

Alpha Ideas
Nov 27, 2023, Mumbai

1. Idea 1: Manish Gupta - Yasho Industries

- a. Consumer segment- commodity. 20% of revenue
- b. Industrial chemicals - higher margin. 80% of revenue. 20% EBITDA margin
- c. The business mix has moved from consumer to industrial chemicals
- d. Good ROCE of >18%
- e. Interested in the Lubricant additives segment - EV implications
 - i. Large brands own their own IP
 - ii. Small brands are fragmented. 800 buyers, fragmented
- f. Lube additives are a small % of end product cost but are key to product performance
- g. No incentive for brands to switch suppliers. High validation cycles for the customer. Very high barriers to entry
- h. Yasho started lube additives in 2013. Got their first customer after 6 years
- i. 6 competitive players - 93% of competition. No Chinese players
- j. Trigger for opportunity
 - i. Lube additives guys are competing with their own customers
 - ii. Multiple supply chain disruptions
 - iii. Many competitors are declaring bankruptcy
- k. Value proposition
 - i. Distributors to small brands
 - ii. Large brands declaring bankruptcy
 - iii. The Lube additives business has greatly increased over the years and capacity deployed to this segment. 2X+ capacity added
- l. Credibility builds slowly but scales exponentially
- m. Yasho has a 15% cost arbitrage compared to EU suppliers
- n. The possibility of margin expansion we consumer business of slowly reduced in size and the focus is increased on industrial chemicals. Possibility of operating leverage to kick in
- o. [Valuation Shaw Spring Capital. A framework to understand optionality. Read this paper](#)
- p. Good sign— Management refuses to give guidance. Promoter's son is into R&D
- q. Could grow Earnings at 20-25% for a long period of time. Could grow ROE at 20+% over a long time
- r. Not suitable if the horizon of investing is less than 5 years

2. Idea 2: Rikeen Dalal - Manorama Industries

- a. What he looks for
 - i. How good is the management's execution capability
 - ii. Size of the fish vs size of the pond
 - iii. Business model vis a vis competitors in the same segment
- b. Big customers like Nestle, Mondelez
- c. Specialty fats and cocoa butter equivalents

- d. Increasing market needs for cocoa butter equivalents Cocoa butter is + 20% of chocolate by volume but 80% by value
- e. CBE is much cheaper and has the potential to reduce RM costs by 5-6%
- f. Regulations improving for CBE to be used by FSSAI
- g. End products used in the food and cosmetic industries
- h. Manorama customers are Fortune 500 companies that conduct frequent audits.
High barriers to entry
- i. The CBE market is 1/10th of the cocoa butter industry. Potential for this to grow
- j. Capex to increase the CBE capacity to 2.5X
- k. Solid R&D focus with leaders in the research industry being hired
- l. Risks
 - i. Long WC cycle - SAP ERP used to mitigate this
 - ii. Capex execution risks - ex-Alfa Lavel employee hired for R&D
- m. Potential
 - i. Demand >>> Supply
 - ii. Replicating facility through copy-paste strategy once completed
 - iii. Existing R&D efforts will pay off

3. Idea 3: Rashmik Oza - 9 rays Equiresearch - VA Tech Wabag

- a. 3rd largest water operator in the world
- b. Into water treatment and Desalination
- c. Indian MNC having 125 IP registered
- d. The company is into EPC, O&M, desalination, and Sewage treatment
- e. A program called Wriddhi started
 - i. GTM - marketing and collaboration initiatives
 - ii. tech - a collaboration with Paani, asset-light
 - iii. EP focused - lower the focus here
 - iv. O&M focussed - high focus. High margins. This starts after EPC is done
- f. New initiatives
 - i. Semiconductor
 - ii. Green hydrogen
 - iii. Biogas to Bio CNG
 - iv. IoT and Digitalization
- g. High order book and the majority of the order book not yet executed
- h. Going for selective construction, low-margin orders
- i. Reduce focus on EPC and increase focus on O&M. Also reduce focus on Europe. RoW contribution - MEA focus especially has increased
- j. 55% of the order book in 2023 was from RoW. 45% from India
- k. In a few years, the net margin can become bigger than the EBITDA margin
- l. Possible 20+% earnings growth, RoE and Roce growth
- m. Huge potential as water needs to be recycled, reused, and desalinated, especially in MEA
- n. Looks cheaper from a valuation perspective compared to capital goods peers on EV/EBITDA and forward PE
- o. Future focus - from the last 2 con calls

- i. The company came out of EU entities. Consolidated margins should increase
- ii. Grow O&M segment leading to improved margins
- iii. Focus more on Engineering and Products and less on Construction business
- iv. ROCE to rise as focus on Zero liquid discharge and other high-value segments is increasing

4. Idea 4: Rahul Dhruv - Pegasus Growth - Timex Group

- a. Only surviving and growing American watch company
- b. Went nearly bankrupt twice - the Great Depression and Quartz crisis
- c. Smartwatches have grown exponentially. But analog watches have grown faster
- d. Lack of focus and execution has led to Timex not growing well till now
- e. Baupost has privately invested in Timex group described as a growth recapitalisation
- f. Shifted focus to premium watches segment - IPL sponsorship and Celebrity endorsement
- g. Manufacturing in India vs Philippines (Cost to manufacture in Philippines is 2.5X compared to India)
- h. The full design team is in India and OEM for Flipkart, Myntra, and Wrogn (15% of sales)
- i. Deepak Chhabra heading the company. 25 years in the industry

5. Idea 5: Smitesh Sheth - Raedan Capital - Inox Wind

- a. The Company hasn't defaulted on debt or restructured its debt to date even though it went through a lot of issues
- b. Parent company: GFL
- c. Clean management - reduce debt by infusion of 623 Cr by Promoter
- d. GOI has planned for 500 GW of installed renewable capacity vs 176 GW to date
- e. Tendering will be from hybrid projects
- f. Wind projects are gonna take a huge surge in Gujarat and Rajasthan due to their State Renewable policy
- g. Order book of 1276 Cr
- h. Inox Wind to invest in 3 MW WTG. Minimum IRR expected is 15%+

6. Idea 6: Aditya Sood - Barbeque Nation hospitality

- a. Backed by CX partners in 2013. Jubilant Foodworks owns a 10% stake
- b. Delivery sales contribute to 25% of overall sales
- c. Ventured into Salt and Toscano stores
- d. BBQ Nation offers a value proposition compared to other restaurants
- e. Swiggy and Zomato ratings have improved from 3.6 to 4.1
- f. Huge potential to add more stores in the country. Adding 20-25 stores on a yearly basis
- g. The strategy by the company is that Royalty as a % of sales is 0 when compared to an average of 5% by Dominoes, Pizza Hut, and McDonald's

- h. ROIC profile increases over 2-3 years similar to the Hospital sector. 10% in year 1, 16-17% in year 2, and 20%+ in year 3 and beyond
- i. Delivery business contribution is increasing
- j. New restaurants are around 62 and matured ones are around 154. Operating leverage will play for the 62 restaurants as their ROIC will increase
- k. The best time to invest in a retail consumption stock is when the same-store sales growth (SSSG) is negative. BBQ is at -5% SSSG right now
- l. Consistently generating negative PAT for the last many years. Expected to slowly turn for the good
- m. High similarity to Jubilant Foodworks in terms of journey

7. Idea 7: Bharat Shah - APL Apollo Tubes

- a. Holding 8% of the company for the last 5-6 years
- b. Specialty steel tubes - global major. Has the potential to be the largest in the world by FY 26 end of FY 27 beginning
- c. Highest number of SKUs in the world.
- d. 20+% volume growth across multiple years
- e. Zekelman, SAAB, Maruichi are APLs top competitors. APL offers better products and the highest manufacturing capacity
- f. Net working capital days are only 5 days - on the cash and carry model and their ROE and ROCE is top notch (25%+)
- g. High fixed asset turns of 8-10 times. Asset light model
- h. Innovation-focused and kept de-commoditizing their product portfolio. Very strong in market creation
- i. Capex plans for value addition not just for fulfilling demand
- j. Vision 2025
 - i. Largest global player
 - ii. 60%+ market share domestic
 - iii. Product innovation
 - iv. Strengthen presence in global markets
 - v. Customer centricity

8. Idea 8: Ashwini Agarwal - Aegis Logistics

- a. Logistics for LPG, liquids at Mumbai port
- b. Distribution of LPG across bulk, commercial, and retail customers
- c. Gas generates 65% EBITDA, liquid a 35%
- d. Business divisions
 - i. Gas/Liquid terminals
 - ii. Gas distribution
 - iii. Gas sourcing - very low margin (1%) and high volatility in volume and sales
 - iv. 3PL logistics and hence high predictability
 - v. Hard to create port infrastructure
 - vi. 51/49 JV with Vopak. Vopak provides operational excellence, access to know-how, etc
- e. Why LPG

- i. LPG has stable pricing vs natural gas. LPG is easily available and easy to transport
 - ii. Shift to clean energy will drive demand
 - iii. Long runway for growth - Kandla Gorakhpur LPG line
- f. Growth for Aegis
 - i. New assets, evacuation infra, sweating of old assets
 - ii. Gas logistics volume of 21% CAGR
 - iii. Gas distribution volume 16% CAGR
 - iv. Liquids logistics volume 13%
 - v. Revenue growth of driven by volume not by pricing changes
 - vi. The shift from coal to green
 - vii. India's energy mix is changing
- g. Guidance is 25% growth in PAT margin
- h. Risks
 - i. LPG could have lower demand than expected
 - ii. Project delays, cost run-over
 - iii. Holding structure, financial engineering makes forecasting difficult

9. Idea 9: Abhisar Jain - Landmark Cars

- a. 15% market share to selling Mercedes Benz to India. Highly penetrated into Merc
- b. Car dealership business across 9 OEMs
- c. After-sales service is also a good portion of their business
- d. The luxury car sales market in India is only 1% of PV sales. Compared to 9-10% of PV sales in the US and China
- e. The investment thesis is more on after-market sales service rather than Luxury market play. After sales market has been compounding at 16% CAGR for the last 7-8 years. Volume growth of 9% and value growth of 7%
- f. After-sales service is a high ROCE, noncyclical, and asset-light business
- g. Optionality- Pre-owned cars business. The market is 1.5 times the new car market
- h. Have BYD on board as an OEM. 25% of their market share. BYD is not completely penetrated. BYD is #1 in the world in EV
- i. The promoter is ROCE-focused, leased assets are 98% of overall outlets
- j. Separate CEO for each OEM
- k. Risks
 - i. EV penetration in passenger vehicles
 - ii. OEMs may not need dealers in the future
 - iii. Delay in new model launch
 - iv. Unrelated diversification
 - v. Online selling of cars

10. Idea 10: Pathik Gandotra - Arman Financial Services

- a. Was outside during this session. Couldn't add notes

11. Idea 11: Prakash Diwan - Kernex Delivering Railway Safety

- a. Anti-collision systems for the railroad sector in India. Automatic train protection system

- b. Tenders worth 4000 Cr expected every year
- c. Vande Bharat and many other train services coming up. Imperative for these systems to be set up
- d. Only 3 players are being handed out contracts - HBL Power, Medha (*not sure of this name*), and Kernex. Order book of 35,000 Cr expected to be doled out in the next 7 years amongst these 3 players
- e. The Company is working on a 400 Km railway line
- f. Entered into the signaling industry
- g. Future
 - i. Propulsion systems

12. Idea 12: Varun Goenka - Value Quest - Bajaj Finance

- a. Megatrends
 - i. India to be the only next \$10Tr economy in the next 10 years
 - ii. Low credit/GDP
 - iii. Multiple sigma events have happened and the economy has been tested in the last many years
 - iv. Technology: Digitalization, Deepening
 - v. Value migration from physical to digital payment mechanism
- b. Aims to grow 20-25% AUM in the next 5 years
- c. Only 7% market share. Small fish in a big pond
- d. Getting into 5 new product lines

13. Idea 13: Saloni Hemnani - Electrosteel Castings

- a. The industry leader in DI pipes
- b. 5-6 players in the industry
- c. 500-600 Cr investment needed for getting into DI pipes and approvals needed. Barriers to entry
- d. Drivers
 - i. Capacity expansion
 - ii. Srikala capacity was increased by 1MTPA from 3-4 in 2022 and to 6 MTPA in 2024. Aajao, the utilisation was 105%. This can lead to more sales
 - iii. Coal block compensation - for a few of the assets of the company being sold off
 - iv. Balance sheet clean-up
 - v. Supporting macro factors -
 - 1. Govt capex and Jal Jeevan mission
 - 2. ECL contributes to 65% of exports
 - 3. New demand from irrigation
 - 4. Extension of cities
 - vi. Qualitative aspects
 - 1. Industry leader
 - 2. Consistent EBITDA per ton
 - 3. Increased promoter participation
 - 4. Huge replacement cost

14. Idea 14: Jeevan Patwa - Laurus Labs follow-up

- a. ARV contribution reducing
- b. CDMO contribution increasing
- c. 4 large contracts in CDMO - agrochemicals, bio, animal health, human health
- d. Possibility of reaching 3L Cr market cap by the end of the year
- e. Bio has a huge potential. 2L liter capacity planning to move to 2M liter capacity
- f. Cell and gene therapy - ImmunoAct
 - i. Invested 450Cr in this segment
 - ii. Medicine at 30L INR. The same medicine costs 3Cr in the USA

g. This year's idea- Sadhana Nitro chem

- i. The only company in India to manufacture nitrobenzene (NB) using pump nitration. Been doing this for 48 years now
- ii. Only second company in the world to produce para amino phenol (pAP) from the NB route
- iii. Distinct advantages of NB route
- iv. Lowest cost producer

15. Idea 15: Aashish Urganlawar - Gujarat Ambuja Exports

- a. It's in the maize processing industry
- b. Market share of top 5 players of 70%
- c. The industry volume growth rate is around 5%
- d. Imports are not viable due to import duties resulting in high import costs
- e. From FY 13 till FY 23, the company has moved to the high-profit segment in Maize processing from Other Agro-processing division

16. Idea 16: Dighant Haria - Kirloskar Ferrous Industries Limited

- a. The objective of every growing company is to move from commodity products to value products
- b. Was majorly into Pig iron which is a commodity product (60% of business - castings, pipes& tubes). Converter which has a stable profit used to be only 40% of the overall business
- c. In FY 23, converter business became 60% and Pig iron was 40%. ISMT acquisition at a throwaway price
- d. FY 26 possibility - Converter business 80% (castings, alloy steels, and Pipes and tubes) and Pig iron only 20%
- e. Have guided that if the auto sector booms, they can have a 15% volume growth for the next 5 years
- f. USP is buying companies in distress and turning them around
- g. Risks
 - i. Dependency on the auto sector
 - ii. Project delays

17. Idea 17: Bhavin Shah - Sameeksha Capital - Indigo Airlines

- a. Airlines to be looked at from a cyclical standpoint
- b. Too much negativity when it comes to airlines - low to negative ROIC, FCFF generation pretty much not there
- c. The only airline in India with > 50% market share. High-on customer experience

- d. Has a journey trajectory similar to Ryan Air
- e. PAX, Average seat km, and Revenue are steadily growing
- f. Low penetration in the travel by airlines market in India. This decade presents an opportunity with increasing spending power and other stars aligning
- g. The speaker has entered and exited this business multiple times

18. Idea 18: Abhishek Basumallick - HBL power systems

- a. Products
 - i. Batteries
 - ii. High power batteries - usage in data centers
- b. Market leaders in the place they are operating in
- c. They are also getting into Electronic Fuzes - pending approval from the Indian army. Usage in grenades, missiles, drones, etc
- d. Kavach provides near-term visibility
- e. **Idea#2 - Praj Industries**
 - i. Zero liquid discharge
 - ii. Ethanol blended petrol

19. Idea 19: Viraj Mehta - IFB Industries Ltd

- a. Market leaders in washing machine business. Gaining market share in washing machine
- b. Segments
 - i. Home appliance segment
 - ii. AC
 - iii. Microwave
 - iv. Fridge
 - v. Engineering segments- has higher EBITDA when compared to capital goods
- c. Risks
 - i. Competitive intensity
 - ii. Change in product financing for consumers
 - iii. Change in govt policy(product& import)
 - iv. Change in brand perception

20. Idea 20: Vihang Naik - Styrenix

- a. New management has been hired in November 2022. Rakesh Agrawal is the new Chairman and Rahul Agrawal is the MD. Solid credentials
- b. In a year's time, the company has been able to get its books straight – Debt reducing on a YoY basis
- c. Into Acrylonitrile Butadiene Styrene (specialty), styrenics plastics and polystyrene (commodity)
- d. End customer industry – Auto, Footwear, Electronics goods, Food packaging, etc.
- e. Competitor of Kingfa? Check
- f. Growth triggers
 - i. New management, hungry management
 - ii. Debt reducing

- iii. Increased capacity utilization of the existing plants and also commissioning of new CapEx