Motilal Oswal Asset Management

BUY RIGHT SIT TIGHT

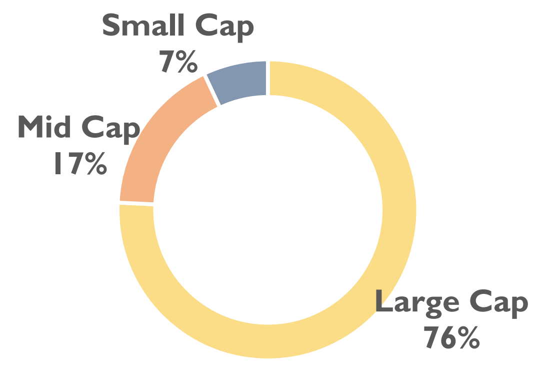
Business Opportunities Fund

June 2021

(Performance as on 31st May 2021)

High concentration – High conviction – 14 stock portfolio

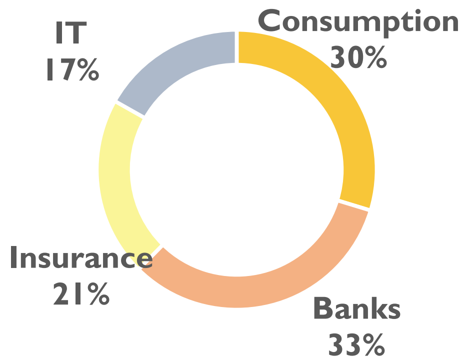
Market Cap Mix



QGLP exemplified

Quality	**RoE: 22%**
Growth	**~20% PAT CAGR over FY20–23E**
Longevity	**High**
Price	**PE: 21x FY23E**

Sector Mix



Highly concentrated portfolio plays across four themes

1

Insurance – an underpenetrated market

- Max Financial
- HDFC Life

2

Consolidation in the lending business

- HDFC Bank
- Kotak Bank
- ICICI Bank

3

High quality consumer discretionary

- Maruti Suzuki
- Eicher Motors
- Asian Paints
- Blue Star
- Safari
- Phoenix Mills

4

Large cap sturdy defensives

- Hindustan Unilever
- TCS
- L&T Infotech

Insurance – an underpenetrated market

A structural growth story that comprises 21% 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 83% 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.

I

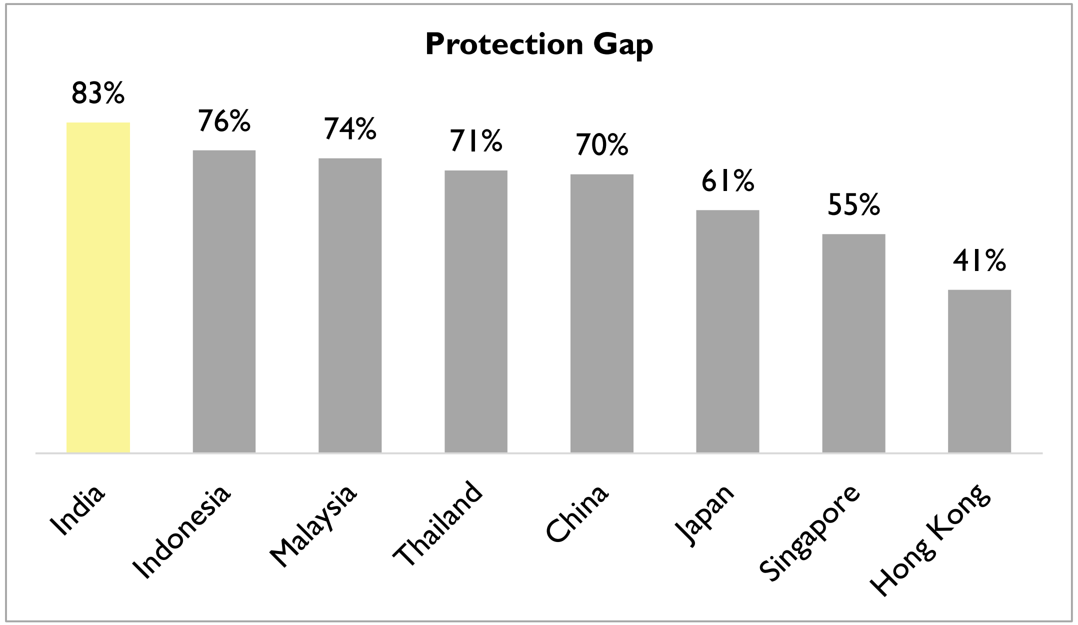
Insurance – an underpenetrated market

A structural growth story that comprises 21% of the portfolio

Demand

A long runway for growth

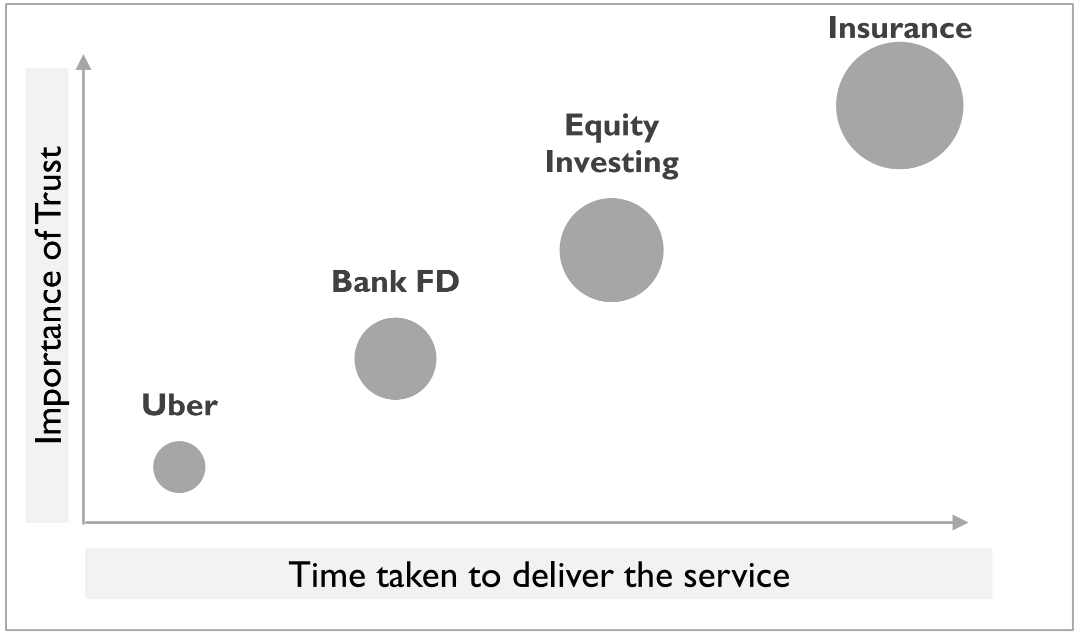
Low coverage provides a large opportunity for life insurers



Economic Designation

Companies can charge for moats

How much premium can you charge?



I

PORTFOLIO WEIGHT: 15%

Insurance – an underpenetrated market

Max Financial

Strong underlying insurance business	• With best in class metrics (20%+ VNB Margins, 20% RoEVs) and growth track record (20%+ EV compounding). • 4th largest private life insurance player in India • The only non-bank promoted player which has reached this scale.
Axis Bank overhang on verge of resolution	• Axis Bank emerging as the single largest shareholder with 18% stake, subject to regulatory approvals. • This should settle the long held overhang on the stock; and Axis Bank Banca relationship should go on to be a perpetual one.
Holdco structure to collapse	• Once the Axis Bank deal is sealed; we expect the current holding company structure to be collapsed with existing shareholders of Max Financial getting Max Life shares. • This should be another key trigger which should drive further re-rating of the stock.
Attractively valued	• Max is trading at 15x EVOP v/s 35x for HDFC Life, despite similar business metrics. • We believe it is significantly undervalued; and is **our highest conviction idea at 12% allocation at the fund level.**

I

PORTFOLIO WEIGHT: 6%

Insurance – an underpenetrated market

HDFC Life Insurance

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 USD100 bn market cap company	• HDFC Bank is India's most valued bank with market cap at ~USD100b. We see HDFC Life on a similar trajectory going forward; and it has all the tenets to be another USD100b market cap company as HDFC Bank.

Consolidation in the lending space

Top 5 banks command 47% market share in India, versus 80% as seen in countries globally

Top 5 banks in India to consolidate market share

- The five bank concentration ratio in India stands at ~47% level; vs ~80% being the median for 30 large economies globally.
- We believe the top banks in India; especially the top 3-4 private banks are very well positioned today to consolidate market share.

Strong liability franchises

- A very strong liability franchise; and good underwriting discipline are the key tenets of sustainable compounding in a lending business.
- The banks we own in the fund are the ones which clearly lead on these metrics.

PSU to PVT value migration to continue

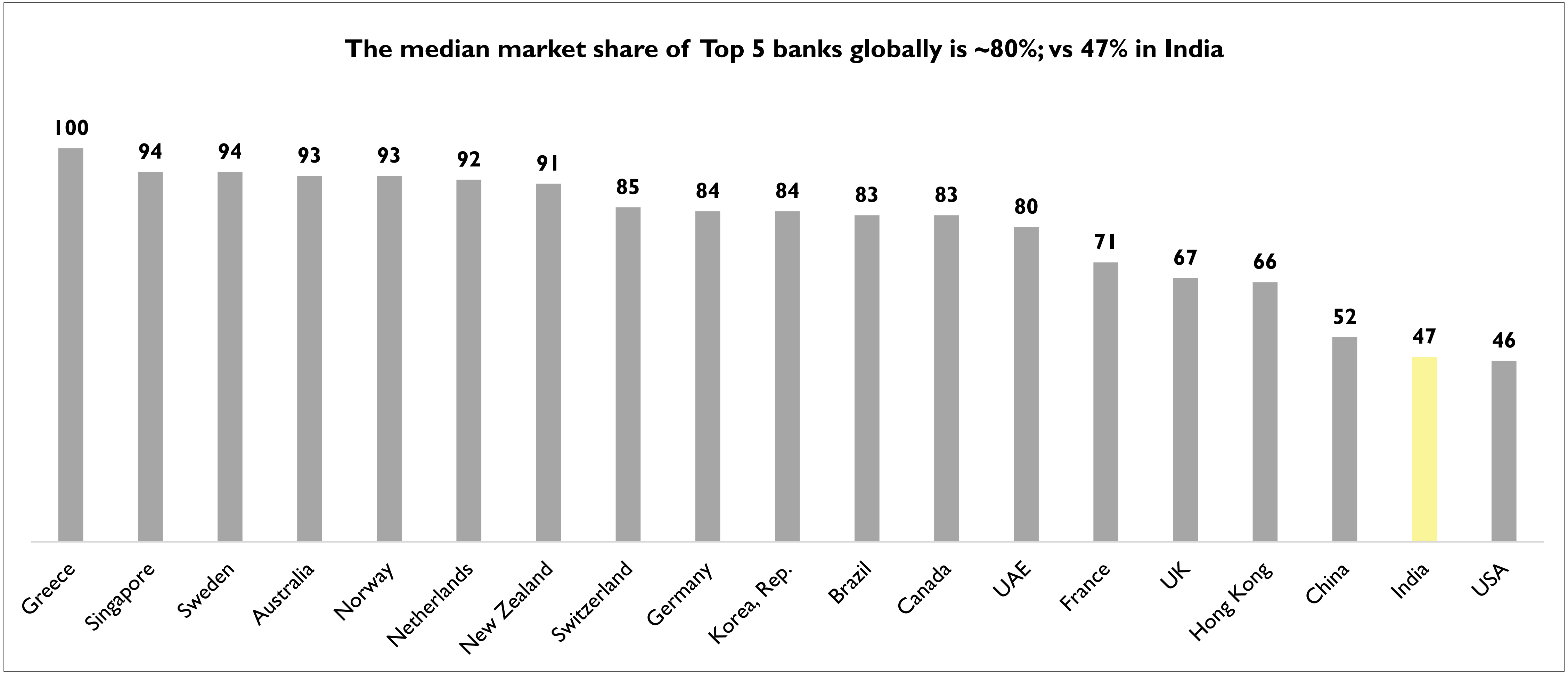
- PSU banks have structural shortcomings of a promoter whose interests are not aligned with minority shareholders, weak underwriting capabilities, being capital starved, etc.
- Hence, expect value migration from PSU to PVT to continue.

Attractive valuations

- Financial stocks were badly hit during the sell-off caused by COVID
- Unlike other sectors, stock prices for banks are yet to reflect their full potential
- Believe this is a temporary mispricing for larger, well run private banks with good liability franchises and underwriting capabilities.

Consolidation in the lending space

Top 5 banks command 47% market share in India, versus 80% as seen in countries globally



PORTFOLIO WEIGHT: 11%

Consolidation in the lending space

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.

2

PORTFOLIO WEIGHT: 9%

Consolidation in the lending space

Kotak Bank

Unique structure of value creation	• Unique structure with 100% stake in each of the subsidiaries like life insurance, general insurance, asset management, wealth management, broking, etc. ~30% of the consolidated profits come from subsidiaries.
Very strong liability franchise	• Robust liability franchise with 56% CASA translating into 5.2% cost of funds; Significant leverage on further reducing cost of funds; which is currently under-utilized.
Highly capitalized; providing M&A as a growth lever	• Capital adequacy amongst the highest in the Indian banking sector, 21% CET-1 vs regulatory requirement of 8.5%. • Can capitalize distress times like the current times to accelerate growth through M&A
Significant room for operating efficiencies; Attractively valued	• Significant room for operating efficiency with cost to income still at elevated levels at 48% due to marketing investments and 811 account openings. • We expect Kotak Bank to be a consistent compounder; stock trades at a reasonable valuation of ~3x price to book.

2

PORTFOLIO WEIGHT: 13%

Consolidation in the lending space

ICICI Bank

Best man at the helm in what's a good liability franchise	• Management change and organizational directions suggests a clear focus on 'risk'; in what's already a good liability franchise (45%+ CASA); 5.1% cost of funds.
Significant value creation in subsidiaries	• ICICI Prudential Life Insurance Company, ICICI Securities, ICICI Lombard General Insurance Company; have already been listed on the bourses; • 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 ~16%-18% levels. • Portfolio now more retail than wholesale with mix at 53:47.
Re-rating to be gradual	• Ex-subsidiary valuation which contributes about 1/3rd to total valuation; ICICI Bank trades at a P/B of 1x; which is at a substantial discount to intrinsic value; • Expect steady-state ~16% RoEs. As the bank delivers; it should re-rate gradually.

High quality consumer discretionary

Distinctive and durable market leaders likely to benefit despite short term headwinds

India's growth potential remains intact

- India despite facing multiple challenges over the years; has a track record of ~14% nominal GDP growth over the last 4 decades.
- We believe the basic building blocks to this long term growth remain intact; the pandemic should be a passing event.

Economic environment to accelerate consolidation

- Every downturn tests the survival of the fittest.
- Weak players in an industry suffer the most (especially the unorganized; and players with weak balance sheets).
- Consequently, in the recovery that ensues; the strong get stronger.

Focus on market leaders

- Accelerated formalization of the economy to benefit market leaders
- High stress economic environments necessitate that the strongest will be able to not just survive, but thrive.

Look beyond the short term

- Template for multi-baggers; vision to see, courage to buy and patience to hold
- Patience is the rarest of the three attributes. We believe; today as we're still in the middle of the pandemic; our patience is being tested.
- However, as the dust settles; we believe we will be well rewarded for our patience.

3

High quality consumer discretionary

Distinctive and durable market leaders likely to benefit despite short term headwinds

PORTFOLIO WEIGHT:

4% | **Passenger Cars**

- 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

5% | **Premium Motorcycles**

- A passionate entrepreneur at the helm of a large and distinctive opportunity
- Strong new hire - Mr Vinod Dasari as CEO
- Robust pipeline; < 2% penetration in India and a large export opportunity

5% | **Paints**

- Winner category; category winner: 60% market share in a profitable industry
- Under new CEO, Amit Syngle, we believe Asian Paints will further extend its market share
- Aggressively strengthening firm strength in the mass category paints segment

3

High quality consumer discretionary

Distinctive and durable market leaders likely to benefit despite short term headwinds

PORTFOLIO WEIGHT:

4% — **Air Conditioners**

BLUE STAR

- Underpenetrated segment likely to see multi-decadal growth
- 12% market share in RACs and leadership in commercial refrigeration
- Solid fundamentals (~20% RoEs) at reasonable valuations (24x FY23 E PE)

3% — **Luggage**

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

3% — **Organized retail**

THE PHOENIX MILLS LIMITED

- Best positioned in an industry facing difficult times
- Recent fund raising and a host of upcoming de-leveraging plans through REIT / platform deals with CPPIPB / Brookfield / GIC
- Malls as a retailing avenue to gain share from high street

Large-cap sturdy defensives

Pillars of the portfolio to help optimize risk and reward

High quality defensives

- Market leaders in their respective sectors, these companies enjoy large moats and extensive capabilities
- Includes plays in Consumer Staples with inelastic demand and IT which should benefit from digital and cloud adoption.

Playing the balancing act

- Optimizing risk-return trade-offs in an uncertain pandemic ridden world.
- Play a balancing role when supplemented with structural and economic recovery plays

Viewing valuations in context

- Globally we're in the middle of life-time low interest rates; with the implied PE multiple on US 30 year treasury at 70x (1.4% rate of interest).
- In context, valuations for high quality consumer staples seem reasonable; given all time low discounting rates.

Low beta stocks stabilize volatility

- Low beta stocks to help manage tail risk and negative kurtosis in the portfolio
- Increasingly choppy markets might present volatile entry and exit positions. Stabilizers to help moderate that

4

Large-cap sturdy defensives

Pillars of the portfolio to help optimize risk and reward

PORTFOLIO WEIGHT:

5% — **FMCG**

- HUL doesn't just manufacture soaps and detergents; it's the CEO factory for India Inc
- 100 years in the country with a plethora of brands; strongest distribution reach
- Full suite of brands straddling across categories and price points catering many India's.

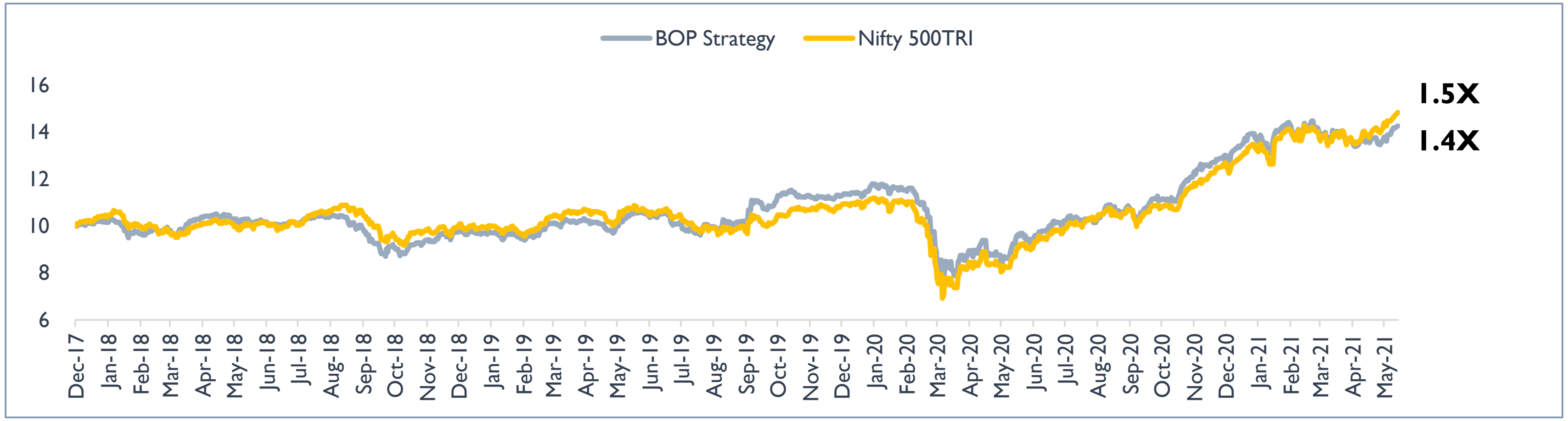
10% — **IT**

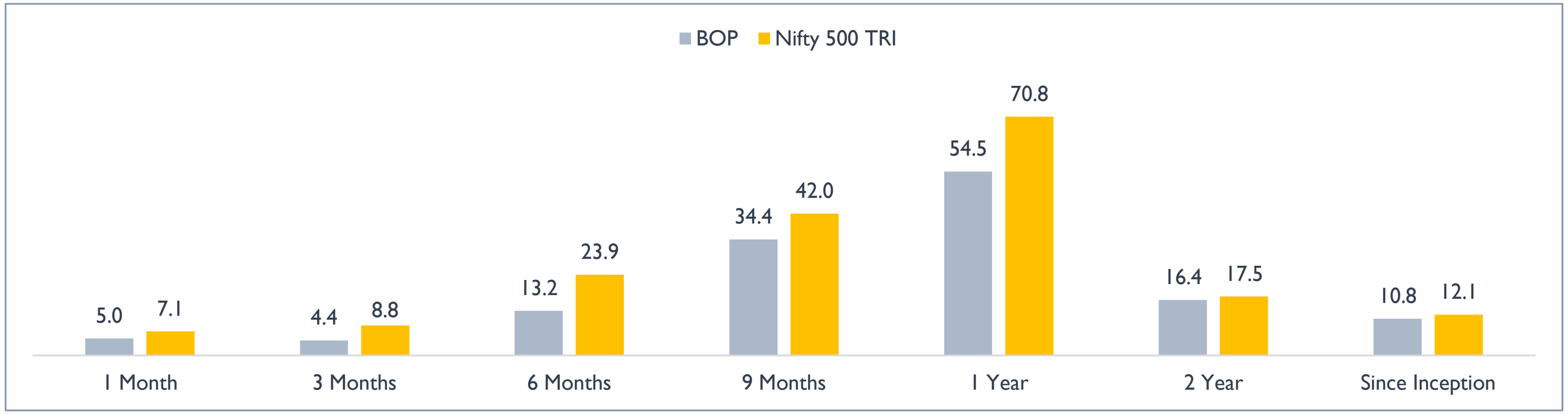
- Global increase in cloud adoption and increased digital spends
- Best organizational culture; low employee attrition; high domain expertise
- 60%+ RoCE, ~90% dividend payouts, P/E at 19x FY23E

7% — **IT**

- Infosys team + L&T platform + Wide client presence
- LTI has delivered industry leading growth of 15%+ USD CC over the last 5 years.
- LTI has all the ingredients to transform itself into a Tier 1 operator

Portfolio Performance





One lac invested in the strategy on 18th Dec 2017 would have grown to Rs. ~1.4 lacs today against ~1.5 lacs invested in Benchmark

BOP Strategy Inception Date: 18th Dec 2017; Data as on 31st May 2021; Data Source: MOAMC Internal Research; RFR: 7.25%; ***Earnings as of Dec 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.

Investment Philosophy

QGLP in a nutshell

Our well documented Investment Philosophy

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

Q G

L P

Longevity – of both Q & G

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

Price

- Reasonable valuation, relative to quality & growth prospects
- High margin of safety

Chairman – Investment Committee

Raamdeo Agrawal
Chairman, MOFSL

- 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

Chief Investment Officer(CIO)

Manish Sonthalia

- 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).

Fund Manager

Atul Mehra, CFA

- Atul has over 12 years of experience in equity research and fund management specializing in mid and small cap space, with over 7 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.

Thank you

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