RW ADVISORS

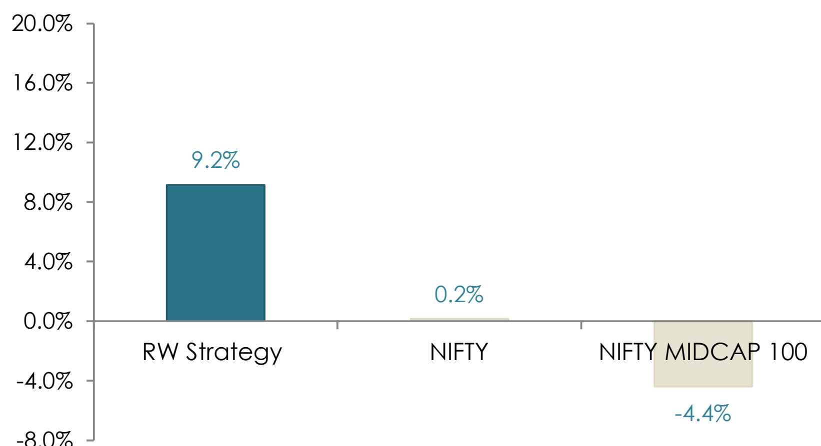
Quarterly Update

March 2020

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.

Chart 1: RW Strategy Performance (IRR from 17th Dec 2013)



Top Performers

Scrip Name	Purchase Date	Purchase Price (Rs.)	CMP (Rs.) as of 31-03-2020)	Growth (%)
HDFC Bank	13-Feb-14	317	862	172%
Asian Paints	01-Sep-17	1,196	1,667	39%
Bajaj Finance	17-Jan-18	1,702	2,216	30%
Nestle India	20-Mar-20	14,274	16,302	14%
ITC	20-Mar-20	152	172	13%

Holding Companies

Asset Concentration	Holding
No. of Companies	18
Top 5 Company Holdings	51.1%
Top 10 Company Holdings	75.6%
Highest Exposure	HDFC Bank (12.8 %)

Sector Allocation

Sectors	Allocation (%)
BFSI	41.3%
Paints & Varnishes	18.0%
Consumer	17.1%
Technology/Services	9.7%
FMCG	7.2%

Market Capitalization

Market Capitalization	Holding (%)
Large Cap	79.4%
Mid Cap	16.9%
Small Cap	3.7%
Avg. Market Cap (Rs. Bn)	1,365

Qualitative Analysis

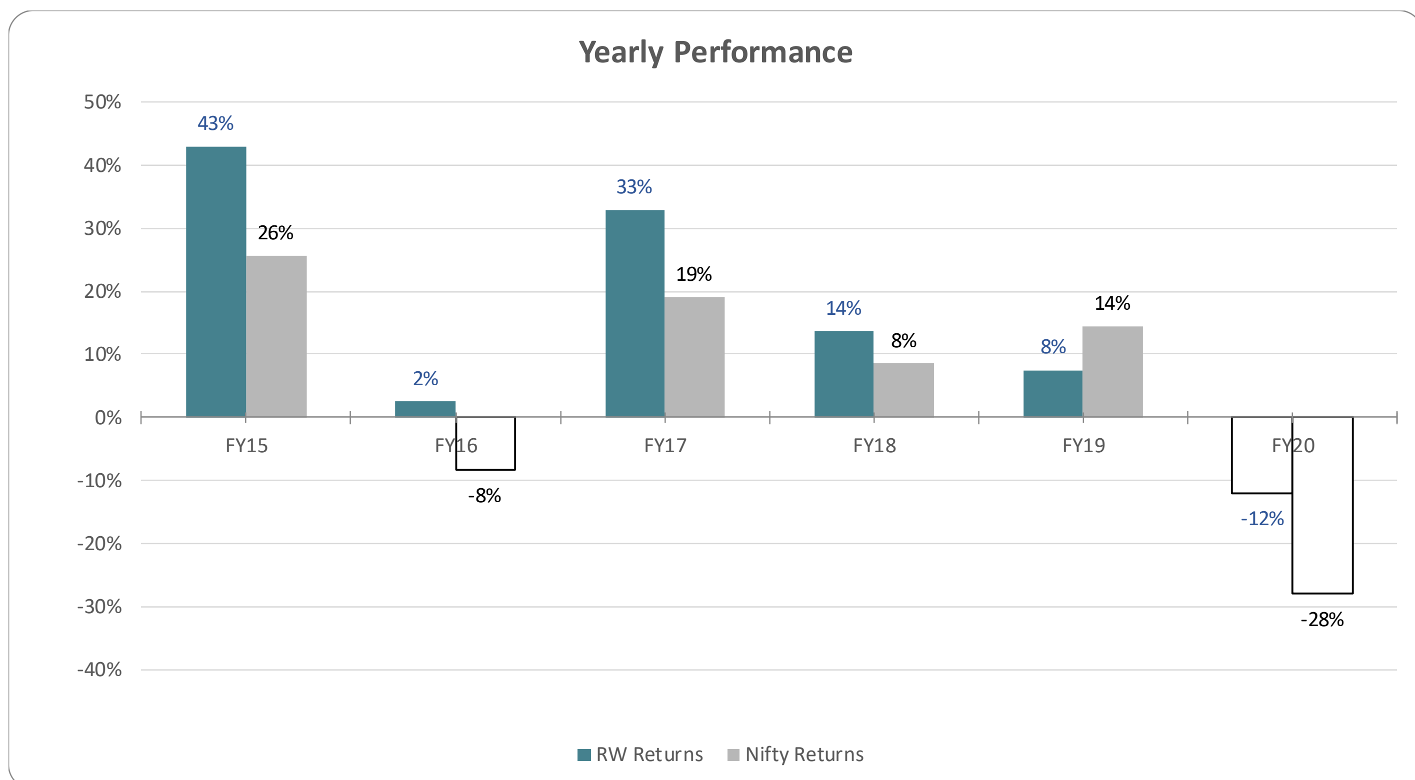
Parameters	TTM
PAT Growth	35.5%
PE	34.5x
ROE	19.2%

Holding Period

Holding Period	No. Of Scrips
Less than 1 Year	14
Between 1 to 3 Years	3
More than 3 Years	1

Disclaimers and Risk Factors

RW Strategy Inception Date: 17th December, 2013, Data as on 31st March,2020. Data Source: RW Internal Research. RW Strategy results are for an actual Client as on 31st March 2020. 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.



What was a good year until January end has turned out to be brutal, post the COVID sell off. We continue to be far more defensive compared to indices. The cash call that we took based on 200 Week rule on Nifty 50 helped us cushion some of the losses. Idea was to sell down the most expensive consumer names and generate cash to invest through the downturn.

200 Week filter was very valuable in taking this call just like it was helpful in coming out of TVS Motors, Indusind bank, Yes Bank, VIP, Schaeffler early – it warns us in cutting down risk (permanent loss or prolonged distress) significantly no matter how deeply we are convinced about the prevailing narrative. Once Nifty breached the 200 W filter, it also became fairly evident that the environment has turned recessionary like 2001/2008 – call it reflexivity, price dictating fundamentals and not the other way around! Although, the pace of the fall was jarring and caught us unawares.

The portfolio is now undervalued by a wide-margin and there are bargains to buy all across. Just to give a context, 70% of the invested companies trade significantly below mean and are very cheap based on historical measures. It is very difficult to predict how long the COVID sell off continues, although it is encouraging to see declining death rates across worst hit countries as well. Flexibility is the key as we diversify more than we did in the past and invest some part of the portfolio in companies with higher expected IRRs like KPIT Tech.

I expect more selling in the coming days as mutual funds could face redemptions (were not entrenched in the March MF data), but for their buying over the last few months, we would have seen far lower levels. To quote John Templeton "To buy when others are despondently selling and to sell when others are avidly buying requires the greatest fortitude." I think 'despondent' selling is still ahead of us when fundamental data could look much bleaker than what we have been expecting. We have analysed the 2008 sell off to see how it can steer our buying strategy through this downturn.

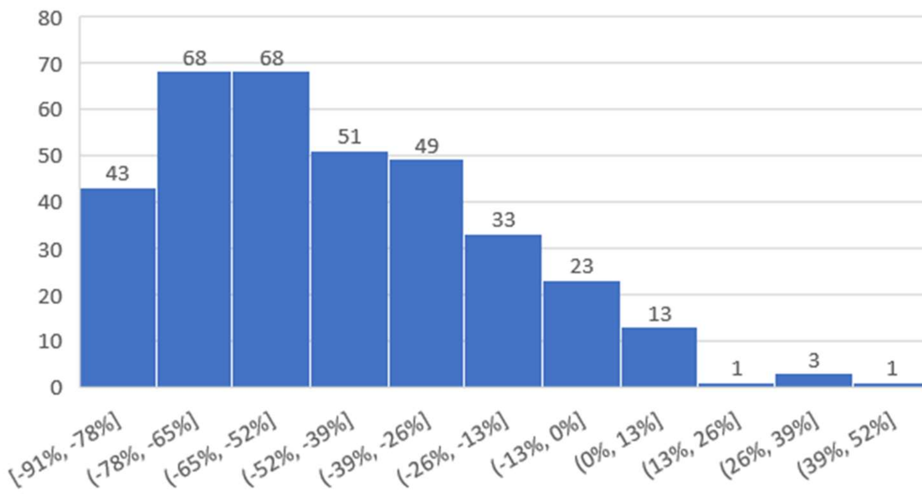


Chart 1:

1. Filter companies with a minimum market cap of INR 1000 crores from BSE listed stock universe as of 31st March 2008
2. Chart shows the annual returns of companies between March 31st 2008 till April 1st 2009 (one year)

Quick facts:

- There were 353 companies that had a market cap of over 1000 crores as of 31st March 2008
- Of these, **only 5% of the companies delivered positive return over the next one year between 1st April 2008 till April 2009**
- **Interestingly, there were ~ 40% of the companies that delivered an EPS growth of 10% (FY ending March 2009) or above**
- There were 22% of the companies that would have satisfied our quantitative filters of EPS growth higher than 15% and RoE in excess of 15%
- Despite, this median stock price correction during that year was a whopping 53% - When fear hits, fundamentals don't matter in the short run - look at the fat tail on the left side of the histogram

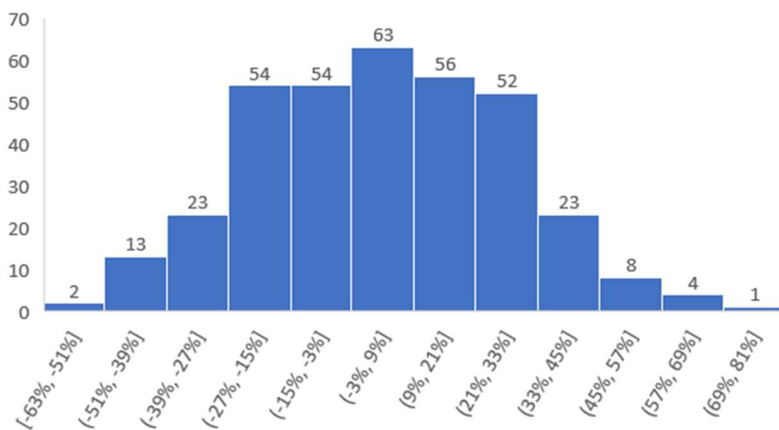


Chart 2:

1. Filter companies with a minimum market cap of INR 1000 crores from BSE listed stock universe as of 31st March 2008
2. Chart shows the 3 year price CAGR between 1st April 2008 and 1st April 2011 (three years)

Quick facts:

- Once things normalized over the next couple of years, **55% of the companies delivered positive returns – Incidentally, 55% of companies also delivered earnings growth of over 10%**
- Proportion of companies that delivered higher growth and RoE remained the same as it was in 2008 at 22% – Investeable universe did not change dramatically despite the great recession
- Median return was 4% implying that stock selection is very critical or else we can miss the bus

How to shift the curve right:

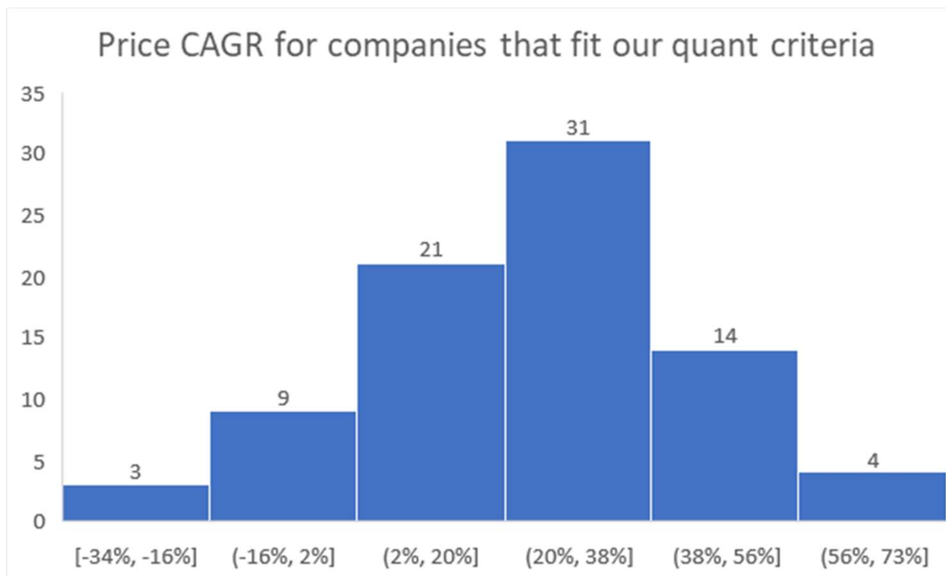


Chart 3:

1. Filter companies with a minimum market cap of INR 1000 crores from BSE listed stock universe as of 31st March 2008
2. Filter companies with RoE in excess of 15% as of 31st March 2008
3. Filter companies for annual EPS growth of 15% between FY08 and FY11 (post-facto, yes!)
4. Compute price CAGR between 1st April 2008 and 1st April 2011

Quick facts:

- So the growth part in all the above illustrations is post-facto and has HUGE hindsight bias. But, it is apt to add that this is what we assess qualitatively a regular basis, both the runway for long term growth and execution led near term growth for individual companies
- There were 83 (24%) such companies, 90% of such companies have delivered positive returns – clearly, *stock prices are slaves to earnings growth*
- **The median return (3 year CAGR) for such companies was 25%, with 28 companies delivering returns over 30% - the reason why we plan to diversify much more than we used to - going into this bear market**
- **Incidentally, 80% of the companies that did not fall during 2008, continued to post great returns for 3 years – a good place to look for future winners**

Key takeways for investors:

- Near term could look bleak but over a 3 year period things should return back to normal – voting machine and weighing machine analogy is near perfect
- Asset allocation is far more critical now once the basic filters are passed – i.e. putting money to work in equities is important than splitting hair over the best company to put money in
- We intend to diversify much more in order to have a higher chance of capturing future multibaggers
- As we discussed in the last newsletter, there's a good chance that pharma and consumer which are standing ground now could be the winners in the next bull run