



October 08, 2025

LETTER TO INVESTORS | SEP 2025

EXECUTIVE SUMMARY

- Trailing twelve months' earnings of underlying portfolio companies grew by 13.6%.
- NAV grew by 17.3% YTD with 80% funds invested in equity positions. Balance 20% is parked in liquid/arbitrage funds.
- Acquiring 15%+ earnings growth, not built into stock prices.
- We exited from three positions. We added further to a minor position, making it a major position.
- Getting more by doing less.
- **Stance: Neutral**

Dear Fellow Investors,

15%+ earnings growth, not built into stock prices

In near term, stock price movements are often poor arbiter of investment actions. In a rising market, a poor investment choice may deliver returns, and caution may seem unwise. Conversely, in a falling market, a good investment action may continue seeing price fall, or aggression may seem bewildering.

It may be better, instead, to judge investment decisions by looking at fundamental improvements. **Free cash flow** is the ultimate contributing metric to the value of a company. Free cash flow = cash earnings – cash investments. However, for a growing company free cash flow can be volatile when looked at annually and may not give a clear picture in some years.

A simpler but crude alternative measure can be **earnings growth**. Over time, earnings growth of good companies matches their free cash flow growth. Earnings, however, can be messy – distorted by cycles, management tricks, accounting quirks (lease accounting for example), or one-offs. In absence of any other objective, easy and homogenous measure comparable across companies, we need to live with its limitations and make some adjustments to normalise the earnings power. Further, studying multi-year earnings may be more appropriate.

Our benchmark for success is sustained *adjusted* earnings growth of *at least* 15% per year. In light of India's expected nominal GDP growth of 9%-10%, this seems a reasonably ambitious goal. But **growth alone isn't enough—we need to buy that growth at prices that don't already assume it**. A basic discounted cash flow working, after gaining clear understanding of the business and its key drivers, can help decode that.

If markets are efficient and most companies well studied, why would this happen? Mostly due to three reasons – Temporary hardship (higher chances), small untracked companies (lower chances, today), or underappreciated lucky break for companies (elevate earnings power; tough to pick in advance).

This brings us to the **key investment challenge today**. A large number of companies today are pricing in a much higher future earnings growth expectations in comparison to (a) what they have delivered in past and (b) their future earnings potential. This dichotomy is sustaining due to continued buying from retail investors at every levels. But, if history and valuation math is a guide, the two metrics – earnings growth and share price growth – usually converge.

Whenever we hear optimistic and bullish thesis about any sector or company, it may be prudent to pause and ask – “isn’t this already built into the price?”. Only if the answer is a convincing no, should one proceed to next steps.

Amid this challenge, we continue to remain selective in our purchases. Our investing efforts aim **maintaining a 15%+ earnings growth without overpaying**. We have been reporting earnings per unit, portfolio P/E and portfolio turnover in these letters since inception to help you evaluate performance holistically in the light of the above goal. **Neutral stance stays**.

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	17.3%	20.4%	7.2%	24.4x	+10.1%
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)	15.7%	27.9%	17.0%		-1.3%

**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.*

Quality and valuation as guides

Two primary attributes we look for while investing are **quality and valuation**. If either is missing, we’ve learned it’s better to wait than to compromise and risk capital. Over the past four years, valuations were rarely attractive, so we held back, keeping on average more than 27% in cash and equivalents. In a roaring bull market, that caution naturally led to relative underperformance between FY21–FY24. That said, at around 15%, our absolute return remained healthy during FY21-24, even if it lagged the benchmark.

The past year has brought a shift: markets have become more discerning. Without changing our process materially and continuing our preference for both quality and valuation, **the gap has partly closed**. Of course, it would be wonderful if we could predict the rare moments when compromising on quality and/or valuations might pay off. But in reality, such timing is near impossible. The safer and more rewarding path is to stay disciplined: demand both good quality and reasonable valuation. Over time, this stance delivers.

A2. Underlying Earnings Performance

Past Twelve Months	Earnings per unit (EPU) ²	FY 2026 EPU (expected)
Jun 2025	10.0¹	10.0-10.8³
Mar 2025 (Previous Quarter)	9.3	10.0-10.8 ³
Jun 2024 (Previous Year)	8.8	
Annual Change	13.6%	
CAGR since inception (Jun 2019)	14.9%	

¹ Last four quarters ending Jun 2025. Results of Sep quarter are declared by Nov 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: Trailing twelve months Earnings Per Unit (EPU) of underlying companies, **grew by 13.6%** (including effects of cash equivalents that earn ~6%).

1-Yr Forward Earnings: We retain the guidance range of Rs 10.0-10.8 for the expected Earnings per Unit for FY26.

A3. Underlying Valuation Parameters

Sep 2025	Trailing P/E	Forward P/E	Portfolio RoE	Portfolio Turnover ¹
CED LTFV	24.8x	22.9-24.8x	19.2%³	8.3%
BSE 500	24.4x ²	-	17.4%	-

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 37%

B. DETAILS ON PERFORMANCE

B1. MISTAKES AND LEARNINGS

We did not discover any new mistakes this quarter.

B2. MAJOR PORTFOLIO CHANGES

Bought: We added further to two positions in underweight accounts (reasons shared in next section). We also added a little to a minor position. Lastly, but importantly, we added to another minor position to make it a major position (4% position). Its initiating thesis was shared with investors.

Sold: We have exited from **Ultratech Cement, Shree Cement and ICICI Bank**. All of these stocks were in the portfolios of older clients. We did not add them in newer clients due to higher valuations.

While we like Ultratech and Shree Cement due to their network and low-cost advantages, the valuations are high (50x and 70x trailing P/E respectively) and discounting over 20% rise in free cash flows over the medium term. Cement is capex heavy business and intense competition from newer entrants like the Adani and JSW groups will limit price hikes leading to, in our opinion, softer free cash flow growth. We had seen these two as a combined cement exposure and **exited them at a combined IRR of 15%.**

ICICI Bank has done better than HDFC bank. But today, we feel HDFC bank represents better risk reward and is already a 10% position (smaller in newer clients due to valuations difference). We felt that is adequate exposure to private sector banking and trimmed ICICI Bank to make room for other additions. **We exited ICICI Bank with an IRR of 25%.**

B4. FLOWS AND SENTIMENTS

Domestic flows remain strong, with retail investors actively participating in both mutual funds and IPOs. The concern is that much of this money is chasing smaller and/or riskier companies. On the other side, promoters, private equity investors, and foreign funds are using this retail demand to exit at record valuations.

The prevailing counter-argument to caution is the so-called “buy the dip” mentality, or what some call the “**retail put**”. The logic goes: if money keeps pouring in, won’t prices just keep rising? The problem is that flows are notoriously unpredictable. They are driven more by sentiment than fundamentals, and history shows that shocks often appear when least expected. When that happens, inflows can quickly reverse.

Until then, though, “buy the dip” rules the day. Take the recent example of **US tariffs**: Washington has imposed a 50% tariff on Indian goods and a \$100,000 one-time fee on H1B visas. Many believe these are just bargaining tactics and expect them to be rolled back. But if they aren’t, the second order consequences for India’s economy and jobs could be meaningful — risks that the market is currently ignoring.

GST rate cuts will approximately lead to 8-10% savings to consumers. **Income tax cuts** announced in the Union Budget earlier are further expected to add to the savings of the middle/ higher middle-class consumers. How much of this will be used to repay existing borrowings (Indian consumers have been besieged by over borrowing), and how much will spur spending will be clear in next few quarters.

C. OTHER THOUGHTS

Getting more by doing less

Capital gains taxes have risen to 12.5% and 20% for long term and short term respectively. Add to it transaction charges or around 1% and average cost of frequent transacting has increased. Today there is strong case for holding longer to improve net returns.

We ran a simple exercise to see the impact. Assume a stock compounds at 15% annually:

- Scenario A: Hold it for 10 years straight, then sell.
- Scenario B: Sell every 367 days (just after it qualifies as long-term) and reinvest.

At the end of 10 years, Scenario A is worth 24% more than Scenario B. Stretch it to 20 years, and the gap widens to 54%.

Yes, this is too simplistic. Often changes in company's fundamentals or valuations warrant trimming. But the broader point is that lesser activity is more valuable in today's environment given that capital gains taxes are highest in the recent history (and are unlikely to come down). Therefore, choosing investments that can be held for longer periods of time and avoiding needless turnover adds to overall returns.

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

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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 last 9 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 operate on profit share only and donot free ride on investors' investments in form of fixed fees. Not only does this align incentives, it disciplines us to invest and raise money only when valuations make sense. Further we are not associated with any other conflicting business 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 preceded 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 into 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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