



Presentation for Value Pickr Forum

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Key Points

- **Background about myself**
- **Investing Style, Process, Philosophy**
- **Portfolio Construction, Entry, Exit**
- **Success Stories and Mistakes**
- **Learnings and Concluding Remarks**
- **Risk Factors and Disclaimers**

Background About Myself

- **Investing runs in the family**
 - Accompanied father to AGMs from a young age, went through ARs
 - Participated in college games on stock markets,
- **Entered stock market immediately after graduation**
 - Experience of 4.5 years at KR Choksey (sell-side)
 - Experience of 4 years at Prime Securities (buy-side)
 - Strong networking across the stock market ecosystem
 - Introduction to Lashit Sanghvi, Ashwin Kedia, Ashish Kacholia and Rakesh Jhunhunwala who became mentor and guide
- **Stared Alchemy Capital (PMS) in 1999, operational in 2002**
 - Dabbled in Public and Prrivate Equity between 1999-2001
 - Several lessons learnt in this period (positive and negative)

Investment Style

- **Initial years (2002-2008) – Value Oriented**
 - Based on bottom up fundamental research
 - Primary, on the ground (visiting plants, companies, reading ARs)
 - Not concerned about macro
 - Embrace volatility, long term vision (5-10 years or forever)
 - Excited about small and micro caps, focus on next big idea (“navu su”)
 - Lots of questionable investments which became mistakes, money lost

- **Middle years (2008-12) – GARP**
 - Started appreciating large high quality companies
 - Understood the value of consistent cash flow generation
 - Size and scale, longevity of the business matters
 - Consistency of growth more important
 - Also started considering global and local macro environment in investing decisions

Investment Style

- **Recent years (2013 onwards) – GARP and Quality**
 - Busting of few myths (MNCs have better corporate governance, capex means growth)
 - Holistic view of business model of company
 - Sustainable ROCE of business, capex trends, funding mix for the same
 - Good blend of bottom up and top down approach to idea generation
 - Sector approach to investing
 - Different valuation approaches for different companies
- **Investing style evolved every 10 years with differentiation in**
 - Cyclical vs Structural
 - Small caps, Mid caps, and Large caps
 - Not all small companies can scale, cross the chasm, and evolve
 - New age and evolving business models vs Well established models
 - Continuous learning and adapting
 - ‘Value at KR Choksey’ -> ‘Momentum at Prime’ -> ‘GARP at Alchemy’

Investment Process

- **Idea generation**
 - Networking, meeting with experts and clients, companies, etc,
 - Reading (newspapers, business magazines, ARs, sell side reports)
 - On-ground research – visits to shops, exhibitions, etc.
- **Meeting company management**
 - Across the organisation structure, at various levels, at various forums
 - Repeat and regular visits – to the AGMs, plants, markets, offices, etc.
 - Scuttlebutt/channel checks, meeting with vendors and customers, etc
 - Collect qualitative feedback from trade, industry, banking channels
 - Sharing it with company management (e.g of Honda Power)
 - Qualitative aspects, work environment, ESG, etc.
- **In-depth Financial Analysis and Evaluation**
 - Detailed financial models, Ratio Analysis, Balance Sheet, Cash Flows
 - Understanding growth drivers, sustainability, Operating leverage
- **Analytics to parameterise past trends, universe building, etc.**⁶

Investment Philosophy – GARP

- **Large and growing market opportunity**
- **High quality ethical and disciplined management**
 - Proactive, Aligned to business outcomes, respect for capital allocation
- **Growth orientation (20%+ CAGR in sales and profits)**
 - Ability to surprise positively, Consistency, on a larger scale
 - Growth in earnings biggest driver of stock price returns
- **Long term investment horizon**
 - 3-5 year holding period or even more
- **Healthy financial metrics**
 - High leverage is a strict no-no
- **Reasonable valuations**
 - 3D equation – growth over next 3-5 years, ROCE, Valuation
- **Market cap agnostic, benchmark agnostic**
- **Bonus – valuation rerating + earnings growth**

Portfolio Construction, Entry, Exit

- **Size of position**
 - % of total capital, How long, comfort levels, management quality
- **Sensitive to valuation at time of entry, Not so in case of exit**
 - Margin of safety , GARP at time of entry
 - Type 1 error vs. type 2 error
 - Bajaj Finance vs. Bosch
 - Re-rating potential
- **So what causes an exit**
 - Wrong investment thesis, Growth falters, external environment
 - Financial profile goes for a toss (ROCE declines, negative FCF for long)
 - Out of whack valuation, De-rating potential
- **Sensitivity to ROE/ROCE, growth rates**

Differentiating From Others

- **Everybody trying to get information first and fastest**
 - Ethics, what and how to ask, long term orientation
- **How you act on the information**
 - Holistic approach – stage of business in its lifecycle
 - No excess focus on few metrics like ROCE, PE, etc.
- **Risk Reward, Time Horizon, Context**
- **Valuations – consist of several aspects – evolves over time**
 - Available headroom for long term growth, near term concerns
 - Not stuck on specific valuation multiple
 - Liquidity, corporate governance, capital allocation, subjective
 - Relative to sector average, leader, qualitative and quantitative
- **Long lasting relations with ecosystem**
 - Humanitarian, being in touch with everyone, respecting subordinates
 - Active work life balance (Gym, running, reading)

Some Examples Of Success

- **Auto companies in the early 1990s**
- **Pharma, Chemicals in late 1990s**
- **Technology stocks in 1998-2000**

- **Domestic growth stocks in 2010s based on the J-Curve effect**
 - Consumption (FMCG and Consumer Durables), Retail
 - Retail oriented financials

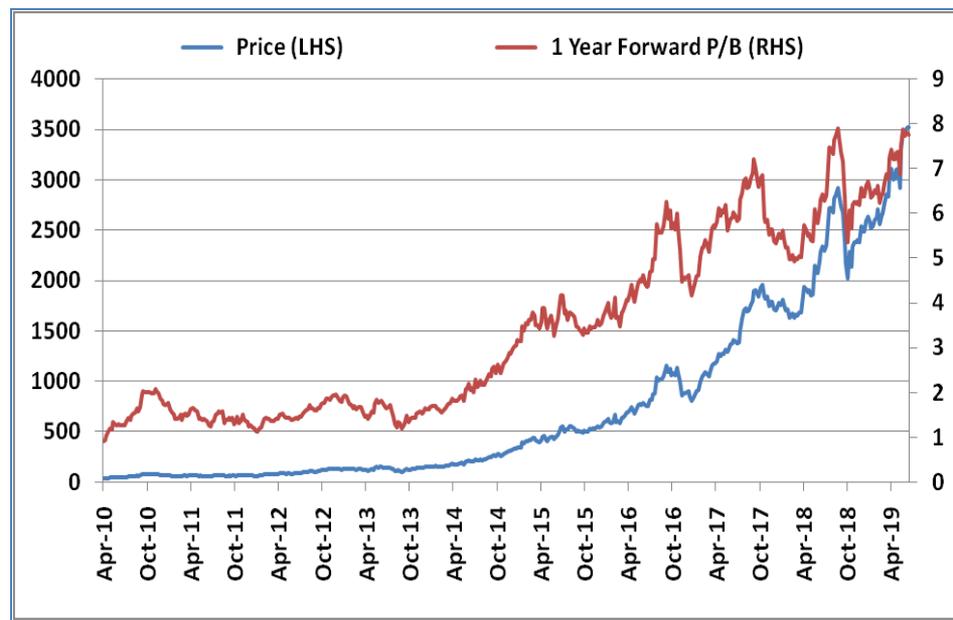
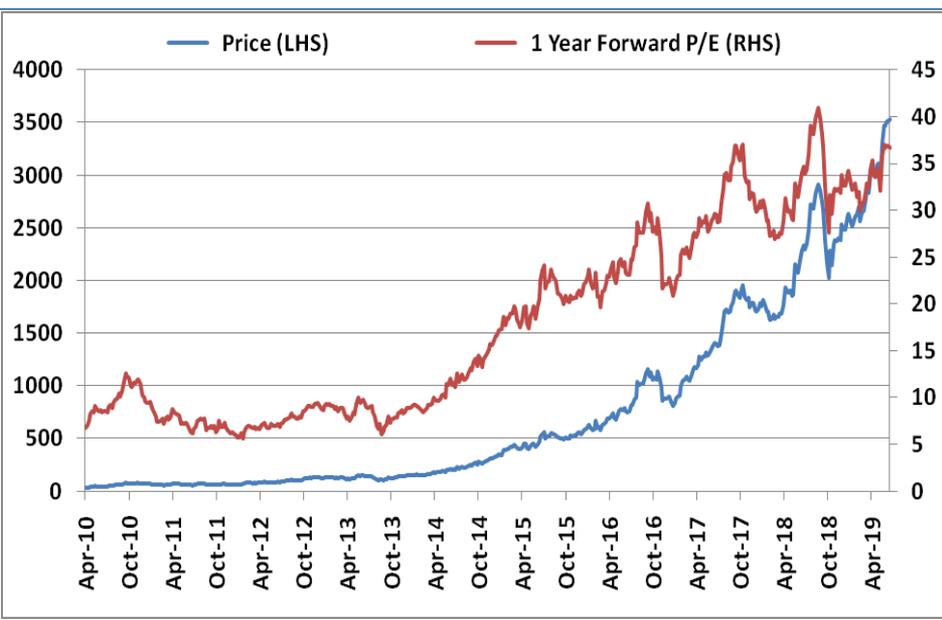
- **Selective on Special Situations, Events, Turnarounds, Deep Value**
- **Avoiding certain sectors and companies like cyclicals**
 - Equally important aspect of investing
 - Version 1.0 and 2.0 investing

Case Study – Bajaj Finance

- **Bought at Rs.35-40 –Rs.3500 now (almost 100x in 9 years)**
 - Valued less than 1x P/B at time of entry, Now trades at 6x
 - Actually increased position size as confidence increased
- **Different way of looking at the company**
 - Absolute size of balance sheet made of multiple different segments
 - Each business segment relatively small to segment leader
 - Retail, HFC, SME, consumer durables, 2W, insurance,
 - So long runway to growth
- **Re-evaluated every time it doubled or tripled**
 - Would meet management to get updates - reinforced belief
 - Positive vibes from the meeting, something unique
 - Ahead of the curve in terms of using technology
 - Strict rules based approach to every aspect of business
 - Proactive to different macro and regulatory environments
 - Active benchmarking to different competitors on various parameters

Case Study – Bajaj Finance

- **Re-rating happened gradually**
 - First few years were only driven by earnings growth
 - Stayed the course, didn't switch just because others were doing better
 - Big re-rating took place when HDFC Bank MD admitted in open forum that Bajaj Finance took share away from them
- **Current situation (Strong growth rates + low NPAs)**
 - Despite NBFC crisis and tight liquidity situation



Not Everything Is Hunky Dory

- **Laggards, opportunity losses, and even outright errors**
 - Continuous monitoring and hard work, ups and downs, volatility
- **Opportunity losses**
 - Cynical attitude, Fixation on certain metrics
 - Page Industries, Bharti Airtel, Eicher Motors
- **Sudden changes in external environment**
 - Need to actively manage such positions through the business lifecycle
 - Can be affected due to a variety of reasons
 - Dynamatic Technologies, Praj Industries
- **CAGR killers**
 - Dilemma of remaining invested in small caps, slow movers, value traps
 - SBI, Greaves Cotton
- **Running after fads while ignoring realities**
 - Leveraged companies, stretched WC cycles, tough externals
 - Jain Irrigation, Inox Wind, Software Product companies

Case Study – Jain Irrigation/Inox Wind

- **Carried away by government focus on irrigation, renewables**
 - Classic case of large external opportunity
 - Jain irrigation (JI) – pioneer of micro-irrigation and pipes
 - Inox Wind (IW) – emerging company in wind power sector, had strong order book, modern plants, and from a cash rich promoter group
- **JI faced high leverage, IW faced stretched WC cycle**
 - Management assurance about reducing it over time
 - However, cash flows used to acquire new businesses
 - Financial re-engineering to show lower WC cycle
- **Inox Wind – Underestimated regulatory risks**
 - Government changed regulations to competitive bidding, company got negatively impacted in terms of order book, negative operating leverage, and financial profile
- **Exited eventually at a loss**

Learning From Mistakes

- **Avoid cynical attitude, Have a Positive attitude**
- **Avoid complexity – invest in simple businesses**
 - Simplicity is easy to scale, not complexity
- **Be humble and open**
 - Pay attention to other’s ideas, OK to make money from their ideas
 - You are not the only fountain of wisdom
- **Investing is all about killing your ego**
 - Balance between independent thought process and personal ego
- **Even the best among us fail in various ways**
 - Position sizing, entering or exiting too early, not being patient enough
 - Confluence of external and internal factors, luck
 - Being at the right time and right place
- **Learning is exponential, not linear**
 - Knowledge builds up with experience, Past learning applied to new ideas

Concluding Remarks

- **Collective wisdom of market is far superior than our own**
- **Investing is part Science, part Art**
 - Art = experience, judgement, reflection
 - Science = facts, figures, data based
- **All aspects are important**
 - Management, business model, financial profile, etc.
 - Relative importance depends on size of business and maturity
- **Temperament, right behavior, and risk management**
- **Contextual investing**
 - Don't be rigid in investing style, and philosophy
 - Be aware of the context of the market
- **Avoid leverage in investing/trading**
- **Best time to buy is when macro is bad**

Risk Factors & Disclaimers

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Risk Factors & Disclaimers

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Queries:

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Thank You

Questions ??