FROM THE DESK OF FUND MANAGER

April 04, 2022.

Dear Investors,

Greetings from CONCEPT INVESTWELL.

Let me take you a decade back when we started our journey of PMS in 2009. Our director had applied for a license to SEBI in 2008 and after proper due diligence, we were given a license. We were the first one in South Gujarat to get this license. I had just 3 years of experience and was given the duty of managing public money. **So, the first thing which I looked forward to was who has created sustainable wealth in the past.** So, four people whom I regard highly were Warren Buffett, Rakesh Jhunjhunwala, my father and late C.R.Desai uncle (father-in-law of our Director Hemant Desai). The secret behind them being successful was that they bought good quality companies and held them for decades. Be it Coca-Cola or American Express for Warren Buffet, Titan for RJ (he is holding this since 2003, Infosys for my father holding since 1993 IPO and L&T/M&M for C.R. Desai uncle holding since their IPO. So I started building my investment philosophy on this basis and started working on this. Till 2015 everything went fine (maybe beginners luck) and returns were much ahead of benchmark. So with over-confidence, I ventured into risky areas where I put more emphasis on valuations and less on quality. This strategy backfired.

CY 2018 was a pivot point in my life as a fund manager where I saw a big drawdown in Marvel Plan and marginal crack in Legend Plan. Introspection leadme to realize that I had bought more eggs (breaks after a fall and never recovers) and less tennis balls (recovers and bounces back after a fall). This also hampered my mental peace. Always remember that once a stock falls 50-60% from your cost price then your time and attention just focuses on that stock and energy goes towards trying to understand the reasons. In turn, what we lose is the opportunity to focus on other good stocks which are out there. I attended many good seminars, webinars and read some letters/memos from successful investors post 2018. From that knowledge and introspection came an evolved philosophy which I highlighted in my last few letters including the last one. You can refer to it again. So now the **focus is first towards safety of capital and then on appreciation of capital.**

The result is seen in our stock picking in last 2-3 years where we have not lost money. Here I am not talking about Multibaggers which we already own in Marvel Plan for many years like Titan, Supreme Ind, Crompton, Natco and ICICI Bank.

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CONCEPT INVESTWELL
CREATION OF WEALTH

In MARVEL, our position is as follows for stocks bought in last 2-3 years:

Scrip	Our Initial Buying Price	Current Market Price
IEX	60	237
CAMS	1937	2440
Dr. LalPath	1500	2721
Mphasis	1350	3305
BKT	905	2100
Bajaj auto	2980	3758
HDFC life	605	569
ICICI Lombard	1377	1348
Syngene	579	602

HDFC Life has underperformed due to COVID'19's high claim ratio [once in 100-year event] but has gained market share in last 2 years from 6.5% to 8% and I am sure it is not an egg but a tennis ball, ICICI Lombard has also underperformed due to COVID'19's high claim ratio [once in 100-year event] but has gained market share in last 2 years from 8% to 10%. More than 75% of claim settlement is done digitally. Syngene has underperformed but potential is huge so Low-risk high return.

In LEGEND, our position is as follows for stocks bought in last 2-3 years:

Scrip	Our Initial Buying Price	Current Market Price
HDFC AMC	1300 1st tranche 1900 2nd tranche	2346
SBI life	938	1117
Page Industries	23352	43100
Vaibhav global	400 (avg. of 3 tranches bought)	410
TCS	3488	Buy back – 4500 Rest 3750
ITC	190	250
ICICI Lombard	1333	1348
Star health	750	736

Same is true for Legend Plan, where SBI Life has gained market share from 6.6% to 9% in last 2 years, Vaibhav global again we bought in 3 tranches with an average price around 400 (Note that it has corrected 60% from its high of 1000, still it is near our cost price. Promoter has shown confidence by buying a big chunk at 798 and now buying small chunks at lower price every quarter), in ITC we already earned Rs 26 as dividend plus some capital appreciation. It is a low beat stock. ICICI Lombard and Star Health (recent buy) both above are affected by COVID'19 high claim ratio but both gained market share.

Again I want to reiterate that patience is very important once you have bought the right business. United Spirits and SBI are prime examples where patience is finally paying off. Not to mention we are still holding a few multi-baggers of the past like Titan, ICICI bank, Relaxo, Crompton, Natco and HDFC in Legend Plan. As I am writing this letter there is a big announcement of mega-merger between HDFC and HDFC Bank. It is a win-win for both and the Market has also given it thumbs

Note: Each client comes at different periods of time. So, their cost price may differ. Above cost price are for when we initiated our first buying of that stock. We buy even at high prices because with every year intrinsic value of company also changes. Titan 10 years back made a profit of Rs.250 cr and this year they will surpass Rs.2500 cr. So as long as we are comfortable with fundamentals and valuations, we keep adding.

Last Financial year 2022 has been a year of commodities and Adani group. Most Fund Managers and mature investors have underperformed benchmark because they are averse to buying the above. I am not able to justify how Adani shares can trade at such high market caps. Best wishes to them but I am not going to put my investors hard-earned money there. Similarly, I am unable to judge commodity cycles. Tata Steel or Hindal co have not created wealth in last 15 years. Rather I would prefer to buy companies that turn commodities into brand. Be it Relaxo, they are converting rubber into brand or Page (Jockey) converting cotton into brand. Having brand gives pricing power and predictability.

I have seen in markets that if you survive then you are bound to make money. You must have heard from your friends and relatives that they invested during Harshad Mehta 1993 bull market and lost tons of money and then never came back in the market. They made up their mind that stock market is a speculators' den (SattaBajar). Same thing happened when people entered during dot com bubble also known as Ketan Parekh scam and never came back. The last I often hear is of people who invested during 2008 world financial crisis in sectors such as power, infra, real-estate and capital goods and still even after 14 years, the share prices have not recovered and so for them, the belief is that stock market is operator driven and a tool of speculation.

The reason behind above failures for people is as follows:

a) Greed prevailed as everyone around them was making money during that phase.
b) They selected wrong sectors and stocks which were more driven by narratives and less by fundamentals.
c) They came in with short term view trying to make quick money.
d) They entered without any experience. First few years in market are all about paying tuition fees.

On the contrary, if they had survived during that downfall and regularly invested money every month every year then they would have done well and generated wealth through compounding of money. Generally when I write a letter it is about “We” and not “I”, but today I have intentionally choose to write “I” as the letter is about confessing mistakes which I made and one should never blame a company where we lost money or research team for that. One has to accept his mistakes of not judging the management well and take responsibility. I believe in sharing my win with others will take responsibility alone for the loss. So how is the performance post-2018 debacle? It took some time for me to repair the damage and change the portfolio. Before 2018 we use to have 30-35 stocks which we decided to reduce and come down to20-22. Secondly, we bought stocks where most value lies in terminal value and not in near term earnings. For e.g. Most consumer stocks have high terminal value as against commodity stocks where they are driven by near term earnings. **Even CRISIL/PMS Bazaar gave us the prestigious award to LEGEND as 2nd best plan in large cap category, not only for best performance but also for Risk-adjusted Return during the period of 3 years.** We may not be the best but I am sure we will be consistent and survive in toughest conditions. Of course, we will beat inflation and generate wealth.

Coming to last quarter i.e., Q3FY2022, our companies ex-BFSI have grown 19.4% in sales YoY and 30% from Q3FY20. Due to high commodity prices EBITDA margins have come at 25% from 27% YoY and 26% from Q3FY20. EBITDA growth is subdued at 11% YoY and 27.1% from Q3FY20. As our companies are leaders and best players in the industry, they would be able to pass on the higher prices of raw materials to their end customer in few months and should regain EBITDA growth. BFSI companies held by us have done exceptionally well during Q3FY22. Banks owned by us have grown at around 15% where industry credit growth is around 8-9% with good underwriting of risks. Insurance companies have survived and are ready to bounce back. HDFC AMC schemes has regained their performance and their funds are now in top quartile.

Last quarter we just added one company in Legend Plan. Star Health Insurance is a gorilla in jungle of monkeys. It is a dominant leader having market share of 32% in retail health insurance. The second best is way below at 10%. As Swami Vivekananda has said that “Focus on one idea and make it your life”, Star Health is focused only on Retail Health Insurance and nothing else in non-life insurance. This sector is about to grow at ~20% for next decade and Star is most likely to out beat it by growing at ~24%. Pre-COVID'19 claim ratio was at 66%-67%, combined ratio was at 93-94% and Return on Equity was 14-15%. Now suddenly because of COVID'19claim ratio has come up to 87%, combined ratio at 107% and Return on Equity has dropped and so we are getting it cheap.

But if we can make a case that COVID'19 is gone or at least high hospitalization rate is behind us than we are in for a company which is in mega trend as people now think that medical insurance is inevitable post COVID'19 havoc. We Indians are highly under-penetrated when it comes to medical insurance. 63% of payment at hospitals is done out of pocket which is huge. So, we are in a company which has survived COVID'19 and has thrived by gaining market share every quarter along with having 5.1 lakh agents and biggest hospital network of

They have an in-house claim settlement team which saves cost. Also, if you look at history of US, then be it GEICO or United Health, both have multiplied money by more than 100 times. As Charlie Munger says Fish where the fishes are. We sold Rallis India to make way for Star to enter. We find a better bargain in Star as compared to Rallis and that's why this change. The other tactical change which we did in this quarter during peak of war was to reduce weight of Infosys from 13% to 10%and use that cash to buy HDFC, Axis and Insurance companies which were punished and were down for no reason. We have already benefitted from that trade.

Last 2 years have been like never seen before. COVID'19 which is once in a 100 years event followed by Russia-Ukraine war which has continued for more than a month now. We have not seen such long wars in modern era. Inflation in most countries is at decades high. Supply chain has been disturbed. Interest rates across the globe are going to rise. FIIs has been relentlessly selling sincelast 8-9 months. They have sold around Rs. 2 lakh crore in last 10 months which is huge. The magnitude of selling is absorbed by DIIs which is also never seen in the past. Earlier a small amount of selling by FIIs would crack the market in a big way but now the tables have turned around with DIIs and Retail having an upper hand. Rs. 11500 crore of SIP money every month is showing confidence of retail investors in India story. We remain upbeat on India and its long term growth. I firmly believe that nothing will beat equity returns in long run. Keep regularly investing.

Happy Investing through CONCEPT.

Yours Truly,

Shharth.

(Siddharth B. Mandalaywala)
Fund Manager