



Purnartha

RESEARCH - RESULTS - RELATIONSHIPS

Securities Exchange Board of India (SEBI) Registered Intermediary

Portfolio Managers Registration No. INP000007021



# About Purnartha

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# Why Purnartha?

## ○ Research

- All investments are preceded by an extensive due diligence process and on-ground channel checks to assess the risks and opportunities with respect to each investment
- Purnartha owns the entire process across research, data analysis, stock-picking up to generating recommendations on the best Indian equities to invest in
- Over the years we have developed significant relationships supported by on-ground channel checks which help us get a detailed perspective about the companies that we invest in

## ○ Results

- Our research methodology brings to the forefront the best investment themes into focus so that you could endeavour to generate an alpha for your fund

## ○ Relationships

- Aim to create a long-term relation with clients through sustainable alpha generation.
- Focused on serving UHNI, HNI, Institutional investors, and family offices investors to make them a part of India's growth story.

- Founded by Mr. Rahul Rathi (Chairman) & Dr. Rangarajan Sundaram (Dean, Stern School of Business) in 2009
- Aply supported by a par-excellence buy-side research team of 20+ members
- Proprietary research methodology, curated over a decade of performance driven culture
- PAN India presence with 13+ offices
- Managed/ Advised assets over ₹9,500 Cr

## Purnartha PMS Monthly Returns since Inception as on 31 August'23

Strategy	1M	3M	6M	1 Y	2Y	Since Inception
PPS	0.94%	10.05%	19.47%	7.53%	1.57%	10.70%
S&P BSE 500 (TRI)	-0.61%	7.73%	17.34%	11.34%	9.15%	22.51%

PPS = Purnartha Pratham Strategy

Note: Performance figures are calculated using Time Weighted Rate of Return (TWRR) method. Performance data is net of all fees and all expenses (including taxes). Past performance is not indicative of future returns. The performance related information provided herein is not verified by SEBI. Please note that performance of your portfolio may vary from that of other investors and that generated by the Investment Approach across all investors because of

1) the timing of inflows and outflows of funds; and

2) differences in the portfolio composition because of restrictions and other constraints.

To check the performance of other Portfolio Managers within the selected strategy please click here: <https://www.apmiindia.org/apmi/welcomeiaperformance.htm?action=PMSmenu>

# Best-in-class Research

*Stellar team of buy-side research analysts.*

## Experience

Over 180 years of cumulative experience with wide-range industry knowledge and expertise

CAs, CFAs, market intelligence team. Blend of young Turks and experienced heads that focus and sharpen the research process

Key analysts have work experience with well-known buy-side firms. Hands-on experience across DM/EM

## Competence

Proficient in financial modelling, risk assessment, data analysis, historical performance review and field research

Analyzing Business Dynamics, Analytics & On-ground Validations

The market intelligence team is well connected on the ground to gather facts.. This team also regularly engages with industry professionals and domain experts to get operational insights on business dynamics.

## Approach

Data driven fundamental research with focus on balance sheet

Bottom-up approach to ensure that each investment opportunity is looked upon individual merit

Cognizant of key risks – both macro and stock-specific. Portfolio construction to diversify across sectors

# Leadership

*Visionary leadership with a belief in treating the world as a one family – “Vasudhaiva Kutumbakam”*



*Rahul Rathi*  
Chairman & Fund Manager

- Master of Business Administration degree from Carnegie Mellon University, USA
- 15+ years of equity research, investments and risk management experience
- Was earlier involved in risk management of funds with an over \$2bn AUA & has inspired Purnartha's fundamental investment philosophy



*Rangarajan Sundaram*  
Co-founder & Director

- Has an MBA from the Indian Institute of Management, Ahmedabad (IIMA) & a PhD in Economics from Cornell University
- Dean of New York University's Stern School of Business
- Has an incomparable background in derivatives and credit research & has worked with major Wall Street firms



*Hemant Vispute*  
Managing Director

- An MBA with over 20 years experience in consulting, strategic planning and operations in MNCs like IBM, Hitachi
- His leadership, vision and discipline has infused our teams with strategic guidance



*Devendra Phadke*  
Portfolio Manager

- A chartered accountant with 18 years of equity research experience
- He is a proficient analyst with more than a decade of experience in buy-side equity research spanning emerging and developed markets such as India, China, Brazil and US and Europe.



# Portfolio Management Services

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# Investment Philosophy

## Attributes

## Insights

Scalable  
Businesses  
with great  
operating  
history

Net Cash Businesses

Superior Volume Growth

Consistent Revenue Growth

Operating Cash Flow Growth

Debt is the leading cause of defaults in corporates globally. Net cash businesses have the ability to grow without debt

A volume growth superior to GDP growth rate highlights the ability of the firm to ensure demand for its offerings

Revenue growth across cycles signifies the ability to pass on the inflation to the customers without affecting demand

A healthy operating cash flow ensures that the company has the ability to grow through internal accruals

Management  
with impeccable  
integrity and  
high skin in the  
game

High skin in the game

Strong leadership track record

Efficient capital allocators

High promoter holding shows promoters' skin in the game. We prefer companies, the holding in which is significant to the promoters' wealth

In professionally managed companies we seek a strong track record, which entails turnaround, change in processes and culture to drive results in previous organizations

We prefer companies which allocate capital efficiently

# Research Checklist

Key Criteria: Good Track record over 11 years of Operating history

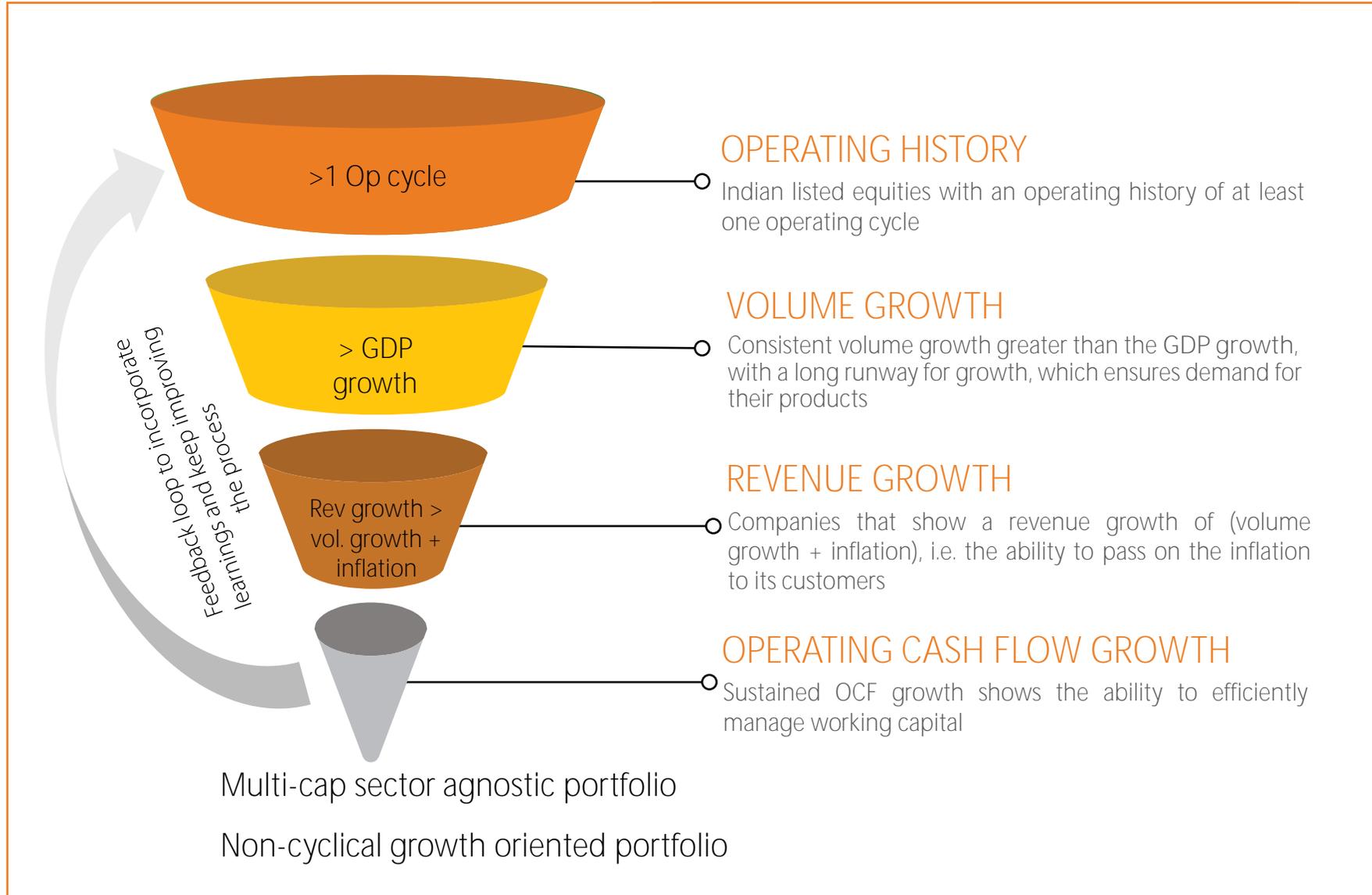
## Purnartha Seeks

- ✓ Net Cash Businesses
- ✓ Superior Volume Growth
- ✓ Consistent Revenue Growth
- ✓ Operating Cash Flow Growth
- ✓ High Skin in the Game
- ✓ Strong Leadership Track Record
- ✓ Efficient Capital Allocators

## Purnartha Avoids

- ⊖ Leveraged Businesses
- ⊖ Cyclical Business/ Industry
- ⊖ Instances Poor Corporate Governance
- ⊖ Unproven or Little Track Record/ Operating History
- ⊖ Low Integrity of Management/ Owners

# Investment Framework



Net cash on the balance sheet

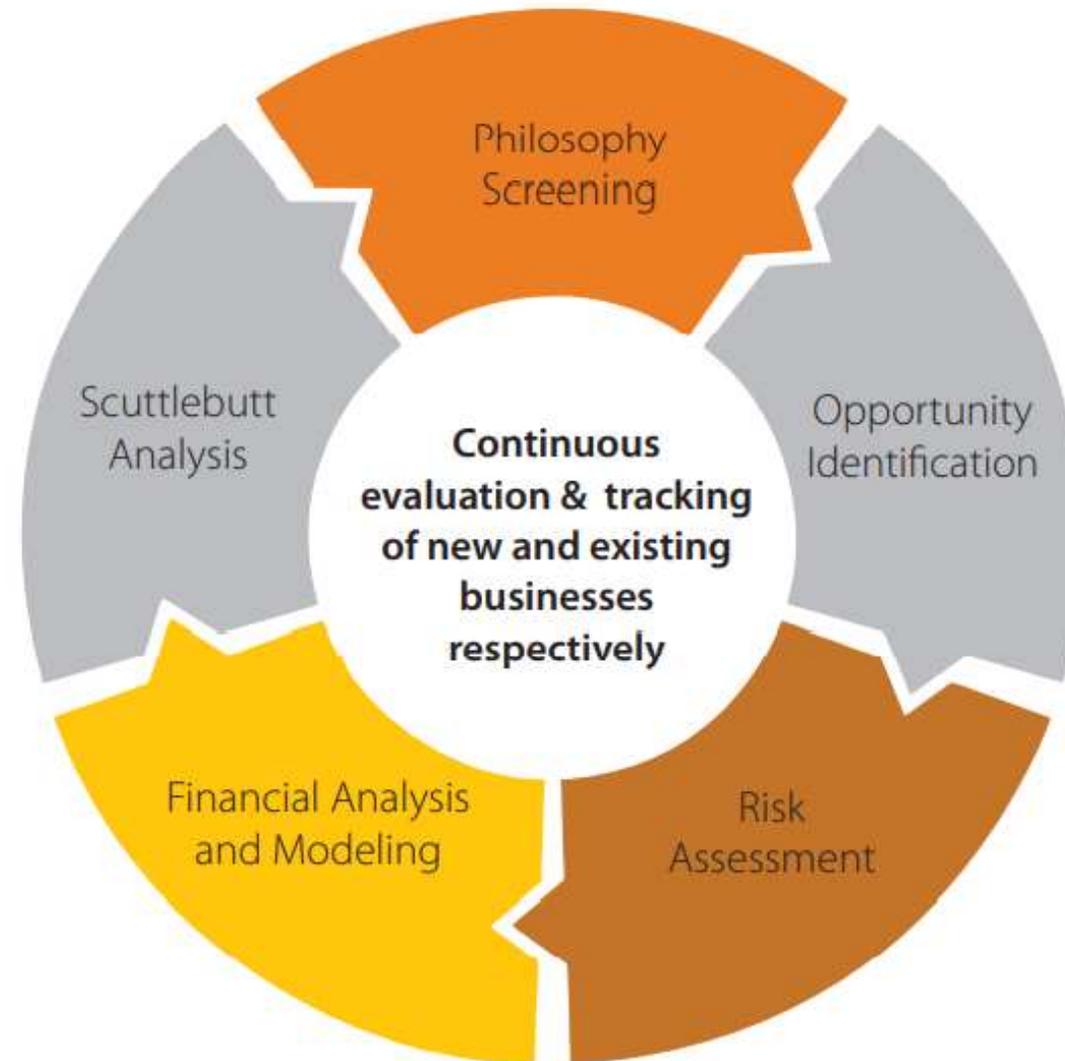
40-45 Stock Universe

Promoters with high skin in the game

# Portfolio Construction



# Investment Process



# Portfolio Risk & Mitigation

## Key Risks

- Focused portfolio of 6-8 stocks
- Market volatility due to macro and micro economic factors
- Foreign exchange and interest rates
- Liquidity or marketability of portfolio
- Adherence to investment philosophy

## Risks Mitigation

### Portfolio Level

- Allocation in one company – maximum 17.5%
- Consciously avoiding to timing the market
- Diversification across sectors and market caps
- Aim to build a portfolio where valuation and underlying business denote a factor of safety for investments

### Company Level

- Steer clear of cyclical businesses
- Rigorous due diligence and portfolio supervision
- Integrity diligence
- Careful company selection

## Sustainable Alpha Generation

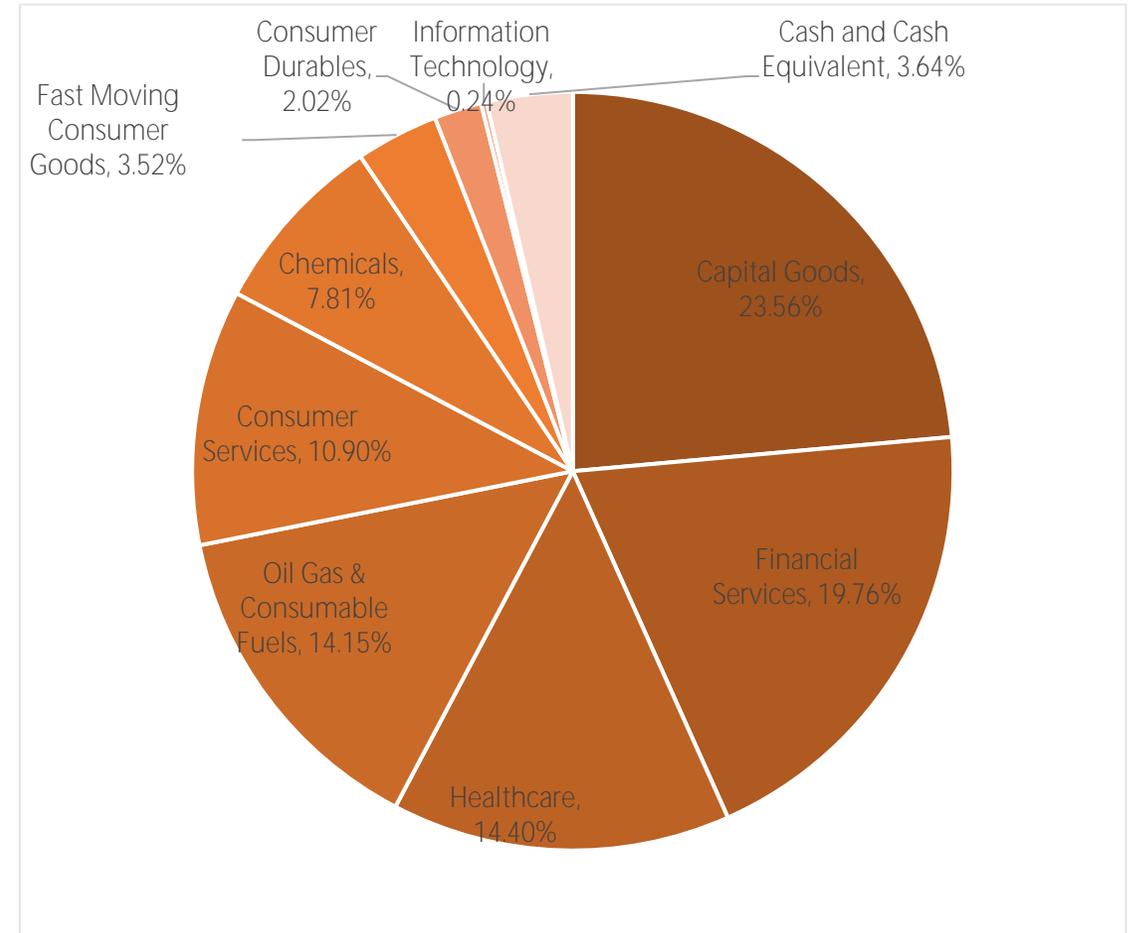
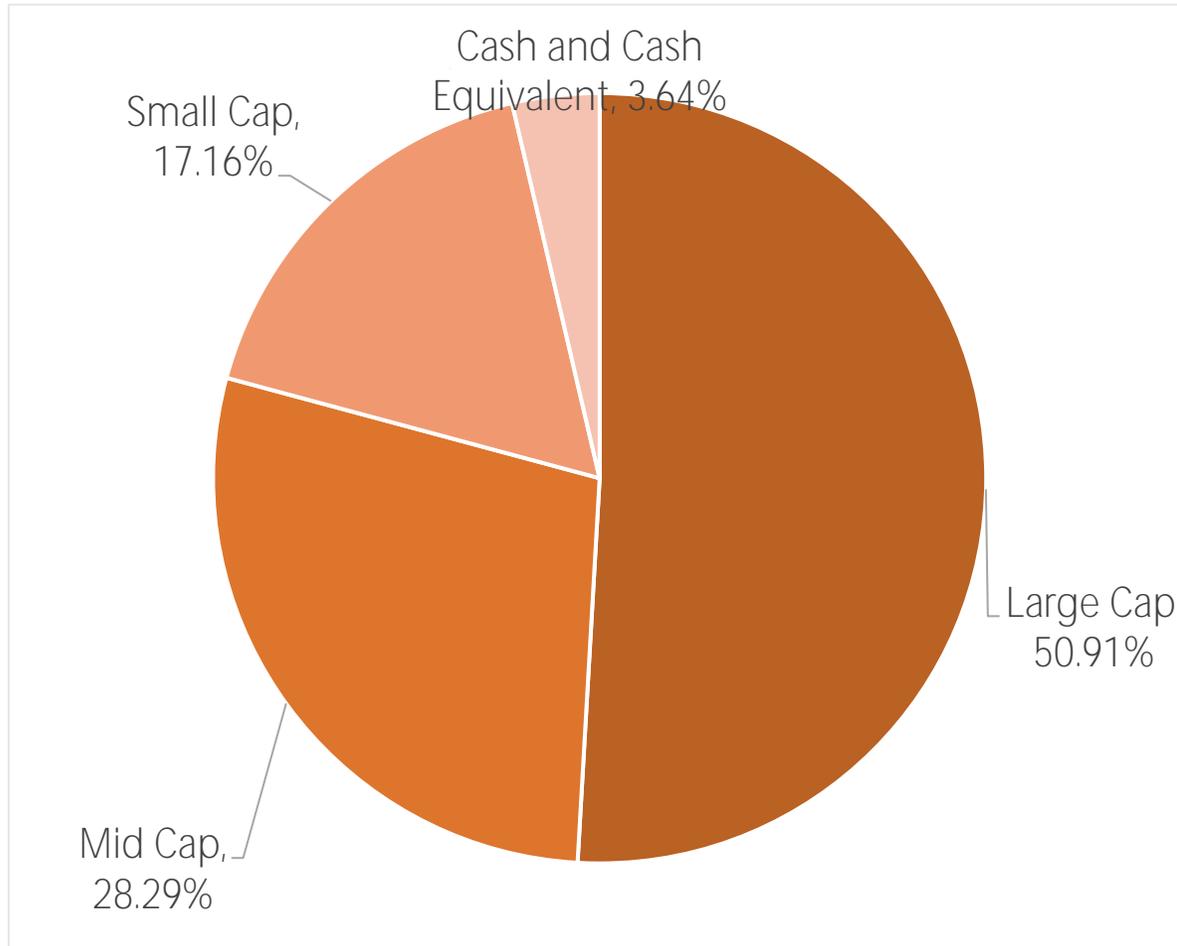
- Experienced team with a successful record of achieving significant excess returns by executing an active ownership strategy
- Feet on the ground: Primary research Team to complement fundamental research
- Critical evaluation of historical operations performance including accounting shenanigans
- Identifying industry tailwinds and growth triggers for the business

Deep dive in business models to avoid factors responsible for undervaluation

- Operational efficiencies
- Financial management
- Corporate governance
- Strategic decision making and corporate direction by leadership

# Market Cap and Sector Allocation

## Purnartha Pratham Strategy



\* As on 31 August 2023

\* Disclaimer: Percentage allocation to each Market capitalization may vary from time to time as per the discretion of Portfolio Manager.

# Investment Approach

Investment Approach	Long Term Equity with Concentrated Portfolio
Investment Objective	Concentrated Portfolio of Companies with High Growth and Long-Term Approach
Benchmark	NSE 500
Inception Date	17 <sup>th</sup> September 2020
Number of Stocks*	6-8
Market Cap	Multi-Cap
Allocation	Above 10% of the AUM at the time of investment, for minimum two companies in the portfolio

\*Disclaimer: Number of stocks etc. may vary as per the discretion of Portfolio Manager.

# Key Terms

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Particulars	Portfolio Management Services
Structure	Discretionary Portfolio Management Services
Portfolio Manager	Purnartha Investment Advisors Private Limited
Investment Objective	Long Term equity investment focused on investing in companies with high growth and strong balance sheet
Minimum Investment	50 Lakhs
Expenses	At Actuals
Client Onboarding	Direct or through Intermediaries
Custodian	HDFC Bank Ltd.

# Convenient Investment Plans

## PORTFOLIO MANAGEMENT SERVICES PLAN OPTION I, II & III

	OPTION I	OPTION II	OPTION III
Fixed Management Fee	2.5%	1.5%	0.5%
Hurdle Rate	25%	10%	5%
Performance Fee	20%	20%	20%

## PORTFOLIO MANAGEMENT SERVICES PLAN OPTION IV

	YEAR 1	YEAR 2	YEAR 3
Fixed Management Fee	5%	1%	1%
Hurdle Rate	-	-	75%
Performance Fee	0%	0%	20%
Exit Load	3%	2%	0%

- Taxes as applicable.
- Other charges at actuals.
- The fees mentioned here for respective Investment options are indicative. For complete disclosures on fees and expenses please refer the Disclosure Document available on the Portfolio Manager's website.
- Minimum Capital Investment Rs. 50 Lakhs.
- We follow the High Water Mark principle.
- Investors have the option to be on-boarded directly for our Portfolio Management Services, without intermediation of persons engaged in distribution services.

### Option I, II & III

- Premature exit loads: 3%, 2%, 1% of NAV, if exited before 12, 24 & 36 months respectively.

### Option IV

- The above fee structure has been shown for the first 3 years. Please refer to the PMS account opening forms for details regarding the charges for the subsequent blocks of 3 years.



# Case Study

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# Investment Process - Case Study\*



Dmart



## [Overview]

India's largest listed and most valuable  
Hypermarket

Initiated Buy on March 2017

MCap = INR 39,125 Crore at entry

MCap = INR 2,46,101 Crore as of Aug 2023

(Approx.)

## Avenue Supermarts Ltd

Avenue Supermarts, which operates under the brand 'Dmart' is an Indian retail corporation that operates a chain of hypermarkets in India

It was founded by highly-regarded investor and businessman Mr. Radhakishan S Damani in 2002

It became a huge success on the back of its EDLP – Every day low price strategy, on the back of its ability to achieve low procurement and operation cost, rather than depending on limited period promotions

The company has focused to meet the needs of India's burgeoning middle and lower-middle class segments

*In the following slides we will assess the investment opportunity using Purnartha's Investment Framework...*



# Philosophy Screening

## Philosophy Screening

### Quantitative Screening

Net cash companies, zero debt on balance-sheet

Volume growth > long term GDP growth

Revenue growth > Volume growth + inflation

OCF growth > Revenue growth

High promoter skin in the game

Rs. Millions	3Yr CAGR	5Yr CAGR	10Yr CAGR
Revenues	15.70%	21.10%	30.20%
OCF	13.90%	21.10%	34.80%
RoE	12.20%	14.90%	17.10%
Retail Area (Million Sq. Ft.)	25.20%	23.30%	22.30%
CASH CAPEX	19.40%	30.60%	29.40%
No. of Stores	17.60%	16.90%	17.90%
(Incl. 2 stores converted to fulfilment centers for Dmart Ready)			
Cash & Cash Equivalents	15,367.8		
Promoter Holding	74.99%		

# Opportunity Identification



## Opportunity Identification



Industry opportunity/size

Sustainable MOAT identification

Business growth through internal accruals

Peer group study/analysis

Scenario analysis/stress-testing

Opportunity Size

Almost, none of local grocery stores (mom-and-pop) closed in nearby vicinity

This confirms a very large customer and market base.

80%\* stores in Northern and Western India. Huge growth opportunity in East and South

MOAT Identification

Cost Efficiencies out of process excellence

Decentralised pricing power i.e., product pricing in the hands of store manager, drives daily local demand vis-a-vis neighbourhood competition.

Self-owned stores, cluster-based approach, astute selection of store location, Limited SKU's leading with high freshness of perishable products

Comparative study, Growth & Stress Testing

As compared to key competitors, Dmart has lowest inventory days (40), best gross margin and higher revenue/sq ft

It has a debt free b/s, which allows growth through internal accruals

Strong performance and quick recovery in tough times – Covid, demonetization, IL&FS crisis et al

\*The case study is an illustrative example only. The illustrated company may or may not be a part of the portfolio currently or any time in the past & should not be treated as recommendation

# Process - Risk Mitigation

## Risk Assessment & Mitigation



Aim to avoid businesses with weaker characteristics

Diversification across sectors and market caps

Independent Risk Manager to assess risk on each potential investment, with a reporting directly to the Board

Investment Committee to debate and discuss each potential investment

### Highly Cyclical

Our focus is on companies which deliver consistent volume & revenue growth

Dmart has grown across cycles. Barring COVID, the lowest YoY revenue growth has been 24%



## Businesses to Avoid

### High Government Intervention

Sectors with high government intervention are often dependent on policy measures to grow

In Dmart's case, it is part of the retail industry where the government intervention is limited

### Poor Corporate Governance

Avoid: Unethical business practices

Misalignment of interests with minority shareholders

Sub-par accounting standards

Dmart has shown no such concerns

# Process – Financial Analysis



## Financial Analysis & Modelling

Financial modelling helps to mitigate behavioural finance biases

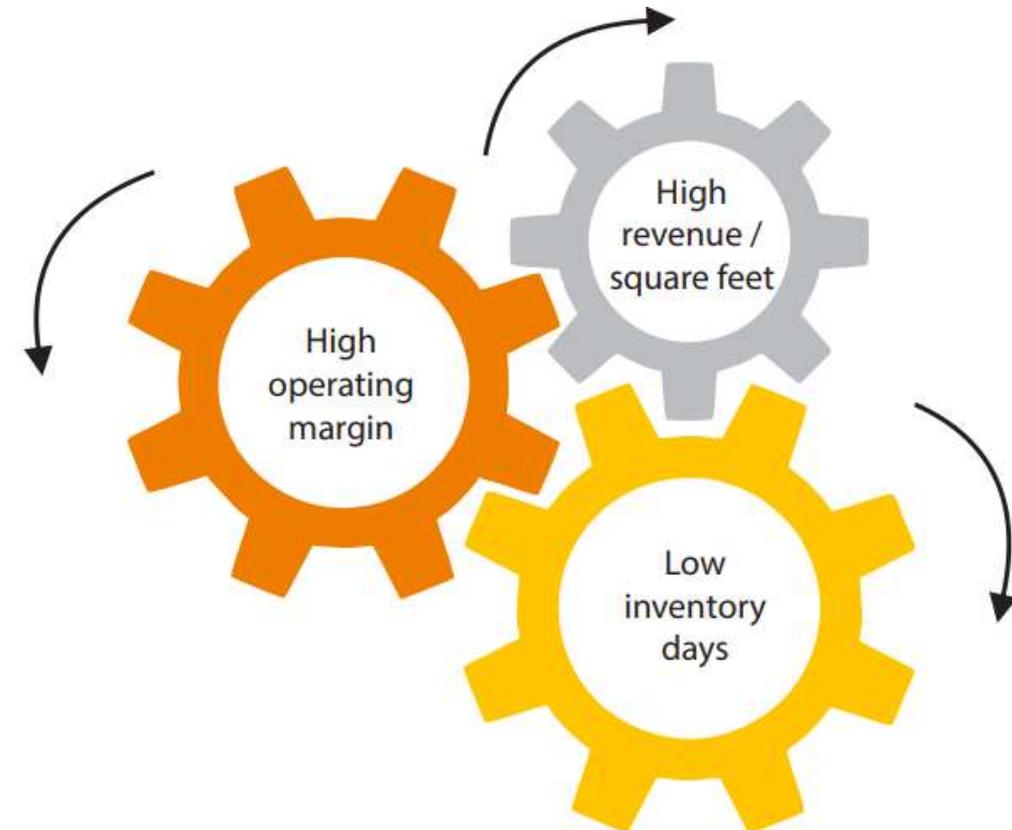
Detailed bottom up model covering a decade of financial history

In-depth analysis of business drivers through P&L, cash flows and b/s

Benchmarking with peer set (domestic & global)

**D\*<sup>\*</sup>Mart**

*Key business drivers for Dmart*



# Process – Scuttlebutt Analysis



## Scuttlebutt Analysis

Management interviews & quality (vision, strategy and execution)

Vendors & supply chain

Manufacturing & distribution centre

Assessment of competitive edge

Ethos & Culture of the organization

Social contribution of promoters

Customer experience

Competitor Analysis



### Management Interaction

Meeting with top executives of the companies

Dmart's CEO, Neville Norohna is a well respected leader who has built this firm from ground up after his decade long stint with Unilever

### Ground Zero Investigation

Meet vendors and suppliers

Visit the facilities to ascertain growth

Visited all 117 stores to observe and verify the patterns

Focused demographic segmentation and customer base

### Competitive Edge

Connect with competitors, lenders, current and ex-employees to understand the MOAT

Dmart has created a sustainable competitive advantage by being able to offer the lowest prices with process efficiencies

# Get in Touch

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We look forward to building a long-term relationship with you.

**Ashish Chugh** : ashish.chugh@purnartha.com

*Thank you*

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Discussion with Rahul Rathi - Reference Links

Interview on CNBC-TV18 “Wizards Of Dalal Street” – Discussion on Investment Strategies

<https://www.youtube.com/watch?v=4-KOeUOQREo&t=216s>

Morning Star Investment Conference, India - 2019

[https://www.purnartha.com/purnarthamedia/webvid/RahulRathi\\_Morningstar\\_17Sept19.mp4?v=1.0](https://www.purnartha.com/purnarthamedia/webvid/RahulRathi_Morningstar_17Sept19.mp4?v=1.0)

Bombay Stock Exchange Brokers’ Forum (BBF)– Authored Article

<https://www.purnartha.com/Purnartha/images/pdfs/MistakesDontMatter.pdf>

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# Purnartha

RESEARCH - RESULTS - RELATIONSHIPS

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