Investing against the Grain: Spotting Quality in Downturn

Nooresh Merani: So Keshav, before we start in-depth on investing and everything, let us know how you got into the markets in the first place and how it started out.

Keshav Garg: So, Nooresh, way back when I was in college in Fergusson in around 2004, I started reading Economic Times and those days with Economic Times, a supplement used to come in which all the stock prices were there. Market cap and PE ratio were given and I think the 52-week high & low was also given. So I just started having a look at that what is this all about? And I remember & I first read in Economic Times itself that (Stock name) has declared a dividend of 300%. So I was really amazed that isn't this great? You buy something and you get 300% dividend. So I had no clue that the dividend was on the face value since I was not from a commerce background. But that's what basically triggered my interest. And the first thing I remember was understanding the PE ratio since it was mentioned in that Economic Times supplement. So, I understood the concept of what the price to earning is. How many times the profits the company is trading at? So that was the first thing probably I understood and for many years that was the only thing I understood. I had no clue about cyclically adjusted PE. I just understood PE. So whatever low PE is there that is good and high PE is bad. That was my understanding for many, many years. Since that period coincided with the huge bull market from 2004 to 2008, I used to dabble in stocks starting in 2005 or thereabouts and I used to apply to IPOs. Since that time, all listings used to be like bumper listings, I used to think that I was a genius and I knew everything and it is so easy to make money in this market. How it went that in 2007, I was a total tech investor. So I had all the tech stocks and all fraud stocks. I don't want to take names but basically, all of them are presently penny stocks. But at that time when I was buying these stocks, I used to think that this was the future that I was buying and probably these stocks would be the next (Stock name). But, I used to read about the Economic Times and everything but I really didn't know much about the stock markets and only when the 2008 crash happened, my portfolio get deep in the red, At that time, I used to run a very concentrated portfolio of all these 'hanky-panky' tech stocks and so when in 2008 the market crashed, my largest holding used to be (Stock name). This company came out with the IPO in 2007 and they raised 30 crores for purportedly setting up an enzyme plant at Genome Valley which was some 40-50 kilometres away from Hyderabad. So I had put approximately half of my portfolio into this company itself. All I knew about this company was setting up an enzyme plant and it was into bioinformatics. And what is bioinformatics? Biotech plus IT is bioinformatics. I thought that this was a great thing and the future belongs to this company. So in 2008, when the stock crashed along with the market, I went to Hyderabad where my friend was based and together we took his car and went to Genome Valley. We were roaming around in the Genome Valley asking people where is (company name)'s enzyme plant. We couldn't find that plant till evening and in the evening our car met with an accident. So it was a total loss not only we could find the enzyme plant but our car also got damaged. After the shock of 2008-09, I started basically to read Security Analysis. I read Intelligent Investor and I started reading annual reports. I read

Warren Buffett's letters to shareholders and since the beginning, my inclination was always only towards fundamental investing. Since I have never worked in any organization, it was all bottom-up trial and error. So that's how I was since the beginning in the small cap end of the market. In 2009, once the markets turned around, I exited all my ‘Kachra’ stocks which are now penny stocks. I gradually started buying high-quality companies and I won't say high-quality companies, I mean at least general companies trading at huge basically cigar butt valuations. Then I started basically running a diversified portfolio and by a stroke of luck in 2011, I came across this company (company name). Myself and my friend, we went to the AGM and the promoter was there. There was hardly anybody in the AGM. So the promoter gave us time. He explained the business. Basically how the situation was that the stock was trading at some 4-5 times P/E and it had got some 4% or about dividend yield and the growth was amazing from that space. The promoter said “I am the largest synthetic leather manufacturer in India and clients are queuing up outside my office. They want more supplies but I am not interested in expanding capacity and catering to the low-quality domestic market, I am trying to sell this in the US to international auto OEMs at 3 times the realization.” It was very easy to understand that normally selling is the hard part, not manufacturing but you need to be able to sell as much as you are producing but here the situation was the opposite. The customers wanted more but he was not interested in just expanding capacity and expanding sales of low-realization products. He wanted to enter the US market in which the realizations were triple so that probably was one of the few times, I took a really big bet and it was actually a no-brainer because at those valuations and after having met the promoter. So I think at peak,(Stock Name) was 45% of my portfolio and since then there has never been any stock which has come anywhere near close to that kind of concentration in my portfolio. Basically, I would still say that it was my lucky break and that's what basically helped me build the seed capital. Although today relatively speaking, I know far more than what I knew in 2011 but have not gotten anything like that. I still consider myself lucky but I have not been as lucky as to find anything like (Stock Name) ever since.

Nooresh Merani: So you ended up being a full-time investor right away or you were doing something else also all through this period after studying.

Keshav Garg: So Nooresh, I was originally from a business family and so a job and everything was never an option. It was always that either I would do something on my own or I would join my dad's business. So, basically, 2008-09 was the time when the crash happened. If I had to exit, I would have exited at that time and gone home but since that did not happen… Because the weak hands in the Bear market throw the towel and just leave the markets and those who stay back, I think stay back forever.

Nooresh Merani: So that is the time you became extremely devoted towards markets as a full-time investor.

Keshav Garg: Actually Nooresh, I am always a one-track mind only. I do have very few interests in life. So whatever I have, if I listen to a good track or a good song, I just keep on listening to that until I am listening to it hundreds of times and that's when I am done with it. So I think that's what it is.

Puneet Khurana: Keshav, let's add a bit of timeline to this whole thing. In 2008-09, when you saw the crash or when you were participating in the crash with the (Stock Name) you mentioned this was during your college or after?

Keshav Garg:(Stock Names)

Puneet Khurana: All the interesting names were there in your portfolio. So at that time, this was during your college days or you were already through with your college, just to add some time to this?

Keshav Garg: Yeah, I completed my college in 2006. 2006 was my graduation year. Now in 2007, I was busy with the bull market. I thought what's the need to do anything? I'm anyway making money and I had (Stock name) shares and so on.

Puneet Khurana: And since you mentioned that you have a non-commerce background and you were making money in 2007 because of the bull market probably, learning accounting was never at the top of your agenda. So when did you realize that you also need to probably build some understanding on the accounts front? or do you think it's important as people make it to?

Keshav Garg: It is very important and the thing is that since I did no formal commerce education, I read Security Analysis and I couldn't understand much of it, I read it twice or thrice. Also, Intelligent Investor I couldn't easily understand that. And thereafter, I just started reading annual reports and in the beginning, I didn't use to understand anything since I didn't even know what inventory was, or what was receivable. But if you just keep on doing something, you automatically start understanding. I think that's far better, I would not say far better. I'm sure that people who have actually read Commerce, have done Commerce, it must be far easier for them. I think that's the correct way to do it. But I don't think it's a roadblock as such. I don't think that it's a kind of like medical. You cannot become a doctor yourself, I mean you can become knowledgeable but I don't think you can learn how to operate on your own and so on, but I don't think in the stock market it is that complex. Basically, for all accounting and what I do, I just stick with simple companies. I like companies that have no subsidiaries. I don't like consolidated numbers actually. It becomes a leap of faith. If you look at conglomerates that have got engineering, insurance and then they are making a consolidated balance sheet. I mean it's really hard to find a head and tail. So I just stick with simple businesses which I can understand and in any case, we run a diversified portfolio. I don't like a company which has got three to four pages of notes to accounts and so on. So simple company, a standalone business is what I like.

Puneet Khurana: But that would leave very very few companies nowadays, No? Because from what we have observed over a period of time companies have also hired IRs and you know even for smaller companies and for mid-cap, small-cap names, the annual report sizes have gone from some 30-40 pages to 200 pages and it has become a fashion to have good annual reports and jargon from Warren Buffett and so on and so forth. This is in the annual reports itself. I mean when you say you invest in simple business, let's dwell a bit more on your current style of picking stocks. So when you say simple businesses, one part is the business operations part which is simple but do you have some very quick rejection criteria for example just like you said no subsidiaries or something like no consolidated balance sheet?

Keshav Garg: No, it's not a hard and fast rule that there should be no subsidiary. The thing is that if it is making sense and if it is a wholly-owned subsidiary, it's not a deal breaker like many good companies. If you see they have fully owned marketing subsidiaries abroad so in the front end they have the white man sitting over there which basically deals with the customers and in the back end, they have also the manufacturing being done from India and all that makes sense. Companies have subsidiaries which have warehouses in foreign locations and so on but you see now what happens in companies in which they have multiple subsidiaries in which they are not fully owned. What happens there? Let's take an example of (Stock name). I mean just for example's sake, we have no position over there. So, they have a major subsidiary in Thailand of which they own 51%. The parent company owns 51%. Most of the cash is in the foreign subsidiary. If you look at the consolidated balance sheet they will include the full cash with the subsidiary even though they are holding 51%. So in the networth, they will subtract the minority interest but if you look at the consolidated cash balance and if you set it off with their consolidated debt you will think that it's debt-free. The same is the case with (Stock Name) but actually, if you see the company is not debt-free because the company includes 100% of the cash of the subsidiary whereas it owns only 51%. Similarly, if you look at the operating cash flow statement, the minority interest is not being subtracted. So if you look at let's say a company like (Stock name) which is now (Stock name), it is trading at prima facie 10 times consolidated operating cash flow. All that cash flow does not belong to the parent company. The minority interest has not been subtracted and if you do that then the picture changes. The stock is not as cheap as it looks. So what I'm trying to say is that I try to avoid these complications and I prefer companies which are simple. Like if a company unnecessarily has multiple subsidiaries, I take it as a negative.

Puneet Khurana: Sure! Actually, I mean when I said subsidiary. That was just a point because you mentioned. But my question was more towards: Do you have some strict criteria for not considering the company in the first place, for example, if this company has let's say high receivables, I'm not interested in the company or something like that? So is there a negative sort of checklist where these kinds of companies I'm not interested in at all and then you start with the companies which are remaining? Is there something like that?

Keshav Garg: Let's say BFSI. I don't invest. I don't understand BFSI lending business anyway. I'm not a big fan and how do I know that okay today the books might be clean but tomorrow the bank might give some bad loan. How would I come to know? I would only come to know when that bad loan gets recognized and so on. So basically lending business BFSI, we don't touch. Gems and jewellery, we don't touch. Then technology I think it is beyond my… There are far smarter people from IITs and so on who understand much more technology of a newer generation because I'm an old-school person. I don't want to play a game where the field is tilted against me. These are the sectors that we stay away from more or less. Real estate also you can include, include pure-play real estate. Apart from that, it depends upon case by case, company to company. The main thing is that even if there is any let's say an issue of corporate governance, that corporate governance is also very hard to define. I mean what is the magnitude of corporate governance? Is the whole business fraud like in the case of (Stock name)? There's no business or is it that the business is real but the promoter doesn't want to share? There are many good companies in the market with strong businesses. The only thing is that the promoter doesn't want the money to go out of the company. He just wants the business to grow but he doesn't want the money to go. He will never do a share buyback no matter what the price of the share goes and the payout ratio will always remain low. If the company becomes debt-free, he will diversify into something but he'll not pay out. So whenever that kind of company is there, we take it in two ways. How we basically adjust, firstly, it's the valuation. Is the valuation low enough to compensate for a low dividend payout? And the second thing is the allocation that we will make in that company. That will always be low, it will never become a major position. That's how we basically do it. Whatever the negative is, is it factored in the stock price? If it is, then we are happy to take a small position but we'll never take a large position in such companies in which the promoter either doesn't have the heart to make a big payout or will never do a share buyback. There are many such companies in the market.

Puneet Khurana: Can you put a number to that when you say low allocation? What do you mean in the portfolio context?

Keshav Garg: Look we have over 100 companies in our portfolio. That means the median position would be like let's say 1%. So you can say 'point something percent'. It also depends on what kind of valuation the company is trading at. What are the triggers? If there are some near-term triggers if we think that earnings are bottomed out, then we may take a slightly larger position but it will never become like the top five or a significant allocation.

Puneet Khurana: Actually 100 companies is a surprisingly large number for somebody who manages professional money. I've rarely talked to anybody who has 100 companies in their portfolio but anyway we'll come to portfolio construction and allocation later. Nooresh, carry on with your question. You had something.

Nooresh Merani: It's interesting to see that your website also clearly mentioned no BFSI, and no Real estate. You've mentioned a lot of no's and going back to the point of 2011, is it that say from the time of (Stock name) or that debacle in 2007, you've been attending AGMs all through the last many years and that has been one of your strategies. That is how we met also. That was 2011. What were the next 10-12 years as in? How did you shape up differently in those years?

Keshav Garg: Actually from 2009 onwards only, I started attending as many AGMs, as I could. Any good company, I used to come across, I used to buy one share and then I used to go through the annual report and try to attend the AGM. I think in 2018-19 during the last 15 days of September except for weekends, I didn't sleep in one city for two nights. So I was struggling because most of the AGMs were bunched up. So I travelled a lot. Pre-covid, I used to try to attend as many AGMs as possible. I think even post-covid, we are attending more AGMs but then the productivity per AGM in a physical form is far more. If you go to a company in Rajkot and you are the only person who has come from 20 years. The promoter also thinks that someone has taken the pain to come all the way from Pune and if he has done his own work, if he's asking some reasonable questions, they also don't mind sharing information or describing their business or what they think about it and so on. Basically, that helps especially in the small-cap side of the market. After attending the AGM, since you go there and ask about whatever apprehensions or basically potential red flags are there, you want to know the perspective of the management. After that you can just take that company and strike it off as okay, for this company, I will not waste my time now or then if it's a good company even if the valuations are unattractive at that point in time, I keep on tracking that company and sometime in the future maybe years later whenever I find that company at an attractive enough valuation when the business is going through a temporary down cycle that is the time when we buy actually.

Puneet Khurana: It's a very interesting point you made and I'll probably dwell a bit more on that. There have been cases where you found the initial study of a company to be very attractive let's say the numbers and the financials were all looking good but post AGM attendance, meeting the management you change your mind entirely.

Keshav Garg: Happens all the time. The promoter can have plans if the promoter says that he wants to acquire something. I go to the AGM and ask for a share buyback and if the promoter says that I want to diversify into EV, I will sell the stock.

Puneet Khurana: Okay! you would have already bought the company at a small tracking position and then you probably sell it if you're not convinced with the plans. Is that what you're saying mostly?

Keshav Garg: It's due to capital allocation. If the promoter wants to.. like now battery, EV is the new craze. Similarly, 10 years or 12 years before, power was the craze. Every Tom, Dick and Harry was getting into power, now everybody is getting into EVs and batteries. So basically, we think that I want to buy companies in which the promoter is doing share buyback because that is the litmus test for me. Firstly, the business is generating that kind of cash. Otherwise, your bankers won't let you do a share buyback. So, the business should be generating that kind of cash flow. Secondly, the promoter should have a heart that he's ready to distribute that kind of money. Now if you look at (Stock name) again, it's not a recommendation but I'm just trying to cite this example that since the company has done five share buybacks and for the past two years, they have been doing open market buyback and he's distributing 10% of his net worth to minority shareholders and his shareholding is only increasing. So now there are so many companies, well-known companies that don't have a 10% dividend payout ratio. Hence, from their profit, they cannot spare 10% and here 10% of net worth is paying out. So, I would definitely give some weightage to that. I don't know what all the conference calls and everything. There are so many companies in which people are totally obsessed they are getting into the intricacies that what is this bifurcation. What is coming from here and what is coming from there? What will you do with the profit if it's not going to come to you? Since most of the people who attend conference calls and all, are just doing their job, they have been told to go and attend that call. That's why you will never hear people asking for share buyback or increasing dividends. They just want to know what would be the margin, volume and so on and so forth. What will you do with that if that money is not coming to you ultimately?

Puneet Khurana: Actually the point you're making is pretty valid and I've also seen over a period of time a lot of change has happened in the way this information which you're seeking from the promoters. Have you seen in your experience since you have been doing this from 2011 onwards from your (Stock name) time attending AGMs and all? Earlier attending the AGM was very important to get this kind of information but with time this information about companies' plans, and what the management wants to do with the cash or plans for any other asset which is lying on idle assets is more available to the public. I mean information is available in forums, as you said concalls are now something which many companies do. So have you seen AGM's relevance going down over a period of time in your experience or something else you get from AGMs which you otherwise can't get at all from other sources like concalls?

Keshav Garg: So the companies that do concalls, I don't want to attend their AGMs until I want to ask for a buyback and so on. But mostly, if the company is already doing concall, then why do you waste time in the AGM? That is there of course but mostly in the AGM, the benefit is that I have attended some AGMs like many companies' AGMs I have attended maybe 10 times in the past 15 years. So whatever the promoter told me that this is going to happen how much of it happened subsequently? Basically, if you listen to management for the first time then you have to take him at face value. You can look at the past figures and then in that context, you can try to see whether what he's saying has he done in the past or he's just talking out of his hat. But still, the point is that if you have met someone in the past you know how much one says. Some people are just boastful, some people are just overtly optimistic and some people just tell, they call a spade a spade. There is a very tiny company based in Coimbatore in which I had bought this stock at 90 rupees then the stock went to 240 and I sold it and then again the results started coming out and again the stock fell below 90. I thought that the company was good. I have already met the promoter and I've seen the plant and everything. So maybe it's a cyclical downturn and the company will be fine, what happened that Incidentally, there was an EGM for the name change of that company. So I went through that EGM and I asked the promoter that sir what is happening? He said that five new fully automated plants for 200 crore each have come up in China. So I had to slash my prices by 20%, So my business is as good as finished. He told me in as many words. Most promoters will never say this. They will not even tell you that they have reduced their prices by 20%. This kind of management who tells upfront the negative news, I give weightage. So whenever in future, if he gives upbeat guidance, I will take it at face value because I know that from past experience. I mean there are so many people they only talk good. Otherwise, they'll stop doing concall or they'll stop whatever. Even in the AGM, they'll not answer much.

Nooresh Merani: How many AGMs do you attend in a general year?

Keshav Garg: I think post-COVID online AGM, there are no counts of AGMs. I think on the last day of September, I must have been attending 10 AGMs because many AGMs were going on simultaneously. So I open them and if in one AGM, some shareholders are making speeches or some introduction is going on, I mute it and actually, it works. Like in the first covid year of 2020, I just heard for two minutes (Stock name) call in which the promoter just said that this was the best year in the tea industry in my 25 years. Rest, I didn't hear anything in that AGM but that takeaway was enough to know that this year is going to be good for this industry. So if you see maybe out of 10 AGMs you attend, maybe in one or two, you will find something worthwhile and others are just an effort that you put in.

Nooresh Merani: So pre-covid how many AGMs would you generally attend?

Keshav Garg: Physically, let's say maybe some 60-70 or something like that

Puneet Khurana: Okay so Keshav, let's now dwell down a bit into your portfolio management style. You manage a portfolio for clients and in your portfolio, you keep a lot of companies as you said. Is that for that portfolio also you're talking about when you say 100 odd companies?

Keshav Garg: Yes, I'm talking about our PMS, the consolidated portfolio.

Nooresh Merani: Before we start, when did you start managing other people's money roughly because the data online available is for the last three years but when did you start say even friends and family or you were on your own money only for a long period of time?

Keshav Garg: Basically around 2010, I took over. Even before that, I had a small portfolio but around 2010, I took over my dad's mutual fund portfolio for around two crores and I liquidated it and I started actively managing it. Actually, 2014 to 2018 was my golden period when basically my portfolio went from less than four crore in November 2013 to 55 crore in January 2018. That was the time when I thought that we could really manage, I mean again overconfidence came and I thought that we could easily handle other people's money. I just need to buy the same shares since I was anyway doing research for my family portfolio. Yeah, actually there was a huge bubble in small caps in 2017. I knew that there was a bubble but since I was always covering a lot of companies, so from 2014 to 18 since there was a huge small-cap bull run, I could sell what I had and I could buy other stocks and then I could sell those and switch on to something else and finally when everything was expensive I was stuck with all the ‘Kachara’ companies because at the top of the market, only crap is cheap and that's what I finally bought. So yeah, basically, to answer your question in 2018, I decided that we could convert this into a PMS since my own family portfolio was also significant that I thought it would justify the expenses of a PMS and so on. That's when we started the procedure and we launched in July of 2019.

Puneet Khurana: okay got it. got it. So coming to that, the operational part of your PMS given the fact that you have close to 100 odd companies in your portfolio, it's a pretty diversified first, let me actually take a reverse path. Instead of going to stocks, let me first understand the allocation, what would be let's say top five companies' or top 10 companies' allocation just to get an idea of how thinly or how thickly you've spread

Keshav Garg: Top five would be approximately 30%.

Puneet Khurana: 30%, okay! so is it fair to say that close to 80 odd companies or maybe 85 companies will be very very small in terms of your allocation percentage-wise less than a percentage maybe?

Keshav Garg: It is dynamic the smallest position can ultimately become the largest position also and vice versa.

Puneet Khurana: Sure! I mean at any given point in time given that you have large companies and the top five take 30, it's fair to assume that a large set of companies will be very very low allocations touching less than a percentage or so on & so forth. Right?

Keshav Garg: Yes, that is very true. Some of it is due to that. Firstly, we don't follow any model portfolio. So we buy whatever is the best opportunity at that point in time when we have funds available. The second thing is that since there is no lower limit, below which we will not go in terms of market cap if the company fits our criteria in terms of corporate governance, valuation, business quality and so on. Now what happens if I am buying something and the stock goes up, what many people will do especially those who follow the model portfolio, either they will totally sell and exit that stock or they will continue to buy at higher prices and if you are buying at higher prices then you have to basically accept lower returns. So what we do we stop buying. I'm not talking about the price I'm talking about the valuation. If I'm buying something and if the stock goes up dramatically let's say from March 2020, until today many stocks have doubled. Now what I might do if I was buying a thousand shares, I might be buying 250 shares now if at all I'm buying now. The second thing is that for these micro caps, liquidity is a big issue and if I continue to buy them, my own buying will drive them up. That is another reason that I don't chase the stocks and since we spread our net very wide, there are always companies of similar quality and now at a cheaper valuation because now the stock that I was earlier buying has gone up. So there are other companies which are of similar quality and now which are of lower valuations. We will basically start buying those. That's why the portfolio gets diversified. So we don't mind even if a stock has got 0.1% allocation. I will not just sell it if I don't think that I'm getting good value for the stock. I'm happy to hold 0.1%.

Puneet Khurana: Actually, so the way I'm interpreting from you is that you don't have an allocation in mind when you're going for buying. There is a company you like if you have some cash lying around or you're selling something you will probably end up buying this company with whatever amount you have in your portfolios. It doesn't matter if it means 0.1% or 1% because you like the company. That's okay and understandable. Actually, I have one question which has been bugging me for a long is: Do you really find 100 companies with good corporate governance or a large chunk of those companies actually in the lower segment which not many people are looking at? I mean what is your hunting ground from what I'm hearing, I can guess that you're not too much into the most followed large-cap big names but primarily towards the small-cap & micro-cap names because if you want to do that kind of buying which you're saying that is the only space where you'll find it. Is that a fair understanding or do you want to add something to this?

Keshav Garg: That's a fair understanding. The only thing is that I like companies which are thinly traded. One should always be aware of highly liquid small caps that it's a small company and yet there is so much investor interest. If there are such huge volumes, there's such huge market participation then what is the value that people are still not able to see despite those huge volumes? It doesn't really make… And then high volume, operator-driven stocks, all have similar characteristics. I mean every operator-driven stock has to be high volume. See what is the characteristic of an efficient market? One of the characteristics is that it should be highly liquid. The reverse also holds true that if a stock is illiquid, maybe it is inefficiently priced, not necessarily but basically at least it shows that there is a lack of investor interest. Now there are many companies that I've been tracking for 10 years, but they never had volumes. I like those kinds of companies that firstly promoter is not interested in his stock. There are no concalls. There is no fancy annual report with all that jargon. So I know that there is no operator that is driving this stock and the promoter is also not interested in his stock price. So I like such companies but then the flip side is that either you chase up the stock price or just sit as the best buyer every day and I wait for a desperate seller to come and give his shares to me, I'm very happy. Otherwise, it does not matter that even if I have a very minuscule position. Maybe over a period of time, I'll be able to scale up that position. So to begin with, it might be an insignificant position.

Nooresh Merani: From whatever you've discussed, the type of companies you actually are looking at, people have never heard about also. We've seen that happen in a lot of small companies in which you participate and a few years down the line, they get known, right? One example is a company because it's in the public forum which you've spoken about, you spoke about (Stock name) a couple of years or one and a half years back, in a forum and now there are QIPs, there is investor interest, right? So, can you give us some examples wherein you suddenly lapped? There was (Stock Name) older example as there is no compliance risk where you suddenly landed up on a super opportunity just out of nowhere.

Keshav Garg: Yes, so if you take this (Stock name), I go through all the quarterly results as much as humanly possible. So I am currently stuck on 25th May. Till 25th, I have covered all the results and rest, I am still to do. So, if every three months I am looking at the numbers of all these companies for years. Basically, a pattern emerges on its own and as far as (Stock name) was concerned, first time I opened the results and on the left-hand side I saw the list of their stores in Bihar. Since I am originally from Ranchi which is the capital of Jharkhand which earlier was a part of Bihar and many people in Ranchi have connections in Bihar. I knew that in retail what kind of valuations are there in the market. So once, I saw this retailing company, I called up people whom I knew in Bihar and everybody said that they not only knew about this, they have shopped over there and they think it is doing great business. Actually, I called up many people in Ranchi and asked them to figure out from those in let's say from Siwan from Darbhanga and such small places in Bihar with their contacts and everybody gave good reviews. The next time I went to Ranchi, I just travelled to a few stores in Bihar of (Stock name) and just from outside you can make out whether this place is doing business. Is it humming with activity or is it just deserted? I could figure out that the business is genuine and stores are for real and they are doing good business. At that market cap, it was like a no-brainer.

Puneet Khurana: Actually, it's getting more interesting from the vantage point of, the more I think about this. Managing a portfolio the way you do you are by default not chasing the price as you rightly said, you have to look at the value and if you're comfortable with value you buy and sit. Now when you buy and sit, there is always a risk of the company not finding its value for some time. You can sit at a similar price level for a long period of time and if that is the risk in the portfolio, I mean surely it's not a risk from your vantage point but let me think from an investor's perspective, if it's a risk you're taking, is it fair to say that this kind of a strategy should be done only with a highly diversified portfolio because otherwise with a concentrated position you can end up risk of a large position not moving for a long period of time or you say that a similar strategy can be done for a concentrated portfolio? Would you do that if you had an option?

Keshav Garg: I think a concentrated portfolio of small caps is a risky thing to do because firstly if you're managing public money, then liquidity is the issue. You have to be prepared that at any point in time, you can have basically redemptions and especially in a falling market, all buyers get out of the market and only compulsive sellers are left. So every day we will be sitting on lower circuit and our own selling will drive our stocks down further which will induce even more panic in our other investors that every day these stocks are sitting on lower circuits. So let me get out before they go to zero. That is the major thing that we want to avoid. So we diversify due to that and you see mostly what I have understood that when my confidence was very high in 2018, there was one company which did a share buyback at 575 rupees and that share buyback was under-subscribed. The promoter did not participate. The public also did not participate. Then the stock went to 800, then when on its way back when it fell below 575. I thought that now at 575 company had done buyback and today company has got far more cash on the books than the last time it did buyback at 575. Even otherwise, valuations were attractive. So I thought that it was a low risk. I mean another buyback will come for sure and the promoter was honest. I had met him multiple times. There was no issue about the promoter. But the stock went to 300 rupees and also 250 rupees and we didn't do a buyback and every year I used to ask him to do a buyback. He got the impression that I am stuck in his share so that is why I am asking him to do a buyback so that I can bail myself out whereas I was telling him to do an open market buyback because it was in the interest of the company. So the bottom line is that that buyback never came at 575. What I'm trying to say is that nobody really knows how things are going to pan out. Since 2017, there has been a huge bubble in small caps. I sold a lot of small caps and I bought (Stock name) which was basically net net stock and had a huge dividend yield and every year there was a buyback. I used to go to Lugan and ask them to do buyback and the promoters were genuine people. Everybody knew that and so I thought that this was a good hedge in this kind of market. At least, I'm going to get some 15% come what may. Then what happened that there was an announcement that the company is going to be merged with the parent company at 300 crore cash at 300 crore valuation. I mean you can just get unlucky if you are concentrated and so again we created a lot of hue and cry that this is so unfair and so the promoters being genuine people they took back the share buyback but then they stopped paying dividends. So a company which was paying on top of buybacks, they were paying dividends every year, they had zero dividends for a few years. What I understood is that you can never be sure that this is a nice promoter and if you ask the promoter he will say that we have done buyback. So I have understood the hard way that one can really never be sure. I mean you can take your chances if you want to take risks. If I put all my money in my top holdings, my return would be far higher but then the risk also. You can get wiped out also. If you have a concentrated portfolio position, then it's very hard to be rational and neutral and take a calm decision but if it's a small position then you can take it. You can either exit it or scale it up as the case might be. That also is one thing. I mean not only is diversification a risk mitigation tool, but it is also due to the lack of liquidity in small caps. Plus if there are similar-quality of companies at similar valuations, nobody really knows the future. So why should I take a concentrated bet? It's a mix of all these reasons and also if you see that study after study has proven that a diversified portfolio of even junk bonds outperforms the market. A diversified portfolio of your cigar butt stocks in terms of price to book value if you make that kind of portfolio, even that will beat the market because some of them might go belly up but the others that survive, will give a huge return. So, now our effort is to make a diversified portfolio of small-cap blue chip companies which are currently going through a down cycle in the business. If I am able to make such a portfolio then I think that portfolio should beat the market consistently and since I don't really know when exactly is the cycle going to turn in the underlying business. That is why I am taking a small position as the clarity emerges because once you buy something no matter you might be tracking something, but once you buy it you track it more closely. So as things get clearer, then we can scale up that position. As we can see the cycle turning, so that is the endeavour that we want to make a diversified portfolio of small-cap blue-chip companies which are going through a down cycle and we call it quality in a downturn. So basically, I want a company in which the business is intact. I don't want a company which is losing market share. I want a company which either is gaining market share or market share is maintained. It is just that the industry itself is going through a down cycle.

Nooresh Merani: Interesting! That is how your name counter cyclical comes into play, I suppose.

Keshav Garg: You can say that basically counter cyclical is that. We are not interested in popular stocks. We want stocks to become popular after we buy so that we can sell. I want to buy something from retail investors and sell it to institutional investors. I want a company which is not holding concalls and after I buy if it holds, I will sell. What is concall? Why are you so interested in jacking up your price? I mean you just do your own business. I am really not a big fan of concall. I mean okay (Stock name) should do a concall. That's fine. But all these small tiny companies which are doing concalls are not different.

Puneet Khurana: Actually a lot of pressure comes from investors only to do the concall.

Keshav Garg: So basically, the promoter is also interested in his stock price should go up. And I don't like those companies and if the promoter is interested that his stock price will go up because then you cannot believe whatever he is saying. If a company needs to raise equity capital, I will not believe whatever the promoter is saying and we never as a principle invest in companies that they want to raise equity capital because then I mean the promoter will say anything because he wants to raise capital.

Puneet Khurana: Yeah you know I've been trying to reverse. Think about the kind of companies which will be there in your portfolio. Actually, let me venture a guess and then maybe you can correct me if I'm wrong. From what I've heard so far it doesn't seem to me that you are a person who will bet on what you call it turnarounds of any sort. So you are looking for businesses which are already there. Just to add to that, I think turnaround is probably not something. You are interested in what you're looking for in established businesses. Established businesses must be in some way judging from the profitability numbers and the cash flow numbers of the company to start with and of course within that you are looking to buy them in the lower cycle. So they will be profitable companies but lower margins at the lower end of the margin cycle. Is that a fair quantitative profile of the kind of companies you will have?

Keshav Garg: So, I'll tell you now with an example. Let's say there is a company (Stock name) Again this is not a recommendation, only for academic purposes we are discussing these names. This company made a lot of money in 2015. That was the first time, I saw this company that this company is doing well and I went to the AGM. That time promoter was very upbeat that we would have a revenue of 500 crores and this that, we have planned. Then what happened in 2015, they basically exported 60% of the egg powder from India and they exported to Japan, Europe etc and their main competitor is US. So the thing is that in US, in 2015 there was some bird flu or something and due to which prices had shot up and that's how this guy made a lot of money and thereafter the company stopped making money. It was almost as if no profit no loss. Then every year, I used to go to their AGM and the promoter used to say, “No, no it will recover, now destocking is going on and this, that. It will come back and so on”. Then in 2018, the promoter was in a depression that nothing was happening and we are alive due to the rupee depreciation. Otherwise, we won't be alive because, in India, the demand for eggs is buoyant whereas in US, it's a saturated market plus in the US, a gm soya corn is available which is cheaper and in India it's not available. So, your feed is only more expensive. So basically we are uncompetitive and only rupee depreciation is keeping us alive. I sold it at a good loss. Then last year, I read somewhere that in the US, (the breakup of inflation was given), the egg prices had the highest inflation. So then, it clicked to me that the company again would make money because the prices of eggs have gone up in the US. I checked some more and then we built. It was for some time our top five positions. It was a turnaround only if you say from hardly no profit no loss now this company in one quarter is making more profit than last five years combined. So yeah, cyclical companies we like and especially the ones that I have seen in the past and I understand the business so I can join the dots.

Nooresh Merani: So, there is one thing about you from your friends that you hate expensive businesses, hate quality businesses and you're an encyclopedia of small-cap companies. How true is your hate for quality companies?

Keshav Garg: Now there is one company let's say, (Stock names) etc. So, whenever you hear that this is a B2C business and they are selling in the US and (Stock name) is the competitor. That is the time to sell this stock and whenever you hear that promoters are crooks, that is the time to buy this company. But the fact is that both are true now. How big a crook, that's something that actually the problematic part because you don't really know. Look, business is genuine that's not the issue. Again, the thing is capital allocation and the greed of the promoter. A greedy promoter, you don't know what he will do next. So I bought again in 2018 due to overconfidence. There was a company which has got 50% market share on boric acid and I knew this. I have been tracking this company for a long time and I knew that the promoter is crook. I had met him at the AGM and he's a very soft-spoken person. Even if you go and abuse him on his face, he will just smile. But the stock was very cheap and they had a huge cash balance. I got the impression that corporate governance is on the mend. This company had diversified into real estate and made investments in real estate. Then the promoter told me that henceforth we would not do anything, no more real estate investments and this that and every year I used to ask him to do a buyback. I had 3% equity in this company in my own family's name in 2018. So every year, I used to ask him for a share buyback and he used to say yeah, we'll consider, we are considering. Then on 15th March 2020, an announcement came that they had bought a 42 crore worth of flat in Pali hill, 5BHK. Now the promoter must be staying with his family. So I made a loss of over one crore in that company itself and then to rub salt in my wounds, that stock went up 10 times in the next one and a half years as it was chemical. So chemical has a very good prospect. I mean what chemical when the promoter…. yeah, the promoter will become rich from chemicals, for shareholders nothing will happen to them. So that's the problem in companies where there are corporate governance issues even if the business is real. If the promoter is a crook and he's a greedy person, you don't really know tomorrow what will you do. I mean till the time I had bought, he had only bought luxury cars. The auditor was his wife's relative and what else he had bought was real estate, used to draw humongous salaries whereas the dividend was flat since 2007 at 1.5 rupees. After he bought 42 crore flat then the dividend was increased to 10 rupees.

Nooresh Merani: There are many such interesting cases and I've tagged the line called “Chor bane Mor”. When it was 2015 and by the end of it, it became an investment strategy. That is the fact in Indian companies. We don’t understand “Daal me namak or Namak pe daal”. So tell us some cases where you actually saw that things change. Let’s say, you've gone through an AGM for 10 years and you see some changes and because of that, you ended up making a lot of money or some cases which were very interesting.

Keshav Garg: So, let's focus on cases where I lost money. There is this company (Stock name). They have the Cello brand. This company, I bought in 2010 and it was at single-digit P/E. I had gone to Daman and met the promoter. Everything at that time they had just one leased plant in Daman with two second-hand machines and one plant in Batik. Then I sold this stock in 2015 at some 50 P/E or something like that in 2015 or 16 thereabouts. Then again when the stock started falling, it made a high of some 1500,1600 or 1700 rupees or thereabout. Then when it fell below 700 again, I went to the AGM and the promoter was like we have launched dustbin. 150-200 crore sales would have come form this itself in two years.This will happen, and that will happen. He was totally upbeat. I thought that I knew this company and this promoter is good because by that time, this must be like 2018, from two plants they had already gone to nine plants and the company was totally debt-free. So, from its own internal accrual, the company had grown the business. I had very high regard for this company and I thought that this is a high quality company and their margins were always superior than the competition throughout. I thought that this was a temporary issue and the promoter also said that the GST is at 28% rate. So every year he had a valid issue or a valid excuse. I thought okay, I should give him time. Stock kept on falling. I kept on averaging out and then cash had accumulated in the balance sheet of around 200 crore or thereabouts. Every year, I was asking for a share buyback. Meanwhile, the promoter shareholding fell from 75% to 55%. Some people got declassified as promoters then finally last year or earlier this year notice came that the promoter wanted to give a 100 crore loan tthe o promoter group and 100 crore guarantee. That was the time, I sold this company but I still don't know that what would I have done differently. I don't know. At peak, I had 3% weightage of this company because I genuinely believe that it's a high quality company. If you look at just numbers and everything and separate cash then actually it's a very high return capital business. It's a branded business. But then if the promoter out of nowhere…Now it seems that it was all planned. I mean the promoters that were declassified and that special resolution to loan the monies to the promoter group barely passed. I mean just by a whisker, it passed. Because those people who are declassified as promoters, they voted in favour. Otherwise, they couldn't have voted if they had remained as promoters. So that resolution won't have passed. The promoter had plans to basically please the shareholders but I don't know what I could have done differently. That's why I have realized that it's best to run a diversified portfolio so that these things can be taken care of.

Puneet Khurana: Actually, I was about to ask that only. Did I hear it correctly? You said your maximum position in the stock was 3%. So when you said 3% and you kept on buying as the stock fell, of course, you run a very diversified portfolio that by default makes that you will not have enough cash to keep on buying because you have so many stocks.

Keshav Garg: We are fully invested

Puneet Khurana: Fully invested! So generally when you are buying, you probably will be selling something to buy. Something that would be one, so that inherently there is a hedge that you need to sell something to buy something. So by default, you would probably not be selling a lot of ideas not buying a lot of particular stock. Do you by any chance have a maximum also that okay I don't want to go beyond 5% in any name whatsoever.

Keshav Garg: Nothing like that. Again in 2016, I took a concentrated bet. That time it was only my family portfolio but I got 26% in (Stock name) because I had attended the AGM. I sat with the promoter for two hours and he was gracious enough to explain the business in detail. I saw that they're simple people. I mean you look at their office, you look at the car that they were using and they are really in drum closure business. Had that business been a standalone business, that business alone would be more than the market cap. Then finally, I asked them to do a share buyback and actually, they did. After that, I started buying because the stock was in 200 rupees and the buyback had already been announced at 270 rupees. So it was a kind of arbitrage thing that I thought that approximately between 15-20% of my shares will go in the buyback and for the rest, it was good risk. If that kind of a arbitrage situation is there or if I'm confident about the promoters that at least they're genuine people and the business is also solid and if it is available at a good valuation, then i'm happy to take a reasonably concentrated. I'm now concentrated is also relative. It can not be 26% of the portfolio but maybe it can be like 5% or it can even be 10% but it's actually case to case, what is the trigger? And how soon is the trigger? Now in (Stock name) also it's not a great corporate governance story. It is just that there was an immediate trigger.

Puneet Khurana: So, in the last three years what's the maximum you have seen in terms of allocation in a particular stock just to gauge from the time you're managing public money?

Keshav Garg: 12%. It went because we didn't put 12%. Since the stock went up, that's why.

Puneet Khurana: At a cost level?

Keshav Garg: Cost level, it's difficult to…

Puneet Khurana: That's fine. I understand. One thing which has come up again and again in our conversation is that you are very value-focused which is very clear. Can you give some perspective on how you go about it? See again I understand valuation is a very common sensical exercise and not a mathematical exercise so to speak. But when you have a view on valuation then you want to be very conscious. How do you go about it? You can take some examples and you give us an idea about how you think about valuations and an add-on question to that is when valuation starts to go berserk for allocation because you don't seem to care about allocation too much. I think it's more about your valuation which becomes uncomfortable which might lead to selling. Is that a fair understanding? Are you selling only because of valuations or something else?

Keshav Garg: Yeah we are basically early to the party and we leave early. I don't want to participate in the last lap. I want to sell my cyclical stocks when the sun is shining. I want to get out at 12 p.m. I don't want to wait till 3 p.m. I exit early and I enter early because, after a while, it is just speculation. I mean once it is beyond your valuation comfort, it is just momentum. like let's say defence stocks now. Just the momentum is taking up and increasing those stocks. I have no way to figure out that. I have sold stocks late last year and they have doubled. I'm talking about defence stock. But at that time also, what I was buying, I thought that the switch made sense fundamentally speaking. But with the hindsight, nobody knew that this kind of defence bubble or whatever you want to call it, that's going to happen. So as soon as if I can find something better, I'll just sell and move on.

Puneet Khurana: Okay, so can you pick out some of the good names which you already mentioned or maybe some more names with some perspective on numbers, how are you evaluating it on the valuation front and what kind of valuations you are absolutely comfortable with?

Nooresh Merani: Just a broad idea, taking an older example where you say bought at x P/E and sold at y P/E or say how did you go about the whole cycle of buying and selling here?

Puneet Khurana: I mean the intention of the question is to give the listeners an idea about quick hand analysis on the valuation front or with some examples if it's possible.

Keshav Garg: Let's say, firstly I will only give weightage to cash or mostly cash if the promoter is genuine. If the promoter is not genuine, there is no cash and even if the promoter is genuine you need to take out a quarter of the cash because even if the company does buy back in the best-case scenario, that goes to the government. So basically in a cyclical stock, I look for the previous peak earnings. Let's say in the next upturn, it's not necessary that (Stock name) will again make the kind of money that it made a few years back. It depends from cycle to cycle. But still, if a company has made that much money in the past cycle. I can take it as a benchmark. I mean one has to really adjust it like I already said that it's not necessary (Stock name) will again do that but let's say for example (Stock name) or for that matter any cyclical stock. It's like saying if a runner has already completed that race or that track in a given time, he has already done it in the past, he can do it again. It's in the realm of possibility. So that is to begin with. That is what I look. Let's say any stock like chemical is in a downturn now. Okay, so if you want to take (Stock name). Look at its peak EBITDA and compare it with the market cap. If in some subsequent year down the line, the company will surpass its previous… First, the question is whether it will or not. If it was a cycle like (Stock name) or now, if you see post forward the kind of money, the ship liners made, God knows when they will again make that kind of money. I'm not asking you to take that as a benchmark and value those companies but the problem in stock market is that everything is on a case by case basis. There is no generalized thing that I can give but I try to see if the promoter is genuine. I look at EV cash flow yield. I look at EV to Operator cash flow and that is my basic yardstick. I have made a lot of losses that if you buy shares of crooks and those who have got a lot of money in the balance sheet and you minus that from the market cap and then if you see it's trading at 1-2X EV/EBITDA or even five-time cash flow but that cash is going to vanish one day. So there is this company (Stock name) again Bhavnagar-based company. I had met the promoter. He's a very soft open gentleman and he had worked in Precision camshafts during his internship days in the US which subsequently Buffet bought and so on. If you talk to him, I had the feeling that this company and if you look at the company's numbers, they used to make over 30% margin and their realization per gram and this and that. So business was high quality and again I used to ask them to do a share buyback. Instead what happened, they acquired two paper companies of the promoters and they had no assets whatsoever. On EV basis, they paid something, I think altogether they paid some 40 crore or thereabouts because the companies that they acquired they had debt also. So basically all the cash vanished and I still don't know what I would have done differently because the promoter was genuine. You look at his track record, at the numbers of the company, everything was above board. There was no problem. How do you know tomorrow what the promoter is going to do? At least, in the case of that boric acid company, I knew since the beginning that this promoter is a crook but I thought the corporate governance is on the mend. Or, at least the promoter was telling me that no more real estate investments but here to begin with the promoter was a genuine person if you speak to him and there was nothing to suggest that 'hanky panky' was going on because there was no 'hanky panky' before this event. So basically the more I have seen the markets, the more I have realised that things are basically unpredictable. You can basically take your chances, you can run a concentrated portfolio and you can get lucky or you can get unlucky but really I have not been able to understand till now what I could have done differently in (Stock nake) or let's say (Stock name) etc except for maybe a smaller position.

Nooresh Merani: It's very interesting to see that you've spoken about all your places where you've lost and the fact is over the last three years you've made a killing across the board even with a diversified portfolio. The returns have been crazier than one could think. So that is your focus in terms of minimizing your mistakes instead of glorifying them. You've made out of a lot of these small caps because all through this discussion we are only hearing about where you screwed up and not the places where you made 10, 20 or 50 baggers.

Puneet Khurana: That's what makes it a very good learning session for all of us. Actually, one very interesting thing which I found is very rarely I have seen PMS doing this kind of diversified work because of a lot of what you say. Pitch is of superior stock selection, and superior returns coming from superior stock selection whereas your way is very different which is I don't know which one is going to do well but I know these are good companies. Let me have all these companies and let's wait for them to do their job.

Keshav Garg: Nobody could have. Let's take a company like (stock name). Quite a few years back, they sold a huge land parcel, their personal factory and so on. They got a huge amount and from that money, the promoter was buying a sea-facing flat and all that where the promoter will live. I just stopped tracking that company there but then subsequently returns have come in that company also. So it's very hard to say. That's why I have learned that I can take a small but I'll never buy a large position in such kind of company in which I know the promoter is a greedy person. I want to take a large position in companies in which the promoter is a genuine person and even then one cannot be sure because in (Stock name) if someone can point out to me what was in the annual report you read? What was he doing? What ‘hanky panky’? There was no related party. Nothing was there.

Nooresh Merani: I think the same company you're talking about is the news for something else in recent times.

Keshav Garg: I don’t know.

Nooresh Merani: I think you should go and check. It is a very funny incident which has happened in that company. I don't want to talk about it. So I'll keep it off record.

Keshav Garg: Yeah, but all these companies this is just my opinion. I might be wrong. The promoter might be the greatest person in the world. It is just that I have made a loss. Maybe that’s why I’m crying, maybe I am cursing them but please I'm not blaming anyone. They are all my mistakes and I am solely responsible.

Puneet Khurana: There is an official disclaimer for all the listeners that all these are for education purposes only.

Nooresh Merani: Any examples where you were lucky when you thought this could not happen and this happened.

Keshav Garg: Many times you get lucky. Many times, bull markets bail you out. I had bought a company (Stock name) in 2017. That company used to lay down pipelines and that was a good well-run company at least from the numbers one could understand and its current liabilities used to fund its current assets. There was not much capital of the company that was deployed. I went to Delhi. I met the promoters and I got a very bad feeling after meeting them but still, I was holding because in 2017 everything was expensive then what happened the revenues of this company started falling and twice a year the balance sheet came. When the next balance sheet came, the receivables were more than the revenues of the past six months. I thought that I was now basically stuck over here and God knows after I saw those results, I don't know that what price I'll be able to sell but I will sell at any price. Because anyway I was disenchanted with the promoters because they had diversified into clutch plate and all that bullshit. But instead, I sold it at a profit because it was 2017 and there was a huge bull market. I don't want to name the investor who bailed me out. I read in the block deal but yeah I got lucky. At around 140 rupees, I had come to terms that I would take it down to double digits but I exited at the profit because somebody did not really see the numbers properly.

Puneet Khurana: Again while you're saying, some questions are coming to mind but one question which I generally ask everybody and in your case it makes a bit more. Let's say 2017 market, you are in an overvalued from your vantage point. It will be even more overvalued than you're comfortable with. So why not cash? Why don't you consider moving to cash from because the alternate positions are 'kachra' or something which you might not be very comfortable with from a quality perspective? Is there a viewpoint there or is it a conscious decision of never to go in cash? Any views on that?

Keshav Garg: I will never say never. I think in a market like 2007 I will come to cash if there is nothing else to buy and I'll return the money to my investors but otherwise, I'll shift to large caps, maybe PSUs something like that. But I will exit small caps. Every 10 years, there's a bubble in small caps on average and whenever that happens next time and this time I have resolved not to buy cheap stocks at the top of the bull market. I want to at least buy decent companies in which the business is growing and at least there should be comfort so that I can sleep well that while I'm sleeping the business is growing. That should be the feeling not that while I'm sleeping, someone is stealing from my pocket.

Nooresh Merani: From your observations, over the years you've had a concentrated portfolio, diversified portfolio. Does diversification help on the downside in a market cycle really? Because everything falls right we've seen in various cycles or is it the comfort you get from diversification that all right I'll be at least able to sell.

Keshav Garg: Look it's it's a mix of both in running a diversified but firstly it makes the life of the fund management team far harder. If you have 10 stocks then you just need to follow 10 stocks and rest you can do marketing. You can write newsletters and so on and so forth. But if you have 100 shares, then you have to keep on tracking those 100 shares. So it's a very difficult relatively more difficult thing to do but then since I don't take it as a job, it's my hobby and passion, I don't take it as a work. So, it's my hobby. That's why I do it now. The thing is the flexibility. If let's say I have got company A and company B. I have made 1% allocation in both. What does that mean? That means, by and large, I think both are of similar quality and similar valuation. That's why, I have put the same weightage, right? Otherwise, if I felt that the company is of higher quality and similar valuation, then why would I have kept the weightage same. Smilar valuation you can still say but similar quality, it's a subjective thing. I mean what is similar quality? So by and large, just for from my own, I'm saying this thing. Now let's say that there is no fundamental change happening. Everything else remains the same. No new information, it's just a bull market, company A is up 20% and company B is up 50% without any new development. So, I can sell company B which is up 50% and increase my allocation in company A. And in a falling market again, no new development, it's just that company A is down 20%, and company B is down 50%. So, I can sell company A and increase my allocation in company B. So that flexibility is there with me. But if I have already to begin with have got 10% weightage, then how much further can I take that weightage? I mean at some point in time, it's basically a leap of faith and it's not prudent to do that because of all the cases that I have cited in which I really don't know what I could have done differently than to buy maybe a smaller weightage. I think instead of 3%, I could have bought 1% and that too with the benefit of hindsight. Actually, I made that 3% weightage because I thought that it's a bluechip company, it's a branded consumer, high-quality company and I know the business and that it's in a downturn. But who knew that the promoter would do this kind of thing of which there was no previous record? It was out of the blue. So if you look at (Stock names), it was out of the blue. What promoter might do tomorrow? Who knows?

Nooresh Merani: So, interesting is that when you talk about these names, you have such a lot of diversification. One thing we were very clear that you buy cheap. So what is the thumb rule you have for the upside? This is what I would not like to pay say EV/EBITDA or some number where you say, now this goes beyond my radar. What sort of valuations or say change in valuations etc?

Keshav Garg: I mean you see it's relative. It's hard to give a clear cut. Mostly I try to buy companies that have got good market share. Even though they are small cap, they have a good market share and they are not losing that market share. Like I said I try to see how much the company has made in a normal good year, not an exceptional year like let's say the case of (Stock India) a few years back. Since you see in a cyclical downturn, earnings for more or less, they just evaporate. There are hardly any earnings if you look at chemical stocks, dyes and pigments and so on. At this time, either companies are making losses or they are making minuscule profits. The only way to figure that out is to see in a one full year what was the peak earnings that the company made before and how far the prices of the underlying commodity have fallen. Since you see and whether is there any likelihood that those prices will come back again? I'm talking about the underlying commodity and if so, then on a higher base because most companies keep on expanding capacity. So then on the higher base, when can this company surpass its previous? So basically the stock should be at a bargain to its earlier earning capacity. It should be cheap if we assume its previous earnings. If you take that, all these your underwear manufacturers, I'm not talking about (stock name), the next three. Their FY23 earnings have just evaporated. Margins have been slashed and so on. Volumes have also gone down. But if you can take their FY22 numbers, how does the market cap look if we compare it with FY22 numbers? That is a starting point. Then the question is how soon can these companies come back or surpass their previous peak earnings? see this much company has made in the past. If it is due to the exceptional circumstances, then like I said it's very hard to give a one-size-fits-all answer because all these things are case to case. If the prices of the underlying commodity are not going to reach anywhere near the levels of the past, then all this is in vain.

Puneet Khurana: Just to get some rough idea, Keshav, from 2018 onwards we saw a big crash in the small-caps, the whole index was down some 50% if I remember correctly. Since you are 100% invested and you've always been 100% invested, the kind of portfolio do you construct, what kind of drawdowns you saw in your portfolios broadly again not an exact number from 2018 to 2020 crash?

Keshav Garg: So that time there was no PMS. So my family portfolio fell from a peak of 55 crore in Jan 18 to 24 crore in March 2020.

Puneet Khurana: Okay so pretty much in line. Why I'm trying to ask this question is because from pretty much what Nooresh asked earlier also that whether this kind of a diversified but good quality small cap portfolio provides a hedge on the downside at all or not.

Keshav Garg: It was neither of good quality nor diversified.

Puneet Khurana: Ah okay, 2018 was slightly more concentrated.

Nooresh Merani: Say now you're running this portfolio at a particular size. Do you think it becomes a cap to your strategy or your planning going forward? Are you ready to change? I have seen like you have some companies which is like 20 crore market cap in that portfolio and there are companies that are much much higher. So do you think there's a cap to your strategy of buying into small caps? Okay, this is a cap where I would say I don't want any new money.

Keshav Garg: I think that will primarily depend upon the valuations not on the size of the AUM because unless I'm able to find like two thousand, three thousand, five thousand, and even ten thousand crore market cap companies, something should be available at a good price. But if nothing is available then even a small amount of money and in any case whatever money we are managing, it's fully deployed. So the question is only of the incremental money that I have to deploy. It is not though that every day I have to invest all these 375 crores. It is just maybe 50 lakhs every day or something like that that I need to find a place to deploy.

Puneet Khurana: Makes sense! But anyway it was a very different kind of conversation than usual, a very different style to be honest but I'm pretty sure a lot of people will take a lot of interesting learning especially when it comes to small cap & mid cap amazingly when you talked about the importance of the diversification because the majority of the PMS focuses on the other side of things. So. it will be very insightful for a lot of listeners. At least for me, there were some really interesting takeaways which I'll keep to myself for now and mention later in the blog probably. But thanks for your time Keshav, it was really good talking to you. Nooresh if you have any questions? Otherwise, I think I've already taken a lot of time from Keshav.

Nooresh Merani: I would just like to thank you and it's interesting to see different perspectives There are few people who go to the AGM while go to for small-caps micro-caps. It helps the learners. There's not a single way to make money. There are hundreds of ways and yours was one more interesting one for our listeners. Thanks a lot for the time.

Keshav Garg: Thanks Nooresh. The pleasure is mine! Thank you very much and once again this discussion was for academic purposes, None of the companies that I have named I'm alleging anything on the part of the promoters. I think they are all good people and things should be seen in context.

Puneet Khurana: Perfect, Thank you so much for your time Keshav.

Keshav Garg: Thank you.