

ValuePickr Workshop

KIRAN

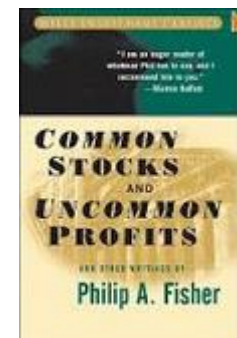
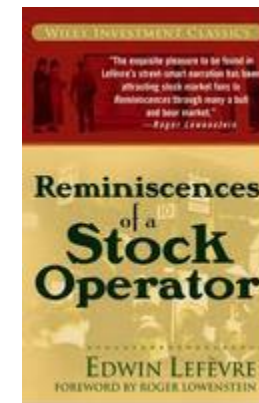
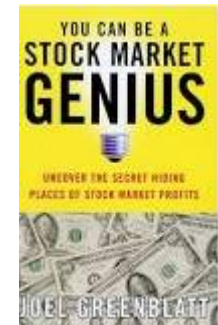
JUNE 15TH – JUNE 17TH, 2015

GOA

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A Bit of Context before the Philosophy

- ✓ Invested in one of the most admired private banks from 2005 and pretty much everything else was spray and pray till 2010 (dabbler and passive investor)
- ✓ Started focused/active investing only in 2010. Started off exclusively as a Special Situations investor
- ✓ Huge influence of Prof. Sanjay Bakshi and Joel Greenblatt
- ✓ Very intellectually satisfying; monetarily not so much (due to position sizing)
- ✓ Then found a couple of books which changed my entire perspective on investing
- ✓ Post 2011, working exclusively on long term stories



Investment Philosophy

- ✓ Focus only on stories which have a long ramp-up (very large size of opportunity vs size of the firm)
- ✓ Usually invest only after talking to managements
 - Increase position size after talking to managements
- ✓ Obsessive focus on working capital
 - Usually invest in stories with negative working capital or reducing working capital
- ✓ Follow concentrated portfolio. Don't invest in more than 7-9 stocks
- ✓ More of a capital allocation focused person than idea-generator
- ✓ Mostly smallcap focus
- ✓ Don't like to sell in structural stories, irrespective of temporary overvaluation
- ✓ Have absolute targets in terms of portfolio value to avoid all kinds of bias (especially envy)

Personality Traits

- ✓ Mostly Strategic. Study fewer stocks, but study them deeply. Not an idea generator
- ✓ Deeply influenced by Munger. Love Probability. Trying to be a learning machine. Long way to go
- ✓ Try to understand overarching trends in the industry and long term trends in competitive behavior
- ✓ Undervaluation is an important parameter, but not the only one
- ✓ Because of Consulting background, habituated to asking deep and probing questions to Management. Develop conviction based on their responses
- ✓ Laziness is another important parameter. Don't like to change portfolio much
- ✓ Sell existing stocks only when I find another compelling opportunity.
- ✓ Usually fully invested (this is probably because I haven't seen a bear market yet)
- ✓ Not averse to compelling short-term undervalued stories

Most Excited by..

- ✓ Negative Working Capital/Reducing Working capital/Increasing Customer Advances
- ✓ Stellar management
- ✓ Sweet spot in an overwhelmingly positive trend

- ✓ Nice to haves include – Conservative management, R&D spend and undervaluation

Must Haves..

- ✓ Large size of opportunity along with riding a compelling trend
- ✓ Competent and honest management
- ✓ Great feedback from vendors/suppliers/distributors to the company
- ✓ Unique edge in the industry
- ✓ Above average growth rates in Sales and Profits (atleast 20%)
- ✓ Very low downside (ideally, zero)

Ignorables and Non-Ignorables

IGNORABLES:

- ✓ Low/no dividend distribution
- ✓ Excessive focus on past RoE/RoCE
- ✓ Reticent management
- ✓ Limited related party transactions

NON-IGNORABLES:

- ✓ Lack of management integrity heard from vendors/suppliers/distributors (past/present)
- ✓ Deteriorating working capital cycle
- ✓ Limited size of opportunity going forward
- ✓ Significant divergence between 'talk' and 'walk' in the past

Businesses I might pay up for...

- ✓ Was never put off by a 15x or a 20x or a 25x multiple
- ✓ But had HUGE price anchoring bias in the past
- ✓ Now, more concerned about understanding the business and the management. Lack of sufficient understanding has cost me more than paying up for a business. Price anchoring more or less has been eliminated
- ✓ Learning cycle drastically improved over the past few years
- ✓ I am NOT worried about paying up more for a business
- ✓ I am MORE worried about not allocating enough capital to a business I understand and management I am convinced about

When will I sell...

- ✓ If the thesis itself is WRONG, will sell irrespective of the price.
- ✓ If I find another compelling opportunity, much better than existing holdings and meets my opportunity cost hurdle.
- ✓ Will sell if the estimated growth rate of the market is more than 25% CAGR for next 10-15 years (reverse DCF).
- ✓ Undervaluation no longer present in a short term opportunity.
- ✓ But in general, I don't like to Sell. Been a boon mostly so far. Might be a bane in a Bear market.

Difficult Questions...

Proportion of Cash:

For now, fully invested. I see merit in either 30-40% cash or 0% cash in such markets. I feel 10% cash is only a psychological advantage without much monetary gains

How to fall out of Love:

It's just business. If it doesn't meet opportunity cost hurdle, will sell (of course, fully aware of the risk of selling too soon)

How to get the feel for 5 years out:

I don't. I usually look at 2-3 years out. Very few businesses survive in a tough competitive environment without much damage.

Height of Conviction:

Great management, large opportunity, great pipeline, amazing undervaluation (in general, fantasy land 😊)

Disclaimer

Disclaimer: It is a safe to assume I am personally invested in any stock ideas that may have been referred to in the presentation. My views will be biased. This is NOT a stock recommendation. Kindly do your own due diligence and/or consult a registered investment advisor before making any investment decisions.