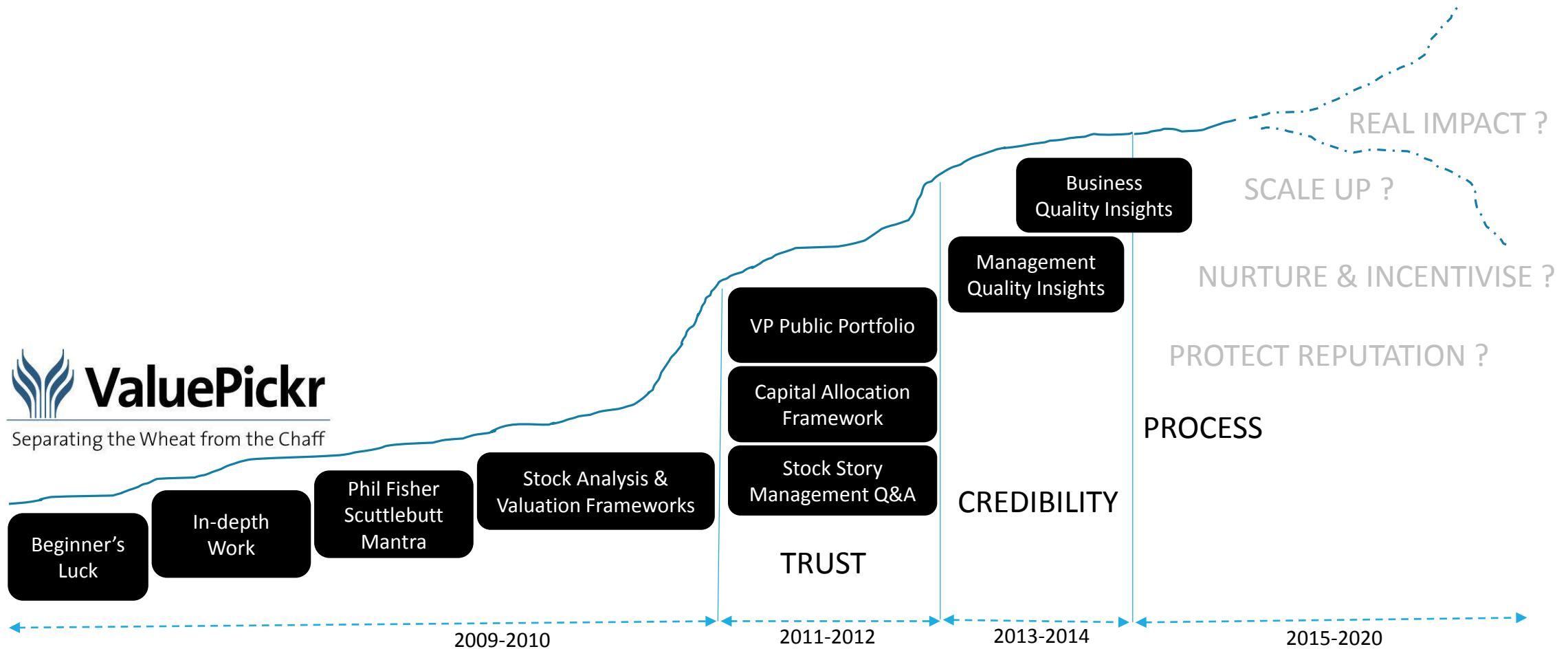


Team ValuePickr

COLLABORATIVE RESEARCH PROVING ITS METTLE 2010-2015



Genesis – Collaboration Maturity Curve at VP



Why people collaborate at VP?

- ✓ Established Culture of Giving/civilised discussion
- ✓ Learner to Senior Investor – there's something for everyone
- ✓ Business Scuttlebutt – highly addictive, nothing demonstrates the power of collaboration, better
- ✓ Every 6 months – new Learning Curve Insights – Capital Allocation, Art of Valuation, Business Quality, Management Quality
- ✓ Proof of the pudding is in its eating!
- ✓ Everyone feels compelled to offer to Give!!



Inter-dependent Committed Team

Role	Complimentary Skill-sets	Specialists
Idea Generators	Any stage of the Market, they have 5 workable ideas, that you cant junk	Ayush, Hitesh, Omprakash
Number Crunching	Show up the good, the bad, the ugly	Vinod MS, Anil, Rudra
Domain Scuttlebutt	Learn quickly from one domain expert, use it with the next; get to grips	Donald, Aveek, Dhwanil
Identifying Patterns	Starting of an Investment Hypothesis - anything special playing out?	Hitesh, Ayush, Donald
Industry Scuttlebutt	Industry nature, Competition positioning, Customers, Suppliers, Vendors	Tirumal. Omprakash, Donald
Fair Valuation	Category Slotting (B+, A, A+, A++); Opportunistic / Long Term Portfolio	Hitesh, Ayush, Donald, Abhishek
Bear Case	Rein in the over-optimistic bulls; bring in a sanity check	Abhishek, Anil
Forensic Audit	Bring out what does not add-up (special talent attracted recently)	Dhiraj, Anil
Management Q&A	Slot Management, Demolish Hypothesis, or come away convinced	Donald, Ayush, Vinod MS, Dhwanil, Aveek, Kiran
Portfolio Investment	Margin of Safety; Conviction & Undervaluation product	Hitesh, Ayush, Donald, Abhishek
Domain Specialists	Oil & Gas, NBFC, Pharma, IT, Off-Market transactions (not named above)	Ankit, Anant, Ananth
Technology/Toolkit	Modern Forum/Reputation System/Screening/Automated info gathering	Pratyush Mittal, Vimal Mathew

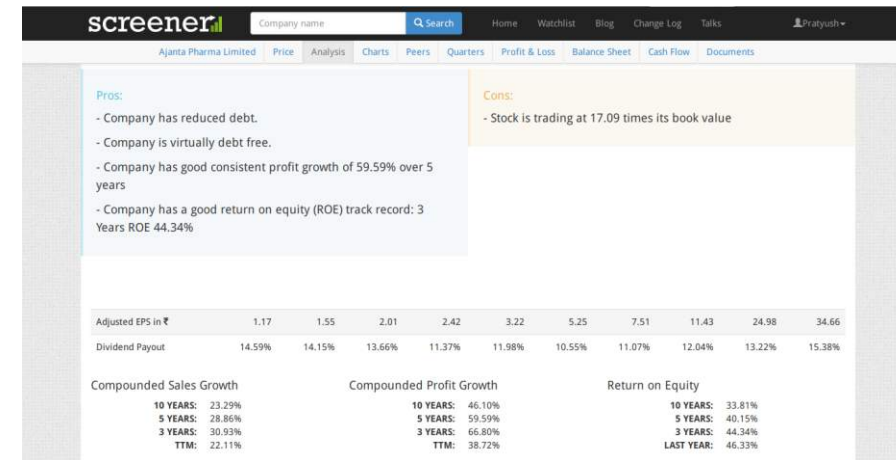
Using Technology – Productivity Advantage

✓ Screener.in – Investor Toolkit destination

- ✓ Idea Generation (as per your custom preferences)
- ✓ Customised Excel – upload your Analysis/Valuation/Red Flags Template; download for every business in a minute

✓ ValuePickr.com – Modern Collaboration Tools

- ✓ Return to just where you left last time
- ✓ Sync across devices (mobile/tabs/Laptops/desktops)
- ✓ Notification preferences (thread participation, tracking)
- ✓ Notification preferences (mention by name, private message)



Exemplary Collaboration – setting benchmarks

- ✓ Collaboration – Culture needs to be seeded, nurtured
- ✓ Initially 80% of the contribution came in from Ayush, Hitesh, Abhishek, Donald
- ✓ 2012: Team Hyderabad set new benchmarks
- ✓ Core Team gets more bandwidth for strategising/Value-addition
- ✓ 2013 -14: Scuttlebutt specialists erupt in every city
- ✓ 2015: Advanced collaboration functionality gives a fillip; attracting solid new talent/Industry Experts

Hopefully 80% of contribution from Community will be a Reality, soon !!

Feedback - Dealers/Plumbers/End-Users – Astral Poly



bobbyusd Bobby Mehrotra Bobby Mehrotra

Apr '11

Hi Doanld and All,

Spoke to two hardware dealers yesterday. Heres the update:

1). Dealer 1 - Ravinder (Took notes while speaking to him on telephone)

a) There are two companies supplying raw material for CPVC. Arkema from France and Noveon from USA

b) Astral is the pioneer in introducing CPVC in India. Its products are also marginally higher than Ajay and Ashirvad

c) The market for CPVC would be very large in the next 5 years

d) He was enthusiastic about the product, saying "hamko kuch kama nahin hota." the raw material comes ready to use ie ready to be moulded. This statement was in comparison with PVC, where resin needs mixing

e) Not easy for anyone to start cpvc as licence is required and the company giving licence is not ready to give it to anyone

f) During the conversation he did not give an impression thatbuilders/ contractors demand ASTRAL only. All the three ie Ajay, Ashirvad and Astral are doing well. But the scope of oppurtuinity in terms of market size is enormous

g) Making the pipes is not a problem but getting the mould for the fitting appeared to be problematic.

2). Dealer 2, SFMC:

a) This dealer does not deal in CPVC yet. The transition is as follows GI to PPR to CPVC

PPR pipes and fitting came up in 2002-2003. Initially there was just one manufacturer, but now the market is flooded

b) The problem with PPR pipes is the fixing of fitting in/with the pipe. The pipes need to be heated before the fitting is attached. However, if the heating is not proper or not enough heated, the joint tends to leak after some time. This can be a disaster for any new dwelling.

c) The dealer didacknowledge this problem, buthe quickly added that CPVC is also not technically perfect.

d) A little later he did acknowledge that the demand for CPVC is going to be very large.

e) Entry barrier is the contractual obligation for raw material. These guys themselves want to start cpvc but cannot coz of raw material

--



bobbyusd Bobby Mehrotra Bobby Mehrotra

May '11

Hi All,

Spoke to two civil engineers, visited two dealers for CPVC:

1). PPR: the main problem with PPR is the fixing of fitting. The plumber uses a gun/metallic rod to heat. The fitting has a male and female part. The metallic rod is inserted into teh female section and heated. As soon as the desired heating is done, the rod is pulled out and the male section inserted. The heating makes the resin melt, the male section when inserted fits into it and after the melted resin has cooled the joint is complete/fixed

The problem is with the heating:

a) If the plumber is new, he may heat the fitting too much or too less. If it is too much, then when the rod is pulled out the resin sticks to the rod and comes out with the rod. This may create a small gap when the male part is fixed. And this causes leakage.

b) A friend who built a high rise in noida, actually experienced this problem. I also visted two dealers in our local hardware market. Both of them acknowledged this problem.

2). a) CPVC overcomes this problem. The male female joint is fixed with a solution/adhesive. I saw a few fittings of ASTRAL. The plastic is hard and resembles something like the plastic in lego toys for kids.

b) The dealer also showed a trade magazine with a full page advertisement from lubrizol. The three manufacturers - Astral, Ashirvad and Ajay were mentioned in the ad, as companies manufacturing pipes etc from lubrizol raw material.

c) The dealers said that PPR still sells but CPVC is certainly an improvement and would sell more int the near future.

d) People do not demand ASTRAL by name. All three names are eually good and rule the market.

e) The second dealer had cpvc fitting from Supreme. Where do they get there raw material from...??? Since te lubrizol ad in the trade magazine did not mention supreme, i guess they are sourcing it from somewhere else.

Negative for CPVC

a) Since the plastic is hard, it may break if something heavy falls on it. Normally pipes are concealed, but on the terrace they lie open.

b) When drilling in the wall, one needs to know if the cpvc pipe is cnealed in the particular area, bcoz the bit would drill the pipe without a warning (as compared to GI pipe). This was brought to my notice by a dealer.

Hope this helps...

Scuttlebutt from around the Country - Astral Poly



Donald Donald Francis Donald

Apr '11

From what I have read and assimilated so far, my hunch is CPVC resin there are many manufacturers. and that's not patented. What is patented is the CPVC compound, and thats where 85% of the market is controlled by Noveon (as per some reports).

Its the compound formulation that ensures that the pipes/products manufactured have particular tensile strengths, and/or anti inflammatory, or other properties with the right reliabilities for particular applications, and that is what is certified by NSF - the compound (again not the resin).

Different Products like Flowguard, Corzan, or Blazemaster have different compounds - the same CPVC resin + a different mix of ingredients, for a different set of properties appropriate for a different application - e.g. corzan for high anti-corrosive resistance, etc.

So while many can claim CPVC Pipes - those without NSF certification for particular applications may not be acceptable to builders/contractors in the organised sector because the CPVC pipe properties cannot be guaranteed in uncertified products.

And again there is compound certification as well as the manufacturing process or plant certification by NSF. Both are important. You may have noticed that Ajay And Ashirwad claim the CPVC compund certification - because they source it from Noveon/Lubrizol, but they cant claim the NSF plant certification that Astral can and does!

These need bearing out in the questioning of Astral, dutron poly, ashirwad and some CPVC dealers that we will meet in due course. may be useful to keep this is mind while asking open-ended questions.



Donald Donald Francis Donald

Dec '11

Why do we find competition significant in such a heady growth market? I can't see it as even minorly significant in next 2 years!

To put a perspective on this competition overkill.

Global Kaneka CPVC capacity : 46000 MT

Astral capacity : 70000 MT; Ashirwad : 50000 MT

Supreme 6000 MT! a 50% scale up in production in 2 years ~14000 MT!! even now Astral capacity is 5x that. The overall market opportunity is so much bigger. Everyone can grow at heady rates and still there is room for more players!


And then we need to think why is Kaneka a 2nd alternate supplier to Lubrizol languishing at 46000 MT capacity, when the market opportunity is so big? Capital is surely not the constraint, then?

Food for thought!








Reply

1 MONTH LATER


 **basumallick** Abhishek Basumallick Abhishek Basumallick Jul '11

Yesterday, I went to the construction site where I have booked an apartment in Calcutta. Its being constructed by one of the largest and most prominent builders in the city. I saw Astral pipes being used there for the plumbing. I was pretty enthused by it and asked the site engineer about the pipes. He said that Astral pipes are the best right now in the market and now nearly all big builders are using it instead of GI pipes for underground piping. The finish of the pipes were also pretty good. I got a feel-good factor yesterday.


     [Reply](#)

 **ashwinidamani** Ashwini Damani Sep '12

Just a feeder - Astral has gone ahead and done a huge marketing spend in Kolkata atleast. All along Kolkata, all the trams and buses are loaded with Astral's posters (full bodied).

 **araiika** Anil Raika Anil Raika Sep '12

Sorry guys . am a late contributor. I had done renovation in my house bathroom. and the plumber strongly recomended me to install plastic pipes instead of gi pipes, then I came to know about this company, he told me this six months back. He told me its more stronger and flexible then the gi pipes, and nowadays he is preferring this pipes only, this pipes installing is more easier for the plumbers.

 **Vedant Vinod MS** Vinod MS Sep '12

Hi,

Spoke to a retailer in Bangalore. He had displayed two similar sized posters on CPVC pipes of Ashirwad and Supreme. Here are the points:

- 1) Ashirwad has the highest price among all 3, with Supreme and Astral having similar price.
- 2) Ashirwad has higher sales as customers ask for it (brand is around since 1975)
- 3) He beleives that Ashirwad has superior quality inspite of Astral also using lubrizol compound (Actually is there any possibility of this case, could the manufacturing process be different?)
- 4) He said Astral Bangalore distributor is all India no 1 for Astral because Bangalore market is huge for CPVC and compared to other cities. Higher awareness?
- 5) All three players as per him are aggressive and conducts plumbers, contractors meetings etc.
- 6) There are other players like Ajay and Prince which have no demand.
- 7) He showed me a new poster from Ashirwad which is also introducing a bigger range of products. I think everyone is after the "one stop shop" formula.
- 8) He said he will soon display the poster of Astral too 😊

While I was about to leave he told that the market is huge and there is room for all players and adviced me to stay put if I have invested in Astral 😊

Vinod M S



ayushmit Ayush Mittal Ayush Mittal

Sep '12

Hi Everyone,

Good discussions yet again and I think people are getting better understanding of the story now.

Like Donald mentioned - Feeling the market pulse is very important. The co had come out with a weak Q1 (if one looks at the forex issue) yet the stock has increased almost 50%+ in last 6 months....why?? The reason is simple that the story is getting morerecognizedby the day and people are ready to ignore short term negatives to get long term gains.

Its not easy to come across a company whose products are visible everywhere and has a brand and yet the stock is available in its growth phase.

I think the other most important part of this company is the dynamic management. When we went for the co visit and met the dealers, the feedback on the management quality was fantastic! Here are few points:

- 1). Mr. Engineer started from scratch and he believed in the vision in early 2000 when all the biggies were reluctant to the CPVC idea.
- 2). He started with lot of ground work - like meeting plumbers, going on scooter to do ground work, meeting customers etc etc.
- 3). In a span of just about 10 years, he is a leader and has been able to build 350 distributers and 10,000 Dealers!! I think this network is very valuable.
- 4). We heard that the promoter is very good as a person and takes everyone together. Most of the distributors/ppl associated/employees are treated as a family and lot of re-creation/networking events are organised. People are very satisfied and have good expectations going forward.
- 5). Employees tell that the top management is simple and always accessible. Unlike competitors.
- 6). If we look into the past, this co has always tried introducing 2-3 new products every year. So in a way they keep innovating and expanding the product profile. Thereby getting the max revenue from their network.
- 7). They always give lot of emphasis on new businessdevelopmentand marketing.



11 DAYS LATER



Donald Donald Francis Donald

Sep '12

Hi Guys,

Finally theAstral Poly Technik Management Q&A, Aug 2012uploaded. Great pleasure in bringing this to you all. Sorry for the delays, mostly unavoidable.

I have always been maintaining Astral Poly Technik **is a story - not well understood** - by the larger Investment Community, just like Mayur Uniquoters wasn't for a lot of time in its 3-yr 8x journey.

It has been our endeavour through repeated detailed Q&As to portray the company in its true colours! But we have failed to effectively communicate a few points about this company and its business

- a) Competition scenario is in Astral's favour - not the other way round
- b) Forex Management - is a non-issue over the long term
- c) Exclusivity & Scale (when it comes in next 3-5 Years) will take this company to a new league

Please take the discussion forward. Do you think, this time round these 3 points above are more real -that you are able to appreciate better?;)

-Donald

Pharma – Industry Insiders show us the way

ValuePickr Forum

Ajanta Pharma

■ Stock Opportunities ■ Not-so-Hidden Gems



Donald Donald Francis Donald

Jan '11

Ajanta Pharma features in Hitesh Patel's current [top 5 picks](#) for a 2-3 year horizon. I had not looked at this at any depth before, but decided to as it came highly recommended from Hitesh. Here is what Hitesh has to say about the stock in brief

Ajanta pharma– consistent growth, good brands in domestic markets, strengthening its presence in overseas markets, relatively recession proof, reducing debt since around last few quarters. **cmp 192**, stock available at a pe of around 5-6. **On a scale of 1 to 10, valuation is very attractive and so gets a grade of 9, conviction also at around 9.**

Had an initial good look and came away impressed to dig further. My observations/questions:

- 1). Long term sales CAGR of 23% and PAT CAGR of 47%
- 2). 5yr Sales CAGR 17% and EPS CAGR of 29%
- 3). Raw material/Sales has consistently been coming down from 56% of Sales in FY06 to 36% of Sales in FY10
- 4). NPM has been consistently increasing from 5% in FY06 to 7.5% in FY10
- 5). Top brand in Dermatology like Melacare
- 6). New state of the art API facility set up in Waluj Aurangabad in FY10
- 7). Acquired formulations facility to cater to the rest of the world markets in FY10
- 8). Very impressive 1HFY11 results - Sales growth 18%, PAT growth 58%. This should be maintained as there is no apparent seasonality in Sales as seen from past quarters. NPM has touched almost 9%

Some questions:



hitesh2710  Hitesh Patel Hitesh Patel

Jan '11

This is a write up I had prepared before buying the scrip. Just like the 5 minute drill Lynch mentions. I continue to add to my position on dips.

AJANTA PHARMA

CMP 180 MCAP212 CRORES 1.18 crore shares outstanding

Ajanta Pharma is a specialty pharmaceutical company engaged in the development, manufacture and commercialization of pharmaceutical products. It employs over **2,500 people** worldwide and its products are sold in over **25 countries**.

The company continues to focus on New Drug Delivery Systems (NDDS) and new combinations. With the help of its R&D capabilities, it now has **1380 product registrations** in different markets of the world and over **1029 more are waiting in pipeline**

The company develops and commercializes a diverse range of scientifically and medically innovative generic products. It is amongst the front runners in the segments of Cardiology, Dermatology Ophthalmology, and Anti-Malarial. Many of its brands hold leading positions in their respective sub-therapeutic segments. Ajanta Pharma is also expanding our presence in the fields of Respiratory, Gastrointestinal and Musculoskeletal medicine by introducing innovative products in these segments. A clear therapeutic focus has led to a strong product portfolio for the company.

Modern manufacturing facilities:

Ajanta Pharma operates 5 state-of-the-art manufacturing facilities; 4 within India and 1 in Mauritius. One of these, located at Paithan, India is approved by the US FDA, health authorities of Brazil and Colombia and also holds a WHO pre-qualification for one of its products. Its manufacturing capabilities include a comprehensive range of dosage formulations of allopathic drugs including tablets, capsules, ointments, injections and powders.



hitesh2710 Hitesh Patel Hitesh Patel

Aug '11

thanks donald for the kind words.

Regarding ajanta, yes I have a direct access to all the developments in one of their niches which is my subject-dermatology. As I mentioned somewhere earlier, this is a company which came to my notice because of their promptness of introducing first in India kind of products aggressively and making successful brands out of them. Just to give an example they introduced an immunomodulator with various uses named pimecrolimus ointment-- brand name pacroma almost 6-8 months back. this was launched for the first time in india and since then only biocon has been able to launch this one and it has not yet got its field force in place to push the molecule to doctors. so effectively ajanta enjoys virtual monopoly till another company launches it. And each tube costs around Rs 500 per around 15 gm pack.

Coming to projections for fy 12, the first quarter results have been excellent to say the least. Sales should reach around 575-600 crores net profits should be around 60-65 crores on a consolidated basis for fy 12. That should provide an EPS of around 50-55 per share. So effectively we have a company growing at around 15-20% consistently available at a forward PE of less than 7.

Company has been increasing the R&D spend in line with filing of ANDA for US markets. It has till date filed two of these and got approval for one which is levetiracetam molecule. And with the early success in getting approvals this process might be hastened. And once it gets a few molecules approved by USFDA, there could be a swift re rating here. But that is for Mr Market to decide. Till now sheer earnings growth is pushing the stock price to new highs.

So yes I think this offers an excellent entry point for someone with a view of 1-3 years.



Donald Donald Francis Donald

Jun '12

Latest [FY12 Annual Report](#). Some highlights.

Ajanta Pharma is now among the Top 50 (FY 11 ranking 63) pharma companies in the Indian market (IMS ORG MAT March 2012). 2000+ strong field force. During the year the new product launches were 25 out of which 13 were first time in the country.

The company received 2 ANDA approvals from USFDA in FY12 with another 7 awaiting approval. The first product will be launched in the US market in Q1 FY13.



ayushmit Ayush Mittal Ayush Mittal

Jun '12

The most interesting thing to note in the company is the huge amount of outlay on R&D Expenses. Here is a summary:

Year	2008	2009	2010	2011	2012
	3.59	6.87	20.26	24.88	37.4
	20.18%	32.12%	70.99%	53.56%	56.25%

The first row shows the amount of exp on R&D (the amount debited to P/L only)

The second row shows the amount as a % to Net Profit.

The co has been making a conscious effort to move up the value chain and that augurs well for the future prospects and re-rating.

Few things to understand:

AJANTA PHARMA LTD.		SCREENER.IN			
Narration	Mar-08	Mar-09	Mar-10	Mar-11	Mar-12
Sales	284.92	319.33	381.65	456.78	604.27
NP	17.79	21.38	28.54	46.45	66.49
Debtor Days	106.49	107.98	81.77	60.54	75.76
Inventory Turnover	3.13	3.23	3.63	4.75	3.72
Asset Turnover	3.79	2.85	2.62	2.49	2.73
Return on Equity	13%	14%	16%	22%	24%
Return on Capital Emp	13%	14%	16%	18%	22%
Debt: Equity	1.23	1.58	1.16	0.73	0.60



Ajanta Pharma

■ Stock Opportunities ■ Not-so-Hidden Gems



hitesh2710 Hitesh Patel Hitesh Patel

Jul '14

Some factors that need to be considered while looking at the impact of DPCO on Ajanta like companies:

65% revenues accrue from exports. So only 35% of portfolio is exposed to govt actions and there too products in skin care range are almost not likely to be brought under DPCO as these are non essential kind of drugs.....cosmetics, skin lightening agents, moisturisers etc.

Cardiac division of the company is most likely to be hit by govt actions if at all. There the explanation of the company makes sense.

Ophthalmology which is a big growth engine for ajanta also is not likely to be hit by DPCO.

The companies which are mainly dependent on cardiology and diabetes drugs and that too from domestic market are likely to be worst off being the most exposed to govt actions.



Donald Donald Francis Donald

Jun '12

Thanks Subbu, for validating the good story.

USFDA Approval for an OTC drug is a big achievement, no doubt about it. But no need to get maha excited about it. The domestic story and their success at the prescription-led model, increasing market share and rankings every year, is a more positive story... I agree with you.

Translating FDA approval into market success needs huge resources and is a big IF, like you said. We have other examples in ValuePickr forum - like Shilpa Medicare - which despite having several FDA approvals - haven't been able to do much in the last 2 years!

The [Orange Book](#) search at USFDA for Ajanta Pharma shows it has got approval for Levetiracetam oral tablets 1G, 750, 500, 250 mg dosages And Risperidone for 0.25 mg, 0.5 mg, 1, 2, 3 & 4 mg tablets.

And Here's the complete list of approvals for Levetiracetam 1G, 750, 500, 250 mg dosage approvals: some 30 odd!! [The list for Risperidone is also similar some 20 odd names.]

UCB INC - Original Patent Holder, AB PAR PHARM, ACCORD HLTHCARE, ACTAVIS ELIZABETH, AJANTA PHARMA, ANCHEN PHARMS, APOTEX INC, AUROBINDO PHARMA, BIOKEY, BOCA PHARMA, BRECKENRIDGE PHARM, COBALT LABS INC, DR REDDYS LABS, HETERO DRUGS LTD, INVAGEN PHARMS, LUPIN, METHAPHARM, MUTUAL PHARM CO INC, MYLAN, ORCHID HLTHCARE, ROXANE, SANDOZ, SOLCO HLTHCARE, TARO, TEVA PHARMS, TORRENT PHARMS, VINTAGE PHARMS, WATSON LABS, WOCKHARDT, ZYDUS PHARMS USA INC.

It will be good to understand the approach and strategy adopted by Ajanta Pharma. They may well decide to piggyback on the distribution network of a Dr Reddys, Cipla, or a Sun Pharma.!



Donald Donald Francis Donald

Aug '12

Thanks Hitesh & Rudra for the quick impressions.

I would like to take forward this discussion in 3 parts, if possible.

1). For someone who is holding on from lower levels - say 300+ or even the 550+ levels, is this a No-brainer hold & accumulate at dips. Do you see 25% compounding in earnings for next 2-3 years. Why, or why not?

2). For fresh purchases - a. If it's a 25% compounder anyways, for a Pharma Company (and now we know its pedigree, strategy, R&D & execution strengths much better) why should this not be valued much better. If it delivers 25% compounding for next 2-3 years, why will it not be re-rated higher (remember we must differentiate the quality of business from a high-quality processor company being valued at 9-10x). A Pharma business acquisition value in domestic Indian market is very high. We have seen 9x -11x Sales in recent times. Today Ajanta is valued at less than 1.5x Sales!

3). Margin of Safety - Agreed, this is holding many of us back -because of the comfort of lower levels. But let us attack this after dissecting above 2 properly

Invite views, backed up by data - why and why not? I am tied up in too many things, have to update the other Q&As too, but will surely comeback with my projections on Ajanta in a day or two to provide some data-based scrutiny!

Team Hyderabad - sets new benchmarks - Kaveri Seed



- Dr Paresh Verma, director of research at Shriram Bioseed, or other company official - Jubilee Hills, Hyderabad
- Any dealer/distributor/industry Insider in the Seed business - in & around Hyderabad
- Homi Bhedwar, Director at The DuPont Knowledge Centre at the Genome Valley near Hyderabad
- KV Subbarao, country manager of Pioneer Hi-Bred India, a subsidiary of DuPont India
- Dr KK Narayanan, co-founder and managing director of Metahelix
- Vidya Sagar Parchuri, CMD of the Rs 650 crore Vibha Seeds.
- Dr Gyanendra Shukla, director at Mahyco Monsanto Biotech India.
- Amitabh Jaipuria, managing director of Monsanto India
- Ramesh Chand, director at the National Centre for Agricultural Economics and Policy Research.



tirumal Tirumal Rao Tirumal Rao

Sep '12

Kaveri is a very promising story for next 3-5 years at least. the dealer as given very good response about Kaveri seeds. even though he is not a dealer of Kaveri but knows what is happening or what is selling at ground, he sells Nuziveedu, Myco, Tulsi, Vibha and others, he says last year was very good for Kaveri and we must see for at least one more year for BT cotton of Kaveri. he commented about management as simple people who clearly knows what there are doing and god fearing, simple, 24 carat. he had a negative view about Vibha seeds. this dealer is in the market from 1974. is a very big dealer in 3-4 districts. Nuziveedu. Director Research also gave good briefing about the industry he said Nuziveedu have a market share about 28-30% in BT and he had a positive view about Kaveri Seeds. about taxes i think every one in the industry are assuming it as agri income but Nuziveedu is paying 32% tax and i think there are paying it to show it for listing. there will do same as Kaveri and stop paying taxes after listing which will happen in next 2-3 months. (we have another big seed company to track). Nuziveedu want be a 70% BT and 30% from others like rice, maize by 2015. at present it will be 85-90% BT. finally we are very positive about Kaveri but atleast it requires another year to be monitored for big betting on this stock.



Donald Donald Francis Donald

Sep '12

Hmm! Tremendous learning in 2-3 days. Team Hyderabad was clearly inspired! No smarts for guessing why - the quality of discussions, momentum & level of participation, backed up by solid collaborative homework.

Happy to share that this time I was glad to play a different role (perhaps really for the first time) - **80% of the solid homework was truly collaborative** - we could inspire larger participation for thinking n asking questions; individual participants themselves raised the bar replacing the initial lazy/cliched kind of questioning with thoughtful deeper probing. This had a sort of viral effect on thinkers & thinking (certainly not over-analysis) - led to questions coming in till the last moment - I was happy compiling/incrementally improving the question set till as late as 2 am! This was my dream when I started envisioning a collaborative platform like ValuePickr in 2008 - if 5 of us can do it over email, no reason why we cant multiply manifold over a web-platform. I live and breathe this dream, daily...thank you ValuePickrs for showing all a first glimpse of the tremendous potential that we can unleash!! This is just the beginning, I am sure of it:)

This also set me free to think/prepare/wish on how best to utilise our time at Hyderabad. Could we meet a truly representative set - representatives with and without a stake in the company we were interested in, MD/Director/CXO level folks at different companies, and then from a totally ground-up perspective - players with direct contact/influence with the end consumers - the farmers.

Donald Donald Francis Donald Mar '13

1. **KAVERI COTTON MARKET PRESENCE**

	2012 (lakh pkts)	2013E (lakh pkts)	2014E (lakh pkts)
Andhra Pradesh	5	16	
Maharashtra & MP	5	13	
Gujarat	1	2	
Punjab, TN, Karnataka	7	10	
Total	18	41	50

Donald Donald Francis Donald Mar '13

KAVERI ANDHRA PRADESH PENETRATION STRATEGY?

	TELENGANA (10 districts)		COASTAL (9 districts)		RAYALSEEMA (4 districts)	
Dominance	2013	2014E	2013	2014E	2013	2014E
Nuziveedu	1	1			all equal	all
Mahyco	4	2			all equal	all
Kaveri	2	3	1	1	all equal	all

Donald Donald Francis Donald Sep '12

Hybrid Seeds Industry - The Main players

1. Nuziveedu

The Leader in this industry by a distance. ~30% market share in BT Cotton Market. 2 Blockbuster products - Balli & Mallika. Promoters are from a farming background, and are reputed to have a solid understanding of the pulse of the market. The group is big with deep pockets. Diversified interests in Sugar, Textiles, Power.

Why do they need to go for an IPO now?

2. Mahyco

Maharashtra Hybrid Seeds company. These are reputed to be solid guys and command respect in the Industry. They are the only players to refund CASH for unsold inventory to the dealers.

Known to be conservative, they have never pushed aggressively. They are known for solid good products in every crop -Cotton, Corn, Paddy & others.

3. Kaveri

Kaveri was always known to be a good player. They have always been strong in Corn. Promoters are humble, down to earth, no flashyness. He will give the same respect to someone that he had known 20 or 30 years back. He has farmers interests at heart. A 24-carat man, is how the Dealer (not a Kaveri dealer by the way) described Bhaskar Rao.

But it was one of the smaller players. Continued success in last 2 seasons with Jadoo Hybrid have catapulted them suddenly in the top 5 league. They are in a good position, but can they sustain here?

Observations

Totally selling over 1 Crore packets in a 3.8 Cr Cotton Hybrid Seeds annual market in India.

Leased contract farming space of over 150,000 acres(?)

In AP they did only 6 lakh packets last year.

If they get their act right, dealers say they can easily do 15 lakh packets more.

From whose share will this come from?

No player other than Nuziveedu has crossed the 5 million packets barrier successfully.

Donald Donald Francis Donald Mar '13

Andhra Pradesh Cotton Market Mapping

	TELENGANA			COASTAL			RAYAL SEEMA		
Districts (10)	Mkt Size	Advance/ Dominance	Districts (9)	Mkt Size	Advance/ Dominance (4)	Districts (4)	Mkt Size	Advance/ Dominance	
Adilabad	Biggest	NZ	Guntur	Big	KV	Anantapur		All equal	
Warangal	Biggest		Prakasham	Big	KV	Kurnool		AJ/MH	
Karimnagar	Big	NZ	Srikokulam	Good	KV	Cuddapa		All equal	
Mahboob Nagar	Big	NZ/KV	Nellore	Small		Chittoor		All equal	
Khammam	Big	NZ/KV	Krishna	Small					
Nalgonda	Big	NZ/MH/KV	East Godavari						
Nizamabad	Small		West Godavari						
Rangareddy	Poor		Visakhapatnam						
Medak	Poor	NZ/KV							
Packets (lakhs)	60			23		7		90	

NZ - Nuziveedu; MH - Mahyco; KV - Kaveri; AJ - Ajith; AK - Ankur

Notes:

This is what I understood from discussion with Distributor1: Non-Kaveri. We are looking to cross-check/refine/improve the data/understanding with a Kaveri distributor (4 Telengana districts). I have also been promised field-visits to important district-markets by Team Hyderabad, after identifying more dealer/distributors. Mahyco is reported to have received good advances from most of the big districts except Warangal (where there was the black market issue last season).

Your active encouragement/enthusiasm may actually rub-off on Team Hyderabad and hasten their field visits:)



1st interview - by phone - APMC Secy - Marathwada region

(Secy been most helpful and promised us all help subsequently. Has also given me names/contacts for Yavatmal & Wardha. Many Thanks Gaurav Chandak for arranging the call.)

- 1). Total Maharashtra mkt - 125-135 lakh packets. Marathwada 45-50 lakh packets; Vidharbha 40 lakh packets. Khandesh 20 Lakh packets. Rest 20-30 lakh packets from other regions
 - 2). In Marathwada - Overall NZ is no #1. Mahyco is No 2. Ajeet no 3. Kaveri seems to have good hybrids, but will have to do more work before it becomes significant, increase its exposure to farmers, and its hybrids have to continue to perform over next 2-3 years. You see Nuziveedu has been active here for more than 10 years. So has Ajeet. And Mahyco this is the origin.
 - 3). Different regions have different favourites - alternating among the top 3. Soil conditions play a big role.
 - 3). Drought situation though alarming is not of much consequence for cotton. This region is sugarcane belt. Last sugarcane crop suffered badly due to drought. It may affect the shift to soya. But cotton can do with very little showers.
 - 4). Total cotton acreage may reduce by 10% or so, not more - all over Maharashtra. Most due to shift to Soya in other regions, and some due to drought in Marathwada
 - 5). Good hybrids yield - in rain-fed areas 5-6 quintals per acre. in irrigated areas 10-12 quintals per acre
- Will be meeting Dealers/Distributors in Wardha & Yavatmal tomorrow. Any local contacts most welcome.

-Donald

Tomorrow is another great day ahead! Wish us luck:)

Cheers

Donald

Ps: incase you are wondering why all this...ambling...wonder...story-telling, etc. Just my attempt to get more ValuePickrs to fall for this kind of interesting but hard on-field work. It's so rewarding & fulfilling to meet great guys doing exemplary work in their own areas on the ground, their challenges, and their sagacity...their grounded-ness. If done with the right earnestness - I have always seen, this without fail, more & more people come out of nowhere to help you get to the bottom! It's almost surreal...as if You are not "doing" IT, IT's just Happening!

Wanna try, next time??



2nd day Report - 3 places - Waygaon, Yavatmal, Wardha

Super duper meetings. Very knowledgable people sparing almost 2 hours in each interaction. Great day of using incremental learning to better effect incrementally with the next person in the chain:). Special thanks again to Gaurav Chandak's contacts for Yavatmal. And Saurabh Shankar's contacts for Wardha/Waygaon.

10-pointers to understanding the BT Cotton Seeds game! (really?:))

- 1). By all estimates (consensus) - Maharashtra market is 1 Cr plus. best case 1.4 Cr, worst case atleast 1 Cr (even considering shrinking acreage, drought, soya shift, et al).
- 2). Vidharbha -45-50 Lakhs (yavatmal 15-18 L, Wardha 8-10 L, Amravati 7-8 L, Akola 7-8 L ; Khandesh 35 L (jalgaon itself 20-25 lakhs); Marathwada 25-30 L
- 3). Nuziveedu is No#1 in all 3 regions. Mallika is in demand. It ensures adequate supply. Ankur is very well placed in Wardha. Ajeet & Mahyco are in demand but supply has never been adequate. There has been shortage, which keeps up the craze for these two. There is actually little local sowing (local demand in Vidhrbha), but trading from other regions at higher than MRP happens. Dealers from here book Ajeeth & Mahyco - so they can sell to buyers from other regions - because the companies allocate only so much per region. These lead to other practices, black market, vigilance checks, and the like.
- 4). Kaveri has reportedly done pretty well in Jalgaon - Khandesh region. At other places it comes lower in priority. Feedback/performance is good, but company has not done enough field work, its felt. In Wardha region actually it has fallen back. 2 years back Jadoo & Jackpot did very well, farmers started asking for them, but next year there was not enough supply, margins were cut, so this year they are clearly not among top 4 in Wardha. In Yavatmal, it seems to be in the reckoning - they are also doing good field work - but foregroundswellto happen in someones favour it takes some more time before they become automatic choice - or a "craze" like Ajeet or Mahyco (deliberate shortage vs actual demand). Ajeet & MAhyco have preferred to play it safe rather than be willing to take on aggressive risks like Nuziveedu earlier and now Kaveri (who have the adequate financial muscle to handle fast scaling up, and bear it on the chin if say things go wrong). But Nuziveedu concentrates on field work - which involves - local demonstration, knowledge transfer, technology transfer. Kaveri is also doing it well in pockets. Ankur is very good in this aspect and service in Wardha. It has 15 people in the field - they actually meet 60-70% of the farmers in Wardha, attending to their needs, advising/correcting if things have gone wrong, etc.



From last four days , In daily NewspaperLokmatdata about cotton seeds bags is published forWardha district, the breakup for different seed companies is as follow,

Sr No	Name of Seed	No of Packet for Sale	% of Total Packet for Sale
1	Ajeet Seeds	52220	8.28
2	Ankur Seeds	375000	59.52%
3	Kaveri Seeds	68160	10.82%
4	Tulsi Seeds	41140	6.53%
5	Krushidhan Seeds	93400	14.82%
	Total	629940	100%

Now from above data its clear inWardhaDistrictAnkurSeeds is clear leader with almost60%of packet for sales of totalWardhaDistrictCotton seeds packetfor sales available.

Will try to come with same data for Yavatmal District Soon.

superior product.

>>This aspect needs more facts/data coming in. But I am sort of getting round to the widely held view of experts - on the ground there is not even a 5% yield difference between properly cultivated top hybrids. The game is all about good branding, staying relevant to the farmer's needs, "hammering" in your brand-positioning just prior/and during buying season (late April/May/June), so when the farmer ventures out to buy June 5-Jun30), your brand is in his mind-share.

When the farmer goes in to buy, he has his first-choice firm in his mind, and that's 50% of his requirement. And usually that's the region's favourite. like Nuziveedu in Adilabad, Jadoo in Guntur, Ankur in Hinganghat, Mahyco in Jalna,etc. You can't really do much about that, can you. But there is the balance 50% - don't forget that. If you have done your band-baaza well (like Nuziveedu does) then you can be the automatic 2nd or 3rd choice. Since the farmer knows he cannot put all his eggs in one basket, he has to try another top hybrid, or a new one promising better results for something that's a bother right now like say - the sucking pest is. The farmer usually plants 2-3 hybrids alongside. If the new second choice performs as good, then it has a chance of getting entrenched (like Jadoo has done in AP, but not yet managed the same in Maharashtra, they are like a 4th choice there).

**

>>There, you are bang on. No cost advantage for a Jadoo farmer due to easy plucking, that's right. But labour may prefer to work first on a Jadoo farm for faster turnaround!

3) 60% AP. **

>> Aa...not so fast. It's not that they cant grow outside AP, that's not the conclusion we are reaching. The conclusion is they have a home advantage and many more years/relationships on the ground in AP, so they can exploit that advantage better in AP. In Maharshtra they have a good name for the last 2-3 years presence, need to do more grass-root work for another couple of years before they can become a significant player (a 3rd choice maybe vs the entrenched Nuziveedu across regions, and the Mahyco/Ajeet and Ankur's



From Team Hyderabad.

We spoke to couple of distributors in AP last few days . Based on that interaction with them and again we cross checked that statements with others , we can conclude that this year too kaveri guys did extremely good job .

"Pardafash" - The reality of BT cotton markets in India

Tall claims this, but suddenly felt like -everything has fallen into place - we now have all the pieces of the information maze, just need to put the puzzle together piece by piece- needs more work for sure, but its doable!!

1. Continuing the theme of no real difference between top Hybrids. End of the day, all this talk of performance, yield, quality boils down to a 3x3 matrix - hybrids suited for 3 kinds of crop durations, for 3 diff soil conditions. Period - Nothing more, nothing less.RevelationNo#1.

Crop duration	Water Needs	Characteristic	Yield	Soil Condition	Characteristic
Early	Rain-fed	Early flowering, ball size less, refleshing chars are less	Low 6-8 quintals/acre	Loose Medium	
Medium	Rain-fed+irrigation (wells)	Med	8-10 quintals/acre	Medium	
Long	Rain-fed+irrigation+drip irrigation (or other mechanism that ensures water availability)	Ball size big; Reflesh Yield is high; even 30-40% of first	High 15-20-22 quintals/acre	Heavy Black Soil	Good for the crop; can hold & retain water; can work the other way if too much rain

Given proper farmer know-how, fertiliser & pesticide spend, inter-culture/de-weeding - the key factor is then the soil condition vs water availability (first rain-fed)/ (and then) resources of the farmer to ensure the longer duration of water availability for his cotton acreage.

All top hybrids in these conditions will produce similar results. There is no big magic factor in any. Mallika 207, Ankur 216, Ajith 155, Mahyco 7351, Jadoo/Jackpot, or Monsanto Brahma - all produce similar results for the knowledgable, willing to work-hard, willing-to-spend more farmer. Plus one trait or minus another trait, it boils down to 19-20 ka farak only. And top 5 companies have hybridssuitable for each type of crop/soil-condition.

Collaborations touch new heights - Ambika Cotton



deepender Deepender Singla Deepender Singla

Apr 10

Hello

I made some research on certification mentioned on website:

"Supima" is the trademark name used to promote and market textile and apparel products made with 100% American Pima cotton.

They have Supima certificate <http://www.supima.com/get-licensed/> 4, a lot of licencees

Some other textiles which I was able to found having this certification are:

- 1) GTN textiles <http://gtntextiles.com/homepage.html>
- 2) Bharat Vijay Mills <http://www.bvm.in/ChildPage/HomePage.aspx>
- 3) Bannari Amman Spinning Mills Ltd. <https://www.screener.in/company/?q=532674>

Supina website don't give full list so there are definitely other also in india.

The second certificate which they have mentioned is:

GOTS Certificate from Control Union Anyone can search using GOTS database search <http://www.global-standard.org/public-database/search/database/search.html> 2.

Strangely but i didn't found Ambika Cotton name in any of the list. May be the certificate sis not updated for this year. (Please can anyone confirm this? I might have missed something)

The third certification which they have:

Oeko-Tex Certificate of Standard 100 Product Class I https://www.oeko-tex.com/en/manufacturers/certified_products/certified_products.html 1

https://www.oeko-tex.com/en/manufacturers/certified_products/certified_products.html 1 (give you list of all comapnies and they are many (a lot from Bangladesh)



Vivek_6954 Vivek Gautam Vivek Gautam

Apr 26

Seems Ambika cotton is good story to hold for long term.Based on my little bit of homework some facts about the co

- 1) Promoter is a first gen Kerala Nair Entrepreneur with good execution track record and growth mindset.Its rare to find Kerala entrepreneur specially non syrian catholic and Non NRI.Has 2 daughters who are both on board and taking active interest in cos,Son in laws in separate business of their own
- 2) He started as a distributor of yarn from NTC and later ventured into manufacturing.Deliberately not chose Kerala due to its union problem
- 3) Chandran seems like our venerable SK Poddar of Mayur in many aspects.Both are in 60s yet very fit ,Ethical first gen,workaholics putting in long hours ,both started as distributors hence understanding the industry like back of their hands.Both love tinkering with machines and able to get much better output.
- 4) Chandran puts in long hours at plant based in Dindigul and has over the years developed some sort of patented solution over the machines giving much better output.
- 5) Like SKP used TUFS loans heavily and now repaid them to make it a zero debt co
- 6) Most of its yarn is used in top notch shirting cos based in Japan via a circuitous route of China for fabric to Vietnam for stitcking and thence to Japan and Europe as premium shirting.
- 7) First he gets advance and only then makes the yarn enjoying great demand and pricing power.70% turnover from exports.
- 8) Imports all its RM from Egypt & US
- 9) Captive power through use of wind mills which were the main capex from his side post 2007.No capex in spinning mills since 2007
- 10) Power situation expected to improve in TN post PGCIL new lines which may lead to better margins along with zero interest cost now



1) Compact spinning is becoming a defacto standard for Shirting (80% of compact spinning is used for Shirting Yarn) but premium is going down as it is becoming de facto standard ... In shirting people will perish if they don't have compacting but possibly the premium won't be there in future just for quality alone. He said five years back the premium was 5% and now it is less than 1%.

(Possibly a very plausible reason why Ambika margin down and stabilized over the years)

2) This year Yarn export to China gone down substantially and situation may remain like this for year or two.

3) Compact Spinning are two types .. a) Apron Drafting and b) Perforated Drum Drafting. Rieter / Suessen caters to both segments but complete Rieter solution comes in Perforated Drum (Steel) solution. Apron type solution (cheaper by 20%) needs regular maintenance and change of apron every 9 - 12 months increasing downtime. Energy saving, low downtime as low regular maintenance needed, higher uptime due to machine starting at 85% speed level (50% for Apron) and lower doffing time (150 sec vs. 180+ sec) are key benefits of using Compact Spinning apart from the shinier look, less hairiness, lower fly generation while knitting etc. Also it can withstand many subsequent chemical treatments.

4) Compact can be retrofitted to old ring spinners assembly effectively. As was done in Nitin Spinners.

5) Trouser and Hosiery fabric makers and gradually using compact machine where they use higher TM yarns Compacting reduces softness which are needed in hosiery and bed linen and their adoption is restricted to where softness of end product is not a criteria (like mattress cover). Airjet or Rotor Spinners are best suited in these situations.

6) Quality is a function of three things a) Technology, b) Raw Material and c) Skill of Operator. He said skill of operator is the single most factor affecting yarn quality than technology and raw material.

7) According to him shirting yarn quality wise top three players are a) Vardhman Textiles, b) Thiagarajar Mills and c) Premier Textiles.



Donald and other members:

I have tracked Cotton and yarn industry during 1997-2003 period. Probably one of the few analyst tracking that sector at that time. Find enclosed my view on Ambika:



@Donald

Pasting some comps data -

- Sales, EBITDA & PAT CAGR over last 5 years

	5 Year CAGR (F09-F14)		
	Sales	EBITDA	PAT
Ambika	22%	15%	22%
Nitin	13%	29%	L TO P
Precot	14%	26%	L TO P
Gini	16%	107%	L to P
Ches	17%	L to P	L to P

- EBITDA margins and cost head comparison

EBITDA, %	FY09A	FY10A	FY11A	FY12A	FY13A	FY14A
Ambika	23%	23%	29%	20%	22%	17%
Nitin	10%	11%	18%	11%	20%	19%
Precot	7%	15%	14%	-4%	11%	11%
Gini	1%	12%	12%	-1%	13%	14%
Ches	-13%	12%	17%	0%	12%	8%

RM/Sales	FY09A	FY10A	FY11A	FY12A	FY13A	FY14A
Ambika	54%	56%	53%	61%	59%	62%
Nitin	63%	62%	61%	69%	59%	61%
Precot	53%	49%	52%	71%	52%	54%
Gini	79%	75%	63%	73%	59%	58%
Ches	66%	57%	58%	71%	58%	64%

Power & Fuel, % of sales	FY09A	FY10A	FY11A	FY12A	FY13A	FY14A
Ambika	8%	8%	6%	4%	5%	5%
Nitin	13%	13%	9%	9%	9%	7%
Precot	12%	11%	11%	10%	13%	12%
Gini	8%	7%	6%	7%	9%	8%
Ches	16%	14%	11%	12%	14%	11%

Employee cost, % of sales	FY09A	FY10A	FY11A	FY12A	FY13A	FY14A
Ambika	6%	5%	5%	5%	5%	5%
Nitin	4%	4%	4%	4%	4%	5.0%

In Indian context, Jayalaxmi is the longest staple cotton which can spin yarn of around 80s counts. In case, we need to spin yarn 100s+, we have to import cotton from US (Pima) or Egypt (Giza). Egyptian Giza has superior staple length and can spun as high as 160-180s count.



Naman Naman

Below is data compiled on revenue, EBITDA and net profit per spindle...which insig quote reply

Would love to hear views from everyone on the implication of the data

Sales per spindle (INR)					
Company name	31-Mar-10	31-Mar-11	31-Mar-12	31-Mar-13	31-Mar-14
Ambika Cotton	20,309	29,784	35,508	36,229	43,421
Rajapalayam Mills	23,142	26,917	28,142	28,460	34,081
Sree Satyanarayana Mill	-	-	10,803	13,233	15,778
Sree Akkamamba Textil	-	-	-	13,918	14,955
Nitin Spinners	38,781	52,953	55,182	57,469	62,917

EBITDA per spindle (INR)					
Company name	31-Mar-10	31-Mar-11	31-Mar-12	31-Mar-13	31-Mar-14
Ambika Cotton	5,341	8,906	7,173	7,913	9,406
Rajapalayam Mills	6,083	7,908	5,007	7,023	7,586
Sree Satyanarayana Mill	-	-	1,104	2,708	3,362
Sree Akkamamba Textil	-	-	-	2,191	2,583
Nitin Spinners	4,458	9,789	5,818	11,273	12,104

Net Profit per spindle (INR)					
Company name	31-Mar-10	31-Mar-11	31-Mar-12	31-Mar-13	31-Mar-14
Ambika Cotton	1,687	3,925	2,173	2,820	4,369
Rajapalayam Mills	965	2,136	104	1,890	2,059
Sree Satyanarayana Mill	-	-	251	1,367	2,084
Sree Akkamamba Textil	-	-	-	142	392
Nitin Spinners	86	868	39	1,822	4,481

Number of Spindles					
Company name	31-Mar-10	31-Mar-11	31-Mar-12	31-Mar-13	31-Mar-14
Ambika Cotton	109,872	109,872	109,872	109,872	109,872
Rajapalayam Mills	121,856	125,792	125,792	125,792	129,104
Sree Satyanarayana Mill	-	-	39,296	39,296	39,296
Sree Akkamamba Textil	-	-	-	87,358	86,000



Naman Naman

1 May 10

@Donald thanks a lot for providing us with a thorough coverage..this is extremely helpful....I spoke to a credit analyst who has been covering the textile spinning sector for over 4 years...he provided me the following insights that are in line with your findings (some info may be repetitive from earlier posts, but have provided them for comparison).

What is borderline for finer count - 40s

What is minimum economy of scale needed?

- 25000 spindles is minimum, however recently some of these have also started going out of business
- ~40,000 - 50,000 spindles as per him would be the new minimum scale needed to sustain going forward

What is capex per spindle?

- Rs 40,000 per spindle
- So for 25,000 spindles, 100 crore would be required
- Generally financed through 80% debt and 20% equity (high incentive under TUFS)

For finer counts – can blend use 20% ELS and 80% normal staple or all ELS?

- For finer counts almost all would be ELS, atleast more than 50%

What is the typical product mix for specialty yarn guys like Ambika? How much of finer counts and how much of lower counts?

- In the North - most players would have only 20 - 25% finer count, as they use polyester also (Nahar, Vardhman would have very high number of spindles, but <20% would be finer count)
- North average is 26 - 32s count
- Southern players - 75% would be doing finer count of (>40s average)

Why aren't many players moving towards specialty yarn if it has higher margins? What about the larger players?

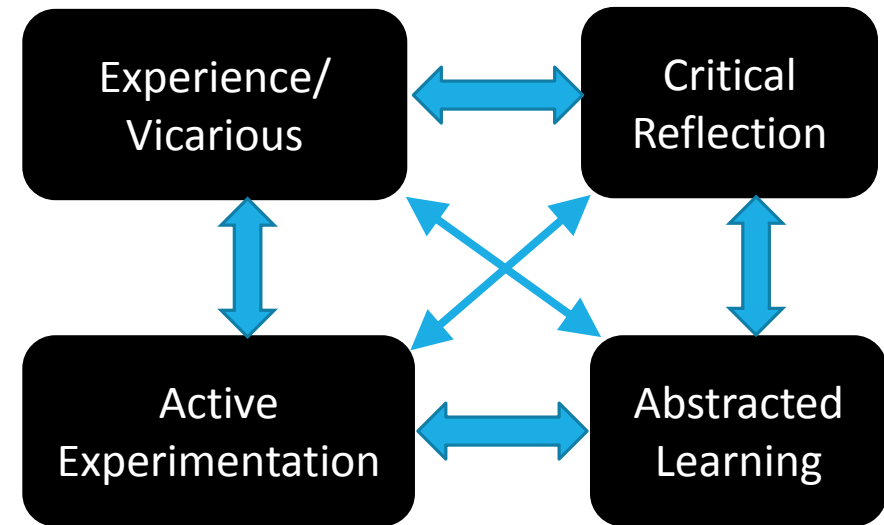
- Lower count is very easy to sell (very price sensitive - can sell all the stock for 1 or 2 Rs lower than market price)
- Higher count market is small, and companies have established suppliers such as Ambika which has a loyal customer list
- Higher count segment not growing very rapidly, so larger players have diversified into various yarn
- Every large player is present in higher count - but would have ~20 - 25% higher count capacity

Abstracted Practical Learnings 2010-2015

- ✓ Must Have Patterns

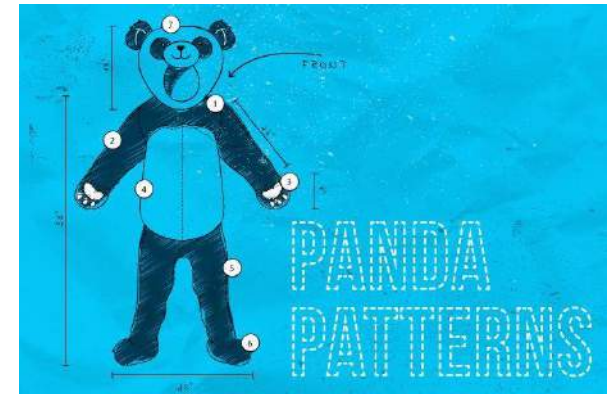
screener

- ✓ Most Exciting Patterns
- ✓ Capital Allocation
- ✓ Management Quality Insights
- ✓ Business Quality Insights
- ✓ How not to quit your Winners?
- ✓ Best Business to Invest in?
- ✓ Can you keep paying up as Business gets Stronger?



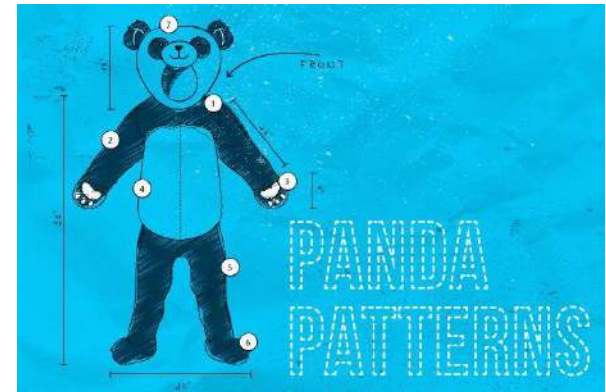
Must Have - Patterns

- ✓ Characteristics without which we will not invest
 - ✓ Decent opportunity size – with minimum 5-10 year visible runway
 - ✓ Difficult to dislodge – Strategic Assets/Business Architecture
 - ✓ High Predictability (less number of variables)
 - ✓ Visible Gap between Performance & Perception (in- built in Valuation)



Most Excited by - Patterns

- ✓ “Patterns” that will have us excited/jumping to investigate
 - ✓ **Steady Growth** + 3-5 Year Improving Margins/Capital Turns/Debt/Working Capital (and/or)
 - ✓ Domination of a Niche + **Industry beating Returns/EPA** - margins/capital turns, or both
 - ✓ Global Oligopoly + Premium Customers + backed by proven unmatched **High Efficiency**
 - ✓ Must Haves + **Large Capex** plans/done/sewn up
- ✓ Height of Conviction
 - ✓ Must Have + Strong Patterns + Multiple Optionalities + **Disproportionate future**



Capital Allocation – VP Turning Point

Mr D asked me "Suppose you had 5 good picks. How would you allocate your money among them? I suppose today you do it randomly, or roughly equally"?

I was stumped and had to admit I was doing it pretty randomly. So I asked him "How would you do it Mr D"?
He said, see if you like my method:

Undervaluation	Conviction	Allocation
High	High	Highest
Medium	High	Normal
High	Medium	Normal
Medium	Medium	Nibbling

And he added I refer to "Undervalued" here from a sheer/absolute undervaluation perspective - not relative to historicals, market or industry peers! Similarly "Conviction" is your conviction in the business - the level of homework/research and understanding of the business or company you have achieved, not whether everyone agrees!

This resonated with me immediately! It was a big jump up my learning curve, just having this framework with me - simple, elegant, easily transferable :)

Simple, Most Powerful construct for : BUYING, SELLING, AVOIDING RISKS

Management Quality Insights

Quality Management – Numbers tell a story – but we crave for 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 the 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 – Strategic Assets/Business Architecture

Management Quality Insights

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

Shilpa Medicare - Business Architecture

Strategic Assets		Distinctive Architecture		
<ul style="list-style-type: none"> ↗ 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 yrs 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 		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		
Disproportionate Future?		New Products/ Innovation/ Branding	↗ 2017 - blockbuster gains expected	
↗ Only Indian Oncology player penetrated Japan Market; China Market - opening up - 3-5 years			↗ 9 out of top 20 Oncology molecules going off-patent 2015 onwards	
↗ 2020 onwards - Formulations play in US			↗ Non-Infringing DMFs/ Large infrastructure investments - Core capability - for attracting Large customer	
			↗ Helps corner large share of off-patent API supply (50% Gemcitabine, Capecitabine)	
What can go wrong?	Mitigation?			
↘ Raichur API - May 2013 USFDA 483 observations -escalating to Alert/Ban	Inspection over; Report awaited	↗ Very strong win-win competitive positioning - earned the respect of peers		
↘ 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			

Shilpa Medicare - Business Quality - Snapshot

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:	<i>Competitive Intensity? Industry Growth rates?</i>			Fewer players; Highly capital Intensive game, High Entry barriers			
	Opportunity Size:	<i>How big is the runway? How many years out?</i>			Oncology - fastest growing sector in Pharma; Big markets - China/India/US/EU - many many years out			
	Capital Allocation:	<i>Able to invest large Capital at high ROIC?</i>			Very long term large investments - lumpy RoIC pattern - big jumps in blockbuster years			
	Predictability:	<i>How many variables in the Business?</i>			Protected Investments - upfront contracted business nature with big pharma; 80% of development costs/exhibit batches paid for by Customers;			
	Sustainability:	<i>How hard is it to dislodge from its perch?</i>			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			
	Disproportionate Future:	<i>Building blocks in place for disproportionate future? Do multiple Optionalities exist?</i>			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:	<i>Is the company likely to grow efficiently & emerge stronger in next 2-3 years?</i>			2017 - expected next blockbuster year - possible leading share - innovator patents expiring			
	Key Monitorables:	<i>Next 2-3 years – what are the key monitorables, key health indicators?</i>			1. USFDA Approval timeline for Formulations facility - More customers might shift on delays 2. 2017 Market share possibilities			
	Near Term Visibility:	<i>Next 2-3 years – how strong is the visibility?</i>			Strong 30-35% CAGR visibility with multiple triggers			
	Long Term Visibility:	<i>5-10 years on - how likely to survive & prosper?</i>			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:	<i>Laborious? Or Disproportionate Smarts?</i>			Good business with demonstrated Disproportionate Smarts: Category A++			
	Business Transition Track Record:	<i>Managed significant business transition to its advantage? What impresses most?</i>			High Growth with reducing debt; reduction in working capital requirements			
	Performance vs Perception GAP:	<i>Current P/E or Perception captures business quality/performance? How big is the GAP?</i>			CMP: 946 20/03/2015	Trailing PE: 44x	Stable PE Range : 25-30x	Perception/Expectation running ahead of business quality/performance

Learning to ride our Winners well

Stage	Life-Cycle stages for a quality small business	Recommended Action
0	Without doubt - Corporate Actions like Increased Dividends and liquidity enhancing measures like Stock Splits/Bonuses unlock Value Creation opportunities (<i>Guru Buffett's comments need to be seen in the context of mature discovered businesses</i>)	DO NOT UNDERESTIMATE THE POWER OF
1	Value gets created by normal business performance - 25% CAGR business performance over 2-3 years usually translates into 25% Stock Performance or doubling within 3 years	KEEP FAITH; WAIT FOR CORPORATE ACTIONS
2	Corporate Actions - increased Dividends, Stock Split and/or Bonus follows. This usually takes upwards of 2 years for the first concrete actions on this front, from a small business (as it gets more confident)	WAIT FOR THE FIRST FI's PARTICIPATION; DO NOT EXIT
3	Continues stellar business performance. Some more Value Creation - repeat bonus or splits create more liquidity. Some more FIs participate. This can happen within a year of 2 above	TIME TO BASK; CHECK VALUATIONS - CAPTURING HOW MANY YEARS OF GROWTH? BOOK PARTIAL PROFITS
4	Business continues to grow at 20-25%; Business is well-discovered; Mr Market starts discounting 5-10 years into the future; Valuations exceed fair/potential PE Bands	DO NOT FULLY EXIT; REMAIN PARTIALLY INVESTED; WHO KNOWS:)
5	Quality well-discovered businesses usually Time-Correct; as long as MUST-HAVE patterns are present and business continues to grow at 20-25% CAGR	STAY INVESTED; BE HAPPY TO LEAVE SOME ON THE TABLE



Learning to keep paying up as our business got stronger!!

Performing Business	FY11		FY12		FY13		FY14		VP Business Category	Stable P/E
	Growth	P/E*	Growth	P/E*	Growth	P/E*	Growth	P/E*		
Mayur	56%	4.63	32%	5.84	31%	8.86	30%	14.79	A	20-25
Astral	20%	9.09	18%	9.91	50%	10.99	30%	18.94	A	20-25
Ajanta	43%	5.31	52%	5.86	118%	9.23	39%	12.04	A+	25-30
Poly Medicure	32%	11.19	-11%	15.40	25%	14.92	79%	27.11	A+	25-30
PI Industries	57%	8.04	57%	12.21	-4%	14.47	91%	13.51	A+	25-30
Shilpa Medicare	11%	13.16	-22%	13.42	16%	14.49	76%	17.98	A++	30-35
Avanti Feeds	-385%	7.00	721%	2.30	8%	3.70	131%	3.07	B+	15-20

* Yearly Avg P/E based on monthly average P/E - screener.in

Best Businesses to Invest In?

FY14	Ajanta	Mayur	Astral
Sales (Cr)	1109.92	469.61	1072.8
EBITDA Margin	32.73%	20.22%	14.28%
Invested Capital (Cr)	569.3	187.14	398.17
Capital Turnover	1.95	2.51	2.69
EBIT/Invested Capital	47.61%	36.40%	32.40%
Tax Rate	29.45%	32.11%	23.84%
RoIC	45.01%	34.45%	29.30%
WACC	13%	13%	13%
EPA*	182.26	40.15	64.91
EPA/Sales	16.42%	8.55%	6.05%

EPA = Invested Capital *(RoIC –WACC)

*Warren Buffett -
The ideal business is one that generates very high returns on capital and can invest that capital back into the business at equally high rates*

[jk321JatinK](#)Jatin Kalra

[Aug '14](#)

Hi Donald & others,
After all the discussion here, we concluded that Ajanta, Kaveri and Poly are better business than Mayur, Astral and Atul Auto.
However, look at the prices now. Market is valuing Mayur, Astral & Atul Auto a lot higher on PE multiple than Ajanta, Kaveri and Poly.
Why is that? Is it being irrational now? Or we wrong in our conclusions?

Challenges for VP: 2015 - 2020

- ✓ Protect our Reputation
- ✓ Enhance Transparency & Accountability
- ✓ Explode the Collaborative Model
- ✓ Stay on the Right side of Law/Regulations
- ✓ Make a REAL IMPACT
- ✓ Move from offering free Advise to offering an Investment Vehicle



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