

28th 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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Wealth Creation 2018-2023: Highlights

Reliance emerges as the largest Wealth Creator for the 5th 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 |
| Total of Top 10 | | 37,819 | 54 | 21 | 22 | 23 | 25 | 16 | 11 |
| Total of Top 100 | | 70,488 | 100 | 22 | 22 | 26 | 27 | 16 | 11 |

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.

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."

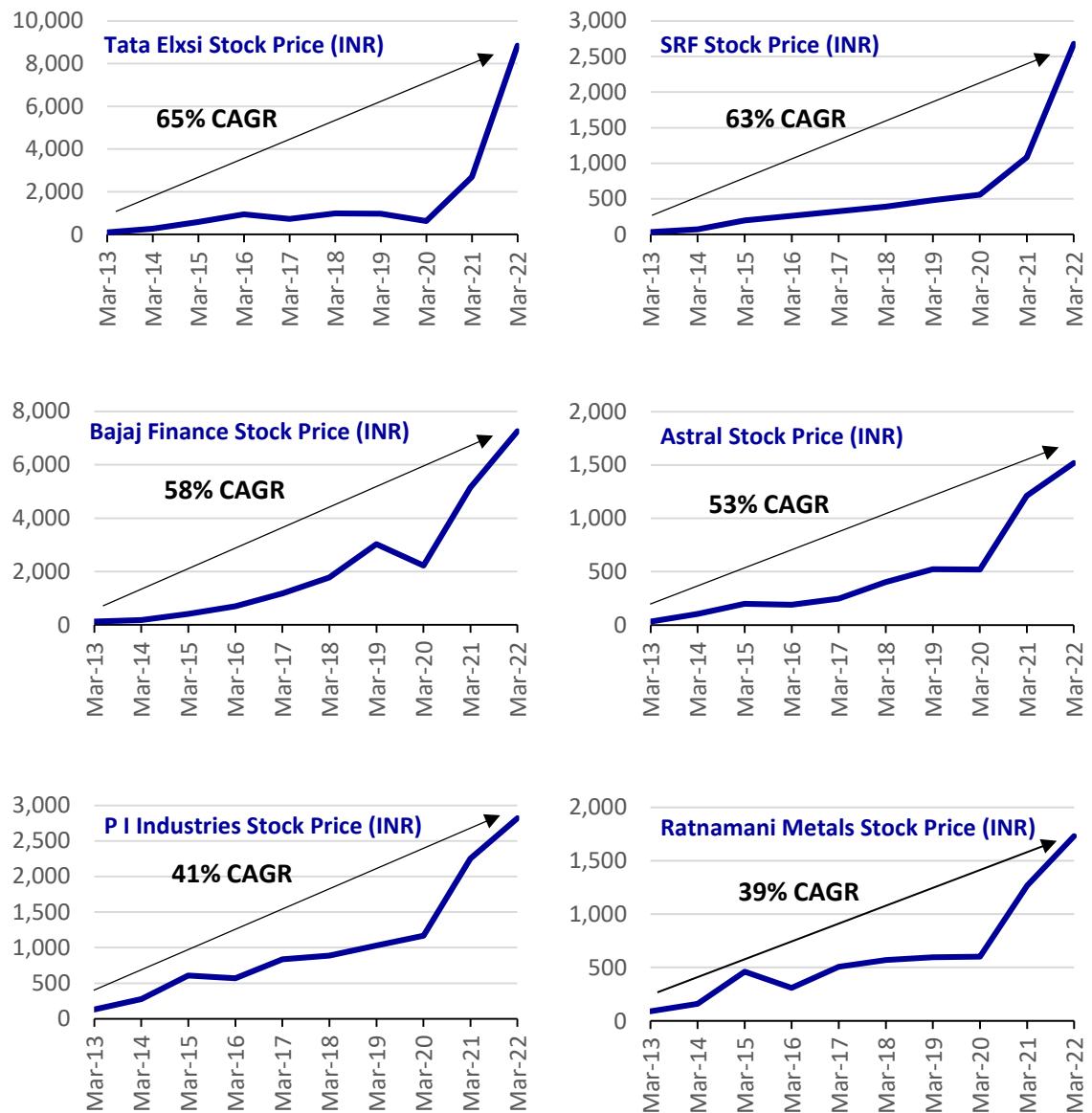
— From the book "Strategy Beyond The Hockey Stick"

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)



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 |
| Economic Profit (5) = (1) - (4) | 22 | -42 |
| RoE (6) = (1) ÷ (2) | 96% | 7% |
| <hr/> | | |
| Alternatively, Spread between RoE & CoE | | |
| (7) = (6) - (3) | 86% | -3% |
| Economic Profit (8) = (2) x (7) | 22 | -42 |

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 | 331 | 47% | IndusInd Bank | 74 | 550 | 55 | 19 | 14% |
| Coal India | 281 | 572 | 57 | 224 | 49% | Bajaj Finserv | 64 | 464 | 46 | 18 | 14% |
| SBI | 557 | 3,589 | 359 | 198 | 16% | Adani Ports | 63 | 457 | 46 | 17 | 14% |
| HDFC Bank | 459 | 2,894 | 289 | 170 | 16% | Britannia Inds | 20 | 35 | 4 | 17 | 58% |
| Infosys | 240 | 754 | 75 | 164 | 32% | Eicher Motors | 29 | 150 | 15 | 14 | 19% |
| O N G C | 408 | 2,806 | 281 | 127 | 15% | Bharti Airtel | 88 | 776 | 78 | 11 | 11% |
| ICICI Bank | 340 | 2,145 | 214 | 125 | 16% | Hero Motocorp | 27 | 167 | 17 | 11 | 16% |
| ITC | 191 | 692 | 69 | 122 | 28% | Larsen & Toubro | 100 | 893 | 89 | 10 | 11% |
| HCL Technologies | 146 | 654 | 65 | 81 | 22% | UPL | 37 | 298 | 30 | 7 | 12% |
| Power Grid Corpn | 156 | 830 | 83 | 73 | 19% | Hindalco Inds | 101 | 948 | 95 | 6 | 11% |
| Bajaj Finance | 115 | 544 | 54 | 61 | 21% | Maruti Suzuki | 67 | 618 | 62 | 6 | 11% |
| Hind. Unilever | 102 | 503 | 50 | 51 | 20% | Divi's Labs | 18 | 128 | 13 | 5 | 14% |
| Axis Bank | 181 | 1,298 | 130 | 51 | 14% | Cipla | 28 | 234 | 23 | 5 | 12% |
| Kotak Mahindra | 149 | 1,123 | 112 | 37 | 13% | SBI Life Insurance | 17 | 130 | 13 | 4 | 13% |
| M & M | 93 | 564 | 56 | 36 | 16% | Apollo Hospitals | 8 | 62 | 6 | 2 | 13% |
| Wipro | 114 | 777 | 78 | 36 | 15% | HDFC Life | 14 | 130 | 13 | 1 | 11% |
| Bajaj Auto | 60 | 294 | 29 | 30 | 20% | UltraTech Cement | 50 | 543 | 54 | -4 | 9% |
| Sun Pharma | 86 | 560 | 56 | 30 | 15% | Tata Consumer | 11 | 163 | 16 | -6 | 7% |
| LTIMindtree | 44 | 166 | 17 | 27 | 27% | Adani Enterprises | 27 | 331 | 33 | -6 | 8% |
| Asian Paints | 41 | 160 | 16 | 25 | 26% | Grasim Inds | 68 | 788 | 79 | -10 | 9% |
| NTPC | 170 | 1,470 | 147 | 23 | 12% | Tata Steel | 86 | 1,031 | 103 | -17 | 8% |
| Dr Reddy's Labs | 46 | 233 | 23 | 23 | 20% | Tata Motors | 25 | 453 | 45 | -20 | 6% |
| Nestle India | 24 | 25 | 2 | 21 | 97% | B P C L | 33 | 535 | 54 | -20 | 6% |
| Titan Company | 33 | 119 | 12 | 21 | 27% | JSW Steel | 38 | 657 | 66 | -28 | 6% |
| Tech Mahindra | 48 | 279 | 28 | 20 | 17% | Reliance Industries | 668 | 7,159 | 716 | -48 | 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 | |
| Nifty 500 Return | 18% | 34% | -8% | 24% | 11% | 8% | -28% | 76% | 21% | -2% | 15% | 13% | |
| RETURN | | | | | | | | | | | | | |
| 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% | |
| With EP | 25% | 72% | 0% | 37% | 16% | -5% | -28% | 98% | 26% | -2% | 24% | 19% | |
| 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% | |
| ALPHA OVER NIFTY 500 | | | | | | | | | | | | | |
| 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 |
| With EP | 7% | 39% | 8% | 13% | 4% | -13% | -1% | 22% | 5% | 0% | 8% | 6% | 8 2 |
| 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 |
| NO. OF STOCKS | | | | | | | | | | | | | |
| 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 | | |
| With EP | 296 | 286 | 290 | 309 | 311 | 330 | 351 | 322 | 324 | 341 | 316 | | |
| 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:

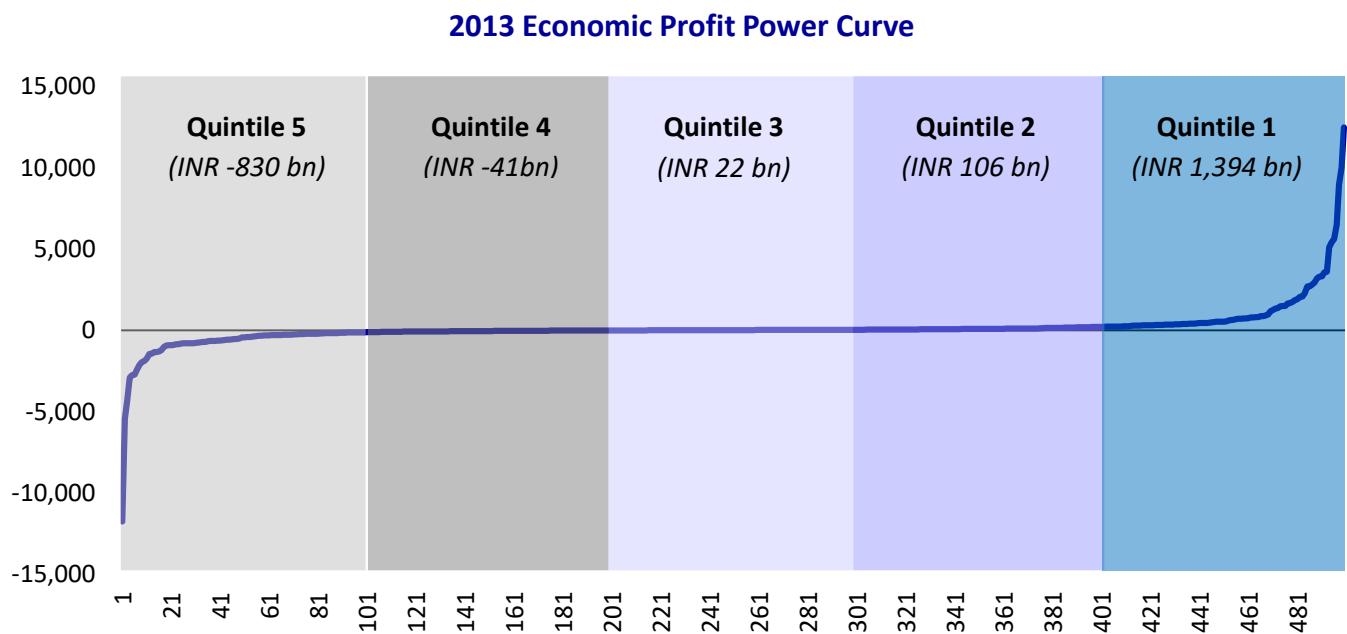
- On average, the EP portfolio delivered 8% Alpha with a probability of 80% (i.e. in 8 out of 10 observations). In contrast, the Economic Loss (EL) portfolio delivered only 2% Alpha that too with a lower probability of 60% (i.e. in 6 out of 10 observations).
- On a CAGR basis, the EP portfolio delivered 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) | | | |
|-------------------------------|--------------|-----|--------------------------------|---------------------|-----|--------------------------------|--------------|--------------------|-----|
| Company | 2013-23 CAGR | | Company | 2013-23 CAGR | | Company | 2013-23 CAGR | | |
| | Price | EP | | Price | EP | | 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

27th 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- | 2,412 | 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

26th 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 digital.
- 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's digital ecosystem is maturing rapidly.
- 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 |
| 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 | Brighton Group | 3,854 | Brighton Group | 92 | 57 |
| 6 | Tata Fafe, Mahindra | 2,538 | Tata Fafe, Mahindra | 87 | 54 |
| 7 | Aditya Birla Group | 2,538 | Reliance Retail | 50 | 52 |
| 8 | Aditya Birla | 2,412 | Aditya Birla | 50 | 44 |
| 9 | Tata Steel | 2,402 | Tata Steel | 50 | 35 |
| 10 | Midtree | 2,302 | Midtree | 57 | 35 |

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Thematic Study | December 2020

25th 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 100 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.

"In my nearly fifty years of experience in Wall Street, I've found that it knows less and less about what the stock market is going to do. It's better to 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 | 30,671 | Reliance Industries | 1,507 | 21 | Kotak Mahindra | 20 | 21% |
| 2 | TCS | 23,936 | Aditya Birla Group | 90 | 25 | Asian Paints | 38 | 25% |
| 3 | HDFC Bank | 13,535 | Aditya Birla Group | 85 | 25 | Infra Leaps | 20 | 25% |
| 4 | ITC | 12,637 | Reliance Retail | 85 | 25 | Asian Paints | 38 | 25% |
| 5 | Infotech Univer- | 3,237 | Reliance Retail | 81 | 45 | Stem Connect | 20 | 25% |
| 6 | Reliance Retail | 2,958 | Reliance Retail | 79 | 45 | Asian Paints | 38 | 25% |
| 7 | IOC Bank | 2,538 | Reliance Retail | 78 | 45 | Honeywell Auto | 1,343 | 25% |
| 8 | HDFC | 2,412 | ITC Apollo Tyres | 60 | 35 | Sun Pharma | 29 | 25% |
| 9 | Reliance Retail | 2,302 | Reliance Retail | 54 | 35 | Reliance Retail | 20 | 25% |
| 10 | HCL Technologies | 2,302 | Reliance Retail | 52 | 35 | Reliance Retail | 20 | 25% |

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Thematic Study | December 2019

24th 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 | Industries Ventures | 10 | 40 |
| 2 | HDFC Bank | 3,978 | Reliance Retail | 50 | 30 |
| 3 | ITC | 3,678 | Reliance Retail | 50 | 30 |
| 4 | Hindustan Univer- | 3,597 | Aditya Birla | 57 | 39 |
| 5 | HDFC | 1,800 | Sundram Farmers | 50 | 34 |
| 6 | Kotak Mahindra Bank | 1,794 | Reliance Retail | 50 | 33 |
| 7 | Bajaj Finance | 1,497 | Aditya Birla | 50 | 32 |
| 8 | ITC Infra | 1,497 | Reliance Retail | 50 | 32 |
| 9 | Maruti Suzuki | 1,428 | Reliance Retail | 50 | 32 |
| 10 | Axis Bank | 1,428 | Reliance Retail | 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 human beings, 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 | Industials Ventures | 97 | 10 |
| 2 | Reliance Industries | 3,094 | Dalmia Bharat | 81 | 33 |
| 3 | ITC | 2,735 | Reliance Retail | 50 | 33 |
| 4 | Maruti Suzuki | 2,308 | HCL | 79 | 30 |
| 5 | Hindustan Univer- | 1,794 | Stearne Technologies | 53 | 27 |
| 6 | IOC Bank | 1,794 | Reliance Retail | 73 | 26 |
| 7 | Kotak Mahindra Bank | 1,545 | Mediablast | 87 | 25 |
| 8 | IDC | 1,545 | Int. Holdings | 64 | 22 |
| 9 | ITC Infra | 1,497 | Reliance Retail | 50 | 21 |
| 10 | Bajaj Finance | 902 | Eicher Motors | 62 | 10 |

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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 the market. The point is, 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 | 96 | 10 |
| 2 | HDFC Bank | 2,315 | VKBL | 88 | 10 |
| 3 | ITC | 2,200 | Reliance Industries | 96 | 22 |
| 4 | Maruti Suzuki | 1,413 | Dalmia Bharat | 22 | |
| 5 | Hindustan Univer- | 1,083 | Symphony | 68 | 10 |
| 6 | HDFC | 1,218 | Eicher Motors | 87 | 10 |
| 7 | IOC Bank | 1,218 | Reliance Retail | 54 | 10 |
| 8 | ITC Infra | 1,218 | Valeant | 64 | 10 |
| 9 | HDFC | 854 | Sankomite Pharma | 83 | 10 |
| 10 | TechnipFMC | 774 | Axis Bank | 10 | 10 |

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Thematic Study | December 2016

21st 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 means a strategy to capitalize 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 Best Investors in the World, by Alan S. Weiss, Michael Van Biema, Tobias Carlisle

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 | 10 | 26 |
| 3 | ITC | 2,402 | Reliance Retail | 50 | 25 |
| 4 | Hindustan Univer- | 2,397 | Aditya Birla | 57 | 23 |
| 5 | Sun Pharma | 1,189 | Valeant | 66 | 10 |
| 6 | HDFC | 942 | Valleyage Software | 50 | 22 |
| 7 | HCL Technologies | 819 | Reliance Retail | 50 | 21 |
| 8 | Kotak Mahindra Bank | 767 | P1 Industries | 58 | 20 |
| 9 | Reliance Retail | 742 | Reliance Retail | 50 | 20 |
| 10 | Reliance Retail | 742 | Jainsons Big Batteries | 50 | 17 |

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Thematic Study | December 2015

20th 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 Inflection effect of MOGUL (Mid-size, Quality, Growth, Longevity and Price).

"I've been searching for inflections most of my life, so I'm very interested in what's next. But I'm also interested in what's been. Because inflections are not other name only, large concatenation 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 | 137 | 10 |
| 2 | ITC | 1,565 | Symphony | 103 | 38 |
| 3 | HDFC Bank | 1,540 | Eicher Motors | 90 | 35 |
| 4 | Algebra Pharma | 1,497 | Reliance Retail | 53 | 34 |
| 5 | Hindustan Univer- | 1,374 | Page Industries | 77 | 31 |
| 6 | HCL Tech | 1,130 | Westcliff | 65 | 29 |
| 7 | IOC Bank | 1,058 | Reliance Retail | 50 | 28 |
| 8 | Tata Motors | 1,071 | GRIH Finance | 62 | 27 |
| 9 | Reliance Retail | 982 | Cummins India | 50 | 27 |
| 10 | Reliance Retail | 774 | Axis Pay Battaries | 59 | 27 |

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Thematic Study | December 2014

19th 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." — Thomas Phelps in *200 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 | Reliance Industries | 93 | 34 |
| 3 | HDFC Bank | 1,807 | Reliance Retail | 50 | 33 |
| 4 | Infotech | 1,223 | Amara Ray Batteries | 64 | 29 |
| 5 | IOC Bank | 1,095 | Page Industries | 78 | 28 |
| 6 | ITC Infra | 1,029 | Reliance Retail | 50 | 28 |
| 7 | Sun Pharma | 950 | GRIH Technologies | 69 | 28 |
| 8 | Tata Motors | 845 | Burdwan Pharma | 64 | 28 |
| 9 | HCL Technologies | 840 | M&M | 10 | 27 |
| 10 | TechnipFMC | 692 | Axis Pay Battaries | 59 | 27 |

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