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Not TCS. Not HDFC. 3 stocks that beat all benchmarks and peers in the last 20 years.


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Synopsis

The first bull run of this century began in 2004. Twenty years later, we have showcased 20 stocks that have beaten the indices and their peers. And there are three stocks, amongst the 20, that are a cut above the rest.


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ET Prime Audio summary

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Not too many Indian investors will care about a Danish philosopher called Soren Kierkegaard (1813-55). Though, he did say something that they might appreciate, “Life can only be understood backwards; but it must be lived forwards.”

The intelligent investor knows that markets don’t care about past earnings. They value future cash flows. This investor also appreciates that the future isn’t independent of the past. Companies who deliver **consistent returns** are built on the back of a history of outperformance. Rahul Dravids (of the markets) aren’t created in a day.

So, this moment in the markets, when it is in a state of pause, is the right time to ask, “Which are the best performing stocks in the last 20 years?”

You must be wondering about two things now:

1. Why take the last 20 years? Why not the last 15 years?
2. This is all historical data. It is the past. The **future winners** on the exchanges will be different.

The answer to the first is that 2004 was the year when the post-dotcom bust of 2000 ended and the market started its bull run. Fund managers who had talked up software and technology stocks, during 1999, were out of the markets, and Prashant Jain had already created a name for himself as the big fund manager who had avoided the IT crash.

In 2004, the seeds of a new boom were sowed. This year also saw the listing of one of the best blue-chip stocks of the last two decades, TCS (Tata Consultancy Services). Over the last 20 years, TCS delivered an annual return at a CAGR of 19.6% at a time when Nifty 50 delivered 14% for the same period.

The answer to the second question lies in the example of TCS. Great stocks are those that have managements that can deliver earnings across all business cycles. For instance, TCS management executed through the bull run, then through the credit crisis of 2008, and through digital disruption in the US markets that started in 2015 and continues till today.

That is why we are looking back – to see the characteristics and managements that can tackle different business cycles so our readers can use these prompts to pick the future winners.

Now we talked about TCS and how it outperformed the Nifty 50 over the last 20 years. What we didn't mention is that it wasn't even close to the stocks that gave the best returns during the last two decades.

There were 20 stocks that performed way, way better.

Here are the three **top stocks** that beat everyone else. These stocks are Bajaj Finance, JSW Steel, and Ajanta Pharma. Our guess is that you got this wrong. TCS is ranked at the 151st position, just below P&G Hygiene and Neelkamal.

In the top 20 stocks, there are no software or banking stocks or for that matter, a classic FMCG stock. Banking, FMCG, and software account for more than 60% of the Nifty 50. But none of them make it to our list.

20 stocks with highest returns in last 20 years

Company name	Close (INR)	Mcap (INR crore)	20Y CAGR (%)
Bajaj Finance	6,616.35	410,193.56	39.96
JSW Steel	917.75	224,431.54	39.78
Ajanta Pharma	2,933.05	36,637.34	39.16
TTK Prestige	951.55	13,189.82	38.72
Aegis Logistics	780.45	27,393.80	37.92
Titan Company	3,464.85	307,604.59	37.60
Havells India	1,881.85	117,976.77	37.51
IFB Industries	1,977.95	8,014.42	37.44
Bharat Rasayan	12,434.35	5,166.81	36.70
Olectra Greentech	1,611.30	13,225.67	34.37
Amara Raja Energy & Mobility	1,556.30	28,484.24	33.62
SRF	2,476.15	73,399.23	33.36
Supreme Industries	5,267.60	66,912.67	32.66
Eicher Motors	4,813.30	131,913.64	31.37
Trent	6,689.90	237,817.56	31.37
Pidilite Industries	3,056.60	155,461.53	31.12
Tips Industries	772.10	9,869.88	30.52
Apar Industries	8,348.85	33,535.92	30.10
Kirloskar Industries	5,868.15	5,842.15	30.10
Bombay Burmah Trading Corporation	2,379.90	16,605.01	29.47

Data as of August 16, 2024
Note: Dividends add another 2 percent to the returns in general
Source: *Ace Equity*

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There are several reasons why these three stocks have given the best performance over the long term. The big reason is capital allocation. Bajaj Finance, JSW Steel, and Ajanta Pharma have given a consistent ROCE of 11%, 15%, and 29%, respectively, over the last five years. The median for the Nifty 50 companies is at 14%.

ET Prime analysed the returns of companies that have existed for the last 20 years. Below are our findings.

While some stocks have shot up in the last few years of the bull run, Bajaj Finance is the only stock that has consistently outperformed year-after-year with its stellar business model and financial acumen. For instance, 2009-19 was a period of lull for many companies. Yes, there was a bull run in 2017, but it ended in 2018. So, for most of that decade, stocks just underperformed and delivered negative returns. But Bajaj Finance gave 67% returns annually during that decade. It was among the first few companies to focus on lending to the growing middle class and deployed top notch techniques to acquire a credit-worthy customer and cross-sell its products.

Given the high base of returns that the company has, the bar has moved up for it. The stock has not moved up much in the last five years. Regardless, it tops the list with 39.96% returns annually in the last 20 years. It is the only stock from the financial sector that has given such splendid returns.

There is not much difference in returns between the top performer and the second-best performer. JSW Steel, which comes second in the list, has given 39.78% **annual returns** for the last 20 years – just 0.18% less than Bajaj Finance. Both these stocks have returned 36% annually for the last 20 years. From 2009 to 2019, when all the big steel manufacturing stocks were down, JSW Steel was the only stock to move up 12% annually.

After Covid, commodity prices shot up. Despite the prior run-up in its stock price, JSW Steel gave 31% returns annually in the last five years, compared to SAIL and Tata Steel at 28% and 32%, respectively.

The top performers – the ones that have given 35%+ annually in the last 20 years – are rare. In other words, the chances that most investors' portfolio would reflect a 30%-plus return in the portfolio annually would be rare. Instead, there are higher chances that their portfolio could consist of stocks that return anywhere between 11% and 20%. This is because, overall, on a five-yearly basis, the returns concentration of a bunch of 500 odd stocks is concentrated below 20% returns. This also includes underperformers and negative-returning stocks. It is only in the last five years that the concentration has tilted towards higher returns of 21%-25% and upwards of 41%. The bottom line being that it is hard to make money, and an investor can aspire for a 20% annual portfolio returns in the long run.

This list, of course, includes survivorship bias. This means that if those stocks that have perished over the years were to be included, then the portfolio returns would be further skewed.

Stock performances over the years

Returns	Stocks in each bucket				
	20Y CAGR	2004-2009	2009- 2014	2014-2019	2019- 2024
Below 0%	6%	16%	31%	37%	3%
0% to 10%	27%	15%	20%	29%	10%
11% to 20%	44%	21%	19%	19%	23%
21% to 25%	15%	14%	9%	7%	15%
26% to 30%	6%	9%	5%	4%	10%
31% to 35%	2%	7%	4%	3%	10%
36% to 40%	1%	3%	3%	1%	8%
41% to 100%	0%	15%	8%	2%	20%
101% Above	0%	0%	0%	0%	1%
Total	**100%**	**100%**	**100%**	**100%**	**100%**

Note:
- Note that majority of the stocks return below 20% annually in any time frame
- For every time frame, CAGR considered

Source: *Ace Equity; ET Prime research*

It is a common notion that over the long term, large-cap stocks perform better than the mid- and small-cap stocks. At the very least, large-cap stocks would generally give consistent returns. But if we looked at the two-year period, though this has been the case with large caps, for small caps it is slightly different. Small-cap stocks, followed by mid-cap stocks, have given the highest returns annually. And these stocks have not only given high returns in the bull run of the last five years, but they have also delivered in the years before that. For instance, Aegis Logistics – a small-cap stock – has delivered 30%+ returns annually in the five years from 2004-09, 2009-14, 2014-19, and 2019-24. IFB Industries is another example.

In the large-cap space, apart from Bajaj Finance and JSW Steel, Titan and Havells India are other top performers in the list.

Was it easy to find these stocks in 2004?

The short answer is yes. A simple screener based on value-investing parameters would have flashed all the stocks on the screen. They were low price/book value, profitable, and growing at a fast rate. They also had cash on their balance sheet. But more importantly, any investor or fund manager who was looking at the big picture could figure out that NBFCs as a business were going to be big in India as the private and the public sector banks were not in a position to tap the market. In the year 2004, Bajaj Finance was available at INR8 per share. In the next ten years, the stock went up to INR243 (adjusted price) or a CAGR of 40%. What were the chances that you would still buy the stock that went up 30x in the last one year? The answer is almost zero.

Yet Mahesh Patil took a big bet on the stock.

In June 2013, Mahesh Patil, then chief investment officer at Birla Mutual Fund noticed that Bajaj Finance was acquiring new customers at the lowest possible cost. Bajaj Finance used a lot of data mining to understand customers, and the company was dealing with multiple verticals. It was a mid-cap stock. Patil purchased the stock for his Birla Sunlife Equity Fund, which allocated 15% of its portfolios to mid caps. Over the next three years, the company grew at 30% annually with a consistent ROE of 20% and gave an annual return of 88%.

Over the last five years, Ajanta Pharma has given an annual return of 65%, or in other words, the stock has moved up 4.6x and trades at INR2,930 today. Twenty years ago, the stock was available at INR4. Again, this is a classic case of value investing where the stock was available at a P/E (price-to-earnings) multiple of 21x, and the industry was on a growth track. Today, its P/E is at 44x. Over the last 20 years, the revenues of the company have grown by 19% and profits by 49% annually.

So, if you could get these stocks in 2004 based on value-investing parameters, can we repeat the same in the year 2024?

The short answer is no. Unlike 2004, when markets were not efficient and there were classic value stocks that were not discovered and could be found out through data-query and management meetings and going through annual reports, today all these stocks are fairly priced.

So, what do you, dear investor, do now?

What we have given you are the past few year's questions and answers. Now you need to see the pattern and prepare for the future picks once the markets start to pick up steam again.

(Graphics by Mohommad Arshad)

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