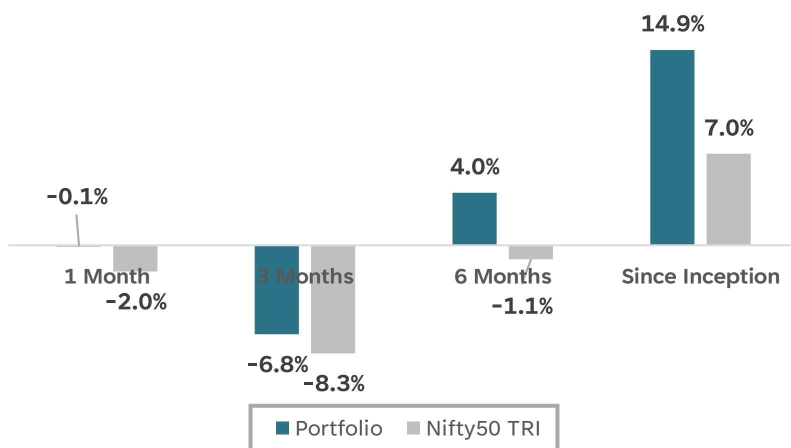
COURSER PARK ADVISORS

Quarterly Update — December 2024

Investment Objective

Courser Park Advisors ("CPA") uses a proprietary framework that combines fundamental and quantitative factors to identify businesses that can create long term wealth. The guiding philosophy is capital protection and compounding over longer periods by investing in companies with durable business models that can generate higher returns on capital over time. The singular goal and focus – invest only in those companies which have the lowest odds of permanent loss.

Chart 1: Strategy Returns[1]- GARP Scheme



1 The above returns are calculated by using the Time-Weighted Rate of Return (TWRR) method across all portfolios (Absolute returns for less than 1 year). The above returns are as on 31-12-2024, post fees and expenses; Note: Returns of individual clients will differ based on the timing of their investments.

Top Performers

Scrip Name	Purchase Date	Purchase Price (Rs.)	CMP (Rs.) as of 31-12-2024	Return (%)
S.J.S. Enterprises	01-Apr-2024	610	1,154	89%
Persistent Systems	25-May-2024	3,569	6,458	81%
Zomato	22-Apr-2024	157	278	77%
ASK Automotive	01-Apr-2024	283	476	68%
Dodla Dairy	01-Apr-2024	835	1271	52%

Holding Companies*

Asset Concentration	Holding
Cash	4.0%
Top 5 Holdings	22.5%
Top 10 Holdings	41.6%
Highest Exposure	APOLLO HOS(5.0%)

Sector Allocation*

Sectors	Allocation (%)
Consumer	29.0%
BFSI	20.8%
Healthcare/Pharma	13.5%
Technology/IT Services	10.4%
Auto & Others	26.3%

Market Capitalization*

Market Capitalization	Holding (%)
Large Cap	54%
Mid Cap	16%
Small Cap	26%
Avg. Market Cap (Rs. Bn)	1,873

Qualitative Analysis*

Parameters	TTM
PAT Growth	31.1%
PE	53.2x
ROE	14.6%

**Represents Model Portfolio, based on APMI classification*

Disclaimers and Risk Factors

GARP Strategy Inception Date: 1st April, 2024. Data as on 31st December, 2024. Data Source: CPA Internal Research. 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.

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It has been nine months since operations at Courser Park started and the transition from RW is also near complete. Although there is 5 percent+ alpha over the index in the first nine months, it is still early to evaluate performance but the direction and process are more or less set.

Overall, valuations in small and mid caps continue to be high vs large cap stocks. Hence, we continue to shift the portfolio towards large caps, no of stocks in the portfolio is likely to reduce as growth in earnings across companies is in short supply and fairly volatile. For instance, urban consumption in companies such as GCPL, Dabur, DMart etc fizzled out just in two quarters post Indian elections. Something, we have not witnessed in a long time. We continue to look for businesses that are likely to grow despite these external factors.

In this newsletter, we primarily cover a study on momentum investing in India over the last two decades:

"If you can follow only one bit of data, follow the earnings - assuming the company in question has earnings. I subscribe to the crusty notion that sooner or later earnings make or break an investment in equities. What the stock price does today, tomorrow, or next week is only a distraction." *- Peter Lynch*

Single biggest factor that drives stock price growth is earnings acceleration/earnings power i.e. sustainable earnings growth. For strong franchises this can actually lead to multi-year compounding, like Eicher motors, Page Industries, Polycab etc. This growth is generally backed by a new blockbuster product or successful M&A or positive change in regulation, opening up of a new customer segment etc. What if we have a portfolio of stocks with the strongest earnings growth, which also meets our quality characteristics?

This is exactly the study we had done for the 18 year period from 2002-2020 – as presented in the December 2020 newsletter of the erstwhile RW Advisors.

A gist of that study is stated below:

Methodology

- Built a portfolio of the top 35 fastest growing stocks in a quarter, with a minimum Return on Equity (RoE) of 15%, rebalanced quarterly.

Conclusions

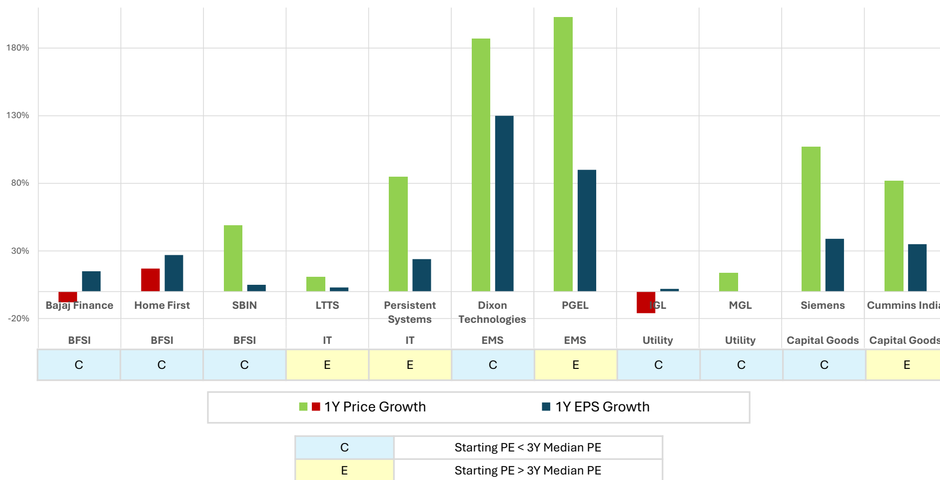
- Investing in the fastest growing small caps, which meet the quality criteria (RoE), is a very rewarding strategy and it works best in a trending bull market and strong corporate earnings.
- The strategy has a 70% chance of outperformance in the short term with strong potential of beating the indices in the long run.
- The strategy underperforms in a non-trending market.
- Strategy outperformed although valuation was not considered in picking stocks.

In a nutshell, a portfolio of companies with strongest earnings growth backed by quality can outperform the benchmark in the short as well as long run – irrespective of the valuations (blasphemous as it may sound). Effectively, a series of voting machines may in fact magically turn to a weighing machine, in the end😊

Not all growth is created equal..

But as we have learnt over the years, not all growth is created equal. For instance, sectors such as EMS, Capex and PSU Banks have been favoured by the market recently while sectors such as NBFCs/Private Banks have been ignored. There have been multiple such cases where, irrespective of starting valuations, cheap gets cheaper and expensive becomes more expensive perhaps due to stock ownership/scarcity premium. Please see the table below to understand the differential treatment by Mr. Market.

One Year Performance: Price vs Earnings

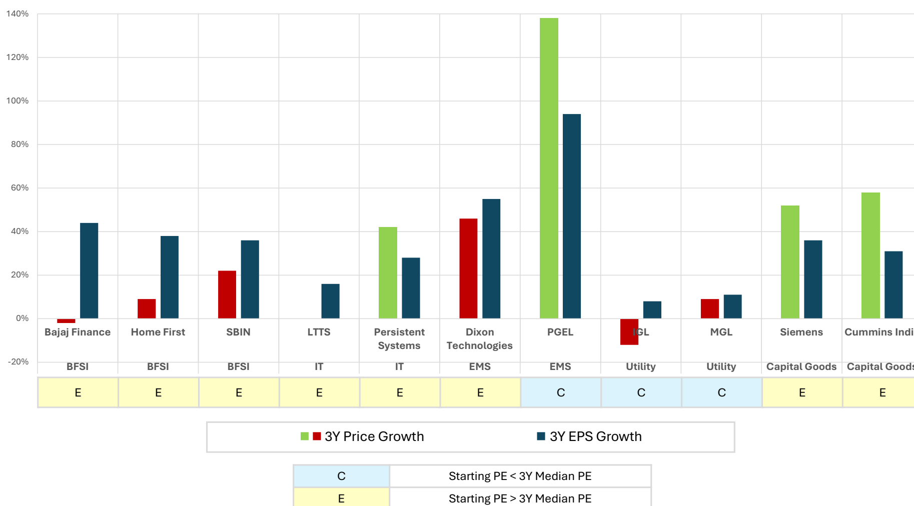


<u>TTM EPS</u>: Last 12-month Earnings per share for period ending Sep 21, Sep 23 and Sep-24.
<u>Price</u> as of month ending Nov 30, 2021, 2023 and 2024, adjusting for result announcement lag.

1 year Window (Sep 2023 – Sep 2024)

- HOMEFIRST and PERSISTENT with similar growth have performed differently
- PGEL has done better than DIXON despite lower earnings growth. Similar is the case of SIEMENS and CUMMINS where similar earnings growth led to very different stock returns.
- There is wide divergence in stock returns of SBIN, LTTS, IGL and MGL with less than 5% EPS growth.
- Stellar companies like BAJFINANCE have given negative single digit returns despite growing earnings at 15%.

Three Year Performance: Price vs Earnings



3 Year Window (Sep 2021 – Sep 2024)

- HOMEFIRST, SBIN and SIEMENS have performed differently despite similar EPS annualized growth. The same can also be said for Persistent and Cummins.
- Within same sector, IGL and MGL with broadly similar growth have performed differently. Same goes for LTTS and Persistent.
- BAJFINANCE returned less than fixed deposit rates despite strong earnings growth. HOMEFIRST barely retuned above FD rates despite very strong growth.

We have somewhat oversimplified the problem but in the near term (one year), earnings seem to be valued differently across sectors and even within sectors. Hence, we tried to invert the question and came up with the following question - **Instead of picking the companies with highest earnings growth (given quality) alone, what if we were to invert and look for sectors/companies hitting yearly highs and highest earnings growth (with quality)?** i.e. we throw in the wisdom of the crowds into the mix. Would it constitute joining the dark side?

In a way, we are saying that we believe in Prof Novy-Marx's explanation for price momentum i.e. earnings momentum subsumes price momentum. i.e. ***"Momentum in firm fundamentals, i.e., earnings momentum, explains the performance of strategies based on price momentum."***

While Dec 2020 study focused on earnings growth alone , in the following new study, we now look at companies with relative strength (as a proxy for earnings growth) – quality of the companies being ensured in both the studies.

This study covers NSE 500 constituents for the 20-year period between 2004-2024, filtering for two things:

- Return on Equity: A business with Networth of ₹100 should earn at least ₹15. i.e RoE>15%
- Sharpe Ratio: Most resilient names of the lot. Look back of 3 months and rebalancing period of 1 month
- We constructed a 30 stock portfolio in the descending order of Sharpe ratio.

The findings are as follows:

- The strategy outperformed NSE500 index 19 out of 20 years
- The strategy had a CAGR of 45.8% (excl. tax impact) during the period while NSE500 had 15.1% CAGR
- 3 Year roll returns and 5 year roll returns beat the index every single year
- Drawdowns are similar to NSE 500 in crisis situations such as GFC and covid

The results are impressive based on initial data, it would be a good exercise to test this on US and Chinese markets as well.

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