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Market Outlook & Key Insights from Equirus Capital's Managing Director Viraj Mehta

Viraj Mehta is the Managing Director of Equirus Capital and a seasoned investment professional with an inspiring journey spanning over 13 years. Notably, he was selected for the prestigious 'Asia's Master Stock Picker' series by The Wall Street Journal, where he represented India on the global stage. He runs his own firm that specialises in portfolio management services, and one of his most noteworthy achievements is his role in spearheading the Equirus Long Horizon Fund (ELHF), which has emerged as one of the top-performing funds since its inception in October 2016, since when it had (by August 30) risen more than 340%. He gave a detailed presentation on the investment environment for Indian private clients at the Hubbis Wealth Management Forum in Mumbai on August 31. He showcased his proven skills in identifying value and potential amongst some of India's high-growth companies and explained how he selects individual stocks and why he favours specific sectors for the foreseeable future.

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VIRAJ MEHTA
Equirus Capital

Viraj delivered his talk alongside a detailed and easy-to-follow pdf slide show that supported the theses he presented. He first explained that Equirus was originally an investment bank that today spans Asset Management, Capital Markets, M&A, Institutional, Equities, Private Equity, Insurance Broking, Structured Finance and Wealth Management. "I am the owner-manager of this firm, and

First, there is the opportunity when unknown changes to know, such as a small company today that is little known but that has huge potential for earnings to grow rapidly and for the valuation to escalate at the same time, creating a multiple whammy effect.

The second way is when earnings change for reasons such as diminished competition, regulatory changes, an evolving business structure and profile of the company.

And the third way is when business models and the strength of the business change. "Businesses are alive, they are not stagnant pieces of furniture; they become stronger day by day, or they become weaker day by day," he commented. "The businesses that get stronger day by day generate alpha over a longer period of time."

illustrate his point that it is not necessarily the companies that are most in the news or flavour of the day that will perform best in portfolios, but those that have the potential to become the most talked about and outperform.

From the shadows into the limelight

"They move from the shadows and gather steam in terms of market share, they get stronger, and they deliver earnings, cash flows and dividends," he explained. "We believe that over the longer-term period, when you buy value, and you buy when those companies are not doing so well, that is how you generate extraordinary returns. And in our business, the beautiful part of our business in asset management is you do not have to be right all the time. As Soros said, you need to make much more money when you are right than you lose when you are wrong."

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we see a bright future and success ahead for those firms like us that are highly focused, efficient and client-centric," he said.

Three ways to make 'Big' returns

He explained that he believes that to make money in the market, there are just three ways.

He said these are core perspectives that the firm has worked on since day one of their operations.

Taking the right perspective

He played a short VDO clip from the US movie Moneyball on taking alternative views on valuing baseball players in the US to

He said that in this regard, volatility actually helps, propelling stocks upwards, and allowing entry points when sentiment is not so good. "Listed equity is volatile, but is probably one of the most rewarding asset classes, especially in small- and mid-caps, the best avenues for alpha generation over time."

The job at hand – finding value

Viraj explained that at the firm, they do not forecast market cycles, the next Fed rate hike or predict inflation. "Our only job when investors give us money is to find 15 or more good businesses run by good people, and that are cheap today compared to the intrinsic value. We probably run one of the lowest valuation PMS in the country today. So, my mission is to briefly explain how we achieve that."

He explained that there are always valuation divergences in terms of small caps and the Nifty 50 of large cap stocks representing 13 sectors in India. "When the macro outlook is poor, we think that is the best time to allocate larger amounts of capital to small caps, as it just tends to generate significantly larger alpha going forward. Right now, it is not such a time. But there will be opportunities ahead."

Buying for the best reasons

He elaborated on these thoughts, noting that disproportionate money is only made when you buy earnings growth, and PE growth over time through re-rating. And on the other hand, when valuations are too high, de-rating occurs and that is when money is eroded or lost.

He said when you buy market leaders at a PE of 12-18 times, the earnings blossom, and they

get re-rated, you are benefitting in all ways. "You might see profits up three times, the PE up 3 times, and the stock surging 10-fold," he explained. "This won't happen every time, but you need to play the odds in your favour when you invest by buying value that will give the potential but also protect on the downside."

Cases in point

He then highlighted a number of individual stocks, for example, Polycab India, which the fund bought at listing in 2019 at 655 rupees per share and which, as of August 22 this year, was trading at 4998 rupees. "It has transformed itself from a small cap on a PE of 19.5 times at listing to a large cap with profits up more than three-fold since 2019 and the PE up more than 2-1/2 times to 51," he explained. "We were the first institutional investors in this firm, and we bought cheap and that is what we seek to do every time."

He offered other examples of individual stocks and also pointed to key sectors that they like, such as consumer durables, which has been long out of favour, and auto ancillaries, where there are some genuinely cheap stocks trading at between 5x to 12x cash flows. And they like cement stocks, which have been hit hard over the years in terms of valuations. He also pointed to the industrial equipment, where valuations had been weak and where some stocks were up 10X in the last three years.

Generating alpha

"When we find companies or sectors that are undervalued, perhaps out of favour, but also with solid managers and solid companies, that is fertile territory for making big money," he stated. "Generating alpha for our investors is what we do best, and that is what we will focus on ahead." ■

Getting Involved

Interested in being part of the discussion? Be sure to save the date of our India Wealth Management Forum 2024, which is taking place on Wednesday August 28th, 2024.

Want to find out more about how you can take part? Get in touch at events@hubbis.com.