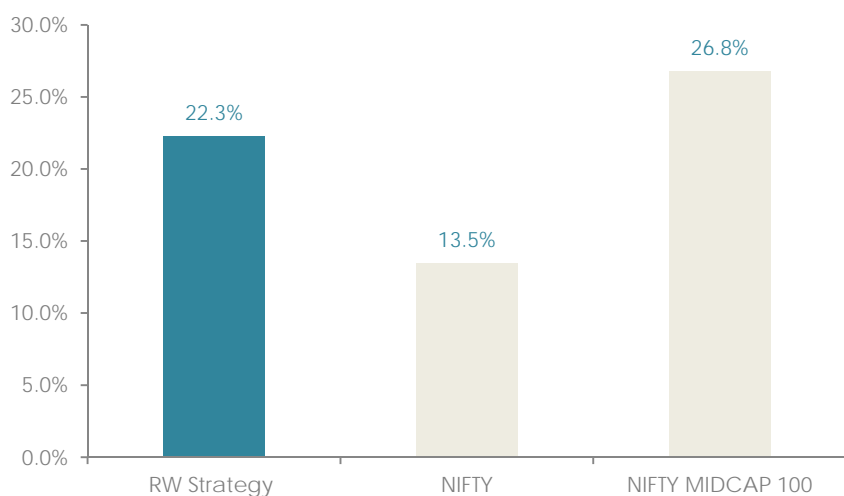


Investment Objective

RW Investment Advisors uses a proprietary framework that combines fundamental and technical factors to identify businesses that can create long term wealth. The guiding philosophy is capital protection and compounding over longer periods.

RW Strategy Performance (Internal Rate of Return)



Top Performers

Scrip Name	Purchase Date	Purchase Price (Rs.)	CMP (Rs.) as of 29-12-2017	Growth (%)
HDFC Bank	13-Feb-14	634	1,871	195.1%
Maruti Suzuki	7-Apr-16	3,476	9,731	179.9%
Kotak Bank	22-Jul-14	437	1,009	130.8%
Indusind Bank	30-Nov-16	1,079	1,649	52.8%
Titan Ltd.	9-Oct-17	619	856	38.4%

Holding Companies

Asset Concentration	Holding
No. of Companies	22
Top 5 Company Holdings	38.2%
Top 10 Company Holdings	63.0%
Highest Exposure	Kotak Bank (10.3%)

Sector Allocation

Sectors	Allocation (%)
Banking & Finance	37.1%
Auto & Auto Ancillaries	12.8%
Consumer Durables	10.8%
Paints & Varnishes	10.0%
FMCG	9.1%

Market Capitalization

Market Capitalization	Holding (%)
Large Cap	60.8%
Mid Cap	34.1%
Small Cap	5.1%
Avg. Market Cap (Rs.Bn)	1,225

Qualitative Analysis

Parameters	TTM
PAT Growth	17.3%
PE	40.7x
ROE	20.1%

Holding Period

Holding Period	No. Of Scrips
Less than 1 Year	11
Between 1 to 3 Years	8
More than 3 Years	3

Disclaimers and Risk Factors

RW Strategy Inception Date: 17th December, 2013, Data as on 29th December, 2017, Data Source: RW Internal Research. RW Strategy results are for an actual Client as on 31st December, 2017. Returns of individual clients may differ depending on time of entry in the Strategy. Past performance may or may not be sustained in future and should not be used as a basis for comparison with other investments. The stocks forming part of the existing portfolio under RW Strategy may or may not be bought for new client. The Company names mentioned above is only for the purpose of explaining the concept and should not be construed as recommendations from RW Advisors. Strategy returns shown above are post fees and expenses.

Dear All,

Here's wishing you and your family members a happy and a prosperous New Year 2018.

Given the macro back drop of increasing interest rates, rising inflation, fiscal deficit and rich valuations, a correction might be round the corner. Seldom does one get these predictions right, but I guess we have practiced what to do when the correction inevitably comes thru.

Often times investors stereotype themselves into Value, Momentum, Turnaround, Cyclical etc etc. Observing the stock market winners over time, it seems to me that each one is right in their own right. In this newsletter, I wish to highlight Titan as **a case study to observe the transition between turnaround to steady compounder and the role of management in effecting that change.**

At the time of Rakesh Jhunjhunwala's investment in Titan in 2003, the company was the market leader both in branded watches and jewellery retailing. Majority of the revenue (55%) was coming from Watches and the company was going thru massive restructuring by shutting down loss-making European subsidiaries. Added to that was the significant debt on the balance sheet that came about because of these international acquisitions. Bhaskar Bhat was anointed as the CEO in 2001 and along with Jacob Kuriyan, was led the restructuring efforts.

To quote Business Line:

"Titan has three problem areas. One, its high-debt equity ratio; two, losses accumulated by the un-profitable European operations; and, three, thinning operating margins due to rising raw material costs and high interest expenses. The company embarked on a restructuring exercise this year to solve these issues.

As a first step, Titan has pruned its European operations to five countries and shifted the operating base to India. This business is expected to turn profitable the next fiscal. Second, it appointed a consulting firm to identify its operational deficiencies and make suggestions to rectify them. As a first step towards implementation, Titan offered a VRS package to its employees during the year; this would save Rs 12 crore annually in staff costs. The effects of restructuring would start trickling in the next couple of years and might have a positive impact on the margins and profitability"

RJ picked up 6% of the company by September 2003, of which 4% was bought in June 2003 at an average price of INR 3.3.

"Net profit for the company was Rs 6.2 crore (Rs 1.9 crore), even as total income rose by 13.1 per cent to touch Rs 223 crore (Rs 197.2 crore). For the six-month period ended September 30, '03, Titan saw its income rise to Rs 370.3 crore (Rs 3.7 billion) representing a growth of 19 per cent.

Significantly the company was able to trim its loss to Rs 1.3 crore (Rs 13 million) against a loss of Rs 8.2 crore (Rs 82 million) for the comparable period in FY03"

Today, it is tough to believe that Titan was a loss-making company at some point! I've never fully understood the importance of leadership, but Titan is a clear case in point which went on to become a 225 bagger in 14 years. **Yes, a 225 bagger!** And change in leadership did the magic, and little known is the fact is that it was not an easy transition.

Three events more or less defined the turnaround -

Tough decisions taken by the Bhaskar Bhat (CEO) and Kuriyan (COO) in the wake of senior level attrition:

After multiple years of losses, the outgoing CEO Desai (Tata group Veteran) had to choose between Bhaskar Bhat and Vasant Nangai to succeed him. A day after Bhaskar Bhat was anointed, Nangai quit along with the entire sales and marketing team to launch a competing brand called Oyzterbay.

"Bhat's first year at the helm was brutal. He laid off nearly 20 percent of Titan's 3,000-strong workforce. Soon a 67-day lockout came. "Those were tough days," recalls Bhat. It was back to the basics. "We told our guys that every month we have to generate cash and not just brand image," he says. "We have to buy less and sell more. Keep less inventory."

Brand repositioning

During the initial launch, Tanishq brand was perceived as a very expensive brand targeted at the real high-end customers. The new management relaunched Tanishq to have a more mass appeal, offered discounts initially and rolled out more franchise owned stores. Design was back in focus with more designs being introduced with an appeal to Indian customers rather than French-inspired designs that were introduced earlier.

Supply chain restructuring and balance sheet clean-up

"Being ethical too was a problem. Titan estimates that the customers and the Government are defrauded up to Rs 5,000 crore (Rs 50 billion) annually due to unethical business practices like under-karatage of gold, misrepresentation of quality and tax evasion". They had to squeeze as much as they could from the supply chain to compete effectively against the unorganized market.

Project Aspire was introduced in order to overhaul the entire supply chain through rationalizing slow moving goods beyond 13 months, realigning incentives based on inventory turn and introducing new channels. It showed strong results by FY05, by which time 90% of the orders were delivered on time (70% previously), working capital reduced by 10%, slow moving goods reduced from a high of 18% to 12% of total sales and Finished Goods inventory halved. Ultimately, the jewellery division, by 2005 showed an ROCE of 25%.

The point of this analysis is to examine the initial conditions before the run-up began and see when it transitioned from a turn-around story to a credible quality franchise with a normalized balance sheet. **The event occurred post the rights issue in Feb 2006 - Assuming we had bought around that time frame, at a stock price of INR 40** (already 12 x since RJ first invested), when the leverage came below 1.0 and capital efficiency was respectable, it would still have been a 20 bagger in 12 years. Though modest compared to RJ's return, but it would have been a 30% compounder. Additionally, **forward P/E multiples were between 15 and 20 x.**

Key lessons for an investor:

- Early stages of a bull market offer great opportunities to invest
- Great businesses with long runways for growth give multiple opportunities to invest during their lifetime
- Senior hires with intent and purpose could be game changers and there should be some emphasis in identifying the right ones, while investing
- One can evaluate leadership traits by looking closely at the capital allocation decisions. Generally, it is a series of steps being taken in the right direction.
- Invest based on your risk appetite - stock ideas could be cloned, but individual risk preferences cannot be.

Trivia:

- Tanishq designed the 'Miss India Crown' and affiliated with a designer of international repute to create a collection of jewellery which was presented at the Milan fashion week in 2004
- Matthews fund has been a shareholder in the company alongside Rakeshji for the last 14 years and that is long term

Please note that all statements in quotes have been sourced from various newspapers