

Peer Insights

R E P O R T

Q&A with Akshay Mansukhani Partner of Malabar Investments

Principle Series:

Family Office Insights sits down with Akshay Mansukhani partner of Malabar Investments to talk about how he got his start in investing in the Indian public markets and why India is an attractive investment opportunity for high-net-worth individuals.



Family Office Insights is a voluntary, “opt-in” collaborative peer-to-peer community of single family offices, qualified investors and institutional investors.

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Q: What is your background and how have you come to investing in India?

A: I grew up in Bombay and went to school in Philadelphia. As a Joseph Wharton Scholar, I graduated with both my BSE and MBA from The Wharton School in 2004. I then spent a few years with UBS in New York. I was part of their equity capital markets group and focused on derivatives and convertible bonds. During my time there, we raised \$5bn and co-invested \$700mm across a few deals. I was promoted to director in 2008 and I moved back to Bombay in 2009.

Over 30 years ago my father Vijay, founded a consumer durables brand called Onida. The brand is well recognized for its televisions and air conditioners. After spending some time with him, I realized that I should advise him on our family investments. My realization was clear: if India's nominal GDP was growing at 14-16%, I would be very happy with slightly higher returns over long periods of time. Our highest returning investment was an investment in to the public markets in 2002 and so I naturally started spending time with Indian asset managers.

Through the Wharton network I met Sumeet Nagar at the beginning of 2009. Sumeet spent many years with McKinsey evaluating investments in India and had launched Malabar in fall of 2008. He was focused on making long term investments in listed small and mid-cap Indian equities and had a clear inclination for 'value'.

I joined Malabar as a partner in the fall of 2009. The opportunity to generate superior returns seemed to make sound logical sense.

Q: Why would you choose Indian public markets to invest in?

A: Bombay Stock Exchange ('BSE') and the National Stock Exchange ('National Stock Exchange') have over 4,000 listed entities. Many of underlying businesses are growing fast; we can therefore choose to be selective in this space.

When I graduated college in 2004, the large cap BSE Sensex was trading around 5,000. The price today is around 28,000. A significant part of this return has been driven by earnings growth.

Indian nominal GDP is the tenth largest in the world but is the 3rd largest on purchasing power parity terms. Essentially, the economy is in its early days of high structural growth. As we have seen in Brazil and China, when emerging economies go through phases of structural growth, smaller businesses tend to outperform larger ones. This is a great tailwind to have for fundamental bottom up stock pickers.

Q: More specifically, why choose smaller mid-cap companies in the public markets?

A: It all boils down to information symmetry. The largest hundred names receive the highest investor focus. These businesses account for over 80% of the market capitalization of the country. In many cases, the future outlook is priced in for these businesses.

In the small- and mid-cap space, there are many businesses which receive limited broker coverage and are therefore trading at attractive valuations. Our approach is to conduct heavy research and this helps build conviction. In many cases, we are the first institutional investors in a business.

It helps that at this nascent stage for the economy, there are many small businesses are clear leaders in the niches in which they operate. In many cases these niches are growing at 15-20% annualized. If we can spend time to really understand these businesses, and wait for the right price to buy, the long term growth prospects are compelling.

Q: How do you define value?

A: There are many basic factors which we look for such as consistent cash flows, moat, people and the absolute valuations. Over and above this our experience has taught us to have greater appreciation for a few elements.

First, we validate the numbers and the moat through heavy diligence. Last year our investment team conducted over 900 calls and meetings. Much of this time was spent speaking to competition, industry participants and channel partners.

Second, we try and understand the managements' capital allocations decision. In most of the businesses we look at, the ownership and the management is the same. In cases where these business families have obligations across their group entities, capital allocation decisions may be sub-optimal. This hurts minority shareholders. Strong corporate governance is important to us.

Third, we typically stay away from capital intensive business and business which have government involvement. The incentive for profit in private enterprise creates an environment which is better suited for growth.

On a related note, I would caution against the balance sheet style of value investing. Many balance sheet strong businesses have proven to be value traps.

Q: Can you explain your strategy and approach?

A: We define our investment strategy as one which is grounded in value, has a long bias and one which works well over a multi-year horizon.

The core portfolio comprises of a few businesses which have the potential to generate significant value creation through earnings growth over long periods. This is in spite of what we see as the risks to their models.

We like concentration and 15 businesses typically comprise 70-80% of our equity portfolio. We try and take 5-7 years views on our investments and are comfortable varying our exposures significantly through cash and hedges.

We define our work culture through partnership and humility. We are heavily discussion oriented, are open to bringing team members in as partners and are constantly introspective to understand our mistakes.

Q: Why do you take this approach in this specific space?

A: The Indian market has proven to be very volatile. This helps us in our buying if we are patient but also forces us to reduce risk in rich valuation environments.

We believe this strategy will continue to generate value for us over the long term. We are fortunate to have investors who understand our multi-year outlook. This really gives us confidence to invest based on where a business will be a few years down the road.

The median annual earnings CAGR for our top 10 names over the last 5 years was 35%. We are confident that our portfolio business will generate superior growth growing forward. If we are able to selectively time our entry points, the return potential is high.

Q: How do you identify opportunities within the public markets? What types of returns are you seeing?

A: We follow a quantitative and qualitative screening process to identify companies on which we conduct an initial level of work. Our team runs multiple screeners based on financial metrics to create a target list. We also add any business we have heard about and have looked at the numbers. We then spend time discussing and narrowing this list down as a team. Each analyst typically covers two companies in detail a quarter.

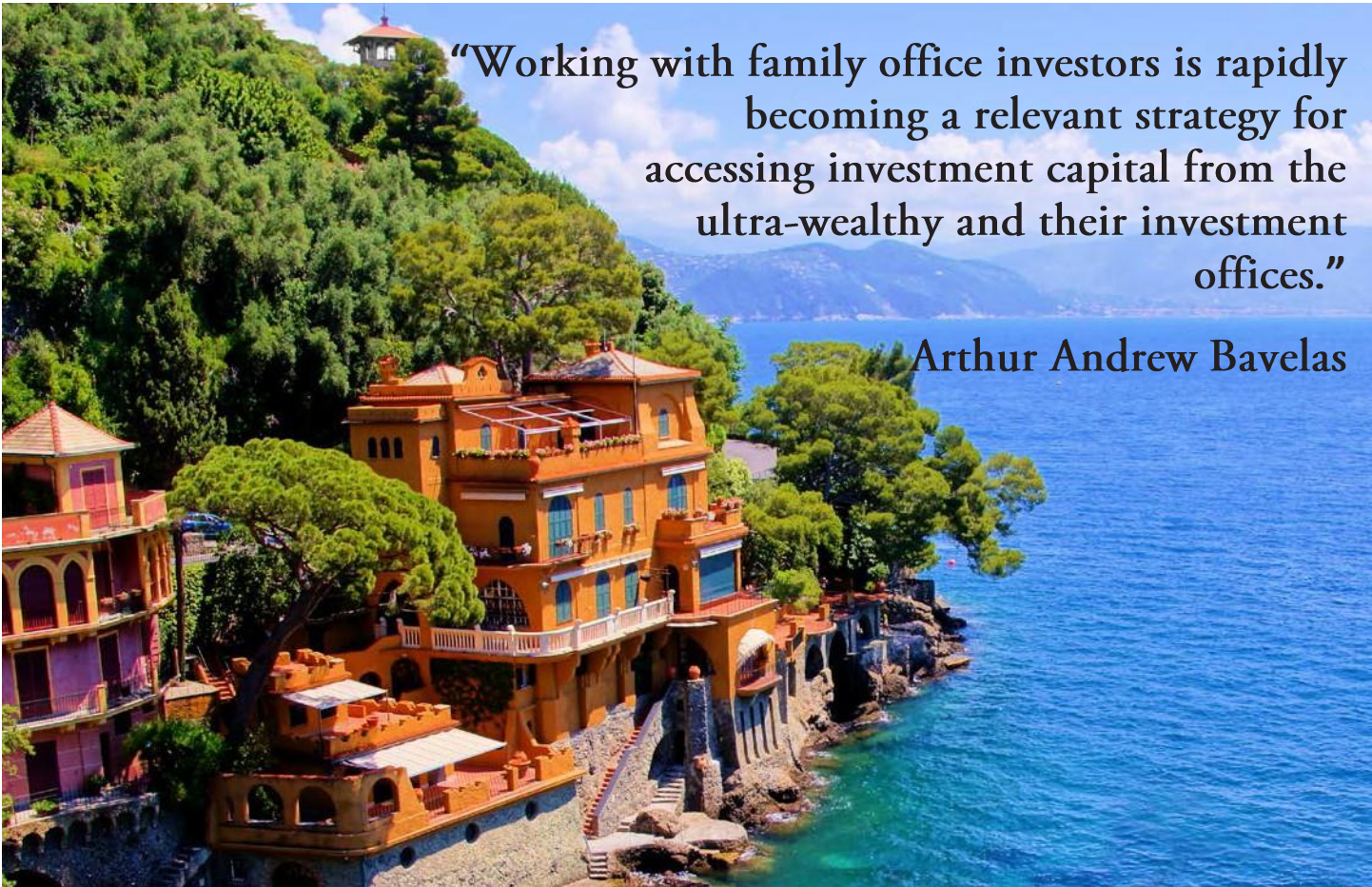
In terms of returns for global investors, a big dampener has been the weakening of the currency. While the current RBI governor has done well to manage inflation and fluctuations in the Rupee, the risk of high inflations remains for the foreseeable future.

In spite of the currency weakening, our net returns since inception six and a half years ago have been over 15% annualized. This has also been in spite of a challenging equity environment. Our benchmark small cap returned 2.4% annualized over this same period. We are confident that such an approach will result in finding businesses which will generate superior earnings growth over the long term.



Akshay Mansukhani

As a partner at Malabar Investments, Mansukhani spends time on investment analysis and risk management. Malabar invests in small and mid-sized public businesses in India. As an advisor to his family office since 2003, Mansukhani has over 10 years of experience in money management. Prior to joining Malabar, he was a director at UBS in their Investment Bank. For more information, please go to, <http://www.malabarinvest.com/>.



“Working with family office investors is rapidly becoming a relevant strategy for accessing investment capital from the ultra-wealthy and their investment offices.”

Arthur Andrew Bavelas