Value Research

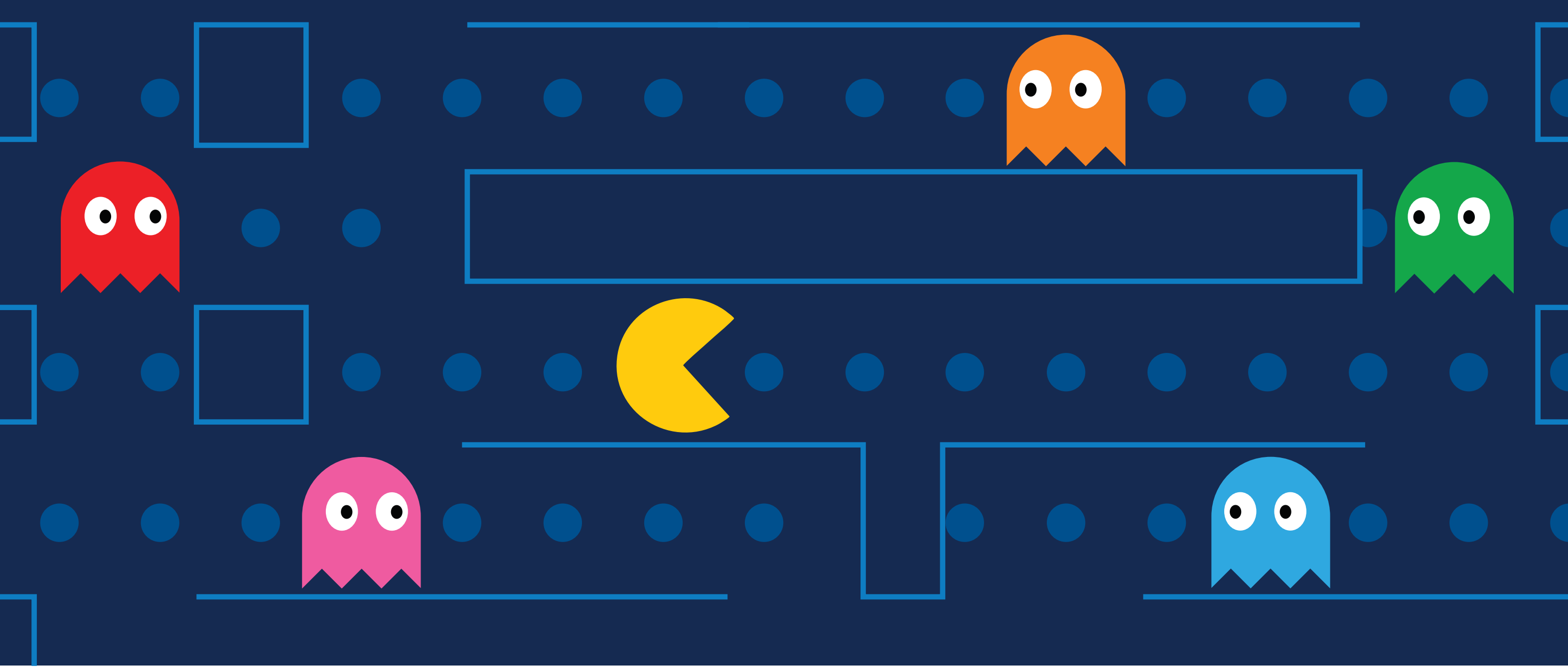
Wealth Insight

May 2025 ₹125

The Smart Investor's Stock Guide

5 traps turning your portfolio red

And how to dodge them



Value Research
May 2025 Wealth Insight Volume XVIII, Number 11

EDITORIAL POLICY

The goal of Wealth Insight, as with all publications from Value Research, is not just limited to generating profitable ideas for its readers; but to also help them in generating a few of their own. We aim to bring independent, unbiased and meticulously-researched stories that will help you in taking better-informed investment decisions, encouraging you to indulge in a bit of research on your own as well.

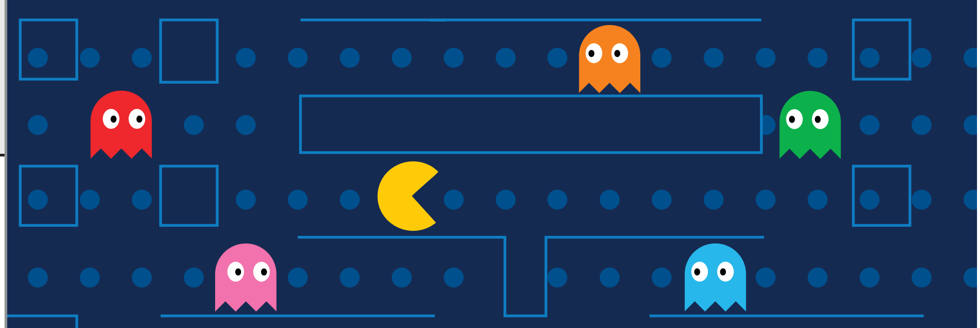
All our stories are backed by quantitative data. To this, we add rigorous qualitative research obtained by speaking to a wide variety of stakeholders. We firmly stick to our belief of fundamental research and value-oriented approach as the best way to earn wealth in the stock market. Equally important to us is our unwaveringly focus on long term planning.

Simplicity is the hallmark of our style. Our writing style is simple and so is the presentation of ideas, but that should not be construed to mean that we over-simplify.

Read, learn and earn – and let's grow and evolve as we undertake this voyage together.

5 traps turning your portfolio red

And how to dodge them



Sell smart, not scared

Insights from Howard Marks on the psychology, pitfalls and discipline behind selling

'Diversification helps during volatile times'

Bhavesh Jain
Co-head, Factor Investing at Edelweiss MF

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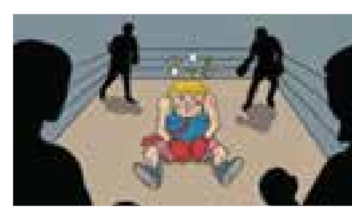

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by Dhirendra Kumar

When markets fall, look within

Costly investing mistakes reveal more about us than the market

We spend countless hours analysing markets in the investment world, but the most critical variable rarely appears on our charts or spreadsheets: ourselves. As market volatility has intensified in recent months, we at Wealth Insight have increasingly recognised that investment success depends less on predicting market movements and more on understanding our psychological responses.

The correction between September 2024 and February 2025 offers a perfect case study. With over 80 per cent of stocks posting negative returns, the real revelation wasn't about market mechanics but investor behaviour. The stark difference between those who weathered the storm and those who suffered devastating losses had less to do with market knowledge and more with self-knowledge.

This insight explains why our recent cover stories have shifted focus, examining not just what markets do but how we react to them. The financial markets, after all, are less a mathematical system than a psychological arena where fear, greed, overconfidence and herd mentality play out in real time with real money.

When prices fall sharply, they expose vulnerabilities in both companies and decision-making. Did we chase micro caps based on stories rather than fundamentals? Did we justify sky-high valuations with "this time is different"? Did we follow momentum blindly? These aren't just investment mistakes—they're cognitive biases.

The patterns from this correction are depressingly familiar. The same psychological traps seen in past downturns reappeared with clockwork precision—overexposure to speculative bets, comfort with inflated valuations, momentum chasing, sector hype and IPO fervour. Their power lies not in novelty but in alignment with human tendencies.

This month's cover story identifies five pitfalls that proved especially costly in the recent correction. What's striking is how each ties to a psychological vulnerability—our attraction to lottery-ticket stocks, our disregard for valuation in favour of a good story, our habit of extrapolating recent trends, our love for hot sectors and our FOMO around new listings.

Micro caps tap into the same psychology as lottery tickets—life-changing returns cloud rational thinking. Valuation discipline often collapses under the weight of a compelling narrative. Momentum appeals to our belief that yesterday's trend will continue. Sector infatuation stems from wanting to be part of something revolutionary. And IPO enthusiasm? That's classic FOMO.

These vulnerabilities are most dangerous during bull markets. When everything rises, these psychological tendencies are rewarded, not punished. As Buffett said, only when the tide goes out do we discover who's been swimming naked.

Worse, these biases often interact and reinforce each other. The investor chasing momentum may also ignore valuation, pile into hot sectors and eagerly subscribe to IPOs—a perfect storm of psychological weakness when markets turn.

Building a resilient portfolio isn't just about picking the right stocks—it's about constructing a framework that accounts for our psychological weaknesses. By putting in place processes that demand critical evaluation of micro caps, valuation discipline, focus on fundamentals over price trends, understanding of sector cycles, and scepticism towards IPOs, we create guardrails against our worst impulses.

This won't eliminate losses—even disciplined investors face drawdowns. But it reduces the chance that temporary market declines don't become permanent capital impairments through panic selling or frozen inaction..

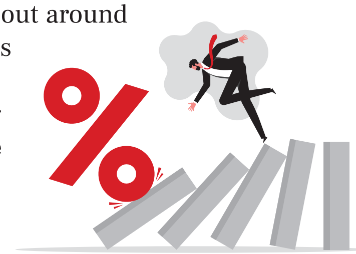
As markets continue their unpredictable journey, perhaps the most valuable skill we can develop isn't market timing or stock picking but self-awareness. Recognising our biases, understanding our emotional responses, and building systems to counter them are more valuable than any market forecast or stock tip.

IDFC First Bank to raise ₹7,500 crore amid profitability concerns

IDFC First Bank is raising ₹7,500 crore through preferential shares with prominent investors like Warburg Pincus and the Abu Dhabi Investment Authority on board. Despite strong loan growth, the bank has repeatedly tapped capital markets, driven by its low return on equity and aggressive expansion plans. This latest fundraise will boost capital adequacy and support long-term growth. However, frequent fundraising has sparked concerns about profitability and the potential dilution of existing shareholders' stakes.

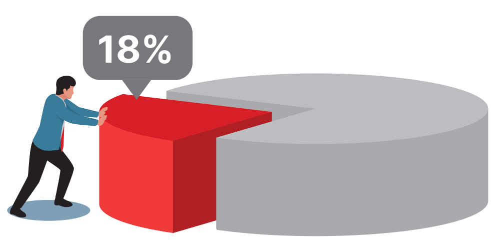
US tariffs trigger global market meltdown

In early April, global equity markets plunged sharply following the US' decision to impose a 104 per cent tariff on Chinese imports. The S&P 500 dropped over 10 per cent in just two days, wiping out around $6.6 trillion in market value. However, a few weeks later, a temporary suspension of certain tariffs sparked a market rebound with the Nasdaq seeing its largest single-day gain in 24 years. Despite the recovery, markets remain volatile amid the ongoing trade tensions.



Bain Capital to buy minority stake in Manappuram Finance for ₹4,385 crore

Bain Capital will invest ₹4,385 crore in Manappuram Finance by acquiring a 18 per cent stake, signaling strong confidence in India's non-banking financial (NBFC) sector, particularly gold loan providers. Manappuram plans to use the investment to expand its non-gold lending portfolio and strengthen its balance sheet. The deal is expected to enhance governance and improve market perception, with Bain's involvement as a strategic investor providing a boost to the company's future growth prospects.

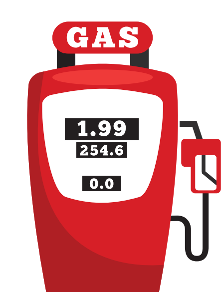


Crude oil prices fall below $60 amid trade tensions

Crude oil prices dipped below $60 per barrel in April, the first time since 2021, driven by escalating trade tensions and concerns over global demand. Brent crude briefly touched a four-year low of $58.40 before recovering to around $65 following a temporary suspension of some US tariffs. The decline was also partly due to Saudi Arabia slashing its May oil prices to defend market share amid competition from discounted Russian crude.

Government cuts APM gas allocation by 20 per cent for CGDs

The government has reduced the allocation of cheaper Administered Price Mechanism (APM) gas to city gas distribution (CGD) companies by up to 20 per cent, replacing it with costlier new well gas, priced at 12 per cent of the Indian crude basket. This is the third reduction of its kind, following two cuts last year. CGD companies such as Indraprastha Gas, Mahanagar Gas, Gujarat Gas, and Adani Total Gas may face margin pressures and possibly raise retail prices to manage rising input costs.



IndiGo surpasses global peers to become world's most valued airline

IndiGo overtook global giants like Delta and Ryanair last month to become the world's most valued listed airline by market capitalisation. This achievement was driven by strong post-Covid travel demand, effective cost management, and a dominant domestic market share. IndiGo's plans for international expansion and a large aircraft order book further boost investor confidence. However, rising ATF prices and competitive pressures could challenge its sustainability, though the airline's valuation highlights India's booming aviation market.

RBI proposes stricter regulations for gold loan NBFCs

The RBI has proposed tougher regulations for gold loans, which will significantly impact NBFCs that lend against the yellow metal. Key changes include a mandatory 75 per cent loan-to-value (LTV) ratio throughout the loan tenure and enhanced monitoring of loan end-uses. NBFCs, particularly those offering bullet repayment loans, may face reduced disbursements and higher compliance costs. Following the announcement, gold loan NBFCs like Muthoot Finance, Manappuram Finance and IIFL Finance experienced stock declines, reflecting investor concerns over growth slowdowns and operational hurdles.

Government raises stake in Vodafone Idea to nearly 49 per cent

The government increased its stake in Vodafone Idea to almost 49 per cent by converting ₹36,950 crore of outstanding spectrum dues into equity. This resulted in the issuance of 3,695 crore equity shares at ₹10 each. As a result, promoter Vodafone Plc's stake dropped to 16.1 per cent while Aditya Birla Group's stake reduced to 9.4 per cent. Despite the increased government stake, operational control remains with the original promoters.

Delhivery acquires Ecom Express for ₹1,407 crore

Delhivery acquired a 99.4 per cent stake in Ecom Express for ₹1,407 crore in an all-cash transaction, marking a major consolidation in India's logistics industry. The acquisition, at an 80 per cent discount from Ecom Express's peak valuation, follows the latter's operational difficulties and failed IPO attempts. Delhivery expects minimal integration challenges due to overlapping customer bases and similar operations. This move aims to boost Delhivery's scale, profitability, and operational efficiency.

Wipro and Infosys report mixed Q4 results amid IT slowdown

In Q4 FY25, Infosys posted a 7.9 per cent year-on-year revenue growth but its net profit dropped 11.8 per cent. It projected subdued FY26 revenue growth of 0–3 per cent, citing global macroeconomic uncertainties and cautious client spending. Wipro, on the other hand, saw a 1.3 per cent revenue rise and a 25.9 per cent increase in profit after tax. However, it warned of a 1.5–3.5 per cent revenue decline in Q1 FY26.

MARKET REPORTER

RBI cuts repo rate by 25 bps for second time this year

In its April 2025 policy review, the Reserve Bank of India (RBI) reduced the repo rate by 25 basis points (bps) to 6 per cent, its second consecutive rate cut this year. The move was prompted by easing inflation, with March retail inflation reaching a five-year low of 3.34 per cent and concerns over global trade tensions affecting growth. The RBI also shifted its policy stance from 'neutral' to 'accommodative', hinting at potential further rate cuts to support economic expansion.

Tata Motors' shares drop after JLR halts US shipments amid new tariffs

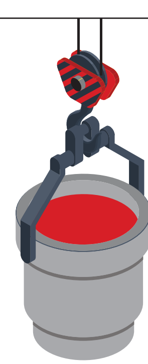
Tata Motors' shares saw a 10 per cent single-day decline in April after its subsidiary Jaguar Land Rover (JLR) temporarily halted its shipments to the US due to a newly imposed 25 per cent import tariff. The US market accounts for 25 per cent of JLR's sales. The company is exploring alternative strategies to address the disruption.

SEBI bars Gensol promoters over ₹262 crore misappropriation

SEBI's investigation into Gensol Engineering uncovered that promoters Anmol and Puneet Jaggi diverted ₹262 crore from loans intended for electric vehicle procurement, using the funds for personal expenses, including a ₹43 crore luxury apartment and a ₹26 lakh golf set. SEBI also found that the company falsely claimed EV orders and manipulated its stock price through related entities. As a result, the Jaggi brothers have been barred from holding key positions in listed companies and a forensic audit has been ordered.

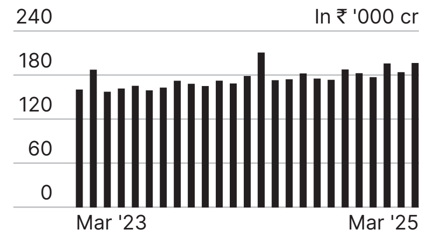
₹60,000 crore

The amount the JSW Group will invest to set up a greenfield steel plant in Maharashtra focused on low-emission green steel production. The 12 MTPA facility will incorporate renewable energy and hydrogen-based technologies to align with global decarbonisation goals.

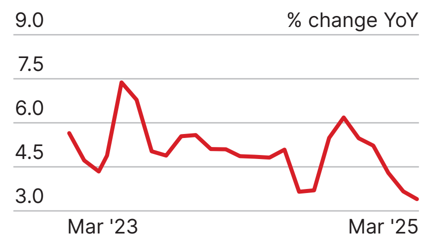


ECONOMIC METRICS

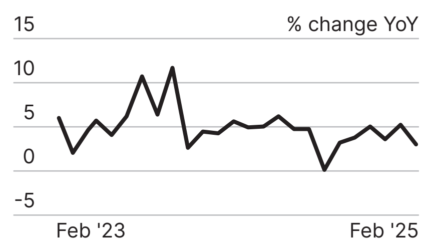
GST collection



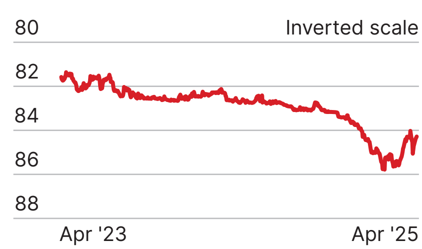
Inflation: Consumer Price



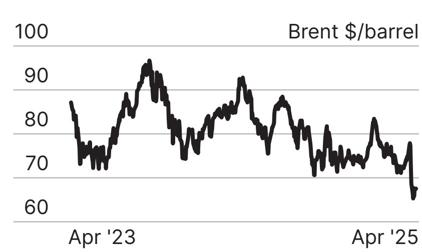
Index of Industrial Production



₹ vs $



Crude oil



STOCK STORY

Nerves of steel

Revisiting JSW Steel's mighty growth story through relentless execution

When listing posterboys of India's industrial might, JSW Steel's name cannot go missed. In a remarkable feat, the steel making giant clinched the title of the world's most valuable steel company by market capitalisation in late March. It's a triumph that speaks volumes of the company's 30-year journey, during which consistent capacity expansions, smart acquisitions and a few strategic differentiators helped it deliver a handsome 18 per cent annual return since 2005. In this story, we take a look at its glorious past that has brought the company to its even more glorious present.

Image: JSW Steel

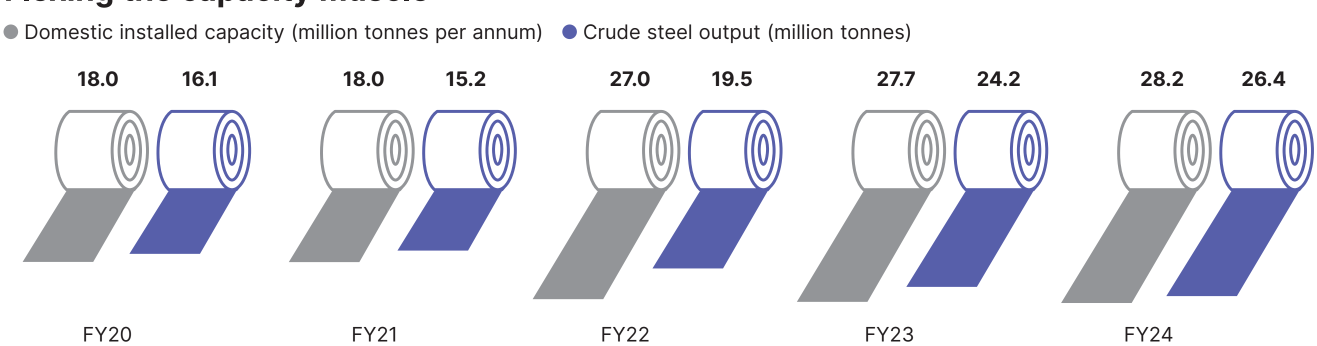
Laying the foundation

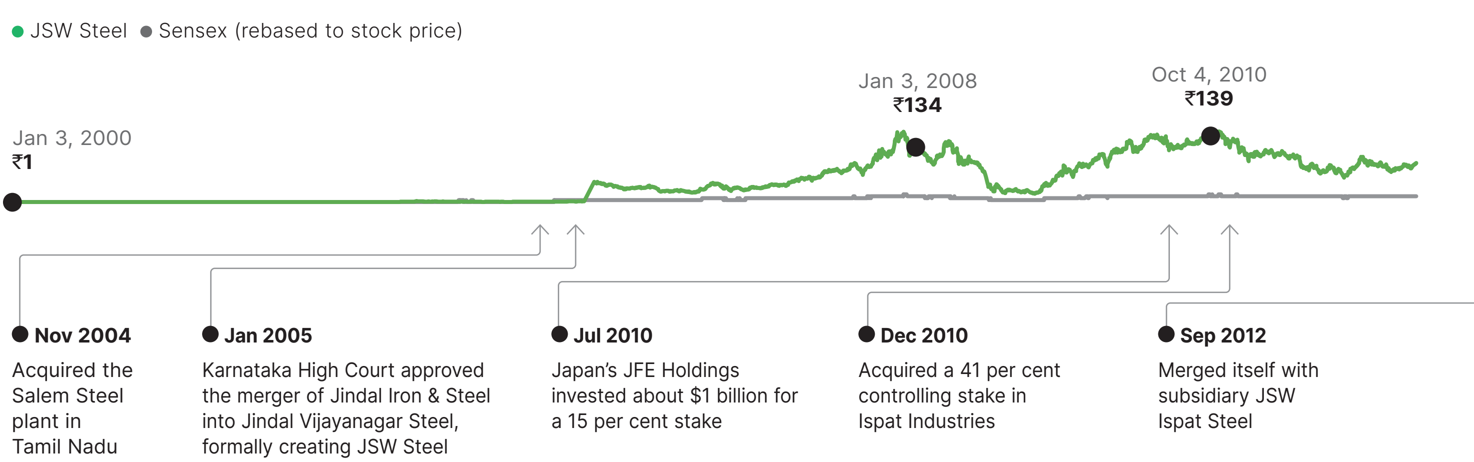
JSW Steel's journey began in 1994 when Jindal Vijayanagar Steel set up its first plant in Karnataka. The company's focus was clear: build capacity and meet India's growing demand for steel. The real turning point came in 2005 when the company merged with Jindal Iron and Steel, creating what we know today as JSW Steel. But its success cannot be attributed to capacity alone. It was the several strategic steps that it took, which differentiated it from peers.

Strategic ascents

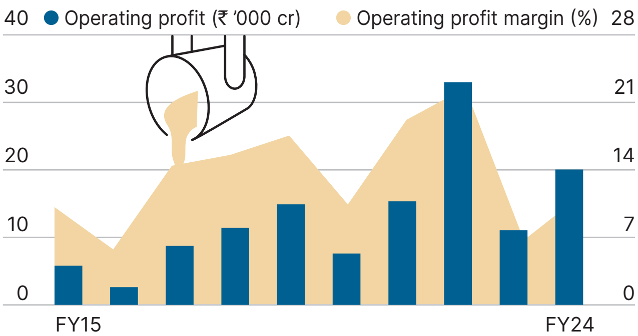
What truly set JSW Steel apart was its ability to think beyond traditional methods. In 2007, the

Flexing the capacity muscle

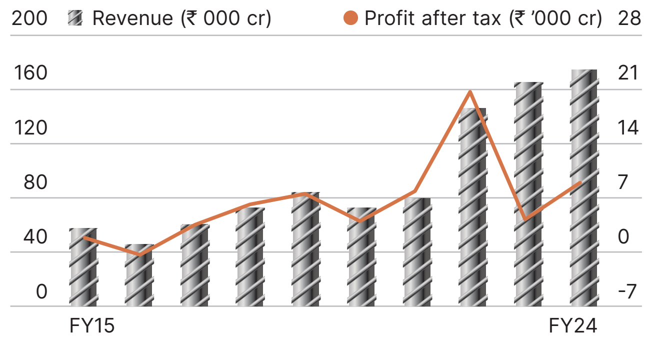




Operating profit and operating margin



Revenue and profit after tax



company turned the steel business model on its head by launching JSW Shoppe, a franchise-led retail model. This was a game-changer in an industry where steel manufacturers typically sold only through vast dealer networks. By allowing direct access to builders and fabricators, JSW Steel not only expanded its market reach but also established itself as a consumer-facing brand—a move its competitors would eventually adopt.

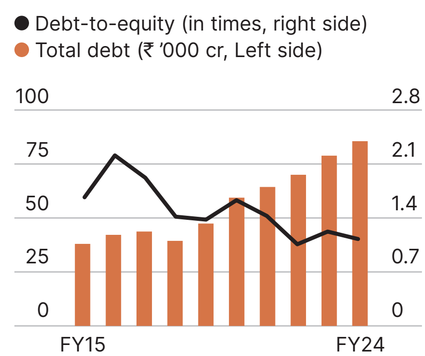
JSW Steel's ascent was further powered by strategic acquisitions. In 2014, the company acquired Welspun Maxsteel and in 2018, it took over Bhushan Power and Steel. These acquisitions expanded its presence in Eastern India and gave it access to key iron ore mines.

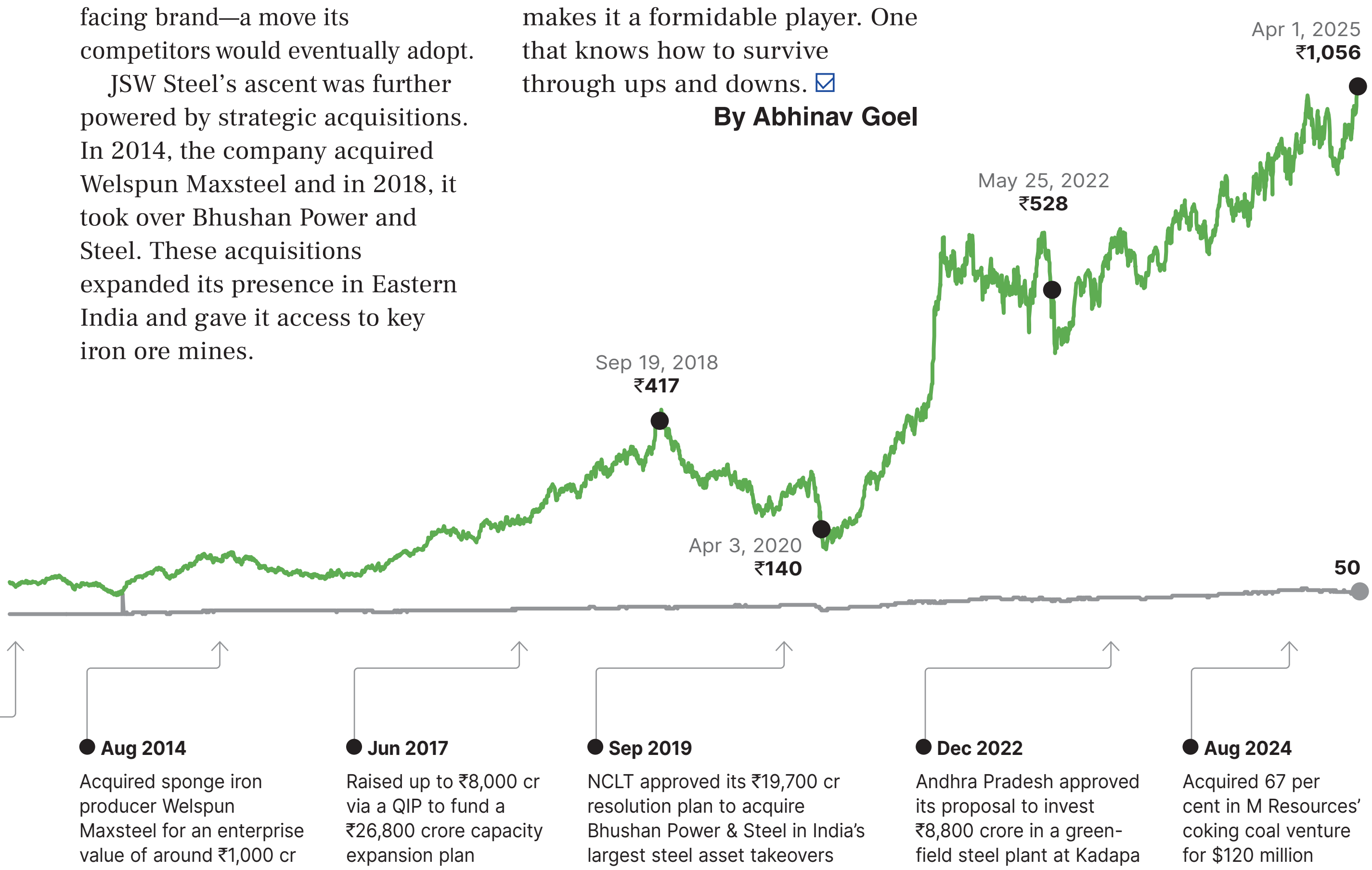
The road ahead

The giant is not resting on its laurels. It's eyeing to expand its capacity to a spectacular 50 MTPA by FY31 and is diving into the electrical steel market in partnership with JFE Steel. While the cyclical nature of the industry, as demonstrated by margin pressures in FY23, remind us of the challenges, JSW Steel's long-standing expertise makes it a formidable player. One that knows how to survive through ups and downs. ☑

By Abhinav Goel

Debt burden





Large caps

	Industry	Stock Rating	3M returns (%)	P/E	TTM rev. growth (% YoY)	TTM PAT growth (% YoY)	3Y EPS growth (% pa)	3Y avg ROE (%)
Top 10 by returns ▲								
Bajaj Finance	Consumer Financing	★★★★★	22.7	6.0*	28.7	16.5	37.8	19.8
Interglobe Aviation	Air Transport	★★★	21.9	32.7	17.2	-15.4	45.5	-
Kotak Mahindra Bank	Banks - Div.	★★★★★	20.2	2.8*	20.7	13.6	27.7	14.1
Shriram Finance	NBFC - Div.	★★★★★	20.1	2.2*	20.5	26.1	26.1	14.8
Solar Industries India	Explosives	★★★★	18.8	91.2	9.5	37.2	45.5	30.5
SBI Cards	NBFC - Div.	★★★★★	17.9	6.0*	8.3	-12.7	18.7	23.7
Cholamandalam Inv.	Commercial Financing	★★★★★	17.5	5.5*	38.7	25.9	32.4	20.4
Shree Cement	Cement	★★★★	17.0	88.8	-4.6	-45.5	-20.9	11.6
NTPC	Power Generation - Div.	★★	16.8	15.9	6.1	18.6	11.0	13.0
Indus Towers	Wireless Telecom Serv.	★★★★★	16.6	9.9	5.1	79.2	19.7	22.7
Bottom 10 by returns ▼								
Siemens	Div. Manufacturing	★★★	-55.3	34.4	9.1	28.9	39.4	15.3
Oracle Financial	Financial Technology	★★★	-33.8	28.7	9.2	7.4	6.9	32.5
LTIMindtree	IT Serv. & Consulting	★★★★	-30.7	27.5	5.1	-0.5	6.9	31.1
HCL Technologies	Software & Serv. - Div.	★★★★	-30.3	22.1	6.7	8.8	15.7	27.4
Infosys	Software & Serv. - Div.	★★★★	-28.3	21.2	4.4	13.4	9.4	33.9
Persistent Systems	Software & Serv. - Div.	★★	-28.1	53.0	19.0	28.2	27.6	25.1
Indian Overseas Bank	Banks - Div.	★★★★	-27.6	21.5	20.0	24.0	25.6	10.2
Trent	Apparels & Footwear - Div.	★★★	-27.4	87.9	44.0	93.6	143.0	22.3
Tech Mahindra	IT Serv. & Consulting	★★★★	-24.8	33.5	-0.7	31.5	-10.3	16.3
TCS	Software & Serv. - Div.	★★★★★	-24.2	24.1	6.0	4.3	8.9	50.4

*Price-to-book ratio. Our large-cap universe has 142 large companies, making the top 70 per cent of the total market capitalisation. The above list mentions stocks that fluctuated the most in the last three months. PAT adjusted for exceptional items and discontinued operations. Data as of April 14, 2025.

Mid caps

	Industry	Stock Rating	3M returns (%)	P/E	TTM rev. growth (% YoY)	TTM PAT growth (% YoY)	3Y EPS growth (% pa)	3Y avg ROE (%)
Top 10 by returns								
Godfrey Phillips	Tobacco Products	★★★★	47.1	36.3	21.7	26.1	32.8	20.8
Chambal Fertilisers	Fertilisers	★★★★★	34.0	16.0	-11.0	24.7	-1.8	19.3
Force Motors	Commercial Vehicles	★★★★	33.7	22.7	19.4	88.9	91.0	7.7
Narayana Hrudayalaya	Hospitals & Clinics	★★★★★	29.6	44.4	8.5	1.6	32.0	19.0
JSW Holdings	NBFC - Div.	★★	28.4	0.8*	47.1	50.2	10.0	1.0
GSK Pharma	Branded Medicines	★★★★	25.4	54.2	11.9	36.9	20.6	26.1
Manappuram Finance	NBFC - Div.	★★★★★	25.2	1.5*	21.4	-3.8	8.6	16.6
Astrazeneca Pharma	Branded Medicines	★★★★	22.6	218.6	35.3	3.1	16.8	18.6
Aavas Financiers	Mortgage/Housing Finance	★★★★★	21.7	3.8*	17.8	18.5	19.4	14.1
Blue Jet Healthcare	API / Generic Pharmaceuticals	★★★★	19.8	50.8	17.3	29.3	5.0	30.1
Bottom 10 by returns								
Apar Industries	Div. Manufacturing	★★	-52.6	25.0	13.0	-3.0	51.4	26.0
Anant Raj	Real Estate Dev.	★★	-50.4	39.1	48.5	75.4	98.9	3.5
Newgen Software	IT Serv. & Consulting	★★★★	-44.4	41.1	22.0	38.0	24.8	22.1
ITI	Network Equipment & Tools	★★	-43.0	0.0	120.6	-11.2	-314.7	-13.0
KIOCL	Iron Ore	★	-40.7	0.0	-67.7	-603.8	-187.6	2.1
Zen Technologies	Software	★★★★	-40.6	61.6	100.3	92.1	1940.5	15.7
Brainbees Solutions	Apparels & Footwear - Div.	Unrated	-39.3	0.0	161.8	16.1	-203.8	-9.7
Punjab & Sind Bank	Corporate Banks	★★	-39.1	22.8	15.9	-7.7	-16.1	8.0
Swan Energy	Miscellaneous Textiles	★★	-39.0	15.6	20.4	47.3	86.4	0.2
TBO Tek	Travel & Tourism	★★★	-38.4	53.5	27.2	14.8	99.3	38.0

*Price-to-book ratio. Our mid-cap universe has 316 mid-sized companies, making the next 20 per cent of the total market capitalisation. The above list mentions stocks that fluctuated the most in the last three months. PAT adjusted for exceptional items and discontinued operations. Data as of April 14, 2025.

Small caps

	Industry	Stock Rating	3M returns (%)	P/E	TTM rev. growth (% YoY)	TTM PAT growth (% YoY)	3Y EPS growth (% pa)	3Y avg ROE (%)
Top 10 by returns								
Colab Platforms	Investment Mgmt. - Div.	★★★	239.4	537.4	2347.7	11.5	214.6	6.5
Elitecon International	Div. Trading	Unrated	219.1	197.8	1268.5	156.8	204.5	4.1
Kothari Industrial	Div. Others	★★★	142.7	-	345.7	547.0	-469.8	0.0
NACL Industries	Pesticides	★★	139.9	-	-22.4	-196.6	-189.5	9.3
GRM Overseas	Crop Farming	★★★	75.6	31.7	9.1	21.8	-11.1	29.5
Blue Pearl Agriventures	Miscellaneous Textiles	Unrated	72.5	-	8432.1	9300.0	259.2	-
Vadilal Industries	Dairy Products	★★★★★	61.4	26.6	7.5	6.0	58.0	28.1
Kaveri Seed Company	Crop Farming	★★★★★	57.8	24.2	8.0	7.2	19.8	19.6
Vadilal Enterprises	Dairy Products	★★★	47.1	177.6	8.3	-27.1	8.2	58.8
TechNVision Ventures	Software	★★★	43.9	290.5	31.1	28.1	35.4	-
Bottom 10 by returns								
Vantage Knowledge	Education Serv.	Unrated	-75.1	333.4	26.3	4.8	293.4	15.7
Vakrangee	Software	★	-71.0	171.8	17.2	180.8	-60.4	1.5
Suratwwala Business Group	Real Estate Dev.	★★★	-68.0	66.5	-42.8	-52.3	-23.4	-
Blue Cloud Softech Solutions	Software	★★	-66.3	17.1	160.1	389.1	229.0	7.2
Grand Oak Canyons Distillery	Real Estate Serv.	Unrated	-65.3	-	-74.6	-49400	-576.2	-0.6
Orchid Pharma	API / Generic Pharma	Unrated	-61.0	33.1	11.0	3.6	85.8	3.3
Precision Camshafts	Auto Ancillaries	★★★	-56.1	86.0	-11.6	-54.3	-10.3	6.4
Quick Heal Technologies	Software	★★	-54.3	66.9	12.8	527.2	-35.7	6.2
E2E Networks	Software & Serv. - Div.	★★★	-54.3	101.4	93.5	79.3	108.5	29.8
Veritas (India)	Div. Trading	★	-53.8	7.4	28.9	-27.5	6.7	5.7

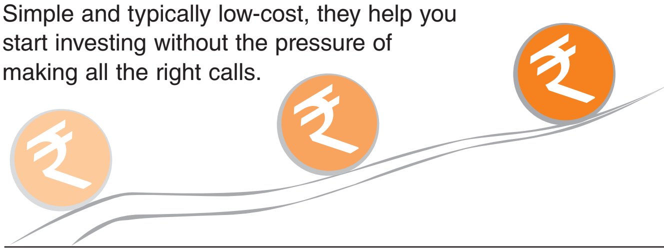
Our small-cap universe (minimum mcap of ₹580 crore) has 1,190 small-cap companies, making the bottom 10 per cent of the total market cap. The above list mentions stocks that fluctuated the most in the last three months. PAT adjusted for exceptional items and discontinued operations. Data as of April 14, 2025.

MIRAE ASSET
Mutual Fund

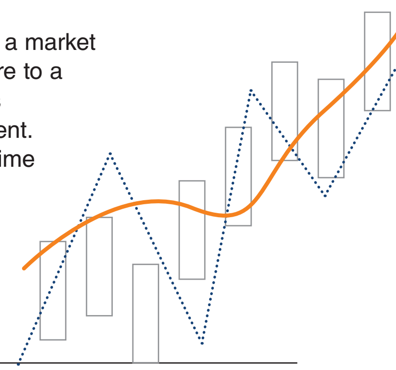
Passive funds for the aspiring investor

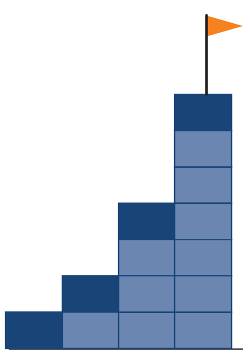
Starting your investment journey can feel **overwhelming**. With endless options, market jargon, and advice flying in from all directions, it's easy to put it off for later. But what if the first step didn't have to be so complicated?

If you're someone who wants to **generate wealth** but doesn't have the time—or the know-how—to dive deep into markets, passive funds are a great place to begin. Simple and typically low-cost, they help you start investing without the pressure of making all the right calls.

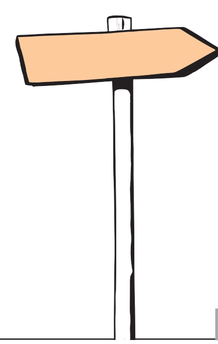


Passive funds track a market index, giving you exposure to a wide range of companies through a single investment. No need to pick stocks, time the market, or constantly monitor performance. You just start and stay the course.

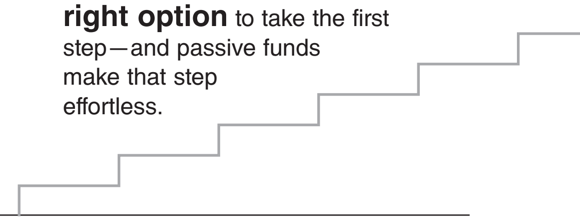




Over time, **compounding** does the heavy lifting, turning modest beginnings into meaningful outcomes.



You don't need a finance degree to start investing. You just need **the right option** to take the first step—and passive funds make that step effortless.



Views expressed here cannot be construed to be a decision to invest. The statements contained herein are based on current views and involve known and unknown risks and uncertainties. Whilst Mirae Asset Investment Managers (India) Private Limited (the AMC) shall have no responsibility/liability whatsoever for the accuracy or any use or reliance thereof of such information. The AMC, its associate or sponsors or group companies, its Directors or employees accepts no liability for any loss or damage of any kind resulting out of the use of this content. The recipient(s) before acting on any information herein should make his/her/their own investigation and seek appropriate professional advice and shall alone be fully responsible / liable for any decision taken on the basis of information contained herein. Any reliance on the accuracy or use of such information shall be done only after consultation to the financial consultant to understand the specific legal, tax or financial implications. **An investor education and awareness initiative by Mirae Asset Mutual Fund.** All Mutual Fund investors have to go through a one-time KYC (Know Your Customer) including the process for change in address, Phone number, bank details, etc. Investors should deal only with registered Mutual Funds details of which can be verified on SEBI website (https://www.sebi.gov.in) under 'Intermediaries /Market Infrastructure Institutions'. For further information on KYC, RMFs and procedure to lodge a complaint in case of any grievance, you may refer the Knowledge Centre section available on the website of Mirae Asset Mutual Fund. Investors may lodge complaints on https://www.scores.gov.in against registered intermediaries if they are unsatisfied with the responses. SCORES facilitate you to lodge your complaint online with SEBI and subsequently view its status.

Mutual fund investments are subject to market risks, read all scheme related documents carefully. You may consult your Financial Advisor or Mutual Fund Distributor before taking investment decisions.

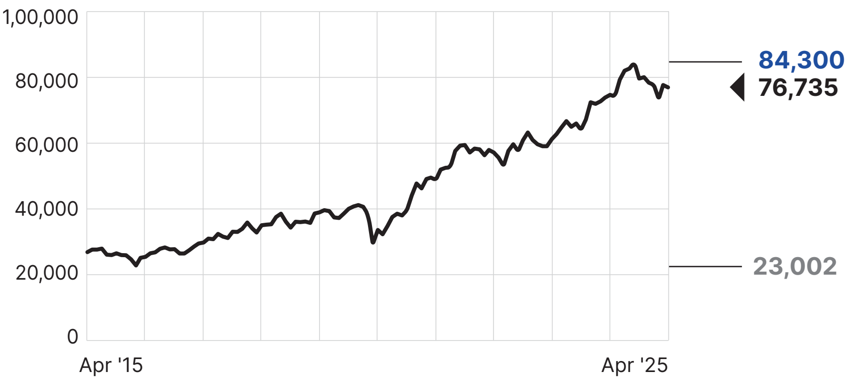
MARKET BAROMETER

Trends and trails

Charts to help you make sense of the current market in terms of valuations and return potential

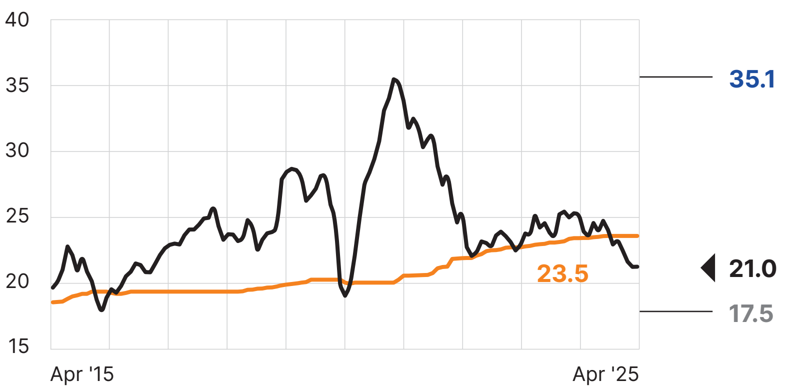
Max Current Median Min

Sensex's 10-year journey

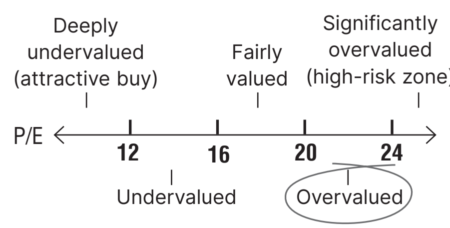


- The Sensex is a reliable gauge of the Indian market's overall performance.
- The 10-year graph shows a secular market rally, interrupted by several bearish phases.
- Key setbacks include: Chinese growth concerns (2015), demonetisation (2016), US-China trade tensions (2018), and the Covid-19 crash (March 2020).
- After a strong recovery post-March 2020, markets dipped due to the Russia-Ukraine conflict and rising interest rates.
- After touching new lifetime highs in 2024, Sensex is now stuck in a consolidation phase.

Sensex price-to-earnings ratio

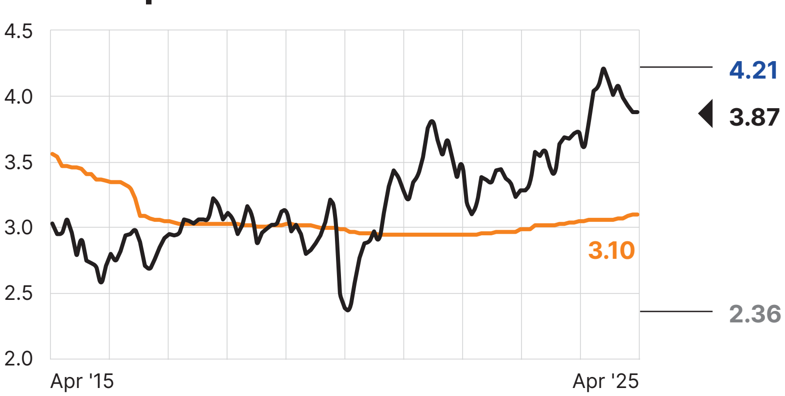


The **price-to-earnings (P/E)** ratio of the Sensex is a straightforward indicator of market valuation. Here's a general valuation guide:



This chart uses standalone data for Sensex companies. If consolidated figures are considered, the P/E ratio would likely be lower.

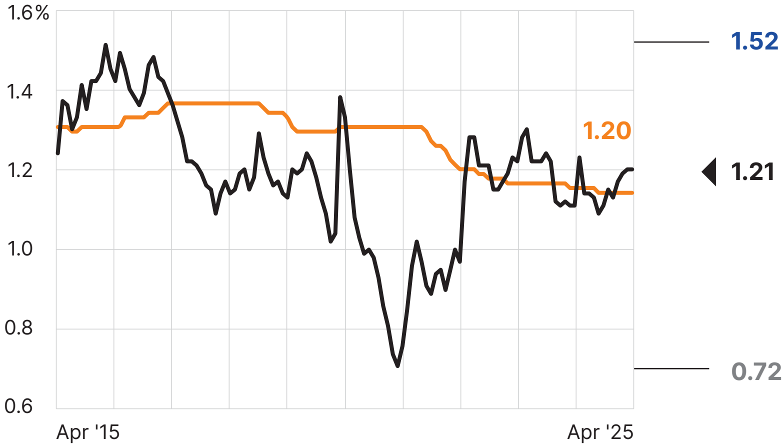
Sensex price-to-book ratio



The **price-to-book (P/B)** ratio reflects what investors are willing to pay for each rupee of net assets. With book value being more stable than earnings, it's often considered a better valuation measure than P/E.

If:
P/B > Median P/B = Overvalued
P/B < Median P/B = Undervalued

Sensex dividend yield

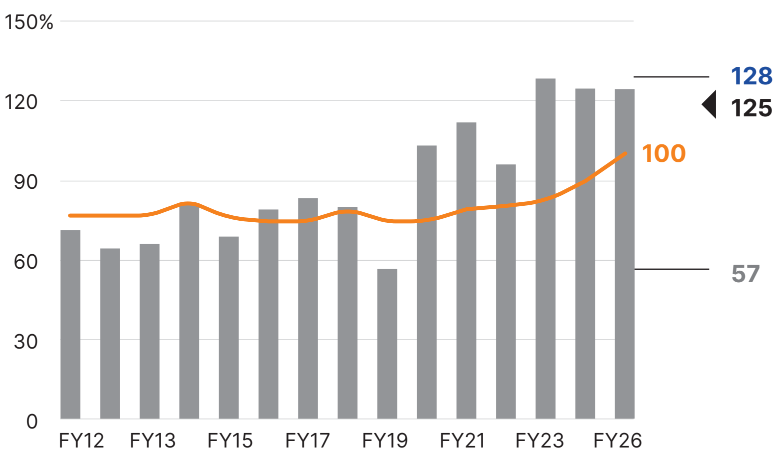


Dividend yield represents the return an investor earns through dividends. It's calculated as dividend per share divided by price per share. Typically, higher dividend yields indicate cheaper stock prices.

If:
Dividend yield < Median dividend yield = Overvalued

Dividend yield > Median dividend yield = Undervalued

Market cap-to-GDP

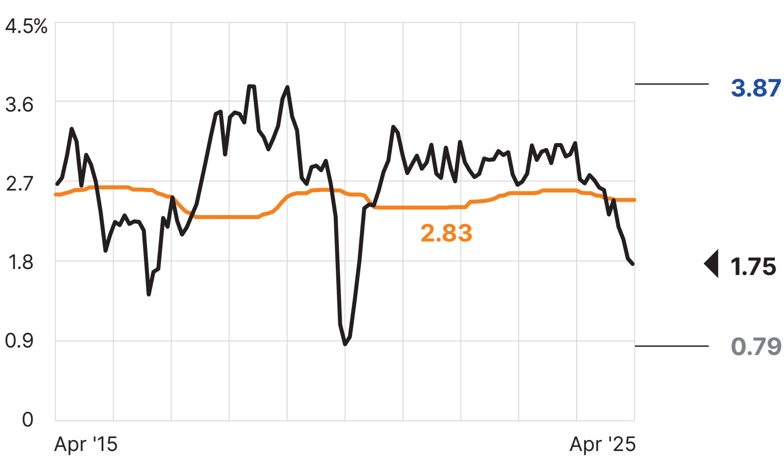


The **market cap-to-GDP ratio** is Warren Buffett's favourite valuation metric, calling it "the best measure of market valuations at any given moment."

If:
Market cap > GDP = Overvalued
Market cap < GDP = Undervalued

Considering the cumulative market cap of BSE-listed companies and the nominal GDP estimates: final for FY23, first revised for FY24, and second advanced for FY25.

10Y G-sec yield gap to Sensex earnings yield

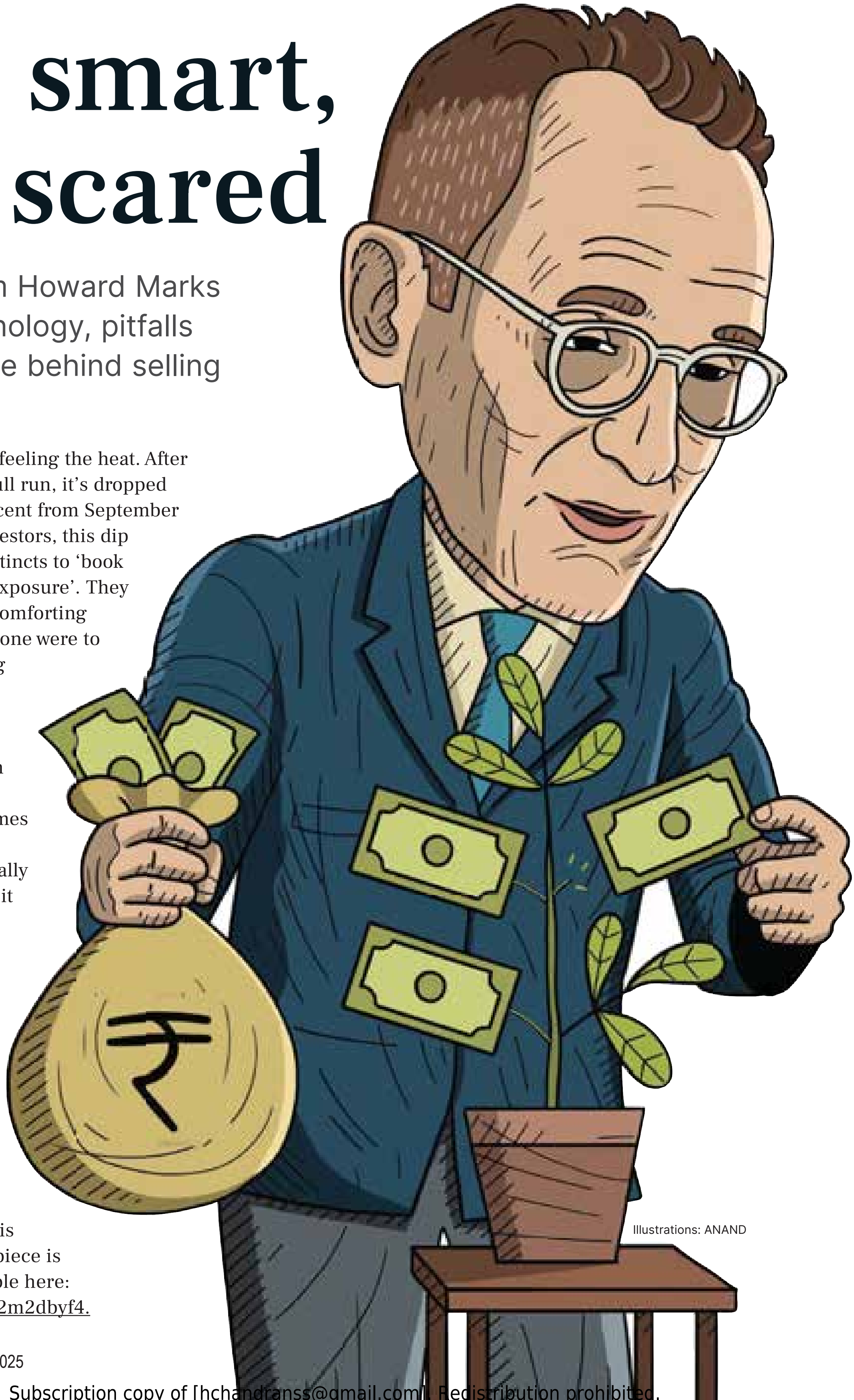


The **spread** between the 10-year government bond yield and Sensex earnings yield (inverse of P/E) is a key valuation metric.
A significant deviation from the median indicates the degree of the Sensex's overvaluation or undervaluation.
If:
Spread > Median = Overvalued
Spread < Median = Undervalued

All data as of April 15, 2025

Sell smart, not scared

Insights from Howard Marks on the psychology, pitfalls and discipline behind selling



Illustrations: ANAND

The market is feeling the heat. After a two-year bull run, it's dropped 10 to 15 per cent from September highs. For many investors, this dip triggers familiar instincts to 'book profits' or 'reduce exposure'. They have a simple and comforting appeal. However, if one were to go by what investing sage Howard Marks believes, such *mantras* oversimplify a much messier reality. Because when it comes to selling, most investors don't actually do it wisely, they do it emotionally.

In his memo 'Selling Out', Marks delves into what drives selling decisions during downturns and why most investors get it wrong. While we've highlighted key excerpts from his missive, the entire piece is a must-read, available here: https://tinyurl.com/2m2dbyf4.

Why we sell (And why we shouldn't)

Marks starts by acknowledging an irony: after decades of writing investment memos, he'd never dedicated one entirely to the art of selling. "Selling is half of every investment," he admits. But despite its critical importance, most investors sell for the wrong reasons. "There are two main reasons why people sell investments: because they're up and because they're down."

Let's start with the first—when investments are up, investors rush to book profits. It sounds reasonable, but as Marks points out, it's often driven more by fear than by logic. "People like the fact that their assets show gains, and they're afraid the profits will go away." It's less about making money and more about avoiding the regret of seeing gains disappear. For professionals, the fear is reputation-driven. Imagine touting a winning stock in one quarterly letter, only to explain why it halved in the next.

But here's the catch: by selling, you lock gains, yes, but you don't necessarily avoid risk of losing. As Marks notes, "sales proceeds are generally reinvested, meaning the profits and the principal are put back at risk." The problem is that swapping a winner for something else doesn't guarantee better outcomes. "Appreciated securities might be more vulnerable to declines... but that's far from a certainty."

On the flip side, selling because something's down is driven by fear, as Marks puts it vividly, "it feels like it's going to zero—get me out!" And this is when the classic 'buy low, sell high' becomes 'buy high, sell low' all too quickly. The data supports this: investors often underperform by selling poor performers at the bottom and then chasing recent winners. This behavior not only hampers returns, it sabotages the one advantage every investor has: compounding.

Marks explains this by citing Amazon.Who wouldn't wish they had bought Amazon at $5 in 1998? By 1999, it had rocketed to $85—a 17x gain. Most would have sold. Then it crashed again to $6 in 2001. The majority would have panicked and exited. But those who stayed were rewarded when Amazon hit $600 in 2015—a 100x return from the low. And those who sold at $600 missed the next 6x jump that followed.

Lessons from his son

During the pandemic, Marks had a conversation with his son Andrew—also a seasoned investor—that encapsulates the psychology behind selling. It's a conversation that speaks volumes about investing discipline:

Howard: I see XYZ is up xx per cent this year and selling at a high P/E. Are you tempted to take profits?

Andrew: Dad, I've told you—I'm not a seller. Why would I sell?

Howard: Maybe to lock in gains... protect from a fall... it's getting overvalued... no one ever went broke taking a profit.

Andrew: True, but I'm a long-term investor. I don't see shares as trading chips—I see them as ownership in a business. If the business still has potential, I'm fine riding through short-term dips.

Howard: But trimming would let you buy back cheaper later.

Andrew: If I owned a stake in a private business with great management and momentum, I wouldn't sell just because someone offered me a fair price. Great compounders are extremely hard to find. It's usually a mistake to let them go.

This conversation distills Marks' core message: selling should not be driven by discomfort or short-term price fluctuations but by a clear rationale. Not in what's happened to the price but what you believe will happen to the business.

So when should you sell?

The answer, as Marks points out, isn't simple. He quotes Sidney Cottle, the editor of Security Analysis, who says investing is "the discipline of relative selection." Selling, therefore, should not be about avoiding pain or seeking short-term relief but about moving into something better—not just cheaper.
So, when should you sell? Ask yourself: Is my original thesis weakening? Is there a better opportunity? Or am I simply uncomfortable holding a stock that's either doubled or halved?

In addition, market conditions should hold no sway over investment decisions if one is confident in their thesis. Even when the market looks overheated, "why sell something you think has a positive long-term future to prepare for a dip you expect to be temporary?", Marks quips.
Even if one is right about the correction, they might not necessarily be right about when to get back in, he adds. "Selling for market-timing purposes actually gives an investor two ways to be wrong, or three if you count what you do with the proceeds in between", he remarks.

What about portfolio imbalance?

Marks also addresses the fear of having a single position grow too large in the portfolio. Should you trim it for diversification? Here, Marks recalls his conversation with Andrew:

Howard: Hasn't the growth in this position unbalanced your portfolio?
Andrew: Maybe. But trimming means selling something I know and trust for something I know less about—or for cash. I'll only have a few good insights in my lifetime. I need to maximize them.

Marks agrees partly. "We may have a sense for which holding is the absolute best," he writes, "but I've never heard of an investor with a one-asset portfolio." He endorses that diversification is important but admits that ultimately, the decision to trim positions or to sell out entirely comes down to judgment like everything else that matters in investing. The decision changes from portfolio to portfolio.

The final word

So, when should you sell? Marks sums it up clearly: "there are certainly good reasons for selling, but they have nothing to do with the fear of making mistakes, experiencing regret, or looking bad." Sell when the outlook weakens, when your thesis has eroded or when a truly better opportunity appears.But don't sell

out of nerves. Don't try to "get out before the fall." There are very few occasions when this is profitable and even fewer investors who have the skill to execute it well. His final piece of advice? "Simply being invested is by far the most important thing. Time—not timing—is what builds wealth." It's a lesson we know but often forget. ☑

BSE Realty

-14.2% 1Y return of BSE Realty

3.3% 1Y return of BSE Sensex

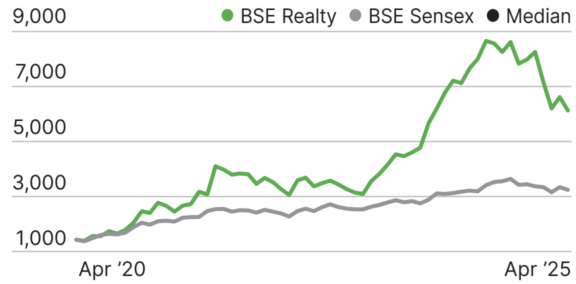
25.2% TTM cumulative revenue growth

40.6% TTM cumulative profit after tax growth

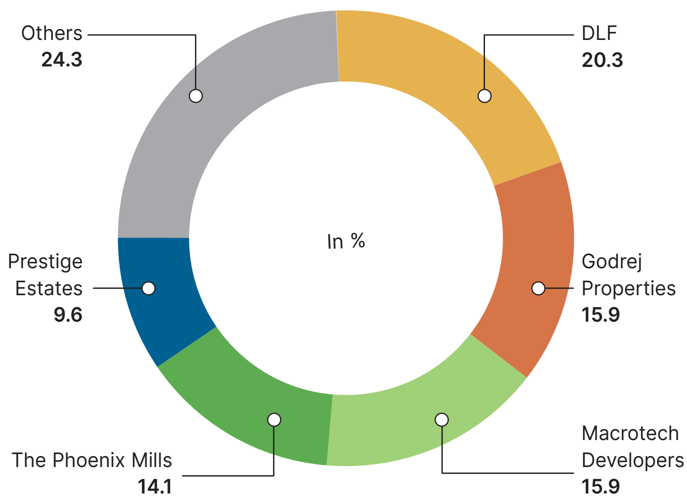
Key numbers

43.0 Price to earnings	**5.0** Price to book
0.32 Dividend yield (%)	**5.5** Market cap (₹ lakh cr)

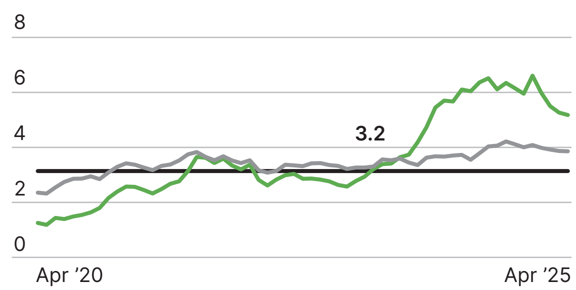
Index movement



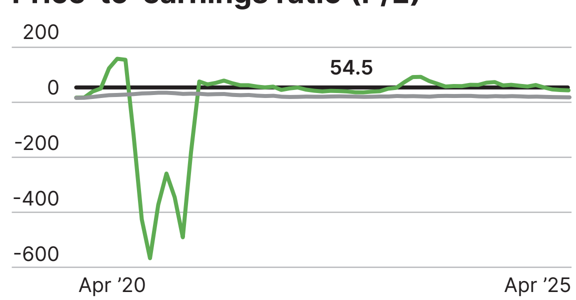
Index weights



Price-to-book ratio (P/B)



Price-to-earnings ratio (P/E)

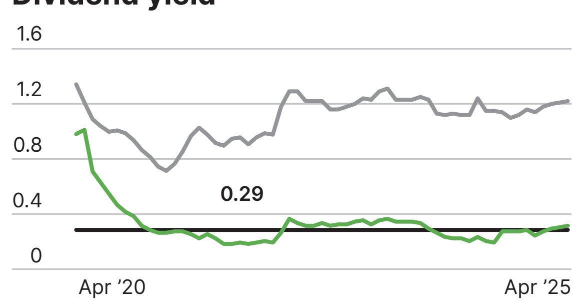


Valuations, dividends and returns

Company	Stock Rating	P/E	P/B	Dividend yield (%)	1Y return (%)
Anant Raj	★★	39.1	3.7	0.2	27.0
Oberoi Realty	★★★★	21.8	3.7	0.5	2.1
The Phoenix Mills	★★★	50.7	5.1	0.2	-2.4
Brigade Enterprises	★★★	35.4	4.2	0.2	-5.5
Macrotech Dev.	★★★	44.6	6.0	0.2	-9.1
Prestige Estates	★★	83.0	2.9	0.2	-10.0
Signatureglobal	★★	188.2	23.0	0.0	-20.2
Godrej Properties	★★	39.4	3.5	0.0	-26.7
Sobha	★★	198.0	3.4	0.3	-29.7
DLF	★★	38.5	3.8	0.8	-31.6

TTM is trailing twelve months. Data as of April 14, 2025.

Dividend yield



New kids on the block

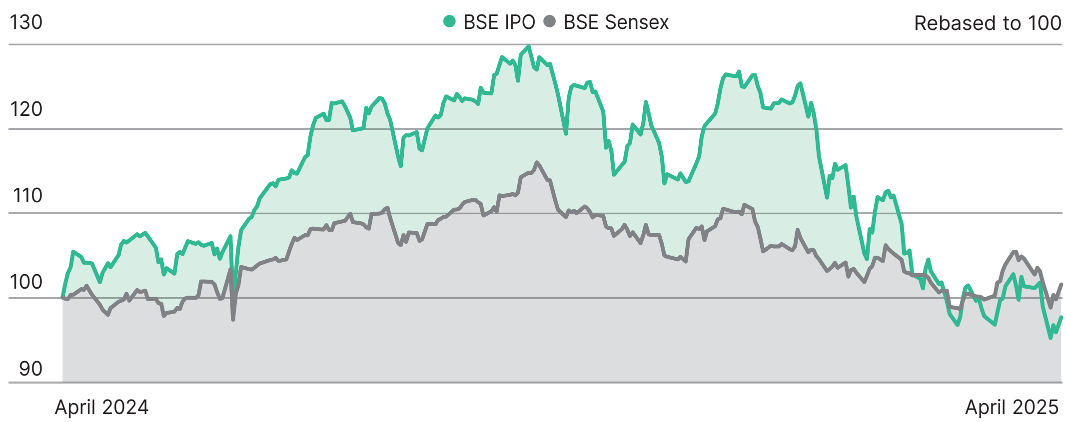
Here is how the S&P BSE IPO Index has performed over the last one year and how the biggest IPOs have fared

Highest listing-day gain
Mamata Machinery
146.9%

Highest listing-day loss
Godavari Biorefineries
-11.8%

Highest post-listing gain
Bharti Hexacom
99.5%

BSE IPO vs BSE Sensex



Highest post-listing loss
Carraro India
-58.5%

Most subscribed IPO
Indo Farm Equipment
229.7 times

Least subscribed IPO
Carraro India
1.1 times

Biggest IPO
Hyundai Motor India
₹19,555 cr

Total issue size
₹1.07 lakh cr

Top 15 IPOs by issue size

Company	Listing date	Subscription ratio (times)	Issue size (₹ cr)	Issue price (₹)	List price (₹)	Current price (₹)	Listing gain (%)	Change post listing (%)	Sensex change (%)	Current P/E
Hyundai Motor India	Oct 22, 2024	2.4	19,555	1,960	1,931	1,629	-1.5	-15.6	-17.0	22.2
Hexaware Technologies	Feb 19, 2025	2.7	6,473	708	731	632	3.2	-13.6	-5.5	33.1
NTPC Green Energy	Nov 27, 2024	2.4	6,406	108	112	96	3.3	-14.1	-18.0	241.9
Swiggy	Nov 13, 2024	3.6	6,244	390	412	333	5.6	-19.2	-14.0	-
Vishal Mega Mart	Dec 18, 2024	27.3	5,903	78	110	104	41.0	-5.1	-21.9	106.0
Bajaj Housing Finance	Sep 16, 2024	63.6	5,093	70	150	119	114.3	-20.4	-23.5	5.4*
Bharti Hexacom	Apr 12, 2024	29.9	4,275	570	755	1,507	32.5	99.5	-6.1	59.7
Afcons Infrastructure	Nov 4, 2024	2.6	4,011	463	430	429	-7.1	-0.2	-18.1	36.6
OLA Electric Mobility	Aug 9, 2024	4.3	3,535	76	76	50	0.0	-34.0	-18.1	-
Waaree Energies	Oct 28, 2024	76.3	3,168	1,503	2,550	2,167	69.7	-15.0	-15.6	51.0
Int. Gemmological Inst.	Dec 20, 2024	33.8	2,442	417	509	337	22.1	-33.8	-20.3	34.6
Brainbees Solutions	Aug 13, 2024	12.2	2,308	465	625	327	34.4	-47.7	-17.0	-
Dr. Agarwal's Health Care	Feb 4, 2025	1.6	2,152	402	397	415	-1.3	4.6	-13.2	156.0
Sai Life Sciences	Dec 18, 2024	10.3	2,132	549	660	669	20.2	1.4	-21.9	192.5
Premier Energies	Sep 3, 2024	74.4	2,009	450	991	892	120.2	-10.0	-20.7	178.8

*Price-to-book ratio. Data as of April 14, 2025.

Buffett's wisdom from his partnership letters

Buffett's investing acumen came to him long before Berkshire

Most people know Warren Buffett as the Oracle of Omaha, the billionaire with a knack for buying wonderful businesses at fair prices. But before Berkshire Hathaway, Buffett managed money through the Buffett Partnership Limited (BPL), a private investment partnership. His letters from that era are an unfiltered look into the making of an investment legend.

What makes these early writings remarkable is not just the clarity of thought but the consistency of principles that would guide him for decades. They are personal, plainspoken, and packed with insight. In this piece, the first part of our series on Buffett's letters, we explore a few of those foundational ideas. And yes, the man was wise well before he was rich.

The crowd isn't always right (1958, 1961)

Buffett never shied away from swimming against the tide. In 1958, he warned about the widespread belief in the "inevitability of profits" from stock investments. When everyone thinks it's easy money, trouble usually follows. Even undervalued stocks can get hammered when the crowd panics.

A few years later, in 1961, he added: "you will not be right simply because a large number of people momentarily agree with you." It's not about popularity. It's about being right and often, being right means standing alone.

Caution over euphoria (1959)

The 1959 letter was a quiet warning against the seductive pull of "New Era" thinking—the belief that the rules have changed and trees really do grow to the sky. Buffett would rather be too conservative and miss out on a little upside than get swept up in the hype and suffer permanent capital loss. The man has always been allergic to fads.

Measuring performance the right way (1960)

Buffett knew that investors love good news, but he urged his partners to

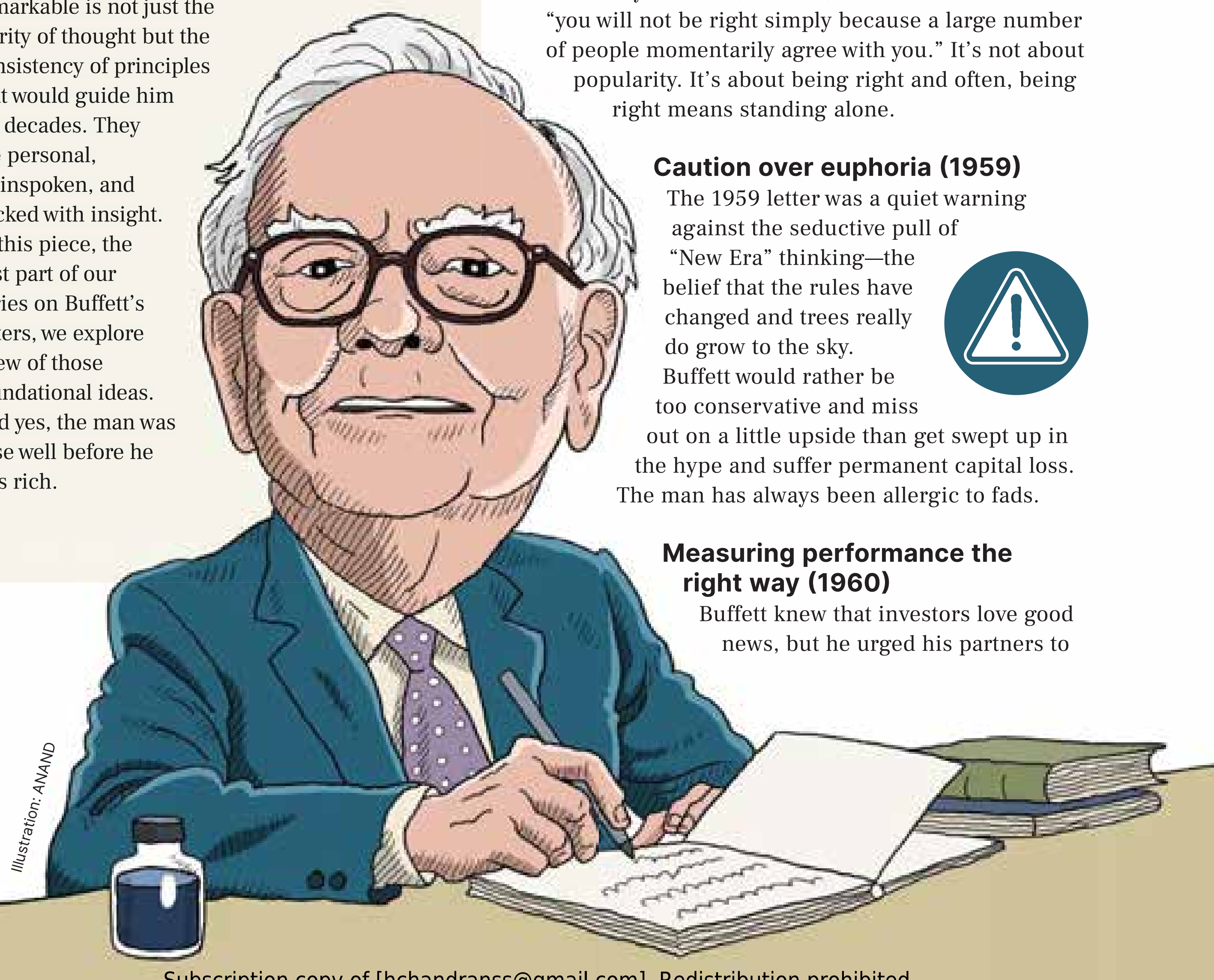


Illustration: ANAND

focus on the long game. In 1960, he wrote that a year in which the Partnership was down 15 per cent while the Dow Jones (his benchmark) was down 30 per cent would be far better than a year in which both were up 20 per cent. The point? It's not the sequence of good and bad years that matters. What matters is consistent outperformance over time—beating par, not just keeping up.

When everyone's zigging, don't be afraid to zag (1965)

One of the most revealing letters is from 1965, where Buffett explained why he was willing to concentrate heavily in just a few ideas—sometimes putting 40 per cent of capital into a single stock. That was not recklessness. It was conviction, backed by "extremely high probability" that his analysis was correct and the downside minimal.

He wrote candidly about the trade-off between concentration and volatility. More diversification would smooth out returns year to year, but it would also water down the long-term gains. And Buffett had no interest in mediocrity.

In his words, "I am willing to give up quite a bit in terms of levelling of year-to-year results in order to achieve better overall long-term performance."

It's about what, not when (1966)

Buffett closed out the 1966 letter with a line that would go on to define his entire investing philosophy: "the course of the stock market will determine, to a great degree, when we will be right, but the accuracy of our analysis of the company will largely determine whether we will be right."

In other words, don't obsess over timing the market. Focus on the fundamentals. Analyse the business, compare it to the price, and let time do the rest. Success, he believed, comes not from predicting the next move but from understanding what you own.

Conclusion

These early letters reveal a Buffett who was already remarkably Buffett-like. He was not chasing fads. He was not playing the market. He was playing the game of business quietly, patiently, and with a razor-sharp focus on risk, value, and discipline.

It's easy to admire his billions. But the real lessons are in the mindset he cultivated long before the money came. In the next parts of this series, we will keep tracing how Buffett's thinking evolved and, in many ways, how it never really changed at all. Stay tuned.

ANALYST'S DIARY

This small-cap jeweller's fast growth has its price

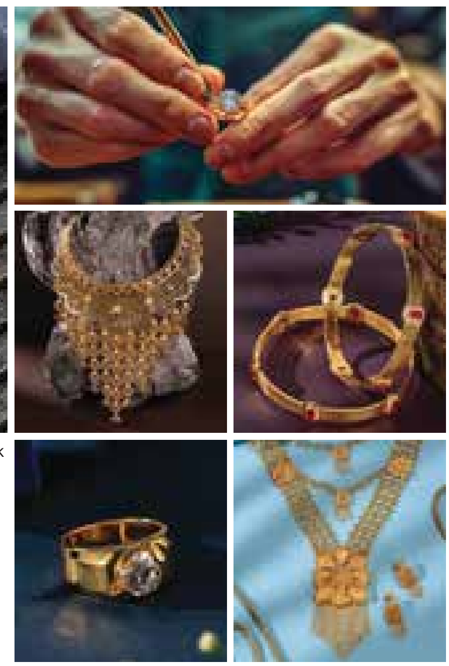
Sky Gold is growing at breakneck speeds by giving up cash

You've likely heard of CaratLane and Kalyan Jewellers. These names sparkle in India's branded gold jewellery space. But the one making all that shine possible is a name you likely don't know: Sky Gold. Founded in 2008, this Mumbai-based B2B player doesn't sell to customers directly. Instead, it designs, manufactures and supplies gold jewellery to over 2,000 retail showrooms across the country. This helps the jewellery brands stay nimble and asset-light.

What brought our attention to this small-cap player was its blistering pace of growth in recent years. Between FY21 and FY24, Sky Gold's revenue more than doubled from ₹800 crore to ₹1,745 crore. Profits have soared even faster, compounding at 68 per cent annually over five years.

The momentum is sustaining. And the company has already revised its FY27 revenue target upward from ₹6,300 crore to ₹7,300 crore, aiming for 61 per cent annual growth over the next three years. Such impressive numbers warranted a closer look. We delved into what makes this a solid business and also risks that lurk over its seemingly solid investment case.

First, what's driving the growth? A combination of external and internal factors. India's jewellery market is rapidly formalising. The share of organised players has grown from 22 per cent in FY19 to 36-38 per cent in FY22 and is projected to touch 42 per cent by FY26. This trend alone is a tailwind. But Sky Gold isn't just present in the right place at the right time. Three clear levers are driving its rise:



Images: Sky Gold & Adobe Stock

Big-ticket clients: Sky Gold's client list now includes Birla, CaratLane and PN Gadgil, alongside long-time partners like Malabar and Senco. Its top 10 clients account for nearly 85 per cent of revenue—suggesting deep, recurring relationships.

Solid scale: The company recently moved into a new 81,000 sq. ft. facility in Navi Mumbai. This expanded its monthly capacity nearly fourfold—from 200 kg to 750-800 kg. Yet, current utilisation is only about 45 per cent, leaving plenty of headroom to grow without major capex.

Operational edge: Sky Gold offers rare flexibility in an industry known for rigidity. Orders are fulfilled in just 15 to 25 days and clients are allowed to return unsold pieces—a big plus for retailers. Returned items are redesigned and reused, minimising waste and improving trust.

Expanding the playbook

Sky Gold isn't just scaling organically. It's expanding strategically.

In Q1 FY25, it acquired Sparkling Chains and Starmangalsutra for ₹88 crore. These acquisitions increased Sky Gold's addressable market from 35 per cent to 70 per cent of total jewellery demand. They are expected to contribute ₹500-600 crore in revenue and ₹15 crore in profit this year alone.

Sky Gold is stuck in cashless growth

	FY24	FY23	FY22	FY21	FY20
Revenue (₹ cr)	1,745	1,154	786	796	722
Operating profit (₹ cr)	71	35	19	10	12
Profit after tax (₹ cr)	40	19	17	5	6
Operating cash flow (₹ cr)	-138	-6	-7	-5	6
ROE (%)	24.0	21.3	22.1	9.7	13.1

Moreover, Sky Gold recently became a supplier to CaratLane, a brand owned by the Tata Group. That has sparked speculation that it could soon supply to Tanishq as well—India's most popular jewellery brand, and also a Tata company. Given Sky Gold's strong execution track record, that possibility doesn't seem too far-fetched.

Exports—currently 6 to 10 per cent of revenue—are another potential lever. With a growing global appetite for Indian designs and lower labour costs, international demand could offer an attractive runway.

Things that could tarnish the shine

While Sky Gold's topline growth is impressive, it masks a few cracks under the surface, especially on the cash flow front.

The company hasn't generated positive operating cash flow in recent years. That's largely because of its inventory-heavy model. The company maintains high levels of raw gold, semi-finished and finished jewellery to ensure quick delivery but receives payments with a slight delay.

This inventory load—making up 45 per cent of total assets—ties up significant capital. To fund it, the company leans heavily on short-term debt, which forms 94 per cent of total borrowings. This has pushed its debt-to-equity ratio to 1.3 times. From March to September 2024, its total debt shot up by 43 per cent.

This is the price of chasing growth. And as the company continues to keep up with its ambitious growth targets, the debt burden is only going to increase, leading to a higher interest burden. Unless the company figures out how to finance its working capital consistently without relying on debt or diluting capital, its rapid growth will remain a burden on the books.

It is trying to fix this problem by looking to shift to gold metal loans—where banks lend gold instead of cash and interest is paid only on the gold value. This can reduce financing costs and unlock better cash flow but reaching there is still a long endeavour.

In addition, at 41x P/E, the stock might appear reasonable when considering the breakneck growth rates it is hoping to achieve. However, the valuation fails to justify itself when you take into account the poor cash flow and debt position. Lastly, the market opportunity is massive. As India's gold jewellery industry consolidates, the role of B2B manufacturers like Sky Gold will only grow. However, that also means the market could easily attract rivals. Given this, for Sky Gold, growth alone won't cut it. It needs to turn profits into sustainable cash flow. Until that happens, it remains a high-growth, high-risk bet.

By Satyajit Sen

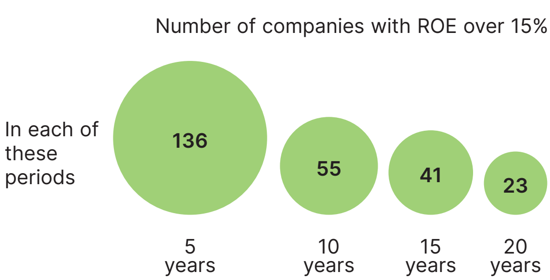
Turning your money into profits

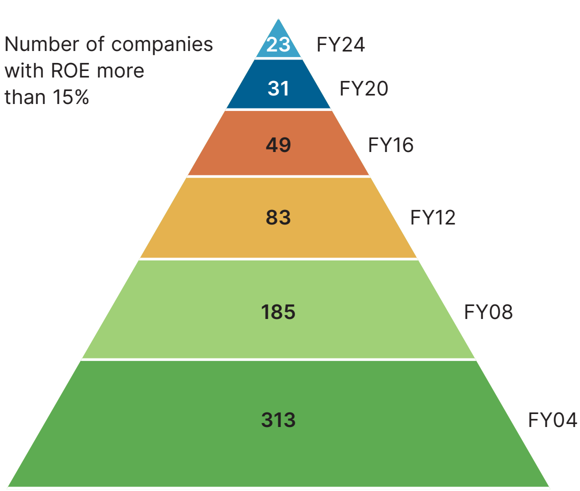
780 out of 1,643 companies, managed to generate an impresive return on equity (ROE) of 15 per cent in FY24.

How many have done so for two consecutive years? The number gets smaller. For three? It diminishes further. As we increase the number of years, fewer and fewer companies have posted an ROE of over 15 per cent in each year. So we drew up a stellar list of stocks that have managed to top this benchmark every year, without fail, over the last two decades!

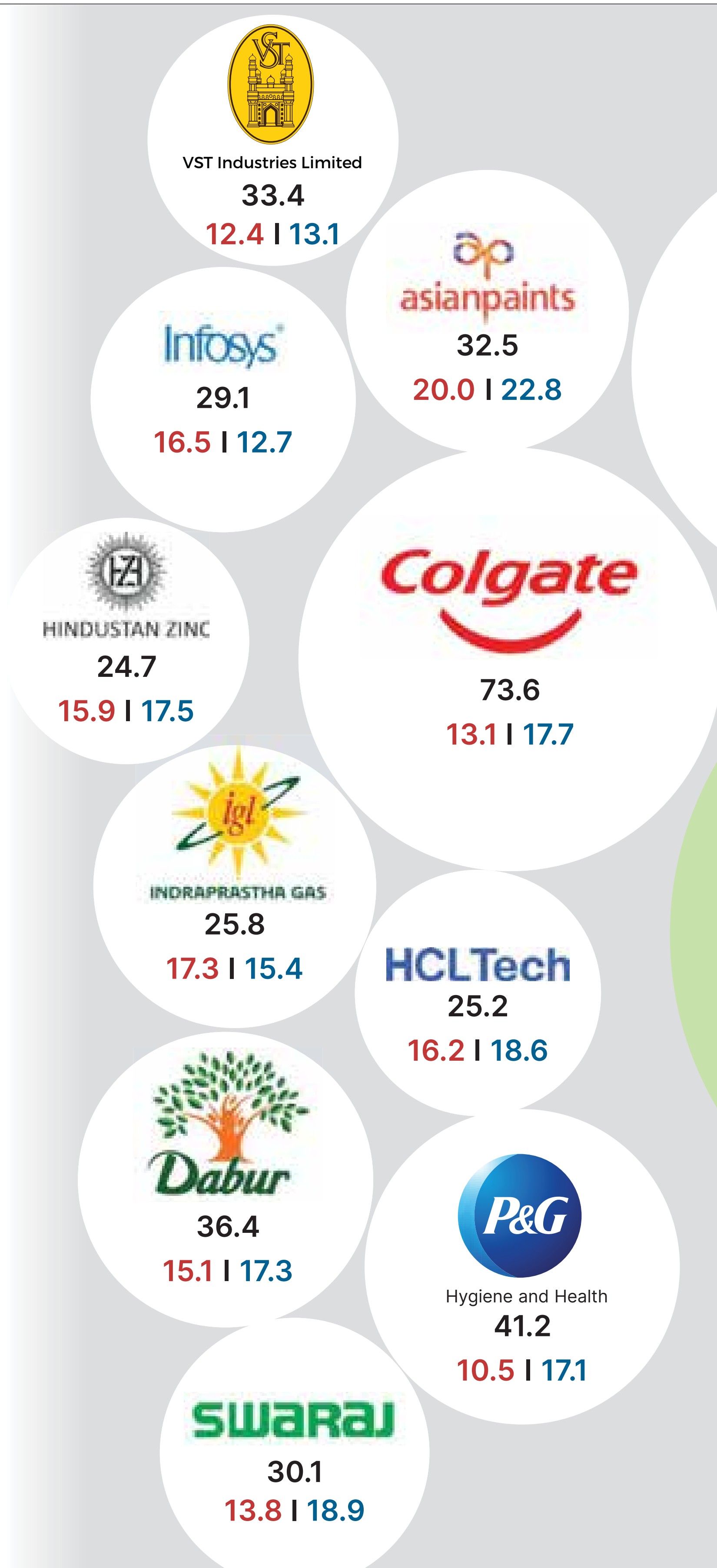
By Vishal Goyal

Consistent and how!





To illustrate, from FY04 to FY08, only 185 stocks consistently reported over 15 per cent ROE each year



Data as of April 11 2025. ROE and PAT data for FY04-24 period.

ANALYST'S DIARY

Who's making your medicine?

The different drug development stages and the companies behind them

Adobe Stock

As the 'pharmacy of the world', India has firmly lodged itself in the global supply chain, supplying 20 per cent of all generics worldwide. But what's lesser known is the complex, multi-step process that finally results in the pills you pop and, more importantly, the different players that drive value at each stage of the value chain. From the lab benches where new chemical entities (NCEs) are born to the factories where generic medicines are mass-produced, this piece takes you behind the scenes of how a drug comes to be and lists Indian companies that are powering the process from early-stage chemical research to large-scale manufacturing.

Who does what in pharma

Not all pharma companies operate the same way. Each one plays a different role in the long journey from drug discovery to delivery.

NCE (new chemical entity) companies: These companies are the scientists of the industry. They focus on research—discovering new chemical compounds that could become medicines. But most don't take their discoveries all the way. They license them out or partner with bigger companies that have the scale and capital to handle development.

Innovator companies: These are the big guns. At times these companies themselves also do the research from scratch. Think Pfizer or Novartis. They are the ones that turn those compounds into actual medicines. They conduct years of clinical trials and navigate regulatory approvals. This stage is expensive and risky but the rewards are big. If successful, they get a patent that gives them exclusivity and pricing power.

Generic companies: Once a patent expires, generic companies step in and make the same drug at much lower costs. They don't need to spend on research, which makes their operations leaner and their medicines cheaper. Indian giants like Sun Pharma, Dr Reddy's, Cipla and Lupin dominate this space.

Within generics, there are three types:

What goes into your medicine

Now that we know the role of different pharma companies, let's understand what's inside a pill. We take a

Key Starting Materials (KSMs)

- These are the raw chemical compounds.
- For paracetamol, this is Para-Aminophenol (PAP), made from phenol and nitric acid.
- KSMs are commodity-like with low pricing power.

COMPANIES TO WATCH

Laurus Labs
Aarti Industries
Deepak Nitrite

Intermediates

- Semi-processed chemicals.
- For paracetamol, PAP undergoes chemical refining and becomes an intermediate.

COMPANIES TO WATCH

Clean Science
Blue Jet
Jubilant Ingrevia

Branded generics: Sold under a brand name like Dolo 650 or Crocin. Marketed through doctors and slightly higher priced.
Trade generics: Sold directly to pharmacies without doctor promotions. They are cheaper.
Unbranded generics: Sold by their chemical names (like Paracetamol). They are the cheapest and mostly supplied to government hospitals and public health schemes.

Final dose

The country's pharmaceutical sector is valued at over ₹4 lakh crore and is expected to expand at a healthy clip of 10 per cent a year until 2028. The growth is powered by rising healthcare needs, global outsourcing and a booming export engine. The opportunity for investors remains huge. At present, India excels at manufacturing and distributing generics. But the next massive opportunity where Indian companies are trying to break through is research and discovery. Keep an eye on those making strides in drug discovery and clinical trials—these will likely be the companies leading the charge in the next phase of India's pharma revolution. ☑

By Abhinav Goel

How your medicine comes to life

Research & Discovery

This is where it all begins. NCE companies identify diseases they want to target, figure out how many people are affected and conduct early lab tests to check the compound's promise. If the results are encouraging, they secure a patent.

Some firms then continue the research themselves, while others hand it over to specialised contract research organisations (CROs) like Syngene International.

Development

Once a drug shows potential and gets initial approvals, the next challenge is figuring out how to make it at scale. This involves designing the entire manufacturing process from scratch—sourcing ingredients, determining the right formulation and ensuring consistency and stability.

It's a complex stage, especially for advanced therapies like biosimilars or inhalable drugs. We will delve into biological medicines in a separate story.

Manufacturing & Commercialisation

With the process finalised, the drug moves into full-scale production. Here, the entire pharma value chain comes into play from key starting materials (KSMs) to intermediates, active ingredients (APIs) and finished formulations.

While some companies rely on third-party manufacturers i.e., specialised contract manufacturing organisations (CMOs), many assign both development and production to CDMOs or contract development and manufacturing organisations. After manufacturing, the drug is packaged, marketed and distributed.

Throughout these stages, companies often partner with specialised service providers like CRDMOs, CDMOs, CROs, and CMOs—firms that assist in research, development, manufacturing, and commercialisation. Leading CDMO players include Piramal Pharma, Syngene, Divi's Laboratories and Neuland.

simple example—paracetamol—to understand what goes into making a medicine and who handles which part.

Active Pharmaceutical Ingredients (APIs)

- Heart of the medicine that delivers the therapeutic effect.
- Patented APIs are protected by a patent and used in branded, innovator drugs.
- Usually form 40 per cent of a medicine's cost.
- A generic API is chemically the same as the patented version but is produced after the patent expires.

COMPANIES TO WATCH
Divi's Labs
Aurobindo Pharma
Granules India

Formulations

- This is what you actually consume—tablets, syrups, capsules or injections.
- API is combined with inactive ingredients (called excipients) and turned into final dosage forms.

COMPANIES TO WATCH
Torrent Pharma
Mankind
Lupin

ANALYST'S DIARY

Is Trent out of fashion?

The Tata Group's retail crown jewel has run into a slowdown. Its pricey multiple is only adding to worries.

In the fickle world of fashion, few brands stay in trend for long. But Trent, the Tata Group's retail showstopper, managed to effortlessly strut through the last decade. Its stores sprouted. Sales leaped at a blistering pace. And investors rewarded the stock handsomely—until recently.

A 28 per cent year-on-year (YoY) revenue growth in the latest quarter (Q4 FY25) should have turned some heads. Instead, the market turned its back. The stock dropped 15 per cent in a day. Something is clearly amiss.

Is Trent's growth in all the right places?

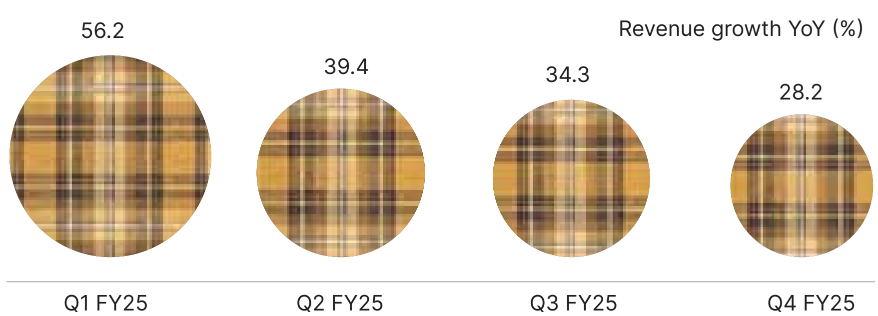
On the surface, Trent's figures still dazzle. Zudio—the budget fashion chain that has quietly conquered every mall, high street, and roadside corner alike—continues to drive expansion with Westside humming along. Trent has now crossed the 1,000-store milestone in India across the two chains combined.

But if you scratch beneath the surface, the polish starts to fade. While the number of stores has mushroomed, same-store sales growth (SSSG), the clearest signal of consumer loyalty, has dropped sharply from 56 per cent in FY22 to a paltry 10 per cent in FY24 as the post-pandemic spending spree lost steam. Trent's growth now in fact is propelled by store openings rather than footfalls.

Image: Tata Zudio

Growth on a downhill runway

Trent's quarterly revenue rise slows sharply as the base effect kicks in



A fundamental question thus arises: can store openings alone do the heavy lifting? And what happens when others catch up?

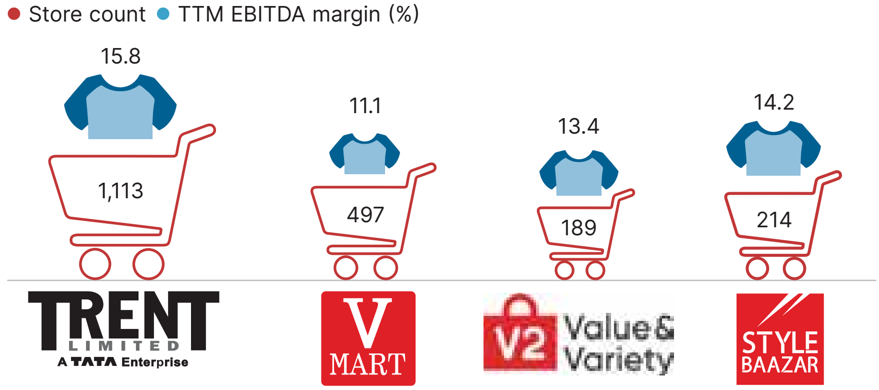
The store count illusion

Trent is not the only one playing the store expansion game. Smaller value retailers V-Mart, V2 Retail, and Baazar Style Retail collectively also operate close to 1,000 stores. Their combined market capitalisation is ₹16,000 crore. Trent, even after a massive 35 per cent correction in the last six months, still commands ₹1.6 lakh crore in market value. That's a tenfold premium to its peers.

Yes, Trent is no ordinary retailer. Its merchandising is superior, its branding more polished. And its execution, in many ways, is exceptional. But is it ten times better? Markets don't just price the present. They price in a vision of the future. So just how perfect a tomorrow is Trent expected to deliver?

Size matters, but margins tell the tale

Trent leads on scale and profitability—but challengers are closing in



TTM is trailing-twelve months from their latest results.

Trent's challengers are getting louder

It's not like the competition is asleep. V2 Retail and Baazar Style are delivering strong SSSG and expanding aggressively. Their target markets? The very same tier-2 and tier 3 cities where Zudio is betting on. V2 Retail clocked an impressive 69 per cent revenue growth in the latest quarter. Baazar Style wasn't far behind at 55 per cent. Same store sales for both were in the 20–24 per cent range—numbers Trent would have been proud of not long ago.

Sure, they operate on thinner margins. And yes, their brand equity doesn't match Trent's. But in retail, scale and operating discipline can quickly level the playing field. Strong store sales growth can lead to operating leverage. And when that kicks in, the profitability gap could quickly shrink. Besides, the customer doesn't always care about slick branding. In a tier-2 town, the right price and fresh stock often beat a high-street aesthetic.

Can groceries help?

To justify its lofty valuation, Trent needs more than fashion. Enter Star Baazar—its foray into grocery retail. Strategically, it makes sense. Groceries drive customer footfall, frequency, and loyalty. They're the holy grail of Indian retail. But there's a problem. DMart already rules this space with ruthless efficiency. Reliance Retail is throwing its weight behind private labels and kirana integrations. Blinkit, Zepto, Swiggy Instamart are changing how millennials buy milk and Maggi.

Star Baazar, by contrast, remains loss-making and sub-scale. Worse, it has yet to show that it can earn its cost of capital—something Warren Buffett might call the minimum requirement for any expansion plan. At some point, opening more stores without earning more on each one becomes a treadmill, not a strategy.

What's the real cost of looking this good?

Trent's appeal isn't in doubt. Its stores are thoughtfully designed. Its private labels are on-trend. And Zudio has pulled off the near-impossible: cracking the aspirational-yet-affordable product segment.

But at ₹1.6 lakh crore, investors are no longer just buying a good business. They are buying the idea that this machine will keep humming flawlessly, margins will hold, new categories will click and execution will remain world-class. That's a lot of perfection to pay up for.

So, should investors stay loyal? Or is there a need for a reality check? Perhaps both. Trent remains one of the best-dressed companies in the market. But when the price assumes a market with no shocks, competition that never catches up, and execution that never falters—you might want to inspect the stitching. After all, fashion fades. Even for stocks.

If the valuation gap with peers isn't enough, consider a broader comparison. India's entire listed textile industry—352 companies strong—generated ₹1.8 lakh crore in revenue in FY24. Their collective market value? ₹2.4 lakh crore. Trent, with less than a tenth of that revenue, is worth two-thirds as much. Of course, Trent is a retail business, not a textile exporter. It sells shirts, not cotton yarn. But numbers like this speak less about industry differences and more about market's over-optimism. ☑

By Kunal Bansal

'Diversification helps during volatile times'

Edelweiss MF's Bhavesh Jain explains why equity alone may not be enough for most investors

With over 17 years in financial markets, Bhavesh Jain brings a wealth of perspective to portfolio construction. The co-head of factor investing at Edelweiss Mutual Fund emphasises the importance of appropriate diversification based on investment amount and investor profile.

As a fund manager overseeing multiple risk-adjusted returns strategies and ETFs, Jain has developed strong views on asset allocation. He distinguishes between equity's volatility and debt's risk and explains why safety should be prioritised over returns in fixed-income investments.

In this conversation, Jain discusses the benefits of multi-asset portfolios during volatile markets, explains why most retail investors should maintain a well-diversified approach, and shares his guidelines for constructing resilient portfolios. Below is the edited transcript of our discussion.

Bhavesh Jain, Co-head, Factor Investing at Edelweiss MF

Edelweiss Balanced Advantage Fund | AUM: ₹12,240 crore

Why is it important for investors to hold a diversified portfolio across multiple asset classes? What are the pros and cons of having such a diversified portfolio?

I think the last few weeks would have made it very interesting for people to understand the real importance of a diversified portfolio. The volatility has increased in the last couple of weeks due to tariff announcements. Investors may have learned that some allocation to debt could have helped them recently. We have also seen gold moving up in the last couple of months. Therefore, a multi-asset portfolio is beneficial as it provides investors with exposure to commodities like gold and silver, as well as equities and debt. In such volatile times, diversification helps you in a big way, and we suggest investors have a diversified portfolio.

That said, diversification beyond a point is not required, particularly when the investment amount is minimal; it is not the right time to venture into a multi-asset strategy. Multi-asset allocation is for investors with large portfolios who can't have a significant weight in a single asset class, so they need to diversify. For most retail investors, I think simple equity products are good enough, along with some fixed-income exposure, to meet emergency and liquidity requirements. Equity as a standalone is a beneficial product to beat inflation, but diversification is essential for high-net-worth individuals (HNIs), ultra-HNIs, and family offices, especially because their investment amounts are huge. The multi-asset approach will help them preserve capital rather than just chase returns.

In the last year, equity has given flattish returns, but gold and silver are up 30–40 per cent, giving ultra-HNI or HNI clients an edge. Retail investors, I think, should continue their systematic investment plan (SIP) with equity, create a base by accumulating a decent corpus, and then they can venture into international equities, gold, silver and other asset classes.

How do diversified portfolios help protect investors during tough times like now?

If you look at last year's return on equity, it has more or less given a flattish return of 4-5 per cent. However, international equities have outperformed during this period. China has outperformed in the last six to eight months, while the US has in the last one and a half years. If we compare Indian equity to domestic gold, gold is up by 30–40 per cent. This increase might have helped investors navigate the volatile and low-return period in equity.

> **Diversification beyond a point is not required, particularly when the investment amount is minimal**

Even during the period of March 2020 or during the demonetisation period, when equity took a significant hit, investing in fixed income would have aided investors in managing their day-to-day liquidity requirement, thereby avoiding the need to redeem from equity during the significant market downturn. Whenever there is an uptick in the market, one could book profits, rebalance the portfolio and allocate back to fixed income. I think the basic requirement for every investor would be some diversification and allocation between equity, debt and commodities like gold.

I'm confident that Indian gold naturally forms a part of our portfolio. But even if someone wants to have a financial investment in gold over and above their consumption requirement, it is a beneficial asset class, and it is negatively correlated with equity and helps investors, at least in times of volatility.

Can an investor focus solely on one asset class, say equity, for the rest of their life?

It can be just one asset class—equity. However, to qualify for it, an individual must be at least a millionaire, if not a billionaire. Only then can you take that risk, not worry about drawdowns and redeem money as and when you want. But if you have only one asset class (equity) and rely on it for daily needs, your capital will erode quickly, especially during times of turmoil, such as the Covid-19 pandemic. You'd need to redeem your equity investment, even if it were down 40 per cent, to meet daily needs.

But diversification into equity and debt at that time, by redeeming from debt to meet your daily liquidity needs and waiting for the equity market to recover, could have simply helped you. But if you got only equity, you wouldn't have a choice. Therefore, we do not recommend a single asset class unless you are a a multimillionaire or billionaire. For them, it doesn't matter whether the asset is down 20-40 per cent. Investing in equity is also a function dependent on your net worth and your risk-taking appetite at that point.

Why is debt important in a portfolio? How would it impact a portfolio that's purely equity-based? What basic guidelines would you provide for assessing debt as an asset class?
When constructing any portfolio, there are a few key points to consider. The first and most important thing is volatility, which is built into equity investment. To navigate your portfolio through that volatile period, you require some cushion, which is provided by fixed income. In a volatile period, you would be forced to redeem more units or sell more shares to get the same amount as you would have got by selling much lower units when markets were doing well.

What will happen when you redeem from the equity portfolios at the lower level? When the market recovers, the corpus itself will be too small to give you a sizable upside because you sold more units at lower NAVs. So that's why you need to have a reasonable allocation to fixed income and a liquid portfolio. In a rising interest rate environment, equity markets normally underperform, and that is where your allocation to fixed income will help you generate a slightly better return. That is why debt is very important in the portfolio.

Now, when choosing a fixed-income portfolio, it's crucial to follow some basic steps, the first of which is to ensure that your fixed-income investments are placed in safety instruments. Fixed-income investments should prioritise safety over generating high returns. Many people invest in fixed income and take risks by investing in complex or complicated products. They invest in lower credit-rated paper, which will give them a 1 per cent extra return, but to generate that 1 per cent, you are taking a 100 per cent risk of your corpus.

As an equity fund manager, we always say that equity is volatile, but debt is risky. I say that equity is volatile because it can rise or fall any time. If one stock does not work, another will compensate for your losses. However, in fixed income, if there is one default, there is no way that another security will become a multibagger and generate an extra return to cover the losses. Therefore, the loss of capital in fixed income is permanent, while the volatility in equity is only temporary.

In fixed income, if there is one default, there is no way that another security will become a multibagger and generate an extra return to cover the losses

Therefore, it is crucial to assess the quality of the fixed-income portfolio. Don't go for unwanted credit risk just to improve your return by a few basis points. Simultaneously, only make duration calls if you are following the advice of a financial advisor or distributor. One should also not use credit for short-term emergencies. Only take risks where your money can stay longer so that it won't lose value at maturity, even if interest rates go against you.

How do you analyse the cyclicality of commodities as an asset class? What are some assets that a retail investor can explore in this space?
Commodities constitute a vast category, each requiring its own unique analysis due to their cyclical nature. We can divide it into two parts: one is gold and silver, and the second is other metals. So, from the retail investor's perspective, gold and silver are present in each and every household because of our love for gold. They may not have exposure to equity or fixed-income debt, but gold is definitely part of each and every household.

If you believe your corpus is decent enough and want to include gold as a financial asset, then you should consider the combination of gold and silver. If you're unsure whether gold or silver will do better, there are products that expose you to both. I believe you should choose a product that allocates equal weight to both gold and silver.

Now, let's move on to other metals, which are more relevant from an equity investment perspective. Normally, we become optimistic about metals only when everyone else avoids them, resulting in no profits and a significant erosion of margins. That is the point where we normally think of investing in metals because it is a contrarian investment style. When everyone is talking about metals—and more and more capex is happening, plants are getting set up—that is the time you should book profit and stay away from metal. So that is how we analyse metal, and it is always the contrarian style of investment for us.

Asset mix can be challenging. What mix would you recommend for different types of investors?
When it comes to asset allocation, mutual funds are a highly beneficial category for Indian retail investors, offering a wide range of products. There are several mutual funds available, including the balanced advantage fund, the multi-asset allocation fund and the asset allocator fund, all of which operate in a more tax-efficient manner. Investors who are considering investing in equities, fixed income or commodities should first assess their tolerance for volatility.

Normally, you should have a predetermined formula that helps you make those decisions; it should not be left to emotions. Extreme emotions will always lead you to make the wrong decision. For example, gold prices have increased by almost 40-50 per cent in the last one and a half years. However, historically, gold has consistently yielded uneven returns, followed by a prolonged period of stability. So now, when gold has already given you such a return emotionally, you will be more inclined towards gold. However, a formula-driven approach will help you book some profit and look at equity, which has seen a decent correction, particularly mid caps and small caps, where people are more worried. Mathematically, the formula suggests investing more in equities than in gold. But you must do it; you must be disciplined and not rely on your feelings.

What's your take on concentrated vs diversified portfolios and when might each approach work?
It purely depends on the investor's risk appetite and stock selection and whether they want to have a concentrated portfolio or a diversified portfolio. We have seen that many of the HNIs and ultra-HNIs have made almost 80-90 per cent of their wealth in just five to seven stocks. This evidence clearly demonstrates that concentration is a crucial factor in generating a significant amount of alpha.

A concentrated portfolio is useful for sophisticated investors who are ready to take on a higher amount of risk and volatility to generate alpha

However, there are risks involved, and if some of your investments fail, it can lead to significant losses. Therefore, you can choose between a concentrated or a diversified portfolio based solely on your risk appetite, confidence and stock selection skills.

For the majority of Indian retail investors, a well-diversified portfolio is something that will take care of their basic requirements. A concentrated portfolio is useful for sophisticated investors who are ready to take on a higher amount of risk and volatility to generate alpha.

What basic portfolio construction rules would you recommend for an average retail investor?
The first rule is having a proper asset allocation. Avoid concentrating all your investments on a single asset and instead strive for a well-diversified portfolio. Secondly, ensure that your portfolio has adequate liquidity. You should not keep some emergency funds in any lock-in financial product. So don't invest all your money in real estate or fixed deposits (FDs), which are hard to liquidate.

Typically, investors tend to follow the flavour of the season investment style. Last year, we saw several new launches based on the defence theme after they had already delivered 100 per cent returns. If investors have invested in such categories, they will definitely see a 20–30 per cent drawdown, which has happened in a few cases. One should take expert advice and not chase momentum blindly. Even if you choose to invest in momentum, it is better to do so in a diversified portfolio rather than a single-sector portfolio. However, the majority of investors can look at simple products through SIPs, which will generate a reasonable amount of wealth for you over a period of time. Investors should also not go for extra returns by taking unwanted risks.

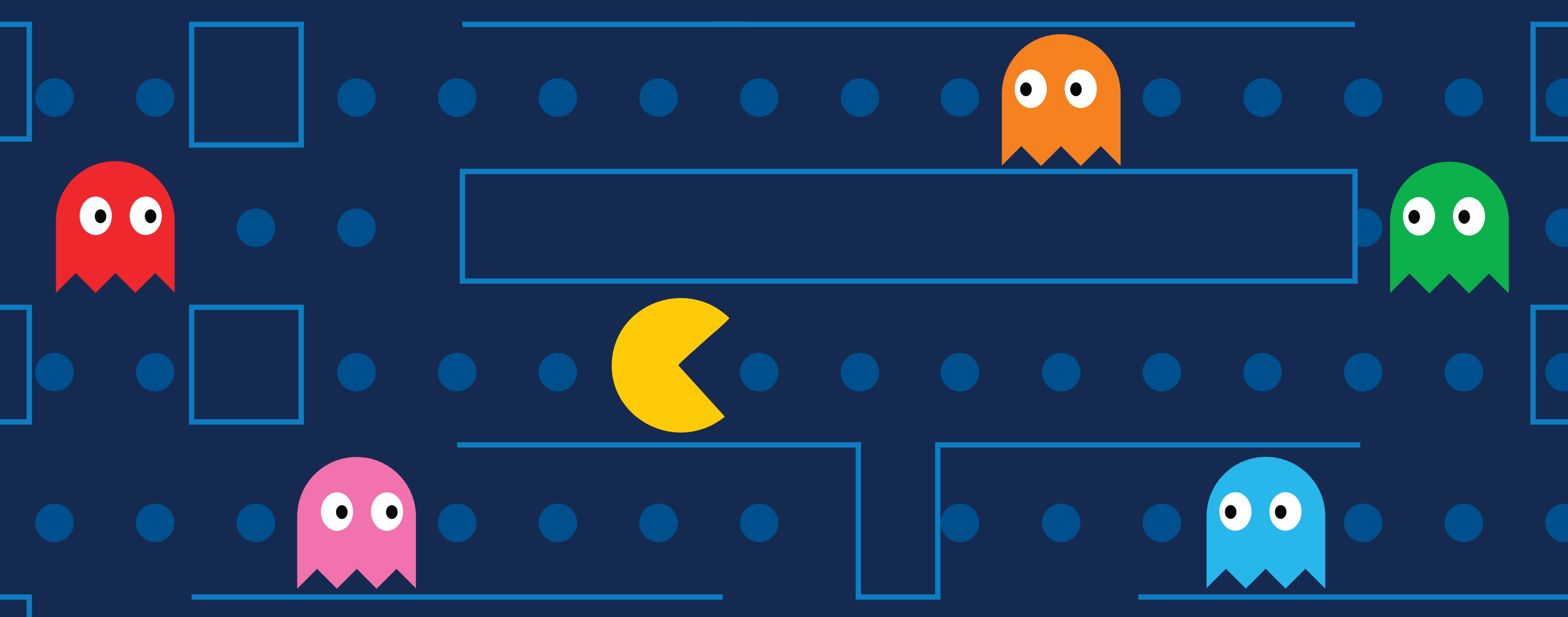
The final advice would be never to take a shortcut. Don't fall for any idea or strategy that will promise you, say, a 100-200 per cent return in one year. There is no shortcut for success, so one has to stay invested and focused. Be patient with equity investments. They are volatile, and there will be some or other issues going on in the markets, which will bring a lot of volatility in the short term. Still, if you are disciplined and stay invested for a longer period of time, you will hardly hit a negative return. ☑

COVER STORY

5 traps turning your portfolio red

And how to dodge them

By Udhayaprakash



To suggest there's a silver lining in this market correction might not be a popular view. This magazine is endorsing it anyway. No, we haven't gone cuckoo. Neither are we undermining the anxiety your portfolio losses are causing you. We are simply saying that a bear market is not necessarily a bad thing. Rather it's a great teacher. One that presents an opportunity to pause, reflect and self-correct. It's when the market turns red that your investing mistakes come to the surface. And you get the chance to hit the reset button. This downturn thus makes for the right time to reflect on some common but deadly mistakes that wreck investor portfolios particularly during hard times such as now. We show you how costly these mistakes prove to be during market slumps and equip you on how to avoid making them. Stick until the end.

1 Chasing micro caps

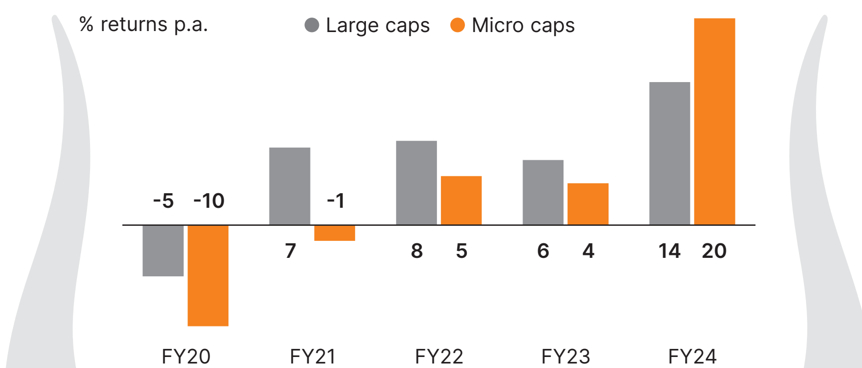
Like everything fun, micro caps are bad for you. They are the market's equivalent of a sugar high. Investors flock to them for their promise of extraordinary returns but mostly end up with nothing but a crash. As opposed to what flashy headlines will have you believe, micro caps don't even measure up to their supposedly slow-moving large-cap peers. In any five-year period over the last decade (except FY19-24), micro caps have severely underperformed large caps, including during market rallies (see figure 1).

Take the latest bull market from September 2022 to 2024. Micro caps returned just 60 per cent on average, lagging dramatically when compared to large, mid and small caps that more than doubled their value on average. Why such an acute underperformance even during a bull run? That's because a handful of high-fliers create the illusion of strong overall performance, when in reality, an overwhelming number are wealth destroyers. Only 54 per cent of micro caps generated positive returns during this market rally while the other half lost money. Their lack of business quality, competitive moats or sustainable business models explains this poor performance. The data is unmistakable: micro caps underperform even in the best of times. And if this wasn't enough, there are other significant risks for you to bear in mind.

Figure 1

Small and sagging

Micro caps have mostly been walloped by slow-moving large caps



Data based on median five-year rolling returns as of the end of each financial year. Per our methodology, large caps represent the top 70 percentile of total market capitalisation and micro caps the last 1 percentile

The risks

Spuriously bloated valuations: Many of these companies operate with negligible revenues, and yet, their market capitalisations are inflated. At least 50 micro caps reported revenues under ₹1 crore as of FY24 but commanded market values over ₹50 crore each!

Illiquidity: It's easier to enter but often impossible to exit. There are few trading days and even fewer trading volumes (see figure 2). Nearly 430 micro caps traded on fewer than 50 per cent of market days last year, making it nearly impossible to exit without significant losses.

Playground for manipulation: Their illiquidity, paired with high retail interest and low institutional participation, makes them ripe for pump-and-dump schemes. During bull runs, retail investors flood the market but when the tide turns, liquidity dries up. Investors left holding the bag often find themselves stuck with near-worthless stocks.

Before you take the leap of faith

Dealing with micro caps is like playing with fire. There's a high chance you might get your hands burnt. However, if you are a risk-taker, approach this segment as you would a minefield—be selective, be methodical and above all, be aware of the inherent risks. Success here requires extreme caution. Use these stringent filters to separate the wheat from the chaff:

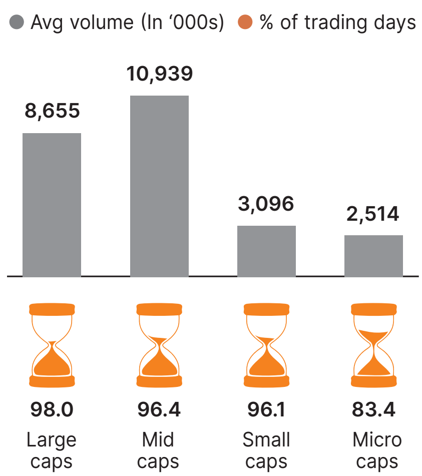
Start with hygiene checks: Avoid companies with inconsistent revenue or cash flow, a history of fraud, questionable auditors, a messy capital structure, repeated management turnover or large related-party transactions. These alone disqualify most micro caps.

Check promoter commitment: Look for firms where promoters hold at least 30 per cent stake, signalling skin in the game. Prefer companies in fast-growing industries that grow at or above industry average.

Figure 2

Market's sleepiest corner

Lower trading activity makes micro caps the most illiquid segment



One-year data for volumes and trading days considered as of April 4, 2025

Look at return on capital: While sky-high returns on capital are rare in this segment, a consistent 10 per cent or more is a good starting point, especially if the company is improving.

Search for niche leadership: Companies that lead—or are on track to lead—a well-defined niche tend to have more sustainable business models and pricing power.

It's tempting to chase the few that will, against all odds, rise to greatness. But the reality is that an overwhelming majority either stagnate or disappear entirely. If you still want to bag the occasional multibaggers, understand that micro caps should never dominate your portfolio. Select them carefully, treat them like the high-risk bets they are and above all, never chase them on a whim.

2 Undervaluing valuations

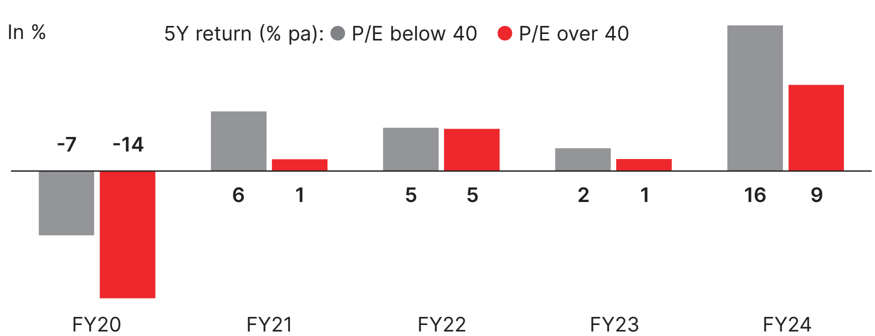
There's an old saying that 'well bought is half sold'. In investing, it means that buying at the right price is half the battle won. As data shows, even the most reputable companies can disappoint if they're overpriced.

Take Asian Paints and Berger Paints, two giants in the paints industry. While their fundamentals have remained strong, their long-term performance has been underwhelming. Over the past five years, their returns have been just 9 and 7 per cent annually, respectively—a fraction of the BSE 500's 26 per cent return. The culprit? Valuations were stretched beyond reason.

Figure 3

Less wins you more

Stocks below 40x P/E outdo expensive peers loud and clear



Companies with minimum market cap of ₹300 crore considered. Data based on median five-year rolling returns as of the end of each financial year.

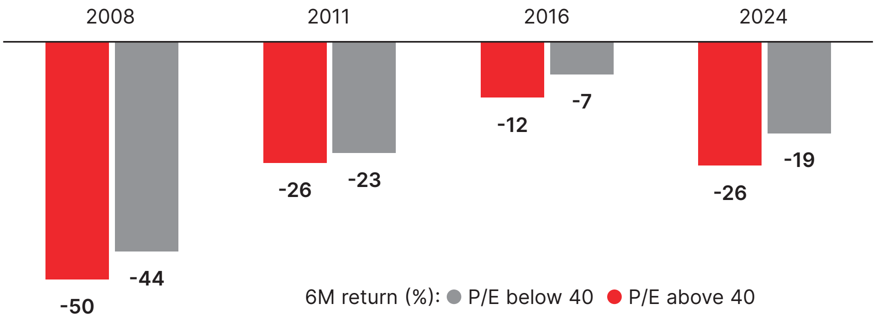
Reasonable price = higher gains

We did a simple exercise to check how valuations dictate returns. Low P/E stocks were the hands down winners. Over the past decade,

Figure 4

Buying cheap limits the damage

You lose out less when you buy at low multiples before a drawdown



Companies with minimum market cap of ₹300 crore considered. Median six-month returns considered from the beginning of each crash.

stocks with P/E below 40 times, on average, outperformed those above this level in any given five-year period (see figure 3). In addition, low-valued stocks not only yield healthy returns in the long run, they also protect your money against sharper losses during massive downturns. As shown in figure 4, stocks trading below 40x P/E at the beginning of each major correction in the past saw shallower declines six months into the crash, while those above 40x declined much more. We excluded the 2020 crash since nearly all stocks saw a uniform decline that year. To sum up, past data confirms that high-valued stocks fall more during downturns and perform poorly over long stretches.

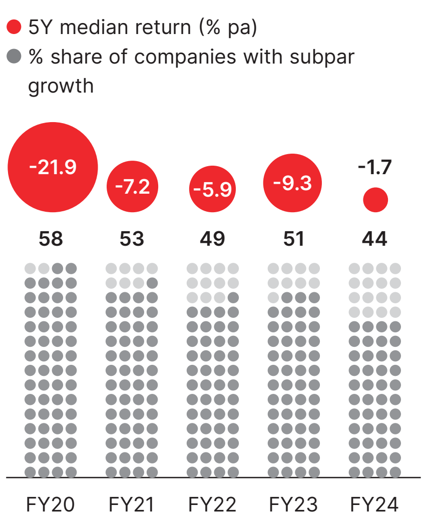
Missing growth

This happens because lofty valuations set up lofty growth expectations. But in many cases, the actual growth rates simply fail to live up to the market's high expectations. How much do these expensive stocks actually grow then? Despite investors latching on to these stocks and driving them to unsustainable levels (P/E above 40x in this analysis), these companies don't really deliver superior growth over their undervalued counterparts. Since FY15, this high P/E group has on average posted a miniscule 0.1 per cent extra growth over the low P/E group when looked at from a five-year rolling basis.

Figure 5

The price of an inflated price tag

High P/E stocks deliver poor growth and poorer returns



Stocks with P/E above 40x and minimum market cap of ₹300 crore considered. Subpar growth means annual profit after tax growth of below 10 per cent in every five-year period. Median returns considered on five-year rolling basis as of the end of each financial year

And what happens when stocks at pricey premiums deliver subpar growth? The result is wealth destruction. In every five-year period since FY15, at least 50 per cent of the above 40x P/E companies reported unimpressive single-digit profit after tax growth, which resulted in sharp negative returns across all corresponding periods (see figure 5).

So, how to not get burnt by misjudging valuation?

Assess many variables: Asking you to just not overpay will be too schematic. Valuations are highly subjective and depend on the fundamentals and growth potential of the company. What's expensive for one stock may be fair for another. A high-ROCE company, for example, may warrant a higher valuation than one with mediocre returns. The same applies to growth, reinvestment ability, management quality etc. Investors thus need to compare a handful of parameters together to assess whether the proposition is fairly valued.

Use different metrics: There's also no one correct way to arrive at valuation. While a detailed discounted cash flow method could be complex, especially for the average investor, a better alternative is to look at relative valuation through metrics like P/E, P/B, and price-to-cash flow. Also compare these metrics against their historical averages and against the industry's growth trajectory.

Keep a margin of safety: Sound investing does not require avoiding pricey stocks altogether but buying them with a margin of safety—a strategy that protects you when the market inevitably corrects.

3 Playing with momentum

This is another oversight—believing that momentum in investing works just the same as in physics. That a moving object, the faster or heavier it is, the longer it stays in motion. If a stock is climbing, the logic follows, it will keep climbing. An initial rally will attract attention, fueling more buying and creating a self-sustaining cycle of rising prices. The issue, however, is that with each wave of new investors, the foundation becomes shakier until even a small trigger causes the entire rally to collapse.

The data don't lie

Our analysis of stocks that doubled in value over a single year, going as far back as FY15, reveals a sobering reality. After their strong rallies, these temporary heroes mostly underperformed the market in each subsequent year (see figure 6). Not just that, the chances of losing money in momentum stocks are 50 per cent, given around half these companies posted negative returns during each of their assessment years. And when held for longer periods, the returns get even worse.

Why this happens

The underperformance happens due to valuations reaching beyond reasonable limits. Investors often enter these stocks at far more expensive levels from where the rally first begins. Take the example of BSE. At the end of FY21, the company was trading at a P/E of around 18 times. The stock nearly zoomed five times in just the next year. Anyone who jumped in at this point—in FY22—bought in at a bloated P/E of 50x, three times the previous year's multiple. The stock then saw half its height shaved off in the following year—a painful outcome for those who bought at extrapolated levels.

Our analysis of companies that at least doubled in any of the past five years shows a similar pattern. As prices shot up, P/E multiples expanded at a similar pace. In most cases, earnings growth did not keep up. Investors merely piled in at higher and higher valuations, only to regret it a year later. See figures 6 and 7 together.

How to play this risky gamble?

Momentum investing is more likely to leave you with losses than gains. For most investors, it's best left untouched. But if you must play this game, keep these cardinal rules in mind:

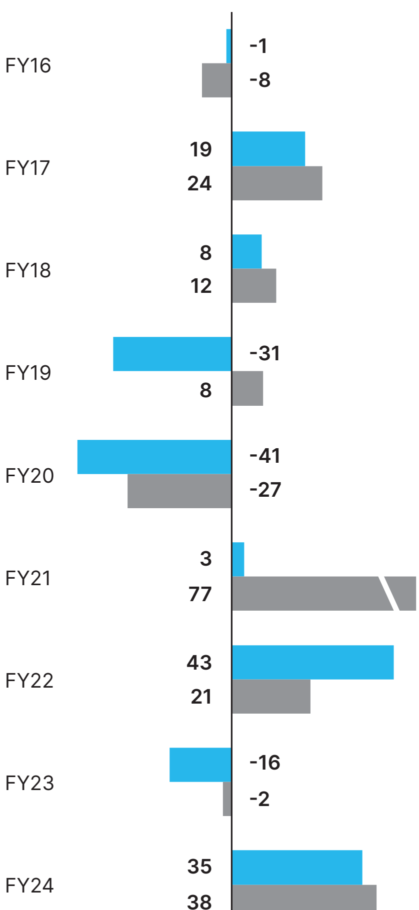
Focus on earnings, not price momentum: If you must chase

Figure 6

Break in motion

Momentum stocks mostly saw sharp underperformance a year after 2x gains

1Y return (%):
Momentum portfolio · BSE 500



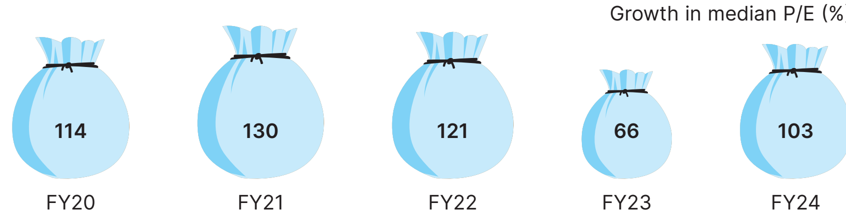
Companies with minimum market cap of ₹100 crore considered. Portfolio consists of stocks that doubled in value in the preceding year. Data based on one-year median returns.

Figure 7

Blistering expansion

Momentum stock P/Es inflate at unmatchable pace against fundamentals

Growth in median P/E (%)



P/E expansion of stocks that at least doubled in each of the five years. Companies with minimum market cap of ₹100 crore considered.

momentum, focus on companies that exhibit earnings momentum—that is consistent and measurable growth in earnings and revenue, rather than just price appreciation. This, to some extent, will ensure your returns are tied to a company's business performance, not the whims of the market. This approach, while not completely foolproof, offers more rational ground for decision-making.

Evaluate sustainability: Assess why the company is growing and if it can maintain the growth? Check what the long-term trajectory looks like and crucially, the valuations you are buying it at.

4 Rushing to sectoral fads

Hot sectors. Everyone loves them. Being in the right place at the right time, riding a booming industry's gravy train feels thrilling. But it's this unfailing optimism and a disregard for the cyclical nature of such sectors that proves costly. Just ask anyone who invested in the power sector when the BSE Power Index debuted in 2005 amidst the roaring optimism of a bull market. At the time, power, infrastructure, and real estate stocks were the talk of the town, boasting sky-high P/E ratios as investors flooded into these sectors, believing that growth would never slow. But by 2008, the global financial crisis wiped out much of the sector's gains. The power index took nearly 15 years to reclaim its pre-crash highs. The pattern is hardly unique. Real estate, capital goods, and several other sectors have followed the same cycle in the past: boom, bust, and long-term underperformance.

Who are the culprits?

It's overvaluation and cyclicality. In the case of hot sectors like EVs, green energy, AI etc., investors often get swept up in narrative-driven hype, driving valuations over the edge. As earlier proven in this story, excessive valuations burn bigger holes in investors' pockets. The power index, representing the hot sector of the early 2000s, neatly shows this inverse relationship between long-term returns and valuations at the entry level (see figure 8).

When it comes to cyclicals, investors love to forget that cycles are ever-changing. Capital goods, for example, were enjoying a boom a year ago due to the solid capex activity. The assumption that this uptrend would last forever pushed valuations to uncomfortable levels. And now, as capex spending flatlines, these companies have seen a median decline of 29 per cent from September 2024 to February 2025 with 87 per cent of them giving negative returns.

The bigger mistake is when investors make these hot or cyclical sectors the core of their portfolios. All their capital ends up being concentrated in these areas. If the upcycle continues, the ride is thrilling. But when the cycle turns, the pain is equally extreme.

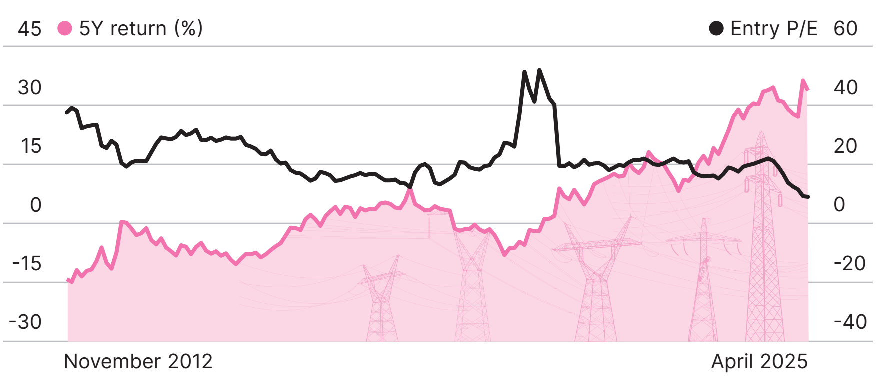
How to shield yourself from damage?

Assess the fundamentals: Before jumping into any hot sector—here's looking at you the EVs and new-age upstarts of the world—get to the heart of the story. Does the product or service have real substance? Is the market size as large as claimed or is it simply driven by hype? Can the company

Figure 8

Like magnets that repel each other

When bought at higher multiples, the power index yielded poor returns



Returns based on five-year rolling basis as of each month. Entry P/E is at the time of purchase. To illustrate, five-year returns as of Nov 2012 had an entry P/E as of Nov 2007.

deliver profits and generate cash flows? If there is no clear path to profitability, you're likely riding a trend, not a growth story.

Question the valuation: After checking the fundamentals, ask if the stock's valuation aligns with its true potential? If the company is in an overheated sector, valuations will likely be stretched. Ensure that you're not paying for hope or hype.

Understand the cycle: For cyclical sectors, the most important thing is to understand the cycle. Whether it's commodities or construction, all sectors have their up and down periods. Know where you are in the cycle. This can be done by closely tracking the underlying commodity or business cycle to determine whether a peak or trough is near. Or simply adopt a truly long-term mindset by staying invested through multiple cycles. In this case, holding the right businesses for 15 to 20 years is key.

Limit exposure: Don't let any hot or cyclical sector dominate your portfolio. The simple rule is to limit exposure to these areas to around 20 per cent of your total portfolio. Diversify across defensive sectors like FMCG, pharma or IT, which offer stability and balance the volatility of trend-driven investments.

5 Joining the IPO frenzy

At Value Research, we have a simple rule for retail investors: stay away from IPOs. It's not an arbitrary view but one that is grounded in years of data. We get to that later. The first problem is that IPOs, much like overhyped startups, are more about marketing than fundamentals. Here's how:

IPO pricing is inflated from the start

When a company decides to go public, the price is not determined by the market. It's set by the company's management, which is almost always incentivised to set it high. Whether it's an offer for sale or a fresh issue of shares, the goal is to raise as much money as possible while diluting the promoters' stake as little as possible. The result? Overpriced IPOs that set investors up for disappointment.

Secondly, to capitalise on a bull market, many substandard—even outright poor—companies get listed. As a result, investors not only overpay but also end up owning businesses of questionable quality. The outcome is capital loss over time.

What the data tells us

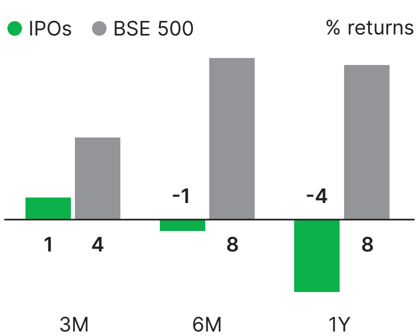
In one line, post-listing IPO returns tend to be mostly disappointing.

- We assessed all IPOs of the last four years. Their median returns over three months, six months and a year after their listing consistently trailed the BSE 500 Index by a wide margin (see figure 9). On average, nearly 50 per cent of them delivered negative returns within the first year. Yes, nearly half of the stocks lose money right out of the gate, whether they are large, well-established companies or smaller, more speculative ones.

Figure 9

IPOs turn out to be damp squibs

Newly-listed stocks show consistent underperformance after debut



Median returns calculated over listing price; adjusted for bonuses and splits. Considered IPOs since 2021.

- Receiving an allotment can get you better returns. But the chances of getting one are incredibly low, especially for retail investors. And even if you do receive an allotment, the chances of making money are still a gamble. Median returns for IPO allotments (bought at issue price) since 2021 are much higher at 25 per cent than for those bought post-listing (shown in figure 9). But even then, nearly 30 per cent of IPOs have delivered negative returns within their first year even for allotment holders. Whether you receive an allotment or buy post-listing, the odds are stacked against you. And the reality is that many of these stocks, even the large, well-known companies, struggle to deliver solid returns post-listing (see figure 10).
- Next is the SME IPO segment—a playground of its own. Over the past two years, the market saw around 420 SME IPOs. Nearly 61 per cent of these companies have delivered negative returns—a brutal reminder that the vast majority are losing bets.

Figure 10

Fallen stars

Even the bigwigs failed to deliver after their pompous debut

Company	6M return (%) From listing price	6M return (%) From IPO issue price
One97 Comm (Paytm)	-69.9	-72.7
LIC	-25.8	-32.2
Eternal (Zomato)	-20.5	20.3
Star Health	-18.8	-23.4
PB Fintech	-41.4	-31.3
Sona BLW	135.5	144.7
Bajaj Housing	-23.4	64.1
Nuvoco Vistas Corp	-28.8	-41.1
IRFC	-8.4	-11.9
Mankind Pharma	39.7	68.2

Only IPOs (2021 onwards) where six months have passed since listing considered. The list contains top 10 IPOs by issue size.

How to avoid falling prey to IPO FOMO

Our view is to stay clear of IPOs. But if you still find yourself battling FOMO (fear of missing out), keep these rules in mind:

Do not buy after listing: The chances of losing money are high whether in the short or medium term after listing. If you don't get an allotment, never chase a stock after it hits the market.

Treat IPOs like any other equity investment: Before applying, evaluate the company fundamentally. Pay particular attention to the valuation you're getting. Admittedly, in most cases, fundamentals play a limited role in the IPO outcome. It's usually the grey market premium and overall demand that drive performance. Still, a sound evaluation can help you avoid major pain over the long run.

Wait and watch: The best option is waiting to see how the company performs post-listing. There's no rush to invest. If you've identified a fundamentally sound company preparing to list, consider waiting till valuations cool down after listing. The business fundamentals will likely remain the same but the market enthusiasm may fade. ☑

Which investor tribe are you?

Inside the behaviour that separates winners from underperformers

By **Anand Tandon**

In today's era of market volatility—where major policy announcements from the world's largest economy are often made on platforms like X (Twitter) and Truth Social—it has become increasingly challenging for investors to manage portfolio risk. Should one 'buy the dip,' 'cut losses,' adjust asset allocation, or take a completely different approach? The truth is that investing is as much a psychological game as it is a financial one. Investor biases—such as hope, fear and overconfidence—frequently drive decisions more than analysis does.

A book titled 'The Art of Execution: How the World's Best Investors Get It Wrong and Still Make Millions' by Lee Freeman-Shor offers insights for investors navigating such uncertain times. Freeman-Shor, a fund manager who has managed over $1 billion in assets at Old Mutual Global Investors, earned recognition as one of the world's top fund managers in Citywire 1000 in 2012. His 16-year career, including roles at Schroders and Winterthur, provided him with insights into the role of psychology in investment strategy.

Lessons from a seven-year experiment

Freeman-Shor's book draws from an intriguing seven-year experiment (2006–2013) where he allocated between $25 million and $150 million to each of 45 elite investors. Their directive was simple: invest in your 10 best ideas. After analysing 1,866 investments and 30,874 trades, Freeman-Shor uncovered a surprising truth: only 49 per cent of these "best ideas" generated profits. Yet many investors still achieved substantial returns.

The secret, according to Freeman-Shor, lies not in picking winners but in execution—how investors handle both losing and winning positions. He categorises their behaviours into five distinct "tribes" across two scenarios: losing investments (Rabbits, Assassins, Hunters) and winning investments (Raiders, Connoisseurs). These tribes reveal the psychological and strategic choices that shape investment outcomes.

The Rabbits: Paralysed by capital impairment

The Rabbits represent investors who freeze in the face of losing investments—a behaviour Freeman-Shor identifies as the most damaging among his tribes. Like rabbits caught in headlights, these investors cling to declining stocks, hoping for a rebound that rarely occurs. In his study, Rabbits often saw their positions drop by 50–70 per cent, with some losses becoming catastrophic. This paralysis stems from psychological traps such as denial, overconfidence in their original thesis, or emotional attachment to the investment. For instance, a Rabbit might convince themselves that a company's fundamentals remain sound despite clear signs of deterioration.

This behaviour reflects the sunk cost fallacy—a bias where individuals avoid confronting mistakes because they've already invested significant resources into them. Rather than reassessing objectively, Rabbits mentally double down on their initial analysis in search of validation. Freeman-Shor warns that this passivity not only leads to financial losses but also results in missed opportunities, as capital remains

The sunk cost fallacy is a behavioural bias where individuals avoid confronting mistakes because they've already invested significant resources into them.

tied up in underperforming assets. The key takeaway from this tribe is clear: doing nothing is often the worst choice an investor can make.

The Assassins: Mastering the art of cutting losses

In stark contrast to Rabbits are the Assassins, who exhibit ruthless discipline by swiftly cutting losing positions to preserve capital. Freeman-Shor describes them as cold-hearted executioners who act decisively when a stock declines beyond a predetermined threshold—typically 20–33 per cent—or fails to perform within a set timeframe (six months to three years). His analysis demonstrates their effectiveness: only 2 per cent of losing investments in his study lost more than 80 per cent, while just 14 per cent lost over 40 per cent. This indicates that Assassins excel at minimising catastrophic damage through strict stop-loss mechanisms or mental rules.

What sets Assassins apart is their ability to detach emotionally from investments. Unlike Rabbits clinging to hope, Assassins interpret declining stocks as signals to exit, regardless of their original conviction. This mindset aligns with the principle of capital preservation, which is essential for long-term investing success. By cutting losses early, Assassins free up resources for new opportunities and maintain portfolio agility. While premature exits may occasionally result in missed recoveries for fundamentally sound companies, Freeman-Shor argues that the benefits of discipline outweigh such risks. Their lesson is straightforward: acting decisively on losses protects wealth and keeps investors in the game.

The Hunters: Turning adversity into opportunity

The Hunters adopt a contrarian approach to losing investments by purchasing more shares when a stock drops significantly—typically 20–25 per cent—provided their original thesis remains intact. Unlike Rabbits who freeze or Assassins who exit, Hunters view adversity as an opportunity to lower their average cost basis and position themselves for greater returns if the stock rebounds. Known as 'averaging down,' this strategy requires rigorous reassessment to ensure the company's fundamentals haven't deteriorated.

Successful Hunters demonstrate a knack for distinguishing temporary setbacks from permanent declines by conducting thorough due diligence before doubling down on their positions. For instance, a Hunter might buy more shares after a market overreaction to short-term bad news—such as missed earnings reports—if they believe the company's growth trajectory remains strong. However, this approach carries risks; amplifying losses becomes likely if the stock continues its downward spiral without recovery potential. Freeman-Shor emphasises that disciplined execution is what separates successful Hunters from those who blindly throw money at sinking ships. When done correctly, this strategy can yield outsized rewards during recoveries that produce significant gains.

The Raiders: Selling winners too soon

When it comes to winning investments, Raiders are characterised by their eagerness to lock in profits quickly—often selling winners prematurely out of fear or risk aversion. Freeman-Shor's study revealed that only 11 per cent of winning trades achieved returns above

Illustration: ANAND

50 per cent, while just 1 per cent exceeded 100 per cent. This tendency stems from psychological biases like loss aversion, where investors focus on short-term fluctuations instead of long-term growth potential. For example, a Raider might sell a stock after achieving a modest gain (e.g., 20 per cent), only to watch it double or triple later on.

While Raiders prioritise small guaranteed wins over greater rewards, this approach limits their ability to capitalise on market opportunities offered by big winners—stocks capable of driving disproportionate portfolio returns over time. Freeman-Shor contrasts Raiders with legendary investors like Warren Buffett, who advocate letting winners run as long as fundamentals remain strong.

Staying true to your chosen approach is vital for long-term success. Ultimately, the best investment strategy is one that allows you to sleep peacefully at night.

The Connoisseurs: Extracting maximum value

Finally, Connoisseurs represent the pinnacle of execution among Freeman-Shor's tribes. Remarkably, they lost money on 60 per cent of their picks—a worse performance than the group's average—but still achieved exceptional results overall due to their unique approach to winning investments.

Connoisseurs focus on concentrated portfolios (sometimes allocating up to 50 per cent into just two stocks) featuring companies with predictable earnings growth and substantial upside potential over time horizons spanning years—not months! They resist selling too soon while trimming positions modestly enough only when locking in partial gains temporarily without interrupting broader upside momentum trends entirely altogether, either!

This disciplined patience aligns closely alongside famous billionaires like Steve Jobs and Mark Zuckerberg, who've stayed invested in ventures for the long haul, thereby reaping outsized wealth creation benefits.

The final takeaway: Know yourself and your strategy

Freeman-Shor's work highlights a universal truth in investing: understanding yourself is just as important as understanding the market. Each investment style—whether that of Rabbits, Assassins, Hunters, Raiders or Connoisseurs—has the potential to generate market-beating performance. However, success depends on aligning your strategy with your personality and sticking to it consistently.

One critical rule emerges from Freeman-Shor's findings: avoid switching strategies mid-stream. Whether you prefer cutting losses decisively like an Assassin or letting winners run like a Connoisseur, staying true to your chosen approach is vital for long-term success. Ultimately, the best investment strategy is one that allows you to sleep peacefully at night—a testament to both financial security and emotional comfort. ☑

Red flags, red ink

Gensol scandal shows why governance matters more than hot sectors

By
Dhirendra Kumar

Last week, I was chatting with a long-time friend who recently retired from a multinational company. He's been investing diligently for decades but confessed something troubling: "This Gensol looked like such a great opportunity. Alternative energy sources and electric vehicles seem unstoppable. Thank goodness I never got around to it."

Unless you've been completely disconnected from financial news, you've likely heard about the unfolding Gensol-BluSmart scandal. A company that was once the darling of the green energy and electric mobility space has seen its stock plummet over 80 per cent since January. Behind this collapse lies a disturbing tale of fund misappropriation, misleading disclosures, and what SEBI described as a "complete breakdown" of corporate governance.

The details are sobering: loans intended for purchasing electric vehicles were allegedly diverted toward luxury apartments and golf courses; inflated order books that were merely expressions of interest; related-party transactions that were not conducted at arm's length; and promoters treating the company's funds as their "personal piggy bank." It's a textbook case of what can go wrong when investors focus exclusively on growth stories and promising sectors while ignoring fundamental red flags.

This brings me to an investing principle I've emphasised for years: **It's not just about identifying good companies to invest in—it's equally about knowing which companies to avoid at all costs.** Many investors spend endless hours trying to pick winners, which is certainly important. However, the truth is that avoiding the losers is often more crucial to your long-term success.

Consider this: If you invest in 10 stocks and nine perform reasonably well, while one collapses due to fraud or governance issues, that single mistake can wipe out years of patient gains. The maths of investing is brutal—a 90 per cent loss requires a subsequent 900 per cent gain to break even. This asymmetry means that avoiding catastrophic losses is often more valuable than finding spectacular winners. So, what are these red flags that should prompt an immediate "no" regardless of how compelling the growth story might be?

Corporate governance issues top the list. When a company's management structure reveals conflicts of interest, related-party transactions lack transparency, or the interests of the promoters are not aligned with those of minority shareholders, walk away. In the Gensol case, the close relationship between the listed entity and BluSmart, both of which share the same promoters, should have raised immediate concerns about whose interests were truly being served.

Opaque financial disclosures are another non-negotiable warning sign. Companies that consistently delay financial results, frequently change accounting policies, or provide vague explanations for major business developments are sending a clear message that something is not right. Remember, in quality companies, the numbers tell a clean, consistent story over time.

Unsustainable business models that prioritise growth at all costs should also make you pause. When a company's unit economics don't make sense, yet it continues to expand aggressively, someone eventually pays the price—and it's usually the shareholders. This is particularly relevant in trendy sectors where the excitement about future potential often overshadows current reality.

When a company's unit economics don't make sense, yet it continues to expand aggressively, someone eventually pays the price—and it's usually the shareholders

Excessive debt, especially when poorly explained or constantly refinanced, is a fourth red flag. In Gensol's case, a ₹1,512 crore debt with a 2:1 debt-to-equity ratio should have prompted serious questions about sustainability, particularly for a company still establishing its business model.

Promoter behaviour is my final and most telling indicator. When promoters sell shares while publicly remaining bullish, engage in frequent lifestyle upgrades that seem disproportionate to their declared income, or develop a pattern of unfulfilled promises, take your money elsewhere. Character matters enormously in business leadership.

At Value Research Stock Advisor, this philosophy of elimination forms the backbone of our approach. **While it may seem that we recommend stocks, what we do is reject most stocks and suggest the rest.** Our research process begins with the entire universe of listed companies and applies a series of rigorous filters to narrow down the selection. The first and most important of these filters screens out companies that fail our governance and quality checks, no matter how attractive they might otherwise appear.

Only after a company passes these elimination criteria do we begin evaluating its business potential, competitive advantages and valuation. This methodical approach enables us to build portfolios that not only aim for growth but also seek to protect your capital from avoidable losses.

This brings me to how we've structured our service to make this approach accessible to all investors. Rather than asking you to pick individual stocks (which can be overwhelming even with good recommendations), we now offer three ready-made portfolios: Growth, Aggressive Growth and Dividend Growth. Each portfolio is rigorously vetted to exclude companies with the red flags I've described.

Our **Growth Portfolio** focuses on companies with consistent performance and sustainable growth potential—businesses with robust competitive advantages, clean balance sheets and proven management integrity. These aren't just profitable companies; they're businesses you can trust to act in shareholders' interests.

For those with higher risk tolerance, our **Aggressive Growth Portfolio** targets high-potential stocks in emerging sectors. However, and this is crucial, we do not compromise on governance standards, even in this higher-risk category. Being in an exciting industry like electric vehicles or renewable energy doesn't exempt a company from basic governance requirements.

Illustration: ANAND

Our **Dividend Growth Portfolio** has proven particularly popular during recent market uncertainties. It focuses on companies with strong dividend-paying histories—businesses that share their profits regularly with shareholders. These companies typically have mature governance practices and a long-term orientation that values shareholder returns.

The beauty of this system is its simplicity. Our research team handles the complex work of continuous vetting and monitoring. Every month, we thoroughly review each portfolio, making changes when necessary and providing clear explanations for our decisions. Your job is to invest regularly in your chosen portfolio and we'll take care of the rest.

As the Gensol-BluSmart scandal unfolds, it serves as a powerful reminder that spectacular growth narratives are meaningless without solid governance foundations. The most innovative business model or the hottest sector cannot compensate for integrity deficits at the leadership level.

Whether you're a cautious investor seeking stability, an ambitious one looking for high growth, or someone focused on regular income, the first principle of investing success remains the same: avoid the losers. At Stock Advisor, we've built our entire approach around this principle, providing you with portfolios that are designed not only to capture upside potential but also to shield you from the kinds of governance catastrophes that can derail your financial future.

After all, in investing as in life, sometimes the most important decisions are the ones you choose not to make. ☑

Markets can humble even the mighty Trump

Bond and dollar sell-offs forced the White House into a rare retreat

By **Puja Mehra**

Just before a budget was about to be presented by the Modi government some years ago, I received a request to see the finance ministry's top brass. The then chief economic advisor's statements about the upcoming budget's likely estimate for the fiscal deficit had left the Reserve Bank of India (RBI) and finance ministry worried. The ministry wanted the estimate reported accurately. I didn't see the urgency, given the budget was to be presented in a day's time, but I understood their anxiety and filed the story, as requested.

On the budget day, I was in the Lok Sabha press gallery to cover the finance minister's speech. He read out the fiscal deficit numbers. To my relief, the officials hadn't misled me. As I was leaving the Parliament building, one of them walked up to me and said, "The RBI Governor has just messaged the Finance Secretary: 'The bond markets are saluting you'."

No government can shrug off sharp movements, especially sell-offs, in the bond market that it uses to finance itself. Not in India, where the government exercises far more control over the bond market than in other countries since it owns several of this market's players and holds influence over RBI, an influential participant. Not in the US, where President Donald Trump, who was unmoved by the equity meltdown over his tariff war, beat a retreat at the first sign of an adverse reaction in the market for US Treasury bonds.

Sell-offs in equities of the magnitude seen since Trump's trade agenda began to unfold tend to increase demand for US government debt, normally seen as one of the world's safest assets. Instead, Trump's April 2 tariffs led to a rout in the global bond market caused by, according to most reports, hedge funds unwinding certain positions.

This was an additional source of stress in the financial markets that have seen a sharp surge in volatility. It also meant that now all US assets—equities, bonds and the dollar—were falling sharply simultaneously, something that happens very rarely. Just like US Treasuries, the dollar, too, is usually a safe haven in times of heightened risk and uncertainty, and especially in times of recession warnings of the sort sounded by US Federal Reserve chair Jerome Powell over the tariff war.

The US dollar is the world's most important currency systemically. More than half of all international trade gets done in dollars, even when the transacting sides are not the US. The dollar is also the currency in which bulk of the international financial transactions are done. Central banks of all countries hold foreign currency reserves, of which about 60 per cent are denominated in dollars. The reason for this faith in the dollar is the confidence and trust in the US rule of law, the quality of economic policy-making and American institutions, such as the Fed. Trump's reckless trade agenda and tariff wars, which have not even spared US allies and those countries with which America has free trade agreements, threaten to upend this record.

US Treasury Secretary Scott Bessent, a former hedge-fund manager, would have seen the risk in the

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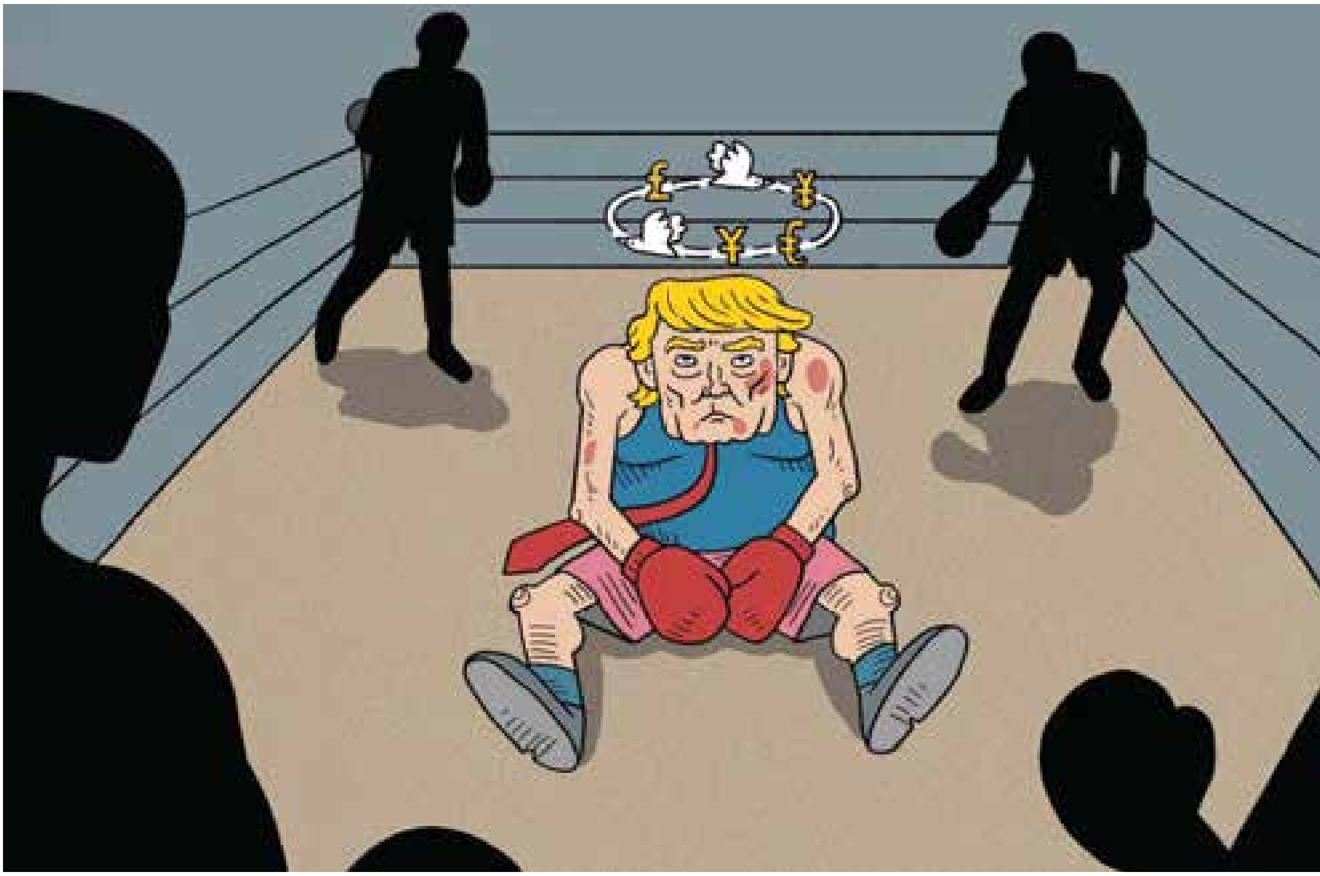


Illustration: ANAND

simultaneous flight from all US assets. It raised the spectre of intervention by the Fed to stabilise the bond market, as it had done after the Covid outbreak.

Except that this time, it would be necessitated not by a systemic liquidity crunch but by a loss of faith in US treasuries caused by damaged confidence in American policy-making and the damage to the global trading system by President Donald Trump's tariff war.

And investors regard US sovereign debt as less safe, assigning higher risk premiums to treasuries. It is very likely that he and the top brass of the Trump administration would have persuaded the US President to lose no time in acting on the message from the bond market rout and the dollar's plunge or risk a global financial crash.

Within hours, Trump paused most of his 'Liberation Day' tariffs for 90 days, something all the diplomatic tools that US allies and countries like India used hadn't been able to accomplish. Parallels were drawn immediately with Britain's unfinanced tax cuts announced by Liz Truss in her "mini-budget" in 2022 that set off a sell-off in gilts, forcing the Bank of England to intervene and the tax cuts to be rolled back.

The US said that it would charge all countries only its baseline 10 per cent tariff. Cars imported into the US will still face a blanket 25 per cent tariff. Still, the de-escalation did not calm the bond markets. Perhaps because President Trump at the same time ratcheted up his tariff war with Beijing, sending tariffs on China even higher to 145 per cent. China retaliated, too.

Beijing's second retaliatory hike in response to Trump's took the tariff rate to 84 per cent on all US goods entering China. In addition, Beijing also blacklisted 18 US companies. The country said that it remains open to dialogue with Washington to diffuse the situation but will not submit to blackmail and threats of the sort Trump's been handing out.

Trump's reckless trade agenda is aimed at appeasing a narrow voter base. But global financial markets are not as easily swayed as voters. They see that it has become virtually impossible to predict what Trump's trade policy may or may not be even a week from now. Worse, they worry about how far Trump will push his tariff war and if he will carry on the way he has without a care about how it could create a global financial crash. ☑

Puja Mehra is a Delhi-based journalist and the author of 'The Lost Decade (2008-18): How the India Growth Story Devolved into Growth Without a Story'

INVESTMENT ACORNS

This ratio can safeguard your portfolio

Why you can still drown in a river with an average depth of five feet

By
Aashish P Somaiyaa

The challenge in selecting actively managed equity funds is not so much the lack of alpha as the variability and rotation in winning managers generating alpha from time to time. It is more the fact that someone new is at the top of the alpha league tables every other year, and there is a lack of consistency in the alpha generation.

Having such wild winner rotation in the alpha league tables, with rarely anyone sustaining alpha generation, is as good as not having alpha from an investor and investment selector's perspective. The least it does is make the process of fund selection very hard and sticking to selected funds even harder.

Taking a cricketing example, if every batsman has an excellent batting average over time, you might think you are endowed with great depth of batting talent. But every time you pick a team and enter the match, only half the batsmen score above average, and in every game, a different set of batsmen beat their average.

How do you pick a team? The bench looks very strong; the team management believes we have the right talent but is unable to create a winning team. What is the use unless there is consistency? You are much better off having a bench with a lower average but high consistency. You can still drown in a river with an average depth of five feet. This analogy underscores the importance of understanding consistency over mere averages. In investment terms, just because a manager has a high average alpha, it doesn't mean they are reliable contributors to a portfolio's success.

The information ratio addresses this very concern for investors, offering a sophisticated tool that emphasises reliability and consistency in performance over mere averages. The information ratio is a measure used to evaluate the performance of an investment portfolio against a benchmark index adjusted for risk. It is calculated by dividing the portfolio's excess returns over the benchmark by the tracking error, which is the standard deviation of the excess returns. In simpler terms, alpha is divided by the standard deviation or measure of the variability of alpha; it tells investors how much additional return they are receiving for the extra risk taken by deviating from the benchmark.

Going back to the cricketing example, player A has a batting average of 45 runs and generally scores between 20 and 70 runs. Player B has a batting average of 48 runs and could score anywhere between 0 and 150 runs. What kind of players do you want to populate the team with? How much will you stake on player A vs player B in a crunch situation when you have to send one of them to bat in the crucial overs?

A higher information ratio indicates a more desirable risk-adjusted performance, signalling that the manager's active decisions are yielding beneficial results more consistently against the benchmark despite the risks involved. We don't need the highest alpha if it comes with high variability, i.e., huge positives followed by huge negatives. What we need is a consistent alpha with low variability.

The information ratio tells investors how much additional return they are receiving for the extra risk taken by deviating from the benchmark

AI-generated image

Fund management is not just stock picking; portfolio construction is equally important for good investor experience. Sometimes, one can drown in a river that is five feet deep; it's not the average alpha that matters, it's the variability between the shallow and the deep that matters.

When faced with extremes of fund performance, investors find it difficult to stick to their investment because extremes evoke emotions, and emotions cause mistakes in investing. Investors tend to invest in funds with the highest alpha (greed), but this highest alpha comes with a very high deviation from the benchmark, abandoning the balance of the portfolio and aligning the portfolio totally in favour of what's in vogue or what currently is "hot" or "trending" in markets.

When the macroeconomic environment changes, what works in markets changes and what works within the benchmarks also changes. This would often result in the manager with the highest alpha falling to the bottom and someone at the bottom-end rising like a phoenix.

When the manager with the highest alpha becomes a fallen star, money starts to flow out (fear) and chase the phoenix.

We need a consistent performer, someone with above-average alpha but low variability...picking funds with a healthy information ratio ensures you are not exposed to extreme performance

The chase for the best performer is never-ending. We don't need the best performer. We need a consistent performer, someone with above-average alpha but low variability; someone who is in the top quartile when portfolio positions or investing preferences are aligned with market conditions and bottom of the second quartile or top of the third quartile when portfolio positions or preferences in investing are not aligned with market conditions.

Picking funds with a healthy information ratio ensures investors are not exposed to extremes of performance; they get consistent experience and can stay put for longer to enable compounding of investment. ☑

Aashish P Somaiyaa spearheads WhiteOak Capital Asset Management Limited as their CEO.

High-growth small caps

Finding small caps that go on to become mid and even large caps is every investor's dream. Our screen can help you do that.

A stock screen filters out companies based on certain criteria. The main advantage of using a stock screen is that it helps you generate stock ideas with a few clicks. It does away with the time-consuming process of 'finding' companies.

Value Research applies carefully selected stock filters to the universe of Indian stocks to identify and present you with attractive companies. In this issue, we will be covering the 'Small-cap growth companies' screen in detail. We have also given a concise list of stocks from our other screens. If you want to view all the companies, find them at: **https://www.valueresearchonline.com/stocks/selector/**

Small-cap growth companies

The greatest joy of compounding, for any investor, is unarguably the journey of a small-cap company transforming into a large-cap company. However, the small-cap arena is like the Roman-era Colosseum – many participated in the gladiatorial games but only a few survived to tell their tale.

Thus, in order to remove poor-quality small caps, we have applied the filters for solvency (debt), quality of business (i.e., ROE) and revenue growth. To refine the list further and incorporate valuation as well, we have selected companies with a PEG (P/E to earnings growth) of less than one.

Small-cap investing requires you to do a lot of groundwork. Pick companies that you understand and research them in detail. This is not for the faint-hearted or amateurs. In their journey to become a larger company, small caps will undoubtedly encounter multiple headwinds. You should have the skillset to judge whether these are transient or not. You will also need perseverance to deal with the frequent drawdowns in your portfolio.

A word of caution

These are not stock recommendations. Please do your due diligence before investing. If you are interested in a list of stocks to invest in, subscribe to **Value Research Stock Advisor.**

Key terms

M-cap
Stands for market capitalisation. Obtained by multiplying the stock price by the total number of shares. Shows a company's market value or size.

Price-earnings to growth ratio (PEG)
Ratio of price to earnings to the EPS (earnings per share) growth of a stock. Demonstrates how high a price we are paying for the growth that we are purchasing. In all our analyses, we have taken five-year historic EPS growth.

Stock Rating
Value Research Stock Rating combines the three scores (quality, growth and valuation) based on assigned weights to arrive at a holistic stock rating. We have created a five-star rating system. The higher the stock rating, the better.

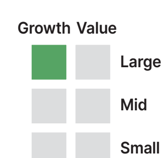
Growth Score
It evaluates a business's historical growth and scale, using metrics such as revenue growth, operating cash flow growth, Piotroski F-score, etc. The score is based on absolute ranges and is driven by current performance and historical consistency of growth. Per share data is considered for each parameter to calculate growth. The score is out of 10, and the higher the score, the higher the historical growth.

Return on equity (ROE)
Measured by taking profit after tax as a percentage of the net worth of the company. Indicates how efficiently the company has been able to utilise investors' money.

3Y revenue growth (% pa)
The three-year annualised growth rate of a company's revenue.

3Y EPS growth (% pa)
The three-year annualised growth rate of a company's earnings per share (EPS).

Stock Style
Derived from a combination of the stock's valuation – growth or value – and its market capitalisation – large, mid and small. For example, here is the stock style of a largecap growth stock.



Small-cap growth companies

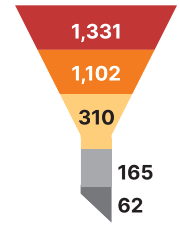
Reasons to invest

- Fast-growing companies
- Chances of high wealth creation
- Fundamentally sound
- Reasonable valuations

The filters

- M-cap between ₹500 and ₹12,548 crore
- D/E 0 to 1
- ROE 3Y avg more than 20 per cent
- Revenue 3Y growth more than 20 per cent
- PEG (5Y) 0 to 1 times

No. of companies that cleared the filters



Company Industry	Stock Style	Stock Rating	Growth Score	PEG	3Y revenue growth (%)	3Y EPS growth (%)	3Y avg RoE (%)	M-cap (₹ cr)	Share price (₹)	52-week high/low (₹)
ADC India Comm. IT Serv. & Consulting		★★★★★	7	0.6	20.5	57.1	22.6	600	1,302	2,310-901
Aditya Vision Computer & Electronics Retail		★★★	5	0.9	36.1	24.3	46.7	5,639	438	547-368
Advait Energy Transitions Electrical Machinery		★★★	6	0.3	47.0	66.1	24.1	1,417	1,304	2,260-1,020
AGI Infra Real Estate Development		★★★★★	7	1.0	22.6	27.6	30.7	1,987	820	971-329
Australian Premium Solar Solar Electric Utilities		Unrated	-	0.8	26.4	36.0	24.3	779	433	670-285
Balu Forge Industries Castings & Forgings		★★★★★	6	0.1	31.0	48.5	21.3	6,860	617	887-223
BLS E-Serv. Online Serv.		★★★	3	0.5	67.2	48.9	59.8	1,360	154	312-131
Chaman Lal Setia Exports Crop Farming		★★★	5	0.9	21.2	17.6	20.7	1,617	332	447-183
Creative Newtech Technology Hardware Trading		★★	6	0.7	25.5	38.9	23.8	1,142	755	1,075-601
Crest Ventures Brokerage Serv.		★★★	7	0.5	102.6	78.0	32.7	1,030	378	622-319
Cyient DLM Electronic Components		★★★	5	0.6	23.8	17.1	34.5	3,702	467	870-379
Danlaw Technologies Tech. Equipment & Parts		★★	7	0.6	74.3	221.9	29.7	501	1,030	2,259-800
Dynacons Systems IT Serv. & Consulting		★★★★	8	0.4	28.5	62.6	36.4	1,420	1,176	1,737-927
Eco Recycling Waste Management		★★★★	6	0.8	43.1	23.5	27.0	1,187	620	1,215-443
Elpro International Real Estate Serv.		★★★★★	7	0.0	86.0	94.7	53.7	1,478	87	148-62

STOCK SCREEN

Company Industry	Stock Style	Stock Rating	Growth Score	PEG	3Y revenue growth (%)	3Y EPS growth (%)	3Y avg RoE (%)	M-cap (₹ cr)	Share price (₹)	52-week high/low (₹)
EMS Const. & Eng. - Div.		★★★★	5	0.5	32.8	22.0	23.3	3,693	668	1,016-392
Enviro Infra Engineers Water & Sewage Const.		Unrated	-	0.5	89.8	131.6	57.9	3,874	219	392-182
Epigral Commodity Chemicals - Div.		★★★★	6	0.7	23.1	22.5	32.8	8,171	1,889	2,407-1,110
Expleo Solutions IT Serv. & Consulting		★★★	6	0.8	40.4	10.7	22.5	1,358	881	1,567-735
Fineotex Chemical Div. Chemicals		★★★★	7	0.6	20.7	32.2	26.1	2,823	248	439-207
Gokul Agro Resources Edible Oil		★★★★★	8	0.3	20.4	38.4	24.8	3,786	258	377-114
Gretex Corporate Serv. NBFC - Div.		★★★★	5	0.1	231.8	216.0	49.5	724	320	461-205
Hariom Pipe Industries Steel Tubes & Pipes		★★★	6	0.3	47.7	5.8	24.1	1,227	393	889-320
Hazoor Multi Projects Real Estate Development		★★	1	0.1	85.6	125.6	44.0	1,008	44	64-32
IIFL Capital Serv. Wealth Management		★★★★	4	0.3	31.5	35.1	33.3	7,003	233	449-132
IM+ Capitals NBFC - Div.		★★	3	0.2	194.2	-73.8	251.1	1,006	51	130-41
Innova Captab Pharma - Div.		★★★★★	8	1.0	38.1	32.0	27.1	5,290	926	1,260-421
Innovana Thinklabs Software & Serv. - Div.		★★★★	5	0.7	21.2	37.2	27.6	696	341	738-271
Jindal Photo Inv. Holding Companies		★★★★★	7	0.1	371.0	69.9	50.6	851	826	1,030-536
JTL Industries Steel Tubes & Pipes		★★	4	0.2	29.6	13.4	35.8	2,815	72	124-60
KDDL Watches		★★★★★	8	0.6	27.0	49.4	20.6	3,531	2,872	3,815-2,050
Kilburn Eng. Const. & Eng. - Div.		★★★★	6	0.4	46.7	33.0	20.5	1,915	405	511-327
Kothari Petrochemicals Div. Chemicals		★★★★★	8	0.6	22.2	25.5	25.1	961	163	267-117

Stock Rating and price data as of April 21, 2025. For the full list, scan the QR code on the right.

Want more? Here you go

Other screens available on the Value Research website, along with their themes and some of their stocks

High momentum large caps

Gives a list of large caps that are in vogue right now

	P/E		P/E
Hindustan Aeronautics	**33.1**	Abbott	**49.2**
Eicher Motors	**35.1**	Bharti Hexacom	**66.0**
Bharat Electronics	**43.7**	Divi's Laboratories	**75.2**
Bharti Airtel	**46.3**	BSE	**87.3**
Grasim Industries	**48.6**	Dixon Technologies	**121.0**

High momentum mid caps

Gives a list of mid caps that are in vogue right now

	P/E		P/E
Authum Inves. & Infra.	**7.6**	Blue Jet Healthcare	**55.5**
Avanti Feeds	**24.5**	Affle	**60.1**
Caplin Point Laboratories	**28.6**	Blue Star	**73.9**
Aavas Financiers	**29.6**	Bharat Dynamics	**94.0**
Aegis Logistics	**48.4**	Astrazeneca Pharma India	**226.6**

High momentum small caps

Gives a list of small caps that are in vogue right now

	P/E		P/E
Bajaj Steel Industries	**18.6**	AGI Infra	**33.0**
Amal	**27.8**	ASK Automotive	**35.3**
Cantabil Retail India	**30.7**	Benares Hotels	**36.9**
Associated Alcohols	**32.0**	Balu Forge Industries	**40.5**
3B BlackBio Dx	**32.5**	AMI Organics	**76.6**

Growth at reasonable P/E

Growth stocks that are priced attractively

	P/E		P/E
Phoenix Township	**3.2**	Dhunseri Ventures	**4.7**
Ashoka Buildcon	**3.6**	KNR Constructions	**5.3**
Oricon Enterprises	**4.1**	Kisan Mouldings	**5.7**
Navneet Education	**4.1**	Madras Fertilizers	**6.5**
IRB Infrastructure Developers	**4.4**	NALCO	**6.8**

Book value discount

Stocks that are trading at a discount to their respective book values

	P/B		P/B
The Great Eastern Shipping	**4.5**	The Yamuna Syndicate	**8.8**
The Jammu & Kashmir Bank	**5.4**	Abans Financial Services	**9.8**
Canara Bank	**5.4**	Patel Engineering	**10.2**
Union Bank Of India	**6.0**	Bengal & Assam Company	**10.3**
Bank Of Baroda	**6.2**	Utkarsh Small Finance Bank	**15.8**

For all the screens and to customise them as per your requirements, visit

- Stock Rating
- Value Guru screens
- Easy peer comparison

www.valueresearchonline.com/stocks-screener/

WORDS WORTH NOW

Bharat Kaushal, Managing Director, Hitachi India

On why India is a market for everyone

When a Virgin Atlantic or a British Airways looks at the Indian market, they look at a middle class of 150-200 million, but a consumer company like Panasonic or Hitachi may look at a middle class of 500 million, and a Japanese ramen company may look, like Pepsi, at a billion people. There are multiple definitions and this is what is unique about India. How do you get the right market within India? Because it presents itself as a market for everything.

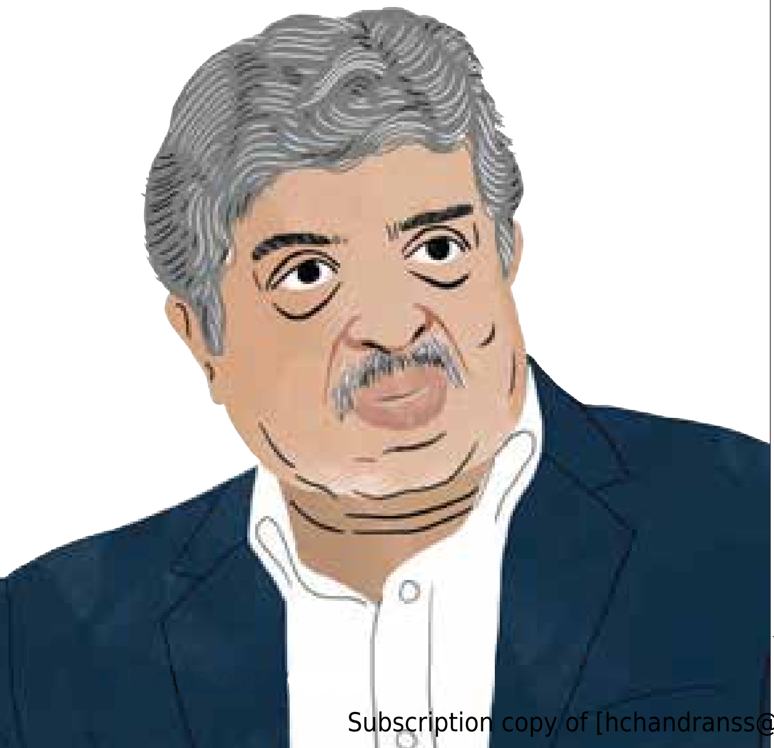
Business Today, March 30, 2025

Nandan Nilekani, Co-founder, Infosys

On implementation of AI

AI doesn't mean it's going to be easier to do. It's going to take the same effort, if not more effort, and because you're trusting the machine to give decisions, more responsibility is needed to make sure that it works. This is something which is much more complicated than we think.

Carnegie India Global Tech Summit, April 11, 2025



Andy Jassy, CEO, Amazon

On why a company should invest in AI

If your mission is to make customers' lives better and easier every day, and you believe every customer experience will be reinvented by AI, you're going to invest deeply and broadly into AI.

Mint, April 11, 2025

Howard Marks, Co-founder, Oaktree Capital Management

On why investors shouldn't run away from opportunities now

Everyone was happy to buy 18-24-36 months ago, when the horizon was cloudless and asset prices were sky-high. Now, with heretofore unimaginable risks on the table and priced in, it's appropriate to sniff around for bargains: the babies that are being thrown out with the bath water.

Memo: Nobody Knows (Yet Again), April 9, 2025