

Mohnish Pabrai's Q&A with The Kolkata Value Hunters Club on May 12, 2021

BL Chandak: Let me introduce you. You don't need introduction, but for some people I want to say that Mohnish is an Indian American investor and a philanthropist. He is the Managing Partner of Pabrai Investment Funds which was founded in 1999 on principles followed Warren Buffett. He is a good friend of Warren Buffett and Charlie Munger. He had famous lunch with Buffett, with his entire family and his friend Guy Spier in 2007 or 2008 and today his Fund is doing very well. He is following a concentrated approach and is the writer of The Dhandho Investor and Mosaic. He invests in India in emerging markets over and above the other investments. He has got a deep interest in philanthropic activities, and the Dakshana Foundation, which was founded by him is operating very well in Pune and some other cities. There are several Dakshana scholars who are getting admission in IIT, NIT and medical colleges, which is unparalleled. Last year, I came to know about this in the Millennium Mams' program on 8th of May, and thereafter I wanted to go and see this, but because of lockdowns it is pending. Mohnish, how will you like to structure the session? Will you like to give some opening remarks and then maybe it can be followed with questions and answers.

Mohnish: Yeah, I'm more interested in hearing what you guys have on your mind, but first of all, thank you for the gracious invitation and also for the very generous intro. I appreciate that. I'm also happy to note the connection with Millennium Mams'. It was fun to meet them in Omaha. I think that's a good thing, and I was very impressed with them having made the journey all the way. I think it's a wonderful group and a wonderful organization. Since many of you are from Kolkata, it is my favorite of all the cities in India. Kolkata is my most favorite city, and I think mainly because it has the best food in India. I always look forward to my visits to Kolkata and it's very varied. I have a few relatives who live in Kolkata, but one of them who's more famous than the others is my cousin who has Pabrai's Ice Creams in Kolkata. He's got the Nolen Gurer ice cream that has done quite well. Anyway, he is in the food business and he makes sure that I go to all the hole in the wall dives in Kolkata and get all the different things, like, he'll take me one place for sandwich and another place for something. It's already specialized. I've always liked Kolkata, most people don't spend enough time there, but I think I would really like to hear from you and what you guys have on your mind, and we can keep it free flowing from there.

BL Chandak: Yeah. Mohnish, till recently you were following value approach but last year I understand you went through Nick Sleep's nomad letters and you changed your strategy from value to growth. Can you give us more insight on this change of

strategy and with this change of strategy, maybe you are getting more time, and, in any case, lockdown gives a lot of time. That can also help us to discover what else is being followed by you in these days.

Mohnish: Yeah, there is a book that came out recently. It's called "Richer, Wiser, Happier".

BL Chandak: You have once referenced it.

Mohnish: Yeah. Actually, the book was published at almost the same time in India and the US. There's a paperback version available in India, but I think Amazon ran out. They probably maybe had done a second printing. It's an exceptionally well-written book, and I think you guys would enjoy it. If you have not got a copy, I would say that would be a good investment to make. I received a galley copy of this book about a year ago. It just came out in the end of April, but I got it about a year ago because the author wanted me to just check, fact-check everything and all that, and he's an exceptional writer. Chapter one is mainly on me, but my favorite chapter is chapter six. Chapter six is called Nick and Zak's excellent adventure. Nick Sleep is a wonderful investor. He's based in the UK in London, and he's been a friend of mine for maybe close to 20 years. I've known Nick for a long time, but sometimes, it would be maybe even four or five years between me talking to him or meeting him. We were in touch, but we were not in touch a lot. But I always enjoyed the interaction. What I missed is that, when I read William's chapter on Nick and Zak, I realized that Nick had gone through an evolution as an investor, and he had transitioned significantly from Graham to Buffett to Munger. Then he went beyond. I found many things very compelling about his journey. One of the things that him and his partner Qais Zakaria did is, they were managing about 3 billion in 2014. At the time, I think their largest position was Amazon. Amazon would've been probably close to a third of the entire capital, maybe close to a billion dollars.

The UK fund regulators were giving them lot of pressure that the fund is very risky, and the fund is not diversified. They were putting a lot of pressure on these guys to reduce the concentrations. One of the things that was a kind of a bedrock of something they had learned over they had started running the fund in 2001. It was a very small fund. I think when they started it in 2001, they may have had, 30, 40 million in it, and it grew. Investors came in overtime and they also did well. The bedrock for them was that they did not believe in having an overly diversified portfolio and there were a lot of core principles that would be violated, and both these guys had never imagined because when their funds started in 2001, they were employees of a large fund house in the UK called Marathon. Marathon as a management would have had maybe 50 to 60 billion under management, so these guys were analysts and they allowed them to set up a fund just for the two of them. Marathon basically said "fine, you guys can have this fund in addition to do your

analyst jobs.” Then after a few years, I think three or four years, they were able to convince Marathon management to spin them out, they let them go on their own, which probably Marathon management at this point regrets, but anyway they spun them out. Nick and Zak never expected to be extremely wealthy. But in 2014 when the UK regulators were giving them all this grief, they were each worth close to a 100 million dollars with all the fees and everything that they had made. They said why do we need to put up with this nonsense? They emailed the investors saying, “we are returning all the capital and we are closing the fund, we have other things we want to do with our lives”. They were both about 45 years old at the time. I remember I got some calls, like some endowment in the US called me at the time, and they said, “Mohnish, do you know that Nick Sleep is returning all our money?”

I said, “yeah, he's returning your money, but he told you what to do”. What Nick and Zak told them is, look, we are very concentrated in this fund, and probably even 10 years from now, the main positions will not change. They're going to stay the same. We are closing the fund. But what you guys can do when you return, when you receive the money, just invest the way we had it invested, and these are the five, six stocks that we have most your money in. Put it in those stocks. You don't need to pay us any fees anymore, and you don't need to read our boring letters. You're done. You just take your money and put it in those stocks”. I told the endowment guy, I said, “they told you what to do, so what's your problem? They said our mandate doesn't allow us to own individual stocks”. I said, “let me just understand this. If I set up a fund for you where you are the only investor, and I buy the stocks that Nick is recommending, that should be okay, and this is kind of the craziness that goes on”. Anyway, they got their hundred million each, they shut down the funds. What Nick did with the 100 million is, he put everything into three stocks, Amazon, Costco, and Berkshire Hathaway. Probably Amazon was maybe a third, probably each of them was a third, maybe Amazon may have been a little larger. At that time, Amazon was maybe around 300 dollars a share. Now it is about 3,300 dollars a share. For the most part, Zak put the money in six stocks. He was a little bit more diversified, but from 2014 till now, Zak has made no changes to the portfolio sitting exactly where the way it was.

In the case of Nick, when Amazon got 1500, he got a little bit concerned about how much concentration he has to Amazon. He added a fourth stock and cut the Amazon position half that fourth stock. A source is also done very well. This is done as well as Amazon. They have done better than probably any fund manager has done after they shut the fund down while doing almost no work, I mean he rides bicycle, he loves to race cars, he drove, he took a 50-day kind of car drive with his daughter from Beijing going across, Europe, etc., all over. What I realized when I read the Nick Sleep chapter is that they had figured out a number of things. In fact, even

when I had first started as an investor, I was a lot more of a person interested in rapidly growing businesses, which generated high returns on equity. But then, in the mid-nineties, when I started out, that's how I used to invest, but then we had the dotcom bubble and I could see that bubble was coming. Things were getting very elevated. I shifted to a more Grahamian of approach and it worked well because I think during the bubble I had no losses. In fact, 1999-2000 we were up like 70% a year and it went pretty well from there.

But I forgot to switch back, so once kind of evaluations came back, first of all, growth and value are two sides of the same core. Just because you buy Amazon doesn't mean it's not a value stock. Because you buy some whole company at one-fifth the book value doesn't mean it's a great value stock. All businesses are worth the sum of cash flows they would produce over their entire duration, discounted by some reasonable interest rates. If you're very rapidly growing business, the cash flows are increasing, so you can pay more for it because you have a growing stream of cash flow. Then if you have a declining business or a flat business, that also has a value, but it'd be a different value because those cash flows aren't growing. One of the important things that Nick and Zak figured out was this concept of scaled economy share.

Scaled economy shared is an extremely powerful model. What happens with most businesses is as they scale, they get operating leverage and the business gets more efficient and the profits increase. For example, if I take a business like, let's say MasterCard. MasterCard basically collects like 20 basis points or 25 basis points on every credit transaction that is charged to MasterCard anywhere in the world. That 20, 25 basis points comes to them. Of course, their costs are a bunch of servers and a bunch of networks if they don't have much cost. As more and more transactions are going through MasterCard, their profitability keeps rising because their costs don't go up with, but what a company like MasterCard does is, it keeps the spoils from the scaling. They don't share the scaling profits with the customers. That is not what Nick is talking about. What he's talking about is enlightened businesses, which as they scale, give the benefits of that scale back to the customer.

Very few businesses are enlightened enough to do that. A great business, which doesn't exist in India yet, but maybe some of you might be somewhat familiar with is Costco. In fact, D-mart Avenues supermalls took a lot of lessons from Costco in their business model. The D-mart business model is a combination of Costco and Walmart which is why nobody can touch them and which is why they do so well. But the Costco model is that Costco for example, has a rule that any product they sell, the maximum markup that they allow is 15%. They will not have a markup more than 15% on any product they sell. The products are really cheap compared to the other competitors.

For example, Walmart or even Amazon, the typical margin is about 25% or 30%. Pretty much almost anything you can buy at Walmart or Amazon, if you go to Costco, it'll be maybe 10% cheaper. It's a significant delta. Now, Costco can easily charge more. If they charge more, their profits will go up, but they believe that their lifetime profits will go down. Costco does not think of itself as a retailer. They think of themselves as a buying agent for their customer. They charge membership fees. Like, I pay \$50 or \$75 a year to be a member of Costco to shop there. Pretty much all the 15% margin they take is used to run the business. They don't make any money on that. The only money they make is the membership fee. The membership fee is actually what shows up in net income.

Costco does not think they're in the business of trying to maximize profit, they're in business of trying to serve their customers. For example, let's take a category like wine for example, Costco has these specialist wine buyers who have gone all over the world, and they have found the best vineyards and then they have told those vineyard owners, "listen, you don't need to do any marketing anymore. We will take your entire output for the next 20 years, we'll take your entire output, you just focus on making great wine, we will take your output, but we will pay you a fair price, not a high price because we are giving you a guarantee. As long as you keep your quality up, you're guaranteed that the business will come to you. They have great relationships with their suppliers". When you go to Costco to buy wine, for example, in any wine store, the same wine would be two or three times the price, so their wines are extremely high quality. They don't mark up more than 15% and the customers cannot get that type of deal. Each time a new Costco opens, all the Costco's benefit because they have more scale and more buying, so the scaled economy shared model that Nick Sleep honed in on, he felt it was extremely powerful model and it leads to very long runways. Amazon follows the same model, it's also scaled economy shared, it believes in sharing as much as it can with the customer, keep the price as low as possible, all of that, and look at lifetime value. The third, Berkshire Hathaway, they have like vehicle insurance and so on, they're following the same track. His perspective was that if you just had a portfolio that just followed this particular nuance of investing, you would do extremely well. When I read that, I was very intrigued. I said, I have no argument with what he's trying to say.

I think the guy is pretty enlightened. I contacted Nick again because I hadn't been in touch with him then he will send me all his letters. Actually, if you just go on Google and just do Nick Sleep investor letters or nomad investor letters, you can pull up all the letters. They're on the internet. He has posted them and I think those letters are really worth reading. Chapter six is worth reading, all the letters are worth reading. I realized that what should have been obvious to me for a long time is that

you are going to do very well as an investor if you can identify businesses that have very significant growth ahead, that have high returns in equity, treat the customers well, and have a durable moat and a durable competitive advantage. You don't necessarily need to just focus on the scale economy shared that Nick Sleep focused on.

Another insight Nick Sleep bought was that he looked at this company, Walmart. Walmart went public in 1970, and has been public for 51 years and the only people who have held the stock for the entire 51 years is the Walton family. Sam Walton died. His children have started dying and the grandchildren are still holding the stock. The Walton family pretty much has not sold, it got split amongst many different Walton family people, but they have not sold the stock, they just get the dividend. But they have held the stock for more than five decades after going public. They held it even more if you look at the time it was founded. Nick Sleep asked the question that if you own Walmart stock as an institutional investor in 1980 or 1990, what caused you to sell the stock, right? Why would you sell such a great compounder? The flip side, he asked the question that if he owned the stock of a company like K-mart which went bankrupt why would you keep that stock, what caused you to keep that stock? If you can answer those questions, those are really good.

What I realized is that in investing probably the best way to approach it is, to think of yourself as if you are the promoter of the business, don't think of yourself of an investor in the business, think of yourself as a promoter of the business and apply the same kind of mental model a promoter would apply. In India for example, we have lots of listed businesses which are more than 50, 60, 70% owned by the promoter. This is pretty common amongst listed businesses. If you look at their wealth, the wealth is also very concentrated because so much of the wealth is just sitting in one business. But they understand that business well, in many cases it's probably the best place for them to keep their money because they don't know where else they would do so well. For example, one of the things that I was thinking about in 2019, I had been making a number of trips to Turkey over the last four or five years.

I visited this company in Turkey in 2019 where the market cap was 19 million dollars and the liquidation value of the business, they are the largest warehouse operator in Turkey. They have the largest truck fleet in Turkey. They have the largest rail fleet for rail transport in Turkey. There are many different businesses that are very good. The liquidation value of the business was somewhere between 300 million and a billion dollars. This company was trading at somewhere between two percent of liquidation value and maybe, six, seven percent of liquidation value somewhere in that range. I tried to buy every share I could, because I talked to my

friend who had helped me understand some of the businesses. I said, the only question I have here is am I dealing with crores, okay that's my only question because I know the assets are good, everything is good.

There was nothing to indicate that the promoters were not straight. I tried to buy every share I could and we were able to, because Turkey has investors in Turkey. Turkey is one of the best markets to invest in because the local population and even the local institutional investors have some of the shortest holding periods for stocks. Most of the local investors in Turkey believe that they will buy some stock at 10 o'clock in the morning and by noon they should be able to sell it and make 10%. The trading volumes are extremely high. Anyway, we were able to buy one-third of this business for 7 million dollars. That time, my mindset was that it's a good business. They are like, Amazon, or Alibaba, all these guys are renting warehouses and these guys, they're like 100% leased, it's a very good business there. They have like 12 million square feet warehouses and they have a bunch of other businesses. My thinking at that time was that, okay, I know what the business is worth and when it gets close to valued at that price, then let's say the valuation goes to 300 million or 500 million. If the intrinsic value has not changed, I can sell and move on, and it will be a good investment.

After reading about Nick Sleep, I think of myself as the junior partner of the promoters of the company. I don't need to tell them what to do or neither are they interested in hearing from me what they should do because they know better than me what they should do, but happy to just cheer them all from the sideline. Now, my mindset is, not that I'm going to track what the intrinsic value is and then, when it reaches 90% of that or 100% of that to sell it, my model is that as long as the business is improving and as long as the trajectory of the business is, that it's over a longer term increasing in valuation and getting better, we'll keep owning the business, and it could be 10 years, 20 years, 30 years, I don't know how long we'll hold it.

But that mindset shifted. It shifted from say, looking at every position as, how much is this worth etc., because if you look at a business like Costco, if you look at a business like Amazon or even if you look at a business like D-mart for example, the key question you have to ask yourself is what is the destination? What does this business look like in 10 years or 20 years? What is the probability that it will look like that at that time and most business, you cannot even try to figure out what it would look like in that timeframe because capitalism is so brutal, but some businesses you might be able to get some comfort. I mean, Costco's business is so solid, they just opened their first store in China and it got mocked, I mean, there were lines, mile long lines outside people trying to get into the store. If you fast forward 20 years, Costco could have 1000 stores in China, we don't know, it could

have five stores, it may not be well or it could have a 1000 stores, we don't know, but the thing is that, it's likely it does well, so if you are a shareholder of Costco at this point, you just say, I'll just hold the stock, there's no need to make any decisions. Anyway, it's a long-winded answer to a very short question, but that's kind of what I got out of the Nick Sleep chapter and his letters and I think you guys would enjoy reading both.

BL Chandak: Yeah, I just downloaded this book yesterday and we will circulate it in our group also, but Mohnish you have been investing in India and other emerging markets, how has been your experience?

Mohnish: Well, I think India is very difficult and I think that probably if I had more of a Nick Sleep mindset, which is what I focus on now. What I would've focused on in India and what I will focus on in India in the future would be quite different from the past. I mean, not that it doesn't work, like for example, in 2015 I had made an investment in a company in Hyderabad called Rain Industries. We still are a shareholder of Rain Industries and in 2015 we invested and owned 10% of the business. That's a maximum I could own 9.99% as a foreign investor, it is the highest percentage we can own. At that time, I could not see kind of a downside, it looked like the business in the Turkey. Rain was a relatively small company based in Hyderabad, maybe their annual revenues were about 200 million dollars or less.

They did two acquisitions before 2015. I think one was in 2008 and the other one was 2011 and these two acquisitions increased their revenues from 200 million to 2 billion. They bought two businesses that increased their revenue by 10 times. Both the businesses were bought, they were not Indian businesses, one was in the US and the other one was in Europe. Both these businesses, raised basically high-yield debt in the US and the hundred percent debt financed both the companies with no recourse to the parent. What he was able to do, (Jagan Reddy, who is the managing director and the founding family), is he was able to convince the debt markets to give him about 1.5 or 1.6 billion in debt, which was the total purchase price of both the businesses.

The only collateral he provided to them was that, if it didn't work, they could take those businesses. Basically, Rain had no downside. If these deals did not work, the India business would be unaffected. It's like I'm buying a steel mill for hundred million dollars, some bank has given me a hundred million loan, and I told the bank, you have the steel mill as collateral and if the deal goes upside down with the Mr. Bank, here's the steel mill, here's the keys, warm regards, and I just leave. Okay. That's basically how that deal was done. The first deal he did, which was the US business I think was a 600 or 650 million purchase price which was all debt financed. In the first year, the business produced more than a hundred million of

free cash flow and it continued to produce like 50, 60 million a year after that, so that business was already doing well. Then he used the US business as collateral to do the second deal which was even larger, which was about a 900 million dollar purchase, it was Rutgers in Europe.

When I looked at this company, these two businesses in the US and Europe were not doing well at that time in 2014-2015. Basically, they were barely able to cover their interest expenses and the India business was pretty small, so it didn't matter, but the market cap was 200 million. The market was giving them zero credit for this international business, because they felt like okay we don't know what is the future, but I could not see a way that the company is worth less than what it was trading and I could see, that time I think in 2015, the share price was like 35, 40 rupees per share. I could see that it was easy for them in a single year to make 40 rupees a share. I said, okay, this is a pretty simple business. I'm just going to hold this stock for five, six years. They're going to be one year that's going to come because it's a cyclical business where the earnings will be 40, 50 rupees per share and I'm done. At that point, the stock cannot be at 40 rupees.

In 2017, 2018, that is exactly what happened. Their earnings in that year were 200 million dollars and the stock went to a market cap of more than two billion. It went more than 10x. Of course, I should have exited, but by that time I had fallen in love with Mr. Reddy and, I actually found that he's a very good operator and he's a very honest guy and that the business was actually getting better. I felt like, okay, this is something we want to hold because he is improving the business and all that. Like for example, some of the things they do, they spend more money that is required several million a year to make the pollution from their plants be much lower than what is required by law. No one is like asking them to do that. He's probably spending at least 10 million a year extra just to keep the pollution lower than any of his competitors, even though nobody's asking him to do because he believes it's the right thing to do.

It's like he just thinks long term, which is why I like the guy. Anyway, it went from 40 rupees to 450 rupees and then it came all the way down to 100 rupees, right, and I am just sitting there holding the stock. Then last year, when Covid hit, it went down to 50 rupees. In fact, in 2020 when it went to 50 rupees, they made so much money in the last four or five years. Actually, the stock was much cheaper than what it was in 2015 because they have added all these retained earnings. It was ridiculous anyway, now Rain is sitting at like 170, 180 or something and my love affair still continues. But the thing is, this is the kind of business that I would not buy with the Nick Sleep framework. The reason I bought this business was it was really cheap and there was no way to really lose money. But it is not a great business. It has a great operator, but it's not a great business. MasterCard is a great

business. Costco is a good business. Berkshire Hathaway is a good business. You can even say D-mart is a good business, but I would not call Rain industry a great business. I would say at best it's a good business with a great capital allocator. These are some of my learning. I think in India one has to be, (it's a mine field is the way I look at it). I think one has to be careful and the issue is that, I think what I run into in India is that, the truly great businesses, generally speaking, trade at very elevated valuations.

Once in a while, you find some dislocations, but like for example, if I look at a business like HDFC bank, right? HDFC Bank is not just a great bank, it is probably one of the best banks in the world. Not just one of the best banks in India, just in terms of how it runs and how it's operating and all of that. Maybe when you put that lens on, it's a value price, but it's on normal metrics, it doesn't appear cheap.

BL Chandak: Yeah. Mohnish, you had lunch with Warren Buffett and then he also check with you, can you arrange your lunch with Charlie Munger and then you found you went there in two day time and since you live in the same city, you had developed great friendship, can you give us some insights on your Warren Buffett and Charlie Munger learnings, which could help us in investing world?

Mohnish: Well, sometimes I have to pinch myself. I feel like I'm forest gump, first of all, it's like if you are living in the time of Gandhi or you're living in the time of Newton or Einstein and you get a chance to have lunch with these guys, would you want to take that opportunity? Right? What I realize is, Buffett was every year doing a charity lunch and basically you could bid, the highest bidder will get the lunch, and I had made so much money off his intellectual property that I felt like, there's a tuition bill due. At that time when I was trying to win the lunch which used to go for two hundred thousand or three hundred thousand, but in 2007, I think, at that time, my net worth was around like 80 million, most of it because of Warren and Charlie. I said "guru ko guru dakshina dena chahiye", so I bid on the lunch, we won the lunch, and then my friend Guy Spier and I, we went with our family. It was really wonderful, one of the things that Buffett tries to do, (because he has this every year), is he wants to make sure that whoever has won the lunch thinks they got a bargain, okay so he comes trying to give you as much value as you can, like he told us when he came that, look, we had the lunch in New York. He said I have nothing going on at all after I'm completely free. Whenever you guys are completely bored of me and you want me to leave, you let me know and I will leave, but I don't have to be someplace in one hour or something, we have as much time as you like, so he puts you at ease like you can within 10 minutes you think you're having lunch with your grandfather, which is great.

I told Warren that my wife Harina, was a big fan of his, but her real love in life is Charlie Munger. Warren got very competitive. He said, "Charlie's a very boring guy. I'm the guy who's interesting. He's a useless old guy, he's just not even worth talking to". He said, "I'm going to arrange for you guys to meet Charlie because then I will know who's the better guy to have lunch with". I thought he was just joking about this, right? But then he set us up to meet Charlie for lunch. Actually, I enjoyed the Charlie Munger lunch a lot more than the Buffett lunch, which was fun. Then that led to a nice friendship with Charlie, which I was surprised at. Now Charlie is 97, he's going to be 98 in January. I think probably maybe about a year ago he stopped going to his club for Bridge. I used to play Bridge with him at his Bridge club probably every two, three weeks. Usually, every Friday afternoon he and his friends will get together for Bridge. I had many bridge sessions with him and his friends, which was a lot of fun.

It's just a surreal experience because I'd meet him and Rick Guerin and these guys, and I would ask them about things in the fifties and sixties and seventies and, different things that were going on at the time. Of course, I think every few months Charlie invites us at his place for dinner. In fact, I was just at his place for dinner probably two months ago, and he's doing great. He's all vaccinated and everything, which is good. But yeah, I mean, extremely humble guy. Probably the smartest guy I've ever met, and smartest guy I will ever meet, he is the highest I would say that Charlie has incredible horsepower and incredible wisdom and great humility and he's a lot of fun to be with, so it's great. It's wonderful.

BL Chandak: Your inspiration to start Dakshana Foundation in 2006? What was in your mind?

Mohnish: I think the thing is that the reason Dakshana was started is that I had no choice. I think in India, a lot of people don't see it this way, but basically large inheritances to your kids and grandkids is a disservice to them. For me, the journey was fun because we started from zero, kind of built in whatever. Warren Buffett says that if you are Jesse Owen's son, the American sprinter, your son should not start hundred meter dash at the 40 meter line. Maybe he can start at the five meter line, but he should not start at the 40 meter line because he is not going to become a great sprinter if you give him that much head start. Basically, if you buy into the notion that very large inheritances are a disservice to your kids and grandkids then I think there's no choice because the only thing you can do with your money is you can either give it to your gene pool or you can give it to society. Those are only two choices.

If you're not going to give it to your gene pool and you want to give it to society, then it becomes actually a difficult question because it is much easier to make money than to give it away effectively. Giving money away is much harder, I feel.

What I wanted to do with Dakshana is, I wanted to not start thinking about giving money away when I'm 75 or 80 years old because I felt like at that time, I will have no energy and the only thing I can do is write checks or something and wanted to try to get started early. I also felt like, see in investing, we try to minimize risk, to do philanthropy well, you have to go high risk, high return because you have to try to solve the problems that society cannot solve. Poverty, illiteracy, healthcare, environment, these are all tough problems. Billions of dollars are spent by very well-meaning governments and people but we haven't solved those problems.

In philanthropy, what you really need to do is be willing to fail, swing boldly and be willing to fail. When I started Dakshana I was about 42 years. I said, if ten years we are just spinning our wheels it is okay, I will learn a few things and then we will get going from there and actually what ended up happening is that we got traction right away. It actually worked very well almost from the beginning. Within a few weeks we had a good model and we pursued that. It actually worked out significantly better than I expected, and then what happened, which was really surprising is that, some very good people started to support Dakshana. For example, R.K. Damani, D-Mart and R.K. Damani give us seven crores a year.

Actually he would give even more if we could use the money, but with our model, we can't use that much money. He keeps asking, can you take more? I said, no, I can't take more. Then we have Prem Watsa in Canada, he also gives us about a million dollar a year. Dakshana has actually worked out exceptionally. Basically, what I want to get to is that, one day before my death, hopefully there's \$1 left and everything else has been given away. If I can do it perfectly, that would be the end result. But we'll see how it actually ends up. But, as time goes on, because of compounding, I need to keep increasing the engine for Dakshana. It's not easy. I think our current engine works well, but it cannot absorb more than seven, eight billion a year. I think currently we are spending probably three, four million a year. Once we saturate the seven, eight million then I think, we will have to think about what we can do next after that, but so far it has worked out very well.

BL Chandak: Thank you Mohnish. Can Kishor come?

Kishor: Mohnish, this is Kishor Shah, as you're aware, India is going through second wave of Covid-19 and its quite widespread and there is a lurking fear that even third wave may affect us, in such a situation if you were to invest in India, would you wait for deeper correction, or still you'll look at specific business and go ahead, and if you were to invest, how would you go about finding companies or would you sector agnostic or you would look at some sectors and then you'll look at companies?

Mohnish: Yeah, I think those are good questions. Well, I think that Covid can give you an opportunity, that's a possibility because it creates uncertainty. I'm always a bottom-up investor, so I always look at a specific business and I look at the kind of nuances around that business. I think, I've never taken an approaching, I need to have exposure to a certain sector or anything like that, or even a certain country or anything like that. In my opinion, I think the first question to ask when you look at a business is, is it within your circle of competence? Is it something you understand well? I think the questions after that become easier because there are some businesses which may not get impacted much by Covid, just the nature of the business. They just may not keep, I mean, let's say for example, I look at a business like Jio, for example, right? What impact is Covid going to have on Jio? I don't think it makes much difference if people need to communicate. They have bigger degree need to communicate when they can't see each other. If anything, a business like Jio does better while Covid is happening. On the other hand, if there is some, let's say private hospital, the government put all kinds of mandates on there during Covid and it may or may not even be able to make money. It becomes a lot murkier whether what would happen in the next year or two in other businesses. I think that the question would be, can you see clarity on, for example, I think last year when Covid hit, I think airlines were not investible.

You could not invest in airlines because it was so opaque, you knew air travel would go down, then you know how much the government do to help, so some business will get affected a lot and other businesses actually will do better because of this. Like, Zoom has done much better because of Covid. I think that John Templeton used to say it that trouble is opportunity. When you have these types of events going on, the baby will get thrown out of the bathroom. If you can identify certain businesses that you understand well, and their prospects near term, long term are pretty good, then those might be worthwhile. I think especially if they fit into parameters like Nick Sleep where they're high-quality businesses at the core, and it's a good way to go.

Kishor: Let me give you an example, let's say the businesses which have been affected badly because of Covid are available at a much lower valuation compared to their past. Let's take the case of Indian hotels, it is available at a much lower valuation currently, it may not do well for next one year because of the effect Covid, but one is sure that the business will last. Would you invest in such a business or where do you see the deep value or you would look at businesses which are currently growing, but the valuations are little elevated compared to the past.

Mohnish: Indian Hotels is a very interesting business to talk about because I actually looked at them and I had a meeting probably a few years back, I think in one of the investor conferences with the CFO, and with due respect Indian hotels is the foster child of

a company that has had extremely poor capital allocation, a very, to put it bluntly, horrible capital allocation. For example, I'll just give you someone example, which I brought up the CFO and then his response to me was that he was not in the company at that time, was the only way he could defend it. But they bought the Pier Hotel in New York many years ago, and they paid a very high price to buy the Pier Hotel. The Pier Hotel is a great hotel, it's an iconic property, but what had already happened before Indian Hotels bought Pier Hotel was many of the most the best views, the rooms with the best views had already been converted into apartments and they had already been sold. The hotel was like, 60, 65% of the real estate had already been sold and given to these private owners and the rooms that were left were not the prime rooms with great views.

But that wasn't even the worst part. The worst part was that as part of the transaction, all these people who had bought apartments in the hotel, they were guaranteed for the duration of the time that they own these apartments. Anyone else owning the appointments twice a day, turn down service would be given to them for free. New York has very high labor rates. You are going and fixing 60, 70 apartments every day, twice a day. It didn't matter what the occupancy was, you're losing money handover fixed. I asked the CFO, "what is going on here?"

I mean, if you just look at a spreadsheet when you were looking at doing this deal, there's no way you can justify it. The same thing happened with Taj Boston. I think my conclusion with Indian Hotels is, it's a great place to stay and the guests are very well taken care of, and I want to stay there, but I don't want to put a penny into, so the thing is, it doesn't matter how low the price goes for me in that particular case, the thing is that I have questions. The Tata's are wonderful, but Bombay House had nothing to do with TCS and Bombay House had nothing to do with Titan. Those two businesses did extremely well. The businesses that Bombay House ran carefully with a lot of oversight, like for example, Korus Steel, Tetley Tea, TISCO, and TELCO, and everything else that you guys know better than me, you know what the results are.

Kishor: Yeah, maybe India was a wrong example, but in principle, if you get an asset which is currently affected by Covid and you know that for next or two years, it may not do well.

Mohnish: Yeah. I think if you say to me that the company has great capital allocation, okay.

Kishor: Yes.

Mohnish: It has to have, and the second thing you say to me is that their balance sheet can more than easily handle whatever hiccup year or two or three is producing. You also say to me that at the core, it's a great business. I hate the hotel business. This

makes my trip, and you transparently see all the prices and then you pick the lowest price. I mean, that's a useless business. Your dumbest competitor is setting the price. But for example, I hate the airline business too, but I have a lot of respect for Indigo right now. I still probably won't go into the airline business, but they are the lowest cost operator. They operate really well. Now Covid is hitting them really hard. I haven't looked at them, I haven't looked at balance sheet, whatever happening. But yeah, if you can figure out that the core business is a great business run by great capital allocators looking out for the shareholders, there could be some great bargains, but be careful some business you should only be customer, not an owner.

Ashok: Mr. Pabrai, I have a question for you Sir.

Mohnish: Sure.

Ashok: There is a saying that, "when you pay peanuts, you get monkeys". If we go by the characteristics of great businesses, who should be great capital allocators, and fast selling, then how to filter the best value proposition out of such a lot because all those things are known to a lot of people and the business, it is a lot expensive.

Mohnish: Well, I think that, like Charlie Munger says, why should it be easy to get rich? The thing is, be patient and when you find something that is widely best priced and you understand the asset well, you understand everything well, you can go in and that probably may not happen maybe more than two, three times, in two three years or something.

Ashok: These are basically, let me give a brief background of who I am. I superintended as the Chief Finance Officer and President of Shree Cement. When I joined the company, it was six rupees per share, when I quit, it was 30,000 rupees a share, but I could never own it. There were two reasons. One was, I always used to find it expensive. Number two was that, I did not want to go into any hassle with the regulators on insider trading kind of a point and there was no ESOP in that company. I agree with your philosophy of great capital allocators and cost saving, but then it has been compounding six rupees to 20,000 rupees, it was a 0.6-million-ton company when I joined, it became a 30-million-ton company when I left, net cash in books, no debt, all this was done. But then I was always bugged by the valuation the market was giving and me being an insider, I knew that maybe this is a great business, but does it come on that value, and that is a dilemma that I face now, there are various great businesses compounding at grade rate and good cap location. But how do you filter them?

Mohnish: Well, I think you bring up a very good point in the sense that if an insider, like you could not forecast future cash flows five or 10 years out, then obviously when you are an outsider looking into a business, the job is that much harder. The answer is

that you only need one of those in your lifetime. You have 50 years as an investor, and you only need to be right on a business like that. I'll give you an example and I find this example even more compelling than Nick Sleeps' example, we have gone past an hour, I'm not sleepy, but I don't know what your normal timings are. Mr. Chandak, have you blown past your time or are we okay?

Ashok: No, we are fine I think, that's all right.

Mohnish: Okay, that is fine. There's a company in South Africa, which is now 106 years old, they were like a book and magazine, newspaper publishing company, the company called Naspers. Some of you may have heard of it - Naspers. In 2001, Naspers, 20 years ago invested 32 million dollars into this Chinese company called Tencent, okay, they put 32 million into Tencent and they got a 43% stake in that business. What is mind blowing about Naspers and the chairman, I mean the guy who was the CEO, who is now the chairman, through the 20 years that they owned it, they never sold the stock. What ended up happening is the 32 million investment. Tencent has a market cap now of about 700 or 800 billion US dollars. They sold a little bit, I think in the first four or five years, but basically they held about one third of Tencent. The Tencent position that they own is like around 200 billion dollars. This 32 million dollar investment became 200 billion, became 8,000 fold return for them. They have done extremely well on their other investments and other things as well. This wasn't just one aberration but everything else fails in comparison to Tencent, so the company has probably got a value of about 200, 300 billion dollars at this point, and throughout this 20-year period they got tremendous pressure from every corner you can think of to sell off the Tencent.

Tencent became a billion position. They were told to sell it, 10 billion dollar position they were told to sell it, 100 billion dollar position and to their credit, the two guys who were at the top pretty much told everyone to get lost. Even now, I mean you guys may find this hard to believe, but at 700 billion Tencent is deeply undervalued, which is why they're not selling, right?

So, in the case of Nick Sleep, when he bought Amazon, I mean he bought some stock at 30, 40 dollars. He bought some stock at 100 dollars, he bought some at 200, 300, he did not get that much return on Amazon by the time the fund was shut down or even, till today. I mean even if you look at most of the Amazon position, it's up ten or twenty-fold but in the case of Naspers what blows my mind and I studied these two guys at Naspers. I studied *ki kaunsi hastiyan hai jo aise apna dhandha chala rahe hain*, and what I discovered when I studied these two guys is, this was not a fluke. This was not a bunch of gambles. These guys are extremely good at what they do and in fact he understood. One of the things that Nick Sleep understood is that exactly the Walmart story. What they understood is, they are

likely a founder of Tencent and the Naspers has a very close relationship with Tencent. They sit on their board; they actually co-invest all over the world with them.

They have a very good close relationship. Basically, Naspers, which is a South African newspaper company. The funny thing is that they bought that 32 million stake from Li Ka-Shing, okay? Li Ka-Shing is a multi-billionaire in Hong Kong, he has done extremely well, he's a really smart guy. He's worth 30 billion dollars. If he had not sold this position, he would be worth 230 billion dollars. He probably is looking in the mirror saying why the hell did I sell this position at all. But anyway, the thing is it would've been almost impossible for anyone to hold that stock for the 20 years that this company has held the stock and they're not done yet. I mean, in my opinion, I look at something like Tencent, it will not surprise me if they hold it for 20 more years and the 8,000x they're not done yet. *Abhi to kahani shuru hui hai.* The thing is that you don't need to be right that many times. What you do need is extreme patience. When you find something that is incredible, step up to the bet, make it a meaningful bet.

Ashok: Sir, I will top it up with only one comment, Hand of God!

Venkatesh: Hand of God!

Mohnish: I am sorry

Venkatesh: Hand of God!

Ashok: I said Hand of God!

Venkatesh: Mohnish, I have a couple of questions, slightly different.

BL Chandak: Venkatesh, we have only 15 minutes, so ask one or two.

Venkatesh: Yeah, just two.

BL Chandak: Then, there are other people waiting in queue.

Mohnish: *Yaha par ek-ek question ko adha adha ghanta lagta hai.*

Venkatesh: Mohnish, the first question I have is, see India for the first time in the last couple of years has grown about 100 to 150 unicorns with billion-dollar evaluations with probably a million-dollar, 10 million revenues loss making the likes of Zomato, Groww, Zerodha, the whole works across the spectrum. It's almost like India of late nineties, US of late 1990s. What do you think of this unicorn investing? Because as you correctly said in your introduction, value and growth are two sides of the same coin and it is up to the beholder how he sees the whole thing, which of these

top 100, 150 companies would you look at, would these be on your radar or what could possibly be the next 100x stock from you? That's my first question, second question is a little more interesting. How do you spend your day? What is your routine day like? What are your weekends like? My sense of that and would it be similar to what your friends do, the big friends do?

Mohnish: Well, let me take your Unicorn question first. It is almost for sure that in that group there are probably a few that will be outlier winners, long term and quite a few that may disappoint is my best guess. But the thing is that depending on your frameworks and circle of competence and what you understand, I'll give you an example. Let's take something like food delivery. Some of my friends who are very good investors, they just tell me this whole food delivery business is total nonsense. It's a very heavy logistics business. You have to have people, you've got to do all this point-to-point stuff, all this stuff going on. The restaurants are all upset because they have to give you 30% and all that. There's a lot of issues there. But the thing is, if your fast forward maybe 10 or 20 years, the situation could be quite different. We are going to set up, I mean, you are not going through so much habit change in India, I think in the rest of the world there's a much bigger habit change. But in India, you always had the ability for some random restaurant to deliver your food at home. When I first came to the US, the only thing you could get delivered was pizza. In terms of food, that was the only food delivery available. Now everything can be delivered to you and there are ventures like cloud kitchen and all these things where they are working on the logistics, right.

There's one big warehouse, which has got like 30, 40 different kitchens, and then maybe a drive through the middle. The driver will maybe pick up 30 orders at one shot, and there'll be very high density that in three buildings, he's delivering all 30 orders. It could change quite radically in terms of scale in the years. Then at that point, brand matters and, and such. It's possible that the top two, three food delivery guys in the end become incredible businesses and they become a lot bigger where they're today. My take on all this is that there's no need to have envy or scratch your head or even try to say, I need to figure out which one over here.

Things need to be at the end, they need to be a no brainer. When you're making an investment in the end, before you make the investment, it has to be a no brainer. Like, I told you that even at 700 billion, I don't consider Tencent overvalued. That's because I looked at all the pieces, what's inside those businesses and kind of where things are going and so on. They're just too many ways for them to win and too few ways for them to lose. I think the bottom line is that yeah, you can look at these unicorns. You can, in most cases they won't make any sense. Once in a while you might find something where you have some experience and the pricing or whatever else might make sense. Maybe it makes sense at that point. But if you can live a

very good life and you can actually be a very successful investor without making any of those debts. It's perfectly fine, there's a hundred different ways to move on.

My schedule is pretty simple. I learned from Buffett and from Munger to run an empty calendar. In a given week or day, I usually don't have any calls or meetings, or anything scheduled. Even Mr. Chandak contacted us so many years ago for this talk. Then finally, here we're, I forget Mr. Chandak, when did you contact us?

BL Chandak: Yeah, about two, three months.

Mohnish: Yeah. Like for example, one of my rules is.

BL Chandak: And we have sent lot of e-mails on the timeline.

Mohnish: What I am saying, like one of my rules is, I get so many requests for these things which is fine, but I only do two a month.

BL Chandak: Yeah, that's what you told.

Mohnish: Yeah, once we have booked two in a month, that's about my limit of what I can do. Then I say, okay, I think these sessions are set up into like, for most of the rest of the year, so, that's fine. Basically, I try not to put stuff on my calendar and I usually sleep late. I usually get up late, most of my emails go to my assistant, and then she gives me a folder at about 11:00 AM which has everything printed. Mr. Chandak got many notes from me. Basically, if I get a folder at 11 o'clock by about 11:20 AM I'm done with whatever I need to take care of for the day in terms of emails and then whatever responses will come, we'll deal with it the next day and then basically I like to read. What I read and such just depends on what is going on. I grew up in Dubai and India with afternoon naps. I take a nap most afternoons. I had a very nice nap this afternoon. I read, I nap, I read, dinner, I like to read again. That's pretty much, I like to play bridge. I probably play like, 5-7 hours a week of bridge. I like to ride my bike. Today, for example, I went on about a 20-kilometer bike ride. Usually on the weekends I go on about a 40-kilometer bike ride. I like to play racquetball. Now the clubs are open. I play racquetball and tennis. That's basically life.

Vijay: To add to the point of Mr. Venkatesh, we just talked about your schedules, I understand sir you don't have any subordinates, any research persons down the line to you. Then in this world of so many information coming out and the research need to be done, how do you cope up with that Sir?

Mohnish: Well, I do now have a couple of guys, and that was really an accident because we had another business that they were involved in. Then I pulled them in to help me with some research, but basically, it's very directed, in the sense that, if I'm looking

at something, I might ask them to probe into certain areas and such. But Warren and Charlie didn't use anyone. I didn't have anyone for the first, at least more than 20 years. I think the thing is that, if you invert the problem, you basically need to make only one or two bets in a year. You have a whole year, you have an empty calendar, you can read all kinds of things. Many things like Indian hotels you've done in five minutes. You can look at other things. You can be done with lots of unicorns also in five minutes. You just look at things that look more interesting and then just hone in on those.

Rinal: Hi Mohnish Sir, Rinal here. Thank you so much for taking the time out.

BL Chandak: This will be our last person and we are left with five minutes.

Rinal: Okay. Thank you so much Mohnish sir for taking time out and speaking with us. I have listened to your conversation with the MBA students at Columbia. It was very interesting to know how Warren Buffett went to prove that he is more interesting than Charlie Munger, sir you also mentioned that you are on businesses which cater to the funeral services, in India we're talking about debt is considered a taboo. Do you find it challenging to convince Indians on this pantry, thank you.

Mohnish: I'm sorry, can you just repeat the last sentence?

Rinal: Can you hear me?

Mohnish: Yeah. Just the last sentence.

Rinal: Yeah, talking about debt is kind of considered taboo in India. Do you think it is a challenge to convince investors on this?

Mohnish: Well, I think that's a good question, basically the debt business, it's a metaphor. there are many businesses in the debt business. For example, there are now, because we have all these bankruptcy laws and all this stuff in India, there is a mechanism for asset reconstruction. All this distressed debt, which is the loans are upside down. The SL and all of that that went through, there's a process by which that can be cleansed out and come out the other end. People can buy it. Like, the Piramal bought the DHFL debt recently and, they were bidding with oak tree etc. The business that the Piramal buying DHFL is a funeral services business, okay? It is a debt business because you are taking something that has basically died or needs to be given another light and you're bringing it back.

Or some company buying a bankrupt steel company, or something is again the same thing. The businesses that are in the business of either bearing the debt or bringing them back to life are both really good businesses. In the US we have many examples of businesses that are in the funeral business. For example, one of the big US

retailers is TJ Maxx. TJ Maxx has thousands of stores. But what TJ Maxx buys excess inventory that other retailers have made a mistake on. They bought ten thousand pairs of jeans they wanted, and TJ Maxx will buy them at one-third the cost. Then they'll push them into all their stores and the people who are coming to their stores know that they'll get, it's kind of like a bizarre, you don't know what you're going to get because the inventory and what their deals are again, keeps changing. But TJ Maxx is a company that does extremely well and they basically are flourishing with the mistakes of others, right? There's a company I own in the US called Seritage Growth Properties. These are the old sears that have all been shuttered and shut down and Seritage is redeveloping all that real estate into other uses. Sometimes they're becoming hospitals, sometimes they're becoming strip malls, or whatever else, or apartments and so on. They are in the rebirth business. There is no taboo, debt is for sure. If we didn't think that debt was so sure, you have got enough data now in the last few weeks, that is for sure. Companies that are in that business will do very well. In the US, when I first started investing, there were couple of actual companies that doing funeral services and they do a role of these billion-dollar companies that owned thousands of funeral homes and all of that.

It was an in incredible business because I don't know how many people will die. I don't know who will die in Salt Lake City, but I know how many will die. The recurrence of that business, so funeral services business in the US they never go bankrupt. They never have any revenue problem. Nobody ever asked how much you're going to charge. In every other business, people ask like, Indian hotels, how much is the hotel rate? Nobody asks when your uncle has died, let me go find six places which will do the funeral and take the lowest price. Unless it was a really bad uncle, no one's going to do that. Okay, basically you have pricing power, nobody questions your margins. People just want things done quickly and so on. It's a great business action. I think if you think of a metaphor and look at businesses that are either in the debt business or in the rebirth business like asset reconstruction, those are good businesses to be.

BL Chandak: Thank you Mohnish, will you take one more question and then we close.

Sandeep: Sir, you are an admirer of Warren and Warren invests mostly in the US, you have large of your investments in India, and I mean in percentage terms, so how do you see India in next 5, 10 years in terms of GDP or in terms of Per capita, GDP or in terms of listed market capitalization? Where do you see the value in terms of listed space, which industry you see value in the listed space?

Mohnish: Well, I think that my experience with India has led me to become somewhat skeptical. The thing is that India doesn't grow because of the government. It still grows. Or like they say, India grows at night while the government sleeps. I just

find that there are so many low-hanging fruits in India in terms of things that could be unshackled. We went through some unshackling maybe 30 years ago but still I find that there are huge amounts of market distorting regulations around which really crimp what an entrepreneur can do. For me, the main I would say question or, and the optimistic part of me says that I hope and pray that these shackles are removed. Because Indians are natural entrepreneurs, we would do really well if we are given the incentives and the government ships out of the way. It has happened. But when I look around in different companies in different industries and I look around in terms of, the times of regulations and things that we have in the US, I just see a night and day difference. The thing that is really kind of disheartening for me is India's, India and Singapore had the same poor capital at GDP about 70 years ago. 70, 75 years ago it was about the same. It is no longer the same as you know. There is a night and day difference. Singapore actually had pretty much no resource because there's a small swamp invested area without any infrastructure or anything. I feel that there is so much potential in India and so much further it can grow and can grow so fast for so long. But it requires significant changes to happen. I don't particularly look at which sector or which area, I just look bottoms up at businesses. If I can find a specific business which has some nuances that are interesting then definitely, I would look at that. But I don't start at a high level saying I need to be invested in the software business and let me find the software company or so on. I never look at it that way, but Mr. Chandak this was a lot of fun. Thank you very much.

BL Chandak: Yeah, thank you so much for the insights you gave. Can I ask Ishita to propose vote of thanks to you.

Ishita: Hi Mohnish. Thank you so much. This forum has had some phenomenal speakers, I think it's a tough act to follow, but I must say that this is one of the highest attendances that we've had in these talks. This was fantastic. Thank you so much. I mean, at this group, we have all read your books and we followed you for a while. Even like the way you've explained your Dhandho, I think it was just so unique and just like this talk. Thank you so much for so crisply and succinctly talking to us about your thoughts, your insights, and the way you approach investing. This is very helpful. Thank you so much. Hope you have a great day at Omaha.

Mohnish: All right, thank you very much, it was a lot of fun.