Thematic Study | December 2020

The QGLP Checklist

25 questions, 25 frameworks

HIGHLIGHTS

- Time is a friend of good companies and enemy of bad companies. In 25 years, successful companies grow to unimaginable levels in sales, profits and market cap.
- Of the top 500 companies listed in 1995, only 100 companies have outperformed the benchmark over the next 25 years.
- Stock returns are slaves of earnings power and growth. In the very long run, valuations matter less.
- The future always holds a lot more promise. Over 50% of current market cap is made up of listings post 1995.
- Equity investing is complex. A checklist is an excellent tool to bring discipline to the process.
- The 25 questions here and the 25 related frameworks are a good starting point for an investor to create their own checklist over time.

"In my nearly fifty years of experience in Wall Street, I've found that I know less and less about what the stock market is going to do but I know more and more about what investors ought to do, and that's a pretty vital change in attitude." — *Benjamin Graham*

TOP 10 WEALTH CREATORS (1995-2020)

FASTEST		BIGGEST		CONSISTENT			ALL-ROUND		
Company	25-year Price CAGR	Company	NWC (INR b)	Company	Consistency Count	25-year Price CAGR	Company	Total of Ranks	1995-2020 Price CAGR
Infosys	30%	Reliance Industries	6,307	Kotak Mahindra	21	21%	Kotak Mahindra	20	21%
Pidilite Inds	25%	Hind. Unilever	4,893	Berger Paints	20	24%	Pidilite Inds	21	25%
Eicher Motors	25%	Infosys	2,700	HDFC	20	19%	Asian Paints	26	22%
Shree Cement	25%	HDFC	2,475	Pidilite Inds	19	25%	Shree Cement	28	25%
Berger Paints	24%	Kotak Mahindra	2,293	Shree Cement	19	25%	Berger Paints	28	24%
Honeywell Auto	24%	ITC	1,945	Honeywell Auto	19	24%	Sun Pharma	29	23%
Sun Pharma	23%	Asian Paints	1,586	Motherson Sumi	19	23%	HDFC	29	19%
Bajaj Finance	23%	Nestle India	1,549	Asian Paints	19	22%	Bajaj Finance	32	23%
Motherson Sumi	23%	Bajaj Finance	1,162	Dabur India	19	20%	Dabur India	43	20%
Britannia Inds	22%	Larsen & Toubro	998	Sun Pharma	18	23%	Eicher Motors	44	25%

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Motilal Oswal 25th Annual Wealth Creation Study

Abbreviations and Terms used in this report

Abbreviation / Term	Description
1995, 2015, 2020, 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 bn	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 actions such as fresh equity issuance, mergers, demergers, share buybacks, etc.

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

Celebrating 25 years of Wealth Creation Studies!

EVERY YEAR, for the past 25 years, we publish the Motilal Oswal Annual Wealth Creation Study. The studies have two main parts –

1. Analysis of Wealth Created in the stock markets over the past 5 years, and
2. Theme study.

Over these 25 years, we have covered a wide range of themes –

- Good businesses which get better
- Competitive strengths of Wealth Creators
- How to value growth
- Characteristics of Multi-baggers
- Components of value
- Role of Interest rates
- Commodity cycles
- Consistent Wealth Creators
- Terms of Trade
- Great, Good, Gruesome, Winner Categories, Category Winners
- Blue Chip Investing
- Economic Moat
- 100x: The power of growth
- Mid-to-Mega: The power of leadership
- Focused Investing: The power of allocation
- CAP & GAP: The power of longevity
- Valuation Insights: What works, what doesn't
- Management Integrity: Understanding sharp practices

Towards the end of the report, we present the essence and highlights of all previous 24 studies, including links to the full reports for your easy reference. These studies and the various frameworks covered therein have led to Motilal Oswal's investment philosophy, **QGLP – Quality, Growth, Longevity, at reasonable Price** (more on this in later pages).

We start the report with the key findings of Wealth Creation data from 1995 to 2020. We have 4 categories – Fastest, Biggest, Consistent and All-round Wealth Creators. The full lists are given in pages 18-27. We follow this with the current year's special theme study titled "**The QGLP Checklist: 25 questions, 25 frameworks**" in pages 28-85. Finally, we cover the regular feature of Wealth Creation data from 2015 to 2020.

We hope you find this edition as exciting as we feel bringing this to you.
Happy reading and happy Wealth Creation!

Wealth Creation (1995-2020): Key findings

25 years of Wealth Creation: 1995 to 2020

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, as in the past 25 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, duly adjusted for fresh equity issuances. (**Note:** For the 25-year study, we have considered Price CAGR, and not total return on account of major corporate events such as demergers. Also, due to data reliability, we have used PAT CAGR whereas EPS CAGR would have been ideal.)

Every year, we study the Wealth Creators of previous 5 years. But to commemorate the 25th Study, we have also looked at Wealth Creators over the 25 years, 1995 to 2020. For continuity sake, the 5-year Wealth Creation data (i.e. 2015-20) is presented page 86 onwards.

For the 25-year study, our starting point is the top 500 companies in 1995 ranked by market capitalization. Our key criteria for calling a company a Wealth Creator is that it should have outperformed the benchmark index, in our case, BSE Sensex.

Over 1995 to 2020, the Sensex rose from 3,200 levels in March 1995 to 29,500 by March 2020 i.e. a CAGR of 9.2%. Interestingly, exactly 100 companies delivered returns higher than 9.2%. We call these 100 the **Fastest Wealth Creators**. We then sort these companies in descending order of absolute Wealth Created to decide the **Biggest Wealth Creators**.

The third category is what we have called the **Consistent Wealth Creators**. From 1995 to 2020, there are 23 three-year rolling periods i.e. 1995-98, 1996-99, 1997-2000, and so on up to 2017-20. To determine Consistent Wealth Creators, we rank the companies based on the highest number of rolling 3-year periods in which the companies outperform the corresponding Sensex performance. Where the number is same, higher the Price CAGR, higher is the rank. Finally, we combine the ranks of Fastest, Biggest and Consistent Wealth Creators to arrive at the **Best All-round Wealth Creators**.

This is followed by some interesting data points garnered from 25 years of India's corporate financial history.

Infosys is the Fastest Wealth Creator over the last 25 years

- Between 1995 and 2020, **Infosys** clocked a robust Price CAGR of 30% to emerge as the Fastest Wealth Creator. This was backed by 25-year PAT CAGR of 33%.
- The average market cap of the top 25 Fastest Wealth Creators was INR 4 billion in 1995, which stood at over INR 750 billion in 2020.
- INR 1 mn invested equally in these 25 stocks in 1995 would have grown to INR 162 mn in 2020, delivering 25-year CAGR of 23%.

Top 25 Fastest Wealth Creators (1995 to 2020)

		25-year Price		25-year	NWC*	Mkt Cap (INR bn)		P/E (x)		RoE	
Rank	Company	CAGR	Multiple	PAT CAGR	(INR bn)	2020	1995	2020	1995	2020	1995
1	Infosys	30%	688	33%	2,700	2,727	3	17	26	25%	21%
2	Pidilite Inds	25%	258	20%	686	689	3	60	20	26%	13%
3	Eicher Motors	25%	255	23%	355	357	1	20	10	18%	42%
4	Shree Cement	25%	240	19%	608	634	2	41	9	12%	24%
5	Berger Paints	24%	239	20%	480	483	1	75	12	24%	20%
6	Honeywell Auto	24%	219	22%	228	229	1	47	24	23%	19%
7	Sun Pharma	23%	180	23%	828	845	3	21	16	9%	23%
8	Bajaj Finance	23%	172	26%	1,162	1,333	2	25	14	16%	19%
9	Motherson Sumi	23%	161	27%	163	193	1	17	26	10%	21%
10	Britannia Inds	22%	142	20%	640	647	5	46	32	32%	19%
11	Asian Paints	22%	139	18%	1,586	1,599	11	59	27	27%	26%
12	Balkrishna Inds	22%	136	21%	152	153	1	19	15	16%	16%
13	Titan Company	22%	135	18%	821	829	6	55	24	23%	18%
14	Kotak Mahindra Bank	21%	117	22%	2,293	2,480	9	29	14	13%	26%
15	Lupin	20%	103	P to L	255	267	2	-57	34	-4%	15%
16	Coromandel Intl	20%	101	19%	156	159	1	15	9	25%	10%
17	CRISIL	20%	97	18%	88	91	1	27	14	29%	24%
18	3M India	20%	96	22%	211	213	2	66	106	18%	8%
19	Aarti Industries	20%	95	18%	124	133	1	25	12	18%	23%
20	Dabur India	20%	93	19%	783	796	8	52	42	23%	14%
21	Amara Raja Batteries	19%	84	20%	81	82	1	13	10	18%	49%
22	HDFC	19%	82	22%	2,475	2,824	20	13	14	17%	17%
23	Hindustan Zinc	19%	74	19%	642	656	9	10	11	17%	10%
24	Hero Motocorp	19%	71	22%	314	318	4	11	23	21%	26%
25	Kansai Nerolac	19%	71	16%	205	208	2	40	18	14%	25%
	TOTAL OF ABOVE	**23%**	**185**	**22%**	**18,038**	**18,945**	**103**	**23**	**17**	**17%**	**17%**
	TOTAL OF 100	**17%**	**53**	**17%**	**43,115**	**46,729**	**887**	**22**	**20**	**12%**	**16%**

* NWC – Net Wealth Created

Reliance is the Biggest Wealth Creator over 25 years

- Between 1995 and 2020, **Reliance Industries** created wealth of INR 6.3 trillion to emerge the Biggest Wealth Creator. It is significantly ahead of the second ranked **Hindustan Unilever** (INR 4.9 trillion of Wealth Created).
- **Infosys** and **Bajaj Finance** have a creditable performance of being among the top 10, both in terms of Fastest and Biggest Wealth Creators.

Top 25 Biggest Wealth Creators (1995 to 2020)

Rank	Company	NWC (INR bn)	25-year Price CAGR	25-year PAT CAGR	Market Cap (INR bn) 2020	Market Cap (INR bn) 1995	P/E (x) 2020	P/E (x) 1995	RoE 2020	RoE 1995
1	Reliance Industries	**6,307**	16%	16%	7,052	120	16	12	9%	14%
2	Hindustan Unilever	**4,893**	16%	16%	4,975	82	72	44	84%	26%
3	Infosys	**2,700**	30%	33%	2,727	3	17	26	25%	21%
4	HDFC	**2,475**	19%	22%	2,824	20	13	14	17%	17%
5	Kotak Mahindra Bank	**2,293**	21%	22%	2,480	9	29	14	13%	26%
6	ITC	**1,945**	14%	18%	2,114	69	14	31	24%	26%
7	Asian Paints	**1,586**	22%	18%	1,599	11	59	27	27%	26%
8	Nestle India	**1,549**	18%	17%	1,572	23	80	57	102%	18%
9	Bajaj Finance	**1,162**	23%	26%	1,333	2	25	14	16%	19%
10	Larsen & Toubro	**998**	14%	15%	1,133	59	12	21	14%	13%
11	State Bank of India	**901**	10%	13%	1,758	83	11	12	6%	15%
12	Sun Pharma	**828**	23%	23%	845	3	21	16	9%	23%
13	Titan Company	**821**	22%	18%	829	6	55	24	23%	18%
14	Dabur India	**783**	20%	19%	796	8	52	42	23%	14%
15	Pidilite Inds	**686**	25%	20%	689	3	60	20	26%	13%
16	Hindustan Zinc	**642**	19%	19%	656	9	10	11	17%	10%
17	Britannia Inds	**640**	22%	20%	647	5	46	32	32%	19%
18	BPCL	**621**	11%	11%	686	44	16	15	11%	21%
19	Shree Cement	**608**	25%	19%	634	2	41	9	12%	24%
20	Dr Reddy's Labs	**504**	15%	17%	518	9	26	23	13%	16%
21	Berger Paints	**480**	24%	20%	483	1	75	12	24%	20%
22	Siemens	**380**	13%	15%	396	15	37	42	12%	13%
23	Eicher Motors	**355**	25%	23%	357	1	20	10	18%	42%
24	P&G Hygiene	**332**	17%	15%	339	7	78	50	38%	12%
25	Torrent Pharma	**328**	18%	16%	334	5	33	23	21%	21%
	TOTAL OF ABOVE	**34,821**	**18%**	**17%**	**37,775**	**602**	**21**	**18**	**13%**	**16%**
	TOTAL OF 100	**43,115**	**17%**	**17%**	**46,729**	**887**	**22**	**20**	**12%**	**16%**

* NWC – Net Wealth Created

Kotak Mahindra Bank is the most Consistent Wealth Creator over 25 years

- **Kotak Mahindra Bank** is the most Consistent Wealth Creator between 1995 and 2020.
- In the 23 three-year rolling periods between 1995 and 2020, Kotak Mahindra has outperformed the corresponding benchmark in 21 of those periods.
- It is closely followed by **Berger Paints** and **HDFC** with 20 periods of outperformance. (Where consistency is the same, higher the Price CAGR, higher the rank.)
- Six of the top 10 Consistent Wealth Creators are also among the top 10 Fastest Wealth Creators – **Berger Paints**, **Pidilite**, **Shree Cement**, **Honeywell Automation**, **Motherson Sumi** and **Sun Pharma**.

Top 25 Consistent Wealth Creators (1995 to 2020)

Rank	Company	Consistency Count *	25-year Price CAGR	25-year PAT CAGR	Market Cap (INR bn) 2020	Market Cap (INR bn) 1995	P/E (x) 2020	P/E (x) 1995	RoE 2020	RoE 1995
1	Kotak Mahindra Bank	21	21%	22%	2,480	9	29	14	13%	26%
2	Berger Paints	20	24%	20%	483	1	75	12	24%	20%
3	HDFC	20	19%	22%	2,824	20	13	14	17%	17%
4	Pidilite Inds	19	25%	20%	689	3	60	20	26%	13%
5	Shree Cement	19	25%	19%	634	2	41	9	12%	24%
6	Honeywell Auto	19	24%	22%	229	1	47	24	23%	19%
7	Motherson Sumi	19	23%	27%	193	1	17	26	10%	21%
8	Asian Paints	19	22%	18%	1,599	11	59	27	27%	26%
9	Dabur India	19	20%	19%	796	8	52	42	23%	14%
10	Sun Pharma	18	23%	23%	845	3	21	16	9%	23%
11	CRISIL	18	20%	18%	91	1	27	14	29%	24%
12	3M India	18	20%	22%	213	2	66	106	18%	8%
13	Aarti Industries	18	20%	18%	133	1	25	12	18%	23%
14	Chola Financial	18	14%	13%	54	4	10	14	12%	10%
15	Bajaj Finance	17	23%	26%	1,333	2	25	14	16%	19%
16	Coromandel Intl	17	20%	19%	159	1	15	9	25%	10%
17	Astrazeneca Pharma	17	19%	10%	60	1	83	14	20%	36%
18	Eicher Motors	16	25%	23%	357	1	20	10	18%	42%
19	Balkrishna Inds	16	22%	21%	153	1	19	15	16%	16%
20	Titan Company	16	22%	18%	829	6	55	24	23%	18%
21	Hero Motocorp	16	19%	22%	318	4	11	23	21%	26%
22	Kansai Nerolac	16	19%	16%	208	2	40	18	14%	25%
23	Torrent Pharma	16	18%	16%	334	5	33	23	21%	21%
24	Abbott India	16	18%	13%	328	4	55	16	24%	75%
25	P&G Hygiene	16	17%	15%	339	7	78	50	38%	12%

* Consistency count is the number of outperformances over the 23 three-year rolling periods between 1995 and 2020

Where consistency is the same, higher the Price CAGR, higher the rank

Kotak Mahindra Bank is also the best All-round Wealth Creator

- Besides being the Most Consistent Wealth Creator, **Kotak Mahindra Bank** has also emerged the best All-round Wealth Creator.
- The All-round Wealth Creators rank is arrived at by combining the ranks of Fastest, Biggest and Consistent Wealth Creators.
- Kotak Mahindra ranks 14th among the Fastest Wealth Creators, 5th among the Biggest and 1st among the Consistent Wealth Creators. This gives it a combined rank of 20, which is the best of the 100.
- It is closely followed by **Pidilite Industries** and **Asian Paints** with All-round Wealth Creators rank of 21 and 22, respectively.
- Here too, where the Total Rank is the same, higher the Price CAGR, higher the rank.

Top 25 All-round Wealth Creators (1995 to 2020)

Rank	Company	Fastest Rank	Biggest Rank	Consistent Rank	Total of Ranks	1995-2020 Price CAGR	1995-2020 PAT CAGR
1	Kotak Mahindra	14	5	1	20	21%	22%
2	Pidilite Inds	2	15	4	21	25%	20%
3	Asian Paints	11	7	8	26	22%	18%
4	Shree Cement	4	19	5	28	25%	19%
5	Berger Paints	5	21	2	28	24%	20%
6	Sun Pharma	7	12	10	29	23%	23%
7	HDFC	22	4	3	29	19%	22%
8	Bajaj Finance	8	9	15	32	23%	26%
9	Dabur India	20	14	9	43	20%	19%
10	Eicher Motors	3	23	18	44	25%	23%
11	Honeywell Auto	6	33	6	45	24%	22%
12	Titan Company	13	13	20	46	22%	18%
13	Britannia Inds	10	17	29	56	22%	20%
14	Motherson Sumi	9	43	7	59	23%	27%
15	Infosys	1	3	61	65	30%	33%
16	3M India	18	35	12	65	20%	22%
17	Nestle India	28	8	30	66	18%	17%
18	Reliance Industries	33	1	32	66	16%	16%
19	Hind. Unilever	34	2	33	69	16%	16%
20	Hero Motocorp	24	27	21	72	19%	22%
21	Coromandel Intl	16	45	16	77	20%	19%
22	Torrent Pharma	29	25	23	77	18%	16%
23	Balkrishna Inds	12	48	19	79	22%	21%
24	Abbott India	30	26	24	80	18%	13%
25	P&G Hygiene	32	24	25	81	17%	15%

Consumer/Retail is the Biggest Wealth Creating sector over 25 years

- At INR 12 trillion, Consumer/Retail is the biggest Wealth Creating sector during 1995 to 2020.
- 63 of the 100 Wealth Creators are from consumer-facing businesses, accounting for 68% of total Wealth Created.

Sector mix of Top 100 Wealth Creators (1995-2000)

Sector/	Net Wealth Created		Mkt Cap (INR bn)		1995-2020 CAGR		RoE		P/E	
{No. of companies}	INR bn	Mix	2020	1995	Mkt Cap	PAT	2020	1995	2020	1995
Consumer & Retail (14)	12,224	28%	12,571	220	18%	17%	29%	22%	40	36
Oil & Gas (2)	6,928	16%	7,738	164	17%	15%	10%	15%	16	13
NBFC (8)	4,002	9%	4,607	36	21%	21%	16%	16%	15	13
Pharma & Healthcare (15)	3,515	8%	3,758	79	17%	16%	8%	21%	32	30
IT (3)	2,839	7%	2,870	5	29%	33%	24%	14%	16	34
Banks - Private Sector (1)	2,293	5%	2,480	9	25%	22%	13%	26%	29	14
Paints (3)	2,272	5%	2,290	15	22%	18%	23%	25%	59	23
Autos (14)	2,235	5%	2,389	74	15%	16%	10%	15%	20	27
Cap Goods, Engg, Constn (8)	1,697	4%	1,881	98	13%	15%	14%	14%	16	25
Banks - Public Sector (1)	901	2%	1,758	83	13%	13%	6%	15%	11	12
Consumer Durables (6)	882	2%	911	24	16%	17%	17%	12%	25	31
Building Materials (4)	869	2%	915	20	16%	13%	12%	24%	35	18
Metals - Non-Ferrous (1)	642	1%	656	9	19%	19%	17%	10%	10	11
Chemicals (4)	343	1%	372	13	14%	14%	14%	14%	21	17
Textiles (2)	179	0%	183	4	17%	15%	20%	11%	16	12
Others (14)	1,292	3%	1,349	34	16%	16%	11%	14%	23	26
TOTAL (100)	**43,115**	**100%**	**46,729**	**887**	**17%**	**17%**	**12%**	**16%**	**22**	**20**

Top companies in 1995 which did not make it to the Wealth Creators list

- Almost 60 of the top 100 market cap companies in 1995 did not make it to the Wealth Creators list, as their return CAGR was lower than that of the Sensex (9.2%).
- Below are the top 25 among them.

Top 25 companies in 1995 whose 25-year return CAGR was lower than that of the Sensex (9.2%)

Company	Market Cap Rank in 1995	1995-2020 CAGR	
		Price	PAT
SAIL	1	-2%	3%
MTNL	3	-13%	0%
Tata Steel	6	3%	P to L
HPCL	8	6%	9%
Tata Motors	10	1%	P to L
Tata Comm	11	0%	P to L
Colgate-Palmolive	13	8%	11%
Hindalco Inds.	16	3%	11%
Grasim Inds	17	7%	12%
Tata Chemicals	18	3%	6%
Castrol India	19	4%	10%
ACC	20	6%	10%
BHEL	21	4%	P to L

Company	Market Cap Rank in 1995	1995-2020 CAGR	
		Price	PAT
JCT	23	-16%	P to L
Century Textiles	24	4%	4%
Indian Hotels	26	2%	5%
MRPL	28	-3%	0%
Ashok Leyland	32	7%	7%
Reliance Infra	33	-10%	8%
Tata Consumer	36	9%	10%
Ambuja Cements	37	9%	14%
Standard Battery	38	-13%	-5%
Reliance Capital	39	-12%	P to L
GE Shipping	41	6%	-2%
Tata Power	42	-5%	-5%

Note: P to L stands for Profit to Loss

Interesting data points over 25 years

Market Cap & PAT Mix between companies in 1995 and new listings post 1995

Around 50% of both current market cap and profits is by new listings post 1995. Clearly, the future holds a lot of promise.

INR billion	1995	2000	2005	2010	2015	2020
Market Cap	**3,080**	**7,527**	**15,497**	**58,398**	**98,743**	**1,12,507**
Base companies	3,080	5,003	7,980	26,695	47,930	53,726
New companies	0	2,525	7,517	31,704	50,813	58,781
Mix						
Base companies	100%	66%	51%	46%	49%	48%
New companies	**-**	**34%**	**49%**	**54%**	**51%**	**52%**
Profit After Tax	**166**	**273**	**1,166**	**3,023**	**3,652**	**4,226**
Base companies	166	160	604	1,352	1,704	2,248
New companies	0	114	562	1,671	1,948	1,978
Mix						
Base companies	100%	58%	52%	45%	47%	53%
New companies	**-**	**42%**	**48%**	**55%**	**53%**	**47%**

25 Most Profitable Companies (measured by Average RoE)

21 of 25 most profitable companies are consumer-facing. In the long run, amidst massive change, consumer and consumer behavior are the most predictable elements.

Company	1995-2020 Avg RoE	Company	1995-2020 Avg RoE	Company	1995-2020 Avg RoE
Hindustan Unilever	68%	Infosys	30%	Glaxo Pharma	23%
Nestle India	62%	Abbott India	29%	Foseco India	23%
Colgate-Palmolive	61%	Britannia Inds	29%	Berger Paints	23%
Castrol India	56%	CRISIL	28%	Coromandel Intl	23%
Hero Motocorp	41%	ITC	26%	Navneet Education	23%
P&G Hygiene	36%	Titan Company	24%	Monsanto India	23%
Dabur India	32%	Sun Pharma	24%	Pidilite Inds	23%
VST Industries	32%	Motherson Sumi	24%		
Asian Paints	30%	Torrent Pharma	24%		

25 Companies with highest PAT CAGR

Time is the friend of good companies and enemy of bad companies. In 25 years, successful companies grow to unimaginable levels. For instance, Infosys's 1995 PAT was INR 0.13 billion, which is now at INR 164 billion. This is a 33% CAGR or 1,256 times in 25 years.

	1995-2020 PAT			1995-2020 PAT	
Company	CAGR	Multiple	Company	CAGR	Multiple
Infosys	33%	1,256	Jubilant Life	21%	119
Vedanta	29%	565	Balkrishna Inds	21%	111
Motherson Sumi	27%	360	Hind. Oil Exploration	20%	105
Bata India	26%	321	Amara Raja Batt.	20%	103
Bajaj Finance	26%	314	Mah. Seamless	20%	94
Mphasis	25%	242	Berger Paints	20%	94
Sun Pharma	23%	184	Pidilite Inds	20%	92
Eicher Motors	23%	173	Bombay Burmah	20%	89
Hero Motocorp	22%	155	Britannia Inds.	20%	87
H D F C	22%	147	Hindustan Zinc	19%	83
Honeywell Auto	22%	142	Kalpataru Power	19%	80
Kotak Mahindra Bank	22%	135	Supreme Petrochem	19%	80
Bharat Electronics	21%	119			

25 Companies with biggest increase in PAT

(INR bn) Company	1995-2020 Incr. in PAT	% of FY20 PAT	(INR bn) Company	1995-2020 Incr. in PAT	% of FY20 PAT
Reliance Industries	418	97.6%	BPCL	39	93.1%
HDFC	213	99.3%	Hindalco Inds	36	92.6%
Infosys	164	99.9%	HPCL	30	88.5%
State Bank of India	156	95.6%	Hero Motocorp	30	99.4%
ITC	152	98.6%	Bajaj Holdings	27	90.0%
Larsen & Toubro	93	97.1%	Asian Paints	27	98.4%
Kotak Mahindra	85	99.3%	LIC Housing	24	98.3%
Vedanta	70	99.8%	Ambuja Cements	20	96.4%
Hindustan Unilever	67	97.3%	Dr Reddy's Labs	20	98.1%
Hindustan Zinc	66	98.8%	Nestle India	19	97.9%
Bajaj Finance	52	99.7%	Eicher Motors	18	99.4%
Grasim Inds	51	94.5%	Bharat Electronics	18	99.2%
Sun Pharma	39	99.5%			

25 Companies with highest Sales CAGR

What was true about change in PAT is equally true for change in Sales. Infosys tops the list again with Sales CAGR of 34% i.e. 1,638 times in 25 years.

	1995-2020 Sales	
Company	CAGR	Multiple
Infosys	34%	1,638
Motherson Sumi	32%	1,074
Mphasis	30%	701
Bajaj Finance	29%	638
Vedanta	27%	409
Sun Pharma	27%	406
Lupin	27%	389
Dewan Housing	27%	366
HDFC	26%	296
Max Financial	25%	247
Amara Raja Batt.	25%	243
Kalpataru Power	24%	227
Thomas Cook (I)	24%	200

	1995-2020 Sales	
Company	CAGR	Multiple
Zee Entertainment	23%	177
Reliance Capital	23%	170
Sundaram Clayton	22%	159
Reliance Industries	22%	154
Bombay Burmah	22%	139
CRISIL	22%	138
Kotak Mahindra Bank	21%	129
Hindalco Inds	21%	124
Cholaman.Inv.&Fn	21%	112
Rain Industries	20%	99
Dr Reddy's Labs	20%	97
Piramal Enterprises	20%	97

25 Companies with biggest increase in Sales

(INR bn) Company	1995-2020 Incr. in Sales	% of FY20 Sales
Reliance Industries	5,929	99.4%
BPCL	2,775	97.5%
HPCL	2,597	96.5%
Tata Motors	2,561	98.1%
Larsen & Toubro	1,424	97.9%
Tata Steel	1,356	97.0%
Hindalco Inds.	1,172	99.2%
State Bank of India	1,048	96.4%
M&M	935	98.2%
Infosys	907	99.9%
Vedanta	842	99.8%
Grasim Inds	756	97.3%
HDFC	694	99.7%

(INR bn) Company	1995-2020 Incr. in Sales	% of FY20 Sales
Motherson Sumi	635	99.9%
MRPL	502	100.0%
SAIL	491	79.6%
ITC	470	95.2%
Adani Enterp.	428	98.5%
Hindustan Unilever	370	92.9%
CPCL	349	93.6%
Sun Pharma	328	99.8%
Hero Motocorp	288	98.4%
Tata Power	281	96.5%
Ambuja Cements	267	98.6%
Ashok Leyland	211	93.9%

25 Fastest Book Value Growth Companies

Company	1995-2020 BV CAGR
Infosys	31%
Motherson Sumi	28%
Sun Pharma	26%
Eicher Motors	25%
Larsen & Toubro	24%
Lupin	24%
Hero Motocorp	23%
Amara Raja Batt.	23%
Mphasis	23%

Company	1995-2020 BV CAGR
Cipla	23%
Adani Enterprises	23%
Rain Industries	21%
Kotak Mahindra	21%
Bajaj Finance	21%
Sundaram Clayton	21%
Balkrishna Inds	20%
Shree Cement	20%
Honeywell Auto	20%

Company	1995-2020 BV CAGR
Mah. Scooters	20%
MRF	20%
HDFC	19%
Timken India	19%
Asahi India Glass	19%
ITC	19%
Mah. Seamless	19%

25 Highest Cumulative PAT Companies (INR bn)

Company	1995-2020 Sum of PAT
Reliance Industries	3,784
State Bank of India	1,727
Infosys	1,520
ITC	1,206
HDFC	1,204
Hindustan Zinc	882
Tata Motors	859
Larsen & Toubro	752
BPCL	679

Company	1995-2020 Sum of PAT
Hindustan Unilever	611
HPCL	518
SAIL	487
Sun Pharma	469
Kotak Mahindra	460
Hindalco Inds.	456
BHEL	449
M&M	448
Grasim Inds	413

Company	1995-2020 Sum of PAT
Vedanta	397
Tata Steel	395
Sterlite Inds.	385
Hero Motocorp	354
Bajaj Holdings	327
Reliance Infra	222
Ambuja Cements	209

25 Highest Cumulative Dividend Companies (INR bn)

Company	1995-2020 Sum of Divd
ITC	708
Infosys	633
Hindustan Zinc	503
Hindustan Unilever	498
Reliance Industries	457
HDFC	312
Vedanta	271
BPCL	262
State Bank of India	260

Company	1995-2020 Sum of Divd
Hero Motocorp	206
Larsen & Toubro	206
HPCL	179
Tata Steel	176
SAIL	124
BHEL	118
M&M	99
Nestle India	83
Asian Paints	83

Company	1995-2020 Sum of Divd
Tata Motors	82
Ambuja Cements	76
Sun Pharma	68
ACC	66
Castrol India	65
Bajaj Holdings	64
Tata Comm	64

25 Biggest Capex Companies measured by increase in Gross Block (INR bn)

Company	1995-2020 Incr. in GB
Reliance Industries	7,385
Tata Motors	2,686
Tata Steel	1,934
Vedanta	1,398
Hindalco Inds	1,383
Grasim Inds	990
SAIL	984
BPCL	716
M&M	680

Company	1995-2020 Incr. in GB
State Bank of India	664
Tata Power Co.	660
HPCL	604
Tata Steel BSL	564
Larsen & Toubro	510
Infosys	389
Sun Pharma	351
Tata Comm	346
Motherson Sumi	307

Company	1995-2020 Incr. in GB
Reliance Infra	288
Hindustan Zinc	285
ITC	272
CESC	262
MRPL	254
Ambuja Cements	250
Apollo Tyres	240

25 Companies with Highest Increase in Debt (INR bn)

Company	1995-2020 Incr. in Debt
Reliance Industries	3,522
Larsen & Toubro	1,411
Tata Motors	1,236
Tata Steel	1,128
Grasim Inds	829
M&M	822
Hindalco Inds	680
BPCL	651
Vedanta	591

Company	1995-2020 Incr. in Debt
Tata Power	475
HPCL	434
Piramal Enterprises	421
SAIL	419
Ashok Leyland	218
Tata Steel BSL	166
Reliance Infra	162
MRPL	159
Aban Offshore	156

Company	1995-2020 Incr. in Debt
Motherson Sumi	131
CESC	127
Adani Enterprises	124
Tata Comm	122
Sundaram Clayton	120
Chambal Fertilisers	88
Sun Pharma	83

1995-2020 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 150 stocks by market cap rank
- **Mini** – All stocks below the top 250 ranks.

Market cap ranks of companies change constantly. Over time, companies also cross over from one category to another. For the period 1995-20, the market cap ranks crossover matrix stands as given below.

1995-2020: Market cap rank crossovers: Number of companies and average returns

TO (in 2020)	FROM (in 1995) Mini	Mid	Mega
Mega	**4**	**10**	32
Avg Return	***24%***	***21%***	*13%*
Mid	**16**	22	**20**
Avg Return	***18%***	*12%*	***7%***
Mini	911	**99**	**45**
Avg Return	*0%*	***-1%***	***-3%***

How to read the table

- **FIRST COLUMN:**
  — Over1995-20, 4 Minis moved to the Mega category, delivering 34% return CAGR
  — 16 Minis moved to Mid by 2020, (21% return CAGR).
  — 911 Mini companies stayed as Mini (0% return CAGR).
- **SECOND COLUMN:**
  — 10 Mids moved to Mega by 2020 (21% return CAGR)
  — 22 Mids stayed as Mid (12% return CAGR).
  — 99 Mids slipped to Mini (-1% return CAGR).
- **THIRD COLUMN:**
  — Of the 100 Mega companies in 1995, only 32 stayed as Mega in 2020 (13% return CAGR).
  — 20 slipped to Mid (7% return CAGR)
  — A high 45 slipped to Mini (-3% return CAGR).
- **Note:** During the 1995-2020 period, Sensex return was 9.2%.

We present the major positive crossovers below.

Mini to Mega (4 companies; 24% return CAGR)

	Rank		1995-2020 CAGR		Mkt Cap (INR bn)		P/E	
Company	**Mar-20**	**Mar-95**	**Price**	**PAT**	**Mar-20**	**Mar-95**	**Mar-20**	**Mar-95**
Eicher Motors	52	388	**25%**	23%	357	1	20	10
Berger Paints	47	450	**24%**	20%	483	1	75	12
Honeywell Auto	95	439	**24%**	22%	229	1	47	24
Havells India	70	1001	**23%**	28%	300	0.2	41	12
AVERAGE			**24%**					

Mini to Mid (16 companies; 18% return CAGR)

	Rank		1995-2020 CAGR		Mkt Cap (INR bn)		P/E	
Company	**Mar-20**	**Mar-95**	**Price**	**PAT**	**Mar-20**	**Mar-95**	**Mar-20**	**Mar-95**
Vinati Organics	216	1065	**28%**	24%	79	0.2	24	10
Motherson Sumi	111	432	**23%**	27%	193	1	17	26
Balkrishna Inds	136	376	**22%**	21%	153	1	19	15
Coromandel Intl	128	324	**20%**	19%	159	1	15	9
CRISIL	195	452	**20%**	18%	91	1	27	14
Aarti Industries	148	377	**20%**	18%	133	1	25	12
Amara Raja Batt.	211	528	**19%**	20%	82	1	13	10
Astrazeneca	244	437	**19%**	10%	60	1	83	14
TTK Prestige	228	400	**18%**	13%	68	1	35	11
Apollo Hospitals	130	681	**18%**	17%	158	0.4	49	6
Mphasis	153	458	**16%**	25%	124	1	10	16
Exide Inds	167	286	**16%**	19%	112	2	14	14
Johnson Controls	245	735	**16%**	14%	58	0.3	69	9
Schaeffler India	165	300	**15%**	16%	116	1	31	18
Shriram Transport	140	987	**13%**	25%	150	0.2	6	2
Cholaman.Inv.&Fn	152	481	**10%**	18%	125	1	12	4
AVERAGE			**18%**					

Mid to Mega (10 companies; 21% return CAGR)

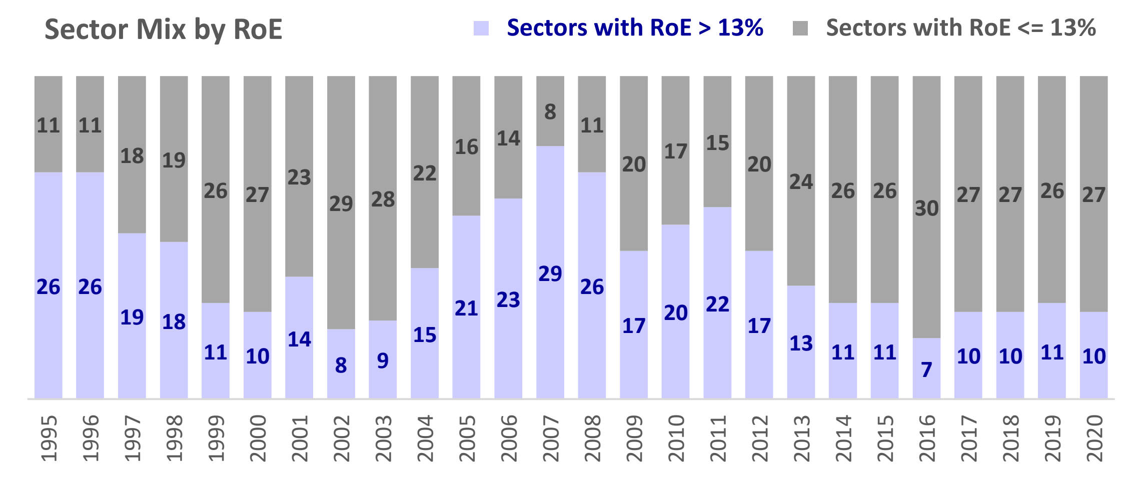
	Rank		1995-2020 CAGR		Mkt Cap (INR bn)		P/E	
Company	**Mar-20**	**Mar-95**	**Price**	**PAT**	**Mar-20**	**Mar-95**	**Mar-20**	**Mar-95**
Infosys	6	156	**30%**	33%	2,727	3	17	26
Pidilite Inds	32	202	**25%**	20%	689	3	60	20
Shree Cement	37	250	**25%**	19%	634	2	41	9
Sun Pharma	25	153	**23%**	23%	845	3	21	16
Bajaj Finance	15	212	**23%**	26%	1,333	2	25	14
Lupin	81	241	**20%**	P to L	267	2	-	34
3M India	100	222	**20%**	22%	213	2	66	106
Hero Motocorp	66	119	**19%**	22%	318	4	11	23
Abbott India	63	123	**18%**	13%	328	4	55	16
Whirlpool India	96	107	**12%**	14%	229	5	47	28
AVERAGE			**21%**					

Stock Markets over 25 years – Key indicators

Sector profitability low for the last 8 years

- Most businesses are cyclical in character. As is said, a rising tide lifts all boats. Most sectors do well when the economy is on the upswing. Thus, at the peak of the economic boom in 2007, 29 of 37 sectors recorded RoE>13%. However, for the last 7 years, that number is down to between 7 and 11.
- Only 3 sectors – **Consumer/Retail**, **IT** and **Paints** – maintained RoE>13% for each of the last 25 years.

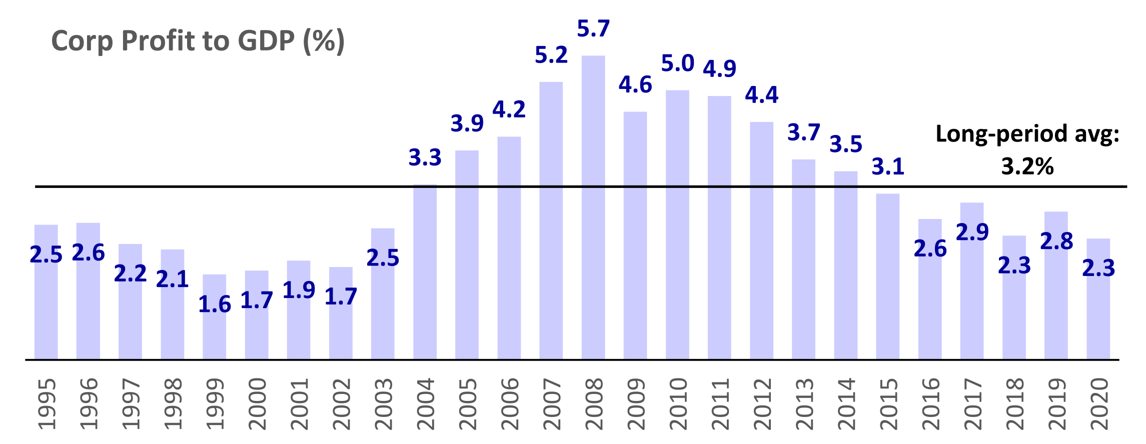
Sector profitability low for the last 8 years



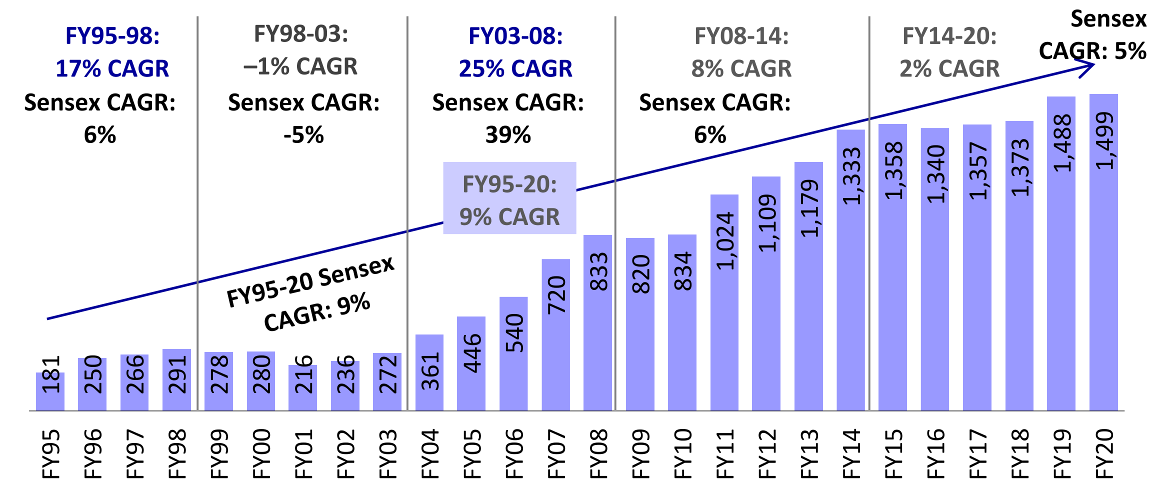
Corporate Profit to GDP at all-time lows

We seem to have hit the bottom in corporate profits. Corporate Profit to GDP has stagnated for the last 5 years. This is similar to 1999 to 2003, after which corporate profits took off for the next 5 years.

Corporate Profit to GDP at all-time lows



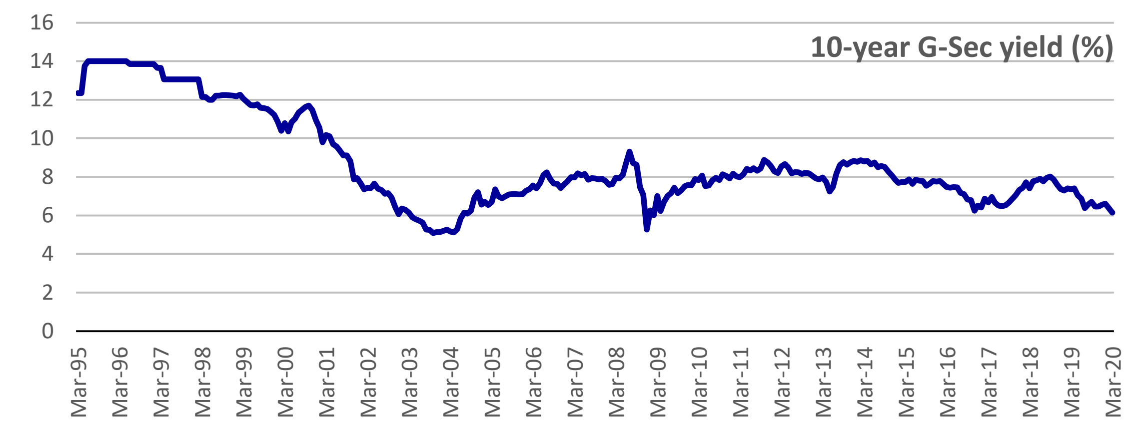
Sensex EPS is near flat FY14 through FY20



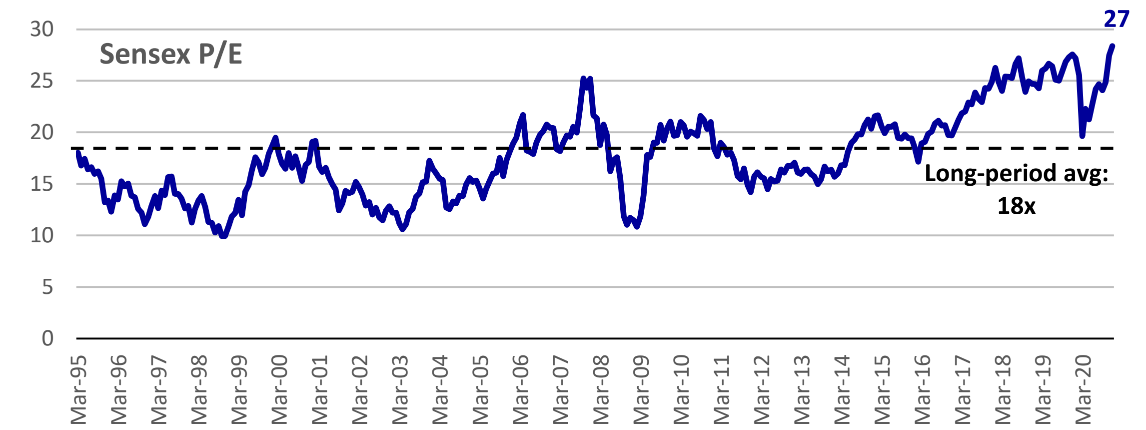
Interest rates are softening

Permanent change in long-term interest rate band (from 12-14% to 6-8%) is leading to change in valuation expectations. Current valuations are supported by expected PAT revival after 5 years of stagnation and high liquidity led by low interest rates.

Interest rates are softening



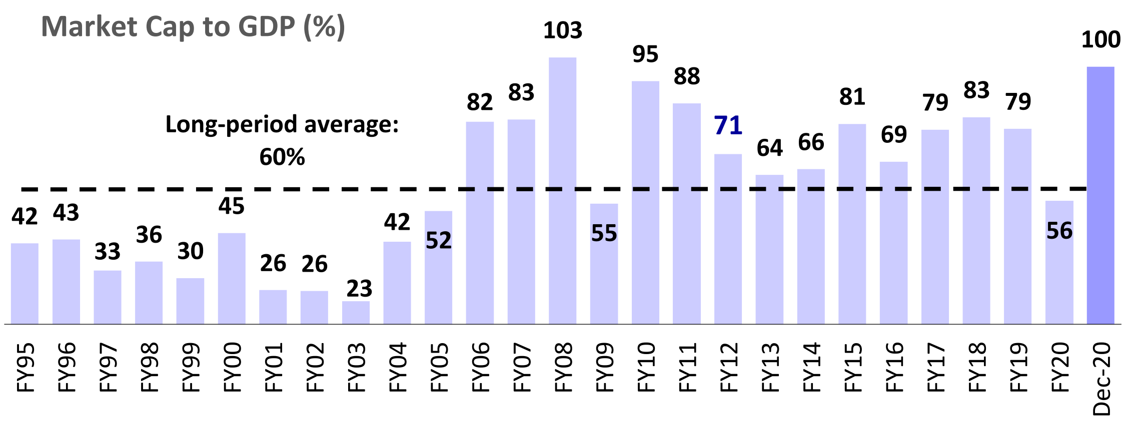
Falling interest rate is driving up valuations to well above long-period average



Market Cap to GDP close to all-time high

Valuations are frothy with market cap around 100% of GDP.

Market Cap to GDP well above long-period average



Market outlook

In the near term, expect the market to track nominal GDP growth of 10-12%.

25-for-25

A logical approach to shortlist 25 stocks for the next 25 years

Having studied how wealth got created in the last 25 years, we thought it an interesting idea to attempt shortlisting 25 stocks likely to deliver handsome returns over the next 25 years.
We describe the approach below and stick our neck out with the names.

The 25-for-25 approach

Step 1: Observe the top 25 Wealth Creators of the last 25 years

Our observations here are follows. Almost all companies …

- Were small to mid in size in the base year 1995
- Were consumer-facing, bestowing them a secular business model
- Were very profitable (average base RoE was a robust 17%)
- Grew to emerge as market leaders (among top 3) in their respective business
- Had management with high integrity and competence.

Step 2: Build a portfolio of the potential 25 Wealth Creators for the next 25 years

Based on the learnings above, we used a logical approach to build a portfolio of 25 stocks which are potential Wealth Creators over the next 25 years.

1. **SIZE:** We started with a list of 150 midcaps i.e. companies ranked 101 to 250 by current market cap.
2. **BUSINESS MODEL:** We preferred consumer-facing companies with secular business models. So we eliminated cyclical businesses like Auto ancillaries, Capital Goods, Chemicals, Oil & Gas and Realty. This reduced the list of companies from 150 to 114.

3. **VERY PROFITABLE:** To ensure this, we chose companies with last 5-year average RoE greater than 15%. This reduced the list from 114 to 63.
4. **BUSINESS POTENTIAL & MANAGEMENT POTENTIAL:** Next, to the best of our ability, we judged the business potential and management potential of the companies, and selected only those which qualified on both counts. This reduced the list from 63 to 28.
5. **MARKET LEADERSHIP:** We selected market leaders from the 28 companies to arrive at a list of 13 companies.
6. **VALUE MIGRATION:** We have observed that in situations of Value Migration (see page 63), all companies benefit irrespective of market leadership. So, of the 28 in Point 4, we selected 5 beneficiaries of Value Migration, taking the total list of shortlisted stocks to 18.
7. **LARGE CAPS FOR FINANCIALS:** We believe Financial Services is quite a risky business, and here size begets size. So, we mainly resorted to large caps for financials, and roped in 6 leader names for the portfolio, taking the total to 24.
8. **DIGITAL PLAY:** Finally, we opted for a pure digital play, even if it didn't meet some of the above filters, taking the total to 25.
9. **VALUATION:** We believe in the very long run, valuations matter less. So we ignored the same in the shortlisting process.

We present the "25-for-25" stocks below.

The 25 for 25 stocks

1	Ajanta Pharma	10	Dr Lal Pathlabs	19	Mphasis
2	Alembic Pharma	11	HDFC AMC	20	Muthoot Finance
3	Astral Poly Tech	12	HDFC Bank	21	P&G Health
4	AU Small Finance	13	HDFC Life Insurance	22	Page Industries
5	Bajaj Finance	14	Honeywell Auto	23	Syngene International
6	Bata India	15	ICICI Lombard	24	Varun Beverages
7	Bayer Crop Science	16	ICICI Securities	25	Whirlpool India
8	Coromandel International	17	Indiamart Intermesh		
9	Dixon Technologies	18	Max Financial		

IMPORTANT DISCLAIMER: The stocks mentioned above are used to explain the concept only, and should not be used for development or implementation of any investment strategy. The same should not be construed as investment advice to any party. Motilal Oswal Group and its associates may have financial interest in some or all of the companies named here.

1995-2020: Closing observations

- Time is a friend of good companies and enemy of bad companies. In 25 years, successful companies grow to unimaginable levels in sales, profits and market cap.
- Sustained Wealth Creation is a challenge. Of the top 500 companies listed in 1995, only 100 companies have outperformed the benchmark.
- Stock returns are slaves of earnings power and growth. In the very long run, valuations matter less.
- The future always holds a lot more promise. Over 50% of current market cap is made up of listings post 1995.

APPENDIX 1: Fastest Wealth Creators – 1995 to 2020

Note: NWC: Net Wealth Created; P to L: Profit to Loss; L to P: Loss to Profit; NM: Not Meaningful

Rank	Company	25-year Price CAGR	25-year Price Multiple	25-year PAT CAGR	NWC (INR bn)	Mkt Cap (INR bn) 2020	Mkt Cap (INR bn) 1995	P/E (x) 2020	P/E (x) 1995	RoE 2020	RoE 1995
1	Infosys	**30%**	**688**	33%	2,700	2,727	3	17	26	25%	21%
2	Pidilite Inds	**25%**	**258**	20%	686	689	3	60	20	26%	13%
3	Eicher Motors	**25%**	**255**	23%	355	357	1	20	10	18%	42%
4	Shree Cement	**25%**	**240**	19%	608	634	2	41	9	12%	24%
5	Berger Paints	**24%**	**239**	20%	480	483	1	75	12	24%	20%
6	Honeywell Auto	**24%**	**219**	22%	228	229	1	47	24	23%	19%
7	Sun Pharma	**23%**	**180**	23%	828	845	3	21	16	9%	23%
8	Bajaj Finance	**23%**	**172**	26%	1,162	1,333	2	25	14	16%	19%
9	Motherson Sumi	**23%**	**161**	27%	163	193	1	17	26	10%	21%
10	Britannia Inds	**22%**	**142**	20%	640	647	5	46	32	32%	19%
11	Asian Paints	**22%**	**139**	18%	1,586	1,599	11	59	27	27%	26%
12	Balkrishna Inds	**22%**	**136**	21%	152	153	1	19	15	16%	16%
13	Titan Company	**22%**	**135**	18%	821	829	6	55	24	23%	18%
14	Kotak Mahindra Bank	**21%**	**117**	22%	2,293	2,480	9	29	14	13%	26%
15	Lupin	**20%**	**103**	P to L	255	267	2	-	34	-4%	15%
16	Coromandel Intl	**20%**	**101**	19%	156	159	1	15	9	25%	10%
17	CRISIL	**20%**	**97**	18%	88	91	1	27	14	29%	24%
18	3M India	**20%**	**96**	22%	211	213	2	66	106	18%	8%
19	Aarti Industries	**20%**	**95**	18%	124	133	1	25	12	18%	23%
20	Dabur India	**20%**	**93**	19%	783	796	8	52	42	23%	14%
21	Amara Raja Batteries	**19%**	**84**	20%	81	82	1	13	10	18%	49%
22	HDFC	**19%**	**82**	22%	2,475	2,824	20	13	14	17%	17%
23	Hindustan Zinc	**19%**	**74**	19%	642	656	9	10	11	17%	10%
24	Hero Motocorp	**19%**	**71**	22%	314	318	4	11	23	21%	26%
25	Kansai Nerolac	**19%**	**71**	16%	205	208	2	40	18	14%	25%
26	Astrazeneca Pharma	**19%**	**70**	10%	59	60	1	83	14	20%	36%
27	TTK Prestige	**18%**	**69**	13%	67	68	1	35	11	15%	13%
28	Nestle India	**18%**	**68**	17%	1,549	1,572	23	80	57	102%	18%
29	Torrent Pharma	**18%**	**61**	16%	328	334	5	33	23	21%	21%
30	Abbott India	**18%**	**57**	13%	324	328	4	55	16	24%	75%
31	Voltas	**17%**	**49**	14%	156	158	3	29	16	13%	12%
32	P&G Hygiene	**17%**	**49**	15%	332	339	7	78	50	38%	12%
33	Reliance Industries	**16%**	**42**	16%	6,307	7,052	120	16	12	9%	14%
34	Hindustan Unilever	**16%**	**41**	16%	4,893	4,975	82	72	44	84%	26%
35	Mphasis	**16%**	**41**	25%	121	124	1	10	16	20%	55%
36	Can Fin Homes	**16%**	**40**	15%	34	37	1	10	7	17%	23%
37	Ipca Labs	**16%**	**40**	15%	171	175	4	29	23	16%	18%
38	Grindwell Norton	**16%**	**40**	14%	49	51	1	30	14	14%	19%
39	Asahi India Glass	**16%**	**39**	15%	35	38	1	25	15	12%	36%
40	Exide Inds	**16%**	**38**	19%	102	112	2	14	14	12%	10%
41	Atul	**16%**	**37**	16%	116	118	2	18	15	21%	10%
42	Dr Reddy's Labs	**15%**	**37**	17%	504	518	9	26	23	13%	16%
43	Adani Enterprises	**15%**	**35**	16%	138	151	3	16	12	6%	35%
44	Schaeffler India	**15%**	**34**	16%	113	116	1	31	18	12%	18%
45	Carborundum Univ.	**14%**	**28**	13%	40	42	2	15	13	14%	15%
46	Larsen & Toubro	**14%**	**28**	15%	998	1,133	59	12	21	14%	13%
47	Blue Star	**14%**	**28**	11%	41	44	2	31	15	19%	18%
48	MRF	**14%**	**28**	18%	238	247	9	17	43	12%	15%
49	Sundaram Clayton	**14%**	**27**	15%	27	30	2	8	17	15%	14%
50	Trent	**14%**	**27**	11%	148	170	2	154	33	5%	21%
Rank	Company	25-year Price CAGR	25-year Price Multiple	25-year PAT CAGR	NWC (INR bn)	Mkt Cap (INR bn) 2020	Mkt Cap (INR bn) 1995	P/E (x) 2020	P/E (x) 1995	RoE 2020	RoE 1995

APPENDIX 1: Fastest Wealth Creators – 1995 to 2020 (continued)

		25-year Price		25-year	NWC	Mkt Cap (INR bn)		P/E (x)		RoE	
Rank	Company	CAGR	Multiple	PAT CAGR	(INR bn)	2020	1995	2020	1995	2020	1995
51	ITC	14%	27	18%	1,945	2,114	69	14	31	24%	26%
52	Supreme Inds	14%	26	14%	107	110	3	24	20	21%	15%
53	Chola Financial	14%	25	13%	30	54	4	10	14	12%	10%
54	Cipla	14%	25	18%	312	341	12	23	47	9%	26%
55	Kajaria Ceramics	14%	25	13%	56	60	2	23	16	15%	23%
56	Bata India	14%	24	26%	154	158	4	48	362	17%	1%
57	Blue Dart Express	14%	24	-7%	50	52	2	NM	18	0%	17%
58	Gillette India	14%	24	16%	175	178	3	77	56	25%	11%
59	SRF	14%	24	17%	157	160	3	16	14	20%	7%
60	Siemens	13%	23	15%	380	396	15	37	42	12%	13%
61	Pfizer	13%	23	18%	166	184	4	36	48	15%	18%
62	Kalpataru Power	13%	21	19%	19	28	1	7	14	12%	18%
63	Godrej Industries	13%	21	10%	79	95	8	20	18	8%	16%
64	Sanofi India	13%	20	14%	137	144	7	32	46	19%	12%
65	J B Chem & Pharma	13%	19	14%	37	39	2	15	16	18%	24%
66	P&G Health	12%	18	13%	57	60	3	35	39	19%	21%
67	Bharat Forge	12%	18	12%	99	109	4	29	18	7%	10%
68	LIC Housing Finance	12%	18	18%	97	119	5	5	12	13%	16%
69	Zensar Tech	12%	17	L to P	18	19	1	8	-29	12%	-9%
70	Whirlpool India	12%	17	0%	223	229	5	47	0	19%	0%
71	Bharat Electronics	12%	16	21%	168	181	12	10	78	18%	5%
72	Godfrey Phillips	12%	16	10%	46	49	3	15	10	15%	39%
73	Bosch	12%	16	15%	255	278	22	25	69	12%	17%
74	Sudarshan Chem	11%	15	14%	24	26	2	20	35	22%	9%
75	Akzo Nobel	11%	15	9%	94	100	6	42	22	19%	13%
76	Venky's (India)	11%	14	P to L	11	12	1	-	12	-3%	16%
77	Piramal Enterprises	11%	14	0%	109	212	7	866	26	0%	13%
78	M&M	11%	13	P to L	313	354	17	-1	15	-1%	14%
79	Bombay Burmah	11%	13	20%	47	51	4	9	54	12%	7%
80	BPCL	11%	13	11%	621	686	44	16	15	11%	21%
81	Esab India	11%	13	13%	15	17	1	23	35	21%	11%
82	Nirlon	11%	13	L to P	19	22	1	20	-	24%	-29%
83	Elgi Equipments	11%	12	8%	16	18	1	42	16	6%	20%
84	Cholaman.Inv.&Fn	10%	12	18%	95	125	1	12	4	13%	15%
85	Navneet Education	10%	12	15%	13	14	1	7	14	23%	27%
86	State Bank of India	10%	12	13%	901	1,758	83	11	12	6%	15%
87	The Ramco Cement	10%	12	10%	111	121	10	20	20	12%	38%
88	Jubilant Life	10%	12	21%	32	40	2	4	23	17%	9%
89	ABB	10%	12	8%	179	198	19	57	38	10%	22%
90	Zee Entertainment	10%	12	15%	114	119	4	19	20	7%	34%
91	Bayer Crop Science	10%	12	16%	149	155	5	27	35	22%	23%
92	Timken India	10%	11	L to P	48	57	4	23	-	16%	-70%
93	EPL	10%	11	12%	45	49	3	23	19	14%	23%
94	Sundram Fasteners	10%	11	11%	56	61	5	19	23	16%	41%
95	Glaxo Pharma	10%	11	7%	196	211	13	147	55	8%	0%
96	Mah. Scooters	10%	11	12%	21	23	2	13	18	2%	13%
97	VIP Industries	10%	11	13%	32	34	1	23	18	24%	13%
98	VST Industries	10%	10	11%	39	43	4	14	18	39%	23%
99	Garware Technical	10%	10	9%	21	23	1	17	8	19%	28%
100	Max Financial	10%	10	12%	96	104	3	72	33	7%	22%
	AGGREGATE	**17%**	**53**	**17%**	**43,115**	**46,729**	**887**	**22**	**20**	**12%**	**16%**

Rank	Company	25-year Price CAGR	Multiple	25-year PAT CAGR	NWC (INR bn)	Mkt Cap (INR bn) 2020	1995	P/E (x) 2020	1995	RoE 2020	1995

APPENDIX 2: Biggest Wealth Creators – 1995 to 2020

Note: NWC: Net Wealth Created; P to L: Profit to Loss; L to P: Loss to Profit

Rank	Company	NWC (INR bn)	25-year Price CAGR	25-year PAT CAGR	Market Cap (INR bn) 2020	Market Cap (INR bn) 1995	P/E (x) 2020	P/E (x) 1995	RoE 2020	RoE 1995
1	Reliance Industries	6,307	16%	16%	7,052	120	16	12	9%	14%
2	Hindustan Unilever	4,893	16%	16%	4,975	82	72	44	84%	26%
3	Infosys	2,700	30%	33%	2,727	3	17	26	25%	21%
4	HDFC	2,475	19%	22%	2,824	20	13	14	17%	17%
5	Kotak Mahindra Bank	2,293	21%	22%	2,480	9	29	14	13%	26%
6	ITC	1,945	14%	18%	2,114	69	14	31	24%	26%
7	Asian Paints	1,586	22%	18%	1,599	11	59	27	27%	26%
8	Nestle India	1,549	18%	17%	1,572	23	80	57	102%	18%
9	Bajaj Finance	1,162	23%	26%	1,333	2	25	14	16%	19%
10	Larsen & Toubro	998	14%	15%	1,133	59	12	21	14%	13%
11	State Bank of India	901	10%	13%	1,758	83	11	12	6%	15%
12	Sun Pharma	828	23%	23%	845	3	21	16	9%	23%
13	Titan Company	821	22%	18%	829	6	55	24	23%	18%
14	Dabur India	783	20%	19%	796	8	52	42	23%	14%
15	Pidilite Inds	686	25%	20%	689	3	60	20	26%	13%
16	Hindustan Zinc	642	19%	19%	656	9	10	11	17%	10%
17	Britannia Inds	640	22%	20%	647	5	46	32	32%	19%
18	BPCL	621	11%	11%	686	44	16	15	11%	21%
19	Shree Cement	608	25%	19%	634	2	41	9	12%	24%
20	Dr Reddy's Labs	504	15%	17%	518	9	26	23	13%	16%
21	Berger Paints	480	24%	20%	483	1	75	12	24%	20%
22	Siemens	380	13%	15%	396	15	37	42	12%	13%
23	Eicher Motors	355	25%	23%	357	1	20	10	18%	42%
24	P&G Hygiene	332	17%	15%	339	7	78	50	38%	12%
25	Torrent Pharma	328	18%	16%	334	5	33	23	21%	21%
26	Abbott India	324	18%	13%	328	4	55	16	24%	75%
27	Hero Motocorp	314	19%	22%	318	4	11	23	21%	26%
28	M&M	313	11%	P to L	354	17	-	15	-1%	14%
29	Cipla	312	14%	18%	341	12	23	47	9%	26%
30	Lupin	255	20%	P to L	267	2	-	34	-4%	15%
31	Bosch	255	12%	15%	278	22	25	69	12%	17%
32	MRF	238	14%	18%	247	9	17	43	12%	15%
33	Honeywell Auto	228	24%	22%	229	1	47	24	23%	19%
34	Whirlpool India	223	12%	0%	229	5	47	0	19%	0%
35	3M India	211	20%	22%	213	2	66	106	18%	8%
36	Kansai Nerolac	205	19%	16%	208	2	40	18	14%	25%
37	Glaxo Pharma	196	10%	7%	211	13	147	55	8%	0%
38	ABB	179	10%	8%	198	19	57	38	10%	22%
39	Gillette India	175	14%	16%	178	3	77	56	25%	11%
40	Ipca Labs	171	16%	15%	175	4	29	23	16%	18%
41	Bharat Electronics	168	12%	21%	181	12	10	78	18%	5%
42	Pfizer	166	13%	18%	184	4	36	48	15%	18%
43	Motherson Sumi	163	23%	27%	193	1	17	26	10%	21%
44	SRF	157	14%	17%	160	3	16	14	20%	7%
45	Coromandel Intl	156	20%	19%	159	1	15	9	25%	10%
46	Voltas	156	17%	14%	158	3	29	16	13%	12%
47	Bata India	154	14%	26%	158	4	48	362	17%	1%
48	Balkrishna Inds	152	22%	21%	153	1	19	15	16%	16%
49	Bayer Crop Science	149	10%	16%	155	5	27	35	22%	23%
50	Trent	148	14%	11%	170	2	154	33	5%	21%
Rank	Company	NWC (INR bn)	25-year Price CAGR	25-year PAT CAGR	Market Cap (INR bn) 2020	Market Cap (INR bn) 1995	P/E (x) 2020	P/E (x) 1995	RoE 2020	RoE 1995

APPENDIX 2: Biggest Wealth Creators – 1995 to 2020 (continued)

Rank	Company	NWC (INR bn)	25-year Price CAGR	25-year PAT CAGR	Market Cap (INR bn) 2020	Market Cap (INR bn) 1995	P/E (x) 2020	P/E (x) 1995	RoE 2020	RoE 1995
51	Adani Enterprises	**138**	15%	16%	151	3	16	12	6%	35%
52	Sanofi India	**137**	13%	14%	144	7	32	46	19%	12%
53	Aarti Industries	**124**	20%	18%	133	1	25	12	18%	23%
54	Mphasis	**121**	16%	25%	124	1	10	16	20%	55%
55	Atul	**116**	16%	16%	118	2	18	15	21%	10%
56	Zee Entertainment	**114**	10%	15%	119	4	19	20	7%	34%
57	Schaeffler India	**113**	15%	16%	116	1	31	18	12%	18%
58	The Ramco Cement	**111**	10%	10%	121	10	20	20	12%	38%
59	Piramal Enterprises	**109**	11%	0%	212	7	866	26	0%	13%
60	Supreme Inds	**107**	14%	14%	110	3	24	20	21%	15%
61	Exide Inds	**102**	16%	19%	112	2	14	14	12%	10%
62	Bharat Forge	**99**	12%	12%	109	4	29	18	7%	10%
63	LIC Housing Finance	**97**	12%	18%	119	5	5	12	13%	16%
64	Max Financial	**96**	10%	12%	104	3	72	33	7%	22%
65	Cholaman.Inv.&Fn	**95**	10%	18%	125	1	12	4	13%	15%
66	Akzo Nobel	**94**	11%	9%	100	6	42	22	19%	13%
67	CRISIL	**88**	20%	18%	91	1	27	14	29%	24%
68	Amara Raja Batt.	**81**	19%	20%	82	1	13	10	18%	49%
69	Godrej Industries	**79**	13%	10%	95	8	20	18	8%	16%
70	TTK Prestige	**67**	18%	13%	68	1	35	11	15%	13%
71	Astrazeneca Pharma	**59**	19%	10%	60	1	83	14	20%	36%
72	P&G Health	**57**	12%	13%	60	3	35	39	19%	21%
73	Kajaria Ceramics	**56**	14%	13%	60	2	23	16	15%	23%
74	Sundram Fasteners	**56**	10%	11%	61	5	19	23	16%	41%
75	Blue Dart Express	**50**	14%	-7%	52	2	NM	18	0%	17%
76	Grindwell Norton	**49**	16%	14%	51	1	30	14	14%	19%
77	Timken India	**48**	10%	L to P	57	4	23	-	16%	-70%
78	Bombay Burmah	**47**	11%	20%	51	4	9	54	12%	7%
79	Godfrey Phillips	**46**	12%	10%	49	3	15	10	15%	39%
80	EPL	**45**	10%	12%	49	3	23	19	14%	23%
81	Blue Star	**41**	14%	11%	44	2	31	15	19%	18%
82	Carborundum Univ.	**40**	14%	13%	42	2	15	13	14%	15%
83	VST Industries	**39**	10%	11%	43	4	14	18	39%	23%
84	J B Chem & Pharma	**37**	13%	14%	39	2	15	16	18%	24%
85	Asahi India Glass	**35**	16%	15%	38	1	25	15	12%	36%
86	Can Fin Homes	**34**	16%	15%	37	1	10	7	17%	23%
87	VIP Industries	**32**	10%	13%	34	1	23	18	24%	13%
88	Jubilant Life	**32**	10%	21%	40	2	4	23	17%	9%
89	Chola Financial	**30**	14%	13%	54	4	10	14	12%	10%
90	Sundaram Clayton	**27**	14%	15%	30	2	8	17	15%	14%
91	Sudarshan Chem	**24**	11%	14%	26	2	20	35	22%	9%
92	Garware Technical	**21**	10%	9%	23	1	17	8	19%	28%
93	Mah. Scooters	**21**	10%	12%	23	2	13	18	2%	13%
94	Nirlon	**19**	11%	L to P	22	1	20	-	24%	-29%
95	Kalpataru Power	**19**	13%	19%	28	1	7	14	12%	18%
96	Zensar Tech	**18**	12%	L to P	19	1	8	-	12%	-9%
97	Elgi Equipments	**16**	11%	8%	18	1	42	16	6%	20%
98	Esab India	**15**	11%	13%	17	1	23	35	21%	11%
99	Navneet Education	**13**	10%	15%	14	1	7	14	23%	27%
100	Venky's (India)	**11**	11%	P to L	12	1	-	12	-3%	16%
	AGGREGATE	**43,115**	**17%**	**17%**	**46,729**	**887**	**22**	**20**	**12%**	**16%**
Rank	**Company**	**NWC (INR bn)**	**25-year Price CAGR**	**25-year PAT CAGR**	**Market Cap (INR bn) 2020**	**Market Cap (INR bn) 1995**	**P/E (x) 2020**	**P/E (x) 1995**	**RoE 2020**	**RoE 1995**

APPENDIX 3: Consistent Wealth Creators – 1995 to 2020

Note: Consistency in the tables here stands for number of 3-year rolling periods from 1995 to 2020, the stock has outperformed the Sensex
Where Consistency is the same, higher the Price CAGR, higher the rank. P to L: Profit to Loss; L to P: Loss to Profit; NM: Not Meaningful

		Consistency	25-year	25-year	Market Cap (INR bn)		P/E (x)		RoE	
Rank	Company	Count	Price CAGR	PAT CAGR	2020	1995	2020	1995	2020	1995
1	Kotak Mahindra. Bank	21	21%	22%	2,480	9	29	14	13%	26%
2	Berger Paints	20	24%	20%	483	1	75	12	24%	20%
3	HDFC	20	19%	22%	2,824	20	13	14	17%	17%
4	Pidilite Inds	19	25%	20%	689	3	60	20	26%	13%
5	Shree Cement	19	25%	19%	634	2	41	9	12%	24%
6	Honeywell Auto	19	24%	22%	229	1	47	24	23%	19%
7	Motherson Sumi	19	23%	27%	193	1	17	26	10%	21%
8	Asian Paints	19	22%	18%	1,599	11	59	27	27%	26%
9	Dabur India	19	20%	19%	796	8	52	42	23%	14%
10	Sun Pharma	18	23%	23%	845	3	21	16	9%	23%
11	CRISIL	18	20%	18%	91	1	27	14	29%	24%
12	3M India	18	20%	22%	213	2	66	106	18%	8%
13	Aarti Industries	18	20%	18%	133	1	25	12	18%	23%
14	Chola Financial	18	14%	13%	54	4	10	14	12%	10%
15	Bajaj Finance	17	23%	26%	1,333	2	25	14	16%	19%
16	Coromandel Intl	17	20%	19%	159	1	15	9	25%	10%
17	Astrazeneca Pharma	17	19%	10%	60	1	83	14	20%	36%
18	Eicher Motors	16	25%	23%	357	1	20	10	18%	42%
19	Balkrishna Inds	16	22%	21%	153	1	19	15	16%	16%
20	Titan Company	16	22%	18%	829	6	55	24	23%	18%
21	Hero Motocorp	16	19%	22%	318	4	11	23	21%	26%
22	Kansai Nerolac	16	19%	16%	208	2	40	18	14%	25%
23	Torrent Pharma	16	18%	16%	334	5	33	23	21%	21%
24	Abbott India	16	18%	13%	328	4	55	16	24%	75%
25	P&G Hygiene	16	17%	15%	339	7	78	50	38%	12%
26	Grindwell Norton	16	16%	14%	51	1	30	14	14%	19%
27	Atul	16	16%	16%	118	2	18	15	21%	10%
28	The Ramco Cement	16	10%	10%	121	10	20	20	12%	38%
29	Britannia Inds	15	22%	20%	647	5	46	32	32%	19%
30	Nestle India	15	18%	17%	1,572	23	80	57	102%	18%
31	Voltas	15	17%	14%	158	3	29	16	13%	12%
32	Reliance Industries	15	16%	16%	7,052	120	16	12	9%	14%
33	Hindustan Unilever	15	16%	16%	4,975	82	72	44	84%	26%
34	Dr Reddy's Labs	15	15%	17%	518	9	26	23	13%	16%
35	Adani Enterprises	15	15%	16%	151	3	16	12	6%	35%
36	Schaeffler India	15	15%	16%	116	1	31	18	12%	18%
37	Blue Star	15	14%	11%	44	2	31	15	19%	18%
38	Bata India	15	14%	26%	158	4	48	362	17%	1%
39	SRF	15	14%	17%	160	3	16	14	20%	7%
40	Sanofi India	15	13%	14%	144	7	32	46	19%	12%
41	Godfrey Phillips	15	12%	10%	49	3	15	10	15%	39%
42	Akzo Nobel	15	11%	9%	100	6	42	22	19%	13%
43	Piramal Enterprises	15	11%	0%	212	7	866	26	0%	13%
44	BPCL	15	11%	11%	686	44	16	15	11%	21%
45	Elgi Equipments	15	11%	8%	18	1	42	16	6%	20%
46	Lupin	14	20%	P to L	267	2	-	34	-4%	15%
47	Amara Raja Batt.	14	19%	20%	82	1	13	10	18%	49%
48	Hindustan Zinc	14	19%	19%	656	9	10	11	17%	10%
49	Can Fin Homes	14	16%	15%	37	1	10	7	17%	23%
50	Exide Inds	14	16%	19%	112	2	14	14	12%	10%
Rank	Company	Consistency	25-year	25-year	Market Cap (INR bn)		P/E (x)		RoE	
		Count	Price CAGR	PAT CAGR	2020	1995	2020	1995	2020	1995

APPENDIX 3: Consistent Wealth Creators – 1995 to 2020 (continued)

Rank	Company	Consistency Count	25-year Price CAGR	25-year PAT CAGR	Market Cap (INR bn) 2020	Market Cap (INR bn) 1995	P/E (x) 2020	P/E (x) 1995	RoE 2020	RoE 1995
51	Carborundum Univ.	14	14%	13%	42	2	15	13	14%	15%
52	Trent	14	14%	11%	170	2	154	33	5%	21%
53	ITC	14	14%	18%	2,114	69	14	31	24%	26%
54	Cipla	14	14%	18%	341	12	23	47	9%	26%
55	Blue Dart Express	14	14%	-7%	52	2	NM	18	0%	17%
56	Siemens	14	13%	15%	396	15	37	42	12%	13%
57	Pfizer	14	13%	18%	184	4	36	48	15%	18%
58	J B Chem & Pharma	14	13%	14%	39	2	15	16	18%	24%
59	Bosch	14	12%	15%	278	22	25	69	12%	17%
60	M&M	14	11%	P to L	354	17	-	15	-1%	14%
61	Infosys	13	30%	33%	2,727	3	17	26	25%	21%
62	TTK Prestige	13	18%	13%	68	1	35	11	15%	13%
63	Mphasis	13	16%	25%	124	1	10	16	20%	55%
64	Ipca Labs	13	16%	15%	175	4	29	23	16%	18%
65	Sundaram Clayton	13	14%	15%	30	2	8	17	15%	14%
66	Gillette India	13	14%	16%	178	3	77	56	25%	11%
67	Bharat Forge	13	12%	12%	109	4	29	18	7%	10%
68	LIC Housing Finance	13	12%	18%	119	5	5	12	13%	16%
69	Bharat Electronics	13	12%	21%	181	12	10	78	18%	5%
70	Nirlon	13	11%	L to P	22	1	20	-	24%	-29%
71	Cholaman.Inv.&Fn	13	10%	18%	125	1	12	4	13%	15%
72	Zee Entertainment	13	10%	15%	119	4	19	20	7%	34%
73	Bayer Crop Science	13	10%	16%	155	5	27	35	22%	23%
74	Glaxo Pharma	13	10%	7%	211	13	147	55	8%	0%
75	VIP Industries	13	10%	13%	34	1	23	18	24%	13%
76	VST Industries	13	10%	11%	43	4	14	18	39%	23%
77	Asahi India Glass	12	16%	15%	38	1	25	15	12%	36%
78	Larsen & Toubro	12	14%	15%	1,133	59	12	21	14%	13%
79	MRF	12	14%	18%	247	9	17	43	12%	15%
80	Supreme Inds	12	14%	14%	110	3	24	20	21%	15%
81	Kajaria Ceramics	12	14%	13%	60	2	23	16	15%	23%
82	Zensar Tech	12	12%	L to P	19	1	8	-	12%	-9%
83	Whirlpool India	12	12%	0%	229	5	47	0	19%	0%
84	Sudarshan Chem	12	11%	14%	26	2	20	35	22%	9%
85	Bombay Burmah	12	11%	20%	51	4	9	54	12%	7%
86	State Bank of India	12	10%	13%	1,758	83	11	12	6%	15%
87	Timken India	12	10%	L to P	57	4	23	-	16%	-70%
88	Mah. Scooters	12	10%	12%	23	2	13	18	2%	13%
89	Kalpataru Power	11	13%	19%	28	1	7	14	12%	18%
90	Godrej Industries	11	13%	10%	95	8	20	18	8%	16%
91	P&G Health	11	12%	13%	60	3	35	39	19%	21%
92	Venky's (India)	11	11%	P to L	12	1	-	12	-3%	16%
93	Esab India	11	11%	13%	17	1	23	35	21%	11%
94	Navneet Education	11	10%	15%	14	1	7	14	23%	27%
95	EPL	11	10%	12%	49	3	23	19	14%	23%
96	Sundram Fasteners	11	10%	11%	61	5	19	23	16%	41%
97	Garware Technical	11	10%	9%	23	1	17	8	19%	28%
98	Max Financial	11	10%	12%	104	3	72	33	7%	22%
99	ABB	10	10%	8%	198	19	57	38	10%	22%
100	Jubilant Life	9	10%	21%	40	2	4	23	17%	9%
	AGGREGATE		**17%**	**17%**	**46,729**	**887**	**22**	**20**	**12%**	**16%**

Rank	Company	Consistency Count	25-year Price CAGR	25-year PAT CAGR	Market Cap (INR bn) 2020	Market Cap (INR bn) 1995	P/E (x) 2020	P/E (x) 1995	RoE 2020	RoE 1995

APPENDIX 4: All-round Wealth Creators – 1995 to 2020

Note: Where Total of Ranks is the same, higher the Price CAGR, higher the Rank

Rank	Company	Fastest Rank	Biggest Rank	Consistent Rank	Total of Ranks	1995-2020 Price CAGR	1995-2020 PAT CAGR
1	Kotak Mahindra Bank	14	5	1	20	21%	22%
2	Pidilite Inds	2	15	4	21	25%	20%
3	Asian Paints	11	7	8	26	22%	18%
4	Shree Cement	4	19	5	28	25%	19%
5	Berger Paints	5	21	2	28	24%	20%
6	Sun Pharma	7	12	10	29	23%	23%
7	HDFC	22	4	3	29	19%	22%
8	Bajaj Finance	8	9	15	32	23%	26%
9	Dabur India	20	14	9	43	20%	19%
10	Eicher Motors	3	23	18	44	25%	23%
11	Honeywell Auto	6	33	6	45	24%	22%
12	Titan Company	13	13	20	46	22%	18%
13	Britannia Inds	10	17	29	56	22%	20%
14	Motherson Sumi	9	43	7	59	23%	27%
15	Infosys	1	3	61	65	30%	33%
16	3M India	18	35	12	65	20%	22%
17	Nestle India	28	8	30	66	18%	17%
18	Reliance Industries	33	1	32	66	16%	16%
19	Hind. Unilever	34	2	33	69	16%	16%
20	Hero Motocorp	24	27	21	72	19%	22%
21	Coromandel Intl	16	45	16	77	20%	19%
22	Torrent Pharma	29	25	23	77	18%	16%
23	Balkrishna Inds	12	48	19	79	22%	21%
24	Abbott India	30	26	24	80	18%	13%
25	P & G Hygiene	32	24	25	81	17%	15%
26	Kansai Nerolac	25	36	22	83	19%	16%
27	Aarti Industries	19	53	13	85	20%	18%
28	Hindustan Zinc	23	16	48	87	19%	19%
29	Lupin	15	30	46	91	20%	P to L
30	CRISIL	17	67	11	95	20%	18%
31	Dr Reddy's Labs	42	20	34	96	15%	17%
32	Voltas	31	46	31	108	17%	14%
33	ITC	51	6	53	110	14%	18%
34	Astrazeneca Pharma	26	71	17	114	19%	10%
35	Atul	41	55	27	123	16%	16%
36	Adani Enterprises	43	51	35	129	15%	16%
37	Larsen & Toubro	46	10	78	134	14%	15%
38	Amara Raja Batteries	21	68	47	136	19%	20%
39	Schaeffler India	44	57	36	137	15%	16%
40	Cipla	54	29	54	137	14%	18%
41	Siemens	60	22	56	138	13%	15%
42	Grindwell Norton	38	76	26	140	16%	14%
43	Ipca Labs	37	40	64	141	16%	15%
44	Bata India	56	47	38	141	14%	26%
45	SRF	59	44	39	142	14%	17%
46	BPCL	80	18	44	142	11%	11%
47	Exide Industries	40	61	50	151	16%	19%
48	Mphasis	35	54	63	152	16%	25%
49	Trent	50	50	52	152	14%	11%
50	Chola Financial	53	89	14	156	14%	13%
Rank	Company	Fastest Rank	Biggest Rank	Consistent Rank	Total of Ranks	1995-2020 Price CAGR	1995-2020 PAT CAGR

APPENDIX 4: All-round Wealth Creators – 1995 to 2020 (continued)

Rank	Company	Fastest Rank	Biggest Rank	Consistent Rank	Total of Ranks	1995-2020 Price CAGR	1995-2020 PAT CAGR
51	Sanofi India	64	52	40	156	13%	14%
52	TTK Prestige	27	70	62	159	18%	13%
53	MRF	48	32	79	159	14%	18%
54	Pfizer	61	42	57	160	13%	18%
55	Gillette India	58	39	66	163	14%	16%
56	Bosch	73	31	59	163	12%	15%
57	Blue Star	47	81	37	165	14%	11%
58	M&M	78	28	60	166	11%	P to L
59	Can Fin Homes	36	86	49	171	16%	15%
60	The Ramco Cement	87	58	28	173	10%	10%
61	Carborundum Univ.	45	82	51	178	14%	13%
62	Piramal Enterprises	77	59	43	179	11%	0%
63	Bharat Electronics	71	41	69	181	12%	21%
64	Akzo Nobel	75	66	42	183	11%	9%
65	State Bank of India	86	11	86	183	10%	13%
66	Blue Dart Express	57	75	55	187	14%	-7%
67	Whirlpool India	70	34	83	187	12%	0%
68	Supreme Inds	52	60	80	192	14%	14%
69	Godfrey Phillips	72	79	41	192	12%	10%
70	Bharat Forge	67	62	67	196	12%	12%
71	LIC Housing Finance	68	63	68	199	12%	18%
72	Asahi India Glass	39	85	77	201	16%	15%
73	Sundaram Clayton	49	90	65	204	14%	15%
74	Glaxo Pharma	95	37	74	206	10%	7%
75	J B Chem & Pharma	65	84	58	207	13%	14%
76	Kajaria Ceramics	55	73	81	209	14%	13%
77	Bayer Crop Science	91	49	73	213	10%	16%
78	Zee Entertainment	90	56	72	218	10%	15%
79	Cholaman.Inv.&Fn	84	65	71	220	10%	18%
80	Godrej Industries	63	69	90	222	13%	10%
81	Elgi Equipments	83	97	45	225	11%	8%
82	ABB	89	38	99	226	10%	8%
83	P&G Health	66	72	91	229	12%	13%
84	Bombay Burmah	79	78	85	242	11%	20%
85	Kalpataru Power	62	95	89	246	13%	19%
86	Nirlon	82	94	70	246	11%	L to P
87	Zensar Tech.	69	96	82	247	12%	L to P
88	Sudarshan Chem	74	91	84	249	11%	14%
89	Timken India	92	77	87	256	10%	L to P
90	VST Industries	98	83	76	257	10%	11%
91	VIP Inds.	97	87	75	259	10%	13%
92	Max Financial	100	64	98	262	10%	12%
93	Sundram Fasteners	94	74	96	264	10%	11%
94	Venky's (India)	76	100	92	268	11%	P to L
95	EPL	93	80	95	268	10%	12%
96	Esab India	81	98	93	272	11%	13%
97	Jubilant Life	88	88	100	276	10%	21%
98	Mah. Scooters	96	93	88	277	10%	12%
99	Navneet Education	85	99	94	278	10%	15%
100	Garware Technical	99	92	97	288	10%	9%
Rank	Company	Fastest Rank	Biggest Rank	Consistent Rank	Total of Ranks	1995-2020 Price CAGR	1995-2020 PAT CAGR

APPENDIX 5: 1995 to 2020 Wealth Creators – Alphabetical listing

Company	Fastest Rank	Biggest Rank	Consistent Rank	All-round Rank	1995-2020 Price CAGR	1995-2020 PAT CAGR
3M India	18	35	12	16	20%	22%
ABB	89	38	99	82	10%	8%
Aarti Industries	19	53	10	27	20%	18%
Abbott India	30	26	18	24	18%	13%
Adani Enterprises	43	51	29	36	15%	16%
Akzo Nobel	75	66	29	64	11%	9%
Amara Raja Batteries	21	68	46	38	19%	20%
Asahi India Glass	39	85	77	72	16%	15%
Asian Paints	11	7	4	3	22%	18%
Astrazeneca Pharma	26	71	15	34	19%	10%
Atul	41	55	18	35	16%	16%
BPCL	80	18	29	46	11%	11%
Bajaj Finance	8	9	15	8	23%	26%
Balkrishna Inds	12	48	18	23	22%	21%
Bata India	56	47	29	44	14%	26%
Bayer Crop Science	91	49	61	77	10%	16%
Berger Paints	5	21	2	5	24%	20%
Bharat Electronics	71	41	61	63	12%	21%
Bharat Forge	67	62	61	70	12%	12%
Blue Dart Express	57	75	46	66	14%	-7%
Blue Star	47	81	29	57	14%	11%
Bombay Burmah	79	78	77	84	11%	20%
Bosch	73	31	46	56	12%	15%
Britannia Inds	10	17	29	13	22%	20%
Can Fin Homes	36	86	46	59	16%	15%
Carborundum Univ.	45	82	46	61	14%	13%
Chola Financial	53	89	10	50	14%	13%
Cholaman.Inv.&Fn	84	65	61	79	10%	18%
Cipla	54	29	46	40	14%	18%
Coromandel Intl	16	45	15	21	20%	19%
CRISIL	17	67	10	30	20%	18%
Dabur India	20	14	4	9	20%	19%
Dr Reddy's Labs	42	20	29	31	15%	17%
Eicher Motors	3	23	18	10	25%	23%
Elgi Equipments	83	97	29	81	11%	8%
EPL	93	80	89	95	10%	12%
Esab India	81	98	89	96	11%	13%
Exide Industries	40	61	46	47	16%	19%
Garware Technical	99	92	89	100	10%	9%
Gillette India	58	39	61	55	14%	16%
Glaxo Pharma	95	37	61	74	10%	7%
Godfrey Phillips	72	79	29	69	12%	10%
Godrej Industries	63	69	89	80	13%	10%
Grindwell Norton	38	76	18	42	16%	14%
HDFC	22	4	2	7	19%	22%
Hero Motocorp	24	27	18	20	19%	22%
Hindustan Unilever	34	2	29	19	16%	16%
Hindustan Zinc	23	16	46	28	19%	19%
Honeywell Auto	6	33	4	11	24%	22%
Infosys	1	3	61	15	30%	33%
Company	**Fastest Rank**	**Biggest Rank**	**Consistent Rank**	**All-round Rank**	**1995-2020 Price CAGR**	**1995-2020 PAT CAGR**

APPENDIX 5: 1995 to 2020 Wealth Creators – Alphabetical listing (continued)

Company	Fastest Rank	Biggest Rank	Consistent Rank	All-round Rank	1995-2020 Price CAGR	1995-2020 PAT CAGR
Ipca Labs	37	40	61	43	16%	15%
ITC	51	6	46	33	14%	18%
J B Chem & Pharma	65	84	46	75	13%	14%
Jubilant Life	88	88	100	97	10%	21%
Kajaria Ceramics	55	73	77	76	14%	13%
Kalpataru Power	62	95	89	85	13%	19%
Kansai Nerolac	25	36	18	26	19%	16%
Kotak Mahindra Bank	14	5	1	1	21%	22%
Larsen & Toubro	46	10	77	37	14%	15%
LIC Housing Finance	68	63	61	71	12%	18%
Lupin	15	30	46	29	20%	P to L
M&M	78	28	46	58	11%	P to L
Maharashtra Scooters	96	93	77	98	10%	12%
Max Financial	100	64	89	92	10%	12%
Motherson Sumi	9	43	4	14	23%	27%
Mphasis	35	54	61	48	16%	25%
MRF	48	32	77	53	14%	18%
Navneet Education	85	99	89	99	10%	15%
Nestle India	28	8	29	17	18%	17%
Nirlon	82	94	61	86	11%	L to P
P&G Health	66	72	89	83	12%	13%
P&G Hygiene	32	24	18	25	17%	15%
Pfizer	61	42	46	54	13%	18%
Pidilite Industries	2	15	4	2	25%	20%
Piramal Enterprises	77	59	29	62	11%	0%
Reliance Industries	33	1	29	18	16%	16%
Sanofi India	64	52	29	51	13%	14%
Schaeffler India	44	57	29	39	15%	16%
Shree Cement	4	19	4	4	25%	19%
Siemens	60	22	46	41	13%	15%
SRF	59	44	29	45	14%	17%
State Bank of India	86	11	77	65	10%	13%
Sudarshan Chemicals	74	91	77	88	11%	14%
Sun Pharma	7	12	10	6	23%	23%
Sundaram Clayton	49	90	61	73	14%	15%
Sundram Fasteners	94	74	89	93	10%	11%
Supreme Industries	52	60	77	68	14%	14%
The Ramco Cement	87	58	18	60	10%	10%
Timken India	92	77	77	89	10%	L to P
Titan Company	13	13	18	12	22%	18%
Torrent Pharma	29	25	18	22	18%	16%
Trent	50	50	46	49	14%	11%
TTK Prestige	27	70	61	52	18%	13%
VIP Industries	97	87	61	91	10%	13%
Venky's (India)	76	100	89	94	11%	P to L
Voltas	31	46	29	32	17%	14%
VST Industries	98	83	61	90	10%	11%
Whirlpool India	70	34	77	67	12%	0%
Zee Entertainment	90	56	61	78	10%	15%
Zensar Tech.	69	96	77	87	12%	L to P
Company	**Fastest Rank**	**Biggest Rank**	**Consistent Rank**	**All-round Rank**	**1995-2020 Price CAGR**	**1995-2020 PAT CAGR**

Theme 2021

The QGLP Checklist

25 questions, 25 frameworks

"In my nearly fifty years of experience in Wall Street, I've found that I know less and less about what the stock market is going to do but I know more and more about what investors ought to do, and that's a pretty vital change in attitude."

— Benjamin Graham

Introduction

Why checklist?

A checklist is a standardized list of required steps developed usually for repetitive tasks. The main benefit of a checklist is that it helps us stay more organized, and ensuring that we don't skip any important step in the process.

Equity investing is a complex process with multiple variables involved. Having a checklist makes sure that the investor has looked into all the key variables to see that they are in order. Further, the checklist should help the investor arrive at the value of a stock, to be compared with the prevailing price to determine Value-Price gap. When Benjamin Graham says in the above quote, "I know more and more about what investors ought to do", it may well be interpreted that an investor ought to maintain a checklist of all that they need to do.

Given that almost every investor has their own unique investing style, there cannot be a one-size-fits-all checklist. Whatever be the style, there is an appropriate checklist for the same, which the investor should take time to create, and more importantly, apply it before every investment decision.

Motilal Oswal's investment philosophy is captured in the acronym **QGLP** – Quality, Growth, Longevity, at reasonable Price (more on this later). Accordingly, our checklist is designed to help decide whether a particular stock is "QGLP-compliant" or not.

Having said that, we believe the checklist presented here will also benefit a much larger audience who follow stock-picking based on a company's business and financial fundamentals.

IMPORTANT NOTE: The checklist shared here is by no means gospel. It's a work-in-progress, and will be constantly improved, based on the learnings as we continue to implement it.

Backdrop

The basics of investing

Before we go into the checklist, we cover the basics of investing – from defining what is investing to briefly discussing how to generate investment ideas.

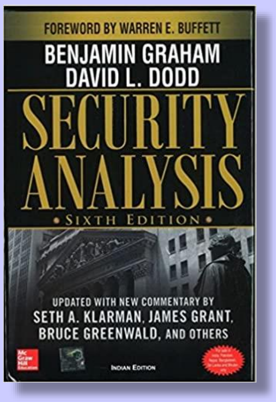
What is investing

For the purposes of this Study, investing means buying into the equity shares of companies, listed on the stock exchange. Having said that, the first thing to understand is that investing is different from speculation (see Framework #1).

Framework #1

Investing v/s Speculation

Benjamin Graham wrote in his first classic book, *Security Analysis* (1934): "An investment operation is one which, upon thorough analysis, promises safety of principal and a satisfactory return. Operations not meeting these requirements are speculative."



Thus, an investor seeks a positive change in the value of their holding, whereas the speculator seeks merely a change in price.

Note that this is not a judgement call that investing is better than speculation. However, this framework helps the investor to bear in mind whether they are investing in a particular stock or speculating.

Two approaches to equity investing

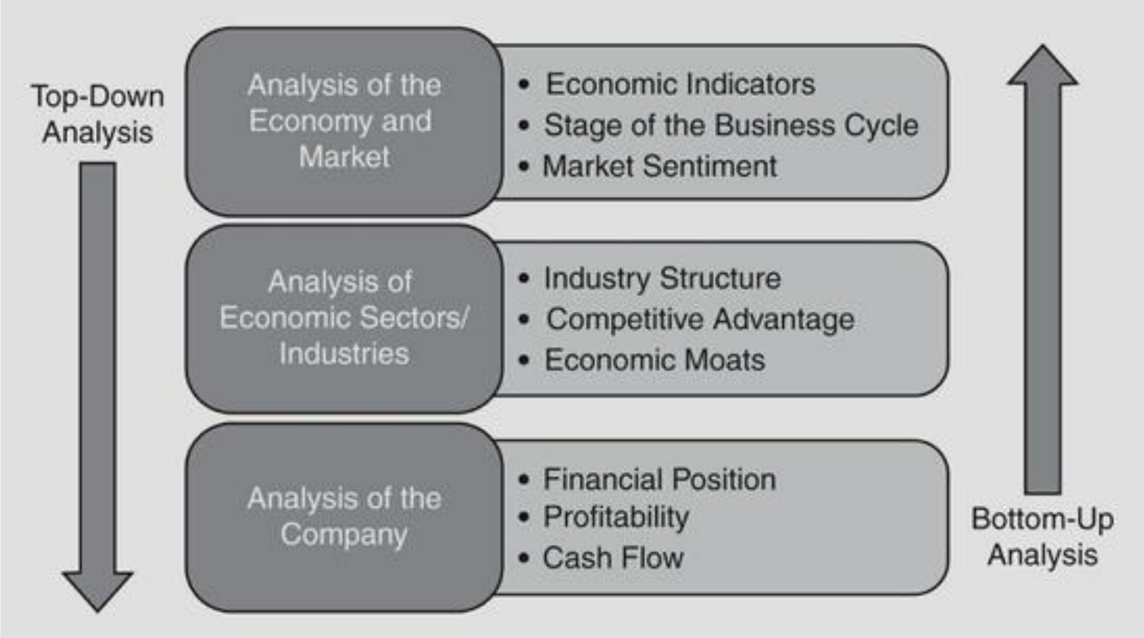
There are two approaches to equity investing, popularly known as **Top-down** and **Bottom-up** investing. As the graphic on next page suggests, top-down investing starts with analysis of the economy and markets. Based on the same, investors determine which sectors are expected to do well. Next, from within such sectors, investors try and pick up the stocks which are investment-worthy, i.e. likely to outperform the market.

In contrast, the bottom-up investing directly starts with fundamental analysis of companies, its financials and business. Prospects of the sector and economy are considered here too, but from the perspective of how they impact the company.

Most global investors need to follow the top-down approach as they almost necessarily need to take a call on which economies worldwide are expected to do well. Else, there's the risk of their capital eroding e.g. by virtue of a sharp depreciation of the local currency.

The checklist discussed here is for bottom-up stock picking. All the questions and frameworks, including the ones pertaining to the sector and economy, are from the company's perspective.

Top-down and Bottom-up investing



Source: *Strategic Value Investing: Practical Techniques of Leading Value Investors*, by Stephen Horan, Robert Johnson and Thomas Robinson.

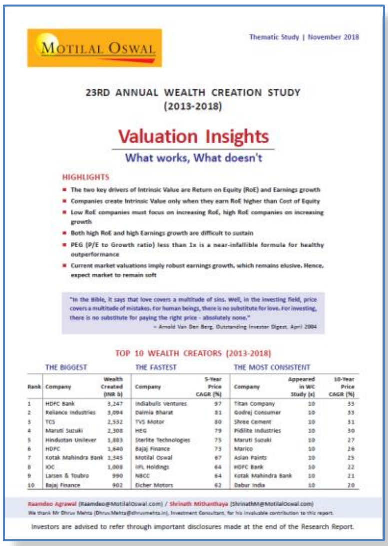
The essence of equity investing is – buying (and staying invested in) only those stocks where there is a significant **Value-Price gap**. As Warren Buffett has said, 'Price is what we pay. Value is what we get." Thus, the equity investing process may be simply reduced to –

- Assessing value of stocks
- Comparing the value with the prevailing price and
- Buying them only if there is adequate Margin of Safety i.e. the price should be meaningfully lower than the assessed value to account for potential risks in investing.

Having defined equity investing, we next define Value and briefly discuss its components.

What is Value

Following are key extracts from our 23rd Wealth Creation Study theme, "*Valuation Insights*". Click on the cover page to read the full study.


MOTILAL OSWAL

Thematic Study | November 2018

23RD ANNUAL WEALTH CREATION STUDY (2013-2018)

Valuation Insights

What works, What doesn't

HIGHLIGHTS

- The two key drivers of Intrinsic Value are Return on Equity (RoE) and Earnings growth
- Companies create Intrinsic Value only when they earn RoE higher than Cost of Equity
- Low RoE companies must focus on increasing RoE, high RoE companies on increasing growth
- Both high RoE and high Earnings growth are difficult to sustain
- PEG (P/E to Growth ratio) less than 1x is a near-infallible formula for healthy outperformance
- Current market valuations imply robust earnings growth, which remains elusive. Hence, expect market to remain soft

"In the Bible, it says that love covers a multitude of sins. Well, in the investing field, price covers a multitude of mistakes. For human beings, there is no substitute for love. For investing, there is no substitute for paying the right price - absolutely none."
– Arnold Van Den Berg, Outstanding Investor Digest, April 2004

TOP 10 WEALTH CREATORS (2013-2018)

	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	HDFC Bank	3,247	Indiabulls Ventures	97	Titan Company	10	33
2	Reliance Industries	3,094	Dalmia Bharat	81	Godrej Consumer	10	33
3	TCS	2,532	TVS Motor	80	Shree Cement	10	31
4	Maruti Suzuki	2,308	HEG	79	Pidilite Industries	10	30
5	Hindustan Unilever	1,883	Sterlite Technologies	75	Maruti Suzuki	10	27
6	HDFC	1,640	Bajaj Finance	73	Marico	10	26
7	Kotak Mahindra Bank	1,345	Motilal Oswal	67	Asian Paints	10	25
8	IOC	1,008	IIFL Holdings	64	HDFC Bank	10	22
9	Larsen & Toubro	990	NBCC	64	Kotak Mahindra Bank	10	21
10	Bajaj Finance	902	Eicher Motors	62	Dabur India	10	20

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

Investopedia defines **Intrinsic Value** as, "the ***perceived*** or calculated value of a company, including tangible and intangible factors, using fundamental analysis. The intrinsic value may or may not be the same as the current market value."

The key word here is "perceived". As is humorously said, "In the stock market, most people know the price of everything but the value of nothing." Price is universal to all, but value lies in the minds of individual investors. In fact, the very reason stock trades happen is because at the same price, some investors think the stock is below ***their*** perceived value (hence they buy), whereas some others think it is beyond ***their*** perceived value (hence they sell). Those investors get rewarded whose perception of value is closer to that which the market majority eventually converges to.

The most irrefutable definition of Intrinsic Value for any asset is – **present value of its lifetime cash flows**. This is most easily depicted in valuing fixed income instruments.

Intrinsic value of fixed income instruments

The table below depicts the cash flow and Intrinsic Value calculation for a bond with face value of INR 1,000 and 8% coupon. The annual interest inflows will be INR 80. In the 10th year, the principal of INR 1,000 will also be repaid.

Now, these cash flows need to be discounted by the return that an investor desires. Thus, if an investor desires 10% return, their present value of Year 1 interest inflow of INR 80 is INR 73 (80÷1.1), that of the Year 2 interest inflow is INR 66 (80÷1.21), and so on. This way, the total present value of the interest and principal repayment inflows is INR 877, which is the bond's Intrinsic Value for this particular investor. If another investor desires a return of 12%, their Intrinsic Value would work out to INR 774.

Intrinsic Value calculation for a bond with face value of INR 1,000 and 8% coupon if an investor desires 10% return

Year		*1*	*2*	*3*	*4*	*5*	*6*	*7*	*8*	*9*	*10*
Interest @ 8% of 1,000	(A)	80	80	80	80	80	80	80	80	80	80
Principal repayment	(B)	-	-	-	-	-	-	-	-	-	1,000
Total Cash flow	(C)=(A)+(B)	**80**	**80**	**80**	**80**	**80**	**80**	**80**	**80**	**80**	**1,080**
Discount factor @ 10%	(D)	1.10	1.21	1.33	1.46	1.61	1.77	1.95	2.14	2.36	2.59
		(1.1)	*(1.1^2)*	*(1.1^3)*	*(1.1^4)*	*(1.1^5)*	*(1.1^6)*	*(1.1^7)*	*(1.1^8)*	*(1.1^9)*	*(1.1^{10})*
Present Value	(E)=(C)÷(D)	73	66	60	55	50	45	41	37	34	416
TOTAL PRESENT VALUE	**877**										

The challenge of Intrinsic Value for equity stocks

The above approach of discounting cash flow is increasingly being adopted to value equity stocks. However, there are key challenges –

- **No fixed coupon:** Unlike fixed income securities, equity stocks do not offer a fixed annual coupon. Strictly speaking, the equity equivalent of a coupon is dividend. However, dividends are dependent on the profits that companies earn and the dividend payout policy which they choose to follow. Many times, even after earning healthy profits, companies may not declare any dividends for a particular year(s) if they decide to conserve resources for expansion and/or acquisitions.
- **No fixed tenure and terminal value:** Unlike fixed income securities, equity stocks have no fixed tenure and hence terminal value.
- **The challenge of required return i.e. discount rate:** Intrinsic Value is very sensitive to the required return or the discount rate. In the stock market, every investor will have their own required return, and hence may arrive at their own Intrinsic Value. In equities, the key to success is to accurately assess what value the broad market is likely to assign to a particular company. Hence, choosing an appropriate discount rate is crucial in arriving at Intrinsic Value.

Framework #2

Simplified Discounted Free Cash Flow to Equity Model

KEY VARIABLES -	Assumed values
Earnings growth rate	20%
RoE	25%
Continuing growth rate	8%
Cost of Equity	13%

Year	0	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16
PAT	83	100	120	144	173	207	246	290	339	391	447	506	568	630	693	756	816
YoY		20%	20%	20%	20%	20%	19%	18%	17%	16%	14%	13%	12%	11%	10%	9%	8%
Delta PAT			20	24	29	35	39	44	48	52	56	59	61	62	63	62	60
Investment needed		80	96	115	138	157	175	193	210	225	237	246	250	252	250	242	
FCFE		20	24	29	35	51	71	97	129	166	210	261	318	378	444	514	
Continuing Value																11,100	
Total Cash Flow		20	24	29	35	51	71	97	129	166	210	261	318	378	444	11,614	
Discount Factor		1.13	1.28	1.44	1.63	1.84	2.08	2.35	2.66	3.00	3.39	3.84	4.33	4.90	5.53	6.25	
DCFE		18	19	20	21	28	34	41	48	55	62	68	73	77	80	1,857	
Intrinsic Value	2,500																
Intrinsic P/E	30																

Key elements explained:

- **Earnings growth rate:** This is the growth in PAT assumed to sustain in the first five years. Post that the growth is tapered to the continuing growth rate of 8%.
- **Continuing growth rate:** This is the rate at which PAT and cash flow are expected to grow beyond the explicit forecast period of 15 years. Theory suggests this should be expected nominal GDP growth rate to perpetuity.
- **Cost of Equity:** This is the market's return expectation on a particular stock. In our model, we have considered Cost of Equity at 13%, the long-period return of India's benchmark stock indices. Another alternative approach is risk-free rate (6-7%) plus 6% risk premium, which also works out to about 13%.
- **Delta PAT:** This is the incremental PAT over previous year.
- **Investment:** This is the investment required each year to generate the Delta PAT next year. This is dependent on RoE, and is determined by Delta PAT ÷ RoE. Thus, to generate Delta PAT of 20 in Year 2, the firm here needs to invest 80 (20÷25%) in Year 1.
- **FCFE:** Free Cash Flow to Equity is PAT less Investment needed.
- **Continuing Value:** This is the value of the firm beyond the explicit forecast period. It is calculated using the formula for total value of a growing annuity i.e. Year 15 FCFE x (1+Continuing growth rate) ÷ (Cost of equity – Continuing growth rate).
- **Discount Factor:** This is $(1+\text{Cost of Equity})^n$, where n is the number of years.
- **DFCFE:** Discounted Free Cash Flow to Equity; this is arrived at as Total Cash Flow ÷ Discount Factor.
- **Intrinsic Value:** This is the sum total of all 15-years' DFCFE.
- **Intrinsic P/E:** This is calculated as Intrinsic Value ÷ Opening PAT.

Model limitation:

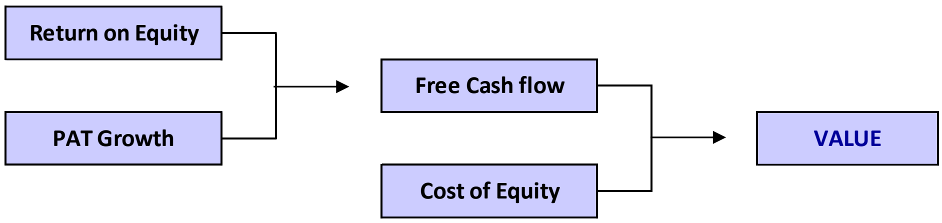
This is a simplified version with a few assumptions –

- Annual depreciation takes care of investments required to main current profits.
- The company is currently operating at full capacity i.e. further growth is possible only through further investment.
- There is no major change in the company's debt position.

Key components of Value

Based on a simplified Discounted Free Cash Flow to Equity model (Framework #2 on previous page), the key components of Value are RoE (return on equity), earnings growth and discount rate (also may be called Cost of Equity).

Return on Equity, Earnings growth and Cost of Equity drive value



What we look for in a company

At Motilal Oswal, we look for healthy compounders over the medium-to-long term. The power of compounding is such that longer the holding period, higher the exponent (Framework #3).

Framework #3

Power of Compounding

Albert Einstein has described Compound Interest (i.e. interest on interest) as "the eighth wonder of the world." The most fundamental equation of compounding is –

$$A = P \times (1 + r)^n$$

where A = Amount, P = Principal, r = rate of interest and n = number of years

As the table below shows, longer the holding period, higher is the exponent.

What happens to 1 rupee invested at various rates for various number of years

Rate / Years	10%	15%	20%	25%	30%	40%
3	1.3	1.5	1.7	2.0	2.2	2.7
5	1.6	2.0	2.5	3.1	3.7	5.4
10	2.6	4.0	6.2	**9.3**	14	29
15	4.2	8.1	15	28	51	156
20	6.7	16	38	87	190	837
25	11	33	95	265	706	4,500
30	17	66	237	**808**	2,620	24,201

Difference between 10 and 30 years is not 3x but 87x!

Over the last several years, we have evolved our own formula for compounders. We call it **"QGLP" – Quality, Growth, Longevity, reasonable Price** (Framework #4). Here –

- **Q** stands for (1) Quality of Business and (2) Quality of Management
- **G** stands for Growth in earnings
- **L** stands for Longevity of both Quality and Growth
- **P** stands for reasonable Price.

QGL is the Value component which is then juxtaposed with P to assess whether there is adequate Value-Price gap.

All questions in the checklist discussed here are to determine whether a given stock is QGLP.

Framework #4

QGLP – Quality, Growth, Longevity, reasonable Price

Quality of business x Quality of management

- Stable business, preferably consumer facing
- Huge business opportunity
- Sustainable competitive advantage
- Management team with integrity and competence
- Healthy financials & ratios

Growth in earnings

- Volume growth
- Price growth
- Mix change
- Operating leverage
- Financial leverage

Price

- Reasonable valuation, relative to quality and growth prospects
- High margin of safety

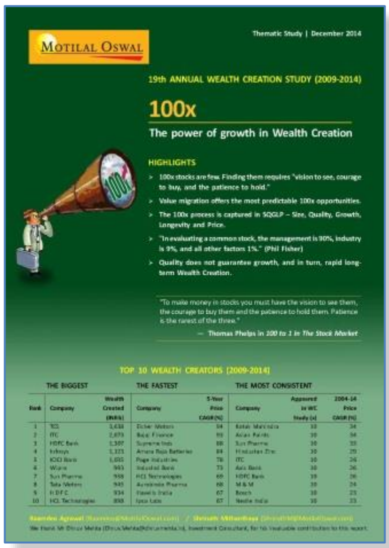
Longevity of Quality & Growth

- Long-term relevance of business
- Extending competitive advantage period
- Sustenance of growth momentum

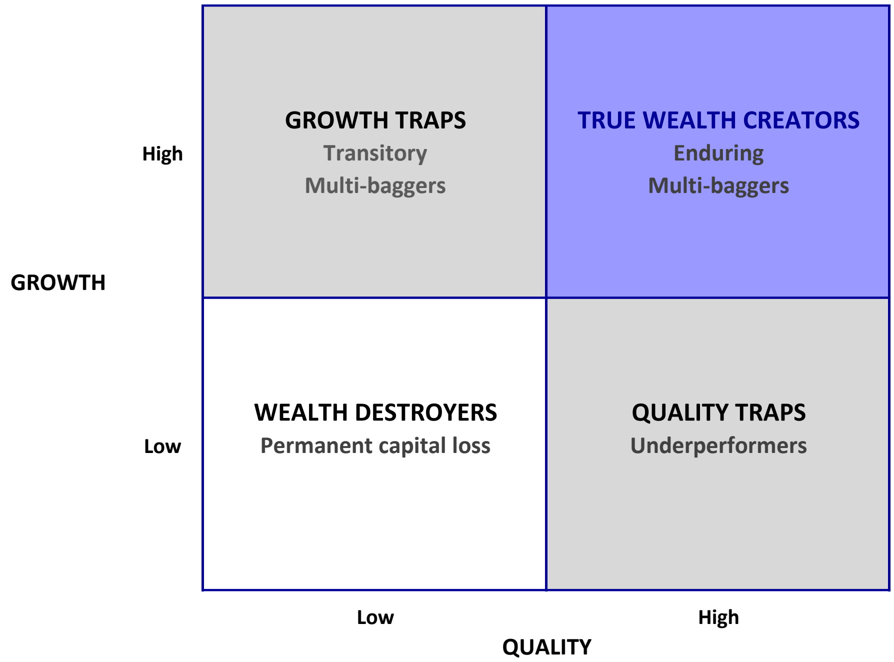
QGLP is inspired by Warren Buffett's investment process which he outlined in his 2007 annual letter to Berkshire Hathaway shareholders –

- A business we understand
- Favorable long-term economics
- Able and trustworthy management
- Sensible price tag.

The only missing element here is earnings growth. We introduced this into QGLP following our insight from the Quality-Growth Matrix, which we introduced in our 19th Wealth Creation Study theme titled "*100x: The power of growth in Wealth Creation*". Click on the cover page to read the full study.



The Quality-Growth Matrix



Key takeaway from the Quality-Growth Matrix:

- Avoid the not-so-obvious Quality Traps and Growth Traps, and invest only in True Wealth Creators.

Having briefly discussed what we look for in a company (lot more details in the checklist), we conclude the backdrop by touching upon how to generate stock ideas.

How to generate stock ideas

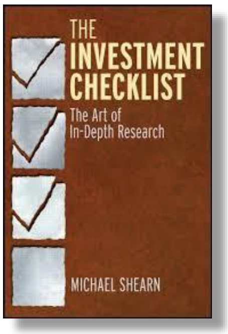
There are umpteen sources of stock ideas. The most common ones nowadays are –

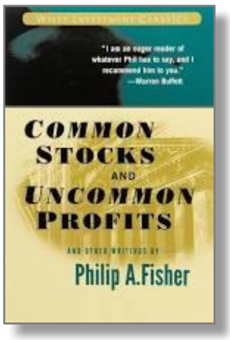
- Stockbroker reports and recommendations
- Company/sector articles or CEO interviews in the media (print, TV and web)
- Following other investment managers
- Reading of annual reports and quarterly concall transcripts
- Word of mouth
- Running stock screeners based on various financial criteria. Of late, there are some free screener service offerings such as www.screener.in

The key thing to remember is that the above merely generate stock ideas. This is just the starting point and not to be directly invested in. Once you come across an interesting idea, the immediate next step is to run it through a checklist such as the one which follows.

The QGLP Checklist

25 questions for bottom-up stock picking





At the outset, it must be mentioned that the art of equity investing is so intricate that any checklist can have an infinite number of questions. For instance, in his book *The Investment Checklist*, author Michael Shearn lists about 60 questions covering various aspects of business and management. On the other hand, Philip Fisher in his classic *Common Stocks, Uncommon Profits* offers a 15-point scuttlebutt (i.e. corroborative information on the company's business and management).

Two quotes are relevant here –

- "Less is more" (modern business management jargon) and
- "Everything can be made simple, but not simpler" (by Albert Einstein).

So, we take the middle path between Shearn and Fisher, and present a 25-question QGLP checklist, coinciding with 25 years of Wealth Creation Studies. We interweave the checklist with various frameworks covered by us over the past 25 studies. We believe this will make for a richer understanding and recall of the checklist.

The 25-questions are organized under 5 broad heads –

1. Business checklist
2. Growth checklist
3. Management checklist
4. Price checklist and
5. Risk checklist.

Note that the questions are distinct from each other, but they are all inter-related. Also, the sequencing of the questions and answers may be different depending on the situation.

We present the full checklist on the next page.

BUSINESS CHECKLIST

The main objective behind the Business Checklist is three-fold –

1. To understand the company's business model, including its basic financials, and
2. To assess the company's competitive landscape, and its sustainable competitive advantage.

We proceed to describe the 8 questions in the Business Checklist.

The QGLP Checklist

BUSINESS CHECKLIST

Q#1 What is the history of the company and management?

Q#2 Is the company's business model understandable? How does it make money?

Q#3 Is the company profitable? If not, is it expected to emerge?

Q#4 Are the company's terms of trade favorable? Is Cash flow healthy?

Q#5 What is the company's cost and margin structure? How has it changed in the past?

Q#6 How's the Du Pont Analysis for the company?

Q#7 What is the competitive landscape? What is the role of regulation in the business?

Q#8 Does the company enjoy an Economic Moat? What are its sources?

GROWTH CHECKLIST

Q#9 What is the addressable market opportunity and its key drivers?

Q#10 What is the company's growth plan? How sustainable is the growth?

MANAGEMENT CHECKLIST

Q#11 Is the management high on Integrity & transparency?

Q#12 Is the management competent?

Q#13 Does the management have passion / growth mindset?

Q#14 Does the company have a rational capital allocation policy?

Q#15 Does the company have a suitable organization structure and depth of management?

Q#16 What is the organization culture?

Q#17 Does the company have a sound succession plan?

Q#18 Do the owners have enough skin in the game?

Q#19 Have the promoters pledged a large portion of their holding?

PRICE CHECKLIST

Q#20 Has the financial modeling been done with earnings estimates for at least 3 years?

Q#21 Is it a QGL stock?

Q#22 Is valuation reasonable?

Q#23 Is there enough Margin of Safety?

Q#24 Is the stock reasonably liquid?

RISK CHECKLIST

Q#25 What can go wrong with the company narrative & numbers?

Q#1 What is the history of the company and management?

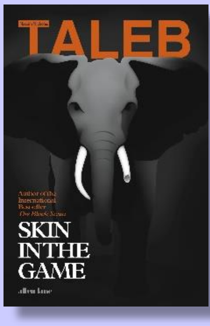
Objective: This is the starting point of all research on a company. A sense of history is vital before embarking on work related to the future.

What to look for:
- What's the company's business?
- What is its business infrastructure? – no. of plants/branches/depots/retail outlets, etc
- Has the company explicitly articulated its vision and values?
- What is the age of the company? (also see Framework #5)
- Who is the owner of the company?
- What is the composition of its Board of Directors? Does it appear to be fairly broadbased?
- Is the company owner-managed or professionally managed?
- How's the basic financial and stock market performance of the company and its group companies?

Data/information sources:
- Visit the company website; read background information on the company, and also download relevant material like Annual Reports, investor presentation and concall transcripts.
- Read the company's Annual Reports for the last 5 years at least.
- Browse through the media coverage of the company, whether print/TV/online (e.g. CEO's interview on YouTube).
- If there's access, read the company profile on some paid service providers such as Bloomberg.
- Read broker reports on the company.

Framework #5

Lindy Effect



This framework has been popularized by Nassim Nicholas Taleb in his book, *Skin In The Game*. Lindy is a café in New York, frequented by Broadway actors. Gossiping over time, they discovered that Broadway shows which lasted, say, a hundred days, had a better chance of lasting another hundred days, than a show which has been running, say, for the last 10 days.

Says Taleb, "That which is Lindy is what ages in reverse, i.e. its life expectancy lengthens with time, conditional on survival. Only the non-perishable can be Lindy. When it comes to ideas, books, technologies, procedures, institutions, and political systems under Lindy, there is no intrinsic aging and perishability."

Relevance of Lindy to stocks

Going by the Lindy Effect, investors should tend to look at older companies much more favorably than younger ones. This is because the older companies have been through all kinds of adversities and survived. Hence, given Lindy Effect, their chance of surviving and thriving in the future is that much higher.

Q#2 Is the company's business model understandable? How does it make money?

Objective: This is the core question regarding the company's business. If the company's business model is not understood, any investment in the same is tantamount to speculation. For instance, in Q#1, it may turn out that the company is in the business of life insurance. However, if the investor does not understand how money is made in life insurance, all plans to invest in the company need to be abandoned.

What to look for:

- The key question here is – Can you describe the company's business(es) in your own words?
- Is it a product company or service company?
- Is it a domestic company or global company?
- Does it have a monoline or diversified business? If diversified, what is the business mix?
- Is the business secular or cyclical?
- Who are its major customers? When it comes to customers, there are 3 types of businesses: (1) B2C (business-to-consumer), (2) B2B (business-to-business) and (3) B2G (business-to-government). B2C companies tend to have higher bargaining power with their customers, which is progressively lower for B2B and B2G.

Understanding the business model also involves a thorough understanding of the company's value chain. A value chain is a set of activities that an organization carries out to create value for its customers. For companies that produce goods, a value chain comprises the steps that involve bringing a product from conception to distribution, and everything in between — such as (1) Procuring raw materials, (2) Manufacturing functions, and (3) Marketing activities. For a service company, the Value Chain is likely to involve: (1) Marketing, (2) Service delivery and (3) Customer Relationship Management. Having said that the Value Chain for every single company will be unique and needs to be well understood.

Value chain analysis also helps determine how exactly the company makes money. For instance, for a primary steel company –

- It may have captive mines for iron ore and coal
- Both iron and coal are put into a blast furnace and melted to produce what is called molten iron or hot metal
- Blowing oxygen through the hot metal lowers the carbon content of the alloy and changes it into steel.
- The steel is then converted into various forms – bars, rods, coils, etc.
- The same may be sold direct to users or through the company's distributors.

Value gets added at each of the steps.

Data/information sources to understand the company's business:

- Reading up of industry material available online
- Interacting with industry associations
- Discussion with the Investor Relations team of the company.

Q#3 Is the company profitable? If not, is it expected to emerge?

Objective: Companies are capital input-output machines. The main objective of companies is to optimize return on capital invested. The first step in this process is to be profitable i.e. earn return on capital higher than cost of capital. This question is a test of the same.

Further, a company may not be currently earning return on capital higher than cost of capital. In such case, the question to be asked is: Is it expected to emerge? (Emergence here means the company achieving return higher than cost of capital for the first time, or after a long break.)

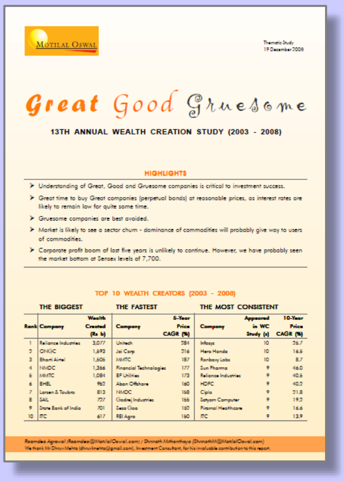
What to look for:

- **Return on Equity greater than Cost of Equity:** Our favorite measure of profitability is Return on Equity (RoE). A company can be said to be profitable if it consistently earns Return on Equity higher than Cost of Equity. As stated in Framework #2, Cost of Equity is the minimum return expected by investors on a stock. Our threshold Cost of Equity is 13%. So, we deem companies to be profitable only if their RoE is consistently higher than 13%.
- **For Emergence**, look for companies which have reported RoE > 13% for the first time ever, or after quite a while.

Based on return on capital, Warren Buffett classifies companies into 3 types – Great, Good and Gruesome (Framework #6).

Framework #6

Great, Good, Gruesome



MOTILAL OSWAL

Thematic Study
19 December 2008

Great Good Gruesome

13TH ANNUAL WEALTH CREATION STUDY (2003 - 2008)

HIGHLIGHTS

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

TOP 10 WEALTH CREATORS (2003 - 2008)

	THE BIGGEST		THE FASTEST		THE MOST CONSISTENT		
Rank	Company	Wealth Created (Rs b)	Company	5-Year Price CAGR (%)	Company	Appeared in WC Study (x)	10-Year Price CAGR (%)
1	Reliance Industries	3,077	Unitech	284	Infosys	10	25.7
2	ONGC	1,593	Jai Corp	216	Hero Honda	10	16.5
3	Bharti Airtel	1,505	MMTC	187	Ranbaxy Labs	10	8.7
4	NMDC	1,356	Financial Technologies	177	Sun Pharma	9	46.0
5	MMTC	1,084	BF Utilities	173	Reliance Industries	9	40.5
6	BHEL	952	Aban Offshore	160	HDFC	9	40.2
7	Larsen & Toubro	813	NMDC	158	Cipla	9	21.8
8	SAIL	727	Godrej Industries	155	Satyam Computer	9	19.2
9	State Bank of India	701	Sesa Goa	152	Piramal Healthcare	9	16.6
10	ITC	617	REI Agro	150	ITC	9	13.9

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We thank Mr Dhruv Mehta (dhruvlmehta@gmail.com), Investment Consultant, for his invaluable contribution to this report.

In our 13th Wealth Creation Study (2008), we wrote - "Every year, Warren Buffett personally writes the Chairman's annual letter to shareholders of his diversified company, Berkshire Hathaway Inc. His 2007 letter has a section on "**Businesses – The Great, the Good and the Gruesome**", where he discusses what kind of companies Berkshire likes and what it wishes to avoid."

Defining Great, Good and Gruesome

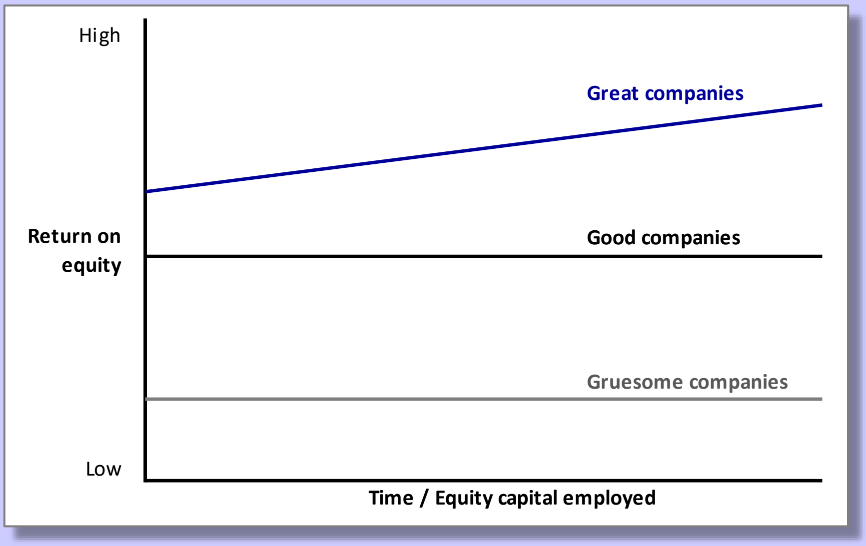
Buffett equates the Great, the Good and the Gruesome companies to three types of bank savings accounts, where the interest rate is RoE.

He says, "Think of three types of savings accounts. The Great one pays an extraordinarily high interest rate that will rise as the years pass. The Good one pays an attractive rate of interest that will be earned also on deposits that are added. Finally, the Gruesome account both pays an inadequate interest rate and requires you to keep adding money at those disappointing returns."

Framework #6 (continued)

Graphically, Great, Good and Gruesome companies can be depicted as under.

Depicting Great, Good, Gruesome



Understanding Great, Good, Gruesome

Great companies

A truly Great company must have an "enduring moat" (i.e. long-term competitive advantage) that protects excellent returns on invested capital. This is possible only in either of two cases:

1. It must possess powerful brand(s), or
2. It must be a low-cost producer.

Great companies tend to grow slower than their Good and Gruesome counterparts. But the key aspect of this growth is that it is achieved by consuming very little additional capital. Over time, given the power of compounding, Great companies become significant cash machines with high RoE and high dividend payouts.

Good companies

Good companies grow at healthy rates, but need large increases in capital to sustain growth. Like Great companies, they too enjoy competitive advantage and make healthy profits. However, they need to reinvest a significant proportion of these profits for growth.

Buffett calls this the "put-up-more-to-earn-more" phenomenon, which is true of most companies across countries. Compared to great companies, return ratios will tend to be much lower, as will dividend payouts.

Gruesome companies

Paradoxically, Gruesome companies tend to enjoy very high growth rates, which turns out to be a trap. These companies require significant capital for such growth, and then earn little or no money. Buffett says, "Think airlines. Here a durable competitive advantage has proven elusive since the days of the Wright brothers … The airline industry's demand for capital ever since that first flight has been insatiable. Investors have poured money into a bottomless pit, attracted by growth when they should have been repelled by it."

Framework #6 (continued)

Characteristics of Great, Good and Gruesome companies

Return on equity is the financial differentiator of Great, Good and Gruesome companies. However, numbers are lag indicators, and are the outcome of several qualitative characteristics of the businesses. We summarize them below.

Great, Good, Gruesome – A comparison

Criteria	Great	Good	Gruesome
Nature of business	• Stable business i.e. no rapid or continuous change	• Subject to moderate change	• Business likely to have rapid changes
Competitive advantage	• High and rising competitive advantage from brand / lowest-cost production	• Steady competitive advantage	• Low or no competitive advantage
Pricing power	• High pricing power	• Moderate pricing power	• Pricing power absent
Management	• Low dependence on greatness of management	• Management, key success factor	• High dependence on management
Growth	• Typically moderate growth; high growth rates a rarity	• Moderate-to-high growth rate	• High growth rates
Capital intensity	• Low capital intensity; high level of intangible assets	• Moderate-to-high capital intensity	• Very high capital intensity
RoE	• High and rising RoE	• Stable, attractive RoE	• Low / falling RoE
Dividend payout	• Typically, high dividend payout	• Reasonable dividend payout	• Low or zero dividend payout
Examples:	• Hindustan Unilever, Nestle	• HDFC Bank, Avenue Supermart	• MTNL, Jet Airways

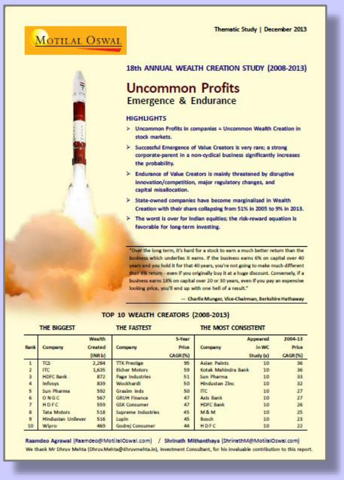
Key investing principle

Avoid investing in gruesome companies no matter how cheap they appear. There is high risk of permanent capital loss.

Having discussed the concept of profitability, we next discuss cases where hitherto unprofitable companies turn profitable i.e. achieve RoE higher than Cost of Equity (CoE) for the first time ever, or after a significantly long break. We call this phenomenon Emergence. Having Emerged, the next challenge for companies is Endurance i.e. sustaining RoE higher than CoE. Companies which successfully travel and journey from Emergence to Endurance (we call them Value Creators) are rare. But those that do, reward investors handsomely (Framework #7).

Framework #7

Emergence & Endurance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Thematic Study | December 2013

18th ANNUAL WEALTH CREATION STUDY (2008-2013)

Uncommon Profits

Emergence & Endurance

HIGHLIGHTS

- Uncommon Profits in companies = Uncommon Wealth Creation in stock markets.
- Successful Emergence of Value Creators is very rare; a strong corporate-parent in a non-cyclical business significantly increases the probability.
- Endurance of Value Creators is mainly threatened by disruptive innovation/competition, major regulatory changes, and capital misallocation.
- State-owned companies have become marginalized in Wealth Creation with their share collapsing from 51% in 2005 to 9% in 2013.
- The worst 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 business which underlies it earns. If the business earns 6% on capital over 40 years and you hold it for that 40 years, you're not going to make much different than 6% return - even if you originally buy it at a huge discount. Conversely, if a business earns 18% on capital over 20 or 30 years, even if you pay an expensive looking price, you'll end up with one hell of a result."

— Charlie Munger, Vice-Chairman, Berkshire Hathaway

TOP 10 WEALTH CREATORS (2008-2013)

Rank	THE BIGGEST Company	Wealth Created (INR b)	THE FASTEST Company	5-Year Price CAGR (%)	THE MOST CONSISTENT Company	Appeared in WC Study (x)	2004-13 Price CAGR (%)
1	TCS	2,284	TTK Prestige	95	Asian Paints	10	36
2	ITC	1,635	Eicher Motors	59	Kotak Mahindra Bank	10	36
3	HDFC Bank	872	Page Industries	51	Sun Pharma	10	33
4	Infosys	839	Wockhardt	50	Hindustan Zinc	10	32
5	Sun Pharma	592	Grasim Inds	50	ITC	10	27
6	O N G C	567	GRUH Finance	47	Axis Bank	10	27
7	H D F C	559	GSK Consumer	47	HDFC Bank	10	26
8	Tata Motors	518	Supreme Industries	45	M & M	10	25
9	Hindustan Unilever	516	Lupin	45	Bosch	10	23
10	Wipro	469	Godrej Consumer	44	H D F C	10	22

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We thank Mr Dhruv Mehta (Dhruv.Mehta@dhruvmehta.in), Investment Consultant, for his invaluable contribution to this report.

In our 18th Wealth Creation Study (2013) titled *Uncommon Profits: Emergence & Endurance* we wrote -

Enduring Value Creators are companies which successfully manage the journey from Emergence to Endurance. This is achieved by a favorable combination of one or more industry-level and company specific factors. Early identification of such companies enables investors to fully participate in the company's Uncommon Profit generation through its lifecycle.

Case Study for successful Emergence to Endurance: Titan Company

Company background	Titan Company (then, Titan Industries) was incorporated in 1984 as a joint venture of Tata Group and TIDCO (Tamil Nadu Industrial Development Corporation) for the manufacture of wristwatches. Today, it is one of the largest integrated own brand watch manufacturer in the world. In 1995, Titan entered the large but fragmented Indian jewelry market with the brand Tanishq. Today, jewelry accounts for over 80% of Segment Revenue and EBIT.
Year of Emergence	2003
Key business driver of Emergence	Value Migration in jewelry sector from unorganized to organized sector
Company Unique Value Proposition	100% hallmarked jewelry from the house of Tatas
Post-emergence financial performance highlights	

	2003	2008	2013
Revenue (INR bn)	7	31	101
CAGR (%) post-emergence		32	30
PAT (INR bn)	0.2	2	7
CAGR (%) post-emergence		53	45
RoE (%)	**23**	**40**	**42**
Divd Payout Ratio (%)	0	23	26
Market Cap (INR bn)	**2**	**47**	**228**
P/E – Trailing (x)	12	30	31
Stock Price (INR)	2	53	257
Return CAGR (%)		**85**	**59**
Sensex CAGR (%) post emergence		39	20
Outperformance (%)		**46**	**39**

Framework #7 (continued)

We have compiled a checklist comprising industry-level and company-specific factors for an Emerging Value Creator. Clearly, more the number of positive ticks against these points, higher the probability of the company emerging as a Value Creator.

Emerging Value Creator Checklist: More the positive ticks, greater the confirmation

Industry-level factors	Company-specific factors
❑ Is the industry's competitive landscape favorable? Do players enjoy superior bargaining power / terms of trade with customers and/or suppliers?	❑ Does the company have a solid corporate-parent and management team?
❑ Does the industry enjoy a large profit pool which can be effectively tapped into by a company with a unique value proposition or strategy?	❑ Does the company have a unique value proposition or strategy to overcome competitive forces?
❑ Is the industry showing trends of value migration? Or does it offer opportunity for the same in future?	❑ Does it enjoy bargaining power with its customers and/or suppliers? How strong is the advantage?
❑ Is the industry fairly stable i.e. less prone to destabilizing factors like business cyclicality, high production innovation, and regulatory controls?	❑ Is the company a market leader or a pioneer?
❑ Is it a new industry or strategic opportunity with huge potential?	

Q#4 Are the company's terms of trade favorable? Is Cash flow healthy?

Objective: These two questions have a two-fold objective –

1. To assess whether the company has reasonable bargaining power with its customers and suppliers, and
2. To ensure that much of the company's profit is not stuck in working capital and fixed capital.

What to look for:

- Companies with favorable Terms of Trade i.e. low Debtors-Creditors ratio (Framework #8).
- Companies with healthy and preferably rising Operating Cash Flow
- No sustained negative Free Cash Flow i.e. the company is not a capital guzzler.

Framework #8

Terms of Trade

We covered this framework in our 11th Wealth Creation Study. Click on the cover page to read the full study.

Key concepts:

- **Terms of Trade (ToT):** ToT refers to the credit terms which any company has with its customers on the one hand and suppliers on the other. A company with highly favorable terms of trade will collect cash quickly from its customers and enjoy extended credit period with its suppliers.

Framework #8 (continued)

In contrast, a company with adverse terms of trade will need to extend lengthy credit period to its customers and pay its suppliers early. We measure ToT using the following formula –

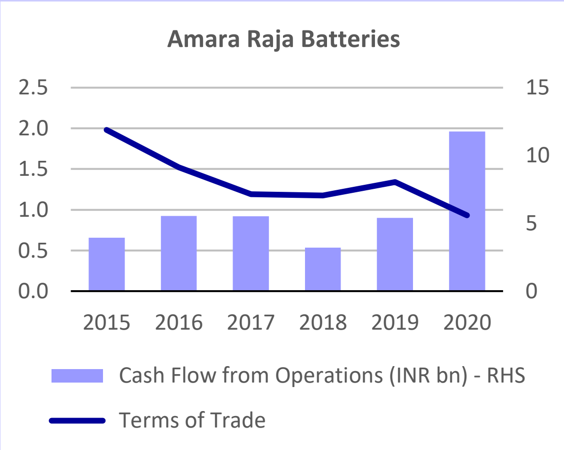
Terms of Trade (% terms) = Debtors ÷ Creditors

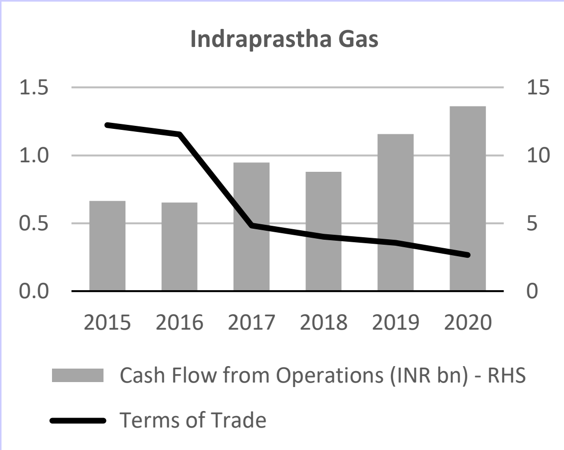
The lower the ratio, more favorable the ToT, and vice versa.

- **ToT and Operating Cash Flow (OCF):** A company's ToT directly impacts its OCF, defined as Cash Profit adjusted for changes in Working Capital. The key components of Working Capital are Inventory, Debtors and Creditors. ToT reflects in both Debtors and Creditors and hence strongly influences OCF. The more adverse the ToT the lower will be OCF vis-à-vis PAT (Profit After Tax), and vice versa.

The key conclusions of our 11th Wealth Creation Study theme are –
- ToT are broadly stable and do not change often.
- Favorable ToT are an important characteristic of a wealth creating company.
- When ToT changes from adverse to favorable, RoCE (Return on Capital Employed) is favorably impacted, in turn enabling significant wealth creation.
- To sum up, favorable ToT is one of the enablers of high RoCE and should be looked for in the search for winners in the stock market.

How classical Terms of Trade works – fall in Terms of Trade, rise in Cash Flow from Operations





Is Cash flow healthy?

This is the second part of Q#4. Healthy Cash flow is critical to the attractiveness of a company. As stated earlier, the intrinsic value of a company is the present value of its future Free Cash Flow (FCF). (FCF is OCF less Capex i.e. capital expenditure such as Plant & Machinery).

A company's past Cash flow track record is a fairly good pointer to its future. The ideal company is one where both OCF and FCF are robust. But in the least, OCF needs to be positive and not significantly lower than PAT. Companies can have intermittent negative FCF because of growth Capex. However, perennially negative FCF is a cause for concern as there could be misallocation of capital (e.g. outsized acquisitions).

Q#5 What is the company's cost and margin structure? How has it changed in the past?

Objective: This question will help the investor get a grip on the past cost and margin structure, and changes in the same. The same can be used to estimate future margins.

What to look for:

- Long-term trend of costs and margins using common-size analysis (Framework #9).

Framework #9

Common-size Analysis

We believe Common-size Analysis is a dying art among investors; yet we find it a very powerful framework for insights into a company's business.

Under Common-size Analysis, the Sales of the company are set to 100 across the years. Then all other heads of cost and margins are presented as a percentage of that 100. This gives a good trend of costs and margins over the years.

Example #1: Consider Bata's Common-size Analysis from 2005 to 2010, tabled below.

Bata India – Common-size Analysis

Year ending	Dec-05	Dec-06	Dec-07	Dec-08	Dec-09	Dec-10
Net Sales	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**
EXPENDITURE :						
Raw Materials	46.7	47.4	47.1	47.0	44.9	45.6
Power & Fuel Cost	3.2	3.1	3.0	2.9	2.6	2.6
Employee Cost	**25.3**	**23.8**	**20.8**	**17.2**	**15.1**	**13.6**
Manufacturing Exps	4.9	4.5	3.4	3.0	3.0	2.6
Selling and Admin Exps	14.3	14.3	16.4	19.1	20.6	21.1
Miscellaneous Exps	3.0	1.1	1.9	1.7	2.0	1.1
Total Expenditure	**97.3**	**94.1**	**92.6**	**91.0**	**88.3**	**86.7**
EBITDA	**2.7**	**6.0**	**7.4**	**9.0**	**11.7**	**13.4**
Depreciation	1.7	1.8	1.9	1.9	2.6	2.6
EBIT	**1.0**	**4.2**	**5.5**	**7.1**	**9.1**	**10.8**
Interest	1.7	1.4	1.2	1.1	0.9	0.6
Other Income	2.7	3.6	1.6	1.3	1.0	1.2
Profit Before Tax	1.9	6.4	5.9	7.3	9.2	11.4
Tax	0.2	1.2	0.4	1.1	3.0	3.8
Profit After Tax	**1.8**	**5.2**	**5.5**	**6.1**	**6.2**	**7.6**

There are clear insights from the above –

- Employee cost collapsed 12 percentage points from 25.3% in 2005 to 13.6% in 2010.
- Most other costs were also controlled.
- Hence, despite 7 percentage point increase in Selling & Admin expenses, EBITDA Margin shot up from 2.7% in 2005 to 13.4% in 2010.
- Further, despite rise in tax, PAT Margin is up from 1.8% in 2005 to 7.6% in 2010.

Framework #9 (continued)

Example #2: Consider BHEL's Common-size Analysis from 2015 to 2020, tabled below.

BHEL – Common-size Analysis

Year ending	Mar-15	Mar-16	Mar-17	Mar-18	Mar-19	Mar-20
Net Sales	**100**	**100**	**100**	**100**	**100**	**100**
EXPENDITURE :						
Raw Materials	44.2	51.9	49.6	44.5	46.0	50.1
Power & Fuel Cost	1.8	2.0	1.6	1.6	1.6	2.1
Employee Cost	**17.5**	**21.1**	**19.0**	**21.1**	**18.1**	**25.2**
Manufacturing Exps	14.6	14.4	13.1	15.0	15.0	16.4
Selling and Admin Exps	4.7	4.1	5.1	4.7	5.9	7.2
Miscellaneous Exps	10.4	12.2	7.8	7.3	6.7	-0.4
Total Expenditure	**93.2**	**105.6**	**96.2**	**94.3**	**93.3**	**100.6**
EBITDA	**6.8**	**-5.6**	**3.8**	**5.7**	**6.7**	**-0.6**
Depreciation	3.5	3.67	2.98	2.73	1.56	2.34
EBIT	**3.4**	**-9.3**	**0.9**	**3.0**	**5.1**	**-3.0**
Interest	0.3	1.4	1.5	1.2	1.2	2.9
Other Income	3.9	5.9	2.6	2.4	2.2	2.8
Profit Before Tax	7.0	-4.8	2.0	4.2	6.0	-3.1
Tax	2.4	-1.8	0.5	2.7	2.8	3.8
Profit After Tax	**4.6**	**-3.0**	**1.6**	**1.5**	**3.3**	**-6.8**

Insights from the above –

- 2015 to 2020 is a period of economic slowdown.
- So even as virtually every cost line item has gone up for BHEL, the sharpest rise is in Employee Cost from 17.5% to 25.2%. This is not necessarily because absolute Employee Cost has gone up; but because it is fairly fixed in nature, its percentage rises when Sales fall due to the slowdown.
- As a result, EBITDA Margin is down from 6.8% in 2015 to a loss in 2020. Same is the case with PAT Margin.

Thus, Common-size Analysis provides powerful insights into a company's costs and margin structure. This also forms the basis for questioning the company's management on how they plan to rectify problems in some of the line items, if any.

Having understood the past cost and margin structure, they key next question is – how will it play out in the future? We discuss this under Q#10, using the framework of CVPM Analysis (Cost, Volume, Price, Mix).

Q#6 How's the Du Pont Analysis for the company?

Objective: The objective of Du Point Analysis is for granular insight into the most important business metric, namely, RoE (Return on Equity).

What to look for:

- Long-term trend of the 3 components of RoE – Profit Margin, Asset turnover and Leverage.

Framework #10

Du Pont Analysis

Du Pont Analysis is a financial framework developed by Du Pont Corporation, USA. It breaks down RoE into insightful components as under –

Return on Equity i.e. $\dfrac{\textbf{PAT}}{\textbf{Net Worth}} = \dfrac{\textbf{PAT}}{\textbf{Sales}} \times \dfrac{\textbf{Sales}}{\textbf{Assets}} \times \dfrac{\textbf{Assets}}{\textbf{Net Worth}}$

PAT Margin x Asset Turnover x Leverage

Investors must monitor all 3 variables to get timely opportunities. We ran a screener on the top 500 companies in 2015. The criteria were –

- 2020 PAT Margin > 2015 PAT Margin
- 2020 Asset Turnover > 2015 Asset turnover and
- Leverage <2 i.e. Debt equity not > 1.

Only 17 out of 500 companies met the above criteria. Needless to add, 15 of the 17 stocks have outperformed the market. Their average return is 15% v/s 1% for the Sensex. These companies are profiled below.

Rising margin and asset turn with healthy leverage is a sound formula for investing success

	PAT Margin		Asset Turn (x)		Leverage	Price CAGR
Company	2015	2020	2015	2020	2015	2015-20
P&G Health	4%	16%	2.4	2.9	1.1	32%
Abbott India	9%	12%	6.5	9.2	1.2	31%
Honeywell Auto	5%	13%	3.6	4.9	1.1	25%
Astrazeneca	-4%	7%	4.9	6.4	1.0	21%
EPL	6%	8%	1.4	1.4	1.3	20%
Balkrishna Inds	12%	17%	1.0	1.0	1.0	20%
3M India	6%	10%	2.5	3.0	1.0	19%
Godfrey Phillips	6%	10%	2.1	2.4	1.0	17%
Ipca Labs	8%	13%	1.1	1.3	1.0	17%
Sanofi India	9%	13%	1.8	2.2	1.0	13%
Mphasis	10%	12%	1.8	2.0	1.1	12%
VST Industries	16%	22%	6.8	27.4	1.7	12%
The Ramco Cement	7%	11%	0.6	0.8	1.5	11%
Jubilant Life	-1%	10%	0.8	1.0	1.7	10%
Carborundum Univ.	4%	10%	1.4	1.6	1.0	3%
ABB	3%	4%	2.6	3.0	1.1	-4%
Siemens	2%	6%	2.9	3.0	1.1	-4%
					AVERAGE	15%
					Sensex	1%

Q#7 What is the competitive landscape? What is the role of regulation in the business?

Objective: All the checklist questions so far were internal to the company. This is the first question external to the company. But it is arguably the most important one, as the level of competition and regulation in a sector can make or break the fortunes of players in that sector.

What to look for:

- What is the type of competition in the sector? e.g. perfect competition, monopoly, oligopoly
- Who are the company's key competitors?
- Is the company's product/service globally tradable or non-tradable?
- Is there a threat of new entrants?
- Can the company's product or service be substituted by current or emerging substitutes?
- What is the bargaining power of customers and suppliers?
- Is the sector heavily regulated, including restrictions on product/service pricing and/or returns on investment?

Type of competition

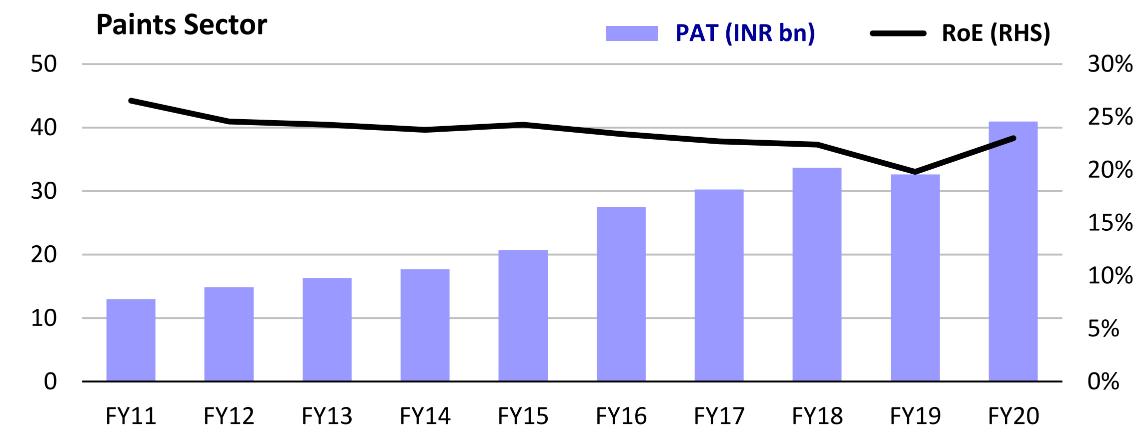
Economists refer to four major types of market/competitive structures –

- **Perfect Competition:** Here there are large number of buyers and sellers with an absolutely homogenous product/service.
- **Monopoly:** This is the extreme opposite of Perfect Competition, where there's only one major seller. This is quite rare in today's day and age e.g. Power Grid Corporation is a virtual monopoly in India's power transmission infrastructure.
- **Oligopoly:** Oligopoly is when a small number of firms collude, either explicitly or tacitly, to restrict output and/or fix prices, in order to achieve above normal market returns.
- **Monopolistic Competition:** This type is the mid-path between Perfect Competition and Monopoly, and the most prevalent form. Here, a large number of sellers offer products/ services which are similar but not perfect substitutes of each other i.e. differentiated. A company may earn above-normal return on capital for some time, but competition soon catches up to drive down returns to sector average.

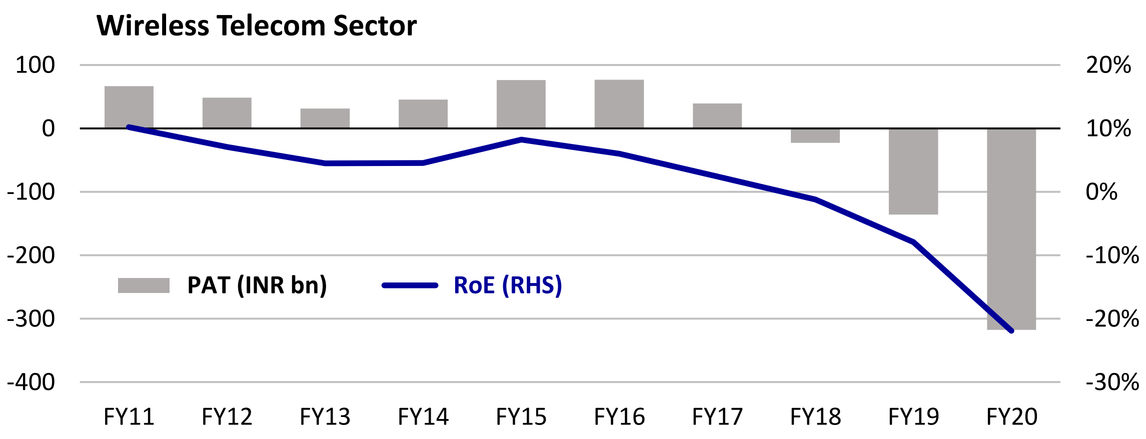
The above classification is based on number of sellers in the sector. However, the number of sellers alone does not determine profits and profitability in a sector. Rather, it is the intensity of competition between the players which does.

Consider Paints versus Wireless Telecom in India. The Paints sector has four major players – Asian Paints, Berger Paints, Kansai Nerolac and Akzo Nobel – while the Wireless Telecom sector has only three – Bharti Airtel, Vodafone Idea and Reliance Jio (through Reliance Industries). Yet the following is the PAT and RoE trend of both the sectors.

Competition in the Paints sector is benign



Competition in the Wireless Telecom sector is cut-throat



Competition in the Paints sector is completely benign. The sector continues to make rising profits and robust RoE in excess of 20%. In sharp contrast, competition in the Wireless Telecom sector is cut-throat. As a result, the sector is bleeding. It is reporting losses in the aggregate, and RoE is hugely negative.

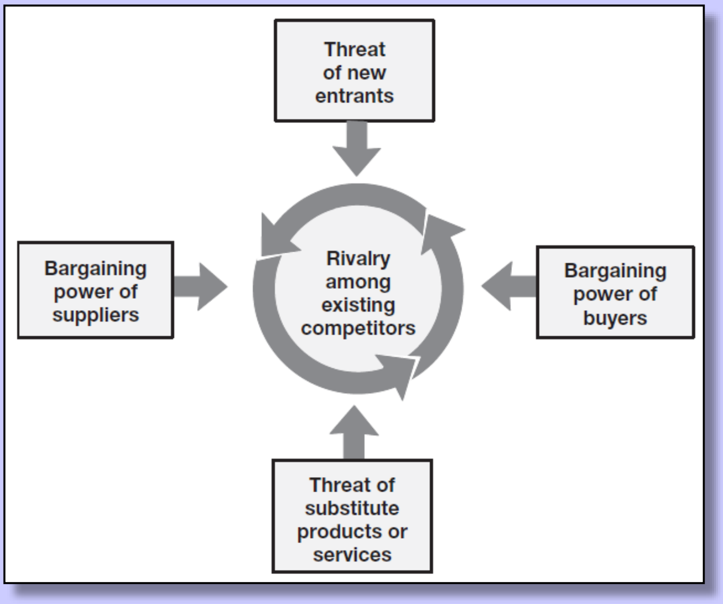
A holistic way to assess the competitive landscape is offered by Michael Porter's Five Forces model (Framework #11).

Framework #11

Porter's Five Forces

The Five Forces framework of Michael Porter is ideal to assess the attractiveness of industry structure. The exhibit below presents the diagrammatic representation of the Five Forces.

Porter's Five Forces framework



Porter's Five Forces – Implications

FORCE #1 – Inter-firm rivalry

Implication: This lies at the core of the industry structure analysis. Higher the rivalry among incumbents, lower the industry attractiveness and vice-versa.

FORCE #2 – Threat of new entrants

Implication: The threat of new entrants compels incumbents to operate at low profitability as a strategy to keep them away.

FORCE #3 – Threat of substitute products or services

Implication: Like the threat of new entrants, the threat of substitutes also compels incumbents to operate at low profitability. However, this is relatively rare.

FORCE #4 – Bargaining power of customers

Implication: Higher the bargaining power of customers, lower the sector attractiveness and vice versa. If the customers are large and concentrated, their bargaining power tends to be high, whereas fragmented customers tend to have lower bargaining power. High brand pull and high switching costs also imply lower bargaining power of customers.

Framework #11 (continued)

FORCE #5 – Bargaining power of suppliers

Implication: Higher the bargaining power of suppliers, lower the sector attractiveness and vice versa. If the suppliers are large and concentrated, their bargaining power tends to be high, whereas fragmented suppliers tend to have lower bargaining power.

We have rated most sectors on the five forces (tabled on next page). Sectors with score of 3 or higher are attractive i.e. incumbents in these sectors will have a relatively easy time in terms of profitability. On the other hand, if sector score is 2.5 or lower, incumbents in such sectors will need to have a sharp strategy to survive and thrive.

Tradable or Non-tradable

Tradable businesses are those who products can be traded across geographies. Such businesses are perennially exposed to the threat of imports, and product prices will be invariably linked to landed cost e.g. metals and chemicals. In contrast, non-tradable businesses are insulated from imports. Product pricing here is just a function of domestic competitive forces e.g. FMCG, cement, and the full array of services such as banking, insurance, etc.

What is the role of regulation in the business?

This is the second part of Q#7. Regulation is outside the five forces framework, and can make or mar the fortunes of a sector. For instance, in the power generation and transmission business, Return on Equity is capped at 12%. Likewise, the domestic pharma sector faces the overhang of government putting quite a few of its products under price control. Investors need to keep a sharp eye on regulation, and preferably avoid over-regulated businesses.

SCORING METHODOLOGY:

Each of the Five Forces is rated 0 or 1 with a middle score of 0.5.

As an illustration, for a sector, if Bargaining Power of Customers is high, that sector gets 0 for that Force. Conversely, if Bargaining Power of Customers is low, the sector gets 1. If Bargaining Power is balanced, the sector gets 0.5.

Every Force is rated this way, and the sum total of all Five Forces is the Sector Structure Score.

Sector Structure Score for major industries based on Porter's Five Forces

	Inter-firm	Threat of		Bargaining Power of		TOTAL
Sector	Rivalry	Entrants	Substitutes	Customers	Suppliers	SCORE
Cigarettes	1	1	1	1	1	5.0
Paints	1	1	1	1	1	5.0
Automobiles - 2-wheelers	0.5	0.5	1	1	1	4.0
Oil & Gas - Downstream	1	1	0.5	1	0.5	4.0
Ports & related	0.5	1	1	0.5	1	4.0
Automobiles - Tractors	0	1	1	0.5	1	3.5
Gas Distribution	1	1	0.5	1	0	3.5
Automobiles - Cars/UVs	0	0.5	1	0.5	1	3.0
Banks - Private Sector	0	0.5	1	0.5	1	3.0
Banks - Public Sector	0	0.5	1	0.5	1	3.0
Cement	0	0	1	1	1	3.0
Fertilizers	0	1	1	1	0	3.0
IT - Software	1	1	0	0	1	3.0
Mining/Minerals	0.5	0.5	1	0.5	0.5	3.0
NBFC - Insurance	0	0.5	1	0.5	1	3.0
Oil & Gas - Upstream	0.5	0.5	1	1	0	3.0
Pharmaceuticals	0.5	0	0.5	1	1	3.0
Telecom	0	1	1	0.5	0.5	3.0
Agri & related	0	0	0.5	1	1	2.5
Auto Ancillaries	0.5	1	1	0	0	2.5
Automobiles - LCVs/HCVs	0	0	1	0.5	1	2.5
Aviation	0	0.5	1	1	0	2.5
Ceramic Products	0	0.5	1	0.5	0.5	2.5
Consumer Durables	0	0	1	0.5	1	2.5
Hospitals/Diagnostics	0.5	0	1	0.5	0.5	2.5
Hotels & Restaurants	0	0.5	1	0	1	2.5
NBFC - Housing	0	0	1	1	0.5	2.5
Non Ferrous Metals	0.5	0	0.5	1	0.5	2.5
Paper	0	1	1	0	0.5	2.5
Capital Goods	0	0	1	0	1	2.0
Chemicals	0	0	1	0	1	2.0
Engineering	0	0	1	0	1	2.0
Gems & Jewelry	0	0	1	0.5	0.5	2.0
Media - Print/TV	0	0.5	0.5	0	1	2.0
NBFC	0	0	1	0.5	0.5	2.0
Plastic Products	0	0.5	1	0.5	0	2.0
Realty	0	0	1	0	1	2.0
Steel	0	0	0.5	0.5	1	2.0
Travel	0	0.5	1	0	0.5	2.0
Retail	0.5	0.5	0.5	0	0.5	2.0
Tyres	0.5	0.5	1	0	0	2.0
Construction	0	0	1	0	0.5	1.5
Shipping	0	0.5	0.5	0	0.5	1.5
Packaging	0	0.5	0.5	0	0	1.0
Sugar	0	0	1	0	0	1.0
Textiles	0	0	1	0	0	1.0

Q#8 Does the company enjoy an Economic Moat? What are its sources?

Objective: To ascertain whether the company can sustain its profits and profitability amidst strong competitive forces.

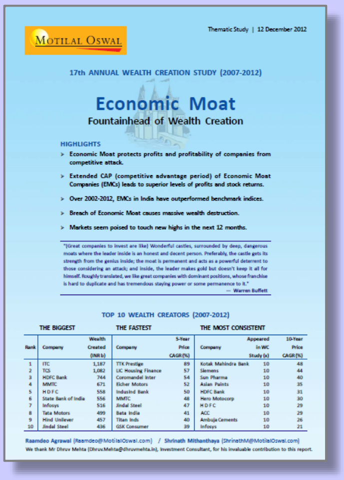
What to look for:

- Strength of a company to keep competitors from nibbling away its profits

Framework #12

Economic Moat

We covered the concept of Economic Moat in our 17th Wealth Creation Study (2012). Click on the cover page to read the full study.



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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 period) of Economic Moat Companies (EMCs) leads to superior levels of profits and stock returns.
- Over 2002-2012, EMCs in India have outperformed benchmark indices.
- Breach of Economic Moat causes massive wealth destruction.
- Markets seem poised to touch new highs in the next 12 months.

"(Great companies to invest are like) Wonderful castles, surrounded by deep, dangerous moats where the leader inside is an honest and decent person. Preferably, the castle gets its strength from the genius inside; the moat is permanent and acts as a powerful deterrent to those considering an attack; and inside, the leader makes gold but doesn't keep it all for himself. Roughly translated, we like great companies with dominant positions, whose franchise is hard to duplicate and has tremendous staying power or some permanence to it."
— Warren Buffett

TOP 10 WEALTH CREATORS (2007-2012)

	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	ITC	1,187	TTK Prestige	89	Kotak Mahindra Bank	10	48
2	TCS	1,082	LIC Housing Finance	57	Siemens	10	44
3	HDFC Bank	744	Coromandel Inter	54	Sun Pharma	10	40
4	MMTC	671	Eicher Motors	52	Asian Paints	10	35
5	H D F C	558	IndusInd Bank	50	HDFC Bank	10	31
6	State Bank of India	556	MMTC	48	Hero Motocorp	10	30
7	Infosys	516	Jindal Steel	47	H D F C	10	29
8	Tata Motors	499	Bata India	41	ACC	10	29
9	Hind Unilever	457	Titan Inds	40	Ambuja Cements	10	26
10	Jindal Steel	436	GSK Consumer	39	Infosys	10	21

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We thank Mr Dhruv Mehta (Dhruv.Mehta@dhruvmehta.in), Investment Consultant, for his invaluable contribution to this report.

What's an Economic Moat?

The concept of 'Economic Moat' has its roots in the idea of a traditional moat. A moat is a deep, wide trench, usually filled with water, that surrounds the rampart of a castle or fortified place. In many cases, the waters are also infested with sharks and crocodiles to further keep enemies at bay, and the inhabitants safe.

Akin to a moat, an Economic Moat protects a company's profits from being attacked by a combination of multiple business forces. Traditional management theory terms such as "Sustainable Competitive Advantage" or "Entry Barriers" essentially connote the idea of an Economic Moat. Companies with "deep, dangerous moats" outperform those without such moats, both in terms of financial performance and stock returns.

Factors determining an Economic Moat

Economic Moat arises from the weave of (1) Sector structure, and (2) Corporate Strategy. We covered sector structure (Porter's Five Forces) under Q#7. A favorable sector structure can create an Economic Moat. For instance, it is almost impossible for new entrants in the cigarettes business in India, as cigarettes can't even be advertised. However, where the sector structure is neutral or unfavorable, the only way companies can build an Economic Moat is by have a sharp Corporate Strategy.

Here too, Porter has a solid framework for Corporate Strategy (Framework #13)

Framework #13

Corporate Strategy

The elements of Porter's Corporate Strategy framework are:

1. **Distinctive value proposition (to customers):** This emerges from Porter's belief that companies should not compete to be the best, but to be unique. Thus, the first step to achieving this is by offering to meet customer needs differently from that of rivals by: (1) choosing the target customer, (2) identifying the needs, and (3) creating a product or service which addresses both (1) and (2).

2. **Tailored Value Chain:** A Value Chain is the sequence of activities that a company performs to design, produce, sell, deliver, and support its products. In turn, it is part of a company's larger Value System i.e. all activities and players involved to deliver its value proposition, including by suppliers, distribution channel, etc. A tailored value chain makes a company's value proposition hard to replicate.

3. **Trade-offs different from rivals:** This essentially involves deciding on what a company will or will not do, differently from its rivals e.g. budget airlines do not offer free food and beverages on board, as they are targeting only those customers whose focus is to reach their destination faster (than rail, road, etc), and not food.

4. **Fit across value chain:** Fit is how well the value chain activities connect with each other to amplify the company's value proposition, and make it even harder to replicate e.g. Domino's globally is focused on home delivery of pizzas. Accordingly, its outlets are smaller than Pizza Hut which is more designed for dine-in. In fact, even the Domino's pizza is tailored for home delivery so that it does not get soft and soggy during delivery.

5. **Continuity over time:** In business, change is the only constant. Hence, a company's strategy should enable it adapt to change and to innovate.

What are the sources of a company's Economic Moat?

Some common sources a company's Economic Moat are –

- Strong brand leading to customer loyalty
- Patents
- Wide distribution network or service network
- Switching costs
- Proximity to key raw materials and markets
- Cost advantages due to scale

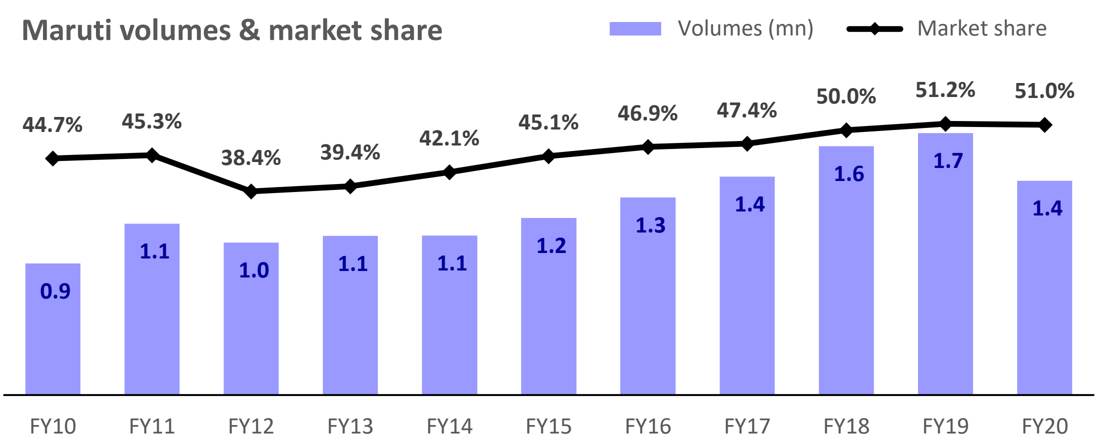
What causes an Economic Moat to be breached?

The main causes are –

- Disruptive competition
- Drastic regulatory change
- Capital misallocation by the management.

Example of strong Economic Moat – Maruti Suzuki

- **Economic Moat:** Maruti enjoys a dominant 51% market share in Cars/UVs.



- **Industry structure:** As tabled on page 54, the Cars/UVs sector has a Sector Structure Score of 3 i.e. moderately attractive. This implies that much of Maruti's moat arises from its Corporate Strategy.

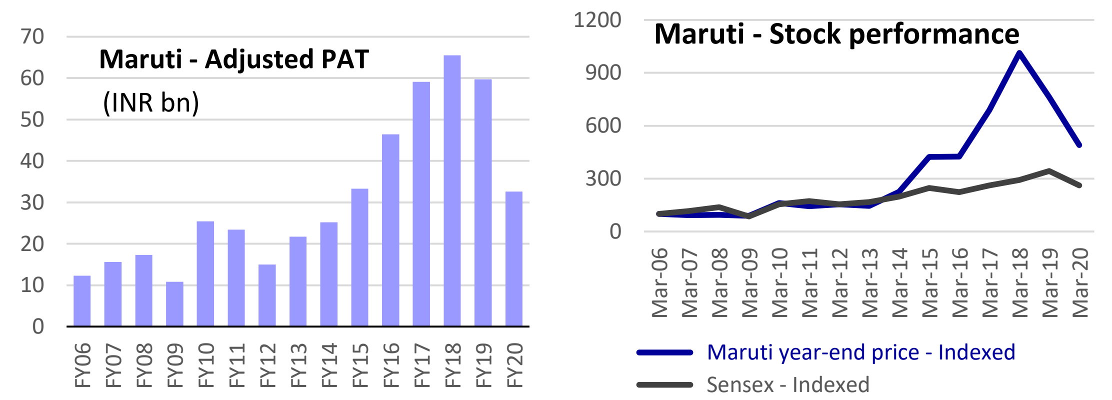
- **Corporate Strategy:** We evaluate Maruti's strategy on the Porter framework as follows.

Strategy element	Maruti's position
Distinctive value proposition	• "A car for every pocket" • Given the predominant middle class in India, Maruti offers value-for-money cars with the widest possible sales and service network (3,000+ showrooms and 4,000+ authorized service centers across 1,900 cities and towns)
Tailored value chain	• Maruti has created an auto hub around its manufacturing plants with all components reaching it on a just-in-time basis • Maruti itself has entered into JVs for quite a few components • It has tie-ups with several insurance companies for vehicle insurance • It has entered into a JV with Toyota for electric cars, insulating it from sector disruption, if any • Its latest strategy is to get all incremental cars produced by Suzuki, making it asset-light • All of the above is very tough for competitors to replicate
Trade-offs distinct from rivals	• Maruti's biggest trade-off is to stay predominantly focused on value-for-money cars • With this, it has gained tremendous scale, which further helps it keep costs and selling prices low

Fit across value chain	• Maruti's scale and already large car population makes its dealer showrooms and service centers highly viable. More and more entrepreneurs are willing to take up Maruti dealership, further widening its sales and service network – a strong hook for car customers • Thus, Maruti's fit has got it into a virtuous cycle of rising customers leading to rising dealerships, in turn, leading to rising customers
Continuity over time	• Maruti continues to innovate and improve its strategy e.g. Nexa network of showrooms for its premium cars

- **Impact of Economic Moat:** From FY06 to FY18, Maruti clocked a steady PAT CAGR of 15%. In the two years post that, profits more than halved due to the slowdown led by financial crisis. Still FY06 to FY20, its stock has delivered return CAGR of 12% v/s 7% for the Sensex.

Maruti's Economic Moat delivers steady financials, driving its long-term outperformance



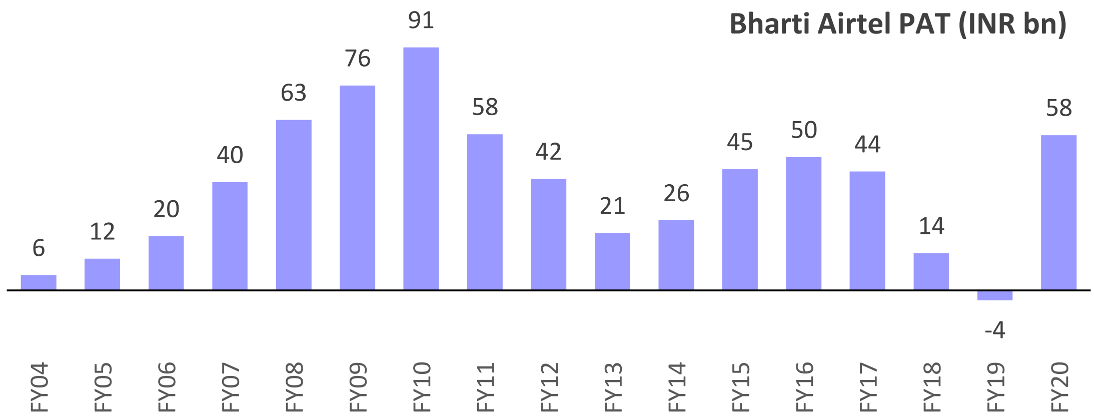
Example of breached Economic Moat – Bharti Airtel

- **Economic Moat:** Beginning 2002, Bharti Airtel was India's largest wireless service provider. It was supremely profitable with rising PAT and robust RoE.

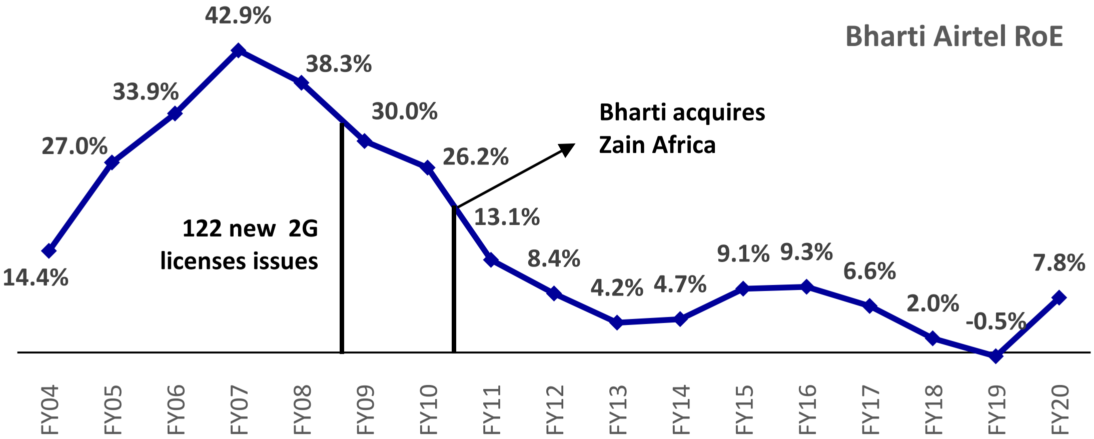
- **How the moat got breached:** Two key events took place –
  1. **Disruptive competition:** In 2008, the government issued 122 fresh 2G licenses. Players like Idea, Telenor, Tata Docomo, etc, entered the fray and competition swelled. Still, Bharti went from strength to strength with PAT rising from INR 63 billion in FY08 to INR 91 billion in FY10.
  2. **Sub-optimal capital allocation:** Then, in mid-2010, Bharti ventured into Africa by acquiring Zain Telecom for an enterprise value close to USD 11 billion.

Bharti's moat got breached, and ever since, its PAT and RoE are nowhere close to their peak. The stock has underperformed the benchmark since 2010.

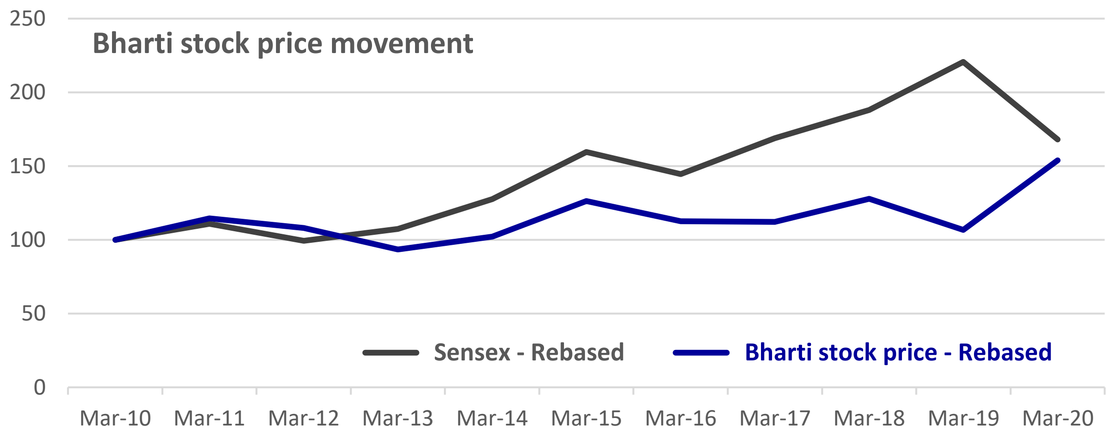
Bharti's PAT peaked in FY10, and has never looked up ever since the Zain acquisition in June 2010



Disruptive competition and sub-optimal capital allocation breached Bharti's moat

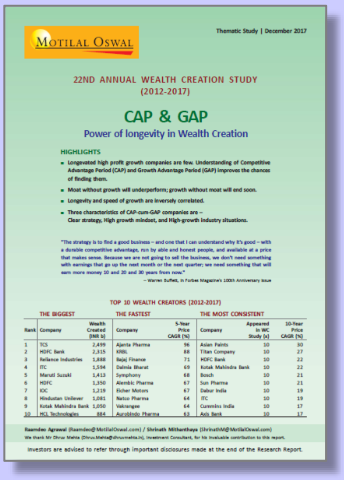


Bharti has underperformed since 2010



Framework #14

CAP & GAP



Thematic Study | December 2017

MOTILAL OSWAL

22ND ANNUAL WEALTH CREATION STUDY (2012-2017)

CAP & GAP

Power of longevity in Wealth Creation

HIGHLIGHTS

- Longevated high profit growth companies are few. Understanding of Competitive Advantage Period (CAP) and Growth Advantage Period (GAP) improves the chances of finding them.
- Moat without growth will underperform; growth without moat will end soon.
- Longevity and speed of growth are inversely correlated.
- Three characteristics of CAP-cum-GAP companies are – Clear strategy, High growth mindset, and High-growth industry situations.

"The strategy is to find a good business – and one that I can understand why it's good – with a durable competitive advantage, run by able and honest people, and available at a price that makes sense. Because we are not going to sell the business, we don't need something with earnings that go up the next month or the next quarter; we need something that will earn more money 10 and 20 and 30 years from now."

– Warren Buffett, in Forbes Magazine's 100th Anniversary Issue

TOP 10 WEALTH CREATORS (2012-2017)

	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	2,499	Ajanta Pharma	96	Asian Paints	10	30
2	HDFC Bank	2,315	KRBL	88	Titan Company	10	27
3	Reliance Industries	1,888	Bajaj Finance	71	HDFC Bank	10	22
4	ITC	1,594	Dalmia Bharat	69	Kotak Mahindra Bank	10	22
5	Maruti Suzuki	1,413	Symphony	68	Bosch	10	21
6	HDFC	1,350	Alembic Pharma	67	Sun Pharma	10	21
7	IOC	1,219	Eicher Motors	67	Dabur India	10	19
8	Hindustan Unilever	1,081	Natco Pharma	64	ITC	10	19
9	Kotak Mahindra Bank	1,050	Vakrangee	64	Cummins India	10	17
10	HCL Technologies	884	Aurobindo Pharma	63	Axis Bank	10	17

Raamdeo Agrawal (Raamdeo@MotilalOswal.com) / Shrinath Mithanthaya (ShrinathM@MotilalOswal.com)

We thank Mr Dhruv Mehta (Dhruv.Mehta@dhruvmehta.in), Investment Consultant, for his invaluable contribution to this report.

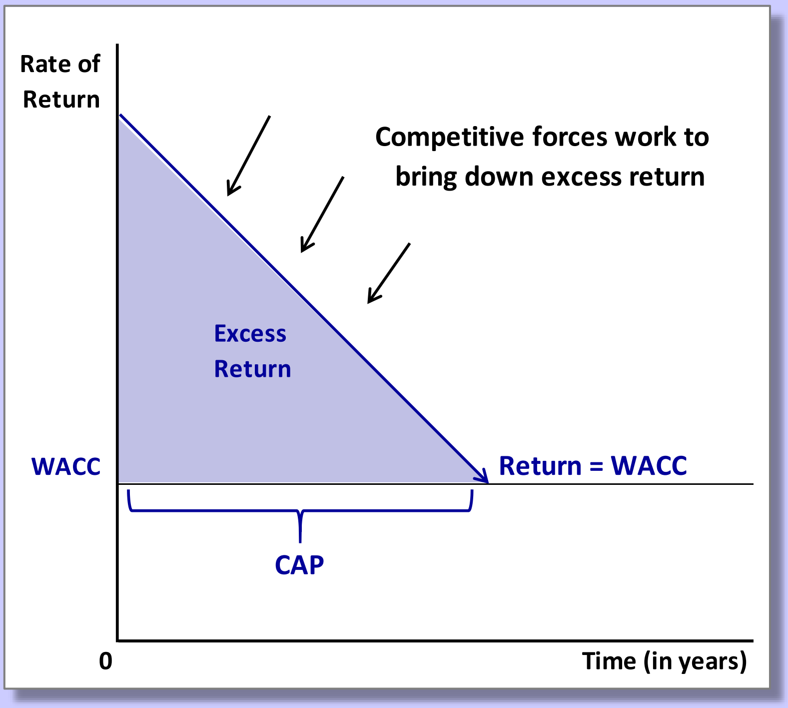
Investors are advised to refer through important disclosures made at the end of the Research Report.

We covered CAP & GAP in our 22nd Wealth Creation Study (2017). Click on the cover page to access the full study.

What is CAP?

Competitive Advantage Period (CAP) is the time during which a company generates returns on investment that exceed its cost of capital. If a company earns above-average return on its invested capital, it will attract competitors who will be willing to operate at lower returns, eventually driving down overall industry returns to economic cost of capital, and sometimes even below it. In effect, CAP is a measure of longevity of a company's Moat.

Diagrammatic representation of CAP



The factors influencing CAP are: (1) Industry attractiveness (Framework #11) and (2) Company strategy effectiveness (Framework #13).

Key takeaway: A portfolio of long-CAP companies has the potential to meaningfully outperform benchmark indices.

What is GAP?

Growth Advantage Period (GAP) is the time during which a company grows its profits at a faster rate than that of the benchmark indices. Pace of earnings growth in a company is typically highest during its GAP. As stock returns are correlated with earnings growth, it is logical that stocks outperform the benchmark during their GAP.

Framework #14

The 3 major factors determining GAP are: (1) CAP, (2) Industry growth, and (3) Company growth mindset (Framework #23).

There are two dimensions to GAP: (1) Length (i.e. longevity of growth) and (2) Height (rate of growth). The takeaways are –

- Long GAP companies are typically those with secular businesses, and will deliver reasonably high profit growth over an extended period.
- High GAP companies are predominantly those with cyclical businesses, and will deliver super-normal profit growth but in a very short burst.

GROWTH CHECKLIST

The Business Checklist will lead to a thorough understanding of the company's business and its moat (i.e. sustainable competitive advantage). This sets the stage for two key questions related to its growth opportunity and growth plans.

Q#9 What is the addressable market opportunity and its key drivers?

Objective: This question helps to assess the growth potential of a company. It is very challenging for a company to grow sales and profit when its end-market itself is not growing.

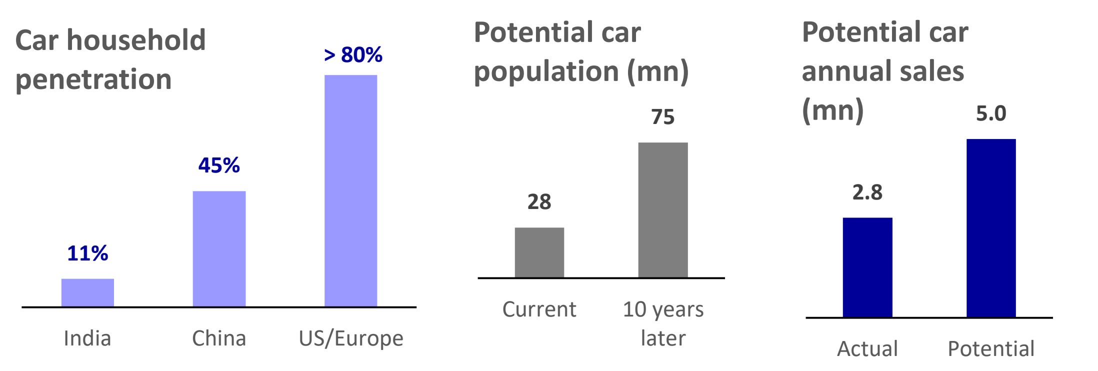
What to look for:

- The current and potential size of the market(s) which the company operates in

There are various ways to assess the potential market size for a company's products or services.

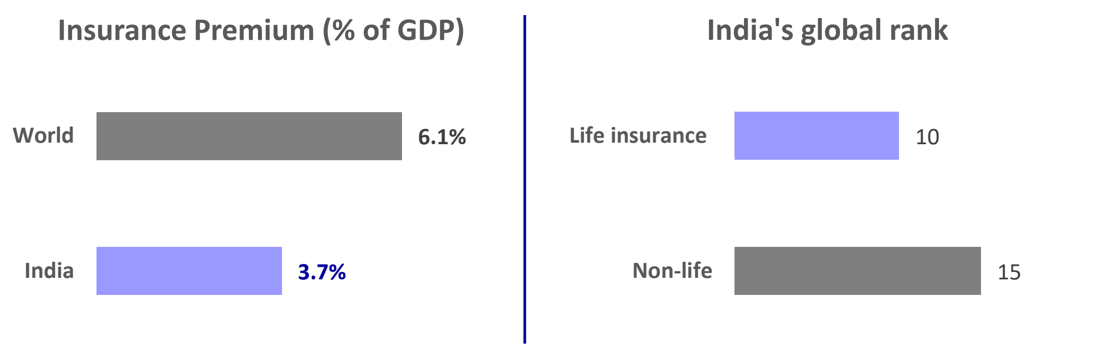
- **Level of domestic penetration e.g. Indian cars opportunity**
  - India's car population is estimated at 28 million. Considering 250 million households, this translates to penetration of 11%. For the US and most European countries, this number would be 80-100%. China's penetration currently is 45%. Even if we reach 30% penetration in 10 years' time, we are looking at a population of over 75 million cars i.e. incremental volumes of 4.7 million every year. Further, at least 10% of current population will come up for replacement every year. Thus, it's a 5 million cars per annum opportunity versus the current annual sale of 2.8 million cars. Thus, there's a huge addressable opportunity.

India's potential car sales is 5 million per annum v/s current 2.8 million



- **Global benchmarking e.g. Insurance**
  IRDA's (Insurance Regulation & Development Authority) latest Annual Report suggests that world insurance premium is at USD 5.2 trillion or 6% of global GDP. Against this, India's premium is about USD 100 billion i.e. 3.7% of GDP. Despite the second highest population in the world, India ranks 10th in life insurance and 15th in non-life insurance. Thus, India's annual insurance market potential is at least 1.6x the current level.

Insurance is a lucrative opportunity in India

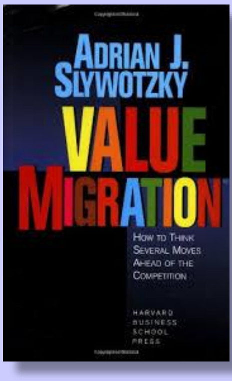


Source: Insurance Regulatory & Development Authority Annual Report, 2018-19

- **Other growth frameworks** – Value Migration (Framework 15), India's NTD (Next Trillion Dollar, Framework #16) and Winner Categories, Category Winners (Framework #17).

Framework #15

Value Migration



In his book ***Value Migration***, author Adrian J Slywotzky says, "Value migrates from outmoded business designs to new ones that are better able to satisfy customers' most important priorities."

Value here stands for profits and market cap. Value Migration results in a gradual yet major shift in how the current and future Profit Pool in an industry is shared. It creates a sizable and sustained business opportunity for its beneficiaries. It has two broad varieties –

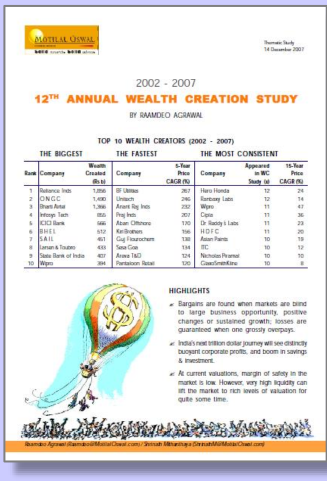
1. **Global Value Migration** e.g. global manufacturing value migrating to China; value in IT and healthcare sectors migrating to India.
2. **Local Value Migration** e.g. value in telephony migrating from wired networks to wireless networks; value in Indian banking migrating from public sector banks to private banks.

Examples of Value Migration

Sector/Company	Value migration from	Value migration to
IT Services	Developed world	Low labor-cost countries
Pharmaceuticals	Developed world	Low-cost chemistry countries
Banking	State-owned banks	Private banks
Telecom	Fixed line networks	Wireless networks
e-tailing	Brick-and-mortar retailing	Online retailing
Gems & Jewelry	Unorganized jewelry market	Organized jewelry retailing
Aviation	Full service airlines and railways	Low cost airlines

Framework #16

India's NTD Opportunity


MOTILAL OSWAL

Thematic Study
14 December 2007

2002 - 2007

12TH ANNUAL WEALTH CREATION STUDY

BY RAAMDEO AGRAWAL

TOP 10 WEALTH CREATORS (2002 - 2007)

	THE BIGGEST		THE FASTEST		THE MOST CONSISTENT		
Rank	Company	Wealth Created (Rs b)	Company	5-Year Price CAGR (%)	Company	Appeared in WC Study (x)	15-Year Price CAGR (%)
1	Reliance Inds	1,856	BF Utilities	267	Hero Honda	12	24
2	O N G C	1,490	Unitech	246	Ranbaxy Labs	12	14
3	Bharti Airtel	1,366	Anant Raj Inds	232	Wipro	11	47
4	Infosys Tech	855	Praj Inds	207	Cipla	11	36
5	ICICI Bank	566	Aban Offshore	170	Dr Reddy's Labs	11	23
6	B H E L	512	Kiri Brothers	156	H D F C	11	20
7	S A I L	451	Guj Flourochem	138	Asian Paints	10	19
8	Larsen & Toubro	433	Sesa Goa	134	ITC	10	12
9	State Bank of India	407	Areva T&D	124	Nicholas Piramal	10	10
10	Wipro	394	Pantaloon Retail	120	GlaxoSmithKline	10	8

HIGHLIGHTS

- Bargains are found when markets are blind to large business opportunity, positive changes or sustained growth; losses are guaranteed when one grossly overpays.
- India's next trillion 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 for quite some time.

Raamdeo Agrawal (Raamdeo@MotilalOswal.com) / Shrinath Mithanthaya (ShrinathM@MotilalOswal.com)

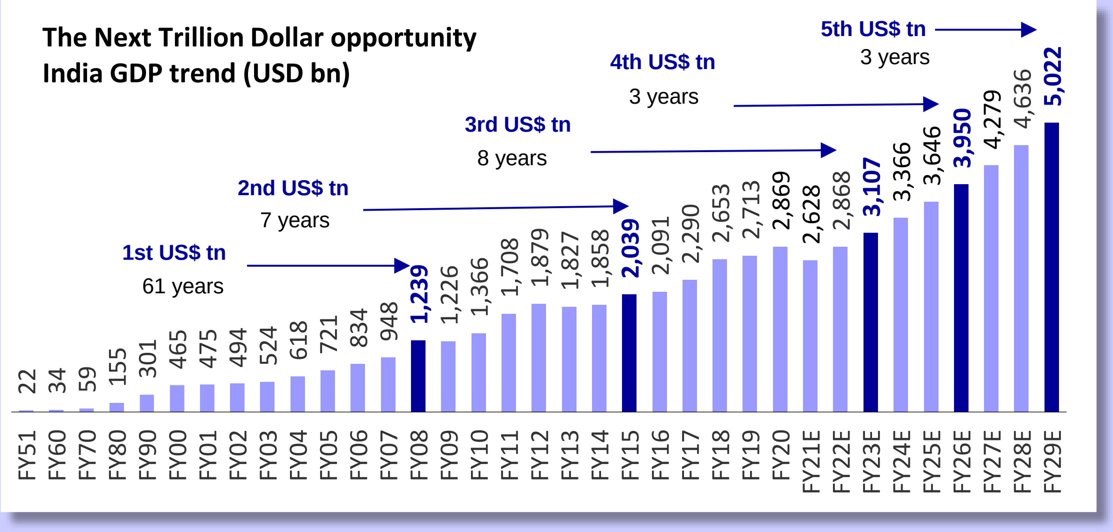
We covered India's NTD Opportunity in our 12th Wealth Creation Study (2007). Click on the cover page to read the full study.

NTD here stands for Next Trillion Dollar of India's GDP. The essence of the framework is this –

- It took India over 60 years post-Independence to clock its First Trillion dollar of GDP.
- Having achieved this, every successive NTD is taking shorter and shorter time (see chart below).

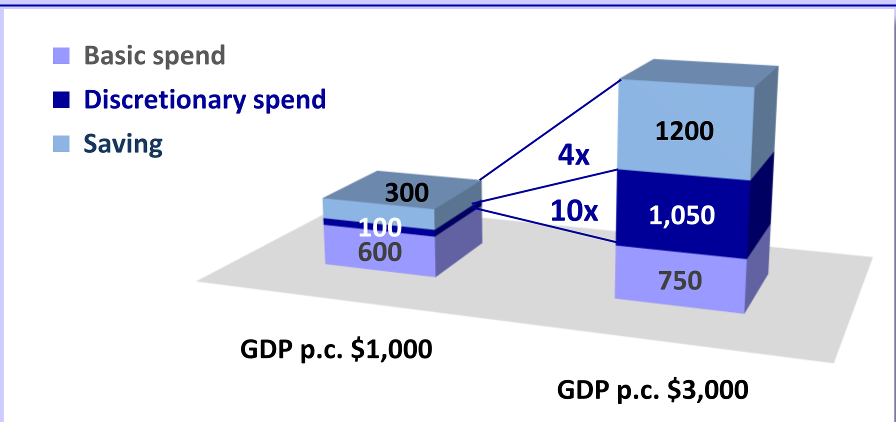
Framework #16 (continued)

India is adding the Next Trillion Dollar of GDP in successively few years



The chart below depicts the typical disposal of per capita GDP. At per capita GDP of USD 1,000, 60% of it would be towards basic spend (food, clothing, shelter, health), 10% towards discretionary spend such as education and travel, and 30% towards saving. When per capita GDP trebles to US# 3,000, basic spend would increase barely 20% to around USD 750, discretionary would increase to USD 1,050 and leaving the balance as savings.

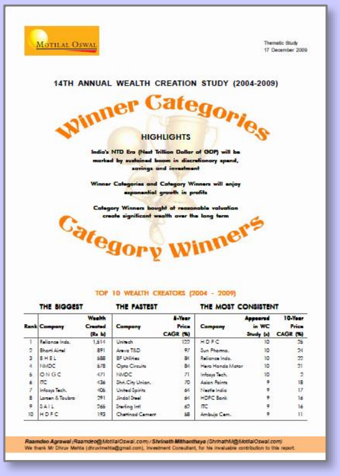
Trebling of per capita GDP leads to 10x opportunity in discretionaries and 4x opportunity in savings & investment products



Thus, linear GDP growth leads to exponential opportunity for many sectors, especially those catering to discretionary needs such as two-wheelers, cars, ACs, etc and savings/investment products such as bank deposits, mutual funds, insurance, etc.

Framework #17

Winner Categories, Category Winners



We covered Winner Categories, Category Winners in our 14th Wealth Creation Study (2009). Click on the cover page to read the full study.

Winner Categories are categories (i.e. sectors) which are –
(1) Expected to grow at least 1.5x nominal GDP growth; and
(2) Consolidated i.e. not too many players to partake of the expected growth.

Category Winners are companies in Winner Categories with
(1) Entry Barriers / Competitive advantage and (2) Great Management.

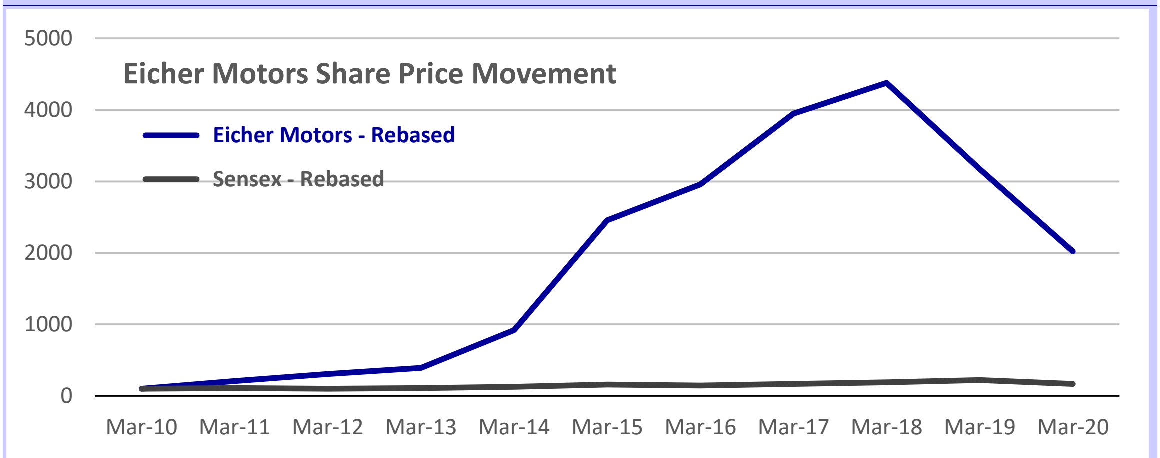
Winning investments happen when Category Winners are bought at reasonable valuation.

Example: Eicher Motors

Consider the period 2010 to 2020.

- **Winner Category:** Auto 2/3-wheelers is a Winner Category with revenue growth at 21% is more than 1.5x the corresponding nominal GDP growth of 12%. It is a highly consolidated sector with only a handful of players.
- **Category Winner:** Eicher Motors enjoys huge competitive advantage in its niche of super premium motorcycles, coupled with a change of management led by Siddharth Lal.
- **Winning Investment:** In March 2010, Eicher Motors was reasonably valued at a P/E of 21x. As a result, over the next 10 years, it is a massive outperformer with FY10-20 return CAGR of 35% v/s 5% for the Sensex.

In 2010, Eicher was a Category Winner available at reasonable valuation i.e. a Winning Investment



Q#10 What is the company's growth plan? How sustainable is the growth?

Objective: Having understood the addressable opportunity, the next step is to know what is the company's growth plan to tap into that opportunity.

What to look for:

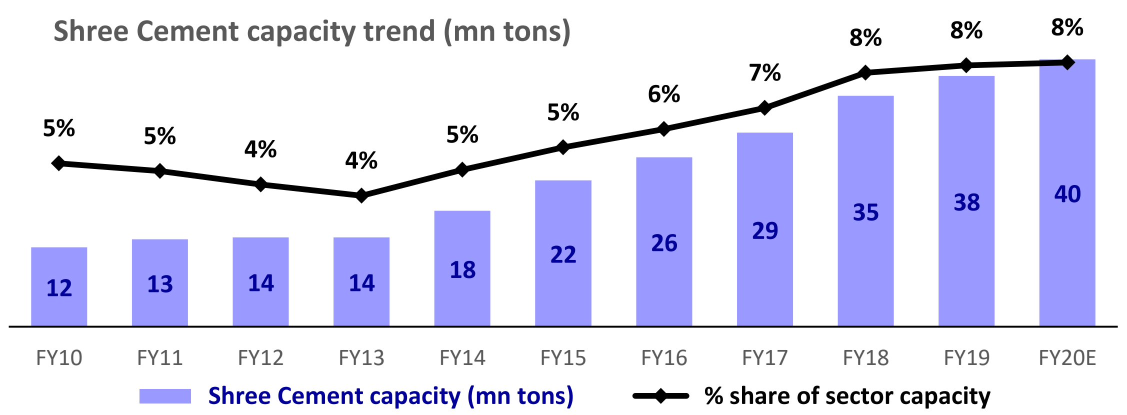
- Capacity expansion
- New product launches / Business diversification
- Exports / New geographies
- Mergers & Acquisitions
- CVPM (Cost-Volume-Price-Mix) Analysis (Framework #18)
- Funding of the growth.

We briefly discuss each one of the above.

Capacity expansion

If the addressable opportunity for a company is large, it will need to expand capacity to capitalize on the same. Once the fresh capacity is commissioned, it is expected to contribute to the company's sales and profit. Investors need to bear in mind the gestation period for the new capacity to go on stream. Also, capacity ramp-up will most likely be gradual. Sales and profit projections need to be made accordingly.

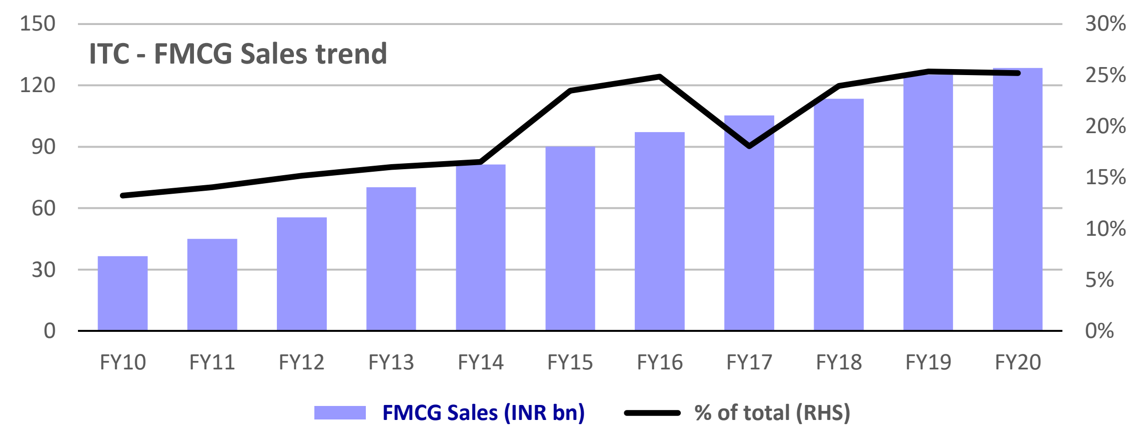
Shree Cement: Aggressive capacity expansion



New product launches / Business diversification

This is yet another way to ensure growth in sales and profits. However, not all new launches may be successful. Here, the company's past track record of product launches is a good indicator of the success of its future products. ITC is a good example of successful product launches in its FMCG segment. Reliance is a good example of business diversification, venturing into retail and telecom from its oil & gas business.

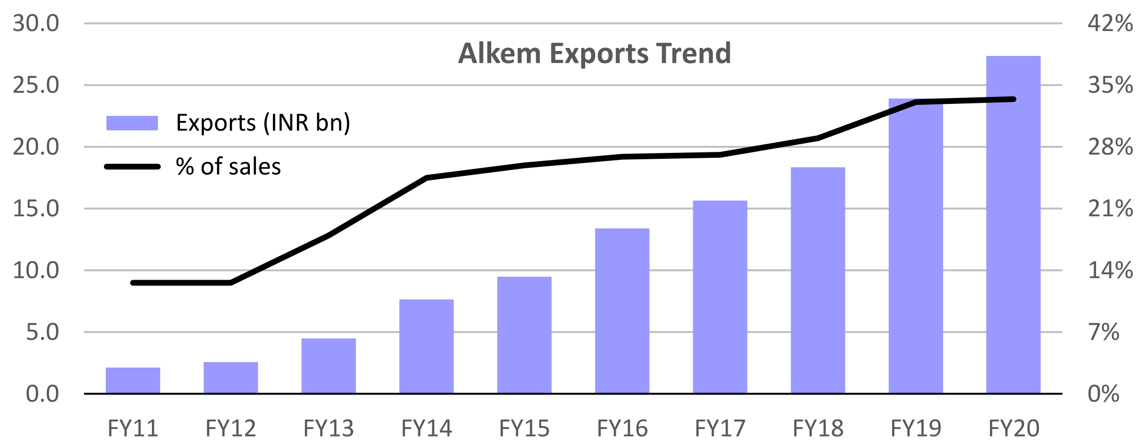
ITC: Non-cigarette FMCG sales on the rise



New geographies/Exports

Companies may foray into new geographies to expand their addressable opportunity. Here, the new geography may be within India itself and/or newer markets overseas. It must be remembered that a company's sustainable competitive advantage in one market does not migrate to the new one. The dynamics of each geography are different, and the company will need to adapt its business model accordingly.

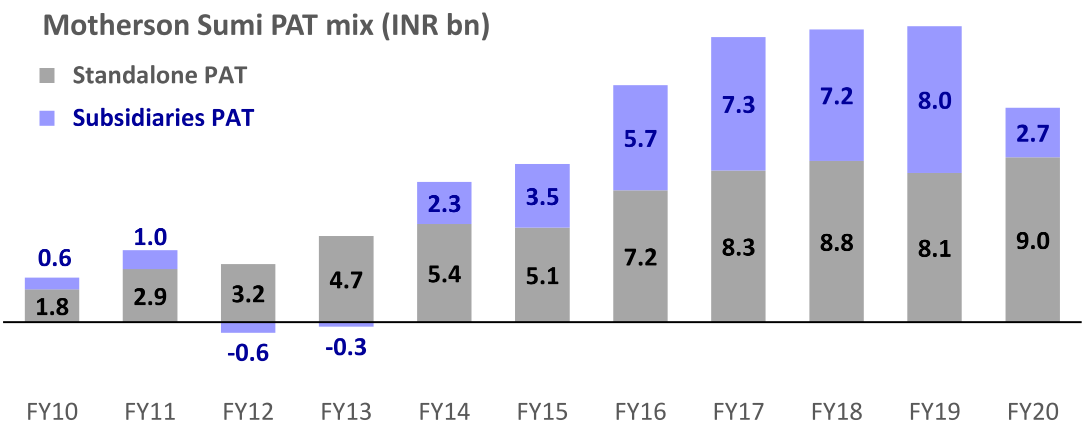
Alkem has set a blazing trend of exports



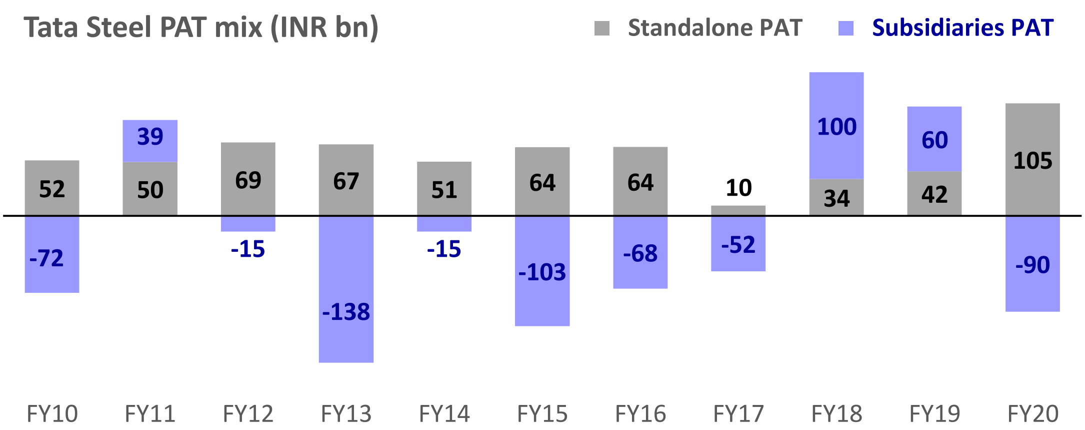
Mergers & Acquisitions

This is yet another way to boost sales and earnings growth, without having to go through the gestation involved in new capacity expansion, product launches or foray into new geographies. However, successfully integrating the acquired entity is a massive challenge, both operational, and more importantly, human. Corporate history is replete with examples of failed mergers and acquisitions, both in India and globally.

Motherson has an excellent track record of acquisitions, mostly global



Tata Steel's Corus acquisition has gone awry



Framework #18

CVPM Analysis

This framework is borrowed from the domain of cost accounting. A Cost-Volume-Price-Mix Analysis, where possible, will help determine how sales growth translates to profit growth.

Example: A company makes two products A and B. In FY21, it sold 100 units of each. Product A is sold at INR 100 per unit, and Product B at INR 120. Raw Material cost is INR 60 per unit for Product A and 70 per unit for Product B. All other operating costs are fixed at INR 2,000 for both products. In FY22, the company reports volume growth of 20%, the mix changes to 45% Product A and 55% Product B. Both, product prices and raw material see cost inflation of 10%. How much will FY22 EBITDA grow by?

As the table below shows, a 20% volume growth translates to a high 60% EBITDA growth due to the interplay of Cost, Volume, Price and Mix –

- **Cost -** Fixed costs remain the same despite volume growth; so per unit incidence is lower
- **Volume –** Total volume grows by 20%
- **Price –** Selling price goes up by 10%, but due to mix change, average selling price is up 11%
- **Mix –** Changes from 50:50 to 55:45 in favor of Product B, which has higher contribution per unit.

Framework #18 (continued)

Example of CVPM analysis

	FY21			FY22			% change
	Product A	Product B	Total/ Avg	Product A	Product B	Total/ Avg	Tota/ Avg
Volume	100	100	**200**	108	132	**240**	**20%**
Product Mix	*50%*	*50%*		*45%*	*55%*		
Sales	10,000	12,000	**22,000**	11,880	17,424	**29,304**	**33%**
Selling Price	*100*	*120*	***110***	*110*	*132*	***122***	***11%***
Raw Materials	(6,000)	(7,000)	**(13,000)**	(7,128)	(10,164)	**(17,292)**	**33%**
Per unit	*60*	*70*	***65***	*66*	*77*	***72***	***11%***
Contribution	**4,000**	**5,000**	**9,000**	**4,752**	**7,260**	**12,012**	**33%**
Per unit	*40*	*50*	***45***	*44*	*55*	***50***	***11%***
Fixed cost	(2,000)	(2,000)	**(4,000)**	(2,000)	(2,000)	**(4,000)**	**0%**
Per unit	*20*	*20*	***20***	*19*	*15*	***17***	***-17%***
EBITDA	**2,000**	**3,000**	**5,000**	**2,752**	**5,260**	**8,012**	**60%**
Per unit	*20*	*30*	***25***	*25*	*40*	***33***	***34%***
EBITDA Margin	20%	25%	**23%**	23%	30%	**27%**	

Funding of the growth

Merely knowing a company's growth plan is not enough. It is equally important to know how the same in funded. There are 3 forms of funding –

1. Self-funded i.e. through internal accruals
2. Externally funded i.e. through debt and/or equity
3. Mix of both (1) and (2).

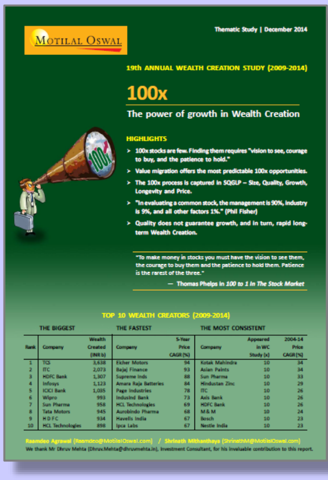
A mega capacity expansion or acquisition may involve raising of large doses of debt and/or equity capital. Given this, in some cases, the capacity expansion may not be significantly profit-accretive or EPS-accretive.

Having discussed the key aspects of a company's growth plan, we present 3 growth-related frameworks covered in our Wealth Creation Studies: 100x (Framework #19), Mid to Mega (Framework #20) and Large unpopular (Framework #20).

Framework #19

100x

We covered the 100x theme in our 14th Wealth Creation Study. Click on the cover page to read the full study.

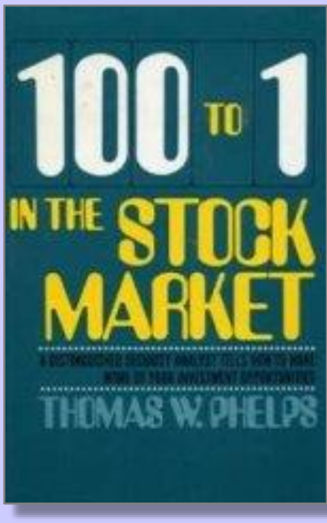


"To make money in stocks you must have the vision to see them, the courage to buy them and the patience to hold them. Patience is the rarest of the three."

– Thomas Phelps in 100 to 1 In The Stock Market

What is 100x?

"100x" refers to stock prices rising 100-fold over time i.e. "100-baggers" in stock market jargon. Very few investors experience 100x in their investments because such 100-fold rise may take longer than 3, 5, or even 10 years' time. And holding on to stocks beyond that period requires patience which, as the above quote above aptly puts it, "is the rarest of the three" qualities, the other two being vision and courage.



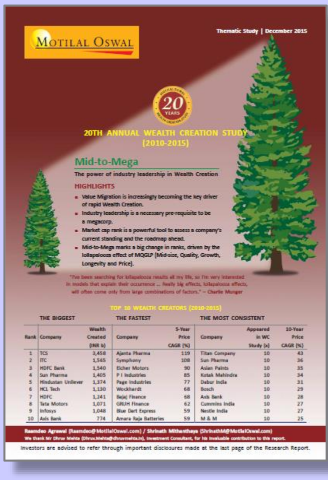
What's the framework to identify 100x stocks?

We have propounded SQGLP as the framework to identify 100x stocks. S stands for small i.e. market cap ideally around US$1 billion or INR 75 billion. QGLP refers to the Quality, Growth, Longevity and Price framework discussed on page 35.

Framework #20

Mid to Mega

We covered the Mid to Mega theme in our 15th Wealth Creation Study. Click on the cover page to read the full study.



What is Mid to Mega?

We classify all stocks based on their market cap ranks as follows:

- Mega – Stocks ranked 1 to 100
- Mid – Stocks ranked 101 to 250
- Mini – Stocks ranked below 250.

Mid to Mega is a significant crossover of a company from the Mid category to Mega. In the process, the company delivers handsome stock returns. Every year, about 15 stocks crossover from Mid to Mega, also implying a healthy strike rate of 10%.

Framework #20 (continued)

What it takes for Mid to Mega?

The framework for Mid to Mega is "MQGLP with leadership inside". The M stands for Midsize i.e. rank 101 to 250. QGLP refers to the Quality, Growth, Longevity and Price framework discussed on page 35. Another key dimension of Mid to Mega is market leadership i.e. ranked among the top 3 in their respective sectors. This is because most of the Mega stocks are market leaders. So any company which aspires to enter the Mega league needs to already reflect leadership traits.

Current Mid stocks which demonstrate market leadership

3M India	Container Corpn.	Indiamart Intermesh	REC
ABB	Coromandel Intl	Indian Hotels	Relaxo Footwear
ACC	CRISIL	Kajaria Ceramics	Schaeffler India
AIA Engineering	Dixon Technologies	Kansai Nerolac	Sun TV Network
Amara Raja Batt.	Dr Lal Pathlabs	LIC Housing Finance	Supreme Inds
Apollo Hospitals	Emami	Mahanagar Gas	Tata Chemicals
Apollo Tyres	Endurance Tech.	Manappuram Finance	TVS Motor
Astral Poly Tech	General Insurance	MRF	United Breweries
BHEL	Gillette India	New India Assurance	Varun Beverages
Bank of India	Glaxo Pharma	NHPC	Voltas
Bata India	Godrej Properties	Oracle Financial	WABCO India
Bayer Crop Science	Gujarat Gas	Page Industries	Whirlpool India
Bharat Electronics	Honeywell Auto	Polycab India	Zee Entertainment
Bharat Forge	IRCTC	Power Finance	
Castrol India	ICICI Securities	Rajesh Exports	

Framework #21

Large unpopular

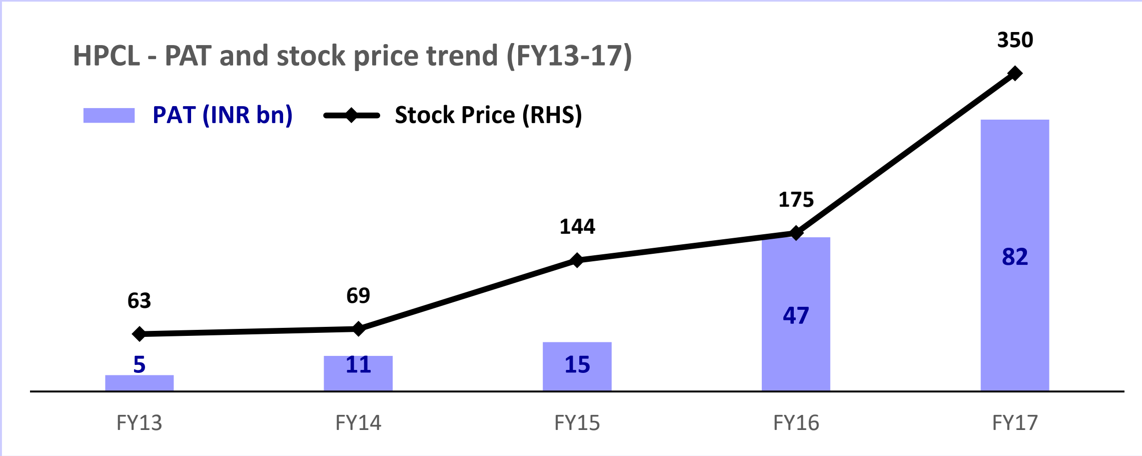
This is yet another framework for growth-led returns on the stock market. Many large companies become unpopular in the markets due to various reasons e.g. downturn in business cycle, adverse regulatory change, perceived weak management, etc. But when these "large, unpopular" companies turn around, they generate significant returns for investors.

Past example: HPCL

In end-FY13, on a revenue of over INR 2 trillion, HPCL stock was trading at a market cap of less than INR 100 bn. This was mainly on perception of excessive government control over petrol and diesel prices – a classic large, unpopular. In October 2014, the government deregulated diesel prices. In the 4 years between FY13 and FY17, HPCL's PAT rose 16x and stock price 5.5x, delivering a handsome 53% return CAGR.

Framework #21 (continued)

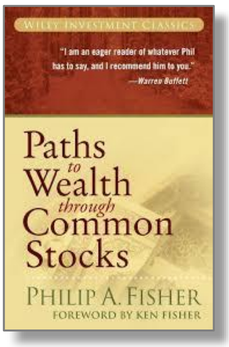
HPCL was a classic large unpopular stock in FY13



Current example: ITC, PSUs

Currently, ITC and PSUs are classic cases of large, unpopular – ITC because of concerns regarding ESG (Environmental, Social, Governance), and PSUs because of business downturn, and government dilly-dallying on privatization. When this changes, expect healthy returns on these stocks.

3.3 MANAGEMENT CHECKLIST

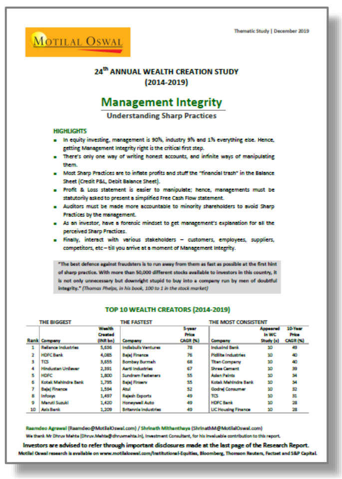


In his book *Paths to Wealth Through Common Stocks*, investment guru Philip Fisher writes, "In evaluating a common stock, the management is 90 per cent, the industry is 9 per cent, and all other factors are 1 per cent."

Going by this math, the following 9 questions are critical in evaluating an investment idea.

Q#11 Is the management high on integrity and transparency?

Objective: The objective is to establish Management Integrity at the very outset. Else there is a great risk of the stock racing to zero!



What to look for:

- No Sharp Practices (Framework #22)
- Preferably full-tax paying company
- Healthy dividend payout
- A moment of management integrity, during interaction with constituents such as customers, employees, distributors/ dealers, competitors, etc.

What is management integrity?

We covered Management Integrity in our 24th Wealth Creation Study (2019). Click on the cover page to read the full study. We present key extracts here.

For the purpose of equity investing, Management Integrity can be defined as dealing with all company stakeholders honestly and with a sense of trusteeship. This is reflected as tabled below.

Management Integrity in a nutshell

Stakeholder	Company behavior
Corporate Parent / Founders	• No or minimal conflict of interest (e.g. royalty for brand, technology) • No or minimal related party transactions
Senior Management	• Reasonable compensation relative to company median • Calibrated stock options
Employees	• Courtesy and respect for all employees • Adequate opportunity for personal and professional development • Fostering sense of ownership through calibrated stock options
Customers	• Offering products and/or services matching customer expectations • Retaining customers through appropriate loyalty programs • Fair dealing on post-sale commitments e.g. warranties, repairs, etc
Suppliers	• Maintaining fair terms of trade • Collaborating for innovations, where relevant
Shareholders	• Presenting a true and fair view of the company's affairs through annual and interim reports • Maintaining a rational policy of payouts (dividends and/or buybacks)
Government	• Timely paying due taxes, both direct and indirect • Abiding by the law of the land in all matters
Community & Environment	• Pursuing an active Corporate Social Responsibility program • Ensuring compliance with all community norms e.g. effluent-treatment, waste management, etc

Compromised integrity typically gets reflected in the financial books in the form of Sharp Practices (Framework #22).

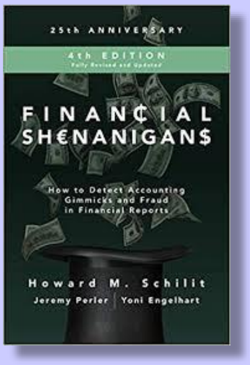
On transparency, there are two points to monitor –

1. What's the track record of the company meeting its performance guidance, if any, and
2. Whether the company is forthright in sharing with the investors negative developments as well, rather than just the positive ones.

Framework #22

Sharp Practices

Sharp Practices may be defined as "ways of behaving, especially in business, that are dishonest but not illegal." However, once the management starts resorting to Sharp Practices, it's what Satyam Computer founder B Ramalinga Raju wrote in his fraud confession letter, "like riding a tiger, not knowing how to get off without being eaten". It's tough to say when a Sharp Practice degenerates into an intentional fraud.



Authors Howard Schilit, Jeremy Perler and Yoni Engelhart in their book *Financial Shenanigans* identify two broad categories of accounting shenanigans or Sharp Practices –

1. Earnings manipulation and
2. Cash Flow shenanigans.

The authors also present an interesting backdrop to the whole issue of Sharp Practices. In 1988, there was a Hollywood comedy hit, *Twins*. The twins were born in a genetics lab as the result of a secret experiment to create the perfect child. Thus, one of the twins gets all the desirable traits while the other gets the "genetic trash".

The relationship between Earnings and Cash Flow is somewhat similar. Companies try their utmost to present the best Earnings position, only to dump all the "financial trash" into the Balance Sheet, reflecting in Cash Flow. The double-entry accounting term for this is –

Credit P&L A/c, Debit Balance Sheet

Apart from accounting Sharp Practices, there are also non-accounting ones such as related party transactions and misleading earnings guidance.

Besides keeping an eye on the management's Sharp Practices, investors would do well to keep a tab on auditors' report, top management changes, promoters' pledged shares, and also take a 360-degree feedback on Management Integrity from customers, employees (current and ex), distributors/dealers, suppliers, competitors, etc.

The purpose of the whole exercise detailed above – right from looking out for various Sharp Practices to the 360-degree feedback – is to arrive at what author Michael Shearn in his book, *The Investment Checklist* calls, **the moment of integrity** i.e. that final piece of clinching evidence as to whether the management is honest in its dealings with stakeholders or not.

In the final analysis, Philip Fisher's words in *Common Stocks And Uncommon Profits* are most appropriate: "Regardless of how high the rating may be in all other matters, however, if there is a serious question of the lack of a strong management sense of trusteeship for stockholders, the investor should never seriously consider participating in such an enterprise."

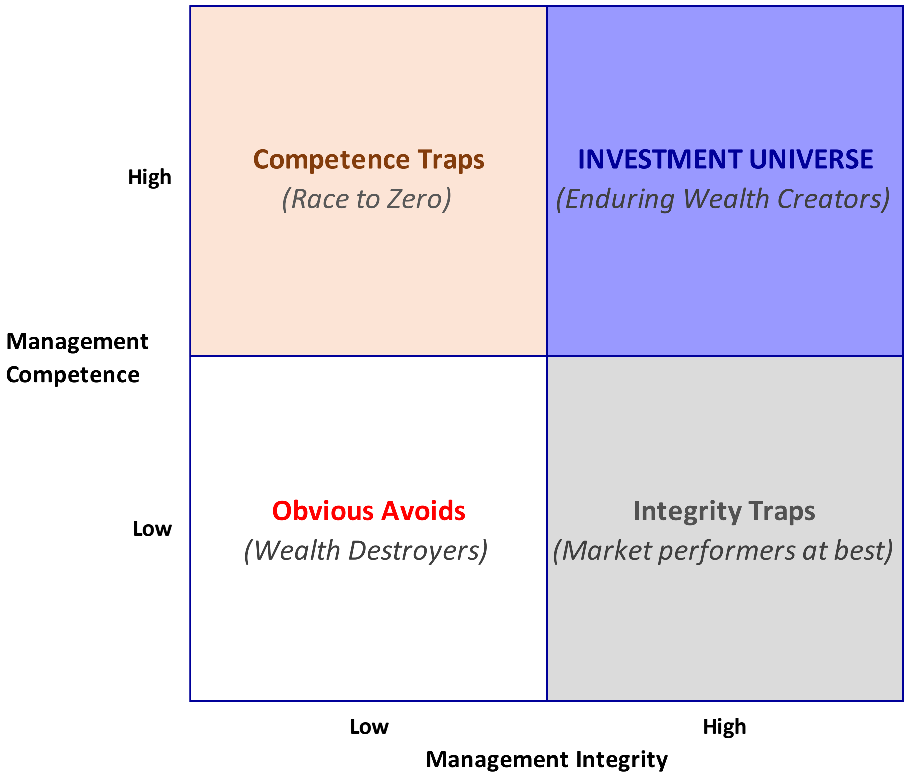
Q#12 Is the management competent?

Objective: Unquestionable Management Integrity is clearly the most important aspect of Quality of Management. However, as seen in the grid below, Management Integrity without Competence also will not take investors very far. The objective of this question is to establish that the management is competent to deliver returns to stakeholders.

What to look for:

- Whether the management has a clear long-term vision for the company
- Whether the management has a sharp strategy. This may be evaluated using Porter's strategy framework discussed under Framework #13 – (1) Distinctive value proposition, (2) Tailored value chain, (3) Trade-offs different from rivals, (4) Fit, and (5) Continuity.
- Whether the management is good in execution. The test for this is how the company ranks vis-à-vis peers on key operating and financial metrics.
- Whether the management is aware of the KSFs (key success factors) in their sector
- Whether the company has a sound MIS in place.

Management Integrity-Competence grid



Key operating and financial metrics for some sectors

Sector	Operating / Financial Metrics
General	Capacity utilization, Return on Equity, Return on Capital Employed, EBITDA Margin, PAT Margin, Asset turnover, Debt-equity, Operating Cash Flow/Profit After Tax
Airlines	RASK (Revenue per Available Seat-Kilometer), Load Factor, CASK (Cost per Available Seat-Kilometer)
Banking / NBFC	ROTA (Return on Total Assets), Credit cost, NIM (Net Interest Margin), PCR (Provision Coverage Ratio), Cost-to-income ratio
Cement	EBITDA per tonne
Hotels	RevPAR (Revenue Per Available Room), Occupancy rate, ADR (Average Daily Rate)
Insurance	NBAP (New Business Achieved Profit) margin, Persistency ratio, EVOP (Embedded Value Operating Profit) growth
Retail	SSSG (Same Store Sales Growth), Revenue/Cost per square foot

Q#13 Does the management have passion / growth mindset?

Objective: In some cases, the management may have both integrity and competence, but also a tendency to rest on its laurels. The objective of this question is to check whether the management has passion to grow the business, in order to deliver higher stakeholder value.

Framework #23

Fixed vs Growth Mindset

Psychologists talk of two kinds of mindset:
(1) Fixed mindset and
(2) Growth mindset.

At the personal level, a fixed mindset assumes that our character, intelligence, and creative ability are static givens which we cannot change in any meaningful way. Such a mindset views success as an affirmation of that inherent intelligence. Hence, all efforts are towards avoiding failure at any cost.

A "growth mindset," on the other hand, thrives on challenge and sees failure not as evidence of unintelligence but as an opportunity for growth and for stretching existing abilities. Hence, companies with growth mindset are likely to be more entrepreneurial and risk-taking than companies with fixed mindset.

The management's passion/growth mindset may take several forms, mainly –
(1) Aggressive capacity expansion, and
(2) Active inorganic growth strategy, both leading to
(3) Operating and/or financial leverage.

We have already touched upon Shree Cement's aggressive capacity expansion, and Motherson Sumi's active inorganic growth strategy. An example of Operating & Financial Leverage is given below.

Operating & Financial leverage

Operating and Financial leverage is usually the happy outcome of pursuing an aggressive growth strategy. However, some companies actively engineer such leverage by way of stringent cost control and planned debt reduction. Consider the Havell's example tabled below.

Havells: Good example of Operating & Financial Leverage

INR bn	FY15	FY20	CAGR
Net Sales	**91**	**94**	**1%**
Less: Variable costs	**52**	**62**	**4%**
Raw Materials	48	56	
Power & Fuel Cost	1	1	
Other Mfg Expenses	3	5	
Less: Fixed/Semi-fixed costs	**32**	**22**	**-7%**
Employee Cost	12	9	
Selling & Admin Expenses	19	12	
Miscellaneous Expenses	1	1	
EBITDA	**8**	**10**	**6%**
EBITDA Margin	*8.3%*	*10.9%*	
Less: Depreciation	1	2	**9%**
Less: Interest	1	0	**-27%**
Add: Other Income	1	1	**18%**
Profit Before Tax	6	9	**10%**
Tax	2	2	
Effective Tax Rate	*32%*	*19%*	
Profft After Tax	**4**	**7**	**14%**

Key takeaways:

- FY15-20 Sales CAGR is only 1%
- Variable cost CAGR is 4%, but Fixed/Semi-fixed costs are down 7% CAGR
- As a result, EBITDA CAGR at 6% is higher than Sales CAGR (Operating Leverage)
- Next, Interest cost is down 27% CAGR
- Hence, PBT CAGR at 10% is higher than EBITDA CAGR (Financial Leverage)
- With lower tax rate, PAT CAGR at 14% is significantly higher than Sales CAGR.

Q#14 Does the company have a rational capital allocation policy?

Objective: Two main reasons for a company's downfall are: (1) Disruptive competition or regulation and (2) Capital misallocation. Hence, it is critical to establish that the company has a rational capital allocation policy.

What to look for:

There are quite a few actions management can take on the company's annual cash flow –

- Repay debt, if any
- Reinvest back in the business by way of new projects
- Make acquisitions
- Hold cash in the balance sheet
- Pay dividends
- Buy back shares.

Investors need to check whether there is sound rationale in the management's exercise of one or more of the above options.

Consider the example of Asian Paints tabled below.

- During FY15 to FY20, it has doubled its Fixed Assets from INR 41 billion to INR 85 billion
- It has managed this without any equity dilution, and prudent expansion of debt
- At the same time, it has maintained dividend payout around 40%

Asian Paints: Excellent capital allocation

INR bn	FY15	FY16	FY17	FY18	FY19	FY20
Fixed Assets	41	37	39	47	81	85
Equity	1	1	1	1	1	1
Debt	4	3	6	5	13	11
Dividend	6	7	10	8	10	12
Payout ratio	42%	41%	51%	41%	47%	43%

Q#15 Does the company have a suitable organization structure and management depth?

Objective: Startups and small companies can do very well under a single leader, typically the owner-manager. However, such a situation is one of high key-man risk. For companies to scale up, they would need a suitable organization structure, leadership team and management depth.

What to look for:

- The two key words around management depth are: (1) Professionalism & (2) Empowerment.
- A company needs to have a suitable organization structure with each function or unit headed by professionals, empowered to take appropriate decisions.

Interactions with various business unit heads – finance, marketing, production, etc – will help investors assess whether the company has a suitable organization structure and depth of management.

Q#16 What is the organization culture?

Objective: Organization culture may be called the personality of an organization. It consists of the values, beliefs, and norms which influence the behavior of people in an organization, both among themselves, and as a result, with the outside world.

Increasingly, organization culture is emerging as a source of competitive advantage, as conducive cultures tend to attract and retain the best talent. Hence, it is important to assess a company's culture and its suitability before making a decision to invest in its stock.

The end objective is to avoid companies with a toxic culture, marked by one or more of these: low trust levels, excessive internal competition, workplace politics and low employee morale.

What to look for:

- Whether the company has explicitly stated its mission and the values which it will abide by
- Whether the company has a healthy track record of labor relations

- Whether the company's attrition rate at the senior- and mid-level management is very high
- Whether ex-employees have a favorable opinion about the company
- Whether customers, dealers and suppliers face any adverse issues in their dealings with the company.

Q#17 Does the company have a sound succession plan?

Objective: Continuity of leadership is key for a company's long-term success, and hence its investment worthiness. Hence, it is critical to assess a company's succession plan.

What to look for:
- Is the company owner-managed? If yes, most likely, the successor will be from within the owner family. So, does the successor have at least the same level of integrity and competence as the predecessor?
- If the company is professionally managed, a key point to note is whether the succession is from within the company or external. Here too, the integrity and competence of the successor need to be ascertained.

Q#18 Do the owners have enough skin in the game?

Objective: The objective behind this question is to assess whether there is a potential alignment of interest between majority and minority shareholders.

What to look for:
- Significant promoter holding depending on the circumstances. For instance, though majority holding is ideal, the promoters of banks cannot own more than 26% of equity as mandated by regulation.

Q#19 Have the promoters pledged a large portion of their holding and why?

Objective: If the promoters have pledged a large portion of their holding, and are unable to meet their dues to lenders, the latter may be forced to liquidate the pledged shares, causing severe damage to the stock price.

What to look for:
- Percentage holding of promoters pledged; a very high level of pledge should be viewed with caution.

3.4 PRICE CHECKLIST

Having covered various aspects related to business, growth and management, the next step is to distil all of them to ascertain whether there is reasonable Margin of Safety in the current purchase price of the stock. The following questions aid the process.

Q#20 Has the financial model been done with estimates for at least 3 years?

Objective: All the narrative regarding the company under consideration will need to finally be translated into numbers in order to take an investment view on the same. A financial model is the bridge between the narrative and the numbers.

What to look for:
A robust financial model on a company should have the following essential elements –

- Revenue model – Capturing how exactly the company makes up its topline, including volume and price realization details, where available
- Cost model – Capturing the cost structure of the company, including unit costs where available
- P&L Statement including relevant margins – Gross Margin, EBITDA margin, PAT Margin
- Balance Sheet
- Cash flow
- Key ratios – mainly RoE, RoCE, Debt-equity, Payout ratio, Working capital cycle, etc
- All of the above should carry estimates for the next 3 years at least.
- Valuation basis – P/E, EV/EBITDA (EV stands for Enterprise Value), Discounted Cash Flow, Sum of Parts (in case of multiple businesses meriting separate valuation methodologies).

Q#21 Is it a QGL stock?

Objective: Having done the number crunching, the next step is to arrive at a view as to whether the stock is QGL i.e.

- **Q of business:** Whether its Quality of Business is good or great
- **Q of management:** Whether its Management has integrity, competence and growth mindset
- **G:** Whether there's healthy earnings growth expected for the next 3 years at least
- **L:** Whether all of the above are sustainable over the long term

Q#22 Is valuation reasonable?

Objective: If in Q#21, the stock does prove to be QGL, the next step is determining P i.e. reasonable Price.

What to look for:

- Valuation of peers, both domestic and global
- The company's own historical valuation track record
- Intrinsic P/E, calculated as –

$$\textbf{P/E = Payout} \div \textbf{(k-g)}$$

where Payout = Last Dividend Payout, k = cost of equity, g = growth to perpetuity

We prefer to look at two key ratios – PEG (Framework #24) and Payback ratio (Framework #25).

Framework #24

PEG (P/E to Growth)

PEG = Trailing 12 month P/E ÷ Earnings CAGR for next 2/3/5 years

Clearly, lower the PEG the better. Empirical data suggests that PEG of 1.5x or lower is a near-certain formula for superior returns.

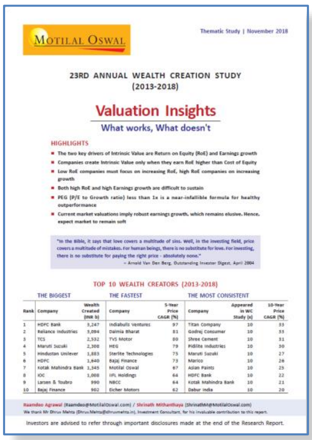
Framework #25

Payback Ratio

Payback Ratio = Market Cap ÷ Next 5 years' PAT

This is a proprietary ratio of Motilal Oswal. Here too, lower the ratio the better. Empirical data suggests than Payback Ratio of less than 1x is a near-certain formula for superior returns.

In our 23rd Wealth Creation Study titled "Valuation Insights", we presented what works and what doesn't when it comes to valuation. Click on the cover to read the full report.



MOTILAL OSWAL

Thematic Study | November 2018

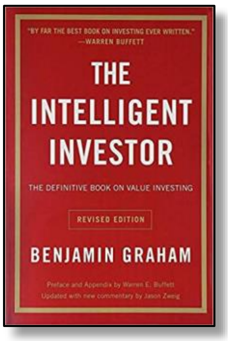
23RD ANNUAL WEALTH CREATION STUDY (2013-2018)

Valuation Insights

What works, What doesn't

Pricing heuristic	WHAT WORKS …		WHAT DOESN'T …	
	Metric	Alpha	Metric	Alpha
PEG	< 1x	**19%**	> 3x	-10%
Payback	< 1x	**17%**	> 3x	-12%
Price/Book	< 1x	**6%**	Unclear	–
Price/Sales	< 1x	**6%**	> 3x	-6%
P/E	< 10x	**5%**	> 50x	-14%
P/E relative to market	< 1x	**4%**	> 2x	-8%

Q#23 Is there enough Margin of Safety?



Warren Buffett has said that the three most important words of equity investing are "Margin of Safety". He has also said, "Price is what you pay, value is what you get." Simply put, Margin of Safety is the difference between the intrinsic value of a stock and its market price i.e. Value-Price gap. The greater the difference the better it is for the investor.

The need for Margin of Safety is that the future is highly uncertain. Many of the assumptions which go into determining a stock's value may not play out precisely as expected. Thus, as Benjamin Graham (the originator of the concept of Margin Safety) writes in *The Intelligent Investor*, "**the function of Margin of Safety is, in essence, that of rendering unnecessary an accurate estimate of the future.**"

Graham's original measure of Margin of Safety was buying stocks whose earning (or expected earning) power on price (i.e. Earnings yield or 1÷ P/E) is considerably higher than the going rate for same-quality bonds. This is what may be traditionally called "Value Investing".

However, Graham has expanded his idea Margin of Safety to encompass "Growth Investing" as well. He writes, "The growth stock buyer relies on an expected earning power that is greater than the average shown in the past … In investment theory, there is no reason why carefully estimated future earnings should be a less reliable guide than the bare record of the past … Thus, the growth-stock approach may supply as dependable a Margin of Safety as is found in the ordinary investment – provided the calculation of the future is conservatively made, and provided it shows a satisfactory margin in relation to the price paid."

Other highly relevant extracts from Chapter 20 of *The Intelligent Investor* –

- "The Margin of Safety is always dependent on the price paid. It will be large at one price, small at some higher price, nonexistent at some still higher price."
- "In sum, we say that to have a true investment there must be present a true Margin of Safety. And a true Margin of Safety is one that can be demonstrated by figures, by persuasive reasoning, and by reference to a body of actual experience."

Q#24 Is the stock reasonably liquid?

Objective: Stocks which are illiquid carry significant **impact cost** i.e. buying even small quantities will cause the price to increase. Also, when the investor decides to sell the stock, prices get hammered down due to low liquidity.

What to look for:

- Free float market cap (i.e. excluding promoter holding) of the company
- Average daily trading volume in the stock to ascertain liquidity.

3.5 RISK CHECKLIST

After covering questions 1 to 24, an investor may conclude that a stock is QGLP compliant. However, the world of business and the stock markets are too dynamic. Hence, it is critical to assess the risks that a company faces.

Q#25 What can go wrong with the company narrative and numbers?

We list out risks under 2 heads – (1) Business Risks and (2) Management Risks.

BUSINESS RISKS

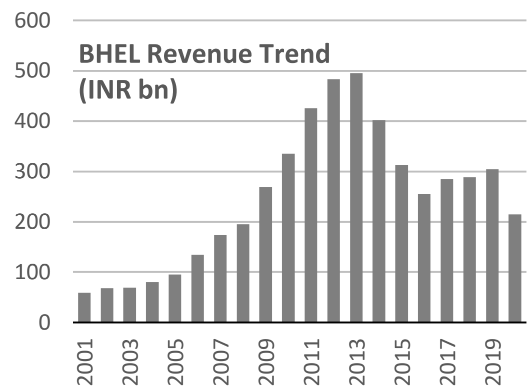
A company has to deal with a host of operational risks e.g. rise in raw material prices, labor strikes, fire in the plant, etc. These will vary from company to company. However, the more structural risks are –

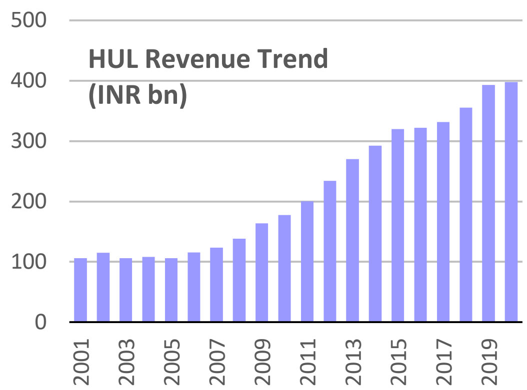
- Economic and/or sector slowdown
- Adverse change in competitive landscape and
- Adverse change in regulatory framework.

Economic and/or sector slowdown

This is the most common risk facing every single company. However, some sectors/companies are less prone to slowdown than others. Typically B2C (business-to-consumer) companies tend to be less vulnerable to economic and business cycles than B2B (business-to-business) and B2G (business-to-government) companies.

BHEL (B2B) is vulnerable to economic cycles … **… Hindustan Unilever (B2C) is not**



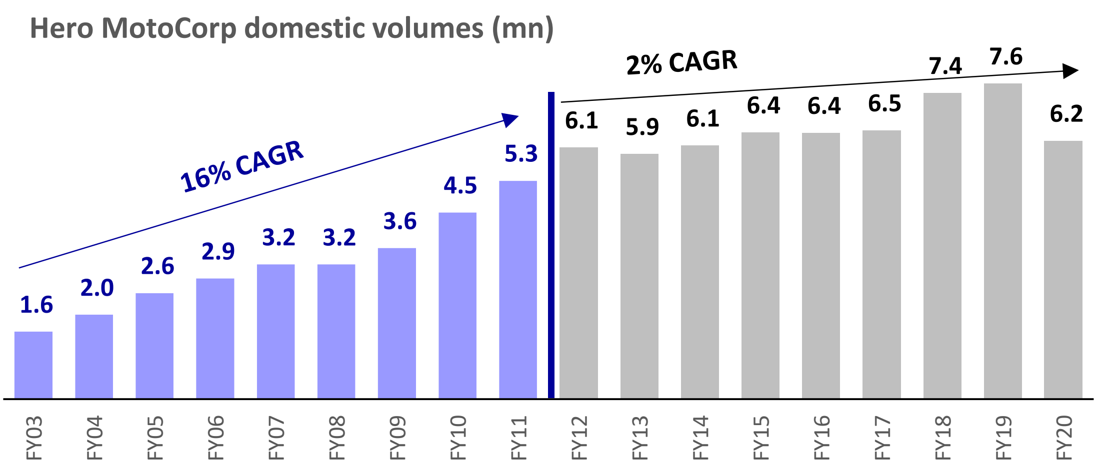


Adverse change in competitive landscape

Competitive landscape tends to be structural. However the occasional change in competitive landscape, if adverse, could significantly affect company fortunes. The disruption caused by Reliance Jio in the wireless telecom sector is obvious. But there can be not-so-obvious changes as well.

Consider the case of **Hero MotoCorp**. In December 2010, the company (then, Hero Honda) separated from its joint-venture partner, Honda Japan. Honda thus became a formidable competitor in the 2-wheeler sector. From FY03 to FY11, Hero clocked volume CAGR of 16%. For the next 9 years post break-up, Hero's volume CAGR is a mere 2%. The competitive landscape has changed adversely forever.

Hero MotoCorp has been impacted by adverse change in competitive landscape



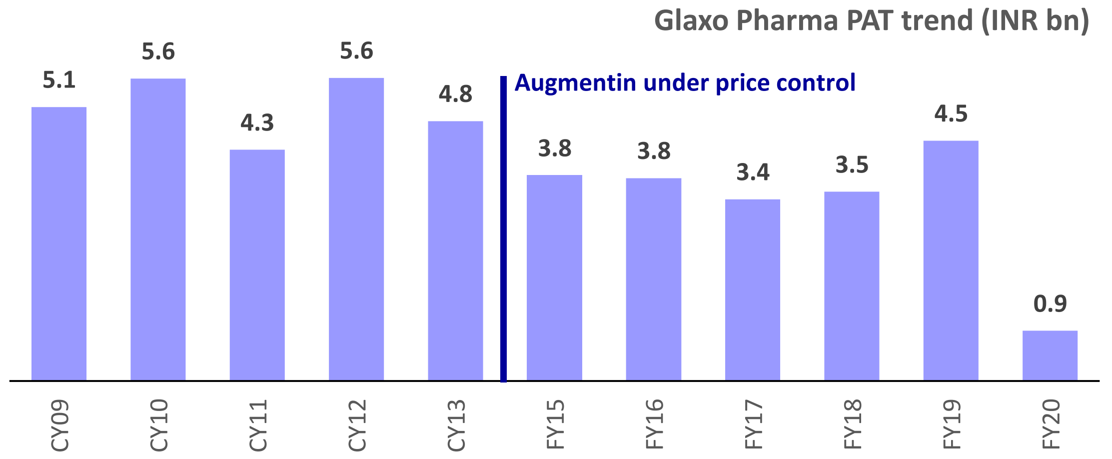
Technological/Digital disruption: A new and rapidly growing change in the competitive landscape is that of technological/digital disruption. Virtually every business – be it financial services or retailing or autos – is vulnerable to this risk. For instance, Bajaj Finance's explosive growth is largely attributable to its significant investment in fintech (financial technology). The competitive landscape for brokerages has turned adverse with the onset of digitally-led discount brokerage companies like Zerodha. Likewise, ICE (internal combustion engine) based auto manufacturers are highly vulnerable to electric vehicle technology.

Adverse change in regulatory framework

Government regulations can make or mar the fortunes of sectors and companies.

Example: In mid-2014, the Indian government introduced price control on Glaxo Pharma's flagship product Augmentin. Since then, Glaxo Pharma has not been able to raise its profit higher than the CY13 levels.

Glaxo Pharma profits hit by government regulation on drug prices



MANAGEMENT RISKS

The major risks here are –

- Capital misallocation.
- Key-man risk
- Succession risk

Capital misallocation

This is a major risk as minority shareholders have virtually no control over how a company's management decides to allocate capital. Managements may use the company's cash flow towards empire-building through massive capex or mega acquisitions, to the detriment of shareholder value. Most mega acquisitions in the last 15 years have not created adequate returns to shareholders, as tabled below.

Post major acquisitions, shareholder return is muted at best

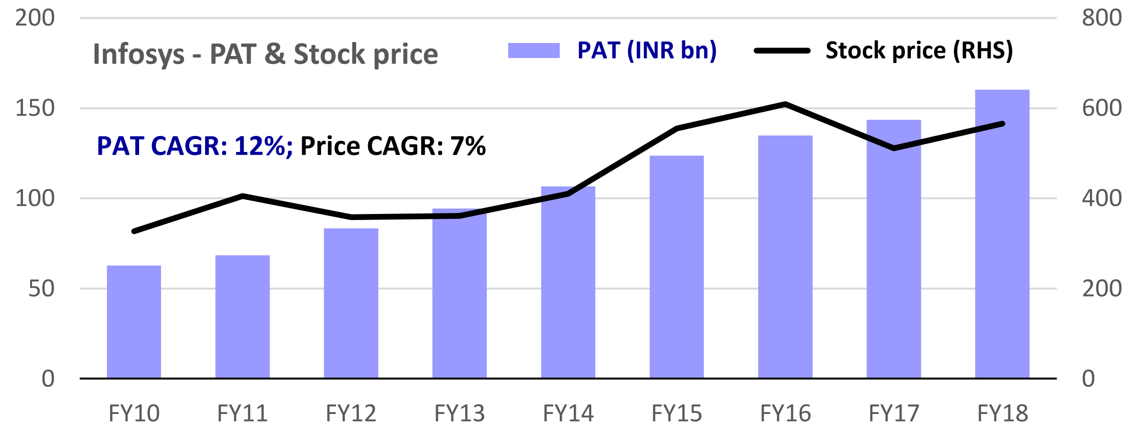
Acquirer	Acquiree	Date	Return CAGR 3 years post acquisition
Indian Hotels	Ritz Carlton, Boston	Jan-07	-11%
Tata Steel	Corus, UK	Jan-07	12%
Hindalco	Novelis, USA	Feb-07	5%
Suzlon	REpower, Germany	Jun-07	-33%
Bharti Airtel	Zain, Africa	Jun-10	3%
Mahindra & Mahindra	Ssyangyong, Korea	Jan-13	11%
Sun Pharma	Ranbaxy, India	Apr-14	1%

Key-man / Succession risk

Many times, the fortunes of a company depend on the key-man i.e. person at the helm of affairs. His departure from the company may adversely affect company performance. A related risk is whether the company manages to get the right successor to its current leader.

Example: Infosys struggled with succession for almost 9 years since June 2009 post the tenures of Narayan Murthy and Nandan Nilekani. Now, Nandan Nilekani is back as Chairman of the Board.

During its succession struggle, Infosys's fundamental and stock performance was muted



In closing

Use the questions and frameworks here to arrive at your own checklist

- Equity investing is complex and multivariate. A checklist is an excellent tool to bring discipline to the stock picking process.
- No investment checklist can be cast in stone. It needs to be continuously updated based on the learnings from its application.
- We believe the 25 questions here and the 25 related frameworks are a good starting point for an investor to arrive at their own checklist over time.

2015-20 Wealth Creation Study: Detailed findings

Wealth Creation Study 2015-20

Methodology

The methodology here is similar to the 25-year Wealth Creation Study.

The only difference is that here, we first 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 are our Biggest Wealth Creators.

Next, these top 100 Wealth Creators are also ranked according to speed (i.e. price CAGR during the period under study), to give us the Fastest Wealth Creators.

Further, we have a section on Most Consistent Wealth Creators. This depends on –
1. The number of times a company has appeared in our past 10 Wealth Creation Studies, and
2. It's 10-year Price CAGR.

Section structure

- We discuss the findings in pages 88-100.
- Appendix 1 (pages 101-102) ranks the top 100 Wealth Creators by size.
- Appendix 2 (pages 103-104) ranks the same 100 Wealth Creators by speed.
- Appendix 3 (page 105) gives an alphabetical listing of the 100 Wealth Creators.

#1 Trend in Wealth Creation

INR 26 trillion Wealth Created during 2015-20

- Over the 5-year period 2015-20 (ended March), the top 100 Wealth Creating companies created wealth of INR 26 trillion. This is the lowest in the last 7 study periods. (Exhibit 1)
- The pace of Wealth Creation is also muted at 12% CAGR, the lowest ever, thanks to a low 1% return CAGR for the BSE Sensex. (Exhibit 2)
- Another reason for muted returns is a sharp correction in March 2020 on fears of a Covid-led global slowdown.

Exhibit 1 **2015-20 Wealth Created at INR 26 trillion is the lowest in the last 7 years**

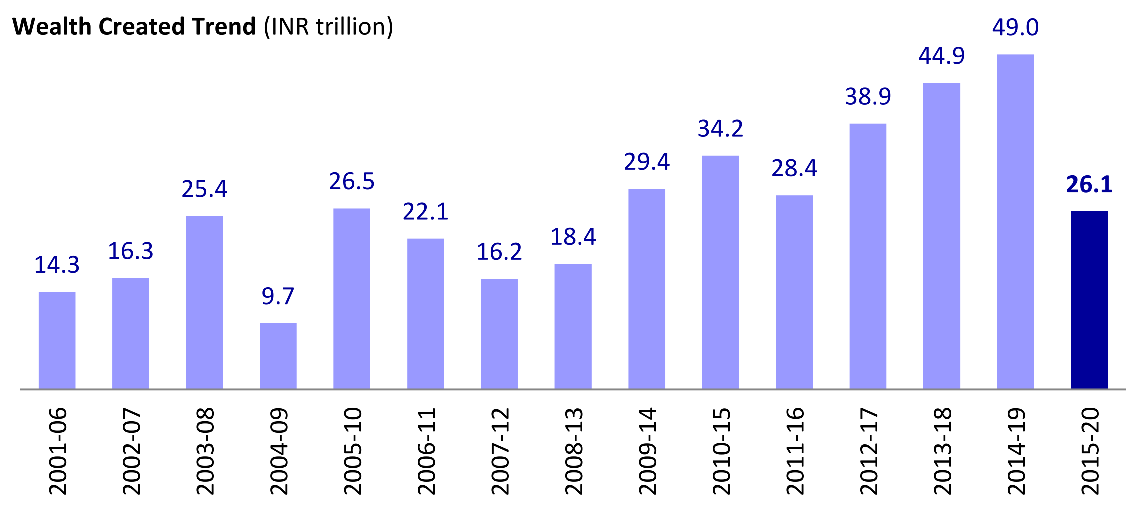
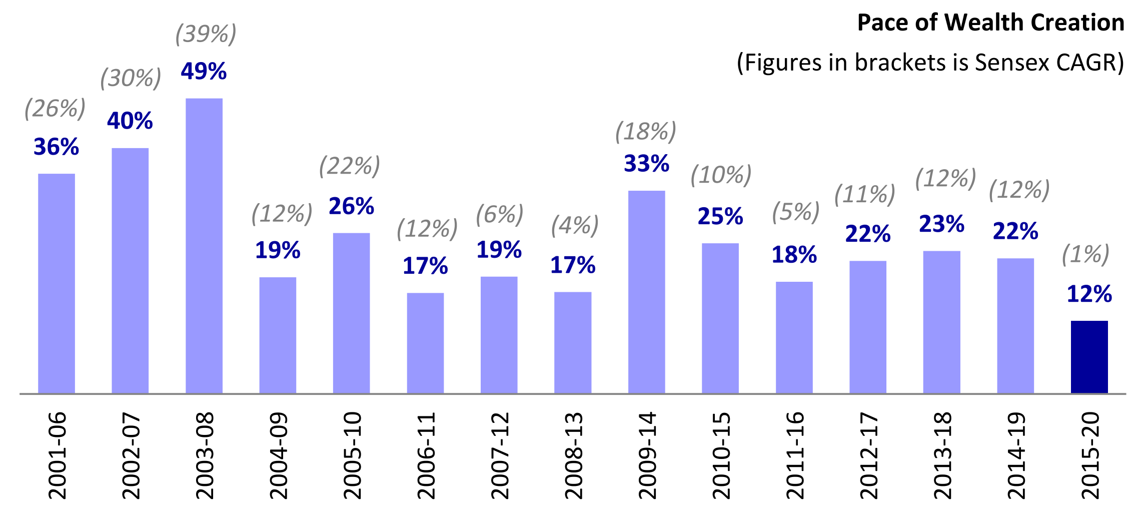


Exhibit 2 **2015-20 pace of Wealth Creation is muted at 12% CAGR vis-à-vis Sensex's 1% CAGR**



Key Takeaway

Forget markets, think stocks

For the past 6 successive study periods, market benchmark indices have delivered muted returns ranging from 1% to 12%. Yet, the top Wealth Creators created wealth at a healthy pace of 12-25%. This reinforces our pet take on investing, "Forget markets, think stocks."

#2 The Biggest Wealth Creators

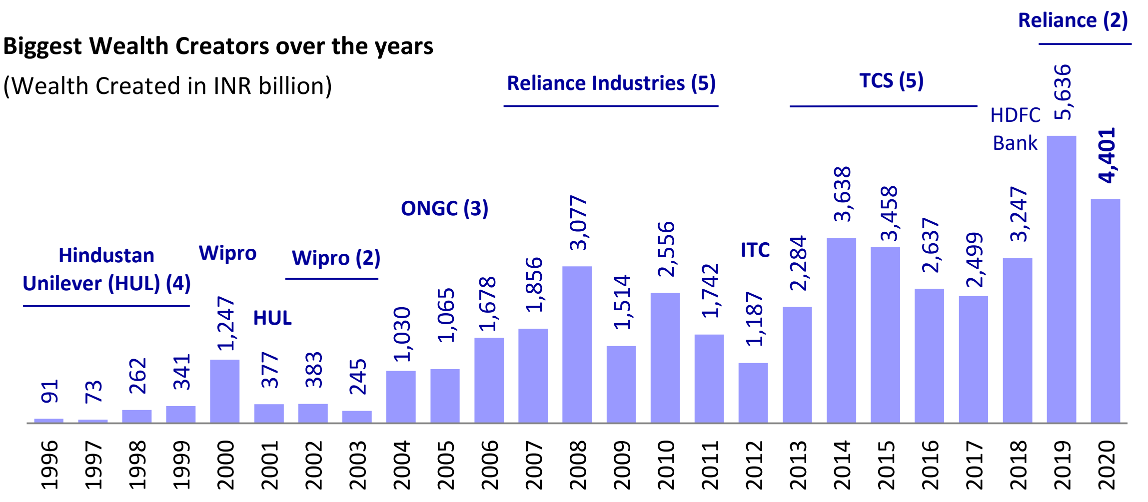
Reliance Industries is the Biggest Wealth Creator for the 7th time

- **Reliance Industries** has emerged the Biggest Wealth Creator over 2015-20, with over INR 4.4 trillion of Wealth Created.
- This is the 7th time Reliance is achieving the feat of the Biggest Wealth Creator, and the second time in succession after a 7-year gap.
- The Sanjeev Bajaj Group has put in a creditable performance with both **Bajaj Finance** and **Bajaj Finserv** among the top 10 Wealth Creators.

Exhibit 3 **Top 10 Biggest Wealth Creators (2015-20)**

Rank	Company	Wealth Created		CAGR (%)		P/E (x)		RoE (%)	
		INR bn	% share	Price	PAT	2020	2015	2020	2015
1	Reliance Inds	4,401	16.9	22	14	16	12	9	10
2	Hind. Unilever	3,085	11.8	21	13	72	51	84	92
3	TCS	2,187	8.4	7	11	21	26	39	38
4	HDFC Bank	1,824	7.0	11	21	17	24	15	17
5	Kotak Mahindra	1,211	4.6	15	23	29	33	13	14
6	Bajaj Finance	978	3.8	40	42	25	23	16	19
7	Nestle India	902	3.5	19	11	80	56	102	42
8	Asian Paints	823	3.2	16	14	59	56	27	29
9	HDFC	541	2.1	4	20	13	24	17	19
10	Bajaj Finserv	509	2.0	27	15	22	13	11	15
Total of Top 10		**16,460**	**63**	**15**	**16**	**22**	**23**	**15**	**17**
Total of Top 100		**26,077**	**100**	**12**	**13**	**23**	**24**	**15**	**16**

Exhibit 4 **Reliance Industries is the biggest Wealth Creator for the 7th time**



Key Takeaway

Too much money chasing too few stocks

The top 10 Wealth Creators accounted for 63% of the total Wealth Created. This is the highest concentration in the last 17 studies, and is reflective of the significant polarization in the Indian market. Too much money is chasing too few investment-worthy stocks, driving up valuations. A widespread revival in economic growth holds the key to broadbased performance in the stock markets.

#3 The Fastest Wealth Creators

Tasty Bite Eatables emerges the Fastest Wealth Creator

- The Fastest Wealth Creators category continues to throw up surprises with lesser heard names at the top.
- Over 2015-20, the Fastest Wealth Creator is **Tasty Bite Eatables** (manufacturer of ready-to-eat Indian foods, mainly for the US market), followed by **GMM Pfaudler** (supplier of equipment to the chemical and pharma sectors).
- **Bajaj Finance** has a highly creditable achievement of featuring among both the Top 10 Biggest and Fastest Wealth Creators.
- An equal-weighted portfolio of INR 1 million in top 10 Fastest Wealth Creators would have yielded a return CAGR of 47% over 2015-20.

Exhibit 5 **Top 10 Fastest Wealth Creators (2015-20)**

Rank	Company	Price Appn. (x)	CAGR (%)		Mkt Cap (INR bn)		P/E (x)	
			Price	PAT	2020	2015	2020	2015
1	Tasty Bite Eatables	14.9	72	31	23	2	56	14
2	GMM Pfaudler	8.8	54	31	37	4	51	22
3	Navin Fluorine	7.3	49	53	61	8	15	17
4	Minda Industries	6.3	44	25	63	9	39	17
5	Deepak Nitrite	5.7	42	63	53	7	9	13
6	Bajaj Finance	5.4	40	42	1,333	205	25	23
7	Escorts	5.2	39	37	81	16	17	16
8	Capri Global	5.1	39	11	30	6	19	6
9	Indraprastha Gas	4.6	36	21	272	59	23	13
10	Aarti Industries	4.5	35	21	133	31	25	16

Exhibit 6 **History of Fastest Wealth Creators**

Year	Company	5-yr Price Multiple (x)	5-yr Price CAGR %
1996	Dr Reddy's Labs	30	97
1997	Cipla	7	48
1998	Satyam Computers	23	87
1999	Satyam Computers	75	137
2000	SSI	223	195
2001	Infosys	66	131
2002	Wipro	69	133
2003	e-Serve	50	119
2004	Matrix Labs	75	137
2005	Matrix Labs	136	167
2006	Matrix Labs	182	183
2007	B F Utilities	665	267
2008	Unitech	837	284

Year	Company	5-yr Price Multiple (x)	5-yr Price CAGR %
2009	Unitech	54	122
2010	Unitech	28	95
2011	Sanwaria Agro	50	119
2012	TTK Prestige	24	89
2013	TTK Prestige	28	95
2014	Eicher Motors	27	94
2015	Ajanta Pharma	50	119
2016	Ajanta Pharma	53	121
2017	Ajanta Pharma	29	96
2018	Indiabulls Ventures	30	97
2019	Indiabulls Ventures	18	78
2020	Tasty Bite Eatables	15	72

Key Takeaway

Speed thrills, but at times, kills; drive with caution

The Fastest Wealth Creators list typically features midcap stocks. History suggests that quite a few names of the past no longer exist today or have gone into oblivion. Hence, investors are advised to invest in midcaps with great caution. Management integrity is the key differentiator between the enduring winners and the transitory multibaggers.

#4 The Most Consistent Wealth Creators

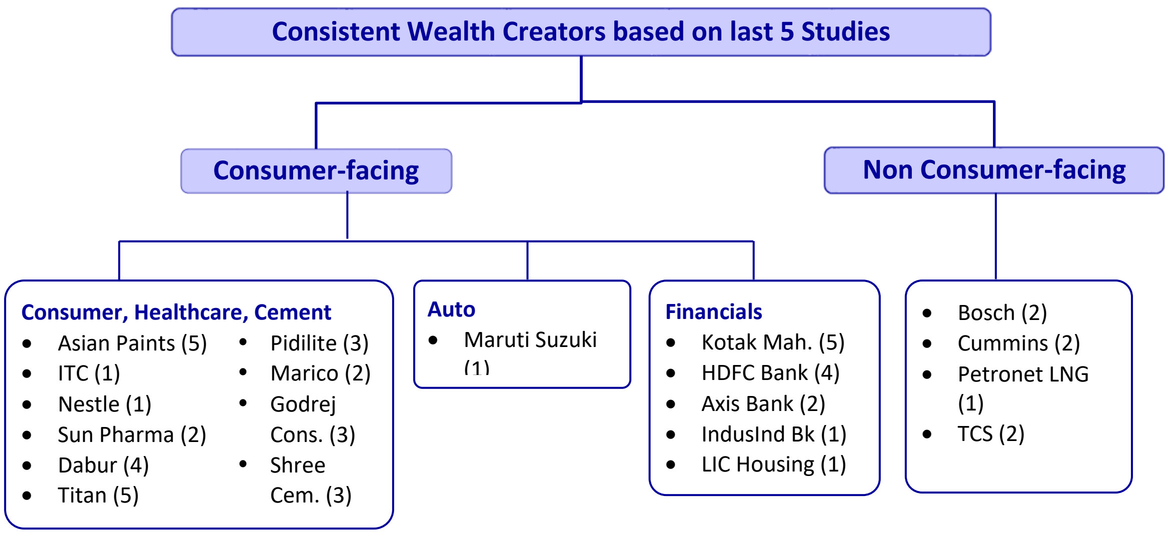
Pidilite Industries is the Most Consistent Wealth Creator

- **Pidilite Industries** has emerged the Most Consistent Wealth Creator by virtue of –
  1. Appearing among top 100 Wealth Creators in each of the last 10 studies; and
  2. Recording the highest Price CAGR of 28% over the 10-year period 2010 to 2020.
- Study after study has confirmed that consumer-facing businesses are less vulnerable to business cycles, and hence offer steady long-term return.

Exhibit 7 **Top 10 Most Consistent Wealth Creators (2010-20)**

		Appeared in	10-yr Price	10-yr PAT	P/E (x)		RoE (%)	
Rank	Company	WC Study (x)	CAGR (%)	CAGR (%)	2020	2010	2020	2010
1	Pidilite Inds	10	28	15%	62	21	26	35
2	Titan Company	10	26	20%	55	33	23	39
3	Asian Paints	10	23	12%	59	23	28	57
4	Shree Cement	10	23	9%	41	12	14	44
5	Kotak Mahindra	10	21	21%	29	20	14	18
6	Godrej Consumer	10	20	16%	36	24	20	45
7	Dabur India	10	19	11%	55	27	24	57
8	Petronet LNG	10	18	21%	11	14	25	19
9	Marico	10	18	16%	35	29	35	42
10	TCS	10	17	17%	21	22	38	41

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

Quality business + Steady earnings growth + Reasonable valuation = Consistent Wealth Creation

Almost all Consistent Wealth Creators enjoy a high quality business, marked by robust RoE. They delivered steady earnings growth of 10-20% over 10 years. Equally important, back in 2010, all the stocks were valued reasonably. This combination of high quality business, steady earnings growth are and reasonable valuation is the formula for Consistent Wealth Creation.

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

Superior earnings and price performance over benchmark

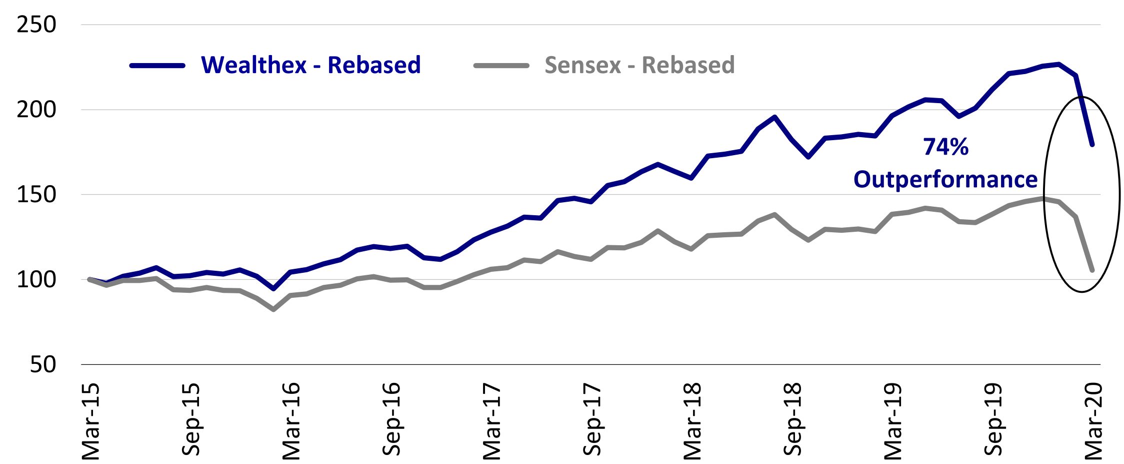
We compare Wealthex (top 100 Wealth Creators Market Cap index) with the BSE Sensex on three parameters - (1) market performance, (2) earnings growth and (3) valuation.

- **Market performance:** Over 2015-20, Wealth Creating companies have delivered return CAGR of 12% v/s 1% for the BSE Sensex. March 2020 over March 2015, Wealthex is up 75% whereas Sensex is up 1% i.e. 74% outperformance over 5 years.
- **Earnings growth:** Wealthex clocked 5-year earnings CAGR of 10% v/s 2% for BSE Sensex. Further, YoY earnings growth for Wealthex is higher in 4 of the 5 years 2015 through 2020.
- **Valuation:** Wealthex valuation hovered around that of the Sensex, except in 2020 where Wealthex P/E was 30% higher than that of the Sensex. This is explained by the market's flight to safety leading to very rich valuations of a select few bellwether stocks.

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

	Mar-15	Mar-16	Mar-17	Mar-18	Mar-19	Mar-20	5-Year CAGR
BSE Sensex	27,957	25,342	29,621	32,969	38,673	29,468	**1%**
YoY (%)		*-9*	*17*	*11*	*17*	*-24*	
Wealthex - based to Sensex	**27,957**	**29,184**	**35,757**	**44,619**	**54,911**	**50,147**	**12%**
YoY (%)		*4*	*23*	*25*	*23*	*-9*	
Sensex EPS (INR)	1,358	1,340	1,357	1,373	1,488	1,499	**2%**
YoY (%)		*-1*	*1*	*1*	*8*	*1*	
Wealthex EPS (INR)	**1,212**	**1,459**	**1,639**	**1,749**	**2,003**	**1,938**	**10%**
YoY (%)		*20*	*12*	*7*	*15*	*-3*	
Sensex PE (x)	21	19	22	24	26	20	**-1%**
Wealthex PE (x)	**23**	**20**	**22**	**26**	**27**	**26**	**2%**

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



Key Takeaway

G = R

G stands for earnings growth and R for stock return. There is enough empirical evidence that G=R, especially at the portfolio level. Both, the Sensex and the Wealthex are portfolios. Between 2015 and 2020, Sensex EPS CAGR is 2% and return is 1%. Wealthex EPS CAGR is 10% and return is 12%. Thus, in both cases, G is broadly equal to R.

#6 Wealth Creation: Sector analysis

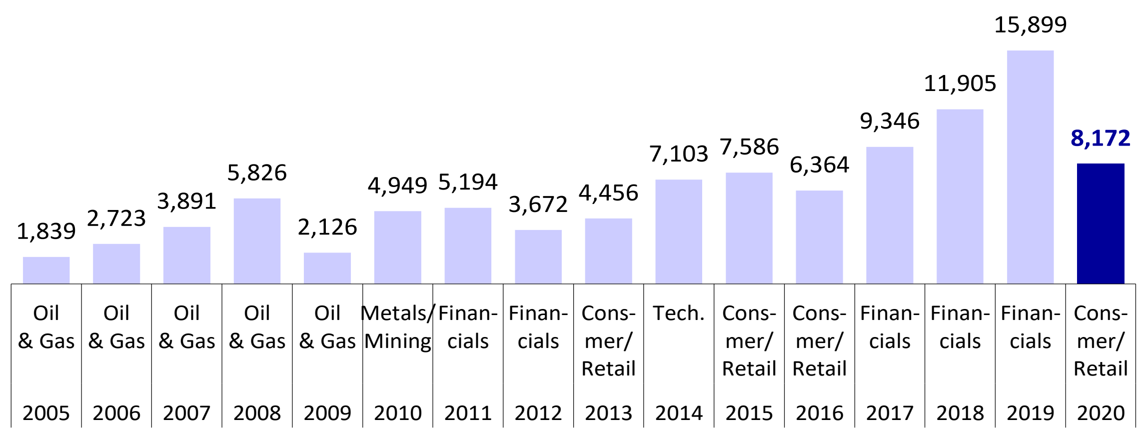
Consumer/Retail back as the biggest Wealth Creating sector

- Over 2015 to 2020, **Consumer/Retail** has emerged as the biggest Wealth Creating sector, after a gap of 3 years. The sector accounted for 31% of the Wealth Created, 9% higher than in 2015.
- **Oil & Gas** has gained the highest share of Wealth Created in the last 5 years (+17%), led by Reliance and oil marketing companies. This share gain is at the expense of **Technology** and **Healthcare** sectors.
- During 2015-20, Wealth Creation is highly concentrated with just 4 sectors accounting for a high 83% of the total.

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

Sector	WC	Share of WC %		CAGR 15-20 (%)		P/E (x)		RoE (%)	
(No of companies)	(INR bn)	2020	2015	Price	PAT	2020	2015	2020	2015
Consumer/Retail (28)	8,172	31	22	17	14	55	48	26	28
Financials (13)	5,702	22	20	13	15	18	20	14	16
Oil & Gas (7)	5,008	19	2	18	13	16	12	10	11
Technology (5)	2,747	11	18	5	9	19	23	33	30
Healthcare (10)	1,257	5	13	19	15	38	32	17	17
Auto (5)	466	2	14	6	5	30	28	9	15
Telecom (2)	466	2	2	9	7	41	38	8	11
Capital Goods (6)	427	2	2	15	21	32	40	17	15
Cement (3)	322	1	4	7	25	21	47	14	10
Metals / Mining (1)	134	1	0	10	21	8	12	13	8
Utilities (2)	128	0	0	3	18	8	15	17	12
Others (18)	1,248	5	3	21	21	34	35	14	13
Total	**26,077**	**100**	**100**	**12**	**13**	**23**	**24**	**15**	**16**

Exhibit 12 **Consumer/Retail sector back as the biggest Wealth Creator after a gap of 3 years**



Key Takeaway

Financials can't remain behind for long

As predicted in our last study, Financials lost its pride of place to Consumer/Retail sector, thanks to the IL&FS default. However, finance remains the life-blood of any economy. Hence, it is very likely that the sector will see a sharp bouceback soon, to regain the top spot which it enjoyed for 3 successive studies prior to the current one.

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

PSUs remain insignificant in Wealth Creation; privatization a great idea

- PSUs' (public sector undertakings) Wealth Creation performance during 2015-20 was weak:
  - The number of PSUs in the top 100 Wealth Creators is only 7.
  - Wealth Created by these 7 PSUs is just 3% of total.
- The 7 Wealth Creating PSUs are **BPCL**, **HPCL**, **Petronet LNG**, **Indraprastha Gas, Gujarat State Petronet, Power Grid Corporation** and **ITI**.
- 5 of the 7 Wealth Creating PSUs are from the Oil & Gas sector.
- Most of the Wealth Creating PSUs enjoy virtual monopoly-like status.

Exhibit 13 **PSUs remain insignificant in Wealth Creation**

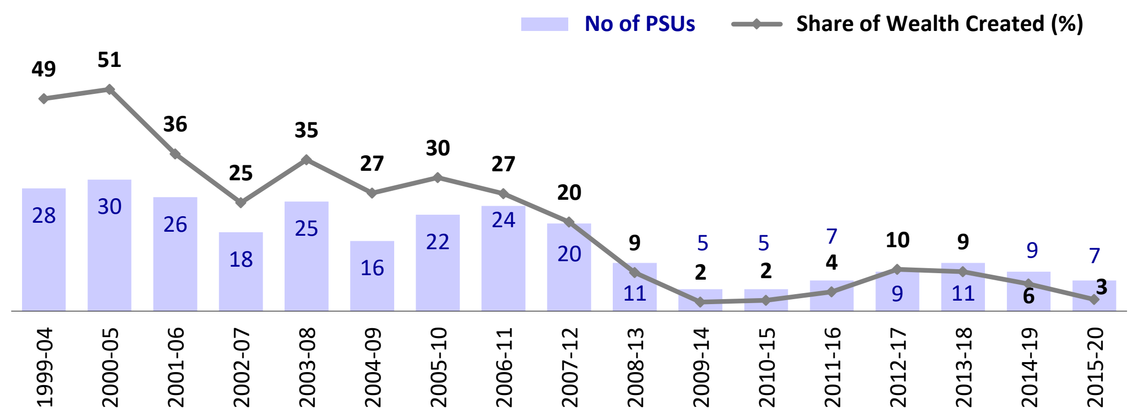
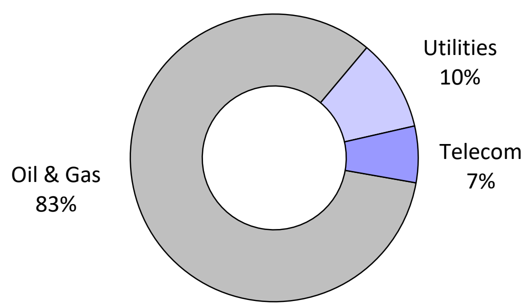


Exhibit 14 **PSUs, as a whole, have seen a valuation de-rating despite decent PAT CAGR and rise in RoE**

	2015-2020	
	PSU	Private
No. of Wealth Creators in Top 100	7	93
Share of Wealth Created (%)	3	97
5-year Sales CAGR (%)	4	11
5-year PAT CAGR (%)	13	13
5-year Price CAGR (%)	7	13
P/E - 2015 (x)	14	25
P/E - 2020 (x)	11	24
RoE - 2015 (%)	15	16
RoE - 2020 (%)	16	15

Exhibit 15 **PSUs which are virtual monopolies are creating wealth e.g. oil marketers, Power Grid**



Key Takeaway

Privatization is the solution

It's more than evident that the bureaucratic culture and lack of entrepreneurship in PSUs prevent them from effectively competing with their private sector counterparts. We believe the government must persist with its mantra of "Minimum government, maximum governance", including an active plan to privatize non-core PSUs. This will serve the dual purpose of -
(1) Revitalizing the PSUs, and
(2) Raising much needed revenue for the government.

#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 150 stocks by market cap rank
- **Mini** – All stocks below the top 250 ranks.

Market cap ranks of companies change constantly. Over time, companies also cross over from one category to another. For the period 2015-20, the market cap ranks crossover matrix stands as under –

Exhibit 16 **2015-20: Market cap rank crossovers: Number of companies and average returns**

TO (in 2020)	FROM (in 2015): Mini	Mid	Mega
Mega *Avg Return*	**0** **—**	**14** ***20%***	73 *-1%*
Mid *Avg Return*	**23** ***21%***	72 *0%*	**24** ***-15%***
Mini *Avg Return*	2,446 *-8%*	**64** ***-25%***	**3** ***-32%***

How to read the table

- **FIRST COLUMN:**
  - — Over 2015-20, none of the Minis moved to the Mega category.
  - — 23 Minis moved to Mid by 2020, delivering an average 5-year return CAGR of 21%.
  - — 2,446 Mini companies stayed as Mini (-8% return CAGR).
- **SECOND COLUMN:**
  - — 14 Mids moved to Mega by 2020, delivering an average 20% return CAGR.
  - — 72 Mid companies stayed as Mid (0% return CAGR).
  - — 64 slipped to Mini (-25% return CAGR).
- **THIRD COLUMN:**
  - — Of the 100 Mega companies in 2015, 73 stayed as Mega (-1% return CAGR).
  - — 24 slipped to Mid (-15% return CAGR)
  - — 3 slipped to Mini (-32% return CAGR).
- **Note:** During the 2015-20 period, Sensex return was about 1%.

We specifically analyze the 3 positive crossovers –

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

8.1 Mini-to-Mega: No company

- During 2015-20, no company moved from Mini to Mega.

8.2 Mini-to-Mid: 23 companies, 21% average Price CAGR

- During 2015-20, 23 companies crossed over from Mini to Mid category, generating an average return CAGR of 21%, v/s 1% for the Sensex.
- Of these 23 Mini-to-Mid stocks, as many as 18 feature in our list of 100 Biggest Wealth Creators.

Exhibit 17 **Mini-to-Mid (2015-20): 18 of 23 Mini-to-Mid stocks feature among top 100 Wealth Creators**

	Rank		WC Rank *		2015-20 CAGR		P/E (x)	
Company	**Mar-20**	**Mar-15**	**Biggest**	**Fastest**	**Price**	**PAT**	**2020**	**2015**
Navin Fluorine	241	621	65	3	**49%**	53%	15	17
Minda Industries	236	588	69	4	**44%**	25%	39	17
Escorts	213	453	61	7	**39%**	37%	17	16
Aarti Industries	148	325	42	10	**35%**	21%	25	16
P&G Health	242	462	71	11	**32%**	43%	24	35
Relaxo Footwear	141	285	36	14	**30%**	17%	66	38
Atul	161	311	49	15	**29%**	22%	18	14
Coforge	222	394	70	19	**27%**	24%	16	14
ITI	248	707	72	21	**25%**	L to P	39	-
Manappuram Fin.	215	345	67	24	**24%**	40%	5	10
Vinati Organics	216	346	66	25	**24%**	23%	24	23
Astrazeneca Pharma	244	380	78	33	**21%**	L to P	83	-
V-Guard Industries	232	343	75	42	**19%**	22%	35	39
Hatsun Agro	208	305	73	47	**18%**	25%	74	92
PVR	240	342	98	63	**12%**	9%	255	177
Motilal Oswal	219	275	84	64	**12%**	5%	40	28
TTK Prestige	228	273	87	68	**11%**	16%	35	44
Sundram Fasteners	238	295	93	73	**11%**	20%	19	28
AVERAGE					**26%**			

* 2015-20 Wealth Creation Rank

8.3 Mid-to-Mega: 14 companies, 22% average Price CAGR

- During 2015-20, 14 companies crossed over from Mid to Mega.
- Of these, 13 made it to this year's list of 100 Biggest Wealth Creators.
- The Mid-to-Mega Wealth Creators delivered average return CAGR of 22% over 2015-20 v/s 1% for Sensex.

Exhibit 18 **Mid-to-Mega (2015-20): 13 of 14 companies feature among top 100 Wealth Creators**

	Rank		WC Rank *		2015-20 CAGR		P/E	
Company	**Mar-20**	**Mar-15**	**Biggest**	**Fastest**	**Price**	**PAT**	**2020**	**2015**
Indraprastha Gas	78	215	23	9	**36%**	21%	23	13
Abbott India	63	176	20	12	**31%**	21%	55	37
Biocon	65	161	22	16	**28%**	11%	47	23
Berger Paints	47	119	16	17	**27%**	20%	75	55
Honeywell Auto	95	188	28	22	**25%**	29%	47	55
Muthoot Finance	87	177	27	26	**24%**	36%	8	12
Whirlpool India	96	162	31	37	**20%**	18%	47	44
Info Edg.(India)	82	155	29	39	**19%**	P to L	-	294
3M India	100	169	33	43	**19%**	24%	66	83
Petronet LNG	71	127	26	45	**18%**	26%	11	15
Tata Consumer	79	166	52	57	**15%**	13%	43	28
Havells India	70	102	35	78	**9%**	14%	41	49
MRF	86	110	50	81	**8%**	9%	17	18
AVERAGE					**22%**			

* 2015-20 Wealth Creation Rank

Key Takeaway

Mid-to-Mega is a potent investment strategy

Every year, our analysis of market cap crossovers lead to the same findings –

- Companies leap-frogging from Mini to Mega is very rare.
- A fair number of companies move from Mini to Mid and deliver supernormal returns. However, they need to be identified from a large base of about 300 companies.
- The most potent and focused hunting ground for high-performing stocks is the Mid category i.e. 150 stocks with market cap rank 101 to 250.
- Over the next five years, about 15 of these stocks will cross over to the Mega category and deliver handsome returns in the process.

#9 Wealth Creation: Valuation parameters analysis

PEG < 1x is a solid formula for superior returns

- For the purposes of this section, PEG (P/E to Growth ratio) is obtained by dividing trailing 12-month P/E by future 5-year earnings CAGR.
- We have used perfect foresight of 5 years' earnings to calculate PEG. Thus, if a stock's P/E in 2015 was 20x, and its 2015-20 PAT CAGR is 25%, its 2015 PEG works out to 0.8x (20 ÷ 25).
- Clearly, lower the PEG, higher the likely return.
- Our theme study in 2018 ("Valuation Insights") almost conclusively established that stocks with PEG less than 1x tend to significantly outperform the market.
- As tabled below, the story was no different for the 2020 Wealth Creators. PEG < 1x delivered among the highest return across all valuation metrics.

Exhibit 19 **PEG less than 1x is a solid formula for high returns**

PEG Range in 2015 (x)	No. of Cos.	WC (INR b)	% Share of WC	2015-20 CAGR (%) Price	PAT	RoE (%) 2020	2015
< 1	34	7,982	31	20	18	12	11
1-2	15	4,498	17	12	20	15	16
2-3	15	4,200	16	10	12	29	30
> 3	30	8,639	33	12	9	20	22
Others	6	758	3	4	-3	8	15
Total	**100**	**26,077**	**100**	**12**	**13**	**15**	**16**

Note: PEG here is calculated as P/E of March 2015 divided by 2015-20 PAT CAGR
"Others" are cases where PEG cannot be calculated e.g. turnarounds

Payback ratio < 1 fails to offer the highest return for the first time ever

- Every Wealth Creation Study invariably suggests that Payback Ratio < 1x is the most reliable valuation metric for supernormal returns.
  (Payback is a proprietary ratio of Motilal Oswal, defined as current market cap divided by estimated profits over the next five years. For 2015, we calculate this ratio based on market cap as on 31-Mar-2015 divided by the actual profits reported over the next five years).
- This time, Payback ratio of 1-2x delivered higher returns, in line with the trend of expensive stocks becoming even more expensive.

Exhibit 20 **Payback ratio less than 1x fails to offer the highest return for the first time ever**

Payback Range in 2015	No. of Cos.	WC (INR b)	% Share of WC	CAGR (%) Price	PAT		RoE (%) 2020	2015
< 1	13	890	3	16	23		14	11
1-2	26	7,378	28	19	15		12	12
2-3	11	3,456	13	8	14		16	19
> 3	48	13,896	53	12	11		19	22
Others *	2	457	2	9	6		7	11
Total	**100**	**26,077**	**100**	**12**	**13**	**1**	**15**	**16**

* Others are cases where Payback Ratio cannot be calculated due to cumulative 5-year loss (Bharti Airtel and Ruchi Soya)

P/E less than 10x almost invariably outperforms

In 2015, only 5 out of 100 Wealth Creators had P/E of less than 10x, but they outperformed the rest of the pack with average 16% return.

Exhibit 21 **P/E less than 10x almost invariably outperforms**

P/E Range	No. of	WC	% Share	CAGR (%)		RoE (%)	
in 2015	Cos.	(INR b)	of WC	Price	PAT	2020	2015
<10	5	263	1	16	13	11	15
10-15	21	6,565	25	15	11	11	12
15-20	10	573	2	9	17	16	14
20-25	10	4,265	16	10	17	18	19
25-30	9	2,893	11	8	11	30	32
>30	45	11,518	44	14	14	15	17
Total	**100**	**26,077**	**100**	**12**	**13**	**15**	**16**

Other valuation ratios

- Price/Book < 1x is rare but a highly useful metric for significant outperformance.
- Price/Sales < 1x is also a metric for outperformance.

Exhibit 22 **Price/Book < 1x and Price/Sales < 1x are attractive valuations**

Range	No. of	WC	% Share	CAGR (%)		RoE (%)	
in 2015	Cos.	(INR b)	of WC	Price	PAT	2020	2015
Price / Book							
<1	4	169	1	39	L to P	13	-2
1-2	17	5,419	21	19	16	11	10
2-3	17	2,090	8	9	6	12	15
3-4	10	662	3	16	17	14	15
4-5	10	5,305	20	11	18	14	15
5-6	5	623	2	3	7	26	24
>6	37	11,809	45	13	12	31	33
Total	**100**	**26,077**	**100**	**12**	**13**	**15**	**16**
Price / Sales							
<1	20	5,537	21	18	14	11	11
1-2	21	1,843	7	14	16	12	12
2-3	16	2,081	8	13	10	10	15
3-4	14	2,987	11	13	8	12	14
4-5	10	1,786	7	5	13	19	20
> 5	19	11,844	45	13	15	22	25
Total	**100**	**26,077**	**100**	**12**	**13**	**15**	**16**

#10 Wealth Destruction: Companies & Sectors

Economic downturn + Covid fears = Massive Wealth Destruction

- The total Wealth Destroyed during 2015-20 is a massive **INR 33.8 trillion**, a record 130% of the total Wealth Created by top 100 companies (Exhibit 23). The two main reasons for this are – (1) The ongoing economic downturn, coupled with (2) Covid fear-led sharp market correction in March 2020.
- **Financials, Auto** and other cyclicals like **Metals/Mining** and **Capital Goods** lead the Wealth Destruction pack (Exhibits 24).
- 4 of the top 10 Wealth Destroying companies are PSUs (Exhibit 25).

Exhibit 23 **Level of Wealth Destruction sharply up**

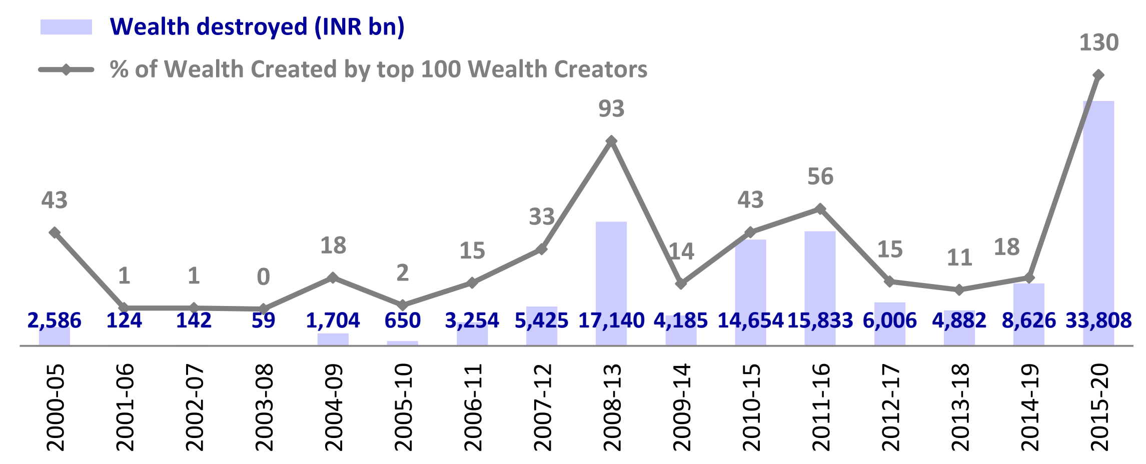


Exhibit 24
Financials & Cyclicals lead the pack

Sector	Wealth Destroyed (INR bn)	% Share
Financials	7,569	22
Auto	3,766	11
Healthcare	3,148	9
Metals / Mining	2,801	8
Capital Goods	2,629	8
Telecom	2,546	8
Oil & Gas	2,288	7
Consumer & Retail	1,229	4
Utilities	1,111	3
Others	6,718	20
Total	**33,808**	**100**

Exhibit 25
Widespread damage, no pattern as such

Company	Wealth Destroyed		Price
	INR bn	% Share	CAGR (%)
Vodafone Idea	1,804	5	-51
ONGC	1,725	5	-20
Tata Motors	1,550	5	-33
Coal India	1,379	4	-17
Sun Pharma	1,266	4	-19
State Bank of India	654	2	-6
Lupin	638	2	-22
ITC	535	2	-5
Axis Bank	507	1	-8
Punjab National Bank	501	1	-26
Total of Above	**10,560**	**31**	
Total Wealth Destroyed	**33,808**	**100**	

Key Takeaway

Economic stimulus and Covid vaccine should turn the tide

The markets have bounced back significantly since March 2020. There is widespread belief that Q1-FY21 has already seen the worst possible impact of Covid. Things have started to look up Q2 onwards led by the government's economic stimulus. Hopes of a Covid vaccine have further bolstered sentiment. Expect FY16-21 Wealth Destruction to be much lower than this year.

Appendix 1: The 100 Biggest Wealth Creators (2015-2020)

Rank	Company	Wealth Created		CAGR (2015-20, %)			RoE (%)		P/E (x)	
		INR bn	Share (%)	Price	PAT	Sales	2020	2015	2020	2015
1	Reliance Industries	4,401	16.9	22	14	10	9	10	16	12
2	Hindustan Unilever	3,085	11.8	21	13	4	84	92	72	51
3	TCS	2,187	8.4	7	11	11	39	38	21	26
4	HDFC Bank	1,824	7.0	11	21	19	15	17	17	24
5	Kotak Mahindra Bank	1,211	4.6	15	23	20	13	14	29	33
6	Bajaj Finance	978	3.8	40	42	37	16	19	25	23
7	Nestle India	902	3.5	19	11	5	102	42	80	56
8	Asian Paints	823	3.2	16	14	6	27	29	59	56
9	HDFC	541	2.1	4	20	16	17	19	13	24
10	Bajaj Finserv	509	2.0	27	15	37	11	15	22	13
11	Titan Company	481	1.8	19	13	12	23	27	55	42
12	Bharti Airtel	422	1.6	4	5	-2	7	11	42	35
13	Infosys	416	1.6	3	6	11	27	24	17	21
14	Britannia Inds	387	1.5	20	20	8	32	45	46	46
15	Pidilite Inds	387	1.5	18	18	9	26	22	60	61
16	Berger Paints	339	1.3	27	20	8	24	21	75	55
17	Dabur India	326	1.3	11	8	2	23	31	52	44
18	Divi's Labs	290	1.1	17	10	12	19	25	39	28
19	ICICI Bank	256	1.0	3	-5	9	8	14	22	15
20	Abbott India	245	0.9	31	21	12	24	24	55	37
21	Shree Cement	235	0.9	10	29	15	12	8	41	87
22	Biocon	232	0.9	28	11	16	10	13	47	23
23	Indraprastha Gas	213	0.8	36	21	12	22	21	23	13
24	Godrej Consumer	178	0.7	8	11	4	20	21	34	39
25	Maruti Suzuki	178	0.7	3	0	8	7	14	40	34
26	Petronet LNG	165	0.6	18	26	-2	25	15	11	15
27	Muthoot Finance	159	0.6	24	36	17	27	13	8	12
28	Honeywell Auto	154	0.6	25	29	6	23	15	47	55
29	Info Edge (India)	149	0.6	19	P to L	12	-14	2	N.M.	294
30	Torrent Pharma	137	0.5	11	6	11	21	30	33	27
31	Whirlpool India	136	0.5	20	18	13	19	23	47	44
32	JSW Steel	134	0.5	10	21	7	13	8	8	12
33	3M India	123	0.5	19	24	10	18	13	66	83
34	Trent	112	0.4	27	31	8	5	2	154	171
35	Havells India	109	0.4	9	14	1	17	21	41	49
36	Relaxo Footwear	106	0.4	30	17	10	18	28	66	38
37	Marico	105	0.4	7	13	7	34	31	34	44
38	P&G Hygiene	105	0.4	8	4	5	37	29	78	66
39	SRF	103	0.4	23	29	10	20	12	16	20
40	Rajesh Exports	102	0.4	23	13	31	11	19	13	9
41	Jubilant Foodworks	98	0.4	15	22	13	27	17	64	87
42	Aarti Industries	97	0.4	35	21	8	18	20	25	16
43	Ipca Labs	95	0.4	17	19	8	16	11	29	32
44	BPCL	95	0.4	3	-3	3	11	21	16	12
45	Kansai Nerolac	92	0.4	12	14	7	14	17	40	43
46	Balkrishna Inds	91	0.3	20	12	5	16	21	19	13
47	Bata India	88	0.3	18	9	3	17	21	48	33
48	Astral Poly Tech	85	0.3	21	27	13	16	12	56	69
49	Atul	84	0.3	29	22	9	21	23	18	14
50	MRF	82	0.3	8	9	4	12	20	17	18

Rank	Company	Wealth Created		CAGR (2015-20, %)			RoE (%)		P/E (x)	
		INR bn	Share (%)	Price	PAT	Sales	2020	2015	2020	2015

Appendix 1: The 100 Biggest Wealth Creators (2015-2020) … continued

Rank	Company	Wealth Created		CAGR (2015-20, %)			RoE (%)		P/E (x)	
		INR b	Share (%)	Price	PAT	Sales	2020	2015	2020	2015
51	Pfizer	82	0.3	13	39	3	15	5	36	102
52	Tata Consumer	82	0.3	15	13	4	5	6	43	28
53	HPCL	81	0.3	6	18	4	11	11	8	15
54	Coromandel Intl	81	0.3	15	21	3	25	18	15	19
55	P I Industries	78	0.3	14	13	10	17	28	36	33
56	Power Grid Corpn	72	0.3	2	16	16	17	13	8	15
57	Sanofi India	68	0.3	13	18	9	19	13	32	39
58	Colgate-Palmolive	67	0.3	4	8	3	51	73	42	49
59	Godrej Properties	66	0.3	19	8	6	5	8	70	35
60	Voltas	66	0.3	11	10	8	13	16	29	27
61	Escorts	65	0.3	39	37	7	15	6	17	16
62	Mphasis	64	0.2	12	13	9	20	12	10	12
63	Torrent Power	56	0.2	11	34	6	17	5	9	22
64	Bajaj Holdings	55	0.2	7	8	-4	11	15	7	7
65	Navin Fluorine	52	0.2	49	53	12	29	8	15	17
66	Vinati Organics	52	0.2	24	23	6	26	27	24	23
67	Manappuram Finance	51	0.2	24	40	22	26	10	5	10
68	The Ramco Cement	50	0.2	11	20	8	12	9	20	29
69	Minda Industries	50	0.2	44	25	20	9	15	39	17
70	Coforge	50	0.2	27	24	12	18	11	16	14
71	P&G Health	45	0.2	32	43	9	28	8	24	35
72	ITI	44	0.2	25	L to P	29	N.M.	15	39	N.M.
73	Hatsun Agro	43	0.2	18	25	13	12	17	74	92
74	Deepak Nitrite	42	0.2	42	63	26	39	15	9	13
75	V-Guard Industries	39	0.1	19	22	7	19	19	35	39
76	City Union Bank	37	0.1	10	4	9	9	14	20	15
77	Akzo Nobel	37	0.1	9	10	1	19	16	42	45
78	Astrazeneca Pharma	37	0.1	21	L to P	10	20	-14	83	N.M.
79	UltraTech Cement	36	0.1	3	24	12	15	10	16	41
80	Page Industries	36	0.1	4	12	14	42	51	55	78
81	Ruchi Soya	35	0.1	31	43	-16	7	2	23	40
82	Phoenix Mills	34	0.1	10	41	3	9	4	27	86
83	GMM Pfaudler	33	0.1	54	31	14	21	12	51	22
84	Motilal Oswal	31	0.1	12	5	25	6	11	40	28
85	Mindtree	30	0.1	5	4	17	20	26	22	21
86	EPL	29	0.1	20	9	4	14	18	23	14
87	TTK Prestige	28	0.1	11	16	8	15	14	35	44
88	Guj. State Petronet	28	0.1	7	28	63	35	13	6	14
89	KEC International	27	0.1	18	56	7	20	5	8	34
90	Godfrey Phillips	27	0.1	17	14	3	15	13	15	13
91	Avanti Feeds	26	0.1	23	24	18	24	43	12	12
92	J B Chem & Pharma	25	0.1	20	22	9	18	9	15	18
93	Sundram Fasteners	25	0.1	11	20	3	16	15	19	28
94	Aegis Logistics	25	0.1	18	4	13	6	19	47	25
95	Capri Global	24	0.1	39	11	29	10	9	19	6
96	Cholamandalam Inv.	24	0.1	5	19	19	13	17	12	19
97	Radico Khaitan	24	0.1	25	27	10	16	9	14	16
98	PVR	22	0.1	12	9	18	2	4	255	177
99	Tasty Bite Eatables	22	0.1	72	31	21	25	24	56	14
100	Gillette India	22	0.1	3	6	-2	25	24	77	89
	TOTAL / AVG	**26,077**	**100.0**	**12**	**13**	**9**	**15**	**16**	**23**	**24**
Rank	Company	Wealth Created		CAGR (2015-20, %)			RoE (%)		P/E (x)	
		INR bn	Share (%)	Price	PAT	Sales	2020	2015	2020	2015

Note: L to P – Loss to Profit; P to L – Profit to Loss; N.M. – Not Meaningful

Appendix 2: The 100 Fastest Wealth Creators (2015-2020)

Rank	Company	2015-20 Price		CAGR 15-20 (%)		Wealth Created		RoE (%)		P/E (x)	
		CAGR (%)	Times (x)	PAT	Sales	INR b	Share (%)	2020	2015	2020	2015
1	Tasty Bite Eatables	72	14.9	31	21	22	0.1	25	24	56	14
2	GMM Pfaudler	54	8.8	31	14	33	0.1	21	12	51	22
3	Navin Fluorine	49	7.3	53	12	52	0.2	29	8	15	17
4	Minda Industries	44	6.3	25	20	50	0.2	9	15	39	17
5	Deepak Nitrite	42	5.7	63	26	42	0.2	39	15	9	13
6	Bajaj Finance	40	5.4	42	37	978	3.8	16	19	25	23
7	Escorts	39	5.2	37	7	65	0.3	15	6	17	16
8	Capri Global	39	5.1	11	29	24	0.1	10	9	19	6
9	Indraprastha Gas	36	4.6	21	12	213	0.8	22	21	23	13
10	Aarti Industries	35	4.5	21	8	97	0.4	18	20	25	16
11	P&G Health	32	4.0	43	9	45	0.2	28	8	24	35
12	Abbott India	31	3.9	21	12	245	0.9	24	24	55	37
13	Ruchi Soya	31	3.8	43	-16	35	0.1	7	2	23	40
14	Relaxo Footwear	30	3.7	17	10	106	0.4	18	28	66	38
15	Atul	29	3.5	22	9	84	0.3	21	23	18	14
16	Biocon	28	3.5	11	16	232	0.9	10	13	47	23
17	Berger Paints	27	3.3	20	8	339	1.3	24	21	75	55
18	Bajaj Finserv	27	3.3	15	37	509	2.0	11	15	22	13
19	Coforge	27	3.3	24	12	50	0.2	18	11	16	14
20	Trent	27	3.3	31	8	112	0.4	5	2	154	171
21	ITI	25	3.1	L to P	29	44	0.2	N.M.	15	39	N.M.
22	Honeywell Auto	25	3.1	29	6	154	0.6	23	15	47	55
23	Radico Khaitan	25	3.0	27	10	24	0.1	16	9	14	16
24	Manappuram Fin.	24	2.9	40	22	51	0.2	26	10	5	10
25	Vinati Organics	24	2.9	23	6	52	0.2	26	27	24	23
26	Muthoot Finance	24	2.9	36	17	159	0.6	27	13	8	12
27	Avanti Feeds	23	2.9	24	18	26	0.1	24	43	12	12
28	SRF	23	2.8	29	10	103	0.4	20	12	16	20
29	Rajesh Exports	23	2.8	13	31	102	0.4	11	19	13	9
30	Reliance Industries	22	2.7	14	10	4,401	16.9	9	10	16	12
31	Hindustan Unilever	21	2.6	13	4	3,085	11.8	84	92	72	51
32	Astral Poly Tech	21	2.6	27	13	85	0.3	16	12	56	69
33	Astrazeneca Pharma	21	2.6	L to P	10	37	0.1	20	-14	83	N.M.
34	J B Chem & Pharma	20	2.5	22	9	25	0.1	18	9	15	18
35	Britannia Inds	20	2.5	20	8	387	1.5	32	45	46	46
36	EPL	20	2.5	9	4	29	0.1	14	18	23	14
37	Whirlpool India	20	2.5	18	13	136	0.5	19	23	47	44
38	Balkrishna Inds	20	2.4	12	5	91	0.3	16	21	19	13
39	Info Edge (India)	19	2.4	P to L	12	149	0.6	-14	2	N.M.	294
40	Godrej Properties	19	2.4	8	6	66	0.3	5	8	70	35
41	Titan Company	19	2.4	13	12	481	1.8	23	27	55	42
42	V-Guard Industries	19	2.4	22	7	39	0.1	19	19	35	39
43	3M India	19	2.4	24	10	123	0.5	18	13	66	83
44	Nestle India	19	2.3	11	5	902	3.5	102	42	80	56
45	Petronet LNG	18	2.3	26	-2	165	0.6	25	15	11	15
46	KEC International	18	2.3	56	7	27	0.1	20	5	8	34
47	Hatsun Agro	18	2.3	25	13	43	0.2	12	17	74	92
48	Aegis Logistics	18	2.3	4	13	25	0.1	6	19	47	25
49	Pidilite Inds	18	2.3	18	9	387	1.5	26	22	60	61
50	Bata India	18	2.3	9	3	88	0.3	17	21	48	33
Rank	Company	2015-20 Price		CAGR 15-20 (%)		Wealth Created		RoE (%)		P/E (x)	
		CAGR (%)	Times (x)	PAT	Sales	INR bn	Share (%)	2020	2015	2020	2015

Appendix 2: The 100 Fastest Wealth Creators (2015-2020) … continued

Rank	Company	2015-20 Price		CAGR (15-20, %)		Wealth Created		RoE (%)		P/E (x)	
		CAGR (%)	Times (x)	PAT	Sales	INR bn	Share (%)	2020	2015	2020	2015
51	Divi's Labs	17	2.2	10	12	290	1.1	19	25	39	28
52	Godfrey Phillips	17	2.2	14	3	27	0.1	15	13	15	13
53	Ipca Labs	17	2.2	19	8	95	0.4	16	11	29	32
54	Asian Paints	16	2.1	14	6	823	3.2	27	29	59	56
55	Coromandel Intl	15	2.0	21	3	81	0.3	25	18	15	19
56	Jubilant Foodworks	15	2.0	22	13	98	0.4	27	17	64	87
57	Tata Consumer	15	2.0	13	4	82	0.3	5	6	43	28
58	Kotak Mahindra Bank	15	2.0	23	20	1,211	4.6	13	14	29	33
59	P I Industries	14	1.9	13	10	78	0.3	17	28	36	33
60	Sanofi India	13	1.9	18	9	68	0.3	19	13	32	39
61	Pfizer	13	1.8	39	3	82	0.3	15	5	36	102
62	Kansai Nerolac	12	1.8	14	7	92	0.4	14	17	40	43
63	PVR	12	1.8	9	18	22	0.1	2	4	255	177
64	Motilal Oswal	12	1.8	5	25	31	0.1	6	11	40	28
65	Mphasis	12	1.7	13	9	64	0.2	20	12	10	12
66	Voltas	11	1.7	10	8	66	0.3	13	16	29	27
67	Torrent Power	11	1.7	34	6	56	0.2	17	5	9	22
68	TTK Prestige	11	1.7	16	8	28	0.1	15	14	35	44
69	Torrent Pharma	11	1.7	6	11	137	0.5	21	30	33	27
70	Dabur India	11	1.7	8	2	326	1.3	23	31	52	44
71	The Ramco Cement	11	1.7	20	8	50	0.2	12	9	20	29
72	HDFC Bank	11	1.7	21	19	1,824	7.0	15	17	17	24
73	Sundram Fasteners	11	1.7	20	3	25	0.1	16	15	19	28
74	Shree Cement	10	1.6	29	15	235	0.9	12	8	41	87
75	Phoenix Mills	10	1.6	41	3	34	0.1	9	4	27	86
76	City Union Bank	10	1.6	4	9	37	0.1	9	14	20	15
77	JSW Steel	10	1.6	21	7	134	0.5	13	8	8	12
78	Havells India	9	1.6	14	1	109	0.4	17	21	41	49
79	Akzo Nobel	9	1.6	10	1	37	0.1	19	16	42	45
80	Godrej Consumer	8	1.5	11	4	178	0.7	20	21	34	39
81	MRF	8	1.5	9	4	82	0.3	12	20	17	18
82	P&G Hygiene	8	1.4	4	5	105	0.4	37	29	78	66
83	TCS	7	1.4	11	11	2,187	8.4	39	38	21	26
84	Marico	7	1.4	13	7	105	0.4	34	31	34	44
85	Guj. State Petronet	7	1.4	28	63	28	0.1	35	13	6	14
86	Bajaj Holdings	7	1.4	8	-4	55	0.2	11	15	7	7
87	HPCL	6	1.3	18	4	81	0.3	11	11	8	15
88	Cholamandalam Inv.	5	1.3	19	19	24	0.1	13	17	12	19
89	Mindtree	5	1.3	4	17	30	0.1	20	26	22	21
90	Colgate-Palmolive	4	1.2	8	3	67	0.3	51	73	42	49
91	HDFC	4	1.2	20	16	541	2.1	17	19	13	24
92	Page Industries	4	1.2	12	14	36	0.1	42	51	55	78
93	Bharti Airtel	4	1.2	5	-2	422	1.6	7	11	42	35
94	BPCL	3	1.2	-3	3	95	0.4	11	21	16	12
95	Maruti Suzuki	3	1.2	0	8	178	0.7	7	14	40	34
96	Infosys	3	1.2	6	11	416	1.6	27	24	17	21
97	Gillette India	3	1.1	6	-2	22	0.1	25	24	77	89
98	ICICI Bank	3	1.1	-5	9	256	1.0	8	14	22	15
99	UltraTech Cement	3	1.1	24	12	36	0.1	15	10	16	41
100	Power Grid Corpn	2	1.1	16	16	72	0.3	17	13	8	15
	TOTAL / AVG	**12**	**1.8**	**13**	**9**	**26,077**	**100.0**	**15**	**16**	**23**	**24**
Rank	**Company**	**2015-20 Price**		**CAGR (15-20, %)**		**Wealth Created**		**RoE (%)**		**P/E (x)**	
		CAGR (%)	**Times (x)**	**PAT**	**Sales**	**INR b**	**Share (%)**	**2020**	**2015**	**2020**	**2015**

Note: L to P – Loss to Profit; P to L – Profit to Loss; N.M. – Not Meaningful

Appendix 3: The 100 Wealth Creators – Alphabetical order

Company	WC Rank		2015-20 Wealth Created			Company	WC Rank		2015-20 Wealth Created		
	Biggest	Fastest	INR bn	Price CAGR %	Price Mult. (x)		Biggest	Fastest	INR bn	Price CAGR %	Price Mult. (x)
3M India	33	43	123	19	2.4	J B Chem & Pharma	92	34	25	20	2.5
Aarti Industries	42	10	97	35	4.5	JSW Steel	32	77	134	10	1.6
Abbott India	20	12	245	31	3.9	Jubilant Foodworls	41	56	98	15	2.0
Aegis Logistics	94	48	25	18	2.3	KEC International	89	46	27	18	2.3
Akzo Nobel	77	79	37	9	1.6	Kansai Nerolac	45	62	92	12	1.8
Asian Paints	8	54	823	16	2.1	Kotak Mahindra	5	58	1,211	15	2.0
Astral Poly Tech	48	32	85	21	2.6	Manappuram Fin.	67	24	51	24	2.9
Astrazeneca Pharma	78	33	37	21	2.6	Marico	37	84	105	7	1.4
Atul	49	15	84	29	3.5	Maruti Suzuki	25	95	178	3	1.2
Avanti Feeds	91	27	26	23	2.9	Minda Industries	69	4	50	44	6.3
BPCL	44	94	95	3	1.2	Mindtree	85	89	30	5	1.3
Bajaj Finance	6	6	978	40	5.4	Motilal Oswal	84	64	31	12	1.8
Bajaj Finserv	10	18	509	27	3.3	Mphasis	62	65	64	12	1.7
Bajaj Holdings	64	86	55	7	1.4	MRF	50	81	82	8	1.5
Balkrishna Inds	46	38	91	20	2.4	Muthoot Finance	27	26	159	24	2.9
Bata India	47	50	88	18	2.3	Navin Fluorine	65	3	52	49	7.3
Berger Paints	16	17	339	27	3.3	Nestle India	7	44	902	19	2.3
Bharti Airtel	12	93	422	4	1.2	P&G Health	71	11	45	32	4.0
Biocon	22	16	232	28	3.5	P&G Hygiene	38	82	105	8	1.4
Britannia Inds	14	35	387	20	2.5	P I Industries	55	59	78	14	1.9
Capri Global	95	8	24	39	5.1	Page Industries	80	92	36	4	1.2
Cholamandalam Inv	96	88	24	5	1.3	Petronet LNG	26	45	165	18	2.3
City Union Bank	76	76	37	10	1.6	Pfizer	51	61	82	13	1.8
Coforge	70	19	50	27	3.3	Phoenix Mills	82	75	34	10	1.6
Colgate-Palmolive	58	90	67	4	1.2	Pidilite Inds	15	49	387	18	2.3
Coromandel Intl	54	55	81	15	2.0	Power Grid Corpn	56	100	72	2	1.1
Dabur India	17	70	326	11	1.7	PVR	98	63	22	12	1.8
Deepak Nitrite	74	5	42	42	5.7	Radico Khaitan	97	23	24	25	3.0
Divi's Labs	18	51	290	17	2.2	Rajesh Exports	40	29	102	23	2.8
Escorts	61	7	65	39	5.2	Relaxo Footwear	36	14	106	30	3.7
EPL	86	36	29	20	2.5	Reliance Industries	1	30	4,401	22	2.7
Gillette India	100	97	22	3	1.1	Ruchi Soya	81	13	35	31	3.8
GMM Pfaudler	83	2	33	54	8.8	Sanofi India	57	60	68	13	1.9
Godfrey Phillips	90	52	27	17	2.2	Shree Cement	21	74	235	10	1.6
Godrej Consumer	24	80	178	8	1.5	SRF	39	28	103	23	2.8
Godrej Properties	59	40	66	19	2.4	Sundram Fasteners	93	73	25	11	1.7
Guj. State Petronet	88	85	28	7	1.4	Tasty Bite Eatables	99	1	22	72	14.9
HDFC	9	91	541	4	1.2	Tata Consumer	52	57	82	15	2.0
HPCL	53	87	81	6	1.3	TCS	3	83	2,187	7	1.4
Hatsun Agro	73	47	43	18	2.3	The Ramco Cement	68	71	50	11	1.7
Havells India	35	78	109	9	1.6	Titan Company	11	41	481	19	2.4
HDFC Bank	4	72	1,824	11	1.7	Torrent Pharma	30	69	137	11	1.7
Hindustan Unilever	2	31	3,085	21	2.6	Torrent Power	63	67	56	11	1.7
Honeywell Auto	28	22	154	25	3.1	Trent	34	20	112	27	3.3
ICICI Bank	19	98	256	3	1.1	TTK Prestige	87	68	28	11	1.7
Indraprastha Gas	23	9	213	36	4.6	UltraTech Cement	79	99	36	3	1.1
Info Edge (India)	29	39	149	19	2.4	V-Guard Industries	75	42	39	19	2.4
Infosys	13	96	416	3	1.2	Vinati Organics	66	25	52	24	2.9
Ipca Labs	43	53	95	17	2.2	Voltas	60	66	66	11	1.7
ITI	72	21	44	25	3.1	Whirlpool India	31	37	136	20	2.5

The Wealth Creation Study Journey

Presenting all 24 previous Wealth Creation Studies at a glance

Over the years, our Wealth Creation Studies have covered several themes.
Here, we present at a glance, the essence and insights from the same.
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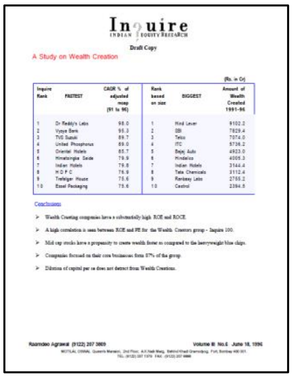

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A Study on Wealth Creation

STUDY 1: 1991-1996

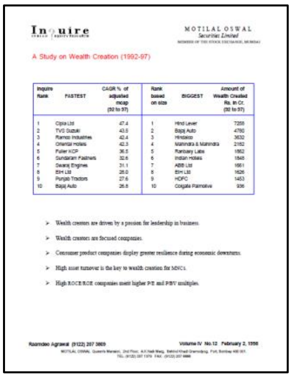
Aspects of Wealth Creation

Essence

Wealth creating companies have substantially high RoE (Return on Equity) and RoCE (Return on Capital Employed). There is also a high correlation between RoE and P/E.

Highlights & Insights

- Right judgment of long-term sustainability, prosperity of business, and responsible management play a crucial role in identifying wealth creators.
- Wealth creation occurs when a great management runs a great business. But if an outsider were to buy into such great businesses through the stock market, he/she must enter at the right price to earn substantial appreciation.



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MOTILAL OSWAL

A Study on Wealth Creation (1992-97)

STUDY 2: 1992-1997

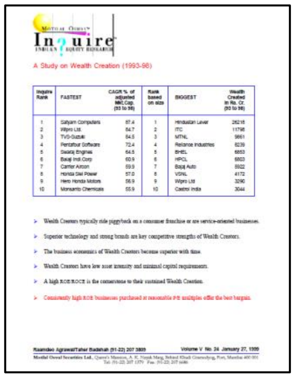
Good Businesses Which Get Better

Essence

Improving RoE on a sustained basis is the key to wealth creation. For this to happen, "The principle one must bear in mind while identifying a right business is that the business economics must not only be distinctly superior but should get better with time."

Highlights & Insights

- RoE is a product of three key ratios: (1) Net Profit to Sales (PAT Margin); (2) Sales to Assets (Asset Turnover); and (3) Asset to Equity (Gearing).
- Wealth creators tend to exhibit rising PAT margin, stable asset turnover and a falling gearing (i.e. funding expansions through internal accruals).
- RoCE of wealth creators tends to be substantially higher than the prevailing coupon rate.



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A Study on Wealth Creation (1993-98)

STUDY 3: 1993-1998

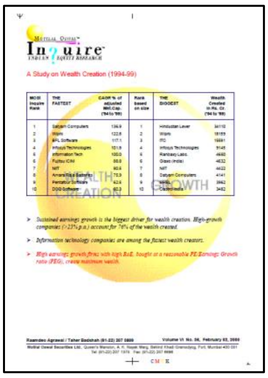
Competitive Strengths of Wealth Creators

Essence

Success at investment in equities calls for: (1) Identifying the right business (2) Which is run by a competent management; and (3) Is acquired at a price which is at a huge discount to its underlying value.

Highlights & Insights

- The widespread usage of IT in the years to come and India's competitive advantage in this sector would provide exciting growth opportunities.
- As Indian industries face up to global integration, some businesses, such as pharmaceuticals would benefit significantly from an improvement in their business economics.
- Earnings power is the prime source of wealth creation. Arithmetically, Price/Book (Mkt Cap/NW) = RoE (PAT/NW) x P/E (Mkt Cap/PAT).



STUDY 4: 1994-1999

How to Value Growth

Essence

High earnings growth firms with high RoE, bought at a reasonable PEG (PE/Earnings Growth ratio), create maximum wealth.

Highlights & Insights

- Earnings growth and earning power are the key drivers to wealth creation.
- The value of any company depends primarily on three factors:
  (1) Current profit
  (2) Current capital employed
  (3) Future growth in profits and profitability.
- Consistency, profitability and sustainability are the key drivers to the valuation of growth.
- One valuation ratio which captures growth is PEG (P/E to Earnings growth).

STUDY 5: 1995-2000

Characteristics of Multi-Baggers

Essence

A high-growth business, run by an outstanding management, and purchased with a five-year payback outlook of <1, has a good chance of being a big winner.

Highlights & Insights

Key characteristics of multi-baggers:

- Growth story where the business has a tailwind.
- Huge opportunity size.
- Great business economics i.e. favourable competitive landscape leading to high RoE.
- Outstanding management (Management should have a long-range profit outlook. It has to have unquestionable integrity.)
- Significant re-rating potential.

STUDY 6: 1996-2001

Components of Value

Essence

There are five Forces of Wealth Creation – Return on Capital Employed, Capital Employed, Growth in Capital Employed, Cost of Capital and Margin of Safety.

Highlights & Insights

- Value of a share is the present value of future free cash flows, and is given by the formula:
- C x (RoC - G)/(R - G)
- where C: Capital Employed; RoC: Return on Capital; G: Growth in Capital Employed; R: Cost of Capital
- The above four factors combined with Margin of Safety, together make up what we call the Five Forces of Wealth Creation.


A Study on Wealth Creation (1997-2002)

STUDY 7: 1997-2002

Role of Interest rates & Value of Stock

Essence

"At all times, in all markets in all parts of the world, the tiniest change in interest rates changes the value of every financial asset" – **Warren Buffett**

Highlights & Insights

- Investing means laying out money today to receive more money in real terms tomorrow i.e. after taking inflation into account.
- Value of bonds or equities is always related to the risk-free rate that government securities offer. Therefore, if the interest rate on government securities rises, the prices of all other securities must adjust downward and vice-versa.


A Study on Wealth Creation (1998-2003)

STUDY 8: 1998-2003

Transitory vs Enduring Wealth Creators

Essence

Multi-baggers could be of two types: transitory and enduring. Only good quality managements running a good business can deliver enduring multi-baggers.

Highlights & Insights

- Multi-baggers are super stocks that multiply in value over a period of time.
- Enduring multi-baggers are those companies, whose wealth creation is long lasting. Transitory multi-baggers are typically cyclicals and fad companies with questionable quality of management.
- The key factors behind creation of multi-baggers are: (1) Quality of business, (2) Quality of management, and (3) Huge margin of safety in the purchase price.


9TH ANNUAL WEALTH CREATION STUDY

STUDY 9: 1999-2004

Business Cycles in Commodity Stocks

Essence

Commodity prices, profits and stocks rise sharply in the 'squeeze' phase of the cycle. But no squeeze is permanent, and prices plummet when it ends. Therefore, the way to make money in commodities and commodity stocks is to 'sell too soon'.

Highlights & Insights

A commodity cycle typically goes through five phases:

- **Gloom:** low capacity utilisation, low prices and low profits (even losses).
- **Recovery:** moderate capacity utilisation, gradual price escalation, steadily rising profits.
- **Squeeze:** near-100% utilization, supply squeeze, sharp price hikes, exponential profits.
- **Euphoria:** Fresh capacity surge in excess of incremental demand, prices dropping off.
- **Glut:** Excess supply, plunge in product prices, profits disappear.


10TH ANNUAL WEALTH CREATION STUDY

STUDY 10: 2000-2005

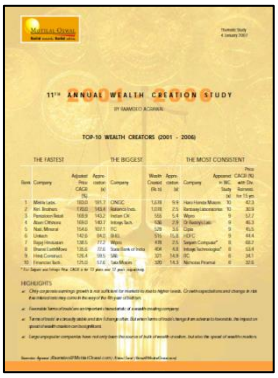
Price & Value

Essence

For consistent wealth creation over very long periods, look for leaders in non-cyclical businesses that deliver high returns on net worth.

Highlights & Insights

- The 10th Study introduced a new concept – Most Consistent Wealth Creators.
- The key observations of the top 10 most consistent wealth creators were –
  1. Nine out of top 10 companies were consumer-facing companies
  2. All businesses were non-cyclical in character
  3. All companies were leaders in their respective business segments
  4. The companies were highly profitable in terms of return on net worth.


11TH ANNUAL WEALTH CREATION STUDY

STUDY 11: 2001-2006

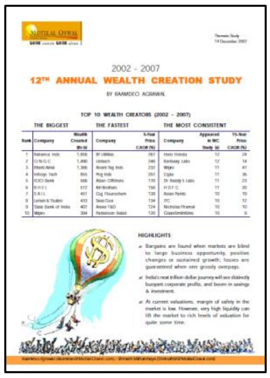
Terms of Trade

Essence

Favourable terms of trade are an important characteristic of a wealth creating company. When terms of trade change from adverse to favourable, the impact on the speed of wealth creation can be significant.

Highlights & Insights

- Terms of trade may be defined as 'the relationship between debtors and creditors', and measured as the ratio of debtors to creditors (in percentage terms).
- A company enjoys favourable terms of trade if its debtors are lower than its creditors and vice-versa.
- Whether a company enjoys favourable or unfavourable terms of trade depends on its bargaining power vis-à-vis its suppliers and customers. Typically, companies with a strong brand equity and/or dominant market position enjoy high bargaining power.


2002 - 2007
12TH ANNUAL WEALTH CREATION STUDY

STUDY 12: 2002-2007

Next Trillion Dollar Opportunity

Essence

India's NTD (next trillion dollar of GDP) journey will see distinctly buoyant corporate profits, and significant boom in savings and investment.

Highlights & Insights

- For 25 years from 1977, India's nominal GDP (US$ terms) grew at 6.2% CAGR to US$ 0.5 trillion in 2002. However, in the next five years alone, India's GDP doubled to US$ 1 trillion by 2007.
- Going forward, for every five to seven years, India will add its next trillion dollar (NTD) of GDP. This linear GDP growth will translate into exponential opportunity for several businesses.
- Boom in savings and investment on the back of rising GDP and per capita GDP spells excellent growth for sectors like financial services, capital goods, cement and steel.

STUDY 13: 2003-2008

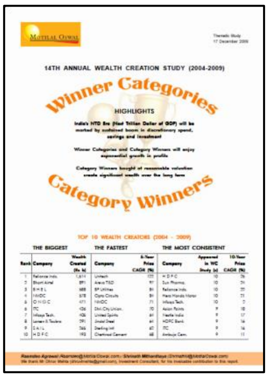
Great, Good, Gruesome

Essence

A proper insight into Great, Good and Gruesome companies is critical for long-term investment success. Gruesome companies are best avoided.

Highlights & Insights

- A **Great company** has an enduring moat (i.e. long-term competitive advantage) that protects excellent returns on capital. Great companies are fountains of dividend.
- **Good companies** are fountains of earnings. They grow at healthy rates, but need significant capital infusion from time to time to sustain growth.
- **Gruesome companies** are bottomless pits of capital consumption.'
- **Best investment strategy**: Buy 'Good' companies at great (bargain) price or buy 'Great' companies at good (reasonable) price.



STUDY 14: 2004-2009

Winner Categories & Category Winners

Essence

1. Winner Categories= India's NTD opportunity + Scalability
2. Category Winners = Winner Categories + Entry Barriers + Great Management
3. Winning Investments = Category Winners + Reasonable Valuation

Highlights & Insights

- **Winner Categories** are sectors, which are expected to grow at least 1.5 times the nominal rate of GDP growth.
- **Category Winners** are companies within these Winner Categories, which enjoy (1) Entry barriers (i.e. long-term competitive advantage) and (2) Great management.
- **Winning Investments** are made when Category Winner stocks are bought at reasonable (but not necessarily cheap) valuations.

STUDY 15: 2005-2010

UU Investing: Wealth Creation from the unknown & unknowable

Essence

A stock's journey from UU (Unknown & Unknowable) to KK (Known & Knowable) is marked by high earnings growth, coupled with sharp valuation rerating, leading to rapid wealth creation.

Highlights & Insights

- In many cases, the stock market presents investors with a different dimension of uncertainty, bordering on the world of ignorance or unknown and unknowable (UU).
- The key success principles of UU investing are: (1) Asymmetric payoffs (i.e. limited absolute downside, unlimited upside) (2) Complementary (i.e. special investing) skills, and (3) Portfolio approach (even if one UU idea clicks, the portfolio performance is good).

STUDY 16: 2006-2011

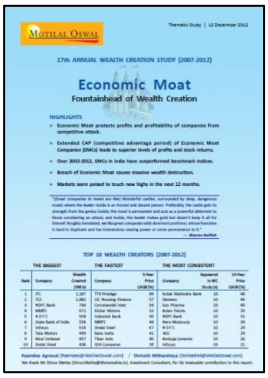
Blue Chip Investing: Wealth Creation through dividends

Essence

Blue chips are fountains of dividend, and offer as much, if not more, investment growth potential than companies with far less brand recall, but with far less risk.

Highlights & Insights

- 'Blue Chip' is a common term used for highly priced stocks, which typically tend to enjoy premium valuations due to their high quality.
- Six criteria help shortlist high-quality Blue Chips: (1) 20 years of uninterrupted dividends; (2) Dividends raised in at least 5 of last 12 years; (3) Earnings growth in at least 7 of last 12 years; (4) Average RoE of at least 15% for the last 12 years; (5) At least 5 million shares, and (6) Owned by at least 80 institutional investors.
- The two signals to consider buying into Blue Chips are: (1) Dividend yield higher than 10-year median and PE lower than 10-year median, and (2) Dividend yield greater than 3%.



STUDY 17: 2007-2012

Economic Moat: Fountainhead of Wealth Creation

Essence

"Great companies are like wonderful castles, surrounded by deep, dangerous moats. Roughly translated, we like great companies with dominant positions whose franchise are hard to duplicate and has tremendous staying power or some permanence to it." - Warren Buffett

Highlights & Insights

- Akin to a traditional moat (i.e. water-filled trench around a castle), an Economic Moat protects a company's profits from the onslaught of multiple business forces, primarily competition.
- The strength of a company's Economic Moat is determined by the: (1) Industry structure, and (2) Its own strategy.
- A company's Economic Moat needs to ultimately reflect by way of Return on Equity (RoE) superior to peers in a sustained way (i.e. at least 7 of 10 years). Economic Moat Companies tend to significantly outperform the market, and also peer companies without moats.

STUDY 18: 2008-2013

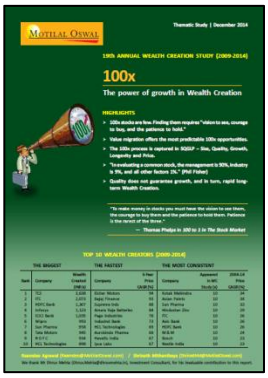
Uncommon Profits: Emergence & Endurance

Essence

Uncommon profits in companies (Value Creators) leads to uncommon wealth creation in stock markets. Successful emergence of value creators is very rare; a strong corporate-parent in a non-cyclical business significantly increases the probability.

Highlights & Insights

- Uncommon Profitability (% terms) = RoE > Cost of Equity. In the Indian context, cost of equity is 15%, which is the long-term return on the benchmark equity indices.
- Emergence is a company's first entry into the potential Uncommon Profit zone. Its next challenge is Endurance i.e. sustaining RoE above 15% for a long period of time.
- Successful emergence is rare. Hence the need to consider investing in Enduring Value Creators, which also outperform markets over the long term.



STUDY 19: 2009-2014

100x: The power of growth in Wealth Creation

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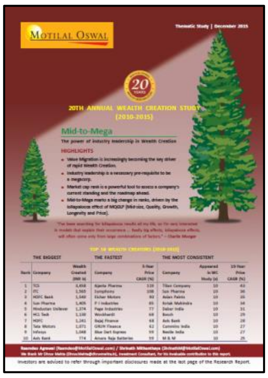
Essence

100x stocks are few. Finding them requires "vision to see, courage to buy, and the patience to hold."

Highlights & Insights

- ‘100x’ refers to stock prices rising 100-fold over time i.e. ‘100-baggers’ in stock market jargon.
- In India, the benchmark indices tend to go 100x in 30 years i.e. 17% CAGR. Considering the reality, smart investors should target to achieve 100x in less time, say, 20 years (26% CAGR).
- The essence of 100x stocks lies in the alchemy of five elements forming the acronym SQGLP – **S**ize (small, relatively unknown company), with high **Q**uality (of business and management), **G**rowth (in earnings), **L**ongevity (of quality & growth) and favourable **P**rice.



STUDY 20: 2010-2015

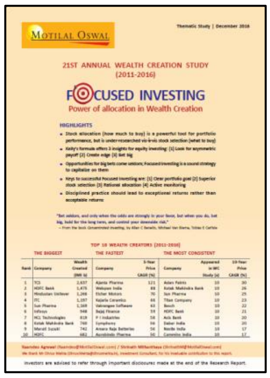
Mid-to-Mega: The Power of Leadership in Wealth Creation

Essence

Midcaps which are market leaders in their business have a good probability to emerge as large caps and generate handsome returns in the process.

Highlights & Insights

- 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 ranks, driven by the lollapalooza effect of MQGLP (Mid-size, Quality, Growth, Longevity and Price).



STUDY 21: 2011-2016

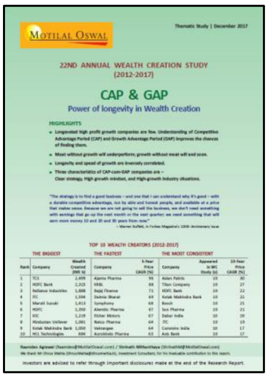
Focused Investing: The Power of Allocation in Wealth Creation

Essence

Opportunities for big bets come seldom; Focused Investing is a sound strategy to capitalize on them.

Highlights & Insights

- 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.
- 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.



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22ND ANNUAL WEALTH CREATION STUDY (2012-2017)

CAP & GAP

Power of longevity in Wealth Creation

STUDY 22: 2012-2017

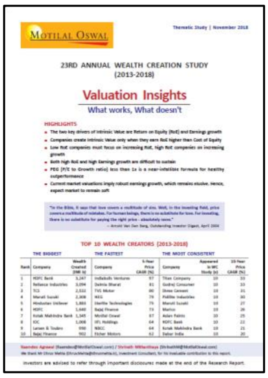
CAP & GAP: Power of Longevity in Wealth Creation

Essence

To earn high long-term returns in equities, two key questions need to be answered regarding the companies invested in: (1) Whether – and how long – will the company survive? And (2) How long will it profitably grow?

Highlights & Insights

- Longevated high profit growth companies are few. Understanding of Competitive Advantage Period (CAP) and Growth Advantage Period (GAP) improves the chances of finding them.
- Moat without growth will underperform; growth without moat will end soon.
- Longevity and speed of growth are inversely correlated.
- Three characteristics of CAP-cum-GAP companies are –
  Clear strategy, Growth mindset, and High-growth industry situations.



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23RD ANNUAL WEALTH CREATION STUDY (2013-2018)

Valuation Insights

What works, What doesn't

STUDY 23: 2013-2018

Valuation Insights: What works, what doesn't

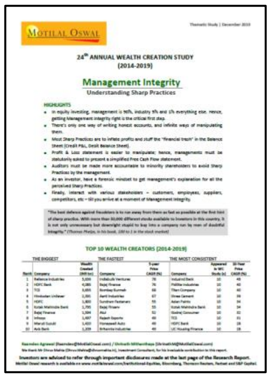
Essence

"In the Bible, it says that love covers a multitude of sins. Well, in the investing field, price covers a multitude of mistakes. For human beings, there is no substitute for love. For investing, there is no substitute for paying the right price - absolutely none."

– Arnold Van Den Berg, Outstanding Investor Digest, April 2004

Highlights & Insights

- The two key drivers of Intrinsic Value are Return on Equity (RoE) and Earnings growth.
- Companies create Intrinsic Value only when they earn RoE higher than Cost of Equity.
- Low RoE companies must focus on increasing RoE, high RoE companies on increasing growth.
- Both high RoE and high Earnings growth are difficult to sustain.
- PEG (P/E to Growth ratio) less than 1x is a near-infallible formula for healthy outperformance.



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24th ANNUAL WEALTH CREATION STUDY (2014-2019)

Management Integrity

Understanding Sharp Practices

STUDY 24: 2014-2019

Management Integrity: Understanding Sharp Practices

Essence

In equity investing, management is 90%, industry 9% and 1% everything else. Hence, getting Management Integrity right is the critical first step.

Highlights & Insights

- There's only one way of writing honest accounts, and infinite ways of manipulating them.
- Most Sharp Practices are to inflate profits and stuff the ¡§financial trash¡¨ in the Balance Sheet (Credit P&L, Debit Balance Sheet).
- Profit & Loss statement is easier to manipulate; hence, managements must be statutorily asked to present a simplified Free Cash Flow statement.
- Auditors must be made more accountable to minority shareholders to prevent Sharp Practices.
- As an investor, have a forensic mindset to get management's explanation for all the perceived Sharp Practices.
- Finally, interact with various stakeholders — customers, employees, suppliers, competitors, etc — till you arrive at a moment of Management Integrity.

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