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Strong performance for Indian equities ahead

"INDIA IS A LAND OF OPPORTUNITY, THERE ARE A NUMBER OF COMPANIES WHICH ARE GROWING AT AROUND 10-20% AND THAT TREND IS GOING TO CONTINUE"

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How do you see the India equity market performing over the next 3-5 years?

The Indian equity market's position is absolutely fine from a five year perspective. In the last one and a half to two years, the markets have not been much. Everybody was waiting for the election outcome, with the NDA gaining a clear majority one of the historic landmarks which India has witnessed. This is definitely, structurally positive.

This government has taken a lot of structural reforms, including demonetisation, GST implementation and baking related reforms. These three reforms are going to help the Indian economy to come out from the NPMS, which we have seen in the last three to five years, to a better governed economy. The growth is going to be much better, more widespread, and much cleaner.

If we look at the equity markets and compare India against the US, in India you have 33% of the BSE 500 index, about 155+ companies, that have historically delivered 20% compounding returns in the last 20 years. If you compare this with US, the same ratio is only 17%. India is a land of opportunity, there are a number of companies which are growing at around 10-20% and that trend is going to continue. We are positive on the Indian market as it is a rising economy for the next three to five years.

What's your investment strategy?

At AlfAccurate Equity Advisors, we strongly believe in the protection of capital along with wealth creation. We believe in diversification across a number of companies, across market cap and more importantly across different sectors. We reduce our

concentration risk significantly, and more importantly, apart from right identification of stocks, we also believe in right exit strategy.

AlfAccurate Advisors has a AAA fund. We strongly follow the industry investment strategy called the 3M investment approach, which is market size, market share and margin of safety. If the sector in which the company is operating is large, that is the first 'M', or market size. So, size is important.

The Second 'M' is all about market share, so when we buy a company, we make sure that the sector in which the company is operating is not only large, but the company within that is also among the top five players in the industry. It is important to understand that when you buy a company that is a leader in its respective sector, they are much better prepared to navigate economic downturn, they are the last to fall if economic downturn occurs and they are will probably do extremely well if the economy turns up. So not only is there wealth creation, but actually it inherently means less downside, because they are the top five players within their own industry.

Generally speaking when you buy a company which is number one, two or three in their respective segment, typically they have a very strong balance sheet, a very strong underlying return on net worth and capital employ and, very importantly, superior free cash flow.

The third M is nothing but margin of safety and that nothing but valuation.

Following the 3M investment approach, we buy 40-50 companies using this approach, we diversify our portfolio, we have a very strong due diligence mechanism, watching mechanism and monitoring mechanism, and then we follow the exit strategy. Because world keeps changing; in the Dow Jones Index there's not a single company there today which was there 20-40 years ago. The world keeps changing. Tomorrow's leaders might be completely different from where we see the current leaders. There is a need to monitor, and not just believe that you buy and hold for 20-30 years. For all you know, the company might not last.

That is the strategy we follow. Buy the best businesses, best management, best governance, monitor those business, exit if required or continue to hold as appropriate.

How has your fund reposotioned itself to navigate the recent economic slowdown?

Historically, over the last nine and a half years, our fund has delivered about 18-20% compounding returns compared to benchmark returns of about 8-9%. In the last 10 years we have seen many economic upturns and downturns and it is throughout the different phases of the economy that we have been able to produce and deliver these returns. It is important for you to understand that the investment strategy ultimately results in the superior portfolio character.

If we look at our portfolio of companies, 90% of the companies would have a debt to equity ratio of less than 1:1. This is very important because the more borrowing, the more the problems there are. Our portfolio of companies have a lean balance sheet. Because most of the companies in our portfolio are market leaders / sectoral leaders their profit size is very large. Ninety percent of my portfolio companies would be making three digit plus profits, 100 crores - 500 crores. Contrast this to the fact that of the 4,900 listed companies in India there are only 550 companies make 100 crores in rupee terms. That is close to USD15 million in profit and that's it.

It is very important that the companies in which you're invested are large, they fit that bracket, to navigate the downturns of the industry.

Last but not least is about the earning's growth of the portfolio. Our portfolio is reporting earnings about 15%+ historically over the last nine years, including FY2019. If the economy downturn happens, although it would impact our portfolio in terms of the earnings growth, it will keep delivering 15%+ compounding earnings growth, which in turn results in superior performance.■