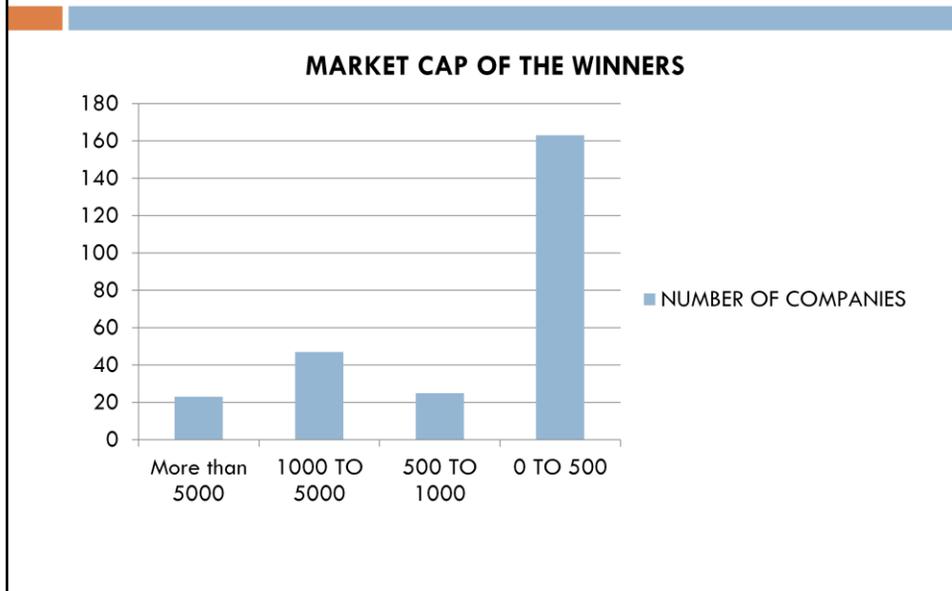


THE MITTAL & CO. WAY

New idea generation

Who were the winners?



We picked the top 250 performers since the previous peak in 2008. Staggering 167 of them were below 500 crore market cap companies.

Why we love this space?

Entrepreneurship rocks in India. India is the only place where you get paid for selling raddi.

Any business takes at least 10 years to stabilize and come to a scale. And many often you get to participate in some excellent cos at the inflection point. Often these cos are listed by mistake as they came in during IPO boom of late 90s and raised small sum of money. Look for such cos.

No institutional interest – thus lower valuations.

Number are easier to understand, management is focused on only the business.

Challenges in small caps

- New names
- Lack of information
- Corporate governance issues

(But still, look at Small-caps with an optimistic mindset)

Its not easy yet this is the space where you will make big returns. Often you have to build a hypothesis and dream as to what the company can become few years down the line.

Patterns we look for



1. Quarterly turnarounds
2. Reducing debt / improving working capital / maiden dividends
3. Niche areas
4. Favorable future of industry
5. Products with demand supply gap
6. Cheap valuations
7. Illiquidity is our friend
8. Look for patterns which you have seen in winners earlier.

What excited us in these

Poly Medicure

Avanti

Kitex

Shilpa

Hester

Premco

Better to take the audience through the patterns or some of the points we noticed in earlier years.

Poly Medicure

- Then market cap of 25 cr.
- High exports – good feedback of product
- Consistent numbers – beautiful balance sheet
- Small equity
- Young promoters – chairman was ex SEBI reformist
- Medical disposables industry sounded interesting

1. Explain about balance sheet numbers.
2. Company kept delivering and doing right things.
3. The product feedback was excellent. The product was available in lower market and used to cost almost half of B Braun despite similar quality.
4. The co had patents/registrations which came to highlight when the co won the case against B Braun in Germany and India
5. How the intent of the company always looked right and the young promoters were very hard working
6. How they could capture the benefits of automation in terms of margins....usually it gets passed on
7. Talk about the troubles the co went through and how could we stay on.

Avanti Feeds

- Low CMP / BV (price was about 30-35, BV was about 80)
- Sudden turnaround
- Co was sending physical annual report even when it was into losses 😊
- Lots of underlying hints in the annual report that the industry may get better

Why did we get interested in Avanti Feeds when it was just 30 Rs. And how could we remove our fears about the industry and get an insight about the opportunity ahead.

Annual report 2009

Bengal. With the introduction of Vannamei (white shrimp) in India, company expects the revival of shrimp industry. To take advantage of Vannamei culture, company has tied up with Thai Union Group of Thailand to provide technical know how and cost effective formulations for Vannamei and to train our team and farmers in Vannamei culture practices and also help us in increasing export of processed shrimp.

- (3) Expected increase in productivity and profits in measurable terms :

Because of the measures initiated, it is expected that the turnover of the company will increase to 25000 MT of feed sales & 1200 MT of shrimp exports in the year 2010-11 and with farmers adapting to Vannamei culture the feed sales are expected to grow at 15% per annum up to 2014-15 and processed shrimp sales are expected to grow at 10% per annum. Company expects to breakeven in the year 2010-11 and there after earn a return of 12% on the capital invested in shrimp feed and processed shrimp export divisions.

Co was talking of 2.5 times the sales in 2 years with a consistent 15% increase for next 5 years.

This info was there in the explanatory statement as the salary of MD was high and they needed to justify

Annual report 2010

Strengths:

The Company has experience of over fifteen years in aqua culture feed, shrimp processing & exports and other related activities with strong dealership network, farmer base, committed work force and consistent overseas market for exports of the company. The Company has ties with THAIUNION Group by way of their investment of 14.99% of the equity shares of the Company, collaboration for setting up Vannamei Hatchery and extending technical, marketing assistance for Feed as well as export of shrimps. This would go a long way in strengthening Company's performance.

With firm base in Andhra Pradesh, the Company is now expanding its market to other states such as Tamilnadu, West Bengal, Karnataka, Gujarat and Maharashtra. The company in joint venture with Thai Union is in the process of **establishing a 10,000 MT per annum shrimp feed mill** in Gujarat State to cater to the feed requirement of west coast. **The introduction of Vannamei culture is expected to increase the feed consumption significantly in terms of quantity due to high stocking density in this species shrimp culture.**

Often the important point is to see the underlying bullish tone. For eg in this case the management was again and again using words like – significant opportunity and continuously expanding at an aggressive pace. Also it was coinciding with the good nos of the co. So we got more confidence

Past nos pointed to healthy fundamentals

	A	B	C	D	E	F	G	H	I	J	K	L
1 Year	200103	200203	200303	200403	200503	200603	200703	200803	200903	201003	201103	
2 Type	Full Year											
3 Sales Turnover	104.19	132.40	135.21	239.77	170.64	165.20	121.89	102.83	72.51	96.16	199.62	
4 Other Income	1.03	0.47	0.33	1.17	0.74	6.34	0.35	3.94	0.41	3.22	3.94	
5 Total Income	105.22	132.87	135.54	240.94	171.38	171.54	122.24	106.77	72.92	99.38	203.56	
6 Total Expenditure	84.48	116.19	124.57	220.82	152.27	158.42	113.34	96.58	76.31	95.75	191.18	
7 Operating Profit	20.74	16.68	10.97	20.12	19.11	13.12	8.90	10.19	-3.39	3.63	12.38	
8 Interest	1.92	2.29	3.34	1.67	1.87	2.61	3.26	5.00	3.85	3.13	4.39	
9 Gross Profit	18.82	14.39	7.63	18.45	17.24	10.51	5.64	5.19	-7.24	0.50	7.99	
10 Depreciation	1.48	1.93	2.30	2.73	2.94	3.59	4.12	3.88	3.89	2.78	2.88	
11 Tax	3.90	3.08	1.71	4.92	5.44	3.91	0.49	0.43	-2.54	-1.08	1.69	
12 Reported PAT	13.44	9.38	3.62	10.80	8.86	3.01	1.03	0.88	-8.59	-1.20	3.42	
13												
14 EPS	20.55	14.34	5.54	16.51	13.55	4.60	1.57	1.35	-10.74	-1.50	4.28	
15 PE	8.00	8.00	8.00	8.00	8.00	8.00	8.00	8.00	8.00	8.00	8.00	
16 Exp Price	164.40	114.74	44.28	132.11	108.38	36.82	12.60	10.76	-85.90	-12.00	34.20	
17 CMP (10-Aug-07)										40.00	35.00	
18												
19 OPM %	19.91	12.60	8.11	8.39	11.20	7.94	7.30	9.91	-4.68	3.77	6.20	
20 NP %	12.90	7.08	2.68	4.50	5.19	1.82	0.85	0.86	-11.85	-1.25	1.71	
21												
22 Dividend (Amt)	2.29	2.29	0.98	1.64	1.64	0.98	0.98	0.65	0.00	0.00	0.80	
23 Payout %	17.04	24.41	27.07	15.19	18.51	32.56	95.15	73.86	0.00	0.00	23.39	
24												
34 ROCE:	36.75	23.89	13.23	22.58	16.87	7.95	3.82	5.71	-6.82	0.85	7.71	
35												
36 YOY Growth		27.08	2.12	77.33	-28.83	-3.19	-26.22	-15.64	-29.49	32.62	107.59	
37												

The co had earlier enjoyed double digit margins, ROCE of 20-25%+ and had been paying out good dividends. So by seeing past nos we got a bit of insight that the co can do well again.

Kitex Garments

- Increase in Gross Block – this was the most reliable indicator

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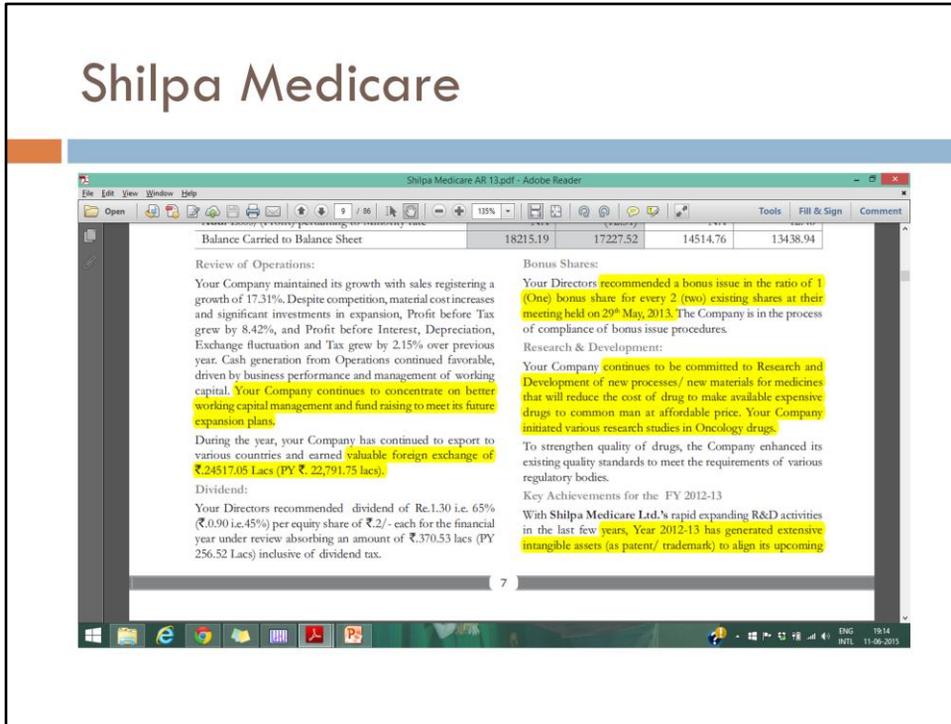
Statement of Assets and Liabilities		(Rs. in Lakhs)	
Ref:	Particulars	As at Year ended 31.03.2014	As at Year ended 31.03.2013
Date:		Audited	Audited
A	EQUITY AND LIABILITIES		
	1 Shareholders Funds*		
	(a) Share capital	475.00	475.00
	(b) Reserves and Surplus	16,941.92	11,760.77
	(c) Money Received against Share Warrants	Nil	Nil
	Sub Total -Shareholders Funds	17,416.92	12,235.77
	2 Share application money pending allotment	Nil	Nil
	3 Minority Interest	Nil	Nil
	4 Non Current Liabilities		
	(a) Long Term Borrowings	2,891.43	252.05
	(b) Deferred Tax Liabilities (net)	2,160.65	1,615.00
	(c) Other Long term Liabilities	Nil	Nil
	(d) Long Term Provisions	233.16	253.13
	Sub Total -Non Current Liabilities	5,285.24	2,120.18
	5 Current Liabilities		
	(a) Short Term Borrowings	9,051.15	8,926.55
	(b) Trade Payables	2,441.74	2,289.00
	(c) Other Current Liabilities	3,045.86	1,974.60
	(d) Short Term Provisions	3,133.69	1,951.28
	Sub Total -Current Liabilities	17,672.44	15,141.43
	TOTAL EQUITY AND LIABILITIES	40,374.60	29,497.38
B	ASSETS		
	1 Non Current Assets		
	(a) Fixed Assets	18,187.25	11,952.92
	(b) Goodwill on Consolidation	Nil	Nil
	(c) Non Current Investments	0.43	0.43
	(d) Deferred Tax Asset (net)	Nil	Nil
	(e) Long Term loans and advances	280.08	989.91
	(f) Other Non Current assets	173.31	69.50
	Sub Total -Non Current Assets	18,641.07	13,012.76

In the case of Kitex, we had got interested based on the consistent results and deep undervaluation at 60 levels. But at that time growth was not there. So the stock was ignored.

In the march qtr the co posted good results but the key thing to see was the substantial increase in gross block. Which meant that the expansion the co had been talking since last 2-3 years has finally happened so the future should be good.

When the promoter puts in money that is the time the thing will actually play out 😊
Don't go just by news reports.

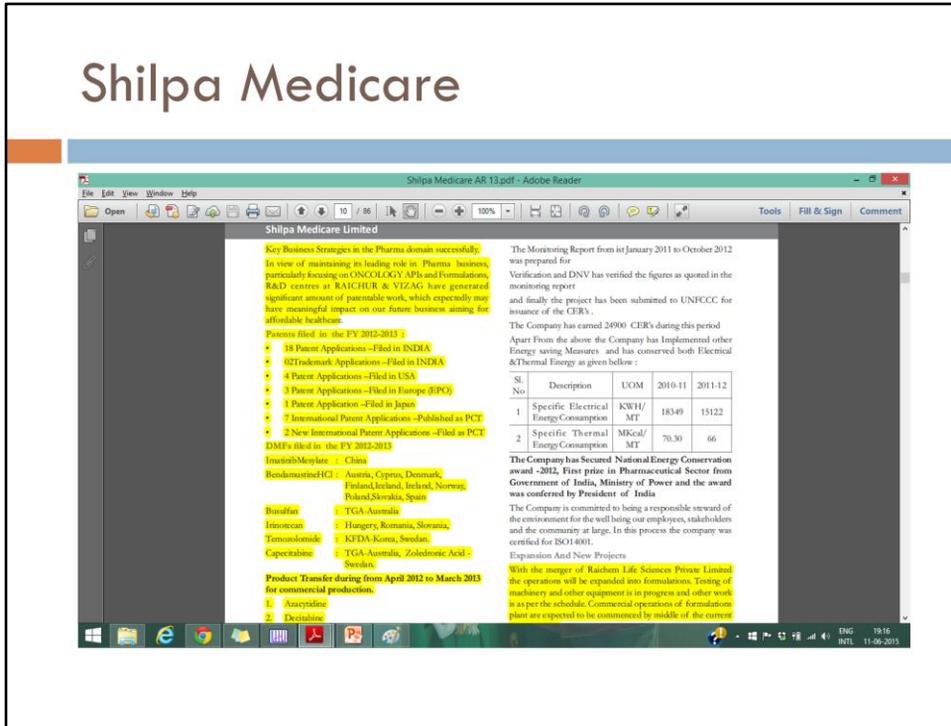
Shilpa Medicare



Many often it really helps to track a company from before and this is why we track so many small cap cos. Because it helps you build models and you can act quickly.

For eg in 2013 annual report of Shilpa – we got really excited as this was the first time the co had given out so many details about their product, R&D etc and had repeatedly mentioned that it may create lot of intangible value. In any of the earlier reports the co never used to write much. So when someone who is low profile writes something good...it means something substantial may be happening.

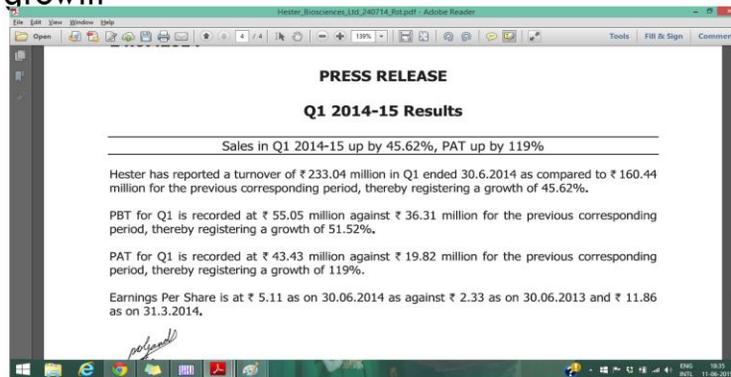
Shilpa Medicare



See the highlighted points and compare it with past annual reports.

Hester

- Caught our attention when it was second consistent quarter of 40%+ topline and about 100%+ NP growth



Hester caught our attention in June 2014 when it was the second time when they posted good results. Earlier the growth was not happening. Then we went back and read past annual reports and they were fantastic. It was hard to believe that a co with such a small market cap was doing so good work.

Hester

- “Growth of 25% expected” in notes

Reason for lower growth in sales:

Hester was dependent on imports of intermediates for a few vaccines. The contribution of such sales was of Rs. 150 million in the year 2012-13, amounting to 23% of the total sales. There was a sudden discontinuation of the supplies of the intermediates. This forced Hester to discontinue those vaccines.

Most of the lost revenues have been recovered by sales of other products. Even after the complete discontinuation of those products in the year 2013-14, Hester achieved a growth in sales of 6%, which otherwise would have been substantially high in the year 2013-14. All other products put together have shown a sizable increase in revenues.

Remedial action taken:

The dependency on the imports has been completely removed. Hester has already launched those vaccines with indigenously developed technology, thereby hoping to recover the lost sales in the current financial year.

Dividend & Payout Policy

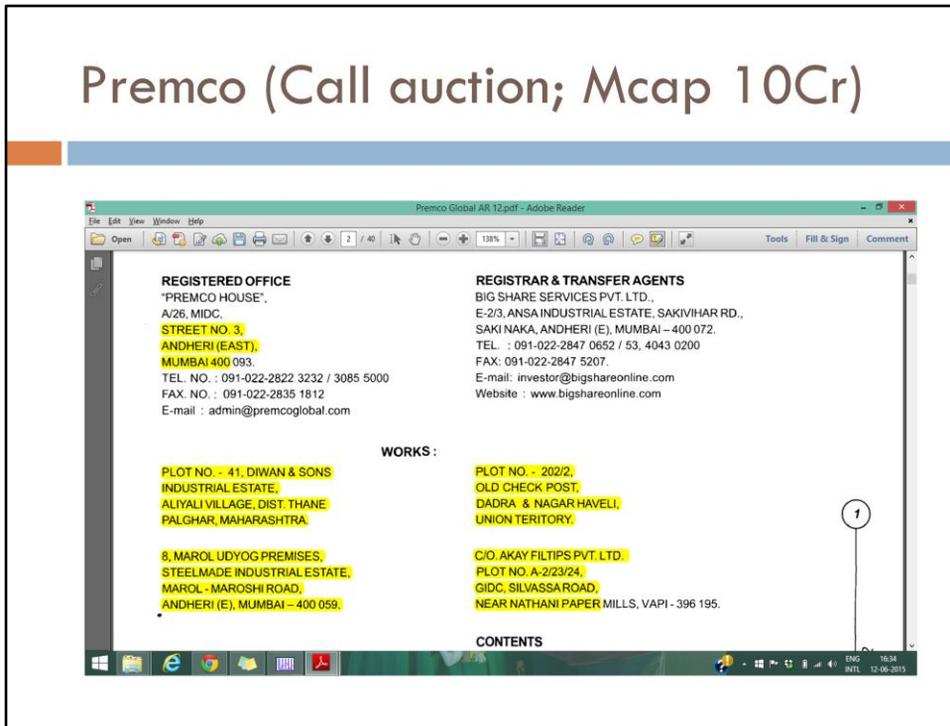
For the financial year 2013-14, the Board of Directors has recommended a dividend of 20%, which is Rs. 2.00 per equity share, subject to approval from the share holders.

The company has formulated a dividend payout policy, which would be implemented from the financial 2014-15. The proposed policy endeavors to maintain a minimum dividend payout @ of 18% of PAT.

It was actually as mis-priced opportunity as you can see from the earlier press release that the co had mentioned that they couldn't do well as one product was discontinued. However, the important thing was that we could draw the parallel with our earlier experience with Poly Medicure – that Hester had successfully developed a MNC vaccine inhouse! This was a big thing and pointed towards high R&D

Also it was good to see such a small co having a good div payout policy.

Premco (Call auction; Mcap 10Cr)



We had bought this stock when it came into call auction and market cap was just 10 Cr. The valuations were really no-brainer. The co had posted 2 very good qtrs and if they were to be repeated, the stock was at just 2-3 times PE.

Another thing we saw in the annual report was that this co was having 5 plants/offices in Mumbai....so value can't be just 10 Cr. Also, the co had been paying 12% dividend. So very low risk overall

Premco (Call auction; Mcap 10Cr)

Premco's Hallmark

∴ Premco's products, services, innovation and environment friendly standards have attributed to its global accreditations & nominations. These hallmarks have been received through the dedication and commitment of the PREMCO team.

Global Suppliers to



The just declared quarters had consistent growth + huge expansion in earnings. Effective PE was 2-3. + Promoter taking pref allotment + div of 12%.

The website showed names of such big brands as customers. Also, now patterns can be quality of earning and balance sheet.

Where patterns didn't play out

- Piccadily
- GRP
- Arex
- Chamanlal
- Shree Ajit Pulp & Paper

Its also very important to exit in time and early when things don't play out.

In above first 2 – we made money despite being wrong. So if you underpay – less chances of going wrong. Next three are still in progress.



Our Allocation Strategy

- We have diversified portfolio. Out of 10 such ideas few will outperform. About 10-15 stocks form 60-70% of portfolio. Then we can have 30-50 stocks.
 - Need to have starting positions if something is interesting. Otherwise out of sight, out of mind.
 - It takes at least 6 months+ to get a right feel of the company; huge patience needed
 - Hence have to cultivate several ideas
 - Start small and then scaleup
 - It is very hard to monitor these large number of names in portfolio
 - Now moving towards concentration.
- We feel its important for any newbie to study lots of company then only one will come to know what is good and what is bad.
- Also we feel this planting of new ideas is like R&D a pharma co does. If you want good winners in future then you need to plant new ideas.

Sources of pointers

- Conventional way – reading newspapers – look out for quarterly results. Read lots of annual reports
- Now it is done through screener.in 😊
- Read all the BSE announcements. Mental model keeps getting built
- Bulk deals
- Other investment blogs etc, speak to other investors

Like dad says – Either you are talented or you need to work real hard. There is no other way 😊

Disclaimer

- It is a safe to assume I am personally invested in any stock ideas that may have been referred to in the presentation. My views will be biased. This is NOT a stock recommendation. Kindly do your own due diligence and/or consult a registered investment advisor before making any investment decisions