

# LESSONS FROM HISTORY

CFA Society – New Delhi

December 07, 2018

# Mistakes : Great Teacher



LIBRARY OF  MISTAKES  
*Changing The World*  
*- One Mistake At a Time*



**The only real mistake is the one from which,  
we learn nothing – John Powell**

# What Counts Most



**MANAGEMENT**



**SELF**

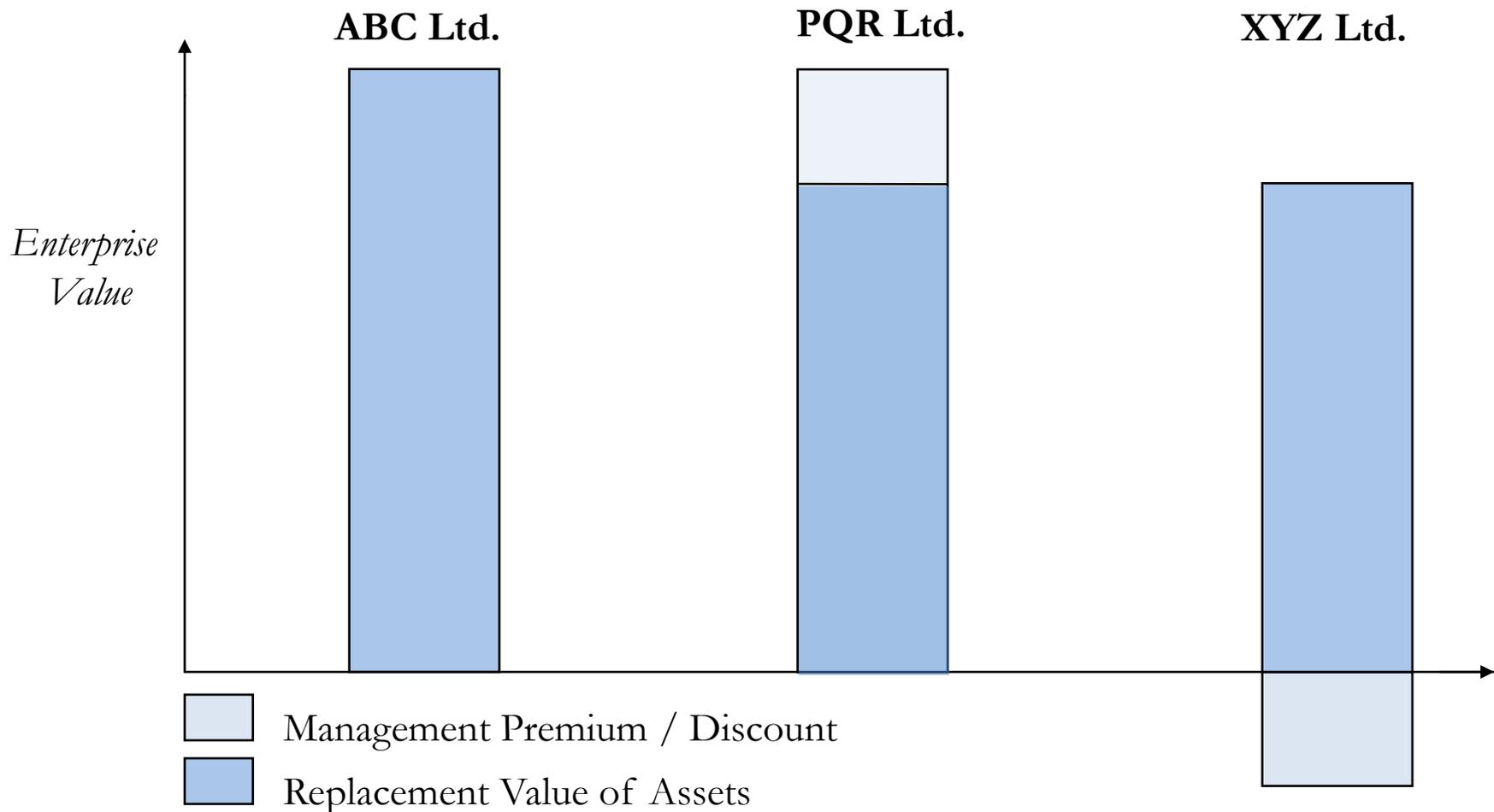


**BUSINESS**



**PRICE**

# How Markets Value Managements



**The NECK of bottle is always at the TOP**

# TRUST

5

  
TATA CONSULTANCY SERVICES



**JUST 4 leaders in 50 years!**

# CULTURE

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**63 lakh home loans disbursed...  
and lot more**

# FOCUS



1986: 43,000 vehicles

2018: 75,00,000 vehicles

**Going Strong... Even after Breakup**

# SCALABILITY

Infosys®



**2 lakh plus Employees ...**

**Receives more than a million job applications each year**

# DELEGATION

**Motherson Sumi  
Systems Ltd** 

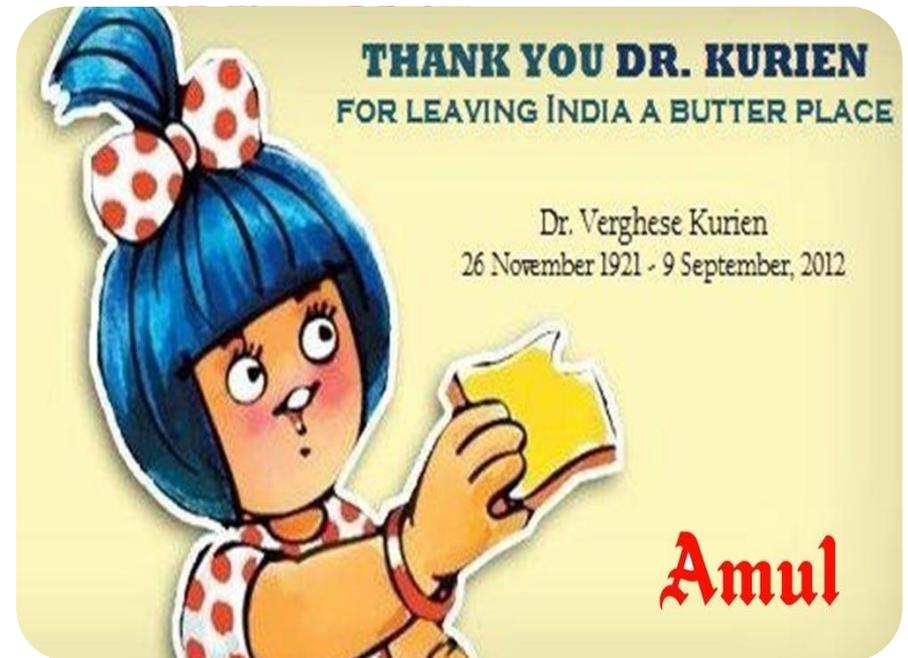


**230 Plants in 37 Countries**

# INTEGRITY And PASSION



**E. Sreedharan**



**AMUL**

# Digesting Success – Not Easy

  
**ESSAR**

  
**SUZLON**  
POWERING A GREENER TOMORROW

  
**Fortis**

**unitech**

  
**VIDEOCON**

**Beware of the 'HALO EFFECT'**

# Common Causes of Downfall

**A**rrogance

**B**ureaucracy

**C**omplacency

**D**ebt

**E**nvy

# Men Among Boys

## \$100mn PBT Club

No. of Cos	Owners	100 Baggers
59	Individuals	39
46	Groups (16)	20
35	PSUs	3
16	MNCs	12
19	Others	4
<b>175</b>	<b>Total</b>	<b>78</b>

# 100 Baggers

Vision To See Them ... Courage To Buy Them and  
Patience To Hold Them

**Patience Being The Rarest Of The 3 – *Thomas Phelps***



**Conviction Cannot Be Borrowed**

# Sector Matters

## Dr. Reddy

Period	Mcap	PAT	P/E
Mar'97	472	38	12
Oct'15	74,782	2,351	32
Nov'18	45,036	1,523	30

## Lupin

Period	Mcap	PAT	P/E
Jun'03	755	81	9
Oct'15	95,768	2,389	40
Nov'18	40,033	1,373	29

## Ajanta Pharma

Period	Mcap	PAT	P/E
Mar'10	171	34	5
Oct'16	19,017	405	47
Nov'18	10,304	470	22

# Growth at the cost of PSU Banks

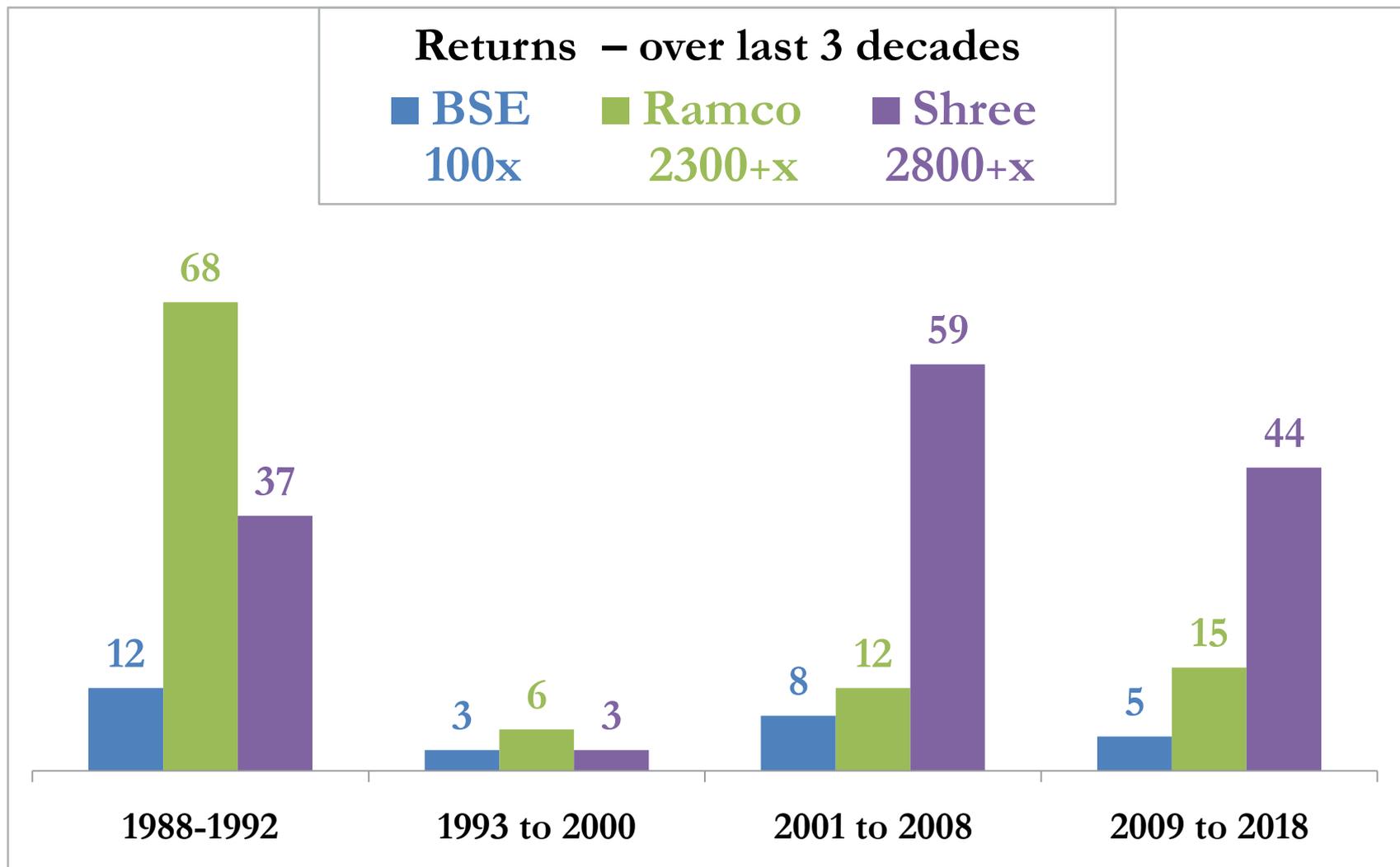
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BANK NIFTY <i>CONSTITUENTS</i>	Weightages %
HDFC BANK	36.8
ICICI BANK	18.4
KOTAK MAHINDRA BANK	13.3
AXIS BANK	8.9
STATE BANK	8.6
INDUSIND	6.7
YES BANK	2.5
RBL BANK	1.7
FEDERAL BANK	1.4
BANK OF BARODA	0.8
PUNJAB NATIONAL BANK	0.5
IDFC BANK	0.4
Total	100

**PVT Banks = 88%**

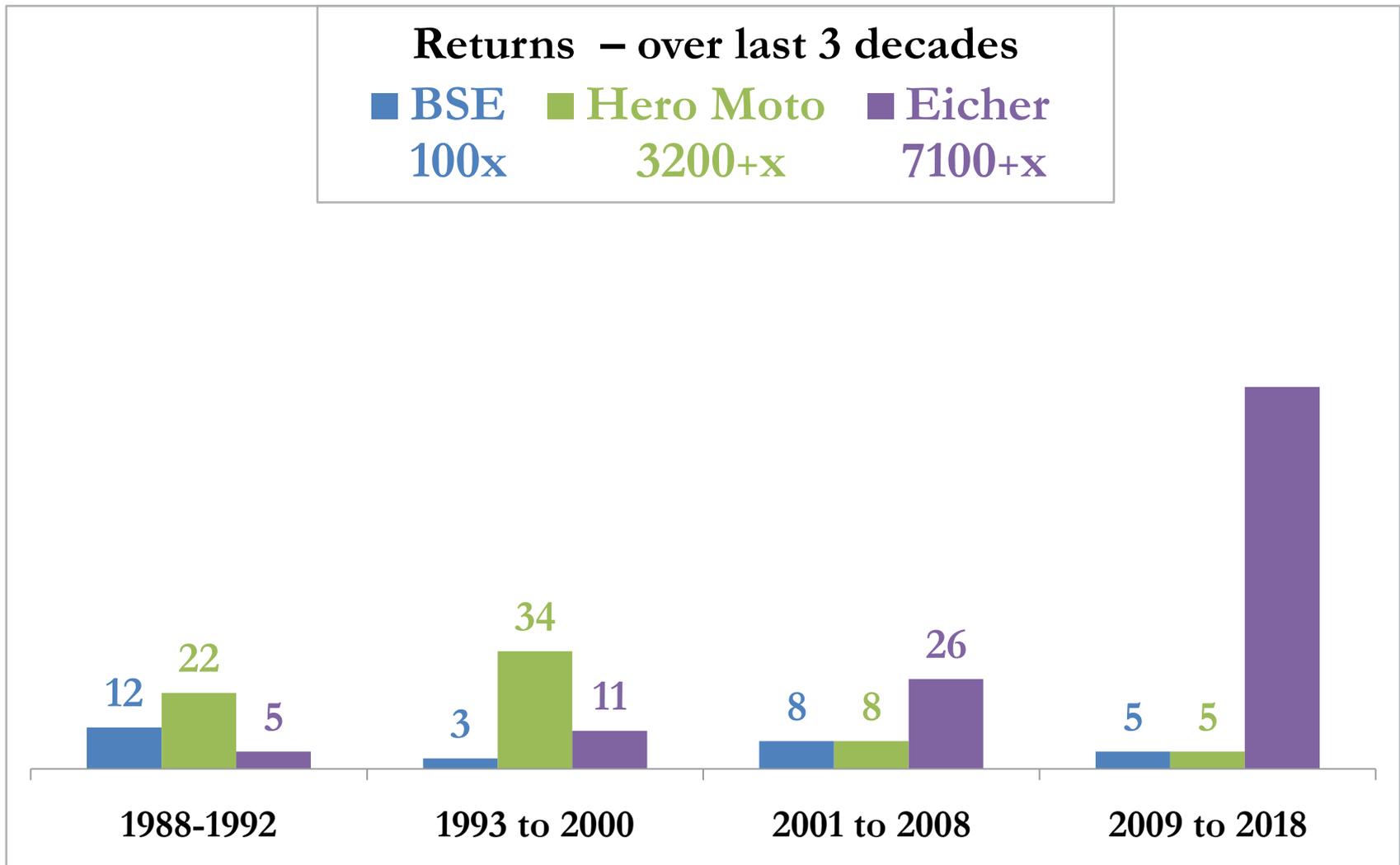
**PSU Banks = 12%**

# CEMENT



*Returns (times) based on change from Low in Base Year and High End Year*

# TWO WHEELERS



*Returns (times) based on change from Low in Base Year and High End Year*

# Most Valued – Then and Now

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## Only 3 companies after 26 years

S.No.	Cos. as on Apr'92	M.Cap	PAT
1	TISCO	159	2.1
2	RELIANCE INDUSTRIES	140	1.6
3	ITC	105	1.2
4	LARSEN & TOUBRO (^)	92	0.9
5	ICICI (^)	77	2.6
6	TELCO	70	1.4
7	HIND LEVER	70	0.8
8	ACC	59	1.1
9	GRASIM INDUSTRIES	47	1.0
10	CENTURY TEXTILES	43	0.8

S.No.	Cos. as on Nov'18	M.Cap	PAT
1	RELIANCE INDUSTRIES	7,721	309
2	TCS (*)	7,505	254
3	HDFC BANK (*)	5,811	176
4	HINDUSTAN UNILEVER	3,889	50
5	ITC	3,552	99
6	HDFC	3,425	123
7	INFOSYS (*)	3,031	159
8	STATE BANK OF INDIA	2,676	(176)
9	ICICI BANK (^)	2,416	9
10	KOTAK MAHINDRA (*)	2,365	51

(^) Cos. Merged/De-merged

(\*) Cos. listed post 1992

*Amounts in INR Bn  
Mcap is on Mentioned Dates  
PAT is excluding extraordinary items*

# The Sacred Seven

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1992 – Mcap\*  
Rs.1.1 trn

2000 – Mcap\*  
Rs.3.5 trn

2008 – Mcap\*  
Rs.30.3 trn

2018 – Mcap\*  
Rs.70.6 trn

**Only 7 companies have been a part of SENSEX throughout**

Hindustan Unilever

ITC Limited

Larsen & Toubro

Mahindra & Mahindra

Reliance Industries

Tata Motors

Tata Steel

\* Aggr.Mcap of SENSEX 30 companies for mentioned year high date

# 125 Years of Monopoly

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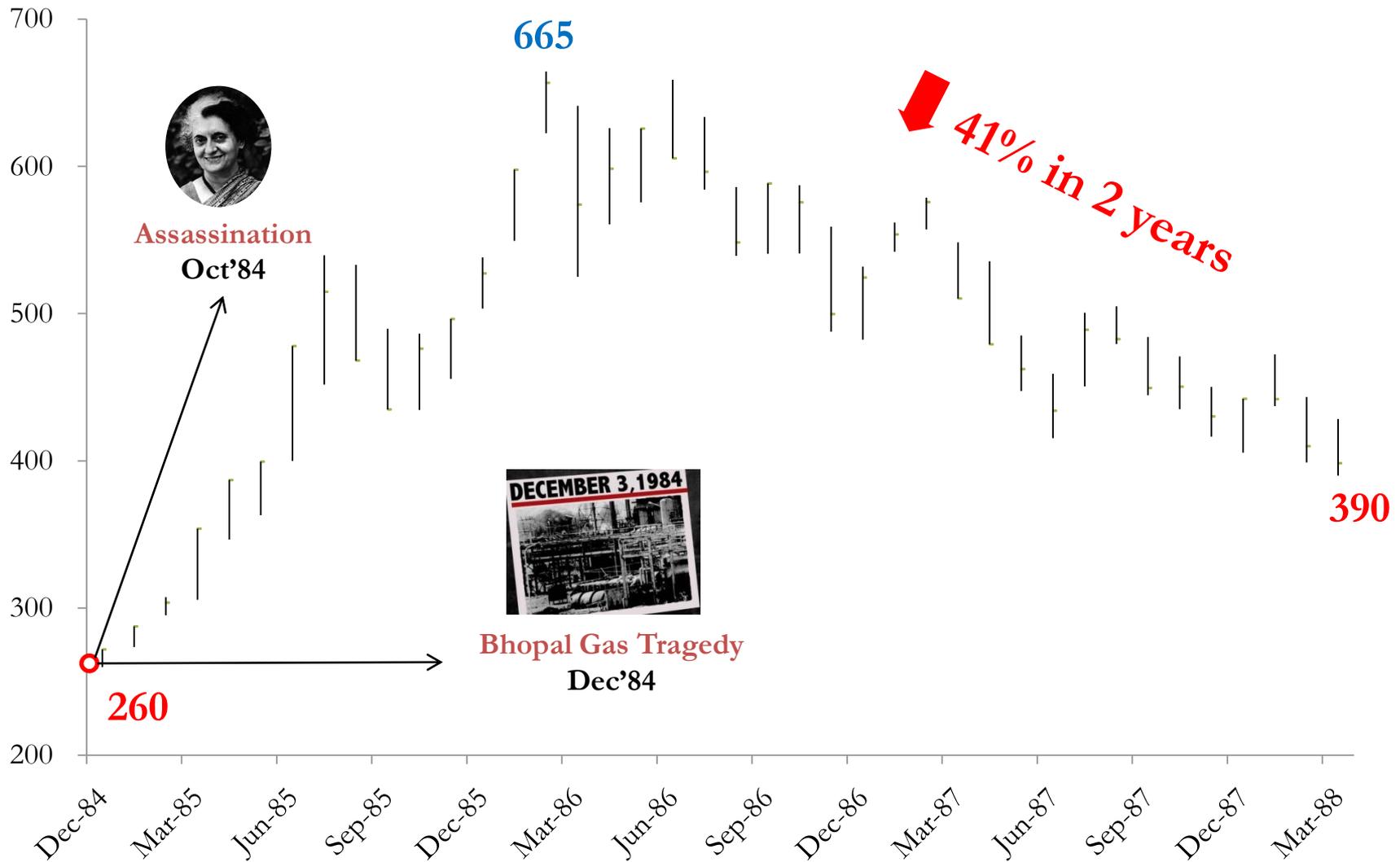


**Collapsed in One Year**

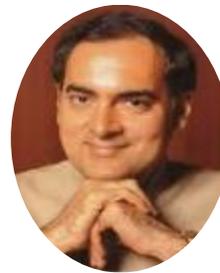
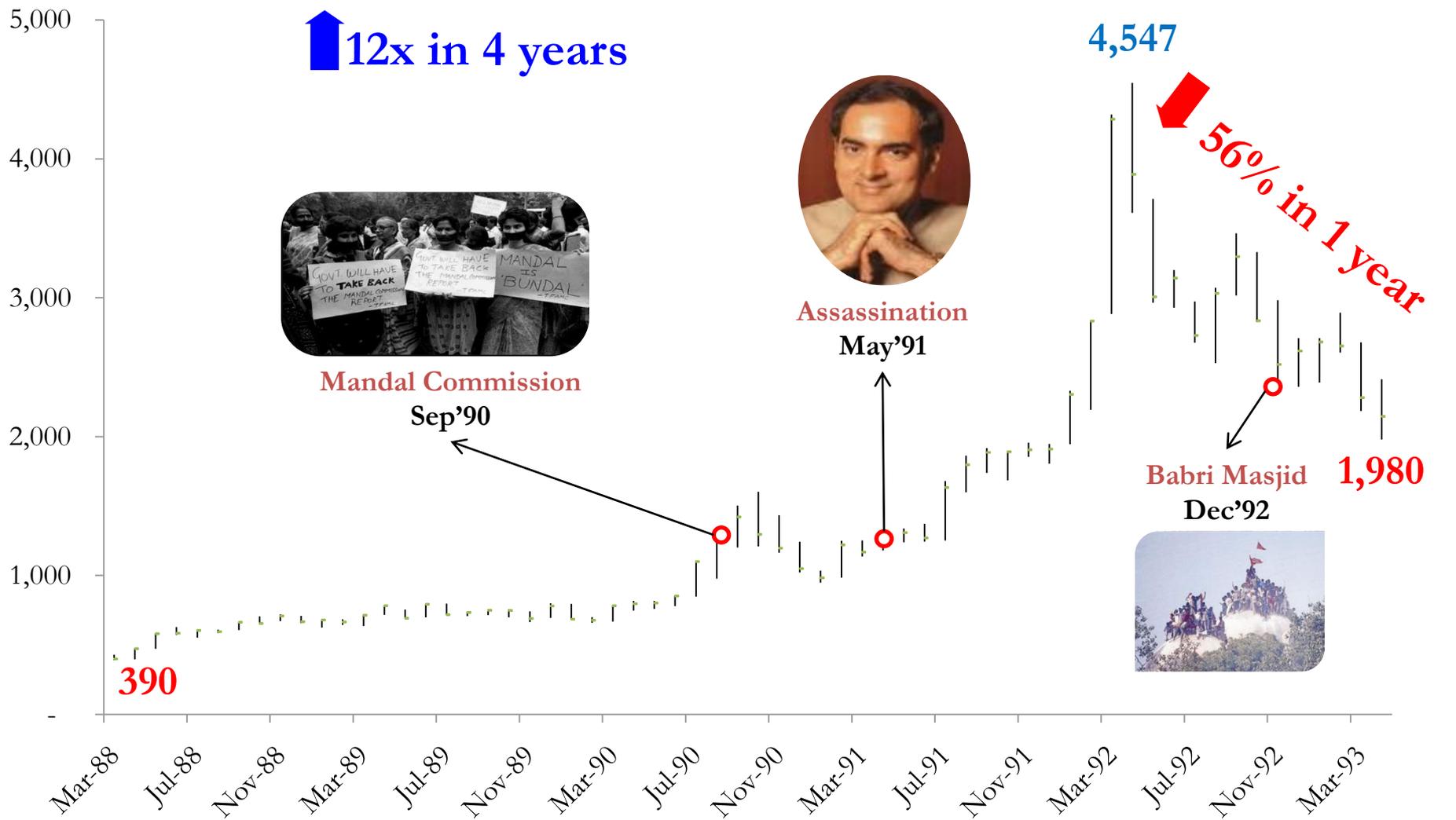
# Right Time ... Great Price



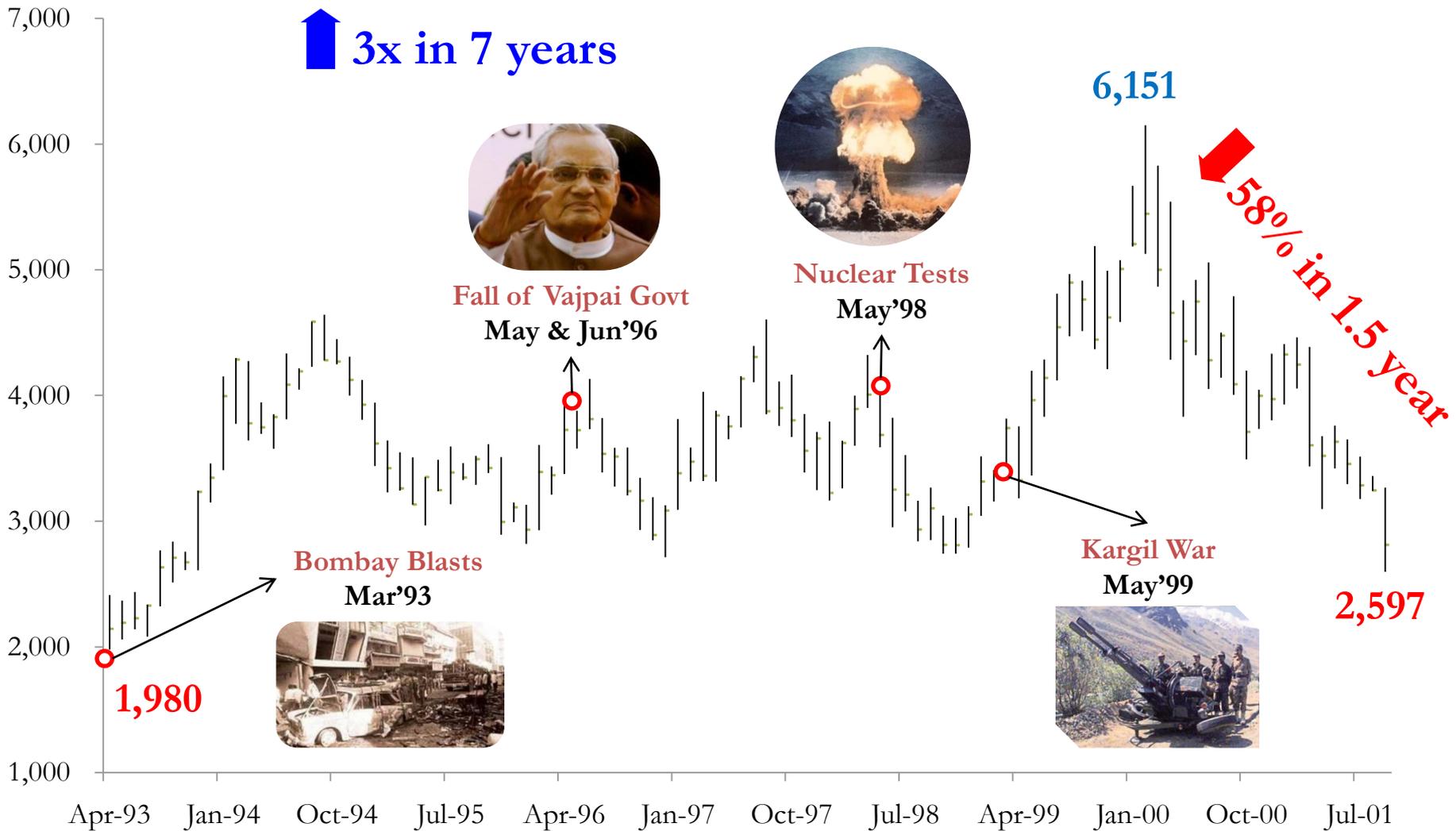
# Phase 1: 1984 – 1988



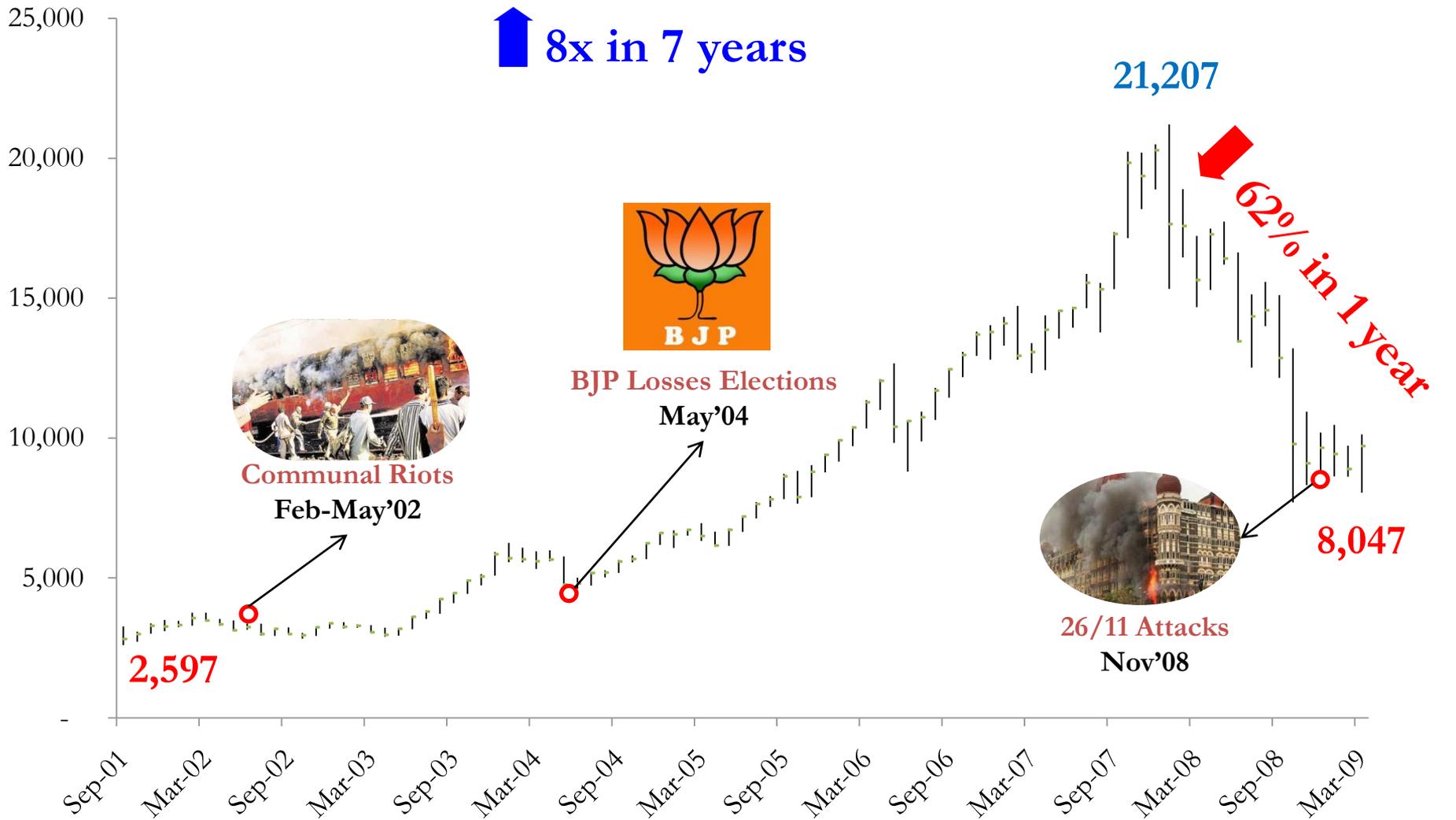
# Phase 2: 1988 – 1993



# Phase 3: 1993 – 2001



# Phase 4: 2001 – 2009



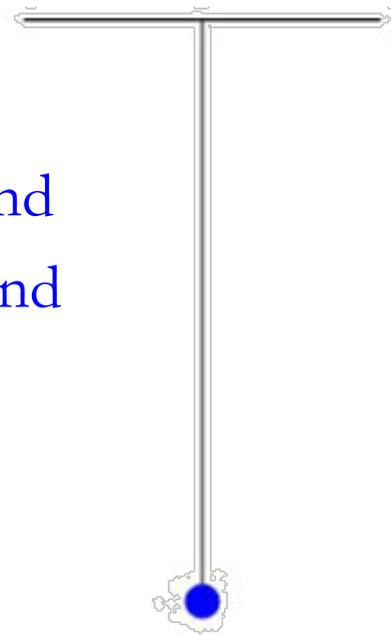
# Phase 5: 2009 – 2018



# Pendulum

## Fear

- ❑ World will come to an end
- ❑ Total pessimism all around
- ❑ Forget profits the assets also don't get any value
- ❑ Yield is also ignored by the sellers of equity



## Greed

- ❑ Trees grow to the sky
- ❑ Great growth means a feel good factor
- ❑ All weakness of company, economy etc. is overlooked
- ❑ Valuations go berserk

# Blue Chips also Underperform



# Predicting Rating Is Tougher ...

... Than Forecasting Earning

## Astral Poly

Period	Mcap	PAT	P/E
May'09	71	11	6
Apr'15	6,323	74	<u>85</u>
Nov'18	12,513	194	<u>65</u>

## La Opala

Period	Mcap	PAT	P/E
Jan'10	34	3	11
Feb'16	3,717	42	<u>89</u>
Nov'18	2,516	73	<u>34</u>

## Relaxo Footwear

Period	Mcap	PAT	P/E
Jul'09	54	15	4
Jul'15	7,375	103	<u>71</u>
Nov'18	8,991	177	<u>51</u>

## Symphony

Period	Mcap	PAT	P/E
Dec'09	87	22	4
Apr'15	11,445	99	<u>116</u>
Nov'18	6,914	159	<u>43</u>

# Simple to Understand ...

In 2000	Sales	PBT	Market Value
Bharat Electronics	1,457	195	477
Visual Soft	68	30	4,978

*Amounts in INR Cr*

... Not Easy to Implement

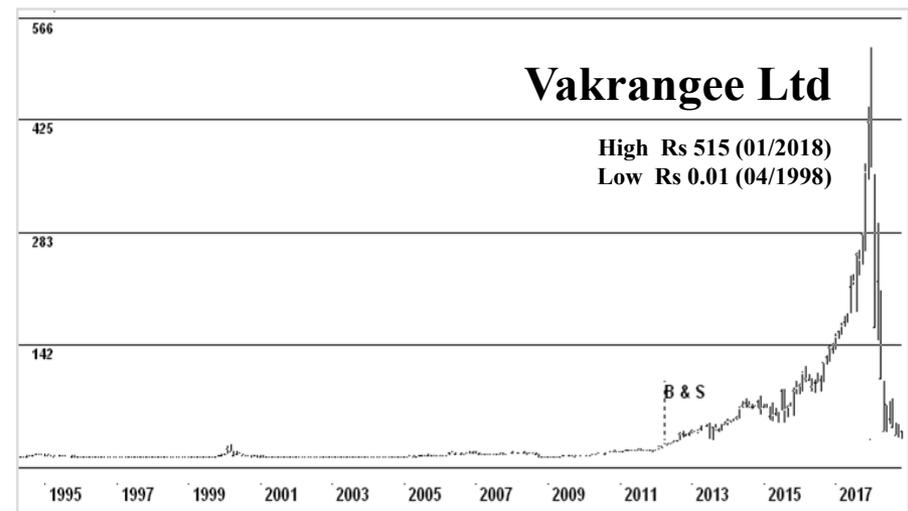
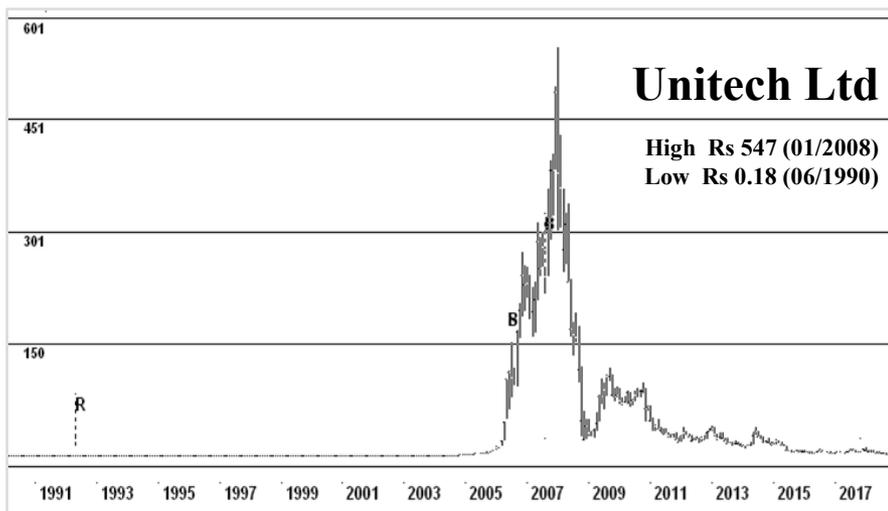
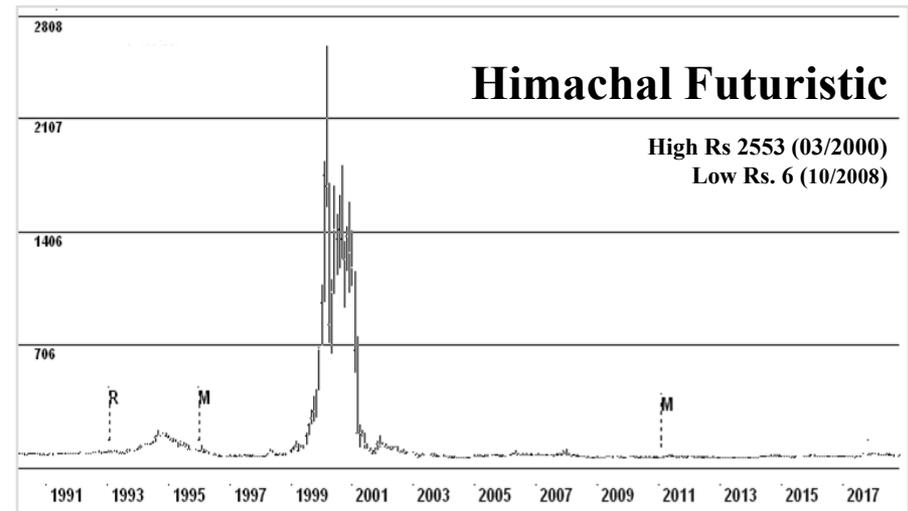
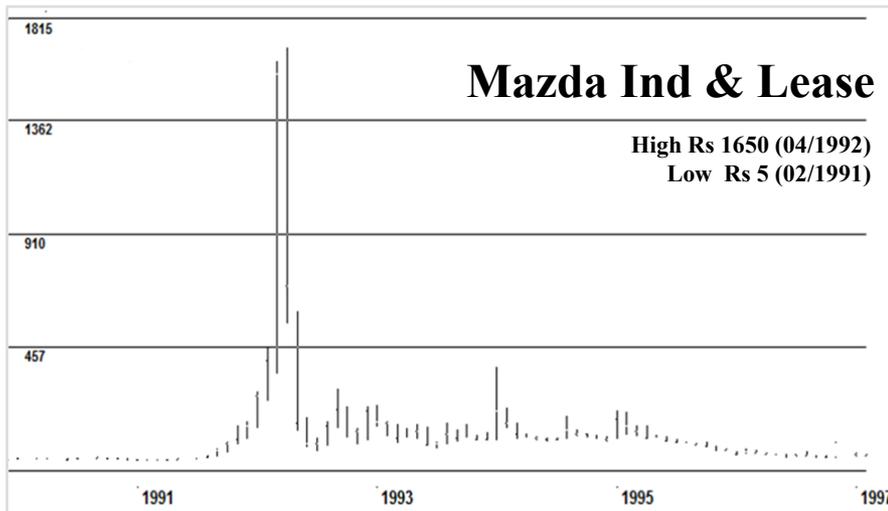
22 x  
BEL

After 6 Years

Visual Soft

95%

# Meteors Don't Last



# How High is High?

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At peak of 1980s Japanese property bubble,  
Palace grounds were valued by some to be more than  
All the real estate in the state of California

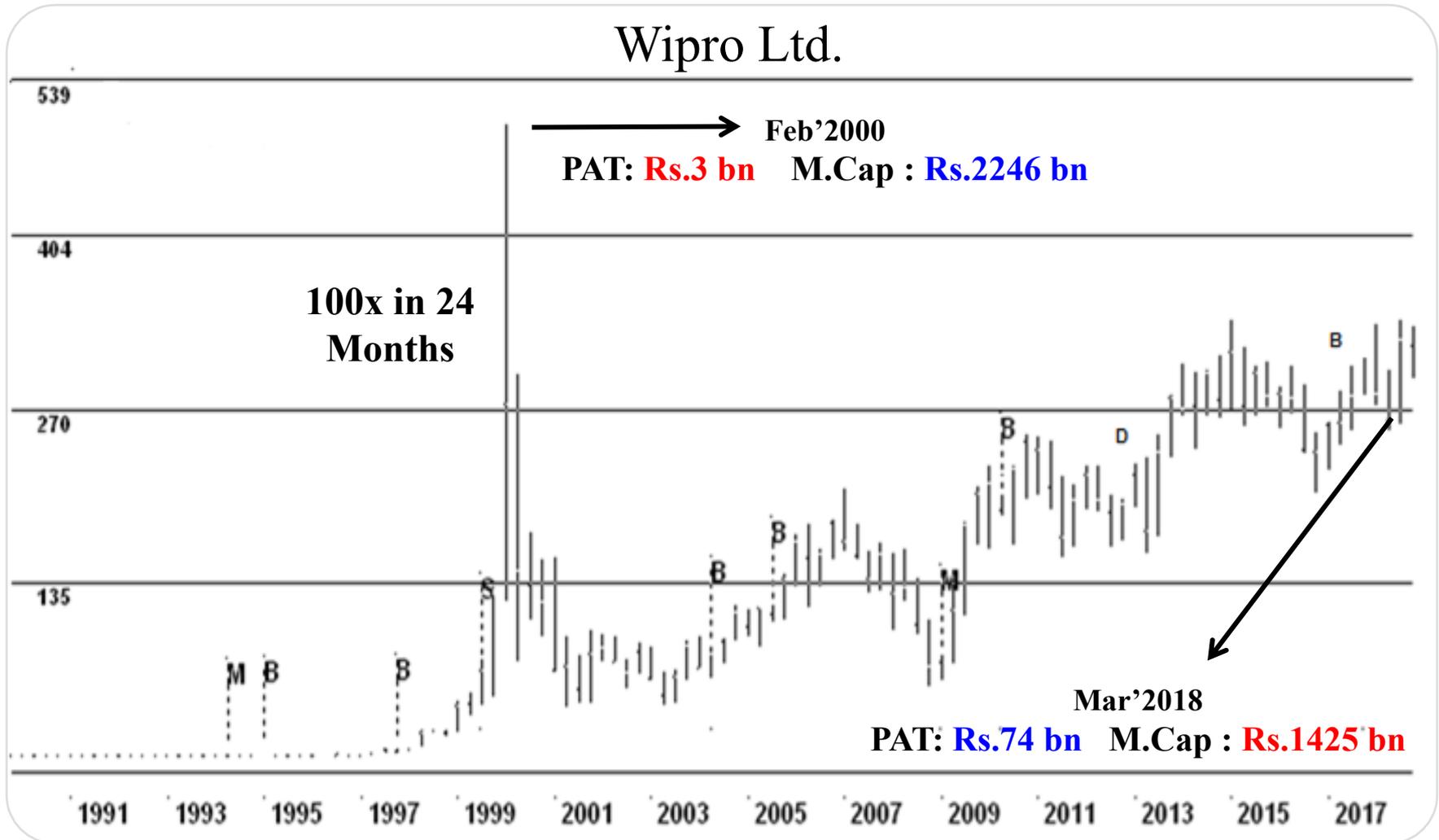


Total area including the  
gardens of 2.86 sq mi



3<sup>rd</sup> biggest state in US with  
area of 1,63,696 sq mi.

# Importance of Selling



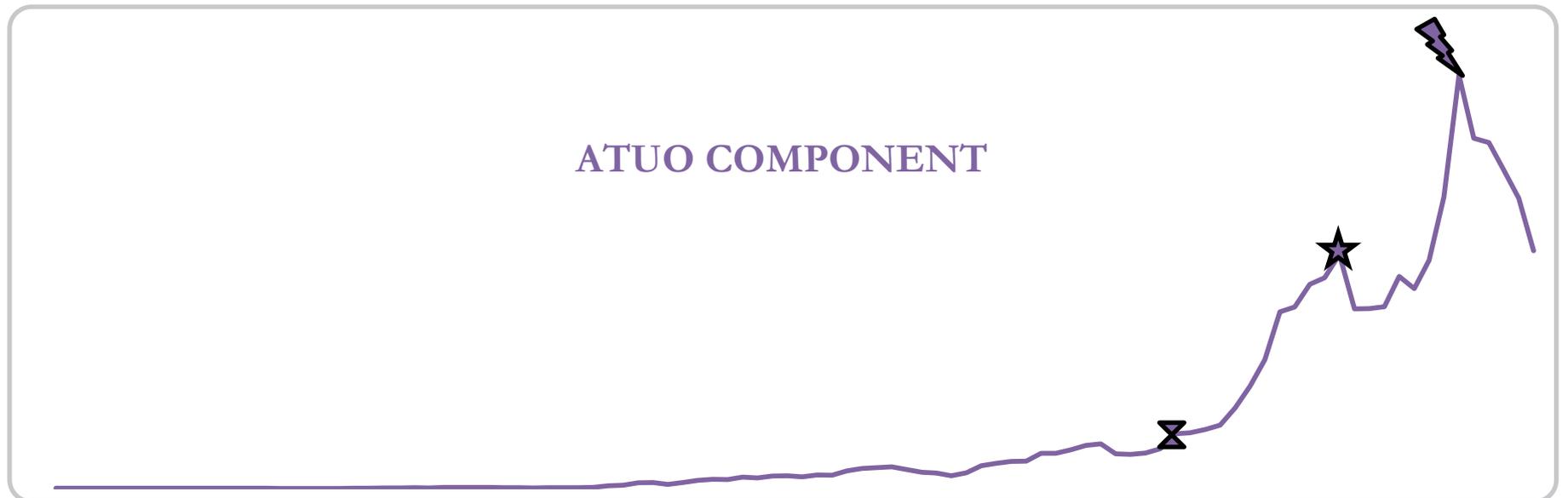
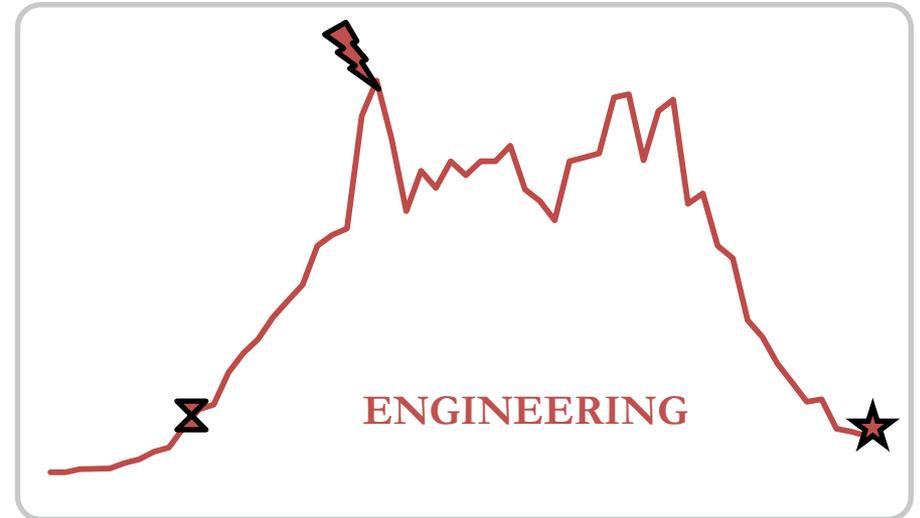
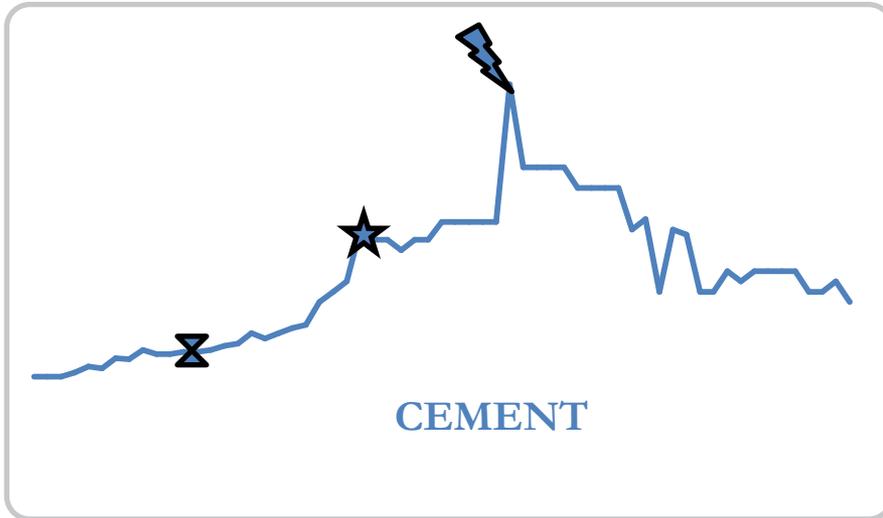
**PAT up 25x**

**M.Cap. still down a third from peak**

# Worst Mistakes in Best of Times



# Recency Bias



# Errors of Omission



# Confucius's Methods to Gain Wisdom



**Reflection**  
is Noblest



**Imitation**  
is Easiest



**Experience**  
is Bitterest

# We all are Victims of our Own Image

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**Some are less fortunate**

# Unlearning is More Difficult...

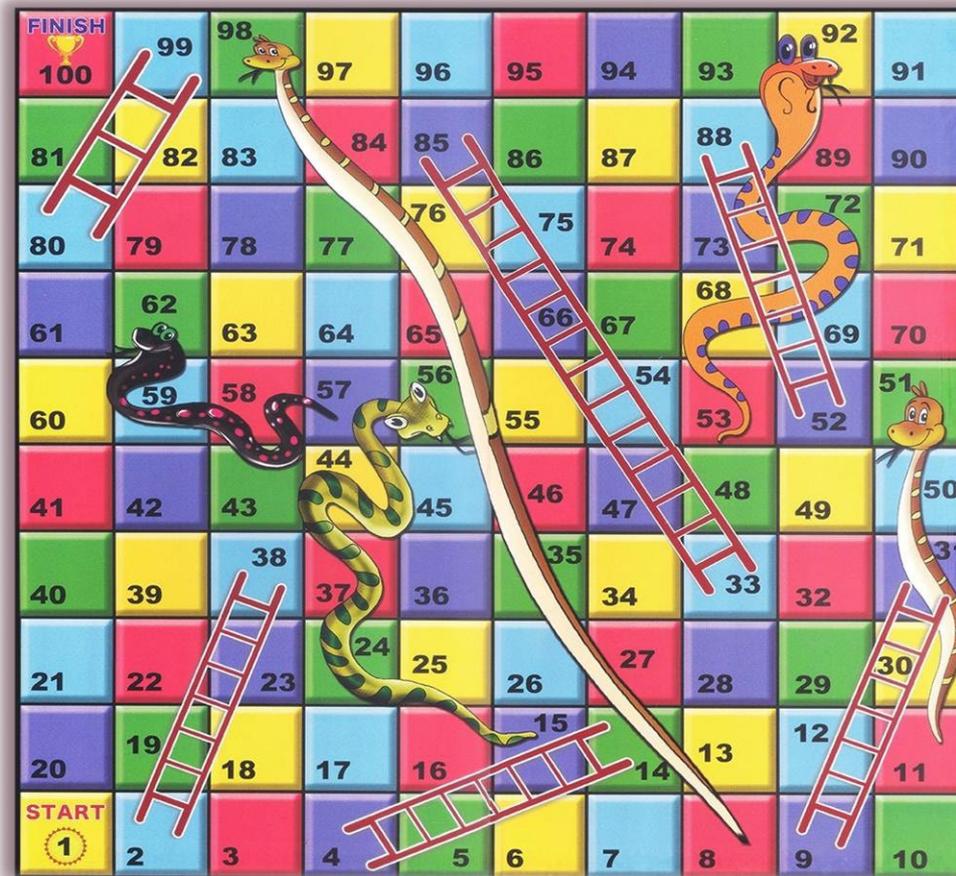
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**... than Learning**

# What we have we may not Deserve

## SKILL AND LUCK



**LARGE GAINS ... BEFORE PAIN ... HURTS MORE**

# Why Humility Matters

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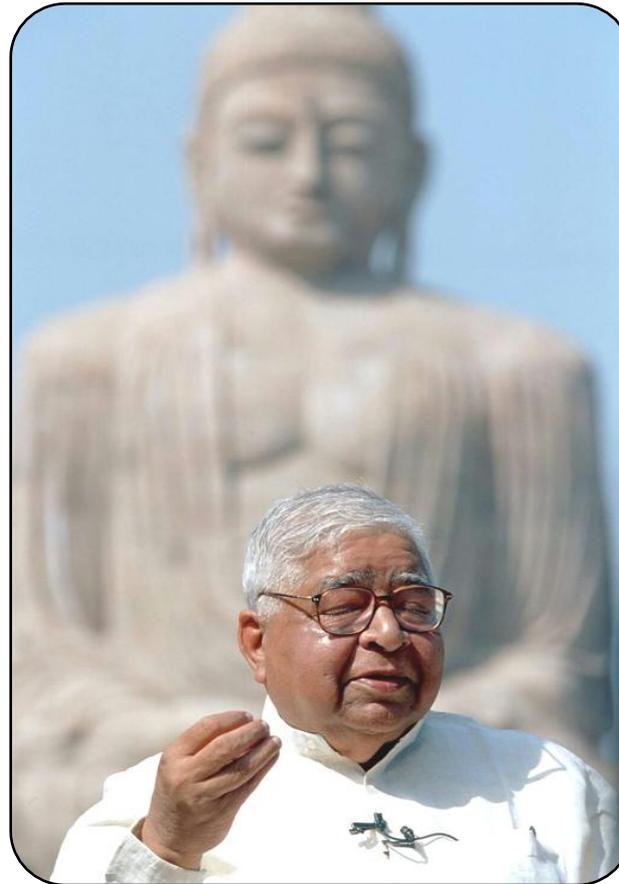
Humility leads to ... Listening... which leads to... Learning

# Strive For ...

[www.dhamma.org](http://www.dhamma.org)

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**Awareness**



**Equanimity**

**In Markets and in Life**

# Questions?

**"He who knows all the  
answers has not been  
asked all the questions."**

**– Confucius**

