

# Indian Investing Conclave

Alpha Series Ep. 10



**Abhishek Basumallick**

Chief Investment Advisor,  
Intelsense Capital ([www.intelsense.in](http://www.intelsense.in))

# DISCLAIMER

- The content of this presentation is only for the information of the participants and not to be construed as investment advice. Please consult your financial advisor before acting on it.
- It is best to assume that I or my clients may have a position in the stocks mentioned in the presentation.
- SEBI Registered Research Analyst - Registration Number: INH300006607
- All views expressed are personal.

# DISCLOSURE (SEBI RA REGULATION)

1. Whether the research analyst or research entity or his associate or his relative has any financial interest in the subject company and the nature of such financial interest.
2. Whether the research analyst or research entity or its associates or relatives have actual/beneficial ownership of one percent or more securities of the subject company (at the end of the month immediately preceding the date of publication of the research report or date of the public appearance).
3. Whether the research analyst or research entity or his associate or his relative, has any other material conflict of interest at the time of publication of the research report or at the time of public appearance.
4. Whether it or its associates have received any compensation from the subject company in the past twelve months.
5. Whether it or its associates have managed or co-managed public offering of securities for the subject company in the past twelve months.
6. Whether it or its associates have received any compensation for investment banking or merchant banking or brokerage services from the subject company in the past twelve months.
7. Whether it or its associates have received any compensation for products or services other than investment banking or merchant banking or brokerage services from the subject company in the past twelve months.
8. Whether the subject company is or was a client during twelve months preceding the date of distribution of the research report and the types of services provided.
9. Whether the research analyst has served as an officer, director or employee of the subject company.
10. Whether the research analyst or research entity has been engaged in market making activity for the subject company.

1. No

2. No

3. No

4. No

5. No

6. No

7. No


8. No

9. No

10. No

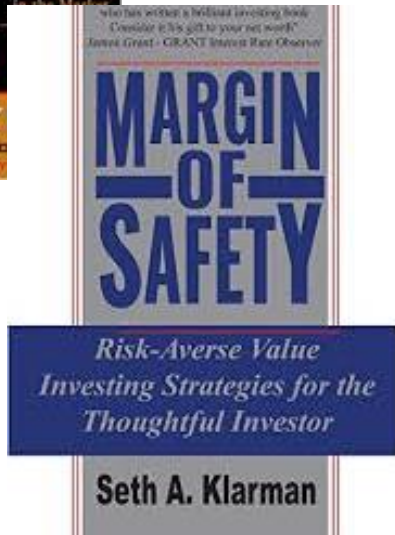
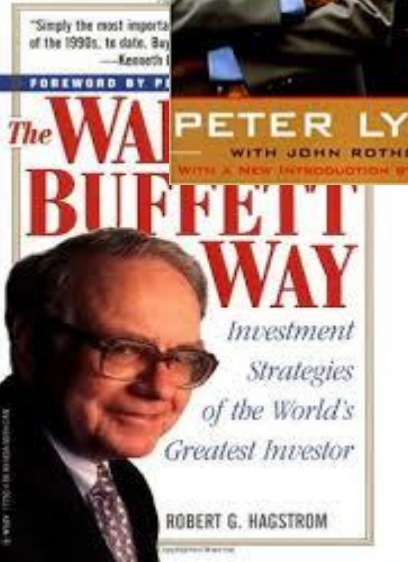
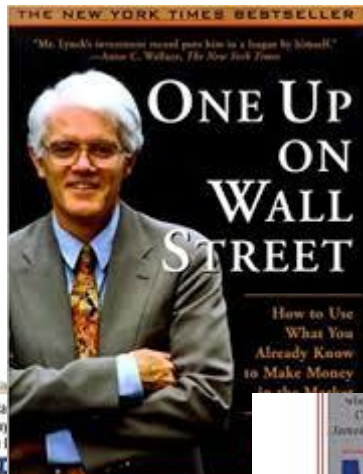
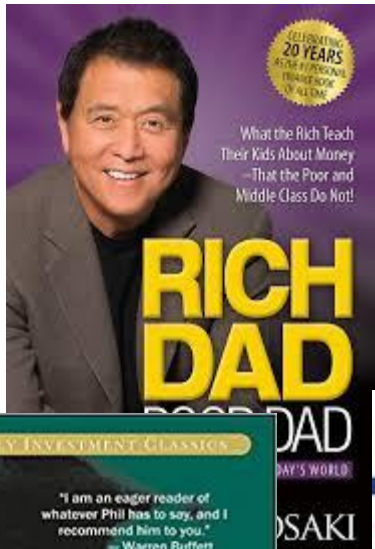
# I WILL TRY TO BROADLY COVER THE FOLLOWING

- My Journey
- Investment Philosophy & Approach
- Some Insights and Learnings
- Investment Process – Ideation, Selection, Allocation, Selling
- Mistakes
- Some recent books I enjoyed reading

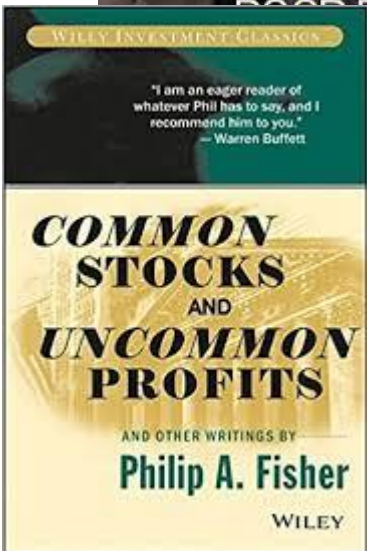


Whoever we are, whatever we are, as people, as investors,  
is a culmination of all our past experiences...

# STARTING FROM SCRATCH



- Initial impetus came from reading Robert Kiyosaki's *Rich Dad, Poor Dad*. Objective was to attain financial freedom and not to have to work for a living.
- No financial background, which was an advantage. **Nothing to unlearn.**
- First book on investing was *The Warren Buffett Way*. It made immediate sense. **I wanted to be a part-owner of a business.**
- Buffett was the starting point. Discovered Peter Lynch, Seth Klarman, Howard Marks, Phil Fisher, Sir John Templeton and many others over the next decade.



# VALUEPICKR HELPED SIGNIFICANTLY IN REFINEMENT OF MY THOUGHT PROCESSES



ValuePickr Research

## ValuePickr Forum

- Lot of thought and refinement went into portfolio allocation, business quality, management quality determination
- Provided a platform for collaborative research and benefit of scuttlebutt for retail investors like me
- Focus was on deepening knowledge and discussing company fundamentals threadbare
- Both bulls and bears are equally participative which helps in getting a balanced view, though **need to guard against echo-chamber biases**
- As a moderator, it gives me an opportunity to give back to the investor community
- Extended it to small face-to-face meetups in Kolkata, which can be attended by anyone interested in investing

# INVESTMENT PHILOSOPHY HAS EVOLVED IN THE LAST 2 DECADES (AND MAY CHANGE IN THE FUTURE AS WELL)



- Capital is sacred and is to be respected
- Compounding over long periods is the key to wealth creation
- Simple is better than complex
- Keep an open mind and keep learning
- Not focused on any index

*“Everyone is a genius in a bull market – so find a bull market!”*



# THE APPROACH THAT IMPLEMENTS THE PHILOSOPHY



Intelligence &  
Common-sense based  
approach



Focus on overall  
portfolio and not only  
on individual stocks



Core and Tactical  
approach to portfolio  
construction



Long-term orientation



Focused on reducing  
cognitive biases



Continuously learning  
and improving model



Rational decision  
making process



Fundamental +  
Technical + Quant  
approach

# INSIGHTS AND LEARNINGS – FOCUS ON THE KNOWABLE

- The market is a complex adaptive system
  - Too many parameters to model for forecasting accurately
  - Practically not possible to time the market consistently
- Better to focus on what is knowable



# INSIGHTS AND LEARNINGS – MEAN REVERSION

- Given a long timeframe, nearly all businesses are mediocre businesses
- Don't fall in love with your stocks
- Duration of competitive advantage has reduced drastically



# INSIGHTS AND LEARNINGS – PROTECT CAPITAL



- "He that fights and runs away, May turn and fight another day; But he that is in battle slain, Will never rise to fight again." - Tacitus
  - Capital is sacred. It is limited. Need to protect it. Use the concept of stop loss in investing!
- Diversification & portfolio allocation are two ways I manage risk.

# INSIGHTS AND LEARNINGS – MANAGEMENT MATTERS MOST

- **All roads lead to ... management**
  - In India, management matters more than business
  - Management accomplishments can be understood from the numbers, not always necessary to meet them
  - Unless one is a very good judge of character, it is probably better not to meet management
- Start an analysis of a company by assuming management may not be telling the truth 😊
- Management has a vested interest in promoting their company. Take their word with a **BIG BOWL** of salt.
- Managements are as much under psychological influence as common people - hubris, endowment effect etc



# INSIGHTS AND LEARNINGS – DISCIPLINE, PROCESS & CHECKLISTS TO SAVE ME FROM MYSELF



- *Investment mindset & Rationality* is the differentiator between great and average investors
- Preventing errors (process adherence & knowledge)
  - Use a **personalized checklist**, one which is a living document that gets appended over the years
  - Cover research process, business quality, management quality, valuation, past mistakes & behavioral biases
- Try to keep things simple and get the basics right
- Have a **written down** process & revise over time; it needs to cover:
  - Idea generation
  - Stock selection
  - Allocation
  - Selling

# IDEA GENERATION – WHAT EXCITES ME IN A STOCK

- Idea can originate from anywhere ~ fundamental or technical screeners, magazine articles & conversations
- A confluence of more than one of the following factors working together:
  - Opportunity size
  - Low competitive intensity
  - Low debt
  - Industry tailwind
  - Good (preferably great) management
  - Low valuation



# USE DIFFERENT MODELS FOR STOCK SELECTION



for QUALITY

Quality denotes  
quality of the business  
and management



for GROWTH

Growth denotes  
growth in earnings and  
sustained RoE



for LONGEVITY

Longevity denotes longevity  
of the competitive  
advantage or economic  
moat of the business

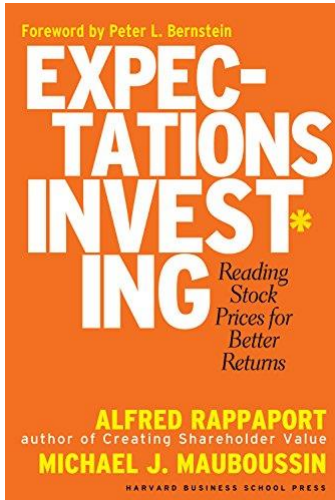


for PRICE

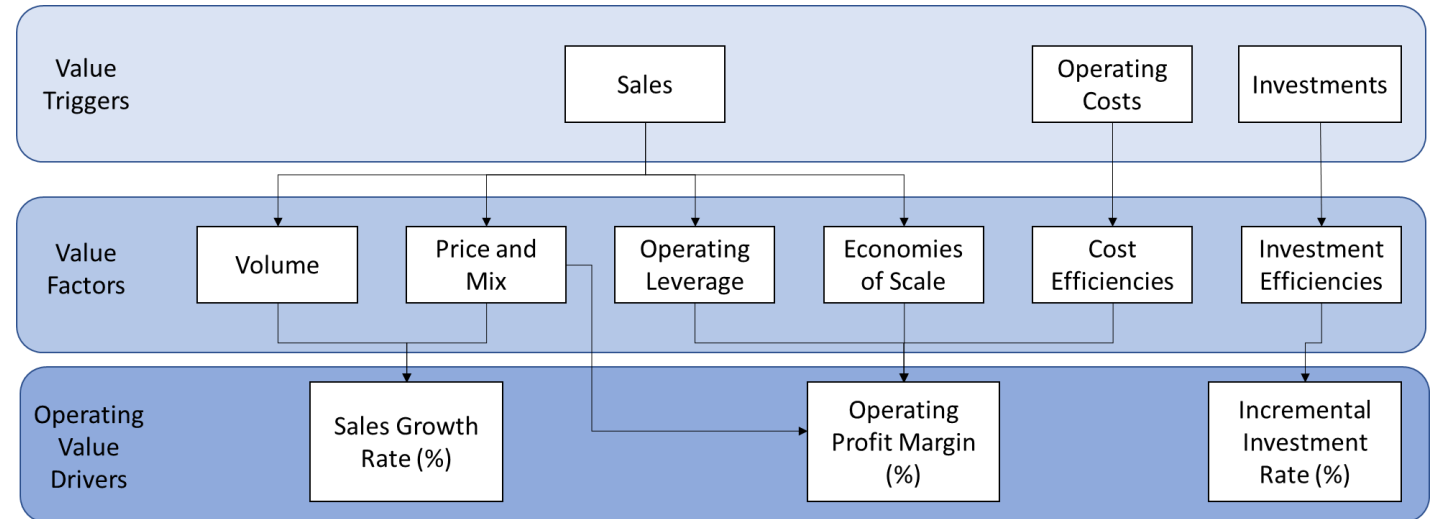
Price' denotes our approach of  
buying a good business for a  
fair price rather than buying a  
fair business for a good price



# EXPECTATIONS INVESTING FRAMEWORK PROVIDES A USEFUL MODEL TO THINK ABOUT THE LEVERS OF A BUSINESS



- Expectations Investing Framework
  - How much of the future is already discounted in the stock price?



*Understanding market expectation was at least as important as, and often different from, the fundamental knowledge. ~ Michael Steinhardt*

1. Identify which value trigger is most important
2. Perform scenario-analysis based on possible changes in value factors
3. Identify the implication for the operating value triggers

# THINKING FROM DIFFERENT VANTAGE POINTS ABOUT A BUSINESS

<b>Vantage Point # 1: Business Analyst</b>	Evaluate the business quality
<b>Vantage Point # 2: Prudent Banker</b>	How much money would you lend to the company?
<b>Vantage Point # 3: Ben Graham, Smart Value Investor</b>	Determine the value of the entire business including a margin of safety
<b>Vantage Point # 4: Bond Fund Manager</b>	If the equity was a bond, would you buy?
<b>Vantage Point # 5: Henry Kravis, LBO Artist</b>	How can capital structure of the company be used to create value?
<b>Vantage Point # 6: Modigliani &amp; Miller, Finance Academics, Nobel Laureates</b>	Irrelevance of capital structure based on Efficient market hypothesis ~ Something to ignore 😊
<b>Vantage Point # 7: Value-Oriented Management</b>	Opportunity of corporate actions (special dividend, buyback, and bonus debenture) to enhance shareholder value
<b>Vantage Point # 8: The Civilization</b>	What is the impact of the company on the world

Refer to [https://fundooprofessor.wordpress.com/2011/04/24/vantage\\_point/](https://fundooprofessor.wordpress.com/2011/04/24/vantage_point/) for the details

# SELLING IS AN ART AND REQUIRES RIGOROUS DISCIPLINE

- Business momentum decelerates
- Business deteriorates or management does something that harms the business long term
- Made a mistake while buying ~ thesis wrong or not playing out
- Switch to a better opportunity
- Stop loss gets triggered ~ typically 20%-30% of buying price or a pre-determined one



OBVIOUS (IN HINDSIGHT) MISTAKES OF OMISSION (ONLY A FEW ILLUSTRATIVE EXAMPLES)



# EXAMPLE: SUPREME INDUSTRIES

## BUY REASONS:

- Co had dramatically improved its ROCE & RONW, reduced overall debt
- OPM was up nearly 40% on back of premiumisation of products
- PAT was up nearly 70%

GROUPS IN INDUSTRY 21

	1999-2000	2000-2001	2001-2002	2002-2003	2003-2004	2004-2005	2005-2006	2006-2007	2007-2008	2008-2009
Polymers Processed (MT)	67262	68413	83499	91913	100053	95439	118115	130547	139239	172746
Sales	56096.08	53487.76	67466.02	79241.62	90925.15	93150.04	113067.09	132963.00	149882.45	180900.03
Less: Excise Duty	8145.03	6960.63	8339.50	9901.92	11297.96	11740.33	14860.69	16796.94	18860.35	15707.16
Net Sales	47951.05	46527.13	59126.52	69336.70	79627.19	81409.71	98206.40	116166.06	131022.10	165192.87
Other Income	476.32	289.13	338.96	380.59	242.14	1003.30	466.61	666.76	893.91	904.53
Total Income	48427.37	46816.26	59465.48	69717.29	79869.33	82413.01	98673.01	116832.82	131916.01	166097.40
PSIDT / Average Capital Employed	23.16	18.83	22.30	21.88	21.72	21.22	22.72	31.78	32.34	47.47
ROACE (%)	15.87	12.04	13.81	12.78	11.63	11.97	13.50	22.40	23.98	37.37
PSIT / Average Capital Employed										
RONW (%)	11.92	2.01	8.10	9.40	11.09	11.67	19.86	23.83	21.71	36.55
(PAT / Average Net Worth)										
Debt : Equity (Long Term Debt / Total Net worth)	0.96	1.10	1.18	0.59	0.83	0.95	0.65	0.89	1.17	1.02
Debt: Equity (Total Debt / Total Net Worth)	1.55	2.02	1.75	1.33	1.03	1.19	1.20	1.02	1.21	0.87
Employee's Strength	1789	1676	1790	1939	1876	2113	2202	2349	3055	3245

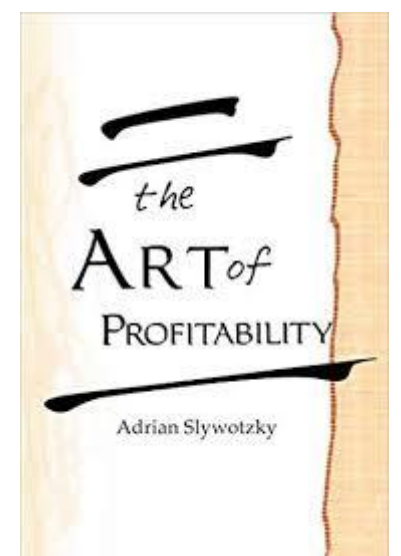
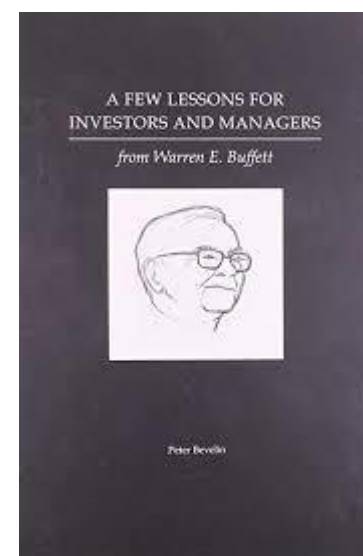
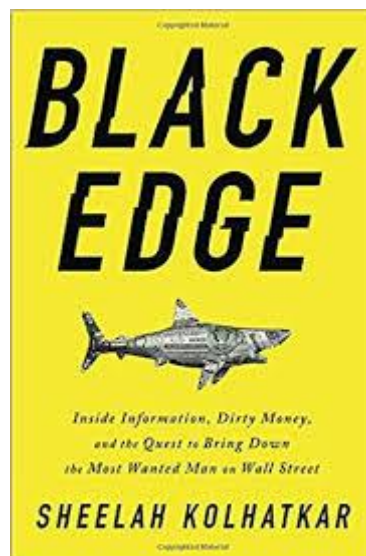
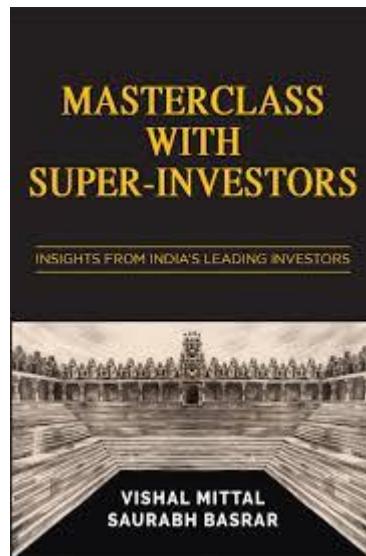
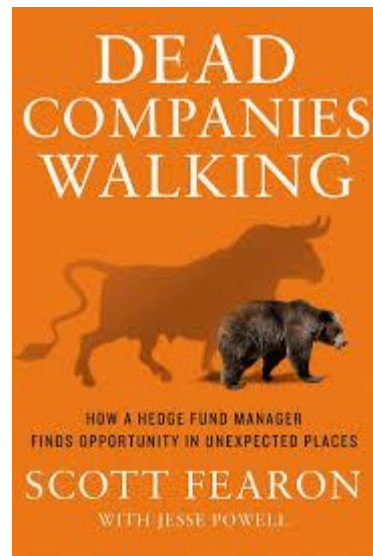
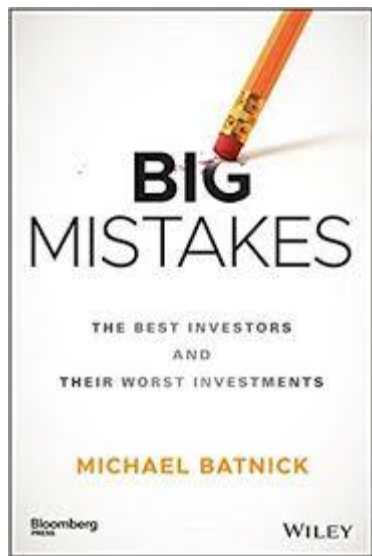
# EXAMPLE: SUPREME INDUSTRIES



## SELL REASONS:

- Co was being traded at a PE of over 30 and an EPS growth rate of 10%
- Improvement of ROCE of about 30% looked difficult

# SOME INVESTING BOOKS THAT I READ RECENTLY WHICH I LIKED



# SUMMARIZING, MY TEN COMMANDMENTS OF INVESTING

1. Discipline & investment temperament are the most important aspects of investing ~ 80% of results come from these
2. Respect capital
3. Understand the business you are investing in – what products or services it makes, who are its main customers, what are the key raw materials etc
4. Look for companies with a difference
5. Margin of safety – Buy stocks when it is at a discount
6. Have patience – compounding works wonders
7. Overcome emotions when selling
8. Don't make large losses – use a stop loss even in investing
9. Try to *consciously* avoid following the directions given out by the market; avoid being fearful when the market falls and greedy when it rallies
10. Volatility is a feature of the markets, not a bug. Expect volatility





THANK YOU

@A\_BASUMALLICK

WWW.INTESENSE.IN