IIFL'S PERSPECTIVE ON VALUE INVESTING

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Benjamin Graham's 3 Most Timeless Investment Principles

Principle #1: Always Invest with a Margin of Safety

- Margins of safety is the principle of buying a security at a significant discount to its intrinsic value, which not only provides high-return opportunities, but also minimizes the downside risk of an investment. Graham's goal was to buy assets worth $1 for 50 cents.

Principle #2: Expect Volatility and Profit From It

- Investing in stocks means dealing with volatility. Instead of running for exits during times of market stress, the smart investor greets downturns as chances to find great investments.

Principle #3: Know What Kind of an Investor You Are

- **Active vs. Passive Investors**
- **Speculator vs. Investor**
- To paraphrase Graham, there is intelligent speculating as well as intelligent investing; the key is to be sure you understand which you are good at.

Source: Investopedia website

Benjamin Graham's 3 Most Applied Business Principles

IIFL

Principle #4: *"Know what you are doing – know your business."*

- You shouldn't try to earn excess returns from an investment unless you know as much about the BUSINESS as you would have known if it were your own business.

Principle #5: Managers must be honest and competent

- If you are investing in a stock, is the CEO an honest and capable manager? If you are investing in an actively managed mutual fund, have you done your due diligence on the portfolio manager?

Principle #6: Have the Courage to Act – Even though Others may HESITATE or DIFFER

- "You are neither right nor wrong because the crowd disagrees with you. You are right because your data and reasoning is right."

Source: Investopedia website

Principle #1: Always Invest with a Margin of Safety

A company where Workers Own & Owners Work

- Least cost structure implies lowest break even and highest margin of safety.

No leverage till business makes sustainable profits

- Funding by equity till business model is established. Promoter's stake dilutes but absolute financial safety.

Focussing on core business and getting scale

- In dot com boom, got distracted but as bubble burst, quickly learnt that lack of focus dilutes margin of safety.

Guarding the values and culture

- Nothing dilutes margin of safety faster than what dilution of values and culture can!

Principle #2: Expect Volatility and Profit From It

'India' and 'financial services' had more than their fair share of volatility

- You cannot foresee the nature and timing of volatile gyrations. You must be always prepared.

In down-cycle, invest in people, assets and new businesses

- We seized the opportunity to expand into insurance, institutional business and wealth management at downturn.

In up-cycle, raise capital

- We raised capital in 2007 at almost peak of cycle.
- Capital raise in 2016/17, off the trough but ahead of peak.

Principle #3: Know What Kind of Investor You Are

My co-promoter and I are investors for life

- Neither of us has sold a single share and therefore share price and market cap movements have little relevance for us.

We are active investors who are hands on

- We enjoy near perfect information in our largest investment, with ability to control strategy and execution.

We are focussed only on long term value creation

- Our strategies, plans, investments are focussed on building long term brand and franchise, often at the cost of quarterly results.

Principle #4: *"Know what you are doing – know your business."*

Promoters had qualification and inclination for the business

- We are first generation professionally qualified entrepreneurs, with work experience in MNCs and passion for financial services.

Build core team of people with best-in-class credentials

- Hired best talent with cultural alignment. They joined us not for money but for pleasure and pride of ownership

Avoid temptations to invest in businesses that you do not understand fully

- We passed several proposals with promise of attractive returns from real estate to renewable energy.

Principle #5: Managers must be honest and competent

3Cs test for hiring- Character, Competence, Commitment

- Culture has to permeate the organization from the top - Not to get lured by promise of big revenue or clients.

Values and culture can not be traded for anything

- Not compromising on values and culture even under pressure of 'big short term gain' or 'big hitters' is key to sustain long term value creation.

Getting rid of 'misfits'- incompetent or dishonest managers is as important as hiring the 'right fits'

- For any large organization, hiring can never be 100% fool proof. Like investor, one has to quickly and gracefully 'cut loss'!

Principle #6: Have the Courage to Act, Even Though Others may hesitate or differ

A good investor seldom follows the herd

- To create value above average, one has to digress from the mass congregating around average.

IIFL took a different path several times, with many 'hits' and a few 'misses'

- ✓ Internet trading platform - cutting edge technology 2002
- ✓ Built a large offline branch network in 2006
- ✓ Huge upfront equity to attract top institutional equities team in 2007
- ✓ Built wealth management in partnership with key people in 2008
- ▪ First foreign broker to enter Sri Lanka 2009 and first to exit as well
- ▪ Missed setting up ARC at the right time in 2010
- ▪ Offshore funds, Singapore broking, China research - all wound up in 2012
- ✓ First and foremost in Alternate Investment Fund space 2014
- ✓ Invested aggressively in mobile trading 2015
- ✓ Forayed into micro finance with an acquisition, a rapidly growing industry 2016

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Thank You

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