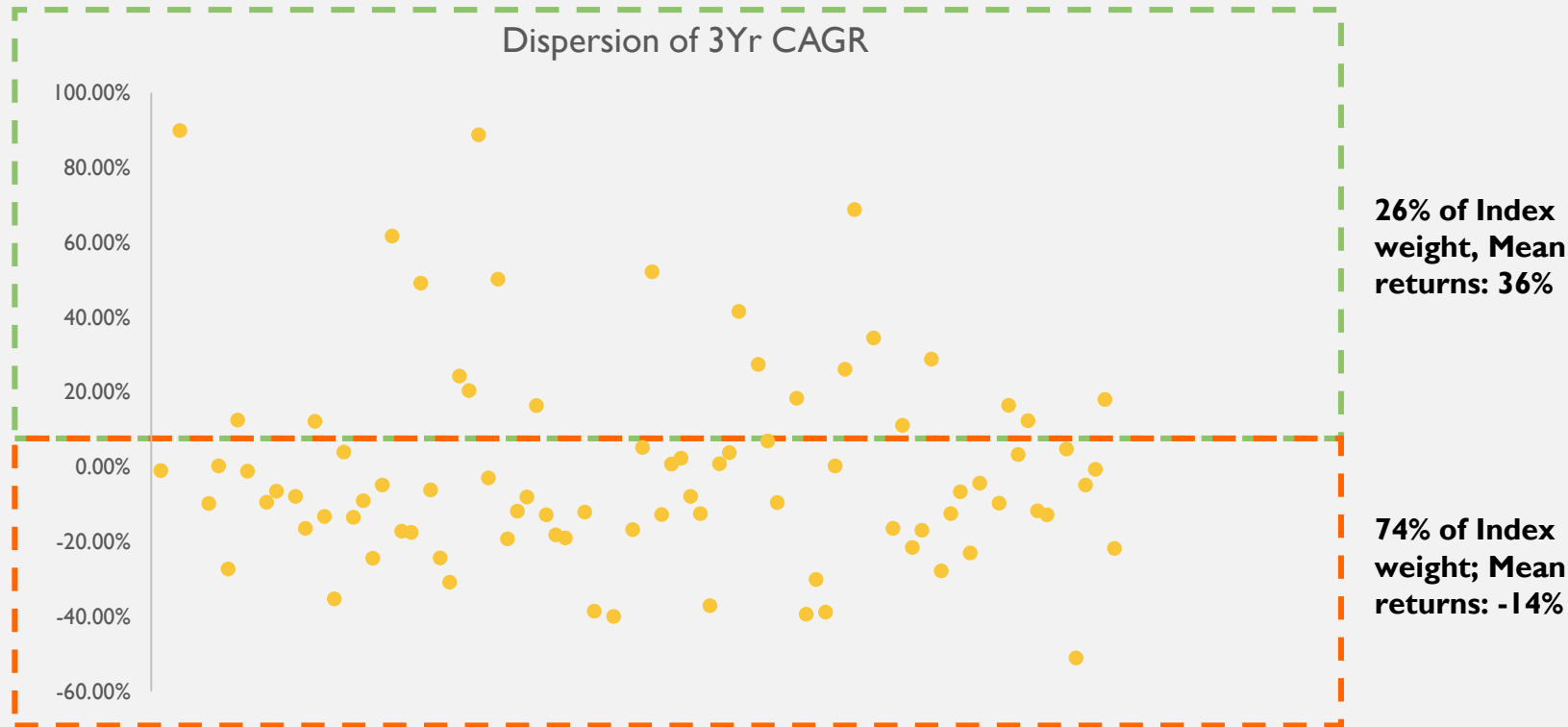


# IOP V2

October 2021

# Smallcaps offer a larger opportunity for Alpha generation



- **Top 20 stocks account for 31% of Index weight but contributes 230% of the total price returns**
- **Nifty Smallcap 100 Returns for 3 years: -8.4%**
- **Dispersion averages out the overall returns of the portfolio**
- **Wide dispersion of returns in small caps provides scope for bottom-up stock picking**

Source: MOAMC internal research. Disclaimer: Data from Sep 30, 2017 till Sep 30, 2020. The above is for representation purpose only and should not used for development or implementation of an investment strategy. Past performance may or may not be sustained in future.

# SmallCaps offer a larger Opportunity for Alpha generation

- Small Caps are covered by fewer analysts, this gives fund manager an edge in spotting good businesses early
- Ownership pattern is not broad based as information is limited –this category is best played through a focused portfolio

## Under Researched : Limited Analyst Coverage

Average Analyst Coverage	
Top 100	16
101-400	17

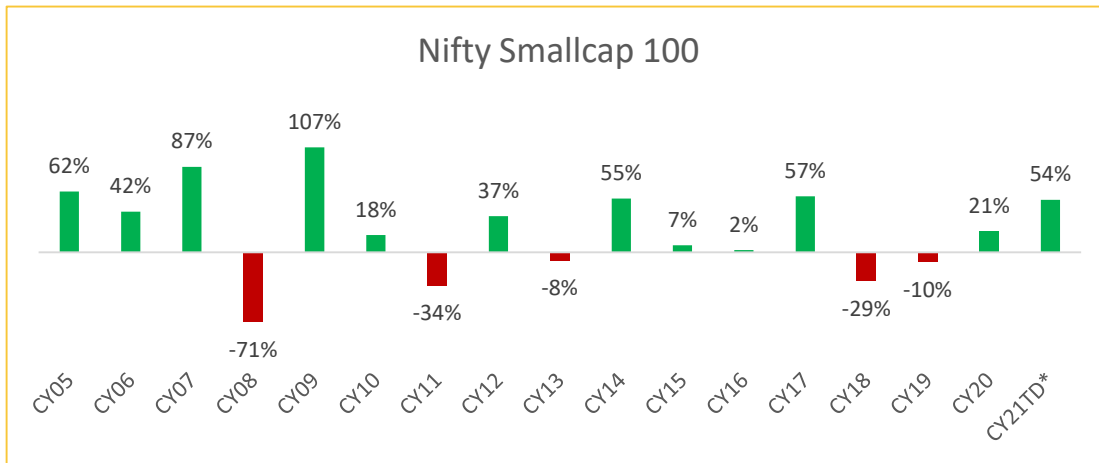
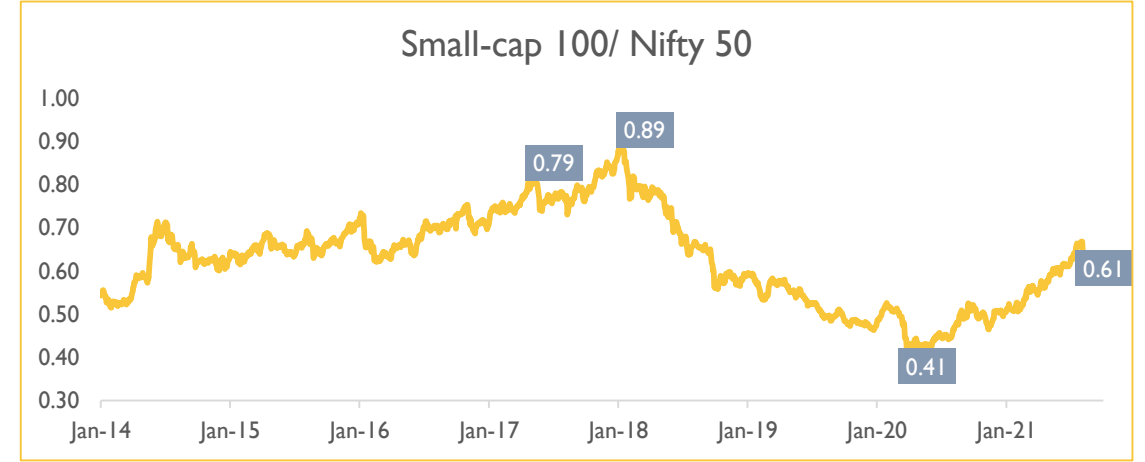
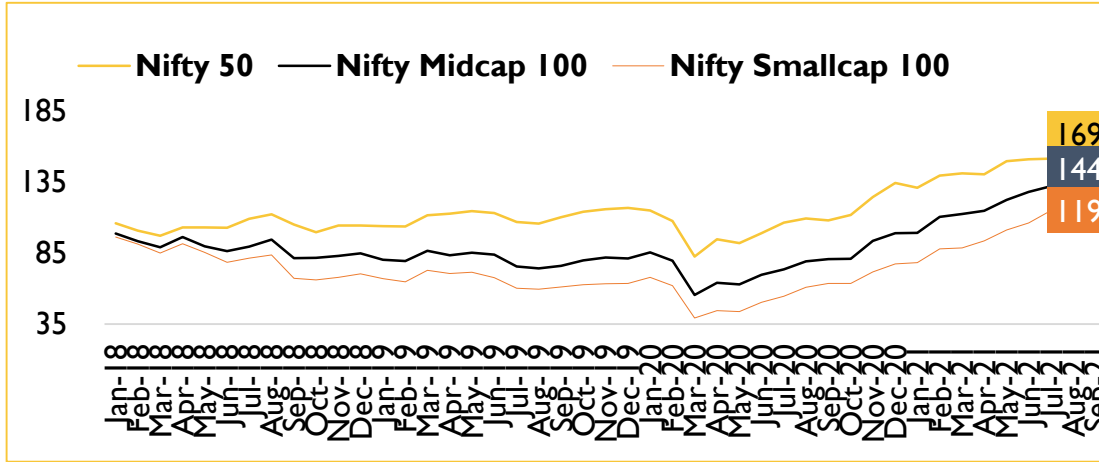
## Under Owned : Lower Institutional Holding

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

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

## Why now? - Expect smallcaps to bounce back with economic recovery



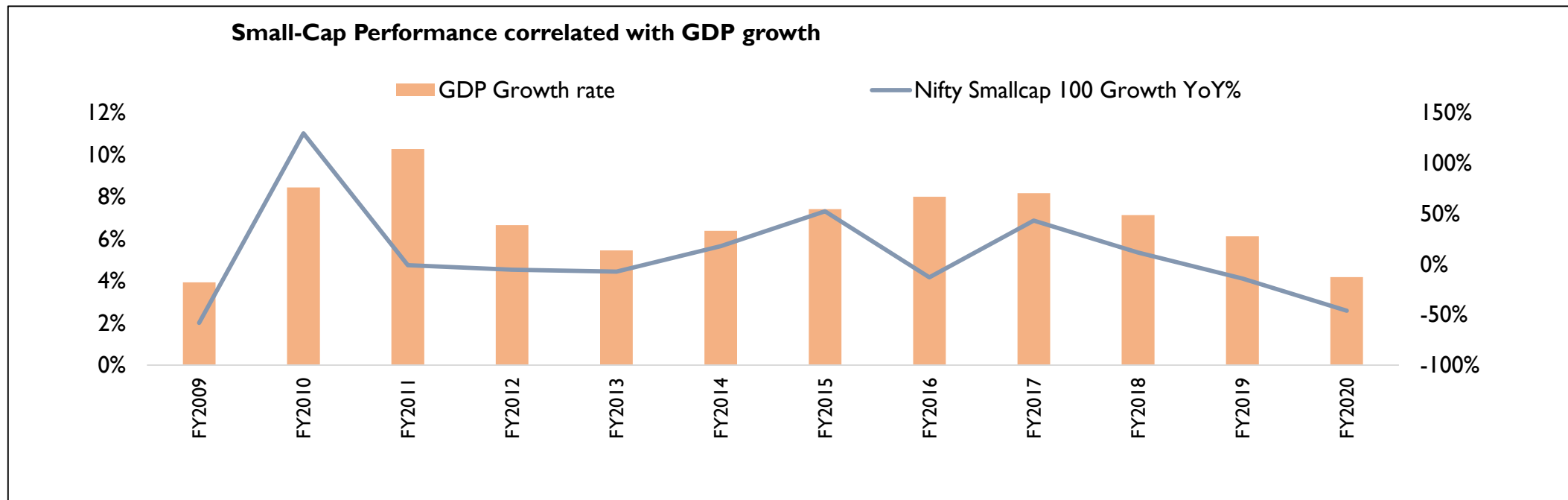
- Over the last 2-year period, small caps have underperformed both large caps and midcaps and this is unlikely to sustain and now is time to grab the opportunity
- The long term relationship between Small Cap 100 and Nifty 50 indicates that we are at or nearing a trough

Source: MOAMC Internal Research, Data as on 30.09.2021

Disclaimer: The above graph/data is used to explain the concept and is for illustration purpose only. The sector mentioned herein are for general and comparison purpose only and not a complete disclosure of every material fact, and should not used for development or implementation of an investment strategy. Past performance may or may not be sustained in future.

# Small caps growth is strongly correlated with GDP growth

- Pre-Covid economic recovery saw IOPV2 beginning to outperform.
- However, Covid has significantly set back both the economy and IOP
- Post-Covid green shoots of economic recovery visible and FY22 should see full impact

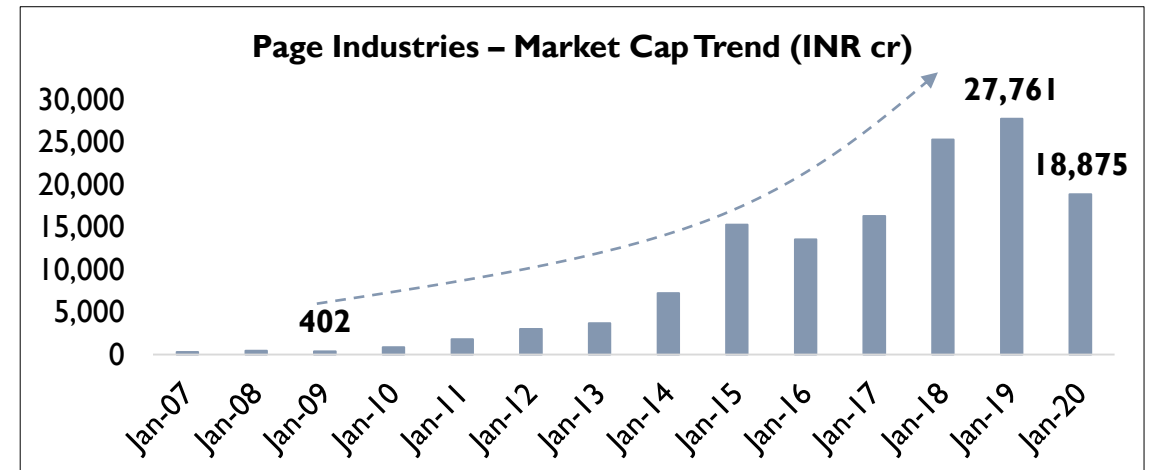
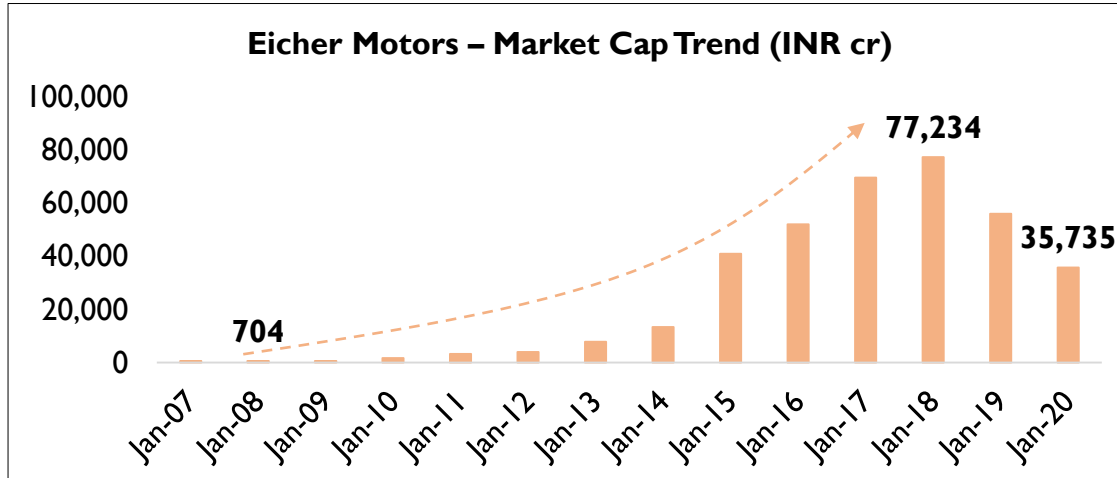
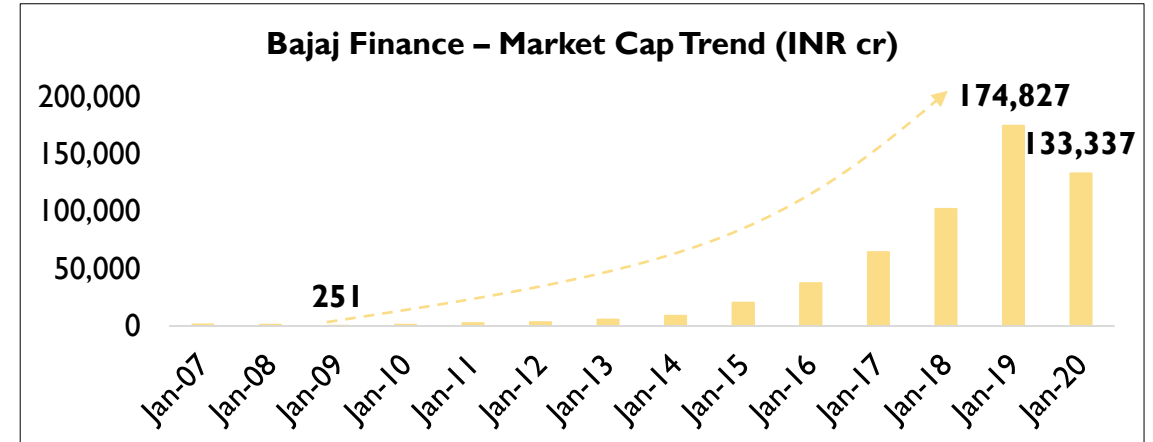


Source: MOAMC Internal Research, Data as on 31.01.2021

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# Small caps can grow 100x in 10 years

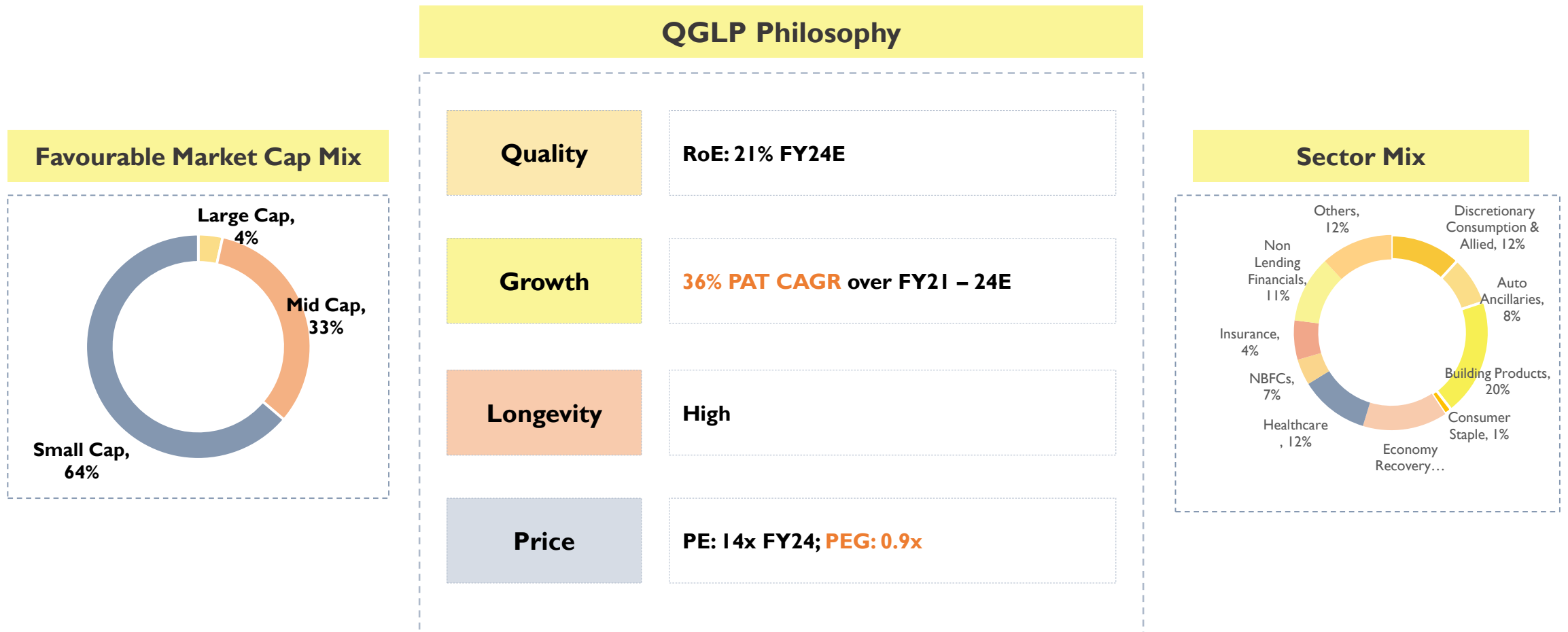
- Many businesses in India offer huge growth potential
- Small caps, given their size, have a long runway for growth
- The full benefit of this is reaped by those investors who hold for the long term
- The key – high quality of management



Source: MOAMC Internal Research, Data as on 31.1.2020

Stocks mentioned above are used to explain the concept and is for illustration purpose only and should not be used for development or implementation of an investment strategy. It should not be construed as investment advice to any party. For detailed Company-specific Risk Factors, please refer to the end of this document.

# Historically Low PEG : Earnings Growth and Valuations in a Sweet Spot



Disclaimer: The Stocks mentioned above are used to explain the concept and is for illustration purpose only and should not be used for development or implementation of any investment strategy. It should not be construed as investment advice to any party. The stocks may or may not be part of our portfolio/strategy/ schemes. Past performance may or may not be sustained in future

# Low PEG : WCS23 'Valuation Insights' - Evidence Suggests It's the Best Time to Buy

PEG is short for P/E to Growth ratio : TTM P/E divided by 3 yrs forward earnings growth

PEG- What Works & What Doesn't		
PEG	Average 3Yr Alpha	Instances from 1998-2015
0-1	19%	33%
3+	-10%	11%
< 0*	-19%	34%

\* A PEG lesser than zero implies PAT de-growth in the next 3 years

In the 23<sup>rd</sup> Annual Wealth Creation Study, we used the PEG Ratio with 3-years' forward earnings to study return outcomes.

The findings revealed that

- **Buying stocks at PEG less than 1x is supremely profitable**
- **On average, 1 of every 3 stocks is likely to trade at PEG of less than 1x**



## Low PEG : WCS23 ‘Valuation Insights’ - Evidence Suggests It’s the Best Time to Buy

Period 2013-18					
	1 yr	2 yr	3 yr	4 yr	5 yr
Sensex Return	19%	22%	10%	12%	12%
PEG < 1x Return	36%	61%	38%	45%	39%
<b>Alpha</b>	<b>17%</b>	<b>39%</b>	<b>28%</b>	<b>33%</b>	<b>27%</b>

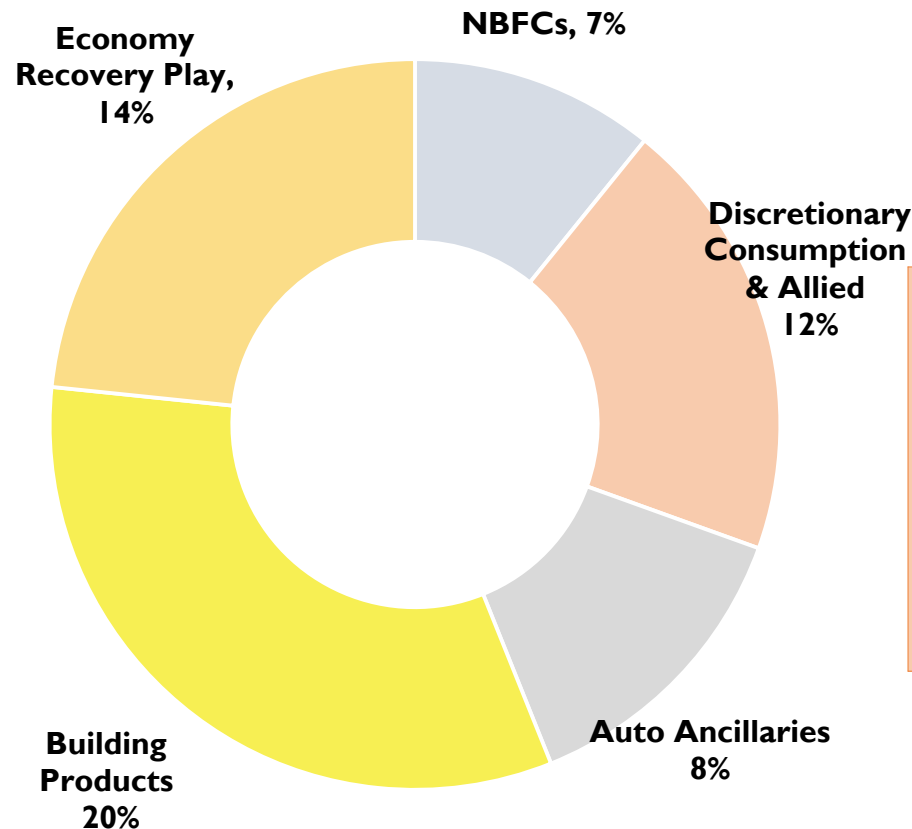
- **Efficacy of PEG ratio is remarkable irrespective of the number of years of growth insight that investors may have.**
- Thus, PEG of less than 1x works for growth forecasts of 1, 2, 3, 4 or 5 years!
- **PEG of 1x delivered handsome alpha in 14 out of 15 observations (barring GFC led fall in 08)**

# Portfolio Positioning and High Conviction Bets

# 60% of the portfolio is allocated towards beneficiaries of economic recovery

Economy Recovery Plays		
Aegis Logistics		4%
Qess Corp		4%
Blue Dart		2%
ITD Cementation		1%
HEG		1%
Engineers India		1%

Building Products		
Kajaria Ceramics		7%
Birla Corp		6%
Century Ply		3%
KEI		3%



NBFCs		
Can Fin Homes		7%

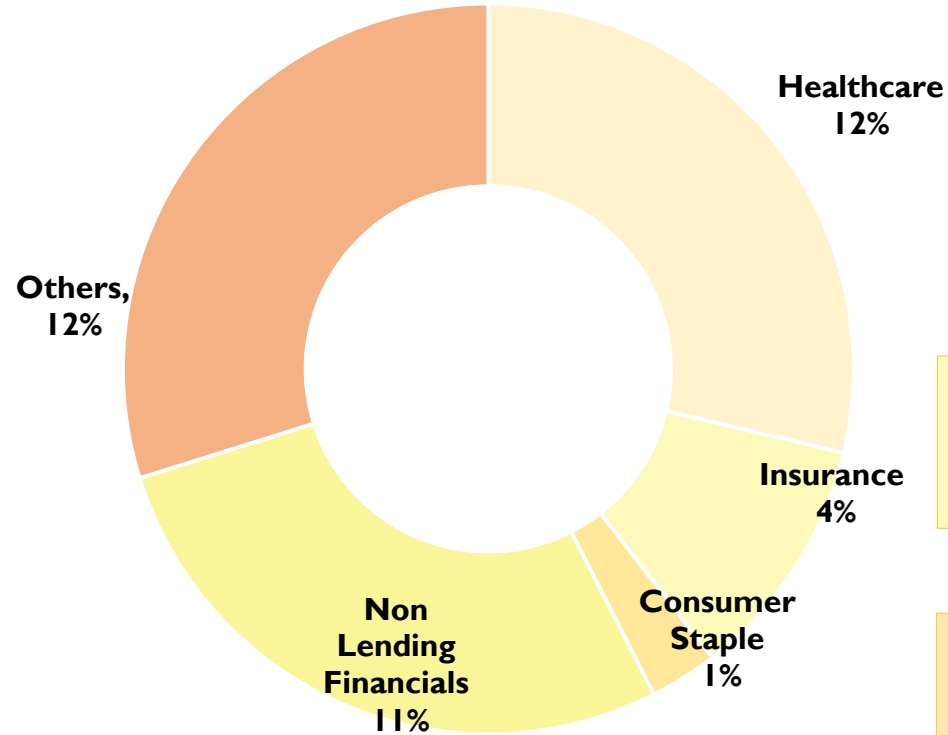
Discretionary Consumption & Allied		
VIP Industries		6%
Blue Star		3%
TTK Prestige		2%

Auto Ancillaries		
Gabriel		4%
Suprajit Industries		2%
Sundaram Fastners		2%

# 40% of the portfolio remains invested in Compounders

Others	Mahanagar Gas	6%
	Clean Science & Technology	3%
	Dhanuka Agritech	2%
	Bayer Cropscience	1%

Healthcare	Alkem Labs	5%
	Gland Pharma	4%
	Ipca Labs	3%



Non Lending Financials	ICICI Securities	7%
	CDSL	4%

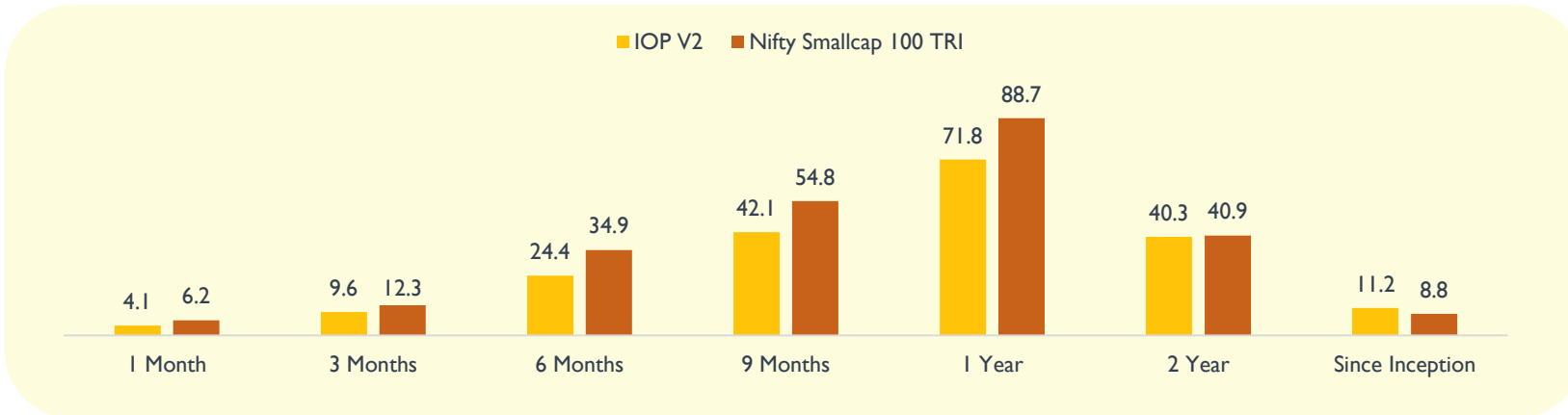
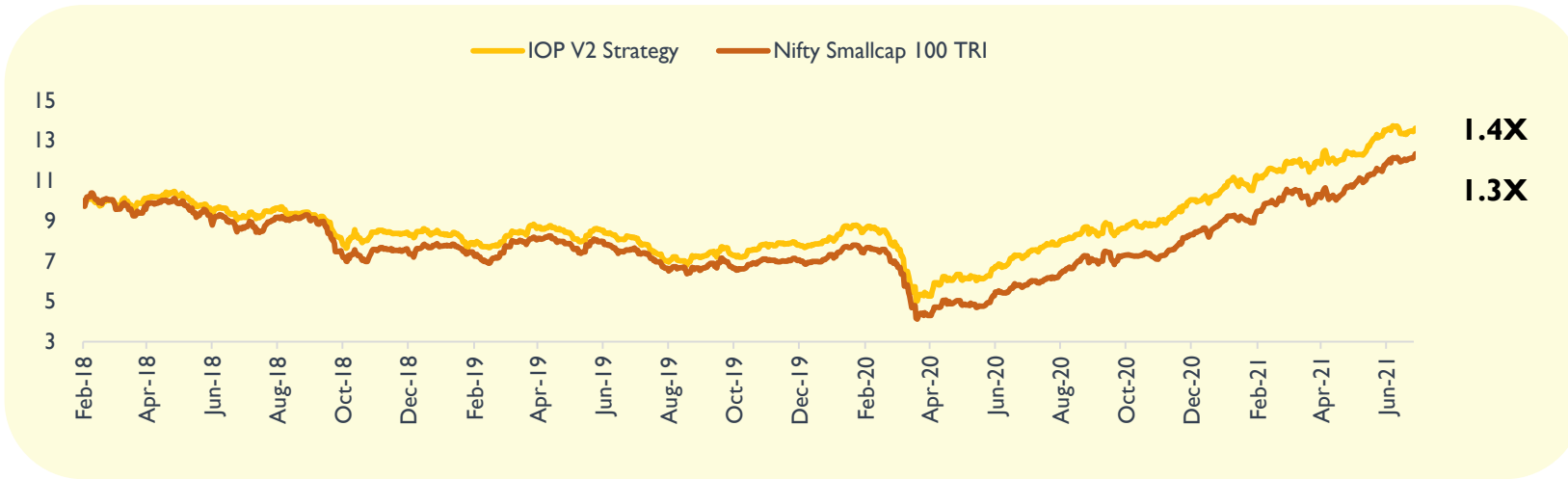
Insurance	Max Financial Services Limited	4%
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Consumption	Emami Ltd.	1%
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# Portfolio Performance

Alpha of 2.4% CAGR since inception

# Portfolio Performance : Alpha of 2.4% CAGR since inception



One lac invested in the strategy on 5th Feb 2018 would have grown to Rs. ~1.4 lacs today against ~1.3 lacs invested in Benchmark

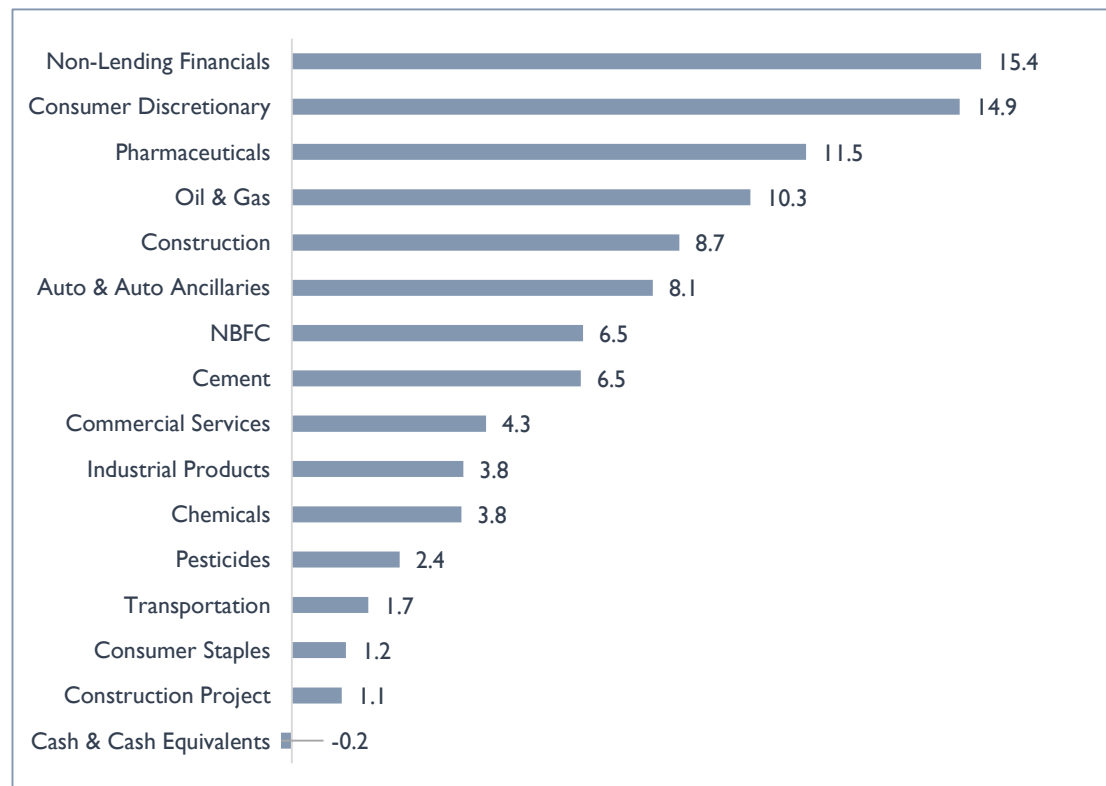
IOP V2 Strategy Inception Date: 5<sup>th</sup> Feb 2018; Data as on 30<sup>th</sup> September 2021; Data Source: MOAMC Internal Research; RFR: 7.25%; \*Earnings as of Dec 2020 quarter and market price as on 30<sup>th</sup> April 2021; Source: Capitaline and Internal Analysis; Please Note: Returns up 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.

# Portfolio Allocation

## Top 10 Holdings & Market Capitalization

Scrip Name	% Holding
Kajaria Ceramics Limited	7.4
ICICI Securities Limited	6.8
Can Fin Homes Limited	6.5
Birla Corporation Limited	6.5
VIP Industries Limited	6.2
Mahanagar Gas Limited	5.8
Alkem Laboratories Limited	4.6
Aegis Logistics Limited	4.5
Qess Corp Limited	4.3
Max Financial Services Limited	4.3

## Sectoral Allocation



IOP V2 Strategy Inception Date: 5<sup>th</sup> Feb 2018; Data as on 30<sup>th</sup> September 2021; Data Source: MOAMC Internal Research; RFR: 7.25%; \*Earnings as of Dec 2020 quarter and market price as on 30<sup>th</sup> 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.

# Key Portfolio Stocks



I

## **KAJARIA CERAMICS**

Strong brand and distribution, market share gains and Real Estate revival to benefit

### **Global Export Opportunity being serviced by Morbi**

- Massive global export opportunity in tiles as countries look to restrict sourcing from China.
- A large chunk of supplies from Morbi to get diverted for exports that are growing at 50%yoy.

### **Domestic real estate market is at the bottom**

- We expect Kajaria to benefit from the boom in real estate cycle which is currently at the bottom of the cycle

### **Market Share Gains**

- Kajaria is the best ceramics play and is constantly gaining share from other private players
- Net cash balance sheet and superior brand, will help capitalise on market share gain

**RoE:  
22% FY24E**

**Q1 EPS  
Growth:  
L to P**

**TTM EPS  
Growth:  
114% YoY**

**FY24 PEG:  
1.8x**

2

**ICICI SECURITIES Ltd.**

Strong growth in demat accounts, non brokerage income bring diversification

**Industry tailwinds**

Strong post-Covid ADTO trend has extended in the 2QFY21 too. Over 3m demat accounts were opened in the past four months.

**Impact of regulations**

No impact on ISEC due to the new margin norms or share pledging norms that came into effect on 1st Sep'20

**MTF and ESOP funding book to grow**

Will grow the MTF and ESOP funding book from current levels of INR15b. Received shareholder approval for up to INR35b on the loan book currently, but this cap could be increased in the future.

**Revenue diversification**

Targeting to grow non-brokerage revenue from 40-42% to 50% of total revenue in a year or so

**RoE:**  
**43% FY24E**

**Q1 EPS**  
**Growth:**  
**61% YoY**

**TTM EPS**  
**Growth:**  
**91% YoY**

**FY24 PEG:**  
**1.7x**

3

**CENTRAL DEPOSITORY SERVICES (INDIA) LIMITED**

Capital markets intermediary in a duopoly play

**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

**RoE:**  
**26% FY24E****Q1 EPS**  
**Growth:**  
**38% YoY****TTM EPS**  
**Growth:**  
**75% YoY****FY24 PEG:**  
**2.4x**

4

**MAX FINANCIALS**

Best in class metrics, Axis Bank as largest shareholder, secular runway & collapse of hold-co structure

**Strong underlying insurance business**

- With best in class metrics (20%+ VNB Margins, 20% RoEVs) and growth track record (20%+ EV compounding).

**Axis Bank overhang on verge of resolution**

- Axis Bank emerging as the single largest shareholder with 18% stake. The firm recently received regulatory approvals.

**Holdco structure to collapse**

- Expect Max Life shares to be listed in the next 12-18 months.

**Attractively valued**

- Max is at 15x EVOP v/s 35x for HDFC Life, despite business metrics and growth being quite similar.

**RoE:**  
**29% FY24E****Q1 EPS**  
**Growth:**  
**-87%****TTM EPS**  
**Growth:**  
**13% YoY****FY24 PEG:**  
**0.4x**

5

## GLAND PHARMA

A focused injectable player in a large end market with a strong track record

### 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,
- Demand 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

### Key Triggers

- Sputnik Vaccine orders
- Large Cash pile to be used for possible M&As
- Large Injectibles market in China – yet to be explored

**RoE:**  
**19% FY24E**

**Q1 EPS Growth:**  
**6% YoY**

**TTM EPS Growth:**  
**11% YoY**

**FY24 PEG:**  
**2.0x**

# The portfolio manager invests with an eye on the future

Investors who invest in the good times and hold back in the bad times can never make above average returns.

**Small Cap stocks are a volatile and unpredictable lot...  
but provide an opportunity for upside**

**To earn super-normal returns with small cap stocks:**

- **Be patient**
- **Never exit looking at rear-view performance**
- **Double up at extremes if possible**

# Chairman – Investment Committee

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**Raamdeo Agrawal**  
**Chairman, MOFSL**

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- 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.



# Portfolio Manager

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Fund Manager

## 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).

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