Key Ratios	Business A	Business B
OPM	14%	20%
NPM	7%	12%
Capital Turns	2.7%	2.5%
RoE	24	35
RoIC	25	36
PAT Gr% (3 yrs)	39%	30%
PAT Gr% (5 yrs)	29%	37%
Sales Gr% (3 yrs)	39%	22%
Sales Gr% (5 yrs)	41%	30%
D/E	0.3	0.2

Above are some numbers from 2 hypothetical companies.

Is it possible to determine which is a better business & why?

Superior Business?

Most folks when sampled, voted for Business B as the Superior Business of the two

The numbers seemed to speak for themselves

We at ValuePickr look at this differently

Numbers - only the starting point	Numbers are on account of business, not the other way round! No inference is safe to draw in absence of business understanding - because we invest in future and sustainability of competitive edge. Some Commodity companies or better-placed PSUs may have numbers comparable to Business B
	Both businesses are good as they operate at a level above the thresholds we typically look for - Returns, growth, debt parameters, etc.
	That is as much as you can decipher from the numbers - or the Science of Investing. While there might be a decent edge for the second business, all things are more or less equal from a numbers-led investment worthiness perspective.
	Assuming say we can easily see 10 years of growth for both businesses, the ART side of Investing will decide our Call on which is a superior business

We tilt towards the one - that will score better on "Sustainability". Some simple things we ponder on

Dissect BQ on	How hard will it be for anyone to dislodge this business from its perch?
	What all can go wrong in the business - how many variables??
	Relatively how exposed is the business to Competitive Forces (Porter model)?
	As the business grows and scales to the next level - will the competitive intensity increase significantly??
	How smooth or easy is it for the business to keep pace with technology, productisation, regulatory, other changes?
	Does the business demonstrate capabilities of moving up the value chain, branding and innovations, Intellectual Property and other Intangibles?

Business Quality

The Science side of dissecting Business Quality - which is numbers led - is a good starting point

Helps us spot business changes in transition, know what to value; and what to avoid

BQ Template - The ART of dissecting Business Quality

Enabler for	Forcing us to think more clearly and holistically - placeholders for objective dissection
	Understanding the Business - the Source or "Drivers" of those good to great numbers that attracts us
	Asessing "Sustainable" Quality & Growth - the hows & the whys
	Establishing that the business can employ large sums of capital at high returns for a number of years
	Showing us some objective ways to measure and place a Value on the "Intangibles" in the Business
	Presenting some mechanisms for slotting "Laborious" versus "Disproportionate Smarts" businesses

Valuation Spotlight - "Perception" vs "Performance" GAP

Premium on	10x to 20x to 50x Returns in 4-5 Years - from almost all VP Public Portfolio picks happened - because fortunately the businesses could keep executing - and the GAP became very evident
	Fastest wealth creation happened - (10x in the shortest time) - where the business executed brilliantly and hugely widened this GAP - don't Ajanta Pharma, Atul Auto, Avanti Feeds - spring to mind?
	The VP experience - imprints this strongly - HUGE GAPS do exist from time to time. More refined investors place a premium on spotting this, getting a feel (today) for where the business is probably headed in 2-3-5 years!
	Stable PE Range: Based on our current refinement & understanding of the business. Valuation Comments (in-line, running ahead, or running behind) Performance - on 1 year forward basis

About VP Business Quality Insights

Feedback @ VP Business Quality Insights discussion	This is a Work-in-Progress document. Captures learnings from our Capital Allocation experience with some great businesses in VP Portfolio 2010-2015 and refinements from discussions with scores of Seniors we respect
	Capturing/communicating in a precise format as this - brought in lot of clarity. We couldn't communicate as holistically, or as crisply, even a year back. Certainly we are better at BQ dissection today.
	The filled-up BQ sheets that follow - are to help illustrate and inspire. The level of discussion for existing/new finds can only improve, if this is simple enough and usable to be widely adopted by the Community.
	But lot of hard work has to go in striving to understand the business - before we can develop the rare BQ Insights - that Edge over Mr Market, we see refined investors enjoy. We believe every passionate Learner can reach there!

ValuePickr Separating the Wheat from the Chaff

Astral Polytechnik - BQ1

Strategic Assets

- ↗ Lead Influencer - Plumber's - interests closely aligned
- ↗ Astral Trained Plumbers - consistent investments
- ↗ Exclusive licensee for Blazemaster/Bendable for 5+ years
- ↗ Only licensee for 4 Lubrizol products - Worldwide
- ↗ South based plant - helps cut 7% freight and logistics costs
- ↗ Big Capacity Lead - first mover advantage
- ↗ Established Brand

Disproportionate Future?

- ↗ Recent 76% acquisition of Resinova Chemie - Adhesives
- ↗ Recent 80% acquisition of Seal it Services UK - Sealants
- ↗ Adhesives market ~Rs 60 Bn annually

What can go wrong?	Mitigation?
↘ Rupee depreciation	Evens out long term
↘ Changes in plumbing technology	Lubrizol pedigree
↘ Key Man Risk	Instituitionalised Processes
↘ Post CPVC compound plant, Lubrizol licensing bigger distribution networks - Supreme, Finolex	Much more de-risked today; CPVC share 35% in 3 yrs?

Distinctive Architecture

Competitive Forces/ Bargaining Power	Customers	↗ B2C - Established Retail Brand
		↗ B2C - Retail Customers exert low bargaining power
	Suppliers/ Vendors	↗ Exclusive Lubrizol licensee (controls 85% of CPVC market)
		↗ Post 5yr exclusivity; max 2-3 more licensees
		↗ 120 days Lubrizol credit - negative CPVC working capital
	Dealers/ Distributors/ Marketing	↗ Dealers/Distributors have grown with company
		↗ Behave and act like company employees - full ownership
		↗ MD remains very approachable - family like environment
	Industry/ Competition	↗ Huge opportunity size - room for many branded players to grow
		↗ Strong presence due to branding, distribution & product portfolio
		↗ Established in Plumbing pipes, making inroads in Agri Pipes
New Products/ Innovation/ Branding	↗ Consistent focus on expanding product basket (SWR, Column Pipes - indigenous)	
	↗ Consistent focus on introducing new products from Lubrizol stable	
	↗ Only licensee of Lubrizol worldwide for 4 products incl. Blazemaster, Bendable	
	↗ Increasing brand spend; consistent celebrity association with brand	

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Astral Polytechnik - BQ2

Business Value Drivers		Growth Rates	EBITDA Margin	Capital Turnover	ROIC	Invested Capital	EPA/Sales	EPA/Sales - future value creation lead indicator
	3 Yr Average	39.37%	14.26%	2.59	24.68%	315.72	4.92%	Moderate Future Value creation
	5 Yr Average	28.83%	14.22%	2.35	22.12%	258.53	4.21%	(Refer the VP EPA discussion)

BQ Bottomline			
	Nature of Industry:	*Competitive Intensity? Industry Growth rates?*	Industry growth rates ~12%; Attractive industry for large players with branding, product portfolio and distribution strengths; encourages shift from unorganised to organized
	Opportunity Size:	*How big is the runway? How many years out?*	Huge runway for housing, commercial and agri plumbing; for many many years out
	Capital Allocation:	*Able to invest large Capital at high ROIC?*	Good record; Will need to keep investing to stay ahead; Moderate value creation
	Predictability:	*How many variables in the Business?*	Few variables; Just needs to keep executing - expand product basket, add capacity, expand and strengthen distribution reach
	Sustainability:	*How hard is it to dislodge from its perch?*	Very difficult to dislodge from here; very few big challengers in sight
	Disprotionate Future:	*Building blocks in place for disproportionate future? Do multiple Optionalities exist?*	Astral now has the technology across much bigger/complimentary product range; Can use its Marketing & Distribution platform to take acquired brands to next level; Resinovas 1700 channel partners and 400,000 retail counters - branding opportunity?
	Business Strategy & Planned Initiatives:	*Is the company likely to grow efficiently & emerge stronger in next 2-3 years?*	Astral Competitive positioning is strong & firmly established; Focused on executing better - introducing new products and strengthening its marketing and distribution reach
	Key Monitorables:	*Next 2-3 years – what are the key monitorables, key health indicators?*	1. CPVC Capacity/Gap vs competition 2. Product basket expansion 3. Acquired businesses - Cross-leveraging/Branding 4. De-risking - CPVC 30-35% of product mix
	Near Term Visibility:	*Next 2-3 years – how strong is the visbility?*	Strong Visibility for 25-35% CAGR growth; Acquired brands expected to contribute 20-25% additional business with higher RoIC
	Long Term Visbility:	*5-10 years on - how likely to survive & prosper?*	Likely to emerge a bigger and stronger player, IF it can continue to execute; Management next level ~5000 Cr Turnover (from ~2000 Cr levels)

Valuation Spotlight?						
	BQ Category:	*Laborious? Or Disproportionate Smarts?*	Good business, but Laborious: Category A			
	Business Transition Track Record:	*Managed significant business transition to its advantage? What impresses most?*	High Growth with consistently increasing Capital turns; Great reduction in Working Capital requirements; Consistent moves at progressively de-risking business mix			
	Performance vs Perception GAP:	*Current P/E or Perception captures business quality/performance? How big is the GAP?*	CMP: 447 20/03/2015	Trailing PE: 45x (Cons.)	Stable PE Range : 20-25x	Perception/Expectation running ahead of business quality/performance

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Mayur Uniquoter - BQ1

Strategic Assets

- ↗ Oldest Coating Line 1994 - 20+ years - can run > 10+ years
- ↗ 5th Line - again procured at distress pricing abroad?
- ↗ Production Efficiency/Knowhow - Industry beating Asset Turns
- ↗ Backyard integration - Knitted Fabrics plant - Quality Control
- ↗ 2x capacity of nearest competitor
- ↗ Established relationships with Global OEMs

Disproportionate Future?

- ↗ First tentative steps taken - US Subsidiary set up for targeting value-added products?

What can go wrong?	Mitigation?
↘ Increasing global footprint - higher order competitive intensity	Needs to be seen
↘ Margin pressure from global Tier2 suppliers/OEMs	Needs to be seen
↘ Management Bandwidth in harnessing /exploiting global opportunities?	Yet to be proven
↘ Pollution Control/Water management Regulatory concerns?	Low risk

Distinctive Architecture

Competitive Forces/ Bargaining Power		
Customers	↗ Tier 2 Auto Seat Assemblers, Footwear, Furnishers	
	↗ Domestic market - undisputed leader & consolidating grip	
	↗ B2B - always prone to margin pressure from Customers	
Suppliers/ Vendors	↗ PVC Resin, Plasticizer, Pigments - mostly imported	
	↗ PVC Resin - 65% of RM - linked to Petrochem cycle	
Dealers/ Distributors/ Marketing	↗ First distributor(s) appointed in India - too early to comment	
	↗ New US Subsidiary to target global marketing & distribution?	
Industry/ Competition	↗ Domestic market - No serious challenger in sight	
	↗ Global market - yet to enter serious big league	
	↗ US Auto OEM market - 5-6 big players - Rs 30 Bn	

New Products/ Innovation/ Branding
↗ Stands out in fragmented industry - high value-add products for Footwear, Auto
↗ Only synthetic leather producer from India supplying to US Auto OEMs
↗ Proposed PU plant investment - opens up newer markets
↗ Not much scope for branding in B2B?

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Mayur Uniquoter - BQ2

Business Value Drivers		Growth Rates	EBITDA Margin	Capital Turnover	ROIC	Invested Capital	EPA/Sales	EPA/Sales - future value creation lead indicator
	3 Yr Average	30.47%	18.81%	3.22	37.64%	130.01	7.96%	Strong Future Value creation
	5 Yr Average	36.80%	17.90%	3.36	36.65%	101.04	7.36%	(Refer the VP EPA discussion)

BQ Bottomline	Nature of Industry:	*Competitive Intensity? Industry Growth rates?*	Undisputed leader in domestic market. Despite engaging for over 5 years - has yet not been able to penetrate beyond Chrysler & Ford into - BMW, Mercedes, GM, Toyota. Domestic realisation @Rs 130/Mtr vs Exports realisation of @Rs 470/mtr			
	Opportunity Size:	*How big is the runway? How many years out?*	Growing domestic footwear market; US Auto OEM addressable market ~Rs 3000 Cr @500 Cr current annual procurement by 5-6 players; Opportunity for many years ahead			
	Capital Allocation:	*Able to invest large Capital at high ROIC?*	For a business of its size, probably the best capital allocation record. Proven ability. Invested Capital requirement is not large though			
	Predictability:	*How many variables in the Business?*	Future scale-up is hugely dependent on cracking open Export Markets; Relationship building/penetration with auto OEMS and managing B2B Tier 1 OEM supplier environment - one can see more challenges ahead than what Mayur has been used to			
	Sustainability:	*How hard is it to dislodge from its perch?*	Domestic business - easily sustained, no challenger in sight: Exports business is a very different game - Entrenched players already there, and newer ones can emerge			
	Disprotionate Future:	*Building blocks in place for disproportionate future? Do multiple Optionalities exist?*	First tentative steps taken - US Subsidiary set up for targeting value-added products; Long shot at the moment			
	Business Strategy & Planned Initiatives:	*Is the company likely to grow efficiently & emerge stronger in next 2-3 years?*	Domestic Competitive position is firmly established -limited competition; Recent capacity additions are expected to kick in higher economies of scale: Lower crude helps			
	Key Monitorables:	*Next 2-3 years – what are the key monitorables, key health indicators?*	1. Opening the Account with BMW, Mercedez 2. Penetrating deeper into Chrysler & Ford 3. US Marketing subsidiary performance 4.Traction with domestic Distributors for furnishing			
	Near Term Visibility:	*Next 2-3 years – how strong is the visbility?*	Strong 25-30% CAGR visibility			
	Long Term Visbility:	*5-10 years on - how likely to survive & prosper?*	Prosperity will depend a lot on overdue success in the near-term on Auto OEM Exports scale-up front			
Valuation Spotlight?	BQ Category:	*Laborious? Or Disproportionate Smarts?*	Good business, but Laborious: Category A			
	Business Transition Track Record:	*Managed significant business transition to its advantage? What impresses most?*	High Growth with consistently increasing EBITDA margins			
	Performance vs Perception GAP:	*Current P/E or Perception captures business quality/performance? How big is the GAP?*	CMP: 443 20/03/2015	Trailing PE: 29x	Stable PE Range : 20-25x	Perception/Expectation in line with business quality/performance

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Ajanta Pharma - BQ1

Strategic Assets

- ↗ Core R&D expertise - catalyst for growth
- ↗ Focus on niche, complex, difficult to formulate products
- ↗ Focus on First-to-Market - 125 of 175 products in 9 years
- ↗ Investments in Direct Sales Foundation - Africa, Asia, CIS
- ↗ Country specific brand Portfolios
- ↗ 1450+ registered and 1650 under registration products

Disproportionate Future?

- ↗ 25 ANDAs filed, approved 2; launched 1
- ↗ ANDA Investments in niche, complex, difficult products
- ↗ Investments in US Direct Sales - 4% market share for Resperidone in 1 yr (Alembic failed - similar psychiatric product)

What can go wrong?	Mitigation?
↘ USFDA challenges - as US Mkt contribution scales	Not significant till 2 years
↘ Future growth may scale down from current highs	Successful US Foray
↘ Anti-malarial market (more than 60% of revenue from African market)- reduced market share in AMFM program or reduced program budget	Private market sales; One of two approved paediatric market suppliers

Distinctive Architecture

Competitive Forces/ Bargaining Power	Customers (Doctors)	↗ Unique First to market strategy - consistently high Doctor mindshare
		↗ Country specific brands for every market - Africa, Asia, CIS
		↗ Niche specialty segements - better price elasticity
	Suppliers/ Vendors	↗ Vendors developed over decades - volume based RM Cash discounts
		↗ Huge improvement in Inventory days over last 5 years
		↗ Consistent improvement in RM/Sales - industry beating trends
	Dealers/ Distributors/ Marketing	↗ Direct Sales Fronts - in Africa, Asia, CIS - 450+ team
		↗ Instituitional Tender Sales - strong Anti Malaria
		↗ Senior Direct Hires in US Market - key investments made
	Industry/ Competition	↗ Strong focus on Fastest growing therapies- Cardiac, Opthal, Derma
		↗ Consistently growing much stronger than Industry - last 5 years
		↗ Super Improvement in IMS-MAT India ranking from 80 to 37 in 4 yrs
New Products/ Innovation/ Branding	↗ Unique Focus on First-to-Market >125 of 175 products in 9 years	
	↗ Consistent Focus on ~20 product launches every year; Pipeline ready for 24+ months	
	↗ Country specific branding strategy - based on disease profiles/profitable niches/gaps	

Ajanta Pharma - BQ2

Business Value Drivers		Growth Rates	EBITDA Margin	Capital Turnover	ROIC	Invested Capital	EPA/Sales	EPA/Sales - future value creation lead indicator
	3 Yr Average	82.26%	26.84%	1.74	28.32%	482.39	9.04%	Excellent Future Value creation
	5 Yr Average	66.79%	24.01%	1.51	22.99%	433.22	6.39%	(Refer the VP EPA discussion)

BQ Bottomline	Nature of Industry:	*Competitive Intensity? Industry Growth rates?*	Competitive Intensity high: But Strong niche brands in Opthal, Cardia & Derma - Growing much faster (27%) than Industry growth (11%)
	Opportunity Size:	*How big is the runway? How many years out?*	Huge runaway for many years out - fastest growing therapy segments
	Capital Allocation:	*Able to invest large Capital at high ROIC?*	Fastest growth rates among all VP businesses: Fastest improvement in Margins & RoIC; largest Capital allocation; Consequently best Future value creation (EPA/Sales)
	Predictability:	*How many variables in the Business?*	Very strong growth mindset - 24+ months Product Pipeline & Registrations; Geographically diverse markets lend stability; USFDA can be a joker in the pack
	Sustainability:	*How hard is it to dislodge from its perch?*	Entrenched niche brands & doctor mindshare - domestic & RoW markets; operations smarts - much faster to the 30%+ EBITDA bracket than Sun & Lupin - 2 companies Ajanta wants to emulate
	Disprotionate Future:	*Building blocks in place for disproportionate future? Do multiple Optionalities exist?*	Niche, complex US ANDA strategy; US Direct Sales Hires (eschewing Distribution Partners)
	Business Strategy & Planned Initiatives:	*Is the company likely to grow efficiently & emerge stronger in next 2-3 years?*	Portfolio of 1450+ registered products for Emerging markets, 1650 under registration; US market 25 ANDA filed - 6-8 ANDA approval likely by FY 16
	Key Monitorables:	*Next 2-3 years – what are the key monitorables, key health indicators?*	1. Company-owned Front-End Marketing in US 2. Capacity expansions coming on-stream 3. Anti-Malarial market risk-mitigation
	Near Term Visibility:	*Next 2-3 years – how strong is the visbility?*	Strong visibility for 25-30% CAGR
	Long Term Visbility:	*5-10 years on - how likely to survive & prosper?*	High probability of survival based on track record; US Market strategy/execution - critical milestones

Valuation Spotlight?	BQ Category:	*Laborious? Or Disproportionate Smarts?*	Good business with possibilities of Disproportionate Smarts emerging: Category A+			
	Business Transition Track Record:	*Managed significant business transition to its advantage? What impresses most?*	Huge growth with consistently increasing EBITDA Margins and Capital Turns; Reducing debt; Great reduction in working capital requirements; Increasing Dividend Payouts			
	Performance vs Perception GAP:	*Current P/E or Perception captures business quality/performance? How big is the GAP?*	CMP: 1131 20/03/2015	Trailing PE: 34x	Stable PE Range : 25-30x	Perception/Expectation in line with business quality/performance

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Shilpa Medicare - BQ1

Strategic Assets

- ↗ 105 Patents filed; Strong R&D knowhow/Non-Infringing Patents
- ↗ 7 ANDAs filed 2013-14; 20-25 Oncology ANDAs being filed 2014-15-16-17
- ↗ Investments made 7-8 years prior to Opportunity -(6m stability data, 2-3 yrs exhibit batch; 2-3 yers dossiers)
- ↗ 9 dedicated Oncology blocks - largest facility - DRL has 4
- ↗ ICE Italy JV - Urosolic Acid - 3 player Oligopoly; ICE Italy controls RM chain (high barrier profitability)
- ↗ Established relationships with Global Big Pharma

Disproportionate Future?

- ↗ 2017 - blockbuster gains expected
- ↗ Only Indian Oncology player penetrated Japan Market; China Market - opening up - 3-5 years
- ↗ 2020 onwards - Formulations play in US

What can go wrong?	Mitigation?
↘ Raichur API - May 2013 USFDA 483 observations -escalating to Alert/Ban	Inspection over; Report awaited
↘ Jadcharla - USFDA approval delays - can affect 2017 gameplan/growth	There is still time
↘ Large contracted customers - may shift to alternate supply	Only a single customer shift
↘ Bio-similars/new advances in technology - disruptive?	5-10 years away; learning from others

Distinctive Architecture

Competitive Forces/ Bargaining Power		
Competitive Forces/ Bargaining Power	Customers	↗ Large Pharma customers - engagement & scale-up high
		↗ Large customers helping in improving processes/systems
		↗ DMFs to ANDAs - move up Value-Chain - customer prodding
		↗ Formulations capacity contracted out - before FDA approval
		↗ Only Oncology player working actively with Japanese/Chinese
	Suppliers	
	Employees	↗ Able to attract & retain highly-skilled talent from Big Pharma
		↗ Scientists allowed to file Patents in their own names
	Industry/ Competition	↗ Established leadership position in its Oncology niche
		↗ Shilpa large supplier to Competition - INTAS, DRL, Fresenius
		↗ CEO level MNC interaction - co-operation/demand visibility high

New Products/ Innovation/ Branding	
New Products/ Innovation/ Branding	↗ 9 out of top 20 Oncology molecules going off-patent 2015 onwards
	↗ Non-Infringing DMFs/ Large infrastructure investments - Core capability - for attracting Large customer
	↗ Helps corner large share of off-patent API supply (50% Gemcitabine, Capecitabine)
	↗ Very strong win-win competitive positioning - earned the respect of peers

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Shilpa Medicare - BQ2

Business Value Drivers		Growth Rates	EBITDA Margin	Capital Turnover	ROIC	Invested Capital	EPA/Sales	EPA/Sales - future value creation lead indicator
	3 Yr Average	42.63%	22.67%	1.19	17.76%	316.46	4.65%	Moderate Future Value creation
	5 Yr Average	15.14%	25.98%	1.18	19.48%	277.00	6.15%	(Refer the VP EPA discussion)

BQ Bottomline	Nature of Industry:	*Competitive Intensity? Industry Growth rates?*	Fewer players; Highly capital Intensive game, High Entry barriers
	Opportunity Size:	*How big is the runway? How many years out?*	Oncology - fastest growing sector in Pharma; Big markets - China/India/US/EU - many many years out
	Capital Allocation:	*Able to invest large Capital at high ROIC?*	Very long term large investments - lumpy RoIC pattern - big jumps in blockbuster years
	Predictability:	*How many variables in the Business?*	Protected Investments - upfront contracted business nature with big pharma; 80% of development costs/exhibit batches paid for by Customers;
	Sustainability:	*How hard is it to dislodge from its perch?*	Ability to attract disproportionate market share - based on twin strategies - non-infringing patents (reducing litigation risk) and large upfront investments in capacity; of late USFDA "sword" can be the joker in the pack
	Disprotionate Future:	*Building blocks in place for disproportionate future? Do multiple Optionalities exist?*	Large upfront investments - outstripping by 3x the next largest Oncology infrastructure in the country; First for Japanese Oncology market; Solid progress on becoming the first for Chinese Oncology market
	Business Strategy & Planned Initiatives:	*Is the company likely to grow efficiently & emerge stronger in next 2-3 years?*	2017 - expected next blockbuster year - possible leading share - innovator patents expiring
	Key Monitorables:	*Next 2-3 years – what are the key monitorables, key health indicators?*	1. USFDA Approval timeline for Formulations facilty - More customers might shift on delays 2. 2017 Market share possibilities
	Near Term Visibility:	*Next 2-3 years – how strong is the visbility?*	Strong 30-35% CAGR visibility with multiple triggers
	Long Term Visbility:	*5-10 years on - how likely to survive & prosper?*	Strong DMF/ANDA Pipeline for upto 2021-22; also First to File (FTF) plans to be firmed up in couple of years - when the business is more mature, Cash flows much stronger

Valuation Spotlight?	BQ Category:	*Laborious? Or Disproportionate Smarts?*	Good business with demonstrated Disproportionate Smarts: Category A++			
	Business Transition Track Record:	*Managed significant business transition to its advantage? What impresses most?*	High Growth with reducing debt; reduction in working capital requirements			
	Performance vs Perception GAP:	*Current P/E or Perception captures business quality/performance? How big is the GAP?*	CMP: 946 20/03/2015	Trailing PE: 44x	Stable PE Range : 25-30x	Perception/Expectation running ahead of business quality/performance

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Kitex Garments - BQ1

Strategic Assets

- ↗ Best in Class fabric processing/garmenting infrastructure
- ↗ Vendor Technology showcase site - for emerging markets
- ↗ Manic focus on efficiency/productivity
- ↗ Strong Positioning as a High-Quality supplier
- ↗ Established relationships with Large Infantwear Buyers
- ↗ Insights into US/Global Retail market dynamics

Disproportionate Future?

- ↗ US Retail foray - if successful - can be a slow game changer
- ↗ Merger with KCL - strengthened entity

What can go wrong?	Mitigation?
↘ Labour Scale-up & Management - Biggest challenge	Technology/Automation; hiring & training
↘ US Market Retail foray - unknown territory for Kitex	gradual step by step foray
↘ May strain existing US customer relationships?	unthreatening volumes?
↘ (Reportedly) Inflexible with Customers - may mean some customer shifts	Needs to be seen

Distinctive Architecture

Competitive Forces/ Bargaining Power	Customers	↗ Large B2B volume relationships - Carter, Gerber, BabiesRUs
		↗ Customers literally at Kitex doorstep
		↗ Worldwide - very few (10-12) large volume infantwear suppliers
	Suppliers/ Vendors	↗ High-Quality Kitex specified RM source - not available in Mkt
		↗ Developed 4-5 geographically diversified Suppliers
		↗ Dedicated contracted facilities at 100/200T per month
	Dealers/ Distributors/ Marketing	↗ US subsidiary being set-up - direct import & supply
		↗ Next step - Bulk supply to US Retail
	Industry/ Competition	↗ Recession-Proof infantwear niche in Textiles
		↗ Limited competition - but capable of matching Kitex scale
		↗ Difficult for most to match Kitex efficiency/costing
New Products/ Innovation/ Branding	↗ Latest technology - Risk taker ; vendors queue up to showcase - @ cost-price	
	↗ Best in class infrastructure/labour pay/working & stay environment	
	↗ Robotics in fabric processing/wherever technology can reduce labour (Kitchen)	
	↗ Private Label/Kitex Brand - retaining Kitex manufacture - planned US market foray	

Kitex Garments - BQ2

		Growth Rates	EBITDA Margin	Capital Turnover	ROIC	Invested Capital	EPA/Sales	EPA/Sales - future value creation lead indicator
Business Value Drivers	3 Yr Average	45.44%	21.73%	1.56	19.97%	231.18	5.10%	Moderate Future Value creation
	5 Yr Average	32.70%	20.62%	1.53	18.27%	208.91	4.04%	(Refer the VP EPA discussion)

BQ Bottomline	Nature of Industry:	*Competitive Intensity? Industry Growth rates?*	Industry structure favourable; Few large manufacturers in infantwear niche; Large Buyers have to come to large manufacturers; Industry projected to grow at 6% CAGR		
	Opportunity Size:	*How big is the runway? How many years out?*	US & EU $20 Bn; Canada, China & India $25Bn market; India, China & Middle East markets growing very fast; Carter alone expected to sell $500 Mn in India in 3-5 years		
	Capital Allocation:	*Able to invest large Capital at high ROIC?*	Decent record; Higher margins & RoIC expected with economies of scale kicking in next few years		
	Predictability:	*How many variables in the Business?*	Few variables; Trust and Quality play a big role in consumer choice; Recession-proof niche in textiles industry;		
	Sustainability:	*How hard is it to dislodge from its perch?*	Entrenched Customer relationships; Capacity being doubled to 1.1 Mn pieces/day; Hard for competition to match Kitex quality/compliance/efficiency/costing		
	Disprotionate Future:	*Building blocks in place for disproportionate future? Do multiple Optionalities exist?*	Retail Foray in US can be a gamechanger		
	Business Strategy & Planned Initiatives:	*Is the company likely to grow efficiently & emerge stronger in next 2-3 years?*	Competitive position is strong; Capacity additions likely to aid efficient growth		
	Key Monitorables:	*Next 2-3 years – what are the key monitorables, key health indicators?*	1. Doubling Capacity to 1.1 Mn pieces/day 2. US Market penetration 3. India-based players - setting up equally big capacities		
	Near Term Visibility:	*Next 2-3 years – how strong is the visbility?*	Strong visibility of 25% CAGR		
	Long Term Visbility:	*5-10 years on - how likely to survive & prosper?*	Strong execution of key Milestones will give confidence for Long Term Future 1. Doubling Capacity 2. US Retail foray progress		
Valuation Spotlight?	BQ Category:	*Laborious? Or Disproportionate Smarts?*	Good business with possibilities of Disproportionate Smarts emerging: Category A+		
	Business Transition Track Record:	*Managed significant business transition to its advantage? What impresses most?*	High Growth with increasing EBITDA margins		
	Performance vs Perception GAP:	*Current P/E or Perception captures business quality/performance? How big is the GAP?*	CMP: 513 20/03/2015	Trailing PE: 31x	Stable PE Range : 25-30x	Perception/Expectation in line with business quality/performance

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Avanti Feeds - BQ1

Strategic Assets

- ↗ Consistent investments made in Farmer Knowledge Sharing/Training and Technical Support
- ↗ Thai Union Frozen (TUF) - Largest Sea Food company by value - 25% Strategic shareholder
- ↗ Largest Shrimp Feed capacity - 285,000 MT; expanding
- ↗ Shrimp Processing Capacity - 8000 MT; expanding
- ↗ Integrated Operations - Shrimp Hatchery - Land earmarked, Approvals received - FY16 set up
- ↗ TUF - Technical guidance - Lowest FCR (Feed conversion - feed to meat) at 1.2 -1.3; competing products higher FCR
- ↗ TUF - Operational & Marketing guidance

Disproportionate Future?

- ↗ Retail foray (Prawn King) attempts haven't taken off
- ↗ If Aquaculture in India keeps growing consistently - thriving domestic mkt for processed shrimps inevitable in the long-term?
- ↗ Shrimp considered healthier/tastier to Chicken/Meat

What can go wrong?	Mitigation?
↘ Global demand/supply based price dips	Thailand production hasn't recovered
↘ Counter-availing duties/Anti-dumping	Looks remote after reversal
↘ Disease Outbreaks	Robust regulatory framework/oversight
↘ Cyclones	Hasn't struck in AP in years: Black swan?

Distinctive Architecture

Competitive Forces/ Bargaining Power	Customers	↗ Shrimp Feed - Farmers - industry growth critically dependent on farmer viability; modest pricing power in good times, costs pass-through in normal
		↗ Shrimp Processing - direct relationships with Large Retail - based on competitive global pricing
		↗ Feed:Processing Sales : 80-20 skewed at the moment; Processing expected to catch up significantly as the Management gets it act together
	Suppliers/ Vendors	↗ Shrimp Feed - Fish meal, soya,
		↗ Shrimp Processing - Farmer Costing @ Rs. 180-200/Kg; hugely viable till Price > Rs. 400/kg
		↗ Farmers - dependent on leading players - technical support on knowhow, culture, maintenance
	Dealers/ Distributors/ Marketing	↗ Strong distribution relationships in key markets
	Industry/ Competition	↗ Industry expected to grow by 20% on rising global demand
		↗ Shrimp Feed - Avanti largest, preferred player
		↗ Shrimp Processing - Many (unlisted) players with big capacities
New Products/ Innovation/ Branding		↗ Feed products are branded and command a premium based on industry best FCR
		↗ Processed Shrimp -commoditised; possibilities of value-added products in future
		↗
		↗

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Avanti Feeds - BQ2

Business Value Drivers		Growth Rates	EBITDA Margin	Capital Turnover	ROIC	Invested Capital	EPA/Sales	EPA/Sales - future value creation lead indicator
	3 Yr Average	57.63%	10.25%	4.73	30.67%	146.93	3.93%	Moderate Future Value creation
	5 Yr Average	-	7.84%	3.62	19.54%	118.52	0.16%	(Refer the VP EPA discussion)

BQ Bottomline	Nature of Industry:	*Competitive Intensity? Industry Growth rates?*	Rising global demand, Industry expected to grow by 20% for next few years
	Opportunity Size:	*How big is the runway? How many years out?*	Shrimp considered healthier/tastier alternative to Chicken/Meat. Huge runway seen for many years out
	Capital Allocation:	*Able to invest large Capital at high ROIC?*	Demonstrated capabilities with business becoming stronger on favourable tailwinds; Company is investing larger capital with confidence
	Predictability:	*How many variables in the Business?*	Many variables cloud the picture - global demand supply based pricing, Raw material volatility, country specific counter-availing duties, disease outbreaks, cyclones; However Sector has been seeing huge favourable tailwinds - for last 5 years - all variables remaining
	Sustainability:	*How hard is it to dislodge from its perch?*	Aqua Farming/Industry doing well - direct linkage to global demand/supply pricing - ; Avanti Entrenched as the dominant Shrimp Feed supplier; Hasn't been able to match the same performance in Shrimp Processing segment but expected to ramp up
	Disprotionate Future:	*Building blocks in place for disproportionate future? Do multiple Optionalities exist?*	Long term Retail success is a distinct possibility: TUF is the guiding factor
	Business Strategy & Planned Initiatives:	*Is the company likely to grow efficiently & emerge stronger in next 2-3 years?*	If Industry gropws by 20% as expected, Avanti business has to grow 35-40% barring black swans
	Key Monitorables:	*Next 2-3 years – what are the key monitorables, key health indicators?*	1. Thailand & Mexico Production recovery 2. Global shrimp pricing 3. Avanti Processing segment - rapid ramp up
	Near Term Visibility:	*Next 2-3 years – how strong is the visbility?*	Strong 30-35% CAGR visibility (with higher risks?)
	Long Term Visbility:	*5-10 years on - how likely to survive & prosper?*	At ~1800 Cr FY15E Sales and the Capital efficiency it now operates at, Business is more mature to handle adversities, survive & prosper

Valuation Spotlight?	BQ Category:	*Laborious? Or Disproportionate Smarts?*	? Quiz for Learners			
	Business Transition Track Record:	*Managed significant business transition to its advantage? What impresses most?*	Huge growth with consistently increasing EBITDA Margins and Capital Turns; Reducing debt; Great reduction in working capital requirements; High Dividend Payouts			
	Performance vs Perception GAP:	*Current P/E or Perception captures business quality/performance? How big is the GAP?*	CMP: 1593 20/03/2015	Trailing PE: 13x	Stable PE Range : ?	Perception/Expectation ? Quiz for Learners

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How does it all come together??

- **VP Management Quality Insights presentation**
  - Is this a great Management?
  - What Management Insights/Actions support the view this Management can take its business far?
- **VP Business Quality Insights presentation**
  - Is this a great Business?
  - What makes it a great Business? “Laborious” or Disproportionate Smarts”?
  - What Management Insights/Actions bolster the essential variables that drive this great business?
- **VP Valuation Insights presentation?**
  - What is a fair price for this Business?
  - Notwithstanding MQ/BQ Ratings you may get the Valuation wrong and make a poor Investment!