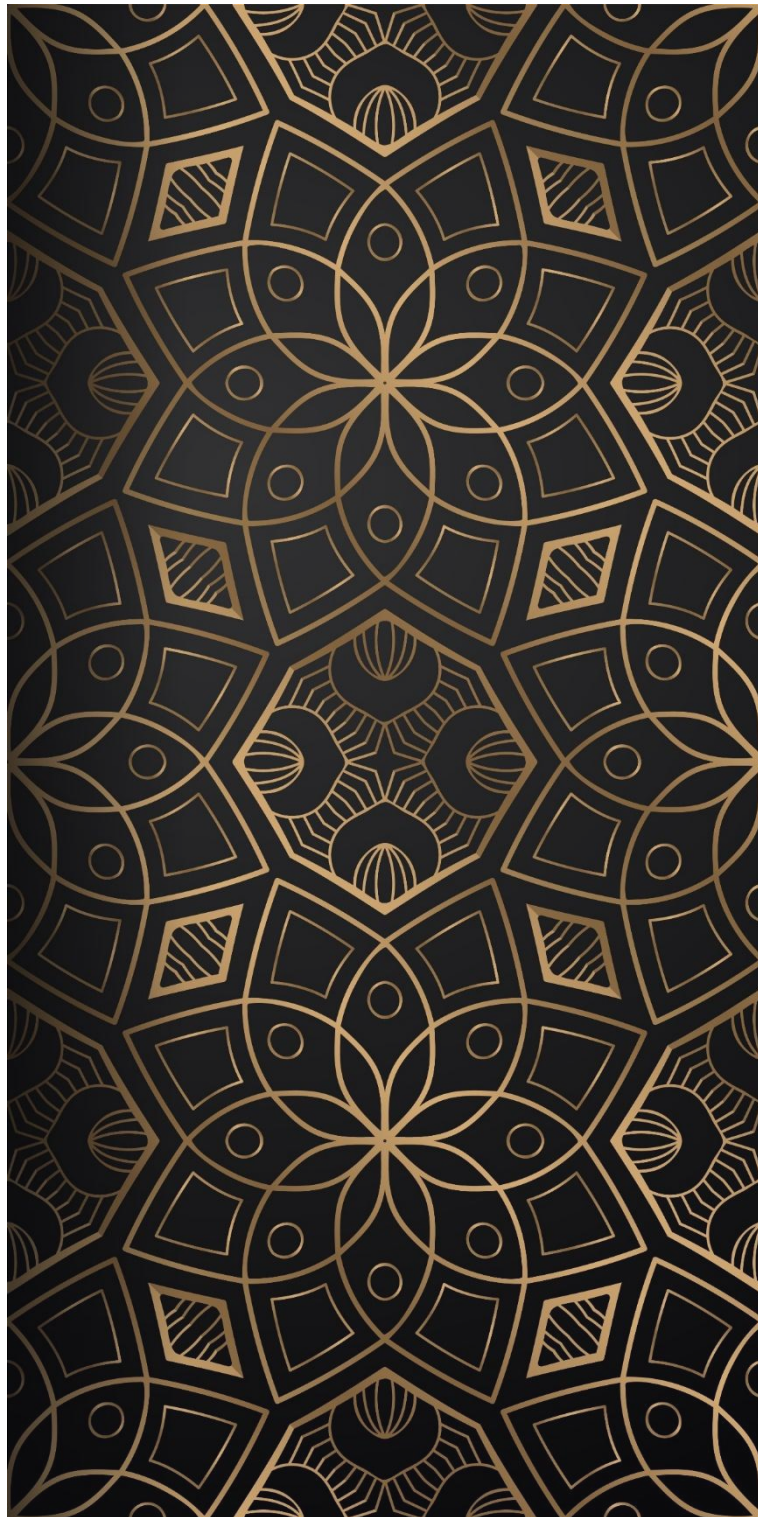




BURMAN
CAPITAL MANAGEMENT



Integrity, Ambition and Execution

Newsletter Mar-2023

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Summary

The last three years have been a roller-coaster ride for business leaders globally who have had to manage COVID-19 related lockdowns, central banker-driven consumption boost, supply chain challenges, Russia-Ukraine war, record inflation, sharp interest rate increases and most recently a global slowdown. Management strategy, execution, and the ability to deal with uncertainty has been tested vigorously during this period. For keen observers, this has been a great time to differentiate truly great managers vs the rest.

We are lucky to have invested in companies run by great managers who have exceeded our expectations in traversing through this difficult period. Hence, we thought best to dedicate our second-year anniversary newsletter to highlight our framework for assessing management teams and discuss examples from our portfolio where management teams have both done well and poorly.

We are delighted to inform you that our portfolio has delivered a strong 35.6% CAGR since inception, compared to 8.8% to 14.2% for benchmarks. Over this period, we have beaten all mutual fund schemes in the country.

Portfolio performance update

The first quarter of CY2023 has been difficult with all Indian headline indices correcting sharply. In our view, this can be attributed to both external challenges such as persistent foreign investor outflows and internal challenges such as a slowdown in consumption and issues raised on a large Indian conglomerate. This led to a reversal of strong outperformance seen by Indian markets in CY2022.

Our portfolio was resilient in the quarter delivering -0.8% (post fee) returns vs -6.8, -4.9% and -3.0% for BSE Smallcap, BSE Midcap, and BSE SENSEX respectively. Since inception i.e. Mar 23, 2021, our portfolio has delivered annualized returns of 35.6% vs BSE Smallcap, BSE Midcap and BSE SENSEX returns of 14.2%, 8.9% and 8.8% respectively, delivering outperformance of between 2,100 bps to 2,700 bps over various indices on an annualized basis.

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)	9.3	8.7	4.5	4.1	(3.5)	0.1
2023	(1.3)	2.2	(1.1)									

	CY 23TD (Absolute return %)	CY 2022 (Absolute return %)	CY 2021 (Absolute return %)	Return since inception (Annualised returns %)
Burman Capital Management	(0.8)	16.1	60.8	35.6
BSE SENSEX	(3.0)	4.4	17.0	8.8
BSE Midcap	(4.9)	1.4	23.3	8.9
BSE Smallcap	(6.8)	(1.8)	42.9	14.2

Note: CY2021 returns are since inception i.e. Mar 23, 2021.

Our framework for assessing management

Assessing management teams accurately is complicated as it is difficult to have an objective quantitative measure for the same. Hence, management assessment eventually relies, to some extent, on the assessor's judgment of the leader and the core teams' capabilities. Internally we look at three core aspects in management teams to assess capabilities – (1.) Integrity, (2.) Ambition and (3.) Execution.

Integrity

We have a 40+ point checklist devised over the last five years to assess whether management teams in the past have behaved in a minority shareholder-friendly manner or not. Some key aspects include

- Related party transactions
- Auditor and accounting policies
- Past criminal/civil case records of management, company and directors
- Board and committee composition
- Clear and transparent communication to shareholders

In our experience, we have found integrity/minority shareholder friendliness relatively easier to assess if one diligently researches the management team's past track record. Having said that, management motivations also evolve over time and hence it is important to keep re-evaluating.

Ambition

We aim to find managers who want to leave behind a legacy and have a clear plan to achieve the same. We prefer management teams who think of themselves as custodians for future generations and hence have a very long-term outlook. Certain key aspects we look for include

- Long-term growth strategy
- Focus on increasing competitive advantage i.e. long-term durability
- Tranquility of mind in the business leader i.e. doesn't get too optimistic or too pessimistic
- Clearly defined metrics to assess the above

Execution

In our view, this is the most difficult aspect to assess as most management teams execute well in good times or in a transitional manner. Truly great management teams execute well over long periods of time. A few key attributes we look for include

- Organizational culture/mindset for growth and excellence
- Ability to retain key employees and incentive structures
- Relationship with the ecosystem
- Market share gains including assessing drivers/sustainability of such gains
- Effective management/communication that make teams move coherently

Case studies from our portfolio

Challenger luggage player

One portfolio company that has executed immaculately through the past three-year period is a leading luggage industry player. The company is led by a promoter who has close to three decades of experience in the industry, substantial skin-in-the-game, extreme passion for the business and micro-level understanding of the smallest nuances of the industry. The company turned the COVID-19 crisis into an opportunity and has come out of the crisis far ahead of competition by

- Managing cost and working capital efficiently
- Solidifying relationships with distributors by making payments on time when peers withheld payments in the face of COVID-19 uncertainties
- Managing the transition from offline to online better than peers
- Investing aggressively in branding through EBOs (Exclusive Brand Outlets)
- Increasing manufacturing capacity multi-fold for hard luggage

As a result, the company

- Achieved the highest ever sales in CY2022 and gained market share
- Delivered record operating margins and profits
- The company's stock price is up close to 7X from the COVID-19 lows hit in Mar-20

Struggling branded apparels player

On the other hand, a company that did not execute as per expectations is a leading apparels player in India. The company grew at more than 30% revenue CAGR from FY2016 to FY2019. However, since COVID-19 hit the company has lagged peers on execution

- Lagging peers in expansion – Management decided to conserve cash during COVID-19 which was an understandable strategy due to uncertainty during the first wave. However, they later failed to change gears once the impact of COVID-19 started receding. The company's store count only increased by 11.5% since Mar-20 vs up to 65% for peers
- Failed to manage costs efficiently – 9MFY23 revenue for the company is flat as compared to 9MFY20, but employee costs have increased by 18% and other expenses have increased by 38% resulting in EBITDA margins dropping more than 800 bps
- Design issues in a key label – As cotton prices were rising in FY2023, management decided to mix polyester with cotton in several designs to manage prices and gross margins too. This strategy backfired as the label was not taken favorably by the channel and customers.

As a result, the stock is trading below its pre COVID-19 price range.

The preceding discussion depicts how backing the right management teams can deliver disproportionate outcomes. Over the last few years, while our broader framework has remained intact, specific nuances have evolved and we believe we now have a robust process in place for evaluating management teams.

Please feel free to write to us at info@burmancapital.com in case you would like to know more about our approach to assessing managements.

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.

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