

# MENTAL MODELS FOR MULTIBAGGER INVESTMENTS By Hitesh Patel (10.07.23)

<p><b>01- NEW PROMOTERS:</b> Private equity getting in distressed companies or slow-growth companies. Bring in a new CEO/Management, settlement of family feuds, Focus shift to business growth, deleveraging B/S</p> <p><b>Examples:</b> JB Chem, Essel Propack, CG Power, Magma Fincorp</p>	<p><b>02- NEW MANAGEMENT:</b> Induction of fresh zeal from the New generation, professional management. New mindset, professional focus, and energy, business growth, focus on high ROE, great products etc.</p> <p><b>Examples:</b> Eicher (Siddhartha Lal), Time Techno (Bharat Vageria), Alembic, Natco</p>
<p><b>03- BALANCE SHEET CLEAN-UP:</b> Aggressive focus on debt reduction as an indicator of long-term turnaround. Fund infusion from promoters, and external investors instil confidence. Sale of assets, laggard low RoE divisions, free up cash</p> <p><b>Examples:</b> Usha Martin, Kamat Hotels, Time Techno</p>	<p><b>04- VALUE MIGRATION:</b> Flow of economic and shareholder value from old/inefficient business to new age/efficient models. PSU &gt; Private Banks, Unorganized to Organized, Rising discretionary income, Win-win ecosystems</p> <p><b>Examples:</b> HDFC, Kotak Bank, Titan, Page Industries, Zomato, Policy Bazar,</p>
<p><b>05- PICK-AND-SHOVEL PLAY:</b> Bet on a proxy/key beneficiary of an emerging theme rather than end companies. Auto ancillaries for EV makers, GLE equipment of Chemical manufacturers, Battery &amp; Chemical manufactures for EV ecosystem</p> <p><b>Examples:</b> Shivalik(EV), GMM, HLE(Chemicals), Guj Fluro, Exide, Amara (EV)</p>	<p><b>06- SPIN OFFS:</b> Divestment from large companies, free shares offered for spin-offs. Forced selling by large funds, Needs good homework and high conviction (as value discovery is slower at times), can create significant value for retail investors</p> <p><b>Examples:</b> Aarti Pharma, Aarti Surfactants, 5paisa (IIFL), Epigral (Meghmani)</p>
<p><b>07- MARGIN IMPROVEMENT:</b> Slight improvement on a big turnover, slowly emerging change in business model, focus on more profitable products, divest tail end/loss-making subs, cost optimization, improved distribution</p> <p><b>Examples:</b> McDowell (Premiumization), Titan(Tanishq), Kirloskar Ferrous</p>	<p><b>08- INDUSTRY TAILWINDS:</b> Flavour of the season, strong tailwind, short-term advantages – Demon for Banks; Covid for Pharma, China pollution for Chemicals; Govt spending for Infra boom, EV theme for auto anc. Timely exit is critical</p> <p><b>Examples:</b> Banks ('16), Pharma, Chemicals ('20-'21), Defence, Railways ('22-'23)</p>
<p><b>09- TURNAROUNDS:</b> Big wealth creators in a short span, only survivors in a troubled sector; sleepy companies waking up. Markets take a few quarters to take notice and assign higher multiples (disbelief on new numbers)</p> <p><b>Examples:</b> Renuka Sugar, Suzlon, HCC, ITD Cementations, Tips, Saregama</p>	<p><b>10- CYCLICALS:</b> Every business is cyclical of varying timeframes. Short cycle – Steel/Cement/Paper/Chemicals; Slightly longer – Hotels/Autos; Long cycle – Healthcare/Infra/Real Estate. You need a clear exit policy to protect gains.</p> <p><b>Examples:</b> Steel, Cement, Paper, Chemicals, Hotels, Autos, Real Estate, Infra</p>
<p><b>11- CHANGE IN PERCEPTION:</b> Strong fundamentals are often neglected due to historical perception. Sudden change in perception can create huge re-rating in a short time frame. PSU re-rating in Financials, Defence, Rail, etc.</p> <p><b>Examples:</b> REC, PFC, Mukand Limited,</p>	<p><b>12- CAPEX LED GROWTH:</b> High capex leads to short-term pains (plant stabilization, high finance, and depreciation). Once Operating leverage kicks in huge growth in profitability with rising sales. Monetize long-term R&amp;D investment</p> <p><b>Examples:</b> Deepak Nitrite, CCL Products, Laurus Labs, HBL Power (Sunken R&amp;D)</p>
<p><b>13- BEAR MARKET IPOs:</b> IPOs at cheap/reasonable rates due to forced exits by PE etc. Often stocks are neglected post-IPO due to prevalent bear market sentiments. Value discovery and opportunity cost but rewards can be huge.</p> <p><b>Examples:</b> Affle India ('19), EMIL, Indiamart</p>	<p><b>14- FALLEN ANGELS:</b> Once market darlings but goes out of favour. Post manic rallies corrections are often overdone. Underlying prospects of business might change faster but now neglected, long time for accumulation.</p> <p><b>Examples:</b> Zomato, Policy Bazar, Paytm, Delhivery,</p>