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V Keshavdev

How diverse businesses could fetch non-linear profit from similar capital has always intrigued Vinay Paharia, who grew up watching his own relatives dabble in varied businesses — albeit on a much smaller scale — right from trading to chemicals to software. "It all seemed very fascinating to me," he says. But instead of trying his hand at the family business, Paharia chose to complete his MBA and CFA to pursue a career in finance. "Until my graduation, I never knew that a formal career in equities was possible," smiles the 36-year-old, who today manages ₹600 crore in cumulative assets across Religare's Mid N Small Cap funds, besides co-managing the Business Leaders and Tax schemes with Vetri Subramaniam, who is also the chief investment officer of the company. During his MBA, microeconomics was what caught Paharia's fancy, as it dealt with businesses and the markets. But once he got a chance to read Peter Lynch's *One Up On Wall Street*, Paharia knew his calling lay in investing. Back then, the most important takeaway from Lynch's lucid tome for him was that stocks were slaves of earnings. "The fact that, irrespective of economic booms and crashes, stocks — over a period of time — always followed earnings was so insightful," says Paharia, who got his first break with First Global after completing his CFA and later went on to work with KR Choksey and DBS Cholamandalam AMC.

From each of his bosses — including Subramaniam — Paharia says he learnt some unique lessons. If Devina Mehra introduced him to the rigours of analysis, Kisan Ratilal Choksey taught him how a passion for long-term investing can be transformed into good investment ideas, while Pradip Pathak at Cholamandalam trained him to have a process-driven mindset and a dispassionate approach to stocks. "If the facts change, your view, too, has to change," says Paharia, who holds close to 50 stocks in his portfolio. Following are the parameters that he keeps in mind while picking stocks: first, the business should generate a RoC higher than 15% per annum on a sustainable basis, although it could have lower RoC in the interim. "Internally, we use 15% as the cost of equity and, hence, would want the company to generate a positive economic spread to create value. For us, that is the definition of a good business," says Paharia.

The second parameter is good management, which the fund house believes is evident from how prudent the capital allocation record of the management is, especially in mid caps. "There are only two ways to allocate: one is that you plough the money back into the business and the other is that you return it back to shareholders. That track record itself will speak volumes about the quality of the management," says Paharia. The third aspect that the fund looks at is the execution track record. "The biggest clues about the management come from its past history. You can never judge the top management just by meeting the board members, as you will end up getting sold on their ideas. As investors, we place far more emphasis on what has happened than what will happen. Hence, the 10-year track record of the company is more important than what the

WHEN IT COMES TO VALUATION, PAHARIA SAYS INVESTORS MUST NOT EXTRAPOLATE THE CURRENT OUTLOOK INTO THE LONG TERM