

ABOUT

# NARNOLIA INDIA 3T FUND

## Investment Philosophy

through investing in companies with rising relative growth and valuation.

## Objective

### 4 Pillars of Investment Framework

#### 1 Principle Of Growth In Value

Among various proven philosophies of investing, our chosen style is 'Growth in Value'. Here the word value is derived from the word valuable i.e. factors that make a company more valuable

#### 2 360° Deductive Reasoning Framework

Insist on knowing why and how a company makes its revenue both from a broad picture basis- understanding the addressable market and dynamics as well as the microscopic financials- valuation level perspective

#### 3 Seeking Linear Consistent Growth

Prefer companies where improvement happens linearly in small steps over a relatively longer period of time as these companies' valuation multiple expands alongwith earnings and then does not contract in a hurry

#### 4 Risk Manager's Mindset

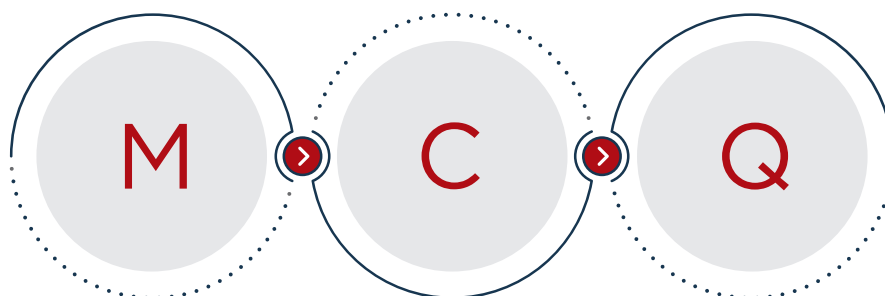
Portfolio has a pre-determined risk return expectation framework which enables taking active risk keeping in mind economic exposures, liquidity risk and stock-sector – cap- theme weightages.

## 1. Principle Of Growth In Value

**M** stands for Momentum In Return Ratios - The Return on Equity or the Return on Capital Employed or the Free Cash Flows of the company must be increasing.

**C** stands for Capital Allocation - Management strategy on allocation of funds becomes important here and this is a key hygiene that a portfolio company must exhibit.

**Q** stands for the Quality of the company in terms of higher return ratios versus its peer as well as broader stock universe. The company should be capable of raising its return ratio (M) to a level where its return ratio gets to the top quartile among its peers in a sustainable manner.



## 2. 360° Deductive Reasoning Framework

Our deductive reasoning framework is like asking a series of 'why so' type of questions. The key is to find the source due to which the company is/would be exhibiting characteristics of rising return ratio. This has five defined sub-processes. These processes are meant to understand the portfolio company in a 360 degree manner.

- Sustainable Valuation possible in the longer run and factors impacting with emphasis on identifying when market is underpricing the company
- Outlook on the company financials particularly the sources why a company is considered trading below its long term intrinsic value though could be efficiently reflecting the near term financials.
- Building a detailed business and financial model to realize the source of earning and quality delta for the company.
- Management strategy in terms of its finances particularly in terms of source and deployment of capital, marketing strategy in terms of its products, segments, pricing etc.
- State of addressable market and identifying the changing dynamics of that addressable market.

## 3. Seeking Linear Consistent Growth

For any company there are three moving parts in terms of fundamental- stock price relation. These are changes in earnings, quality and valuation. Every company in its evolution passes through the various stages during its progress. We prefer buying where linearity or a consistent positive delta is expected in the earnings profile and the quality profile of the company. Before selecting a stock for the portfolio, it is necessary to identify which stage it is into.

## 4. Risk Manager's Mindset

Portfolio has a pre-determined risk return expectation framework which enables taking active risk, keeping in mind economic exposures, liquidity risk and stock- sector – cap- theme weightages. There is rigorous monitoring of the Stock selection, Allocation Thesis and Price Swing Performance of the portfolio's constituents. We prefer staying with our style of investing.