

Emkay

Your success is our success

Investment
Managers

Emkay Investment Managers Ltd

Emkay's 12 An equal weighted twelve stock large cap oriented PMS strategy

as on 31st Dec 2023



Emkay's 12

Flow of presentation

1

- Conventional ways of investing in Large caps

2

- The contemporary SMART ALPHA approach

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- Déjà vu, and how to play it this time

4

- Emkay's 12

5

- Portfolio, Pedigree and Performance

Conventional Ways of investing in Large Caps

- **Large Cap Mutual Fund schemes**

- » Excessively diversified portfolios
 - Average number of stocks in top large cap schemes: **54***
- » Performance
 - Only 50% of the large cap funds have outperformed Nifty 50 index over last 5 years*
 - Average Alpha produced is 100/14 bp over 3 years and 5 years
- » Flat expense ratio structure
 - Regulated, no skin in the game for the fund manager

- **Exchange Traded Funds**

- » Low cost portfolios with zero FM discretion
- » You buy the market, you don't beat the market



The contemporary “SMART ALPHA” approach

Rules of quality – I :



Number of listed Companies = > 5,000



100 Companies

85-90

Defined Market Cap Filter

Market Cap filter: Focus on Large caps

- Top 100 companies as per Market Cap

65-70

Earnings Growth Filter

Earnings growth filter: Focus on strong historic and future growth

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

45-50

Strong Leadership Framework Filter

Core investment framework

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

25-30

Comprehensive Valuation Framework

Valuation

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

SELECTED STOCKS = 12

Focus – Love thy factor



- One “Factor” exclusively
 - » Quality as a factor
 - » Rule based portfolio eliminates losers from the portfolio
- One segment exclusively
 - » Leaders in their businesses/ segments
- One dozen stocks exclusively
 - » High conviction portfolio out of the Nifty top 100 stocks
 - » Each stock has an equal weightage of 6.7%
 - » Number of stocks remains constant at 12
- Mitigates Selection bias

Rules of quality – II : LEADERSHIP



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

Discipline

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

Excellence

Strong Management Credentials

- Track record of past decisions
- Management Comments v/s Delivery
- Futuristic 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

Diversification need not mean dilution



- Controlled diversification across compounding themes
 - » Value Migration
 - » Domestic consumption
 - » Infrastructure
- Prunes away wealth destructors
 - » Inefficiently run PSUs
 - » Commodity driven/ cyclical businesses



Value Migration

- 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 helps pick potential winners early in the cycle. Few examples are :
 - » Onshore to Offshore IT services
 - » Private banks vs PSU banks,
 - » Chemicals,
 - » Voice to Data,
 - » Organised vs Unorganised Retail,
 - » Unorganised lending to Organised lending



Domestic Consumption

- India's GDP is expected to grow from \$2.7tn in FY19 to \$5.0 tn by 2025
- Domestic private consumption as a % of GDP in FY19 stands at 60% which is \$ 1.6tn.
- The strategy aims to benefit from the growth in GDP and the attendant impact on domestic consumption driven sectors. For eg :
 - » FMCG
 - » Consumer Discretionary
 - » Housing finance
 - » Auto & Auto Ancillary

Compounding Themes



Domestic Infra

- Infrastructure are the basic systems that undergird the structure of the economy.
- These systems tend to be capital intensive and high-cost investments, and they are vital to a country's functioning, economic development and prosperity.
- The strategy aims to identify companies that are poised to benefit from the rise in demand for infrastructure in the country – both retail and institutional spending.
- For Eg : Cement, Capital Goods, etc.

Risk Management – Love may be blind, quality is not



Focus on large and mid cap companies

- >50% exposure in companies with Market capitalization >\$ 3 bn
- Investment only in top 100 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

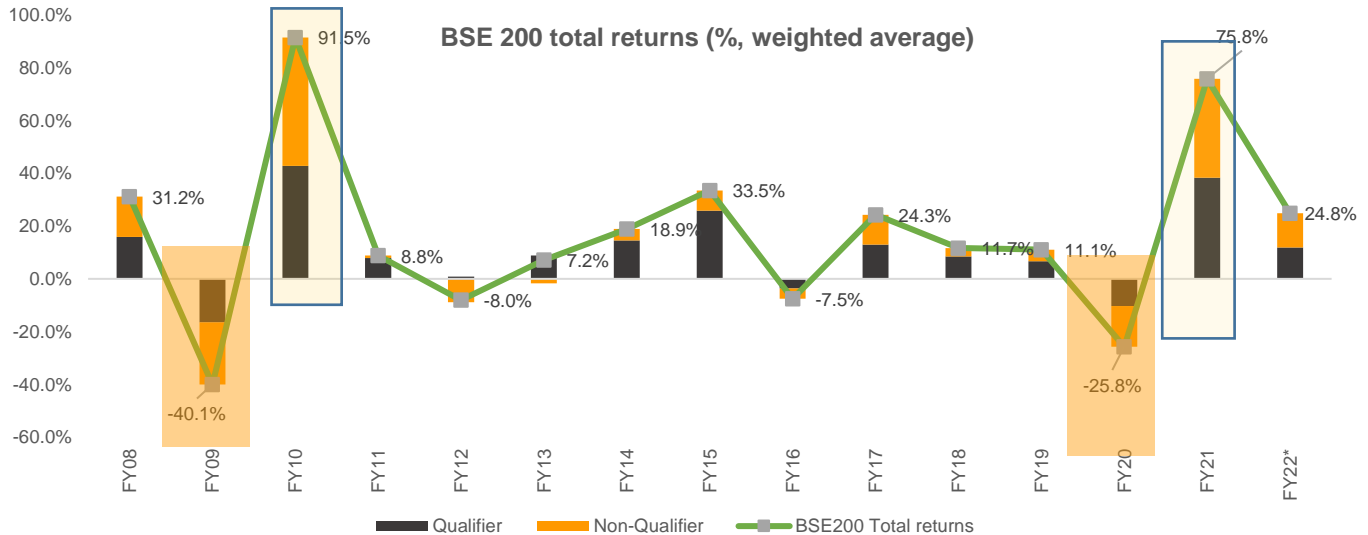
- < 30%* exposure in one sector
- <10%* exposure in one stock
- Maximum investment in 12 stocks
- <20%* exposure in turnarounds or special situation stocks



Déjà vu and how to play it this time...

QUALITY as a FACTOR – soft on sprint, strong for marathons

- Post black swan event of Global Financial Crisis in FY08
 - » the non-qualifiers ruled the roost as BSE200 index gave returns of 91.5%
 - » Large part of gains explained by non-qualifiers
- Qualifiers outperformed the counterpart for next 10 years
- History should ideally repeat itself



Themes for 2022-26

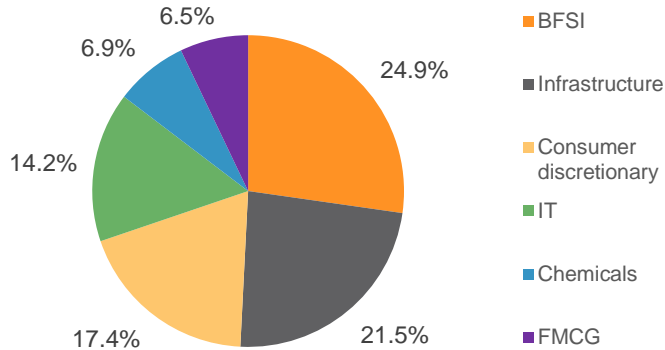


- **Structural changes in 2018-21 reminiscent of lot of things that happened prior to 2003-06 boom**
 Viz. Corporate tax rate, clean up of balance sheets, declining cost of borrowing
- What ought to follow should also reflect period post 2002

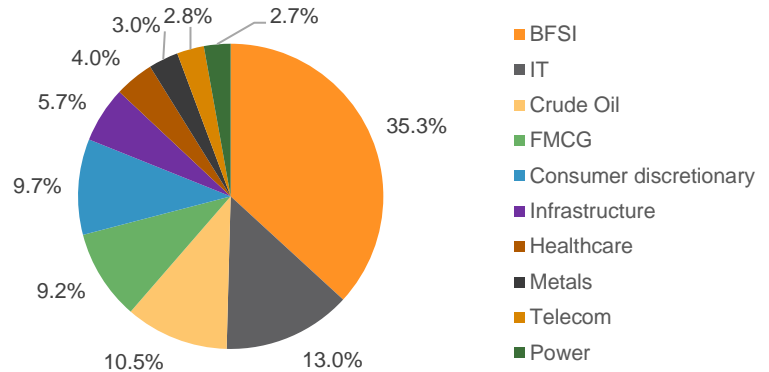
	1996-02	2003-06	2018-21	2022-26
Corporate tax rate	38.5% to 35%	Stable	33% to 25%	Expected to remain stable
Cost of debt	Declining	Rose upto 8-10%	Declining	Expected to rise at moderate pace
Metal prices	Flat	24%	Flat to decline	Moderate rise after spike in CY21
Corporate balance sheet	Deleveraging	Releveraging	Deleveraging	Releveraging
Financial cos' balance sheet	Net NPA declining with rise in provisions supported by treasury gains	Continued to remain strong	Net NPA declining as the provision hit is taken on chin	Expected to remain strong
Government Capex growth	4%	23%	Grew in teens	Expected to grow robust until 2026
Growth in private GFCF	Negative	30%+	8%	Should rise
Corporate credit growth	12%	20%+	Single digit	Should rise
Growth in per capita GDP	8-9%	12%	4%	Should rise

Our model portfolio reflects the same thought process

Emkay'12 sector exposure*



Benchmark sector weightage



Emkay'12 Portfolio

Divi's Laboratories Ltd.

Housing Development Finance Corporation Ltd. - (Amalgamated)

Reliance Industries Ltd.

Eicher Motors Ltd.

ICICI Bank Ltd.

Tata Consultancy Services Ltd.

HDFC Bank Ltd.

Kotak Mahindra Bank Ltd.

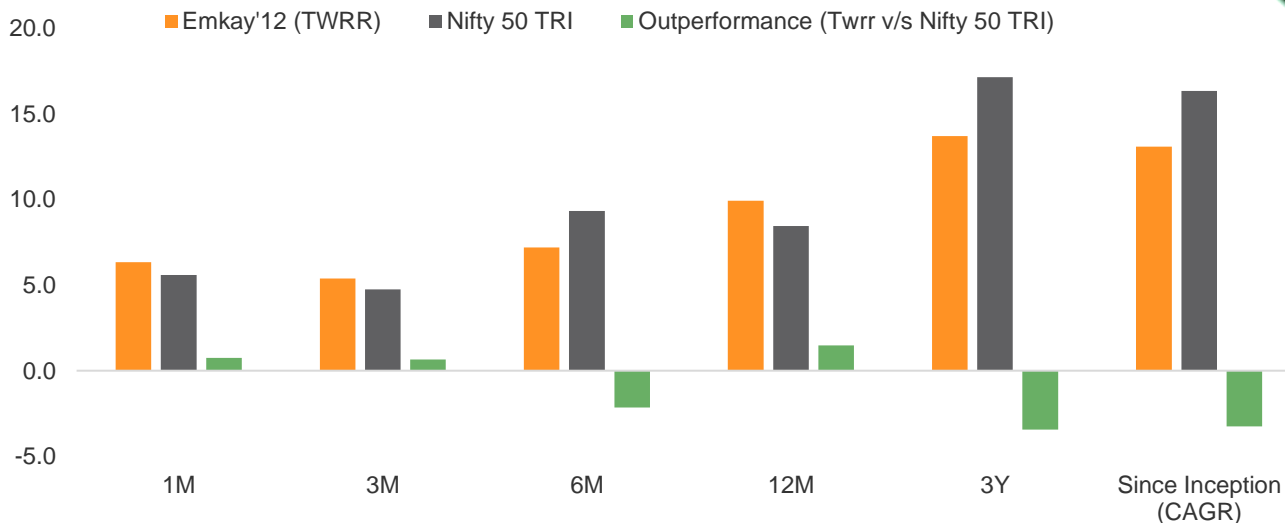
Titan Company Ltd.

Larsen & Toubro Ltd.

Pidilite Industries Ltd.

Ultratech Cement Ltd.

Emkay's 12 Strategy - Performance Update



	1M	3M	6M	12M	3Y	Since Inception (CAGR)	Total Returns
Emkay'12 (TWRR)	6.4	5.4	7.2	9.9	13.7	13.1	70.5
Nifty 50 TRI	5.6	4.8	9.3	8.5	17.2	16.4	92.8
Outperformance (TWRR v/s Nifty 50 TRI)	0.8	0.6	-2.1	1.5	-3.4	-3.3	-22.3

Emkay's 12 Strategy : a "Smart Alpha" large cap portfolio



Key features



Focus on risk adjusted returns



Portfolio of 12 structural growth companies



Steady performance over medium term framework



Possible alternative to Large cap MFs



Low portfolio turnover



Lower portfolio volatility and high liquidity

- Emkay's 12 is an equal weighted twelve stock large cap oriented strategy.
- A buy and hold strategy focusing on companies with wider economic moat and dominant position in the sector.
- Combination of value and growth to deliver medium to long term wealth creation.

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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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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