

Emkay Investment Managers Ltd

Emkay Capital Builder

As on 31st Dec 2023

Emkay “Classical Alpha”
approach to **Wealth Creation**



*“Compound interest
is the eighth wonder of
the world. He who
understands it, earns it ...
he who doesn't ... pays it.”*

May be Einstein said it or
may be he didn't...

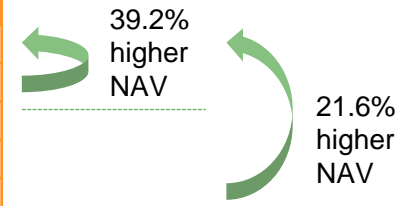
But nothing is more true about
investing than that



Compounding + Consistency + Continuity

- When **Total Returns** over longer period of time are clocked in, one does witness the **power of Compounding**

April 01, 2013 to Dec 31, 2023 (Last 10.8 years)	CAGR	Total Returns
Emkay Capital Builder*	16.8%	432.4%
Nifty 50	13.3%	282.4%
Nifty 500	17.4%	337.8%
Nifty 50 TRI	14.7%	336.9%
Nifty 500 TRI	16.0%	395.2%
BSE 500 TRI	16.2%	400.8%



- Emkay Capital Builder has **outperformed** over the **last 1, 2 & 3 years** with a wide-margin.

Dec 31st, 2023 (CAGR)	Last 1 Year	Last 2 years	Last 3 years
Emkay Capital Builder*	29.4%	18.9%	22.0%
Nifty 50	20.0%	11.9%	15.8%
Nifty 500	25.8%	13.8%	19.0%
Nifty 50 TRI	21.3%	13.2%	17.2%
Nifty 500 TRI	26.9%	15.0%	20.3%
BSE 500 TRI	26.5%	15.1%	20.4%

Consistency
is as important as compounding

- There are not too many fund managers with consistent track records of staying more than ten years with the same strategy / fund.^

As clichéd as it sounds

Winners don't do different things , they do things differently

We have been doing the same for 10 years now

Construct for Businesses that Generate Wealth – same but different

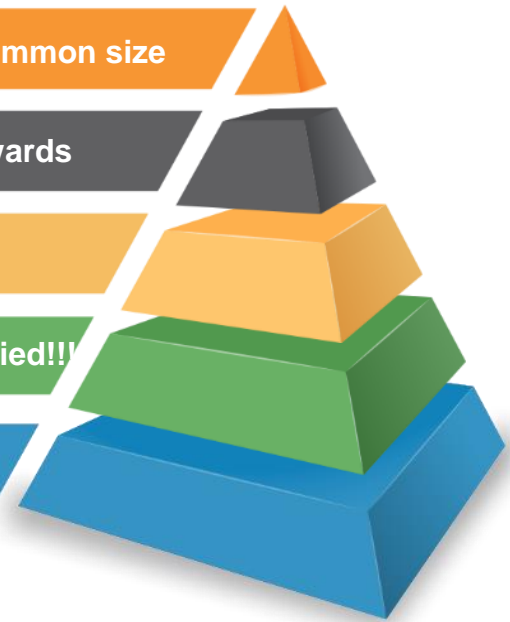
1 TRACK RECORD – Look at same P&L - not growth but common size

2 BUSINESS SCALABILITY - Opportunity size - work backwards

3 ROCE / ROE – Self sustaining businesses

4 MANAGEMENT - integrity / execution – has to be Quantified!!!

5 VALUATION - Purchase Price Discipline



Construct for Businesses that Generate Wealth

1 TRACK RECORD - Cash flows, Balance Sheet, P&L (common size)

- While the accounting portion of revenue/ profits/ expenses can be manipulated, Cash flows do not lie
- Balance Sheets need to be studied properly as they can be more revealing than P&L statements
 - » What a Balance Sheet reveals is interesting, but what they conceal is even more interesting !
- Strong Balance Sheets showcase management's ability to build businesses over time



Construct for Businesses that Generate Wealth

2 BUSINESS SCALABILITY - Opportunity size, Industry structure



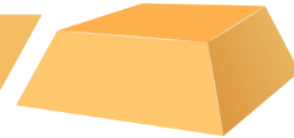
- Large business opportunities exist in India
 - » Competent managements will take all the necessary steps to grow
- Industry dynamics:
 - » Growth opportunities available both domestically & globally
 - » For example, Pharma sector - Generics, Domestic Formulations & CDMO
- Industry structure:
 - » More fragmentation leads to high competition & low pricing power
 - » Consolidation leads to top players being better placed in the industry, higher market share & better pricing power (for e.g. Auto OEMs, Telecom)



Construct for Businesses that Generate Wealth

3

INHERENT PROFITABILITY - ROCE / ROE

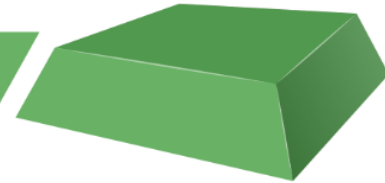


- Growth opportunities capitalized ultimately cascade into profits
- ROEs & ROCEs are handy tools to evaluate businesses, their inherent profitability & the growth potential
- Fuel for growth comes primarily from internal accruals



Construct for Businesses that Generate Wealth

4 MANAGEMENT QUALITY - Integrity, Strategy & Execution



- “Management quality is 90%, industry growth is 9% & everything else is 1%”
- High quality managements have the following five characteristics:
 - » Integrity
 - » Execution Capability & Strategic vision for growth
 - » Rewarding shareholders consistently
 - » Communicating with investors through thick & thin
 - » Liquidity
- E-Qual is a proprietary investment framework which helps identify world class managements

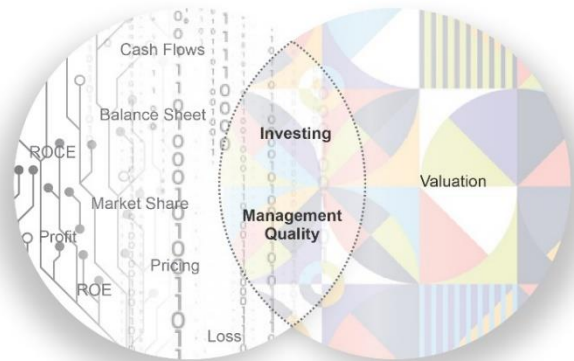


Construct for Businesses that Generate Wealth

5

VALUATION - Purchase Price Discipline

- Investing is both a science & an art.
 - » Valuation is largely an art.
- If the valuation parameters are not right, investing even in best companies may not ensure commensurate returns
- Purchase price discipline is the fulcrum of generating alpha



Identifying investment trends within the construct

Investment Trends - Pharma

Conventional wisdom: India at centre of world generic market

Issues: Pharma companies focussing on US generics markets started having price pressures in recent past due to consolidation among buyers

We focussed on:

- CRAMS / CDMO - **Divi's Lab / Laurus Labs**
- Large API manufacturers - companies having domain expertise in chemical synthesis in their respective segments - **Divi's Lab / Laurus Labs**
- Speciality Drugs (patented / innovation) - **Sun Pharma / Suven Life Science**

Track Record



Business Scalability



Inherent Profitability



Management Quality



Valuation



Investment Trends – BFSI

Conventional wisdom: Avoid all corporate focussed banks

Issues: High systemic NPAs & Sluggish credit cycle.

We focussed on:

- Strong Liability franchise – **ICICI Bank / Federal Bank / HDFC Bank**
- Balanced Portfolio Mix of Wholesale and Retail – **ICICI Bank / Federal Bank**
- Recognition/resolution/provision –Focus on willingness to recognise and ability to resolve or provide for NPAs – **ICICI Bank/Federal Bank**

Track Record



Business Scalability



Inherent Profitability



Management Quality



Valuation



Investment Trends – Power Equipments

Conventional wisdom: cyclical, problems with cash conversion cycle, high debt

Issues: Stressed Balance Sheet of DISCOMs & Erratic Payment Cycles.

We focussed on:

- Premiumisation - In absence of volume growth focus on higher margin products which will drive earnings growth.
- Cash Flows and Profits – Not to build order book by compromising working capital and profitability.
- Exports – Building a strong presence globally to diversify away the geographic risk.
- **APAR Industries – Ticked all the above criteria.**

Track Record



Business Scalability



Inherent Profitability



Management Quality



Valuation



Investment Trends – Auto & Auto Ancillaries

Conventional wisdom: Focussing on domestic

Issues: Cyclicalilty and Lack of Innovation.

We focussed on:

- Being “Glocal” – **Sundram Fasteners & Eicher Motors**
- Diversified Portfolio – Diversification in products & segments – **Sundram Fasteners**
- Continuous Investments – Re-investing in business to build capacities and launch new products – **Sundram Fasteners & Eicher Motors**
- Manufacturing Prowess and cost controls – Ability to protect margins in difficult times – **Sundram Fasteners**

Track Record



Business Scalability



Inherent Profitability



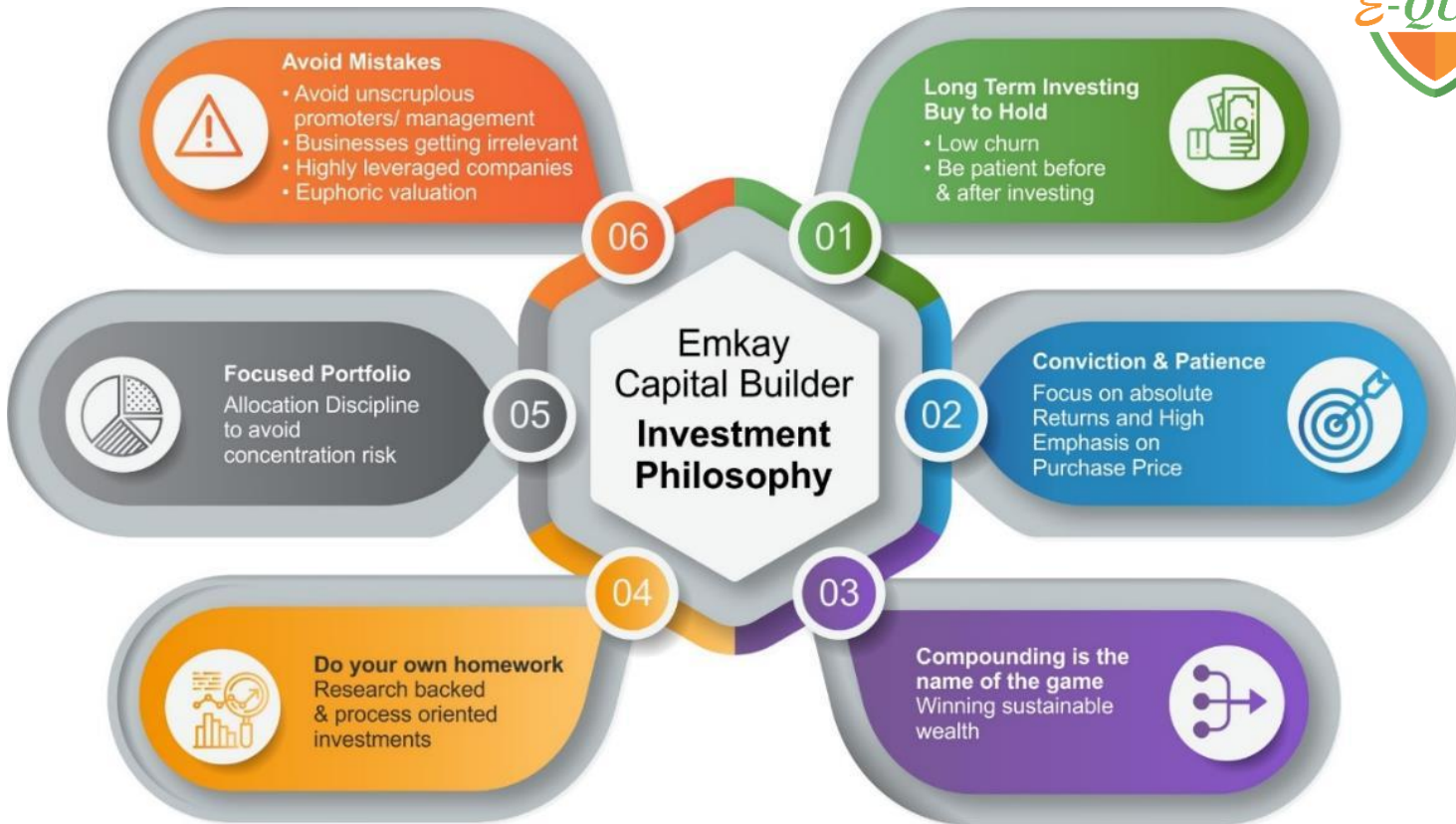
Management Quality



Valuation



Investment Philosophy



E-Qual Framework : Scoring Governance from an ESG perspective

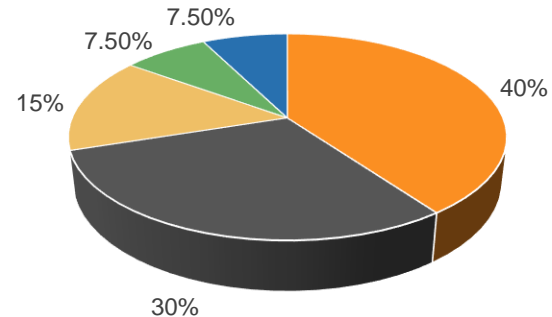


- Arguably, the only framework of it's kind in India
- E-Qual Framework book recently launched by Mr Gurcharan Das. Link to download- <https://www.emkayim.com/resources/>
- Framework under active implementation for the last 10 years
- Zero exposure to managements with low corporate governance across portfolios

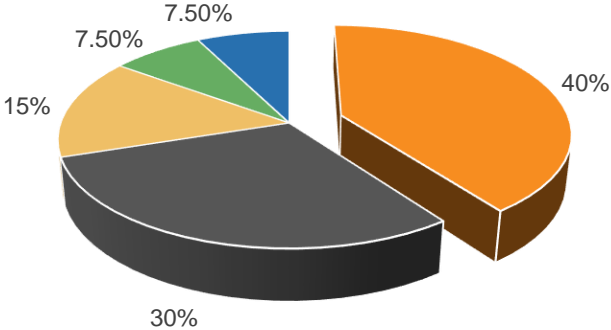
Management Integrity	40%
Management Capability	30%
Wealth Distribution	15%
Investor Communication	7.50%
Liquidity	7.50%

• What does the E-Qual framework constitute?

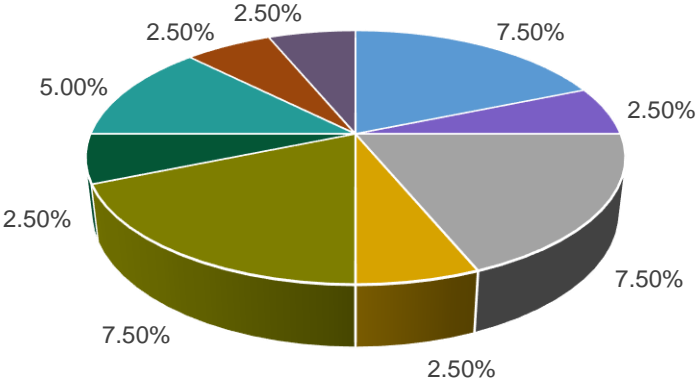
- » Calculate Qualitative Parameters – Objectively
- » Capture publicly available data points and weigh them to create a ranking
- » Sorting of Companies on Relative Ranking of Market Capitalization



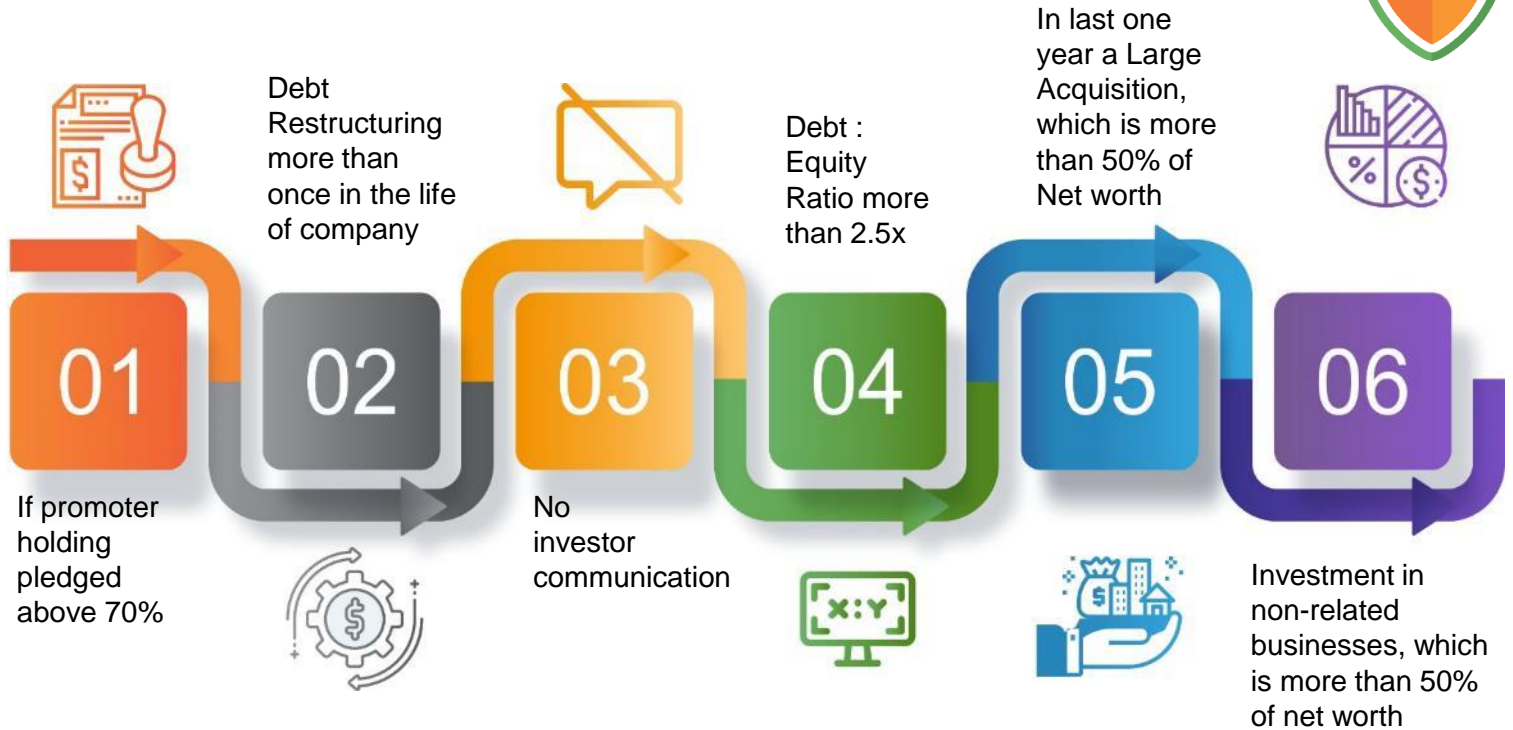
E-Qual Model: Management Integrity



Promoter Holding	7.50%
Promoter Holding - Inc / (Dec)	2.50%
Equity History	7.50%
FCCB - Proposed Dilution	2.50%
Promoter Holding Pledged	7.50%
Promoter Group Salary	2.50%
Auditors	5.00%
Inter-Party Related Transactions	2.50%
Royalty (Technical Fees)	2.50%



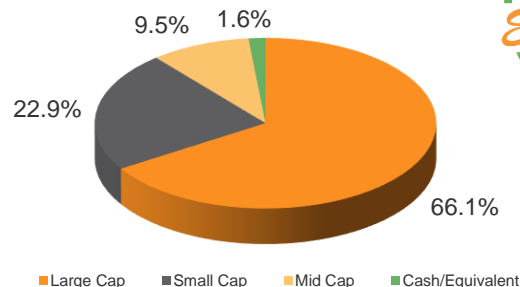
Red Flags



Emkay Capital Builder Strategy



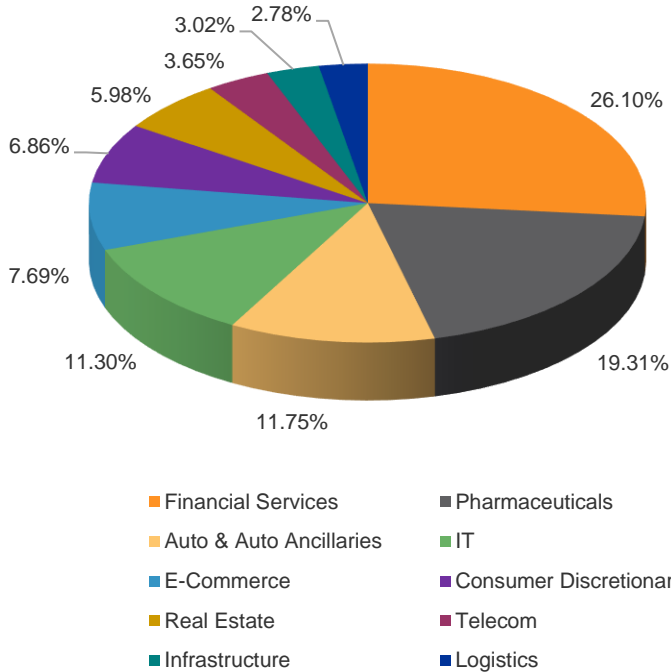
Particulars	Capital Builder
Company Size	Multi - Cap
No of Stocks	20-25
Benchmark Index	BSE 500 TRI
Weighted E-equal Score	77.5
Average Market Cap (Rs. Cr)	2,54,521



Risk-Reward Matrix based on the E-Qual module

		Large Cap I	Large Cap II	Mid Cap	Small Cap I	Small Cap II
E-QUAL SCORE	85%+	BASE I - Quality Discount	BASE II – Quality Discount	BASE III – Quality Discount	BASE IV – Quality Discount	BASE V – Quality Discount
	Base 70%-85%	BASE I	BASE II	BASE III	BASE IV	BASE V
	50% - 70%	BASE I + Quality Risk Premium	BASE II + Quality Risk Premium	BASE III + Quality Risk Premium	BASE IV + Quality Risk Premium	BASE V + Quality Risk Premium
	Below 50%	DO NOT INVEST	DO NOT INVEST	DO NOT INVEST	DO NOT INVEST	DO NOT INVEST
		BASE I = Risk Free Rate + Equity Risk Premium	BASE II = Base I + Smaller Size Premium	BASE III = Base II + Smaller Size Premium	BASE IV = Base III + Smaller Size Premium	BASE V = Base IV + Smaller Size Premium

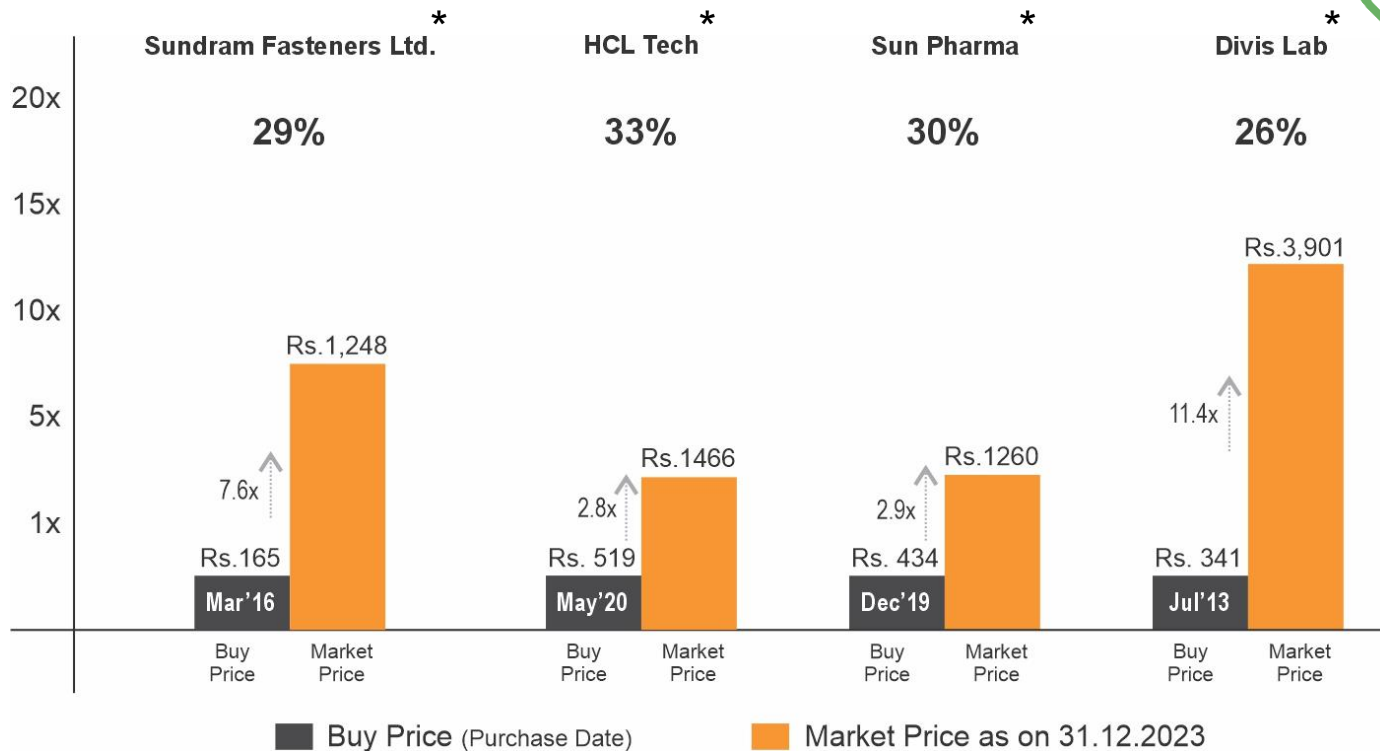
Emkay Capital Builder Strategy



TOP 10 HOLDINGS*	
ICICI Bank Ltd.	13.9%
Divi's Laboratories Ltd.	10.5%
Zomato Ltd.	7.7%
Sun Pharmaceutical Industries Ltd.	7.1%
HCL Technologies Ltd.	6.7%
HDFC Bank Ltd.	6.2%
Sundram Fasteners Ltd.	6.0%
Nesco Ltd.	6.0%
Mahindra Holidays & Resorts India Ltd.	4.4%
Bharti Airtel Ltd.	3.6%

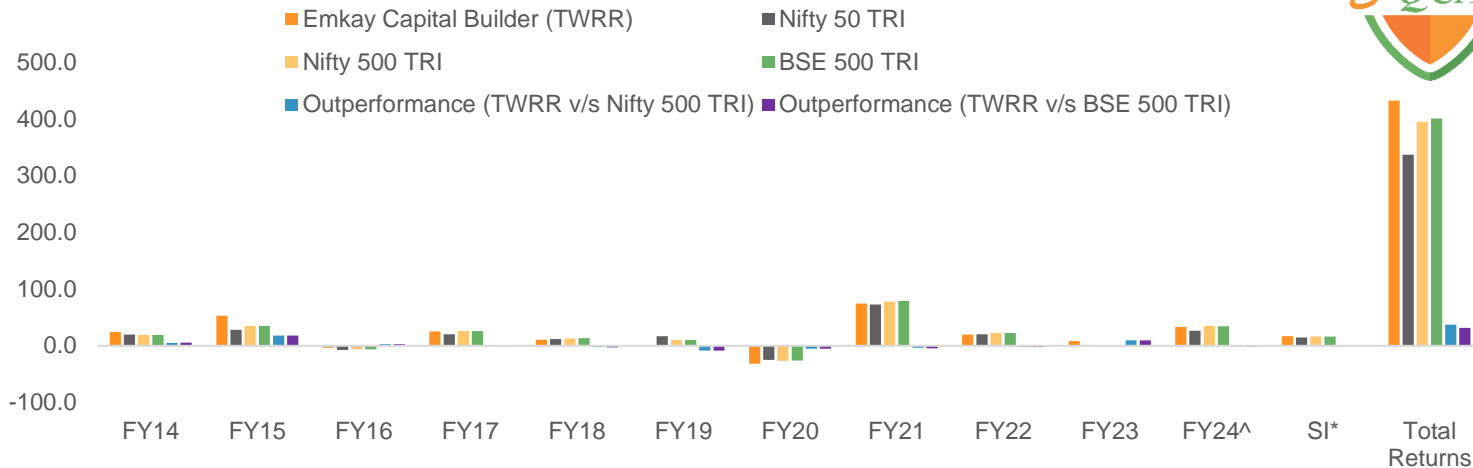
*As on 31st Dec 2023

Stock-Picking Track Record



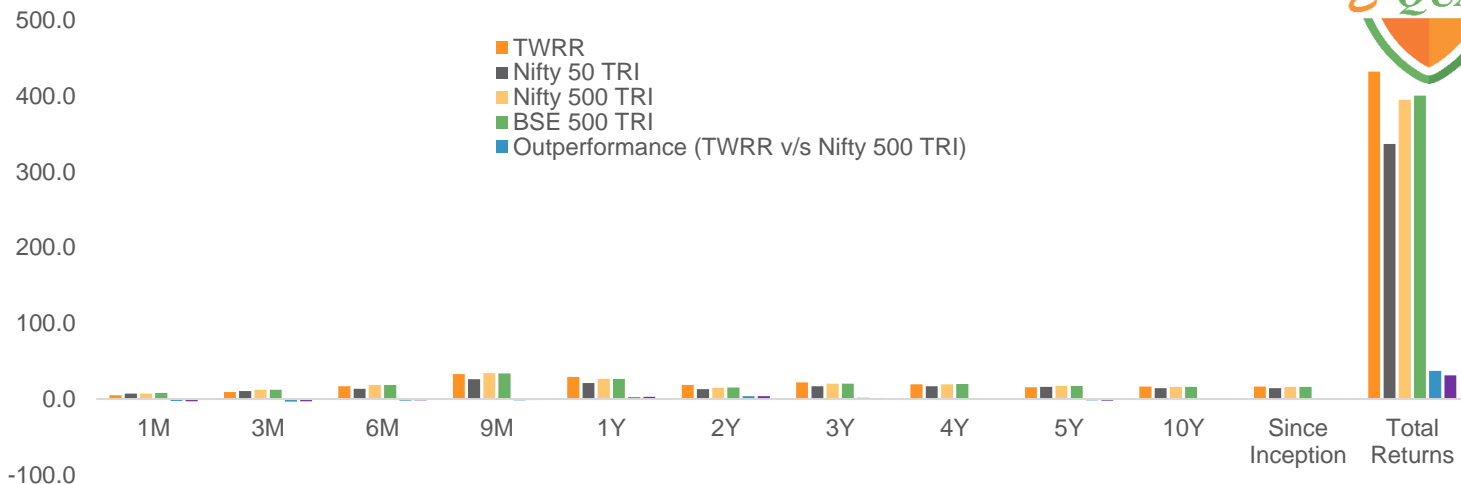
*CAGR presented for all stocks

Emkay Capital Builder Strategy - Financial Year Wise Performance Update



	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24^	SI*	Total Returns
Emkay Capital Builder (TWRR)	24.1	52.7	-3.8	25.1	10.3	0.9	-31.7	74.0	19.8	8.2	32.9	16.8	432.4
Nifty 50 TRI	19.5	28.2	-7.8	20.2	11.8	16.4	-25.0	72.5	20.3	0.6	26.4	14.7	336.9
Nifty 500 TRI	19.2	34.9	-6.5	25.5	12.9	9.7	-26.6	77.6	22.3	-1.2	34.5	16.0	395.2
BSE 500 TRI	18.9	35.0	-6.4	25.5	13.2	9.7	-26.5	78.6	22.3	-0.9	34.1	16.2	400.8
Outperformance (TWRR v/s Nifty 500 TRI)	4.9	17.8	2.7	-0.5	-2.5	-8.9	-5.1	-3.5	-2.5	9.5	-1.6	0.8	37.2
Outperformance (TWRR v/s BSE 500 TRI)	5.2	17.7	2.6	-0.5	-2.9	-8.8	-5.2	-4.6	-2.5	9.1	-1.2	0.7	31.6

Performance of Emkay Capital Builder Strategy



	1M	3M	6M	9M	1Y	2Y	3Y	4Y	5Y	10Y	Since Inception	Total Returns
TWRR	5.0	9.4	16.8	32.9	29.4	18.9	22.0	19.7	15.7	16.6	16.8	432.4
Nifty 50 TRI	7.2	10.9	13.8	26.4	21.3	13.2	17.2	16.9	16.2	14.6	14.7	336.9
Nifty 500 TRI	7.3	12.5	18.8	34.5	26.9	15.0	20.3	19.7	17.5	16.0	16.0	395.2
BSE 500 TRI	8.0	12.4	18.5	34.1	26.5	15.1	20.4	19.9	17.6	16.1	16.2	400.8
Outperformance (TWRR v/s Nifty 500 TRI)	-2.3	-3.2	-2.0	-1.6	2.5	3.8	1.7	0.0	-1.8	0.5	0.8	37.2
Outperformance (TWRR v/s BSE 500 TRI)	-3.0	-3.0	-1.7	-1.2	2.9	3.7	1.6	-0.2	-1.9	0.4	0.7	31.6

Our Team



Manish Sonthalia Chief Investment Officer

Manish comes with over three decades of rich experience in the financial services industry and joins the Emkay group from Motilal Oswal Asset Management Company Ltd. where he served as an Executive Director and CIO for PMS, Alternates, and Offshore Investments, and managed assets worth approximately Rs 6,500 crore at the last count. He is a qualified Chartered Accountant, Company Secretary, Cost and Works Accountant, and an MBA.



Sachin Shah Fund Manager

Sachin 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 Model, 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 Co-fund Manager

Kashyap Javeri is a 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.

Our reach & research across



~1,50,549 Non-institutional Clients

~ 323 Institutional Clients



~185 Stocks Research Coverage

~16 Sector Research Coverage



6 member investment team with collective experience of ~ 60 years

31st Dec 2023

Promoters



Krishna Kumar Karwa, Managing Director

A rank holder from the Institute of Chartered Accountants of India (ICAI), Krishna is the promoter and Managing Director of the Company. He has rich and varied experience of more than three decades in all aspects of the Equity Capital Markets and overlooks the Research, Equity Asset Management and Corporate Advisory divisions at Emkay.



Prakash Kacholia, Managing Director

A qualified Chartered Accountant of the 1987 batch, Prakash is the Promoter and Managing Director of the Company. He has a rich experience of more than three decades in the Capital Market and overlooks the Derivatives business and Retail division at Emkay. He has been on the board of the SEBI Committee on Derivatives. He has also served as a Director on the boards of Bombay Stock Exchange Limited, BOI Shareholding Limited and Central Depository Services (India) Limited.

Contact Us

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Disclaimer

Emkay Investment Managers Limited (“Emkay”) is registered as a Portfolio Manager with SEBI under SEBI (Portfolio Managers) Regulations, 2020 as amended from time to time and the Circulars and Guidelines issued there under from time to time vide SEBI Reg. No.: INP000004458.

Emkay is also the Investment Manager to Emkay Emerging Stars Trust, a SEBI registered Category III AIF vide SEBI Reg. No.: IN/AIF3/17-18/0375 dated October 04, 2017 under SEBI (Alternative Investment Fund) Regulations, 2012 as amended from time to time and the Circulars and Guidelines issued there under from time to time collectively referred as the SEBI Registered Intermediary.

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