Inside ValueQuest: Unraveling the Investment Blueprint

Puneet Khurana: Hey Ravi, how are you? Welcome to Stoic Talks. Great having you here. Nooresh introduced me to you in past and I was always wanting to talk to you on this platform. So good to have you here.

Ravi Dharamshi: Thank you so much Puneet and thanks Nooresh. It's my pleasure. Earlier I didn't believe, I was worthy of coming on your platform.

Nooresh Merani: So that's being humble or however you want to put it. But we'll keep chasing you even for the next series.

Ravi Dharamshi: Absolutely. You have all access to me. No issues. In fact, I admire the work you guys do and I truly follow everything that you guys put out there.

Puneet Khurana: Great! Good to know. So Ravi, let's do one thing. For the benefit of listeners, generally, the first question, we always ask all our guests is to give an introduction to how you got started in the market. Whether your family was into it, how did you get introduced to the stock market in the first place? And eventually, what has been your journey? At least till the start or till the time you become the professional money manager that you are today.

Ravi Dharamshi: I think, in hindsight, it looks like it was always meant to be, but that's not how it was when I started out. So like any other young kid going through school, college had no idea what he wanted to do in life. I was not one of those super bright kids who had a clear vision and focus on what he wanted to do in life. I was not that. I was good. I was above average in academics, but I was still keeping my options open. I didn't know what I wanted to do. In fact, this was in the late 90s and all the buzz around that time was the dot-com and Internet. So, yeah, even though you might not believe it, I have done commerce and then I did law and then my MBA in finance. But in between, I had even done a diploma course from NIIT for tech. And I have also done six months of very, very intensive diploma in advanced computing, which is from an institute called C-DAC, which is responsible for another supercomputer that India has. So, there was an active thought process to get into the technology side of the business world rather than coming to the market side.

Now, when I was in my college days, I used to go to the office. My family has always been in equity markets, so that option was always available to me. But I was more casual. I had a very casual attitude towards the market. I mean, this option was always available. So, I used to go to the office and was fascinated somewhat by what was happening. Stock prices are going up and down. I clearly remember when I was still very young, maybe in the first year of college or something, my brother actually took me along. So, those were still the days when the ring was there. In fact, I was not in college, I was in school, school holidays or something. And he took me to the ring and there was something called a Vandha session that used to happen every 15 days where all the discrepancies in the trade used to get resolved. And I could not make head and tail of what this was. How in this large room can people shout at each other, make sign languages and make trades? It did not make any sense to me. But it was fascinating, nevertheless. Even at that point in time, one could not help but feel awe around the building, and the environment. And you could feel that there is a certain vibe to that particular place. So, eventually, it all ended up being part of my subconscious which led me to make the decision that this is where I need to be.

But honestly speaking, the decisive moment came for me when I went to the US and I was doing my MBA. I actually got a lot of time to do a lot of reading. Prior to that, I was a college kid who just wanted to have a good time in life. So, at that point in time, I really got serious about non-formal ways of getting educated like making connections, reading books, and understanding how money had been made in the past. I would have read up to like 40-50 investment books over the course of three months. And those were the times which were still the early days of the internet, 1999-2000. So, a lot of this material was available on the internet. And that was kind of fascinating that you certainly had access to so many things. So, anybody at that stage would want to take advantage of the free knowledge that was available. That is where I decisively became clear that I wanted to get in the market. However, I didn't want to come back to India at that point in time. I still wanted to probably do a job. I got an internship at Salomon Smith Barney, which does not exist as of today. It actually became part of Citi at one point in time, the Travelers group. And then, I guess, it got merged. During that internship, I was very keen to do a job and my boss was actually quite fond of me. So, I was very hopeful that I would get a job over there. Unfortunately, 9/11 happened prior to my graduation. So, I graduated in May of 2002 and 9/11 was September 2001. At that point in time, besides the twin towers that fell, there was one more building that fell. And that was where the Salomon Smith Barney's main office in New York was. After that, there was chaos. Even the Harvard graduates who had gotten an offer were getting that offer rescinded. So, I knew it was a pretty bad and tough situation. And I was like, okay, even at that point in time, it was a temporary thing that I will stay back. We have some experience of 3-4 years. Of course, I didn't know if things would have taken a different turn at that point in time. But my bent of mind was to come back to India. So, then I was like, okay, if this is a tough time, let me just come straight back to India. I think that was the luckiest break that I got because I came back and joined Rakesh Jhunjhunwala. And India had the best bull market of our lives in the last three decades. So, that was a learning and earning period like no other. I can't thank enough my stars that I actually ended up being in the right place at the right time.

Puneet Khurana: And how did that transpire? I mean, how the first job you landed was with Mr. Jhunjhunwala?

Ravi Dharamshi: So, of course, Rakesh Jhunjhunwala was a good friend of my brother. And that played a role in that. But that was also the time as I said, right place & right time. He used to be a one-man army. He did not have anybody besides an accountant and some staff working for him. And at that point in time, he decided to build his team. So, I guess, that is where stars again got lucky for me. Utpal Bhai was the first one who got on board. And of course, there were many others in the process that were going to join. But since I had just come back from the US and I really did not have anything else to do, I joined him as well. I very clearly remember when I joined him, it was still his old office in Vithaldas Chamber. It was honestly not an office fit enough for a man of his size and stature. But that's the way it was. He was very attached to that particular office. It was right next door to the Bombay Stock Exchange. It worked for him. But then, of course, because he had started building his team, there was a need to move. So, we moved to Nariman Point a few months after I joined. And yeah, then the story began.

Puneet Khurana: So, generally I have noticed with many people that the first job they pick up in equity markets end up becoming the kind of investor they become. Obviously, things evolve, things change. But the underlying principles come from the first key job you do in the markets, be it a chartist or be it a momentum guy or somebody like that. So, would you say that your investing style today is pretty much a reflection of how you have learned your ropes from Mr. Jhunjhunwala in the starting days? Or have things changed dramatically different for you? How has that journey been since you became an equity market participant?

Ravi Dharamshi: No, no, absolutely. There is a very heavy influence of Rakeshji in my thinking, thought process & action. However, I would like to say that a lot of influence has come from my brother as well. I used to be working with him during my college days and a lot of my principles in life I have learned from him. So Rakeshji has obviously a huge sway over, especially on the ability to decide, the ability to take calls, ability to deploy large money. That I have learned from Rakeshji. I have been a first-hand witness to some of the decisions that he's taken and it used to shock me, to say the least. I used to be like, how can somebody decide like that?

But now with 20 years of experience behind me, I can understand that he was not making quick decisions. He has actually been going over that thought process or he has seen that movie play out again and again in front of him. It's just the sheer accumulation of experience and knowledge that enables you to make those decisions quickly. So obviously he was a very astute mind and he was a very quick judge of a person's character, a very quick judge of business potential. And then once he's made up his mind, you cannot change. It doesn't matter who you are or what you are. It was the most difficult thing on this planet to change Rakeshji's mind about something. So that will just tell you that you have to be really on top of your game. Your numbers have to be on your hand and you cannot go and bullshit to him, honestly. So I have learned a lot from him about all those aspects.

From my brother, of course, because you mentioned my brother is actually known as a technical chartist. That's how he started out. In the past, he used to actually have those pink large sheets and make almost 150-200 charts used to make by hand.
Every day he used to plot that candlestick, not the candlestick, I think bar chart is what he used to make. So those were the days prior to the advent of the software and he used to do that. So I was influenced by that as well. Now, the way it has influenced me is not that I use technical analysis in my investing, but what charts tell you is the demand and supply in that stock. And when key levels get broken, you need to understand that.

So, for example, today we are at an all-time high. One needs to understand that no investor doesn't matter what time he has come, is losing money at this point in time. I mean, of course, one can lose money by investing in the wrong stocks. But overall, as an aggregate in the market, nobody is losing money because it's at an all-time high level and the market cap is at an all-time high level, not index. So now human psychology plays a big role and human psychology is what reflects on the charts. And it's not like Rakeshji looked at the charts and he understood anything technical analysis or something. In fact, he had a kind of disdain for technical analysts that there is no technical analyst who lives south of Sion. But even he knew the importance. I mean, his friendship with my brother was clearly because he respected his views in the market. You need to be able to see it as it is.

Finally, I would say my brother's strong point is that he is happy to admit when he is wrong and just take corrective action. And, a lot of times we actually get stuck in our own biases. I have made a statement publicly that I'm bullish on this. Then how can I go back to my words? I cannot sell this in my trading position. All those kinds of things muddle your thinking. So it is great to have a sounding board that can make you see the picture as is rather than what you want it to be. So I think those qualities are what I learnt from my brother. And again, I don't use technical analysis on a daily basis or anything. But if there are key points, key events, key things happening in the market, or extreme events are panning out, then one has to take cognizance of that.

Puneet Khurana: Sure. So let's do one thing. Rakesh has been the favourite investor of the entire country. Everybody has seen him. You are the fortunate…

Ravi Dharamshi: I am very privileged to have seen him front, close, personal and in action.

Puneet Khurana: Yeah. So before we get into your style of working, how about a couple of anecdotes that you remember? You mentioned quick decision-making. You mentioned not being able to change his mind. Something which had a huge influence on you, you still remember, you sometimes cherish. And sometimes when you are sitting and thinking about him, probably you enjoy those thoughts. Any such thing? Some moments which you 'can't forget' types.

Ravi Dharamshi: There are tons and tons of those. But I will tell you. I will give you 2-3 anecdotes. So once this particular company, should I name it? Okay, let me name it. It's been a while now. It's been almost 20 years. There's a company called Educomp that was going public. And they had come to the market. I remember Gaja Capital was one of the investors and they had come along with them. And they were going public. They were pitching to Rakeshji to invest in the IPO and the market cap at which this company was coming out for an IPO was 125 crore. And 125 crore today does not seem like a big number. But at that point in time, I remember Rakeshji had the guts to ask the promoter, do you know how many zeros are there in 125 crores? Have you ever seen an amount like that? So, actually, he was very clear in his mind that this is not a business model that can sustain itself. They were actually selling hardware and all the top line was basically coming from selling hardware and there was no so much software involved. So at that point in time, I was too young to understand his rationale for not going ahead with this particular investment. Along the way, it became clear. Initially, the company went from a 125 crore market cap to almost 45000 crore market cap at the peak of the bull market. So at that point in time, it looked like, why would you not invest if 125 crore would go to 45000 crore? And I used to constantly ask him these questions. And he was like, you do not focus on the potential, focus on the probability. So even though that market cap had come through, it was not a sustainable market cap. He always knew there was a flaw in the business model. So that is one anecdote that I remember.

Then, the second anecdote that I remember there is this private equity investment that he made. We flew down to Ahmedabad to meet this promoter. The company is actually going to go public probably in the next three, or four months. There is a company called Concord Biotech. And from here when we went, we had no idea. In fact, there was nothing. There was no project plan. There was no business plan. Nothing. There was some person who had left Ranbaxy, was a technocrat, and had a good understanding of the fermentation skill that was required. It is a fermentation-based API company. And he literally went there and closed the deal in 15 minutes. And probably the gist of the two basic questions that he asked was, how much money do you need to set up the plant? And what kind of stake are you willing to dilute? I mean, I'm sure a lot of VCs do that based on that. But of course, he had done his homework prior. He had friends in the pharma industry who had given him the feedback that this particular skill is a rare skill. This particular guy has a good combination of technical skills as well as a commercial mind. And one should be backing that. Obviously, I was in the dark about those things when the meeting was going on. So, I was astounded at that point in time. How can you just give? I think he gave some 15 odd crores for 30-40%. I can't remember exactly. Because after that, there was again a lot of back and forth. The company got acquired by Mylan. Then Rakeshji bought that company back from Mylan. And in today's day, he still holds about 25-26% kind of stake in that company. He hasn't but his family owns. So, that was one anecdote that really sticks out.

And there are numerous occasions when we are all sitting in a meeting. And because he was on some kind of medication, sometimes he used to doze off during meetings. A lot of people would find it very, very rude. We used to be also like what! We are in a meeting over here. There's this promoter sitting who has a company which is worth 4000-5000 or 10,000 crores and he is like sleeping. And I used to be very embarrassed about that. But he was subconsciously always there. We would ask tons of questions but they were just ticking boxes. He would get up and ask the most pertinent and the most pointed question, about that particular company. And once that answer was out, then you knew that this is a no-go area. Why are we even wasting our time? So, that is how sharp his mind was. Today I can talk about this. But honestly speaking, he was a man of many layers and you have to slowly, slowly get to know him. Understand that his first reaction is going to be violently no, then he is going to open up a little bit. And then when you go to him third and fourth times, he will give you a far more patient hearing and he'll be willing to change his mind. So, it was a process of taking things to him and immediately it is not going to happen just because you have come and done some work. It's not like he's gonna listen to what you have said and change his mind. So, it was a process. It's not like he was dogmatic about it. He had good reasons why he would not change his mind. But if you wanted to change his mind, it was something which you had to go over and over, again and again with him. Then he would finally change his mind. I think those are the three incidents.

One more, as an aside, a friendly banter. I remember I had at one point in time picked up a stake in a company called Natco in my personal portfolio. This was after I left him and I had gone to pitch that particular company to him. And, he heard me out patiently. I went to him twice or thrice. He heard me out, but he did not invest in that company. And he had a bet with me that, "I will bet 5000 shares of this thing whatever the worth was of Natco at that point in time. If I have bought Aurobindo and you have bought Natco. Let's see which one does better." At that point in time, I can say in the next two or three years time, Natco did far better than Aurobindo. Just a small minor victory for a student over the teacher. But anyway, that didn't matter because eventually, Aurobindo had a lot of issues and he sold out his stake. Natco also fell into some kind of trouble much, much later on, of course. But those are some anecdotes that reveal the nature of the man.

He was an open book. He would have his trading positions lying right there. He would speak to anybody and everybody on speaker mode. Doesn't matter if it is the finance minister or any corporate head on show speaking, he will speak to him in the speaker mode only. So, he will not hide anything. And sometimes it will make you uncomfortable that you are being privy to a conversation that you should not be. But that's just how he was.

Nooresh Merani: How long did you stay there?

Ravi Dharamshi: I was with him till the middle of 2007. So, four and a half years, roughly. And I mean, of course, I was working directly under Utpal Vai. So now for Utpal Vai, I will be doing a disservice if I don't speak about him. But Utpal Vai had a completely different personality compared to Rakeshji. But again, I have learned tremendously under him. He is the typical wizard who has everything mapped in his mind organized and he has all the right words to say. He is the one who would convert the very raw thought process into a sophisticated presentation. And sorry, you had a question about how my initial experiences shaped my investing. So obviously, I have interacted far more with the, I don't want to say roadside, but that's what Rakeshji used to call it. “We are all from the roadside, didn’t bring anything in the market and earned everything from the market.” And I have interacted far less with the sophisticated version of the investors who are all MBAs with everything. So I have a very, very good mixture of both things. I can understand the on-ground, the pulse of the market, as well as, I can understand the language that most of these large funds, MBAs and those guys speak. So I think those two worlds are very different, even though they are very much part of the same market.

Puneet Khurana: I'm sure a lot of glimpses of Rakeshji are going to come further in all the answers which you're probably going to give. But I'll now come to your way of doing things. And actually, my first question is, usually I start by asking about how you go about your stock picking. But I want to pick up something from your corporate presentation, which I was glancing through. And I found a very common slide nowadays, which is you start with the universe and then you filter it down. And the process is mentioned where you have started with some 400, 500 companies and then based on some quality filter and so on, so forth. And the first point there is that you filter on the basis of balance sheet quality, right? I just want to ask how this thing has evolved over a period of time because whatever my experience myself plus my interaction with other people has been, is that the thing has dramatically changed. It was like a switch in the 2007, 2008, and 2009 markets that pre-2008 there was very little to do with balance sheets and post-2008 everybody understood the importance of balance sheets. Was it something similar for you? Was it something different when you were with Rakeshji and Utpalji and maybe they were more balance sheet focused than the whole market was? So just run me through that part of the process.

Ravi Dharamshi: No, the balance sheet was very much part of our analysis, even at that point in time. Of course, the importance and the emphasis that we gave to the balance sheet changed. Clearly during the 2003-08 period, if you were too stuck on a pristine balance sheet, you lost on a lot of investment opportunities. But that did not mean that you never looked at the balance sheet. Clearly, we were in a stage where the cycle was in a bullish cycle and it was driven by capex. And usually what happens in a capex-driven cycle is that at the bottom of these cycles, these balance sheets look broken. The businesses look shattered. So we used to always face issues like whenever we wanted to meet the companies, they used to be asking, why are you even interested in a company like ours? That is the kind of question. However, they did not have a perspective of the cycle of the industry. So at some point, in a business cycle, market cycle, you do try to invest in businesses, which might not be the AAA, never need any kind of leverage, absolutely spick and span. First of all, there are no such companies. That's a myth. But whatever the scene is, you still try to pick the better company even within that particular business. So balance sheet was always a focus. But yes, you are right. The pendulum really swung the other way post-2008, where people wanted to invest only in quality companies. Now, there is a difference between a great company and a great stock. We are more inclined in buying a great company, good company or average company, provided they will be a great stock. I don't want to buy if they're just going to be a great company, but a bad stock. So our focus is not to filter out everything in those qualities. That's why we have kept the quality filter right at the upper end of the funnel. What we want to weed out are ugly, serious corporate governance issues, and 'never generated any kind of wealth' industries. All those are weeded out at the top of the funnel. And we still keep the quality filter. As I said, we would buy a good or a great company, or we might buy a company which the market perceives as average, but which we believe is an above-average company. So that is where we draw the line in terms of the quality and not at right at the top where only the quality companies come out of it. And then one more thing that I will draw, which is probably different from what Rakeshji used to draw is that Rakeshji paid a lot of importance to valuation. He would actually buy, of course, we all know that he had bought DHFL and in hindsight, that was a mistake. He bought Aurobindo and is associated with other companies, which also had a chequered past. So his quality filter was not that stringent, but his valuation filter was very, very stringent. He would buy only when the valuations were totally in his favour. There was no chance of him losing money if he was right on the business opportunity. So obviously, it might happen that some of the wealth that was generated was not sustainable wealth because later on those corporate governance issues do come to bite back. So one thing I do is I try to keep a slightly more stringent quality filter and I try to keep a slightly more lenient valuation filter as compared to Rakeshji. Now Rakeshji was again at the other extreme of the valuation. As I said, he will not buy anything unless the valuation is totally in his favour. So this is a lesson that I've learned over the last 10-15 years is that if you are bullish on a particular sector or theme, you don't have to go and buy the cheapest stock in that sector or theme. It's okay to pay a 20% premium to a really good franchisee rather than go and buy the cheapest stock. Over and over, time and again, it has been proven that even the large companies give as much returns if not more and probably some of those returns are far more sustainable than the cheaper stocks or the lower quality companies produced in that particular sector. So that is just our filtration process and how it is different from what I learned from Rakeshji.

Puneet Khurana: Just to give a flavour to the listeners, is it a largely quantitative criteria or is it a list which you have over a period of time developed that these are some 400-500 companies we are interested in? How has this list been?

Ravi Dharamshi: It is not a quantitative filter at all. In fact, the way we build the universe itself is very, very subjective. First, we choose the sectors or the industries that interest us. So, for example, as of today, it is reflected in our portfolio also. It's not only in our filtration process, but I have no interest in maybe metals or agri-stocks or all those kinds of things. We need to have a positive top-down thematic view of it. If that view is positive, then that particular sector gets featured in the universe. Now, within that also, we might look at all the companies from that sector that might come into the sector, but we are interested in only the leader or the challenger or somebody who is doing something different. As I mentioned in the past, we made those mistakes, but we will not go down the curve and buy the number 7 company because, on a valuation basis, it is the cheapest. We would rather buy the number-1 or number-2 company that is doing something differently and it's okay to pay a 10-20% premium for that. That is a lesson learnt in the last 10-15 years.

Puneet Khurana: Okay. So, I'll come to the valuation part again, but just to make it crystal clear to the listeners also. What you're telling me is that it's a top-down sectoral preference. So, I'm getting a sense that obviously with time this list is also changeable.

Ravi Dharamshi: No, no. I'm sorry. I didn't complete my answer. Yeah. So, it is a dynamic list. We used to have a very stringent criteria filter that we need at least 10 years of balance sheet or the financial track record before we even look at it. But for some of the companies that do come to IPO, we don't have access to that kind of data or sometimes the company itself doesn't have it. I mean, a lot of companies which are less than 10 years old, do get listed on the market. So, for example, Nykaa, does not feature in our portfolio, but it does feature in our universe because we understand that this is where the puck is moving. This is where most of the new business models are going to come from and you would want to be ahead of the curve in understanding the business model. So, it is important that you include those companies as well in your universe, even though they might not get featured in your portfolio for a long period of time. You start building your understanding of the company. See, this process of finally picking the stock, it's not like one particular day an idea came and the next day you decided. It doesn't happen that way, at least not for me. It is a process over a long period of time. You have developed a perception of an industry. You have developed a kind of liking or disliking towards an industry. You have placed a particular company in a particular manner in that particular industry. So, those things keep panning out and then suddenly you see that now you have a positive top-down view on the place. You're bullish on capital goods, you're bullish on railway defence, all those kinds of things. And then at that point in time, you want to know technology-wise which company is superior, management-wise which company is superior and who has managed the balance sheet well during the downtime. All those kinds of things are very quick. So, that is the ready database available that this guy managed his balance sheet well. This is a superior management to this. And that is built over a period of time either because of our experiences or because of the actions of the management that we have built in that database. And then all you need to do is just put the growth prospects and valuation perspective on top of it to understand whether it is attractive enough or not. So, apparently, it’s a very quick decision because that database is already there and then you just put the outlook and valuation perspective on top of it or some other like a management change.

I'll just say it with an example. We have been tracking a company called Bajaj Electricals for a long period of time. And we always thought what is this management doing? They had EPC as part of the company. Then, of course, there was an unfortunate incident when the promoter's son, Neeraj Bajaj passed away. They were implementing something known as the theory of constraints, essentially, where they were converting from a B2B business to a B2C company. So, there were these things and we were always like ‘It's still not right time, still not right time’ to bet on it. Then things changed. The EPC business was out. A corporate event like that triggers. Okay, you know what, we need to take a look at this company again because we had clearly marked this company down as EPC was part of the company. And the moment that is going out, then you need to take a relook at it. But then again, this unfortunate thing happened. So, you need to go and see. A new CEO has come in. Now, you have to go and see what the new CEO is saying. What is his focus? What is his priority? And when you met the new CEO, it became very clear that he's a focused guy. He's focused on turning the business around and making the company either number one or number two in each of the categories that they are focused on. And it's a six-category company versus some of the other companies which are of one or two categories. And they are either number one or two already. And he is further looking to build the brand and build on that success. So, then it becomes very clear that okay, at 12000- 13000 odd-crore market cap and versus a leader who is probably at 70000-75,000 crore market cap, the gap should not be that large. So, you try to build that scenario, what is the probability of this company being at 25000- 30,000 odd-crore market cap over a three, four, or five year horizon? And I think then it becomes very clear because we had that kind of a history with the company where the reason for not investing at that point in time was clearly identified. And when those things change, you go and start building your position.

Nooresh Merani: So this is where it's getting interesting because, over the years, we've seen you with changing evidence. I remember your presentation back in 2020 on how chemicals as a sector become overvalued at a point. And there was a point, a few years back where you were so gung-ho and you actually killed it across. And even today, many times you talk about themes. I remember you giving an acronym for COVID in 2020. I just can't remember the name, maybe if you could recall.

Ravi Dharamshi: Consolidation. Essentially during COVID, you actually had consolidation across sectors and it was like what we know today as a 'K-shaped' recovery. So the stronger the balance sheet, the stronger you became and the weaker the balance sheet, you got pushed out. So there was a market share migration happening to the stronger players. It was an opportunity more than a crisis, which I believed. There was a V-shaped recovery. Then it was 'India focused' or something of that, I forget. And 'D' of course was digitization. So all those things got accelerated in COVID. So we were actually positioned in chemicals, pharma, IT, and platform companies prior to COVID and all these businesses got a huge tailwind because of COVID. However, we realized that it's a bunching up of business, but it does not look sustainable and the market is extrapolating that. And there was enough evidence on the street, you could see that. So, for example, we had one particular company in our portfolio. I will not name it, but it was kind of a proxy play on the growth of FAANG, Microsoft, Apple, Facebook and all that. They had started slowing down already in the US and their stocks had started correcting. So it was only a matter of time that it would start featuring over here as well in the companies. Then we had Laurus, one company that we had picked up a huge stake in. It was a big portion of our portfolio and our hypothesis, of course, got boosted a lot by the fact that the COVID drugs portfolio became a big portion of Laurus' number. But again, COVID went away as soon as it came. It was four, six, eight quarter phenomena at best. And suddenly we are seeing the numbers dropping dramatically. It was very apparent to us at that point in time. See, the market loves the narratives, but people don't go behind the narrative to check the evidence if that narrative is right or wrong. People take too many emotional decisions that if the stock price is going up, it's a great company. If the stock price is going down, it's a bad company or bad management. Both things are wrong. Good management remains good regardless of what the stock price does and bad management remains bad regardless of what the stock price does. Sometimes some management makes some mistakes in terms of either guiding or some of them could be actually misleading. Basically, they're building an expectation which is unrealistic. So, one has to recognize that. You need to look at it from that perspective rather than get emotional about it and say you lied to me or so on and so forth. So, I would rather be pragmatic about all these things than take emotional calls. One has to change the view when things have played out their course or if the market is making a mistake by extrapolating something that is unsustainable. It is your duty to take advantage of that.

Nooresh Merani: Very interesting way to put it. So currently we keep on seeing this. There is a duty to hold rather than a duty to change. But how do you track all these changes? Because we've seen you've changed your portfolio depending on themes. You've been able to actually go gung-ho in 2020, then become a lot more sober seeing change in extrapolation. So what is your process of tracking or as a team? How do you go about it?

Ravi Dharamshi: So first of all, I didn't go gung-ho on chemicals in 2020. We have been bullish on the theme since 2014. You have seen my presentation which I made in the Investing Conclave where I made a self-presentation on chemicals. That was in December 2021. I listed out my thesis. And basically, you go into the reasons why you bought it and see whether those still hold true or not. So we were bullish on chemicals because that entire sector was available at 25,000 crores. There were 15 companies which were growing at 10-15% with a bottom line growing at 15-20% and ROE, ROCE is upwards north of 15-20%. Now, because of the tailwind from China, because of the pollution issues, those companies started growing at 20-25% and the bottom line started growing at 35-40%. But it did not take away from the fact. While doing our initial research, we were so scared of betting on the chemical sector. Because it used to be a B2B sector with no knowledge of what price movements were happening at the back, or which way the spreads were going. We had no idea where the profits were coming from, or which particular product that profit was coming from. We had no idea. So while betting on it, we were very scared. But then seven years down the line after 20x expansion of the whole sector, suddenly people have even forgotten the fact that you need to understand what the source of the profits is. And if you go deeper you will realize most of these chemicals have 30-70% of their turnover coming from one or two molecules. And they are a big beneficiary of the price increase. Suddenly you can see on the horizon that raw material prices have gone through the roof. The spreads have shrunk, freight costs have gone through the roof, and the margins that have expanded from 14-15% to 25% are not going to be sustained. So a peak profitability combined with a peak valuation, it is quite apparent that from the next three-four years perspective even if the larger trend of chemicals is going to sustain, this is not a top-down story anymore. There will be a correction in valuation. That is for sure. So it could be that it happens through a 3-4 years sideways move though rarely that happens. Mostly it happens with either a 30% fall if the companies are still very good or with a 50-70% kind of fall. That's what happens. So we are witnessing what is going on in chemicals. And there were so many other risks that the market was ignoring. There are execution challenges. The ability to vertically integrate or horizontally integrate is not an easy thing. It takes a lot of time. So many companies are coming to the market to literally cash out. 10 or 12 chemical companies got listed with an absurd valuation. So that should actually kind of flip your switch that if the promoters think that these companies are overvalued or they want to take advantage of the market situation, then you don't have any kind of great insight to be outguessing them.

Puneet Khurana: Ravi, so I'm getting the sense and I'm trying to summarize what you just said in terms of your stock selection. So what basically you're doing and it's a regular thing. There's not a fixed timing-based thing that you're looking at and setting and deciding your next few years if this sector is looking good. But by the very nature of continuous research, you have a positive view on a few of the sectors for the next few years. And you are looking at the leader or the challenger or as you rightly said, I think a person who is doing something different in that industry because that brings in the growth element or the sustainability element or the balance sheet element being the leader. So is that a fair summarization of how you're going about looking at your stocks?

Ravi Dharamshi: Absolutely fair. The only thing I would add is that this database of what Rameshji says is that you have to connect the dots and it just all that comes through just having a reading quite a lot and keep building that database in your mind and institutionalize it. Of course, we have a large team of 15 member research team. So now instead of only one or two people, a lot of us are doing the same thing, essentially reading all the time and building our database. And then at some point in time, it will click that the sector is looking good or this stock is looking good. But you have summarized it well.

Puneet Khurana: Now it's quite clear how you're going about selecting the stocks. Let me also ask some questions on the portfolio construction front, right? So in your presentation, also the corporate presentation that you have on your site, you mentioned that you're very, very concentrated. I think you mentioned, if I'm not wrong, 8 to 12 stocks. Can you give us a flavour of how do you go about it? Given the fact that you are going sectoral top-down, I'm sensing that you have a lot more options to invest in for the next three, four, or five years. How do you go about allocation into both selective stocks? And given that you are 8 to 12, I'm guessing your starting position could not be anything less than 5-6%. Is that fair? I mean, how do you go about it? Just throw some light on that.

Ravi Dharamshi: So I come from a school of thought that if when you once spot an opportunity, it absolutely does not make any sense to be betting anything less than 5-6% on it. Of course, we need some amount of diversification, which is why it's a portfolio and not of one, two or three stocks. We are not yet evolved. Forget not yet evolved. We will probably never evolve or graduate to the level of Charlie Munger that we can hold a three-stock portfolio. So we need some amount of diversification. And our experience says that 8-12 is more than enough diversification. You don't need any more stocks than that. If your number 15 bet is going to be 3%, then it is not going to move the needle for the portfolio in either way. This is one thing which is common or one of the things that is, I would say, the base of our philosophy. We have to be concentrated. Do so much work that you have the conviction to take a 5% or 10-15% kind of bet in that particular company. Of course, the size of the company plays a role in it. We might be very convinced, but if it is a very small company, we cannot go and buy 15% of our portfolio. As a percentage of our portfolio, it might still be 5%, but that's because the size of the company is less. We might at some point in time increase it when the size of the company grows. So as you rightly said, our base bet size is actually 10%. If everything is fitting, growth, outlook, business, management, balance sheet, business cycle, everything is ticking the box and you're very, very bullish on it and it is also a quality company that can feature across the portfolios, then we'll go and buy 10% or in extreme cases might go as high as 15% also at cost. If we are only 8 out of 10 there or kind of 80% convinced, but either I wanted to buy 20% cheaper or I'm waiting for one or two triggers to pan out before I build on my conviction, then I might pick up a 4%,5% or 6% kind of stake and scale it up over a period of time. That is how our portfolio construction happens, and honestly, it is humanly impossible to closely track anything more than 30, 40 stocks or 50 stocks at best. Even with a 15-member team, our real core area is 50 companies. So the filtering process from 450-500 companies, comes down to about 150 to 200 companies where we have a cursory eye on it. But our real focus is only on those 50 companies where we go really, really in-depth. And we would ideally like to be ahead of the curve in forming an opinion. So if you want to have that kind of in-depth research, then automatically you will restrict yourself to fewer companies. Otherwise, if you have a 30-40 stocks portfolio, then your universe is actually going to be 150-200 stocks. And for that, you will need a much larger team. It is not humanly possible. Even with AI coming in, there may be some amount of capacity increase that can happen. But the right amount of portfolio concentration or diversification is 10-15 stocks, in my opinion.

Puneet Khurana: OK, so when you start with a 10% stock, you're also saying 15%. Do you also have a sectoral limit in your mind at a cost level? OK, I will not go beyond a particular percentage in a particular sector.

Ravi Dharamshi: Yeah, of course we do. See, you want a sustainable portfolio. And yes, you want to take advantage of the fact that you are early to identify a sector, whether it is chemicals or defence or railway or whatever it is. If you are early to identify a sector, you want to take advantage of it. But at the same time, you also need to be accustomed to the fact that you could be wrong. So 45% is roughly where we keep that limit. But again, we do a lot more nuanced sectoral allocation. Let's say, for example, today we are very bullish on financials, but financials is a very, very broad term. Within that, there is lending and non-lending. It does not make any sense to club the two together. What difference does it bring? Let's say, for example, an exchange is a play on the overall financialisation and selling of financial products in the country. A bank is more a play on the loan being given to the retail guy or to the corporate. So what is the connection? So we actually try to distinguish between what is a lending exposure and what is a non-lending exposure. How much is the exposure to exports? How much is the exposure to consumption? So we try to make sure that to a particular theme, like say consumption or whatever, we do not have too much of an exposure. We don't want to be only based on one particular theme.

Puneet Khurana: So let's say if you do have such high conviction into a particular sector, even if it's not high, you're saying that there's a limit of around 45%. You also said one thing, which is if you have early to identify, you want to take advantage of the sectoral run. Doesn't that by default bring in a very dramatic risk when you are wrong? And I'm guessing you might have had some experiences where you're probably a bit too early into a sectoral call. And if you have a 30%, or 40% kind of exposure to a sector just like people in cash have a cash drag, you might have a sectoral weight drag to your portfolio returns for a long period of time. Have you gone through it in past? Any examples? How do you mitigate this risk or you don't mitigate this risk at all? How do you see this?

Ravi Dharamshi: So you're absolutely right. You do get into these kinds of biases. However, it does not happen to us that we are early to identify because when you identify, it is easy to build your position up. What is difficult? When that sector peaks, you're not quick enough to reduce your exposure to it. That is where the challenge lies and it has happened to us in the past with pharma. 2015 is when it peaked and 2015-2017 was a period where the market continued to do well, but pharma as a sector did not do well. And the challenge lies there. I think we didn’t identify the same change that we have identified in the chemical sector. We could not identify it in pharma or we did not pay attention to it. The consolidation in the US generic market of the buyers was secular and structured, something that worked against the Indian manufacturers. Of course, the opportunity was shrinking from the profit pools that were available to be tapped. And on every launch, there used to be 15-20 day-one filers and that told you the competitive intensity. If one particular drug is going to have 20 people, nobody's going to make money on it. So, that is one particular change that we were late to recognize. I won't say we never recognized, slightly late to recognize and slightly late to act on it. So, as I said these challenges, this discipline of this sector is more required when you have changed your view. While we are building our position, I feel there is very little probability that it will be wrong because we don't build 45% exposure from day one. You find an opportunity, you take a bet on it, you see it working, and then you realize that this is a sector. You go and place one more bet in some other company and that is how you build your sectoral exposure. So, your probability of being wrong while buying in a sector is not so much. But the probability when the sector peaks and if you don't scale back your exposure down, is a challenge that we have to overcome.

Puneet Khurana: I am also sensing that probably there will also be a challenge when you are slightly early into your positions and parallelly because you are managing so many. Your core is around 50 odd companies and you are finding some other opportunities. Do you also find sometimes a case where you like a company which is already in your portfolio but not really doing well because of the waiting period and you have an additional idea that you are equally gung-ho about and you are thinking about replacing that existing ‘not working stock’. Given the fact that it is a constant research activity and you have ideas coming in, and coming out, how do you manage that kind of a waiting period? Because the more I am talking to you, I am sensing that you are very value-focused. When you buy a company cheap, there is always a waiting period and it is easy to confuse a value trap with a market not being able to recognize the potential kind of a thing. How do you differentiate that in your eyes?

Ravi Dharamshi: So, the switch call remains one of the most difficult decisions that we have to take. So, we are not very, very flippant on our switch calls. We do want to build our conviction. We do want to be very sure that this opportunity is at least 2X of what I am currently holding. In what I am holding, I might be wrong in the timing. But if my basic hypothesis is still right, I would still want to continue to hold on to it unless something presents itself where I see the potential to be 2x of the return and not just 20% higher or 30% higher. However, having said that I would just like to correct yourself that I don't want to put any kind of a label on myself that I am a value investor or the growth investor or anything. I am an opportunistic investor. I will go where the opportunity lies and I don't care whether it's called a growth or a value by market. It doesn't make any sense to me because my whole philosophy is to make money when the value changes to growth. You want to buy when something the market is labelling as value actually becomes a growth stock. So that is when you want to buy and those quadrant changes are what suddenly everybody will try chasing. So, yeah, we like to identify clear catalysts or triggers of what will change, when it will change and why we should be buying at this point in time. I am never in a hurry. I'll be probably 20% late to buy, but never be two years early to buy.

Puneet Khurana: Got it. Yeah, that's precisely where I was coming from. Now, let me reverse the question on the selling side. So you give an example of chemicals, across the board the valuation started to become unreasonable, so to speak. And I think you had a very significant exposure to chemicals at that point in time when you started drilling it down. And you also mentioned that it's very important to react faster on that side of the pendulum rather than on this side of the pendulum. So when you do react to this kind of situation where a complete sector, which is very high in your allocation in your portfolio, do you have to, by default, take cash calls in that case? Like, the sector is becoming too much. I need to move out, but I don't have enough ideas to put money into. Does that kind of thing happen to you?

Ravi Dharamshi: So in our case, usually the maximum I would have generated cash would be in the range of 25-30% and the maximum period that I would have held on to cash because of lack of ideas would have been three months. Now, this is the last 13 years of history. I'm saying it could be different going forward, but it was not a cash call. It was an exit call on chemicals and it is waiting for an opportunity to identify the next big thing or something like that. So it is not a conscious cash call. Cash call is something that I would categorize as there is going to be a recession in the US. So I need to create cash across the board. We don't take those kind of calls very easily. Those are once in a decade call and we don't want to take that very, very easily. So only when you believe that the business cycle, the market cycle, the leverage cycle, everything has peaked out, the profitability cycle has peaked out and it's time to be away from the market from the next three years point of view is when we would like to take those kind of calls. So to give you a perspective in the last 30 years, there have been three such instances: Harshad Mehta peak in 1992, Dotcom peak in 2000 and just before the global financial crisis in 2008. Now if you constantly have that at the back of your mind that “Oh, no, there is a recession coming in US.” This is coming, that is coming and invariably you will keep creating cash all the time.” So we don't want to take that kind of cash and it's OK if I'm a little late to realize that or understand that there is a big crisis happening. But once you realize that there is a crisis, it's OK to act fast on it. So we will be very, very conscious when we take that cash call. Usually, it will be about getting out of a company, getting out of a sector and waiting to find another opportunity. Nooreh Merani: Over the last 13 years, when has been the time you've made some exceptions where something new comes up? For example, we may never buy IPO stocks. We may never buy this sort of sector or this sort of company or some exceptions which you've made over the last 13 years. And how did you go about it?

Ravi Dharamshi: So, in Rakeshji’s office, there was one particular quote and he had rules for investing. And number one rule was you have to be optimistic. But the last rule, which not many people know, is that there are no rules in the game of investing. So we make a lot of exceptions all the time. But I won't say they are exceptions. It's just that people get stuck in their philosophy that this is my core competence and I will never look beyond that. We don't come from that point of view, since our philosophy is that we are opportunistic. My philosophy is to understand that opportunity, understand that space and build a core competence before anybody else does. So if I don't understand chemicals, I need to understand chemicals before anybody else does. If I don't understand defence or I don't understand railways, I need to understand it before anybody else does. So I like to say my core competence is reducing the time between understanding a sector and placing a bet on it as quickly as possible. That is what I would say. So that leads me to make a lot of exceptions.

For IPOs also, it's probably overpriced is a very general statement. But then there are sometimes some companies that come to the market which are kind of an exception, or kind of must-own companies. And they might not be coming at an absolute cheap level. But when you put yourself with a 5-10 year perspective, realize that you need to own these companies.

So I'll give you an example of Radhakrishanji. We are all familiar with Rakeshji but not much is known about Radhakrishanji. So Radhakrishanji bought probably 3-4% of Jubilant Foods on the day of its listing. And it was an expensive stock to begin with in IPO and it listed at a premium. He bought almost 3-4% of that company. So that got me thinking, how can a deeply value-conscious investor like Radhakrishanji buy a company like Jubilant Foods, which has never been cheap in its life from day one? And then once you realize that he is coming from the perspective that it's now a 100-store company, 200-store company. There's a long runway and they'll have 2000 stores or 5,000 stores at some point in time at a much larger scale. It's a franchisee that has done well elsewhere. Pizza as a category will easily be kind of acceptable in the Indian populace, all those kinds of things. When you think about it, you see that as compared to the opportunity that lies ahead of you and the quality of the franchise, you don't need to worry about one or two-year valuation. You need to really be thinking long term and you need to be picking up a stake in that.

And so there are times when such exceptional companies come to the market and you need to be buying them even though from a year-to-year perspective, it may not make sense. So that is why you should not be overly focused on the current year's earnings or the next year's earnings. In fact, Puneet, you said that I'm a value-focused investor. But if you were to go and check the PE of my portfolio, it would probably be north of 40. So I don't think most people would agree with you that we are value-focused investors, but it's wrong to be looking at a PE multiple. See, PE is a derived number rather than something that you take as a starting point for doing your investment. I think a lot of people get caught up in that. One thing that I learned from Rakeshji is that you don't print down the valuation of a company in sheer numbers, as in the PE multiple or something. You look at what the opportunity size is. You look at what scenario this company can possibly create wealth in a five-year or ten-year horizon. And then as compared to that opportunity, what are the valuations today? Then it will be very clear to you that this company will someday be a 30000, 40000 or 50,000 Crore market cap and it's currently available at 2000 Crore. Even if it has a 40 P/E multiple, it does not matter. The stock might not do anything for a year. That's your worst-case downside. But over a five, or ten-year horizon, if you can have a company that can be 20,000 Crore market cap, then don't worry about one-year performance. That's how I think about valuation as well. And there is no one particular way of valuing a company. You have to apply all possible ways of valuing it and see which fits the best in those particular circumstances.

Puneet Khurana: In fact, my next question was going to be on valuation itself because this word has come up so often. And, a large number of our listeners will be on their nascent journeys of investing. Valuation is one thing which can be made as complicated or as simple as you want it to be. And since you have said, “I'm OK to pay 20% above the valuation of the company.” It is such an esoteric number that we or most of the investors say “It's a feel.” It's not really something to which we can put a number. And the last answer, which you gave also, gave a lot of detail on that. Can you pick up any example, historical, current or anything and just run us through how you quickly think about valuation in your mind? Also, in the very starting, you made a statement from Rakejji, which I have noted and probably want to print, “Don't focus on potential, focus on probability” or something of that sort. So how do you bring that into this? Because at one point we are saying, look at the potential, ten years down the line, it could be a very big company. And obviously, you are going to build it into your valuations, which you're going to pay. On the other side, we are saying, well, don't pay too much for the potential also. So how do you bridge that concept in your mind?

Ravi Dharamshi: Clearly it is a potential as well as a probability. If something has the potential of being 100x, but the probability of that is 10%, you don't want to go with that. But if something has a potential to be 10x and the probability of let's say 70% or 80%, then that is what you want to go with. Again, I also made one more statement, which you should highlight is that if you are wrong, you should double your money. So that is a kind of probability. See, when I say potential, whether Jubilant Foods will become a 2000-store or a 5000-store company ten years down the line, we have no idea but we know it will be much higher than wherever it is. And I'm talking again from the day when the IPO happened. From that point of view, that call was not that it has to have 2,000 stores in the year 2023 or something like that. We don't get caught up in the preciseness of the predictions. The scenario is so probabilistic that even if only 70% or 80% of it is achieved, you will be still far higher than wherever you are currently. So if that is the scenario, you will make your money. You might not make the best money, but you will still make good money on that. And those are the cases where probabilities are in your favour.

So, you asked for an example, it’s Natco Pharma. When we picked up, it was probably quoting at around 1500 odd crore market cap. There was a potential that one particular drug, Copaxone, could earn them 1000 crores profit. Now, the odds are such that it’s a 1500 crore market cap company, and you don't want to be betting really on one particular drug because that would be one or zero kind of an outcome. You have that kind of optionality, which the market is not factoring in. Also, there is some base business. If you're even on the base business, you could justify that this 1500 crore odd market cap company could be a 4000 crore market cap company without paying up for that optionality. So in your base case, you should be able to justify a doubler in three to five years' time. And then there should be added an optionality which can give you that kicker where instead of doubling, it ends up being 4-5X or 10X because those optionalities panned out in your favour. So that is how I think of it in terms of valuation or in terms of probability. And honestly, it's an art and you cannot pin it down to a number.

Puneet Khurana: Sure. You know, we're taking a lot of time, but I'll just quickly ask a couple of questions which I have kept for last, actually. One, in the very starting, you were talking about how you're learning from your brother about technical analysis but more towards demand and supply. You have appreciated the importance of demand and supply. How do you bring that element into all the investment frameworks which you have discussed so far with any examples if you can? And then I'll go to my last question.

Ravi Dharamshi: Clearly, from the overall market perspective. Today, the market is at a new high and it is a very good example. See, a lot of people are very loose with words, 'New high means euphoria', '20 multiple means expensive.' So, people don't pay attention. The pulse of the market is missing. You need to be more nuanced about these things. The markets are at a new high and in fact, there is no euphoria at this point in time. It's not like we are busting crackers or people are going out and making crazy buying decisions in their own households or, we have been making hand-over-fist money for almost three, four or five years in a row. And now on top of that, and on the basis of my P&L in the market, I'm going and making some life decisions. All those things are not there. It's not the classic anecdotal evidence of euphoria or the bubble is just not there. So when people say euphoria, or for that matter, when people say panic or blood on the street also, I mean, a 5%, 10% correction is not blood on the street. So you have to be very cognizant of whether this is a two-sigma event, a five-sigma event or a six-sigma event. So market's job is to oscillate between extremes and in between, it does not make any sense to try to predict. Only at extremes, you can be very sure that this is an extreme and that is an extreme. And those are the points that you want to really say 'There's an extreme downside.' Nothing will happen. You have to put your money to work over here or on the other side of the extreme also, it has to be two standard deviation, or three standard deviation and it has been going so long that people have forgotten the word 'risk'. Something that happened in the case of the chemical sector that people forget. Then 70-80 multiples become part of the parlance and par for the course. And people start taking it for granted. That is where you have to say that this is extreme and it is not going to be sustained or COVID times when it was so down, it was falling 1000 points at a time in Nifty. And, you know, there came a point where if Nifty was to fall 1000 points a day for seven more days, it would go to zero. Now, obviously, that kind of thing is not going to happen. And that is where you need to come and say that come what may it doesn't matter. I don't know how COVID is going to pan out. The market might close down tomorrow. But this is an extreme scenario and you need to put your front foot forward and take 'Buy' decisions. So you are better off taking a call at that. You have to recognize those extreme moments. And that's why I use the technical analysis for that. This is an extreme. It's not going to go any further than that. It's a matter of days that market will bottom or it's a matter of weeks. That's all the difference is going to be. And honestly, even if you had called the bottom of the market at 9000 Nifty and after that it fell to 7000. Three months down the line, six months down the line, it didn't matter because the market went way ahead of that. So it's OK if you don't get the exact bottom. It's OK if you don't get the exact top, but you need to be aware that these are extreme on the down. And this is an extreme on the top. And you need to be out of the game. That's all in or out of the game, whatever it is.

Nooresh Merani: So do you think this period in 2008 helped you to be publicly bullish in 2020? See, all of us were bullish, but how many people actually went on TV? So I remember you were more on TV saying this is bullish. Do you think 2008 also was a factor in understanding the pessimism?

Ravi Dharamshi: Absolutely, I think I've lived through 2008 first-hand. And honestly, at that point in time, I was not a public fund manager. I used to do a lot of trading on my own. Many people don't know but I was short on the market. And I have learned a lot from Radhakishanji, of course, from a distance. I very clearly remember once, when do you actually sell? It is like in technical analysis, it is when a market makes a peak. It corrects 20-30%. It rallies again to test the peak or just falls off, reaching the peak. And then it falls again. You still don't go short on the market. But the first low that the market made gets broken, that is when you know that the game is over. Then nothing will come. It's foolish to be trying to time the market from identifying the top. But once the top is in place, it is pretty clear and pretty evident in the game. The market will collapse under its own weight because so many people have bought those same stocks at leverage and they are all in losses. So in the first round, people come to try and support the market or the stock or whatever it is, and the market rallies. They are in the money. But once that particular level is broken, their new incremental bet is also under loss. And that is when you know that this is not going to be sustained. So now this trader's mentality, I don't use it on a daily basis in my portfolio or investing style. But this is something that makes me alert at a point that if I am bullish on the market and something like this happens, I will question myself and I will really go down and ask whether my hypothesis is right or not. And if I'm not, then I need to change my mind. One has to be cognizant of that fact. So I don't profess trading on charts. I know Nooresh does that or whatever. A lot of people do that. It's great. They can do it. I would say charts tell you what is happening. They don't tell you why it is happening. And I want to go that one extra mile and understand what is happening and why it is happening. If you can understand that, then you are on top of the game and you will be ahead of 99% of the crowd.

Nooresh Merani: Absolutely. That is why there is a saying in technical analysis, "Don't ask the why. You are not capable enough to answer it."

Ravi Dharamshi: I don't like to call myself a technical analyst. So, I want to go and find the 'why'.

Nooresh Merani: That's the reason you go beyond it. The whole point, I was saying in 2008, you've seen a terrible cycle and that is where you get the next cycle in terms of the bottom. You can't expect that you come into the markets three years out and you'll be able to get all the cycles right.

Ravi Dharamshi: In fact, I came into the market in late 2002, or early 2003. After that, there were 5 years of bull market. So I am a product of the bull market. A lot of people think that it is a negative because you might not be able to recognize when the markets turn or you are inherently always optimistic and bullish. But I have lived through the entire 2008 being short on the market. So I know exactly how it is. Even the market's job is to move from extreme to extreme. Hence, don't be very logical about the fact that the market has to bottom out here. The market doesn't bottom out when it is fairly valued. It is always extremely overvalued and it will go to the extremely overvalued. So if the swing on the upside was way more than it should have been, then the swing on the downside will also be way more than it should be. So you have to wait it out and wait for that last bull to give up. And there will be absolute blood on the street, yours as well. That is when you will get a good amount of time to build your portfolio. There is no hurry to catch the absolute bottom.

Puneet Khurana: Sure, one last question from my side and then I'll let you go because we have taken a lot of your time. Can you run me through a couple of your large mistakes which you classify yourself in your large 'Mistakes library' that you have done and which have probably changed or had a lasting impact on your investment framework? Any cases or any particular anecdote you can remember which you classify as your biggest mistakes?

Ravi Dharamshi: See, there are lots of mistakes I've made in my life. First of all, let me admit that. But it is usually only the errors of commission that get featured in your portfolio, but it is usually the errors of omission that pinch you the most. So I would say hands down the single biggest mistake I've made in my life is selling out Bajaj Finance too early and I'm sure a lot of people can identify with that. It will be their largest mistake as well. And it is precisely because I went with those headline numbers of 4.5 or 5 times book is very expensive and I had made 4-5X my money in a span of 6-12 months. One needs to be careful not trying to understand the size of the opportunity, not trying to understand what exactly this company's DNA is and how special this company is and hanging on to what you have bought. I would consider this as the biggest mistake of my life. Having said that, I have made enough mistakes on the other side as well where I've bought things that I should not have bought. But fortunately, over there one thing always sticks with me what Rakeshji said, "Make mistakes that are affordable." Fortunately, all of those mistakes on the buying side have been affordable mistakes and not unaffordable mistakes. I would like to continue with that.

The way we have changed our philosophy is that we will only bet on those turnarounds where the turnaround can come through the cash flows of the company, not by selling of assets. The cash flows of the company should turn it around. And second of all, that intent and the turnaround should be on the horizon. And I don't want more than one turnaround in my portfolio. I will never have a portfolio of turnarounds. I mean, borrowing from Nooresh's terminology of 'Chor Bane Mor', I will have only one potential 'mor' in my portfolio. I will not have a portfolio of 'mors'.

Puneet Khurana: Got it. Perfect. Very helpful answer Ravi and really insightful talk, at least for me. I'm sure Nooresh enjoyed and listeners will also enjoy it for sure. Thanks for giving us your time. It was wonderful talking to you.

Ravi Dharamshi: The pleasure was all mine. I really loved the way you guys are conducting this. And it really uncovers a lot of aspects of investing and personal journey, which usually don't get covered in the regular formats-15, 20, or 30-minute format. This needs a very, very long conversation. And I think you've done full justice to that.

Nooresh Merani: Thanks a lot for giving us that much time and being candid. And that is what we all need. Your candidness actually gives learnings to everyone. So your 20 years come back to people in two hours. So that is the motive. Thanks a lot.

Ravi Dharamshi: Thank you.

Puneet Khurana: Thank you, Ravi. Bye bye.