



Equirus Long Horizon Fund Dec'16 Investor Communiqué

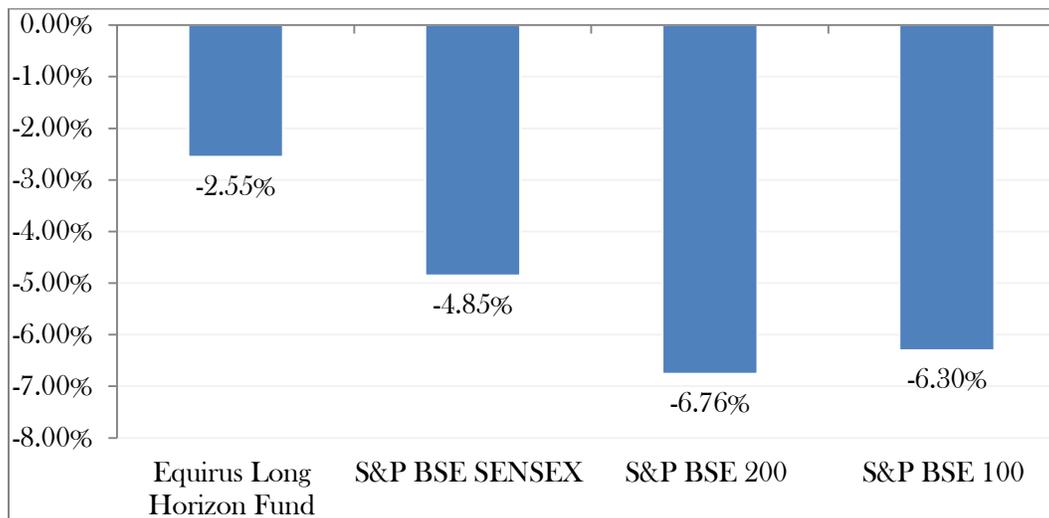
Dear Investor,

At the outset we would like to thank you for the faith reposed in us for investing your hard earned money with us.

In our endeavor to maintain transparency and service standard level, we intend to communicate with you every quarter to update about our performance and discuss our investment philosophy. At ELHF, our emphasis is on the process rather than short term performance. We firmly believe that strong investment philosophy implemented through rigorous process will lead to above average investment return over longer term.

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 -2.55%, which is slightly better than the broader benchmark indices.

Exhibit 1: Comparative performance of our portfolio versus the benchmark indices





Having said that, this outperformance relative to our benchmark is in no way satisfactory unless the absolute return meets our expectation. We emphasize that our focus is not to compete in horse races judged on short-term performance. But take a long-term investment view with atleast 3-5 year horizon in the best interest of the investors.

## Portfolio Objective

We have only one fund scheme i.e. **Equirus Long Horizon Fund** in our PMS. Our investment strategy has been envisaged with the objective of offering low risk **absolute returns** to our investors over long term by maintaining a relatively concentrated portfolio (~12-15 businesses). We firmly believe in the investment philosophy followed by Warren Buffett “*Keep all your eggs in one basket, but watch that basket closely.*”

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 appreciated by the investor community.

## 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: 5 companies
- Current cash position: 67%
- Last 3 years earnings growth: 65% (this is not an error)
- Latest portfolio ROE: 24%
- TTM (trailing twelve month) portfolio PE: 16x

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- Balance sheet strength: 2 out of 5 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 10 consecutive years.
- Churn: 0% (Excluding the buying/selling of Liquid Mutual Funds & stocks given to us by our investors)



## **Current market scenario**

We will usually refrain from having macro commentary in our communiqué. But we will make an exception this time.

The current situation can aptly be summarized by a famous quote by Howard Marks:

*“We conclude that most of the time, the future will look a lot like the past, with both up cycles and down cycles. There is a right time to argue that things will be better, and that's when the market is on its backside and everyone is selling things at giveaway prices. It's dangerous when the market's at record levels to reach for a positive rationalization that has never held true in the past.”*

*—Howard Marks, The Most Important Thing: Uncommon Sense for the Thoughtful Investor*

We find the exercise of market prediction over next one year to be completely futile. Up to November 8<sup>th</sup>, 2016 a big problem with investing in Indian equities was valuation and selectively, we are seeing that this problem is correcting itself. We have little doubt that India will go through a slowdown in near term and some business models will be disrupted. But like any change – demonetization, for example – will have its winners in certain categories. Our goal as money managers is not to aim for returns in short-term as they are dependent on multiple factors beyond our control. But we strongly believe that stock prices are slaves of earnings in the long run. Our primary job is to constantly lookout for such opportunities in businesses that should have earnings at more than 20% CAGR with minimal capital requirement.

## **Recent Investment:**

We have recently invested in a leading shrimp feed manufacturer in the country - Avanti Feeds Ltd. India is a world leader in shrimp supply to the USA and this company is the pioneer in supplying shrimp feed in the country with more than 40% market share (improved from ~20% over five years). We are extremely impressed by the execution of the management over the last five

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years. The result of this phenomenal execution is a compounded revenue growth of ~58% over the last five years with improving profitability (~11% EBITDA margins) and excellent return on capital (ROE of ~49%). Currently, the company has more than Rs. 250 cr net cash on books after distributing ~Rs. 60cr cumulative dividend over last five years. The current post-tax earnings multiple is 14.37 times for this business. We believe this grossly undervalues the growth potential of the company.

According to the latest release by *Indian Council of Agricultural Research*, India only utilizes ~10% of the potential brackish water shrimp farming in this country. So 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. We are also excited by the focus of the management on newer opportunities like export of processed shrimp. We believe that there is a huge opportunity in this area and, hence, the management decision of segregating this business and focusing on improving this segment makes perfect sense. We do not believe that the current price completely justifies the business potential.

I would like to end by saying that a money manager is only as good as his investors. 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,

Viraj Mehta  
Head & Fund Manager  
Equirus PMS

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