



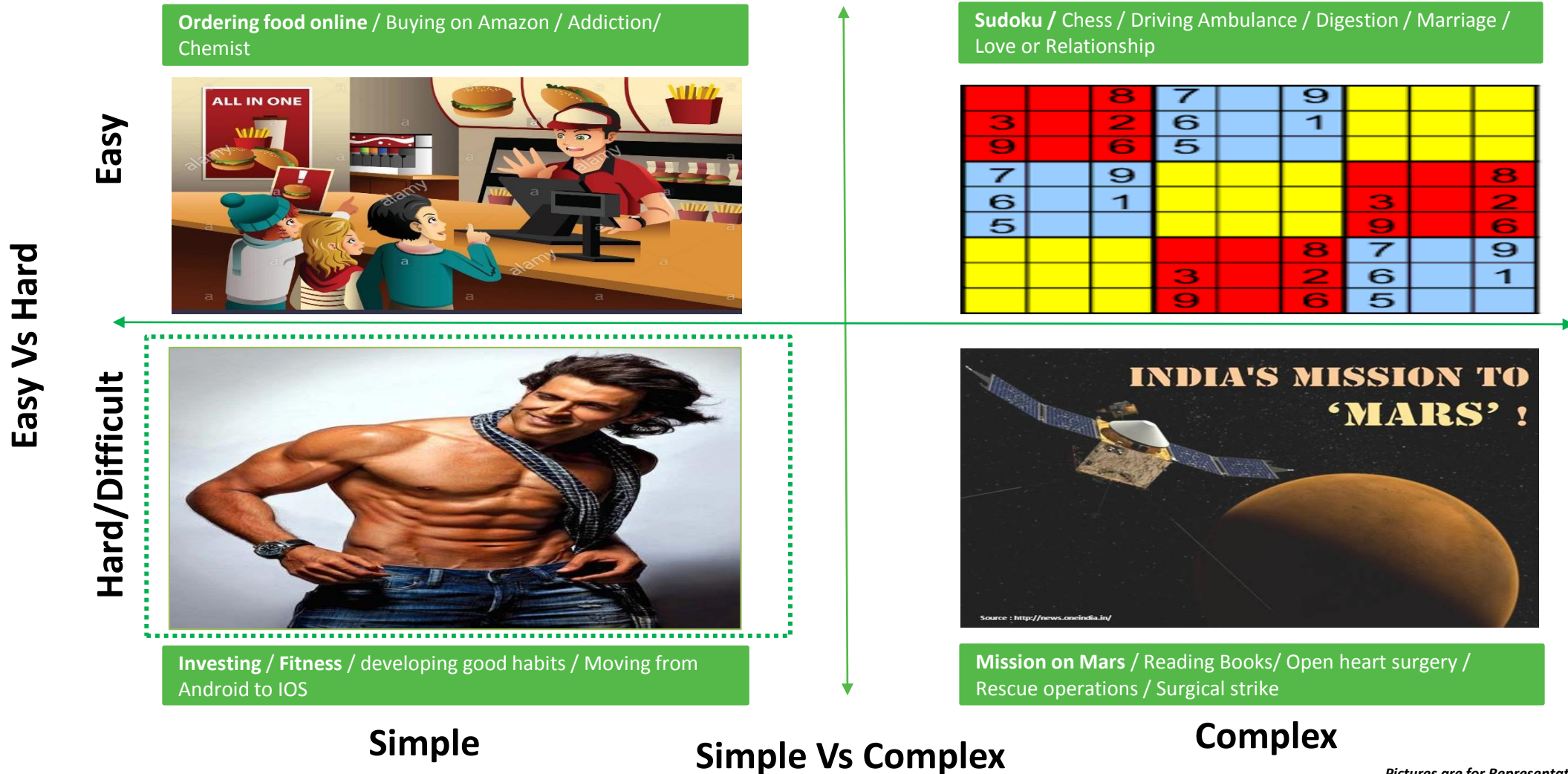
Simple but not easy: Building blocks for wealth creation

OctoberQuest

Jigar Shah

Oct - 2019

Investing is simple but not easy

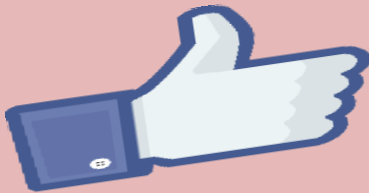


Pictures are for Representation purpose only.

Simple but not easy: Building blocks for wealth creation

Building Wealth Safely

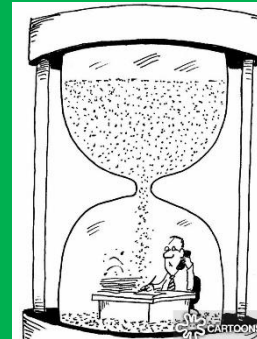
Right Stock/
Moat Stock



Right Price/
Valuations



Right Horizon

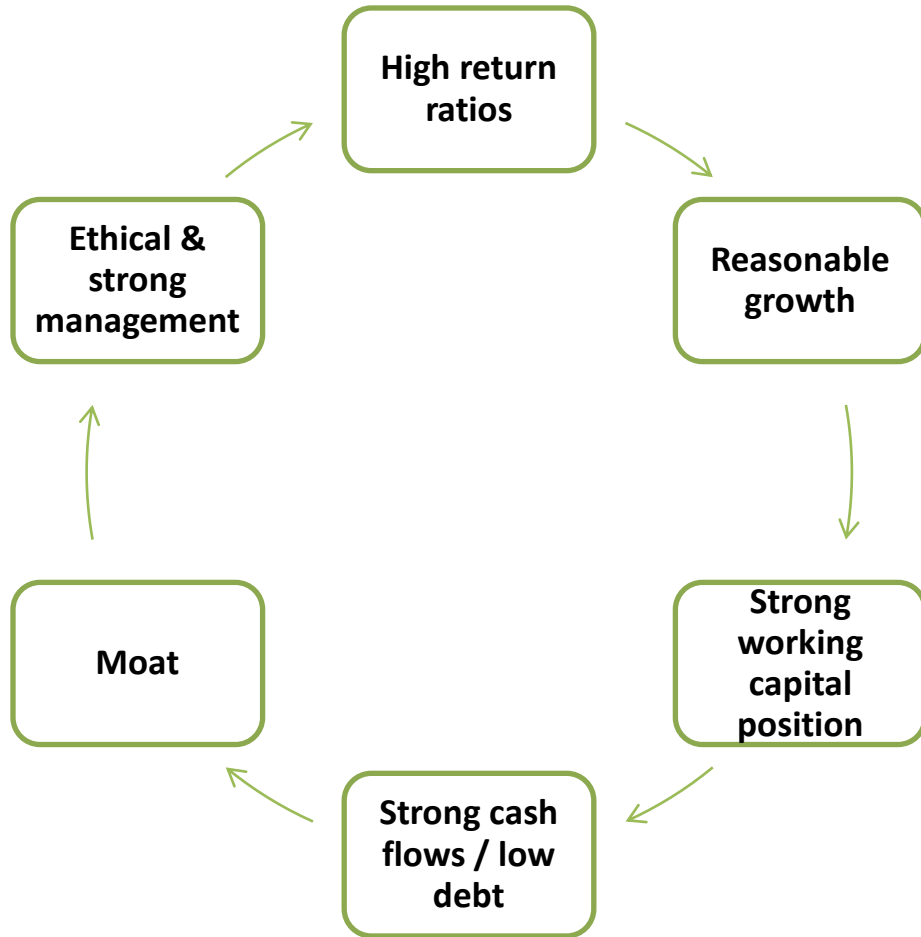


Right Allocation/
Portfolio Sizing



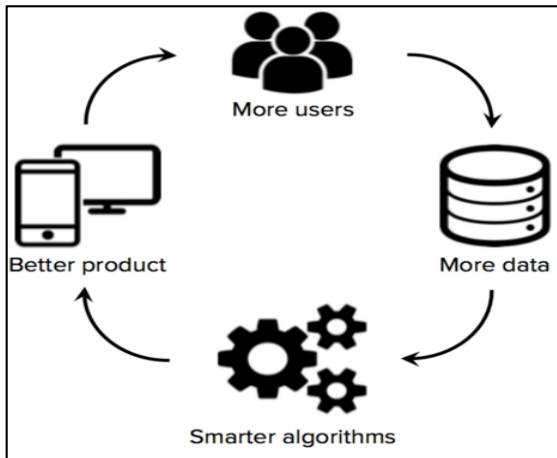
Right Mindset - Avoiding Human Follies & Biases

Right business to invest in



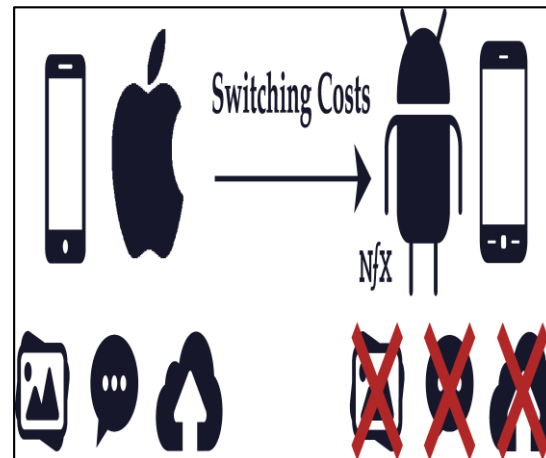
What are the sources of moat? (1/2)

Network effect



WhatsApp, NSE
Facebook, Naukri

Customer switching cost



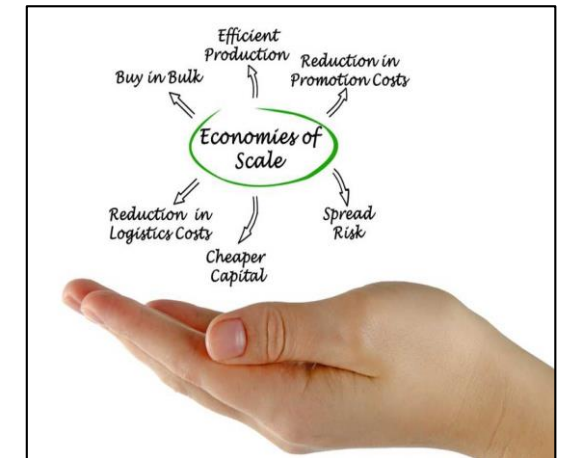
iOS to android,
Banking technology
(recent merger)

Intangible assets



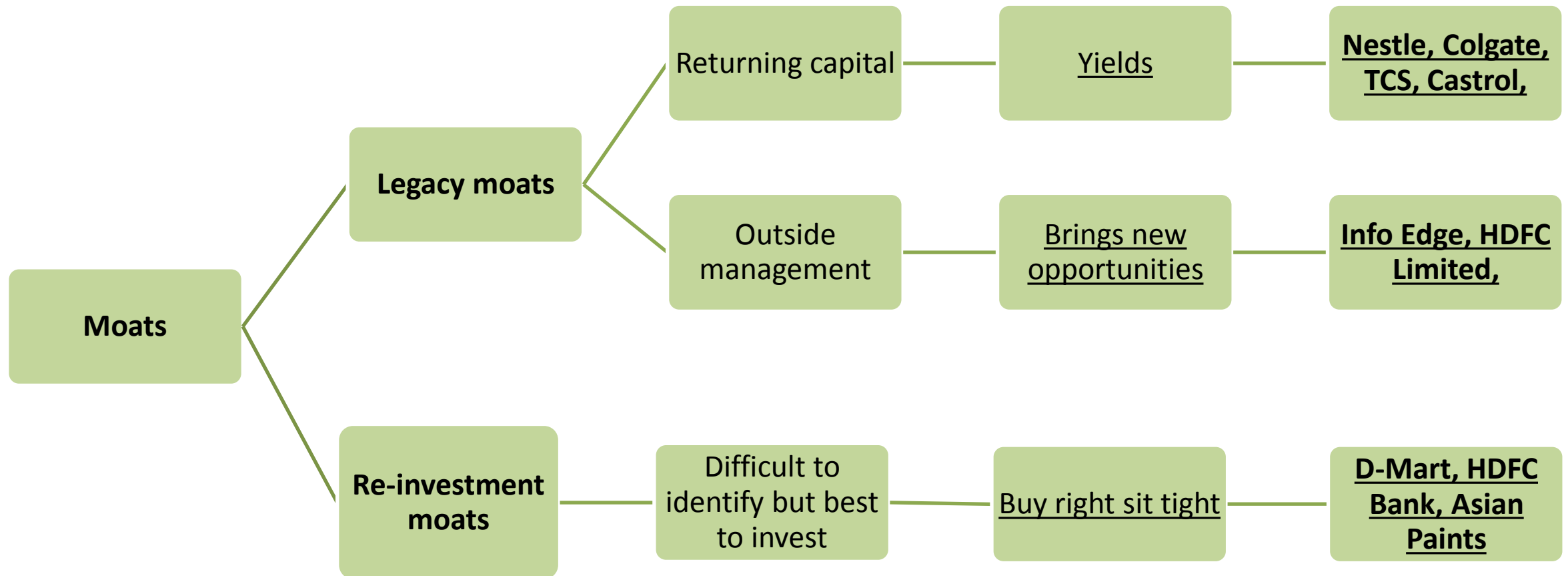
Maggi, Cadbury, Colgate

Cost/Scale advantage



D-Mart, Indigo,
Reliance refinery

Legacy versus re-investment moats (2/2)



Are moat businesses good investment?

No.	Particulars	15 Y CAGR/Average					
		Sales	Core ROEs	D/E	WC Days (2019)	FCF/PAT	Returns
1	Gillette	12%	44%	(0.64)	10	86%	20%
2	HUL	9%	47%	(0.75)	(34)	93%	21%
3	Maruti Suzuki	18%	30%	(0.47)	(17)	75%	29%
4	TCS	21%	60%	(0.27)	67	80%	21%
5	Infosys	21%	60%	(0.59)	58	78%	22%
6	Colgate	11%	112%	(0.82)	(16)	85%	22%
7	Jubilant Foodworks*	30%	30%	(0.17)	(32)	41%	38%
8	Hero Moto	13%	96%	(0.75)	5	82%	19%

*10 Y Data

No moat business: Why long term investors should avoid them

No.	Particulars	15 Y CAGR/Average					
		Sales	Core ROEs	D/E	WC Days (2019)	FCF/PAT	Returns
1	Hindalco	19%	7%	0.76	35	-26%	10%
2	Indian Hotels	10%	2%	0.64	6	-104%	9%
3	Tata Steel	19%	9%	1.2	56	-59%	4%
4	Vodafone Idea*	22%	6%	1.11	-34	-15%	-17%
5	HPCL	11%	4%	0.89	14	-25%	11%

*Since 2007

Simple but not easy: Building blocks for wealth creation

Building Wealth Safely

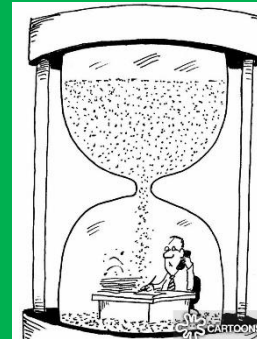
Right Stock/
Moat Stock



Right Price/
Valuations



Right Horizon



Right Allocation/
Portfolio Sizing



Right Mindset - Avoiding Human Follies & Biases

Right price / Valuations

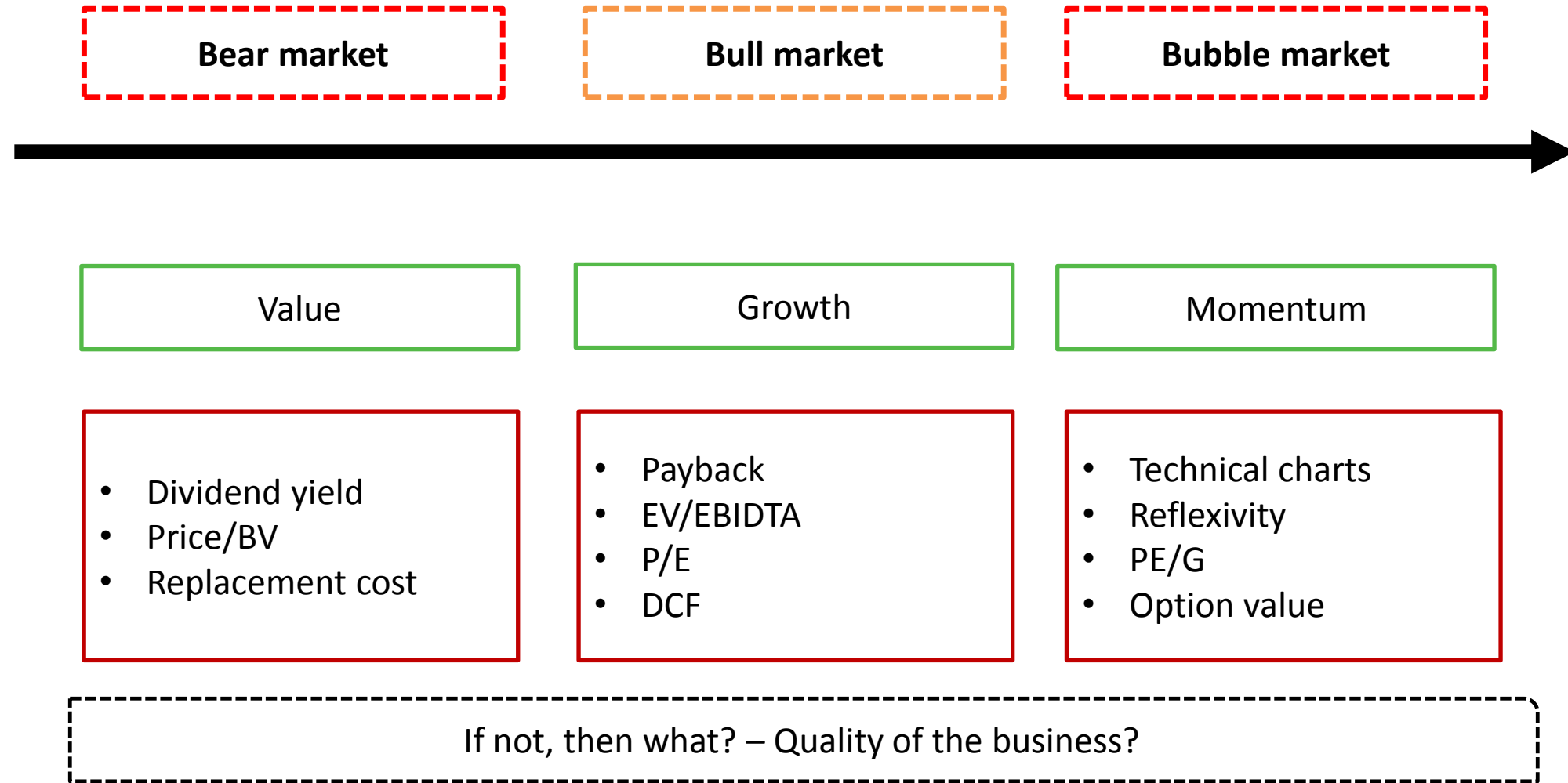
- Sensex valuations and volatility
- Company valuations:
 - **Absolute valuations:** 3TV – Three trenches of valuations
 - Valuations based on quality of company
 - **Historical valuations:** Based on past financials and valuations of company : If market is efficient in long term, what is a long term valuations band of the company
 - **DCF and Relative valuations :** Topic for some other day.....

What is annual volatility in Sensex?

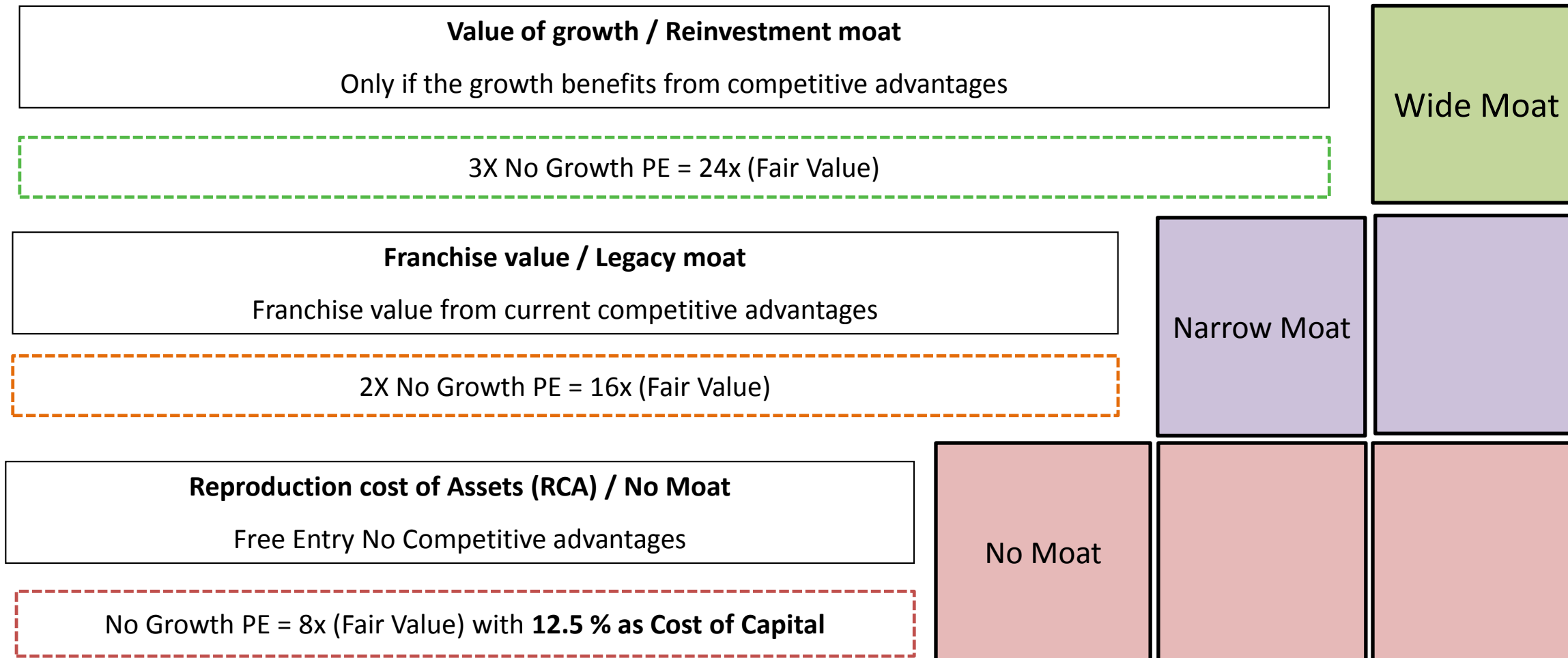
December	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018		
High	1,955	4,547	3,459	4,643	3,944	4,131	4,605	4,322	5,151	6,151	4,462	3,758	5,921	6,617	9,443	14,035	20,498	21,207	17,531	21,109	20,665	19,612	21,484	28,822	30,025	30,025	34,138	38,990		
Low	947	1,945	1,980	3,406	2,891	2,713	3,097	2,741	3,042	3,492	2,595	2,828	2,904	4,228	6,069	8,799	12,316	7,697	8,047	15,652	15,136	15,358	17,449	19,963	24,834	24,834	26,447	32,484	Median	
Volatility %	106%	134%	75%	36%	36%	52%	49%	58%	69%	76%	72%	33%	104%	57%	56%	60%	66%	176%	118%	35%	37%	28%	23%	44%	21%	21%	29%	20%	53.9%	
P/E at high	22.8	62.9	32.9	53.7	30.0	21.5	18.2	18.4	17.9	37.9	24.1	16.9	15.2	17.3	16.3	20.5	22.5	40.1	18.1	22.3	25.7	17.3	17.9	19.6	22.8	23.5	25.3	23.6	22.4	
P/E at Low	11.1	26.9	18.8	39.4	22.0	14.1	12.2	11.7	10.5	21.5	14.0	12.7	7.5	11.1	10.5	12.9	13.5	14.5	8.3	16.6	18.8	13.6	14.6	13.6	18.8	19.5	19.6	19.6	14.1	
P/B at high	3.7	11.0	5.0	7.2	4.8	4.0	3.5	3.2	3.2	5.9	3.4	2.6	2.5	3.3	4.0	4.8	5.4	9.2	3.4	3.8	4.6	3.1	2.6	3.4	3.3	3.1	3.1	3.0	3.5	
P/B at low	1.8	4.7	2.8	5.3	3.5	2.7	2.4	2.0	1.9	3.3	2.0	1.9	1.2	2.1	2.5	3.0	3.2	3.4	1.6	2.8	3.4	2.4	2.1	2.3	2.8	2.5	2.4	2.5	2.5	
																														Growth
EPS	86	72	105	86	132	192	253	235	289	162	185	222	389	383	580	683	912	529	966	945	805	1,133	1,198	1,472	1,319	1,275	1,350	1,653	12%	
% change		-16%	46%	-18%	52%	46%	32%	-7%	23%	-44%	14%	20%	75%	-2%	52%	18%	33%	-42%	82%	-2%	-15%	41%	6%	23%	-10%	-3%	6%	22%	Median	
ROE	16%	18%	15%	13%	16%	19%	19%	17%	18%	16%	14%	15%	17%	19%	24%	24%	24%	23%	19%	17%	18%	18%	15%	17%	15%	13%	12%	13%	17%	

Volatility means % change between annual high and low

Should market cycle define your valuations method?



Valuations – 3 tranche value (PE – 8x – 24x)



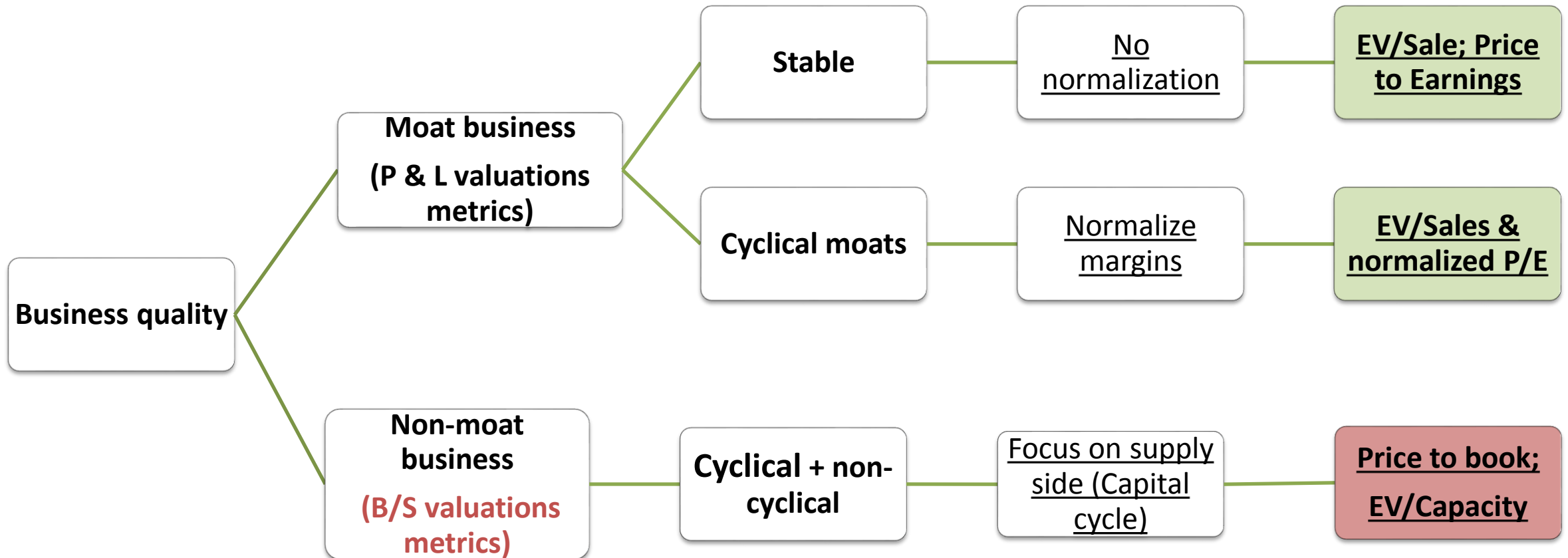
Examples: Moat versus no moat

Wide Moat	Hist. Band (Median)	10 Y Ret.	Volatility
HDFC Bank	PE - 17x-25x	20%	45-50%
TCS	PE - 17x-25x	32%	55-60%

No Moat	Hist. Band (Median)	10 Y Ret.	Volatility
SBI	P/B - 1x-1.8x	11%	75-80%
Hindalco	P/B - 0.6x-1.3x	14%	90-95%
Tata Steel	P/B - 0.8x-1.7x	5%	90-95%

Narrow Moat	Hist. Band (Median)	10 Y Ret.	Volatility
Hero Moto	PE - 12x-21x	17%	70-75%
SKF	PE - 11x-21x	31%	85-90%

Should quality of business define your valuations method?



Tata consultancy services Ltd



In Rs Crore - March	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	
Price at yearly High	423	610	640	799	1,192	1,420	1,385	1,372	1,630	2,276	
Price at yearly Low	130	343	451	524	683	1,000	1,058	1,026	1,126	1,420	Average
Volatility	225%	78%	42%	52%	75%	42%	31%	34%	45%	60%	68%
PE at High	23.6	26.3	24.1	22.5	24.4	25.6	22.5	20.6	24.3	27.4	24.1
PE at Low	7.3	14.8	17.0	14.7	14.0	18.1	17.2	15.4	16.8	17.1	15.2
EV to Sales at high	5.2	6.2	5.0	4.8	5.5	5.7	4.8	4.2	4.7	5.6	5.2
EV to Sales at low	1.4	3.4	3.5	3.1	3.1	3.9	3.6	3.0	3.2	3.4	3.2
											Growth
Revenues	30,029	37,325	48,894	62,989	81,809	94,648	1,08,646	1,17,966	1,23,104	1,46,463	19%
Increase by	8%	24%	31%	29%	30%	16%	15%	9%	4%	19%	
USD INR (average)	47	46	48	54	60	61	66	67	64	70	4%
Increase by		-4%	5%	14%	11%	1%	7%	2%	-4%	9%	
EPS	17.9	23.2	26.6	35.6	48.9	55.4	61.6	66.7	67.1	83.0	19%
Increase by	33%	30%	15%	34%	38%	13%	11%	8%	1%	24%	
Profit After Tax	7,001	9,068	10,413	13,917	19,164	21,689	24,270	26,289	25,810	31,472	18%
Increase by	33%	30%	15%	34%	38%	13%	12%	8%	-2%	22%	
											Average
Employee cost/Sales	50.2%	50.4%	50.5%	50.7%	49.5%	51.3%	50.9%	52.2%	53.9%	53.4%	51.3%
EBIT Margins	26.8%	28.0%	27.6%	26.9%	29.1%	26.4%	26.5%	25.7%	24.8%	25.6%	26.7%
Net Margins	23.3%	24.3%	21.3%	22.1%	23.4%	22.9%	22.3%	22.3%	21.0%	21.5%	22.4%
ROEs	67.7%	48.0%	45.3%	43.7%	57.3%	63.0%	61.8%	67.8%	64.7%	72.1%	59.1%

HDFC Bank Ltd



In Rs Crore - March	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	
Price at yearly High	199	252	270	353	380	553	564	739	977	1,110	
Price at yearly Low	95	179	200	241	264	354	464	522	713	930	Average
Volatility	108.6%	41.1%	34.8%	46.2%	44.0%	56.2%	21.4%	41.7%	37.1%	19.3%	45.1%
Price to Earnings at High	28.9	29.1	23.9	24.2	20.8	25.1	22.2	24.7	27.2	26.6	25.3
Price to Earnings at Low	13.8	20.6	17.7	16.6	14.4	16.0	18.3	17.4	19.9	22.3	17.7
Price to Book at High	4.2	4.6	4.2	4.6	4.1	4.4	3.8	4.3	4.6	3.9	4.3
Price to Book at Low	2.0	3.2	3.1	3.1	2.9	2.8	3.2	3.0	3.4	3.3	3.0
Consolidated Financials											Growth
EPS (Rs)	13.8	17.3	22.6	29.1	36.6	44.1	50.9	59.9	71.7	83.6	22.2%
Growth %	30.0%	25.6%	30.5%	28.9%	25.7%	20.6%	15.3%	17.9%	19.7%	16.5%	
Loan Book (Rs Crore)	1,26,163	1,60,831	1,98,838	2,47,245	3,15,419	3,83,408	4,87,290	5,85,481	7,00,034	8,69,223	23.9%
Growth %	27.4%	27.5%	23.6%	24.3%	27.6%	21.6%	27.1%	20.2%	19.6%	24.2%	
											Average
ROEs	16.8%	16.5%	18.4%	20.1%	20.9%	20.4%	18.0%	18.0%	18.2%	18.2%	18.5%
ROAs	1.3%	1.4%	1.5%	1.7%	1.7%	1.8%	1.7%	1.7%	1.7%	1.7%	1.6%
NIMS	4.4%	4.3%	4.2%	4.5%	4.4%	4.4%	4.2%	4.3%	4.4%	4.4%	4.3%
GNPA	1.4%	1.1%	1.0%	1.0%	1.0%	0.9%	0.9%	1.1%	1.3%	1.4%	1.1%
NNPA	0.3%	0.2%	0.2%	0.2%	0.3%	0.2%	0.3%	0.3%	0.4%	0.4%	0.3%

3M India (normalization of margins + EV sales)

In Rs Crore - March	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	
Price at yearly High	2,400	4,577	4,950	4,750	4,400	8,565	12,899	15,200	20,097	26,662	
Price at yearly Low	780	2,221	3,301	3,200	2,880	3,411	7,500	10,055	11,231	18,251	Average
Volatility	208%	106%	50%	48%	53%	151%	72%	51%	79%	46%	86%
EV to Sales at high	3.0	4.3	4.0	3.5	2.9	5.2	6.6	6.9	8.1	9.8	4.7
EV to Sales at low	0.9	2.1	2.7	2.4	1.9	2.0	3.8	4.5	4.5	6.6	2.5
PE at High	36.4	52.2	86.1	102	115	89.1	74.6	71.1	70.0	87.5	80.3
PE at Low	11.8	25.3	57.4	69.0	75.5	35.5	43.4	47.0	39.1	59.9	45.2
											Growth
Revenues	869	1,191	1,405	1,574	1,742	1,840	2,140	2,363	2,710	3,017	15%
Increase by		37%	18%	12.0%	10.7%	5.6%	16.3%	10.4%	14.7%	11.3%	
EPS	65.9	87.7	57.5	46.4	38.2	96	173	214	287	305	19%
Increase by		33%	-34%	-19%	-18%	152%	80%	24%	34%	6.1%	
											Average
Gross Margins	44%	42%	38%	37%	38%	40%	44%	44%	48%	47%	42.2%
EBIT Margins	11%	12%	6.9%	4.7%	3.6%	8.3%	13%	14%	17%	17%	10.7%
Net Margins	9%	8%	4.6%	3.3%	2.5%	5.9%	9%	10%	12%	11%	7.6%
Core ROEs	19%	19%	10%	6.7%	5.2%	14%	30%	43%	59%	37%	24.4%

Gillette India (normalization of margins + EV sales)

In Rs Crore - March	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	
Price at yearly High	1,798	2,170	2,781	2,600	2,469	4,999	5,650	4,888	7,100	7,920	
Price at yearly Low	776	1,487	1,771	1,850	1,850	2,050	3,805	4,025	5,005	6,169	Average
Volatility	132%	46%	57%	41%	33%	144%	48%	21%	42%	28%	59%
EV to Sales at high	6.4	6.4	7.0	5.6	4.4	8.4	10.2	9.1	13.7	13.8	7.7
EV to Sales at low	2.5	4.3	4.4	3.9	3.3	3.3	6.7	7.5	9.6	10.7	4.3
PE at High	42.7	82.1	119.6	97.2	156	163.6	92	63	101	119	99
PE at Low	18.4	56.3	76.2	69.2	117	67.1	62.2	51.8	71.2	92.7	68
											Growth
Revenues	852	1,058	1,233	1,438	1,750	1,875	1,755	1,734	1,677	1,862	9%
Increase by		24%	16%	17%	22%	7%	-6%	-1%	-3%	11%	
Net Profit	137	86	76	87	51	100	199	253	229	217	5%
Increase by		-37%	-12%	15%	-41%	94%	100%	27%	-9%	-5%	
EPS	42.1	26.4	23.2	26.7	15.8	31	61	78	70	67	5%
Increase by		-37%	-12%	15%	-41%	94%	100%	27%	-9%	-5%	
											Average
Gross Margins	49%	44%	40%	38%	36%	38%	38%	42%	44%	48%	41.6%
Employee Cost	6.0%	6.0%	6.3%	5.5%	5.4%	6.1%	6.1%	6.3%	7.0%	5.8%	6.0%
Adv Cost	11%	14%	13%	12%	15%	12%	11%	11%	11%	12%	12.1%
EBIT Margins	22.5%	9.6%	6.8%	7.1%	2.8%	6.7%	16.0%	19.8%	20.7%	17.9%	13.0%
Net Margins	16%	8%	6%	6%	3%	5%	11%	15%	14%	12%	9.6%
Core ROEs	76%	22%	24%	23.0%	10.2%	32%	65%	67%	63%	40%	42.2%

Jubilant Foods (normalization of margins + EV sales)

In Rs Crore - March	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	
Price at yearly High	181	336	599	699	696	860	992	674	1,165	1,578	
Price at yearly Low	73	126	271	510	464	469	444	380	409	977	Average
Volatility	150%	168%	121%	37%	50%	83%	124%	77%	185%	62%	106%
EV to Sales at high	5.4	6.4	7.6	6.4	5.2	5.3	5.3	3.4	5.0	5.7	5.4
EV to Sales at low	2.2	2.4	3.4	4.6	3.4	2.9	2.3	1.9	1.7	3.4	2.6
PE at High	68.9	60.5	72.6	69.6	77	101	135	127	75	65	73.8
PE at Low	27.6	22.6	32.9	50.8	51.3	55.4	60.3	71.5	26.3	40.3	45.6
											Growth
Revenues	424	678	1,019	1,414	1,736	2,093	2,438	2,583	3,018	3,563	27%
Increase by		60%	50%	39%	23%	21%	16%	6%	17%	18%	
Net Profit	33	72	107	131	118	111	97	70	205	318	28%
Increase by		115%	50%	22%	-10%	-6%	-13%	-28%	193%	55%	
EPS	2.6	5.6	8.2	10.0	9.0	8.5	7.4	5.3	15.6	24.2	28%
Increase by		112%	48%	22%	-10%	-6%	-13%	-28%	193%	56%	
											Average
Gross Margins	75.2%	74.9%	74.3%	73.8%	73.9%	74.8%	76.2%	75.6%	74.6%	75.1%	74.8%
Employee Cost	19.0%	20.0%	19.4%	19.2%	19.6%	21.2%	23.6%	23.0%	20.3%	19.1%	20.5%
Rent Cost	9.3%	7.9%	7.6%	8.3%	9.0%	9.9%	10.5%	11.7%	10.6%	9.7%	9.4%
Depreciation Cost	5.7%	4.3%	3.7%	3.9%	4.5%	4.8%	5.3%	6.0%	5.0%	4.4%	4.8%
EBIT Margins	9.8%	13.3%	14.7%	13.2%	9.8%	7.4%	5.6%	3.3%	9.6%	12.4%	9.9%
Net Margins	7.9%	10.6%	10.5%	9.3%	6.8%	5.3%	4.0%	2.7%	6.8%	9.0%	7.3%
Core ROEs	35%	41%	50%	42.2%	25.9%	20%	14%	9.1%	35%	57%	33%

State Bank of India



In Rs Crore - March	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	
Price at yearly High	250	352	296	255	247	336	305	294	352	326	
Price at yearly Low	98	202	158	180	145	187	148	167	233	232	Average
Volatility	155%	74%	88%	41%	70%	80%	106%	77%	51%	40%	78%
Price to Book at High	2.4	3.4	2.4	1.8	1.6	2.0	1.6	1.2	1.4	1.3	1.7
Price to Book at Low	0.9	2.0	1.3	1.2	0.9	1.1	0.8	0.7	0.9	0.9	0.9
Consolidated Financials											Growth
EPS (Rs)	14.44	13.02	17.45	20.62	14.59	17.55	12.82	13.15	-7.34	0.97	-26%
Growth %		-10%	34%	18%	-29%	20%	-27%	3%	-156%	-113%	
Loan Book (Rs Crore)	6,31,914	7,56,719	8,67,579	10,45,617	12,09,829	13,00,026	14,63,700	15,71,078	19,34,880	21,85,877	15%
Growth %		20%	15%	21%	16%	7%	13%	7%	23%	13%	
											Average
ROEs	13.90%	12.72%	13.95%	14.26%	9.2%	10.2%	6.9%	5.6%	-3.0%	0.39%	8.4%
ROAs	0.87%	0.68%	0.88%	0.90%	0.61%	0.64%	0.42%	0.39%	-0.19%	0.02%	0.5%
NIMS	2%	3%	3%	3%	3%	3%	3%	2%	2%	3%	2.7%
GNPA	2.0%	3.1%	4.4%	4.8%	5.0%	4.3%	6.4%	6.9%	10.9%	7.5%	5.5%
NNPA	1.7%	1.6%	1.8%	2.1%	2.6%	2.1%	3.8%	3.7%	5.7%	3.0%	2.8%

Where historical valuation band is not relevant?

- Low ROCE to high ROCE & vice versa– **Britannia Industry**
- Change in promoter – Resulting into business change: **Merck to P&G Health**
- Business reaching a scale: **Suprajit Engineering**
- Finding multibagger

Britannia Industries: low ROCEs to high ROCEs

In Rs Crore - March	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	
Price at yearly High	152	189	267	298	300	486	1,125	1,718	1,792	2,533	
Price at yearly Low	99	138	160	162	200	253	411	1,005	1,260	1,636	Average
Volatility	37%	67%	84%	50%	93%	174%	71%	42%	55%	84%	76%
EV to Sales at high	1.26	1.42	1.28	1.19	1.67	3.36	4.82	4.70	5.95	6.30	3.2
EV to Sales at low	0.94	0.86	0.69	0.80	0.86	1.18	2.78	3.28	3.81	3.90	1.9
PE at High	33.7	47.5	35.7	27.7	29.5	49.7	50.0	48.6	60.4	60.6	44.3
PE at Low	24.6	28.4	19.4	18.5	15.3	18.1	29.2	34.2	39.0	40.0	26.7
											Growth
Revenues	3,791	4,609	5,485	6,185	6,913	7,858	8,397	9,054	9,830	10,973	13%
Increase by		22%	19%	13%	12%	14%	7%	8%	9%	12%	
EPS	6	6	8	11	16	23	34	37	42	48	27%
Increase by		0%	49%	30%	52%	37%	52%	7%	13%	15%	
											Average
Gross Margins	36.4%	34.3%	35.6%	37.6%	39.7%	40.3%	40.3%	38.3%	38.4%	40.6%	38.1%
EBIT Margins	3.3%	3.8%	4.6%	5.6%	7.9%	9.4%	13.1%	12.8%	13.7%	14.2%	8.8%
Net Margins	3.5%	2.9%	3.6%	4.2%	5.7%	6.9%	9.8%	9.8%	10.1%	10.5%	6.7%
ROCE	13.4%	18.3%	41.0%	37.9%	56.4%	52.4%	57.1%	46.4%	49.7%	50%	42.3%

Merck Limited to P&G Health Limited

In Rs Crore - December	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	
Price at yearly High	634	1,006	760	714	689	919	1,004	1,060	1,358	3,554	
Price at yearly Low	293	566	553	555	523	536	716	623	933	1,300	Average
Volatility	116.4%	77.7%	37.4%	28.7%	31.9%	71.4%	40.2%	70.1%	45.5%	173.4%	69%
EV to Sales at high	1.5	3.0	1.9	1.4	1.2	1.5	1.5	1.5	2.8	5.5	1.5
EV to Sales at low	0.3	1.5	1.3	1.0	0.8	0.8	1.0	0.7	1.7	1.1	1.0
PE at High	13.2	22.6	17.4	10.0	14.0	28.9	23.9	16.0	33.3	36.8	20.0
PE at Low	2.6	11.7	12.1	7.3	9.8	15.2	16.0	8.0	21.1	7.3	10.7
											Growth
Revenues	473	509	590	687	798	867	940	993	698	849	7%
Increase by	21.5%	7.6%	15.8%	16.6%	16.1%	8.7%	8.3%	5.6%	-29.7%	21.6%	
EPS	39.4	46.7	38.4	47.2	33.7	26.0	32.3	47.7	26.5	57.4	4%
Increase by	5.5%	18.3%	-17.8%	23.1%	-28.7%	-22.7%	23.9%	47.7%	-44.3%	116.2%	
											Average
Gross Margin	64.7%	66.7%	58.2%	56.3%	54.0%	53.3%	53.5%	58.5%	66.1%	68.3%	59.9%
OP Margin	11.3%	13.1%	10.9%	14.1%	8.4%	5.3%	6.4%	9.1%	8.3%	15.0%	10.2%
Net Margin	13.8%	15.2%	10.8%	11.4%	7.0%	5.0%	5.7%	8.0%	6.3%	11.2%	9.4%
Core RoEs	30.4%	25.6%	15.7%	24.3%	13.6%	8.2%	10.7%	17.5%	7.7%	25.6%	17.9%

Suprajit Engineering – Re-rating on reaching the scale



In Rs Crore - March	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	
Price at yearly High	20	27	23	39	70	170	152	242	349	298	
Price at yearly Low	4	15	16	20	32	66	111	131	225	176	Average
Volatility	423%	77%	44%	100%	121%	159%	37%	85%	55%	69%	117%
PE at High	10.7	9.7	7.0	11.2	16.5	40.6	25.7	29.4	35.2	31.1	21.7
PE at Low	2.0	5.5	4.9	5.6	7.5	15.7	18.8	15.9	22.7	18.4	11.7
EV to Sales at high	1.2	1.0	0.8	1.1	1.6	3.4	2.2	3.1	3.5	2.7	2.1
EV to Sales at low	0.4	0.6	0.6	0.6	0.8	1.4	1.6	1.8	2.3	1.6	1.2
											Growth
Revenues	249	347	424	463	545	612	953	1,203	1,431	1,590	23%
Increase by	8%	40%	22%	9%	18%	12%	56%	26%	19%	11%	
EPS	1.8	2.7	3.3	3.5	4.2	4.2	5.9	8.2	9.9	9.6	20%
Increase by	33%	48%	22%	5%	21%	-1%	41%	39%	20%	-3%	
Profit After Tax	22	33	40	42	51	50	86	115	138	134	22%
Increase by	33%	50%	20%	5%	21%	-1%	71%	34%	20%	-3%	
											Average
Gross Margins	37.9%	36.4%	34.9%	37.5%	39.0%	39.2%	40.8%	42.7%	44.1%	42.5%	39.5%
EBIT Margins	15.4%	14.3%	14.6%	15.0%	15.6%	14.3%	14.7%	14.6%	14.0%	12.1%	14.4%
Net Margins	8.9%	9.4%	9.4%	9.1%	9.3%	8.2%	8.2%	9.6%	9.7%	8.4%	9.0%
ROEs	31.6%	33.8%	30.8%	25.2%	24.8%	20.9%	17.3%	22.0%	21.1%	17.3%	24.5%

Simple but not easy: Building blocks for wealth creation

Building Wealth Safely

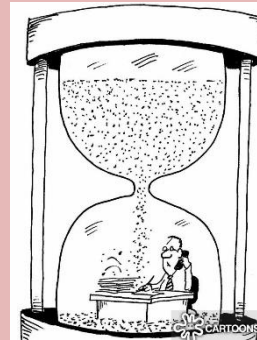
Right Stock/
Moat Stock



Right Price/
Valuations



Right Horizon

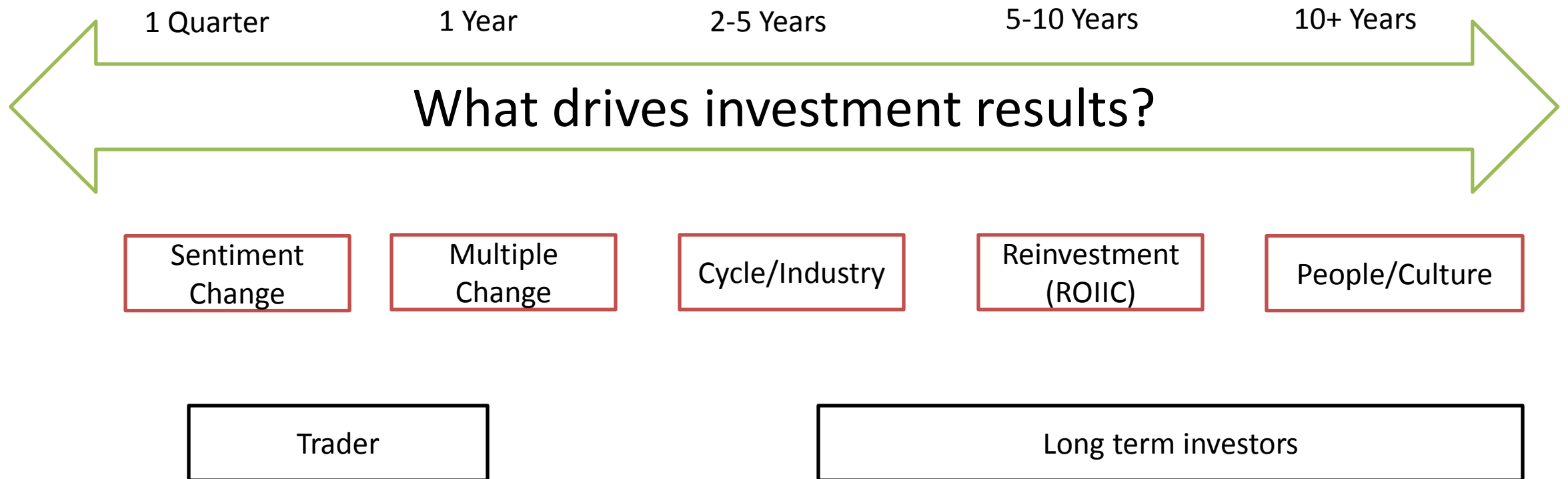


Right Allocation/
Portfolio Sizing



Right Mindset - Avoiding Human Follies & Biases

Right time horizon



Simple but not Easy: Building blocks for wealth creation

Building Wealth Safely

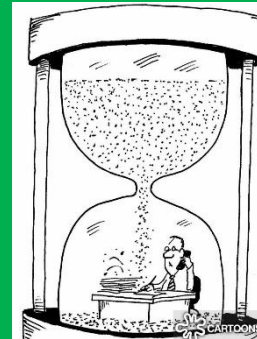
Right Stock/
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Right Price/
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Right Horizon



Right Allocation/
Portfolio Sizing



Right Mindset - Avoiding Human Follies & Biases

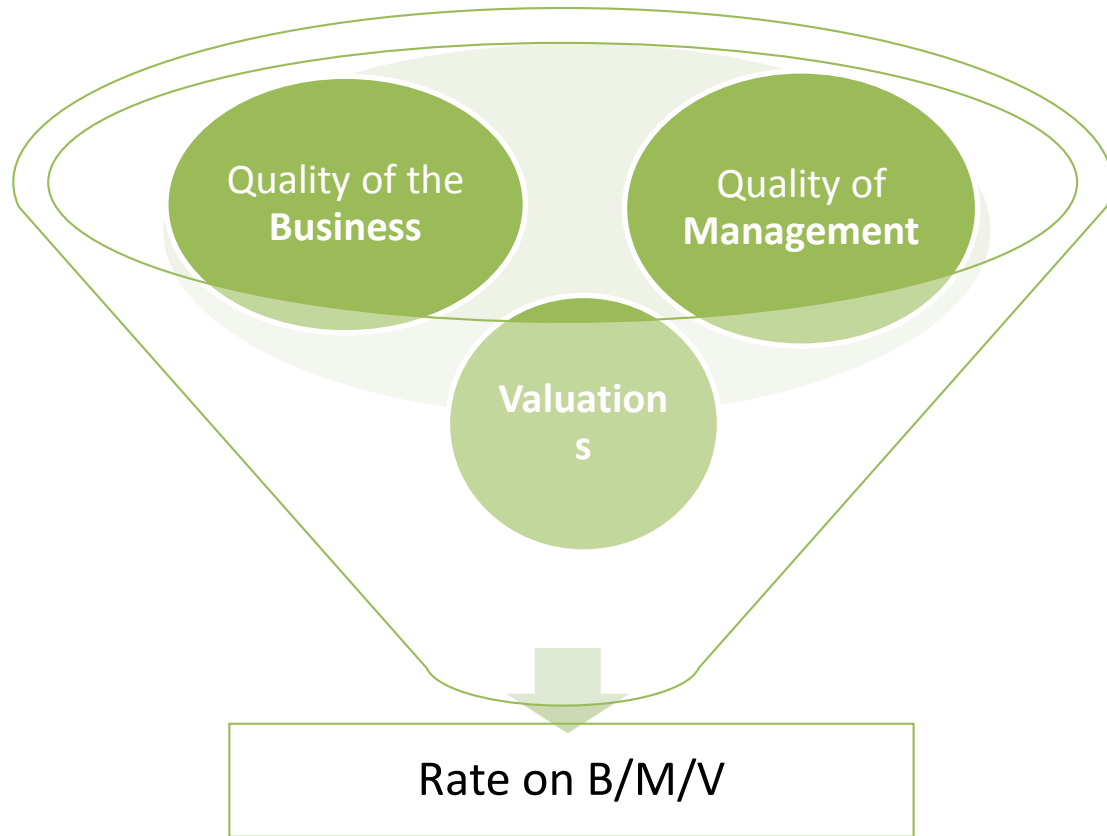
Why portfolio sizing is important

Stocks	Scenario 1		
	Weight	Stock Return	Return
1	10%	100%	10%
2	10%	40%	4%
3	10%	30%	3%
4	10%	20%	2%
5	10%	10%	1%
6	10%	-10%	-1%
7	10%	-20%	-2%
8	10%	-30%	-3%
9	10%	-40%	-4%
10	10%	-100%	-10%
Total	100%		0%

Scenario 2		
Weight	Stock Return	Return
20%	100%	20%
20%	40%	8%
10%	30%	3%
10%	20%	2%
10%	10%	1%
10%	-10%	-1%
5%	-20%	-1%
5%	-30%	-2%
5%	-40%	-2%
5%	-100%	-5%
100%		24%

Scenario 3		
Weight	Return	Return
5%	100%	5%
5%	40%	2%
5%	30%	2%
5%	20%	1%
10%	10%	1%
10%	-10%	-1%
10%	-20%	-2%
10%	-30%	-3%
20%	-40%	-8%
20%	-100%	-20%
100%		-24%

Portfolio weights –BMV Framework



BMV Framework: A way to define portfolio weight of a particular stock

BMV	Business	Management	Valuation
A	Wide Moat	Share holder friendly	Low end of price band: RR of 5x
B	Narrow Moat	Average	Good RR - 3 times or more
C	No moat	Not friendly	RR of 3 Or Less

RR = Risk reward ratio : Say ideal buy price is Rs. 100 and sell price is Rs. 200, So @ 120, upside of Rs. 80 and down side of Rs. 20. therefore RR is 4

Deciding portfolio weights – BMV framework

If a stock passes **BMV Framework** – Build positions depending upon the quality

No.	BMV Framework	Allocation
1	AAA	10% - 15 %
2	AAB, ABA, BAA, BBA	3% - 6%

No.	BMV Framework	Decision
1	AAC, ABB, ABC, ACB, ACC	Wait
2	BAB, BAC, BBB, BBC	Wait
3	CAB, CBB, CBC, CAC	Wait

No.	BMV Framework	Decision
1	CCA, CCB, CCC	Avoid
2	BCA, BCB, BCC	Avoid
3	ACA, CAA, CBA	?

Business Quality	Management Quality	Valuations	Allocation
Wide Moat - A	Shareholder Friendly – A	RR of 5x – A	10-15%



Simple but not easy: Building blocks for wealth creation

Building Wealth Safely

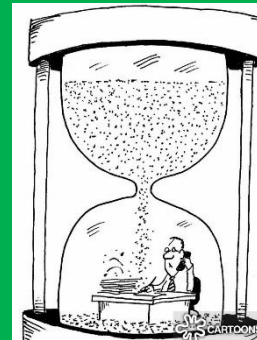
Right Stock/
Moat Stock



Right Price/
Valuations



Right Horizon



Right Allocation/
Portfolio Sizing



Right Mindset - Avoiding Human Follies & Biases

Right mindset: equity fund managers & equity investors



Fund Managers	Investors
Integrity, energy and efficiency – Skin in the game	Invest & save regularly ONLY for long term – 5 years or longer
Investing discipline & consistency of process	Reasonable return expectation from equities
‘Test Match’ approach to investing	Patience – should be prepared for underperformance
Avoid reacting to short term feds – Chasing best performing ideas	Don’t panic when market goes down and excited when it goes up – part of the game
Accept that will make analytical errors/mistakes	Don’t track stock prices daily/ don’t watch TV shows which can corrupt your investment thinking

Building Wealth Safely

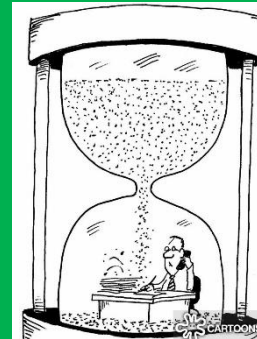
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Valuations



Right Horizon



Right Allocation/
Portfolio Sizing



Right Mindset - Avoiding Human Follies & Biases

- Books:
 - Competition demystified and Value investing by Bruce Greenwald
 - The Little Book That Builds Wealth: The Knockout Formula for Finding Great Investments by Pat Dorsey
 - Understanding Michael Porter: The Essential Guide to Competition and Strategy by Joan Magretta
 - Capital Cycle by Marathon Asset Management
- Motilal Oswal “wealth creation study”
- IMC – Investment management corp. presentation in Google – Feb. 19
- The Mind of a Business Analyst by Manish Chokhani – ENAM Holdings
- Many more.....

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