in place. Another key factor is the stock of our interest must have enough liquidity for us to have a meaningful position.

When do you sell a stock?

We follow a 'buy and hold' strategy and by its very nature, small-cap investments should be long-term-focused. Investments in the smaller companies are made with the thought of these businesses scaling up faster over the next few years. Thus, investments continue to be in the portfolio if they are growing as per expectations and do not disappoint consistently.

We sell when we feel prices have gone much beyond their fundamental value. We also sell when hypothesis on which we bought the stock changes or we have discovered something negative about the management.

What are the risks associated with small caps? How do you minimise them?

Small caps tend to do well in the bull markets and the reverse is true in the bear market. So, there is volatility risk. Also, there is liquidity risk. In bear markets, liquidity dries down to a large extent. Further, however best you try to contain stock-specific risks, you may still end up having one or two dud stocks. Thus, there are risks associated with selection.

It's very important to manage these risks. Therefore, we never go overboard on any stock, however good it looks. We restrict our weight to any single stock to not more than 3 per cent at the time of buying. Also, we believe in diversification. We are not for a very focused small-cap portfolio. Portfolio must be well-diversified. Also, to manage liquidity risk, we judiciously use cash and our option to have larger companies within the permissible limits.

Perhaps the biggest risk in a small cap is that it can crash all of a sudden? How can a small-cap investor avert this risk?

This risk must be managed at investor level. We suggest our investors to follow overall asset-allocation discipline. However attractive small-cap returns look, small caps should not make it very large part of their overall investment. On the basis of individual risk profile and market situation, one can have higher weight in consultation with their advisors, but one should never go significantly overboard in this space. Also, one needs to take a real long-term view in this space. Further, if the investor does not have an appetite to withstand short-term volatility, then small caps should be avoided.

> **"Luck as a factor is underappreciated in the market. Fund managers are not as smart as what they look in bull market and not as dumb as they appear during the bear market. It is most important not to get carried away in both situations."**

What are the signs of a multibagger small cap?

In my experience, a multibagger happens when earnings growth gets combined with P/E rerating. If one manages to get any company or sector which is available at a bargain price and then something changes in the company which leads to high earnings growth and that gets combined with P/E re-rating, that's the most ideal situation. And one needs capable management at helm, which takes maximum benefit out of this situation in terms of company's response to this change.

How do you do qualitative analysis (management quality, corporate governance, etc.) in small caps, given that very little information about them is in public domain?

This is where strength of internal research capability and experience comes in to play. We encourage our analyst team to do rigorous balance-sheet analysis as this provides important insights on the current and future potential. Further, we also undertake a lot of secondary research in terms of meeting competitors, customers and other stakeholders and get continuous feedback. Our experienced team also helps us in separating good, average and bad companies. If we are in doubt, we are fine with erring on the side of caution.

What have been the most precious lessons in your investing career?

Luck as a factor is underappreciated in the market. Fund managers are not as smart as what they look in bull market and not as dumb as they appear during the bear market. It is most important not to get carried away in both situations.

How can an investor make a long-term small-cap portfolio?

Have a collection of quality businesses run by good management that are purchased at reasonable price, and then have long-term view and give time to one's investment to grow. **WI**