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CONFERENCE CALL

on Monday, July 13, 2020

Mr. Raunak Onkar | Mr. Rajeev Thakkar | Mr. Raj Mehta

To Know PPFAS Mutual Fund Better!

Moderator: Good evening Ladies and gentlemen, welcome to the Outreach Call hosted by PPFAS Mutual Fund. The fund is represented by The Chief Investment Officer, Mr. Rajeev Thakkar and The Fund Manager, Mr. Raunak Onkar and Mr. Raj Mehta. We will begin the Q & A session after a short introduction by Mr. Raunak Onkar. As a reminder, all participants lines will be in a listen-only mode and there will be an opportunity for you to ask questions after the introduction concludes. If you need assistance during the conference, please signal an operator by pressing "*" and "0" on your touch tone phone. Please note that this conference is being recorded. I would now like to hand the conference over to Mr. Raunak Onkar. Please go ahead, Sir.

Raunak Onkar: Thank you so much, good evening everyone. I hope you are keeping well and staying safe, thank you for joining us for our bi-monthly conference call and favored opportunity for us to interact with our partners and understand from them what concerns them and try to address their questions about how we manage our fund. So today we have Mr. Rajeev Thakkar, our CIO along with us, generally it is just me and Raj but we just thought we will change things up and also get Rajeev along once to talk to you guys. For those who have not attended these conference calls before, you may have received the presentation which introduces the fund house and the company's history, maybe a good thing to go to that afterwards and get a background. Also, some of the older conversations we have had with our partners through these conference calls are also in transcribed form available on our website, for those who are not aware of the YouTube channel of PPFAS, lot of amazing content has been put up over there past eight years through our FOF and other videos, I think it will be interesting for those who want to indulge into some sectorial understanding or different topics which we have been working on in the past. So, thanks everyone for coming and we will just start with the Q & A directly.

Moderator: Ladies and gentlemen, we will now begin the question and answer session. We have a question from Miss Jayati. Please go ahead.

Jayati: Good evening, my question is a little broad one. You know we have seen the world probably in March when people had absolute no idea what was happening in the markets and otherwise also but now maybe we are already three, four months down that and people have little more clarity on how things might shape up though obviously it is too early still and we have seen a good amount of rally also from the loans, so which is, probably in my understanding is driven by liquidity. So my question to you is that; a) how far do you think that this could last, b) what should be the way of investment, whether three to five years' time horizon and c) where do you think it is, like it is more international would be better than Indian equities or how is it that you are viewing the whole situation, as of now? I mean it remains a volatile but, and also on the debt side if you could say just give a brief on how is the whole market?

Rajeev Thakkar: Rajeev here, I will just take this question. So how long will it last and will it correct again or will it continue to go up, is as usual difficult to answer because near term sentiments and headlines and various things play a role. I think the question that you asked three to five years, what is the outlook and where do we see things going, I think that is the more interesting bit. So, a few things have happened. One is, obviously during the period of lockdowns, both in India and globally, there has been a severe impact on Business and Economic activities, so I think most people expect the April to June quarter to be very bad for most companies with a few exceptions and even July to September may not be fully normal, it will also be a bit subdued and some effect in fact may linger on in the quarter after that as well. So that is the one negative part in terms of the current financial year of being adversely affected. As far as the disease goes, as you rightly mentioned that the panic in the initial days was much higher, so now we have two molecules which are known to help in the disease; there is a steroid which is administered to the severely ill patients where death rates are coming down and we have seen this global race to come up with the vaccine and in another six months' time hopefully we should have multiple candidates which can help out with control of COVID. So, I think more or less the consensus is that this is not a world-ending event or this is not an event which will have multi-year impact, it is just that 2020 will be bad and we should be back to normal sometimes soon.

Jayati: Is that a valid thing like you said six months, usually what I have heard is vaccine takes four to five years in a normal if all the protocols are being followed and even if we get a vaccine, the efficacy would be doubtful, right? World will not come back to usual in six months' time, is not that a little aggressive?

Rajeev Thakkar: Firstly, I am not a medical expert, so probably you and I are reading the same newspapers and same headlines and getting the same forwards on social media but as of now what people are saying is that the, so vaccination is simpler than getting a drug that does the treatment. So vaccination depends on the normal body response where you infect the body with a very mild version of the disease or where the disease causing elements have been taken out but the anti-bodies in the body gets built naturally and most people are optimistic about the vaccine. So, you are right, usually the drug development process takes a very long time but these are not the normal times so all the approvals have been extradited so typically even to get to the human trial stage it takes a very long time whereas this time round we have seen so many countries actually going into human trails, yesterday there was a news of Russia having completed one round of human trials but I do not want to get too much into this like I am not a medical expert and we will see what happens. I am seeing the way markets are reacting and the way the headlines are there, people expect that the vaccine will be there and people will ultimately go to dine out in the restaurants, will take out air tickets and fly and go on vacations. The base scenario is not that all of us will be in home imprisonment for next five years, if that is the outlook then, if that is your scenario then obviously none of the current stock prices or the valuations makes sense. So if we assume that three to six months, nine months is the adverse impact then different things have happened. So one is, globally interest rates have fallen very dramatically, now people who do discounted cash flow analysis or people who do present value analysis know that if your discount rate comes down, the present value goes up very dramatically. So in a scenario where U.S. ten years' yields have fallen some 1%, in fact a country like Germany is actually issuing bonds at a premium, so it is actually getting paid for issuing bonds, so the interest rates and liquidity are; interest rates are very low, liquidity is very strong, fiscal measures have been very strong. So, demand destruction that was feared, may not happen because in

developed countries, for example U.S., people have been just given free money which they can spend and which can see them through the unemployment period and things like that. So at one side, the negative impact is the disease and at the flip side there is low interest rates and a lot of fiscal measures to support demand. I think the extra pessimism in March and April was unwarranted and the current euphoria, especially in some of the weaker companies is also unwarranted. So one has to strike a balance between the two and invest wherever things makes sense rather than worry too much about the overall market. Future returns, I think definitely one has to mark down the nominal returns, so if we were having, let us say, 6%, 7% inflation and 9% debt yields and if equity returns were 12%, 13%, definitely we should mark down all those returns because inflation and growth is low, debt bank FD rates have fallen to somewhere about 5%, 5.5%, so equity returns one should be prepared for single digit returns in terms of nominal terms but in terms of purchasing power it does not matter much but especially since you are interacting with a lot of end clients, I would urge distributor partners to bring down the nominal return expectations from clients because inflation, interest rates, all of these are down and nominal equity returns will also be lower especially given that valuations are somewhat elevated compared to the historical be it price or in multiples of dividend yields or price to cash flow; any of those metrics. Debt, I think in the current scenario given that there is uncertainty especially with very leveraged companies I would recommend going in for something like RBI bonds which at the current return of 7.15% are offering a good deal as compared to corporate bonds where there is lot of risk or readable GSECs so there are not too many good options in the fixed income space or otherwise one should go for a medium term yield plus AAA corporate bond kind of allocation. I would recommend people not to take too much credit risk in the current environment especially where leverage is very high on the balance sheet.

Jayati: And if you could just in a nutshell, just throw some light on the international market because I believe 30% of your fund is invested there. So international market vis-à-vis Indian market, so what is looking better and how are the flows, etc.?

Rajeev Thakkar: Sure, so typically unless one market is in absolute bubble kind of a scenario and the other is very attractive, we do not tinker too much with the allocations. The whole idea of having some money in Indian equities and some in overseas stocks is to have lower volatility in the overall portfolio and we typically do not take falls as to next six months or twelve months do we see global markets doing better or Indian markets doing better, things like that. So overall, the size of the fiscal response in developed countries has been far stronger as compared to that in India. So, because of which, the rebound in U.S. and Europe is expected to be sooner than in India because in India given the stage of our economy, we have focused more on providing basic necessities to a large section of our population rather than worry too much about affected sectors and corporate balance sheet. So it may take a while longer for India to rebound but that is already I think reflected in terms of the top price performance so far. So, U.S. stocks have bounced back more than Indian stocks so I think it is partly reflected there, we would largely continue with our existing weightages, with about 30% in overseas stocks.

Jayati: So you would recommend a staggered investment approach or a lumpsum at this point in time?

Rajeev Thakkar: I would recommend a staggered approach.

Jayati: On what timeframe?

Rajeev Thakkar: So it would depend, unless a client has a large pool of money, in which case you could stagger it out over six to nine months but otherwise for salaried earners or people with regular cash flows, you can go via SIPs.

Jayati: Right and weekly options, like weekly ..

Rajeev Thakkar: Monthly, weekly may not make so much of a difference, so the spreading it out over six months or nine months, on a monthly instalment will capture the up and down between cutting it in two fine slices, meaning weekly or, it may not make much of a difference.

Moderator: Thank you. We have a question from Mr. Kunal **Papayam**. Please go ahead.

Kunal Papayam: Good evening, in continuation with what has been discussed earlier, I just wanted to ask a similar question but again in continuation with that see long term view you are telling that things may improve over a longer term 2020 - 2021 as a year will be bad but in this year we have seen a short recovery and do you not think that this short recovery is a bubble in creation because your wholesale price index is in deflationary situation, you are at (-3%). Your GDP is expected to be zero or negative. In fact, the worldwide GDP ratios are also going to be either zero or negative. Then from where is this growth in the stock prices coming, maybe it is because of the liquidity but till what time will the liquidity sustain? So, is this short recovery a bubble being created and it may burst out after let us say, three, four months or six months or maybe after U.S. elections are over?

Rajeev Thakkar: Firstly, I have no view on the U.S. elections or on any event or in the near term let us say, six months, twelve months, so what will be the stock price movement. As I answered in response to the previous question, it is not just liquidity, it is also the long-term interest rates and long-term cost of capital. So, let us look at it this way, let us say, we have a company in the U.S. which is currently trading at 30 times earnings. Now 30 times, let us say, earnings as on March-end quarter. Now all of us know that June quarter or September quarter will be very bad or maybe, assume zero earnings. Let us say, six months earnings are washed out, so should the stock price be lower or should the stock price be higher? Now one could argue that stock price should be lower because six months earnings will get wiped out of this company but what has simultaneously happened is that the discounting rate or the long-term rate has gone down very dramatically. Now, if after six months or if after nine months, the company reverts to the previous earning levels and it is still at 30 times earnings, in the interim what has happened is, let us say the ten-year treasury bond in U.S. is at 0.7% whereas a 30 times earnings is giving you 3.3% earnings yield which is about four times or five times that of the U.S. treasury bond. So you have to put at in context, just like if you own a business and if you expect that business to make zero profits for three months or six months or even make a loss, you would not put a zero value on that business because you know that it is a temporary thing, it could be similar to a strike, let us say, you own a textile mill or you own a tar factory and the workers go on a strike for three months but that is a temporary thing and the fall in the value of the business may not be that dramatic, that is what is happening in the market place, the fall in March and April was panic, people were fearing that this could be very long drawn out and the lockdowns may never end whereas now people are talking about gradual recovery in terms of how do we take care of our health and safety, at the same time get back to the economic scenario, again in response to the first question I mentioned, I am not a medical expert and we are reading probably the same newspapers and same headlines. Currently, the way the news flow is coming in, the way the progress is there, we are far better equipped today to deal with the disease as compared to four months back, so doctors know what to do, that is one. Secondly, in terms of the timelines right now, people are talking about end 2020 or early 2021, vaccination coming in and in such a scenario the rebound can be justified to a large extent. Again, I am not recommending that this is the best time to go all in or make a huge lumpsum, we were saying that, that the time to invest is when the prices are very low or when there is panic, that was in March and April but at the same time I do not think that everything is in a bubble. I agree that there are some penny stocks, there are some very leveraged companies which look irrationally valued but to answer a question which has not been asked, is this a time to liquidate all your equity and go into liquid funds, I do not think that is the answer as well. So you should stick to your asset allocation.

Kunal Papayam: No again on the same context, I was going to ask you, like why I am asking for the short term duration is, if certain allocation has been made in the last three months, the absolute return, absolute return is almost near to 16%, 17% which when you are talking about the long term return of a single digit expectation, it is almost in double digit, so in this scenario after deducting your exit loads and after deducting short term capital gain tax also, the client is earning more than double digit return. So should he book the profit at this stage because maybe if there is a correction, then this profit will also go away. What is your view on this, if it is a 16%, 17% absolute return?

Rajeev Thakkar: That is absolutely not a recommended strategy, in my view. That is in my view, a very dangerous thing to do because equity returns does not come in smooth manner and if Sir you are

capable of timing it that well then you should not be a Financial Advisor, you should be a Fund Manager and you should actually run a PMS or you should run the client in this mid. Personally I am not equipped to make those timing calls. We recommend, have an asset allocation and stick to it which is a strategic asset allocation which is based on your age profile, which is based on your risk profile and your goals. If you say that you are putting 50% in equities, put 50% in equities, do not tactically try to time it, now I have got 16% in three months, that 50% I will bring down to 20%, then again I will come back to 70% equity, then I will again reduce it. I do not recommend any such thing Sir and I will never recommend such a strategy.

Kunal Papayam: Okay but if you are saying strategy means let us say, the client is almost 70%, 80% invested and let us suppose, what should be the current asset allocation strategy as per your ..?

Rajeev Thakkar: Sir the asset allocation strategy should be driven not by market outlook, it should be driven by the age of the client and the risk appetite. Current market scenario is like any other market scenario, there are pluses and minuses. Pluses are very low interest rates for a country like India, low commodity prices in terms of low oil prices, low input cost, there is pent up demand because as and when things normalize, people have purchasing power; those are the positives. Negatives are COVID, negatives are washed out earnings for three to six months, negatives are somewhat elevated valuations. So at any point in time, you will have things which you give you confidence and things which worry you, so it is like any other market. The asset allocation how much to put an equity should be driven by the client's needs and goals. If the client is a twenty-five-year-old with let us say, thirty-five more years to retirement, has a very stable job, has health insurance and everything. It should be a very equity heavy portfolio. If your client is a retiree, who depends on monthly income, then most of the money should be in debt that should be driving the allocation rather than whatever, Raj, Raunak or I have to say on this call.

Moderator: We have a question from Mr. Falak Kalyani. Please go ahead.

Falak Kalyani: I have two questions, one is do you plan to include any Agri sector related companies, because we do not have any in the portfolio and there is a lot of rise in rural income expected? And my second question is that we have around 8 companies having investment of around 1.5% to 1.8% which is very miniscule in nature, even the returns in those companies might not be significant affecting the portfolio, overall return, so do you plan to exit mainly Pharma companies, so do you plan to exit those and concentrate the fund in some other sectors?

Raunak Onkar: So from sectoral allocation point of view, at any given point we will be covering many sectors and many companies in that sector. So, as and when company comes to our radar, it should basically go through three filters, one is the management quality filter, second is the business quality filter and third is the valuation filter. Now, once these three filters are met, then from a bottom up basis if the stock makes sense to be added in the portfolio, it definitely will be added. At this point in time, the short term news from rural like you mentioned is quite positive, where Agri incomes are expected to go up but at the same time some of these companies are also cyclical in nature, they are not brand owners or innovating companies which controls a lot of their market, lot of their business runs on distribution, so if you understand a distribution dynamics for each and every product, then you might be able to draw a judgement as to which company can do better and when we see that, the valuations do not make sense in terms of how much you should pay for that advantage, so clearly we have been tracking this sector but if company jumps up in the list and we realize that this is a better opportunity, then we might think of introducing within the portfolio. So, no comments on which companies and all because we will inform you in the fact sheet directly when you see it there and the thing you mentioned about companies in the Pharma space and some of them which are smaller size positions in the portfolio, so in the Pharma space our strategy has been to have a basket approach rather than concentrate ourselves in to a single company. And this is because in the Pharma space lot of companies in the past 5-6 years have gone through a churn in their regulatory state or even in their business profitability and earnings and the reason is these companies were hit by FDA warnings, there was a pricing pressure in the most profitable market, which is the U.S. market and many companies were really unprepared in terms of how to deal with it and the sudden loss of cash flow and profits from export market meant that India busines became the larger

part of these companies portfolios. So, it became very hard to predict as to when this FDA ban will be lifted or when they will come out of the Regulatory thing and we clearly know right now also, it has been five years, almost 60-70% of the companies are still dealing with the FDA issues which were raised 5 years back. Some of them bounced back quite fast and came out of the issues which were minor in nature but other companies are still struggling to come out of that, so it becomes very hard to predict but at the same time we know the positives in the sector are, India has a very large manufacturing base for Pharmaceuticals established over the past couple of decades and that cannot be discounted, that cannot be ignored. Second thing is the demand for generic drugs across the world has consistently gone up in volume terms and not too many generic manufacturers are out there who can supply to most of these demand at a scale. So, if you look at the scale of formulation companies outside of India, even China or Vietnam or other places, where large capacities exist, they are very specific to large scale commodities but for formulations you need, smaller batch sizes which can be made on demand when it is required. And Indian companies have proven that they can do that and build a portfolio of drugs. So, I think positives out way, the negatives here and we could not like I said predict which one company will do well but we know from a bunch of companies if they have the good balance sheet strength, if the management is experienced in selling across the world and if the company has a product pipeline which might help them in the next 5 years, the company has been already hit by an FDA issue because of which the valuations are low, those were some of the criteria we chose to pick a basket of Pharma stocks which we like and at basket we can always keep fine tuning, it is not like all the companies in that basket will do well, incidentally because of the current healthcare crisis most Pharma companies did well, we were not anticipating that but the basket approach is basically to protect the downside that we cannot predict which one Pharma company will do well but the sector as a whole will have a demand going ahead.

Rajeev Thakkar: I will just add on the other smaller companies, so see in the small and mid-cap space many a times the volumes are not very high, so when we find the price that we like, we may buy a certain amount of quantity and the price may move up very significantly in a short span of time, so we have just come out of the March, April period where the prices should had fallen on a particular day 20-30-40% on very thin volumes, so some of the names that you see in the fact sheet are those kind of names and from the purchase price the current market price maybe very different, where we may not want to chase the prices. Also, in the small and mid-cap space we have to be mindful that we cannot be very big holders of the company because then our own buying or our own selling may impact the price very significantly. So, for the smaller companies we sometimes may have smaller weightages but does not mean that we are looking to exit those or they may not contribute much to the portfolio because as a group they are attractively valued and we like the quality of the business and the management over there.

Moderator: Thank you. We have a question from Mr. Vinay Kumar. Please go ahead.

Vinay Kumar: My question is on ITC. Recently, you have added ITC, I mean are you looking at the growth from the FMCG segments or what is your reason for adding ITC?

Rajeev Thakkar: Sure, I will broadly describe the investment thesis and maybe Raj or Raunak can add to that. So, ITC in its core business of cigarettes, the writing has been on the wall for a long time, where it is a demerit product where government wants to increase taxes and where government and society wants to discourage consumption because of health reasons and the management of ITC many years back realized this and they said that they will diversify their business into newer business areas. So, they have been deploying capital into various business segments, one of the most attractive ones in the newer FMCG categories and there have been some other businesses like hotels, etc. So from the investor's point of view people who are unhappy that some of the newer businesses were a low return on capital businesses, things like hotels and all and since capital was being put over there, people were unhappy about the capital allocation policy and the newer FMCG businesses considering the initial phase was either losing money or not making much money for shareholders so again over there the return on capital was very low although the turnover was increasing. So for about eight to ten years, ITC has done nothing for shareholders and stock prices in the again at fallen to as low as Rs. 140. So given various years of underperformance and falling stock price, the valuation had become attractive, that is one. And on the other side, the management has realized that shareholders are not happy with the capital allocation

policy so what they have decided is that the bulk of the profits will be paid out to shareholders as a dividend and they will not be deploying more capital into businesses like hotels and the newer FMCG businesses have now started showing improved profitability although it is not at levels that one sees in mature FMCG companies like let us say Lever or Nestle or Britannia but gradually they are able to improve margins and improve return on capital employed. So that is broadly the investment thesis; improved payout ratio, improved capital allocation and light at the end of the tunnel for the newer FMCG businesses.

Vinay Kumar: Okay, so you are hopeful that the return ratios in FMCG will improve over next few years, that is the thesis and next my second and last question; the U.S. markets have done very well over last ten years and even the recovery in the last three, four months has been very good especially the stock in your portfolio; Amazon, I think it is quoting at a P/E of over 160 and other stocks were also at 25, 30, 35 P/E, are you looking forward to reduce the exposure to U.S. stock or how do you want to look at it?

Rajeev Thakkar: So, we are mindful of the valuations and we realized that Amazon has run up quite a bit in the last few months, as you mentioned the other stocks are about 25, 30 times earnings, so it is not that everything is very expensive. So firstly, the kind of businesses that are there in terms of Alphabet, Facebook, Microsoft, they are having much better growth rates than a lot of Indian companies and valuations are in fact cheaper than the Indian counterparts. So there is no reason to disturb anything over there. Amazon, we had written out a note when we first bought it itself and the reason why P/E may not be the best metric to measure Amazon is that they make money in some of their mature businesses whereas they are losing money in some of the newer categories and which is really growth capital. So at the bottom line, where everything gets netted out, the reported profit after tax is quite depressed but yes, I take your point that stock prices run up quite a bit so if you noticed the last two or three fact sheets, so April, May, June; we have not been adding to Amazon, so we have not bought any fresh share, our purchases of a much lower price and given the quality of a business, we do not see a reason to immediately sell it also, so we are holding on to it for the moment. When you break up Amazon into its individual components, its cloud business, its third-party logistics business, nascent advertising business, some of their newer ventures around Prime in terms of streaming content music and the pre-delivery and the subscription-based model. When you add up all of these things, then you come to a judgement as to how to value the company. So as of now, you should not expect to see any dramatic changes in the portfolio, we are holding on to what we have.

Moderator: Thank you. We have a question from Mr. Kiran Nayak. Please go ahead.

Kiran Nayak: Rajeev Sir, can you explain, suppose the NAV of our fund is Rs. 27, so how much is in from Indian market and how much is from foreign market, that NAV?

Rajeev Thakkar: We do not break it up into that, those components, Sir. So again, if we get into that, then it will be each stock, each sector, how much does cash contribute. So, we are looking at it as an overall portfolio and we look at the overall portfolio returns.

Moderator: Thank you. We have a question from Mr. Aditya Chacher. Please go ahead.

Aditya Chacher: Hello good evening, I have three questions. First is, while onboarding client, can we have UPI as a payment mechanism while buying the units for mutual funds? The second question is regarding, for example, we have ten stocks and in next month a particular stock is up by 50%, so the weightage of that stock is around 14%, so as per SEBI regulations do we have to cut down the allocation to that particular stock, is the second question? And the third question was, in the month of March we bought some HDFC bank shares and immediately in the month of April we have sold the exact quantity of the HDFC bank, so I had like to know the thesis behind the same.

Rajeev Thakkar: Sure. I will not take the first question because Mahesh may be able to better answer that. So Raunak, Raj and I handle more of the investment part and operational aspects we may not be that familiar with. So, I will take the remaining two questions on what happens if, the weightage goes

beyond 10% because of stock price appreciation and on the HDFC bank question. So, the 10% allocation per stock applies while buying the stock, so while buying the stock we should not buy more than 10% in one company. If we have bought 9% in one company and the stock price goes up and the weightage crosses 10% then that is something called Passive breach. So Passive breach means we cannot buy more of the stock but we are not forced to sell it, we can continue holding on to the stock. So that is the answer to the second question that you had. And HDFC bank, so March was a very unique month, in the sense that a lot of the stocks that we were buying in March, the volumes were very thin. So if you recollect, the last two weeks of March was when the lockdown was first introduced, a lot of stock brokers were facing problems reaching their offices, a lot of clients who dealt on the phone were not able to transact, a lot of institutional clients were grappling with the compliance angles as to how to deal from home and things like that. As a result, the volumes in a lot of companies we wanted to buy were very low. So, we were buying things like Oracle Financial Software Services, MCX and those kinds of companies, now the prices were attractive, but the volumes were very low. Just to give you a context, in a company like ICRA, somewhere about 2 p.m. in the afternoon, the total volume on BSE was one single share and on NSE it was something like 100 or 150 shares, so in the month of March we had to buy some liquid names to deploy cash. So, in the month of April when some of the other stocks started coming at attractive valuations and at our desired quantities, we sold some HDFC bank to make room for purchases in the other stocks.

Moderator: Thank you. We have a question from Mr. Vishal Shah. Please go ahead, Sir.

Vishal Shah: Actually, I just wanted to ask that the U.S. markets right now it is basically a liquidated driven value, so are you looking to stake up with your proportion, the 35% in the U.S. security market or you are probably planning to trim it a bit?

Rajeev Thakkar: Currently, our international stocks are around 30% and that includes our investment in Suzuki, so in a response to some earlier questions also I mentioned, we are planning on staying put, we are not planning on changing the weightages dramatically.

Moderator: Thank you. We have a question from Mr. Guneet Singh. Please go ahead.

Guneet Singh: I have two questions; one is the question in continuation of the previous questions asked that we all are in the view of that the equity marketer is repricing just because of heavy liquidity available in the market. So, what is your view for the future of this market and my second question is that you are holding only five stocks in your international portfolio, does it not increase the concentration risk in the portfolio?

Rajeev Thakkar: Okay, so is the market only repricing because of liquidity so as I mentioned liquidity is just one aspect, the other aspect is the interest rates, so imagine yourself as a pension fund manager in U.S. or in Germany or someone who manages a University Investment Corpus, you have a choice of buying negative yielding German bonds or you have a choice of buying a company like Nestle, a company like Uni Lever, which is let us say at 30 times earnings which will give you some 4.5% dividend yield and which will probably grow its earnings at 5% and give you some return. So, it is just a relative attractiveness of various asset classes in a world where inflation is close to zero where interest rates are zero or negative and where opportunities are not there, because of lack of alternatives that people are buying equities of companies which looks sustainable and which have a more or less certain future. So are these the most attractive valuations, so surely, we would like a 2003 kind of valuation or 2008, 2009 kind of valuation in the market place but that is not available. At the same time, the environment is also very different Sir. So, I am old enough to remember the mid-90s in India where in 1995 we had a government of India bond which was giving 14% return per annum, AAA manufacturing companies like Tata Steel were giving 18% return per annum and NBFCs at that time were giving 21% return per annum. Now today those same interest rates are, government bonds are at, in India at 5%, 5.5%, 5.7% those kinds of things, treasury bills are at 3%, so in this kind of scenario obviously valuations will be more elevated than what we have seen in the past. So that is as far as the, why are stock prices going up or why is there a rally in the markets. People have factored in a drop in earning for six months or nine

months and people are looking beyond that. As far as the U.S. investments go or the overseas investments go, we are comfortable with the kind of companies that we own. So, although the names, in terms of the names there are five names but within each of those businesses they are diversified across various countries and they also have various business segments. So, if we look at Amazon, it is not one country specific business, it has global operations and apart from E-commerce retails, it is also into cloud computing, third-party logistics, advertising and streaming media contents and things like that. So, we are comfortable with the kind of weightages that are there in the stocks.

Moderator: Thank you. We have a question from Mr. Srinath Sridhar. Please go ahead, Sir.

Srinath Sridhar: Basically my question is, when you all say that there are no other suitable options available in the market, I agree with you but on the terms of inflation, I kind of disagree because ;like your fuel prices are constantly gone up due to maybe taxes in India and even FMCG companies and all are realizing that their cost of production is also going up due to these COVID issues and there have been some price increases which are being passed on in certain category, for example, going ahead most companies will start passing on the price increases to the customers because they know that even for a Retailer. Like there is going to be a sizeable drop in say, formal clothing. So, the units that they are going to sell is going to be less so they have to sell it at a higher average selling price so that eventually they will be able to at least at a lower revenue, they will still be generating an equal amount of profits as per pre-COVID levels. So, I do not think inflation is coming down and when you say single digit returns that will be likely going forward, so are you factoring in no GDP growth?

Rajeev Thakkar: GDP growth would be there, so GDP growth may not be there for the current financial year. In fact, current financial year there may be a negative GDP number but GDP should be back somewhere down the road. So the nominal GDP growth rate is real GDP growth rate plus inflation, so I am saying is let us say GDP growth rate is 5% and if inflation is 1 or 2% then you are in single digit terms, now inflation one can keep arguing to and fro and each person's consumptions basket will be different but if we look at the overall price basket and the numbers put out by the economist, overall prices are not going up, so again the prices do not determine on cost of production for the producers, these are determined also by the demand and if demand is not there you cannot have the producer pushing up prices, now costs are high and argument has been put forth by real estate developers endlessly, you think real estate developers will be able to hike up prices after COVID.

Srinath Sridhar: No, they cannot but FMCG companies can hike.

Rajeev Thakkar: Sir let us not argue about each product, the government in its wisdom has created a consumption basket which takes into account, fuel prices, electricity prices, food grain prices, education prices and there is a full department which calculates this number, I am talking about bad numbers sir.

Srinath Sridhar: And in terms of valuations like as interest rates have started coming down, historically 17 PE used to be considered like long term average, so now going forward what kind of a PE would you consider going fairly priced, on a future basis?

Rajeev Thakkar: Long term averages themselves move over period of time, so as I mentioned the interest rate environment in the 90s was very different then we saw in the period 2002 to 2010 and which is very different what we are seeing today. So, if 3 years, 5 years down the line and if interest rates were to go up sharply and by interest rates I mean long term interest rates, then the valuation multiples would come down, so then a 20-25 PE multiple will look very expensive if you have 9 and 10% yields on government bonds obviously then valuations will come crashing down.

Srinath Sridhar: But you are not expecting that right?

Rajeev Thakkar: Yes, so countries like Japan and all have had very low interest rates for 20-30 years, so for many decades, so as we speak right now the outlook is that interest rates will be very low world over for at least few years and we will keep watching that and revisiting that.

Srinath Sridhar: So, a 24, 25 PE at current juncture looks fairly priced for the market?

Rajeev Thakkar: Yes, there is no alternative in this scenario, so given that rates are very low, companies with reasonable amount of growth prospects where quality is high, you will get them at about 25 times earnings.

Srinath Sridhar: And my last question is on, if you can throw some rationale on Hero Motors which you have in your portfolio, your investment thesis?

Rajeev Thakkar: So, we have investment in three auto companies we have investment in Hero, we have investment in Bajaj Auto via the holding company, and we have investment in Suzuki, which is a play on Maruti. So, auto companies have been especially these three auto companies have been reasonably well governed, they have good return on capital employed, they do not have any meaningful amount of debt infact, most of them are cash rich but they have been suffering from reduced demand for about 4-5 years now. So, in such a scenario, what we have been looking at is mean reversion and revival of demand, so we have invested especially in Hero in the last 6-12 months, so here the two wheeler industry had a lot of headwinds in terms if BS 6 came into effect, ABS and some other safety measures were put in place, the insurance and the registration charges were hiked up, so all of these factors came together, now those factors are behind us and plus given the current environment of COVID and all where again there is some at least sentimental move away from public transport from and ride hailing and ride sharing towards having your own personal mobilities, so we will see how things pan out.

Moderator: We have our last question from Mr. Sunil Kamdar. Please go-ahead sir.

Sunil Kamdar: First of all, I will give you a compliment, your topper in all the segment 1 year, 3 years, 5 years, congratulations for that. Sir your holding has been extremely good, mainly the digital platform and you manage the digital platform and from FMCG you are doing very good, can you share your view on the IT sector, FMCG sector and if possible, Pharma sector please.

Raj Mehta: So, yes FMCG sector has been the least affected in the last 3-4 months, in fact they have seen a very good demand give that people are stocking up on goods at home and at the same time people being at home are consuming more things than they were before, so it has been the least affected sector as such at the same time they have had production issue, so it was more of shortage of supply rather than demand getting affected. So, going ahead also we may see some good demand given that the distribution chain is totally empty and the might have to refill the distribution, the stockish and the distributor, so we may see some good demand in the near future but at the same time the valuations in the FMCG companies are too high in our view and that is why we have stayed away from the know names, so we only have two companies in the sector, one is Zydus Wellness and the other is ITC, so both of them are reasonably priced compared to the other well-known FMCG names which are growing at 10-12% and at the same time valuation are at 50-60-70 times. So, that is the outlook that we have.

Raunak Onkar: Thanks Raj for the FMCG sector. So, in IT sector, it is another interesting sector, so in India we have had a 25-30 year dream run for the overall IT sector and that has actually equipped the entire industry to work or function very well when it comes to catering to international developed markets right from India, the offshoring story that people knew of where you have employees majority of them sitting in India working for clients all over the world that actually worked very well despite the lockdown. So, first of all lot of people could not anticipate that the Indian IT companies could function well with the work from home scenario or lockdown scenario and actually our internet connections and everything worked flawlessly for most of the sector to work well. So, if you look at the commentary of management over a period of time, everybody was ore or less confident that they will be able to deliver business or work that is being allocated to them. The second challenge IT industry is facing now is because they have sectoral diversification in terms of customers, some of the customers in some industries are actually facing deeper issues in term of recovery, they do not know when they will start to work again, so those clients will definitely be affected and some of the demands that would have come from those clients will

also be affected, fortunately or unfortunately we do not know but last portion of revenue for IT companies comes from the banking and financial services industry which is a little bit revealant at the moment in terms of getting cash flows, being able to address people's needs or customers' needs and the requirement at the same time for IT is also gone up significantly. So, in the past thirty years, as every evolution of technology has happened, IT industries had to adopt and in the past five to six years also the cloud computing and latest digital technologies, IT industries have adopted and upgraded their skills to cater to those demands as well. So if your gradual shift from little bit of the old business to the new business over a period of time, that was the longer term turned anyway but barring the slower growth in the recent few quarters which are going to come, most companies have volume of work to do and as their corresponding industry will recover, the industry will also get the incremental demand of IT. Now which company will do well, which is again a debatable thing and that we will actually act in the portfolio based on our understanding, that we will figure out. So, IT industry as a whole has actually turned out pretty well in this crisis despite what people would have assumed in the past. In the Pharma space also, the same thing has happened where the past five years actually the Pharma companies were treated like dock, nobody wanted to buy a Pharma stocks, so many FDA issues, so many pricing issues, margins were going down but if you look at the metric of gross margin for most Indian Pharma companies, their average has been somewhere close to 60%, 65% gross margins and most companies surprisingly have been able to maintain their gross margins and there are some reasons for that. One reason is, having a well-diversified product portfolio, second is diversifying geography risk, so many companies five years ago would be extremely heavily tilted towards U.S. markets because that is where the most profitable business was coming from but because of the FDA regulation issues, the U.S. markets suddenly closed for many Pharma companies because they had to comply for the quality issues. Then the domestic market opened up, then other export markets opened up; South East Asia, developed Asia, Europe, Africa and those companies could sell at the gross margins that they were used to sell in the past. So, companies were able to generate a business, but at the same time were not able to get the maximum profit out of that, so that affected a lot of Pharma companies and the outlook was bad, really bad. So many companies had revenue de-growths, profits declined significantly, cash flow issues were there, so the secular story of Pharma which was there was not playing out in the past few years but if you look at the overall trajectory of performance from the extreme lows of the past couple of years, Pharma profitability has also improved, at the same time the resolution of the issues that FDA had flagged, that is also happening solely and steadily. And the generic products that companies were launching, they are also now starting to launch them in the developed markets in the markets where they think profitability is still existing and competition always persist, so more and more companies have come up in Pharma which are manufacturing and competing with the larger companies but at the same time companies which are larger they keep building newer product portfolios, they have R & D budgets, they have cash flows coming from existing products and different markets are firing at the same time and management has the bandwidth also to cater to these markets. So, the positives outlays, the negatives in this case the only to it, Pharma is that just like I said earlier in the call that it is becoming very hard to predict which one single company will do well. So, I think in Pharma we have chosen the basket approach where we pick a bunch of Pharma companies with a characteristics we like and then keep fine tuning the basket over a period of time. I hope that answers your question on all three sectors.

Moderator: Thank you Mr. Kamdar. I would now like to hand over the floor to Mr. Raunak Onkar for closing comments, please go ahead, Sir.

Raunak Onkar: Thank you so much for joining the call and thank you for the insightful questions. It is always a pleasure to interact and get grilled on various specific questions and understanding what you are thinking about. I understand that several questions would have not got answered, we will try to accommodate some of them in the future calls. So, we will hope to listen to you over there as well. The transcript of this call will be put up on the website, I think in a couple of days or a week's time depending on when the service will provide the transcript to us but I sincerely appreciate you joining the call and thank you Rajeev and Raj as well for taking the time out and we could address some of the questions of our partners.

Moderator: Ladies and gentlemen, this does conclude your conference for today. We thank you for your participation and for using iJunxion Conference Service, you may please disconnect your lines now. Thank you and have a great evening.

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