

21ST ANNUAL WEALTH CREATION STUDY (2011-2016)

FOCUSED INVESTING

Power of allocation in Wealth Creation

HIGHLIGHTS

- Stock allocation (how much to buy) is a powerful tool for portfolio performance, but is under-researched vis-à-vis stock selection (what to buy)
- Kelly's formula offers 3 insights for equity investing: (1) Look for asymmetric payoff (2) Create edge (3) Bet big
- Opportunities for big bets come seldom; Focused Investing is a sound strategy to capitalize on them
- Keys to successful Focused Investing are: (1) Clear portfolio goal (2) Superior stock selection (3) Rational allocation (4) Active monitoring
- Disciplined practice should lead to exceptional returns rather than acceptable returns

"Bet seldom, and only when the odds are strongly in your favor, but when you do, bet big, hold for the long term, and control your downside risk."

– From the book *Concentrated Investing*, by Allan C Benello, Michael Van Biema, Tobias E Carlisle

TOP 10 WEALTH CREATORS (2011-2016)

| THE BIGGEST | | | THE FASTEST | | THE MOST CONSISTENT | |
|-------------|---------------------|------------------------|----------------------|-----------------------|---------------------|----------------------------------------------------|
| Rank | Company | Wealth Created (INR b) | Company | 5-Year Price CAGR (%) | Company | Appeared in WC Study (x) 10-Year Price CAGR (%) |
| 1 | TCS | 2,637 | Ajanta Pharma | 121 | Asian Paints | 10 30 |
| 2 | HDFC Bank | 1,475 | Welspun India | 88 | Kotak Mahindra Bank | 10 26 |
| 3 | Hindustan Unilever | 1,266 | Eicher Motors | 70 | Sun Pharma | 10 25 |
| 4 | ITC | 1,197 | Kajaria Ceramics | 66 | Titan Company | 10 23 |
| 5 | Sun Pharma | 1,169 | Vakrangee Software | 63 | Bosch | 10 22 |
| 6 | Infosys | 948 | Bajaj Finance | 59 | HDFC Bank | 10 21 |
| 7 | HCL Technologies | 819 | P I Industries | 58 | Axis Bank | 10 20 |
| 8 | Kotak Mahindra Bank | 760 | Symphony | 56 | Dabur India | 10 20 |
| 9 | Maruti Suzuki | 742 | Amara Raja Batteries | 56 | Nestle India | 10 17 |
| 10 | HDFC | 682 | Aurobindo Pharma | 50 | Cummins India | 10 17 |

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Investors are advised to refer through important disclosures made at the end of the Research Report.

Motilal Oswal 21st Annual Wealth Creation Study

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Abbreviations and Terms used in this report

| Abbreviation / Term | Description |
|-----------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 2006, 2011, 2016, etc | Reference to years for India are financial year ending March, unless otherwise stated |
| Avg | Average |
| CAGR | Compound Annual Growth Rate |
| L to P / P to L | Loss to Profit / Profit to Loss. In such cases, calculation of PAT CAGR is not possible |
| INR b | Indian Rupees in billion |
| Price CAGR | In the case of aggregates, Price CAGR refers to Market Cap CAGR |
| WC | Wealth Created |
| Wealth Created | Increase in Market Capitalization over the last 5 years, duly adjusted for corporate events such as fresh equity issuance, mergers, demergers, share buybacks, etc. |

Note: Capitaline database has been used for this study. Source of all exhibits is MOSL analysis, unless otherwise stated

Wealth Creation Study

Objective, Concept & Methodology

Objective

The foundation of Wealth Creation is to buy businesses at a price substantially lower than their "intrinsic value" or "expected value". The lower the market value compared to the intrinsic value, the higher is the margin of safety. Every year for the past 21 years, we endeavor to cull out the characteristics of businesses that create value for their shareholders.

As Phil Fisher says, *"It seems logical that even before thinking of buying any common stock, the first step is to see how money has been most successfully made in the past."* Our Wealth Creation studies are attempts to study the past as a guide to the future, and gain insights into the various dynamics of stock market investing.

Concept & Methodology

Wealth Creation is the process by which a company enhances the market value of the capital entrusted to it by its shareholders. It is a basic measure of success for any commercial venture. For listed companies, we define Wealth Created as the difference in market capitalization over a period of last five years, after adjusting for equity dilution.

We rank the top 100 companies in descending order of absolute Wealth Created, **subject to the company's stock price at least outperforming the benchmark index (BSE Sensex in our case)**. These top 100 Wealth Creators are also ranked according to speed (i.e. price CAGR during the period under study).

We present the study highlights in pages 2-3. The detailed findings are presented in pages 20-33. Appendix 1 (pages 34-35) ranks the 100 Wealth Creators by size, and Appendix 2 (pages 36-37) ranks the same 100 Wealth Creators by speed.

A theme study titled **"Focused Investing – Power of allocation in Wealth Creation"** is featured in pages 4-19.

Wealth Creation 2011-2016

Highlights

TCS is the Biggest Wealth Creator for the fourth time in a row

- **TCS** has emerged as the biggest Wealth Creator for the period 2011-16, retaining the top spot it held even in the previous three study periods (2010-15, 2009-14 and 2008-13).
- **HDFC Bank** has inched up to No.2 after 3 years of remaining No.3.

Exhibit 1 **Top 10 Biggest Wealth Creators**

| Rank | Company | Wealth Created | | CAGR (%) | | P/E (x) | | RoE (%) | |
|-------------------------|----------------|----------------|------------|-----------|-----------|-----------|-----------|-----------|-----------|
| | | INR b | % share | Price | PAT | 2016 | 2011 | 2016 | 2011 |
| 1 | TCS | 2,637 | 9 | 16 | 22 | 21 | 26 | 37 | 37 |
| 2 | HDFC Bank | 1,475 | 5 | 18 | 26 | 21 | 27 | 17 | 16 |
| 3 | Hind. Unilever | 1,266 | 4 | 25 | 14 | 46 | 30 | 102 | 76 |
| 4 | ITC | 1,197 | 4 | 13 | 14 | 28 | 28 | 28 | 30 |
| 5 | Sun Pharma | 1,169 | 4 | 30 | 24 | 38 | 26 | 16 | 19 |
| 6 | Infosys | 948 | 3 | 9 | 15 | 20 | 27 | 24 | 26 |
| 7 | HCL Tech | 819 | 3 | 28 | 27 | 21 | 20 | 20 | 21 |
| 8 | Kotak Mahindra | 760 | 3 | 24 | 17 | 36 | 21 | 10 | 14 |
| 9 | Maruti Suzuki | 742 | 3 | 24 | 14 | 25 | 16 | 17 | 16 |
| 10 | H D F C | 682 | 2 | 10 | 18 | 17 | 23 | 20 | 21 |
| Total of Top 10 | | 11,695 | 41 | 18 | 19 | 24 | 25 | 23 | 24 |
| Total of Top 100 | | 28,436 | 100 | 19 | 16 | 22 | 19 | 20 | 22 |

Ajanta Pharma is the Fastest Wealth Creator again

- **Ajanta Pharma** has emerged as the Fastest Wealth Creator for the second time in a row, with 2011-16 stock price multiplier of 53x (121% CAGR).
- **Eicher Motors** is among the top 10 Fastest Wealth Creators for the last 5 studies.

Exhibit 2 **Top 10 Fastest Wealth Creators**

| Rank | Company | Price Appn. (x) | CAGR (%) | | Mkt Cap (INR b) | | P/E (x) | |
|------|----------------------|-----------------|----------|-----|-----------------|------|---------|------|
| | | | Price | PAT | 2016 | 2011 | 2016 | 2011 |
| 1 | Ajanta Pharma | 53 | 121 | 52 | 124 | 2 | 31 | 5 |
| 2 | Welspun India | 23 | 88 | 234 | 100 | 4 | 14 | 226 |
| 3 | Eicher Motors | 14 | 70 | 48 | 520 | 36 | 42 | 20 |
| 4 | Kajaria Ceramics | 13 | 66 | 30 | 76 | 6 | 33 | 9 |
| 5 | Vakrangee | 11 | 63 | 52 | 105 | 8 | 27 | 17 |
| 6 | Bajaj Finance | 10 | 59 | 39 | 373 | 26 | 29 | 10 |
| 7 | P I Industries | 10 | 58 | 37 | 78 | 7 | 25 | 10 |
| 8 | Symphony | 9 | 56 | 15 | 83 | 9 | 77 | 17 |
| 9 | Amara Raja Batteries | 9 | 56 | 27 | 150 | 16 | 31 | 11 |
| 10 | Aurobindo Pharma | 8 | 50 | 28 | 436 | 57 | 22 | 10 |

Asian Paints is the Most Consistent Wealth Creator

- **Asian Paints** is the Most Consistent Wealth Creator over 2006-16, by virtue of –
 1. Appearing among top 100 Wealth Creators in each of the last 10 studies; and
 2. Highest 10-year Price CAGR of 30%.

Exhibit 3 **Top 10 Most Consistent Wealth Creators**

| Rank | Company | Appeared in | 10-yr Price | 10-yr PAT | P/E (x) | | RoE (%) | |
|------|----------------|--------------|-------------|-----------|---------|------|---------|------|
| | | WC Study (x) | CAGR (%) | CAGR (%) | 2016 | 2006 | 2016 | 2006 |
| 1 | Asian Paints | 10 | 30 | 23 | 48 | 29 | 31 | 31 |
| 2 | Kotak Mahindra | 10 | 26 | 23 | 36 | 20 | 10 | 24 |
| 3 | Sun Pharma | 10 | 25 | 25 | 38 | 30 | 16 | 41 |
| 4 | Titan Company | 10 | 23 | 24 | 44 | 45 | 20 | 47 |
| 5 | Bosch | 10 | 22 | 14 | 53 | 27 | 15 | 24 |
| 6 | HDFC Bank | 10 | 21 | 31 | 21 | 28 | 17 | 16 |
| 7 | Axis Bank | 10 | 20 | 33 | 13 | 20 | 16 | 18 |
| 8 | Dabur India | 10 | 20 | 19 | 36 | 32 | 30 | 49 |
| 9 | Nestle India | 10 | 17 | 11 | 63 | 29 | 32 | 92 |
| 10 | Cummins India | 10 | 17 | 15 | 32 | 26 | 22 | 23 |

Consumer/Retail is the biggest Wealth Creating sector

- **Consumer/Retail** has emerged as India's biggest Wealth Creating sector for the second consecutive time, and the third time in the last four years.

Exhibit 4 **Consumer/Retail is the top Wealth Creating sector**

| Sector (No of companies) | WC (INR b) | Share of WC % | | CAGR 11-16 (%) | | P/E (x) | | RoE (%) | |
|-----------------------------|---------------|---------------|------------|----------------|-----------|-----------|-----------|-----------|-----------|
| | | 2016 | 2011 | Price | PAT | 2016 | 2011 | 2016 | 2011 |
| Consumer/Retail (23) | 6,364 | 22 | 8 | 21 | 15 | 38 | 30 | 31 | 32 |
| Banking/Finance (14) | 4,995 | 18 | 24 | 20 | 19 | 19 | 18 | 16 | 19 |
| Technology (7) | 4,960 | 17 | 14 | 16 | 20 | 20 | 24 | 28 | 29 |
| Auto (15) | 4,093 | 14 | 5 | 20 | 10 | 20 | 13 | 19 | 32 |
| Healthcare (15) | 3,705 | 13 | 4 | 25 | 18 | 30 | 22 | 18 | 18 |
| Cement (5) | 1,266 | 4 | 1 | 20 | 3 | 35 | 16 | 9 | 14 |
| Oil & Gas (3) | 670 | 2 | 14 | 21 | 26 | 8 | 10 | 27 | 14 |
| Capital Goods (4) | 513 | 2 | 7 | 16 | 11 | 33 | 26 | 17 | 18 |
| Telecom & Media (2) | 394 | 1 | 3 | 17 | 19 | 21 | 23 | 13 | 10 |
| Metals / Mining (2) | 289 | 1 | 15 | 7 | 7 | 11 | 12 | 16 | 17 |
| Utility (1) | 203 | 1 | 3 | 9 | 18 | 12 | 18 | 14 | 12 |
| Others (9) | 984 | 3 | 3 | 21 | 17 | 25 | 21 | 19 | 19 |
| Total | 28,436 | 100 | 100 | 19 | 16 | 22 | 19 | 20 | 22 |

Commodity collapse drives up Wealth Destruction

- 7 of the top 10 Wealth Destroyers are in the business of global commodities.

Exhibit 5 **Top Wealth Destroying companies**

| Company | Wealth Destroyed | | Price |
|-------------------------------|------------------|------------|----------|
| | INR b | % Share | CAGR (%) |
| MMTC | 889 | 6 | -47 |
| NMDC | 735 | 5 | -19 |
| B H E L | 730 | 5 | -23 |
| O N G C | 645 | 4 | -6 |
| Jindal Steel | 592 | 4 | -39 |
| Vedanta | 570 | 4 | -21 |
| State Bank of India | 542 | 4 | -7 |
| NTPC | 529 | 3 | -8 |
| S A I L | 524 | 3 | -24 |
| Coal India | 348 | 2 | -3 |
| Total of above | 6,104 | 40 | |
| Total Wealth Destroyed | 15,146 | 100 | |

Exhibit 6 **Top Wealth Destroying Sectors**

| Sector | Wealth Destroyed | % Share |
|---------------------|------------------|------------|
| | (INR b) | |
| Metals / Mining | 5,058 | 33 |
| Banking & Finance | 2,991 | 20 |
| Utilities | 1,555 | 10 |
| Capital Goods | 1,393 | 9 |
| Oil & Gas | 1,256 | 8 |
| Constn. / Real Est. | 1,012 | 7 |
| Technology | 301 | 2 |
| Chemicals & Fert. | 295 | 2 |
| Telecom | 214 | 1 |
| Others | 1,071 | 7 |
| Total | 15,146 | 100 |

For detailed findings, please see pages 20-33.



Theme 2017

Focused Investing

Power of allocation in Wealth Creation

“Bet seldom, and only when the odds are strongly in your favor, but when you do, bet big, hold for the long term, and control your downside risk.”

— from the book *Concentrated Investing*, by Allan C Benello, Michael Van Biema, Tobias E Carlisle

1. Backdrop

20 studies on “What to buy”; first one on “How much to buy”

Two key aspects of equity investing are: **(1) What to buy** (i.e. stock selection), and **(2) How much to buy** (i.e. stock allocation or weightage in a given portfolio). Almost all of the past 20 Annual Wealth Creation Studies have covered various aspects of what to buy. In this, the 21st Study, we focus on how much to buy.

The simplistic example of a hypothetical portfolio presented below shows how stock allocation can significantly influence investment performance. For the same set of stocks, 3 portfolios with different allocations turn in total return ranging from as low as -8.5% to as high as +18.5%.

Exhibit 1 **Portfolios with the same stocks can turn in widely different returns based on allocation**

| | Stock Return | Allocation | | | Portfolio-level Return | | |
|------------------------|--------------|-------------|-------------|-------------|------------------------|--------------|--------------|
| | | Portfolio A | Portfolio B | Portfolio C | Portfolio A | Portfolio B | Portfolio C |
| Stock 1 | 50% | 10% | 20% | 5% | 5.0% | 10.0% | 2.5% |
| Stock 2 | 40% | 10% | 15% | 5% | 4.0% | 6.0% | 2.0% |
| Stock 3 | 30% | 10% | 15% | 5% | 3.0% | 4.5% | 1.5% |
| Stock 4 | 20% | 10% | 10% | 5% | 2.0% | 2.0% | 1.0% |
| Stock 5 | 10% | 10% | 10% | 10% | 1.0% | 1.0% | 1.0% |
| Stock 6 | 0% | 10% | 10% | 10% | 0.0% | 0.0% | 0.0% |
| Stock 7 | -10% | 10% | 5% | 10% | -1.0% | -0.5% | -1.0% |
| Stock 8 | -20% | 10% | 5% | 15% | -2.0% | -1.0% | -3.0% |
| Stock 9 | -30% | 10% | 5% | 15% | -3.0% | -1.5% | -4.5% |
| Stock 10 | -40% | 10% | 5% | 20% | -4.0% | -2.0% | -8.0% |
| Portfolio Total | | 100% | 100% | 100% | 5.0% | 18.5% | -8.5% |

Despite the above phenomenon, we are surprised to discover how little literature there is on this critical aspect of investing. Academicians tend to believe that stock allocation, even more than stock selection, borders on art rather than science, and hence, it depends to a great extent on the temperament and style of individual investment practitioners. Investment practitioners, in general, seem prone to allocate stocks more by intuition and emotion than reason.

In this study, we offer some insights on allocation, and suggest a rational approach for the same. In the following sections –

- We first analyze the only semblance of a framework for allocation – **Kelly’s formula** – and derive from it insights for equity investing.

- Next, we suggest that the power of allocation is best exploited through **Focused Investing**, which essentially involves placing sizable bets on 15-20 stocks to generate exceptional (rather than acceptable) returns over the long term.
- Finally, we discuss the **4 keys to successful Focused Investing**, incorporating a framework each for –
 1. **What to buy – QGLP** (Quality, Growth, Longevity at favorable Price), and
 2. **How much to buy – CAP** (Confidence-Adjusted Payoff).

2. Kelly's formula – insights for equity investing

Look for asymmetric payoff, Create edge, Bet big

In the mid-1950s, John Larry Kelly Jr, a scientist with Bell Labs, developed a formula for an optimal bet size on a wager with given payoffs (i.e. odds) and win-loss probabilities. The formula is as under:

$$f = (bp - q) \div b$$

where: **f** is the fraction of the current bankroll to wager,

b is the net odds (expressed as rupees to be won for every rupee bet) or win-loss ratio,

p is the probability of winning, and

q is the probability of losing.

Betting this fraction repeatedly maximizes the long-term growth of the bankroll.

Example: You are offered a 100-rupee bet that every time a coin is tossed and you call heads or tails correctly, you will win 200 rupees. You have set aside 1,000 rupees for a series of bets. What should be your betting strategy?

Here, **b** (odds) = $200 \div 100 = 2$. Given a fair coin, the chances of correctly calling heads or tails is 1-in-2 i.e. 50%. Thus, **p** (probability of win) is 50% and **q** (probability of loss) is 50%. With this, the Kelly fraction works out to 25% as under:

$$f = (2 \times 0.5 - 0.5) \div 2 = 25\%$$

Thus, you will bet 25% of 1,000, i.e. 250 rupees in your first bet. The subsequent bet size is dependent on the outcome of your first bet:

- If you win, your bankroll grows to 1,200 rupees, and your next bet size should be 25% of 1,200, i.e. 300 rupees.
- If you lose, your bankroll falls to 900 rupees, and your next bet size should be 25% of 900, i.e. 225 rupees.

For a long enough series of bets, this strategy will maximize the growth in your bankroll.

2.1 Kelly's for equities: The meaning is more relevant than the math

Equity investing is starkly different from gambling in several ways.

- **Odds/Payoff and Win-loss probabilities:** In gambling, both the odds/payoff and the win-loss probabilities are a given. In many situations, payoff is 1:1 and win-loss probability is 0.5:0.5. In cases like roulette where the payoff is higher, the probability of win is that much lower. Net-net, win or loss is purely an outcome of luck.

In contrast, in equity investing, neither payoff nor probability is fixed. Stock prices are known, but every investor has to individually estimate upside-downside and associated probabilities. Investors with superior knowledge, skills and processes can identify favorable payoff with favorable probabilities to win big.

Exhibit 2 **Process-Outcome matrix: In equity investing, having a good process reduces the role of luck**

| | | | |
|---------|------|-----------------|------------------|
| OUTCOME | Good | Good luck | Deserved success |
| | Bad | Logical outcome | Bad luck |
| | | Bad | Good |
| | | PROCESS | |

- **Role of time:** In gambling, the outcome of one's bet – win or loss – is instantaneous. In equities, there is significant time-gap before it can be decided whether the bet was a win or a loss.
- **Nature of bets:** In gambling, bets are sequential. The outcome of one bet can influence the strategy for the next bet. In equities, investors need to make simultaneous bets on multiple stocks.

Given these differences, the mathematical relevance of Kelly is not very high in equities. And yet, two variants of the Kelly's formula offer meaningful insights for equity investing.

2.1.1 Insight #1: Look for asymmetric payoff

One variant of Kelly's formula can be obtained with a suitable modification of b , i.e. odds. In gambling, odds are typically quoted as $b:1$, i.e. b rupees to be won for every 1 rupee bet. In

gambling, if one loses, the loss is always 100% of the amount wagered. Such is not the case in equities, where even if there is a loss, it is rarely 100% (except in case of bankruptcy).

Thus, for equities, it is better to interpret b as upside-downside ratio, say, U/D . Substituting $b = U/D$ in Kelly's formula, we get:

$$f = (U/D \times p - q) \div (U/D)$$

This simplifies to:

$$f = (Up - Dq) \div U$$

where: f is the fraction of the current bankroll to invest in a stock,

U is the possible Upside in the stock,

p is the probability of such Upside,

D is the possible Downside in the stock, and

q is the probability of such Downside.

This variant clearly identifies the factors that should influence stock selection and allocation – Upside, Downside and the probabilities of both. The most favorable situation investors should look for is: Asymmetric payoff (high-upside-low-downside) coupled with high probability of win.

2.1.2 Insight #2: Create edge

Yet another variant of Kelly is by author William Poundstone in his book, *Fortune's Formula* –

$$f = \text{edge} / \text{odds}$$

where: f is the fraction of the current bankroll to invest in a stock,

edge = $bp - q$ or $Up - Dq$, i.e. the expected value of the financial proposition, and

odds = b or U , i.e. the amount expected to win if one wins.

This variant can be interpreted both mathematically and non-mathematically. Mathematically, f is positive only when the numerator (edge or expected value) is greater than zero, i.e. no edge, no bet. In non-mathematical terms, edge may be defined as knowing something that others don't. So, here again: no edge, no bet.

As markets are fairly efficient, equity investors can expect to make big money only if they create an edge over the market. There are two sources of edge: (1) Information advantage, and (2) Analytical advantage. In modern-day markets, investors are unlikely to enjoy any significant information advantage. Hence, the main source of creating an edge is analytical advantage. This primarily includes time-tested frameworks/processes for analyzing various aspects of business and valuation – nature of industry, competitive landscape, size of opportunity, quality of management, channel checks, earnings forecasts, peer valuation, etc.

2.1.3 Insight #3: Bet big

Whenever investors get an edge in asymmetric payoff situations, the Kelly message is clear: bet big.

Such opportunities for big bets come seldom; hence the need for Focused Investing.

Exhibit 3 **The payoff-edge decision matrix**

| | | | |
|---------------|-------------|------------------------|----------------|
| PAYOFF | High | Speculative Bet | Bet Big |
| | Low | No Bet | Bet Low |
| | | No | Yes |
| | | EDGE | |

3. What is Focused Investing?

The golden mean of Diversified and Concentrated Investing

An extremely important aspect of investing is risk-return tradeoff. There are two contrasting investment styles around this: (1) Diversified investing, and (2) Concentrated investing.

3.1 Diversified investing

The underlying strategy in diversified investing is to hold a fairly large number of stocks across many sectors so that unexpected adversity in any stock or sector does not unduly hurt overall portfolio performance.

In the active version of diversified investing, portfolio managers constantly buy and sell stocks, attempting to outperform the broader market, measured by benchmark indices such as Nifty 50, BSE Sensex, Nifty 500, etc. This involves a high level of transaction and management costs, leading to the emergence of an alternative approach – Index Investing – in the mid-1980s. Here, portfolio managers follow a relatively passive buy-and-hold strategy of the very stocks that constitute the benchmark indices. The core idea is to perform better than the actively managed funds by keeping costs very low.

The net result of both versions of diversified investing is the same – **modest returns**, typically hovering around the market average. Thus, the fully power of equity to deliver exponential returns remains unharnessed.

Exhibit 4 **Annual Return for Monte Carlo simulation portfolios in S&P Equal Weight Index (1999 to 2014): Higher the number of stocks, lower the standard deviation, and also lower the maximum return**

| Returns % | Stocks in portfolio | | | | | | | | All Stocks |
|---------------|---------------------|------|------|------|------|------|------|------|------------|
| | 10 | 15 | 20 | 25 | 30 | 50 | 100 | 250 | |
| Average | 12.0 | 12.1 | 12.1 | 12.1 | 12.1 | 12.2 | 12.2 | 12.2 | 12.2 |
| Minimum | 3.7 | 5.4 | 5.3 | 5.9 | 7.5 | 8.1 | 10.1 | 10.7 | 12.2 |
| Maximum | 21.3 | 20.0 | 18.7 | 17.2 | 17.3 | 15.8 | 14.8 | 13.5 | 12.2 |
| Std Deviation | 2.7 | 2.2 | 1.9 | 1.7 | 1.5 | 1.2 | 0.8 | 0.4 | 0.0 |

Source: Adapted from the book *Concentrated Investing*, by Allan C Benello, Michael Van Biema and Tobias Carlisle

3.2 Concentrated investing

Propagated by a handful of investors like John Keynes, Warren Buffett, Charlie Munger and Phil Fisher, Concentrated Investing essentially involves choosing a handful of stocks (typically not more than 10) that are expected to produce above-average returns, allocating a bulk of the portfolio to these stocks, and holding them for the long term across market cycles and fluctuations.

Concentrated investors believe that their in-depth knowledge of the businesses they buy into truly reduces the risk of owning them. In his book, *Common Stocks, Uncommon Profits*, Phil Fisher writes, “buying a company without sufficient knowledge of it may be even more dangerous than having inadequate diversification.” Buffett’s words in this regard are, “Diversification serves as a protection against ignorance. If you want to make sure that nothing bad happens to you relative to the market, you should own everything. There is nothing wrong with that. It’s a perfectly sound approach for somebody who doesn’t know how to analyze businesses.”

Concentrated investors indeed tend to outperform the market significantly over the long term, but with relatively high year-to-year volatility.

Exhibit 5 **Charlie Munger’s performance suggests some level of annual volatility ...**

| % | Return | S&P 500 | Alpha |
|-------------|-------------|------------|-------------|
| 1962 | 30.1 | -7.6 | 37.7 |
| 1963 | 71.7 | 20.6 | 51.1 |
| 1964 | 49.7 | 18.7 | 31.0 |
| 1965 | 8.4 | 14.2 | -5.8 |
| 1966 | 12.4 | -15.8 | 28.2 |
| 1967 | 56.2 | 19.0 | 37.2 |
| 1968 | 40.4 | 7.7 | 32.7 |
| 1969 | 28.3 | -11.6 | 39.9 |
| 1970 | -0.1 | 8.7 | -8.8 |
| 1971 | 25.4 | 9.8 | 15.6 |
| 1972 | 8.3 | 18.2 | -9.9 |
| 1973 | -31.9 | -13.1 | -18.8 |
| 1974 | -31.5 | -23.1 | -8.4 |
| 1975 | 73.2 | 44.4 | 28.8 |
| CAGR | 19.8 | 4.9 | 14.9 |

Source: Adapted from the book, *Concentrated Investing*

Exhibit 6 **... but Buffett’s performance (under Buffett Partnerships) is impeccable**

| % | Return | Dow | Alpha |
|-------------|-------------|------------|-------------|
| 1957 | 9.3 | -8.4 | 17.7 |
| 1958 | 32.2 | 38.5 | -6.3 |
| 1959 | 20.9 | 20.0 | 0.9 |
| 1960 | 18.6 | -6.2 | 24.8 |
| 1961 | 35.9 | 22.4 | 13.5 |
| 1962 | 11.9 | -7.6 | 19.5 |
| 1963 | 30.5 | 20.6 | 9.9 |
| 1964 | 22.3 | 18.7 | 3.6 |
| 1965 | 36.9 | 14.2 | 22.7 |
| 1966 | 16.8 | -15.6 | 32.4 |
| 1967 | 28.4 | 19.0 | 9.4 |
| 1968 | 45.6 | 7.7 | 37.9 |
| CAGR | 25.3 | 4.9 | 20.4 |

Source: Buffett’s letters to partners

3.3 Diversified v/s Concentrated Investing and the nature of capital

The nature of capital being managed seems to be a key determinant as to which of the two styles of investing will be practiced. Public money, largely in the form of open-ended mutual funds, tends to be managed based on a Diversified Investing strategy, whereas Concentrated Investing seems better suited for private / close-ended source of capital.

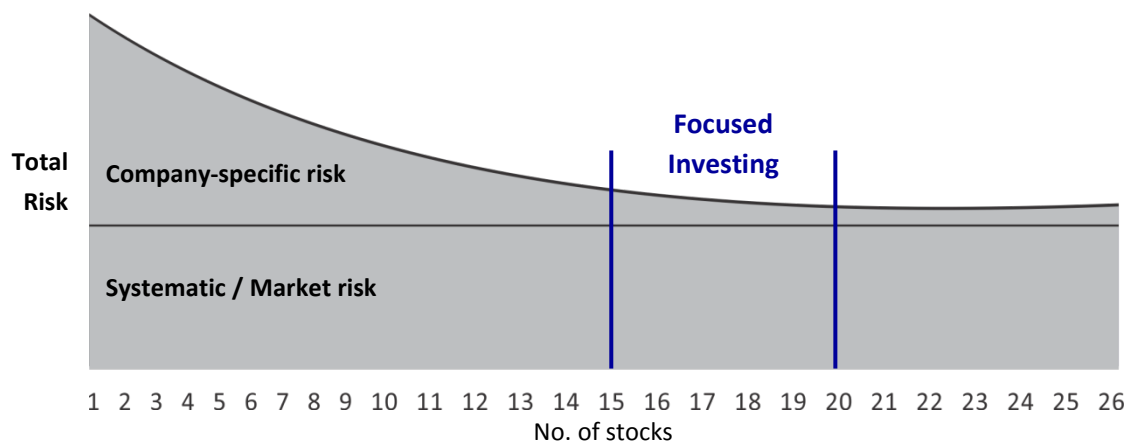
The obvious reason is that public money tends to be fickle and guided more by short-term performance. An open-ended mutual fund with a poor short-term performance faces the very real prospect of a run on its assets. This, in turn, makes such portfolio managers averse to short-term volatility that typically accompanies concentrated stock positions – they settle for safer but lower returns, instead.

3.4 Focused Investing: The golden mean

We posit Focused Investing as the golden mean of the above two investment styles. Compared to 50+ stocks under Diversified Investing and 10 or fewer stocks under Concentrated Investing, we recommend a focused portfolio of 15-20 stocks. This offers the best of both worlds – adequate risk diversification and meaningful return magnification.

On the risk front, several studies have established that company-specific risks are sufficiently diversified by owning 15-20 stocks across sectors (depicted in Exhibit 6). Additional prudent allocation norms (e.g. not having more than 10% under any single stock) can further reduce volatility of performance.

Exhibit 7 **15-20 stocks from across sectors are sufficient to near-fully diversify company-specific risks**



On the return front, having only 15-20 businesses allows meaningful allocations in high-conviction stock ideas, magnifying overall portfolio return. An interesting 2012 study in the US showed that portfolios consisting of only the high-conviction bets of fund managers outperformed the very fund from which they were derived, and that too without significantly higher risk/volatility.

Exhibit 8 **Portfolios of high-conviction stocks outperformed the very portfolios from which they were carved out**

| Portfolios | Return % * | Std Dev. % |
|------------|------------|------------|
| Top 5 | 10.8 | 26.3 |
| Top 10 | 9.4 | 23.4 |
| Top 15 | 8.7 | 21.8 |
| Top 20 | 8.1 | 20.7 |
| Top 25 | 7.8 | 19.8 |
| Top 30 | 7.4 | 19.1 |
| All Funds | 6.3 | 19.5 |
| Own Index | 5.1 | 20.0 |

* 1999 to 2009

Source: Working paper *Diversification versus Concentration ... and the Winner is?* (Yeung et al 2012)

3.5 Diversified v/s Focused Investing – The Indian scenario

The Indian mutual fund industry has about 286 schemes actively managing INR 4 trillion in assets. Diversified investing is clearly the dominant style. A high 56% of the schemes and an even higher 86% of assets are under portfolios with 41+ stocks. In contrast, only 13% of the schemes and 3% of the assets are under portfolios of 25 stocks or fewer.

Exhibit 9 **Only 36 Focused portfolios ...**

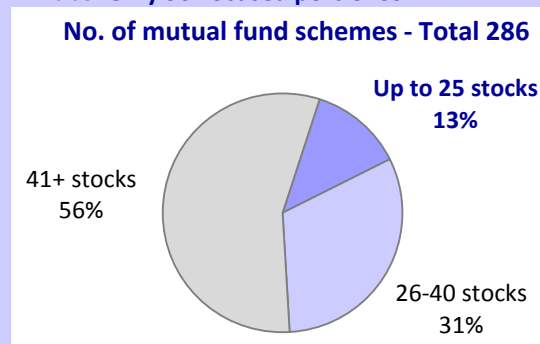
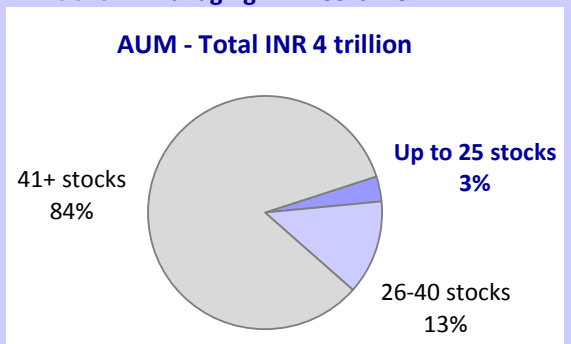


Exhibit 10 **... managing INR 139 billion**



Source: Based on mutual fund data from ICRA Online

4. Four keys to successful Focused Investing

Portfolio goal, Selection, Allocation, Monitoring & Improvement

We believe there are 4 keys to successful Focused Investing:

1. Clear portfolio goal,
2. Superior stock selection,
3. Rational allocation, and
4. Active monitoring and improvement.

We discuss these below, incorporating a framework each for –

- **What to buy – QGLP** (Quality, Growth, Longevity at favorable Price), and
- **How much to buy – CAP** (Confidence-Adjusted Payoff).

4.1 Clear portfolio goal

We believe setting a simple, clear and measurable portfolio goal should be the starting point of any investing process. A portfolio goal can be expressed in terms of absolute performance or relative to a suitable benchmark. For Focused Investing, an absolute performance goal is preferred. The portfolio goal will serve as a useful guidepost for both stock selection and stock allocation.

4.2 Superior stock selection – QGLP

Having decided on the portfolio goal, the next step is superior stock selection. In Focused Investing, this is of utmost importance, as in a portfolio of 15-20 stocks, average allocation in each stock is meaningful enough to influence portfolio performance. So, investors are better off using a time-tested investment philosophy / process of stock selection. The end objective is to –

- Find asymmetric payoff (i.e. high upside potential with low downside risk),
- Create edge (i.e. have an information and/or analytical advantage over the market),
- Meet portfolio goal, and
- Diversify risk (i.e. select stocks from different sectors, not highly correlated to each other).

For most selections, we recommend a philosophy captured by the acronym **QGLP** –

Q – Quality of business and Quality of management,

G – Growth in earnings,

L – Longevity of Quality & Growth, and

P – favorable Price of purchase.

4.2.1 Q = Quality of business x Quality of management

Expressing Quality as a product implies that if either Quality of Business or Quality of Management is zero, overall Q ends up as zero.

Exhibit 11 **Key indicators of Q**

| Quality of Business | Quality of Management |
|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <ul style="list-style-type: none"> • Preferably secular business • Large profit pool • Size of opportunity • Competitive landscape <ul style="list-style-type: none"> – Monopoly, Oligopoly – Dominant market share • Niche / Strategic opportunity • Favorable demand-supply (especially in case of commodities) • RoE and RoCE • Operating cash flow and Free cash flow | <ul style="list-style-type: none"> • Unquestionable integrity <ul style="list-style-type: none"> – Impeccable corporate governance – Concern for all stakeholders – Preferably paying full tax and a well-articulated dividend policy • Demonstrable competence <ul style="list-style-type: none"> – Excellence in strategy & execution – Sustaining competitive advantage • Growth mindset <ul style="list-style-type: none"> – Long-range profit outlook – Efficient capital allocation |

Clearing the Quality filter significantly lowers risk of permanent capital loss.

4.2.2 G = Growth in earnings

Growth in earnings is a key driver of value in a stock. However, growth is unique to each company, and hence, does not yield itself to any standard frameworks. Certain favorable high-growth situations include –

- Exponential opportunity in discretionary expenditure amidst linear growth in GDP
- Value Migration (from outdated business models to new ones, e.g. wired telephony to wireless)
- Sustained industry tailwind
- Small base with large opportunity
- New large investment getting commissioned
- Inorganic growth through M&A
- Consolidation of competition
- Operating & Financial leverage
- Turnaround from loss to profit

4.2.3 L = Longevity of Quality & Growth

As Focused Investing is essentially a buy-and-hold strategy, selected stocks should ideally sustain their quality and growth for a long time into the future.

4.2.4 P = Price (favorable)

A thorough analysis of Q-G-L will likely give investors an edge in terms of understanding the company's business, management and its earnings growth prospects. However, it is valuation analysis that will finally help investors determine whether the stock meets the portfolio goal, and decide whether it merits selection.

4.3 Rational allocation – CAP

Having selected 15-20 stocks, most of which meet the portfolio goal, the next step is rational allocation of the same in a portfolio. The governing principles here are –

- Bet big when odds are strongly in favor, and at the same time,
- Increase the certainty of achieving the portfolio goal.

To achieve both these objectives, we suggest the framework **CAP (Confidence-Adjusted Payoff)**. This framework draws inspiration from the allocation methodology pursued by Warren Buffett in managing the investment portfolio at Buffett Partnerships during the 1960s. He says, "The question always is, 'How much do I put in number one (ranked by expectation of relative performance) and how much do I put in number eight?'" (see Annexure for a fuller extract from his 1966 letter to partners on diversification and allocation).

The steps for CAP-based allocation are:

- Rank all the selected stocks in descending order of their expected 3 or 5-year upside.
- To this upside, apply a Confidence factor range from 0 to 100%. The main idea behind the Confidence factor is to deflate the expected upside for risks that may not have been explicitly captured in the upside calculations. (Note: If the Confidence factor is very low, perhaps the very selection may need to be questioned.)
- For each stock, arrive at Confidence-Adjusted Payoff (CAP) i.e. Upside x Confidence factor.
- Rank the stocks in descending order of CAP, and align the final allocation.

The more accurate the assessment of CAP, the higher will be the portfolio performance based on this allocation, rather than any other (e.g. equal weight).

Additional norms could include –

- not having any stock with allocation more than 10% of the portfolio value
- not having any stock with allocation less than 3% of the portfolio value
- not having more than 5% equity of any company

4.4 Active monitoring & improvement

Having constructed the portfolio, the next step is active monitoring and improvement. This is very important, as odds on stocks change frequently due to change in underlying fundamentals, or stock price, or both.

Monitoring and improvement includes several things such as –

- estimating quarterly and annual earnings for companies in the portfolio and reviewing the actuals vis-à-vis estimates to ascertain whether the original investment thesis is on track
- staying updated on the latest developments in the company and sector, including periodic interaction with company management
- maintaining corroborative evidence on the company wherever possible, e.g. via interactions with competitors, dealers, customers, suppliers, ex-employees, etc
- watching out for irrational stock price movements, up or down, and an appropriate action plan for such cases
- constant search for investment ideas that may be superior to the ones currently held.

4.5 Common mistakes of allocation

The three common mistakes of allocation to be avoided are: (1) over-allocation, (2) under-allocation, and (3) overstaying with winners and losers. These mistakes can be associated with common psychological/behavioral biases as shown below.

Exhibit 12 Allocation mistakes can be traced to psychological/behavioral biases

| Allocation mistake | Associated biases |
|-------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <ul style="list-style-type: none"> • Under-allocation | <ul style="list-style-type: none"> • Risk aversion: People prefer to avoid or minimize uncertainty, even at the cost of lower payoff. |
| <ul style="list-style-type: none"> • Over-allocation | <ul style="list-style-type: none"> • Overconfidence bias: People in general overestimate their knowledge and skills. • Confirmation bias: People tend to search for and interpret information in a way that confirms one's pre-existing beliefs or hypotheses, while disregarding contrary information and alternative possibilities. <p>Both these biases combined are a potent recipe for over-allocation.</p> |
| <ul style="list-style-type: none"> • Overstaying with winners | <ul style="list-style-type: none"> • Ownership bias: Simply stated, this is the tendency to overvalue what you own simply because you own it. |
| <ul style="list-style-type: none"> • Overstaying with losers | <ul style="list-style-type: none"> • Loss aversion: People feel twice as bad about losing money as they feel about winning it. This causes investors to hold on to bad choices far too long, hoping that things will eventually improve and the loss will be avoided. |

5. Summary & conclusions

Adopt Focused Investing for exceptional rather than acceptable returns

In closing, we highlight the following points from the theme study –

- The prime focus of most investors is stock selection. In this, the power of stock allocation to enhance portfolio performance remains untapped.
- Kelly's formula offers a semblance of a framework for portfolio sizing. However, it is suited for gambling situations where payoffs and probabilities are a given. For equity investing, the takeaways from analyzing Kelly are –
 1. Look for stocks with asymmetric payoff i.e. high upside potential with low downside risk
 2. Create edge i.e. have an information and/or analytical advantage over the market
 3. When both (1) and (2) coincide, bet big.
- As stocks markets are fairly efficient, opportunities for such big bets come seldom. Focused investing is a sound strategy to capitalize on these opportunities. By investing in 15-20 stocks with strongly favorable odds, investors can enjoy the golden mean of risk diversification and return magnification.
- We believe there are 4 keys to successful Focused Investing:
 1. Clear portfolio goal, which sets a guidepost for both stock selection and allocation
 2. Superior stock selection based on a time-tested investment philosophy or process
 3. Rational allocation
 4. Active monitoring and improvement.
- Disciplined practice of the above should lead to exceptional returns rather than acceptable returns.

ANNEXURE: Warren Buffett on diversification and allocation

(extract from letter dated 20 January 1966 to partners in Buffett Partnership Limited; key sections are highlighted in bold by us)

Diversification

Last year in commenting on the inability of the overwhelming majority of investment managers to achieve performance superior to that of pure chance, I ascribed it primarily to the product of: "(1) group decisions - my perhaps jaundiced view is that it is close to impossible for outstanding investment management to come from a group of any size with all parties really participating in decisions; (2) a desire to conform to the policies and (to an extent) the portfolios of other large well-regarded organizations; (3) an institutional framework whereby average is "safe" and the personal rewards for independent action are in no way commensurate with the general risk attached to such action; (4) an adherence to certain diversification practices which are irrational; and finally and importantly, (5) inertia."

This year in the material which went out in November, I specifically called your attention to a new Ground Rule reading, **"7. We diversify substantially less than most investment operations. We might invest up to 40% of our net worth in a single security under conditions coupling an extremely high probability that our facts and reasoning are correct with a very low probability that anything could drastically change the underlying value of the investment."**

We are obviously following a policy regarding diversification which differs markedly from that of practically all public investment operations. Frankly, there is nothing I would like better than to have 50 different investment opportunities, all of which have a mathematical expectation (this term reflects the range of all possible relative performances, including negative ones, adjusted for the probability of each - no yawning, please) of achieving performance surpassing the Dow by, say, 15 percentage points per annum. If the 50 individual expectations were not intercorelated (what happens to one is associated with what happens to the other) I could put 2% of our capital into each one and sit back with a very high degree of certainty that our overall results would be very close to such a 15 percentage point advantage.

It doesn't work that way.

We have to work extremely hard to find just a very few attractive investment situations. Such a situation by definition is one where my expectation (defined as above) of performance is **at least 10 percentage points per annum superior to the Dow**. Among the few we do find, the expectations vary substantially. The question always is, "How much do I put in number one (ranked by expectation of relative performance) and how much do I put in number eight?" This depends to a great degree on the wideness of the spread between the mathematical expectation of number one versus number eight. It also depends upon the probability that number one could turn in a really poor relative performance. **Two securities could have equal mathematical expectations, but one might have .05 chance of performing 15 percentage points or more worse than the Dow, and the second might have only .01 chance of such performance. The wider range of expectation in the first case reduces the desirability of heavy concentration in it.**

The above may make the whole operation sound very precise. It isn't. Nevertheless, our business is that of ascertaining facts and then applying experience and reason to such facts to reach expectations. Imprecise and emotionally influenced as our attempts may be, that is what the business is all about. The results of many years of decision-making in securities will demonstrate how well you are doing on making such calculations – whether you consciously realize you are making the calculations or not. I believe the investor operates at a distinct advantage when he is aware of what path his thought process is following.

There is one thing of which I can assure you. **If good performance of the fund is even a minor objective, any portfolio encompassing one hundred stocks (whether the manager is handling one thousand dollars or one billion dollars) is not being operated logically. The addition of the one hundredth stock simply can't reduce the potential variance in portfolio performance sufficiently to compensate for the negative effect its inclusion has on the overall portfolio expectation.**

Anyone owning such numbers of securities after presumably studying their investment merit (and I don't care how prestigious their labels) is following what I call the **Noah School of Investing - two of everything**. Such investors should be piloting arks. While Noah may have been acting in accord with certain time-tested biological principles, the investors have left the track regarding mathematical principles. (I only made it through plane geometry, but with one exception, I have carefully screened out the mathematicians from our Partnership.)

Of course, the fact that someone else is behaving illogically in owning one hundred securities doesn't prove our case. While they may be wrong in overdiversifying, we have to affirmatively reason through a proper diversification policy in terms of our objectives.

The optimum portfolio depends on the various expectations of choices available and the degree of variance in performance which is tolerable. The greater the number of selections, the less will be the average year-to-year variation in actual versus expected results. Also, the lower will be the expected results, assuming different choices have different expectations of performance.

I am willing to give up quite a bit in terms of leveling of year-to-year results (remember when I talk of "results," I am talking of performance relative to the Dow) in order to achieve better overall long-term performance. Simply stated, this means **I am willing to concentrate quite heavily in what I believe to be the best investment opportunities recognizing very well that this may cause an occasional very sour year - one somewhat more sour, probably, than if I had diversified more.** While this means our results will bounce around more, I think it also means that our long-term margin of superiority should be greater.

Space for Notes



2011-16 Wealth Creation Study: Detailed findings

#1 Trend in Wealth Creation

INR28.4 trillion Wealth Created during 2011-16

- The top 100 Wealth Creators created INR 28.4 trillion of wealth during 2011-16.
- This is the third highest ever quantum of Wealth Created.
- Pace of Wealth Creation is highly correlated to market returns. During 2011-16, pace of Wealth Creation was relatively slower at 18% CAGR given muted market CAGR of 5%.

Exhibit 1 During 2011-16, Wealth Created is high despite muted market performance

Wealth Created Trend (INR trillion)

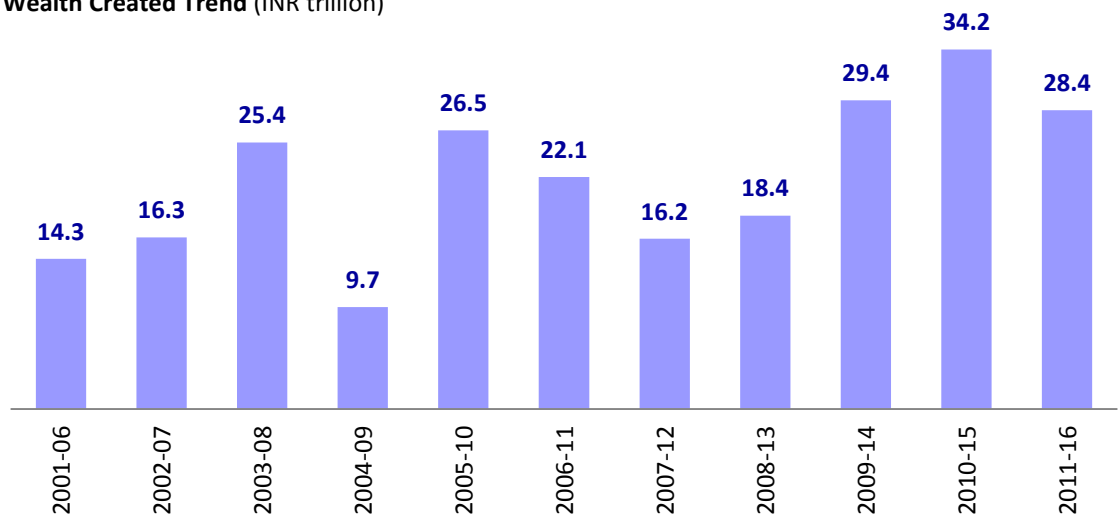
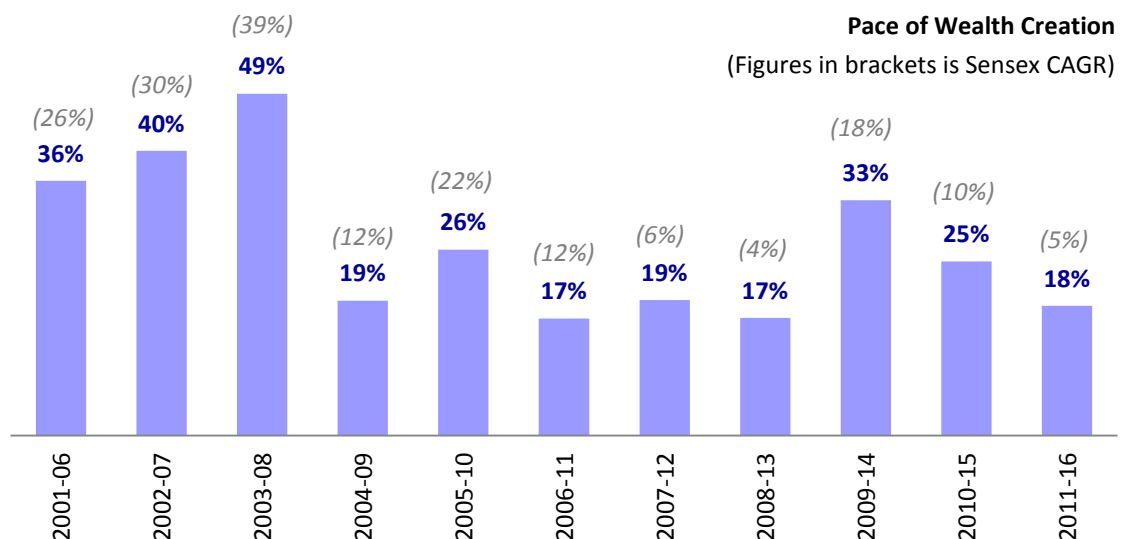


Exhibit 2 2011-16 pace of Wealth Creation lower in line with market conditions



Key Takeaway

Forget markets, think stocks

The above data proves that Wealth Creation happens in all kinds of market conditions. So, investors are better off focusing on which stocks to invest in, rather than timing the markets.

#2 The Biggest Wealth Creators

TCS is the Biggest Wealth Creator for the fourth time in a row

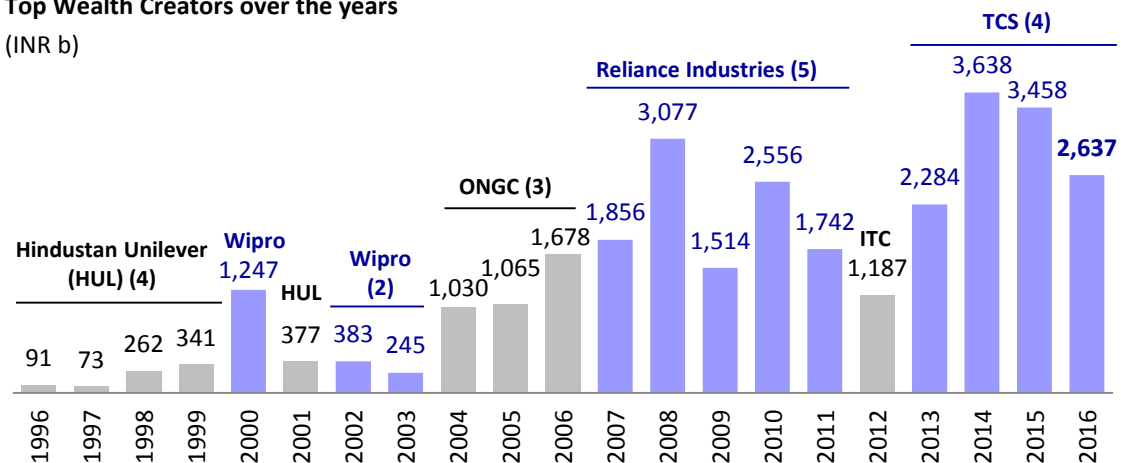
- **TCS** has emerged as the biggest Wealth Creator for the period 2011-16, retaining the top spot it held even in the previous three study periods (2010-15, 2009-14 and 2008-13).
- **HDFC Bank** has inched up to No.2 after 3 years of remaining No.3.
- **Hindustan Unilever** and **ITC** both clocked PAT CAGR of 14%. However, the former has pushed back ITC to No.4 on the back of massive 50% stock rerating from 30x to 46x.
- 8 of the top 10 Wealth Creators are the same as of last year. **Kotak Mahindra Bank** and **Maruti Suzuki** have entered the top 10 displacing **Axis Bank** and **Tata Motors**.

Exhibit 3 **Top 10 Biggest Wealth Creators**

| Rank | Company | Wealth Created | | CAGR (%) | | P/E (x) | | RoE (%) | |
|-------------------------|----------------|----------------|------------|-----------|-----------|-----------|-----------|-----------|-----------|
| | | INR b | % share | Price | PAT | 2016 | 2011 | 2016 | 2011 |
| 1 | TCS | 2,637 | 9 | 16 | 22 | 21 | 26 | 37 | 37 |
| 2 | HDFC Bank | 1,475 | 5 | 18 | 26 | 21 | 27 | 17 | 16 |
| 3 | Hind. Unilever | 1,266 | 4 | 25 | 14 | 46 | 30 | 102 | 76 |
| 4 | ITC | 1,197 | 4 | 13 | 14 | 28 | 28 | 28 | 30 |
| 5 | Sun Pharma | 1,169 | 4 | 30 | 24 | 38 | 26 | 16 | 19 |
| 6 | Infosys | 948 | 3 | 9 | 15 | 20 | 27 | 24 | 26 |
| 7 | HCL Tech | 819 | 3 | 28 | 27 | 21 | 20 | 20 | 21 |
| 8 | Kotak Mahindra | 760 | 3 | 24 | 17 | 36 | 21 | 10 | 14 |
| 9 | Maruti Suzuki | 742 | 3 | 24 | 14 | 25 | 16 | 17 | 16 |
| 10 | H D F C | 682 | 2 | 10 | 18 | 17 | 23 | 20 | 21 |
| Total of Top 10 | | 11,695 | 41 | 18 | 19 | 24 | 25 | 23 | 24 |
| Total of Top 100 | | 28,436 | 100 | 19 | 16 | 22 | 19 | 20 | 22 |

Exhibit 4 **TCS is the biggest Wealth Creator for the fourth year in a row**

Top Wealth Creators over the years
(INR b)



Key Takeaway

HDFC Bank persistently rising up the charts

HDFC Bank is climbing up the rank charts purely led by earnings growth. In fact, during 2011-16, its P/E actually fell from 27x to 21x. In the last 3 studies, TCS's Wealth Created has fallen from INR 3.6 trillion to INR 2.6 trillion. In contrast, HDFC Bank's Wealth Created is up from INR 1.3 trillion to INR 1.5 trillion.

#3 The Fastest Wealth Creators

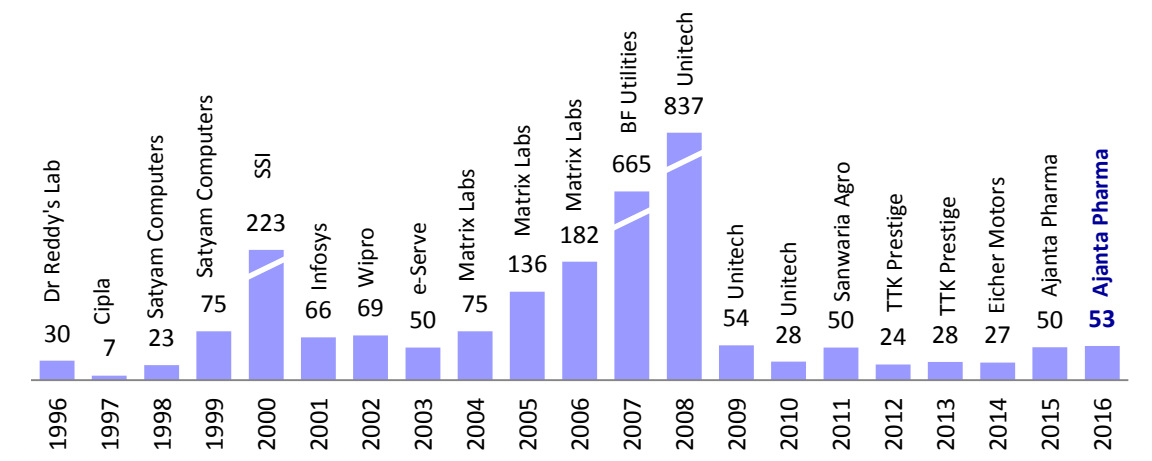
Ajanta Pharma is the Fastest Wealth Creator again

- **Ajanta Pharma** has emerged as the Fastest Wealth Creator for the second time in a row, with 2011-16 stock price multiplier of 53x (121% CAGR).
- **Eicher Motors** is among the top 10 Fastest Wealth Creators for the last 5 studies.
- Except **Welspun** which is virtually a turnaround case, all the other 9 Fastest Wealth Creators have seen massive P/E re-rating on the back of hyper earnings growth.
- The base 2011 market cap of 7 stocks was less than INR 20 billion, including 6 of them in single-digit billion.

Exhibit 5 **Top 10 Fastest Wealth Creators (2011-16)**

| Rank | Company | Price Appn. (x) | CAGR (%) | | Mkt Cap (INR b) | | P/E (x) | |
|------|----------------------|-----------------|----------|-----|-----------------|------|---------|------|
| | | | Price | PAT | 2016 | 2011 | 2016 | 2011 |
| 1 | Ajanta Pharma | 53 | 121 | 52 | 124 | 2 | 31 | 5 |
| 2 | Welspun India | 23 | 88 | 234 | 100 | 4 | 14 | 226 |
| 3 | Eicher Motors | 14 | 70 | 48 | 520 | 36 | 42 | 20 |
| 4 | Kajaria Ceramics | 13 | 66 | 30 | 76 | 6 | 33 | 9 |
| 5 | Vakrangee | 11 | 63 | 52 | 105 | 8 | 27 | 17 |
| 6 | Bajaj Finance | 10 | 59 | 39 | 373 | 26 | 29 | 10 |
| 7 | P I Industries | 10 | 58 | 37 | 78 | 7 | 25 | 10 |
| 8 | Symphony | 9 | 56 | 15 | 83 | 9 | 77 | 17 |
| 9 | Amara Raja Batteries | 9 | 56 | 27 | 150 | 16 | 31 | 11 |
| 10 | Aurobindo Pharma | 8 | 50 | 28 | 436 | 57 | 22 | 10 |

Exhibit 6 **History of Fastest Wealth Creators (5-year Price multiplier, x)**



Key Takeaway

Small size + Scalability + Sound management = Superior Wealth Creation

All the Fastest Wealth Creators were small in the base year (i.e. 2011) and operating in a large sector (e.g. pharmaceuticals, finance, autos) or scalable niche (air-coolers, ceramic tiles). Under a sound management, such companies are able to clock a scorching pace of earnings growth. This in turn also drives up valuations, leading to superior Wealth Creation.

#4 The Most Consistent Wealth Creators

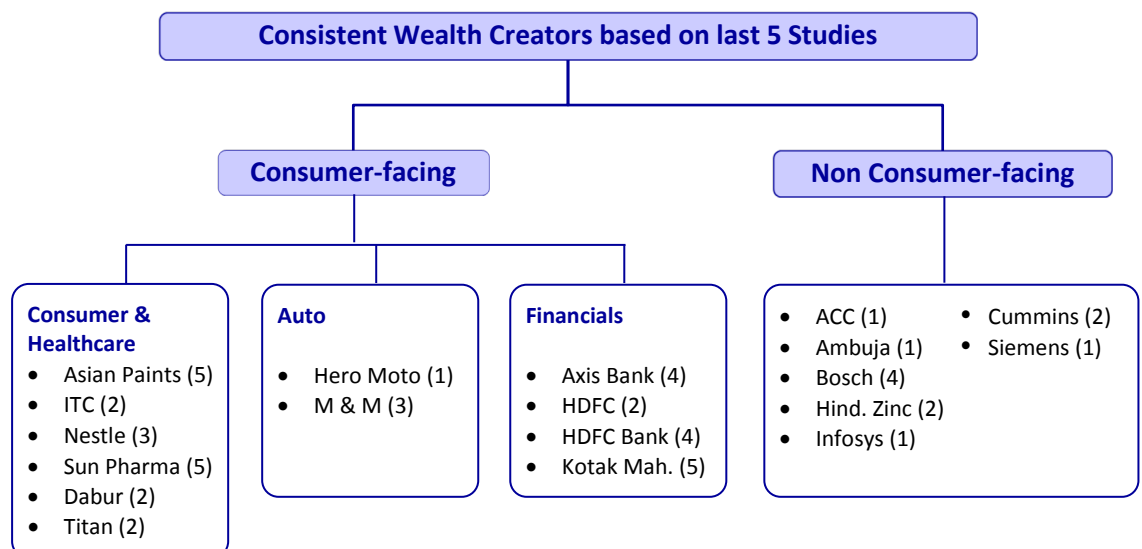
Asian Paints is the Most Consistent Wealth Creator

- **Asian Paints** is the Most Consistent Wealth Creator over the 10-year period 2006-16, by virtue of –
 3. Appearing among top 100 Wealth Creators in each of the last 10 studies; and
 4. Highest 10-year Price CAGR of 30%.
- 8 of the top 10 Most Consistent Wealth Creators are consumer-facing companies, with **Bosch** and **Cummins India** the only exceptions.

Exhibit 7 **Top 10 Most Consistent Wealth Creators**

| Rank | Company | Appeared in WC Study (x) | 10-yr Price CAGR (%) | 10-yr PAT CAGR (%) | P/E (x) | | RoE (%) | |
|------|----------------|-----------------------------|-------------------------|-----------------------|---------|------|---------|------|
| | | | | | 2016 | 2006 | 2016 | 2006 |
| 1 | Asian Paints | 10 | 30 | 23 | 48 | 29 | 31 | 31 |
| 2 | Kotak Mahindra | 10 | 26 | 23 | 36 | 20 | 10 | 24 |
| 3 | Sun Pharma | 10 | 25 | 25 | 38 | 30 | 16 | 41 |
| 4 | Titan Company | 10 | 23 | 24 | 44 | 45 | 20 | 47 |
| 5 | Bosch | 10 | 22 | 14 | 53 | 27 | 15 | 24 |
| 6 | HDFC Bank | 10 | 21 | 31 | 21 | 28 | 17 | 16 |
| 7 | Axis Bank | 10 | 20 | 33 | 13 | 20 | 16 | 18 |
| 8 | Dabur India | 10 | 20 | 19 | 36 | 32 | 30 | 49 |
| 9 | Nestle India | 10 | 17 | 11 | 63 | 29 | 32 | 92 |
| 10 | Cummins India | 10 | 17 | 15 | 32 | 26 | 22 | 23 |

Exhibit 8 **Consumer-facing companies more likely to be Consistent Wealth Creators**



NOTE: Bracket indicates number of times appeared within top 10 in last 5 Wealth Creation Studies

Key Takeaway

Strong discretionary brand = Consistent Wealth Creation

Strong brands in basic goods (e.g. Colgate) fail to feature among Consistent Wealth Creators given the missing element of growth. In contrast, discretionary brands like Asian Paints enjoy steady growth, translating to Consistent Wealth Creation, fairly agnostic to purchase price.

#5 Wealth Creators Index (Wealthex) v/s BSE Sensex

Superior earnings and price performance over benchmark

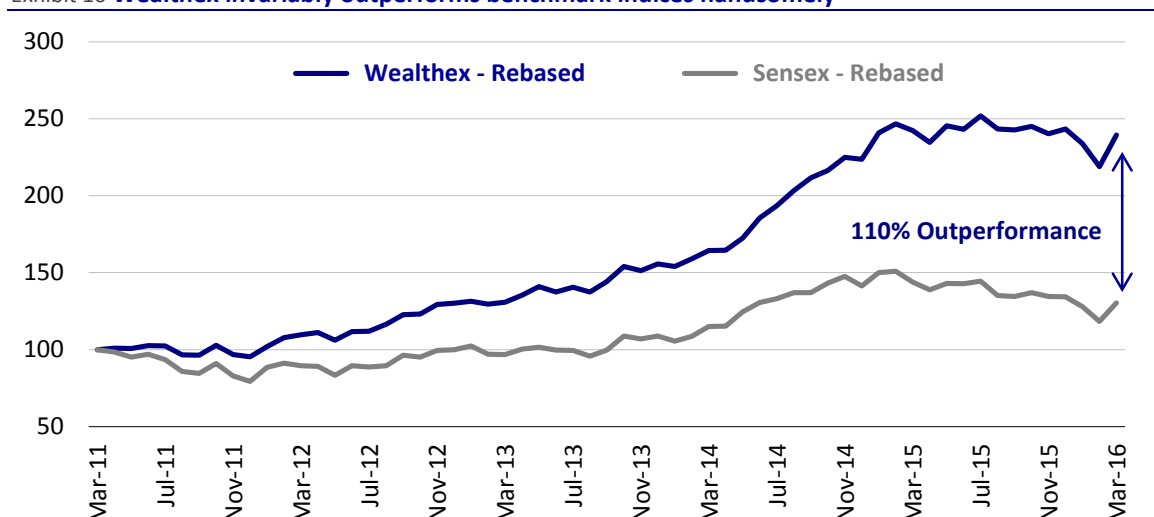
We compare Wealthex (top 100 Wealth Creators Market Cap index) with the BSE Sensex on 3 parameters - (1) market performance, (2) earnings growth and (3) valuation.

- **Market performance:** Over 2011-16, Wealth Creating companies have delivered return CAGR of 19% v/s 5% for the BSE Sensex. March 2016 over March 2011, Wealthex is up 140% whereas the Sensex is up 30% i.e. 110% outperformance over 5 years.
- **Earnings growth:** Wealthex clocked 5-year earnings CAGR of 13% v/s 5% for BSE Sensex. Further, YoY earnings growth for Wealthex is higher for every year except 2011.
- **Valuation:** Wealthex P/E has seen a marginal re-rating vis-à-vis the Sensex. Thus, the 14pp outperformance of Wealthex is explained largely by the 8pp higher earnings CAGR.

Exhibit 9 **Wealthex v/s Sensex: Superior market performance on the back of higher earnings growth**

| | Mar-11 | Mar-12 | Mar-13 | Mar-14 | Mar-15 | Mar-16 | 5 Year CAGR (%) |
|-----------------------------------|---------------|---------------|---------------|---------------|---------------|---------------|-----------------|
| BSE Sensex | 19,445 | 17,404 | 18,836 | 22,386 | 27,957 | 25,342 | 5 |
| YoY (%) | | -10 | 8 | 19 | 25 | -9 | |
| Wealthex - based to Sensex | 19,445 | 21,323 | 25,455 | 31,956 | 47,123 | 46,573 | 19 |
| YoY (%) | | 10 | 19 | 26 | 47 | -1 | |
| Sensex EPS (INR) | 1,024 | 1,120 | 1,181 | 1,337 | 1,356 | 1,330 | 5 |
| YoY (%) | | 9 | 5 | 13 | 1 | -2 | |
| Wealthex EPS (INR) | 1,120 | 1,147 | 1,376 | 1,580 | 1,840 | 2,084 | 13 |
| YoY (%) | | 2 | 20 | 15 | 16 | 13 | |
| Sensex PE (x) | 19 | 16 | 16 | 17 | 21 | 19 | 0 |
| Wealthex PE (x) | 17 | 19 | 19 | 20 | 26 | 22 | 5 |

Exhibit 10 **Wealthex invariably outperforms benchmark indices handsomely**



Key Takeaway

“What not to buy” is as important as “What to buy”

Of the 30 Sensex stocks in 2011, as many as 18 underperformed over the next 5 years, down an average 12% CAGR. If an investor had avoided these and only bought the remaining 12, the average return CAGR would be 14%, handsomely higher than the Sensex's 5%.

#6 Wealth Creation: Sector analysis

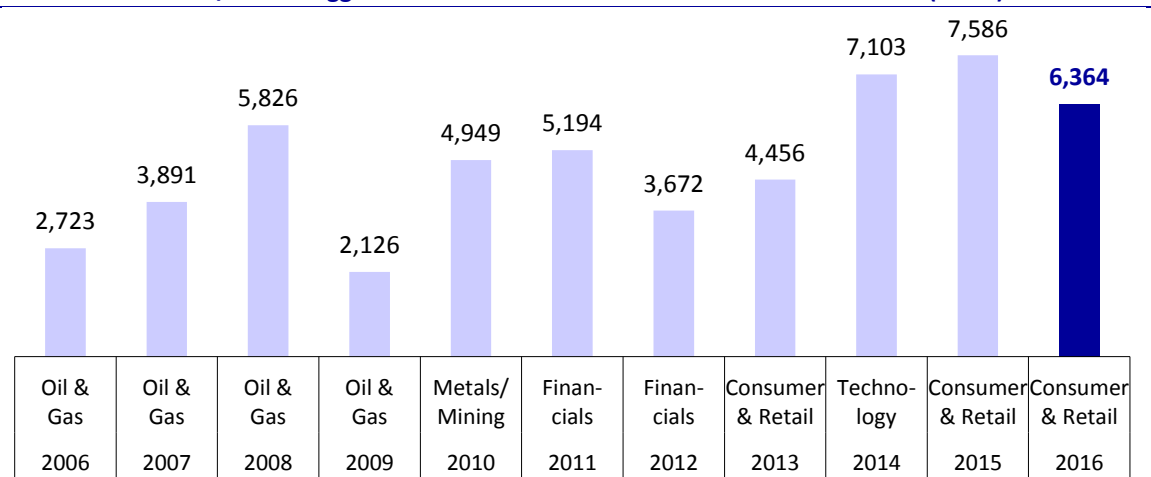
Consumer/Retail is the biggest Wealth Creating sector again

- **Consumer/Retail** has emerged as India's biggest Wealth Creating sector for the second consecutive time, and the third time in the last four years.
- Deep cyclicals (**Metals/Mining, Oil & Gas, Capital Goods**) have significantly lost out to secular and quasi-secular sectors.
- **Wealth Creation was highly concentrated** – top 5 sectors accounted for 74% of Wealth Creators and 85% of Wealth Created.

Exhibit 11 **Consumer/Retail is the top Wealth Creating sector**

| Sector (No of companies) | WC (INR b) | Share of WC % | | CAGR 11-16 (%) | | P/E (x) | | RoE (%) | |
|-----------------------------|---------------|---------------|------------|----------------|-----------|-----------|-----------|-----------|-----------|
| | | 2016 | 2011 | Price | PAT | 2016 | 2011 | 2016 | 2011 |
| Consumer/Retail (23) | 6,364 | 22 | 8 | 21 | 15 | 38 | 30 | 31 | 32 |
| Banking/Finance (14) | 4,995 | 18 | 24 | 20 | 19 | 19 | 18 | 16 | 19 |
| Technology (7) | 4,960 | 17 | 14 | 16 | 20 | 20 | 24 | 28 | 29 |
| Auto (15) | 4,093 | 14 | 5 | 20 | 10 | 20 | 13 | 19 | 32 |
| Healthcare (15) | 3,705 | 13 | 4 | 25 | 18 | 30 | 22 | 18 | 18 |
| Cement (5) | 1,266 | 4 | 1 | 20 | 3 | 35 | 16 | 9 | 14 |
| Oil & Gas (3) | 670 | 2 | 14 | 21 | 26 | 8 | 10 | 27 | 14 |
| Capital Goods (4) | 513 | 2 | 7 | 16 | 11 | 33 | 26 | 17 | 18 |
| Telecom & Media (2) | 394 | 1 | 3 | 17 | 19 | 21 | 23 | 13 | 10 |
| Metals / Mining (2) | 289 | 1 | 15 | 7 | 7 | 11 | 12 | 16 | 17 |
| Utility (1) | 203 | 1 | 3 | 9 | 18 | 12 | 18 | 14 | 12 |
| Others (9) | 984 | 3 | 3 | 21 | 17 | 25 | 21 | 19 | 19 |
| Total | 28,436 | 100 | 100 | 19 | 16 | 22 | 19 | 20 | 22 |

Exhibit 12 **Consumer/Retail: Biggest Wealth Creator for the second consecutive time (INR b)**



Key Takeaway

Value Migration is increasingly becoming the key driver of rapid Wealth Creation

Three of the top 5 Wealth Creating sectors – Financials, Technology and Healthcare – are beneficiaries of Value Migration i.e. flow of value from outmoded business designs to new business designs. In Financials, value is migrating from public sector banks to private banks. In Technology and Healthcare, value is migrating from developed world to emerging markets.

#7 Wealth Creation: Ownership – Private v/s PSU

PSUs remain insignificant in Wealth Creation

- PSUs' (public sector undertakings) Wealth Creation performance continues to be dismal during 2011-16:
 - The number of PSUs in the top 100 Wealth Creators is only 7.
 - Wealth Created by these 7 PSUs is 4%, marginally higher than the previous two studies.
- The 7 Wealth Creating PSUs are **BPCL, HPCL, Petronet LNG, Concor, LIC Housing, Bharat Electronics and Power Grid Corporation.**
- Average Price CAGR of PSU Wealth Creators is 15% v/s 19% for private sector counterparts.

Exhibit 13 PSUs remain insignificant in Wealth Creation

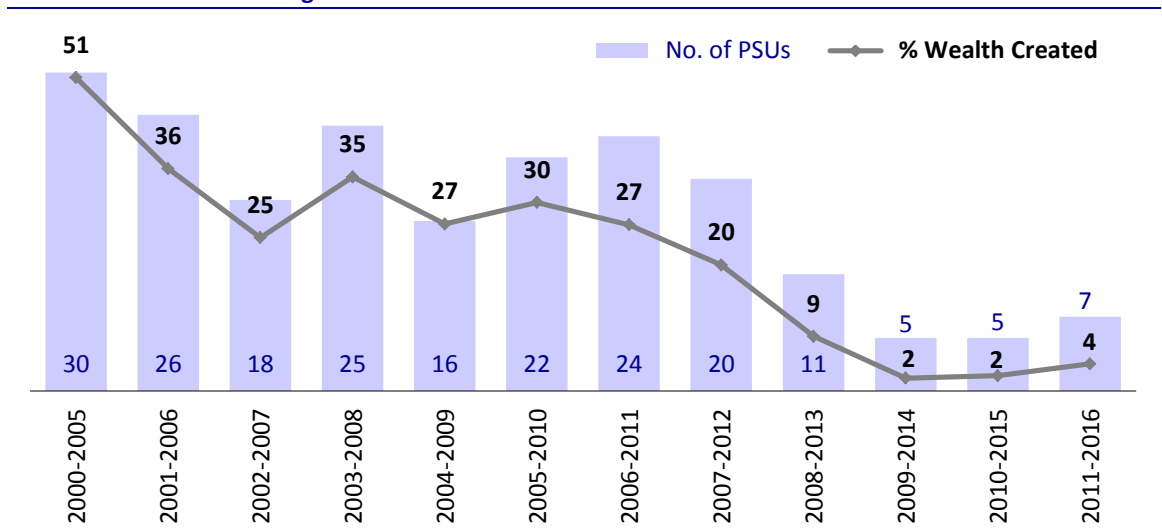
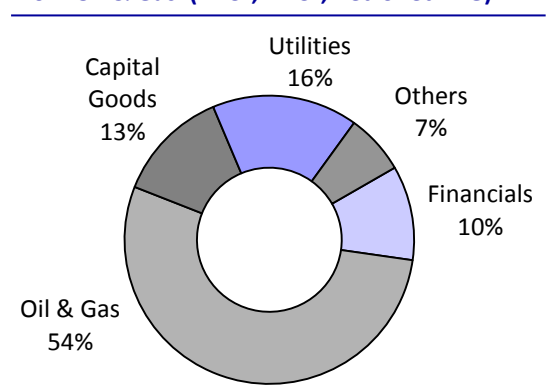


Exhibit 14 Robust PAT CAGR of 20% is the key driver of Wealth Creation for the 7 PSUs

| | 2011-2016 | |
|-----------------------------------|-----------|---------|
| | PSU | Private |
| No. of Wealth Creators in Top 100 | 7 | 93 |
| Share of Wealth Created (%) | 4 | 96 |
| 5-year Sales CAGR (%) | 7 | 18 |
| 5-year PAT CAGR (%) | 20 | 16 |
| 5-year Price CAGR (%) | 15 | 19 |
| P/E - 2011 (x) | 13 | 20 |
| P/E - 2016 (x) | 11 | 24 |
| RoE - 2011 (%) | 14 | 23 |
| RoE - 2016 (%) | 20 | 20 |

Exhibit 15 3 of the 7 PSU Wealth Creators are from Oil & Gas (BPCL, HPCL, Petronet LNG)



Key Takeaway

Can industrial recovery and government focus lead to mean reversion for PSUs?

Fortunes of many PSUs hinge on performance of the economy, especially the industrial sector – Coal India, BHEL, SBI, SAIL, etc. Measures to boost industrial recovery – “Make in India”, rate cuts – bode well for the fortunes of such PSUs. Further, the government too is focused on reviving PSUs e.g. merger of SBI associate banks. These, coupled with low valuations of PSUs, hold the potential to trigger mean reversion in Wealth Creation by PSUs.

#8 Wealth Creation: Market Cap Rank Analysis

In our 2015 Wealth Creation Study, we called large, mid and small cap stocks as **Mega**, **Mid** and **Mini**, defined as under:

- **Mega** – Top 100 stocks by market cap rank for any given year
- **Mid** – Next 200 stocks by market cap rank
- **Mini** – All stocks below the top 300 ranks.

Market cap ranks of companies change constantly. Over time, companies also cross over from one category to another. For the period 2011-16, the market cap crossover matrix stands as under –

Exhibit 16 **2011-16: Market cap crossovers: No. of companies and average returns**

| | | FROM (in 2011) | | | | |
|-------------------------|------------|----------------|------|------|-----|----------|
| | | Mini | Mid | Mega | New | Demerger |
| TO (in 2016) | Mega | 0 | 26 | 71 | 3 | 0 |
| | Avg Return | | 31% | 8% | | |
| | Mid | 67 | 88 | 25 | 19 | 1 |
| | Avg Return | 39% | 9% | -16% | | |
| | Mini | 2,479 | 84 | 2 | 711 | 2 |
| | Avg Return | 1% | -20% | -32% | | |
| Delisted, Demerger, etc | | 397 | 2 | 2 | 2 | -3 |
| TOTAL | | 2,943 | 200 | 100 | 735 | 0 |
| Avg Return | | 2% | 0% | 1% | | |

We analyzed the 3 positive crossovers –

1. Mini-to-Mega
2. Mini-to-Mid and
3. Mid-to-Mega.

8.1 Mini-to-Mega: No companies

- During 2011-16, there was no company which moved from Mini to Mega.

8.2 Mini-to-Mid: 67 companies, 39% average Price CAGR

- During 2011-16, 67 companies crossed over from Mini to Mid category, generating an average return CAGR of 39%, v/s 5% for the Sensex.
- Of these 67 Mini-to-Mid stocks, 15 feature in our list of 100 Biggest Wealth Creators.
- 7 of the top 10 fastest Wealth Creators are featured in the list.

Exhibit 17 **Mini-to-Mid (2011-16): 15 of 67 Mini-to-Mid stocks feature among top 100 Wealth Creators**

| | Mkt Cap Rank | | Price | WC Rank | | PAT | P/E (x) | |
|-------------------|--------------|------|--------|---------|---------|--------|---------|------|
| | 2016 | 2011 | CAGR % | Biggest | Fastest | CAGR % | 2016 | 2011 |
| Ajanta Pharma | 127 | 910 | 121 | 68 | 1 | 52 | 31 | 5 |
| Welspun India | 153 | 728 | 88 | 81 | 2 | 234 | 14 | 226 |
| Kajaria Ceramics | 190 | 606 | 66 | 100 | 4 | 30 | 33 | 9 |
| Vakrangee | 148 | 520 | 63 | 83 | 5 | 52 | 27 | 17 |
| P I Inds | 186 | 567 | 58 | 99 | 7 | 37 | 25 | 10 |
| Symphony | 175 | 510 | 56 | 95 | 8 | 15 | 77 | 14 |
| Amara Raja | 113 | 386 | 56 | 59 | 9 | 27 | 31 | 11 |
| Page Industries | 122 | 359 | 50 | 72 | 11 | 32 | 58 | 31 |
| GRUH Finance | 172 | 436 | 46 | 94 | 13 | 22 | 36 | 14 |
| Mindtree | 144 | 388 | 46 | 84 | 14 | 42 | 18 | 15 |
| WABCO India | 132 | 338 | 43 | 78 | 16 | 9 | 60 | 15 |
| Blue Dart Express | 117 | 304 | 43 | 69 | 17 | 15 | 75 | 29 |
| Supreme Inds | 160 | 351 | 38 | 92 | 23 | 3 | 42 | 12 |
| Cholamandalam Inv | 139 | 327 | 33 | 90 | 27 | 49 | 19 | 27 |
| Abbott India | 152 | 355 | 28 | 98 | 36 | 34 | 39 | 29 |

* 2011-16 Wealth Creation Rank

8.3 Mid-to-Mega: 26 companies, 31% average Price CAGR

- During 2011-16, 26 companies crossed over from Mid to Mega (listed on next page).
- All the 26 made it to this year's list of 100 Biggest Wealth Creators.
- The Mid-to-Mega portfolio delivered average return CAGR of 31% over 2011-16 v/s 5% for Sensex.

Exhibit 18 **Mid-to-Mega (2011-16): 26 companies, 31% average Price CAGR v/s 5% for Sensex**

| | Mkt Cap Rank | | Price | WC Rank * | | PAT | P/E (x) | |
|-------------------|--------------|------|-----------|-----------|---------|-----------|-----------|-----------|
| | 2016 | 2011 | CAGR % | Biggest | Fastest | CAGR % | 2016 | 2011 |
| Eicher Motors | 36 | 222 | 70 | 13 | 3 | 48 | 42 | 19 |
| Bajaj Finance | 49 | 282 | 59 | 23 | 6 | 39 | 29 | 10 |
| Aurobindo Pharma | 43 | 166 | 50 | 19 | 10 | 28 | 22 | 10 |
| Britannia Inds | 59 | 188 | 48 | 25 | 12 | 46 | 40 | 37 |
| Shree Cement | 44 | 139 | 43 | 21 | 18 | 16 | 96 | 34 |
| Rajesh Exports | 99 | 244 | 42 | 50 | 19 | 34 | 17 | 13 |
| Torrent Pharma | 83 | 177 | 36 | 43 | 24 | 46 | 13 | 18 |
| Havells India | 94 | 181 | 34 | 48 | 25 | 15 | 33 | 15 |
| Motherson Sumi | 55 | 126 | 33 | 28 | 26 | 27 | 28 | 22 |
| Pidilite Inds | 65 | 135 | 32 | 35 | 29 | 20 | 41 | 25 |
| Ashok Leyland | 64 | 136 | 31 | 34 | 31 | 11 | 30 | 12 |
| Marico | 60 | 122 | 28 | 36 | 37 | 23 | 44 | 34 |
| Emami | 89 | 157 | 28 | 51 | 38 | 12 | 52 | 27 |
| P & G Hygiene | 92 | 162 | 28 | 54 | 39 | 23 | 48 | 42 |
| Bajaj Finserv | 72 | 134 | 27 | 42 | 42 | 13 | 15 | 8 |
| UPL | 90 | 146 | 26 | 52 | 44 | 19 | 15 | 13 |
| Divi's Labs | 77 | 116 | 24 | 44 | 53 | 21 | 23 | 21 |
| Tech Mahindra | 40 | 123 | 23 | 32 | 56 | 26 | 15 | 9 |
| Apollo Hospitals | 98 | 161 | 23 | 70 | 57 | 11 | 58 | 32 |
| Glenmark Pharma | 86 | 133 | 23 | 57 | 58 | 10 | 31 | 17 |
| Yes Bank | 51 | 103 | 23 | 37 | 59 | 28 | 14 | 15 |
| GlaxoSmith. Cons. | 79 | 109 | 22 | 46 | 60 | 18 | 37 | 33 |
| Bharat Forge | 93 | 128 | 20 | 67 | 62 | 18 | 31 | 28 |
| LIC Housing | 80 | 104 | 17 | 61 | 69 | 12 | 15 | 11 |
| Petronet LNG | 96 | 114 | 16 | 80 | 71 | 7 | 22 | 15 |
| Castrol India | 97 | 102 | 11 | 91 | 85 | 5 | 35 | 23 |
| Average | | | 31 | | | 22 | 25 | 17 |

* 2011-16 Wealth Creation Rank

Key Takeaway**Mid category: A good place to hunt for Wealth Creators**

The Mid-to-Mega portfolio of 26 stocks has handsomely outperformed the benchmark. The high success rate of 13% (26 of 200) makes the Mid category a good place to hunt for Wealth Creators.

#9 Wealth Creation: Valuation parameters analysis

Payback ratio < 1 offers distinctly superior returns

- The general rule of low valuation, high returns held true in 2011-16.
- Every study invariably suggests that the highest return is generated when payback ratio is less than 1x. Seven of the top 10 fastest Wealth Creators had payback ratio of less than 1x in the base year 2011.

(Payback is a proprietary ratio of Motilal Oswal, defined as current market cap divided by estimated profits over the next five years. For 2011, we calculate this ratio based on the actual profits reported over the next five years).

Exhibit 19 **Payback ratio less than 1x remains a sure shot formula for multi-baggers**

| Range in 2011 | No. of Cos. | WC (INR b) | % Share of WC | CAGR (%) | | RoE (%) | |
|------------------|----------------|---------------|------------------|----------|-----|---------|------|
| | | | | Price | PAT | 2016 | 2011 |
| P/E | | | | | | | |
| <10 | 13 | 2,047 | 7 | 23 | 12 | 19 | 32 |
| 10-20 | 33 | 7,055 | 25 | 18 | 14 | 18 | 19 |
| 20-30 | 38 | 16,923 | 60 | 19 | 18 | 21 | 22 |
| > 30 | 16 | 2,410 | 8 | 21 | 16 | 21 | 22 |
| Total | 100 | 28,436 | 100 | 19 | 16 | 20 | 22 |
| Price / Book | | | | | | | |
| < 2 | 15 | 2,197 | 8 | 22 | 18 | 17 | 13 |
| 2-3 | 18 | 4,603 | 16 | 22 | 15 | 17 | 18 |
| 3-4 | 17 | 3,810 | 13 | 19 | 10 | 14 | 23 |
| 4-5 | 10 | 5,003 | 18 | 22 | 23 | 19 | 19 |
| > 5 | 40 | 12,822 | 45 | 17 | 15 | 28 | 34 |
| Total | 100 | 28,436 | 100 | 19 | 16 | 20 | 22 |
| Price / Sales | | | | | | | |
| <1 | 22 | 4,228 | 15 | 25 | 16 | 20 | 22 |
| 1-2 | 17 | 3,140 | 11 | 23 | 14 | 16 | 18 |
| 2-3 | 17 | 3,985 | 14 | 23 | 16 | 19 | 22 |
| 3-4 | 19 | 5,926 | 21 | 19 | 16 | 19 | 24 |
| > 4 | 25 | 11,156 | 39 | 16 | 16 | 21 | 22 |
| Total | 100 | 28,436 | 100 | 19 | 16 | 20 | 22 |
| Payback ratio | | | | | | | |
| < 1 | 14 | 1,956 | 7 | 39 | 19 | 20 | 24 |
| 1-2 | 26 | 5,706 | 20 | 21 | 17 | 19 | 22 |
| 2-3 | 29 | 12,718 | 45 | 19 | 17 | 19 | 20 |
| > 3 | 31 | 8,056 | 28 | 16 | 11 | 23 | 25 |
| Total | 100 | 28,436 | 100 | 19 | 16 | 20 | 22 |

#10 Those who missed the list

The big who didn't beat the market

- During 2011-16, the Sensex return CAGR was 5.4%.
- 5 companies – **Wipro, Indian Oil, Larsen & Toubro, ICICI Bank, Siemens** – created enough wealth to qualify among the 100 biggest, but failed to make it to the final list as their stock price return was lower than the Sensex.
- They made way for 5 others to join the list – **Wockhardt, Ramco Cement, Abbott India, P I Industries and Kajaria Ceramics.**

Exhibit 20 Those who missed the list ...

| | WC * (INR b) | Price CAGR (%) | Potential Size Rank ** |
|------------|-----------------|-------------------|---------------------------|
| Wipro | 234 | 3.3 | 33 |
| I O C L | 144 | 3.3 | 57 |
| L & T | 114 | 2.0 | 76 |
| ICICI Bank | 86 | 1.2 | 90 |
| Siemens | 78 | 4.5 | 96 |

Exhibit 21 ... and those who made it

| | WC * (INR b) | Price CAGR (%) | Size Rank |
|---------------|-----------------|-------------------|--------------|
| Wockhardt | 72 | 25 | 96 |
| Ramco Cem. | 71 | 32 | 97 |
| Abbott India | 70 | 28 | 98 |
| P I Inds | 70 | 58 | 99 |
| Kajaria Cera. | 69 | 66 | 100 |

* - Wealth Created; ** Size rank had the stock outperformed the benchmark

The fast who didn't make it big

- The 100th biggest Wealth Creator created Wealth of INR 69 billion. Over a 100 more companies beat the benchmark return CAGR 5.4% but created absolute wealth less than INR 69 billion.
- The table below lists the top 20 among them.

Exhibit 22 The fast who didn't make it big

| | Price CAGR (%) | Price Appreciation (x) | Wealth Created (INR b) |
|--------------------|-------------------|---------------------------|---------------------------|
| Solar Industries | 43 | 5.9 | 52 |
| J K Cements | 37 | 4.8 | 37 |
| Balkrishna Inds | 36 | 4.7 | 49 |
| Fag Bearings | 36 | 4.6 | 50 |
| Dalmia Bharat | 34 | 4.3 | 49 |
| Finolex Industries | 33 | 4.2 | 34 |
| Persistent Systems | 33 | 4.2 | 47 |
| SRF | 33 | 4.1 | 57 |
| SPARC | 33 | 4.1 | 54 |
| Hexaware Tech | 32 | 4.1 | 62 |
| Arvind | 32 | 4.0 | 54 |
| Bajaj Corp | 31 | 3.9 | 42 |
| Honeywell Auto | 31 | 3.8 | 56 |
| Force Motors | 29 | 3.6 | 27 |
| ICRA | 29 | 3.6 | 28 |
| Thomas Cook (I) | 29 | 3.6 | 40 |
| Aegis Logistics | 27 | 3.4 | 23 |
| Sundram Fasteners | 27 | 3.3 | 25 |
| Entertain. Network | 25 | 3.1 | 25 |
| Capital First | 25 | 3.1 | 25 |

#11 Wealth Destruction: Companies & Sectors

The Commodity Collapse Continues

- The total Wealth Destroyed during 2011-16 is INR 15 trillion, 53% of the total Wealth Created by top 100 companies.
- 7 of the top 10 Wealth Destroyers are in the business of global commodities.
- The broader theme of Wealth Destruction is **cyclical downturn**. Metals / Mining is the biggest Wealth Destroying sector as was the case last year. This is followed by Banking & Finance, which mainly includes state-owned banks at the wrong end of the NPA cycle. Capital Goods and Construction / Real Estate also corroborate the cyclical downturn theme.

Exhibit 23

Global commodity companies top Wealth Destroyers list

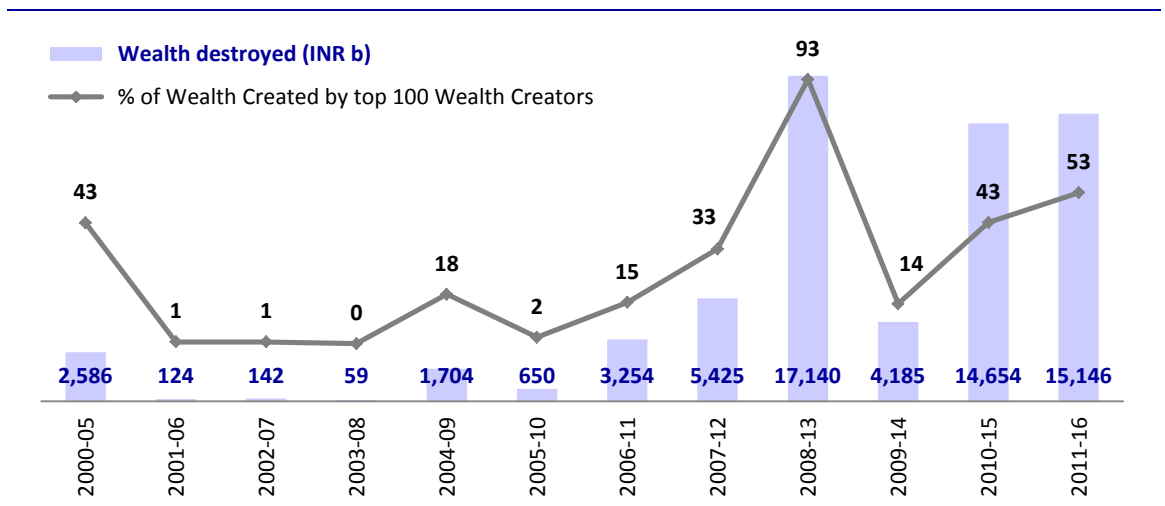
| Company | Wealth Destroyed | | Price |
|-------------------------------|------------------|------------|----------|
| | INR b | % Share | CAGR (%) |
| MMTC | 889 | 6 | -47 |
| NMDC | 735 | 5 | -19 |
| B H E L | 730 | 5 | -23 |
| O N G C | 645 | 4 | -6 |
| Jindal Steel | 592 | 4 | -39 |
| Vedanta | 570 | 4 | -21 |
| State Bank of India | 542 | 4 | -7 |
| NTPC | 529 | 3 | -8 |
| S A I L | 524 | 3 | -24 |
| Coal India | 348 | 2 | -3 |
| Total of above | 6,104 | 40 | |
| Total Wealth Destroyed | 15,146 | 100 | |

Exhibit 24

The usual suspects at the sector level too

| Sector | Wealth Destroyed (INR b) | % Share |
|---------------------|--------------------------|------------|
| Metals / Mining | 5,058 | 33 |
| Banking & Finance | 2,991 | 20 |
| Utilities | 1,555 | 10 |
| Capital Goods | 1,393 | 9 |
| Oil & Gas | 1,256 | 8 |
| Constn. / Real Est. | 1,012 | 7 |
| Technology | 301 | 2 |
| Chemicals & Fert. | 295 | 2 |
| Telecom | 214 | 1 |
| Others | 1,071 | 7 |
| Total | 15,146 | 100 |

Exhibit 25 Level of Wealth Destruction continues to climb



Key Takeaway

Cyclicals – When to Sell as important as When to Buy

Investing in secular stocks and investing in cyclical stocks are best treated as two distinct investment styles. In both cases, When to Buy is important. However, when investing in cyclical stocks, When to Sell is as important if not more. Failure to sell at the peak of the cycle will most likely lead to a prolonged period of underperformance.

Appendix 1: MOSL 100: Biggest Wealth Creators (2011-2016)

| Rank | Company | Wealth Created | | CAGR (2011-16, %) | | | RoE (%) | | P/E (x) | |
|------|-----------------------|----------------|-----------|-------------------|-----|-------|---------|------|---------|------|
| | | INR b | Share (%) | Price | PAT | Sales | 2016 | 2011 | 2016 | 2011 |
| 1 | TCS | 2,637 | 9.3 | 16 | 22 | 24 | 37 | 37 | 21 | 26 |
| 2 | HDFC Bank | 1,475 | 5.2 | 18 | 26 | 26 | 17 | 16 | 21 | 27 |
| 3 | Hind. Unilever | 1,266 | 4.5 | 25 | 14 | 11 | 102 | 76 | 46 | 30 |
| 4 | ITC | 1,197 | 4.2 | 13 | 14 | 12 | 28 | 30 | 28 | 28 |
| 5 | Sun Pharma | 1,169 | 4.1 | 30 | 24 | 38 | 16 | 19 | 38 | 26 |
| 6 | Infosys | 948 | 3.3 | 9 | 15 | 18 | 24 | 26 | 20 | 27 |
| 7 | HCL Technologies | 819 | 2.9 | 28 | 27 | 14 | 20 | 21 | 21 | 20 |
| 8 | Kotak Mahindra Bank | 760 | 2.7 | 24 | 17 | 28 | 10 | 14 | 36 | 21 |
| 9 | Maruti Suzuki | 742 | 2.6 | 24 | 14 | 10 | 17 | 16 | 25 | 16 |
| 10 | H D F C | 682 | 2.4 | 10 | 18 | 16 | 20 | 21 | 17 | 23 |
| 11 | Asian Paints | 591 | 2.1 | 28 | 16 | 16 | 31 | 38 | 48 | 29 |
| 12 | UltraTech Cement | 574 | 2.0 | 23 | 10 | 13 | 10 | 13 | 40 | 23 |
| 13 | Eicher Motors | 484 | 1.7 | 70 | 48 | 29 | 36 | 14 | 42 | 20 |
| 14 | Lupin | 480 | 1.7 | 29 | 21 | 20 | 21 | 26 | 29 | 21 |
| 15 | Bosch | 443 | 1.6 | 25 | 8 | 10 | 15 | 21 | 53 | 24 |
| 16 | B P C L | 428 | 1.5 | 24 | 35 | 4 | 29 | 12 | 8 | 12 |
| 17 | Axis Bank | 401 | 1.4 | 10 | 20 | 22 | 16 | 18 | 13 | 17 |
| 18 | IndusInd Bank | 380 | 1.3 | 30 | 32 | 26 | 13 | 15 | 25 | 21 |
| 19 | Aurobindo Pharma | 379 | 1.3 | 50 | 28 | 26 | 28 | 23 | 22 | 10 |
| 20 | Tata Motors | 365 | 1.3 | 9 | 7 | 18 | 16 | 48 | 9 | 7 |
| 21 | Shree Cement | 360 | 1.3 | 43 | 16 | 10 | 7 | 11 | 96 | 34 |
| 22 | Godrej Consumer | 346 | 1.2 | 30 | 19 | 19 | 22 | 28 | 41 | 25 |
| 23 | Bajaj Finance | 322 | 1.1 | 59 | 39 | 39 | 17 | 18 | 29 | 10 |
| 24 | M & M | 321 | 1.1 | 12 | 2 | 16 | 11 | 20 | 24 | 15 |
| 25 | Britannia Inds | 277 | 1.0 | 48 | 46 | 13 | 45 | 37 | 40 | 37 |
| 26 | Bajaj Auto | 274 | 1.0 | 11 | 5 | 7 | 27 | 58 | 20 | 15 |
| 27 | Hero MotoCorp | 271 | 1.0 | 13 | 10 | 8 | 37 | 62 | 20 | 17 |
| 28 | Motherson Sumi | 270 | 0.9 | 33 | 27 | 36 | 30 | 24 | 28 | 22 |
| 29 | Dabur India | 268 | 0.9 | 21 | 17 | 16 | 30 | 40 | 36 | 30 |
| 30 | Zee Entertainment | 264 | 0.9 | 26 | 11 | 14 | 25 | 20 | 35 | 19 |
| 31 | Dr Reddy's Labs | 239 | 0.8 | 13 | 10 | 7 | 13 | 24 | 33 | 28 |
| 32 | Tech Mahindra | 237 | 0.8 | 23 | 26 | 39 | 22 | 29 | 15 | 9 |
| 33 | Adani Ports | 231 | 0.8 | 13 | 25 | 29 | 22 | 22 | 18 | 30 |
| 34 | Ashok Leyland | 228 | 0.8 | 31 | 11 | 13 | 26 | 24 | 30 | 12 |
| 35 | Pidilite Inds | 227 | 0.8 | 32 | 20 | 15 | 27 | 28 | 41 | 25 |
| 36 | Marico | 226 | 0.8 | 28 | 23 | 14 | 34 | 28 | 44 | 34 |
| 37 | Yes Bank | 223 | 0.8 | 23 | 28 | 27 | 18 | 19 | 14 | 15 |
| 38 | United Spirits | 205 | 0.7 | 19 | -10 | 5 | 18 | 13 | 115 | 26 |
| 39 | Power Grid Corp'n | 203 | 0.7 | 6 | 18 | 20 | 14 | 12 | 12 | 18 |
| 40 | Nestle India | 202 | 0.7 | 9 | 2 | 6 | 32 | 96 | 63 | 43 |
| 41 | Hindustan Zinc | 194 | 0.7 | 6 | 10 | 7 | 21 | 22 | 10 | 12 |
| 42 | Bajaj Finserv | 186 | 0.7 | 27 | 13 | 42 | 14 | 27 | 15 | 8 |
| 43 | Torrent Pharma | 178 | 0.6 | 36 | 46 | 25 | 53 | 26 | 13 | 18 |
| 44 | Divi's Labs | 172 | 0.6 | 24 | 21 | 23 | 26 | 24 | 23 | 21 |
| 45 | Cadila Healthcare | 162 | 0.6 | 15 | 16 | 16 | 28 | 33 | 21 | 23 |
| 46 | GlaxoSmithkline Cons. | 160 | 0.6 | 22 | 18 | 13 | 28 | 31 | 37 | 32 |
| 47 | Bharat Electronics | 158 | 0.6 | 17 | 10 | 6 | 15 | 17 | 21 | 15 |
| 48 | Havells India | 155 | 0.5 | 34 | 15 | 7 | 24 | 47 | 33 | 15 |
| 49 | Cipla | 154 | 0.5 | 10 | 8 | 17 | 12 | 15 | 28 | 26 |
| 50 | Rajesh Exports | 151 | 0.5 | 42 | 34 | 52 | 22 | 16 | 17 | 13 |
| Rank | Company | Wealth Created | | CAGR (2011-16, %) | | | RoE (%) | | P/E (x) | |
| | | INR b | Share (%) | Price | PAT | Sales | 2016 | 2011 | 2016 | 2011 |

Appendix 1: MOSL 100: Biggest Wealth Creators (2011-2016) ... continued

| Rank | Company | Wealth Created | | CAGR (2011-16, %) | | | RoE (%) | | P/E (x) | |
|--------------|----------------------|----------------|--------------|-------------------|-----------|-----------|-----------|-----------|-----------|-----------|
| | | INR b | Share (%) | Price | PAT | Sales | 2016 | 2011 | 2016 | 2011 |
| 51 | Emami | 151 | 0.5 | 28 | 12 | 16 | 29 | 33 | 52 | 27 |
| 52 | UPL | 145 | 0.5 | 26 | 19 | 18 | 20 | 15 | 15 | 13 |
| 53 | H P C L | 145 | 0.5 | 17 | 21 | 6 | 29 | 14 | 5 | 6 |
| 54 | P & G Hygiene | 145 | 0.5 | 28 | 23 | 20 | 28 | 25 | 48 | 39 |
| 55 | Glaxosmith. Pharma | 145 | 0.5 | 13 | -8 | 5 | 22 | 30 | 86 | 31 |
| 56 | Berger Paints | 139 | 0.5 | 41 | 19 | 15 | 24 | 21 | 47 | 21 |
| 57 | Glenmark Pharma | 138 | 0.5 | 23 | 10 | 21 | 24 | 22 | 31 | 17 |
| 58 | MRF | 136 | 0.5 | 44 | 46 | 22 | 34 | 21 | 7 | 8 |
| 59 | Amara Raja Batteries | 134 | 0.5 | 56 | 27 | 22 | 23 | 23 | 31 | 11 |
| 60 | Ambuja Cement | 133 | 0.5 | 10 | -10 | 5 | 7 | 17 | 50 | 19 |
| 61 | LIC Housing Finance | 132 | 0.5 | 17 | 12 | 21 | 18 | 23 | 15 | 11 |
| 62 | Titan Company | 132 | 0.5 | 12 | 10 | 12 | 20 | 42 | 44 | 39 |
| 63 | Oracle Financial | 131 | 0.5 | 12 | 1 | 6 | 32 | 21 | 25 | 15 |
| 64 | Idea Cellular | 130 | 0.5 | 10 | 24 | 18 | 10 | 7 | 16 | 25 |
| 65 | Grasim Inds | 127 | 0.4 | 9 | 0 | 11 | 9 | 15 | 16 | 10 |
| 66 | TVS Motor | 125 | 0.4 | 40 | 23 | 12 | 25 | 19 | 41 | 22 |
| 67 | Bharat Forge | 124 | 0.4 | 20 | 18 | 8 | 18 | 15 | 31 | 28 |
| 68 | Ajanta Pharma | 122 | 0.4 | 121 | 52 | 28 | 35 | 22 | 31 | 5 |
| 69 | Blue Dart Express | 120 | 0.4 | 43 | 15 | 17 | 47 | 17 | 75 | 25 |
| 70 | Apollo Hospitals | 119 | 0.4 | 23 | 11 | 18 | 9 | 10 | 58 | 32 |
| 71 | Sundaram Finance | 118 | 0.4 | 40 | 9 | 16 | 14 | 22 | 24 | 7 |
| 72 | Page Industries | 117 | 0.4 | 50 | 32 | 29 | 46 | 47 | 58 | 31 |
| 73 | Colgate-Palmolive | 114 | 0.4 | 15 | 8 | 13 | 59 | 105 | 38 | 28 |
| 74 | Piramal Enterprises | 107 | 0.4 | 20 | 28 | 32 | 7 | 2 | 19 | 26 |
| 75 | Bayer Crop Science | 107 | 0.4 | 33 | 18 | 12 | 17 | 20 | 44 | 27 |
| 76 | Kansai Nerolac | 104 | 0.4 | 26 | 20 | 13 | 21 | 20 | 32 | 26 |
| 77 | A B B | 102 | 0.4 | 10 | 36 | 5 | 10 | 3 | 89 | 257 |
| 78 | WABCO India | 99 | 0.3 | 43 | 9 | 16 | 19 | 33 | 60 | 15 |
| 79 | Cummins India | 98 | 0.3 | 11 | 4 | 5 | 22 | 33 | 32 | 23 |
| 80 | Petronet LNG | 97 | 0.3 | 16 | 7 | 16 | 13 | 23 | 22 | 15 |
| 81 | Welspun India | 96 | 0.3 | 88 | 234 | 23 | 35 | 0 | 14 | 226 |
| 82 | JSW Steel | 95 | 0.3 | 7 | -2 | 12 | 7 | 11 | 20 | 12 |
| 83 | Vakrangee | 94 | 0.3 | 63 | 52 | 29 | 26 | 14 | 27 | 17 |
| 84 | Mindtree | 94 | 0.3 | 46 | 42 | 25 | 25 | 13 | 18 | 15 |
| 85 | United Breweries | 91 | 0.3 | 11 | 15 | 11 | 14 | 14 | 73 | 83 |
| 86 | Gillette India | 86 | 0.3 | 20 | 20 | 14 | 25 | 14 | 68 | 66 |
| 87 | CRISIL | 85 | 0.3 | 23 | 11 | 17 | 32 | 41 | 47 | 27 |
| 88 | Container Corpn. | 84 | 0.3 | 9 | -2 | 10 | 10 | 18 | 31 | 18 |
| 89 | 3M India | 84 | 0.3 | 26 | 15 | 12 | 20 | 18 | 60 | 38 |
| 90 | Cholamandalam Inv. | 81 | 0.3 | 33 | 49 | 28 | 16 | 7 | 19 | 27 |
| 91 | Castrol India | 79 | 0.3 | 11 | 5 | 3 | 108 | 89 | 30 | 22 |
| 92 | Supreme Inds | 75 | 0.3 | 38 | 3 | 4 | 17 | 35 | 42 | 10 |
| 93 | Bajaj Holdings | 74 | 0.3 | 13 | -1 | -12 | 15 | 31 | 7 | 4 |
| 94 | GRUH Finance | 74 | 0.3 | 46 | 22 | 29 | 29 | 29 | 36 | 14 |
| 95 | Symphony | 74 | 0.3 | 56 | 15 | 9 | 34 | 41 | 77 | 17 |
| 96 | Wockhardt | 72 | 0.3 | 25 | -14 | 4 | 8 | 322 | 36 | 6 |
| 97 | Ramco Cement | 71 | 0.3 | 32 | 21 | 7 | 18 | 12 | 17 | 12 |
| 98 | Abbott India | 70 | 0.2 | 28 | 34 | 20 | 23 | 20 | 39 | 30 |
| 99 | P I Inds | 70 | 0.2 | 58 | 37 | 24 | 27 | 32 | 25 | 10 |
| 100 | Kajaria Ceramics | 69 | 0.2 | 66 | 30 | 20 | 25 | 28 | 33 | 9 |
| TOTAL | | 28,436 | 100.0 | 19 | 16 | 15 | 20 | 22 | 22 | 19 |
| Rank | Company | Wealth Created | | CAGR (2011-16, %) | | | RoE (%) | | P/E (x) | |
| | | INR b | Share (%) | Price | PAT | Sales | 2016 | 2011 | 2016 | 2011 |

Appendix 2: MOSL 100: Fastest Wealth Creators (2011-2016)

| Rank | Company | 2011-16 Price | | CAGR 11-16 (%) | | Wealth Created | | RoE (%) | | P/E (x) | |
|------|----------------------|---------------|-----------|----------------|-------|----------------|-----------|---------|------|---------|------|
| | | CAGR (%) | Times (x) | PAT | Sales | INR b | Share (%) | 2016 | 2011 | 2016 | 2011 |
| 1 | Ajanta Pharma | 121 | 52.8 | 52 | 28 | 122 | 0.4 | 35 | 22 | 31 | 5 |
| 2 | Welspun India | 88 | 23.3 | 234 | 23 | 96 | 0.3 | 35 | 0 | 14 | 226 |
| 3 | Eicher Motors | 70 | 14.4 | 48 | 29 | 484 | 1.7 | 36 | 14 | 42 | 20 |
| 4 | Kajaria Ceramics | 66 | 12.6 | 30 | 20 | 69 | 0.2 | 25 | 28 | 33 | 9 |
| 5 | Vakrangee | 63 | 11.3 | 52 | 29 | 94 | 0.3 | 26 | 14 | 27 | 17 |
| 6 | Bajaj Finance | 59 | 10.2 | 39 | 39 | 322 | 1.1 | 17 | 18 | 29 | 10 |
| 7 | P I Inds | 58 | 9.7 | 37 | 24 | 70 | 0.2 | 27 | 32 | 25 | 10 |
| 8 | Symphony | 56 | 9.3 | 15 | 9 | 74 | 0.3 | 34 | 41 | 77 | 17 |
| 9 | Amara Raja Batteries | 56 | 9.3 | 27 | 22 | 134 | 0.5 | 23 | 23 | 31 | 11 |
| 10 | Aurobindo Pharma | 50 | 7.6 | 28 | 26 | 379 | 1.3 | 28 | 23 | 22 | 10 |
| 11 | Page Industries | 50 | 7.5 | 32 | 29 | 117 | 0.4 | 46 | 47 | 58 | 31 |
| 12 | Britannia Inds | 48 | 7.2 | 46 | 13 | 277 | 1.0 | 45 | 37 | 40 | 37 |
| 13 | GRUH Finance | 46 | 6.6 | 22 | 29 | 74 | 0.3 | 29 | 29 | 36 | 14 |
| 14 | Mindtree | 46 | 6.6 | 42 | 25 | 94 | 0.3 | 25 | 13 | 18 | 15 |
| 15 | MRF | 44 | 6.1 | 46 | 22 | 136 | 0.5 | 34 | 21 | 7 | 8 |
| 16 | WABCO India | 43 | 6.0 | 9 | 16 | 99 | 0.3 | 19 | 33 | 60 | 15 |
| 17 | Blue Dart Express | 43 | 6.0 | 15 | 17 | 120 | 0.4 | 47 | 17 | 75 | 25 |
| 18 | Shree Cement | 43 | 6.0 | 16 | 10 | 360 | 1.3 | 7 | 11 | 96 | 34 |
| 19 | Rajesh Exports | 42 | 5.7 | 34 | 52 | 151 | 0.5 | 22 | 16 | 17 | 13 |
| 20 | Berger Paints | 41 | 5.6 | 19 | 15 | 139 | 0.5 | 24 | 21 | 47 | 21 |
| 21 | Sundaram Finance | 40 | 5.4 | 9 | 16 | 118 | 0.4 | 14 | 22 | 24 | 7 |
| 22 | TVS Motor | 40 | 5.4 | 23 | 12 | 125 | 0.4 | 25 | 19 | 41 | 22 |
| 23 | Supreme Inds | 38 | 5.1 | 3 | 4 | 75 | 0.3 | 17 | 35 | 42 | 10 |
| 24 | Torrent Pharma | 36 | 4.6 | 46 | 25 | 178 | 0.6 | 53 | 26 | 13 | 18 |
| 25 | Havells India | 34 | 4.3 | 15 | 7 | 155 | 0.5 | 24 | 47 | 33 | 15 |
| 26 | Motherson Sumi | 33 | 4.2 | 27 | 36 | 270 | 0.9 | 30 | 24 | 28 | 22 |
| 27 | Cholamandalam Inv. | 33 | 4.1 | 49 | 28 | 81 | 0.3 | 16 | 7 | 19 | 27 |
| 28 | Bayer Crop Science | 33 | 4.1 | 18 | 12 | 107 | 0.4 | 17 | 20 | 44 | 27 |
| 29 | Pidilite Inds | 32 | 4.0 | 20 | 15 | 227 | 0.8 | 27 | 28 | 41 | 25 |
| 30 | Ramco Cement | 32 | 3.9 | 21 | 7 | 71 | 0.3 | 18 | 12 | 17 | 12 |
| 31 | Ashok Leyland | 31 | 3.8 | 11 | 13 | 228 | 0.8 | 26 | 24 | 30 | 12 |
| 32 | Godrej Consumer | 30 | 3.8 | 19 | 19 | 346 | 1.2 | 22 | 28 | 41 | 25 |
| 33 | Sun Pharma | 30 | 3.7 | 24 | 38 | 1,169 | 4.1 | 16 | 19 | 38 | 26 |
| 34 | IndusInd Bank | 30 | 3.7 | 32 | 26 | 380 | 1.3 | 13 | 15 | 25 | 21 |
| 35 | Lupin | 29 | 3.6 | 21 | 20 | 480 | 1.7 | 21 | 26 | 29 | 21 |
| 36 | Abbott India | 28 | 3.5 | 34 | 20 | 70 | 0.2 | 23 | 20 | 39 | 30 |
| 37 | Marico | 28 | 3.5 | 23 | 14 | 226 | 0.8 | 34 | 28 | 44 | 34 |
| 38 | Emami | 28 | 3.5 | 12 | 16 | 151 | 0.5 | 29 | 33 | 52 | 27 |
| 39 | P & G Hygiene | 28 | 3.5 | 23 | 20 | 145 | 0.5 | 28 | 25 | 48 | 39 |
| 40 | Asian Paints | 28 | 3.4 | 16 | 16 | 591 | 2.1 | 31 | 38 | 48 | 29 |
| 41 | HCL Technologies | 28 | 3.4 | 27 | 14 | 819 | 2.9 | 20 | 21 | 21 | 20 |
| 42 | Bajaj Finserv | 27 | 3.3 | 13 | 42 | 186 | 0.7 | 14 | 27 | 15 | 8 |
| 43 | 3M India | 26 | 3.2 | 15 | 12 | 84 | 0.3 | 20 | 18 | 60 | 38 |
| 44 | UPL | 26 | 3.2 | 19 | 18 | 145 | 0.5 | 20 | 15 | 15 | 13 |
| 45 | Kansai Nerolac | 26 | 3.2 | 20 | 13 | 104 | 0.4 | 21 | 20 | 32 | 26 |
| 46 | Zee Entertainment | 26 | 3.1 | 11 | 14 | 264 | 0.9 | 25 | 20 | 35 | 19 |
| 47 | Bosch | 25 | 3.1 | 8 | 10 | 443 | 1.6 | 15 | 21 | 53 | 24 |
| 48 | Hind. Unilever | 25 | 3.1 | 14 | 11 | 1,266 | 4.5 | 102 | 76 | 46 | 30 |
| 49 | Wockhardt | 25 | 3.0 | -14 | 4 | 72 | 0.3 | 8 | 322 | 36 | 6 |
| 50 | Kotak Mahindra | 24 | 3.0 | 17 | 28 | 760 | 2.7 | 10 | 14 | 36 | 21 |
| Rank | Company | 2011-16 Price | | CAGR 11-16 (%) | | Wealth Created | | RoE (%) | | P/E (x) | |
| | | CAGR (%) | Times (x) | PAT | Sales | INR b | Share (%) | 2016 | 2011 | 2016 | 2011 |

Appendix 2: MOSL 100: Fastest Wealth Creators (2011-2016) ... continued

| Rank | Company | 2011-16 Price | | CAGR (11-16, %) | | Wealth Created | | RoE (%) | | P/E (x) | |
|--------------|----------------------|---------------|------------|-----------------|-----------|----------------|--------------|-----------|-----------|-----------|-----------|
| | | CAGR (%) | Times (x) | PAT | Sales | INR b | Share (%) | 2016 | 2011 | 2016 | 2011 |
| 51 | B P C L | 24 | 2.9 | 35 | 4 | 428 | 1.5 | 29 | 12 | 8 | 12 |
| 52 | Maruti Suzuki | 24 | 2.9 | 14 | 10 | 742 | 2.6 | 17 | 16 | 25 | 16 |
| 53 | Divi's Labs | 24 | 2.9 | 21 | 23 | 172 | 0.6 | 26 | 24 | 23 | 21 |
| 54 | CRISIL | 23 | 2.9 | 11 | 17 | 85 | 0.3 | 32 | 41 | 47 | 27 |
| 55 | UltraTech Cement | 23 | 2.8 | 10 | 13 | 574 | 2.0 | 10 | 13 | 40 | 23 |
| 56 | Tech Mahindra | 23 | 2.8 | 26 | 39 | 237 | 0.8 | 22 | 29 | 15 | 9 |
| 57 | Apollo Hospitals | 23 | 2.8 | 11 | 18 | 119 | 0.4 | 9 | 10 | 58 | 32 |
| 58 | Glenmark Pharma | 23 | 2.8 | 10 | 21 | 138 | 0.5 | 24 | 22 | 31 | 17 |
| 59 | Yes Bank | 23 | 2.8 | 28 | 27 | 223 | 0.8 | 18 | 19 | 14 | 15 |
| 60 | GlaxoSmithkline Cons | 22 | 2.7 | 18 | 13 | 160 | 0.6 | 28 | 31 | 37 | 32 |
| 61 | Dabur India | 21 | 2.6 | 17 | 16 | 268 | 0.9 | 30 | 40 | 36 | 30 |
| 62 | Bharat Forge | 20 | 2.5 | 18 | 8 | 124 | 0.4 | 18 | 15 | 31 | 28 |
| 63 | Gillette India | 20 | 2.5 | 20 | 14 | 86 | 0.3 | 25 | 14 | 68 | 66 |
| 64 | Piramal Enterprises | 20 | 2.5 | 28 | 32 | 107 | 0.4 | 7 | 2 | 19 | 26 |
| 65 | United Spirits | 19 | 2.4 | -10 | 5 | 205 | 0.7 | 18 | 13 | 115 | 26 |
| 66 | HDFC Bank | 18 | 2.3 | 26 | 26 | 1,475 | 5.2 | 17 | 16 | 21 | 27 |
| 67 | H P C L | 17 | 2.2 | 21 | 6 | 145 | 0.5 | 29 | 14 | 5 | 6 |
| 68 | Bharat Electron | 17 | 2.2 | 10 | 6 | 158 | 0.6 | 15 | 17 | 21 | 15 |
| 69 | LIC Housing Finance | 17 | 2.2 | 12 | 21 | 132 | 0.5 | 18 | 23 | 15 | 11 |
| 70 | TCS | 16 | 2.1 | 22 | 24 | 2,637 | 9.3 | 37 | 37 | 21 | 26 |
| 71 | Petronet LNG | 16 | 2.1 | 7 | 16 | 97 | 0.3 | 13 | 23 | 22 | 15 |
| 72 | Colgate-Palmolive | 15 | 2.0 | 8 | 13 | 114 | 0.4 | 59 | 105 | 38 | 28 |
| 73 | Cadila Healthcare | 15 | 2.0 | 16 | 16 | 162 | 0.6 | 28 | 33 | 21 | 23 |
| 74 | Hero MotoCorp | 13 | 1.9 | 10 | 8 | 271 | 1.0 | 37 | 62 | 20 | 17 |
| 75 | Dr Reddy's Labs | 13 | 1.9 | 10 | 7 | 239 | 0.8 | 13 | 24 | 33 | 28 |
| 76 | Bajaj Holdings | 13 | 1.8 | -1 | -12 | 74 | 0.3 | 15 | 31 | 7 | 4 |
| 77 | Adani Ports | 13 | 1.8 | 25 | 29 | 231 | 0.8 | 22 | 22 | 18 | 30 |
| 78 | Glaxosmith. Pharma | 13 | 1.8 | -8 | 5 | 145 | 0.5 | 22 | 30 | 86 | 31 |
| 79 | ITC | 13 | 1.8 | 14 | 12 | 1,197 | 4.2 | 28 | 30 | 28 | 28 |
| 80 | Titan Company | 12 | 1.8 | 10 | 12 | 132 | 0.5 | 20 | 42 | 44 | 39 |
| 81 | Oracle Financial | 12 | 1.8 | 1 | 6 | 131 | 0.5 | 32 | 21 | 25 | 15 |
| 82 | M & M | 12 | 1.7 | 2 | 16 | 321 | 1.1 | 11 | 20 | 24 | 15 |
| 83 | Cummins India | 11 | 1.7 | 4 | 5 | 98 | 0.3 | 22 | 33 | 32 | 23 |
| 84 | United Breweries | 11 | 1.7 | 15 | 11 | 91 | 0.3 | 14 | 14 | 73 | 83 |
| 85 | Castrol India | 11 | 1.7 | 5 | 3 | 79 | 0.3 | 108 | 89 | 30 | 22 |
| 86 | Bajaj Auto | 11 | 1.6 | 5 | 7 | 274 | 1.0 | 27 | 58 | 20 | 15 |
| 87 | Idea Cellular | 10 | 1.6 | 24 | 18 | 130 | 0.5 | 10 | 7 | 16 | 25 |
| 88 | A B B | 10 | 1.6 | 36 | 5 | 102 | 0.4 | 10 | 3 | 89 | 257 |
| 89 | Cipla | 10 | 1.6 | 8 | 17 | 154 | 0.5 | 12 | 15 | 28 | 26 |
| 90 | Axis Bank | 10 | 1.6 | 20 | 22 | 401 | 1.4 | 16 | 18 | 13 | 17 |
| 91 | H D F C | 10 | 1.6 | 18 | 16 | 682 | 2.4 | 20 | 21 | 17 | 23 |
| 92 | Ambuja Cement | 10 | 1.6 | -10 | 5 | 133 | 0.5 | 7 | 17 | 50 | 19 |
| 93 | Nestle India | 9 | 1.6 | 2 | 6 | 202 | 0.7 | 32 | 96 | 63 | 43 |
| 94 | Tata Motors | 9 | 1.6 | 7 | 18 | 365 | 1.3 | 16 | 48 | 9 | 7 |
| 95 | Grasim Inds | 9 | 1.6 | 0 | 11 | 127 | 0.4 | 9 | 15 | 16 | 10 |
| 96 | Container Corpn | 9 | 1.5 | -2 | 10 | 84 | 0.3 | 10 | 18 | 31 | 18 |
| 97 | Infosys | 9 | 1.5 | 15 | 18 | 948 | 3.3 | 24 | 26 | 20 | 27 |
| 98 | JSW Steel | 7 | 1.4 | -2 | 12 | 95 | 0.3 | 7 | 11 | 20 | 12 |
| 99 | Power Grid Corpn | 6 | 1.4 | 18 | 20 | 203 | 0.7 | 14 | 12 | 12 | 18 |
| 100 | Hindustan Zinc | 6 | 1.3 | 10 | 7 | 194 | 0.7 | 21 | 22 | 10 | 12 |
| TOTAL | | 19 | 2.4 | 16 | 15 | 28,436 | 100.0 | 20 | 22 | 22 | 19 |
| Rank | Company | 2011-16 Price | | CAGR (11-16, %) | | Wealth Created | | RoE (%) | | P/E (x) | |
| | | CAGR (%) | Times (x) | PAT | Sales | INR b | Share (%) | 2016 | 2011 | 2016 | 2011 |

Appendix 3: MOSL 100: Alphabetical order

| Company | WC Rank | | Wealth Created | | |
|----------------------|---------|---------|----------------|--------------|-----------------|
| | Biggest | Fastest | INR b | Price CAGR % | Price Mult. (x) |
| 3M India | 89 | 43 | 84 | 26 | 3.2 |
| A B B | 77 | 88 | 102 | 10 | 1.6 |
| Abbott India | 98 | 36 | 70 | 28 | 3.5 |
| Adani Ports | 33 | 77 | 231 | 13 | 1.8 |
| Ajanta Pharma | 68 | 1 | 122 | 121 | 52.8 |
| Amara Raja Batteries | 59 | 9 | 134 | 56 | 9.3 |
| Ambuja Cement | 60 | 92 | 133 | 10 | 1.6 |
| Apollo Hospitals | 70 | 57 | 119 | 23 | 2.8 |
| Ashok Leyland | 34 | 31 | 228 | 31 | 3.8 |
| Asian Paints | 11 | 40 | 591 | 28 | 3.4 |
| Aurobindo Pharma | 19 | 10 | 379 | 50 | 7.6 |
| Axis Bank | 17 | 90 | 401 | 10 | 1.6 |
| B P C L | 16 | 51 | 428 | 24 | 2.9 |
| Bajaj Auto | 26 | 86 | 274 | 11 | 1.6 |
| Bajaj Fin. | 23 | 6 | 322 | 59 | 10.2 |
| Bajaj Finserv | 42 | 42 | 186 | 27 | 3.3 |
| Bajaj Holdings | 93 | 76 | 74 | 13 | 1.8 |
| Bayer Crop Science | 75 | 28 | 107 | 33 | 4.1 |
| Berger Paints | 56 | 20 | 139 | 41 | 5.6 |
| Bharat Electron | 47 | 68 | 158 | 17 | 2.2 |
| Bharat Forge | 67 | 62 | 124 | 20 | 2.5 |
| Blue Dart Express | 69 | 17 | 120 | 43 | 6.0 |
| Bosch | 15 | 47 | 443 | 25 | 3.1 |
| Britannia Inds | 25 | 12 | 277 | 48 | 7.2 |
| Cadila Healthcare | 45 | 73 | 162 | 15 | 2.0 |
| Castrol India | 91 | 85 | 79 | 11 | 1.7 |
| Cholamandalam Inv. | 90 | 27 | 81 | 33 | 4.1 |
| Cipla | 49 | 89 | 154 | 10 | 1.6 |
| Colgate-Palmolive | 73 | 72 | 114 | 15 | 2.0 |
| Container Corpn | 88 | 96 | 84 | 9 | 1.5 |
| CRISIL | 87 | 54 | 85 | 23 | 2.9 |
| Cummins India | 79 | 83 | 98 | 11 | 1.7 |
| Dabur India | 29 | 61 | 268 | 21 | 2.6 |
| Divi's Labs | 44 | 53 | 172 | 24 | 2.9 |
| Dr Reddy's Labs | 31 | 75 | 239 | 13 | 1.9 |
| Eicher Motors | 13 | 3 | 484 | 70 | 14.4 |
| Emami | 51 | 38 | 151 | 28 | 3.5 |
| Gillette India | 86 | 63 | 86 | 20 | 2.5 |
| Glaxosmith. Pharma | 55 | 78 | 145 | 13 | 1.8 |
| GlaxoSmithh. Cons. | 46 | 60 | 160 | 22 | 2.7 |
| Glenmark Pharma | 57 | 58 | 138 | 23 | 2.8 |
| Godrej Consumer | 22 | 32 | 346 | 30 | 3.8 |
| Grasim Inds | 65 | 95 | 127 | 9 | 1.6 |
| GRUH Finance | 94 | 13 | 74 | 46 | 6.6 |
| H D F C | 10 | 91 | 682 | 10 | 1.6 |
| H P C L | 53 | 67 | 145 | 17 | 2.2 |
| Havells India | 48 | 25 | 155 | 34 | 4.3 |
| HCL Technologies | 7 | 41 | 819 | 28 | 3.4 |
| HDFC Bank | 2 | 66 | 1,475 | 18 | 2.3 |
| Hero MotoCorp | 27 | 74 | 271 | 13 | 1.9 |
| Hind. Unilever | 3 | 48 | 1,266 | 25 | 3.1 |
| Hindustan Zinc | 41 | 100 | 194 | 6 | 1.3 |
| Idea Cellular | 64 | 87 | 130 | 10 | 1.6 |
| IndusInd Bank | 18 | 34 | 380 | 30 | 3.7 |
| Infosys | 6 | 97 | 948 | 9 | 1.5 |
| ITC | 4 | 79 | 1,197 | 13 | 1.8 |
| JSW Steel | 82 | 98 | 95 | 7 | 1.4 |
| Kajaria Ceramics | 100 | 4 | 69 | 66 | 12.6 |
| Kansai Nerolac | 76 | 45 | 104 | 26 | 3.2 |
| Kotak Mahindra | 8 | 50 | 760 | 24 | 3.0 |
| LIC Housing Finance | 61 | 69 | 132 | 17 | 2.2 |
| Lupin | 14 | 35 | 480 | 29 | 3.6 |
| M & M | 24 | 82 | 321 | 12 | 1.7 |
| Marico | 36 | 37 | 226 | 28 | 3.5 |
| Maruti Suzuki | 9 | 52 | 742 | 24 | 2.9 |
| Mindtree | 84 | 14 | 94 | 46 | 6.6 |
| Motherson Sumi | 28 | 26 | 270 | 33 | 4.2 |
| MRF | 58 | 15 | 136 | 44 | 6.1 |
| Nestle India | 40 | 93 | 202 | 9 | 1.6 |
| Oracle Financial | 63 | 81 | 131 | 12 | 1.8 |
| P & G Hygiene | 54 | 39 | 145 | 28 | 3.5 |
| P I Inds | 99 | 7 | 70 | 58 | 9.7 |
| Page Industries | 72 | 11 | 117 | 50 | 7.5 |
| Petronet LNG | 80 | 71 | 97 | 16 | 2.1 |
| Pidilite Inds | 35 | 29 | 227 | 32 | 4.0 |
| Piramal Enterprises | 74 | 64 | 107 | 20 | 2.5 |
| Power Grid Corpn | 39 | 99 | 203 | 6 | 1.4 |
| Rajesh Exports | 50 | 19 | 151 | 42 | 5.7 |
| Shree Cement | 21 | 18 | 360 | 43 | 6.0 |
| Sun Pharma | 5 | 33 | 1,169 | 30 | 3.7 |
| Sundaram Finance | 71 | 21 | 118 | 40 | 5.4 |
| Supreme Inds | 92 | 23 | 75 | 38 | 5.1 |
| Symphony | 95 | 8 | 74 | 56 | 9.3 |
| Tata Motors | 20 | 94 | 365 | 9 | 1.6 |
| TCS | 1 | 70 | 2,637 | 16 | 2.1 |
| Tech Mahindra | 32 | 56 | 237 | 23 | 2.8 |
| The Ramco Cement | 97 | 30 | 71 | 32 | 3.9 |
| Titan Company | 62 | 80 | 132 | 12 | 1.8 |
| Torrent Pharma | 43 | 24 | 178 | 36 | 4.6 |
| TVS Motor | 66 | 22 | 125 | 40 | 5.4 |
| UltraTech Cement | 12 | 55 | 574 | 23 | 2.8 |
| United Breweries | 85 | 84 | 91 | 11 | 1.7 |
| United Spirits | 38 | 65 | 205 | 19 | 2.4 |
| UPL | 52 | 44 | 145 | 26 | 3.2 |
| Vakrangee | 83 | 5 | 94 | 63 | 11.3 |
| WABCO India | 78 | 16 | 99 | 43 | 6.0 |
| Welspun India | 81 | 2 | 96 | 88 | 23.3 |
| Wockhardt | 96 | 49 | 72 | 25 | 3.0 |
| Yes Bank | 37 | 59 | 223 | 23 | 2.8 |
| Zee Entertainment | 30 | 46 | 264 | 26 | 3.1 |

Space for Notes

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Motilal Oswal Wealth Creation Study Gallery



Thematic Study | December 2015



20TH ANNUAL WEALTH CREATION STUDY
(2010-2015)


Mid-to-Mega

The power of industry leadership in Wealth Creation

HIGHLIGHTS

- Value Migration is increasingly becoming the key driver of rapid wealth creation.
- Industry leadership is a necessary pre-requisite to be a megacorp.
- Market cap rank is a powerful tool to assess a company's current standing and the roadmap ahead.
- Mid-to-Mega marks a big change in trends, driven by the influential effect of acquirer (paid-size, quality, growth, Longevity and Price).

"We are searching for influential results not only for the top 100 companies in markets that explain their success... Really big changes in ownership, will often come only from large combinations of factors." - Chakra Mehta



HOW DO WEALTH CREATION DRIVERS DIFFER?

| | THE BIGGEST | THE FASTEST | THE MOST CONSISTENT | | | | |
|------|---------------|---------------------------|---------------------|---------------------|-----------------------------|------------|----|
| Rank | Company | Wealth Creation (Bn US\$) | 5-Year CAGR | 5-Year Company CAGR | Apperent 5-Year IBC in US\$ | Price/CAGR | |
| 1 | TCS | 1,458 | Aparta Pharma | 139 | Titan Company | 10 | 63 |
| 2 | ITC | 1,403 | Syngene | 108 | Sharda Pharma | 10 | 58 |
| 3 | NIPDC Bank | 1,360 | Eaton Motors | 86 | Astra Pharma | 10 | 55 |
| 4 | Sun Pharma | 1,305 | P I Industries | 83 | Kaash Industries | 10 | 54 |
| 5 | Motilal Oswal | 1,174 | Sharda Pharma | 77 | Sharda Pharma | 10 | 51 |
| 6 | WGL Bank | 1,170 | WGL Bank | 68 | Bank | 10 | 29 |
| 7 | Motilal Oswal | 1,161 | Bank Finance | 66 | Bank Bank | 10 | 28 |
| 8 | Data Metrics | 1,071 | GRIF Finance | 62 | Comusa India | 10 | 27 |
| 9 | Infotech | 1,042 | Bank Star Finance | 59 | Nature India | 10 | 27 |
| 10 | Axis Bank | 774 | Axis Bank | 50 | Axis Bank | 10 | 25 |

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investors are advised to refer documents in the last page of the Research Report.

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Thematic Study | December 2014

19th ANNUAL WEALTH CREATION STUDY (2009-2014)

100x

The Power of Growth in Wealth Creation

HIGHLIGHTS

- 100x stocks are rare. Finding them requires "vision to see, courage to buy, and the patience to hold."
- Value migration offers the most predictable 100x opportunities.
- The 100x premium is captured in SOGP – Size, Quality, Growth, Longevity and Price.
- "In evaluating a common stock, the management is 50% industry is 9%, and all other factors 1%." (Phil Fisher)
- Quality does not guarantee growth, and in turn, rapid long-term wealth creation.

"To make money on stocks you must have the ability to see them, the courage to buy them and the patience to hold them. Patience is the rarest of the three."

— Thomas Phelps in 100 to 1 in The Stock Market

TOP 10 WEALTH CREATORS (2009-2014)

THE BIGGEST

THE FASTEST

THE MOST CONSISTENT

| Rank | Company | Wealth Created (\$Bn) | Company | 5-Year Price CAGR (%) | Company | Appraised \$ Mkt. Share (%) | 2009-14 Price CAGR (%) |
|------|------------------|-----------------------|-------------------|-----------------------|------------------|-----------------------------|------------------------|
| 1 | TCS | 3,632 | Infosys | 84 | Kanar Healthcare | 10 | 34 |
| 2 | IFEC | 2,475 | Poly Pharma | 91 | Akzo Pharm | 100 | 54 |
| 3 | HDFC Bank | 1,367 | Supreme Inds | 68 | Sun Pharma | 10 | 53 |
| 4 | Infiniti | 1,233 | Avanti Healthcare | 85 | Finlandi Size | 10 | 28 |
| 5 | IGDO Bank | 1,035 | Poly Industries | 75 | IFEC | 10 | 28 |
| 6 | Wipro | 893 | Inductor Bank | 73 | Akzo Pharm | 10 | 26 |
| 7 | Sun Pharma | 855 | HCL Technologies | 69 | HDFC Bank | 10 | 26 |
| 8 | Tata Motors | 505 | Avanti Pharma | 65 | W.S. M | 10 | 25 |
| 9 | H.B.F.C. | 354 | Pearls India | 67 | Aczo Pharm | 10 | 25 |
| 10 | HCL Technologies | 345 | Axis Labs | 67 | India India | 10 | 23 |

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Thematic Study | December 2013

18TH ANNUAL WEALTH CREATION STORY (2008-2013)

Uncommon Financial Emergence & Endurance

HIGHLIGHTS

- > **Uncommon Financials in comparison** – Uncommon Wealth Creation in stock markets.
- > **Successful Emergence of Value Creators** is very rare; a strong corporate-praise in a non-cyclical business significantly increases the probability.
- > **Endurance of Value Creators** is mainly determined by disruptive innovation/competition, major regulatory changes, and capital misallocation.
- > **State-owned companies** have become marginalized in Wealth Creation with their share collapsing from 25% to 20% in 2013.
- > **The world is over for Indian equities**, the risk-reward equation is favorable for long-term investing.

Over the long term, it's hard for a stock to earn a much better return than the market which underlies it. If the business earns 10% or capital rose 10% and you just held it for the next year, you're not going to have much different. But **WILLIAMSON**, even if you originally buy it at a huge discount. Conversely, if a business earns 10% or capital rose 10% for the next year, even if you pay an expensive buying price, you'll end up with one of a heap of it."

— **Charlie Munger, Vice Chairman, Berkshire Hathaway**

TOP 10 WEALTH CREATORS (2008-2013)

| THE BIGGEST | | | THE FASTEST | | THE MOST CONSISTENT | |
|-------------|-------------------|-----------------------|---------------------|-------------------------|---------------------|-------------------------------------------|
| Rank | Company | Wealth Created (\$Bn) | Company | 5-Year Price Change (%) | Company | Appraised in 2008 (%) Price Change (%) |
| 1 | TCS | 2,224 | ITK Hegde | 93 | Arun Pharms | 100 |
| 2 | ITC | 1,495 | Shree Mestres | 92 | Shree Mestres | 100 |
| 3 | HDFC Bank | 1,272 | Page Industries | 91 | Sun Pharma | 100 |
| 4 | Infosys | 828 | Page Industries | 90 | Mediantec Zinc | 100 |
| 5 | Sun Pharma | 582 | Stratex India | 90 | ITC | 100 |
| 6 | O.N.C.E. | 567 | Global Finance | 87 | Amba Bank | 100 |
| 7 | HDFC | 550 | GSK Consumer | 87 | HDFC Bank | 100 |
| 8 | Tata Motors | 531 | Suvarna Industries | 85 | M&M | 100 |
| 9 | Universal Machine | 518 | Page Industries | 84 | M&M | 100 |
| 10 | Wipro | 489 | Exporting Companies | 84 | HDFC Bank | 100 |

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Thematic Study | 12 December 2012

17TH ANNUAL WEALTH CREATION STUDY (2007-2012)

Economic Moat

Fountainhead of Wealth Creation

HIGHLIGHTS

- Economic Moat protects profits and profitability of companies from competitive attack.
- Extended CAP (competitive advantage profile) of Economic Moat Companies (EMCs) leads to superior levels of profits and stock returns.
- Over 2002-2012, EMCs in India have outperformed benchmark indices.
- Breath of Economic Moat causes massive wealth destruction.
- Markets seem poised to touch new highs in the next 12 months.

"Great companies do invest in the 'deadly' moats, surrounded by them, dangerous moats where the water inside is so hot and dense and pure. Perhaps, the water gets its strength from the genius inside, the moat is permanent and acts as a powerful deterrent to these considering an attack, and inside, the water makes gold but doesn't leak it or get turned 'buggy' (corrupted), as the great companies do with their competitors, whose 'moats' are flat to duplicate and the tremendous staying power of some companies is it."

Warren Buffett

TOP 10 WEALTH CREATORS (2007-2012)

THE BIGGEST THE FASTEST THE MOST CONSISTENT

| Rank | Company | Wealth Created (INR L) | Company | 5-Year Stock % | Company | Average in WC Study (%) | 10-Year Price Gains (%) |
|------|---------------------|------------------------|--------------------|----------------|------------------|-------------------------|-------------------------|
| 1 | ITC | 1,187 | ITP Finance | 89 | Navi Mumbai Bank | 10 | 42 |
| 2 | HOPE Bank | 1,022 | UC Housing Finance | 97 | Saranam | 19 | 48 |
| 3 | HOPE Bank | 744 | Commodore Inter | 94 | Sun Pharma | 10 | 50 |
| 4 | MRFIC | 671 | Escher Motors | 92 | Asian Paints | 10 | 55 |
| 5 | inB PFC | 556 | Insulated Bank | 90 | WBC Bank | 10 | 51 |
| 6 | State Bank of India | 556 | MRFIC | 42 | Hero Motorcycle | 19 | 50 |
| 7 | Infocube | 556 | Infocube | 47 | Infocube | 19 | 50 |
| 8 | Tata Motors | 499 | Beta India | 41 | ACC | 19 | 29 |
| 9 | Hero Cycles | 457 | Hero Cycles | 40 | Infocube Cements | 19 | 28 |
| 10 | India Steel | 456 | UCS Consumer | 59 | Infocube | 19 | 21 |

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Thematic Study | 9 December 2011

15TH ANNUAL WEALTH CREATION STUDY (2006-2011)

Blue Chip Investing

Creating wealth from dividends

HIGHLIGHTS

- Blue chips are fountain of dividend, and offer as much, if not more, investment growth potential than lower quality companies, but with far less risk.
- In breaking, there is no profitable analysis of quality. Understanding quality of the company doesn't stop at profits and profitability, it must extend to dividend payouts and longevity.
- Just like Blue chips offer premium valuation, in deciding when to buy, one should focus not only on EPS, but also consider payout ratio, relative dividend yield, and earnings growth potential.
- In India, over last 20 years, Blue chips have significantly outperformed benchmark indices with much lower risk.

"It is not just paying the high price for good quality stocks ... while a real need is ... in the short and medium term, understanding the average nature of the market. Although with many years less benefit as that the 1980s time to understand some basic risk parameters of long-quality attributes of being of reasonable, sustainable."

— Benjamin Graham, The Intelligent Investor

TOP 10 WEALTH CREATORS (2006-2011)

| THE BIGGEST | | THE FASTEST | | THE MOST CONSISTENT | | | |
|-------------|---------------------|---------------------------|---------------------|---------------------------|---------------------|---------------------------|-------------------|
| Rank | Company | Wealth Created (IN) | Company | 5-Year Price CAGR % | Company | Apparent in WC (IN) | 10-Year CAGR % |
| 1 | Reliance | 1,242 | Sunmicro-Age | 119 | Kotak Mahindra Bank | 10 | 42 |
| 2 | ITC | 1,239 | Asian-Bangalore | 90 | Axis Bank | 10 | 31 |
| 3 | State Bank of India | 1,075 | Bluebird Steel | 88 | Axis Finance | 10 | 31 |
| 4 | Indian | 1,000 | Indian Steel | 60 | HDFC | 10 | 31 |
| 5 | W&A | 978 | Sharda Steel | 57 | Axis Finance | 10 | 31 |
| 6 | HDFC Bank | 679 | Shri Ram Transport | 41 | Reliance Industries | 10 | 22 |
| 7 | ITC | 668 | C. Kamal Exporters | 40 | ACC | 10 | 22 |
| 8 | HDFC | 458 | ULC Housing Finance | 40 | Indian | 10 | 21 |
| 9 | Sarens & Indus | 432 | Central Bank | 39 | ACC | 10 | 21 |
| 10 | ONGC | 418 | Indus Bank | 31 | Axis Bank | 10 | 21 |

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MOTILAL OSWAL
PRACTICE

Timothy Stanley
10 December 2016

15TH ANNUAL WEALTH CREATION STUDY (2005-2010)

UU Investing

Creating wealth from the unknown and unknowable

HIGHLIGHTS

- UU situations offer asymmetric payoffs, these can be exploited only by investors with complementary skills and wisdom judgement
- Low payoffs, risk remains the most reliable valuation indicator of future wealth creation
- TTT – Sun Tzu's Defeat Strategy through 2020 – will bring up many UU investing opportunities in Indian financial services

TOP 10 WEALTH CREATORS (2005 – 2010)

| THE BIGGEST | | | THE FASTEST | | THE MOST CONSISTENT | | |
|-------------|---------------------|------------------------|--------------------|-----------------------|---------------------------|------------------------|--|
| Rank | Company | Wealth Created (\$ Bn) | Company | 5-Year Price CAGR (%) | Apperared in WC Study (%) | 10-Year Price CAGR (%) | |
| 1 | Reliance Inds | 2,166 | Unilever | 16 | Hero Honda | 33 | |
| 2 | O I N G C | 1,092 | Arcis-TKD | 86 | Sun Pharma | 30 | |
| 3 | HDFC | 1,074 | Amul Dairy | 82 | Axis Bank | 32 | |
| 4 | NIPCO | 1,000 | Aditya Enterprises | 73 | H O F C | 29 | |
| 5 | B I E L | 850 | Relaxo Shoes | 67 | HDFC Bank | 26 | |
| 6 | Infop Technologies | 807 | Singara Transport | 67 | Reliance Inds | 23 | |
| 7 | ICICI | 688 | Excel | 63 | Indiabulls | 19 | |
| 8 | State Bank of India | 682 | Thane Inds | 62 | Kanab Industries | 19 | |
| 9 | Larsen & Toubro | 799 | Bluebird Steel | 62 | Hero Cycles | 9 | |
| 10 | Asian Paints | 799 | Wipro Computer | 61 | Chia G C | 8 | |

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MUTUAL OWAS
Wealth Management

Thematic Study
17 December 2009

14TH ANNUAL WEALTH CREATION STUDY (2004-2009)

Winner Categories

HIGHLIGHTS

India's NTD is First Global Dollar of GDP will be marked by sustained boom in discretionary spend, savings and investment

Winner Categories and Company Winners enjoy exponential growth in profits

Category Winners brought at reasonable valuation create significant wealth over the long term

Category Winners

TOP 10 WEALTH CREATORS (2004 - 2009)

THE BIGGEST THE FASTEST THE MOST CONSISTENT

| Rank | THE BIGGEST Wealth Created (Rs. L) | THE FASTEST Company | 5-Year Price CAGR (%) | THE MOST CONSISTENT Company | Avg. Return in WC Study (%) | 10-Year CAGR (%) | |
|------|------------------------------------------|------------------------|-----------------------------|--------------------------------|-----------------------------------|---------------------|----|
| 1 | Reliance Inds. | LTFL | 127 | H D F C | 10 | 26 | |
| 2 | Shree Anel | 891 | Unitech | 107 | Sun Pharma | 10 | 24 |
| 3 | PH EL | 008 | BP Unilabs | 54 | Nature India | 10 | 22 |
| 4 | INDOC | 878 | Clear Cosmetics | 50 | New Brand India | 10 | 21 |
| 5 | D H D C | 411 | FAHOC | 71 | Indus-Tech | 10 | 2 |
| 6 | PC | 236 | Shree City Unim. | 70 | Astra Brands | 9 | 8 |
| 7 | Infiniti Tech | 452 | United Capital | 64 | Health India | 9 | 17 |
| 8 | Larsen & Toubro | 291 | Jindal Steel | 44 | HDFC Bank | 9 | 16 |
| 9 | SAIL | 246 | Steelking Ind. | 42 | PC | 9 | 16 |
| 10 | H D F C | 139 | Chemical Cement | 38 | Ambika Cement | 9 | 11 |

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Theme Study
19 October 2008

Great Good Greuesome

13TH ANNUAL GREAT GOOD GREUESOME WRITING STUDY (2003 - 2008)

HIGHLIGHTS

- Understanding of Great, Good and Greuesome companies is critical to investment success.
- Great time to buy Great companies (perpetual bonds) of reasonable prices, as interest rates are likely to remain low for quite some time.
- Greuesome companies are best avoided.
- Midcap is likely to see a sector chum - dominance of commodities will probably give way to users of materials.
- Corporate profit boom of last five years is unlikely to continue. However, we have probably seen the market bottom at Senses levels of 7,700.


TOP 10 WEALTH CREATORS (2003 - 2008)

THE BIGGEST THE FASTEST THE MOST CONSISTENT

| Rank | Company | Wealth Created (\$B) | Company | 5-Year Price CAGR (%) | Company | 5-Year Price CAGR (%) | Appr. Study Mo | 10-Year Price CAGR (%) |
|------|----------------------|----------------------|------------------------|-----------------------|-------------------------|-----------------------|----------------|------------------------|
| 1 | Petroleum Industries | 2,277 | Unilever | 284 | Infiniti | 257 | 9 | 25.7 |
| 2 | CH2M | 1,893 | J&J Corp | 214 | Merck | 190 | 10 | 16.8 |
| 3 | Brown Shoe | 1,628 | MAFC | 187 | Rankings Labs | 157 | 8 | 8.7 |
| 4 | INMCO | 1,356 | Technical Technologies | 177 | Gen Plastics | 170 | 9 | 40.0 |
| 5 | AMRC | 1,054 | BP Utilities | 173 | Neuroscience Industries | 173 | 9 | 40.5 |
| 6 | PHIL | 962 | Alsea Offshore | 160 | HSBC | 160 | 9 | 40.2 |
| 7 | AGS | 853 | HAFC | 168 | Cable | 168 | 9 | 21.8 |
| 8 | Larsen & Toubro | 833 | Qutube Industries | 165 | Sony Computer | 165 | 9 | 19.2 |
| 9 | State Bank of India | 707 | Sesa Oils | 152 | Pharmaceuticals | 152 | 9 | 16.6 |
| 10 | IOC | 637 | Reliance | 146 | IOC | 146 | 9 | 13.9 |

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MAGNET
RANKING

Thomson | Study
14 December 2007

BUSINESS OPPORTUNITIES

2002 - 2007

12TH ANNUAL WEALTH CREATION STUDY

BY RAMADEVI AGARWAL

TOP 10 WEALTH CREATORS (2002 - 2007)

THE BIGGEST

THE FASTEST

THE MOST CONSISTENT

| Rank | Company | Wealth Created (\$Bn) | Company | 5-Year Price CAGR (%) | Company | Appreciation in WC Study % | 16-Year Price CAGR (%) |
|------|---------------------|-----------------------|--------------------|-----------------------|------------------|----------------------------|------------------------|
| | | | | | | | |
| 1 | Reliance Inds. | 1,256 | U.S. Bellco | 263 | Hon. Honda | 12 | 21.4 |
| 2 | CINQUE | 1,600 | Unilever | 285 | Ranbaxy Labs | 12 | 14 |
| 3 | BhartiAirtel | 1,366 | Aventis Reg. Inds. | 232 | Vijay | 11 | 47 |
| 4 | Infosys Tech. | 856 | Pfizer Inc. | 207 | Cable | 11 | 36 |
| 5 | ICICI Bank | 666 | Axon Offshore | 120 | D. Roddy's Labs | 11 | 23 |
| 6 | SAIL | 512 | Kirilovsk | 116 | HITC | 11 | 20 |
| 7 | SAIL | 613 | Gig. Fluorchem | 138 | Asian Paints | 10 | 19 |
| 8 | Larsen & Toubro | 433 | Sewa Gas | 134 | ITC | 10 | 12 |
| 9 | State Bank of India | 407 | Axens V&E | 124 | Nichols Personal | 10 | 10 |
| 10 | Wipro | 384 | Papillon Retail | 120 | Quadriflexline | 10 | 8 |

HIGHLIGHTS

- ✦ Bargains are found when markets are blind to large business opportunity, positive changes or sustained growth; losses are quantitated when one grows weary.
- ✦ India's net billion dollar journey will see distinctly buoyant corporate profits, and boom in savings & investment.
- ✦ At current valuations, margin of safety in the market is low. However, very high liquidity can lift the market to rich levels of valuation before quite some time.

Executive Summary: Business Opportunities 2008-2012 | Market Watch | Company Valuation | Investment Opportunities | Global Market Watch | Country