

In the third part of our series of interviews with stock market leaders, we talk with Mr. Sanjeev Patkar, Head of Research at one of India's largest Asset Management Company SBI Mutual Fund (Asset Under Management (AUM) of more than Rs40,000cr at the end of Dec-11). Mr Patkar is probably the only person that we have encountered in stock market who doesn't have a finance educational background. An Engineering topper and Marketing major from JBIMS, Mr Sanjeev's uniqueness doesn't end there. He has very diversified work experience ranging from sell side to buy side to credit rating to framing maritime policy of the State of Maharashtra and Executive Assistant to MD's office. Read on to find out more about his journey and success mantra.

- Q When was your first encounter with stock markets?
- A Post my MBA, I got selected by CRISIL in their credit rating department, even though I didn't specialise in finance. Given my engineering background I had a strong analytical ability and that's what CRISIL liked in me for their newly formed credit rating department. That was my first encounter with real finance. I researched & rated 60-70 companies across different industries and sectors. After that I got an opportunity to work with india's largest FII (AUM -Rs3,500cr) Jardine Fleming. Post that I moved on to work with GE Capital, globally known as one of the finest organisations. Then I got an opportunity to work with some of the best names on Dalal Street like ENAM and Kotak PMS. After that I took a break and did something totally different from stock markets - I worked with i-maritime a maritime industry consulting company, where I helped Maharashtra state government to form their port & other shipping related policies. From there I move on to Welspun, where I worked as an Executive Assistant to MD, where I got an opportunity to interact with Dr. Eliyahu M. Goldratt author of the famous novel, The Goal. I got to learn immensely on how a company's business – customer – market cap, all is linked very simply. With strong business experience, I moved back to stock market. I joined Dolat Capital as their Head of Research, then to Almondz Capital and currently am with SBI Mutual Fund.
- Q What has been your learning from stock market over the years? What's your philosophy or strategies for stock market? What technique do you use? How has your technique changed over a period of time?
- A You've got to focus on the Business Model of the company, understand where business is adding value to its customer. To quote Dr. Eliyahu M. Goldratt "*Market Cap(italisation) is monetised representation of perceived value added by the company in its product/service in the eye of the customer*". That's the simplest explanation of what the company should be doing that will help it create wealth for its shareholders. Companies have to figure out where they are adding value to the customer and focus on that. There is a Black Box that every business has that delivers value to its customer. Your job as an Analyst or Fund Manager or Head of Research or Stock Investor is to figure out where business adds value to its customer and who does it best and that's how you come up with best winning stock ideas. Like Infosys has its own PSPD model (Predictability, Sustainability, Profitability and De-risked model). One has to understand the right business model to deliver value to the customer and where the focus of the management is. The company should have strong business model that not only delivers value to customer but will continue to do so on a long term (sustainable) basis and that too in a profitable manner. Once I had met the management of Hero MotoCorp (erstwhile Hero Honda). We were with Mr Ravi Sood (CFO) and asked him "Sir, how do you guys make profit?" and he replied in a very simple line "expenses that one makes during boom and saving one does during the recession". The

philosophy of the management was very clear – not to indulge in any unnecessary expenses and give exactly what customers need.

Q How do you typically evaluate a stock? What kind of things do you look at, in any order? Can you highlight 3-4 key things that every analyst should look at?

A I look at a stock in very simple manner as I indicated earlier. I look at the Business Model of the company, figure out what customers need and find a company that does exactly the same. The best way to find a good company is to have an approach of a businessman while analyzing any company. You should be like a Marwari – they are the best businessmen. They monitor three things – first, fixed expenses (“kharcha-paani”, second, variable cost (maal-samaan”) and third, working capital (“ugraani”). This is what business is all about. Evaluate a company/business, then see financials and finally come to valuation and figure out a good price to buy. One should have approach that of businessman. When you have Rs500 or Rs1000, you can always hire people like Mr Mukesh Ambani or Mr Sunil Mittal by buying their stock, who work 18 hours a day to ensure they create wealth not only for themselves, but for you too.

Q How many market cycles have you seen? How was your experience during that time? Can you share anecdotal stories of your success or failure?

A When we worked at Crisil, we were blessed by the changing environment of falling tariffs and duties, which were challenging established businesses/ mega corporations. Who would have imagined NOCIL to get vanished only to be gobbled up by Reliance at the end of the cycle? In almost each of the cycle one was unsure of whether things were changing – and in a sure denial when they were changing the other way. When Tata announced its Indica – it was its last peak, and history almost repeated when Mr. Tata announced NANO. Frankly, when we moved in we were hardly aware of what to analyse, how to analyse, and why and where to invest. It is through your mistakes that you learn. On the positive side, Dolat was one of the enterprising stints, where to get noticed we did some breakthrough work. Before all these 2G & 3G scams broke out, during my early days, we did research on “**Spectrum**”. Once you analyse telecom sector you know that it is the most crucial raw material and it is something you can’t see, touch or feel and we made reports making sense of this and trying to value it. We were also among the first few to understand the value migration in energy basket from conventional fossil liquids to Gas sector.

Q What makes a successful analyst different from others?

A Successful analyst is like a child. He questions everything and gets to know everything. You know how small children are – they keep on questioning you this & that and rack your brains. At the same time you have to be very humble, flexible, enthusiastic, inquisitive and enjoy the whole process.

- Q What are the major misconceptions that people have about stock market in general and about analyst/ fund managers in particular?
- A We are just like film stars. We both sell dreams and if it doesn't work people punish us badly. They forget we are humans just like anybody else. We are no gods or demi-gods or super-humans with super powers.
- Q What do you expect from newcomers to the stock markets? What are the qualities that new participants, especially students should possess for being successful in the stock markets? How should one go about acquiring those qualities?
- A Investing as a profession is a brilliant combination of almost all the basic disciplines: Science, Arts, Psychology... you name it...
- In terms of soft skills – attitude, willingness to work hard, humility and in terms of hard skills that can be taught – industry analysis, understanding business models, financial statement analysis like Marwari businessmen, willingness to do on-ground research, strong knowledge of Excel (Excel in Excel), knowledge of basic valuation tools & techniques.
- Few must-read books for students – The Goal, Warren Buffett Way, Little book That Beats The Market and Little Book That Creates Wealth, Cashflow Quadrant, The Professional, Winning Habits, Romancing the Balancesheet, The Secret, You Can Be Stock Market Genius and How To Make Money In Stocks.

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