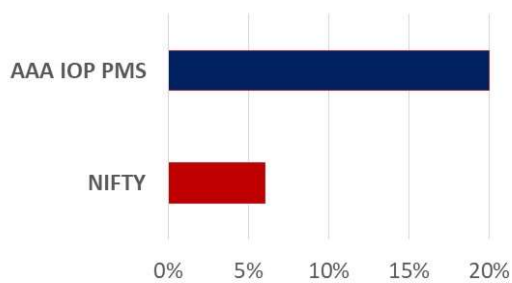


FY20: AAPMS Portfolio demonstrates superior earnings growth

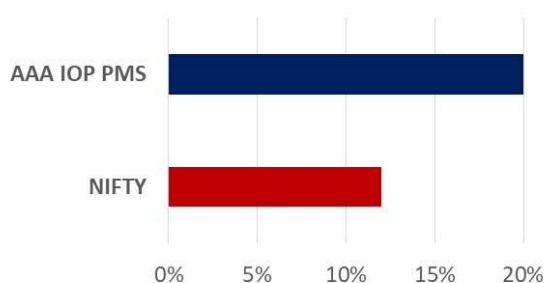
FY20 was a challenging year for corporate India as pandemic hit the country in March. This usually being one of the best month resulted in a significant dent in corporate India earnings. In 4QFY20, Nifty reported revenue de-growth of 5% and profit de-growth of ~20%. For full financial year (FY20), Nifty reported flat revenue & Operating profit and PBT de-growth of 9%. Lower income tax rate resulted in PAT growth of ~6%. Under those circumstances, AAPMS companies reported strong revenue/EBITDA/PBT growth of 9%/15%/12%. Our portfolio reported PAT growth of 20% - significantly better than the aggregate corporate India. Importantly, AAPMS reported ROE of 20% compared to NIFTY ROE of ~12% - validating our thesis of 3M Investment stock selection approach.

FY20 EPS Growth: AAPMS vs NIFTY



Source: ICICISec, AAA Research

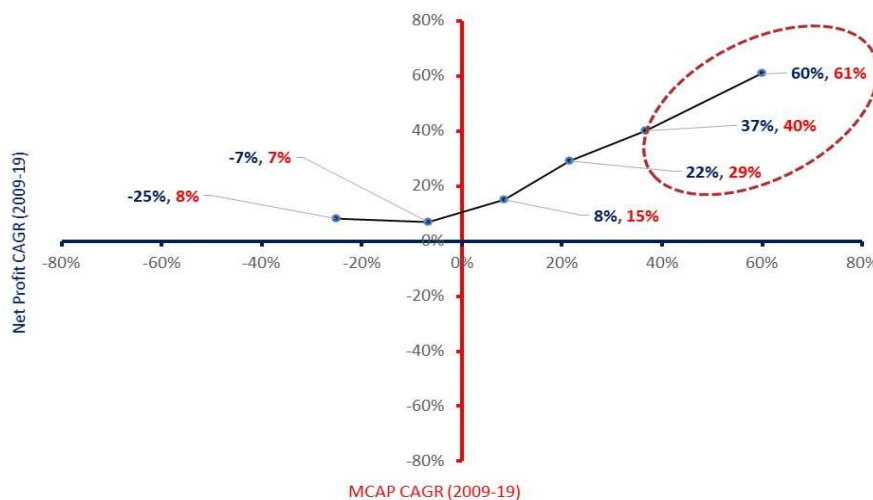
FY20 ROE: AAPMS vs NIFTY



Source: ICICISec, AAA Research

Market Cap Growth Mirrors Earnings Growth in long term

Earnings growth is critical factor for stock price returns as in long term market is mirror of earnings growth. During FY09-19, companies which reported 22%/37%/60% net profit CAGR reported 29%/40%/61% CAGR in its market cap and companies which reported negative earnings CAGR reported lower market cap CAGR (see chart below).



Source: AAA research

Leadership character differentiates Men vs Boys

Nifty has moved up sharply from low of 7600 to ~11000 levels +48% in just 120 days. There is a common question by investors – why equity market is doing well when underlying economy is still going through slowdown? The answer is – equity market is always forward looking. Importantly, while we agree that economy is expected to take few quarters before it reaches normalcy, Economic Power of sectoral Leaders is increasingly moving up. The classic example is – Britannia Industries (our portfolio holding) – the largest player in biscuit industry has reported 26% revenue growth and 100% profit growth. Similarly, HDFC Bank reported industry leading 20%+ loan growth. Story is same across our portfolio holdings in various sectors like telecom, consumer, cement, auto, etc. We expect the formalisation process which started from demonetisation has accelerated further with GST and ILFS credit crisis but with Covid19 crisis, even organised players with heavy debt on balance sheet will find it extremely difficult to survive/expand.

Our investment approach of investing in companies which are Market Leaders with Strong Balance sheet will not only enable the companies to navigate the downturn but will also help it to capitalise on upturn when economy revives. Our portfolio companies have Zero/low leverage and strong cash flows. Many of our portfolio companies in manufacturing segment have done significant capital expenditure during last three years and will continue to invest to capture the future growth. For instance, our chemical and healthcare companies have spent ~70% and ~74% of their operating cash flows in last 3 years. They are rightly positioned in China+1 strategy to attract the global customers as they have competence and proven track record of execution.

Market outlook

EU lawmakers approved a 750 billion-euro (\$870 billion) fund to combat the devastating economic effects of the pandemic. It's also laden with hopes for the birth of a new, fiscally-integrated bloc. As a result, Italian yields rallied, taking the 10-year back below 1% and narrowing the gap to their German peers to pre-crisis levels. The US Federal Reserve (FED) kept interest rates near zero and policymaking committee noted that economic activity and employment have “picked up somewhat” but added that conditions were still considerably worse than before the pandemic which implies continued support from both monetary and fiscal policy.

In recent 1QFY21, corporate India has positively surprised the street by showing significantly better operating margins compared to the street estimate. Reduction in travel, advertisement, sales and rental expense are the major heads where corporate India reduced the spend. Most corporate mentioned demand revival in Jun and expect normalcy over coming quarters. While we remain positive on market, we do not rule out short term correction – in deed, correction would be healthy for the market and we will use such opportunity to deploy cash.

AAAPMS Performance

Compounded Annual Returns (%)	1 Year	3 Years	5 Years	Since Inception*
AAA IOP PMS	7.0%	0.0%	6.3%	16.1%
BSE 500 Index	0.2%	1.1%	5.0%	7.5%
BSE Midcap Index	0.8%	-3.7%	4.1%	7.3%
BSE Smallcap Index	2.6%	-6.8%	1.9%	5.2%
Nifty	-0.4%	3.2%	5.4%	7.5%

*(23 Nov 2009 – 31 Jul 2020)(Performance after all expenses & fixed management fees)

Note: Returns of individual clients may differ depending on time of entry in the Strategy. Past performance may or may not be sustained in future and should not be used as a basis for comparison with other investments

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