MUTUAL FUND
BAJAJ

WHAT IS GARP VS GULP ?

THE EQUITY COMPASS EDITION 18

A growing company may be a good business - but the price paid for its shares still matters.

Imagine two people who want to buy the same popular cafe.
The cafe currently earns a profit of ₹10 lakh a year. Both buyers expect more customers because a large office complex is opening nearby.
The first buyer offers ₹1 crore. The second offers ₹2.5 crore because he believes the cafe can open new outlets and its profits can grow rapidly for many years.
Both see growth, but the second buyer is relying on much stronger future growth. If that growth does not happen, the higher price may become difficult to justify.

GARP and **GULP** apply the same idea to shares. Both look for growth. The difference is how much attention they give to the price paid.

WHAT IS GARP?	WHAT IS GULP?
Growth at a Reasonable Price (GARP) means looking for companies whose profits may grow, while also checking that the share price is not too high for that expected growth. **In simple words: look for growth, but do not ignore the price.**	**Growth at an Unlimited Price (GULP)** is an informal market expression. It means being willing to pay a very high price for a company because its profits are expected to grow very quickly. **It is only a market phrase - not an official investment style or mutual-fund category.**

WHAT MAKES A PRICE REASONABLE?

A reasonable price is not simply a low P/E ratio. Analysts may assess the valuation in relation to:

EXPECTED GROWTH How fast earnings may grow	**DURABILITY** How long growth may continue	**BUSINESS QUALITY** Cash flows, returns and balance sheet
VALUATION P/E, PEG, cash-flow value and peers	**EXPECTATIONS** What growth the current price already assumes	**RISKS** What could make the growth estimate wrong

THE CAFE EXAMPLE - WITH NUMBERS

The two buyers are looking at the same cafe, but they are willing to pay very different prices:

	BUYER A	BUYER B
Cafe's current annual profit	₹10 lakh	₹10 lakh
Expected profit next year	₹12 lakh	₹12 lakh
Price offered for the cafe	₹1 crore	₹2.5 crore
Price offered for every Rs. 1 of current profit	₹10	₹25
Reason for the offer	Expects growth, but also considers current profit	Expects new outlets and rapid growth for many years

For illustrative purpose only

Buyer B offers 2.5 times as much as Buyer A for the same cafe. This is because Buyer B expects rapid growth to continue for many years. If the cafe grows, but more slowly than expected, Buyer B may be more disappointed because a much higher price was paid. This does not prove that Buyer A will earn a better return.

THE SIMPLE GARP CHECK

1. GROWTH Can the company's profits grow?	**2. QUALITY** Can the business maintain that growth?	**3. PRICE** Am I paying too much for the expected growth?

GARP VS GULP

POINT	GARP	GULP
Basic idea	Find a growing company, but also check the price	Focus strongly on growth and accept a very high price expecting the growth to further multiply
Main question	Is the price sensible for the growth expected?	Can the company grow enough to justify this high price?
View on price	May step back if the share becomes too expensive	May still buy because confidence in future growth is very high
Main risk	The company may grow less than expected, or the approach may miss an exceptional winner	Even good growth may not be enough because the share price already assumes excellent results
When it may work	The company grows and the purchase price proves reasonable	The company continues to grow much faster than expected

WHY THE MARKET'S EXPECTATIONS MATTER

A share price depends not only on whether profits grow, but also on whether growth matches what investors expected. For example, a company may grow profits by 15%. That sounds good. But if investors expected 25%, they may still be disappointed. Another company may grow by only 12% and be viewed positively if investors expected less.

HOW FUND MANAGERS MAY USE THIS LENS

- **Can profits keep growing?** The fund manager studies the business, its customers, competition and finances.
- **Is the current share price sensible?** A good company can still be a difficult investment if too much is paid for it.
- **What if growth slows?** The fund manager considers how the share may react if actual results are below expectations.
- **Has anything changed?** The company and its share price are reviewed regularly because both can change.

IMPORTANT POINTS

GARP does not simply mean buying cheap shares. It means judging the price together with expected growth and business quality.

Every expensive share is not automatically GULP. A high price may be justified if the company delivers sufficiently strong and lasting growth.

Future growth is never known with certainty. Estimates can change because of competition, costs, demand or other business risks.

Neither approach guarantees better returns. The result depends on the company's actual growth, the price paid and how investor expectations change.

A good growth story is only one part of the decision. The price paid for that growth matters too.