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)

	THE BIGGEST		THE FASTEST		THE MOST CONSISTENT		
Rank	Company	Wealth Created (INR b)	Company	5-Year Price CAGR (%)	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.

Contents

Mangalyaan and Uncommon Profits: Mission Mars v/s Mission Enterprise

Emergence of new enterprises in the business space may well be compared with launch of **Mangalyaan** (India's Mission Mars-Craft) into outer space!

Mission Mars: Mars is 750 million km from Earth! **Mangalyaan** is designed to complete this journey in 300 days which means a mind-boggling speed of 2.5 million km per day or 30km per second! This kind of speed creates its own problems, and there are lot of dangers of the spacecraft's very survival.

Mission Enterprise: The entrepreneur's journey is also a very long one into the future. The launch of a business is almost like the launch of **Mangalyaan**.

A successful Mission Mars brings tons of rich scientific data back to Earth. A successful Mission Enterprise brings tons of Uncommon Profits for the company, and also makes investors rich by Uncommon Wealth Creation.

Abbreviations and Terms used in this report

ABBREVIATION / TERM	DESCRIPTION
2008, 2013, etc	Reference to years for India are financial year ending March, unless otherwise stated
Avg	Average
CAGR	Compound Annual Growth Rate; All CAGR calculations are for 2005 to 2010 unless otherwise stated
L to P / P to L	Loss to Profit / Profit to Loss. In such cases, calculation of PAT CAGR is not possible
Price CAGR	In the case of aggregates, Price CAGR refers to Market Cap CAGR
INR b	Indian Rupees in billion
WC	Wealth Creation / Wealth Created
Wealth Created	Increase in Market Capitalization over the last 5 years, duly adjusted for corporate events such as fresh equity issuance, mergers, demergers, share buybacks, etc.

Capitaline database has been used for this study

Wealth Creation Study 2008-2013

Objective, Concept and Methodology

Objective: The foundation of Wealth Creation is in buying businesses at a price substantially lower than their "intrinsic value" or "expected value". The lower the market value compared to the intrinsic value, the higher is the margin of safety. Every year, for the past 18 years, we endeavor to cull out the characteristics of businesses, which 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.

Report structure

- **Part 1 | Wealth Creation Study findings:** Here, we identify and analyze the top 100 Wealth Creators in the Indian stock market for the period 2008-13.
- **Part 2 | Theme - Emergence & Endurance of Uncommon Profits:** We explain the concept of Uncommon Profits and its effective application for Uncommon Wealth Creation.

Concept: 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. Wealth Creation is achieved by the rational actions of a company in a sustained manner.

Methodology & change in methodology from this year: We define Wealth Created as the difference in market capitalization over this period of five years, after adjusting for equity dilution. Hitherto, we ranked the top 100 Wealth Creators based on a simple listing of companies in descending order of absolute Wealth Created. This year, we introduce a condition that during the study period, the company's stock price should have at least outperformed the benchmark index (the BSE Sensex in our case). Due to this filter, four companies dropped off from the Top 100 despite high absolute wealth created. We list below these drop-outs and also the companies which made it at their expense.

The biggest and fastest Wealth Creators have been listed in Appendix I and II on page 41 and 43, respectively. Ranks have been accorded on the basis of Size and Speed of Wealth Creation (speed is price CAGR during the period under study).

Market Outperformance Filter (Sensex CAGR over 2008-13 was 3.8%)

Who missed the Wealth Creators list ...

Company	Adjusted NWC	Price CAGR (%)	Normal Rank*
Idea Cellular	50.0	2.0	69
Adani Ports	46.5	3.7	74
GAIL (India)	45.6	2.4	79
Power Grid Corp	41.1	1.6	80

... and who made it

Company	Adjusted NWC	Price CAGR (%)	Rank
Page Inds	32.4	51	97
GRUH Finance	32.0	47	98
Mcleod Russel	31.1	40	99
Britannia Inds	30.4	14	100

* If the stock would have outperformed the Sensex

Part 1

Wealth Creation 2008-2013: Findings summary

TCS is the Biggest Wealth Creator

TCS is the biggest Wealth Creator for the period 2008-13 (financial year ending March). In effect, it has swapped places with ITC, which was the topper last year (i.e. for the period 2007-12) and TCS was a close runner-up.

TTK Prestige is the Fastest Wealth Creator again

TTK Prestige has once again emerged as the fastest Wealth Creator between 2008 and 2013, during which period, its stock price multiplied 28x, translating into annualized return of 95% i.e. almost double every year.

Asian Paints is the Most Consistent Wealth Creator

Asian Paints has emerged as the Most Consistent Wealth Creator, having appeared in all past 10 Wealth Creation studies, and with the highest price CAGR of 36% (2004-13).

Other key takeaways

#1 **The Biggest Wealth Creators:** Seven of the top 10 Wealth Creators during 2008-13 are non-cyclicals - two domestic Consumer companies and five global non-cyclicals (including Tata Motors which is more of a play on its UK subsidiary, JLR). Most of these companies have seen re-rating of valuation, whereas that of stalwarts like HDFC and HDFC Bank slipped. IT, Pharma and Consumer are the key sectors to bet on in times of general economic slowdown.

#2 **The Fastest Wealth Creators:** Nine of the top 10 Fastest Wealth Creators had a market cap of less than INR50b in 2008. In fact, five of them were below INR10b. Seven of the top 10 were below 15x P/E in 2008. Thus, mid- and small-cap companies with the right business model, able management and bought at reasonable valuation deliver handsome returns irrespective of economic and stock market conditions.

#3 **Most Consistent Wealth Creating Companies:** Consistent Wealth Creators are also consistent Value Creators i.e. their return on equity is consistently higher than cost of equity. (In India, cost of equity is ~15% i.e. the long-period return on benchmark index).

#4 **Wealth Creators (Wealthex) v/s BSE Sensex:** Wealth Creators defy the commonly heard maxim in equity markets - "High return, high risk". At the time of purchase, Wealth Creators' P/E is lower than benchmark (i.e. lower risk), and yet returns are higher. As Van Den Berg has said, "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 right price - absolutely none."

#5 Wealth Creation Classification by Industry: Technology sector is poised to emerge as India's largest Wealth Creator in the near future (TCS is already India's largest market cap company). The current leader, Consumer, enjoys average P/E multiples of 33x, which is over 2x the market average of 15x. This leaves little room for further re-rating. In contrast, Technology sector is valued at 19x, which is reasonable considering its high PAT CAGR coupled with higher-than-average RoE.

#6 Wealth Creation by Ownership – PSU v/s Private: Wealth migration follows Value Migration. Over the years, value has migrated from PSUs to private companies across sectors - Banking, Telecom, Oil & Gas, Metals & Mining, Utilities, Capital Goods etc. This arguably lends further support to the maxim, "The government has no business to be in business."

#7 Wealth Creation by Age and Market Cap: Our theme study this year (see page 5) also touches on the role of age and size in Wealth Creation. Many young companies emerge into the Value Creation zone i.e. RoE of 15% or higher. If led by a good management, these companies are likely to sustain their above-cost-of-equity performance for several years. In the process, they deliver huge shareholder returns.

#8 Wealth Creation by earnings growth and RoE: Sustained Value Creation (i.e. earning above cost of capital) is the basis of sustained wealth creation. Our theme study on Emergence & Endurance of uncommon profits (see page 5) suggests that identifying Value Creators early leads to superior stock market returns.

#9 Wealth Creators by Valuation Parameters: 2008-13 was an unusually tough time, both for the Indian economy and stock markets. So, most time-tested thumb-rules of valuation were turned on their head. Given flight to high quality and extreme safety, the highest P/E and P/B stocks (typically Consumer, Technology and Healthcare) delivered the highest returns during the period. However, the Payback Ratio of less than 1x proved itself to be the most reliable indicator for high stock returns, irrespective of economic and market conditions.

#10 Wealth Destroyers: The stock market's perception of ineffective management (including capital mis-allocation, consistent failure to deliver on guidance, low dividend payout etc) is a major source of Wealth Destruction. When the market is disappointed, it does not spare even those stocks which were its darlings till recently.

For detailed findings go to page 31

Wealth Creation

2008-2013
The 18TH Annual Study

Theme 2014

Uncommon Profits:

Emergence & Endurance

Part 2 Emergence & Endurance of Uncommon Profits

Uncommon profits in companies = Uncommon wealth creation in markets

> "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 forty years and you hold it for that forty 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**

Preface

Report scope and structure

A key implication of Charlie Munger's quote given above is this: In the long run, investors earn only as much money on a company's stock as the underlying business itself earns. Hence, it pays off well to invest in companies which are able to (1) generate return on capital much higher than cost of capital, and (2) sustain and grow such above-cost-of-capital returns for several years to come.

Economics commonly holds that over time, in any business, competitive forces drive down returns to cost of capital. Thus, it may be apt to call sustained above-cost-of-capital returns as Uncommon Profits, and companies earning such profits as Value Creators. In this report, we study two major aspects -
(1) **Emergence and endurance** of such uncommon profits, and
(2) How to create sizeable wealth by identifying and investing in **Value Creators**.

We have attempted to achieve this in 4 sections in the following pages:

- **Section 1:** We first introduce the concepts of **Uncommon Profits, Emergence and Endurance**. Next, we prove how investing in Uncommon Profit generating companies (i.e. **Value Creators**) results in uncommon Wealth Creation in the stock markets. We present **4 case studies of Value Creators** which show that early investing in them leads to handsome investment returns.
- **Section 2:** We discuss two major points: **(1) Major factors for Emergence** (i.e. companies entering the Uncommon Profit zone), and **(2) A backtested methodology to identify and invest in such Emerging Value Creators**. We also present a checklist for investing in Emerging Value Creators and some of the pitfalls that can be avoided.
- **Section 3:** Here, we address the frequently asked question in stock markets: **Is it worthwhile to invest in Enduring Value Creators?** (i.e. companies which indeed generate high return on capital, but are fully discovered and fairly discounted). We identify factors which favor Endurance, and also the risks to watch out for even in well-established, highly profitable companies. We also present a backtested methodology to identify Enduring Value Creators.
- **Section 4:** We put together our key conclusions on creating Uncommon Wealth by investing in Value Creators.

1. Introduction

Defining Uncommon Profit, Emergence, Endurance

1.1 What is Uncommon Profit?

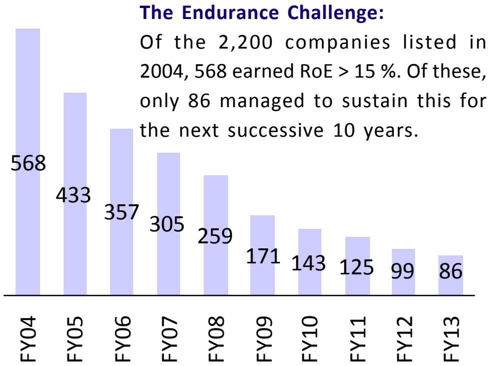
It is a commonly accepted economic law that in any business, competitive forces will drive down return on capital to cost of capital over time. However, empirical evidence suggests that some companies manage to not only earn return on capital significantly higher than cost of capital, but also sustain the same over fairly long periods of time. This phenomenon is called **Economic Value Creation**, or more simply, **Value Creation**.

Such above-cost-of-capital return may be aptly termed **"Uncommon Profit"**, with the term "Uncommon" having two implications -

1. It defies the common economic law of returns converging to cost of capital, and
2. Companies earning such profit are not very common. As is clear from the two exhibits below, (1) In any given year, companies earning higher RoE (Return on Equity) is progressively lower, and (2) Even if some companies manage to earn healthy RoE in a particular year, sustaining the same over long period is increasingly difficult.

Truly "Uncommon" Profit: High RoEs and sustained above-cost-of-equity RoEs are both rare

RoE% Frequency Distribution (FY13)	No. of cos.	% of total
<15	2,697	82
15-20	275	8
20-25	147	4
25-30	76	2
30-35	29	1
35-40	24	1
40-45	20	1
45-60	16	0
>60	16	0
Total listed cos.	**3,300**	**100**



The Endurance Challenge:
Of the 2,200 companies listed in 2004, 568 earned RoE > 15 %. Of these, only 86 managed to sustain this for the next successive 10 years.

1.1.1 The numerics of Uncommon Profit

The classical formula for Value Created (i.e. Uncommon Profit) is given below, and considers total capital deployed in the business i.e. both debt and equity.

Uncommon Profitability (% terms) = RoIC > WACC
Uncommon Profit (absolute) = (RoIC - WACC) x Capital Employed
where RoIC = Return on Invested Capital
WACC = Weighted Average Cost of Capital (both debt and equity)

For the purposes of this report, we focus more on Uncommon Profit for equity shareholders. Accordingly, we use a simplified interpretation as given below.

Uncommon Profitability (% terms) = RoE > Cost of equity
Uncommon Profit (absolute) = (RoE - CoE) x Equity employed
where RoE = Return on Equity
Cost of equity = Opportunity cost of equity or
Risk free rate + Equity risk premium

1.1.2 RoE of 15% is Uncommon Profit threshold in Indian context

Opportunity cost of equity is usually taken as the long-period return on equity benchmark indices. In the Indian context, long-period return of BSE Sensex is 15-17%. Using the other approach for Cost of Equity (CoE), risk free rate in India is about 7% (post tax). Adding an equivalent equity risk premium, one again arrives at CoE around 15%. Thus, for the purposes of this report, **any profit earned in excess of 15% RoE is Uncommon Profit. Accordingly, all companies which sustain RoEs over 15% are Value Creators**.

Volume of Uncommon Profit = Length x Breadth x Height

The volume of absolute Uncommon Profit generated by a company is 3-dimensional -

1. **Length** i.e. number of years that the company is able to maintain RoE higher than CoE
2. **Breadth** i.e. the amount of capital that the company can successfully deploy with returns higher than CoE and
3. **Height** of Uncommon Profitability i.e. higher the RoE over CoE, higher the Uncommon Profit.

This can be mapped to what we call the **QGL formula** for investing in Value Creators -

- **Q - Quality** of the company's business and management (reflected in Height of Uncommon Profitability)
- **G - Growth** of the company's profit, which is a function of the amount of capital deployed or ploughed back (i.e. Breadth) and the incremental rate of return generated on the same and
- **L - Longevity** of the company, which corresponds to number of years (i.e. Length) of Uncommon Profit.

1.2 Why look for Uncommon Profit in equity investing?

The simple answer to this question is this: **Uncommon profits in companies = Uncommon wealth creation in markets**. In other words, empirical evidence suggests that companies generating Uncommon Profit (i.e. Value Creators) invariably outperform benchmark returns over the medium- and long term. This is probably because no matter how efficient, the stock markets seem unable to accurately assess the 3-dimensional aspect of Uncommon Profit (i.e. QGL - Quality, Growth, Longevity).

In this context, there is a widely-held belief that Value Creators are mainly Consumer stocks. However, as the graphs on page 8 suggest, Value Creators are found across sectors and significantly outperform the markets irrespective of economy and market conditions.

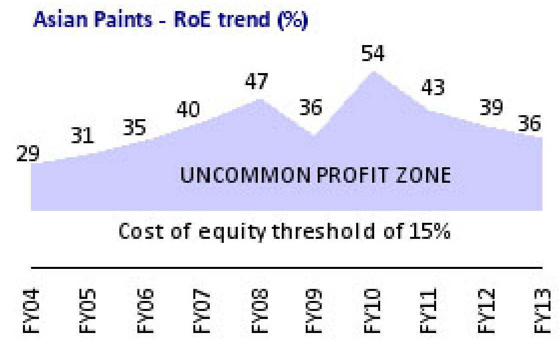
1.3 What do we mean by Emergence and Endurance of Uncommon Profit?

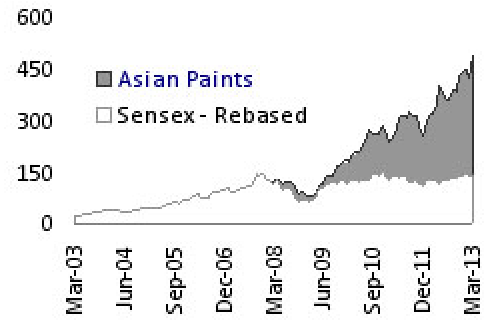
We define Emergence as "the first entry of a company into the potential Uncommon Profit zone". In the previous section, we determined that RoE of 15% is the threshold for Uncommon Profit. Given this, a company may be said to have emerged when it attains 15% RoE for the first time ever since inception. Having emerged, the next challenge for a company is **Endurance i.e. sustaining its profitability above the Cost of Equity threshold for a long period of time**.

Going by the above definitions, 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 and industry-level and company specific factors (detailed in Section 2, page 14). Early identification of such companies enables investors to fully participate in the company's Uncommon Profit generation through its lifecycle.

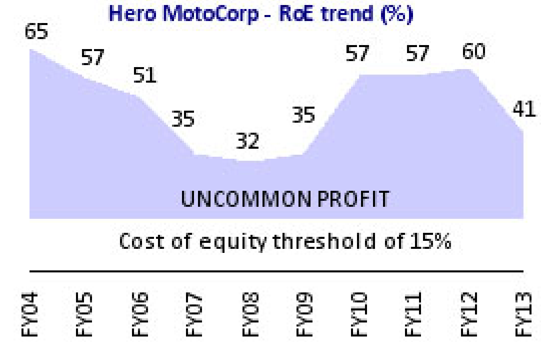
Uncommon Profits = Uncommon Wealth Creation: Examples across sectors

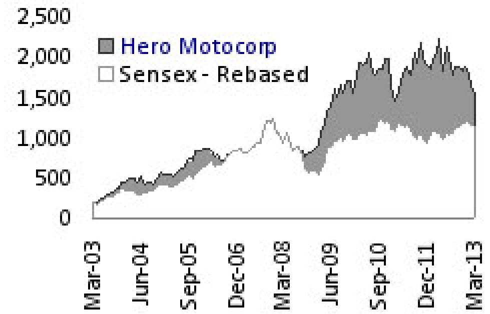
Consumer



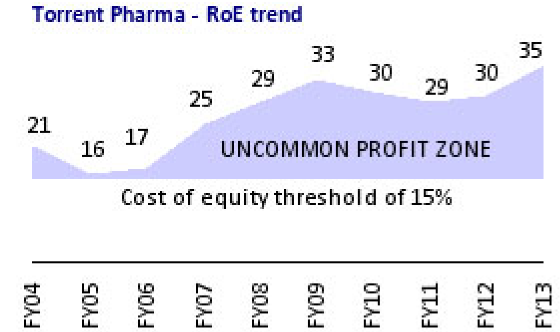


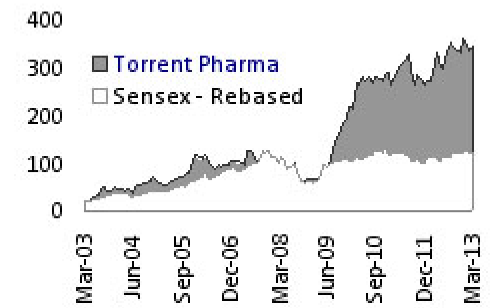
Autos



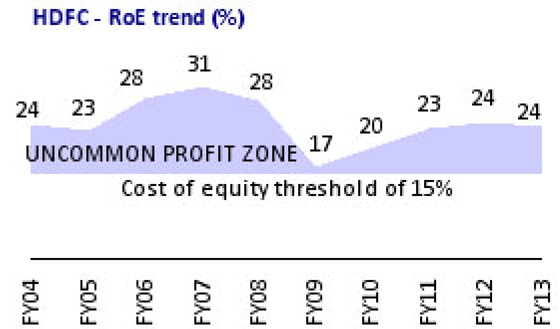


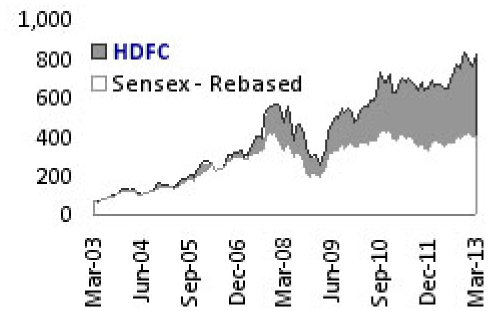
Healthcare



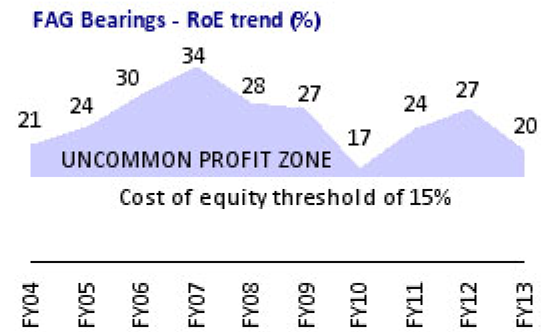


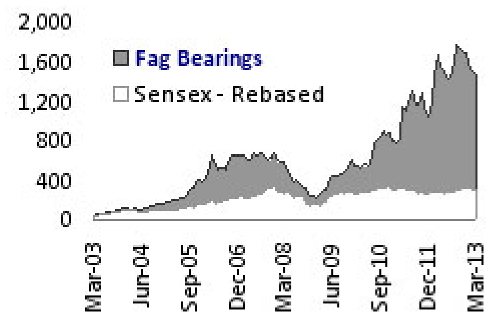
Financials





Industrials



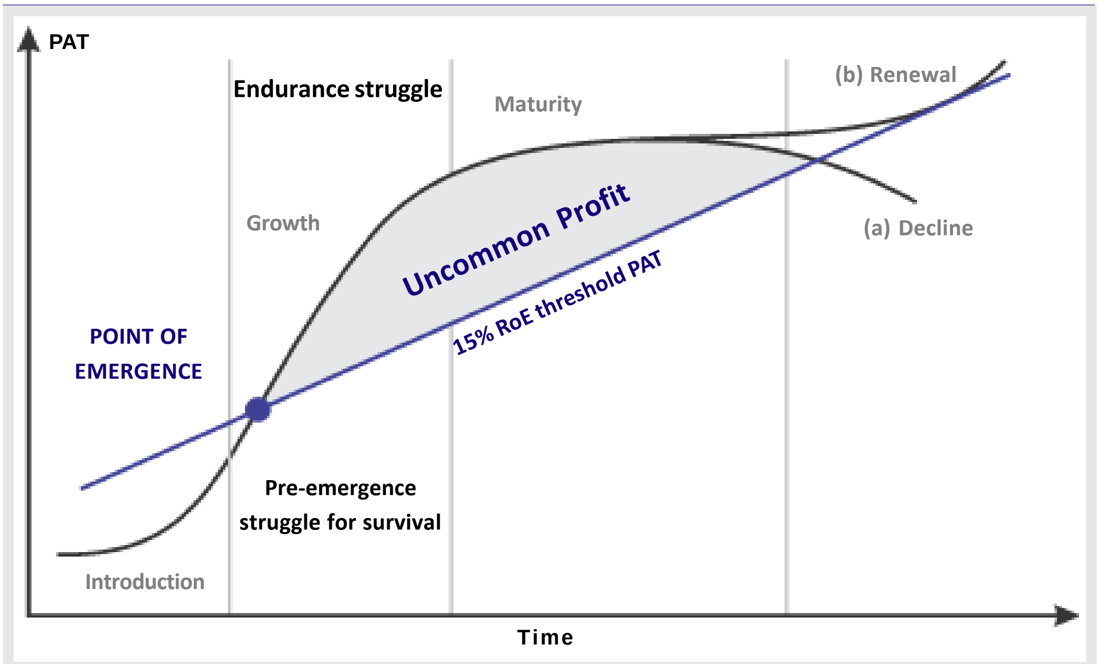


1.4 Emergence, Endurance and Uncommon Profit lifecycle

Emergence, Endurance and Uncommon Profit can be mapped to the typical lifecycle of a company as depicted in the diagram below. The key takeaways from this diagram are:

Phase of company lifecycle	Company focus	Implications for Uncommon Profit (i.e. Value Creation)
INTRODUCTION	■ In the **initial years** post incorporation, a company struggles to survive by first reaching break-even point before moving on to achieve critical mass.	■ In this phase, return on equity will be well below the Uncommon Profit RoE threshold of 15%.
GROWTH	■ During the **Growth phase**, the company achieves a critical level of scale. ■ It enters into a virtuous growth cycle of rising revenue and profit, and significant ploughback of earnings to achieve further scale.	■ It is during this phase that the company typically crosses the 15% RoE threshold for the first time i.e. it Emerges. ■ Endurance depends on whether it continues to earn above-threshold returns on the incremental capital deployed for growth.
MATURITY	■ In the **Maturity phase**, organic growth is likely to flatten off as is RoE. ■ The company is likely to explore several growth options including backward and/or forward integration, M&A (both domestic and global), diversification, etc.	■ Uncommon Profit is at its peak level during this phase, and may even start to taper off. ■ The company may resort to robust dividend payouts and/or stock buybacks to help sustain RoE by trimming the balance sheet of idle cash.
RENEWAL / DECLINE	■ If the company successfully renews itself by new products, innovations, etc, it re-enters the Growth phase. ■ If not, the company begins to wind down, and may even sell itself to a stronger peer.	■ Slowing growth and competitive forces will combine to drive down RoEs towards CoE. ■ Endurance depends on whether the company renews itself or goes into decline.

Mapping Emergence and Endurance to a company's typical lifecycle



1.5 Emergence Case Studies - Titan, Bharti Airtel, GRUH Finance, Manappuram

We briefly present four case studies of classical Emergence of Value Creators in chronological order of year of Emergence - Titan Industries (2003), GRUH Finance (2003), Bharti Airtel (2005) and Manappuram Finance (2007). Studying these and other cases like Shriram Transport Finance and Blue Dart Express achieves two objectives -

1. It reaffirms the fact that identifying Value Creators early leads to significant Wealth Creation; and
2. It also helps arrive at a possible methodology for early identification of Value Creators.

1.5.1 Emergence Case Study #1: TITAN INDUSTRIES

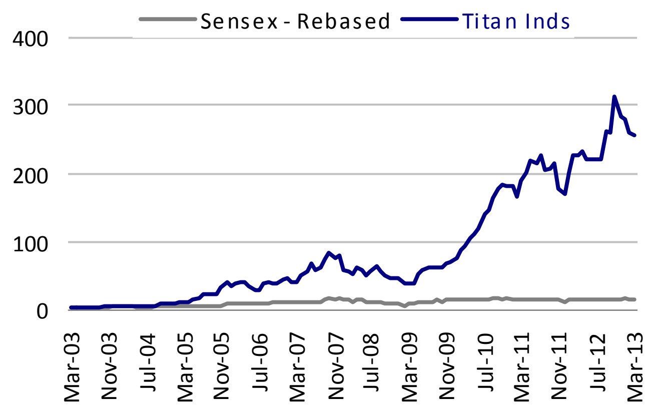
Company background	Titan Industries was incorporated in 1984 as a joint venture of Tata Group and TIDCO (Tamil Nadu Industrial Development Corporation) for the manufacture of wristwatches. Today, it is the fifth largest integrated own brand watch manufacturer in the world. In 1995, Titan entered the 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

	YoE 2003	2008	2013
Revenue (INR b)	7	31	101
CAGR (%) post-emergence		32	30
PAT (INR b)	0.2	2	7
CAGR (%) post-emergence		53	45
RoE (%)	**23**	**40**	**42**
Delta RoE (%)		17	3
Divd Payout Ratio (%)	0	23	26
Market Cap (INR b)	**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**

Post-emergence stock performance

In the first 5 years post emergence (2003-08), Titan's stock clocked a return CAGR of 85%, compared to 39% for benchmark BSE Sensex. Post-emergence to date (i.e. 2003-2013), the stock return CAGR is a high 59% v/s20% for the Sensex.



1.5.2 Emergence Case Study #2: GRUH FINANCE

Company background

Gruh Finance (formerly known as Gujarat Rural Housing Finance Corporation) was incorporated in 1986 to provide financial services mainly for rural housing, construction/upgradation of dwelling units, and to developers. In June 2000, GRUH became a subsidiary of HDFC Group when the latter acquired 26% stake held by Gujarat Ambuja Cements (now Ambuja Cements), taking its total stake to 54%.

Year of Emergence

2003

Key business driver of Emergence

Huge opportunity in Indian housing finance, including rural housing

Company Turning Point

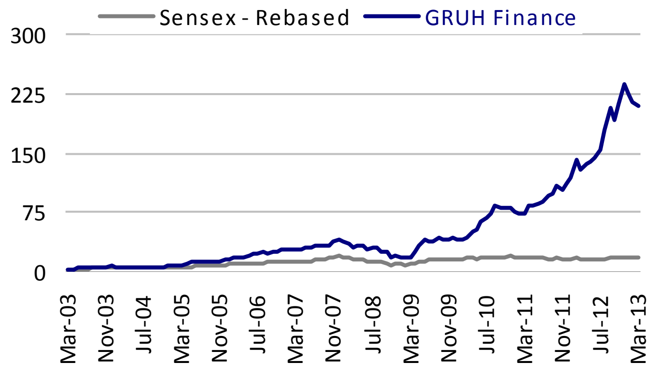
Takeover by HDFC Group in 2000, bringing in well-established value system and business principles/practices

Post-emergence financial performance highlights

	YoE 2003	2008	2013
Revenue (INR m)	836	2,025	6,482
CAGR (%) post-emergence		19	23
PAT (INR m)	102	423	1,459
CAGR (%) post-emergence		33	30
RoE (%)	**16**	**24**	**33**
Delta RoE (%)		8	9
Divd Payout Ratio (%)	39	33	31
Market Cap (INR m)	**421**	**5,271**	**37,530**
P/E - Trailing (x)		12	26
Stock Price (INR)	3	30	210
Return CAGR (%)		**60**	**54**
Sensex CAGR (%) post emergence		39	20
Outperformance (%)		**21**	**34**

Post-emergence stock performance

In the first 5 years post emergence (2003-08), GRUH's stock clocked a return CAGR of 60%, compared to 39% for benchmark BSE Sensex. Post-emergence to date (i.e. 2003-2013), the stock return CAGR is 54% v/s 20% for the Sensex.



1.5.3 Emergence Case Study #3: BHARTI AIRTEL

Company background

Bharti Airtel was incorporated in the year 1995 as Bharti Tele-Ventures Ltd. In FY96, it launched mobile services under the brand name 'Airtel' for the first time in Delhi and Himachal Pradesh. Since then, through a series of organic and inorganic initiatives, it has emerged India's largest mobile service provider. In June 2010, it made a major acquisition of Zain in Africa for an EV (enterprise value) of USD10.7b. Today, it has operations in 20 countries across Asia and Africa. In India, besides mobile telephony, it also provides broadband services and digital TV.

Year of Emergence

2005

Key business driver of Emergence

Emergence of a whole new industry, wireless telephony, which led to huge value migration from the fixed line telephony industry.

Company Unique Value Proposition

Largest player in a high-growth, high fixed-cost business, leading to exponential increase in profitability above breakeven operating level.

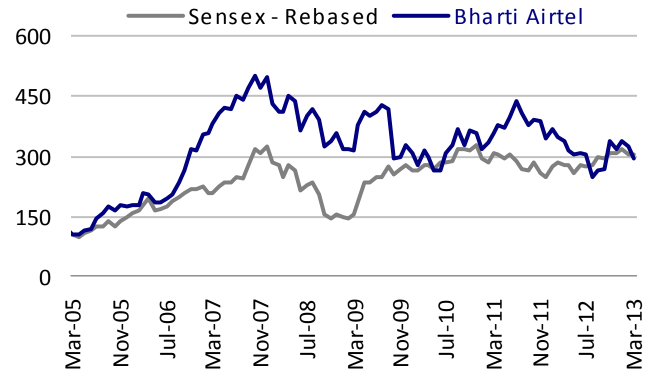
Post-emergence financial performance highlights

	YoE 2005	2008	2013
Revenue (INR b)	81	270	804
CAGR (%) post-emergence		49	33
PAT (INR b)	12	64	21
CAGR (%) post-emergence		75	8
RoE (%)	**27**	**38**	**** 4**
Delta RoE (%)		11	** -22
Divd Payout Ratio (%)	0	0	18
Market Cap (INR b)	**383**	**1,568**	**1,108**
P/E - Trailing (x)	32	25	52
Stock Price (INR)	103	413	292
Return CAGR (%)		**59**	**14**
Sensex CAGR (%) post emergence		34	14
Outperformance (%)		**25**	**0**

** sharp dip in RoE post Zain acquisition

Post-emergence stock performance

In the first 3 years post emergence (2005-2008), Bharti's stock clocked a return CAGR of 59%, compared to 34% for benchmark BSE Sensex. Subsequent performance was muted due to two reasons: (1) Entry of several new players, and (2) Its mega acquisition of Zain in Africa. Post-emergence to date (i.e. 2005-2013) too, the stock is a market performer.



1.5.4 Emergence Case Study #4: MANAPPURAM FINANCE

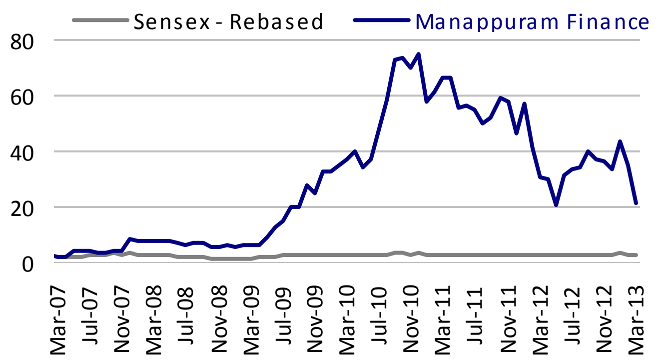
Company background	Incorporated in 1992, Manappuram Finance is an NBFC providing range of services including gold loans, vehicle finance, forex services, distribution of mutual funds, etc.
Year of Emergence	2007
Key business driver of Emergence	Sharp rise in gold prices globally, coupled with a strong customer need to monetize the gold without necessarily having to sell it.
Company Unique Value Proposition	Second largest player in gold loans.

Post-emergence financial performance highlights

	YoE 2007	2012	2013
Revenue (INR b)	44	2,645	2,256
CAGR (%) post-emergence		127	-3
PAT (INR b)	11	591	208
CAGR (%) post-emergence		123	-19
RoE (%)	**53**	**27**	**9**
Delta RoE (%)		-25	-19
Divd Payout Ratio (%)	18	21	61
Market Cap (INR b)	**47**	**2,557**	**1,825**
P/E - Trailing (x)	4	4	9
Stock Price (INR)	2	30	22
Return CAGR (%)		**70**	**47**
Sensex CAGR (%) post emergence		6	6
Outperformance (%)		**64**	**41**

Post-emergence stock performance

In the 5 years post emergence (2007-12), Manappuram's stock clocked a return CAGR of 70%, compared to 6% for benchmark BSE Sensex.



Based on learnings from the above case studies, we proceed to -

(1) Analyze what it takes for a company to emerge as a Value Creator; and

(2) Suggest one possible methodology for early-stage identification and investment in such Value Creators

2. Framework to identify Emerging Value Creators

Combination of industry-level and company-specific factors

We discuss the process of identifying and investing in Emerging Value Creators, which can be surmised as under -

1. Creating a checklist of what it takes to be a Value Creator and
2. Avoid the pitfalls.
3. Based on the above, we present a specific methodology to identify such companies.

2.1 Checklist of what it takes to be a Value Creator

To recap, a Value Creator is a company which -

(1) **Emerges** into the Uncommon Profit zone (i.e. above cost-of-capital) at some point in its lifetime, and then

(2) **Endures** this generation of Uncommon Profit for a very long period of time.

The rare companies which manage this highly demanding **journey of Emergence to Endurance** are those that are favorably placed vis-à-vis several key success factors. Anita McGahan and Michael Porter, in a paper titled "The emergence and sustainability of abnormal profits" have quantified the average contribution of 4 factors to abnormal profits. Their findings are summarized in the table below.

Contribution of various factors to abnormal profits (%)

Contributing factor	High Performers		Low Performers	
	Emergence	Sustainability	Emergence	Sustainability
Year (or Economic Cycle)	2	3	-7	-5
Industry	37	44	12	13
Corporate-parent *	18	19	-4	2
Segment-specific **	43	34	99	90

* Corporate-parent can be equated to the promoter or majority shareholder in a company

** Segment specific refers to a company's unique characteristics which drive its performance vis-à-vis rivals, viz, strategy, execution, resources, etc.

Source: Anita M McGahan and Michael E Porter, "The emergence and sustainability of abnormal profits"; Strategic Organization, Vol. 1, No. 1, February 2003,

The above table clearly suggests that economic cycles do not play a significant role in Emergence and Endurance. For the sake of simplicity, we may combine Corporate-parent and Segment-specific factors under one head "Company-specific". Accordingly, we compile 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
Competitive landscape and bargaining power Is the industry's competitive landscape favorable? Do players enjoy superior bargaining power / terms of trade with customers and/or suppliers? (2.1.1.1)	**Quality of corporate-parent / management** Does the company have a solid corporate-parent and management team? (2.1.2.1)
Size of opportunity and profit pool Does the industry enjoy a large profit pool which can be effectively tapped into by a company with a unique value proposition or strategy? (2.1.1.2)	**Unique value proposition or strategy** Does the company have a unique value proposition or strategy to overcome competitive forces? (2.1.2.2)
Value migration Is the industry showing trends of value migration? Or does it offer opportunity for the same in future? (2.1.1.3)	**Nature of business** Does the company enjoy Consumer Advantage or Production Advantage? How strong is the advantage? (2.1.2.3)
Stability of industry Is the industry fairly stable i.e. less prone to destabilizing factors like business cyclicality, high production innovation, and regulatory controls? (2.1.1.4)	**Market leader or pioneer** Is the company a market leader or a pioneer? (2.1.2.3)
New industry or strategic opportunity Is it a new industry or strategic opportunity with huge potential? (2.1.1.5)	

2.1.1 Industry-level key success factors for a Value Creator

Several industry-level factors have a major say in determining the level and longevity of Uncommon Profits generated by its constituent companies. Some of these factors are: (1) Competitive landscape and bargaining power, (2) Size of opportunity and profit pool, (3) Value migration, (4) Stability of industry, and (5) Emergence of a new industry/strategic opportunity.

2.1.1.1 Competitive landscape and bargaining power

The competitive landscape of the industry is a major determinant of incumbent companies' ability to sustain Uncommon Profits. Clearly, lower the competitive intensity, higher the chances of Value Creators emerging and vice versa.

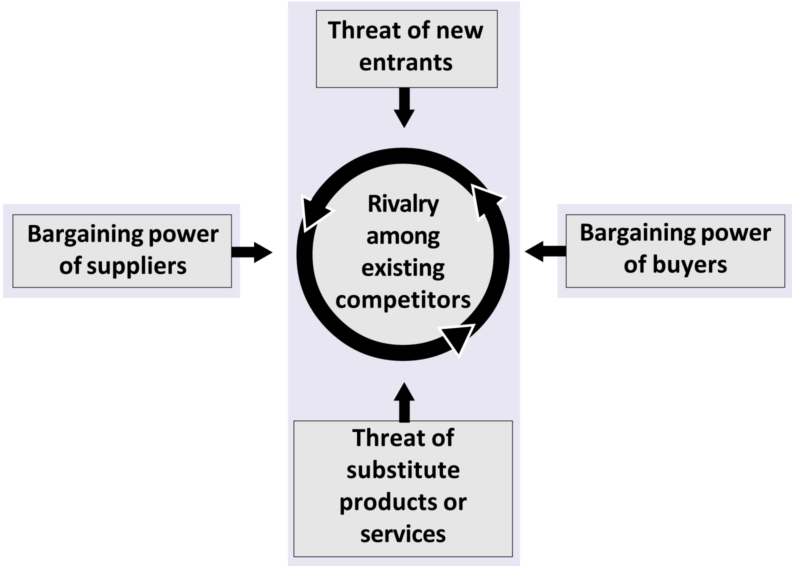
From a broader perspective, companies do not just compete with rivals for profit. As Joan Magretta says in her book **Understanding Michael Porter -**

- "Companies are also engaged in a struggle for profits with their customers, who would always be happier to pay less and get more.
- They compete with their suppliers, who would always be happier to be paid more and deliver less.
- They compete with producers who make products that could, in a pinch, be substituted for their own.
- And they compete with potential rivals as well as existing ones, because even the threat of new entrants places limits on how much they can charge their customers."

Thus, apart from competitive intensity, it is also important to understand the forces which influence an industry's bargaining power (i.e. terms of trade) with its customers and suppliers. Michael Porter's 5 Force Analysis offers an excellent framework to assess an industry's bargaining power. Higher the bargaining power, higher the chances of Uncommon Profits and vice versa.

Porter's Five Force framework helps assess industry bargaining power (i.e. terms of trade)

Higher the bargaining power of an industry, higher the chances of an Emerging Value Creator



2.1.1.2 Size of opportunity and profit pool

Industries with a huge opportunity are more likely to throw up Emerging Value Creators. One metric of an industry's opportunity size is **Profit Pool** i.e. the absolute level of profit of all players in an industry put together. If an industry has a high profit pool, a company with the right value proposition/strategy can claim a rising share of this pool and emerge a Value Creator over time. In contrast, Value Creators are unlikely to emerge from industries that have a small profit pool in the first place.

India Inc's Profit Pool breakdown by sector

10 highest profit generating sectors			10 lowest profit generating sectors	
Sector	2013 PAT (INR b)	% share	Sector	2013 PAT (INR b)
Financials – Banks	842	21	Aviation	-57
Energy – Oil & Cas	400	10	Telecom - Service & Eqpmt.	-40
IT - Software	347	9	Shipbuilding	-4
Financials – NBFCs	324	8	Sugar	-2
Mining & Mineral products	273	7	Shipping	-2
Energy – Refineries	228	6	Glass & Glass Products	-2
Utilities	223	6	Ceramic Products	-2
Automobile	219	6	Paper	-0.2
Healthcare	165	4	Printing & Stationery	-0.1
Metals – Non-Ferrous	105	3	Electronics	0
Total of above	**3,125**	**79**	**Total of above**	**-109**
Total Corporate PAT	**3,948**	**100**	**Total Corporate PAT**	**3,948**

Sectors with highest PAT CAGR over 2003-13 (with minimum PAT of INR20b in 2013)

Sector	PAT CAGR (%)	PAT Delta (INR b)	Sector	PAT CAGR (%)	PAT Delta (INR b)
Textiles	L to P	57	Infra Developers	28	62
Realty	L to P	38	Steel	28	30
Fertilizers	L to P	28	Non Ferrous Metals	27	96
Cement	57	78	Pharmaceuticals	20	138
IT - Software	54	342	Capital Goods	19	54
Gems & Jewelry	46	32	Tobacco Products	18	63
Finance	46	316	Banks	18	680
Mining & Minerals	46	266	Auto Ancillaries	17	29
Automobile	39	211			
Chemicals	29	31	**TOTAL CORP. SECTOR**	**20**	**3,317**

5 biggest profit share gain in last 10 years

Sector	Share of PAT (%) 2003	Share of PAT (%) 2013	Gain in share (%)
IT - Software	1	9	8
Finance	1	8	7
Mining & Minerals	1	7	6
Automobile	1	6	4
Textiles	-1	1	2

5 biggest profit share loss in last 10 years

Sector	Share of PAT (%) 2003	Share of PAT (%) 2013	Loss in share (%)
Refineries	22	6	-16
Oil & Gas	18	10	-8
Power Gen & Distbn	10	6	-5
Banks	26	21	-4
Telecom - Service	1	-1	-2

2.1.1.3 Value migration

In his book on ***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." In effect, Value Migration results in a gradual yet major shift in the way the profit pool in an industry is shared. Seen this way, Value Migration is one of the most potent sources of Emergent Value Creators. For instance, many Value Creators emerged from India's Banking & Finance sector because of a Value Migration from state-owned players to private players. The table below lists more cases of Emerging Value Creators on the back of value migration.

Examples of Value Creators due to value migration

Company / Sector	Value migration from	Value migration to
Titan Industries	Unorganized jewelry market	Organized jewelry retailing
Bharti Airtel	Fixed line telephony	Wireless telephony
Hero MotoCorp	Scooters	Motorcycles
Private banks	State-owned organizations	Private sector
Indian IT	Developed world	Developing countries

2.1.1.4 Stability of industry

Another common feature across most Value Creators is that they come from industries which are stable. An industry may be deemed to be stable if it is less prone to de-stabilizing factors -

1. **High cyclicality** of demand and/or supply, leading to volatility in product pricing e.g. global commodities;
2. **High level of product innovation**, resulting in rapid changes in player market shares e.g. new-economy businesses such as e-commerce, tech gadgets, gaming, etc;

3. **Rapid and unexpected changes in government regulation** e.g. Indian sugar industry with government controls on sugarcane procurement price, quantity/pricing of sugar sales, import and export of sugar, etc.

2.1.1.5 Emergence of new industry/strategic opportunity

Rarely, some businesses emerge as a whole new industry or strategic opportunity e.g. Indian IT emerged on the back of the Y2K opportunity. Likewise, radio has made a comeback, riding the FM wave. In such situations, there is no existing profit pool, and yet, new players will create a whole new profit pool and turn Value Creators in the process.

2.1.2 Company-specific key success factors for a Value Creator

Some of the company-specific key success factors include: (1) Quality of corporate-parent / management, (2) Unique value proposition or strategy, (3) Nature of business (e.g. Consumer-facing or Industry-facing), and (4) Market leadership/pioneering.

2.1.2.1 Quality of corporate-parent / management

This is arguably THE most non-negotiable key success factor for a Value Creator. The term "corporate-parent" refers to the company owner whereas the management refers to the operating team. In many companies, especially in India, the corporate-parent has a major role in management as well, and hence, this factor becomes even more important.

The corporate-parent/management is responsible for several key decisions concerning the company, viz, governance and compliance, strategy or unique value proposition, lines of business, capital allocation, dividend payout, concern for minority shareholders, succession planning, etc. These decisions go a long way in determining whether the outcomes favor long-term generation of Uncommon Profit or not.

2.1.2.2 Unique value proposition or strategy

This is a corollary to the previous point on Quality of management. Without a unique value proposition or strategy, it is virtually impossible for any company to endure Uncommon Profits and prove to be a Value Creator.

Strategy is all about ensuring that a company creates and/or maintains its competitive edge over rivals, and ideally strengthens it further. Without a unique strategy, a company's fortunes are subject to the tide and ebb of industry tailwinds, which is an unsuitable situation for enduring Uncommon Profits.

Examples of unique value proposition of recently emerged Value Creators

Company	Business / Sector	Unique value proposition
Jubilant Foodworks	Quick Service Restaurants	Hot pizzas at your doorstep in 30 minutes
Titan Industries	Watches, jewelry	100% hallmarked jewelry from the house of Tatas
Page Industries	Readymade apparel	Innerwear too can be a fashion statement
Bajaj FinServ	NBFC, Insurance	"EMI-zation" of consumer durables purchases
Manappuram Finance	NBFC	Monetization of idle gold

2.1.2.3 Nature of business

There are broadly two kinds of business:

1. **Consumer-facing (also called B2C, Business-to-Consumer)** i.e. businesses catering to individual users of products and services, and
2. **Client-facing (or B2B, Business-to-Business)** i.e. businesses catering to other businesses (e.g. material suppliers, capital goods vendors, IT service providers, etc).

In order to succeed, consumer-facing businesses need to create **Consumer Advantages** such as brand loyalty, buying habits, and high switching costs, all translating into higher pricing power. Likewise, client-facing businesses need to create **Production Advantages** such as patents, distribution network, lowest cost on the back of access to resources and/or scale, etc.

While it is tough to establish either kind of advantage, corporate experience across the world suggests that Consumer Advantage or pricing power once established is far more difficult to be dislodged compared to Production Advantage.

Examples of Consumer Advantages holding up and Production Advantages folding up

Consumer Advantage which held up	Production Advantages which folded up
■ Nestle's Maggi brand of noodles survived competitive attacks from Unilever (Top Ramen), GSK Consumer (Foodles) and several other smaller brands.	■ State-owned banks had a huge production advantage in terms of their reach. However, they could not match the technological prowess of new private sector banks, and lost significant market share.
■ GSK Consumer's own Horlicks brand withstood entry by world's No.1 malt drink, Nestle's Milo.	■ Several mining companies (like Sesa Goa) had huge production advantage by way of access to resources. However, this folded up virtually overnight by way of a government ban on mining on environmental grounds.
■ Colgate suffered a minor setback on Unilever's aggressive launch of Pepsodent, but subsequently recovered much of the lost ground, partly by launching Colgate Total	■ Many brick-and-mortar retailers (e.g. book chains) enjoyed multiple production advantages - proximity to customer, bulk purchases from distributors leading to pricing discounts, etc. However, migration of book sales to online has nullified these advantages.

2.1.2.4 Market leadership/pioneering

Across the case studies on Emerging Value Creators, a widely prevalent theme was that of market leadership or pioneering initiatives. Market leaders and pioneers enjoy a significant first mover advantage in their product/service category which competitors may find difficult to overthrow.

Examples of Market leadership/pioneering among Emerging Value Creators

Company	Business / Sector	Market leadership / Pioneering initiative
Shriram Transport Finance	NBFC	Pioneer in financing of second-hand trucks, especially for single-truck owners and operators
Blue Dart Express	Logistics	Market leader in express courier and cargo
Titan Industries	Watches, Jewelry	Was market leader in watches, before pioneering organized jewelry retailing
Page Industries	Readymade apparel	The first global innerwear brand company in India
Manappuram Finance	NBFC	Second largest player in gold financing

2.2 Pitfalls to avoid while investing in Emerging Value Creators

Apart from the above positive checklist, there is also a list of pitfalls which need to be avoided while investing in Emerging Value Creators - (1) Pre-empting emergence, and (2) Emergence of companies in good times.

2.2.1 Pre-empting emergence

Many companies in their initial years show steady improvement in their profitability and profits, suggesting they are most likely to breach the CoE threshold in the next couple of years. Investors are prone to invest in such companies early, expecting to earn superlative returns. However, actual data suggests that in most cases, there is no significant gain in pre-empting emergence. At the same time, there is a risk that the company may actually never emerge due to change in business dynamics post-investing.

2.2.2 Emergence during peak of good times

Many business and companies emerge only on the back of a favorable tailwind of macroeconomic and business conditions. After a 4-5 year run on the rising leg of an economic cycle, many companies may look to be entering the Value Creation zone. Investing in such companies even post emergence is fraught with risk of wealth destruction.

As Benjamin Graham says in his book ***The Intelligent Investor***, "...the risk of paying too high a price for good-quality stocks – while a real one – is not the chief hazard confronting the average buyer of securities. Observation over many years has taught us that the chief losses to investors come from the purchase of low-quality securities at times of favorable business conditions."

2.3 Our methodology to shortlist Emerging Value Creators

In the normal course, the search for Emerging Value Creators would be on a case-to-case basis. To help create a shortlist of potential ones, we have incorporated our understandings of Emerging Value Creators into a step-by-step methodology as discussed below.

A suggested methodology to identify Emerging Value Creators

Step	Aspect covered	Methodology
#1	**Determine age of the company**	■ From among the listed companies, select companies less than 25 years old from date of incorporation.
#2	**Identify companies with meaningful first-time Emergence**	■ Calculate RoEs of the past 10-15 years, and see which of these under-25-year companies crossed 15% for the first time in the last year. ■ To ensure that the Emergence in meaningful, consider companies with a certain minimum PAT level, say, INR100m.
#3	**Filter companies for corporate-parent/management**	■ Of the above companies, shortlist those where you have a favorable opinion of the corporate-parent / management. Some of the evaluation criteria include: 1. Whether the corporate-parent is a multinational company or a large domestic corporate house with a reputation for good governance 2. Performance track record of other group companies, if any 3. Management statements made in investor communications (Annual Reports, results releases)

A suggested methodology to identify Emerging Value Creators (contd)

Step	Aspect covered	Methodology
#3	**Filter companies for corporate-parent/management (contd.)**	4. Broadbased nature of the company's Board of Directors 5. Dividend history and payout policy, etc. ■ Companies on which you have no knowledge of the management need further investigation.
#4	**Avoid cyclicality**	■ From the short-list of companies post the management filter, avoid cyclical businesses as far as possible. ■ Cyclicals may yield healthy returns over 3-5 years post emergence, but may not sustain their performance across cycles.
#5	**Reasonable valuation**	■ As the company is still emerging, risks of failing to endure Uncommon Profits is fairly high. Hence, it is important to buy into Emerging Value Creators at reasonable valuations. ■ We applied a P/E limit of not more than 20x last reported earnings.
#6	**List of likely Emerging Value Creators**	■ The residual companies are most likely to be Emerging Value Creators. ■ The list can be optimized by applying elements of the Value Creation checklist to further amplify portfolio performance as suggested in Section 2.3.1

We applied the above methodology to identify 17 Emerging Value Creators over the 8 years 2001 to 2008. Their post Emergence financial and stock market performance is summarized in the table below. In essence, the 2001-08 Emerging Value Creators' portfolio performed well both in terms of financial and stock market performance -

- Average PAT CAGR was 24% over 5 years post-emergence; average 5-year RoE was 32%.
- In terms of market performance, average stock return CAGR was 41% over the 5 years post-emergence, outperforming the benchmark by an average 24%.

2001 to 2008 Emerging Value Creators' financial and stock market performance highlights

Co_Name	Year of Emergence	Age in YoE	P/E in YoE	5-year post emergence (%) PAT CAGR	Avg RoE	Price CAGR	Rel Perf.
Shriram Transport	2001	22	1	56	28	85	60
Accelya Kale	2008	22	3	36	31	60	56
Shriram City Union	2004	18	3	45	24	70	58
GRUH Finance	2003	17	4	33	24	60	22
Plastiblends (I)	2004	13	4	1	20	4	-8
Manappuram Finance	2007	15	4	123	28	70	64
Havells India	2004	21	7	P to L	34	39	27
Cera Sanitaryware	2008	10	7	36	24	29	17
KPIT Tech	2004	14	8	36	30	4	-7
Blue Dart Express	2001	10	9	22	23	45	20
Titan Industries	2003	19	12	53	33	85	46
Hitachi Home	2006	22	12	14	41	22	11
Tata Elxsi	2001	12	16	20	43	23	-3
Emami	2007	24	18	31	35	33	27
Suprajit Engg.	2006	21	18	21	28	0	-12
IL&FS Invt Managers	2007	21	18	32	57	9	3
Asahi India Glass	2002	18	19	25	43	51	21
AVERAGE			**10**	**24**	**32**	**41**	**24**

P to L: Profit to Loss

2.3.1 Further optimizing the Emerging Value Creator methodology

The 24% outperformance of the Emerging Value Creators portfolio is in itself high. Still, there is room for optimization of such a list based on the Emerging Value Creator checklist. We found meaningful increase in return profile from 3 checklist items, which we may call "**Amplifiers**" -

- **Profit pool size:** Companies emerging from high profit pools (10 of above 17) delivered 37% outperformance v/s 4% for the others (7).
- **Nature of business:** Consumer Advantage companies (9 of 17) delivered 31% outperformance v/s 16% outperformance of Production Advantage companies (8).
- **Leadership:** Companies which were among top 3 players in their market (10 of 17) delivered 28% outperformance v/s 18% for non market leaders (7).

Further optimizing the Emerging Value Creator methodology with amplifiers

Checklist criteria	Number	5 years post-emergence (%)			
	of cos	PAT CAGR	Avg RoE	Price CAGR	Rel. Perf.
Profit Pool					
High	**10**	**26**	**29**	**55**	**37**
Low	7	21	37	20	4
Nature of business advantage					
Consumer	**9**	**21**	**34**	**46**	**31**
Production	8	27	30	34	16
Leadership i.e. among top 3 players					
Yes	**10**	**19**	**32**	**45**	**28**
No	7	31	32	34	18
Portfolio avg	**17**	**24**	**32**	**41**	**24**

Combining all the 3 criteria leads to a portfolio with an average 5-year return CAGR of 65% and benchmark outperformance of 43%. The optimized portfolio is presented below.

2001 to 2008 Emerging Value Creators' portfolio with amplifiers: 43% outperformance over 5 years

Company	P/E (x)	5 years post-emergence (%)			
	in YoE	PAT CAGR	Avg RoE	Price CAGR	Rel. Perf.
Manappuram Finance	4	123	28	70	64
Shriram Transport	1	56	28	85	60
Titan Industries	12	53	33	85	46
Havells India	7	P to L	34	39	27
Blue Dart Express	9	22	23	45	20
AVERAGE	**7**	**-**	**29**	**65**	**43**

2.4 Emerging Value Creators to bet on now

Having backtested the above methodology with good outcomes, we applied the same methodology during 2009 to 2013 to identify more recent Emerging Value Creators. The 5 names which we believe have potential are tabled below.

Emerging Value Creators to bet on now

(INR b)	FY13			1HFY14 Growth		Nov-13		
	PAT	RoE %	PAT Gr. %	Sales %	PAT %	Price (INR)	Mkt Cap	P/E (x)
With amplifiers								
Bajaj Finserv	15.7	24	18	33	36	739	118	7
Bajaj Corp	1.6	35	38	20	15	231	34	19
Zydus Wellness	1.0	44	43	9	29	544	21	20
Symphony	0.6	29	11	19	27	408	14	23
Others								
Cairn India	118.8	25	49	-2	6	324	619	5

3. Why Enduring Value Creators?

Low-risk strategy to outperform market over the long term

3.1 Opportunities to invest in Emerging Value Creators are rare

Our methodology to identify Emerging Value Creators (discussed in previous section) clearly suggested that successful Emergence is a rare phenomenon. During the 8 years 2001 to 2008, only 17 companies qualified as successful Emergence i.e. less than 2 every year. As a result, despite the huge Wealth Creation potential of Emerging Value Creators, it would be difficult to build a full-fledged investing strategy based on them alone. Hence, the need to consider investing in Enduring Value Creators which are far more in number.

As indicated at the outset, Enduring Value Creators indeed create significant wealth over medium- to long term despite being fully discovered and fairly discounted.

3.2 Investing in Enduring Value Creators too could go wrong

As in the case of Emerging Value Creators, here too, investors need to be wary of 5 major events which could cause investing in Enduring Value Creators to go wrong - (1) Sharp/ sudden increase in competitive intensity, (2) Disruptive innovation, (3) Governance lapse and/or capital misallocation, (4) Major regulatory changes, and (5) Excessive valuations.

Examples of investing in Enduring Value Creators going wrong

Event	Examples	Brief description
Sharp/sudden increase in competitive intensity	BHEL	■ 4-5 new players entered the BTG market, even as the market itself shifted to ultra mega projects
	Bharti Airtel	■ A flurry of new 2G licenses led to a major price war, badly hurting sector profitability
Disruptive innovation	Bajaj Auto (in late 1990s)	■ Launch of 100cc, highly fuel-efficient motorcycles virtually extinguished the market for scooters, Bajaj Auto's then bread-and-butter product
Governance lapse and/or capital misallocation	Satyam Computer	■ Exposure of fraudulent accounting eroded almost 98% of the stock's market capitalization from its peak valuation
	Mega global acquisitions - Corus by Tata Steel, Novelis by Hindalco	■ These mega global acquisitions were widely deemed by the market as capital misallocation, leading to a sharp fall in stock price. ■ In fact, post acquisitions, the Uncommon Profit levels of Tata Steel and Hindalco are sharply lower
Major regulatory changes	IOC, BPCL, HPCL, ONGC	■ The profitability of oil refining and marketing companies is severely hit by regulatory product pricing. Profitability of upstream player ONGC too is affected due to high level of subsidy sharing.
Excessive valuation	Infosys	■ In March 2000, Infosys' stock was valued at INR590b with P/E of 200x earnings. It took 7 years for the stock to reach those price levels again.

3.3 Our methodology to identify Enduring Value Creators

To identify investment-worthy Enduring Value Creators from the universe of listed companies, we applied a methodology which incorporates key aspects of our QGL formula (Quality, Growth, Longevity).

A suggested methodology to identify Enduring Value Creators

Step	Aspect covered	Methodology
#1	Quality, Longevity	■ Select companies which reported RoE > 15% for the last 10 consecutive years.
#2	Filter for quality of corporate-parent/ management	■ Shortlist companies where you have a favorable opinion of the corporate-parent / management. Some of the evaluation criteria would include: 1. Whether the corporate-parent is a multinational company or a large domestic corporate house with a reputation for good governance 2. Performance track record of other group companies, if any 3. Management statements made in investor communications (Annual Reports, results releases, etc) 4. Broadbased nature of the company's Board of Directors 5. Dividend history and payout policy
#3	Filter for growth	■ From the above list, filter companies with last 3-year PAT CAGR of over 15%
#4	Filter for value-enhancing growth	■ Next, filter companies with positive RoE delta over the last 5 years
#5	Valuation filter	■ Finally, of the shortlist arrived at based on above, invest in stocks with valuations not more than 50% premium to market i.e. P/Es typically not exceeding 30x

We backtested the above methodology for the 10-year period 1999 to 2008. 11 stocks qualified in 2008, and their financial and stock market performance is tabled below. In essence -

- Average portfolio return CAGR over FY08-13 works out to 24% i.e. a 20% outperformance over the market which returned only 4% over this period.
- FY08-13 average earnings CAGR is a robust 16% (7% for Sensex EPS), and average RoE for terminal year FY13 is a healthy 26%.

2008 Enduring Value Creators' financial and stock market performance highlights

Company	PAT (INR m)		2008-13				P/E (x)	
	2008	2013	PAT CAGR	Avg RoE	Price CAGR	Rel. Perf.	2008	2013
Berger Paints	0.9	2.2	19	24	40	36	12	31
Torrent Pharma	1.3	4.6	28	31	38	34	9	13
Asian Paints	4.1	10.9	22	42	33	29	28	43
Castrol India	2.2	4.5	15	73	27	23	20	33
Colgate-Palmolive	2.4	5.0	16	124	27	23	22	34
Marico	1.6	3.7	18	41	26	22	26	37
City Union Bank	1.0	3.2	26	22	25	21	7	8
H D F C	27.1	66.4	20	23	12	8	25	19
Wipro	32.1	59.7	13	27	11	7	19	18
Glenmark Pharma	6.3	6.1	-1	25	-1	-5	19	20
TOTAL / AVERAGE	**79.1**	**166.3**	**16**	**24**	**24**	**20**	**21**	**20**

3.4 Enduring Value Creators to bet on now

We applied the backtested methodology to identify Enduring Value Creators to currently bet on based on 10 years ending 2013. The shortlist is heavy on Financial & Banking names due to their beaten down valuations. A diversified set would be - **Torrent Pharma, HCL Technologies, M&M Financial Services, Zydus Wellness** and **HDFC Bank**.

Enduring Value Creators: Current investment consideration list; our preferred bets highlighted (%)

Company	2010-13 PAT CAGR	2003-13 Avg RoE	2008-13 Delta RoE	P/E (x)	Price (INR)	Mkt Cap (INR b)	Return CAGR 08-13	Return CAGR 03-13
City Union Bank	28	23	1	7	49	25	25	33
Axis Bank	28	20	1	10	1,155	542	11	42
Suprajit Engg	24	31	12	11	39	5	34	36
Shriram City Union	32	24	0	14	1,073	63	25	NA
Torrent Pharma	27	26	6	15	462	78	38	33
HCL Technologies	47	26	12	16	1,087	759	25	26
M & M Financial	36	22	6	17	296	168	28	NA
Zydus Wellness	28	37	23	20	544	21	38	NA
VST Industries	25	31	16	20	1,664	26	37	33
HDFC Bank	32	18	3	23	661	1,582	19	30
Astral Poly Technik	29	30	5	24	250	14	35	NA
GRUH Finance	28	27	9	26	233	42	47	54
ITC	21	29	7	34	320	2,539	25	31
Hindustan Unilever	16	77	16	40	594	1,286	17	10
Page Industries	42	62	27	44	5,265	59	51	NA

Note: Current Price and Market Cap as of end Nov-2013; P/E based on trailing 12-month earnings

4. Conclusions

Value Creators are a potent source of Wealth Creation

- 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.
- Large profit-pool industries, Consumer Advantage and Market leadership are major amplifiers of Value Creators' stock market performance.
- Endurance of Value Creators is mainly threatened by disruptive innovation/competition, major regulatory changes and capital misallocation.

Wealth Creation

2008-2013
The 18TH Annual Study

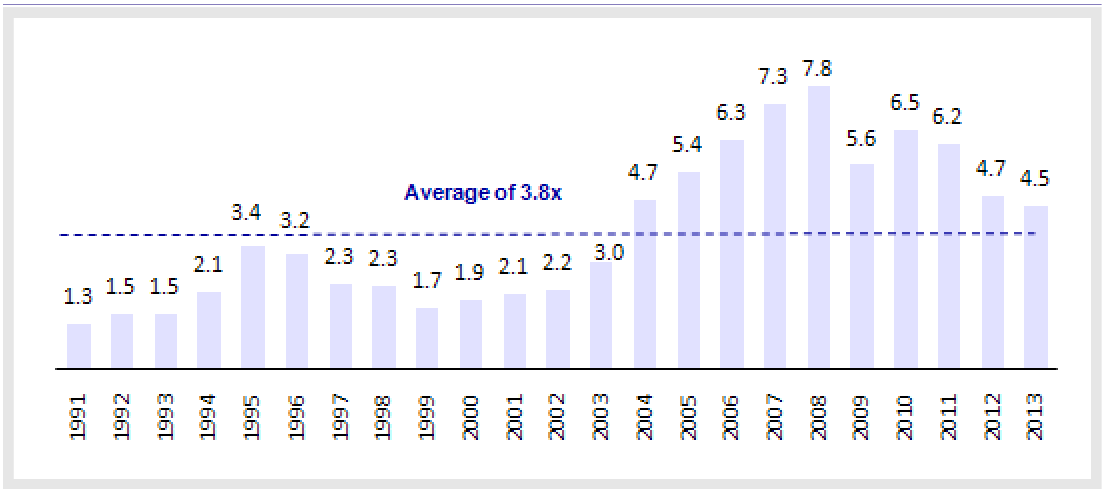
Market Outlook

Market Outlook

Corporate Profit to GDP

Corporate Profit in 2013-14 is likely to grow lower than the normal GDP growth rate of about 13-14%. It means Corporate Profit to GDP ratio will fall below 4.5% which is the last 10-year bottom.

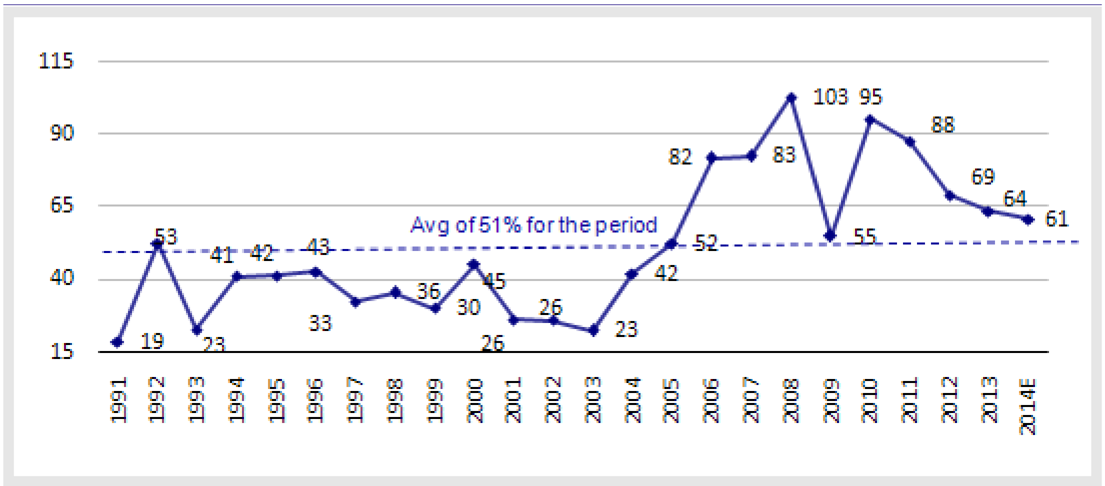
Corporate Profit to GDP (%)



Market Cap to GDP

Market Cap to GDP after hitting a peak of over 100% in 2008 and crashing to 55% in 2009, it is now trading at about 61% of current GDP (INR110 trillion). By this measure valuations are not stretched.

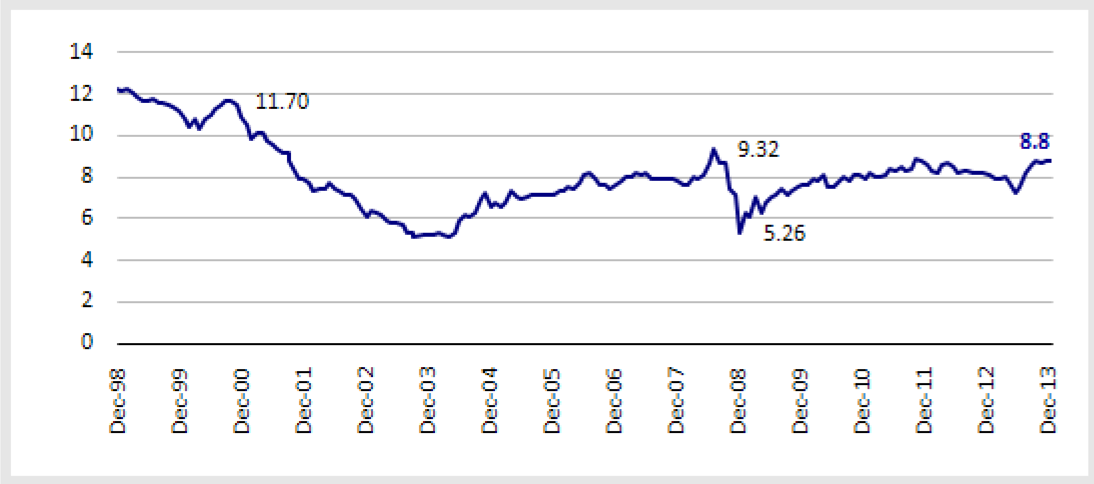
Market Cap to GDP (%)



Interest Rates

On the back of high inflationary pressure, interest rates have reached a recent high of about 9%. It is observed that typically correction is sharp.

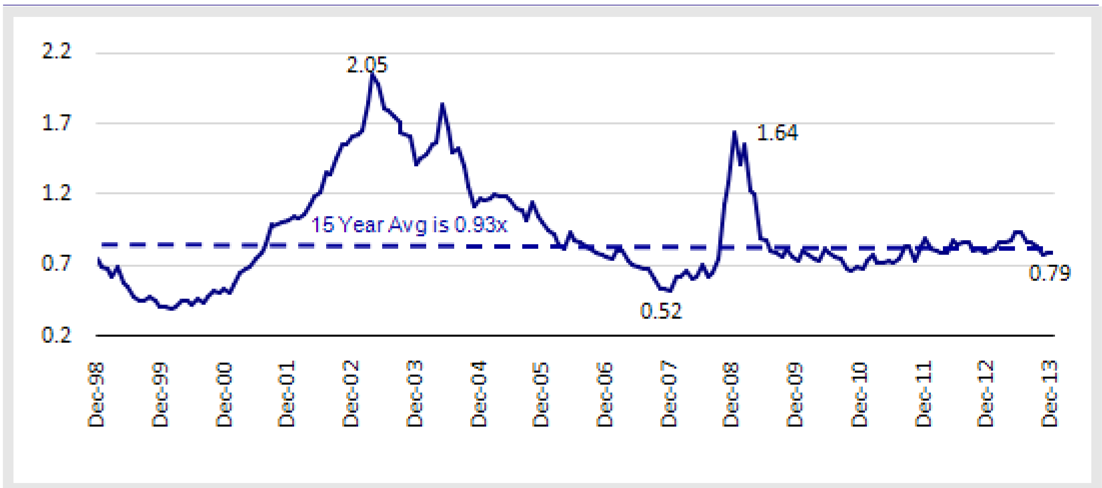
10-year G-Sec Yield (%)



Sensex Earnings to Bond Yield

Prevailing high interest rate is depressing the Sensex Earnings to Bond Yield to below parity at about 0.8x. It means that change in interest rates will have decisive impact on already recovering corporate earnings and market valuations. Thus, significant rise in the market will depend on the behaviour of interest rate.

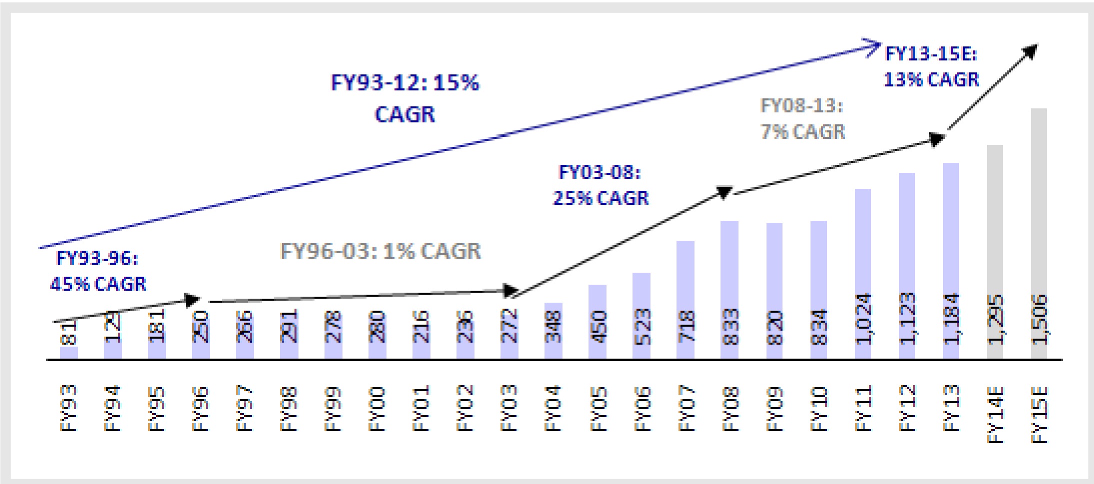
Sensex Earning Yield to Bond Yield (x)



Sensex Earnings

There is some pick-up in Sensex earnings growth from 5% in FY13 to about 10% in FY14 on the back of INR depreciation. In 2015, Sensex EPS is expected to grow upwards of 15%.

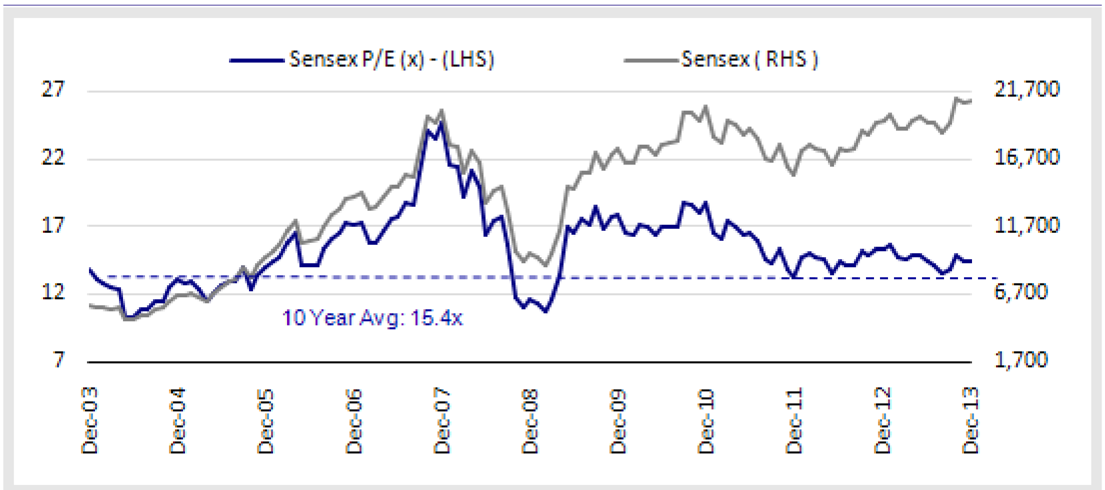
Sensex EPS



Sensex valuation

Current PE multiple is exactly at 10-year average of about 16x. This also indicates that broadly market is not overvalued.

Sensex P/E (x)



Conclusion

- Corporate profit to GDP is bottoming out at 4.5%.
- Interest rates are at high and earnings-to-bond yield at 0.8x.
- Corporate earnings growth has started to recover.
- Market cap to GDP at ~60% makes markets reasonably priced. Any drop in interest rates will have dramatic effect on equity returns.
- This presents favorable risk reward equation for long-term investing in Indian equities.

Wealth Creation

2008-2013
The 18TH Annual Study

Findings

#1 The Biggest Wealth Creators

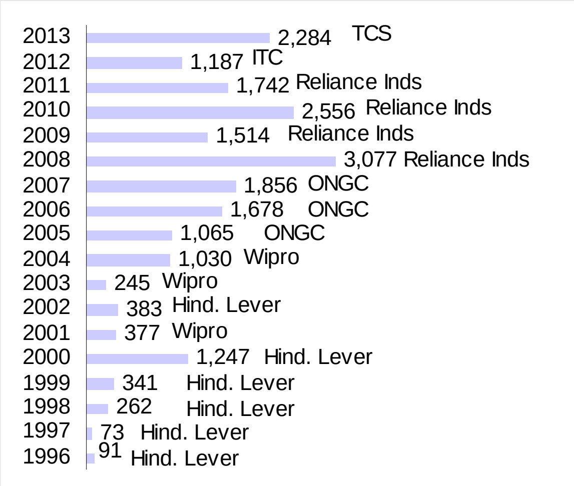
TCS is the Biggest Wealth Creator

- TCS is the biggest Wealth Creator for the period 2008-13 (financial year ending March). In effect, it has swapped places with ITC, which was the topper last year (i.e. for the period 2007-12) and TCS was a close runner-up.
- HDFC Bank has maintained its third rank, and Infosys has climbed up three notches to the fourth rank. Of the top 10 this year, 7 are the same as that of last year. Sun Pharma, ONGC and Wipro are new entrants at the expense of MMTC, SBI and Jindal Steel.
- In a startling development, Reliance, which was the biggest Wealth Creator for five consecutive years till as recent as 2011, has turned out to be the biggest Wealth Destroyer during the period 2008-13 (see page 40).

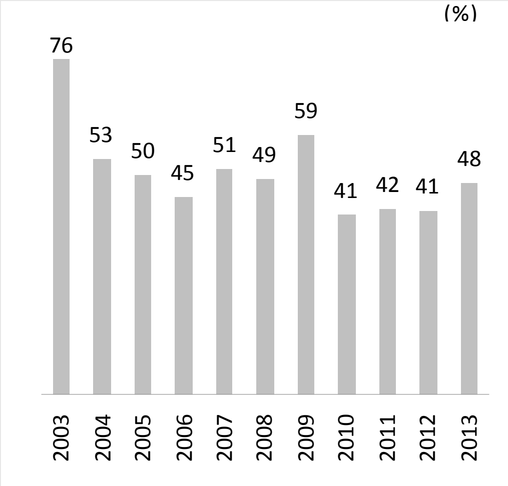
Top 10 Biggest Wealth Creators (2008-2013)

Rank	Company	Wealth Created		CAGR (%)		P/E (x)		RoE (%)	
		(INR b)	% Share	Price	PAT	FY13	FY08	FY13	FY08
1	TCS	2,284	12.4	31	23	22	16	37	41
2	ITC	1,635	8.9	25	19	32	24	33	26
3	HDFC Bank	872	4.7	19	34	22	29	19	14
4	Infosys	839	4.6	15	15	18	18	25	34
5	Sun Pharma.Inds.	592	3.2	27	17	24	16	23	31
6	O N G C	567	3.1	5	3	11	10	16	26
7	H D F C	559	3.0	12	18	23	29	17	19
8	Tata Motors	518	2.8	17	35	9	11	26	26
9	Hind. Unilever	516	2.8	15	15	26	26	134	127
10	Wipro	469	2.5	11	14	17	19	23	28
	Total/Avg of above	**8,851**	**48**	**18**	**15**	**18**	**16**	**23**	**27**
	Total of Top 100	**18,413**	**100**	**17**	**16**	**15**	**14**	**19**	**21**

Biggest wealth creators and wealth created (INR b): TCS brings IT back to the fore after 9 years



Share of wealth creation by top 10 higher, suggesting market was selective in 2008-13



Key Takeaway #1

Seven of the top 10 Wealth Creators during 2008-13 are non-cyclicals - two domestic Consumer companies and five global non-cyclicals (including Tata Motors which is more of a play on its UK subsidiary, JLR). Most of these companies have seen re-rating of valuation, whereas that of stalwarts like HDFC and HDFC Bank slipped. IT, Pharma and Consumer are the key sectors to bet on in times of general economic slowdown.

#2 The Fastest Wealth Creators

TTK Prestige is the Fastest Wealth Creator again

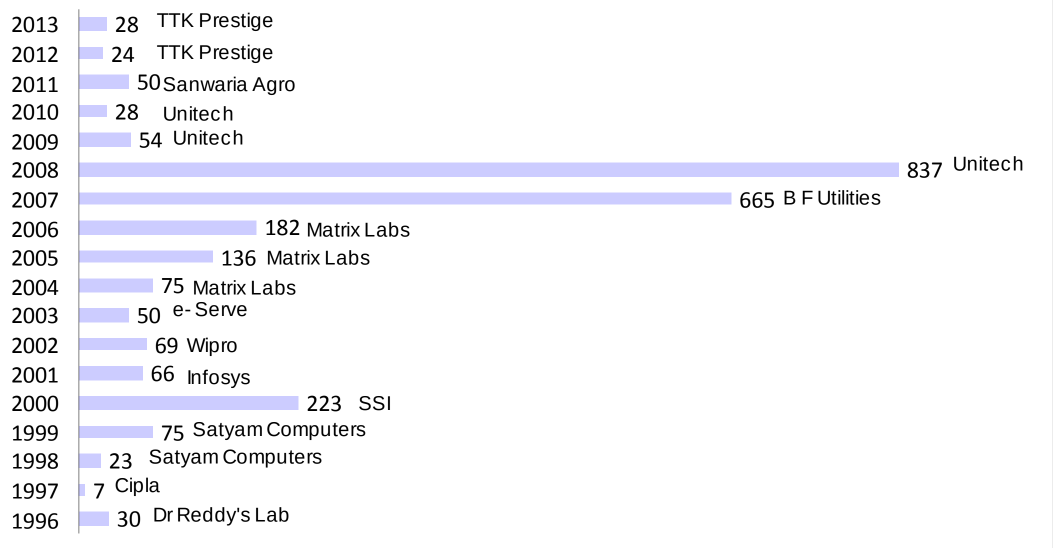
- TTK Prestige has once again emerged as the fastest Wealth Creator between 2008 and 2013, during which period, its stock price multiplied 28x, translating into annualized return of 95% i.e. almost double every year.
- Besides TTK Prestige, Eicher Motors and GSK Consumer are the only companies from the previous study which have managed to retain their position among the top 10 Fastest Wealth Creators.
- If only these 10 stocks were held as a portfolio in 2008, the average price CAGR for the next 5 years would have been an astronomical 53% compared to 4% CAGR of BSE Sensex.

Top 10 Fastest Wealth Creators

Rank		Price Multiple (x)	CAGR (%) Price	CAGR (%) PAT	Wealth Created (INR b)	Mkt Cap (INR b) 2013	Mkt Cap (INR b) 2008	P/E (x) 2013	P/E (x) 2008
1	TTK Prestige	28	95	45	35	37	1	28	6
2	Eicher Motors	10	59	54	63	69	7	14	13
3	Page Industries	8	51	36	32	37	5	33	20
4	Wockhardt	8	50	33	191	220	29	14	8
5	Grasim Inds	8	50	2	168	258	236	7	7
6	GRUH Finance	7	47	28	32	38	5	26	12
7	GlaxoSmith C H L	7	47	22	150	176	26	40	16
8	Supreme Inds.	6	45	38	33	40	7	15	13
9	Lupin	6	45	27	237	282	41	21	10
10	Godrej Consumer	6	44	40	204	265	32	31	20

Note: Grasim's Mkt Cap (and PAT) remained flat over 2008-13 due to the demerger of Cement division into UltraTech. The mcap of UltraTech has been considered while calculating Grasim's price appreciation.

Of all the fastest wealth creators since 1999, this year is the slowest! (Price Appreciation - X)



Key Takeaway #2

Nine of the top 10 Fastest Wealth Creators had a market cap of less than INR50b in 2008. In fact, five of them were below INR10b. Seven of the top 10 were below 15x P/E in 2008. Thus, mid- and small-cap companies with the right business model, able management and bought at reasonable valuation deliver handsome returns irrespective of economic and stock market conditions.

#3 Most Consistent Wealth Creating Companies

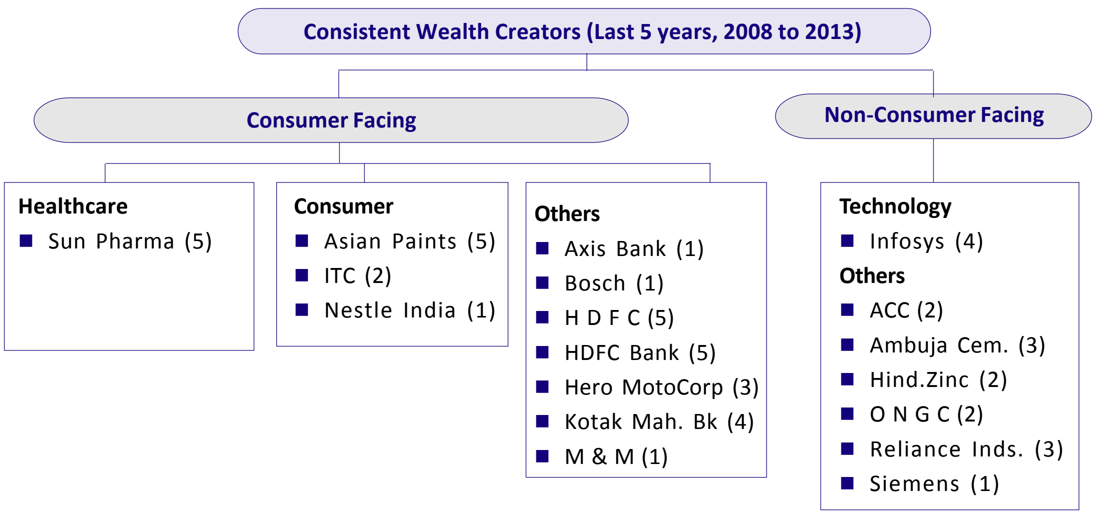
Asian Paints is the Most Consistent Wealth Creator

- Asian Paints has emerged as the Most Consistent Wealth Creator, having appeared in all past 10 Wealth Creation studies, and with the highest price CAGR of 36% (2004-13).
- The topper for last two years - Kotak Mahindra Bank - is in second place with price CAGR fractionally lower than that of Asian Paints.
- Given low cyclicality, consumer facing companies (both goods and services) are better placed to appear in the list of Most Consistent Wealth Creators. Notable exceptions this year are Hindustan Zinc and Bosch. Hindustan Zinc has benefited from the commodity cycle boom and change in management. Bosch's stock performance remains upbeat on the back of the parent's buyback offer, with a view to delist the stock.

Top 10 Consistent Wealth Creators

Rank	Company	Appeared in WC Study (x)	2004-13 Price CAGR %	2004-13 PAT CAGR %	P/E (x) 2013	P/E (x) 2004	RoE (%) 2013	RoE (%) 2004
1	Asian Paints	10	36	25	43	20	32	27
2	Kotak Mah. Bank	10	36	33	22	14	14	14
3	Sun Pharma.Inds.	10	33	30	25	20	22	39
4	Hind.Zinc	10	32	32	8	8	20	35
5	ITC	10	27	18	33	16	32	25
6	Axis Bank	10	27	39	12	12	16	25
7	HDFC Bank	10	26	34	22	21	19	19
8	M & M	10	25	28	14	13	19	20
9	Bosch	10	23	26	19	19	21	22
10	H D F C	10	22	16	34	22	16	26

Consumer facing companies score high on Consistent Wealth Creation



Number in brackets indicates times appeared within top 10 in last five Wealth Creation Studies

Key Takeaway #3

Consistent Wealth Creators are also consistent Value Creators i.e. their return on equity is consistently higher than cost of equity. (In India, cost of equity is ~15% i.e. the long-period return on benchmark index).

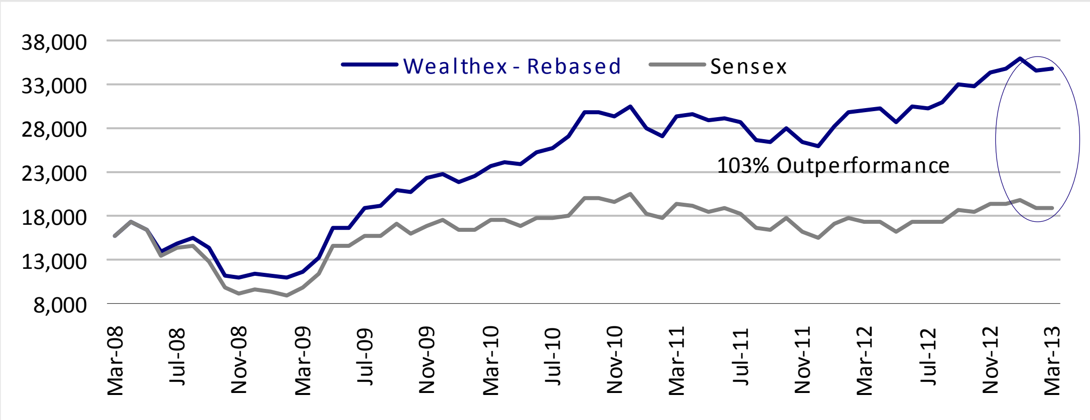
#4 Wealth Creators (Wealthex) v/s BSE Sensex

Superior and more consistent performance over benchmark

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

- **Market performance:** Over the last five years, wealth creating companies have delivered point-to-point return CAGR of 17% against only 4% for the BSE Sensex.
- **Earnings growth:** Over the last five years, wealth creating companies clocked earnings CAGR of 16% compared to benchmark earnings CAGR of only 7%.
- **Valuation:** Wealth creating companies' aggregate P/E in March 2008 was at a 24% discount to the Sensex, which over the next five years narrowed to only 5%. Higher-than-benchmark earnings growth combined with valuation re-rating led to significantly superior returns over benchmark.

Wealth Creators' Index v/s BSE Sensex (March 2008 to March 2013)



Sensex v/s Wealth Creators: Higher earnings growth, lower valuation

	Mar-08	Mar-09	Mar-10	Mar-11	Mar-12	Mar-13	5-year CAGR (%)
BSE Sensex	**15,644**	**9,709**	**17,528**	**19,445**	**17,404**	**18,836**	**4**
YoY performance (%)		(38)	81	11	(10)	8	
Wealthex - based to Sensex	**15,644**	**11,683**	**23,611**	**29,395**	**29,952**	**34,891**	**17**
YoY performance (%)		(25)	102	24	2	16	
Sensex EPS (INR)	**833**	**820**	**834**	**1,024**	**1,123**	**1,190**	**7**
YoY performance (%)		(2)	2	23	10	6	
Wealthex EPS (INR)	**1,099**	**1,049**	**1,435**	**1,883**	**2,047**	**2,313**	**16**
YoY Performance (%)		(5)	37	31	9	13	
Sensex PE (x)	19	12	21	19	15	16	
Wealthex PE (x)	**14**	**11**	**16**	**16**	**15**	**15**	

Key Takeaway #4

Wealth Creators defy the commonly heard maxim in equity markets - "High return, high risk". At the time of purchase, Wealth Creators' P/E is lower than benchmark (i.e. lower risk), and yet returns are higher. As Van Den Berg has said, "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 right price - absolutely none."

#5 Wealth Creation Classification by Industry

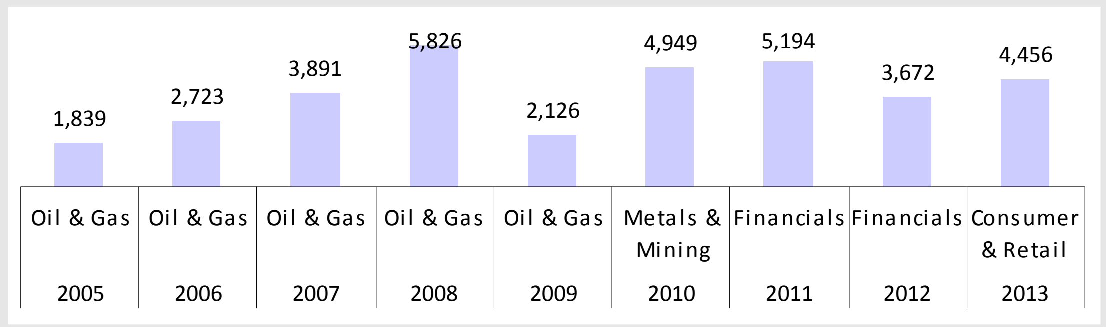
Consumer & Retail emerges as the largest Wealth Creating sector

- For the first time since 1999, Consumer & Retail sector has emerged as the largest Wealth Creator, with over INR4.4t of wealth created. Technology sector came in a close second at INR4.2t.
- Both Consumer and Technology sectors have increased their share of Wealth Created from ~5% in 2008 to a massive 23-24% in 2013. Even as markets were flat, both sectors have seen average price CAGR of 21-25%.
- Consumer and Technology have beaten the erstwhile two-time leader Financials in Wealth Creation. Interestingly, over 2008-13, PAT CAGR for Consumer and Technology at 19% is lower than that of Financials at 22%. However, both these sectors have seen significant re-rating in valuation, as India's growth uncertainty led to "flight to safety" towards domestic secular (Consumer) and global secular (Technology). In contrast, Financials actually saw a de-rating in valuations (P/E down from 15x in 2008 to 11x in 2013).

Wealth Creators - Classification by industry: Consumer is king! (INR b)

Industry (No of Companies)	Wealth Created (INR b)	Share of Wealth Created (%) 2013	Share of Wealth Created (%) 2008	CAGR (%) Price	CAGR (%) PAT	P/E (x) 2013	P/E (x) 2008	RoE (%) 2013	RoE (%) 2008
Consumer & Retail (24)	4,456	24	5	25	19	33	26	33	33
Technology (7)	4,197	23	5	21	19	19	17	27	32
Banking & Finance (23)	3,605	20	13	15	22	11	15	16	14
Healthcare (14)	1,935	11	3	25	19	22	17	20	23
Auto (11)	1,679	9	3	22	21	13	13	22	26
Oil & Gas (5)	1,080	6	23	6	7	10	10	15	19
Cement (5)	691	4	2	14	4	14	9	18	37
Metals / Mining (2)	335	2	17	20	10	8	5	19	36
Media (3)	156	1	1	12	34	31	78	21	8
Others (4)	150	1	18	35	40	10	11	36	22
Capital Goods (2)	130	1	10	19	24	16	20	35	24
Total	**18,413**	**100**	**100**	**17**	**16**	**15**	**14**	**19**	**21**

Top Wealth Creating sector: Consumer & Retail makes a comeback after a long time (INR b)



Key Takeaway #5

Technology sector is poised to emerge as India's largest Wealth Creator in the near future (TCS is already India's largest market cap company). The current leader, Consumer, enjoys average P/E multiples of 33x, which is over 2x the market average of 15x. This leaves little room for further re-rating. In contrast, Technology sector is valued at 19x, which is reasonable considering its high PAT CAGR coupled with higher-than-average RoE.

#6 Wealth Creation by Ownership – PSU v/s Private

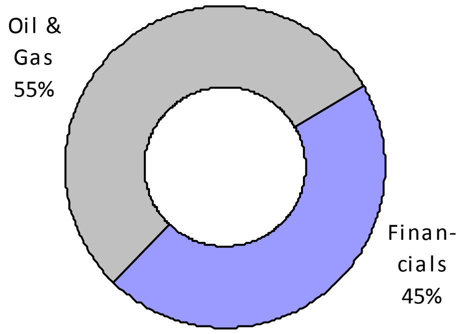
PSUs hit the floor in Wealth Creation

- PSUs' (public sector undertakings) Wealth Creation performance during 2008-13 seems to have hit the floor:
  - The number of PSUs in the top 100 Wealth Creators is at an all-time low of only 11.
  - Wealth Created by these 11 PSUs is also at an all-time low of 9% of the total.
- Most interestingly, PSUs from only two sectors featured in the top Wealth Creators list - Oil & Gas and Financials. Thus, PSUs have lost out on their erstwhile wealth creating presence in sectors like Utilities, Metals & Mining and Capital Goods.
- Average P/E of PSU Wealth Creators at 9x is half that of their private counterparts. This is because on every single parameter - sales CAGR, PAT CAGR, RoE - PSUs have significantly underperformed private companies during 2008-13.

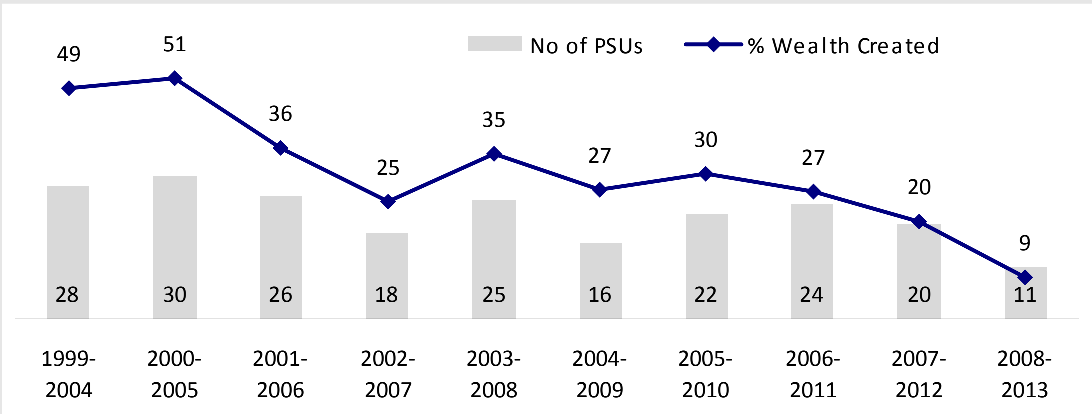
PSUs have underperformed on every parameter

	2008-2013	
	PSU	Private
No. of Wealth Creators in Top 100	11	89
Share of Wealth Created (%)	9	91
5-year Sales CAGR (%)	17	22
5-year PAT CAGR (%)	7	21
5-year Price CAGR (%)	8	20
RoE - 2008 (%)	20	21
RoE - 2013 (%)	14	22
P/E - 2008 (x)	9	18
P/E - 2013 (x)	9	18

PSUs Wealth Creation by Sectors: No erstwhile presence in Utilities, Metals & Mining, Capital Goods



PSUs' Wealth Creation performance during 2008-13 at a new low



Key Takeaway #6

Wealth migration follows Value Migration. Over the years, value has migrated from PSUs to private companies across sectors - Banking, Telecom, Oil & Gas, Metals & Mining, Utilities, Capital Goods etc. This arguably lends further support to the maxim, "The government has no business to be in business."

#7 Wealth Creation by Age and Market Cap

"In youth we learn, in age we understand." - Marie von Ebner-Eschenbach

- Pace of Wealth Creation is fairly agnostic to age of companies. Younger companies start off on a low base and manage to deliver high rates of growth. However, markets are reasonably efficient in pricing these growth rates upfront. Hence, although PAT growth rates vary across age groups, the price CAGR is much more homogenous and hovers around the average overall return of 17%.

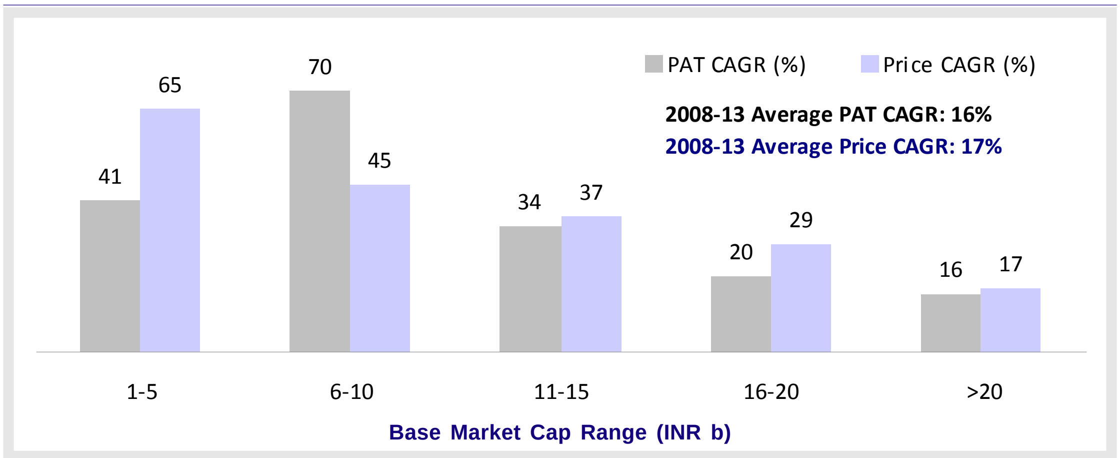
Wealth Creators: Classification by age-group

Age range	No. of cos	Wealth Created (INR b)	% Share of WC	CAGR (%) Price	CAGR (%) PAT	P/E (x) 2013	P/E (x) 2008	RoE (%) 2013	RoE (%) 2008
1-20	28	7,333	40	18	20	15	16	20	18
21-40	32	4,126	22	18	18	18	18	20	23
41-60	16	1,877	10	13	7	12	9	14	19
Above 61	24	5,077	28	19	16	16	14	20	26
Total	**100**	**18,413**	**100**	**17**	**16**	**15**	**14**	**19**	**21**

Small is beautiful ... and fast!

- Unlike younger companies, smaller companies (based on market cap of base year) seem to have an edge in faster wealth creation. Data for 2008-13 suggests a clear inverse relation between base market cap and stock returns i.e. smaller the company, higher the returns.
- Two of the top three fastest growing Wealth Creators (TTK Prestige and Page Industries) had a market cap of under INR5b in 2008. The two combined delivered a high 65% price CAGR over 2008-13.

Price CAGR and PAT CAGR by base market cap range



Key Takeaway #7

Our theme study this year (see page 5) also touches on the role of age and size in Wealth Creation. Many young companies emerge into the Value Creation zone i.e. RoE of 15% or higher. If led by a good management, these companies are likely to sustain their above-cost-of-equity performance for several years. In the process, they deliver huge shareholder returns.

#8 Wealth Creation by earnings growth and RoE

Earnings growth determines pace of equity returns...

- Earnings growth is a key driver of stock price appreciation. High earnings growth can even offset some valuation de-rating and deliver above-average equity returns.
- During 2008-13, companies which delivered above-average earnings growth also delivered above-average stock price returns.
- Interestingly, the market seems to be more efficient in factoring a quantum jump in earnings (e.g. turnarounds) rather than steady-state earnings growth. Thus, during 2008-13, 9 companies combined delivered 115% PAT CAGR. However, as much of this was priced in (high P/E in 2008), average price CAGR was only 18%.

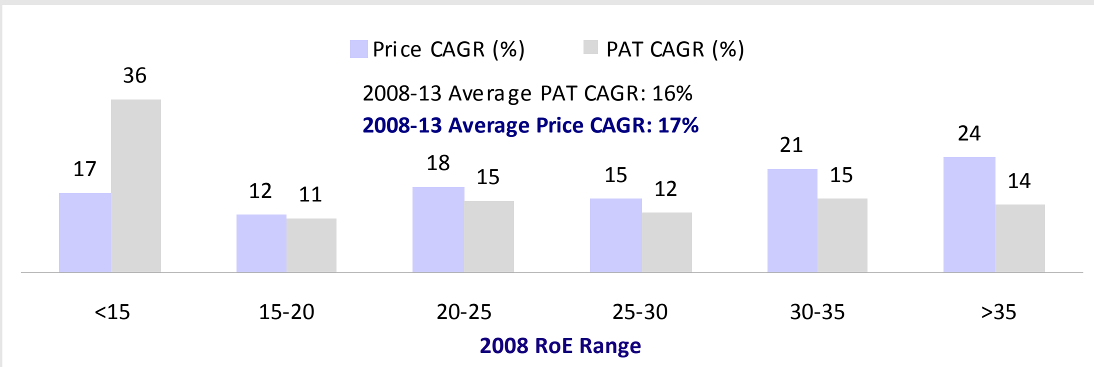
Wealth Creators: Classification by PAT Growth

PAT Growth Range	No. of cos	Wealth Created (INR b)	% Share of WC	CAGR (%)		P/E (x)		RoE (%)	
				Price	PAT	2013	2008	2013	2008
<10	18	2,189	12	8	1	13	9	14	25
10-20	30	7,057	38	16	16	17	16	20	22
20-30	27	5,414	29	**25**	**24**	**18**	**18**	**21**	**16**
30-40	16	3,081	17	**27**	**34**	**13**	**18**	**22**	**19**
>40	9	673	4	18	115	7	133	25	1
Total	**100**	**18,413**	**100**	**17**	**16**	**15**	**14**	**19**	**21**

...and earnings power determines longevity

- In 2008-13, companies with RoE greater than 30% had PAT CAGR of only 14-15%. Still, they delivered higher stock returns than those with RoE less than 15%, despite the latter's high PAT CAGR of 36%.
- Companies with high earnings power (captured by RoE and RoCE) are most likely to enjoy some form of Economic Moat (i.e. competitive advantage), which is unlikely to be easily breached by competition.
- Besides pace of earnings growth, markets also value longevity of earnings. Thus, companies with above-average earnings power are likely to outperform markets even if their earnings growth is in line with average.

Price CAGR and PAT CAGR by RoE range



Key Takeaway #8

Sustained Value Creation (i.e. earning above cost of capital) is the basis of sustained wealth creation. Our theme study on Emergence & Endurance of uncommon profits (see page 5) suggests that identifying Value Creators early leads to superior stock market returns.

#9 Wealth Creators by Valuation Parameters

Unusual times defy time-tested thumb-rules ... except Payback Ratio

- In almost each of our past Wealth Creation studies, the key valuation indicators for multi-baggers are - (1) P/E < 10x, (2) Price/Book < 1x, (3) Price/Sales <= 1x and (4) Payback Ratio < 1x. (Payback is a proprietary ratio of Motilal Oswal, defined as current market cap divided by estimated profits over the next five years. We back-test this in 2007, based on the actual profits reported over the next five years).

Wealth Creators: Classification by Valuation Parameters (March 2008)

Range	No. of cos	Wealth Created (INR b)	% Share of WC	CAGR (%) Price	CAGR (%) PAT	P/E (x) 2013	P/E (x) 2008	RoE (%) 2013	RoE (%) 2008
P/E - 2008									
<10	22	2,616	14	16	14	9	8	16	18
10-15	21	2,683	15	11	11	11	11	17	22
15-20	23	5,850	32	22	19	20	17	25	30
20-25	15	3,048	17	23	20	27	23	24	22
25-30	11	3,244	18	16	25	19	27	19	14
>30	8	971	5	24	26	36	40	17	17
Total	**100**	**18,413**	**100**	**17**	**16**	**15**	**14**	**19**	**21**
P/B - 2008									
<1	3	213	1	22	30	8	11	14	10
1-2	18	1,954	11	10	16	8	11	15	14
2-3	20	2,863	16	13	11	12	11	18	25
3-4	19	1,901	10	21	20	16	15	18	23
4-5	8	1,936	11	23	25	20	21	23	20
5-6	8	2,805	15	16	16	20	20	20	28
>6	24	6,741	37	25	19	28	22	34	38
Total	**100**	**18,413**	**100**	**17**	**16**	**15**	**14**	**19**	**21**
P/S - 2008									
<1	20	1,904	10	19	12	10	7	15	20
1-2	26	2,779	15	17	16	12	11	17	20
2-3	26	3,736	20	13	12	14	13	17	21
3-4	10	3,888	21	21	16	22	18	30	36
4-5	7	2,533	14	19	23	19	23	21	23
>5	11	3,572	19	18	29	19	30	23	13
Total	**100**	**18,413**	**100**	**17**	**16**	**15**	**14**	**19**	**21**
Payback Ratio									
<1	24	2,210	12	24	22	9	8	18	22
1-2	39	7,557	41	16	14	13	12	18	20
2-3	25	6,618	36	18	17	21	20	21	19
>3	12	2,028	11	16	15	30	29	24	27
Total	**100**	**18,413**	**100**	**17**	**16**	**15**	**14**	**19**	**21**

Key Takeaway #9

2008-13 was an unusually tough time, both for the Indian economy and stock markets. So, most time-tested thumb-rules of valuation were turned on their head. Given flight to high quality and extreme safety, the highest P/E and P/B stocks (typically Consumer, Technology and Healthcare) delivered the highest returns during the period. However, the Payback Ratio of less than 1x proved itself to be the most reliable indicator for high stock returns, irrespective of economic and market conditions.

#10 Wealth Destroyers

Wealth destroyed during 2008-13 at unprecedented high

- The 2008-13 period saw unprecedented Wealth Destruction of over INR17t, almost entirely wiping out the total Wealth Created by top 100 companies (the figure in last year's study was 33%; during the peak of market boom in 2003-08, Wealth Destruction was negligible).
- The irony is that the biggest Wealth Destroyer during this period is none other than Reliance Industries -- five times consecutive biggest Wealth Creator from 2007 to 2011.
- Five of the top 10 Wealth Destroyers are public sector undertakings.
- One-third of the Wealth Destroyed can be attributed to three broad ownership groups - Reliance (Mukesh Ambani), Reliance (Anil Ambani) and Government of India.

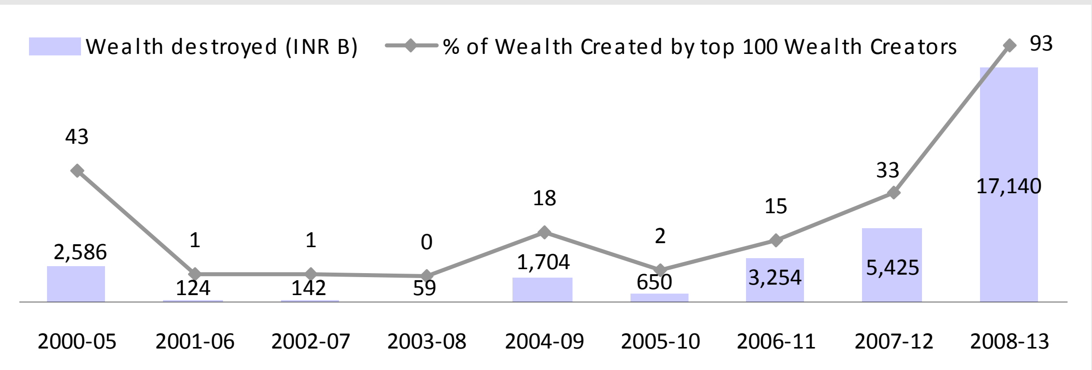
Top-10 Wealth Destroyers (2008-2013)

Company	Wealth Destroyed (INR b)	Wealth Destroyed % Share	Price CAGR (%)
Reliance Industries	1,128	7	-7
Reliance Communication	921	5	-36
MMTC	891	5	-29
NMDC	822	5	-17
DLF	703	4	-18
Reliance Power	619	4	-21
B H E L	574	3	-16
S A I L	506	3	-20
Bharti Airtel	460	3	-7
NTPC	454	3	-6
Total of Above	**7,077**	**41**	
Total Wealth Destroyed	**17,140**	**100**	

Wealth Destruction by Industry (%)

Sector	No of Cos	Wealth Destroyed (INR b)	Wealth Destroyed % Share
Metals / Mining	124	2,896	17
Capital Goods	161	1,895	11
Construction / Real Estate	102	1,805	11
Telecom	23	1,693	10
Utilities	14	1,678	10
Oil & Gas	11	1,520	9
Technology	156	1,519	9
Banking & Finance	194	679	4
Textiles	164	318	2
Media	49	173	1
Auto	87	156	1
Chemicals & Fertilizers	93	148	1
Healthcare	66	137	1
Sugar	30	134	1
Others	430	2,390	14
Total	**1,704**	**17,140**	**100**

Wealth Destroyed during 2008-13 at unprecedented high



Key Takeaway #10

The stock market's perception of ineffective management (including capital mis-allocation, consistent failure to deliver on guidance, low dividend payout etc) is a major source of Wealth Destruction. When the market is disappointed, it does not spare even those stocks which were its darlings till recently.

Wealth Creation

2008-2013
The 18TH Annual Study

Appendix

Appendix I: MOSL 100 – Biggest Wealth Creators

Ranked according to amount of Wealth Created

		Wealth Created		CAGR (2008-13, %)			RoE (%)		P/E (x)	
Rank	Company	INR b	Share (%)	Price	PAT	Sales	2013	2008	2013	2008
1	TCS	2,284	12.4	31	23	23	37	41	22	16
2	ITC	1,635	8.9	25	19	17	33	26	32	24
3	HDFC Bank	872	4.7	19	34	29	19	14	22	29
4	Infosys	839	4.6	15	15	19	25	34	18	18
5	Sun Pharma	592	3.2	27	17	27	23	31	24	16
6	O N G C	567	3.1	5	3	11	16	26	11	10
7	H D F C	559	3.0	12	18	33	17	19	23	29
8	Tata Motors	518	2.8	17	35	40	26	26	9	11
9	Hindustan Unilever	516	2.8	15	15	14	134	127	26	26
10	Wipro	469	2.5	11	14	13	23	28	17	19
11	HCL Technologies	380	2.1	26	31	28	31	25	14	16
12	Asian Paints	356	1.9	33	22	20	34	44	41	27
13	M & M	327	1.8	20	15	25	18	30	15	9
14	ICICI Bank	316	1.7	6	27	6	15	7	12	28
15	Nestle India	299	1.6	25	21	19	59	99	41	35
16	State Bank of India	293	1.6	5	15	19	15	15	8	11
17	Hinustan Zinc	289	1.6	18	9	10	21	37	7	5
18	UltraTech Cement	276	1.5	19	22	31	18	37	19	10
19	Kotak Mahindra Bank	249	1.4	16	18	24	14	16	22	23
20	Lupin	237	1.3	45	27	29	26	32	21	10
21	Axis Bank	215	1.2	11	38	31	16	12	12	26
22	Godrej Consumer	204	1.1	44	40	42	26	93	31	20
23	Dr Reddy's Labs	199	1.1	24	28	19	24	10	20	23
24	Cairn India	194	1.1	4	L to P	77	25	0	4	-
25	Wockhardt	191	1.0	50	33	16	66	30	14	8
26	Titan Inds	181	1.0	37	37	27	37	33	31	32
27	Hero Motocorp	170	0.9	17	17	18	42	32	15	14
28	Bosch	168	0.9	20	9	15	17	24	30	19
29	Grasim Inds	168	0.9	50	2	10	19	37	7	7
30	GSK Consumer	150	0.8	47	22	20	32	25	40	16
31	I O C L	150	0.8	5	-16	15	6	20	19	6
32	IndusInd Bank	147	0.8	39	70	30	14	7	20	34
33	Dabur India	143	0.8	20	18	21	36	54	31	28
34	Oracle Financial	135	0.7	22	21	8	15	15	20	19
35	Bank of Baroda	134	0.7	19	25	25	14	14	6	7
36	United Breweries	128	0.7	30	26	20	12	17	107	74
37	Cipla	127	0.7	12	17	16	17	19	20	24
38	Castrol India	127	0.7	39	15	10	69	51	35	14
39	B P C L	121	0.7	13	0	17	12	15	14	8
40	Cadila Healthcare	119	0.6	34	21	23	23	25	22	12
41	Colgate-Palmolive	118	0.6	27	16	16	101	141	34	22
42	Maruti Suzuki	113	0.6	9	7	20	13	20	15	14
43	Shree Cement	104	0.6	30	31	22	26	39	14	14
44	Pidilite Inds	101	0.5	32	20	17	26	28	32	20
45	GSK Pharma	97	0.5	16	1	11	28	40	33	16
46	Yes Bank	91	0.5	20	45	45	22	15	12	25
47	Marico	91	0.5	26	19	19	20	54	34	24
48	REC	88	0.5	14	35	31	22	16	5	11
49	Zee Entertainment	85	0.5	11	12	15	18	15	28	25
50	Ambuja Cements	81	0.4	7	-7	11	15	38	21	10

Appendix I: MOSL 100 – Biggest Wealth Creators (contd.)

Ranked according to amount of Wealth Created

		Wealth Created		CAGR (2008-13, %)			RoE (%)		P/E (x)	
Rank	Company	INR b	Share (%)	Price	PAT	Sales	2013	2008	2013	2008
51	Shriram Transport	81	0.4	16	30	23	20	21	11	17
52	Apollo Hospitals	78	0.4	27	29	25	11	6	39	37
53	LIC Housing Finance	75	0.4	32	22	29	16	21	11	6
54	Cummins India	75	0.4	17	21	11	32	24	18	21
55	Motherson Sumi	72	0.4	22	21	66	20	33	25	22
56	M & M Financial	70	0.4	28	39	27	20	14	12	15
57	Emami	69	0.4	33	28	24	40	31	29	20
58	United Spirits	67	0.4	5	P to L	18	-2	15	-	50
59	Piramal Enterprises	67	0.4	15	P to L	4	-2	31	-	19
60	ACC	63	0.3	7	-6	10	14	34	21	11
61	Eicher Motors	63	0.3	59	54	23	27	13	14	13
62	P & G Hygiene	59	0.3	29	9	21	25	38	40	17
63	Canara Bank	58	0.3	11	10	19	13	21	6	5
64	Punjab NatlBank	57	0.3	7	18	24	15	18	5	8
65	Berger Paints	55	0.3	40	19	19	23	26	31	12
66	Havells India	55	0.3	23	29	9	40	23	14	17
67	Ipca Labs	51	0.3	34	18	21	21	24	20	11
68	Exide Inds	51	0.3	14	16	14	18	33	20	21
69	Tech Mahindra	49	0.3	8	20	13	15	26	17	26
70	Petronet LNG	49	0.3	14	19	37	26	29	9	11
71	Divi's Lab	48	0.3	9	12	16	24	40	22	24
72	Kansai Nerolac	47	0.3	28	20	15	23	20	23	17
73	Torrent Pharma	47	0.3	38	26	19	31	26	14	9
74	Bhushan Steel	45	0.2	29	16	21	10	26	11	7
75	Federal Bank	45	0.2	17	19	20	14	9	10	10
76	Blue Dart Express	44	0.2	36	22	22	29	22	29	17
77	Sanofi India	42	0.2	27	4	13	15	21	34	12
78	CRISIL	42	0.2	23	21	19	42	30	28	27
79	MphasiS	41	0.2	14	25	17	18	22	10	16
80	Strides Arcolab	39	0.2	38	L to P	25	42	-25	6	-
81	Shriram City Union	39	0.2	25	39	38	20	21	13	17
82	Bayer Crop Science	38	0.2	39	88	19	60	13	4	19
83	Gillette India	37	0.2	18	-6	19	13	28	75	24
84	Sun TV Network	37	0.2	6	18	17	25	22	22	37
85	Bata India	37	0.2	38	33	16	26	19	27	23
86	Sundaram Finance	37	0.2	27	18	20	21	22	9	7
87	ING Vysya Bank	36	0.2	10	30	24	14	12	14	21
88	Amara Raja Batteries	36	0.2	34	25	22	27	28	16	12
89	TTK Prestige	35	0.2	95	45	33	34	31	28	6
90	Gitanjali Gems	35	0.2	22	28	28	16	9	9	11
91	Union Bank	34	0.2	9	9	22	13	25	6	5
92	Coromandel Inter	34	0.2	26	16	19	20	26	12	8
93	Dish TV	34	0.2	6	L to L	39	42	88	-	-
94	MRF	34	0.2	25	28	22	20	17	9	10
95	Bajaj Finance	34	0.2	29	96	45	18	2	10	59
96	Supreme Inds	33	0.2	45	38	21	31	20	15	13
97	Page Industries	32	0.2	51	36	35	53	31	33	20
98	GRUH Finance	32	0.2	47	28	26	30	22	26	12
99	Mcleod Russel	31	0.2	40	43	21	20	8	14	15
100	Britannia Inds	30	0.2	14	8	17	47	25	24	18
	Total	**18,413**	**100**	**17**	**16**	**19**	**19**	**21**	**15**	**14**

Appendix II: MOSL 100 – Fastest Wealth Creators

Ranked according to Price CAGR

		2008-13 Price		CAGR (2008-13, %)		Wealth Created		RoE (%)		P/E (x)	
Rank	Company	CAGR (%)	Multiple (x)	PAT	Sales	INR b	Share (%)	2013	2008	2013	2008
1	TTK Prestige	95	27.9	45	33	35	0.2	34	31	28	6
2	Eicher Motors	59	10.2	54	23	63	0.3	27	13	14	13
3	Page Industries	51	8.0	36	35	32	0.2	53	31	33	20
4	Wockhardt	50	7.5	33	16	191	1.0	66	30	14	8
5	Grasim Inds	50	7.5	2	10	168	0.9	19	37	7	7
6	GRUH Finance	47	6.9	28	26	32	0.2	30	22	26	12
7	GSK Consumer	47	6.9	22	20	150	0.8	32	25	40	16
8	Supreme Inds	45	6.4	38	21	33	0.2	31	20	15	13
9	Lupin	45	6.4	27	29	237	1.3	26	32	21	10
10	Godrej Consumer	44	6.3	40	42	204	1.1	26	93	31	20
11	Berger Paints	40	5.4	19	19	55	0.3	23	26	31	12
12	Mcleod Russel	40	5.3	43	21	31	0.2	20	8	14	15
13	Castrol India	39	5.2	15	10	127	0.7	69	51	35	14
14	Bayer Crop Science	39	5.2	88	19	38	0.2	60	13	4	19
15	IndusInd Bank	39	5.1	70	30	147	0.8	14	7	20	34
16	Strides Arcolab	38	5.1	L to P	25	39	0.2	42	-25	6	-
17	Bata India	38	5.0	33	16	37	0.2	26	19	27	23
18	Torrent Pharma	38	4.9	26	19	47	0.3	31	26	14	9
19	Titan Inds	37	4.8	37	27	181	1.0	37	33	31	32
20	Blue Dart Express	36	4.7	22	22	44	0.2	29	22	29	17
21	Cadila Healthcare	34	4.4	21	23	119	0.6	23	25	22	12
22	Ipca Labs	34	4.3	18	21	51	0.3	21	24	20	11
23	Amara Raja Batteries	34	4.3	25	22	36	0.2	27	28	16	12
24	Emami	33	4.1	28	24	69	0.4	40	31	29	20
25	Asian Paints	33	4.1	22	20	356	1.9	34	44	41	27
26	LIC Housing Finance	32	4.0	22	29	75	0.4	16	21	11	6
27	Pidilite Inds	32	4.0	20	17	101	0.5	26	28	32	20
28	TCS	31	3.9	23	23	2,284	12.4	37	41	22	16
29	Shree Cement	30	3.8	31	22	104	0.6	26	39	14	14
30	United Breweries	30	3.8	26	20	128	0.7	12	17	107	74
31	Bajaj Finance	29	3.6	96	45	34	0.2	18	2	10	59
32	P & G Hygiene	29	3.6	9	21	59	0.3	25	38	40	17
33	Bhushan Steel	29	3.5	16	21	45	0.2	10	26	11	7
34	M & M Financial	28	3.4	39	27	70	0.4	20	14	12	15
35	Kansai Nerolac	28	3.4	20	15	47	0.3	23	20	23	17
36	Sanofi India	27	3.4	4	13	42	0.2	15	21	34	12
37	Sun Pharma	27	3.3	17	27	592	3.2	23	31	24	16
38	Apollo Hospitals	27	3.3	29	25	78	0.4	11	6	39	37
39	Sundaram Finance	27	3.3	18	20	37	0.2	21	22	9	7
40	Colgate-Palmolive	27	3.3	16	16	118	0.6	101	141	34	22
41	Coromandel Inter	26	3.2	16	19	34	0.2	20	26	12	8
42	Marico	26	3.2	19	19	91	0.5	20	54	34	24
43	HCL Technologies	26	3.1	31	28	380	2.1	31	25	14	16
44	Nestle India	25	3.1	21	19	299	1.6	59	99	41	35
45	Shriram City Union	25	3.0	39	38	39	0.2	20	21	13	17
46	MRF	25	3.0	28	22	34	0.2	20	17	9	10
47	ITC	25	3.0	19	17	1,635	8.9	33	26	32	24
48	Dr Reddy's Labs	24	3.0	28	19	199	1.1	24	10	20	23
49	CRISIL	23	2.8	21	19	42	0.2	42	30	28	27
50	Havells India	23	2.8	29	9	55	0.3	40	23	14	17

Appendix II: MOSL 100 – Fastest Wealth Creators (contd.)

Ranked according to Price CAGR

		2008-13 Price		CAGR (2008-13, %)		Wealth Created		RoE (%)		P/E (x)	
Rank	Company	CAGR (%)	Multiple (x)	PAT	Sales	INR b	Share (%)	2013	2008	2013	2008
51	Motherson Sumi	22	2.7	21	66	72	0.4	20	33	25	22
52	Oracle Financials	22	2.7	21	8	135	0.7	15	15	20	19
53	Gitanjali Gems	22	2.7	28	28	35	0.2	16	9	9	11
54	Yes Bank	20	2.5	45	45	91	0.5	22	15	12	25
55	Dabur India	20	2.5	18	21	143	0.8	36	54	31	28
56	M & M	20	2.5	15	25	327	1.8	18	30	15	9
57	Bosch	20	2.4	9	15	168	0.9	17	24	30	19
58	UltraTech Cement	19	2.4	22	31	276	1.5	18	37	19	10
59	Bank of Baroda	19	2.4	25	25	134	0.7	14	14	6	7
60	HDFC Bank	19	2.4	34	29	872	4.7	19	14	22	29
61	Gillette India	18	2.3	-6	19	37	0.2	13	28	75	24
62	Hindustan Zinc	18	2.3	9	10	289	1.6	21	37	7	5
63	Hero Motocorp	17	2.2	17	18	170	0.9	42	32	15	14
64	Tata Motors	17	2.2	35	40	518	2.8	26	26	9	11
65	Federal Bank	17	2.2	19	20	45	0.2	14	9	10	10
66	Cummins India	17	2.2	21	11	75	0.4	32	24	18	21
67	GSK Pharma	16	2.1	1	11	97	0.5	28	40	33	16
68	Shriram Transport	16	2.1	30	23	81	0.4	20	21	11	17
69	Kotak Mahindra	16	2.1	18	24	249	1.4	14	16	22	23
70	Hind. Unilever	15	2.0	15	14	516	2.8	134	127	26	26
71	Infosys	15	2.0	15	19	839	4.6	25	34	18	18
72	Piramal Enterprises	15	2.0	P to L	4	67	0.4	-2	31	-	19
73	REC	14	2.0	35	31	88	0.5	22	16	5	11
74	MphasiS	14	2.0	25	17	41	0.2	18	22	10	16
75	Britannia Inds	14	1.9	8	17	30	0.2	47	25	24	18
76	Petronet LNG	14	1.9	19	37	49	0.3	26	29	9	11
77	Exide Inds	14	1.9	16	14	51	0.3	18	33	20	21
78	B P C L	13	1.8	0	17	121	0.7	12	15	14	8
79	H D F C	12	1.7	18	33	559	3.0	17	19	23	29
80	Cipla	12	1.7	17	16	127	0.7	17	19	20	24
81	Zee Entertainment	11	1.7	12	15	85	0.5	18	15	28	25
82	Wipro	11	1.7	14	13	469	2.5	23	28	17	19
83	Canara Bank	11	1.7	10	19	58	0.3	13	21	6	5
84	Axis Bank	11	1.7	38	31	215	1.2	16	12	12	26
85	ING Vysya Bank	10	1.6	30	24	36	0.2	14	12	14	21
86	Divi's Lab	9	1.6	12	16	48	0.3	24	40	22	24
87	Union Bank	9	1.5	9	22	34	0.2	13	25	6	5
88	Maruti Suzuki	9	1.5	7	20	113	0.6	13	20	15	14
89	Tech Mahindra	8	1.5	20	13	49	0.3	15	26	17	26
90	Ambuja Cements	7	1.4	-7	11	81	0.4	15	38	21	10
91	Punjab Natl Bank	7	1.4	18	24	57	0.3	15	18	5	8
92	ACC	7	1.4	-6	10	63	0.3	14	34	21	11
93	ICICI Bank	6	1.4	27	6	316	1.7	15	7	12	28
94	Dish TV	6	1.3	L to L	39	34	0.2	42	88	-	-
95	Sun TV Network	6	1.3	18	17	37	0.2	25	22	22	37
96	State Bank of India	5	1.3	15	19	293	1.6	15	15	8	11
97	O N G C	5	1.3	3	11	567	3.1	16	26	11	10
98	I O C L	5	1.3	-16	15	150	0.8	6	20	19	6
99	United Spirits	5	1.3	P to L	18	67	0.4	-2	15	-	50
100	Cairn India	4	1.2	L to P	77	194	1.1	25	0	4	-
	Total	**17**	**2.2**	**16**	**19**	**18,413**	**100**	**19**	**21**	**15**	**14**

Appendix III: MOSL 100 – Wealth Creators (alphabetical)

Alphabetically arranged

Company	WC Rank		Wealth Created			Company	WC Rank		Wealth Created		
	Biggest	Fastest	INR b	Price CAGR (%)	Price Multi. (x)		Biggest	Fastest	INR b	Price CAGR (%)	Price Multi. (x)
ACC	60	92	63	7	1.4	Infosys	4	71	839	15	2.0
Amara Raja	88	23	36	34	4.3	ING Vysya Bank	87	85	36	10	1.6
Ambuja Cements	50	90	81	7	1.4	Ipca Labs	67	22	51	34	4.3
Apollo Hospitals	52	38	78	27	3.3	ITC	2	47	1,635	25	3.0
Asian Paints	12	25	356	33	4.1	Kansai Nerolac	72	35	47	28	3.4
Axis Bank	21	84	215	11	1.7	Kotak Mahindra	19	69	249	16	2.1
B P C L	39	78	121	13	1.8	LIC Housing Finance	53	26	75	32	4.0
Bajaj Finance	95	31	34	29	3.6	Lupin	20	9	237	45	6.4
Bank of Baroda	35	59	134	19	2.4	M & M	13	56	327	20	2.5
Bata India	85	17	37	38	5.0	M & M Financial	56	34	70	28	3.4
Bayer Crop Science	82	14	38	39	5.2	Marico	47	42	91	26	3.2
Berger Paints	65	11	55	40	5.4	Maruti Suzuki	42	88	113	9	1.5
Bhushan Steel	74	33	45	29	3.5	Mcleod Russel	99	12	31	40	5.3
Blue Dart Express	76	20	44	36	4.7	Motherson Sumi	55	51	72	22	2.7
Bosch	28	57	168	20	2.4	MphasiS	79	74	41	14	2.0
Britannia Inds	100	75	30	14	1.9	MRF	94	46	34	25	3.0
Cadila Healthcare	40	21	119	34	4.4	Nestle India	15	44	299	25	3.1
Cairn India	24	100	194	4	1.2	O N G C	6	97	567	5	1.3
Canara Bank	63	83	58	11	1.7	Oracle Financials	34	52	135	22	2.7
Castrol India	38	13	127	39	5.2	P & G Hygiene	62	32	59	29	3.6
Cipla	37	80	127	12	1.7	Page Industries	97	3	32	51	8.0
Colgate-Palmolive	41	40	118	27	3.3	Petronet LNG	70	76	49	14	1.9
Coromandel Inter	92	41	34	26	3.2	Pidilite Inds.	44	27	101	32	4.0
CRISIL	78	49	42	23	2.8	Piramal Enterprises	59	72	67	15	2.0
Cummins India	54	66	75	17	2.2	Punjab NatlBank	64	91	57	7	1.4
Dabur India	33	55	143	20	2.5	REC	48	73	88	14	2.0
Dish TV	93	94	34	6	1.3	Sanofi India	77	36	42	27	3.4
Divi's Lab	71	86	48	9	1.6	Shree Cement	43	29	104	30	3.8
Dr Reddy's Labs	23	48	199	24	3.0	Shriram City Union	81	45	39	25	3.0
Eicher Motors	61	2	63	59	10.2	Shriram Transport	51	68	81	16	2.1
Emami	57	24	69	33	4.1	State Bank of India	16	96	293	5	1.3
Exide Inds	68	77	51	14	1.9	Strides Arcolab	80	16	39	38	5.1
Federal Bank	75	65	45	17	2.2	Sun Pharma	5	37	592	27	3.3
Gillette India	83	61	37	18	2.3	Sun TV Network	84	95	37	6	1.3
Gitanjali Gems	90	53	35	22	2.7	Sundaram Finance	86	39	37	27	3.3
GSK Pharma	45	67	97	16	2.1	Supreme Inds	96	8	33	45	6.4
GSK Consumer	30	7	150	47	6.9	Tata Motors	8	64	518	17	2.2
Godrej Consumer	22	10	204	44	6.3	TCS	1	28	2,284	31	3.9
Grasim Inds	29	5	168	50	7.5	Tech Mahindra	69	89	49	8	1.5
GRUH Finance	98	6	32	47	6.9	Titan Inds	26	19	181	37	4.8
H D F C	7	79	559	12	1.7	Torrent Pharma	73	18	47	38	4.9
Havells India	66	50	55	23	2.8	TTK Prestige	89	1	35	95	27.9
HCL Technologies	11	43	380	26	3.1	UltraTech Cement	18	58	276	19	2.4
HDFC Bank	3	60	872	19	2.4	Union Bank	91	87	34	9	1.5
Hero Motocorp	27	63	170	17	2.2	United Breweries	36	30	128	30	3.8
Hindustan Unilever	9	70	516	15	2.0	United Spirits	58	99	67	5	1.3
Hindustan Zinc	17	62	289	18	2.3	Wipro	10	82	469	11	1.7
I O C L	31	98	150	5	1.3	Wockhardt	25	4	191	50	7.5
ICICI Bank	14	93	316	6	1.4	Yes Bank	46	54	91	20	2.5
IndusInd Bank	32	15	147	39	5.1	Zee Entertainment	49	81	85	11	1.7

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