

Fund Managers 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.

The month started on a weaker note for the markets after a strong close in April. Right when the pessimistic voices started getting louder, the markets took a sharp turn, climbing the wall of worries and recouping a major part of the decline. Pessimistic overtone with the resilient markets is an interesting combination that we have right now. The current state of affairs reminds us of a famous quote from the late legendary investor Sir John Templeton, “Bull markets are born on pessimism, grown on scepticism, mature on optimism and die on euphoria.”

The much anticipated quarterly earnings started trickling in during the month. The focus was mainly on management commentaries to see how the corporates are reacting to the lockdown. While there is a clear divide between the highly impacted and lesser impacted industries, businesses are responding well to the new reality. Although revenues are certainly impacted, many businesses have shown tremendous agility in reducing costs.

The industry leadership continued to be commanded by consumers, agrochemicals, and pharmaceuticals, while the telecom sector also saw a broad-based participation, building on its strength. Along with these, a few more rural-economy linked industries - namely tractors, fertilizers, and 2-wheelers have emerged in recent times. This is backed by expectation of healthy rural incomes led robust rabi crop harvests, higher MSPs, higher offtake by government and forecasts of normal monsoons. An interesting entrant in the leadership charts was gold financing. Despite the mounting concerns on the asset quality stress of lending businesses, gold financing companies stood out due to the strong characteristics of their underlying collateral - Gold. High gold prices helped them lend more to the liquidity constrained households in the lockdown and also provided a stronger safeguard against defaults of earlier loans.

We are hopeful in the current situation because the number of new industry leaders that we see today on our screeners is much higher than what we had two months ago. We believe there will be companies that will grow even in these times and emerge as potential leaders.

A great investor once quoted there are only two emotions in the market - hope and fear. “The only problem,” he added, “is we hope when we should fear, and we fear when we should hope.” This is just as true in 2020 as it was in 2009, and as it was in 1909.