

# Equirus Securities Private Limited



## Equirus Long Horizon Fund Mar'17 Investor Communiqué

Dear Investor,

At the outset we would like to thank you for the faith reposed in us for investing your hard earned money with us. It is our pleasure to be communicating with you on our investment journey via this communiqué.

In our endeavor to maintain transparency and high service standard level, we intend to communicate with you every quarter to provide our investment performance and convey our thoughts on the investment environment going forward.

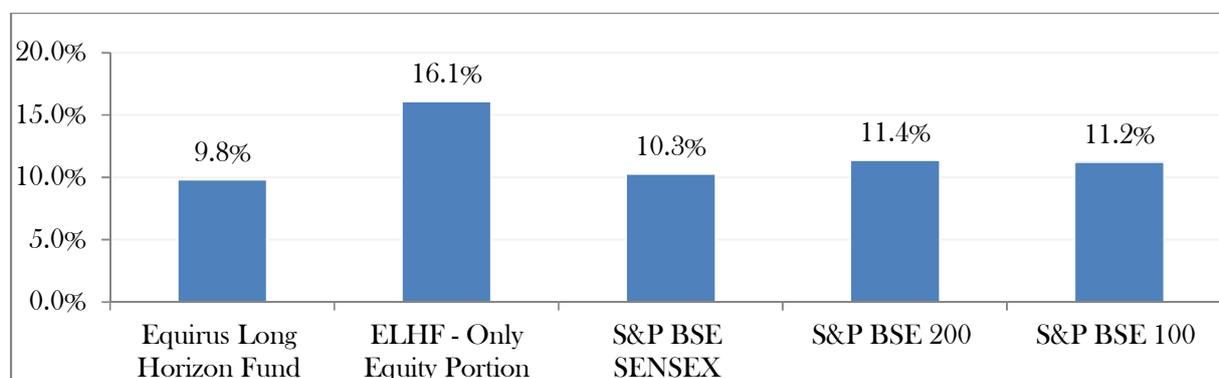
As conveyed in our earlier letter, ELHF invests in listed securities with a horizon of 3-5 years. We would also like to be judged on our process rather than our results over first few years. We clearly believe that process precedes performance. Strong investment board and like-minded investors allow us the flexibility to invest in strong franchise/businesses. We firmly believe that such practice followed over long-term will produce **above average investment results** beneficial for our clients.

Whilst your individual returns are with you, we would like to discuss the portfolio level return since the launch ELHF. Since our launch in October, ELHF has returned ~10%, which is in line with the broader benchmark indices. We would have returned significantly better returns (~16%) if we exclude the cash position (~39% Cash). We are in the process of deploying the remaining capital over next few months. Though returns cannot be guaranteed in equity investments, we will strive for returns far higher than government paper returns over a longer time horizon of 3 years and above. So far, we are satisfied that we have achieved better than market performance by sticking to very high quality assets in our opinion.

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Exhibit 1: Comparative performance of our portfolio versus the benchmark indices<sup>1</sup> since launch (20<sup>th</sup> October 2016)



Although our outperformance against the benchmark indices is considerable (excluding cash), it is premature to compare performance in this short period of two quarters. We would like to caution you against laying too much emphasis on short term performance of our fund.

## Quarterly Update

As you know, we have a practice of providing portfolio characteristics of the businesses owned by ELHF. This practice also provides us an excellent opportunity to showcase the businesses we own. We would like to inform that our set of companies have delivered an excellent set of business results with earnings growth of 36% in the first 9 months of this fiscal year. This would put our aggregate portfolio in the top quartile of the earnings reported by all the listed companies.

It is our continuous endeavor to relentlessly focus on the said portfolio objective and search for investment ideas which are relatively under researched, and hence under owned by the investor community.

<sup>1</sup> Return figures are net of fees and as of 31<sup>st</sup> March 2017. The outperformance is lower due to significant cash holdings (~39%) as we are in the process of full deployment. Same stocks brought proportionately for cash would have given ~16% return.

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In my first communique, we had written about the investment philosophy we follow in choosing businesses to partner with. We firmly believe that returns one gets in the short term is not entirely in ones control as it depends on multiple domestic and global factors. Over long-term our return would mirror the earnings growth of our portfolio.

*“In the short-run, the market is a voting machine but in the long-run, it is a weighing machine.”*

— *Benjamin Graham*

We are in constant look out for such great businesses that should grow (as per our analysis) earnings at more than 25% annually.

## Current Aggregate Portfolio Characteristics

As a step towards greater transparency we intend to share portfolio level characteristics with you every quarter. Our current portfolio characteristics are as follows:

- Number of businesses: 8 companies
- Current cash position: 39%
- Last 3 years compounded earnings growth: 62%
- Latest portfolio ROE: 31%
- TTM (trailing twelve month) portfolio PE: 18x
- Acquisition portfolio TTM PE: 15.5x
- Balance sheet strength: 2 out of 8 companies are net debt free. Company with the weakest balance sheet has interest coverage ratio of more than 3.5 times and has grown EBITDA for 7 consecutive years
- Churn: 0% (Excluding the buying/selling of Liquid Mutual Funds, stocks given to us by our investors and capital redemption by the investors)

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### Recent Investment:

We have recently invested in a leading paper packaging manufacturer in the country - TCPL Packaging Ltd. The company is involved in the manufacturing of paper board-based printed packaging material with manufacturing facilities at Silvassa, Haridwar, Goa and Guwahati. The company supplies its products to various customers in industries like consumer goods (FMCG), cigarette, liquor, pharmaceuticals etc. We believe it is one of the cheapest way to play consumption growth in India. We are extremely impressed by the execution of the management over the last five years. The result of this phenomenal execution is a compounded revenue growth of ~20% over the last five years with improving profitability (~17% EBITDA margins) and excellent return on capital (ROE of ~30%). Company has consistently outperformed the peers with better operating matrix and client addition. We believe the company should see similar growth over next 3 years due better capacity utilization at new plants at Guwahati, Silvassa & Goa. Company has also consistently distributed at least 20% dividend payout to shareholders for 16 years. We see a long runway of growth ahead of us. The company also passes our mandatory test of *"skin in the game"* of the promoter. Our acquisition post tax earnings multiple is 14.7 times for this business. The current valuation doesnot price in any growth in earnings. We do not believe that is a likely scenario. This provides decent margin of safety for our ownership.

I thank you for your valuable support and trust for investing in ELHF and I reinforce our commitment to make your investment decision profitable.

For any queries please feel free to get in touch with me or my team.

Thanking you,

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Viraj Mehta  
Head & Fund Manager  
Equirus PMS

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