Twitter Thread by The Disciplined Investor



The Disciplined Investor
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One of the best debates I have seen in recent history between @SunilBSinghania and Saurabh Mukherjea.

TOPIC: Has P/E lost its relevance?

I resonate more with Sunil's side. Here's a thread ■ on the main points made by him:

@varinder_bansal @safiranand @myvaluepicks

1/ Importance of PE

PE is not the only factor but an important factor.

Ultimately the growth has to justify how much PE are you paying for the company.

There cannot be an unlimited PE multiple based on some xyz parameters.

2/ Hindsight Bias:

In hindsight we can say that from 2001 to 2021, a company grew at 25 % and we should have given a very high PE to it.

But on the day when you buy, you don't know that the company is going to grow at 25% for the next 20 years.

3/ Millennial preference:

Things have become more competitive.

New generation don't really care much about legacy.

Convenience and affordability matters more.

The longevity and sustainability of growth has changed dramatically.

4/ Company that require a big investment - There is opportunity to invest big.

Company 1: Mkt Cap of 50 cr
Company 2: Mkt cap of 1 lakh cr

50c r company can become 3x, 1 lakh cr company cannot become 2x.

On absolute basis you end up making 5 cr vs 5k cr in 1lakh cr company.

5/ Predictability of growth:

Companies like Colgate, HUL, Pidilite are bigger in size today. In many product categories, penetration & disruption caused by technology is higher.

Even if they have grown 25% for past how can you assume they will continue to grow at 25% in future.

6/ Growth has to justify the price:

If a company is growing at 10% and you pay 70 PE multiple - If your return expectation from the company is 10%, it has to trade at 70 PE infinitely.

This has not happened any where in the world.

7/ Comparison with the best US Companies

There are only 5 companies in US that have traded at more that 50PE for more than 5 years.

Even Google, Apple and Microsoft are trading at 30-40 times earnings.

And people there think they are in a bubble.

8/ Apple Example

Apple is a 30 PE stock, growing at 35%, has better ROE, and better Free Cash Flows than Indian quality and MNC companies.

In India, these so called quality companies are trading at the highest level anywhere else in the world.

9/ Importance of Quality

Unless I am confident of the management I will not invest.

But who are we to give a certificate that this management is the best and this management is bad.

Its a fallacy to say larger companies have good management and smaller have bad.

10/ Cycles should not be ignored

6 months profit of Tata Steels > Years of profit of Asian Paints

HDFC has underperformed ICICI big time.

There is always a phase when you can say that it is priced beyond perfection.

11/ Interest Rates and PE

When Interest rates were going down, there was a justification that PE should go up.

Now that the interest rates have started to go up, then based on that justification the PE should go down.

12/ What has history taught us?

Quality at any price doesn't work.

It has never worked in the last 300 years of history in the US or anywhere else in the world.

It is not going to work in India because India is not unique.

13/ Value without Growth:

Any company that is only value, does not give you returns.

We look at companies where profit growth can be 2x in next 5 years.

Unless there is profit growth you will not make consistent returns.

14/ Investment Process:

We are not looking at 90% ROE company trading at 80PE.

We are okay with 25% ROE company growing at 15%, with 15PE. There is more money to be made here.

You have to start looking at companies young. Only way to play compounding for long term.

15/ Investing is Simple but not easy:

Everyone knows what Mr. Warren Buffett does.

No one has been able to mimic him because investing is more that formulas and numbers.

You need to have the feel of what to do when & stay with your conviction when you are not doing well.

That's it folks!
Thanks for reading.

Kindly retweet the first tweet if you think others would benefit from this.

Here's the link if you want to watch the full debate:
http:// https://t.co/j1vK2vEflZ