

# Religare Mid Cap Fund

July 2010



# Religare Mid Cap Fund - Performance Track Record

## Performance *(as on July 30, 2010)*

	1 Month \$	3 Months \$	6 Months \$	1 Year \$\$	3 Years \$\$	Since Inception \$\$
Religare Mid Cap Fund - Growth Option#	4.23%	5.49%	20.95%	49.26%	6.95%	10.86%
CNX Midcap Index ^	3.50%	4.39%	16.85%	41.43%	10.85%	16.38%

#Past performance may or may not be sustained in future. \$Absolute Returns. \$\$ Compounded Annualised Returns.  
^Benchmark. Inception Date: 19<sup>th</sup> April 2007.

## Quarterly Performance

	Qtr1*		Qtr2*		Qtr3*		Qtr4*		Annual**	
	Scheme#	BM\$	Scheme	BM\$	Scheme	BM\$	Scheme	BM\$	Scheme	BM\$
2010	6.4%	3.7%	6.2%	5.5%	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
2009	-6.4%	-8.8%	52.5%	59.3%	30.3%	23.7%	10.4%	10.7%	105.3%	99.0%
2008	-30.8%	-32.2%	-18.5%	-16.1%	-11.7%	-6.7%	-28.0%	-23.6%	-64.2%	-59.4%
2007	n.a.	n.a.	n.a.	n.a.	12.7%	14.9%	32.9%	34.4%	n.a.	n.a.

#Past performance may or may not be sustained in future. Source: MFIE. Please refer relative performance table above. N.A : Not Available. \$Benchmark: CNX Midcap index. \*Absolute returns. \*\* Compounded annualized returns.

## Risk Return Profile

	Scheme	Benchmark\$
Mean Return	2.51%	2.44%
Standard Deviation	12%	12%
Sharpe Ratio	0.17	0.16
Beta	0.97	1.00

Past performance may or may not be sustained in future. Above figure based on 2 years, monthly data history. Risk-free rate being 5.75% (based on prevailing 91 days t-bills). Source: Internal. Data as on 30<sup>th</sup> July 2010. \$Benchmark: CNX Midcap index



# Religare Mid Cap Fund - Overview

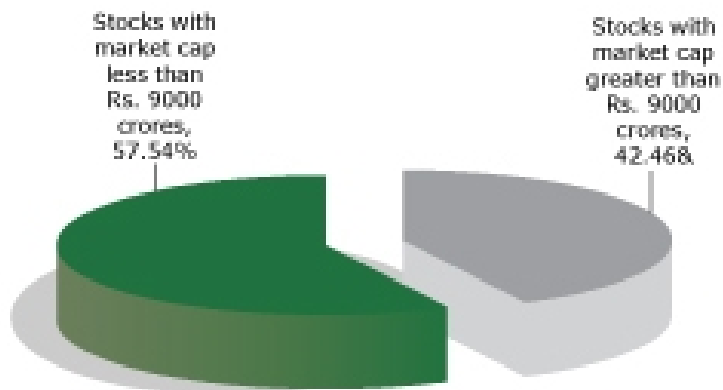
- Investment Universe - Companies which have a market capitalisation of less than the last stock of S&P CNX Nifty and more than 5% of the market capitalisation of the last stock of the S&P CNX Nifty
- Benchmark – CNX Midcap Index
- AUM – Rs 37.54 crores (as on July 30, 2010)



# Religare Mid Cap Fund - True to Mandate

Midcap exposure maintained as per mandate at all times

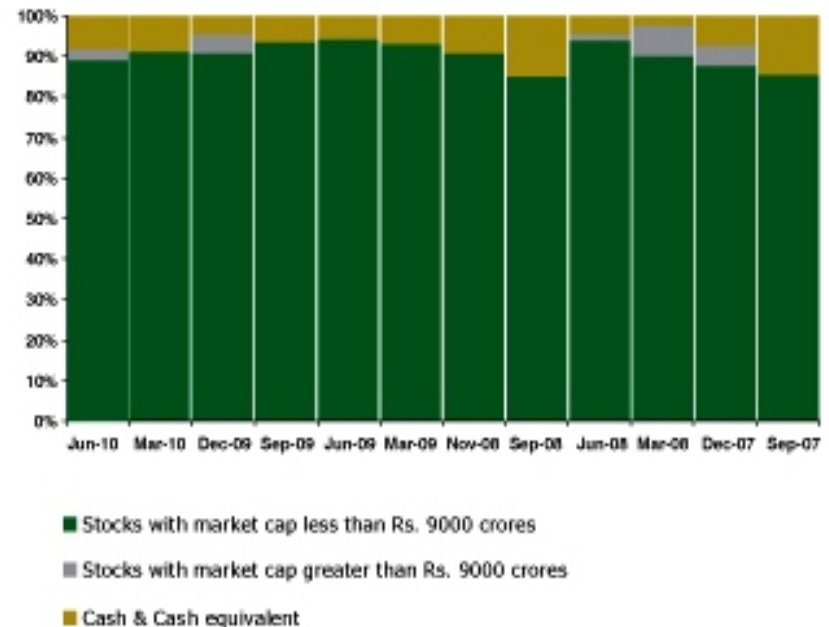
## CNX Midcap Index - Marketcap break-up



Source: NSE, Capital Line. Market cap data as on 30<sup>th</sup> July 2010

- Market cap of the last stock of S&P CNX Nifty is approx Rs 9,000 crores
- Over 24 companies in CNX Midcap Index over that range, constituting around 43%

## Religare Midcap Fund - Marketcap break-up



Source: MFIE



# Top 10 Holdings / Sector Allocation

Top 10 Holdings	% of Net Assets
Manappuram General Fin & Leasing Ltd.	3.92%
Apollo Hospitals Enterprises Ltd.	3.49%
United Phosphorus Ltd.	3.34%
Jubilant Foodworks Ltd.	3.27%
Gujarat State Petronet Ltd.	3.23%
Cox and Kings India Ltd.	3.19%
Redington India Ltd.	2.97%
Tata Global Beverages Ltd.	2.96%
Talwalkars Better Value Fitness Ltd.	2.88%
Financial Technologies India Ltd.	2.85%
<b>Total</b>	<b>32.10%</b>

Sector Classification (Top 10)	% of Net Assets
Consumer Non Durables	14.52%
Banks	7.47%
Transportation	6.78%
Gas	5.94%
Media & Entertainment	5.85%
Software	5.19%
Finance (Including NBFC's)	3.92%
Healthcare Services	3.49%
Pesticides	3.34%
Hardware	2.97%
<b>Total</b>	<b>59.47%</b>

Net assets : **Rs 37.54 crores**, as on 30 July, 2010

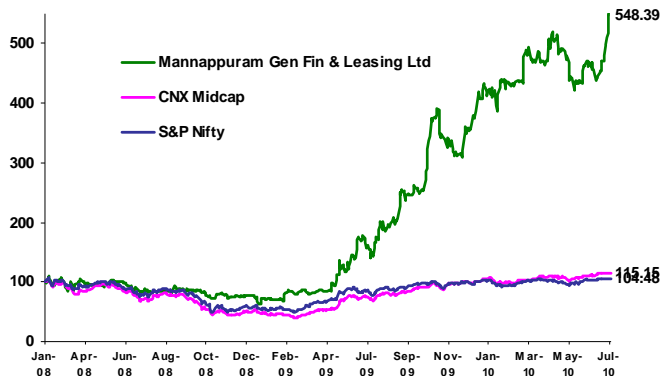
Portfolio data as on 30<sup>th</sup> July, 10. Sector classification is as per AMFI industry classification



# Religare Mid Cap Fund – Some of our Winning Ideas

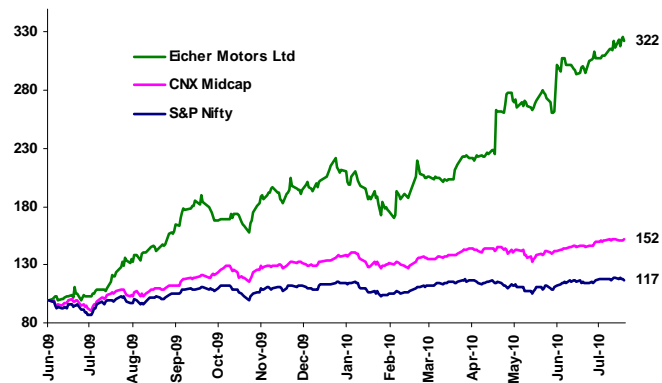
## Category: STARS

Manappuram Gen. Fin. - January 08\*



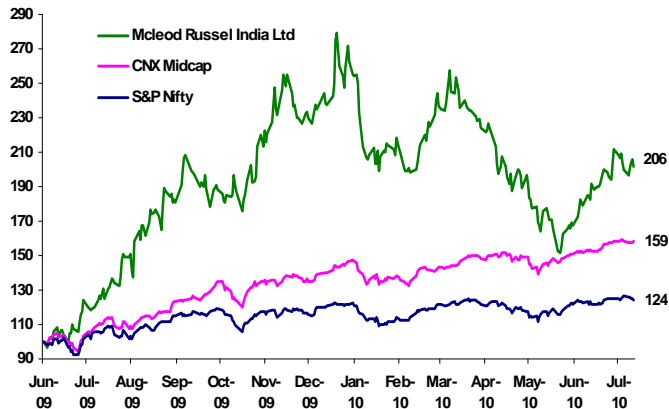
## Category: DIAMOND

Eicher Motors - June 09\*



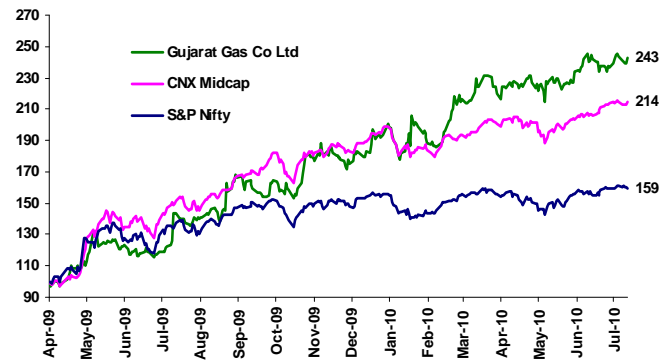
## Category: COMMODITIES

Mcleod Russel - June 09\*



## Category: WARRIOR

Gujarat Gas - Apr 09\*



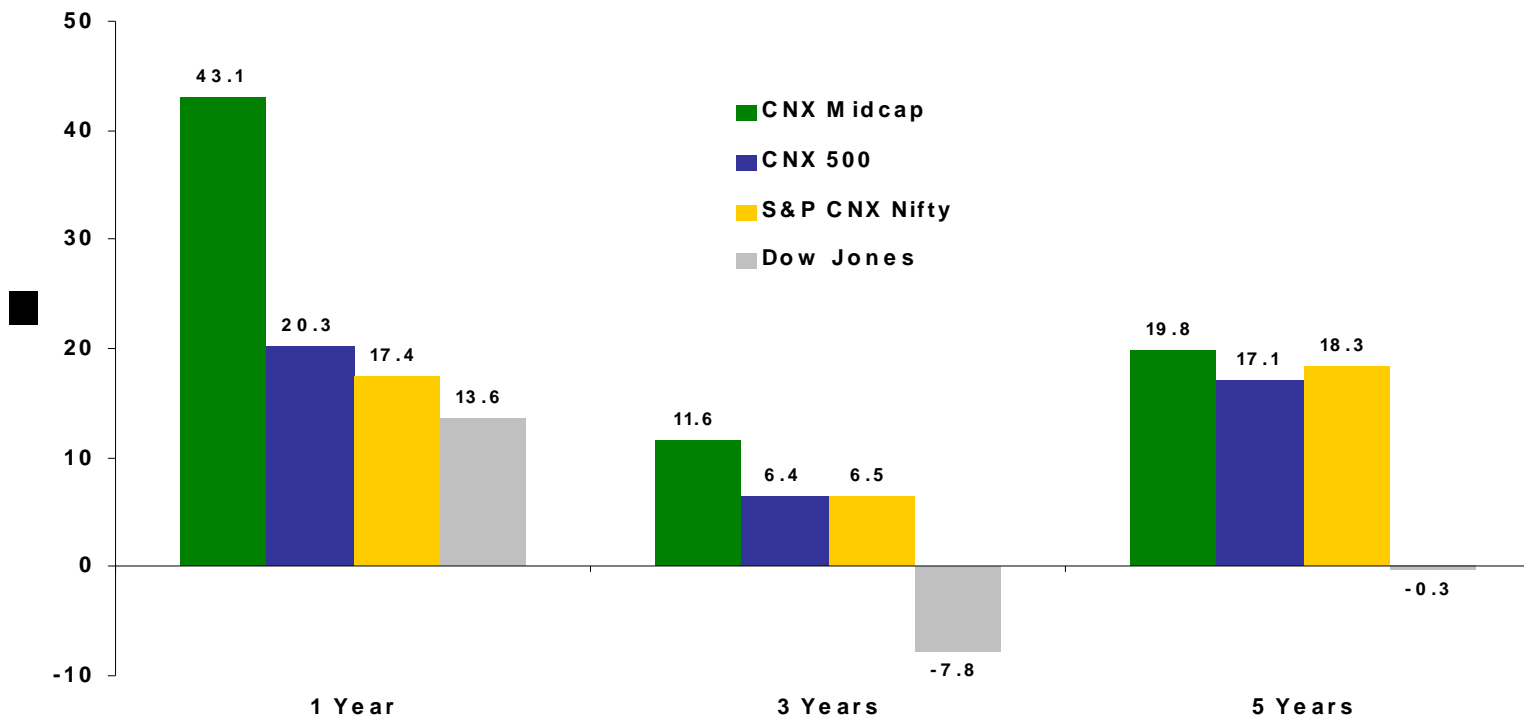
# Key Facts - Religare Mid Cap Fund

Category	An Open-Ended Equity Scheme		
Investment Objective	To provide long term capital appreciation by investing in a portfolio that is predominantly constituted of Equity and Equity related instruments of Mid Cap Companies		
Asset Allocation	<b>Instruments</b>	<b>Indicative Allocations (% of Total Assets)</b>	<b>Risk Profile</b>
	Equity & Equity Related Instruments out of which: -	65-100%	High
	Mid cap Companies	65-100%	High
	Companies other than Mid cap Companies	0-35%	High
	Debt* & Money Market Instruments	0-35%	Low to medium
	* Investment in securitized debt shall not exceed 35% of the net assets of the Scheme. The Scheme will not invest in foreign securitized debt. Maximum exposure to the derivatives shall not exceed 50% of the net assets of the scheme, subject to the limits as specified by SEBI, from time to time		
Minimum Application Amount	Rs. 5,000/- per application and in multiples of Re. 1 thereafter.		
Options	<ul style="list-style-type: none"> <li>• Growth Option</li> <li>• Dividend Payout</li> <li>• Dividend Reinvestment ( If dividend payable under dividend option is equal or less than Rs. 500/- then the dividend would be compulsorily reinvested)</li> </ul>		
Loads	<b>Entry Load:</b> Nil <b>Exit Load:</b> 1% (if redeemed/switched out on or before 1 year from the date of allotment); Nil (if redeemed / switched out after 1 year from the date of allotment)		
Fund Managers	Vinay Paharia		
Benchmark	CNX Midcap Index		



# Why Mid Caps?

# Mid Caps - Long-term Wealth Creators



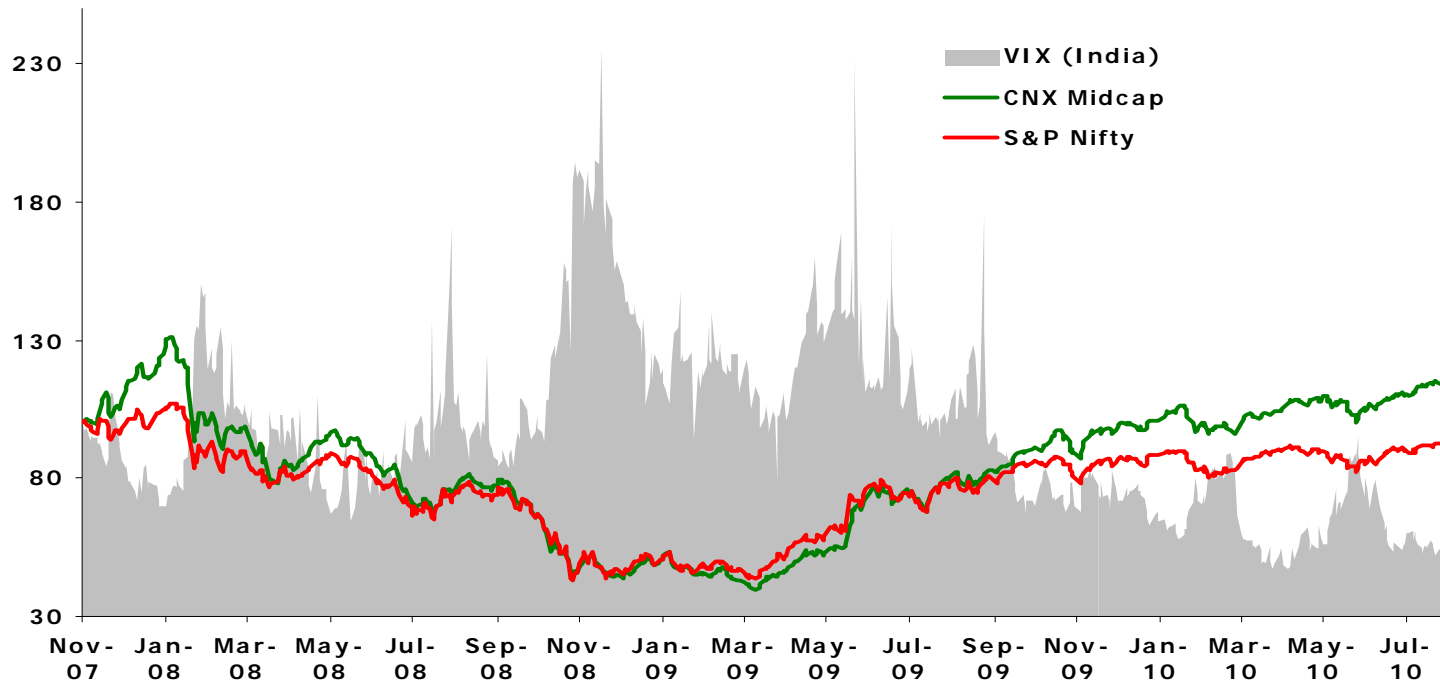
Midcap companies have outperformed their large cap counterparts in the medium to long run

Data as on 30<sup>th</sup> July 2010. Source: MFIE. Returns are compounded annualized in nature.

**Past performance may or may not be sustained in future.** The above simulation is for illustration purpose only and should not be construed as a promise on minimum returns and safeguard of capital. The AMC / Mutual Fund is not guaranteeing or forecasting any returns. Please refer relative performance table on slide 1.



# Mid Caps can be volatile, but they are also rewarding



- Investors worry about the underperformance of midcaps during volatile times
- But, what is equally true is that when volatility recedes, midcaps have generally outperformed large caps
- Investors with a long term view should consider an allocation to midcaps

Source: NSE, MFIE. Values rebased to 100. VIX – volatility index. The above simulation is for illustration purpose only and should not be construed as a promise on minimum returns and safeguard of capital. The AMC / Mutual Fund is not guaranteeing or forecasting any returns. Please refer relative performance table on slide 1.



# Religare Mid Cap Fund - Investment Approach



# Religare Mid Cap Platform - The Foundation

## STOCK SELECTION

- Mid Cap Stock Selection = Bottom Up Investing
- Religare Stock Categorization Framework
- STAR - Capitalize on Growth
- DIAMOND- Exploit Market Inefficiency
- LEADERS/WARRIORS - Investment In Deep Economic Moats
- FROG PRINCE / SHOT GUN / COMMODITIES – Tap Opportunistic Investments

## PORTFOLIO CONSTRUCTION

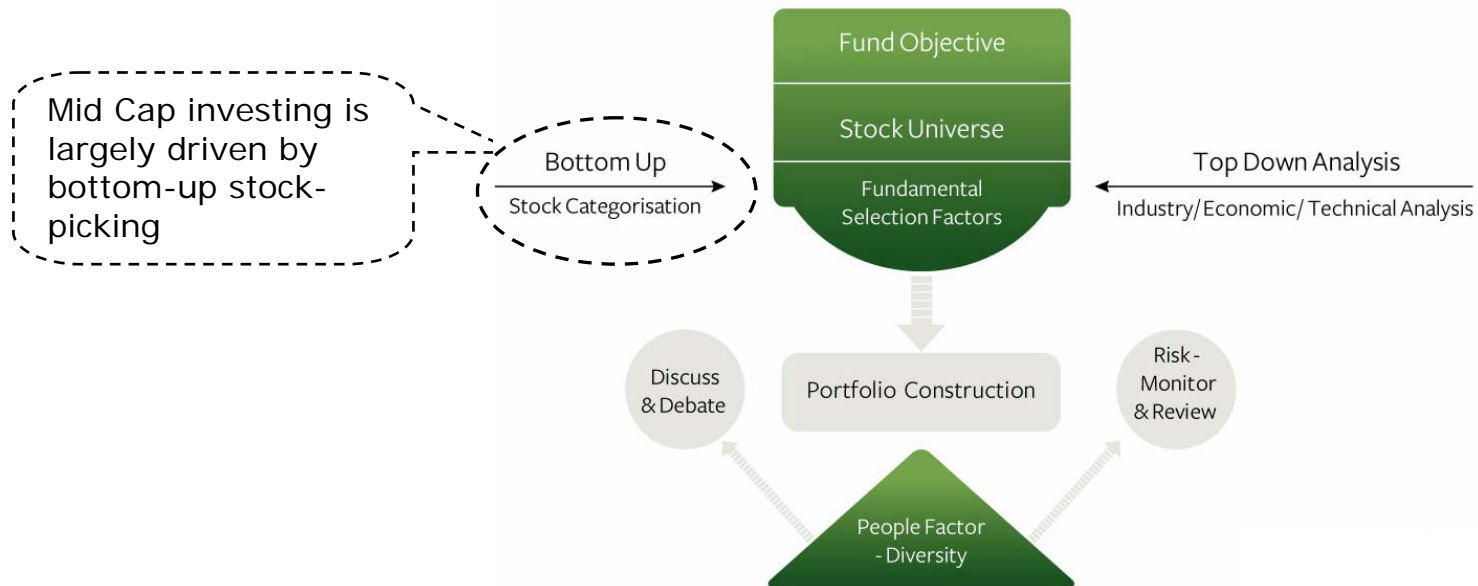
- Portfolio Characteristics
- Mid Cap Fund Portfolio - Diversified Sources of Alpha



# STOCK SELECTION

# Mid Cap Stock Selection = Bottom Up Investing

- Mid Cap stock picking strategy a sub-set of the overall Equity Investment Process at Religare AMC
- Overall investment process is stock-selection from both a top-down as well as a bottom-up basis.



# Equity Categorization Framework

Stock Category	Descriptions (eg.)	Growth Prospects (eg.)	Company Attribute (eg.)	Financial Parameter (eg.)
Star	Young companies	High growth	Entrepreneur vision, scalability	Operating leverage
Leader	Established companies	In line or better than industry	Track record of leadership, globally competitive	Industry leading Margin/ROE
Warrior	Young/established companies	Better than industry	Unique proposition and/or right place, right time	Margin & ROE expansion
Diamond	Company with valuable assets	Low growth	Management intent to unlock value	Value of asset/business
Frog Prince	Company in a turnaround situation	Back to growth	Intrinsic strengths in core business	P2P, ROE expansion
Shotgun	Opportunistic investment	Positive surprise	Corporate event, restructuring, earnings news	Event visibility
Commodities	Call on the cycle is paramount	Positive	Integration, Cost efficiency, Globally competitive	Profit leverage

P2P: Path to Profit ; ROE: Return on Equity



# STAR - Capitalize on growth



- Higher economic growth creates demand for new products and services, which have the potential to grow at a pace faster than the overall economic growth
- This is due to increased per capita income, leading to people moving higher on the consumption curve

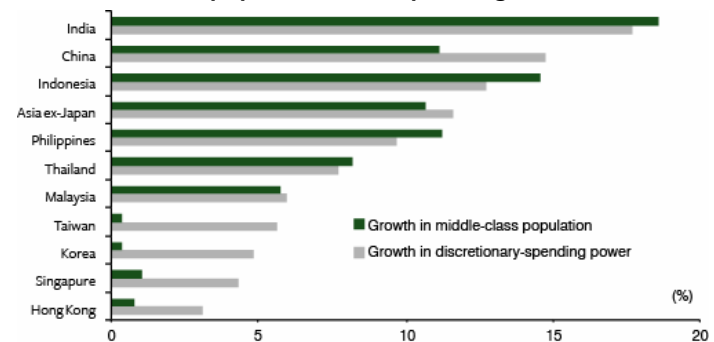
## Example

### Pantaloon Retail

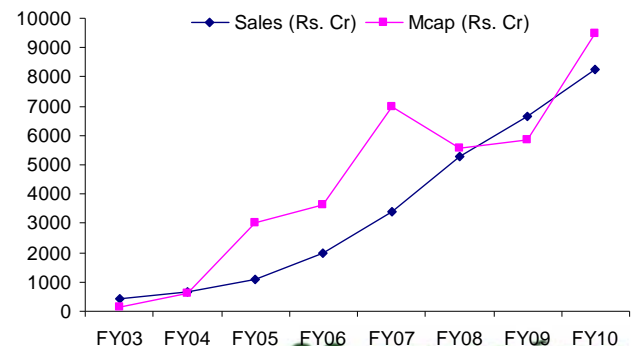
- Pantaloon Retail is India's largest organized retailer. It operates over 11mn sq ft in more than 40 cities under various formats, such as Pantaloon, Big Bazaar, Food Bazaar, etc.
- The company has grown fast as it is a leader in the organized retailing industry, which has grown at a fast pace as the share of organized retail in overall retail sales has increased from just about 1% in FY03 to about 5% in FY10.
- Markets discounts such a growth very favorably. Thus, in FY03 to FY10 period, Pantaloon sales have grown 18x, while its market cap has multiplied by 60x.

Source: RAMC

Middle-class population and spending CAGR, 2009-2014E



Source: Euromonitor, World Bank, CLSA Asia-Pacific Markets

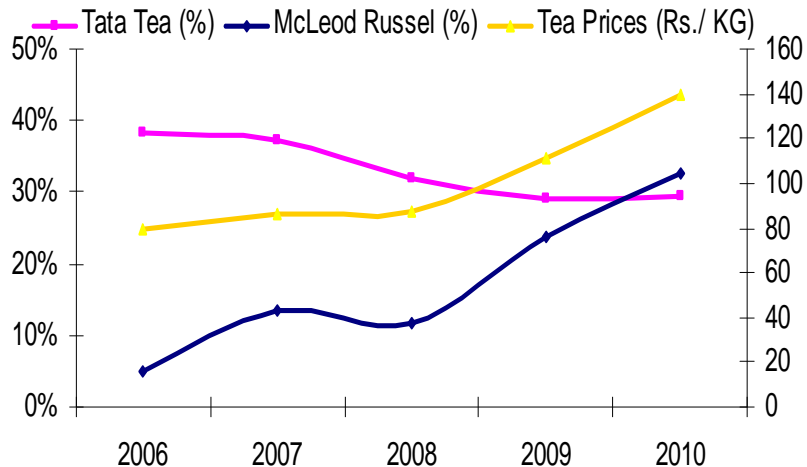


# DIAMOND - Exploiting Market Inefficiency

## Investing in stocks with a negative sentiment / perception:

- Such stocks have robust underlying businesses, but are trading at valuations, which are lower than sector averages.
- Such lower valuation may be due to negative investor sentiment surrounding the business of the company or poor perception of company's business or management.
- Key Driver of investor returns for such companies comes from valuation re-rating of the stocks.

### Example



- Tata Tea is perceived to be a commodity tea company and hence given low valuations.
- The Pre-Advertisement EBIDTA margin of Tata Tea have remained steady in spite of rising raw tea prices at around 30% (due to pricing power), while margins of McLeod Russel's (a commodity company) have increased purely on the back of rise in tea prices.
- Thus, the nature of business of Tata Tea has changed to being a branded packet tea player (an FMCG company).
- Tata Tea trades at FY11E PE of 14x compared to FMCG sector average PE of 25x for similar time period.



# LEADERS/WARRIORS - Investment In Deep Economic Moats

## Investment in companies with deep economic moats (competitive advantages):

- We invest in companies, which possess deep economic moats in the form of:
  - a) Superior Brands,
  - b) High Market shares
  - c) Any other competitive advantage
- Companies with such characteristics, if purchased at a reasonable price yield great results if held for a reasonably long period.
- These are stable growth companies and serve as a good defense in times of economic distress.
- The investor returns in such companies are driven primarily from earnings growth.

### Example

#### Page Industries

Page Industries is a leader with 20% share in premium innerwear market in India, which is growing at a fast pace of more than 30% CAGR for last 5 years.



- Page Industries, market capitalisation has followed its profits over the last 4 years in line with its perception as a well established company with deep economic moat in the form of its brand and superior market share.
- Page RoE (9-yr avg at 62%) has consistently remained far higher than its nearest listed competitor Maxwell Industries (9-yr avg at 8%) .



# FROG PRINCE / SHOT GUN / COMMODITIES - Tap Opportunistic Investments

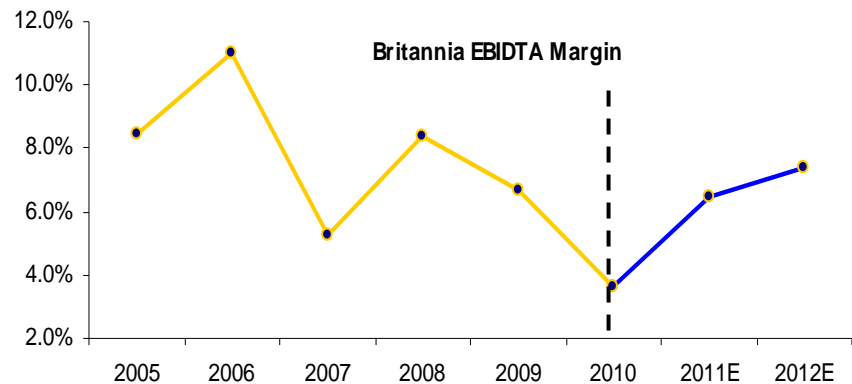
## Invest in companies with visible catalysts:

- We invest in companies with visible/expected catalysts like:
  - a) Ongoing turnaround in operations,
  - b) Improvement expected in underlying commodity cycle,
  - c) Corporate actions.
- Such companies usually have low RoE or are not very profitable.
- Also these companies typically have their own intrinsic strengths (like dominant brand, market share, captive raw materials, etc) in its core business.
- Due to expected changes (managerial, strategy, commodity cycle, etc), fundamentals are expected to turnaround in the near future.

## Example

### Britannia Industries

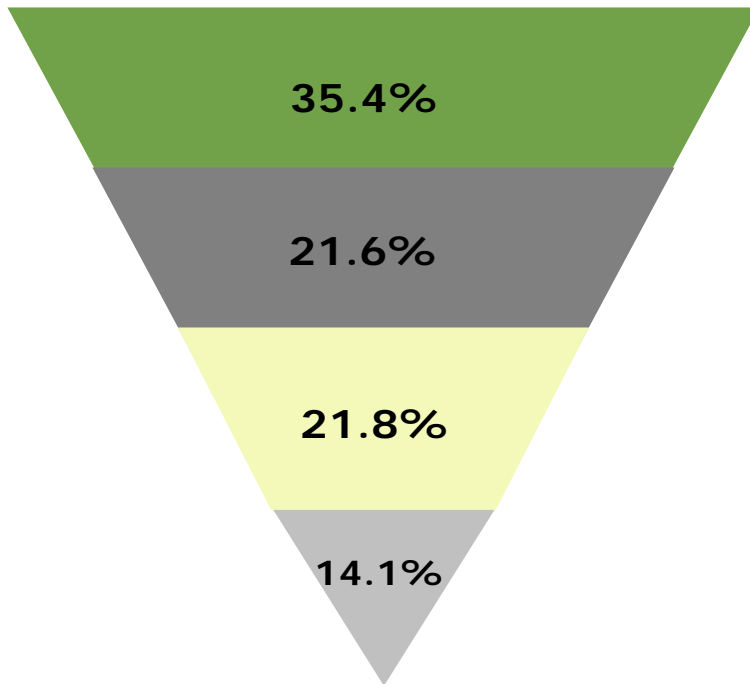
- Britannia is the market leader in the Indian biscuits market, with a market share of around 30%.
- It is expected to report improvement in profit margins in FY11E and FY12E (after a sharp dip in FY10), as prices of its key raw material like raw sugar have declined sharply.



# Portfolio Construction

# Religare Mid Cap Portfolio - Diversified Sources of Alpha

Religare Mid Cap fund would typically have the portfolios constructed as follows:



## High Growth (STARS):

Companies experiencing a period of growth due to industry or company factors:

Largest proportion of the fund corpus to be invested in Stars

## Undervalued (DIAMONDS):

Companies with potential for value unlocking or multiple expansion:

Second largest proportion of the fund corpus to be invested in Diamonds

## Young / Established Companies (LEADERS, WARRIORS):

Track record of leadership, globally competitive, growth prospects better than the industry:

Third largest portion of fund to be invested in Leaders and Warriors

## Turnarounds / Opportunistic Investments / Commodity Cycle (COMMODITIES, SHOT GUN, FROG PRINCE):

Catalysts in place with evidence that growth is returning:

Smallest portion to be invested in Commodities, Shot Gun and Frog Prince categories

Note: Category mix may change based on market view and valuations

There may be some imbalance in actual portfolio over the intended categorization mix due to profit booking, change in view, etc. Data as on 30<sup>th</sup> July, 2010



# Portfolio Characteristics

- Blend of best of both worlds – Growth and Value
  - Primary focus is to capitalize on growth opportunities in a fast growing economy
  - Look to participate in market cycles by investing in value in beaten down and neglected areas
- Well diversified portfolio with at least 30 stocks
- Liquidity is managed at the aggregate portfolio level
- Selling decisions are based on views and appropriate valuations as relevant to each category of stocks
- The scheme intends to follow a fully invested approach, targeting greater than 90% equity allocation
- Alpha generation is driven by stock selection and sector allocation



# Outlook on Mid Caps

## Medium Term:

- On an absolute basis, midcap stocks are valued largely in line with their growth prospects
- Relative to the Largecap Index, the Midcap Index trades at a discount, as in many cases the fundamentals of some of its constituents are also weaker. Therefore, our focus is more on stock selection to identify fundamentally strong companies within the midcap space

## Long Term

- MidCaps are the best compounding machines to grow capital over the long term
- Longer term returns expected to be greater than nominal GDP growth on the back of twin engines of earnings growth and valuation re-rating
- Midcap stocks are the best way to gain exposure to some of the rapidly growing emerging industries and business that are being driven by the structural changes in the economy
- The widening pool of entrepreneurial talent in India is best tapped in midcap stocks



# Disclaimer

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**Risk Factors: All mutual funds and securities investments are subject to market risks and there can be no assurance that the objective of the Scheme will be achieved.** Investment in Mutual Fund units involve investment risks such as trading volumes, settlement risk, liquidity risk, default risk including the possible loss of capital. **As with any investment in securities, the NAV of the units issued under Scheme may go up or down depending upon the factors and forces affecting the securities markets.** The mid cap stocks carry higher liquidity risk as they are less extensively researched compared to large cap stocks. This may lead to abnormal illiquidity and consequent higher impact cost. Past performance of the Sponsor and its affiliates / AMC / Mutual Fund and its Scheme(s) do not indicate the future performance of the Scheme of the Mutual Fund. Investors in the Scheme are not being offered any guaranteed / assured returns. **Religare Mid Cap Fund, an open ended equity fund is only the name of the Scheme and does not in any manner indicate either the quality of the Scheme, its future prospects and returns. Please read the Scheme Information Document and Statement of Additional Information carefully before investing. Statutory Details:** Religare Mutual Fund has been set up as a trust sponsored by Religare Securities Ltd. (liability restricted to Rs. 1,50,000) with Religare Trustee Company Ltd. as the Trustee (Trustee under the Indian Trusts Act, 1882) and with Religare Asset Management Company Ltd. as the Investment Manager.

Mktg/midcap ppt/072010/C00280



# Get In Touch

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