

# Gallop ahead with India Opportunity Portfolio V2



January 2020

# About the Strategy

- India Opportunity Portfolio (IOP) V2 is a Small and Mid cap oriented strategy
- Invest in emerging businesses having growth potential with economic moat
- Aims to identify the next leaders in respective segments to create long term wealth
- The portfolio is a play on the Agriculture, Capital Markets, Electricals & Electronics, IT and Pharmaceuticals sectors
- High quality concentrated portfolio of 21 stocks
- Index agnostic: ~94% away from benchmark Nifty Smallcap 100

## 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. 16,000 Crs of assets as on 31st December 2019

# Mid and Small Caps – Large Wealth Creators

Mini, Mid, Mega crossovers - 2000-05, 2005-10, 2010-15

Note: Figures In brackets indicate number of companies

2000-05: Median return CAGR

Market return: 5%

To	Mega	158% (1)	55% (17)	21% (59)
	Mid	57% (58)	21% (90)	-4% (28)
	Mini	19% (1,039)	-3% (93)	-40% (13)
		Mini	Mid From	Mega
Total stocks		1,098	200	100

2005-10: Median return CAGR

Market return: 22%

To	Mega	76% (2)	46% (9)	27% (66)
	Mid	61% (25)	24% (89)	9% (32)
	Mini	11% (1,465)	4% (102)	-32% (3)
		Mini	Mid From	Mega
Total stocks		1,492	200	100

2010-15: Median return CAGR

Market return: 10%

To	Mega	68% (3)	33% (24)	11% (71)
	Mid	38% (64)	9% (88)	-13% (26)
	Mini	0% (1,841)	-19% (88)	-32% (3)
		Mini	Mid From	Mega
Total stocks		1,908	200	100

- For any given 5 year period, maximum wealth is created when a small cap company becomes mid/ large cap and a mid cap company becomes a large cap
- If one invests in midcaps, the probability that a midcap will remain or become large cap in 5 years and reward investors, is as high as ~50%
- In any 5 year cycle when this plays out, there are 2-3 terrible years and 2-3 great years. 2000-2003 were very bad followed by 2004-05, 2005-07 were great followed by 2008-09, 2010-13 were terrible followed by 2014-15
- Investing is probabilistic, there will always be one or two calls that go wrong: one must look at the overall portfolio or bouquet held
- One must look to understand and improve probabilities of success as a stock picker by applying appropriate quality (Q), growth (G) and longevity (L) filters.
- It is estimated that if investors invest for 5 years in midcaps and the higher market cap ranges of small caps, they can make outsized returns

Disclaimer: 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. The above information should not be used for development or implementation of an investment strategy. It should not be construed as investment advice to any party.

Source: Motilal Oswal Wealth Creation Studies. Past performance may or may not be sustained in future.

# Mid and Small Caps – Bigger Opportunity for Alpha

Mid & Small Caps are hardly covered by analysts, this gives fund manager an edge in spotting good businesses early and generating higher alpha.

## Under Researched : Limited Analyst Coverage

Average Analyst Coverage	
Top 100	16
101 – 400	17

## Under Owned : Lower Institutional Holding

Ownership Pattern amongst Index Constituents (%)			
	Promoter	Institutional	Retail
Top 100	55	26	18
101 – 400	63	19	19

Source: Bloomberg

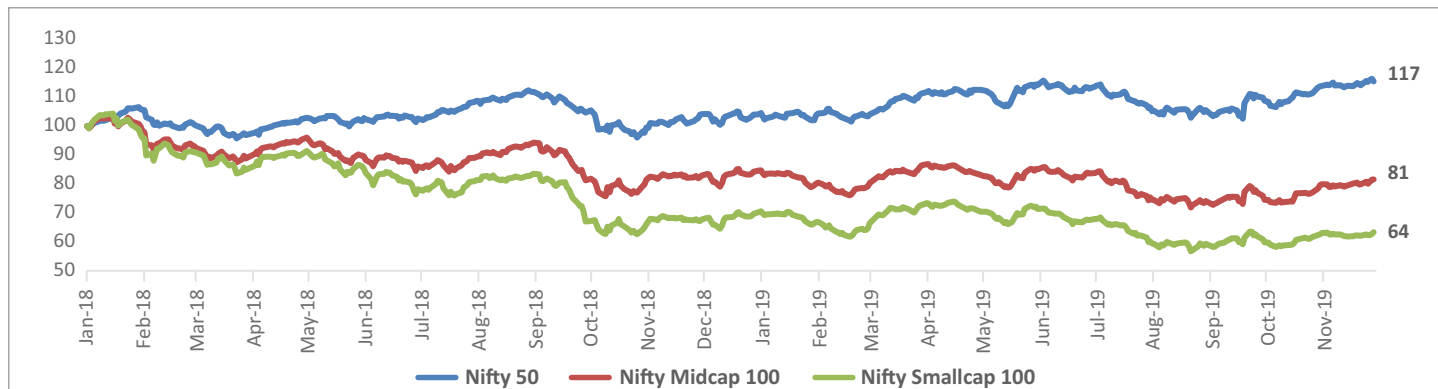
Average analyst coverage is the average number of analysts covering each of the index constituents as on September 30th 2019.

Ownership pattern as disclosed by index constituent companies to the NSE as on QE June 2019

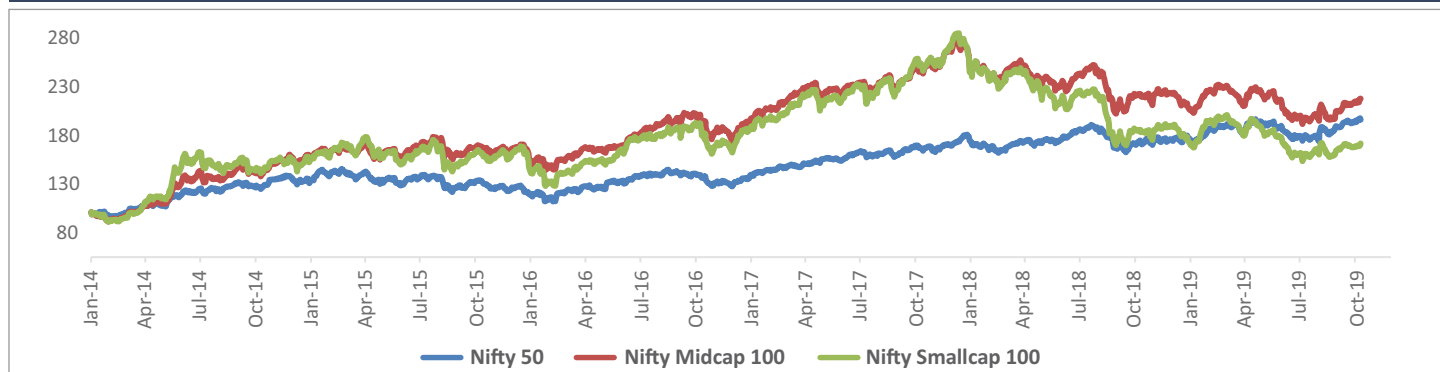
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# Mid and Small Caps – Favorable Valuations

**Nifty has outperformed Mid cap/ Small cap indices by 36%/53% since Dec'17**



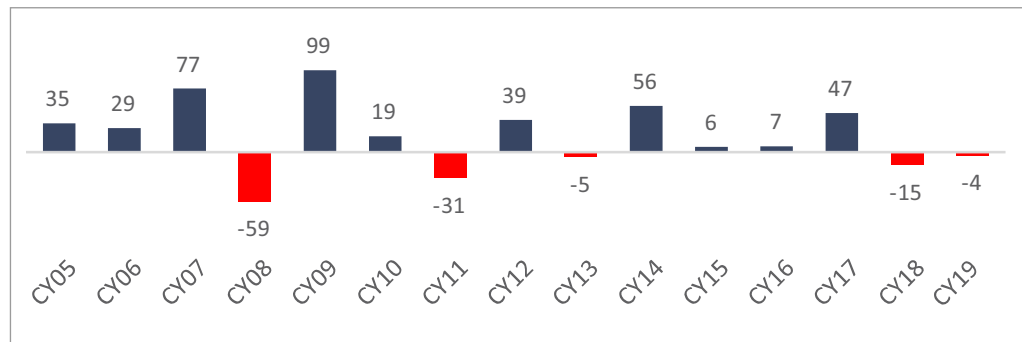
**But historically, Mid cap and Small cap Indices have massively outperformed the Nifty 50**



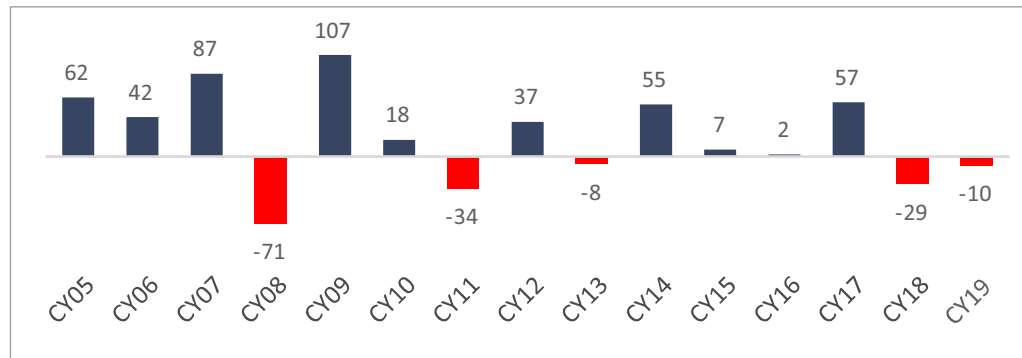
The above graph is used for illustration purpose only and should not be used for development or implementation of an investment strategy  
Source: Nseindices.com. Data as on 31st December 2019. Past performance may or may not be sustained in future.

# Mid and Small Caps – Declines Followed by Sharp Revival

## Nifty Midcap 100 Index



## Nifty Smallcap 100 Index

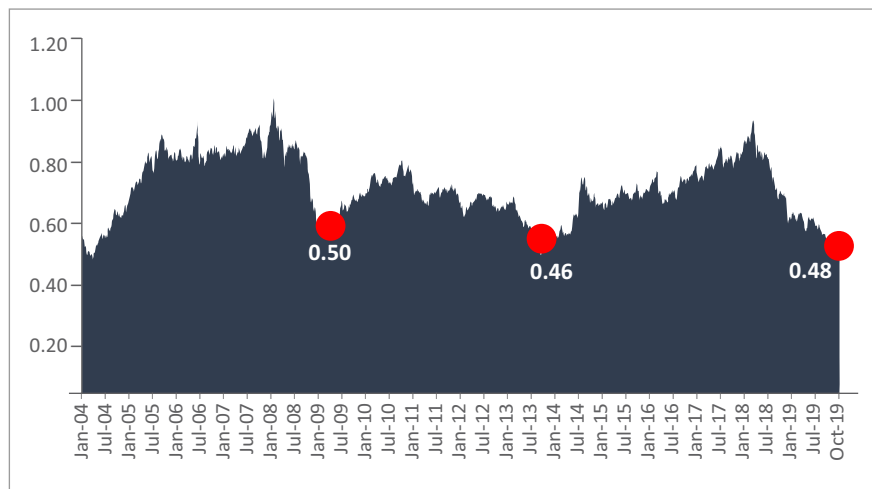


- Mid and Small caps tend to perform in extremes and revive sharply after bouts of negative returns
- CY18 and CY19 are the only 2 consecutive years in 15 years history to have negative returns in mid and small caps.
- Generally a large negative year is followed by equally large positive year.

Source: Nseindices.com. Data as on 31.12.2019

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# Small Caps – Favorable Valuations



- Ratio chart shows Nifty Smallcap 100 divided by Nifty 50
- The ratio bottoms at ~0.5x and tops at 1x. Currently the ratio is at the bottom end of the range

# Investment Philosophy

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

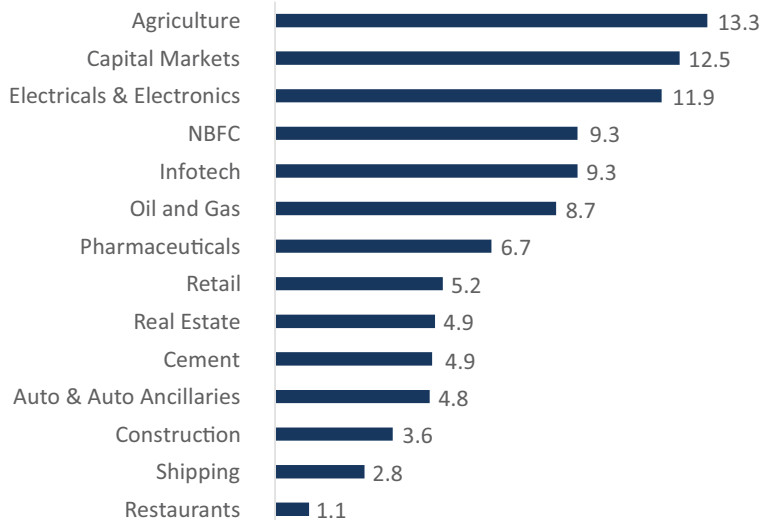
## Sit Tight

- **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

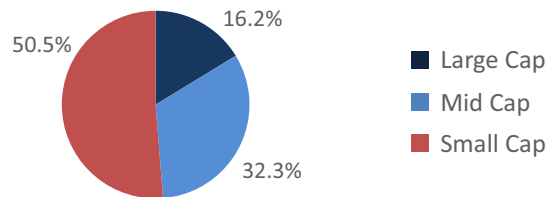


Please Note: Data as on 31st December 2019. The stocks mentioned are a part of existing IOP V2 Strategy clients and may or may not be bought for new clients. Past performance may or may not be sustained in future and should not be used as a basis for comparison with other investments. The strategy may or may not have any future holdings in these stocks and should not be construed as recommendations from MOAMC.

## Top 10 Holdings

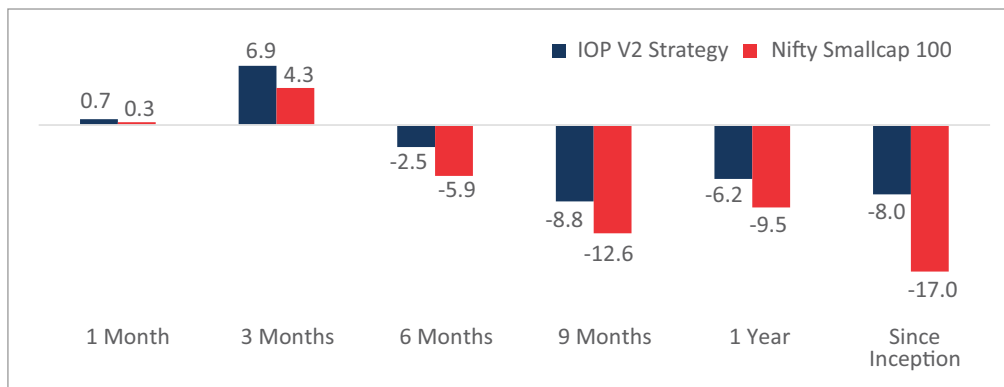
Scrip Name	% Holding
Cholamandalam Investment & Finance Company	9.3
Reliance Industries	8.7
Larsen & Toubro Infotech	7.5
Godrej Agrovet	7.2
Avanti Feeds	6.1
Ipca Laboratories	5.8
Bata India	5.2
Sobha	4.9
JK Lakshmi Cement	4.9
Sundram Fasteners	4.8

## Market Capitalization

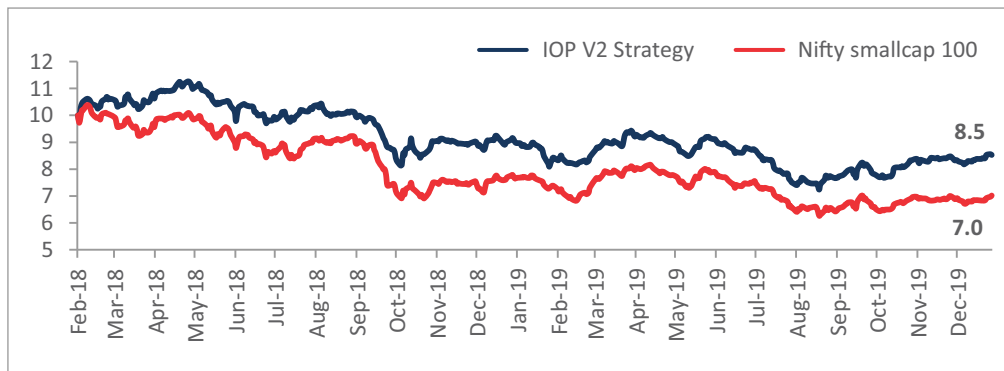


Weighted Average Market Cap : Rs. 93,610 Crs

# Performance Snapshot



IOP V2 Strategy has delivered a CAGR of -8.0% vs. Nifty Smallcap 100 returns of -17.0%, an outperformance of 9.0% (CAGR) since inception (5th February 2018)



Rs. 1 cr invested in IOP V2 Strategy at inception (5th Feb 2018) is worth Rs. 85 lakhs as on 31st December 2019. For the same period Rs. 1 cr invested in Nifty Smallcap 100 Index is now worth Rs. 70 lakhs.

\*Strategy Inception Date: 5th February 2018.

Please Note: The Above strategy returns are of a Model Client as on 31st December 2019. 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 Dec 19)	Absolute Growth	CAGR (%)
<b>India Opportunity Portfolio Strategy</b>					
DCB Bank	August 2016	3,038	5,333	1.8X	18%
Mahanagar Gas	August 2016	5,061	10,522	2.1X	24%
<b>Next Trillion Dollar Opportunity Portfolio Strategy</b>					
Page Industries	December 2007	466	26,083	56.0X	40%
Bajaj Finance	August 2010	2,836	2,54,800	89.8X	61%
Eicher Motors	August 2010	3,464	61,477	17.7X	36%
HPCL	June 2014	14,339	40,305	2.8X	20%
<b>Value Strategy</b>					
HDFC Bank	July-2008	40,986	6,96,733	17.0X	28%
Eicher Motors	April-2012	5,682	61,477	10.8X	36%
Kotak Mahindra Bank	July-2015	1,28,554	3,21,827	2.5X	23%

\* As on 31st December 2019

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 Management Team



## **Manish Sonthalia - Fund Manager, PMS and AIF**

- 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 is an associate fund manager for mid and small cap strategies.
- He 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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