20-20 Ideas Summit 2024

by Tamilnadu Investors Association at IIT-M Research Park

Disclaimer: none of the stocks discussed are recommendations.

Speaker 1: G Maran

- More than stock name, investment approach must appeals more
- Tailwind - a wind that blows from behind a moving vehicle
- Example - pressure cooking co - what's the innovation? Why did they deliver 0 returns for 10 years and then 60x?

Where do tailwinds come from?

1. Regulatory
2. Technology
3. Demography

Regulatory and Technology tailwinds can change overnight. Demographic tailwinds cannot change overnight. Will take 20-25 years to change.

- Where is India's growth coming from? Typically we see manufacturing, services, agri, etc. Instead, split into domestic 83% and exports 17%. And exports are de-growing. So growth is coming from domestic. In this domestic, 62% comes from domestic private consumption.
- People try to explain the India growth story from that 17% exports, but they don't focus on the domestic private consumption.

- Sensitivity to global macros is less.
- Per capita consumption is not the right metric, because we are an inequal, diverse society.
- Don't rely on consumption metric. Instead take your stock and look at its market segments.

- 4 segments - Rich (>30L), Middle class (5-30L), Aspirers (1.25-5L), Destitutes (<1.25L)
- Growth is high in rich, led by savings

- Middle class is breaking out, led by consumption
- The breakout is happening in hotels, travel, etc - not in toothpaste, detergents.
- Working age pop - has been growing and will grow until 2030 and then stabilise for another 20 years.

Eicher Motors

- How many households have a washing machine? 16% houses.
- Households with a bullet are 1.8%.
- 2 appeals - non motorcycle volume is 2000 crore, 10-15% of co and sells abroad too
- Just betting on demography and household income

Speaker 2 Balaji Vaidyanath

Guess the stock

- MNC
- 2016, parent holding reduced from 71% to 51%
- Market leader, single digit return over 5-10 years
- Product helps reduce friction

Castrol

- Div yield, 3.5%, FCF of 806 cr, debt of 77 cr, Opg cashflow of 853 cr.
- Why did castrol de-rate?
- Gulf oil listing, stock supply from BP and eternal fear of terminal value.
- Peak PE of 55, used to trade at 30
- Do a reverse DCF, market implies 3.5% growth for 5 years (at 10% disc). Median PE is 16.8.

- But what's happening is co is going from low growth to high single digit growth. Initially ICE was only growth driver, but now getting into new segments
- The co is preparing for next leg of growth. Gotten into fluids to be used for EV (thermal, transmission, grease, etc). Also liquid immersion for data centers.
- MNC advantage - BP's expertise, JIO-BP JV

- Has OEM partnerships in EV - TaMo, MG for factory filling
- BP also setting up battery research program & capex. Benefits will flow to Indian entity
- Castrol globally tied up with submer - leading mfg of coolants for data centers, a 10x-12x growth segment
- JIO-BP fuel outlets # to 2000 by 2024. They will sell castrol only
- So 2 growth levers - Move from products to product + service. Co is doing lot of mechanic training programs for ex.
- 2nd lever is new biz ventures to expand service beyond auto lubricants

- EV may not take off as fast - high repair costs. Hertz also sold 1/3rd fleet
- Castrol mgmt feels majority revenue will come from ICE biz until 2045.

- ICE or EV, Castrol is positioned to make a mark
- Gross margins have been 47-57%.
- If co goes from low single digit to 7-9%+ growth, we can expect re-rating

Speaker 3: Vidya Bala

The opportunity:

• PV (passenger vehicles) seen robust growth - 3rd largest market

• Mercedes Benz says 1/4 India volume is > 1.5 cr cars

• Premium car segment growth of 10%+ vs 4% mass market growth

• Look around you, SUVs have taken over

• Earlier, the rich would buy SUVs, but now the demography is changing.

• Pre-owned sales will also complement this growth. Globally, avg % of used cars sold by dealers is 30%, but in India its < 4%

Landmark cars

• 63 showrooms, 54 workshops. Associated with niche OEMs - Mercedez, Jeep, Honda, Volkswagen, BYD, MG-Motors. Also added Mahindra and Ashok Leyland. So they cover all segments

• 78% from new sales, 19% from servicing and rest from pre-owned, insurance

Strengths

• Geographical spread of sales and service outlets

• High ROCE in after sales segment (36%+).

• 1/5th revenue from after sales, annuity like

• Core biz is low margin, yet mgmt has clarity in capital allocation. Only 2/117 outlets are owned, 25% outlets are acquired

• It's the only dealer for VW in Guj, for Renault in Punjab

• With merc, it doesn't hold inventory - invoicing is directly from Merc, so saves WC.

• Pre-owned cars is a good play as the co already has outlets, distribution and brands

Challenges:

• Thin margins in core biz (yet has 15-20% ROCE)

Gamechanger:

• If import duty can go < 100% (thanks to Tesla demands) - it could benefit BYD, Hyundai, etc.

- India sells 40K units of luxury cars, China JLR and BMW sell 8L+ annually
- If India touches just 2L, benefits can flow to Landmark
- PE is optically high due to depressed quarterly nos

Speaker 4: Ankit Kanodia

Car Trade Tech

• Disclaimer

• Last year presented Rate Gain, this year continuing with a new age co in the middle of a PSU euphoria

• ***Market screams us to do the wrong things***

• IPO in 2021, Mcap of 6345 cr, Price/Sales of 25, oversubscribed

• 3 years later, TTM P/S is 7 times and fwd P/S is 2x and P/E is 13

• Biz has 700+cr of cash, incremental WC for last 5 years is just 18 cr. Fwd revenue of 2.5K cr

Why did the stock tank?

1. Listed at obscene valuations (28 P/S)

2 & 3. IPO was 100% OFS, market doesn't like it. But @SmartSyncServ sees it differently, it means the co doesnt need cash for ops

4. A one time DTA before IPO, inflated FY21 profits

5. A one time ESOP charge in FY 22, put them into losses

Promoter Vinay Sanghvi has 20+ years experience in car dealership biz. He's a capital allocator

Co has 3 divisions

1. Consumer group - Carwale, Bikewale - discovery platform

2. Remarketing group - Shriram Auto Mall (phygital auctions), CarTrade (online auction), inspections

3. Olx

• They bought Olx - classifieds, but also has a C2B platform for customers to sell used cars to dealers

• When CarTrade tech bought Olx, they wanted to grow the classified biz - 170 cr revenue, profit of 110 cr - Olx's classifieds is insanely profitable. But C2B is bleeding

• Plan was to grow the classifieds biz and fix C2B biz unit economics

• In Oct 2023, they closed the C2B biz (unfavorable economics).

- Because of this, Olx now does 45cr in a quarter and 12cr EBITDA
- So Olx was bought at 5x earnings
- Ignore the one time DTA effect and biz is profitable
- 50%+ of expenses is employee costs
- Leaving scope for opg leverage, ROE expansions
- You will never find a Balance Sheet like this
- No inventory, almost nil debtors
- Most liabilities are capital and most assets are cash or goodwill

- ***We need to look at Vinay Sanghvi as a capital allocator.***

- CarTrade is at 3k cr valuation. Cars24 is biggest competitor - they raised at 23k cr valuation recently
- Most imp characteristic for a capital allocator is how long co can hold onto cash
- The co held 1000 cr cash for 5 years and then bought Olx at a great price. Very frugal
- Except CTT, others have a asset heavy model
- CTT is asset light, strong BS and Cash flow
- Thanks to Olx and Shriram Automall - CTT has 350+ locations - moat

Valuations

- 3000 cr - this is their 2017 private mkt valuation. Compared globally also CTT has very low valuations
- 1 year FWD PE of 13 and P/S of 2, cheapest amongst platform companies

Risks

- Auto industry down cycle, execution risks, competition

Speaker 5: Abhijit Choksi

• ***20L crores in the next 20 years***. This is what the government is going to invest in the ports / maritime sector
• Disclaimer
• India has a large coastline - 7517 kms and 28 ports
• 95% of trade by volume and 68% by value is done through maritime ports
• I believe ports has a long way to go.

Gujarat Pipavav (GPPL), now owned by Dutch APM group

• GPPL is at Bhavnagar, Gujarat
• Containers, Liquid Cargo, RoRo, Dry Bulk - these are the segments

• Key story is DFC - Dedicated Freight Corridor.
• DFC will carry 70% india's goods trains & train speeds will also rise
• GPPL is 1st port to connect to DFC at 2 points

Moat
• Strategic geographical location
• AEO status
• Capital intensive biz to replace (so high entry barrier)
• Current capacity util is 60%, investing cash flows into Capex
• Debt free co
• ROCEs have been on the rise, operating income

Risks
• Regulatory, environmental

Valuation
• 18x fwd earnings, valuation is lower than peers and global benchmarks
• Excellent parental backing, debt free, growth from govt support

Speaker 6: Chokkalingam

Vidhya Telelinks

- Birla group co
- You're getting either biz for free or investments for free
- 4700 cr value of investment, EV is 3700 cr
- Preferred vendor for governments
- Core biz is doing well (digital india story)
- ***If either core biz grows or investments get unlocked, then stock can move up***

Speaker 7: Prajesh Maroo

Control Print Ltd

- Coding & marking co
- Manufacture printers, service printers, sell inks and spare parts
- Printers are used to print barcode, QR code, logos, MRP, batch codes, etc
- Marquee clients, variety of products
- They follow the razor blade biz model - sell printer at cost, consumables at 25-30% margin.
- 15-20% printer sales
- 60-65% servicing
- 20-25% consumables
- Low cost item for buyers, but important. Breakdown in printer

can halt production. So the manufacturer doesn't compromise on quality. Low entry barrier

- RFID chips detect 3rd party consumables, leads to warranty revocation
- Regulatory - many products now need compulsory QR codes and declarations

- India - Oligopoly
- 4 players - 3 MNCs (70% share) and Control Print (19% share)
- Industry expected to grow at 9-10% CAGR, from $200 to $400mn by 2027
- India's manufacturing growth, significance of safety, growth of packaged goods are drivers of growth
- Govt mandated 300 medicines to have unique QR Codes to combat counterfeiting
- Even ration and electronics will have QR codes - making Control Print's case more interesting

Valuations

- Until 2026, 18% CAGR, then 18-22 was 8%, last 2 years is again 20%+
- Consistent EBITDA of 25%+
- Control Print did 300cr and mgmt says they'll do 400cr topline with 25% margin, a 18-20% sales growth
- High ROCE, dividend payout and co did buyback

New biz initiatives

- Acquired Markprint BV - will bring tech benefits and open up european markets
- JV with V-Shapes of Italy for unit dose packaging solution
- QR code printing for logistics
- Debt free
- Cash of 70 cr
- MCap of 1452 cr
- PE of 25.47x, fwd at 20x
- EV/EBITDA is 16.5x, fwd is < 14x

A biz we understand, with favorable prospects, operated by honest people and available at attractive prices.

Speaker 8: Saurabh Basrar

- Disclaimer: we own 1% of the co in the PMS

GHCL

- GHCL bought Meenakshi mills & demerged textiles in 2023. GHCl textiles has 2 units in TN.
- Large part of power requirement is via renewables
- Management - great at execution, cap allocation and to shareholders
- Demerger just happened so Standalone nos or AR for textiles isnt available
- Textiles was 1000cr topline and 7-8% EBITDA margins, capex in 40k spindles and solar capacity
- Historic EBITDA is 16-17%
- Thesis is they can generate 16% EBITDA and 1300 cr revenue and cash flow will rise

- So Mcap at 700cr, net debt is nil, asset value is 1300cr

Risk reward is 2-2.5x, downside is 5-20%

Speaker 9: Arvind Kothari

• Evolution of consumer behavior - luxury market is growing - cars, jewelry, etc

• India bought 33k cr worth of iPhones in 2022

Company is **KDDL Ltd**

• Owns Ethos brand - luxury retail

• Manufacturer of precision engineering, watch components too

• Leadership - Yash Saboo, son Pranav Saboo is a watch enthusiast.

• Also supplies to major watch companies

• They are also acquiring watch brands in Europe

• Watch retail - new watches - sales and store growth (61 now) is growing. Pre-owned watches and Club Echo are growing segments too.

• Avg selling price is now Rs. 1.8L, from 60k 5 years back.

• Store requires 6 crores (1cr FA, 5cr inventory), breakeven in 1 year and payback in 3 years with a 20% ROIC

• For < 50k watch, smart watches are a threat, but for luxury watches, swiss watch exports are rising

• Valuations can improve due to re-rating, margin expansion and sales growth

Risks

• Inventory risks, reputational risks (fakes), store closures, brand risk, currency risk (imports)

Speaker 10: Prabhakar Kudva

• Disclaimer

• Today's 20 ideas, can be implemented in 100 ways - depending on allocation, holding period and selling strategy - what matters to make the ideas work is for you to make the idea work

Agenda - framework first, then deep dive into the idea

Framework

• Multiple ways to make money - depends on what works for you

• Typical investors take a 3-5 year view

• I take a 6-8 quarter view - most re-rating happens over this phase

• Study the best performers in any given year, once a year and try to understand what led to outperformance. One finding was:

• Most re-rating happens over 6-8 quarters

• This time frame is my investment philosophy's basis

• Any big move can be mapped to

• Neglect - can be from investor, sector, media, institutions leading to low valuations (for ex PSUs)

• Catalyst - most predictable is earnings surprise or news-led

• Optionality

Re-rating = neglect + catalyst + (optionality)

• Earnings surprises + re-rating can give multi quarter move

Sanghvi Movers

• Buy cranes and rent to infra players. They earn a rental yield

• No one was interested in it, cyclical biz, etc and suddenly 2-3 quarters back it got re-rated

• Largely revenues driven by Wind installations and maintenance

• Now there's infra tailwind due to govt push

• Co is doing 85-90% capacity util now, they've done a 400cr capex (from debt & cash)

• Cranes are moving directly from OEM to the sites - demand is so good

• Benefits of scale - no major competition, 5th largest in the world, small players cant afford to upgrade cranes easily

- Rishi Sanghvi - new gen promoter, gives longevity

Financials tailwind

- Capacity util -> opg leverage -> ROCE improvement -> breakout in rev -> rerating
- That was the catalyst, now the optionality:
- EPC services.
- They're now providing EPC services to their existing customers. They already have the crane, manpower, etc - now they will also do services like rigging, manpower, lifting tools, project planning, etc

Risks

- Infra cycle peters out
- EPC doesn't take off

Summary

- Mild neglect, earnings tailwinds for 4-6 quarters and optionality from EPC

How to bet for portfolio approach? When playing re-rating stories, take a poker approach

- Buy asymmetric risk-reward plays
- Have many bets with high probability - basket
- Diversified portfolio

This provides risk mitigation

Speaker 11 Ishmohit

- We look for unique biz, supply side dominance or good valuations
- We find comfort in banks, mining, pharma, chemicals and engineering

Why are we studying this business?

- There are a change in regime of free allocation of iron ore resources
- Mines got re-auctioned, many integrated players like JSW bought mines at a premium, there was a bidding war
- New mines were bought at a 90-140% royalty
- Who will benefit from this benefit? miners under old regime (0 royalty) with mines expiring in 2050

Benefits for captive miners

- Those with long dated leases
- Landed cost of iron ore is low as new mines will pay higher royalty
- No risk of auction

Deleveraging phase

- Risk in commodities - if resource prices fall, then co shouldn't die
- Co should be low cost producer
- This is the competitive advantage of captive iron ore miners - they were producing at below market prices
- This co has 2 main mines - both in Chattisgarh. One of them has high Fe content (> 65%), they charge 8000 whereas market sells at 6500, so straightaway Rs. 1500 goes into EBITDA
- Steel pellet buyers like Iron Ore which has 64%+ fe content
- Co has also done forward integration into steel products (billets etc) and backward into power

- Volume growth has been on an upward trend
- This biz has a captive mine with 165mn tonne reserves with 35+ years lease life
- The peer, Sarda energy has 7mn tonne and Lloyd metal has 35% Fe content. Even NMDC has higher cost structure due to new regime

Stress test

- When iron ore was at lowest, the co did 10% ebitda

- Even during depressed prices, the company didn't die

Thesis

- Captive iron ore mine with 25 years left in lease - from 3 to 6mn tonne rise in production, 165mn tonne reserve
- Present across value chain
- High grade pallets (Fe content)
- Simple corp structure
- Net cash company with 700cr+ cash
- Expansion plan without much additional debt

Co is **Godawari Power and Ispat Ltd**

Risks

- Oversupply of iron ore
- Export ban on ore export (has happened)
- Changes in regulation
- Debt becomes unsustainable due to debt

Speaker 12: Tushar Bohra

Investment philosophy

- Strong biz model

Shilpa Medicare

- Can't present 15 years of mgmt expertise in 15 mins, but will try best

What market perceives

- Negative PAT, stretched BS, capital allocation, uncertain future upside, valuations

What we are reasoning

- All time highest EBITDA, peak debt behind, core biz solid, huge upside - 4x EBITDA in 4 years and valuations!

- Shilpa is across peptides, intermediates, APIs, formulations, etc
- As such revenue growth isn't there, but breakdown revenue into segments - you'll see API is doing great
- Formulations has scaled up, but they had some FDA issues - we believe they have bounced back and this year formulations will have record revenue

- Of 3000cr capital employed, only 700-800cr went into API and gives 25-30% EBITDA.
- But this cash was used to invest in formulations (1000cr CE, 10% EBITDA) and Biosimilar CDMO biz (900-1200cr CE, EBITDA negative for now)
- CDMO biz will turnaround and give the co the operating leverage it needs

- Gross block has gone up and once investments start paying off, we'll see results
- We believe biologics will be profitable next year
- Formulations and related NDAs can give blockbuster results next year (some launches ahead)
- API is strong & CDMO, Peptides will surprise
- Cost of ops is being optimized, R&D cost to reduce
- Focused on IP monetization

- Have re-structured balance sheet and taken approval to raise capital - this should be last leg of capital raise for next few years

- Base case, 460cr by Fy25 and 1000cr by FY28

Albumin

- Either extract from plasma or synthetic via yeast
- Has multiple use cases
- There's a shortage in albumin & hardly 10 players
- Dosage is typically 40-50gms, so purity is very critical
- Shilpa is getting into Albumin at scale, an effort of several years

Speaker 13: Ganeshram Jayaraman

Sundaram Finance

- Been tracking this 20+ years as an analyst
- This co is the best managed co in its sphere
- I'm cautious of the market, so looking at stocks that are all-weather - managements with a track record of performing across cycles

- Disclaimer

Segments

- Finance - vehicles, home finance, Royal Sundaram Insurance, Sundaram Mutual
- Co hasn't diluted for 50 years. They have relied just on internal accruals to grow their book by 20% CAGR
- Compared to Chola & Shriram, their NIMs went down - this is risk aversion
- In towns - Sundaram had a great brand
- Over 10 years, competition from banks grew and they were forced to serve the underbanked / rejects
- They entered profitable segments like tractors, used cars, etc much later and no new initiatives
- Branch addition also stagnant

What's changing

- Better lending mix - product diversification, newer segments (LCV, used, etc)
- Geographical diversification into non-south. Now 50% of growth from non-south

What shouldn't change

- 70% customer retention metric
- Discipline on asset quality & capital allocation

Compared to Mahindra, Shriram, Chola and Sundaram, avg of 5 years

- Sundaram yields the least as they're risk averse. But look at other metrics
- Operating costs, provisions, ROA and interest costs are the best
- Earnings growth at 14%, weaker than others

- At the margin, execution is getting better, last quarter, growth rate is much higher
- Diversification should reduce cyclicality of loan book, improve consistency in growth and also better yields
- This with their efficient core metrics will lead to non-linearity in growth
- Can double AUM in 3 years (25%+ CAGR)
- SoTP upside - better performance of home finance, AMC and insurance biz

Risks

- Weaker CV / rural demand can compromise growth, good for ROA but bad from current P/B multiples

Speaker 14: Vivek Mashrani

• Disclaimer: (own it, etc)

Poly Medicure

• 1115 cr revenue - reach in 8000+ hospitals, 125+ countries, 160+ devices, 3000 employees

• Largest exporter of consumable medical devices for 10 years

• Medival devices sector growing at 16%+ CAGR in India

• Strong co with big & weak unorganized sector - fragmented industry - only 2% of players do > 500cr sales, 65% do < 10cr

• Able to gain MS consistently

Specialties of the co:

• Co usually starts with a niche, then goes deep into it

• Has a foothold in infusion therapy

• Even blood transfusion and renal is important

• Top 3 IV cannula manufacturers in the world

• Estimated 20%+ revenue growth from exports

• 372 patents

• 2003 onwards, the co say biz momentum - plants in China, Haridwar, Jaipur, Egypt, listing

• By 2016, focus on R&D and got into renal care, etc

• By 2023 - 4 new plants, US subsidiary - plant expansion growth is interesting

• 2025 - transform from a product to solutions

• Above 10k cr mcap is when institutions start to enter the biz

How the pot is growing?

• Sector growing, core biz is strong - but now domestic market is an opportunity

• 4 new plants and 100-120cr capex annually

• Next 2/3 years, when plants are fully utilised, operating leverage will kick in

• Venturing into smaller cities and into import-substitution of pre-filled syringes

• Govt support is also beneficial

• 22-26% EBITDA, 18% CAGR in sales

Triggers

- Margin expansion, operating leverage and sales growth and import substitution

Risks

- Related party transactions
- Raw material is largely imported
- Delay in execution of capex
- Competition from unorganized players

Speaker 15: Pawan Parakh

Thought process

- SQGARP - sustainable, quality, growth at reasonable price
- Follow a fine tuned process
- Have a risk management system in place
- You don't need to buy virgin companies - in 2007, Kotak and Sun were mid-caps but yet cliche companies
- Sheer power of compounding and re-rating can give you returns

PNB Housing Finance Ltd

- As per capita income rises, mortgage penetration also picks up
- This co represents the "Makan" aspiration of Roti, Kapda, Makan
- Mortgage penetration is still low at 11%, behind global peers
- Housing affordability is improving

Sector

- Rising income, low NPA, better affordability and rising housing demand
- So sector can do 15% CAGR growth
- Lending is a top-down biz
- Branches can build a loan book easily, but the systems, underwriting etc is crucial
- Mr Girish Kousgi - ex CanFin homes is the CEO now
- Earlier co focused on the prime segment, but can't compete with banks - so bank is now focused on affordable
- PNBHF has rundown the corporate book successfully and retail is 85%+
- Good mix between salaried and self employed
- NPA this year will be 1% and expected to fall down to 0.7%
- Accelerating branch addition to 300 by Mar24 from 189 now
- Sector growing at 15%, better co will grow at 18%
- High credit rating, so cost of capital may fall
- As they will cater to affordable, yields may improve
- NIM will increase and ROA will go up
- Co can trade at 2 P/B in future

Speaker 16: Kumar Saurabh

LT Foods

- Disclaimer
- Co is into basmati rice - 50% market share in US, 30% in India - Daawat and Royal brands
- In 2018, I thought its a WC intensive biz, hence requires debt
- Recently a lot of BS transformation has happened
- in 2018, they were only a rice player, today they have 2 more businesses - organic foods (12% share of revenue, B2B) and ready-to-eat foods (1%, but 30% growth)
- They have also acquired rice cos abroad
- All markets are growing & gaining MS - US, Middle East and India
- A middle east food dept has taken stake and is giving the co distribution advantage
- Health and convenience ready-to-eat foods biz is fast growing - cuppa rice, biriyani rice, etc kind of products
- This biz is small, but can scale to be (1) better margins and (2) better WC
- What I see in a co - can there be growth, margin improvement and can there be re-rating? this is where we make bigger return
- Growth history for LT has been good, profitability has been good
- 65% EBITDA to CFO conversion - other cash flow metrics are improving
- Able to clear all long term debt
- Clear, separate management for each division
- This is why re-rating can happen

Risks

- Export ban (basmati is safer)
- Margin contraction (freight)
- Equity dilution (previously it was strategic)
- Geopolitical risks

Current PE is at 11, and even a base case scenario can give double digit growth rate.

Fair price in DCF is 256, current price is 190

Speaker 17: Hamsini Karthik

- Disclaimer

IndusInd Bank

- Promoted by Hinduja, banking license in 1994 and rose to prominence from 2008

Why IndusInd?

- 2020 was a difficult year for the bank
- Case of turnaround
- Revamped biz growth
- Conservative yield mgmt (despite huge unsecured portfolio base)
- Comfortable capital position
- Decent valuations

Why turnaround

- FY 19 and 21 were troubled years - DHFL, exposure to power, telecom, holdcos, etc
- They started the rejig process
- Deposit led growth
- In 2021, scar of Yes Bank, Covid
- FY 21, bank took high hit in provisioning cost
- IndusInd has a high share of MFI loans
- Hence, FY22 numbers aren't also as convincing
- Q3 FY24 - asset quality is gradually improving
- Bank has guided a 1-1.5% credit cost, reasonable tolerance level
- Is there an earnings propensity to IndusInd?
- We think Yes
- CV's were 13% of book in FY19 + wholesale exposure was also higher
- In 2018-19, banks decided to focus more on retail - that has now started for IndusInd
- CV has fallen to 10%, taken exposure to more granular

less cyclical segments like small CVs, 2-wheelers, etc

• Even though MFIs are a big segment, IndusInd is not overpricing the customer, reflecting in lower NIMs than other MFI heavy lenders

• Comfortable capital adequacy

• 1.8x P/B, future valuations can be attractive

• Expectations is that loan book can grow 20-25%

Risks

• Continuity of senior mgmt

• Shortening of cycles in MFI

Speaker 18: Vikas Kasturi

Repco Home Finance

Framework

Good + Undervalued (downside protection) + Catalyst (Upside)

- Heads I don't lose much, tails I win a lot
- Repco is the cheapest home finance company

Good

- 24 years of profits
- No equity dilution since 2013 IPO
- 17+ years of dividend
- ROE in teens, ROA 2%+ always
- Cumulative write off since inception - Rs. 113

Why undervalued?

1. Slow AUM growth
2. High NPAs

Aavas, Aptus, Homefirst, etc have excellent growth and lower NPAs

- Repco did 286cr PAT, Homefirst did 222, but Homefirst is 4x mcap vs Repco
- Repco is at 7x PE

Catalyst

- New CEO since Feb 2022
- Ex ED of IOB
- Worked at IOB for 35 years
- GNPA has come down from 7% to 4.7% in 7 quarters
- Recoveries have been higher than slippages
- Feet on growth to feet on street
- Higher disbursals

- This quarter & FY will be best ever
- Repco is now doing what Aavas, CanFin etc have been doing
- Preventing balance transfer by CIBIL Data scrub
- Tech refresh going on

- Even after that it wont be a Bajaj Finance, but itll still be a better, faster, smoother operation
- Lower NPAs, balance transfer
- Low Provision
- AUM growth

- Can lead to re-rating

Risks

- Key man risk (Swaminathan)
- Execution risk
- Promoter risk (Repco bank is an opaque entity)
- Concentration risk
- Regulatory risk

Speaker 19: Athreya Ramkumar

- Disclaimer

What do we look for?

- Favorable industry structure
- Market leadership (consolidation)
- Improvement in financial metrics (no falling knives)
- Negative sentiment (better valuations)

PVR INOX - 1708 screeners

- Leader in exhibition industry
- Consolidated industry - PVR has a 19% screen market share
- Carnival has 450 screens or 5% of screen MS
- Death of single screens (pre-covid 9000, post-covid 6000)
- Single screens are not viable / don't have brand pull like PVR
- 2nd largest multiplex competitor - Carnival, is in deep financial stress - NPA case

- New entrants - rare consumption play with minimal threat of new entrants - because of perceived terminal value threat
- Hence, most value of exhibition industry will accrue to PVR INOX

Lack of entertainment options

- India will add the highest working age population & they will demand exhibition options
- Low penetration - 8.5% visit once a year, 4% visit once a quarter
- Every other market is still below pre-covid levels, but India has beaten pre-covid levels and growing
- 85% contribution by Indian movies, unlike west where its hollywood dependent

Are OTTs a threat?

- OTTs are seeing box office numbers to acquire media
- Except Netflix, other OTTs are bleeding money

- They are now focusing on profits
- Amazon / Apple have committed $1bn to release movies in the theatre
- Domestic OTTs are also in a similar spot
- PVR has a 19% screen share and 30% box office share - meaning they have a better share of wallet
- Occupancy levels are also rising after covid impact
- Wallet share - revenue per admit has doubled from Rs. 200 to Rs. 415 in 10 yrs
- Ticket sales now are just 50% revenue
- F&B has gone from 20% to 33% in 10 years
- Convenience fee is 5% of revenues
- Ad income has mean reverted
- Final growth lever is screen count - expected to be at 7-8% per year. By 2030, 3000 screens
- Revenues have started to accelerate across divisions

Future Strategy

- Opening more screens in South India
- Premium screens to increase from 13 to 20% in medium term
- Launching a pan-indian subscription

Margins

- Historically gross margins of 70%, 19% EBITDA and 13% EBIT
- As F&B mix increases, gross margins can go up
- Ticketing margins can also go up due to consolidation
- Mall developers requires PVR as anchor tenants, hence rental costs can be negotiated
- Mean reversion in Ad revenues can flow to EBITDA
- Closure of old screens

Focus on capital allocation

- Incremental dilution / M&A is highly unlikely
- Mgmt said that all future growth will be via accruals
- Focus on debt reduction & aim to be net debt free in 3-5 years

Negative sentiment

- Stock flat for 5 years, trading @ discount to 2021 QIP price
- We're getting an industry leader, with growth ahead at $1.7bn EV
- ROCE is entering its mid teens
- Here's where huge returns can be made on the stock

Speaker 20: Mohit Beriwala

My mother asked me to invest in Real Estate - I thought it doesn't even beat inflation, requires maintenance, etc

- I want to grow capital, beat inflation, have exposure to RE and yet have diversification

REITs

- Globally 40% of RE assets are via REITs
- India regulation says 80% of assets to have cash flows, without debt and 90% of cashflows to be repaid to investors

Benefits

- Sachet size
- Instant liquidity
- Diversification across the country
- Lower tax
- Dividends are exempt, capital payouts are tax free, only interest is taxed, STCG is tax free

Why REITs will do great

- GCCs being setup in India
- Demand for offices growing
- RE prices also going up
- Managements are smarter now (occupancy is rising, payouts are rising)
- Hospitality + F&B + Revenue optimization is being scaled up
- Re-leasing spreads are huge - new lessees are coming at 15-20% higher
- Interest rate cycle - interest rates are going to fall, so REITs borrowing will fall + investors see REIT as fixed income, so re-rating

Embassy REIT

- For fixed income investors - this is shooting fish in a barrel

- For equity income - tactical play, as equities are super high
- 10mn coming for development
- 12% re-leasing spread
- 5% contracted rental increase
- 500 hotel keys
- Diversified tenant base
- 75-80% of payout is tax free

Levers

- When operating leverage comes in - rentals via occupancy + new developments + re-leasing spread + hotels
- Repricing of asset as FD investors at 6% will reprice REITs as fixed income products

Speaker 21: Vijayanand Venkataraman

• Disclaimer

• Given the current market, how should we position ourselves?

India: A contra view

• All talks have been about flows

• Domestic retail flows dominating the markets

• Financialization of household assets

• Consensus is that FPIs don't matter, but FPI flow is the surprise factor

• Domestic flows is reducing drawdowns + options volumes = volatility has been at the lowest

• This means 2 things - valuations will go up (happened) and returns will go down (hasn't happened yet)

• Recent EPS rise is a one-time effect of some sectors

• So PE is actually high - interest rates are coming back to pre-covid levels

• Nifty 100 vs Nifty Small 250

• 2007 and 2017, small caps went up and drawdowns were 55-60%

My portfolio - I was long, then cash and I'm short now.

• What happens if stock supply increases?

• Opinion polls change in US - the more we see Trump winning, we will see more money flow to US

• A probable increase in minimum public shareholding from 25% in 5-10 years

• It was pushed back earlier, but conditions are now ripe

• So markets are expensive and potential supply could come (from FPIs and regulation)

• "India is decoupling"

• India will couple more not decouple. China + 1 will expose India to global risks

• "Manufacturing & disc consumption"

- Services create more wealth vs manufacturing
- "Indian investors of 2020s are more confident than past"
- So was Japanese in 80s, Taiwanese in 90s and Chinese in 00s

- Lets not get led into these narratives. Further:
- Private capex will happen but more likely will be in the unlisted space
- Last 20 years, India made huge infrastructure - these themes haven't made money. Infra index without L&T hasn't made monies

Final words

- Raise cash levels (reduce small caps, reduce equity)
- EMs like China look attractive
- Gold could be a good hedge in a conflict ridden world

Closing remarks: Shyam Sekhar

- It's not easy to make recommendations - not easy to discuss idea - because there's always a context to it
- The speakers have enormous conviction in their work & have done a fantastic job

- Between 2020 & 2023, what changed is the speed of decision making
- We are driving our minds now at a pace which is mind boggling
- For ex, PSU rally of last 60 days shows our decision making speed is going faster than what we can process
- Investment thinking has to slow down - we can't be going at this pace
- If you look at Dec quarter - you can see Corporate India cannot meet or exceed expectations
- Going forward, given the liquidity situation, things are only going to get worse
- From a market where, we are able to move to the next step and go faster, we are going to enter into a gestation market
- Not many parts of the market will exceed expectations
- No doubt, there will be contra opportunities like banking & FMCG
- But we can't survive on contra opportunities
- This is a good phase to build a pipeline of ideas, do your research in gestation periods
- We are used to decision making at a pace where we are controlling or calibrating them. We will have to control a lot more than last 3 yrs
- It's natural to quickly judge an idea - we must discard this behavior
- I have never seen such FOMO ever - even with 2-3 decades of experience
- Give yourself time to think of decisions
- Don't run after ideas, allow ideas to come to you