

VALUE INVESTING VS GROWTH INVESTING

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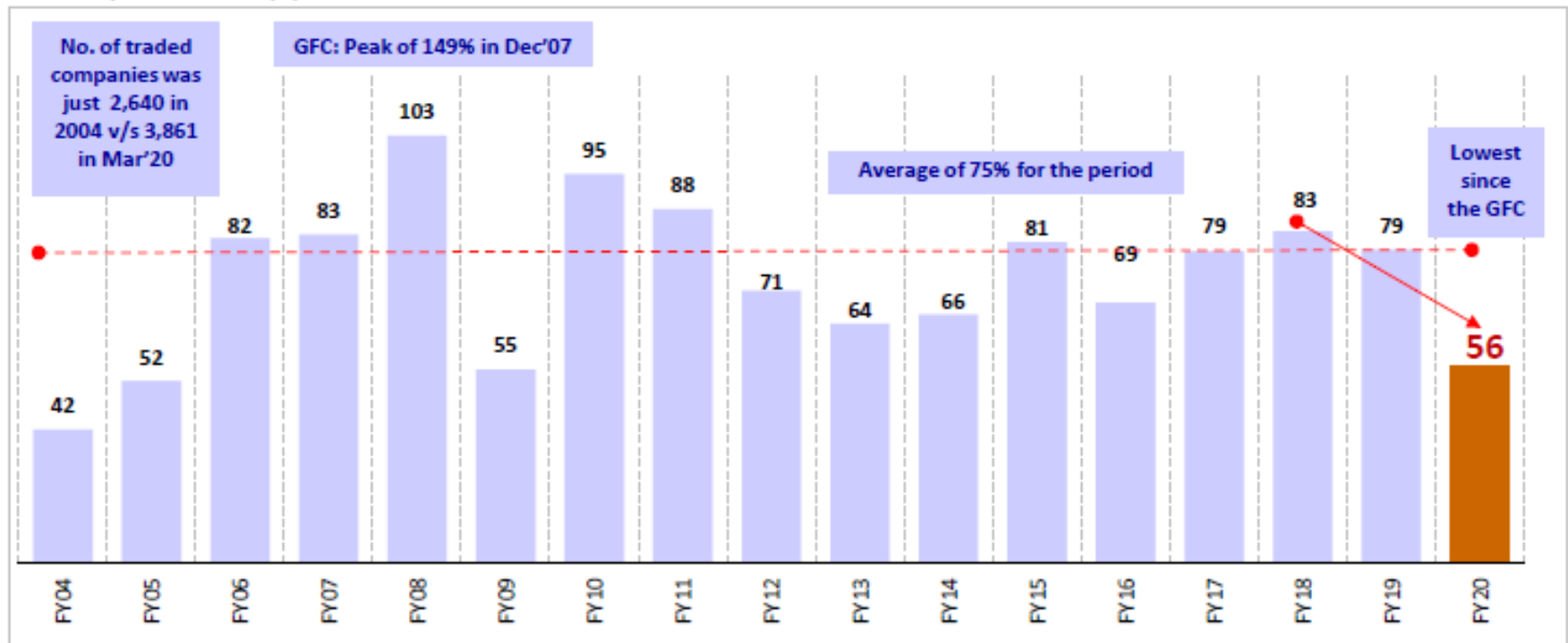
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\$2 TRILLION TO \$5 TRILLION OPPORTUNITY

- China took 5 Years to Go from \$2 Trillion to \$5 Trillion(2004-2009)
- USA took 11 Years to Go from \$2 Trillion to \$5 Trillion (1977-1988)
- Japan took 8.5 Years to go from \$2 Trillion to \$5 Trillion(1978-1986)
- India hit \$2 Trillion in 2015, it will not take long, till we hit \$5 Trillion.
- Today Indian economy is at \$2.5 Trillion, my belief is More Money would be made in the next 8 years than what was made in the last 70 years! This is an opportunity I believe should not be missed.

MARKET CAP TO GDP RATIO

Market cap-to- GDP ratio (%)



Source: Motilal Oswal

WHAT A STABLE INR CAN DO TO MARKETS?

| INR Appreciation / Depreciation p.m. | Sensex | BSE Midcap | BSE Smallcap |
|---|---------------|-------------------|---------------------|
| < -1% | -20% | -27% | -37% |
| 0% to -1% | 18% | 21% | 22% |
| 0% to 1% | 13% | 34% | 39% |
| > 1% | 76% | 102% | 99% |

Average Annualized performance of Indices during 1st Apr 2003 to 31st August 2020

WHAT A STABLE INR CAN DO TO MARKETS?

| Period | INR / USD | Sensex | BSE Midcap | BSE Smallcap |
|---|-----------|--------|------------|--------------|
| Apr 2003 to Jan 2008 | 4% | 44% | 56% | 67% |
| Jan 2008 to Mar 2009 | -20% | -40% | -56% | -62% |
| Mar 2009 to Apr 2011 | 7% | 39% | 52% | 61% |
| Apr 2011 to Sep 2013 | -14% | 1% | -9% | -18% |
| Sep 2013 to Jan 2018 | 0% | 15% | 30% | 33% |
| Jan 2018 to Apr 2020 | -8% | -3% | -15% | -21% |
| Annualized performance of Indices during 1 st Apr 2003 to 31 st August 2020 | | | | |

US DOLLAR INDEX (DXY)



VALUE INVESTING

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TV ANALOGY

- Buying TV at Full Price vs Buying during Sale
 - Same TV
 - Same screen size
 - Same picture quality.
- Stocks work in a similar manner,
- Stock price can change even though underlying value has remained the same.
- Price fluctuations doesn't change what you're getting for your money.
- Problem in stocks is that, we don't know when sale starts and there is no advertisement of sale!



Buy stocks that appear to be trading for less than their intrinsic or book value.



Market overreacts to good and bad news, creating gap b/w Traded price & Fair Price.



The overreaction offers an opportunity to profit by buying stocks at discounted prices.

WHAT IS VALUE INVESTING?



WHAT ARE DRIVERS OF UNDERLYING VALUE?

- Opportunity Size
- Competitive Advantage
(Difference Between Cost of Capital (Interest Rates) & ROCE)
- Competitive Advantage
period

METRICS USED TO VALUE STOCKS

- DCF Approach
- SOTP
- P/B Ratio
- P/E Ratio
- PEG
- Price to Sales Ratio or EV to Sales Ratio
- Free Cash Flow Multiple
- EV to EBITDA
- Sector Specific Valuations

FINANCIALS

- a) High ROCE/ROE
- b) Growth
- c) Strong Cash Flow

OPPORTUNITY & LEADERSHIP

- a) Sector Can Grow 3x-7x-10x
- b) Company is Market Leader
- c) Bargaining Power

MOAT/MANAGEMENT

- a) Sustainable Competitive Advantage
- b) High Quality Management

AVOID

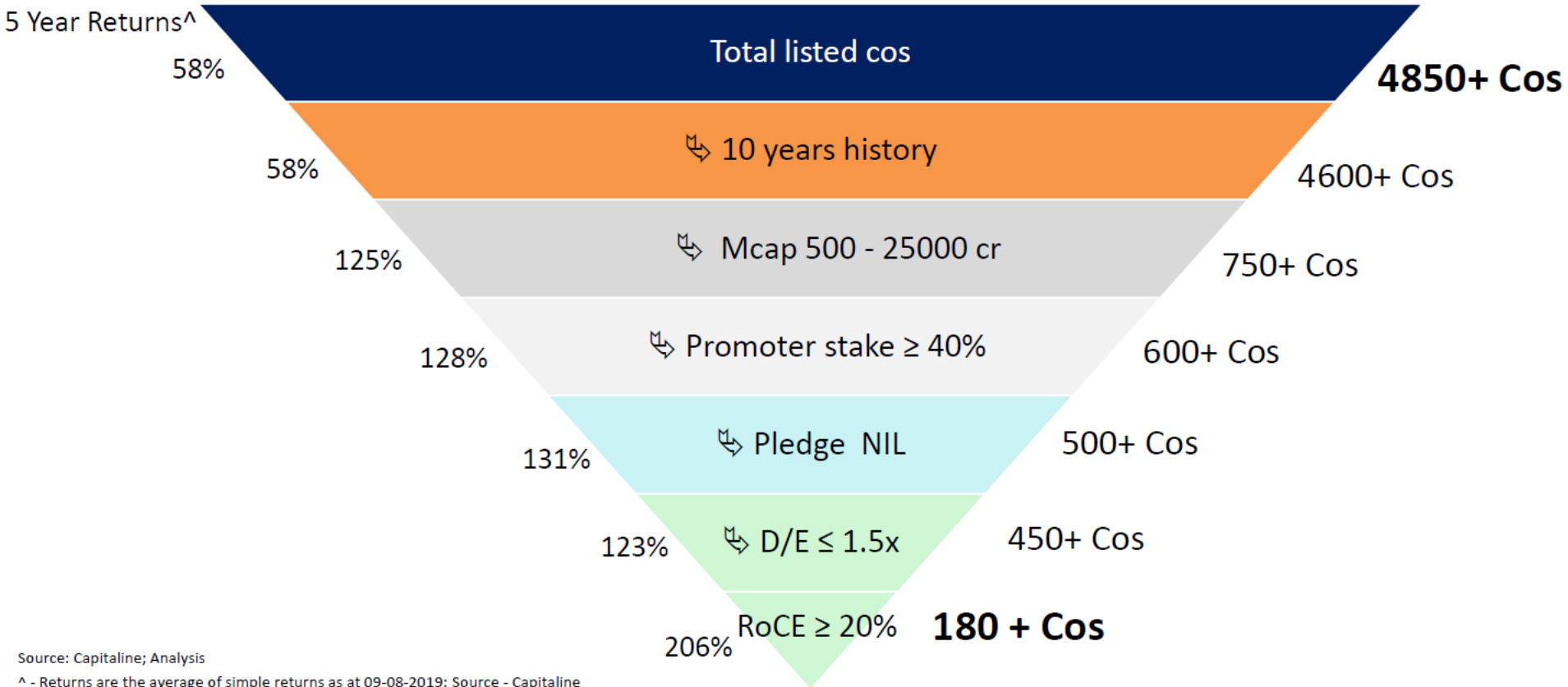
- a) High Debt
- b) Government Companies
- c) Weak price action

DECISION MATRIX

HOW DO WE IMPLEMENT?

- **Screeener**
 - History of 10+ years
 - RoCE \geq 15%
 - CFO / EBIDTA \geq 50%
 - D/E \leq 1.5x (Preferably Debt free)
 - Promoter stake \geq 40%
 - Promoter Pledge Nil
 - M-cap INR 500 -25000 crore
- **Sector Filter**
 - Sector growth $>$ 8/10%
 - Pricing Power
 - Preferably Non Cyclical sectors

IMPACT OF SCREENER



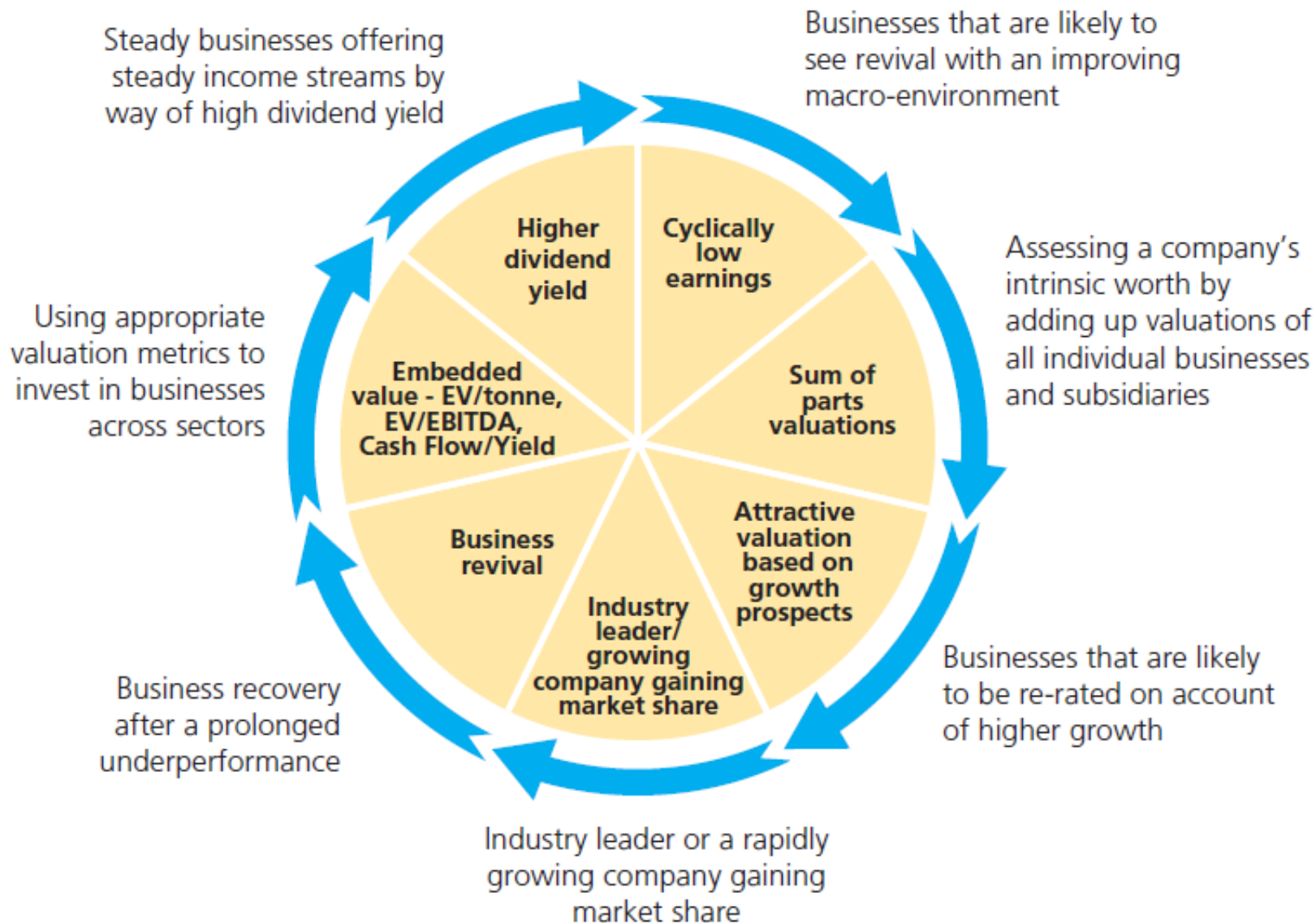
HOW DO WE IMPLEMENT?

- **Beyond Numbers**
 - Promoters (background)
 - Group cos of promoters?
 - Related party transactions
 - Equity Dilution?
 - RoE Trend Vs Capex over last 5-10 years?
 - CFO / EBIDTA vs peers?
 - Working Capital days vs peers?
 - Changes in Management
 - Conference Calls
 - Scalability of the business Vs impediments to growth?

HOW DO WE IMPLEMENT?

- **Portfolio Allocation**
 - Sector cap – 20% maximum
 - Single co – 12% - 15% maximum
 - No. of stocks in Portfolio – 7-15 cos
- Low portfolio turnover ratio.

Indicators to spot **Value opportunities**



MORNINGSTAR INVESTMENT STYLE BOX

FUND STYLE
Investment Style
Growth Blend Value

| | | |
|--|--|--|
| | | |
| | | |
| | | |

Large Medium Small
Capitalisation



“We don’t have to be smarter than the rest.

We have to be more disciplined than the rest” – Warren Buffett

GROWTH INVESTING

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WHAT IS IT?

- Growth investors are attracted to companies that are expected to grow faster
 - either by revenues or
 - cash flows, and
 - definitely by profits than the rest.
- Re-investment of earnings or Retention Ratio is higher.
- $\text{Growth Rate} = \text{Retention Ratio} \times \text{ROE}$
- Growth investing is expensive and risky as well.

HOW TO SPOT GROWTH STOCKS?

- **Moat size of Industry and Strong Leadership**
 - Factors that give returns of stocks
 - Year of Inception = 3%
 - Industry which they run= 44%
 - Corporate Parent =19%
 - Management Specific = 34%
- **Sales Growth Rate > Nominal GDP Growth Rate**
- **Earnings growth + Earnings or PE Rerating Candidates**
- **ROE > Expected Rate**
- **Investor interest – should remain for long term**
- **Govt policy change**
- **Identify companies that can growth without additional capital outlay**
- **Avoid Accounting profit rather than Cash Profit**

Thank you!

