



## 'My equities are my life insurance'

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Neil Borate, Maulik M



PREMIUM

*Hiren Ved co-founded Alchemy Capital Management along with Rakesh Jhunjhunwala and others in 1999.*

### SYNOPSIS

*Hiren Ved believes ultimate wealth creation comes from investing in great companies for very long periods.*

*neil.b@livemint.com*

Hiren Ved, CEO, CIO and director at Alchemy Capital Management, a portfolio management services (PMS) provider, was exposed to equity investing at a young age. This was thanks to his father, who started out as a businessman and later switched to full-time investing. “When we were growing up, the atmosphere in the house was about equities. We always felt comfortable despite the fact that there is a lot of volatility in the markets,” says Ved. It’s no surprise then that Ved is an “out-and-out equities person”, and has 95% of his asset allocation to equity.

Ved co-founded Alchemy along with Rakesh Jhunjhunwala and others in 1999. Today, it manages assets worth Rs. 6,751 crore. Ved shares his portfolio details and investment beliefs for Mint’s special Guru Portfolio series. Edited excerpts.

## **What's your outlook for 2023?**

I would say that 2023 should be a good year. It is quite possible that the first quarter could be a little volatile and then things should settle down. If you look at the top 500 companies (which is 420 after taking out the financial companies) in 2022, while the topline growth was very good, there was an impact on margins. So, broadly, all non-financial companies saw some impact of higher raw material costs, higher energy prices, higher logistics cost and supply chain issues. There was a 500-600 basis points hit on their Ebitda (Earnings before interest, taxes, depreciation, and amortization) margins. We have seen that commodity prices have come off a little bit from their highs; even crude prices have corrected. Our feeling is that some of these Ebitda margins will come back in the fourth quarter and in the next year, because companies have taken price hikes. Also, you may have high-cost inventory of raw materials in your balance sheet which you have to run off. The good thing is, this quarter will be very good especially for consumer-oriented businesses because you had so many

marriages, the economy opened up, people were travelling, and spending; therefore, we should see reasonably good topline growth. I don't expect all of the 500 basis points of margins to come back because some of the benefits of cost-cutting during covid will have gone away. That means, Nifty earnings will probably be 8-10% this year, and next year, we should get back to double-digit growth. Therefore, the next 2 years look very, very promising and therefore, I believe that next year, the market should be able to deliver a double-digit return.

Also, by the end of first and second quarter of the calendar year, interest rates should peak. Central banks should start talking, if the US economy actually goes into recession, about cutting rates. And so, I think the markets and the yields should stabilize. Then, we are heading into 2024, an election year; so, the government will keep public spending reasonably strong and that should hold up demand at a reasonable level.

**How is your personal portfolio split between equity, debt, gold, real estate and alternatives?**

I am an out-and-out equities person. So, other than the house that I live in, 95-96% of my asset allocation is to equity. I currently have a little bit of cash. But generally speaking, I am fully invested into equities. I neither invest in debt nor real estate, nor gold, nor commodities.

**Is this entirely through your PMS (portfolio management service) strategies, or directly through stocks, or mutual funds?**

A large part of my personal equity investments is in my PMS strategies. I do have some private equity investments. That is not a regular allocation but if I find something very interesting, then I do allocate to private equity. We don't do private equity for clients. I think my private equity allocation would be 10%, direct stocks would be 20%, and PMS would be 70%.

**Have you shifted between market cap (large, mid and small cap)**

**segments in the past year?**

Not really, I am a very long-term investor. We don't typically do these tactical shifts. I am a very bottoms-up stock investor; so, wherever I see the best opportunities, I invest irrespective of whether it's a large, mid or small cap stock. But I do believe that very recently, we have had a decent enough correction in small caps and we have made some investments in this space.

**Is the cash that you keep an emergency fund or is it for deploying into markets when you see a chance?**

I usually keep a little bit of cash because it comes very handy when you get some great opportunities, when there is a selloff or even if you find a great opportunity in the market. I don't always calculate it but it could be 2-5%, it really depends on time to time. But by and large, I am fully invested in equity.

**Do you have life insurance?**

I don't have life insurance. I have health insurance through my company. And I think my dad must have taken a small policy over and above what the company has given. I don't do life insurance because for me, everything is my portfolio. If I need anything, I can always draw on my portfolio.

**So, you feel your portfolio is more than enough for your family in case something was to happen to you?**

I have always felt that even the life insurance premium, I would rather invest (in equity) for very long term, and that whatever portfolio I have should be good enough for any emergencies. Not just me, but even my dad or family, have always had a substantial part of our investments in equity. As a family, we have been investing for the last 50-60 years, and we have seen what compounding can do. We believe our portfolio is our life insurance.

**Was your dad in the financial markets as well?**

My dad started out in industry. My dad and his brothers used to run a small packaging and printing business. He finished his graduation and straightaway got into business. Then couple of years into the business, he started to pay less attention on the business which was largely run by his brothers and started to become a full-time investor. This was in the late 60s and early 70s.

We have a long history of investing in equity markets as a family. When we were growing up as kids, the atmosphere in the house was about equities. We always felt comfortable despite the fact that there is a lot of volatility in the markets. Dad used to teach us that he has had many a crisis in his life and this (money invested in equity) is the money he didn't need and it was meant for growth. He never thought that he should keep some money in fixed income or gold or any other asset class. I have grown up in this environment and when I started my career in the equity markets, I had the fortune to interact



with some of the finest investors in the country. And I realized that the ultimate wealth creation machine through compounding is to invest in great companies for a very long period of time. Therefore, I became very comfortable putting all my wealth into equities.

**What was your first stock when you got into the markets?**

I think the first stock I bought was when I was in college which must have been in the late 80s. This was in a company called Pond's which later got merged into Hindustan Unilever. During my break in college, I worked at a market research firm and earned some money. After that, any savings that I had, everything got invested into equities.

**If you had to think of one period in the markets where you really had doubts, what would that be? And how did you overcome them?**

The 2008 global financial crisis was definitively a big event. Never ever in the past we had a situation where your equity portfolio had fallen by 50-55% and that's what happened in 2008. I think fleetingly then, we were discussing among friends and peers, and a lot of people were saying that you should always diversify and keep some money in fixed income or real estate because you never know what happens. But I think that was just a thought process. I didn't act on it either at that point of time or any other time in future. I realized that something like this could happen in the market. We had always read about it. But it is a very different thing when you experience it yourself. My dad had told us that the oil crisis in the early 70s was very tough, but he never budged from long-term investing. I had also seen the tech bust of 2000. But at that time, I don't think my portfolio was that big for it to matter, and we did reasonably well because I personally had many investments in tech or IT services companies. While we didn't sell at the top, we got out at the right time and we were sitting on a lot of cash

and trying to look for opportunities.

Finally, having gone through 2008 and experienced that kind of a drawdown, I have internalized that this can also happen in the market and that things always come back. Your real insurance policy during deep risk events is actually the quality of your underlying asset. So, if you own good companies with good cash flows and good managements, they will always come back. If you go back in the history, no correction has lasted more than 2 to 3 quarters. So, eventually, money comes back. The only lesson of 2008 was that if you have some financial commitments, one should always keep that part, let's say your next two years' requirement for that financial commitment in a debt fund or cash so that you don't have to necessarily sell at the wrong prices. Those are prices where you should be buying stocks rather than selling stocks.