CONCEPT INVESTWELL
—CREATION OF WEALTH—

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- Fund Manager

FUND MANAGER'S INTERVIEW

Siddharth B. Mandalaywala has been with CONCEPT since last 13 years. He is designated as Fund Manager and manages SEBI approved Portfolio Management Services (PMS) since July 2009 comprising of two plans CONCEPT LEGEND (Large-cap Equity) and CONCEPT MARVEL (Mid-cap Equity). He has delivered alpha of more than 4% in both the plans. His CAGR return over 8.5 years is above 14%. He has in total 15 years of experience in stock market and is passionate about it. He has skin in the game as all his savings is into Equities (100%). He has done MBA in Finance from Seventh Day Adventist College. He gives presentations on capital markets at various forums, colleges. Some of his best picks which has become multibaggers include Titan, Aurobindo Pharma, Relaxo Footwears, Page Ind, Vardhman Textiles, Natco Pharma, Supreme Industries etc.

A VENTURE OF CONCEPT®
YOUR 'MANTRA' FOR VALUE CREATION

1. **What does Stock or Equity mean to you?**
Last year during our 8th Anniversary of Wealth Management, I was asked a question in rapid fire round that "What does Equity mean to you?" and I was expected to answer in one word. I spontaneously said without any hesitation that **it is my "Life"**. I am very passionate about Equity investing from the days of my college. It started off by observing my father create wealth out of holding of businesses like Infosys, Kotak, Lupin etc. **Making money out of stock market is just a byproduct but I enjoy the process more.** Proving right makes you feel satisfied and your confidence level goes up. Jokingly, sometimes I say that I am being paid for what I enjoy doing the most. **I have the skin in the game with 100% of my savings invested in Equities.** I have no investment in other asset classes like gold, real-estate or fixed deposits. This shows my commitment towards equities, just not in words but in action as well.

2. **How do you select stocks for your FUND LEGEND?**
FUND LEGEND is a large-cap oriented fund where we invest majority i.e. **minimum 60% of the portfolio** in large cap companies (Top 100 companies on the basis of market cap in listed space). In most of the cases these stock are leaders or captains in their respective industry. The rest 40% goes into mid-cap companies. These constitute of stocks from either sunrise industry or can come up from bottom-up approach of stock selection. This fund is basically less volatile with moderate risk.

3. **How do you select stocks for your FUND MARVEL?**
FUND MARVEL is a mid-cap oriented fund where we invest majority **(minimum 60%) of the portfolio** in mid-cap companies (101 and beyond companies on the basis of market cap) and rest in large cap companies. So this is best suited for risk takers as it is a bit more volatile.

4. **How do you make Investment decisions?**
Investment decision comprises of identifying 4 things:

   a. **External Opportunities:**
   It means demand/potential demand for the products/services of the company in the industry.
   For example:
   L&T: India was a runner without shoes in infrastructure space and L&T recognized this opportunity at its earlier stage.

   b. **Business:**
   It should be a scalable business having an Economic Moat (Competitive Advantage) with good profitability and return ratios.

   c. **Management:**
   It means a competent as well as ethical management
   Competent: It means a Management who is focused, has distinct and innovative business strategies, proper Capital allocation policy and is gradually gaining market share followed by its Profit share.

Ethical: Who even takes care of minority shareholders and gives bad news as soon as they come to know.
Management should also have **skin in the game** (Majority of Promoter's networth should be in his business).

d. **Valuation:**
A good business should be available at reasonable price and should be bought accordingly.
If the above three criteria fits in but if the valuations are high, then we wouldn't buy the stock.

Some of the other parameters which we follow are:

- **We don't time the market nor do we take big cash calls**. In the last 8.5 years of managing funds, **we have never been on more than 10% cash.** Normally, investors time the market with the upcoming big events like election etc. But with the past experience we have learnt to stay tight.
- **We typically hold our investments for the long term.** For FY2018 our turnover ratio for LEGEND plan was 12% and 7.5% for MARVEL plan. Many of the stocks which have become multi-baggers still exists in our portfolio like HDFC, Titan, Relaxo, Natco etc. This means **we are not price driven but are fundamentally driven.**
- **We do not allocate more than 30% in any sector and more than 10% in any stock**. This helps us in mitigating risk and makes our portfolio diversified. If the stock appreciates then it can cross this limit.

5. **Quality vs Valuation. What do you favor more?**
Investing is simple but not easy. It teaches you something new every day. For instance, **Titan is a great quality stock but is now available at PE of 72 which is expensive.** But currently market is not bothered about valuations of Titan and so the stock is **currently trading at its new all time high price**. In FY2018, it is likely to clock Rs. 1,150 crore net profit and currently market is valuing the whole company at Rs. 83,000 crore market cap. On the other side we have **SBI, which is a leader among PSU banks, is currently perceived as a non-quality stock by the market.** Good point to note is that SBI has never lost its market share to private sector banks. SBI's subsidiaries like SBI Life Insurance, SBI Non-Life, SBI Mutual Funds, SBI Securities etc. are so well managed and are at par with private players when we compare the financials. NPA has been a big problem for them because of their strategy to lend to corporate sector. But **after the formation of NCLT, we will probably see the Gross NPA's going down within 3-6 months.** Remember **in India most of the loans are asset backed** and through NCLT 1 & 2 they will be able to recover a major chunk of bad loans with some haircut. On valuation front also, **it is available at around 0.9 times Book Value for FY2019 which looks cheap and is much lower than its historical average. The above two examples show that on one stock (Titan), Mr. market is factoring in most of the positives whereas on the other stock (SBI), Mr. Market is factoring in most of the negatives.** To make money one cannot just buy a great business but has to buy it at a fair price. **We have currently adopted a mixed approach in our PMS with Portfolio comprising of both the type of companies.**

The trade-off between the quality and valuation is the dilemma which most Fund managers are facing today. **Currently the market is too much in favor of quality companies having growth and ignoring the valuations. Thus as a fund manager I try to keep a check on expensiveness and quality of the stocks we hold.**

6. **What are you best at?**

   I am best at maintaining my balance (temperament) in turbulent time. I can give you some examples when I showed this attribute in practice. Recently, when there was news on CEO Vishal Sikka suddenly resigning from Infosys; stock price came down from Rs. 1020 to 870. Every news channel started debating and there were negative comments everywhere from analysts. In my experience, I have learned that worst news and lowest prices come together. Infosys has become a big mature business and is not driven by one man. So we added Infosys to our LEGEND PLAN at around Rs. 880. Logic prevailed over sentiment. There was also buyback announced during that time at Rs. 1150. We participated in it and made money. Today the price is up around 30% from that low price and has outperformed benchmark. One more example is of buying Ashiana Housing when real-estate sector was shunned off and ignored by investor community as a whole in year 2011. We bought this stock and went against the crowd and made money.

7. **Tell us about your return and satisfaction level?**

   As a Fund Manager **I always focus on process and not the outcome.** If the process is taken care of then returns are bound to come. In the last 8.5 years of managing two plans LEGEND and MARVEL, I have come across some good and bad phases. **Good phase gives you a high but bad phase teaches you a lot. Most of the learning is done when you are passing through a bad phase.** Regarding satisfaction level, a renowned Fund Manager once said that if you are able to beat benchmark by 3-4% over a period of time then you are managing it well. In the last 8.5 years **LEGEND has generated alpha of 4.11% and MARVEL has generated alpha of 5.19% net of all expenses. Again a basic premise of investing in Equity is to beat inflation which both my plans LEGEND and MARVEL have beaten by a big margin. I have taken the idea of compounding very seriously and want to multiply wealth for my investors over years.** Remember that I am here for very long term and not for short term. So I would like my investors to stick with me to gain handsome returns over the long term.

8. **USP of your fund?**
   - Low Churning ratio
   - Not timing the market
   - No cash calls
   - Long Term Orientation
   - Fundamentally driven and not price driven
   - Staying with the winners and selling the losers
   - Long Term track record of more than 8.5 years
   - Consistent Fund Manager

9. **Tell us something about your team's working method?**
Equity research team is responsible for researching and analyzing the companies, attending concalls and tracking it. Further every member presents an idea, sector or a specific stock to the entire team after a complete analysis done through secondary sources of information. The team further discusses and come to a conclusion after evaluating it with a holistic approach. Based on these researches, the scrips are added to the portfolio at fund manager's discretion.

We are a team of 10 analysts having qualifications in the fields of CA, CFA and MBA. We on monthly basis prepare Blogs, Research Reports, Bi-monthly Reports, Sector Specific Reports, IPO Analysis Reports, Mutual Fund Analysis and such other analytical reports. We communicate these on various social platforms and recently we have started conducting webinars to deliver better. As a way of interaction with clients, we send off Valuation and Holding statement along with the Fund Manager's Communique on quarterly basis. We also provide back-office to clients with his personal login id and password through which he can see his portfolio, expenses, dividend received etc. on real time basis. At the end of each Financial Year we provide CA certified certificate which comprises of Long Term and Short Term Capital Gain/Loss.

Every month we have an Investment committee meeting where we discuss about Macro Economy, Sectors, stocks and performance of PMS. For this meeting, external experts with extensive experience like industry leaders are also invited so as to get deep insights for the same.
This year we have shifted to a larger space and a well equipped office which would help us further to add value. In the last year, our team had well analysed 94 companies, 13 sectors and 44 IPOs.

10. **In the last 3 years, you have underperformed in certain stocks. Rationale behind still holding it?**
My big call in LEGEND Plan is on Corporate Lending Banks where I believe that the worst news and lowest prices have come. Most negative is in the price and the market is ignoring positive things which can arise after the resolution of NCLT 1 and 2. In India the loans given to big corporate are asset backed. Now the NPAs are getting sold with a haircut. **Market is pricing these banks as if these NPAs have no value.** In next 1 to 2 years, if you look at their Price to book or Price to Earnings for next 1 or 2 years then they would be still available below their historical average. **I see immense value in their subsidiaries too. Only thing which is worrying is the time factor. It is taking much time than what we anticipated.**

The second big call is on Pharma sector where again most companies have underperformed. This **was due to USFDA warning letter and issues related to that and pricing pressure in the US**. But again I feel that the worst is over for them and they **should again bounce back as they are very well managed businesses run by dynamic managements** having a great track record. Remember they were multibaggers for us in the past.

One more observation is of Value Vs Expensive Quality. **We have tilted our portfolio towards value stocks which we feel are reasonably valued but currently market is favouring quality momentum stocks that are expensive. This can continue for a while but will finally break-out and turn.**

11. When do you exit the stock?

I always buy stocks for the long-term, but there have been few exceptions where I have to exit the stocks on account of:

- **Better Opportunity**:
  Sometimes market gives us better opportunity to invest than what we hold. At that time, wise thing is to invest in better business and sell the current one, thus saving the opportunity costs.
- **"When market goes crazy or manager goes crazy" – Durgesh Shah**
  Sometimes, over a period of time market tends to overvalue some business due to high growth visibility or some other reasons. So if I feel, the valuations are unsustainable or unjustifiable then I exit the stock.
  Even there are some instances where management takes wrong decision in the company like forming poor capital allocation strategies which ultimately affects the business in the long term. At such point of time I prefer to exit from the stock.
- **Misjudgements on Merits**
  There have been instances where I have made a mistake on some qualitative or quantitative factors while analyzing the company. So whenever I realize my mistake, I exit the stock. As rightly said the best way to have good judgement is often to have experienced some effects of bad judgement.

You just need to be able to protect your money when you are wrong – and take profits when you are right.

12. Sectors you are bullish on?

Generally we follow stock specific approach but since you are insisting, currently I am bullish on Consumer as a theme; especially **Aspirational consumption, Corporate lending banks and Selective Pharma Stocks specially focusing on complex generics.**

13. Future strategy of PMS

Currently we are holding 28-30 stocks in LEGEND and 33-35 stocks in MARVEL. This was because we wanted to have a diversified portfolio. Also we didn't have much experience of managing funds earlier. Going forward **we want to adopt a FOCUSED portfolio strategy with number of portfolio scrips coming down to 20.** This transition may take around 2 years or so. This will help in enhancing returns. We have always maintained a low churning ratio. **We aim to further bring our churning ratio down to around 10%.** This means average holding period of scrip in our portfolio would increase to 10 years. The above steps are being taken as we have gained wisdom through our experience of managing funds for the last 8.5 years in wealth management.

14. What an investor can expect from your funds going ahead?

We have **generated a healthy return of 223% in the LEGEND PLAN since inception (8.5 years),** whereas BSE 200 which is our benchmark has generated a return of 135% in the same period. And in the **MARVEL PLAN we have outperformed BSE 200 return by 100% since inception. My next target is to achieve absolute 300% of milestone in less than 3.5 years of time span** in both the LEGEND and MARVEL PLAN.
I would like the investors to understand that they need to mellow down their return expectations going forward. This is due to decrease in inflation from earlier 7% to 4% with a band of +/- 2%, which when added to expected GDP of about 7%; would make the expected return to be in range of 12-15%.
My long term goal is to deliver reasonably good returns to the investor beating the benchmark with better margins along with my research team.