How Enam AMC’s Jiten Doshi picks stocks

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Enam Asset Management Company Pvt. Ltd (Enam AMC) is completing 25 years in October. The asset manager has a single investment philosophy distributed on three platforms: Enam India Core Equity Portfolio, Enam India Diversified Equity Advantage Portfolio and Enam India Equity Portfolio. For its next leg of growth, the company is planning to launch three new products, another portfolio management service (PMS) product, an alternative investment fund (AIF) and an Undertaking for Collective Investment in Transferable Securities (UCITS) to target the retail and mid-market segments.

Jiten Doshi, co-founder and chief investment officer of Enam AMC, talked to Mint about the company’s future plans, market outlook, and the India growth story. Edited excerpts:

Take us through the history of Enam AMC.

We are the asset management arm of the Enam Group. We will complete 25 years on 3 October this year. We have the longest-serving single-manager track record, and we manage over $3.4 billion in assets. We have a domestic PMS, an offshore fund, and an SMA platform for large institutional investors who want to invest in India. We have pioneered Socially Responsible Investing in India. In fact, we are a signatory to the United Nations Principles for Responsible Investment (UN PRI).

What strategies do you have at Enam AMC?

We have a single strategy, which is growth oriented. We have seen almost all the market cycles, beginning from the year 2001. We have a long-term track record of having delivered more than 20% CAGR across all market cycles with about 5% Alpha.

Enam AMC at a glance

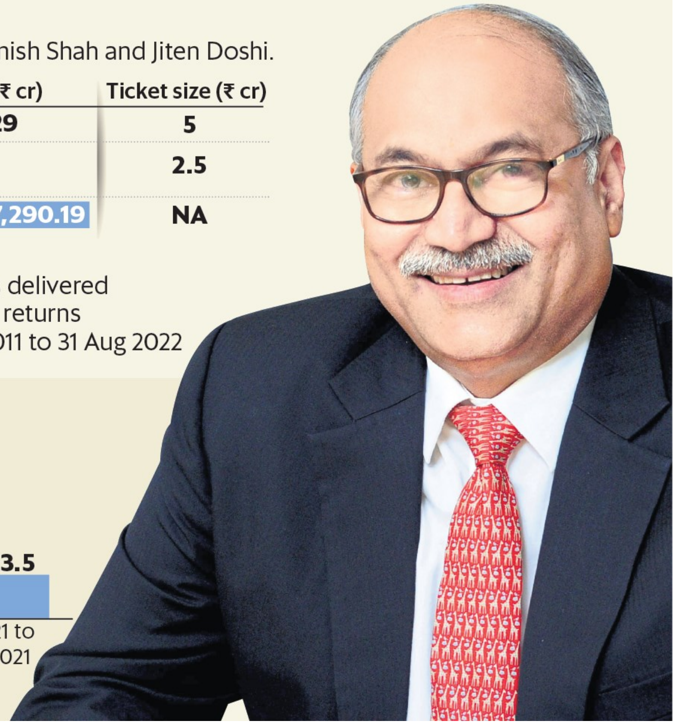
Enam AMC was co-founded in 1997 by Vallabh Bhanshali, Nemish Shah and Jiten Doshi.

	Clients	Funds managed (₹ cr)	Ticket size (₹ cr)
EICE (Enam India Core Equity Portfolio)	310	6,212.29	5
EIDEA (Enam India Diversified Equity Advantage Portfolio)	410	2,515.96	2.5
EIEP (Enam India Equity Portfolio)*	1	17,290.19	NA

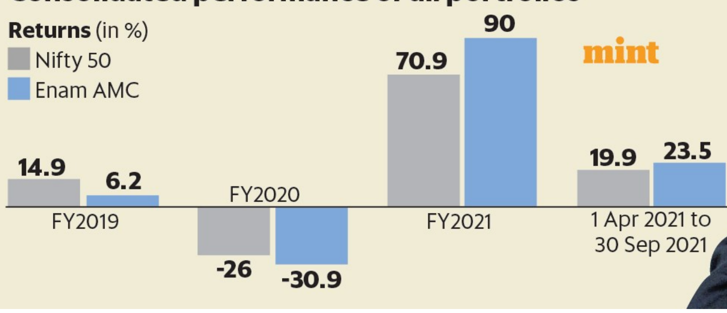
*For large institutional investors Data as on 30 Sep 2021

EICE has delivered **20%** returns during 1 Apr 2001 to 31 Aug 2022

EIDEA has delivered **16.5%** returns during 30 May 2011 to 31 Aug 2022



Consolidated performance of all portfolios



Could you tell us how you were positioned during the covid crisis?

The pandemic was something new to the world, and several businesses suffered a big blow as they underwent a structural change. During this period, I think many sectors especially service-oriented ones were severely challenged. We also went through several downturns across different industries. During those periods, we did see some shifts in the portfolio, and I think we positioned the portfolio for a big upsurge in the economy. During 2019-20, the Indian economy was already slowing down but in 2020, we could sense a strong recovery towards the end of March 2021. So that's when we repositioned our portfolio to participate in growth across sectors of home improvement, discretionary consumption, staples and many other industries, where we found a lot more value and high growth.

In terms of clients, you weren't very aggressive about expanding the number. Has that changed over time?

On the current platform, our average ticket size is in excess of ₹5 crore, which is one of the highest in the industry. It's a very specialized service where we do a customized portfolio approach for our clients. So, on the current platforms, we don't really believe in expanding in numbers, it is more in terms of the AUM per client that grows. So that's what we are focused on. We are about to enter the mid-market segment with a ₹50 lakh ticket size PMS that will be launched towards the end of this year in order to ensure broader participation from investors across the country. We want to now offer something where we could encourage participation from the retail and mid-market segments.

What is your expense structure in terms of performance and management fees?

Our management fee varies from 1.5% to 2.5%, depending on the product. And of course, we have special pricing for large ticket separately managed account (SMA) mandates, which we discuss directly with our clients. We are the most friendly PMS as we do not charge any performance fees; we don't have any lock-in period, and entry or exit loads.

Can you take us through the investment philosophy that you follow when picking stocks?

We look for businesses that are well positioned to capitalize on the emerging growth opportunities across the country. We look for businesses with high-entry barriers and moats, something that allows businesses to sustain earnings growth momentum and bring in more predictability and durability in the business model. Additionally, these businesses should be run by high quality managements that practice the best standards of corporate governance, disclosure and transparency.

India has historically traded at a premium to other emerging markets? Do you think that it will sustain?

I don't think we are doing a like-to-like comparison when you are comparing India to, let's say, Brazil or Russia or South Africa. India has a very wide base of very high-quality companies across every sector. Obviously, India will trade at a premium to a predominantly commodity-driven market, which does not have high quality companies. Indian markets in terms of ownership, governance and transparency, are way ahead of many other emerging markets.

India rightly deserves to be at a premium to these markets, given that most of the businesses here generate a very decent return on capital employed (ROCE).

Is there any particular sector that you're bullish on?

We are very bullish on the financial services sector, which primarily includes all the private sector banks, NBFCs and general insurance. We are also bullish on home improvement and discretionary consumption. Sectors that we basically do believe could come under strain in the period ahead would be the commodity sectors such as metals and oil & gas.

Global agencies have raised concerns over India's rising inflation and rising interest rates. Do you share these concerns?

Over the last few years, under the leadership of prime minister Narendra Modi, many things have been set right in the Indian economy. These structural changes have taken India to the next level. Interest rates are about 400 basis points lower than where they were four years ago. Tax rates haven't changed over the last four years and are stable at around 25% for existing businesses. For new industrial undertakings, tax rates are as low as 15%. Our inflation rate is running lower than in many parts of the western world. Over the last eight years, the Indian currency has strengthened as compared to many other currencies globally, except for the dollar. So as an Indian entrepreneur, the environment couldn't have been any better than it is today.

There can be a little bit of a slowdown or a small downgrade here and there. But I think India has managed its fiscal position exceedingly well, so we're not really worried what happens in the short term.

The top-performing IT sector has disappointed in the recent past, while the PSU sector is doing well. What are your views on these two sectors from a three-to-five-year perspective?

IT was a value-creation sector between April 2020 and March 2022. On a lower base, it has shown extraordinarily high growth. And I think it is facing some challenges not in terms of demand, but in terms of margin squeeze due to salary hikes, attrition, etc. In the longer term, I think it's a structural growth industry. Growth rates could be in high single digit to low double digits, but we see growth sustaining, because I think Indian IT services are very competitive. I think our companies are working on critical projects of transformation for the Fortune 1000 companies. There are pressures on the margins in the short term, purely because travel costs have come back, there's a lot of attrition and salary hikes, but I think all that will settle down over a period of time.

Similarly, if you take the last five or seven years, PSUs have underperformed. On a very low base, there could be six months or one-year period where they have outperformed. They are doing well on hopes of government divesting stakes in these companies over a period of time, or greater accountability coming into these companies, resulting in a lot of value being unlocked. It's already happened in the case of Air India, which is not a publicly-listed company. There's hope that many of these PSUs would be divested and would be falling into the right hands, and thus a lot of value could get unlocked.

In view of the Ukraine war and other factors such as interest rates, and inflation in India, how are you positioning your portfolio?

These factors are basically more external than internal. We have companies today that are seeing the Indian economy with greater confidence that in 2007-2008. Earlier, you had the big business groups like the Tatas, Birlas, Mahindra all investing outside. Tatas bought Corus, Jaguar Land Rover, Mahindra group invested in SsangYong Motor, Birlas invested in Novelis. All of that was because there was a lack of confidence and visibility of growth in the country. Today, most of the large industrial groups in India are putting money back into the country. No big business group is going and acquiring businesses outside India. Now, this should be enough of an indication to tell you that the trouble is outside and not within India. There might be short- term hiccups that we could easily write off because India's long-term picture is looking exceptionally bullish as compared to any other part of the world.

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