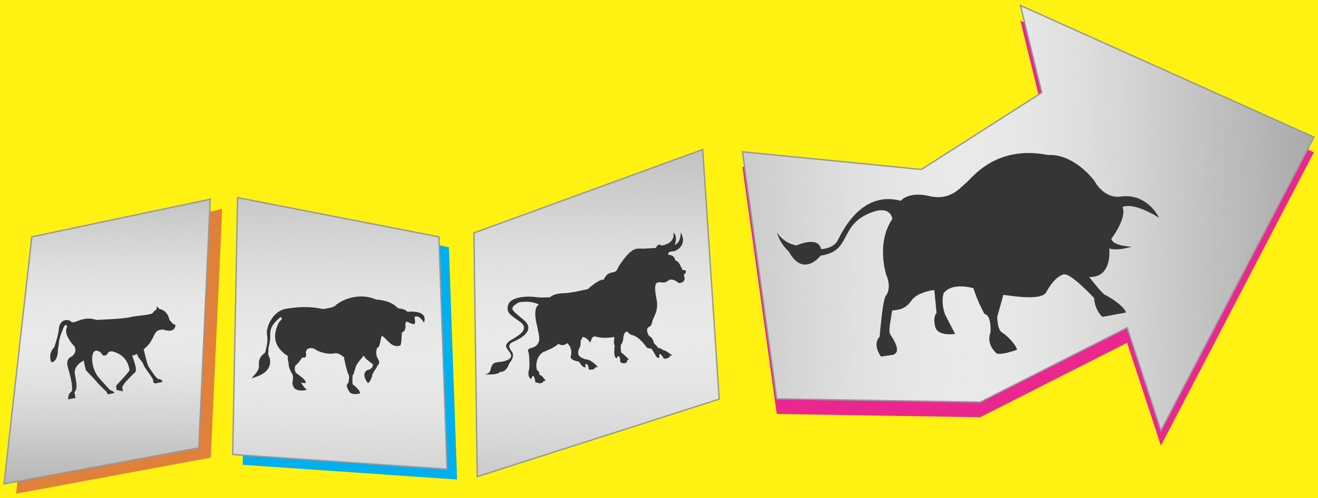
MONTHLY Communique

As on 31st July 2021



BUY RIGHT : SIT TIGHT

Buying quality companies and riding their growth cycle

THINK EQUITY
THINK MOTILAL OSWAL

MOTILAL OSWAL Asset Management
PORTFOLIO STRATEGY

BUY RIGHT
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Déjà vu: Is FY22 a new avatar of FY04?

BUY RIGHT SIT TIGHT

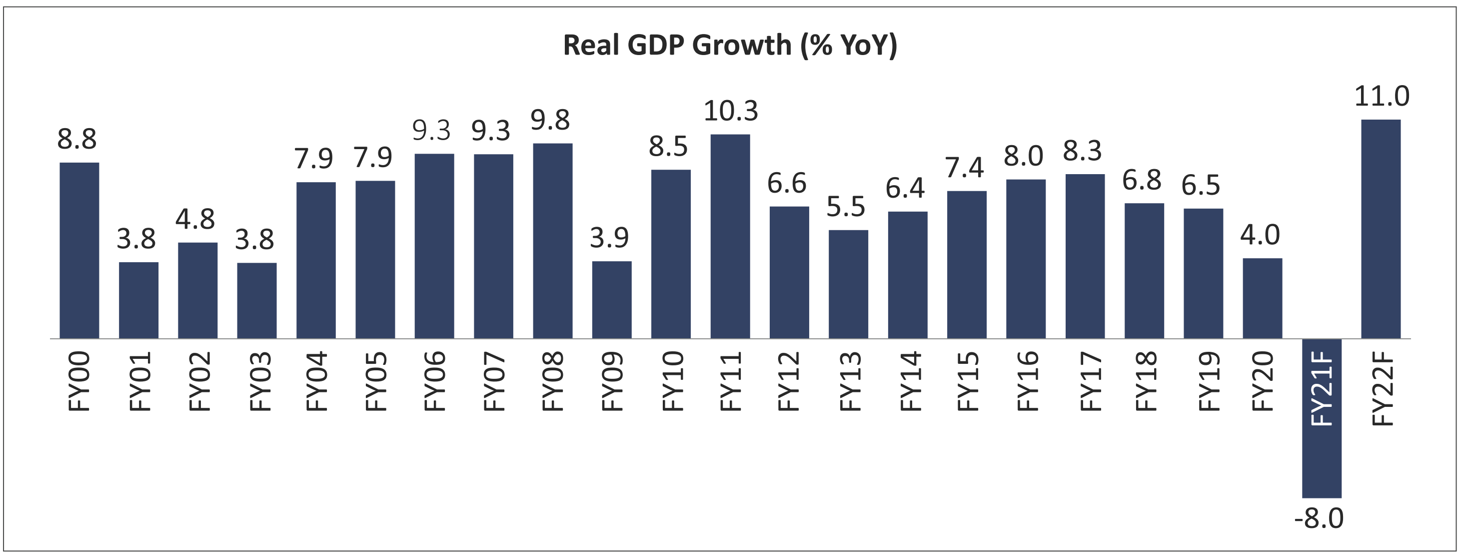
Navin Agarwal
(MD & CEO - Motilal Oswal AMC)

> **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 –

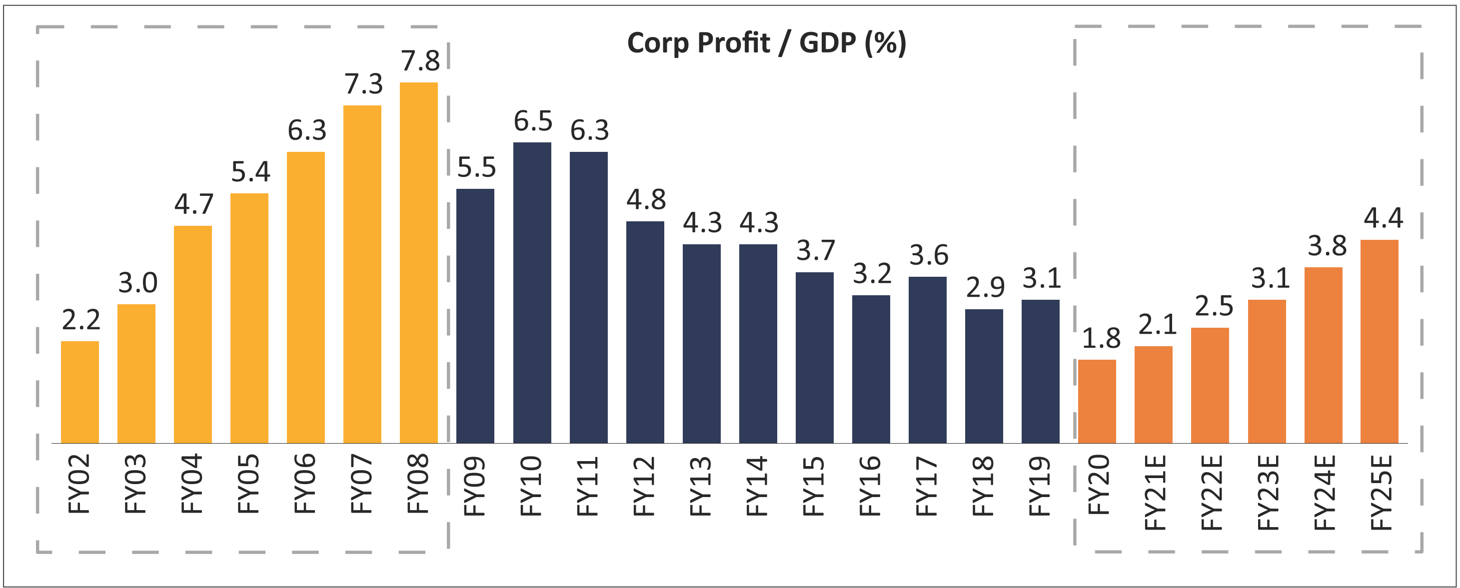
GDP growth – coming off lows: FY03 GDP growth was a low 3.8%. FY04 was the year of recovery to 8% GDP growth, which sustained over the next four years. Likewise, FY21 GDP growth is estimated to be an all-time low of -8%, and FY22 a smart recovery at 10%+



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



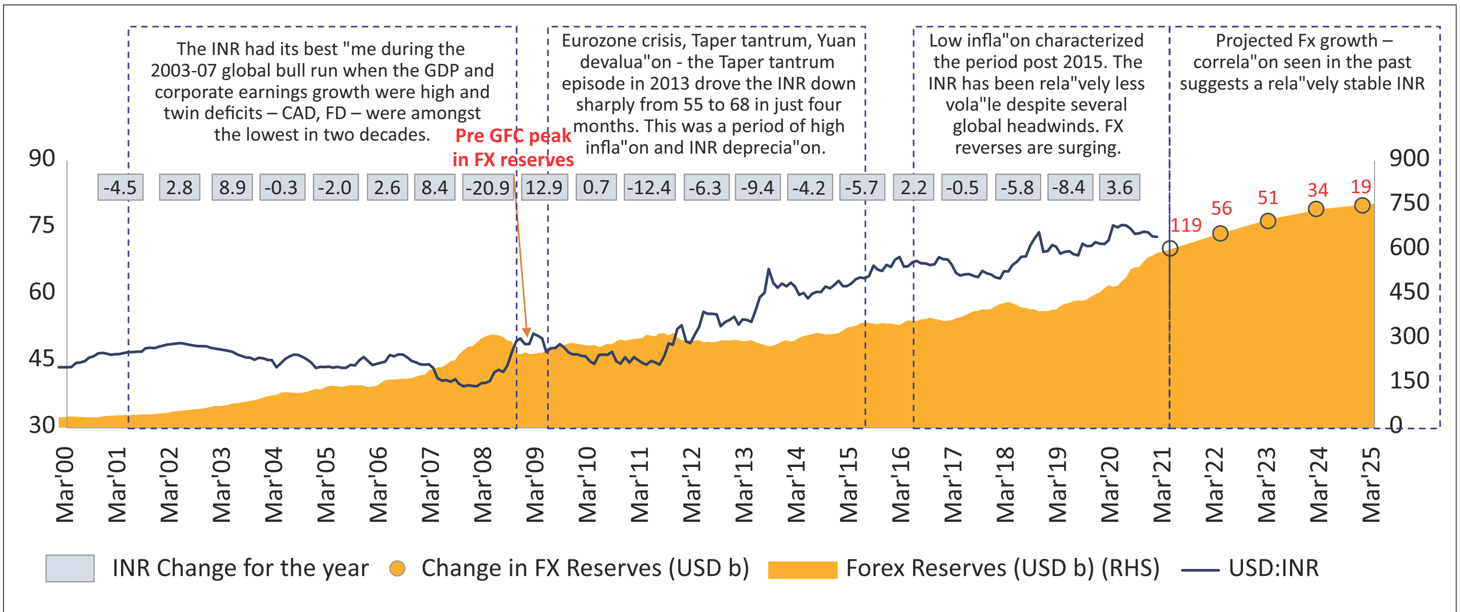
Source: MOSL, Data as on 31st May-2021.

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.

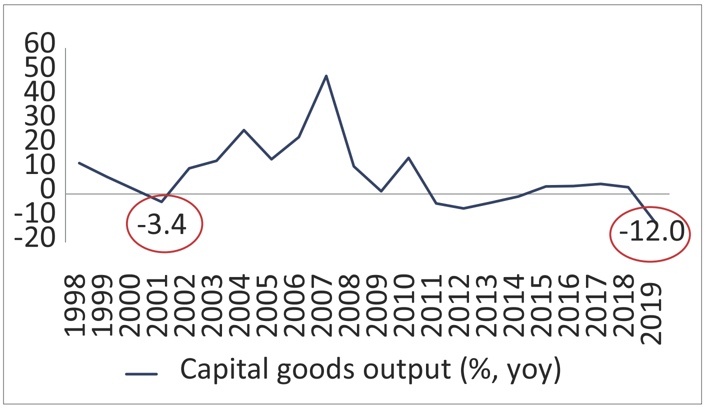


Source: MOSL, Data as on 31st May-2021.

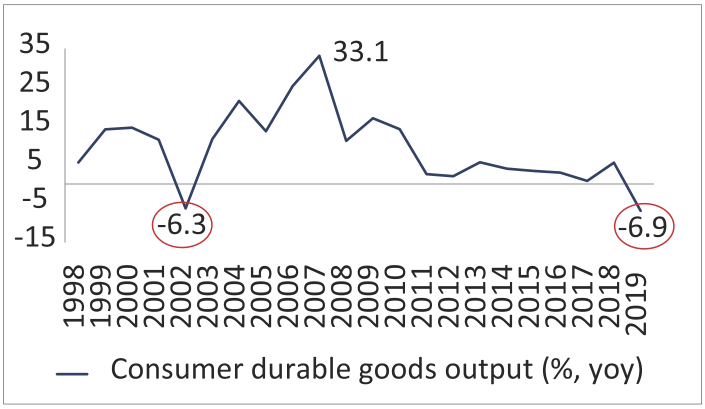
Having understood the similarities between FY04 and FY22, it's equally if not more important to assess what it will take for the FY04-08 rally to rhyme over FY22-26.

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.

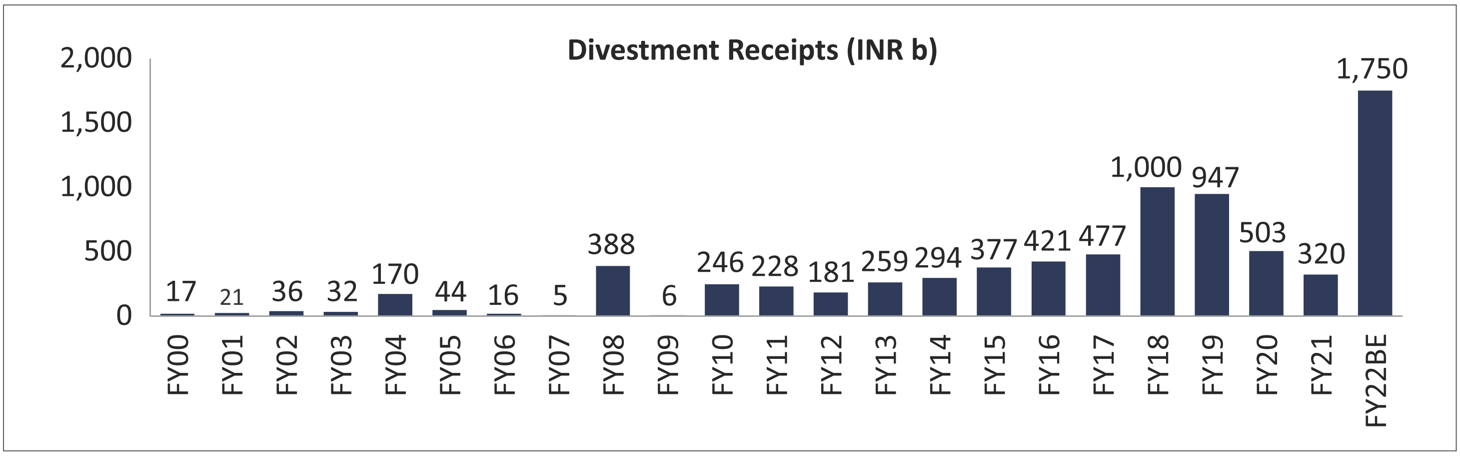
Cap goods output has contracted sharply



Discretionary consumption has taken a hit as also seen in 2002

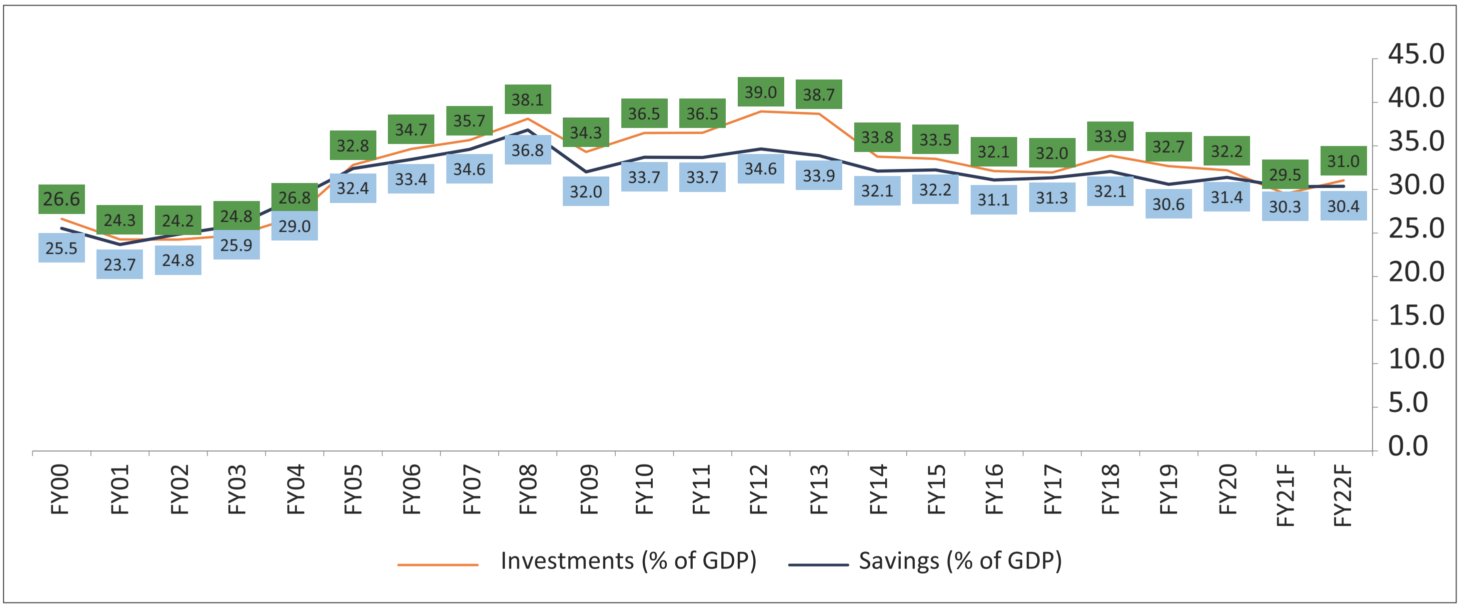


Source: Spark Capital, Data as on 31st May-2021.



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

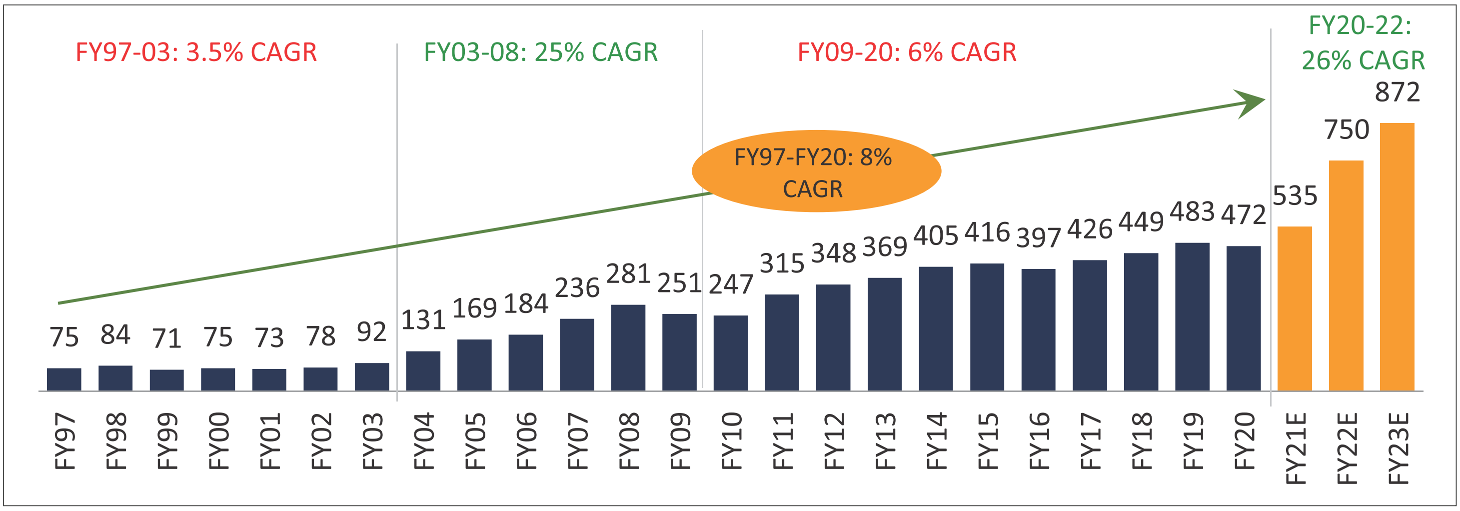
Higher savings and investment rates: A corollary to capex-led growth is high savings and investment rate in the economy. Between 2002 and 2007, savings rate jumped 10 percentage points—from 25% of GDP to almost 35%. This figure currently stands at 30-31%, and needs to pick up going forward. The same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

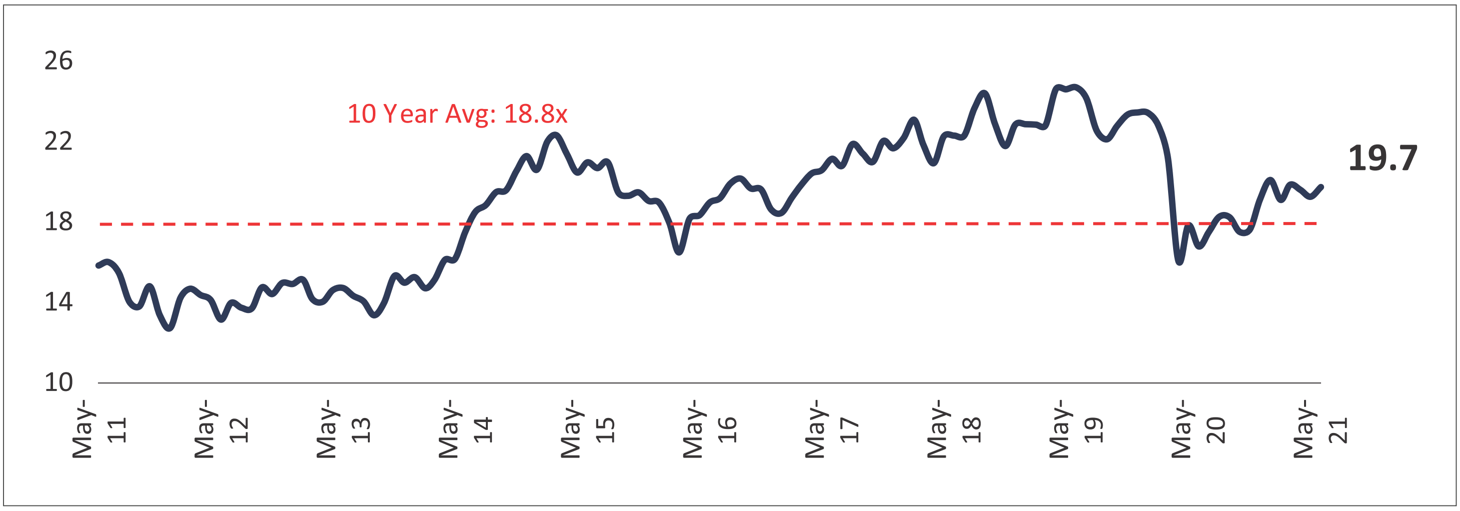
Sustained Corporate Profit Growth & no major valuation derating: The nascent recovery in corporate earnings growth seen in 3Q and 4Q of FY21 need to sustain into FY22 and beyond. In terms of valuation, market P/E is definitely higher than long-period average. But this can be explained by way of low interest 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

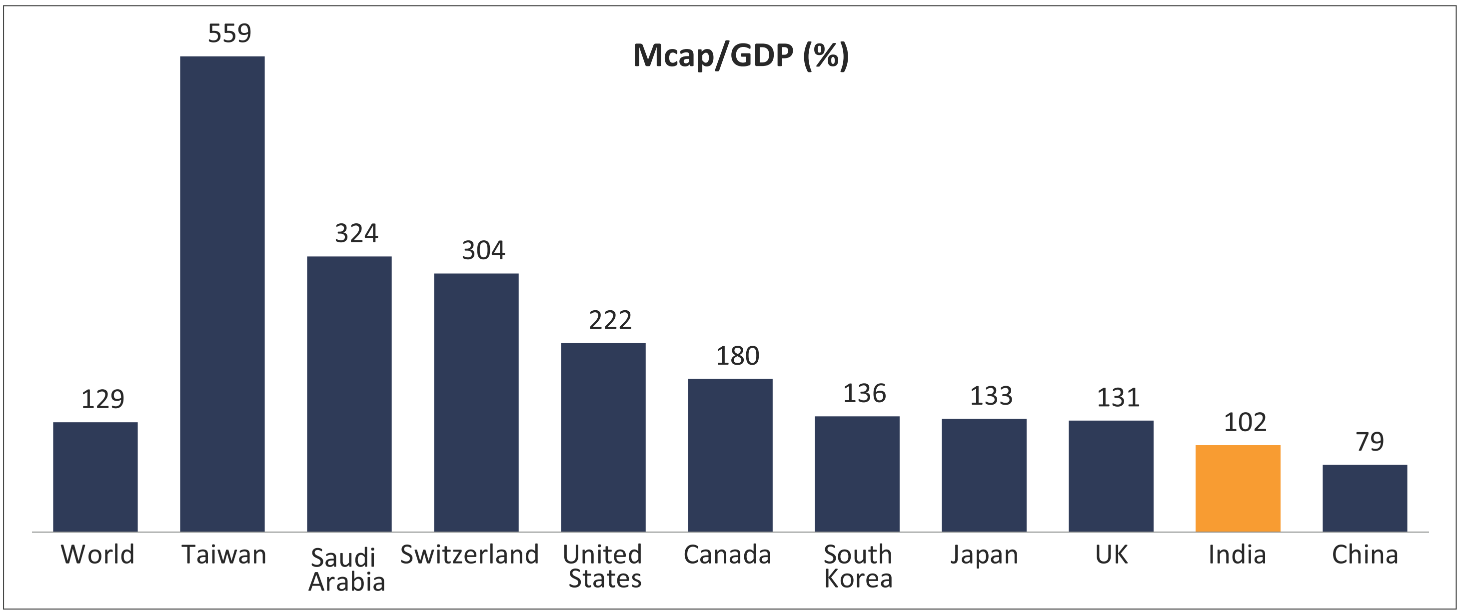


Source: MOSL, Data as on 31st May-2021.

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.

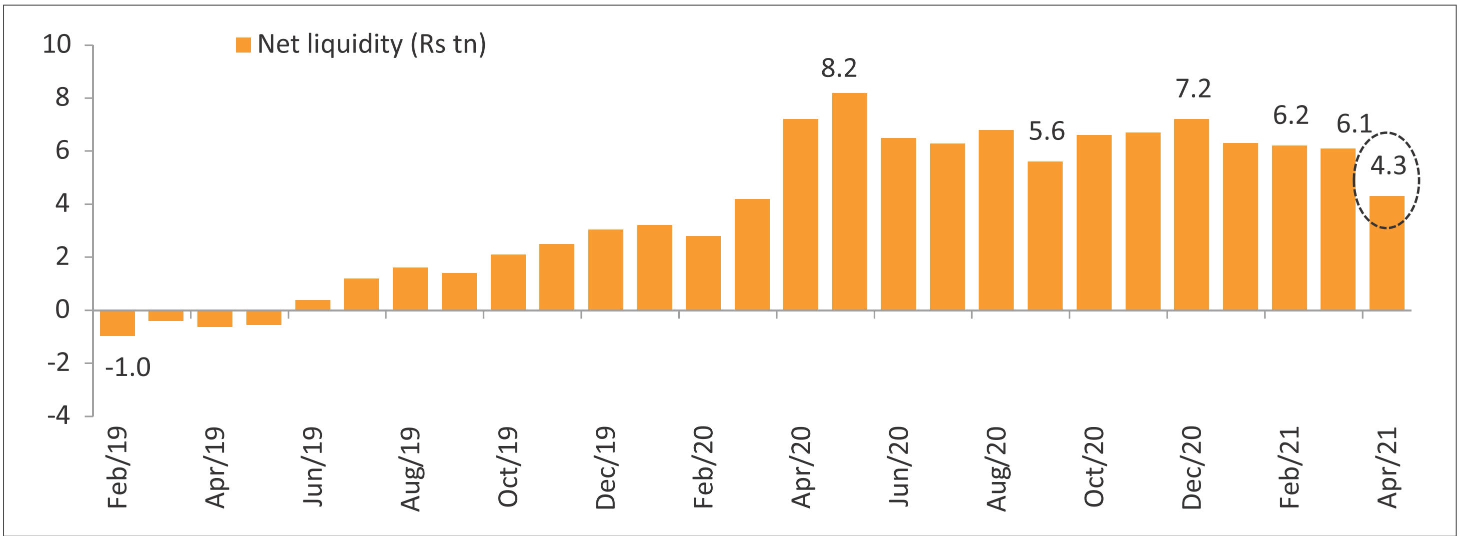
In conclusion

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.



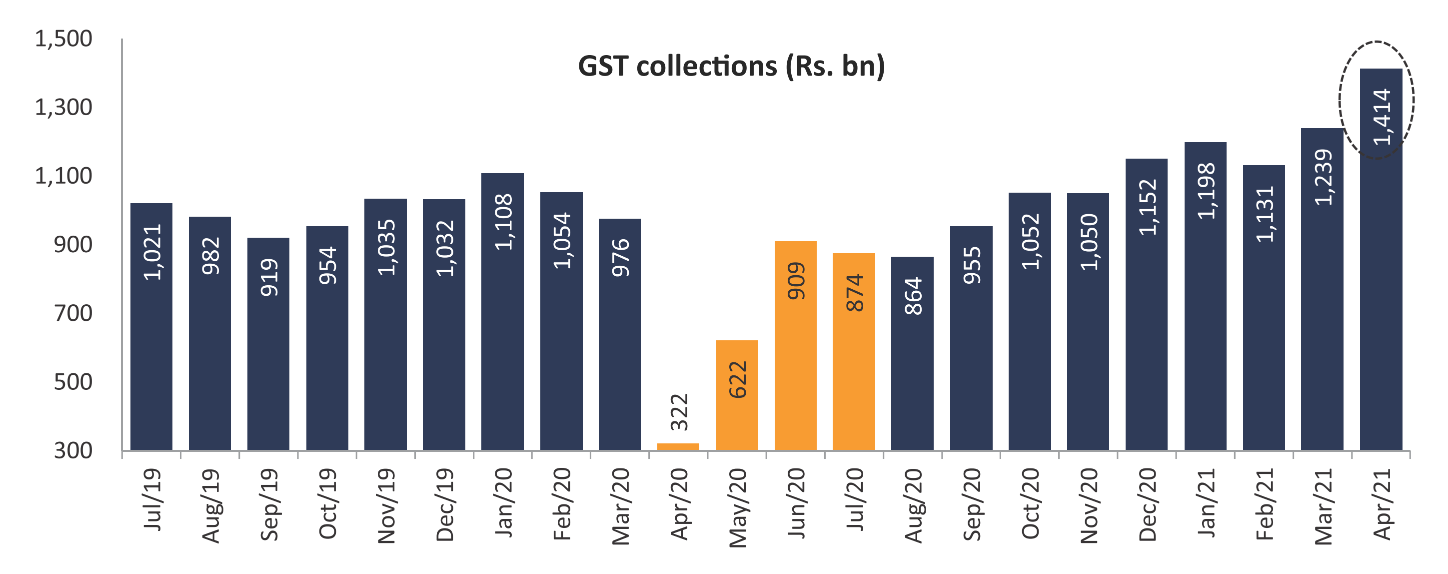
Source: MOSL, Data as on 31st May-2021.

#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%

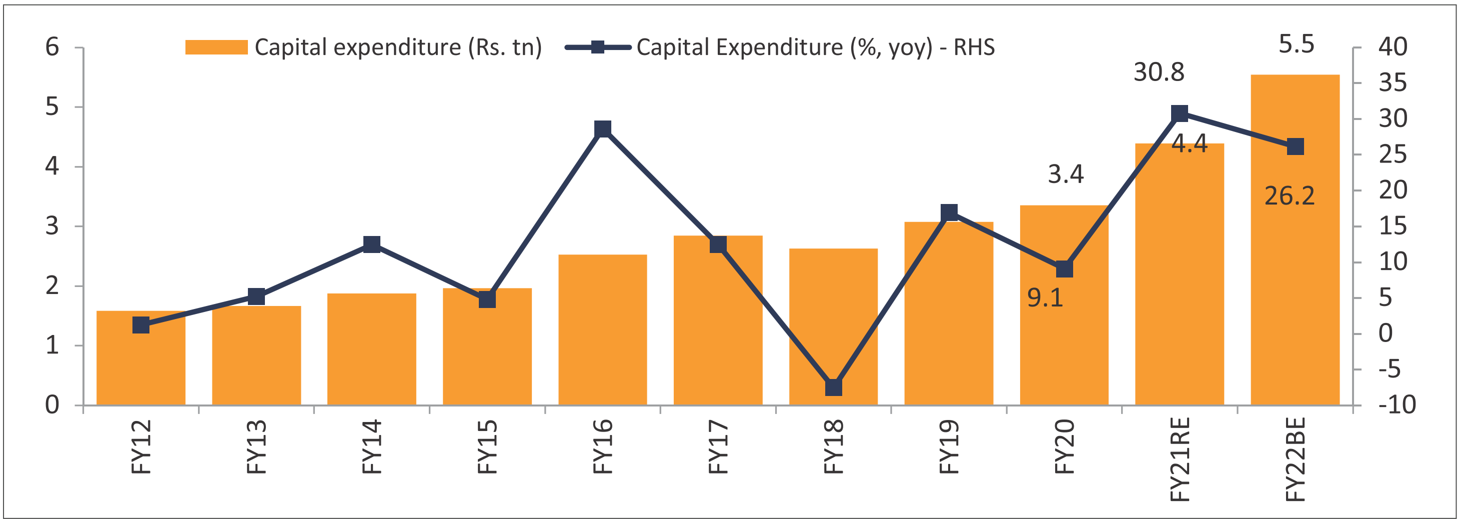
Source: MOSL, Data as on 31st May-2021.

#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



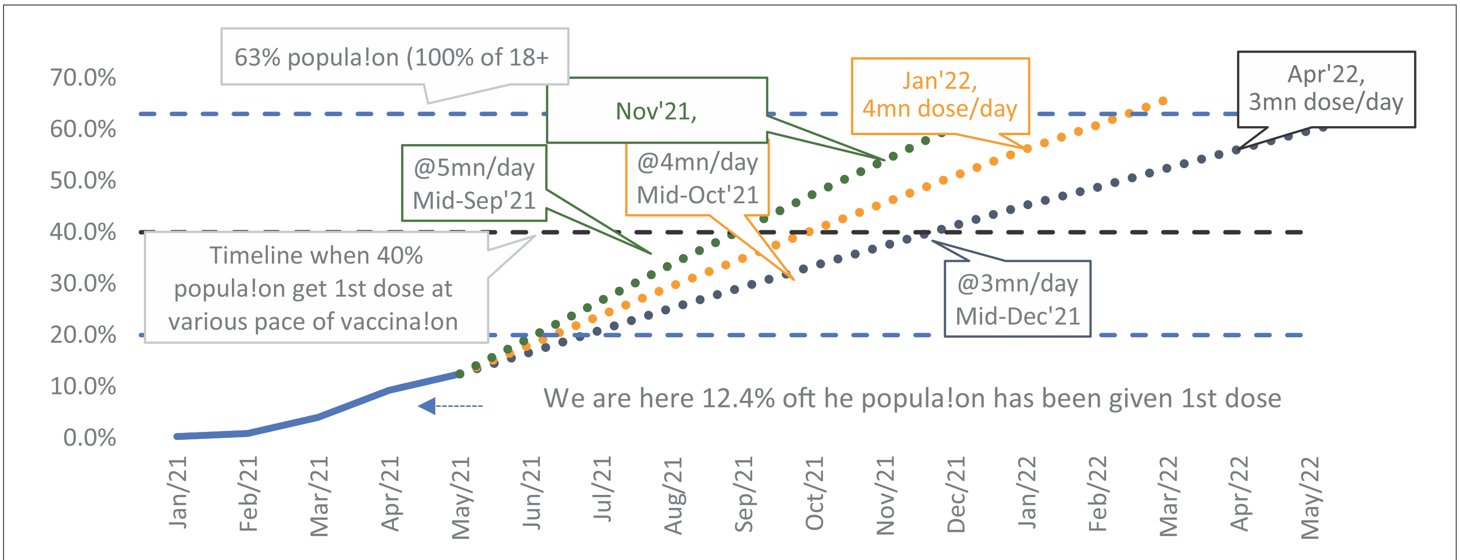
Source: MOSL, Data as on 31st May-2021.

#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	66
Mid cap	30
Small cap	2

Top 10 Holdings

Particulars	% Allocation
ICICI Bank Ltd.	11.8
Max Financial Services Ltd.	11.7
SBI Cards And Payment Services	6.4
HDFC Bank Ltd.	5.7
HCL Technologies Ltd.	5.3
Larsen & Toubro Ltd.	5.2
HDFC Life Insurance Company	4.9
Bharti Airtel Ltd.	4.6
Dr. Reddy's Laboratories Ltd.	4.4
Tube Investment of India Ltd.	4.4

Data as on 31st July 2021

Top Sectors

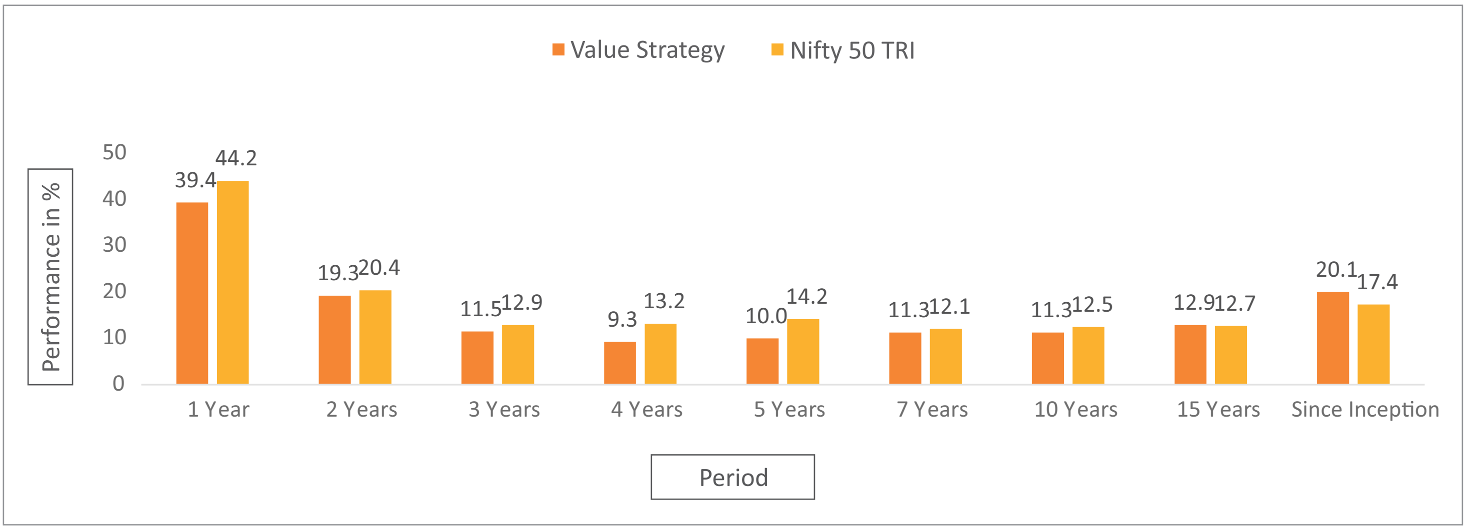
Sector Allocation	% Allocation*
Banking	21.0
Non-Lending Financials	16.6
NBFC	14.6
Pharmaceuticals	7.0
Construction	7.0
Consumer Staples	6.9
Software	5.3
Cash & Cash Equivalents	2.0

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

Key Portfolio Analysis

Performance Data (Since Inception)	Value	Nifty 50
Standard Deviation (%)	18.7%	18.8%
Beta	0.9	1.0

Data as on 31st July 2021



Value Strategy Inception Date: 18th Feb 2003; Data as on 31st July 2021; Data Source: MOAMC Internal Research; RFR: 7.25%; 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.

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	47
Mid cap	46
Small cap	7

Top 10 Holdings

Particulars	% Allocation
ICICI Bank Ltd.	9.5
Kotak Mahindra Bank Ltd.	7.9
L&T Technology Services Ltd.	7.5
Max Financial Services Ltd.	7.1
Gland Pharma Ltd.	6.0
Voltas Ltd.	5.8
Page Industries Ltd.	4.5
Tech Mahindra Ltd.	4.3
Eicher Motors Ltd.	4.1
Ipca Laboratories Ltd.	3.9

Data as on 31st July 2021

Top Sectors

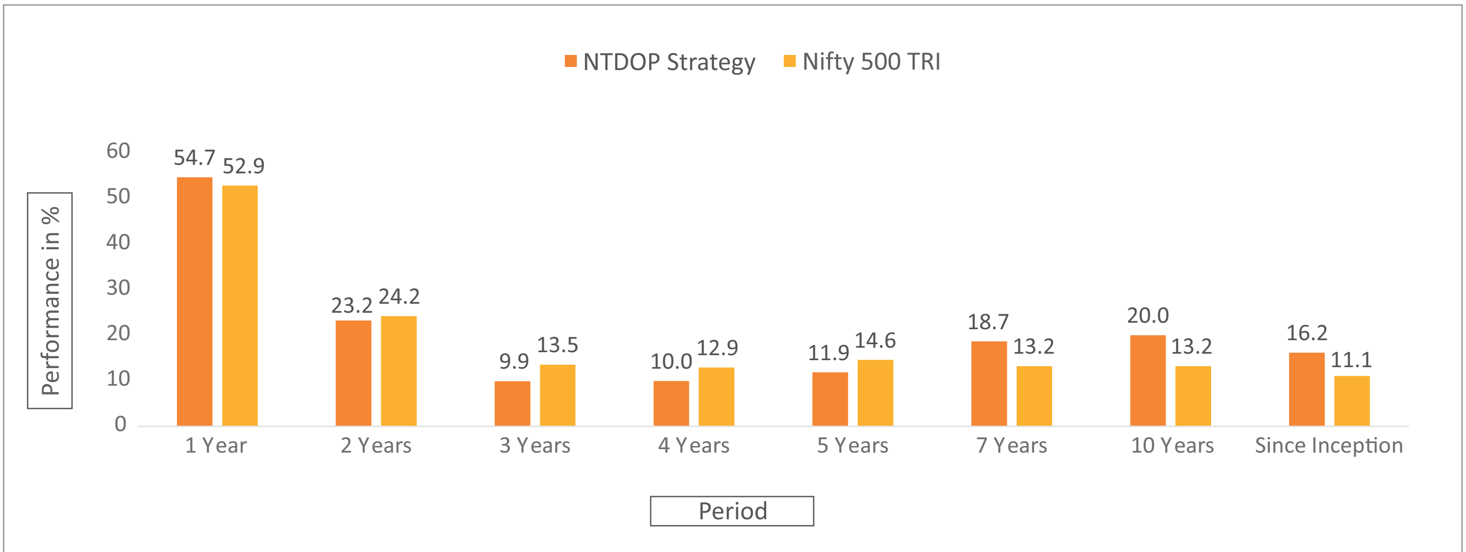
Sector Allocation	% Allocation*
Banking	20.1
Software	15.6
Pharmaceuticals	11.3
Consumer Staples	10.8
Consumer Discretionary	10.3
Non-Lending Financials	7.1
Cash & Cash Equivalents	-0.1

Data as on 31st July 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 July 2021



NTDOP Strategy Inception Date: 3rd Aug 2007; Data as on 31st July 2021; Data Source: MOAMC Internal Research; RFR: 7.25%; 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

Top 10 Holdings

Particulars	% Allocation
Kajaria Ceramics Ltd.	8.6
ICICI Securities Ltd.	7.6
Birla Corporation Ltd.	6.4
Aegis Logistics Ltd.	6.1
Alkem Laboratories Ltd.	5.4
VIP Industries Ltd.	5.3
Can Fin Homes Ltd.	5.2
Mahanagar Gas Ltd.	5.0
Max Financial Services Ltd.	4.9
Central Depository Services (India) Ltd.	4.6

Data as on 31st July 2021

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 +

Top Sectors

Sector Allocation	% Allocation*
Non-Lending Financials	17.1
Consumer Discretionary	13.5
Pharmaceuticals	11.7
Oil & Gas	11.1
Construction	10.2
Auto Ancilaries	7.2
Cement	6.4
NBFC	5.2
Cash & Cash Equivalents	0.4

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

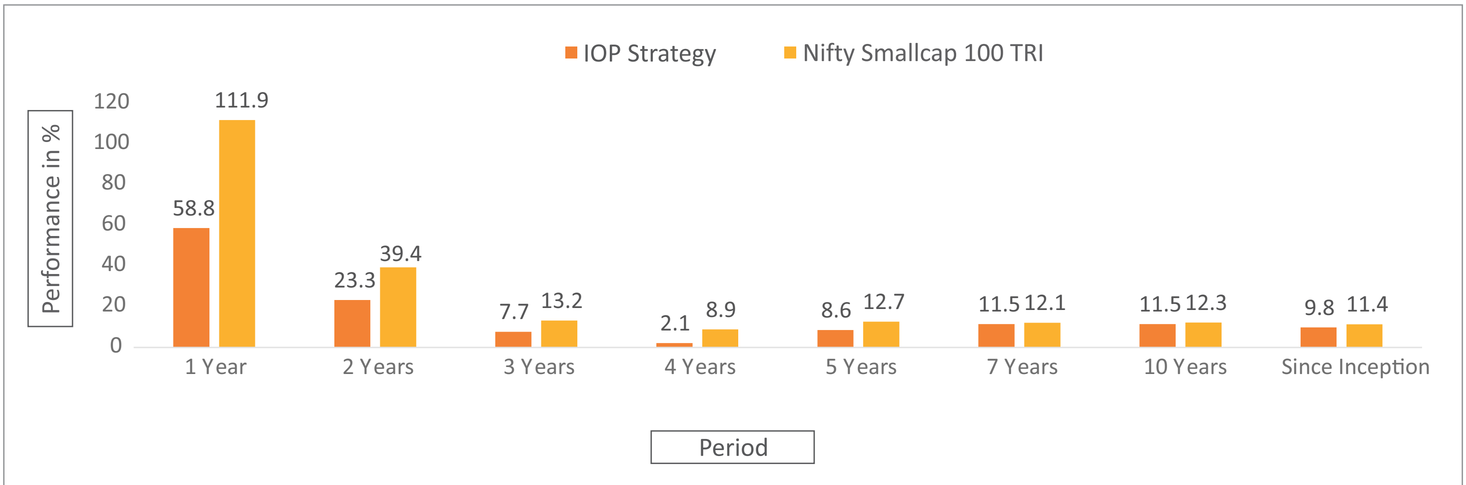
Market Capitalization

Market Capitalization	% Equity
Large cap	3
Mid cap	35
Small cap	61

Key Portfolio Analysis

Performance Data (Since Inception)	IOP	Nifty Smallcap 100
Standard Deviation (%)	17.6%	19.8%
Beta	0.8	1.0

Data as on 31st July 2021



IOP Strategy Inception Date: 15th Feb 2010; Data as on 31st July 2021; Data Source: MOAMC Internal Research; RFR: 7.25%; 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

Top 10 Holdings

Particulars	% Allocation
Birla Corporation Ltd.	7.0
ICICI Securities Ltd.	6.8
Mahanagar Gas Ltd.	6.7
Aegis Logistics Ltd.	6.5
Kajaria Ceramics Ltd.	6.4
Can Fin Homes Ltd.	5.3
VIP Industries Ltd.	5.2
Max Financial Services Ltd.	5.0
Central Depository Services (India) Ltd.	4.6
Quess Corp Ltd.	4.3

Data as on 31st July 2021

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 +

Top Sectors

Sector Allocation	% Allocation*
Non-Lending Financials	16.3
Consumer Discretionary	13.6
Oil & Gas	13.2
Pharmaceuticals	11.1
Construction	7.9
Auto Ancillaries	7.7
Cement	7.0
NBFC	5.3
Cash & Cash Equivalents	0.5

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

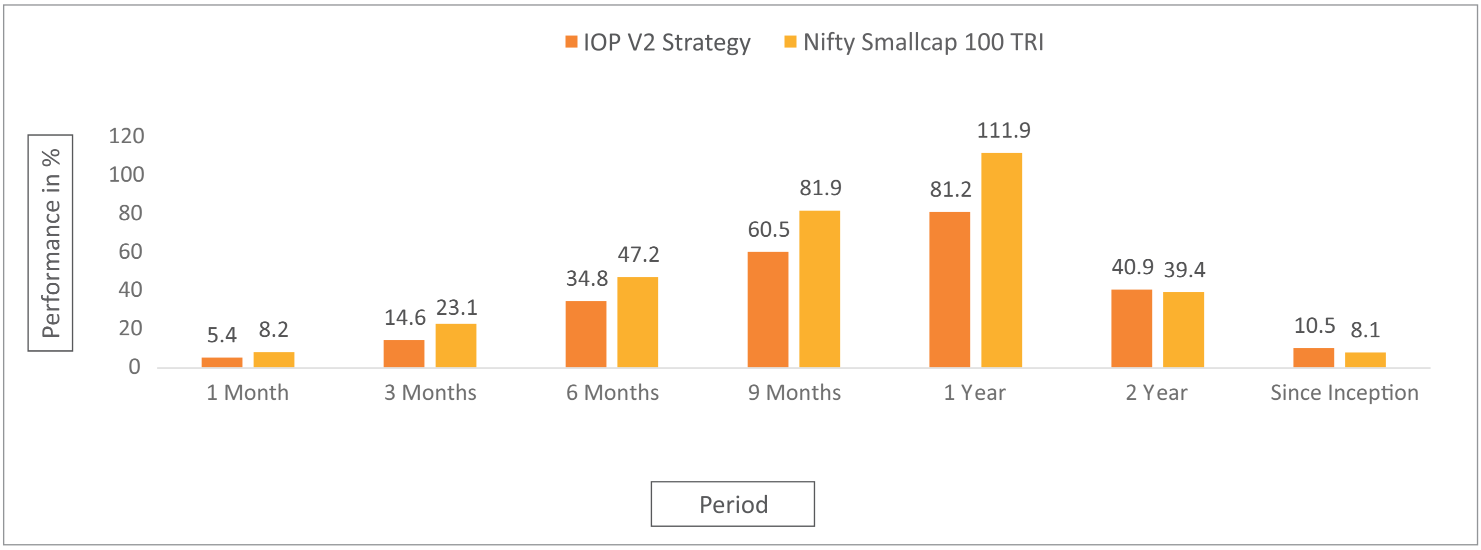
Market Capitalization

Market Capitalization	% Equity
Large cap	4
Mid cap	31
Small cap	64

Key Portfolio Analysis

Performance Data (Since Inception)	IOP V2	Nifty Smallcap 100
Standard Deviation (%)	18.6%	19.8%
Beta	0.8	1.0

Data as on 31st July 2021



IOP V2 Strategy Inception Date: 5th Feb 2018; Data as on 31st July 2021; Data Source: MOAMC Internal Research; RFR: 7.25%; 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.	17.1
ICICI Bank Ltd.	12.8
Tata Consultancy Services Ltd.	10.0
HDFC Bank Ltd.	9.7
Kotak Mahindra Bank Ltd.	8.4
Larsen & Toubro Infotech Ltd.	7.9
HDFC Life Insurance Company Ltd.	6.2
Axis Bank Ltd.	5.6
Eicher Motors Ltd.	5.0
Maruti Suzuki India Ltd.	4.2

Data as on 31st July 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	36.5
Non-Lending Financials	23.3
Software	17.9
Auto	9.2
Consumer Discretionary	7.6
Cash & Cash Equivalents	0.3

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

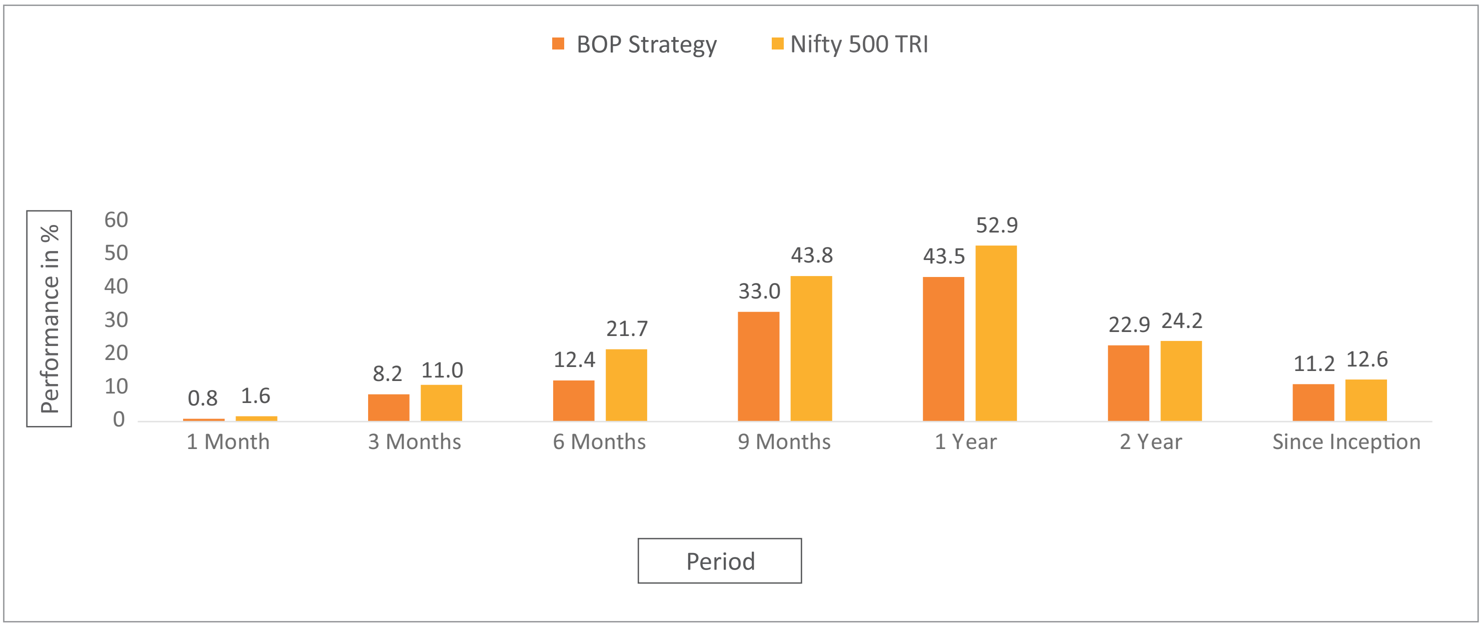
Market Capitalization

Market Capitalization	% Equity
Large cap	72
Mid cap	20
Small cap	8

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 July 2021



BOP Strategy Inception Date: 16th Jan 2018; Data as on 31st July 2021; Data Source: MOAMC Internal Research; RFR: 7.25%; 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.

Focused Midcap Strategy

Investment Objective

Majority of weights for investments to be drawn from stocks in 101st to 400th companies in terms of full market capitalization. Minority weights for investment might also be drawn from stocks beyond number 400 and from top 100 companies in terms of full market capitalization. As far as possible Companies should be drawn from a mix of sectors representing changing nature of society and economics in India.

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. Rakesh Tarway
Strategy Type	: Open ended
Date of Inception	: 24th Dec. 2019
Benchmark	: NIFTY MidSmall400 TRI
Investment Horizon	: 3 Years +

Market Capitalization

Market Capitalization	% Equity
Large cap	17
Mid cap	51
Small cap	23

Top 10 Holdings

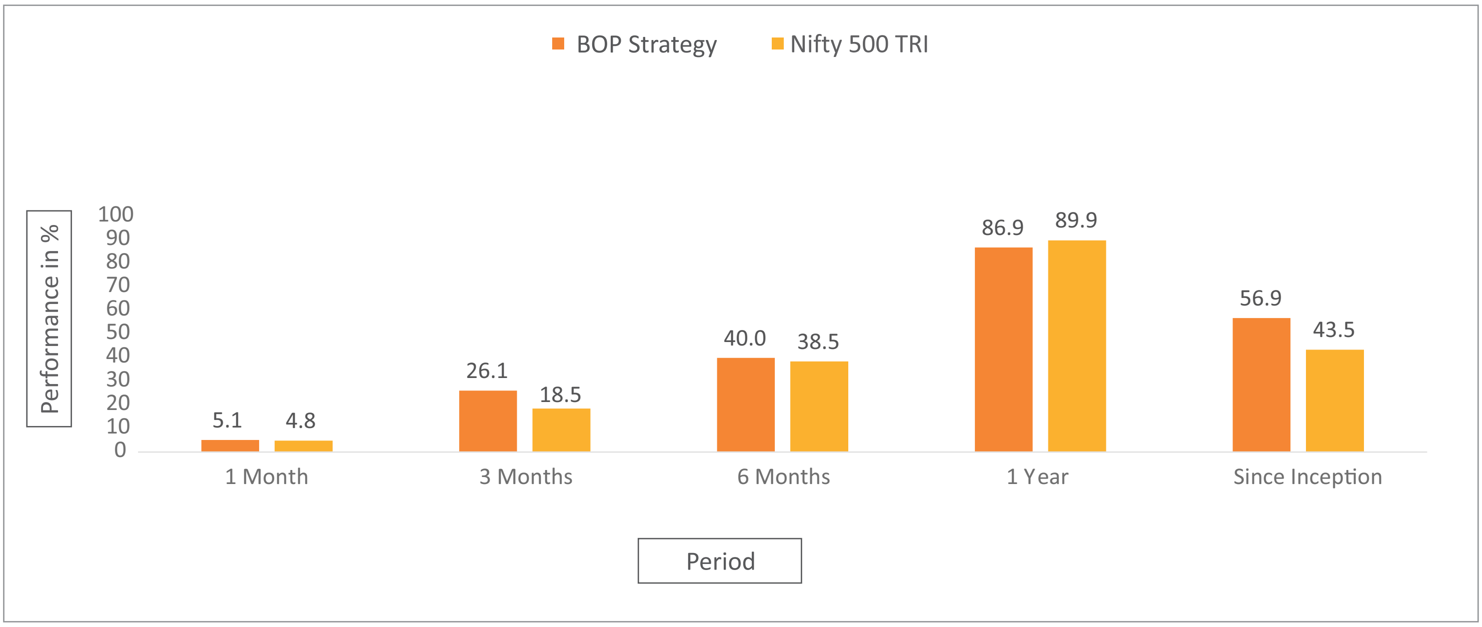
Particulars	% Allocation
Max Financial Services Ltd.	11.1
APL Apollo Tubes Ltd.	6.9
Gland Pharma Ltd.	6.6
Ajanta Pharma Ltd.	6.3
Birlasoft Ltd.	6.2
L&T Technology Services Ltd.	5.3
Muthoot Finance Ltd.	5.1
Persistent Systems Ltd.	4.9
Polycab India Ltd.	4.5
Amber Enterprises India Ltd.	4.3

Data as on 31st July 2021

Top Sectors

Sector Allocation	% Allocation*
Software	24.0
Non-Lending Financials	15.0
Pharmaceuticals	12.9
NBFC	11.0
Consumer Discretionary	7.4
Metal and Mining	6.9
Consumer Staple	5.4
Cash & Cash Equivalents	5.4

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



FMS Strategy Inception Date: 24th Dec 2019; Data as on 31st July 2021; Data Source: MOAMC Internal Research; RFR: 7.25%; 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 30th June 2021)

Value Strategy

Exit Rationale:

IPCA Labs:

- Ipca benefitted from covid - which led to inflated earnings in FY 21
- Covid led windfall is unlikely to sustain
- Given the superior stock performance and the muted medium term earnings outlook - it seemed reasonable to exit the stock.

IOP Strategy

Entry Rationale:

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

CDSL:

- **Strong Macro variables to support the Growth** - Improving macro variables (demographics, per capita income), push towards financial inclusion, and shift in savings towards financial assets bodes well for capital market intermediaries
- **Duopoly market with significant market share** - The asset-light model, duopoly play on the secular increase in stockholder accounts coupled with potential market share gains is a major positive for this thinly covered stock
- **Well poised for growth as a proxy play** - As a proxy play on Indian capital markets, CDSL has several new revenue opportunities like (a) dematerialisation of unlisted public companies (d) transaction charges from new pledge/unpledged rules (c) commodity repository (d) Insurance repository business aids CDSL's topline growth
- **Company to demand higher multiples** - Empirical studies suggest that limited-entry sectors tend to trade at higher multiples as investors gauge greater confidence in revenue/earnings, and more importantly, multiples tend to expand when new entities are listed

Century Plyboards:

- Century has leading positions in its product categories, strong balance-sheet and healthy FCF generation.
- Although Century is a market leader in the plywood industry, FY21 has been challenging for the company as it had to face the twin challenges of COVID-19 led lockdown & Amphan, the company has responded pro-actively by extending credit to the dealers, launch of VIROKILL technology in Plywood and Laminates which is advertised to kill viruses on the surface of plywood & laminates.
- Further, a longer-term demand traction is likely to get generated out of the Atma-Nirbhar initiative of Government which is expected to aim at reducing the imports of furniture.
- Several cost-reduction steps taken (aiming to save ~`80m a month) would help the company sail through a tough FY21.
- We remain positive on the company given its comprehensive product portfolio, strong brand and wide distribution reach.

HEG:

- Fy21 is expected to remain a challenging year for the company as graphite electrode demand and realisation is expected to remain under pressure
- Going forward, over the near term, demand for graphite electrodes is expected to remain subdued due to partial closure of steel capacities globally, lower steel production and de-stocking of electrode inventory at the customer end at a slower pace than anticipated, thereby adversely impacting demand prospects.
- In a cyclical industry like steel, the uptick in the demand can be seen post the downturn which directly benefits the HEG

Stock Rationale (quarter ending 30th June 2021)

IPCA Labs:

- **India going Chronic -** Share of chronic has risen significantly from 35% in FY18 to 50% now. With no MR addition for next 2 years, and new divisions (derma, women's healthcare), margins should rise to 30% from 26%.
- **US is an option value -** After remedial actions over the past 5 years, Ipca has now offered all the affected US facilities for re-inspection.
- **Expect 20% earnings CAGR with higher RoCE/RoE -** This will be led by INR120 cr of fixed cost getting unlocked by higher US and anti-malaria business.
- **Reasonable valuations -** Ipca trades at a multiple of 23x FY21E PE; which is reasonable in the context of 23% RoE; medium term growth prospects.

KEI Industries:

- The company aims to become one of the few select players globally to manufacture and supply 400kV EHV cables. Stringent requirements for meeting compliances and securing product approvals further make it difficult for new players to enter the market. It has won a landmark order from Tamil Nadu Transmission Corporation Limited for EHV cables of 400kV. It is the largest single order it has received till date for 400kV cables. The company has a technical collaboration with Switzerland based Brugg Kabel A.G.
- The company has in -house manufacturing facility for PVC. The helps it exercise greater control over the manufacturing process and quality which result in improved efficiencies and higher margins. It also enables the company to fulfill the customers' needs in a timely manner and enhance its ability to offer cost -competitive solutions
- The company is a well -funded business with adequate capital to meet its business requirements. It raised a QIP of Rs.5 bn in FY20 and the proceeds have been utilized for repayment and prepayment of debts and meeting working capital requirements. High credit ratings and availability of working capital lines provide further financial stability to the business.

Sundaram Fasteners:

- While FY21 would be impacted by COVID-19, SFL expects a sharp improvement in FY22 driven by normalization of economic activities and increased OEM offtake.
- Moreover, the introduction of new products and increased share of business with clients would also boost growth for SFL.
- Defense business (SFL recently ventured into defense) could be a key growth driver in the long term given the Government's aim to enhance domestic procurement significantly.
- SFL would continue to introduce new value-added products (the company has recently launched transmission products) which coupled with increased share of business with clients would drive topline over the long term.
- Driven by product reliability, relatively low-cost advantage and better manufacturing practices are the reasons behind increased share of business with clients such as General Motors, Cummins and Navistar.
- Customers are increasingly preferring SFL for supplies to their multiple locations resulting into enhanced business.

Exit Rationale:

Cipla

- Being a large cap stock, there has been a passive breach in terms of weight and hence we have decided to book profit

Vmart Retail

- Booked profit to accommodate better ideas

L&T Infotech

- Being a large cap stock, there has been a passive breach in terms of weight and hence we have decided to book profit

IOPV2 Strategy

Entry Rationale:

Aegis Logistics

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

Stock Rationale (quarter ending 30th June 2021)

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

Bayer Cropscience

- Bayer remains preferred pick in agri-chem space considering turnaround compelled by new management and robust free cashflow generation.
- Bayer commands robust growth over its long-term earnings, given (1) significant improvement in its product pipeline (50 new products by 2022), (2) strong industry growth drivers, (3) strong distribution network and (4) its consistent track record of sharp outperformance versus industry
- With robust paddy plantings and decent growth in Corn acreages, seeds segment is expected to sustain high growth.
- Lower labour availability, remunerative crop prices and well distributed monsoon will drive crop protection segment growth while leveraging synergy benefits from Monsanto acquisition will aid profits.
- Bayer has shifted its focus from channel placement driven growth to monitoring the liquidation at retail level before placing materials. The move will restrict unnecessary channel filling amidst tepid demand while keeping vigil on inventory and receivables.
- Agrochemical sector is one of the sector which was least impacted by COVID-19 and is likely to deliver stable earnings in Fy21.

Birla Corporation

- 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

Blue Star

- Under penetration of Refrigerator & Air-Conditioning (RAC) in India (6% penetration) and the recent price correction provide attractive valuations to play the RAC theme.
- Near term earnings of RAC players is expected to be severely impacted because of the COVID-19 led national lockdown coinciding with peak business season of RAC player. However, we continue to believe in long term business prospects of these companies given the underpenetration.
- BLSTR, over the past 2-3 years, have forayed into the water purifier, air purifier and air cooler segments, which are likely to be additional growth drivers. Given their expertise in this field (water and air handling equipment) they are likely to do well in the long-term.
- Warehousing, logistic, and ad costs are variable in nature. 50% of the total cost savings are expected to be sustainable; the other 50% depends on incremental sales.

Canfin Homes

- The company has dominance in South India with focus on Tier 1 and Tier 2 cities.
- Loan book growth has been moderate in last few quarters on the account of stress in housing finance sector as well as COVID-19 shut down but company did well in the same period also and deliver good results.
- Company with its growing clientele base, increasing branches and stable asset quality has huge upside potential for growth in the tier 3 cities.
- The share of delinquent pool in the moratorium book is the lowest in the industry, which gives some sense on the asset quality play-out in the near term.
- Given the company's historical track record and other qualitative aspects, including stringent loan underwriting criteria, CFHL would be in a relatively better position from an asset quality standpoint.
- CFHL is one of the better positioned players in the housing finance sector with a strong balance sheet, low NPAs, granular loan book (zero developer exposure) and sound underwriting standard. Among the peers, CFHL has also been one of the most efficient capital allocators.

Dhanuka Agritech

- Dhanuka's asset light business model, superior return ratios and the recent product launches are expected to drive growth.
- It is expected Dhanuka Agritech to navigate through the pandemic with the help of a normal monsoon, strong distribution and product brand re-call.
- Also, on the back of normalization of prices, margins will stabilize over the next few quarters

- The recent Locust attacks provided the company with opportunities to participate in government tenders for sale of around 7-8 products from its Insecticide portfolio
- Consensus expect gross margins to improve going ahead; this will be aided by new launches and more contribution from the specialty products to the topline.
- The strategy of Dhanuka to make portfolio more monsoon agnostic by launching more products catering to drought resistant seeds is compelling and builds up on the structural story

Emami Ltd.

- Worst is behind on all aspects contributing to underperformance in last 4-5yrs, namely a) Promoter pledge shooting up b) Wholesale and rural led underperformance c) Excessive pricing of products d) Margin compression with low sales growth. On the contrary the rural and wholesale dependence will now contribute to growth.

Engineers India

- Although we have exited the stock from the NTDOP portfolio because of its very small weight, we are bullish on the company because of its robust fundamentals and added in our IOP Smallcap strategy. EIL is a market leader in the Hydrocarbon segment, through which it provides consultancy and turnkey solutions. OMCs' strong cash flow position post the diesel price deregulation, the necessity to upgrade to BS6-compliant facilities, and the need to build additional capacities (given 100% utilization at existing facilities) augur well for the company

Gabriel

- Gabriel has been in a leadership position in the suspension market; it commands a 25% market share with PVs, 18% with 2W, and 75% with Cvs
- Gabriel would benefit from its presence on 2W models of TVS Motors, Bajaj Auto, and Yamaha along with Maruti's S-Presso and soon to be launched New Alto, where it would be the sole supplier of suspension products
- Growth drivers for the long term have been indicated as domestic and export growth and as well as acquisitions. The company is also bullish on growth coming from electric 2/3Ws in the long term and hence has tied up with OEMs and start-up companies like Ola Electric, Ather Energy, Okinawa, Bajaj Auto, TVS, etc. Over the next couple of years, margins could hit 9.5-10% provided volumes lend the required support.

Gland Pharma

- Unique Business Model - 100% focus on injectable across different formats, High backward integration, No Front end and own pipeline of molecules : A win win for both partners and suppliers. High Longevity
- Favourable Economics - Injectables forms 40% share of the global Pharma market of ~USD 1tn, the demand for which is growing at 10% annually in USD terms globally and 13% annually in the US itself. Supply is unable to match the pace of demand
- Exemplary Financial and Operational Excellence - Zero US FDA notifications across its facilities over the last 2 decades reflects the culture of the firm and strong focus on quality parameters. This positions them to be a preferred supplier for their partners

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 1HFY21 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

Mahanagar Gas

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

Stock Rationale (quarter ending 30th June 2021)

Quess 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.

TTK Prestige

- TTK is one of the few companies globally which continues to innovate in pressure cookers. It has launched India's first pressure cooker which controls spillage and has a deep lid, for which it has applied for a patent.
- The company's products cover the entire gamut of cooking operations as it continues to expand its product range. It continued to innovate, launching 146 SKUs in FY20 across categories
- The number of SKUs it launched in FY20 was the highest of the last four years and can only increase, as it entered categories such as cleaning solutions.
- TTK is one of the few all-India brands in domestic kitchenware and had launched Prestige Xclusive stores displaying its entire range. Thus, Marketing network continues to expand with focus on premium segment sharpens with Prestige Lifestyle Stores.
- Despite challenging times, TTK's return ratios have been strong, courtesy its robust business model and can bounce back once normalcy returns.
- Being a competitive marketplace, Irrational discounting by regional brands is a major factor to watch.

Max Financial Services

- 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 has emerged as the single largest shareholder with ~20% stake, (13% stake already acquired and the balance would be acquired over the next 12-18 months). This has settled the long held overhang on the stock; and Axis Bank has now emerged as the co-promoter for Max Life; driving significant brand and distribution synergies.
- Holdco structure to collapse
- Now that 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 13x EVOP v/s 22x for HDFC Life, despite similar business metrics. We believe, it is still significantly undervalued; and is our highest conviction idea with a 15% allocation at the fund level.

Suprajit Engineering

- We are strongly convinced on SEL's business model, its competitive positioning & growth potential in the medium to long term. We believe it should get a scarcity premium for its dominant leadership and is a strong re-rating candidate
- Auto cables sales are back to near normal levels in July & August with September too looks encouraging. Aftermarket reported YoY growth and the momentum to sustain going ahead. Exports for auto as well as non-auto cables look good with new order wins from existing clients in the US and EU.
- While near-term demand remains uncertain, long-term profitability would be driven by a) faster-than-expected recovery in 2W sales, b) new business on vendor consolidation by global OEMs, c) completion of restructuring at international subsidiaries and d) exposure to the replacement market.
- Strong cash flows and minimal capex requirement would further strengthen its robust balance sheet.
- SEL is also receiving new fast-track orders at Wescon, which is likely to fuel growth in future. Wescon (non-automotive cable division) received a government grant of USD 2.1mn towards maintaining it workforce during Covid-19. These grants are recorded as loans and are slated to be eventually realised in its P/L.

Exit Rationale:

Accelya Solutions:

- Booked profit to accommodate better ideas

Bata India:

- Booked profit to accommodate better ideas

Cholamandalam Investment:

- Being a large cap stock, there has been a passive breach in terms of weight and hence we have decided to book profit

Cochin Shipyard

- Exited to accommodate newer ideas

JM Financial

- Booked profit to accommodate better ideas

L&T Infotech

- Being a large cap stock, there has been a passive breach in terms of weight and hence we have decided to book profit

Shalby

- Exited to accommodate newer ideas

Sobha

- Exited to accommodate newer ideas

Avanti Feeds

- Exited to accommodate newer ideas

Godrej Agrovet

- Exited to accommodate newer ideas

JK Lakshmi Cement

- Booked profit to accommodate better ideas

BOP Strategy

Entry Rationale:

Axis Bank

- Management change with Mr Amitabh Chaudhry taking over as CEO. He comes with a stellar track record at building HDFC Life as the most successful life insurer
- Ex-subsidiary valuation and value expected from Max Life stake; Axis Bank trades at a FY24E P/B of ~1.3x; which is at a substantial discount to intrinsic value.

Exit Rationale:

Asian Paints Ltd.

- Asian Paints is a great business; however at 90x TTM PE it's got extremely expensive.
- With a long term growth outlook of 10-15%; it's a 8-10% return stock in an absolute bull case basis. Risk reward is not favourable anymore.
- We had bought it around 1700 levels a year ago; it's done well for us since our purchase with the current market price being about 3000

FMS Strategy

Entry Rationale:

Prince Pipes and Fittings

- **Prince pipe is a leading manufacturer of PVC pipes and Fittings. It has also got recent tie up with Lubrizol for manufacture of Flowguard Plus brand of CPVC pipes, which will enable better margins and open up a new segment of plumbing pipes. Stock is trading at 30x TTM earnings where growth visibility is around 25% CAGR in earnings for next 3years due to real estate revival and govt initiatives towards clean water. Therefore, valuations are justified for potential of growth. In that light, adding a new position.**

Stock Rationale (quarter ending 30th June 2021)

Coforge

- Coforge is a mid size IT service company, which can grow earnings at 30% cagr for next 3years,which will be one of the highest growth rates in similar size companies in IT services. company trades at 1.5 PEG (price earning on TTM basis to next 3year growth) ,which is reasonable considering the possible growth . Buying new position with 3% wt.

Exit Rationale:

Alkem Labs:

- In Alkem we wanted to consolidate positions in favour of Gland since belief is that over next 12 to 18 months returns will be better in Gland as compared to Alkem since Gland is more exposed to global pharma supply chain of vaccines.

L&T Infotech:

- LTI has been the best performing IT service stock during last 2years with more than 100% returns . Stock now trades at more than 35x earnings on a higher base of earnings. going forward company's earnings growth will likely taper down to like 15-18% for next 3y.Therefore, stock is discounting more in the price than the possible growth in earnings.

TeamLease Services:

- In Team lease, more than fundamental reason liquidity is the reason. Also future possible growth and fundamentals don't seem to be in sync.

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