WINDMILL CAPITAL

R&D Spenders
Companies investing in R&D to be future ready become the innovators

🟢 Medium Volatility
TICKERS (Since August 20, 2017)

smallcase rationale

Indian companies across sectors like pharmaceuticals, chemicals, auto & auto ancillaries, etc have been investing heavily into R&D to develop ideas and companies advantage and become future ready. Government has also been supportive towards R&D by providing tax benefits and incentives allowance to companies to increase more into R&D.

- This smallcase consists of companies focused on innovation whose R&D expenditure as a percentage of sales has been consistently above their sector average.
- These companies also record more than 10% increase in their absolute expenditure on R&D over the years.

This smallcase comprises companies that are spending on R&D to build innovative, future-ready products and services.

Created by: Windmill Capital | ISIN Reg. Number: INW200005045 | Subscription Type: Free

Invest in this smallcase here

Methodology

Defining the universe

All publicly traded companies on the National Stock Exchange of India, covering 90% market capitalization, are included in the universe.

Research

Windmill Capital team studies research papers and documented investment philosophies to develop ideas and strategies are then adapted for the Indian markets, with which a criteria for stock screening is focused.

Stock Screening

- Proprietary liquidity filters are applied to remove illiquid stocks from the universe.
- A special check is applied to remove stocks, where a significant portion of the company's revenue is reported to be coming from the corporate universe.
- Stocks that are identified in the previous step is applied on the investible universe to select qualifying stocks.

Weighting

The list of selected stocks is equal weighted

Rebalance

This smallcase has a annual rebalance schedule. Once every year, the research team reviews this smallcase and drops stocks which do not meet the model criteria and adds new stocks.

Ratios

Ratio	smallcase	Equity Smallcap
P/E Ratio	43.05	33.29
PB Ratio	3.31	4.48
Sharpe Ratio	1.66	0.97
Dividend Yield (%)	0.50	0.57

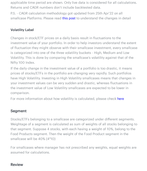
Market Cap Distribution

Note: Low performance indicates volatility. It is a tool to communicate forward return information and should not be seen as advertisement or promotion.

Returns over various periods

1 Month Return	6 Months Return	1 Year Return	3 Year Return
20.41%	41.75%	100.00%	108.49%
Equity Smallcap	Equity Smallcap	Equity Smallcap	Equity Smallcap
30.67%	75.24%	101.63%	166.21%

How to invest



Live Performance vs Equity Smallcap

● R&D Spenders vs ● Equity Smallcap

Definitions and Discussions

CAGR

CAGR (compounded annual growth rate) is a useful measure of growth in performance of a portfolio. Every year returns generated by a portfolio are compounded. The CAGR is the rate at which the portfolio would have grown if it was paid a 10% CAGR. For instance, if a portfolio is for two years and has grown at 10% CAGR, the returns earned in the first year would be compounded and the returns in the second year would be 10% on the initial amount plus 10% on the returns earned in the first year. The returns in the second year would be 21%. This means that you will always end up with the same amount if you earn 10% every year or if you earn 21% in the second year and zero in the 10% year. 21%, representing in the first, second and third year.

In simple words, it indicates the annual return generated by the smallcase from the date of its inception. The CAGR helps you to understand how the smallcase has performed in the past and how it has grown. Only the data in smallcase inception Returns and CAGR numbers don't include backtested data.

- CAGR calculation methodology is explained in detail in this blog post by Windmill Capital's Research Analyst. Please read this post to understand the logics of CAGR.

Volatility (Ann)

Changes in stock/ETF prices on a daily basis result in fluctuations to the investment value of your portfolio. In order to better understand the potential ups and of fluctuation they might observe with their smallcase investment, every smallcase is assigned a volatility rating. Volatility is a measure of the risk of a security or portfolio. This is done by computing the smallcase's volatility with respect to its NIFTY 500 Index.

If the daily change in the investment value of a portfolio is low (bias), it means stocks/ETFs in the portfolio are changing very rapidly. Such portfolios are considered to be more risky. Such portfolios are assigned a high volatility rating. Portfolios are assigned a low to very sudden and sharp movements in the investment value of a low volatility rating. Such portfolios are expected to be lower in volatility.

For more information about how volatility is calculated, please check here

Weight

Stocks/ETFs belonging to a smallcase are categorized under different segments. Percentage of a segment is calculated as sum of weights of all stocks belonging that segment. Suppose if stocks, with each having a weight of 10%, belong to the segment, then the weight of the segment is 20% (sum of weights of the stocks in the segment).

For smallcases where manager has not prescribed any weights, equal weights are assigned to the stocks.

Review

Rebalancing is the process of periodically reviewing and updating the components of a smallcase. Rebalancing helps maintain the performance of the smallcase continue to reflect the underlying theme or strategy.

Market Cap Composition of Stocks

All the stocks listed on NSE/Nifty500 Stock Exchanges are assigned or decreasing value of Market Cap, on the date with the data is computed. Based on the Market Cap, Stocks ranked equal to or below 50th are categorized as Large Cap. Stocks ranked equal to or above 251st are categorized as Small Cap. Stocks ranked between 51st and 250th are categorized as Mid Cap.

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Comparison of two performances

- Nifty Smallcase vs Equity Smallcase: smallcase platform provides many tools. One of the tools provided on the platform is the comparison of the two smallcases. This tool helps you to compare the two smallcases based on various criteria and visualize the performance of the two smallcases in a single chart. Following methodology is used to provide users different options to compare the performance of the smallcases.
- All smallcases have an option to compare the two performance against various parameters like Nifty 50, Nifty Smallcap 250, Nifty Midcap 150.
  - FD returns are calculated using the data available from RBI. The annual FD rate is used to calculate the returns. Since FD returns are compute a daily rates series, while the smallcase returns are compute corresponds to the annual deposit rates provided by the RBI. For instance if the FD rate provided by the RBI is 5.00%, 6.00% and 7.00% for 1 Year, 2 Year and 3 Year deposits, then the FD returns will be 5.00%, 6.00%, 7.00%. This series is also utilized to determine the CAGR between any 2 specified dates.
  - Inflation returns are calculated using the data available from RBI. The inflation data is published on a monthly basis. Since the inflation data is not available on a daily basis, we have computed a daily rates series from the annual rates series corresponding to the annual inflation rates provided by the RBI. For instance if the RBI has published inflation rate for the month of Jan 2023 as 6%, the total return of the series after 2 years will be 12.36% (1.06*1.06 - 1) = 12%. This series is also utilized to determine the CAGR between any 2 specified dates.
  - Equity returns represent the returns generated by Nifty 50 Index.
- Comparison between two smallcases: Users can also compare the performance of two smallcases against a Equity Large cap index or Mid cap index or Small cap index or NIFty500 Index.
- Each smallcase is categorized into one of the market cap categories using the methodology explained in the section above. Following options are made available, as per the methodology category of the smallcase.

Market Cap Category	Comparable Option
Large Cap	Nifty 50
Midcap	Nifty Midcap 150
Smallcap	Nifty Smallcap 100
Large & Midcap	Nifty LargeMidcap 250
Mid & Smallcap	Nifty MidSmallcap 400
Multicap	Nifty 500

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