CHANDRAKANT SAMPAT: THE MAGICIAN OF D-STREET

INDIAN WARREN BUFFETT

He does not bother to own an office. "All you need is a cheque book and a pen", he says.

He is a big bull on FMCG stocks (Gillette, Proctor etc) and MNC Pharma. A Firm believer that free cash flows are the only thing that matters.

Chandrakant Sampat is know to many as the Warren Buffett of India and is regarded as a veteran stock market investor. The 82-year-old investor leads an active yet simple life that includes daily jogging and yoga exercises. Surrounded by books and periodicals at his Worli apartment bedroom, Sampat hardly looks like one of the most successful investors in the country.

Nevertheless, he has not earned his coveted title for nothing. Starting from scratch after quitting his family business in 1955, he has been investing in equity for more than four decades, carefully picking stocks of companies like HUL and Nestle. He has built a massive fortune and now has just 30% of his money in equities.

“There was a time when I was 70 percent into the (equities) market," he says, shaking his head. “Times have changed." Of late, the veteran has turned bearish and has put most of his money into cash and cash equivalents.
**HIS LIFE**

Sampat defies the archetypical image of the very well heeled. He shares the spartan apartment opposite Mahalaxmi Temple, near Haji Ali, with his wife. His daughter is away in America. He takes a BEST bus everyday to his Nariman Point office and is a fitness freak. If you are around Marine Drive during the mid-afternoon, you can spot an eighty-going-on-sixty-year-old jogging; his daily routine includes running a mile a day in less than 8 minutes. He also pumps iron, does a bit of yoga and then continues his favorite pastime, reading.

Starting almost from scratch, simply by picking stocks and companies for investment, Sampat has amassed an enormous fortune. He is often referred to as a guru. He comes across as being obsessed with moneymaking. Nevertheless, he is amongst the most objective and emotionally detached persons you are likely to meet in a lifetime. Moreover, that includes detachment with money. His emotional intelligence especially his ability to defer gratification is probably his most important strength.

An autodidact, he is openly abhorrent of the educational system in his country, and is often cited as saying "knowledge is that which liberates and not captivates". That in fact is a translation of one of the shlokas from the great Indian epic, The Bhagwad Geeta, much of which he recites verbatim. "Markets and mistakes are the best education. The conventional education just closes the mind", he declares.

The one man who has had a lasting impression on him is none other than the greatest management theorist of all time, Peter F. Drucker. "If we achieve profit at the cost of downgrading or not innovating, they are not profit. We are destroying capital. On the other hand, if we continue to improve productivity of all key resources and our innovative standing, we are going to be profitable not today but tomorrow. In looking at knowledge applied to human work as the source of wealth, we also see the function of the economic organization", he says, resonating with Drucker.

Taking a clue from Drucker, every company is measured on a rigorous scale of productivity and innovation before forming a part of his portfolio. It does not end there. Every constituent in his portfolio is continuously challenged. Any stock that fails to measure up well against his metric is given the boot. He gets every rupee to sweat for him.

He seeks continuity amidst discontinuity and chaos. "Coke and Gillette have been around for many many years, and they are likely to be around for many more. I cannot say that with any degree of certainty for technology, where the rate of obsolescence is very fast, where things change at warp speed," he said.

He is inclined to invest in businesses with sustainable cash flows, which he calls as 'The Inevitables'. His favorite quote, "No one is resource poor. We are all imagination-poor. We have no courage to dream" - Professor C. K. Prahlad.

With evangelistic zeal, he tells anybody who cares to listen, "De-bureaucratize the whole process of Foreign Direct Investments (FDIs) with only one condition, the Multinationals who
seek entry into this country must get themselves listed on the Indian bourses. Imagine Microsoft India Ltd., Coca Cola India Ltd., Intel India Ltd., being traded here! Not only will this bring in $80 billion of FDIs annually, but the stakeholder wealth capitalism that ensues will actuate a virtuous circle where ideas create wealth, wealth creates consumption, consumption creates new ideas, new ideas create new wealth”. "To be a good investor all one has to do is dream", he said.

Moreover, he follows a very simple diet. “I have not eaten sugar, fatty foods or salts in the last 50 years! I just have my salads, bananas and sprouts”. However, being a Gujarati, he does not miss the good old Gujarati food. For a man who has been active in capital markets for more than half a century, Chandrakant Sampat seems to hate them now. “When Tony Blair stepped down as the Prime Minister, he remarked that if asked ten years back who were the real terrorists, he would say the Irish. Now he would say Al-Qaeda. If you had asked me a while back I would have said Al-Qaeda too; but now, I would say the real terrorists are the financial markets.”

Because of the recent volatility in financial markets, the veteran has turned bearish and has put most of his money into cash and cash equivalents.

How have the times changed? Globalization makes the difference, he says. The mid-fifties, when he started investing, was the ideal situation; the capital market was ruled by one entity, the Controller of Capital Issues. “He decided what price the company should go public; if a foreign company wanted to be operational in our country, they had to share their equity with the public. In addition, there were no merchant bankers. Investing was very simple then,” he reminisces

Sampat is one of the most successful investors in India. Starting from scratch, Sampat's obsession with wealth, coupled with a strong spell of patience and precision, has helped him build a fortune in the Indian equity market. Nevertheless, these days, he is not touching equities - not because he is tired of making money but due to high risks in this area.

In addition, he is not referring to the Sensex plunging below the 3000 mark, or corporate earnings deteriorating over the next quarter. He is worried about something more substantial. Something most people would not even care to think about at this point of time.

His distrust arises from two counts. The first one relates to the state of the Indian economy and thereby, the fortunes of the corporate sector. The second and the scarier one have to do with global trends in business. Sampat's concerns about the Indian economy relate to the growing fiscal deficit. If it continues to compound at the rate of 11 per cent per annum, as has been the case in the past decade, it will accumulate to about $1 trillion by 2010.

According to him, his other concern is with the state of the Indian corporate sector. With 80 per cent of the 6,000 anomalous companies listed on the stock exchanges having negative EVA (economic value added), there is a paucity of worthwhile investment avenues. The bigger bolt from the blue is the accelerating rate of technology threatens the survival of capital markets.

According to Sampat and several other eminent thinkers and researchers globally, innovation is
resulting in shorter business cycles, and that means shorter life spans for companies.

In order to survive in the rapidly innovating world, companies will have to generate cash flows to compensate for the peril of being out of business quickly. In other words, they will have to make enough money in order to ensure that they are able to establish themselves all over again in case there is any development that radically alters the way their business is going on.

Sampat says, this will not be restricted to the technology sector alone. The kinds of technology that are likely to come in the next few years may bring about changes beyond one's imagination right now. This phenomenon, Sampat adds, will only mean that there will be lesser or no scope for capital formation. The debatable proposition is that it is hard for the capital markets to survive.

If money continuously moves in favor of the innovative, the outdated businesses or companies that are stuck with outmoded technology or doomed to fail. Sampat is 74, and has been managing investments for nearly five decades.

**HIS BUSINESS PHILOSOPHY**

"Pick up good companies with good managements when their share prices are at an eight-year or 10-year low. Alternatively, if you still want to do something, buy good companies that are 40 per cent lower than their 52-week high. I will buy only those companies that are in a business that even fools can understand, have very little debt, have free cash flows or do not have much capital expenditure, which is nothing but deferred cost," he said

What is Sampat’s secret to good investing? Pat comes with the answer: Invest in a business you understand, the company should have either zero or very little debt, the share should be available at a P/E ratio of 13 to 14 times the current year's earnings and lastly, it should be available between 3.5 and four per cent yield. "It is that simple!" he says. This is all he does, he says, no more research. Follow these golden rules, and you can be as good as he can, he concludes.

Legendary Indian investor Sampat fears that the rapid change in technology may spell doom for the capital markets in a few years.

Nevertheless, two other astute investors from Generation Next beg to differ. Their view, essentially, is that as long as capitalism survives capital markets can never die. Sampat pessimism in equities arises from two counts. The first one relates to the state of the Indian economy and thereby, the fortunes of the corporate sector.

According to Sampat and several other eminent thinkers and researchers globally, innovation is resulting in shorter business cycles that means shorter life spans for companies. In order to survive in the rapidly innovating world, companies will have to generate cash flows to compensate for the high-risk of being thrown out of business quickly. This phenomenon, Sampat says, will only mean that there will be lesser or no scope for capital formation. The moot question then is can capital markets survive.
If money continuously moves in favor of the in-thing, what will happen to obsolete businesses or companies that are stuck with obsolete technology? What happens to the $25 trillion of market capitalization that global markets boast of today?

Sampat is 74, and has been managing investments for nearly five decades. Given his vast experience and spectacular success with stocks, not even the best fund manager can dismiss his argument without giving it a second thought. For, in a domain, that is half science and half art, experience really counts. Nevertheless, Sampat says the rules of the game are changing. "Experience is not an asset. The future is going to be entirely different and the past can provide little clue about the future," he states directly.

Having said that, he refuses to provide any cue on what investors can do to get the best out of stocks over the long-term. Instead, he touches upon some scientific theories and concepts that can be applied to the world of finance to fathom out the mystery. What investors should do?

America is way ahead of India when it comes to technology. Not surprisingly, a lot of serious thought has gone behind formulating investment strategies for the technology business, and ways to cope with innovation. In the middle of the technology boom in December 2000, Michal J Mauboussin, investment strategist at CSFB, had prepared a report on 'innovation and markets.' Sampat endorsed this report of Mauboussin.

The report observed that economic long waves -- economic booms that result from the launch of general-purpose technologies -- are coming at faster and faster rates, suggesting that industry and product life cycles are shortening. Consequently, corporate longevity is on the wane. The average life of a company in the S&P today is less than 15 years; dramatically less than half of that a century ago.

The declining competitive advantage periods, even as economic returns for the market leaders in knowledge industries soar, meant that traditional multiple analysis was useless.

Mauboussin said: "An accelerating rate of innovation shakes the investing process to its very roots. It forces us to revisit deeply-held beliefs about portfolio diversification, appropriate portfolio turnover, sustainable competitive advantage, competitive strategy analysis, and valuation metrics."

As part of the overall strategy to deal with innovation, the report pointed to some general steps as well as specific recommendations for stock picking.

The general steps included: Re-assess diversification: Here is the conundrum. The increase in company-specific volatility suggests that a portfolio must be larger to be fully diversified than in the past. On the other hand, there appears to be a higher incidence of winner-take-most outcomes in various industries. In which case you must concentrate your bets on the winner. Balancing diversification with winner-take-most markets is a major challenge. Update valuation tools: Our accounting system was essentially designed 500 years ago to track the movement of physical goods.
It is grossly inadequate to reflect today's economic realities, which include a surge in intangibles, employee stock options, and greater real option value. Applying historical P/Es to the today's market in nonsensical. This is by no means a justification for valuations. It is simply to stress that investors cannot intelligently judge current circumstances with outdated tools. Update mental models: Most investors grew up in a world dominated by tangible capital. The world is rapidly evolving to one based on intangible capital. While the laws of economics have largely not been repealed, it is important to recognize that properties and characteristics of intangible capital are different from tangible capital. Accordingly, investors need to update mental models to deal with the new sources and means of value creation.

The report suggested the following steps for individual stock picking:

- Avoid the twilight: It is often hard for market leaders to stay on top for long since there are a number of factors working against them. First, the stock market tends to build lofty expectations for growth and earnings. Market leaders feel the pressure to deliver against those expectations and hence tend to rely heavily (and perhaps too long) on their current technology. Second, many innovations come from small companies with limited bureaucracies and a strong mission. This is not to say that market leaders cannot stay on top. Nevertheless, for that its managers have to be hugely adaptive. Furthermore, since stock prices react to changes in expectations, there must be room for upward revisions: Essentially, it is important to be wary of current market leaders, especially those with sizeable market capitalizations. These companies are often the most vulnerable to future innovation.
- Find the future: Investors must isolate those companies that represent the next generation. Here, the focus is on finding the next disruptive technology. We like the strategy that Geoff Moore and his co-author suggest in the Gorilla Game. They recommend owning all companies that are potential winners in the gorilla game (winner in the winner-take-most market) and paring back all holdings, except the gorilla as it emerges.
- Avoid innovation: Some industries and companies remain relatively sheltered from the competitive ravages of innovation. A plausible volatility-dampening strategy is the barbell approach a mix of high growth technology stocks and relatively innovation-insensitive stocks.

Sampat is man with the hammer. He made money with FERA share, which went up many folds, but I think he never came out of that shell. At bottom of market in 2003 he said he would be happy to make 14 percent return on his money before tax. His logic was, technology changes things so fast that almost all businesses (but FMCG) will be killed before they can recover cost of capex. His only selection criteria is free cash flow. Deploying money for growth does not count. It has to be FREE cash flow. Mr. Sampat's analysis at Cadbury also looked strangled to me. It is his core competence. He compared per capita chocolate consumption in U.S. and India and tried to show potential.

Now Americans do not eat Jalebis, Rasgullas and Rabdi. This is not an apples-to-apples comparison. In addition, when market expands, there are bound to be more players. I really wondered that after seeing so many boom/busts how you could miss biggest so obvious bull
market.

**CHANDRAKANT SAMPAT QUOTES**

1. "To be a good investor all one has to do is dream"

2. "All you need is a cheque book and a pen"

3. "Knowledge is that which liberates and not captivates".

4. "Markets and mistakes are the best education. The conventional education just closes the mind"

5. "If we achieve profit at the cost of downgrading or not innovating, they are not profit"

6. "Coke and Gillette have been around for many years, and they are likely to be around for many more. I cannot say that with any degree of certainty for technology, where the rate of obsolescence is very fast, where things change at warp speed"

7. "De-bureaucratize the whole process of Foreign Direct Investments (FDIs) with only one condition, the Multinationals who seek entry into this country must get themselves listed on the Indian bourses"

8. "Experience is not an asset. The future is going to be entirely different and the past can provide little clue about the future,"

9. “I have seen nothing like this before. Capitalism seems to have gone old. It is finding survival difficult. Keep away from the markets,”

**CHANDRAKANT SAMPAT IN THE NEWS**

1. Chandrakant Sampat: The magician of D-street  

2. Chandrakant Sampat talks to Chetan Parikh  

3. A program featuring Chandrakant Sampat, a Stock market Value investing guru, who gives his valuable input on many subjects  
   [http://www.whatsonindia.com/WhatsOnTV/Program/Wealth_Creators_Chandrakant_Sampat.aspx](http://www.whatsonindia.com/WhatsOnTV/Program/Wealth_Creators_Chandrakant_Sampat.aspx)

4. Chandrakant Sampat

5. Interview with Chandrakant Sampat

http://www.valueinvestingnews.com/interview-chandrakant-sampat

6. Chandrakant Sampat: The magician of D-street

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7. Investors' Round Table


8. Chandrakant Sampat

http://www.rediff.com/tags/chandrakant-sampat

9. Chandrakant Sampat

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CHANDRAKANT SAMPAT IN ARTICLES

1. Chandrakant Sampat - Another BSE legend - Indian Warren Buffett

2. Chandrakant Sampat


3. ‘Financial markets are real terrorists’


4. The $25 trillion question


5. Chandrakant Biography

http://bookmarks.oneindia.in/out/chandrakant-sampat-magician-wiki-wikipedia-bio-biography

6. Chandrakant Sampat: Wiki, Information, About
http://www.indiashout.in/2011/03/celebrity/chandrakant-sampat-wiki-information-about.html

7. Chandrakant Sampat Honorary Member,

8. Sampat’s advice to retail investors
http://blogs.rediff.com/businessbaatein/2008/08/02/chandrakant-sampats-advice-to-retail-investors/

9. Chandrakant Sampat: Wiki, Information
http://connect.in.com/chandrakant-sampat/blog/chandrakant-sampat-wiki-information-about-f64cb55436f0328566849076bf9f54bdd6babaf.html

10. Sampat Family Tree
http://sampat.tribalpages.com/

11. Chandrakant Sampat Investor
http://www.r3f3r.com/chandrakant-sampat-investor

12. Speech by Chandrakant Sampat

13. Chandrakant Sampat Business Today
http://www.r3f3r.com/chandrakant-sampat-business-today

CHANDRAKANT SAMPAT IN VIDEOS

1. Chandrakant Sampat: The magician of D-street

2. Chandrakant Sampat: The magician of D-street
3. Chandrakant Sampat: The magician of D-street

4. Chandrakant Sampat's Views

5. Chandrakant Sampat The Magician Of D Street

6. Chandrakant Sampat: The magician of D-street

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