

**INTERVIEW | RAKESH
JHUNJHUNWALA**

**WHAT IS STOPPING US IS
THE PEOPLES' FEELING
OF RIGHT OF
ENTITLEMENT AND
INDIA'S BUREAUCRACY**

In celebration of its 50th Volume – the BCAJ brings a series of interviews with people of eminence, the distinct ones we can look up to, as professionals. Those people who have reached to the top of their chosen sphere, people who have established a benchmark for others to emulate.

This third interview is with Mr. Rakesh Jhunjhunwala. He is well known in the fraternity of investors in the stock market and a Chartered Accountant by training. Mr. Jhunjhunwala, has a fairy tale story of entering the market with Rs. 5000 when the index was 150 and making it bigger than what most people can dream of. He has served on several Boards, produced a mainstream movie and is best known as India's most successful investor.

In this interview, Mr. Jhunjhunwala talks to BCAJ Editor Raman Johkakar and BCAJ Past Editor Gautam Nayak about his formative years, how the Chartered Accountancy training helped him, role of auditors in present times, and modestly sharing his investment mantras

Q (Raman Johkakar): You have spent a long time in the market and made the most out of it. As you look back, do you find some roots of your dream like success in your childhood?

A Sir, when you make a vegetable. Now you don't know - there are various ingredients. Now it is some amount of ingredients, which makes that vegetable. If I have to say as to which particular ingredient was important - every ingredient was important, I can say every ingredient was important. I think, in my childhood love for stocks, background of a speculative nature by ancestry, polishing of the financial skills by Chartered Accountancy.

Then you know the fact that when I came here, India came on a growth path, Sensex was 100, today Sensex is 35000. I think all factors have contributed for me in India and finally it is luck, where all we are is because of the grace of God.

Q (Gautam Nayak): Can you tell us a bit about your childhood - what were your formative years like?

A See, the most important part of my formative life was my curiosity and my father's encouragement of curiosity. I was a very curious child. My father always inculcated that curiosity and I think that helped me build a lot of knowledge. Also my father let me think independently, always encouraged me to think independently and he always told me that - you do whatever you want to do in life, but be responsible. And you know I had sickness



Raman Jokhakar, Rakesh Jhunjhunwala and Gautam Nayak

when I was young. I had meningitis. So I think, these are the main important factors. Otherwise, I had a very normal childhood.

Q (R): You were always in Mumbai?

A Yes. I was born in Hyderabad but I came here when I was 2 years old and last 56 years I am here.

Q (G): Your father was an Income Tax Officer in the Income Tax Department.

A Also in my formative years, I met (because my father was in the Income Tax Dept.) a lot of important people. I developed an attitude where I did not have any fear of authority. I was not in awe - 'This fellow is this, this fellow is this'.

Q (G): About Chartered Accountancy - why did you choose Chartered Accountancy course - a trait

or attribute you that you learnt then - that made a difference in what you do now?

A See, every Income Tax Officer wanted his son to be in practice and my brother was already a Chartered Accountant. My father always wanted me to do what I enjoyed. But he said that you must have a kind of financial security and chartered accountancy is a good education. My father's guidance and then my interest in financial matters was why I did my chartered accountancy.

Q (R): Any kind of attributes, something that you learnt then, do you feel helped you in this kind of.....

A Lots of things. Lots of things. I think, even if you ask me today, chartered accountancy is the best education, far better than an MBA from America. If you want to work and remain in India, chartered accountancy gives you an expertise of accountancy, finance, company law. It gives you a basic thought process. It matures you because

when you do the articleship, you have to behave. So I think, it is very wonderful education and it has contributed a lot to my success.

Q (R): What attracted you to the stock markets? You didn't have that background from your father's side and Chartered Accountancy does not mean stock market. What prompted you to enter the investment business?

A You know my father used to invest in the market and he and his friends would discuss the market in the evening. I would be 10-12-13 years old, and I would notice the fluctuations in prices. As usual, I would quiz my father and my father would say "See, look, there is an information about Gwalior Rayon." Next day, the price would move up. So this price information, then relating it to the news and then trying to understand it, really fascinated me. That's what I thought and, you know, we are basically Aggarwals from Rajasthan, we are basically business community and we are very good at speculation. My grandfather and my uncle were speculators. So, you know, I have that in my blood.

Q (G): Who were your role models or mentors, and how did they influence you and your investing style?

A See, my real mentor was Radheshyam Damani. He is not a mentor, he is a friend. Mr. Radheshyam Damani, who owns Dmart. He is my best friend. He is a person from whom I learnt a lot by observation. Mentor is one who sort of guides you. He was not a guide to me, but I learnt a lot of things from him. My role model in life really are the House of Tatas. We must do economic activity and use that economic activity for social work. In that way, my role models are Tatas. As far as skills of investing in trading is concerned, we should read, observe but try and make independent decisions. We should not subjugate our mind to an individual. You should not think, this individual is too great, so whatever he has said is the gospel truth. But these are markets. They are dynamic. There is no gospel truth.

Q (R): Difference you see from those days - before SEBI - and now after SEBI - as an investor?

A I think, SEBI has contributed greatly for Indian investors and traders. We have gone from the Wild West to the absolute well regulated markets.....See, there



Rakesh Jhunjhunwala

have been excesses by SEBI, but that is the function of evolution. I am thankful to SEBI for the way they have conducted the markets. Some excesses have been done somewhere.

Q (R): Role of auditors: we saw some resignations - some last minute resignations. As an investor, were you satisfied with the action of the auditors, reaction of markets and regulatory response?

A I think Society is underestimating the importance of auditors. I think, auditors are also taking their roles lightly.

You see, faith is the basis of capitalism. Basically, that faith in terms of accounting is certified by auditors. So that's why I say that society is underestimating the role of auditors. If you got auditors like Arthur Anderson for Enron in all companies, then what would happen? Capitalism itself would get shaken. The auditors don't understand the importance of what they are certifying. So, personally I feel, first, the monopoly of the Big 4 is not good, and I think the role of auditors has to change. They have to be more responsible and it will evolve with time.

Q (R): Why you say more responsible, in what sense? Meaning would you like auditors to report something else beyond what they are doing presently?

A These are substantive matters. Auditors want to look at procedural matters and I don't know what are the reasons? I feel, I am also guilty that I am not contributing to the setting of accounting standards, which I can as a member of the Institute. The issue is that a lot of the

accounting standards are also not practicable. And, second thing is, I feel, that after all, accounting also carries a lot of opinions. This fact that under the Companies Act, that a qualification by an auditor means a black mark on the Board is not right, because I can differ from the auditor and I as a member of the Board of Directors have the right to counter the auditor's observations without any black marks right? The auditors themselves differ on certain things. I think, the role of auditors has to be better understood and discharged with greater responsibility, greater understanding and greater practicality.

Q (R): And presently do you feel that auditors have enough incentive e.g. the board appoints the auditor effectively. Effectively, you have the general meeting, which is composed of promoters largely. They are appointing the auditors. What is the incentive to auditors to speak up and to speak up against those same people?

A That is why you are professionals, you know. That is why you are supposed to uphold your professional standards. Do you want to compromise your professional standards? So, that will depend upon the general morality of our profession. It is you who set the standards of the profession. If we chartered accountants, all together, start giving independent opinions, regardless of whether we are appointed or not, then what will the directors do? What will the promoters do? So, it is for us to improve the standards and have more transparency, and not clamour only for more work.

Q (G): Do you see the role of auditors should undergo a change in the years to come - considering the scams from Satyam to Carillion in UK? Is assurance expected these days to be more of insurance?

A They should undergo a change. But see, it cannot, and will not happen in a jiffy. It will not happen by me or you desiring it. It will happen with evolution.

Q (R): In other words, what would be the next stage of that evolution that you as an investor and a director look forward to?

A That is difficult for me to point out specifically— right? I mean, say, suppose somebody is resigning from Manpasand Beverages. I want, to tell that auditor: what has changed from the year before? Right? I know for one,

all the members, my fellow members don't like it. I am very happy that the power to take disciplinary action has been taken away from the Council. I think, that is why. Partly because SEBI is getting more vigilant – see what has happened to Pricewaterhouse case in Satyam- right? Therefore, this will evolve with time.

Q (G): Coming to the stock markets - What are the fundamental stumbling blocks that the Indian Economy generally and Stock market specifically face, which need to be changed immediately for a sustainable long-term growth?

A Stock Market and Economy, what are you asking, Stock Market or Economy?

Q Both – mainly the economy, because once the economy grows, the stock market will automatically grow.

A My personal observation, that in India, we Indians are more disciplined. Why? Because we think, we can grow far better and we can have better civic and Government than what we have. But see, in the backdrop of the kind of diversity we have, the kind of economic inequality we have, our growth, we are evolving. And this change, we are an elephant, you cannot make it jump faster beyond a point. But it is evolving. Everything is bottom up. So, I think, with evolution, growth will go up. I think, what is stopping us most, is the peoples' feeling of right of entitlement and India's bureaucracy. I suddenly feel entitled to everything, I have to do nothing. And bureaucracy feels they can obstruct everything. So that is what is really stopping us - but nothing can stop India.

Q (R): Today there is a lot of study, knowledge and analysis involved in investing. Yet there is an element of 'future' and therefore 'uncertainty' that one feels being in the market. If you have to rank skill, courage, risk taking and good luck or God's grace - what weightage would you give each or how would you rank them?

A You may have ninety nine things right in a way. If you don't have salt it will make food tasteless. So, you need everything in proper measure.

Q (G): From an economic perspective – what are the areas you can see in future will be the real growth

areas, specific sectors you feel would outperform in the next decade?

A Everything. India is going to grow! What is it that is not going to grow?

Q (G): Any specific sectors, any sector you feel has greater potential?

A I think, financial sector is very underdeveloped in India. There are lot of sectors. Pharma. Everything in India - is like a buffet! There are so many dishes - eat what you want, do not overeat. (Laughter)

Q (R): Your advice to Chartered Accountants - especially the younger lot - what should they do more, do less and stop doing completely?

A Hard work.

Q (R): Current generation

A And we have to understand that growth and success is a process. Nothing comes in a hurry. And see, you have to be practical in this world but we have got to keep our integrity and keep professional ethics above results.

Q (G): Corporates are a small portion of the economy - government, agriculture and even unorganised sector is quite significant. Do you see this ratio change? These are some of the factors that are holding back the society.

A It is a normal process of Society that as you develop more and more, more and more sectors will get organised, consolidated. So, it is a process, and I think, government's role in business will diminish. Diminish not by selling government stakes, but by allowing private sector to grow. So, they take out market share.

Q (R): If you were to interview Warren Buffet - what questions would you like to ask him?

A What is the secret of his health? He eats most unhealthy in the world. He is so active at 87. I will ask him the secret of his health. (Laughter)

Q (R): Anything else you would want to ask if you had to ask a second question?

A No. He is an open book.

Q (G): A long-term investor looks at several factors before investing in a company. One factor is the quality of the management and promoters. Today, when so many promoters who were once upon a time considered as top quality, are now discovered to be frauds, how do you make a decision about the quality of the management and promoters before taking stakes in companies?

A How do you gauge if your wife will be good? So, it is intuitive. One test I keep is, you try and find out if the management is playing in the market.

And then if you meet them, you understand the attitude, purpose.

Q (G): Do you feel that the changes in management being brought about on account of the Insolvency Code would make promoters more accountable, cautious and transparent, and therefore is in the interest of investors or it has its flip side?

A Absolutely. It will change the credit culture in India and it will raise the rate of return on capital.

Q (G): Today, I think, promoters are worried about being replaced.

A Worried means, they are being replaced. There is no chance. So, the question is, the insolvency code - firstly is evolving, it will change credit culture and credit behaviour in India. If you raise return on capital, you will use assets more efficiently and they will not inflate capital cost. I think, it is a game changer.

Q (R): How do you protect yourself against the significant unpredictable legal and regulatory risk faced by companies in India, e.g., Supreme Court ban on mining in Goa, cancellation of coal mine allocations and telecom licences, ban on copper smelting in Tamil Nadu, change in gold import norms, etc. – the sudden slaps.

A One is - we don't know. We can try to protect ourselves from the known, but we can't protect ourselves from the unknown. We try to not invest in controversial areas – sectors and companies.

Q (R): Many CAs miss the woods for the trees. How does one master the art and the craft of investing? This is the secret mantra we want from you (Laughter)

A Well (laughter) I am trying for the last 38 years since 1980. I still have not mastered it, because the process to learn is a journey, not a destination. One thing that is most important – have an open mind, experience, read, analyse, understand, have an independent opinion. These are some of the factors.

Q (G): The change today is not only constant – but is faster than ever before. How do you keep up with all this and remain informed to keep up with the pace of change?

A I am not so technologically savvy, but there are a lot of things which don't change. Change can bring - the structural change can bring opportunity. It does bring opportunity. By reading.

Q (G): What do you read regularly?

A I read The Economist and India Today. India Today tells me what is happening in India. The Economist makes me form an opinion about what is happening in the world.

Q (G): And how long have you been doing this now?

A For the last 15-20 years or even more. Now actually, my reading quotient has come down.

Q (R): As someone linked to the markets in the superfast digital age - How do you prevent burnout and keep good health and well-being?

A Well-being of the mind comes from 3 things: Happiness, Contentment and Tolerance. And acceptance of defeat with a smile. See, life is not about regrets, it is about learning. Once you accept that, you are always mentally healthy.

Q (R): Ideas of Success and Achievement drive people. What does Success mean to you? Has that idea changed over the years for you?

A See I have always done what I enjoyed. I enjoy what I do. I came to the markets in 1985. By the 1990s, I had enough to provide me for a life time. No wealth is enough, no success is enough. But I have never been motivated by the quantum of wealth. I do what I enjoy, enjoy what I do. I have far less than what people think but far more than what I need. So for me, the job what I am doing is far more enjoyable, the hunt is more enjoyable than the game. Success is by-product of what I am doing and I will be lying to say that I don't like to be wealthy and successful. But I am in no rat race.

God has given me wealth at least far beyond my own imagination. Sometimes, I wonder what will I do with that? What do I need it for? ■

