Manager

- Motilal Oswal AMC is the pioneer of PMS business in India with over 16 years of track record
- One of the co-founders, Mr. Raamdeo Agrawal is one of the most honored and trusted names in the investing world
- It has a unique positioning of being equity only AMC with defined investment philosophy
- Trusted by over 42,000 HNI investors and with around Rs. 17,000 Crs of assets as on 31st January 2020

# Themes we Believe in



## Consumer Discretionary

Beneficiary of Doubling of Per Capita GDP



## Private Bank & NBFC

Value Migration from Public Sector to Private Sector



## Agriculture

A Play on Rising Rural Income



## Affordable housing

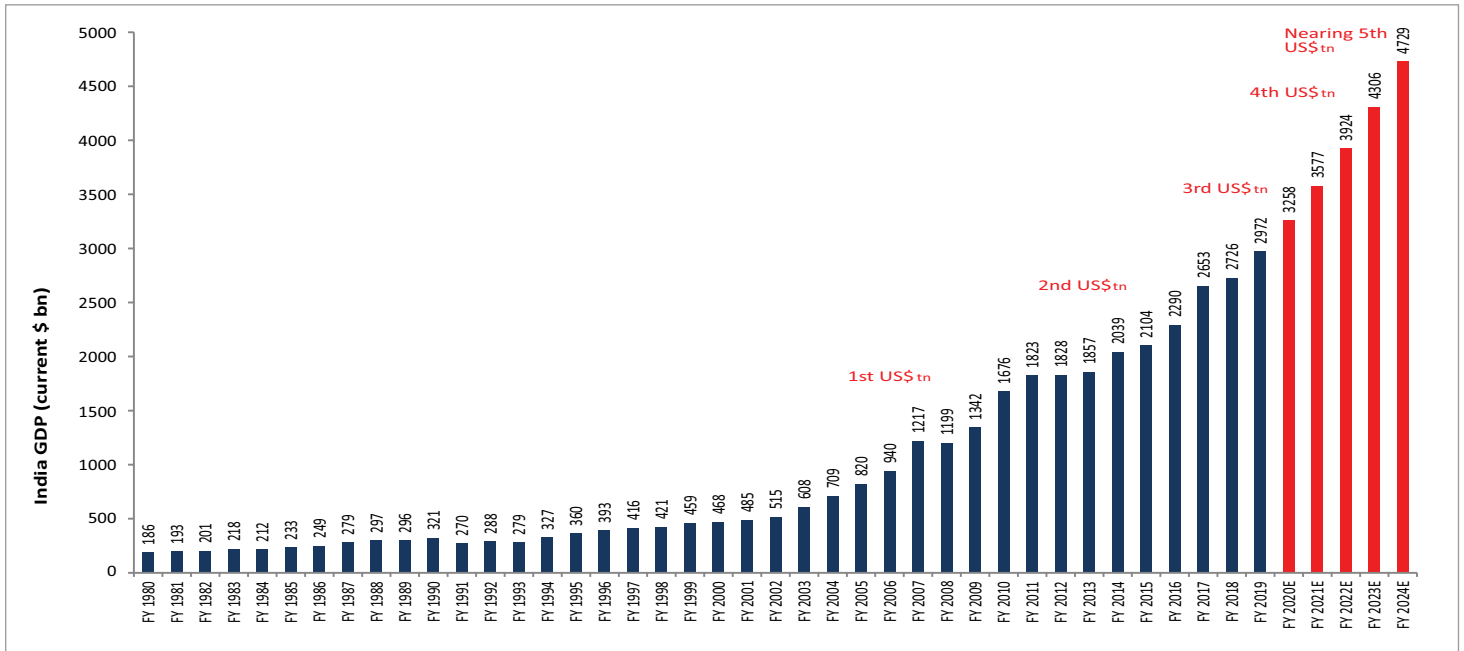
Government Focus on Housing for All by 2022



## GST Beneficiary

Business migration from Unorganized to Organized

# Rise in GDP - Creates Disposable Income



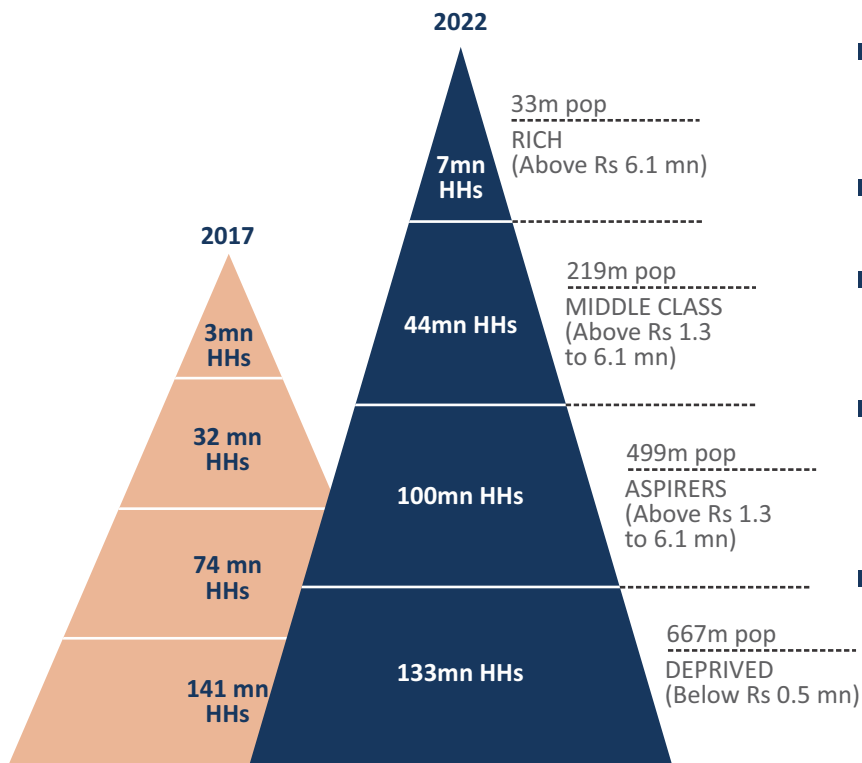
- According to World Bank data, India has now become the world's sixth-largest economy
- India is one of the fastest growing among major economies

Source: statisticstimes.com

Past performance may or may not sustain and does not guarantee future performance

Note - Above forward looking statements are based on external current views and assumptions and involve known and unknown risks and uncertainties that could affect actual results. Investments are subject to market risk.

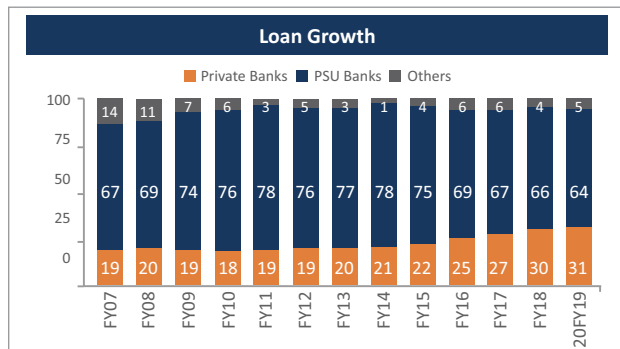
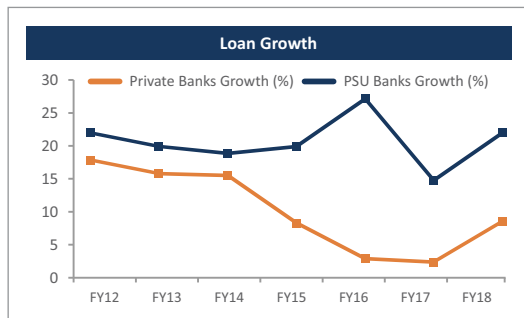
# Indian income pyramid in 2022 will bulge at the center



- The total stressed assets in PSU Banks – Rs 10 lakh crores, causing dent to their lending ability
- Household incomes rose the fastest for those at the bottom of the pyramid
- Households with annual earnings of USD10,000 - 50,000 have also grown at a CAGR of 20% over the last five years
- Increase in the number of households with annual earnings of USD10,000-50,000 will lead to an increase in 'indulgence spending' by the group
- It is estimated that 23% of the global middle class will be from India by FY30

# Value Migration in Banking

- The total stressed assets in PSU Banks – Rs. 10 lakh crores, causing dent to their lending ability
- Economy is expected to grow by 7%#, Credit growth expected to be 2X from banking sector
- Deposits market share of nationalized banks has dropped from a peak of 52% in FY14 to 44% in FY18. The share was fully taken over by the private banks
- Credit growth largely to benefit Private Sector banks as PSU Banks are struggling with Non Performing loans and stretched tier 1 capital adequacy ratio
- The market share shift of loans by private banks from PSUs has been consistent. Private Banks have 80% market share in incremental loans versus 70% in deposits.
- Data Analytics, IT Infrastructure and Dynamic workforce – added advantage for private banks



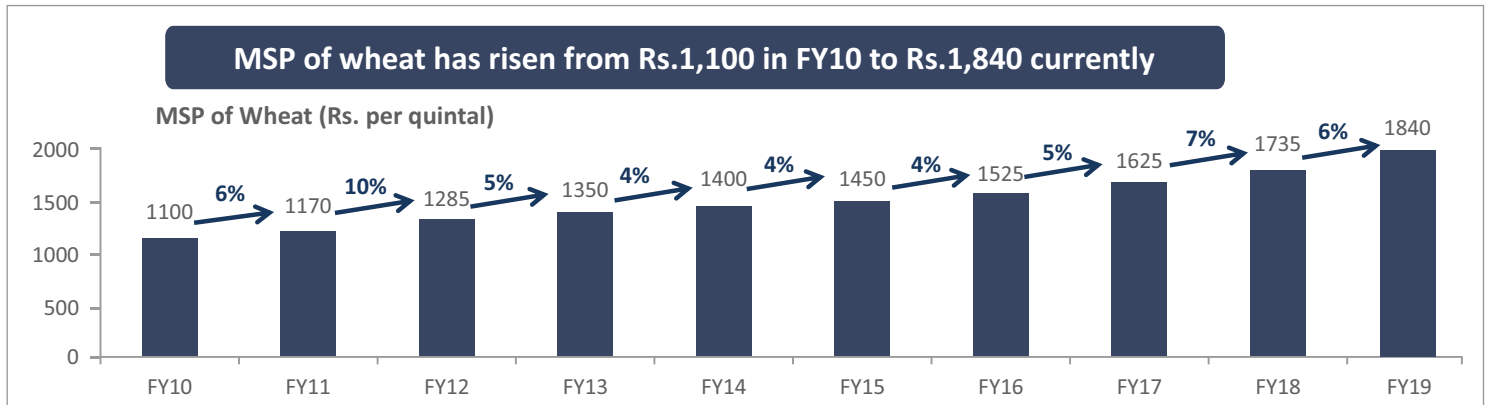
Source: MOSL

The statements made herein may include statements of future expectations and other forward-looking statements that are based on our current views and assumptions and involve known and unknown risks and uncertainties that could cause actual results, performance or events to differ materially from those expressed or implied in such statements. Past performance may or may not be sustained in future

# Agriculture Growth: Rise in Rural Income

## Government wants to Double the Farm Income by 2022

- **Agriculture infrastructure** - increasing investments in agricultural infrastructure such as irrigation facilities, warehousing and cold storage
- **Increase in crop yield** - Use of genetically modified crops will likely improve the yield
- **Subsidies and Incentives** - Short-term crop loans at subsidized interest rate of 7% p.a. & additional incentive of 3% for prompt repayment
- Total **Budget allocation** for rural, agricultural and allied sectors for FY2017-18 has been increased by 24%
- Increase in Rural income led by rise in MSP's (Minimum Support Price) will create demand in related sectors like **Agrochemicals, Consumer Staples and Consumer Discretionary**

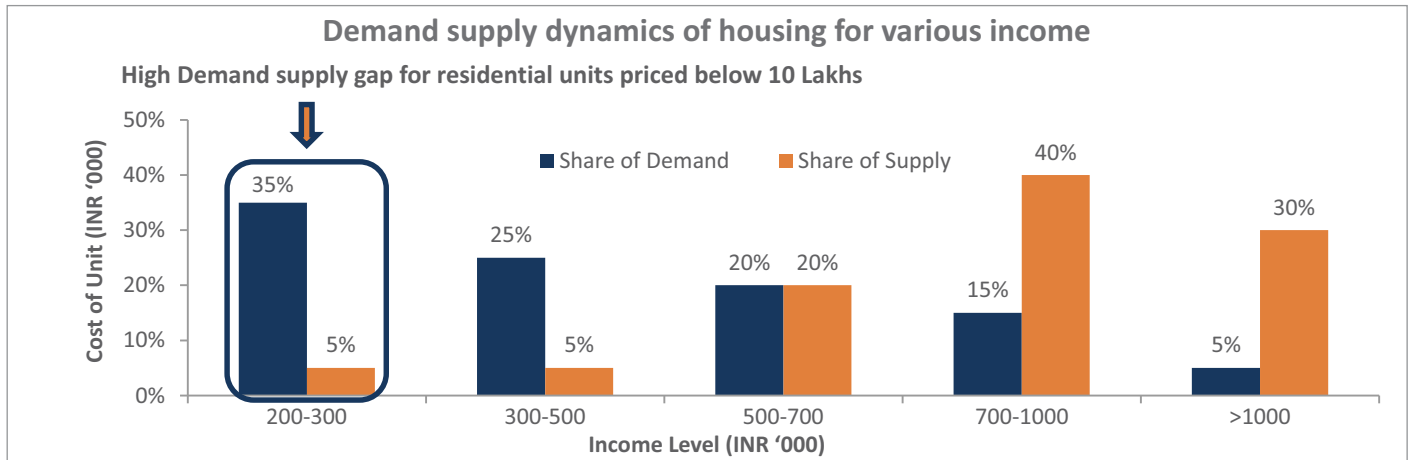


Source: [www.ibef.org/industry/agriculture-india.aspx](http://www.ibef.org/industry/agriculture-india.aspx)

# Affordable Housing

## Economic growth, urbanization and rapid change in socio-economic profile will drive demand

- Government vision – ‘Housing for all by 2022’
- **Rising disposal income** - Per capita income is expected to increase from 2,800 USD in 2012 to USD 8,300 by 2028\*
- 10 million people moving to urban cities every year, is likely to increase the demand<sup>#</sup>
- Growth in Affordable housing will create parallel demand in related sectors like **Cements, Paints, Tiles, Plastic Pipes and Electricals**
- The govt in September 2019 announced a last mile INR 20,000 cr affordable housing package to benefit 3,50,000 house owners. The main objective of the plan is to revive stalled housing projects in the middle & lower income category across the country.



Source:- Jones Lang LaSalle (Affordable Housing in India) \* Source: PWC: Building the economy block by block # Source: www.kpmg.com



# Affordable Housing

**Construction of 60m units over FY 18 -24**  
**Total spend on housing over 7 years: US\$ 1.3 trn**

## Multiple Sector Linkages

Sector	Cement	Steel	Paints	Wood Panel	Tiles	Plastic Pipes	Light Electricals	Adhesives Construction Chemicals
Demand linked to housing	US\$ 14 bn	US\$ 12 bn	US\$ 4.5 bn	US\$ 3.7 bn	US\$ 3.5 bn	US\$ 2.1bn	US\$ 2.1 bn	US\$ 1.1 bn
FY 14-17 industry growth	3%	3% <sup>1</sup>	9%	1%	8%	5%	8%	8%
FY17-24 Expected growth	12%	8% <sup>1</sup>	15%	12%	11%	14%	13%	13%

Note: Industry size data based on CLSA estimates for housing led demand in each building materials sub-sector. Light electricals include switchgears/switches, fans, lightings & fixtures and water heaters.

Source: MoSPI, Ministry of Commerce, RBI, Ministry of Steel, AceEquity, CLSA as on March 31, 2017

# GST: Movement from Unorganized to Organized

- Portion of economy to migrate from **informal to formal**, leading to a 4.2%\* growth in real GDP
- Institutional demand inclined to move towards **branded players**
- Increased **efficiency in businesses** due to reduced state level regime
- Tax evasion to fade away – Unorganized players to loose competitiveness
- Companies in sectors like **paints, appliances, apparel, logistics, plastic pipes, ceramic tiles, batteries**, etc. will stand to benefit

Sector	Benefit of moving to Organized Segment	Change in Tax Rate	Supply Chain Management	Overall
Auto-Batteries	■ ■ ■	■	■	■ ■ ■
Logistics	■ ■	■	■ ■	■ ■ ■
Apparels	■ ■ ■	■ ■	■	■ ■
Pipes, Ceramics	■ ■ ■	■ ■	■	■ ■

Highly Positive
 
 Positive
  Slightly Positive
  Neutral

Sector	Unorganized Share	Organized Share
Auto-Batteries	40%***	60%
Logistics	92%**	8%
Apparels	70%***	30%
Pipes, Ceramics	50%***	50%

Source:- The Financial Express

\*Source:- [www.federalreserve.gov](http://www.federalreserve.gov)

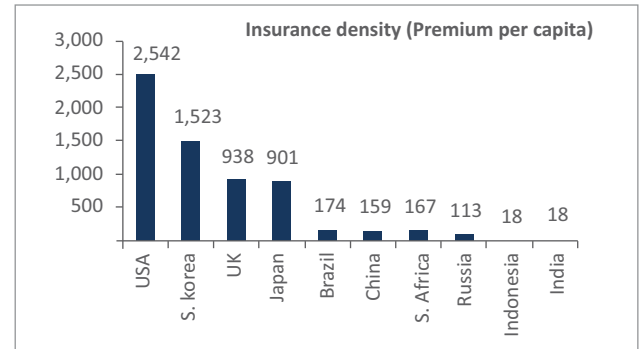
\*\*Source:- KPMG India Retails the next growth story

\*\*\*Source:- Edelweiss: Analysis Beyond Consensus

# General Insurance

- **GI penetration is low in India** with Industry Premiums at only 0.9% of GDP. **Growth drivers** for this sector are linked to a) Vehicle stock (Motor), b) Improving income levels (Health) and c) Economic activity (Commercial), with each segment currently under-penetrated
- In addition to acceleration of growth in the existing lines, it is expected that **new lines of business such as property insurance, liability insurance, cyber insurance etc.** (which are negligible as of now) **will also add to growth**
- **Attractive industry structure for select private players** – 45% market share is with PSUs which are largely in poor shape due to weak capital position and profitability.
- **Top private players have competitive advantages** – due to scale, brand, distribution, capital position, underwriting discipline, industry leading profitability and superior customer service.
- **Nature of business is promising** – The sector is countercyclical to rising interest rates. In addition, premium mix is diversified with individual segments having uncorrelated growth and profitability drivers providing earnings stability.

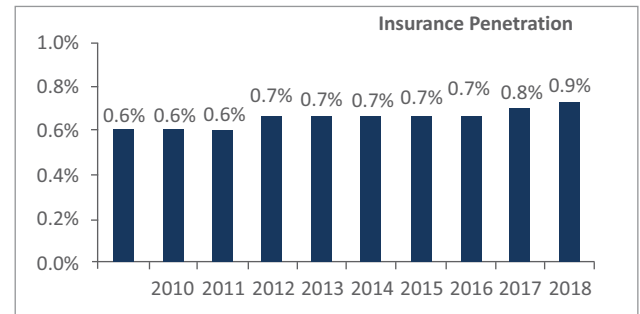
2009



Source: IRDA, Investec Securities Research

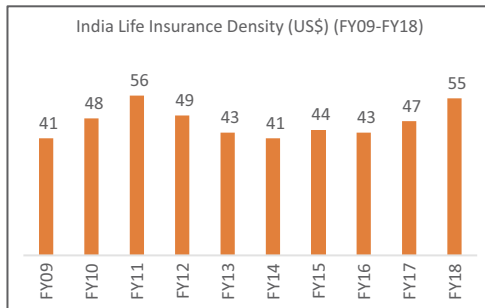
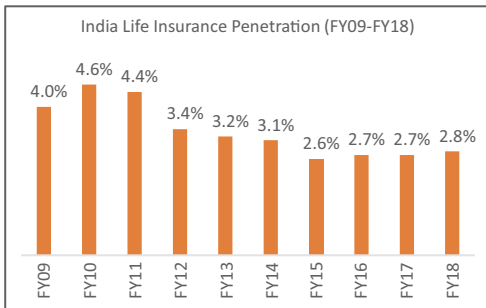
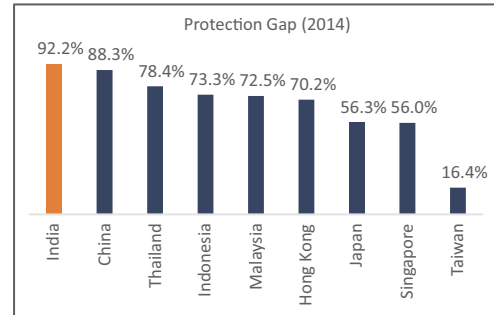
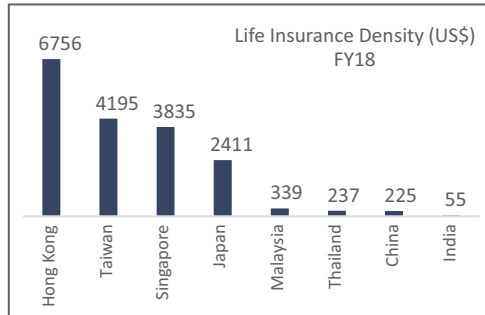
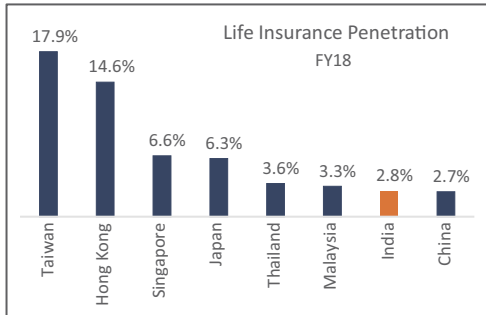
Insurance penetration improved in last 2 years. Similarly there has been an increase in Insurance density

India - Insurance penetration improved in last 2 years..



Source: IRDA, Investec Securities Research

# Life Insurance: Growth opportunity- Under-penetration vs global benchmarks

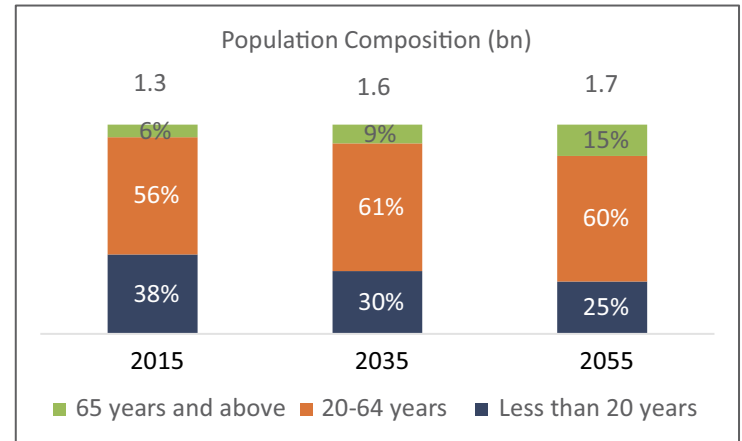
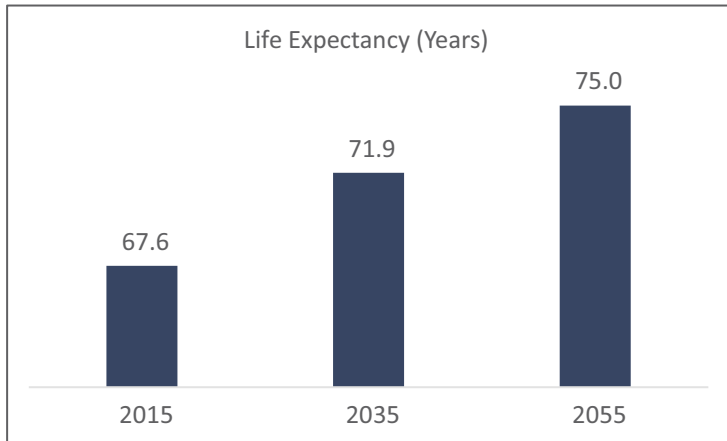


- India has the highest protection gap in the region, as growth in savings and life insurance coverage has lagged behind economic and wage growth
- Protection gap has increased over 4x in last 15 years with significantly low penetration and density

Note: Penetration as measured by premiums as % of GDP, Density defined as the ratio of premium underwritten in a given year to the total population.

Source: Swiss Re (Based on respective financial year of the countries), MOSPI

# Life Insurance



- India's insurable population is anticipated to touch 750 million by 2020
- India is currently one of the world's youngest nations, offering great opportunities for long term savings and investment plans
- Demand for retirement policies to rise with increasing life expectancy, declining birth-rates and proportion of India's elderly population expected to increase by almost 100% by 2035 (as compared to 2015)
- Emergence of nuclear families and increasing life expectancy to facilitate need for pension and protection based products

Source: United Nations World Populations Prospects Report (2017)

# Our investment philosophy – ‘Buy Right : Sit Tight’

At Motilal Oswal Asset Management Company (MOAMC), our investment philosophy is centered on 'Buy Right: Sit Tight' principle.

## Buy Right

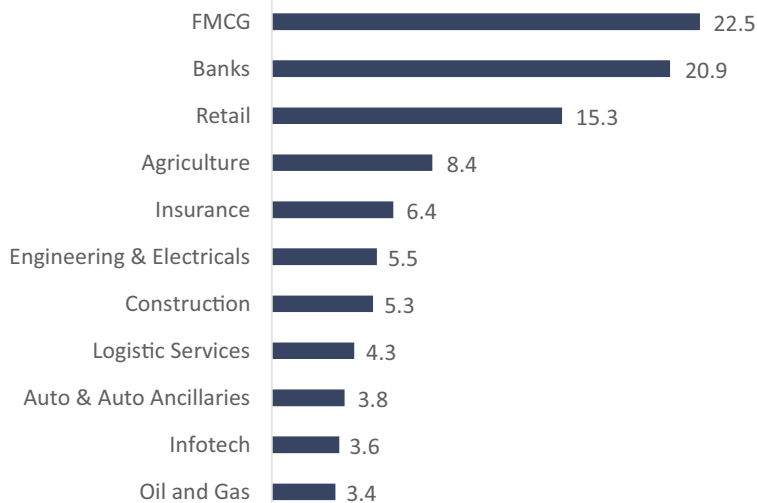
- **‘Q’uality** denotes quality of the business and management
- **‘G’rowth** denotes growth in earnings and sustained RoE
- **‘L’ongevity** denotes longevity of the competitive advantage or economic moat of the business
- **‘P’rice** denotes our approach of buying a good business for a fair price rather than buying a fair business for a good price

## Sit Tight

- **Buy and Hold:** We are strictly buy and hold investors and believe that picking the right business needs skill and holding onto these businesses to enable our investors to benefit from the entire growth cycle needs even more skill.
- **Focus:** Our portfolios are high conviction portfolios with 25 to 30 stocks being our ideal number. We believe in adequate diversification but over-diversification results in diluting returns for our investors and adding market risk

# Portfolio Allocation

## Sectoral Allocation

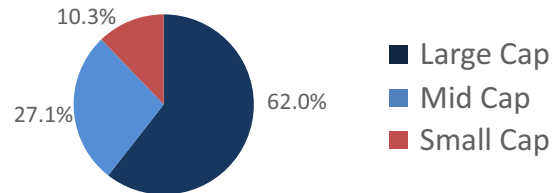


Please Note: The given stocks are part of portfolio of a model client of BOP Strategy as on 31st January 2019. The stocks forming part of the existing portfolio under BOP Strategy may or may not be bought for new client. The stocks mentioned above are only for the purpose of explaining the concept and should not be construed as recommendations from MOAMC. Past performance may or may not be sustained in future and should not be used as a basis for comparison with other investments. Name of the PMS Strategy does not in any manner indicate its future prospects and returns.

## Top 10 Holdings

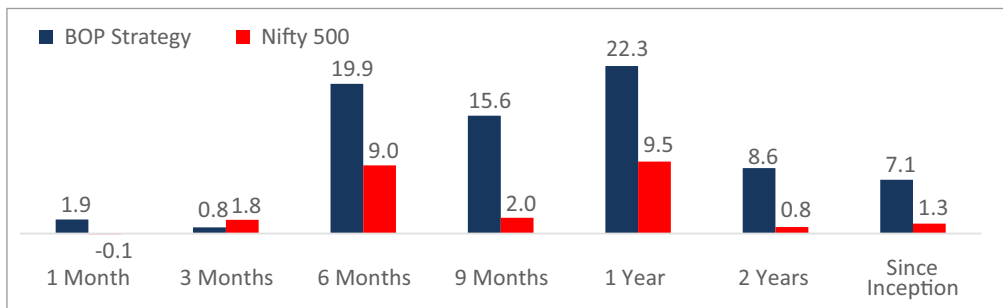
Scrip Name	%Holding
HDFC Bank	10.5
Hindustan Unilever	8.7
Bata India	8.6
Kotak Mahindra Bank	5.5
Blue Star	5.0
ICICI Bank	4.9
Godrej Agrovet	4.9
Britannia Industries	4.5
Container Corporation Of India	4.3
Kansai Nerolac Paints	4.1

## Market Capitalization

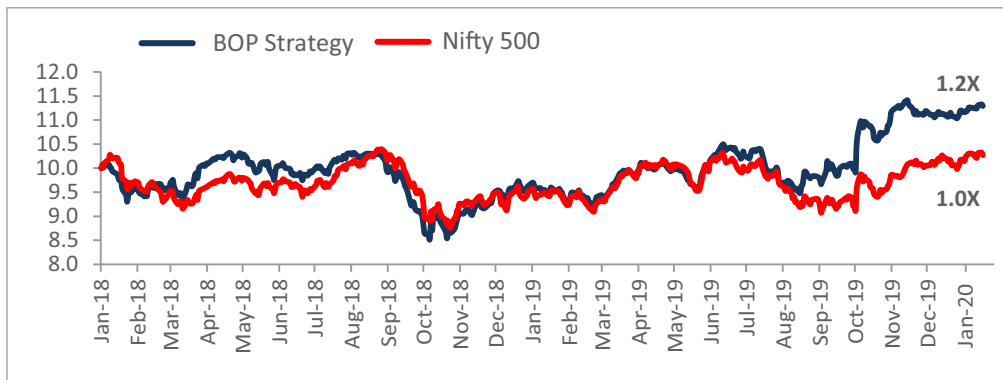


Weighted Average Market Cap : Rs. 2,05,276 Crs

# Performance Snapshot



BOP Strategy has delivered a CAGR of 7.1% vs. Nifty 500 returns of 1.3%, an outperformance of 5.8% (CAGR) since inception (16th January 2018)



Rs. 1 crore invested in BOP Strategy at inception is worth Rs. 1.15 cr as on 31st January 2020. For the same period Rs. 1 cr invested in Nifty 500 Index is now worth Rs. 1.02 cr.

\*Strategy Inception Date: 16/01/2018.

Please Note: The Above strategy returns are of a Model Client as on 31st January 2020. Returns of individual clients may differ depending on time of entry in the Strategy. Past performance may or may not be sustained in future and should not be used as a basis for comparison with other investments. Returns below 1 year are absolute and above 1 year are annualized. Strategy returns shown above are post fees & expenses.



# MOAMC – Some Success Stories

## Multibaggers across PMS strategies...

Stocks	Initial Purchase Date	Market Cap Rs. Crores (Purchase Date)	Market Cap Rs. Crores (31st Jan 20)	Absolute Growth	CAGR (%)
<b>Indian Opportunity Portfolio Strategy</b>					
DCB Bank	August-16	3,038	5,533	1.8X	19%
Mahanagar Gas	August-16	5,061	11,592	2.3X	27%
Dr. Lal Pathlabs	August-16	8,326	14,761	1.8X	18%
<b>Next Trillion Dollar Opportunity Portfolio Strategy</b>					
Page Industries	December 2007	456	27,248	59.8X	40%
Bajaj Finance	November 2010	2,923	2,62,691	89.9X	63%
Eicher Motors	December 2010	3,207	55,399	17.3X	36%
ICICI Bank	November 2018	2,27,657	3,40,094	1.5X	38%
City Union Bank	March 2013	3,026	17,016	5.6X	28%
L&T Technology Services	October 2016	8,610	17,547	2.0X	24%
<b>Value Strategy</b>					
HDFC Bank	June-2008	40,986	6,71,845	16.4X	27%
Eicher Motors	April-2012	5,682	55,399	9.8X	34%
ICICI Bank	Oct-2017	1,78,647	3,40,094	1.9X	32%
HDFC Life Insurance	Nov-2017	69,229	1,20,958	1.7X	29%
IpcaLaboratories	May-2018	9,239	15,876	1.7X	36%

\* As on 31st January 2020

The given stocks are part of portfolio of a model client of respective PMS Strategies. The Stocks mentioned above are used to explain the concept and are for illustration purpose only and should not be used for development or implementation of an investment strategy. The stocks forming part of the existing portfolio of PMS Strategies may or may not be bought for new clients of PMS Strategies. It shall not be considered as an advice, an offer to sell/purchase or as an invitation or solicitation to do so for any securities. Past performance may or may not be sustained in future. Motilal Oswal AMC does not provide any guarantee/assurance any minimum or maximum returns

# Fund Manager



**Manish Sonthalia**  
Fund Manager

- Manish has been managing the Strategy since inception and also serves as the Director of the Motilal Oswal India Fund, Mauritius.
- He has over 25 years of experience in equity research and fund management, with over 14 years with Motilal Oswal PMS.
- He has been the guiding pillar in the PMS investment process and has been managing various PMS strategies and AIFs at MOAMC.
- Manish holds various post graduate degrees including an MBA in Finance, FCA, Company Secretaryship (CS) and Cost & Works Accountancy (CWA).



**Atul Mehra**  
Associate Fund Manager

- Atul has over 11 years of experience in equity research and fund management specializing in mid and small cap space, with over 5 years with Motilal Oswal Group.
- Before joining Motilal Oswal, he was associated with Edelweiss Capital.
- Atul is a Chartered Financial Analyst (CFA) from CFA Institute, USA and a Masters in Commerce.

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or write to [pmsquery@motilaloswal.com](mailto:pmsquery@motilaloswal.com) or visit [www.motilaloswalmf.com](http://www.motilaloswalmf.com)

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**THINK MOTILAL OSWAL**



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