



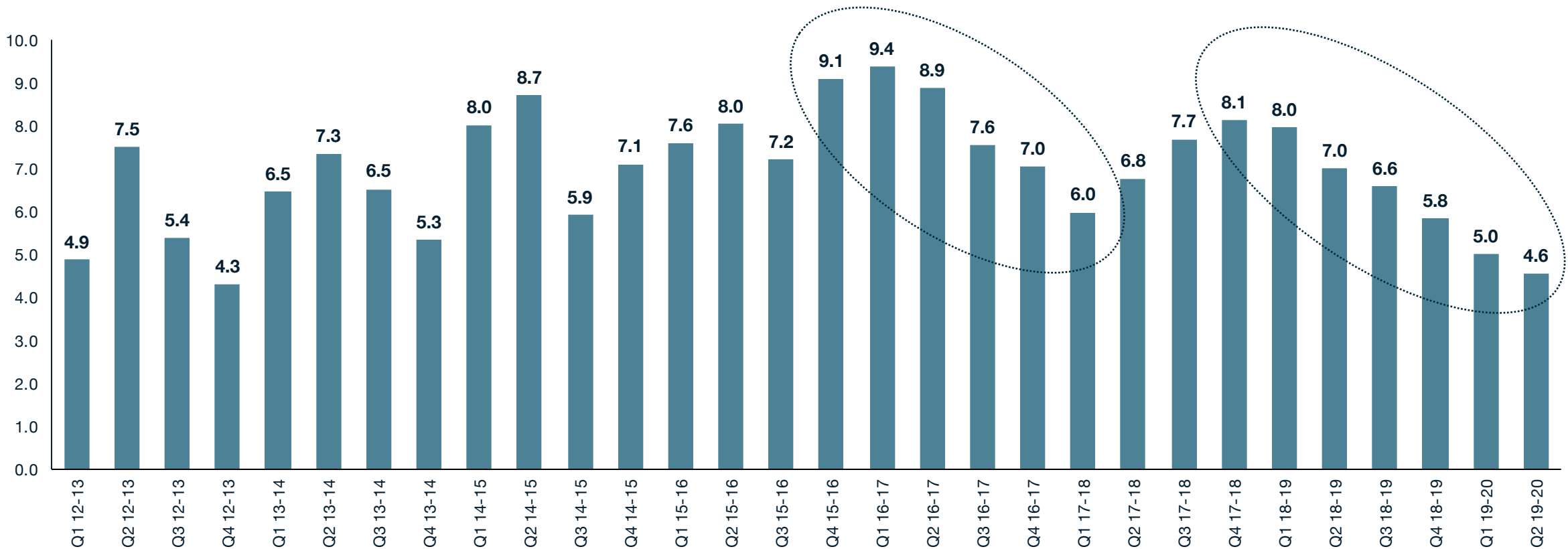
Investing IQ – Vol 1

# Traversing the Slowdown

Ideas on wealth creation in tough times

# GDP growth at six-year low

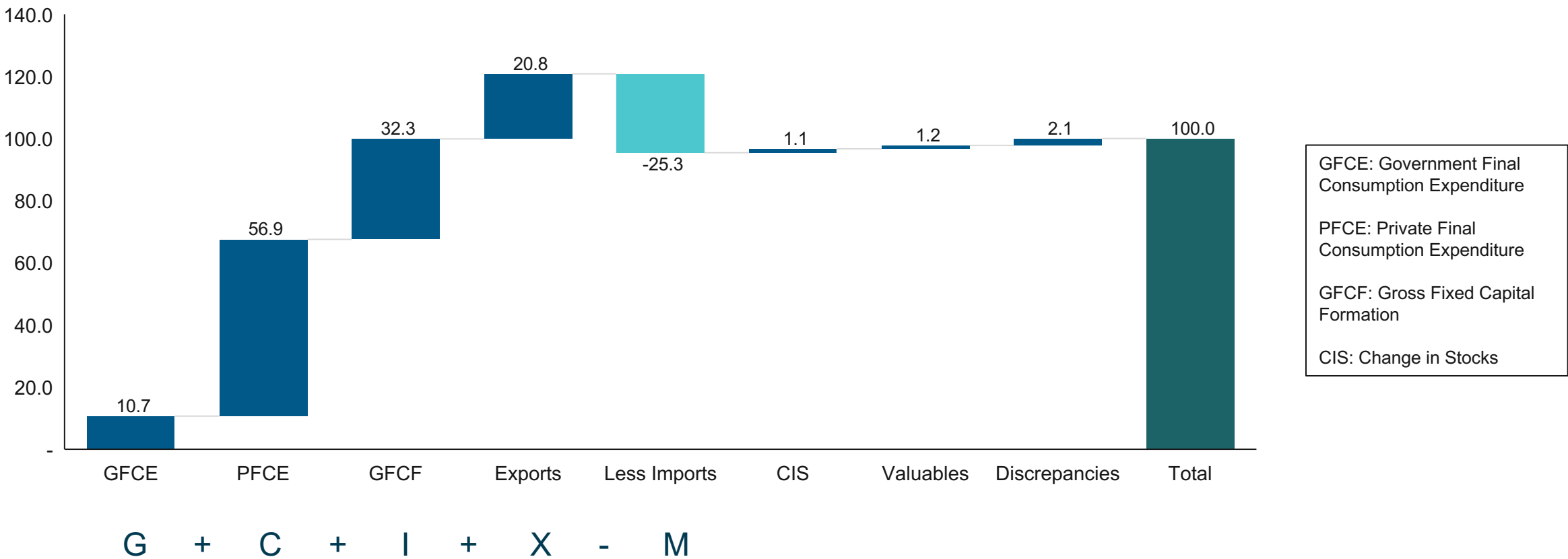
**GDP growth has been on a decline: Demonetization, GST, and NBFC crisis have hit the economy hard**  
(Real GDP, % change over previous year)



# Composition of India's GDP



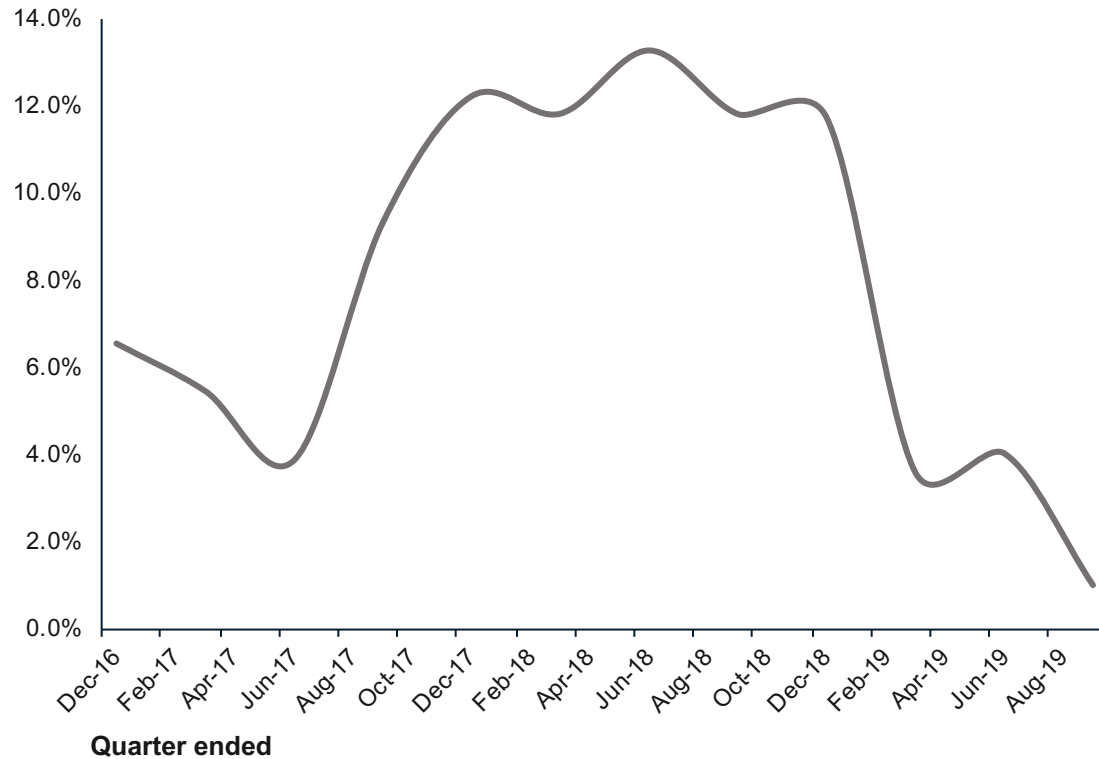
**GDP Composition 2018-19**  
(% of Total GDP)



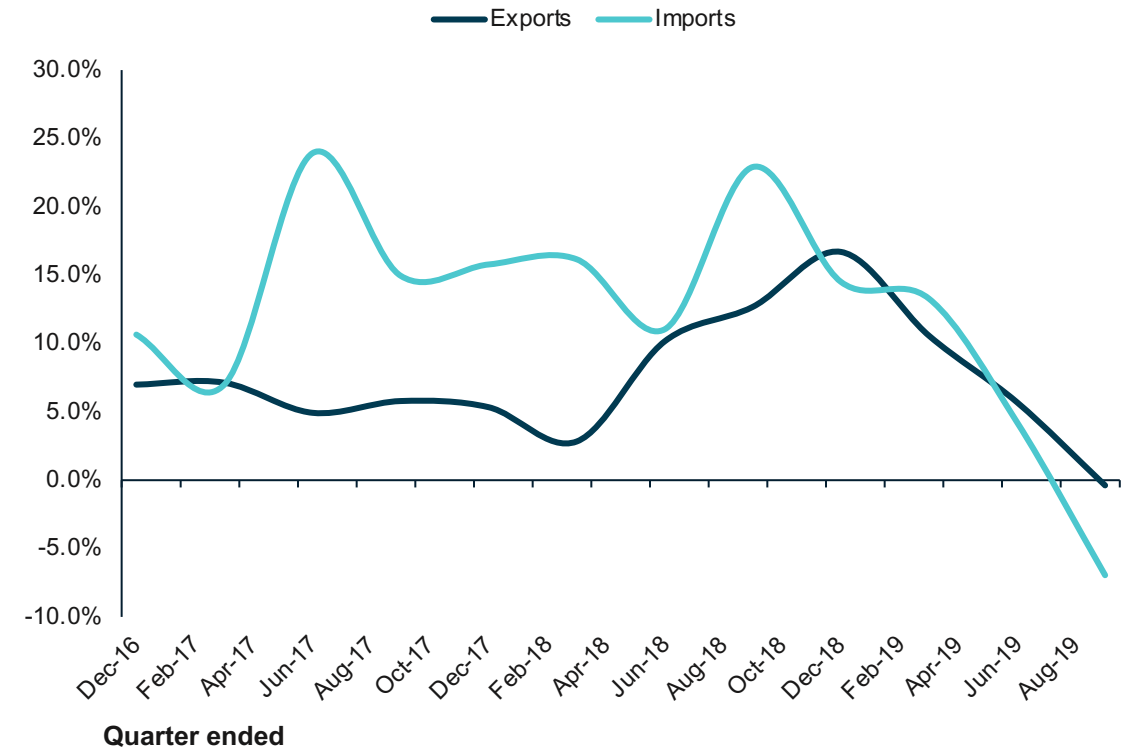
Source: MOSPI, CMIE Economic Outlook, December 2019

# Investment growth muted, net exports decline too

**Lacklustre demand, low business confidence, Stressed balance sheets have led to slump in private Capex**  
(GFCF, % change over previous year)

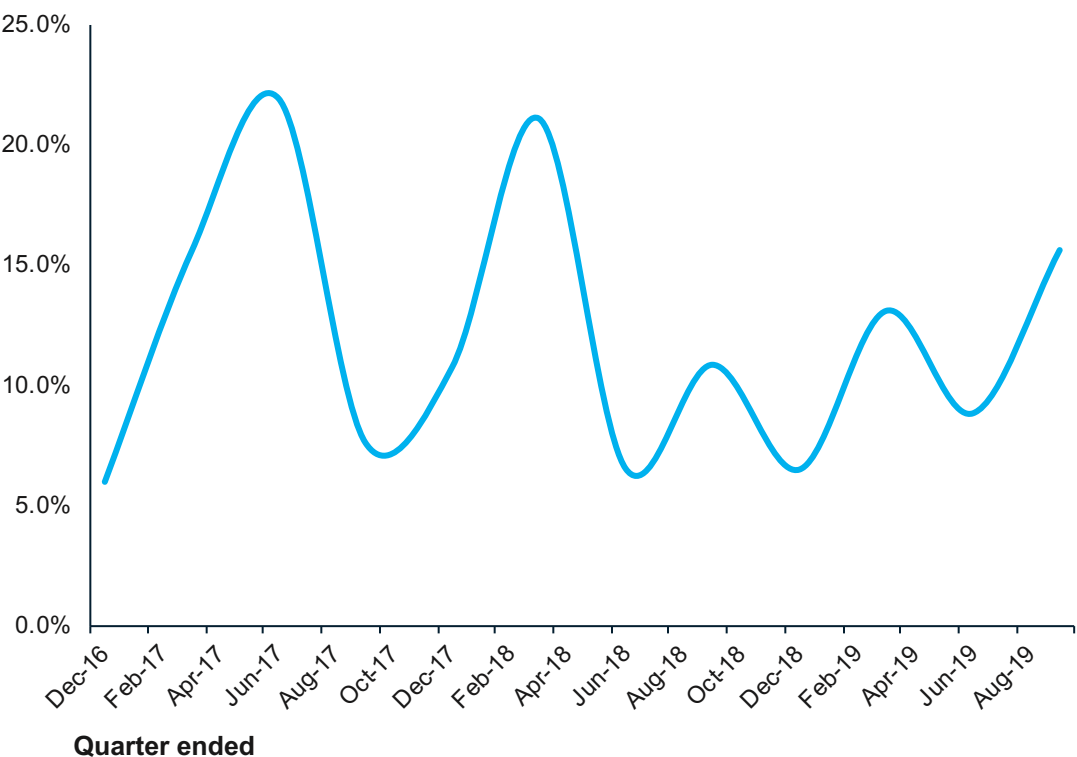


**Exports and Imports have lost momentum in the recent months**  
(% change over previous year)

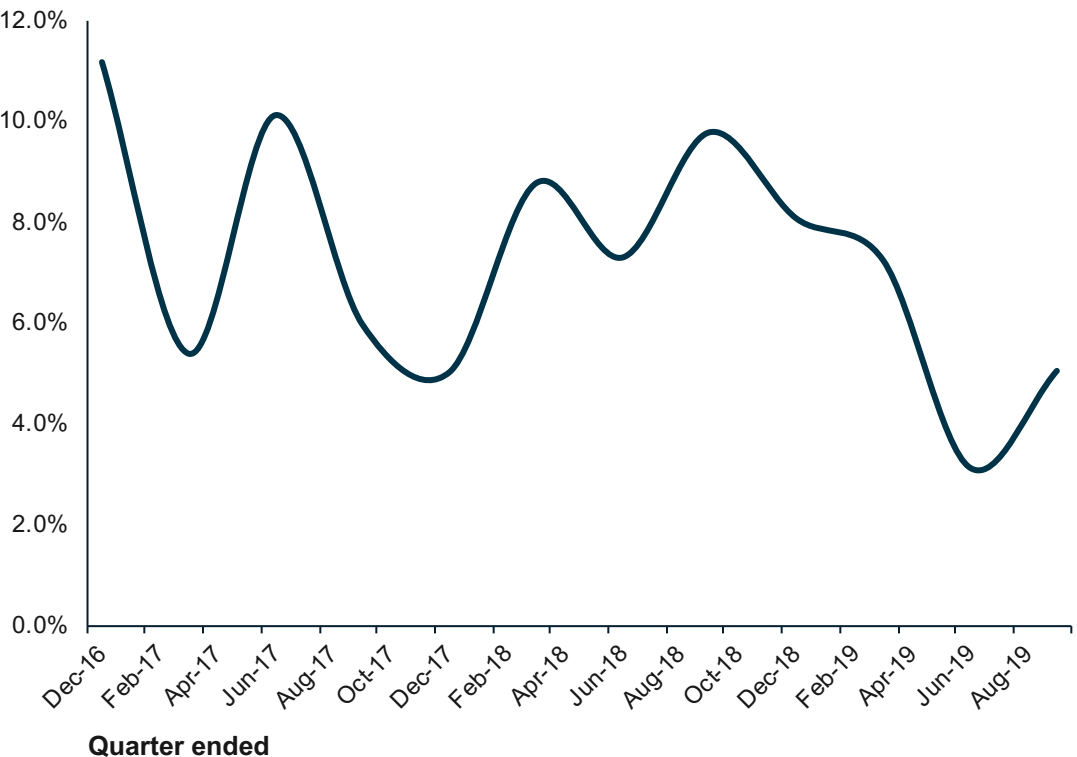


# Private consumption, the major lever that drives GDP growth has slowed down in recent months

**Government spending was the only bright spot; but not enough to drive GDP growth given its relatively small contribution to GDP**  
(GFCE, % change over previous year)



**Private consumption growth was the last man standing, but has come off in the recent past**  
(PFCE, % change over previous year)

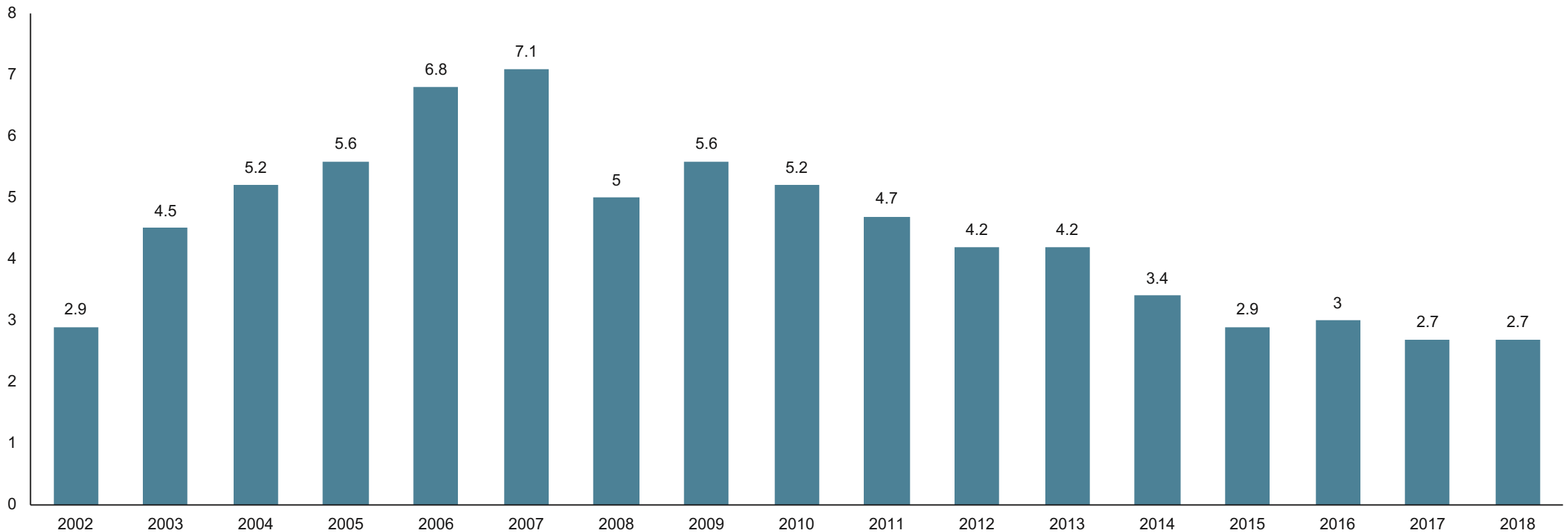


Source: MOSPI, CMIE Economic Outlook, December 2019

# Corporate profitability at multi-decade low: Glass half empty or half full?

**Corporate profit to GDP at multi-decade low...But the possibility of a turnaround can't be ruled out. An optimist would see the glass as half-full.**

(Corporate Profit as % of GDP)





# Investing strategy in tough times

One doesn't need the entire economy to do well to make money from Equity investing.

There are outlier companies/sectors that grow at fast pace even in not so good times. Their share prices typically tend to follow earnings/profit growth creating high capital appreciation for investors.

**Intelligent Investing** is about spotting these **handful outliers that defy the slowdown** and grow their businesses at **2-4x** of nominal GDP growth

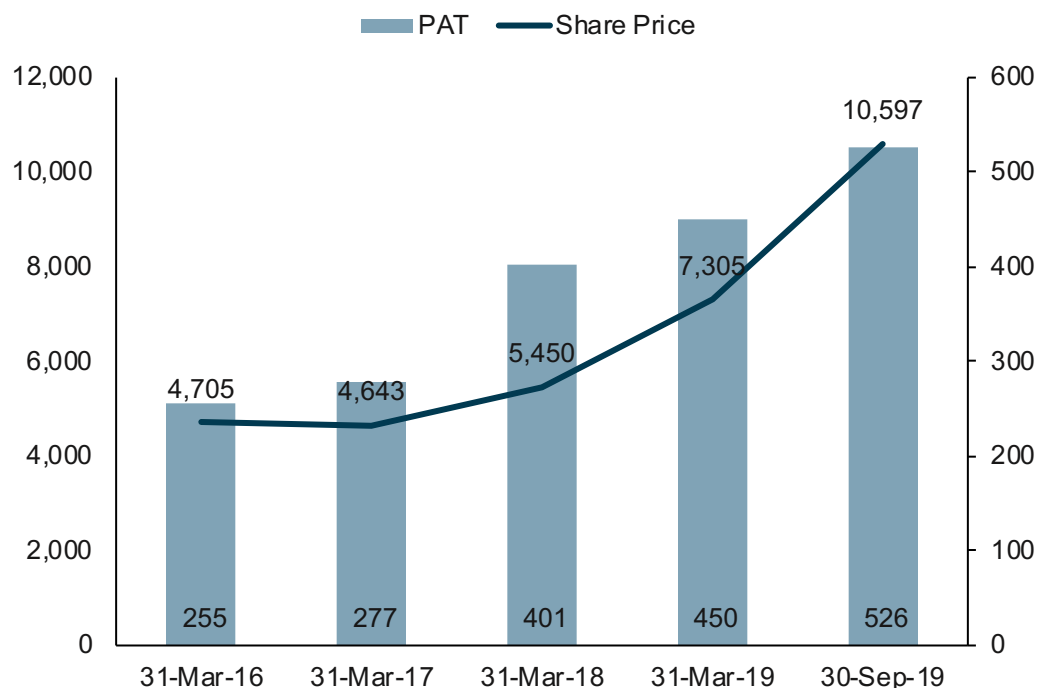
Typically these are

- Niche's with superlative demand outlook despite gloom and doom elsewhere
- Great businesses/ managements with a DNA to continuously gain significant market share from weaker competitors
- Firms in a turnaround mode due to corrective actions, positive change in strategic directions by the management

# Cases: Great businesses that defied the recent slowdown and made substantial wealth for investors

## Abott India Limited

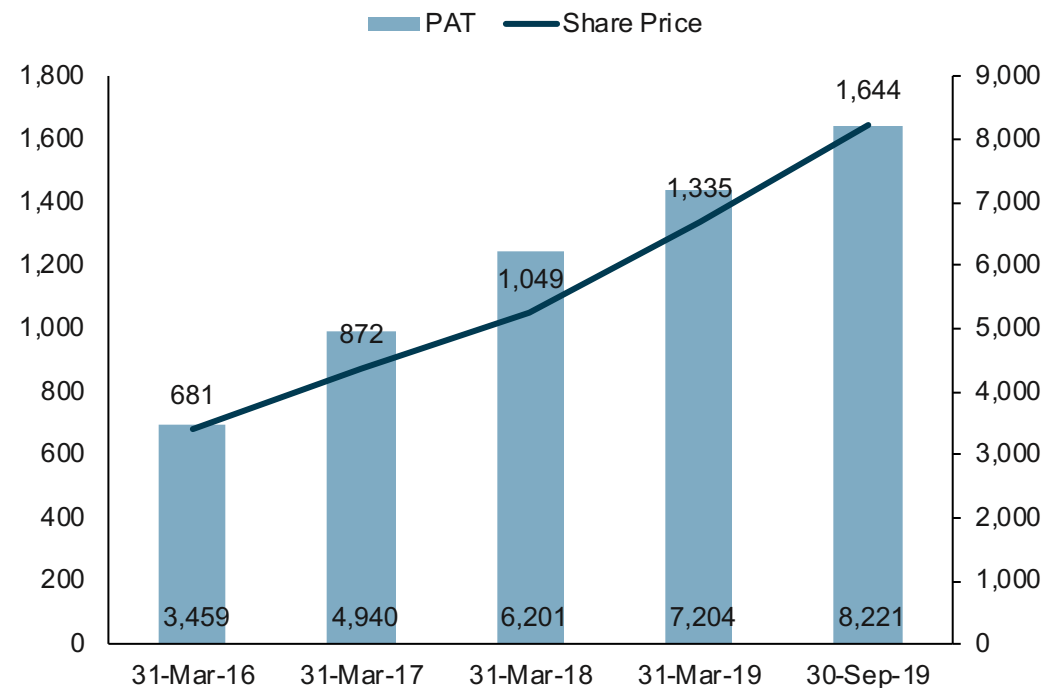
Left axis: Share Price (Rs.), Right axis: PAT (Rs. Crore)



Earnings: 2.1x ; Share Price: 2.3x

## Kotak Mahindra Bank

Left axis: Share Price (Rs.), Right axis: PAT (Rs. Crore)



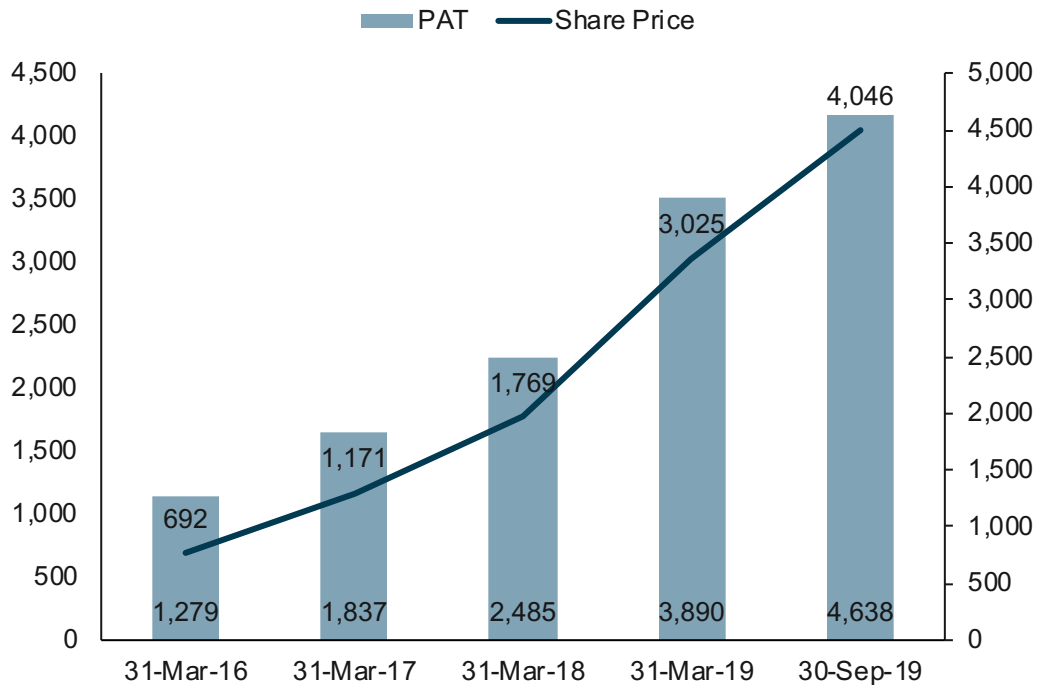
Earnings: 2.4x ; Share Price: 2.4x



# Cases: Great businesses that defied the recent slowdown and made substantial wealth for investors

## Bajaj Finance Limited

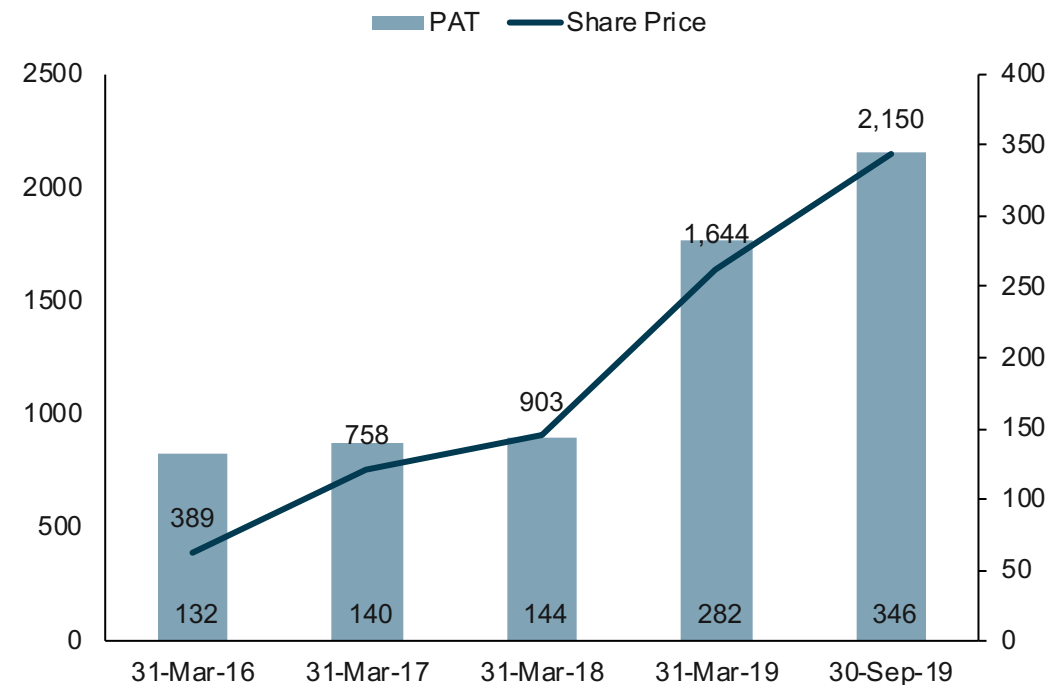
Left axis: Share Price (Rs.), Right axis: PAT (Rs. Crore)



Earnings: 3.6x ; Share Price: 5.8x

## Vinati Organics Limited

Left axis: Share Price (Rs.), Right axis: PAT (Rs. Crore)



Earnings: 2.6x ; Share Price: 5.5x

# Intelligent Investing: Stay invested in great businesses

TIME IS THE FRIEND OF WONDERFUL BUSINESS, THE ENEMY OF THE MEDIOCRE

”

A **great company** keeps working when you're not. A **great company** will eventually earn more and more and more while you're just sitting and doing nothing. And a mediocre company won't do that. So you're harnessing a long range force that will help you. It's very important. These mediocre companies, they by and large are going to cause a lot of agony and very modest profits. If you do fine, *you've got to sell it and find another one*. It's a lot of work. Whereas you just buy one **great company**, and if you get the right thing at the right price, you just *sit there*.

**CHARLIE MUNGER**

# What has worked for us?

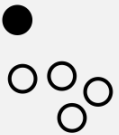
## Business characteristics



**Low business risk**



**Business growth ~25% CAGR**



**High conviction bet on outliers**

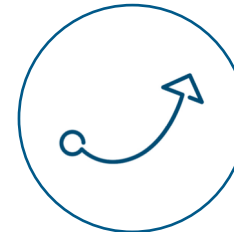
## Where we found the outliers



**Private Banks and Insurance**



**Specialty Chemicals**



**Management led turnaround cos**

# THANK YOU

Learn more about us: [www.invesq.in](http://www.invesq.in)

The content in this presentation is provided for informational purposes only. No material should be considered as investment advice directly, indirectly, implicitly, or in any manner whatsoever. Investments in stocks/equity are subject to market risks. Past performance is not an indicator of future performance. InvesQ Investment Advisors accepts no liability whatsoever for any direct or consequential loss or damage arising from any use of any information in this website. All users must make their own investment decisions based on their specific investment objectives and financial position and using such independent advisors, as they believe necessary.