

## 1. Fund Manager's Commentary

The Girik Multicap Growth Equity Strategy is inspired by the CANSLIM philosophy of stock picking developed by American investor William J. O'Neil. The goal of this strategy is to identify leading companies from leading industry groups that show sharp acceleration in earnings, newness in products or change in management and suggests buying them at the right price with enough margin of safety ahead of the company's major stock price advance.

While markets are near new highs, a closer look reveals a notable sector rotation or change in market leadership. The dominant leaders of the past decade, particularly those recognized as "quality" compounders, appear to have lost their lustre. From 2011 until 2021, the investment landscape was largely defined by quality stocks, often consumer-facing companies, that delivered remarkable returns to investors. These stocks were characterized by consistent earnings growth, strong fundamentals and substantial multiple expansion, with investors chasing this growth at any price. In recent years, the multiple expansion that previously drove these stocks has compressed and as a result, many of these so-called quality stocks have shown limited price appreciation. Below are few examples of past winners that have turned into laggards.

Leaders to Laggards								
Company	Price (Rs.) (Dec 2009)	Peak Period	Peak Price (Rs.)	Returns (CAGR %) (Dec 2009 – Peak)		Peak Price (Rs.)	Price (Rs.) (June 2024)	Returns (CAGR %) (Peak – June 2024)
Bajaj Finance Ltd.	32.06	Oct'23	8,168.55	49.52%	-	→ 8,168.55	7,115.55	-17.25%
Berger Paints Ltd.	17.86	Jul'21	720.79	37.70%	-	→ 720.79	504.2	-11.44%
Asian Paints Ltd.	179.72	Sep'21	3,448.60	28.61%	-	→ 3448.60	2,917.05	-5.88%
Hindustan Unilever Ltd.	264.80	Sep'21	2,812.45	22.31%	-	→ 2,812.45	2,473.05	-4.54%
Dabur India Ltd.	79.4	Sep'21	653.95	19.71%	-	→ 653.95	600.70	-3.01%
HDFC Bank Ltd.	170.23	Oct'21	1688.70	21.45%	-	→ 1688.70	1683.80	-0.11%

Source: Bloomberg

This does not mean that these businesses are "bad" or will never provide stock market returns. All we are stressing is that the stock market is a highly cyclical place where the "definition" of quality" is rewritten every now and then, based largely on stock price performance. Identifying these industry trends/new sectors early could mean the difference between superior and mediocre results.

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Let us now share examples of stocks that have done well. (Notably, what has worked and led this bull market are largely stocks from select sectors – capital goods, manufacturing, power, infrastructure, and the like). The table below highlights the recent instance of a change in industry leadership:

Laggards to Leaders								
Company	Price (Rs.) (Dec 2009)	Bottom Period	Bottom Price (Rs.)	Returns (CAGR %) (Dec 2009 – Bottom)		Bottom Price (Rs.)	Price (Rs.) (June 2024)	Returns (CAGR %) (Bottom – June 2024)
Apar Industries Ltd.	168.50	Mar'20	244.90	3.72%	-- →	244.90	8473.45	129.75%
ABB India Ltd.	690.70	May'20	725.95	0.48%	-- →	725.95	8490.90	82.36%
REC Ltd.	91.05	Mar'20	60.86	-3.86%	-- →	60.86	525.40	65.70%
Siemens Ltd.	582.35	Mar'20	996.05	5.39%	-- →	996.05	7704.50	61.49%
Larsen & Toubro Ltd.	745.60	Mar'20	707.90	-0.51%	-- →	707.90	3548.45	45.92%

Source: Bloomberg

### Key takeaways:

- Majority of a stock's price performance is tied to its industry group. Being invested in the correct industry group matters.
- Capital flows from one sector to another; understanding this flow is crucial to anticipating powerful sectoral trends.
- Quoting the legendary investor William J. O'Neil, *"The key to successful investing is to concentrate on the leading stocks in the leading industries."*