

## 28<sup>th</sup> ANNUAL WEALTH CREATION STUDY (2018-2023)

# Hockey-Stick Returns

### The power of Economic Profit

#### HIGHLIGHTS

- Economic Profit is a superior metric to Accounting Profit to understand true profitability of a company.
- TEM (Trend, Endowment and Moves) is a sound strategy for companies to move up the Economic Profit Power Curve.
- Successful TEM companies bought at reasonable price improve the chances of Hockey-Stick Returns.
- Mid and small caps are favorably placed to deliver Hockey-Stick returns.
- After two decades of sustained decline, PSU stocks are on a comeback.

#### TOP 10 WEALTH CREATORS (2018-2023)

BIGGEST		FASTEST		CONSISTENT			
Rank	Company	Wealth Created (INR b)	Company	5-year Price CAGR (%)	Company	No. of years outperformed	5-year Price CAGR (%)
1	Reliance Industries	9,638	Lloyds Metals	79	Capri Global	5	50
2	TCS	6,774	Adani Enterprises	78	Varun Beverages	5	50
3	ICICI Bank	4,155	Tube Investments	63	Grindwell Norton	5	30
4	Infosys	3,618	Linde India	56	ICICI Bank	5	26
5	Bharti Airtel	2,808	Adani Power	52	Adani Enterprises	4	78
6	Hind. Unilever	2,718	Capri Global	50	Tube Investments	4	63
7	State Bank of India	2,442	Varun Beverages	50	Linde India	4	56
8	Bajaj Finance	2,285	Deepak Nitrite	49	Adani Power	4	52
9	Adani Enterprises	1,746	Persistent Systems	46	J B Chem & Pharma	4	45
10	HCL Technologies	1,636	J B Chem & Pharma	45	SRF	4	44

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## Motilal Oswal 28th Annual Wealth Creation Study

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### Abbreviations and Terms used in this report

Abbreviation / Term	Description
2013, 2018, 2023, etc	Reference to years for India are financial year ending March, unless otherwise stated
Avg	Average
CAGR	Compound Annual Growth Rate
INR bn	Indian Rupees in billion
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
WC	Wealth Created
Wealth Created	Increase in Market Capitalization over the last 5 years, duly adjusted for corporate actions such as fresh equity issuance, mergers, demergers, share buybacks, etc.

**Note:** Capitaline database has been used for this study. Source of all exhibits is MOFSL analysis, unless otherwise stated

## Wealth Creation Study

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### Objective, Concept & Methodology

#### Objective

The foundation of Wealth Creation is to buy 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, as in the past 28 years, we endeavor to cull out the characteristics of businesses that 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.

#### Concept & Methodology

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. For listed companies, we define Wealth Created as the difference in market capitalization over a period of last five years, duly adjusted for corporate events such as fresh equity issuance, mergers, demergers, share buybacks, etc.

We rank the top 100 companies in descending order of absolute Wealth Created, **subject to the company's stock price at least outperforming the benchmark index (BSE Sensex in our case).** These top 100 Wealth Creators are also ranked according to speed (i.e. price CAGR during the period under study).

We define **Consistent Wealth Creators** based on the number of years the stock has outperformed in each of the last 5 years. Where the number of years is the same, the stock price CAGR decides the rank.

We define **All-round Wealth Creators** based on the summation of ranks, under each of the 3 categories – Biggest, Fastest and Consistent. Where the scores are tied, the stock price CAGR decides the All-round rank.

#### Report structure

We present the 2018-2023 Wealth Creation Study highlights in pages 2-3. The detailed findings are presented in pages 32-48. Appendix 1 (pages 50-51) ranks the top 100 Wealth Creators by size, Appendix 2 (pages 52-53 ranks the same 100 Wealth Creators by speed, Appendix 3 (pages 54-55) lists the Consistent Wealth Creators, Appendix 4 (pages 56-57) presents the All-round Wealth Creators, and Appendix 5 (pages 58-59) provides an alphabetical listing of the Wealth Creators.

This year's theme study titled **“Hockey Stick Returns: The power of Economic Profit”** is featured in pages 4-31.

## Wealth Creation 2018-2023: Highlights

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### Reliance emerges as the largest Wealth Creator for the 5<sup>th</sup> time in a row

- For the fifth time in succession, **Reliance Industries** has emerged the largest Wealth Creator over 2018-23.
- This takes Reliance's overall No.1 tally to 10 in the last 17 five-year study periods.

Exhibit 1 **Top 10 Biggest Wealth Creators (2018-23)**

Rank	Company	Wealth Created		CAGR (%)		P/E (x)		RoE (%)	
		INR bn	% share	Price	PAT	2023	2018	2023	2018
1	Reliance Inds	9,638	13.7	22	13	24	15	9	12
2	TCS	6,774	9.6	18	10	28	21	47	30
3	ICICI Bank	4,155	5.9	26	35	18	23	16	7
4	Infosys	3,618	5.1	20	9	25	16	37	24
5	Bharti Airtel	2,808	4.0	16	45	49	115	11	2
6	Hind. Unilever	2,718	3.9	14	14	59	55	20	72
7	SBI	2,442	3.5	16	L to P	8	N.A.	17	-2
8	Bajaj Finance	2,285	3.2	26	36	30	41	21	16
9	Adani Enterprise	1,746	2.5	78	34	81	30	7	4
10	HCL Tech	1,636	2.3	18	11	20	16	22	24
<b>Total of Top 10</b>		<b>37,819</b>	<b>54</b>	<b>21</b>	<b>22</b>	<b>23</b>	<b>25</b>	<b>16</b>	<b>11</b>
<b>Total of Top 100</b>		<b>70,488</b>	<b>100</b>	<b>22</b>	<b>22</b>	<b>26</b>	<b>27</b>	<b>16</b>	<b>11</b>

### Lloyds Metals has emerged the Fastest Wealth Creator

- A low-profile company, **Lloyds Metals**, has emerged the Fastest Wealth Creator with 2018-23 Price CAGR of 79%.
- INR 1 million invested in 2018 in the top 10 Fastest Wealth Creators would be worth INR 10 million in 2023, a return CAGR of 59% vi/s 12% for the BSE Sensex.

Exhibit 2 **Top 10 Fastest Wealth Creators (2018-23)**

Rank	Company	Price Appn. (x)	Price CAGR %	PAT CAGR %	Mkt Cap (INR bn)		P/E (x)	
					2023	2018	2023	2018
1	Lloyds Metals	19	79	125	127	3	14	22
2	Adani Enterprises	18	78	34	1,995	172	81	30
3	Tube Investments	11	63	53	491	42	37	27
4	Linde India	9	56	91	344	38	65	179
5	Adani Power	8	52	L to P	739	92	7	N.A.
6	Capri Global	8	50	26	134	16	66	25
7	Varun Beverages	8	50	50	901	113	57	53
8	Deepak Nitrite	7	49	59	251	34	30	41
9	Persistent Systems	7	46	25	352	55	38	18
10	J B Chem & Pharma	6	45	31	153	26	37	24

### Capri Global is the Most Consistent Wealth Creator

- We define Consistent Wealth Creators based on the number of years the stock has outperformed in each of the last 5 years. Where the number of years is the same, the stock price CAGR decides the rank.
- Based on this, over 2018-23, yet another low-profile company, **Capri Global**, has emerged as the Most Consistent Wealth Creator. It has outperformed the BSE Sensex in all the last 5 years, and has the highest price CAGR of 50%.

Exhibit 3 **Top 10 Most Consistent Wealth Creators (2018-23)**

Rank	Company	No. of years of outperformance	2018-23 Price CAGR (%)	2018-23 PAT CAGR (%)		RoE (%)		P/E (x)	
				2023	2018	2023	2018	2023	2018
1	Capri Global	5	50	26	6	5		66	25
2	Varun Beverages	5	50	50	31	12		57	53
3	Grindwell Norton	5	30	19	19	15		59	39
4	ICICI Bank	5	26	35	16	7		18	23
5	Adani Enterprises	4	78	34	7	4		81	30
6	Tube Investments	4	63	53	33	12		37	27
7	Linde India	4	56	91	17	1		65	179
8	Adani Power	4	52	L to P	36	N.M.		7	N.M.
9	J B Chem	4	45	31	16	7		37	24
10	SRF	4	44	36	21	13		33	24

N.M. – Not Meaningful

### Adani Enterprises is the Best All-round Wealth Creator for the second time in a row

- We define All-round Wealth Creators based on the summation of ranks, under each of the 3 categories – Biggest, Fastest and Consistent. Where the scores are tied, the stock price CAGR decides the All-round rank.
- Based on the above criteria, **Adani Enterprises** has emerged as the Best All-round Wealth Creator.

Exhibit 4 **Top 10 All-round Wealth Creators (2018-23)**

All-round Rank	Company	Rank			Total of Ranks	2018-23 Price CAGR (%)
		Biggest	Fastest	Consistent		
1	Adani Enterprises	9	2	5	16	78
2	Varun Beverages	21	7	2	30	50
3	Adani Power	23	5	8	36	52
4	Tube Investments	30	3	6	39	63
5	ICICI Bank	3	37	4	44	26
6	SRF	25	11	10	46	44
7	Linde India	49	4	7	60	56
8	Adani Energy	19	15	32	66	39
9	LTIMindtree	24	30	18	72	29
10	Reliance Industries	1	50	21	72	22

Detailed findings page 32 onwards.

# Theme Study

# Hockey-Stick Returns

## The Power of Economic Profit

**"You can shift the odds of strategy by capitalizing on your endowment, riding the right trends, and most important, making a few big moves."**

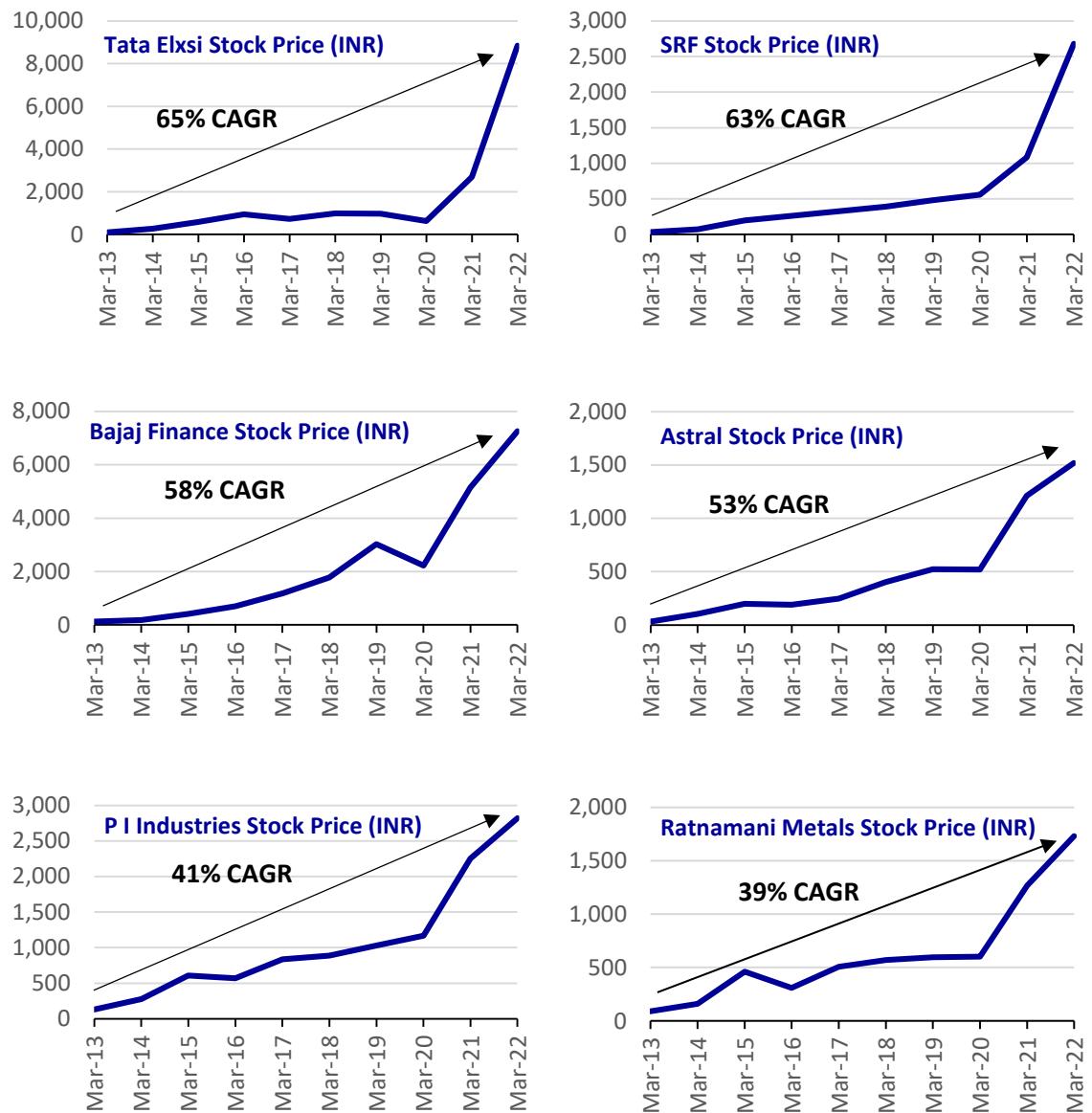
— From the book "Strategy Beyond The Hockey Stick"

### 1. What does Hockey-Stick Returns mean?

Sharp and sustained rise in stock price

For the purposes of this report, Hockey-Stick returns refers to a sharp and sustained rise in the price of a stock. This leads to a hockey-stick formation of the price chart, translating into handsome returns for the stockholders.

Exhibit 1 Examples of Hockey Stick Returns (2013-22)



## 1.1 What causes Hockey-Stick Returns

The most basic equation of equity investing is –

$$\text{EPS (Earning Per Share)} \times \text{P/E (Price-to-Earnings)} = \text{Stock Price}$$

or

$$\text{PAT (Profit After Tax)} \times \text{P/E} = \text{Market capitalization}$$

The above makes it clear that Hockey-Stick Returns is caused by Hockey-Stick earnings and/or Hockey-Stick P/E (or any other relevant valuation metric). Exhibit 2 presents the 2013-22 earnings CAGR and valuation expansion for the 6 stocks charted earlier.

**Exhibit 2 Hockey-Stick Returns are caused by Hockey-Stick Earnings and/or Hockey-Stick valuation**

<b>Company</b>	<b>2013-22 CAGR</b>			<b>PAT (INR bn)</b>		<b>P/E (x)</b>	
	<b>Price</b>	<b>PAT</b>	<b>P/E</b>	<b>2013</b>	<b>2022</b>	<b>2013</b>	<b>2022</b>
Tata Elxsi	<b>65%</b>	<b>37%</b>	<b>20%</b>	0.3	5.5	19	100
SRF	<b>63%</b>	<b>26%</b>	<b>29%</b>	2.3	18.9	4	42
Bajaj Finance	<b>58%</b>	<b>32%</b>	<b>23%</b>	5.9	70.5	10	62
Astral	<b>53%</b>	<b>26%</b>	<b>23%</b>	0.6	4.8	14	85
P I Industries	<b>41%</b>	<b>27%</b>	<b>12%</b>	1.0	8.4	18	51
Ratnamani Metals	<b>39%</b>	<b>10%</b>	<b>26%</b>	1.4	3.2	5	38

Clearly, the way to engender Hockey-Stick Returns is to invest in companies with high earnings growth at reasonable valuation. Conventionally, earnings are associated with Accounting Profit. In Section 2, we discuss the concept of Economic Profit, and why we believe it is a superior metric to Accounting Profit.

## 2. Identifying Hockey-Stick earnings

**Look for companies which will move up the Economic Profit Curve**

In this section, we draw upon concepts and insights from the book *Strategy Beyond The Hockey Stick* by a team of McKinsey authors, Chris Bradley, Martin Hirt and Sven Smit. The book is targeted primarily towards corporate managers. However, we unearthed quite a few insights for equity investors as well:

1. Economic Profit is (arguably) a superior metric to Accounting Profit
2. All companies can be mapped to an Economic Profit Power Curve
3. Companies which move up the Power Curve generate healthy returns to shareholders, and vice versa.

### 2.1 Economic Profit vs Accounting Profit

Be it by business managers, bankers, equity investors or who have you, Accounting Profit (AP) is the most widely used metric for various kinds of financial analysis. Sure enough, AP is a highly homogenized metric as it is based on the prevailing accounting principles common to all companies in a given geography. However, one key demerit of AP is the fact that it does not take into consideration the amount of equity (i.e. net worth) invested to generate a certain level of profit.



Consider Exhibit 3. Indian Oil's PAT is 4 times higher than that of Nestle. And yet, its Market Cap is lower than Nestle's. Such anomalies are better explained by the concept of Economic Profit.

Exhibit 3 **Accounting Profit anomaly**

INR bn	Nestle (CY22)	Indian Oil (FY23)	Indian Oil over Nestle
Accounting Profit	24	98	4 times higher profit
Net Worth	25	1,397	56 times higher equity employed ...
RoE	96%	7%	... translating to significantly lower RoE
Year-end Market Cap	1,890	1,100	Lower market cap ...
P/E (x)	<b>79</b>	<b>11</b>	<b>... due to much lower valuation</b>

### 2.1.1 Economic Profit – the concept and the math

The main feature of AP is that it incorporates all **explicit costs** to determine a company's profit and profitability. However, it excludes a key item, namely, the **implicit cost of invested equity capital, or simply, Cost of Equity (CoE)**.

Academically, based on CAPM (Capital Asset Pricing Model), every company may have a different CoE based on the following formula:

$$\text{CoE} = R_F + \text{Beta} \times (R_M - R_F)$$

where

$R_F$  is the Risk-free rate of return

$R_M - R_F$  is the equity risk premium where  $R_M$  = Equity market rate of return

Beta is the volatility co-efficient of the company's stock returns vis-à-vis market return

(Mathematically, Beta = Covariance of the security's returns and the market's returns divided by Variance of market returns over the long-term)

For the purposes of this report, **we have considered a uniform CoE of 10%** (more or less equal to the long-period return on Indian equity markets). Thus, based on our methodology –

$$\text{Economic Profit (EP)} = \text{Accounting Profit (AP)} \text{ minus } \text{Equity Charge}$$

$$\text{Equity Charge} = \text{Net Worth} \times \text{CoE} \text{ (10% in our case)}$$

$$\text{Therefore, EP} = \text{AP} - (\text{Net Worth} \times 10\%) \quad \dots \text{Equation 1}$$

Based on the Equation 1, the 3 determinants of EP are – (1) AP, (2) Net Worth, and (3) CoE.

$$\text{Now, RoE} = \text{AP} \div \text{Net Worth}$$

$$\text{Therefore AP} = \text{Net Worth} \times \text{RoE} \quad \dots \text{Equation 2}$$

Substituting AP in Equation 1, we get –

$$\text{EP} = (\text{Net Worth} \times \text{RoE}) - (\text{Net Worth} \times 10\%)$$

$$\text{i.e. EP} = \text{Net Worth} \times (\text{RoE} - 10\%) \quad \dots \text{Equation 3}$$

Based on the Equation 3, the 2 determinants of EP are – (1) Net Worth, and (2) Spread between RoE and CoE.

We can now revisit Exhibit 3 (see Exhibit 4 below). Nestle earns EP of INR 22 bn whereas Indian Oil actually has an EL (Economic Loss) of INR 42 bn. Thus, EP captures the true profitability of a company.

Exhibit 4 **Nestle's Economic Profit vs Indian Oil's Economic Loss**

INR bn	Nestle (CY22)	Indian Oil (FY23)
Accounting Profit (1)	24	98
Net Worth (2)	25	1,397
Cost of Equity (3)	10%	10%
Equity Charge (4) = (2) x (3)	3	140
<b>Economic Profit (5) = (1) - (4)</b>	<b>22</b>	<b>-42</b>
RoE (6) = (1) ÷ (2)	96%	7%
<hr/>		
Alternatively, Spread between RoE & CoE		
(7) = (6) - (3)	86%	-3%
<b>Economic Profit (8) = (2) x (7)</b>	<b>22</b>	<b>-42</b>

Based on the above methodology, we present below the EP of companies constituting Nifty 50.

Exhibit 5 **Economic Profit of Nifty 50 companies**

INR bn	2023					INR bn	2023				
	AP	NW	EC	EP	RoE		AP	NW	EC	EP	RoE
TCS	421	904	90	<b>331</b>	47%	IndusInd Bank	74	550	55	<b>19</b>	14%
Coal India	281	572	57	<b>224</b>	49%	Bajaj Finserv	64	464	46	<b>18</b>	14%
SBI	557	3,589	359	<b>198</b>	16%	Adani Ports	63	457	46	<b>17</b>	14%
HDFC Bank	459	2,894	289	<b>170</b>	16%	Britannia Inds	20	35	4	<b>17</b>	58%
Infosys	240	754	75	<b>164</b>	32%	Eicher Motors	29	150	15	<b>14</b>	19%
O N G C	408	2,806	281	<b>127</b>	15%	Bharti Airtel	88	776	78	<b>11</b>	11%
ICICI Bank	340	2,145	214	<b>125</b>	16%	Hero Motocorp	27	167	17	<b>11</b>	16%
ITC	191	692	69	<b>122</b>	28%	Larsen & Toubro	100	893	89	<b>10</b>	11%
HCL Technologies	146	654	65	<b>81</b>	22%	UPL	37	298	30	<b>7</b>	12%
Power Grid Corpn	156	830	83	<b>73</b>	19%	Hindalco Inds	101	948	95	<b>6</b>	11%
Bajaj Finance	115	544	54	<b>61</b>	21%	Maruti Suzuki	67	618	62	<b>6</b>	11%
Hind. Unilever	102	503	50	<b>51</b>	20%	Divi's Labs	18	128	13	<b>5</b>	14%
Axis Bank	181	1,298	130	<b>51</b>	14%	Cipla	28	234	23	<b>5</b>	12%
Kotak Mahindra	149	1,123	112	<b>37</b>	13%	SBI Life Insurance	17	130	13	<b>4</b>	13%
M & M	93	564	56	<b>36</b>	16%	Apollo Hospitals	8	62	6	<b>2</b>	13%
Wipro	114	777	78	<b>36</b>	15%	HDFC Life	14	130	13	<b>1</b>	11%
Bajaj Auto	60	294	29	<b>30</b>	20%	UltraTech Cement	50	543	54	<b>-4</b>	9%
Sun Pharma	86	560	56	<b>30</b>	15%	Tata Consumer	11	163	16	<b>-6</b>	7%
LTIMindtree	44	166	17	<b>27</b>	27%	Adani Enterprises	27	331	33	<b>-6</b>	8%
Asian Paints	41	160	16	<b>25</b>	26%	Grasim Inds	68	788	79	<b>-10</b>	9%
NTPC	170	1,470	147	<b>23</b>	12%	Tata Steel	86	1,031	103	<b>-17</b>	8%
Dr Reddy's Labs	46	233	23	<b>23</b>	20%	Tata Motors	25	453	45	<b>-20</b>	6%
Nestle India	24	25	2	<b>21</b>	97%	B P C L	33	535	54	<b>-20</b>	6%
Titan Company	33	119	12	<b>21</b>	27%	JSW Steel	38	657	66	<b>-28</b>	6%
Tech Mahindra	48	279	28	<b>20</b>	17%	Reliance Industries	668	7,159	716	<b>-48</b>	9%

**NW** – Net Worth; **EC** – Equity Charge @ 10% of NW

### 2.1.2 Economic Profit is a superior metric compared to Accounting Profit

Many equity investors consider AP and RoE before making their investment decision. However, juxtaposing the two can be somewhat fuzzy. Unlike this, EP offers a composite metric, capturing the interaction of AP and RoE. To assess the efficacy of EP vis-à-vis AP, for every year beginning 2014, we observed the return profile of the top 500 companies, classified into equal-weighted portfolios as tabled in Exhibit 6.

**Exhibit 6 Economic Profit portfolios have significantly superior performance compared to Economic Loss portfolios**

Price YoY ending	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Avg	CAGR	Alpha yrs
											+ve	-ve	
<b>Nifty 500 Return</b>	<b>18%</b>	<b>34%</b>	<b>-8%</b>	<b>24%</b>	<b>11%</b>	<b>8%</b>	<b>-28%</b>	<b>76%</b>	<b>21%</b>	<b>-2%</b>	<b>15%</b>	<b>13%</b>	
<b>RETURN</b>													
Top 500 by Mkt Cap	19%	58%	-5%	36%	13%	-8%	-33%	102%	28%	-2%	21%	16%	
All profit-making cos.	21%	62%	-5%	37%	15%	-7%	-32%	101%	26%	-1%	22%	17%	
<b>With EP</b>	<b>25%</b>	<b>72%</b>	<b>0%</b>	<b>37%</b>	<b>16%</b>	<b>-5%</b>	<b>-28%</b>	<b>98%</b>	<b>26%</b>	<b>-2%</b>	<b>24%</b>	<b>19%</b>	
With EL	14%	41%	-14%	38%	14%	-12%	-44%	109%	24%	1%	17%	11%	
All loss making	-1%	32%	-6%	28%	-4%	-23%	-44%	112%	43%	-8%	13%	6%	
<b>ALPHA OVER NIFTY 500</b>													
Top 500 by Mkt Cap	1%	24%	3%	12%	2%	-17%	-5%	26%	7%	1%	5%	3%	8 2
All profit-making	4%	28%	3%	13%	4%	-15%	-4%	25%	5%	1%	6%	4%	8 2
<b>With EP</b>	<b>7%</b>	<b>39%</b>	<b>8%</b>	<b>13%</b>	<b>4%</b>	<b>-13%</b>	<b>-1%</b>	<b>22%</b>	<b>5%</b>	<b>0%</b>	<b>8%</b>	<b>6%</b>	<b>8 2</b>
With EL	-4%	7%	-6%	14%	2%	-20%	-16%	33%	4%	3%	2%	-2%	6 4
All loss making	-19%	-1%	1%	4%	-16%	-31%	-17%	36%	22%	-6%	-3%	-6%	4 6
<b>NO. OF STOCKS</b>													
Top 500 by Mkt Cap	500	500	500	500	500	500	500	500	500	500	500	500	
All profit-making	438	435	446	436	448	453	456	454	451	466	448		
<b>With EP</b>	<b>296</b>	<b>286</b>	<b>290</b>	<b>309</b>	<b>311</b>	<b>330</b>	<b>351</b>	<b>322</b>	<b>324</b>	<b>341</b>	<b>316</b>		
With EL	142	149	156	127	137	123	105	132	127	125	132		
All loss making	62	65	54	64	52	47	44	46	49	34	52		

**Note:** EP – Economic Profit; EL – Economic Loss; For EP and EL companies, negative Alpha numbers are highlighted

### Two key takeaways:

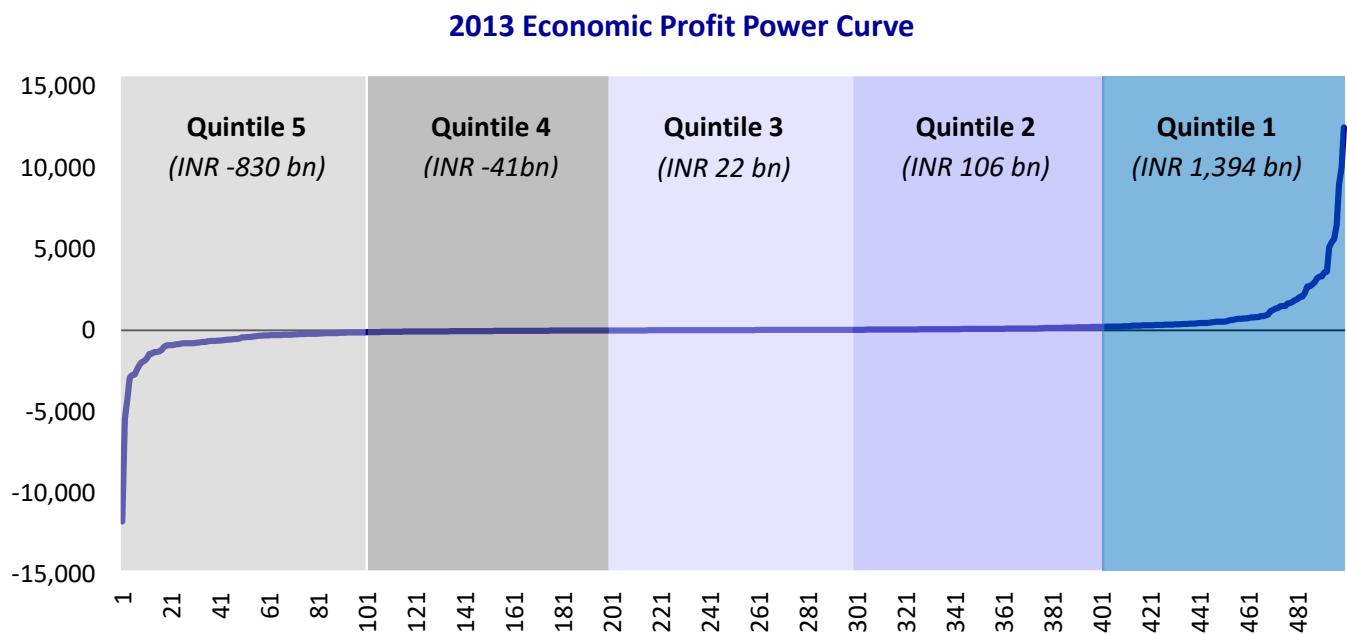
- On average, the EP portfolio delivered 8% Alpha with a probability of 80% (i.e. in 8 out of 10 observations). In contrast, the Economic Loss (EL) portfolio delivered only 2% Alpha that too with a lower probability of 60% (i.e. in 6 out of 10 observations).
- On a CAGR basis, the EP portfolio delivered Alpha of 6% whereas the EL portfolio delivered negative Alpha of 2%.

Thus, not only does EP reflect true profitability of a company, a portfolio of companies with EP has a high probability of outperforming the market. Having established the superiority of EP over AP, we proceed to analyze it further.

### 2.2 All companies can be mapped to an Economic Profit Power Curve

The book referred to earlier maps leading global companies to what the authors call the Economic Profit Power Curve. We too attempted the exercise on India's top 500 companies by 2013 market cap. We find that the shape of the Power Curve is exactly the same as in the book (Exhibit 7).

## Exhibit 7 Economic Profit Power Curve for India Inc in 2013



Figures in brackets are the aggregate Economic Profit in the Quintile

The Power Curve can be explained as follows –

- We listed the top 500 market-cap companies in 2013 in ascending order of their EP.
- We divided the companies into 5 EP Quintiles of 100 each.
- The Power Curve captures the above.
- Quintiles 5 and 4 are all companies with EL
- Quintiles 3, 2 and 1 are all companies with EP.
- Bulk of the losses and profits are at the extreme Quintiles.

### 2.3 Companies which move up the Power Curve generate healthy returns

It is obvious that companies move up the Power Curve only when they generate high incremental EP. Thus, such companies typically generate significant shareholder return (barring the rare cases of exceptionally high opening valuation). For instance, consider Exhibit 8 which captures the inter-quintile moves of the top 500 companies between 2013 and 2023.

## Exhibit 8 Economic Profit Quintile Moves: 2013 to 2023

Nifty 500 return during 2013-23: 13% CAGR

## Return CAGR

2013 Q	2023 Q					Total
	1	2	3	4	5	
1	16%	11%	11%	8%	8%	14%
2	25%	21%	16%	14%	5%	19%
3	43%	26%	17%	15%	12%	22%
4	15%	21%	9%	16%	7%	14%
5	17%	14%	16%	6%	3%	9%
Total	21%	21%	15%	13%	6%	16%

## Number of companies

2013 Q	2023 Q					Total
	1	2	3	4	5	
1	60	13	2	3	22	100
2	21	27	25	20	7	100
3	5	25	37	23	10	100
4	3	21	30	29	17	100
5	11	14	6	25	44	100
Total	100	100	100	100	100	500

Q – Economic Profit Quintile

**Key observations:**

- Significantly market-beating performance happens when companies move up the EP Quintiles e.g. companies which moved from Quintile 3 in 2013 to Quintile 1 in 2013 delivered the highest return (43%). However, the number of stocks is only 5.
- Likewise, 25 companies moving from Quintile 3 to Quintile 2 delivered 26% return CAGR and 21 companies which moved from Quintile 2 to Quintile 1 delivered 25% return.
- Performance in Quintiles 4 and 5 is somewhat erratic. As stated earlier, these Quintiles comprise EL companies. So, in such cases, moving up the Power Curve implies lowering EL or turning around into EP. There's no clear pattern here.

Exhibit 9 **Economic Profit Quintile Movers: 2013 to 2023**

Quintile 3 to 1 (5 companies)			Quintile 3 to 2 (25 companies)			Quintile 2 to 1 (21 companies)			
2013-23 CAGR			2013-23 CAGR			2013-23 CAGR			
Company	Price	EP	Company	Price	EP	Company	Price	EP	
SRF	53%	41%	25%	Astral	45%	18%	22%	P I Industries	37%
Tata Elxsi	51%	46%	37%	Sundram Fasteners	38%	32%	19%	Solar Industries	34%
TVS Motor	42%	36%	26%	Timken India	35%	35%	25%	Persistent Systems	33%
G N F C	21%	81%	18%	KRBL	32%	19%	19%	IIFL Finance	32%
R C F	10%	28%	13%	Honeywell Auto	29%	23%	18%	Abbott India	31%
				Supreme Petrochem	29%	22%	20%	Chola. Inv. & Fin.	30%
				Elgi Equipments	28%	26%	17%	Page Industries	28%
				TVS Holdings	27%	28%	18%	Eicher Motors	26%
				V I P Inds	25%	34%	19%	AIA Engineering	25%
				Praj Industries	25%	41%	14%	Britannia Inds	23%
				Century Plyboard	24%	22%	22%	Schaeffler India	23%
				Esab India	23%	23%	14%	Indraprastha Gas	23%
				P & G Health	23%	18%	11%	P & G Hygiene	18%
				Natco Pharma	21%	24%	24%	Coromandel Inter.	17%
				Allcargo Logistics	20%	57%	14%	Chola Financial	16%
				Lakshmi Machine	18%	16%	11%	Marico	16%
				Chambal Fertilisers	18%	25%	17%	Rain Industries	16%
				Apollo Hospitals	18%	24%	11%	Redington	15%
				Dhanuka Agritech	18%	11%	13%	Oberoi Realty	13%
				BASF India	15%	L to P	13%	NLC India	2%
				Siemens	15%	27%	13%	Bank of Maha.	-7%
				Pfizer	13%	23%	11%		
				Gillette India	9%	27%	15%		
				Akzo Nobel	8%	45%	11%		
				Styrenix Perform.	0%	18%	11%		

We carried out the above inter-quintile exercise for 5 more 10-year periods – 2008-18, 2009-19, 2010-20, 2011-21 and 2012-22. Exhibit 10 is the average of all the above 6 observation periods.

**Exhibit 10 Economic Profit Quintile Moves: Average of six 10-year observation periods between 2008 and 2023****Nifty 500 average return: 11% CAGR****Return CAGR**

Start Q	End Q					Total
	1	2	3	4	5	
1	16%	11%	6%	8%	4%	12%
2	26%	22%	10%	10%	5%	19%
3	33%	25%	12%	8%	6%	19%
4	34%	21%	9%	8%	7%	15%
5	29%	14%	10%	7%	1%	14%
Total	24%	21%	10%	8%	4%	16%

**Number of companies**

Start Q	End Q					Total
	1	2	3	4	5	
1	53	9	3	7	29	100
2	24	28	17	18	13	100
3	7	31	30	22	9	100
4	5	19	38	26	12	100
5	11	13	12	28	36	100
Total	100	100	100	100	100	500

Q – Economic Profit Quintile

**Key observations:**

- Quintile moves from 3 to 2, from 3 to 1 and from 2 to 1 continue to deliver market-beating returns.
- Upmoves from Quintile 4 and 5 also generate handsome returns, albeit they tend to be speculative in nature as they involve mainly turnarounds.
- One significant observation is that on average, almost all market-beating returns happen when companies end up in Quintiles 1 and 2, no matter what the starting Quintile is.
- The conclusive and actionable observation is that it pays to start from Quintiles 2 and 3.** Any upmove will obviously lead to high returns. Equally important, regardless of the final outcome, on average, investors should expect 19% return (highlighted under Total column).

Having understood the power of EP, we can now delve into factors which drive it.

### 3. Drivers of Economic Profit

#### TEM – Trends, Endowment, Moves

In the book, *Strategy Beyond The Hockey Stick*, the authors list 10 key variables which drive EP. They classify the same under 3 heads – Endowment, Trend and Moves – as under.

**Exhibit 11 10 key variables driving Economic Profit**

Endowment	Trend	Moves
• Company size	• Industry trend	• Programmatic M&A
• Debt level	• Geographic trend	• Dynamic reallocation of resources
• Past investment in R&D		• Strong capital expenditure
		• Strength of productivity program
		• Improvement in differentiation

We tweak the above slightly and discuss them as TEM –

- Trends** – factors external to a company, mostly stemming from the sector; and
- Endowment & Moves** – factors internal to a company.

# Motilal Oswal Wealth Creation Study Gallery

**Thematic Study | December 2022**

**27<sup>th</sup> ANNUAL WEALTH CREATION STUDY (2017-2022)**

**Consistents & Volatiles**  
The two dimensions of Wealth Creation

**HIGHLIGHTS**

- The Technology and Financial sectors will continue to dominate Wealth Creation in the foreseeable future.
- There are only two types of companies – Consistents & Volatiles.
- Volatility is the source of Outperformance; Volatility is the source of Underperformance.
- Excellence in execution is non-negotiable for Consistency.
- Riding below median valuations tilts the odds in your favour.

**TOP 10 WEALTH CREATORS (2017-2022)**

Rank	Company	Wealth Created (INR Cr.)	Fastest	Consistent	
			5-Year Price CAGR (%)	5-Year Price CAGR (%)	
1	Reliance Industries	13,018	Aditya Birla Group	5	97
2	TCS	8,548	Tata Platforms	50	40
3	ITC	6,378	Reliance Retail	5	74
4	HDFC Bank	4,108	Reliance Jio	50	30
5	Bajaj Finance	3,854	Brighton Group	92	57
6	Sun Pharma	2,538	Tata Fafe, Mahindra	87	54
7	Aditya Birla Group	2,538	Reliance Retail	50	52
8	Infotech Univer-	2,442	Aditya Birla	50	44
9	ITC Infra Infra	2,402	Tata Steel	50	35
10	Wipro	2,302	Midtree	57	35

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**Thematic Study | December 2021**

**26<sup>th</sup> ANNUAL WEALTH CREATION STUDY (2016-2021)**

**Atoms to Bits**  
Wealth Creation in the digital era

**HIGHLIGHTS**

- Some firms in the FinTech and Technology sectors to spearhead Wealth Creation for quite some time in the future.
- Value migration from Atoms to Bits is inelastic.
- Replicability, friction-free delivery and network margin cost tilt companies towards success.
- Highly seasonal.
- Market share hyper growth is possible only if there is large opportunity, terrific product-market fit, wide distribution, network effects and favorable unit economics.
- Current accounting standards fail to fully communicate intrinsic profitability – and valuation.
- India is at the cusp of harnessing digital potential.
- Buy into sure winners in digital, successful digital transformers, and classical Indian IT companies.

**"Digital Business Design is about business first, design second and digital third."**  
— Adair Stevens & David Morrison in their book *How to Win in Your Sector*

**TOP 10 WEALTH CREATORS (2016-2021)**

Rank	Company	Wealth Created (INR Cr.)	Fastest	Consistent	
			5-Year Price CAGR (%)	5-Year Price CAGR (%)	
1	Reliance Industries	13,018	Aditya Birla Group	5	97
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4	HDFC Bank	4,108	Reliance Jio	50	30
5	Bajaj Finance	3,854	Brighton Group	92	57
6	Sun Pharma	2,538	Tata Fafe, Mahindra	87	54
7	Aditya Birla Group	2,538	Reliance Retail	50	52
8	Aditya Birla	2,442	Aditya Birla	50	44
9	ITC Infra Infra	2,402	Tata Steel	50	35
10	Wipro	2,302	Midtree	57	35

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**Thematic Study | December 2020**

**25<sup>th</sup> ANNUAL WEALTH CREATION STUDY (2005-2020)**

**The QGLP Checklist**  
25 questions, 25 frameworks

**HIGHLIGHTS**

- Time is a friend of good companies and enemy of bad companies. In 25 years, successful companies grow to unimaginable levels in sales, profits and market cap.
- Or the top 200 companies in 1995, only 100 companies have outperformed the benchmark over the last 25 years.
- Stock returns are slaves of earnings power and growth. In the very long run, valuations matter less.
- The stock always holds a lot more promise. Over 50% of current market cap is made up of listings post 1995.
- Equity investing is complex. A checklist is an excellent tool to bring discipline to the process.
- The 25 questions here and the 25 related frameworks are a good starting point for an investor to create their own checklist over time.

"I'm nearly fifty years of experience in Wall Street, I've found that I know less and less about what the stock market is going to do, I know more and more about what investors ought to do, and that's a pretty vital change in attitude."  
— Benjamin Graham

**TOP 10 WEALTH CREATORS (1995-2020)**

Rank	20-Year Period	Biggest Company	INR Cr.	Consistent	25-Year Period	Company	Total Price	All-Around
1	Reliance Industries	30,677	Aditya Birla Group	5	21	Kotak Mahindra	20	21%
2	TCS	2,735	Tata Platforms	50	30	ITC	20	21%
3	HDFC Bank	5,105	Reliance Retail	5	57	Infra Infra	20	21%
4	ITC	5,087	Aditya Birla	50	30	Asian Paints	20	21%
5	Infy	3,237	Midtree	57	45	Stem Connect	20	21%
6	Reliance Retail	2,958	Reliance Jio	50	30	ITC Infra Infra	20	21%
7	IOC Bank	2,854	Aditya Birla	50	40	Honeywell Auto	20	21%
8	HDFC	2,442	ITC Apollo Tyres	60	35	Reliance Goods	20	21%
9	Reliance Goods Fund	2,302	Reliance Retail	50	35	Bajaj Finance	20	21%
10	HCL Technologies	2,302	Zoom	56	32	Nestle India	20	21%

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**Thematic Study | December 2019**

**24<sup>th</sup> ANNUAL WEALTH CREATION STUDY (2014-2019)**

**Management Integrity**  
Understanding Sharp Practices

**HIGHLIGHTS**

- In equity investing, management is 90%, industry 5% and 1% everything else. Hence, getting Management Integrity right is the critical first step.
- There's only one way of writing honest accounts, and infinite ways of manipulating them.
- Most Sharp Practices are to inflate profits and stuff the "financial trash" in the Balance Sheet (check PBL, Delta Balance Sheets).
- Fraud, Losses, Manipulation is easier to manipulate; hence, managements must be statutorily asked to present a simplified Free Cash Flow statement.
- Auditors must be more accountable to minority shareholders to avoid Sharp Practices by the management.
- As far as possible, investors must dig into management's explanation for all the perceived Sharp Practices.
- Finally, interact with various stakeholders – customers, employees, suppliers, competitors, etc – till you arrive at a moment of Management Integrity.

"The best defense against fraudsters is to run away from them as fast as possible at the first hint of sharp practice. With more than 50,000 different stocks available to investors in this country, it is not only unnecessary but also unwise to believe that a company can be run by doubtful integrity." (Thomas Peterffy in his book, *100 to 1 in the stock market*)

**TOP 10 WEALTH CREATORS (2014-2019)**

THE BIGGEST	THE FASTEST	THE MOST CONSISTENT			
Rank	Company	Wealth Created (INR Cr.)	5-Year Price CAGR (%)	Appeared in WIC	10-Year Price CAGR (%)
1	Reliance Industries	4,065	Industrials Ventures	10	48
2	HDFC Bank	3,978	IndusInd Bank	50	26
3	ITC	3,854	Polaris Industries	50	25
4	Hindustan Univer-	3,678	Reliance Retail	50	38
5	HDFC	1,800	Sundram Farmers	10	34
6	Kotak Mahindra Bank	1,794	Asian Paints	50	32
7	Bajaj Finance	1,497	Reliance Retail	50	32
8	ITC Infra Infra	1,497	Polaris Industries	50	28
9	Maruti Suzuki	1,428	ITC Infra Infra	49	32
10	Axis Bank	1,428	Honeywell Auto	49	28

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**Thematic Study | November 2018**

**23RD ANNUAL WEALTH CREATION STUDY (2013-2018)**

**Valuation Insights**  
What works, What doesn't

**HIGHLIGHTS**

- The key drivers of Intrinsic Value are Returns on Equity (ROE) and Earnings growth.
- Companies create Intrinsic Value only when they earn ROE higher than Cost of Equity.
- Low ROE companies must focus on increasing ROE, high ROE companies on increasing EPS.
- Both high ROE and high Earnings growth are difficult to sustain.
- PEG (PYT to Growth ratio) less than 1x is a near-infallible formula for healthy outperformance.
- Current market valuations imply robust earnings growth, which remains elusive. Hence, expect market to remain soft.

"In the Bible, it says that love covers a multitude of sins. Well, in the investing field, price covers a multitude of mistakes. For better things, there is no substitute for love. For investing, there is no substitute for paying the right price – absolutely none."  
— Arnold Van Den Berg, Outstanding Investor Digest, April 2004

**TOP 10 WEALTH CREATORS (2013-2018)**

THE BIGGEST	THE FASTEST	THE MOST CONSISTENT			
Rank	Company	Wealth Created (INR Cr.)	5-Year Price CAGR (%)	Appeared in WIC	10-Year Price CAGR (%)
1	HDFC Bank	2,847	Industrials Ventures	97	33
2	Reliance Industries	3,094	Dalmia Bharat	81	40
3	ITC	2,735	Reliance Retail	50	31
4	Maruti Suzuki	2,308	HDFC	79	30
5	Hindustan Univer-	1,994	Starline Technologies	57	27
6	HDFC	1,794	Reliance Retail	73	26
7	Kotak Mahindra Bank	1,545	Mediablast	87	25
8	IDC	1,545	ITC Infra Infra	64	22
9	ITC Infra Infra	1,545	Reliance Retail	50	21
10	Bajaj Finance	902	Eicher Motors	62	20

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**Thematic Study | December 2017**

**22ND ANNUAL WEALTH CREATION STUDY (2012-2017)**

**CAP & GAP**  
Power of longevity in Wealth Creation

**HIGHLIGHTS**

- Leveraged high profit growth companies are few. Understanding of Capital Advantage Period (CAP) and Growth Advantage Period (GAP) improves the chances of finding them.
- Most without growth will underperform; growth without most will end soon.
- Longevity and quality of growth are inversely correlated.
- These characteristics of CAP and GAP companies are –
  - Clear strategy, High growth mindset, and High-growth industry situations.

"The strategy is to find a good business – and one that can understand why it's good – with a durable competitive advantage, run by able and honest people, and available at a price that makes sense. If we are not going to get the business, we don't need something with which to go on. We are not the guard of the past; we need something that will earn more money in 20 and 30 years from now."  
— Warren Buffet, in Fortune Magazine's 30th Anniversary Issue

**TOP 10 WEALTH CREATORS (2012-2017)**

THE BIGGEST	THE FASTEST	THE MOST CONSISTENT																																						
Rank	Company	Wealth Created (INR Cr.)	5-Year Price CAGR (%)	Appeared in WIC	10-Year Price CAGR (%)																																			
1	TCS	2,499	Algebra Pharma	10	30																																			
2	HDFC Bank	2,315	VKBL	88	10																																			
3	ITC	2,200	Reliance Industries	50	22																																			
4	Maruti Suzuki	1,813	Dalmia Bharat	99	5	Kotak Mahindra	1,413	Symphony	68	10	6	HDFC	1,254	Reliance Retail	50	21	7	IOC	1,218	Eicher Motors	87	10	8	Hindustan Univer-	1,083	Natura Pharma	64	10	9	ITC Infra Infra	854	Valeant	64	10	10	TechnipFMC	854	Sankomite Pharma	83	10
5	Kotak Mahindra	1,413	Symphony	68	10																																			
6	HDFC	1,254	Reliance Retail	50	21																																			
7	IOC	1,218	Eicher Motors	87	10																																			
8	Hindustan Univer-	1,083	Natura Pharma	64	10																																			
9	ITC Infra Infra	854	Valeant	64	10																																			
10	TechnipFMC	854	Sankomite Pharma	83	10																																			

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**Thematic Study | December 2016**

**21<sup>st</sup> ANNUAL WEALTH CREATION STUDY (2011-2016)**

**FOCUSSED INVESTING**  
Power of allocation in Wealth Creation

**HIGHLIGHTS**

- Stock allocation (how much to buy) is a powerful tool for portfolio performance, but is undermined via stock selection (what to buy).
- Kelly formula provides a recipe for equity investing: [1] Look for asymmetric payoff; [2] Create edge [3] Buy big.
- Opportunities for big bets come seldom. Focused Investing is a smart strategy to capitalise on them.
- Keys to successful Focused Investing are: [1] Clear portfolio goal [2] Superior stock selection [3] Rational allocation [4] Active monitoring.
- Disciplined selection should lead to exceptional returns rather than acceptable returns.

"Put options, and only when the odds are strongly in your favor, but when you do, big, hold for the long term, and control your downside risk." — From the book *Focused Investing* by Alan S. Gerber, Michael Van Biema, Tobias C. Carle

**TOP 10 WEALTH CREATORS (2011-2016)**

THE BIGGEST	THE FASTEST	THE MOST CONSISTENT			
Rank	Company	Wealth Created (INR Cr.)	5-Year Price CAGR (%)	Appeared in WIC	10-Year Price CAGR (%)
1	TCS	2,817	Algebra Pharma	123	10
2	HDFC Bank	2,475	Velupuri India	88	10
3	ITC	2,302	Reliance Retail	50	25
4	Hindustan Univer-	1,997	Reliance Retail	50	33
5	Sun Pharma	1,189	Valeant	50	22
6	HDFC	942	Reliance Retail	50	21
7	HCL Technologies	819	P I Industries	58	10
8	Kotak Mahindra Bank	767	Reliance Retail	50	20
9	Reliance Goods Fund	742	Jindal Soda Ash	50	17
10	Axis Bank	742	Jindal Soda Ash	50	17

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**Thematic Study | December 2015**

**20<sup>th</sup> ANNUAL WEALTH CREATION STUDY (2010-2015)**

**Mid-to-Mega**  
The power of industry leadership in Wealth Creation

**HIGHLIGHTS**

- Value migration is increasingly becoming the key driver of wealth creation.
- Industry leadership is a necessary pre-requisite to be a megacorp.
- Market cap size is a powerful tool to assess a company's leadership standing and the roadmap ahead.
- Mid-to-Mega firms a big change in ranks, driven by the Inflectionary effect of MOGUL (Mid-size, Quality, Growth, Longevity and Price).

"I've been searching for inflection points all my life, so I'm very interested in models that explain what's likely to happen. But the inflection points are often come only from large combinations of factors." — Charlie Munger

**TOP 10 WEALTH CREATORS (2010-2015)**

THE BIGGEST	THE FASTEST	THE MOST CONSISTENT			
Rank	Company	Wealth Created (INR Cr.)	5-Year Price CAGR (%)	Appeared in WIC	10-Year Price CAGR (%)
1	TCS	3,535	Algebra Pharma	123	10
2	ITC	1,565	Symphony	103	38
3	HDFC Bank	1,540	Eicher Motors	90	35
4	Algebra Pharma	1,498	Reliance Retail	53	34
5	Hindustan Univer-	1,374	Titan Company	77	31
6	IOC	1,330	Wockhardt	65	29
7	HCL Tech	1,292	Reliance Retail	50	28
8	Tata Motors	1,071	GMR Infra	62	27
9	Reliance Retail	942	Cummins India	50	27
10	ITC Infra Infra	774	Anura Raja Batteries	59	27

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**Thematic Study | December 2014**

**19<sup>th</sup> ANNUAL WEALTH CREATION STUDY (2009-2014)**

**100x**  
The power of growth in Wealth Creation

**HIGHLIGHTS**

- 100x stocks are few. Finding them requires "vision to see, courage to buy, and the patience to hold".
- Value migration offers the most predictable 100x opportunities.
- The 100x process is captured in SQGP – Size, Quality, Growth, Longevity and Price.
- \*"To make money in stocks you must have the vision to see them, the courage to buy them and the patience to hold them. Patience is the rarest of the three."

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— Thomas Phelps in *100 to 1 in The Stock Market*

**TOP 10 WEALTH CREATORS (2009-2014)**

THE BIGGEST	THE FASTEST	THE MOST CONSISTENT			
Rank	Company	Wealth Created (INR Cr.)	5-Year Price CAGR (%)	Appeared in WIC	2004-14 Price CAGR (%)
1	TCS	3,432	Eicher Motors	93	32
2	ITC	2,075	Rajiv Gandhi Foundation	93	34
3	HDFC Bank	1,807	Reliance Retail	50	33
4	Infy	1,323	Anura Raja Batteries	64	29
5	IOC	1,095	Page Industries	78	28
6	ITC Infra	929	Reliance Retail	50	28
7	Sun Pharma	950	GMR Infra	69	28
8	Tata Motors	845	Burdwan Pharma	64	26
9	ITC	845	M&M	10	23
10	ITC Infra Infra	692	Axis Bank	67	23

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Investors are advised to refer through important disclosures made at the end of the Research Report.