

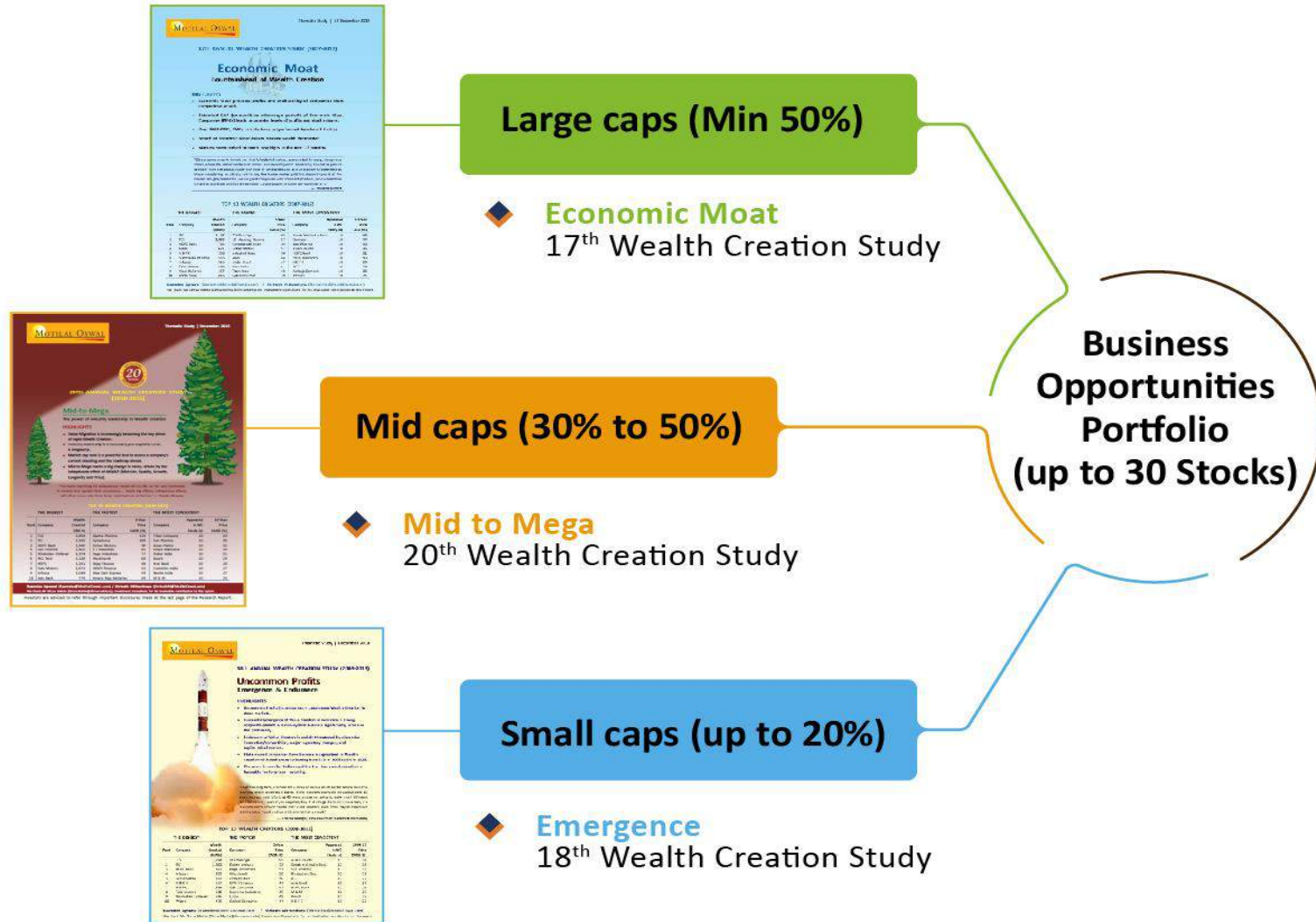


MOTILAL OSWAL BUSINESS OPPORTUNITIES PORTFOLIO

A BLENDED AND HIGH CONVICTION FOCUSED PORTFOLIO

THINK EQUITY. THINK MOTILAL OSWAL.

A Blended and High Conviction Portfolio based on our Wealth Creation Studies



Economic Moat
For the benefit of Market Investors

THEORY

- Identify the great companies and invest in them.
- Identify the great companies and invest in them.
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- Identify the great companies and invest in them.

TOP 10 WEALTH CREATORS (2010-2015)

RANK	COMPANY	MARKET CAP	SECTOR	PERF. (2010-2015)
1	Reliance	1,00,000	Oil & Gas	100%
2	Infosys	50,000	IT	80%
3	Wipro	40,000	IT	70%
4	ITC	30,000	FMCG	60%
5	Maruti Suzuki	20,000	Automotive	50%
6	Coal India	15,000	Coal	40%
7	ONGC	10,000	Oil Refining	30%
8	Dr. Reddy's	8,000	Pharmaceuticals	20%
9	JSW Steel	7,000	Steel	10%
10	Adani Ports	6,000	Ports	0%

Mid to Mega
For the benefit of Market Investors

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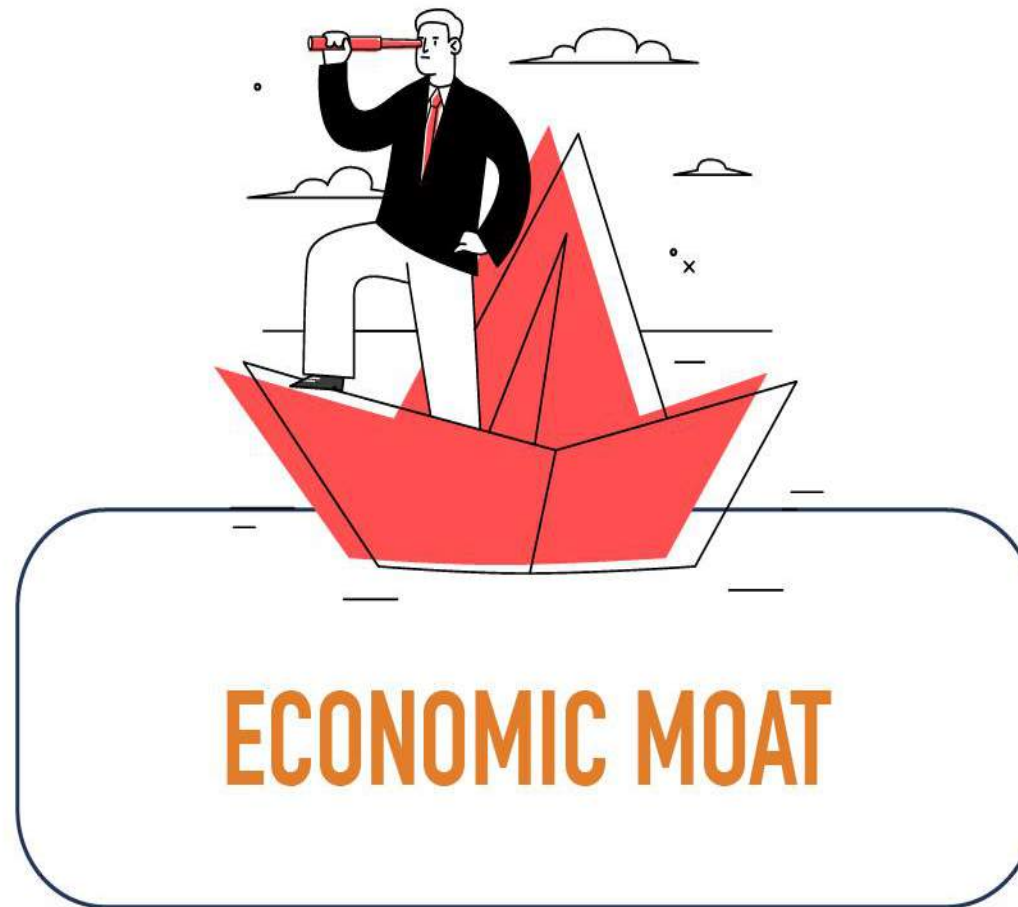
Emergence
For the benefit of Market Investors

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THINK EQUITY. THINK MOTILAL OSWAL.

What is Economic Moat?

- An Economic Moat protects a company's profits from being attacked by a combination of multiple business forces. Traditional management theory terms such as "Sustainable Competitive Advantage" or "Entry Barriers" essentially connote the idea of an Economic Moat.

- ◆ Role of Industry Structure
- ◆ Role of Company Strategy
- ◆ Competitive advantage period

MOTILAL OSWAL

Thematic Study | 12 December 2012

17th ANNUAL WEALTH CREATION STUDY (2007-2012)

Economic Moat

Fountainhead of Wealth Creation

HIGHLIGHTS

- Economic Moat protects profits and profitability of companies from competitive attack.
- Extended CAP (competitive advantage period) of Economic Moat Companies (EMCs) leads to superior levels of profits and stock returns.
- Over 2007-2012, EMCs in India have outperformed benchmark indices.
- Breach of Economic Moat causes massive wealth destruction.
- Markets seem poised to touch new highs in the next 12 months.

"Great companies to invest are like Wonderful castles, surrounded by deep, dangerous moats where the leader inside is an honest and decent person. Preferably, the castle gets its strength from the genius inside; the moat is permanent and acts as a powerful deterrent to those considering an attack; and inside, the leader makes gold but doesn't keep it all for himself. Roughly translated, we like great companies with dominant positions, whose franchise is hard to copy (rare) and has tremendous staying power or some permanence to it."

— Warren Buffett

TOP 10 WEALTH CREATORS (2007-2012)

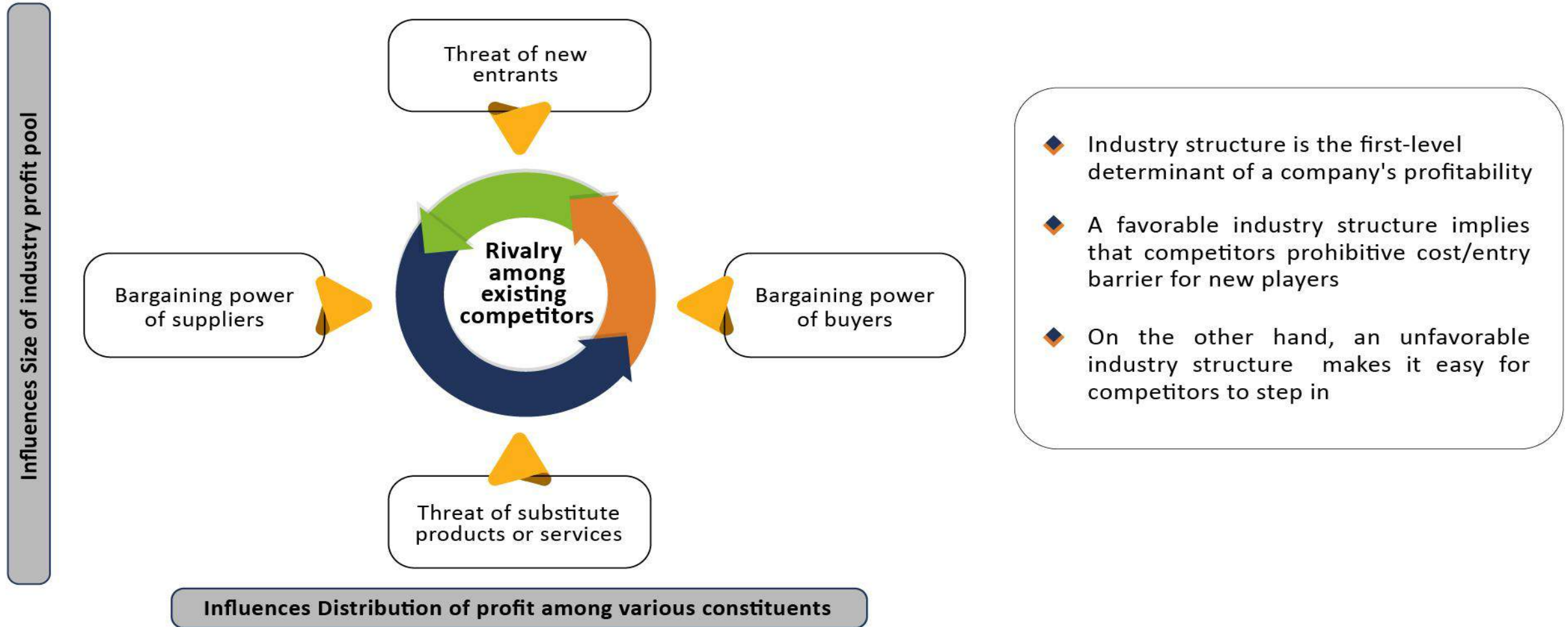
THE BIGGEST			THE FASTEST		THE MOST CONSISTENT		
Rank	Company	Wealth Created (INR)	Company	5-Year Price CAGR (%)	Company	Appeared in WC Study [x]	10-Year Price CAGR (%)
1	ITC	1,107	TTK Prestige	89	Kotak Mahindra Bank	10	48
2	TCS	1,002	LIC Housing Finance	57	Siemens	10	44
3	HDFC Bank	784	Coromandel Inter	34	Sun Pharma	10	40
4	WIPAC	671	Fedex Motors	53	Aster Pharma	10	35
5	H D F C	558	Indusind Bank	50	HDFC Bank	10	31
6	State Bank of India	556	WIPAC	48	Hero Motocorp	10	30
7	Infosys	516	Jindal Steel	47	H D F C	10	29
8	Tata Motors	496	Bata India	42	ACC	10	29
9	Wad Universal	457	Titan Inds	40	Ambuja Cements	10	26
10	Jindal Steel	456	OSK Consumer	39	Infosys	10	21

Raamdeo Agrawal (Raamdeo@MotilalOswal.com) / Shrinath Mitharathaya (ShrinathM@MotilalOswal.com)
We thank Mr. Divy Mehta (Divy.Mehta@Bh.venkatesh.in), Investment Consultant, for his invaluable contribution to this report.

Source: Motilal Oswal Wealth Creation Studies.

Role of Industry Structure - Porter's 5 Forces

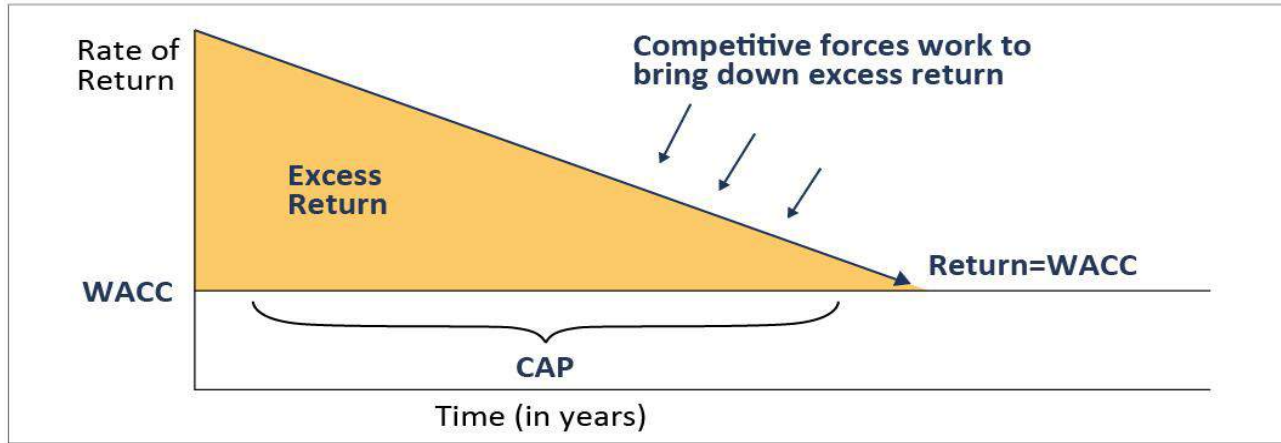
Assessing competitive landscape



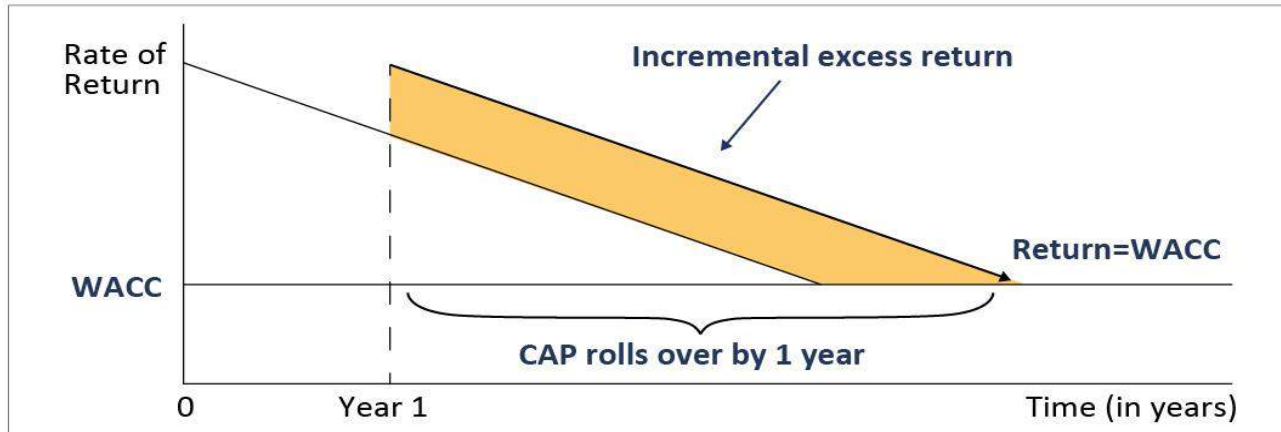
Source: Motilal Oswal Wealth Creation Studies

Competitive Advantage Period (CAP)

Companies usually enjoy a certain CAP ...



... but successful companies tend to extend it



- ◆ Competitive advantage period (CAP) is the time during which a company is expected to generate returns on incremental investment that exceed its cost of capital
- ◆ Markets are generally efficient and do indeed assign premium valuations to EMCs, given their reasonably accurate assessment that such companies enjoy a very long CAP
- ◆ This rollover phenomenon continues so long as EMCs successfully at least defend (if not deepen) their moat, leading to their stock achieving both sustained outperformance in the markets, despite their premium valuations

Source: Motilal Oswal Wealth Creation Studies

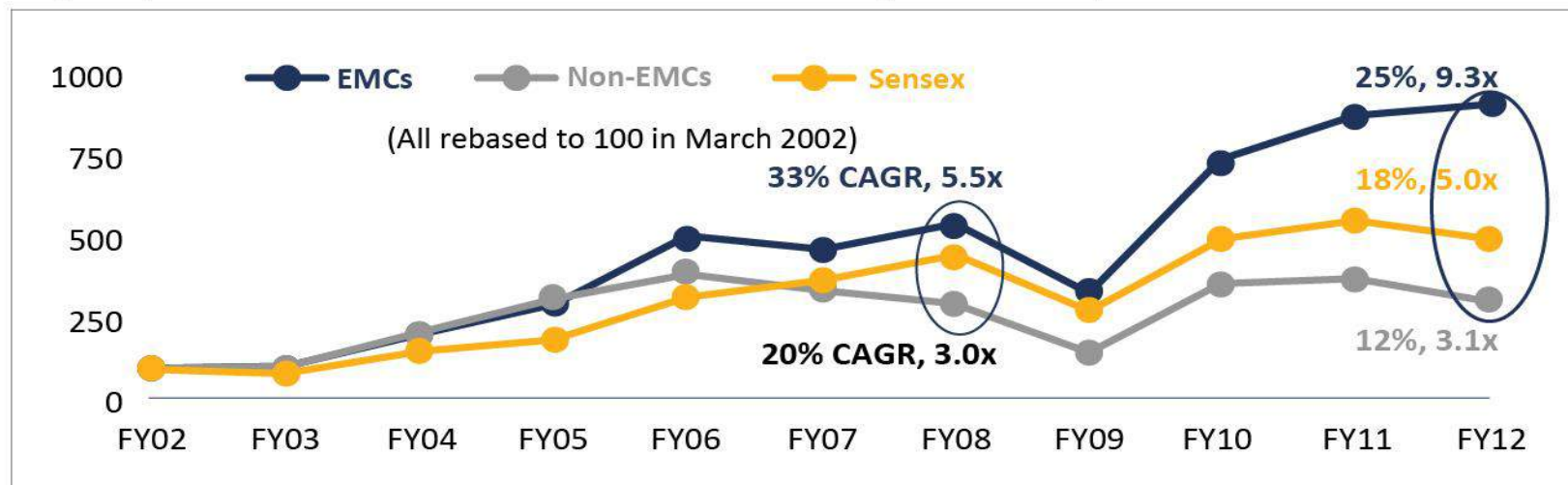
Disclaimer: Past performance may or may not be sustained in future. The above graph is used to explain the concept and is for illustration purpose only and should not be used for development or implementation of an investment strategy.

Economic Moat Companies (EMCs) handsomely outperform the markets

EMCs outperform benchmark, but non-EMCs don't

	EMCs	Non-EMCs	Overall
Return	25%	12%	18%
Sensex	18%	18%	18%
Alpha	7%	-6%	0%

Payoff profile of EMCs, non-EMCs and Sensex (2002-2012)



Source: Motilal Oswal Wealth Creation Studies

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MID TO MEGA

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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
- ◆ 101 to 400 Companies by Market cap

The above transition is mainly seen in companies who are



Industry leaders



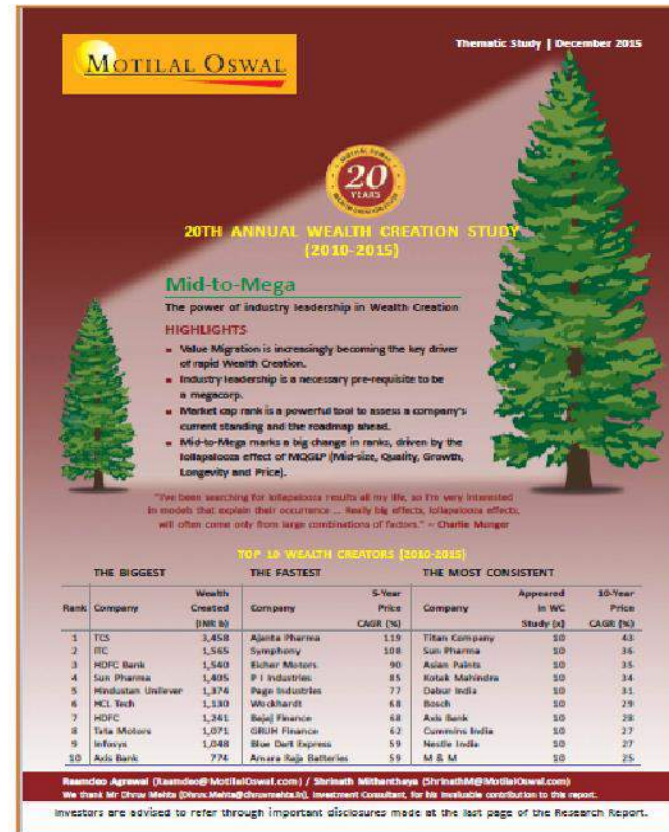
Industry Tailwinds



Value migration beneficiaries



Rule of 40: Growth Momentum and Quality of Business



Source: Motilal Oswal Wealth Creation Studies.

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

Study of Crossovers: Mar 2016 to Mar 2021

[Sensex Return: 14%]

Category returns in %; (No. of companies in brackets)

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

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

- 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

Source: Motilal Oswal Wealth Creation Studies

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M-Q-G-L-P Investment Philosophy

Quality

Quality of business x Quality of management

- Stable business, preferably consumer facing
- Leadership in Industry
- Preferable with ROE of ~20%
- Sustainable competitive advantage
- Healthy financials & ratios

Growth

- PAT growth of ~20% for 1/2years
- Revenue growth and market share gains
- Growth in margin & profitability
- Reliable high growth flows

Longevity

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

Midsize

- Benefit of low-base
- Well-established track record
- Focus on companies ranked 101 to 300

Price

- Reasonable valuation, relative to growth prospects (PEG)
- High margin of safety



Crossover stocks – 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

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



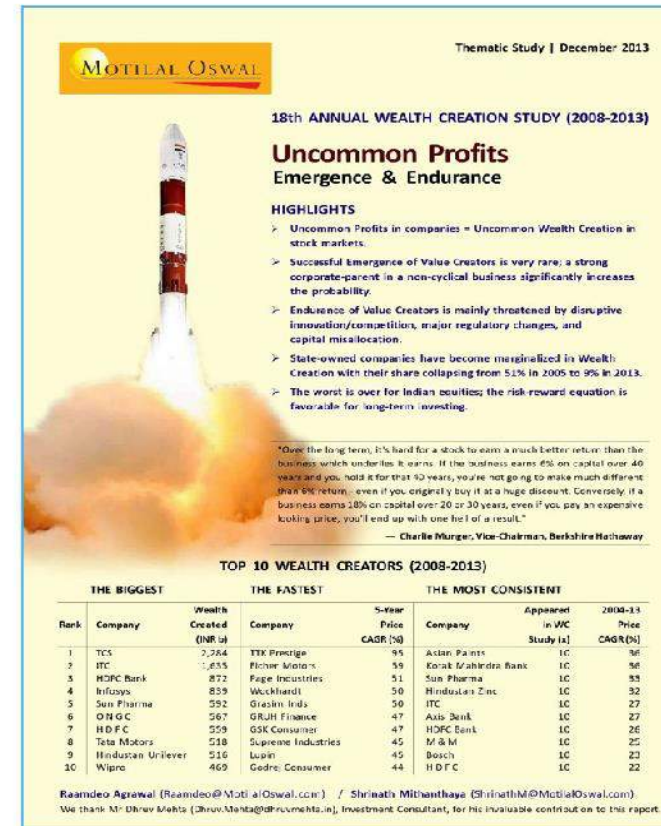
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Emergence

- **Uncommon profits** in companies lead to **uncommon wealth creation in stock markets.**
- In the long run, investors earn only as much money on a stock as the underlying business itself earns.
- Hence, it pays off well to invest in companies, which generate Uncommon Profit
- **Emergence signaled by first occurrence of $RoE > Cost\ of\ Equity$**

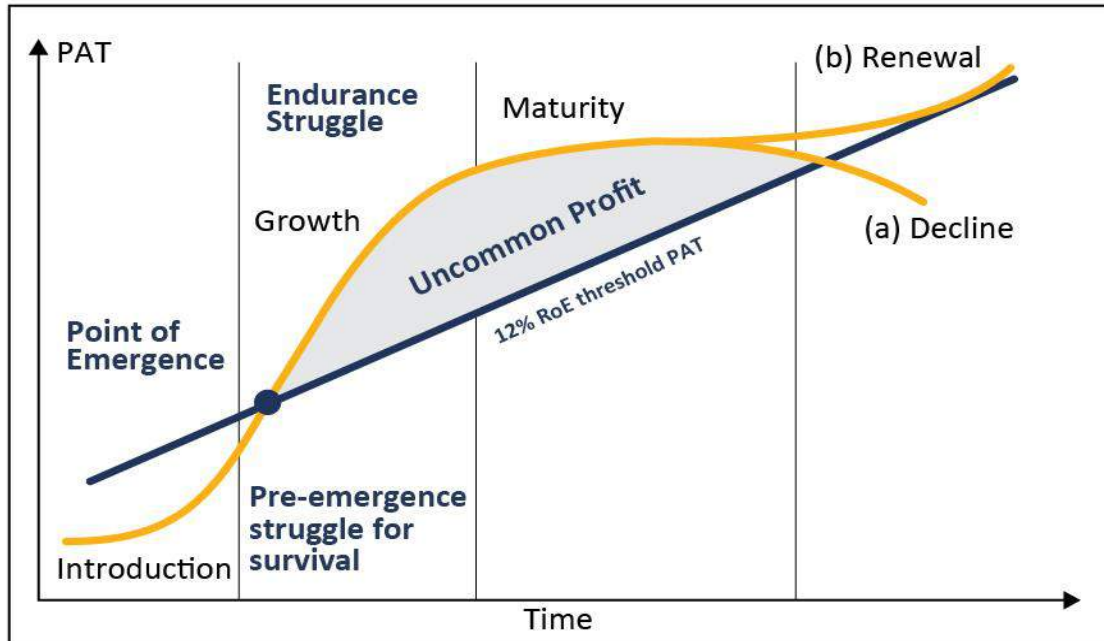
Emergence

- ◆ Is company's first entry into the potential Uncommon Profit zone
- ◆ Successful emergence is a combination of key factors at the industry level as well as the company level.
- ◆ Successful emergence is rare
- ◆ Strong corporate-parent in a non-cyclical business significantly increases the probability



Source: Motilal Oswal Wealth Creation Studies.

Framework to identify Emerging Value Creators



A suggested methodology to identify Emerging Value Creators	
Aspects Covered	Methodology
Determine age of the company	From among the listed companies, select companies less than 25 years old from date of incorporation
Identify companies with meaningful first-time Emergence	<ol style="list-style-type: none"> 1. Calculate RoEs of the past 10-15 years, and see which of these under-25-year companies crossed 12% for the first time in the last year. 2. To ensure that the Emergence is meaningful, consider companies with a certain minimum PAT level, say, INR100m.
Filter companies for corporate parent/management	<ol style="list-style-type: none"> 1. Whether the corporate-parent is a multinational company or a large domestic corporate house with a reputation for good governance 2. Performance track record of other group companies, if any 3. Management statements made in investor communications (Annual Reports, results releases) 4. Dividend history and payout policy, etc.
Avoid cyclicity	Cyclicals may yield healthy returns over 3-5 years post emergence, but may not sustain their performance across cycles
Reasonable valuation	Assessed on reasonable entry PE multiple
List of likely Emerging Value Creators	The residual companies are most likely to be Emerging Value Creators

Source: Motilal Oswal Wealth Creation Studies

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.

2001 to 2008 Emerging Value Creators' financial and stock market performance highlights

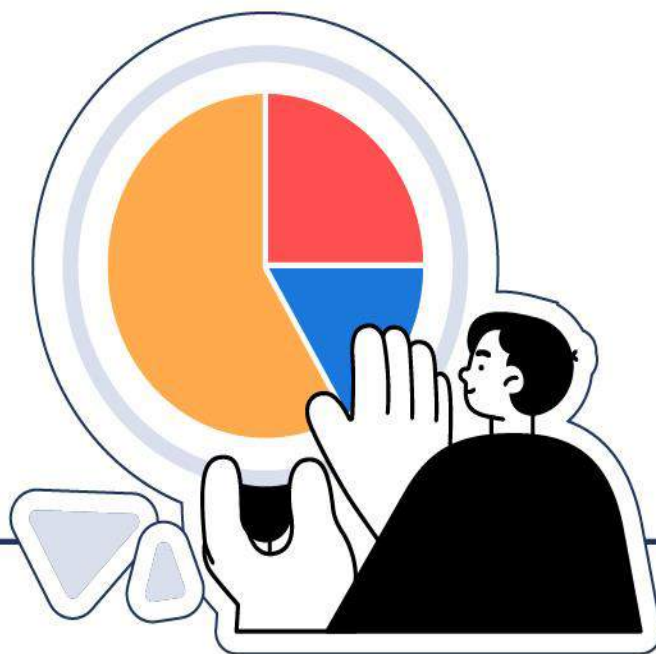
Company Name	Year of Emergence	Age in YoE	P/E in YoE	5-year post emergence (%)			
				PAT CAGR	Avg RoE	Price CAGR	Rel Perf.
Shriram Transport	2001	22	1	56	28	85	60
Accelya Kale	2008	22	3	36	31	60	56
Shriram City Union	2004	18	3	45	24	70	58
GRUH Finance	2003	17	4	33	24	60	22
Plastiblends (I)	2004	13	4	1	20	4	-8
Manappuram Finance	2007	15	4	123	28	70	64
Havells India	2004	21	7	P to L	34	39	27
Cera Sanitaryware	2008	10	7	36	24	29	17
KPIT Tech	2004	14	8	36	30	4	-7
Blue Dart Express	2001	10	9	22	23	45	20
Titan Industries	2003	19	12	53	33	85	46
Hitachi Home	2006	22	12	14	41	22	11
Tata Elxsi	2001	12	16	20	43	23	-3
Emami	2007	24	18	31	35	33	27
Suprajit Engg.	2006	21	18	21	28	0	-12
IL&FS Invst Managers	2007	21	18	32	57	9	3
Asahi India Glass	2002	18	19	25	43	51	21
AVERAGE			10	24	32	41	24

- ◆ The 2001-08 Emerging Value Creators' portfolio performed well both in terms of financial and stock market performance
- ◆ Average PAT CAGR was 24% over 5 years post-emergence; average 5-year RoE was 32%
- ◆ In terms of market performance, average stock return CAGR was 41% over the 5 years post-emergence, outperforming the benchmark by an average 24%

P to L: Profit to Loss

Source: Motilal Oswal Wealth Creation Studies

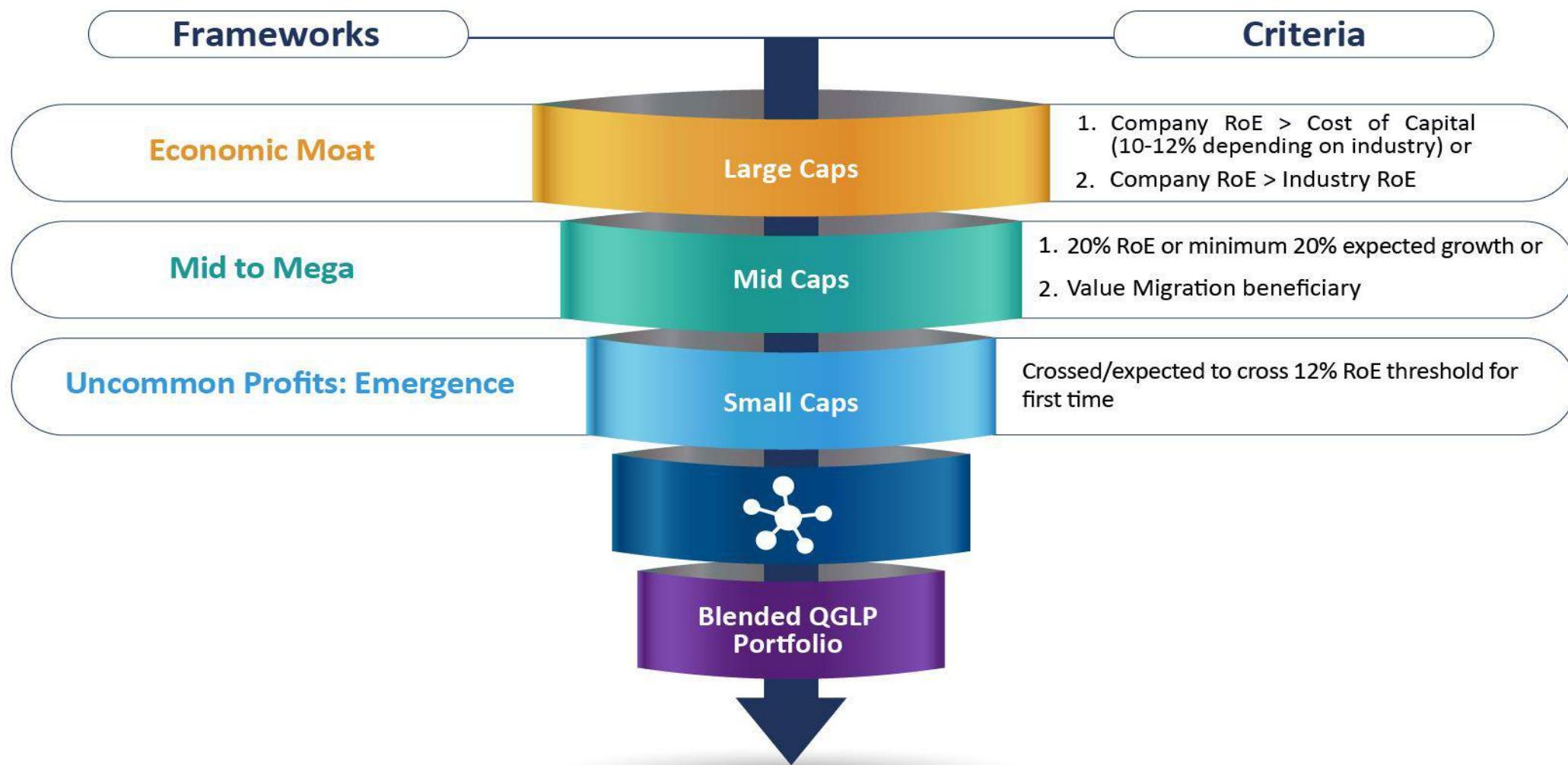
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INTRODUCING BUSINESS OPPORTUNITIES PORTFOLIO

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Investment Framework



*up to 20% of the portfolio may be an exception to the above frameworks

Portfolio aligned to the strategy framework

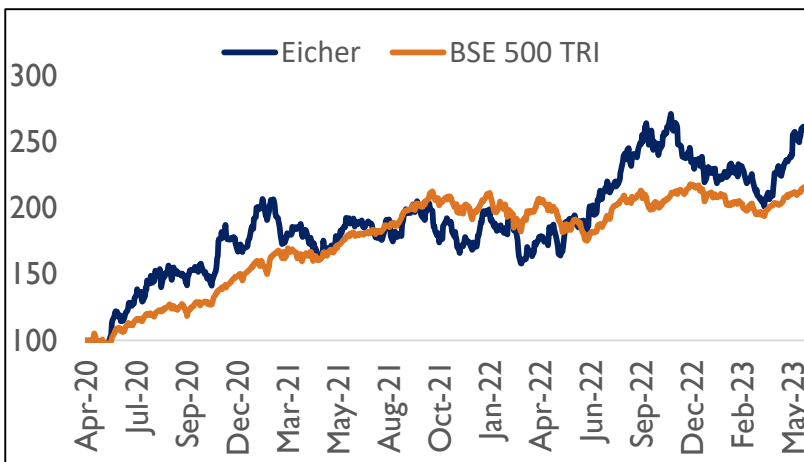
Economic Moat		Mid to Mega			Emergence/Expected Emergence		
Stocks	Company RoE	Stocks (Current Rank)	Current RoE	Expected growth (FY23-25E)	Stocks	RoE FY23	RoE FY25
	17%		21%	20%		27%	24%
	17%						
	17%		29%	23%		20%	21%
	29%						
	21%		26%	19%		15%	18%
	13%						
	18%		11%	49%		9%	15%
	22%		17%	50%		10%	13%
	13%						
	12%		22%	22%		18%	14%
Weight:	51.9%	Weight:	32.4%		Weight:	15.7%	

**up to 20% of the portfolio may be an exception to the above frameworks*

Data as on May'23
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Application of frameworks towards wealth creation

Economic Moat

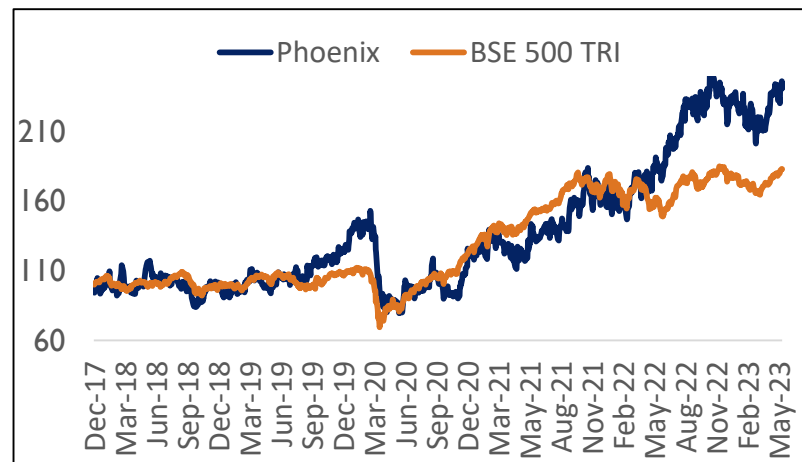


Stock Returns:
159%

BSE 500 TRI
Returns:
116%

Alpha:
43%

Mid to Mega

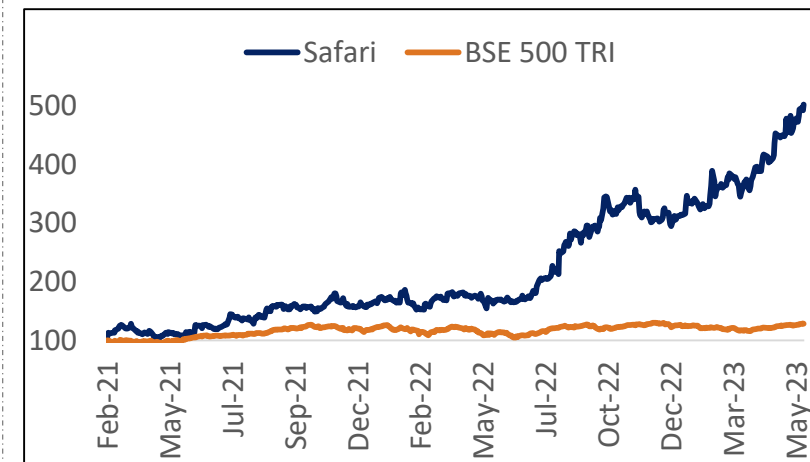


Stock Returns:
141%

BSE 500 TRI
Returns:
83%

Alpha:
58%

Emergence



Stock Returns:
402%

BSE 500 TRI
Returns:
29%

Alpha:
373%

Data as of 31st May, 2023 Source: Bloomberg & Internal

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Portfolio Quants

Delivered		Expected		
		BOP	BOP	BSE 500
4QFY23 EPS Growth	34%	Q: FY25 RoE	18%	15%
TTM FY23 EPS Growth	52%	G: FY23-25E EPS Growth	17%	16%
		P: PEG	1.1x	1.5x

Data as of 31st May,2023 Source: Bloomberg Consensus estimates
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Motilal Oswal Business Opportunities Portfolio: Proposition in a Nutshell



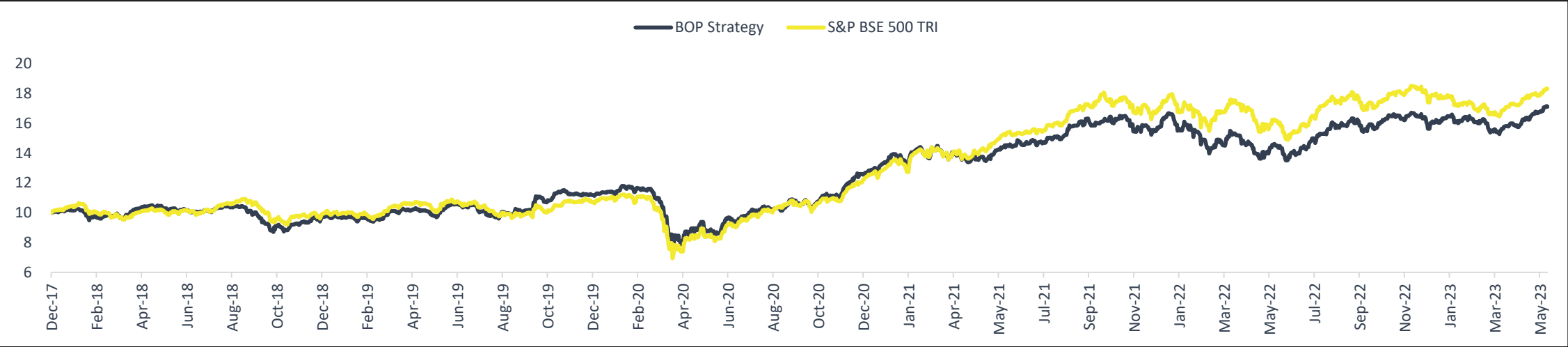
“

*I don't want to spend my time trying to earn a lot of little profits.
I want very, very big profits that I'm ready to wait for.*

- Philip Arthur Fisher

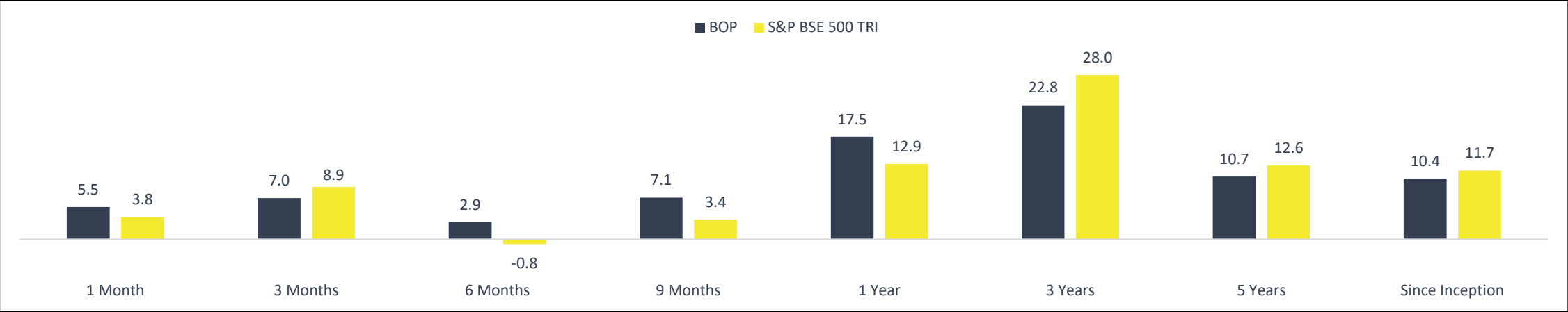
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Portfolio Performance



1.8x

1.7x



BOP Strategy Inception Date: 18th Dec 2017; Data as on 31st May 2023; Data Source: MOAMC Internal Research; 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.

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Fund Manager



Atul Mehra, CFA

- ◆ Passionate about investing; have been an investor since 13 years of age.
- ◆ ~15 years of experience in equity research and fund management specializing in mid and small cap space, with ~10 years with Motilal Oswal Group.
- ◆ Before joining Motilal Oswal, associated with Edelweiss Capital.
- ◆ Chartered Financial Analyst (CFA) Charter Holder from CFA Institute, USA and a Masters in Commerce.

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pmsquery@motilaloswal.com or visit www.motilaloswalmf.com

THANK YOU



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