

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.

This month's newsletter includes nine excerpts from old newsletters – an interesting read!

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Fund Managers Commentary Contd... (Earnings Acceleration and P/E Ratios – November 2023)

At Girik we believe that “stock prices are a slave to earnings”. Earnings acceleration, both current and annual, is a prognostic indicator of potential stock outperformance, our search is confined to leading businesses, as it seldom pays to invest in laggard stocks even if they look tantalizingly cheap. Stocks can remain expensive or become more expensive on the P/E ratio (price to earnings ratio) as long as it is backed by a business that’s growing rapidly without compromising on cash flows and the quality of its balance sheet. Low P/E is not always cheap, high P/E is not always expensive. It is a bias. As a strategy, we continue to focus our efforts on identifying such winning stocks for your money's worth. Remember, mediocre earnings growth isn’t sufficient when picking winning stocks, it’s the bottom line growth that matters!

Below are a few examples of recently purchased portfolio stocks that “appeared” expensive on the P/E multiple but further grew quickly in price as the earnings growth was delivered :

Company	Year of Purchase	P/E at Purchase	Market Cap at Purchase (Rs. Cr.)	Current P/E	Market Cap (Rs. Cr.) as on 30-11-23
Syrma SGS Technology Ltd.	Aug’22	34.6x	4,738	55.0x	10,046
MCX India Ltd.	Jun’23	34.8x	8,174	42.5x	16,295

Note: P/E at purchase is 1 year rolling forward

Some of the largest winners in the stock market’s history were high P/E stocks that always appeared expensive but kept surprising on earnings growth. What they all had in common was superior and surprising earnings growth, coupled with being a leading business.

Name of Company	Period	EPS Growth (CAGR)	Initial P/E	End P/E	CAGR Returns
Bajaj Finance Ltd.	Mar’16 – Mar’21 (5 years)	25%	29x	70x	49%
Avenue Supermarts Ltd.	Mar’17 – Mar’22 (5 years)	25%	83x	173x	44%
Jubilant Foodworks Ltd.	Mar’10 – Mar’18 (8 years)	24%	60x	78x	28%
Titan Company Ltd.	Mar’16 – Mar’20 (4 years)	22%	44x	55x	29%
Hindustan Unilever Ltd.	Mar’12 – Mar’15 (3 years)	16%	31x	43x	29%

Source: Bloomberg, Ace Equity

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Fund Manager's Commentary Contd... (Newness – September 2024)

CANSLIM stands for one of the seven chief characteristics of winning stocks at their early developing stages. In today's letter, we would like to once again highlight the concept of "Newness" represented by the "N" factor in CANSLIM and explain the relevance of it to our style of management.

"**Newness**" can emerge in a variety of compelling forms, which include:

- **Newer Companies**
- **New Products**
- **New Management**
- **New Listings/Initial Public Offerings (IPOs)**
- **New Price Highs**

At Girik, our approach involves thorough research and analysis to identify "Newness" among potential investments. We aim to identify those companies that not only demonstrate strong earnings acceleration and innovation but also exhibit potential to stand out as leaders with substantial competitive advantages.

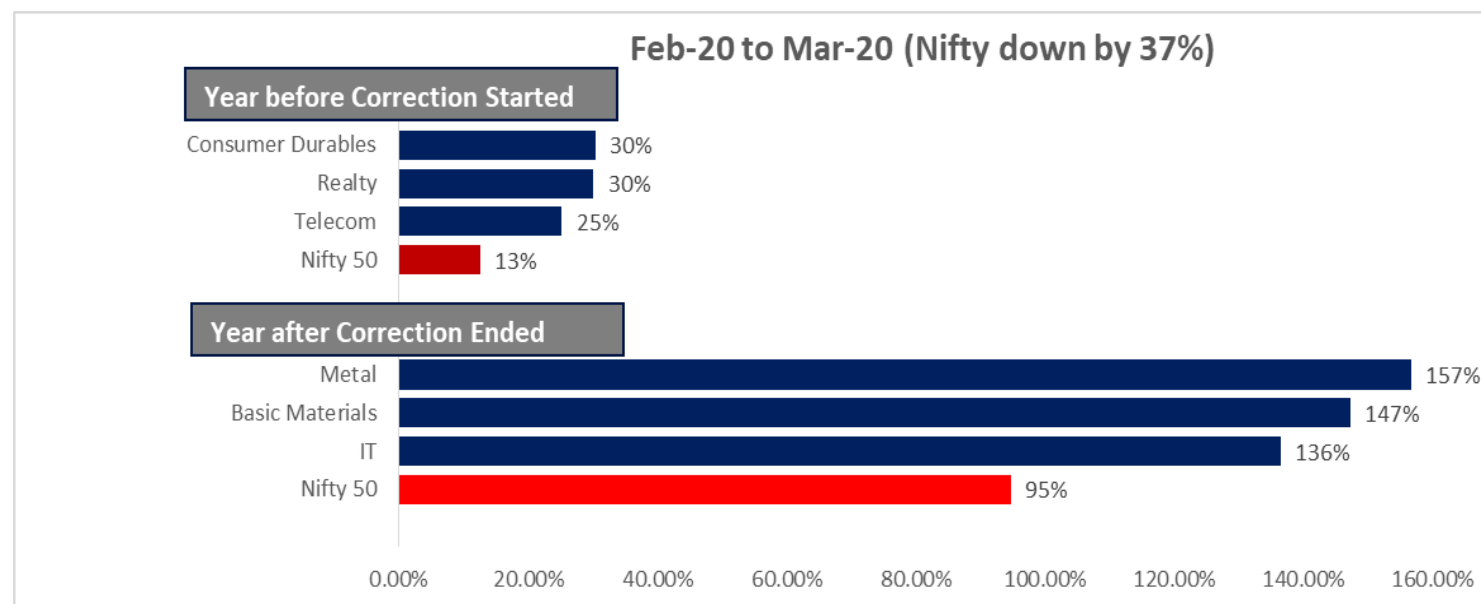
Below is an example of how we evaluate "**Newness**" at Girik (using Zomato Ltd. as a case study)

- Leading the food delivery and quick commerce business, still at a nascent stage with a long runway for growth
- After building the food delivery platform, Zomato started to focus on its quick commerce foray – Blinkit
- Blinkit's GOV has grown from Rs.2,760 cr./quarter from when we purchased the stock, to Rs.4,923 cr./quarter in the most recent quarter; this should double in the coming 2-3 years
- We purchased the stock at ~Rs.100 in August 2023, the market price as on 30th Sept'24 was ~Rs.273
- The "Newness" / undiscovered element / factor here was:
 - (i) Blinkit- Leader in quick commerce with trailblazing growth
 - (ii) Visible path to profitability; the street believed was a loss-making venture
 - (iii) Outright leadership in both businesses, with visible earnings acceleration in the near future

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Fund Manager's Commentary Contd... (Change in Sector Leadership – July 2022)

Market corrections were different from each other in terms of duration, extent and causal factors. Also, it is almost impossible to predict the exact start and end of the correction phase. However, there are a couple of things that can be said about corrections with a high degree of confidence, based on the analysis of past phases of corrections. Firstly, market returns post correction tend to be healthy. More importantly, the sectoral leadership tends to change through corrections, as an example, refer figure 1. Sectors that perform the best post correction are usually different from the ones that performed the best prior to correction. Therefore, during the correction phase we recommend thinking through positioning of the portfolio rather than worrying about how and when the correction would end.



(figure 1)

At Girik Capital, one of the core ideas underlying our investment process is identifying potential leading sectors and good companies in these sectors early. Over the last few months our research effort has been focused on that goal. We are trying to structure our client portfolios so that they are well positioned to gain as and when the correction phase comes to an end.

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Fund Manager's Commentary Contd... (Finding Leading Sectors Early – July

2023)

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.

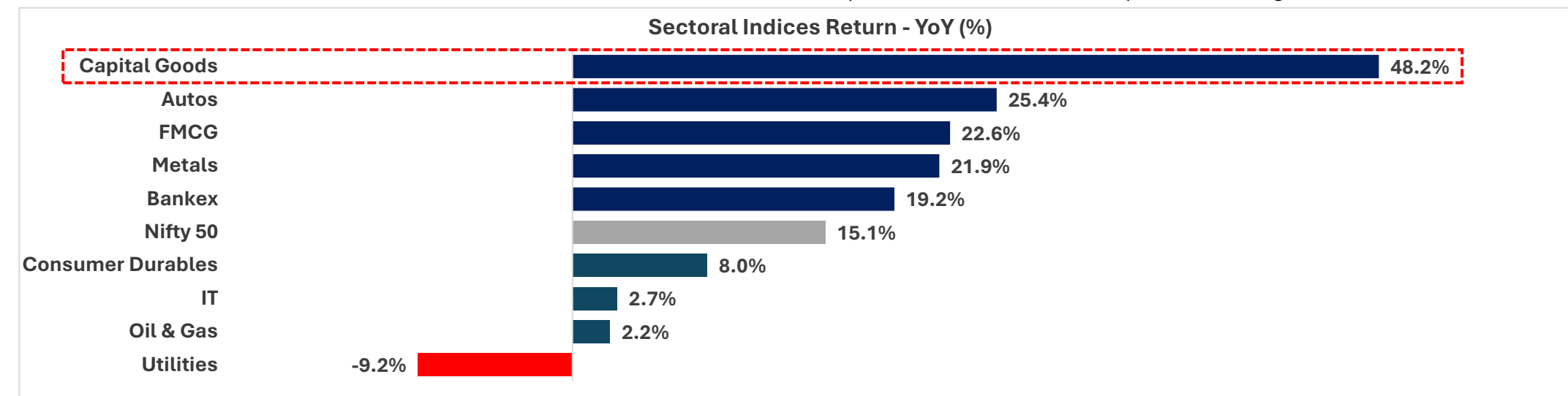
July was the fifth consecutive month of positive returns for Nifty 50 index (up 2.9%) MoM and (up 15.1%) YoY.

On a YoY basis most sectors delivered positive returns with Capital Goods being the leading sector (+48.2%) followed by Autos (+25.4%), FMCG (+22.6%), Metals (+21.9%) and Bankex (+19.2%). While Consumer Durables (+8.0%), IT (+2.7%), and Oil & Gas (+2.2%), were relative laggards with Utilities delivering negative returns (-9.2%) as seen in the chart below.

As a strategy that relies upon finding leading sectors and leading stocks "early" in their growth cycle, we are constantly screening on sectors and stocks that show signs of "price strength" especially in bad markets (such as the one from October 2021 until March 2023). We have found that stocks that display early leadership have a better chance of appreciating quickly when markets start moving in the right direction.

As an example, the Capital Goods/EPC/Industrial sectors were showing signs of price strength a year ago, when broader markets were in the doldrums. It is from a wide list of stocks, from these sectors that we went looking for high growth stocks, at a reasonable price.

Every market comes with its own set of leading sectors that tend to lead the next bull market. Capital Goods/manufacturing and other related sectors have thus far displayed this characteristic. It remains to be seen if we can see a decadal move in this, and related sectors, as was seen in private banks and consumer stocks in the period from 2010 - 2020, which resulted in multi-bagger returns across these sectors. Of course, short term volatility is par for the course. More on this space in the coming months.



Source: Bloomberg. Sectoral Indices Return as on 31-07-2023

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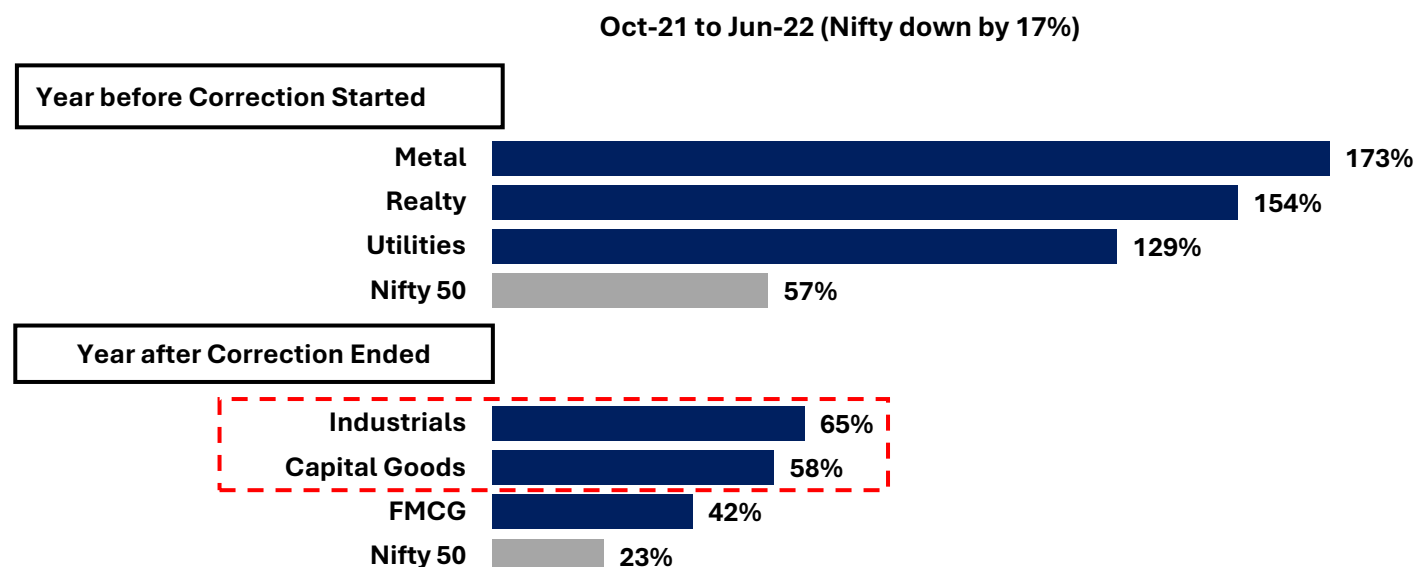
Fund Manager's Commentary (The importance of picking a leading sector – September 2023)

In today's newsletter we would like to highlight how we at Girik place importance on being invested in leading "industry groups" or "sectors". **The majority of leading stocks are usually in leading industries.** Bulk of a stock's move is tied to the industry group that it is part of (a rising tide tends to lift all boats). Be on the right side of a trend since this is where you'll make the money!

Specific groups lead each market cycle, from 2010 to 2020 it was consumer stocks and private banks and in the present market cycle, it has been everything tied to capital goods/power/manufacturing – worthy to note that consumer stocks and private banks have been rank underperformers in this present cycle and have delivered poor returns since 2020.

It's important not to be swayed by what's worked in the past, and to be able to adjust your portfolio and invest in the right industry groups. Identifying these industry trends/new sectors early could mean the difference between superior and mediocre results.

Below is a recent instance of a change in industry leadership:



Fund Manager's Commentary Contd... (How Leaders may become Laggards – June

2024)

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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Fund Manager's Commentary Contd... (How Leaders may become Laggards – June 2024

contd...)

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."*

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Fund Manager's Commentary Contd... (Institutional Sponsorship – July 2024)

Each letter in CANSLIM represents a specific criterion for selecting high-potential growth stocks. In today's newsletter, we focus on **Institutional Sponsorship (I)** in CANSL(I)M. Institutional Sponsorship serves as a critical indicator of a stock's potential, as the substantial capital inflows from these well-resourced investors can significantly drive-up demand for the stock, subsequently leading to price appreciation and enhanced market interest. The idea is to identify stocks that have a few institutional sponsors, strong earnings and that have added institutional owners in recent quarters.

Why Institutional Sponsorship Matters?

- **Market Sentiment:** Institutional investors are often considered “smart money” because of their resources, research, and influence. Their investments can signal confidence in a company's prospects, leading other investors to follow suit, driving up the stock price further
- **Catalyst for Growth:** When institutional investors, such as mutual funds, pension funds, and insurance companies, purchase large volumes of stocks, the demand for those stocks rises; a higher demand and a limited supply of shares fuels the price movement
- **Market Liquidity:** Good Institutional ownership contributes to market depth and provides liquidity. This perceived stability can attract more investors, pushing the stock price up
- **Corporate Governance:** Institutions often advocate for better corporate governance and performance standards. Companies with significant institutional ownership might improve their operations and strategic decisions, enhancing investor confidence and stock value
- **Market Indices and Funds:** Inclusion in market indices or institutional portfolios can create continuous buying pressure as Index Funds and ETFs (Exchange-Traded Funds) need to hold these stocks to match the index performance

Hence, institutional sponsorship not only indicates present confidence in a stock but could also influence its future growth trajectory.

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Fund Manager's Commentary Contd... (Selling Rules and Plans – July 2021)

Investors often are faced with a dilemma of what to do with a stock that has run up decently in price or when to take the worthwhile profits. “Let the winners run” is a famous adage that many follow and decide to do nothing. However, this situation is not as simple as it sounds. A stock's up move can last for any period, ranging from months to decades. Therefore, holding a winning stock forever may not be the best strategy, as one would always be unsure of the longevity of the move. This is why a selling plan is a must for individual and institutional investors alike.

A good selling plan can use a mix of technical and fundamental parameters to assess the right time to sell. One should know that only a minuscule proportion of stocks are consistent compounders, others have their cycles that can be intermittently profited from. A good plan broadly takes into account the lifecycle of stocks and pinpoints where the stock is in its current cycle. When armed with this information, investors can comfortably take their exit decisions.

At Girik, we base our selling decisions on multiple technical, fundamental, and psychological factors. The easiest and most prevalent decisions for us are when all the factors point in the same direction. For example, when the stock is technically extended, has a low best-case IRR (based on price calculated using forward earnings), and is the talk of the town with the company's management all over the media, the stock may be near the end of its move and can be ripe for an exit. The method is quite effective and results in some of the best exits. The other times when the factors give contradicting indications, we assess each factor carefully and decide accordingly. For example, if the stock is technically extended, but still has a good IRR, we may decide to do nothing and ride the move.

It's hard to bring such a complicated decision down to a formula, but we try our best to be as objective as possible in the decisions we take. Such data-backed decisions do much more good than bad, which is why we have used them for years now. All our decisions are outcomes of processes that we follow religiously. We swear by our processes and continue to improve them each passing day. That's most important for us. As Idowu Koyenikan, the author of “Wealth for All” puts it, “If you quit on the process, you are quitting on the result.” We take care of the processes, for the results to take care of themselves.

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Fund Manager's Commentary Contd... (Cutting Losers – February 2024)

In today's newsletter, we would like to highlight how we at Girik place importance on "cutting losers and riding winners." At Girik, we firmly believe that the ultimate determinant of investment success or failure lies in how one approaches risk. While stock picking is just one aspect of the process, it may not be the most crucial. We have developed a risk management framework that helps us navigate through the vagaries of the market. Each stage of investing, from screening new stock ideas to exit strategies, has been crafted with a risk-first mindset. Our systems are designed to alert us when a stock indicates signs of underperformance, allowing us to proactively 'cut the losers' to protect capital. We try to mitigate losses by choosing our stocks carefully, optimizing position sizes, and promptly eliminating losers before they can significantly impact the portfolio.

The NIFTY 50 index, which manages 100's of billions of dollars is a great example of how cutting losers helps generate consistent returns. The index has seen dramatic shifts in some of its major holdings since 2007, weeding out its losers and adding new winners.

Exits/Decrease in Weightage from Nifty 50	Nifty Weightage (Dec'07)	Nifty Weightage (Dec'23)*
ONGC Ltd	7.5%	0.8%
Reliance Communication Ltd	4.3%	-
BHEL	3.6%	-
SAIL	3.3%	-
Unitech Ltd	2.2%	-

* 2023 Weightage % is calculated on the basis of Free Float ; 2007 is on the basis of Market Capitalization

New Additions / Increase in Weightage in Nifty 50	Nifty Weightage (Dec'07)	Nifty Weightage (Dec'23)*
Infosys Ltd	2.9%	5.8%
Axis Bank Ltd	-	3.2%
Kotak Mahindra Bank Ltd	-	2.9%
Bajaj Finance	-	2.1%
Asian Paints	-	1.6%

* 2023 Weightage % is calculated on the basis of Free Float ; 2007 is on the basis of Market Capitalization

In conclusion, quoting the legendary investor William J. O'Neil, "The whole secret to winning big in the stock market is not to be right all the time, but to lose the least amount possible when you're wrong."