

Select Sector Portfolio

Handpicked, to create wealth

April 2018



**ADITYA BIRLA
CAPITAL**

PROTECTING INVESTING FINANCING ADVISING

Aditya Birla Capital – A Financial Powerhouse



- Ranks among top 5 fund managers in India
- Assets Under Management: ~USD 38 billion
- Revenue: ~USD 1.6 billion

- PBT: ~USD 177 million
- Line of Business : 12
- Employees: 12,000+

- Customer: 8 Million+
- Channel Partners: 142,000
- Point of Presence: 1300+

VISION

To be a leader and role model in a broad based and integrated financial service business

ABSLAMC: A Joint Venture between two pioneering companies



ADITYA BIRLA GROUP

- ✓ A US \$43 bn corporation - one of the largest Indian conglomerates with operations in over 35 countries
- ✓ A dominant player in many commodity & manufacturing businesses apart from service businesses
- ✓ Major presence in Financial Services - Mutual Funds, Life Insurance, Wealth Management & Distribution, Security based lending, Infrastructure Finance, General Insurance Advisory, Broking & Private Equity



- ✓ A leading Canadian financial services company
- ✓ AUM CAD \$ 944 billion *(as on June 30 2017)*
- ✓ Offering diversified range of risk and financial management products for individuals and corporate
- ✓ Large international footprint across continents – major presence in North America & Asia

Asset Management

Heritage

- ✓ Founded in 1994, one of the oldest in India
- ✓ A JV between Aditya Birla Group & Sun Life Financial Inc since 2001
- ✓ Have seen the market evolve across different asset classes over the years
- ✓ Driven by client centric product Innovation

Market Dominance

- ✓ One of the top 3 AMCs in India with AUM of over US\$35.4 bn (Mar 2018)
- ✓ Over 6.05 million investor accounts (Mar 2018)
- ✓ Strengths across different asset classes

Portfolio Management Services

Best in Class Management

- ✓ Offer portfolio management services and alternate investment solutions to HNI's and Institutions
- ✓ Aditya Birla Sun Life PMS manages / advises Rs. 17,375 cr. of assets (Mar 31,2018)
- ✓ 10 member dedicated team for Equity and Fixed Income, with a cumulative experience of over 60 yrs - over 8 yrs average experience with ABSLAMC
- ✓ Disciplined processes driving investment management

Focus on Long Term Wealth Creation

Investment Philosophy

Focus on sectors with strong operating dynamics and growth visibility

- * Concentrate on sectors that grow faster than GDP
- * Core to the India growth story

Buy Recurring Winners – Industries

- * With strong operating dynamics
- * Which have consistently thrown up winning stocks over the past 10 yrs

Wealth Creation Approach

Own High Quality businesses with consistent growth/returns profile

- * Companies with Scalability and Resilience
- * Benchmark-agnostic
- * Multi Cap Universe
- * Concentrated Portfolio ~ 15-25 stocks
- * 80% of the portfolio invested in 4-6 sectors

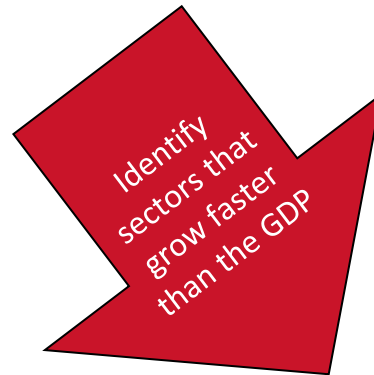
Value drivers

- * Industry operating dynamics
- * Sustainable ROEs/ROCEs
- * Sustainable earnings growth
- * High quality franchise, product, service
- * Superior management team
- * Attractive valuations

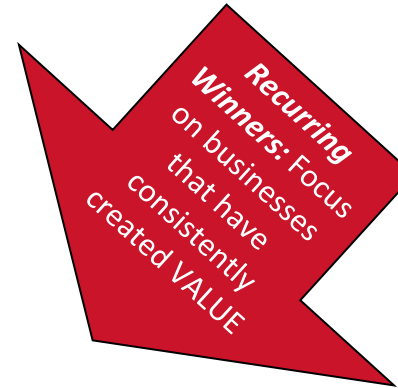
4 Pillars of our Investment approach – A Blend of Top Down and Bottom Up factors



GDP growth pattern tilted in favor of few industries



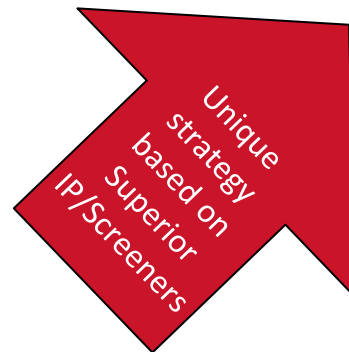
Top down



- ✓ Favorable industry operating dynamics key to wealth creation
- ✓ Consistent growth/returns profile, reflected in high ROEs, ROCEs

Sustainable Wealth Creation

- ✓ Extensive research studies to identify future winners including Piotroski Score
- ✓ Extensive fundamental research with focus on company strategy, management and execution

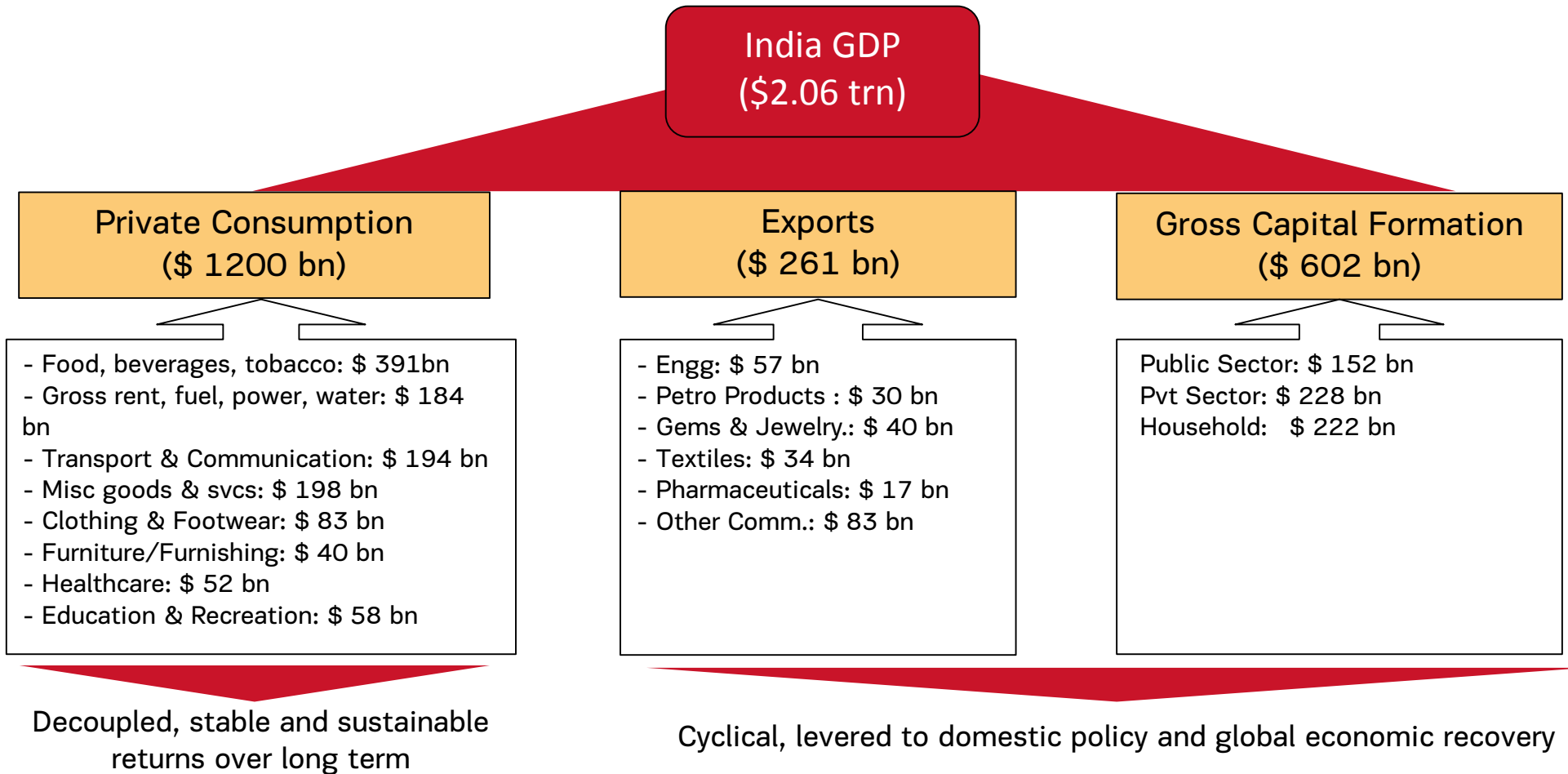


Bottom Up



Identify mispriced stocks and buy them at a discount to their Intrinsic value

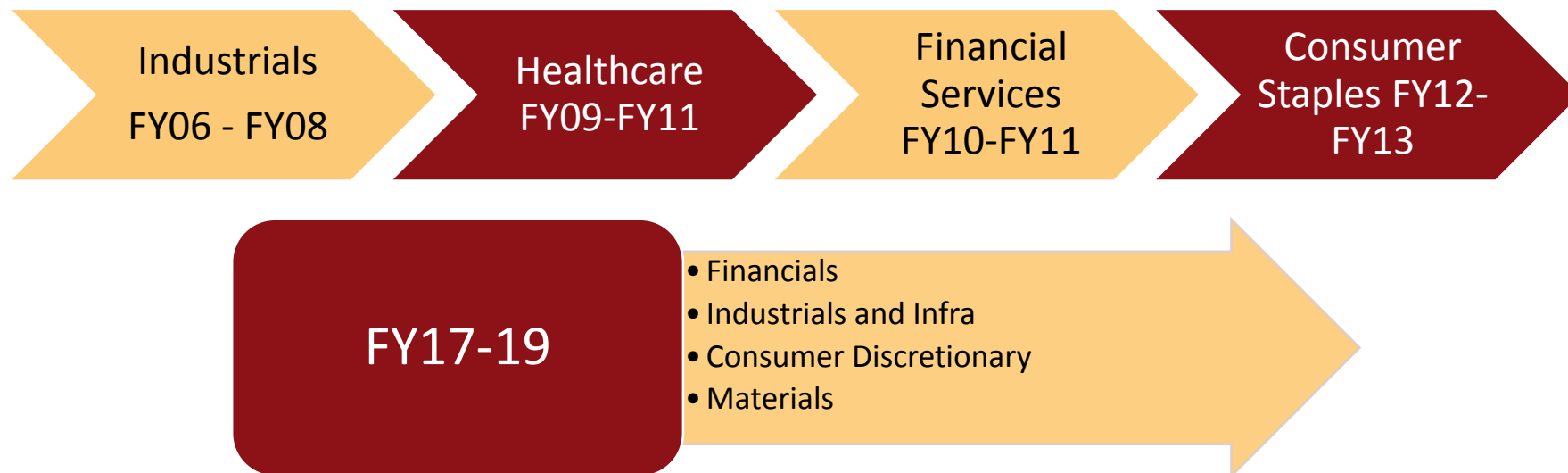
Pillar 1: GDP growth patterns favor some sectors more



Pillar 1: Sectors growing faster than GDP can generate significant Alpha

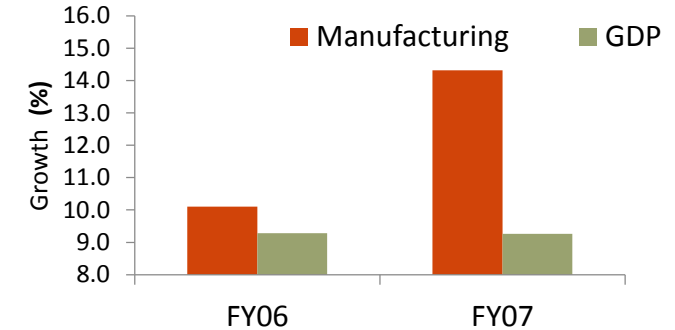
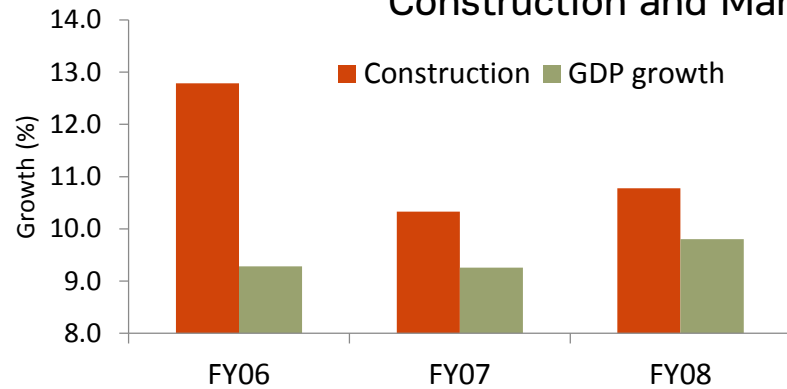


- ✓ Sectors that grow faster than GDP provide an opportunity in the stock markets
- ✓ Our analysis of the GDP growth and sectoral growth trends have shown that the sectors which outpace the GDP growth over cycles generate significant out performance versus the benchmark
- ✓ Our focus would be on sectors with strong growth visibility over the next 2-3 years

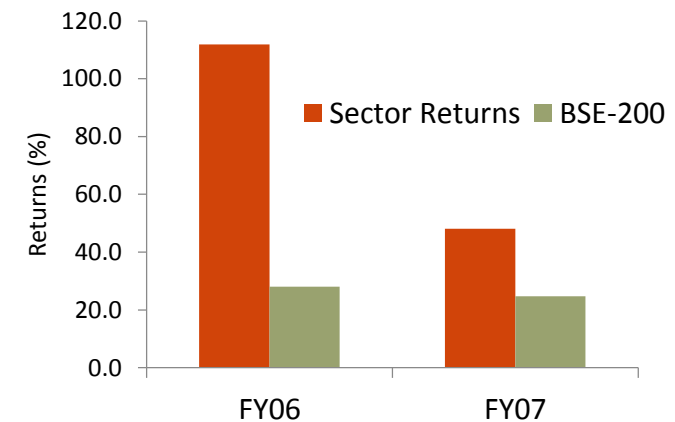
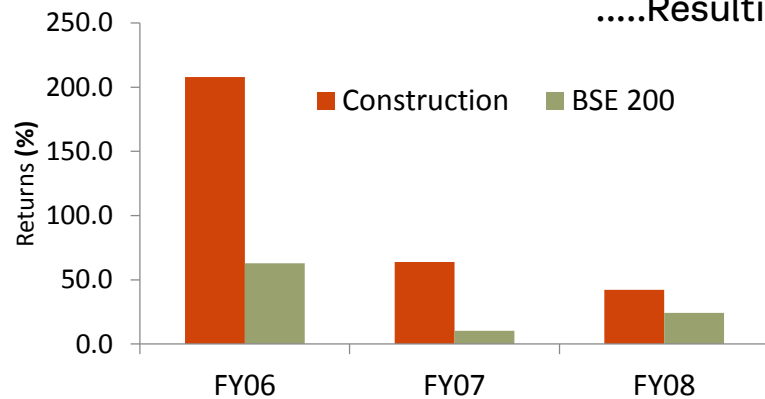


Industrials led the boom over FY06-08

Construction and Manufacturing sectors clocked strong growth over FY06-08



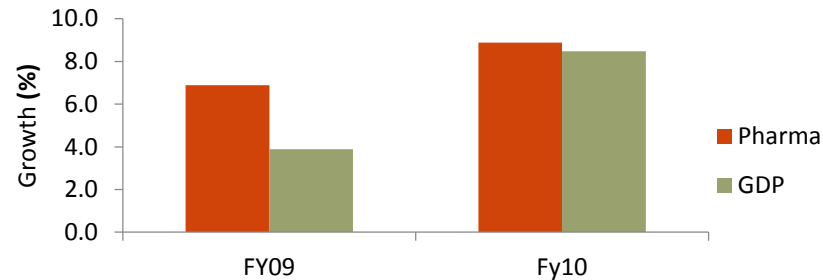
....Resulting in Strong market outperformance



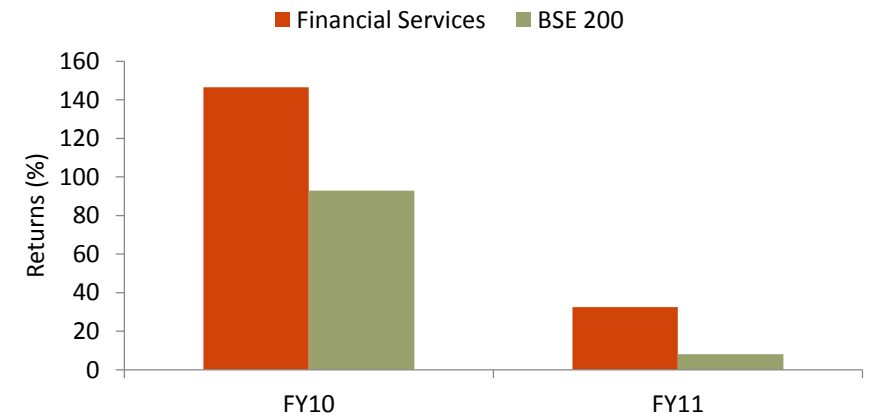
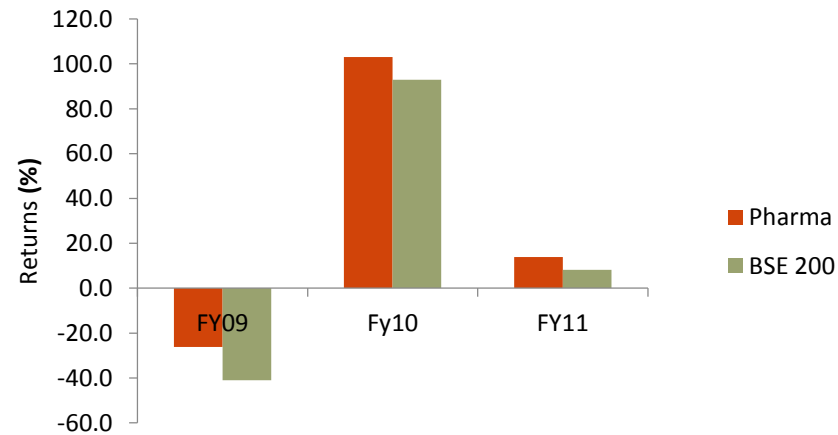
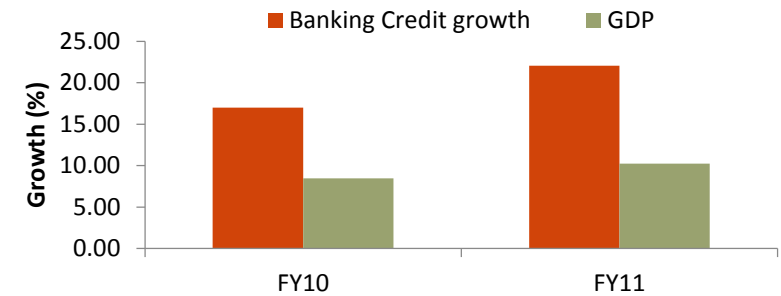
Pharma and Financial services posted consistent performance during volatile times



Pharma sector grew faster than GDP growth during 2009-10.

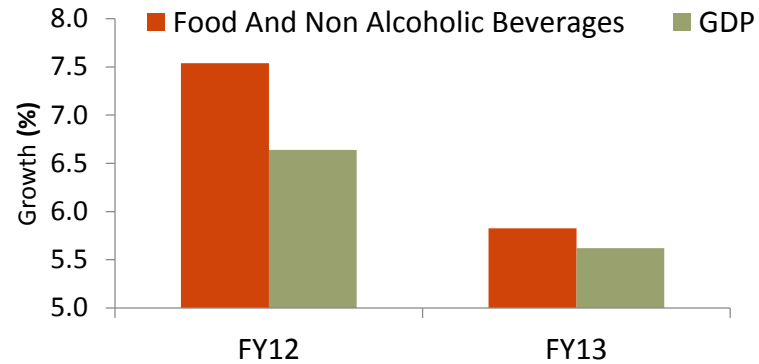


Credit growth picked up post crisis over FY10-11

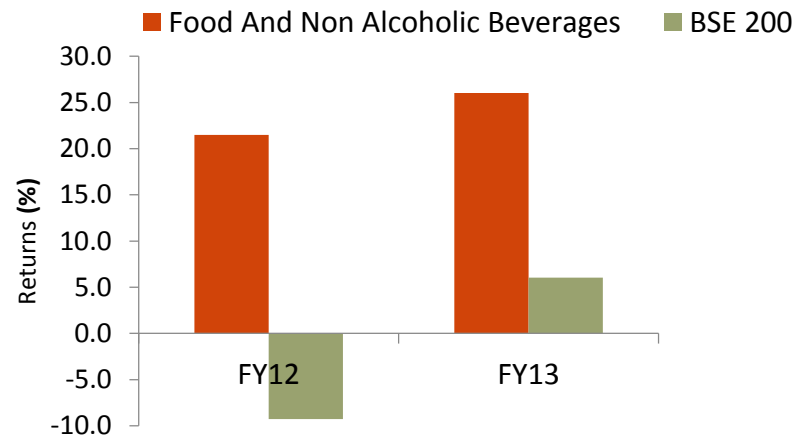


Consumption pick up over FY12 and FY13

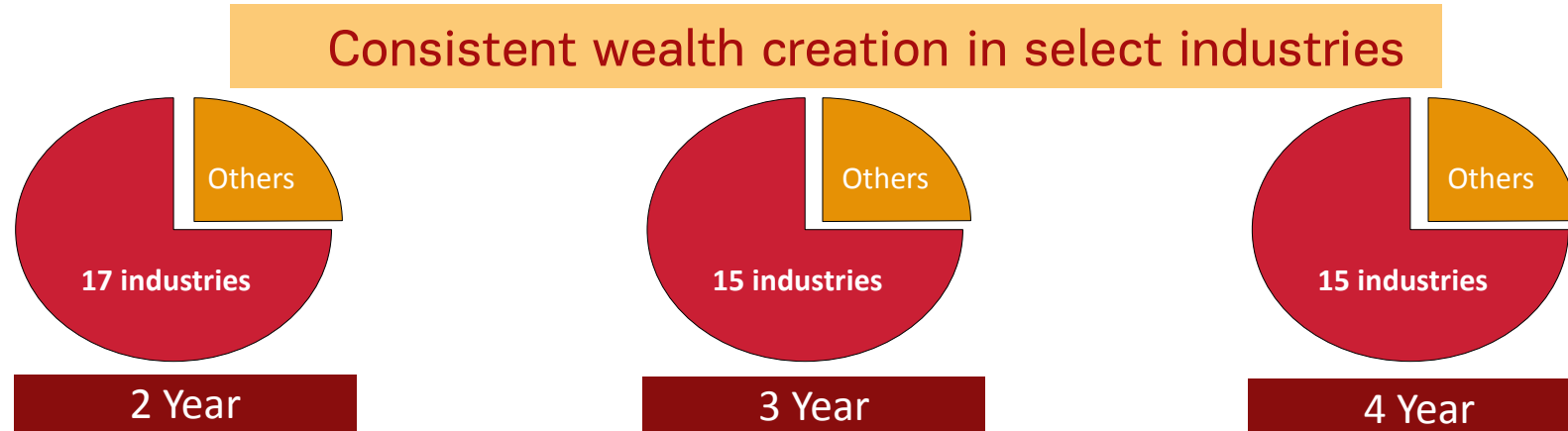
Consumption sector grew faster than GDP growth



Consumption led growth during FY12 and FY13 resulted in strong and resilient market performance for the sector even during weak times



.....Resulting in Strong market outperformance



- ✓ 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 Commercial Banks, Pharmaceuticals, IT Services, Capital Goods, & FMCG

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

Commercial Banks

- Entry barriers in the form of licenses
- Very limited customer bargaining power

Pharmaceuticals

- Large and growing addressable market
- Entry barriers in form of size, capital needs, regulations, research capabilities

IT Services

- Entry barriers in Fortune 500 space
- Limited supplier power in terms of salary costs – arbitrage

Capital Goods

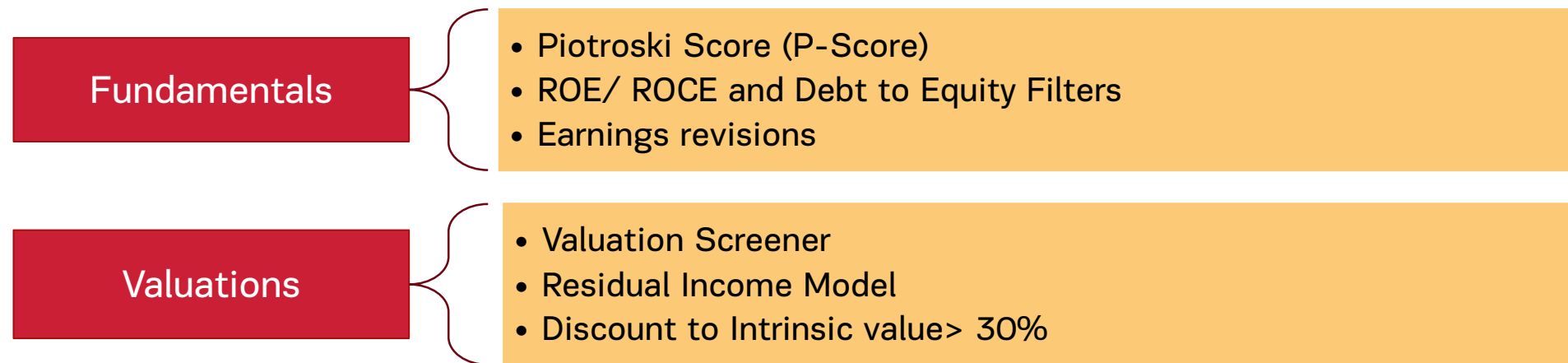
- Large & growing addressable market
- Strong and large balance sheets acting as performance anchors

FMCG

- Brand franchise and distribution scale driven entry barriers
- Ingrained sustainability, healthy margins & return ratios

Our unique Intellectual Property Models add immense value

- ✓ **Extensive fundamental research** undertaken to identify future winners that create superior and sustained value
- ✓ **Comprehensive alert systems** created and maintained to track industry wise valuations of each company
- ✓ Practice value investing by building models that enable identifying **growth** industries and businesses at **attractive valuations** – in line with our investment strategy



Effective screener to identify future winners

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** : +ve Net profit, +ve Operating Cash Flows, Cash flow > Net Profit, Change in ROA
- **Financial leverage/Liquidity**: Change in Leverage, Change in Liquidity, and Equity Financing
- **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

P-Score: Captures Fundamentals

$$P_SCORE = F_ROA + F_DROA + F_CFO + F_ACCRUAL + F_DTURN + F_DMARGIN + F_DLEVER + F_DLIQUID + EQ_OFFER$$

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)	$\Delta ROA > 0$
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**

P-score template

Company name	Alembic Pharma
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	FY12A	FY13E	FY14E	FY15E
QUALITY				
Net Income (Rs mn)	1,301	1,487	1,869	2,333
1. Return on Assets (ROA)	15.4%	14.1%	15.3%	16.5%
2. Cash flow from Operations (CFO)	2,241	2,641	2,559	2,690
3. Accrual (CFO-Net Income)	940	1,154	690	357
4. Equity Offering	0	0	0	0
CHANGE IN QUALITY				
5. Change in ROA	5.3%	-1.3%	1.2%	1.2%
EBITDA Margins	15.1%	15.3%	15.5%	15.8%
6. Change in EBITDA Margins	1.7%	0.2%	0.2%	0.3%
Asset turnover Ratio (x)	1.54	1.45	1.47	1.48
7. Change in Asset Turnover Ratio	0.12	-0.09	0.02	0.01
Net Debt	1,873	785	-374	-1,476
Net Debt to Assets (x)	0.20	0.07	-0.03	-0.10
8. Change in Net Debt to Assets	-0.12	-0.13	-0.10	-0.07
Current Ratio (x)	1.3	1.4	1.5	1.7
9. Change in Current Ratio	-0.07	0.07	0.15	0.17
Earnings growth (%)	52%	14%	26%	25%
Price to Earnings (June 2012)	7.5x	6.6x	5.2x	4.2x

PIOTROSKI SCORE	Score	ROA	D ROA	CFO	ACCRUAL	D TURN	D MARGIN	D LEVER	D LIQUID	EQ. OFFER
FY2012	8	1	1	1	1	1	1	1	0	1
FY2013E	7	1	0	1	1	0	1	1	1	1
FY2014E	9	1	1	1	1	1	1	1	1	1
FY2015E	9	1	1	1	1	1	1	1	1	1

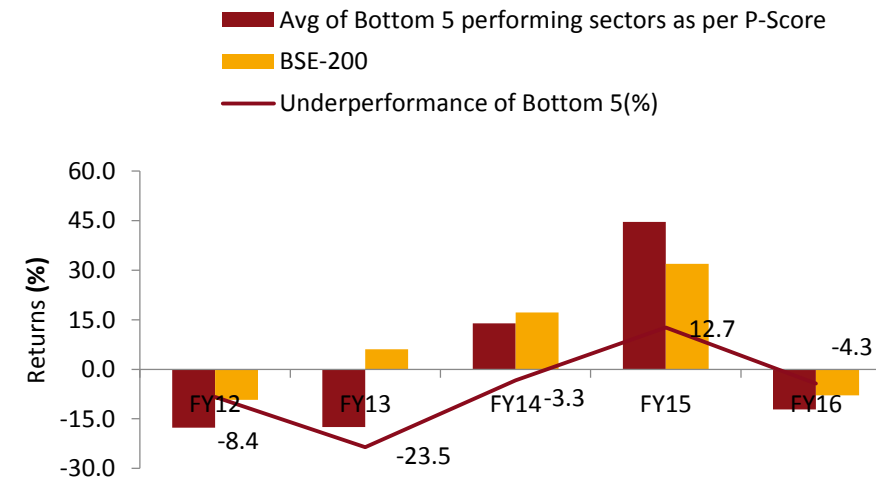
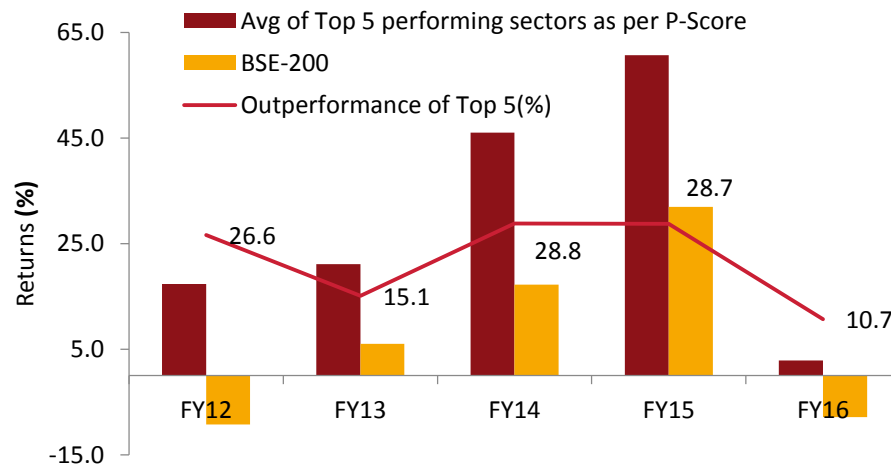
P-Score : *High P-score portfolio outperforms*

- ✓ Across cycles, equal weighted portfolio of High P-score stocks deliver average returns higher than that of Mid P-Score and Low P-score stocks
- ✓ An investment strategy that buys High P-score stocks and shorts Low P-score stocks within the universe generates significantly high positive returns across most cycles

P-Score	Average Returns (%)		
	1-yr	2-yr	3-yr
0	xx	xx	xx
1	-32%	-52%	-39%
2	-13%	-25%	-31%
3	-2%	-14%	-15%
4	10%	9%	12%
5	22%	39%	55%
6	29%	49%	82%
7	44%	75%	115%
8	64%	120%	175%
9	53%	107%	172%
Low P-score	5%	1%	3%
Mid P-score	25%	44%	68%
High P-score	50%	88%	133%
Universe	25%	42%	67%
NSE 500 Index	27%	52%	86%

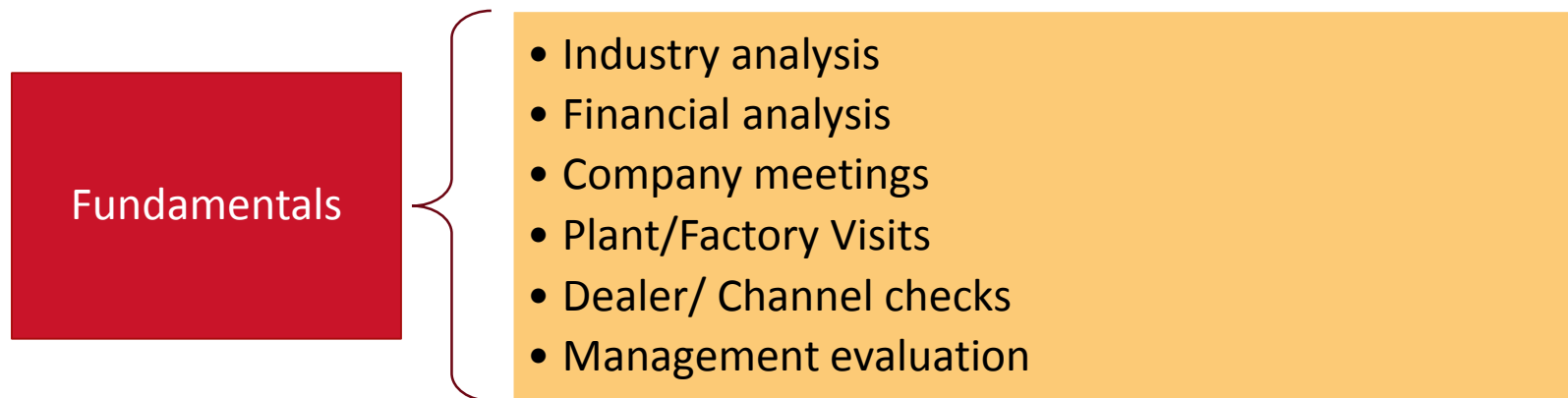
P-Score : An effective tool to identify sectors with improving fundamentals

- ✓ P-score is an effective screener to identify both stocks and sectors
- ✓ P-score trends help identify sectors with improving fundamentals, and strong growth visibility
- ✓ High P-Score sectors outperform markets across time periods whereas low P-score sectors underperform
- ✓ We aim to leverage on our screeners like P-score to take significant overweight positions in a few focused sectors.



Bottom-up Fundamental Research adds conviction

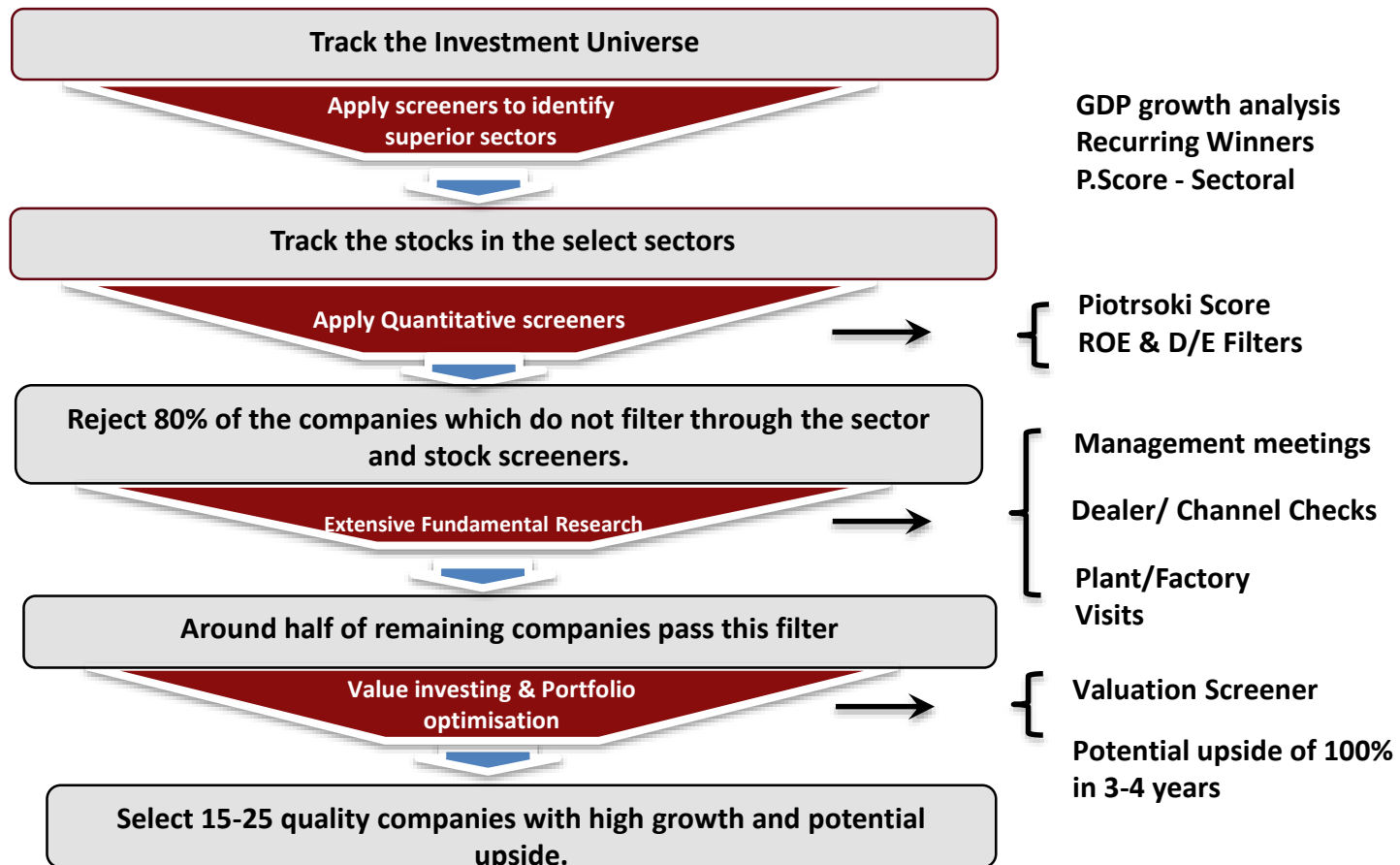
- ✓ Extensive fundamental research undertaken on the Filtered candidates to identify potential portfolio companies
- ✓ Ensure that the team meets the management before forming a view on the company
- ✓ Track sector developments, meet industry participants across value chains to discern changing trends
- ✓ Focus on understanding company strategy, management and execution



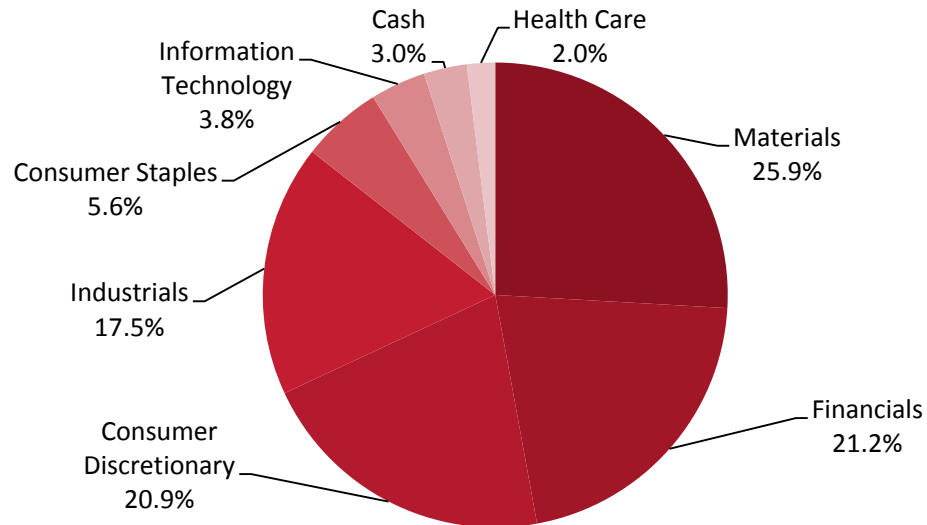
Pillar 4: Value investing approach to generate alpha



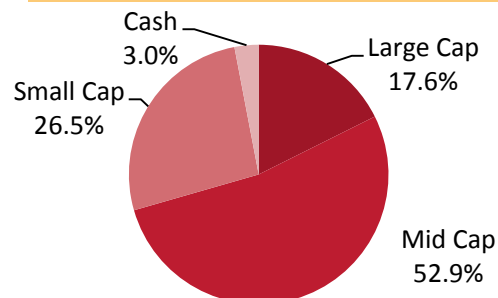
- ✓ Medium and long term **mispricing** in equities persists - market gives us enough opportunities to buy quality growth stocks at a **discount to their intrinsic value**
- ✓ Proprietary screeners enable discovery of these stocks and companies that will create value – which are still significantly under-valued
- ✓ Emphasis is on entry price and we invest in a company only if we have a visibility of a **minimum threshold return** and thorough assessment of **limited down-side**
- ✓ Long term mispricing is discovered through analysis of fundamental parameters and ratios



Sector Allocation



Market Cap



Top 10 Holdings & Weights

Top 10 Portfolio Holdings	% of Net Assets
IFB Industries	6.5
Yes Bank	6.4
APL Apollo Tubes .	6.0
Maruti Suzuki India	5.8
Eveready Industries India	5.6
Century Plyboards India	5.5
Muthoot Capital Services	5.4
Skipper	5.2
JK Cement	5.1
Eicher Motors	5.1

- Market Cap Bins: Large Cap 20954Cr+; Midcap - 2876 Cr to 20954 Cr; Small Cap < 2876 Cr
- The definitions are subject to change in the future

As on Mar 31, 2018

Current Model Portfolio

Portfolio vs. Benchmark – Higher Growth/ROEs with lower valuations

PE (x)	FY17	FY18E	FY19E	Prem/Disc to benchmark
SSP	25.1	20.8	16.5	-25.5%
NIFTY 500	30.2	26.1	22.2	
NIFTY	25.7	22.4	20.3	

ROE (%)	FY17	FY18E	FY19E	Prem/Disc to benchmark
SSP	19.9%	19.7%	21.0%	55.4%
NIFTY 500	11.0%	11.1%	13.5%	
NIFTY	13.4%	13.6%	14.4%	

EPS growth (%)	FY17	FY18E	FY19E	Prem/Disc to benchmark
SSP	44.4%	21.2%	25.6%	43.2%
NIFTY 500	5.4%	12.6%	17.9%	
NIFTY	5.5%	12.0%	10.7%	

Net Debt to Equity (%)	FY17	Prem/Disc to benchmark
SSP	35.30%	-60.5%
NIFTY 500	89.3%	
NIFTY	23.7%	

*Financials excluded in calculation of D/E

Source: All ratios are based on Bloomberg consensus estimates.

Note: Premium/Discount to benchmark Nifty 500 is listed for the period FY19E.

CEP Framework – Consistently generating Superlative results



The Select Sector Portfolio (earlier IRP) leverages on our flagship strategy – Core Equity Portfolio

Returns (%)	3 month	6 month	1 Year	2 year	3 Years	4 Years	5 Years	Since Inception (01/08/09)
Select Sector Portfolio	-10.2%	7.2%	15.3%	22.9%	17.1%	33.6%	35.5%	20.1%
Nifty 500	-6.1%	3.6%	11.5%	17.5%	8.5%	14.3%	15.0%	10.5%
Outperformance	-4.1%	3.6%	3.8%	5.4%	8.7%	19.3%	20.5%	9.6%

Calendar Year Returns	2009	2010	2011	2012	2013	2014	2015	2016	2017	YTD 2018
Select Sector Portfolio	16.5%	9.1%	-30.3%	33.9%	13.9%	116.6%	16.8%	2.3%	55.5%	-10.2%
Nifty 500	15.0%	14.1%	-27.2%	31.8%	3.6%	37.8%	-0.7%	3.8%	35.9%	-6.1%
Outperformance	1.5%	-5.0%	-3.1%	2.1%	10.3%	78.8%	17.6%	-1.5%	19.6%	-4.1%

Disclaimer :

Past performance of any product does not indicate its future performance. The returns of the products are calculated on the Model Portfolio and are net of expenses. Loads not considered in the calculation of the above returns. Individual Portfolio may vary from the Model Portfolio and accordingly the returns/performance may vary.

CEP Success Stories



Company	First Purchase Date	Buy price	Sell Price or Current price	Holding period return (%)
Alembic Pharmaceuticals	04-Jul-12	57	611	967%
National Building Construction Corporation	12-Mar-14	20	208	938%
Aurobindo Pharma	18-Sep-13	89	599	575%
Indo Count Industries	23-Sep-14	36	208	482%
Dewan Housing Finance	18-Oct-12	98	535	448%
Finolex Cables	5-Mar-14	86	431	402%
Zee Entertainment Enterprises	30-Mar-12	127	586	362%
HCL Technologies	28-Nov-11	195	846	333%
TVS Motor Company	04-Oct-13	42	143	241%
Yes Bank	4-Jul-13	94	312	232%
Canfin Homes	9-Apr-15	150	471	215%
Century Plyboard India	18-Sep-14	120	351	192%
VA Tech Wabag	05-Feb-14	280	785	181%
Maruti Suzuki India	31-Mar-16	3716	9124	146%
CCL Products India	19-Aug-14	88	211	140%
Himatsingka Seide	24-Jul-15	148	330	124%
J.Kumar Infraprojects	21-May-14	132	295	122%
Balkrishna Industries	20-Dec-13	315	691	119%
Jyothy Laboratories	12-Aug-13	170	356	110%
Minda Corporation	27-Nov-15	93	185	100%

Company	First Purchase Date	Buy price	Sell Price or Current price	Holding period return (%)
KPIT Cummins Infosystems	30-Apr-12	86	166	94%
Axis Bank	25-Jul-11	267	512	91%
Simplex Infrastructures	27-Mar-14	114	216	89%
ICICI Bank	27-Apr-12	172	316	83%
Cera Sanitary	14-Jul-15	1877	3370	80%
Adani Enterprises	19-Sep-13	30	53	78%
Britannia Industries	07-Mar-13	519	915	76%
KPR Mill	29-Jul-15	364	640	76%
Capital First	08-Mar-16	375	650	73%
Eicher Motors	29-Sep-15	17441	29699	70%
Bharat Financial Inclusion	23-Oct-15	423	719	70%
Gulf Oil Lubricants India	16-Dec-14	546	904	66%
Ratnamani Metals & Tubes	10-Jul-14	440	726	65%
D. B. Corp	03-Sep-12	189	305	61%
ING Vysya Bank	21-Mar-12	359	575	60%
Firstsource Solutions	10-Oct-13	18	29	57%
Bank of Baroda	28-Jan-14	113	177	56%
Cholamandalam Investment	5-Apr-17	976	1524	56%
UPL	06-Feb-13	128	193	51%
KEC International	07-Mar-14	60	86	43%

Disciplined Sell Process - Adding value to the portfolio



A disciplined sell process ensures that weaker stocks with deteriorating fundamentals or diminished margins of safety are replaced by the stronger ones.

A portfolio stock will be reviewed for potential sale under 3 scenarios:

- ✓ Deterioration in business fundamentals
- ✓ Stock appreciation to the point where the incremental risk / reward is unfavorable
- ✓ Availability of an alternate investment with stronger fundamentals and valuations

Scrip Name	Buy Date	Adjusted Buy Price	Sell Date	Adjusted Sell Price	Market Price*	Scrip Returns (post selling)*	CEP Returns (Post Selling)*	Nifty 500 Returns (post selling)*	Reason for Sale
Tribhovandas Bhimji Zaveri	29-Jan-15	176.0	08-May-15	149.0	85.3	-42.8%	50.7%	32.4%	1
Balkrishna Industries	20-Dec-13	311.8	14-Nov-14	737.0	1068.7	45.0%	63.7%	31.3%	2
Coromandel International	09-May-13	192.9	31-Jul-13	168.2	525.2	212.2%	348.9%	103.5%	3
DB Corp	03-Sep-12	190.0	10-Jun-14	305.3	311.6	2.0%	107.7%	43.9%	1
Ratnamani Metals	10-Jul-14	438.0	23-Jan-15	712.0	851.2	19.5%	43.5%	24.3%	1

Disclaimer: Past performance depicted above does not indicate its future performance. The stocks mentioned above are only for representation purpose and not a complete disclosure of our total portfolio. Returns shown above are absolute returns from current to sell date.

Preference for active portfolio management vs. 5 to 10 year buy and hold strategy

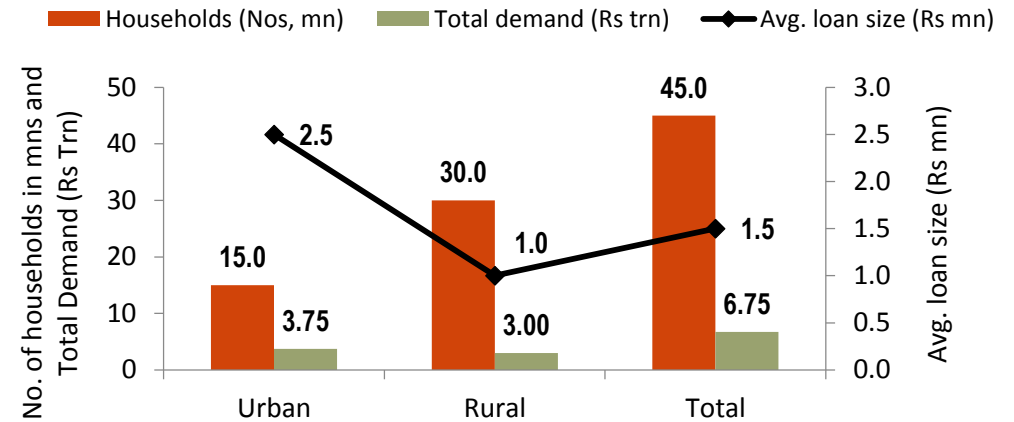
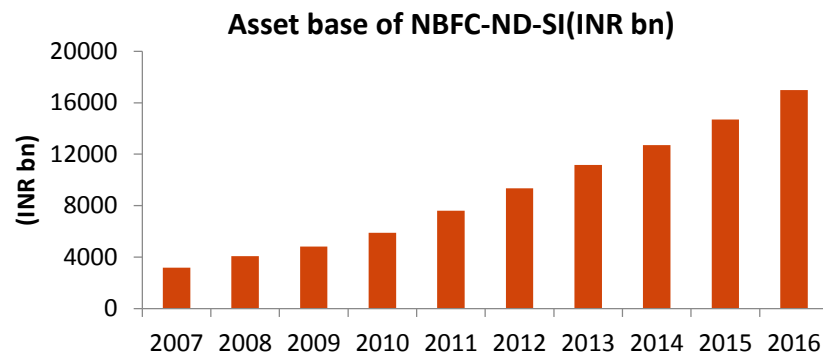
- ✓ Timely review of stocks with respect to the business fundamentals like competitive advantage, growth prospects and capital allocation is integral in a VUCA (volatility, uncertainty, complexity and ambiguity) environment
- ✓ Difficult for best of companies to display strong and consistent growth and returns over a longer time frame

No: of companies which have reported PAT growth > 20% and ROE > 20%	No: of BSE 500 stocks	% of BSE 500 stocks
for last 10 consecutive years	0	0%
for last 5 consecutive years	5	1%
for last 2 consecutive years	35	7%

Sweet Spot for Investing is 2 to 3 years – Investment horizon for portfolio stocks

Strong outperformance of the sector –

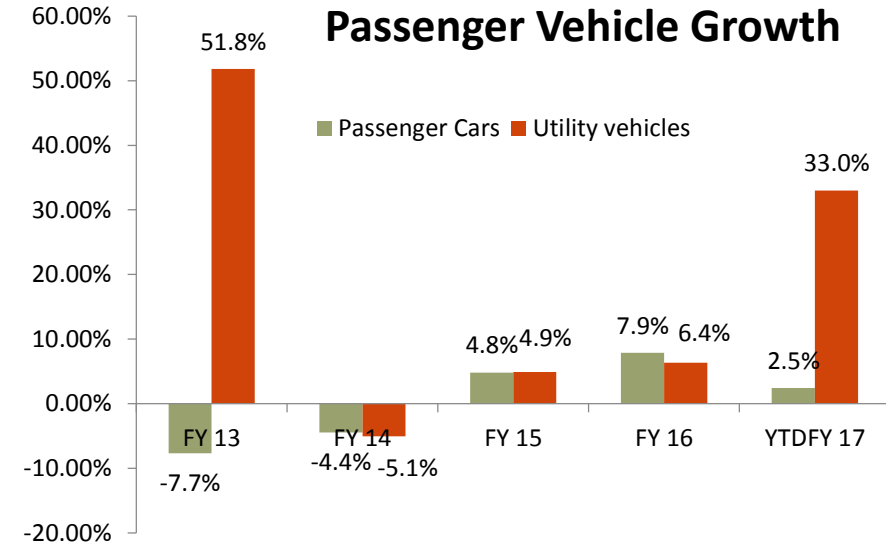
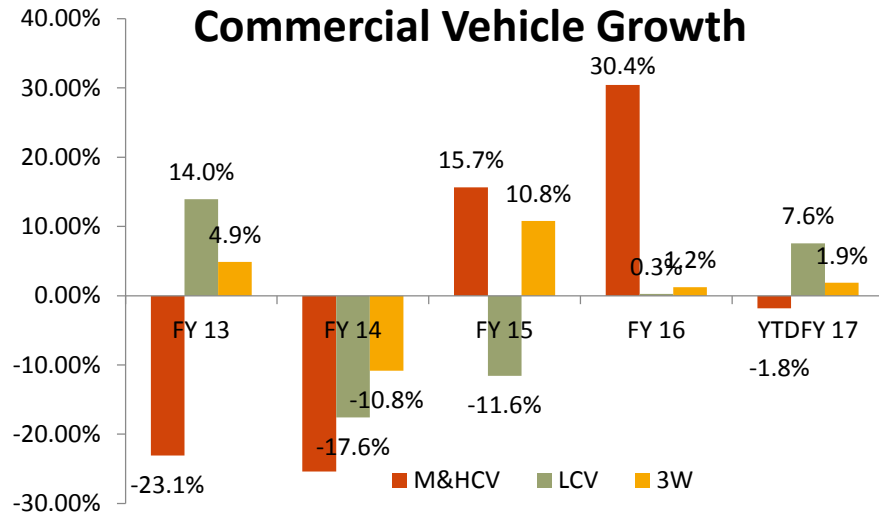
- ✓ Financials weight age have increased in index to above ~28% (more than 2X in 15 years)
- ✓ Asset size for NBFCs has multiplied over 5 times in the past decade
- ✓ In 5 segments including LAP, NBFCs assets grew at more than twice India's GDP last fiscal



Key drivers for sector –

- ✓ Next cycle of growth is beginning - Long & quality cycle ahead with improving growth, risks & rates
- ✓ A significantly changing banking market (new players – Small Finance Banks, Payment banks); boost to growth activities but could challenge profitability.
- ✓ Evolution of plastic money & increasing online transactions
- ✓ Stay positive on Indian Financial sector; as penetration remains levels are low and the transition to an up cycle should continue to deliver strong sector returns.

Auto & Auto Ancillaries – Getting hotter

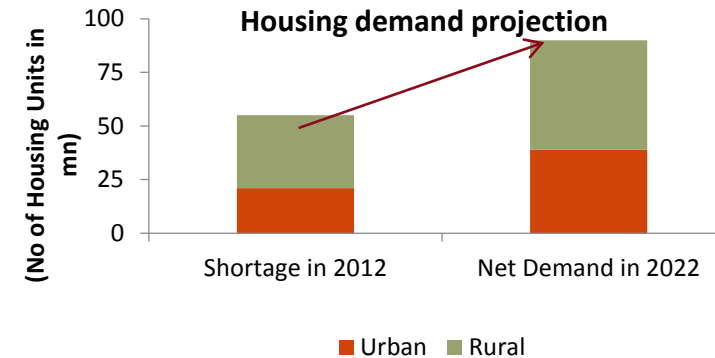
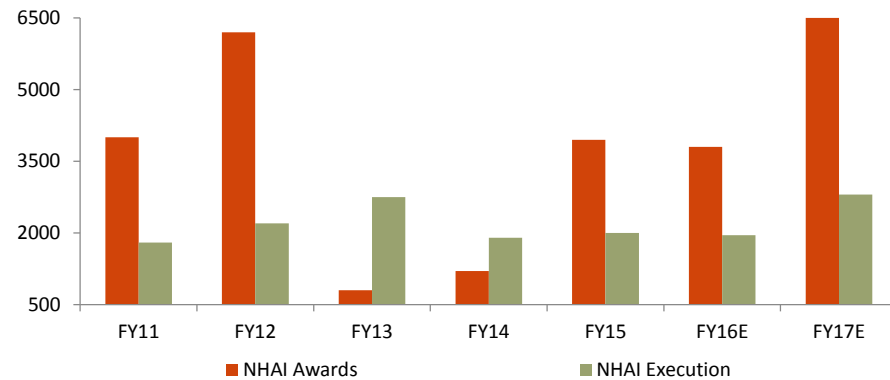


Key drivers for sector –

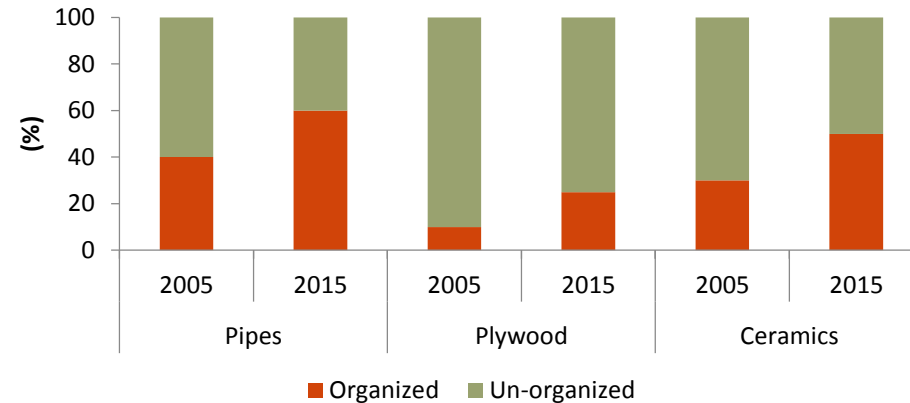
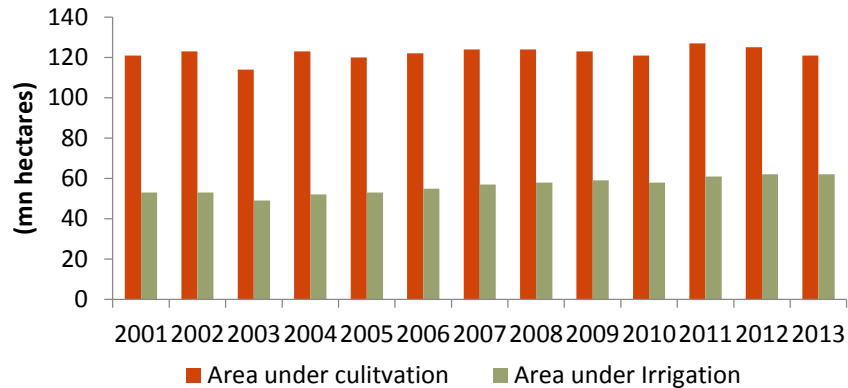
Long term drivers –

- One of the fastest growing markets in world, Indian Automobile industry expected to be world's 3rd largest by 2026
- Significant FDI investment under the 100% automatic approval route benefiting with new capital & technology transfer happening faster and more prospects of exports in addition to the strong domestic demand
- Benefits from a large number of engineers and technicians being available along with other raw materials at low cost
- Big beneficiary of GST implementation; also to benefit from GOI's technology modernisation fund for Auto Industry

Infrastructure & Capital Goods – Ramping up fast



- ✓ Government spending increasingly becoming the dominant theme in building construction
- ✓ Key initiatives :- Housing For All by 2022, Smart Cities and AMRUT
 - Redevelopment of government colonies, which leverage existing land eschewing government funding support, has transformed the employee housing segment, spawning sizeable opportunities for players involved.
 - Government outlay exceeding INR5,000bn, apart from INR4,000bn private sector investments
 - Redevelopment of government colonies, which leverage existing land eschewing government funding support, has transformed the employee housing segment, spawning sizeable opportunities for players involved.
 - Government efforts to enhance availability of educational & health facilities is a boon for building contractors.
- ✓ Roads and Infra to witness an investment boom
 - With the government targeting >3x increase in the pace of road construction, total investments in the roads space is set to grow to INR8.4tn over FY16-20E. The central government alone is targeting USD93bn investment in the roads space over the next 3 years.
 - India is witnessing metro boom with projects operational in 6 cities, under construction in 12 cities and at planning stage in 15 cities.
- ✓ Massive INR2.6tn opportunities in EPC across power, industrial segments
 - Generation, transmission and distribution to throw up total EPC opportunity of INR2,602bn (INR520bn p.a.) over the next 5 years.
 - T&D spending expected to be towards the spotlight on higher kV substations, owing to government's sharp focus on cutting AT&C losses



- ✓ Strong push from the government on investments to boost rural sector growth.
- ✓ In a bid to double farmers income in the next five years, the government has allocated INR 35,984 crore to the farming sector.
 - Implementation of 89 irrigation projects under AIBP, which have been languishing, will be fast tracked.
 - Projects require Rs.17,000 crore next year and Rs.86,500 crore over the next five years.
- ✓ GST to be a key catalyst for growth
 - Bharat Unorganized market in the building material and irrigation space ranges from 40-60% of overall market size.
 - Implementation of GST to level the playing field for organized players.
- ✓ Housing for all by 2022
 - To date the construction of 720,000 urban houses has been approved against a target of 20m;
 - Only 10% of the 29.5m houses in rural areas scheduled to be built by 2022 have been completed.
- ✓ We believe the govt.'s thrust on improving rural infrastructure and housing bodes well for Building materials and agri based companies

Case Studies

Industry: Financials

- ✓ Background – India’s 4th largest private sector Bank with one of the best asset quality and highly competent top management team led by the founder Mr. Rana Kapoor.
- ✓ Current price/Current Market Cap : Rs 304.85/Rs 70,701 Crs (US \$10.9 bn) (as of 28th Mar 2018)
- ✓ Price/Market Cap (at the time of purchase): Rs. 94 / Rs.21,300 crs

Financials: An RWP Industry

- Financials industry is amongst the **top 15 outperforming industries** in India.
- **Positive operating dynamics** - Entry barriers in the form of licenses, Very limited customer bargaining power, strong network.

Use of Proprietary screeners

- **Captured by Proprietary screener (ANR)**
- Targeting an increase in the share of retail loans from 9% as of FY16 to 25% by FY20E, driven by home loans, auto, two-wheelers, credit cards and personal loans.

Fundamental Evaluation

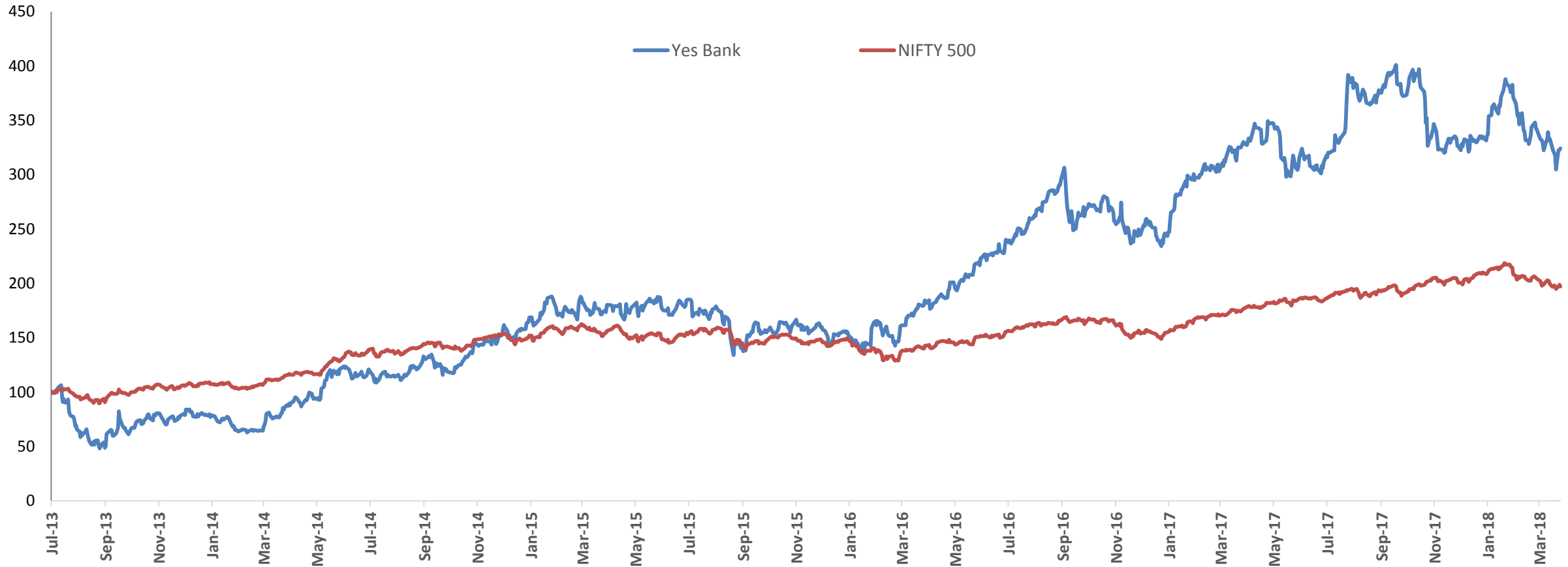
- We expect CASA ratio to improve to 40% in FY19, aided by strong traction in saving deposits accretion and increased focus on improving retail liability franchise.
- The bank gave NIM target guidance of 4% by FY20 and aims to achieve this goal by undertaking a series of measures such as: reducing savings deposit costs by 20-30 bps in a gradual manner; raising infrastructure bonds ~Rs.3000-4000 cr. every year; aiming for priority sector (PSL) lending internally against buying PSL certificates.

Valuations

- Yes bank is available at 2.6x FY 18 & 2.2x FY 19 P/B & expected to compound earnings at 23% CAGR over FY17-19.

Date of Investment : July 2013
 Investment Price : Rs. 94 per share

Current Price : Rs. 304.8 per share
 Total return (%) : 224% (4.9 years)



Industry: Construction

- ✓ Background - NBCC is a 'Navratna' public sector undertaking (PSU) in the construction space, which mainly undertakes project management and consultancy (PMC) work for government organisations. The company's PSU status ensures that ~80% of the PMC projects won by it are bagged on nomination basis.
- ✓ Current price/Current Market Cap : Rs 190.4/ Rs. 17,636 Crs (US \$2.71 bn) (as of 28th Mar, 2018)
- ✓ Price/Market Cap (at the time of purchase): Rs. 20/ Rs 1770crs

Construction: An RWP Industry

- **Construction industry** is amongst the top 15 outperforming industries in India.
- **Positive operating dynamics** –NBCC's experience in real estate development space (the only PSU PMC player with this capability) means it enjoys near monopoly position in redevelopment of government colonies/development of government land.

Use of Proprietary screeners

- Cash Surplus Balance sheet with ROCE's of > 30% and available at P/E multiple of 7XFY16E
- Piotrosky score of 7 in FY16

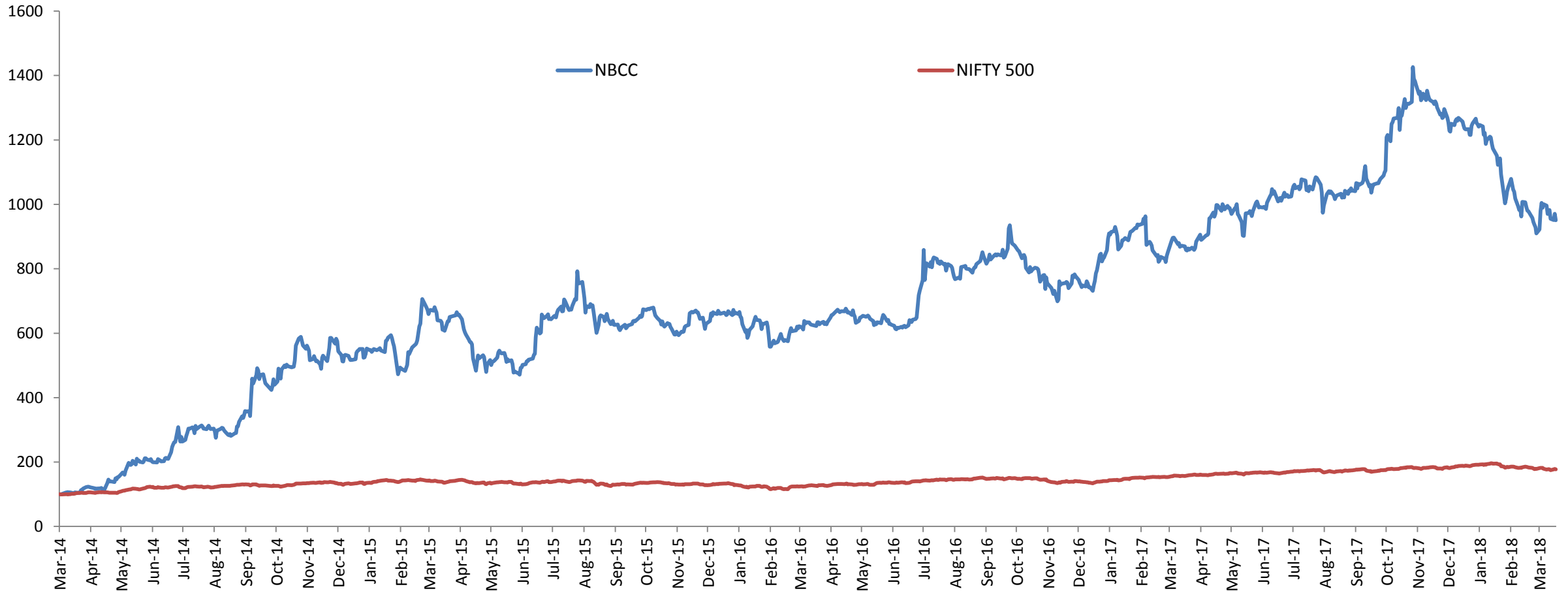
Fundamental Evaluation

- **Uniquely positioned** :NBCC has a special nomination status for govt orders, takes up low-risk, cost-plus contracts and is well-placed for large order flows in future. NBCC is the only PSU with a long track record and the skills to undertake PMC /redevelopment works.
- **Strong Order book visibility**— We believe NBCC is on a strong wicket with robust revenue visibility, cash-rich balance sheet ,healthy return ratios (25% plus RoEs) and strong order book visibility(One lac crore in FY20 from 76000 crore currently. Near monopoly in redevelopment space and increasing share of redevelopment projects will improve margin trajectory going ahead.

Valuations

- Currently trades at valuations of 25x FY18 PE
- While the upcoming govt stake sale remains a near term overhang, We remain positive from a long term perspective owing to the strong order book coverage and its virtual monopoly position in redevelopment of government colonies/development of government land.

Date of Investment	: Mar 2014	Current Price	: Rs. 190.4 per share
Investment Price	: Rs. 20 per share	Total return (%)	: 851% (4.1 years)



Industry: Pharmaceuticals

- ✓ Background - Among the larger Indian pharma companies in regulated markets and now appears well set to transition from plain vanilla generics to more complex segments.
- ✓ Current price/Current Market Cap : Rs 557.85 / Rs. 36,565 Crs (US\$ 5.65 bn) (as of 28th Mar, 2018)
- ✓ Price/Market Cap (at the time of purchase): Rs 88.6/ Rs.5100crs

Pharmaceuticals: An RWP Industry

- Pharmaceuticals industry is amongst the **top 15 outperforming industries** in India.
- **Positive operating dynamics** - Large and growing addressable market. Preference for “Generics” to reduce healthcare cost. Entry barriers in form of R&D capabilities, pipeline of ANDAs filed and legal/regulatory aptitude.

Use of Proprietary screeners

- **Captured by Proprietary screener (ANR)**
- High Piotrosky-score: 8; High ROE of 26.5% in FY15E
- Compelling valuations of 9 times P/E multiple versus 20 times for the peer group

Fundamental Evaluation

- **Moving up the value chain:** Improving product mix mainly visible in the US (emerging as a key injectables player; peptides, controlled substances, OCs) but also extends to ARVs (triple combination drugs), APIs (high-value, low-volume non betalactum products) and EU.
- **Improving margins and returns:** Rising scale of operations and improving business mix to improve ARBN's financial metrics - higher margins, rising asset T/O and better cashflows, earnings growth stays robust (FY16-18E: 22% CAGR), net cash by FY18E

Valuations

- **Trading at a significant discount to peers** – despite higher growth outlook and margins – 14.9 times FY18 P/E multiple versus 22-25 times for the peer group.
- Phase of healthy earnings growth, rising cashflows and RoCE expansion to sustain over next few years

Aurobindo Pharma

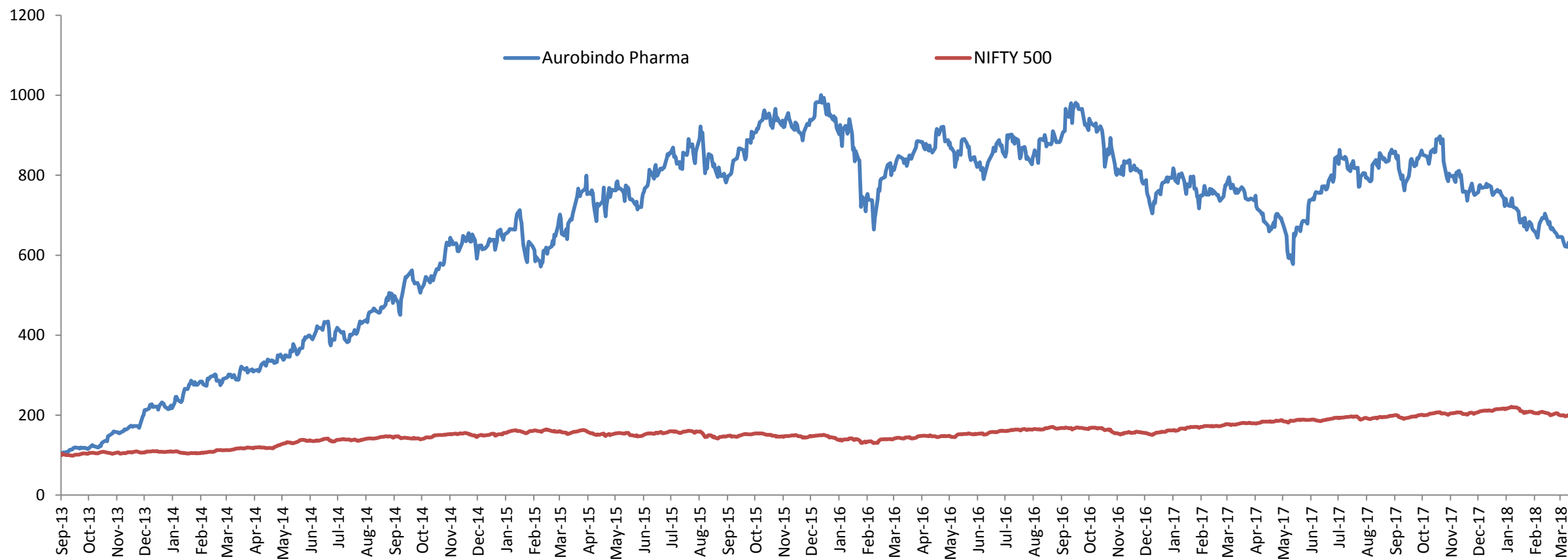


Date of Investment : Sep 2013

Investment Price : Rs. 89 per share

Current Price : Rs. 557.9 per share

Total return (%) : 529% (4.6 years)





A Balasubramanian, Chief Executive Officer

- Bala has over 26 years experience in the Capital Markets and has been with ABSLAMC since inception. He has played a key role in the business moving to the number four position in the industry. He began his tenure as a Chief Dealer / Trader and then was the Head of the Fixed Income group and Country Head for Sales and Distribution, before taking on the role of Chief Investment Officer and then CEO.
- He is a member of the Mutual Fund Advisory Council set up by Indian Regulator, SEBI (Securities and Exchange Board of India). Apart from this prestigious role, he is also Chairman, Association of Mutual Funds of India (AMFI). He is a member of FICCI's Capital Market Committee and a member of CII Western Regional Council 2015-2016. He was also the Chairman of CII - Mutual Fund Summit 2011-2014.



Vishal Gajwani, Head - Alternate Investments (Equity)

- With over 11 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), 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 Masters 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 10 years of experience in equity research and fund management. Prior to joining Aditya Birla Sun Life PMS, 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 Medallist 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

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Risk Factors associated with investments in Equity & Equity related securities:

The portfolio proposes to invest in equity and equity related securities. Equity and Equity related securities by nature are volatile and prone to price fluctuations on a daily basis due to both macro and micro factors.

The value of the portfolio will fluctuate as the daily prices of the individual securities in which they invest fluctuate and may be worth more or less than its original cost, at a given point in time.

In respect of investments in equity and equity-related instruments, there may be risks associated with trading volumes, settlement periods and transfer procedures that may restrict liquidity of investments in equity and equity related securities.

The value of the portfolio may be affected generally by factors affecting securities markets, such as price and volume volatility in the capital markets, interest rates, currency exchange rates, changes in policies of the Government, taxation laws or policies of any appropriate authority and other political and economic developments and closure of stock exchanges which may have an adverse bearing on individual securities, a specific sector or all sectors including equity and debt markets.

Within the regulatory limits applicable at any point in time, the Portfolio Manager may choose to invest in unlisted securities that offer attractive yields. Securities, which are not quoted on the stock exchanges, are inherently illiquid in nature and carry a larger amount of liquidity risk, in comparison to securities that are listed on the exchanges or offer other exit options to the investor, including a put option. This may however increase the risk of the portfolio. The liquidity and valuation of the portfolio's investments due to their holdings of unlisted securities may be affected if they have to be sold prior to their target date of disinvestments

Investment made in unlisted equity or equity-related securities may only be realizable upon listing of these securities. Settlement problems could cause the portfolio to miss certain investment opportunities.

Investors may note that Portfolio Manager's investment decisions may not always be profitable, as actual market movements may be at variance with anticipated trends.

Though the constituent stocks of most indices are typically liquid, liquidity differs across stocks. Due to the heterogeneity in liquidity in the capital market segment, trades on this segment may not get implemented instantly.

The portfolio may have higher concentration towards a particular stock or sector, at a given point in time. Any change in government policy or any other adverse development with respect to such a stock or the sector, may adversely affect the value of the portfolio.

Risk Factors associated with investments in Derivatives:

The Portfolio manager intends to use exchange traded derivatives as a hedging tool & does not intend to take any naked positions. Nevertheless, trading in derivatives market has risks and issues concerning the use of derivatives that investor should understand. Derivative products are specialized instruments that require investment techniques and risk analysis different from those associated with stocks and bonds.

The use of a derivative requires an understanding not only of the underlying instrument but also of the derivative itself. Derivatives require the maintenance of adequate controls to monitor transactions entered into, the ability to assess the risk that a derivative adds to the portfolio and the ability to forecast price or interest rate movements correctly.

Other risks in using derivatives include the risk of mispricing or improper valuation of derivatives and the inability of derivatives to correlate perfectly with underlying assets, rates and indices. Derivatives are highly leveraged instruments. Even a small price movement in the underlying security could have a large impact on their value. Execution of such strategies depends upon the ability of the portfolio manager to identify such opportunities. Identification and execution of the strategies to be pursued by the portfolio manager involve uncertainty and decision of portfolio manager may not always be profitable. No assurance can be given that the portfolio manager will be able to identify or execute such strategies.

Derivative trades involve execution risks, whereby the rates seen on the screen may not be the rate at which ultimate execution takes place.

The options buyer's risk is limited to the premium paid, while the risk of an options writer is unlimited. However, the portfolio manager does not intend to write options.

Risk of loss in trading futures contracts can be substantial, because of the low margin deposits required, the extremely high degree of leverage involved in futures pricing and potential high volatility of the futures markets.

Risk Factors associated with investments in Liquid Funds:

The Portfolio Manager may, from time to time, invest any un-deployed funds in liquid schemes of Mutual Funds or in money market instruments. Though the portfolio of liquid funds comprises of short-term deposits, government securities and money market instruments, they cannot be considered as totally risk free. This is because liquidity patterns and short term interest rates of the government change, sometimes on a daily basis, thereby making the fund susceptible.

Liquid fund returns are not guaranteed and it entirely depends on market movements.

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