Indian fund with a US twist

There are a very few Indian mutual funds that actively track and invest in US equities. For Rajeev Thakkar, CIO, PPFAS Mutual Fund, that's a strength. This value hunter doesn't mind going overseas and buying the Google owner Alphabet, while keeping an eye on Maharashtra Scooters and HDFC Bank (top domestic holdings). In an interview with Kumar Shankar Roy, Thakkar talks about the Long Term Value Fund completing three years, how he bought shares of Apple co-incidentally at the same time Warren Buffett's Berkshire Hathaway took a bite, and why he likes to shop abroad for consumer businesses .

Your PPFAS Long Term Value Fund invests both in foreign and Indian companies. What guides your allocation?
Our allocation is guided by good opportunities to diversify and regulation. We get to diversify our holdings by investing up to 35 per cent of our fund's assets in foreign stocks. In order to retain our status as an Indian equity mutual fund, we invest at least 65 per cent in domestic stocks.

You fund has completed three years. What has worked for it?
Broadly, sticking to the companies and sectors that we understand and not chasing valuations have worked for us. Although three years may seem long enough to many investors, the real test is to see how things play out going ahead.

What kind of companies you never invest in?
Although we are fairly open to all ideas, we do find it difficult to invest in companies which have come out of a very good cycle but are under a lot of stress due to over-borrowing. That has led to shrinking cash flows to the levels where companies are perhaps only capable of paying the interest burden and are unable to monetise their investments or invest in growth capex. Cash flows are always useful to gauge the health of a business and we find them a useful guide while filtering companies.

How do macroeconomic developments guide your portfolio moves?
We don't structure our portfolio based on any specific macroeconomic developments because they tend to keep changing and remain difficult to predict. Instead, we focus on finding good businesses run by competent people; we find ideas the old fashioned, bottom-up way. Although macroeconomic developments do benefit/hurt the business momentarily, we do worry about structural issues that might make the business a bad one in the future.

Your Long Term Value Fund has notched up good performance in the short history it has. But in a true sense, are you a pure value fund or also an opportunities fund?
We think that it helps to not overpay for businesses in the longer run. Most good businesses are not cheap all the time, so it does help from time to time if the market provides an opportunity to acquire good businesses at a bargain.

The fund bought Apple. How influenced were you by Buffett's decision to buy the stock?
We have been studying Apple's business for a while because we like to keep track of what happens in the technology space. You can find one of the presentations on Apple on our YouTube Channel. It was co-incidental that Buffett (or his associates) chose to disclose his holding in Apple at the same time we were adding it to our portfolio.

If you go by MSCI indices, 'value' hasn't done better than 'growth' in the past few calendar years. Do you expect this to change and why?
The distinction between value and growth is simplistic. If there's no growth, there can't be much value. Indices may filter such companies based on commonly known metrics but we look at individual businesses while making decisions and not at the category in which they are represented in an index.

A lot has been made of the RBI governor's exit. From the stock perspective, do we need a hawk at the central bank or is a dove more required, given the current circumstances?
I would like to paraphrase Seth Klarman here, 'we like to invest bottom up but worry top down'. It might be useful to track the hawkish/dovish stance of the RBI for some people but we don't see it adding too much value to our decision making. Good businesses are good for a reason. We don't think promoters or managers run their businesses by putting too much weight on the stance of the central bank. It does have a momentary effect on the cost of capital but if a business is good, it won't have to approach the market for new funds and can fund itself from its own cash flows.

> **"The most disappointing thing would be finding it difficult to scale some ideas in the portfolio, after having worked on them, due to a lack of volume."**

Coming back to the value fund. Do you have a value framework for the global stocks you track or own? What is, for instance, value in the US may not be value in India.
Agreed. We have to weigh the business on many parameters and one of them is downside protection. In our foreign investments, we also look closely at dividend payouts and since we hedge up to 90 per cent of our international-currency exposure, it earns us a forward yield. We like to look at businesses that give us good downside protection with a reasonably high probability of maintaining profitability and cash flows because it's a good business. If the business continues to grow volumes steadily, that helps too.

Until banks recover, and people are saying it will take another two years for that to happen, what will drive earnings for the market? Also, after the incessant punishment, do PSU banks make it to the value list?
PSU banks do seem statistically cheap but it is tough to figure out how many of them will recapitalise themselves and grow. Meanwhile, the opportunity is ripe for other banks/NBFCs to capture market share and growth opportunities. Earnings growth is driven by both availabilities of capital and business cycle. Here we prefer to find opportunities on a bottom-up basis rather than putting effort on forecasting what the broader market earnings should be. To put it simply, a business that has opportunistically invested in building up capacity and had access to capital at the right time can bounce back faster than the rest when the business cycle turns.

"The distinction between value and growth is simplistic. If there's no growth, there can't be much value."

The monsoon theme has been lapped up. Do you feel that some names that have been doing the rounds as monsoon beneficiaries could lead to disappointments?
Cyclical themes come and go. We prefer to find businesses that have demonstrated their ability to manage themselves well despite these. It's good to understand what expectations are built in while buying into such short-term themes and it also helps if we are humble because expectations don't necessarily lead to returns.

You have talked about how Brexit will dominate headlines till the next event comes along. Is Brexit really a non-event for Indian investors? For instance, Brexit has triggered a big move in currency markets and their impact on earnings is a 'known unknown'.
Prudent currency management is expected from a well-run business. The Brexit event did lead to some volatility but businesses don't use only currency movement as an input while making decisions. Although it is hovering in the headlines, we need to understand at the business level how each individual business is exposed to the currency and what measures it has taken.

Consumer, healthcare and MNC shares have historically traded at a premium. From a value perspective, do they look good?
One of the reasons we chose to invest in international stocks is to find good-quality consumer businesses listed at a much more reasonable valuation than their counterparts in India. We also get global exposure rather than just a country-specific one. So, we always keep assessing the valuations of such businesses listed in India and their parent companies. As of this moment, many companies from the category you mentioned seem to have priced in good growth for the foreseeable future.

What aspect of fund management have you found most disappointing?
The most disappointing thing would be finding it difficult to scale some ideas in the portfolio, after having worked on them, due to a lack of volume. We don't intend to aggressively chase valuations, so we thought it was OK to miss the idea than pay too much for something. ■