

Motilal Oswal India Excellence Fund – Mid to Mega

Harnessing M-Q-G-L-P to identify potential mega companies

What is Mid to Mega?

Classifying companies into Mini, Mid & Mega - Rank approach rather than market cap



- Primary Universe : 80-100% of the portfolio companies shall be chosen from **ranks 101 to 400.**
- Discretion : 0-20% of the portfolio companies may be chosen from ranks 1-100

What is Mid to Mega?

- **Crossover by company from Midcap to Mega cap category**
 - Achievement of critical mass & scale
 - Recognition by markets of the same

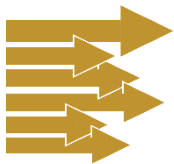
The above transition is mainly seen in companies who are



Industry leaders



Industry Tailwinds



Value migration beneficiaries

Thematic Study | December 2015

20 YEARS OF WEALTH CREATION

20TH ANNUAL WEALTH CREATION STUDY (2010-2015)

Mid-to-Mega

The power of industry leadership in Wealth Creation

HIGHLIGHTS

- Value Migration is increasingly becoming the key driver of rapid Wealth Creation.
- Industry leadership is a necessary pre-requisite to be a megacorp.
- Market cap rank is a powerful tool to assess a company's current standing and the roadmap ahead.
- Mid-to-Mega marks a big change in ranks, driven by the lollapalooza effect of MQGLP (Mid-size, Quality, Growth, Longevity and Price).

"I've been searching for lollapalooza results all my life, so I'm very interested in models that explain their occurrence ... Really big effects, lollapalooza effects, will often come only from large combinations of factors." - Charlie Munger

TOP 10 WEALTH CREATORS (2010-2015)

THE BIGGEST			THE FASTEST		THE MOST CONSISTENT		
Rank	Company	Wealth Created (INR b)	Company	5-Year Price CAGR (%)	Company	Appeared in WC Study (x)	10-Year Price CAGR (%)
1	TCS	3,458	Ajanta Pharma	119	Titan Company	10	43
2	ITC	1,565	Symphony	108	Sun Pharma	10	36
3	HDFC Bank	1,540	Eicher Motors	90	Asian Paints	10	35
4	Sun Pharma	1,405	P I Industries	85	Kotak Mahindra	10	34
5	Hindustan Unilever	1,374	Page Industries	77	Debur India	10	31
6	HCL Tech	1,130	Wockhardt	68	Bosch	10	29
7	HDFC	1,241	Beja Finance	68	Axis Bank	10	28
8	Tata Motors	1,071	GRUH Finance	62	Cummins India	10	27
9	Infosys	1,048	Blue Dart Express	59	Nestle India	10	27
10	Axis Bank	774	Amara Raja Batteries	59	M & M	10	25

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 We thank Mr Dhruv Mehta (Dhruv.Mehta@dhruvmehta.in), Investment Consultant, for his invaluable contributions to this report.
 Investors are advised to refer through important disclosures made at the last page of the Research Report.

Why Mid to Mega?

Mid-to-Mega an exciting journey : **crossovers offer a healthy strike rate**

- Only 32 of 2,630 Mini companies crossed over to Mid size
- Strike rate is Low at 1.2%
- Downside risk high

Study of Crossovers: Mar 2016 to Mar 2021
 [Sensex Return: 14%]
 Category returns in %; (No. of companies in brackets)

TO	Mega	- (0)	38% (13)	12% (74)
	Mid	46% (32)	15% (101)	-1% (26)
	Mini	2% (2,598)	-8% (86)	- (0)
		Mini	Mid	Mega
		FROM		
Total no. of Stocks	2,630	200	100	

- 13 of 200 Mid companies crossed over to Mega size generating 38% CAGR
- Strike rate is 6.5% (5x higher)
- Applying MQGLP filtration processes can significantly improve the strike rate

Mid to Mega – the most probable crossover

Mini, Mid, Mega crossovers – FY2000-05, 2005-10, 2010-15, 2016-21

Note: Figures in brackets indicate number of companies

2000-05: Median return CAGR Market return : 5%				2005-10: Median return CAGR Market return : 22%					
TO	Mega	158% (1)	55% (17)	21% (59)	TO	Mega	76% (2)	46% (9)	27% (66)
	Mid	57% (58)	21% (90)	-4% (28)		Mid	61% (25)	24% (89)	9% (32)
	Mini	19% (1,039)	-3% (93)	-40% (13)		Mini	11% (1,465)	4% (102)	-32% (3)
		Mini	Mid	Mega			Mini	Mid	Mega
		FROM					FROM		
Total Stocks		1,098	200	100	Total Stocks		1,492	200	100
2010-15: Median return CAGR Market return : 10%				2016-21: Median return CAGR Market return : 14%					
TO	Mega	68% (3)	33% (24)	11% (71)	TO	Mega	- (-)	38% (13)	12% (74)
	Mid	38% (64)	9% (88)	-13% (26)		Mid	46% (32)	15% (101)	-1% (26)
	Mini	0% (1,841)	-19% (88)	-32% (3)		Mini	-2% (2,598)	-8% (86)	- (-)
		Mini	Mid	Mega			Mini	Mid	Mega
		FROM					FROM		
Total Stocks		1,908	200	100	Total Stocks		2,630	200	100

Mid to Mega has delivered high double digit compounded returns with the highest probability in any 5 year cycle over 2 decades.

Enough Opportunities in every 5 year period

Crossover stocks from 101-300th companies : – a high alpha generating machine

FY Period	No. of crossover stocks	Return of crossover stocks	Sensex return	Alpha over Sensex	PAT CAGR	Average RoE	P/E in base year
2000-05	17	55%	5%	50%	35%	22%	5
2001-06	12	86%	26%	60%	44%	27%	3
2002-07	12	82%	30%	52%	83%	21%	11
2003-08	12	115%	39%	76%	67%	24%	6
2004-09	11	53%	12%	41%	31%	16%	12
2005-10	9	46%	22%	24%	44%	21%	15
2006-11	11	32%	12%	21%	49%	32%	23
2007-12	13	29%	6%	24%	32%	31%	22
2008-13	19	30%	4%	26%	26%	30%	20
2009-14	20	46%	18%	28%	28%	26%	15
2010-15	24	33%	10%	23%	20%	26%	22
2011-16	24	28%	5%	23%	22%	25%	20
2012-17	18	38%	11%	27%	24%	24%	18
2013-18	16	42%	12%	30%	22%	21%	15
2014-19	13	32%	12%	20%	14%	21%	12
2015-20	13	20%	1%	19%	18%	20%	28
2016-21	13	38%	14%	24%	20%	11%	19
Median	13	38%	12%	26%	28%	24%	15

- A 5 year rolling portfolio of Mid to Mega crossovers generated a portfolio return of **38% CAGR** and an **alpha of 26%** over Sensex.
- Median PAT CAGR of 28%, ROE of 24% with a PE of 15 are aspirational yet possible

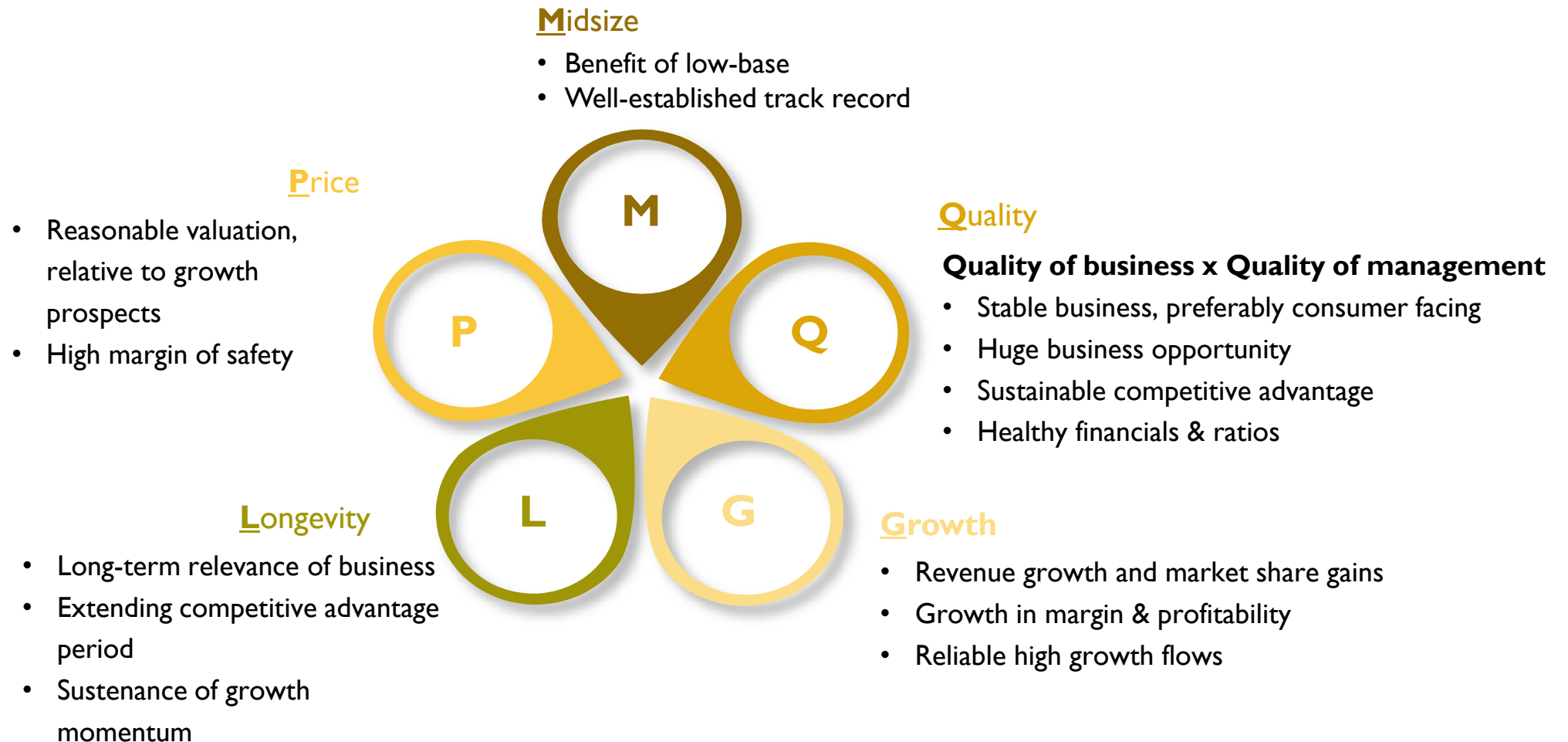
Rank improvement in 301-400th companies : High probability accompanied by alpha

Period	No. of stocks with improving ranks	Portfolio return	Sensex Return	Alpha over Sensex
2000-05	31	49%	5%	44%
2001-06	22	92%	26%	66%
2002-07	19	103%	30%	73%
2003-08	13	106%	39%	67%
2004-09	13	43%	12%	31%
2005-10	13	55%	22%	33%
2006-11	20	26%	12%	14%
2007-12	23	20%	6%	15%
2008-13	28	17%	4%	13%
2009-14	20	41%	18%	23%
2010-15	31	29%	10%	20%
2011-16	28	26%	5%	20%
2012-17	19	42%	11%	31%
2013-18	23	51%	12%	39%
2014-19	25	35%	12%	23%
2015-20	20	16%	1%	15%
2016-21	15	27%	14%	13%
MEDIAN	20	41%	12%	23%

- Companies climbing up the Market Cap ranks – not necessarily crossing over from one category to another – have also generated good returns
- The median probability of rank improvements in 301-400th companies is **20%**.
- The median return generated is at **41%** with an median alpha of **~23%** over Sensex.

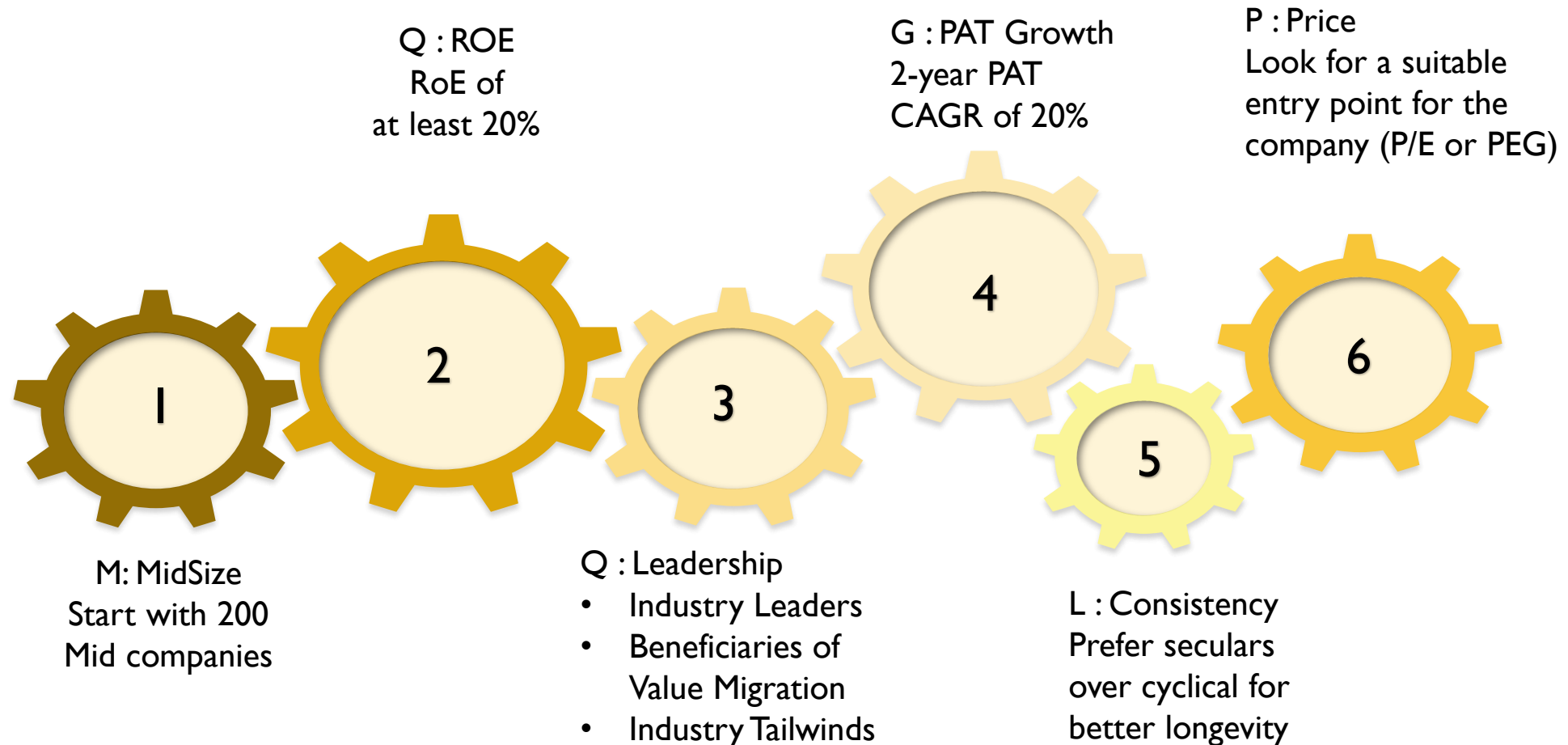
How does one identify potential Mid to Mega crossovers?

M-Q-G-L-P Investment Philosophy



Applying 'MQGLP' through a 6-step process

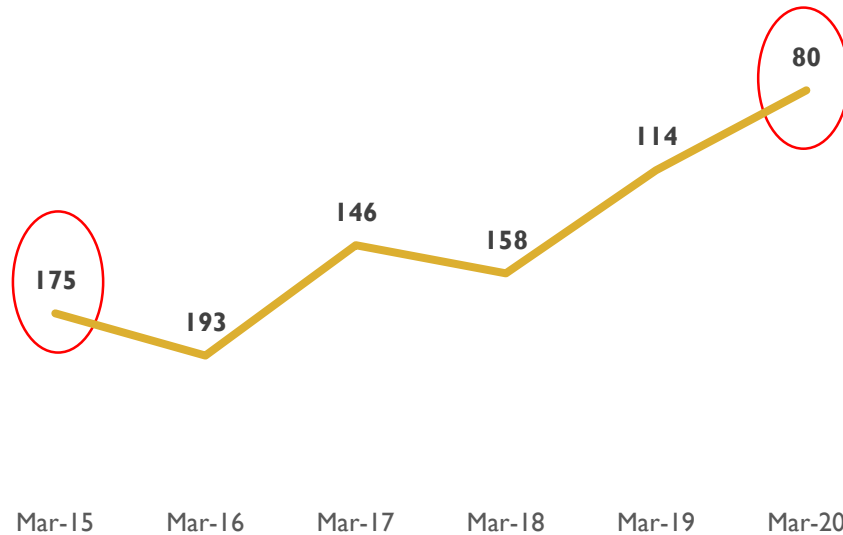
Focused Portfolio of 15-20 stocks with High Quality, Growth businesses available at Reasonable Valuations for Long Term



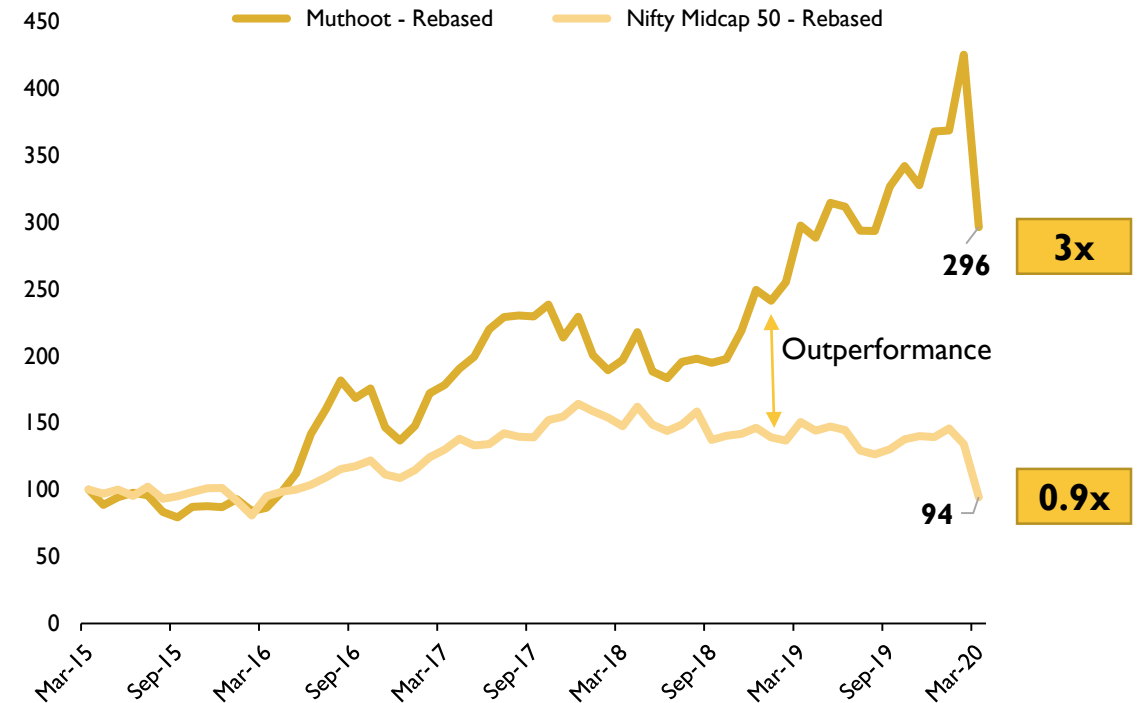
Time travelling success stories

Muthoot Finance (2015-20): 24% stock price CAGR v/s -1% for benchmark

Market Cap Rank Trend



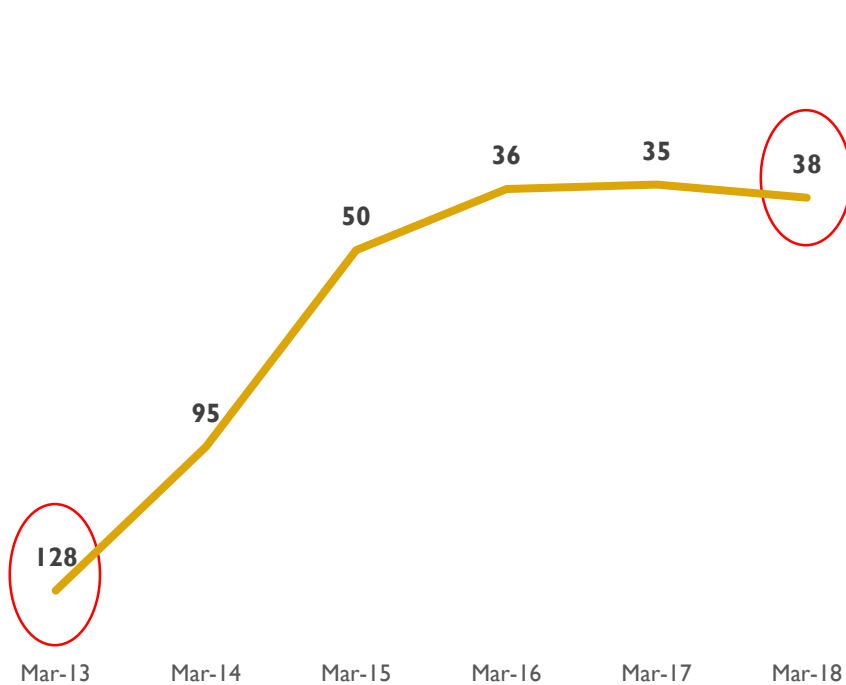
Performance



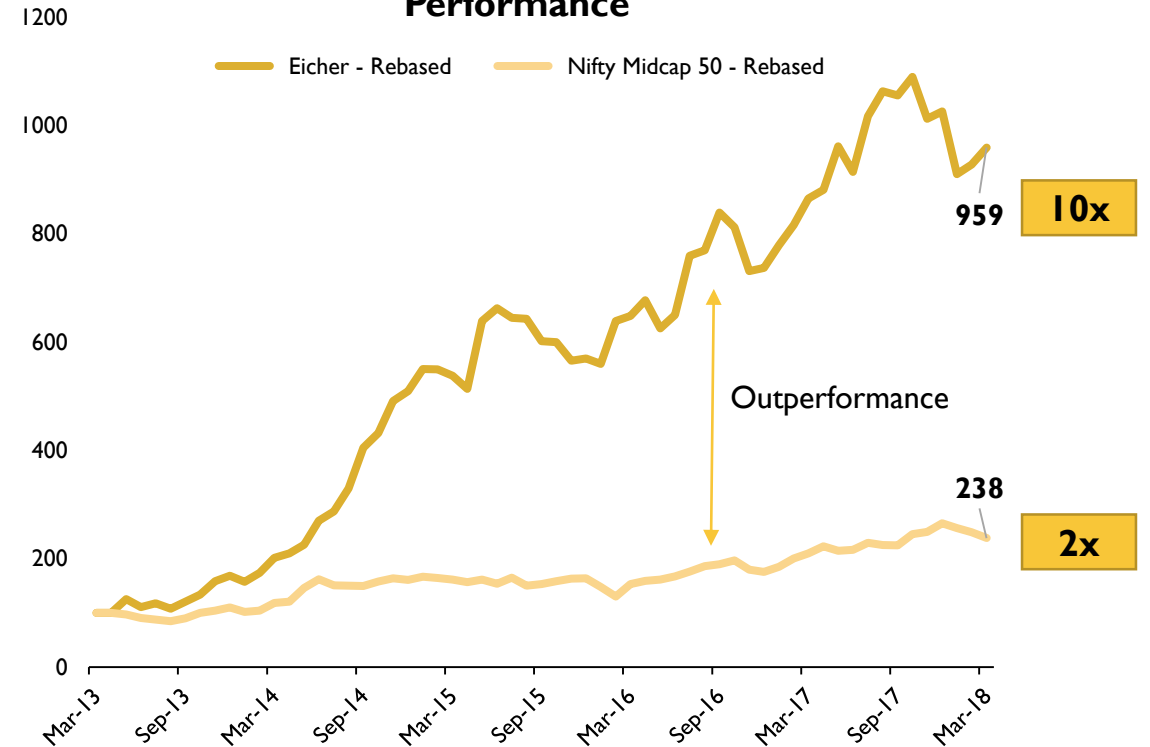
- **Market cap rank scaled up from 175 to 80 during FY2015-20**
- **Stock rose to 3x while market delivered 0.9x in same period**
- **Robust PAT CAGR of 36% delivered during this period.**
- **In Mar-2015, stock P/E was an attractive 12x**

Eicher Motors (2013-18): 57% stock price CAGR v/s 19% for benchmark

Market Cap Rank Trend



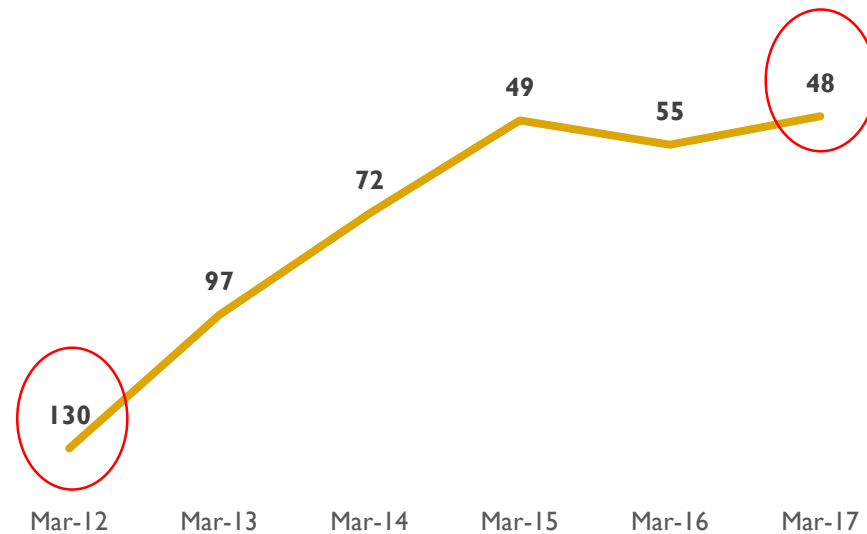
Performance



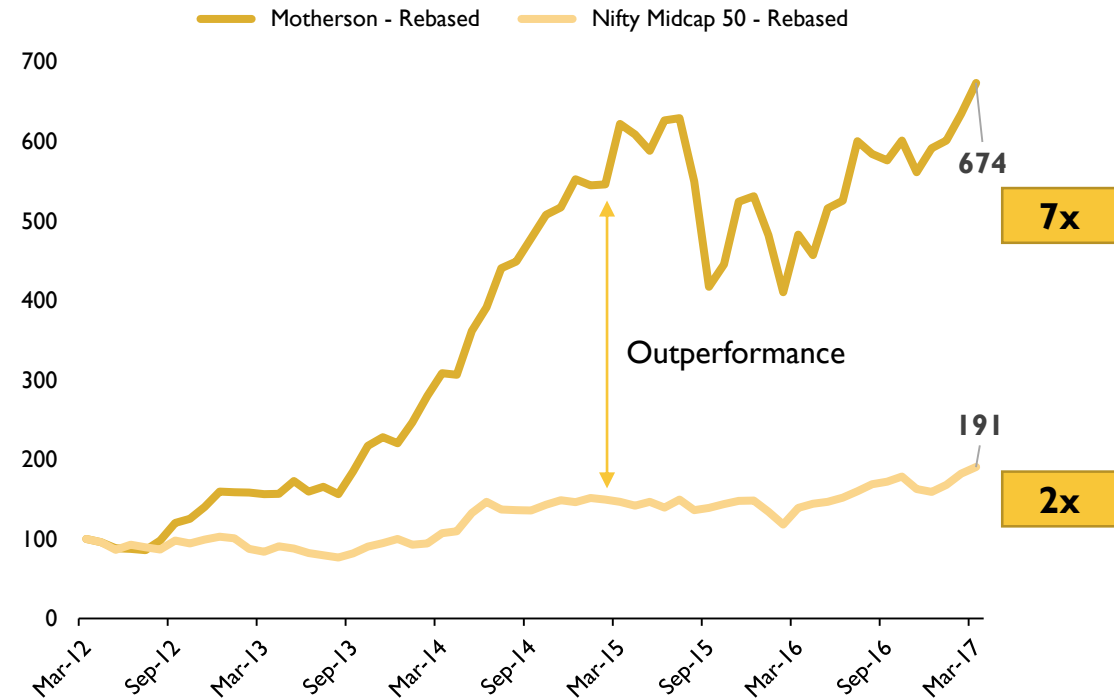
- **Market cap rank scaled up from 128 to 38 during FY2013-18**
- **Stock rose to 10x while market delivered 2x in same period**
- **Robust PAT CAGR of 45% delivered during this period.**
- **In Mar-2013, stock P/E was a reasonable 26x**

Motherson Sumi (2012-17): 46% stock price CAGR v/s 14% for benchmark

Market Cap Rank Trend



Performance



- **Market cap rank scaled up from 130 to 48 during FY2012-17.**
- **Stock rose to 7x while market delivered 2x in same period**
- **Robust PAT CAGR of 44% delivered during this period.**
- **In Mar-2012, stock P/E was a reasonable 28x**

Why Midcaps Now?

Sensex Heading Towards 2 lakh in 10 years

7-8% GDP growth +
4-5% inflation
= 12-13% nominal
GDP growth

Market growth
broadly in line with
Corporate Profit
growth (15%)

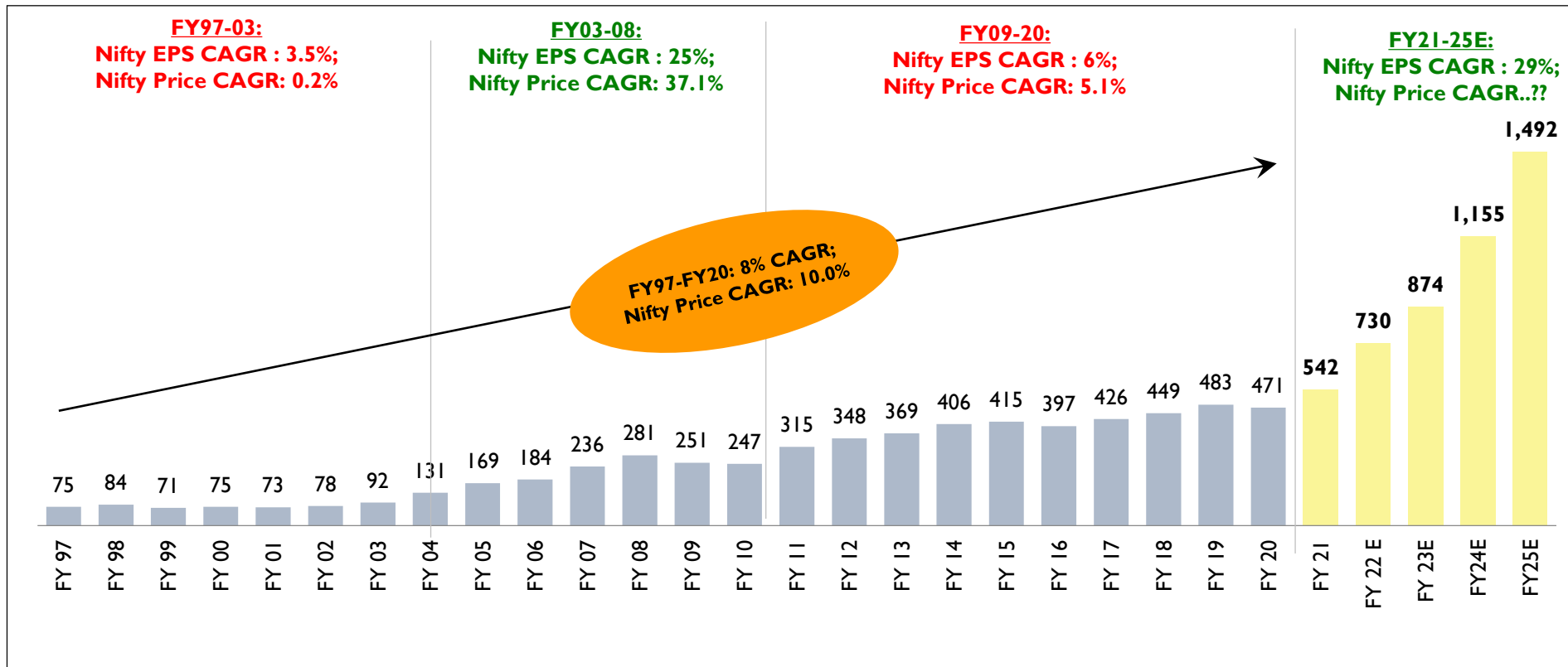
Can Sensex scale
the 2,00,000 peak
in the next 10
years? How ?

Corporate Profit
growth to be slightly
higher than GDP
growth (15%)

15% CAGR over 10
years is 4x

$$50,000 \times 4 = 2,00,000$$

Stocks are slaves of earnings



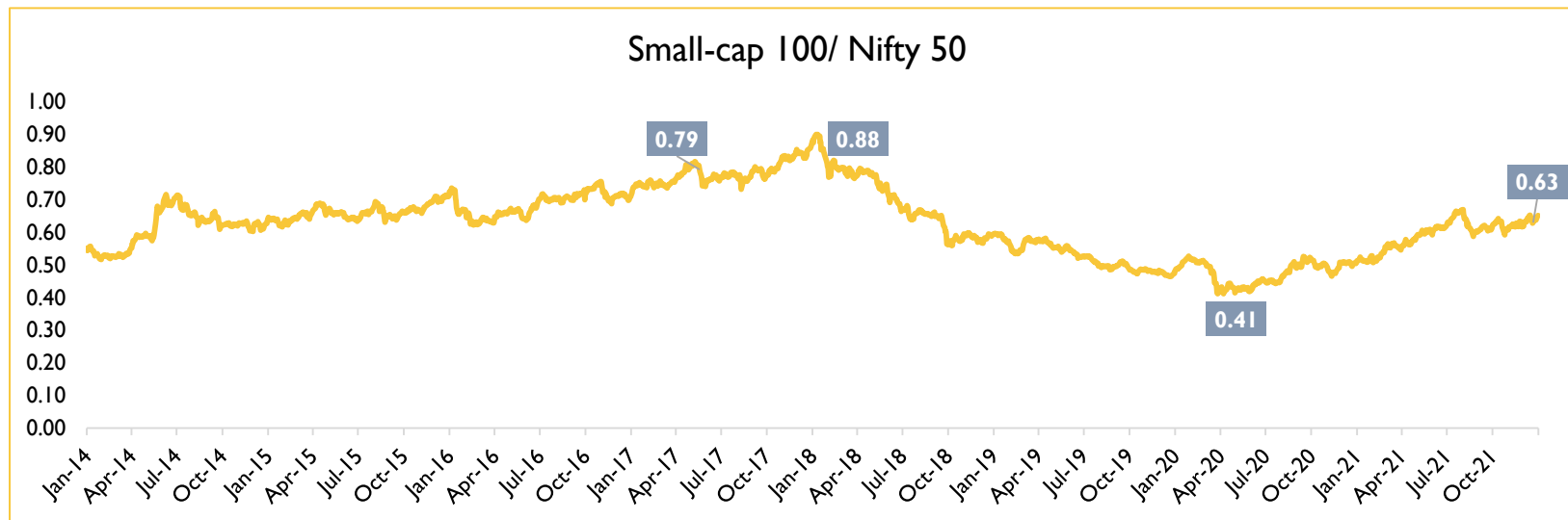
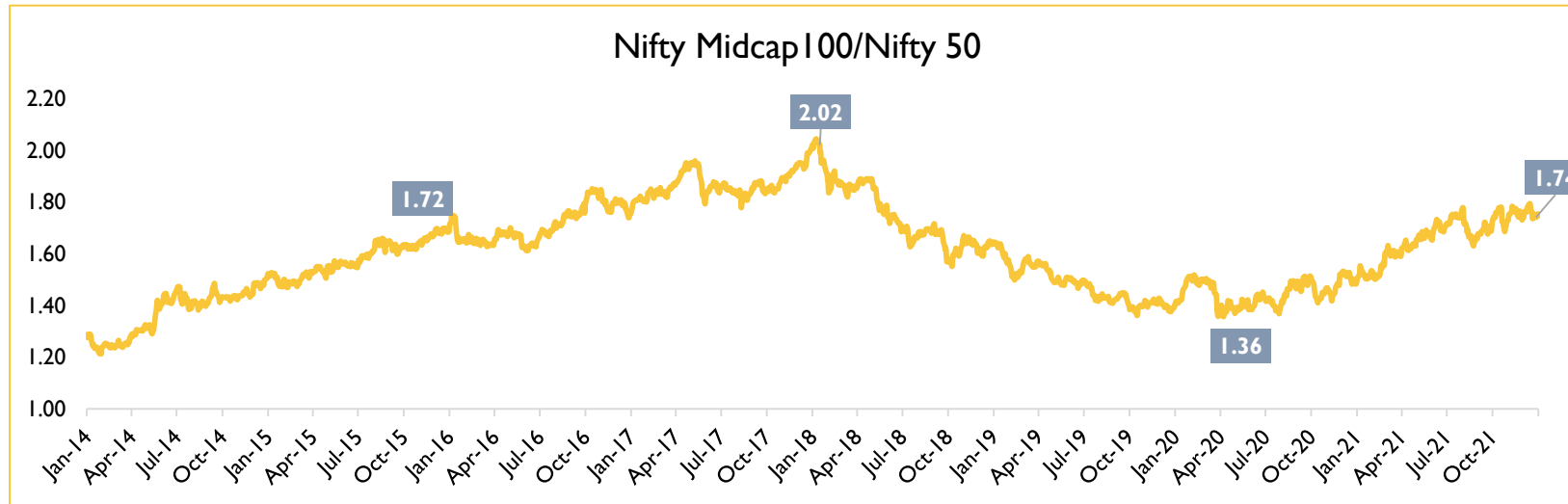
As seen in last 20+ years : Nifty price has moved in-line with Nifty earnings.

Next 4 year growth estimates of Nifty earnings can be +29% CAGR.

Source: MOAMC Internal Research, Data as on December 2021

Disclaimer: Past performance may or may not be sustained in future. The above graph is used to explain the concept and is for illustration purpose only and should not be used for development or implementation of an investment strategy.

Ample Room for Growth: Nifty Smallcap 100 & Midcap 100 still attractive Vs. Nifty50

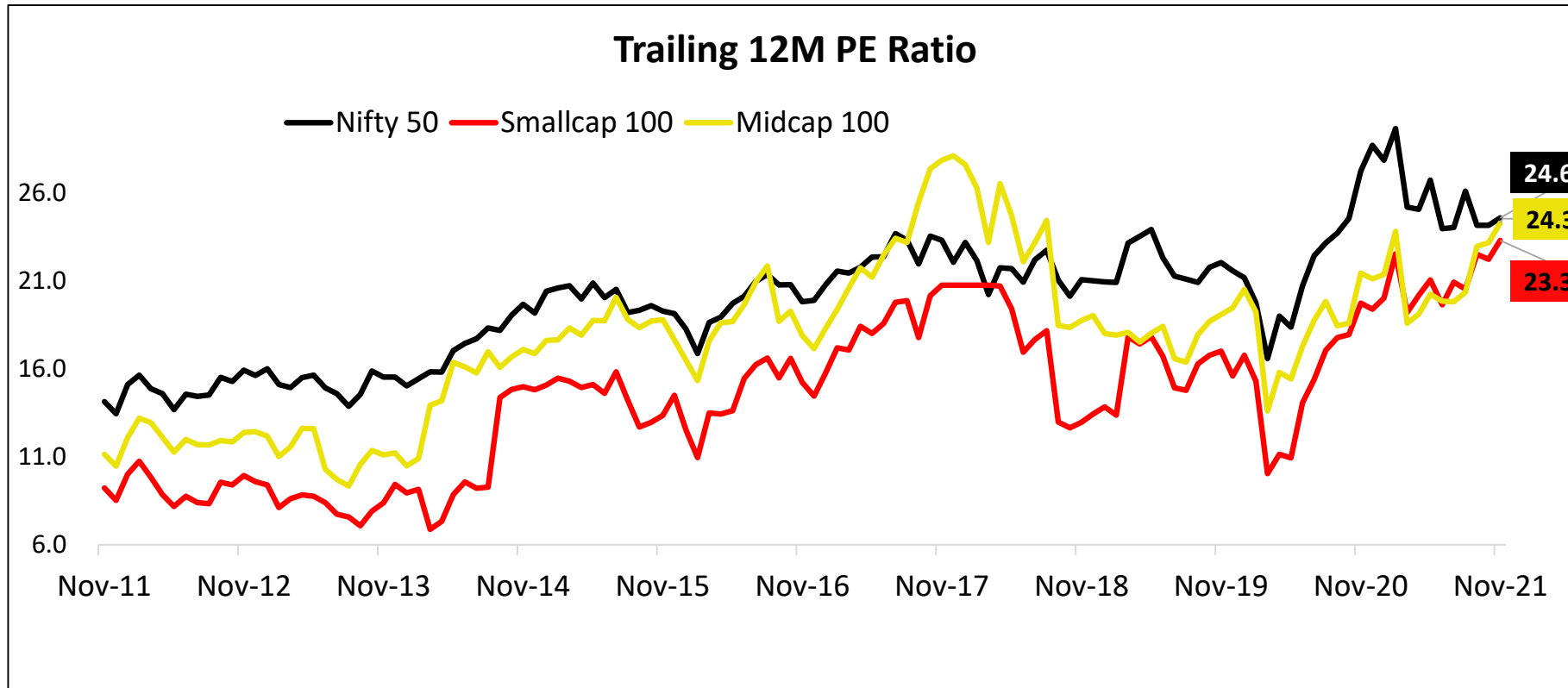


These ratios are a good indicator for investing in Mid & Small Caps

Midcap ratio peaked out at ~2.0 & Smallcap ratio peaked out at ~0.9 in Jan 2018.

Current levels suggest trend turnaround and ample room for growth

Why now? – Mid and small caps are trading at a discount to Large caps



Removing the loss making companies from the indices –

Midcap and Smallcap indices are trading at a marginal discount to Nifty.

Source: MOSL, Data as on 30th November 2021

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Investment Mentor and Fund Manager

Thought Leader, Chairman & Author of 25 Wealth Creation Studies



Raamdeo Agrawal
Chairman, MOFSL



MOTILAL OSWAL
Thematic Study | December 2020

25
WEALTH CREATION STUDY

The QGLP Checklist
25 questions, 25 frameworks

HIGHLIGHTS

- Time is a friend of good companies and enemy of bad companies. In 25 years, successful companies grow to unimaginable levels in sales, profits and market cap.
- Of the top 500 companies listed in 1995, only 100 companies have outperformed the benchmark over the next 25 years.
- Stock returns are slaves of earnings power and growth. In the very long run, valuations matter less.
- The future always holds a lot more promise. Over 50% of current market cap is made up of listings post 1995.
- Equity investing is complex. A checklist is an excellent tool to bring discipline to the process.
- The 25 questions here and the 25 related frameworks are a good starting point for an investor to create their own checklist over time.

"In my nearly fifty years of experience in Wall Street, I've found that I know less and less about what the stock market is going to do but I know more and more about what investors ought to do, and that's a pretty vital change in attitude."
— Benjamin Graham

TOP 10 WEALTH CREATORS (1995-2020)

FASTEST		BIGGEST		CONSISTENT		ALL-ROUND	
Company	25-year Price CAGR	Company	WVC (INR b)	Company	Consistency Count	Company	Total 1995-2020 of Price Bn
Infosys	30%	Reliance Industries	6,307	Kotak Mahindra	21	Kotak Mahindra	20
Fluoride Inds	25%	Hind. Unilever	4,893	Bergar Paints	20	Fluoride Inds	21
Eicher Motors	25%	Infosys	2,700	HDFC	20	Asian Paints	26
Shree Cement	25%	HDFC	2,475	Fluoride Inds	18	Shree Cement	28
Bergar Paints	24%	Kotak Mahindra	2,293	Shree Cement	18	Bergar Paints	28
Honeywell Auto	24%	ITC	1,945	Honeywell Auto	18	Sun Pharma	29
Sun Pharma	23%	Asian Paints	1,586	Motherson Sumi	18	HDFC	29
Bajaj Finance	23%	Nestle India	1,549	Asian Paints	18	Bajaj Finance	32
Motherson Sumi	23%	Bajaj Finance	1,162	Dabur India	18	Dabur India	43
Sriniwas Inds	22%	Laxmi & Touben	998	Sun Pharma	18	Eicher Motors	44

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Motilal Oswal research is available on www.motilaloswal.com/Institutional-Equities, Bloomberg, Thomson Reuters, Factset and S&P Capital.

- 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 Manager



Mr. Rakesh Tarway

- **Rich Experience:** He has an overall experience of 18 years in equity markets, with a focus on identifying emerging businesses in small & midcap segment.
- **Positions Held:** He has earlier worked as **Head of Midcap Research** at Motilal Oswal Securities and Reliance Securities.
- **Track Record:** Successfully managing 'Motilal Oswal Focused Midcap Strategy' PMS with strong outperformance to benchmark since inception
- **Academic Background:** Rakesh has a Masters in Management Studies (MMS) degree from Jamnalal Bajaj Institute of Management Studies (JBIMS), Mumbai.

Portfolio Themes and Construct

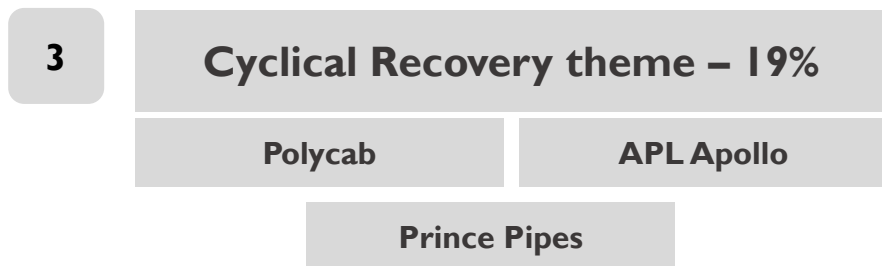
Portfolio Positioning



Huge surge in contract manufacturing coupled with Production Linked Incentives schemes is bringing lot of focus in this theme



Covid has played key role in compressing the 5 year spends around digitization to less than 3 years. Many companies across sectors were forced to migrate and adopt digital operations thereby increasing digitization spends to survive or perish



A bet on cyclical recoveries and a proxy to infrastructure / real estate play.

Portfolio Positioning

4 **NBFC– 3%**

Muthoot Finance: MAS Financial

Cost of capital is coming down, asset quality is superb and companies are available at reasonable valuations.

5 **Financials – Non Lending – 14%**

Max Financial ICICI Sec

Angel One Fino Payments

Insurance, should be seen as a sector with multi-decadal growth story. Capital market intermediary and fintech are sectors to look forward in this digitized world.

6 **Other Bottom up plays – 9%**

Zomato Globus spirits

New age businesses are other bottom up plays with long term growth outlook

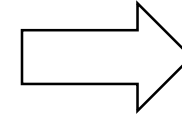
Success Factors of AIF Platform

Important Success Factors for AIF's – from an Investor's view



“Get” Money when the price is right

Drawdown structure allows for timing market opportunities to be professionally managed

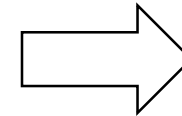


*Behavioral
Alpha*



Have a framework to sell
(Option to return partial money / mature fund early)

Booking profits & exiting portfolio are decided by Fund Manager

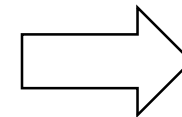


*Manager
Alpha*



Best of both PMS & MF on AIF platform

Flexibility in stock and sector allocations (PMS)
Execution efficiency of pool account (MF)



*Agency
Alpha*

Terms & Structure

Class	Minimum Capital Commitment	Management Fee % p.a.	SIP Option
B1	1 Crores or more but less than 2.5 Crores	2.50	NA
B2	2.5 Crores or more but less than 5 Crores	2.25	NA
B3	5 Crores or more but less than 10 Crores	2.00	NA
B4	10 Crores or more	1.75	NA
B5	1 Crores or more but less than 2.5 Crores	2.50	10% of commitment amount initially & 9 monthly equal installments of 10% (commitment capital)
B6	2.5 Crores or more but less than 5 Crores	2.25	
B7	5 Crores or more but less than 10 Crores	2.00	
B8	10 Crores or more	1.75	

Tenure of the Fund	5 yrs + up to 2 yrs
Lock in (from final closing)	18 months
Exit Load	18-24months - 3%, 24-36months - 2%, 36-48months - 1%, Nil thereafter
Commitment period	12 months from final closing
Initial drawdown	20% of capital commitment for non-SIP class
Final closing	12 months from initial closing
Benchmark	Nifty Midcap 150 TRI

Please refer PPM for further details.

Examples

I. Dixon Technologies – most diversified EMS player

M- Mid	Market cap rank in Mar-2021 was 177
Q- Quality of Business	Most diversified EMS player in India manufacturing LED Lights, Smart TVs, Semi Auto Washing Machines, Feature Phones and Set Top Boxes. Strong financials.
Q- Quality of Management	High Corporate governance standards
Leadership	Controls almost 25-30% manufacturing of LED Lights and Smart TVs for India markets. For Washing Machines, Feature Phones market share is in range of 10-15%.
G – Growth in earnings	5 year PAT CAGR of 36%, future growth expectations similar
L - Longevity	PLI incentive has opened gates for Dixon to get into big size and high growth smartphone assembly. Profits from the same can be as large as all other business
P- Price	Current P/E of 142x but defensible in light of future growth, FY23 PEG 2.8x

II. Persistent System – Digital transformation: catalyst for software-driven businesses

M- Mid	Market cap rank in Mar-2021 was 219
Q- Quality of Business	Services across all stages of the product life-cycle, which enables it to work with a wide-range of customers.
Q- Quality of Management	High Corporate governance standards
Leadership	OPD (outsourced product development) specialty company
G – Growth in earnings	5 year PAT CAGR of 10%
L - Longevity	Technology has become key for survival with changing environment and business models and thus, shall benefit the sector.
P- Price	Current P/E of 46x but defensible in light of future growth, FY23 PEG 1.5x

III. Max Financial – Best in class metrics and secular runway

M- Mid	Market cap rank in Mar-2021 was 138
Q- Quality of Business	Strong underlying insurance business with all right metrics
Q- Quality of Management	High Corporate governance standards
Leadership	Large presence across the country through its multi-channel distribution architecture. Axis Bank picking majority stake add certainty in Bancassurance as a prime generator.
G – Growth in earnings	5 year PAT CAGR of 11%
L - Longevity	Insurance is the new vector of growth in the BFSI sector
P- Price	Current P/E of 88x but defensible in light of future growth, FY23 PEG 2.5x

IV. Amber Enterprises – market leader in ACs; most promising consumer category

M- Mid	Market cap rank in Mar-2021 was 252
Q- Quality of Business	Market leader with ~30% market share in ODM/OEM manufacturing of ACs and components with all leading brands as customers.
Q- Quality of Management	High Corporate governance standards
Leadership	Market leader with 30% market share
G – Growth in earnings	5 year PAT CAGR of 28%, future growth expectations similar
L - Longevity	Better utilization of plants with exports and more domestic demand shall drive growth
P- Price	Current P/E of 86x but defensible in light of future growth, FY23 PEG 1.4x

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Questions?