

Time to start investing selectively
Half-year Newsletter – Jun 2022

Summary

While headline Indian indices are down between 15-20% from their peak this year; 20% of all companies listed on the National Stock Exchange are down more than 50% and 85% are down more than 20%. Pain in the broader markets is much greater than what appears at index level.

Our recent study suggests that such periods of wide-scale corrections are typically breeding grounds for outsized returns over a two-year period if one backs the right companies. In our study, we analyzed eight events since the year 2000 when the BSE SENSEX corrected by 20% or more from its recent peak. We find that over a two-year period, the top-1000 listed companies (by market cap) taken together delivered 24% annualized returns on average post such corrections, while the top-quartile performers within this group delivered 88% average annualized returns. Moreover, a lion's share (75%) of these top-quartile performers are small-caps that delivered 111% annualized returns on average.

Another interesting fact is that the top 0.75% trading days have almost entirely delivered the 10X gains BSE SENSEX has seen since the year 2000, showcasing how costly it is to stay out of the market.

Given the above and the strong fundamentals of the Indian economy, we believe this is an opportune time to start investing incrementally if one has at least a two-year time horizon.

Half-year portfolio performance update

We continue to outperform our key benchmarks by significant margins. Since inception, our portfolio has outperformed the BSE Smallcap, BSE Midcap, and BSE Sensex by 2,900, 4,200 and 4,300 bps respectively.

In the last 12 months while returns for BSE Smallcap, BSE Midcap and BSE Sensex are flat to negative, i.e. -1.8%, -3.7% and +1.0% respectively, we are up 32.7%.

In CY2022, while our portfolio is down driven by weak market conditions globally, its down significantly lesser than all headline indices, especially our key benchmark BSE Small cap index (outperformance of close to 900bps).

Performance Snapshot

Monthly performance (Absolute returns, %)	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
2021	NA	NA	NA	6.5	5.7	-0.5	7.7	3.9	4.3	4.2	7.1	9.6
2022	0.2	-7.0	11.7	-2.5	-5.7	-2.8						

	H1CY22 (Absolute returns %)	Trailing 12M (Absolute returns %)	Returns since inception (Absolute returns %)	Sortino Ratio	Sharpe Ratio
Burman Capital Management	-7.0	32.7	49.5	2.3	1.4
BSE SENSEX	-9.0	1.0	6.5	0.0	0.0
BSE Midcap	-13.0	-3.7	7.3	0.1	0.1
BSE Smallcap	-15.9	-1.8	20.2	0.8	0.5

Notes

(1.) Portfolio inception date is Mar 23, 2021

(2.) Sharpe and Sortino Ratios are since inception

Top-quartile stocks deliver strong returns in the period following market corrections

As part of our study we analyzed eight periods since 2000 where the key headline index BSE SENSEX corrected by 20% or more (current correction is about 18%). Some of these periods, especially 2000 and 2008, saw deep and prolonged market corrections, while the other periods saw more short-lived market corrections. The table below highlights the key characteristics of the periods under consideration

S. No.	Date	Closing Price	Last High	Peak Drawdown (%)	Correction duration (days)
1	04-Apr-00	4,691	5,934	56	1,421
2	08-Aug-02	2,950	3,713	24	504
3	17-May-04	4,505	6,194	27	323
4	01-Jun-06	10,071	12,612	29	161
5	11-Feb-08	16,631	20,873	61	1,037
6	16-Aug-11	16,731	21,005	28	1,097
7	11-Feb-16	22,952	29,682	23	804
8	12-Mar-20	32,778	41,953	38	311

Notes

- (1.) Date above refers to the day on which BSE SENSEX hit the 20% correction mark
- (2.) Closing price and last high are for BSE SENSEX
- (3.) Peak draw down indicates peak to trough correction around respective period
- (4.) Correction date denotes the time taken by BSE SENSEX to reach its previous high

For each of these corrections we grouped the top-1000 companies by market capitalization into four quartiles and analyzed how each of these quartiles performed on an average across the eight periods.

Results from the analysis in the tables below. In summary, Quartile 1 companies delivered exceptionally strong returns of 88% (annualized) on an average over a two-year period following the 20% correction. The range of returns for these Quartile 1 companies varied from 22% to 257% over the periods. Even Quartile 2 companies delivered strong returns of 32%.

While the top quartiles displayed strong performance, even the 1,000 companies taken together delivered on an average 24% (annualized) returns over the two-year period following the 20% correction.

S. No.	Quartile	1M Returns	3M Returns	6M Returns	1Y Returns	2Y returns
1	Quartile 1	2	15	38	98	88
2	Quartile 2	2	10	21	34	32
3	Quartile 3	-3	-1	5	2	6
4	Quartile 4	-5	-7	-6	-19	-20
5	Overall	-1	4	13	20	24

Notes

- (1.) Average returns following 20% BSE SENSEX correction
- (2.) 2Y returns are annualized, rest are actuals

For the Quartile 1 companies, returns across periods is shown in the table below. It may be instructive to note that in none of the periods were returns less than 22% indicating the consistency of return performance.

S. No.	Period	1M Returns	3M Returns	6M Returns	1Y Returns	2Y returns
1	04-Apr-00	-8	3	-12	2	29
2	08-Aug-02	4	10	26	116	88
3	17-May-04	5	33	91	266	257
4	01-Jun-06	1	10	48	90	64
5	11-Feb-08	-0	9	1	-31	27
6	16-Aug-11	3	6	15	22	22
7	11-Feb-16	10	24	58	102	83
8	12-Mar-20	-1	27	77	215	138

Notes:

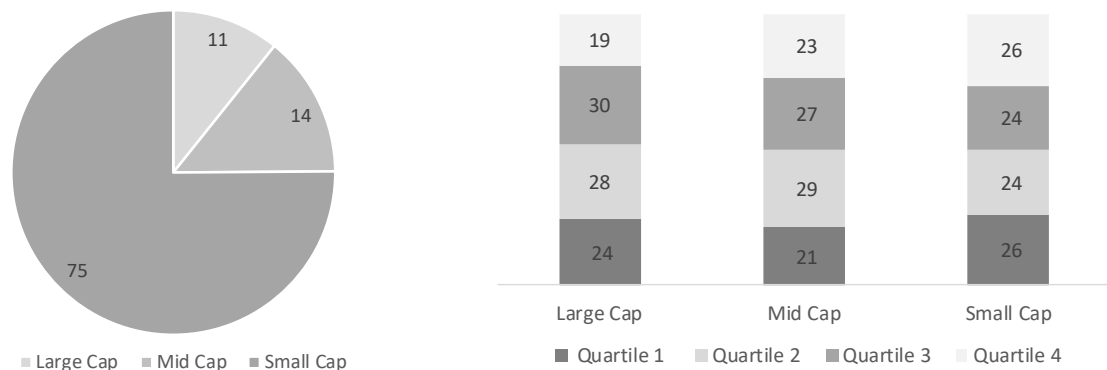
- (1.) Data above is for top quartile performers in each of the eight periods analyzed above
- (2.) 2Y returns are annualized, rest are actuals

Further, we split the Quartile 1 by SEBI's market cap classification directions and found that small-caps form a large part of the top-quartiles and their returns across these periods are even stronger. Small-caps on an average returned 11% vs overall top-quartile returns of 88%.

The range of returns over the eight periods for small-cap companies in the top quartile is 28% to as high as 318%.

S. No.	Classification	1M Returns	3M Returns	6M Returns	1Y Returns	2Y returns
1	Large Cap	1	13	30	73	76
2	Mid Cap	-0	12	37	109	90
3	Small Cap	-1	12	44	119	111

With respect to presence of companies in various Quartiles by market cap classification, there is not much to choose from. Each category's respective presence in Quartiles is very similar to the proportion of companies in each category i.e. Large : Mid : Small is 100 : 150 : 750.



Overall, we believe that hereon, well-chosen small cap companies are likely to deliver outsized returns over a two-year period and hence, we think it's the right time to start deploying funds selectively.

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.