

Price Is a Question, *Not an Answer.*

A multiple is not a verdict; it is a set of assumptions in disguise. The real work is not arriving at a target price — it is reverse-engineering what today's price is already asking the business to deliver, then asking whether that demand is reasonable.

"Not 'what will this company do?' — but 'what is the price already assuming it will do?'"

THE VALUATION ISSUE · THIS MONTH'S THESIS

<p>1 in 3</p> <p>Historical probability of a loss in the Sensex over any one-year holding period.</p>	<p>0%</p> <p>Historical probability of a loss over any fifteen-year holding period.</p>	<p>12 of 18</p> <p>Large-cap consumption names that de-rated over the last seven years.</p>
<p>~18% ×10y</p> <p>Cash-flow growth a leading chip-maker must sustain to justify today's price.</p>	<p>50 bps</p> <p>Credit-cost normalisation that quietly turns a 13% ROE story into an 11% one.</p>	<p>88%</p> <p>Equity-value overstatement when a mining asset is valued on reported EBITDA.</p>

◆ THIS MONTH'S THESIS

Stop forecasting. Start underwriting.

When you anchor on embedded expectations rather than historical multiples, a high P/E stops automatically meaning "expensive" and a low one stops meaning "cheap." This issue distils the process knowledge of twenty of India's leading investors and economists into one practical discipline — and the restraint that makes it work.

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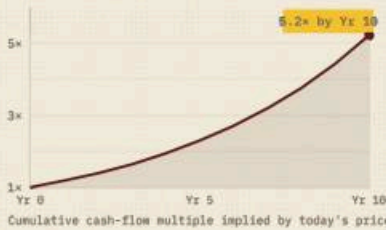
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Why Valuation Discipline *Matters Now*

Three things are converging in mid-2026 that make valuation discipline more relevant than at any point in the recent cycle. The common thread: where the easy narratives are fully priced, returns come from judgement about which assumptions survive – not from spreadsheet precision.

01 · PRICED FOR PERFECTION

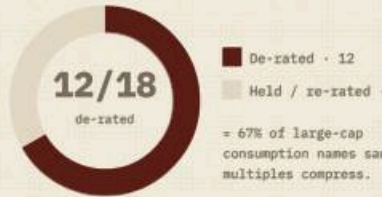
A single semiconductor leader is, at today's price, asked to out-earn the entire global data-centre economy. The bull case barely justifies the price – so the margin for error has effectively disappeared.



Compounding ~18% p.a. for 10 years ⇒ =5.2x cash flow. Figure illustrative, per DSP Netra.

02 · THE SAFE HAVEN BROKE

Over seven years, India's FMCG index underperformed the broad market and twelve of eighteen large-cap consumption names de-rated. Earnings stayed stable; the re-rating that once carried these stocks simply reversed.



Source: DSP Netra. Seven-year window to mid-2026. Quality without a catalyst is not enough.

03 · ANCHORS LOSING GRIP

For bonds and the rupee, term spreads, real yields and rate differentials have all moved enough that no single metric provides a reliable valuation anchor. Frameworks still help – but their shelf life now demands active monitoring.

Term spreads	■	drifting
Real yields	■	drifting
Rate differentials	■	drifting

No single lens holds. When market rates lose their anchor to policy rates, the framework itself must be stress-tested.

Schematic. Direction of travel, not levels – see Asset-Class Notes, p.04.

1 in 3

Chance of a one-year Sensex loss – yet the easy narratives are priced as if risk were absent.

0%

Chance of a fifteen-year loss. Time, not timing, is what disarms valuation risk.

12 of 18

Consumption names de-rated – proof that a "safe" sector can quietly become expensive.

THE COMMON THREAD

The behaviour changes before the numbers do.

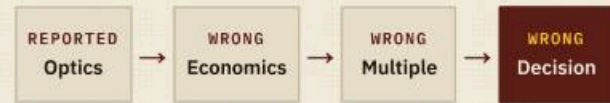
When the bull case barely justifies the current price, the margin for error disappears. Anchoring on embedded expectations – not historical multiples – is what turns a forecaster into an underwriter. That shift is the subject of the framework overleaf.

How India's Best Investors *Actually Value Assets*

A simple decision sequence any long-term investor can follow. The maths is high-school arithmetic; the humility about the inputs is everything.

- 1 **Does it generate cash?** If yes (stocks, bonds, REITs), valuation is estimation built on arithmetic. If no (gold, art, crypto), you are forecasting a future buyer — a different game, different rules.
- 2 **Reverse the question.** Work back from today's market cap: what growth, margin and return on capital must it deliver to justify the price? Is that assumption reasonable, conservative — or heroic?
- 3 **Test across scenarios.** Run bull, base and bear. The goal is not the right price; it is the *discount* to it. If only the bull case justifies the price, do nothing and wait.
- 4 **Clean the numbers first.** One-offs, leases, pensions, maintenance-vs-growth capex. A distorted base makes the output a precise illusion.
- 5 **Separate growth from value.** Growth creates value only when incremental capital out-earns its cost. Weight every growth number by the quality of capital behind it.
- 6 **Durability, then margin of safety.** How long do excess returns survive competition and regulation? Safety is protected returns bought cheaply — not merely a low multiple.

STEP 4 · THE ERROR CHAIN



Normalisation breaks the chain before capital is committed.

STEP 5 · GROWTH IS NOT VALUE



20% growth at 20% ROE beats 30% growth at 10% ROE. Cost-of-capital line ~12% (assumed) for illustration.

"If the accounting base is distorted, the valuation output is only a precise illusion."

DSP NETRA · THE VALUATION ISSUE

STEP 3 · FIND THE DISCOUNT, NOT THE PRICE

Replace false precision with honest uncertainty. Note where today's price sits relative to bear, base and bull. If only the bull case justifies it, the right move is usually to wait — there is no urgency in compounding.



STEP 2 · A STOCK IS A BOND...

...with an unknown coupon and an undefined maturity. The discipline is estimating those cash flows responsibly, then **demanding a discount to your base case before acting.**

"The goal is not to find the right price. It is to find the discount to the right price."

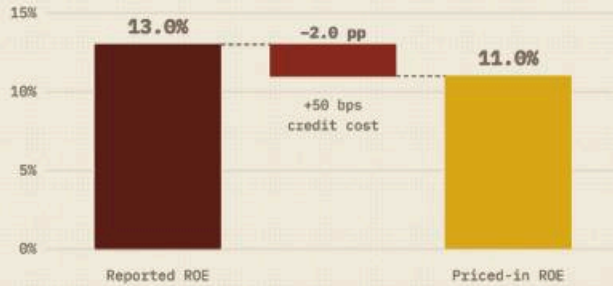
— THE FRAMEWORK, STEP 3

Deep Dive — *Always Invert*

A good valuation does not produce a single intrinsic price. It produces a list of conditions — supporting and disqualifying. Before you buy, write down what you would need to see to admit you were wrong. If you cannot, you do not yet understand the investment.

A HOUSING-FINANCIER BELOW BOOK VALUE

A naïve reading calls it cheap. A disciplined one hears the market saying the current return on equity is unsustainable. At that price, the market is pricing an **11% sustainable ROE** business — not a 13–15% one.



A 50 bps credit-cost rise = -2.0 pp on equity once leverage is applied.

Source: DSP Netra. Illustrative lender economics. A low price-to-book is not enough — you must underwrite credit durability.

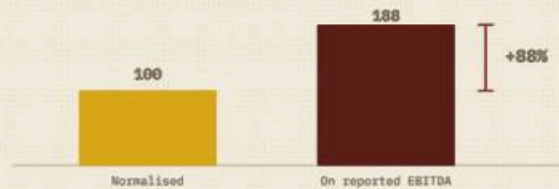
WHAT WOULD CONFIRM — OR KILL — THE THESIS?

Confirm ▶ Are non-performing assets continuing to decline? Are spreads holding without a funding-cost explanation?

Kill ▶ A 50 bps credit-cost normalisation quietly converts a 13% ROE story into an 11% one. Underwrite the durability, not the multiple.

WHY YOU NORMALISE FIRST

Value a mining asset on reported EBITDA — skipping maintenance capex and one-offs — and the equity value can be overstated dramatically.



Source: DSP Netra. Indexed to normalised equity value = 100. Illustrative.

"A good valuation tells you why you might be right — and exactly what would prove you wrong."

DSP NETRA · THE POWER OF INVERSION

ACROSS THE PORTFOLIO · ASSET-CLASS NOTES

Equities

No single lens works. Multiples are compressed DCFs with hidden assumptions; relative valuation masks where you are in the cycle. The edge is judgement about which assumptions survive.

Bonds

Rarely a standardised metric. Robust macro frameworks find turning points, but their shelf life needs monitoring. When market rates lose their policy anchor, stress-test the framework.

Gold & Silver

Gold earns no cash — value it as money against the reserve-currency supply.



Schematic, ~40 yrs. Silver triangulated off the gold-silver ratio.

REITs / InvTs

Value on distributable cash (AFFO), discounted plus a terminal value. The warning: output is extraordinarily sensitive — a small change in discount or terminal growth swings NAV. Treat precision with suspicion.

Currencies

No single model is right. Use a framework of lenses — PPP and IRP for the long term; REER, BEER, FEER for direction. Intervention can keep a currency from "fair" value for long stretches.

The Takeaway — *Restraint Is the Strategy*

The thread connecting every framework in this issue is restraint. The best investors reject far more than they buy. They normalise before they trust, invert before they commit, and wait when price and quality are not aligned. Inactivity, once a position is correctly structured and sized, becomes a deliberate act — not a failure to act.

HABIT 01

Know what the price assumes

Insist on understanding what today's price already demands of the business before you form a view on the business itself.

HABIT 02

Demand a real margin of safety

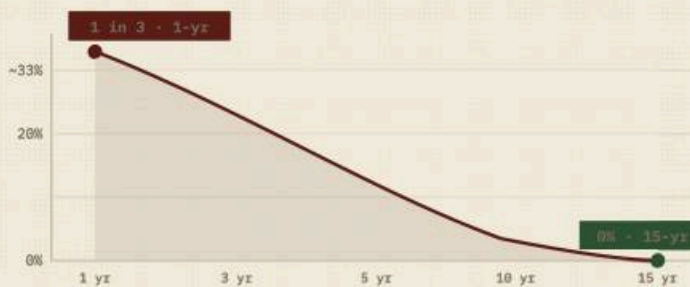
Not a merely low multiple — protected returns bought at contextual valuations. Safety is durability you did not overpay for.

HABIT 03

Size by evidence, not enthusiasm

Weight positions by conviction and the quality of evidence — never by excitement for a single story.

TIME DISARMS VALUATION RISK · SENSEX ROLLING RETURNS



Probability of a loss by holding period. Sourced anchors at 1-yr (~1 in 3) & 15-yr (0%) per DSP Netra; curve illustrates the decline between them.

"Survive first, compound second."

THE FIRST RULE · AVOID THE ABSORBING BARRIER

The historical probability of a loss in the Sensex over any one-year period has been roughly **one in three**. Over fifteen years, it has been **zero**.

Patience is not a personality trait in investing. It is a strategy.

◆ FOR ZAMBALA CLIENTS

The best investors reject far more than they buy.

Insist on understanding what a price already assumes; demand a genuine margin of safety rather than a merely low multiple; and size positions by conviction and evidence quality rather than enthusiasm for a single story. Normalise before you trust. Invert before you commit. Wait when price and quality are not aligned.

Sourced and adapted from the DSP Netra 5th Anniversary Edition (June 2026), featuring the process knowledge of investors and economists across DSP, PPFAS, Aditya Birla Sun Life, Bandhan, True North, Stoic, Stalwart, Ionic Wealth, VVD, Oaklane, EMKAY, Nuvama and Aventus Spark. Stat callouts (Sensex loss probabilities, the chip-maker growth figure, the 88% overstatement) are illustrative figures retained with source credit.

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