"TRENDSPOTTING"

2021

ADITYA BIRLA CAPITAL

PROTECTING INVESTING FINANCING ADVISING

An Annual Research Initiative

By ABSLAMC Alternate Assets – Equity Investments

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Why Trendspotting?

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Key to successful investing over a long period is an ability to spot trends

Different market cycles favor different set of industries

Looking at data since 2002, the top 5 performing sectors vary greatly in each market cycle

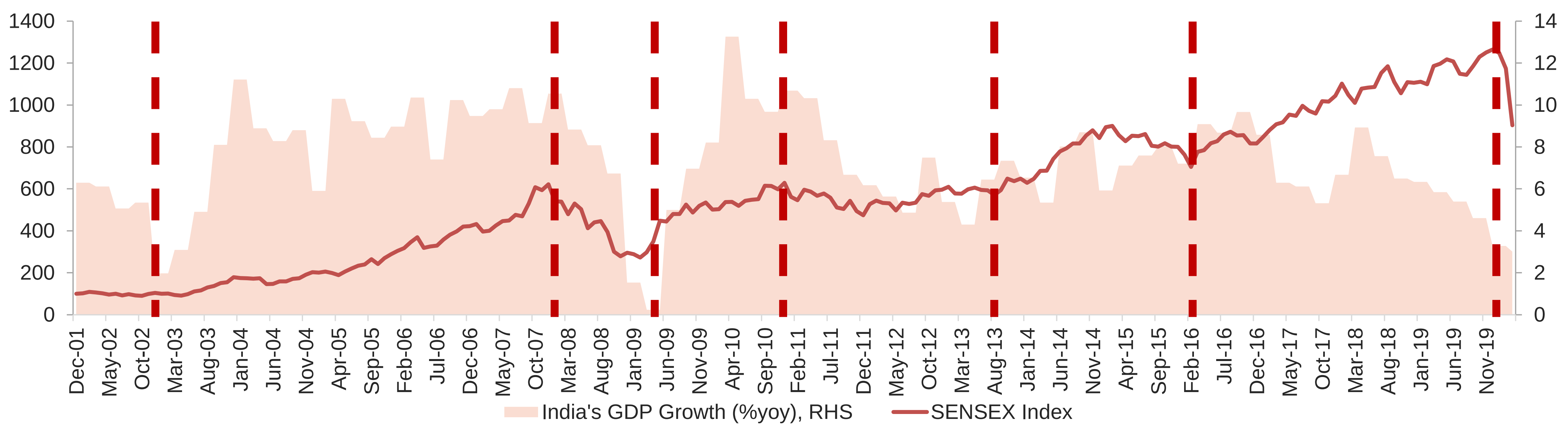
Average returns of best performing sector in each cycle is 30% CAGR

While for worst performing sector it is **-18%** CAGR

Phases	Top Sectors	Bottom Sectors
Oct02-Jan08	Industrials 79%	Media 16%
Jan08-Oct08	Consumer staples: -18%	Real estate -88%
Oct08-Nov10	Media 109%	Communication services 9%
Nov10-Aug13	Healthcare 24%	Industrials -30%
Aug13-Feb16	Auto 42%	Real estate -2%
Feb16-Jan20	Consumer durables: 32%	Communication services -9%

Source: Bloomberg

Trendspotting – Macro drives trends



	Oct02-Jan08	Jan08-Oct08	Oct08-Nov10	Nov10-Aug13	Aug13-Feb16	Feb16-Jan20
Nifty Performance (%) - CAGR	38%	-53.7%	40.5%	-2.5%	10.3%	14.7%
Average Qtrly Real GDP gr, 1yr fwrd (%)	8.71	4.06	9.68	6.35	7.99	6.58
INR depreciation (%)	-23%	20%	-8%	31%	2%	5%
Interest rate movement (bps)	225	25	-175	100	-50	-160

Source: Bloomberg

Trendspotting – Key Sector Trends

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Looking at data since 2002, the top 5 performing sectors in terms of returns vary greatly in each market cycle

Oct02-Jan08		Jan08-Oct08		Oct08-Nov10		Nov10-Aug13		Aug13-Feb16		Feb16-Jan20	
Sector	**CAGR (%)**	**Sector**	**CAGR (%)**	**Sector**	**CAGR (%)**	**Sector**	**CAGR (%)**	**Sector**	**CAGR (%)**	**Sector**	**CAGR (%)**
Industrials	79%	Consumer Staples	-18%	Media	109%	Health care	24%	Automobile	42%	Consumer Durables	32%
Metals	79%	Health care	-28%	Automobile	84%	Consumer Staples	20%	Pharma	28%	Chemicals	25%
Financials	71%	Pharma	-32%	Banks	79%	Pharma	6%	Financials	27%	Real Estate	24%
Utilities	71%	Automobile	-51%	Metals	78%	IT	6%	Chemicals	26%	Retail	22%
Consumer Durables	67%	Communication	-51%	Financials	67%	Automobile	1%	**Nifty Midcap**	25%	Others	22%
Cement	62%	Chemicals	-52%	Others	62%	Media	-2%	Consumer Durables	24%	Consumer	19%
Consumer	55%	IT	-53%	Consumer Durables	61%	**Nifty**	-2%	Health care	24%	Financials	18%
Banks	54%	**Nifty**	-54%	Consumer	58%	Communication	-4%	Consumer	23%	Consumer Staples	17%
Others	51%	Oil and Gas	-55%	**Nifty Midcap**	56%	Cement	-5%	**Nifty Smallcap**	23%	Utilities	16%
Nifty Midcap	49%	Banks	-60%	Health care	54%	Logistics	-8%	Oil and Gas	22%	IT	15%
Communication	49%	**Nifty Midcap**	-62%	Pharma	53%	Consumer Durables	-9%	Retail	21%	**Nifty**	15%
Oil and Gas	43%	Utilities	-64%	Logistics	53%	Financials	-10%	Consumer Staples	20%	Cement	14%
Automobile	41%	Consumer	-66%	Industrials	51%	**Nifty Midcap**	-10%	Utilities	20%	Metals	14%
Retail	38%	Logistics	-67%	**Nifty Smallcap**	50%	Chemicals	-11%	Media	20%	Oil and Gas	13%
Nifty	38%	Cement	-70%	Consumer Staples	48%	**Nifty Smallcap**	-15%	Logistics	19%	**Nifty Midcap**	12%
Nifty Smallcap	37%	Metals	-71%	Cement	47%	Oil and Gas	-15%	Industrials	17%	**Nifty Smallcap**	9%
Health care	36%	**Nifty Smallcap**	-72%	Utilities	44%	Consumer	-17%	Cement	14%	Banks	9%
Chemicals	34%	Industrials	-74%	Chemicals	44%	Retail	-20%	Others	14%	Logistics	8%
Consumer Staples	32%	Financials	-75%	IT	43%	Utilities	-22%	IT	13%	Pharma	6%
Pharma	29%	Retail	-76%	Oil and Gas	41%	Others	-22%	**Nifty**	10%	Automobile	6%
Logistics	28%	Consumer Durables	-77%	**Nifty**	41%	Banks	-22%	Metals	10%	Health care	3%
IT	22%	Others	-80%	Retail	40%	Real Estate	-23%	Communication	7%	Industrials	0%
Real Estate	20%	Media	-81%	Real Estate	28%	Metals	-24%	Banks	6%	Media	-2%
Media	16%	Real Estate	-88%	Communication	9%	Industrials	-30%	Real Estate	-2%	Communication	-9%

*Sectors marked in green are top 5 performers for the current cycle; Sectors marked in yellow are top 5 for the preceding cycle

Source: Bloomberg; Universe: BSE 200

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PAST TRENDS

Theme 1: Infrastructure driven boost to GDP growth (2003-08)

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Impetus on Private Sector participation
Corporate sector's contribution to gross fixed capital formation went up from 28% in FY00 to 41% in FY08

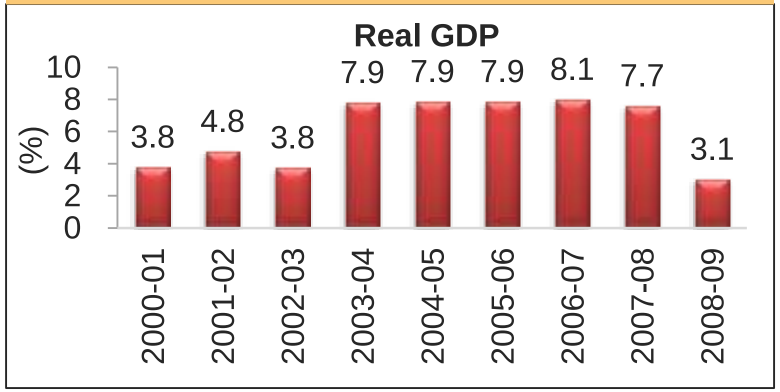
Sharp rise in Bank Credit :
Share of Infrastructure in Bank Credit moved from 4% in FY02 to 14% in FY08

High inflow of foreign capital:
US inflation & yields touch bottom in 2002-03 leading to excess liquidity & inflow of foreign capital in India during 2003-08

Major factors that worked in favour of Infra sector

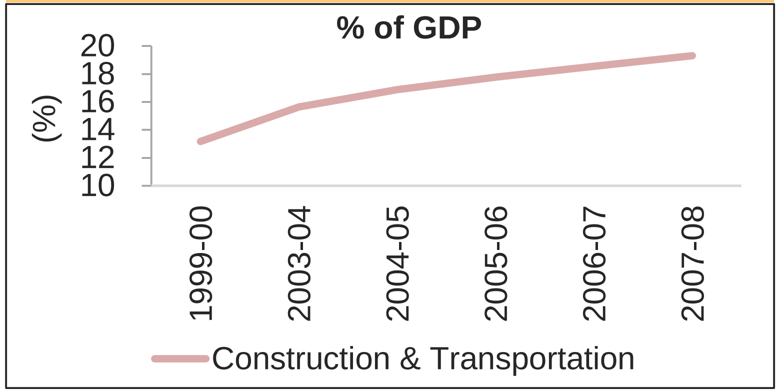
Government Reforms :
Airport privatization, Golden Quadrilateral road project

GDP growth close to 8% for 5 yrs



Source: CMIE

Rise in manufacturing & construction activity as a % of GDP during 2003-08



Source: National Statistical Office (NSO)

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Theme 1: Infrastructure driven boost to GDP growth (2003-08)

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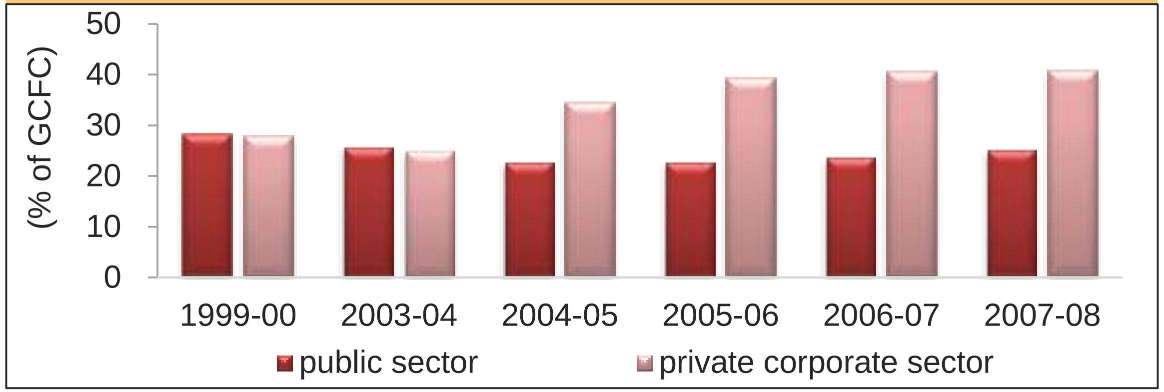
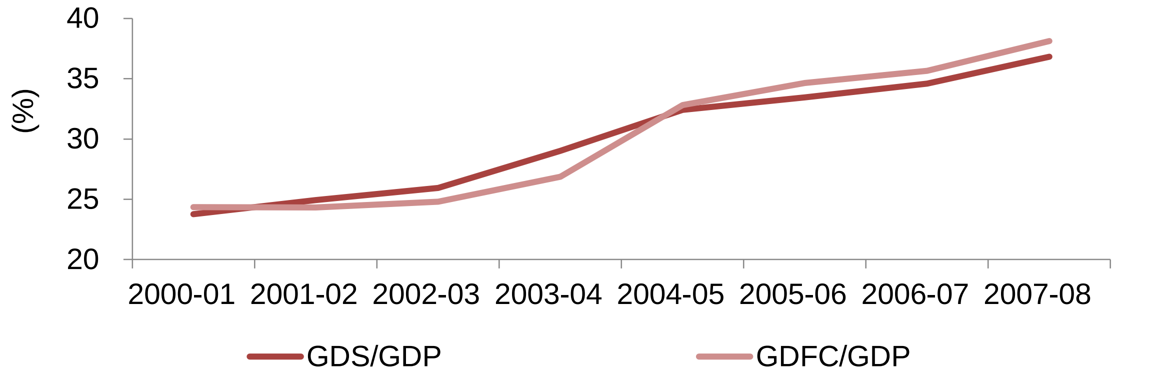
Private corporate sector's contribution to GFCF went up from 28% in FY00 to 41% in FY08



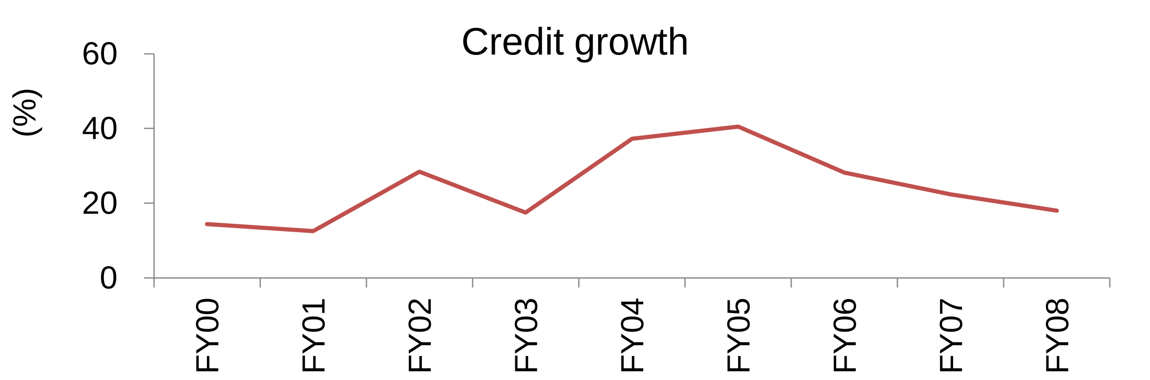
Source: mospi.nic.in

Rise in domestic savings reduced the cost of capital, boosting investments



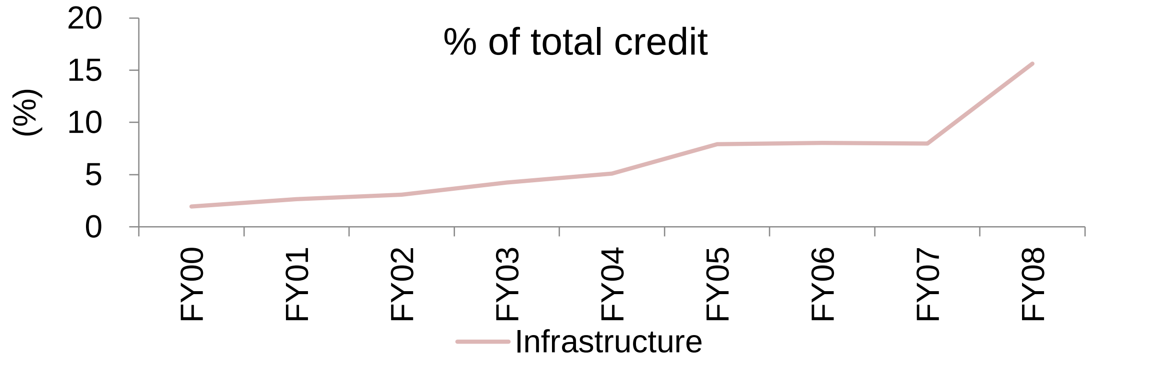
Source: mospi.nic.in

38% CAGR growth in Bank credit in FY04-05



Source: RBI Handbook

Infra as share of total credit moved from 2% to 16% in FY08



Source: RBI Handbook

Theme 1: Infrastructure driven boost to GDP growth (2003-08)

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Unprecedented inflows of foreign capital:

Tech bubble burst in 2000 led to huge liquidity

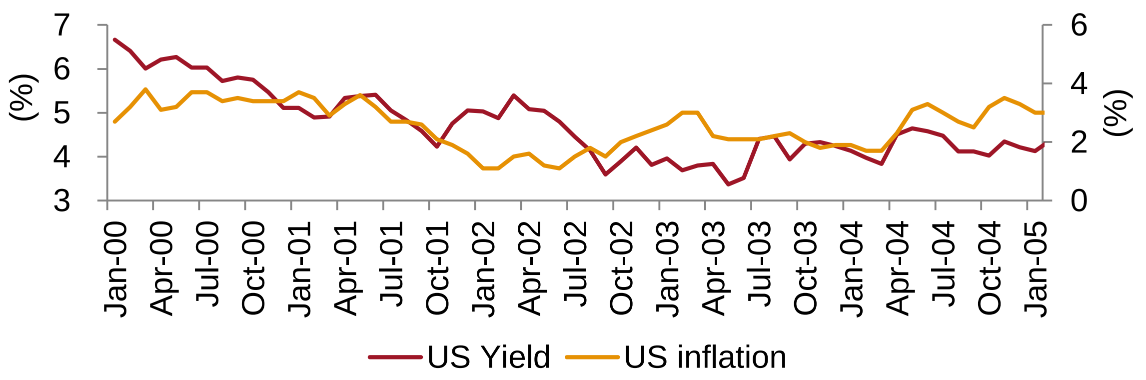
Low interest-rate regime by the US Fed

Cheap Chinese products led to fall in inflation in developed economies inducing further rate cuts and building risk appetite

Dilution of definition of "FDI-invested company" in India to enlarge its scope

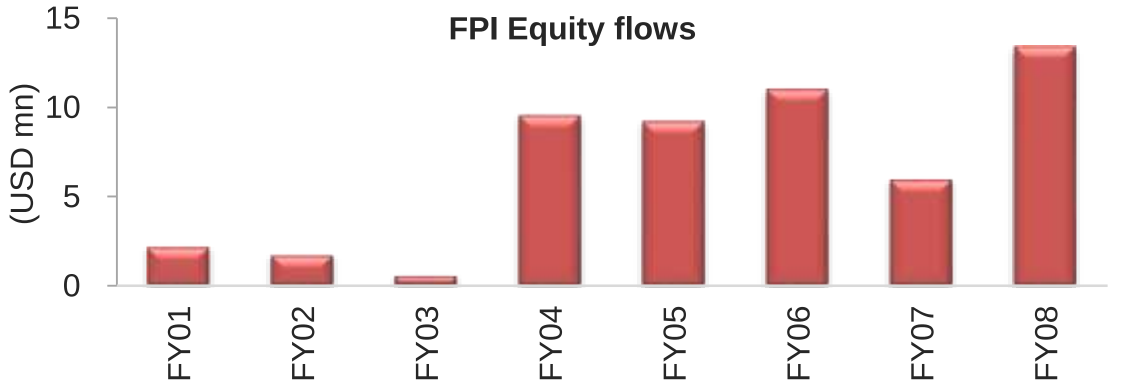
High inflows of foreign capital :

US inflation & yields touch bottom in 2002-03..



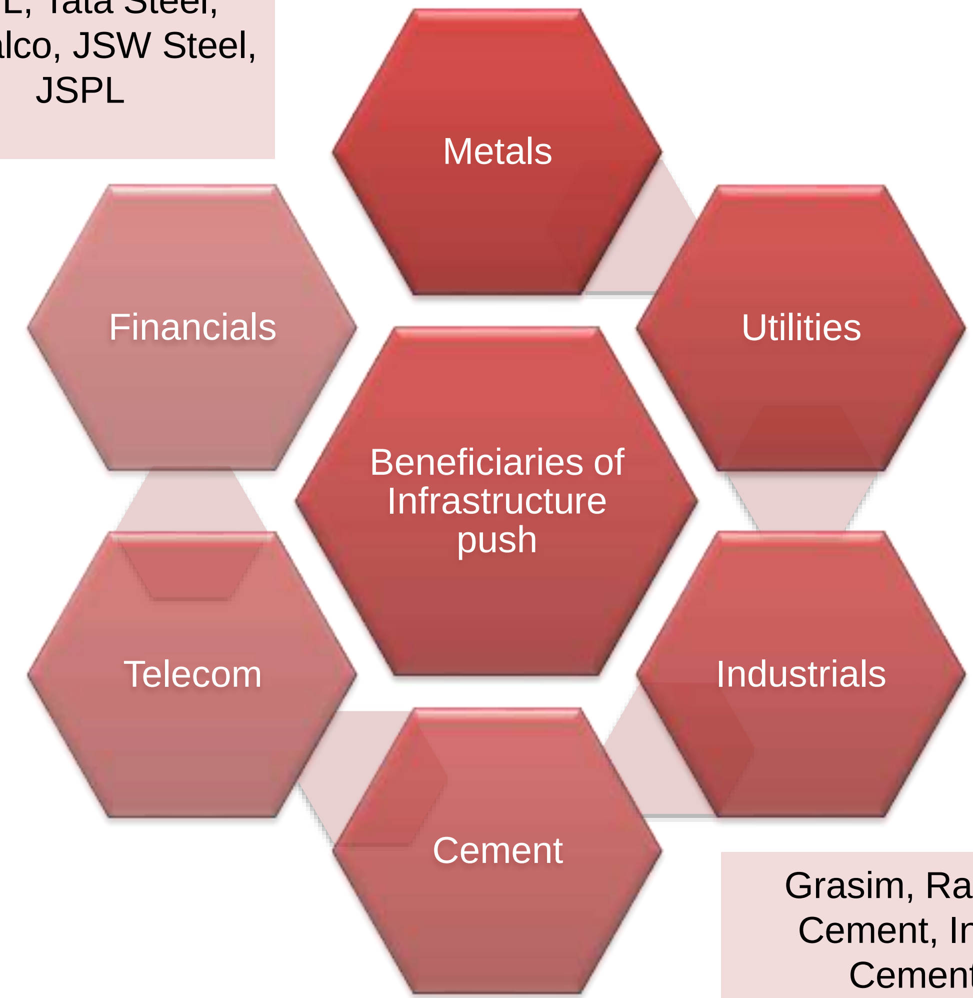
Source: Bloomberg

..which led to excess liquidity & inflow of foreign capital in India during 2003-08



Source: Bloomberg

Theme 1: Infrastructure driven boost to GDP growth (2003-08)



SAIL, Tata Steel, Hindalco, JSW Steel, JSPL

PSU Banks, HDFC Bank, Axis Bank, ICICI Bank, IDFC

Tata Power, NTPC, JSPL, Indraprastha Gas

Bharti, Tata Communication

L&T, Siemens, Thermax, Cummins, ABB, Alstom T&D

Grasim, Ramco Cement, India Cement

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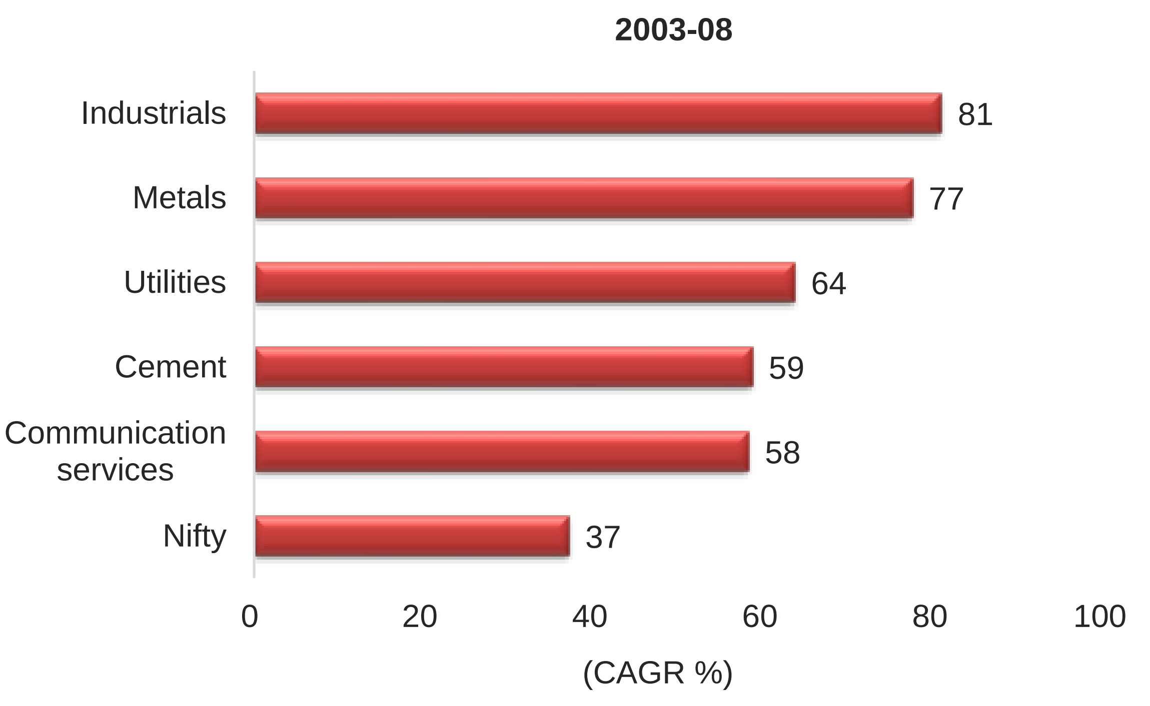
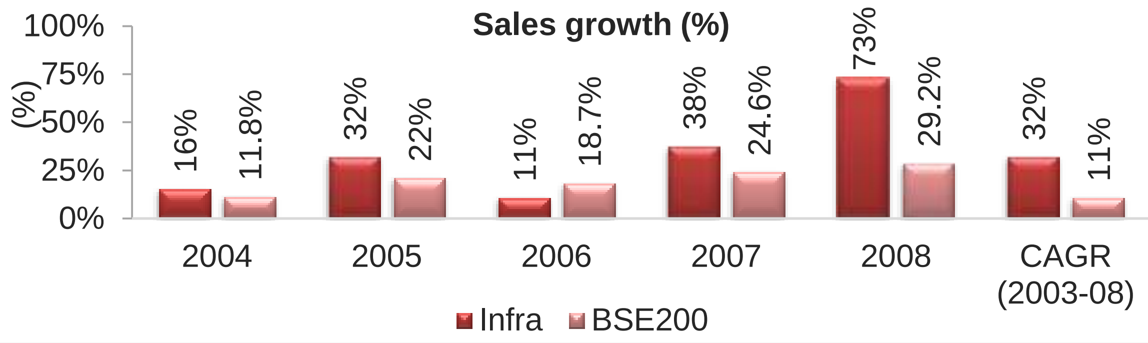
Sector performance

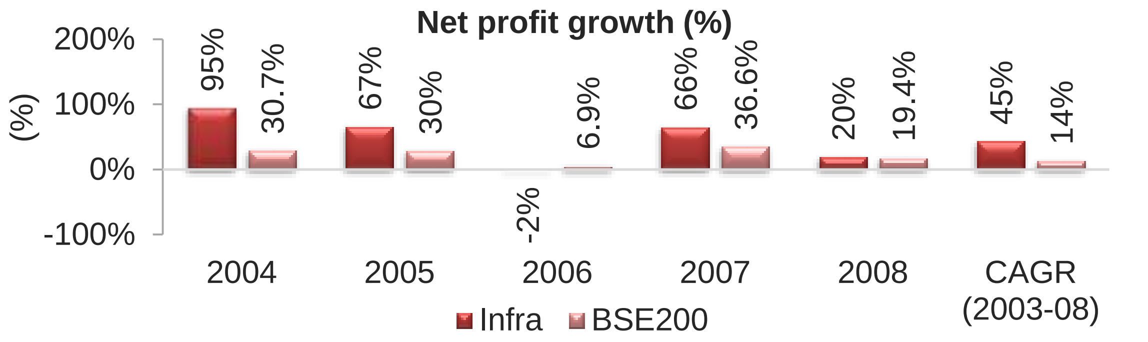
The top 5 performing sectors in the BSE200 Universe, during this period include Infra related sectors like industrials, metals and utilities supported by financials which helped finance the growth. All the other major infra sectors also outperformed Nifty by a healthy margin during this period.

Infra related sectors outperformed Nifty



Infra profits grew at 3x of BSE 200 co. profits





Source: Capitaline, Bloomberg, Universe: BSE 200

Theme 1: Infrastructure driven boost to GDP growth (2003-08)

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- **Stocks that outperformed were mainly in Industrials, Cement, Metals, Utilities and Communication services.**
- The stocks in the infra sector during this period grew at an average CAGR of 54% in 5 years.
- These companies grew their sales and earnings at a CAGR of 32% and 45% respectively, while average ROCE was 20%.
- These companies incurred close to INR 4.3tn of capital expenditure during this period to sustain the high growth in earnings.

List of stocks in infra sector during 2003-08

		2003-08				
Company Name	**Sector**	**Return CAGR**	**PAT CAGR**	**Fixed asset CAGR**	**Average Net debt/ equity**	**Average ROCE**
Adani Enterp.	Logistics	118%	37%	61%	0.99	12%
CG Power & Indu.	Utilities	106%	73%	25%	0.60	21%
Hindustan Zinc	Metals	105%	95%	41%	0.03	67%
Larsen & Toubro	Industrials	101%	42%	1%	0.82	19%
Bharti Airtel	Communication services	96%	LtoP	36%	0.73	23%
Siemens	Industrials	85%	43%	29%	-0.68	39%
Thermax	Industrials	85%	37%	24%	-0.09	30%
S A I L	Metals	84%	LtoP	-4%	1.49	35%
A B Lop	Industrials	83%	32%	20%	-0.49	38%
B H E L	Industrials	79%	34%	-1%	-0.49	26%
India Cements	Cement	71%	LtoP	24%	2.20	8%
GE Power	Utilities	66%	-26%	6%	-0.71	15%

		2003-08				
Company Name	**Sector**	**Return CAGR**	**PAT CAGR**	**Fixed asset CAGR**	**Average Net debt/ Equity**	**Average ROCE**
Tata Power Co.	Utilities	60%	2%	22%	0.60	10%
Jindal Saw	Metals	59%	58%	27%	1.33	14%
GE Shipping Co	Industrials	58%	36%	24%	0.44	18%
The Ramco Cement	Cement	58%	96%	14%	1.73	24%
Blue Dart Expres	Logistics	56%	18%	2%	0.25	30%
Tata Steel	Metals	54%	39%	47%	0.81	41%
Container Corpn.	Logistics	52%	11%	17%	-0.38	37%
Grasim Inds	Cement	51%	38%	21%	0.68	24%
3M India	Industrials	50%	23%	13%	-0.37	39%
Tata Comm	Communication services	48%	NA	23%	0.09	6%
Honeywell Auto	Industrials	46%	24%	-2%	0.20	24%
Natl. Aluminium	Metals	45%	16%	-1%	-0.15	34%
Sterlite Tech.	Communication services	44%	LtoP	3%	0.76	3%

Source: Capitaline, Bloomberg

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Theme 2: Resurgence of Export sectors (2011-2015)

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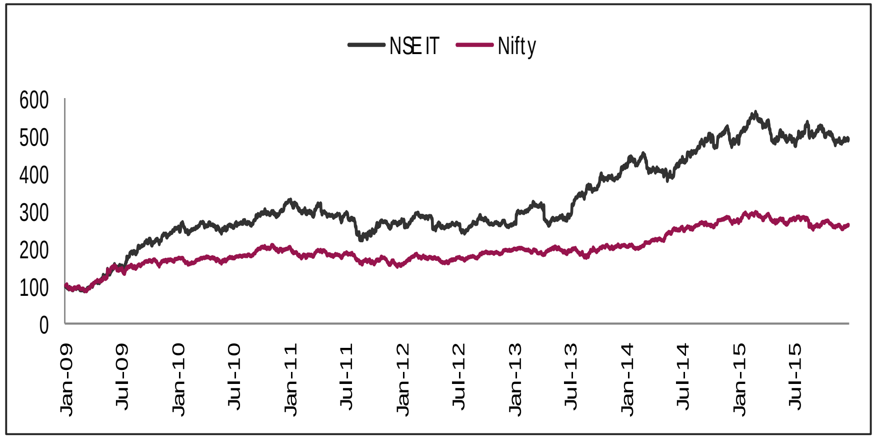
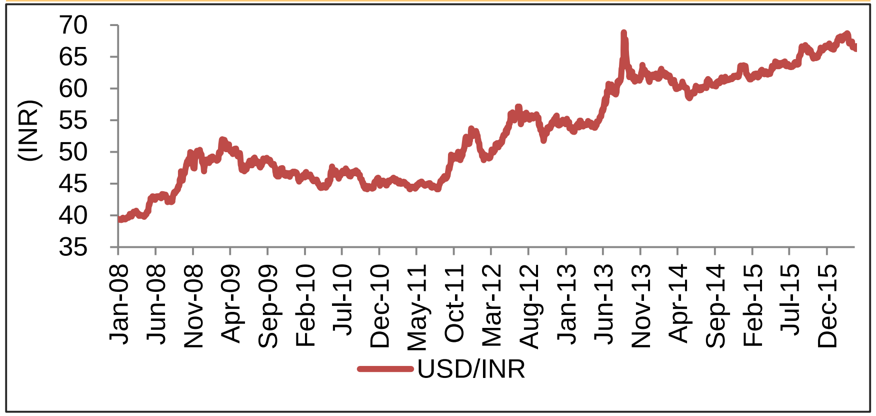
NSE IT outperformed Nifty over 2011-2015 – NSE IT: 15% CAGR vs Nifty: 10% CAGR

Strong traction in BFSI	After the financial crisis, banks opened up spending on technology driving years of growth for Indian IT. Remote Infrastructure Management and back office processing were high growth service lines.
Focus on Cost Reduction made Indian IT competitive	Post GFC, focus on cost reduction and outsourcing benefitted Indian IT companies in gaining share. Market share of Top 5 Indian IT companies increased from 14% in FY11 to 21% in FY15 within the Top 10 IT service providers globally.
Rupee Depreciation	Sharp rupee depreciation also supported IT stocks performance (from 45 in CY11 to 68 in early CY16). A percent change in rupee drives 30-50bps change in operating margins for IT companies
Steady and supportive visa regime	Being one of the largest manufacturing base for US generic market, India players had no major issue with USFDA related to plants
No technology disruption	No big innovation in this space, making cost competitiveness more important to gain market share. While cloud and other disruptive technologies were born sometime in 2009-2010, their adoption had not yet picked up.



INR depreciated more than 20% from 2011 to 2015



Source: Bloomberg

Theme 2: Resurgence of Export sectors (2011-2015)

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NSE Pharma outperformed Nifty over 2011-2015 – NSE Pharma 27% CAGR vs Nifty: 10% CAGR

Strong traction in generic market and entry into complex generics

- Market share doubled in US gx market over CY09-14 led by increasing ANDA approvals.
- Increase in capability in complex generic space over same period like complex injectables

Increased ANDA approval and filing rate

- Over FY09-14, R&D doubled to create strong pipeline portfolio as R&D increased to ~7% of sales in FY14 (to USD ~700-750 mn) from ~5% of sales in FY09 (USD 300-350 mn).

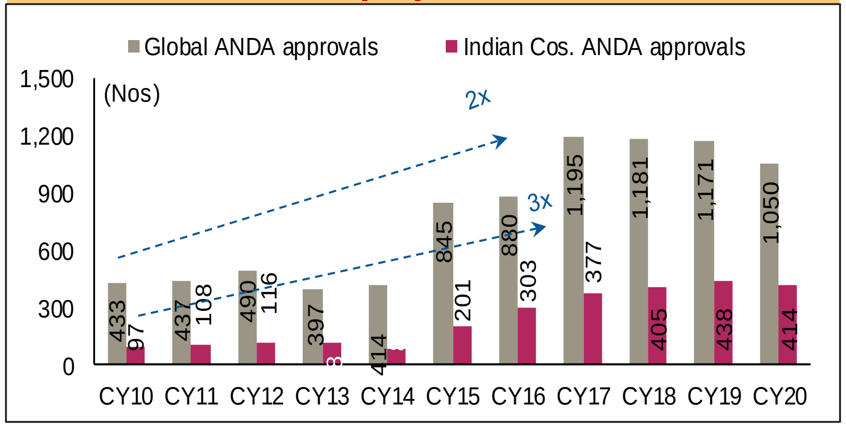
M&A helped in strengthen position in US generic market

- Sun Acquired Taro pharma for Derma/ branded products, URL, Ranbaxy etc,
- Dr Reddy's acquired GSK plant and brand Habitrol,
- Cipla acquired Invagen,

Lower issues related to USFDA compliance

- Being one of the largest manufacturing base for US generic market, India players had no major issue with USFDA related to plants

Approval jumped over CY10-16 for Indian players



Return ratios improved over FY11-16

RoCE (%)	FY11	FY16	5-yr avg	FY17	FY18	FY19	FY20
India Pharma							
SUNP	20	19	28	22	11	12	11
DRRD	32	18	22	10	9	13	17
LPC	24	23	29	18	10	8	8
ARBP	18	27	20	26	23	18	18
CDH	29	27	22	16	18	15	11
GNP	13	19	17	22	12	14	13
ALPM	42	65	41	28	22	23	25
ALKEM	29	23	16	21	17	16	18
NTCPH	15	17	17	39	35	24	15
Average	**22.5**	**22.3**	**23.1**	**19.0**	**13.7**	**13.3**	**13.1**

Source: USFDA, Companies

Theme 2: Resurgence of Export sectors (2011-2015)

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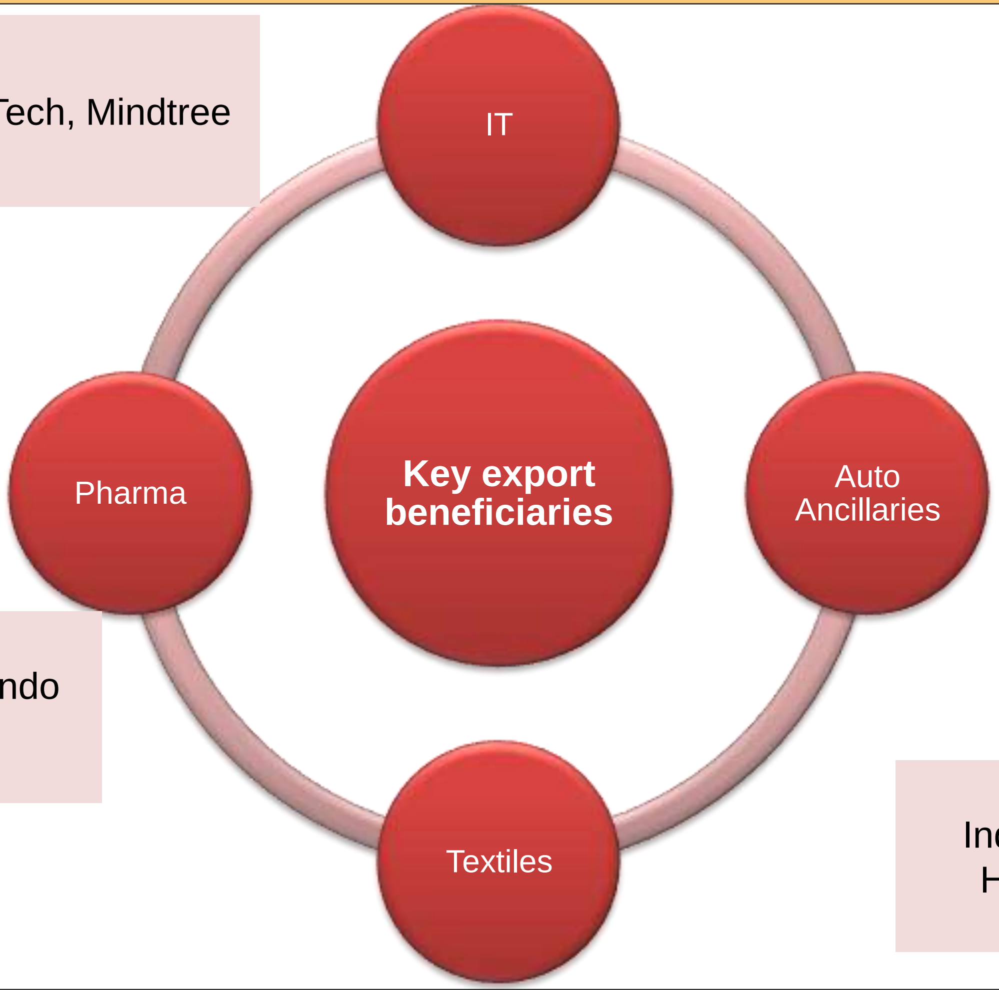
Key export sectors that did well in this phase

TCS, HCL Tech, Mindtree



Bharat Forge, Motherson Sumi, Balkrishna Industries

Sun Pharma, Aurobindo Pharma, Lupin

Indocount Industries, Himatsingka Seide

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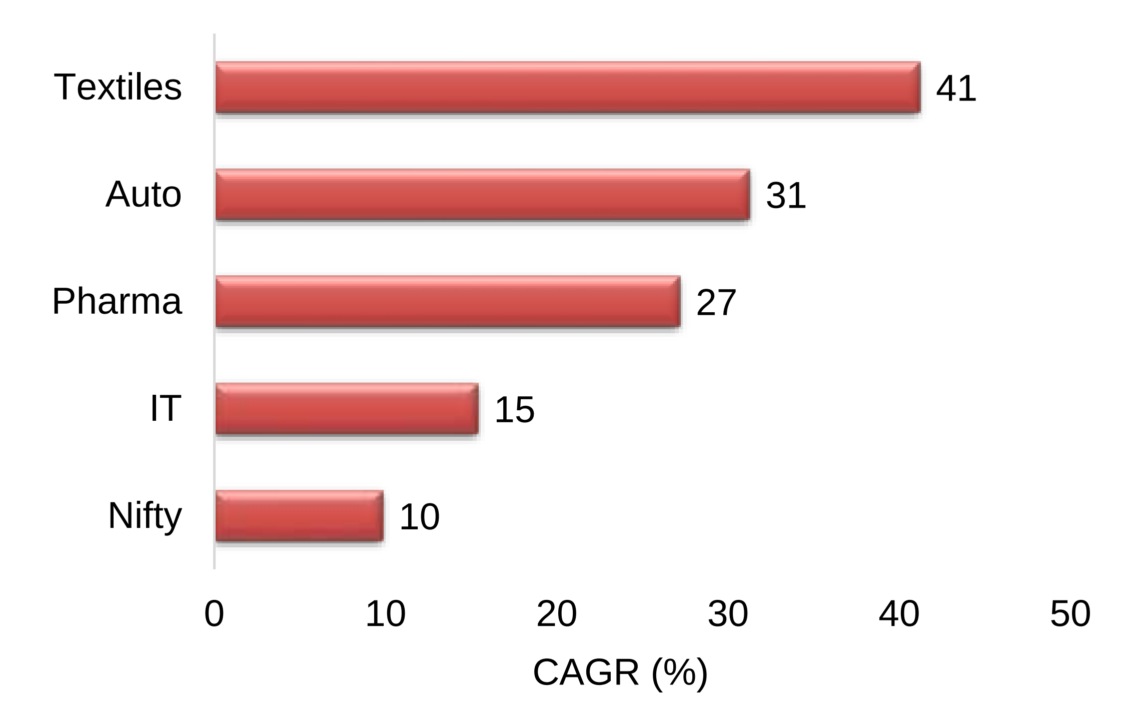
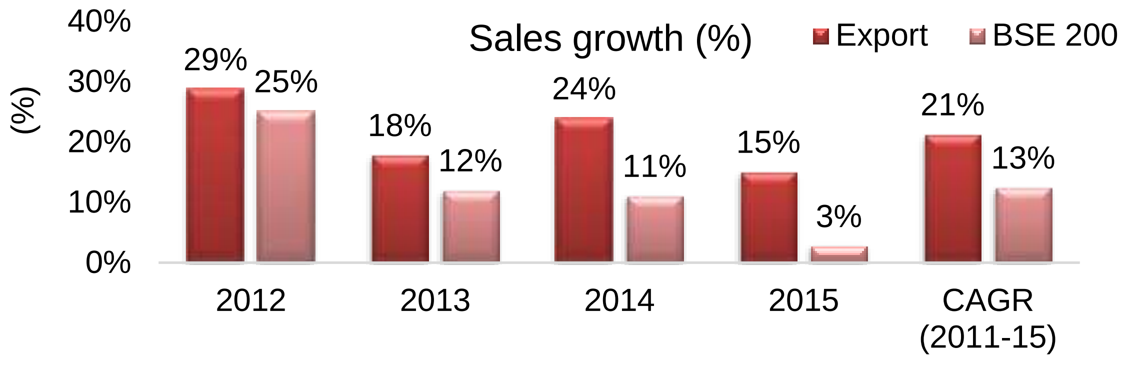
Sector performance

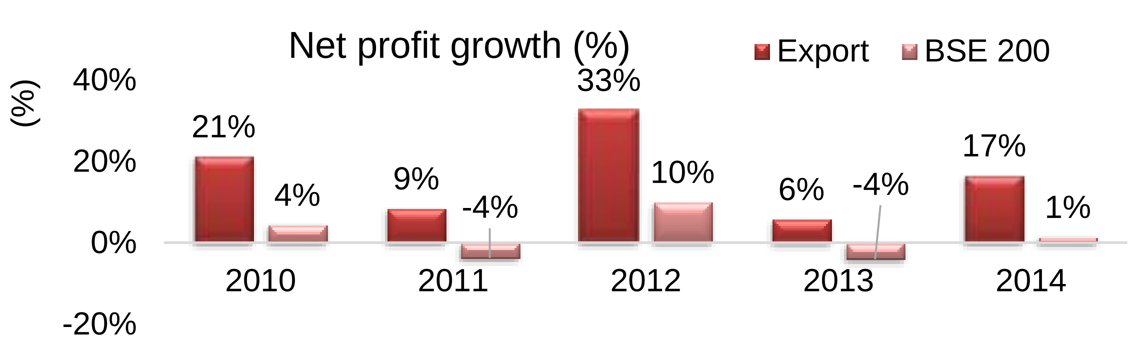
In the BSE200 Universe, export-oriented sectors like textiles, auto, pharma and IT outperformed Nifty by a good margin during 2011-15 on annualized return basis.

Top performing sectors during 2011-15



IT & pharma sector profits grew at a higher rate than Bse 200 during 2011-2015





Source: Capitaline, Bloomberg

Theme 2: Resurgence of Export sectors (2011-2015)

What factors worked the most?

- The sectors in the export theme yielded an astounding **30% CAGR in 4 years**.
- The average CAGR for sales and profit of was 21% and 17%, respectively.
- The companies yield high return on capital employed (ROCE) as well with the average of all the companies arriving at 21%.

Details of export oriented stocks in the during 2011-15 which saw phenomenal gains

		2011-15				
Company Name	Sector	Return CAGR (%)	PAT CAGR (%)	Sales CAGR (%)	Average Net debt/ equity (x)	Average ROCE (%)
Indo Count Inds.	Textiles	126%	86%	25%	1.59	13%
Aurobindo Pharma	Pharma	58%	29%	29%	1.03	18%
Motherson Sumi	Automobile	52%	26%	43%	1.13	18%
Lupin	Pharma	48%	29%	22%	0.13	34%
Sun Pharma.Inds.	Pharma	47%	27%	48%	-0.19	26%
HCL Technologies	IT	42%	45%	24%	-0.17	37%
Bosch	Automobile	40%	10%	16%	-0.21	21%
Arvind Ltd	Textiles	40%	27%	18%	1.11	12%
Tech Mahindra	IT	39%	28%	45%	0.07	29%
Bharat Forge	Automobile	39%	26%	11%	0.77	14%
SRF	Textiles	33%	-13%	7%	0.78	18%
Glenmark Pharma.	Pharma	29%	-13%	23%	1.00	15%
Divi's Lab.	Pharma	28%	19%	24%	0.00	34%

		2011-15				
Company Name	**Sector**	**Return CAGR (%)**	**PAT CAGR (%)**	**Sales CAGR (%)**	**Average Net debt/ equity (x)**	**Average ROCE (%)**
Himatsing. Seide	Textiles	24%	41%	12%	1.14	8%
Cipla	Pharma	22%	4%	16%	0.07	19%
Tata Motors	Automobile	22%	12%	21%	0.81	25%
Cadila Health.	Pharma	22%	13%	17%	0.57	24%
TCS	IT	21%	21%	26%	-0.24	54%
Dr Reddy's Labs	Pharma	21%	24%	19%	0.31	25%
Piramal Enterp.	Pharma	20%	15%	32%	0.47	0%
Lak. Mach. Works	Textiles	14%	10%	8%	-0.83	16%
Oracle Fin.Serv.	IT	13%	2%	7%	-0.74	19%
Glaxosmi. Pharma	Pharma	13%	-3%	11%	-1.03	30%
Grasim Inds	Textiles	10%	-9%	11%	0.34	4%

Source: Capitaline, Bloomberg

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Theme 3: The Great Indian Consumption Story (2016-20)

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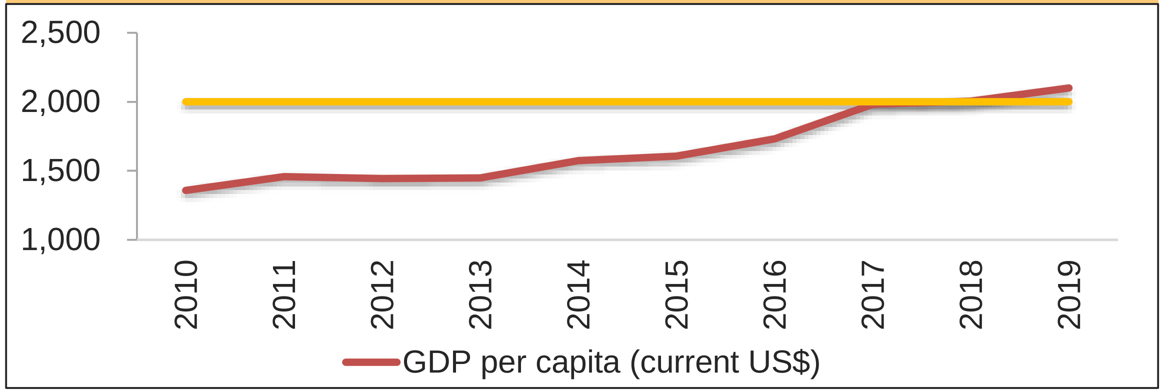
Rising incomes, with premiumization in consumer preferences	• India touching the USD 2000 per capita GDP mark with India's favorable demography • Premiumization in products along with rise of E-commerce and organized retail began to drive consumption during this time
Vibrancy in rural economy	• A good monsoon after two successive years of drought, coupled with 7th Pay Commission, boosted rural consumption in 2016 • Large growth was expected to be on the rural side as urban consumption was already on track.
Unorganized to organized shift	• With the implementation of GST in 2017, the "Unorganized to organized" play caught more steam as it levelled all the players in terms of taxation. • Organized brands would be beneficiaries of premiumization by Indian Consumers
Increase in Retail Financing	• NBFCs, Banks have ensured availability of finances • Multiple innovations are driving secured and unsecured lending • Retail credit grew by 16% CAGR over 2016 to 2020

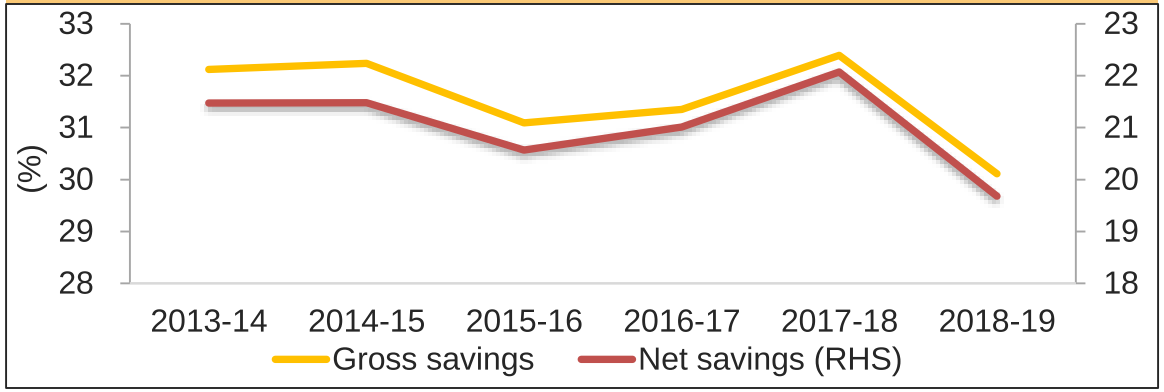
Theme 3: The Great Indian Consumption Story (2016-20)

Higher GDP per capita income..



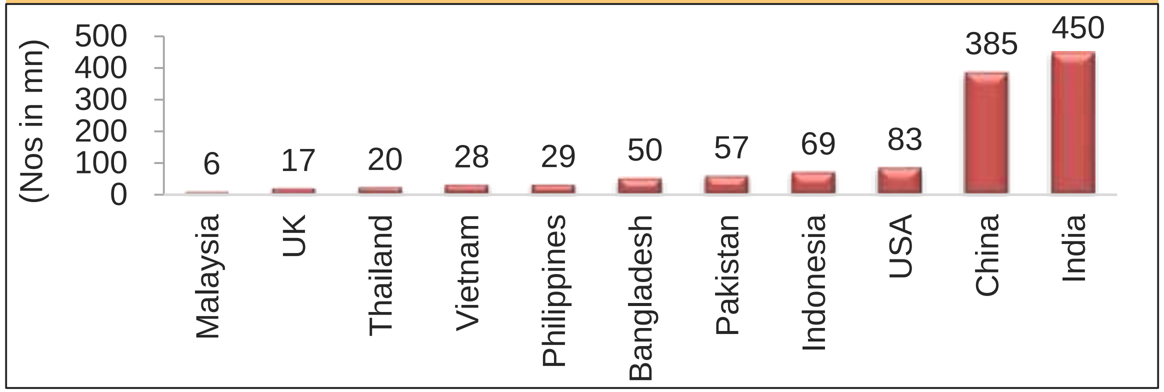
Source: World Bank

…with lower domestic savings gave a boost to consumption



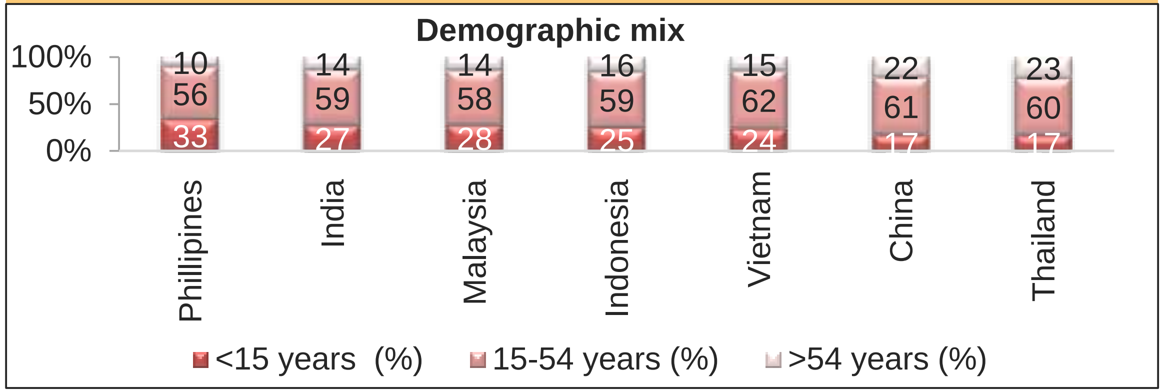
Source: WTO

India has the largest base of Millennials



Source: Industry sources

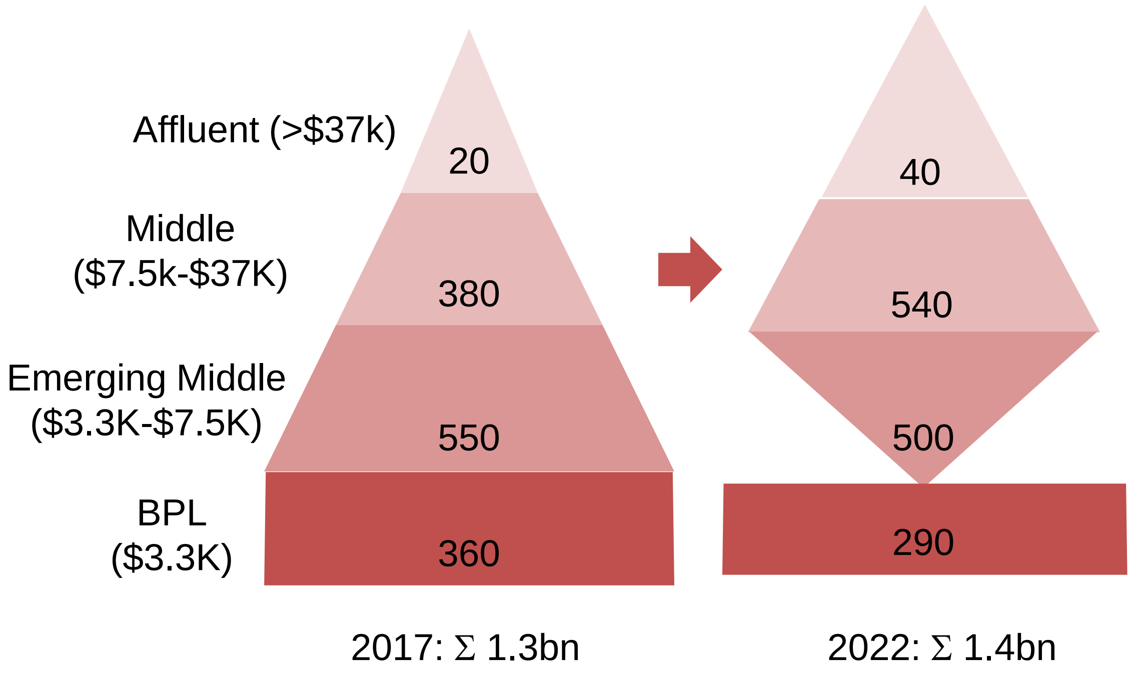
….which have a higher propensity to spend



Source: WTO

Theme 3: The Great Indian Consumption Story (2016-20)

The expanding size of India's middle class was a key driver for consumption…



Indian Middle Class > Population of North America

Source: UNSP Investor PPT , Annual income in (), Population in mn

…Along with rising per capita income.

Discretionary consumption grows exponentially when any economy's per capita income reaches $2000 p.a, with India's per capita income increasing from $1150 in 2010 to $2140 in 2020

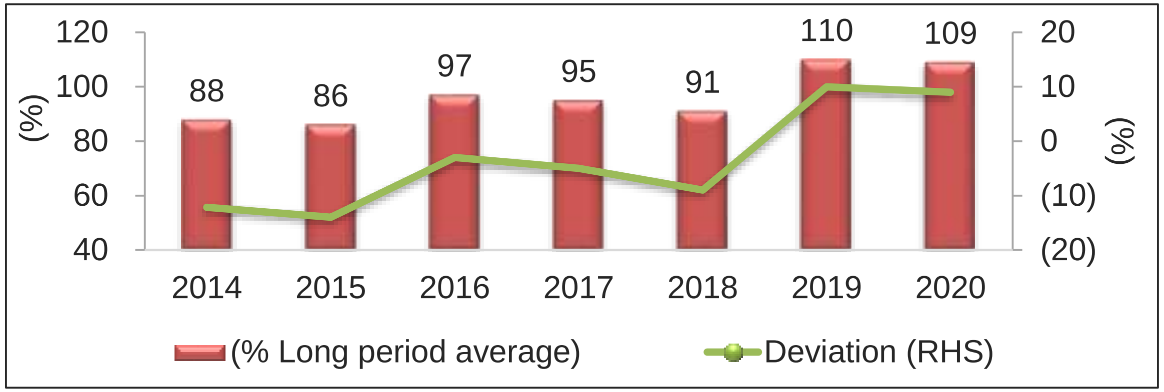
Country	China	Russia	Brazil	South Korea	Singapore
Reached GDP per capita of $2000 in (year)	**2006**	**2001**	**1986**	**1984**	**1982**
Trajectory of retail sales after it reached $2000 per capita GDP	Revenues grew 3x from 2002-2012, with higher growth kicking in once per capita GDP crossed $2000 in 2006	Revenues doubled over the next decade	Revenues doubled over the next decade	Revenues grew 4x in the next decade	Revenues grew 3x in the next decade

Source: Edelweiss India Retail Renaissance Report 2018

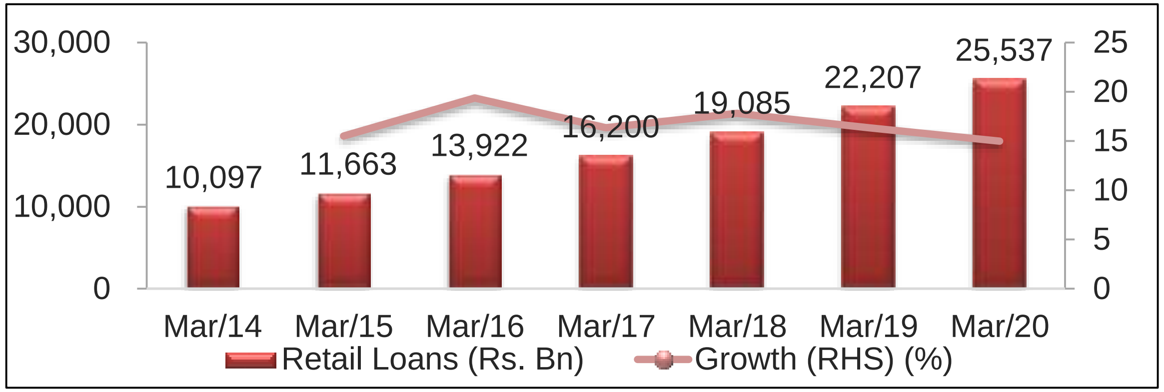
Theme 3: The Great Indian Consumption Story (2016-20)

ADITYA BIRLA CAPITAL

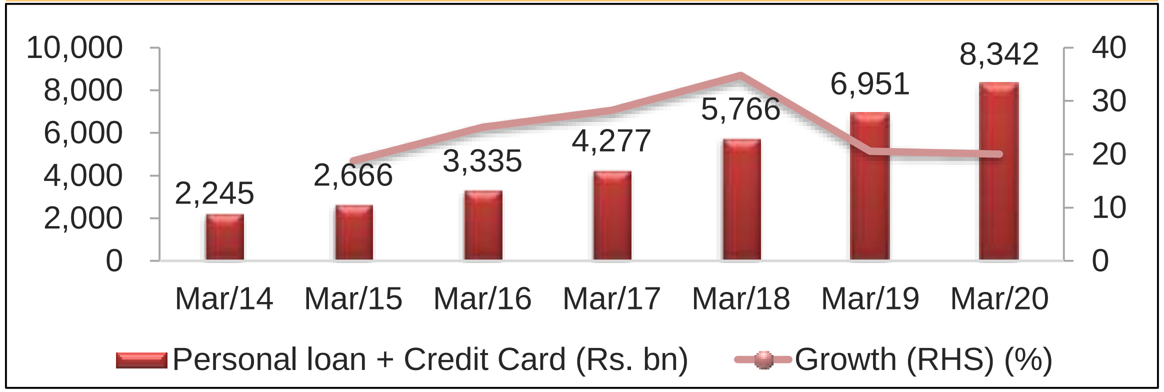
Return of monsoons from 2016 led to stronger rural cash flows..



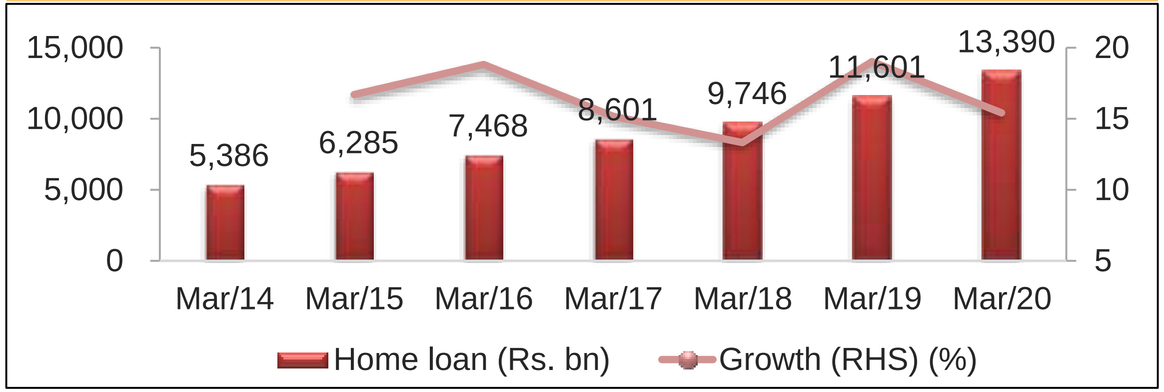
Retail credit growth moved up 16% annually



As reflected in personal loans growth...



… along with home loan growth

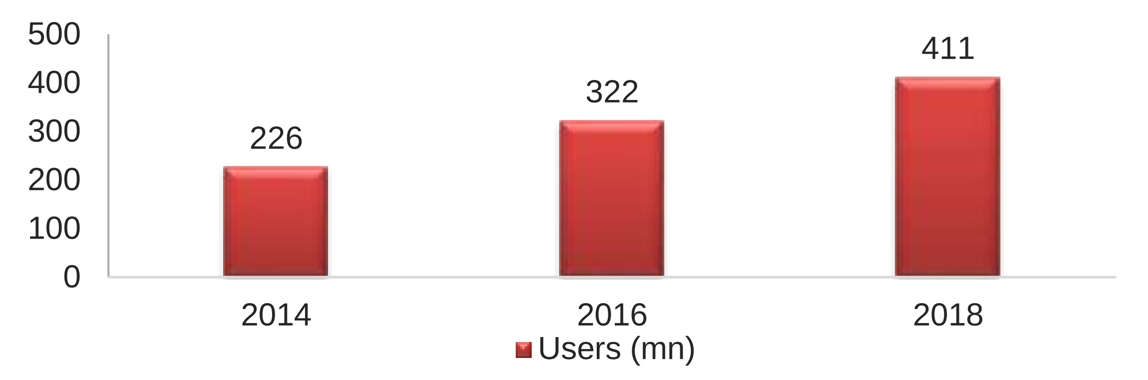


Source: IMD, RBI

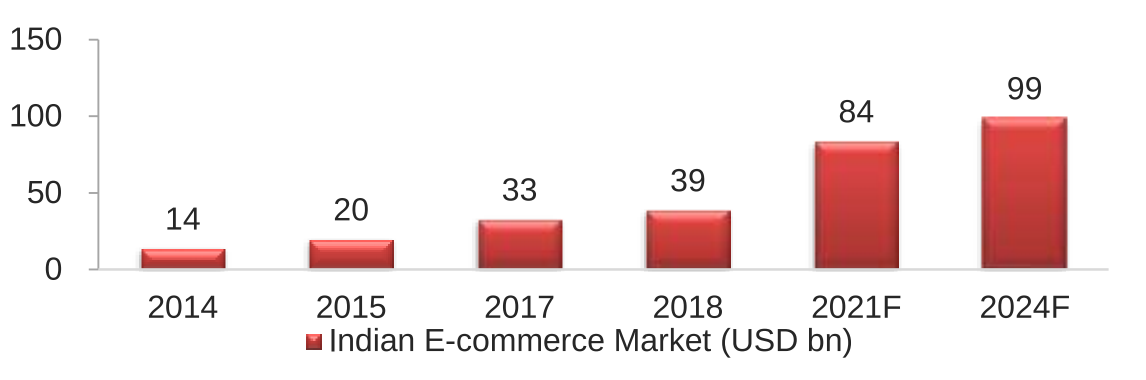
Theme 3: The Great Indian Consumption Story (2016-20)

ADITYA BIRLA CAPITAL

Higher usage of internet…

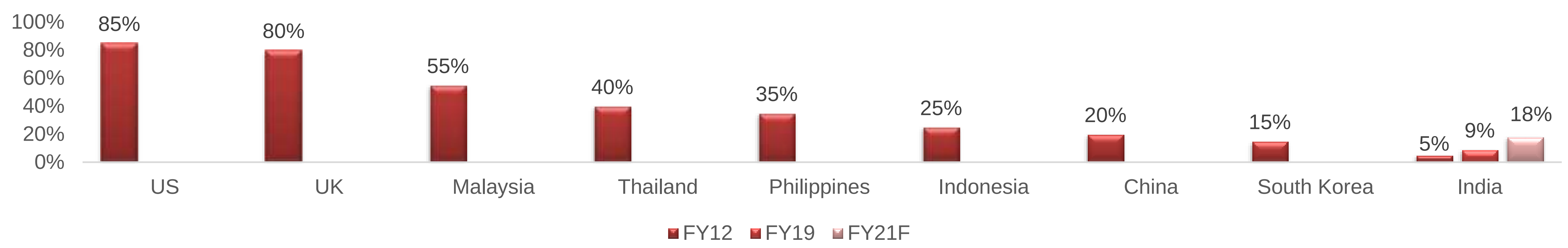


…and increasing choice with Ecommerce sales



Source: IBEF

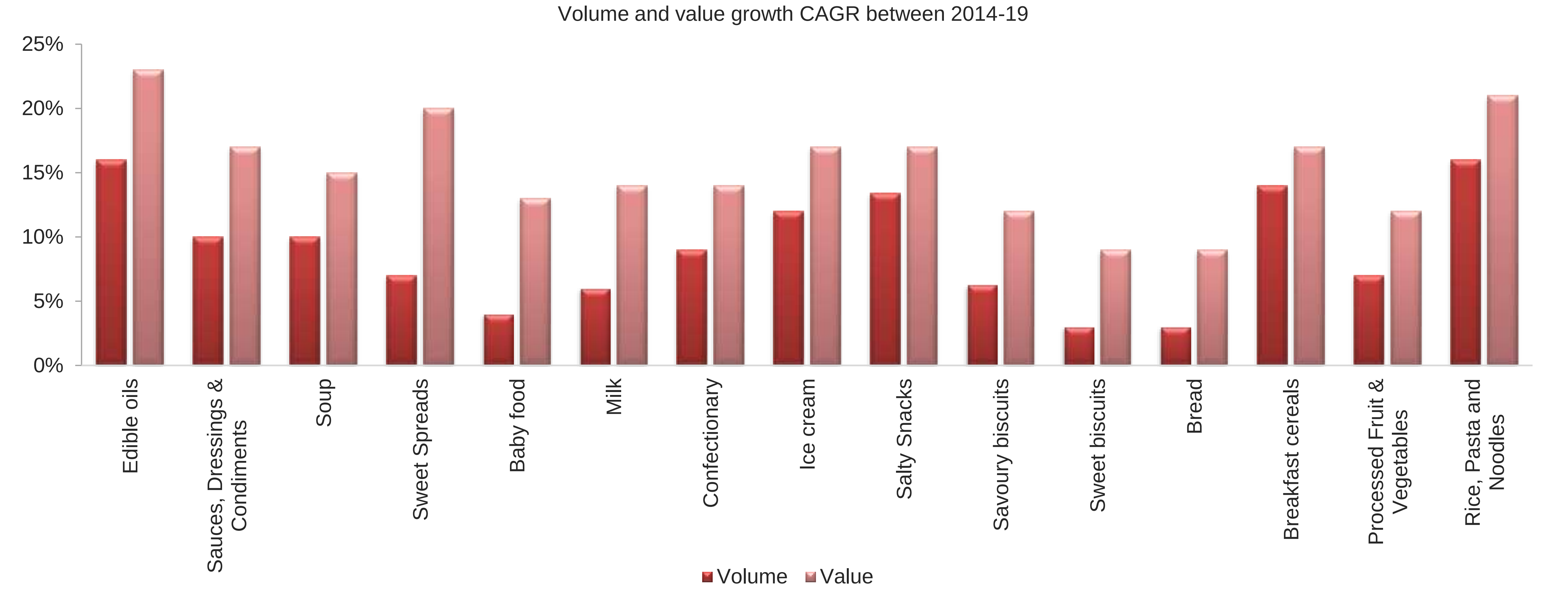
…and organized retail



Source: Ficci PWC report, September 2012

Theme 3: The Great Indian Consumption Story (2016-20)

..drove the more richer, brand conscious, media aware and globally connected India Consumer to upgrade across categories

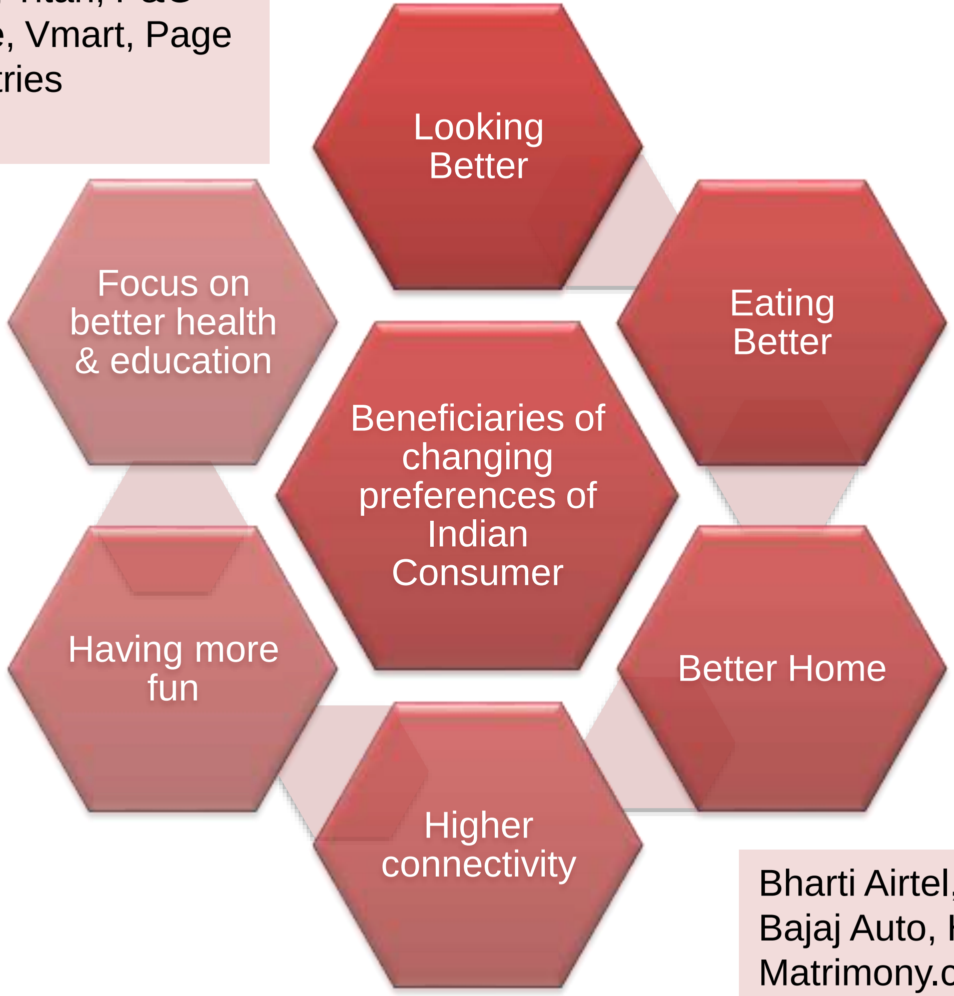


Source: BCG Report

Theme 3: The Great Indian Consumption Story (2016-20)

Trent, ABFRL, Titan, P&G Hygiene, Gillette, Vmart, Page Industries

Abbot, Sun Pharma, Cipla, Health care like Apollo Hospitals, Fortis, Dr Lal Pathlabs, Metropolis



Nestle, Britannia, HUL, ITC,, Jubilant Food works, Westlife Development, Infoedge

Eicher Motors, Phoenix Mills, PVR, Indigo, Indian Hotels, Jubilant Food works, United Spirits, United Breweries

Asian Paints, Berger Paints, Ultratech Cement, Voltas, Whirlpool, Kajaria Ceramics, Cera Sanitaryware, Oberoi, DLF

Bharti Airtel, Reliance, Maruti, Bajaj Auto, Hero, Info edge, Matrimony.com

Source: Goldman Sachs Investment Research, ABSLAMC research

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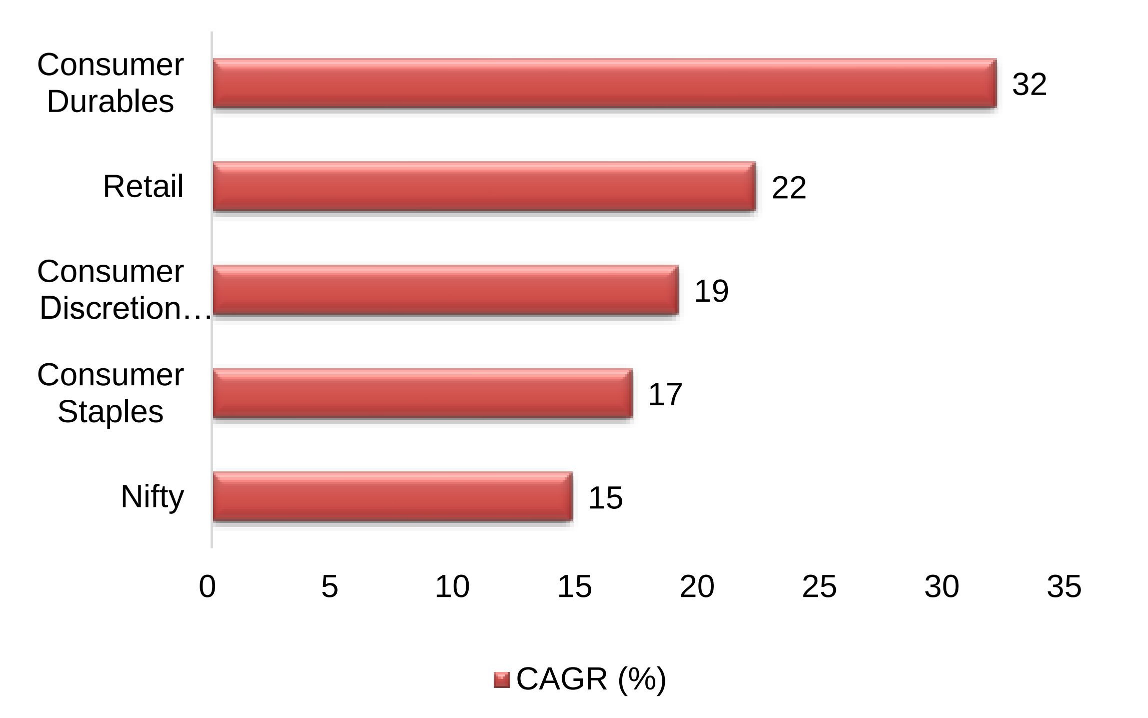
Theme 3: The Great Indian Consumption Story (2016-20)

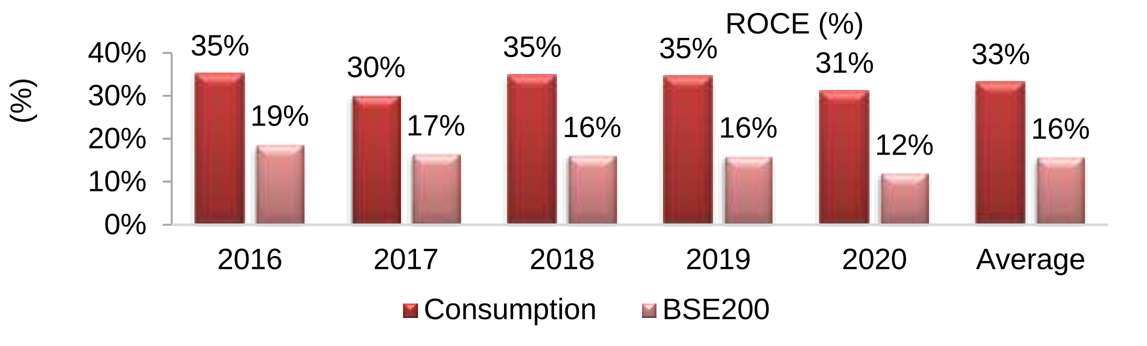
Sector performance

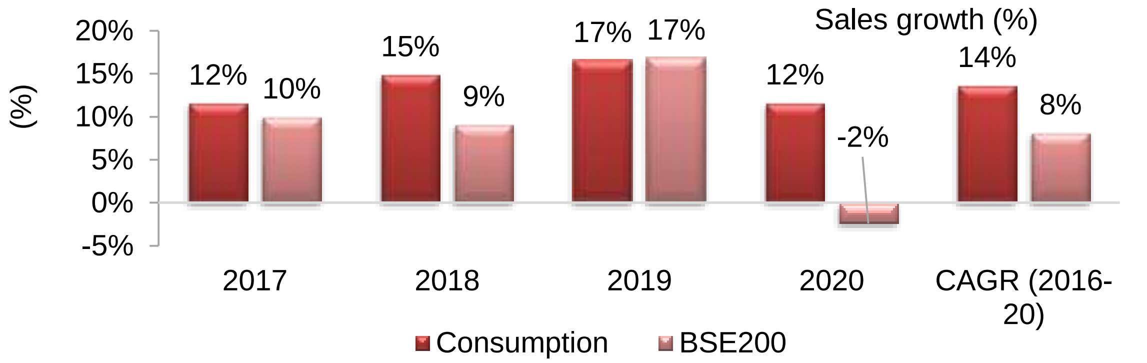
The sectors in the BSE200 Universe which outperformed the Nifty during this period include consumer durables, discretionary, staples, retail and financials. As the Indian consumer spent with availability of easy credit, financials benefitted alongside.

Consumption sectors outperforming Nifty during 2016-20



High ROCE and stable growth were the highlights of the consumption portfolio during 2016-20





Source: Capitaline, Bloomberg

Theme 3: The Great Indian Consumption Story (2016-20)

ADITYA BIRLA CAPITAL

What factors worked the most?

Investors started chasing quality stocks where there was some certainty around earnings. Factors which worked were – consistency in earnings, low leverage, high asset turnover, high ROCE and low beta.

The top performing stocks had strong fundamentals and low leverage, commanding leadership in their sector. For eg: Bata, Titan, Jubilant food, Nestle, Pidillite, Bajaj Finance etc.

List of top performing stocks in the consumption rally during 2016-20

		2016-20				
Company Name	Sector	Return CAGR	PAT CAGR	Sales CAGR	Average Net debt/ equity	Average ROCE
Bata India	Retail	37%	18%	6%	-0.27	23%
Titan Company	Consumer Discretionary	37%	22%	17%	0.19	26%
Berger Paints	Consumer Discretionary	34%	16%	11%	0.20	29%
Tata Consumer	Consumer Staples	33%	LtoP	10%	0.04	7%
Jubilant Food.	Consumer Discretionary	31%	33%	13%	0.04	30%
Nestle India	Consumer Staples	28%	22%	11%	-0.07	44%
Voltas	Consumer Durables	26%	13%	8%	-0.02	16%
Britannia Inds.	Consumer Staples	24%	14%	8%	0.05	52%
Hind. Unilever	Consumer Staples	24%	13%	5%	-0.48	107%
Asian Paints	Consumer Discretionary	20%	12%	6%	0.02	36%
Page Industries	Retail	19%	10%	13%	0.13	63%
Dabur India	Consumer Staples	19%	5%	2%	0.09	26%
Supreme Inds.	Consumer Discretionary	17%	20%	17%	0.14	29%
Havells India	Consumer Durables	17%	7%	6%	-0.35	23%
Kansai Nerolac	Consumer Discretionary	16%	2%	6%	-0.06	24%
P & G Hygiene	Consumer Staples	15%	1%	5%	-0.51	65%
Colgate-Palmoliv	Consumer Staples	13%	8%	4%	-0.27	78%
United Breweries	Consumer Discretionary	11%	12%	8%	0.21	19%
Indian Hotels Co	Consumer Discretionary	11%	LtoP	3%	0.91	5%
Godrej Consumer	Consumer Staples	10%	10%	4%	0.43	20%

Source: Capitaline, Bloomberg, Note: Prices for all the years are as of Mar end except for 2020 where they are of Jan end as the pandemic hit in March.

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Theme 4: Global supply chain diversification in Chemicals (2016-2019)

ADITYA BIRLA CAPITAL

The story so far…

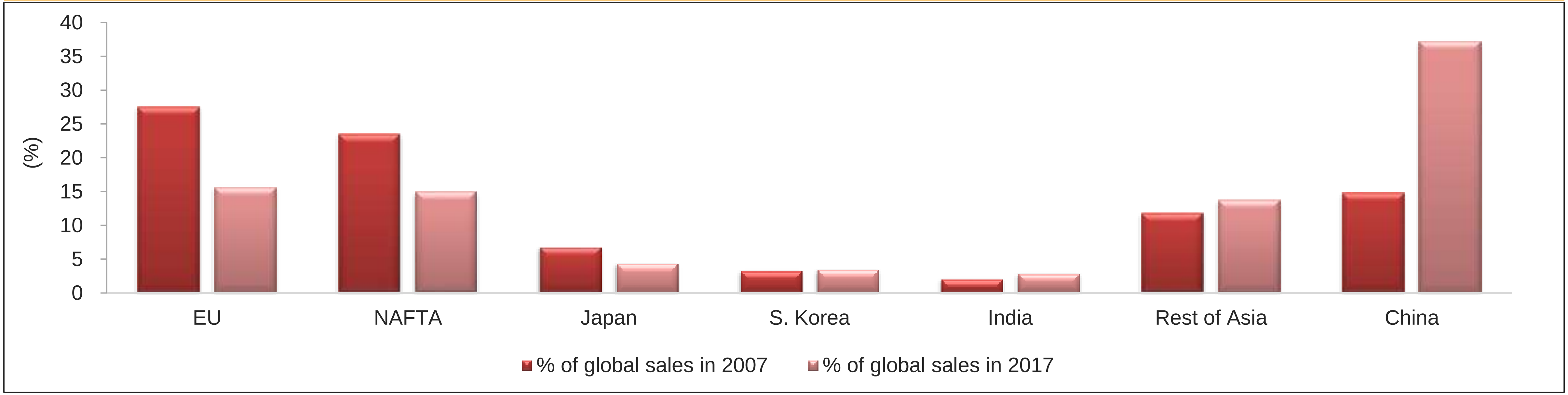
China's large gain in market share is explained by –

- Rapid industrialization
- Low manufacturing costs

What is happening now

- US-China Trade war changing trade dynamics
- Stricter environmental norms in China
- Rising cost of labour

China's share in USD4 trillion chemical industry moved from 15% in 2007 to around 37% in 2017.



Source – Ficci report on Chemicals

Theme 4: Global supply chain diversification in Chemicals (2016-2019)

ADITYA BIRLA CAPITAL

How India benefited from China's environmental policy action

Tightened environmental regulation

Stricter Implementation of Regulation

Effect on Chinese Chemical Companies

- Plant closures
- Plant relocations
- Capacity reduction
- Technology changes
- Longer approval times for new plants
- Cost and price increases

Effect on Overall Industry

- Consolidation of industry structure
- Higher capacity utilization among survivors
- Permanently higher prices
- Opportunities for foreign players
- Longer-term change of mindset towards sustainability

Where it all began?

China's specialty chemicals market has seen a downturn in recent years due to various factors. Most prominent being the introduction of stringent environmental norms, which has led to the shutdown of several chemical plants.

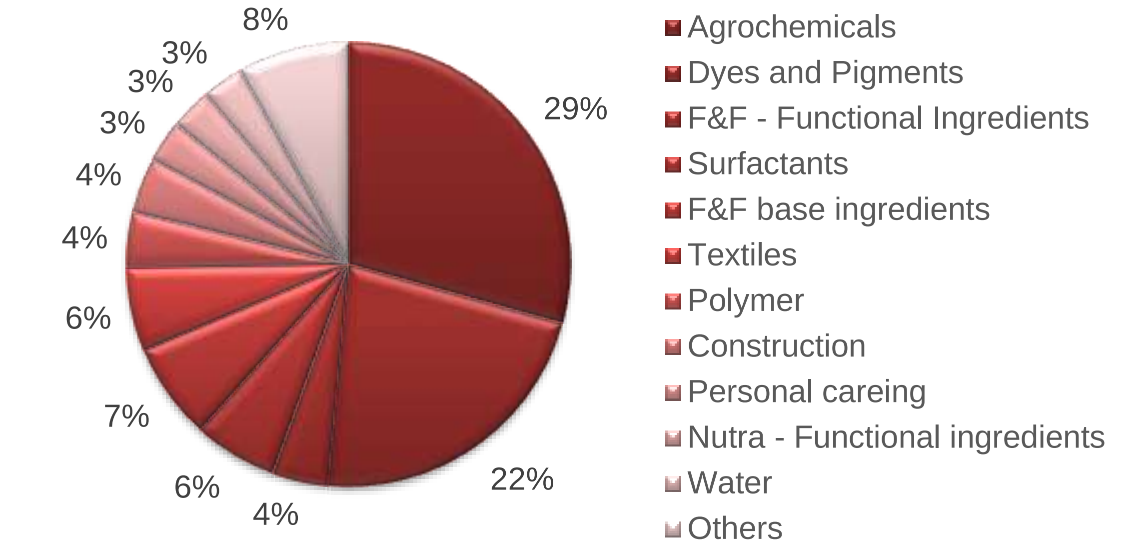
Theme 4: Global supply chain diversification in Chemicals (2016-2019)

ADITYA BIRLA CAPITAL

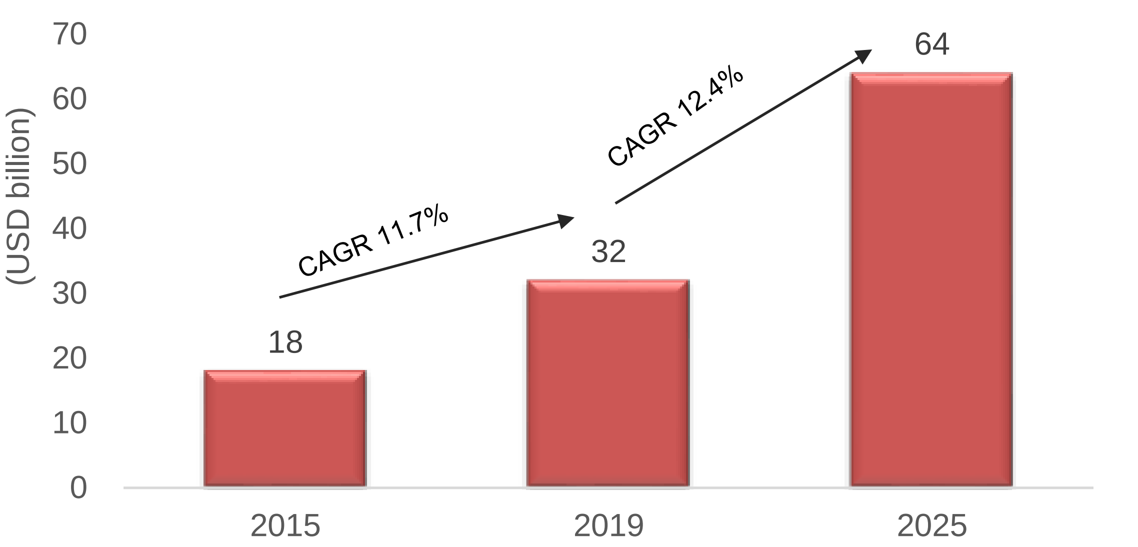
India could potentially gain market share from China

The future looks bright for Indian specialty chemicals industry buoyed by de risking of global supply chains and growth in domestic consumption

India's strong capabilities across specialty chemicals



Will help sustain healthy growth for the next few years

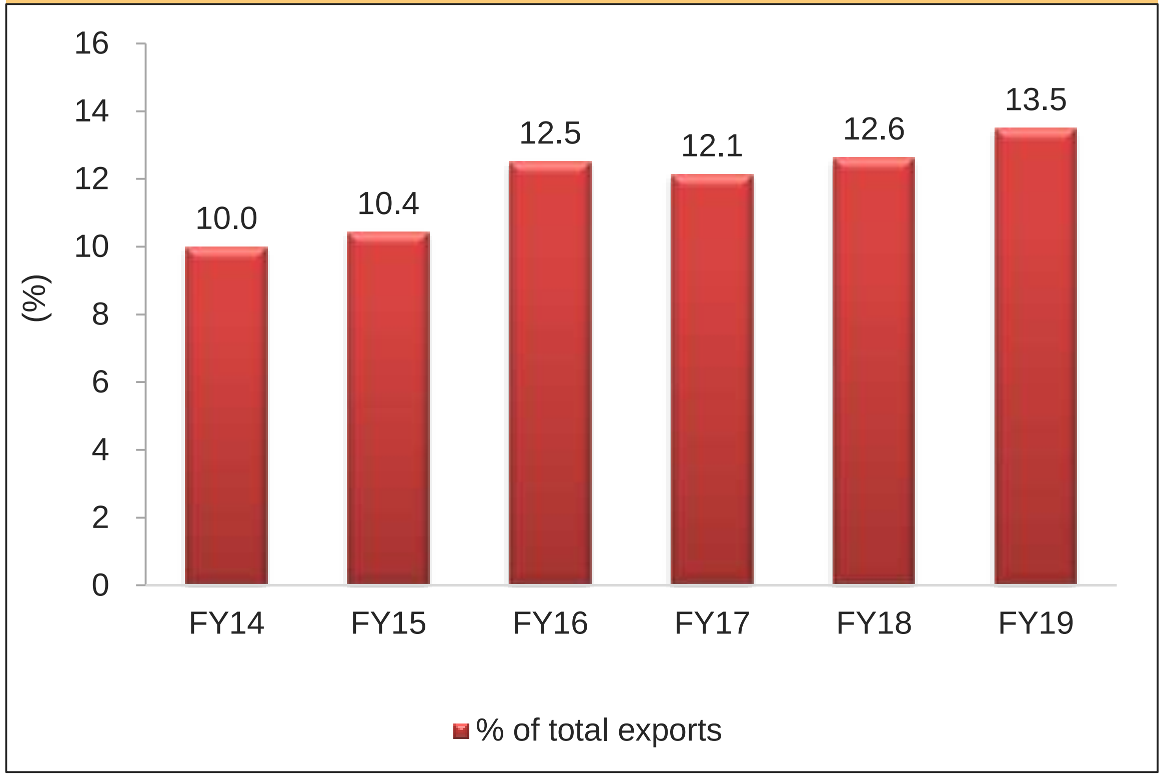


Source : Ficci report on Specialty Chemicals

Theme 4: Global supply chain diversification in Chemicals (2016-2019)

ADITYA BIRLA CAPITAL

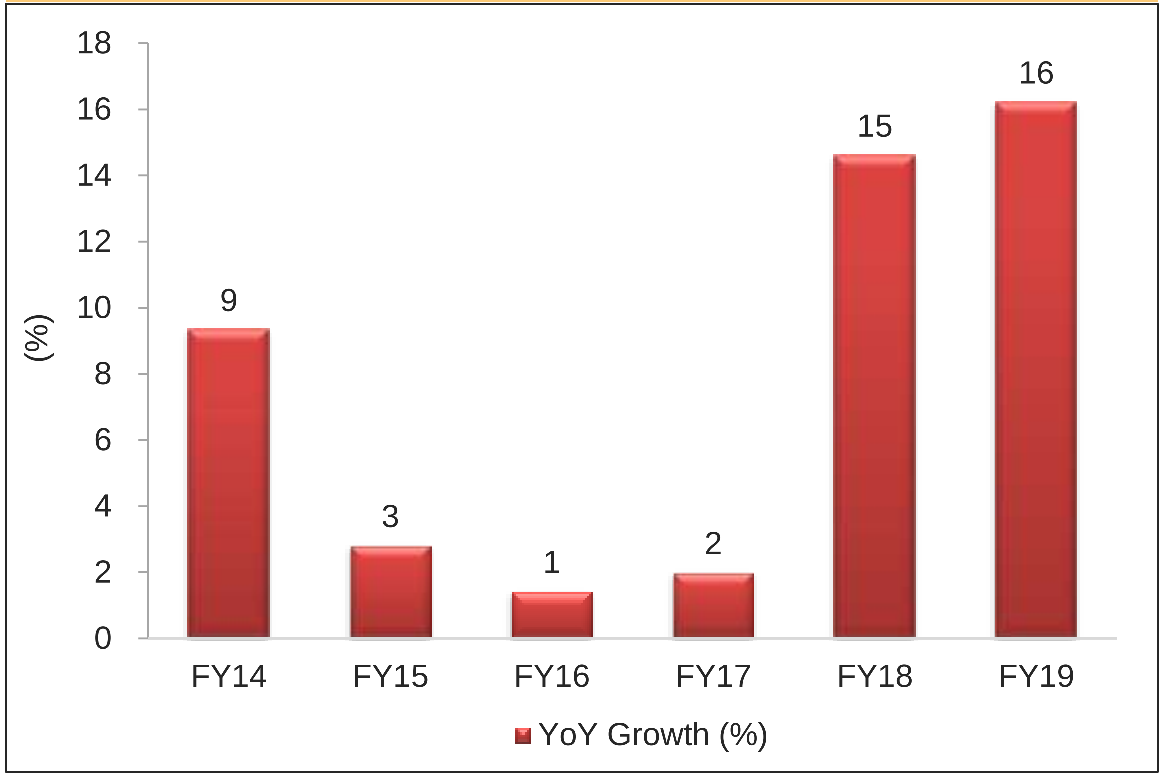
Chemicals share in total exports has been constantly increasing



Note: Chemicals: HS chapters considered: 28,29, 32, 38, 39, 4002

Source: https://comtrade.un.org/data/

With chemical exports reflecting healthy double digit growth



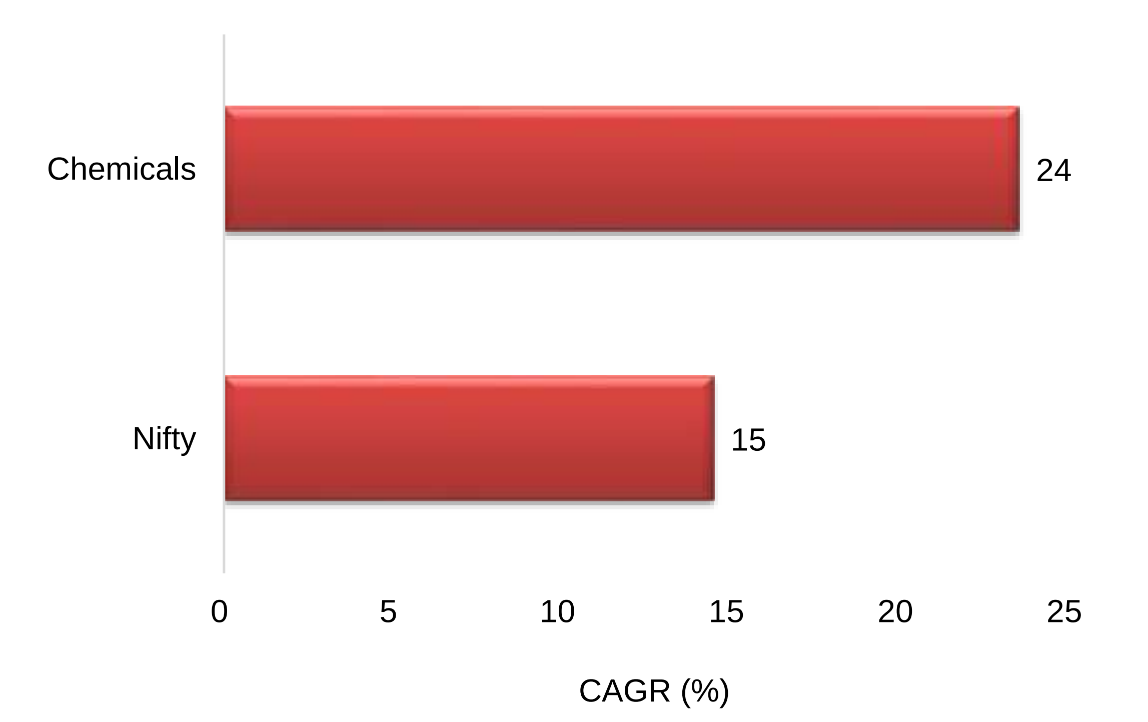
Source: CMIE

Theme 4: Global supply chain diversification in Chemicals (2016-2019)

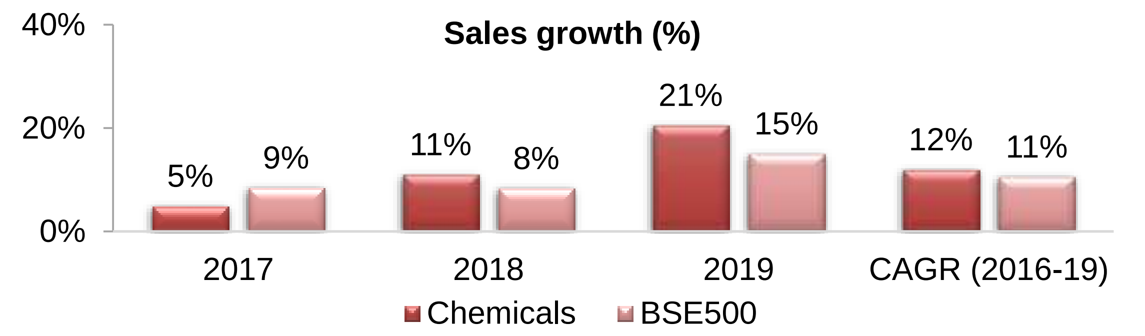
Sector performance

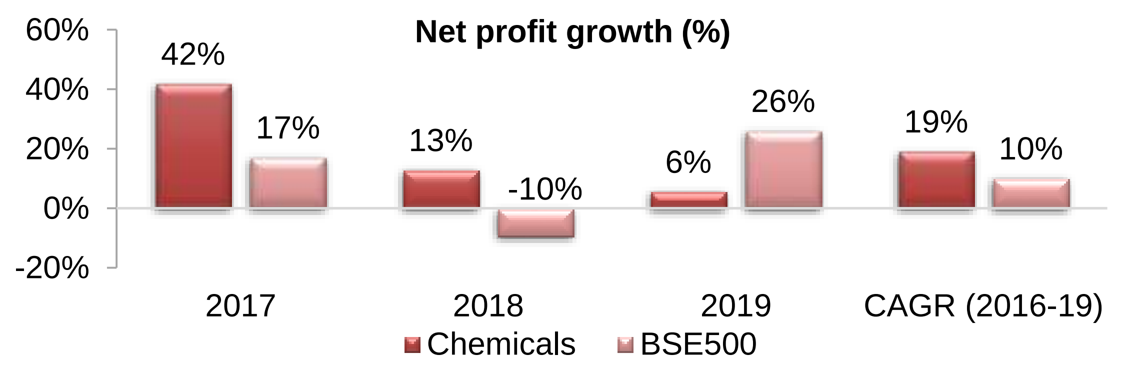
In BSE500 Universe, which covers majority of chemical sector companies, Chemicals was the 2nd best performing sector during 2016-19, outperforming Nifty by 9 % on an annualized basis. The diversification of supply chain from China is expected to get accelerated post COVID

Chemicals was the top performing sector during 2016-19



Chemicals was the top performing sector during 2016-19





Source: Capitaline, Bloomberg

Theme 4: Global supply chain diversification in Chemicals (2016-2019)

ADITYA BIRLA CAPITAL

What factors worked the most?

- The top performing companies yielded an astounding **34% CAGR in 3 years**.
- The average CAGR for profit of top performing companies was 19% for 3 years along with a CAGR of 12% in sales.
- The return ratios (ROCE) for few chemical companies were outstanding while the average comes out to be at 18%.

Details of stocks in the BSE500 Universe in chemicals sector during 2016-19

		2016-2019				
Company Name	Sub-Sector	Return CAGR	PAT CAGR	Sales CAGR	Average Net debt/ equity	Average ROCE
Vinati Organics	Chemicals	62%	29%	21%	-0.01	36%
Deepak Nitrite	Chemicals	59%	40%	25%	1.05	7%
NOCIL	Chemicals	47%	33%	13%	-0.04	7%
Aarti Industries	Chemicals	45%	24%	11%	0.99	21%
Astec Lifescienc	Chemicals	40%	79%	23%	0.87	7%
Coromandel Inter	Fertilizers	38%	29%	5%	0.81	19%
Atul	Chemicals	32%	16%	16%	0.06	24%
GHCL	Chemicals	29%	10%	10%	0.95	22%
GFL	Chemicals	29%	NM	NM	0.35	7%
Navin Fluo.Intl.	Chemicals	28%	22%	14%	0.00	7%
Pidilite Inds.	Chemicals	28%	5%	10%	-0.01	38%
UPL	Agro Chemicals	26%	22%	16%	0.75	18%
SRF	Chemicals	23%	14%	16%	0.80	13%
P I Industries	Agro Chemicals	22%	9%	11%	0.01	30%
BASF India	Chemicals	19%	NM	8%	0.90	2%
Sharda Cropchem	Chemicals	17%	6%	18%	-0.06	29%
Average		**34%**			**0.46**	**18%**

Source: Capitaline, Bloomberg

The stocks mentioned above are only for illustrative purposes and do not constitute a recommendation to buy or sell

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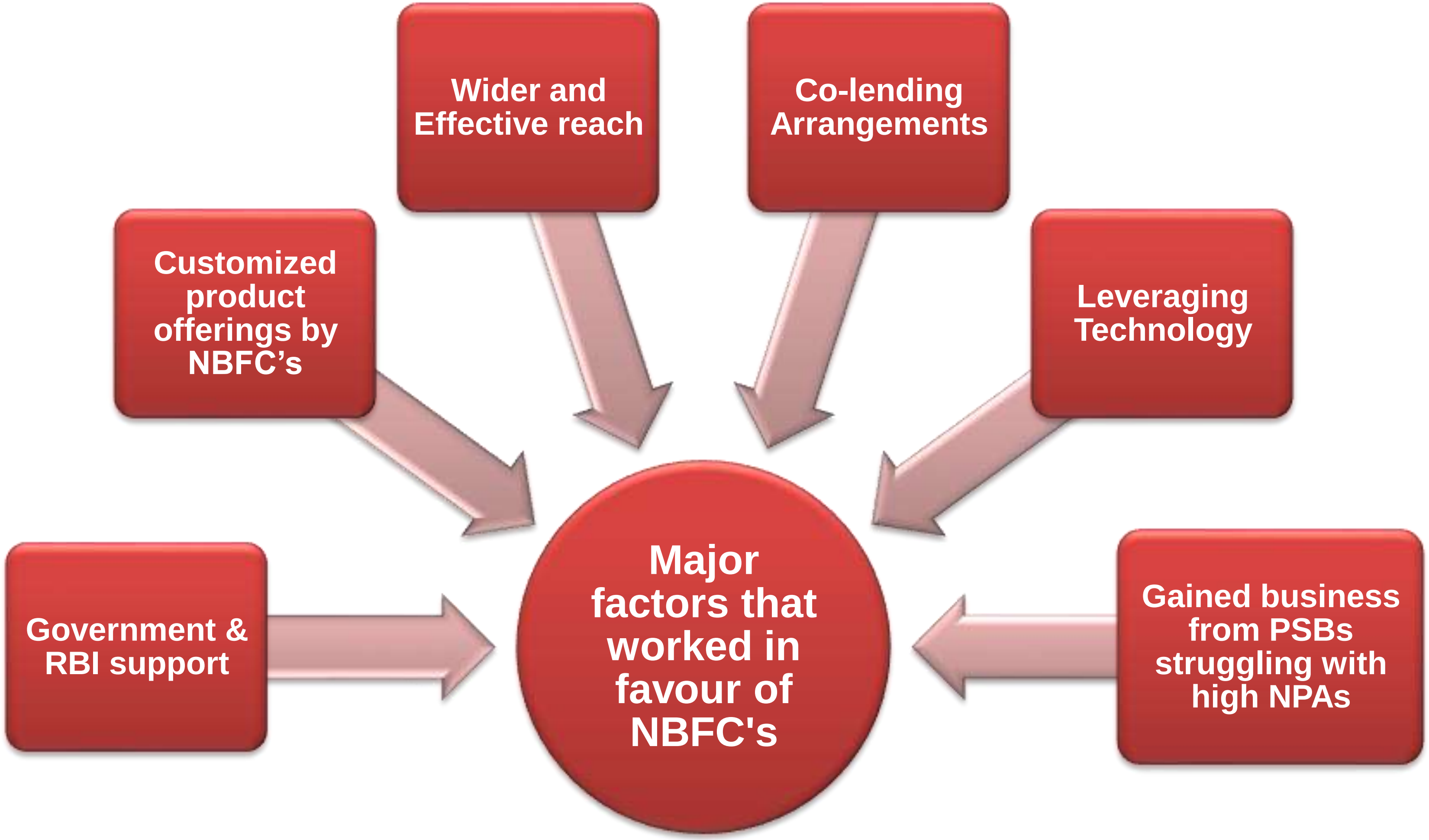
Theme 5: The NBFC Saga (2014-2019)

ADITYA BIRLA CAPITAL

Between 2014 to 2019, NBFC gained market share vs. Banks, due to a confluence of factors



Theme 5: The NBFC Saga (2014-2019)

The gap in credit accessibility & availability

- NBFCs fund small businesses, which fuel the economy, from small transporters to traders or contractors.
- Apart from homes and vehicles, jewellery, smartphones, luxury handbags, air tickets, furniture, etc. began to sell through EMIs which was funded by NBFCs, big and small.
- NBFCs are less strict when it comes to creditworthiness and documentation before financing relative to banks.
- *In August of 2016, the union cabinet welcomed FDI under the automatic route in regulated NBFCs*

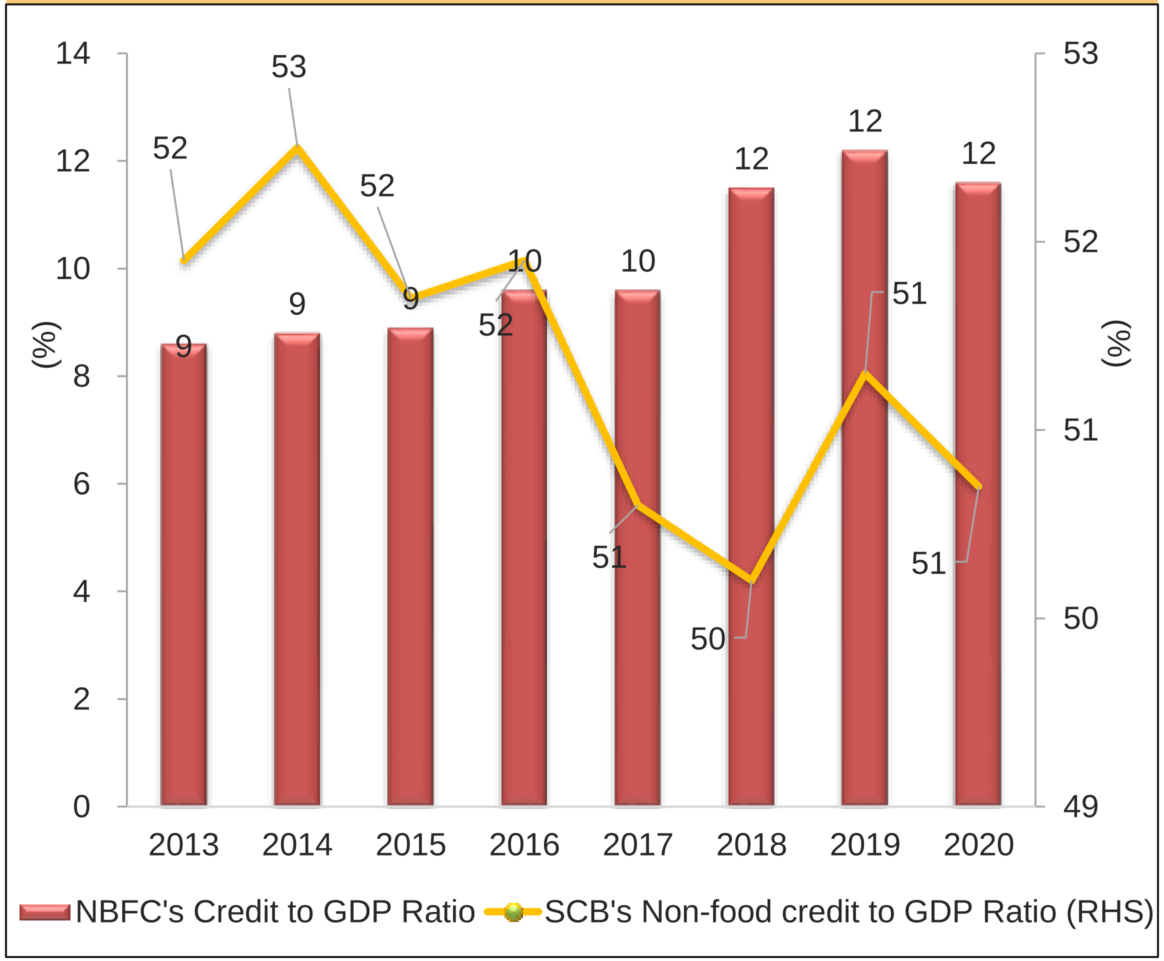
Performance highlights:

NBFC's Credit to GDP Ratio	SCB's Credit to GDP Ratio	NBFC's Gross income	NBFC's aggregate loan book (INR)
• FY14 - 8.8% • FY19 - 12.2%	• FY14 - 52% • FY19 - 51.3%	• 15% CAGR from 2014 to 2019	• FY16 - 13.2 lakh cr • FY19 - 26.1 lakh cr

Source: RBI Handbook

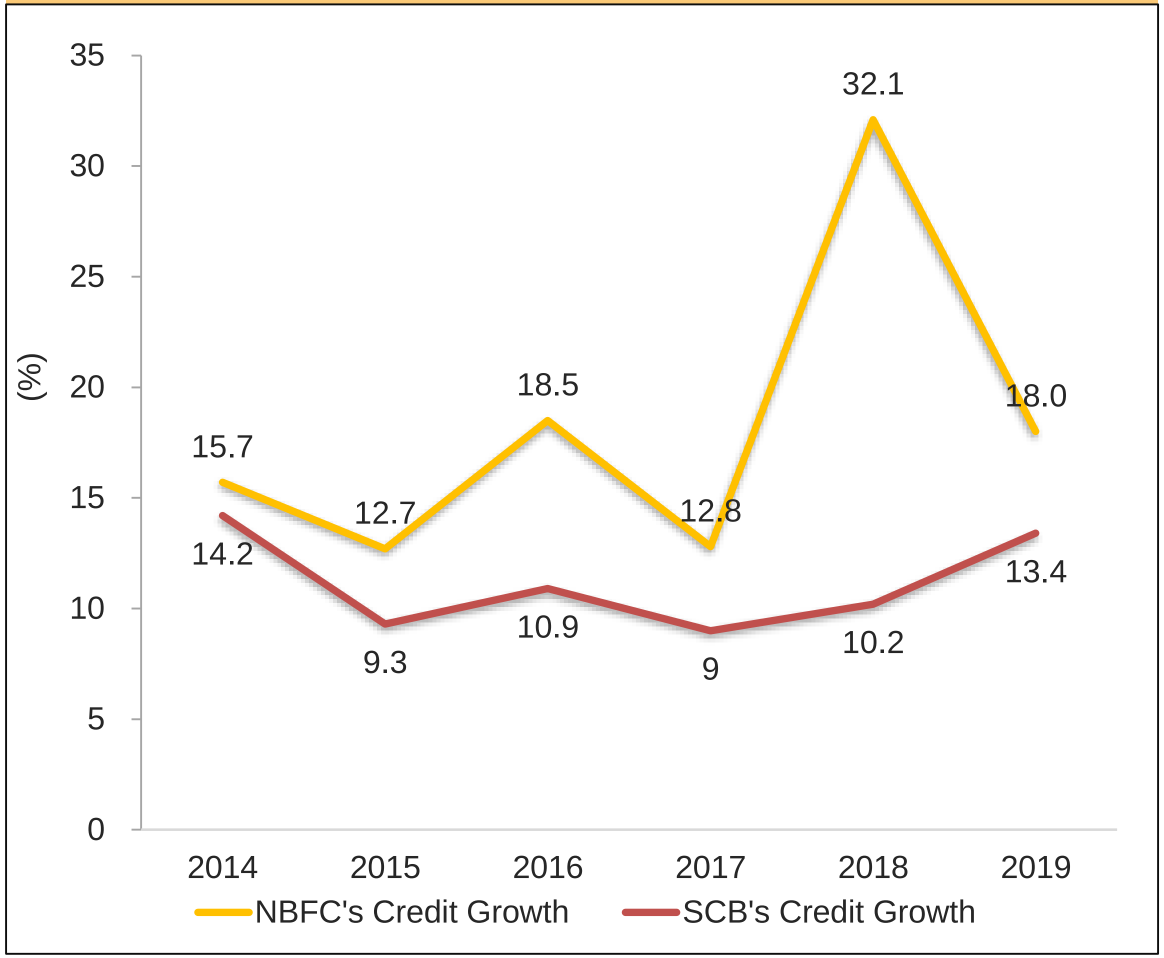
Theme 5: The NBFC Saga (2014-2019)

Share of NBFC credit as a % of GDP moved up from 9 to 12% ..



Source: RBI

With NBFC CAGR growth 1.5x of banks..

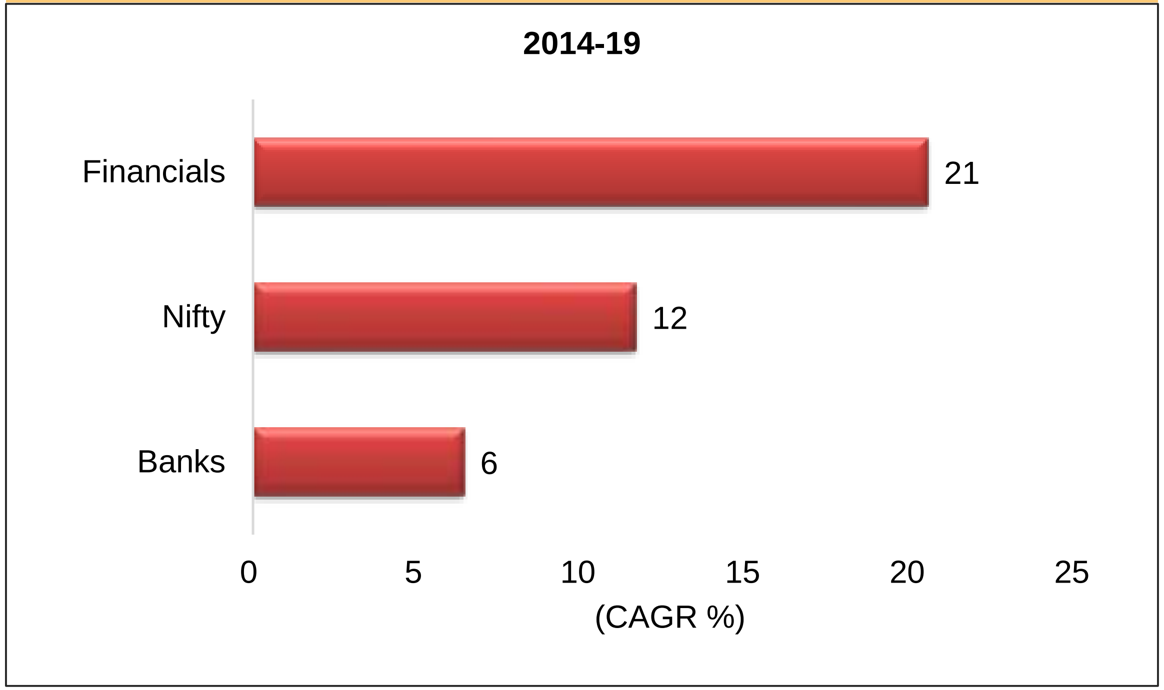


Source: RBI

Sector performance

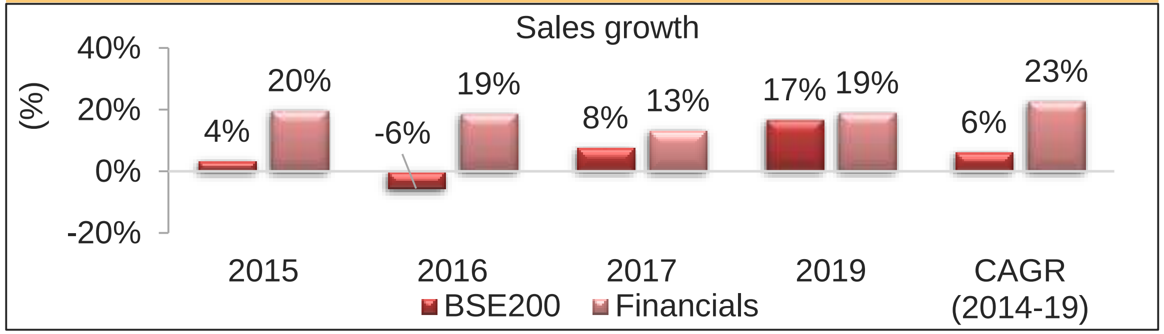
In BSE200 Universe, Financials was the 3rd top performing sector during 2014-19, outperforming Nifty by 9 percent and banks by 15 percent on an annualized basis.

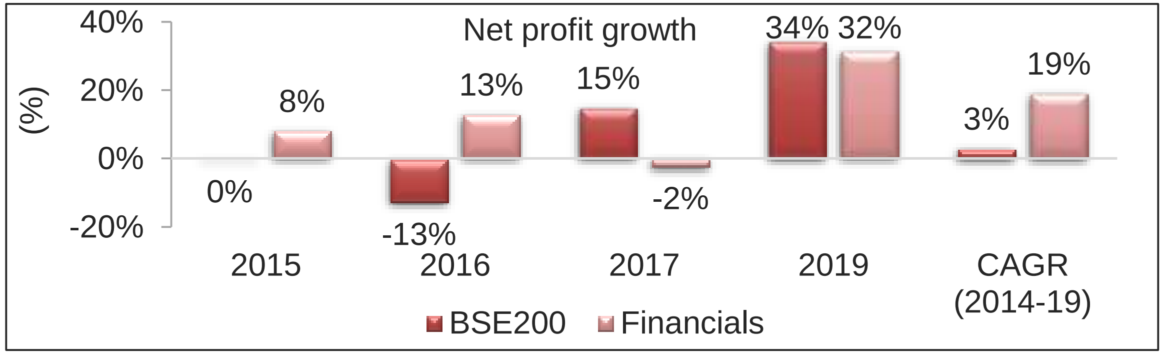
Financials outperform banks and Nifty by decent margin during 2014-19



Source: Bloomberg

Financials outperform banks by 14% CAGR during 2014-19





Source: Capitaline

Theme 5: The NBFC Saga (2014-2019)

What factors worked the most?

- The top performing companies in the financial (NBFCs) segment yielded an astounding **24% CAGR in 5 years**.
- The rally was supported by high growth in both revenue and net profits, delivering a CAGR of 23% and 19% respectively over 2014-19.
- The sector also maintained high return ratios with average ROE at 21% during the 5 years from 2014 to 2019.

Details of high performing stocks in the BSE200 in financials (NBFCs) sector during 2014-19

	2014-2019 (CAGR)			
Company Name	Return	Total Revenue	PAT	Average ROE
Bajaj Finance	76%	36%	41%	24%
Bajaj Finserv	55%	48%	16%	19%
GRUH Finance	31%	NA	NA	35%
Chola Financial	30%	27%	14%	21%
Indiabulls Hous.	29%	24%	21%	31%
Muthoot Finance	29%	9%	22%	21%
LIC Housing Fin.	18%	13%	13%	19%
H D F C	17%	19%	15%	22%
L&T Fin.Holdings	16%	21%	30%	13%
Shri.City Union.	11%	13%	13%	16%
M & M Fin. Serv.	11%	15%	14%	16%
Shriram Trans.	11%	13%	14%	16%
REC Ltd	6%	NA	NA	18%
Power Fin.Corpn.	5%	20%	13%	19%

Source: Capitaline, Bloomberg

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Back to TOC

What Drives BIG TRENDS

Phase of Economic Cycle	• Domestic and Global GDP growth • Interest rate cycle • Rupee Depreciation
Government Policy Focus	• Domestic Government policy framework • Any big reforms initiated by the government • International govt. policies which have impact on EXIM manufacturing and trade
Industry Disruptors	• Industry disruption every 5 to 7 yrs, led by economic, demographic and technological factors • Industry Disruptors tend to have a value proposition which is difficult to imitate • Change the cost dynamics for the industry or are led by changes in consumer preferences
Emerging Sectors	• Emerging sectors are ignored initially, due to low revenue scale or perceived risk • Such sectors tend to have big opportunity size, and outperform eventually • These sectors tend to have large unorganized share, potential to be tapped by efficient players

Enablers of PAST TRENDS

Themes	Period	Economic Indicators			Government Policy			Industry Disruptors			Emerging Sectors		
		Domestic GDP growth cycle	Interest Rates	Rupee Depr.	Favourable Policy Framework	Beneficiary of policy reform	Beneficiary of International policy	Compelling Value proposition	Onerous for incumbents to imitate	Changes the convenience or cost dynamics of Industry	Big size of opportunity	High Unorganised sector market share	Gains from changing consumer preference
Infra led GDP Growth	2003 - 2008	✓	✓			✓					✓		
Resurgence of Export sectors	2011 - 2015			✓			✓	✓	✓	✓	✓		
Great Indian Consumption Story	2016 - 2020	✓	✓					✓		✓	✓	✓	✓
Supply chain diversification in Chemicals	2016 - 2019			✓	✓		✓	✓		✓	✓		
The NBFC Saga	2014 - 2019	✓	✓		✓			✓	✓		✓	✓	✓

Source: ABSLAMC research

Key Success Stories

ADITYA BIRLA CAPITAL

Security	Holding Period Returns	Theme
Alkyl Amines Chemicals	187%	Chemicals
Navin Fluorine	159%	Chemicals
PI Industries	100%	Chemicals
Atul	78%	Chemicals
Pidilite Industries	44%	Chemicals
Finolex Cables	402%	Consumption
Avenue Supermarts	278%	Consumption
TVS Motor Company	241%	Consumption
Bajaj Electricals	187%	Consumption
Trent	147%	Consumption
Nestle	113%	Consumption
Britannia Industries	76%	Consumption
Maruti Suzuki India	74%	Consumption
Bata	71%	Consumption
Asian Paints	53%	Consumption
Page Industries	45%	Consumption
Hero MotoCorp	40%	Consumption
Eicher Motors	31%	Consumption

Security	Holding Period Returns	Theme
Larsen & Toubro Infotech Ltd	104%	Export
Infosys Ltd	97%	Export
Alembic Pharmaceuticals	967%	Export
Aurobindo Pharma	584%	Export
Indo Count Industries	482%	Export
HCL Technologies	333%	Export
CCL Products India	140%	Export
Himatsingka Seide	124%	Export
Balkrishna Industries	119%	Export
KPIT Cummins Infosystems	94%	Export
Persistent Systems Ltd	240%	Export
Wipro Ltd	69%	Export
Dr Reddys Laboratories Ltd	80%	Export
Ajanta Pharma	23%	Export
Bajaj Finance	433%	NBFC
Canfin Homes	215%	NBFC
Bajaj Finserv	114%	NBFC
Cholamandalam	47%	NBFC

Source: ABSLAMC Research

As of 30th April (HPR calculated based on Sell price, or price as of 30th April)

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TRENDS FOR THE FUTURE

Theme 1 : The rise of domestic manufacturing

ADITYA BIRLA CAPITAL

Contribution of manufacturing to GDP has been 14-15% for several decades

- Relatively poor infrastructure
- High logistics cost
- Inverted duty structure
- Restrictive labour laws

Atmanirbhar Bharat & Vocal for Local Initiatives by the GOI to increase it to 25% of GDP

- Corporate tax rate cut to 25.2% and tax rate of 17% for Greenfield expansion until FY23
- Diversification of global supply chains
- Increase in import duty on finished goods & its components
- PLI scheme in promoting domestic manufacturing.

Sectors to benefit

Chemicals	Pharmaceuticals	Industrials	Electronics	Auto & Auto Ancs

Theme 1 : The rise of domestic manufacturing

Push for Aatmanirbhar Bharat should drive domestic manufacturing, private capex, import substitution, and exports

Push factors

High dependence of global firms on China

Supply chains disrupted during Covid-19

Diversification of manufacturing already in progress

US-China relations could sour further

Can India become the next big manufacturing hub?

Pull factors

Rapidly reducing infra deficit

Labour/power reforms

Large domestic market & growing

Corporate taxes slashed; gap vs rest narrowed, PLI schemes and import embargoes introduced

PLI Scheme:

- Total Financial Outlay of ~Rs 2 lakh Cr. across 13 sectors
- Extends incentive of 4-6% on incremental sales of goods manufactured in India for five years.
- Indicates significant departure from the norm as direct incentives are only on incremental production and **only selected "champions" are selected** to maximize impact.
- Policies incentivize downstream production and expect local value-addition to follow as scale builds up (where it does not exist).

Import Embargo

- Push indigenization in manufacturing for 101 defense items
- Import substitution benefit of Rs 35,000 – 50,000 Cr over 6-7 years

Source: BofA, Credit Suisse, Phillip Capital, ABSLAMC Research

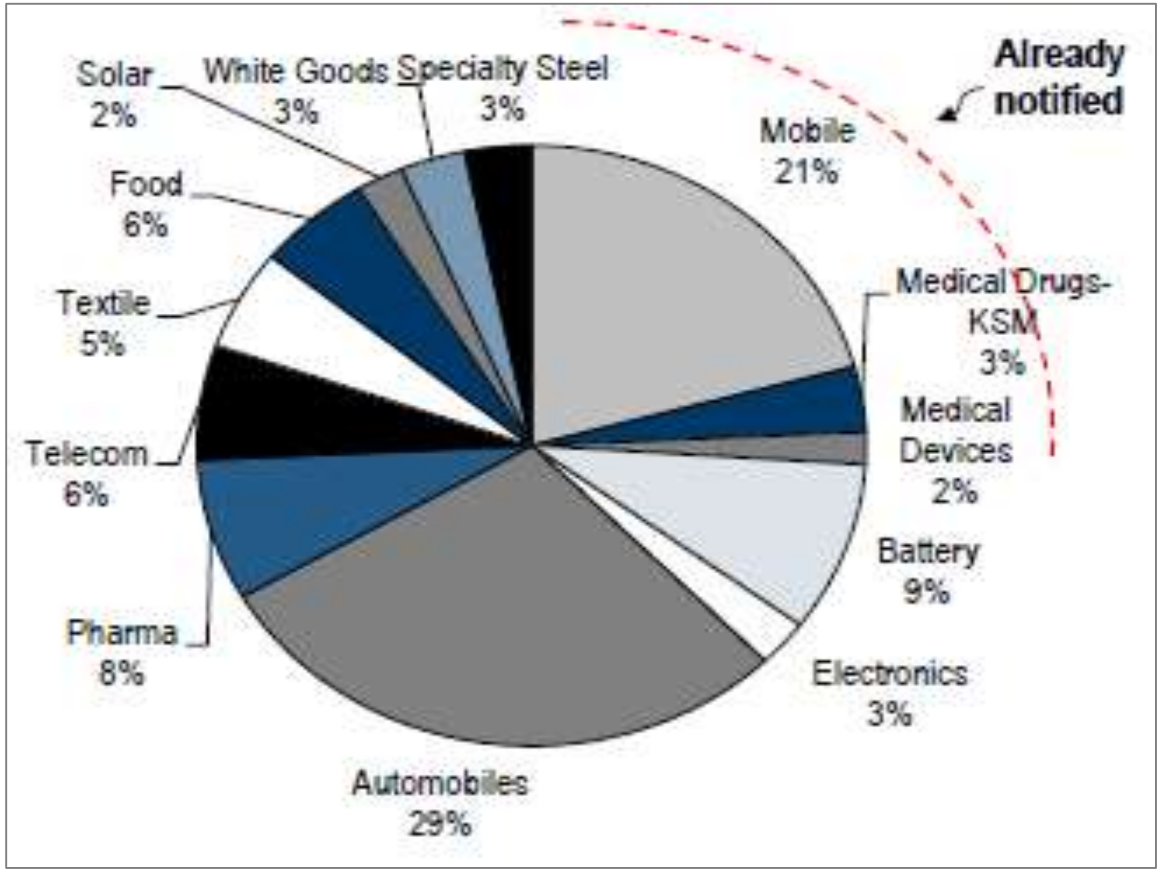
Back to TOC

Theme 1 : The rise of domestic manufacturing

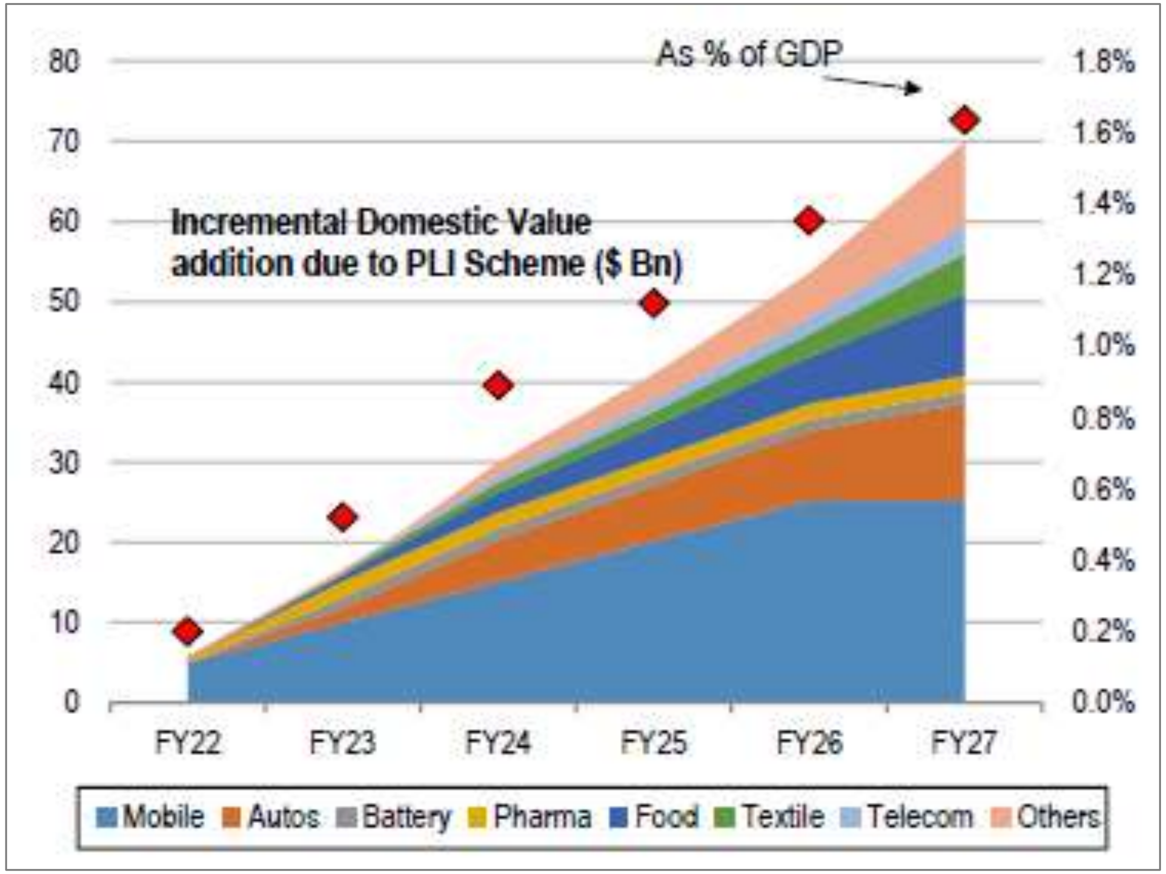
ADITYA BIRLA CAPITAL

PLI Scheme should help to attract FDI across sectors and boost GDP growth

Sectors that will benefit from PLI Scheme
Split of Rs 2 Lakh Cr incentives



PLI schemes can add 1.7% to FY27 GDP



Source: Credit Suisse, ABSLAMC Research

Back to TOC

Theme #1 : The rise of domestic manufacturing

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Sector beneficiaries

Chemicals

Continue to benefit from stringent pollution control norms in China

Post COVID diversification of supply chains from China

Shift in consumption towards Asian and Southeast Asian countries in all sectors leading to increasing demand for Chemicals & Petrochemicals

Defense

Few initiatives include increased FDI in defense to 74%, Defence Acquisition Procedure 2020 and 101 embargo list of import substitution

India's defense budget is likely to sustain a CAGR of ~8% over next few years

Defense budget is pegged at ~INR 1.35tn in FY22. Defence equipment orders to kick start from CY21 in areas of missiles, arms & ammunition, bulletproof jacket, warships and strategic electronics.

Pharmaceuticals

To benefit from diversifying supply chains away from China

Collective PLI support for pharma, APIs and medical equipment of INR 253.6bn

The PLI Scheme to incentivize specific high value goods such as biopharmaceuticals, complex generic drugs, patented drugs or drugs nearing patent expiry, cell based or gene therapy drugs

Back to TOC

Theme 1 : The rise of domestic manufacturing

Sector beneficiaries

Consumer electricals & durables

Improved electrification, Housing for All program, low product penetration, rise in temperature, energy-efficient products along with government's plans to offer production-linked incentives to establish manufacturing plants in India would be key drivers of INR 1.5tn consumer electricals & durables industry.

Post COVID-19, innovative healthcare features within products, products with smart connectivity to ease household work would drive demand for premium in 2021.

Auto & Auto Ancillaries

Auto sector is biggest beneficiary of the PLI scheme with INR 570.42bn outlay over next 5 years

Along with auto, the battery industry also got support of INR180bn which will aid the EV drive

The scheme is designed to enhance competitiveness of Indian auto industry in the global market

The scheme will help increase export revenue from the auto industry

Capital Goods

With total outlay of INR 1.9tn under the PLI Scheme to boost manufacturing along with increased thrust and allocation for infrastructure in the country, the biggest beneficiary will be the capital goods sector.

As the companies under different sectors will expand their production capacities to avail the benefit under the PLI Scheme, demand for capital goods will rise.

The rise of domestic manufacturing: Screener

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			EPS CAGR	ROE	P/E	Pscore	Quant Score
Company	Sector	Market Cap (crs)	FY21-23	FY22	FY23	Fy22	
Maruti Suzuki In	Automobile	1,98,165	32	12	22	9.0	34%
Larsen & Toubro	Industrials	1,88,709	20	13	15	7.6	91%
Sun Pharma Indu	Pharmaceuticals	1,55,953	14	12	22	9.0	43%
Bajaj Auto Ltd	Automobile	1,11,518	16	22	17	6.5	95%
Divi Labs Ltd	Pharmaceuticals	1,07,220	22	25	37	7.2	92%
Tata Motors Ltd	Automobile	1,04,121	64	14	8	6.8	47%
Dr Reddy'S Labs	Pharmaceuticals	85,050	21	17	22	6.0	42%
Cipla Ltd	Pharmaceuticals	71,384	22	14	21	7.5	69%
Siemens Ltd	Utilities	66,363	14	13	41	8.4	58%
Eicher Motors	Automobile	65,510	25	20	22	8.3	77%
Cadila Healthcar	Pharmaceuticals	58,865	10	16	25	6.0	80%
Aurobindo Pharma	Pharmaceuticals	56,660	12	15	14	8.3	92%
Lupin Ltd	Pharmaceuticals	48,066	25	12	22	7.0	46%
Biocon Ltd	Pharmaceuticals	45,276	45	12	33	8.5	18%
Torrent Pharma	Pharmaceuticals	42,664	23	23	25	7.0	42%
Bosch Ltd	Automobile	39,868	20	15	24	7.3	19%
Srf Ltd	Chemicals	39,534	21	19	25	7.6	93%
Pi Industries	Chemicals	38,641	20	16	35	6.5	86%
Honeywell Automa	Industrials	38,107	22	21	50	7.2	73%
Mrf Ltd	Automobile	33,656	18	11	19	7.8	57%
Alkem Laboratori	Pharmaceuticals	33,450	15	20	18	7.8	83%
Ashok Leyland	Automobile	32,790	113	12	19	6.8	31%
Voltas Ltd	Consumer Durables	32,025	21	15	36	7.8	61%
Bharat Forge Co	Automobile	30,061	52	13	27	5.5	29%

Source: Bloomberg, dated 4th May 2021

The stocks mentioned above are only for illustrative purposes and do not constitute a recommendation to buy or sell

Back to TOC

The rise of domestic manufacturing: Screener

Company	Sector	Market Cap (crs)	EPS CAGR FY21-23	ROE FY22	P/E FY23	Pscore Fy22	Quant Score
Abb India Ltd	Utilities	29,639	19	14	44	7.7	42%
Tvs Motor Co Ltd	Automobile	29,455	29	22	23	7.0	47%
Aarti Indus Ltd	Chemicals	29,230	30	19	32	8.2	72%
Whirlpool Of Ind	Consumer Durables	28,235	22	19	39	6.5	31%
Laurus Labs Ltd	Pharmaceuticals	26,865	21	37	19	8.6	93%
Ipca Labs Ltd	Pharmaceuticals	26,848	14	22	21	8.6	34%
Dixon Technologi	Consumer Durables	24,840	37	37	55	7.3	92%
Atul Ltd	Chemicals	24,130	16	18	27	7.0	83%
Cummins India	Industrials	23,495	13	16	28	7.5	97%
Syngene Internat	Pharmaceuticals	22,870	31	14	41	8.0	87%
Alembic Pharmace	Pharmaceuticals	19,540	10	19	18	6.5	91%
Endurance Techno	Automobile	18,314	21	19	22	7.9	88%
Thermax Ltd	Industrials	18,148	21	11	41	5.6	43%
Vinati Organics	Chemicals	17,846	35	22	37	5.5	48%
Navin Fluorine I	Chemicals	17,415	50	17	41	8.8	89%
Natco Pharma Ltd	Pharmaceuticals	17,249	94	12	16	6.3	52%
Ajanta Pharma	Pharmaceuticals	15,975	18	22	19	7.4	88%
Sundram Fasten	Automobile	15,466	26	19	25	4.9	85%
Minda Industries	Automobile	14,223	35	16	27	6.3	35%
Wabco India Ltd	Automobile	13,107	42	11	38	6.5	10%
Amber Enterprise	Consumer Durables	10,512	39	13	34	7.6	27%
Kpr Mill Ltd	Others	10,112	19	22	15	7.9	93%
Blue Star Ltd	Consumer Durables	8,063	29	23	31	6.7	47%
Johnson Controls	Consumer Durables	6,363	37	15	42	NA	6%
Jamna Auto Inds	Automobile	2,805	38	17	20	7.2	41%
Astec Lifescienc	Chemicals	2,221	19	23	22	7.7	NA
Lumax Inds	Automobile	1,454	39	16	14	7.5	NA

Source: Bloomberg, dated 4th May 2021

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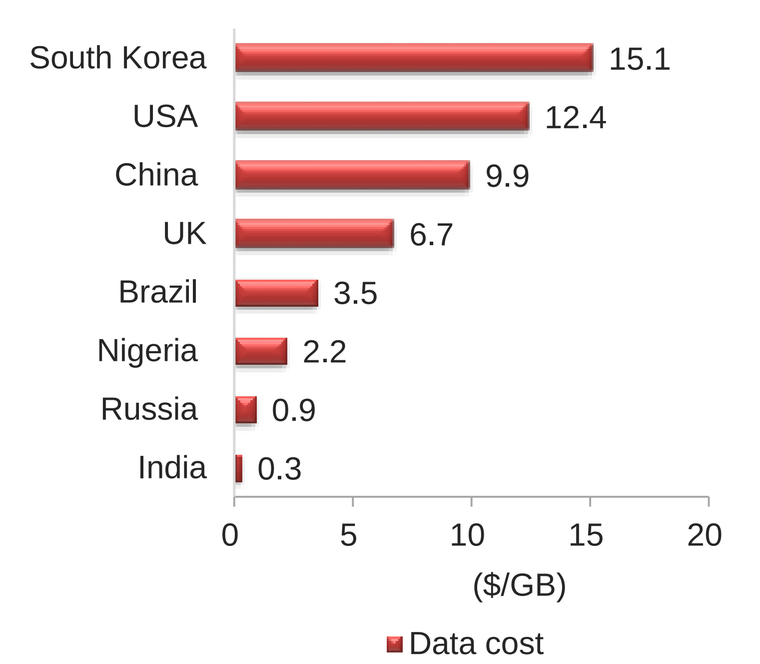
Back to TOC

Theme 2: Digitalization

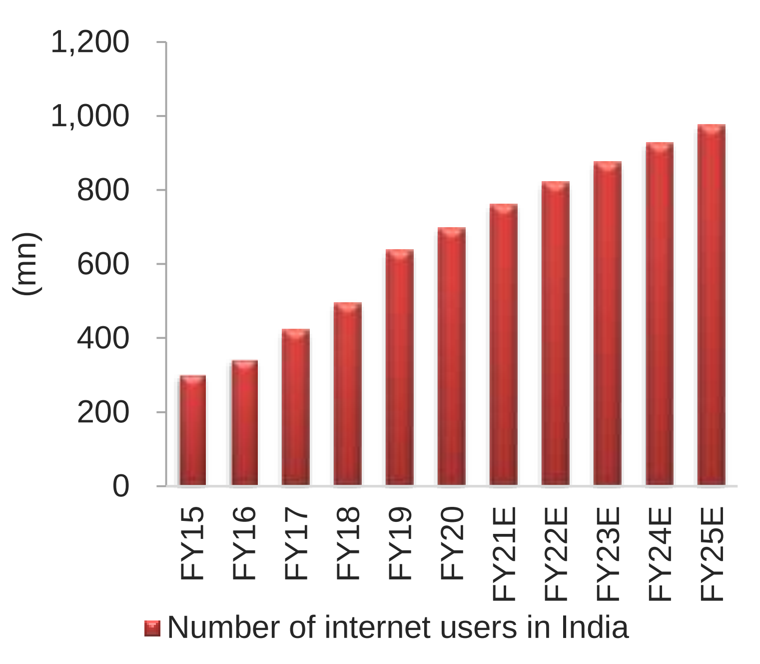
Low cost of Data

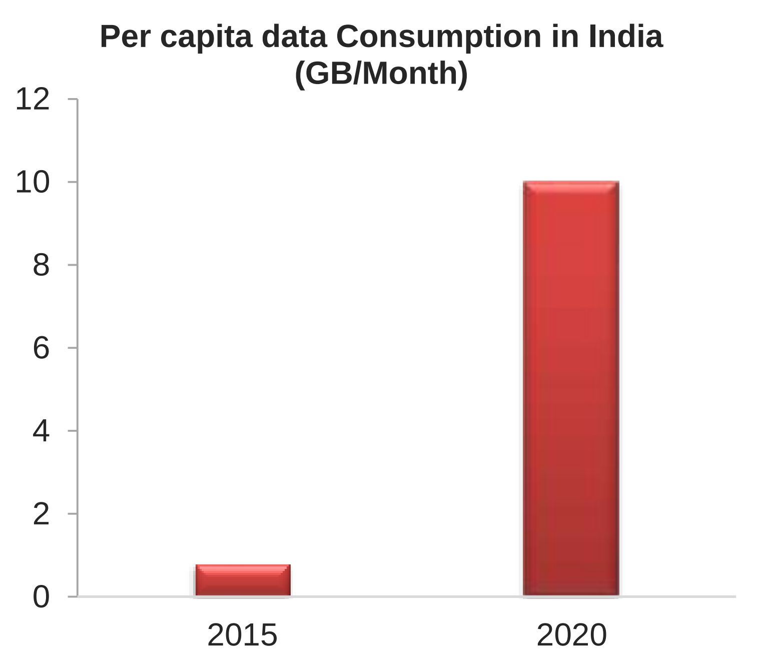
- Competitive offerings by telecom firms turbocharged internet subscriptions and data consumption.
- Favorable cost dynamics (led by Jio) coupled with affordable high end smart phones and subsidized feature-phones led to acceleration in number of data subscribers

As data costs in India tumble,



Digital usage in India continues to go up





Source: Yes Sec Research, McKinsey Global Institute

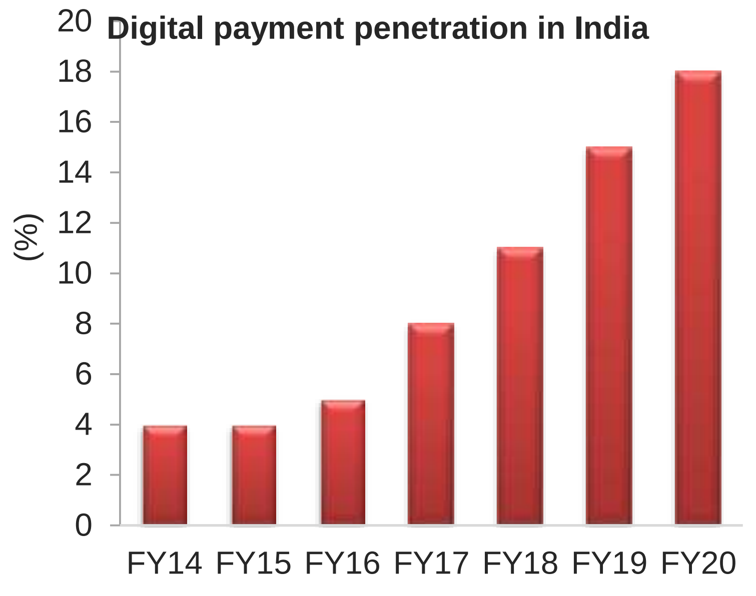
Theme 2: Digitalization

Government initiatives

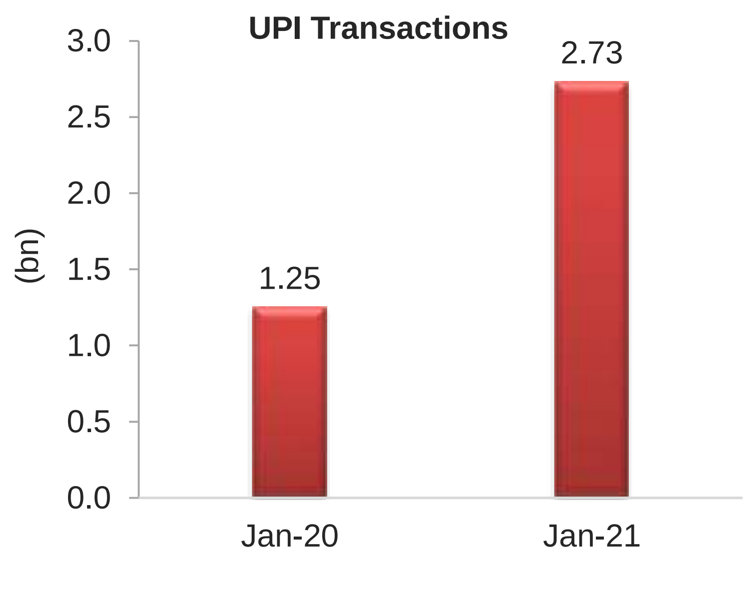
Government has fast-tracked digital adoption across all stratas of the society

- Digital identity programme like Aadhaar: More than 1.2 bn enrolled
- Digital tax platforms like GST: More than 10 million businesses enrolled

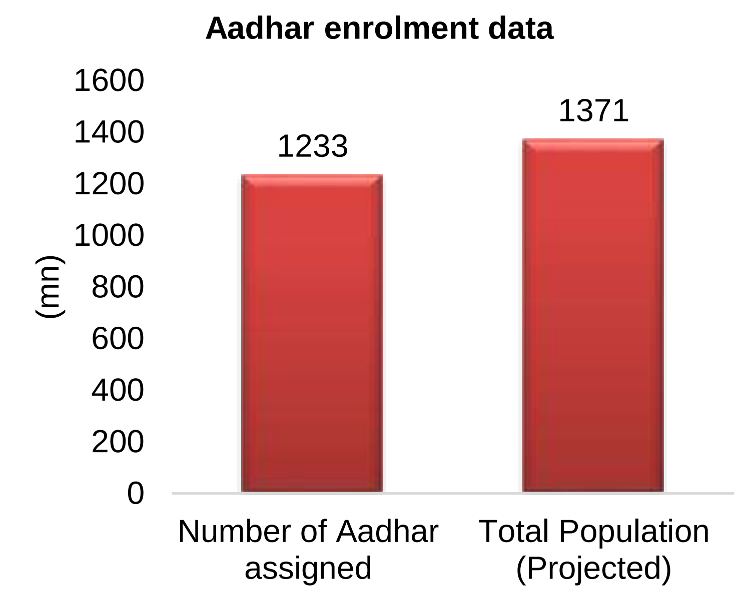
Significant growth in digital payment ecosystem over the last 3-4 years



UPI payments have shown over 100% increase in number of transactions over FY21



Nearly 89% of Indian population has enrolled for Aadhar



Source: McKinsey Global Institute

Theme 2: Digitalization

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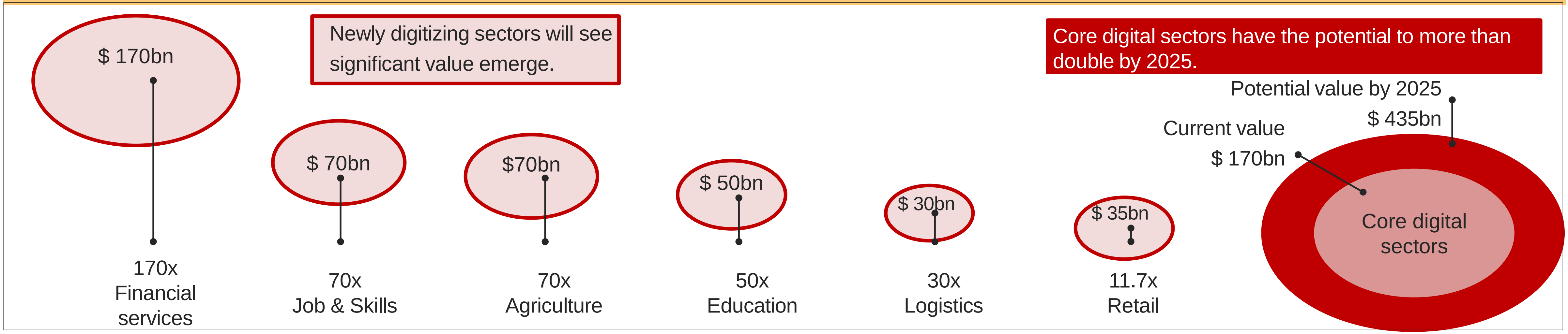
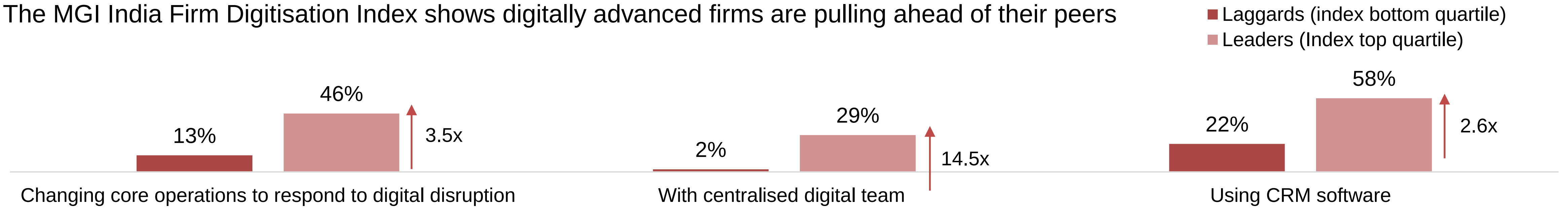
Digital adoption by Private Sector

As per McKinsey, Newly digitizing sectors, including agriculture, education, energy, financial services, healthcare, etc, could each create $10 billion to $150 billion of incremental economic value in 2025 as digital applications help raise output, save costs and time, reduce fraud, and improve matching of demand and supply.

By 2025, digital could transform India's economy, sector by sector (Values show upper limit of an estimated range)



The MGI India Firm Digitisation Index shows digitally advanced firms are pulling ahead of their peers



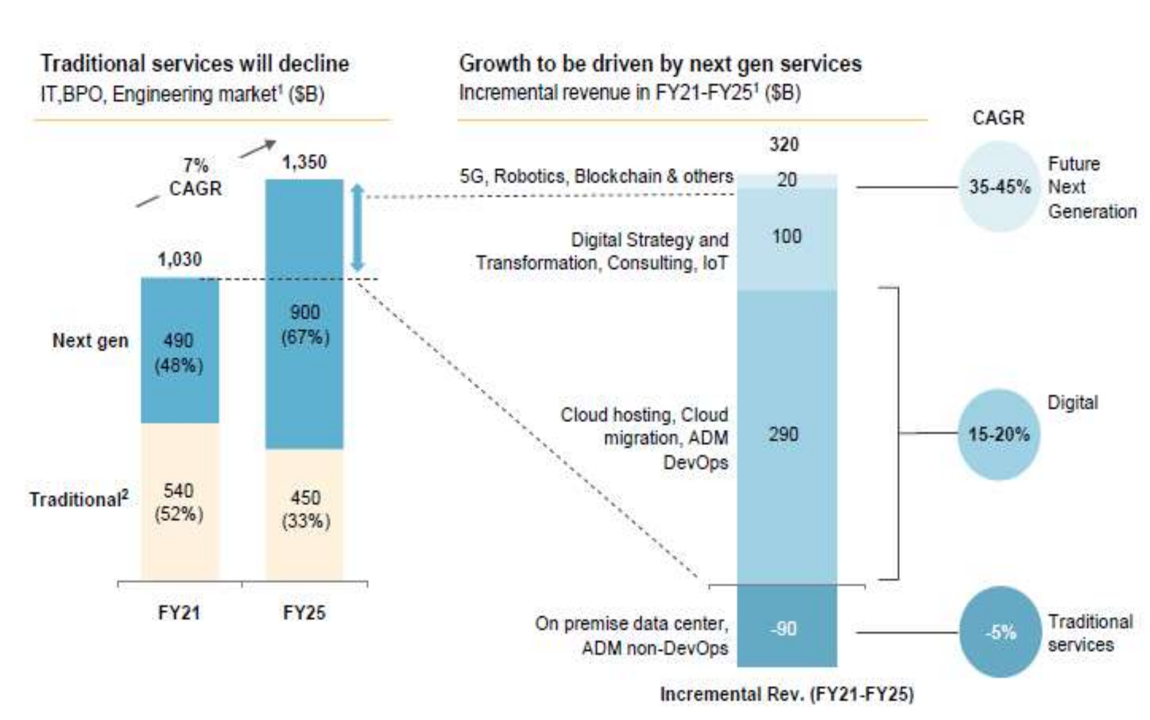
Source: McKinsey Global Institute

Back to TOC

Theme 2: Digitalization

Medium term Growth drivers for Indian IT
New technologies to drive incremental growth (part of digital) while non-traditional segment to witness pressure over FY21-25E

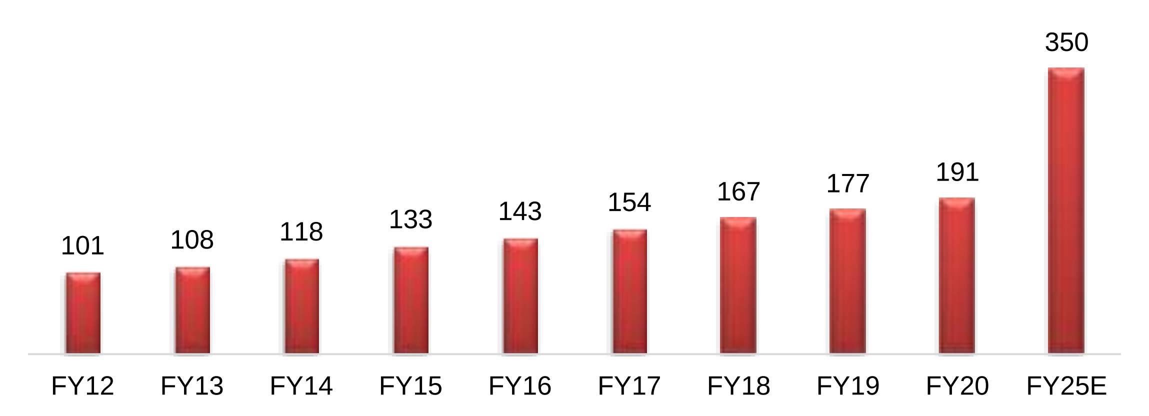
Digital to drive growth over the medium term



Source: Wipro

- Digital capabilities have continued to boost the revenue of major Indian IT services providers and are increasingly becoming sizable.
- Digital offerings accounted for 33.2% of TCS's overall revenue in Q2FY20 ,as compared to just 9.7% in FY2015.
- Infosys' agile digital service architecture helps its clients in their digitalization journey and digital offerings constituted 50.1% of Infosys's total revenue in Q3FY21 vs 23.9% in Q1FY18.
- Wipro continues to pursue 'Digital-first' approach and Wipro's digital offerings account for 40% of its FY20 revenue.
- Tech Mahindra digital business revenues grew 32.3% in FY20

India IT market (USD bn) witnessed 8.3% growth over FY12-20 led by 9.9% growth from export market; Expected to reach USD 350 bn by FY25E



Theme #2: Digitalization

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Mega technology trends for next decade to fuel IT spends

- IT services spend to be driven by cloud led services and continuing heritage strength in ADM.
- BPM growth path to be led by implementation of chat-bots, RPA and AI- based automation.
- Digital engineering, IoT and AR/VR to drive ER&D services spend apart from increasing outsourcing towards India based ER&D players.
- SaaSification to drive growth for software products firms (pure-play firms) and system integrators over next decade due to flexibility and cost efficiency.

Foundational Technologies

	Key components	Impact potential (2020-2030)
CLOUD COMPUTING	• Cloud Management Software • Data Center Hardware • High-Speed Networks • SaaS/PaaS	• USD 6.2 trillion global GDP impact by 2025
BIG DATA AND ANALYTICS (BDA)	• Apps & Infrastructure • Data Analytics – AI-Based & Traditional • BI/ Visualization	• 175 zettabytes of data created, 50 per cent of which will be stored in public cloud
CYBERSECURITY	• Security • Intelligence Detection • Remediation Adaptation • End-User Education	• USD 6 trillion global GDP impact by 2025

Advanced Technologies

	Key components	Impact potential (2020-2030)
ARTIFICIAL INTELLIGENCE (AI)	• AI Algorithms • Machine Learning (ML) • Deep Learning	• USD 6.7 trillion global GDP impact by 2025
INTERNET OF THINGS (IOT)	• Consumer Wearables • Advanced, Low-Cost Sensors • Wireless/NFC Devices	• USD 6.2 trillion global GDP impact by 2025 • >1 trillion IoT things installed
3D PRINTING	• Additive Manufacturing • Rapid Prototyping	• USD 0.6 trillion global GDP impact – 35-60 per cent costs saved per printed product
ROBOTICS	• Robotic Dexterity • Sensors • Distributed Robotics • Robotic Exoskeletons	• USD 4.5 trillion global GDP impact by 2025
BLOCKCHAIN	• Distributed Ledger Technology (DLT) • Cryptocurencies • DApps	• 10 per cent of global GDP – USD 125 trillion* – stored in blockchains by 2027
IMMERSIVE MEDIA	• Virtual Reality (VR) • Augmented Reality (AR) • Mixed Reality (MR) • Extended Reality (XR)	• USD 1.5 trillion of student debt freed up in the US alone

Source: NASSCOM

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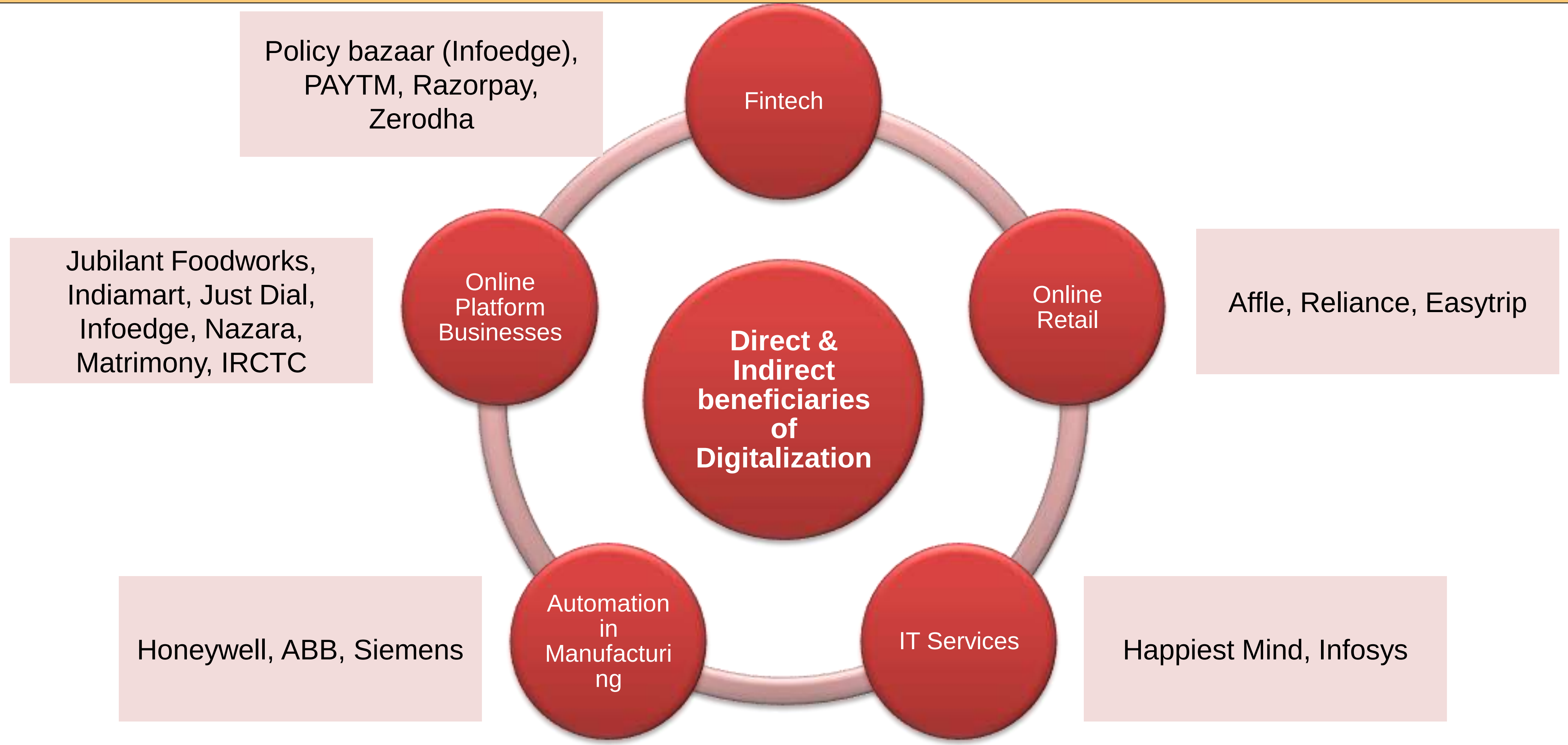
Theme 2: Digitalization

Beneficiaries of Digitalization



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Back to TOC

Digitalization: Stock screener

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Company	Market Cap (crs)	EPS CAGR FY21-23	ROE FY22	P/E FY23	Pscore Fy22	Quant Score
Tata Consultancy	11,38,661	11	42	26	7.2	100%
Infosys Ltd	5,73,076	12	29	23	6.1	100%
Wipro Ltd	2,64,122	12	19	21	6.9	95%
Hcl Tech Ltd	2,46,591	12	21	16	7.2	99%
Tech Mahindra Lt	93,239	10	21	14	7.9	91%
L&T Infotech Ltd	67,821	15	30	27	6.4	100%
Info Edge	61,657	27	10	100	6.1	33%
Mindtree Ltd	35,293	12	28	24	6.3	97%
Mphasis Ltd	32,883	14	22	20	8.5	98%
Oracle Financial	30,062	12	28	14	NA	88%
Tata Elxsi Ltd	24,487	11	31	48	NA	99%
Indiamart Interm	23,261	18	20	57	4.8	75%
Coforge Ltd	17,592	18	23	25	8.4	84%
Persistent Sys	16,703	19	20	24	7.3	96%
Affle India Ltd	14,194	34	30	82	7.0	78%
Happiest Minds	10,966	27	82	50	8.0	NA
Cyient Ltd	8,356	17	15	15	7.5	81%
Just Dial Ltd	5,264	28	15	19	8.2	50%
Mastek Ltd	4,064	20	25	15	6.9	NA
Niit Ltd	2,394	11	11	14	5.0	NA
Matrimony.Com Lt	2,197	27	21	28	6.0	NA
Easy Trip Planners	2,140	93	42	22	9.0	NA

Source: Bloomberg, dated 4th May 2021

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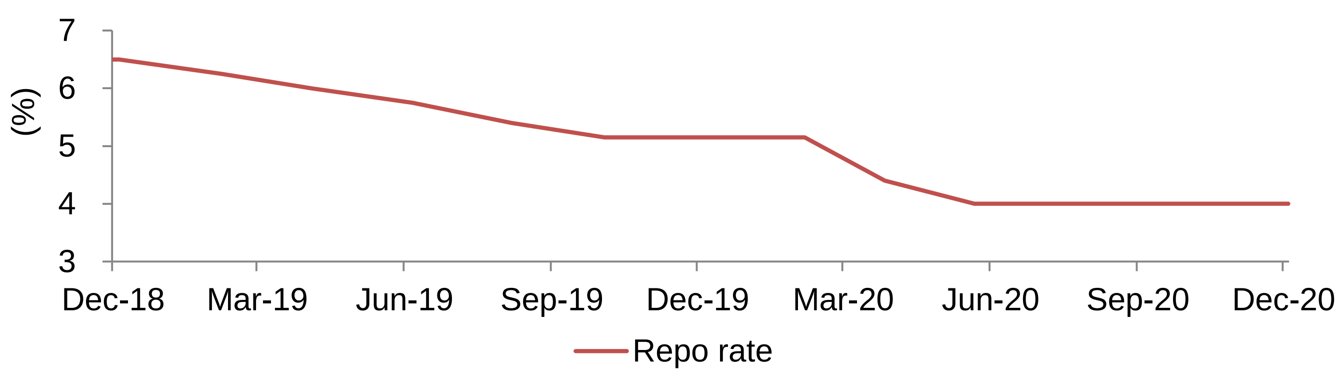
Back to TOC

Theme 3 : Cyclical revival in Real Estate

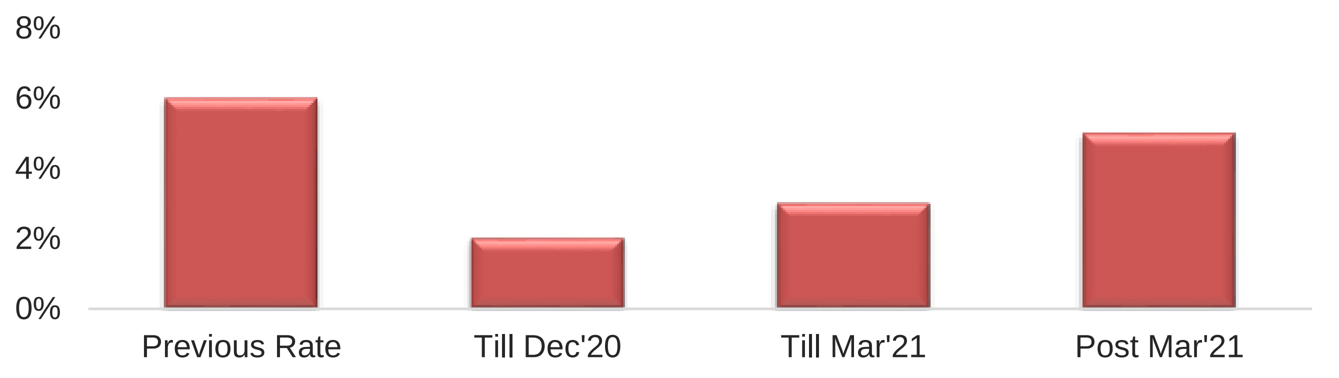
- Contrary to the belief that real estate sector will face adverse effect of the lockdown which was already facing challenges from liquidity issues, limited government ammunition for fiscal incentives, the recovery in the sector has surprised positively.
- **Structurally, the real estate revival hinges on:**
  - Low interest rates
  - COVID-19 induced “work from home” trend
  - Government incentive of reduced stamp duty in key markets like Maharashtra and Karnataka
  - Industry consolidation induced by RERA & limited availability of capital to branded names
  - Unsold inventory has sharped dropped since 1QCY20 given fewer launches and better sales.

Multi year low interest rates are demand supportive



Source: RBI

Stamp duty cut “primed” real estate demand



Source: Times of India

Theme 3 : Cyclical revival in Real Estate

ADITYA BIRLA CAPITAL

#1: Interest rate sensitivity analysis: A 2% drop in interest rate results in substantial savings per month

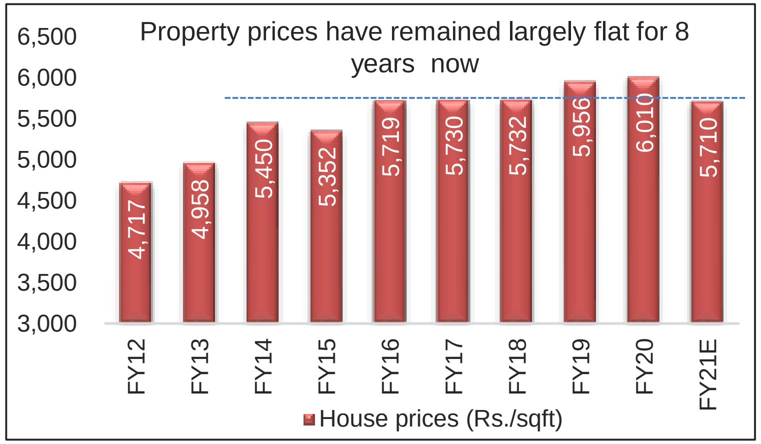
Loan interest rate (%, Loan Tenure: 15 years)
Savings on EMI vs. 10% rate of interest

	9%	8%	7%	6%
500,000	302	595	879	1,154
2,500,000	1,508	2,974	4,394	5,769
5,000,000	3,017	5,948	8,789	11,537
7,500,000	4,525	8,921	13,183	17,306
10,000,000	6,034	11,895	17,578	23,075

With 2% fall in the interest rate, which is the case in this cycle, the total savings are Rs. 11,895 per month for Rs. 10mn loan of 15 years tenure, which is substantial.

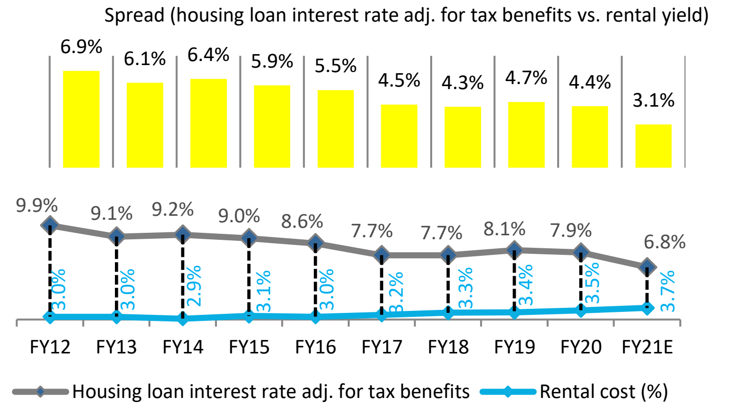
Source: Spark estimates

#2: Property prices* have largely remained flat in the last 8 years



Source: PropEquity

#3: Diff. b/w tax adjusted home loan rate and rental yield has fallen; one could prefer buying a house



#4: Affordability has improved considerably over the last 3 years due to 1) time correction in property prices; 2) lower interest rates; and 3) decreasing unit size

Mumbai- Suburbs	**2003**	**2007**	**2012**	**2017**	**Current**
Price/sq-ft - Built up (Rs.)	4,000	7,000	9,500	13,000	13,500
% CAGR		12%	6%	6%	1%
Size of house - Built up (sq.ft)	900	900	900	900	900
Cost of house (Rs.mn)	3.6	6.3	8.6	11.7	12.2
Loan eligibility (70% of house cost)	2.5	4.4	6	8.2	8.5
Interest rate %	7.75%	10.00%	11.00%	9.50%	7.50%
EMI (Rs.)	20.688	42,557	61,776	76,342	68,516
Annual income (Rs.mn)	0.5	1.0	1.4	2.1	2.7
Increase in income %		14%	8%	8%	8%
EMI to income ratio (x)	**48%**	**51%**	**52%**	**43%**	**31%**
Property price to income ratio (x)	**6.9**	**6.3**	**6.0**	**5.5**	**4.5**

EMI to Income ratio declined to ~30% and Property price to income ratio under 5x except Mumbai

Source: PropEquity

#5: There is a sharp improvement in affordability for an NRI with an annual income of USD 100,000 now vs. in 2012

	NRI's annual income (USD)	**Rs./USD**	**NRI's annual income In Rs.**	**House property price (1200sqft)**	**House value to annual income (x)**	**Monthly# EMI (USD)**
2012	100,000	47.0	4,700,000	5,949,000	1.3	1,231
2013	100,000	54.4	5,440,988	6,540,300	1.2	1,176
2014	100,000	60.5	6,050,192	6,422,100	1.1	1,021
2015	100,000	61.1	6,114,363	6,862,800	1.1	1,055
2016	100,000	65.5	6,546,848	6,875,700	1.1	936
2017	100,000	67.1	6,707,203	6,878,100	1.0	914
2018	100,000	64.5	6,445,512	7,147,200	1.1	1,006
2019	100,000	69.9	6,992,291	7,212,300	1.0	925
2020	100,000	74.1	7,410,000	6,851,685	0.9	766

EMI for an NRI has fallen by ~38% since 2012 led by triple benefit s of flat property prices, lower interest rate and rupee deprecation.

Source: PropEquity

Theme 3 : Cyclical revival in Real Estate

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15 Year Snapshot of
Indian Residential Real Estate Cycle

Phase 1	Phase 2	Phase 3	Phase 4	Phase 5
Cycle Bottom/ Early Recovery	Expansion	Contraction/ Early Downturn	Full downturn/ Recession	Cycle Bottom/ Early Recovery
FY05-07, FY08, FY09, FY10	FY11, FY12, FY13	FY14, FY15, FY16, FY17	FY18, FY19, FY20	FY21, FY22, FY23
▪ *Strong pricing and demand frenzy* ▪ *Soaring profits for developers* ▪ *Easy access to capital*	▪ *High demand but low incremental price growth* ▪ *Launches > Demand* ▪ *Deteriorating profitability for developers*	▪ *Demand contraction coupled with price erosion* ▪ *Inventory piling-up and reduced investor interest* ▪ *Increasing leverage for developers*	▪ *Tapering demand with price erosion* ▪ *Demand > launches* ▪ *Inventory pressure recedes gradually* ▪ *Industry consolidation accelerates*	▪ *Demand to bottom out in FY21E and expected to improve given better affordability* ▪ *Price improvement due to lower supply and reducing inventory*

	Phase 1	Phase 2	Phase 3	Phase 4
Demand (000's units)	**234**	**404**	**343**	**303**
Launches (000's units)	**258**	**518**	**404**	**270**
Inventory (000's units)	**323**	**664**	**910**	**814**
Income/Job prospects	**Very High**	**High**	**Medium**	**Low**
Property Price to Income	**5.5**	**5.2**	**4.6**	**3.9**
Investor Confidence	**Very High**	**High**	**Medium**	**Low**
Consolidation	**1,100**	**2,385**	**2,250**	**1,400**
Price CAGR %	**10%**	**6-7%**	**4%**	**-5% - 0%**
Realty MCap as % of total	**4%**	**2%**	**1%**	**1%**
Access to Debt & Equity	**Very High**	**High**	**Medium**	**Low**
Market Sentiment	Frenzy	Optimistic	Neutral	Fear

Start of up-cycle led by:

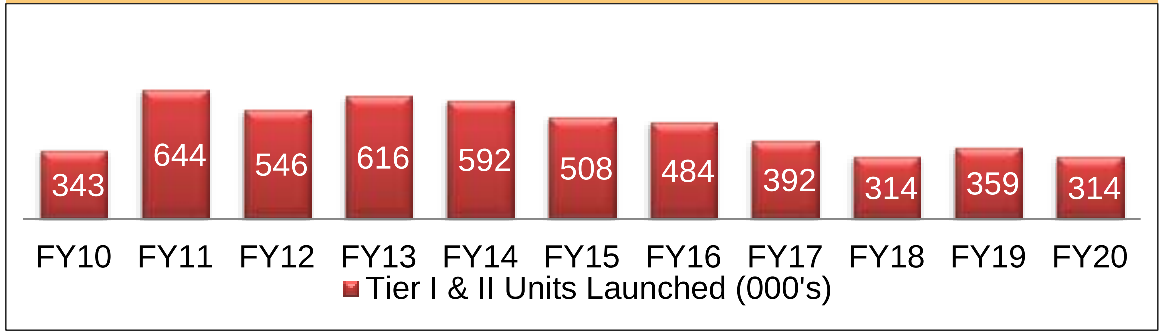
1) Supply correction (reducing inventory pressure); and
2) Improving demand given heightened affordability for end-users and improving rental yields for in

Note: Demand, launches, inventory in units (thousands) in top 7 cities. Office supply in msf. Affordability denoted by property price to income ratio. Consolidation denoted by number of developers. Investor confidence on the basis of NRI demand

Theme 3 : Cyclical revival in Real Estate

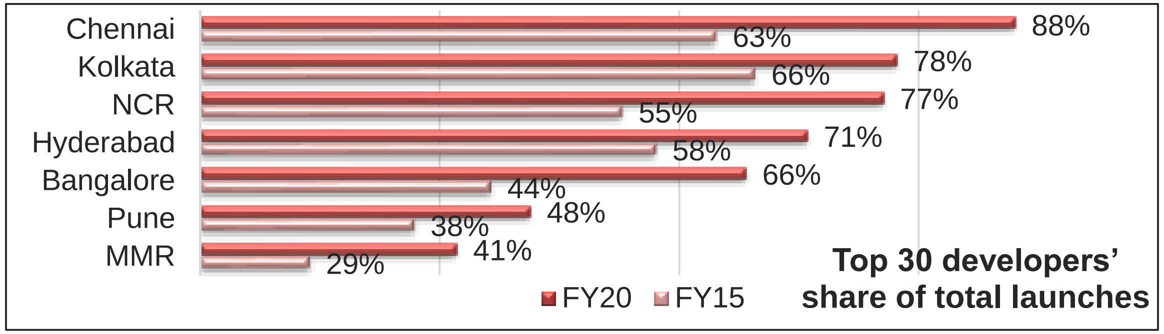
While launches have declined in last three years, which should result in lower completion over next three years; However we expect completion run rate to be much better as recent launches are done by bigger/organised developers with well-funded balance sheet

Launches in last three years declined to average 329 thousand units versus 438 thousand units in FY16-17 period



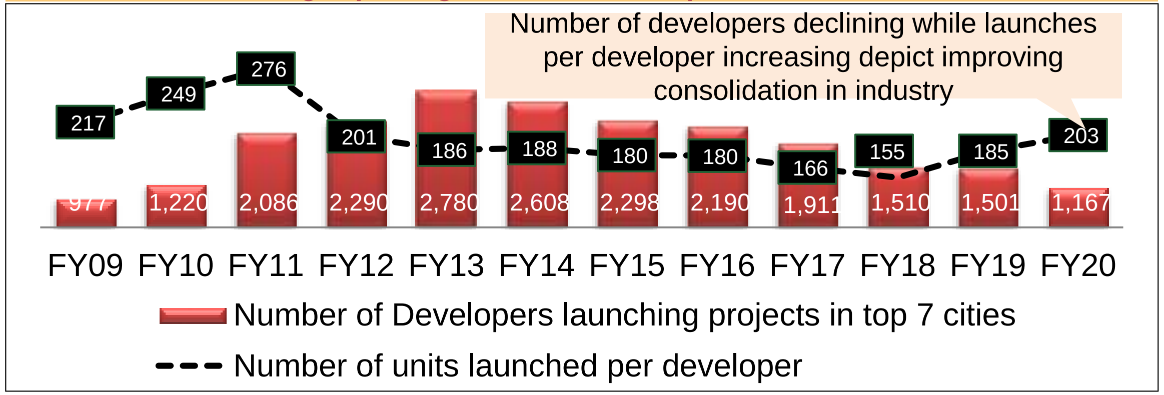
Source: Propequity

Share of launches by top 30 players increased to 60% in FY20 from 45% in FY15 in Tier 1 cities



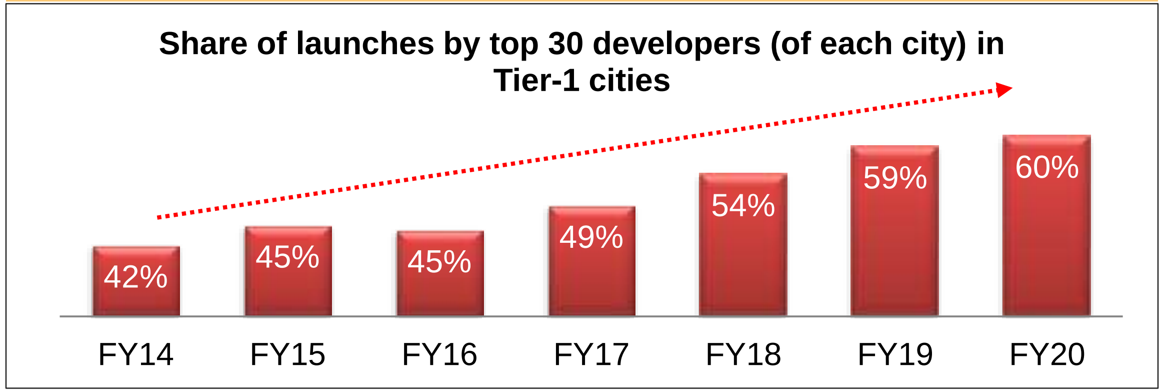
Note: Tier 1 cities comprise 7 top cities i.e. MMR, NCR, Chennai, Bangalore, Kolkata, Hyderabad, Pune by absorption. Source: Propequity

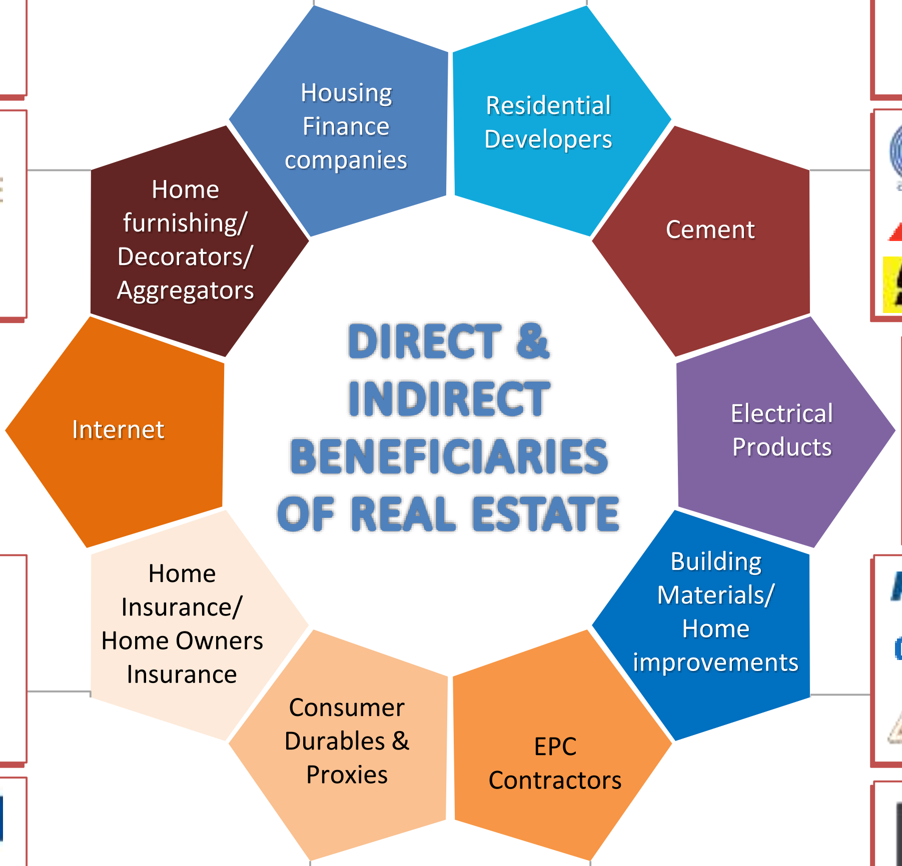
No. of developers launching projects has declined to ~1,167 in FY20 vs ~2,800 in FY12; In fact no. of units launched per developer has increased to 203 units a year versus 166 units in FY17 reflecting improving consolidation despite lower launches



Note: Tier 1 cities comprise 7 top cities i.e. MMR, NCR, Chennai, Bangalore, Kolkata, Hyderabad, Pune by absorption. Source: Spark Capital , Propequity

Top 30 developers launches account for more than 70% in Hyderabad, NCR, Kolkata and Chennai





Source: Spark Research

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Cyclical revival in Real Estate: Stock screener

ADITYA BIRLA CAPITAL

Company	Sector	Market Cap (crs)	EPS CAGR FY21-23	ROE FY22	P/E FY23	Pscore Fy22	Quant Score
HDFC	Financials	4,34,750	16	12	3.4	NA	NA
Ultratech Cement	Cement	1,84,851	22	13	24	7.8	89%
Shree Cement	Cement	1,01,024	18	15	35	7.6	86%
Havells India	Consumer Durables	62,451	19	21	46	6.9	87%
Ambuja Cements	Cement	61,992	8	12	22	7.9	77%
Dlf Ltd	Real Estate	61,747	18	4	33	6.6	38%
Godrej Propertie	Real Estate	36,046	57	7	53	5.4	14%
Acc Ltd	Cement	35,743	14	13	16	7.6	89%
Astral Poly	Consumer Discretionary	32,019	27	21	59	7.5	76%
Embassy Office P	Real Estate	30,249	35	4	22	7.0	NA
Dalmia Bharat Lt	Cement	29,169	31	8	24	7.0	76%
Crom Greaves Con	Consumer Durables	23,637	16	31	33	7.3	84%
Ramco Cement/The	Cement	23,259	20	14	23	7.2	87%
Polycab India Lt	Consumer Durables	22,101	15	18	21	7.6	81%
Lic Housing Fin	Financials	21,057	15	14	0.8	NA	NA
Oberoi Realty	Real Estate	20,360	17	9	18	5.8	22%
Kajaria Ceramics	Consumer Discretionary	14,715	22	19	32	7.9	91%
Phoenix Mills	Real Estate	13,232	45	7	28	7.2	9%
Prestige Estates	Real Estate	10,765	25	8	18	7.4	17%
V-Guard Ind Ltd	Consumer Durables	9,808	18	19	34	6.8	68%
Century Plyboard	Consumer Discretionary	8,165	18	19	27	8.2	64%
Brigade Enterpri	Real Estate	5,316	64	9	17	7.8	20%
Cera Sanitarywar	Consumer Discretionary	5,029	20	16	29	8.3	79%
Sobha Ltd	Real Estate	4,660	27	13	12	7.3	43%
Nesco Ltd	Real Estate	3,524	31	13	13	6.0	39%
Greenply Indus	Consumer Discretionary	2,579	22	23	18	7.8	NA
Greenlam Industr	Consumer Discretionary	2,542	18	17	20	8.3	NA
Mahindra Lifespa	Real Estate	2,531	3943	0	17	NA	51%
Kolte-Patil	Real Estate	1,655	63	11	9	6.0	NA

Source: Bloomberg, dated 4th May 2021

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ADITYA BIRLA CAPITAL

Concerns about impending environmental risk creating fresh set of opportunities

- **2020 was one of the warmest years on record, highlighting the relentless pace of climate change.**
- **As per World Bank report, climate change could result in:**
  - More than 100 million additional people living in poverty by 2030.
  - Crop yield losses reaching as high as 5% in 2030, & 30% in 2080, resulting in higher food prices
  - Warming of 2-3 ℃ could risk for malaria up to 5% and diarrhoea up to 10% by 2030.

Rising risks from Environment are increasingly pushing government & companies to adopt more sustainable way of doing business…

Top 5 Global Risks in Terms of Likelihood

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
1st	Asset Price Collapse	Storms & Cyclones	Income Disparity	Income Disparity	Income Disparity	Interstate Conflict	Involuntary Migration	Extreme Weather	Extreme Weather	Extreme Weather	Extreme Weather
2nd	China Economic Slowdown	Flooding	Fiscal Imbalances	Fiscal Imbalances	Extreme Weather	Extreme Weather	Extreme Weather	Involuntary Migration	Natural Disasters	Climate Action Failure	Climate Action Failure
3rd	Chronic Disease	Corruption	Greenhouse Gas Emissions	Greenhouse Gas Emissions	Unemployment	Failure of National Governance	Climate Action Failure	Natural Disasters	Cyberattacks	Natural Disasters	Natural Disasters
4th	Fiscal Crises	Biodiversity Loss	Cyberattacks	Water Crises	Climate Action Failure	State Collapse or Crises	Interstate Conflict	Terrorist Attacks	Data Fraud & Theft	Data Fraud & Theft	Biodiversity Loss
5th	Global Governance Gaps	Climate Change	Water Crises	Population Ageing	Cyberattacks	Unemployment	Natural Catastrophes	Data Fraud & Theft	Climate Action Failure	Cyberattacks	Human-made Environmental Disasters

Economic | Environmental | Geopolitical | Societal | Technological

Source: World Economic Forum – The Global Risks Report 2020

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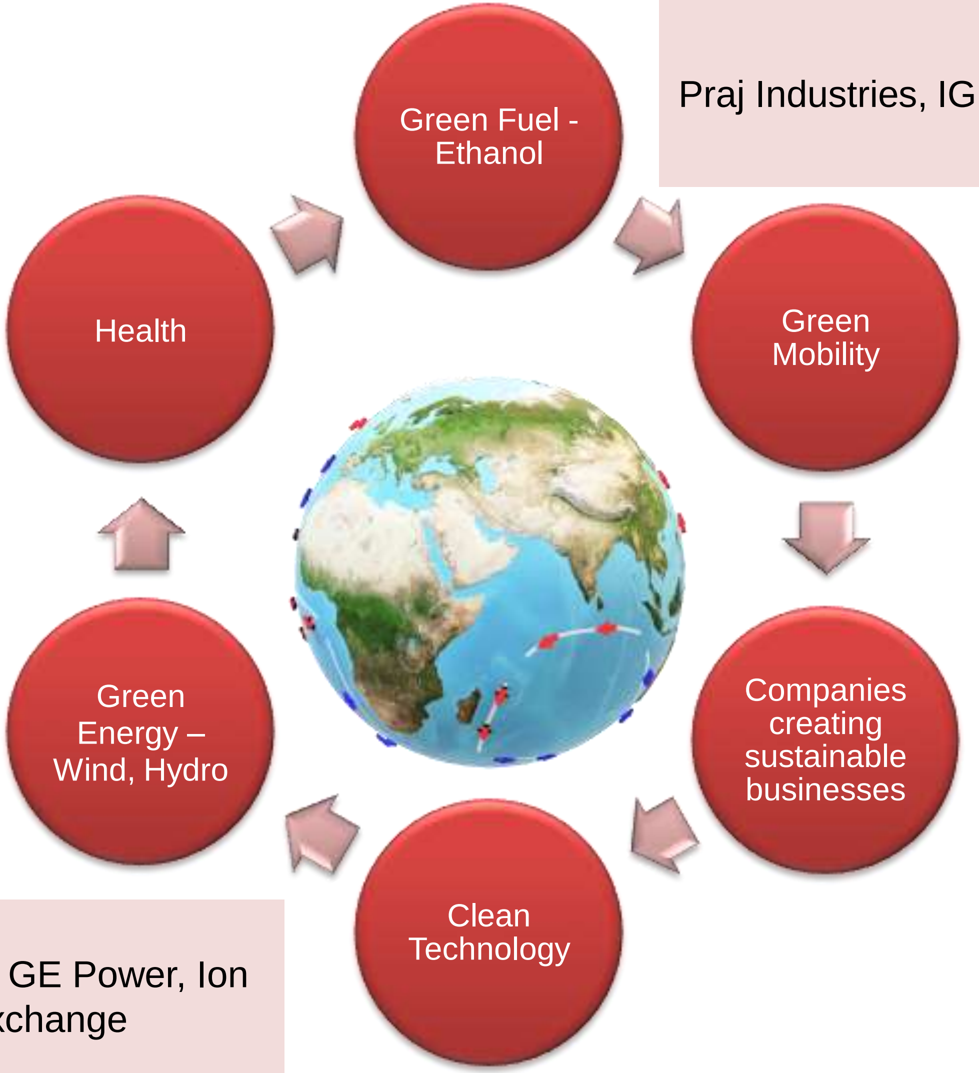
Theme 4 : Sustainability



Praj Industries, IGL, MGL

Dabur, Marico, PGHH, Sanofi, Abbot, Dr Lal Path labs

Tata Motors, M&M, Ather Energy, Hero Electric, Okinawa, Bosch, WABCO

Azure Power, Adani Green. Tata Power. Torrent Power

Vinati Organics, Chembond Chemicals

Thermax, GE Power, Ion Exchange

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Theme 4 : Sustainability

Sector beneficiaries

Green Mobility

- Companies that benefit from the impending shift towards Electric mobility.
- Government has been incentivising the shift towards Hybrid & EVs by announcing the FAME subsidy programme for both 4W & 2W
- Tightening emission norms (implementation BSVI) also presents an opportunity

Green Energy

- Companies focusing on production of renewable sources of energy like solar, wind, hydro.
- India plans to increase its existing clean energy capacity from 134GW to 220 GW by 2022
- Solar capacity could move from 36 GW TO 235 GW by 2030

Green Technologies

- Companies levered to environmental friendly technologies like FGD, air pollution control, waste and water treatment plants

Sector beneficiaries

Green Fuel

- Government has been promoting higher use of biofuels by increasing the target of ethanol blending in petrol to 20% by 2030.
- The government has also been increasing CNG retail outlets to ensure higher usage of CNG.

Green ways of doing business

- Companies focusing on alternate sources of captive power, or companies focusing on reducing negative impact on environment through better operations and practices.
- Larger Chemical companies in India investing in waste water treatment plants for long term sustainability.

Health

- Companies focusing on Healthy Nutrition, Hygiene & Personal care, Lifestyle disease solution & Active living

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Sustainability: Stock screener

Company	Sector	Market Cap Crs	EPS CAGR (%) FY21-23	ROE (%) FY22	P/E (x) FY23	Pscore FY22	Quant Score
Hindustan Unilev	Consumer Staples	5,63,015	16	20	51	NA	85%
Adani Green Ener	Industrials	1,63,338	NA	8	29	NA	57%
Nestle India Ltd	Consumer Staples	1,60,200	13	107	50	7.9	53%
Bajaj Auto Ltd	Automobile	1,11,518	16	22	17	8.2	95%
Tata Motors Ltd	Automobile	1,04,121	64	14	8	6.5	47%
Dabur India Ltd	Consumer Staples	95,512	13	24	43	8.6	90%
Mahindra & Mahin	Automobile	92,686	15	13	16	7.5	35%
Marico Ltd	Consumer Staples	58,795	15	38	39	NA	97%
Hero Motocorp Lt	Automobile	55,699	16	8	29	7.0	65%
Apollo Hospitals	Health care	46,054	46	8	26	NA	50%
Procter & Gamble	Consumer Staples	44,228	20	60	49	6.1	94%
Bosch Ltd	Automobile	39,868	20	15	24	6.8	19%
Indraprastha Gas	Oil and Gas	35,392	11	8	29	8.0	56%
Tata Power Co	Industrials	32,864	15	8	29	9.0	74%
Abbott India Ltd	Pharmaceuticals	32,089	15	8	27	7.7	77%
Tvs Motor Co Ltd	Automobile	29,455	29	22	23	6.7	47%
Pfizer Ltd	Pharmaceuticals	24,323	13	8	28	7.0	54%
Dr Lal Pathlabs	Health care	24,087	14	8	26	7.0	78%
Torrent Power Lt	Industrials	19,518	9	8	29	8.0	60%
Hatsun Agro Prod	Consumer Staples	18,212	30	24	51	NA	NA
Thermax Ltd	Industrials	18,148	21	11	41	9.0	43%
Vinati Organics	Chemicals	17,846	35	22	37	8.0	48%
Sanofi India Ltd	Pharmaceuticals	17,645	7	8	29	6.0	80%
Zydus Wellness	Consumer Discretionary	13,331	22	8	30	8.1	28%
Wabco India Ltd	Automobile	13,107	42	11	38	7.8	10%
Metropolis Healt	Health care	12,077	12	8	26	7.9	35%
Mahanagar Gas Lt	Oil and Gas	11,477	4	8	29	6.5	73%
Narayana Hrudaya	Health care	8,415	29	19	29	8.2	15%
Thyrocare Techno	Health care	5,553	9	8	26	8.0	41%
Garware Technica	Consumer Discretionary	5,487	25	21	23	7.4	87%
Praj Industries	Industrials	4,480	50	13	29	7.0	NA
Huhtamaki India	Consumer Discretionary	2,129	20	20	10	NA	NA
Ion Exchange Ltd	Chemicals	2,073	22	8	29	6.4	NA
Ge Power India L	Industrials	1,757	14	8	29	7.8	12%

Source: Bloomberg, dated 4th May 2021

The stocks mentioned above are only for illustrative purposes and do not constitute a recommendation to buy or sell

Theme 5: Revival in midcaps

Valuation and underperformance vs. Large Caps

- Smallcap valuations have fallen below their long-term averages & are expected to inch up with a gradual revival in the economy.
- Small Cap Index has underperformed Large Caps by 30% since 2017

Smaller companies have their own niche

- Higher Growth Potential
- Participation in Emerging Sectors
- Higher Entrepreneurial Spirit
- Higher Risk/Reward ratio

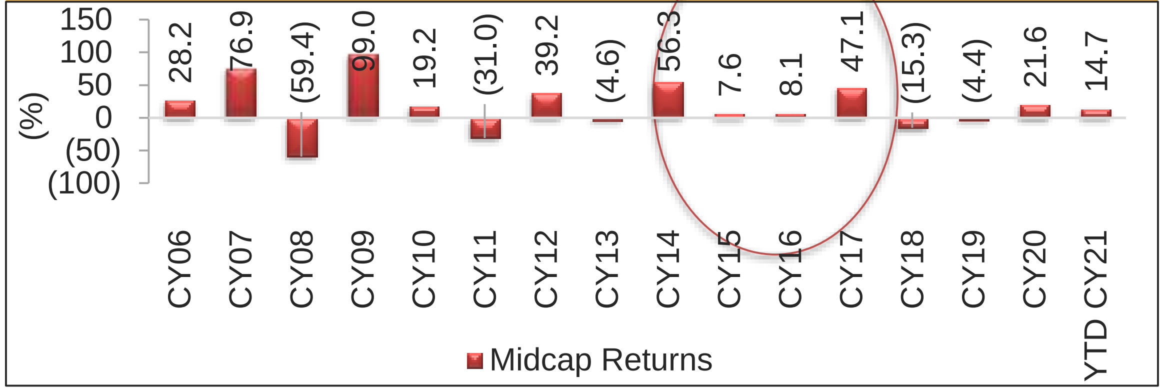
Earnings upgrade cycle led by confluence of factors

- For category leaders, this is an opportunity of the decade to further entrench their dominance and accelerate market share gains, as unorganized competition suffer
- Easing of Monetary policy could revive real estate sector, which is a big growth driver for certain sectors dominated by small and mid cap companies. For eg. Building materials, etc

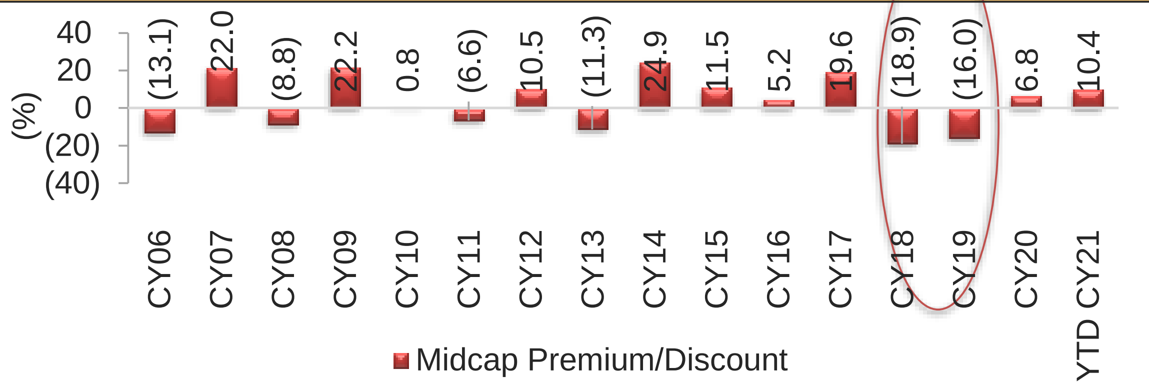
Theme 5: Revival in midcaps

Small and Mid caps in a sweet Spot – can 2014-2017 cycle repeat in next 3 yrs

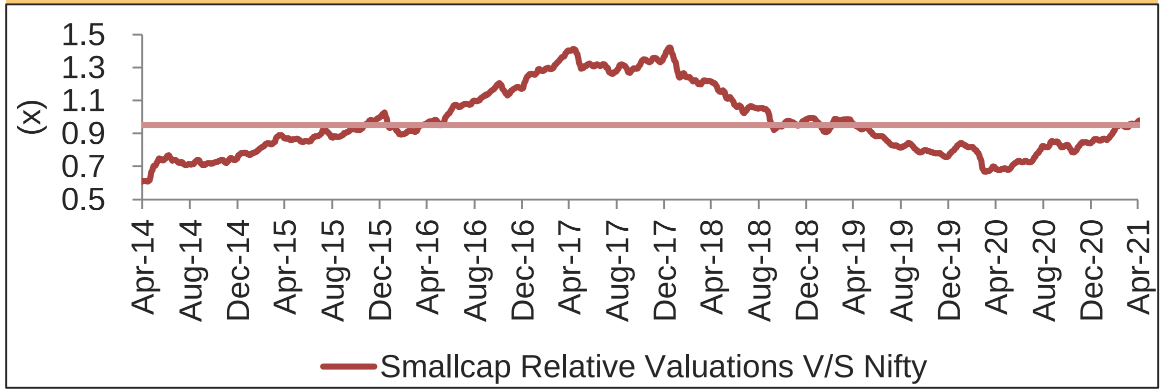
Midcap performance has just begun to improve…



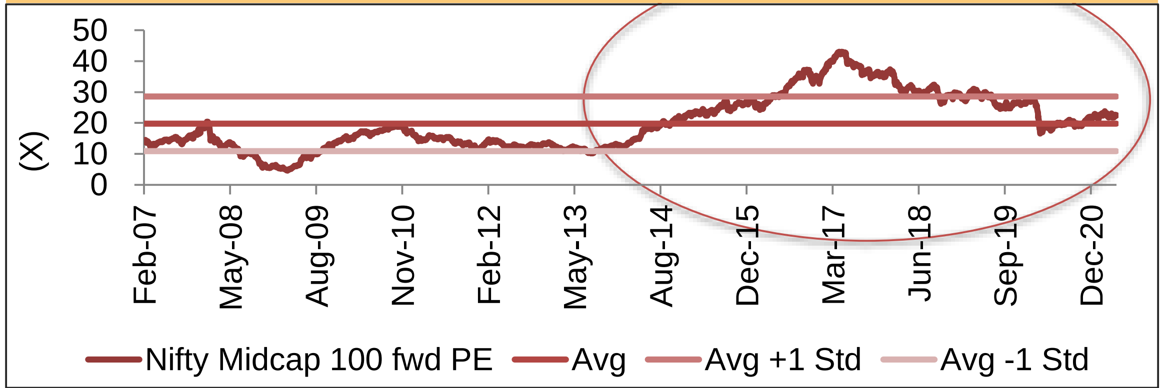
2 yrs of underperformance of Mid caps vs. Large caps



Small Cap Index/Nifty has just begun to rise..



Nifty Midcap 100 one-year forward P/E looks attractive, similar to 2014

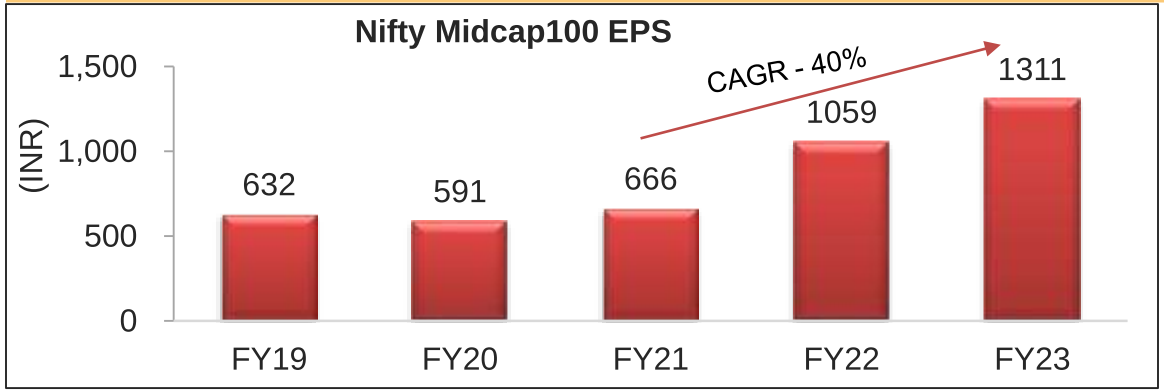


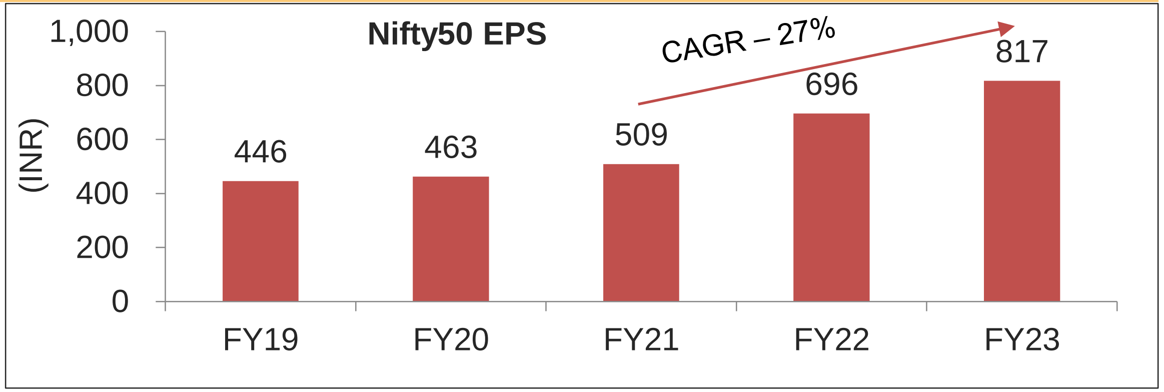
Source: Bloomberg

Theme 5: Revival in midcaps

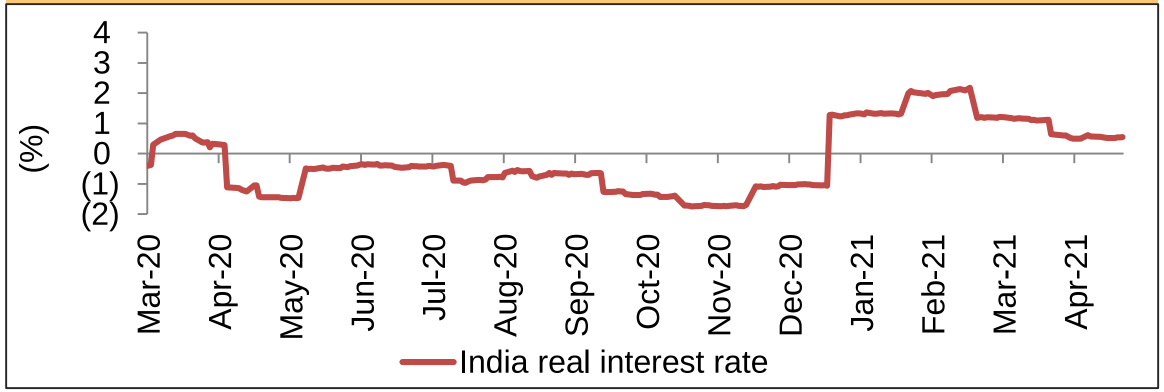
ADITYA BIRLA CAPITAL

Nifty Mid CAP EPS growth expected to be stronger vs. Large Cap Index – gains from operating and financial leverage

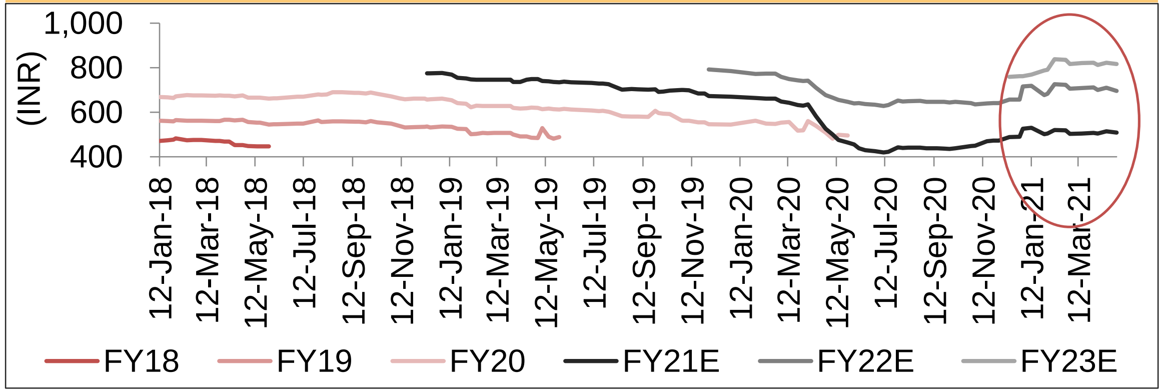




Lower Interest rates to further aid Mid Cap profitability, given high financial leverage



Nifty Earning cycle showing early signs of reversal



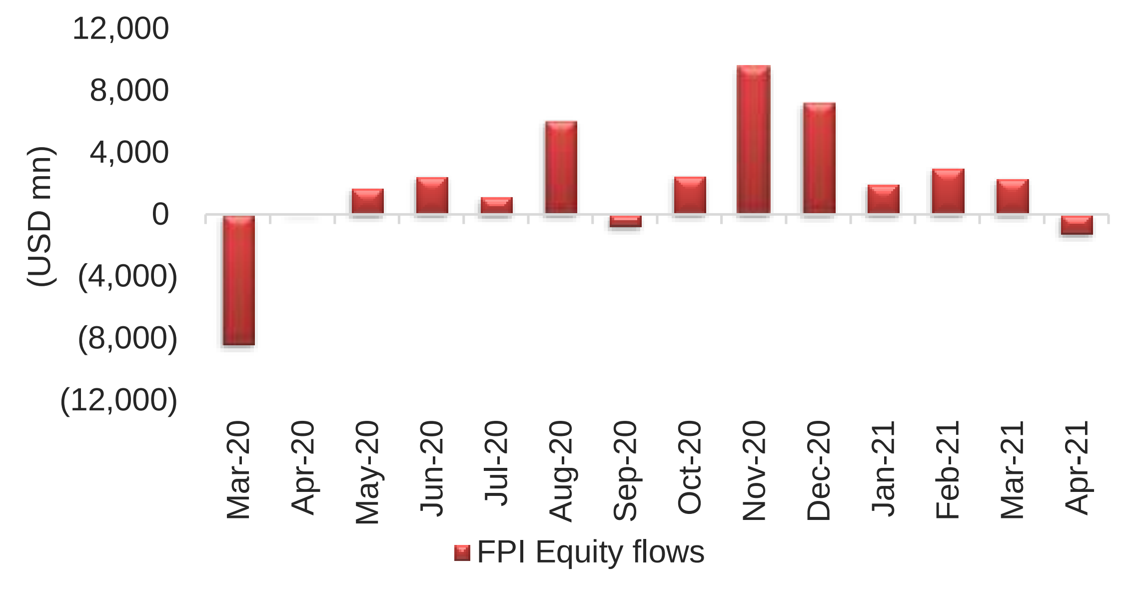
Source: Bloomberg

Theme 5: Revival in midcaps

Strong flows to support midcap recovery

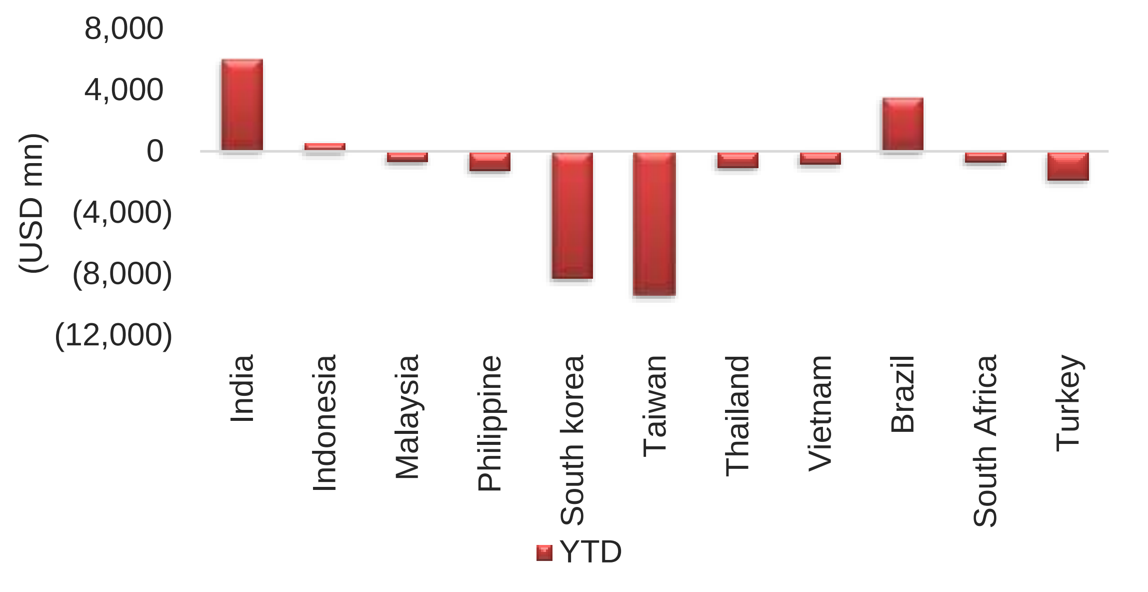
- Among EMs, India stands tall with foreign institutional inflows of USD 6.06bn YTD, most which has seen outflows during this period.
- We expect India to continue to attract strong FPI flows in CY21. Strong and sustained foreign flows amid broadening markets augur well for mid cap performance in CY21.

Strong FPI inflows



Source: Bloomberg

India stands tall among EM on cumulative flows YTD



Source: Bloomberg

Mid and small cap ideas that we own

			EPS CAGR	ROE	P/E	Pscore	Quant Score
Company	Sector	Market Cap (crs)	FY21-23	FY22	FY23	Fy22	
Jk Cements Ltd	Cement	21,373	21	20	22	6.9	99%
Apl Apollo Tubes	Metals	16,842	19	25	29	8.7	92%
Alkyl Amines	Chemicals	16,748	16	32	51	NA	97%
Fortis Healthcar	Health care	16,669	43	4	42	6.8	36%
Aditya Birla Fas	Retail	16,650	119	5	59	8.3	0%
Crisil Ltd	Financials	13,933	20	30	26	6.0	90%
Bajaj Electrical	Consumer Durables	13,677	33	16	36	8.3	62%
Zydus Wellness	Consumer Discretionary	13,331	22	8	30	8.0	28%
Iifl Wealth Mana	Financials	10,037	23	16	20	NA	38%
Ratnamani Metals	Industrials	9,079	25	16	22	8.0	78%
Central Deposito	Financials	8,323	11	23	37	9.0	NA
Mcx India Ltd	Financials	7,635	21	17	25	7.0	44%
Varroc Engineeri	Automobile	5,781	95	8	12	8.0	25%
Pnc Infratech Lt	Industrials	5,768	20	15	10	6.3	83%
Garware Technica	Consumer Discretionary	5,487	25	21	23	NA	87%
Praj Industries	Industrials	4,480	50	13	29	7.0	NA
Ccl Products Ind	Consumer Discretionary	4,070	19	20	16	8.8	46%
Orient Cement Lt	Cement	2,299	16	13	12	7.0	50%
Huhtamaki India	Consumer Discretionary	2,129	20	20	10	NA	NA
Jtekt India Ltd	Automobile	2,037	NA	8	26	9.0	11%

Source: Bloomberg, dated 4th May 2021

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Summary - Trends for the Future

ADITYA BIRLA CAPITAL

Manufacturing

A mix of push and pull factors to drive manufacturing in India like Atmanirbhar Bharat & Vocal for Local Initiatives by the GOI , along with diversification of global supply chains

Digitalization

Digitalization in India fast tracked due to low cost of data, government initiatives like Aadhar, UPI, and increased adoption by Corporate sector to improve productivity.

Sustainability

Rising risks from Environment are pushing government & companies to adopt more sustainable way of doing business through green fuel, green technologies, and green mobility

Cyclical Revival in Real Estate

Low interest rates, COVID-19 induced WFH trend and Industry consolidation induced by RERA & availability of capital to larger players should lead to revival in real estate and ancillary sectors like building materials

Revival in Mid & Small Caps

Mid and Small caps after 3 years of underperformance should outperform large caps, led by economic recovery, lower interest rates, and increased representation in emerging sectors like chemicals, digital platforms,etc

Enablers of FUTURE TRENDS

ADITYA BIRLA CAPITAL

Themes	Economic Indicators			Government Policy			Industry Disruptors			Emerging Sectors		
	Domestic GDP growth cycle	Interest Rates	Rupee Depr.	Favourable Policy Framework	Beneficiary of policy reform	Beneficiary of International policy	Compelling Value proposition	Onerous for incumbents to imitate?	Changes the convenience or cost dynamics of Industry	Big size of opportunity	High Unorganised sector market share	Gains from changing consumer preference
The Rise of Domestic Manufacturing	✓	✓	✓	✓	✓	✓				✓		
Digitalization				✓			✓	✓	✓	✓		✓
Cyclical Revival in Real Estate	✓	✓		✓	✓					✓	✓	✓
Sustainability				✓	✓	✓		✓	✓	✓		✓
Revival in Mid caps	✓	✓								✓	✓	

Portfolio stocks: Beneficiaries of FUTURE TRENDS

ADITYA BIRLA CAPITAL

				EPS CAGR	ROE	P/E	Pscore	Quant
Company	Sector	Theme	Market Cap (crs)	FY21-23	FY22	FY23	FY22	Score
Infosys Ltd	IT	Digitalization	573,076	12	29	23	6.1	100%
Wipro Ltd	IT	Digitalization	264,122	12	19	21	6.9	95%
L&T Infotech Ltd	IT	Digitalization	67,821	15	30	27	6.4	100%
IRCTC Ltd	IT	Digitalization/Midcaps	28,253	32	43	29	7.5	37%
Persistent Sys	IT	Digitalization/Midcaps	16,703	19	20	24	7.3	96%
Happiest Minds	IT	Digitalization/Midcaps	10,966	27	82	50	8.0	NA
Matrimony.Com Lt	IT	Digitalization/Midcaps	2,197	27	21	28	9.0	NA
Easy Trip Planners	IT	Digitalization/Midcaps	2,140	93	42	22	7.5	NA
Maruti Suzuki In	Automobile	Domestic Manufacturing	198,165	32	12	22	7.7	34%
Sun Pharma Indu	Pharmaceuticals	Domestic Manufacturing	155,953	14	12	22	7.5	43%
Bajaj Auto Ltd	Automobile	Domestic Manufacturing	111,518	16	22	17	6.5	95%
Dr Reddy's Labs	Pharmaceuticals	Domestic Manufacturing	85,050	21	17	22	7.9	42%
Siemens Ltd	Utilities	Domestic Manufacturing	66,363	14	13	41	7.3	58%
Lupin Ltd	Pharmaceuticals	Domestic Manufacturing	48,066	25	12	22	8.8	46%
Biocon Ltd	Pharmaceuticals	Domestic Manufacturing	45,276	45	12	33	7.4	18%
Pi Industries	Chemicals	Domestic Manufacturing	38,641	20	16	35	6.5	86%
Honeywell Automa	Industrials	Domestic Manufacturing	38,107	22	21	50	7.0	73%
Ashok Leyland	Automobile	Domestic Manufacturing	32,790	113	12	19	8.3	31%
Whirlpool Of Ind	Consumer Durables	Domestic Manufacturing	28,235	22	19	39	7.8	31%
Jamna Auto Inds	Automobile	Domestic Manufacturing	2,805	38	17	20	8.5	41%
Astec Lifescienc	Chemicals	Domestic Manufacturing	2,221	19	23	22	6.5	NA
Lumax Inds	Automobile	Domestic Manufacturing	1,454	39	16	14	NA	NA
Syngene Internat	Pharmaceuticals	Domestic Manufacturing/Midcaps	22,870	31	14	41	7.0	87%
Navin Fluorine I	Chemicals	Domestic Manufacturing/Midcaps	17,415	50	17	41	6.0	89%
Ajanta Pharma	Pharmaceuticals	Domestic Manufacturing/Midcaps	15,975	18	22	19	6.3	88%
Johnson Controls	Consumer Durables	Domestic Manufacturing/Midcaps	6,363	37	15	42	7.3	6%
Tata Motors Ltd	Automobile	Domestic Manufacturing/Sustainability	104,121	64	14	8	8.6	47%
Cummins India	Industrials	Domestic Manufacturing/Sustainability	23,495	13	16	28	7.0	97%
Vinati Organics	Chemicals	Domestic Manufacturing/Sustainability	17,846	35	22	37	7.0	48%

Source: Bloomberg, dated 4th May 2021

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Portfolio stocks: Beneficiaries of FUTURE TRENDS

Company	Sector	Theme	Market Cap (crs)	EPS CAGR FY21-23	ROE FY22	P/E FY23	Pscore FY22	Quant Score
Emami Ltd	Consumer Staples	Midcaps	21,723	17	31	28	7.5	94%
Apl Apollo Tubes	Metals	Midcaps	16,842	19	25	29	8.7	92%
Alkyl Amines	Chemicals	Midcaps	16,748	16	32	51	NA	97%
Fortis Healthcar	Health care	Midcaps	16,669	43	4	42	6.8	36%
Aditya Birla Fas	Retail	Midcaps	16,650	119	5	59	8.3	NA
Crisil Ltd	Financials	Midcaps	13,933	20	30	26	6.0	90%
Bajaj Electrical	Consumer Durables	Midcaps	13,677	33	16	36	8.3	62%
Zydus Wellness	Consumer Discretionary	Midcaps	13,331	22	8	30	8.0	28%
Iifl Wealth Mana	Financials	Midcaps	10,037	23	16	20	NA	38%
CDSL	Financials	Midcaps	8,323	11	23	37	9.0	NA
Mcx India Ltd	Financials	Midcaps	7,635	21	17	25	7.0	44%
Pnc Infratech Lt	Industrials	Midcaps	5,768	20	15	10	6.3	83%
Jtekt India Ltd	Automobile	Midcaps	2,037	NA	8	26	9.0	11%
Procter & Gamble	Consumer Staples	Midcaps/Sustainability	44,228	20	60	49	9.0	94%
Varroc Engineeri	Automobile	Midcaps/Sustainability	5,781	95	8	12	8.0	25%
Garware Technica	Consumer Discretionary	Midcaps/Sustainability	5,487	25	21	23	NA	87%
Praj Industries	Industrials	Midcaps/Sustainability	4,480	50	13	29	7.0	NA
Huhtamaki India	Consumer Discretionary	Midcaps/Sustainability	2,129	20	20	10	NA	NA
Shree Cement	Cement	Real estate	101,024	18	15	35	7.6	86%
Acc Ltd	Cement	Real estate	35,743	14	13	16	7.6	89%
Astral Poly	Consumer Discretionary	Real estate	32,019	27	21	59	7.5	76%
Crom Greaves Con	Consumer Durables	Real estate	23,637	16	31	33	7.3	84%
Oberoi Realty	Real Estate	Real estate	20,360	17	9	18	5.8	22%
Hindustan Unilever	Consumer Staples	Sustainability	563,015	16	20	51	6.1	85%
Nestle India Ltd	Consumer Staples	Sustainability	160,200	13	107	50	8.2	53%
Apollo Hospitals	Health care	Sustainability	46,054	46	15	45	8.2	50%
Tata Power Co	Industrials	Sustainability	32,864	15	8	14	7.0	74%
Dr Lal Pathlabs	Health care	Sustainability/Midcaps	24,087	14	26	60	7.9	78%
Torrent Power Lt	Industrials	Sustainability/Midcaps	19,518	9	13	13	8.0	60%
Ion Exchange Ltd	Chemicals	Sustainability/Midcaps	2,073	22	8	29	NA	NA

Source: Bloomberg, dated 4th May 2021

The stocks mentioned above are only for illustrative purposes and do not constitute a recommendation to buy or sell

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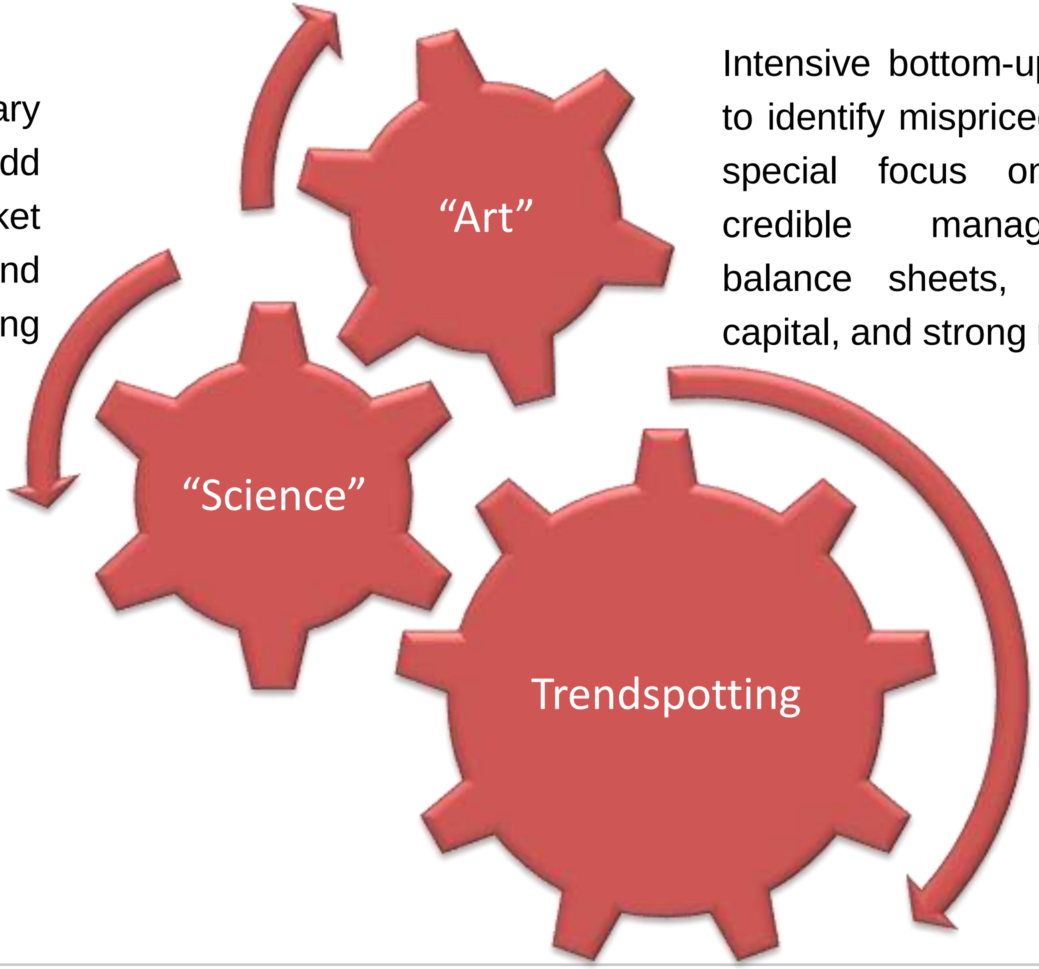
ANNEXURE

Aditya Birla Sun Life Alternate Assets Way of Investing

At Aditya Birla Sun life Alternate Assets, we have always believed in a unique blend of "art" "science" & "trendspotting in our investment decision making, which has stood in good stead over the years.

Set of unique and proprietary intellectual property models, which add immense value in decoding the market trends, identify future winners and focus on right set of stocks, by avoiding laggards and value traps.



Intensive bottom-up research process, to identify mispriced opportunities, with special focus on companies with credible managements, healthy balance sheets, higher returns on capital, and strong runway for growth

Key to successful investing over a long period is an ability to spot trends. Looking at the past market data, one can decipher the interplay of various macro and micro factors coming together to create a market cycle that favors a set of industries.

The Art & Science of Investing

The Art of Investing | TRENDSPOTTING | The Science of Investing

Recurring Winners (RWP)

- **Focus on industries with lower competitive intensity** that are more direct beneficiaries of consumer spending, who enjoy stable growth, and are less vulnerable
- Value Creation & Retention happens in fewer industries over longer horizon

Catalyst Driven Investing

- Helps to **capture mispricing among good companies by identifying micro and macro catalysts**.
- Certain special situations leads to temporary dislocation in price, creating attractive investing opportunities.
- Micro/Macro turnaround, Demerger/Deleveraging, Mgmt Change

Innovation

- Identify **companies which focus on Product or Process Innovation**
- Innovative companies get reflected through) Higher share of New Products/ Services 2) Market leadership in products with restricted competition 3) Global Market leadership 4) Cost Leadership 5) Strong brand recall / Customer Engagement.

Corporate Governance

- **Corporate Governance Screener** helps in highlighting companies where there could be financial irregularities – helps **avoid Mishaps in small/mid caps**
- Avoided many names and Proactively exited some portfolio names lmuch ahead of the steep correction, based on red flags

P-score /F-score

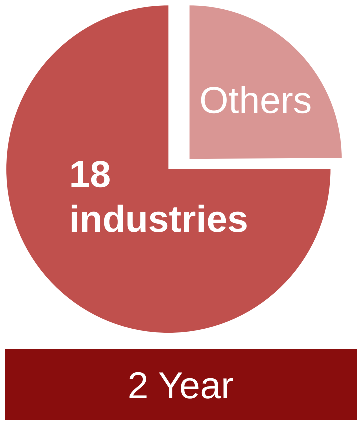
- **P-Score is an effective screener as it measures t**he overall strength of the firm's financial position
- Identifies Quality, Superior Leadership companies
- The improvement (delta) in the financial position of the firm
- Identifies Turnaround, Compounding Companies

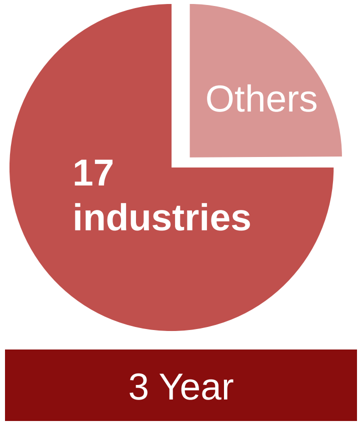
Getting the cycle right

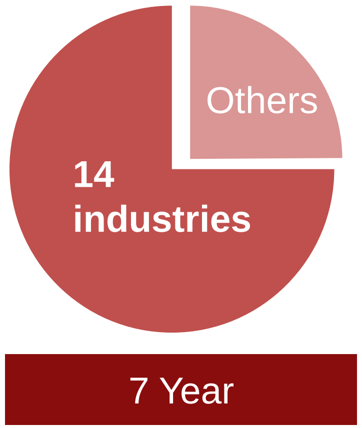
- **Asset allocation models** to guide on Equity outlook, and market upside
- **Sector Quant models** helps us with Sector Allocation
- **Facilitates Contra thinking** – Buy Pharma before the cycle, Add Financials when near term outlook looks bleak

Recurring Winners - Consistent wealth creation in select industries

- Our **“Recurring Winners”** study across **61** industries suggest that in Indian context, **75%** of the consistently performing companies in the last decade belonged to **only 15** industries
- The study evaluates the consistent winners in light of its Industry dynamics such as Competitive Intensity and Long term Growth Prospects
- Companies with superior management and strong business models require support of favorable industry operating dynamics to consistently generate superior value and returns
- **In our investment strategy, focus is more on industries with lower competitive intensity that are more direct beneficiaries of consumer spending, who enjoy stable growth, and are less vulnerable**
- **Top 5 RWP Industries** include Pharmaceuticals, Automobiles, Capital Goods, FMCG, Commercial Banks,







Recurring Winners (contd.)

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Industry dynamics is key to capturing value

- Research over the long term proves that shareholder wealth creation is mainly determined by strong operating dynamics such as competition levels, ease of entry by new players, bargaining power of buyers/suppliers etc.
- Value Creation & Retention happens in fewer industries over longer horizon
- The effect of these dynamics is visible in sustainable ROE and ROIC

Pharmaceuticals	• Large and growing addressable market • Entry barriers in form of size, capital needs, regulations, research capabilities
Automobiles	• Entry barriers in form of high capital needs, brand , vendor network • Strong balance sheets for most Indian players
Capital Goods	• Large & growing addressable market • Strong and large balance sheets acting as performance anchors
FMCG	• Brand franchise and distribution scale driven entry barriers • Ingrained sustainability, healthy margins & return ratios
Commercial Banks	• Entry barriers in the form of licenses • Very limited customer bargaining power
Information Technology	• Entry barriers due to strong client relationships • Limited supplier power in terms of salary costs - arbitrage

Catalyst Driven Investing

- Helps to capture mispricing among good companies by identifying micro and macro catalysts.
- Certain special situations leads to temporary dislocation in price, creating attractive investing opportunities.

The core focus would be on companies that are primed to benefit from the catalysts mentioned below:

Catalyst Driven Investing – Micro Catalysts

Catalyst	Past Examples	Description
Strategy / Management Change	Britannia	Varun Berry joined as MD in April 2014 and overhauled the key management team which focused on new innovations in product line, strengthening foundation and building innovation funnel
Margin Improvement	Whirlpool	Focus on cost cutting measures coupled with favorable demand and raw material prices aided margin improvement over FY14-17
Companies regaining market share	Nestle	The Maggi crisis lead to a loss of market share. The new management implemented a plan with strategic intent on generating volume-led double digit revenue growth
New Products / technology	TVS	TVS launched Jupiter in 2HFY14 and has since been able to retain its market share in the segment despite elevated competition
High Return on incremental capital allocation	Havells	Havells sold Sylvania, its European unit which was loss making to invest in promising Indian business which was profitable due to revived consumer demand

The stocks mentioned above are only for illustrative purposes and do not constitute a recommendation to buy or sell

Catalyst driven Investing - Macro Catalysts

Catalyst	Examples	Description
Improvement in regulatory environment	Jewellery: Titan	GST Implementation which saw clampdown on unorganized jewelers benefitted organized players like Titan
Growth rate acceleration led by demand revival	Consumer Durables : Voltas	Low penetration for durables along with higher discretionary consumption spurred demand
Sector Consolidation	Cement : Dalmia Bharat	Better pricing power led by higher consolidation in the industry
Supply side curbs benefitting existing players	Metals : Graphite India	China's clampdown on polluting industries curbed the supply side benefitting existing Indian players in metals, specialty chemicals space
Rupee Depreciation	IT & Pharma	The rupee has depreciated by more than 6% so far benefitting export-oriented sectors which have also seen a demand revival on the back of global growth

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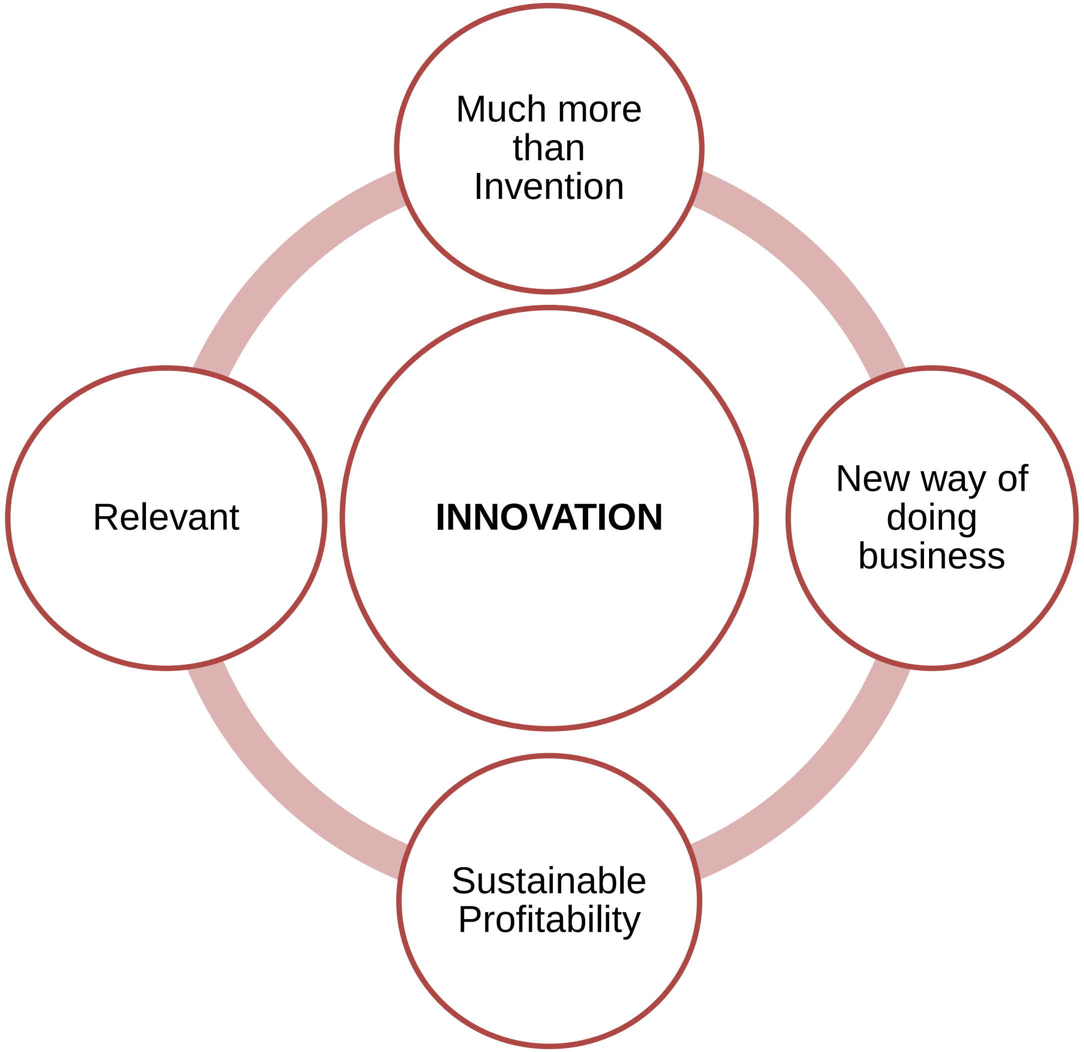
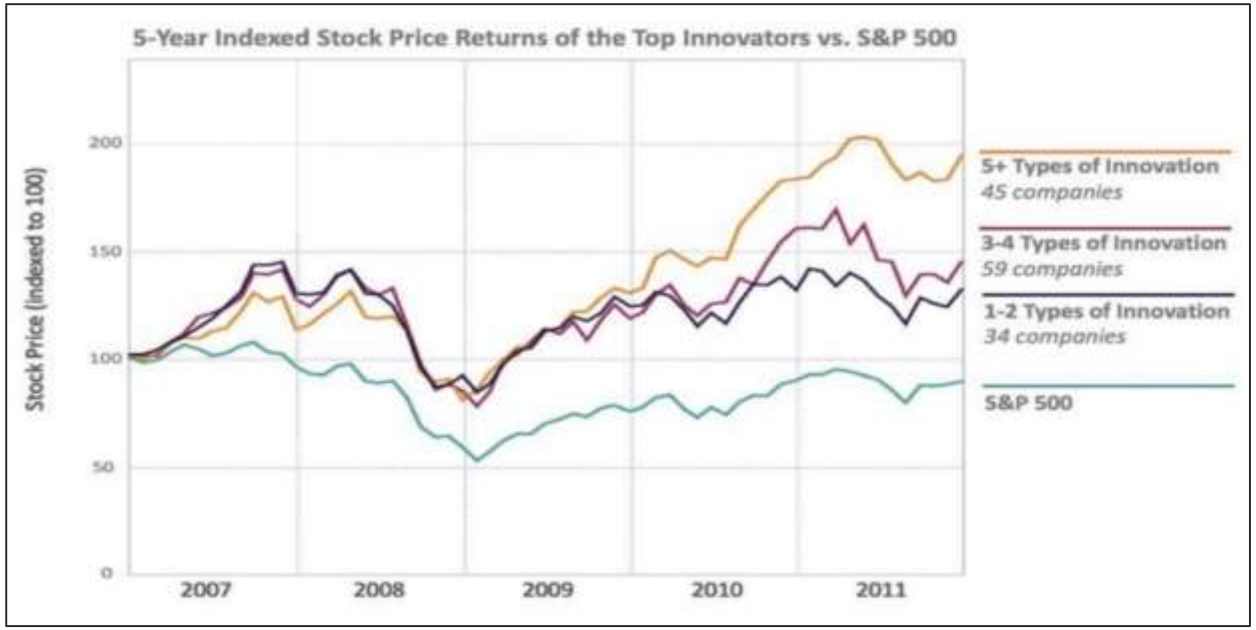
Focus on Innovation for consistent wealth creation



Innovation is new, differentiated and profitable way of doing business.

- Innovation is **much more than invention** of new-age products.
- It is a **new way** of doing business, new systems of products & services or new interactions & forms of engagement between your organization & customers.
- Innovation must be able to **sustain & return** its weighted cost of capital
- It should be **relevant and significant** to the organization. Incremental innovations are important but they might not move the needle for large organizations.

Constant Innovation important for wealth creation



- When compared with average innovators, top innovators use on an average 3.6 types of innovations (as per the 10 types framework) which is double the average innovators.
- Companies must look beyond products to innovate repeatedly & reliably. Combining **multiple types of innovation assures bigger & sustainable success.**
- Companies need to innovate to offer better products to customers, survive in the market & fuel growth prospects & ultimately **deliver value to shareholders.**
- **Top innovators outperform the S&P 500 index**

The 10 types of innovation

Category	Innovation Type	Description
Business Model	Profit Model	How the business generates money
	Network	Generating value with others through networks
	Structure	Asset & talent alignment
	Process	Methods to execute the required work
Product Offering	Product Performance	Unique features & functionality
	Product System	Complementary goods & services
Customer Experience	Service	Surrounding offering support & enhancements
	Channel	Defines how the offering will be delivered
	Brand	Business & offering representations
	Customer Engagement	Customer interactions the business fosters

- Nearly 2000 examples of innovations were analyzed & from this emerged the framework of ten types of innovation by Larry Keeley in the his work 'Ten types of innovation'.
- All great innovations comprise some combinations of the ten basic types which are organised into three categories-

Source: Ten Types of Innovation, Larry Keeley d.- Portfolio Managers

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Innovation in Indian companies

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Innovation type	Company	Description
Profit Model	Titan	Titan is a beneficiary of the shift from unorganised to organised segment. Even now share of unorganised segment exceeds 50% in jewellery, watches & eyewear segments
Network	Maruti Suzuki	Covering over 1800 cities with 3700+ service centres, Maruti is the leader in providing support to its customers in the PV space .
Organization Structure	Bajaj Finance	Bajaj Finance with its data analytics cross sells to existing customers with multiple products like EMI Card, Credit card, insurance, etc. 37mn customers with cross sell franchise of 22mn
Process	Shree Cement	Shree enjoys superior profitability due to best energy efficiency on account of early adoption of pet coke, Waste Heat Recovery System(WHRS), alternate fuel & raw material (AFR's) and a 100% captive power plant
Product Performance	Nestle	Continual product innovation in existing & new categories helps Nestle stand out from the crowd. It has launched 30+ new products in last 2 years in India
Product System	Asian Paints	It started with wall paints, slowly expanding into metal & wood paints, waterproofing etc. thus providing a whole range of products that a home requires under a single roof
Service	TCS	TCS has customer centric engagement model where bespoke teams offer solutions & has seen 50% rise in 100 mn+ clients in last 4 to 5 years
Channel	ITC	Leadership in traditional channels (6 mn retail outlets), focus on modern trade & e commerce, strengthening agricultural ecosystem through e choupal (4 mn farmers benefitted
Brand	Pidilite	Pidilite has created a B2C niche in a traditionally B2B space mainly by its creative advertiseme nts
Customer Engagement	Reliance Jio	Customer engagement through ancillary services like Jio (Fibre) & bundled products (Jio TV Apps, set top box, 4K TV) leads to higher market share & profits for telecom

*Ten types of Innovation, Larry Keeley et al., 2013

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Outcome from Innovation

Major types of innovation* results in various outcomes such as 1) Higher share of New Products/ Services 2) Market leadership in products with restricted competition 3) Global Market leadership 4) Cost Leadership 5) Strong brand recall / Customer Engagement.

Outcome	Past Examples	Description
Higher share of New Products/Services	Nestle, HUL	Companies focusing on launching new products thereby creating a new category or leading to market share gains resulting in improved revenues & profitability
Market leadership in products with restricted competition	Biocon, Siemens	Companies having a high market share for existing products which is expected to sustain in the near to medium term due to expertise/high R&D capability backed by vision of the promoter/top management
Global Market leadership	Sanofi, Pfizer, Bayer Cropscience	Indian subsidiaries stand to benefit in terms of expertise, strong parentage & opportunities to scale up
Cost Leadership	Shree Cement, L&T, Avenue Supermarts	Cost leadership enables certain companies to deliver quality products at a lower price than the competition due to their superior execution capabilities, vertical integration or economies of scale
Strong brand recall/ Customer Engagement	Reliance Industries, HDFC Bank	Brand visibility in a commoditized market plays a very important role in gaining the mind share of the customers, thus improving sales

The stocks mentioned above are only for illustrative purposes and do not constitute a recommendation to buy or sell

Source: Bloomberg, Internal Research

*Ten types of Innovation, Larry Keeley et al., 2013

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Focus on Strong Filters

Innovation type	Example	Company characteristics (Inclusion Criteria)
Profit Model	Trent	Top quintile ROCE/ROE vs. Sector
Network	Maruti Suzuki	Highest number of service centres vs. peers leading to higher resales and customer retention
Organisation Structure	Bajaj Finance	Strong cross sell franchise leading to lower customer acquisition cost for new products
Process	Shree Cement	Cost leadership in production and capex vs. peers
Product Performance	Bayer CropScience	Improving share of new products, Market leadership in existing categories
Product System	Asian Paints	Number of complimentary products launched vs. peers
Service	HDFC Bank	Client retention, Customer Persistency
Channel	Hindustan Unilever	Sector leading distributor network, lower working capital intensity vs. peers
Brand	Pidilite	Strong brand recall reflected in market leadership in both B2B and B2C segment
Customer Engagement	Reliance Jio	Market share gains through customer engagement

Parameters	Exclusion Criteria
Profitability	• Bottom quintile ROCE/ROE vs. Sector • Loss for 3 consecutive years
Balance Sheet	• Debt/Equity > 1.5 • Bottom quintile Working Capital intensity
Cash Flow	• Operating Cash Flow <0 • Cumulative FCF for last 5 years <0

Corporate Governance

ADITYA BIRLA CAPITAL

In trading/investing it's not about how much you make, but how much you don't lose." - Bernard Baruch.

- **Forensic accounting is the speciality practice area of accounting that investigates whether firms engage in financial reporting misconduct**.
- **It's a very powerful elimination tool, which helps us avoid companies which score low on the screening parameters**
- In our Corporate Governance Model using forensic accounting, we use analytical techniques for analysing the relationship between items in financial statements, or analysis of business transactions.

Our model comprises of

- **Horizontal Analysis:** Comparison of detailed items in financial statements with the same or similar items for other companies
- **Vertical Analysis:** Compares the individual items in financial statements with the long term historical items of the companies
- **Ratio Analysis:** Financial statements in the areas of profitability, liquidity, solvency, activity and value creation.
- By using this forensic accounting model we ranks the companies, which indicates the strong correlation with the corporate governance policies of the companies.

Corporate Governance Model

Revenue Recognition	• Companies with aggressive revenue recognition policies are penalized
High Fluctuations in Depreciation Rates	• Companies with high depreciation rate volatility are penalized.
Non-Op Income Volatility	• Volatility in Non-Operating Income could imply intent to inflate profitability, through sale of assets. Investments, etc. Companies with high Non-Op income volatility are penalized.
Capex to Gross Block	• Companies with high capex to Gross Block could imply high capex intensity, or aggression by promotors which could backfire in a bad cycle.
Cash Flow Operating & Investing	• Companies which are not generating cash flow in long term need to be penalized, either due to higher working capital or fixed investment needs
Growth in Expenses to Revenue	• Growth in Auditors expenses, Key Managers Salary should be in line with the Revenue growth over a 3 to 5 yr period
Low Tax rate or low Tax paid	• Low Tax Ratio means company is earning but not paying the tax, which is a red flag. • Company have the provision for the tax but not paying the tax, which is a red flag.
Low Cash Yield	• Low ratio is a cause of concern as it could mean BS misstatement or cash not being used in the best interest of the firm.

Piotroski – Score : Accounting based fundamental screener

***The ideal business is one that earns very high returns on capital and that keeps using lots of capital at those high returns. That becomes a compounding machine* - Warren Buffet**

P-Score is an effective screener as it measures:

1. The overall strength of the firm's financial position

   – Identifies Quality, Superior Leadership companies

2. The improvement (delta) in the financial position of the firm

   – Identifies Turnaround, Compounding Companies

It is one aggregate signal that captures three areas of the firm's financial condition:

- **Profitability :** Positive Net Income, Positive Return on Assets, Positive Operating Cash Flow, CFO greater than Net Income
- **Financial leverage/Liquidity:** Decreasing Debt, Higher Current Ratio with respect to previous year, Lack of dilution
- **Operating efficiency :** Change in Operating Margins, Change in Turnover Ratio

It is a 9 point indicator: score of 7,8 or 9 is high P-score, and 0,1,2,3,4 is low P-score

Source: Paper by Piotroski, Joseph D. (January 2002)."Value Investing: The Use of Historical Financial Statement Information to Separate Winners from Losers"

P-Score: Captures Fundamentals

ADITYA BIRLA CAPITAL

P_SCORE = F_ROA + F_DROA + F_CFO + F_ ACCRUAL + F_DTURN + F_DMARGIN + F_DLEVER + F_DLIQUID + EQ_OFFER

No.	Ratios	Definition	Positive signal if
QUALITY			
PROFITABILITY			
1	Return on Assets (ROA)	Net Income/Total Assets	ROA>0
2	Cash flow from Operations (CFO)	Cash flow from Operations/Total Assets	CFO>0
3	Accrual	CFO - Net Income (NI)	CFO-NI>0
FINANCIAL LEVERAGE			
4	Equity Offering (EQ_OFFER)	Issue of common equity by the company	EQ_OFFER=0
CHANGE IN QUALITY			
PROFITABILITY			
5	Change in ROA	ROA(Year t) - ROA (Year t-1)	ΔROA > 0
OPERATING EFFICIENCY			
6	Change in EBITDA Margins	EBITDA/Sales (Year t) - EBITDA Sales (Year t-1)	Δ EBITDA Margin > 0
7	Change in Asset Turnover Ratio	Sales/Assets (Year t) - Sales/Assets (Year t-1)	Δ Asset Turnover > 0
FINANCIAL LEVERAGE			
8	Change in Net Debt to Assets (Leverage)	Net Debt/Assets (Year t) - Net Debt/Assets (Year t-1)	Δ Leverage < 0
9	Change in Current Ratio	Current Assets/Current Liabilities (Year t) – Current Assets/Current Liabilities (Year (t-1)	Δ Current Ratio > 0

CAPITAL PRESERVATION

CAPITAL APPRECIATION

Source: Paper by Piotroski, Joseph D. (January 2002)."Value Investing: The Use of Historical Financial Statement Information to Separate Winners from Losers”

Piotroski – Score Historical Performance

Historical performance of the portfolio with High P Score Companies from BSE200 Universe.

Piotroski – Score screener

Name	AMFI Sector	P-score	ROE
Procter & Gamble Hygiene and Health Care Ltd	CONSUMER GOODS	9.00	41.9%
Torrent Pharmaceuticals Ltd	PHARMA	8.77	21.5%
TVS Motor Company Ltd	AUTOMOBILE	8.61	19.4%
SRF Ltd	INDUSTRIAL MANUFACTURING	8.22	22.5%
Shree Cement Ltd	CEMENT & CEMENT PRODUCTS	8.17	13.4%
Cipla Ltd	PHARMA	8.12	10.1%
Power Grid Corporation of India Ltd	POWER	8.08	17.9%
Aarti Industries Ltd	CHEMICALS	8.00	19.1%
Relaxo Footwears Ltd	CONSUMER GOODS	8.00	19.0%
Sanofi India Ltd	PHARMA	8.00	20.9%
Supreme Industries Ltd	INDUSTRIAL MANUFACTURING	8.00	21.2%
Astral Poly Technik Ltd	INDUSTRIAL MANUFACTURING	7.75	17.8%
Emami Ltd	CONSUMER GOODS	7.75	15.5%
MphasiS Ltd	IT	7.69	21.4%
Cadila Healthcare Ltd	PHARMA	7.69	11.3%
Amara Raja Batteries Ltd	AUTOMOBILE	7.60	18.9%
Tech Mahindra Ltd	IT	7.59	19.2%
Divis Laboratories Ltd	PHARMA	7.56	19.3%
Page Industries Ltd	TEXTILES	7.56	43.0%
Infosys Ltd	IT	7.50	28.1%
Crompton Greaves Consumer Electrical Ltd	CONSUMER GOODS	7.47	38.7%
Polycab India Ltd	INDUSTRIAL MANUFACTURING	7.43	20.0%
HCL Technologies Ltd	IT	7.33	23.8%
ITC Ltd	CONSUMER GOODS	7.31	24.6%
Gujarat Gas Ltd	ENERGY	7.31	43.4%
Aurobindo Pharma Ltd	PHARMA	7.23	18.4%
Petronet LNG Ltd	OIL & GAS	7.17	25.3%
L&T Technology Services Ltd	IT	7.11	31.2%
Balkrishna Industries Ltd	AUTOMOBILE	7.00	19.9%
Coal India Ltd	METALS	6.85	57.0%

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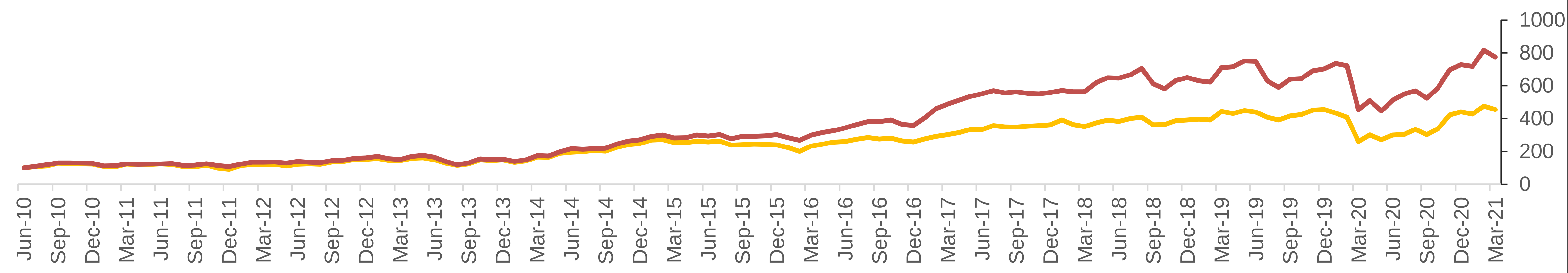
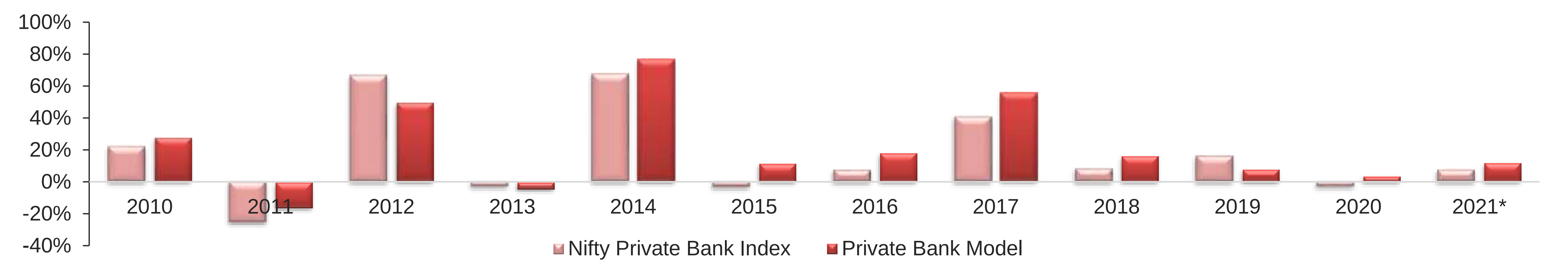
Financial – Score

Piotroski Score works for non-financial companies, In the process of search of the quality financial companies we developed a Model using Quality parameters, Asset Utilization Efficiency, Loan Collection Efficiency, Slippages and improvement in these parameters.

Chart shows the performance of selected Top Private banks according to our Financial model.





Financial – Score

Quality	• Profitability Ratios – ROA, RONW, Net Interest Margin, CASA Ratio • Operating Efficiency – Cost to Income • Collection Efficiency – Net NPA, Gross NPA, Slippages
Change in Quality	• Profitability Ratios – Change in ROA, Change in RONW, NII Growth, PAT Growth • Operating Efficiency – Change in Cost to Income Ratio • Book Growth – Deposit Growth, Loan/Advances Growth • Collection Efficiency – Improvement in Net NPA, Gross NPA
Stability of Ratios	• Long term volatility of ROA, RONW, PAT and NII, Volatility should be lower
Technical	• Stock Price Persistence, Price momentum, Analyst Estimated growth in EPS and Book Value

Getting the cycle right - Quant Score

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Apart from top down view, based on economic outlook, our models help us indicate optimum sector allocation

- Allocation across asset classes is the single largest determining factor in portfolio returns, guides on equity utlook and upside tential

Sector trends

Asset Allocation Models

Market cap allocation trends

Commodity price tracker

The quant screeners indicate which segment of the market should we focus on – large caps, mid caps or small caps

Helps improve the accuracy of our forecasts for revenues and margins across sectors

Quant Score

Exclusions

- Lowest Accrual, Lowest Margins, Highest Earnings Volatility, High Leverage

Value

- PE, PB, Dividend Yield, Analyst Target Price Ratio

Quality

- ROE/ROA, Change in ROE/ROA, Earnings Growth Volatility, Price Volatility

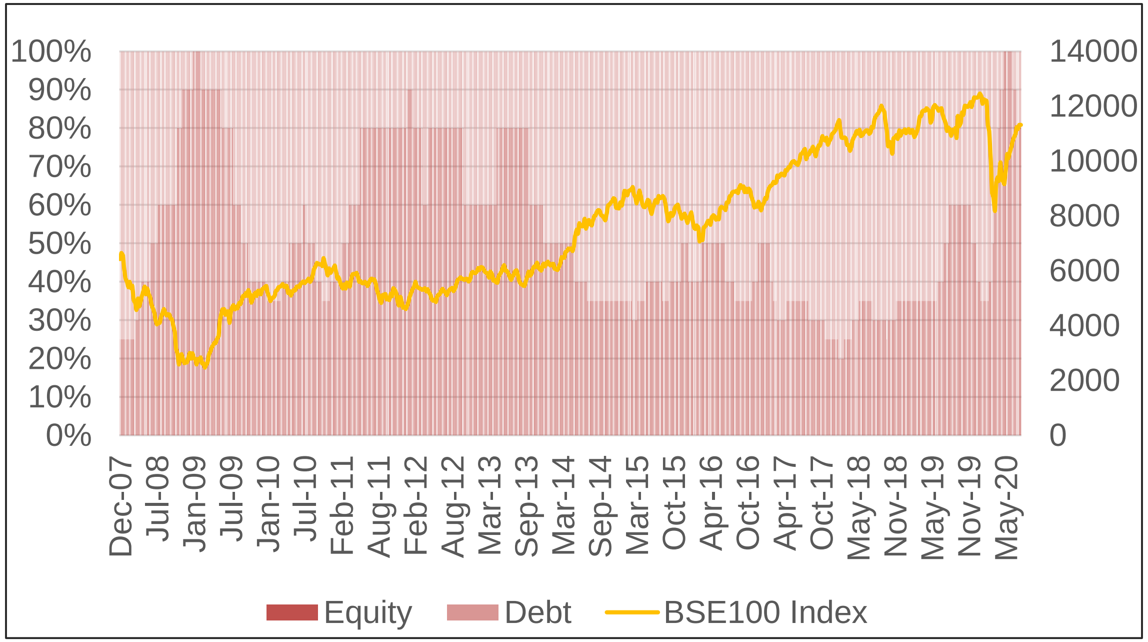
Momentum

- Price Momentum, Stock Price Persistence, Analyst Estimated Earnings Growth Momentum

Getting the cycle right

Our **proprietary Asset allocation** model is based on

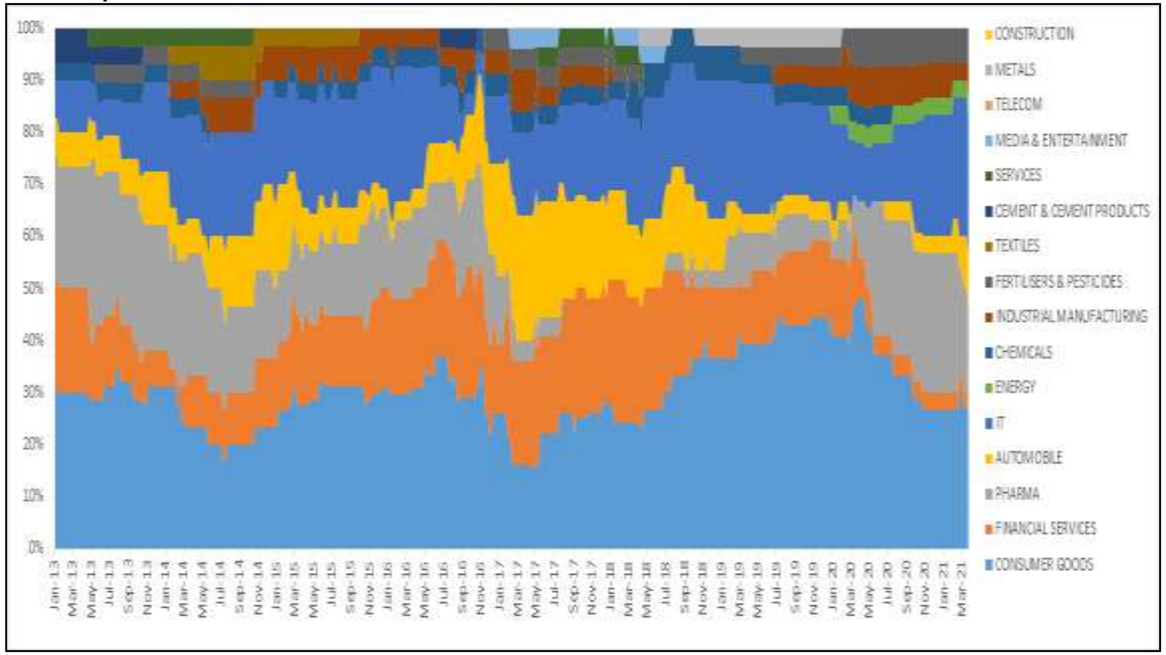
- Valuation of the asset classes
- Earnings Yield Gap
- Economic Trends
- Technical Indicators of the Asset Classes



Equity vs Non Equity Asset Allocation as suggested by our Proprietary Asset Allocation Model.

Our **proprietary Quant Sectoral trends** model is based on the parameters

- Quality: ROE, Earnings volatility, Cash flow parameters
- Growth: Earnings Growth, Change in ROE/ROCE
- Technical: Price Momentum, Consistency of the price performance

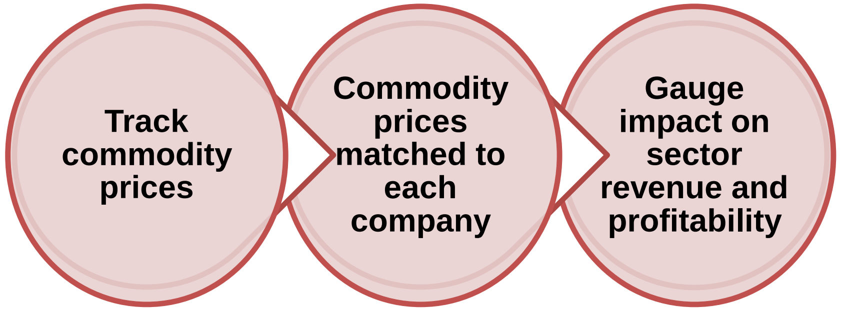


Sectoral Allocation as suggested by our Sectorial Allocation Model.

Getting the cycle right

Commodity Price tracker

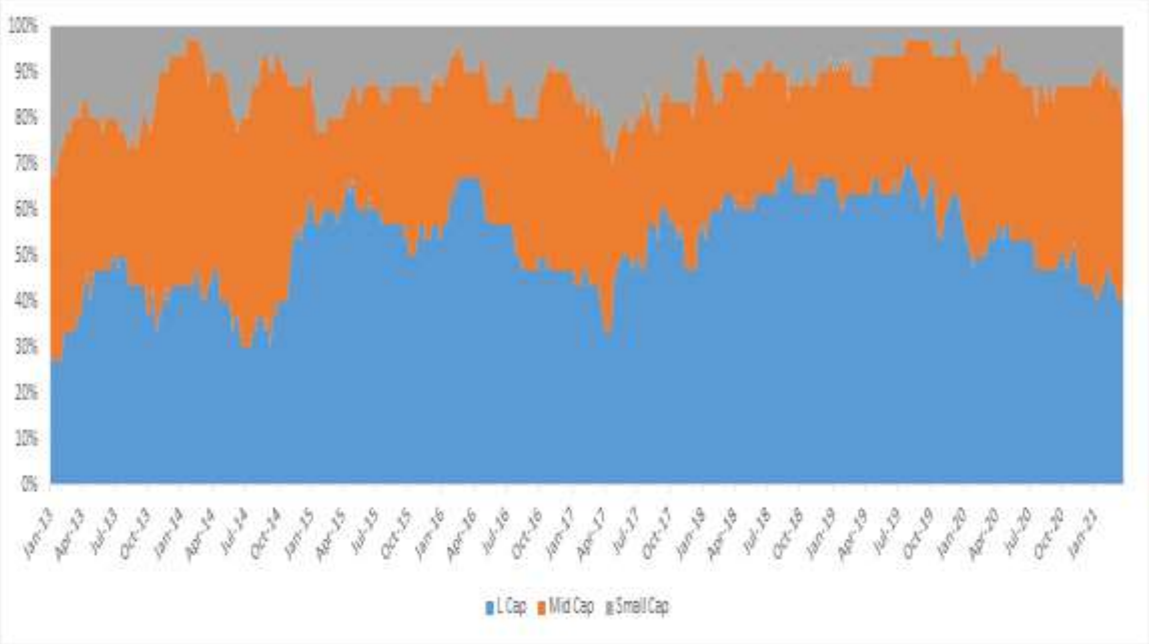
- Track high frequency prices of more than 100 key hard and soft commodifies across sectors
- Each commodity is matched to the companies impacted, either on revenues or cost of good sold.
- Helps improve the accuracy of our forecasts for revenues and margins across sectors



Commodity	Prices	Impact on revenues	Impact on costs
Caustic Soda	↑	Grasim, Gujarat Alkali	HUL, GCPL, Jyothy Labs

Our proprietary market cap allocation trends model help us

- Focus on the right segment of the market, based on financial and technical parameters
- Last year, the model indicated that we should increase mid cap and small cap allocation, which was implemented across all our funds.



THANK YOU

Vishal Gajwani, Head – Alternate Investments (Equity)

- With over 15 years of experience in equity research and portfolio management, Vishal has extensive experience of researching companies across sectors and market capitalizations. Prior to this assignment he was a part of Reliance Portfolio Management Services (a part of Reliance Capital Asset Management Ltd), where he was designated as an Assistant Fund Manager and was responsible for managing equity portfolios.
- He is a Gold Medalist Chartered Accountant (ICAI, India) and holds a Master's degree in Commerce from M. S. University of Baroda. Vishal received 4 Gold Medals, including the Chancellor's Gold Medal, for topping the Master of Commerce Exams. Vishal is also a CFA charter holder from the CFA Institute (The Global Association of Investment Professionals), USA.

Natasha Lulla, Portfolio Manager

- Over 14 years of experience in equity research and fund management. Prior to joining ABSLAMC Portfolio Manager, she was working with Goldman Sachs as an equity analyst covering India Materials sector. In her earlier stint at Goldman, she was doing Portfolio Strategy for ASEAN regions and also covered Singapore Real Estate.
- She holds a Masters in Business Administration (Finance Major) from Management Development Institute, Gurgaon and was the Gold Medalist for each of the two years. She was also awarded a Gold Medal for achieving 1st rank in the Finance stream. She has done her graduation in Economics from Lady Shri Ram College, New Delhi and graduated amongst the top 1% in Delhi University

Dhrushil Jhaveri,Portfolio Manager

- Over 11 years of experience in equity research and fund management. Prior to joining ABSLAMC Portfolio Manager, he was working with Tata Asset Management as an Asst. Fund Manager in their PMS, and as an equity analyst for the Commodities space (viz Oil & Gas, Metals, Cement & Logistics).
- He holds an MBA (Finance) from Welingkar Institute of Management (Mumbai), and has completed his graduation from DJ Sanghvi College of Engineering in Computer Science.

Damodaran Kutty, Analyst

- Over 7 years of experience in Equity research and Fund management. Before joining ABSLAMC Portfolio Manager, he was working with Edelweiss Institutional Research desk as an equity analyst covering the Midcaps and Agricultural Sector. He has cleared the chartered accountancy course in May 2013.

Apekshya Rajgor, Investment Support

- Over 4 years of experience in the Mutual Fund Industry. Before joining ABSLAMC Portfolio Manager, she had worked with the Risk team for 4 years. She is a Chartered Accountant and holds a B.Com degree from KET's V.G Vaze College, Mumbai.

Risk Factors & Disclaimers

- Disclaimer: The views expressed above should not be construed as investment advice.
- Investments in securities are subject to market risks and there can be no assurance or guarantee that the objectives of the Product will be achieved. **Past performance may or may not be sustained in future.**