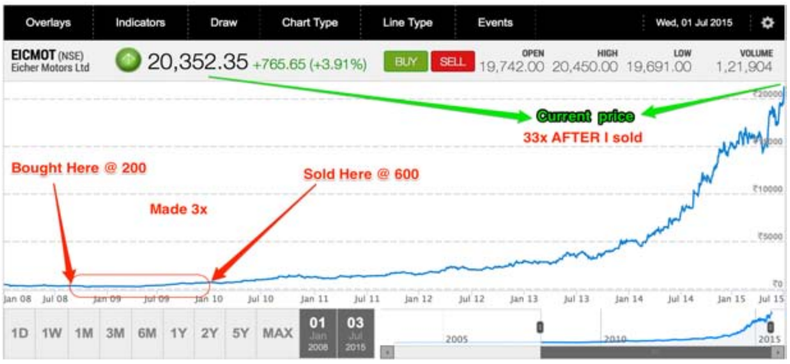
I'd like to start by telling you a story about a killing I made in the stock market many years ago. Back in October 2008, a colleague and I wrote up a document on a Graham and Dodd cash bargain for our clients.

As you know October 2008 was a great time to invest, and it was not surprising that this stock was selling below cash. Those "few other things" included a small, insignificant motorcycle manufacturing business.

Here's a chart which shows the outcome of that wonderful investment operation. I bought the stock for Rs 200 around October 2008 and sold it for about Rs 600 in December 2009. That's a 3x in 15 months! An IRR of 141% p.a. Wow, isn't it?

But, here's what happened *after* I sold.

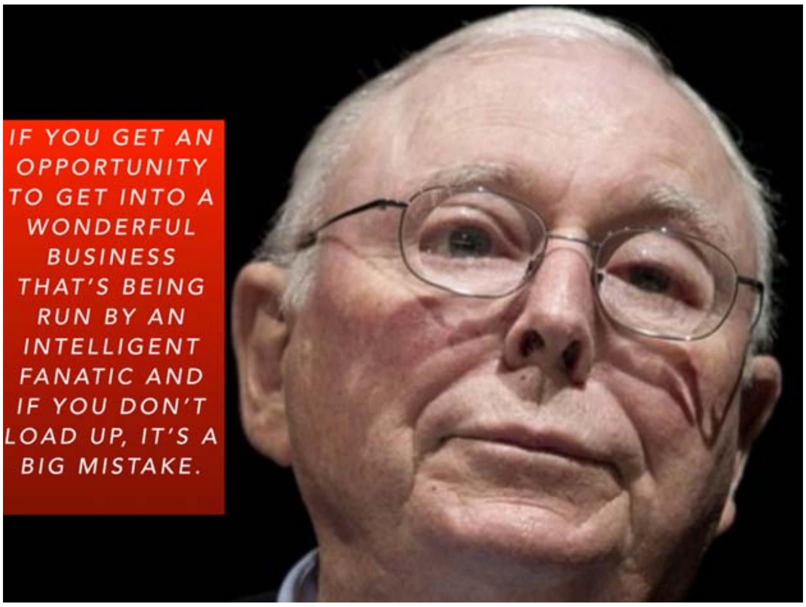


There're are two key reasons why this happened. One, of course, is my stupidity. I sold off because I had trebled my money in a matter of just 15 months! I was afraid I might lose my unrealised gains — which is a good example of loss aversion. I was also anchoring to my cost. I paid 200 and now it was 600. How much further could it go?

The *other* reason why this happened is because of *this* guy.

His name is Siddhartha Lal and he is an intelligent fanatic.

I learnt an expensive lesson and the lesson I learnt is this:



Who are intelligent fanatics? What are their traits? How do we find them?

These were important questions which fascinated me.

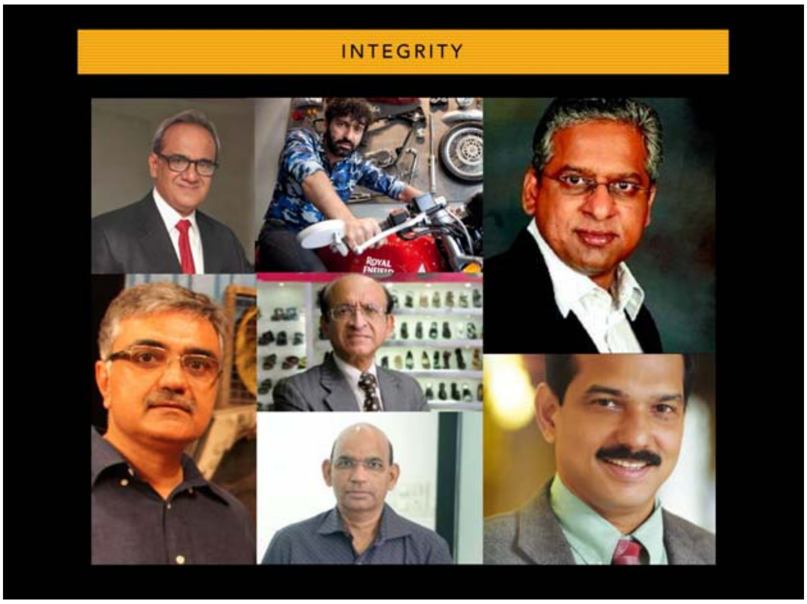
The idea of an intelligent fanatic is a simple one but it must not be taken lightly. Charlie likes to say: "Take a simple idea and take it seriously."

So I took up this simple idea and I took it seriously. I went about looking for people who Charlie would call intelligent fanatics. I read up everything he and Warren had written about the kinds of business owners they had partnered with. People like Rose Blumkin — founder of Nebraska Furniture Mart, for example.

Let's take Rose Blumkin. Buffett adored her. Why? What qualities did she possess that made him adore her? There were three — integrity, energy and intelligence.

I found the very same attributes in the other entrepreneurs who had sold their businesses to Berkshire. As I read through all the material and reflected upon it, a pattern starting to emerge. I started to see similarities with some entrepreneurs in India. They had the same combination of integrity, energy and intelligence. And they ran really high quality operations.

While there are many many more, I only have time to tell you about seven. Let's examine these intelligent fanatics through the lens of integrity, energy and intelligence.

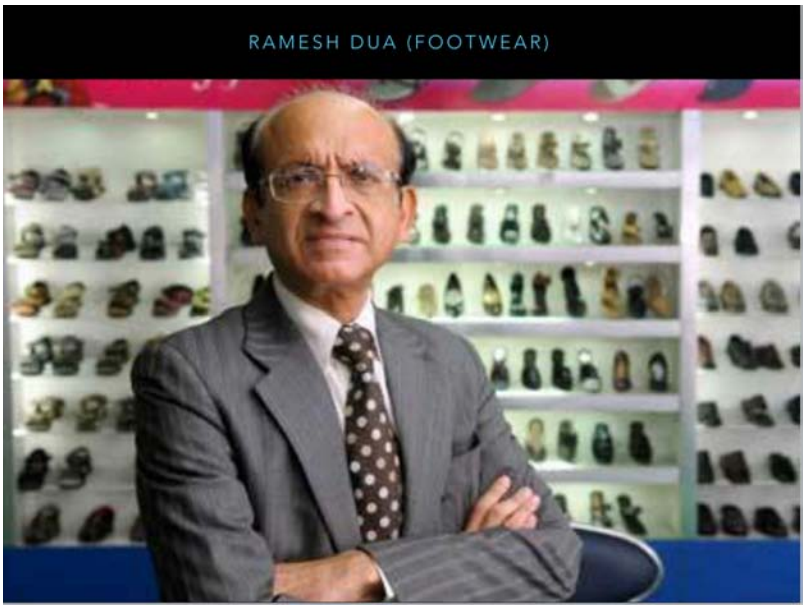


I would speculate that if Buffett was investing in India, he would regard each one of them as high-grade people.

Siddhartha Lal is # 1. This guy is crazy about touring bikes. So he takes an almost bankrupt company called Royal Enfield which has been making the iconic Bullet motorcycles in India for more than 90 years and turns it from nothing to a business worth $9 billion in seven years. That's just $3 billion short of Harley Davidson's. Oh, and incidentally in 2014, he overtook Harley in terms of bikes sold.

Sid's operation is extraordinarily profitable as the chart shows. The business employs no debt, has a ROE of 58%. Earnings have grown at a rapid pace over the last 5 years and the stock's an 18-bagger in 5 years.

But here's the thing that really drew my attention. In 2008, he did a JV with Volvo which required him to sell 13% of his stake in the business to Volvo. That transaction too place at Rs 691 per share which the stock was languishing at Rs 200. Sid structured a buyback transaction which offered the opportunity to minority investors to sell 13% of their stake at the same price he got. He was under no legal obligation to do this. But he did. It was *very* unusual.



This is Ramesh Dua who is #2 on my list. He is the founder of Relaxo — the Havaianas of India. Relaxo makes good quality, affordable branded footwear for India's masses just like Havaianas did for Brazilians 30 years ago. It uses popular movie stars to endorse its brands and boy does that work!

http://youtu.be/92w0_sjS4ZY

Last year, Relaxo sold more than 110 million pairs of footwear for less than $2 a pair and made a ROE of 47% without employing significant debt. Incidentally, the cheapest pair of flip flops sold by Havaianas cost $18.Every Relaxo increases prices a bit, just as Buffett raised them in See's candy. It's a classic example of "buy commodities sell brand" theme that Buffett loves so much.

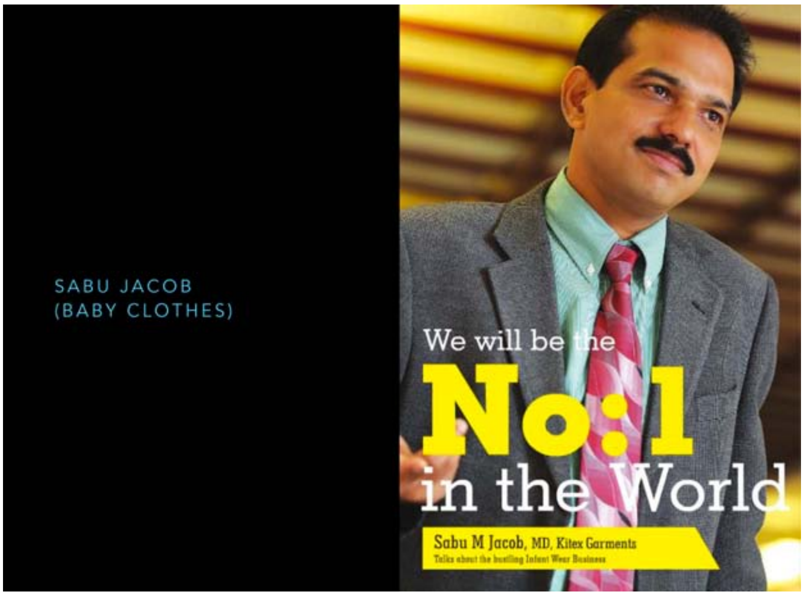
The company owns three very popular brands to attract customers. These brands deliver pricing power to the business, which creates scale effects such as a low cost advantage over existing and potential competitors. When the prices of rubber and oil — the company uses EVA, an oil derivative — soared, Relaxo increases prices. When they fell, they did not reduce prices. And people who love their movie starts don't mind paying a little extra to feel close to them. People are suckers for brands.

The money spent on advertising creates strong entry barriers for Relaxo just like it does for GEICO.

But here's the thing. When my colleagues and I invested in the stock, the most important asset of the business — the brands — did not belong to the company. They belonged to Ramesh Dua and his family. Why, then did we make the investment? Well the reason, of course, is that we had a very high degree of confidence in the integrity of the management. There was no evidence of abuse of minority stockholders (excessive royalty for brand usage, excessive executive compensation, and unfair terms of related party transactions). One thing I have learnt about corporate mis-governance is that there is never just one cockroach in the kitchen. Well, in this case, we didn't find any.

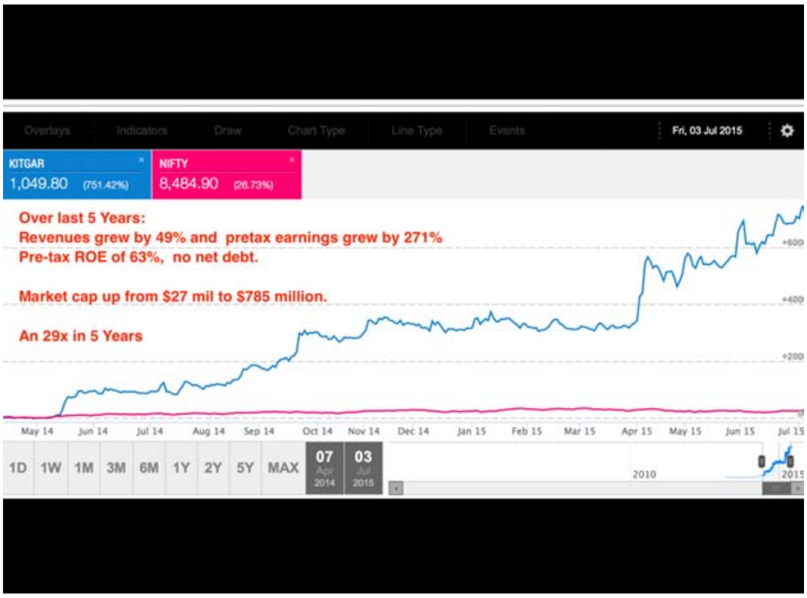
A few months after we bought, Ramesh Dua transferred the Relaxo brand to the company. He virtually gave it away for almost nothing. That tells you something about his integrity.

The # 3 intelligent fanatic on my list is Sabu Jacob.



Sabu runs one the most profitable infant garment manufacturing companies in the world called Kitex Garments which has no net debt, earns a ROE of 63% and yet sells garments to giants like Carter's, Gerber, ToysRUs, Wal-Mart, Mother Care, and The Children's Place. How can someone who sells to Wal-Mart earn so much? One answer is that a Wal-Mart or a Gerber or a Carter's or a CHildren's Place don't ever again want their customers to see images like this, right next to the labels of their garments.

1,100 people died in this tragedy. Something like this can never happen in Kitex.



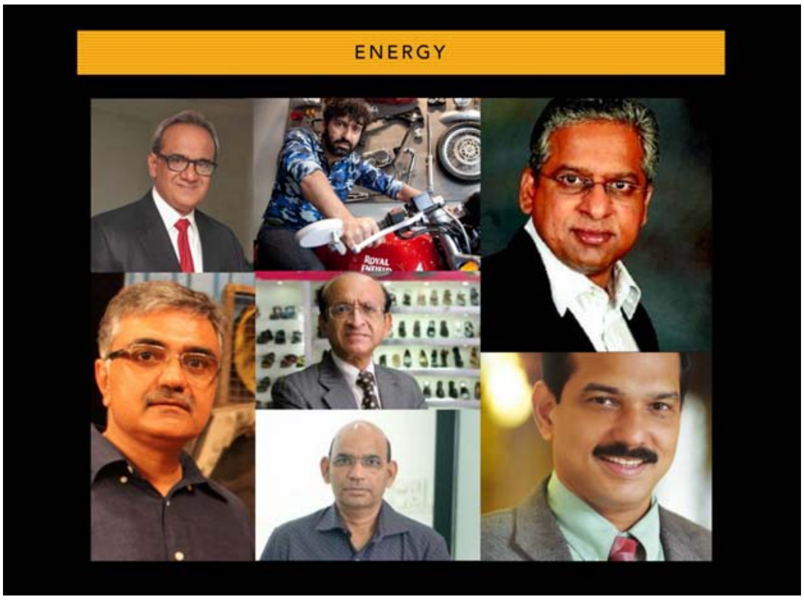
The stock's been a 29-bagger in 5 years.

In my view, Sabu is a very good human being. He employs 4,000 workers, pays them above market wages, and houses them in dorms. He provides them with nutritious food, an air-conditioned garment factory which satisfies the most stringent quality and social compliance standards of the western world.

His garments use the best quality materials and yet he an sell them to his clients at an average price of less than $1. There are only 12 companies in the world which have the capability Kitex has and Sabu is determined to become #1. Right now, he is at #3 position.

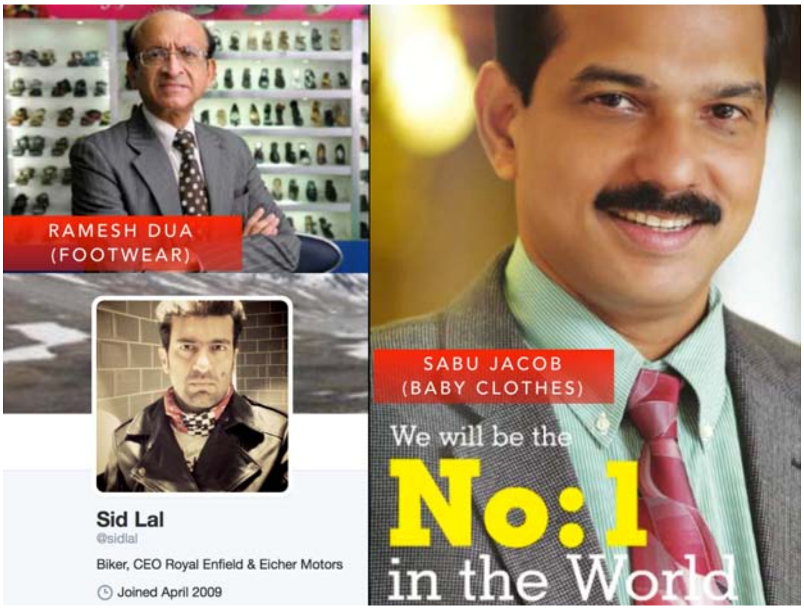
Sabu uses his personal money (not the company's money) to do a lot of charitable work in his community which includes construction of subsidised homes, sale of kitchen appliances, and groceries at 50% discount to market prices for poor people. He's like a cult hero in his community.

Now, let's shift focus to the second ingredient of an intelligent fanatic: Energy.



All entrepreneurs, by definition have a lot of energy and these seven guys have plenty of it too. But there's something about energy that these seven guys (and other intelligent fanatics) have, which other entrepreneurs usually don't. And that something is FOCUS.

An INTENSE FOCUS.

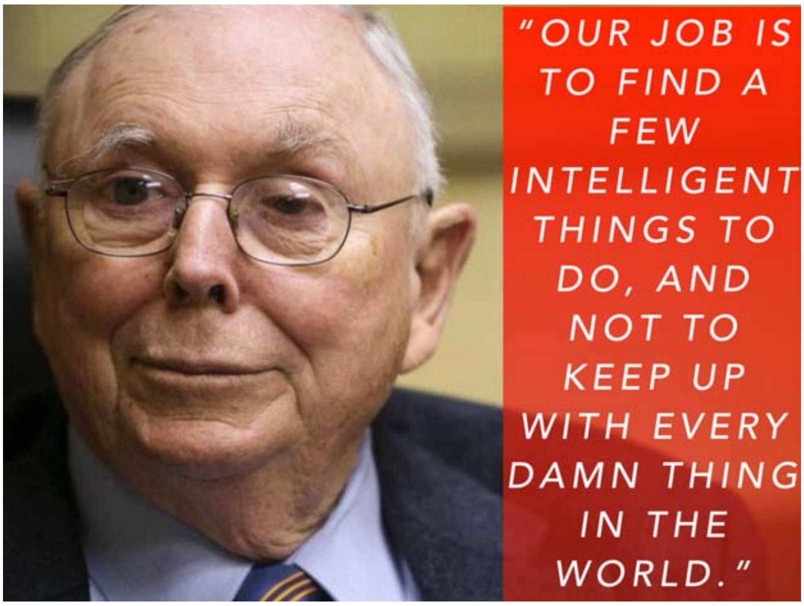


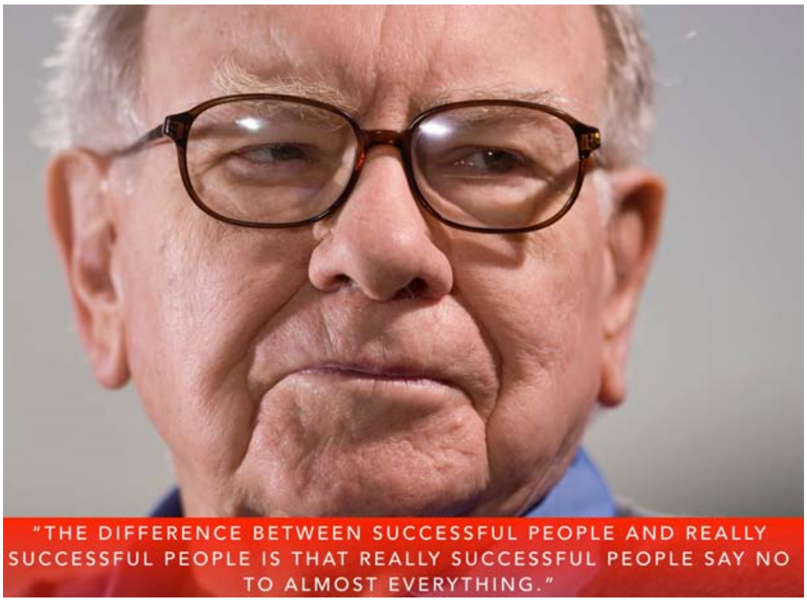
Take, for example, Ramesh Dua. He controls the second large footwear manufacturer in India. He has no ambitions to get into solar energy, wind power, or infrastructure. He just wants to make cheap, high quality flip flops and other footwear, brand them and sell them to Indians and later to the whole world at prices no one else can match.

Sid focuses on touring bikes. He is passionate about it. He is crazy about touring bikes. Riding them, making them and selling them is the principal purpose of his life. He has his eyes on the US market, now that he already controls over 95% market share in that segment in India.

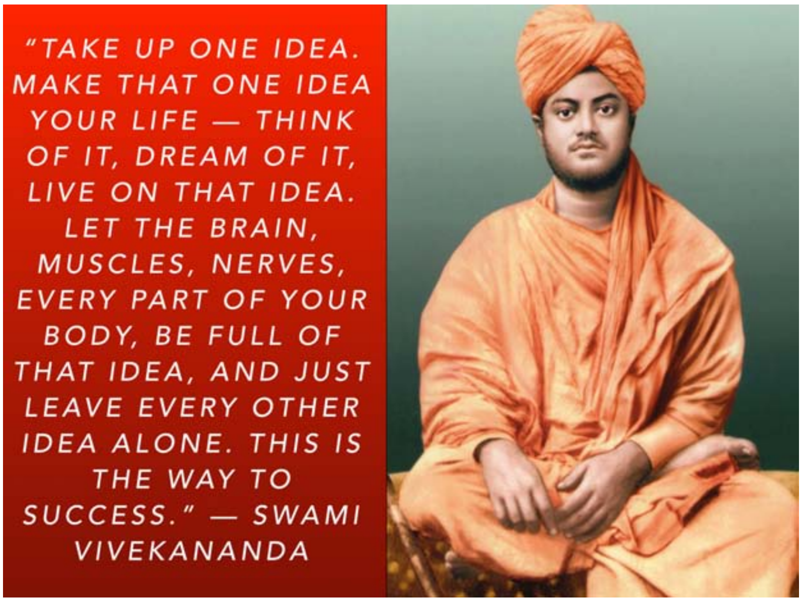
Sabu has taken a different approach. He sells no baby clothes in India — a country which is every efficient in making a lot of babies. Why? Because, first he wants to become the largest infant garment manufacturer in the world by selling to the Americans and the Europeans before he sells to Indians. And I guess if he can make so much money by operating in the most competitive market in the world, he will do very well in his home country.

These guys understand the power of focus, and the power of extreme specialization. They agree with Charlie and they agree with Warren.





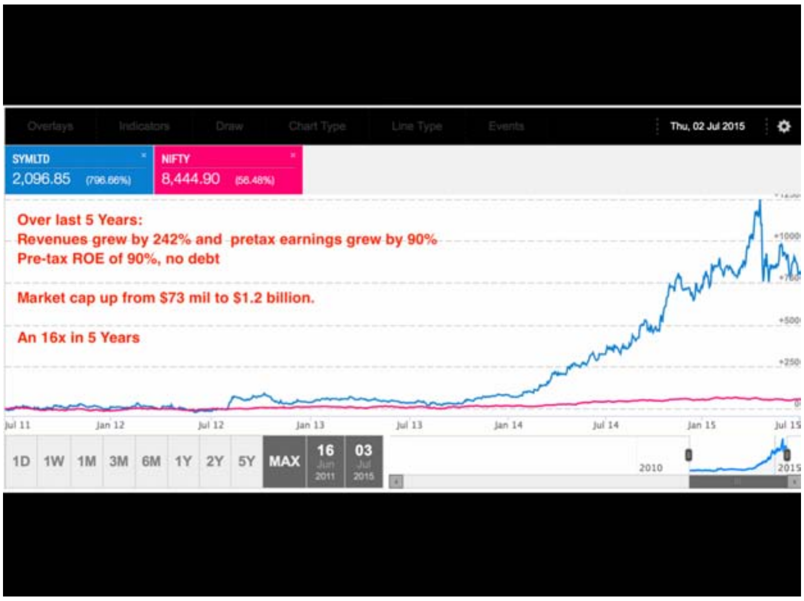
What Charlie and Warren say on the subject makes a lot of sense. Defining your circle of competence and stating within that circle is a very very good idea. It's an idea which was also expressed by an Indian philosopher much before Charlie and Warren.



The power is extreme focus is best illustrated by studying our #4 intelligent fanatic.

Achal Bakeri runs the world's largest air cooler company called Symphony. But in 2004, Symphony was in bankruptcy. Why? Lots of reasons. He was leveraged. He was into asset heavy manufacturing.

But another key reason what that he wasn't focused. He was making air coolers, air conditioners, water heaters, water purifiers, and washing machines.

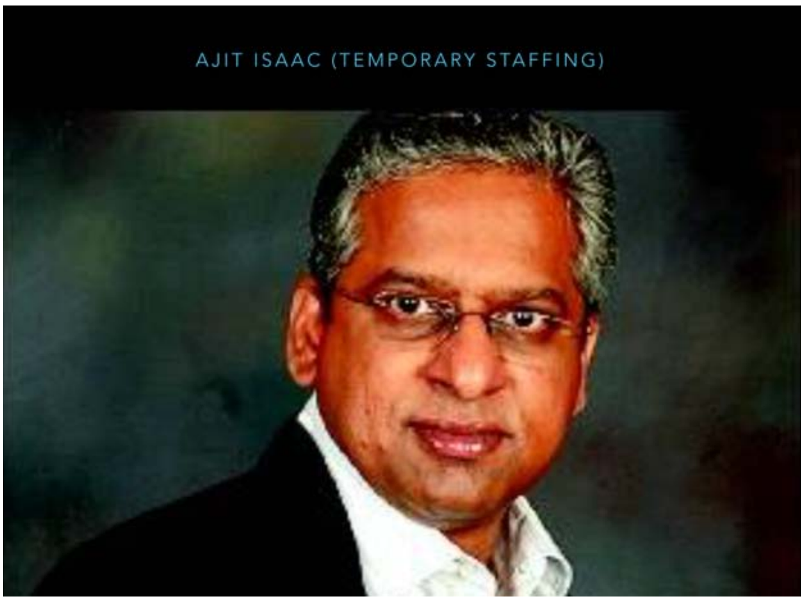


Today's his focus is on air coolers. He got out of manufacturing and instead focused on product design, R&D, branding, marketing and distribution. He has eight vendors who make coolers for him. He bought Impco in a fire sale. That's the company in Mexico that invented industrial cooling. He is now exporting air coolers to more than 60 countries including the United States. His market is not just India — it's wherever in the world is heat, low humidity and a middle class which finds air conditioning too expensive. That's quite a big part of the world.

His has his task laid out: To become the dominant air cooler company in every market.

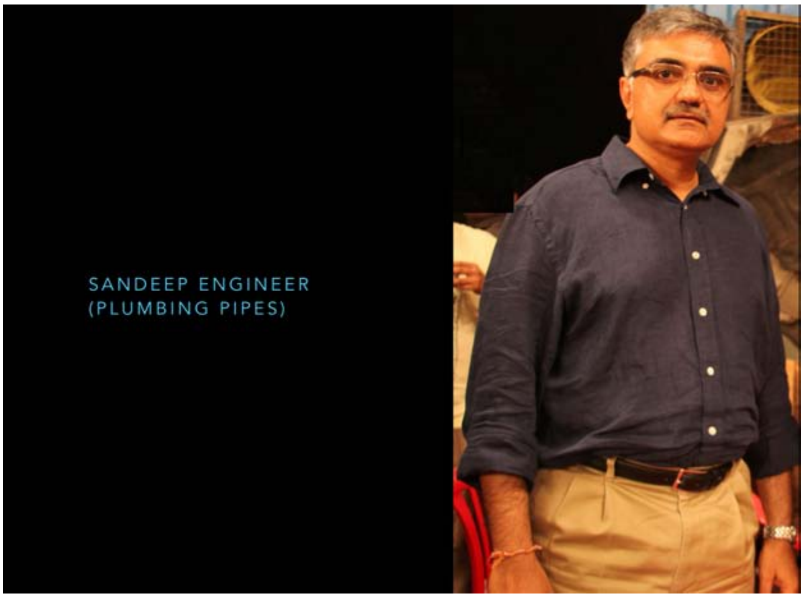
Symphony is one of India's most profitable companies. It has a debt-free balance sheet. It earns a pre-tax ROE of 90%. And the growth has been very rapid.

Intelligent fanatic # 5 is Ajit Isaac.



Ajit is one of founders of temporary staffing industry in India. He sold his earlier company to Adecco of Switzerland. Now he runs a company called Quess. His previous partner — a private equity fund— sold a 74% stake in Quess to Thomas Cook India, which is now controlled by Fairfax Financial of Canada run by Prem Watsa. Thomas Cook paid $47 million to acquire a 74% stake in 2013, implying a market value of $63 million. In 5 years, I won't be surprised if the aggregate value of Quess is at least $1 billion. Ajit is a key reason why Thomas Cook India's stock price has increased so much over the last two years.

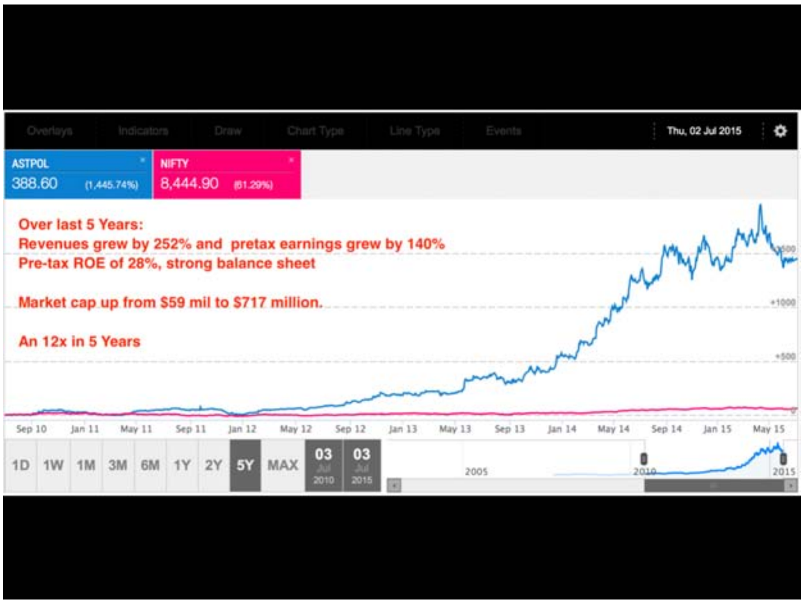
Intelligent fanatic # 6 is Sandeep Engineer.



Intelligent fanatic # 6 is Sandeep Engineer.

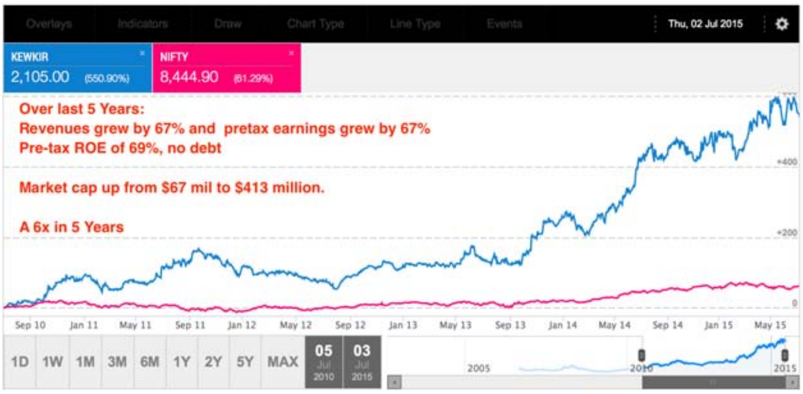
Sandeep's company Astral Polytechnic makes plumbing pipes using resin acquired from Lubrizol — a Berkshire Hathaway company. He is totally focused on pipes and ancillary products. Sandeep has transformed something as boring as a B2B plumbing pipe business into an iconic B2C consumer brand, thanks to clever product placement in movies and also by hiring a brand ambassador.

http://youtu.be/OuC-Ihn9mfI



The stock's been a 12-bagger in 5 years.

The # 7 intelligent fanatic on our list is Kewalchand Jain —the founder of Kewal Kiran Clothing — a company which owns the most profitable branded jeans company in India. It makes more money than Levis, Lee, Wrangler and Pepe Jeans. Jain is so frugal that he reminds me of Sam Walton — who, you'll agree was one helluva intelligent fanatic. Kewalchand also reminds me of Sam Walton in another way because he is copying him. He is first going to small cities and towns and getting scale there. You won't find him in the expensive malls where everyone else has gone and where the rents are so high that most stores don't make any money.



The stock's been a six-bagger in 5 years. The business has no debt. And earns an astonishing ROE of 69%.

Here's the line up of our Intelligent Fanatics again.

They have integrity. They have energy. They are ambitious. They are focused. Charlie Munger says:

"In nature and in business, specialization is key. Just as in an ecosystem, people who narrowly specialize can get terribly good at occupying some little niche. Just as animals flourish in niches, similarly, people who specialize in the business world - and get very good because they specialize - frequently find good economics that they wouldn't get any other way."

What Charlie said applies to each of these guys. They are very very good at what they do because they are focused. Some of them don't even speak fluent English. But boy, do they know how to run their businesses.

And they understand the important of scale. Every one of them.

1. Sid sold 300,000 touring bikes last year, overtaking Harley. But in India, Honda and Hero sell more than that in a *month.*
2. Ramesh Dua may be the second largest footwear manufacturer in India but it has a market share of less than 5% and per capita consumption of footwear in India will only go in one direction: Up.
3. Sabu runs the world's third largest infant garment manufacturer. Last year Kitex Garments had revenues of $82 million, and yet just one of it's customers — Carter's sources garments worth more than $1.5 billion every year.
4. Achal Bakeri sells coolers to India's middle class. Less than __% of Indian households have coolers. Get fans statistics. And he also exports to more than 60 countries. Symphony may be the world's largest air cooler company; it is still a tiny company with annual revenues last accounting year of only $89 million.
5. Ajit is operating one of the largest temporary staffing companies in India — a country with the worlds second largest population. He has 100,000 associates, while the swiss major Adecco has 650,000 associates.

6. Even after solid growth over the years, Sandeep Engineer operates in a market where most of the installed plumbing pipes are lead pipes and they will eventually need to be replaced by CPVC pipes and he is the dominant player in that market.
7. Kewalchand Jain is selling branded jeans in the world's least penetrated market in denim jeans. And jeans are worn by young people. India has 1.2 billion population and a median age of 27 years.

So, there we have it. Two of the three ingredients of Intelligent Fanatics — integrity, and right type of energy. But there's a third ingredient: Intelligence. As investors, the last thing we need is to partner with dumb fanatics. So, what are the things we are looking for when we look for intelligence. Well, one trick Munger uses is that of inversion. So, let's try that. What are the common elements of dumb behavior? Four are key. (1) Over-aggression, usually expressed in the form of excessive leverage; (2) Growth without any regard to profitability; (3) A tendency to gamble; and (4) An inability or unwillingness to delegate, constraining growth potential.

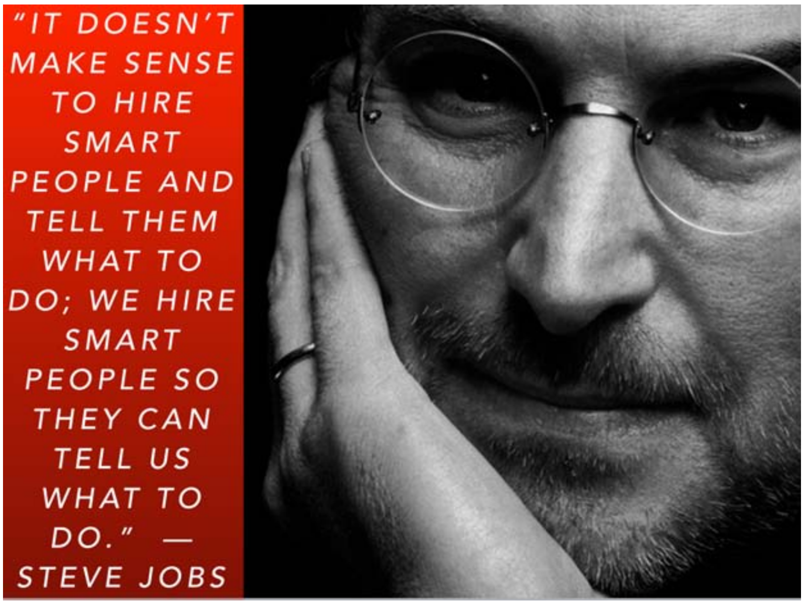
Well, you won't find any of those elements in the seven guys I talked about. They are low profile, frugal and conservative. Five of them have no debt and the remaining three have extremely strong balance sheets. They run their businesses for profitable growth as the numbers I showed you proved. They understand the idea of per-share intrinsic business value. They don't over bid for assets in acquisition deals. Nor do they dilute equity on unfavourable terms. In fact, most of them have delivered growth with zero dilution.

Moreover, they *understand* the concept of moat and spend all their time trying to expand theirs. Charlie's observation that "almost all good businesses engage in 'pain today, gain tomorrow' activities" applies very well to the businesses managed by these seven guys. They invest in their businesses while thinking in terms of decades and not the next quarter.

They are also what Charlie calls "learning machines." Recall, the case of Achal Bakeri —

the cooler guy. He made many mistakes, but he learnt and he never repeated them. In fact, he was candid about his mistakes. He listed them in his letters. And he said I am never going to borrow money again, I am going to focus on becoming the best cooler company in the world and I am going to out source manufacturing so I can focus on product design and branding and marketing.

These guys *understand* risk management. They don't gamble. No matter how lucrative the numbers look, they never bet the company on one product or one deal. And they know they can't do it on their own, so they know the importance of getting help.



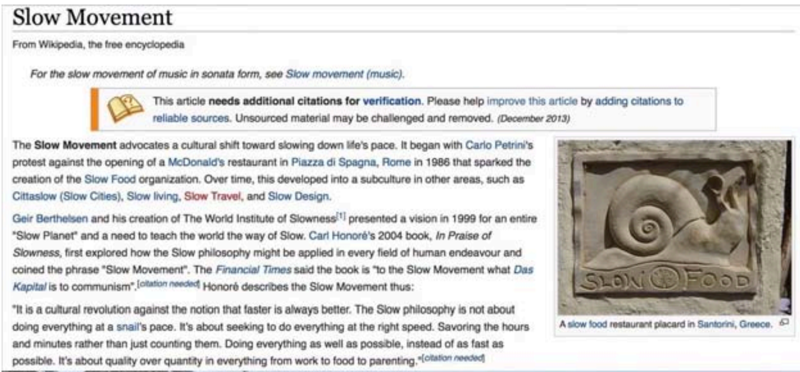
Take the example of Sid. Recently, he hired the guy who ran marketing operation of Unilever for many years. Then, he hired the fellow who lead Harley Davidson's geographic expansion across emerging markets.

And, recently he hired this guy. He's one of the world's most respected names in motorcycle designs.

Pierre was the head of design for Ducati for over a decade and these are some of the bikes he designed.

These seven guys taught me a lot of things. They taught me the importance of extreme specialization. That's why when I started a fund, my partner Paresh and I decided to become extreme specialists in moat investing. We don't waste our time on other businesses. They taught me about the benefits of partnering with entrepreneurs like them. It is obvious to me that the formula of owning a group of great businesses run by intelligent fanatics is a very good business plan. It took me 15 years to figure this out. Finally, Sid taught me the benefits of holding on to a great business run by someone like him. I don't ever want to sell a business at 600 and see its value soar to 20,000 over the next 6 years.

My study of Intelligent Fanatics taught me that they are geniuses who have the ability to compound capital at handsome rates of return for decades and that ending your partnership with them by selling out is almost always a bad idea.



Slow Movement

From Wikipedia, the free encyclopedia

For the slow movement of music in sonata form, see Slow movement (music).

This article **needs additional citations for verification.** Please help improve this article by adding citations to reliable sources. Unsourced material may be challenged and removed. *(December 2013)*

The **Slow Movement** advocates a cultural shift toward slowing down life's pace. It began with Carlo Petrini's protest against the opening of a McDonald's restaurant in Piazza di Spagna, Rome in 1986 that sparked the creation of the Slow Food organization. Over time, this developed into a subculture in other areas, such as Cittaslow (Slow Cities), Slow living, Slow Travel, and Slow Design.

Geir Berthelsen and his creation of The World Institute of Slowness[1] presented a vision in 1999 for an entire "Slow Planet" and a need to teach the world the way of Slow. Carl Honoré's 2004 book, *In Praise of Slowness*, first explored how the Slow philosophy might be applied in every field of human endeavour and coined the phrase "Slow Movement". The *Financial Times* said the book is "to the Slow Movement what *Das Kapital* is to communism".[citation needed] Honoré describes the Slow Movement thus:

"It is a cultural revolution against the notion that faster is always better. The Slow philosophy is not about doing everything at a snail's pace. It's about seeking to do everything at the right speed. Savoring the hours and minutes rather than just counting them. Doing everything as well as possible, instead of as fast as possible. It's about quality over quantity in everything from work to food to parenting."[citation needed]

A slow food restaurant placard in Santorini, Greece.

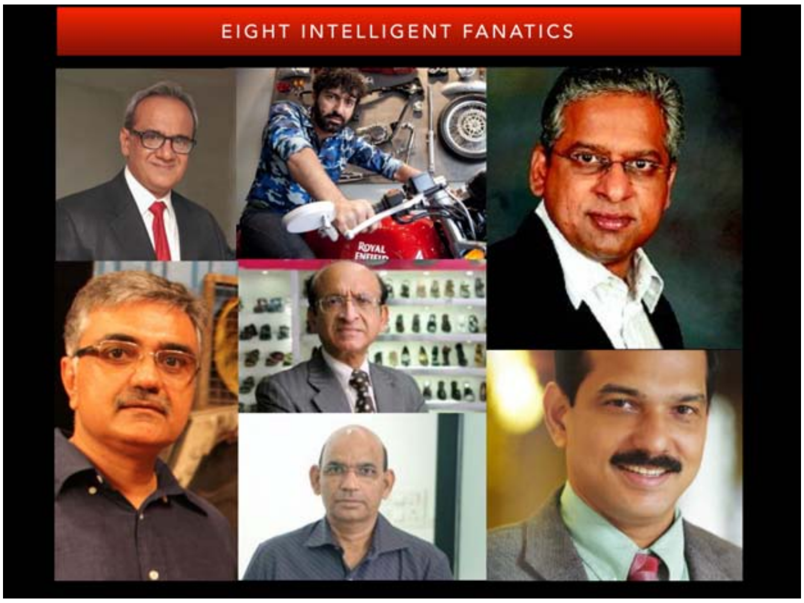
As I was enjoying this lovely town yesterday evening, I saw a couple of "slow" restaurants. Here's what wikipedia says about the slow movement:

"The Slow philosophy is not about doing everything at a snail's pace. It's about seeking to do everything at the right speed. Savouring the hours and minutes rather than just counting them. Doing everything as well as possible, instead of as fast as possible. It's about quality over quantity in everything from work to food to parenting."

I would add investing to that list.

My study of intelligent fanatics and the potential they add to a good business made me a become a patient investor. As of now, I am invested with five of these guys and plan to stay invested for a long long time.

I stated appreciating quality and when I found it, I learnt to savour it slowly like a bottle of good wine. I stopped myself from selling out of a wonderful business just because its market value had gone up a lot and I started appreciating the wisdom of a friend who says that the more he trusts the management, the longer he is willing to hold. I started focusing on the playing field and not the scoreboard. And when I did all that, the scoreboard started looking a whole lot better. My portfolio turnover fell dramatically. And the returns went up significantly. So, I really do owe a lot to these guys.



So, here is my list of eight Intelligent Fanatics. Each has the essential ingredients of an Intelligent Fanatic: Integrity, Energy and Intelligence.

Did I say eight? But I only told you about seven!

Oops! I forgot to tell you about the 8th guy. He has all the essential ingredients of an Intelligent Fanatic— Integrity, Energy and Intelligence.

And he runs a country called India.

Thank You

Sanjay Bakshi
9 July 2015