

Quant Strategy – Value Momentum – September 2024

A quantitative strategy with focus on long-only
equity investing

Monthly Update

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Executive Summary

Purpose of the report: The purpose is to create a strategy that invests in stocks available at attractive valuations, showing consistent momentum, and generates attractive risk-adjusted returns purely based on quantitative parameters without any human intervention.

Why quantitative strategy?: In today's data-rich environment, sifting through the constant streams of information has become crucial to discern what's truly valuable and cut out the noise. However, due to inherent human biases, distinguishing between relevant information and irrelevant information has become exceedingly challenging. Ultimately, only a handful of factors significantly impact stock returns, and by focusing on key factors, achieving substantial outperformance becomes plausible.

Methodology: We created a Quantitative strategy and Backtested the portfolio of stocks with reasonable valuations and strong momentum from April 2013 to August 2024 (11.4 Years), using the Historical Nifty 500 as our starting universe. The steps involved in the selection of stocks have been highlighted [here](#).

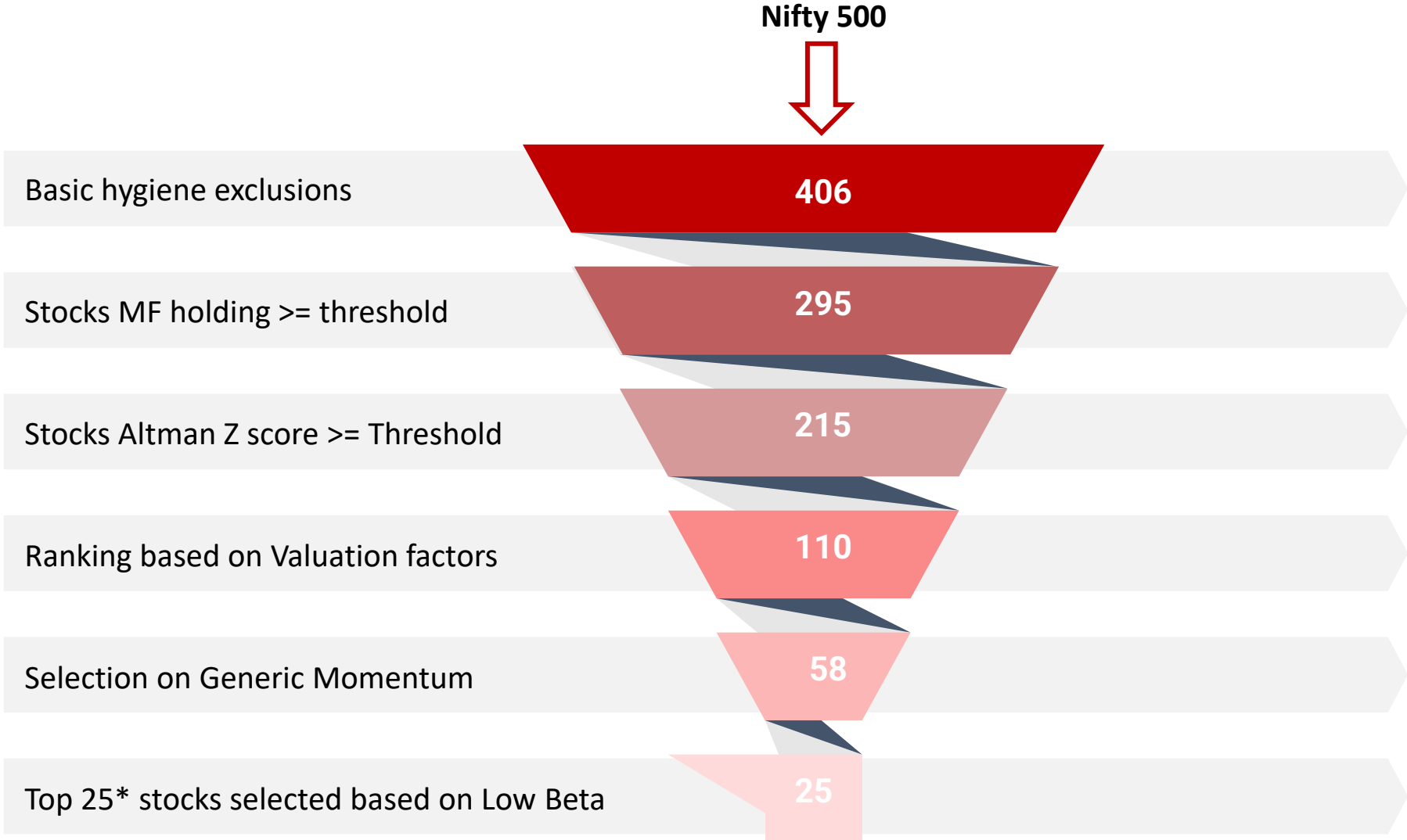
Key Findings: In the past 11+ years, this strategy has outperformed the Nifty 500, generating an alpha of 16.9% and delivering a 32.0% CAGR. It outperformed the benchmark in 10 out of 11 years and experienced a relatively low drawdown and standard deviation compared to the benchmark.

Conclusion: Value & Momentum are complementary strategies as Value & Momentum strategies tend to perform well at different times in the market cycle. Value strategies often do well in stable or declining markets, while Momentum strategies excel in trending markets. This negative correlation between the two strategies helps in smoothing out returns and reducing overall portfolio volatility.

Assumptions:

- **Nifty 500:** Nifty 500 as the starting universe has been considered. This universe includes de-listed, amalgamated companies as well to remove survivorship bias in the universe. Further, the Nifty 500 as of April of every year is considered for an entire year.
- **Lag Effect:** It bakes in a 7-month lag to the Financial Year ending and a 2-month lag to the Quarter ending. For example, March 2022 year-ending numbers are announced somewhere by May 2022 end, but they are incorporated in our model (just for the purpose of backtesting) until October '22.
- **Return Computation:** In return computation, monthly rebalance is assumed. And at every rebalance, portfolio wt. is reset to equal wt. Return computation does not include dividends.
- **Data cleaning:** Companies that have not reported their year ending for more than 2 years have been removed from the backtest, checked at the end of every month
- **Data Source:** Ace Equity, NSE

Selection & Filtration Criteria



Value Momentum Factsheet:

Investment Information			
Launch Date	30 th Aug 2024	Total Stocks	25
Category	Multi Cap	Benchmark	Nifty 500
Nifty 500 Performance	0.82%	VM Strategy Performance	0.80%
Standard Deviation*	10.6%	Max Drawdown %	-1.5%

**Annualized*

Performance is from 30th August – 13th September 2024

Recommended Exits

Company Name	NSE Sector	Date of Exit	Market Cap	PE
			(Rs. Cr)	
Bayer CropScience Ltd.	Chemicals	16 th Sep'24	29,194	43.8
Jyothy Labs Ltd.	Fast Moving Consumer Goods	16 th Sep'24	20,450	54.5
Escorts Kubota Ltd.	Capital Goods	16 th Sep'24	42,128	40.0
Glenmark Pharmaceuticals Ltd.	Healthcare	16 th Sep'24	49,487	81.8

Recommended Entries

Company Name	NSE Sector	Date of Entry	Market Cap	PE
			(Rs. Cr)	
Cipla Ltd.	Healthcare	16 th Sep'24	134,032	29.8
Mankind Pharma Ltd.	Healthcare	16 th Sep'24	100,113	51.0
JB Chemicals & Pharmaceuticals Ltd.	Healthcare	16 th Sep'24	29,868	50.9
HCL Technologies Ltd.	Information Technology	16 th Sep'24	491,933	30.0

Changes in Portfolio

New Portfolio

Rank	Company Name
1	Cipla Ltd.
2	Sun Pharmaceutical Industries Ltd.
3	Mankind Pharma Ltd.
4	Ipca Laboratories Ltd.
5	JB Chemicals & Pharmaceuticals Ltd.
6	Fortis Healthcare Ltd.
7	Lupin Ltd.
8	Bajaj Auto Ltd.
9	Hero MotoCorp Ltd.
10	HCL Technologies Ltd.
11	Alkem Laboratories Ltd.
12	Sun TV Network Ltd.
13	eClerx Services Ltd.
14	Aurobindo Pharma Ltd.
15	Aegis Logistics Ltd.
16	Zydus Lifesciences Ltd.
17	Endurance Technologies Ltd.
18	Eicher Motors Ltd.
19	Quess Corp Ltd.
20	Crompton Greaves Consumer Electricals Ltd.
21	Coromandel International Ltd.
22	Finolex Cables Ltd.
23	Vardhman Textiles Ltd.
24	Minda Corporation Ltd.
25	Redington Ltd.

Old Portfolio

Rank	Company Name
1	Sun Pharmaceutical Industries Ltd.
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14	Aegis Logistics Ltd.
15	Quess Corp Ltd.
16	Endurance Technologies Ltd.
17	Eicher Motors Ltd.
18	Escorts Kubota Ltd.
19	Crompton Greaves Consumer Electricals Ltd.
20	Coromandel International Ltd.
21	Finolex Cables Ltd.
22	Redington Ltd.
23	Vardhman Textiles Ltd.
24	Minda Corporation Ltd.
25	Glenmark Pharmaceuticals Ltd.

Details of Portfolio stock

As of 16th Sep'24

Rank	Company Name	NSE Sector	Market Cap (Rs. Cr)	MF Holding	Altman Z Score	PE	EV EBITDA	EV Sales	Price to Book	Price to CFO	Momentum %	Beta
1	Cipla Ltd.	Healthcare	134,032	17.6	17.9	29.8	19.8	5.0	5.0	12.5	27%	0.30
2	Sun Pharmaceutical Industries Ltd.	Healthcare	444,777	12.8	17.6	42.1	32.8	8.9	6.6	17.1	51%	0.42
3	Mankind Pharma Ltd.	Healthcare	100,113	7.4	26.9	51.0	37.9	9.1	10.5	20.5	26%	0.47
4	Ipca Laboratories Ltd.	Healthcare	37,400	28.5	6.9	57.9	28.8	4.8	4.8	14.3	45%	0.48
5	JB Chemicals & Pharmaceuticals Ltd.	Healthcare	29,868	15.0	12.6	50.9	31.5	8.3	10.2	18.7	33%	0.49
6	Fortis Healthcare Ltd.	Healthcare	44,105	27.5	6.3	69.1	33.8	6.4	5.2	15.8	58%	0.51
7	Lupin Ltd.	Healthcare	102,925	16.2	8.9	45.5	24.8	5.1	7.2	17.4	80%	0.51
8	Bajaj Auto Ltd.	Automobile and Auto Components	327,769	5.4	22.0	40.9	35.2	7.1	11.3	20.4	90%	0.55
9	Hero MotoCorp Ltd.	Automobile and Auto Components	115,904	13.8	10.2	28.4	19.9	2.8	6.5	12.0	66%	0.56
10	HCL Technologies Ltd.	Information Technology	491,933	8.5	12.9	30.0	19.0	4.2	7.2	8.6	25%	0.59
11	Alkem Laboratories Ltd.	Healthcare	76,118	14.7	15.2	35.0	30.8	6.0	7.1	16.1	55%	0.62
12	Sun TV Network Ltd.	Media, Entertainment & Publication	32,522	7.2	30.1	17.2	10.7	6.5	3.1	5.5	36%	0.64
13	eClerx Services Ltd.	Services	13,408	20.2	16.5	25.9	15.9	4.1	6.0	9.2	30%	0.65
14	Aurobindo Pharma Ltd.	Healthcare	91,026	19.2	6.2	25.0	14.5	3.1	3.0	9.3	69%	0.68
15	Aegis Logistics Ltd.	Oil, Gas & Consumable Fuels	28,148	6.7	6.5	48.1	29.6	4.3	6.3	21.8	128%	0.71
16	Zydus Lifesciences Ltd.	Healthcare	112,552	7.2	11.2	26.8	19.5	5.7	5.1	14.0	81%	0.72
17	Endurance Technologies Ltd.	Automobile and Auto Components	34,517	8.6	10.1	47.9	24.6	3.2	6.9	13.0	53%	0.73
18	Eicher Motors Ltd.	Automobile and Auto Components	133,147	7.6	18.3	31.8	29.8	8.0	7.4	16.5	38%	0.77
19	Qess Corp Ltd.	Services	12,138	9.1	6.1	35.3	16.7	0.6	4.1	7.8	51%	0.80
20	Crompton Greaves Consumer Electricals Ltd.	Consumer Durables	29,072	42.3	8.0	61.4	38.4	3.9	8.4	13.6	40%	0.81
21	Coromandel International Ltd.	Chemicals	49,900	15.3	7.9	34.2	21.2	2.2	5.3	12.2	48%	0.86
22	Finolex Cables Ltd.	Capital Goods	21,766	10.7	9.1	29.6	34.3	3.9	4.4	15.5	33%	0.88
23	Vardhman Textiles Ltd.	Textiles	14,223	15.1	5.5	19.4	14.3	1.7	1.5	6.3	24%	0.88
24	Minda Corporation Ltd.	Automobile and Auto Components	12,999	16.8	8.2	52.8	24.2	2.7	6.6	15.5	49%	0.91
25	Redington Ltd.	Services	14,928	12.0	5.3	12.3	9.0	0.2	1.9	32.9	27%	0.92
NA	Bayer CropScience Ltd.	Chemicals	29,194	9.6	5.6	43.8	33.2	5.6	10.2	16.4	21%	NA
NA	Jyothy Labs Ltd.	Fast Moving Consumer Goods	20,450	13.8	14.6	54.5	40.5	7.1	11.3	20.7	NA	NA
NA	Escorts Kubota Ltd.	Capital Goods	42,128	8.6	14.8	40.0	33.5	4.4	4.6	32.7	16%	NA
NA	Glenmark Pharmaceuticals Ltd.	Healthcare	49,487	10.9	7.7	81.8	36.3	4.1	6.3	33.7	74%	1.00

Momentum is price performance of the stock in the last 12 months, excluding recent month

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