Emkay Emerging Stars Fund V

(DRAFT PRODUCT NOTE)

Emkay | Investment Managers
Your success is our success

OUR TEAM


Krishna Kumar Karwa
MD - EGFSL
Mentor - EIML


Vikaas M Sachdeva
CEO - EIML


Sachin Shah
Fund Manager - EIML


Kashyap Javeri
Fund Manager - EIML

Emkay Investment Managers Ltd. (EIML) is the asset Management arm of Emkay Global Financial Services Ltd. (EGFSL), a SEBI registered Portfolio Manager managing & advising investments for long-term (3-5 years+) investors consisting of Family Offices, HNIs, Corporate & NRIs, in Indian equities. Currently the team manages assets over INR 800 crores.

PROFILE OF FUND MANAGERS

Sachin Shah is a seasoned fund manager with over two decades of experience in the Indian equity markets. By virtue of his extensive research, Sachin realised early-on the need for a framework in which companies with evasively tricky standing needed to be filtered out very objectively, leading to the development of E-Qual Risk, EIML's proprietary module which helps us to evaluate and compare listed companies on various aspects of governance. Sachin shares his knowledge and insights through various media interactions across print and digital platforms.

Kashyap Javeri is a co-fund manager with more than a decade of experience in company and sector research. He brings exceptional insights into stocks and economy. Prior to joining Emkay Investment Managers, he was a rated BFSI analyst in Emkay Institutional Equities for eight years and also worked with Sharekhan Ltd as midcap analyst. Kashyap brings with him immense in-depth knowledge on not only variety of manufacturing and services sectors but also on banking and economics.

INVESTMENT SOLUTIONS: E-QUAL & SMART ALPHA

FORTIFIED WITH E-QUAL

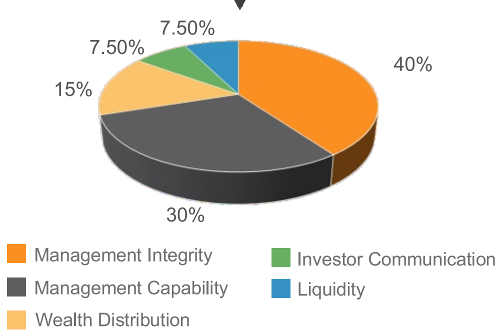
Using this approach, we generate alpha through pure bottom-up stock picking and extensive research. We employ multi-pronged investment strategies and leverage proprietary models like E-Qual Model to deliver consistent long-term returns.

E-Qual Framework

First of it's kind model in the country which calibrates the "Governance" aspect of a company. Each company is evaluated on the basis of the following parameters and a score is assigned to them.

Three Pronged Investment Process

1. Earnings Growth
2. E-Qual Model
3. Purchase Price Discipline



As on 31.05.2022

SMART ALPHA

Using this approach, we try to mitigate typical fund manager vulnerabilities, primary among those being the "Selection bias" and the "Allocation bias".

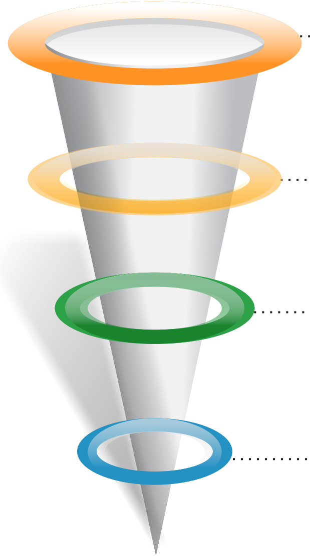
"Selection" bias and "Allocation" bias, if mitigated, can lead to superior risk adjusted returns consistently

The biases are mitigated by way of :

Defined universe for selection of stocks

Equi-weighted portfolio

Number of listed Companies = > 5,000



Defined Market Cap Filter
Focus on companies across market cap

Earnings Growth Filter
Focus on strong historic and future growth
- ROCE > WACC
- Earnings growth > GDP growth rate

Strong Leadership Framework Filter
- Strong leadership in the respective sector: Market share/ profit share/ cost/ growth/ product
- Strong Management credentials: Vision, track record, growth

Comprehensive Valuation Framework
- Comparative Valuations
- PEG ratio
- Price - Value gap through DCF with focus on Margin of Safety
- Market cap vs Opportunity Size

SELECTED STOCKS

The Emkay Emerging Stars Fund has seen huge success in fund performance & investor satisfaction. Under popular investor appetite, we are immensely pleased to announce another new fund offering under the Emkay Emerging Stars Fund (EESF) umbrella, the Series V. The EESF Series V will be a close ended, long only Category III AIF which will have exposure to around 20-25 high quality companies which pass muster of our "E-qual" framework, among other fundamental screeners. This will be a sector agnostic, flexicap offering.

To win big in any sport (say commonwealth games), a country needs to have a strong line up of players [wrestling, boxing or even lane bowling (upcoming sport)], medals to win and a supporting infra in the form of great coaches.

Have we seen the same in terms of the economy?

IT – IT's weight in indices was in single digit in the 90s. Come companies like Infosys, Wipro and TCS - our great wrestlers and boxers (HCL Tech could be lane bowling). They were out to woo or win fortune 500 companies (medals) and great supporter in the form of government which made current account fully convertible and provided tax benefits in terms of S/10A and 10AA

BFSI – BFSI's weight in indices was 12% in FY00. It rose to almost 35%+ pre-GFC. What changed? The wrestler/protagonist – PSU / private banks put the house in order through significant provisioning and capital raise. The medals/paramours were population born in the 80s, hungry for retail loans and corporate hungry for capex loans. The policy responses – complete deregulation of interest rates and streamlining of NPA norms.

Where do we see a similar thing happening? An overweight wrestler/boxer getting back in shape. The medals are up for winning. The coaches are gunning to make the best out of their protégé?

We believe manufacturing.

Manufacturer - **the wrestler** - Shedding the flab: We see the productivity of the sector rising. Between 2014-20, the cash ROCE of the sector was declining. Over FY20-22, we have seen cash ROCEs expanding driven by (1) rising CU at 76% for Q4F22, one of the highest in the last 7 years (2) lower effective tax rates driven by a cut in tax rates (3) better working capital management driven by liquidity.

The manufacturers are using robust ROCEs and consequent cash flows to (1) reduce debt – D/E of BSE500 ex BFSI down to 0.6x vs 0.9x between FY15-22 (2) expand capacities – rising request for environmental clearances.

Consumer – **the medals** – we believe that post-pandemic resurgence in consumption is much more than latent demand. It is more durable and driven by two factors (1) Wealth impact – while we all know Nifty has grown 3-year CAGR of 16.5%, even corporate bond funds have delivered 7%+ returns over the same period. The wealth effect has significant bearing on discretionary consumption. (2) For the first time in last seven years, the salary cost for BSE500 companies has risen by double digits. Most of the forward looking surveys point towards better employment and wages outlook.

Over the next 5-year period, we believe that both the reasons mentioned above will reflect in higher share of discretionary spends in the consumer's wallet.

Government - **the coach** – we believe there are four things which will help manufacturing sector from policy response side (1) Lower tax rates – maximum marginal tax rate of 25% and 15% rate if it is new capex (2)Lower effective cost of debt with MCLR at 8.45% vs 9% pre-covid (3) Higher commitment towards capex until FY26 and (4) Icing on the cake – PLI scheme.

It is not co-incidental that the theme is glocal and not only local as each of the abovementioned factors has also resulted in bigger export opportunities for the manufacturing sector, particularly auto, pharma, chemicals and engineering goods.

We believe that the balance of scale has only tilted in favor of services over last 20 years, whether in indices or in GDP. Now that the holy trinity highlighted above is in favor of manufacturing, the tilt should scale back in favor of manufacturing over the next 10 years.

And that requires a dedicated strategy. Emkay Emerging Stars Series V will invest in four key themes

(1) Beneficiaries of domestic consumption

(2) Enablers of import indigenisation

(3) Beneficiaries of export opportunities

(4) Enablers of manufacturing growth

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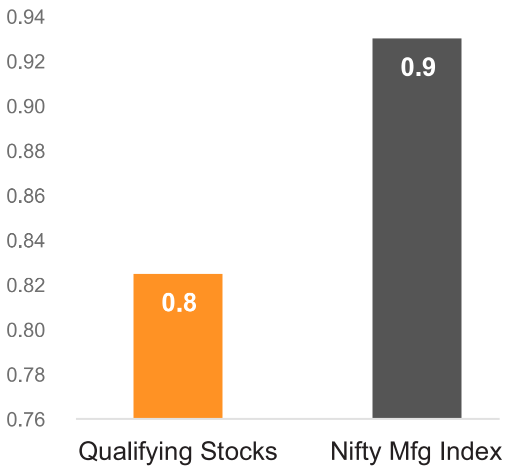
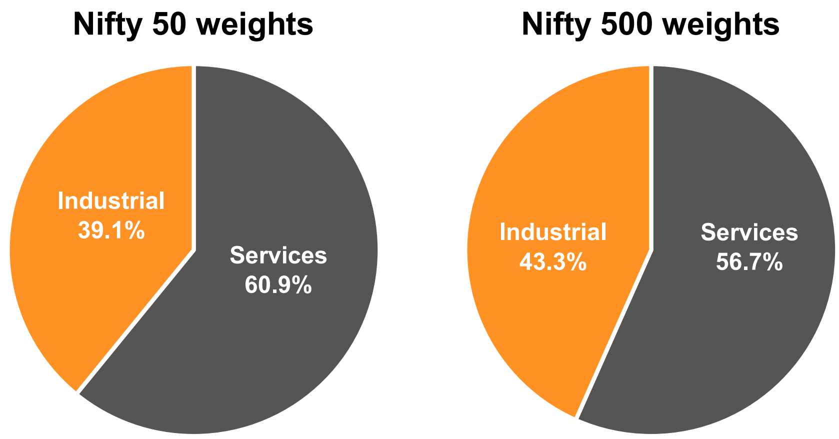
Why manufacturing is expected to do well –

- **Broad indices are largely services oriented**
  - Weight of services in Nifty 50 at 60%+
  - Weight of services in Nifty 500 at 57%
- **The Nifty India Manufacturing Index carries lower beta**
  - Beta of Nifty India Manufacturing Index vs Nifty 50 at 0.9x
  - Weighted average beta of sector qualifying for ENVI at 0.8x

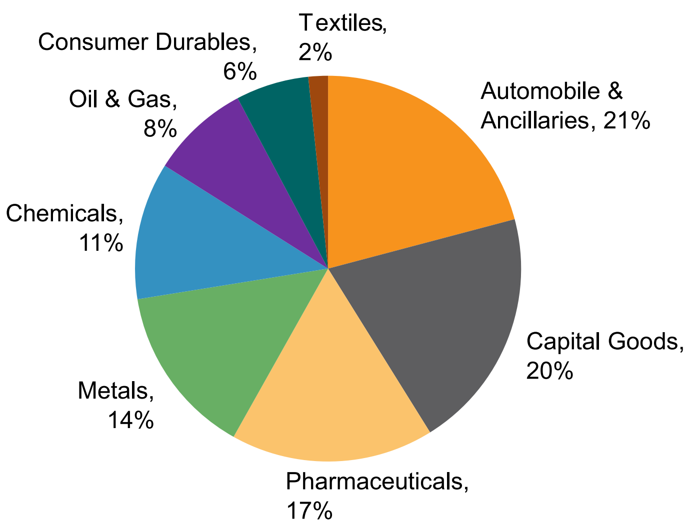
Beta * (x)



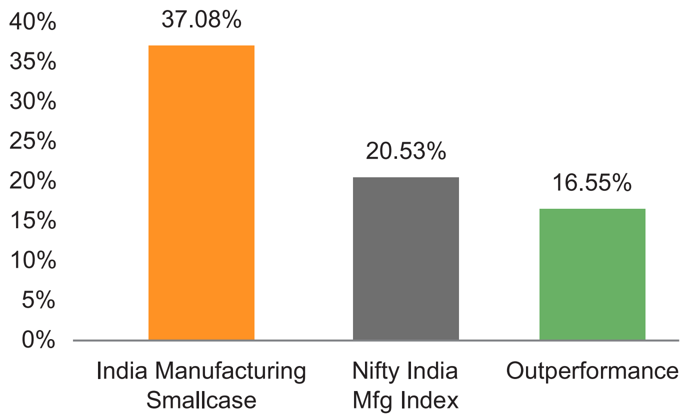


Emkay Global has a decent track record in the Manufacturing Sector

The Nifty India Manufacturing Index weights



India Manufacturing Smallcase vs Nifty India Manufacturing Index*



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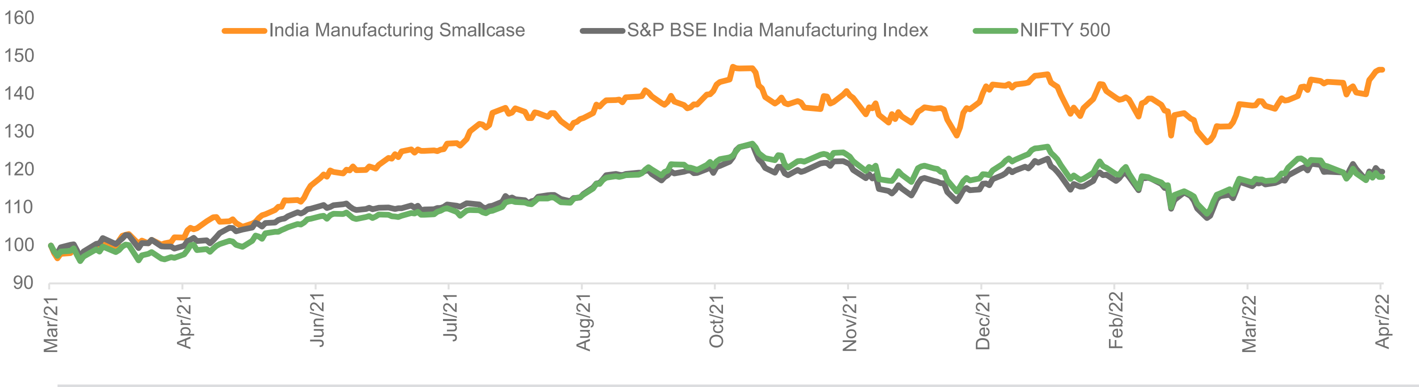
Emkay Wealth India Manufacturing Smallcase Live Data Comparison (based to 100 as on 16-Mar-21)



Disclaimer: Data pertain to product of Emkay Wealth Managers (group company) and not EIML

*Source: Smallcase factsheet * As on April 29, 2022*

Sector Identified

Capital Goods

Auto

Chemicals

Pharmaceuticals

Building Material

FMCG

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