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Market Watch

Shankar Sharma on smallcap investing & life beyond markets

BY ET NOW | UPDATED: DEC 07, 2018, 08.32 AM IST

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Shankar Sharma, VC & Joint MD, **First Global**, in conversation with **Ayesha Faridi** of **ET Now** at the **Economic Times Global Market Summit 2018**, in Mumbai on Friday. He also answered some audience questions.

Edited excerpts:

Which stocks have been favouring you besides HDFC Bank?

I always buy trash companies anyway. HDFC Bank was an outlier. So I like to buy companies like **IndusInd Bank** when nobody was interested in IndusInd Bank. That is up 30-40 times in the last 10 years but at that time it was a Hinduja Company and the management was not good. It was trading at book value when all private sector banks were trading at four times book. That is what I say that if you will stick around long enough, you will get lucky. The idea is not to flame out, not to go bust. If you do not go bust, you will get rich.

Let us get to know Shankar Sharma beyond markets and his stocks. Let us track the journey. How did the 16-year-old boy from Dhanbad reach stock markets, reached Mumbai with the dream of making money?

I wanted to get rich.

Coming from Dhanbad?

Yes, Dhanbad has *dhan* in its name. Dhan means wealth in Hindi. My father died when I was 16 or 17 and we did not have a lot of wealth. I had a life ahead of me which was largely education and I said that I still need to make some money in this period. We had a tenant who was a police officer but obviously he was very interested in the stock market and one day I saw him filling out IPO forms and asked him uncle what is this? He said this is something called a public issue. It was not called IPO then. I asked what is a public issue? He explained.

He said borrow Rs 2,000 from your mom and come with me to Calcutta because Calcutta was the place you could submit these forms. There were no banks in Dhanbad which would accept IPO forms. So, we took a four-hour train journey, went and applied for shares...

Which company was this?

It was called Asian Hotels which was the Hyatt Regency in New Delhi and it turned out to be like a 20 bagger. So, suddenly I was a very rich by 18-year-olds standards and that was my calling. I said this looks interesting. This is the way I can overcome the feeling of insecurity that you get when you are the sole breadwinner of your family. I chased wealth to overcome insecurity.

So it was not for the love of stock markets but to get rich?

There were many ways to get rich. I thought this was a good legitimate way.

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Were there any other way which you contemplated?

Dhanbad was the mafia town and there are many ways to get rich, I can tell you.

Where did the journey take you from there?

When I came back to India after my MBA, I joined Citi. I remember I was sitting one night with my close friend Naganath who was the CIO of DSP Blackrock and we had joined Citi at the same time. We used to live in Bandra very close to each other and I called him over to have a chat about our future because the bank was not looking very good.

It was going through this usual perennial Citibank crisis of going bust because of Latin American debt at that time. I said we should jump into the stock market.

I find that now I am a little better at doing smallcap investing than earlier because I have the benefit of experience. Earlier, I used to go top-down. Now, top-down also simplifies a lot of things. It cuts out a lot of the individual stock level noise. It all depends on the phase of life that you are in. Now, I do not trade at all. Fifteen years ago, I would only trade. I did not even have a demat account. The philosophy was buy and hold does not work. Now I am older, I think it works brilliantly.

I think investing is also a journey in your own personal life the, the way you will evolve as an individual. I always believe one should not follow a style which is inconsistent with your own personality. I could never be a trend follower, buying the good companies kind of guy. That is not my style, that is not the way I lived my life.

You do not go for largecaps, but if you had to buy one, what will it be?

Maruti. The auto market is hugely underpenetrated and there maybe about three crore cars and 10-12 crore two-wheelers for a 110-120 crore population. There is still a long, long way to go. You will have hiccups in the middle but who can say that in India, auto ownership would not reach 10% of population in 10 years?

So, it has to happen and the Maruti stock has corrected 30% and one thing I have noticed is that in a bad bear market, good stocks without leverage typically fall between 30% and 40%. Maruti is down 30% from the top or so and it fits the bill.

Do you still like the chemical companies within [smallcaps](#)?

Yes, because there has been just a secular shift because of the China factor. There are so many stocks. Somebody told me last week and I missed that stock. It was a Rs 50-crore market-cap company now it is like Rs 1,000 crore within a year. I like the entire space for sure.

What is your view on midcap stocks now from a valuation perspective?

Valuation is the only thing I do not look at when I am investing on a broad basis because you can justify any valuation. Valuation works when you are looking at very extremes like something is five times or the market is five times earnings or 40 times earnings. But there is nothing to say that 15 times earnings is cheap and 18 or 20 times is expensive or 22 is expensive.

I do not even know what valuations they are trading at but I do know for a fact that a lot of smallcaps at least are abysmally cheap now. So many stocks are trading with dividend yields of 2.5-3% now. They are half of book value without debt. The order books will deliver very good numbers this year. So that space is extremely undervalued without any doubt.

Is there any liquidity risk in smallcap if the global turmoil comes in 2019 or sooner?

The smallcaps are like VC investing. You can only enter, you cannot exit. To give you the mafia example, you can only enter the mafia, you can never leave it.

I was talking to a FII friend of mine. We have been friends for 25 years and he was cursing India. All FIIs curse India. Periodically, it is a brilliant market; it is a great love-hate market. And I told him that do you remember 20 years back I told you that the whole FII investment philosophy is flawed because you are coming to a poor country hoping to get rich! I do not get this whole thing. *Y aar garib to*

loot ke tum kaise rich ban sakte ho? (How can you get rich by robbing a poor man?).

You can get rich by getting money off a richer guy and he said I remember that and you were so right. Here either currency will get you or this liquidity will get you but there is no damn exit. You can get rich by getting money off a richer guy and he said I remember that and you were so right. Here either currency will get you or this liquidity will get you but there is no damn exit.

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