



Invesco India R.I.S.E Portfolio

R.I.S.E : R - Recovery in Demand, I - Idle Capacity-potential for operating leverage, S - Superior Business Model, E - Earnings Recovery

December 2017



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Turning Adversity Into Opportunity



What

- Profits at subdued levels
- Some companies exhibiting low capacity utilization and high debt levels
- Fall in raw material prices a tailwind for some businesses

Why

- Global Slowdown
- Mixed trends at a nascent stage in recovery
- Weak commodity prices

How

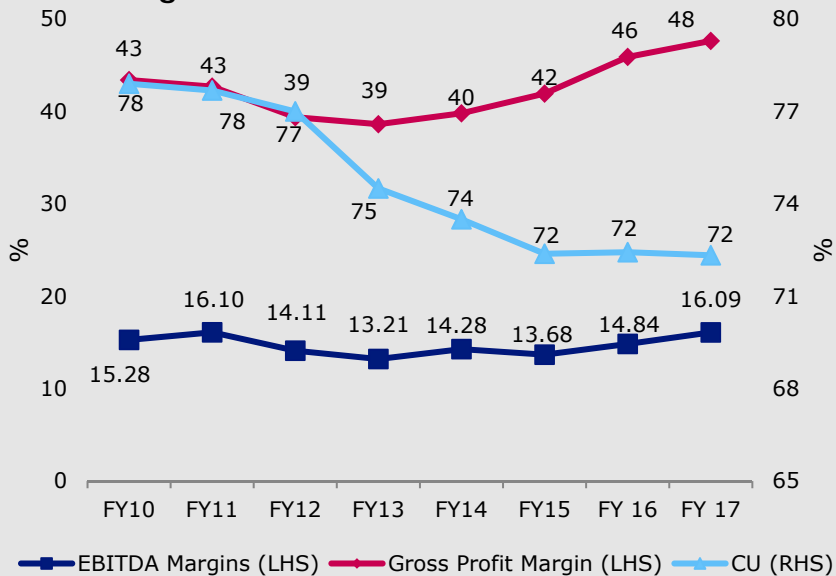
- Demand recovery would lead to better capacity utilization
- No further capex required to meet growth in demand
- Decline in financial leverage
- Profitability expected to spring back

**Transient Opportunity – Good businesses at attractive valuations;
Spring effect on Profitability**

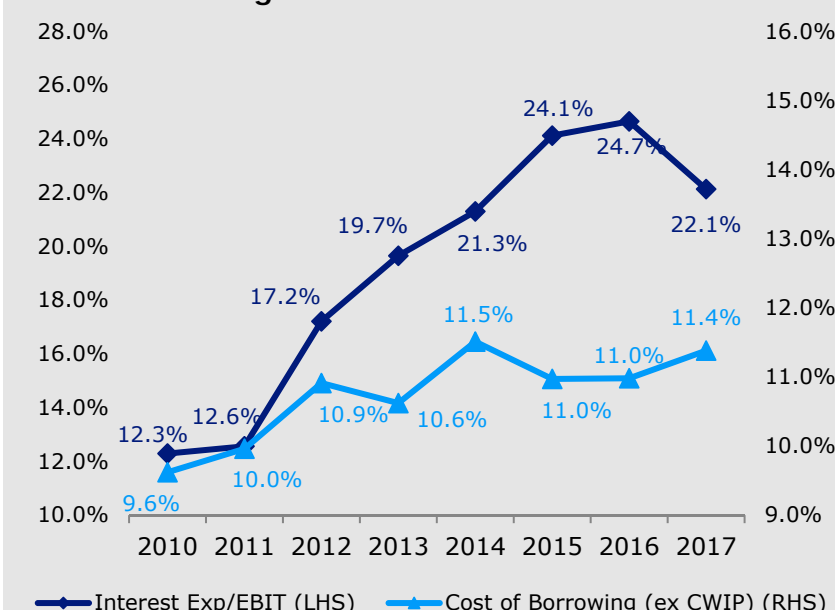
Earnings – Levers for Recovery



Capacity Utilisation vs. EBITDA Margin trends & Gross Profit Margin



Financial Leverage



- While current earnings cycle is weak, there are levers to earnings recovery
- India’s incorporation’s capacity utilization is at a 6-year low
- Interest expense in FY17 constitutes 22% of EBIT as compared to 12% in 2010 highlighting significant financial leverage
- Any cyclical recovery in demand should result in more than proportionate uptick in earnings due to higher degree of operating and financial leverage

Source: RBI, IIFL, Capitaline, Invesco Asset Management (India) Research. EBITDA: Earnings before interest, taxes, depreciation, and amortization. EBIT: Earnings before interest and tax. CU: Capacity utilization. CWIP: Capital Work in Progress. Above graphs include company data, which are constituents of S&P BSE 200 Index (excluding financials).

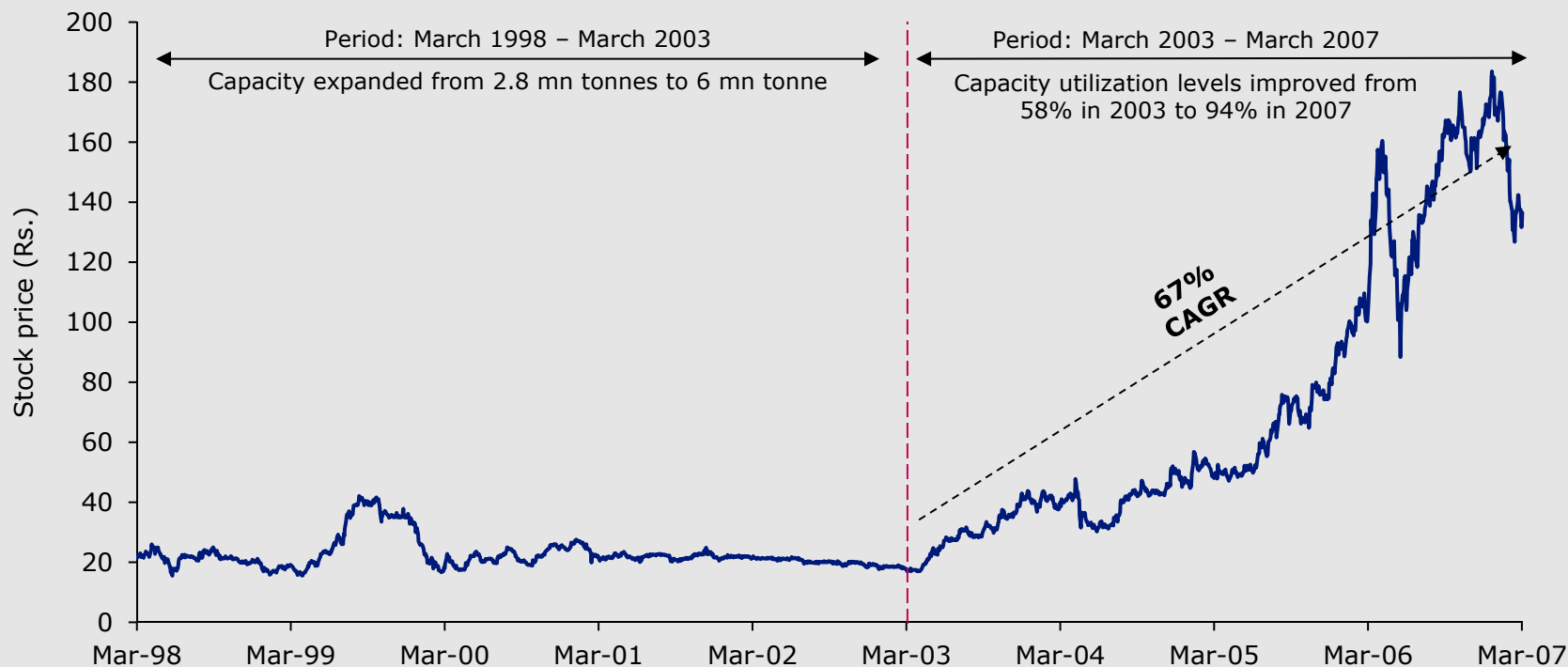


Has it Happened Before?



The Ramco Cements Ltd.

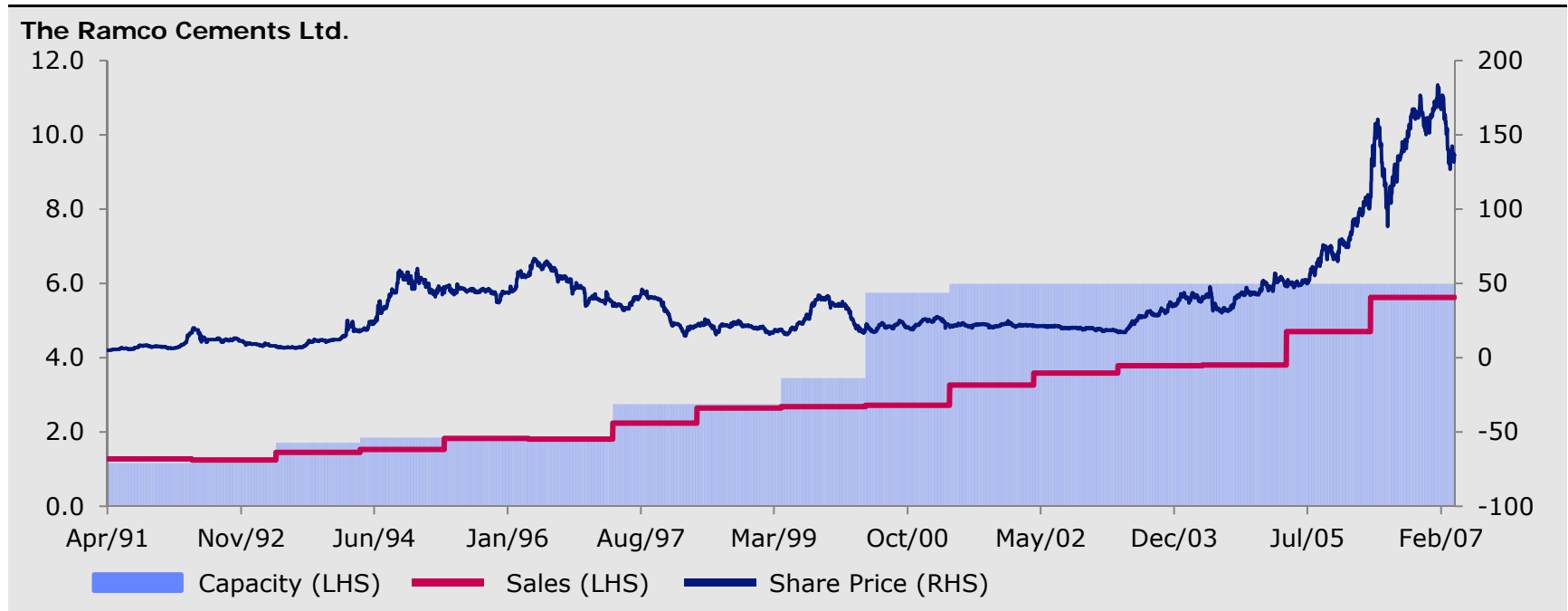
Improved capacity utilization due to demand growth



Source: Invesco Asset Management (India) Private Ltd. / Bloomberg. Adjusted Share Price. **CAGR**: Compound Annual Growth Rate.

Disclaimer: 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. IAM is not guaranteeing or forecasting any returns. The stock referred above should not be construed as recommendations from Invesco Asset Management (India) Private Ltd. ("the Portfolio Manager"). The Portfolio Manager may or may not hold position in this stock in future. This should not be seen as an investment advice.

Why Does it Happen?



- Capacity expansions happen in step fashion-minimum economic size of a new manufacturing plant/factory
- Demand growth is linear and prone to fluctuations
- Results in periods where capacity is ahead of demand
- But when utilization increases (gap between capacity & sales reduces) then margins and profits spring back

Source: Invesco Asset Management (India) Private Ltd. / Bloomberg. Adjusted Share Price. **CAGR:** Compound Annual Growth Rate.

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Presenting Invesco India R.I.S.E Portfolio



R.I.S.E : R - Recovery in Demand, I - Idle Capacity-potential for operating leverage, S - Superior Business Model, E - Earnings Recovery



- Recovery in Demand
- R.I.S.E in Discretionary Spending



- Idle Capacity – Potential for operating leverage
- Interest cost to decline as financial leverage declines



- Superior Business models; healthy balance sheets
- Suppressed Earnings; can spring back swiftly



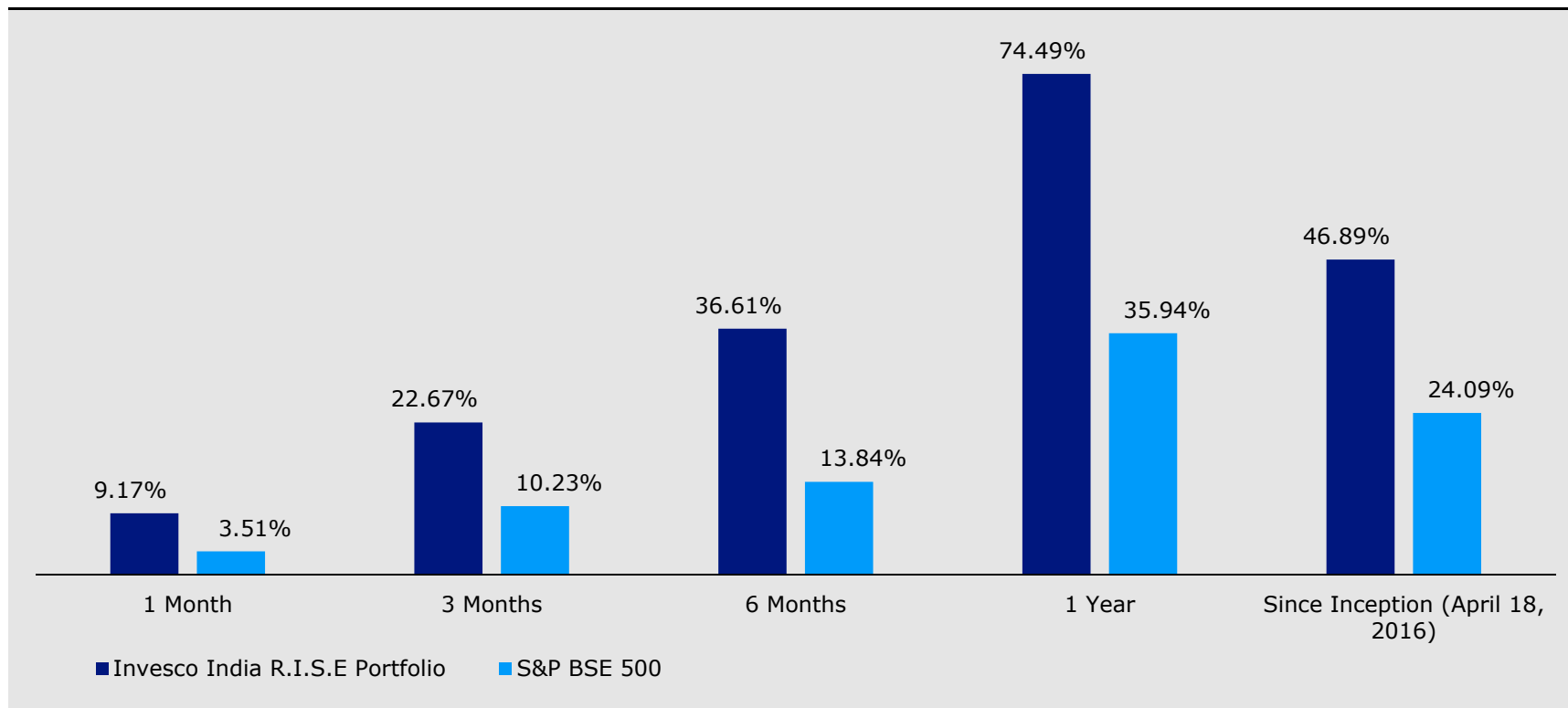
- Earnings recovery on the back of operating & financial leverage
- Expansion of Valuation can add to returns

Portfolio Update



Model Portfolio Performance

As on December 31, 2017



Past performance may or may not be sustained in future. Returns up to 1 year are absolute Returns and returns over 1 year are Compounded Annualized Returns. The returns are calculated on the basis of daily market value of the Portfolio.

Disclaimer: The returns of model portfolio given above are for illustration purpose only. Model portfolio returns does not take into account expenses/charges and Profit/Loss on account of derivative transactions. Returns under client wise portfolio may vary vis-à-vis returns of model portfolio due to various factors viz. timing of investment/additional investment in client's portfolio, timing of withdrawals in client's portfolio, mandates given by respective client, profit/loss on account of derivative transactions, expenses charged to respective portfolio, dividend income in the respective portfolio etc. The Portfolio manager does not offer guaranteed or assured returns. Securities investments are subject to market risks, please read the Disclosure Document carefully before investing.



Model Portfolio Characteristics

December 31, 2017



Characteristic	Invesco India R.I.S.E Portfolio	S&P BSE 500
Dividend Yield ¹	0.39%	0.39%
12 Month Trailing Price to Earnings ¹	34.5	25.0
12 Month Trailing Price to Book Value ¹	4.0	3.0
Return on Equity ¹ FY 18 Estimate	14.7%	13.6%
Return on Assets ¹ FY 18 Estimate	4.7%	2.5%
Price to Earnings ¹ FY 18 Estimate	24.7	22.9

Good businesses available at reasonable valuations

¹ Weighted Harmonic Mean

Note: Excludes companies with net loss for appropriate results for various ratios

Source: Factset, Internal.

Model Portfolio Holdings

December 31, 2017



Portfolio Holdings

Top 15 Holdings	% of Net Assets
KEC International Ltd.	7.15
Balkrishna Industries Ltd.	6.97
Coromandel International Ltd.	6.68
Mahindra & Mahindra Fin Services Ltd.	5.74
Shriram Transport Finance Co. Ltd.	5.66
Tata Steel Ltd.	5.06
Ramkrishna Forgings Ltd.	4.96
Mahindra & Mahindra Ltd.	4.76
Dixon Technologies India Ltd.	4.55
Gujarat State Petronet Ltd.	4.41
L & T Finance Holdings Ltd.	4.38
VIP Industries Ltd.	4.33
AIA Engineering Ltd.	4.25
J K Cement Ltd.	4.20
National Aluminium Co. Ltd.	3.84

Portfolio Themes

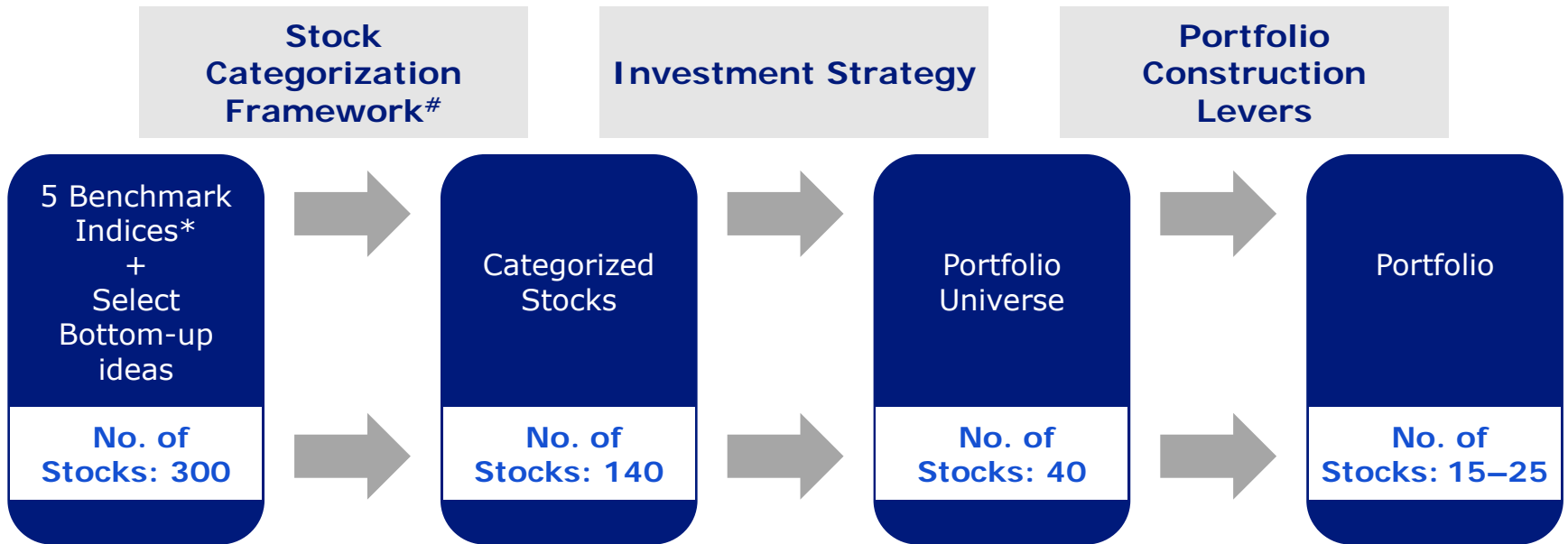
Theme	% of Net Assets
Operating Leverage	49.88
Operating and Financial Leverage	24.41
Financial Leverage	16.46
Deep Value	2.25

Sector

Sector	% of Net Assets
Materials	31.44
Consumer Discretionary	22.86
Financials	15.78
Industrials	11.40
Utilities	4.41
Health Care	3.72
Consumer Staples	3.39
Cash & Cash Equivalent	7.00

The stock & sectors referred above should not be construed as recommendations from Invesco Asset Management (India) Private Ltd. ("the Portfolio Manager"). The Portfolio Manager may or may not hold position in this stock in future. This should not be seen as an investment advice. **Operating Leverage:** Companies currently operating at low capacity utilization and have large portion of costs fixed in nature. These companies can make more money from each additional sale as demand recovers. **Financial Leverage:** Companies which can generate returns greater than the interest expense associated with the debt they use to fund growth. Further, could increase their profit margin from decline in interest rates and reduction in debt due to profit growth. **Deep Value:** Deep value investing seeks to purchase stocks at an even greater discount to their intrinsic value. **Securities investments are subject to market risks, please read the Disclosure Document carefully before investing.**

Stock Selection Process



#For details on Stock Categorization Framework please refer next slide.

*5 Benchmark Indices: S&P BSE 200 Index, Nifty Free Float Midcap 100 Index, Nifty Infrastructure Index, Nifty Bank Index and S&P BSE PSU Index



Stock Categorization Framework



Stock Category	Descriptions (e.g.)	Growth Prospects (e.g.)	Company Attribute (e.g.)	Financial Parameter (e.g.)	
Leader	Established companies	In line or better than industry	Track record of leadership, globally competitive	Industry leading margin / ROE	Growth
Warrior	Young / established companies	Better than industry	Unique proposition and / or right place, right time	Margin & ROE expansion	
Star	Young companies	High growth	Entrepreneur vision, scalability	Operating Leverage	
Diamond	Company with valuable assets	Low growth	Management intent to unlock value	Value of asset / business	Value
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	Event
Commodities	Call on the cycle is paramount	Positive	Integration, cost efficiency, globally competitive	Profit leverage	

P2P: Path to Profit; ROE: Return on Equity.

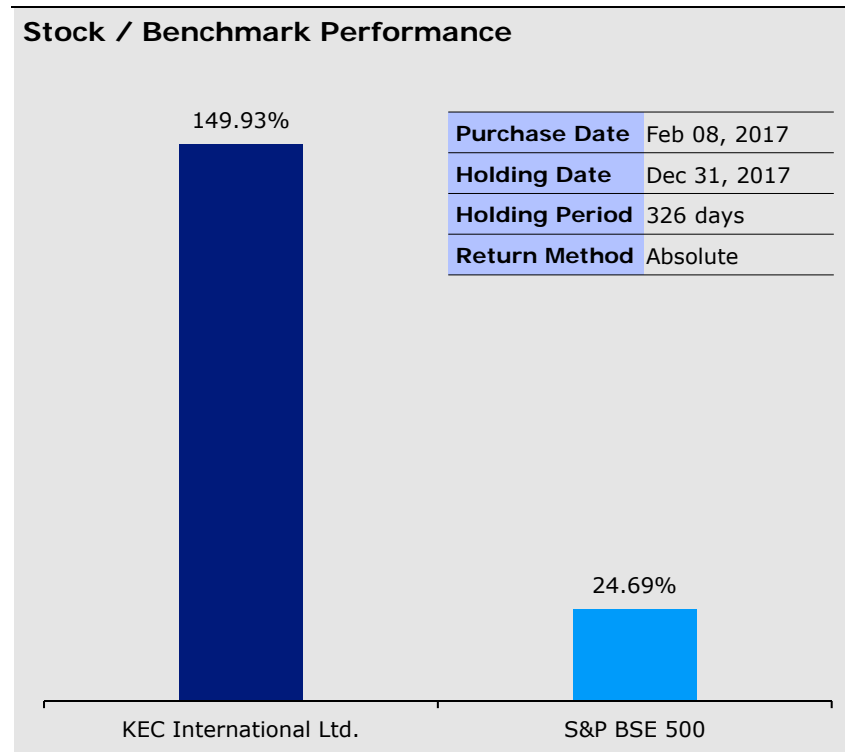
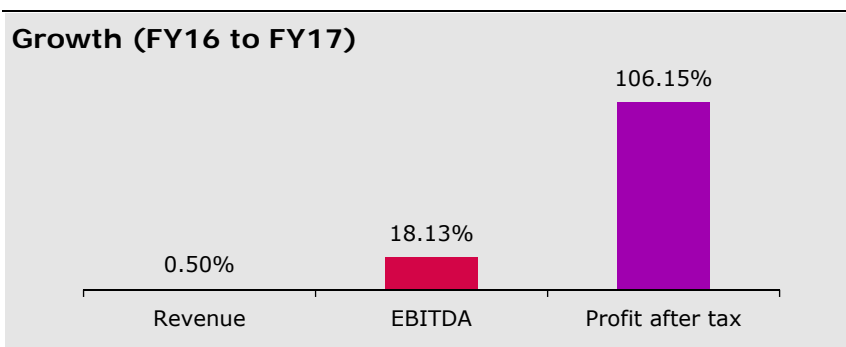
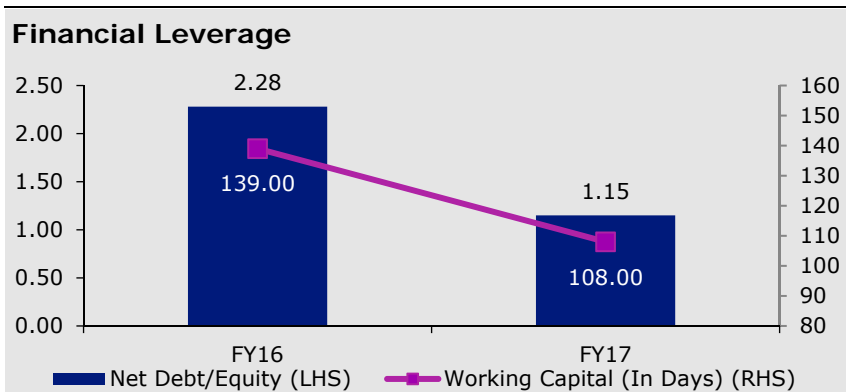
Performance Contributors



KEC International Ltd.



Improvement in EBITDA. Reduction in debt on account of improved cash flow from operations

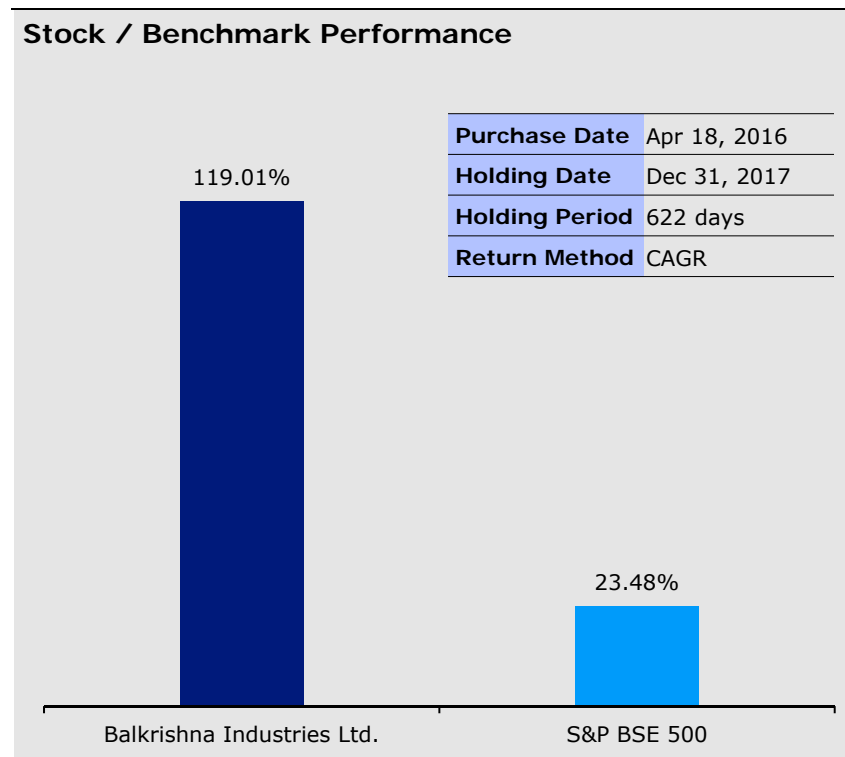
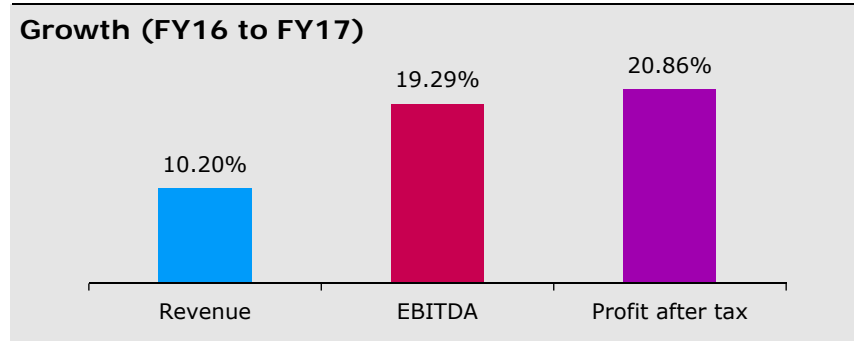
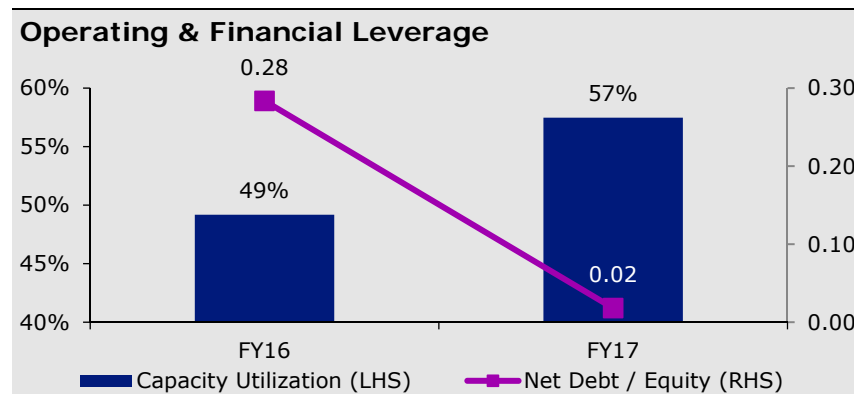


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Balkrishna Industries Ltd.

Higher capacity utilization lead to Margin expansion & reduction in Net Debt to Equity

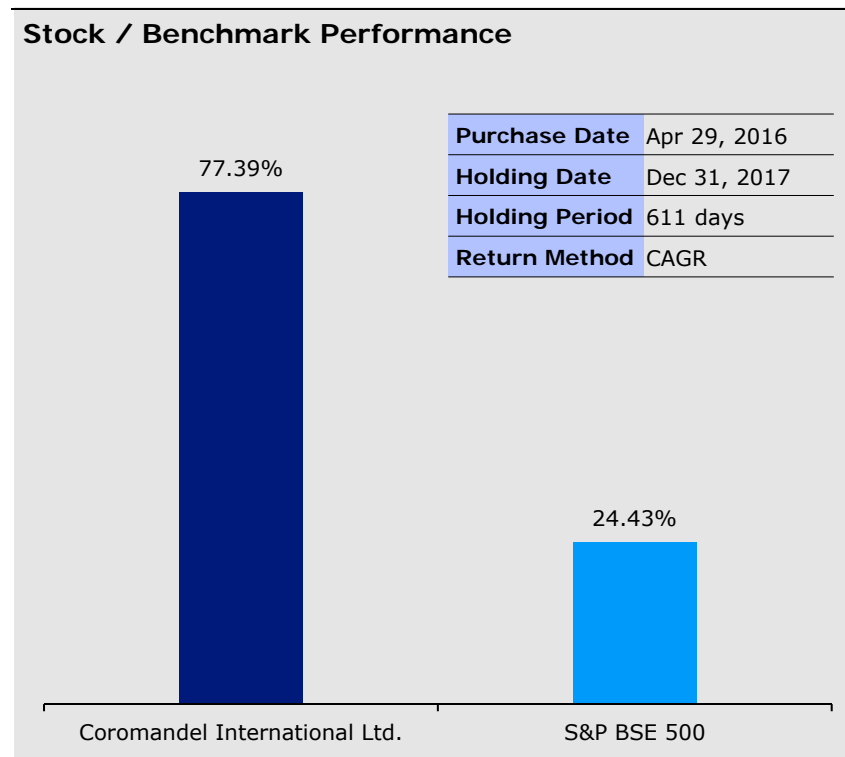
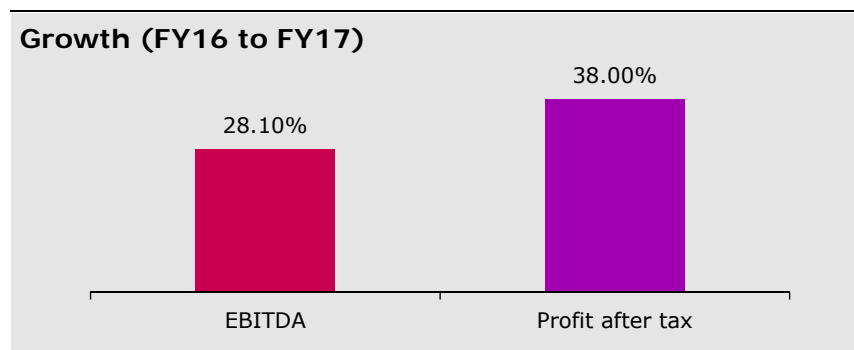
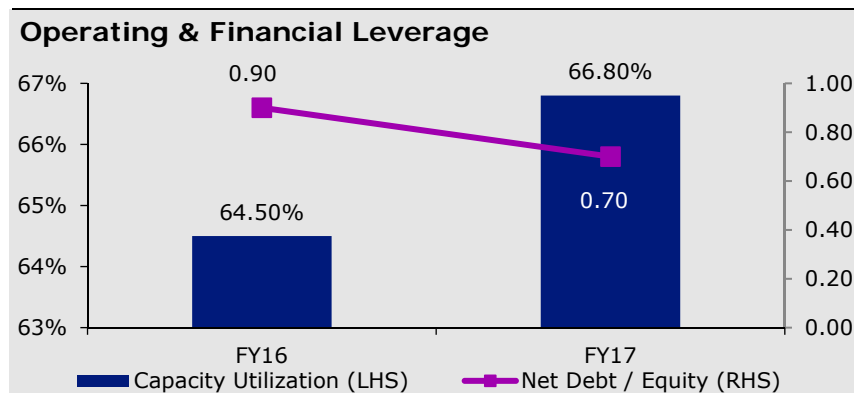


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Coromandel International Ltd.

Higher capacity utilization lead to margin expansion & reduction in Debt to Equity ratio



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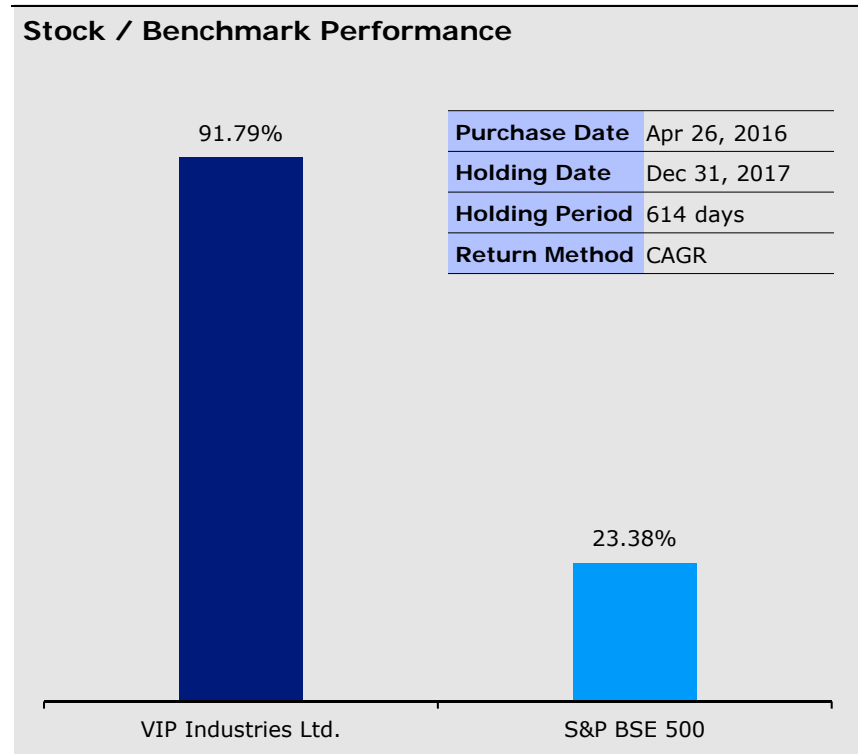
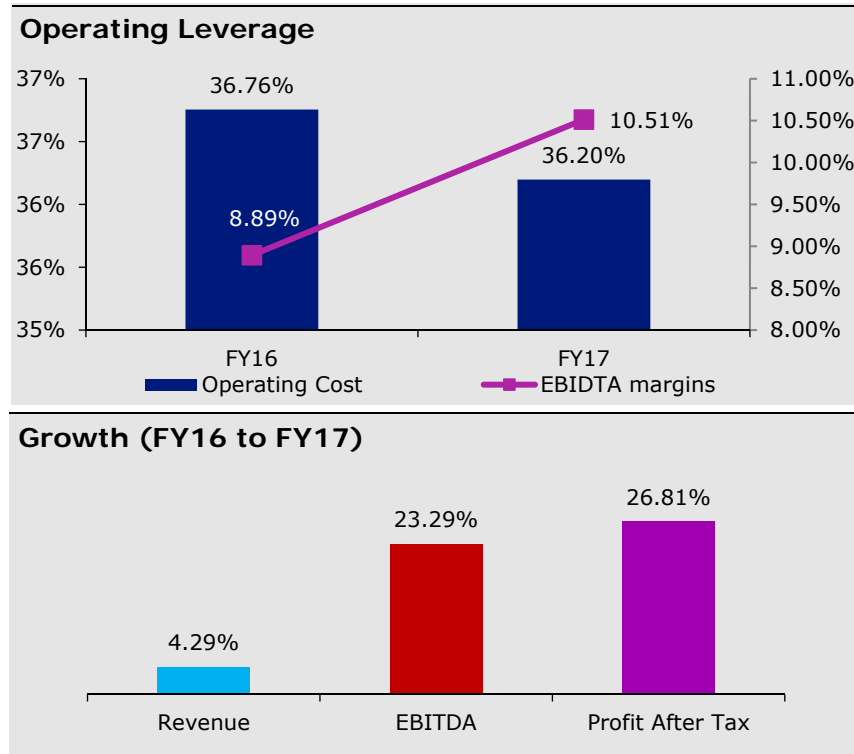
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VIP Industries Ltd.



Operating leverage leading to EBITDA growth significantly higher than topline growth



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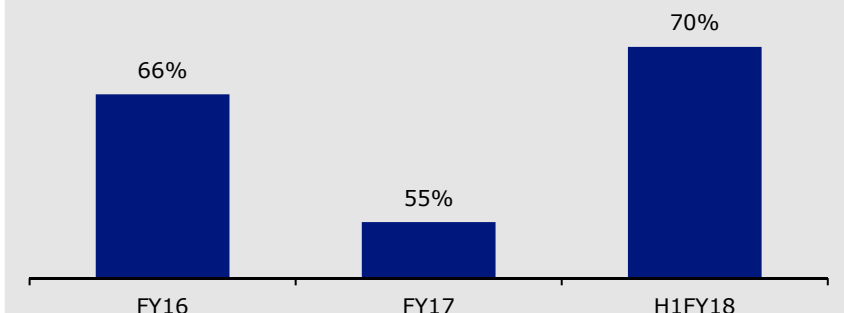


Ramkrishna Forgings Ltd.

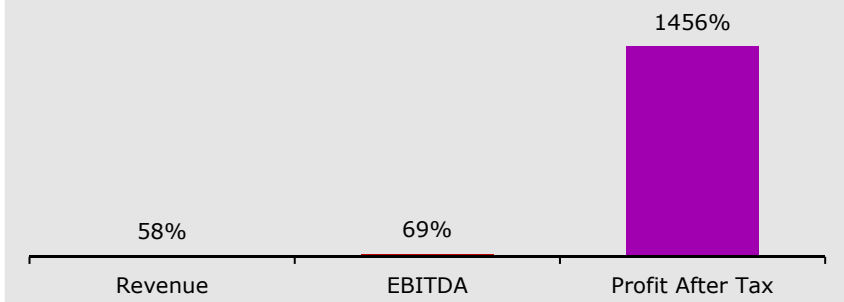
Higher capacity utilization leading to operating and financial leverage



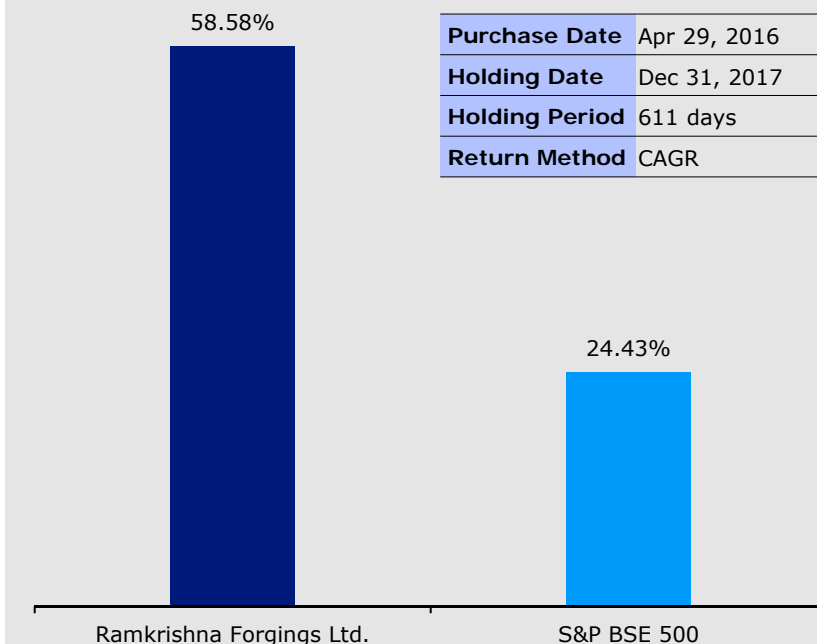
Capacity Utilization



Growth (H1FY17 to H1FY18)



Stock / Benchmark Performance



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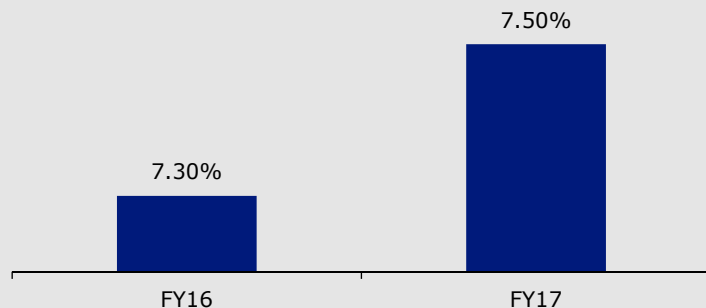


TVS Motor Company Ltd.

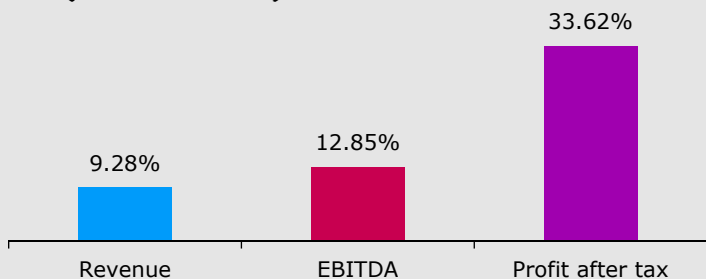
Operating leverage led to improvement in margins



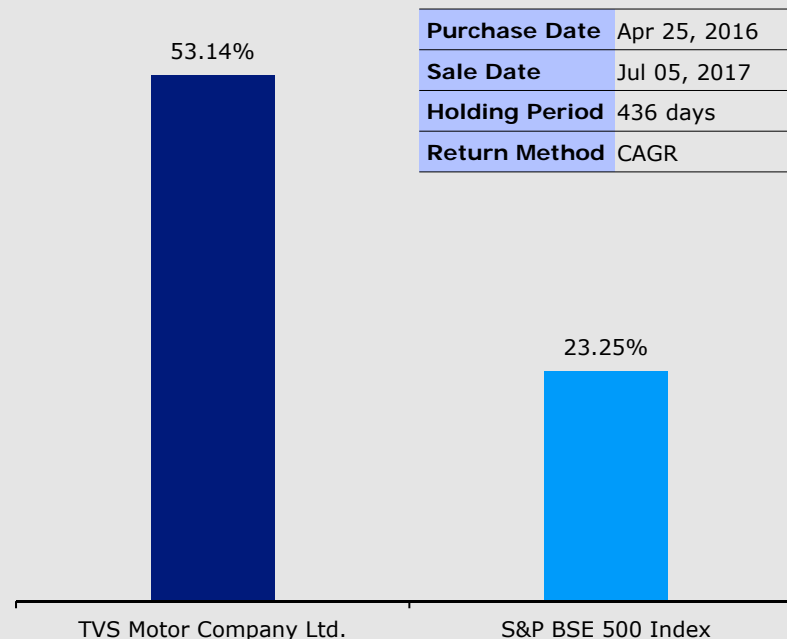
Operating Leverage - Operating Margins



Growth (FY16 to FY17)



Stock / Benchmark Performance



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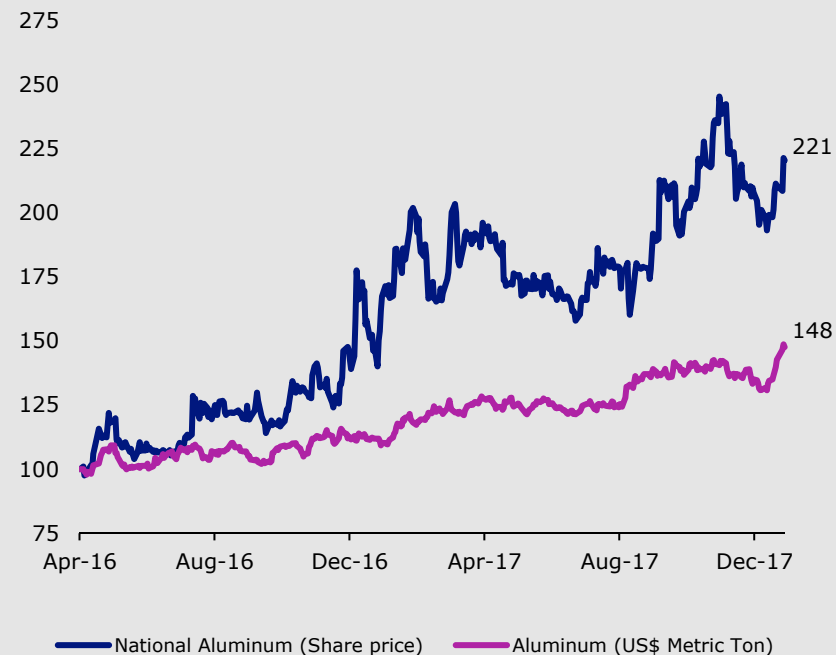


National Aluminum Co. Ltd.

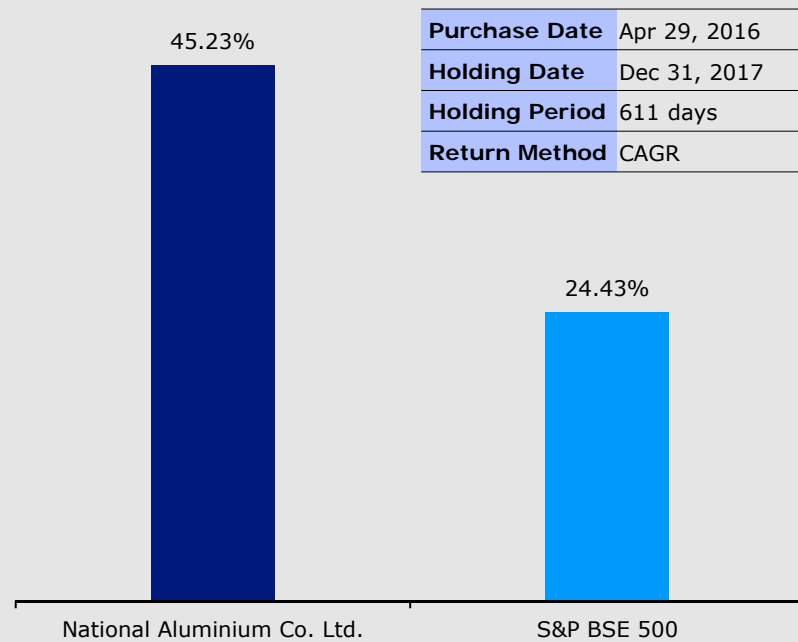
Proxy to Aluminum price



Aluminum price vs National Aluminum stock price



Stock / Benchmark Performance



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Portfolio Laggards

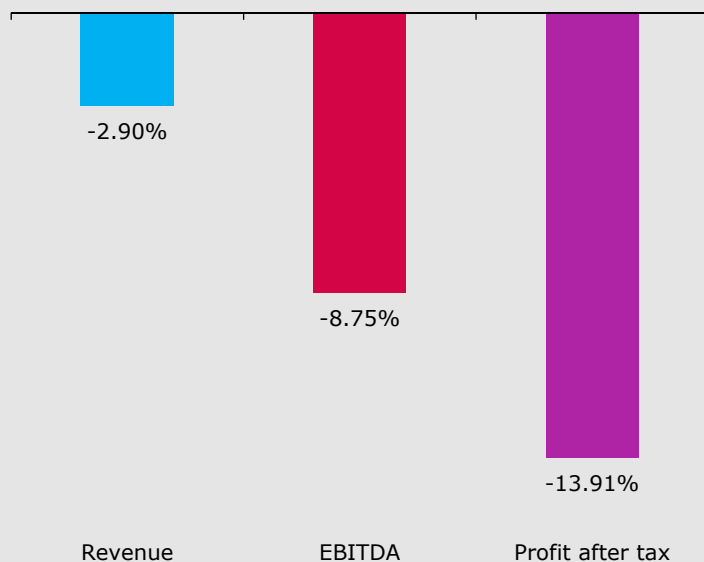


Power Mech Projects Ltd.

Deterioration in working capital

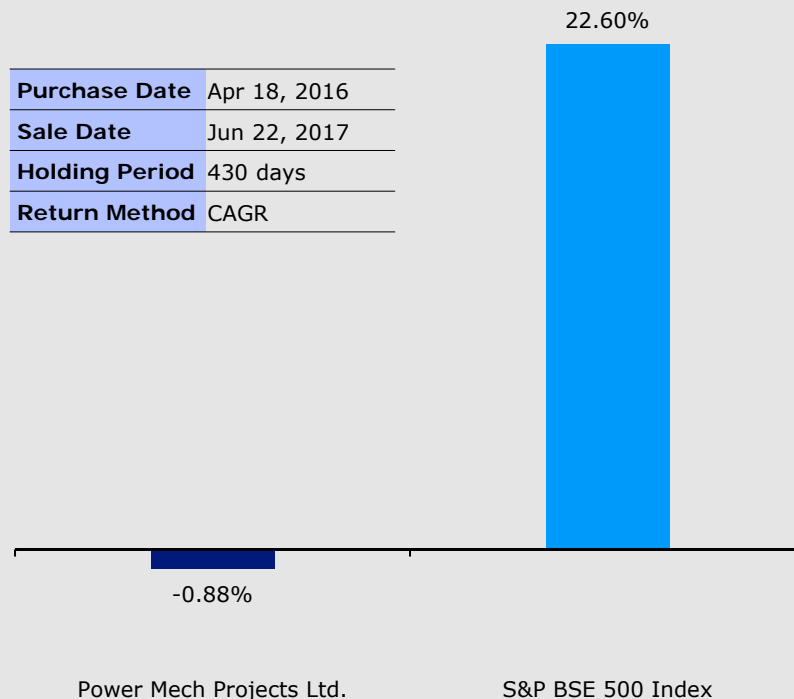


Growth (FY16 to FY17)



Stock / Benchmark Performance

Purchase Date	Apr 18, 2016
Sale Date	Jun 22, 2017
Holding Period	430 days
Return Method	CAGR



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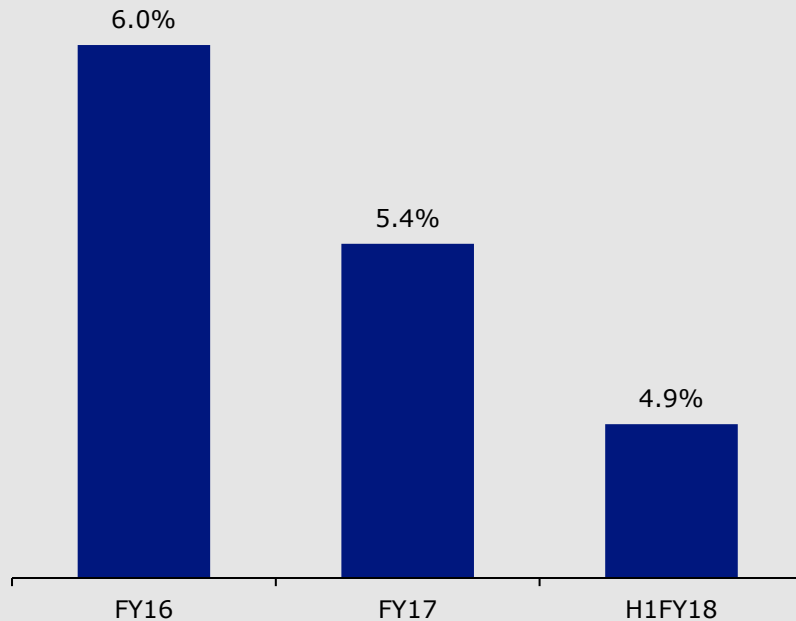
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Gujarat Pipavav Port Ltd.

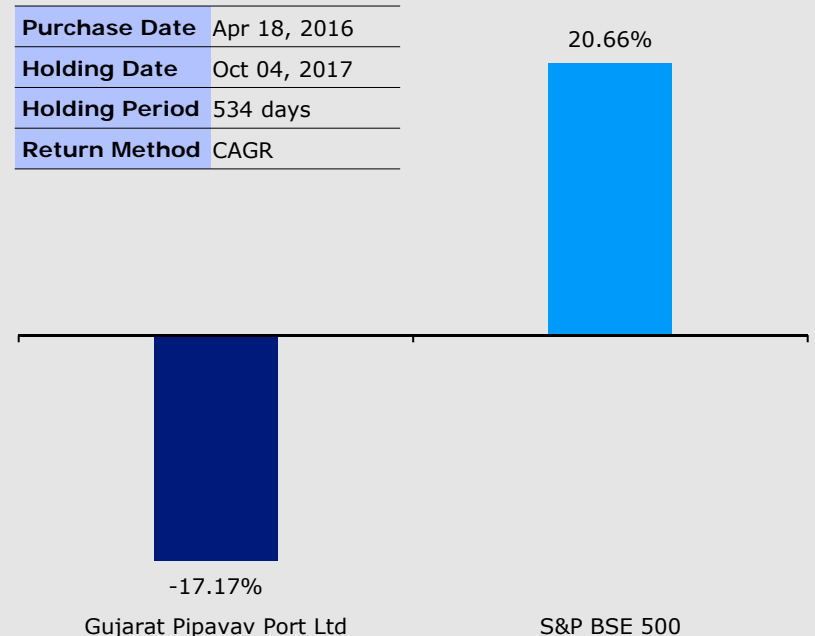
Falling market share



Market share in India's Overall Container Volumes



Stock / Benchmark Performance



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Invesco India R.I.S.E Portfolio



Portfolio Name	Invesco India R.I.S.E Portfolio (R.I.S.E: R- Recovery in Demand, I- Idle Capacity-potential for operating leverage, S- Superior Business Model, E-Earnings Recovery)	
Portfolio Objective	To generate capital appreciation by investing in equity and equity related securities.	
Portfolio Description	The portfolio will comprise of companies which will benefit from revival in economic growth and R.I.S.E in consumer discretionary spending. The portfolio will favour companies that will benefit from operating and financial leverage. The portfolio will also include companies where dividend yield is attractive.	
Indicative Asset Allocation Pattern	Under normal circumstances, the asset allocation of the portfolio shall be as follows:	
	Instrument	Indicative Allocations (% of portfolio value)
	Equity & Equity Related Instruments (Including Equity Derivatives)#	60% to 100%
	Cash & Cash Equivalent	0% to 40%
	# The portfolio may have exposure to derivatives up to 30% of the portfolio value in accordance with guidelines issued by SEBI.	
Benchmark	S&P BSE 500	

Risk Factors & Mitigates



Delay in Earnings Recovery

Companies in this portfolio are not immune to pain in the P&L account but their Balance sheets give them staying power

Valuation De-rating

Valuations are attractive and provide cushioning given that inherent earnings power of these companies is superior to current reported earnings



Mr. Chetan Shah, CFA
Senior Portfolio Manager – Portfolio Management Services

Chetan has experience of 23 years in Indian equity markets; of which 11 years were spent in portfolio management and previous 11 years were in equity research. He has been with PMS division since inception. Prior to this he worked with Quantum Securities as Head of Research and at DBS Securities India as a Senior Analyst. Chetan holds an Electronics Engineering degree, a PGDM from Jamnalal Bajaj Institute of Management Studies and a CFA charter from CFA Institute, USA. He is on the Board of Indian Association of Investment Professionals (IAIP), a not-for-profit organization and member society of CFA Institute, promoting ethics and professional excellence in the industry.

Global Presence **Invesco Limited**

- US\$917.5 billion in assets under management around the globe.
- Specialized investment teams managing investments across a wide range of asset classes and investment styles.
- On-the-ground presence in more than 20 countries, serving clients in more than 120 countries with Nearly 7,000 employees worldwide.
- Publicly traded on NYSE; S&P 500 constituent; market cap of nearly \$14 billion

Local Expertise **Invesco Asset Management (India)**

- Expertise across equity, fixed income and gold investments with assets under management & advisory mandates of INR 34,750.11 crores.
- More than 29 investment strategies across fixed income, equity and gold
- Proprietary stock selection process for Equity & Credit Appraisal process for Debt.
- Experienced Investment Management Team of 20 members with combined experience of over 260 years.
- Broad, deep and stable research platform.
- Defined and robust Risk Management Processes

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Get in Touch



Corporate Office:

Invesco Asset Management (India) Private Limited

2101-A, A Wing, 21st Floor, Marathon Futurex,
N. M. Joshi Marg, Lower Parel, Mumbai – 400013

T: +91-22-6731000 F: +91-22-23019422

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