



INTRODUCING

SPM – MICROCAP STRATEGY

INDIA MACRO MOMENTUM STRONGER THAN BEFORE



SUNDARAM ASSET MANAGEMENT
Portfolio Managers

	FY14	FY16E	FY17E
 GDP growth (%)	● 6.6	7.5 ●	7.8 ●
 CPI Inflation (%)	● 10.0	4.9 ●	5.3 ●
 CAD (% of GDP)	● 1.7	1.1 ●	1.3 ●
 Fiscal Deficit (% of GDP)	● 4.4	3.9 ●	3.5 ●
 10-year yield ^{y/e} (%)	● 8.8	7.5 ●	7.2 ●
 Currency rank *	● 12/24	2/24 ●	4/24 ●

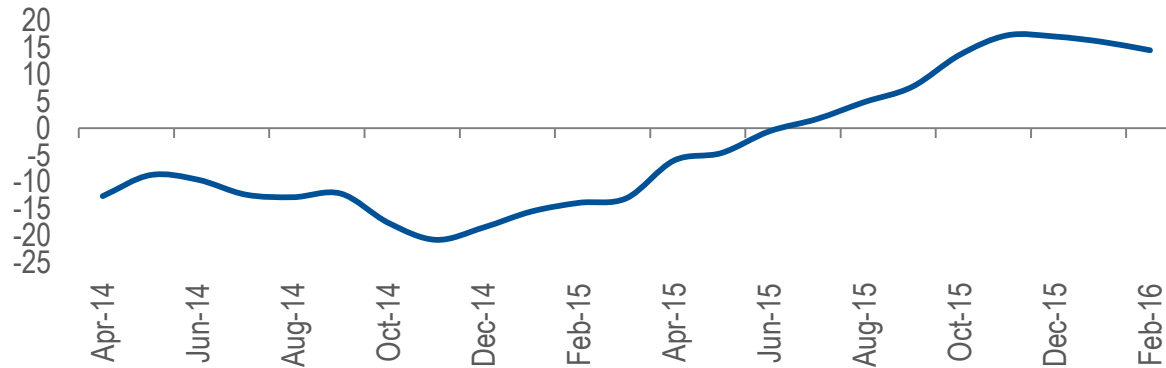
* The currency rank relates to Dec.' 13, '15, '16 (expected)

GREEN SHOOTS ARE CLEARLY VISIBLE

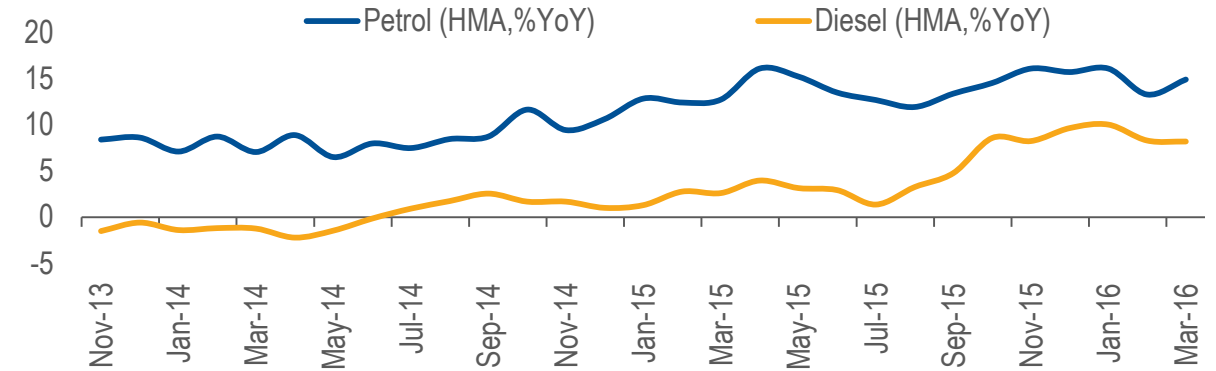


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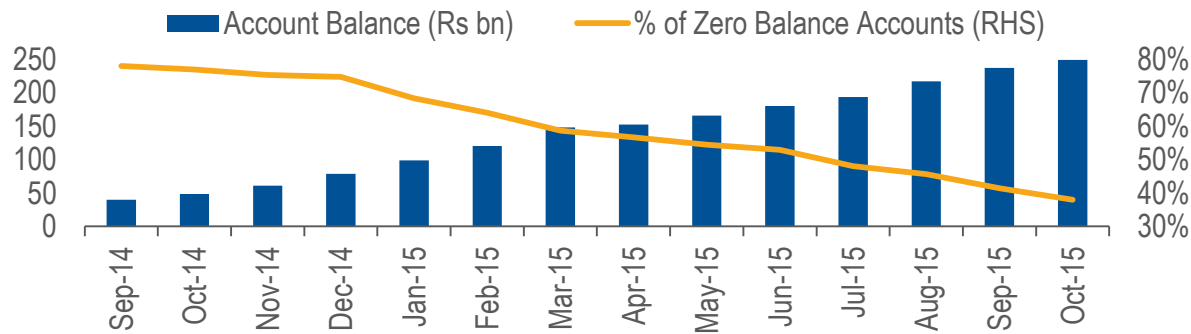
IIP Consumer durables (%YoY HMA)



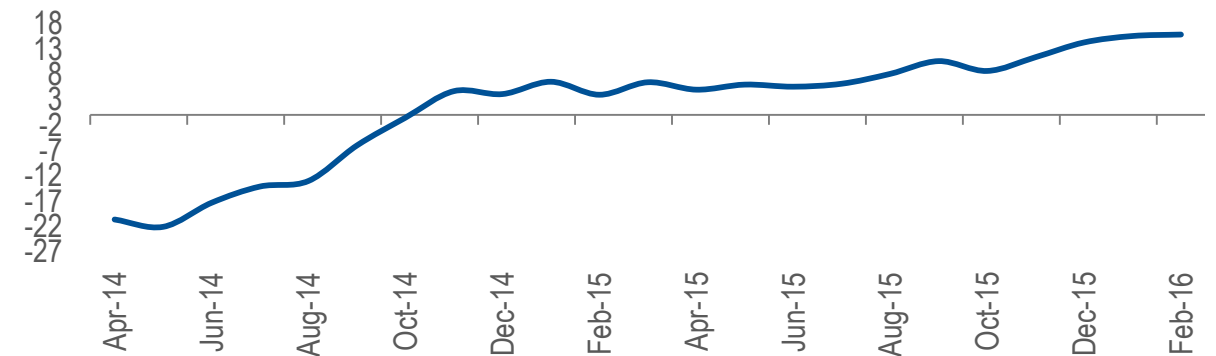
Diesel & Petrol consumption (%YoY HMA)



Jan Dhan zero balance accounts falling; Rs.250bn. in a/c's

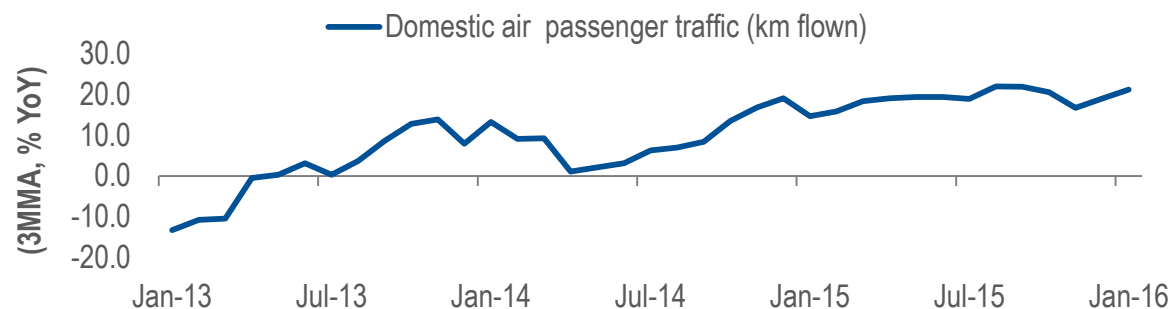


CV production (%YoY HMA)

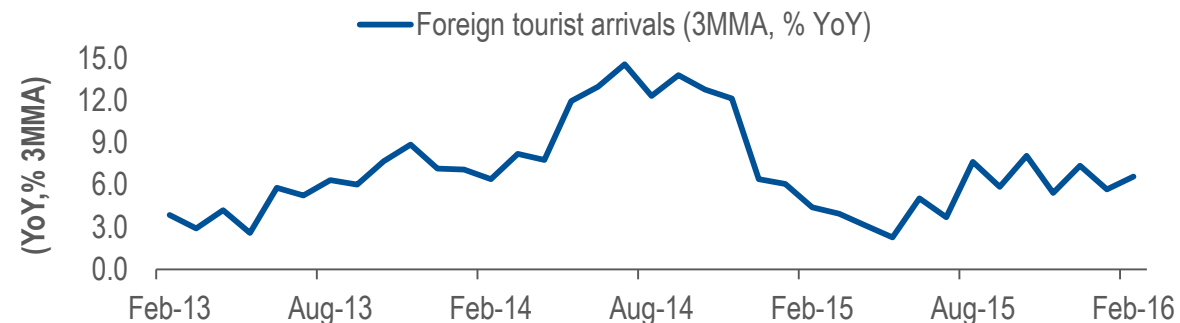


SERVICES INDICATORS – GAINING STRENGTH

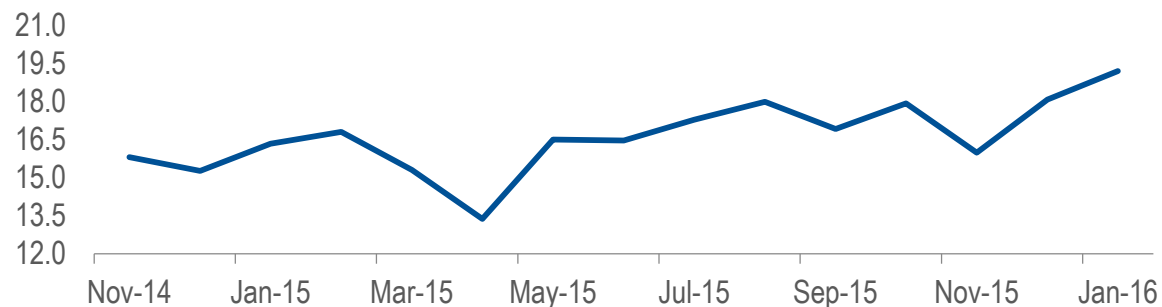
Air traffic growth remains robust



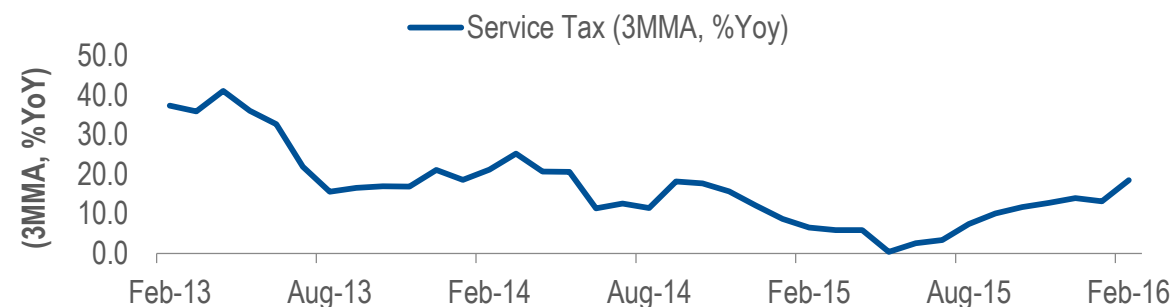
Tourist arrivals growth remains stable



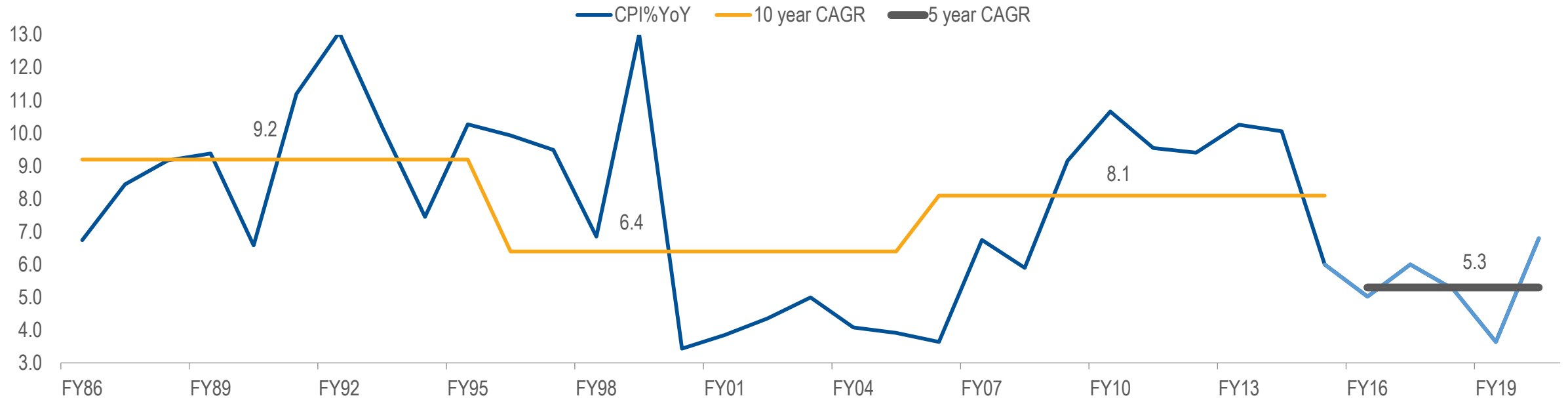
Pick up in credit growth – Personal Loans



...so does service tax growth



Inflation to settle below pre-crisis levels



The RBI has cut Repo. rates by **150bps** since CY2015 start

Banks have only transmitted, on average, **50bps** of this **150ps** of delivered easing

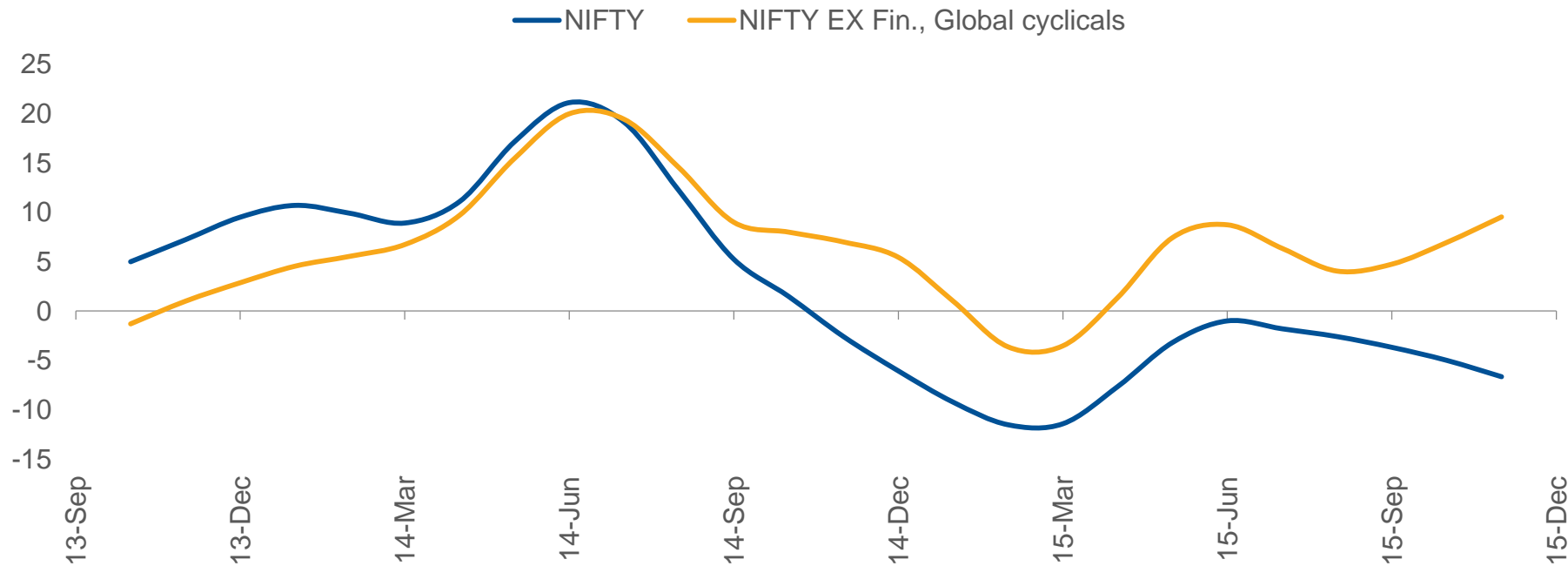
2016 is set to witness the transmission of the rest and in addition, RBI could possibly ease by another **25bps**, based on fiscal /monsoon progress

EARNINGS GROWTH BOTTOMING OUT



Nifty Wt	Quarter ending	31-Dec-15	30-Sep-15	30-Jun-15
100.0	Reported Nifty earnings gr.	-9.6%	0.6%	3.8%
90.3	Nifty (Ex-cyclicals)	9.1%	8.4%	9.3%

* Cyclicals include commodities, Psu banks & Tata Motors



Source: In-house Research

- Global cyclicals depress reported Nifty earnings growth
- Nifty earnings growth, Ex-Financials and Global cyclicals, bottoming out



QUALITY



BUSINESS

Positioning, Pricing power, Profitability, Growth, Brand strength, Capital intensity, Complexity of Business



MANAGEMENT

Past track record, management bandwidth, corporate governance



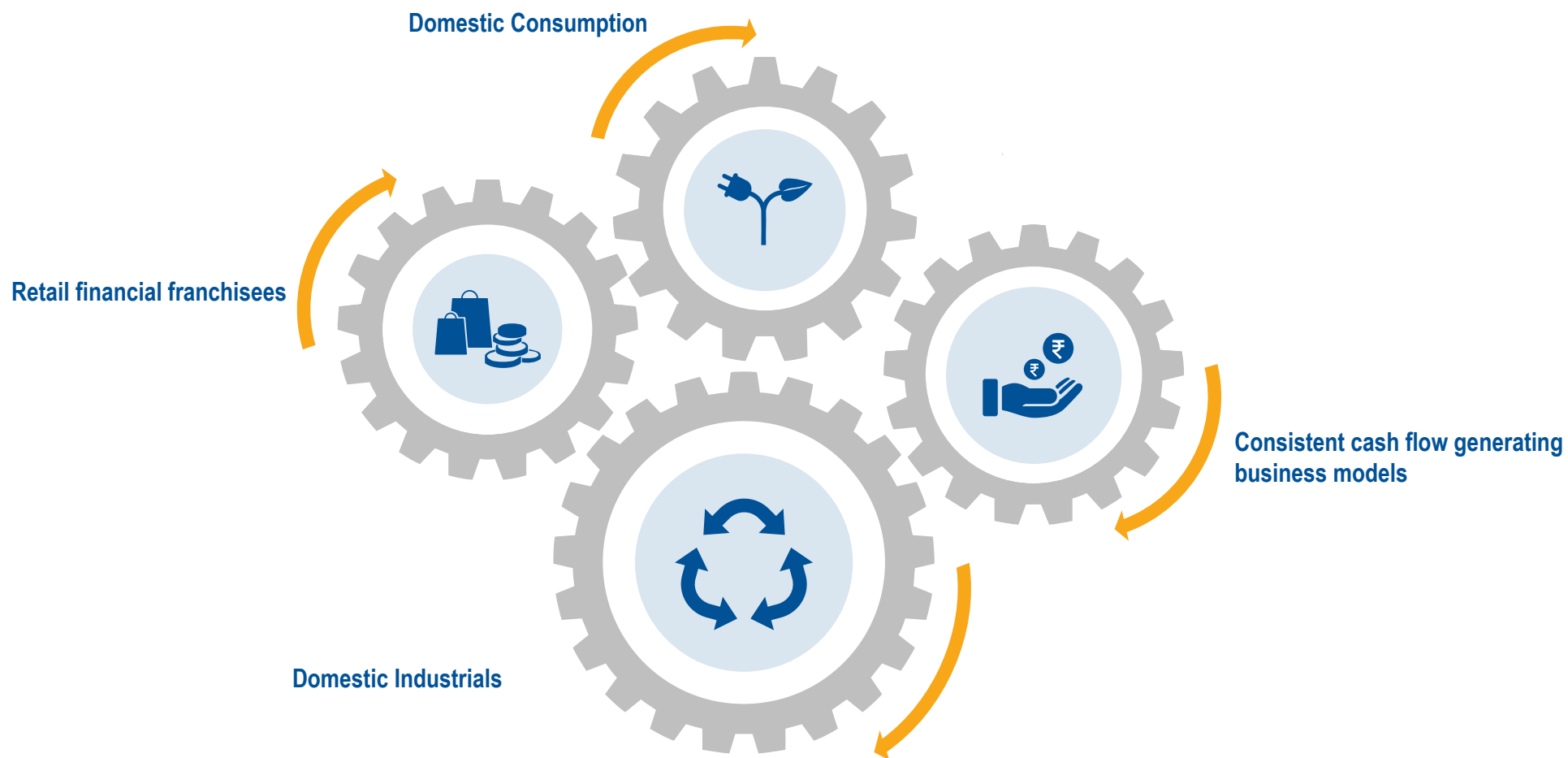
FINANCIALS

Capital Allocation, Leverage, Cash Flow generation, Return on capital

PORTFOLIO STRATEGY TO CAPTURE THE INDIA STORY



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Beneficiaries of increasing financial savings

- Retail financial franchisees would be a prime beneficiary of increased financial savings. Universe would include NBFCs, retail banks and insurance companies



Pick up in Discretionary consumption

- We believe that “aspirational affordable luxury” is a secular growth story
- We expect pick up in urban consumption following implementation of 7th pay commission



Consistent cash flow generating business models

- High volatility being a new norm, we believe that business models with pricing power and technology edge that generate consistent cash flow would continue to command higher multiples



Domestic cyclicals with capacity for growth

- Improving domestic growth led by upswing in infra spend could help the cyclicals like cement, construction and capital goods

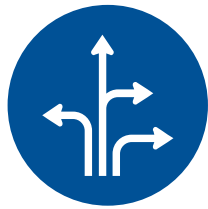


Microcap Strategy

MANY MEGA CAPS HAVE STARTED AS MICRO CAPS



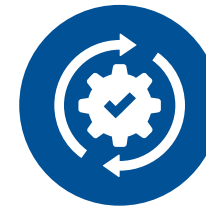
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India, being a land of entrepreneurs, provides opportunities for young people to build on their dreams



Market opportunity is small in the starting phase and hence not meaningful for larger players



Companies go through a significant evolution process (regulatory and otherwise) which requires entrepreneurs to be nimble footed

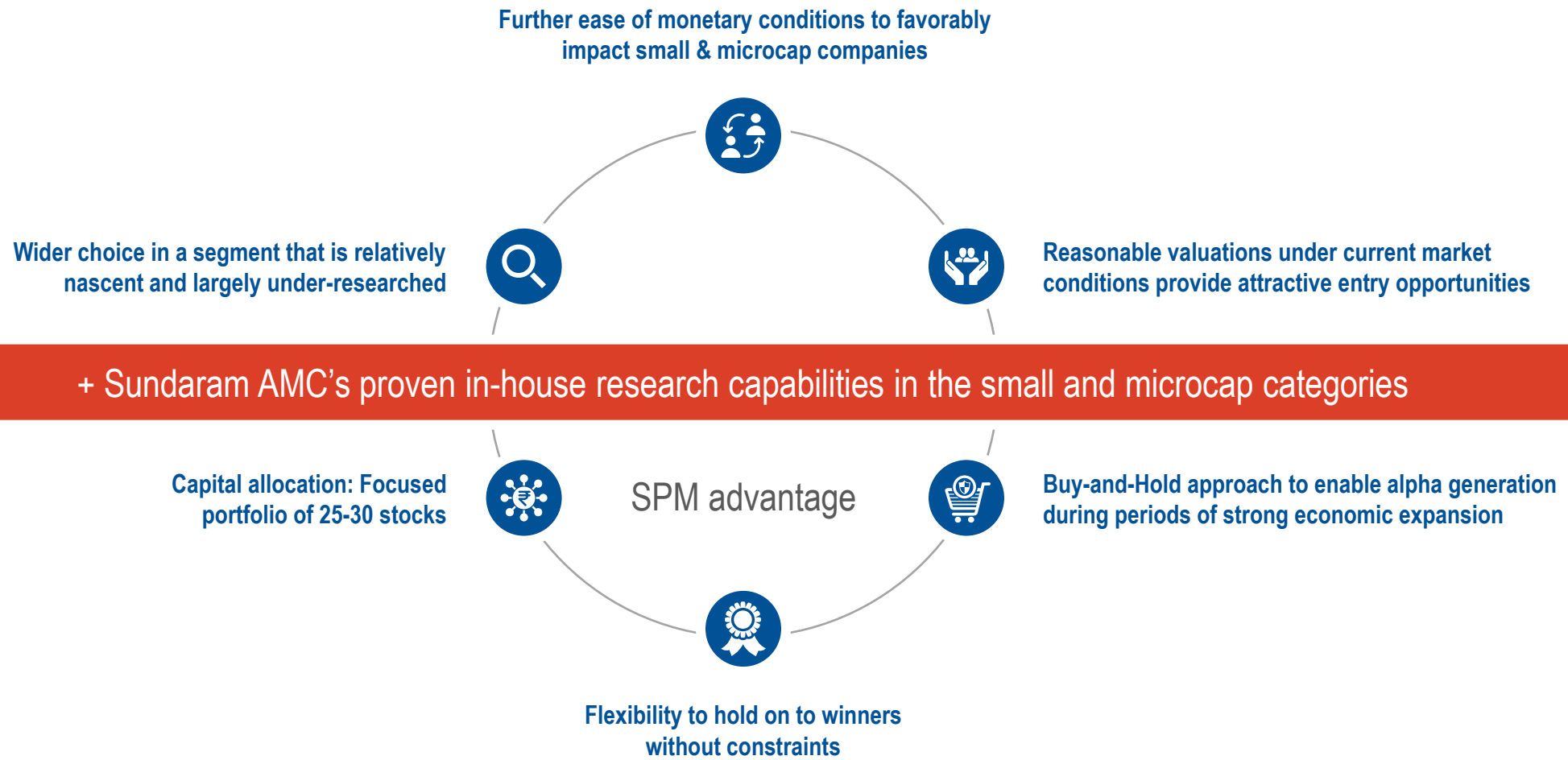


Over time, businesses move from unorganized to organized segment (e.g., retail, multiplexes, fashion)



As these new business are established and scaled up meaningfully, they:

- Witness large expansion in sales and profit
- Enter the radar of institutional owners and price discovery happens
- Become valuable acquisition targets



Cap-curve Based Trends across NSE & BSE

Category	Mar-04	Mar-07	Mar-10	Mar-13	Mar-16
Largecap	8,642	21,084	37,642	39,843	55,755
Midcap	1,377	4,266	8,963	9,032	13,261
Smallcap	1,297	5,103	9,648	9,989	15,999
Microcap	466	2,960	5,903	5,291	9,786
Total Mcap	11,782	33,414	62,157	64,155	94,801
Share of Microcaps (%)	4.0	8.9	9.5	8.2	10.3

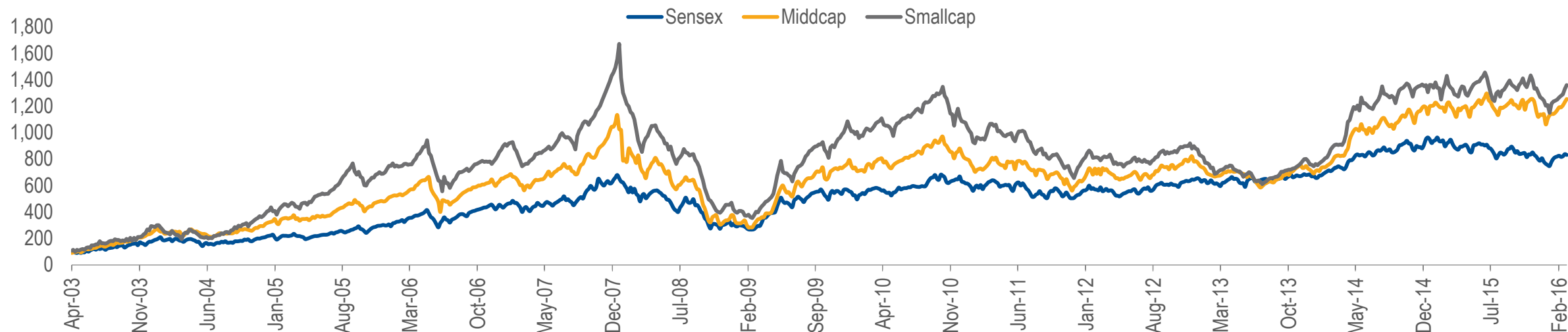
* Mcap in Rs. Bn

MICRO CAPS TEND TO OUTPERFORM IN UPCYCLES



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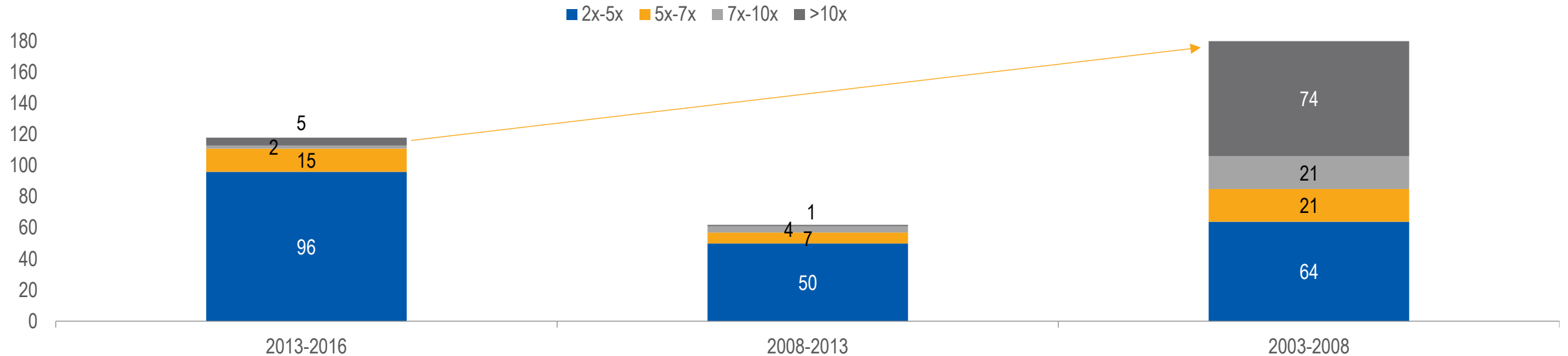
BSE Mid-cap and Small-cap movement against the Sensex



	Phase 1			Phase 2			Phase 3		
	Begin	End	%Returns	Begin	End	%Returns	Begin	End	%Returns
	Apr-03	Jan-08		Jan-08	Oct-13		Oct-13	Apr-16	
BSE Sensex	3,168	20,873	559	20,873	21,165	1	21,165	25,816	22
BSE Midcap Index	950	9,817	933	9,817	6,107	-38	6,107	11,053	81
BSE Small Cap Index	885	13,516	1,427	13,516	5,896	-56	5,896	11,064	88

Source: Bloomberg, Sundaram Asset Management

Microcap Multi-Baggers across cycles



➤ 31% of the microcap universe created value of 7x and above during FY03-08

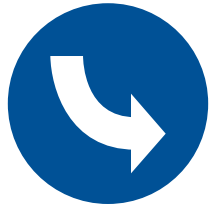
Micro-caps have created significant value across market cycles

Opportunities to capture value is maximized during economic upturns - mix of large winners are noticeable as evidence of strength in economic expansion sets in

RECENT CORRECTION PROVIDES ENTRY OPPORTUNITY



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Across Cap Curve

The Small Cap Index is currently trading at discount compared to mid & large caps

	S&P BSE Sensex	S&P BSE Mid Cap	S&P BSE Small Cap
*Price Earning Ratio	16.0	16.6	13.4
Discount Vs S&P BSE Sensex		-	16%



Across Time

The Small Cap Index is trading at a 32% discount from its recent high in April 2015

January 2008	April 2015	April 2016
18.4	19.5	13.4

* Current PE based on one-year forward positive earnings
Source: Bloomberg; Data as of April 29, 2016; Research: In-house

MICRO CAP SECTOR PROFILE DISPLAYS CYCLICAL BIAS



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Micro Cap sector profile

Sectors	Weights
Industrial Manufacturing	11.4
Consumer Goods	10.4
Construction	8.7
Financial Services	7.6
Automobile	5.6
Services	5.4
Healthcare Services	5.2
IT	5.1
Textiles	4.8
Media & Entertainment	3.7
Energy	3.7
Chemicals	3.6
Metals	3.5
Fertilisers & Pesticides	3.0
Cement	2.8
Telecom	1.1
Paper	0.6
Others	10.0
Share in NSE Market Cap (%)	10.0%



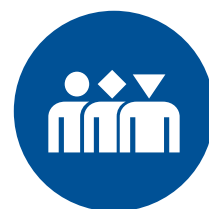
Total Universe is 894 stocks



The total market cap of micro cap stocks is Rs 9.3 lakh crore



Microcaps are 10% of the total Universe of NSE stocks



They are diversified among sectors with a bias towards cyclicals

Source: Bloomberg; Data as of April 29, 2016; Computation: In-house



STRATEGY DYNAMICS



Client profile

For clients willing to take moderate to high risk and want to see capital appreciation



Strategy Construct

Equity – 80-100%

Cash – 0-20%

Reasonable exposure to MNCs



Number of stocks: 25-30

Single stock limit: 10% on initiation



Investment Horizon

3 to 5 years



Benchmark

BSE Small cap Index



Technology Leaders

- ✓ As India evolves, technological excellence will become more important
- ✓ Possess the required expertise and experience of dealing in many developing markets
- ✓ Immense pricing power



Export Potential

- ✓ Over time, some of the companies would achieve critical scale, where exports from Indian entities would become viable
- ✓ We have already seen some of the growth stories based on exports



The “25% free float” advantage

- ✓ It has taken away “de-listing premium”; cheaper valuations
- ✓ Free float has increased and hence made the universe more investible
- ✓ Managements have become more accessible



Corporate Action

- ✓ MNCs are looking to increase their stake in Indian subsidiaries
- ✓ Buy-backs by global giants such as Unilever, Bayer Cropscience and hike in promoter stake by companies such as Kansai Nerolac stand testimony to this trend



Global Consolidation

- ✓ Global consolidation has also led to value creation
- ✓ This has led to open offers due to “change in management”
- ✓ In many cases, since the parent already owns 75%, another open offer has resulted into eventual de-listing

MICRO CAPS – CASE STUDY



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	Revenue (in Rs.crs)		PAT (in Rs.crs)		P/E(x)		Marketcap	
	2011	2016	2011	2016	2011	2016	2011	2016
HITACHI HOME*	758	1,820	29	67	17	49	506	3,301
SQS INDIA	83	264	2	37	30	26	57	969
ITD CEMENTATION	1,462	3,069	9	65	24	26	223	1,694
V-GUARD	726	1,850	43	112	12	24	502	2,649
NAVIN FLUORINE	429	678	71	84	4	20	253	1,653
HERITAGE FOODS*	1,096	2,368	1	54	-	22	202	1,189

* Expected financials for FY16

Source: Bloomberg; In-house computation

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