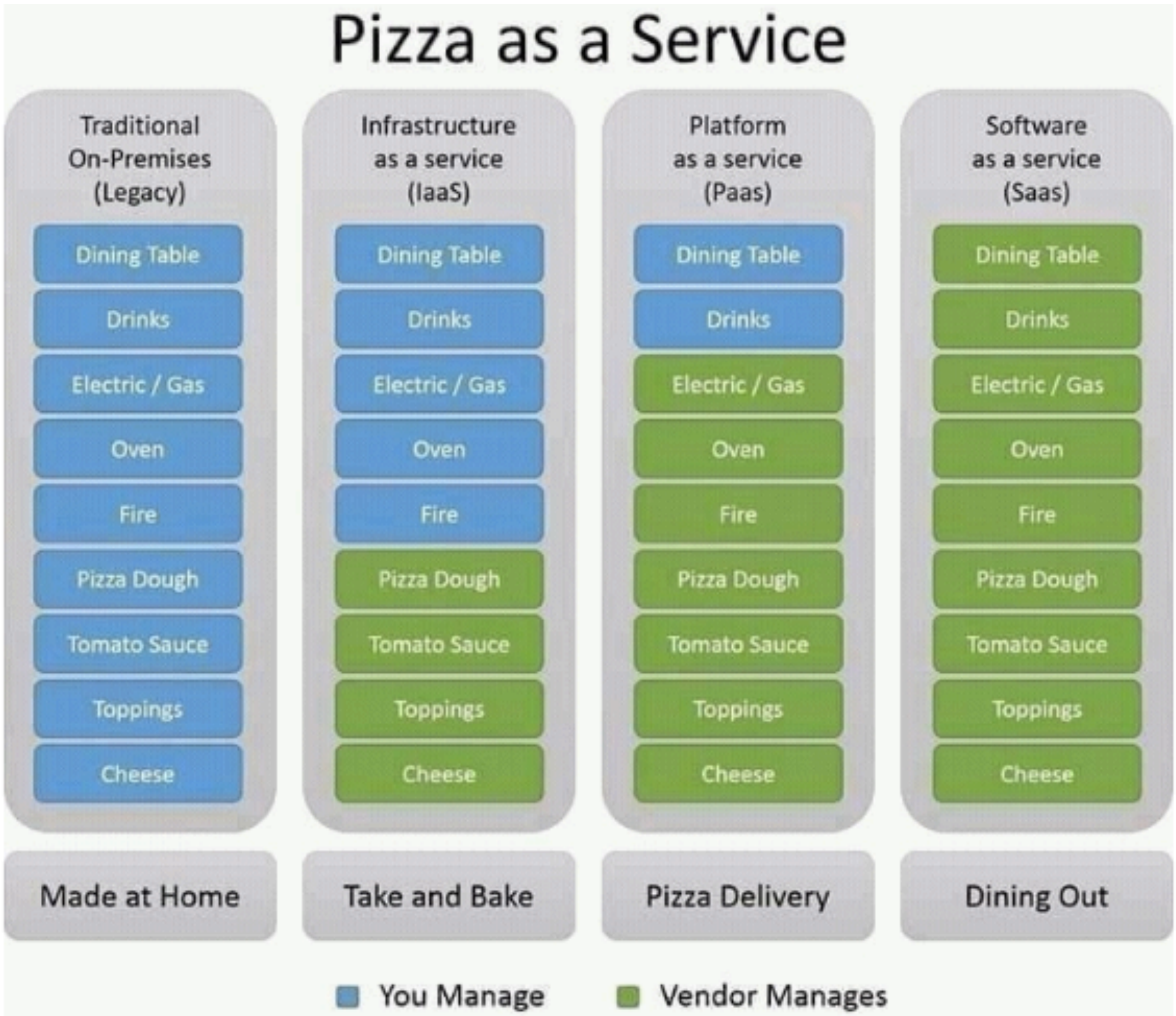
Indian Investing Conclave conducted an online session a couple of weeks back. In it 16 well known investor presented their investing philosophies. I spent sometime listening to the session and took detailed notes of 10 sessions. If there are errors in the notes, then it's because of my negligence. **Disclaimer:** The Instructors shared these ideas as an illustration to explain their investing philosophy and emphasized repeatedly these are not to be construed as an investment advise. *Source: https://indianinvestingconclave.com/*

Raunak Onkar

Raunak Onkar is the Head of the Research team at PPFAS Mutual Fund. He holds a Finance degree from the University of Mumbai. His YouTube talks are brilliant and you can find it here. He gave a talk about the changing landscape in the IT industry. And how Persistent Systems is positioning itself to capitalize on the changing landscape.

Over the last 20 years Indian IT companies were helping their customers (mostly North America and Europe) to manage all their IT needs ranging from managing their hardware, network, software, security, etc. To do all of that they needed a lot of employees. More employees will let you execute more projects which in turn generated more revenue. The revenue generated by the Indian IT companies is a function of headcount. The relationship between revenue and headcount is linear.

With low cost advantages IT companies in India were printing money in the last 20 years. But in the last few years sales growth has been slowing and operating margins have come down from 30 to 25 percent. Cloud computing is changing all of that. Raunak brilliantly explained the concept of cloud computing by using a Pizza as a Service analogy.



Migrating IT infrastructure and services to cloud helps companies to rollout product ideas faster, reduce expenses by converting fixed to variable costs, and to meet their customers demands dynamically. A lot of things gets taken care automatically and you need fewer engineers to operate in cloud. This challenges the business model of Indian IT companies.

Anand Deshpande moved from US to India in 1990. At that time he had HP as the only client. He started Persistent Systems to do product development outsourced by HP. Companies like Microsoft, IBM, HP, etc develop software products. They might not have resources to develop all the modules. They need companies like Persistent Systems to do it for them. This is outsourced product development. Outsourced product development had been a growth engine for Persistent Systems since 90s.

Over the last 10 years sales and profits compounded at 25 and 18 percent. It had a health operating margin and return on capital employed of 23 and 28 percent. Over the last 5 years this growth engine started engine started slowing down due to the cloud computing. Sales and profits have compounded at 17 and 9 percent.

Persistent Systems is adapting to this change by developing its own products and selling to customers for a license fee. Also they started developing customized softwares by taking advantage of open source and cloud computing technologies. How is Persistent Systems different from other Indian IT companies?

a) Have a product development DNA. They know how to operate in smaller teams and create solutions faster.
b) Unlike other Indian IT companies Persistent Systems don't have a baggage of Managed Services (read it as on-premise) businesses. Persistent Systems is like a Jet-Ski. Big Indian IT companies are like oil tankers. It's much easier to steer a Jet-Ski in water than an oil tanker. It's easier to align 9,500 Persistent employees compared to Infosys 2 lac employees.
c) Anand Deshpande founded and grew the company single handedly. From a one man show Anand expanded the leadership team and started delegating his responsibilities so that the organization can scale and grow. A lot of effort has been put in place to build and grow the sales organization from the ground up. Setting the sales organization incurs expenses in the short term and the benefits flow over the long term. This resulted in operating margin coming down from 25 to 20 percent over the last few years.

The market seems to have discounted the advantages of Persistent Systems. Over the last 3 years the market cap of the company didn't move much and ranges between 5,000 to 5,600 crores. It's currently selling at a price-to-earning multiple of 17 and price-to-sales multiple of 1.7. Persistent Systems is more focused and have smaller base. And it deserves a much higher valuation than what the market is offering currently.

What about risks? Today 85 percent of revenue is annuity based. In the future the annuity portion might shrink and the company needs to find new customers to just stay in the same place. There is no history of Persistent Systems cracking the enterprise market. If they fail to crack the enterprise market there can be a significant risks to grow sales in future. There is a risk of client concentration. Around 1/3rd of sales comes from IBM.

Ashish Kila

Ashish Kila is a rank holder Chartered Accountant and did his MBA from MDI Gurgaon. He is the CIO of Perfect Research. He regularly speaks at Flame Investment Lab and OctoberQuest. You can find his blog here. In his talk he spoke about Thomas Cook India as an investment idea.

Berkshire Hathaway compounded its book value per share at 19 percent over 52 years. A $10,000 investment in Berkshire Hathaway stock in 1965 would be worth $88 million today. That's a lot of money. Warren Buffett achieved this feat by judiciously investing the operating cashflows to acquire high quality businesses run by able and honest people. He didn't interfere and left the managers alone to focus on running the business.

Prem Watsa, also known as Warren Buffett of Canada, followed a similar approach to run his conglomerate FairFax Financials. Over the last 21 years he compounded book value and share price at 19.4 and 18.6 percent. Instead of studying other businesses and wasting time, why not buy and hold Berkshire Hathaway and FairFax Financials? Both these companies are too big and future compounding will be much lesser than the past.

Charlie Munger once told that, "To find a wonderful business, one needs to find them small and get them when they're little". One such idea which is in nascent stages is Thomas Cook India (TCIL). It is India's largest foreign exchange and travel operator having a market capitalization of 7,900 crores and FY17 revenue of 8,600 crores. In its 35 years of operations TCIL suffered a loss for only one year.

a) TCIL throws a lot of free cash flow every year. This is re-invested to acquire other high quality businesses.
b) Acquired Quess Corp, HR facilities management and staffing entity, in

2013 for a consideration of 259 crores. Post acquisition revenue grow by 4x in 4 years from 1,000 to 4,150 crores. During the same period profits grew by 6x from 18 to 110 crores. Quess Corp is a subsidiary of TCIL and it trades in the public markets valued at 11,500 crores. From 259 to 11,500 crores in 4 years represents a CAGR of 158 percent.

c) Acquired Sterling Holiday Resorts for 870 crores and ventured into hospitality sector. Post acquisition it refurbished the resort, increased the inventory of rooms from 1,500 to 2,000, and occupancy rates went up from 28 to 70 percent. Going forward Sterling Holiday can fund its growth from internal cashflows and doesn't need TCIL to funds its growth. The table below shows how TCIL diversified its income streams.

Segment EBIT	**2011**	**2017 (percentage don't add up to 100)**
Travel and related services	82%	31.6%
Financial services	18	25.7
Quess Corp	0	55.2
Sterling	0	12.5

What about the valuation? Ashish used reverse DCF to value TCIL. Couple of inputs that went into the DCF are: 10 percent cost-of-capital and exit multiple of 2 times book. To justify the current stock price of 210 rupees the book value should compound at 18.68 percent for a decade. Is this growth rate reasonable? In the last 4 years post acquisition book value of TCIL compounded at 42 percent. The table below shows the implied growth rate of book value at various exit multiples. To learn more about implied growth rates and reverse DCF read the book Expectations Investing.

Company	CMP	Trailing P/B	Exit multiple Implied Growth rate			Historical BV Growth	
			PB 2x	PB 3x	PB 4x	Pre acquisition (6 Yr)	Post Acquisition (4 Yr)
Thomas Cook India Ltd	210	4.27	**18.68%**	14.00%	10.73%	**18.5%**	**42.38%**

Charlie Munger once told that, "Occasionally, you'll find a human being who's so talented that he can do things that ordinary skilled mortals can't". TCIL has 3 intelligent fanatics: Ajit Issac, Madhavan Menon, and Prem Watsa. TCIL is aggressively investing in quality businesses, taking a hit on return ratios in the short term to create wealth over the long term. Here is another data point on TCIL valuation:

TCIL has a market capitalization of 7,600 crores, whereas its subsidiary Quess Corp (62.17%) alone has a market capitalization of 11,700 crores. In addition it has investments in other businesses like Sterling Holidays. By buying TCIL we can get a lot of optionality of further such opportunities like Quess as TCIL is an investment vehicle.

Naresh Katariya

Naresh Katariya holds a Bachelor of Engineering and a Risk Management Certification. He is a passionate full-time investor since 2014, applying analytical and sentiment analysis to value investing. He actively blogs here. Naresh discussed about how Exide Batteries is turning around and recapturing its lost market share. He titled the talk as A Sleeping Giant Awakens.

Exide and Amara Raja are duopoly players supplying batteries to the Original Equipment (OE) and Replacement market. Together they control 90 percent in OE and 60 percent in Replacement market for two-and-four wheelers. In 2009 Exide total sales was 3,392 crores compared to 1,312 crores for Amara Raja. Exide used to be 2.6 times bigger than Amara Raja.

In the last 8 years Amara Raja compounded its sales at 20 percent compared to Exide's 11 percent. Amara Raja closed the gap with Exide. Why did this happen?

a) Growth in OE market was very strong from 2009 to 2012. Exide took the easier route of catering to the strong OE demand at the cost of Replacement market. This gave space for competition to increase their Replacement market share. Margins of Replacement market is higher than OE market as the former is a B2C market.
b) Exide took 3-4 days for replacement turnaround compared to the competitors which took only a day.

Exide understood the problem and it's striking back with the following changes.

a) It's investing in Punch Grid Technology which reduces corrosion and it'll make batteries last longer. This in turn will reduce the warranty cost. It's automating its factories by bringing in robots.
b) Launching new products for E-Rickshaws. It's coming up with non-premium products targeted at price-conscious customers. With GST in place launching non-premium products will help it capture the unorganized share of the replacement market, which is around 40 percent. The company is expanding faster in Replacement market. This is a high margin business as it's catering to B2C segment.
c) Exide is investing heavily to improve customer service. If your battery (including non-Exide) has problems, then you can call Exide and they will reach you in 45 minutes. They have a mobile app called Exide Care. Few years back all the advertisements run by the company will emphasize on the brand Exide. Now they're emphasizing on Exide Care.

With all of the above changes the year over year growth rate of Exide is catching up with Amara Raja. Both of them are growing around 15 percent. What about the valuation? Exide has a life insurance business. The embedded value in Exide's life insurance business is 23 rupees. With a conservative multiple of 2x this business should be worth 45 rupees. Adjusting for the life insurance business the entire battery business is selling for 180 rupees per share. Is the battery business cheap?

Battery business has an ROE of 23 percent and it had an EPS of 8.2 rupees in FY17. The business is expected to grow at 12 to 16 percent over the next 4 years. With growth levers in place the batter business is available for 22 times earnings. What about the risk from Electric Vehicles? Battery demand depends on total stock of vehicles sold, not just on new vehicles sold.

Rohit Chauhan

Rohit Chauhan is an Engineer and MBA with 20+ years of experience, working in different functions in large corporations in India and abroad. He got introduced to the value investing philosophy in mid 90s and has been managing money for himself and others. He has been actively blogging for well over a decade. You can find his blog here. Rohit discussed about Piramal Enterprises. He titled the talk as Cycles Of Wealth Creation.

In mid 2011 Ajay Piramal sold his healthcare business to Abbott for $3.8 billion at 9 times sales. After the sale Piramal Enterprises lost 33 percent of its value in one year. This happened in spite of buying back 20 percent of shares outstanding. The balance sheet of the company had cash and receivables worth 9,477 crores rupees. The entire company was selling at 6,380 crores rupees.

Why did Mr. Market give you this cash bargain? Base rate of companies allocating capital after selling its core business is very low. The market ignored Ajay Piramal's track record. Ajay is an intelligent capital allocator who generated 34 percent CAGR for shareholders over 23 years.

Ajay Piramal clearly shared his plans that he's going to expand in Pharma (CRAMS, OTC, etc) and Financial services via NBFC. He focused on lending to real estate sector due to prior experience of the management. Ajay allocated the capital into businesses that he already knew and had expertise on.

How well did Ajay do on capital allocation? From FY12 to FY17: Revenue went up from 2,352 to 8,547 crores; CAGR of 29 percent. Net profit went up from 112 to 1,252 crores; CAGR of 62 percent. The market rewarded his capital allocation skills by increasing the share price from 400 to 2,942 rupees; CAGR of 50 percent.

The company just got started on its growth trajectory. There is lot more growth waiting to happen in the future.

a) Pharma segment revenue expected to reach 7,000 crores in FY20 with EBITDA margin of 20 to 25 percent. It has a single digit EBITDA margin currently. Imaging business is currently losing 168 crores and by FY20 there will not be any loss from imaging business.
b) In the last 5 years the company grew its loan book at 75 percent and income at 100 percent CAGR. It achieved this feat with a gross NPA of 0.4 percent. The company is just getting started as the financial sector is under penetrated in India.

There is a lot of hidden value still left in Piramal Enterprises

a) Investment in Shriram group is yielding returns of 3.5 percent. But the look through earnings from Shriram investments are much higher. Losses in imaging business of 168 crores is 18 percent of reported profits. Other businesses such as Consumer goods are breaking even as they are in investment mode.
b) Financial services business can grow at more than 20 percent for the foreseeable future. Delivered 3500 crores income in FY17. The current market cap of 47,000 crore rupees values the entire financial services at 20 times earnings which is inline with the industry. The rest of the businesses are available for free. Not sure if the calculations accounted for operating expenses.

Piramal Enterprises definitely has a key man risk. The next level of management is being developed. There are FDA audit risks. So far the company has cleared all the FDA audits. The loan book of the company has been built during the cyclical lows. The book is not yet seasoned and there is always a credit risk lingering somewhere.

Viraj Mehta

Viraj Mehta has over 8 years of experience in the field of investing. He did his MBA from MDI and was part of the team at ValueQuest Capital. Currently he is a fund manager at Equirus PMS. In his talk he spoke about TCPL Packaging Limited as an investment idea. TCPL is India's largest paper board packaging company. Packaging companies provides ease of transpiration, shelf life, and branding for the underlying product. The utility provided by the packaging companies helps it to grow faster than the underlying product.

Packaging industry has global market size of $850 billion. It's expected to grow at 6 to 7 percent. There are 2 major kinds of packaging: Rigid and Flexible.

Rigid packaging doesn't change shape depending on the product inside (paper cartons). Flexible packaging changes shape depending on the product inside (milk pouches). 90 percent of packages globally are rigid in nature. It's opposite in India where 73 percent of them is flexible packaging. Per capita consumption of packaging in India is very low compared to global standards; 4.2 kg per person compared to 42 kg in Germany.

It's a highly fragmented industry (22,000 packaging companies; 85 percent are MSME) with low entry barriers. Anyone with a few million dollars can setup a packaging factory. But getting customers is really hard. TCPL is leader in paper board packaging. Paper board belongs to rigid packaging category and it represents 35 percent of rigid packaging. The market size of paper board is $3 billion. TCPL was founded in Aug 1987 and began production in 1990.

Around 60 percent of TCPL revenues comes from FMCG industry. Clients include HUL, Godrej, Dabur, etc. Tobacco industry generates 20 percent of revenues and Godfrey Phillips is the biggest customer which contributes 15 percent of the total revenue. Liquor industry generates 10 percent of revenues. Margins are higher in the liquor business as the packaging needs to be rich. Other industries like Pharma, Agrochemicals, and Electrical contributes the remaining 10 percent. TCPL revenue is diversified across industries and downturn in a single industry will not bring down the company.

In the last 5 years TCPL has grown: Revenue at 17%; EBITDA at 19% and Net profit 34%. It didn't have a single year of downturn. Realization per kg has gone up and it is able to retain the EBITDA margins. TCPL's 5 year average RoCE is 19 percent. It's able to make decent profits even thought it is a supplier to big companies like HUL and Godfrey Phillips.

10 years history													
												CAGR / Avg.	
	FY07	FY08	FY09	FY10	FY11	FY12	FY13	FY14	FY15	FY16	FY17	5 yr	10 yr
Board Conversion	17,455	19,276	23,093	26,989	30,984	33,194	41,773	43,360	48,917	56,614	NA	13%[1]	15%[1]
Revenues	991	1,167	1,572	1,861	2,402	2,833	3,733	3,949	4,978	5,926	6,130	17%	20%
EBITDA	129	142	212	242	341	413	552	612	820	1,004	978	19%	22%
Net Profit	31	29	35	44	63	77	135	125	322	383	332	34%	27%
Realizations (Rs./kg)	80	84	83	83	92	102	101	103	113	117	NA	5%[1]	4%[1]
EBITDA (Rs./kg)	7	7	9	9	11	12	13	14	17	18	NA	10%[1]	10%[1]
EBITDA Margins	13%	12%	13%	13%	14%	15%	15%	15%	16%	17%	16%	16%	15%
Net Profit Margins	3%	3%	2%	2%	3%	3%	4%	3%	6%	6%	5%	5%	4%

All data in mn, except Board Conversion (in tonnes)

TCPL has competitive advantages. Setup packaging factories closer to its key customers manufacturing facilities. This helps it to reduce costs. Getting customer approval for supplying packages takes 6 months to 2 years. This prevents new players from entering the industry. Top 10 players control only 15 percent (3,000 of 20,000 crores) of the total market. With GST in place organized players like TCPL will grow their market share faster. The company is facing headwinds due to Demonetization and Destocking due to GST. This resulted in stock price going down by almost 30 percent.

TCPL is selling at PE of 12.9, Price-to-Sales of 0.7, and EV/EBITDA of 7.5. If you think the EV/EBITDA multiple is low, then you are right. Here is another data point. This multiple is low in spite of the company is operating on a peak debt and revenue growth over the last 12 months is flat. If TCPL operates at full potential then we are expected to make 3.2 times our money in the next few years.

Revenues	EBITDA	PBT	PAT
1100	187	137	90
Expected PE	**Expected M. Cap**	**Current M. Cap**	**Multiple**
15	1350	428	3.2 times

Here are a few risks: forward integration by paper manufacturing companies, pressure from customers to reduce prices, and FMCG companies can grow slowly at single digits.

Samit Vartak

Samit Vartak is one of the founding partners and Chief Investment Officer of SageOne Investments. He spent a decade working in the US for companies like PwC Consulting, Gap Inc., Ernst & Young, and Deloitte specializing in corporate strategy, mergers and acquisition, and business valuation. I am a big fan of Samit's writings. You can find his writings here. In his talk he spoke about Balkrishna Industries (BKT) as an investment idea.

BKT was founded in 1987 and it is a leading manufacturer of off-highway tire (OHT) market with a 5 percent market share. Tires used in agricultural, construction, and industrial vehicles are called as off-highway tires. It has 2,400 SKUs. It sells its products in 130 countries worldwide through a network of 300 distributors. It employs 7,000 people and has 5 production sites with a total capacity of 3 lac MPTA.

Let's look at some data points to understand the quality of BKT's business. Since 2011, Global OHT market shrank by 30 percent from $15 to $10 billion. During this period BKT grew its volume and value by 50 percent. It could cutdown the working capital days from 82 to 49 days. BKT is the lowest cost producer in the world.

	Typical Global Player	BKT
Price to End Consumer	100	80 - 85
Distributor Margin %	6	10 - 12
Realization to Company	94	70 - 73

From the table we can see that net realization to BKT is 20 - 25 percent lower than the global players. And yet it's operating margins are 10 to 15 percent higher. Employee cost are the lowest in India compared to not only developed world but also the emerging markets such as Brazil, China, and Russia. The table below shows the low cost advantages of BKT.

	Employee cost as % of Sales	EBIT Margin (2016)
Trelleborg	30	11.3
Michelin	28	18.6
Continental	23	not available
BKT	7	28%

Low cost producer is a huge competitive advantage. Apart from that BKT has other competitive advantages:

a) Capex requirements for OHT is twice that of passenger vehicles (PV). Asset turns for BHT is 0.7 compared to 2x for Indian PV players.
b) BHT has 2,400 SKUs and mass production is extremely difficult to do for OHT business. China is not a threat.
c) Getting into OEM's approved vendor list takes 4 to 5 years. BKT took 30 years to build its network of 130 countries and 300 distributors.

There is a lot of growth potential left for BKT. Global tire market breakdown: 90 percent passenger vehicle, 7 percent OTR, and 3 percent agriculture. Global OTR market is 2x Agriculture tire market. 66 percent of tires sold by BKT goes to Agriculture and the remaining 34 percent goes to OTR. And BKT has 2 percent market share in OTR segment. This means that BKT has more room to grow in OTR segment and this segment has higher margins.

What about valuation? In FY17 it had sales of $585 million and net profits of $111 million. At the stock price of 1,590 rupees the stock is selling for P/E of 21.5 and EV/EBITDA of 11.6. The current valuation is close to fair value. BKT is currently operating at 57 percent of capacity utilization. This means it can generate future growth for sometime without incurring additional capital expenditure. BKT will be a debt free company in the next 6 months. Given the long runway for growth one can start building a small position in BKT.

Varadha Rajan

Varadha Rajan is a self taught investor with a focus on small companies ignored by Mr. Market. Varadha is a good friend of mine. He is a super smart value investor and gave a wonderful talk on the advantages of Scuttlebutt [link]. He is an amazing thinker, a true contrarian, and don't fall for authority bias. In his talk he spoke about Allsec as an investment idea.

Allsec provides BPO solutions to Fortune 500 companies in India and aboard. The company is based out of Chennai and they specialize in providing the following services:

a) HR BPO; processing salary slips, reimbursements, final settlements, etc. Companies like Accenture, KPMG, Citibank, and TCS use this product.
b) Anti Money Laundering Services; used by banks and financial institutions so that they can be anti money laundering compliant. Automate reporting on any red flags and notify the head of the bank or regulator directly without any manual intervention
c) Accounts Payable Management Services using which customers can manage their entire procure-to-pay lifecycle. You can take a look at Allsec products here.

Allsec's platform is not a do-it-yourself platform like Facebook or Google. Allsec employees work closely with their customers to onboard their workflows. Allsec bills based on customer outcomes which creates a win-win relationship. Outcomes can be defined in terms of number of employees who gets serviced by Allsec platform per month or year. You start with on boarding 1,000 Accenture employee payrolls. Once it works then you onboard rest of the Accenture employees into Allsec platform without any additional effort. This is where non-linearity kicks in for Allsec platform.

HR BPO is a fast growing business and margin accretive. Allsec has an operation in Manila as the tax rate is very low; around 5 percent. Manila is a place for voice based activity and the employee costs are very low. Allsec is lightening its balance sheet by reducing debt and accounts receivables. It's able to do this while growing sales at double digits.

Hewitt is one of the competitor in US. Product quality is the same and Allsec costs are 20 percent lower. This is because Allsec's DNA is offshore development where the costs are low. One of the major risks with Allsec is their excessive dependence on 1-2 large clients. It's believed that one large customer accounts for 30 to 50 percent of their revenues. US is a competitive market and getting a traction there might take time.

What about valuations? Allsec market capitalization is 500 crores. Estimated operating cash flows comes to somewhere between 40 to 50 crores. After adjusting for cash on books of 61 crores the operating cash flow yield on market capitalization comes to 8 to 10 percent. We are getting all the growth for free. Here are the estimates for FY19: Revenue 425 crores, EBITDA 100 crores, and Profit after tax 75 to 80 crores.

Shyam Sekhar

Shyam Sekhar is the Founder and Chief Ideator of ithought, which is an investment advisory firm. He titled his presentation as The Ugly Duckling. In it he discusses about Sintex Industries an ugly duckling ignored by the market. And it has the potential to turn into a beautiful swan.

What is an ugly duckling? Inside every family or a conglomerate business there will be a trouble maker. Everyone wants to avoid the troublemaker and focus on other things that looks good. The troublemaker might be transforming and nobody would be paying attention to it. For example: The motorcycle division inside Eicher Motors several years back is an ugly duckling. If one can buy a transforming ugly duckling very cheap, then good things might happen to them.

Sintex Industries had both textiles and plastics division. It spun off the profit making and high ROE plastics division into Sintex Plastics. And retained the low margin and low ROE textile business. Sintex Industries is the ugly duckling. Sintex Industries has a book value per share of 72 and the share price is 25. You have the opportunity to buy a dollar for 35 cents. Shyam tells that Sintex Industries is transforming. Here are some points about the business:

a) The company is transforming from a manufacturer of high end fabric to compact yarn. This transformation happened in 2 phases and it incurred a capital expenditure of 4,300 crores. Compact yarns have better margins, has less wastage, and they are preferred by high end fabric makers.
b) Once phase 2 goes live (Aug 2017) Sintex will have 6 lac spindles. This will make Sintex as the largest compact yarn player in India. Age of spindles directly impacts cost and productivity. Vardhman Textiles is the best player in the industry and 68 percent of Vardhman's spindles is under 10 years of age. Here we have Sintex with brand new spindles.
c) Sintex turns over its inventory every 39 days. This is the best in the industry. The 2nd best player is Trident who turns over the inventory every 61 days.

Sintex has a lot of competitive advantages going in its favor. First, it's in Gujarat which is the heart of cotton in India. The state gives a lot of financial incentives to encourage cotton businesses. Do you know what is the cost of debt for Sintex? It is 2 percent. Second, its spinning plant is 10 kms away from Pipavav port. With 38 percent of sales coming from exports this will give some cost advantages.

On valuation the stock is cheap compared to other players. And you are buying a dollar for 35 cents. There are some risks. Cotton price increase can put pressure to margins. This can happen due to government intervention. Rupee appreciation and other global factors can reduce exports.

Safir Anand

Safir Anand is one of the top rated lawyers in India. His firm Anand & Anand advices numerous Fortune 500 companies and acts for clients from diverse industries and sectors. He has diverse interests ranging from brands, reading, music, fashion, and traveling. In his talk he spoke about JHS Svendgaard Laboratories Limited as an investment idea.

The presentation started with Internal Competence and External Factors, You have control over the former. These are things like ability to slice and dice financial statements, superior skills to do number crunching etc. The later is not in our control. These are things like Trump events, interest rates, and other macros events happening in China, Korea, etc. Understanding the difference between the two is important. It's not whether you get it right or wrong. It's how right you are when right and how wrong you are when wrong.

Safir is a big fan of Edward de Bono and his writings. He referred to one of his quotes: In an increasingly complex world, simplicity is going to be a key value. The pace of change is not going to stop. So we have to make a conscious effort to make things simpler. He discussed about 3 tools to evaluate a business: simple, scaleable (many years of runway), and visible (easy to see).

Before discussing about JHS he spoke about Cera Sanitaryware and what made him to invest in that idea several years back.

a) In his office people come from rural India. There was no awareness of sanitation. Most people didn’t have wash rooms in home. Sanitation is not going to be threatened by technology. Habits for this man is changing as he is using it for 5 days a week. He goes to his village over the weekend and becomes a Messiah and educates other villagers on sanitation.
b) Historically in India women didn't have any power. After getting married they find that there was no sanitation facilities available in grooms place. And they wanted to move out of the marriage. This forced people to think more about sanitation.
c) Travel and Highways forced hotels and restaurants to have proper sanitation facilities. Without that people were not willing to enter the restaurant.

Looking at all of this Safir bought Cera Sanitaryware. He sat on it and let the theme play out. His advice is to not worry about quarter to quarter results. Market is stupid to punish a company by 10 to 15 percent if the top line grows by 28 percent instead of 30 percent for that quarter. The game is to grow by 30 percent over a 10 year period and not worry about missing 2 percent in a single quarter. I thought this message was deep and insightful. In Cera's case the promoter lost his son and the market dumped the stock. This was a great opportunity to buy. Patience is the key.

JHS was founded in 1997 and got listed in 2006 for 58 rupees. It manufactures oral care products like toothbrushes, toothpaste, and mouth wash. It does contract manufacturing for Dabur, Amway, Patanjali, etc. Apart from contract manufacturing it sells products under its own brand name; Dr. Gold. Around 12 percent of its revenues comes from its own brand. The stock price reached up to 122 rupees and it had a near death experience in 2013 and recovered after 2015. Why did JHS had a near death experience?

Until 2012-13, 80 percent of JHS revenue was derived from a single customer. When this customer discontinued the business relationship, JHS revenue declined and the bottomline transformed into a loss. JHS expanded its production capacity for this single customer by borrowing money. When the customer pulled out the production lines were idle and the revenue dried out. But it had a huge debt of 200 crore to service. The stock price crashed. In boxing parlance this is a knock out blow. What did JHS do?

JHS didn't surrender and it decide to fight the impossible. The annual report of the company had this quote from Muhammad Ali: “Impossible is just a big word thrown around by small men who find it easier to live in the world they've been given than to explore the power they have to change it. Impossible is not a fact. It's an opinion. Impossible is not a declaration. It's a dare. Impossible is potential. Impossible is temporary. Impossible is nothing.”. Safir shared this motivational speech from Rocky Balboa: https://goo.gl/QuRC5 which is appropriate for the situation JHS was facing.

JHS filed a litigation against the client who pulled off from the contract. The client pulled off not due to quality issues but due to price negotiations. Promoter stake in the company went down as he was forced to sell due to collateral requirements. In the course of litigation an arbitration was invoked. JHS won the case and the debt of 200 crores is settled by the client. JHS becomes debt free. JHS learnt a lesson that depending on a single client is an issue and needed to get more clients to mitigate the risk.

2015-16 was the inflection point for the company. Undertakes contract manufacturing work from Dabur and Patanjali. It reinvented itself with no customer contributing to more than 20 percent of revenue. From a single customer it went up to 8 customers. Divested its detergent business so that it can focus 100 percent on oral care. Sixth Sense India Opportunities VC fund (Nikhil Vora) picked up a 10.96 percent stake in JHS.

What is the competitive advantage of JHS? It’s a dedicated oral care company. It costs money to setup a factory and become US-Grade 32 certified. And you need scale to operate the factories profitably. It owns the design (IP) for the configuration of the toothbrush. No one can design a toothbrush with a same configuration. The temperature at which production is done it destroys microbes and bacteria. Apart from Colgate no other company has reached this level. It is able to increase the sales of its own brand from 2 to 12 percent.

From a loss making company it turned itself around and made profits for the last 4 quarters. The company is investing an additional 40 crores to come up with another manufacturing facility. This will be funded through internal accruals. JHS is claiming that in the future it will be able to generate 500 crore revenue from the 2 manufacturing facilities. The current revenue and market capitalization of JHS is 105 and 324 crores. Is the company very aggressive in its projected revenues?

Dhruvesh Sanghvi

Dhruvesh Sanghvi started investing while he was a student and overtime developed a knack in investing in various financial market instruments. He founded Prospero Tree helping investors to create long term wealth in the capital markets. In his talk he spoke about Geojit Financial Services as an investment idea.

Geojit Financial Services has 28 years of experience in providing stock broking services to people in Kerala and to NRIs in the middle east. It has 4 business segments: Broking, Mutual funds, Portfolio management services, and Software development and consulting. It provides software development and consulting to BNP Pariabas. It is a joint venture between Geojit (70 percent) and BNP Paribas Europe (30 percent). More than 70 percent of revenue comes from the broking business.

Broking industry requires a lot of costs in the form of compliance and technology. This results in lower earnings for the new entrants and protects the incumbents market share. If done properly the incumbents can make a lot of money. Broking industry is consolidating and few large players enjoy market share gains. India has active 60 lakhs accounts. An account with at least one trade in an year is called as an active account. This number should keep rising. Strong survivors with right offering has a huge competitive advantage.

Geojit increased its broking client base from 4 to 8.5 lacs from 2009 to 2017. It has the highest ratio for active to total accounts. It invests a lot in technology improvements and 60 percent of the trades happens online and the remaining 40 percent happens offline. This helped Geojit to reduce the number of employees and still increase the number of clients. In the last 8 year broking revenue averaged 218 crores. Broking revenue ranged from 175 to 258 crores. We can see that broking business is cyclical and depends on the market moods.

The hidden gem of Geojit is its mutual funds business. Gold and Realestate are becoming unattractive in India. More money is moving to mutual funds. In 2003 the total AUM for equity + debt funds is 1.2 trillion rupees. Today it is almost 19 trillion rupees. Systematic Investment Plan contribution went up from 32 lakh to

1.35 crore folios in 4 years. How will Geojit be able to tap this opportunity?

Geojit has the largest broking franchisee in India with 8.6 lac clients and 500 branches. Geojit increased the mutual funds AUM from 400 crores to 2100 crores in the last 10 quarters. SIP increased from 19 to 100 crores in the last one year. In other words it can add 1,200 crores of additional AUM every year. Given below are some scenarios on AUM growth.

SIP per month	**Total AUM in next few years**	**1 percent on AUM**
150 crores	7,500 crores	75 crores
250 crores	11,000 crores	110 crores

Mutual fund business is currently generating 21 crores. Profit after tax in FY17 is 56 crores. It the mutual fund business can generate 110 crores in the next 3 years, then this segment alone will generate 2x the current PAT. The current market capitalization of the company is 2,119 crores. On the current profits the stock price is expensive. If the management executes on the mutual fund business then the current price isn't expensive. There are a couple of risks: (a) regulatory changes (b) sharp market corrections.

Disclaimer: The Instructors shared these ideas as an illustration to explain their investing philosophy and emphasized repeatedly these are not to be construed as an investment advise. *Source: https://indianinvestingconclave.com/*

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