



Cyclical Stock Investing Strategies

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For educational purposes. This presentation does not constitute Investment advise and is merely an effort towards enhancing learning and knowledge.

Disclosures

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- These stocks are not recommendations from Aurum Capital or Jiten Parmar
- Some of these stocks may have been recommended to our clients and Jiten Parmar may hold some of these.
- This presentation is only for educational purpose and does not constitute investment advice.



Evaluation

- Triggers show up. Identify the sector/commodity behind the triggers
- Study the past cycles
- Study production data, supply/demand
- Check for capacity utilizations
- Check for capex (when many companies announce, great signal to relook/exit)
- Check the margins

Evaluation

- If agri-based, study crop pattern nationally/internationally
- Check on crop failure/deficient monsoon
- Check whether prices are domestically or internationally controlled
- Check if export/import possible in the commodity
- Check for anti-dumping duty
- Check if there is Government intervention/control
- Check international prices

Process of selecting/buying

- ✓ Prepare a list of the stocks with the theme (about 10)
- ✓ Shortlist to 4/5 plays. Use basket approach in investing.
- ✓ Check if companies will survive another couple of years downturn.
- ✓ Wait for some companies to go bust or close down some plants. Buy after that.
- ✓ Start initial buying at highest pessimism levels.
- ✓ As cycle starts turning add.

Process of selecting/buying

- ✓ Check insider buying/selling
- ✓ Don't look at PE
- ✓ Price to book/replacement cost are better parameters
- ✓ Check if company has cash/manageable debt

Some Rules I follow

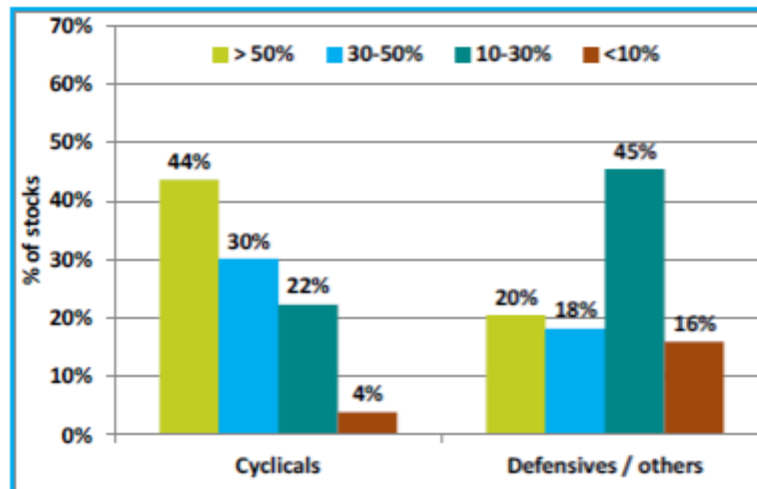
- Always make positional plays.
- These should never be 5-10 year plays
- Patience - Be ready to hold for a couple of years. One may add in that period
- Make sure portfolio allocation is adhered to.
- Never go more than 25% of your portfolio in a single commodity
- Do not change narrative, just to hold on the sector/stock.

An interesting analogy

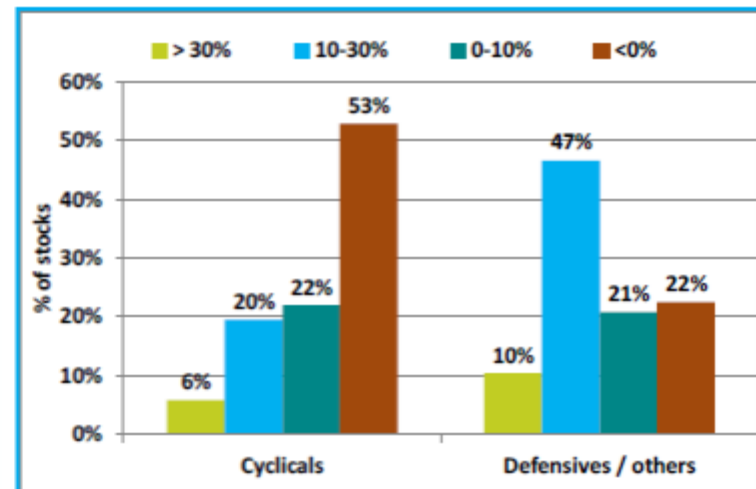
Cyclical/Commodity plays are like going to a pub. Enter during happy hours and leave at midnight when party is in full swing. Even if u stay late, be near the door, or you might end up paying the bill for others too.

Higher risk, higher returns

BUSINESS CYCLE UP-TURN
CAGR (31-Dec-03 to 31-Dec-07)

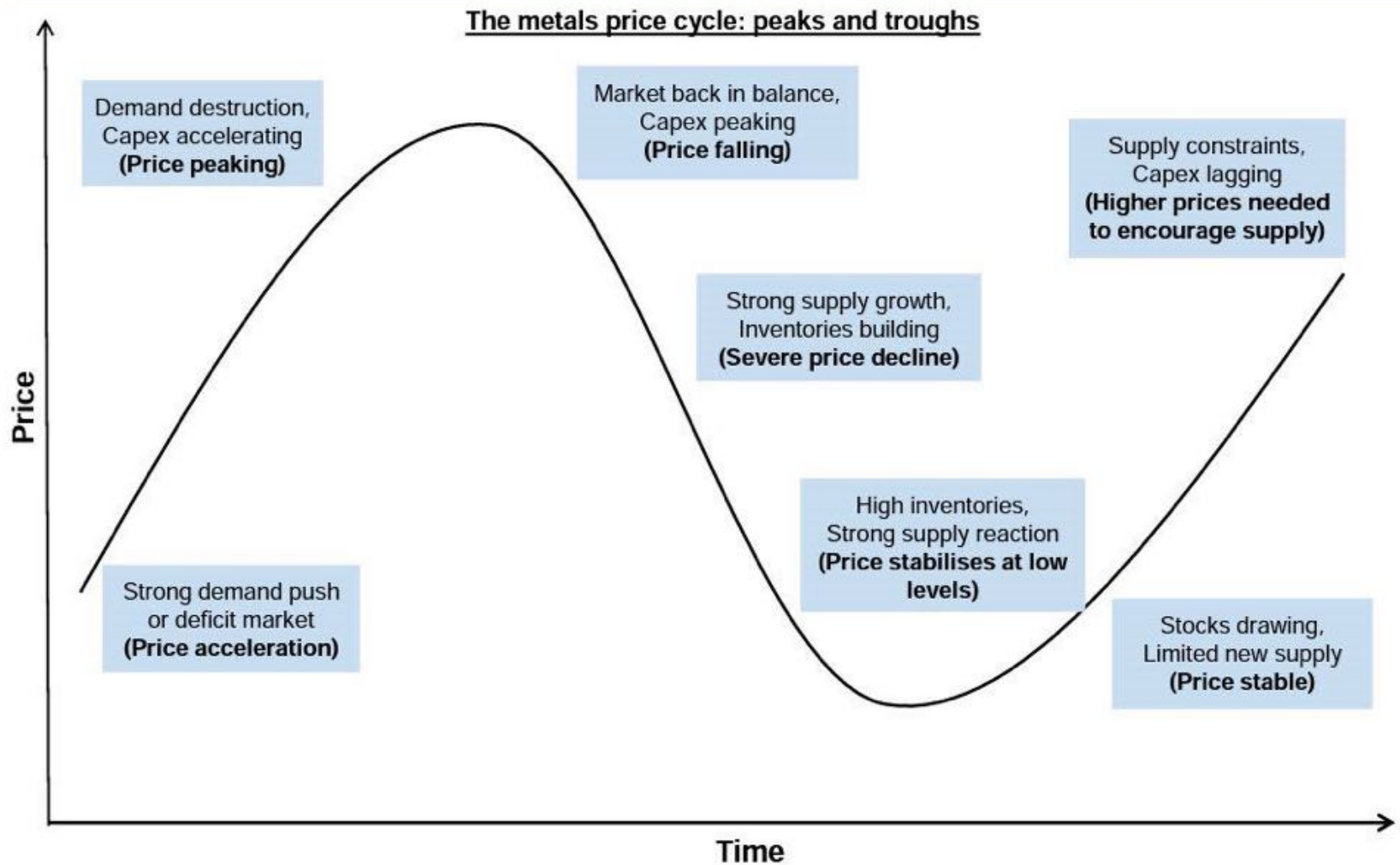


BUSINESS CYCLE DOWN-TURN
CAGR (31-Dec-07 to 31-Dec-13)



- Approx 3/4th of cyclical stocks delivered annualized return of more than 30% during business cycle up-turn as against only 38% of defensive and other stocks delivering CAGR in excess of 30%
- In contrast, during business cycle downturn, only 1/4th of cyclical stocks delivered annualized return of over 10% whereas 57% of defensive and other stocks managed to grow by CAGR of more than 10%

THE COMMODITY PRICE CYCLE: PEAKS & TROUGHS (BOOM & BUST)



Source: Manulife Asset Management, SG Cross Asset Research /Commodities

Observations/Quotes

- ✓ There are different strategies in investing. And each may have its merits. Choose the one that works for you.
- ✓ Successful Investor trait – remove bias, rigidity.
- ✓ When good times come, make it count.
- ✓ Many investors keep watching the index, watch the stocks instead.
- ✓ Good stock at bad price may underperform bad stock at good price.
- ✓ Investing is more of an art, than science.
- ✓ Temperament is the most important quality of a good investor.

Observations/Quotes

- ✓ Understand your limitations, and work to your strengths.
- ✓ The longer the downcycle, the bigger the return in upcycle.
- ✓ Never stay till the end. Start de-boarding the train much before the last stop. As train may start going in reverse direction, and at greater speed than in forward direction.
- ✓ Quicker the rise in commodity price, shorter the cycle

Some Sample Baskets

- ✓ Sugar – Dwarikesh, Dhampur, Triveni, Ugar, Rajshree
- ✓ Paper – Kuantum Papers, Star Paper, West Coast Paper, BILT
- ✓ Cement – Deccan Cem, NCL, Saurashtra Cem, Shree Digvijay, Andhra Cem
- ✓ Metals/Mining – Vedanta, Tata Steel, MOIL, NMDC, NALCO, Prakash, GPIL, Hind Copper
- ✓ Polyfilms – Cosmo Films, Polyplex, Uflex
- ✓ Fertilizers/Agro – Bharat Rasayan, Chambal, Coromandel

* Education purpose only. Some of them may not be relevant now as cycle could have played out.

Examples of Triggers

- ✓ Sugar – 2 years of monsoon failure in India and failed Brazil crop in 2015.
- ✓ Paper – Largest producer BILT plants closing down.
- ✓ Fertilizers – A good monsoon after 2 failed years.
- ✓ Polyfilms – Increasing delta in RM and finished product.

Examples of Triggers

- ✓ Chemicals - China measures for pollution control and closing of many units, ADD (anti-dumping duty).
- ✓ Metals/mining - Chinese plants started closing down due to pollution. Copper, no additional supply. For Steel - MSP (minimum support price), infra focus.
- ✓ Infra - levy of infra cess, government focus on Infra, 8 years of downturn.

Why this is different ?

- One ends up buying when ratios are bad – EBITDA margins, ROE's are down. Company might be in loss.
- One sells when these show sharp uptick and company becomes highly profitable.
- Buy, let's say, when PE is 60 (or -ve) and sell when it is 6.
- Buy when sector is completely neglected and sell when it is hot.
- Buy when no one is covering the stock and sell when many buy reports come.
- Basically, a contrarian approach is required.

Examples

Star Paper Mills

Charts

Analysis

Peers

Quarters

Profit & Loss

Balance Sheet

Cash Flow

Reports

Annual Results Standalone Figures in Rs. Crores / [View Consolidated](#)

	Mar 2006	Sep 2007	Mar 2009	Mar 2010	Mar 2011	Mar 2012	Mar 2013	Mar 2014	Mar 2015	Mar 2016	Mar 2017	TTM
Sales	187.91	317.16	360.21	251.27	259.59	228.27	272.93	275.01	271.30	272.45	324.12	339.39
Expenses	162.80	290.23	322.39	240.22	271.21	266.97	289.55	286.59	256.51	245.83	253.14	266.74
Operating Profit	25.11	26.93	37.82	11.05	-11.62	-38.70	-16.62	-11.58	14.79	26.62	70.98	72.65
OPM	13.36%	8.49%	10.50%	4.40%	-4.48%	-16.95%	-6.09%	-4.21%	5.45%	9.77%	21.90%	21.43%
Other Income	4.47	20.49	13.20	10.72	9.97	11.00	0.90	1.12	0.94	0.93	1.51	3.91
Interest	6.04	11.61	10.02	3.20	1.67	3.23	4.56	4.57	3.36	2.55	1.27	1.14
Depreciation	8.94	16.12	17.79	11.95	11.76	11.47	11.26	11.09	4.86	4.25	4.12	3.77
Profit before tax	14.60	19.69	23.21	6.62	-15.08	-42.40	-31.56	-26.11	7.51	20.74	67.10	71.65
Tax	5.32	6.99	5.98	-1.72	-4.93	0.00	-2.01	-4.02	-8.03	4.24	7.15	13.09
Net Profit	9.28	12.70	17.23	8.34	-10.15	-42.40	-29.55	-22.08	15.54	16.50	59.94	58.59
EPS (unadj)	5.70	5.23	7.19	5.21	0.00	0.00	0.00	0.00	9.96	10.57	38.40	
Dividend Payout	29.44%	21.51%	13.59%	14.04%	-7.69%	0.00%	0.00%	0.00%	0.00%	0.00%	5.21%	%

Annual Results

Consolidated Figures in Rs. Crores / [View Standalone](#)

	Mar 2006	Mar 2007	Mar 2008	Mar 2009	Mar 2010	Mar 2011	Mar 2012	Mar 2013	Mar 2014	Mar 2015	Mar 2016	Mar 2017	TTM
Sales	531.45	767.69	1,001.28	1,120.63	1,218.01	2,433.32	2,425.93	2,534.86	3,172.23	3,204.16	3,202.04	3,207.67	3423.02
Expenses	446.39	675.06	835.33	886.06	999.31	1,542.90	2,056.99	2,347.27	3,080.36	2,967.76	2,848.77	2,759.53	2981.29
Operating Profit	85.06	92.63	165.95	234.57	218.70	890.42	368.94	187.59	91.87	236.40	353.27	448.14	441.73
OPM	16.01%	12.07%	16.57%	20.93%	17.96%	36.59%	15.21%	7.40%	2.90%	7.38%	11.03%	13.97%	12.82%
Other Income	12.27	11.61	11.66	22.11	24.87	656.08	54.70	63.40	37.07	117.91	-32.08	153.04	55.25
Interest	13.18	21.21	21.14	36.78	27.36	47.34	33.84	32.34	53.99	55.88	48.08	35.42	31.73
Depreciation	26.53	34.96	38.65	54.02	59.88	83.87	201.61	149.95	191.52	215.76	208.96	202.16	197.40
Profit before tax	57.62	48.07	117.82	165.88	156.33	1,415.29	188.20	68.71	-116.56	82.69	64.16	363.58	267.13
Tax	1.07	3.49	5.08	11.86	19.00	78.75	-19.89	2.41	-64.53	4.94	47.91	12.46	24.50
Net Profit	38.22	31.90	82.38	110.41	93.98	1,055.57	93.98	21.23	-6.83	37.95	29.04	221.44	215.00
EPS (unadj)	24.57	20.31	48.73	65.49	55.44	322.59	28.22	6.52	0.00	11.57	8.92	68.00	
Dividend Payout	16.58%	19.86%	12.52%	10.90%	14.63%	4.09%	14.12%	46.89%	-97.16%	21.86%	34.28%	10.49%	%

Annual Results

Consolidated Figures in Rs. Crores / [View Standalone](#)

	Mar 2006	Mar 2007	Mar 2008	Mar 2009	Mar 2010	Mar 2011	Mar 2012	Mar 2013	Mar 2014	Mar 2015	Mar 2016	Mar 2017	TTM
Sales	424.11	535.61	585.16	632.69	959.67	1,135.03	1,136.18	1,265.62	1,468.36	1,646.78	1,620.62	1,586.52	1847.47
Expenses	369.39	467.56	496.55	554.46	867.55	1,043.57	1,051.38	1,184.13	1,388.39	1,542.42	1,436.26	1,430.95	1712.10
Operating Profit	54.72	68.05	88.61	78.23	92.12	91.46	84.80	81.49	79.97	104.36	184.36	155.57	135.37
OPM	12.90%	12.71%	15.14%	12.36%	9.60%	8.06%	7.46%	6.44%	5.45%	6.34%	11.38%	9.81%	7.34%
Other Income	3.99	5.26	11.60	5.13	45.66	9.74	18.34	8.00	6.77	8.28	5.54	9.21	30.27
Interest	13.19	17.45	14.88	18.07	21.25	26.30	28.46	29.01	43.22	39.88	30.18	30.29	40.10
Depreciation	30.35	25.88	25.31	-23.72	33.86	34.39	35.91	38.81	45.32	34.54	35.68	39.69	49.16
Profit before tax	16.82	31.51	60.55	94.05	82.97	40.51	38.77	21.67	-1.80	38.22	124.04	94.80	76.38
Tax	3.86	5.68	16.37	19.95	15.28	9.52	8.59	10.34	3.70	10.56	27.80	5.95	8.87
Net Profit	12.96	25.83	44.18	74.10	63.48	34.76	31.52	11.33	-5.50	27.66	96.24	88.85	67.51
EPS (unadj)	6.08	12.73	21.76	37.27	31.83	17.07	15.40	5.40	0.00	13.52	47.47	45.70	
Dividend Payout	60.00%	30.10%	22.00%	13.12%	15.31%	27.96%	30.84%	42.90%	-35.35%	24.60%	20.20%	21.88%	%

Annual Results

Standalone Figures in Rs. Crores / [View Consolidated](#)

	Mar 2006	Mar 2007	Mar 2008	Mar 2009	Mar 2010	Mar 2011	Mar 2012	Mar 2013	Mar 2014	Mar 2015	Mar 2016	Mar 2017	TTM
Sales	329.75	414.31	967.36	1,281.80	969.39	1,139.97	899.58	967.12	1,021.28	823.25	634.60	989.84	1178.63
Expenses	NaN	236.73	277.31	379.60	373.59	381.21	475.40	542.43	531.53	455.49	564.03	691.58	696.34
Operating Profit	NaN	177.58	690.05	902.20	595.80	758.76	424.18	424.69	489.75	367.76	70.57	298.26	482.29
OPM	NaN%	42.86%	71.33%	70.39%	61.46%	66.56%	47.15%	43.91%	47.95%	44.67%	11.12%	30.13%	41.37%
Other Income	22.46	33.87	56.82	123.25	129.98	145.49	203.32	235.27	303.32	316.61	252.16	221.13	198.17
Interest	0.05	0.04	0.04	0.00	1.44	0.00	0.00	0.00	0.00	0.00	0.00	2.78	0.00
Depreciation	10.35	14.08	16.08	24.67	25.30	32.51	29.92	33.03	35.18	45.08	52.47	54.71	62.10
Profit before tax	169.01	201.15	734.91	1,006.75	706.80	880.16	606.63	636.79	769.33	650.57	270.25	461.90	618.38
Tax	54.49	66.94	255.09	342.96	240.45	292.10	195.86	205.06	259.76	222.56	97.28	156.07	208.36
Net Profit	114.52	134.21	479.82	663.79	466.35	588.06	410.77	431.72	509.56	428.01	172.98	305.83	410.01
EPS (unadj)	728.77	464.68	1,655.00	2,289.96	26.82	33.84	23.63	24.81	29.06	23.78	9.27	21.94	
Dividend Payout	17.40%	20.86%	20.13%	20.04%	20.17%	20.00%	20.45%	21.40%	24.73%	33.36%	48.56%	47.90%	%

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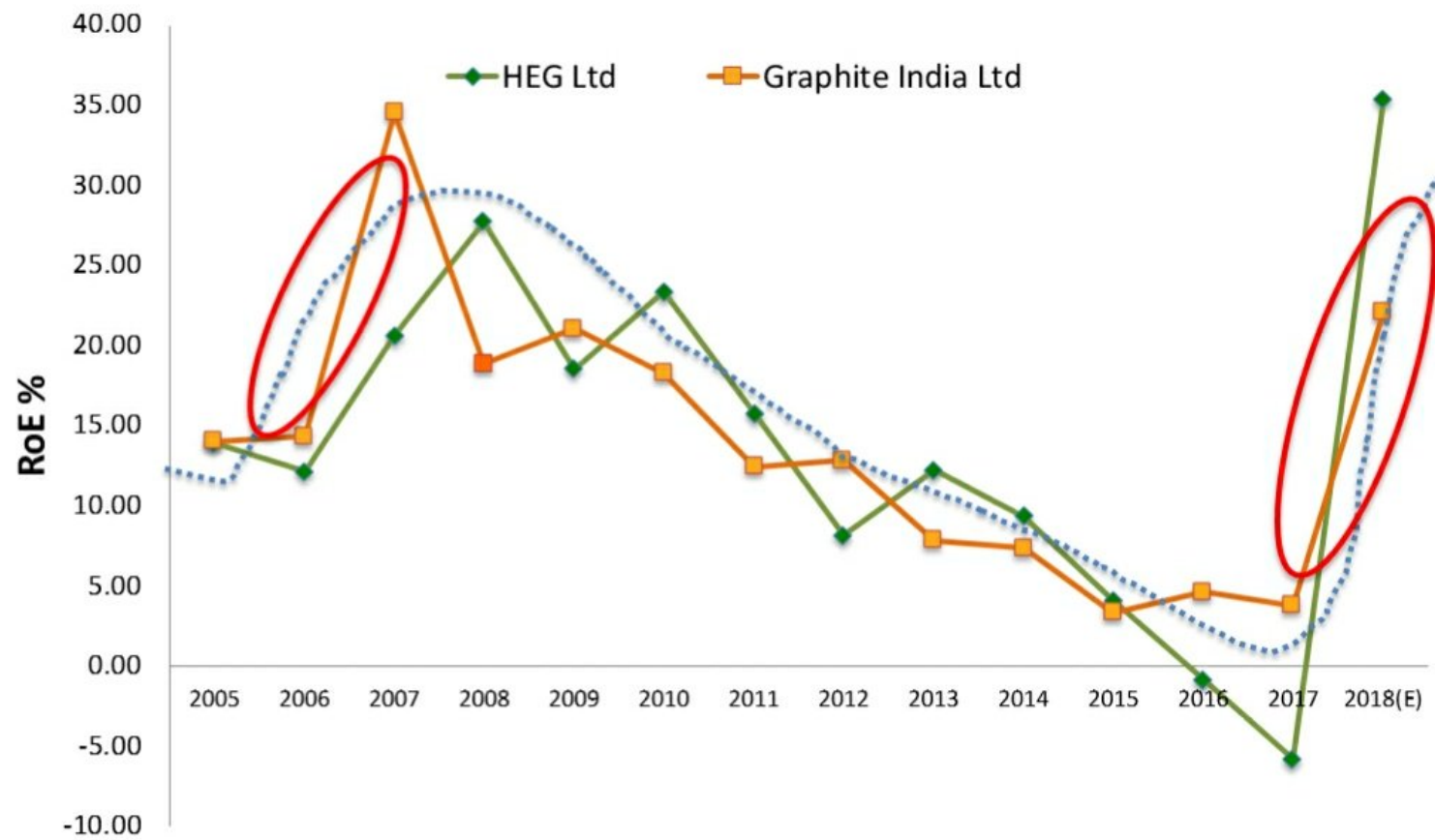
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Standalone Figures in Rs. Crores / [View Consolidated](#)

	Mar 2006	Mar 2007	Mar 2008	Mar 2009	Mar 2010	Mar 2011	Mar 2012	Mar 2013	Mar 2014	Mar 2015	Mar 2016	Mar 2017	TTM
Sales	525.27	817.87	945.97	1,029.00	1,131.40	1,113.65	1,424.61	1,622.61	1,466.81	1,233.07	869.50	860.04	1715.39
Expenses	414.42	644.35	673.68	772.25	793.44	893.61	1,275.64	1,384.69	1,246.18	1,051.43	733.03	779.39	915.11
Operating Profit	110.85	173.52	272.29	256.75	337.96	220.04	148.97	237.92	220.63	181.64	136.47	80.65	800.28
OPM	21.10%	21.22%	28.78%	24.95%	29.87%	19.76%	10.46%	14.66%	15.04%	14.73%	15.70%	9.38%	33.84%
Other Income	9.91	28.17	33.75	17.15	14.99	26.81	16.79	13.60	21.77	15.16	4.11	7.13	9.58
Interest	28.19	54.03	53.76	66.96	59.26	21.57	40.69	63.60	72.30	77.13	60.31	54.72	51.24
Depreciation	39.62	47.64	45.09	45.55	51.37	57.31	57.93	62.64	72.66	75.36	79.30	73.92	73.08
Profit before tax	52.95	100.02	207.19	161.39	242.32	167.97	67.14	125.28	97.44	44.31	0.96	-40.85	685.54
Tax	14.02	26.18	60.83	54.40	71.26	39.11	4.82	19.48	10.82	5.32	8.51	9.24	242.05
Net Profit	38.93	73.84	146.36	106.99	171.06	128.86	62.32	105.79	86.62	39.00	-7.55	-50.10	443.49
EPS (unadj)	9.24	17.47	31.34	24.04	38.44	28.47	14.78	25.12	20.66	9.16	0.00	0.00	
Dividend Payout	31.06%	27.30%	30.28%	26.92%	24.91%	33.25%	32.06%	30.22%	27.68%	30.74%	0.00%	0.00%	%



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