

Mohnish Pabrai's Q&A with Peking University (Guanghua School of Management) on May 01, 2019

Mohnish: First of all, welcome to the awesome students of Peking University. Welcome to Irvine. As you can see, we live in paradise. Life is great and no complaints. I will tell you a few stories, then we will take your questions. Okay, first I will bore you with my stories. Then we will get into some more interesting things. I have a personal trainer at my health club. His name is Jason. I have been with Jason for a long time. I would look better if I ate what Jason told me to eat. I don't do that. The result is not as good as if I follow Jason's advice because I can only follow the advice for the physical things we do. Anyway, Jason has been my trainer for probably more than 12 or 14 years. It's been a long time, and I asked Jason every time there is a Powerball lottery, you guys know what a Powerball lottery is, sometimes the payout will be like 500 million, 700 million. Whenever the payout is really big, Jason always buys a ticket. I asked Jason. I said "Jason, listen, what is going to happen if you win the Powerball? Can you explain what your life is going to be like one day after you get the 500 million". Jason thought about it and he said, "I just want to hang out at the club". I said, "How are you going to dress after the 500 million?" He says, "probably exactly the way I dress right now". Then what are you going to do in the morning? He said, "well, I probably just going to come to the club". I said, "Jason after you get the 500 million, am I going to be a client of yours?" He says, "Yeah, I will probably keep you as a client. Some of the clients I will drop. I just make it a little flexible, which one I want, but I will probably just come and hang out at the club. That is it, okay. When Jason told me that it reminded me of what Buffett says. What Buffett says is that you should take the job you would do if you were not getting paid. It is very important that when you pick in terms of what career or job or company you go for, go to work for that. If there was a way you could support yourself, pay your rent, etc., and this company paid you nothing, you still go to work there. If you do that, you have made the right decision. If you make the decision based on the highest pay or the most prestigious name or any of those things, that is the wrong way to make a decision, you will probably later regret that decision. This is the first talk I think I am giving where I did not put on pants. Did you notice I did not put on pants? Like the legs are exposed, terrible, okay. Why did I not put on pant? The reason I did not put on pants is I wanted you guys to see me the way I am dressed every day. I did not wear special clothes for you today. I am sorry, okay? Everyday Fahad and Jaya work with me. They have got sick of looking at my legs, they wished I would cover them, but it is the way it is. Every day when I go to work, I go to work in shorts. If I am dressed like this, and why do I do that? Why do I not have, because I am running an

investment fund of about 800 million dollars? It is a serious activity. Why do I not put on a suit and tie and go to work? Because I think I will be less comfortable and I will not be as excited to do that every day. I like my Nike sneakers, do you like my sneakers? I think it is better than wearing dress and shoes. The reason I did this is that, if Pabrai Investment funds did not pay me, just like with Jason not getting paid, I would want someplace to go to work. I would probably dress like this. I don't want to do something which I am doing because I am getting paid, because that is the wrong decision. Also, I learned many things from Warren and Charlie, especially from Warren. One of the things I learned is to run an empty calendar. Nothing on the schedule, like Warren will show you his calendar for days and weeks, he has nothing on the schedule. It is just he comes to work, reads, if he wants to call someone, he will call someone, but there is nothing that he needs to do at 10:00 AM or 10:30 AM. He doesn't work like that, and neither does Charlie work like that. When I saw that, that is how these guys work, I said, that is really good, and I will copy that. I copied the fact that like today I had peeking you on the schedule. I think it is the only thing on my schedule this week. Usually, they might maximum like one thing or something. Sometimes there is nothing on the schedule. How does Buffett operate such a large company with so many CEOs, many things, with nothing on the calendar? Because what will happen with him is some senator will call him "Mr. Buffett, can we meet tomorrow for lunch, for example, Jeff Bezos will call him, can we meet, and what Buffett said is, you have to be really good at saying no". If I wanted to fill my calendar, it is very easy to fill. Every day people make all kinds of requests. I have about 400 investors all over the world, I can't even remember the last time I ever had a phone call with any of them or ever had an email with any of them or when I last met them. I learned from Warren Buffett when he ran the Buffett partnerships. He told his investors, I am open for one day of the year when we have our meeting, and you can come to the meeting, and on that day, we can talk about whatever you want to talk about. The other 364 days I am working, I am not available to you. If you want to ask me something, come on it one day and I will give you an annual letter, which will explain what is going on. Buffett said, his communication to his investors was actually he did two letters six-month and one-year letters to investors, and once a year an annual meeting. Now, when he did it like that, what happened is that his time got freed up, right? Because he doesn't have to. Let us say my fund goes down 20%, I don't want to sit there all-day answering questions about why it is down. What happens is when the fund is down, nobody calls because they are very well trained. I spent a lot of time training them because they know even if they call, they get no data, so there is no point in calling. Basically, what happens is that I did all of that because I wanted to have a lifestyle that was set up so that I would do this if I was not getting paid. If I have to go to work and I have 30 calls to answer or a lot of emails to look

at or whatever else, it just becomes a drag. I could not come up with these ideas on my own. I came up with this idea from Warren and Charlie and I copied it. One of the most important models that you can adopt is the model of cloning. When you see someone doing something smart, just incorporate it, that is a good way to go. There is a friend of mine Guy Spier, he came to Peking U with me, I think two, three years ago. Guy and I are good friends, and in fact, he was just in Irvine last week, and we were in Vancouver for the TED conference the week before that. We are very good friends. He is an investor. He manages about 200 odd million. Many times we talk about different talks and ideas to just get different perspectives. Guy loves to own these great businesses that have very strong moats and they are blue chip, really good businesses. The problem is that when you own these really great businesses, everybody knows they are great. Usually, the price is very high. I told him it is not about the great business; it is about the great investment. A company can be really good, but it doesn't mean it will be a good investment, and a company can be not so good and it could be a great investment. The interesting thing about the investing game is, if the game was simply about finding the best assets or the highest quality businesses, it would be a very simple game because we can obviously figure out what business is great and what business is not so great. That is not so hard to figure out. I found this okay business in India, which I thought was going to become a better business. People haven't heard about it; it is kind of unknown. I told Guy this quirky unknown business is going to be a great investment. I told him, he owned a MasterCard in his portfolio. Mastercard is a very good business, very high quality, almost an oligopoly two, three players own the market. They don't need any capital to run the business. I mean, like, 40% of revenue is profit, it is a great business. I said this MasterCard is like 30 times earnings. You made a lot of money. He already made like 12 times what he put in, but a long time back, he put 1 million, and it became 12 million. I said you made a lot of money. It is not going to go from 12 million to 144 million. If the last 12 years it went from 1 million to 12 million, let me just tell you the next 12 years, it is not going from 12 to 144. I said, Guy, listen, I shook him up. It is time to sell MasterCard and buy Sunteck Realty in Mumbai. This unknown company, and of course, Guy in polite terms told me, "get lost". What I do when people do that is I like to play mathematical games. It is just fun to play mathematical games. This is a picture of a small poster in my office, and I have many of these at any given time. I have maybe 10 of these because I run into these humans who don't understand the concept of great investment and great company. I told Guy, "Okay, here is what we are going to do". It is October 14th, 2018. This is when I had this conversation with him. In your corner is the phenomenal MasterCard with the impregnable moat oligopoly business, great CEO, and everything is fantastic. That is called the Guy Spier pick. At that time, MasterCard was \$204 a share in my corner, this small

stupid company in Mumbai, Sunteck Realty, no one has even heard of it, right. MasterCard, the market cap was \$212 billion. It is a blue chip company. Sunteck is less than \$700 million. It is absolutely, I agree with Guy, The Guy running Sunteck is not as good as the Guy running MasterCard. The moat of MasterCard is a lot better than the moat of Sunteck, but that is not what this contest is about. This contest is about, I gave him 12 years. I said we are not going to have a one-year contest because anything can happen in one year. Because basically one of the things that Munger and Buffett say is that if you have a business with great economics, over the long term, your results will match the returns that the business generates over the long term. MasterCard generates great returns. I said, Guy, you have got such a great company. I got this useless company. We are going to go for 12 years. Every year now, when it is October 13th, 2019, it will be a pleasure to go to work in shorts and send Guy an email, "Dear Guy, It has been one year. Here is where we stand so far. One round is over, and another 11 rounds to go". Let us look a little further into these two businesses. This is MasterCard. If you bought MasterCard at IPO, when it IPOed in 2006, it was \$4 and 23 cents in the IPO in 2006. Now yesterday it is \$254 more than 50 times, maybe 55 times in 13 years, unbelievable. Guy didn't even buy over here. I think he bought at maybe around \$20 a share, maybe somewhere here, in 2010. Every time I meet Guy, I tell Guy, "Guy, have you sold MasterCard?" "No, I cannot sell MasterCard. It is too precious to sell it. How can I sell it?" Look at this. Can you sell this? You can't sell this. Then we have just some data. It is 261 billion market cap. The trailing PE is 42. I am almost having like a cardiac 42 times trailing PE. The Trailing return on equity is 106. (We will give you all the slides. You don't need to take pictures, don't worry. I send you all the slides). Trailing return equity 106% and annualized returns since the IPO, 37% unbelievable, great, but that is in the past is not going to help Guy in the future. We care about the future. We don't care about the past, right? Now here is Sunteck. Look at the stupid chart. MasterCard is so beautiful, Sunteck, is so useless. Now let me tell you why I don't want to make this session about stock tips. Don't think this is stock tip, it is just to explain some concepts. In India, about three years ago, there was something that was known as demonetization that took place. Some of you may be familiar with it, but what the government did is they made a bunch of currency notes illegal, and you had to put those in a bank and then get different notes because they wanted to wipe out cash transactions and black money and all these things. There was an underground economy and they wanted to kill that. Real estate transactions in India in 2016 and earlier, they were always some portion paid by cheque and some portion under the table cash. It is a combination, right? When demonetization took place, it became impossible to pay cash because the cash is all illegal. What happened is the real estate firms, most of them, they dealt in a lot of cash. People thought, Oh, the real estate market is just clobbered, it

has gone because people don't have the money, they can't come up with money from the banks. I noticed that in November or December of 2016, these real estate companies that were publicly traded had collapsed in value because of this thing. But the people forgot something when they did that. If you look at that circle, when Sunteck was trading about a hundred rupees a share, one could do a very simple exercise at that time, I could look at the real estate Sunteck owned because it was just listed what they own. They had a bunch of finished apartments, they have in construction, they have land, all these things. Those have a valuation, either a market value or a cost value. This was a company, there were few companies that never dealt in cash. They always did things the right way. Before demonetization, it was a disadvantage to them because people would try to tell them, No, I cannot do this if we don't do cash. They said, we can't do any other way. We have to do everything properly. After demonetization, what happened is that 90% of the real estate companies disappeared. They can no longer function in that economy. There were three things that took place in India and real estate demonetization, something known as RERA (Real Estate Regulatory Act) and GST (Goods and Services Tax). The combination of these three, the end result was that 90% of the developers were out of business and very few developers were left standing. The ones that were left standing were the ones that always conducted their affairs with very high quality. They delivered the properties, they did everything by the rules. They followed everything. Sunteck was one of them. At that time, when the stock was at about a hundred, the market value of the company was less than 200 million dollars. Just one project that they had where they had 60 finished apartments in the heart of Mumbai. Those apartments were worth about 500 million. There is no debt. The market cap is 200 million. They have 25 projects. One project is 500 million. They have another 24. When I started to look at the value of everything they had, it was many times the value of the stock. There is no comparison. The reason is that, because people, when there is a seismic event like this, demonetization, they just run to the exit. Everyone just sell the stock and run. The stock is sitting there, no one is interested. But I am interested. I tell the broker every share, anyone who has any shares just buy as much as you can. Now we own 9.999%. That is the maximum allowed to own. The maximum that I could buy, I bought one 10 to the company we own. You can see what happened after that, in the last three years, it went up almost five times. It went from a hundred to almost 460 or close to 500, right? In fact, I am not even doing the contest with Guy from 2016. I am not using that a hundred-rupee price against MasterCard. I am using a price when it is already gone up quite a bit. If I go back, I am not using 100, I am using 355, right? It has already gone up quite a bit. But I said, Guy, even with the 355 will kick MasterCards, no problem. I am hoping that in five or seven years, he will understand what is already obvious to all of you. There is Sunteck, these are the numbers. The market cap is

now close to a billion. Trailing PE looks high 30 times. ROE is low. I don't care about the returns since the IPO. But the return since demonetization, which is when we invested for the first time, is 400%. The annual return since then is about 95%. Here is where we stand today. We started October 18th until today, MasterCard is up 25% pretty good from October to May 25%. Sunteck is up 38%, so far Mohnish is ahead. Well done, Mohnish, but we have 11 and a half years left to go. Now, let me just tell you something else about MasterCard. Buffett invested in Coca-Cola. He bought Coca-Cola stock for the first time. From 1988 till 2000, it went up like 12 or 14 times. It went up a lot. They put about 1.2 billion worth, like almost 15 billion, very nice one, from 2000 onwards, so Coke was very cheap. By 2000, it was trading at 40 times earnings. From 2000 to 2018, Coke delivered a return of less than 3% a year. Why did it deliver a return of 3% a year? It is still a great company. The Chinese love Coke. You love Coke. There you go. Coke has a global footprint. It does well everywhere. The bottling business is separate, it makes a lot of money. The return equity is great, just like MasterCard. It is a great business. But the thing is, the starting price that you pay matters. In 2000, you were paying more than 40 times earnings for that business. By 2018 it is trading at 17 times earnings. The multiple went from 40 to 17. MasterCard actually, in my opinion, is not a good business as Coke. Why is it not as good as business, because it is subject to disruption. In China there is no MasterCard, do you guys use MasterCard in China? No. It's wiped out, it's not allowed to come in. The payment systems in China are way more advanced compared to MasterCard and they are much cheaper. The frictional cost is much low. MasterCard gets 2% on every transaction. In 2030 I don't know whether they will get 2%, you know what I am saying? Now if I go to my favorite stock, Moutai, do we love Moutai? Yes, absolutely. What company? The ultimate moat, I can't think of another company which has a better moat than Moutai. Can Moutai be disrupted? How can Moutai's business collapse? What would cause the business of Moutai to collapse? We know if I compare MasterCard to Moutai, MasterCard can collapse. Moutai is very hard to collapse because it has a thousand-year history, and it is embedded in people's heads and they have so much inventory. The thing is, it has got all the brand cache. China is rising, all of those things, their large tailwinds that keep coming, they just keep raising the price. The thing is that Moutai phenomenal mode. One of the issues with master card is the payment system. It may be possible that in 2030, MasterCard is still doing fine. It is also possible MasterCard in 2030 is not doing fine, right? We don't know. Anyway, my way of dealing with this is play a game. Let us play a game and I could never get Guy to buy even one share of Sunteck even after the contest started everything, but maybe in five or seven years. We will go to Q & A in a second. We will do them in the end. We will do that later. But let me continue so we can finish this off. Now we have this company. I told you I have many of these contests

running with many different people. Another person and I, you could see it is blacked out here. I didn't want to put his name, protection of privacy. We don't care about Guy's privacy. We care a little bit more about other people privacy. A money manager told me recently, this is just April 7th. This game just started 23 days ago. Mohnish, Mother'son Sumi is an unbelievable business. I said Mr. X, forget Mother'son Sumi. The action is in Rain Industries. Now, in this case, both businesses are in India. Let me just explain something about Mother'son Sumi, you will enjoy this. Look at that chart. I think I can see MasterCard chart right on top of it. Mother'son Sumi, in 1994, when it went public, it was at 9 cents. Now it is at 146, 30% annualized return over 24 or 25 years. It is great. What does Mother'son Sumi do? First of all, the name Mother'son, the guy who runs it who I met is a great guy, I like him a lot. Chaand started his business with his mother. Since he started the business with his mother, he said the name should be Mother'son. Mother'son and Sumitomo in Japan is a partner of this. Mother'son Sumi, that is the name of the company. But Mother'son Sumi is a very unusual company. They make auto parts, automobile parts. But the way they run the business is completely different from any auto parts company in the world. He has acquired over the last 25 years, maybe 30 or 40 businesses around the world, China, Europe, India, everywhere. They have got like, dozens of plants all over the world. But Chaand, who is the owner and CEO says, we never call a company to tell them we want to buy them. We have never done that. If some company calls us and say, please buy us, we also do not do that. I don't approach any company. He says to buy them. Any company that comes to me, I also don't buy. He says, my customer is BMW, Volkswagen, Fiat Chrysler, etc., he says, BMW will call me and say Chaand I have a rear-view mirror maker parts guy who is losing a lot of money and they are losing \$2 million a month, and I think they are going to go out of business. My seventh series BMW line is going to come to a stop if that guy goes out of business. They say to Chaand," Chaand, can you buy that business?" Chaand says, "I only have five or six customers, BMW, Daimler, Fiat, blah, blah, blah, GM, and so on". When BMW calls him, Chaand says, "BMW, don't worry, I will take care of it". In two days he looks at the business and tells BMW, "You are right. This business is losing 2 million a month. It is a worthless business, not worth any. Mr. BMW, here is what you are going to do. You are going to write me a cheque for a hundred million dollars to cover my losses for four years, 24 million a year. You are going to give me a contract that you are going to buy my product". What is the acquisition cost minus 100 million, BMW writes him a cheque. Why does BMW write him a check? The seventh series line is going to come to a stop. They can't stop the line. You cannot stop making BMWs. They will lose billions of dollars. Chaand buys the mirror manufacturer and he does not make many changes. He only makes two or three changes. First change, whoever is running that plant is fired, first change.

Who is the owner of running the plant? They are gone. Second change, he looks within the organization, finds a person no more than 35 years old and tells the person you are now the new plant manager from the same plant. He does not send his own people. He takes. If they buy a plant in Austria, they look at the people in Austria in that plant, and they will pick a guy and the person they may pick maybe four levels below the CEO. They don't care, straight; he becomes a top guy. The third thing that typically happens at Motherson Sumi, buy the plant in about three months, it stops losing money. He got paid a hundred million, he only lost 6 million after that in next three months, it is making a little bit of money. After one year, very solidly profitable. BMW is extremely happy and how many companies can BMW call like that? Not many. Chaand understands his job, who is his customer? His customer is BMW, what is his job? Take their pain away and they will call him and say, Chaand this harness company, I have a problem. Chaand says, "You have no problem. I am there" In one day, they do the deal. Other principles that Motherson Sumi uses, they have never relocated a plant to save on labor. They don't take a plant in Germany and move it to China. Never done that because they want to be loyal to the people who are there. They said, we will make it work with those same people. We don't need to move the plant. The other thing they do is Motherson Sumi runs on SAP. The software platform is SAP. They don't impose anything on the company they acquire. If the mirror company is using some other software, they will build all the interfaces at Motherson so they can deal with them, but they don't ask that company to change. Over time, that company is going to realize I am better off being a recipe as well. They will change. Then what Chaand has done, because he is a very good manager, he has his plant managers who are all these young guys talking to each other, they meet every six months or something, sharing best practices, going back and forth and on and on. Motherson Sumi, I think in the last two or three years, I met about 200 public company CEOs in India, about 200, no one is as good as this guy. No one best out of the 200. But I took a bet against Chaand. Just like I took a bet against MasterCard and I told the Guy, Chaand will lose. You know what the fund manager told me? "Mohnish, can I share this picture with Chaand the CEO of Motherson Sumi?" I said, please feel free. Because Chaand is very competitive. The moment he see the picture like this his blood will boil that he wants to take the other company out. I said, you share the picture, do whatever you want. Rain is going to blow him away. Stupid Rain that no one's heard of. Here is Motherson Sumi. I love my job, it is so much fun. You go in the shorts; you start a contest and then just watch the drama. So much fun. That is why I don't need to get paid. It is fun without getting paid. Here is Motherson Sumi, 6.6 billion market value. Trailing PE is 27, high return to equity and since the IPO, 30% a year. This is not even the thing that Chaand does. Chaand tells you in five years what the revenue's going to be, what the profit is going to be, what everything is

going to be. He already told the market. He already told the market that in 2023, my revenue will be 70% more than today. The market tell them Chaand, how are you going to get 70% auto parts? He said, don't worry, the phone call will come, I will keep doing the deals, right? Chaand already told the market what he is going to do. Then we have Rain Industries. You see all the Motherson Sumi chart, right? Just to remind you of the Motherson Sumi chart, this is the Motherson Sumi chart. Here is the Rain industry's chart. Nothing happening from 1991 till 2015 flat. The opposite of Chaand. But I don't care about all this. This is when I invested for the first time. I am going to make sure I keep you guys on track. The Rain Industries, somebody sent me an email which had a write up on Rain Industries. I never heard of this company before that. Someone sent me a pdf, about 20 pages explaining Rain Industries. Three hours after reading the pdf, I said I am buying every share. Told the broker to buy every share, whoever wants to sell, I will buy it. Guess what? I bought 9.999% of Rain Industries just like Sunteck, 9.999%, they won't let me go over 10. Just one share below 10. I just sit there. Why did I buy Rain Industries? The thing about Rain Industries was that when I saw the report I got, the market value was 200 million dollars and it is in the aluminum supply chain business. Like they make you know, these coal tar pitch and different products which go into the manufacturer of aluminum. It is an oligopoly, the only two, three players in the world who provide that. It is very concentrated. When I read the report, I said, it is a very high probability that in one year, maybe in next three, four years, they will make 200 million. I am buying the whole company for 200 million in 2015. I thought by 2018 or 2019 in single year, they will make 200 million. Of course, I won't buy stock then, right? That actually happened. I bought at about 35 rupees a share, and for some time nothing happened. Then in 2018, it says 450 rupees a share from 35 to 450. Then it comes down all the way. Even if I look at the, where it's come down still a 3x, it is still 3x in three years, but at the peak, at the peak it was 12 x in three years. Why did it do that? It did that because people did not understand the business. Motherson Sumi is a business everyone loves. 30 analysts are following it. Chaand talks to all of them. They love him. Mastercard, 30 analysts following the company, you are not going to get missed pricing. Rain Industries, nobody follows it. Rain is very important because it is like Sunteck there are moats, Maotai has a moat. Motherson Sumi has a moat, MasterCard has a moat. There are hidden moats, Hidden moats are very important. Rain is a hidden moat. This guy who runs Rain, he got the business for his father. They never had any capital. That's why from the beginning they were a cement plant. They couldn't do anything. He borrowed 1.5 billion high yield debt in the US market and bought two large businesses with nothing down. What he did was he borrowed one and a half billion dollars, bought this business. If the business did not work, he did not put even \$1 of his own money. The bank can just take the business. He doesn't lose anything. If

it works, it is his. Both the businesses worked and then he played under debt. Now suddenly the one and a half billion buy was 10 times the size of the company at that time. There is a company that has 200 million in revenue. It goes and buys the company that has 2 billion in revenue. That is what happened with Rain. They bought a company that was 10 times the size that they were at, and they borrowed the whole thing and they borrowed it non-recourse, where if it doesn't work, it cannot affect them. Very brilliantly done. Then the other thing I noticed with Rain was that when they put up incremental capital, they want very high returns. Like they have a project going on right now where they are spending about 70 billion. Some CapEx is going on, it will increase earnings by 45 million. You spend 70 million pre-tax, you are getting 45 million, really good return in equity. Anyway, the bottom line is Rain is another company that has got these things going on and market cap now is about 500 million, 550 million. The PE only six times earnings, unlike 30 times there, return equity. Then, since I invested, it is 36% annualize and 248% overall. Then if we look at kind of, what has happened in that contest, This contest only started three weeks ago, so there is no data, but Motherson is down about 4% and we are up about 15%. The ship is going in the right direction, but if we meet again, I will give you an update. What is going on? The main thing I wanted to convey to you was that, the interesting thing about investing business is, it is not only about finding great businesses, of course it is good to find great businesses, and in fact, I believe Rain actually is a great business. It is just sort not known like that. Maybe in five or 10 years, the guy who runs Rain will get a reputation like the Motherson guy, maybe if and when that happens, it would be at 30 times earnings. It will get to that point. In the meantime, we own one 10 to the business and we just sit on it, let it ride. Those were thoughts I wanted to share with you. We can open up for questions and if you just tell me whether you are a grad student, undergrad student, or if you are working in industry, that would be great. So tell me your name and your question, and we will go from there.

Student: It is a very good talk. Since you compare the great business and great investment, the difference and you mentioned that Warren bought the coca cola in 1988, and then they have great return since 2000. Then do you think it is a mistake? He heard from 2000, if you think maybe you do the contest with Warren in 2000....

Mohnish: Warren actually talked about the Coke investment.

Student: Yes, that. Why?

Mohnish: He actually talked about the Coke investment in 99, 2000, 2001. At that time, right around 2000, he was very euphoric about Coke. If you go back and look at the Berkshire annual report, they put all the meetings online, no, Buffett.cnb.com. If you go to the 2000 meeting and you hear the discussion on Coke, at that time, from

88 to 2000, just gone straight up nothing else, straight up 45 times earnings, it's doing really well. He was, I think, a euphoric about Coke. About three years later now, he said, for Berkshire, it is a difficult decision to go in and out of stocks because they are so big. The moment he starts selling, the price is going to drop and all that. He mentioned that in hindsight, it was probably a mistake not to sell. But also you have to remember with Berkshire Hathaway, the math is different because they have so much cash. Like today, they can't sell Coke, it will go to treasuries. It makes no sense. But clearly in 2001, 2002 it would have been a really good decision to move out of Coke. At that time, Berkshire did not have as much cash and they could have run something else with it. But Buffett also has a bias, which is a good bias. His bias is he wants to be a collector of great businesses, and he doesn't want to time it. If you think about Berkshire's co-investment, now it is 31 years old since they bought it. I don't think even for next 25 or 30 years, they will sell it, they just keep it. Of course, the returns, in my opinion they may now get better because the multiple is lower. It may be better for next 10 years than last 10 years. But even the best investor, Warren Buffett is going to make mistakes. Him not selling coke in 2001, probably a mistake just the way it is. But in the investing business, you can be wrong 40% of the time. You still do very well, so no problem. Next question.

Student: Thank you for your great talk. I have two questions. The first one is that, do you think a great company is the precondition for a great investment? The second question is, how did you predict the future growth of Rain industry, because in the past it didn't grow as much. I think for value investing, we usually look at a company that have great performance before, and they use what is a competitive advantage to predict whether it can grow as well in the future. But for this company, it didn't grow a lot in the past. How can you predict it will grow a lot in the future?

Mohnish: Yeah, I think that is a very good question. Please have a seat. In this particular company, in the case of Rain, the company had taken some very bold steps. They took a very bold step in 2000 I think in 2008 when they bought one business in the United States, they bought about a billion dollars, and they bought a business in the United States. What they did was, at that time, they borrowed high yield debt, which means they were paying about 11 or 12% interest, but non-recourse means if it didn't work, they had no liability. They bought this business for 1 billion without putting any money from their side. The entire 1 billion came from the bond issue. Which means that if it works they have upside. If it doesn't work, they have no downside. That \$1 billion purchase was five times the size of their business in India. It is a very significant event and because they have so much interest payment going on, earnings are not really coming through on that because it is paying on the interest. But you could see that, that deal was a good deal. Then about three years later, he bought a second business in Europe. Again, same thing, he borrowed 700

million for the second one, but he did something smart. He put all the debt on the first business he bought. If things didn't work, the second business, he would just own it. He would still own it. For an Indian company in India to convince Merrill Lynch, Goldman Sachs, etc., to underwrite a bond issue of this type is not easy. You just can't show up in New York and say, Hey, give me a billion dollars. But he was able to convince the bankers to give him the money, which means, borrowing money is much harder than borrowing equity. It is a lot more stringent. The first data point was that he was actually able to convince the bankers and they were actually able to raise the capital and buy the companies. What Buffett says is that, there are two ways to look at the history of the business. You can look at the stock chart, that is one history. The other is look at the actual record. What is going on in the company? What happened was the two businesses were very good, but in 2015, the industry was going through a downturn. Their earnings were very slim. I could see that there is cyclical in that business. It goes up and down, but we were at a low point in that cyclical, it was hard to see that we would go below that. I said, Okay, even at the low point, they are still making money. They are still okay. If it changes, it changes a lot. What happened in the next three years, from 2015 to 2018 is their earnings increased. What they did was they took the 11% debt, refinanced it, now the interest rate is five and a half percent. They took the debt interest rate, they cut it in half and non-recourse. What I noticed is that every time the company do some capital project, they always execute really well. It all comes in on time, they are doing well. Initially when I bought the business in 2015, I just thought, this is a cheap business. I will make five times my money and I will sell and go. I thought, Okay, buy in 2015, but 2018, 2019, make five times your money, sell it, and go on. That is what my thought was. Then as I understood, one thing to remember about investing is, you will only learn the business after you own it. You will not know the business when you analyze it. When you become an owner, that is when you know it, so from 2015 onwards, I really started to understand the business and the CEO of this business, he does not want to meet investors. He doesn't meet investors, He just wants to run a business. After I think in 2017, I approached the company for the first time to meet them, the CFO said, I will meet you, the CEO is not interested. I met the CFO that gave me some information about the business. Then I told the CFO, I am coming again to Hyderabad, can you ask Jagan if he will meet me? Now they knew that I had held the stock for three years, and I have not touched even one share. It is just sitting there. That position is sitting for three years. The CEO agrees to meet me. When he agrees to meet me, I could see he is really not interested to meet. He wants to just be in his plant, running his plant. But in that meeting, I think we have some connection. We make some connection. Then January of this year, I told him I am coming again. He was excited to meet me. I said, Okay, good. Now we can actually meet sometimes. I was finally

able to get into how his brain works. Like with Mother'son Sumi you have to understand the way Chaand's brain works. Like Chaand will wait for BMW to call. He is not going to react until BMW calls. That is a very powerful part of the mode. With Rain, I understood that Jagan is a very good capital allocator, he understands capital allocation really well. He is going to be very careful where he puts his bets and he is architecting the business to become better and better. I said, Okay, this looks good. I think for the market to understand all this, because he doesn't talk to them. It may take five years, it may take them a long time, it is fine. But we think of ourselves as owners of the business. We own one 10th of that business. I think of myself as an owner. I want to own that business for 10 years, 15 years. I just want to own that business. Sunteck I want to own that for 10, 15 years. The other thing that is happening in Mumbai with Sunteck Realty, which I forgot to say, is that the whole city of Mumbai in the next maybe 30 or 40 years will get torn down and rebuilt because the land is very valuable and all the buildings are two, three story. All of those will go away and become big towers like China, right? That tear down and rebuild, there are only eight or nine players left in the whole city. Mumbai is expected to become one of the most densely populated cities in the world in 50 years, it will have like 60 million people. That whole housing of 60 million will get torn down and rebuilt by 10 companies. Sunteck is one of those 10 companies. We just have to sit for a while and just watch the show. When they tear down and rebuild that business is really good because you keep selling the apartments before the towers up, people are putting deposits as the towers coming up. It is a really good business from that perspective. Anyway, the bottom line is that these were what I would call special situations where the business was there, it was good, but there was kind of a cloud on it. Most people will not invest in businesses like that because they just can't see it. But I think our job as investors is to peel the onion, and the most exciting ones are ones where you find a great moat, but no one else can see it yet you invest before people can see it. Yeah, go ahead.

Student: For me, it looks like the MasterCard and the Sunteck own a good business. But the only difference is a good business and great business. If you have tenfold of the money you have right now, would you change the selection when you are choosing the stock? That means you have different risk. That is also in term of you having the defining value investment is could be different. Would you change the philosophy if you have more money when you are choosing the stock and first question and second question is looks like when you pick up the stocks, not after long time in the stock show up a very good up trying. Would you see any significant symptoms or anything happened when you pick up the stocks? Thanks

Mohnish: I think I got your question. If I don't answer it, we can try and do it again. But the thing is, one of the reasons I made this presentation is because I have in the last 25

years as an investor, not paid as much attention to great businesses as I should. The best way to invest is to buy a great business that is going to grow for a long time. Hopefully you can get it at a cheap price. If you can get it at a cheap price and you can hold for a long time, that is the best way to go. My initial framework was buy a business at 50, 60% discount. It may not be that good, but in three years that discount is gone. It may be grown a little bit, so you can maybe double or triple your money and you can sell it and move on. The problem with that approach is that you have to keep finding new ones. Sometimes you make a mistake and a lot of tax gets paid. Obviously if you can find long runways of great businesses, but so the way I am wired is, I tell my friend Guy Spier that to me, it appears that you have hung up your boots like you are retired. You just want to own MasterCard and American Express and Berkshire Hathaway and do not do anything. It is fine. You do pretty well. I think my take is I can do better than those. I don't think I have the type of psychological makeup, which will allow me to say, Oh, it is enough money. Now we go into preservation mode. Mohnish will probably never go into preservation mode. Mohnish wants to pound and hit it out of the park. That is what we want to try and do. But one of the things I am trying to learn is I said, I don't want to invest in MasterCard and Mother's Sumi, that 30 analysts following it. What am I going to know that they don't know? All the story I told you on MasterCard and Mother's Sumi, everybody knows it. Moutai, everybody knows it. Now I own Moutai such a good stalk, so awesome. But the thing is that these are fully priced maybe all priced. For me the key is can I find the hidden moat and I think Rain Industries is an example of a company that 10 years from now, people will think of differently. Now, let us say in the next 10 years, something happens to Jagan, the guy running it, that will be serious problem. That will be a problem. For MasterCard, that is not a problem. It doesn't matter what happens to the guy running Mastercard, it will keep doing well, but for Sunteck and Rain, the person running it is quite critical today. I have more risk in terms of what happens to if something happens to the person. I have to watch that. If something happens to either of those two people, I have to get out because then I don't know what is going on. All bets are off because the bet is that this guy is a phenomenal operator. Even Mother's Sumi, if something happened to that guy 10 years ago, it wouldn't get where it is because he has got all the clarity. Now today, it probably doesn't matter because it is just embedded in the company that this is how we operate and such. I think that is the as I am learning more about investing, because this is a lifelong journey you definitely want to try to own good businesses, great businesses, but you want to do the work to invest in them when no one understands it. That is really the key.

Student: I know you're a big fan of Warren Buffett, but it sounds like your philosophy is quite different, or your practice is quite different from Warren Buffett. I have three

questions. The first one is about Rain Industry. It is very interesting, you mentioned the hidden moat of the company, but from my perspective, I heard the LBO definitely, it is a very phenomenal leverage buyout case here in Rain. But do you think it is the moats for the company? Because it is quite like one time or two times, but it is not a like recurring operating thing for the company. Just in traditional classical value investing, you have to think about the recurring operating things like revenue or earnings. But for the MNAs, it could be good at this time, but it is not a like recurring

Mohnish: Right. let me I will get you the other two questions in a second.

Student: One by one

Mohnish: (Please have a seat), but let me just go through Rain in a little bit more detail so you understand it. A company has 200 million in revenue. They do what I call a public LBO and buy 2 billion of revenue with a lot of debt, right? 1.5 billion in debt. They bought 2 billion revenue. What I liked about that, normally I don't want that, is that I spent a lot of time studying can the debt hurt them and the way it was structured the debt, in the worst-case scenario they just lose what they bought. They didn't put any money in it. They get back to where they are. They cannot go below where they are. They can go above. That is the first thing. With any LBO, you are right, that you get a pop from the leverage, but Rain, this is what I thought when I bought rain, I said, Okay, there is leverages there. Once there is debt, they can rectify it, they can do a few things, they can get more equity. You can get four or five times your money. That is what my original thought. But what I realized after owning it for two or three years was that the guy running it, (because I went back and talked to him), he is about 53 years old, and I had a conversation with him about his journey from his early twenties. He went to Purdue University here in the US and most of his career, he was very capital constrained. He didn't have the money, he is trying to do things. He didn't have the money, which is why he borrowed all this to get this, the assets they bought, those are oligopoly assets. There are only two or three players in the world who can provide those products. They are very critical. If Alcoa wants to start an aluminum plant in the US, they will not start the plant till they talk to Rain. Rain has to tell them, I can provide you the product. only after that they will start the smelter. The products are unusual in the sense that they are not commodity products. They actually have a lot of long-term contracts and stuff. The second thing I found out was that I saw him now allocate capital in an interesting way. Rain allocated 140 million to two projects, capital projects, that will generate a hundred million a year pretax. If I spend \$14 on CapEx and after tax, I am going to get \$70, \$7 a year, I spend 14, and every year I get seven. That is extremely good capital allocation. A company which only has a market cap of 200 million when I buy it, is now able to add close to 80 or a hundred million free tax on the reinvested

capital. If you run that engine for a few years, let us say Rain in 2019 produces a hundred million of extra cash and they reinvested, they will probably make 50, 60 million on that, then 2020, they make 150 million reinvested. They probably make a hundred million on that. If your reinvesting rates are like that, I want to run this thing for 10 years, I want to see. In my opinion, there is a chance that we will get to a company that maybe makes 4 or 500 million a year, where in 2015 the market cap was 200 million. And even if that doesn't happen because my buy price was so low and they have refined everything and all that, it is hard to lose. But let us go to your next question.

Student: Thank you. Fair enough. The second question is I think the two cases you had mentioned Sunteck is quite similar to event driven things because of the demonetization in India that help Sunteck, boosts their business. Also about Motherson Sumi, you have mentioned that the suppliers or is clients needs to give the call, right? It doesn't seem like it is very convincing that it has all, it always have the cost because for example, for the Motherson Sumi in the automobile industry, it is not a common phenomena that BMW.

Mohnish: Just to give you some information about Motherson Sumi auto parts manufacturing is a terrible business. One of the worst businesses you can be in is auto parts. You know why? Because BMW beats you very strong.

Student: Yes.

Mohnish: Beats you up over and over on your head to drop your margin, drop your price, drop everything, and the other side, the union beats you up. You get squeezed on both sides, union on one side and BMW on the other side, both squeezing you. The number of auto parts companies that go bankrupt every year is a very long list. One thing to remember about business is, businesses going to the graveyard continuously happening. Motherson Sumi is very powerful because it is a law of physics that x auto parts companies will fail every year, guaranteed. And some of those that fail will cause, so what BMW tries to do, they want second source, on everything they want second source.

Student: Exactly.

Mohnish: Right, but what happens is that because these supply chains are so efficient, what happened is, let us say I have mirror manufacturers and I have two mirror manufacturers. The problem with the second guy doesn't have the capacity. It is going to take him 18 months to come up with the capacity. He can, you know what I am saying? You still have a problem with your line. Yeah. You did second source, you still have a problem. What I am trying to say is that Motherson Sumi for 25 years, has nonstop been buying these businesses by phone calls from the auto

companies. In the next five years, he will get more phone calls. That is guaranteed to happen because it is such a lousy business. The people running these auto parts operations, they get old. It gets more difficult. The guy has made a lot of money. He has not that is why he takes the old guy out, puts a 35-year-old who has nothing and gets it going again. The thing is that, the rebirth of these places is taking place. I would just say this, that companies going to the graveyard companies failing is guaranteed. That is a great business to be in. Motherson does really well because it rescues graveyard companies. The rescue of graveyard companies is an incredible business. What I am saying is if you watch Motherson in the future, I think that they will continue their revenues, margins, profits will continue to grow. I have no doubt about that. I know that, that is going to happen, right? But go ahead with your next question.

Student: Yeah. I just want to share a little bit. In China, the practice is when you are as strong as like BMW, you have four or five at least suppliers

Mohnish: Yeah.

Student: In the row, so you don't like?

Mohnish: Motherson has a number of plants in China given to them by BMW. Same thing, it is not that it happened only in Europe, it happened in China, it happened in Eastern Europe, it happened in Russia, in India, in Latin America, their plants all over the world. Even in China, they got the call, take the money, take the plant, please take it. They got the call even. No, because the reason is, it is very specialized, auto you just get, the thing is that the problem with auto manufacturing is everyone went to the Japanese model, which is very efficient Supply chains, the tyre comes 15 minutes before it goes in the car, right? That supply chain is super-efficient. Anything off, and it all goes. The thing is that once you start having some issues, and many times the BMW can tell the issue is the guy running it is an idiot and BMW doesn't want to buy that plant because they lose even more money. If BMW runner, they lose even more money. Motherson gives them quick close. Motherson says, I will start tomorrow. You know what I am saying? The moat they have with BMW is the trust. BMW knows I can wire him the money, it is not going anywhere. He is going to start. He has shown me how many times he has done this in the past. According to me, the Motherson moat is just an incredible moat and that guy, I mean, I met that guy. He is an unbelievable leader. I can see his people, they take a bullet from him. He is just an unusual guy.

Student: Great CEO for MNA

Mohnish: He is a fantastic CEO. I give you an example I was talking to him and I owned Fiat Chrysler. I owned the stock Fiat Chrysler. I was just telling him by the way, I see

you do business with Fiat Chrysler. Fiat Chrysler had an auto parts business called Magneti Marelli. Chaand says to me, he says, Sergio Marquina, I met him in Detroit and they wanted Motherson Sumi to take over all the Magneti Marelli India plants. They wanted to have them take them over because they knew that if he runs it, it will run better. But what they wanted was Fiat keeps 51% and he keeps 49%. Fiat has control. Chaand told the CEO of Fiat Chrysler, let me tell you how this deal is going to get done. The way this deal is going to get done is all those plants, I will have 51% and you will have 49%. He is telling Fiat Chrysler the big guy, you are going to be the minority partner. I am going to be in control. Fiat Chrysler said, we never do that. He says, look, here is list of 10 companies. You call them, they will all give you the majority to you. I am the only guy who will not give it to you. I am here for another five minutes. You can either do it my way or I leave. Fiat did it his way. They give him 51%, which means they gave him full control. Again the reason is because the trust is there, right? He is a good negotiator and he got the control because he said, I don't want to deal with, I don't need to, I don't want to talk to Fiat bureaucracy for things I have to change, I am going to move and do my changes myself. You know, I don't need to talk to you guys. They agreed. I think that the Motherson moat is the unusual mode. I don't own the stock, but it is very powerful. In fact, I don't know of any auto parts company in the world that I would say is a better business than Motherson Sumi. I don't know of any this, because this is very unusual because you are basically a part of BMW. BMW know they got my back pocket. There is a problem called Chaand, you know? Next question.

Student: All right, the last one.

Mohnish: Yeah.

Student: On the way here, I watched your presentation last year about the 10 accommodations.

Mohnish: 10 Commandments.

Student: Yeah. 10 Commandments. It is great. But I have a few questions, about this one question. You don't like analyst teams to help you select all the companies. You want to do it by yourself or how many teammates do you have in your company?

Mohnish: Well, I pretty much operate myself. We have Dhandho Funds, we have Fahad and Jaya who work on Dhandho Funds. That is a separate business. But the thing is Pabrai Investment funds I got this straight from Warren and Charlie. How many analysts does Charlie have? Zero. Warren Zero. Warren has got the whole Berkshire Hathaway, everything going on. Still zero analysts. Actually we don't need analysts. Why do we not need analysts? I only need to find two or three stocks

in a year. I have enough time to find three stocks, no problem. To find three stocks, why do you need 10 people?

Student: Yeah. But actually, you have to select from a lot of companies

Mohnish: You know what you do, you know how you select, you be a cloner I watch what Li Lu does.

Student: But your philosophy is a little bit different than others, right? You don't want the public known good companies or great companies

Mohnish: Yeah. But the thing is, you are going to send me an idea,

Student: Like what?

Mohnish: You are going to send me your best idea, Dear Mohnish, this is really good.

Student: Yeah that is the very like ability for you

Mohnish: But my email address, just so you all have it. Mp@pabraifunds.com. Don't send me jokes. Please send me your best ideas. I need ideas. I have no team. I depend on you.

Student: Yeah. It is just my question. Where is your source?

Mohnish: My source is open source. The best you depend on, the best part is now. I just started buying a stock yesterday. Some guy in Canada sent that, (God bless him). Rain Industries was sent by a guy in Vancouver. I didn't know him. I went to Vancouver. I said, Listen, we make so many million dollars, I need to buy you lunch. At least let me pay you for lunch. I make sure I buy him good lunch, dim sum lunch in Vancouver. I think almost last few ideas, they all come from other people. They are not well known. You have to dig through and all that. But then, we like those. We like those that are not known and all that. There are 50,000 stocks in the world. There are at least 3000 of them that are severely underpriced, if not more. I probably cannot understand most of those 3000. I just need to understand three or four of them. That's it. It is not very difficult.

Student: Great!

Mohnish: It is actually good not to have a team. You are not forced to do anything. If you send me idea and I don't like it. I just move it away. It is okay. No problem.

Student: It is an advantage

Mohnish: Yeah, exactly. Thank you.

Student: Thank you very much.

Mohnish: Okay. Yeah, go ahead.

Student: It seems that you really love small but good business, and especially with when it is trading a cheap price. I found that China has many small companies this year in Hong Kong, in stock market shares, and many of them have management issues or management problems. My question is, how do you make sure that your company management act to maximize the shareholders value?

Mohnish: Yeah, actually it is not true that I am always buying small companies. Recently we took a stake in Micron. They make memories. The market cap of micron is more than 40 billion. We are not always buying small companies. I mean, Fiat Chrysler. Now, I think the market cap is over 20 billion, for example. One of the things about capitalism is that, many small companies will never become big companies. They will always stay small. A very small number of companies actually have something unusual that will allow them to grow, because capitalism is very brutal. Like you said, in Hong Kong, these companies have issues. The moment they have issues, we are moving on. If the issue is with the people are definitely not interested. If you notice the Sunteck and Rain industries, the people are very high quality. I don't have governance issues or anything with the people. They are very high-quality people. Now, I will give you the example of Sunteck. The guy who is the promoter of Sunteck, he owns 68% of the company. If it has a \$1 billion value, his family has 680 million in wealth in the company. One of the questions I have is, he is in India, 680 million is a lot of money in India, right? It would be like 680 million in China. One of my questions is; is this guy going to still keep working hard? Because it is a lot of money, right? I have to make the assessment. My assessment with him was, yeah, because I talked to him, I said, Listen, your company is a billion dollars. Do you have aspirations for it to be 10 billion? He said, yes. I said, what are you going to do with the money? He said, I had not thought about that. But he wants to drive, right? Now, it doesn't mean he'll get there, but at least he needs to have some ambitions to go there. The same thing with Rain, I am convinced that he has zero interest in money. I think Rain, the family owns 40% of about 500 million. The family has about 200 odd million today. But they don't care about that. They just want to keep going. I think it is true that a lot of small companies will never become big companies. It is true that if you have governance issues with the people, I think you should just take a pass, because I think that then you are playing uphill battle and such. But as long as you can find the business economics are good, and the people are good, and the value is low, then we can make something happen. The good thing with investing is there are so many stocks that one of my commandments was to be unreasonable. Many stocks that if everything is not perfect, just say no, Toss it, go to the next one, again, say no, toss it. Keep tossing,

be a harsh grader, and that will generally work out well, I think maybe one more question.

Student: I think the Indian stock market is quite different from the US stock market, right? I guess my question is how do you see the key difference of doing value investing, like between the Indian stock market and US stock market?

Mohnish: Yeah. That is a great question. One of the big differences is that, when I invest in the US, I probably never ever meet the people. We bought Micron technology, I have never met the people, I have never met the company. In India, we will not invest unless we have really kicked the tires. Because one of the problems we have in India is we have a lot of fraud. In the US, I can lose money because I am stupid, but I am not going to lose money because of fraud. I have actually met with companies in India, which are total frauds. I am in the room meeting them, and it is obvious the whole thing is a fraud. Once you start looking at what is going on. So far in India, we have never lost money because of fraud. That is one of the things I want to protect against. The second thing is that in India, most of the companies are majority promoter owned, and so one of the issues is that many of them don't think it is a public company. They think it is their own company. They ignore the fact that they are public. Sometimes that is a negative because they don't care about the outside shareholders and such. I definitely want to make sure that the business that we are investing in, the accounting is clean, the auditor is correct, the money is actually there, the guy is honest, and the person provides governance best practices for the outside shareholder. All those things become relevant, but the advantage that India has versus the US is a lot of companies are under followed, or they are not well understood. I can find more gap between price and value. In the US what has happened is that we used to have 8,000 public companies about 25 years ago. Now that number is 3,600. It went down from 8,000 to 3,600, and the number of analysts and funds following those companies has skyrocketed. It is much harder to find value gaps in the US versus India. You have to adjust. You have to adjust the tool set. I think probably similar adjustments in China as well, because you got to make sure that the baseline is set where you are, you are not looking at a fraudulent company, it is a real business and the people are high quality and so on. Thank you very much for all your time, and I hope you have a great time in Omaha. I know you will enjoy that a lot. It is wonderful. I think Peking University is giving you a tremendous education and Himalaya capital, give them a round of applause. Thank you for helping sponsor your trip and so on. Thank you.