Piper Serica Leader Portfolio Strategy™

Piper Serica

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Portfolio performance

The PMS return for the quarter was 11.1%. This brings our since inception annual return to 20.9%. This is higher than the return generated by Nifty at 10.7% and 14.4% respectively. The PMS level cash holdings is at appx. 6.5% (may vary for individual accounts).

Looking back at 2023

2023 was a remarkable year for what it started as and how it ended. The weakness in the market peaked out towards the end of March. April onwards saw the revival of FPI flows and higher participation, especially in beaten down mid and small cap stocks. The markets bottomed out just as investors were getting ready to throw in the towel. Another reminder that equity investing is for the long-term. Markets regularly create busts and booms that lead to either panic selling or over-buying by highly active investors. They expose the real temperament of 'long term' investors. The investors who not only did not panic, but used the bearish sentiment to add to their equity portfolio in the first quarter of 2023, came out as winners at the end of the year.

The rally towards the end of the year was a result on two events – an admission by the US Federal Reserve that interest rates have peaked and the decisive victory in state elections by the ruling party. The latter, though an India specific event, gave confidence to foreign as well as Indian investors that policy direction will continue for another 5 years as the chances of BJP in 2024 elections brightened.

More importantly, the earnings and commentary from Indian companies continued to be positive. While a few sectors like IT and pharma lagged, their slack was picked up by autos, PSU, BFSI, real estate, infrastructure and capital goods. Small and mid-caps handsomely beat large caps after 5 years of underperformance. Investors once again focused on finding multi-baggers from a growing list of contenders.

Our portfolio returned 43.2% in year 2023 against 20.0% return by Nifty. We continue to handsomely beat the benchmark in short, medium and long term.

Portfolio strategy

We have booked partial profits in some of our portfolio stocks by bringing their allocation in line with the model portfolio. We have deployed the proceeds in new stocks that we have added to the portfolio. We continue to look for long-term multi baggers but the incessant rally in small and mid-caps has made it difficult, though not impossible. Multi baggers are easier to find when stocks are ignored by market participants leading to low liquidity and thereby low valuation multiples. An increase in the multiple along with growth in earnings creates the exponential growth in market cap that leads to stocks becoming multi-baggers. At the same time, it requires deep research to find companies that are probably at the bottom of the industry downcycle and then patience to hold these stocks till they get on the growth curve.

We have experienced this journey with almost all of our portfolio stocks. Many of them like Apollo Hospital and Dixon were added when they were small caps, went on to become mid-caps and are now large caps. Stocks like APL Apollo, CDSL, CAMS, Angel One, South Indian Bank, Titan etc. were all added to the portfolio with a long-term perspective and have become multi-baggers. However, this journey is fraught with episodic volatility that unnerves the most seasoned investors. That is when temperament becomes more important than analytical skills. Our investors recently saw our temperament on display when we restructured the portfolio in March, after a period of underperformance, to add stocks that we thought were heavily undervalued. We refused to act like a deer caught in the headlight but rather focused on deep research to uncover investment opportunities. The solid outperformance of the portfolio from April and December is the result of that research combined with right temperament.

More recently we have added two new stocks to the model portfolio – Amber Enterprises and Amara Raja Energy and Mobility. Amber is a leading contract manufacturer of Room ACs with eight out of top 10 brands as its clients. It is a very competent manufacturer and has recently expanded its services to include HVAC for Indian Railways through its subsidiary. This is a higher growth and higher margin business. We believe that Amber will maintain its leadership in the fast growing room AC business and will build on its success with Indian Railways. We see it as a classic small-cap company that can become a large cap over a 5-year period.

Amara Raja is a leading player in the lead acid battery sector. The only other player in this sector is Exide. While we like the fact that the battery industry has already consolidated our bet on Amara is for the growth from EV batteries and recycling of batteries. The share of EVs continues to grow at the cost of IC vehicles. The EV battery space in India is highly fragmented and nascent. There is immense dependence on China for fuel cells. This gives Amara a great opportunity to take a leadership position in EV batteries through its upcoming Gigafactory in Telangana. In addition, the recent government policies are highly favourable towards recycling of old batteries. The recycling plant of Amara will provide it recycled lead for its captive consumption.

Our investors would have also noted our bet on the agrochemical space through addition of Dhanuka Agri, Bayer Crop and UPL. We believe that the policy direction of the govt is quite clear and favourable to farmers. There is a stated intent to double farm income and build national food security. The only way that can be done is by improving farm productivity. Crop protection, seeds, fertilizers, farm equipment and agri lending are some of the sectors that will see a favourable environment over the next 5 years. We are happy to bet on the sector.

Our model portfolio is currently optimally balanced between large caps (40%) and mid and small caps (60%), excluding cash. We are not anticipating any major churn in the portfolio in the near future.

View on the markets

Have the markets topped out? Is there a major correction coming?

These are not new questions. We have heard them regularly over a 30-year investment career. We remember hearing this question for the first time in mid-90's when the Nifty hit 1000 for the first time. It has been repeated every time the markets hit major technical levels.

Once you strip them of the sentimental overlay, markets are only slaves to earnings. An astute investors realises this and focuses energy only on identifying companies that can grow earnings over a long term due to favourable macro and micro factors. Sentiment driven volatility is only a red herring that should be used to ones advantage.

We believe that India is in a favourable earnings growth environment. We are seeing strong domestic consumption of products and services. The digital infrastructure built by the government has increased trade velocity. The physical infrastructure development is still work in process but seeing rapid growth. Share of manufactured products is increasing as Indian companies put on the scale that is required to compete at global levels. We are still years away from China in becoming self-dependent for critical components but we are on the right track. Cost of capital has room to fall but even at the current levels we are seeing reasonable returns for equity investors. The flow of long-term strategic capital from very large international companies like Apple, Foxconn, Samsung, Tesla etc to build manufacturing facilities in India is a very positive sign. India stands apart from an aging world through its relatively young population. Channelled properly this demographic advantage will pay us rich dividends.

As an investor one cannot take a short term view of the Indian markets. We are still a small market with just about $4 trillion market cap. However, this will increase to $10 trillion over the next decade and create significant wealth for long term investors. The key is to not only find the right stocks to invest in but to also stay invested through the market volatility.

Best wishes to you and your loved ones for a great 2024!

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