

Annual Client Meet

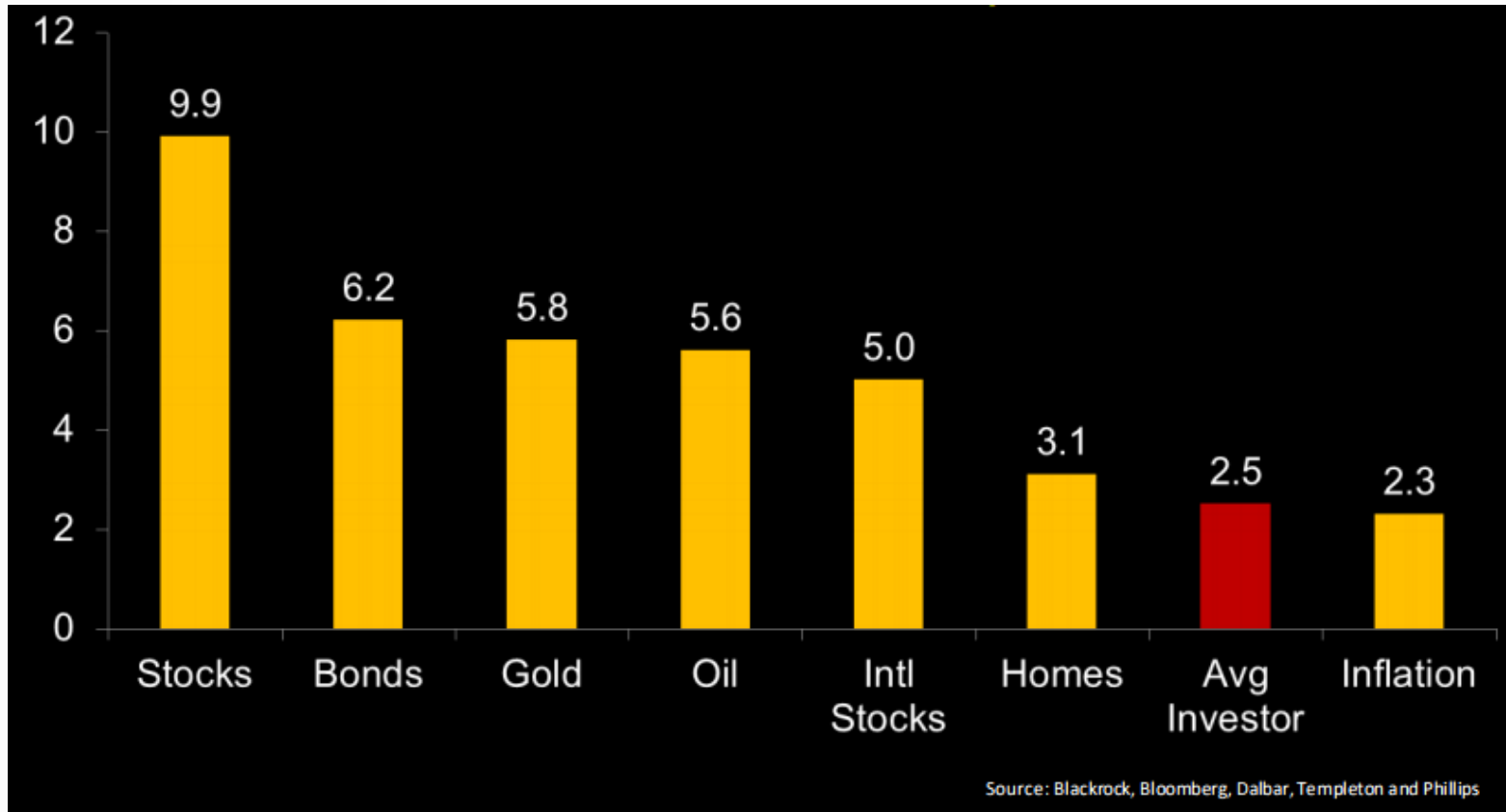
22nd July 2017

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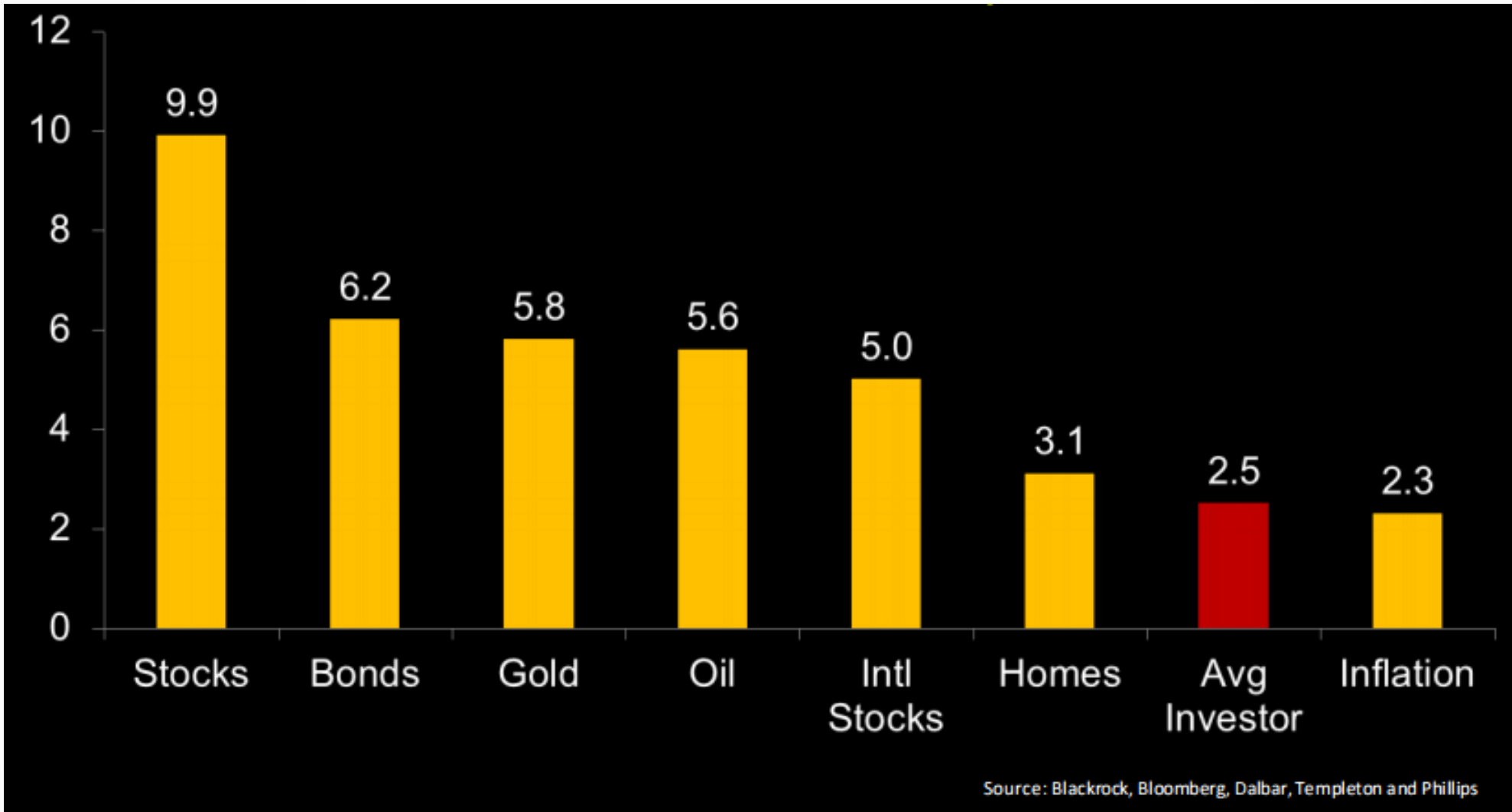
Why Most Stock Investors Don't Make Money ?



% return in various asset classes (globally)

Because, most of them try timing the market,
and end up in jumping in & out of many stocks.

Timing The Markets Is Futile



The Art Of Doing Less



Michael Bar-Eli's Case Study On Goalkeepers

- Goalkeepers will produce far better results if they just do nothing & stay at the centre of the goalpost.
- However, they end up in jumping left or right, because, “they have to act !”.

The Art Of Doing Less

Same Thing Happens In The Markets. Money Managers & Investors 'Have To Act' On All Available Information. Sure-shot Way To Mediocrity.

Noise Everywhere

- Noise on Social Media – whatsapp groups
- Business Channels & Newspapers
- “Weekend Worriers” – Latest Fad Is Disruption & Digital
- Earnings Estimates
- Elections & Poll Estimates
- Geopolitical Issues
- Interest rates, fed, fund flows & liquidity, economic data



Noise Everywhere

With So Much Real-time Information & Opinions Floating Around, It Is Difficult To Focus On What Is Relevant & What To Be Filtered Out.

Predictions & Follies

“If you spend more than 13 minutes analyzing economic and market forecasts, you’ve wasted 10 minutes.”

Peter Lynch

Fed Chairman Just Before The Crisis Worsened

- At this juncture, however, the impact on the broader economy and financial markets of the problems in the subprime market seems likely to be contained- FED Chairman Ben Bernanke, March 28, 2007



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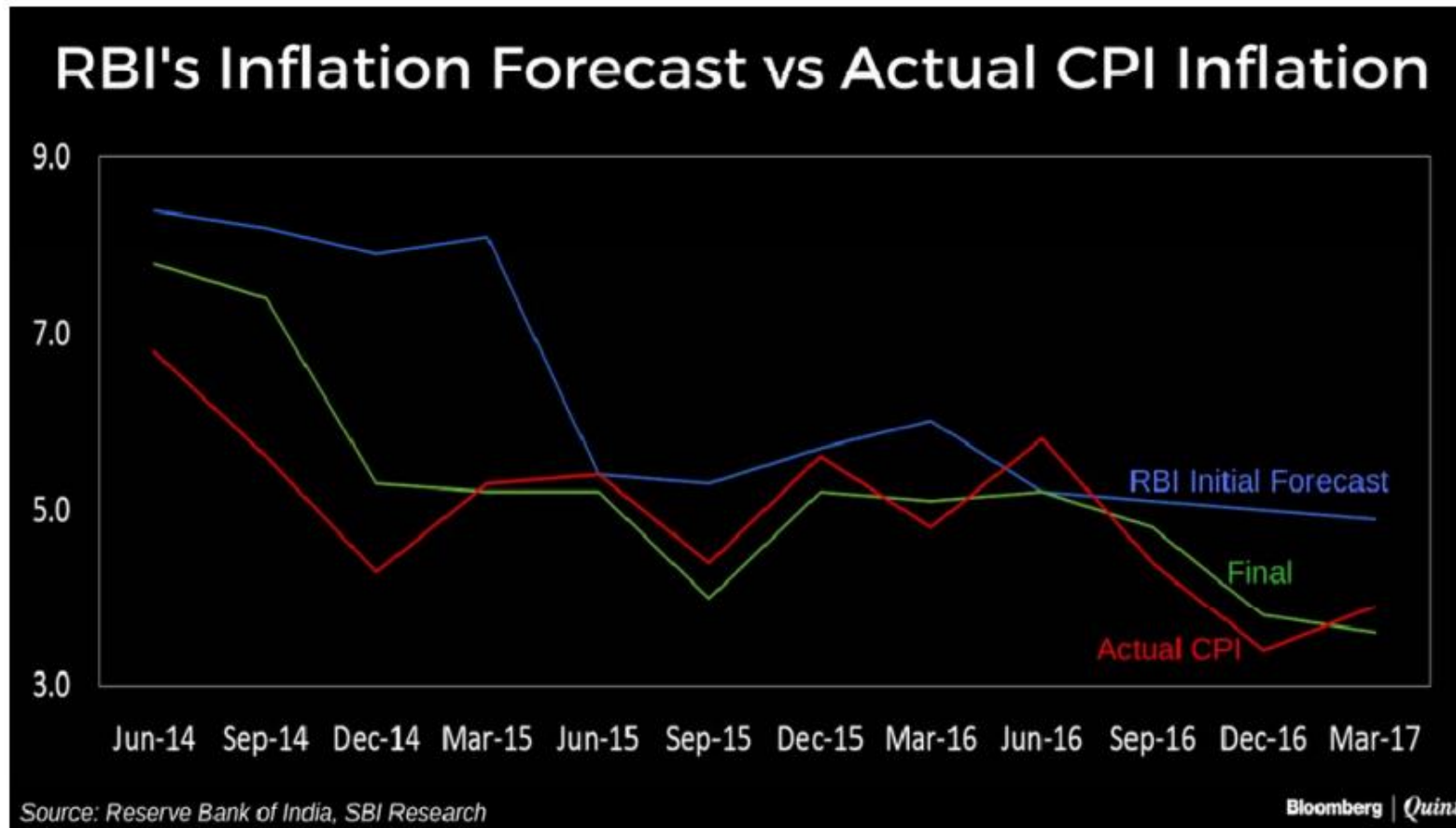
Bernanke: Subprime Mortgage Woes Won't Seriously Hurt Economy

AP
Thursday, 17 May 2007 | 10:34 AM ET



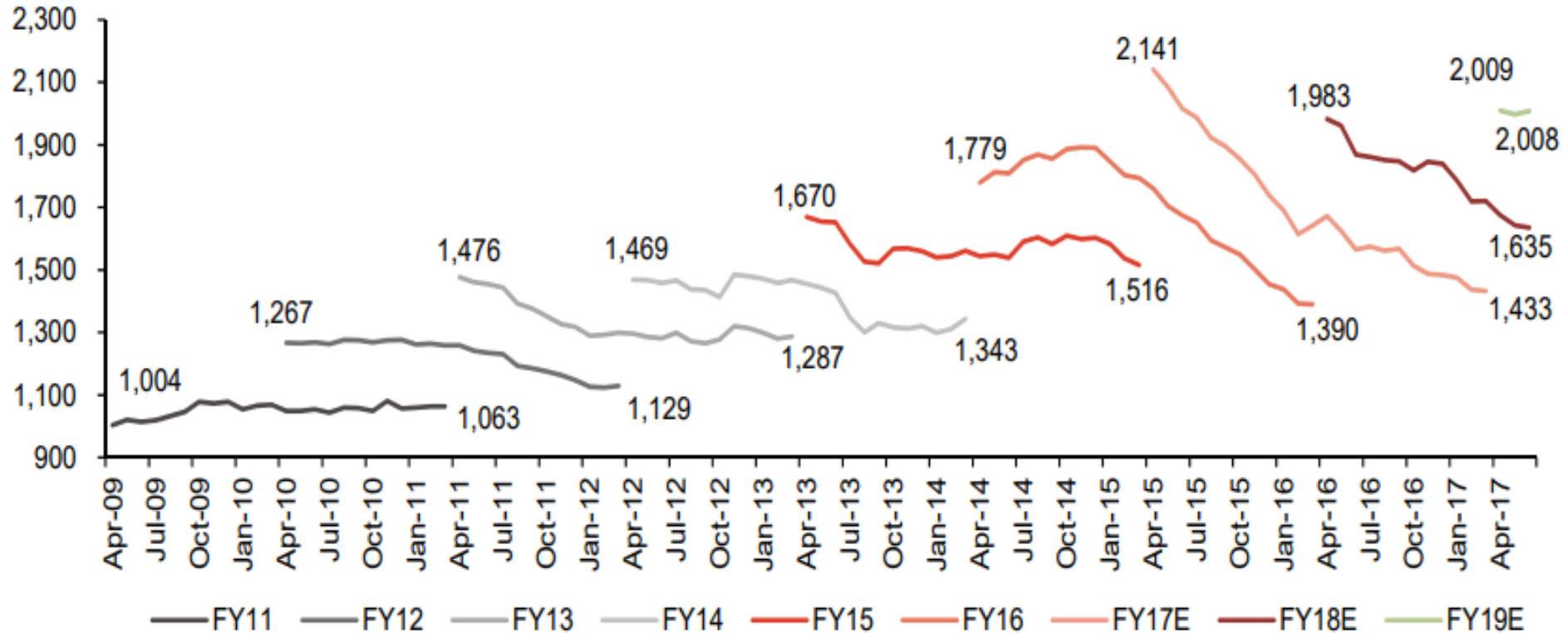
COMMENTS Start the Discussion

RBI Forecast & Actual Data



- Even The RBI doesn't get it right. Yet, so called 'experts' do intellectual gymnastics over inflation. Similar thing happens with all economic indicators including GDP, IIP etc.

SENSEX 1 Year Forward EPS Forecast & Actual Data



Source : Ambit Securities

Monsoons & Actual Demand – No correlation!

Year	Occurrence	Impact	Monsoon as a % of Long Period Average	% chg. in foodgrain output from previous year	Growth of consumer durables sector(Y-o-Y)	Growth of FMCG sector (Y-o-Y)	Growth of automobile sector (Y-o-Y)
FY 08	La Nina	Excess	110%	6.20%	12 %	20%	-5%
FY 09	La Nina	Above Normal	105%	1.6%	11%	14%	0.7%
FY 10	El Nino	Severe drought	79%	-7%	21%	25%	26%
FY 11	La Nina	Normal	100%	12.1%	16%	15%	26%
FY 12	La Nina	Normal	104%	6.1%	< 1%	6%	12%
FY 13	Mild El Nino	Below Normal	92%	-0.80%	10-15%	14-15%	3%
FY 14	Neutral	Above Normal	106%	3.1%	5-7%	8-9%	4%
FY 15	Neutral	Mild drought	88%	-5.30%	15-20%	5-6%	7%

Source: Skymet, Ministry of Agriculture, SIAM, Indian Brand Equity Foundation, Consumer Electronics and Appliances Manufacturers Association (CEAMA), Hindustan Unilever Ltd

Survival Is The Key

- Avoid Big Mistakes, stay in the game & eventually you will do well.

-25% = +33%

-50% = +100%

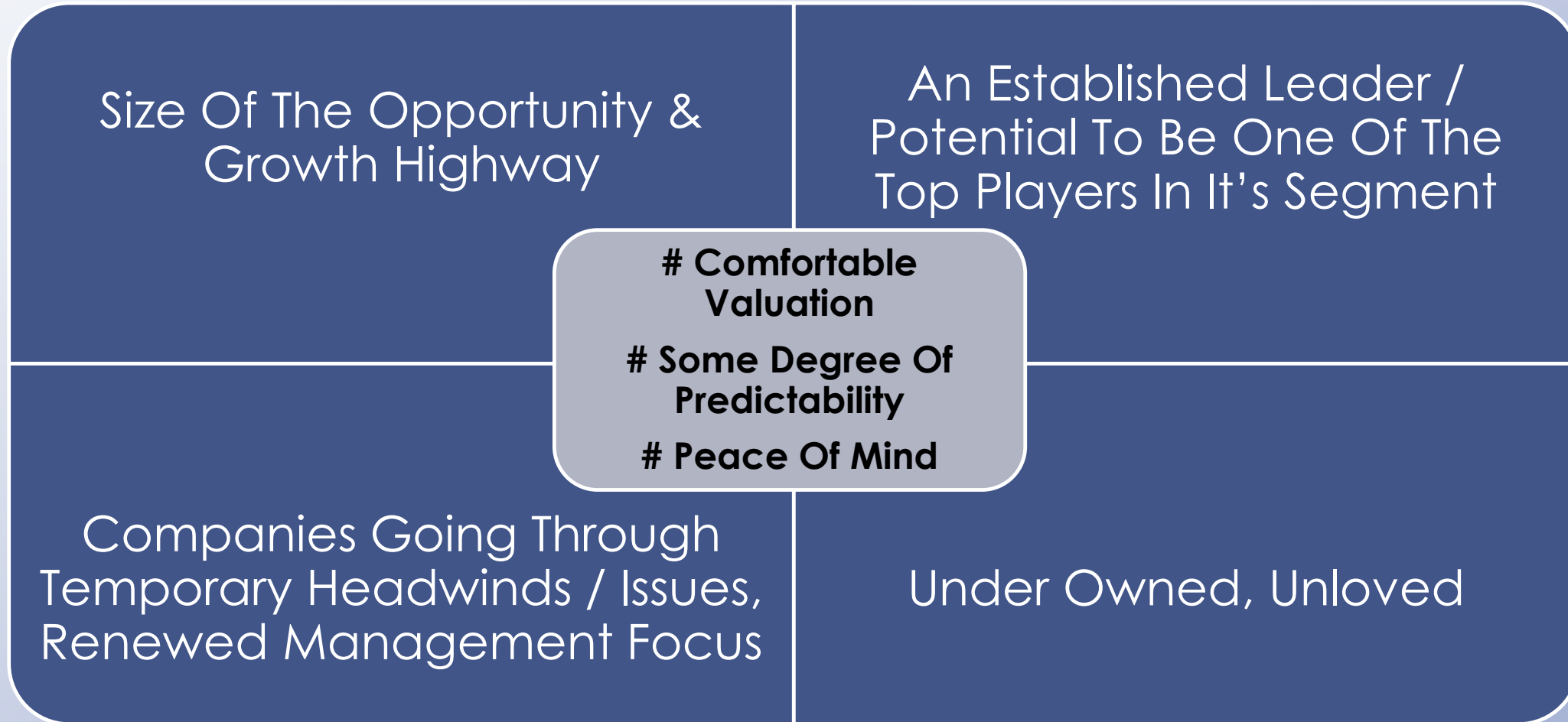
-75% = +300%

-90% = +900%

-95% = +1900%

Present Investment Approach At Alpha Invesco

Continuously Evolving As We Keep On Learning...



Present Investment Approach At Alpha Invesco

- Wait for the pitch, willingness to sit out / miss out on opportunities that we do not understand or not comfortable with
- Allocation makes a big difference to your returns
- Few bet's but big bet's, load up heavily when odds are in favor
- Have a fair idea of downside risks.
- Known downside + unknown upside + huge growth runway is a good combination
- Periodic review, not obsessed with quarterly results
- Back of the envelope calculations, focus on the big picture

Present Investment Approach At Alpha Invesco

- Biggest opportunities often come from unloved stocks & sectors.
- Strictly avoid the hot sectors.
- Buying growth at any price has it's own consequences. In a complex country like India, very few businesses succeed at execution. Hence betting purely on growth by ignoring valuations is a huge risk.
- For us the ideal combination is, Undervaluation + Established Business + Growth Highway
- Prefer companies that can create wealth in existing structure by lowering costs, increasing productivity, reducing debt, stopping leakages etc.

Performance

CAGR since Inception in 2009	36.70%
Rolling CAGR in last 3 Years (2014 to 17)	20.7%
Rolling CAGR in last 2 Years (2015 to 17)	20.1%
Returns During 2016-17	31.00%
Returns in FY 18 (till 21st July 2017)	13%

Performance

- Entered 1 new stock during FY 2016-17
- Exited 3 stock during FY 2016-17.
- Plan to exit 4 more stocks in the next month
- Waiting for the right entry points before we add new stocks
- Will be extremely selective for new stock additions
- Will never have more than 10 stocks at a time
- It is very easy to have a 20 stock portfolio. Equivalent to throwing darts.

Exits...Oops, Blunders During The Year

- “What could have been a bumper year, turned into an average year. Thanks to my bad judgement. Selling 3 multi-baggers in a matter of 8 months takes some talent. These are costliest mistakes of my career so far. Had I done nothing, and through the year, results would have been far better.” – Chetan
- We focused too much on numbers & micro analysis. It made us neglect the big picture & huge underlying value in those businesses. We thought, we will re-enter these stocks, once things become clear. By the time clarity came, it was too late !
- **Blunder #1** : Future Retail
- **Blunder # 2** : Edelweiss
- **Blunder # 3** : Venky's India (exited in October 2015)
- Exited Amrutanjan with more than 370% returns. Switched into other stock.

Future Retail : Up 3x + Since Our Exit In May 2016



Buy Price : 150(Feb 2015)
Exit Price : ~160 (May 2016)
Current Price : ~435 for future retail + 38 for future enterprises shares

We were one of the early entrants in Future Retail when no one was talking about it. With non stop corporate actions via merger, acquisitions etc. the balance sheet kept on changing continuously. It was becoming difficult to have a view on numbers, so we exited.

Despite having huge intrinsic value & growth highway, we focused on the numbers & missed out on the big picture. Huge mistake.

Edelweiss : Up 3x Plus Since Our Exit In May 2016



Buy Price : 50 (Oct 2014)
Exit Price : ~70 (May 2016)
Current Price : ~200

We were able to identify edelweiss at 50 rs, company was growing rapidly quarter over quarter. RBI's change in few rules restricted the ROE's of ARC business. Missed out on the big picture & scalability of the business. Edelweiss had multiple triggers, yet we ignored them.

Shortsightedness led to early exit.

Venkys : Up 4 x Since Our Exit In Oct 2015



Buy Price : 260 (March 2012)
Exit Price : ~350 (Oct 2015)
Current Price : ~2020

Due to corporate governance issues, the stock was trading dirt cheap, did nothing for 3-3.5 years after our initial purchase. Judgment of corporate governance improving + poultry industry oversupply situation improving showed up only after our exit. We sold the stock out of frustration & a long wait of 3+ years. In hindsight, it was a 8 bagger, if we had held it for just one more year. Lost patience & missed out on the changes happening in the industry. Thought we will re-enter once things become more clear. Could never re-enter again as the price moved swiftly.

Amrutanjan : Booked Profits & Switched



Buy Price : 100-120 (May 2013)
Exit Price : ~550 (Nov 2016)
Current Price : 650

We were one of the earliest entrants in Amrutanjan. The stock had a decent run up of 370% plus since our Buy. We felt, it is priced to perfection at given valuations, best case factored in. Switching into other stock should provide better returns.

Exited the stock at around 550 in Nov 2016 & shifted to other stock.

Learning From Mistakes

- Ability to act without full information is crucial.
- When investors start behaving like accountants, they miss out on the big picture.
- If we wait for 100% information on everything, we may lose out on lot of opportunities.
- Difficult to re-enter stocks after taking an exit.

“Not everything that counts can be counted, and not everything that can be counted counts.” – Einstein

Stocks To Exit

Buy Price : 31 (June 2014)
Current Price : ~155

- **Take Solutions**

- Rupee appreciation, industry headwinds
- Not comfortable with continuous low tax payouts
- Aggressive guidance prior to QIP, talks on further debt led acquisitions
- Post Ecron Acunova acquisition, business is getting too complex to understand & track
- Shady accounting
- No comfort in holding the stock at present valuations

Stocks To Exit

Buy Price : 170 (June 2014)

Current Price : ~305

- **Talwalkars :**

- Continuous debt expansion in what is supposed to be a free cash flow generating model

2. To increase the borrowing limit of the Company upto Rs. 675 Crores and to approve creation of charge on the assets of the Company in respect of the borrowings;

- Continuous un-related acquisitions– Zorba, Mickey Mehta, PWG – Srilanka, Snap Fitness, Growfitter
- Aggressive depreciation – Backloading depreciation, financial jugglery
- Recurring Maintenance Capex – Expected to eat into whatever they earn
- Low entry barriers
- No comfort in holding the stock at present levels

Stocks To Exit

Buy Price : 20 (Feb 2012)

Current Price : ~170

- **Mirza International**

- 950 cr Topline
- Selling 70 lakhs pairs per annum, average realization of 1250 per pair
- Export business at 615 crore, 15% branded exports, 85% unbranded
- Combined revenue for branded shoes segment (domestic + exports) at ~270 crores
- Branded shoes revenues expected to grow at higher rates, but yet to reach critical mass, fully factored into valuations
- Trading at 2 times sales, 13 times EV / EBIDTA, 2000 crore Mcap, Looks fairly valued at this point
- Switching to other stock could be a better option

Stocks To Exit

Buy Price : 90 (Feb 2010)

Current Price : ~1500

- **Wim Plast**
- 357 Cr Topline
- Consistent improvement in margins
- Cooler segment expected to drive growth, low base at this point of time.
- Best in class margins at 22% compared to Nilkamal (12%), Supreme (17%)
- Margins may have peaked out, priced to perfection
- Most expensive in the category
- Trading at 5 times sales, 22 times EV / EBIDTA, 1800 crore Mcap
- Switching to other stock could be a better option

Pockets Of Opportunity

- Liquor & Spirits
- Media
- Industrials : overall profit pool at less than 500 Mn US\$. Extreme pessimism
- Financialization of savings
- J curve / Discretionary Spending : Spending to grow faster due to leverage & borrowing.
- Rural :
 - 200 m tonne out of 270 mn food production is grains. And only 70 mn tonne is value add vegetables, fruits etc. This should change going forward.
 - 22-25 crore farm owners & labors at present. Each person feeds 5 people, this can become 15-20 going forward. 10-12 crore or more farm owners / labours may shift to other professions.
 - Huge opportunity in rural productivity centric sectors. Ex : Farm Mechanization

Pockets Of Overvaluation

- Across Midcaps, 20 PE is the new normal !
- Greater fool theory playing out in many average micro & midcaps
- FMCG & Consumption – times of extraordinary profitability are behind us, easier for new companies to launch products & reach consumers. Paying high PE for so called ‘predictable & stable’ cash flows can boomrang as pricing power of these firms is on decline.
- NBFC’s trading at 5-7-8 times book ! Stay away from the bubble. Downsides will be swift.
- IPO madness is coming back. Just stay away from all IPO’s.

Pockets Of Overvaluation

- Stay miles away from story based microcaps. When the tide turns, extremely difficult to exit such stocks.
- Microcaps, small companies should be bought only when odds are heavily in favor & nothing to lose on the downside.
- Stay with reasonable large sized companies

Thank You

Q & A

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