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ONE UP ON DALAL STREET

While many are sweating in the current environment, Rakesh Jhunjhunwala's portfolio has done well and seen new additions

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As the markets are weighed down by global and domestic concerns, Rakesh Jhunjhunwala has been relatively busy churning his portfolio. He has bought stake in three companies, increased and shed holding in some others while sitting tight on the rest. Among the most successful investors in India, he recently bought stocks of Pipavav Shipyard, Sterling Holidays and Subex. While exploring the reasons that led the well-reported investor to buy these companies, we also look at the past to gauge his strategy.

LIVING HIS ATTENTION

Jhunjhunwala has often been quoted that his investment strategy rests on identifying good companies with a scalable business model and good management (and, importantly, staying invested even if there are disappointments in the interim). Notably, says an investment expert, "Most of the holdings are in the mid-cap and small-cap companies. In fact, he looks for companies which could over time grow big and become part of the Sensex."

To take care of the risk involved with smaller companies, Jhunjhunwala has spread his investments over a host of companies, across sectors and themes—new multi-baggers typically would help offset an unsuccessful or sub-par investment in another company. This has helped him to make a fortune, which he now owns in various forms, including 30-odd stocks worth nearly ₹3,900 crore. Among his most successful investments are Crisil, Titan, Lupin, Praj and VIP, which together account for a little over 60 per cent of his portfolio's estimated value. In all these cases, he has held on to the stock for a long time, betting on the company's growth. The expansion in valuation multiples have provided further boost to the portfolio.

Says another expert, "He typically jumps into a company at a very early stage. For instance, he entered VIP Industries at ₹55-65 (in 2009-end, when it was loss-making and had concerns over debt), whereas foreign institutional investors and others started accumulating it at ₹650." Among things that seem to get his attention is the macro theme



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(size of opportunity), which should typically be huge. Additionally, the companies should possess strengths that set them apart. An example, albeit old, is that of Praj Industries, an industrial machinery maker and an early mover in the ethanol equipment segment. Jhunjhunwala bought the stock in early 2004 around ₹100 (unadjusted price), citing the emerging opportunity in the ethanol space. The stock rose to over ₹1,000 in less than two years—since then, there has also been a 1:1 bonus, a 10:2 stock split and another 1:1 bonus.

PARING STAKE

Jhunjhunwala has also experienced some investments not working for him or earning below-par returns. Besides, at times he may have also decided to take some profit; he's never hesitated in selling stocks. For instance, he cut his holding in Lupin (bought in 2002) from 3.22 per cent in the March 2011 quarter to 1.73 per cent recently, though the reasons are not known. In the December 2010 quarter, he exited Punj Lloyd, when the company was in the news over demand concerns, as well as its huge debt.

To know more on his recent buys, read on:

Sterling Holiday Resorts

Sterling Holiday, a vacation ownership company (like Mahindra Holidays), has 15 resorts at key tourist destinations, including Darjeeling, Goa, Manali, Mussoorie and Ooty (total inventory of 1,258 rooms). Though Sterling had a first-mover advantage to capitalise on India's growing consumption demand and changing consumer habits, it also got saddled with problems. However, its suffering on account of debt has eased, with new investors and private equity investing in the company. Additionally, a new and experienced management has been put in place to drive future plans. After falling in 2009-10, revenues are increasing at a fast pace (58 per cent in June quarter), with a turnaround expected by 2012-13.

Subex

Subex, which provides operations and business support systems to telecom companies across the globe, saw its stock fall almost 95 per cent from its peak of ₹730 in January 2007. This can be attributed to worry over the telecom space and its excessive debt (almost 2.6 times equity in FY11). The restructuring of its FCCBs, improvement in the internal cash flow and fund raising has, to some extent, alleviated the debt concerns. Analysts expect its debt-equity to fall to 0.87 times by 2012-13. It recently also sold a non-core business (which should improve profitability) and won a few orders.

Pipavav Defence & Offshore Engg

Pipavav Defence is among the most recent buys of Jhunjhunwala, who has bought convertible warrants (conversion at ₹78 per share). With its world-class shipbuilding capacity, the company is well positioned to gain from the huge opportunities in the Indian defence space. It recently entered into an agreement with Mazagon Dock to help the latter hasten implementation of its big order book of ₹100,000 crore. While the deal opens a window of opportunity to partner with the largest defence shipbuilding company, it will also help diversify revenue stream and improve utilisation of facilities.

THE BIG BULL'S PORTFOLIO

Company	Existing holding (%)	Current Price (₹)	Current Value (₹ cr)	as % of portfolio
NEW ADDITIONS TO PORTFOLIO				
Subex	1.8	40.40	5.05	0.1
Pipavav Shipyard**	-	78.00	78.00	0.2
Sterling Holiday	7.1	93.55	33.00	0.1
NO CHANGE IN STAKE IN...				
AZZ Maintenance	19.1	201.30	285.31	7.1
Alphageo (India)	2.4	90.00	1.13	0.0
Autoline Inds.	10.3	104.60	13.09	0.0
Bilcare	8.5	308.50	61.79	1.6
CRISIL	7.8	782.60	430.43	11.0
Delta Corp	3.7	91.60	68.70	1.8
Orchid Chemicals	3.5	149.80	37.45	1.0
Pantaloon DVR	1.3	150.00	3.16	0.0
Prime Focus	6.4	52.70	46.48	1.2
Provogue (India)	1.7	29.10	5.53	0.0
Reliance Broad.	2.2	60.00	10.50	0.0
VIP Inds.	6.4	853.60	155.14	4.0
Viceroy Hotels	11.2	23.90	11.35	0.0
Zen Technologies	10.1	98.25	8.84	0.0
STAKE INCREASED IN...				
Geometric	7.7	42.00	20.12	0.0
Hind.Oil Explor.	4.0	100.60	47.26	1.2
NCC	5.7	57.60	83.81	2.1
Rallis India	6.5	173.50	21.85	0.0
Karur Vysya Bank	4.7	360.00	230.80	5.9
STAKE DECREASED IN...				
Adinath Exim Res	4.6	17.45	0.33	0.0
Agro Tech Foods.	7.7	370.00	71.35	1.8
Geojit BNP	7.9	18.50	33.30	0.0
ION Exchange	6.5	111.25	9.73	0.0
Lupin	1.7	471.00	364.10	9.3
McNally Bharat	1.5	110.30	5.07	0.0
Praj Inds.	8.8	68.90	111.97	2.9
Titan Inds.	9.8	197.40	1,713.09	43.0
TOTAL			3,975.69	100.0

* price as on 5 October 2011; ^ Shareholding in the company as on quarter ending June 2011; ** in Pipavav Rakesh Jhunjhunwala and his family holds 10 mn convertible warrants issued at ₹78 a share; Shares of Sterling Holiday Resorts were bought in September 2011; # Portfolio value and share of individual companies in the portfolio are based on available data; Stake is based on companies where Jhunjhunwala holds more than 1 per cent and secondly, by summing the holdings owned by his companies/family members. The increase/decrease in holding reflects the trend in previous two quarters (since Dec 2010 quarter). Source: BSE, BS Research Bureau