OAKLANE
CAPITAL MANAGEMENT

Mr Kuntal Shah's conversation with Mahalakshmi for The Wealth Formula

Spotting multibaggers, detecting frauds and checks & balances before investing

This transcript is an edited rendition of the conversation between Mahalakshmi, on behalf of The Wealth Formula, and Kuntal Shah, a public markets investor investing in Indian equities for nearly three decades now. (Recording)

	Accounting Related Highlights
1	If you cannot connect financial numbers to the underlying accounting, then tragedies can happen
2	Topline is vanity, Margin is sanity, Profit is an opinion, Cash is king
3	Comparing financial numbers of a company across time and with its peers and studying major deviation will help investors focus on the underlying secret sauce, accounting or actual which drives the earning power and capital intensity of a business
4	Investors should worry if Assets of companies are growing faster than reported profits and if those in turn are growing faster than the underlying operating cash flows
5	EBITDA is not equal to cash flows, and cash flows are the bloodline of a company. Closer EBITDA is to underlying operating cash flows, lesser is accrual and better is the earning quality
6	Never outsource due diligence to Auditors, Rating agencies or to Independent Directors: Always Trust but Verify
7	Linking the P&L with underlying B/S and C/F statement and connecting the dots with the economic earnings of the company is a serious competitive advantage
9	There is no scope for ignoring aggressiveness in accounting for investors. Numbers Speak. But Listening is an Art. Most of the qualitative factors can be tracked through a suitable quantitative metric
10	Income: Operating cash flows + Accruals
11	Accounting was not designed for investors and accounting standards keep changing. It does not provide for time value of money or inflation and at times does not represent true economic substance of the underlying transaction
12	You can have a narrative for every number and an underlying metric for every narrative, but you cannot model management quality and integrity
13	When the Narrative is Strong, Numbers are usually Ignored by most investors

	Business Related Highlights
1	Repurposing assets for better use and the ability to raise capital at favorable terms are often the ignored sources of value creation by investors
2	There are 7 types of business opportunities and underlying narratives: mediocre business, cyclicals, value traps, fragile business, resilient business, antifragile business and gruesome capital junkies

	Investor and Investment Process Related Highlights
1	There are many types of investors; narrative driven, numbers driven, rabbits, raiders, hunters, assassins, and connoisseurs. There are investors with differential risk tolerance, temperament and time horizons acting on asset prices at the same time, resulting in difference of opinion on prospects of the business which leads to volatility in price and an opportunity for investors
2	Success= 8 % Skill + 25 % courage to seize right opportunities + 66 % luck with provision that the harder you work, luckier you get…Peter Kaufman
3	Mistakes to avoid for long term compounding: Avoid subpar business and management, overpaying for assets, short termism, high risk and win-lose situation, analysis paralysis and premature selling of good business. The margin of safety comes from buying good business at attractive price
4	Current stock prices are embedded expectations of future cash flows, and investors will be well served by monitoring expectations and any changes in the same. Certainty and good price never go hand in hand
5	When you walk down the hall of greater fools, there is a mirror at the end and that mirror looks at you
6	There are no growth stocks, there are only stocks in growth phases
7	"Many shall be restored that now are fallen and many shall fall that now are in honour."- Horace
8	Three hidden gems of books: Devil Take the Hindmost: A History of Financial Speculation by Edward Chancellor, Understanding Micheal Porter by Joan Margretta & The Poor Charlie Almanac by Peter Kaufman

Kuntal Shah: In our field, it is easy to murder a lot of people, but it is very difficult to hide the bodies. There is a real estate company, whose net worth when I was looking at that point of time was less than the money they have raised in the market. Yet every year they have shown profits. So, where did the profit go? If it walks like a duck, if it quacks like a duck, it is a duck. There is no scope for aggressiveness in accounting. I have owned many 100 baggers, which I sold early. And you know, what was the reason? And it took me 20 years to figure this out. So, it is not trivial as far as it goes for me.

Mahalakshmi: How do you distinguish between the opportunity cost of the next buyer versus the greater fool theory?

Kuntal Shah: This is a very loaded question. Let me tell you, when you walk down the hall of greater fools, there is a mirror at the end and that mirror looks at you.

Introduction

Mahalakshmi: Hello, and a very warm welcome to The Wealth Formula. I am Mahalakshmi. And I have with me today an accomplished value investor, who wears multiple hats, an investor, a teacher, and an entrepreneur, with more than three decades of experience in public markets. He was earlier a partner at SageOne Capital and now runs his own investment firm called Oaklane Capital. He teaches at Flame University, Pune. His entrepreneurial endeavour involves developing an AI assistant tool called needl.ai, which helps you filter out unnecessary information and cut out the noise which is of course, very important for all investors. So here he is, Kuntal Shah.

Kuntal Shah: Thank you for having me here.

Mahalakshmi: Thank you so much for joining me. It is such a pleasure to have you here at the studio. First of all, take us through your journey. How did you even get started in stock markets because you were qualified as an engineer.

Kuntal Shah: I happen to be an engineer by qualification but my engineering job lasted for exactly one day. I joined a firm called TVS Electronics and resigned in the evening, fully knowing that the work was not cut out for me. We are talking about 1992 where the computer memory was in KBs. And there were not too many opportunities in that field. We were just coming out of Harshad Mehta's episode where some of the cement stocks went berserk in terms of valuation based on replacement theory, and so on. Later, we realized that was a diversion of banking funds to the stock market, but at that point of time, I had access to people who were running cement plants. In fact, even the MD of ACC at that point of time, did not know what was happening. It sounded very bizarre in the sense that the person who started his career as an engineer in ACC now is the top person driving the strategy and outcomes and he does not know why stock market behaved the way it is. And I thought, if you could figure it out, it would be a very satisfying career and a good puzzle to solve. So, curiosity forced me to join the markets.

Mahalakshmi: But how did you even think that you could figure out something the ACC MD could not figure out at that time, what gave you that confidence?

Kuntal Shah: Well, I was young and maybe overconfident at that point in time, looking back at it looks stupid. But when you are young, you tend to do a lot of foolish things and you are overconfident. And I was one such.

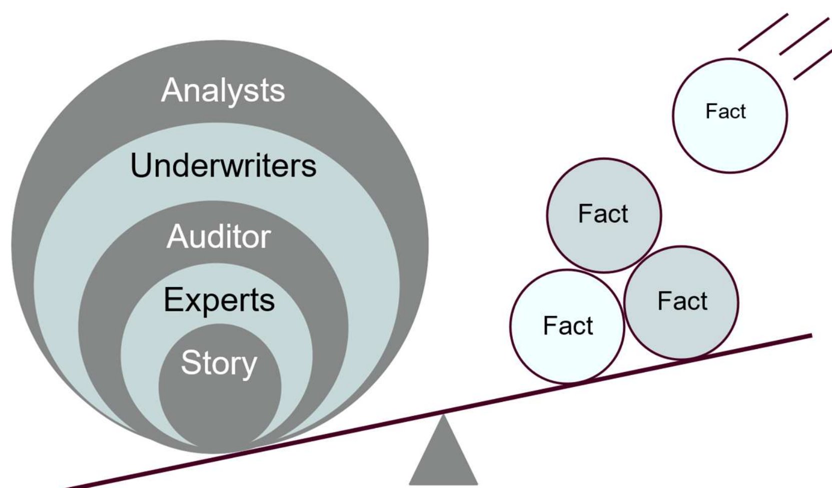
Mahalakshmi: Before going any further, how did your family react to your decision to get into stock markets after doing engineering

Kuntal Shah: Coming from South Bombay, Gujarati family, a lot of relatives were actively involved in the stock market. And many of them had the misfortune of being on the wrong end of the curve in the Harshad Mehta scam. Rightly, they were very worried that here is a guy who is a wannabe and who wants to make a quick buck and is letting go of his career in engineering to pursue something meaningless, like passing the paper around, and it was not so well received. But curiosity still prevailed at the end of the day.

Mahalakshmi: We can talk about your wealth formula, of course, Kuntal but what I want you to first talk about is the 12 equations that are the guiding principles for you. You have articulated this in one or two videos, but nevertheless, it is hard for me to resist asking that question because it is so good

Kuntal Shah: Let me do something better. I feel there are three types of investors; there are narrative-driven investors, who look at the longevity of business, the quality of management, the competitive positioning & market share, they look at all the qualitative factors surrounding good businesses. They are not numerically literate; the narratives drive the investment philosophy. The narrative is far more important than the numbers. Then there are numbers driven, they want to know the next quarter's margins, the sales growth, the capex, you see a ton of them in the conference call congratulating management for the good set of numbers, and then waiting to fill that excel sheet to come out with a target price. Now, numbers are good, but if you cannot connect numbers with the accounting beneath it, then it can give you some very funny results.

Question the Narrative



Source: Veritas Investment Research

Let us talk about this equation of accounting this time, which I think so many other investors miss and end up getting caught on the wrong side of the stick. The first equation of how accounting shenanigans happen? Let us go to the behavioural part, what do management want to portray? Rising earnings, consistency of earnings. What is the earnings equation?

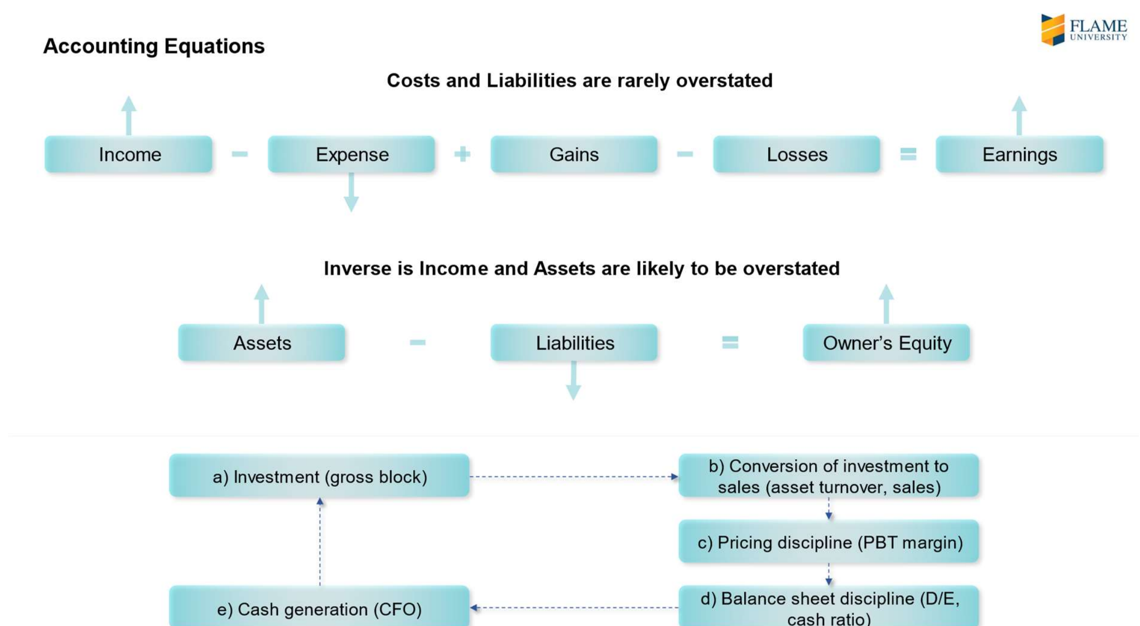
Income - Expense + Gain - Loss = Earnings

On the balance sheet side of the same equation, which is linked to the umbilical cord

Assets - Liability = Equity

Now, if you want to portray a better than rosy picture, you will want to bump up the earnings. One corollary of that is your cost and liabilities will be rarely overstated and your assets are likely to be overstated. Let us look at each of the components. To boost the earning or income, some managements will resort to booking fictitious income, some will prepone the income from the later period to the current period, some will have a lot of accrual accounting where income is not realized but booked, so on and so forth. On the expense side, higher expenses will lower the profit. The easiest way is to push the expense to a subsequent quarter or capitalize the expenses on the balance sheet item, so on and so forth.

Then gains- one-off gains, the management now even postpone the gains to a later period to show consistency, because businesses are volatile, but market over values consistency of earning; 20% growth for 18-20 quarters is more rewarding, and less brain engaging exercise, right. You can just predict the outcome and come up with a DCF model. If you see the accounting standards, they have been changing every 5-6 years, 2007-08 there were changes again in 2013-14 there were changes and later in 2016-17 too, when we moved to IFRS.



Any metric which an analyst values is likely to be gamified.

Profit / Equity Share Capital = ROE

In the above equation, Profit is an estimate. There is a saying which goes like,

Top line is vanity, margins are sanity, profits are an opinion, but cash is king.

"Our attitude toward cash generation and asset management came out of our own thought process. After we acquired a number of businesses we reflected on aspects of business. Our own conclusion was that the key was cash flow."– Henry Earl Singleton

Revenue is Vanity…

Margin in Sanity…

Profits are an Opinion…

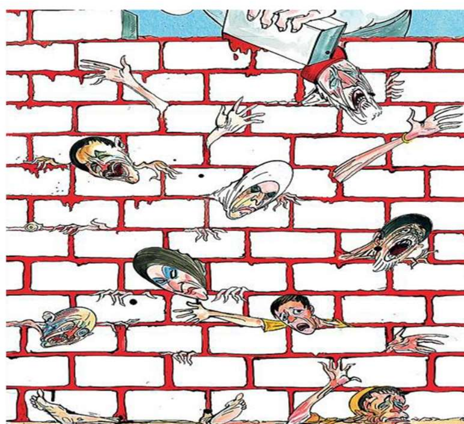
Cash is **King**

One of the most powerful insights used in forensic analysis is:

- **Accounting events** can be manipulated more easily than the **cash transactions** that accompany the economic event
- **"Cash flows"** tell the true story of the economics, and the discrepancy between the "accounting event" and "cash flows" from the event expose all sins
- Easier to manipulate the income statement or the balance sheet in any given accounting period; it is exceedingly difficult to manipulate three statements at the same time unless its outright fraud

In our field, it is easy to murder a lot of people, but it is very difficult to hide the bodies. Now, these bodies are always kept in the cash flow statement.

"Murder(Earnings Management) is easy, it's the disposal of the body that's a bit more difficult"



In response to a shareholder's question on what he found that made him so certain, both Buffett and Munger replied that "there isn't a 40-point checklist" and that value investors need to **understand the interaction between the underlying business model dynamics, and the people running the enterprise when examining the numbers.**

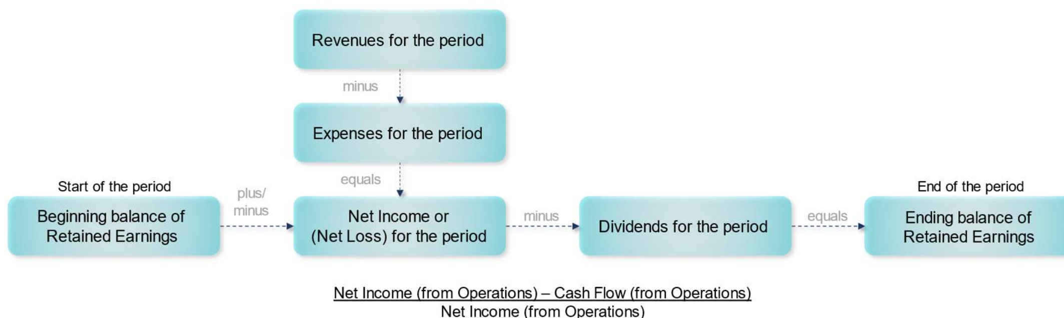
Source: Blogspot, Bamboo Innovator

If you want to overstate your PAT, you can understate the expenses, defer the expenses, capitalize the expenses, not provide for warranties, have lower depreciation and n number of things to improve the number. For retained earnings, we did an analysis two years back where we took Nifty 50 and BSE Sensex 30 companies, went all the way for last 20 years wherever the record was available, and just did a basic reconciliation check of retained equity where we said,

Opening Equity + Net Income – Dividends – Buyback + Fresh Issue = Closing Retained Earnings

Reconcile Retained Earnings & Pay-Outs

The Components of Retained Earnings



BV OF current year - BV of pervious year = PAT– Dividend (Assuming no issuance or buyback)
Percentage growth of BV from Retained earnings vs issuance net of buyback adjusted for goodwill and intangible amortization.

Opening Book Value + PAT − Dividend − Buyback + Fund Raise = Closing Book Value

This equation does not tally in at least 80% of the companies. The numbers tend to be fudged or misrepresented depending on the intent. I will give you a simple example. There is a real estate company whose net worth, when I was looking at that point of time was less than the money they have raised in the market, yet every year they are showing profits. Where did the profit go? The whole thing was prior to the IFRS accounting standards, they would merge their loss-making subsidiary with themselves and the losses would be directly debited to the reserves, which is a retained earning part. Thus, there was a botoxification, of the balance sheet because, the losses never hit the P&L and at the same time the net-worth shrunk because the losses were directly debited to net-worth, hence return on equity looked very good.

Thus, if you are just driven by one metric and you are screening using it, you should realize that the number ROE is a misleading indicator of both, average trend of the earnings power of the company, as well as the capital intensity that has gone into the business. Say there is a pharma company, and it is developing a molecule, for the first 6-7 years it will have losses, which are written off to the reserves, hence, the balance sheets look very neat and trim. Then suddenly, it passes the trials and starts making it, then the PAT divided by net-worth will look fabulous if you ignore the past. Thus, not comparing the numbers across peers and across time can lead to its own calamity. This leads to many checks and balances you can do in accounting. If the assets of the company are growing faster than the earnings and earnings are growing faster than the cash flow, something is definitely wrong,

EBITDA is not equal to cash flow

EBITDA is your propensity to raise debt. It is not equal to cash flow. These are simple checks like how much is operating cash flow resembling to EBITDA. You can just take a ratio of operating cash flow to

EBITDA and the closer it is to one, the better off the earnings are. There are many checks and balances you can do in accounting to make sure that everything is kosher. I think very few investors do it. In fact, Nemish bhai (Nemish Shah of ENAM) who is one of my mentors, has clearly stated multiple times that if you can read the balance sheet and are numerate about accounting literacy, chances of you making a loss to a blowout situation or fraud, or a company which has overstated its earning power is almost impossible. You must be aware that rule number one of the game is not to lose money. And number two is; never forget rule number one

Mahalakshmi: If you can demonstrate some of this with examples, like, you called out Manpasand Beverages, DHFL, etc. What were the triggers for you to look at them in the first place? And how did you sort of navigate and figure out that there was a fraud?

Kuntal Shah: Coming to Dewan Housing, especially because it was a triple A rated company at that point of time. And obviously, almost all companies are either rated or audited or have sometimes a good board of directors. Thus, outsourcing of due diligence never works as far as accounting goes, it is always a trust but verify situation. When you look at the company per se, there has never been a profitable wholesale franchise. At the same time, it never had a retail distribution and a cost competitive advantage. What was the secret sauce? This was very difficult to figure out so you started digging deeper. The first thing to look at is the promoters.

What is the promoter's secret sauce?

When you look at the promoter, there were complex related party transactions with a number of holding companies owning less than 9% of the company. If you do the cash flow analysis, you know that money which was raised was being routed back to the company to buy the shares of the company. There were a lot of red flags about the whole company; the holding structure and the way it funded itself in the first place. Obviously, the mega issue where they raised INR ~19,000 crores. We did the due diligence of sample branches, and the numbers just did not seem to add up. Then we went to the whole cash flow, we downloaded the balance sheets of all the related party transactions, really reconciled the cash flows, this took us almost two and a half months to do. We concluded that this company's numbers were not up to the mark. Let me tell you, this did not give any results as the stock went up from 200 to 600 after that!

In our markets being early is as good as being wrong.

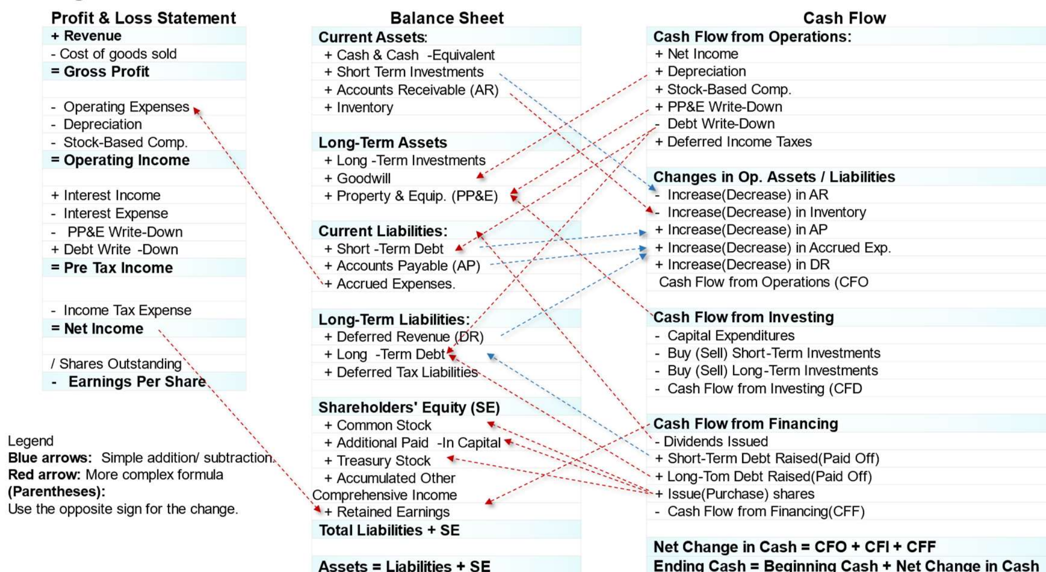
Mahalakshmi: Anything else? Any other examples

Kuntal Shah: Again, an example to highlight the fact why accounting is critical. You are comparing three oil and gas companies which are in the business of drilling. Let us assume they are all drilling in the high seas, and the average well cost is a $ 50 mn. Now there are two binary outcomes. Either you strike oil or the oil well is dry. For the $ 50 mn you invested, there are 3 accounting options at that point of time. 1) you can choose to write it off and you immediately take a hit on your quarterly earnings and the balance sheet is lean and clean and investors know this. Does it reflect the true picture of the business? Probably yes, probably no. Why No? Normally a large exploration area of hundreds of square kilometres is given and sometimes the rock formation at that place may not be ideal. And you will have to dig a series of 40-50 wells to realize the true potential of the whole cascade in the oil industry.

2) Another option is, over the next five years, I am going to dig 50 wells. And I will capitalize all of them and depreciate them over a period, which is a perfectly fair accounting terminal. 3) There can be more serious and more aggressive accounting, where you can take a view that the government has said that

there is X mmcd of gas, and X barrels of oil out there, and I will capitalize the well and start expensing it once I start digging and selling oil, and even that accounting treatment is right.

When you look at the balance sheet, and P&L of all these three companies, they will look like cheese and chalk, they will not be comparable. The only thing comparable will be the Cash Flow Statement underlying it. If you do not connect the three financial statements and you are just focused on either P&L or balance sheet, you are giving yourself a big disadvantage, and numerically you would be right but then you will be focusing on accounting earnings, not true economic earnings of the company.



Another example is for- timeshare, you promised to give 25 years of holiday vacations to the customer and the customer is giving you upfront lump sum money. Now, how is it accounted for? A large portion of that is recorded in that year as revenue. There was a company called Cendant in the US, they used to account for 80% of the money you gave as income in 1st year itself, was it the income of that year? Or was it an advance which had to be written off over 25 years? Even the top line can be misleading, forget the bottom line. Knowing how you link the numbers with the underlying cash flow in the business is extremely important otherwise, it can lead to very disastrous outcomes.

Mahalakshmi: This is true for companies where you have long term liabilities, and then, milestone payments, and how do you account for that? Can you call out some ground rules? For example, cash flow conversion; definitely everybody emphasizes the importance of cash flows and looking at cash flow growth, instead of looking at earnings. Could you share 3-4 metrics that you need to track without getting into nitty gritty or change in accounting principles and the impact of that, which is obviously a harder task. If you are an accounting professional, you will go down that line, but for lots of other investors who might just want to have a basic checklist on how to go about it, which are the 3-4 metrics that you would emphasize on?

Kuntal Shah: That is a very interesting question. At FLAME, I teach this topic on and off. One of the first important things I ask all the students and investors to do is prepare a common size statement of the P&L, balance sheet and the cash flow statement. For common size P&L take revenues as 100% and make everything a percentage of that, and you do this across time and across peers. Now, the beauty about this is all the management cannot be fraudulent, and some of them would be conservative. For

example, there are 2 telecom companies, they both have scaled operations and are comparable in terms of numbers of subscribers, but one company is spending 6% of its revenue in depreciation and another is spending 2%, you better know what that secret sauce is. Now, it could be genuine that this company might have imported very costly equipment from Europe with a long life, and another company might have imported from China at a lower price or might have developed it in house and there might be some challenges with that also, but knowing why there is a deviation across two comparable peers or across the same company across time give you signals. In fact, 80 to 90% of the time, you will be able to come to at least the metrics where you need to focus on & why.

There is a saying, right? If it walks like a duck, quacks like a duck, it is a duck. Always remember there is no scope for aggressiveness or optimism in accounting and a healthy dosage of scepticism is required to make sure numbers add up. It is always buyer beware; Caveat Emptor has been the guiding principle for the industry since the birth of the investing field.

Secondly, as I told you in the earlier part of the equations, is that costs and liabilities are rarely overstated. That means, assets and equity are likely to be overstated. Any company where assets are growing very fast, in relation to profits, and profits are growing very fast in relation to the underlying cash flow, you must be very careful about the accrual income. Income is operating cash flow plus accruals, which you have booked, but you have not realized. Once you understand that philosophy, you must start looking for where the mischief can potentially reside.

You must start with the assumption that there is something wrong and prove yourself wrong. You can do a lot of checks and balances like checking for the retained equities, common size statements, etc. For a curious student, the SEC publishes all kinds of accounting wrongdoing in a very summarized manner every year. Innovation in business, leads to innovation in accounting, and regulators are always behind the curve

Generally, the smell test is if you start linking the impact of any change in a particular item with the remaining two statements i.e. link balance sheet, P&L, and cash Flow statement. There are a range of ratios, you can develop where numerator and denominator come from different accounting statements, when you start doing that across time, and across peers, a lot of deviations come to your sight, and then it just does not take too much time. Because once the spotlight is focused, it is very easy to figure out what is the underlying economic substance of the transaction, and how it is accounted for. Sometimes, that is the right way of accounting, because accounting has not been designed for an investor. It does not account for time value, certain assets are recorded at cost, certain are marked to market, there are a lot of discrepancies out there. Take everything with a pinch of salt, and do not keep a rigid mindset that everything is fraud or everything is kosher, the answer is somewhere in between.

Mahalakshmi: Sure, I will ask you one question about ROE, because ROE is like the magic metric, everybody talks about it, everybody uses it, and especially after this idea of moat, etc. But the easily quantifiable term is really ROE. How do you look at that? Because you brought up this point that how ROE itself can be distorted or decorated because of accounting principles? Is there any smell test there? How do you decode, what I have always found interesting is the DuPont model, you just decompose it into three parts and see. Just looking at the profitability of the business versus the input output ratio versus the leverage; those three things for me tells the story, but that also you are saying this can be decorated? So how do you look at that, any thumb rules to see whether this ROE is for real?

Kuntal Shah: The person who developed the DuPont model was an engineer. Let us extend the ROE a little bit by asking a broader question that how does management deliver value for the shareholder? There are limited ways a management can deliver value to the shareholders, let us go one by one through all of them; they can reduce interest cost, reduce taxes by judicious choice of low tax regions or policies or PLI etc. They can increase the margin by increasing price or reducing cost. Either you really be very cost focused like a DMart or Bajaj Finance or high margin with premium pricing like Titan and so on and so forth. You need to know whether you are a low-cost player with high asset turnover or a very high margin player with low asset turnover. Secondly, obviously with the same amount of capital, you sell more, which is capital efficiency. The last is obviously, you carry more assets on your book, relative to the size of equity through financial leverage.

There are two other cases which are not reflected in this equation, which is a tremendous source of value creation, in my opinion, is when company's management changes or changes its strategy to repurpose the asset to the greater good. That could come through an M&A or disinvestment or a corporate restructuring or a spinoff, or going private which is a tangible corporate action, but not reflected in ROE. Because, if everything was incorporated in the past, then historians would be the richest, but things are dynamic, it is an unfolding movie. This is a source of value, which ROE does not capture. Also, what ROE does not capture is one of the secret sauces, where the largest number of billionaires have been made in the world is the ability to raise capital from the market at favourable terms, that includes both debt and equity, that is not captured in ROE. Those are the negatives. If you then decompose and look at each of the components in the business with the lens of what is the management doing? The last is obviously the compounding equation, which is,

Future Value = Present Value * (1 + growth rate) ^ time

The steps management is taking to lengthen the growth period, improve the returns, lower the risk. Note down what they are and then you start looking at businesses from those angles, the metrics will pop up. The metrics will change for different businesses. For retailing, it could be per square foot sales, for hotel & communication it could be ARPU. There is no one formula which fits all sizes or all cases, but once you start viewing businesses from this angle, you can decompose them into greater metrics and you can bring each of these metrics into sub metrics and keep peeling it away.

Mahalakshmi: When you started off with the equations, you said, there are three kinds of investors. The first kind of investor you said is investors who are driven by narratives and the second kind of investors by numbers. What is the third kind of investor?

Kuntal Shah: Based on how investors make decisions to buy and sell the company, there are 5 more varieties of investors. This is a concept I learned from this book "The Art of Execution" by Freeman-Shor where he says some of the investors are like **rabbits**. They never sell, even when they know that company is going to the dogs, they continue to hold and wait for the price to come up. Then he says some odd investors are like **raiders**, a few percentages up or down and either way they are out. A lot of these are algorithmic traders and market making.

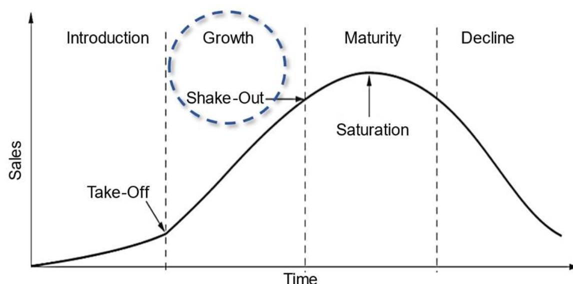
Third is **hunters**, they do not put all their money at one shot, they gradually keep averaging their price when it goes down, but they have a stop loss that when the price falls below a certain level from the original purchase price they just get out. Then there are **assassins**, about whom he says that no matter what, cold emotion, if stop loss is triggered, just realize that the market is more efficient, just be humble that markets know more than you, take losses. Many times, you will end up selling good companies but many times it just saves you. It is very contextual.

The last of the guys are the **connoisseurs**, they are probably investing in companies which are great compounders. The time horizon is very long. There the problem is to deal with the boredom and to make sure you have a right position sizing out there. Depending on this attitude towards investing, you have diversity or this kind of investment class and it coincides with the diversity of the opportunity set as well. Many of us who have been fed this concept of quality from great investors like Warren Buffett and Charlie Munger but if everybody chases quality, then who will take care of non-quality stuff.

One thing I like about what Howard Marks said is, "There are no growth stocks, there are only companies in growth phases." Terminal value of almost all businesses, you can say with certainty, is zero at some point of time, they will cease to exist, will be taken over or go bankrupt. Many of the businesses are mean reverting. Remember, "Many shall be restored that now are fallen and many shall fall that now are in honor."- Horace. But you do not know when. In many businesses, because of the way the capital cycle works, and the way the investor psychology cycle works you must be a different type of investor. While investing in commodities if you have a long-term horizon and long holding power, you would be dead, because over a period, your returns will be just average cost of capital, you will never outperform so there the timing is the only thing that matters. In fact, the only advice you can give is buy when the PE is negative, the company is in loss and sell when the PE is in high single digits when it looks cheap. Obviously, there are caveats attached to it, that in a cyclical you must buy companies with lowest cost of production, least damaged balance sheet, and who is expanding the capacity during downtime, so that he is the last person to be taken out. So, depending on your investment style, the sell decisions also matter and again there is no one size fits all solution.

There are No Growth Companies, but there are Only Companies in the Growth Phase

Company Life Cycle:



"Frequently, you'll look at a business having fabulous results. & the question is, "how long can this continue?" Well, there's only one way I know to answer that. and that's to think about why the results are occurring now – and then to figure out what could cause those results to stop occurring."– Charlie Munger

Reasons for Slowdown in Growth:

Competition
Competition gets attracted to high growth. Competition leads to decrease in margin & eventually growth slows

Inefficiency:
Very few companies can continue with same efficiency, as the size of the organization increases. Bankruptcy tends to slow down growth

Stall Out
The companies capture all the market available to it. Because of this the companies start to slow down

Source: Marketing Insider

Mahalakshmi: **Tell me about the narrative-based investor. Is there something to learn and make sure that you do not lose money, reminding ourselves of the rule number one, rule number two of Buffett. When you are, you identify with narratives, and that is the only way and we see a lot of Indian investors are driven by narratives, now, because there are so many themes that people are excited about. While following narratives, are there some guardrails that you can put to ensure that you are not getting totally carried away?**

Kuntal Shah: Let us see what types of business opportunities exist in markets right. There are mediocre businesses less we speak about them better it is. Nobody wants to buy them unless you are a raider

kind, you buy for a few percentage points up or down, like making algorithmic trade or news or sentiment driven. Then there are mean reversion traits, cyclical and so forth. Then there are companies which are value traps, here narrative is quite important because they look statistically cheap relative to their peers, the important thing here is the catalyst for renewed growth or reinvestment are missing. Most of the investors start screening for stocks by certain criteria, eliminating a lot of fragility and unwanted metrics and having a universe which is addressable.

A universe which a small team can manage, because there is only so much information that you can process. Where narrative really helps is to bucket the ideas and have some common themes for evaluation framework. In value traps the narrative is what are the catalysts which will change the statistically cheapness. Then there are companies which are good in normal times, but they are so fragile that when a shock comes, they get taken for a ride. Then there are companies which are resilient to shocks, they remain where they are, but they do not gain from the shocks. Then there are some great businesses which are anti fragile, right that when the chaos hits, they get a competitive advantage. And there are some gruesome businesses which are capital junkies, they keep diluting, the growth here is like of cancer. So, in which pocket the narrative about each company fits in is extremely important. Then coming to the great businesses, the narrative is critically important because you are trying to constantly evaluate the longevity of their growth, the size of their cash flow and the management, which are very difficult parameters to model. I do not think you can quantitatively model Management pedigree. There are rules, checks & balances, observations, empirical evidence on their capital allocation, but there are no set processes. The narrative becomes quite important, but always link narratives to numbers and numbers to narratives, otherwise the outcome can be hazardous. Using either of the two works well for different categories of investors, but I am more towards the middle where every metric or every qualitative information gets translated into some metrics or a trend. Linking the two is quite important as far as I am concerned.

What are the Qualities that Bring Longevity, Resilience & Anti-Fragility?

"Antifragility is beyond resilience or robustness. The resilient resists shocks and stays the same; the antifragile gets better."
– Nassim Nicholas Taleb

What investors **Focus on**

What investors **Ignore**

$$A = P\left(1+\frac{r}{100}\right)^{t}$$

Parameter	Fragile Companies	Resilience/Robust Companies	Anti-Fragile Companies: Resilience with Optionality
System	Efficiency Optimized	Redundancy & Buffers Driven	Degeneracy
Error Considerations	Hate Errors: Irreversible, Large Errors Leading to Blowups	Longevity of Growth	Fail Fast, Frequently But Cheaply
Incentives	No Skin in the Game	Skin in the Game	Soul in the Game
Management Consideration	Reactive Delayed by small changes in plans Siloed	Proactive Survives change in plans Partially Connected	Positive Serendipity Gets better when plans change Fully Integrated

Mahalakshmi: I will take that point. But the challenge is how much should you be compromising on something, like you never get the perfect combination of growth and value, i.e. a great business, valued attractively, with a good management, but you never get that combination. Right? How do you evaluate and attach weights to various parameters, could you demonstrate that with your own

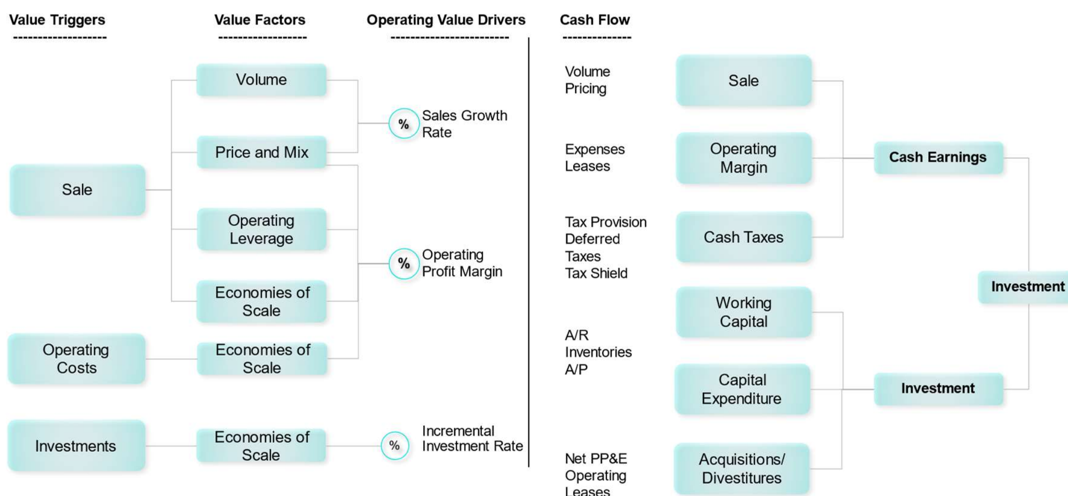
examples on how you weighed the narrative versus the numbers. With your deep dive analysis on accounting, you might find some things you do not like, where the management is not adhering to something. Some cases are easier to eliminate, where you could say I am not getting into it as it is likely to blow up, but the choice of where you would invest will have shades of grey. Could you give us a few examples of how you navigated this combination effectively.

Kuntal Shah: You rightly said certainty and the price never go hand in hand and there will never be a perfect investment opportunity in the lifetime of an investor. Secondly, there is also a big decision once you have bought a good stock led by a capable management, how long you ride, how long you will not sell, that is also a critical decision. And third, the most obvious one is, narratives are good as a starting point, but they are never an end to themselves. Any business which demonstrates superior return is likely to attract competition very quickly.

For example, when the telecom business started, there were about 26 license holders in different circles like Karnataka, Maharashtra, each of them were highly profitable. Over the years the industry consolidated through M&A, today, you have two and a half players in the Telecom industry. And if you look through the accounting statements, only one is profitable in terms of economic earnings. There has been tremendous growth of revenue, with scale and consolidation, but investors have not gained in this process. The narrative was very good for the telecom industry, the growth story of India with 130 crore people, the fastest growing market. If you just go by the numbers, the telecom market is one of the hottest markets in India, but very few players have made money. That is how you separate the wheat from the chaff.

Another way of dealing with narrative versus numbers is, you can do the reverse DCF. What are the embedded expectations about the business priced in today's stock price. And those narratives are constantly bouncing around medians, as the sentiment changes, or the liquidity flow changes, as the time horizon changes. Our market consists of players with a one-hour view, one day view, one week view, one month view, one quarter view, one year view, one decade view and infinite view, when all of them act on the same asset at the same point of time, the difference of opinion is inevitable. And which faction will dominate at that point of time is called out by the marginal investor.

Monitoring Expectations Embedded in Current Valuations Monitoring Business Values and Stock Valuation Drivers



Let me give my own examples. I have owned many 100 baggers, which I sold early, and it took me 20 years to figure out the reason, so it is not trivial for me. I used to wear the lens of my own opportunity cost, so whenever the stock delivers, the profit grows, the stock from undervalued becomes fairly-valued and later overvalued. And this would invariably create an urge to book profits as I thought it is expensive, it is risky. Little did I realize that as a company scales, many non-technical things happen, they get included in F&O, they get included in indices, they attract institutional investors, which require liquidity, consistency, and track record. So, as the company scales, you must look at the opportunity cost of the last marginal buyer, not yourself. And in this process, by this simple error, I ended up selling so many of my companies very early because of statistical expensiveness.

Mahalakshmi: How do you distinguish between the opportunity cost of the next buyer versus the greater fool theory?

Kuntal Shah: Well, this is a very loaded question

When you walk down the hall of greater fools, there is a mirror at the end and that mirror looks at you

The way I have started to look at it is, whenever there is an urge to sell because of over valuation, I have developed a checklist. The checklist goes something like this, obviously, you sell when the hypothesis goes wrong, or management does something stupid or competitive advantage is reducing, all of that I am parking for now. But, if the company is delivering, if the management is diligent, all the factors are in place, and only the market is bidding up, then the flows really matter. Institutional ownership, liquidity, inclusion in index, inclusion in F&O, all these are trigger points. And those trigger points have to be digested, because otherwise, you will end up selling very early, and you will lose the compounding journey. This I have learnt very late, after two decades have gone and now, I have developed some strategy called foot in the door, like buying in every small dip, but while selling also, you sell a small fraction of your ownership and not just selling out completely. I think that allows you the psychological comfort to ride the upside. I think this is what works for me, I do not know any protocols for this.

Mahalakshmi: Do you average when after buying the stock goes down? Are there any principles that you follow, while averaging?

Kuntal Shah: I do not get anchored to the purchase price, because that would serve as your reference point for the future purchases. But there is one thing, with every significant drop in the purchase price, say 20%-40% is a definite trigger for introspection. Because in investing, you must handle a bundle of contradictions, like long term is a series of short term, you must be confident enough in your hypothesis that you are right, but at the same time, you must be humble, that market collectively knows something better. All those contradictions you handle. This triggers off a fresh round of review, as if it is a clean slate inquiry. And as if you are making a fresh purchase initiation, and at the end of the day, if you still come to the same conclusion, I would tend to average, and that has happened many times.

In fact, many of the multi baggers I bought have fallen after my purchase and we have added more. Ideally, I would wish that nobody should have very big multi baggers, because you should average up as the company and the management deliver. Averaging up is a perfectly rational way of position sizing, averaging down is not a perfectly rational way of position sizing unless you are damn sure of your investment hypothesis. This is only applicable to very concentrated investors who do not mind averaging down. Depending on your hypothesis, and when I come to the assessment that there are forced sellers which are selling for reasons beyond the fundamentals. Those are the only times I average down. Where I have genuinely proved myself selling is happening because of forced selling. It

could be a levered promoter, it could be a leveraged investor, it could be a financial crisis, it could spin off, where institutions want to get out of the stock because it is very small, as the new company is not a part of indices. All those technical reasons would make you average down for sure.

Mahalakshmi: But you do not question the wisdom of the market. That is what you are saying.

Kuntal Shah: In every act of investment, partially you are questioning the wisdom of the market because it is an act that you know something better.

Mahalakshmi: **If you are not able to match it with any technical reason, there is some wisdom in the market.**

Kuntal Shah: Then there is wisdom in the market. Market collectively is quite efficient and getting more rational by the day.

Mahalakshmi: And even while you are averaging on the upside, are there intervals that you plan upfront or how do you do that?

Kuntal Shah: We did an exercise where we took both the main indices Sensex & Nifty. All the companies, which were a part of indices at one point of time, and we went through the history. Can you guess, what was the median difference between the high and the low of the share price in any given year, for both greatest of the stocks and the worst of the stocks?

Mahalakshmi: I would not know but 50%?

Kuntal Shah: It was 40%. Markets tend to give opportunities for patient investors, as long as you have stability of capital, no stressful decision-making environment, it keeps giving you opportunities to keep buying good businesses at regular intervals, and many of the businesses sometimes consolidate for two or three years, where nothing happens. So, those opportunities keep coming up and you keep on taking advantage of them.

Mahalakshmi: **Cool. And you talked about value traps, what are the questions you ask? How do you decide whether it is a value trap or not?**

Kuntal Shah: Value traps are statistically very cheap and very alluring. First question to ask is, why is God so kind to you only? Why are you the only one who has this tremendous insight, that this stock is cheap, and other people in the market who are competitive, hyperactive, hyper smart, and intelligent are ignoring this company. Let me give you an example. Redington is extremely cheap on multiples, but is it a value trap? Is it melting ice? Or is there an embedded growth optionality? Can the company have a growth phase? Can a company come out with some new product offering which can introduce growth and allow it to recapitalize? Now, this is a dynamic exercise, it cannot be looked at, as a still picture. You must revisit the hypothesis, every few intervals. Two checkpoints of the value traps are they typically do not grow more than nominal GDP. And they cannot reinvest the cash flow, so they pay out a lot. Then the question only remains is what is the catalyst which introduces growth and allows them to reinvest capital without paying it out?

Mahalakshmi: **So, if there is no trigger you do not invest?**

Kuntal Shah: ITC was one classic example that became a famous meme stock. It had great cash flows. It was like 210-220, there would be memes flying around. What is the catalyst which will change that narrative is the sole question to focus to decide whether to participate in a seemingly under-valued company?

Mahalakshmi: Could you call out any catalyst at all in ITC? Because it was just a natural progression where taxes faded away, and then volumes of cigarettes started to go up. Was there any catalyst that you could have pointed out and say okay, this is when it is going to turn and therefore let us position ourselves.

Kuntal Shah: Management also felt pressured, they said they will do value enhancing exercises, like consider the demerger of hotel business. Sometimes, I just think it was a classic case of ESG examples taken to extremes, the sin industry, where a lot of these fund managers took a call on the societal impact of the business and sold. I did not have any position in ITC, but I am just giving you an example. I think the real culprit behind this was the framework with which the fund managers were evaluating the sin business side of ITC. And at some point, the market took it off.

Mahalakshmi: Fair enough. What has been your best investment so far? And how did that come about?

Kuntal Shah: The best investment so far is not the one where I have made the most money or where the IRR is the most. It is the stock where I took the least amount of risk. This happened in the post 2000 Ketan Parekh Scam, Unit Trust of India's UTI-64 scheme had to be wound up and they had shares of a company called Burroughs Welcome. It does not exist anymore because it got merged with Glaxo and UTI was constantly selling it and the company was below book value. Here is a company owned by GlaxoSmithKline from the very reputed Beecham group, which is IP driven with not a single year of loss, with very high dividend & very high ROE but trading below book value? So, what was the catch?

Also, Glaxo's Global Parent ownership in Burroughs Wellcome was higher than Glaxo India, but Glaxo India was the larger liquid name, so it used to trade at four times the valuation of Burroughs Wellcome. Now worldwide Burroughs Wellcome and Glaxo had merged. But in India, the merger had not happened because two employees had filed some case and pending the case, the merger could not happen. So, we went to meet those employees, it was some frivolous case requiring 15 lakhs of payout and we knew this would settle at one point. We took a very large aggressive position. I was managing an offshore fund at that time and we almost went up to 9% of the company without breaching the statutory limit of 10%. And immediately the problem got solved, and merger was announced. For one share of Burroughs Wellcome, we got 1.7 shares of Glaxo, the price of which was 4x Burroughs Welcome. It was one of the least risky investments with very low downside and unlimited upside the way I look at it. Well, that remains the best investment we have made so far.

Mahalakshmi: Okay, any other investments that exemplify your way of thinking? I am sure it applies to every single investment but something that you are really proud of.

Kuntal Shah: There are some stocks which I hold dear because I had the conviction to hold them for more than two decades. Three stocks come to mind, Gujarat Fluorochemicals, Bharti Telecom and Bajaj Finance; I held all three for almost two decades each.

Mahalakshmi: This makes me very curious, because you mentioned about telecom where growth has happened but then returns for investors have not come through. What made you keep your faith in Bharti?

Kuntal Shah: The trick was, I did not hold Bharti Airtel, I held the parent unlisted company, Bharti Telecom before it went for delisting. The company was listed in Delhi stock exchange at a market cap of 180 Cr when we started buying.

Mahalakshmi: Right, that is the share you hold now?

Kuntal Shah: We sold when the promoters bought out all the minority shareholding by way of consolidation of shareholding. We held the company for almost 18-19 years and sold it in 2015-16.

Mahalakshmi: So, you sold, when you sensed that the dynamics of this business will change...

Kuntal Shah: It was fairly-valued, became a part of index, competitive intensity was going up with Jio and we thought it was time to take profits.

Mahalakshmi: Do you still hold Bajaj Finance? What makes you keep faith?

Kuntal Shah: It was a mono line and captive financer of Bajaj Auto. In 2006-07, even the management did not subscribe to the warrants when the market cap was less than 400 cr and NPA was 12%, everything wrong was happening. But the change in management happened when Nanoo Pamnani and Rajiv Jain really took the biting, provided for the losses, started diversifying and today they have some 30 lines of business, each of them growing. Housing finance, in five years, they scaled to almost 1 Lakh cr.

I am still holding the company because, a) the company is gaining market share, b) candid in communication. I think they have one of the best disclosure norms in the financial industry. c) very early adopters of technology. They are very transparent with investors, during the Covid-19 time, they were the first to call out that it would have a significant impact on them. As the company scales, I have realised now that investors like a sovereign wealth fund, who are happy with 4% and 5% return would also enter the stock, so that knowledge has helped me in holding on even though it is expensive.

Mahalakshmi: How do you look at the competitive intensity that Bajaj Finance might be subject to with a new player coming in. Secondly, how do you justify this kind of valuation discrepancy, it is way more expensive than its peers. Thirdly, the scale is big now. On paper, there are so many things stacked up against Bajaj Finance but you are holding faith.

Kuntal Shah: Financial services is the second oldest business in the world, it has been around since time immemorial. Competition in the industry keeps coming in and going out. It is the easiest business to enter and hundreds of Indian corporates have entered but failed. It is a business of execution and it has the highest profit pool even today. Even globally, the financial services sector today has the highest profit pool and the highest market cap. We think it is the technology sector but it is not, as the financial services sector captures profit pools from several industries. Also, it can reinvest the profits it generates at scale and that a Nestle or Hindustan Lever cannot, if they start doing it, they would be forced to do some funny things. So, you can redeploy capital at a high rate of returns and at scale.

If you study every country whose per capita GDP has grown from $2500 to $10,000. The single biggest beneficiary of that has been the financial services sector. While it looks like there has been a 20-year compounding in various stocks like Kotak, HDFC and Bajaj of the world. We are at $2500 per capita GDP, which is the threshold at which your basic needs are taken care of. You have the propensity to prepone consumption and pay for the EMI. I think the golden period for the financial industry is about to begin. And at $10,000 per capita GDP, the financial services industry will become highly overcrowded and highly penetrated. Today, the penetration is low, the mortgage penetration has barely touched double digits, so there is a long runway to grow. It can redeploy capital; ROAs are fantastic and you have an intelligent fanatic driving the business. One knows it is expensive but you keep holding, it is not a decision one has to take every day.

Mahalakshmi: Fair enough. How do you avoid mistakes, any equations to avoid mistakes?

Kuntal Shah: Another loaded question. There is a litany of things which can go wrong, but let me simplify the conversation. What is the essence of compounding? Future value is present value, rate of growth, longevity of growth exponential. Let us look at each of them. If you overpay for an asset today, the base rate will kick in and you cannot have disproportionate growth from that point of time. For example, Wipro market cap in 2000, became 1-2% of India's GDP. After that the company has continuously seen growth in profit, dividend, but for 20 years the market cap never reached the highs of 2000.

Anybody who says that growth stocks can be bought at any price has not been a student of history. Because if you look at the Nifty 50 era in the US, when all the banks were allowed to sell mutual funds in the market, there was a list of these 50 stocks, which could do nothing wrong. They included Johnson and Johnson, IBM, Pepsi, etc., their PE multiple went up to 85-90. And in subsequent 20 years the PE went down to low double digit PE multiple, and investors lost 80 to 90% of their wealth. There is a corollary to it, if they held on for subsequent 10 years, they would have still beaten the index. The holding period and the stability of capital in mind also decides your returns.

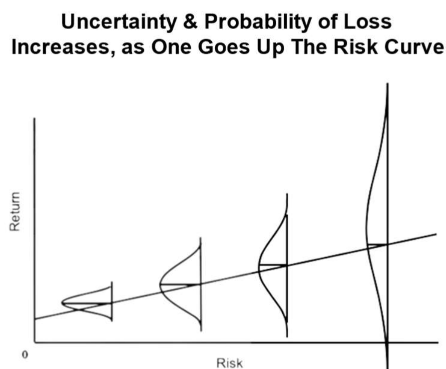
Mahalakshmi: Would you count that as an underappreciated risk, in the context of India, there is so much premium attached to high quality. Long periods of underperformance can drag down your overall returns. Is that something you would appreciate as a risk?

Kuntal Shah: If you look at Hindustan Lever, there have been 10-year periods where stock has not gone anywhere. Future price is a function of present price and margin of safety only can come from the attractive price in relation to the size and timing of the cash flows. Look at the second part of the compounding equation, which is the rate of growth. What makes you entitled to have superior growth time and time, quarter and quarter, year and year, decade and decade, it can only come from some sustainable competitive advantage in business.

Risk and Return

This May Not Always True

Uncertainty & Probability of Loss Increases, as One Goes Up The Risk Curve



"Investments that seem riskier have to appear likely to deliver higher returns, or else people won't make them." -Howard Marks

Source: Quote Master, Oaktree Capital

Many of these economists and the theoretician say high returns do not come without high risk, but this is wrong. In fact, most of the time high returns come with very low risk, because the management is taking steps to conduct the business in a very low risk manner. The way to conduct the business in a

very low risk manner is, once you have a good product with a competitively advantaged position, the management should focus on a win-win game where they are always winning with their vendors, customers, regulator, society, investors, bankers, employees, and other stakeholders.

Think Win–Win

Every day, managers must decide whether to enjoy a Dollar of profit this year or two Dollars a few years from now

Gillette

- 1996: Promised investors that it would grow its earnings at 15% to 20%
- Began channel-stuffing products to its' distributors to meet projections
- CEO Kilts stopped issuing earning guidance
- Overextended pricing power benefited in short term but drove customers away & invited hungry new customers

Southwest Airlines

- Kelleher: Sold a plane instead of laying off employees & formed a "No-Layoff Policy"
- 2010: Was the biggest domestic airline in USA, with a market cap. Greater than all its domestic competitors combined
- Happy employees take care of the customers. Happy customers take care of the shareholders by coming back

HCL

- 2005: Vineet Nayar made sure that employees have what they need so that they are able to meet customer's needs Managers were accountable to employees
- 2009: Revenue increased by 3.6 times and operating profit by 3.4 times even during 2008 recession Revenues rose by 23.5%

Starbucks

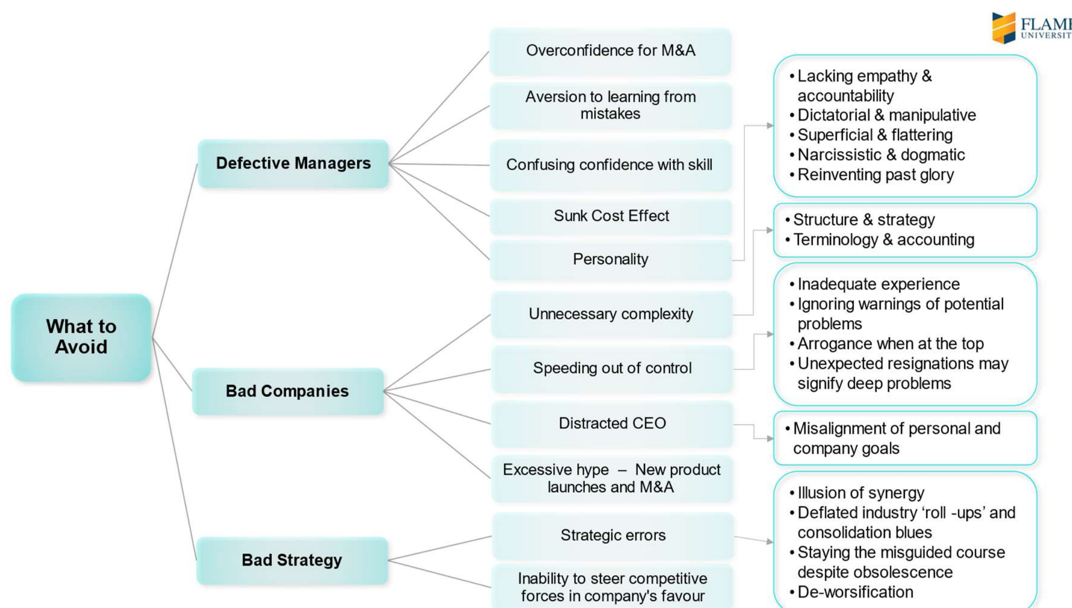
- 2010: Howard Schultz said Starbucks had paid around $300Mn in healthcare costs in 2010
- Decision Unpopular with the investors
- Declined the offer to cut Healthcare spending to retain the respect and value of his employees

Costco

- 2008: Galanti refused to make employees pay more than 10% for healthcare to save $10 – $20Mn per year
- Wanted to give their employees as much as they could in tough times

Source: The Investment Checklist

Also, one must constantly re-evaluate whether the management is creating fresh optionality of new S-curve growth by either expansion of product or geography, changing product mix and so on and so forth. With this framework, you can evaluate what to do, like a decision which makes business fragile or you get into a win-lose game or you have a defective management or you get into defective decision making which should be avoided. There is a litany of factors I can tell you on what to avoid. But ultimately, they are all things which hurt either longevity of the business or the competitive advantage of the business or overpaying. If you avoid these three mistakes the results are likely to be very good for an average investor.



Source: Mind Matters, Societe Generale

Mahalakshmi: Fair enough. Avoid overpaying and paying the right price, I think it takes a lifetime to understand that though simply put. Some quick questions, are you a morning person or a night owl?

Kuntal Shah: Mostly a morning person.

Mahalakshmi: Okay, what is your daily information diet?

Kuntal Shah: The information has exploded. In fact, the product needl.ai, which I am working on, is a byproduct of managing information. Over a period, we have realized that there are certain people who give you the right information and there are certain right sources. And you just tend to limit reading habits to those sources.

Mahalakshmi: What do you read every day, apart from annual reports?

Kuntal Shah: I tend to read some blogs, because there are some writers who do it out of love and affection and not for commercial consideration. I read a lot of history books and management books. Businesses are run by people, they serve people, asset prices are set by people, regulators are people, everything is people driven at the end. And there are billions of people who have lived before us and have gone through various things. Let me give you an example. When the Covid-19 crisis struck, I read an article in 'The Economist', where they studied all the wars and pandemics from the 13th century to 2018. And they clearly stated, the next five years of a pandemic result into an unprecedented boom. Now, if you had read that and understood history or had knowledge at that point of time, you would not be so worried. You would not have acted like a frozen baby, taken some cash call, and done something stupid. Reading about history, businesses is the most satisfying thing apart from balance sheets and research reports.

Mahalakshmi: Tell us three blogs that you read.

Kuntal Shah: Farnam Street, 25iq, Compounding Quality, Stratechery there is a list of 400 resources. I am a fan of long form reading. I would like to deep dive, so I tend to read long form content.

Mahalakshmi: Okay. And how many hours do you read every day?

Kuntal Shah: That is all I do.

Mahalakshmi: All right. Do you believe in luck?

Kuntal Shah: I had the fortune of meeting Peter Kaufman at Glenair. Somebody had asked him what is the reason for success? What are the factors which contribute to success? I think his answer is bang on. His answer was 8% skill, 25% courage of seizing the opportunity at the right time and the rest 66% is luck. But with one provision, the harder you work, the luckier you get.

Mahalakshmi: How much of your success do you attribute to luck?

Kuntal Shah: I think the ratio remains the same.

Mahalakshmi: Alright. An error or a mistake that you have been prone to, what has been the hardest thing for you to correct?

Kuntal Shah: Analysis paralysis, as you said, there are no perfect investments and sometimes I overweight factors which never played out. And you ended up losing by not making an investment, there are many acts of omission. They never appear on your balance sheet because you never acted on it. And the act of commissions are the ones I told you, premature selling because of your perceived expensiveness in relation to your opportunity cost which I think is something I figured out. Now you

have people with differential expectations, liquidity needs, return expectations, and they are the ones who set the prices. These are the two mistakes which hurt the most.

Mahalakshmi: Fair enough. Your sounding board for investments.

Kuntal Shah: Lucky to have good mentors, some of them who are dead, whose writing inspires. Some of them who are alive, you try to meet them. Nemish bhai (Nemish Shah of ENAM), Durgesh bhai (Durgesh Shah from Corporate Database) have been good mentors and I have learnt a lot from them, directly. There are many people I have learned from and I have been just lucky to learn from them.

Mahalakshmi: But any one person whom you use as a sounding board for investments, if you are too confused about an investment, you are not able to decide, whom do you speak with?

Kuntal Shah: Durgesh bhai

Mahalakshmi: Investors whose moves you watch closely?

Kuntal Shah: I am not a fan of cloning investments because you cannot borrow conviction. The only thing that can matter is the starting point, they could just be pointers to a good business which may not have come in my radar. So, many times the presence of a stock in somebody's portfolio just serves as a trigger to have a look but nothing beyond that. I know for sure you will be taken out if you are living on borrowed conviction.

Mahalakshmi: Sure. Three Indian investors you admire.

Kuntal Shah: Radhakishan Damani, Nemish Shah and Chandrakant Sampat.

Mahalakshmi: Okay. And any three contemporaries.

Kuntal Shah: I do not want to go on record, if they do something stupid, let us park it for a later date.

Mahalakshmi: Alright. Now, this is also tricky. Any contemporary you would trust your money with?

Kuntal Shah: There are a few investors. If I was no longer managing my own money, my advice to my wife, the widow at that point of time, would be to put half of the money into index funds and not touch it till the time she needs the money. And half I would distribute over five six relatively unknown fund managers who operate in very specific niches.

Mahalakshmi: Tell me the names, so that I can get them for The Wealth Formula.

Kuntal Shah: One of them is Keshav Garg. He sits in Pune, a very understated guy, diversified micro-cap investor, covering the breadth which I cannot think of. Another is Viraj Mehta of Equirus, he is good. There are many bright stars emerging. My essential condition of evaluating would be young, very energetic, operating in a niche and doing it for passion and fun, not for money.

Mahalakshmi: Three investment books that have influenced you the most. Of course, we know the classics, so keep them aside.

Kuntal Shah: If you do not want me to go for classics, the books which have influenced me the most are Devil Take The Hindmost, which talks about risk framework, Understanding Michael Porter, which talks about the way to analyse businesses. And lastly Poor Charlie's Almanack, wisdom per page is the highest in this book, I have read it 6-7 times and I learn again and again. I think I should read it again.

Mahalakshmi: Wonderful talking to you, Kuntal, thank you so much for your time.

Kuntal Shah: Thanks for having me, thank you.

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