

# Emkay Investment Managers Ltd

Emkay L.E.A.D. Strategy

as on 31<sup>st</sup> Dec 2023



# Emkay L.E.A.D

# Mitigating "Selection bias" and "Allocation bias".



- **Mitigating Selection Bias** :

- » Sticking to the portfolio universe assiduously
- » Focusing on compounding themes rather than flavour of the season
- » Very high quality standards for companies to be eligible

- **Mitigating Allocation bias** :

- » Concentrated portfolio of a fixed number of high – conviction stocks
- » Back the high-quality portfolio with an Equi-Weighted construction
- » Re-balancing once a year to avoid concentration risk
- » Monitor regularly, prune when required

- Unique framework which seeks to maximize the potential out of a concentrated portfolio while managing risk

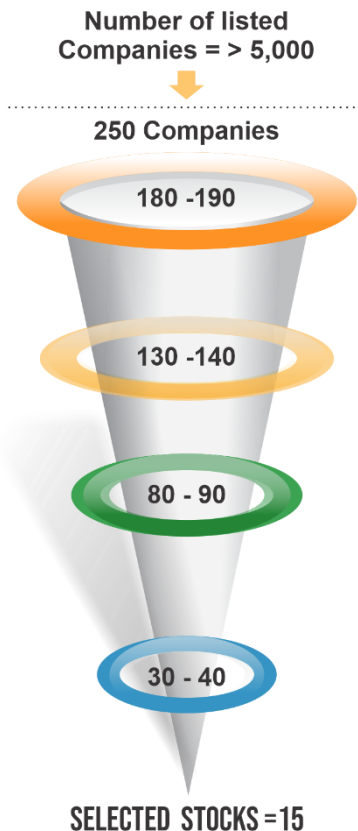


## Presenting Emkay L.E.A.D. - pioneering the concept of “Smart Alpha”

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Where every performing stock gets equal attention

# Smart Alpha - mitigating “Selection Bias” for Emkay L.E.A.D.



## Defined Market Cap Filter

### Market Cap filter: Focus on large and midcaps

- Top 250 companies as per Market Cap
- Net Sales > INR 500cr

## Earnings Growth Filter

### Earnings growth filter: Focus on strong historic and future growth

- ROCE > WACC
- Earnings growth > Nominal GDP growth rate

## Strong Leadership Framework Filter

### Investment themes

- Value Migration
- Domestic Consumption

### L.E.A.D framework

- Strong leadership in the respective sector: Market share/ Profit Share/ Cost/ Growth/ Product
- Strong Management credentials: Vision, Track Record, Growth

## Comprehensive Valuation Framework

### Valuation

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

# Emkay L.E.A.D – Key Investment Themes



## Value Migration

IT, Chemicals, Unorganised to Organised, Voice to Data etc.



## Domestic Consumption

Auto, Building Materials, FMCG, Consumer Durables, etc.

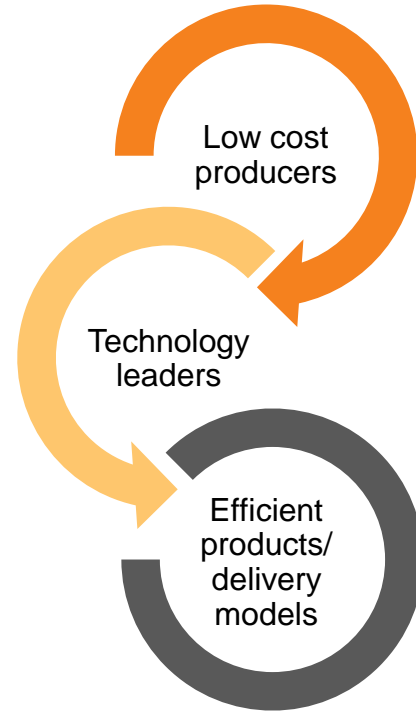
# Emkay L.E.A.D. Strategy – Investment Themes



The portfolio seeks to achieve long term capital appreciation by investing in these themes

## A] Value Migration Beneficiaries

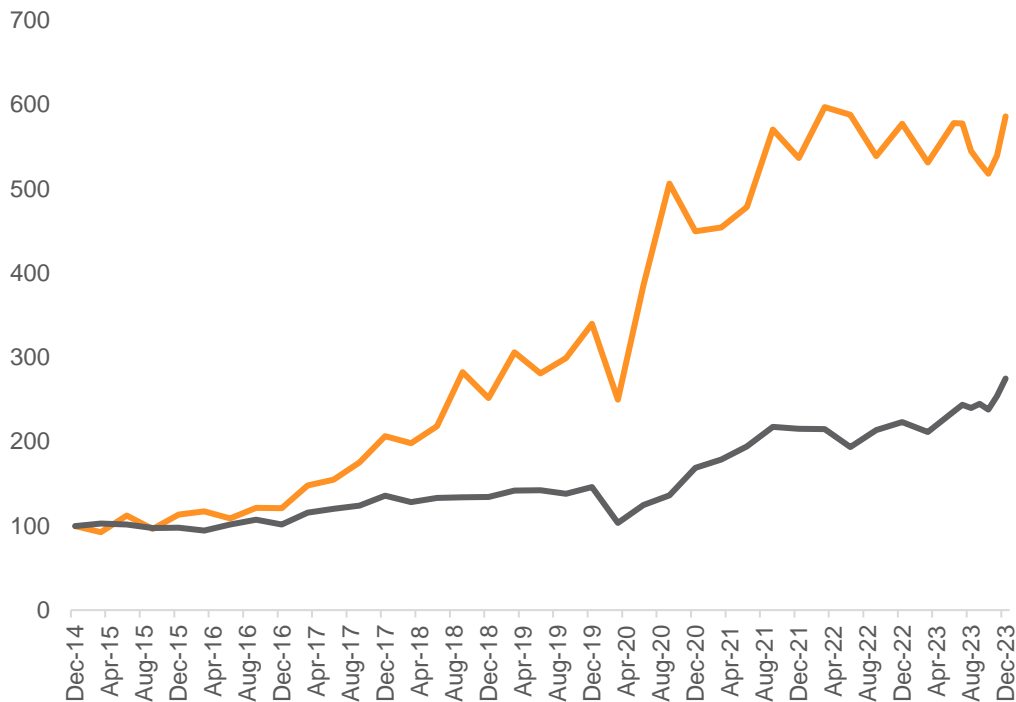
- Value Migration is “the flow of economic and shareholder value away from obsolete business models to new, more effective designs that are better able to satisfy customers’ most important priorities”
- The framework tries to identify industries where Value Migration is underway and helps pick potential winners early in the cycle.
- **Few examples: Onshore to Offshore IT services, Private banks vs PSU banks, Chemicals, Voice to Data, Organised vs Unorganised Retail, Unorganised lending to Organised lending etc.**



# Value Migration : Reliance Industries



— Reliance Industries — Nifty 200



Reliance Industries - FY 2023 Financial Performance	
Revenue (Rs Cr)	8,92,900
PAT (Rs Cr)	74,100
ROCE	7%
ROE	8%
Market Cap * (Rs Cr)	17,48,938
Price * (Rs)	2,584

\*As on 31<sup>st</sup> Dec 2023

# Reliance Industries

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- RIL's strength lies in its ability to build businesses of global scale and execute complex, time critical, and capital-intensive projects which will prove advantageous as it embarks on large investments in all core segments.
- Reliance has changed the dynamics of telecom industries by moving the value of revenues from voice to data through the launch of Reliance Jio. Jio Platforms has expanded its portfolio of services to become a multiplay service provider, equipment supplier, content producer and developer in new technologies (eg. Jio Glass).
- This has forced incumbents to aggressively roll out data networks and re-align their business design/networks from being traditionally tailored for voice to increasingly cater to explosive data demand as data climbs up the consumer priorities list for communication and as market value of telecom increasingly gets linked to data growth.
- Due to value migration, global investors such as Facebook, Google, Qualcomm and Intel have invested in Jio platform. It has raised approximately \$20 billion from 13 global investors by selling 32.9% stake.
- With the acquisition of Future Group, the deal adds to Reliance Retail's offline presence and they get access to wide network, logistics and warehousing business. With control over the value chain, Reliance can beat down prices to earn higher margins.



# Emkay L.E.A.D. Strategy – Investment Themes



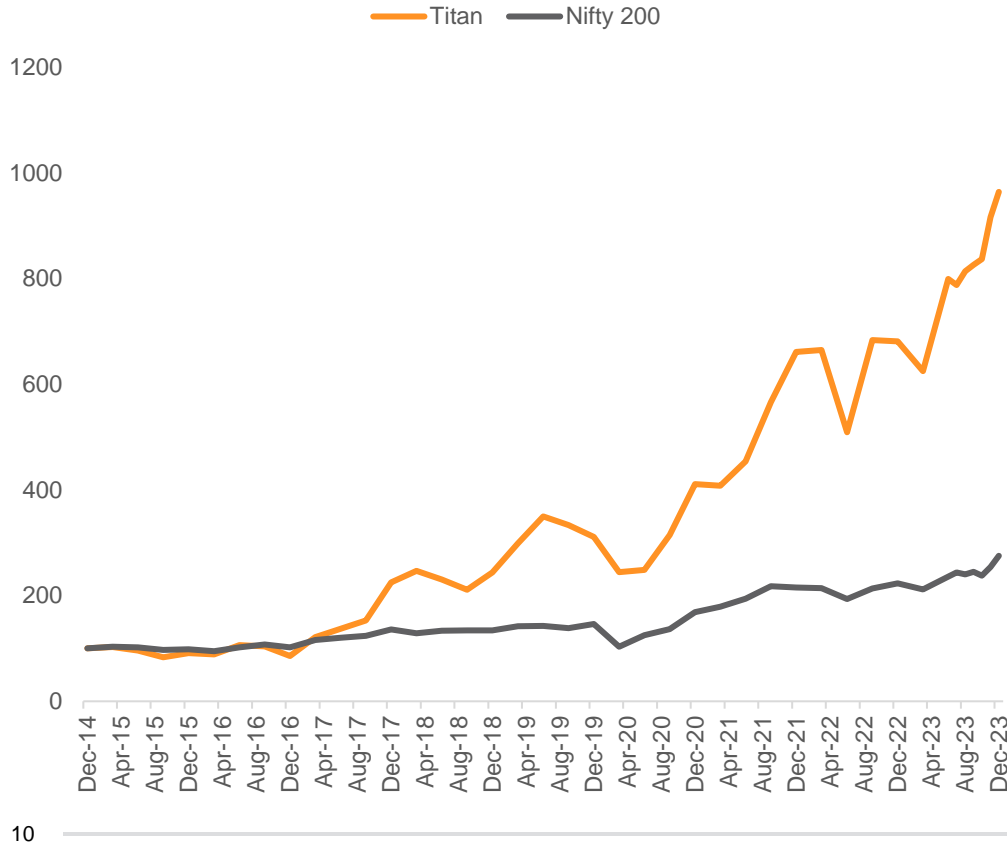
The portfolio seeks to achieve long term capital appreciation by investing in these themes

## B] Structural Domestic Consumption Plays

- India's GDP is expected to grow from \$2.5tn in FY18 to \$5.0tn by 2024.
- Domestic consumption is expected to grow from \$1.3tn to \$3.0tn by 2025 led by significant growth in discretionary consumption.
- The strategy aims to benefit from the growth in GDP and the attendant impact on domestic consumption driven sectors.
- Few examples: FMCG, Consumer Discretionary, Auto & Auto Ancillary, etc.



# Domestic Consumption : Titan Company



## Titan Company - FY 2023 Financial Performance

Revenue (Rs Cr)	40,575
PAT (Rs Cr)	3,274
ROCE	29%
ROE	31%
Market Cap * (Rs Cr)	3,26,346
Price * (Rs)	3,675

\*As on 31<sup>st</sup> Dec 2023



- **Eye on unorganised:** Titan is a specialty retailer with strong presence in jewellery, watches and eyewear, alongwith fashion accessories and fragrances among others. Most of the segments are characterized by the presence of significant unorganized market
- **Long run way for growth:** Titan is a strong play on the consumption theme and rides on the long term opportunity of rising per capita income, increased discretionary spending, gains from penetration and premiumization trends. Given Titan has 10% market share in jewellery shows that it has significant headroom for growth
- **Strong Fundamentals:** Titan has consistently delivered ROCE of 20%+ and has demonstrated tremendous discipline in investing the incremental cash in the business that continues to deliver top quartile ROCE.

# Emkay L.E.A.D. Strategy – Core Investment Framework

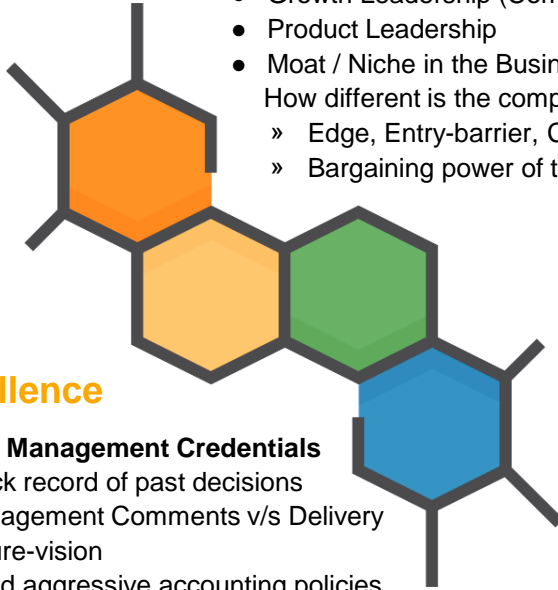


## Leadership

- Market-share Leadership
- Profit-pool Leadership (Apple vs Rest of the manufacturers)
- Cost efficient Leadership (Export Oriented sectors like IT, Textiles, Chemicals)
- Growth Leadership (Companies with best growth in the sector like Private banks vs PSU Banks)
- Product Leadership
- Moat / Niche in the Business

How different is the company?

- » Edge, Entry-barrier, Competition, Pricing-power
- » Bargaining power of the industry



## Excellence

### Strong Management Credentials

- Track record of past decisions
- Management Comments v/s Delivery
- Future-vision
- Avoid aggressive accounting policies
- Management background

## Ambition

- Strong Earnings Visibility & Quality
- How big the sector can be (3x, 4x....)
- Revenue/ PAT/ Cash-flow growth
- RoE, RoCE analysis
- High operating/ Free cash-flow generation

## Discipline

- Identifying Price-Value gap with focus on margin of safety
- Comparative valuations
- Market-cap vs Opportunity size

# Mitigating “Allocation Bias”



## Focus on large and mid cap companies

- >50% exposure in companies with Market capitalization >\$ 3 bn.
- Investment only in top 250 companies by market capitalization
- Companies with minimum turnover of INR 500 cr.

## Risk Management

- Equi-weighted portfolio
- >15% price movement in a month triggers review of the stock
- Focus on Liquidity risk
- No use of leverage
- Monthly portfolio review

## Diversification across industries and companies

- < 30%\* exposure in one sector
- <10%\* exposure in one stock
- Maximum investment in 15 stocks
- <20%\* exposure in turnarounds or special situation stocks

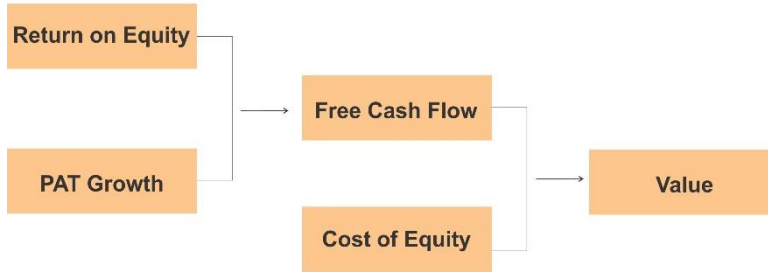
## Earnings growth and Quality Filters

- ROCE > WACC
- Earnings growth > GDP growth

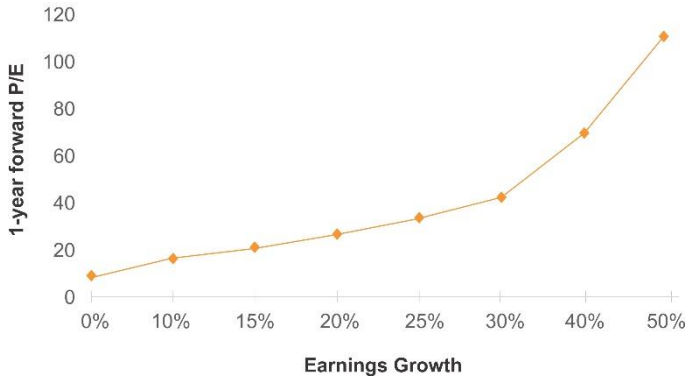
# ROCEs and Earnings Growth Drive Value



## Return on Equity and Earnings growth drive value

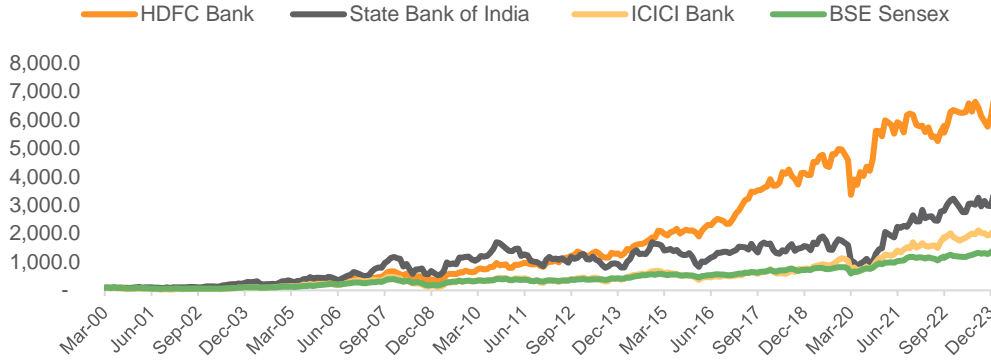


## 1-Year forward P/E for Different Growth Rates for 25% RoE

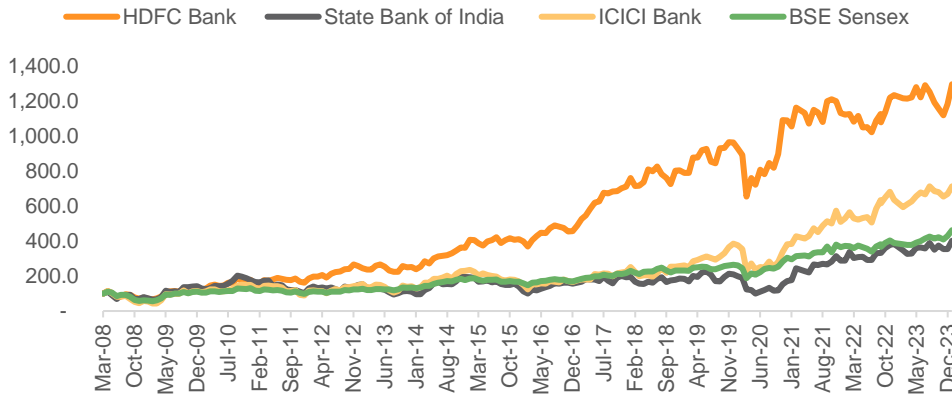


- From Charlie Munger's book "The Art of Stock Picking" (2013)
  - » "Over the long term, it's hard for a stock to earn a much better return than the business which underlies it earns."
  - » If the business earns six percent on capital over forty years and you hold it for that forty years, you're not going to make much different than a six percent return - even if you originally buy it at a huge discount.
  - » Conversely, if a business earns eighteen percent on capital over twenty or thirty years, even if you pay an expensive looking price, you'll end up with one hell of a result."
- If the company's pre-tax ROCE is below the cost of equity (which is the case for just over a third of the BSE 100 constituents in FY '19), it will be very difficult for an investor to generate a healthy return even if it is bought at cheap price or at low P/E.
- If we buy the stock of Titan Ltd (a company with a pre-tax ROCE of over 25% in FY '19), we are likely to make a very healthy return from the investment even if the P/E of the company looks optically high.

# Extraordinary Leader = Wealth Creation



Base Year 2000	No of times (x)
HDFC Bank	66.8
State Bank of India	33.8
ICICI Bank	21.1
SENSEX	14.4



Base Year 2008	No of times (x)
HDFC Bank Ltd	13.0
State Bank of India	4.0
ICICI Bank Ltd	7.1
BSE SENSEX	4.6

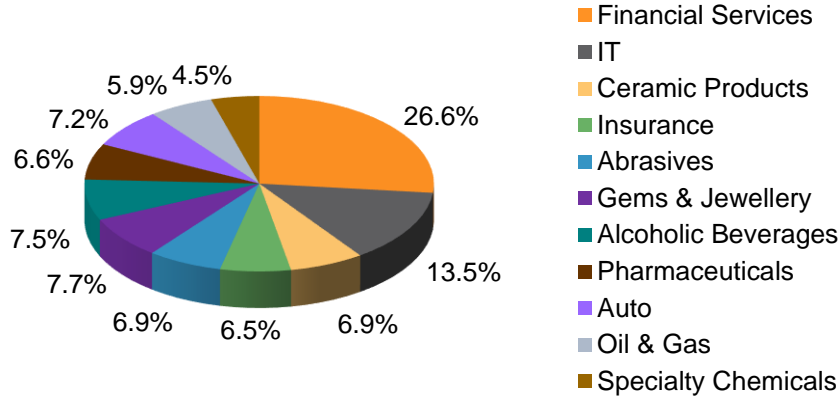
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*Extra-ordinary Leader matters in good times.....even more in bad times!*

# Emkay L.E.A.D. - Portfolio Snapshot



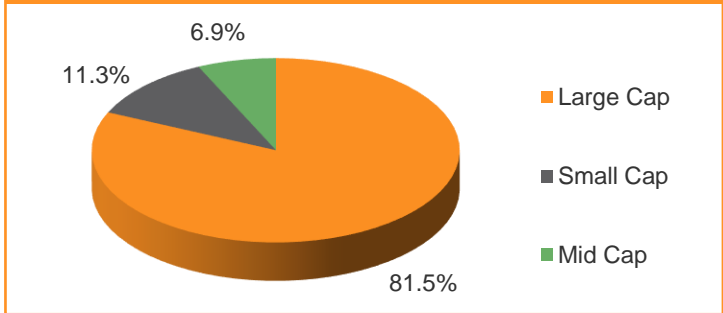
## TOP SECTORS



## TOP 5 HOLDINGS

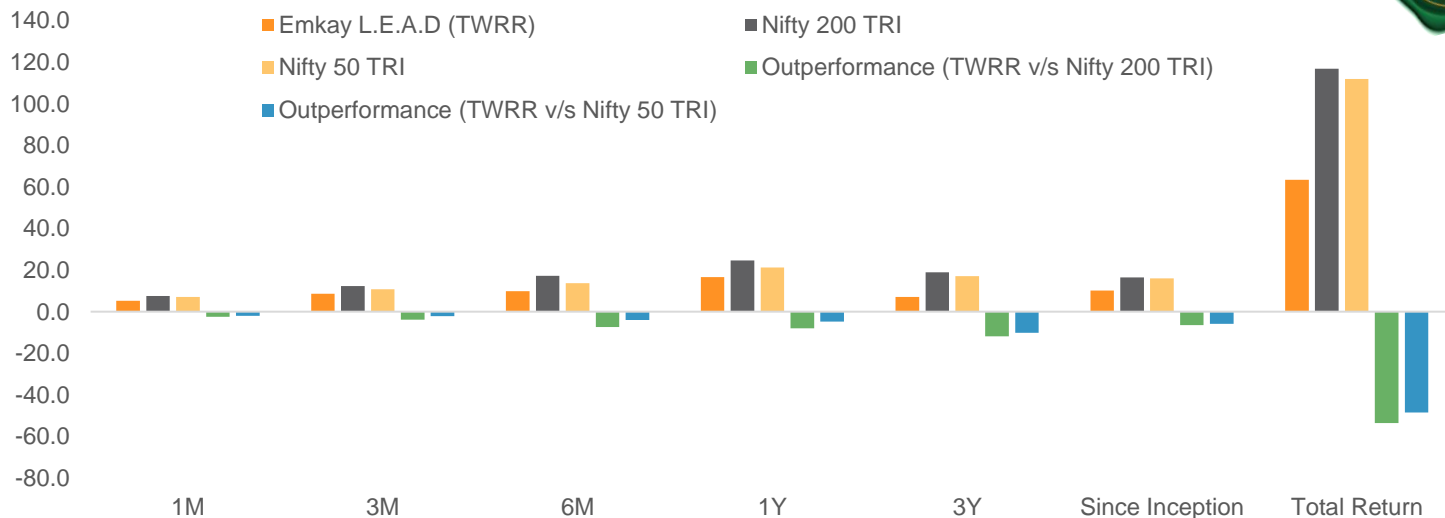
HCL Technologies Ltd.	7.9%
Titan Company Ltd.	7.7%
Axis Bank Ltd.	7.5%
Eicher Motors Ltd.	7.2%
United Spirits Ltd.	7.0%

## MARKET CAP





# Emkay L.E.A.D. Strategy



	1M	3M	6M	1Y	3Y	Since Inception	Total Return
Emkay L.E.A.D (TWRR)	5.3	8.7	9.9	16.7	7.2	10.2	63.5
Nifty 200 TRI	7.6	12.4	17.3	24.7	19.0	16.6	116.9
Nifty 50 TRI	7.2	10.9	13.8	21.3	17.2	16.1	111.9
Outperformance (TWRR v/s Nifty 200 TRI)	-2.3	-3.7	-7.4	-8.0	-11.8	-6.4	-53.4
Outperformance (TWRR v/s Nifty 50 TRI)	-2.0	-2.1	-3.9	-4.6	-10.0	-5.8	-48.4

CAGR returns presented for >1 year period

Inception date: 17<sup>th</sup> December '18

\*As on 31<sup>st</sup> Dec 2023

# Emkay L.E.A.D. an ideal Wealth Creation Strategy



Features of a L.E.A.D ( Leadership . Excellence . Ambition . Discipline) Portfolio



Equi-weighted Portfolio of 15 structural growth companies



Focus on risk adjusted returns



Steady performance over medium term



No use of leverage or High debt companies

**Emkay  
L.E.A.D.  
Strategy**



Low portfolio turnover



Lower portfolio volatility and high liquidity

# Our Team

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## **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

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~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

As on 31<sup>st</sup> Dec 2023

## Promoters

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**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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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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