



# WHAT IS VALUE INVESTING?

THE EQUITY  
COMPASS

EDITION  
09

*Understanding opportunities hidden in market mispricing*

Consider a buyer evaluating a well-run restaurant in a busy neighbourhood.

The food is good, the location is strong, and regular customers keep coming back. But for a few months, road repairs outside the restaurant reduce footfall. Revenues look weaker, and the owner is willing to sell at a lower price.

The buyer's task is not to focus only on the lower price, but to assess whether the business is still fundamentally sound. Are customers likely to return once the road opens? Does the asking price reflect a temporary disruption or the restaurant's long-term worth?

Value investing follows a similar idea. It focuses on identifying companies whose market price appears lower than their estimated intrinsic value.

*The goal is not simply to buy quality businesses, but to avoid paying more than they may be worth.*



## WHAT IS VALUE?

Value refers to the estimated worth of a business based on its underlying fundamentals, rather than only its current market price.

In equity investing, value may be assessed through factors such as earnings, cash flows, assets, balance sheet strength, business quality, management capability, and long-term prospects.

*The market price of a stock is visible every day, but its value needs to be assessed.*



## WHAT IS VALUE INVESTING?

Value investing is an investment approach that focuses on identifying companies whose market price appears lower than their estimated intrinsic value.

The approach is based on the belief that markets may sometimes underappreciate fundamentally sound businesses, creating opportunities for investors who are willing to look beyond short-term movements and assess the underlying business more carefully.

Value investors do not look only for low prices. They seek businesses with financial strength, profitability, cash flow potential, and a sustainable long-term outlook. Since estimating intrinsic value involves assumptions about the future, investors may also look for a margin of safety – the buffer between a business's estimated value and the price paid for it.

*Value investing is not about buying what is cheap. It is about assessing what may be worth more than its current price.*



## WHAT VALUE INVESTORS MAY LOOK FOR

Value investors may evaluate whether the current market price adequately reflects the business's long-term worth.

INDICATOR	WHAT IT MAY SUGGEST
Attractive valuations	The stock may be trading below its perceived worth
Strong balance sheet	The company may have financial strength and resilience
Consistent profitability	The business may have the ability to generate earnings over time
Healthy cash flows	Business fundamentals may remain intact
Quality of management	The business may be guided by disciplined decision-making
Gap between price and intrinsic value	There may be potential for value realisation over time



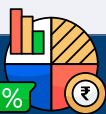
## WHY CAN VALUE OPPORTUNITIES EMERGE?

Markets do not always price businesses according to their long-term potential. Temporary earnings disappointments, business challenges, or sector concerns can weigh on investor expectations and push valuations below what a business may reasonably be worth.

Such situations may create opportunities overtime to invest at a discount to intrinsic value. The key question is whether the factors driving the lower valuation are temporary or reflect a lasting deterioration in business quality.

However, not every low valuation is an opportunity. Some stocks may appear inexpensive because earnings are weakening, debt is rising, competition is increasing, governance concerns exist, or long-term prospects are deteriorating. Such situations are often referred to as value traps.

*The discount matters only when the underlying value is real.*



## HOW DO MUTUAL FUNDS APPLY VALUE INVESTING?

In mutual funds, value investing is applied through a structured research and portfolio construction process.

Fund managers may evaluate companies across sectors to identify businesses that appear attractively valued relative to their fundamentals and long-term prospects. They may assess factors such as valuations, earnings trends, balance sheet strength, cash flows, business quality, industry outlook, management capability, and sustainability of returns.

The objective is not only to find companies trading at lower valuations, but to assess whether the valuation is supported by the underlying business.

***Value investing focuses on what a business may be worth, not just what the market is currently willing to pay for it.***

**Mutual Fund investments are subject to market risks, read all scheme related documents carefully.**