CAPGROW CAPITAL

7th October, 2019

Quarterly Newsletter – September, 2019

Greetings! It gives me immense pleasure to write our fourth investor quarterly newsletter. We are currently witnessing turbulent times and a challenging macro environment. I remain optimistic that our patience and sound investment philosophy will help us generate superior returns and create wealth for our investors.

Performance for the month of September, 2019 was +3.6%. On a quarterly basis, the aggregate portfolio was (-8.4%) while it is +1.4% since our inception in Nov, 2018 (11 mths). Lot of investors have been debating in their mind about the right timing at which they should be adding fresh money to take advantage of the depressed valuations. Our advice to all is that this is a perfect setting for loading up your equity portfolios. With the markets going down consistently, investors have seen capital erosion across asset classes like Real Estate and direct equity. There is an extreme fear in the markets currently and the illiquidity of the real estate investments is compounding the problems and ability of investors to take additional risk. Our philosophy at CapGrow has always been to be the torchbearers and explore investing opportunities aggressively in these turbulent times.

Our portfolio has done well and it is due to the investment process that we follow at CapGrow. We are very focussed on the quality of the companies, the strength of the business and strong fundamentals and the corporate governance of the companies we invest in. Some of the names that have crashed in the markets, always had red flags in their financial statements and we have always avoided these companies. The returns of these stocks generated during the period 2015 – 2018 also surprised us, but we avoided such stocks and remained firm on our core fundamental philosophy of investing in only good quality businesses.

The current economic environment is no doubt challenging, but we see winds of change. The current commentary & tone of the government acknowledges the economic challenges. The govt. is proactively taking remedial actions. The reduction in corporate tax rate to 22% (25.17% with surcharge) is a very bold measure and will go a long way in boosting corporate profits. The incentive to put up manufacturing unit by levying only 15% tax rate will boost lot of investments as India now stands at par with other countries. This is particularly significant at a time when the U.S China trade war is going on. The talk of lack of infrastructure acting as an impediment is well compensated by the strong demographics acting as a captive consumer. We are confident that this government will act rationally, and will take all possible measures to revive the economy.

In terms of our portfolio strategy, we continue to be fully invested with very limited cash in the Portfolios (1.5 – 4%). We exited our position in CESC with 21% gain and Siemens with 33% gain in a period of less than 6 months. One of the loser in our portfolio is CARE where we think that this quarter may also be subdued. CARE is a high ROE and fundamentally sound business with high positive operating cash flow that has primarily been hit due to IL & FS crisis and the challenging corporate environment. The other significant negative performance is in Bajaj Corp which is lacking top line growth while the valuations are at historic lows and has good dividend yield. We do not own any pharma stock and that decision has paid us rich dividends. We are currently looking to add names but will avoid any pharma company that has a U.S. exposure as the risks of USFDA and price erosion continue to persist. Our portfolio is currently skewed towards large caps and we intend to add few midcap names where we believe that valuations are near rock bottom, while maintaining the quality of the Portfolio.

Finally, we would like to reiterate that we are always available for any discussion on the portfolio and our equity strategy. “Clients come first” is our single motto. Historically, it has been observed that challenging times and bad macro environment are the best times for investing and superior returns. Such crisis like situations give birth to tons of opportunities. The whole system, the promoters, the vendors, the corporates, the individuals, all have de-leveraged and the only direction left is upwards, whether it is 3 months or 6 months away, but the chances of going right and making superlative returns have increased considerably.

We extend our warm greetings and best wishes for a “Shubh Deepavali”. May this festival of lights and joy bring lots of happiness, peace and prosperity in your life.
With Warm Regards!

Arun Malhotra
(Co-Founder & Chief Investment officer)

CapGrow Capital Advisors LLP