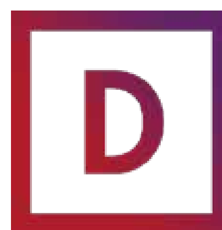

Buy & Sell-side insights on COVID-19, and strategies for Indian CFOs & IROs

DATE: Monday, 11th May 2020, Time: 4:30 PM IST

Round Table Discussion

Mr. S KrishnaKumar
Chief Investment Officer – Equity
Sundaram Asset
Management Company

Mr. J Ganeshram
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Institutional Equities,
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Mr. Vikram Kotak
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Mr. Manoj Saha
Managing Director

Mr. Mehul Mehta
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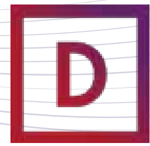


Mr. Manoj Saha: Welcome everyone to Dickenson's Round Table Discussion on "Buy and Sell-side insights on COVID-19, and Strategies for Indian as well as Global CFOs and IRO. I am Manoj Saha, the Managing Director of Dickenson World. We are a 20-year-old Capital Markets Communication Advisory Firm based in India and the UK. We serve Europe, Middle East and the Indian Sub-continent.
I am very pleased to host this Round Table Discussion, which will focus on getting a glimpse on what the Buy-side and the Sell-sides are facing under the current environment, where the whole world is trying to beat this incurable COVID-19 virus and save lives, with huge collateral damage to businesses, economies and jobs - globally. Much has already been said and discussed about COVID-19 in the media and multiple other events that have taken place recently - and in today's discussion, we assume that you are already up to speed with where we all are now and what we expect to see in the very near term. It's the uncertainties around the medium and long-term horizons that give us more cause for concern, and in this context, our panelists will try to shed some light on what their expectations of CFOs and IROs are (especially in context to their engagement with investors) at this juncture.

By now there have been several surveys and polls that have been taken by many global IR centric magazines and industry watchers and I recommend everyone to review them to get a sense of the state of mind (or the confusion) that exists right now. The common denominator across all these surveys is the overwhelming expectation of stressed performance in calendar's quarters 2 and 3, and a dire worry on whether the economy can bounce back in Q4. The problem for many firms is that this trauma is reaching such a breaking point that, the very validity of their pre COVID-19 business model is coming under question. sSimilarly, there are many mega trends that are coming out of this COVID experience. For example, the steady re-balancing of global trade flows to de-risk over concentrated sourcing from China; accelerated use of automation and on-shoring manufacturing of 'critical' products in western economies.; new social contracts for the concepts of 'universe and basic income' and accepting greater levels of data privacy and encroachments for tracing and testing.

> *" The problem for many firms is that this trauma is reaching such a breaking point that, the very validity of their pre COVID-19 business model is coming under question. Similarly, there are many mega trends that are coming out of this COVID experience."*

The total re-definition of what constitutes necessary business travel and the dramatic migration towards virtual meeting and remote working. There is going to be a completely new definition of what 'personal safe space' will be and its impact to layouts of traditional congregating spaces - such as work, entertainment, malls and F&B place and of course, distance learning for both children and adults; and greater use of digital payment systems, that's just a few to mention. So, these mega trends are going to impact businesses of all shapes and sizes.

We have framed the questions for the panelists with the objective of getting a sense of their state of mind and what they expect of corporates at this time. While our panelists are from India, and our Round Table Discussion is primarily aimed at the Indian audience; I am sure their answers will be universally relevant to corporates globally. So, I also welcome all our global participants to this regional RTD.

Let me also quickly mention that we have a PDF copy of our previously published blog, on what we think are some of the key strategies you could adopt to communicate during COVID-19. Please feel free to download it for reading at your leisure. We also have a profile of our company in PDF presentation, should you wish to know more about us.

As participants, you each should have a dialogue box, in which you can see and post questions for the panelists, if they have not already been covered and time permitting we will try to consolidate them and put them to our panelists for answer.

That said, now I would like to start proceedings by introducing our panelists. Today, we are very honoured to have with us

1. Mr. S Krishnakumar, Chief Investment Officer, Equities, from Sundaram Mutual Funds
2. Mr. Anshul Saigal, CIO of Kotak Portfolio Management Services
3. Mr. J Ganeshram, Managing Director, Institutional Equities from Spark Capital and,
4. Mr. Vikram Kotak, Co-founder and Managing Partner, Ace Lansdowne and Investments Services LLP

Thank you gentlemen for making yourself available for this Round Table Discussion. We also have with us the senior leadership team of Dickenson. Let me also welcome my co-directors, Mr. Chintan Mehta, Mr. Vikash Verma and Mr. Mehul Mehta, who will be moderating today's discussion.

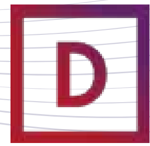
Before we begin, let me read out a standard disclaimer here; "The views expressed by the individual panelists are strictly their own and not of their respective organisation. Furthermore, due to compliance and good conduct practices, none of us will be in a position to answer questions on or discuss any specific company." Having said that, I now yield to my colleague Mehul Mehta who will be the lead moderator for this Round Table Discussion. Mehul, please take over.

Mr. Mehul Mehta: Thank you Mr. Saha. Good Afternoon everyone and a warm welcome to this Webinar. Firstly, a big thank you to all the participants for joining us, and we hope that this webinar allows us to get a good glimpse into the minds of the Buy-side and Sell-side participants of the Indian Capital Market. It will be great to hear their views on navigating the key challenge that the Chief Financial Officers and Chief Investor Relation Officers will have to face how to effectively set and manage investors and analysts expectations.

COVID-19 is an unprecedented event that like all of us, even the capital market professionals are also witnessing for the first time – which is evolving on a real time basis. The magnitude of the current crisis has not only put numerous human lives at stake, but has also devastated economies, the effect of which is likely to be felt for a very long time. The crisis is far from over.

Let me bring in experts here to share with us what they make sense of the global and Indian capital markets reaction's to this crisis. What are the different scenarios they are working with? What, according to them would the worst case scenario look like? I request each of the panelists to share their top of the minds observations so far, before we move on to the specific question answer session.

Let's start with you, Mr. Krishnakumar. Could you share your reading of the current situation? Has the equity market behaved rationally? How do you see the stress on the balance sheet in general, and the overall liquidity scenario playing out? Mr. Krishnakumar, over to you.



Mr. S KrishnaKumar: Hi, good-evening to all of you and thanks to Dickenson for organising this event. As you have seen in the past, the equity markets, and even other financial markets, always tend to react in a panic when there is an event like this, which occurs as rarely as a black swan sighting. This time was no different. We witnessed completely risk-averse based trading playing out across different markets, while the US Dollar was once again the most the supreme asset to hold. But, with all the Central banks coming in with massive monetary easing; dropping rates; and with support to various sections of the bond markets at large, we are seeing that there is normalcy being restored across monetary markets globally. The other issue in terms of the real economy, we have seen the governments also coming in quick and fast with US taking the lead as always. We have seen about ten to fifteen trillion dollars of fiscal stimulus being unleashed, with a lot of credit guarantees and different structures that are being put in place in the developed and emerging economies. For the last one to two months, these measures have been back-stopping the fall, giving a lot of comfort to investors to rationally think through what could play out in the next two years. We have seen yields cooling off, and currencies normalising in terms of varied moods. We are also seeing flows returning into the equity markets globally, both into developed world and emerging markets. So, while the initial reaction was irrational and panic based, the markets seem to have come back to behave more rationally.

" We do believe that the solution could come in the form of the government stepping in with a credit guarantee type of product, or by putting in place some SPV's to help get monetary transmission and liquidity going. So, these are some issues that need to be watched, along with the expected fiscal stimulus."

That said, let's look closer home at the balance sheets of our corporates and the country. We are definitely in a bit of a bother because of the kind of leverage that exists in different pockets of the economy, and accentuated by the fact that there is risk aversion in terms of the lenders. So, we do have a have a situation here where the Central Bank is pushing in a lot of money into the economy. But, the banks, on the other hand, are not willing to push this liquidity into corporates, MSME's and retail customers, which could help the economy come back on track and assuage cash flow issues. We are therefore somewhat stuck in a situation where there is lot of unutilised liquidity available with the banks. We have read about 8.5 lakh crores of money being re-invested into reverse repos at 3.7%, whereas banks don't want to lend to the corporates and MSME's. So, it's a very peculiar situation that we encounter when there is risk aversion.

We do believe that the solution could come in the form of the government stepping in with a credit guarantee type of product, or by putting in place some SPV's to help get monetary transmission and liquidity going. So, these are some issues that need to be watched, along with the expected fiscal stimulus. Right now, markets have pulled back to a more reasonable level, in terms of valuation and in terms of gauging the growth over the next six months and two year horizons. I think that it's clearly getting well factored-in at this point of time.

Mr. Mehul Mehta: Thank you Mr. Krishnakumar. Let me bring in Mr. Ganeshram at this stage. What is the thought process as a prominent research house like yours? How do you weigh underlying fundamentals and current valuations? What is your top-of-the-mind thinking?

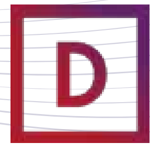
Mr. Ganeshram: Good evening to you all. Yes, we have been actually telling the investors pretty much from the time the markets corrected in March, to use the capitulation and buy some stocks which have been hit hard. This confidence is coming because we can see the lockdown ending in a couple of months and earnings expectations to not get impacted much. Our whole point is that we think that India has the ability to recover faster after the lockdown ends, and our call is that the scenario of the lockdown ending is an inevitability over the next few months. While nobody knows the depth or extent of the lockdown's impact, it is nevertheless inevitable.

" We need to get that risk aversion to get addressed and for that the right approach is credit guarantee, or a credit enhancement type of an approach, at least to MSME's or below A-rated corporates and even agri borrowers. The broader point that we are addressing is that when the system is sitting on 8 lakh crores of excess liquidity, a solution to fund growth can be always be found. "

Our confidence comes from the fact that we have the ammunition to address the impact. Contrary to 2009, when our reaction was more fiscal spending led, we don't have that much wiggle room available today in 2020. If you remember in fiscal 2008, our combined central and state fiscal deficit was just 4.1%. By taking it upto 9.5% in the ensuing fiscals 2009 and 2010, we could spend our way out of trouble at that point in time. We do not seem to have that much leverage at this time. The combined centre – state fiscal deficit, apart from the off balance sheet , already takes us close to 8%. So, we have very limited room and with a month or two of tax collections gone dry, our ability to spend our way is that much more impacted. We have two things in our favour: one is, as Mr. Krishnakumar was saying, the banking system is flushed with liquidity. Eight lakh crores of excess liquidity is currently parked by them with the Reserve Bank. So, the whole approach should be very monetary or banking system led. As he rightly said, the real problem is risk aversion. Banks are unwilling to lend that money, and would rather instead park it idly with the Reserve Bank.

We need to get that risk aversion to get addressed and for that the right approach is credit guarantee, or a credit enhancement type of an approach, at least to MSME's or below A-rated corporates and even agri borrowers. The broader point that we are addressing is that when the system is sitting on 8 lakh crores of excess liquidity, a solution to fund growth can be always be found. The tools can vary but the fact is you can get the growth back. In some form, the analogy which we are drawing is that when an investor is sitting on cash in a correction, he will be the last man standing. He can find a way to get this performance back on track. In a very similar way, we think that when you are sitting on liquidity, you can find a way back. We therefore think that, amongst other ideas, one approach is credit guarantee.

Another big favourable factor is oil prices, which has fallen close to thirty dollars to where it was a year back. For every ten dollar fall, somebody in India benefits by about fourteen billion dollars. So, that's about forty odd billion dollars of savings, that the country as a whole stands to save. Forty odd billion dollars is about 1.5% to our GDP, which allows the government to draw and spend it on something else, or pass it on to customers. Right now the approach seems to be that government is exploiting this advantage to lessen the fiscal impact. Also, we are noticing that the commodities, (not just oil, but, for metal, coal, whole host of raw material) prices have come down. That could be a gross margin or a cash flow lever. Moreover, we are noticing that rural demand is much less impacted and we could see that side of the economy recover faster. We are already witnessing the lockdown ending in some rural quarters some ten days ago. We are seeing some signs of the rabi crop food producers' situation getting better. The Food Corporation has started buying these food grain supplies. All these factors have a positive impact on the rural economy. When you weigh all these points, we think the risk-reward is favourable and it makes sense for investors to take advantage on this capitulation. But, keep in mind, this is not with a one or two month horizon. For all this benefit to play out, it will take us at least six months, possibly a year. It is because the horizon for us is little stretched, that we believe that the opportunities which markets are presenting is actually a lot more interesting for us to benefit from.



Mr. Mehul Mehta: Thank you Mr. Ganeshram. Mr. Saigal, let me ask you - what is your reading of the situation? Are high net worth investors pressing the panic button? What is the mood amongst the country's ultra HNIs? Your views please.

Mr. Saigal: Good evening everyone, and thanks for having me on this panel. The way to look at this situation is as if we are in a period of war. What happens in periods of war? In a state of war, one has no collection of taxes and to assuage that problem, governments print a lot of money. But that money is really a substitute to the taxes that cannot be collected. Now, if someone is fearful in periods of war, then more times than not, they are surprised on the positive side. This is because of so much of money is being printed while assets remaining the same. Consequently, a larger amount of money is following the same amount of assets and so asset prices move up. When I talk of assets, you could talk of any asset. You could talk of gold, of equities, of physical assets like power plants, and even telecom towers, telecom infrastructure - all of that. So, in that context, more times than not, periods of war are actually positive for equities, even though it instils a lot of fear in us.

" The region of 10 to 12 trillion dollars to circumvent this problem. If you look at the sheer size of that quantum, it is equal to the GDP size of China, which is the second largest economy in the world. "

So, the Corona virus presents us with a similar sort of a phase that the world is going through, where economic activity has come to a complete standstill. And as Mr. Krishnakumar mentioned earlier, the world has printed somewhere in the region of 10 to 12 trillion dollars to circumvent this problem. If you look at the sheer size of that quantum, it is equal to the GDP size of China, which is the second largest economy in the world. So essentially, in just a month, the world has printed as much money as the GDP of China. With so much money coming into the capital markets, even though all of it will not get transmitted immediately into the real economy on the ground, it will initially have to come into the financial markets. On that count, there is high probability that this period cannot be anything but positive for equities. This still doesn't mean that there will not be bouts of volatility in the market, given how bad the economic state is at this time.

One could well anticipate that in the next three-six months there could be a bout of volatility and hence, like Mr. Ganeshram mentioned, this is not a call for someone who wants to invest in the next one, two, three, six months, to make; but for someone, who wants to invest for a longer term. For such an investor, this is a period of opportunity for sure. Whenever the period ends, we will see a significant rebound in the markets. Even though the economic state is weak just now, markets tend not to focus on immediate earnings, but rather they focus on earning power. If we believe the earning power of businesses has been dented permanently, then there is a cause to have a permanently low prices. But if the earning power has been only temporarily dented, because of what we are seeing just now, markets will look beyond and will start building in strength in earning power going forward. It is for this reason you will see companies, sectors, and certain companies within sectors, differentiating themselves. Those companies that don't require debt, and have strong balance sheets, will come out of this even stronger than how they entered this phase. Leaders in particular sectors will also come out stronger, and so this will be a period of further polarisation. We have already seen a polarisation trend over the last three to five years, and this will get further strengthened after this period.

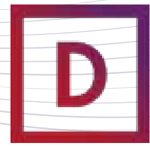
As regards, investors' psychology, there are two types of investors. One is an investor who is newly envious, and the second who has gone through cycles of envy in the past. So, a newly envious investor looks around his shoulder at his neighbour who is making a lot of money off late, and has been left out because he been in debt all along. So when the neighbour has made a lot of money, this investor seeks to jump in and also try to make a lot of money. He probably jumps in when the markets have already bottomed out, loses patience, and exits. This is the reason why retail investors never make money. Retail also includes even high net-worth investors. On the other hand, there are investors who have been envious in past, but live through cycles, and who understand that this is just the nature of the markets. You will see bouts of volatility and that volatility will eventually go away. In fact at the peak of volatility, that's the ideal time to put in additional capital into the markets. This segment of investors are actually cheering the current fall and are gradually adding to the markets at this time, while the former category is getting unnerved and is looking to exit at this time. You know, we are all humans and this is human nature. Very few people understand that controlling human nature is actually in one's own interest. This is scarce - not too many people do that.

Mr. Mehul Mehta: Thank you Mr. Saigal. That's a very interesting perspective of how a retail investor, or even an HNIs investor, could be thinking right now. Let me go to other extreme and bring in Mr. Kotak here. Mr. Kotak, how are global investors looking at India? What are the top things that an investor is looking in a company say, its liquidity position and its ability to tide over the crisis, or the ability of the business to bounce back sharply once the situation normalises? What are the top indicators for you in particular?

Mr. Kotak: Thank you Manoj, Mehul and Dickenson for bringing me here. Thank you to all participants attending this Webinar, and thank you to my co-panelists. India has always been a high growth potential destination for every foreign investor at all points of time. There is too much curiosity for India. But, for the last fifteen years, especially between 2004 to 2014 period, we have seen FII's investing almost fifteen billion dollars every year into India, barring Lehmann crisis period. In the last six years, between 2014 to 2020, barring post COVID sell off, foreign investors averaged only at five billion dollar every year. So a fifteen billion dollar investment per year, has moved to five billion dollar investment each year. The answer may be that there are other destinations which have done well. For example I know the US market has been doing very well and investors have moved to US, China or other good performing markets. But one of the reasons why this is happening, in my view, is that if you take the top five percent of the NIFTY (or the top five stocks of nifty) it has about forty-five percent weightage. If you take top 10 stocks of the NIFTY, its sixty-five percent. Let's also look at banking NIFTY: top two stocks of the Bank Nifty is close to sixty-three percent, and the. top five stocks of banking NIFTY is about ninety-six percent. This means that a 1.4 billion population country, has eleven stocks which takes up sixty-five percent of the space in this country.

> *" In the last six years, between 2014 to 2020, barring post COVID sell off, foreign investors averaged only at five billion dollar every year. So a fifteen billion dollar investment per year, has moved to five billion dollar investment each year. The answer may be that there are other destinations which have done well."*

Now, that's huge. I think this is a big problem and which is also one of the reasons, in my view, why people aren't jumping into India much, and why there has been a slowdown in the FII's flows. This is because there are not many opportunities. We can't keep on buying Lever at fifty priced to book value and sixty PE multiple. People still jump into it and have made some money even after buying at that price also. But the scarcity of opportunities is actually where the challenge for India is in my view.



What I can talk about what we are doing and what even Anshul has said rightly, is that we are in fact skewed. We are not doing any different from KK or Anshul. We are in the same basket and looking at the same pointers. We are buying leaders and companies which have pricing power. They have of a very high quality in corporate governance standards, and have a net cash balance sheet, or let's say an un-levered balance sheet. Finally, very important, these companies have the top teams that can innovate and execute well. So, as an investor our focus is in such companies, where we don't find more than 150 companies in India that qualify in this way. So, that's my summary of what I think foreign investors are thinking right now.

Mr. Mehul Mehta : Thank you Mr. Kotak; that was an interesting perspective from you. Let us start with a few focused questions. Let me turn to Mr. Krishnakumar here. At this stage, how are you expecting the sell side to service the buy side? What kind of an expectation do you have from a larger sell-side community, in terms of their input, in terms of their being a gatekeeper of expectations?

Mr. S KrishnaKumar : Sell-side firms are a very important part of our decision making process. They are the ones who come out with a lot of thoughts, strategic ideas in terms of finding out what's happening in different sectors, and at different companies at a more granular level. With a macro perspective, I think global MNC's that operate in India provide us a lot of food for thought in terms how macro events globally are impacting their overall thoughts towards India, and how an Indian company, or a sector, or the government for that matter, should react to some of these big events that are happening globally. I think , in particular, MNC brokers have a big role to play in terms of tying up the global macros to what's happening in India. It's very important that they are good sounding boards to discuss, debate and take conversations forward. Over the last twenty years, a lot of Indian investors have become equally good at looking at the global markets, and so it's kind of an equal world out there.

I think a lot of help is is being delivered through debating the overall strategies and thought processes at a more micro level, like Vikram and Anshul mentioned. Flushing out ideas in terms of visualising the next trend, the next big growth area within the economy, and in terms of finding the next set of winners that would come through over a decade.

" Nowadays, the life of an idea is not more than a day, as markets catch on so quickly onto a good idea. It has basically become a very competitive world. I think the sell-side would play an important role to be a sounding board for a good debate."

Over the last fifteen years, the Indian buy-side has become quite well-staffed and with batteries and teams in-house, the race is towards killing the idea faster and quicker. Nowadays, the life of an idea is not more than a day, as markets catch on so quickly onto a good idea. It has basically become a very competitive world. I think the sell-side would play an important role to be a sounding board for a good debate.

In addition to that, taking this kind of event in mind (COVID), they probably will have to provide a lot of bandwidth in looking at the market and its scenario in a much broader sense. They have the luxury of calling a sell after an event, but the firm doesn't have the luxury of selling the stock when its down 20%. They should put themselves more into our shoes before getting ahead. I think that would be the single message I would like put at this point of time.

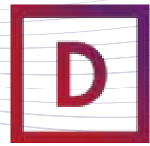
Mr. Mehul Mehta: Thank you. Before moving to Mr Ganeshram for his view, Mr Kotak, would you like to add something?

Mr. Kotak: I think what he says is right about what's happening. Unfortunately like NIFTY, even the analyst community is quite skewed. So we, at the very least, from being in the industry for 24 years into trade and equity, have seen that 20% of the people provide 90% of the input. So this actually becomes a skewed industry which is actually not good, but in a way, this happens in a broken community all across the world. It's not just in India, it's the same issues everywhere. We need to do more hard work. Of course the Covid kind of event is not easy to predict and India is unfortunately known to always have accidents: IL&FS, fiscal or NPA issues. So it's not very easy for analysts to get things right very fast. But that is a desirable thing to chase as a thing: we need to think of what our business and investment process has to go through with a very different mindset.

One more input which I want to give here is that we need to go through history. People actually go through the forecast while missing out on reading history. They will go to the forecast because of peer pressure, analyst pressure, and buy-side community pressure. History is considered boring, while the the future is always very interesting. When you go after Covid, the future looks fragile and history looks smart. If you read about the Spanish Flu, you really come to know how the industries and the world shaped out. I think it's very important for people to upgrade their knowledge in terms of history, because being a trade guy, I have always seen a balance sheet from the past, and have never gone to future predictions. I think this approach can be very helpful

Mr. Mehul Mehta: Thank you Sir. Mr Ganeshram, how is sell side research adapting to keep on top of the business prediction in this fluid time? How are research analysts adjusting their financial models on covered stocks for FY2021 or FY2022? Is there any need to draw completely new recommendations with a clean slate? Your thoughts on this.

Mr. Ganeshram: Estimating earnings on a normal day is tough. Estimating earnings in times like this, is an occupational hazard for us. But the way we are approaching it is very qualitatively. I don't think it is logical to try to predict how much earnings will get impacted, when it will start recovering, or which month things may normalise. There are too many moving parts on commodity prices, on currencies, on various parts of the country, various kinds of demand, and various districts. I think the easiest thing is to try to ignore some of that noise, and try to look at all those qualitative aspects. First, try to understand how much impact there actually is; will the company firstly survive?; how is the balance sheet of the company?; the balance sheet of the group; the balance sheet of the promoter; and will the company be able to survive. Second, try to understand what is the cost structure? Is it loaded with a lot of fixed costs or variable costs? We tend to prefer more variable based cost models, so you need to try to look at how things are - to see the preparedness of the company to bounce back. We should not be trying too hard to measure the extent of how much they bounce back will occur, but try to see their readiness. Try to see whether the



competition for the company is more active, which means there may be scope for market share games. If I am a company owner and I find my competition is having a bad balance sheet, or a bloated fixed cost structure due to which it is now in a fire fighting mode, I would know that I can benefit at their expense. So I am trying to see what is the scope for market share games; how the margin will structurally play out or appear over time; and how resilient the likely demand for the company's products will be.

> *" It's really about qualitatively assessment of the ability for the company to 1. survive; 2. grow, 3. gain market share, and 4. give an investor an opportunity to make money. "*

One must also try to look at the valuation: how is the stock trading today based on the last five year or ten year traded history? Is the stock trading at the bottom quartile? What kind of multiple does it have, not just price to earnings. Is there something you know in the down cycle? Top line based valuation makes more sense because you are trying to see at the bottom of the cycle, and where earnings will be worst hit. So, you will find the stocks actually very expensive on the price to earnings. Are we looking at the right kind of valuation metric for this company? Is there something hidden as a potential improvement metric? Basically, my point is it is better to try to be broadly right than be accurately wrong. That's what we try to do: be very qualitative.

An assessment of a company at this time should be to gauge its ability to recover fast. So it's not about punching that right cell in that model, or trying to get that EPS number right. I think that approach cannot play out correctly: there are too many moving parts and too many uncertainties for us to get confidence there. It's really about qualitatively assessment of the ability for the company to 1. survive; 2. grow, 3. gain market share, and 4. give an investor an opportunity to make money. This is how we are approaching our analysis at this time.

Mr. Mehul Mehta: Thank you. That's very interesting. Before that I have another question for you, but on the similar topic, let me go to Mr. Saigal for a moment. Mr. Saigal most corporates are unable to assess the impact of their business at the current juncture because of this pandemic. What is the least that buy-side expects from the corporates in terms of information sharing? What is the buy-side's minimum expectation so that they have a clear view of situation, Mr. Saigal?

Mr. Saigal : This is a period of uncertainty for everyone. We do understand that companies are also going through a period of darkness as they don't know what the future holds for them, and similarly we are investors in these companies and in a way we are partners in their growth. So we are also as much in the dark as they are, may be a little bit more because we are a step behind them as regards being on the ground. Hence, for us, it is important that they communicate with us how this is impacting them, you know, on their earnings.

I mean we need to just step back and think about why we are investing in any business, or why a promoter is also investing in a business? A promoter invests in a business mainly to make more money through that business than he would make by investing that money in say risk free assets, fixed deposits, etc. Now, in the short term it may just so happen because of Corona virus, that the money he makes from that business is less; but we need to know that as investors with him in that business, whether this contractions in margin or revenues, is temporary or is it permanent? How much of it is permanent, and how much of it is temporary?

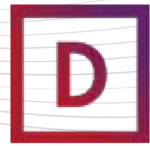
Where all is he facing problems from? Many promoters are telling us that they are facing problems on logistics, man power etc. Now that will help us gauge whether these are actually issues which are solvable or not solvable. There will be some promoters or managements in a business who will come to us and say that we are not getting money because liquidity is very tight at this time. Again, you can ascertain if it is because the whole industry is not getting capital at this time - then it is understandable. Capital is scarce at a time like this, but if there is a company who is telling us that they don't have liquidity issues, then that gives us an understanding as to whether these issues are permanent or temporary. I think that for us, over the the long term horizon, it is important to gauge what the return on equity profile of a company is going to be. Whether that return on equity profile is permanently contracted, or is it something that in the course of the near term is contracted, but will go back towards a normal level in the coming future. Anything around these issues that promoters and managements can tell us is obviously going to be helpful to us.

" The purpose of any business is to have the highest and consistent return on equity. Now on that count, many qualitative factors can actually tell you whether there are aspects to return on equity when there is a question mark."

I will just take a minute more to talk about that topic on sell-side and the research the sell side provides. I think that there are two other aspects to the sell-side research that are very helpful. One is that the sell-side is a platform for us as fund managers: I mean basically through them, we get to know what the expectation of the larger investor community is. We can learn of what the expectation of the larger investor community is and which names or sectors are aligned in any one direction. Then we need to make a call whether that these expectations are right, or whether its an over-expectation from a particular company or a sector. So it helps us to gauge expectations in many ways.

Secondly, the purpose of any business is to have the highest and consistent return on equity. Now on that count, many qualitative factors can actually tell you whether there are aspects to return on equity when there is a question mark. What I mean by that is how can you get high return on equity? You can do that if you have a low cost, or if you have pricing power. Assume you enter a founder's office and see an MF Hussain paintings on the walls: you know the promoters intent is not to control costs - rather he has personal interests in which he is investing. These are things that get transmitted into businesses in funny ways. The first book I read when I started out, was One up on Wall Street, in which the writer says that you have to visit the corporate office to figure out what the mind-set of the promoters and founders are? These things actually get adapted in different ways and show up in balance sheets. In these respects, sell-sides can also give us a perspective on such qualitative issues. I think that the sell-side is an important cog in the wheel that provides us lots of support.

Mr. Mehul Mehta: Mr. Krishnakumar, do you really think that the information required by a long term investor from corporate India at this stage and time is very similar to, let's say, a short term investor? Without getting into the definition of what is short-term and long-term intrinsic investors, would their information be different depending on the type of investor they are? And what is the long-term investor information needs?



Mr. S KrishnaKumar: Of course, I think the short term investor usually looks for a big deal. Definitely, the necessary data and matrix they look at would be different, so I would not like to get into that point. In terms of a long-term perspective, investors would be trying to understand how companies are utilising the Covid challenge to get themselves into a better position. There are lot of learnings for companies: how they take it forward is going to be interesting. For example - how are they looking to capitalise on these disruptions by getting more digital; or by using E-commerce more; or by being more savvy in terms of sales and distribution channels; or by improving employee productivity; or by looking at the entire cost structure in terms of converting fixed-costs into variable costs.

Some of these actions will definitely be more interesting to understand well now, as they are the ones that will enable companies to improve their ROC's and ROE's, as Anshul mentioned. We need to see how those operating matrixes are being strategised in this point of time. In addition, investors would be looking at how companies are trying to create more opportunities for themselves, ie. how they may be trying to innovate within the environment that they are placed, so that their sales and growth engines keeps moving on. The third point is about growth from inorganic routes, which is very important from a long term perspective. There are also inorganic opportunities which may present themselves in this period of time. Companies with a good balance sheet could find it easier to grow through inorganic means.

Lastly, I think companies need to explain to investors how they view their balance sheet, in particular with respect to cash flow management and equity in the company. In near term, this will be important to address, even for long-term investors. They would need to build on on how their capital structures align with their aspirations. These are some of the things that long-term investors would look for, from my point of view.

Mr. Mehul Mehta : Thank You. Let's move to Ganeshram. Let's talk about corporate access and the way sell-side and buy-side have traditionally engaged with corporates through conferences. Do you see this changing temporarily or forever?

Mr. Ganeshmram: Right now over the past couple of months, it's been virtual events through zoom calls that is making us function, and in the meantime, we too are discussing whether we should doing virtual conferences. We think that the historical conference format that we have been following will co-exist with virtual events. At the end of the day, when investors travel all the way from different parts of the world to spend a week in India, there is a mind set to do a face-to-face conversation for better understanding. So we think it will co-exist with the virtual conferences, which might happen more often during the year, while there could be one event for investors flying all the way down. They will want to meet more people within managements and also make plant or retail site visits. We also think that there will be more road shows where funds take a week within a month to stay India and use the other weeks for other countries. It would be more about funds visiting companies' offices, rather than meeting at a conference. So, while conferences can get little tested, meetings with managements will continue to take place.

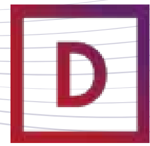
Mr. Mehul Mehta : Okay. Mr. Kotak, do you have any views on this subject?

Mr Kotak: I agree fully with what Ganesh said. I have seen lot of PSU companies having four analyst meetings a year. But four could come down to one within a good mixed bag. When you have a crisis, you also have a cost-cutting opportunity. Covid is teaching people how to cut costs. I have never seen in my whole career that people have only liked live webinars, web-calls or conference calls. Essentially, people still want to meet. To some extent, this is important because one wants to see whether the painting behind a promoter is anMF Hussain or not. We definitely want to meet the management personally to see what kind of teams they are building, and what kind of climate or environment they are working within. So, it's important for both mediums to co-existence. However, I am sure that a cost-cutting focus is here to stay for the next one year at least. We expect to be making many more web driven meeting than physical meetings with everyone - for the buy-side, sell-side and even the corporate-side.

Mr. Mehul Mehta : What are the top lessons according to you for corporates to learn during this crisis and given current investor sentiment, what's the key take-away for corporates?

Mr Kotak : I think Mehul, it has to be simple. Whether Covid or No Covid, I think the balance sheet has to be the same. Investors mindset is not going to change. Covid is just one more lesson. One needs to read more history, and not only focus on blue sky projections. You don't have to try to make excel spreadsheets over five years, this cannot work linearly. You need to work a little bit more on the downside, alongside the quarterly pressure on the buy side and the sell side. This will also make a huge impact on the corporate. I think there needs to be some solutions, which alleviates the pressure.

Now in today's case, companies have generally withdrawn from giving guidance. That's the correct thing to do because we really don't know what is going to happen in next six to twelve months. I think that there should some leeway space available for both corporates and investors. Also, important lessons which promoters of companies need to learn is to refrain from getting into unrelated businesses, or pledging their own shares, or that of the company's - such activities need to be taken care of. They should instead cast a sharp eye on cost management issues, and place equal importance to execution. They should avoid too much focus on, as Anshul very rightly mentioned, expensive paintings, or twitter, or playing Golf. I think that culture of the organisation, how hands-on you are, or how hands-off you are, and how you are building a team below you - are all going to be very important. It's a very important role for the sell-side analysts and great agencies like your to really hand-hold corporates while navigating through these tough cycles. The lessons are the same, they are not going to change. You need to under-lever yourself; and you need to find the opportunity available



in the system. It doesn't mean that you don't need to take any risk. Having said that, the current pattern is of the markets are going to be skewed, and, the way things have been happening, it is going to remain skewed for some time going forward. So, while promoters need to stay around investor expectations, they also need to see what is good for the business in the long-term.

Mr. Mehul Mehta : Have the investors, corporates or the sell side, or anyone of us for that matter, properly considered the worst-case scenario? Mr. Saigal, let's start with your views ?

Mr Saigal : Ten years ago I read a book called Fooled by Randomness, and followed by another book called the Black Swan. All these scenarios – we find considering the best case, worst case, likely case, as amusing in the investor community. One must remember that the world is very non-linear. Who could have built-in what will happen in March of this year? Who could have built-in and known that in 2008, you will not have a Lehman Brothers collapse? While I was doing my MBA, that was the go-to place to for people wanting to be in the investor community. Suddenly in 2008 you did not have Lehman Brothers. Similarly, we don't know what the worst case is going to be hence forth. All we can say is we need to do what is right, and hopefully, if you are doing what is right, the outcome will also be right. Irrespective of what the environment throws at us. Of course, there will always be repercussions from what the environment throws at us - this will always be there, but we will live to survive to fight another day. If you are not doing what is right, then you are not planning for any scenario. You are planning for hope, and you know the world doesn't throw hope at you. The world throws what it wants to throw at you, and on that count, one has to be prepared for doing the right thing and knowing what is the right thing. As Vikram mentioned little earlier, basically you should know at any point of time, which companies are building themselves for a Marathon and not for a 100 meters race. Companies that are building-in survivability, even in times of extreme stress within the external environment. Companies need to be planning for attaining survivability, by having a strong balance sheet, which is really a platform on which the business is built. By ensuring that your costs are in control and ensuring that stakeholders' interests are aligned with each other. Everybody benefits if the company does well. On the other hand, everybody gets hurts if the company does badly. It cannot be that only a few stakeholders get hurt, while for some it doesn't really make any difference. If companies are doing the right thing, they will survive through any scenario. They might get bruised, but they should come out of it as a survivor. If we as investors are doing the right thing, which is backing those companies who are building businesses for the long-term and not for the short-term (what I'd call 100 meter race), then we will also come out of it fitter and probably better on the other side. It has to be a mix of both.

" We need to do what is right, and hopefully, if you are doing what is right, the outcome will also be right. Irrespective of what the environment throws at us. Of course, there will always be repercussions from what the environment throws at us - this will always be there, but we will live to survive to fight another day. "

Mr. Mehul Mehta : Mr Krishna kumar, your views on worst case scenario - are we sufficiently prepared for that?

Mr. S KrishnaKumar : As investors, we do try to build-in a base case and then try to walk around sensitivities in terms of what could vary in the environment, and then try to arrive at scenarios that one could look at. But, more importantly, I would like to go with what Vikram and Anshul said. It's very important to follow up on the company, the promoters, and to look at building the company from a longer-term perspective, which means that you need to be very focused in terms of where you want to get to, in terms of the businesses you are into, and in terms of capital efficiencies that you build into the company as you scale up. At the same time, you need to also build bandwidth within the company to take care of the growth in terms of resources etc., and most importantly keep putting away something for bad times. This means one should stay optimally levered; keep some cash and have investments which can always come in handy to stabilise yourself when the wind is blowing against you so you. We need to have companies introspect about where they want to be, what kind of growth rate they are comfortable with given their own philosophy and management thinking. These are some of the things that companies should do to build out for the long term.

Mr. Mehul Mehta : Mr. Ganesh Ram, are your thought processes are also similar so this when it comes to building a worst case scenario. How do you look at it from the sell side point of view?

Mr. Ganeshmram: See, nobody can really prepare for a worst case scenario. As it is, the outcomes could be completely different. You might think it's a bear case, but it could become an almost bullish case with circumstances changing. We need to looking at how stocks valued on a trailing basis? How many days on a trailing basis have stocks been traded below these multiples? Will those earnings at least revive - which is more likely? Does the stock price at current valuation make sense to get in on? So, it is not earnings estimates that lead, and actually it is not trailing earnings either.

Whether those trailing earnings are sustainable, or at least even if it not sustainable this year, will it be likely that you will go back to that? That's the function of all the earlier points I mentioned, which is on the balance sheets, the cost side, the competition side, and your preparedness. We are not trying to work by penciling in the worst-case scenarios.

Mr. Manoj Saha : Okay, Mr Ganesh Ram I have a question from the audience. What is the sell- sides' blue sky view of India, over the next 10 years from the point of view of foreign investors?

Mr. Ganesh Ram: While a blue sky scenarios can be painted over a 10 year period, the broader point for me is that we should have visibility on the growth avenues that are out there for India for us to benefit over the long term. When commodity prices are low, it is a big boon for India and the benefits of that can actually play out. The demography is also another factor which can actually play out favourably for us. If interest rates and the cost of capital in India goes down, then we can actually compete globally. One thing we are also monitoring (and doing a lot of work on) is to see how favourably India is placed to achieve import substitution? Will we see a potential for manufacturing growth, especially on the electronic side? Will India be able to become a manufacturing hub? Eight to twelve months before Covid, we have been watching some very good data points on how many companies are shifting their manufacturing facilities from China into other places including India, not to meet global demand - but to meet demand in India. Cellphone or television manufacturing are examples of the shift taking place. How many of us know that in our own backyard, in Chennai, we have a 3 billion dollar turnover electronic cellphone manufacturing setup facility? This used to be imported from China almost entirely. Today, import substitution is quite material.

" We were in a fifteen year cycle, which started in 2000 with a lot of investments. The reduction in the cost of capitals led to a capex cycle, which in turn led to employment creation, which in turn led to consumptions cycle over this 15 year period. We are at a point today where corporates are leveraged, cost of capital is coming down, capacity utilisation is going up and as the dust settles, as things moderate over time, we believe that a capex cycle will actually pickup in India."

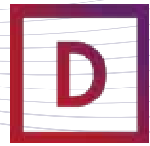
While we are assembling here only, gradually even the components that we are importing could be manufactured here. Electronics imports is the second biggest line item for India in terms of its imports after oil. Speaking of which, if oil prices are coming down, and if the electronics bill comes down, and (if due to gold prices) our gold imports also come down, then our ability to have a very different balance of payments arises. And its impact on the cost of capital and on the flow of liquidity into India can be materially different. It can play out favourably over a period of time. So from a long-term perspective, what we what we are looking out for is, will the bigger picture be fractured by any of these variables? As of now, there are no signs of these prospects being ruptured. That's where our confidence will come in. But the one question which investors are asking us is what is the big theme still to play out in India? Is it consumption? Is it infrastructure? Is it IT? Will the big theme be on outsourcing? What will be the big employment generator? What will be the big driver going forward? Our assessment is we were in a fifteen year cycle, which started in 2000 with a lot of investments. The reduction in the cost of capitals led to a capex cycle, which in turn led to employment creation, which in turn led to consumptions cycle over this 15 year period. We are at a point today where corporates are leveraged, cost of capital is coming down, capacity utilisation is going up and as the dust settles, as things moderate over time, we believe that a capex cycle will actually pickup in India. It won't happen in fiscal 2021, but over the next 24 months. The foundation will be laid for the next cycle to get started on capex, that will once again create employment. So we need to figure out how those things could be different to how it was in three to eight years ago. We cannot state the scale of magnitude, but we are confident that the capex cycle can actually pick up sometime in the next 24 months.

Mr. Mehul Mehta : OK, given the time constraint I have time for 2 quick questions. So let's start with Mr Saigal. There is a participant question that asks, given what the base situation is right now according to you, which sectors are likely to bounce back, B to B, or B to C? Which one has a better propensity to do well in the immediate future, what are your thoughts?

Mr. Saigal: We would earmark companies into three buckets. The first bucket is where despite Covid, there has not been any material impact on their demand situation today. These are companies in sectors such as consumer staples, pharmaceuticals, telecom, and maybe to some extent even insurance. These are sector pockets which will not see a material dent in their demand, despite coronavirus related issues. The second bucket will be where there will be a short term impact on demand, but the optic can happen in a period of say 6 to 9 months. These will be probably include companies making small electrical goods, even autos and personal mobility because of a general desire to avoid public transport. and Finally, there will be other sectors which will take materially longer to get over the current crisis. These will include companies in sectors such as cinemas, commercial spaces, real estate in general, airlines and anyone selling large ticket items. Companies in these pockets may probably take a year or two to get out of a corona virus induced slowdown. Depending on these buckets; whether expectations are already reflected in prices; and if valuations are expensive or reasonable - one would need to take a call on where to invest based on your own temperament and time horizon. If your time horizon is 2 to 5 year period, then maybe even a third bucket company, say in the airline sector, may look interesting to you. That's because prices may have become very attractive there. But if your time horizon and temperament is averse to volatility, then maybe the 1st bucket is what would be relevant to look at.

Mr. Mehul Mehta : Thank you Mr. Saigal. Mr. Kotak there is a question for you. Recently, Mr. Raymond Dalio has said that "Cash is Trash" now and that we are amidst a drastic paradigm shift that can define the next century. Your views on his statement context of Indian capital market?

Mr. Kotak : In the context of US market, he is right "Cash is Trash". In relevance to the Indian market, my view is that cash is a king. India will take much longer to recover from the current problems, because even if you look at pre-COVID, the Indian economy was going through a very difficult time. Whether it was the MSMEs, or IL&FS, or the NPA cycle, or the capacity utilisation cycle on every aspect since 2014. When the new government came into the picture, 84% of the stocks have not seen the same prices of 2014 till today. I'm painting this picture where I think the real scenario on the ground is very very tough. So my advice and my own view is that India will take a much longer time to recover because we don't have the same balance sheet or the same animal spirit of the Americans, where we can throw as much money as we can throw. We have to worry about our ratings. We have to worry about our currency. We have to worry about the whole cycle. So it's going to take a little longer time than what the people think. You might see a big bounce back in 2021, because we will probably end up with minus and maybe a flattened growth in 2020. You might see an 8% or 9% growth in India in 2021. But the real challenge exists in the



calendar year. The challenge will be that to attain the same growth again in 2021, 2022, you will need to take a lot of concrete steps during the calendar year 2020. Inspite of China being a global manufacturing hub, we need to learn a lot from our own competitors such as Vietnam and Bangladesh, who took away our textile hubs status from us and China. Apple only makes 5% there and they make 50% margin on their products. To earn that 5%, China has established friendly labour laws, great infrastructure, and great port facilities. So, I think we need to do a lot of work on every aspect and there needs to be an animal spirit in entrepreneurs, governments and policy makers. We will all need to work together to make this 8 or 9 percent consistent growth come to fruition. So, I am more on the side where cash is king, or on the side of cash being deployed in a very pragmatic way.

Mr. Mehul Mehta : Thank you. There is a question for Mr. Krishna Kumar. Everyone is asking for economic stimulus. Will government stimulus be enough to kick start the economy? How is it going to help the overall economy, what's your view on that?

Mr. S KrishnaKumar : It is something that we all look forward to. But if you give it serious thought, the Indian balance sheet is not good enough to loosen up. So, given the kind of poor tax collections that you have this year, there are already slippages on the fiscal front that would take you to a 6 percent fiscal deficit already. With some amount of fiscal stimulus already in place, it constitutes a first wave of around 0.5 percent. So, we're probably already starting with a 6.5 percent kind of central deficit. There could be some offsets coming in from lower oil prices and the excise duty collection there.

But still net-net, I think 5 percent prevailing at central government level, and about 4 percent at state government level, that takes you to about 9 percent overall fiscal deficit. This leaves us very little room for the central government to act. So the Government has no choice but be more prudent, and maybe inject another GDP percentage as fiscal stimulus by supporting 3-4 sectors. Firstly, I think that MSMEs should clearly be supported, especially small ticket loans extended to them need to be supported in whatever form. The second is on the consumption side. I think the consumer is definitely severely dented at this point of time. Costs have generally increase in the autos due to the BSVI transition. Something targeted at the automobile industry, for a limited period of time, would start to crank up the sector with much benefits passing upstream along the supply chain. Similarly, I think real estate is a big employer and a big part of the economy. So some stimulus or freebies should be introduced for consumers to come back. and buy fully built houses so that liquidity starts flowing back into the sector in a big way. Therefore, a limited period fiscal giveaway across real estate, autos and broadly MSMEs is something that should be attempted within that 1 to 1.5 percent of GDP number broadly. I think you could also spread across FY21 and a bit into FY22 from a cash basis, which may be adjusted across two budgets.

" Government has no choice but be more prudent, and maybe inject another GDP percentage as fiscal stimulus by supporting 3-4 sectors. A limited period fiscal giveaway across real estate, autos and broadly MSMEs is something that should be attempted within that 1 to 1.5 percent of GDP number broadly. I think you could also spread across FY21 and a bit into FY22 from a cash basis "

Mr. Mehul Mehta : Mr. Ganesh Ram, what's your reading of the situation? The first part of the question is - how is it going to impact the bank NPAs and the second part of it is, what's the NBFC scenario in terms of their collection and the moratorium that they are going to have to give to SMEs and micro-enterprises? So banking NPA's on one hand, and NBFC's on the other hand - what is your take ?

Mr. Ganesh Ram : I think it's a very challenging scenario currently. As I said before, credit enhancement is very important because banks are not comfortable lending to any company. Any borrower who is rated below say A, their comfort drops down. My assessment is that unless there is some kind of an incentive for banks to lend, borrowers will find it difficult to get fresh capital from banks. In terms of credit enhancement in practical terms, this is how I see it playing out is: if for example I am a corporate and I need a total loan currently of say 100 rupees, and incrementally just 10-15 rupees, then the banks typical response could be "I will give you a top-up loan, but first, clear your existing dues". So, one goes to another bank to take a loan to repay the other bank - and so on. Practically, if NPAs are to be avoided, the problem is solved for both. We think this can be a panacea. Without this kind of mechanism, we will see much problems for SMEs. We also think there is a certain category of retail loans which could be put to test. I do not mean the individual salaried segment, but mainly the subprime segment - ie. individuals with a credit score below 650. This segment will also get impacted. Likewise, first time borrowers, that are unrated or without credit history, will also face a similar predicament. These categories are mostly all NBFC funded segments, and I've always defined NPA as not inability to repay, but as inability to refinance. This situation will be more magnified for NBFCs than banks because of the nature of customers. Right now, banks and NBFCs are given a moratorium for 3 months which will be till May end, which means the real problems will come when the June instalments are due. Till then we have bought some time, but that doesn't solve the problem.

> *" Credit enhancement is very important because banks are not comfortable lending to any company. Any borrower who is rated below say A, their comfort drops down unless there is some kind of an incentive for banks to lend, borrowers will find it difficult to get fresh capital from banks to be avoided, the problem is solved for both Practically, if NPAs are NPA as not inability to repay, but as inability to refinance."*

Mr. Saigal: So, what is the view of the panel in case this issue of credit guarantee is addressed? Is that positive for markets or is it the base case to retain the markets at the current level?

Mr. S KrishnaKumar : This would not result in a market bottom being formed. I think we need to actually look at the next 6 months in terms of how the lockdown opens up and observe what kind of economic activity that is ramping up - for example is consumption picking up. I think there is definitely a lot more data that we need to look forward. I foresee FY21 to be a tough year. We could still see some financial institutions sizing down, ie. running down the books because of capital calls, etc. Credit guarantee would help stabilise the economy to an extent, but I think to call it a bottom, it is a little too early because we still need to look at how consumers will respond.

Mr. Kotak : I'll add to what K.K. said very rightly that a bottom is not yet formed, because we are looking at a new lifecycle which is going to play out. If you look at a financial service sector, it indirectly directly employs close to 4.5 crore people in the country. Their way of living life will change in a big way post Covid. We will see a lot of damage on the ground, which will change the way we were operating. I feel every sector will go through a big cut down in the cost whether its operating cost, business cost, or even an employee cost. In my view this is going to a stop gap, it's not going to be the end of solution. How can government bear, or take the credit risk of someone else, who has made an error? These measures will only be a stop gap and they will not end the cycle, which may still further worsen. We also have to see the data on how the situation shapes up when a vaccine arrives, or when the complete economic lockdown opens up. We need to open up the economy completely and not partly. I don't think we are going to be able to solve the problems of supply and demand disruption easily. So we need to come back to normalcy and then take 3 to 6 months to see how things really pan out to go forward in the world.

Mr. Saigal : Thanks, Ganesh your views?

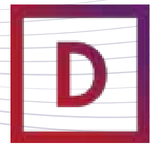
Mr. Ganesh Ram : I agree with both of you that the credit guarantee will not really form the bottom or the top. But without a guarantee, we are in a bigger problem. Actually that is where I am coming from: because otherwise money supply into the economy from the lenders will not happen. The risk aversion will continue and we cannot have have the country only led by the A, AA, AAA corporate based markets economy, or only with 750 plus credit score retail customers. Risk aversion has to pick up and this could just be a trigger for engines to start. This is not the be all, end all solution, but in an extraordinary circumstance like this, without a fiscal impact, there isn't any other way to get the economy up and running. Everybody will remain risk averse, until somebody else is willing to take a risk to trigger a recovery. The Government has to take that risk, and my belief is, that there will be moral hazard on who will take that bird in if there is a default on that guarantee. At least you have given them the survival capital, so that they pick up their own. If we do not do that, I think we are staring into a deeper abyss.

Mr. Mehul Mehta : Thanks, this bring to the last question and I am going to keep it open for everyone. What has this crisis meant for Active Vs. Passive investing? Do you see a role reversal towards active investing? What do you think will be the fashion going forward? Mr Kotak, please go first.

Mr. Kotak: I was a big fan of Buffet, when I was on the credit side. Now I have become a big fan of Jeff Simons, when I have come to the equity side. I refer to the fund called Renaissance Tech, in which his average holding period is 3 days and he makes 60% CAGR, while charging a 40% carry. I think the world has moved a lot with almost 60% of the American market being traded with the quant traders, where we don't see any faces. I think the world is going to move to a more dynamic era and passive investing will definitely not work as far as people like us, because we are taking money to generate that Alpha over the benchmark, which most people don't do unfortunately. But that's the whole idea. That's we get a fee right? So we actually charge higher to generate alpha, which we are not able to do, unfortunately. I think it's time for active investing, not just because we are being challenged by Covid. We are also being challenged by de-globalisation, in my view, for next 10 -15 years. We are moving from a globalised world to a de-globalised world. So I think there are lot of factors. We are all part of a whole integrated economy. We are going to face challenges on currency, or on balance of payments or in the internal economy. I think it's going to be a very active world - it's not going to be just a passive world for sure.

" The world is going to move to a more dynamic era and passive investing will definitely not work as far as people like us, because we are taking money to generate that Alpha over the benchmark, which most people don't do unfortunately. "

Mr. Ganesh Ram : In the month of March, when the correction was happening, active was outperforming passive. When recovery was happening in these last 30 days, passive was again outperforming active. So, there is a difference in what is needed when. Secondly, very few stocks have taken the index up, and so passive can work then. But if the recovery is more broad based and more sections of the economy participates, (keep in in mind that the world is going into a more fiscal recovery mode Vis-a-Vis a monetary recovery mode which it was post 2009) more money goes back into the real



world. The Real World means it goes into the beneficiaries such as real estate, or mining or metals. So, it's not going to be a very narrow recovery, and I think and that's not going to play out within next few months, but in the next decade. It will need to be more broader based, and not just 5% of the companies doing well. This means that we will need to have more active capabilities over passive, or we will get more behind than we already are.

Mr. Saigal : On the active vs. passive debate, my view is that if one has an understanding of cycles, then one can make more money than the index. Assuming you are in December 2017, and you knew that we are going to see a liquidity tightening cycle over the next year and a half, and as a result of that the broader markets are not going to do well. If you are a broad based portfolio which is not restricted by market capitalisation, then this understanding of cycles can help you make more money than the index. Maybe not in short periods of time, but definitely over a period of a complete 2-3 year investment cycle. Hence, I do agree that this is the time for active investing, and if you are good at it, it will make you more money than passive investing.

Mr. S KrishnaKumar: I too believe that active investing is something that's probably to sustain. Being an active fund managers, like ourselves, you have the ability to hold the cash, to some extent, and move portfolios across sectors and stocks and get out-performance. Of course, while you have to choose the right fund manager do that, I think active investing will continue to work. Having said that, Indians are very smart and can choose to or would try to make decisions themselves by shifting to and from passive and active funds depending upon the points and cycles. I still think active investing would be far larger than passive for the next decade or so - at least this is my sense. But beyond that, it is too difficult to tell all at this point of time.

Mr. Mehul Mehta : Thank you. At this stage let me handover this to Mr. Saha for his closing remarks.

Mr. Manoj Saha : I want to thank you all for participating - Mr. Ganeshram, Mr. Kotak, Mr. Kumar and Mr. Sehgal. I also wish to thank all our live participants for joining in today. We've really learnt a lot from everyone's views. On that note I would like to also thank Mehul for doing a wonderful moderating job, I appreciate that very much. And I also thank Vikash and Chintan for doing lot of leg work from the background in putting this event together. On that note, thank you all for participating from all corners of the world. Good Bye.

Profiles of Panellists:

Mr. S KrishnaKumar
Chief Investment Officer – Equity
Sundaram Asset Management Company

Biography

Krishnakumar joined Sundaram Asset Management Company in 2003 as Head of Research. During his tenure he has handled various roles within Fund Management and was elevated to the post of Chief Investment Officer, Equities in April 2015. Voted amongst the Top 10 Best Fund Managers by ET Wealth (Aug'16) and Outlook Business (Mar'17), Krishnakumar brings over 20 years of experience in Indian equity markets. He assumed management of the flagship fund Sundaram Mid Cap in 2012 and also manages Sundaram Small Cap, Sundaram Large & Mid Cap, Sundaram Equity Fund and Sundaram Select Small Cap Series funds. Krishnakumar is an Engineering graduate from Regional Engineering College, Trichy and holds a Post Graduate Diploma in Business Administration with specialization in Portfolio Management from Loyola Institute of Business Administration, Chennai.

Mr. J Ganeshram
Managing Director
Institutional Equities, Spark Capital

Biography

Ganeshram is MD - Institutional Equities at Spark Capital. Ganeshram has 20 years of experience as an analyst in credit and equities with 14+ years at Spark Capital and prior experience with Standard Chartered Bank, CRISIL Global Research and HSBC. He one of India's top ranked Strategists and Banking sector analysts.

Mr. Vikram Kotak
Co-Founder & Managing Partner
Ace Lansdowne Investments Services LLP

Biography

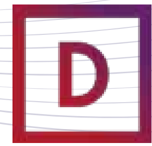
Mr. Vikram Kotak is the Co-Founder & Managing Partner of Ace Lansdowne Investments Services LLP. Ace Lansdowne Investments Services LLP is co-promoted by Ace Partners LLP and Lansdowne Partners, one of the largest European Hedge Funds with $20 bn. AUM, to start an AIF as well as Asset Management Business in India. Ace Partners LLP is promoted by Mr. Vikram Kotak and Mr. Darshit Shah.

Mr. Kotak has over 24 years of experience in financial markets across segments that include Fund Management, Fixed Income Trading, and Corporate Finance. He has successfully set up businesses and teams in Equity and Fixed Income segments. A key erstwhile member at Deutsche Asset Management Company, Mr. Kotak served as a Chief Investment Officer – Equities, responsible for advising over $1 bn assets in Equity through Indian Domestic Funds, India Dedicated Offshore Funds, and Allocation Funds. With an experience spanning seven years beginning 2005, Mr. Kotak, as a Chief Investment Officer at Birla Sun Life Insurance Ltd., grew the AUM from around $280 mn to $4 bn in Equity and Fixed Income. He has also served Birla Sun Life Securities Ltd from the year 1996 to 2003 as the Head of Fixed Income business, which focussed on Fixed Income trading and Distribution.

Mr. Anshul Saigal
Chief Investment Officer
Kotak PMS

Biography

Anshul has a total experience of over 18 years in the Indian Capital Markets, of which he has spent close to 12 years with Kotak PMS. In the past, he has worked with organisations like JP Morgan, ICICI Bank, and Standard Chartered Bank, analysing equities and corporate credit. He is an MBA (Finance) and B.E. (Industrial Engineering). He has a particular interest in the field of behavioural finance, and endeavours to build a lasting investment edge through its robust understanding.



Mr. Manoj Saha
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Biography

Manoj holds a BA Degree (Hons) from the London Metropolitan University (Accountancy and Business Finance). He started out his professional career with International Computers Limited (ICL) in London as a software system designer. In 1987, he moved to NY to found an electronics component distribution company, which he successfully exited after building the business up over 10 years. In 1999, he co-founded Dickenson, which has today become a highly respected capital market communications advisory practice. Also serving as the Managing Editor of the Dickenson Group for more than 19 years, Manoj has been the communication architect of several small to large cap corporates. His experience spans multiple areas of businesses, including BFSI, Industrial, Infrastructure, Realty, FMCG, Retail, IT and Pharmaceutical companies. Based out of London and Mumbai, he has a hands-on approach to overseeing the group's global mandates in multiple markets spanning Europe, the Middle East and India.

Mr. Mehul Mehta
Director
Email: mehul.mehta@dickensonworld.com

Biography

Mehul is a chartered accountant and has more than 2 decades' experience in Corporate & Financial PR, Investor Relations and IPO communications consulting. He started his career with an independent research & consulting firm where he analysed primary and secondary markets, conducted investor perception research for large corporates and consulted them on investor communications strategy. Throughout his career, Mehul has worked on the consulting side with some of India's largest Public Relations agencies including Adfactors PR and Genesis BM, and has guided more than 100 companies across sectors on their positioning, messaging, stakeholder outreach and capital raising. His in-depth knowledge of capital market, news value and how investors consume and react to news has helped many companies in achieving their capital market communications objectives. Some of the prominent clients that Mehul has worked for include TCS, Kotak Mahindra Bank, Marico, Blue Star, Hexaware, Sasken, and Cummins amongst other. More recently, Mehul worked closely on large IPOs such as Interglobe Aviation, Coffee Day Enterprises, Alkem Lab, Narayana Health, Equitas, Parag Milk Foods, etc. Mehul joined Dickenson in March 2017 to lead the Financial PR practice of the firm. His vast experience and strong track record strengthens Dickenson's advisory and execution capabilities. Mehul has the mission and responsibility for building a highly senior and differentiated Financial PR practice, that attains eminent benchmarks in the industry.

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