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July 07, 2025

LETTER TO INVESTORS| JUNE 2025

EXECUTIVE SUMMARY

- Trailing twelve months' earnings of underlying portfolio companies grew by **13.4%**.
- NAV grew by **14.8% YTD** with 80% funds invested in equity positions. Balance 20% is parked in liquid/ arbitrage funds.
- Controlling risk through **"one durable variable businesses (1DVB)"**.
- **Portfolio changes:** we added to three existing positions and exited from one.
- **Mistake:** Music Broadcast arbitrage position (loss of 0.5% of AUM).
- Investing is an inexact science and this creates unique challenges.
- **Stance: Neutral**

Dear Fellow Investors,

Controlling Risk through 'One Durable Variable Businesses (1DVB)'

Our preferred way to manage investment and portfolio risk is to buy and hold businesses that are:

1. Easier to value with reasonable confidence,
2. Trading at or below their intrinsic worth, and
3. Diversified across different drivers (i.e., low mutual correlation)

Today, we focus on the first and the enabling element: **estimating the intrinsic worth of a business**. If this is done well, the next two steps—buying at a discount and diversifying intelligently—become much more manageable.

What is Intrinsic Worth?

At its core, the intrinsic value of a business is the **present value of all future free cash flows** it will generate over its life (free cashflow means cash profits less business investments). While this definition is conceptually simple, its practical application is difficult—because it involves **predicting the future**. And the future, by nature, is uncertain and unknowable. So, how can we reliably estimate the future of a business?

The Idea of 1DVB

This is where, what we call, the concept of **One Durable Variable Businesses (1DVB)** becomes relevant. We define a **1DVB** as a business where **a single, durable variable** is the primary driver of long-term free cash flows.

One Variable

The litmus test of business-understanding is whether we can identify the **key variables that drive its free cash flows**. Examples of such variables include auto volumes, credit growth, new home construction, AUM (assets under management) etc. The **fewer the number of variables**, the **lower the complexity**, and the easier it becomes to build a mental model of the business. An ideal case is a business driven largely by a **single dominant variable**.

Durability

Singularity of driving variable is essential, but **incomplete** in itself. The second essential requirement is **durability –** ability to survive and thrive for long period of time. For it to be useful for forecasting, the key driver must be **durable**—meaning it should withstand disruption, competition, or regulatory shocks; and be well governed. Durability stems from three main sources:

- **Competitive advantage**: Ability to fend off competitors and disruptions sustainably.
- **Stakeholder benefit**: A business that benefits stakeholders is less likely to attract regulatory ire.
- **Governance**: Efficient and shareholder-aligned management ensures the business steers clear of self-inflicted damage.

Examples of 1DVBs

Business Type	**Primary Variable**	**Durability Source** (for some companies)
Stock exchanges	Transaction value	Network effects (more users → more liquidity)
Mutual funds	Assets under management	Trust, distribution, low costs
Auto ancillaries	Auto volume	Switching costs, engine agnosticity, quality
Lenders	Credit growth	Underwriting culture, cost of funds, distribution
Capital goods	Capex cycle	Installed base, technological edge
Credit ratings	Value of debt rated	Regulatory license, track record, reputation

1DVBs as perpetual bonds

When a business has a single, durable cash flow driver, and we understand both the driver and its source of durability, the **range of future outcomes narrows**. The business becomes somewhat similar to a debt instrument —a predictable stream of cash flows, subject to less variability and disruption risk. This makes it possible to assign a more credible and stable estimate of intrinsic worth, reducing the chance of major valuation errors.

Factoring growth and cyclicality

While many businesses can share the 1DVB trait, their growth trajectories and cyclicality may differ.

- Some will enjoy steady, structural growth (e.g., stock exchanges).
- Others may be cyclical (e.g., capital goods, auto ancillaries), where demand ebbs and flows with macroeconomic cycles.

It's important to distinguish cyclical upswings from sustainable growth. Mistaking the former for the latter is a common pitfall. Also, **growth without durability is dangerous**—it tempts overvaluation and underestimates risk.

Controlling risk with 1DVBs

In test cricket parlance, only when a batsman knows where his *off stump* is, can he decide whether to play or leave a swinging ball. In investing, that off stump is the intrinsic value of a business. 1DVBs allows for knowing where exactly the investing off stump (intrinsic value) is so that overpriced stocks can be left and only reasonably priced stocks are played. This lowers individual **stock risk**.

Secondly, by building a portfolio of such well bought 1DVBs driven by different underlying variables we can ensure that they don't all falter or flourish at the same time, lowering **portfolio risk**.

A thoughtful portfolio of **uncorrelated 1DVBs**, bought at **sensible prices**, provides a strong foundation for long-term compounding with risk control. And till we find such constituents, it is okay to wait.

A. PERFORMANCE

A1. Statutory PMS Performance Disclosure

Year Ended	CED Long Term Focussed Value (PMS)		BSE 500 TRI (benchmark)		Difference
	Return	Avg. Cash Eq. Bal.	Return	Trailing P/E	
YTD FY26	**14.8%**	**20.3%**	**10.8%**	**25.7x**	**+4.0%**
FY25	10.3%	21.0%	6.0%	23.4x	+4.3%
FY24	29.2%	26.1%	40.2%	26.2x	-11.0%
FY23	-4.3%	30.0%	-0.9%	22.3x	-3.4%
FY22	14.9%	38.5%	22.3%	25.0x	-7.4%
FY21	48.5%	29.0%	78.6%	38.0x	-30.1%
FY20*	-9.5%	23.0%	-23.4%	18.3x	+13.9%
Since Inception(6Y)	**16.0%**	**27.9%**	**18.4%**		**-2.4%**

**From Jul 24, 2019; Since inception performance is annualised; Note: As required by SEBI, the returns are calculated on time weighted average (NAV) basis. The returns are NET OF ALL EXPENSES AND FEES. The returns pertain to ENTIRE portfolio of our one and only strategy. Individual investor returns may vary from above owing to different investment dates. Annual returns are audited but not verified by SEBI.*

Kindness of strangers

Typically, it takes five or more years for skill to show through in investing. But the past five have been unusual. Median valuations haven't just stayed high—they've risen further, largely due to a surge in retail investor flows. Investing in such a market has felt like relying on the kindness of strangers—expecting ever-rising liquidity to drive prices higher, regardless of fundamentals.

We've preferred to anchor ourselves to what holds true over decades: valuation discipline. While liquidity trends are new and fickle, valuation mean reversion has stood the test of time. That belief led us to maintain an average 28% cash-equivalent reserve (liquid/ arbitrage funds) over the last five years, waiting for rightly priced opportunities.

This caution helped during the Sep'24–Feb'25 correction, when our portfolio held up well. It marked the first meaningful test in years—and we were prepared. We believe the next phase will reward discipline. As valuations revert toward long-term averages, we're positioned not just for resilience, but to act decisively when true value emerges.

A2. Underlying business performance

Past Twelve Months	Earnings per unit (EPU)[2]	FY 2026 EPU (expected)
Mar 2025	**9.3**[1]	**10.0-10.8**[3]
(guidance was →)	(8.5-9.5)	
Dec 2024 (Previous Quarter)	9.2	
Mar 2024 (Previous Year)	8.6	
Annual Change	**13.4%**	
CAGR since inception (Jun 2019)	14.8%	

[1] Last four quarters ending Mar 2025. Results of Jun quarter are declared by Aug only. Unadjusted.
[2] EPU = Total normalised earnings accruing to the aggregate portfolio divided by units outstanding. Includes cash equivalents.
[3] Please note: the forward earnings per unit (EPU) are conservative estimates of our expectation of future earnings of underlying companies. In past we have been wrong – often by wide margin – in our estimates and there is a risk that we are wrong about the forward EPU reported to you above.

Trailing Earnings: Earnings per unit for FY2025 came in at Rs 9.3 per share, within the range that we had expected at the start of the year (Rs 8.5-9.5 per share). This represents a **growth 13.4% over last year**. Since inception, earnings per unit, an indicator of earnings power of our underlying companies, has grown at 14.8%, marginally lower than our aspiration for 15%+ growth.

1-Yr Forward Earnings: We introduce FY26 forward earnings per unit guidance at **Rs 10.0-11.0,** an expected growth of 10%-16% over FY25.

A3. Underlying portfolio parameters

Mar 2025	Trailing P/E	Forward P/E	Portfolio RoE	Portfolio Turnover[1]
CED LTFV	**26.0x**	**22.4-24.2x**	**18.2%**[3]	**11.2%**
BSE 500	25.7x[2]	-	16.5%[2]	-

[1] 'sale of equity shares' divided by 'average portfolio value' during the year to date period.

[2] Source: BSE *[3] Portfolio RoE is on core equity positions, RoIC is over 34%*

B. DETAILS ON PERFORMANCE

B1. MISTAKES AND LEARNINGS

In our older portfolios, we exited the equity leg of an experimental arbitrage position in **Music Broadcast Ltd. (aka Radio City)** at a loss of **0.50% of AUM**. While small in quantum, this position consumed time and mindshare disproportionate to its potential, and in hindsight, we classify it as a mistake.

We had initiated this arbitrage setup three years ago. The idea was to buy equity shares and receive bonus preference shares (issued only to non-promoter shareholders) — effectively a special dividend with better tax treatment. At the time, the implied dividend yield was 30% of market cap, but 40–48% for eligible non-promoter shareholders, offering a theoretical arbitrage of 10–18%.

Our plan was to exit the equity shares after the ex-date. However, instead of correcting ~30%, the stock price fell over 50%. We made the classic mistake of waiting for a recovery rather than cutting the position. Though we managed to exit a small part at higher levels, the stock declined further and remained depressed. As better opportunities emerged, we finally exited the remaining equity last quarter, incurring the loss.

The reason the stock fell far more than expected remains unclear. Normally, stocks adjust by the dividend amount post ex-date. In this case, the price correction was significantly steeper. The only plausible explanation seems to be the structural challenges of the underlying radio business, which may be facing long-term decline.

We continue to hold the **preference shares** — the other leg of the arbitrage — which cost us nothing and currently trade at ₹113, with a redemption value of ₹120 expected in eight months (an annualised return of 9.2%).

While the position was designed as a low-risk special situation, the outcome reminds us that **arbitrage strategies in low-quality businesses can be value traps**.

B2. MAJOR PORTFOLIO CHANGES

Bought: We added further to two existing positions. We also added a little bit to a smaller position initiated earlier (we will share more if the position crosses 3%, it hasn't yet crossed it)

Sold: As mentioned in the earlier section, we have completely exited from Music Broadcast equity shares.

B4. FLOWS AND SENTIMENTS

Tariff announcements from the US continued to influence global and local markets. While the steep and irrational tariffs imposed by the US on its trading partners have been paused, the average tariffs are still much higher than modern history. Globalisation led to comparative advantage efficiencies, productivity and prosperity. Reversal of the same should lead to some side effects and pain. How countries will counter-respond to and how supply chains will adapt is complicated to forecast and therefore continues to remain the key source of global and Indian demand uncertainty.

Back home, pause in tariffs and ceasefire at border soothed Indian markets. After falling between 12-20% between September 2024 and February 2025, market indices recovered most of the losses. Defence stocks came back in limelight and despite poor earnings results moved up 50-70% indicating return of investor euphoria.

Retail investors, via mutual funds and IPOs, continue to provide mouthwatering exits to promoters and private equity investors (insiders). Mutual funds inflows remain positive though lesser than peak. Gross SIP flows crossed past peak to go past 26,000cr mark. IPO pipelines, a bull market sign, are full again.

Earnings performance has been weak with BSE 500 companies reporting a 5% and 7% rise in revenue and earnings. Yet the stock prices continued to build in much higher earnings growth indicating buoyant mood and expensive valuations.

Overall, the sentiments and flows are back to their past highs, requiring caution and restraint.

C. OTHER THOUGHTS

Investing – An Inexact Science

All generalisations, including this one, are false

-Mark Twain

We learn mainly through **imitation** and **experience**. We observe others, draw lessons from past events, and use **pattern recognition** to establish cause-and-effect relationships that guide our future actions.

- A child learns to speak by mimicking their parents.
- Early humans learned which berries were poisonous by watching others suffer—or die—after eating them.

Our minds try to extract rules from what we see and experience. This doesn't stop at language or survival. It influences how we approach **investing** as well.

Most investors – us included – have at some point looked for a magic formula. Something neat and repeatable that can lead to assured success. After a strong bull run, investors often try to **reverse-engineer success**, identifying what worked and assuming it will work again. But markets are rarely that obliging.

Unlike natural sciences, investing is not an exact discipline. In physics or chemistry, repeating the same actions under the same conditions yields predictable outcomes. Investing, on the other hand, operates in a dynamic system driven by **human psychology, collective behaviour**, and ever-changing **context**. The same action, under seemingly similar circumstances, can lead to vastly different results.

For instance, investors have long believed that **equities and gold** move in opposite directions. Yet, in recent years, both asset classes have hit all-time highs simultaneously. Similarly, conventional wisdom holds that **rising interest rates** strengthen a currency, yet the US dollar has depreciated even as US interest rates have climbed. Past relationships, while useful, are not eternal truths. They can—and do—break.

Worse still, in markets, a successful idea often contains the seeds of its own undoing. Once a particular style or strategy proves effective, it attracts followers. As more participants crowd into the trade, the **opportunity erodes**. This is the **paradox of popularity**: the more widely something is followed, the less effective it becomes.

Take the oft-repeated advice: avoid low-quality businesses or overpriced stocks. Sensible advice, yet in the last few years, precisely these stocks have delivered stellar returns—defying expectations and frustrating fundamental investors. Why? Because markets are **reflexive**. They are shaped not just by fundamentals but by **what people believe about fundamentals**. If enough people believe an average business is a great one, and act on that belief, they can drive the stock price up—at least temporarily—validating the belief, even if the underlying reality hasn't changed.

This is what makes investing uniquely hard: the **absence of reliable guideposts**. The past is an imperfect teacher. Relationships that held true in 90% of the past might fail precisely when you bet your house on them.

The only dependable **math/ magic formula** is that the value of business is the present value of its future free cash flows. While this gets violated from time to time, over longer term this has hold steadfast.
The imprecise nature of investing requires acting with conviction while also preparing for the possibility that the world may behave differently this time. This paradox—balancing belief with flexibility—is the true art of investing.

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As always, gratitude for your trust and patience. Kindly do share your thoughts, if any. Your feedback helps us improve our services to you!

Kind regards,
Team Compound Everyday Capital
Sumit Sarda, Surbhi Kabra Sarda, Punit Patni, Arpit Parmar, Dhruva Koolwal, Aayush Choudhary

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Annexure 1

Here below we briefly explain our investing, operating and reporting philosophy. We also take a moment to explain how we would like to be evaluated.

Investing and Operating Philosophy

Mandate: Long Term Focused Value, our one and only strategy, is a multi-cap and value oriented strategy with a mandate to build a portfolio of 10-20 stocks across market capitalisation and sectors. A multicap strategy allows us to pursue investment opportunities in widest universe. While our focus is on absolute long term returns, owing to regulations we shall benchmark our returns with total return indices (TRI) of NSE Nifty 500 and NSE Nifty 50. TRI includes returns from dividends.

Sustainability: We are looking to own businesses that can thrive over decades and reward shareholders fairly. Key characteristics of such businesses include large addressable market, competitive advantage, and respect for minority shareholders. Such businesses witness unit volume growth and high returns on capital for long periods of time.

Value includes growth: For us value investing does not mean buying stocks in the lowest quartile of quantitative valuations. It, rather, means buying at or below conservatively assessed value and seeing that value grow over time. We were and are happy to own growth and quality stocks if available at *reasonable prices*.

Humility and Risk Control: We proceed with the assumption that counter party is intelligent, resourceful and motivated. Most of the time markets are efficient in pricing stocks. What looks quantitatively cheap or expensive mostly deserves so. Very rarely owing to ignorance, dislike, temporary hardships, human biases or institutional reasons, prices diverge from value. Picking this divergence, however, requires a good understanding of underlying business. We try hard to limit ourselves to business that we *honestly understand* and operate with *margin of safety*. With experience we have realised this is the best way to control risk.

Management quality: Management quality is difficult to assess. We tend to focus on what management has done vs. what they say. This includes study of company's history with an eye on past capital allocation decisions, quality of reported earnings and treatment of minority shareholders. Mistakes and learnings over the years have trained our eyes to notice nuances. We have also learned that no price is too low for poor management quality at least in India where it is often difficult to replace management easily.

Profit share only: We don't charge fixed fees — only a share of profits. That keeps us aligned with you, and disciplined about when we invest and raise capital. Further we are not associated with any other conflicting businesses like broking, private equity or merchant banking.

Reporting Philosophy and Format

Reporting Philosophy: We take our reporting responsibility seriously. The underlying spirit of reporting is expectation we ourselves would have in case we handed our money to someone else –transparent, complete and accurate. Our reporting will try to go behind how and why of a period's results. Further, mention of mistakes will precede mention of accomplishments and bad news will precede good news. Lastly, our reporting shall follow the below outlined format irrespective of good or bad performance.

Reporting Frequency and Format: Our custodian will send your portfolio updates monthly. Further, you can login anytime to our fund accounting portal with your login credentials to know updates including capital gains reports. In addition we will share our thoughts through a quarterly letter. June and December quarter letters will be brief. September and March letters shall be detailed. The detailed letter shall be divided in to three broad heads – (1) performance, (2) details on performance and (3) other thoughts.

The 'performance' section will contain the statutory performance table as mandated by SEBI and a voluntary section with some supplementary data. The statutory performance table will report return of all portfolios put together using weighted average method (similar to NAV method used by mutual funds) net of all expenses and fees. Owing to starting point differences your returns may differ from total portfolio returns.

The second section "details on performance" will have four sub sections – (a) mistakes and learnings, (b) major portfolio changes, (c) underlying fundamental performance and (d) flows and sentiments.

The third and the last section will contain thoughts about investing and economy in general.

Right way to evaluate

Our investment horizon is little longer than an average fund. We would urge you to evaluate our returns over 3-5 year period.

Prices are more volatile than fundamentals and therefore serve as an inadequate yardstick of our performance in short run. The litmus test of our long term wellbeing will be growth in earnings of our underlying businesses. We will report to you earnings per unit – EPU (our share of earnings divided by number of units outstanding) both on historical as well as forward basis (our expectation of next year's earnings). So long as EPU is growing and/or forward EPU is looking good, and we have not overpaid, intermittent price volatility should not bother us.

In our case unless forward EPU has materially deteriorated, it will be profitable for you to top-up/ refrain to sell when past returns have been poor and refrain to top-up when past returns have been stellar. While this is contrary to what your intuition will tell you to do, our past investors will testify that they have been benefitted when they have done so. We have also raised/ refused new money depending on whether valuations made/ did not make sense. We will continue to do so.

In the end, our behaviour will be based on your behaviour. Only when behave in sync with what works in investing – *buy low, sell high* – will we all do well. In our periodic letters we hope we will be able to guide you towards right behaviour.

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