CIO: Thank you very much, Manish, for agreeing to get interviewed by capitalideasonline.com. Could you start by articulating your investment philosophy?

Extraordinary individuals founded Enam

Manish Chokhani: First of all, thanks for inviting me. One of the reasons I agreed to do this is: I thought it appropriate to put on record the learnings from the extraordinary individuals who founded Enam and also the process through which we are now trying to institutionalize that. As you know, the founders of Enam were Nemish Shah and Manek Bhansali -- that's how the acronym N - M came about.

I think they were both extraordinary individuals with very individualistic styles of investing, although based on very common investment philosophies. If I were to step back and think about what was really the common thread that bound these two gentlemen and then subsequently Vallabh and Jagdish who joined and then built the investment bank and our distribution business, I would say that the core was a great sense of self awareness, self belief and value orientation.

Spirituality makes for a better investor

Our founders were very spiritual and self aware people. Nemish, of course, remains a deeply spiritual person and I speak about Manekbhai with great fondness although he is no more in our midst.

Two extremely spiritual people, very well balanced with a very humble approach to life: that's the trait which has defined what is now the Enam person. This whole theme of spirituality, which runs through them makes them much more balanced, in not only their approach to life, but to the investment process as well. Therefore, they are not prone to complete mood swings, which is very easy in our markets. It is also a sense of detachment that they bring to the investment process as well as to whatever work they do.

Impermanence is the nature of markets

We realize that things are not permanent. Most things in human nature come in cycles -- impulses are born, they mature, they have a crest and then they fade away. Markets, companies, all of them actually are no different. You go through life cycles of companies, you go through the seasons, you go through night after day and so on. Once you have this perspective about yourself and your life, this puts the whole investment process in a very different light. This principle of what I call reversion to mean, keeps you equanimous at all points. It enables a very non-emotional state of mind where you are able to see things objectively, have a sense of confidence about what is likely to happen because what one learns from nature and human history is that history repeats. Therefore bear markets are not permanent; bull markets are not permanent.

Therefore, there is no endless growth company; there are companies in growth phases. So once you have these principles in your mind, within this whole backdrop of spirituality, detachment, non emotional state of being and so on, I think that's really the core of the investment process and in being a good investor.

Humility helps learning and to define a circle of competence

I think a second very important characteristic of both these extraordinary gentlemen has been their immense humility. I mean that in the sense of their ability to learn from anyone and everyone at any time. You'll often find Nemish chatting with someone whom you would wonder "what's he doing with him" -- he may be a sub broker or he may just be a new analyst. Indeed, when I started, one would not have reckoned that someone could just go up and challenge him and refute his ideas. He was completely open and willing to guide what I would call the impetuousness of my youth at different occasions. Similarly with Manekbhai as well.

Another aspect of their humility also comes across in their ability to accept that they know only a few things and they cannot know everything. Therefore they never had this urge, which one finds in a lot of people in the market, that one has to profit from every single move or every single stock. They accept that there is a circle of competence which they have. They have a set of businesses they know, or a set of companies that they are comfortable with and as long as they know those well, they are quite content with those and they don't feel the classic left out feeling of not being where the rest of the crowd is making money. So, apart from spirituality, detachment and so on as criteria 1, criteria 2 I would really put down as humility as an investor.

Knowing where you stand can help you move the world

Criteria No. 3 really is a sense of confidence about their abilities and optimism. I am not saying this in a sense of them being over optimistic or being vain or pompous about their abilties and so on. They are confident and secure enough because they know who they are and where they stand. It may be a very small piece of land on which you stand, but as long as you know that the rock on which you stand is solid, that's what gives you confidence in your decisions. It's that mindset which allows you to weather all storms. There may be contrary opinions and news flows, but as long as you have looked around 360 degrees, listened to different opinions and then in a state of calmness and detachment, you arrived at your judgment, from that point on you have no reason to feel insecure. Because in your mind things are crystal clear.

Enterprise and wisdom across the ages has always won

If you overlay this with the fact that they both realize -- this whole feeling of the fact that don't be intimated by incumbency or resources and so on, because enterprise and wisdom across the ages has always won. Manekbhai used to often give examples of companies which one would have thought would never ever decay; they would always remain blue chips of the market and how they fell by the wayside. How in the independence movement of India, one would have naturally expected the well-to-do families to side with the English because that was the status quo. However, the reality was that the true leaders went with the satyagraha movement which had its own force and that's how we won our independence

Change is the only permanent thing that one can bet on

Therefore that sense of history and optimism is important to the investment process. Because you know that the status quo will never remain the same. Change is really the only permanent thing which one can bet on. Therefore, the ability to see what sort of changes are occurring and where these trends will lead, I think that's the fourth important component of their investment style.

Never double count – the ticker is God

Putting these common traits in perspective as something which was common to them, I'd like to talk briefly about their very different styles -- although the approach was grounded very much in the Graham & Dodd “margin of safety” school. Manekbhai used to always say "paatya bhagwan hai" or the Ticker is God. The ticker prices capture everything. One can keep going into raptures about how great the business is and how great the management is. Ultimately the price is already reflecting that, so don’t ever double count. There is no value in that for you as an investor.

This whole debate about value versus growth, for example. In our mind there never was this distinction. Unless you have a catalyst which can unlock value and for which growth is normally a good proxy, there is actually no value in something in a very abstract sense.

Price, business and management in that order

Manekbhai was very much a value investor taking price as the primary cue and then going down to business and then to management in that order. His style – in fact I was struck when I read the previous interview of Arjun Divecha of GMO -- I think the style was very similar. If I was to classify Manekbhai's style, I would think he would be the Jeremy Grantham of this country. He had a very deep value portfolio and at the same time because of the discipline he had on the selling side, he would have a momentum component to his portfolio that allowed him to maximize his exit price and digest huge profits. We'll talk about that a bit later as we go along.

Focus on the size of the win

Nemishbhai's style, on the other hand is extraordinary. He is one of the most extraordinary talents in our market. The most unique thing about him is that he is focused extremely clearly on the size of the win. It's not important how many wins you make or the frequency of your wins or even the likelihood, in a very foregone sense, of the win. However, unless the size of the win can be very large, he is very unlikely to come and make the bet. He is only interested in mispriced bets, and he is looking for bets which can give him outsize returns. That's very different from most human beings. Most people like to feel comforted when they make bets, that we bought 10 stocks and 9 of them did well and you know if one went down, we should self flagellate ourselves on how stupid we were. Nemishbhai understands that you will not win all your bets because it's about business and it's about unforeseen events and so on and so forth. As long as he is getting very good odds on the bet which he's taking and the aggregate of the bets which he takes gives him a disproportionate return, that's what he wants. I think that's the most unique characteristic of his style.

Prices should catalyse investment decisions

He was kind enough to guide me in my early years and he used to force me to think a lot about the possibility of how large the profit could be. Unless you have done those scenarios and those sensitivities, it's only then that the probabilities will become clearer in your mind. Only then are you prepared for making a bet when the market throws up the opportunities in terms of price. If you haven't thought through, you then tend to take comfort in cues from price movements. As prices go up, people start feeling more confident about the company and vice versa. Whereas if you have done your homework in advance, the price actually catalyzes your mind into taking a decision against the movement since you have already examined the range of possibilities. You then start assigning a probability in relation to the price point and the possibilities which you have put together. That actually is a very – I can’t even say there’s a science to it -- it's almost like a second nature now and part of what we call common sense around Enam. Companies become more attractive when prices fall – not more risky unlike what I learnt at Business School!

Operating leverage + financial leverage = opportunity

His style also has been very much to focus on seeing businesses with great operating leverage. Also he is a person who is not afraid of financial leverage in a company. It's a very distinct style because one hears most Buffett followers say “I like good businesses and balance sheets which are debt free and so on and so forth.” However, that's not an end in itself and that is NOT following Buffet. Operating leverage obviously is going to give you huge changes in profitability. If financial leverage of a reasonable degree is applied to it, the return on the equity and to the equity shareholder will be that much larger. If you follow the chain of thought of what I am saying, this really leads up to a set of wins which can be very very spectacular. But it also defines the sort of businesses which he is going to be much more comfortable with. For instance, he is always going to have great wins in cyclicals like automobiles, and commodities like cement, and in engineering and so on. At the same time, his core holdings are quality businesses that can earn sustainably high ROEs for a private equity investor for years together. Of course he is not very attuned to paying a lot for that future!

Think of good businesses and trends

So put all of this in context: These were the extraordinary people who really mastered the investment process and the investment mindset and defined the investment culture of the firm. Now overlay the influence that Vallabhbhai had. Although he was never on the investment side and he ran the investment bank. However, his thinking permeated across the Chinese Walls. He is someone who started the whole process of thinking big picture -- actually the analogy I can draw is with a Charlie Munger who ran his law practice and yet influenced Warren Buffet -- to say why don't you start focusing on good businesses; think about macro trends. Therefore, it was uncanny that a group of investors who were from the Graham and Dodd school had a partner who was running an investment bank completely separate from them and was able to bring to market companies such as Infosys and Zee Telefilms, which were completely going to change the status quo and help catalyse what I call the era of brains and brands that we had in the 1990s.

Vallabh brought in the perspective of looking out for trends, a lot of macro in terms of what is happening in the world, in terms of what is happening with government, in terms of what is happening with demographics, in terms of what is happening to the secular shift in the GDP and therefore the sort of businesses which are likely to do well.

Read the annual report to the last decimal point

My real preoccupation at Enam has been to institutionalize the amalgam of approaches of all these fine and outstanding individuals and bring discipline to the entire process. So the whole act of setting up the database, the regularity of follow-up with companies, the fine art of actually stripping balance sheets down to the last decimal point, reading every single note on accounts -- I think the need for financial rigor and discipline cannot be overemphasized!

So, my real preoccupation at Enam has been to institutionalize the amalgam of approaches of all these fine and outstanding individuals. I know it's been a very long winded way to have got to this point, but I think it was important to put our ten commandments in context for you:

1. Know Yourself
2. Learn from cycles of nature
3. Build a circle of competence
4. Bet on change and enterprise
5. Use market signals
6. Focus on Size of Win
7. Understand the power of trends
8. Don't skip the fine print and financial rigor
9. Discipline!
10. Play to Win!

We have used this approach in each of the businesses that we are present in. A lot of what I will subsequently discuss applies to the investment management business that I founded in 1998. However, this approach is also what is also drilled into each of our analysts in our equities business or our professionals in the investment banking business. That is what helps them service clients in a more comprehensive manner. We always say that to service an investor, first learn to be one yourself.

Therefore, despite huge Chinese walls and strict compliance processes, we have been successful in creating a culture and cadre of well rounded, knowledgeable and intense team players, quite distinct from a star culture that prevails in most other organizations. I am happiest taking credit only for being the interior designer of each of our businesses or the coach who could institutionalize and carry forward a great tradition.

<u>Play with full intensity and play to your strengths</u>

Once you decided on what game you are playing, it is important to decide how you are going to play. Since the whole concept of playing within your circle of competence is very well ingrained, I don't think any one of us pretends to be an expert in everything. However, the guiding principle that has been drilled down is that you should always try to master a company as if you are the CEO of the company. You should have a helicopter view of the business and where it's headed, but you should also know the cost sheet of the business. You must know what the drivers of the business are. Whatever you know, you should know that intensely rather than superficially. Once you know that well, you will figure out for yourselves what are the areas in which you feel comfortable and areas in which you are less comfortable.

Play as a contrarian or for the long term

We are clear about our style, our circle of competence and areas where our relative strength is much higher than the rest of the crowd. Another very easy and obvious way to do it is -- if you are to segment companies by market cap in India, you'll find that maybe 50 to 100 companies are intensely covered by most analysts and whatever is to be known about them is, in a sense, known. Therefore your edge over there in those businesses is not so much the research or the understanding or the insight but your ability to play for a different duration of time or your ability to play on a wisdom basis as a contrarian. So when everyone thinks that the trend is down, things are going to basically completely crash and burn and die, we get excited. Or when the trend is up and people think that this is going to grow to the moon, we are fearful.

So, on the larger caps, I think our style has been very much that of contrarian and longer duration players. The fun of course is once you cut the first 80 companies out and then start going down -- there are 5000 odd listed companies in India. Maybe 4500 are listed for God knows what reason – but what that still leaves you with is a set of about 400 odd companies that are of reasonable size. Again if one were to start segmenting, you'd find -- I would think off the top of my head and maybe we can check some of the data sheets which we have -- my sense is there are about 125 companies that make a profit after tax in excess of Rs.100 crores. That's a significant number in the Indian context today. Similarly there are probably 250 companies that have a market cap in excess of about U.S. $100 million. So even if you start looking within this tier, there surely are a number of businesses which will grow and make the transition from here to becoming the large caps of tomorrow. If the approach to the business is same -- for instance, a Ranbaxy or a Reddy was a very small company 10 years ago in relation to a Glaxo in those days.

"Can this company conceivably earn profit equal to its current market cap"

So it's been a very happy hunting ground and the area where I think we have done quite well in terms of going, meeting, understanding these businesses, seeing what the prospects are and therefore what the potential is. Again if I were to put it in context of price, business, management coming together, I think a key number which is always top of mind is

– "can this company conceivably earn profit that is equal to its current market cap?" If one sees that potential -- not that it may necessarily happen, then that's obviously something you want to intensely study and research and spend a great deal of time understanding.

<u>Have a degree of discomfort when you are buying the stock</u>

If I were to go on from there, when you are taking a lot of these mispriced bets and not backing the odds on winners, there should be a degree of discomfort in buying the stock. It's often going to be something you are going to find very hard to explain to someone and especially to an investment committee. But you just know it in your bones that this is going to work. That is the reason why we brainstorm a lot collectively but do not force any analyst to aim for unanimity. All we want is to force each one of us to consider all the possibilities objectively.

<u>Investment is a very lonely art</u>

In a sense, investment is a very lonely art and if you are going to spend your time convincing other people, by the time you have reached a cheery consensus, there is a heavy price to pay for it. So one has learnt to discuss ideas and opinions freely, but not agonise until everyone agrees. As long as one accepts questions, criticisms, or indeed suggestions in the right spirit, that's the unique culture that we have consciously built and that's the clock building process that we are going through. That is what allows us to keep improving all the time. From one Nemish whom knows automobiles very well, or from one Manekbhai who knew commodities very well, there is now an array of people across the company who know different businesses very well and therefore there is a port of call within the company of people we would turn to for quick and thoughtful opinions. The beauty is that thanks to objective brainstormings, we are all collectively getting better all the time!

Our Circles of Competence: Businesses, market cap and time horizon

I think to put that all in context again, draw concentric rings that build relative advantages. Start with the businesses that you know well, then hunt in a fertile area of under researched companies and build a model which allows you to invest on a time horizon that is very different from other investors. I think that combination is so powerful, that you are pretty much going to beat the market over extended periods of time, without actually really having to sit and think about it. Because you have created the correct tail winds around yourselves.

Now all this is fine if you're just going to talk at the conceptual level. How do you translate this into practical reality, into something that you do in a disciplined manner very regularly?

Run screens on a periodic basis

There are very extensive screens which are run on a periodic basis -- certainly at the time of every quarterly result, you know we run screens to see what's been the rate of change in different businesses, which sort of companies are now making the grade of the area we have defined, which companies are falling off the radar. Of this list of 400 odd companies which are on the extended radar, one would always have a hot list of 100-150 odd companies which just on pure numbers basis deserve to get a better look at. The rest you can just screen out because you have visited a lot of them in the past and they are just sets of managements or businesses that you are not comfortable with and probably never will be. So they are just automatically screened out.

What that screened effort throws up is a lot of leads for you to force you to start thinking. That's almost like the starting point. But also there is a sort of a short-circuit of the system because there are a number of businesses which we know well and which may not meet the quant criteria at that moment, but you have a separate sub-segment that allows you to bypass the system and just keep them on the radar. That is because we all think that these businesses or managements will play out over time. Okay, so like with most things you cannot just do investment purely on quant basis otherwise the computers would take us over. But equally, you can't have a bunch of people coming in and saying this company should be in just because I say so or I know somebody. It should meet objective criteria in terms of business attractiveness and potential ROIs and so on and so forth.

Volume growth is one catalyst

Once you have these screens, whoever is coming up with the idea, whether it's now on the brokerage side or indeed in the old days when I ran the AMC, that if indeed you are seeing this value, the value by itself has no meaning unless there is a particular catalyst. Therefore, if you are coming down to discuss catalysts, you would broadly group them around four areas - and ask why are you recommending this stock? Is it because you are expecting volume growth to happen? Volume growth not in an absolute sense. Is it going to be volume growth which is consistent with per-share earnings growth and return on equity and so on? Or is it something else? So volume is obviously a very powerful driver, but we are less excited about people who are going to go and put huge incremental capital to create that extra volume.

Price change is another catalyst

The second big area to slice is -- is there a big price change possible in this business? Cement is the most discussed sector when one talks about price changes. But we have also discussed at great length, you know, the possibility of media inflation or media getting priced in terms of pay television becoming a reality or indeed channels which are very niche actually being able to collect pay revenues from their consumers. These could be the longer-term bets one could want to take specially in businesses which you think are going to endure and provided we find managements whose capital allocation we trust!

Capital efficiency is the third catalyst...

The third big area - and it may be useful to put this in the context of the historical evolution of Lever that went rural with a vengeance in the early 90s. That phase was volume lead. Then there was a period where they said we can increase our prices and enhance profits. Then really phase 3 was the phase of capital efficiency where you squeeze extra cash out of your working capital and asset turns and thereby make the business more attractive. Or indeed in other businesses which are more cyclical in nature where when the upturn comes, your capital efficiency automatically improves because of better turns on gross block and so on.

... <u>And restructuring the fourth</u>

The fourth big catalyst is when some sort of restructuring of the business is likely in a manner which would unlock value. The classic case here, for instance, was privatization. Otherwise a number of PSUs had lot of value for many many years that just sat there.

So catalysts we would really group around these and unless someone is able to come and articulate this very clearly, it's very difficult for that recommendation to actually be supported. So that is really our next cut and really driven by different business characteristics.

<u>Capital allocation capability of management is key</u>

I think the central issue we have when you are discussing management is not how smart they are or how good are the presentations that they make. I think the central issue when one discusses management is - what is their capital allocation record or philosophy? Unless people are clear about that, extraordinary businesses can be destroyed. And very mundane ones can actually be made to look very very extraordinary.

It's been a fascinating experience over the last 15 years or so when I have been visiting companies and meeting with people, the rarity of individuals who are focused on capital efficiency as opposed to plant or process efficiency. One often finds in a lot of so called professionally managed companies that the best manager gets promoted because he is very efficient in running operations. Unfortunately, when he gets the CEO's job where his biggest job is really capital allocation and maybe human resource management, you know there is a fiasco waiting to happen. Therefore we get ecstatic when we meet like Narayan Murthy or T K Balaji or companies like Hindustan Lever and HDFC where frugality is still a mindset and capital is not allocated in a very princely manner just because they are making large sums of money. Or even the Wipro's and the Reliance's -- they are making thousands of crores of profit, but the mindset is still frugal in not only capital allocation but even in incurring costs, not of course in a penny wise pound foolish manner, but really in a sense of getting the best return on every rupee which is actually invested.

Understand the DNA of the organisation

The second big cut when we go in, is not really to ask management about their strategies or about their EPS's and so on because one often finds that external circumstances alter that very dramatically. Instead we are very interested to learn about their thoughts on their HR processes. How the DNA of their organization is being built. What are they doing to create a set of leaders at various levels in the organization. Those are the businesses which you then start giving extra valuations for because you can see these businesses enduring for much longer than businesses which are very individual centric or very external circumstances driven. Again, one has met a number of fascinating individuals who may not speak the latest management jargon but are extremely crystal clear about how to keep employees motivated, how to empower them, how to get them to take leadership and so on. I remember someone who mentioned to me that he takes some of his senior leaders for vacations together with him. The closeness and bonding that achieves is much more important to them than the level of pay that he gives them. This they could have got by working for a multinational. Similarly, one has seen companies in the TVS group where you have TQM slogans translating into ROI's actually displayed on the shop floor. If you are going to get that level of empowerment and understanding down into your organization, I think the results have to be necessarily good.

Is goodwill being created for the customers and employees?

The third cut for management is are they doing something to create goodwill with their customers? Because it's very easy to cut costs or deteriorate your product quality in the short run to deliver those extra profits. But is it going to hamper you in the long run and the question is - are they leaving something extra on their table for their customer. Just look at the house of Tata and you will understand exactly what I mean by creating goodwill and trust.

Likewise with employees - are you leaving something on the table for their employees? I am not talking just pure financial compensation. There could be various extras in terms of empowerment to take initiative and do things which you otherwise would have felt bottled up doing elswhere.

Or recognition. Or creating an atmosphere which is almost collegial. Which allows dissent, ideation, and so on. At the end of the day, the best people don't get motivated by the highest pay but by the environment with which they are actually provided.

Is the organization singing the same song?

Another good way to check this is beyond just going and meeting the CEO and the chairman, because normally they give you a five-year view or helicopter view of the business. I am sad that I increasingly have not been able to continue doing this as responsibilities within Enam have gone up, but this is the sort of stuff we encourage our analysts to go out and do - Get a sense of the different layers in the organization and are they singing the same song. Get external validation. So if you are meeting a supplier or a customer, all it takes is that one question to ask them and to see whether it's correlating with the story you are being fed. Not that we don’t trust people but with people holding stock options or having gone to the same business school as a lot of us have gone, one now sees a lot of canned stories being given to you and it's very important as analysts to go and see through that.

Analysts are not jounalists

I often say this to my analysts - our job is not to be journalists; to report what management has given us as guidance, but to apply our brains to see how realistic this is in the context of not only the external environment but also how they see their internal set up functioning. I think the best measure of this is (whilst hopefully you go into a meeting and you can look into someone's eyes and you can decide) it's usually the scuttlebutt around either their own industry or indeed our industry with people we talk to. Our community has a huge body of reference on which you can base a judgment. A lot of us, of course, keep records of management meetings we have had. We go back and look at those notes each time when you have meetings to see whether what this person is saying is, at least in a philosophical sense, consistent even though the actual numbers may have been different for a variety of reasons. That really is that true cut of management.

<u>More than 80 percent of business in India are run for social, not economic reasons</u>

The reality of our country and I think of a lot of countries is: 80 to 90 percent of businesses are run for social reasons and not economic ones. It's very difficult for someone here to say that my son is employed somewhere as opposed to saying that he is running his small factory or small corrugated box unit or whatever. It's somehow seen as a lot more prestigious to be an owner of a business howsoever small than be a salaried professional. I also find a lot of people not debiting the right economic costs to their business. So they don't think about land or building or offices as something which carries a cost because their families have owned it for generations or whatever. Also cost of their own labor and managerial input as a cost of the business. Therefore they get a very warped idea of reality despite the fact that their business inherently is not profitable. Whatever return they are making is really rent and labor that they may have actually gainfully deployed elsewhere. So those sort of businesses one is obviously not interested in.

Be careful of investing in businesses built on luck

Also I would draw the distinction between people who made it with luck and therefore are insecure about what to do now. Therefore they are unable to let go off their businesses either to grow it or to actually share their success with their minority shareholders. Because they realize this has come through a fluke or is an accident.

Scalability is vital and difficult

That leads to the conclusion that there are very few people, despite some good businesses in India, who have the ability to let go and therefore scale the company. I think if I were to talk of the central challenge of our country, it is the challenge of scale. You go to the United States and you can find a Michael Dell at the age of 24 thinking of building a global company. He can make 40,000 people work for him and put the processes and systems in place. Over here one would find very few people -- for instance you can think of a Sunil Mittal or a Aditya Puri who could create $1 billion company within five years. But you can't think of 50 people who could do it. One has seen this perhaps in the IT sector or a couple of random media companies or pharmaceutical companies which have come out of nowhere and created size and scale over the last 10 years. But the central issue for most companies has been the challenge of scale. Again in the Indian context, when one talks scale, one naturally thinks of Reliance or Infosys. They are the only ones who are consistently showing the ability to change orbit and go from a scale of 1 to 10, 10 to 100, 100 to 1000 and actually carry it off beautifully each time.

Most people I find, they change one orbit and then I don't know, whether it's lack of ambition or insecurity or not knowing how - somehow the curve flattens over there. It's happened to company after company after company which is what's led us to believe that there are no permanent growth companies; there are companies in growth phases.

Therefore it's very hard to pay a lot for 15 years into the future and 20 years into the future because a lot of things can change within the time span. Especially when one is talking of the base effect kicking in: can you actually make that return on your incremental capital? How will you and your incremental employee behave since each one will come with incremental set of aspirations and desires and so on.

Unlike Buffett, we prefer good managers over good businesses

So that's something one grapples with -- I don't know how we quantify it but it's certainly there in each discussion which happens. When we see that sort of breakthrough - those companies have a log scale in terms of where their valuations can then go. That's the sort of business you are looking for. If one were to draw a parallel with the classic

Buffett saying that look for a good business and then a good manager, I think in our context we have tended to prefer to look for good managers in good businesses because they have made the difference. This whole theory of going top-down and saying if retail or auto is going to do well, let's just put money in the leaders over there --actually one finds the leadership completely overturned after a couple of years because of the sheer ability of individuals. As a classic example, one would not have said 10 years ago that with scooters ruling the roost and with the Honda tie up in place, Kinetic would falter and Hero Honda would be the multi bagger! Or indeed, one would not have talked of, someone growing up in the telecom space with almost no background -- and I am referring to Sunil Mittal here as opposed to the then competition of AT&T, France Telecom etc. So when you find extraordinary people like that, I think it's worth paying up for them and taking that extra bet in terms of the higher PE multiples since their terminal values are defensible!

Moving ahead from here, your next sort of questions, I guess, would be in terms of how does all this translate into buying points?

<u>Dividend yield is one extreme of margin of safety</u>

I think at the center of it, when one says margin of safety and when one says possibility of win, the dream scenario obviously is to find a great business with a great manager at a price where this company can earn the market cap that one is buying at in the foreseeable future.

I came from the packaging business and I remember after we sold the business as failed entrepreneurs - it was very easy to find opportunities in the packaging business itself where one was finding market caps of companies which over the next two years they earned back. Maybe those companies aren't great names today, but certainly because one had bought at such attractive price points, they were literally ten baggers. Similarly, as recently as couple of years ago, you could have bought companies as large as BEL or possibly even companies like TVS or Mico at prices which could have given you their market caps back over the next couple of years. If your entry price is so attractive, then a lot of this discussion on quality of business or quality of management to that extent can get diluted. But if I were to take a continuum of valuations and say how quickly can I get my payback, at the extreme end of value, obviously one would talk of what's the yield on the stock. One can remember, for example, the subsidiaries of State Bank of India, couple of years ago, selling at market caps that equaled the next years profit! Even at that point, they were high dividend yield stocks and have only improved since then as profits have grown. So in those cases, there is no point actually going further up and seeing what's the PE multiple and so on.

Book value and replacement cost are next in the valuation chain

As one moves on from there, the next value criteria is how is it in relation to book value or replacement value. Now multiple to book for instance may be very relevant in the banking space and one found tons and tons of stocks like that over the last couple of years. Or indeed replacement cost basis. If one had sat and thought about a lot of the commodity stocks which one is now seeing getting into the limelight, most were available at fractions of the profits which they are earning today. So the opportunities were always there staring at you in the face. It was a question of whether you wanted to pick them up. These businesses or these managements may not have met your classic criteria of being great businesses or great managements, but the price was so attractive and the potential return that these businesses would make over the business cycle was interesting enough to make one look at them.

DCF is the North Star of the valuation spectrum – however focus on the discount period rather than terminal value

From there we would move to the Guiding Star of what valuations should be - the discounted cash flow. What one is really saying is one wants valuations which really discount upto what I call a discount period rather than a terminal value. So if one could get a five-year payback or a net present value where the terminal value comes for free; obviously that's something you are going to lean towards. Then you're going to say this business is so good that I may want to discount slightly ahead or this management is so good that I might want to discount slightly ahead. That's the limit of flexibility one would give to that sort of valuation.

It's really from this sort of thinking that we use the short hand of PE multiples. PE multiples should have a correlation to a sustainable ROE of a business and that’s the only way we think about it. However, people often compare apples and oranges when they are comparing PE's and say a – “why not buy this auto company that has a 35 percent growth rate and a current ROE of 30 percent and is selling at a multiple of 10 as opposed to lets say a pharma stock which currently has a growth rate of 10 percent or a ROE of 24 and selling at 15 or 20 times." That's actually not a valid comparison because a secular line of growth, which one discounts a longer time period for, is always going to have a higher multiple than a business which is going through an upturn which will eventually swing down.

Think in terms of PE Bands

I can briefly show you what we have done in terms of creating discipline in terms of PE based valuations. We put more sustainable ROE businesses such as FMCGs or pharmaceuticals or services on the upper gradient of our PE bands. They deserve higher valuations as opposed to commodities or engineering and autos which are much more cyclical and therefore would tend to have lower PE bands. If one thinks of our bands as diagonal lines, you should really be comparing a 10 multiple cyclical to a 15 or 20 multiple secular business. Since we have linked all these down to ROEs we are clear what the likely PE bands are and that's created a sense of discipline about where these valuations could go. When we think of recommending something, we like buying or selling things which are completely off the charts in terms of PE multiples or other valuation metrics that we use. Ideally, these would be less than half of what the intrinsic value is. When they are actually close to their target values, the margin of safety erodes. As you can see on this graph, it's color-coded. When it flashes red it tells you –if you are holding it beyond this price, there is something completely crazy with you from a value perspective. You must sell.

I'll draw the analogy of the selling styles that one has had within the organization - where Nemish sells based on a value perspective and he does not look for a price or multiple higher than what he had thought of.

Define your selling style

Nemish is absolutely value oriented in selling. Manekbhai on the other hand, had a wonderful ability and style of selling because he would never sell at a particular price. He would make a mental switch in his portfolio and shift his “sell” value stock to his momentum side and as long as the stock was trending up, he would not sell it. Mentally he had sold it from portfolio A to portfolio B and he would only sell it completely when the price turned and the turn was confirmed. This almost always would give him a better average and allowed him to digest huge profits without getting unnerved like a classic value investor.

Similarly on the buying side, he would never catch a falling knife. He would wait for it to bottom and then buy only once the upturn was been confirmed. So, he was never attempting to be the leader or set a price. Nemish on the other hand, has always had the conviction that if the price is right, I don't care if I am the person who is catching the falling knife and creating the bottom. Equally on the selling side, he is quite happy to sell early and let someone else make the momentum money over there.

<u>Sell when your empirical mathematics tells you to...</u>

What we have therefore developed are these absolute price bands. Once you go beyond that, you are in momentum territory. It is then up to you to choose to sell based on the reds or ride the momentum. This discipline is important since often I find people justifying fundamentals *after* the price has moved up, whereas clearly it is the momentum that is causing them to get swayed.

The reds on the screen flash at you and urge you to sell. If you neglect to do that, it is because you have in your own mind something more than what the quant is telling you.

Personally, I think my biggest failures in life have been when I thought that I was smarter than the empirical mathematics which we had worked out in advance. I paid a heavy price for it. A lot of people ask us about a lot of successes we have had on the buying side, but I think it's equally important for people to understand that if you don't have discipline on the sell side, you can actually destroy many many years of returns that you made. And that's a painful lesson that I learned despite there being wiser counsel around amongst us.

..<u>or when your original premise was flawed</u>

Another way to sell, obviously the most painful one, is when your original premise was flawed. That your expectations on either volume, price, capital efficiency was wrong or management had gone off course - especially in terms of capital allocation, at which point there is no use getting wedded to that stock and getting emotional about it. One would therefore just cut the loss and head for the exit door.

Another important discipline that we maintained on our portfolio side in the AMC was that we had decided very early that we would not have more than 20 stocks and one would not build a position unless we wanted to buy at least 5 percent of that in the portfolio. That was important discipline since it forced us to weed out the weaker stocks as one kept getting newer and newer buy ideas.

Know your portfolio bias

Another cut that we do is slicing to see where the percentages are on a sectoral basis as well as on a market cap basis. We have a 8 x 4 grid which we look at on a weekly basis. Not to say that there is a predetermined criteria to say we would be 50 percent in mid caps or we would be 20 percent in IT and so on. In that sense we are not top down. However, we like this frame of reference to see what the portfolio is throwing up and exposing as our bias. So if I end up looking like I am 50 percent in IT and in mid cap IT, is there a conscious bet that I am taking and willing to live with or do I want to temper that. As long as one is conscious about it, I think that's the best risk measure to have rather than putting in something quantitative to say that get rid of this just because this is 50 percent -- because that often means that you end up selling the flowers to water the weeds. There are may be one or two companies that usually can make a huge difference to the portfolio.

You don't want to be selling just because it's got out of range on a particular percentile basis.

Don’t create a zoo

Another bias we have is to discuss whether we are creating a zoo when we get to too many stocks. Does it mean we lack conviction and therefore is it worth being in the market at all? That's a great warning sign - when you have a collection of too many stocks, that means you do not have a great deal of conviction to go and say lets put 5 or 10 percent in any single position. Also if one starts finding the names that one is now throwing up on the buying radar, the increasingly tier C type of names or smaller more obscure companies, that also is a warning sign that the market has reached a crescendo. Although we don't think really in terms of what the others in the market are doing, this in itself is a good enough signal apart from the list that one keeps seeing of the new highs and lows and that range of advances and declines. If all the new highs are going to be these categories C type stocks, one pretty much knows that the end is near. At such times, we take very rapid corrective actions in our portfolios.

Discipline discipline, discipline – always play the percentages

On the portfolio composition side, another thing that we did certainly in the early days, and I wish we had done during the TMT bubble, was to have the guts to go between 80 to 100 percent cash . One remembers this from the 92 blow out and the 1995-6 blow out. There was no point being in a market that was clearly overstretched. Although a few individual stocks held out, they were few and far between. While I don't think we ever got to 100 percent cash, but we got as close to it as possible. When it rains one has seen that everything gets wet and even stocks where you think that it's great value and it's only maybe only a 2 PE or 3 PE and how low it can get, one has actually seen over the last 10 years that when the knife falls, it actually doesn't know where it's supposed to stop -- just because our math or our computer models says there is now a 8 percent yield or a half time book or something obscure like that. However as value investors, we stick to our discipline and therefore continue to recommend buying and selling early! I think that's really the best sense I can give you in terms of portfolio construction and buy and sell discipline.

The key of course is being disciplined. It's not that individually we are very smart or we are as talented as a Warren Buffett or a Sachin Tendulkar or a Michael Schumacher. We tend to think of ourselves more as Rahul Dravid or Bjorn Borg, playing percentages rather than getting outrageously clever. If you play, using a cricket parlance, within the V and you do that consistently, you are going to avoid making significant losses. Our buying style in any case is minimized downside and lots of upside. Also as you get closer to value, you are anyway going to sell; so you are not going to make stupid mistakes. Therefore as long your percentages remain within a band, you are pretty much going to compound your money at a rate which is almost inevitably going to beat the market.

<u>There are different seasons for different fruits</u>

Businesses we like? Well, we all grew up reading Warren Buffett and so I'd love to give you the typical answer people must be giving you. Yes, I want very high sales to block and I want negative working capital, a lot of free cash and so on. But having observed what stage our economy is at and also having been a keen student of nature, I know that there there are different seasons and there is a season for every fruit and there are different stages in the lifecycle of a business which makes it attractive or unattractive. I'll give you an example.

Bet on promise, but don’t pay up for it

You could choose so that your daughter married a 30-year-old man -- he is highly qualified, in a very stable business or profession, with a very secure cash flow which is pretty much free because by then he has got his house and his car and so on. But that cash flow is possibly never going to grow by much because he is near the peak of his life. In a sense, most blue chips may meet those criteria -- but if I want to compare and contrast that with the ability to get her married to let's say a 19-year-old who is in college, but who still has to pay off his college loan and who possibly will go into business and who could become a very wealthy businessman and therefore completely outstrip the earnings of this 30-year-old gentleman and generate therefore hugely significant cash flows in excess of the 30-year-old, I don't think that by that criteria, wanting free cash and debt free balance sheets and so on are necessarily the right things to do in an environment and an economy like ours. Especially when one is getting different multiples for it.

So, again, to use the marriage analogy, if you are going to marry a 30-year-old with a high PE multiple or you get a chance to, you know, marry the 19-year-old at a very low PE multiple, I think we'll take the bet with the 19-year-old, provided we can see that the size of win of this person can be large -- if he is shaping up or aspiring to be a clerk or something like that, it's not worth doing. But if one sees in the character of the 19-year-old that this can go on to becoming a very wealthy 40-year-old, that's a bet you want to take.

Similarly, as I said there are different seasons and different fruits. Now, for instance, and we are not typically top-down investors. However, if one sees the sort of complete craziness which happened in the United States and therefore the wall of money that has been created over there to create incremental GDP and hold that economy afloat, it was quite clear that money would flow towards things that are not easy to replicate. That almost inevitably meant resource companies and commodities. Clearly this was their time over the last couple of years and the bull market in commodities or domestic consumption stories was born out of the death of the TMT bull market. Therefore if I would say that we are wedded only to a particular type of business and not the other, I presume we would have to wait for much longer business and national cycles to suit us!

Whilst we are long-term investors, we hate paying a lot for the future

So, yes, in an ideal scenario if I were to draw up a wish list - ideally I would want a 50 percent ROI business with a good dividend yield, but in reality there are so many investors now chasing those characteristics, that usually they are priced in.

Make a distinction between a good business and a good investment

The other complication with these really great businesses is capital allocation. Since a number of these great businesses got listed here, I think, by accident. Therefore they were less than happy to share the success of those businesses with a minority that they clearly didn't want. I can point an example of a company that we had bought in the AMC days and held for many many years, much to our eventual agony. A company called Otis Elevators. The attractiveness was that the company basically didn't need any gross block. The working capital was entirely funded by its customers and it ran on effectively a negative capital employed and had an annuity stream of service income. Now you cannot get a better set of business conditions than that. So Otis, despite being a very poorly run company, with very poor work culture and so on, was interesting since the rate of change was in the right direction and one therefore went through the pain of VRSes over a number of years. Just when one thought that the fruits will now be shared with us, that company opted to get delisted. Therefore I would make a distinction between a good business and a good investment. Often a good business may not be the greatest investment.

And often a good investment may not be the greatest business, but it may actually give you a very good return. I think the lesson we have learned is that once a business is recognized as being a good business, there is very little value for you as an investor on the table.

CIO: Has the investment philosophy of ENAM changed over the past 5-10 years?

Discipline and backing the right person has been reinforced

Manish Chokhani: Not a change but an evolution because in a sense it's been a confluence of many rivers and fortunately a lot of the rivers came from the same source. The value orientation is universal and doesn't change. What's changed is I think two things. One is our belief in adherence to discipline and doing a few things and doing it right -- I think is even more solidified now. Especially when one had this period when you really thought the world had gone crazy in the 99-2001 period. Almost everything that we had learned was tested to the limit and we went through a great period of self-doubt as if it was the new world out there -- you know people threw up new valuation paradigms at your face where you were really paying option prices for businesses which were yet to be created and were getting valued currently. So I think the belief in Graham and Dodd if anything has solidified even more.

The second, has been the belief in backing the right person a lot more as opposed to the right business. Especially in the context of what one saw with a lot of the multinationals doing to their great businesses vis-a-vis the minority shareholders. One always saw that where there was an entrepreneur or a professional manager whose interests were aligned with the minority, actually that investment always turned out to be far superior than a business which was run by a professional who had a budget to meet and who therefore ran it as a branch office rather than a business. Again I don't want to paint complete segments with the same brush. Within the MNC world, there have been outstanding managements and completely dimwitted ones and the same holds true for Indian entrepreneurs who have been very greatly entrepreneurial or institutional builders as well as complete robber barons. Therefore I think it is the characteristics of good businessmen that we look for rather than whether it's a PSU or MNC or Indian management or it's second generation and so on. And alignment of interests. I think that's really it.

CIO: What are your thoughts on investing going forward, given the way the markets have evolved over the recent past?

Competitive advantage as an investor has to be constantly renewed

Manish Chokhani: Well, for one it's an increasingly competitive and over researched world. Therefore the competitive advantage, not only of businesses is getting shorter and shorter; but also as an investor, your competitive advantage has to be constantly renewed. So, if earlier I thought I knew everything about let's say textiles, the question is if that business is going to lose its competitive edge over a period of time and therefore not give great value, other than an occasional contrarian call, I better renew myself by looking at for instance the retail business and so on. I think that's one leg of it.

Furthermore one is constantly redefining the relative playing field for oneself. If you are going to stay stuck in a particular rut of either a business or a market cap or a style – (actually I won't ever do a style drift so what I mean is a style of approaching either a business or a management), I think that's going to make it increasingly more and more difficult. Since everyone has grown up reading similar literature, if you are going to do the same thing that everyone else is doing, that's going to be increasingly your death knell. I think all one has learned during this period is to be alive to two things. One is that every fruit has its season and therefore don't be blind to free cash flow vs. commodities or as opposed to technology.

The second is constantly look for people who have the energy, ambition and the right culture, because these are the people who will be wealth creators. I think going forward it may increasingly become entrepreneur driven rather than business driven where a lot of value will be captured.

CIO: What are your expectation of different asset classes?

Debasement of money is a big concern

Manish Chokhani: Each time one feels that debt will give you a good return, we almost inevitably think of buying the business that will assure that good return to the debt holder who is feeling so comfortable about it. Having said that, I think the reality of the world today is that there is just too much debasement of money supply all over the world. There is too much debasement of public finances all over the world, not just in India. Which means there is latent inflation lurking in our system of a magnitude that I don't think we fully comprehend as yet. The bull market in financial assets is likely to be replaced by a bull market in commodities – or inflation by another name. Now how this plays out and what relative adjustments are made either through currency markets or asset markets at the current point is actually hard to comprehend.

The only thing that you can be bet on is whether your businesses are going to continue to have flexibility and robustness and management can be flexible enough to make the best of a given set of circumstances. I think that's your only ultimate defense. It's very hard for me to say that you should allocate money into an asset class which I understand very little of, which may be either gold or land or a foreign currency as opposed to a businesses which I can understand, quantify, value and hopefully profit from.

CIO: What are the big investment themes that you are currently betting on?

Demographics make up optimistic

Manish Chokhani: Well, each time one gets gloomy about the country and the bear factors are always there in terms of macro finances of the country and the sociopolitical setup. In each bear market these are the two most common themes. What always keeps our faith going are two things. One is the demographics of the country because that's something no one can take away from us. You know a young population which is increasingly educated, aware, assertive and aspiring to a better life, clearly they are going to consume a lot of products and a lot of services in the years ahead. Equally, the economy has opened up and in fact the rate of change has been a lot over the last 10 or 15 years, so the opportunities have opened up. One has lived through it and therefore doesn't think of it as being of great magnitude, but the reality is that one can aspire to be a Aziz Premji or a Narayan Murthy in this country today which was unthinkable of 10 or 15 years ago. That entrepreneural spirit which has been unleashed is something which cannot be put back into the bottle. The aspirations of the consuming class here is something which cannot be put back into a bottle. So if we put the income demographics curve and the age demographics of this country in context, the classic J curve seems to be around the corner.

What that means is that product markets will just completely explode. Now if we had spoken of five years ago that India will sell 9 or 10 million color TV sets, 4 million PCs, one million cars, 5 or 6 million 2-wheelers, it would have been unthinkable. I think if one will have this discussion again sometime in the next five years, a lot of these markets would be a multiple of the current markets. The number of 2 wheelers we sell today may conceivably be the number of cars we sell five years from now. The number of black and white TV homes which we have in the country will conceivably be the color TV homes in the country and so on and so forth. And in fact one has seen this happen with products which came in at right price points. For instance, in the cellular telephony market, we went from a completely under penetrated market to a rapidly penetrated market. Even from here, my sense is this market may actually triple over the next five years. So there are extraordinary opportunities ahead in secular growth businesses. Just looking around, if you saw the deadwood of textile mills in Bombay and the complete revival through multiplexes and retail malls and so on, that in a sense is the essence of India and the change it is undergoing. So that's a great reason to be optimistic about our country, our people, our asset class and our investments.

CIO: You're seeing a psychological shift.

Savers are turning into investors and entrepreneurs

Manish Chokhani: Absolutely. Absolutely. Furthermore in our own business, if one thinks about it, Indians save almost a $100 billion a year and a negligible fraction of that finds its way into the equity market. Increasingly one is seeing returns from idle investing getting debased because of so much liquidity being around. In a sense money is the ultimate commodity. Clearly, there is too much of it around. Returns have to accrue to enterprise. If one sees the mass of these younger, more confident Indians investing into businesses, you can conceive of a market where you have 10-20-30 billion dollars of domestic money coming to equities, coming to domestic mutual funds, coming to domestic financial services companies and creating a market which will completely obviate the need for us to talk in terms of approaching the American market and doing ADRs over there and so on. Again as a business, something which we have liked for long is the entire financial services sector where today we discuss one HDFC Bank, or one set of mutual fund companies; but over the next five years you'll see a number of companies in the insurance space, in the mutual fund space who will probably be growing on a log scale rather than on a geometric or an arithmetical progression scale. I think that's something which one is extremely enthused about. And the $100 billion odd savings number is only going to grow.

CIO: You are seeing mega wealth creation.

Manish Chokhani: Absolutely.

CIO: Is there anything else you'd like to add about the characteristics of successful investors? Could you share some case examples of your successes?

Understand yourself

Manish Chokhani: I will repeat this. What makes a good investor is really a sense of security about oneself. Once you know who you are, that's going to make you a better player. If you go out to bat like Sachin Tendulkar, but your inherent attributes are like Ravi Shastri, there is no way on earth you are going to play up to your ability. You are going to end up creating a situation where you are not in the team at all. Therefore, the first thing is understand yourself. Understand what you are good at relative to rest of the world and everyone of us has certain strengths relative to rest of the world. As long as you are secure with even a one foot by one foot space of land on which you stand, that's the basis to go and try and conquer the world. But if you try to be at different places at different times, all you're going to do is sort of slip and injure yourself.

Relentless daily discipline is vital to good investing

The second thing is, I think everyone fancies themselves as great investors and very clever but most people in the capital markets are very lazy and undisciplined. It's not that we don't know what to do and how to do it. The fact is we don't have the rigor and the discipline to do it repeatedly day after day and just do it right. Even if one looks at businesses that one is invested in, the success of an Infosys or Reliance is not due to some great strategic insight which they can milk endlessly. It is about relentless execution, day after day and just doing the basic stuff right, day after day. That's what leads to eventual wins.

I think if you just keep these two facts -- do what you know best, and do the simple thing that you know right, day after day after day with discipline, I think that's the only way to win.

I just want to add -- ours is possibly the only profession where everyone thinks they can drive as fast as Schumacher, bat as well as Tendulker, not realizing that Rahul Dravid's averages are probably as good as Tendulker's. He may not be as naturally endowed. If we can understand that about ourselves, I think that's the first step to being a good investor.

When it rains, everyone gets wet

And your second question really related to successes -- one's hardly done anything so as to be so proud of -- so I'll rather talk of the Hall of Shame rather than the Hall of Fame. The Hall of Fame of course I have many years ahead of me to create, so someday we'll do that. We already have a tradition established by much more eminent people within our company, stuff they have done is quite legendary. So I wouldn't want to talk about those.

What is useful for people who might end up reading this as also my colleagues, would be to discuss the hall of shame. We always like to analyse our failures and learn from them. So, the way we flagellate ourselves is not by thinking of how much money we lost, but how much we lost in relation to the potential gain we were thinking we were going to make! I think one of the biggest disasters of my life was a company called Trafalgar House which was a construction company with low equity and where the classic criteria of size of win was possible. Of course the top line completely vanished because of a slowdown in the economy and thanks to a lot of our politicians. So the margin of safety which one imagined one had in that business just wasn't there. I mean it's not that one felt shameful about losing money in that stock; what one felt shameful about was that we felt the stock was going to triple or quadruple and therefore in relation to that, it was possibly only 10 percent or 15 percent of that eventual value. That meant your basic mental arithmetic was completely warped and you did not understand the business drivers at all.

Investors should really be cowards at heart

Of course no discussion on failure is complete without discussing the period of 2000-2001. I just wish it hadn't occurred in history! Every single signal was pointing out that valuations were absurd, everything that one had read and trained for made us sell out of everything early. The notable exception were one or two companies where we felt we knew better or we felt a lot more comfortable. The lesson was, as I said, when it rains everyone is going to get wet, howsoever good you are. Even if you think you want to ride out the storm with this company and you know three years later things will work out and so on, it doesn't prevent the market from giving you an opportunity to buy that very same company at a ridiculous valuation on the way down. So there is no point in a sense of being wedded to a company just because one thinks one has to be a long-term investor. I think investors should really be cowards at heart. Especially when they see a tidal wave coming. At most times you would want to be contrarian, but don't ride into a storm when you see a tidal wave coming just to prove a point!

I think those would be it -- if I have to leave some lessons behind for my own son, I think these would be that two things. Learn from other people's mistakes -- you don't have to make them yourselves. Have courage, but don’t be self delusionary.

CIO: Any good books you would recommend?

Have a 360 degree view of what things are

Manish Chokhani: Well, you can see tons of stuff all around you in my study where we are sitting. That's my collection -- I think the only great thing about our business is it's really a hobby. It gives you a chance to read and learn so much all the time and you must have that mental attitude of being curious, exploring the world, you know finding out little bit more every day, every hour -- not just from books, but from colleagues, from people you meet, and having a 360 degree view of what things are. At the same time keeping a level of equanimity and balance in who you are as an individual. I think that's the unique thing about our business. That's what makes it such fun.

My father always says that this is the only business where you possibly get paid to enjoy something which you would have done for free.

I think unlike most people whom I have seen who concentrate on building a career path which leads to individual success. I would rather translate that down to organization and the next generation and then widen it out to something which is for the larger good of society. I think that's the true mettle of a really good investor, a human being and a professional which is what I aspire to be. Therefore I read across a variety of subjects. And it's not just about investments

Investing and life both have their ups and downs

As for books, take your pick. There'll be great management books, science books, humanities, psychology -- you know a book which I think everyone should read would be our scriptures -- the Gita . There is just so much around. You must get a sense of history as well. We tend to get very focused on numbers because it's very easy to pin down. So it's a combination of a lot of things. The fun of this business is not that there is a list of must read books, but that each thing can be related in a lateral sense to not just investing, but your own life. As Munger said in his great lecture at USC- create and keep testing mental models. Investing is no different from your life. In it's ups and it's downs. As long as you know you make higher tops and bottoms in your life, investments with follow that closely. I think that's what it's all about. Just enjoy the journey and the process and be happy!

CIO: Many thanks, Manish.