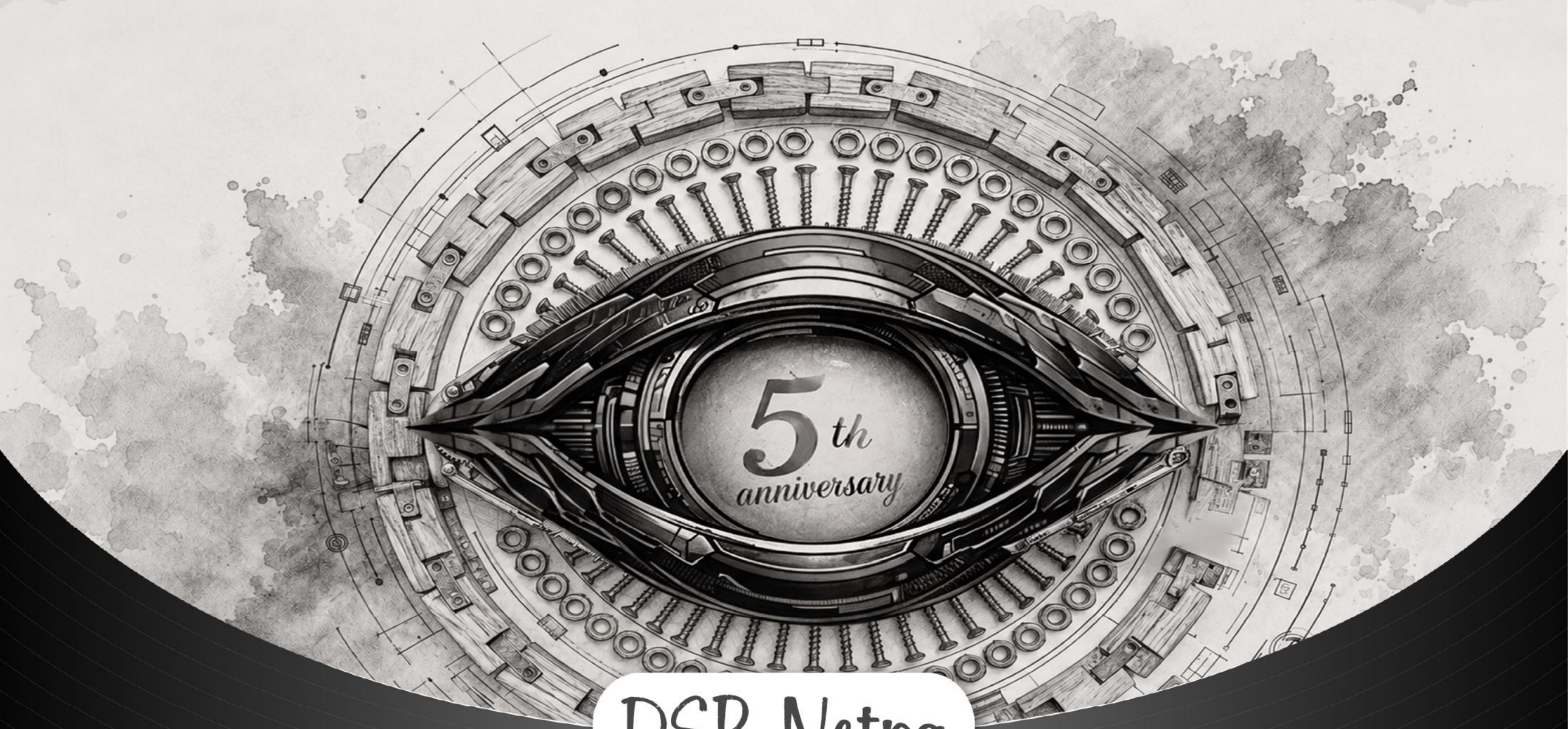

DSP Netra

Early Signals Through Charts

DSP

DSP Mutual Fund - SEBI Registration No.: MF/036/97/7

June 2026 Edition

Released on 5th June 2026

Process Knowledge

Nature degrades all physical things. Even written down words.

The Ise Grand Shrine in Japan standing today is only a few years old, yet it is identical to the one that stood 1,000 years ago.

Overtime the wood rots, but the 1300-year-old ritual, Shikinen Seng, ensures that process knowledge to build this shrine survives. Building the shrine out of the most robust stones is not the best way to preserve it. Rather it is to entrust its continuity to a continuous chain of disciplined human practice. **The process knowledge.** Physical things are impermanent. The process knowledge is antifragile. The passing on of process knowledge is how humans have grown intellectually. In absence, many of us would be trousered apes with laptops.

The intricate reflexes, the feel of the wood grain, and the split-second contextual decisions required for this level of craftsmanship represent **process knowledge**. It requires "skin in the game" mastery. You can only learn it through direct physical practice, enduring the friction of trial and error, and receiving immediate feedback from a master.

Time, an earthquake or an unknown cause can destroy the physical shrine. But the process knowledge ensures that it is rebuilt again and again. This makes it antifragile.

The Ise Grand Shrine in Japan is one of the world's greatest examples of preserving **process knowledge,** the kind of practical, embodied expertise that cannot be learned from a textbook.

Every 20 years, the inner and outer shrines, along with the Uji Bridge and thousands of sacred artifacts, are entirely dismantled and perfectly rebuilt on adjacent plots. This 1,300-year-old ritual is called ***Shikinen Sengu***.

The 20-year Generational Cycle Of Shikinen Sengu

The 20-year interval of Shikinen Sengu is a highly engineered timeframe designed to act as an intergenerational knowledge transfer system. It ensures that the skills to rebuild the shrine are always present in the living population.

The Apprentice

- First Rebuild (Teens/20s)
- Young carpenters participate in their first rebuild. They perform foundational tasks, observe the masters, and absorb the basic techniques and spiritual gravity of the work.

The Skilled Practitioner

- Second Rebuild (30s/40s)
- Now experienced, they execute the heavy, complex work. They carve the intricate mortise and tenon joints and begin guiding the new wave of apprentices.

The Master Leader

- Third Rebuild (50s/60s)
- They step into leadership roles, overseeing the entire construction effort and ensuring the exact replication of the centuries-old design.

The Senior Advisor

- Fourth Rebuild (70s+)
- Having lived through three prior cycles, they serve in an advisory capacity, providing the final word on the deepest nuances of technique and tradition.

The 5th Anniversary Edition Of DSP Netra

This is an attempt to preserve the process knowledge of investing. We are grateful to the following investors and managers who have contributed to share their processes on how do they value assets. After all, the only way to invest is to know how to value an asset.

List of contributors to this edition:

Names	Designation	Company
Kapil Singhal	Managing Partner	True North Co
Abhishek Singh	Fund Manager	DSP Mutual Fund
Rajeev Thakkar	CIO	PPFAS Mutual Fund
Suyash Choudhary	CIO Fixed Income	Bandhan Mutual Fund
Harish Krishnan	CIO Equity	Aditya Birla Sun Life AMC Ltd.
Ramneek Kundra	CIO	DSP Pension Fund
Raunak Onkar	Fund Manager & Head of Research	PPFAS Mutual Fund
Bhavin Gandhi	Fund Manager	DSP Mutual Fund
Resham Jain	Founder & CIO	VVD Asset Managers
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Tejas Shah	Research Analyst	Avendus Spark
Puneet Khurana	CIO	Stoic Investment Managers
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Ankita Pathak	Head Global Investments	Ionic Wealth
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Kapil Gupta	Economist	Nuvama Institutional Equities
Parth Shah	Strategist	DSP Mutual Fund
Pragati Agarwal	Economist & Product Manager	DSP Mutual Fund
Sahil Kapoor	Head of Products	DSP Mutual Fund

DSP

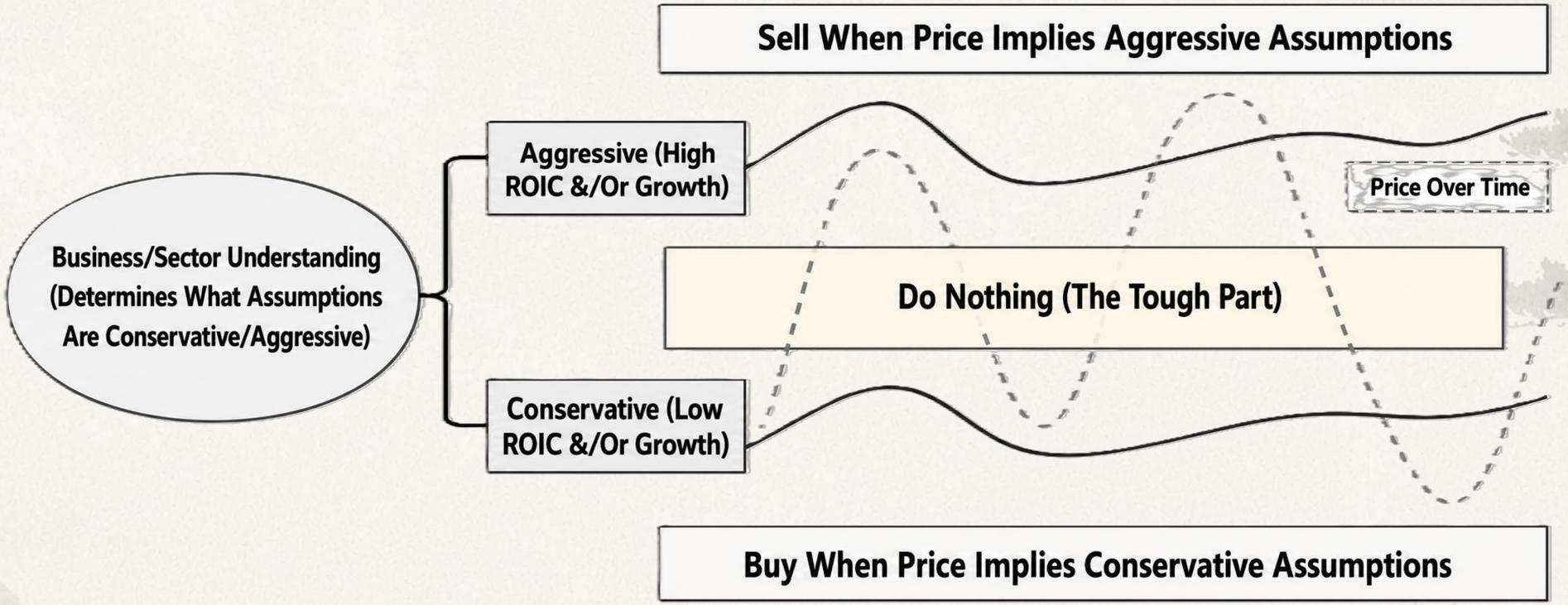
A Structure To Capitalize On 'Luck' – *Abhishek Singh*

Valuations matter. Nobody knows. Structure beats activity.

Because the future is uncertain, focus on what today's price implies about a company's growth and profitability. Understand the business and its sector to ascertain what is conservative and what is aggressive on these metrics, then use those assumptions to produce a band of values.

The daily discipline is simple. Buy when the price falls to the lower end of that band, sell when it climbs to the upper end. When the price sits closer to neither end, which inherently happens most of the time, you have to wait. That is the toughest part.

This structure improves the odds of getting lucky without the need for precise forecasting.



DSP

Source: Abhishek Singh, DSP Mutual Fund

Valuing Assets – *Rajeev Thakkar*

1. Does it generate cash flow?

Stocks & Bonds

The mathematics to value these were taught in high school. It is an exercise in calculation.

$$A = P(1+r)^n$$

As long as 3 variables are known, the 4th is a logical output.

2. No (Gold, Art, Crypto)

Price agreed, not intrinsic cash flow

Beauty is in the eye of the beholder. These assets do not yield cash; their “value” is merely the price a buyer and seller agree upon. The process shifts from valuation to behavioral forecasting.

The framework begins with a logical simplification: does the asset generate cash? If it does not, like gold, crypto, or art, you are not calculating intrinsic value; you are simply hoping a buyer will agree to a higher price in the future. However, if the asset does generate cash, the valuation process is stripped of its mystique. It relies entirely on the compound interest formula taught in high school. If you can define the future amount, the time horizon, and your desired rate of return, the present value is just a mathematical output.

DSP

Source: Rajeev Thakkar, PPFAS Mutual Fund

Bonds Vs. Stocks: The Estimation Problem

Variable	Bonds (Relatively Simple)	Stocks (Most Investment Assets)
Future Amount - A	**Defined**	**Unknown**
Years - n	**Defined**	**Unknown**
Rate - r	Decided by Investor	Decided by Investor
Process	Calculation of Present Value (P)	Estimation of Future Cash Flows

The math is high-school arithmetic. The edge is in the humility and quality of estimation.

While the mathematics for valuing bonds and stocks are identical, the certainty of the inputs differs wildly. A bond provides defined cash flows. The dates and amounts are locked in. The investor only needs to plug in their required yield. A stock, however, is a bond with an unknown coupon and an undefined maturity. To value a business, an investor must attempt to turn a stock into a bond by estimating those future cash flows. The math remains simple; it is the estimation that tests the practitioner.

Source: Rajeev Thakkar, PPFAS Mutual Fund

The Sanity Check: Anchoring Reality

Estimating Cashflows Is Not Simple

Estimating for utilities is easier than for AI or Biotech.
High predictability = higher confidence.

Sanity Check

Trees do not grow to the sky.
Projections must mirror achieved reality. Beware of projecting one-off successes as a permanent feature (every movie released is not Baahubali or Dhurandhar)

Integrity Filter

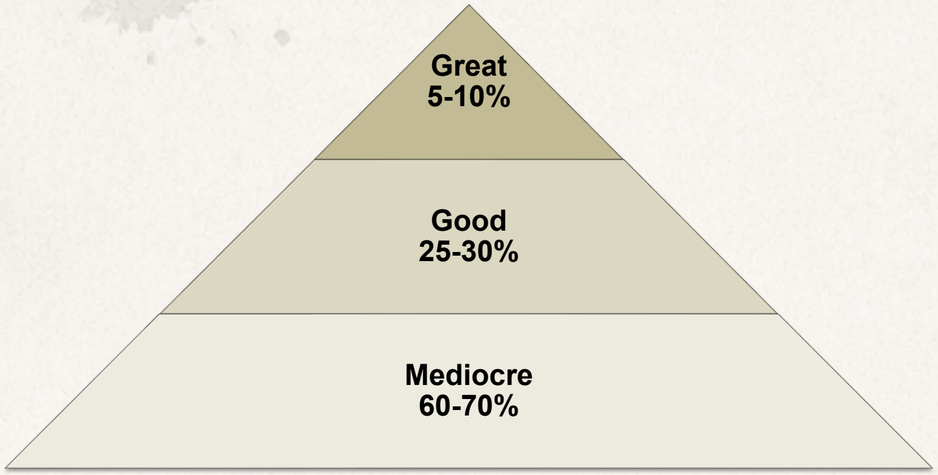
Do not invest in companies run by bad people or invest in sectors which barely earn profits.

Because valuing a stock requires predicting the future, the estimates must be anchored in reality. A strict sanity check should be done to these projections. Estimating cash flows for a utility company is an exercise in probability; estimating them for a biotech startup is an exercise in hope. The most reliable estimates are those that closely resemble what the business is already achieving today. Above all, models must account for human nature. Trees don't grow to the sky, one-off successes are rarely permanent, and no mathematical formula can protect an investor from bad management.

Source: Rajeev Thakkar, PPFAS Mutual Fund

G2G Framework (Good to Great) – *Harish Krishnan*

There are few exceptional companies in every field



In every sector, overwhelmingly majority of companies are mediocre companies, while one can have good investment outcomes, they tend to be less repeatable and require very high turnover.

Few companies end up being good and even fewer end up being great. Even in a sector, which has a terrible track record of being very cyclical, there does emerge some differentiated magic teams that can create outsized value

What makes great companies great? It's all in the culture

1. Customer-Obsessed DNA
The firm's identity is built around the customer, not the competition. Every decision is filtered through the lens of customer value creation.

2. First-Principles Thinking
Doing things differently, not just better. Questions assumptions; builds solutions from scratch rather than copying industry playbooks.

3. Attracting Exceptional Talent
Draws people with a zeal to do the impossible. The talent density flywheel, great people attract more great people becomes self-reinforcing.

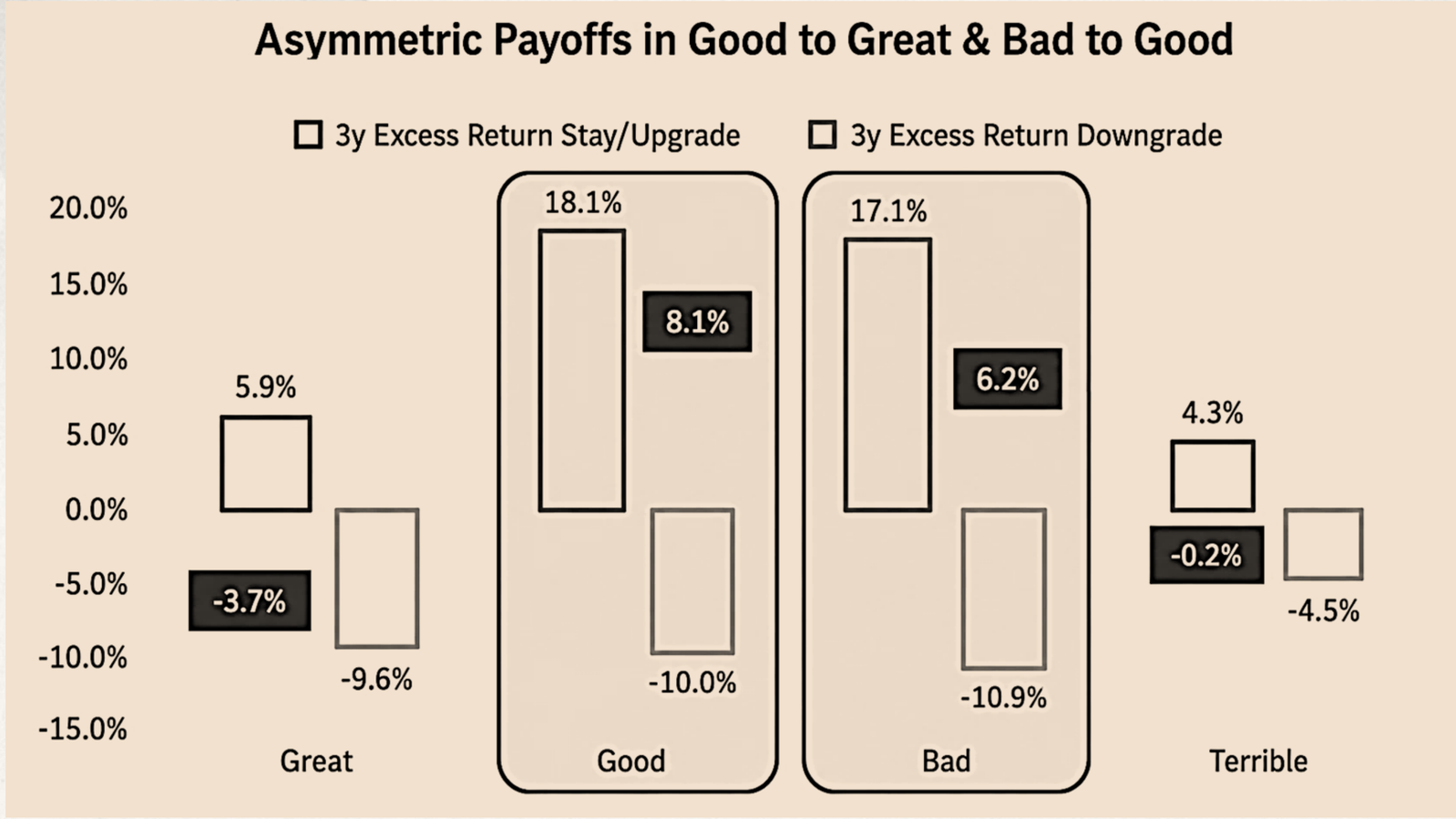
4. Differentiated Technology
Uses technology to pioneer new TAM, not just optimise existing markets. Technology is a strategic weapon, not an operational tool.

5. Value Lies in Scarcity
The harder it is for others to replicate, the more invaluable it becomes. True moats are built on what cannot easily be imitated or bought.

6. Competitors Can Discuss, Not Replicate
The traits are openly admired in industry boardrooms, yet execution remains elusive. The gap between knowing and doing is where the moat lives.

DSP

Market Reward Companies Undergoing Transformation



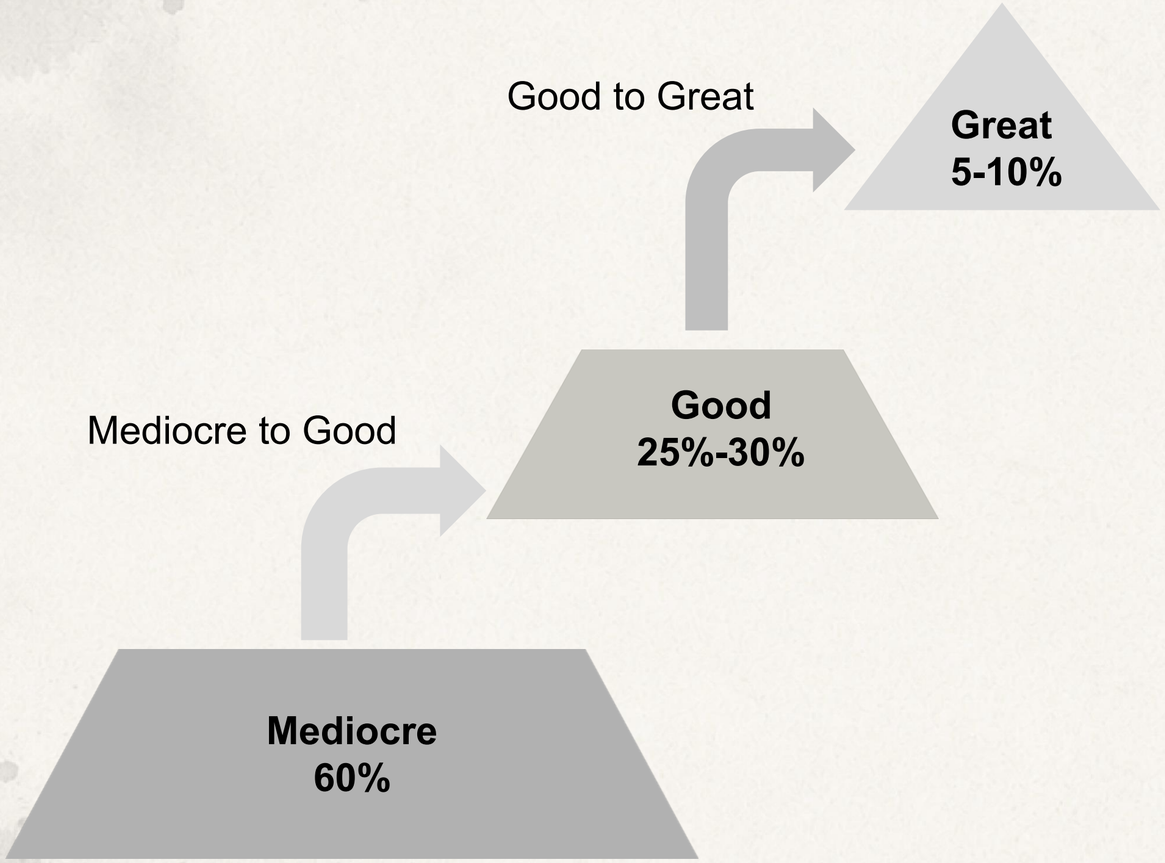
But is it rewarding to back great companies?

Probabilistic payoff is not as great. From 2001–2026, analysis of the Top 500 companies shows that “greatness” is priced in. The asymmetric payoff comes from identifying good companies becoming great or bad companies becoming good.

Markets reward not so much a strategy that focuses on a great company remaining great, but the odds of creating higher alpha improve as one identifies the journey of a good company becoming great or a bad company becoming good.

Excess return study basis transition matrix of ROE and median 3 year returns among Top 500 companies from 2001 to 2025, Top decile ROE companies identified as ‘Great’, D2 to D4 identified as ‘Good’, D6 to D8 as ‘Bad’ and D6 to D8 as ‘Terrible’ for this analysis. Source: ABSL AMC Research

Markets Reward The Journey, Not The Destination



Hallmarks of a Good-to-Great company:

- Customer obsessed, Value chain dominance, Sets the tone for Industry.
- Problem first mindset.
- Exceptional reinvestment engine: 15-18% incremental capital and ability to recreate the current company every 4-5 years.

Hallmarks of a Mediocre-to-Good company:

Quality validated by outcomes.

- Relevant market presence
- Cash-flow independent of market moods
- Above median economics

Superior growth, margins, cash generation or ROIC sustained over a 3-5 year cycle.

DSP

Source: Harish Krishnan, Aditya Birla Sun Life AMC Ltd. The views expressed are solely for the information and understanding of the intended recipients and do not constitute a recommendation. Aditya Birla Sun Life AMC Ltd (“ABSLAMC”)/Aditya Birla Sun Life Mutual Fund is not guaranteeing/offering/communicating any indicative yield/returns on investments.

What Is Today's Price Asking – *Ramneek Kundra*

I don't start a valuation to find an answer. I start it to find a disagreement with the price.

The traditional approach to valuation compares a stock's current multiple to its own history and to its peers. There's nothing wrong with this, but it isn't how I approach.

My central question isn't *what will this company do?* It's *what is today's price already assuming?* Rather than building a model to arrive at a price target, I work backwards: given the current market cap, what growth rate must this business achieve to justify it?

Then I ask whether that assumption is reasonable?

At its core, a stock is simply a claim on future cash flows. Today's price is the market's best guess at what those cash flows will be worth.

Once I identify the growth expectations embedded in a stock's current price, I test them across three scenarios - a Bull Case, a Base Case, and a Bear Case.

This range of outcomes replaces false precision with honest uncertainty.

The goal, however, isn't just to find the right price. It's to find the *discount to the right price.* No one knows the true intrinsic value of a business and that uncertainty is precisely why **Margin of Safety** matters. I only buy when a stock trades at a considerable discount to my Base Case. Even if the Bull Case alone justifies the current price, I don't act.

There is no urgency. If a great business isn't available at a sufficient margin of safety, the right move is to do nothing and wait.

DSP

Source: Ramneek Kundra, DSP Pension Fund Managers Private Ltd

What Is Today's Price Asking Of Nvidia?

I don't start a valuation to find an answer. ***I start it to find a disagreement with the price.***

THE ARITHMETIC

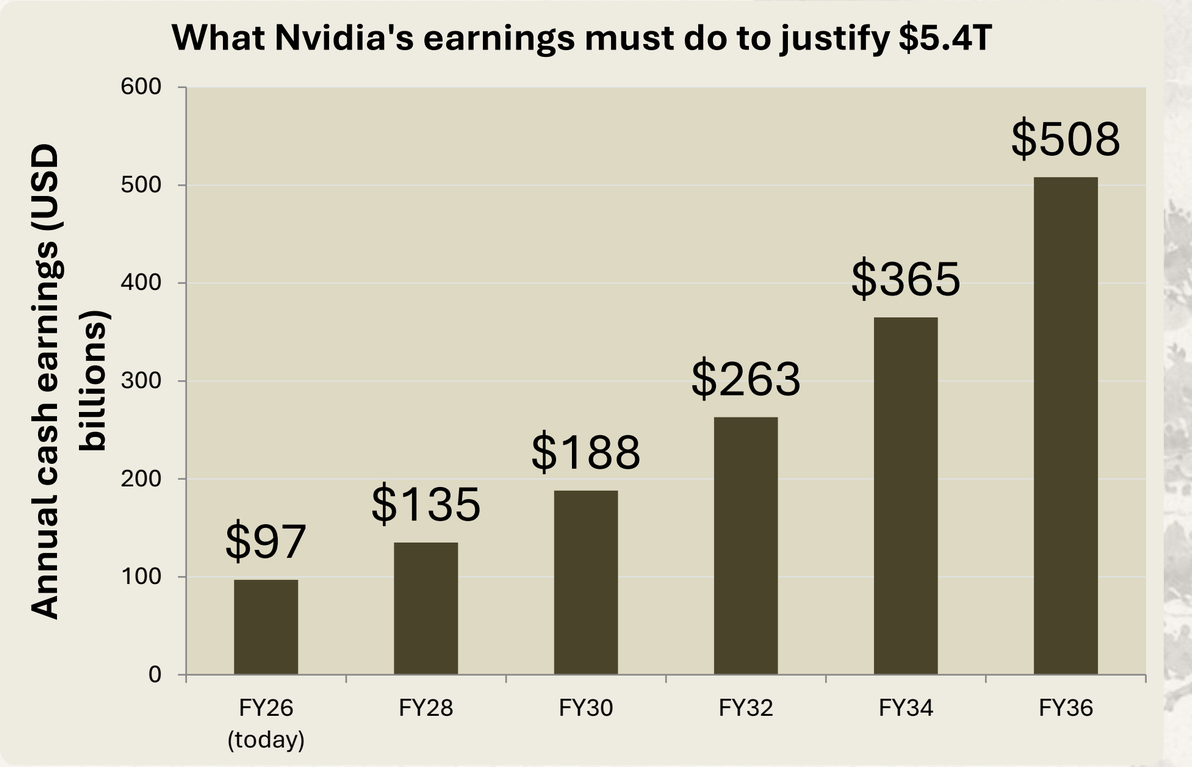
A stock is a claim on future cash. Today's price is what the market thinks that cash will be worth.

Nvidia today:

- Market cap: $5.4 trillion
- Free Cash Flow (FY26): $97 billion
- Revenue (FY26): $216 billion

For $5.4T to make sense, Nvidia's free cash flow must grow at **~18% per year for 10 years** from $97B to roughly **$500B per year** by 2036. If this happens, and the multiple halves from the current 56x to 28x, we make ~11% USD returns (assuming no dilution). Pretty good, right?!

But is this a possible outcome? It is. Would you invest on the probability of this outcome? Too tough to answer. I probably won't.



FOR CONTEXT

Total global data center capex today is roughly **$600 billion,** money all hyperscalers and enterprises combined spend in a year.
At today's price, the market is asking you to underwrite Nvidia **single-handedly generating more cash than today's entire global data center economy.**
Apple compounded FCF at ~23% over 2010–2020, but did so off a $10B starting base. Nvidia would need to do nearly that rate off a base 10x larger.

DSP

Source: Ramneek Kundra, DSP Pension Fund Managers Private Ltd

Many Probable Futures! What Would I Pay?

BULL

Cash earnings grow **18%/yr for 10 yrs**

$5.2T

vs today's $5.4T price: **-3%**

Everything works. AI capex sustains. Margins hold. Competition fails.

BASE

Cash earnings grow **12%/yr for 10 yrs**

$3.3T

vs today's $5.4T price: **-39%**

Sensible. Growth normalises. Margins compress. Cycle returns by year 5.

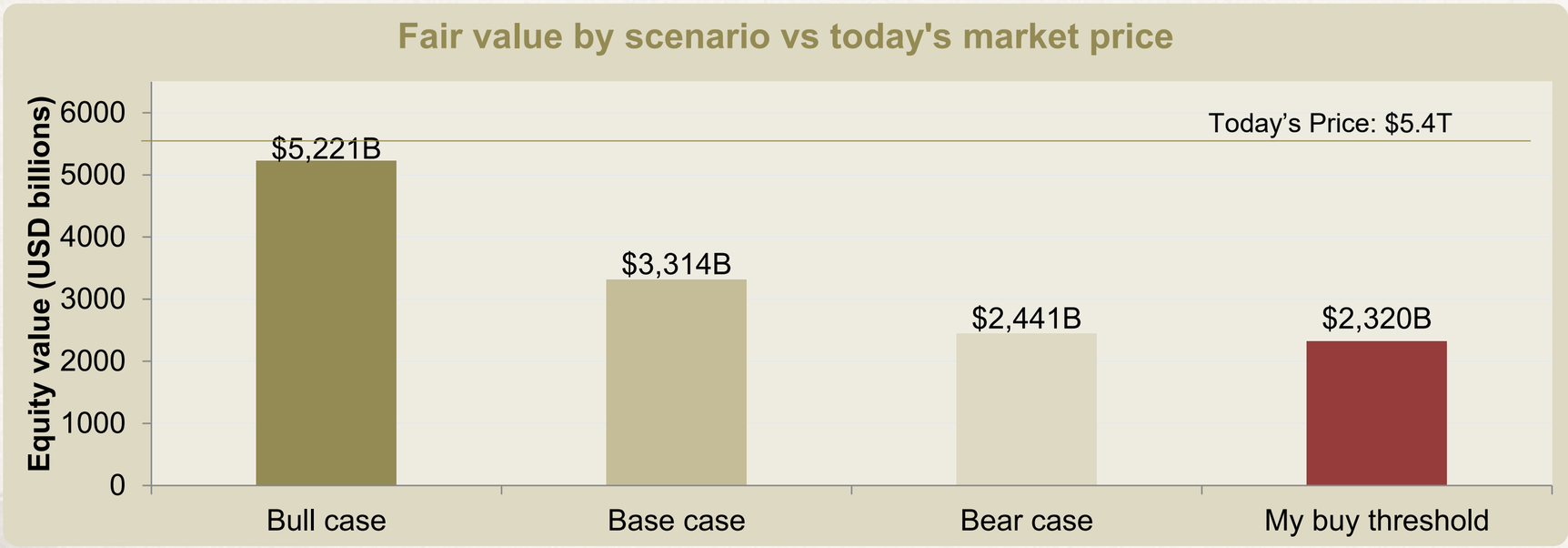
BEAR

Cash earnings grow **8%/yr for 10 yrs**

$2.4T

vs today's $5.4T price: **-55%**

Semis revert to type. Custom silicon wins share. Capex digestion hits.



THE DECISION

Even my bull case **barely justifies today's price.**

My base case says the stock is **39% too expensive.**

To act, I'd need a 30% margin of safety on my base case, a buy threshold of **~$2.3T,** or a **57% drawdown** from here. I may also buy if I believe that market's growth projections are too low.

Today, I do nothing.

DSP

Source: Ramneek Kundra, DSP Pension Fund Managers Private Ltd

Equity Valuation – The Future Is Always Right – *Raunak Onkar*

Ask a business owner / manager about the future of their business:

An honest answer would be – "*I don't know, but hopefully better.*"

- **In an ideal world – DCF (Discounted Cash Flow valuation model) would be enough**

  - We will know all future cash flows of the business
  - We will know what discount rate to use
  - We will know the long range terminal growth rate of the business

- **Sadly, we don't live in an ideal world.**

  - Every input modified a little bit can give you the answer you want
  - The high accuracy of the answer doesn't reflect reality

The Future is always right because the present has no idea what's going to happen, only the future does

DSP

Source: Raunak Onkar, PPFAS Mutual Fund

Valuation Is About Estimation & Not Accuracy

We value what we can see & imagine

- Reverse DCF = What expectations are factored into the current price

(Source: Expectations Investing by Michael Mauboussin & Alfred Rappaport)

We have to understand the business well enough to know how probable it is to achieve the implied growth rate

Relative Valuation

- Similar businesses valued based on Earnings Multiples (P/E) & Cash Flow Multiples (P/FCF, P/OCF) measuring the earnings power of the business
  (Benjamin Graham / Warren Buffett Approach)
- Similar metrics relative to the own history of the business ***(10 years trend or longer)***

Traditional Valuation

- Value all assets of the business and compare it to the market price
  (Price to Book Value or Price to Tangible Book Value)
- Needs a certain type of asset heavy business. Hard to find today.

Moving Beyond Shorthand Multiples – *Bhavin Gandhi*

Relative multiples capture today's price but mask cycle dynamics. Process-driven investing must flip the question:
What must the business deliver to justify this price?

The Incompleteness of Relative Valuation:
- PE, EV/EBITDA, and PB are simple and easily communicated, but fundamentally incomplete.
- A high multiple doesn't automatically mean expensive; a low multiple isn't a guarantee of value.

Practitioner's Pivot:
Value relies on 4 dynamic variables across cycles:
- Cashflow,
- Growth,
- Capital Returns,
- Cost of Capital

The Expectations Framework (Inspired by Alfred Rappaport):
- **The Shift:** Do not look at whether a stock is historically cheap. Calculate what expectations are embedded in the price.
- **The Cycle Lens:** Track how these implied assumptions evolve over a **rolling 10-year period** rather than looking at a static snapshot in time.

Source: Bhavin Gandhi, DSP Mutual Fund

Practical Application – The Case Of Coromandel International

When conventional metrics signalled Coromandel as "expensive," an implied expectations framework revealed a structural drop in the required rate of return.

The Conventional Deception (FY17–FY19):

- Coromandel's PE looked materially higher than its 6-to-7-year historical average.
- Traditional frameworks wrongly concluded that market expectations had become aggressively risky.

The Implied Expectations Reality:

- Long-term growth assumptions hadn't spiked.
- Instead, the company's cost of capital had declined by roughly 200 bps. Investors paid a higher multiple because the required rate of return dropped, not due to aggressive growth pricing.

The Alpha Trigger (The 3-Condition Alignment):

- When Implied Expectations are reasonable + Near-term Forecasts leave room for upgrades + Actual Delivery provides an earnings surprise = Alpha is unlocked.

The Hit Rate:

- Out of 8 instances where these aligned for Coromandel, 6 generated significant alpha. A 75% success rate in an industry averaging below 50%

	FY13	FY15	FY17	FY19	FY21	FY23	FY25	Latest
GSec	8.2	8.4	7.0	7.7	5.9	7.3	6.9	6.7
Beta	1.1	1.1	1.1	1.1	1.1	1.1	1.1	1.1
COE	13.5	13.8	11.5	12.7	9.8	12.1	11.3	11.1
Multiples (x)								
PE (EVOP)	8.3	12.5	16.0	17.0	14.9	12.0	25.7	16.2
PB	1.8	2.6	2.9	3.5	3.5	2.6	4.6	3.0
ROE	22%	21%	18%	21%	23%	22%	18%	19%
Implied Growth								
PE	3.3%	12.1%	11.1%	15.0%	5.6%	5.9%	21.1%	7.0%
PB	2.7%	9.6%	7.0%	12.3%	5.2%	5.4%	17.6%	7.0%
Avg	3.0%	10.8%	9.0%	13.7%	5.4%	5.7%	19.4%	7.0%
Del EPS Growt	-4.7%	8.6%	24.5%	33.5%	23.0%	-7.7%	0.0%	0.0%
Imp/Del Growth	-63.8%	125.5%	36.9%	40.8%	23.6%	-73.8%		
Margin of Safety	Positive	Negative	Positive	Positive	Positive	Positive		
`								
Exp EPS Growth	33.8%	35.2%	21.0%	16.1%	14.7%	7.4%	25.7%	20.9%
	8.8%	30.7%	42.9%	84.9%	36.7%	76.5%	75.2%	33.5%
Earnings Surprise	Negative	Negative	Positive	Positive	Positive	Negative		
2 Yr	-4.9%	0.7%	17.6%	10.7%	-2.2%	29.1%		
MOS + Surprise	0	0	1	1	1	0		

DSP

Source: Bhavin Gandhi, DSP Mutual Fund

The Importance Of Rejection Discipline

Investing is a qualitative exercise of elimination. If structural earnings growth and dividends can't underwrite the floor return, walk away.

The Anatomy of Total Shareholder Return (TSR):

TSR = Earnings Growth + Dividend Yield + Rerating/Sentiment Change

Underwriting the Bottom Line:

Rerating is treated purely as bonus upside, never the foundation. Investments are underwritten solely on earnings and dividends.

If a stock is deeply "cheap" but earnings growth + dividends fail to meet a hurdle rate, **it is rejected automatically.**

Coromandel Floor Underwriting Example:

FCF Yield: Projected to approach ~4% post-current capex program.

Earnings Growth Floor: Historical 3-year rolling profit growth ranged between 11%–18%. Even at a highly conservative **7-8% growth target**, the return profile satisfies the baseline without a single point of multiple rerating.

Source: Bhavin Gandhi, DSP Mutual Fund

Score. Value. Decide. – *Resham Jain*

SCORE.

Numbers tell you ‘what the business really is’.

18-point scorecard: our first gate.

VALUE.

Valuation is not a precise answer - it is an informed opinion.

Simple Framework: ROE + growth + cost of equity = a value range, not a magic number.

DECIDE.

The Score vs. The Story

The Score - Quantitative models set the floor and the ceiling

The Story - Earnings quality, management integrity, governance, macro context, industry cycles, and technology disruption determine where within that range the stock truly belongs

DSP

Source: Resham Jain, VVD Asset Managers

SCORE.

Company - Chambal Fertilisers & Chemicals Ltd					
Dashboard	**Colour**	**Metric**	**Threshold**	**Actual**	**Binary Score**
Growth Trend		5 Yr. Avg. Revenue Growth	>13%	12%	0
		5 Yr. Avg. EBITDA Growth	>13%	7%	0
		5 Yr. Avg. PAT Growth	>13%	23%	1
Capital Efficiency		5 Yr. Avg. ROE	>16%	21%	1
		5 Yr. Avg. ROIC	>16%	20%	1
		EBTIDA / Gross Block	>20%	28%	1
Value Addition		5 Yr. Avg. Gross Margin	>50%	39%	0
		5 Yr. Avg. EBITDA Margin	>15%	13%	0
Business Cyclicality		10 Yr. Revenue Variability	<15%	29%	0
		10 Yr. EBTIDA Variability	<30%	24%	1
Business Hygiene		5 Yr. Payout Ratio	>15%	21%	1
		5 Yr. Net Debt/ EBITDA	<3x	0.4	1
		5 Yr. Avg. Tax Rate	>20%	30%	1
Business Strength		5 Yr. Receivable days	<60 days	24	1
		5 Yr. Inventory days	<90 days	41	1
		5 Yr. Payable days	<90 days	21	1
		5 Yr. OCF/EBITDA	>60%	136%	1
Valuation		Growth, ROE, Cost of Equity	**15**	9	1
Total Score - 72.2% (13/18)			**Total**	**18**	**13**

7 FACTORS. 18 POINTS.

A structured framework to evaluate not just the numbers, but the quality, sustainability and character of a business.

Defines character :

Goes beyond financial statements to identify the underlying strengths and weaknesses of a company. It helps convert scattered data points into a clearer picture of management quality, business resilience, capital allocation and competitive positioning.

Screens ideas efficiently :

Acts as a first-level filter to separate strong businesses from weaker ones. Instead of spending equal time on every company, the framework quickly narrows the universe to businesses worth deeper attention.

Focuses research direction :

The Green / Blue / Red flag system highlights where investors should investigate further. Green flags indicate strengths, Blue flags point to areas requiring monitoring, while Red flags signal potential risks or structural concerns that demand deeper scrutiny.

Note: This is the screener, threshold may change depending on the industry one is evaluating.

For valuation, move to the next slide

DSP

Source: Resham Jain, VVD Asset Managers

VALUE.

Steady State Growth Model		High Growth Period Model		Growth Multiplier
Return on Equity (ROE)	21%	Growth Period	10	
Perpetual Growth (G)	5%	Growth Rate	14%	
Cost of Equity (Ke)	12%			
Current BVPS (Rs)	260			
Implied Dividend Payout (ROE*G)	76%			
Current EPS (BVPS*ROE)	54.6	**N Period** EPS	202	
ROE - G	16%	Perpetual Growth P/E	12	
Ke - G	7%	**N Period Price**	2373	
Constant Growth P/BV	**2.5**	**Growth P/BV**	**3.1**	**1.2**
Target Price	**640**	**Target Price**	**799**	**1.2**
Perpetual Growth P/E	**12**	**High Growth P/E**	**15**	**1.2**

Green = Values to be filled

N Period = End of Growth Period

Note: One can assume **X% (Dividend Yield)** during high growth period**.** To download the Excel, Click here.

First, imagine nothing changes. The left block turns today's ROE, growth and cost of equity into a "business as usual" P/BV and target price.

Next, imagine a strong growth phase. The middle block uses the growth-rate and years rows to show what earnings, and the target price could be after a high-growth period.

Now there are two possible futures. One steady-state price, and other high-growth price – together they create the valuation range.

The last column shows how wide that range is. The growth multiplier tells how much extra value the high-growth story adds over the steady-state case.

Numbers Set the Range.
Quality Decides the Price.

DSP

Source: Resham Jain, VVD Asset Managers

Financial Forensics: 6-step Valuation Framework – *Kuntal Shah*

A disciplined path from reported data to investment decision.

1 — Reported Data

- P&L / BS / CF
- Management commentary
- Segment disclosures

2 — Accounting Normalisation

- One-offs
- Capex split
- Leases / pensions / SBC
- Tax / WC / cyclicality

THE CRITICAL BRIDGE

3 — Economic Reality

- Normalised EBIT/EBITDA
- Owner earnings / FCF
- True invested capital

4 — Valuation Assumptions

- Growth
- Margins
- Reinvestment
- Cost of capital

5 — Intrinsic Value

- DCF / SOTP / multiples
- Bear / Base / Bull
- Margin of safety

6 — Investment Decision

- Buy / Hold / Avoid
- Position sizing
- Catalyst map

"If the accounting base is distorted, the valuation output is only a precise illusion."

Raw financial data is inherently polluted by standard accounting conventions. Before any multiples are applied or cash flows are discounted, the reported data must pass through a rigorous 'normalization' filter. This step acts as a forensic scrub, stripping away one-off gains, standardizing lease and pension treatments, and properly categorizing maintenance versus growth capital expenditures. If an investor skips this critical bridge, the resulting intrinsic value is not a reflection of economic reality; it is simply a precise illusion.

DSP

Source: Kuntal Shah, Oaklane Capital Management

Common Pitfalls

Where unnormalized accounts mislead professional investors.

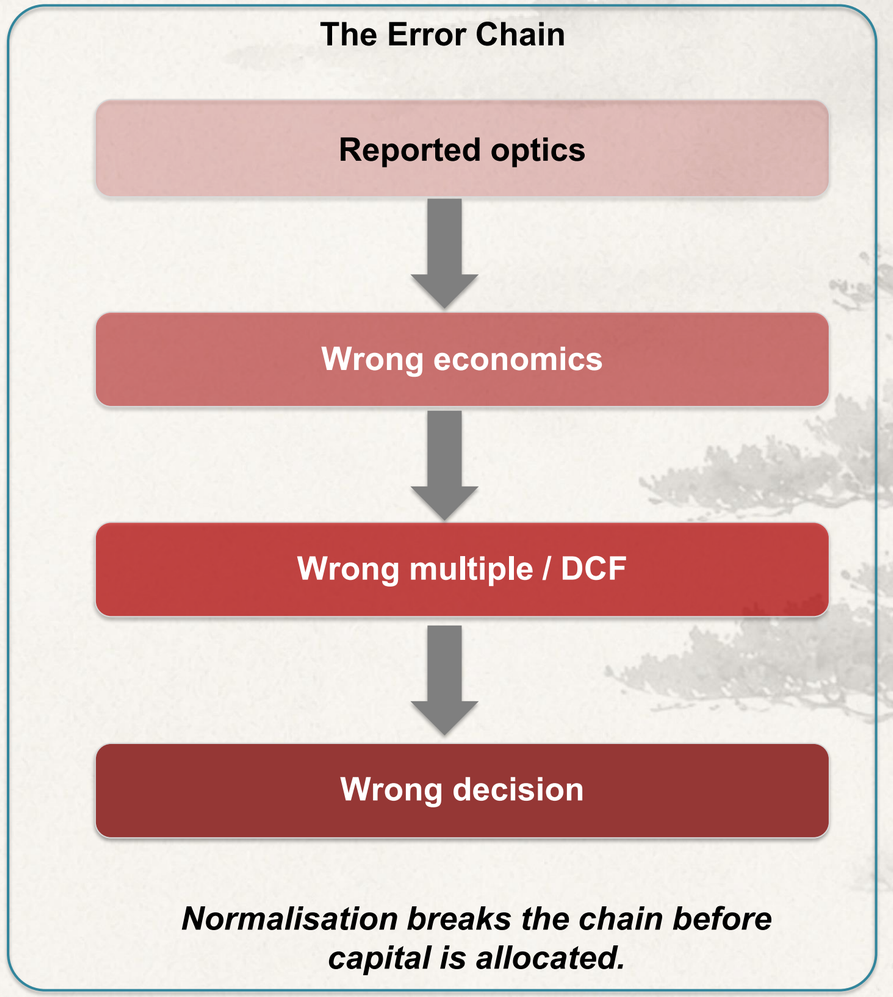
1. **Overstated profitability**
   One-offs, subsidies, capitalised costs and accounting classification flatter earnings.

2. **Understated capital intensity**
   Maintenance capex, growth spend, leases and working capital are easy to misclassify.

3. **Misread leverage**
   Off-balance sheet obligations and provisions can hide true financial risk.

4. **Distorted cash conversion**
   Timing, rebates, receivables, payables and deferred costs can overstate owner cash flow.

5. **False peer comparability**
   Different accounting choices make the same multiple mean very different things.



DSP

Source: Kuntal Shah, Oaklane Capital Management

Extractive Industry Illustration: Reserve-adjusted Valuation Changes Everything

For a Mining company - Ignoring sustaining mine economics and closure liabilities can materially overstate equity value.

! If you value the mine on reported EBITDA but ignore stripping, sustaining capex, and mine-closure obligations, you are valuing the illusion.

1

Unnormalized Reported View

Revenue	**Rs. 5,000 cr**
EBITDA	**Rs. 1,200 cr**
Net debt	**Rs. 800 cr**
Valuation method	**6.0x EV / EBITDA**
Enterprise value	**Rs. 7,200 cr**
Equity value	**Rs. 6,400 cr**
Value per share	**Rs. 320**

Optically attractive

2

Accounting Normalisation Bridge

Rs. 1,200	-Rs. 150	-Rs. 250	Rs. 800	+Rs. 600
Reported EBITDA	Remove one-off hedge gains	Reclassify stripping & sust. dev.	Normalised EBITDA	Recognize ARO* / closure debt -> Rs. 1,400 cr total

A mine is only as valuable as the cash left after sustaining extraction economics and end-of-life obligations (ARO) are recognized.

ROIC	Debt	PEER
Inflated profitability	**Misread leverage**	**False peer comparability**

3

Economic / Normalised View

Normalised EBITDA	**Rs. 800 cr**
Debt incl. closure liab.	**Rs. 1,400 cr**
Valuation method	**6.0x EV / Norm. EBITDA**
Enterprise value	**Rs. 4,800 cr**
Equity value	**Rs. 3,400 cr**
Value per share	**Rs. 170**

Economic reality

Equity value overstatement	Gap vs economic equity
Rs. 3,000 cr	**88%**

To understand the sheer magnitude of this process, consider an extractive industry example. On a reported basis, a mining asset might optically trade at a highly attractive 6.0x EV/EBITDA, yielding an equity value of Rs. 320 per share. However, once you forensically adjust the data, the economic reality shifts violently. In this illustration, the failure to normalize results in an 88% overstatement of equity value. The ore body remains the same, but normalisation reveals what the asset is truly worth to a long-term owner.

DSP

Source: Kuntal Shah, Oaklane Capital Management

Growth & Quality, One Can't Work Without The Other – *Vinit Sambre*

My investment philosophy is based on 4 parameters

1. Growth

- Large and expanding addressable market
- Scalable business model
- Visibility of growth
- Long runway for earnings compounding

2. Quality

- Sustainable competitive advantages
- Strong management integrity
- Disciplined capital allocation
- Ability to withstand industry cycles

3. ROE

- Through cycles, ROE sustainably above Cost of Equity
- Incremental capital deployed at attractive returns
- Cash generation supports growth

4. Valuations

- Looking at bands of P/E, P/B and EV/EBITDA across cycles.
- See if the current valuations are favorable and offer better margin of safety.

Cases	Elements of Valuing a business			Relationship with Value
	Growth	Quality	Valuations	
Case 1	✓	✗		Growth without quality destroys value
Case 2	✗	✓		Quality without growth limits compounding
Case 3	✓	✓	✓	Growth & Quality + reasonable valuation for superior returns

DSP

Source: Vinit Sambre, DSP Mutual Fund

How Was It Implemented?

Manufacturing Company in auto ancillary sector

All numbers are indexed to 100

Particulars	FY11	FY12	FY13	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24	CAGR FY16-FY24
Consolidated Revenue	100	120	122	122	134	**144**	**154**	162	189	182	177	241	295	450	15%
Consolidated EBITDA	100	110	114	103	114	**117**	**119**	146	177	155	166	258	341	627	23%
EBITDA Margin (%)	9%	9%	9%	8%	8%	**8%**	**7%**	8%	9%	8%	9%	10%	11%	13%	
Cons. PAT after Minority	100	111	90	66	99	**70**	**76**	107	145	127	104	156	225	296	20%
EPS after Minority	100	111	90	66	99	**70**	**76**	107	145	127	104	156	225	296	20%
Net Debt/EBITDA (x)	-0.6	-0.6	0.3	0.6	0.4	**0.4**	**-0.1**	-0.3	0.1	-0.1	-0.3	0.2	1.3	0.8	
% of revenue from Subs/JVs	46%	42%	44%	38%	37%	**38%**	**50%**	51%*	19%	17%	19%	21%	28%	53%	
ROE (%)	32%	28%	19%	13%	18%	**12%**	**11%**	13%	14%	13%	10%	15%	18%	21%	

*One of the subsidiary got merged with standalone

We bought it in low cycle in FY16-17

	What was the scenario in FY16-17		
	Growth	**Quality**	**ROE**
1	Leading manufacturer with majority market share	Tech-Partnership-led Moat	Superior cycle ROEs
2	Diversified end markets	Global technology partnerships	Margin expansion potential
3	New products and customers	Manufacturing know-how built over decades	Better asset utilization
4	Long industry runway	Strong customer relationships	Higher capital efficiency

DSP

Source: Vinit Sambre, DSP Mutual Fund

Valuing FMCG: Methods & Framework – *Tejas Shah*

No single lens is sufficient. The right method depends on the business, the cycle, and what you're trying to measure.

PRIMARY VALUATION METHODS

P/E (Price-to-Earnings)

The most widely used lens. Indian consumer names like HUL and Nestle have commanded 50–70x at peak. The critical question is **which-cycle P/E**: trailing, forward, or normalized since input cost cycles create meaningful earnings volatility.

EV/EBITDA

Useful when comparing across capital structures or where D&A is large (post-Ind AS 116). Strips out financing noise. Less common in FMCG than other sectors, most companies here are consistently PAT-generating, making P/E a more intuitive lens for practitioners.

DCF (Discounted Cash Flow)

Theoretically correct, practically tricky. FMCG businesses convert earnings to cash well, making FCF-based DCFs meaningful. The key sensitivity is the **terminal growth rate**: even a 50bps change swings intrinsic value materially.

Price-to-Sales (P/S)

Used when margins are compressed or in recovery, or for high-growth early-stage brands (D2C, new-age FMCG). Less informative for mature names.

THE 3-BUCKET FRAMEWORK

Bucket 1 - Sector Leaders

Companies that lead on at least one value-creation dimension: volume growth, market share, EBITDA growth, or RoCE. Their P/E multiples **set the sector ceiling**. The absolute level of that ceiling is a function of macro environment and institutional risk appetite, not bottom-up fundamentals.

Bucket 2 - High-Quality Compounders with Cyclical Gaps

Strong brands, healthy balance sheets, competitive positions, but lacking the consistency of Bucket 1. They oscillate between "good to great" and "great to good" phases. Priced at a **structural discount to Bucket 1**, with the gap narrowing when leaders' growth moderates. The valuation story here is fundamentally relative.

Bucket 3 - Solid Businesses, Inconsistent Executors

Reasonable margins, clean balance sheets, adequate cash generation, but discounted for execution inconsistency and weaker positioning. Re-rating here is rarely self-generated; it requires a **sectoral tailwind or supportive macro** to do the heavy lifting.

THE TAKEAWAY

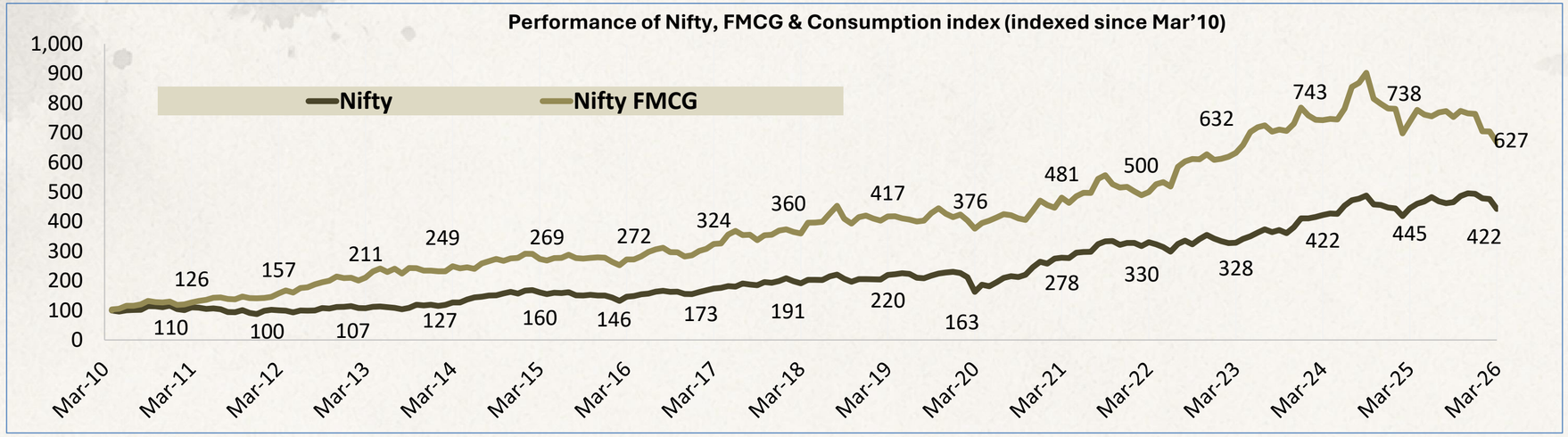
The valuation method must match the question being asked. Which bucket does this business belong to? What cycle are we in? Only then does a multiple become meaningful. FMCG is a sector where - Boring on Sunny Days, Valuable in Storms !

DSP

Source: Tejas Shah, AvenusSpark Research

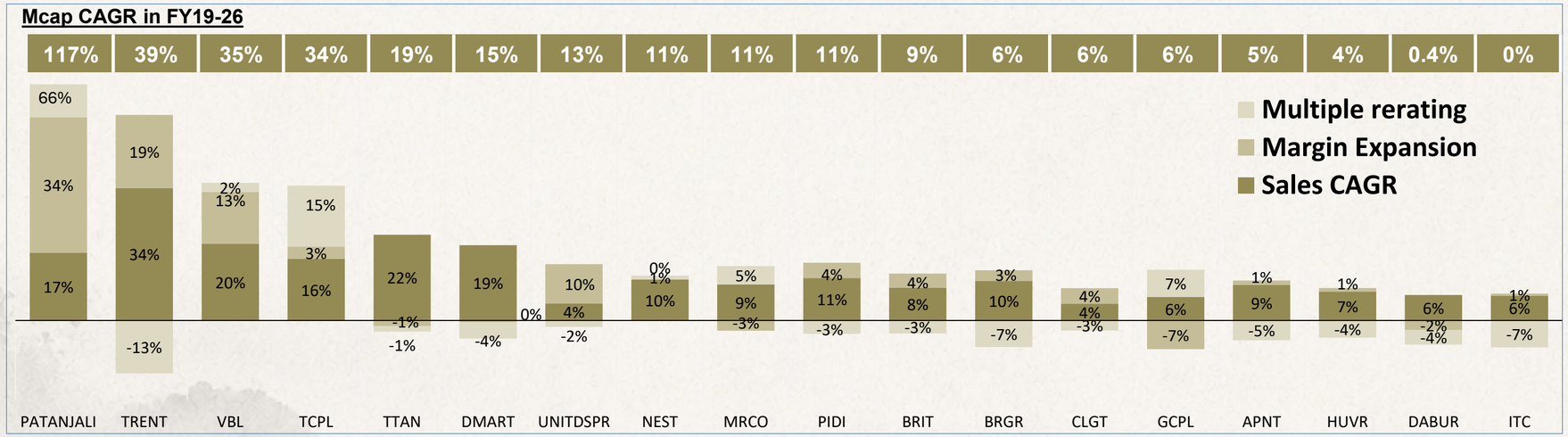
Valuing FMCG: Methods & Framework

NIFTY FMCG Index have underperformed the NIFTY Index over the last 7 years (FY19-26)



Index Perf. (%)	FY10-20 CAGR	FY19-26 CAGR	FY10-26 CAGR
Nifty	5%	10%	9%
Nifty FMCG	14%	6%	12%
Trailing P/E, x	**FY11-20 avg.**	**FY15-19 avg.**	**FY19-26 avg.**
Nifty	20	21	19
Nifty FMCG	38	40	35
premium	96%	94%	82%

12 out of 18 large cap consumption stocks suffered valuation multiple derating over the last 7 years



Mcap/PAT CAGR	FY00-10	FY10-19	FY19-26
PAT CAGR	15%	14%	10%
Mcap CAGR	12%	21%	9%
Ratio	0.8	1.5	0.9
# of stocks with derating	4	2	12

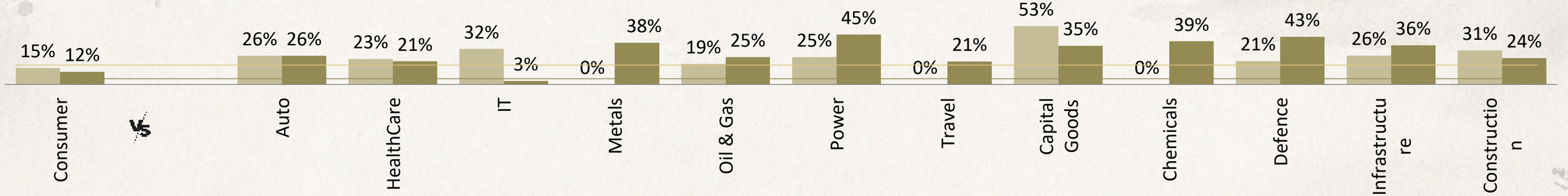
DSP

Source: Tejas Shah, AvenusSpark Research

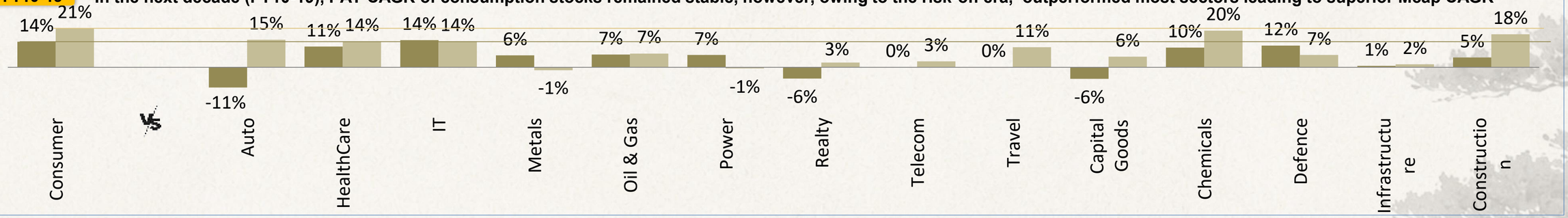
Valuing FMCG: Methods & Framework

TINA factor: Re-rating of FMCG stocks is largely a macro phenomenon, driven by the market's broader risk-on/risk-off positioning rather than sector-specific earnings performance alone

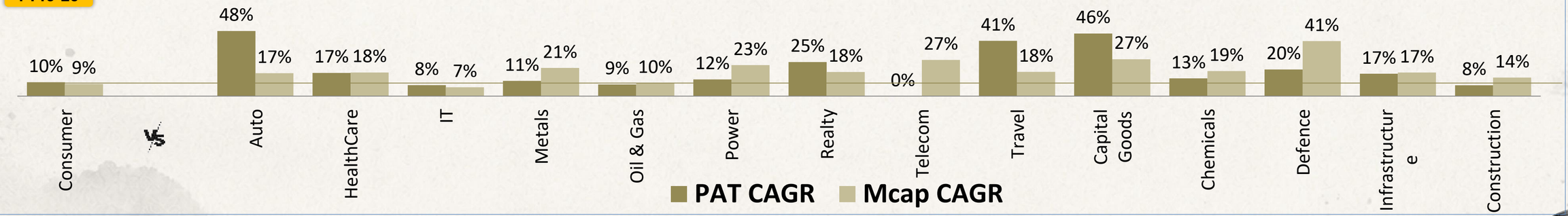
FY00-10 **Consumption stocks delivered relatively one of the lowest PAT CAGR during FY00-10, however, matching Nominal GDP growth rate - leading to lower stock price performance**



FY10-19 **In the next decade (FY10-19), PAT CAGR of consumption stocks remained stable, however, owing to the risk-off era, outperformed most sectors leading to superior Mcap CAGR**



FY19-26 **Over the last 7 years (FY19-26), consumption stocks continued to deliver stable PAT CAGR, in line with the nominal GDP growth rate, but underperformed relative to most other sectors**



DSP

Source: Tejas Shah, AvenusSpark Research

How Do We Value Equities? – *Puneet Khurana*

Equity valuation: Price the future, audit the assumptions

Often valuation is thought of as a fancy discounted cash flow / residual earnings model, but in reality, it's an exercise of connecting accounting reality with market expectations.

1. It starts with business economics
What return on capital/equity can the business earn through a cycle? Is that return above the cost of capital, and why should it persist? Real engine: pricing power, underwriting, asset turns, funding cost, float, brand, distribution, cost curve, regulation.

2. Separating growth from value creation

Growth creates value only when incremental capital earns more than its cost. High growth with weak unit economics is just value destruction.

3. Cleaning the accounting numbers

Normalize cyclicality, provisions, one-offs, working capital, leverage and accruals. For financials, book value and ROE matter only if credit costs and asset quality are honestly measured.

4. Map business dynamics and rule changes

A valuation multiple is deserved if the business model can survive changes in regulation, competition, input costs, funding access and customer behavior. Lenders: NPA recognition, liquidity rules, funding repricing and growth shifts. Consumer / Industrial: distribution shifts, import competition, commodity spreads, capacity cycles and tax/regulatory changes.

5. Assessing durability of excess returns

Despite what news/media says, the most important assumption is not next year's earnings. It is how long excess returns survive before competition, regulation, credit or capital intensity impact it negatively.

6. Reverse-engineering the price

A multiple is a compressed DCF with hidden assumptions. Ask what growth, margin, ROE/ROIC, credit cost and terminal excess returns are already implied in today's price.

Core equation

Value = capital employed + present value of future excess returns
For a financial company:
Intrinsic (Deserved) P/B = (Sustainable ROE - Growth) / (Cost of Equity - Growth)
But the formula is not the true answer. It is just a way to expose the assumptions in price.

Bottom line

The edge is rarely in the spreadsheet. It is in the judgement about which assumptions can survive.

Business economics is the bridge between accounting and valuation. The same ROE can deserve very different P/B multiples depending on how it is earned, how it is funded and what can break it.

Left-to-right flow: Reported Numbers; Business economics; Regime Changes; Excess Return Durability; Market-Implied Assumptions; Decision

DSP

Source: Puneet Khurana, Stoic Investment Managers

Illustrative Valuation Of A Housing-finance Company Through Residual Income

Latest primary disclosures for a real housing-finance company

Variable	Current fact	Why it matters
Price / book	0.68x	Market is valuing equity below accounting book
ROE	13.00%	Just about the cost of equity
ROA	3.00%	Healthy profitability for a lender
Loan book growth	9.60%	Moderate balance-sheet growth
Disbursement growth	26.30%	Origination momentum returning, with an increasing trend
GNPA / NNPA	2.55% / 1.17%	Credit repair is visible in reported numbers
Reported credit cost	-0.20%	Recoveries / provision writebacks helped earnings
NIM / spread	5.4% / 3.3%	Funding and pricing are still central risks

Step 1: What does the market price imply?

Assumptions and facts: Cost of equity: 13%; Sustainable growth: 6% to 8%; Current P/B: 0.68x; Book equity: Rs 3658 crores; Market value at 0.68x book: About Rs 2487 crores.

ROE = growth + P/B x (cost of equity - growth)
At 6% growth: approx 10.8%. At 8% growth: approx 11.4%.

At 0.68x PB, the market is not saying "cheap." It is saying current ROE is not sustainable and will fade materially.

Sustainable ROE	Growth 6%	Growth 8%	Interpretation
10%	0.57x	0.40x	Current valuation is not cheap if ROE fades hard
11%	0.71x	0.60x	Broadly near today's price
13%	1.00x	1.00x	If current ROE persists, the intrinsic-to-market valuation gap opens
15%	1.29x	1.40x	Strong rerating case, but the burden of proof of better economics is with us

Step 2: What the valuation range implies for return

If fair P/B is 0.85x: Upside about 25%, before adding book-value growth or dividends.

If fair P/B is 1.00x: Upside about 47%.

If fair P/B is 0.57x: Downside is about 16%.

At 0.68x P/B, the market is broadly pricing an 11% sustainable ROE business, not a 13-15% ROE business. The same stock can be cheap, fair or expensive depending on whether sustainable ROE is 10%, 11%, 13% or 15%.

DSP

Source: Puneet Khurana, Stoic Investment Managers

What Can Move ROE? Always Invert The Valuation Answer

Step 3: What can move ROE?

Driver change	Approximate annual PAT impact	ROE impact	Why it matters
Reported credit cost normalizes from -0.2% to +0.3% on Rs 15880 crores loan book	Approx Rs 60 crores after tax	ROE falls from 13.0% to about 10.8%	Almost exactly the ROE level implied by current price
Spread compresses by 20 bps on loan book	Approx Rs 24 crores after tax	ROE falls by about 0.7 percentage points	Cost of funding can quietly consume valuation upside
Loan book grows 10% with stable ROE	Earnings and net worth grow over time	Supports sustained ROE if credit quality holds	Return can come from both book-value growth and possible P/B rerating
GNPA / Stage-2 assets rise	Not immediately visible in PAT	P/B multiple may fall before ROE falls	Asset quality often affects valuation before it affects earnings

The key calculation: a 50-bps credit-cost normalization can turn a 13% ROE story into an 11% ROE story. A low P/B is not enough; one must underwrite credit durability.

Step 4: The key question

Can this lender sustain around 13% ROE while growing the book high-single-digit or better, without credit cost and spread normalizing against it? If yes, fair P/B moves closer to 1.0x. If no, 0.68x P/B may be fair.

For a lender, ROE is not one variable. It is a stack of spreads/NIM x leverage x credit discipline x operating efficiency x growth quality.

Step 5: What must be underwritten?

Funding model: Wholesale borrowing, bank lines, deposits, securitization and ALM determine whether spreads survive a rate cycle.
Origination model: Direct sourcing, branch vintage, geography and ticket size determine whether growth is repeatable.
Credit model: GNPA, NNPA, stage-2, vintage losses and write-offs tell us whether reported ROE is real.
Regime risk: Tighter NPA recognition, liquidity rules or capital requirements can change reported economics even if the customer franchise has not changed.

Regime lens and current variables

RBI regulation changed how HFCs should be evaluated. Tighter norms on HFC qualification, principal business criteria, net worth and liquidity reduced regulatory arbitrage.
Stricter asset recognition makes reported quality more reliable, so valuation should focus on GNPA, NNPA, Stage-2 assets, provision coverage and loss history, not just ROE.
Low P/B can be misleading if funding costs rise faster than lending yields and compress NIMs. Likewise, growth from riskier geographies, larger-ticket non-housing loans or self-employed borrowers can boost near-term ROE while lowering justified valuations. Recoveries and provision write-backs may also temporarily inflate sustainable profitability.

Step 6: What would change the answer?

Evidence that will support the valuation gap

GNPA / NNPA continue to decline. Stage-2 assets stay controlled. Credit cost remains near zero without masking fresh slippage. NIM stays above about 5.2% and spread above about 3.1%. Growth comes from better disbursement quality, not weaker underwriting.

Evidence that will kill the valuation gap

GNPA moves above 3.2% or stage-2 above 9%. Credit costs rise above 0.5%. Spread or NIM compresses without a funding-cost explanation.

Conclusion

Always invert: A good valuation exercise is not an intrinsic price number. It should not only tell you why you might be right, but exactly what would prove you wrong. At 0.68x book, the market implies ROE diminishes toward roughly 11%. The stock is attractive only if primary evidence shows that this fade is too pessimistic.

DSP

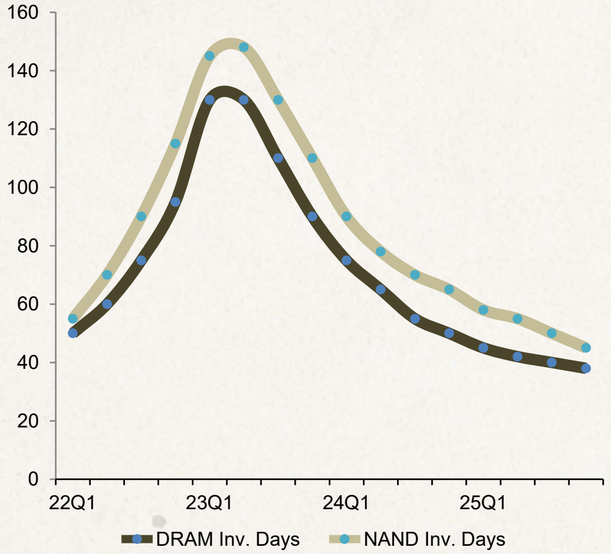
Source: Puneet Khurana, Stoic Investment Managers

Valuing Commoditized Business: Implications In The Semis Cycle – *Ankita Pathak*

Fundamental Principle: Commodities Work On One Guiding Principle, **Demand > Supply**. *Supply Can't Catchup Soon Enough, Demand is Inelastic.*
Diagnosis Using Data: Case in Point- Memory Cycle a) Memory is a commodity business: *Standardized product, undifferentiated buyers, no pricing power on a unit. Hynix vs Micron vs Samsung sell interchangeable bits* b) Commodities run on supply & demand, nothing else*: P/E, DCF, growth multiples irrelevant. Earnings are an output. The input is bit demand growth vs bit supply growth* c) Where on the cycle determines the action Inventory rising + ASP falling = late-cycle. That's when we exit.

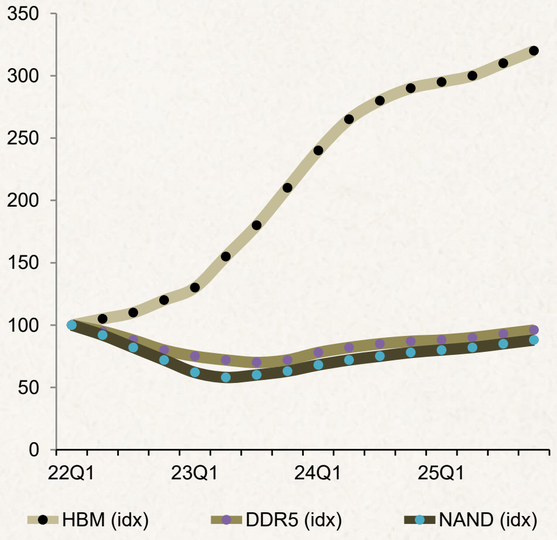
INVENTORY DAYS — DRAM & NAND

Peak glut '23Q1–Q2 → lean '25Q4. Supply discipline structural.



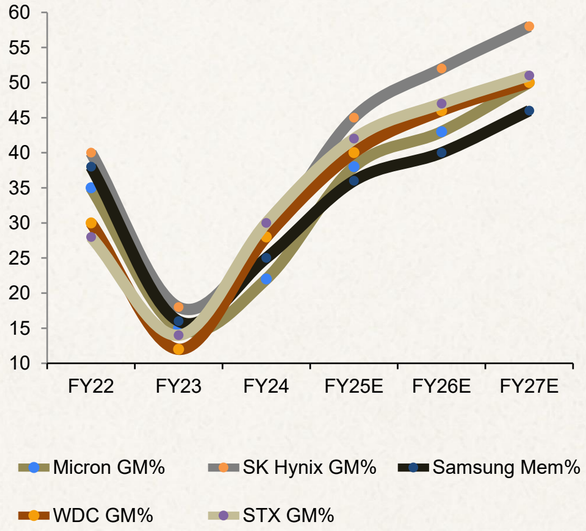
ASP INDEX — HBM vs DDR5 vs NAND (Base: 22Q1 = 100)

HBM decoupling from legacy. DDR5 & NAND in recovery.



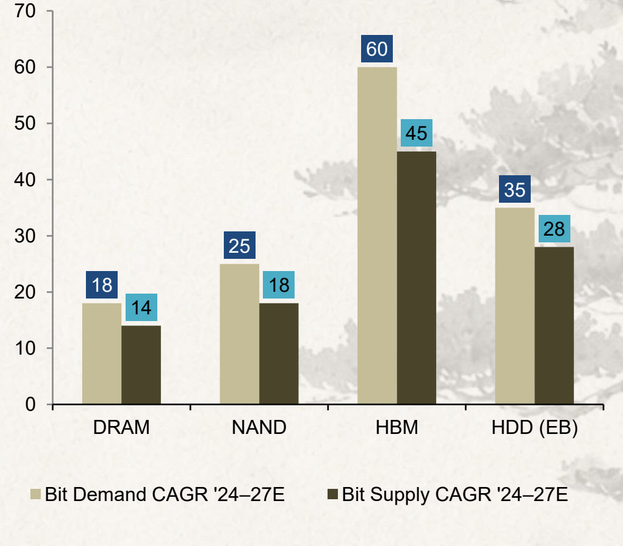
GROSS MARGIN RECOVERY

All troughed FY23. WDC/STX surprise to upside post-spinoff.



BIT DEMAND vs SUPPLY CAGR '24–'27E

Demand > supply across all segments. HBM gap most acute.



Scanning the Universe and Actually Investing: There are ~7 listed names in the space, choosing one of 7 is a function of great financials (gross margin, inventory days etc) but it's also a function of investor flows. In cyclical businesses, timing is unfortunately everything. Low valuation and turning momentum offers the highest opportunity. High valuation and rolling over momentum is a late cycle red signal with exit a necessity. We were guided by the above framework for building our memory/Korea exposure in June 2025.

DSP

Source: Ankita Pathak, Ionic Wealth

The Five-step Valuation Framework – *Jatin Khemani*

From a reported P/E to a defensible verdict - five disciplined checks that turn a number into a view.

THE DISCIPLINE BEHIND THE MULTIPLE

A valuation multiple is only the answer. The work sits in the questions that produce it. This framework turns the P/E from a shortcut into a five-step process, each step adjusts the multiple for a different distortion, and together they leave you with a number you can defend.

THE FIVE STEPS, IN SEQUENCE

01
NORMALISE
Is the EPS clean of one-offs and forward-looking?

02
CONTEXTUALISE
How does it stand against market, peers and history?

03
TEST FOR CYCLE
Is the earnings number at peak or trough of the cycle?

04
STRESS-TEST
Does the IRR survive a derated exit multiple over 3–5 years?

05
SCORE QUALITY
Is the growth backed by a healthy RoE and cash conversion?

Cross-validation

A multiple you can defend — cross-validated with P/S, P/B, EV/EBITDA and dividend yield.

The Discipline Behind the Multiple

Each step adjusts the multiple for a specific distortion. Together, they leave you with a number you can defend and a view you can act on.

Sequential flow: Normalise · Contextualise · Test for Cycle · Stress-Test Growth & Exit · Score Quality of Growth

DSP

Source: Jatin Khemani, Stalwart Advisors

Inside The Framework.

From a reported P/E to a defensible verdict - five disciplined checks that turn a number into a view.

01	**NORMALISE THE EARNINGS** Strip out one-offs and accounting noise. Build the multiple on a forward, sustainable EPS, not last year's reported number.	**LOOK FOR** Extraordinary losses · ESOP costs · FX swings · Product recalls / fires / strikes	**OUTPUT** *A reliable, forward-looking EPS*
02	**CONTEXTUALISE THE MULTIPLE** A P/E means little in isolation. Benchmark against the market (Sensex P/E, growth, RoE), peers, and the stock's own 5–10-year history.	**LOOK FOR** Premium to index justified by growth & RoE · P/E vs same-industry peers · P/E vs own history	**OUTPUT** *A relative anchor - is the premium earned?*
03	**TEST FOR CYCLE** Commodity and capex-heavy businesses look cheapest at the peak. Anchor on mid-cycle earnings or replacement cost, not spot EPS.	**LOOK FOR** Revenue tied to commodity price · Capacity utilisation · Where in the capex cycle · Asset-based valuation cross-check	**OUTPUT** *A cycle-neutralised view of P/E*
04	**STRESS-TEST GROWTH & EXIT** Project EPS 3–5 years out. Apply a conservative, de-rated exit multiple. Back out the implied IRR and compare with the cost of equity.	**LOOK FOR** Durability of growth · Realistic terminal P/E · Implied IRR vs cost of equity	**OUTPUT** *A growth-and-exit reality check*
05	**SCORE QUALITY OF GROWTH** Weight growth by RoE, cash conversion and balance sheet strength. 20% growth at 20% RoE beats 30% growth at 10% RoE.	**LOOK FOR** RoE / RoCE vs cost of capital · Cash conversion · Leverage · Working capital	**OUTPUT** *A quality multiplier on the multiple*

DSP

Source: Jatin Khemani, Stalwart Advisors

How To Value Stocks: The Three Tests Before Price – *Sahil Kapoor*

The job is not to forecast precisely. It is to reject fragile businesses, inflated earnings and prices that leave no room for error.

1. Analyze quality of businesses/assets

Demand long, uninterrupted evidence of high ROCE/ROE. The past does not predict perfectly, but fragility usually leaves a trail. Reject businesses that need constant capital infusion merely to stay relevant.

In case of Bonds, own only high quality Govt Securities or demand disproportionate upside for a barbell.

For Gold, follow the theoretical price framework.

2. Test the quality of earnings

Do not extrapolate current growth in a vacuum. Compare earnings growth with cash conversion, capital intensity and the reference class. Retained earnings must pass the $1 test: capital kept in the business should create at least $1 of value.

Look to cross one-feet hurdles. If something is too tough to estimate or needs too rosy a scenario, skip it.

3. Ascertain margin of safety

MoS is not just a low multiple. It is protected returns bought at contextual valuations. First check ROIC, ROE and margin stability. Then triangulate price versus history, sector and market.

Deploy scenario-based valuation matrix. At what growth, ROE and valuations will you get a sufficient margin of safety.

Illustrative quality screening

- Pass: ROCE 20%.16% to 22% through a down & up cycle.
- Fail: ROCE 24% to 12% while capex/sales keeps rising.
- Question: is return persistence earned or cyclical?

Earnings screen

Reported PAT +20%, CFO/PAT 50%: ***verify accruals!***

Sales +20%, ROIC 24% goes to 13%: growth may be value destructive

If growth defies base rates, demand stronger proof. Else skip it.

Illustrative MoS screen

Good business: ROE 20%, EBIT margin 18%, stable cycle record

Price: P/E below own long term 10 to 20 year median and sector peers. P/B, EV/EBITDA in bottom 33%ile of history.

Avoid: cheap multiple with structurally decaying profitability or margins compression.

DSP

Source: Sahil Kapoor, DSP Mutual Fund

How To Own Stocks: Structure, Size And Then Wait

A good valuation framework can still fail if the portfolio cannot survive bad luck, wrong timing or excess activity.

4. Diversify where the first three conditions are met

Diversification is a tool to widen MoS, not an excuse to dilute quality. Add sectors or assets only when quality, earnings and valuation have already cleared the threshold.

If you don't find enough opportunities sit in Govt Bonds or allocate to Gold.

5. Size positions by MoS and base rates

Position size should rise with valuation gap and evidence quality. Do not let a single thesis, however attractive, threaten portfolio survival. The first rule is to avoid the absorbing barrier.

6. Wait

Once quality and price are aligned, inactivity becomes a deliberate act. Sell for deterioration in business quality, capital allocation or MoS, not because the price is noisy.

Buy More of What You Understand

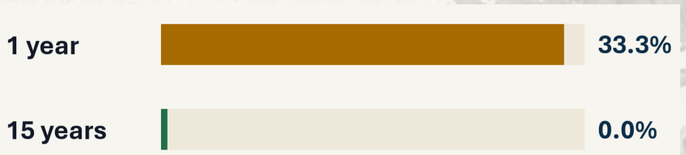
- Do not own 20 average stocks to look diversified.
- Own more of high MoS and quality businesses and assets.
- Cross-asset safety matters when equity valuation is stretched.

Sizing logic: MoS × base rates

High MoS / Strong base rates **Core position**	Low MoS / Strong base rates Watchlist, wait for price
High MoS / Weak base rates Small optionality only	**Low MoS / Weak base rates** **Avoid**

Don't Be In A Hurry

Sensex historical holding-period loss probability



DSP

Source: Sahil Kapoor, DSP Mutual Fund

How To Value Bonds

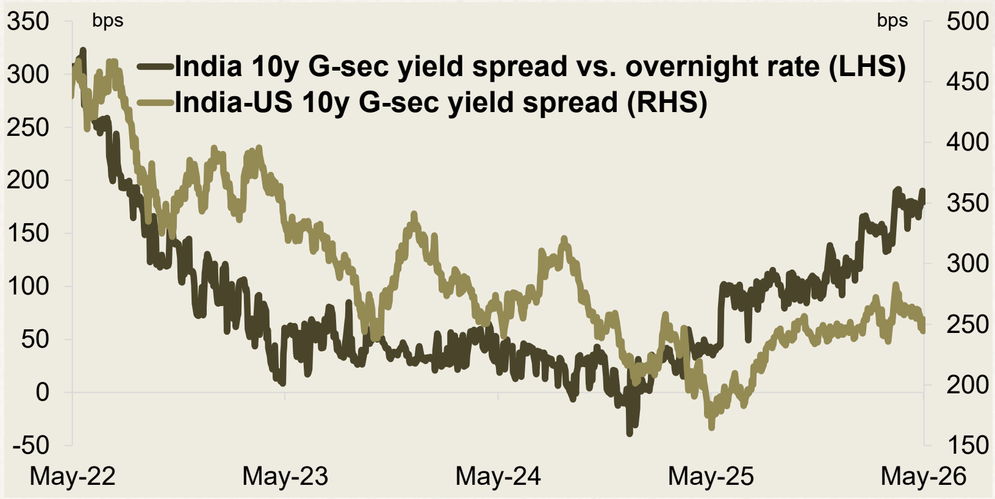
The Value And Pitfalls In Framework Building – *Suyash Choudhary*

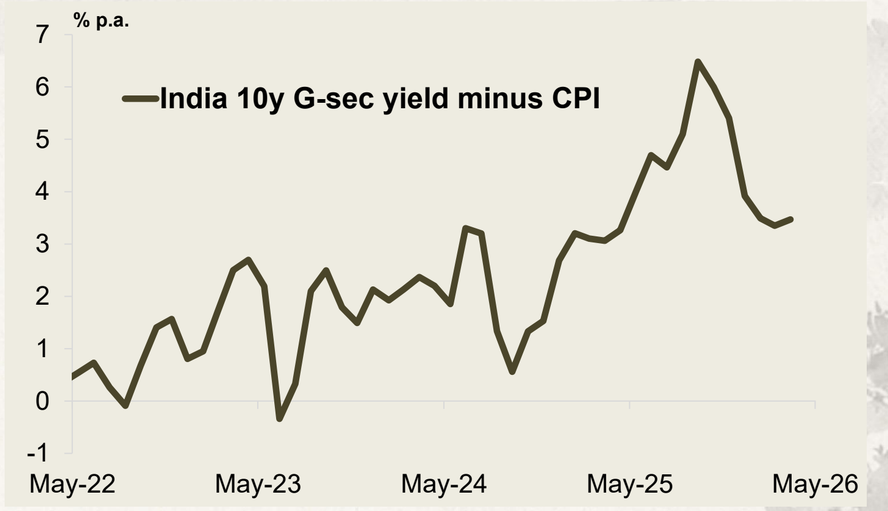
Bonds seldom follow a standardized valuation metric: term spreads, ‘real’ yields, global rate differentials have all moved about enough so as not to provide any reasonable anchor for valuation.

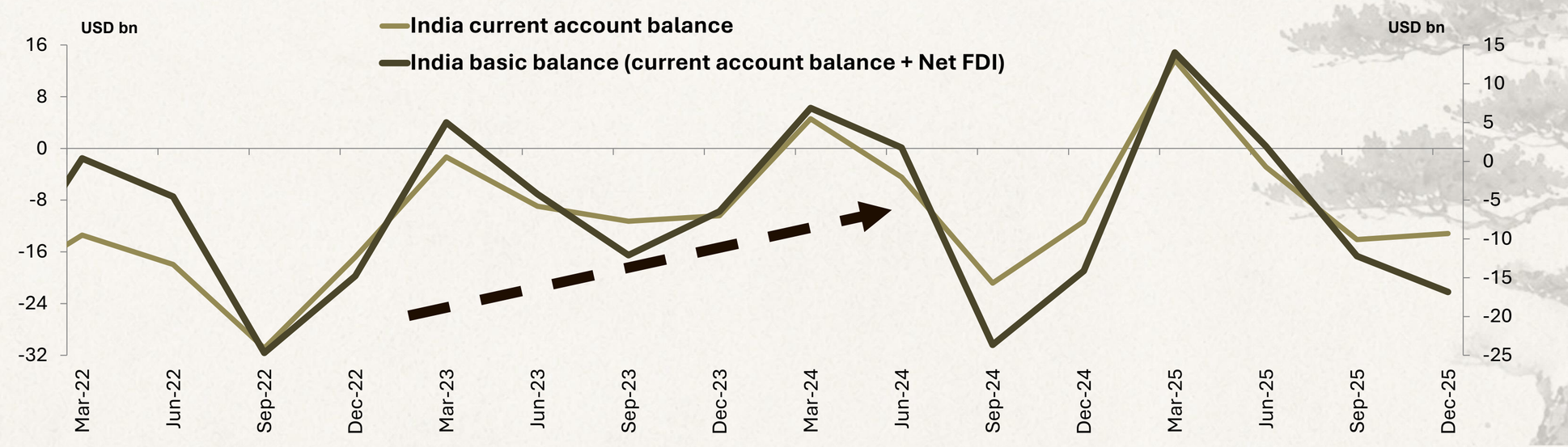
A robust framework can help identify key macro drivers that provide context to relative attractiveness of valuations.

Shelf life of framework, however, needs close monitoring.

As an example, identifying a steadily compressing current account deficit (CAD) and its implication for rates helped identify the trigger for a rate rally. However, weaker capital flows exerting pressure on balance of payment despite lower CAD limited the shelf life of the construct.







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Source: Suyash Choudhary, Bandhan Mutual Fund

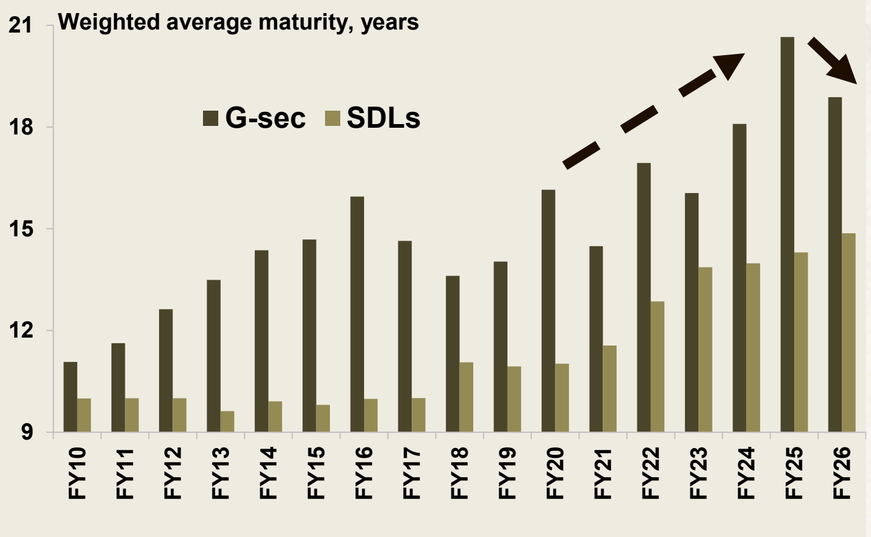
The Value And Pitfalls In Framework Building

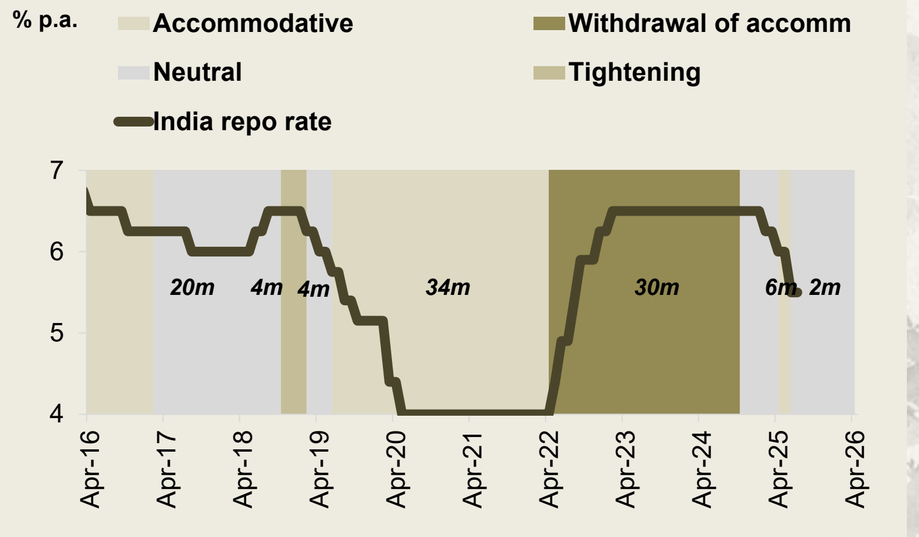
Technical factors can also stress test a framework: expansion in long end supply and RBI stance change created a period of ‘confusion’ on efficacy of the CAD framework.

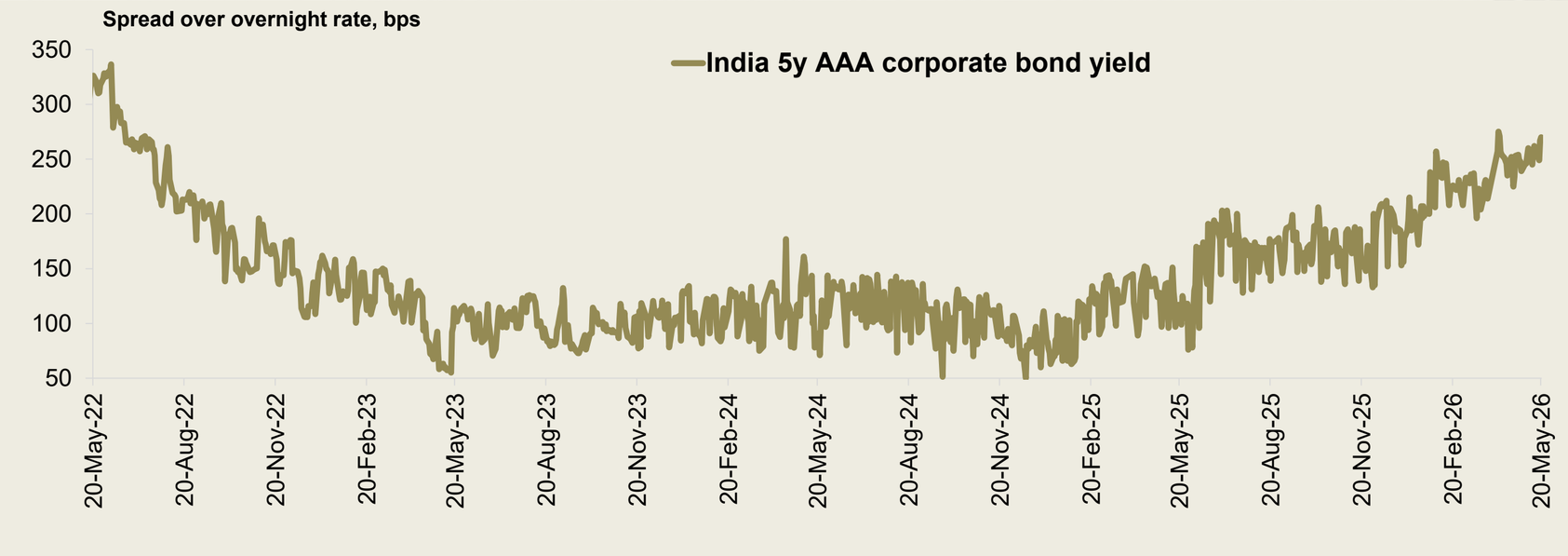
There is also risk of overweighting importance of technical factors so that required shifts in framework are delayed.

As an example, the technical trigger of reduction in long end supply and ‘lower for longer’ RBI commentary may have delayed recognition of the ‘impossible trinity’ problem.

This is being manifested in market rates almost completely losing any anchor from policy rates, despite RBI efforts.
The framework, if robust, can help identify potential turning points, including durability of evolving triggers.







DSP

Source: Suyash Choudhary, Bandhan Mutual Fund

How To Value Gold & Silver

How To Value Gold & Silver – *Sahil Kapoor*

How To Value Gold		
Total mined Gold (above-ground stock in tonnes)	*1*	2,20,765
Total mined Gold (Bn troy ounce)	*2*	7.10
US M2 Money Supply (USD Bn)	*3*	22,686.0
Value of total mined Gold per troy ounce w.r.t US M2	*4 = 3 ÷ 2*	3196
Additional EU Money Supply (taken at 50% of total) (USD Bn)	*5*	9435
Value of total mined Gold per troy ounce w.r.t EU M2	*6 = 5 ÷ 2*	1329
Final Value of total mined Gold per troy ounce	*7 = 6 + 4*	4526
Current Price Premium To Theoretical Price		**-1.3%**

Source: DSPNetra, Metals Focus, Refinitiv GFMS, US Geological Survey, World Gold Council

How To Value Silver		
Current Gold Silver Ratio **(GSR)**	*1*	60
Historical Gold to Silver Ratio	*2*	
The Roman Empire		12:1
Medival Europe		9.4:1
US Coinage Act of 1792		15:1
US Decision To Raise Gold price to $35 in 1939		98:1
Abandonment of Gold standard & aftermath		97.5:1
Average Gold to Silver Ratio in 21st Century		69:1
Assuming a Gold to Silver Ratio of 60:1	*3*	
Lower band		53
Upper band		75
Derived price range for silver based on GSR of 60	***4***	**$53 to $75**
Current Price Premium To Theoretical Price		-1.4%

Source: DSPNetra, Metals Focus, Refinitiv GFMS, US Geological Survey, World Gold Council

How To Value Gold & Silver

1. **The "Gold is Money" Premise:** The core of the valuation framework treats gold as the ultimate global monetary base or ‘money’. To find its fair value, the model takes the total money supply and divides it by the total amount of gold ever mined in human history (currently around 7.1 billion troy ounces).

2. **Anchoring on the US Dollar:** The primary metric used to represent the global monetary base is the US M2 money supply (approx. $22.7 trillion). The US dollar is used because it remains the primary reserve currency and the only legal tender seamlessly accepted and exchanged worldwide. Why not M3 or another metric? Because M3 is influenced heavily by credit. This exercise it to find the monetary value of Gold, not transaction ability.

3. **Why Other Countries' Money Supplies are Excluded:** The money supplies of countries like India, China, or Russia are not used in the calculation because their currencies are not universally accepted legal tenders. You cannot easily exchange Indian Rupees or Russian Rubles at a local cafe in Madrid or Dubai, making them invalid proxies for a *global* monetary base. At this point, there is only one true legal tender accepted widely.

4. **Why the Euro Money Supply is Included:** The Euro is included because it is the world's second-largest reserve currency, but more importantly, it serves as a conservative proxy to account for the "Eurodollar Market." The Eurodollar market consists of massive amounts of US Dollars existing outside the jurisdiction of the US Federal Reserve (estimated at roughly $15 to $17 trillion). DSP Netra conservatively adds 50% of the Eurozone money supply to account for this hidden, global dollar liquidity.

5. **Valuing Silver via the Gold/Silver Ratio:** Unlike gold, silver does not currently possess a formal monetary role (having lost it around 1970). Therefore, it cannot be valued directly against the money supply. Instead, its theoretical fair value is derived by taking the modelled fair price of gold and applying a historical Gold-to-Silver ratio, giving it a target midpoint (e.g., around $64).

Source: Pragati Agarwal, Sahil Kapoor, DSP Mutual Fund

How To Value Gold – *Kapil Gupta*

Gold is money. Value it like money – against the money supply of the reserve-currency system.

Gold is money — so value it like money
If gold is money, its value should roughly track the money supply of the reserve-currency bloc. Every other country holds either USD or gold as their reserve asset – no other currency does this. So the dollar system is the right denominator. Not other countries' money supply. Just the dollar.

Two ways to proxy the dollar system
Gold held by the US relative to the Fed balance sheet tells you how much of the Fed's balance sheet was backed by gold – historically, and where we stand today. A broader proxy is cross-border USD claims, the full US dollar credit system, of which the Eurodollar market is a significant component.

On both, gold looks undervalued
Central bank gold holdings (measured against either proxy) have dwarfed over the past four decades. The dollar system expanded. Gold did not keep pace.

Likely because the dollar itself is overvalued
The undervaluation is not just a gold story; it reflects the indiscipline built into the fiat system over 60–70 years. Foreign accumulation of US assets has kept the dollar elevated, enabling the trade deficit, low savings, and high debt. Gold priced in an overvalued dollar will look cheap.
A dollar correction, needed to fix the CAD, NIIP, and broader imbalances – is probably part of what closes this gap.

	Historical peaks		Historical averages			Recent Trend	
Metric	**Peak 1 1937 (Gold Reval.)**	**Peak 2 1980 (Gold Surge)**	**Avg 1977–83 (high era)**	**Avg 2000–19 (low era)**	**Trough**	**2019**	**2025**
World gold reserves *as % of Fed balance sheet*	194%	107%	73%	15%	5.9% *(2022)*	11%	18.6%
Fed BS peaked with Gold Reserve Act (1934) revaluation + WWII gold inflows; surged again in 1980 when gold price spiked post-Nixon. Has since collapsed as the balance sheet expanded multifold.							
World gold reserves *as % of cross-border USD claims (incl. Eurodollar)*	*n/a (pre-data)*	105%	65%	10%	5.7% *(2001)*	12%	26%
Data from 1977. The single peak maps to 1979–80 — same gold price surge. The subsequent decline reflects explosive Eurodollar system growth, not a fall in gold reserves.							
US current account deficit *as % of GDP (USD overvaluation proxy)*	—	—	0-1%	3-5%	—	2%	3.7%
Persistent deficit since the 1980s — a structural symptom of USD overvaluation driven by foreign accumulation of US assets. A correction here is likely a precondition for gold to fully close the gap.							

DSP

Source: Kapil Gupta, Nuvama Research

How To Value REITs / INVITs

DSP

How To Value REITs? – *Parth Shah*

We value a REIT based on the cash it can distribute to unitholders in the future.

Key idea: Project distributable cash flows which is Adjusted Funds from Operations (AFFO), discount them to today and add the long-term value.

1

Identify Cash Flow Metric

Use AFFO – the most representative cash flow available for distribution.

AFFO captures recurring rental income after operating expenses, interest, maintenance capex and other adjustments.

Example

FY25 AFFO (Base Year) = ₹1,000 Cr

2

Forecast AFFO

Project future AFFO by forecasting key drivers.

Key Drivers

- Rental growth
- Occupancy levels
- Lease expiries
- New properties / acquisitions
- Operating expenses
- Interest cost
- Maintenance capex

Example (₹ Cr)

Year	FY26E	FY27E	FY28E	FY29E	FY30E
AFFO	1,080	1,166	1,259	1,362	1,473

3

Discount Future AFFO

Discount each year's AFFO at the REIT's cost of capital (WACC).

Example

Year	AFFO (₹ Cr)	Discount Factor @ 8.5%	PV of AFFO (₹ Cr)
FY26E	1,080	0.922	996
FY27E	1,166	0.850	991
FY28E	1,259	0.783	986
FY29E	1,362	0.722	984
FY30E	1,473	0.666	981
PV of Explicit Period (5 yrs)			**4,938**

4

Calculate Terminal Value

Capture value of cash flows **beyond the forecast period** using Gordon Growth Model.

Example

FY31E AFFO = ₹1,598 Cr (Terminal year AFFO = FY30E AFFO × (1+g))

Assume Long-term growth (g) = 3%
WACC (r) = 8.5%

Terminal Value (TV)
= AFFO FY31 / (r – g)
= 1,598 / (0.085 – 0.03)
= ₹24,584 Cr

PV of TV = 24,584 × 0.666
= ₹16,376 Cr

5

Enterprise (Gross Asset) Value

Add PV of forecast period AFFO and PV of Terminal Value.

Example

PV of Explicit Period (5 yrs)	4,938
PV of Terminal Value	16,376

Gross Asset Value (GAV) = ₹21,314 Cr

6

Arrive at NAV per Unit

Deduct debt and other liabilities to get NAV and then divide by total units outstanding.

Example

Gross Asset Value (GAV)	21,314
(-) Net Debt	10,000
(-) Other Liabilities	1,314
Net Asset Value (NAV)	**10,000**
Units Outstanding (in Cr)	20

NAV per Unit = ₹500.00

Key Takeaway: There are a lot of 'If's' when we value a REIT, one small change and the NAV (intrinsic value) changes drastically, So, Beware!

DSP

Source: Parth Shah, DSP Mutual Fund

The Underlying Assumptions And How Dangerous Can It Be?

Underlying Assumptions and Considerations

Occupancy & Rental Growth

Strong occupancy and rent escalations drive AFFO growth.

Discount Rate (WACC)

Reflects cost of equity, cost of debt and the risk profile of the REIT. Higher WACC → lower value.

Lease Profile

Weighted average lease expiry, renewal potential and rental escalation clauses.

Property Expenses

Includes property operating expenses, repairs & maintenance and property taxes.

Leverage & Interest Cost

REITs use debt to acquire assets. Interest cost impacts AFFO and risk of refinancing.

Tax & Other Adjustments

REITs enjoy pass-through tax benefits (in many jurisdictions). Include only cash outflows.

Maintenance Capex

Recurring capex needed to maintain asset quality.

Terminal Growth (g)

Long-term sustainable growth in cash flows beyond forecast period.

Other Liabilities

Includes security deposits, payables and other obligations.

Advantages

- ✓ Captures true cash-flow profile of REITs.
- ✓ Incorporates long-term growth from rent escalations and acquisitions.
- ✓ Reflects leverage and refinancing risk.
- ✓ Widely accepted by investors and institutional analysts.

Disadvantages

- ✗ Highly sensitive to assumptions (growth, WACC, occupancy).
- ✗ Forecasting interest rates and cap rates is challenging.
- ✗ Property valuations can be cyclical and subjective.
- ✗ External shocks (economic downturn, regulation, demand shifts) can impact cash flows.

How to Interpret?

Market Price < NAV per Unit

→ REIT may be undervalued

(market pessimism / higher perceived risk)

Market Price > NAV per Unit

→ REIT may be overvalued or market pricing in future growth

DSP

Source: Parth Shah, DSP Mutual Fund

How To Value Currencies

Difficult Single Outcome Amid Dynamic, Multipolar FX Space – *Madhavi Arora*

No single model works consistently, so the best approach is usually a framework of multiple lenses, rather than one so called “correct” fair value. However, some ways in which we can view FX valuations:

1. PPP and Interest rate Parity models: Capture inflation and interest rate differentials

2. Valuation models: May not be perfect to catch turning points, but more medium-term play

REER (Real effective Exchange Rate)
BEER (Behavioral effective exchange rate)
FEER (Fundamental effective exchange rate)

Valuation metrics are less reliable for pinpointing turning points. However, they can still offer useful guidance on the rupee’s medium-term outlook. Their relevance is further amplified by the likelihood that such metrics inform RBI’s FX intervention framework as well.

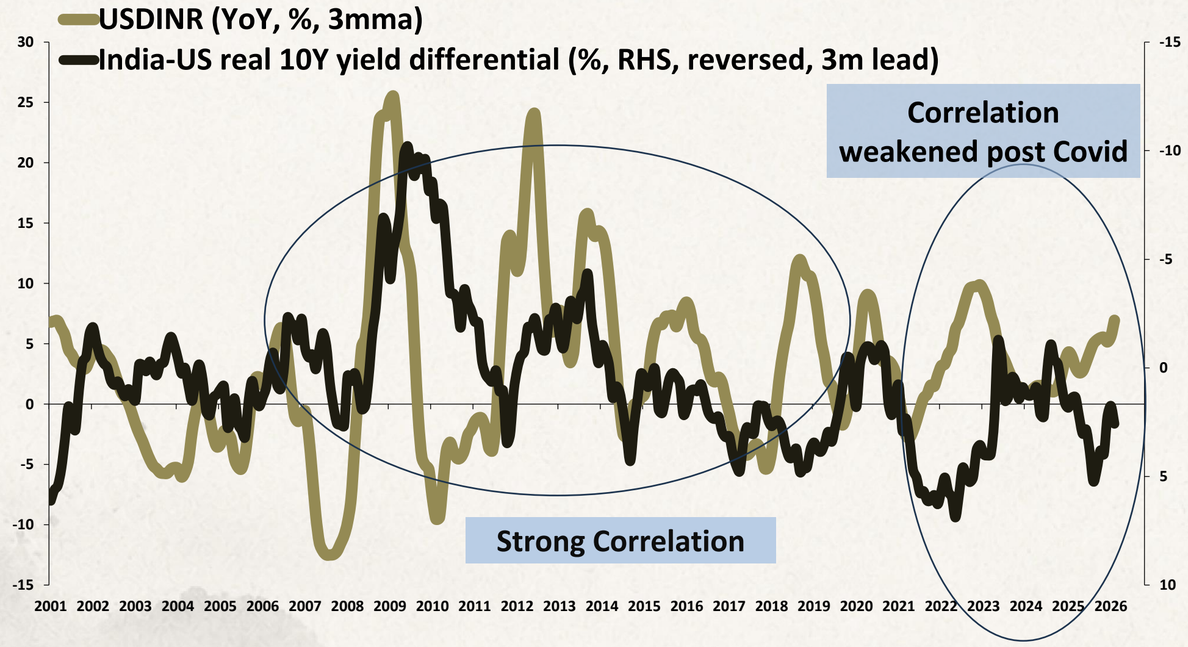
DSP

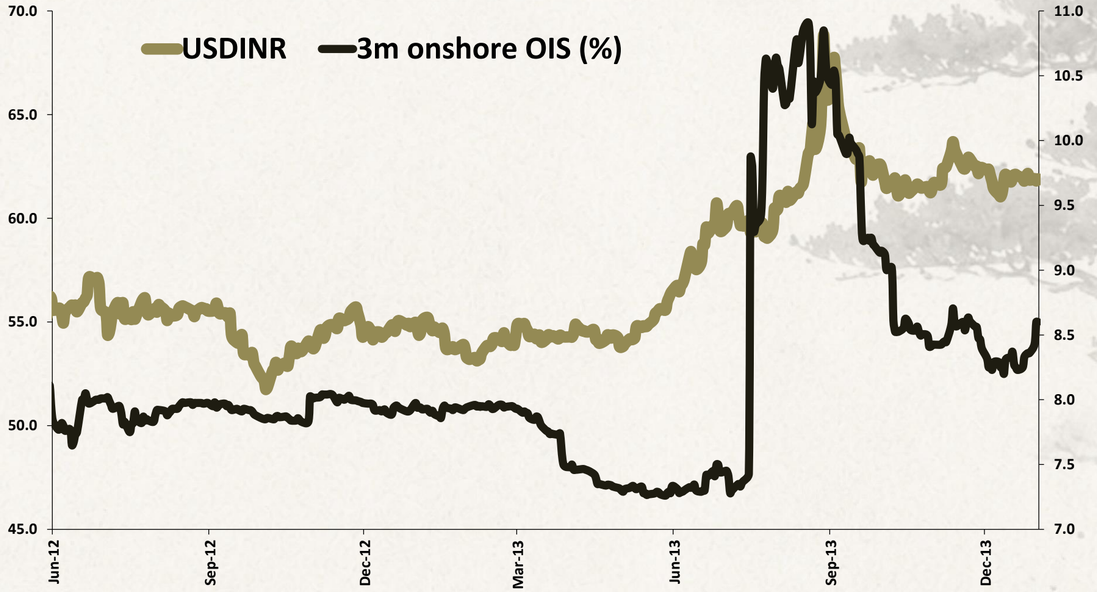
Source: Madhavi Arora, EMKAY Research

PPP And Interest Differential

- **PPP model:** The simplest long-run equilibrium anchor which largely hinges on the inflation differentials. For instance, if India inflation averages 6% and US inflation 2%, over long periods INR should depreciate ~4% annually vs USD. However, it's more a long-term anchor than something which can assess near term movements and valuations. It also lacks capturing productivity differences over the years. Over the years, the inflation differentials have narrowed slightly, depicting some domestic productivity gains.

- **Interest Rate Parity Model:** Explains near term and medium-term FX moves surprisingly well, especially in liquidity-driven cycles, helping in arbitrage and carry trades. However, in India's context, this fits more as a medium-term play than near term, given India is more equity foreign flows driven that chase growth differentials. Skewed forward premia market in India also tends to not reflect the interest rate parity efficiently.





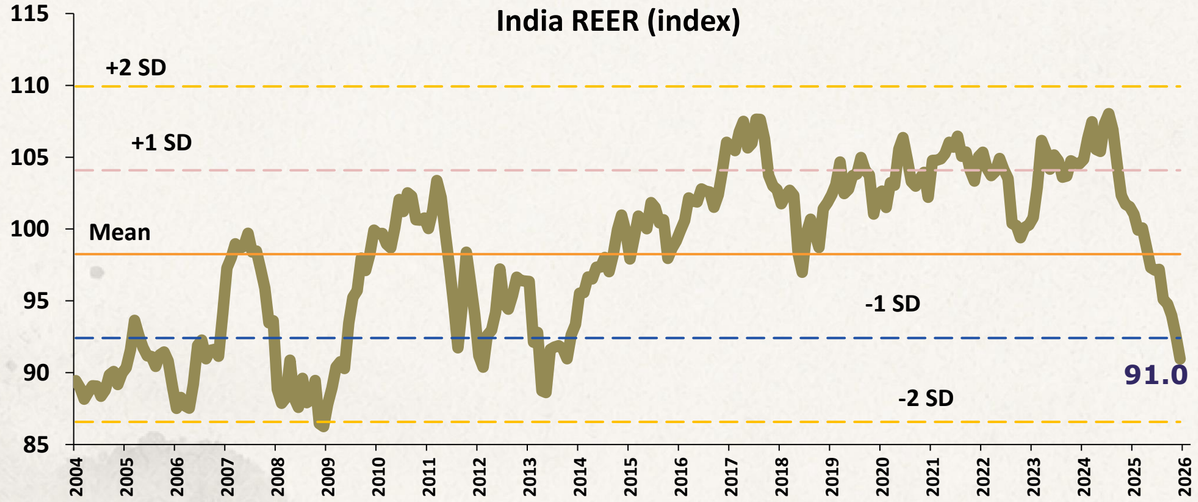
DSP

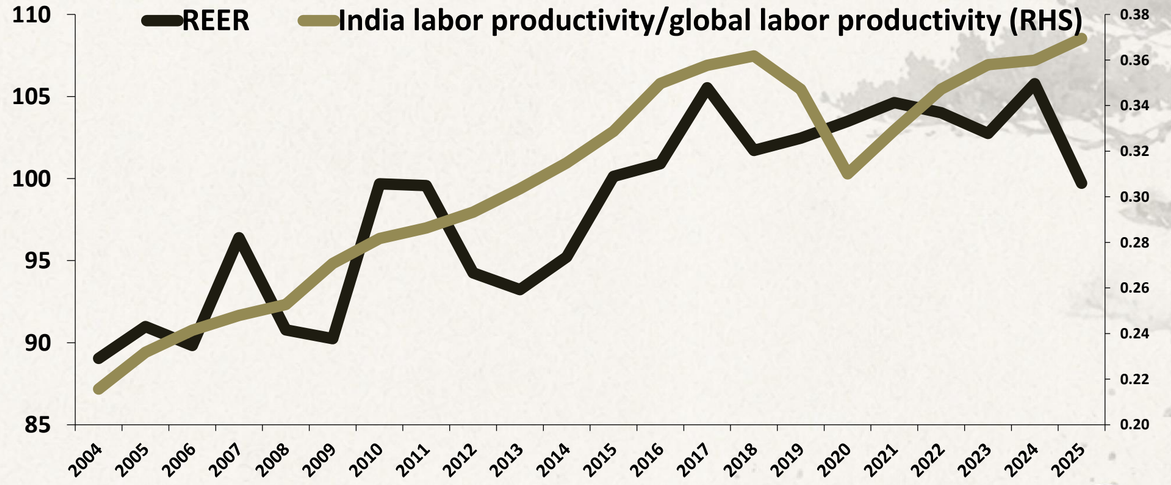
Source: Madhavi Arora, EMKAY Research

Other Key Valuation Metrics: Guidance Play Vs Catching Inflection Points

Valuation metrics are less reliable for pinpointing turning points. However, they can still offer useful guidance on the rupee's medium-term outlook. Their relevance is further amplified by the likelihood that such metrics inform RBI's FX intervention framework as well

- **Real Effective Exchange Rate (REER):** The most widely used REER essentially is trade-weighted exchange rates adjusted for relative prices of trade partners. A rising REER basically can be either on account of nominal exchange rate or higher relative inflation vs. trade partners – partly depicting over-valuations vs long term averages and historical percentile bands.
- An overvaluation shows the need to either let nominal exchange rate fall/adjust or relative inflation to come off. This is essential as it captures a holistic picture with trade partners rather than myopically viewing USD-INR. From current perspective, REER has eased materially over the last one year, falling to near decadal lows now (91 currently) and is down ~10% YoY. This was initially amplified by lower relative inflation (late summer 2025), albeit more owing to food prices, that do not tend to boost competitiveness. However, the more recent REER pain has been on a/c of the energy crisis. We note, Productivity-adjusted REER are generally a better gauge.





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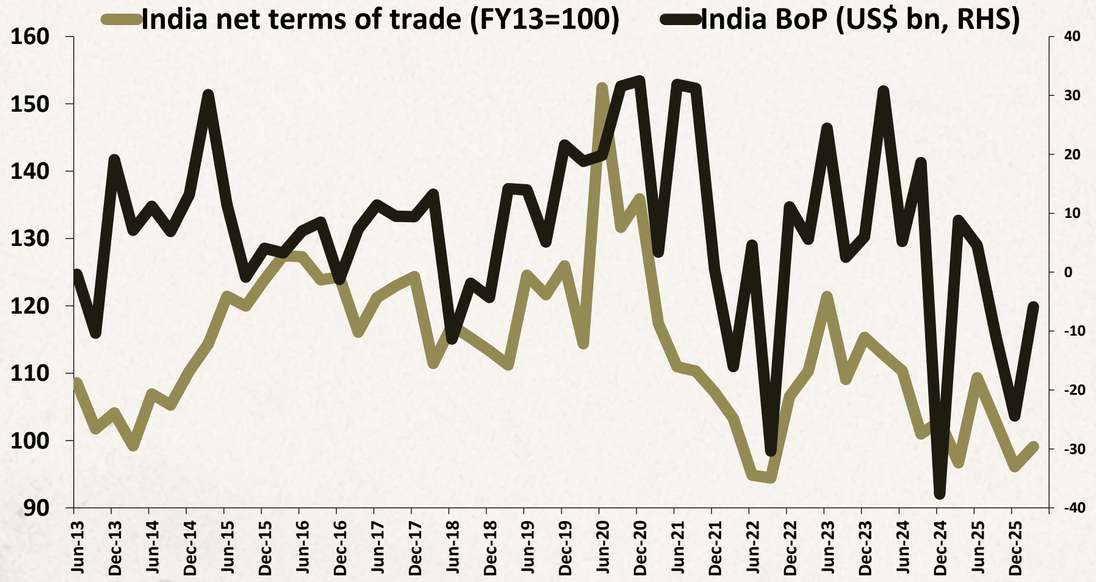
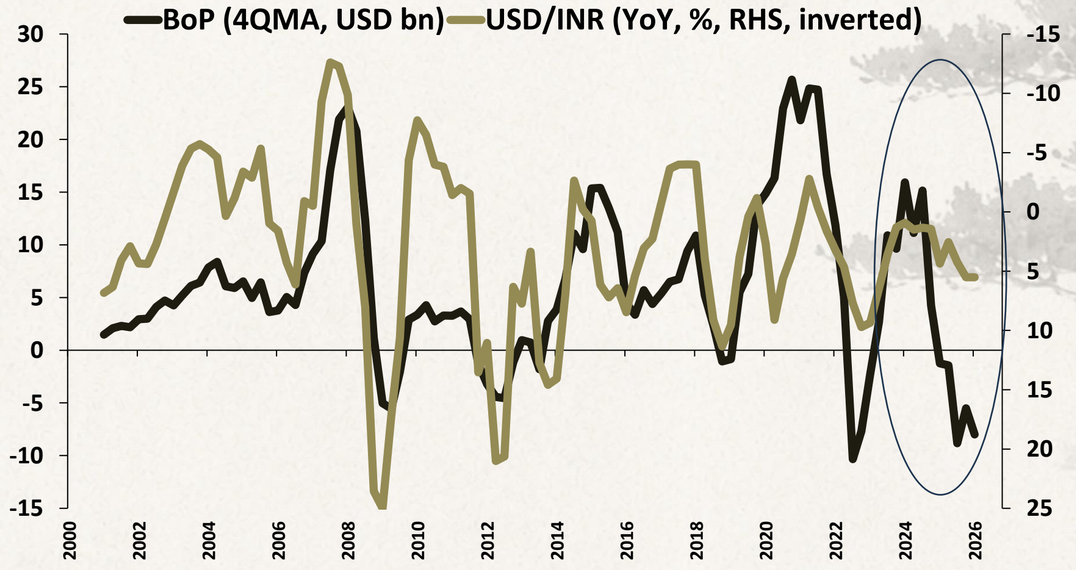
Source: Madhavi Arora, EMKAY Research

Valuation Metrics: BEER And FEER - Guidance Play Vs Catching Inflection Points

Seen from the eyes of other credible and more medium-term and macro fundamentally driven metrices such as BEER (Behavioral Effective Exchange Rate) and FEER (Fundamental Effective Exchange Rate), the undervaluation does not seem that steep. Without delving into calculation-intensive precision, these metrics still offer a clear sense of their current directional signals.

The BEER metric incorporates long-term fundamentals such as productivity differentials alongside cyclical factors like terms of trade (ToT) to estimate equilibrium exchange rates, basically implying currencies deviate from PPP for valid structural reasons. While domestic growth has appeared strong over the past year, we believe data overstates the underlying performance. With private capex growth remaining modest, India's productivity differentials gains vs the world have slowed—at best offering only a marginal tailwind versus the rest of the world. Meanwhile, increasing commodity prices/energy shock/unfairly high US tariff in recent periods may have worsened our ToT, impacting BOP and INR.





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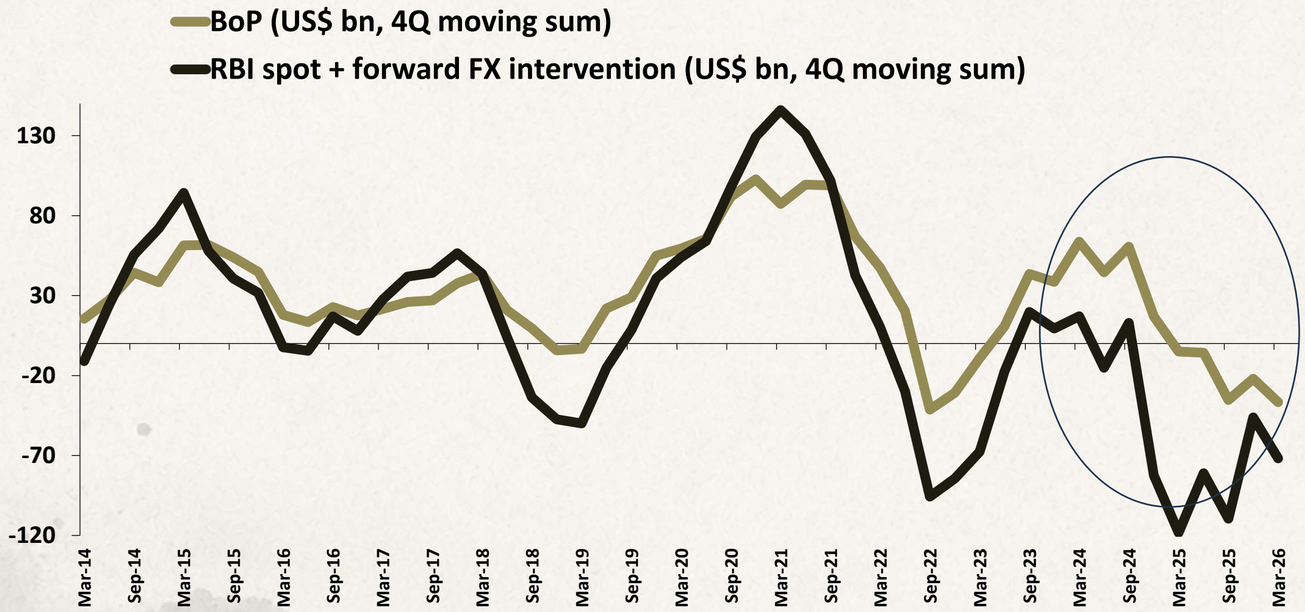
Source: Madhavi Arora, EMKAY Research

Valuation Metrics: FEER…

- **FEER metric is essentially REER with balanced internal and external sector**, that is when growth is at potential, inflation is stable, real rates are neutral, with sustainable CAD and BOP is zero structurally (equating long term savings and investments). In the present context, internally, even with lower inflation, output gap is currently negative. Meanwhile on external front, CAD has clearly widened, with export growth lowering in tariff-struck sectors.

- Separately, global savings have possibly been hurt, led by constriction in Chinese/Japanese savings and economic surpluses and widening DM fiscal deficits (IMF projects 2025 global savings to fall to post GFC levels seen in 2010). This would imply shrinking global savings pool and lower global capital inflows, not enough to satisfy the zero BOP requirement of FEER. Put simply, again the range of REER seen since 2014 may not be the best barometer. Besides, heavy speculations and over-intervention tend to skew fundamental valuations.



RBI's FX intervention has generally been in-line with the fundamental requirements of the economy (i.e. the BoP surplus/deficit). However, it has been intervening far more than the BoP would imply over the past couple of years, which contributed to keeping INR relatively overvalued/undervalued FY25+26 BoP deficit would be less than $70bn, while FX spot + fwd intervention has been $200bn+, reflecting RBI's need to manage speculative trades, over and above the genuine trades.

DSP

Source: Madhavi Arora, EMKAY Research

How To Value Credit

Five Core Learnings Of India Private Credit – *Kapil Singhal*

***Credit is asymmetric.* No upside to a great deal. All the downside to a bad one given legal systems. The business is about avoiding losers, not picking winners.**

01

The legal system has its limitations

Recovery is slow, inconsistent, and uncertain. The IBC is well written; execution is imperfect.

02

Collateral is only a deterrent

It changes how a promoter behaves. It does not protect a lender once cash flows fail.

03

This is a fixed income product

No upside to a longer tenor deal. No upside to a larger deal. No multi-bagger to hide losses in the portfolio.

04

Governance risk is real

Indian mid-market governance is improving, but not great. Founder intent together with competence and alignment is a primary underwriting variable.

05

Incentives and conflicts are real

Related-party flows, group structures, hidden leverage. Diligence has to find what isn't disclosed. Political linkages become big issues when things go wrong.

Accept these five truths, and the rest of the framework writes itself: **no pure collateral lending, no concentrated portfolios, no long tenors, no political exposure.**
Build a cash-flow based, well-diversified portfolio.

DSP

Source: Kapil Singhal, True North Co

Two Levels Of Risk

Investors do not experience deals. They experience the portfolio.

LEVEL ONE

The Deal

- Founder intent and governance
- Cash flows, not collateral
- Industry dynamics and exit visibility
- Deal structure and pricing

Most lenders spend 90% here.

vs

LEVEL TWO

The Portfolio

- Sector spread, no unintentional clustering
- Deal sizing - max, min, median exposures
- Cash flow profile across the fund's life
- Vintage mix and tenor discipline

This is where outcomes are decided.

Funds fail at the portfolio level, not the deal level.

DSP

Source: Kapil Singhal, True North Co

Three Plans, Not One

Risk management in Indian Private Credit has more layers than collateral.

PLAN A

Cash Flows

- **Lend to high-quality companies**
- **Short tenors, regular coupons**
- **Underwrite cash flows, not asset cover**

If the deal needs collateral to work from day one, the underwriting hasn't been done.

PLAN B

Collateral

- **A recovery tool, not a thesis**
- **Slow and costly to enforce in India**
- **Still a behavioural deterrent**

Collateral aligns the borrower. It does not protect the lender.

PLAN C

Portfolio

- **Concentration limits, sector spread**
- **Tenor discipline, vintage mix**
- **More deals beats fewer deals every time**

In India, Plan C is not optional. It is the strategy.

International credit funds run single-deal exposures at 2–4%. Indian funds at 10–15% are still common. Lack of market depth is no excuse. At True North, we have reached 5–6% and we believe even that is still insufficient.

DSP

Source: Kapil Singhal, True North Co

DSP ASSET MANAGERS

INVEST FOR GOOD

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