August 13, 2021

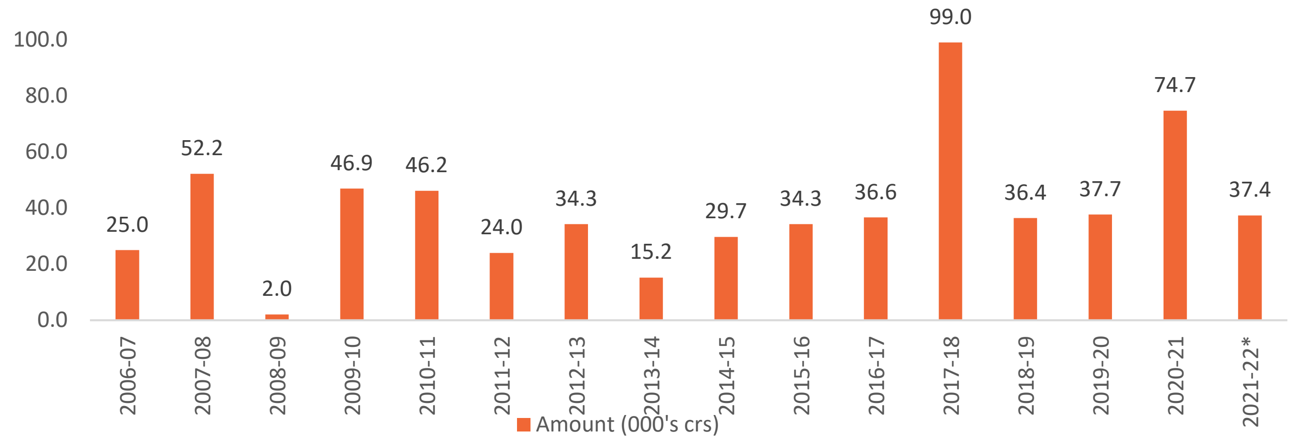
# Portfolio Commentary

## Disruptive Businesses – Here to stay!

2021 has been an exciting year for investors thus far. Despite a big economic setback caused by Covid19, capital markets have been buoyant led by relentless money supply by central bankers and surprisingly solid growth in corporate profits. The long queue of IPOs and record amounts of fundraising (highest in the last two decades) reflect investor confidence. Globally, in the first six months of the year a whopping 1070 IPOs came to the markets, highest number since 2000. These companies raised about USD 222 billion which is higher than the average annual raise of the past three years.

India is moving in tandem too. We have already seen over 25 corporates raise ~INR 37k crs through public issues and another 1 lakh crores is expected to be raised in the rest of the year. As per reports, more than 60% of the money raised has been used by promoters and investors (PE/VC) to liquidate their holdings through IPOs and only the balance has gone towards fresh capital for business growth.

**Funds raised through public issues (IPOs, FPOs & OFS)**




** as on July 31, 2021*

*Source: Prime Database, Sanctum Wealth Management*

## Businesses of future

While many are viewing this IPO frenzy with scepticism, listing of new age businesses is an aspect that simply cannot be ignored. A large set of investors will now have access to businesses such as Zomato, Uber, Paytm etc. that were hitherto available only to tiny set of investors. These 'businesses of the future' are capturing the imagination of people with their innovation, pace of growth and potential scale. At this point in their evolution, these businesses don't fit into traditional metrics. Let's take the Zomato listing as a case.

- Despite being a loss-making entity, it was valued at INR 60,000cr at the issue price and was oversubscribed multiples times.
- On listing, its price rose by over 60% and breached market capitalization of 1 lakh crores, to be part of 50 most valuable, listed companies of India.
- Promoter held merely 6% going into the issue.

Over the last several decades of valuing companies, the emphasis has mostly been on profitability, cash flows, productive physical assets, and balance sheet strength. While valuing these internet / tech companies the traditional measures are ineffective as these companies neither have physical assets which can be valued, nor many of them are profit making. One needs to consider potential market share gains over profits, network effect and digital platforms nestled in IT clouds in their valuation models. Additionally, some of these companies may see cash burn for foreseeable future (as they are expensed out to acquire customers, create brand / platform) but may still be valued far higher than a lot of conventional profitable businesses due to the disruptive nature of their business model. Acceptance of such business models, as visible from the Zomato listing, is a considerable shift in the mindset of domestic institutional investors.

While these valuation metrics will continue to evolve, in the short term, one must keep in mind that the VC/PE investors in these companies that are liquidating their stake would want to maximize their profit. Hence one needs to be mindful before investing in these companies. The buoyancy in prices on listing, therefore, would be a combination of FOMO and growth expectations.

## Index Inclusion

Another thing to note is the sheer size of the market capitalisation of these companies may achieve on listing. It could easily meet the liquidity and free-float market capitalization (key determinant) required for index inclusion. Zomato is already over Rs 1lakh cr market capitalization and Paytm is expected to list at a market cap upwards of Rs 1.75 lakh crores. With high free-float, both are potential Nifty 50 candidates. What happens if/when these companies get included in the Nifty 50 Index: Considering they are loss making, overall Nifty PAT would be lower and the market capitalization higher. Consequently, P/E multiples of index will look abnormally high (and historical valuation trends would seem irrelevant). Additionally, existing constituents could see selling pressure as investors reposition portfolios to accommodate new business models vs traditional business models.

## Risk and Opportunities

While these companies offer huge growth potential and might have a disruptive platform to offer, some of them could be highly volatile investments as many risks and challenges could emerge in terms of competition, regulatory changes and weak execution which could considerably impact the path to profitability given the huge cash burn. China's recent regulatory actions against after-school tutoring, Didi (Uber of China) listing has put billions of dollars in jeopardy.

Another example is DoorDash, an on-demand food delivery application in the US, like Zomato. It listed in December 2020 at 85% premium to the issue price and more than doubled from the issue price in a couple of months. From the highs, almost 90% of the gains got wiped off over the following 3 months. One of the reasons for the correction was the fear that reducing covid-19 cases would impact the company's growth trajectory that it had witnessed in the last 12-15 months. Amazon, the behemoth digital platform lost more than 50% of its market capitalization thrice in 10 years since its listing in 1997.

In India, these companies are still in the early growth cycle. They are being supported by increasing internet and smartphone penetration and offers a lot of opportunities not only in their domain but also to expand into synergetic adjacencies. Some of these would make for worthy investments at sensible valuations (although that itself is an evolving concept in the context of these companies).

## Constructing portfolios

Even before the IPO frenzy started earlier this year, we have been watching these trends and invested in companies such as InfoEdge and IRCTC. Info Edge is not only an investee company in 30+ start-ups, including Zomato (Online food delivery market share ~45%) and Policy Bazaar (Insurance web aggregator with 50%+ market share), but also runs a leading, profitable internet business. IRCTC is a monopolistic, profitable, highly scalable and unmatched opportunity in online rail ticketing. It has massive 73% market share of internet rail ticketing that touched 90%+ during pandemic.

We will keep scouting for such opportunities amongst the new crop too as they get listed but with a sharp eye on both valuations and growth. We don't mind giving some popular opportunities a miss if we believe the risk/reward is not commensurate.

## Performance Update

We are glad to share that both our Flagship strategies are overcoming the pain of the last year and catching up on performance. The changes which we undertook during the start of the calendar year are now paying dividends. As envisaged, revival in the housing sector, manufacturing boost led by China plus one and exports have gained traction in the last 3 months. We had also increased our mid and small-cap weights in our Multicap portfolio, Sanctum Indian Titans, which has led to significant outperformance in the short term. We continue to balance the portfolio between domestic and export-oriented companies as the rebound of economic activity across the globe remains patchy as covid cases rise and ebb.

## Performance of In-house PMS Strategies

| Performance as on July 31, 2021 | 1 Month | 3 Month | 6 Month | 1 Year | CAGR | | |
|---|---|---|---|---|---|---|---|
| | | | | | 2 Year | 3 Year | Since Inc.* |
| Sanctum Indian Titans | 4.7% | 15.4% | 26.0% | 51.6% | 30.6% | 14.5% | 16.4% |
| NSE200 Index | 0.9% | 9.3% | 18.6% | 46.9% | 21.0% | 11.7% | 15.3% |

* Since Inception Returns are from 18-Nov-16

| Performance as on July 31, 2021 | 1 Month | 3 Month | 6 Month | 1 Year | CAGR | | |
|---|---|---|---|---|---|---|---|
| | | | | | 2 Year | 3 Year | Since Inc.* |
| Sanctum Indian Olympians | 1.2% | 10.2% | 14.7% | 39.1% | 19.4% | 12.7% | 13.0% |
| NSE100 Index | 0.5% | 8.5% | 16.7% | 42.9% | 19.6% | 11.3% | 12.7% |

* Since Inception Returns are from 16-Sep-16

Performance is calculated using Time Weighted Returns, net of fees and expenses. Returns over 1 year are compounded annually, Returns for less than 1 year period are absolute. Please note that the performance information provided above is not verified by SEBI. Please note that past performance is not a guarantee of future performance

# Sanctum Wealth Management

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