Nonsense to think a business is dead, they do come back: Shankar Sharma

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Ace investor Shankar Sharma thinks businesses are alive and they keep changing. Everybody makes mistakes, but as long as the mistakes were genuine and they made amends and corrected their problems, it is time to give them a relook, he said in an interview with Nikunj Dalmia of ETNow. Excerpts

Nikunj Dalmia: What do you think is the style currently? What style could work for the next 2-3 years?
Shankar Sharma: Over the last several years, what I have found working is India went through a big debt cycle. We found indebted companies which had ways to fix their debt.

We found managements who had made big mistakes in their earlier parts of their lives. Everybody makes mistakes, but as long as the mistakes were genuine and they made amends and corrected their problems, it is time to give them a relook. Because in markets, we kind of get fixated that no, this company had x problem and I will never look at it again.

That is nonsense, companies come back. Businesses are not dead things, they are alive, they are changing. That is exactly where I say that you have to have an open mind. So, I find managements who are 50 plus, who have gone through a cycle of really bad decisions, good assuming there is no fraud. I have always said if there is fraud, then all bets are off. But business problems, bad decisions... all of us do that. So, second time around I find them at much better position.

And there are many companies reeling under the debt problem. You have seen many companies going through big problematic first phases. But hopefully, they will be far better businessmen in the second -- I mean one promoter always tells me that you know I really learned what is business at the age of 48. I wish had this wisdom at 28 when I thought I could rule the world and walk on water.

You know when my father called me back from the US to run our business I said I have done my MBA and I know everything... you old man you get out of the way and then I left that company dead. My father said that to do this, why did I need to call you from the US. But this is how the people learn, they become better the second time around.

Nikunj Dalmia: Well, a lot of people say habits do not change and if I can use the Hindi terminology, kutte ki dum kabhi seedhi nahi hoti hai. Do you think we should not look at past as the indicator of future performance for markets, for promoters, for businesses?
Shankar Sharma: By that token, you should not have bought Amazon or Apple, both of them had terrible first innings of their lives. Steve Jobs left Apple in tatters, when he came back it was still in tatters. Seven years after he had rejoined, it was still in tatters. By that token, you should have never bought Apple.

Jeff Bezos started in 1996. By 2002 or 2003, the company was virtually bankrupt. Just because they are sitting in the US, we will say no-no they do not have to answer to the same rules. The fact is they also messed up in the first part. They came back very strongly. You would have been dumb not to have taken look at them again. And in India, there are many examples of companies turning around. Jindals are good example, Lupin is a very good example. I mean all these companies are considered untouchables in the early part of the 2000s. Go back in time...

Nikunj Dalmia: Lot of Marwadi companies...

Shankar Sharma: Memories blur, we forget things. We start to ascribe the last data point as the indicator of whether he is a God or a devil and I say that is non-sensical. Go back and see in the first phase of the Jindals' lives, they were not considered top-notch management. Lupin was not considered respectable at all by any standard.

Nobody gave a chance to the Tatas in Titan, saying they do not know anything about the consumer business. Think about it. They started Titan and started making watches in the 1990s I knew their project very well. We never used to believe the Tatas could ever do anything sensible in the mass consumer market. Selling LCVs is different. I mean they could not even sell cars properly.

Nikunj Dalmia: Titan had a problem of existence.
Shankar Sharma: Exactly right. For nearly 10 years of its existence, then suddenly one fine day, it came back. You have to have an open mind. Companies are not static organisms, they change, they morph.

Nikunj Dalmia: There is data which I read. Just a coincidence that we are talking about too much of Buffett today. It says Buffett has made 99 per cent of wealth after he turned 60. You are not 60, but the best of Shankar Sharma is yet to come then?
Shankar Sharma: That is true for Soros too, okay. I think there is a lot of merit in this data. I think it makes sense. I see my own thinking having changed a lot over the years and it has also to do with the environment you are in. So, having been through 25-30 years of cycles, you are more relaxed about things. If the market stocks fall 25-30 per cent, you have a context of data to put things in rather than just react immediately and say gosh this is game over.

I just think your wisdom increases. It is as simple as that. Look at cricket. Now players are playing till their late 30s if not the early 40s and frankly, I think this generation could play till the mid-40s because if your fitness levels are good and your brain has evolved as a cricketer, you got so many more matches to analyse in your own life. You will become better when you are past 30, past 35, past 37. You are able to handle conditions, bowling, all kinds of variables much better, you have so much data in front of you.

Nikunj Dalmia: That is what I have always admired about you that you are very flexible, you reflect on your mistakes and you learn from your mistakes and I have known your good investments and bad investments. And it is quite remarkable that you are not a stubborn investor who says that these are my rules and I will not change irrespective of what happens?
Shankar Sharma: I do not have any rules. My only rule is that you have to be very honest with yourself, you have to face up.

Nikunj Dalmia: I am curious to know that what is the lighter side of Shankar Sharma?
Shankar Sharma: Well I hang out and enjoy my food and my wine and music.

Nikunj Dalmia: How has life changed for you ever since you moved to Dubai?
Shankar Sharma: Like I said I always like living in India and I will love living in the city of Mumbai. This is like I have been here for 30 years. Best years of my life have been spent here, the city has given me everything so for me this city means a lot to me. This is my Mecca my Eldorado. Dubai is good and in a sense an extension of India.

Nikunj Dalmia: How do you see your life evolving in next 10 years? You have taken some very big steps when you were in 20s, you decided to move into the stock broking business then came this entire TMT opportunity and the TMT bubble you are right ahead of the curve when you bought stocks like HFCL head of the curve when you also came on public platform and said looking there is a bubble in making. The boom and burst of 2008 also you are right ahead of the curve so these are market factors which have changed the course of your life. How do you think? What is the next course of your life now?
Shankar Sharma: The next course of my life is obviously investing. It is close to my heart and I find that there is nothing in this world which is more liberating or more relaxing than managing your own money because the pressures there are only internal. You do not have to justify transactions to anybody, you do not have to explain to anybody why something has worked, why it has not worked, etc, etc, and you can live life at your own terms.

I think ultimately every person's objective of life is that you should be able to live life on your own terms and I think investing gives you that and at the same time I think every single day I end up learning something I did not know yesterday in terms of diversity of companies or promoters. The other big change that I witnesse after seeing 25-30 years of different businesses, the mistakes companies made, you are better able to guide the companies where you invest in.

Our attempt is to make them somewhat great or somewhat good so it requires a lot of mentoring and discussion. It is important for them not to make huge mistakes and therein your experience helps because you have data bank which your promoter typically would not have, he might be an engineer or an MBA or might have done something for 5-10 years but the long-term history is that you have seen, experienced, profited from or lost from that they will not have.

Nikunj Dalmia: So have you made any large investments in last six months?
Shankar Sharma: No, I am looking at a lot but some of them are close to being done.

Nikunj Dalmia: So what is stopping you - price or capital?
Shankar Sharma: No, it is just about understanding the companies. We take time over investing. There is a management that came to meet us the other day and it is a NCLT kind of situation and you get 270 days in that and they said would you be interested in buying out the company or something or that from. I said it will take us time to understand what the problem was and if at all we end up doing it, it is going to take like eight-nine months for us to figure it out.

Nikunj Dalmia: So we always talk about the word tip when we do a market analysis. So, give me a food tip today for a vegetarian like me?
Shankar Sharma: Being vegetarian is against my religious beliefs. You will not believe it and I am not exaggerating... I do not eat vegetarian food at all. My family forces me to eat a bit of vegetables but I am not interested. I will pick it, I will probably leave it or even if I eat it, it will be very half-hearted so I am really sorry but I cannot give you any tips on that. You ask me about what I eat I can tell you a lot about it.

Nikunj Dalmia: Let us try and connect little bit of markets because when you come on TV our viewers expect you to come up with something new, something different so there are some classic dishes which you would say all time favourite, for others you would say I am only experimental and there are some other dishes which you like but don't find their prices reasonable. So, let us talk about markets. How would you break the market in these categories? What would you say is a classic all time business, what would you say is just an appetiser and for which business would you say - I am going to test it but not marry that company or that firm whose business which you find attractive but do not like the price?
Shankar Sharma: I mean to answer the third question first. Obviously, companies like Lever and all... you cannot not like. So, yes the consumer business through which Warren Buffett has made his name. We understand the logic but somehow in India the pricing has always been something I have never been able to rationalise or figure it out. I never owned a single share of Hindustan Lever or Colgate or anything of that sort. Many people have profited handsomely but we never found guts to buy something at 60-80 times earnings. Now they have corrected a bit but still they are very pricey.

Infrastructure is something which don't I like but I just think the first phase of companies got over and second phase of companies -- the road builders -- hopefully would have learnt the lessons. Even if it is not a great business, I think it is a good time to invest in.

The first one, of course, are autos and stuff like that because I have always believed in this and it goes back to nearly a decade and a half. India is under penetrated in two wheelers even more under penetrated in four-wheelers.

I remember having done a piece in 2008 or where I think car ownership was like 2 per cent of the population or something like that. I mean you know it is going to go to 10 per cent and that is enough to make several times your money. Also, how many players are there? Just a handful of three-four players. It's not that foreign company is about to come or there is everybody who could come is already here and one guy is hanging on to a 50 per cent market share, it did not take much to figure it out. So, among two wheelers we have liked Bajaj Auto. We have liked it for decades now. I have said it publicly that it enjoys the best management in India because not just in autos, they have proven themselves in financial services as well.

Nikunj Dalmia: But they missed on scooters?
Shankar Sharma: That was a huge mistake. I think it was a bit of excessive creativity on the part of Rajiv Bajaj. I am not saying that this is a benefit of hindsight. Even when they did it I was of the view that it is not a smart move.

Nikunj Dalmia: You believe in the power of cycles and we have been in this earnings downtrend for a while now. Why is the cycle not picking up?
Shankar Sharma: That's a little tricky here because broadly the cycle has not picked up but the sectors that have been doing well like autos, banks etc., their numbers have been good and if you see those, there are many stocks that are doing well but you clearly do not expect big and debt-ridden companies to do well.

The ADAG group which has obviously been very-very weighed down by debt without any catalyst of earnings. I mean that is not going to revive and that is very clear but companies which did not have debt like the auto pack, they are doing very well. So earnings growth is very patchy okay but when you take it in an overall sense it averages out to almost nothing but sectorally some sectors have had very good earnings growth.

Nikunj Dalmia: We like to think that you should find good ideas, cheeky ideas, try to find the next multibagger idea that is what the endeavour is, that is what the sense which we get when we talk to our viewers and the kind of feedback we get from our viewers there was agla bada idea nikalo but do you think in India just keep it simple buy autos, some consumer names buy these stocks when markets are bad and just sit tight?
Shankar Sharma: No, I mean like I always say that what might be good for me or relevant for me is not necessarily relevant for somebody who is not doing it full time. But I feel the small caps look great for three-four years and I continue to maintain that. I think even now so many people talk about valuation froth in small caps so that they have run up, yes they have run up but earnings growth in some of them is just off the charts and now they are trading like 10, 12, 15 times one year out earnings or rather current year's earnings.

Nikunj Dalmia: After the sell off?
Shankar Sharma: 2008 is very good data if you are a student of markets. A year which I do not think we are ever going to see again -- 65 per cent fall in market -- and in that market also the only stocks that did worse were companies with debt. If you went to the company which were fundamentally strong, they fell only some 30 per cent odd and they did not have debt. The worst of them like M&M which did not have debt fell only 50 per cent. Imagine in a cataclysmic year, good stocks fall from the top of 30, 35, 40 per cent. Therefore and we have seen good stocks falling 40 per cent in the last four-five months. That is the bottom as long as there is no debt on the balance sheet. Good stock, good earnings outlook or, at least, intact earnings outlook and then they are down 30-35 per cent it is a no brainer because even in 2008 they did not fall more than that.

Nikunj Dalmia: So thumb rule is buy companies which have no debt and where the selling is about 25-30 per cent?
Shankar Sharma: And earnings outlook is intact.

Nikunj Dalmia: Of course and the promoter has to be decent enough or has to be…
Shankar Sharma: Obviously those hygiene checks have to be there but I am saying if those have fallen in a market correction, say 30 per cent, I think it is a no brainer.