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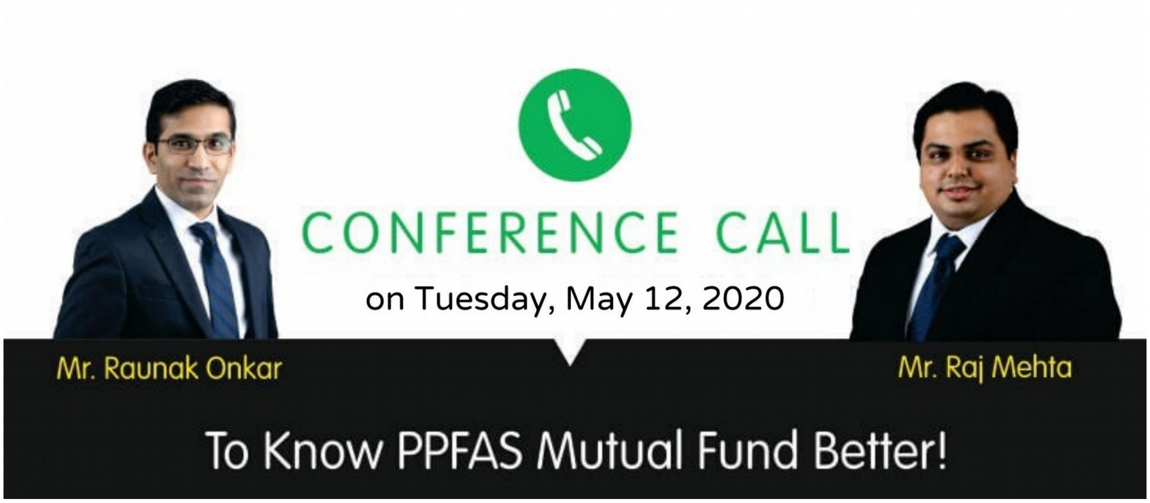

Moderator: Good evening ladies and gentlemen. Welcome to the Outreach Call hosted by PPFAS Mutual Fund. As a reminder, all participants' lines will be in a listen-only mode. And there will be an opportunity for you to ask questions after the presentation concludes. If you need assistance during the conference please signal an operator by pressing * and 0 on your phone. Please note that this conference is being recorded.

I would now like to hand the conference over to Mr. Raunak Onkar. Thank you and over to you, sir.

Raunak Onkar: Thank you so much. Good evening, everyone. I sincerely hope that you all are keeping safe. Thank you for joining us today for our bimonthly outreach call. We have today with us Mr. Raj Mehta along with me, who is also part of the investment team and he is a fund manager.

So today we have the same plan that we have every conference call. I will just walk you through the first 10 minutes to 15 minutes to the corporate presentation, which you may also have received in your email for this particular conference. And I will just walk you through and introduce you to PPFAS for the partners who may not be aware of our journey. Just a little bit about our core purpose and belief and our investment approach. Also a little bit about our product offerings and what differentiates us. And then, I will talk a little bit about the long term equity fund, Parag Parikh Long Term Equity Fund, and Mr. Raj Mehta will discuss about the Parag Parikh liquid funds and tax saver funds.

So, I do not know how many of you have had a chance to meet Parag bhai. Late Mr. Parag Parikh, he is a very multifaceted personality and he has founded the PPFAS group as early as in the early '80s. And for a long time, he was a stockbroker, and one of the very well reputed stock brokers in the industry. The reputation was because he was one of the first people to start giving equity research reports to fund managers at that time, which was very new. So once the liberalization happened and all the foreign stockbrokers came and that became a very regular practice.

But before that, Parag bhai was very ahead of its time, in terms of providing good quality research to fund managers. He is also authored a couple of books, Stocks to Riches, which is one of his first books. And the second one, which is, I think, a very interesting book and most people would enjoy reading is Value Investing and Behavioral Finance and his observations about, his experiences in investing in the market. I think you will enjoy reading both the books. You can buy them on Amazon for sure.

So many people think that PPFAS is a very unknown entity, a very unknown brand, but actually we have been around like I said, right since the early '80s. And it started off as Parag Parikh Financial Advisory Services. It became public limited company somewhere in 1992. And we started our PMS somewhere in 1996. So from 1996 to 2013, we were operating the PMS. And from 2013 onwards, we started our journey as a mutual fund with our flagship scheme Parag Parikh Long Term Equity Fund.

So we actually have only one line of business now, which is the asset management. And we relinquished our broking license. So we do not have any conflict of interest. We have no other businesses to do, because we realized that this was our passion, and we just wanted to continue doing this. So it has been a very interesting 40 year journey for the entire group and organization.

And a fundamental belief, even when Parag bhai was a broker was that look at businesses from a long-term point of view, do not just look at them as trading pieces of paper on the stock market. So his idea was to think of it like a seed that you sow, which has to go through all the seasons and then the seed will turn into a plant and grow into a tree. You cannot sow something today and repeat tomorrow morning to see how it has grown, you know, to avoid trading mentality and just think of investing in a business from a longer-term point of view.

I think we have cherished those principles and we keep following on the same principles everyday when we operate. So I think, value investing has been a core philosophy for us where we look at businesses, not just like I said, as a piece of paper to trade, but actually a business with operating entities underneath people working in the company run by competent people. And making sure that in order to generate wealth, we do not have to overpay for owning that business. So if we like something, we wait for the right opportunity and the right price in the stock markets for that business to come.

So just to give us a sense of our investment approach, when we are buying into any business in the stock market, we are doing one of many things, which is the most important is we are partnering with management's who are minority shareholder friendly. So when we do the research of companies, we look at some of the track record of companies under management and see which management's are generally working in favor of all the shareholders instead of just working in favor of their own promoter interest. So that is a very important criteria, which gives us that this management has integrity and are willing to allow other people to trust them and give them money for the long-term.

Secondly, when we buy a business, like I said, it is an operating entity and we have to understand that each operating entity will go through its business cycle, it will have assets, it will have liabilities. So you study those in detail and figure out that whether these assets are worth owning at the price that they are quoted in the market. Also, make sure that the business has some staying power by not chasing businesses, which are leveraging themselves and their balance sheets when their boom time comes, and then they suffer very badly when the cycle turns. So make sure that businesses generally which we buy have a cash generating business, at the same time, they do have to borrow money from other people to run their business to self sustaining kind of businesses, which actually help in the longer-term.

And also businesses should have some kind of a competitive advantage. If a business is running, it should not be at the mercy of all its other vendors and customers in order to operate, they should have some differentiation, some competitive advantage, which will allow them to stand in the market on their own and keep thriving in across the cycles.

And lastly, and most importantly, you try and maintain some kind of a margin of safety. So every time when you look at a theory or a nice fancy story in the market, it seems like you have to be a part of that story. But actually, if you want to be a part of that story, the first thing you should check is are you overpaying for the story or participating in a story or are you paying a reasonable price? So I think if all the previous criteria work in our favor, this is the most important criteria before getting into the investment that whether we are overpaying or under paying for that business. And generally, we will prefer to pay less then what the actual value of the business is. So make sure that do not go behind any fancy or latest fads in the market.

So like I said, we believe in the principles of value investing. And value investing itself has had a very interesting evolution over the past 60 years from the Benjamin Graham style to the Warren Buffett, Charlie Munger style, somewhere that Philip Fisher style. So there are various schools of thoughts here. But the underlying principles are the same that I mentioned earlier. I mean, you do not overpay for something, which you like and which you think is a sound business.

So when we look at our investment choices, we essentially operate with a philosophy that build an investment universe based on our criteria of qualitative and quantitative assessments and make sure that within those investment universe, which are the companies, which are worth buying at that time. So basically, you do not dictate, do not let the other factors dictate your decision making. But these sound principles to allow you to choose any investment.

Also, when we manage funds, it is very easy to launch ten different schemes and just raise assets and create a category in every scheme. But the idea over here is to be a fund management professional first, and a business later, to make sure that we have all the rights of our unit holders secured first, and then, make sure that the product, which we launched is actually useful for the investor or not. And the idea behind going into a mutual fund is to create a tax efficient way of investing into international markets. So the fund has some unique features. And this is primarily with the Parag Parikh Long Term Equity Fund, I will talk about that later, which allows you to invest in international markets by being an equity mutual fund investor in India, which is a very interesting way to get a diversification.

And last but most important, we have our skin in the game. So it seems a fancy term to use but what it actually means is we are invested along with all our partners, all over in-trades. In fact, the skin in the game number is mentioned in the fact sheet every time and you can see that number as a percentage of the overall assets. Now that number represents all the investments by the promoter family, the Parikh family, all the stock management, all the employees in the company, the research team, right from our peons and drivers, everybody has a vested interest in making sure that the scheme is run well. So the skin in the game does guarantee that we will make decisions will affect everyone including us. So we are very careful when we make this investment decisions.

So like I said, the flagship scheme, which launched on 24th May 2013, is open ended equity schemes, called Parikh Long Term Equity Fund. Now this is a truly go anywhere fund, where it is a multi-cap fund, and which can invest across market caps at the same time, we can invest across geographies. So we are not restricted if we really find a good business to invest somewhere outside of India. And we can actually pursue it, study it, and make sure that we can also own it in the portfolio if it is available at the right price.

And the idea behind this fund was that we also wanted to diversify our own personal investments. So might as well create a tax efficient entity, which will allow us to do that and also find likeminded investors to participate in this journey. So mostly people who have a longer-term horizon, which is five years plus, I think this fund is suitable for them. And if somebody has a lower time horizon, probably this fund is not suitable for them.

I will let Raj talk about the Liquid Fund and the Tax Saver Fund.

Raj Mehta: Yes. So we launched Parag Parikh Liquid Fund sometime in May 2018. We just completed two years of our Liquid Fund, yesterday only. And we rethink that in liquid fund you know, liquidity is more important than the returns and that is why we primarily invest in sovereign rated securities rather than investing in corporate papers. We do invest in corporate papers, but that is a very limited proportion of our AUM. And that to the companies are selected by doing credit research, we have a credit research team, which is their in-house. And we have a selected universe of about 10 to 15 very highly rated companies, which are invest in. And this fund was mainly launched, to do STP and switches to our equity fund.

The other fund which we launched sometime last year, in July 2019 was Parag Parikh Tax Saver Fund. So it is an and ELSS Fund, being an ELSS Fund SEBI does not allow investing in international markets and that is why it is primarily an Indian equity fund with a minimum of 80% of its corporates invested in Indian equities and it is eligible for deduction under 80C.

I will hand over to Raunak to explain the Long Term Equity Fund and then, we will go ahead.

Raunak Onkar: Thanks, Raj. So like I said, the Long Term Equity Fund is a truly go anywhere Fund, which is our flagship fund. And there is a style, the value investing style is implemented in that fund in order to find businesses in the quantitative and qualitative criteria that we like all over the world. And it also acts like a Swiss Army Knife if you are aware, which gives you the flexibility to have geographical diversification and also diversification across market caps and multiple sectors.

So a lot of times we get a question, which is very common, I will just run you through quickly as to why do you have to invest in international securities? You know, because India, everybody says that has the highest growth rate and has a potential to grow with the youngest population. Why do you want to invest outside of our country? And one of the most important reasons is that when we live in that country, we are extremely comfortable with owning businesses and stocks in that country because you can see the operations and we can talk to somebody who is in touch and feel comfort that we have. But the problem is it does not help us manage any country specific risk.

So we may have either IL&FS crisis or a demonetization or some election results going bad, something like that, which will affect the stocks in our country. But when you are invested some portion of your capital outside those stocks will not be affected by what happens in India. So it allows us to reduce them country specific risk. Also, if you look at the past 25 years, 20 years, you will see that the winners generally keep rotating. So we would have seen the decade of 2001 to 2010 the U. S. market not going anywhere. At the same time, in those that was I think this very sharpest bull market in India in some of those companies. I mean, the multiples of some of the businesses have not come down even from those highs. But if you look at the last ten years 2010 to 2020, I think international markets have swept across all the other emerging markets in terms of returns. And you have seen the emergence of large tech giants out of that. So you always see the situation happening where winners might keep rotating. And you need to be nimble enough to take advantage of whichever market you want to switch to you can switch instantly.

Also, like I said, when you reduce country specific risks, you also tend to reduce the volatility to some extent of the NAV, because not all the markets will move up and down at the same time. So sometimes we have seen the foreign markets being up and the Indian markets being down and vice-a-versa. So it sometimes helps you reduce volatility also in the NAV.

Another interesting option is to get a wider choice of companies, which otherwise we would not get a chance to invest in India. So if you look at the devices we are using right now for even hosting this call, you have a phone in your hand, which is probably made up by either Apple or as an Android OS, which is made by Google, you may have used WhatsApp to communicate with your friends, you may have used Facebook to talk to people or Instagram to browse through photos. So all these applications, which we are using every day are in fact owned by foreign companies. And we are basically consumers. So this gives a chance for us to be investors as well as consumers, because we know that these are essential products nowadays. And why just be a consumer, right? I mean, we can also be an investor along with them. Of course, if they are available at a reasonable price.

And we have also seen that valuations of businesses sometimes in India, because there is some scarcity premium to some kind of businesses, they get valued disproportionately high. So for example, we had seen that at one point in time three 3M India was valued close to hundred times earnings. But the parent company, which gave you a wider access to the entire portfolio, which was globally sold by 3M was available at 20 times earnings. So that gap of premium with the size of the business growing at the same rate was very interesting. And you could actually purchase the same business along with the royalties earned from the domestic subsidy and still pay much less. Same with Nestlé, same with other MNC companies. So that valuation differential also happens when you invest in global companies and you get the advantage of owning the larger entity.

Raj has already spoken about the Liquid Fund and the Tax Saver Fund. I think some of the characteristics, the similarities, differences and everything are listed in the presentation and you can look at them at your leisure.

I will just quickly introduce the investment team. So Rajeev Thakkar is our Chief Investment Officer and Raj and I are the Fund Managers. Along with that, we have a seven person investment team, the research team, which includes Raj and me, and each of us have divided the responsibility across multiple sectors and we keep coming up with investment ideas into that. So the basis is our investment universe, sectoral coverages among the analysts and we internally pitching ideas to the investment team. And make sure that we select the best, whatever 30 ideas that we might have at any given point in time.

So, basically, who should invest in our schemes, the equity themes? One is somebody who treats in equity investments as long-term investments, somebody who prefers a simple solution rather than complex products in investing. And somebody who does not fear the stock market volatility and loves to take advantage when prices are really ridiculously cheap.

So, I will stop my presentation here. If you have any questions regarding how to invest in the scheme, there are several platforms that we use, you can always talk to Mahesh and his team and they will give you a detailed understanding of each and every apps and whichever product you want to use. At the same time, if you have any questions regarding the commission structure, I think it is best to talk to Mahesh. Since Raj and I are in the investment team, it will be best if you are asking us questions regarding our investment thinking, our decision making, I think that will be time well spent.

So, I will hand the call to the operator to please continue with the Q&A.

Moderator: Certainly, sir. Ladies and gentlemen, we will now begin the question-and-answer session. To enter the question-and-answer queue, please press * and 1 on your phone now. I you like to withdraw your question and exit the queue, press * and 1 again. We have a question from Gurmeet Singh from Ahuja Financial Solutions. Please go ahead with your question.

Gurmeet Singh: Hello.

Raunak Onkar: Hello, good evening, sir.

Gurmeet Singh: Good evening, sir. Sir, you talked about the value investing as a theme for theme for your funds. Can you elaborate on it, sir?

Raunak Onkar: Sure. So value investing, if you look at traditional definition, it is mostly regarding buying businesses, which are available at valuation very close to their balance sheet value. So for example, a business which is available at a low price to book multiple or a very low price to cash flow multiple that is the traditional definition of value investing. But if you look at markets like India and markets like developed markets where value investing used to work very well, in India, the issue is we have mostly promoter driven companies, and promoter driven companies are also majority held by promoters and their friends and family. So, it is very hard if you see a value in a business in terms of being a low book value multiple and you want to execute a change in that business, you cannot actually be an activist investor and create a change in that business. So value investing traditionally in India has been working only for short period of time. But over a period of time, the quality businesses, which were available at a reasonable price that has been the new theme of value investing, where you do not overpay for such businesses, which have a good quality perspective or a good quality characteristics as a business, we generate cash flow which are low-debt, which have some competitive advantage. And that basically goes into some a little bit of a Warren Buffett, Charlie Munger style of investing. So that is the evolution of value investing over the past few decades, and I think we are at a situation where the quality investment team has actually reached a stratospheric valuation, it is very hard to find those kinds of businesses now at very reasonable valuation. So, within the parameters of value investing in terms of finding good quality businesses, we tend to look at companies, which are available at reasonable prices. But still, hold the quality characteristics.

Gurmeet Singh: Okay. And off-late we have seen this financial sector as a hole in the market it has a large buyer, say about 30% - 40% is now in the financial sector market. Over the period of time, whenever you see and the past also, this sector rotation has taken place after such volatile market. Say in the 2008 there are one sector then we can say this, IT was a very big chunk of **NIFTY 0:20:53.9** sometimes back.

Raunak Onkar: Yes.

Gurmeet Singh: Do you think this fall will create this financial sector to tune down its weighteage in the index itself?

Raunak Onkar: So that will happen automatically. So some of the market value based indexes, they will actually automatically rotate these sectors as the market value of some other companies comes up. If you look at our portfolio, we have about 17% invested in financial or banks essentially. And if you look at the percentage of financial services that are actually much lower than the overall index. So, we understand that a lot of NBFCs and other parts, other companies also form a part of the index, financial services basket. But we realize that we will stick with some of the well known banks, which are also very good consumer franchises and have also reasonably priced compared to their fee businesses and the overall brand in terms of having CASA with them, people trusting and keeping money with them over a long period of time. So, I think we have generally been underweight as compared to the index for the financial service.

Moderator: Thank you, Mr. Singh. We have a question from Mr. Vinay Kumar, IFA from Bangalore (Bengaluru). Please go ahead, sir

Vinay Kumar: Good evening, Raunak and Raj.

Raunak Onkar: Hi, good evening.

Vinay Kumar: Yes. I have couple of questions. One is you said, you want to have a margin of safety while buying a company. So for this, how do you value a company? Do you find it DCF method, you will value the company then you will decide whether there is a 20% - 30% margin of safety or you buy based on the price to earnings ratio?

Raunak Onkar: So, valuation is usually with a range of future outcomes. So, depending on the kind of business we are investing in, there can be multiple tools of valuation we can use. So, some businesses, which are asset heavy, maybe you would like to look at book value, at the same time look at the earning capability of those assets over a period of time. Some businesses which have a steady income, which does not waver too much and basically gives you like a fixed kind of cash flow every year, you may want to put a DCF kind of valuation multiples on them. So, there are multiple valuation tools that you use and you basically get an average sense of where the range of that intrinsic value will be for a period of time. And if the business in the market is trading below that valuation, then it makes sense to take that business in the portfolio. Otherwise, we can keep tracking it till it comes to your acceptable value. There is no one single parameter, it depends on each business.

Vinay Kumar: Okay. It depends on kind of business, okay. And the second one, when do you when or why do you sell a stock in your portfolio? What will be the general reason?

Raunak Onkar: Yes. So there are very limited reasons to sell a stock. The most important reason is if we make a mistake. So if we realized while investing that we had a thesis in our mind that this is how the business will play out, this is how the company will look over a period of time. But if that core argument of investing in our company or the business model that has changed, it is obvious time to sell irrespective of whatever price you get. So in the past, you may have seen examples of Noida Toll Bridge, IL&FS investment manager, some of these businesses, MT Educare, which we used to own in the portfolio, and they were mistakes at that time, and they were immediately sold. Second is, if the business has reached the valuation, which we think is no longer sustainable. So if we realize that businesses because it is overvalued compared to our expectations of valuation, then we will definitely sell it. And in the past, if you would have seen ICRA was a prime example. So when ICRA went to absurd levels of valuation, we sold some of the percentage of ICRA in the portfolio which was at 1.8% of the portfolio, I think at its peak. And now it is close to 1.5 or something percent in the portfolio. Even IGL was another recent sell, where we realized that the business actually is far overvalued compared to what we wanted to pay for it. And the third and last reason is, if there is something better available, and we do not have the cash to invest in that business, but that from a prospects point of view that businesses better than what we already own then we will replace that with the new business idea. So these are three main reasons why you will see a sale in the portfolio.

Vinay Kumar: Okay. And I think, recently you excited some Nestlé also.

Raunak Onkar: Yes.

Vinay Kumar: Nestlé Switzerland. What is the reason for that?

Raunak Onkar: It is a classic example for the third reason for selling, where you know that one is a good business that you own, but there is a better business that you can buy with the same amount of money. And in the U. S. portfolio, unfortunately, we cannot go beyond 35%. That is a SEBI regulation limit for us. So we cannot cross 35% of the portfolio in the U. S. listed or foreign listed companies. So we thought it was prudent to sell one company, which was good to buy something which we think is better.

Vinay Kumar: Okay. I think you entered Microsoft, yes maybe. So what is the reason behind entering the MS mark currently?

Raunak Onkar: So if you look at Microsoft, I think it is a household name, everybody knows Windows Operating System and Microsoft Office products. But the office products and other products, software product business is only 50% of their overall revenue, which is growing very slowly. The other part, which is fast growing is their services business. So if you have heard of Cloud Computing, Microsoft, Amazon, and Google are the top three players in the Cloud Computing market. And in cloud computing, also on the infrastructure side, the platform side and software as a service side, these three are leading players. So I think, if you want to participate in the next wave of IT technology, where these companies are at scale and they can expand at scale and grow profitability at scale, without compromising the return on capital of the overall business, I think that was one of the case for Microsoft also. In fact, we were really late in buying Microsoft. I incorrectly assume as a Tech Analyst that Microsoft was not a great company in the past few years. But I was proven wrong. So I think, it is better to stick to what you understand. And when you realize you have made a mistake in not buying something, wait for the right valuation and that valuation came in last month when we switched from Nestlé to Microsoft.

Vinay Kumar: Okay, that is fantastic.

Raunak Onkar: I think, we will take some more questions from other participants. Sorry, will you come back in the queue. There are many participants. So we will just go through all the questions and come back if time remains.

Moderator: We have a question from Kshitij Gupta, an Investor in Mumbai. Please go ahead, Kshitij.

Kshitij Gupta: Good evening, Raunak.

Raunak Onkar: Hi, good evening.

Kshitij Gupta: Raunak, simple question, why do not you own Apple? And why are you only owning U. S. stocks? Where is China, Korea, Taiwan, Singapore?

Raunak Onkar: So as a rule, we do not comment about why we do not own something. Rather I will discuss on what we own and why we own those companies. In the past, we used to own Apple and we had sold it after a while. I think there are better businesses available to invest after at that point. So we thought, we will not invest in Apple any more. If you look at the portfolio, it is not necessarily U. S. companies. Right now it is heavily tilted towards U. S. listed companies. But Suzuki Motor Corp, a Japanese company, which has a U. S. listing. So it is also listed in Tokyo and in the U. S. market. So we are averse from investing in other countries from developed Asia or even Western Europe, because Nestlé was a Swiss company before this. So, we are not averse to that. But if we find an opportunity, definitely we will invest. But we will stick only these….

Kshitij Gupta: No, no my question was not particular to why did you not. But there are some amazing companies in China. And we all know that China is growing extremely well. And so is Taiwan and Singapore. So are you looking at them very closely, we have chosen to not select them. Is that what I am hearing?

Raunak Onkar: So at any given point, like I said, we have only a limited room to invest in the portfolio in investment stocks. So if we come close to that limit, we keep tracking those businesses from a competition point of view from our existing companies. But if the current businesses are worth owning, there is no reason to add them to the portfolio just to add a Taiwanese to South Korean business. I agree there are fantastic businesses, especially on Chinese companies side, most Chinese companies which are allowed, which allow you to invest outside of the mainland, are actually holding companies. And the structures are called variable interest entities, which is very difficult to understand what rights you have as a shareholder. So although the business might be attractive, but I think being outside of China is a disadvantage when you invest in those companies. So form a technical understanding points of view as to how they are competing with other companies, but they are not investable accordingly.

Kshitij Gupta: Okay. I have just want more, one last question and I will keep it short. If I have a choice, of course, I have invested in Parag Parikh and I have invested you know, more than Rs. 20 lakhs in the mutual fund and only strictly to Raunak Funds, which is the long-term equity. But if I have to invest in foreign, what stock, I can invest in the Motilal ETF, which is a point 1% fee and annual fee. I mean, how does that compare with investing in the PPFAS Long Term Equity Fund?

Raunak Onkar: So, there are three ways you can invest in foreign securities. One is by opening your own demand account, this is the most complex way, opening your own foreign account and you invest on your own as an individual investor like you do in India. Second is through actively managed funds, like one of the funds is our Parikh Long Term Equity Fund. And the third option is by buying ETFs. So, you have any other option available, so, it is not necessary to invest in one or the other, you can invest in all of them if you want. But these are three options available.

Kshitij Gupta: Right. By the way, I have invested in Motilal and PPFAS. And interestingly, since the COVID, Motilal has given 20% you have given 12%, no complaints. I still love you guys. But just wanted to mention and all the very best. Continue doing a good job.

Raunak Onkar: Thank you.

Moderator: Thank you, Mr. Gupta. We have a question from Vivek Sing IFA from Pune. Please go ahead, sir.

Vivek Singh: Yes. Good evening, Raunak. This is Vivek here.

Raunak Onkar: Good evening.

Vivek Singh: I have two questions. One is on the market side, global market and the Indian market view in the current situations and with these price and everybody's looking the fiscal every everywhere and how that if growth does not come, how this will help to that? And second is on stocks, which is this one Zydus. Zydus…

Raunak Onkar: Which one? Zydus?

Vivek Singh: Zydus Wellness. I just wanted to understand what is the logic behind this because if I look at this company I do not find the ROE or rather see any product thing. We believe, you may have more logic on that. And I was just looking at earlier you had the Maharashtra Scooters and Bajaj Holdings, but now you hold only Bajaj Holdings only.

Raunak Onkar: Yes. So I will let Raj answer the Zydus Wellness question. Actually, he will go first. I will take the other questions afterwards.

Raj Mehta: Yes. Okay. So Zydus Wellness, what happened was that last year they acquired the Indian business of Kraft Heinz. So because of that the financials are all over the place if you look at the last two or three quarters result. But if you just ignore the last, say, one year or so, before that there had been earnings pretty high ROCE as well as the profit growth and the sales growth was not there, mainly because of the headwinds they were facing in the discount and distribution side of their product. But after the acquisition of Kraft Heinz, we feel that they have a complete portfolio right now. So in the original portfolio, they had sugar free Sugar Free, Nutralite, Everyuth as their three brands. And then after the acquisition, they have added three to four more brands, so they have added Complan, Nycil, Glucon-D. So they have a complete portfolio right now. And at the same time, what happened was that Zydus is was mainly present through the medical channels whereas Kraft Heinz was more present in the traditional retail and some bit in the modern retail. So there are synergies there between both the businesses. And we feel that going ahead, there could be a huge headroom to grow for all the brands. So if you see, all the brands that they have, almost all of them are leaders in their own categories. And the challenge for them as to grow the category rather than taking market share from another player. So that is how we look at Zydus.

Vivek Singh: Just one thing. Does it hold, I mean, I do not know somewhere I read it, I am not very much sure. Does it hold 85% in Cadila or it is I mean what?

Raj Mehta: No. So Cadila holds about 65% to 70% Zydus Wellness. Zydus Wellness is a subsidiary of Cadila Healthcare.

Vivek Singh: Okay. Thank you, sir.

Raunak Onkar: Thanks, Raj. So I will just take the first question regarding the outlook of foreign markets and the Indian market. There is a very simple answer right now. Answer is, I do not know where they will be. The problem is, because of a lot of upheaval we are all aware of there is very, it is very hard to even predict business outcomes over the next six months to even eight months, nine months. So I think many companies which we have invested, will have these same situation where if you ask the management, what is going to happen in the next year, they will not be able to tell you. And if management's are not confident about how to predict future outcome, I think analysts should not give a definitive opinion. So I think that it is very hard to predict and I will not want to forecast, but if you look at some of the companies that we own, the reason so when we entered into the COVID crisis somewhere in March, we were somewhere around 11% in cash. So when the market valuations started falling, we actually found a lot of attractive opportunities to buy in the portfolio. So we also added three new stocks and also added across our existing holdings. We added ITC or Oracle Financial, MCX and other companies. So these companies were always on the radar, but just the valuations whenever attractive for us to enter, and we thought this was the right chance to enter. So at the moment, it will be about 3% - 3.5% in cash. And that basically tells you that the companies that we have chosen, we have some conviction in terms of their survival. And after the crisis is over, they can also thrive in their existing businesses, so they would not face too much damage in the overall lockdown situations which is happening all over the world. So I think, we focus on bottom up approach to investing where we find individual companies which are going to be resilient and also are going to survive. And if we find those and they are run by competent managers, like I said earlier, I think the price is the only variable which will help us to act and buy them in the portfolio. So, not worth commenting about global macro scenario. And thirdly, you asked about Maharashtra Scooters. So what we have done is, we used to own both of them, but Maharashtra Scooters has a large dependence of its valuation on Bajaj Finance. Whereas Bajaj Holdings. the large proportion of valuation is dependent on Bajaj Auto and Bajaj Finserv. So, we have been switching for a while in the last year and we finished our switch somewhere in the late 2019. And now we only own Bajaj Holdings. But the underlying idea is the same is basically to expose ourselves to the finance piece of Bajaj Group and the Auto business of Bajaj Group.

Moderator: Thank you, Mr. Singh. We have a question from Mr. Nikhil Khandelwal from Agra. Pease go ahead, sir.

Nikhil Khandelwal: Hello.

Raunak Onkar: Hi, good evening, sir.

Nikhil Khandelwal: Yes, good evening, sir. So my question is this. Why you have only three types of funds only? Why you are not adding more funds to your basket? Is there any specific reason?

Raunak Onkar: So, if you look at the fund, Long Term Equity Fund, it is actually a go anywhere fund. So, we can buy even a small-cap company, a mid-cap company, a large-cap company, you can even go international by a global company, which is a mega-cap company. So from market cap and geographical point of view, we can do whatever we want and buy into this fund only. So, it is a go anywhere fund, which has access to our best possible ideas we can buy here. The Tax Saver Fund, is same to the answer. The Tax Saver Fund essentially is a product from the same funders, focusing only on the Indian securities, outside U. S. tax saving benefit to investors and Liquid Fund is basically taking low risk, low risk on the yield. Yes, making sure liquidity is available to investors to do STP or SWP into the main fund. So the idea behind this whole structure is to have less complex products called investors to understand. So If you can do everything in one fund, the inverse of diversification is taken care of by investing only in one fund instead of having to go through ten different factsheets and making complex products in terms of just gathering assets. So that is one philosophy that we have is to make sure investing is simple, and we can also invest in the same products that we create.

Nikhil Khandelwal: Okay. Are you planning to launch some pure mid-caps or small-caps in future?

Raunak Onkar: Most likely, no, sir. We can buy all those companies in this fund only, no.

Moderator: Thank you. We have a question from Vinit Doshi, IFA from Pune. Please go ahead.

Vinit Doshi: Hi, Raunak.

Raunak Onkar: Hi, Good evening.

Vinit Doshi: Yes. So gold is having a negative correlation with equity. And if Parag Parikh Fund owns gold mining companies, it will do better stability to returns. So I am considering Parag Parikh is allowed to invest in international market, it is having good opportunity to own gold mining companies abroad. So, in coming future, are you having any plans? Or have you ever thought on this option in future?

Raunak Onkar: So not just gold mining. But we keep a look on all sorts of cyclical businesses across multiple commodities. So we keep a track of them. But so far, we have not had an expertise or even confidence to buy or put deploy large amounts of money into cyclical companies. So as and when the conviction builds, we will keep looking at more cyclicals and we will see if they deserve to be a part of the portfolio at certain valuation.

Vinit Doshi: Okay, thank you. And another question is, do you track Berkshire Hathaway as well or it is out of your investment horizon?

Raunak Onkar: It is not out of the investment universe. We keep tracking it, because it is a source of understanding of so many businesses across various sectors. But as an investment option, we have decided not to invest in I, we have found better alternatives. Let us see, how it performs over a period of time. Our portfolio versus not owning Berkshire Hathaway.

Vinit Doshi: Okay. Thanks, Raunak and you all are doing a great job. My 40% of portfolio is in Parag Parikh and I am very satisfied customer. Thanks.

Moderator: Thank you, Mr. Doshi. We have a question from Rahul Karmani. Please go ahead, sir.

Rahul Karmani: Hi, everyone. Hope all of you doing well and page. I just had a couple of questions. One is, with respect to ITC, there is a huge debate of whether a value or is it a value or is it a value trap. And the second question is Mahindra Holidays. That is the second stock, so I hold personally, Mahindra Holidays and I just like to know what is your outlook whether does it benefit in holding it or how do envision the stock going for as in the company going forward?

Raunak Onkar: Thanks. I think, Raj can take both the questions please.

Raj Mehta: Yes. So ITC, when we bought it was at a very attractive levels after the fall. We bought sometime in March end. So what happened was that there was a change in the dividend payout policy of the company. So, if you look at the historical financials of the company, so what they had been doing is that, they had been, using the tobacco business as a cash count to build other businesses around the tobacco business. So they have a FMCG business, Agri business Packaging business, Hotels business, and what was happening was the good cash flows of the tobacco business are being used in businesses like hotels where the ROCE was much lower. But suddenly there was a change in the dividend payout policy and well they said they will be paying out 70% of the profit in the future year. So, what this did was that it made a very attractive opportunity in terms of dividend yield as well as limiting the downside. So, that is when we entered ITC and that was the main thesis behind it, regarding the change in the capital allocation that they will do. For Mahindra Holidays, I would not want to comment whether you should hold on to it or not. But on the business side of it, if you look at the quarterly returns, which are announced yesterday, the balance sheet has grown even stronger than what it was last year. So, the cash on the balance sheet is now Rs. 700 crores compared to the market cap of Rs. 1,600 crores, Rs. 1700 crores. So, at the same time, we have receivables as well as the deferred income which is recognized. So, obviously, the next six months to 12 months would be difficult for them given the scenario globally. But at the same time after, say a one year or so we could see that some people would prefer domestic tourism. Moreover, international tourism, that could also be a trend, which we could see going ahead. So we will see how it picks up. But the next six months to 12 months would be difficult on the P&L of Mahindra Holidays, but at the same time, the balance sheet has grown stronger, and we feel that it makes sense to hold on to it.

Rahul Karmani: Just an extension of this. ITC is it something, which can be looked at as a long-term consistent compound kind of a play or a dividend yield kind of play, how do you actually look at it?

Raj Mehta: So when we initially invested, it was more of a dividend yield kind of a play. At the same time, change in capital allocation policy could just be a kicker to the valuations that the market gives. So we will evaluate how it goes. If we find better opportunities in the market, maybe we can switch. We will wait and see how it goes.

Moderator: Thank you. We have a question from Parmanand Devnani from Indus Capital, Ahmedabad. Please go ahead, sir.

Parmanand Devnani: Raunak, sir, you are holding 0.95 percentage in Sun Pharma.

Raunak Onkar: Yes, sir.

Parmanand Devnani: So why you have kept only below 1 percentage? And my second question is, do you feel that the market has factored in the results of Q1 for the next financial year, current financial year?
Raunak Onkar: Okay. So Sun Pharma is actually 0.5%, only 0.95% as per the current balance sheet.

Parmanand Devnani: Yes. 0.5%, sorry. Yes.

Raunak Onkar: So, in the pharma industry, what we have seen is, I mean, you are also aware and you are reading the same news. That over the past, half a decade, you have seen that a lot of pharma companies in India are facing issues in terms of getting FDA warnings, they are not allowed to export into develop markets, which are the most profitable markets. They are facing price competition from other smaller companies in the most profitable markets that they were operating in. So, what used to be the secular growth trend in pharma has somehow been disrupted in the past five years period. So when we look at individual generic pharma companies, we realized, however, that generic medicines are essential and they will be always required. And Indian pharma companies have built a manufacturing base over the past 25 years in terms of catering to the global markets with generic medicine at scale. So the companies that we wanted to own, we decided instead of buying one company and deciding that our stake in pharma industry will be only depend on how this one company performs. We realized a basket approach is actually far better, where we buy a bunch of generic drug manufacturers with similar characteristics. Some of the characteristics are balance sheet strength, which will help them acquire new business and continue to grow in areas where they want to grow. So for example, if U. S. market does not do well, they can invest in Europe, if Europe does not do well, they can invest in Asia Pacific or Japan or wherever. So, that is one reason to buy them. Second is having experience of selling drugs all over the world. So, you will have marketing teams you will have supply chains active in towards that and also have experience in selling in local markets and even domestic market business can be very large. And also management teams who have enough bandwidth in middle level and even the companies of a certain size, which can take advantage of. So for example, when Teva, the largest generic company had decided to liquidate some Okay its assets because they had borrowed too much money. They realized that Indian generic companies were the only ones who could buy some of these products. Dr. Reddy's and other companies could actually pick up some profitable products from them, and they could sustain market shares in the profitable markets. So I think a basket approach is far better. And one of the companies in the basket happens to be Sun Pharma.

Parmanand Devnani: Okay.

Raunak Onkar: And the second question, sir, I forgot. Can you please repeat it?

Parmanand Devnani: Sir, my second question, has the market factored in results of Q1? Past quarter's results market has factor in, the current marking which is there?

Raunak Onkar: So if you look at some of the valuations of very strong companies, actually, they have factored in next year's Q1 results, it seems like because their stocks have not fallen that badly. But I think, some companies who we are going to face stress will be companies whose balance sheets were weak, or they are on the ground businesses have been totally disrupted. I think those companies, if you look at their stock prices, market seems to have figured out that they will have a longer time to come back. So I think it is a mixed answer over here. It is not all companies, but some companies, I would say.

Moderator: Thank you. We have a question from Mr. Anup Maheshwari, IFA. Please go ahead, sir.

Anup Maheshwari: Hi, Raunak.

Raunak Onkar: Hi.

Moderator: Yeah, hide on

Anup Maheshwari: Basically, you kind of already touched upon the question I have but I will still ask you for, like your overall outlook on Indian pharma sector. Though, I generally do not get into the sector, but since I have a query from a client side, so in general, I want to understand about the outlook of pharmacy.

Raunak Onkar: So, like I mentioned overall, we understand that Indian companies have built a manufacturing base, which is very hard to replicate immediately anywhere in the world. So although China may have the capital and the capacity to grow, we Indians have the second largest number of FDA approved facilities across the world. So that scale should not be undermined, that is first. Second is the generic medicine demand is not going to go away. If you look at most of the countries they try to control the cost of medicines that they provide to citizens because they have entire country wide health insurance plans, which also cover medicines. So the overall national budget which goes from GDP to serve medicines to their citizens should actually be reduced over a period of time. And generic drugs have helped a lot in this process. So I think Indian companies are in the sweet spot in terms of having the scale and over a period of time also are cleaning up their quality, which wherever they have faced lapses. And management teams are very well experienced off selling all over the world, and especially, in the Indian market also. So they understand the nuances of selling in America, selling in the Europe, selling in India, and they have adapted themselves very well to their business. So I think over a longer-term I think pharma, as a basket approach feels better for us because they are optimistic about the essentiality of the pharma business as such.

Anup Maheshwari: And the valuation part of it, I mean, not specific to your holdings but in general research, just in terms of…. Yes.

Raunak Onkar: So in general valuation of pharma companies actually is very hard to give an answer because each company has suffered differently over here. So you will have a loop in which might be attractively valued, but some other company might be looking optically to the expensive and that depends on how much they are affected in the past in the last trailing 12 months with their FDA issues or some other price control issues somewhere. So I think predicting based on just the specific valuation metrics has become very hard and hence, the basket approach. So I would not want to comment on valuations, I would keep watching, which businesses are doing well on a year-on-year basis over a period of time, and then we can replace or switch them in the portfolio in that basket. That is what our belief is.

Moderator: Thank you, sir. Next in queue, is Mr. Umang Gandhi. Please go ahead sir.

Umang Gandhi: Good evening, Raunak. I have two questions, one is in the rational, why did you do buy ITC? And other was regarding the portfolio of pharma companies in our fund. But have been answered by you. If you want to add anything, you can add.

Raunak Onkar: Nothing new to add, actually, I think this is the simplification that I gave earlier. So those are same answers, thanks.

Umang Gandhi: No, it was quite comprehensive. Thank you.

Moderator: Thank you. Next in line is Mr. Ashwin Bajaj. Please go ahead, sir.

Ashwin Bajaj: Yeah. Thank you. Good evening. Raunak, a question for you. One is more of a macro question with the now so much of fiscal stimulus, especially in the developed countries with the U. S. FED printing trillions and trillions of dollars, what sort of effects could that have that will cause its own financial instabilities? So, and you al are investing in the U. S. in a big way? So do you all worry about that? That is one. And second question is, are we too concentrated in terms of tech stocks in the U. S., if that sector sort of starts to underperform or something, are we too concentrated? And a quick third question is, how much do you rely on sell side research from leading brokerages versus your own research? These are my three questions.

Raunak Onkar: So I will combine the first two because the answers are related. So forget for one second that there is a lot of fiscal stimulus happening, money is sloshing around everywhere. In fact, he companies that we own, which are from the international side in the portfolio are actually globally exposed companies. So if you look at the percentage of sales that they get from the native U. S. market, you will see that will be close to 50%. The rest of it comes from all over the world. So the cash flows and sales are actually diversified internally. So we do not need to worry about how these companies will perform if something happens in the U. S., because U. S. business is only half or some part of the story. Secondly, the balance sheets of these companies that they own are actually strong on their own. They generate high free cash flow and they retain a lot of that because they do not pay dividends, they reinvest into their own projects and capital is allocated across different business lines. So you will see Amazon generating high free cash flow, Alphabet, Facebook, all of them generating high free cash flow and they will redeploy it and also at some point they will give a buyback to investors or period of time. So their balance sheets do not depend too much on the stimulus or other things happening. However, they are not part of the same technology universe as we see. So they may provide technology services. But if you look at say Alphabet and Facebook, for example, Google is a large part of Alphabet and Facebook. Both of these are actually digital marketing and advertising companies. So the most of their, so you should look at them as advertising businesses on the different medium, like a technology platform. At the same time, they are now diversifying some of their revenue streams from non advertising areas also. If you look at Amazon, although it is a tech company or e-commerce company, a large part of their business or profits come from the technology part. At the same time, they have a retail operation of their own and the third party marketplace that they have plus their advertising business is coming up slowly. If you look at Microsoft, again, some part of it, which is half of it is a product software business, which is the old business that they have, and the new music and technology. But again, if you look at any organization, any home, I think none of us will have one product in the house, will definitely be a Microsoft product. So the penetration of this company, the license fees that they learn from it, and the annuity income that they generate from it is very high. But these are very diversified across various sectors as well. So we look at it from a bottom up from business point of view, can these companies thrive on their own despite whatever is happening in the macro economy? And whatever is definitely happening, we will hurt them for a while. It is not like they will be completely immune. But over a long period of time, can they come back stronger from this? I think the answer is, yes. So we think from that point of view first rather than saying, okay, there is too much money around what will happen. Incidentally, what happens is companies do not require to borrow money, if they are going into debt markets, there they dedicates valued at negative yields. People are actually willing to get less money afterwards from these companies, then so it is a good chance for them to raise capital also at lower rates, because they have such strong operating cash flows. And the third question that is sorry, can you repeat it please?

Ashwin Bajaj: Third was, how much do you rely on sell-side research for your Indian investments and your international investments versus your own research?

Raunak Onkar: So it is one of those secondary sources of data. So it is always good to talk to sell-side in terms of poking their brains to see what they have looked at the company and the industry. So we set very clear parameters with sell-side, they will tell them you only communicate with us with your most confident ideas. Talk to us more about the sectors, then talking to us more frequently about technical indicators or short-term trades or whatever. So I think we engage with them more from understanding sector, if somebody requires to fill their holes in their understanding, and also sell-side provide an opportunity to interact with management's of different companies. They also actually have unique channel checks that they do, which also gives us some insight. So it is one of the sources that we use from secondary sources. I think most of the research that we do is primary and this is like a validation. Sometimes you also get opposite ideas. So we may own something and we may bind something and the sell-side analysts says you have to sell those. So it is interesting to see what their point of view is to know what if you have missed something in the idea. So, from that point of view, secondary research on sell-side sometimes is very useful.

Moderator: Thank you, sir. We have a question from Pawan Agrawal. Please go ahead, sir.

Pawan Agrawal: Good evening, Raunak.

Raunak Onkar: Hi, good evening, sir.

Pawan Agrawal: My question is that general understanding is that in our holding company, the value gets unlocked by only vendor holding company, you know allocates I mean gets dismantled or the allocation happens. So, how do we benefit in a holding companies, if it means as a holding company forever kind?

Raunak Onkar: Yes. Sometimes that happens, what you said sometimes happens, sometimes the underlying companies is also grow in value, which results in the increasing valuation of the holding company. So, that is what cases happened in Bajaj Group where Maharashtra Scooters and Bajaj Holdings valuation grew because the underlying companies also kept on growing quite significantly.

Pawan Agrawal: All right. But eventually, that there is a negative point in the holding company that there is a part which we may not be, you know liking to actually hold as a business.

Raunak Onkar: Yes. So, you have a choose…

Pawan Agrawal: On a pure play business.

Raunak Onkar: So, you have to choose the holding companies carefully. So, we have several holding companies listed in our market, we decided to only invest in one kind of holding company, which is Bajaj Group's holding company. So, you have to be very thoughtful in choosing what you want and specifically go towards that only. So, it is not necessarily that just because holding companies have that valuation differentiated by all of them.

Pawan Agrawal: All right. Thank you.

Raunak Onkar: Thanks. We will take one last question.

Moderator: Thank you, sir. Okay. We have a Mr. Anand Khetriwala from Kolkata. Please go ahead, sir.

Anand Khetriwala: Hi, Raunak. Anand, this side.

Raunak Onkar: Hi, Anand.

Anand Khetriwala: I have two specific questions, one has been answered earlier, so two remaining. You do not own any insurance or any AMC business, though there are only three AMC stocks currently. What is the reason exactly, do not you see growth in insurance or you have better opportunities?

Raunak Onkar: So, we actually own insurance company through a Bajaj Holdings by owning a part by underlying investment of Finserv. And also, insurance exposure through ICICI Bank whoo owns Lombard and ICICI Prudential. So we have holding company exposure to insurance anyway. Second was AMC companies? Yes. Even Same thing with AMC also, ICICI Prudential, again is a investment in ICICI Bank, sorry the other way around. I think some of the valuations are a little crazy. So if you find better valuation, sometime in the future, we understand his business because we also operate in the AMC. So whenever the valuation will be attractive, we will definitely, so we keep tracking them, but right now we do not think they are attractive to buy.

Anand Khetriwala: There are only two AMC business for that matter, Nippon and ICICI AMC.

Raunak Onkar: Yes. Motilal also is one of the AMCs.

Anand Khetriwala: Motilal, also. So the valuations you seem for your knowledge, you think that it is likely more expensive evaluation.

Raunak Onkar: So we keep tracking. So at any given point, we do not want to overextend the portfolio into owning too many stocks. So if you have decided to have say max 30 stocks, we will make sure that we put our most amount of money in the idea as we are most confident about. So we may have a long tail of companies we keep tracking, some of them will be on the horizon, you know, like cusp of, okay, this can also be in the portfolio. But let us go with the most confident idea, that is our approach. So, wherever we found valuation was really attractive, we have stayed invested in those companies.

Raj Mehta : Anand, sir both these sectors which you mentioned belong to the scheme called the financialization of savings. So, there are other ways to play it also. So we are playing it to something like CDSL and MCX where they are also market related. But at the same time, the valuations there are pretty reasonable compared to the AMCs and the insurance business.

Anand Khetriwala: Another question that I have you on board Zydus Wellness as well as Cadila Healthcare, both being parent and subsidiary kind of thing. So is there any particular reason owning both of them. You could only hold Cadila kind of…

Raunak Onkar: So Zydus, Raj mentioned earlier, the logic behind owning Zydus. Cadila again is part of the pharma basket. So, Cadila we have been tracking for a long time. It incidentally happened that last year the valuation was really attractive. So it became part of the pharma basket. But there was no independent decisions in the portfolio to buy Cadila and Zydus.

Anand Khetriwala: So both are independent decisions? And nothing related as such?

Raunak Onkar: Yes.

Anand Khetriwala: Just one last question. This is our last question, actually. Can you just give a brief about CDSL and what is its market share compared to NSDL. Since there are only two players, I think in the market…

Raunak Onkar: Raj, you want to take this?

Raj Mehta: Yes. So currently the market share is round about 55% for CDSL and 45% for NSDL. About three years back, it was the other way around. Incrementally, CDSL has been gaining market share over NSDL, mainly due to, Fintech companies gaining market share in the stock broking business. So CDSL has a tie up in most of the Fintech brokers which are there and that is why it has been gaining market share over NSDL But, if you will look at the depository business market share is just one part of it. The other part is, it has a huge headroom to grow. Currently, we have only about 4 crores DMAT accounts compared to a population of 125 crore. So, that is a huge headroom to grow for both the players and even if this market share falls by say 5% or 10%. It does not matter as long as both companies keep growing and more and more DMAT accounts are being opened as the investors convert their savings from gold and real estate to financial assets.

Moderator: Thank you, sir. Sir, any closing comments?

Raunak Onkar: Yes. Thank you so much, everyone who took the time on a very nice evening and joined a conference call. Thank you for the insightful questions and hope, we have been able to answer most of them. And if you have any pending questions, so what we do is every two months, we hosted a partner conference call, you can always join back in the next conference call if some questions or pending or even send them across to Mahesh Sarode and his team so that whatever has not gotten answered, we can try and address them in the next interaction. Thank you so much. Thank you, Raj, for even joining us in the evening. Thank you.

Raj Mehta: Yes. Thanks.

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

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