

Mohnish Pabrai's Session with EO Gurgaon, India on January 10, 2023

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Organizer: Hi Mohnish, welcome!

Mohnish: Great to be with you EO, it's wonderful. Thanks for hosting me.

Organizer: Thank you very much. I think Mudit is just joining and is supposed to do a quick intro. We are so happy to have you. We are eagerly looking forward to this event and along with EO Gurgaon, we have various other members of the EO South Asia community from various chapters joining us today.

Mohnish: Okay, that's wonderful.

Speaker 2: Mudit, do you want to take it on?

Mudit: Hi everyone. Welcome to the first Virtual Learning Event of the year. In attendance, today are the members and spouses from the EO Gurgaon. I am Mudit, the Learning Chair. Additionally, we have specially invited members of the EO Investment Club called the FinServ, which has members from all over South Asia. The champion of the FinServ Club, Aayush Munjal will also join me in asking questions at the end of the event.

Today we have the privilege to speak with Mohnish Pabrai. Mohnish is the Founder and Managing Partner of the Pabrai Investment Funds, Founder and CEO of the Dhandho Funds, and author of the *Dhandho Investor* and *Mosaic Perspectives on Investing*. He is also the Founder and Chairman of the Dakshana Foundation.

To truly give you a flavor of who Mohnish is, I will quote his friend, Guy Spier from the Education of a Value Investor, page 63 where he says, "Mohnish has a colorful background. He's a grandson of a well-known magician and the son of a businessman who's had at least as many failures as successes. Born in 1964, Mohnish grew up in Mumbai, Delhi, and Dubai. He arrived in the US as a penniless student in the 1980s. He went on to build an IT consulting and servicing business called TransTech, which he financed with \$70,000 in credit card debt and about \$30,000 from his 401k. TransTech's revenues grew to \$20 million, and he ultimately sold the company for \$6 million. Mohnish discovered Warren Buffett and value investing through the loan scene biography and by studying Berkshire's annual letters to shareholders. He was so captivated that in 1999 he set up his own investment firm. The returns of the Pabrai Investment Funds have been superb. In 2013, Forbes published an article headlined "How Mohnish Pabrai crushed the market by 1100% since 2000."

Mohnish shall speak to us for a short while and then we have some pre-prepared questions after that time permitting. We will take some questions from the audience. If you have any questions, please type them

in the chat box. Mohnish, thank you so much for being here with us. The floor is yours.

Mohnish: Thank you Mudit, it's a pleasure and honor to speak to EO Gurgaon. I've been a deep admirer of EO for a very long time and I've also been a member of YPO now for almost 26 years. I used to have a head full of hair when I joined YPO, and the impact of YPO has had a forum, etc. A lot of you are familiar with this transformation. There wouldn't have been a Pabrai Investment Fund without my forum. There wouldn't have been a Dakshana Foundation. A lot of impacts on my personal life, which have been very positive, I'm always very excited to speak to entrepreneurs and business leaders. I think job creation, and such is the key to shared prosperity for a large swath of the population. It all starts with entrepreneurs having an impossible dream and then taking it from there.

Just a few remarks before we go into what you have on your mind. Buffett has a quote, he says, "I'm a better investor because I'm a businessman. I'm a better businessman because I'm an investor." There's a lot of cross-pollination between being a good investor and being a good business leader. Most of you spend most of your time running and managing your various businesses. If you had a little better understanding of how investing works and how capital allocation works, it can actually be very useful to you on how you run your business. One of the key tenets of capitalism is that capitalism is creative destruction. It's basically very brutal. If you end up with a mousetrap doing really well, growing well, high returns on capital and so on, a lot of people will try to take that away from you. Usually, they will succeed.

It is capitalism that almost every business that is created will eventually disappear. If you look at the number of businesses that are around a hundred years back, it will be a very small number. If you go further back 200 to 300 years, it's almost close to zero. There's one hotel in Japan that has been in business for 700 years, in the same family. It is like a 40-room hotel somewhere in northern Japan. That's very unusual to have that many generations be able to keep a business solvent. Most businesses may not even get past five years, or two years, or even one year after they start. Very few will make it past 10 years, and even fewer a couple of decades, and so on. Even the ones that survive, their issue is if they're any good, they will attract a lot of competition. Eventually, for most businesses, competitive advantage tends to be diminished or closed over time. It's the nature of capitalism.

We end up with some quirks, which sometimes are not predictable. These quirks are the kind of accidents that history brands built. We have with us some businesses like Coca-Cola, American Express, Pepsi, VISA, and so on. They have endured and lasted for a very long time. Many of these businesses, when they started, the founders couldn't see that they were just trying to put one foot in front of the other. Accidentally a lot of these things get built, sustained, and so on. One of the things that I think can be very useful to entrepreneurs and CEOs is that in your business when you are looking at adding capital or allocating some of the earnings into growth or into expansion, it should be fairly apparent what the likely returns are expected to be. With past history, you can clearly see this plant is going to cost 100 crores or 50 crores. I can borrow some of it, and

maybe there's a certain equity that goes in with it. You can get a sense of what the return profile on that equity is going to be and if that return profile is not attractive.

What happens with both businesses is they're on a treadmill. If someone's in the cement business and they have a bunch of cement plants, all they can think about when the cash comes in is, let's expand the capacity, let's build another plant, so on and so forth. There's nothing else they know how to do. That's all they know how to do. They just go down that path.

Someone in the cement business in India had told me that every 10 years, we have two great years or three great years. It's a tough business. It's a cyclical business. But I would say, add a couple of mental models to the way you think about allocating capital.

The first mental model is that if you're not getting at least 15, 20, or 25% return on incremental capital going into your business, it may not be worth thinking about it. I'm just saying you might be able to get close to double digit with debt instruments and such. I would say that the bar should be close to around 120% at a minimum in terms of incremental return. If you're going to invest 20 crores into your business, you should be able to see four or five crores come out of it.

The second is that a hallmark of a great business is that it does well, high returns and equity without much use of leverage. The second thing is to clear whether you need to have a lot of leverage to make the numbers work. That's usually a red flag. What do you do if you're in the cement business and are looking at a new plant? The plant will give you low teens or 15% projections, which can be off. It could actually end up being 9% as well. It could be much lower than what you think. As entrepreneurs, we are always optimistic. We should always discount the numbers ourselves. What do you do? What is your Plan B? I would say that there are two things to do. You can add to your arsenal. This can be very helpful to you. You always have the option to put the cash into a low cost index fund. If you don't have a good way to grow capital significantly in your business, you could use the business as a cash cow and buy a mid-cap index or a small cap index. This allows the money as cash coming in to go into double digits and you don't have to do much work with it. Over time, it gets risk adjusted as it goes. It goes in kind of a dollar cost average over time or a rupee cost average.

The second framework, which is probably likely to give you better results would require a significant change in mind-set. Very few companies can do this. One needs to be creative about planting new seeds. What I mean by that is there are companies, it's a small minority of companies which can enter new businesses and/or enter adjacent businesses. You want to keep the bet sizes really small. If you can think of areas or opportunities outside your core business, again if you are in the cement business, you know how to run plants. They could be somewhat of a different take on a different type of manufacturing that may be less commodity like. You could make some small investment and use those small investments as the tuition bill to learn. The invested capital is small, so if the return is low or even if it disappears, it doesn't work. It's not the end of the world because you didn't put a lot of money in and you could do a number of

these serial bets. You could try one and see if it works, and if not, just keep going.

The thing about investing is the whole entrepreneurship and capitalism. The payoffs are asymmetric. The maximum you can lose is what you put in. The maximum you can win could be 50X, 100X, 20X, 10X. Because of that asymmetry, it's worth pursuing that. Once you have something working and now you have two engines, you can gradually take the foot off one accelerator and pump it on the other one. You can figure out whichever one has better returns on capital, better business, and so on and so forth.

Another approach you can take, which would probably take some work, in my opinion, control is overrated. A lot of entrepreneurs think that when they control their business, they control their destiny. Actually, it is really the market which controls you. You don't control anything. Your competitors control you; your customers control you, your employees control you, a lot of people control you. I had an "aha" moment from one of the geniuses, Warren Buffett in '94, when I was running my IT business. It was just like three years old at that time, and it was growing pretty rapidly. We were growing maybe 70 to 80% a year. When you run your own business, what happens is you will spend maybe 3 or 4% of your time on figuring out strategy and direction. 96, 97, 98% of time goes into all the blocking and tackling to make the strategy happen. There's a lot of heavy lifting to make your ideas come to reality and work.

In my case, what I found is that I really enjoyed the 3 or 4% of time a lot more than the 96%. I think the 96% was fine, it was fun when I was doing it for the first time. But I really liked the 3 to 4% of time in my IT business. What was happening in those three or four years, probably would happen every three years. Whatever focus we had tended to get commoditized, more companies came into that area. The margins started to go down. I had to constantly reinvent new practices and new directions within the business that were newer and had higher margins. Whenever I was doing this exercise of trying to figure that out, I really enjoyed that time. Of course, I had to work on making that happen, which was pretty good, but not as enjoyable as the pure strategy.

When I first encountered Buffett, I was reading about him. I realized basically what he had done was taken that 4% of time and expanded it to 80%. Instead of doing the heavy lifting himself, he spent all his time figuring out which businesses were great, which businesses were mispriced, which businesses had great business models, and then he would make passive investments into those businesses. He didn't control those businesses. He made an investment in Coke, he made an investment in American Express, or he bought the railroad. With a railroad, of course they own it completely. He bought it like an intact business already running with management and all.

I said, "Wow, this is awesome that I could take 4% to 80% and I don't have to do the heavy lifting, I don't have to have any employees." If you don't have any employees, you have no problems. I don't have to really do much. I said, "This is the Holy Grail. I'm going to go down this path." That's really what drew me into investing. It's the same part of the brain. Actually, entrepreneurs and business leaders are already set up to be great investors because the part of your brain you use that 3 to 4% of the time

trying to figure out which company, which business, or which stock you should buy or sell. The frameworks between the two are very similar. They use the same brain cells and that's why Buffett says, "I'm a better businessman because I'm an investor. I'm a better investor because I'm a businessman."

When I heard about Buffett in '94, I read everything I could about him. At that time, I had sold a small portion of my business. After taxes, I had about a million dollars, which I really didn't need. The business didn't need capital. I took that million and started investing in public equities. I wanted to see what the results were. I wanted to see how I enjoyed this.

I started spending like 10 to 15 to 20 hours a week on studying businesses and making some investments. From 1995 to 2000, that million became like \$13 million. Of course, from 1995 to 2000, we also had a good bull market, which was helpful. I said, "Well done Mohnish, very well done." At the same time, I was running my IT business. In some years I was making more money alone, part-time investing than my business was making with 70 to 80 people. I said, "Okay, there's something wrong with this picture here." Eventually in 1999 I lost interest in the company as it got bigger as my job was turning more into an HR job. I really didn't enjoy running the company. When I didn't enjoy what I was doing, I just resigned, and found something else to do. I had two rules. If I was not excited to go to work on Monday morning, rule number one was, don't go to work. Rule number two was, hit the reset button. When I was losing interest in the IT business in 1999, there was no one to design to. I owned the company, it was a monster I had created, and all the problems were because of me. I felt trapped.

Then my forum, my YPO forum told the moderate, I need to really present because I'm not in good shape here. I told them, "Listen, I have no interest in this company. I own this company and I really don't even want to go to work." They walked me through it. They came up with something which I should have thought of myself. They said, "You can always own the business without running it. You just find another CEO to run it." I said, "Hey, why didn't I think about that? That's a good solution." They said, "It'll take you six-months to find someone, put a smile on your face, go to work every day, it's ending in six months." I did that. In a few months, we found a guy who was really excited to run the company and I gave him incentives. I was able to move on.

After just a few months when he was there for only about two months, he called me and said, "Someone wants to buy the business." He had relocated from Dallas to Chicago. I didn't want to pull the rug out from under him. I said, "What do you think we should do?" He said, "Sell it." All his options and everything were going to end immediately on change of control. He was going to collect what would've taken him five years on two months of work.

Then the people who were buying the company, they wanted him to run it. They were going to give him a new package. So, for him, it was a no-brainer, just sell the business. For me, I really didn't have any great love for the business. I said, "Okay, I'm in." The best part was they were not looking at me because I had already left. They were not looking at me to run the business or be involved in any way. All they wanted with for me was a five

year non-compete. I said, "Look, I can give you a 50 year non-compete." I was that sure I would never go back into the IT business. They didn't have any sense of humour about that. They said, "We want five years and that's it." Basically, I got cashed out and my CEO went on to run their business. It's still running. It has been a company now for 31 years. I haven't been involved in it for 23 years or something, 22 years.

That's a little bit about what I would suggest with two or three of the frameworks. Control is overrated.

When Buffett bought Coca-Cola, he didn't control the company. He still doesn't. He used to host these MBA students and do sessions with them. He would tell them, look at the book of the room, and there would be drinks for them. Coke products of course. He said, "I really don't care whether you drink the Cokes or not, but just open the cap." His thing was that every eighth can that gets opened 1 or 2 cents comes to Berkshire Hathaway. It doesn't matter whether you drink the coke or not, just open the can. All he does is count how many cans get opened every day. Life is good.

I think with that maybe we can switch to what you have in mind.

Mudit: Okay, thanks. I really enjoyed the humour that you bring to this. This is a new one for us. I'd love to hear a little bit more about asymmetries, the concept of decoupling risk, and the reward that you speak about specifically in the context of entrepreneurship.

Mohnish: In general, you are all running businesses and many of you are founders. The nature of successful entrepreneurship is you can take a very small amount of capital and convert into a very large amount of capital just because the venture takes off. Send me some names of your companies. These businesses were small embryonic businesses that didn't take that much capital to get going. We see that all the time in entrepreneurship. On the other hand, you can also have failures. The maximum you can lose is what you put in. You can't lose more than 1X what you put in, but you could make 10X, 50X, 100X of what you've put in.

The same thing applies on the investing side, right? The most you can lose is what you put in. The most you can win is infinity. I think that asymmetry is what is very helpful and what I've found useful because I'm not operating Pabrai Investment Funds of the business. I'm not really operating a company with lots of people and operations. I allocate capital, I'm looking for the same thing that entrepreneurs are looking for, I'm looking for a high asymmetry in returns. One of the things that happens in the public markets is that because these are auction driven markets, it's like the horse racing, very mutual system. Auction driven markets tend to overshoot and undershoot.

For example, if you own a luxury apartment in Gurgaon, and you ask your real estate agent friend, "What is my apartment worth today?" He'll say, "Oh, it's worth 10 crores." You say, "Okay, that's great." Then you go to him tomorrow and say, "Hey, what's my apartment worth today?" He'll tell you it's worth 10 crores. Then you go on the third day he'll say, listen, idiot, it's still worth 10 crores. If you keep going to him every day and you ask him to tell you what your apartment's worth, maybe after a few months or a year,

he'll tell you it's worth 12 crores. But if that same apartment or group of apartments were a listed business listed on the BSE, NSE, etc., what would happen is that the market cap was 100 crores, for example, at some point as you looked at it over a course of a year, it would vary from 60 to 120 crores.

The fluctuations in the value of the underlying asset would exceed the amount by which the underlying asset is changing by quite a margin. This would not happen if that business were not listed. If it were a private company, for example, 100 crores have some apartments rented in Gurgaon. If someone were to sell that, there's a bunch of intelligent buyers facing an intelligent seller, they would arrive at an intelligent price. That transaction would take place and that'd be the end of it. But in the public markets, you could buy potentially the 100 crores of real estate and Gurgaon for 70 crores, or you could even pay 130 crores. It could go both ways. The fact that things can get mispriced is what pays the bills for me. In some cases, the mispricing can be very extreme. Then that can really do wonders. You see that range with the public markets, and you see the asymmetry with entrepreneurship. Really in the early stages of your business, the amount going in versus what you have coming out is huge.

Mudit: Great, thanks. That plays in little bit with the Mr. Market philosophy as well about the mispricing of listed assets or publicly rewarded assets. The other part which you speak often about is this concept of tales. I don't lose much; I hope I've said it right. Can you talk a little bit about that?

Mohnish: I think that's just as classically how we entrepreneurs think about everything, right? People think that entrepreneurs take risk. They always think that businesspeople take risk. Actually, we don't take risk. We do everything in our power to minimize risk. To an outsider looking in, it looks like we are taking risk, but we aren't. We aren't really taking risk.

For example, when I was leaving my job and starting my first business, I was going to lose my pay check. I was going to be dependent on the business taking care of me and to an outsider that would look risky. But what I had done is I started working on my start-up about 10 months before I quit. I was 25 years old. It was actually my third start-up. The first start-up, which I had when I was 22, probably lasted about four weeks and it probably cost me like \$300 and it disappeared. And that had no downside for me.

The second one, which I had two other co-founders, we were all working, but we were trying to get a software tool coming off the ground that probably lasted like four or five months. This maybe cost me like \$1,000 or \$1,500. That went by the wayside, nothing happened, and that money was lost.

The third start-up, which I did myself when I was 25, which was TransTech. Basically, by the time I quit my job in nine months after I started, the business already had clients, it already had cash flows, and the cash flows were exceeding what I was getting paid. I was working like probably 80 to 90 hours a week and I was desperate to go full-time into that business and work 100 hours just on that business. When I quit my job, I had a good understanding of the risk profile.

I said, "Okay, if this business fails, what happens?" I had \$30,000 in my 401k, which I had pulled out and I was investing in the company. I said, "Okay, my \$30,000 goes away." I'm 25 years old, retirement is like 35 to 40 years later, I can take a job and rebuild that. Not a problem. Then I had also taken all these credit cards on. I was going to borrow from that \$70,000. I had researched US Bankruptcy law. At that time the laws were a little bit different, they've changed them now. But basically, if my business went bankrupt and I couldn't pay that \$70,000, a court in the U.S. would wipe it clean. They would basically look at my situation and say, "Okay, your debts are forgiven." Now the way Bankruptcy law works in the US, at that time is if you filed once personal bankruptcy, you couldn't file for seven more years. You actually became a very good credit risk after bankruptcy filing because you couldn't file again. Anyone was willing to lend you money. They just said, "Okay, this guy, he wants a car loan. The car loan is for four years, he can't file for seven, we are fine. We can make a loan to him." So, actually it was very helpful. I said, "Okay, this \$70,000, if I'm not able to pay it back, what I'm going to do is I'm going to shut the company and go back and find a job." I was an engineer and I thought I could find a job and all of that. Finally, when this company had some traction, I went to my boss, and I met him and his boss together and I resigned. They basically said, "Mohnish, we couldn't really figure out what was going on with you for the last nine months because suddenly your performance had dropped considerably." I said, "Look, what I did nine months ago is decided that a career path was more important than getting great reviews. I didn't care about that. I just cared about not getting fired." He said, "The funny thing is, "We discussed this several times and we said something has changed. But he's not so bad that we can fire him. But somehow the magic is not there." I said, "Exactly. I was just trying to be above firing level." They said to me, when your business fails, they didn't say if your business failed. They said, "When your business fails, you come back, you got higher pay, you got a promotion, everything. We want to have your back." I thought, this is better than I thought.

Basically, when the business goes under one day later, I'll have a job. I don't need to and I'm getting paid more. Where was the risk? There was no risk. The risk at the end of the day was \$30,000 in a retirement account or a 25-year-old who was single. I knew that at some point I'm going to be married and I'll have kids. At that point these things will become a lot more expensive to dry out. Thankfully that business never failed. I kept in touch with my boss and his boss. 10 years later they both became investors in Pabrai Investment Funds, so it was really funny. I still in touch with them. They're very old now. So, I think the heads I win, tails I don't lose much.

I think if we go back to the beginnings of many of your businesses or many of the businesses your parents may have started, you'll find similar dynamics. They didn't have any money. If you didn't have any money, how can you have any risk? There's nothing to lose. By definition it's a low-risk proposition. Once the business gets going, gets its own momentum, and takes off from there, it works out.

Mudit:

This kind of reminds me of the part in your book about the two parts on the Manilal Dhandho. The part about the hotels would love to hear your thoughts. Those stories are a benefit for those who have not read your book.

Mohnish: Yeah, I think that when I wrote the book, the Patels owned something like 40% of all the motels in the US. Now, I think the number is over 70 to 75%. It's really moved. The book came out about 15 years ago. They've gone upscale. Now a lot of Hiltons and Marriotts and Westerns are under Patel ownership. They've gone into other businesses. There are about three or 4 million Indians in the US and probably something like half a million are from the state of Gujarat. Probably 200,000 to 300,000 are Patel's. Patel's are something like 0.1% of the US population that controls 70% of the motels in the country when they were not even in the country 50 years ago. They did it with no capital. They didn't come to the country with a lot of capital.

They were the classic case of Dhandho. Heads, I win. Tails, they don't lose much. When they came to the US at that time, they came as refugees. They got thrown out of Uganda and all their businesses got nationalized. All they could do was convert some few thousand dollars into gold or something. They had to get out of the country and came as refugees to mainly the UK, the US, and Canada. The motel business was very attractive because it gave them a place to stay. The family needed a place to stay. It also gave employment to the entire family. They could put the kids and the wife and everyone to work on manning the front desk. The motels are very labor intensive. You need people 24 hours, someone has to man the front desk, and someone has to do the laundry and clean the rooms.

The family would move into these small hotels, take one or two rooms, and then they would fire all the staff. They would do all the work themselves. They became the low-cost operator because they looked at every facet of the business and they looked at how can they reduce cost. The first way was by removing payroll. The second is that the Patels were all vegetarian at that time. In the US, if you were vegetarian, you ran without a paddle. Hardly any places you could eat out at and get a decent vegetarian meal. They were forced to dine in, cook their basic vegetated meals, so they could eat. There were very low grocery expenses, there was no rent to be paid, there was no commuting, you didn't need a car. All their expenses were very low. And they ran the motel, all of the family, and they would just look at what the other motels around were charging.

If someone was charging \$35 a night, they would make it \$32 a night. Their occupancy levels were always high, and the other people couldn't match their prices because they would lose money since they had employees, costs, and all these things. The Patel's started doing a lot of leverage because these were non-recourse loans with the motels. They would then buy the second motel and then send some cousin to run the second motel. Then buy the third motel and then keep going. We end up with this journey today where they've done extremely well, and it's worked out really nicely for them. A lot of that dovetails with many of the journey's you guys have had as entrepreneurs. That's what we do.

Mudit: Great, thanks. I'm going to introduce Aayush Munjal now who is the champion of the investment, my EO FinServ which have some questions for you.

Aayush: Hi Mohnish, really loving this atmosphere of chatting with you so casually sitting at home in what looks like your library and casually discussing 70 to 80% growth in your IT business that you were bored of when you wanted

to start investing on the side. I think many of us would kill for that kind of growth in our businesses. I'm going to ask you two questions. The second one is optional.

The first one is what's in your room? I see a painting; I see five or six bookshelves. The second question, which is more serious, you've talked about control as overrated. What are the tailwinds you are left with, if not control of your business? I'm phrasing it a little weirdly on purpose, so you can answer the gist of what I'm getting at. You're delegating control or you're becoming a passive investor like Buffett or like Pabrai Investment Funds? What do you look for in that selection? I'm not asking for your current portfolio, but more of your thought process on what are you left with, if not controlled.

Mohnish: Okay, before I answer your question, you have a prominent last name. Are you with the Hero Honda family?

Aayush: Yes. The family business is separated now, but yes, you've got it right. You probably know a few of my uncles.

Mohnish: I just read the book that I think one of the kids wrote. He's not a kid anymore.

Aayush: He's not a kid anymore.

Mohnish: Yeah. But I really enjoyed it.

Aayush: He knows my grandfather and his brothers.

Mohnish: I really enjoyed that story and I think it's a Dhandho story. It's a classic.

Aayush: It is.

Mohnish: It was really wonderful book to read it. I really enjoyed the book by the way.

Aayush: It's a compliment coming from you.

Mohnish: Yeah, I would say that.

I moved to Austin about a year ago. I used to be in California. My home library in California exploded. The number of books were way more than the bookshelves I had and all that. They were like all over the place. What I did when I moved to Austin is I basically remodelled the home a little bit that I bought. I basically tripled the size of the library. Behind me is probably 20% of it. It goes around basically instead of having a library room, what I did is I made the external walls of one of the rooms all bookshelves. I think I'm good for a good 10 to 20 years with the books.

Aayush: What are you reading this month?

Mohnish: There's a really wonderful book I'm reading, which is called, *Roy Thomson of Fleet Street*. It's not an easy book to get. It's out of print. There are actually three books on Roy Thomson. I got all three and I'm just finishing the first one. It was just fantastic to read. Anyway, this guy basically ended up owning something like 300 newspapers and a lot of television stations. He went broke, had no money. But his journey is just incredible and a wonderful read.

I enjoy business biographies the most. I think that's to me autobiography and the biography, my favorite genre. In fact, the books to my left, you can't obviously see the titles, but that bookshelf is only biographies, business biographies. Those are wonderful to read.

I want to tell you a story, which is one and done, just to highlight what is possible. I started making trips to Turkey and Istanbul about four years ago. I started doing that because the market has dislocated a lot. Turkey has very high inflation, the currency devalues like crazy every year. Foreign investors had left. When I just looked at it optically, it looked cheap.

I had a good friend there who was a Buffett/Munger, Ben Graham disciple. I knew that he was investing in Turkey.

I said, "Listen, I want to come to Istanbul. Can we just go visit all the businesses you already have an investment in?" He said, "Oh, yeah. It will be fun to hang out." I went in 2018. Then in 2019 I went again. I went with some more companies than he had invested in. I remember we were driving to a business he was taking me to where he said, "Mohnish, the market cap is \$20 million, and the liquidation value is like \$800 million." I said "*fraud hai kya*". In English, I said, "Is this fraud?" He said, "No. I have an investment in it. It is not as far as I can see." They have a 12 million square feet of warehouses, they're 99% leased. You can very easily get a value on those. It's what, \$80 a square foot on average. You have about a billion-dollar value of these warehouses and there's \$200 million of debt and they're \$800 million. These are all leased to like Amazon, Ikea, Carrefour. 99% leased inflation, index leases, or dollar leases. There's nothing there. I went and the father and son run the business. I met them, I liked them. I thought they were really smart business people. Then I've spent the afternoon visiting the warehouses and they looked great. I really couldn't find anything wrong with the company and I started buying the stock. Turkey is a dream market to invest in. They don't say investing in the market. They say, playing the market.

People want to invest at 10 o'clock, they want to exit at three o'clock, and they want to make 10%. Okay. That's their model for investing and good luck with that. I was surprised the volumes in the Turkish market are really high because you've got this gambler type behavior. If you take out the promoter stakes and the international investor stakes, which don't move the float in the market, which is about 20% of the entire Turkish market cap turns over every nine days. The whole thing is just very rapid. Local Turks told me, we are surprised these nine days, we thought it would be one day. Everything wraps up in one day. Buffett as a quote, he said, "The stock market is a mechanism to transfer wealth from the active to the inactive." I started buying the shares and I was surprised for \$7 million, I got one third of the company and the founding family, were not very savvy on the stock market. I think they had about 35 to 36%. My stake is almost at the level of their stake. Now, they've increased their stake to 42 or 43%.

And the second thing, I noticed about this father/son that ran this business is that they didn't just have the warehouse business. They also have the largest freight train network in Turkey. In Turkey, the rail cars are private, and you can run freight business. They have the largest truck fleet in Turkey. They have 2,000 trucks. They have a huge forklift rental business. They have a vehicle inspection business. Every car has to go

through inspections every two years. That's like you get sanctioned by the government and so on. They're like four or five businesses. Each one has very favorable economics and each one is a high-quality business. Their model is that if they don't get their money back in two to three years in dollars, they have no interest in investing. I found that unlike a lot of entrepreneurs and business managers, the father never went to college. He just understands that if I put a dollar out, he wants to know "*ki ye dollar hume kitni der me wapas aa raha hai*". "(In how many days will it return)". If it's not coming back in three years, he's not interested. He doesn't understand the return equity. He doesn't understand any of those terms.

He just understands this particular fact which your grandfather understood. He just understood the fact that I put money out and what comes back and that's what matters. When we invested in 2019, the company was worth about \$700 to \$ 800 million at least. It was probably worth more, but that's the amount I could figure out. I think the value now, maybe about a billion and a half, it could be more. The stock that was the \$20 million market cap is now like \$350 to \$400 million. It has moved. This is in dollars. The lira has collapsed in the meanwhile. Even with the collapse of lira in dollars, we are up a lot.

But even at the \$350 to \$400 million, it's very undervalued. And the thing is that, "*wo kehte hain na, hing lage na fatkiri, rang chokha*". So, basically what do I have to do? Yeah, I have to be in Austin but what do I want to read? Okay, do I have control? No. Do I care about control? No. Do I want to be on the board? No. All those things mean I have to do work. My job is to just cheer them on. I go meet them once a year. I talk to them every few months. They are very smart. I've never seen them make a mistake. They're very creative. What I was telling you guys about the creativity, they have extreme creativity of entering new businesses, but they make it extremely tiny bets. They'll see some opportunity, they'll go in where they don't have competence, put half a million, \$1 million, whatever. And they see what happens.

If it works, then they just press on the accelerator and they go. If it doesn't work, they back off, and then try something else. So, if it went to a billion-dollar market cap today, we are not selling, we're going to 5 billion. We're not selling because basically if someone is reinvesting capital 25 to 35% return, this father/son dual are smart doing it. I need to leave them along for 20 years.

What difference does it make whether I'm the founder of the business or the manager of the business or a passive investor? The best position is a passive investor, "*kuch kaam karne ki zarurat nahi hai*". And your grandfather worked very hard. Your uncles worked very hard. Everyone worked very hard. I'm just not that hardworking. Because of the auction driven nature of markets, something like this, Reysas in Turkey will show up once in a lifetime. You only need one, you don't need 10.

But there are plenty of them that show up, which will give you a 10X, give you a 20X, maybe give you 400x. Eventually, by the time we're done, it might be several hundred times the return. All we got to do is be a cheerleader, nothing else. Life is good.

I think that's how I look at it. I think that like this year I made a resolution. I said that I really want to deeply study 50 businesses. It's January 10th and I have only deeply studied one new business that I didn't know about on January 1st. I rejected it. But it was a good one to look at. It was pretty decent business to do well but didn't excite me that much. If I actually fulfill that resolution, I actually need to do deep dives and study 50 businesses, most of them I will get rid of in five minutes.

I don't consider those as part of that equation because they have to have high returns and equity. They have to have a runway, great management, and all the things that I'm willing to spend time on. Usually you look at a business return equity as low, you can forget about it. That doesn't count. It's ones that make it past one or two hours of screening or three hours of screening and then you say, "Okay, let me go deeper into this." If I can do 50 of those in a year, my hope is I find one.

Aayush: Where do you get all this information about a business? You read 50, you must be discarding 500. Where do you get all of these data points? You have a team that sends it to you? You have friends who send you pitches?

Mohnish: No. We don't need a team for doing this. For example, in the US we have something known as 13F filings, which are basically every quarter large investors have to disclose everything they own. You have something similar in India, what main investors own is well known. We want to know what RK Damani the money owns that's available publicly available. He owns a company called VST Tillers in Hyderabad. They're a tobacco company, licensed to print cigarettes, etc. I'm saying is that I can look at what Buffett bought last quarter. I can look at what number of great investors have bought, and I can put those into the hopper and say let me study these.

For example, I can also have some notion. If I look at India, and India's going to go through a lot of growth in a number of different area. One area that's bound to grow a lot is wealth management and asset management. All of you probably either have wealth asset managers or are getting hounded by them or whatever else, right? It used to be there were three choices, the money went under the mattress, or it went into real estate, or it went into gold. One of those three.

Now people are not so interested in real estate, definitely not so interested in gold. And the under the mattress is also not that interesting. A lot of these wealth creations and even the existing wealth end up in financial assets. They'll end up in stock bond, mutual funds and all of that. I look at people who have the large mutual fund houses, they are like four or five of them that have most of the assets, some of them are listed.

In some cases, even if their valuations look optically expensive. The runway is so big that I could pay 20X earnings for something and still work out well because that is the business I am in. The return on equity is very high. You don't need any capital. You have a few people, they are highly paid, but when the people leave the assets don't. Like IIFL brought three, four, five senior guys from Kotak and started their wealth management business. Those four senior guys could only bring with them 15% of the assets they managed. 85% stayed with Kotak even after these guys left. The brands have staying power even when the name brand individuals. That's a

business I've been in for a long time. For example, that's an area of interest to me because I said, "Okay, let's scan the radar on the Indian asset manager's wealth management and see what's going on." Probably the answer is you could buy a basket of all of them and *control ki koi problem nahi hai, wo Raamdev Agarwal ko chalane do, wo achi tarah chalaega*, no problem. What do you say Mudit? Are you a fan of Ramdev?

- Mudit: Yes. I think all of us are! In fact, Motilal Oswal is the sponsored world champion.
- Mohnish: Yeah. They've got tailwinds. They've got high return equity. We want to get it at reasonable price and then the rest is just leave them alone and be cheerleader. Don't touch it for 20 to 30 years.
- Aayush: Want to invite some members to ask their questions directly to Mohnish if that's okay. Rishi, can you join us on screen?
- Rishi: Hi Mohnish, can you hear me?
- Mohnish: Yeah, yeah.
- Rishi: All right. I have a couple of questions. One is how do you see the Indian market performing in 2023? Looking at what's going on in the world and different markets and challenges it has.
- Second question was around if you were to start investing overseas in 2023 from India and looking at long term, where would you invest?
- Mohnish: Yeah, so actually I never really have a view on markets. I have really no idea what markets will do. I think it's very hard to just figure out what the trajectory of one business is going to be. To figure out the trajectory of 500 businesses, I think that's just a fool's errand. There are so many factors.
- If you looked at the start of 2022, who would've thought the Ukraine invasion would take place? Outlier event that so much, COVID is still with us, and it's been three years. All these things are difficult to figure out so there's no point spending time on them. My take is I want to just figure out particular businesses and what the likely possible trajectories on those businesses are and if I can do something with them.
- I think your second question is an interesting one because what I notice with a lot of wealthy Indian families is that if they are business family, basically the wealth is in the business, it's in real estate. Now it might be in some financial assets a little bit and that's the end of it.
- But now you have permission from the government to send money out, which is great. I think if you were going to put something like a fourth of your family wealth into something like the S&P 500 Index for example, which would be low cost approach to doing this, that's a good thing to do. You don't have to think about it too much. You will own pieces of Amazon and Microsoft and Salesforce and all these great businesses and they churn very slowly. Those have great runways ahead and you don't have to do much work. You can get that done for 10 basis points or something. The cost is like 0.1% a year or something. So that's what I would do. I would just look at a broad index like that and then since you are averaging it out over time, it doesn't really matter what happens if market goes down 5% to 10%.

It's not relevant. You're looking at this over the long haul. That should be okay.

Mudit: The next question is from Aayush Singhania.

Singhania: Hi, Mohnish. World Bank, in fact recently maybe, I think it's today you've announced that 2023 we are close to global recession. What's your view on that? And especially what's your view on what effect would that have on the Indian markets?

Mohnish: I would just say similarly, I have no idea. I would say that it's likely India will do well. I think India just has a lot of tailwinds going on and I think a number of things are just going in its favor. It'll probably do well, but I don't think about it like that. I just look at specific businesses and then I say, "Okay, this particular business with this particular nuance." One of your companies is Kapoor Watches, I do not know anything about it, but I'd like to know more about it. Probably a private company so no chance for me to do anything about it, but that's okay. What I'm saying is that you look at something like Kapoor Watches and what do they do in the next 1, 2, 5 years? All these factors, international and COVID and recession in US, is irrelevant, it's in the noise level.

What really matters is how well do they connect, what is their products and brand positioning and all those sorts of things. Do they engage with their customer base and so on. I think that's where the focus needs to be.

We had a great Indian investor, Rakesh Jhunjhunwala who passed away recently and Rakesh was interesting split bring on one side. He was always with four screens in front of him and did a bunch of rapid-fire trading. On the other hand, he had some positions that he never touched for decades. I think he had Titan for like 25 plus years and Titan used to be like 4% of his portfolio when he passed away. It's like a multi-billion-dollar position.

Rakesh could have been wrong on 96% of his portfolio. 96% could've gone to zero. He still would've had half his wealth. He never managed money for others. Until he started this Asaka Air or whatever, he never really had a real business he was running and the non-controlling interest in Titan. He loved the Tatas, he just loved the governance, and everything else with the Tatas. It ended up with a great result. All he had to do was just be patient and do nothing. It worked.

Basically, we don't need to be right a lot. We just need to pay attention when seven moons line up. There are times when you look at some things and you say, "Wow, this looks amazing. This is obvious." You can step up and hit that ball and you don't need to hit too many balls. You don't need to have a high hit rate on those balls. It can work out well.

Aayush: Samyak, do you want to go next?

Samyak: Hi, Mohnish. Quick question. You have a lot of books in your library, which are your favourite books related to investing?

Mohnish: The favourite book is the one behind Mudit. Mudit has the best books. You should go to his place. There you go. He's adjusted. We don't see his face, but we see the book. He's going to zoom in. There you go.

The best book I have in my library, and the one I like the most is, *Poor Charlie's Almanac*. That's the one he's showing you on his screen. I try to actually reread it every year and I think that book is better than a college education. That would be my number one pick for you. Just to give you a quick synopsis of what that book is all about, the second half of the book is a bunch of talks and speeches that Charlie Munger has given over the years to various groups.

One of those speeches which he gave at Harvard is the psychology of human misjudgement. That speech probably took Charlie about 50 years of experience to actually be able to write that speech. The good news for us is we can just read it in one hour or something and pick up that whole 50 years of experience without going through the journey.

But to give you an example, the thing is that one of the things to be aware of is that when you look at human evolution and the way we have evolved. Our brains are weird in the sense that their portions of the brain that are really ancient and their portions of the brain that are relatively new and it's a mishmash. It has come out this way because of the nuances of evolution and a lot of it doesn't make sense with the way our brain is in the current context of how we live and how our world is.

Just one example is through most of human history, humans were not ingesting enough calories. It was hard to get food and difficult to get enough food. The body evolved. Whenever you get more food than you need, the body became really good at storing it. Now the body doesn't understand *ki abhi humare paas refrigeration hai aur food ki koi shortage nahi hai*, we will never be in a calorie deficit. But the body is not going to adapt to that for almost infinite amount of time. We are stuck with having overweight bellies and all these things because evolution doesn't understand that we don't need the bodies to function this way, but it's just the way it is.

One thing about the human brain is reciprocation is a trait that's built into the human brain and they think it comes from a long time ago because some human lived in these small groups, 20, 30, 40 people. Some guy kills a big animal and brings it to his community. Now he can't eat the whole animal himself and he can't store it. There's no refrigeration. What does he do? He stores it in the neighbour's belly. He calls everybody and says, "Let's have a feast." Everyone has a good time, everyone gets fed, and what they know in their brain is Suraj gave me a great meal today. Suraj is a great guy and someday I'll try to do Suraj a favor. That's all. The brain understands that Suraj is a good guy. He fed me today. Later when I have success and I bring down an animal, I'll definitely invite Suraj because he took care of me, I'll take care of him. The brain has reciprocation built in because reciprocation enabled survival. The people who reciprocated were the ones whose genes got passed on.

But there's a quirk in the brain with reciprocation. We don't have a calibration engine on the reservation. What happens is, I can remember that Suraj did me a favor that's etched in my brain. I cannot remember the size of that favor. I just have a good feeling towards you. Salespeople and marketing people and businesspeople take advantage of this quirk. I take advantage of this quirk.

For example, if someone wants to contact us and says they want to invest in public interested, now we can send everything digitally. We can send all the documents, everything digitally. But we don't just do that. What we do is we send the guy a package. Now this package has a \$50 pen, okay? It has a couple of books. It has a bunch of things. The guy doesn't want the pen. He doesn't want any obligation with me, but only like maybe one in 200 people will return the whole package to me saying, "I looked at it, this is not for me. Thank you very much." IT's too complicated to return the package, it takes too much work.

What ends up happening is they have been given a pen that they are not able to throw away or they use that pen. They have favorable perspectives towards Mohnish because Mohnish did them a favor. Now to return the favor, the minimum investment is \$3 million because that's how reciprocation works. This notion of the asymmetry of reciprocation, which our brains are not able to comprehend and what you want to do, you want large portions of the world to have good feelings towards you. You want them to feel like they owe you something and then the way they would reciprocate that would work out in your favor. This is like one of the mental models like Munger, the 25,000 human misjudgement. They're like 25 models like that, 30 models. If you actually understood and use those models and especially when you overlay multiple models, you get a huge advantage over the rest of humanity because this cloning is a model which is very powerful. The not having self-pity is a model. They're like many models you can use, it'll improve your personal life, improve your business life, improve your career.

Mudit: Okay, I think it's time for us to wrap up. I just want to read one little thing and then I want to hand it over to our President. This is from the book, *Richer, Wiser, Happier*, by William Green. The chapter about Mohnish in there which says nobody I've ever met lives more determinately by his own rules than Pabrai. Buffett's example strengthened his commitment to construct life congruent with his personality. On a typical day, Pabrai sleeps late and arrives at his office after 10:00 AM with no agenda.

Today, Mohnish joined us at 9:30 AM, which is significantly before 10 o'clock. I'm really grateful. Thank you so much. I'd like to introduce our President Nimish Arora for the vote of thanks please.

Nimish: Hi Mohnish, thank you so much for an amazing session. Before I say thank you, I would also take the opportunity to ask one question to you. Somewhere I think in one of the videos or somewhere I heard that there was a psychological test you took some time early in the start of your transitioning or considering transitioning from your business to investment to figure out what kind of a person you are and how that led you to find your true calling. If you could just throw some insights and maybe give us a perspective on how each one of us can find our true calling or figure out what we enjoy the most. Because a lot of times we are still figuring out that is this our true calling, what we are currently doing, or we want to do something else?

Mohnish: Yeah, I think Nimish, that's a great question. This was in 1999 and it was at our forum retreat at our YPO forum retreat. One of the guys basically said that they're these two industrial psychologists and they're going to do basically a 360 to each of us. What they did was they had us take a bunch

of tests and they talked to our employees, our friends, our spouses, our siblings, and if the kids were old enough, they talked to the kids as well. They did interviews with all these people, plus they did all the tests. And what the output was is what I call my owner's manual. We did all this before the retreat individually. We engaged with these two guys, then at the retreat, the two of them sat with us for three days and they one by one they went through each person.

The problem of every human basically is that when we are born without an owner's man, like *Hero Honda proper owner's manual deta hai sabko, hume kuch nahi mila*. We really don't understand for the most part who we are because we are so influenced by what the world expects us to do. Human behavior will be driven towards, should go to college? I should become an engineer or a doctor. I should do this and that. We follow these paths that have been prescribed to us and those may be very different from who we are. What this owner's manual did, and I actually reread this every year, just to make sure it is highlighted who I was, which I never knew. These two guys who did this for me, they actually told me that in my particular case they said, "Look, you like to play games, that's who you are. You're a game player, but you don't like to play any games. You like to play solo games. You don't like team sports."

For example, I would not enjoy playing soccer because he says the outcome of that game would depend on the whole team. He said, "You're more of a guy who would enjoy like table tennis or tennis, more individual sports than team sports, right?" And then he said, "There's a second quirk, you like to play games where you think you have some odds where you can win the game." They were looking at me with my 200 people in the IT business. They said, "We don't even know how you go to work every day. This is so far away from where you are that this is ridiculous."

I was at that point about to start Pabrai Investment Funds and I was just about to leave my business. I showed them what I was going to do with Pabrai Investment Funds and it didn't exist at that time. It was about three months before it launched. They said, "This is perfect, this will work really well for you." And one of them became one of my initial investors. He was at that time he gave me a \$100,000. I told him, "Jim, look, I gave you \$2,000 for this and you're giving me \$100,000. I don't want to lose your money." He said, "No, I cracked your brain open, everything is going to be fine. Please take the money." He did fine. No issues. The two guys have split up now. I think the \$2,000 is now \$10,000 or so. Last I checked, it was still a bargain. It's a great deal.

What I'll do is I'll send his name. It's Jack Skeen, I'll send his contact info to Mudit. I think a lot of it you can do remotely because of Zoom and all that. I get nothing, whether you do it or not, I have no kickback or anything. I would say probably the best \$10,000 you could spend. I think all your kids should do it when they're 18. I think it would help them a lot as well. That's a great question Nimish and I'll get Mudit the info.

Nimish: Awesome, thank you so much. Thank you for your time. Thank you. On behalf of EO Gurgaon and all the members who've joined from different chapters, *Dhandho* was an amazing read, and I would recommend each and every person who is here to read it.

If they haven't, I would also take the opportunity to compliment you for the work that you're doing with your foundation, Dakshana. I think you're doing some amazing impact work with the underprivileged and turning lives, not just for them but for their families. Really my compliments to you and more power to you for that.

And lastly, thank you for these amazing insights. I have taken lots of notes and it's amazing to know how your YPO forum has helped you evolve and come this far and find your true calling. I think EO has had that impact for a lot of us already. We've been part of forums now for 3, 4, 5, 7 years. Thank you again. I think loads to take for everyone home and we look forward to hopefully hosting you sometime whenever you visit next to India at our chapter or one of our events.

Mohnish: Yeah, I would've liked to do this live. It would more fun, but this is not a bad option. I would love to meet all of you, so maybe sometime in the future we can do a live event. That'll be fun.

Nimish: Thank you so much. Thanks for your time. I'll be overstretched but appreciate your time again.

Mohnish: All right, that's wonderful. Thank you.

Nimish: Thank you.

Mohnish: Bye.

Nimish: Bye-bye.

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