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Shankar Sharma gives away his 100-bagger formula for D-Street

BY RAHUL OBEROI, ETMARKETS.COM | MAR 15, 2018, 10.30 AM IST

An extraordinary story of success cannot be created without going against the wind, goes the saying.

Well-known investor Shankar Sharma firmly believes in this adage. He picks stocks others do not dare touch. His mantra of investing is to zero in on a sector or a company, when it is going through problems.

Sharma picked Amazon and Apple in early 2000, which have turned 100-bagger ever since.

Call it luck or skill! Even his first investment in an initial public offering (IPO) during his early age delivered him multibagger return.

At a time when most market experts are picking largecaps as their favourite bets for 2018, Sharma is looking at smallcaps, which he says will continue to do very well in this calendar too.

Smallcaps bled the most in the recent market selloff.

Sharma, who did his schooling from Dhanbad, graduated from DAV College, Chandigarh, and did an MBA from the Philippines, is the Co-Founder and Chief Global Strategist of First Global.

His Journey so far

His investing voyage started in early 1980s, when his investment of Rs 2,500 in the IPO of Asian Hotels surged 10 times in a few years.

“It was 1981 when my father died, and I had this urgent need to make money, because he was the only earning member in the family. Our tenant, who used to invest in public offers that time, introduced me into the stock market,” Sharma recalls.

He borrowed the money from his mother for his initial investment. After tasting success in his initial years, Sharma got a push and decided to go whole hog into investing.

“I thought if I have to make big money, then I have to enter the stock market. I came into finance after completing my MBA and joined Citibank. But I left my job in 1989 to start First Global in 1990,” says Sharma.

He was just 26 then, and he started the business with a seed capital of Rs 5,000.

“I am into the business of investing, understanding and analysing companies for last 28 years. I mostly look for companies where other people are scared to go, where the whole opinion is very negative. I tried to find gems in sectors that are totally ignored by the market. I go against the wind. I have never bought companies like Hindustan Unilever or Infosys in my life,” Sharma told ETMarkets.com.

Talking about his other investments, Sharma said he made lots money in ITC convertible bonds, when he was a teenager through a public issue of ITC debentures.

“When big bull market started in 1984 after Rajiv Gandhi became prime minister, there was a boom in leasing companies. I grabbed the opportunity and made money in leasing companies also,” he said.

Stock picking strategy

Sharma's stock-picking strategy looks different from other value investors. "When there is a problem in a sector, I get interested. So, the first rule of my investment is there should be a problem. The second rule is, everybody has to be very negative on the sector or the company. Lastly, it should be too much under-owned by institutional investors or almost no ownership by institutional investors," says he.

Following the same rules, Sharma picked Amazon in 2002 at $10 and sold it with over 100 times returns in 2016. He also applied the same theory to the Apple stock.

"We are focussed on investing for decades. We understood that there is more money to be made by investing, rather than transacting. We continuously try to look for investment opportunities across the globe," Sharma said.

His advice for new investors? "One should look for stocks where 30 to 40 per cent growth is visible. Then wait for them to correct 20 to 30 per cent. This will happen once every six to eight months. Get into then. The strategy looks simple, but very hard to implement," says Sharma.

View on current market

Sharma believes the recent crash in the stock market has created lots of bargains in smallcaps. That's an area where he expects a number of companies to deliver 30 to 50 per cent earnings growth in 2018-19.

Aggressive selling in the domestic stock market since its January highs has hit midcaps and smallcaps the most compared with their largecap counterparts.

The BSE Sensex has tanked over 8 per cent till March 9 from its all-time high of 36,443, which it scaled on January 29. The BSE Midcap and Smallcap index have cracked 13 per cent and 14 per cent, respectively, from their respective all-time highs hit in January 2018.

A correction was on the cards, but it exacerbated because of factors such as relatively poor growth in India, trajectory wise, rising inflation risk because of soaring crude oil prices, hardening bond yields and the imposition of LTCG tax on equity. "But I do not think India it is in bear market on a relative basis. However, Indian largecaps will lag global equities," said Sharma.

He said the bull market in Indian smallcaps is intact. "This is a volatile category and you should be prepared to lose 30 to 40 per cent in a month in this segment. But this segment is least exposed to the macro risks," says he.

"Largecaps will struggle while smallcaps will do very well," Sharma said.

The ace investor says India's macros look worrisome at this stage, as fiscal deficit is running high. In addition to this, rising crude oil prices will put additional pressure to fiscal deficit and current account deficit. "We may be looking at twin deficit of 6 per cent-plus in next 12 months," he said.

Sharma further believes the political situation will also start weighing on market in this year. "The political landscape is less clear than it was a few months back. Overall, India will lag the BRIC pack. My favourite market is Brazil, and has been so for the past 1.5 years," said Sharma.

Sector-wise, he is bullish on infrastructure and chemicals sectors. "The chemicals sector is looking attractive, as a lot of capacity has shut down in China because of pollution concerns," he said.