

# IAIP EVENT SUMMARIES



Session by:

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## What matters in Investing?

Mistakes are a great teacher.

# "The only real mistake is the one from which we learn nothing"

- John Powell

Investing is all about:



### Management

In India, management is more important than business as compared to other countries

- As Ramdeo Aggarwal says, business is multiplicative of management, therefore, if management is zero then everything would be zero.
- He beautifully described a management in a simple quote "A bat is very different in hands of Virat Kohli than in our hands"



### Valuation

Price is very important. As Howard Marks says, everything is good at a price.



### Self

Above all, an investor must understand himself i.e. what works for him and what does not.

## How markets value management?

It is based on various factors:

### 1 Trust

Management needs to be very trustworthy. Longevity of leadership or employees in a company is very crucial as it helps to think about the competition.

*Example: In TCS there have been only four leaders in last 50+ years. Contrast that to Infosys.*

### 2 Culture

Ability to attract and retain talent:

*Example: HDFC Home Loans started by a person who himself didn't own a home. Company has given home loans to 63 lac people over last couple of decades.*

### 3 Focus

95% Forbes Billionaires in the US made their first billion dollars from one business.

In India, promoters have a tendency to keep diversifying in current hot sectors and that way they end up diluting focus and destroying capital.

*Example: Munjals (Hero) have done very well in this regard by staying focused on their core competence and scaling up their 2-wheeler business:*

### Vehicle sold

## 1986



43,000

## 2018



75,00,000

*Hero never tried to enter into 3-wheelers, passenger cars or commercial vehicles. Even post the termination of Joint Venture with Honda, Hero has continued to do very well.*

## 4 Scalability

Indian promoters generally find difficult to scale the business. In the US, McDonald's has more stores as compared to pin codes of US in many states. Whereas in India, chains like Haldiram have just started to scale up business.

*Example: Infosys did it beautifully - from a modest beginning, the company today employs over 2 lac people and gets a million applications a year.*

*In 1990s, within 15 years of inception, while it was still young, it was adding 100 people a day which was phenomenal. A senior employee joked that company had a signboard outside its office which said: 'Trespassers will be recruited'*

## 5 Delegation

Indian promoters typically find it very difficult to delegate. The lala mentality of retaining complete control further comes in the way of scaling business.

*Example: Promoters of Motherson Sumi have done it very well. They started the business with one small unit in Noida. Today, company has 230 plants in 37 countries. The ability to empower subordinates and delegate work has been the key in this journey.*

## 6 Integrity & Passion

Among second and third generation of many promoters, while integrity is not a concern, passion is missing. Their focus is more on fancy cars, international travel etc.

## 7 Digesting Success

Not easy amidst 'Kamyabi ka Nasha' as market rewards too much. Beware of the Halo effect.

*Multiple Examples: Essar, Videocon, Suzlon, Fortis, Unitech*

*To summarize, ideal management would have following traits - Trust + Culture + Focus + Scalability + Integrity & passion + Ability to digest success*

## Common causes of downfall (not just in business but politics, sports, bollywood etc.)

### 1

#### Arrogance

Beyond a point, confidence turns into arrogance.

### 2

#### Complacency

### 3

#### Debt







the most dangerous thing in the world of business.

*Cited example of third partner of Warren Buffett & Charlie Munger who had to sell his Berkshire Hathaway shares at \$40 due to borrowing.*

## Men among Boys (related to scalability)

There are just 175 Indian companies which make over \$100 million (~Rs 700 Cr) in annual pre-tax profit.

Out of these; there are only 78 companies whose market value (stock price) increased by 100x. Others may have listed at a decent size or got carved out from a group.

NO. OF COMPANIES	OWNERS	100 BAGGERS	EXAMPLE
59	Individuals	39	
46	Groups (16)	20	
35	PSU	3	
16	MNCs	12	 
19	Others	4	

## Common traits in Multibaggers:



**Vision** (to see them)

+



**Courage** (to buy them)

+



**Patience** (to hold, most difficult as generally people don't have because conviction can't be borrowed)

## Sector (Tailwind) Matters



### Indian Pharma

Dr. Reddy, Ajanta Pharma, Lupin etc., most of them have never raised any capital since IPO.



### Indian Banking

Private banks winning market share. Bank's Nifty weightage - 88% private banks while PSUs down to just 12%.



### Indian Cement

Generally cement is perceived as a commodity but has created a lot of wealth - Shree Cement has gone up 2,800x while Ramco Cement has gone up 2,300x over the last three decades compared to 100x of Sensex.



### Indian 2-Wheeler

Hero has gone up 3,200x and Eicher Motors has gone up 7,100x over the last three decades compared to 100x of Sensex. Bajaj Auto and TVS have also done very well for their shareholders. At one point in time there were 26 OEMs in 2-Wheelers, the shakeup later led to consolidation.

## Aggregate Sensex companies

Market Cap – Trillion Rs

1992		1.1
2000		3.5
2008		30.3
2018		70.6

## Beware of Disruption

125 years of monopoly of BSE collapsed in one year by NSE. There were 14 stock Exchanges and 5,000+ brokers. Today there might be less than 30 brokers in the country who would be making a respectable RoE from broking segment.

## Phases of Markets

1

### Phase I: 1984-88

- Sensex increased from 260 to 665 points.
- Dropped 41% in subsequent two years.

2

### Phase II: 1988-1993

- A ferocious bull market – sensex jumped from 390 to 4,547 points i.e. a 12x jump in just four years.
- Later corrected 56% in a single year.

3

### Phase III: 1993-2000

- Market increased from 1,980 to 6,151 points i.e. a 3x increase in seven years.
- Later dropped 58% in next 18 months.

4

### Phase IV: 2001-2008

- Market increased from 2,597 to 21,207 points – 8x jump in seven years.
- Later corrected 60% in a single year.

5

### Phase V: 2009-till now

- Market moved up from 8,000 to 38,990 points i.e. 5x increase in nine years but on a large base.
- This time it has been broad based – practically participated by most listed companies, therefore the fall too can be steep or there can be timewise correction.

*In each phase there were different reasons for rise & fall and hence each phase tested the patience and conviction of the investors.*

## Most valued - Then and Now

The top companies (by market value) keep churning.

Only three companies have managed to stay in top 10 by market cap list after 26 years i.e. Reliance Industries, Hindustan Unilever & ITC.



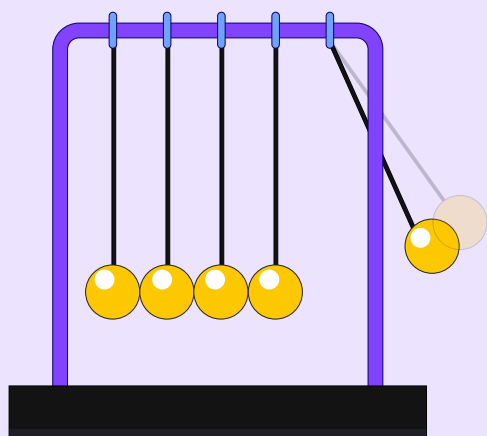
## Market behavior - Think of a Pendulum

### Fear

- World will come to an end
- Total pessimism all around
- Forget profits, assets

### Greed

- Trees grow to the sky
- Great growth means a feel good factor
- No weakness of companies, economy etc is overlooked
- Valuations go berserk



## Predicting rating (valuation) is tougher

- 1 Even tougher than forecasting earnings
- 2 Example: Astral Poly, La-Opala, Relaxo, Symphony

### La-Opala

PERIOD	MARKET CAP	NET PROFIT	P/E
Jan'10	34	3	11
Feb'16	3,717	42	89
Nov'18	2,516	73	34

### Symphony

PERIOD	MARKET CAP	NET PROFIT	P/E
Dec'09	87	22	4
Apr'15	11,145	99	116
Nov'18	6,914	159	43

- 3 Most market participants are fixated on earning, whereas
- 4 The rerating/de-rating of multiple can be swift and can change the entire equation
- 5 **Value Investing is simple to understand but not easy to implement**

IN 2000	SALES	PBT	MARKET VALUE
Bharat Electronics	1,457	195	477
Visual Software	68	30	4,978

- 6 During peak of tech bubble, Bharat electronics looked very cheap but investors focused only on Software companies despite a high valuation.
- 7

Over next six years, visual software fell by **95%** whereas Bharat Electronics was up by **22x**.

## Importance of selling

### How High is High?

- In 1980s, at peak of Japanese property bubble, **a Japanese palace ground (2.86 sq. miles)** was valued more than the entire real estate asset of California (3<sup>rd</sup> biggest state in the US with an area of 1,63,696, sq. miles).
- The peak value can go very high, beyond what's imaginable.

### Similarly, in case of Wipro

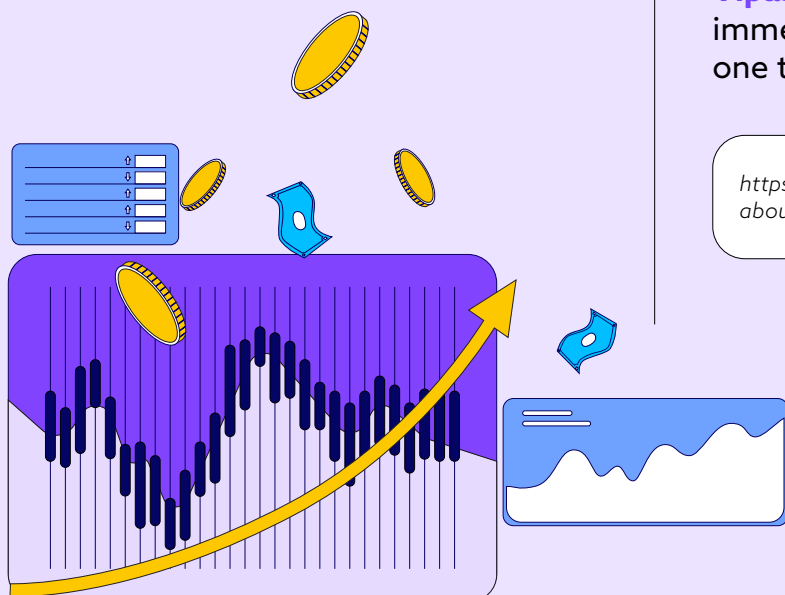
- Between 1998-2000 (24 months) Wipro's stock went up **100x** to some absurd valuations. **Premji** suddenly became part of **top 5 richest people globally**.
- Since then, while the profit has been up **25x**, the market cap is still **33% lower** from the top, 18 years later.

### Worst mistakes at best times

Our worst mistakes happen at the best of times - like while driving a car on Expressway versus in Delhi's Chandni Chowk (busy lane).

### Errors of Commission

- Selling winning stocks too early and not able to ride entire upturn
- Holding on to cyclical stocks for too long



### Errors of Omission

Each market cycle I had opportunity and understanding of these great businesses but regret not participating: HDFC, Hero, Gruh (because it was a small cap then) and Bajaj Finance.

### Humility Matters

- More related to management
- "Humility leads to....listening....which leads to...learning....."

### Unlearning is more difficult -

You need to be open to change your mind and learn everything.

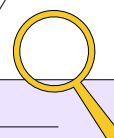
Mind & Parachute are useful only when they are open

**"Large gains.....  
Before pain.....  
Hurts more....."**

**Strive for - Awareness & Equanimity - in markets as well as in life.**

**Vipassana Meditation** has helped me immensely and I will recommend everyone to give it a try:

<https://www.dhamma.org/en/about/vipassana>



# ABOUT DURGESH SHAH

Durgesh Shah, with his degrees in Commerce, Law and a Diploma in Finance (University of Mumbai), set up Corporate Database while managing the institutional desk at ENAM. Corporate Database Pvt. Ltd. has evolved into a family office over four decades. It has worked with the most respected business media houses including Economic Times & Business Standard, rating agencies, like CRISIL and Economist Intelligence Unit,

contributing market related articles and reports in the 1980s and 1990s.

Currently, Durgesh Shah, is actively managing his proprietary capital taking very long term investment bets in Indian equities. He is actively involved in Vipassana Meditation, as taught by the late Shri SN Goenka. He is Catalyst@Flame Investment Lab, at FLAME university in Pune, India which is known for Liberal Education.



# ABOUT SAURABH MUKHERJEA

Saurabh Mukherjea, CFA, is a veteran investor and fund manager with over two decades of experience in the Indian and global capital markets. He is the Founder and Chief Investment Officer of Marcellus Investment Managers, a firm known for its high-quality research and long-term, fundamentals-driven portfolio strategies such as Consistent Compounders and Kings of Capital. Prior to establishing Marcellus in 2018, Saurabh served as CEO of Ambit Capital and earlier co-founded Clear Capital in the UK, a small-cap equity research firm. He holds a BSc (First Class Honours) and MSc (with distinction) in Economics from the London School of Economics (LSE). Under his leadership, Marcellus has grown rapidly, now managing well over ₹12,000 crore across its PMS offerings.

Saurabh is recognized as one of India's leading voices in equity investing and corporate governance. He is a prolific author, having written widely read books such as Coffee Can Investing and The Unusual Billionaires, which have influenced a generation of long-term investors in India. He is also a founding director of the Association of Portfolio Managers of India (APMI), actively contributing to industry development, regulatory dialogue, and the strengthening of India's PMS ecosystem. His investment philosophy centers on clean accounting, high-quality businesses, and long-horizon compounding—principles that continue to guide Marcellus' research and portfolio management approach.



# ABOUT JATIN KHEMANI



Jatin Khemani, CFA, has been a full-time participant in the Indian capital markets since 2010, specializing in value investing, long-term fundamental research, and portfolio management. He is the Founder & CEO of Stalwart Investment Advisors, which he initially started as a SEBI-registered equity research firm in 2014. The firm obtained its SEBI PMS license in 2023. In 2017, Jatin co-founded the Indian Investing Conclave (IIC), India's first fully online, on-demand platform hosting deep-dive conversations with 100+ fund managers across 200+ sessions focused on Indian listed businesses.

Jatin holds a postgraduate degree in Finance and earned his CFA Charter, clearing all levels in

the first attempt with top-decile performance globally. Inspired by the philosophies of Peter Lynch and Philip Fisher, he has developed strong expertise in Scuttlebutt-based primary research. He is also a faculty member at the FLAME Investment Lab (FIL), Pune, where he teaches the 4-day residential program "Equity Analysis for Beginners," conducted twice annually. Jatin serves on the Board of Directors at APMI – Association of Portfolio Managers of India, representing over 500 PMS firms managing ₹5 lakh crore+ in assets, where he engages with SEBI and industry participants to strengthen the PMS ecosystem.

