

FROM A DESK OF FUND MANAGER

July 03, 2020.

Dear Investors,

Greetings from CONCEPT INVESTWELL.

We have been undergoing Unlock 2.0 from July 01, 2020. Life has seen altogether a new normal. I have seen people talking about this year as a bad or destructive year and praying to see off this year as fast as possible. Many things have come against us like Covid 19, Cyclone Amphan and Nisharga, frequent small earthquakes, locust attack and to add India-China border tensions. **My take is that one should never waste a crisis as famously said by Winston Churchill.** We just need to embrace the change and accept whatever comes with an open mind. One should never lose positive sight from our life. It can be turned into an opportunity. Personally, I am focusing on some things in environment like this

- ❖ Haste is Waste both in good and bad times.
- ❖ When Fishermen cannot go to sea, they mend their nets.
- ❖ No matter what happens, don't give up.
- ❖ Focus on what you are good at.

Coming to our markets many people feel that Stock Market is disconnected with the real economy as stock prices has gone up sharply (37%) from March Lows.

I have a different opinion here, I feel market is showing maturity and has its own wisdom in accessing future. Firstly, market has started looking into the future beyond FY2021 as everyone has already anticipated it would be a bad year from earnings point of view. However, When we do DCF (Discounted Cash Flow) for valuing a company then current year holds just 3 to 5% of weight age in that overall exercise. **Rakesh Jhunjunwala in his latest interview said that we lose out in giving more weight age to our opinion than what market is trying to convey. Any bull market starts with good breath, disbelief, nervousness, lack of commitment and market refuses to go down.**

Secondly, whenever market cap to GDP has fallen below 60% then next 3 to 5 year returns has been very good. In that context valuations have now become attractive.

Third, lower interest rate is inversely proportional to price earning multiple which we are witnessing currently. With very low interest rates in fixed deposits more money should come to equities.

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Fourth, our composition of NIFTY and SENSEX is quite different from Economy. For e.g. **Pharma, telecom, Utilities, Oil & Gas, IT, FMCG (essentials) and Commodities form 60% of Nifty and are least impacted by Covid but what we see near us is different from what market is doing.**

So the question which arises, are we likely to witness growth beyond FY2021? We are confident that growth should revive in times to come. Below are some factors

- **Lower crude oil price:** India has always benefitted from this as we import a huge chunk. We save around Rs. 10k Crore per year on every drop of \$1 crude oil price. Government is not passing this benefit and will use this windfall money to boost the economy.
- **Lower Interest rates:** Since March, RBI has cut repo rate by 115 bps points. This will definitely spur demand. Cheap capital is what India needs. The cost of capital for corporate is also coming down.
- **India does reforms only when it faces crisis:** Recent announcement of opening up of defense for private players is a huge step. With new APMC act, now farmer can sell his crop to anyone to get better pricing. Reforms in mining sector can also be a game changer. Privatization is the need of the hour which should start soon.
- **Shift from China:** Due to Covid crisis every country is realizing the need of having diversified supply chain in different countries and not only China. India should definitely get its share as it has drastically come up on parameters like ease of doing business ranking or new tax regime of 15% for new manufacturing units till 2023. “Atmanirbhar Bharat” is an added catalyst to it.

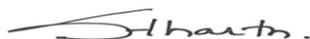
Recently we did **productivity and selectivity analysis** of our RESEARCH TEAM. As you know we have a team of 9 people including me in our research team. In last 3.5 years we have attended 2380 conference calls of companies ( 1 concall per quarter of each company), we read 1299 Annual Reports (going through last 7 years of AR when researching a company), did thorough analysis of 252 individual stocks, 73 IPOs and 39 sectors. After doing all these, portfolio addition in Legend & Marvel is only 9 scrips. This means we reject a whole lot of ideas based on our experience and wisdom after studying them. **As Warren Buffett rightly says that “Difference between successful people and very successful people is that very successful people say no to almost everything”.** We believe in this and so follow it religiously. We have become quiet choosy with our investments now. The funnel is wide at the top but very narrow at the bottom. **“Less is More” and power of focus is a vital factor in determining success.** One important thing to highlight is that our portfolio is highly liquid and so it can be liquidated within one day without any impact cost. We have companies which are future ready with one eye on today and other eye on tomorrow. In today’s era, consumer taste is changing faster than organizations. Our companies know this and so are adapting to new change faster than the consumers. They try to think ahead of what the world thinks.

Finally I want to discuss current situation of India Inc. during Covid19. Our team has been attending many webinars and con calls to get a sense of what is happening on the ground. Initial take is that with every passing day outlook is improving. April was a complete lock down, it opened partially in May and much better in June. Power consumption is almost back to pre-Covid level, even Purchase Managers Index has improved, car and two wheeler sales are gaining momentum and so is cement and other commodities consumption. Although some of it could be pent up demand but still there is no sign of demand reversing. Supply side issues are also being addressed but with Covid cases going up it is becoming a challenge especially where plants are in containment zones.

We have been celebrating anniversary of our PMS every year through one good signature programme in the series titled as `Creation of Wealth`. We have worked on different themes and have brought you some of the finest programmes. This year, pandemic Covid'19 has made it impossible to organize any such event physically. **So we are bringing it virtually.** We would be organizing this programme of the same high quality and bring you valuable information. Only difference is that instead of sitting in Platinum Jubilee Hall, you would be sitting at your home. It should be held on Sunday, 26th of this month July. We should be informing you exact schedule soon.

Happy Investing through CONCEPT.

Yours truly,



Siddharth B. Mandalaywala  
Fund Manager