

Investment Journey

VP Chintan Baithak – July 2016 (Goa)

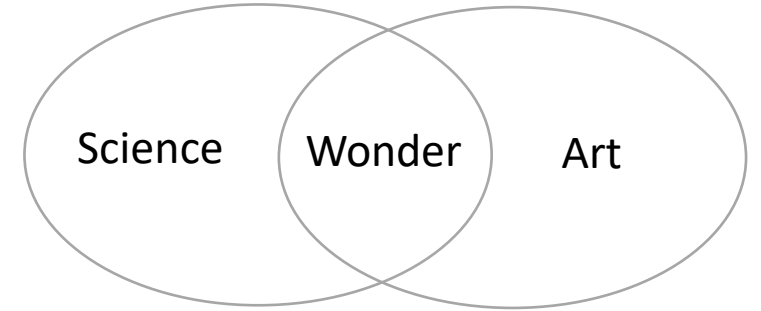
Sandeep Patel

Investment Approach

- Aspire to do minimum 25% CAGR
- Like compounding machines with -
 - large size of opportunity
 - quality management
 - quality businesses
 - superior return on capital employed
 - predictable sustainable growth
 - reasonable valuations (not necessarily mouth-watering cheap)
- Prefer a buy and hold
- Believe in staying within circle of competence (play in limited sectors)
- 12-15 stocks
- Prefer having 10-15% cash at all market stages

“Those of us who ask little of life, get little. Those who ask much, get much, but those who ask for too much get nothing.” ~Thomas Phelps

Journey



Intangibles – Brand, IP, Expertise, Differentiated offering...



Economic Profits = Invested Capital x (RoCE - Cost of Capital)
Intrinsic Value Compounding Rate = RoIC x Reinvestment Rate



RoE, RoCE, RoIC, Asset Turn, Cash Flow, D/E, Promotor holding %, Dividend payout %, Pledge %, Working Capital, Tax Rate, Capital Work in Progress...
(for NBFCs - RoA, NIM, Spread, Cost-to-Income, NPA...)



P/E, Sales CAGR, PAT CAGR, Profit margin

“I constantly see people rise in life who are not the smartest, sometimes not even the most diligent, but they are learning machines. They go to bed every night a little wiser than they were when they got up and boy does that help, particularly when you have a long run ahead of you.” ~Charlie Munger

What excites me?

- Good business that can become great
- Owner-operator with focus, integrity, energy, and intelligence
- Element of Quality
 - Quality of Business
 - Quality of Management
 - Quality of Growth
- Not fond of cigar-butt investing, cyclicals, event based buying and leverage

“There is plenty of money to be made in the center of the court. There is no need to play around the edges.” ~Warren Buffett

Comfort Zone

- Style which suits my temperament – buy decent quality companies and hold them for the long run
- Staying within circle of competence (play in limited sectors)
- Sectors addressing very large size of opportunity; lot of miles ahead to walk and grow
 - Pharma: Ajanta, Shilpa, Alembic, Torrent, SPARC & Piramal (Healthcare)
 - NBFC: Gruh, Can Fin, Ujjivan, Satin, Piramal (FS)
 - FMCG/Packaged food: Britannia & Tasty Bite
 - Selective Agro & Aqua: PI & Avanti

BUY / SELL / HOLD decisions

- Recent BUY decisions (prefer adding to existing positions, when favorable price opportunity arise). Increased holding -
 - after promoter selling news (e.g. PI)
 - during USFDA worry (e.g. Alembic)
 - during bread potassium bromate scare (e.g. Britannia)
 - after impressive investor presentation (e.g. Piramal after Q3FY16)
- SELL decisions
 - First sign of changing facts for worse (e.g. PFS)
 - Regulation change (e.g. SCUF – NPA recognition norms)
 - Disproportionate growth slowdown + stretched valuation (e.g. Page)
 - Deterioration of the business environment (e.g. Kaveri)
 - Valuation running beyond my comfort (e.g. part exit from Avanti @ >20 P/E)
 - When find better growth story (e.g. switch from Mayur + CCL to Ujjivan + Satin)
- HOLD decision
 - Have held on to positions even if I am not comfortable buying at current market price (e.g. Tasty Bite)

Maintenance

- Constant maintenance to keep abreast of what I own
 - Read /listen to conference calls
 - Press releases
 - Digging through the results
 - Reading ARs (of co. & competitors)
 - New ANDA approvals and DMF filings
 - Import/Export numbers (zauba.com)
 - Thematic industry reports
 - Analyst reports (disregard the target part)
 - Management interviews

Thank You

“If I have seen farther, it is only because I had the benefit of standing on the shoulders of giants before me.” ~Isaac Newton