

VP Capital Allocation II - Management Insights

VP MANAGEMENT Q&A



The Decisive Edge?
2010-2014

VP Edge - over Mr Market

A stroke of luck - we decided to FOCUS on QUALITY small business

- ❖ Under the Institutional radar, under-researched; we can discover things others don't know
- ❖ Small businesses - easier to understand; we get to talk to the Owners, the Risk-Takers
- ❖ Prefer businesses dominating a market niche - but with multiple touch points - Competition, dealers/distributors, end-customers, suppliers, vendors, industry professionals
- ❖ Process naturally lends to in-depth study of the Eco-System
- ❖ Easy to corroborate/cross-check Management claims
- ❖ Earns us the Respect of Management
- ❖ Early Insights into the Business/Eco-system and Management - initial Edge over Mr Market
- ❖ The decisive edge - from insights developed over 2-3 years of involvement & hard work - our small business is not fully understood or still misunderstood; time and again this has been the VP case!

CONVICTION builds up over time - Keeping FAITH - as important, as the initial hard look

Management Q&A is indispensable

Quality Management - numbers tell a story - but we crave to understand more

- ❖ How did this business reach here - what's in the DNA?
- ❖ Does Management have the self-confidence - to do things differently?
- ❖ Are they on top of their job - really know what it takes?
- ❖ Why can't even a "Reliance" dislodge it from its perch?
- ❖ Key-man Risk vs Institutionalised Process?
- ❖ Jockey with a Growth-Mindset?
- ❖ Distinctive Capabilities - Business process Architecture?

Quest - Run-of-mill or "Anything really Special" about this Management/Business?

Other Management Traits

If we are able to answer the "what's-so-special" puzzle, usually some of the other very important traits show up or, reveal the absence of

- ❖ Honest down-to-earth Management
- ❖ Transparent
- ❖ Ability to execute - walk the talk
- ❖ Minority share-holder friendly
- ❖ Management Vision - depth & breadth
- ❖ Ability to attract & retain Talent

Important Traits - Non-negotiable. However, we treat these almost as given. These DO NOT make a Management special!

When it does not add-up?

- ❖ If numbers are good to great, but we can't find answers to the above quest on several of these aspects, it's better to acknowledge
 - A. We do not understand the business / management
 - B. It's better left alone
 - C. There are always other opportunities



What's in the DNA?

❖ Poly Medicure

- ❖ RM Sourcing (sourcing know how and RM from China) is a big driver
- ❖ Imported special steel alloy needle for IV Safety Cannulae localised (1/4th cost)
- ❖ Heavy Duty UPS back-up investment 10-12 Cr one shot - eliminating 6-7 hour power-cut and consequent plastics clogging/wastage/inefficiency
- ❖ New fully automated IV plant - labour count coming down to 3 from 50
- ❖ LOWEST COST/HIGH-MARGIN FOCUS

❖ Shilpa Medicare

- ❖ Clear milestones based 10 yr+ Future Road Map
- ❖ 2-3-5 year apprentice vendor to Customer already serving next Milestone customers
- ❖ Started with intermediates to API supplying customers; now APIs to Formulation players; next 5 years Formulations for Formulation marketers; after 5 years Formulations manufacture and own marketing
- ❖ BEST RISK-MITIGATED CAPITAL ALLOCATOR



Self-Confidence?

❖ **Manjushree Technopak**

- ❖ Always ahead in technology adoption; industry-beating financials
- ❖ Quick to seize PET Preforms potential; scaled up aggressively - largest in South Asia in 3 years
- ❖ Managed typical FMCG margin pressure with negotiated, sustainable increasing volumes
- ❖ Competition - kept stumbling operationally, financially
- ❖ SHINING KNIGHT IN A DIFFICULT INDUSTRY

❖ **PI Industries**

- ❖ First to work out win-win IP-respecting CSM model for Innovator companies (Generics CRAMS far easier model)
- ❖ Quite clear - Capital invested in CSM wouldn't show results before 3-5 years
- ❖ First to work out win-win model with Japanese Agrochemical Innovator molecules not present in Indian market
- ❖ Cash-Rich agrochemical segment to fund capital-intensive CSM segment
- ❖ Clear bet - CSM will scale and overtake Agrochemical eventually; but above unique segment mix to be retained



On Top of their Job?

❖ **Shriram City Union**

- ❖ huge reputation; large loyal customer base
- ❖ super track record - fastest to 15000 Cr AUM
- ❖ scale-up ready: people, processes, automation, finance
- ❖ coiled to spring in a benign environment

❖ **Muthoot Capital**

- ❖ high reputation; large loyal group customer base
- ❖ good track record 40%+ CAGR growth over last 10 Yrs
- ❖ people and process ready - clearly not enough
- ❖ execution/scale-up NOT ready

❖ **Kaveri Seed**

- ❖ the challenger - working harder to topple incumbents
- ❖ new hybrids building on success of earlier hybrids - most productive R&D
- ❖ most active field work in markets that matter
- ❖ clear signs of progress/ dominance each year



Can a "Reliance" dislodge?

❖ Astral Polytechnik

- ❖ CPVC compound 40 years off-patent, licensor Lubrizol still controls over 85% market share
- ❖ Rivals Supreme and others - find sustainable CPVC compound source scarce
- ❖ Reliance - tried CPVC compound making from the resin, gave up
- ❖ Uncanny focus on training Plumbers - Sales lead influencers - just like Pidilite, Asian Paints
- ❖ Execution focused management - will only put more distance to Competition

❖ Shriram City

- ❖ Unique 4 Mn Chit fund customer base - impregnable
- ❖ Huge lead in under-banked, non-salaried MSME funding
- ❖ Huge lead - people, processes, automation, finance
- ❖ Best risk-mitigated diverse product basket offerings
- ❖ In a more benign environment - will execute way ahead of others



Key Man or Institutionalised?

❖ Mayur Uniquoter

- ❖ Trading veteran of 30+ years knows the job in & out; hires consultants for quality / productivity
- ❖ Passion & Vision - able to service Chrysler & Ford in US; unable to penetrate deeper
- ❖ 30yr US Auto OEM industry veteran hired, at 20% higher pay - to lead scale up to next level - help penetrate key accounts and service BMW, Mercedes
- ❖ Huge depth added to Management Bandwidth

❖ Shilpa Medicare

- ❖ B Pharma graduate, cotton trading family, extraordinary zeal
- ❖ Passion & Vision - establishes company as a leading Oncology API supplier
- ❖ 2009 / 10 - hires leading professionals ex Dabur - eyeing formulations play
- ❖ Pipeline / trajectory rockets - DMFs for 9 out of top 20 Oncology drugs going off-patent since 2015
- ❖ Management Bandwidth hugely augmented - firm contracts with Global Innovators for Formulations



Growth-Mindset?

❖ Ador Fontech, Mazda Limited

- ❖ Absence of growth-mindset is immediately evident
- ❖ Happy where they are; Prefer to wait for environment advantage

❖ Astral, Kaveri Seeds, Ajanta Pharma

- ❖ Presence of growth mindset - very evident
- ❖ 2-3 year current product-led visibility - will be strong
- ❖ 3-5 year visibility product/market will be already introduced - growing strongly
- ❖ 5-10 year product/market - will already be thinking and taking the first steps

Growth-Mindset companies can't wait - they will find ways to create growth environment for themselves!

VP Management Insights - A Map?

Top Insights	Best Examples from VP Portfolio
Growth Mindset	Astral, Ajanta, Shilpa, Kaveri, Kitex
Hard to dislodge	Astral, Shilpa, Poly Medicure , PI Ind, Shriram City
On top of their job	Astral, Ajanta, Shilpa, Shriram City, Kitex
Self Confidence	Astral, Ajanta, Mayur, Shilpa, PI Industries, Kaveri, Kitex
Institutionalised	Astral, Shilpa, Mayur, Shriram City, PI Industries
Distinctive Capability	Shilpa, Kitex, Mayur, PI Industries, Shriram City
Strategic Assets	Astral, Shilpa, Shriram City, Poly Medicure
Special DNA	Shilpa, Poly Medicure, Ajanta, Kitex, PI Industries

* DO NOT TAKE INVESTMENT DECISIONS BASED ON ABOVE. This presentation is more of a Management Quality discussion aimed at refining our thinking on what makes for a Great Management. Business Quality is a more involved and separate discussion. Valuation is the other very important piece in the puzzle.

The End-Game

How does it all come together??

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

