

‘The market crash of 1992 piqued my interest in stocks’



A quarter of a century ago, when he arrived in Bombay as a management student, the benchmark Sensex leapt from 2,300 levels to above 4,500 in a matter of months. Unfortunately, the biggest bull market of those volatile times ended with a resounding crash, and the Sensex retraced all gains by April 1993. Ordinary investors may have run away witnessing such massive wealth destruction, but it was this event that piqued his interest in markets. Fast forward to 2017, **Kunj Bansal**, Executive Director and Chief Investment Officer, Centrum Wealth Management, has the last word on advising a mid-cap- focused offshore fund and domestic portfolio assets. With Sensex kissing new highs every day, valuations don't trouble this veteran much. "There are two ways to look at these valuations," he says in an interview with **Kumar Shankar Roy**. Kunj talks about his mantra to spot stocks, his successes and failures, and why he remains a strong believer of investing in companies run by high-credibility promoters, even at expensive valuations.

Tell us about your early life and what made you join the financial-services industry.

I was born and brought up in Rajasthan. I came to Mumbai to study management at Narsee Monjee Institute of Management Studies. This was in 1992. 1990 was the year when the BSE Sensex crossed 1,000 and was at 2,000 by the start of 1992. It then rallied strongly to reach 4,000 by the March of the same year. The biggest bull market of the time ended with a crash and the tremors were felt till mid-1993. This contemporary happening sparked my interest and I started my journey to explore what makes the markets tick.

You had been a fund manager in a mutual fund for six years before you joined the broking and wealth-management space. What made you leave the mutual fund industry?

I am not a part of the mutual fund industry but my role continues to be that of a fund manager. There were no specific triggers that caused the shift; the idea was more to manage money in different formats, raised from different kinds of investors.

Tell us about your current role as the CIO of Centrum Wealth Management.

In my role as CIO, I am responsible for funds in two investor segments. One is where Centrum is an investment advisor to an offshore fund managed by Centrum's joint-venture subsidiary. The offshore fund invests predominantly in mid caps, with some exposure to large caps for better liquidity.

Additionally, we have domestic portfolio-management business. Our portfolio-management strategies straddle the market-cap curve. These are suggested to high net-worth clientele via our wealth-management arm. A lot goes into arriving at the 'right fit' for the clients in terms of the portfolio matching the clients' need. We have based our approach on investor profiling and preferences and then arriving at a relevant portfolio. In addition to managing money in different market-cap strategies, we have boutique investment portfolios on offer such as a micro-cap investment for the mature investor.

How different is the nature of work in wealth management vis-a-vis just asset management?

The nature of the work is not different as my role continues to be one of an asset manager, although in a wealth-management format. So while the role is similar to that of a fund manager at a mutual fund, the investor segment and

accordingly their expectations from the manager are different and that's what makes things interesting.

Since the initial days of 1994, how has stock-market investing changed in India? Has your approach undergone any transformation?

The investing environment obviously has changed a lot in the last 20 years. The first thing is the availability and access of information, which have increased manifold. Secondly, there has been a significant change in regulations over time. For example, 20 years ago, the prescribed requirements for results declaration were different.

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Now most companies declare their results every quarter. As a result, the interaction between a fund manager and a company has improved significantly. Further, the transparency standards of corporates were also not as high.

Another change came in from technological advances. Now a lot of relevant information has migrated online. I remember the quantum of space taken to store annual reports and referring to them was a task.

My investment approach has benefitted from being part of this vibrant and ever-changing market, which has enriched it in various ways. I would call it 'sharpening the saw' with every passing year.

So, at its core, my approach has not changed but if I was to delve deeper and pinpoint one aspect, the consciousness of risk has significantly increased.

Tell us about your investment philosophy and thinking.

India has always been a growth market and growth over time is rewarded highly at the corporate level more than at the market level. Essentially a rising tide may lift all boats but when the tide goes out... Hence, my investment approach is influenced largely by 'growth at a reasonable price' as an underlying philosophy. Bottom-up stock selection has yielded alpha in Indian markets and should continue for the foreseeable time to come.

Having said that, one would obviously like to buy companies as cheap as possible but that does not always work out.

Are there fund managers locally or globally that you closely track or take inspiration from?

There are a lot of learned investors and fund managers across the globe and in India and while one always tries to learn from them and benefit from their wisdom, what ultimately works for you is your own successes and failures. On a separate note, a lot of wisdom of these investors does not necessarily apply to the Indian market but that is a long discussion for some other time. Further, when you are managing money of other investors, the patience and time that you have to satisfy the expectations of investors is limited.

Tell us about your major successes in stock picking, along with examples. What made you gravitate towards them?

Companies with great businesses, great managements and growth are what we look for when we explore the market.

Cholamandalam Investment and Finance is one such example which worked for us. Growth from its diversified and non-correlated loan portfolio, improving operating leverage, softening credit-cost trends were some of the things that we liked.

Repco Home Finance is another company that ticked most of the boxes in our numbers checklist, but the two main things that we liked were the uniqueness of their business model and the huge potential in the segment that they lend to.

Ratnamani Metals and Tubes, which is in the pipes and tubes space, is another company that comes to mind. With this company, we were drawn to the diversified end-user segment of clients, which gave growth visibility. In addition, it fit well on what we look for in terms of basics checks. The company was virtually debt-free, had net cash with a good business model and the management exhibited high adherence to corporate-governance standards.

Have there been instances where your conviction ideas haven't played out? In retrospect, what do you think went wrong?

Although one endeavours for 100 per cent success, one does not get it right all the time. I can think of three instances where the initial hypothesis did not work as planned. Sanghvi Movers, Welspun India and Suzlon come to mind. These companies offered strong business models and growth prospects but for their own unique reasons our bullish view did not translate into a higher stock price.

In some cases our reading of corporate governance was wrong or in some cases, there was an anticipated macro change which didn't happen as planned. At the end of the day, only the benefit of hindsight can validate whether a

decision taken worked in one's favour or not.

Everybody has personal favourites. What are the sectors that you yourself closely track and what are your current views on them?

At the beginning of my career, I used to track two sectors: banking and financial services and automobiles. So, these continue to be the sectors that I closely track. The banking sector has one of the highest weights in the headline indices plus it offers a wide swathe of opportunities.

We like some of the NBFCs in the space which offer a great way to play the anticipated revival in



demand. The newer entrants in the financial-services space such as the insurance companies and niche players which one could not participate in earlier purely because of a lack of listed plays make it a very exciting space to watch out for.

In the recent past, I have come across very few individuals who have said that they are not looking to buy some form of mobility solution, be it a two-wheeler or a four-wheeler manufacturer – unless they own one already. So even if one looks at this space purely from a latent-demand point of view or even positioning India as an export hub for the high-qual-

ity ancillaries business, the listed auto space in India has a lot going for it.

How do you control emotions when it comes to investments?

There is no standard formula for this but experience is a big factor to draw on. The past two decades bear witness to this as the market is dynamic. I try to keep in mind that the basic purpose of investing for me is to get financial returns for my investors. Whenever the situation arises where I feel that emotion is taking over me, I remind myself of my basic purpose of investing and try to see if that is being achieved by my decision. If not, then clearly that can't be my decision whether it is due to emotion or due to any other factor.

How would you describe yourself as an investor?

I would say I am an investor with an understanding of the fact that all my investments won't pan out the way I expect them to be. I am more risk conscious than return-oriented. I have a strong belief in investing in companies with high-credibility promoters, even if they are at expensive valuations, and I am a non-believer in market gossip.

When you spot an undervalued stock, is a large part of the 'investment' in terms of patience?

Yes, though it becomes quite challenging to have unlimited patience, especially when you are managing other investors' money because they like to see performance in a finite time frame and may not have too much patience. All investors are unique and have different requirements. When it comes to my own money, I can show far more patience and confidence.

IT and pharma sectors have been sluggish due to various factors. These

two sectors are supposedly the defensives anchoring our Indian market. What is your view of them?

Things have changed a lot for both the sectors over the last few years and a clear picture is yet to emerge. The Indian pharma industry can be classified into two sub-segments according to the markets it caters to: US or export based and India focused.

Indian export-based pharma companies have shown a direct correlation to any USFDA observation reports and consequently move up or down when establishment-inspection reports are released. Those companies that are able to navigate successfully from observation to clearance will stand out.

Now the landscape is changing in the domestic market as well, with the recent noises around generic drugs. This will widen the gulf between the performers and underperformers and thus make stock selection an interesting job.

The news flow around IT, the sluggishness in export markets, the currency movement and how some of the larger companies adapt to automation should keep investors from seeing the difference between what is perceived value, without get caught in a value trap.

Can you talk about some of your high-conviction stock ideas and what makes them special?

Three names come to mind.

We like KPR Mills from the apparel space. KPR is the largest knitwear exporter from India and has been consistently adding new clients. They seem to have found a solution to one of the key issues in the textile business: employee retention and attrition. This company has less than 2 per cent attrition.

Amara Raja Batteries is another name which we have high conviction on. There are only two large players which make up more than

85 per cent of the organised Indian lead-acid-battery market. The management focus on building their after-market presence in addition to OEM relationships, upcoming GST implementation and forays into different user segments are the reasons we like the counter.

In the speciality-chemicals space, we like Aarti Industries. The management comprises technocrats who know the business well and are diversifying into higher margin areas. What makes speciality chemicals special is the level of customisation demanded by the end user and this is an area where this company excels and

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has built a strong set of long-term client relationships.

The valuation of all these stocks in the current market is a debatable issue.

Liquidity is apparently driving markets up. In such instances, how easy or difficult is to keep your focus on stock fundamentals?

I would say that stock fundamentals do not have any connection with liquidity but valuations clearly have. Fundamentals don't change based on liquidity chasing a stock. They remain independent of it. Taking an investment call after studying fundamentals is one part of the process, while liquidity analysis is another part, which

will lead you to taking a call on valuations, not fundamentals.

What is your take on large-cap, mid-cap and small-cap valuations today? Do you expect earnings to catch up with valuations soon?

Obviously valuations have been going up across the board and at current levels they are above their long-term averages. There are two ways to look at these valuations. If one were to justify the current valuations, then one will have to look at the Indian economy with a back-ended view wherein disproportionately positive benefits of GST might lead to savings in the cost of doing businesses. Further, GST as well as demonetisation will lead to a significantly reduced parallel economy over a period of time.

Another trend is of savings moving from physical assets to financial assets. These trends can lead to far higher growth rates, though that will happen only over a longer period of time. From a short-term perspective, valuations look high. However, as they say, markets can remain irrational for more time than you can remain solvent.

Apart from earnings and fund flows, are there any micro or macro factors that will trigger a rally from here on?

Demonetisation is almost behind us and GST implementation is on the horizon. While the visible impact of these two landmark changes has been analysed in great detail, what could be their invisible impact?

If this invisible benefit is significantly higher than what is expected or understood, then that might be a catalyst for the market and the economy to continue to do better. Something like this happened at the time of the IT revolution, which resulted in substantial saving in the cost of doing business permanently. **WI**