

Exceptional companies generate disproportionate returns

Quarterly Newsletter – Sep 2021

Exceptional companies generate disproportionate returns

India has been a breeding ground for remarkable managers who have created enormous wealth for themselves and their shareholders by capturing large white spaces in the country. For instance, over the past 20 years, there have been 164 listed companies that have delivered more than 100X returns under exemplary leadership. Our strategy is to identify and back such exceptional companies early when their potential has not been fully comprehended by market participants.

In this newsletter, we show how returns generated by exceptional companies have been disproportionately higher than average listed companies and discuss our approach to investing in such companies.

Portfolio performance update

Post fee, our portfolio delivered 16.8% absolute returns over the Jul-Sep'21 quarter compared to 12.7%, 12.1% and 11.3% for BSE SENSEX, BSE Mid cap, and BSE Small cap indices respectively. Since inception on Mar 23, 2021, our portfolio is up 36.9%.

Performance Snapshot

| Monthly performance (Absolute returns, %) | Apr | May | Jun | Jul | Aug | Sep | Oct* | Nov | Dec | Jan | Feb | Mar |
|--|-----|-----|------|-----|-----|-----|------|-----|-----|-----|-----|-----|
| FY2021-22 | 6.5 | 5.7 | -0.5 | 7.5 | 4.1 | 4.3 | 4.0 | | | | | |

| | Returns since inception (Absolute returns %)* | Returns during Jul-Sep, 2021 (Absolute returns %) | Sortino Ratio | Sharpe Ratio |
|----------------------------------|--|---|---------------|--------------|
| Burman Capital Management | 36.9 | 16.8 | 4.2 | 2.9 |
| BSE SENSEX | 22.4 | 12.7 | 2.5 | 1.9 |
| BSE Midcap | 27.5 | 12.1 | 2.4 | 1.9 |
| BSE Smallcap | 39.1 | 11.3 | 3.3 | 2.7 |

Notes

- (1.) Portfolio inception date is Mar 23, 2021
- (2.) Sharpe and Sortino Ratios are since inception
- (3.) *Returns are as of Oct 21, 2021

Exceptional companies generated 33% CAGR over the past twenty years

The table below shows a summary of listed companies' returns over the past 20 years.

| | Multiple on investment | | | | | BSE SENSEX |
|--------------------------------------|------------------------|-------|----------|---------|--------|------------|
| | Total* | >100X | 50X-100X | 20X-50X | Others | |
| Number of companies | 1,143 | 164 | 116 | 135 | 728 | 30 |
| Returns generated by these companies | 19 | 33 | 24 | 20 | 12.1 | 16 |

Notes

*Includes all companies listed on BSE as of Oct 12, 2001

164 out of 1,143 listed companies generated more than 100X returns over the last twenty years. These 164 companies as a group generated 33% compounded returns over the period as compared to 19% returns for the market as a whole and 16% for BSE SENSEX. To put these numbers into context, the '>100X' group delivered returns that were 6X of all the listed companies combined and 10X returns generated by BSE SENSEX.

As per our detailed assessment, these 164 companies have several common characteristics including – (1.) exceptional managements, (2.) large addressable markets relative to current size, (3.) sustainable competitive advantage and (4.) strong inherent unit economics. These characteristics are also the key pillars of our investment strategy

Moreover, investing in such companies at an ‘early’ stage when the market has not fully understood the opportunity results in disproportionate returns. The table showcases the point using the large-cap/mid-cap/small-cap classification which acts as a reasonable proxy for the degree of ‘discovery’ by the market.

| | Multiple on investment | | | | |
|-----------|------------------------|-------|----------|---------|--------|
| | Total* | >100X | 50X-100X | 20X-50X | Others |
| Large-cap | 100 | 7 | 11 | 24 | 58 |
| Mid-cap | 150 | 31 | 16 | 19 | 84 |
| Small-cap | 893 | 126 | 89 | 92 | 586 |
| Total | 1,143 | 164 | 116 | 135 | 728 |

Almost all the ‘>100X’ companies were either ‘small-caps’ or ‘mid-caps’ (basis current SEBI classification).

Our approach to investing

At Burman Capital Management, we run concentrated portfolios focused on backing exceptional companies early, largely in the Indian small and mid-cap space. We follow a rigorous qualitative and quantitative diligence process for analyzing companies that provides us with differentiated insights and a unique perspective on the long-term fundamental drivers of businesses. We illustrate our approach to investing through an example of one of our portfolio companies.

The top contributor to our returns since inception has been an exceptional company focusing on providing embedded software services to the global automotive industry. The company was one of the first players in its industry to recognize and prepare for the global automotive pivot to four core areas – Connected, Autonomous driving, Shared Mobility and Electric. Driven by its early-mover advantage, it today boasts of one of the largest teams in the world in terms of auto embedded-software service capabilities.

During our interactions with their competitors, industry experts and analysts, we realized that the company had a commanding position in the industry and it fit all our investment criteria – (1.) the company sits at the center of four auto mega trends, all of which are expected to drive exponential growth in the company’s target segments over the next decade, (2.) it enjoys a sustainable competitive advantage driven by its deep client connect, experience and capabilities, (3.) it has strong unit economics with robust free cash generation, (4.) backed by exceptional visionary and ethical management and (5.) was largely unknown to the investor community with hardly any analyst coverage thereby it was trading at a steep discount to peers.

Since our investment, the company’s story has become more mainstream with multiple analyst initiations which has led to a steep re-rating. Even with the sharp price appreciation (>2x our investment price), we believe the company has a substantial runway for growth and we remain constructive about our investment.

About Burman Capital Management

Burman Capital Management is a part of Burman Family Holdings, the strategic investment platform of the Burman Family, which over the last twenty years has invested over US \$500 million in various businesses primarily in India and have partnered and joint ventured with many of the leading Fortune 100 companies from around the world. The Burman family are the control shareholders of the Dabur Group. Dabur was founded in 1884 by Dr. S.K. Burman and is today one of the largest Indian Fast Moving Consumer Good Company in India with over US\$1 billion in revenue and a market capitalization of over US\$14 billion.

At Burman Capital Management, we are long-term investors with deep passion for identifying and investing in exceptional businesses early. We are fundamentals-driven bottom-up investors and run concentrated portfolios focusing on small to mid-size companies. We are a SEBI-registered Portfolio Manager with registration number INP100007091.

To know more about how we approach investing, please visit www.burmancapital.com or write to us at info@burmancapital.com.

DISCLAIMER

The information contained herein is strictly confidential and meant solely for the use of authorized recipient only. If you have received this report by mistake or are not the intended recipient, please notify the company immediately and destroy this report. The information contained in this report doesn't construe to be any investment, legal or taxation advice to the recipient. It is only for private circulation and use. While care has been taken by the Company to ensure completeness of the information in this report, as the report is system generated it has not been independently verified and no guarantee expressed or implied is made as to its accuracy. The company shall not be liable for accuracy of the information contained herein with respect to the recipient of this report and disclaim any and all liability as to the information set forth herein or omissions here from, including, without limitation, any express or implied representation or warranty with respect to such information. Performance related information provided in this report and investment approach provided hereunder has not been verified by SEBI or any other regulatory authority. No action shall be solicited on the basis of the contents of the information provided. Please note that past performance of the financial products, instruments and the portfolio does not necessarily indicate the future prospects and performance thereof. Such past performance may or may not be sustained in future. Company investment decisions may not be always profitable, as actual market movements may be at variance with anticipated trends. Investments in securities are subject to market risks and other risks and there is no assurance or guarantee that the objectives of the company will be achieved. Please read the Disclosure Document carefully before investing. Neither company nor any of its affiliates, associates, representatives, directors, or employees shall be responsible for any loss or damage that may arise to any person due to any action taken on the basis of this report. Risk factors associated with the investment approach have been provided under the Disclosure Document that can be referred to at www.burmancapital.com.