



## UNLOCKING POTENTIAL THROUGH VALUE INVESTING

PRESENTING

**BARODA BNP PARIBAS**  
**VALUE FUND**

(An open-ended equity scheme following a value investment strategy)

**NFO PERIOD**

**17<sup>TH</sup> - 31<sup>ST</sup> MAY, 2023**

(Offer of units of Rs. 10 each during the New Fund Offer period and continuous offer for units at NAV based prices)



# What is Value Investing?



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## Views on Value

"Price is what you pay; value is what you get."

| - Benjamin Graham

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## Views on Measuring Value

"All intelligent investing is value investing, acquiring more than you are paying for. You must value the business in order to value the stock."

| - Charlie Munger

//

## Views on Investment Behaviour

"The big money is not in the buying or selling, but in the waiting."

| - Charlie Munger



# Value Investing – How it works?



Imagine you are planning to buy a house and the cost of the house is ₹2 crores  
Is the cost expensive? Or cheap?

Cost = 2 Crs



Value = ?

To answer this question, you need to know the how much the house is worth.



# Value Investing – How it works?

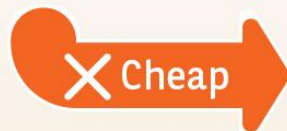


What if the cost of similar sized houses in the same locality is 1.90 Crs. Now is the cost of the house that you liked expensive or cheap?

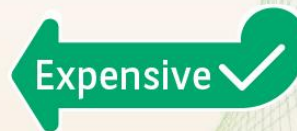
Cost = 2 Crs



Value = 1.90 Crs



or







# Value Investing – How it works?



**But do you know the worth of the house in near future?**

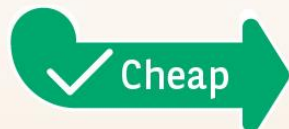
What if you come to know that the building of your interested property is going for redevelopment and the property value post redevelopment will be ₹2.50 Crs.

For cost of ₹2 Crs is the property Expensive or Cheap?

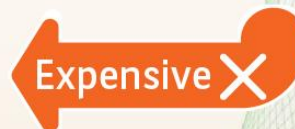
Cost = 2 Crs



Value = 2.50 Crs



or



**This is value investing!**

Doing research and looking for stocks which are **trading at a discount** to their **potential value**.



# Understanding Value Investing!

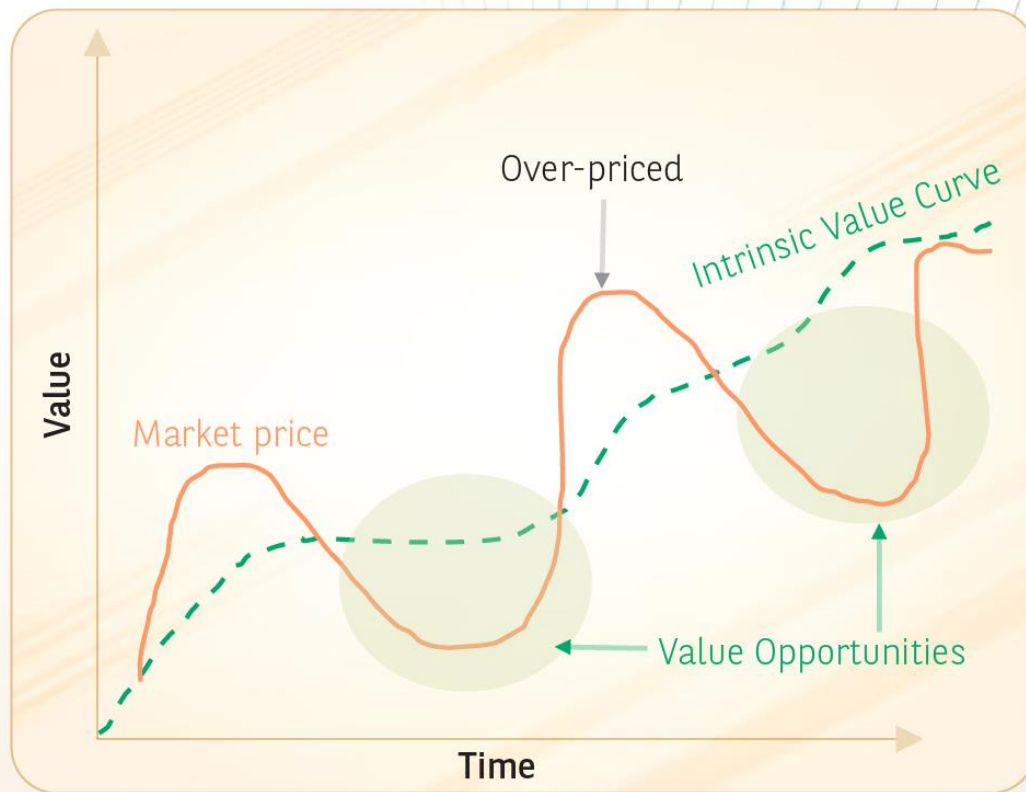


## What is Value Investing?

- > Value investing is about identifying and investing in stocks that are under-priced or are at a discount to their intrinsic value.
- > **Intrinsic value** is the true potential of the stock.

## Reasons for mis-match between price and value:

- > Over-reaction by market participants
- > Temporary / short term issue





# Where to look for value opportunities?



Value opportunities can be found across **Markets, Sectors and Stocks**



## Markets

- > Crisis creates value opportunities
- > Markets become cheaper.



## Sectors

- > Temporary challenges like the raw material shortages, disruptive regulations, etc.



## Stocks

- > Short term issues
- > Unlocking value through restructuring, mergers and acquisitions





# Value Opportunities in Markets



During periods of crisis, the market indices fell, creating value opportunities

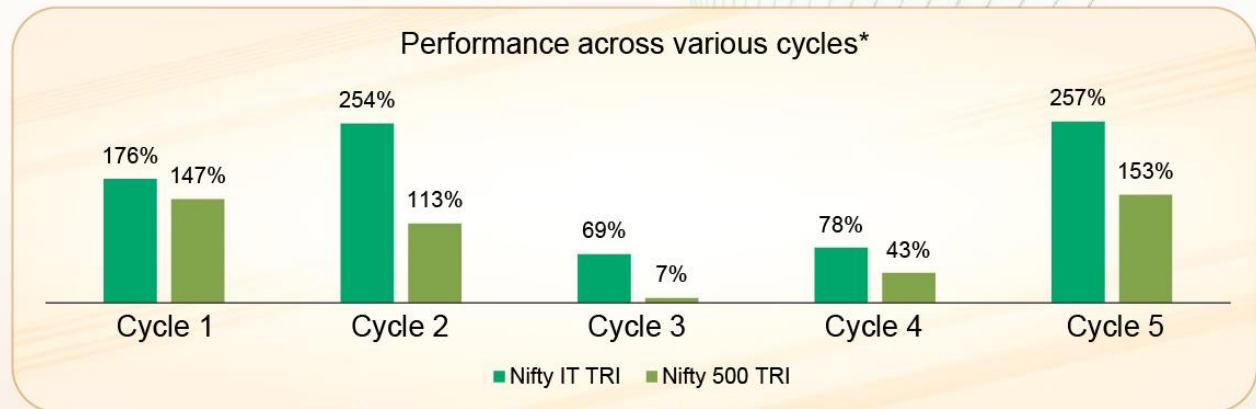
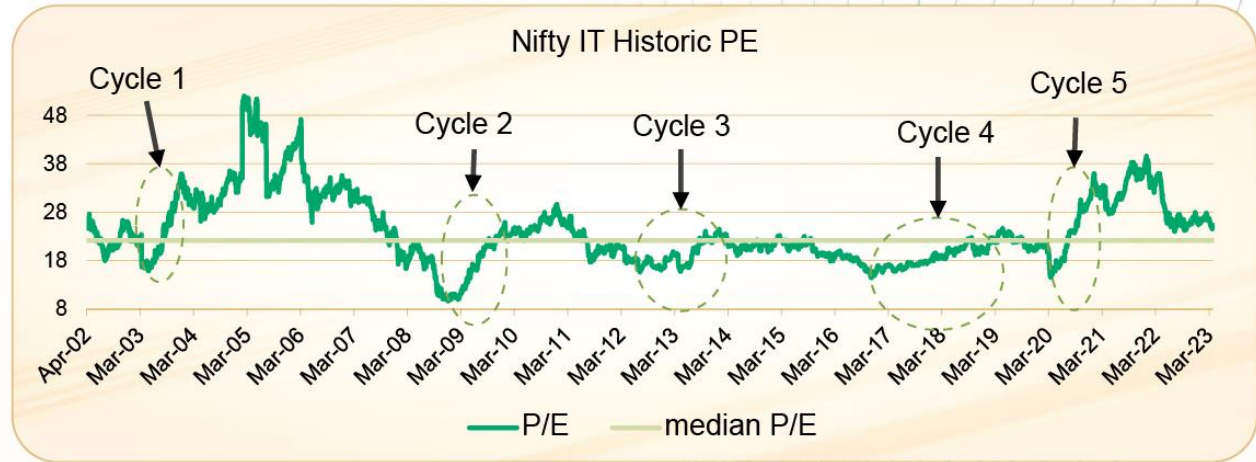




# Real life case studies

# Value Opportunities in Sectors: Information Technology

- > Global slowdowns have caused the PE ratio of technology sector to fall
- > This has created value opportunities
- > When the sector bounced back it has delivered better returns than Nifty 500 Index



Source: Nifty Indices and Internal Research. Data as on March 31, 2023.

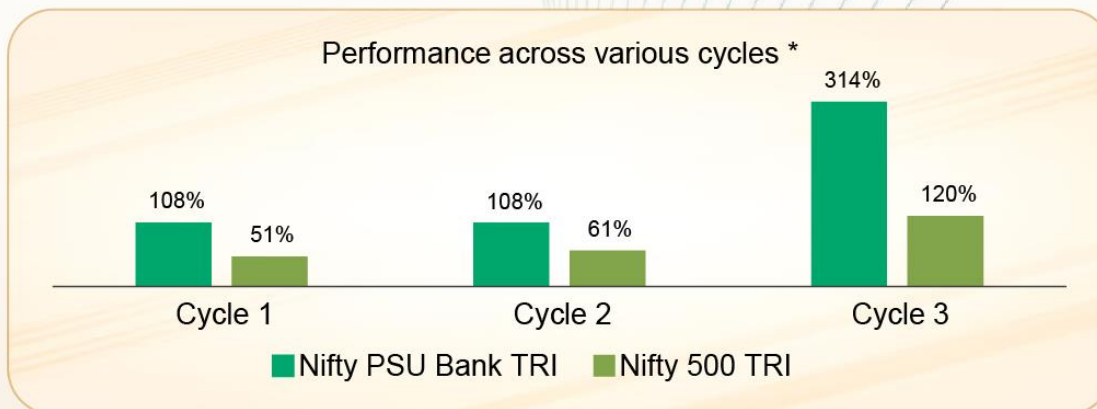
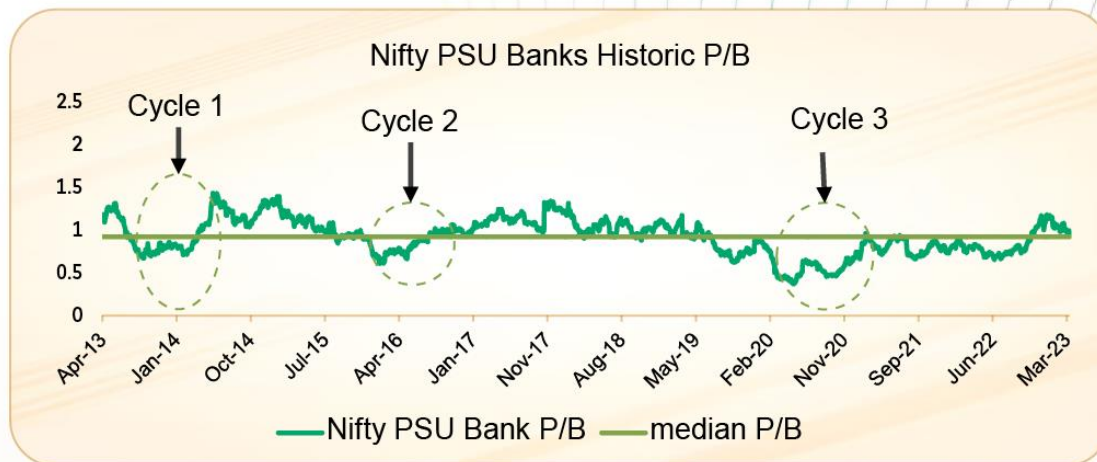
\*Performance is the absolute performance from the bottom of the cycle to the peak. The above-mentioned sector is for illustration purposes only and not a recommendation for investment. **Past performance, including such scenarios, is not an indication of future performance**



# Value Opportunities in Sectors: BFSI



- > PSU Banking sector had gone through difficult phases in the past
- > Credit quality issues had resulted in PSU banks trading at a discount to book value
- > This had created potentially attractive investment opportunities



Source: Nifty Indices and Internal Research. Data as on March 31, 2023.

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# Value Opportunities in Stocks: M&A



## Before Acquisition

- > A pharma company operating in a lucrative segment
- > The management was happy with average business and could not capitalise on full potential
- > Consequently the stock under-performed its peers



## After Acquisition (By a PE investor in 2020)

- > The company became aggressive and focused on both organic and inorganic growth opportunities
  - > Focussed on achieving full potential of it's well established brands
  - > Entered new attractive segments
  - > Acquired businesses and brands to create size and enter into adjacent therapies
- > The stock got significantly re-rated and has been one of the best performing stock in the pharma sector

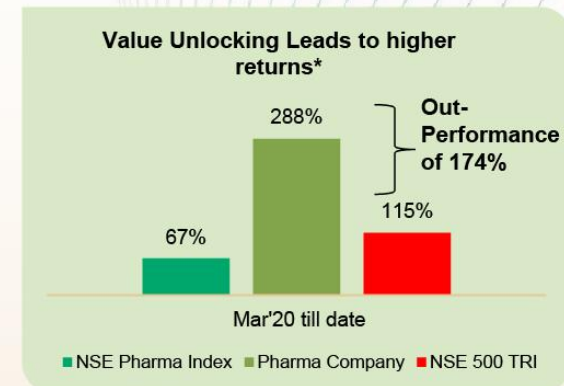
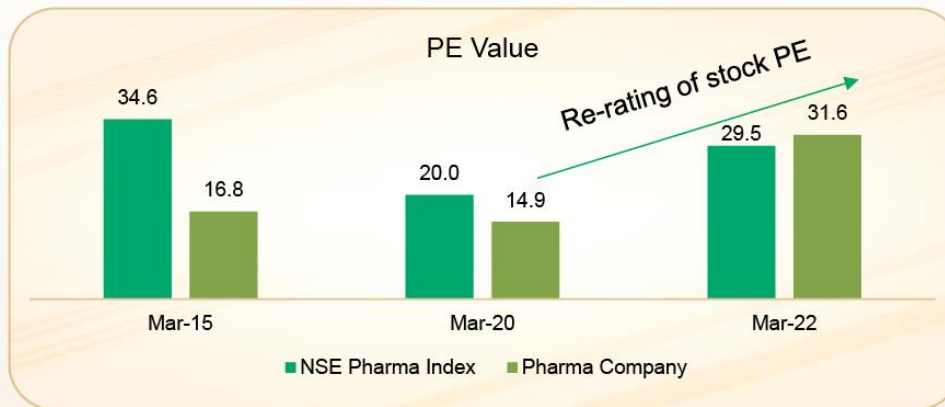
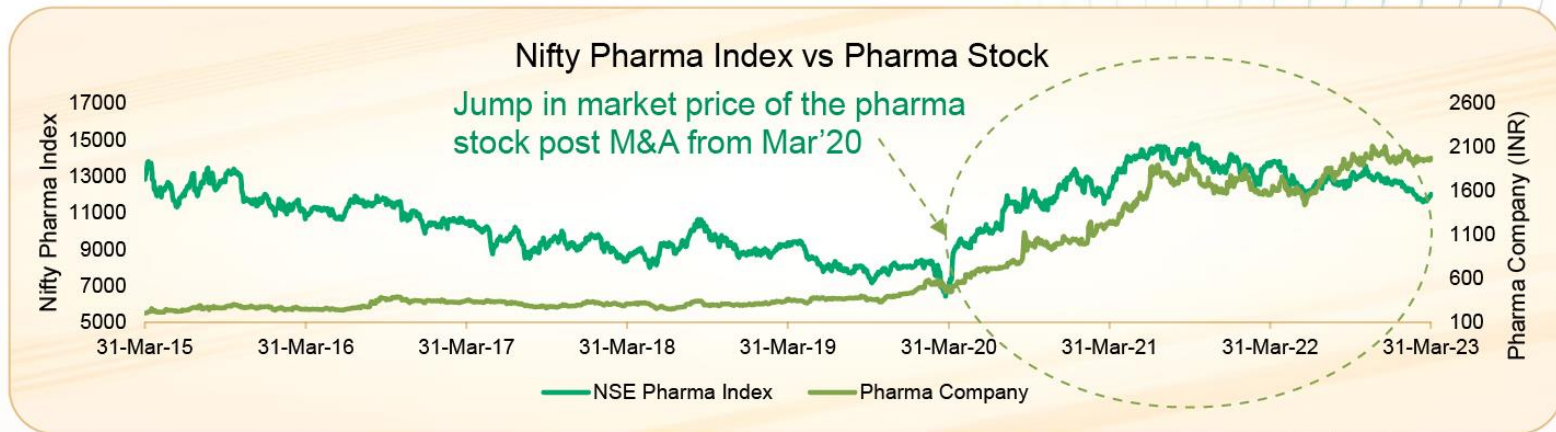
The above-mentioned company is just to explain how the value of the company changed and is not a recommendation for investment.

**Past performance, including such scenarios, is not an indication of future performance**





# Value Opportunities in Stocks: M&A



Source: Bloomberg and Internal. Data as on 31st March 2023 | \*Returns in absolute terms

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# What is not Value Investing?



**There is a thin line between value investing and value traps.**



## What are value traps?

- > Investing in companies which appear to be trading at discount
- > Such companies may have poor fundamentals
- > May erode investors' value over long term



## How to avoid value traps?

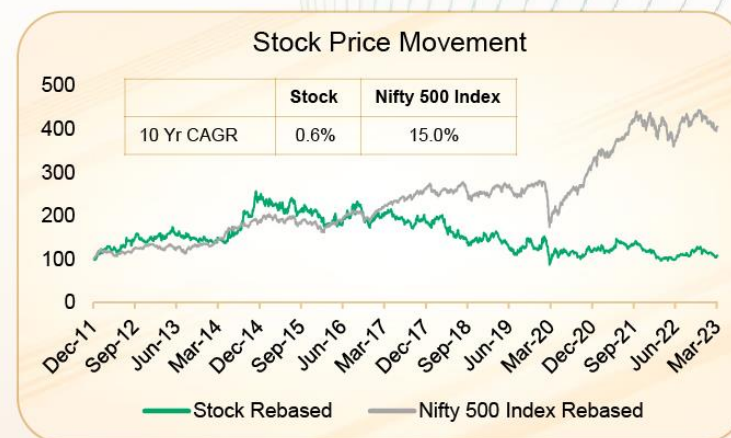
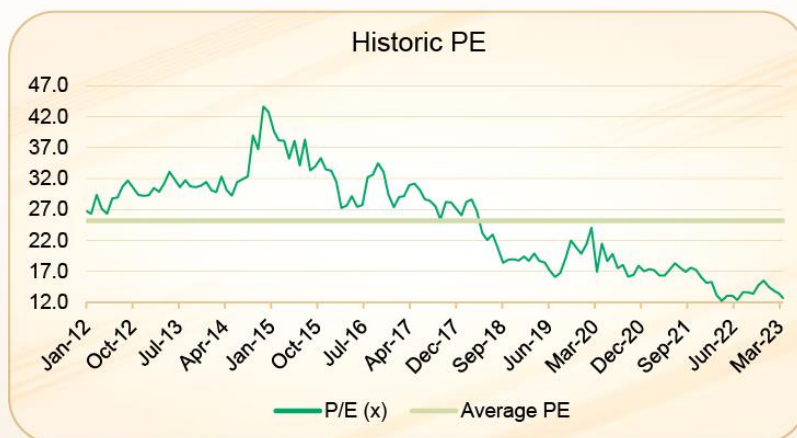
- > Do not use only one metric – P/E, to look for value opportunities
- > Thorough due diligence on the fundamentals of the company
- > Being cognizant of industries who may appear “cheap” because of their cyclic nature
- > Looking for companies with sound management



# Value Traps: Case study of a low PE Stock



- > India is an inherently growth market. Hence companies and/or sectors which are not growing or growing at pace lower than overall economy get de-rated very significantly.
- > Below is the example of a company operating in automotive lubricants industry.
- > The industry has grown at a pace slower than India GDP over last 10 years. The growth outlook for the industry is further clouded with the advent of Electric vehicles.
- > This has led to significant de-rating of the stock resulting in valuations going from cheap to cheaper leading to under performance in the stock price.



Source: Bloomberg and Internal. Data as on 31st March 2023

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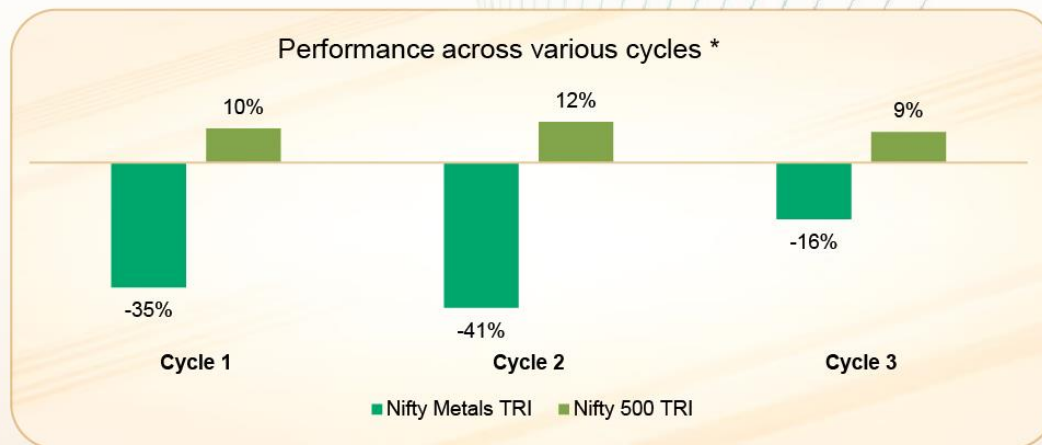
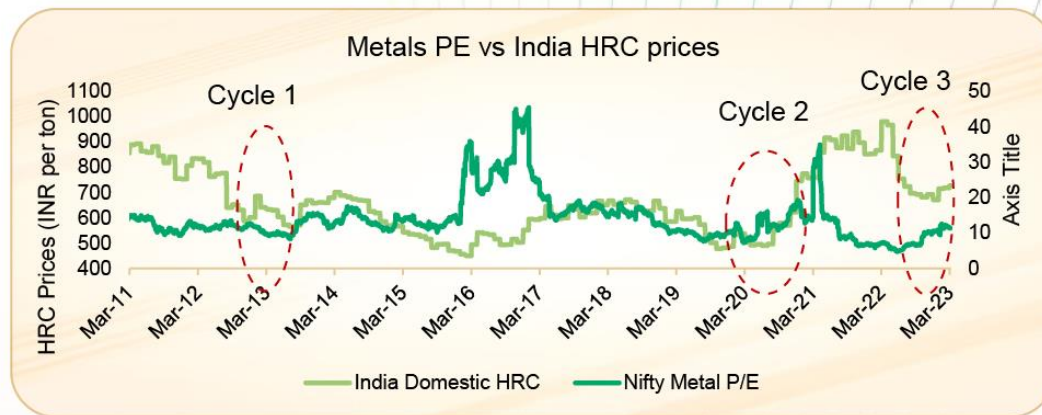




# Value Traps: Case Study for Metal Industry

## Focus on the cycle than low PE

- > Earnings in sectors like Metals and Oil & Gas are highly dependent on the underlying commodity prices.
- > Consequently, when the underlying commodity prices are high earnings are likely to seem exaggerated and the implied PE ratio looks low.
- > This may not be a good time to buy as earnings can decline significantly.



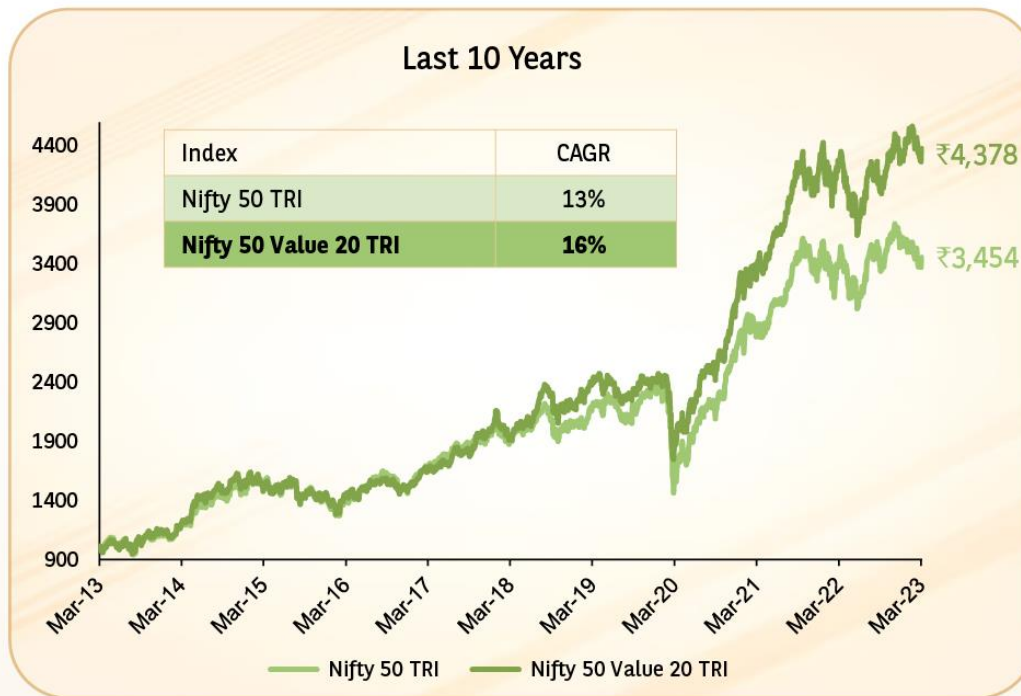
Source: Bloomberg and Internal. Data as on 31st March 2023

The above-mentioned company is for illustration purposes only and not a recommendation for investment.

**Past performance, including such scenarios, is not an indication of future performance.** | Hot-rolled coil (HRC) is the predominant finished steel form in the US domestic and global steel industry, and the foundation for many steel-based industrial products.



# Performance: Value vs Broad Market Index



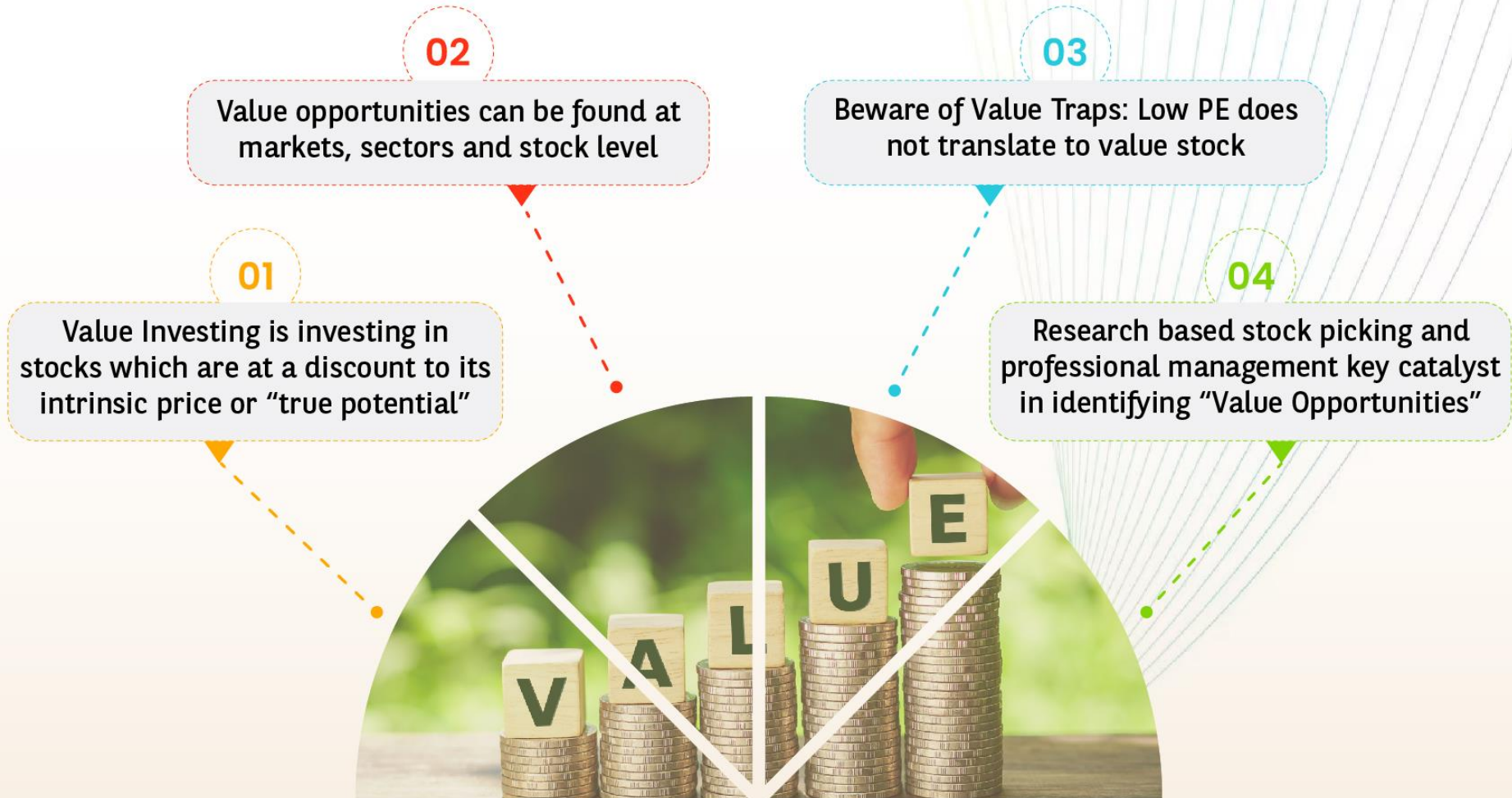
	Nifty 50 TRI	Nifty 50 Value 20 TRI
FY23	1%	3%
FY22	20%	25%
FY21	72.53%	72.83%
FY20	-25%	-19%
FY19	16%	25%
FY18	12%	15%
FY17	20%	14%
FY16	-8%	-3%
FY15	28%	24%
FY14	19%	21%
FY13	9%	12%
FY12	-8%	-6%
FY11	12%	21%
FY10	75%	111%

**The value style of investing has outperformed the broad market benchmark in 12 out of 14 financial years.**

Source: Bloomberg and Internal. Data as on 31st March 2023

Disclaimer: Nifty 50 TRI is the proxy for broad market performance and Nifty 50 value 20 Index is a proxy of the value investment style. Neither of these indices are the benchmark of the scheme. Nifty 500 TRI is the benchmark for the scheme. The Nifty 50 Value 20 Index does not represent the investment strategy for the scheme. For further details on asset allocation, investment strategy and risk factors of the Scheme please refer to SID available on our website ([www.barodabnpparibasmf.in](http://www.barodabnpparibasmf.in)). **Past performance, including such scenarios, is not an indication of future performance.**

# To Sum it up...





INTRODUCTION...

**BARODA BNP PARIBAS**

**VALUE FUND**

(An open-ended equity scheme following a value investment strategy)





# About the Fund



- > The fund follows the value investing philosophy
- > The fund aims to invest in companies which aims to generate wealth in the long-term.
- > The fund has a unique investment approach which focuses on picking value opportunities available at **market, sector and stock levels.**
- > The fund evaluates parameters like:
  - Present value of discounted projected cash flows
  - PE; PB; EV/EBITDA; EV / Ton ; etc.
  - Value unlocking opportunities
- > The fund aims to look for companies with strong fundamentals across market caps and sectors without any bias to either.
- > The Fund's investment process incorporates strong screeners to avoid allocations to value traps





# How we define Value? The Iceberg Approach



## Iceberg Approach: Going beyond PE

Commonly used valuation parameters like price to earnings



**Different valuation markers for different industry / sectors**



### **Stock Picking Opportunities**



- > Mergers/ De-mergers and acquisitions
- > Restructuring / recovery potential

Holistic approach to value incorporating factors like:

- > Market cycles
- > Business cycles
- > Company specific factors

For further details on asset allocation, investment strategy and risk factors of the Scheme please refer to SID available on our website ([www.barodabnpparibasmf.in](http://www.barodabnpparibasmf.in)). Investment strategy stated above may change from time to time and shall be in accordance with the investment objective and strategy stated in the SID of the scheme.



# Investment Philosophy – 3 S Framework



**"To distill the secret of sound investment into three words, we venture the motto,  
MARGIN OF SAFETY."**  
*- Benjamin Graham*



**"Safety" is in the core of our investment philosophy.**



Margin of Safety in Balance Sheet



Companies which are financially sound



Margin of Safety of Earnings



Companies with higher confidence of earnings



Margin of Safety in Valuation



Relative Valuation

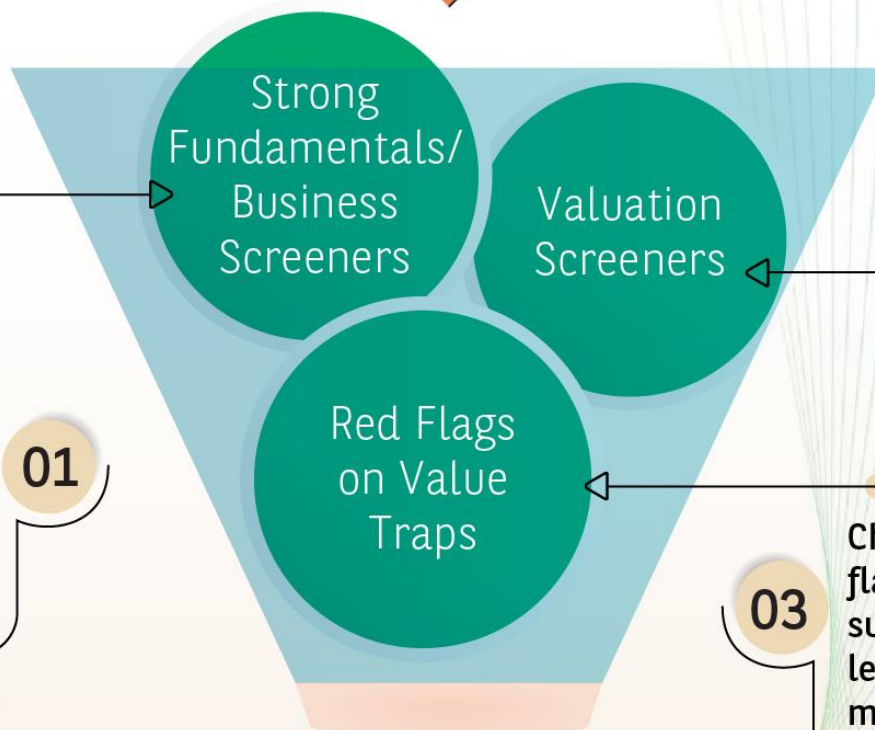
Safety here does not mean safety market price. This illustration is to show the investment philosophy only.  
The fund does not guarantee any returns.



# Investment Philosophy – 3 S Framework



Investible Universe



02

Identifying undervalued companies using the most suitable valuation techniques

Screeners to scan the investible universe to determine companies with strong financials

01

Top down and bottom-up approach to pick stocks across sectors

03

Checking for red flags or value traps such as high leverage, management issues, etc.

Constructing portfolio considering opportunity size and risk limits





# Advantages of investing in Value Funds

## Catching Potential Gems

Value investing is all about looking for stocks with unrealised potential



## Less Volatile

Involves buying long term stocks which tend to be less volatile



## Focus on Long Term

Value investing involves selecting stocks and staying invested for long term till the value is realised



## Leveraging on market sentiments

Markets tend to move according to investors' emotions fuelled by fear and greed.

This creates opportunities for research based rational value fund manager





# Who should Invest?



## Patient Long Term Investors

- > Investors looking to invest in value stocks with adequate margin of safety.
- > Investors looking to stay invested for more than 3 years
- > Investors who are saving for long term goals



## Investors looking for diversification from growth oriented portfolios

- > Investors who hold growth stocks and want to diversify their investment using value stocks



## Investors looking for benefits

- > The fund aims to benefit from the potential earnings growth as well as valuation re-rating



# Fund Facts



Scheme Name:	Baroda BNP Paribas Value Fund
Scheme Type:	An open-ended equity scheme following a value investment strategy
Category	Value Funds
Investment Objective:	The Scheme seeks to generate long term capital appreciation from a diversified portfolio of predominantly equity and equity related instruments by following a value investment strategy. However, there can be no assurance that the investment objectives of the Scheme will be realized. The Scheme does not guarantee/indicate any returns.
Asset Allocation:	Equity & equity related securities: 65 to 100% Debt & Money Market Instruments: 0-35% Units issued by REITs & InvITs: 0-10% Units of Mutual Fund Schemes – 0 – 10% For complete details refer SID
Benchmark:	NIFTY 500 TR Index
Fund Manager*:	Mr. Shiv Chanani
Load Structure:	Entry Load: NA Exit Load: • If units are redeemed upto 10% of the units, on or before 12 months from the date of allotment: Nil • If units are redeemed over and above the 10% limit, on or before 12 months from the date of allotment: 1% of the applicable Net asset Value (NAV) • If the units are redeemed after 12 months from the date of allotment: Nil
Plans and Options:	The Scheme offers following two plans: Regular and Direct Each plan offers Growth Option, and Income Distribution cum capital withdrawal (IDCW)* Option with payout and reinvestment options. <i>*Amounts can be distributed out of investors capital (equalization reserve), which is part of sale price that represents realized gains.</i>
Minimum Application Amount:	Lumpsum Details: <ul style="list-style-type: none"><li>• Minimum Application Amount: Rs. 5,000 and in multiples of Rs. 1 thereafter.</li><li>• Minimum Additional Application Amount: Rs. 1,000 and in multiples of Rs. 1 thereafter.</li></ul> SIP Details: Minimum Application Amount - <ul style="list-style-type: none"><li>• (i) Daily, Weekly, Monthly SIP: Rs. 500/- and in multiples of Rs. 1/- thereafter;</li><li>• (ii) Quarterly SIP: Rs. 1500/- and in multiples of Rs. 1/- thereafter</li></ul> Frequency Available: Daily, Weekly, Monthly & Quarterly

*\*Mr Miten Vora is the dedicated fund manager for overseas investments*





# Risk Factors



The risks associated with investments in equities include fluctuations in prices, as stock markets can be volatile and decline in response to political, regulatory, economic, market and stock-specific development etc. Please refer to scheme information document for detailed risk factors, asset allocation, investment strategy etc.

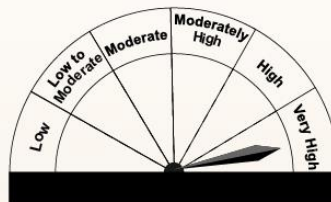
Further, to the extent the scheme invests in fixed income securities, the Scheme shall be subject to various risks associated with investments in Fixed Income Securities such as Credit and Counterparty risk, Liquidity risk, Market risk, Interest Rate risk & Re-investment risk etc., Further, the Scheme may use various permitted derivative instruments and techniques which may increase the volatility of scheme's performance. Also, the risks associated with the use of derivatives are different from or possibly greater than, the risks associated with investing directly in securities and other traditional investments.

Please refer to Scheme Information Document available on our website ([www.barodabnpparibasmf.in](http://www.barodabnpparibasmf.in)) for detailed Risk Factors, assets allocation, investment strategy etc.

**This product is suitable for investors who are seeking\*:**

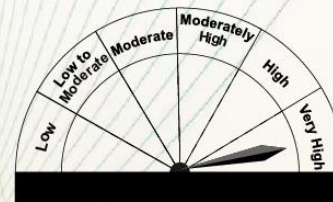
- Capital appreciation over long term.
- Investment predominantly in a portfolio of equity and equity related securities by following a value investment strategy

**Risk-o-meter for the Scheme^^**



Investors understand that their principal will be at Very High Risk

**Benchmark (Tier 1) Riskometer^^  
NIFTY 500 TRI**



Benchmark riskometer is at Very High Risk

\*Investors should consult their financial advisers if in doubt about whether the product is suitable for them.

^^the riskometer assigned is based on internal assessment of the scheme characteristics and the same may vary post NFO when actual investments are made.





# Disclaimers



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**Mutual Fund investments are subject to market risks,  
read all scheme related documents carefully.**