

# THE VALUE INVESTOR'S MANUAL

From ₹500 crore to ₹90,000 crore in six years, PPFAS Mutual Fund's success has been driven by Neil Parikh's adherence to his father's investment philosophy

By MADHAVANKUTTY PILLAI

**N**INE YEARS AGO, ON A LATE EVENING IN MAY, Neil Parikh was watching an Indian Premier League match on television when he received a phone call that said his father had been in a car accident. Parag Parikh, founder of PPFAS Mutual Fund, had gone on his annual pilgrimage to Omaha in the US, where Warren Buffet was having his



annual general body meeting, an event in which value investors from all over the world would gather to hear the thoughts and ideas of the legendary investor. It still did not register to his son that the accident was serious. It was only hours later when his sister-in-law, who was in the US drove down to Omaha, that the full import of it began to be evident. When he called the hospital late at night, his father had passed away.

**N**EIL PARIKH WAS 32 THEN AND WHILE HE had been working in PPFAS for many years, he was not very senior. Neither was he, looking back, very driven. His father, on the other hand, was a figurehead in the investment community. It was not that of someone who had amassed a fortune in blistering speed but as an espouser of an investment philosophy that was based on ethics and risk management. It had only been a year and a half since the mutual fund had been launched. The beginning had been decent but the journey had only begun. And now Parikh found himself thrust into the deep end of the waters while also dealing with the grief of his father's death.

"My life changed in a snap. The one good thing was my dad always used to talk to me about the company's philosophy, and how he wanted it to run. Its value system and culture were very strong. One of the things he always talked about is that the tree only grows as tall as how strong the roots are. Our job is to just strengthen the roots and the tree will grow and it will bear fruits at some point. If the roots are weak, the tree is not going to grow. These were the things in my consciousness when I took over. All that I had heard from him all over the last 20-30 years started coming back," he says.

The next morning, they had a Board meeting where he informed them what had happened. Clients and employees were told. That same night, he was on his way to the US with his wife and on the flight, he took a pen and tissue paper and started writing down the points to guide him. At the end of it, he showed it to his wife and said this is what his father would have him to do. "That is the moment I realised that this would be my calling," he says. It would not be easy.

When Parag Parikh passed away, the total assets under management of PPFAS had been around ₹500 crore. Initially, it was not much affected because of the goodwill he had. It even went up a little to around ₹650 crore by the next year but then it crept down and within months it was at ₹450 crore. "For whatever reasons, a lot of our clients, then some of our bigger ones, redeemed their money. Maybe, they thought I was too raw and didn't have confidence in me," he says.

There was also another crisis. The criteria to start a mutual fund when PPFAS launched was ₹10 crore in net worth (total assets minus total liabilities). But SEBI changed the rule and made it ₹50 crore and PPFAS had three years to get to it. "Even after my dad passed away, we were much short of ₹50 crore. We had a couple of more years to get to ₹50 crore. But we were very clear that we didn't want partnerships or sell the company. How do you get there without an infusion of capital from outside or by selling a stake or finding a partner? We became frugal," he says. They did not hire too many people. They could not do marketing and even though they were losing business, they could not spend to stem it. All focus was on surviving.

"The team was rock solid and really helped out. Our chief investment officer and all the others who were there are still here. They guided me," he says.

In 2018, the tide began to turn. They reached the ₹50 crore net worth and could get focus back from just surviving. Consider that from ₹450 crore of AUM then, today, six years later, PPFAS has an AUM of over ₹90,000 crore. And this is despite them not being a major financial corporate house or a bank. "Our investment philosophy hasn't changed in any way. It was one of the reasons why we survived and grew," he says.

In the 1980s, Parag Parikh was introduced to value investing through a legendary investor called Chandrakant Sampat who was a family friend. Fresh out of college, he became a sub-broker. That was the time when the market functioned on insider information and tips. Parikh brought into it research

and methodology. After liberalisation, in the 1990s, the field got crowded and clients wanted quick profits based on speculation, something that was anathema to him. In 1994, he therefore began to pivot and started Parag Parikh Financial Advisory Services. He wanted to cater to clients who approached wealth like he did, believing in its creation over the long term by getting stocks of good businesses at a cheap price. He wrote two books that expounded on this philosophy, and they became go-to manuals for the increasingly growing community of value investors in India. As an example of this approach, Neil Parikh says when the dotcom

bubble happened and stocks of anything internet-related were touching the stratosphere, his father instead advised clients to go for old economy stocks. A lot of them had high dividend yields and were available at single-digit price-to-equity ratios, a measure of how expensive or cheap a stock is. "More than recognising a stock's returns, what our company still does is recognise the risk. Returns will come at a particular time. The problem is you have to be in the game to play the game. People

**WHEN THE STOCK MARKET SEES VERY HIGH LEAPS, EVERYONE STARTS TO BUY STOCKS. BUT PPFAS STARTS SELLING THEM, INCREASING THE CASH IN THEIR HANDS. IT IS NOW THE MUTUAL FUND WITH THE HIGHEST CASH POSITION IN PERCENTAGE TERMS**

get wiped out chasing returns. What we are focused on is protecting the downside,” he says.

To appreciate how PPFAS approaches investment, take the example of HDFC Bank stocks. For decades, it had been a favourite of every investor, from individuals to fund houses. But in the last few years, it has fallen out of favour. People now do not boast of owning HDFC Bank stocks and online, the conversation around it is muted among investors. On the other hand, PPFAS has steadily built up its position in HDFC Bank and it is now the largest position they have in the largest mutual fund in their bouquet. When the stock market sees very high leaps, as happens with bubbles, everyone starts to buy stocks. PPFAS, on the other hand, does the opposite. It starts selling them, increasing the cash they have in their hands. It is now the mutual fund with the highest cash position in percentage terms. When the inevitable drawdowns happen, they are able to use the cash to buy stocks cheap. In 2018, too, they had been high on cash when a financial sector crisis happened after a large NBFC called IL&FS became insolvent. That led to PPFAS finding opportunities because of their cash position and helped them in subsequent growth.

**G**ETTING QUALITY COMPANIES AT NEGLECTED prices is the best time to buy them. But you need to have patience. You need to have conviction that your process is right. I'll just give you another example of a company's stock in our portfolio. We were ridiculed when we bought ITC a few years ago. For 10 years, ITC had not done anything, and had not moved. During Covid, it had gone down to around ₹150, and there were these ITC memes making fun of it. But that was the best time to buy an ITC when everyone was so negative about it. It had a dividend yield of 8-10 per cent. You're already making a fixed income return by just getting the dividend yield. And the company is good and available at a throwaway price. Over time, we thought it should perform,” he says. ITC's stock price is now around ₹480, more than triple. But it is not just the profit that is the key, but the relatively risk-free way in which it was arrived at.

Another thing that PPFAS was particular about when they started the mutual fund was to have their skin in the game. Typically, mutual funds charge a fee and have no risk of loss to themselves if the portfolio value goes down. The Parikhs and most of the PPFAS management have their own money invested in their funds. “We were the first to disclose

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on our website, voluntarily, how much we all have invested in our funds,” he says. His family's personal wealth is almost entirely in their mutual funds.

Parikh says he does not look at wealth as a means of consumption but freedom. “Everyone has a few comforts that they like, one or two luxuries. Beyond that what wealth does is to bring security, freedom to spend time with family or to free up your headspace to enjoy things that you want to do. Like, I love playing golf. If I can enjoy that without stressing about money, that's great. Financial stress is one of the biggest stresses in life. So, I think wealth for me is taking out that one stress and enjoying life a little more,” he says.

His goals in life are also not tied to money. Having crossed 40, he says, managing health and spending time with family are becoming increasingly important. “I've got two young daughters. I just became a father again six months back. I want to be fully engaged with my kids when I am with them. One thing I've recently started doing is to switch off my work phone on Friday evening. I don't check any emails till Monday morning. If something earth-shattering happens, somebody will call and inform me,” he says. The office, too, puts a premium on the good life. Employees are not made to work beyond regular hours. PPFAS doesn't have targets for them either and this is to keep them from not wavering from the values that define the company. “It is very surprising for people to hear that we don't give any targets. We think of ourselves as professionals, like doctors or lawyers, not business owners. Suppose you give a heart surgeon a monthly target to finish 30 open heart surgeries. If by the end of the month, he has only done 20, he will cut your heart open even if you go with a gas problem. We go to a client or a distributor, we explain what we are, our philosophy and values, tell them how we do our business, and leave it at that. If I give our employees targets, then they will sell our products to people who don't need it. You always hear how badly people are being mis-sold [mutual funds] to reach targets.”

His advice to someone young who wants to be an investor is to lose a small amount of money in the beginning because there can be no better teacher. Those who make easy money very soon start taking more risks. “You might think at present everyone's making money with speculation and trading and it's very exciting, but it's not sustainable. You might get lucky but that luck is not going to last your whole life. Investing is supposed to be boring. The day it turns exciting, you are not investing, you are gambling. Investing is like looking at paint dry.” ■