Annual Meet

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Very Important To Not To Lose Perspective

- Biggest opportunities are born during such points of maximum pessimism.
- We may already be in the bottom quartile.
- India disappoints the optimist & the pessimists both. Things are not as bad as they seem to be.
- It is equally difficult to predict a strong slowdown.

Stock Price Has Gone Down Or Investment Hypothesis Has Gone Wrong ?

- In the investment world, things do go wrong and we must remain open to changing our mind when the hypothesis goes wrong.

- Off course - In many cases, a major fall in the stock price is a sign of things to come.

When Should You Be Worried About Your Stocks Falling ?

- *Liquidity risk* – the business does not have the capital to run day to day operations
- *Solvency risk* - the business may go bankrupt
- *Business risk* – the business model itself is under threat due to change in technology, regulations etc.
- *Fraud risk* – the reported numbers are fudged & management is questionable
- *Valuation risk* – astronomical valuations getting de-rated

Every Company With Debt Is Being Viewed Bad.

- Capital-intensive businesses have become untouchable.
- It cannot continue for long & this phase too shall pass.
- On the contrary, we find a great deal of value in old economy & asset heavy industries.
- Capacities are getting filled up & capital is scarce.
- It is very difficult to put a new asset on ground.
- Companies with existing installed capacities are in a position to have a good multi year run in their profitability.

We Must Be Counterintuitive

- Untouchability of an investment idea in the early phases is the source of alpha generation.
- Majority of our portfolio stocks are out of favor at this point due to perception issues, or temporary headwinds.
- As long as we are paying dirt cheap valuations while buying them, we should be okay.

Drawdowns Are Quotational

- We believe that our companies have the business strength & the balance sheet to survive this period of economic difficulty. Current losses are quotational. We must sit through this phase.

- The revival in the stock prices will be much faster than what we are anticipating right now.

Stocks, Hypothesis, Pain Points In The Portfolio

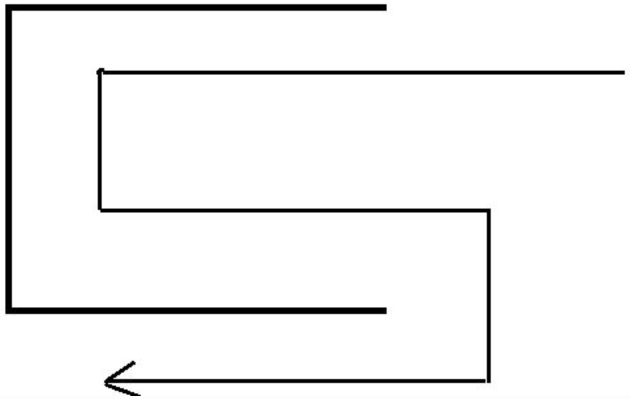
- Discussion around all our portfolio holdings.
- Stocks where hypothesis is on track.
- Pain points in the portfolio.
- Allocation re-adjustments.

What We Could Have Done Differently ?

- We would have certainly curtailed our allocations to more normalized levels.
- Discovery of an idea is not everything.
- How you build a position over a period is equally critical.
- We do not have the ability to time everything perfectly.
- The only way to tackle with this issue is to control allocations & scale up on evidence.
- Too large allocations create a lot of peer pressure or self-generated pressure.
- Are we too early ?

Important To Have A Switching Mindset

Stuck in the stock & old thought process. Not able to move forward.



Sometimes we have to go east, to go west. Flexibility in thinking i.e. switching

Portfolio Performance

	FY19	FY21
Sales Growth	15%	~11-12%
Operating Profits Growth	92%	56%
PAT	Swung from -11 cr to +344 cr	Should improve from 344 cr to 779 cr
Net Debt Increase	~4%	Should reduce by ~8%
ROE	Improved from -0.2% to 6.2%	Should improve to ~12%
ROCE	Improved from 3.1 to 8.6%	Should improve to ~14.5%
Debt To EBIDTA	7.7x to 4.2x	Should improve from 4.2x to 2.5x
Debt to Equity	Flat at 1.09x	Should Improve from 1.1x to 0.85x
PE	~10x	forward PE of ~4.5x
Price To Book	Fallen from 1.36x to 0.65x	forward PB of ~0.5x
EV / EBIDTA	Fallen from 17x to 6.4x	forward EV / EBIDTA of ~4.1x

 # Ex of banks

Dealing With Lows….This Is Not The First Time

- *KRBL* – Bought at 30 rs. Went to 54 rs, and then collapsed to 18 rs. Eventual exit at 500+
- *Mirza International* – Stock didn't move for first 2 years
- *IFB Industries* – Bought at 90 rs. Fell to 40 rs over the next 2 years. Eventual exit at 500+

Area’s That We Are Interested In

- Anything which is not expensive, unpopular, has a good runway ahead & where the growth is underpriced.
- Stocks with temporary headwinds but long term tailwinds. Stocks that have not done well during 2014 to 2018, and have become even cheaper in present correction.
- Companies where balance sheets are expected to improve with a steady state growth, return metrics i.e. ROE, Roce, Debt to Equity can improve substantially. And markets are not pricing it in.
- Stocks / pockets where, asset based valuations are at 12-15 year low & the prospects are at 10 year high.

Area's That We Are Interested In

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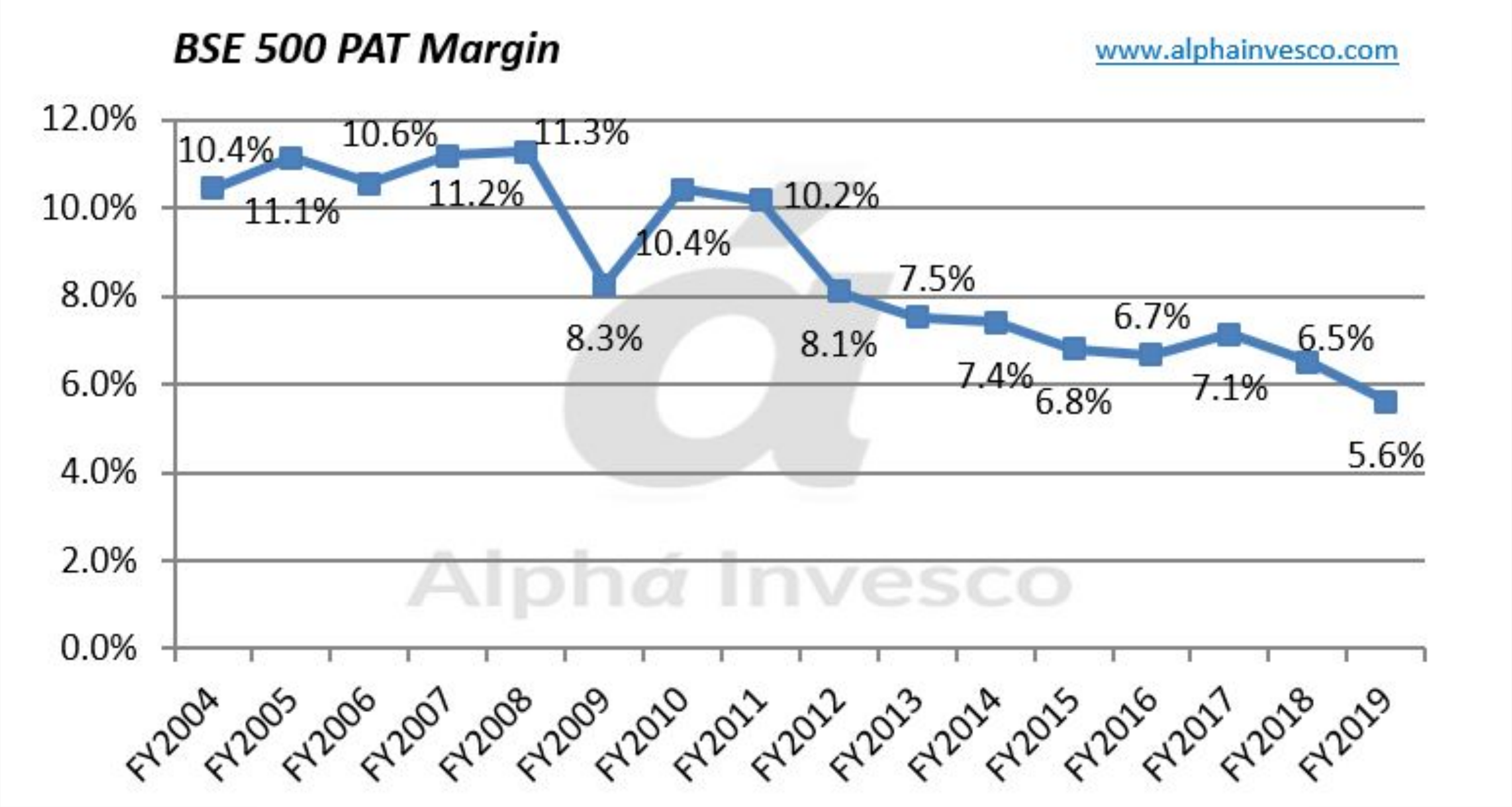
Name	Total Assets CAGR FY04-09	Total Assets CAGR FY09-14	Total Assets CAGR FY14-19	Total Assets CAGR FY04-19	Total Debt CAGR FY04-09	Total Debt CAGR FY09-14	Total Debt CAGR FY14-19	Total Debt CAGR FY04-19	Total Sales CAGR FY04-09	Total Sales CAGR FY09-14	Total Sales CAGR FY14-19	Total Sales CAGR FY04-19
All Stocks												
NIFTY	24.4%	16.0%	12.6%	17.6%	30.3%	18.5%	11.1%	19.7%	27.1%	15.8%	7.9%	16.7%
BSE 500	24.6%	16.8%	9.6%	16.8%	28.9%	19.7%	9.8%	19.2%	26.2%	15.2%	7.7%	16.2%
NIFTY MidCap	24.0%	18.9%	8.7%	17.0%	25.0%	24.7%	10.8%	20.0%	25.5%	16.8%	9.0%	16.9%
NIFTY SmallCap 250	24.2%	15.7%	4.5%	14.5%	29.4%	15.9%	4.6%	16.2%	27.8%	13.0%	5.3%	15.0%
PSU	20.8%	16.7%	4.8%	13.9%	16.6%	19.2%	8.7%	14.7%	18.5%	12.7%	4.1%	11.6%
Mcap Rank 501-1500	32.3%	13.8%	0.7%	14.9%	26.5%	18.2%	1.4%	14.9%	16.5%	13.1%	-0.1%	9.6%
Mar'19 MCap 25 to 700 cr	28.8%	15.0%	-0.4%	13.8%	27.0%	17.8%	1.0%	14.7%	14.8%	13.6%	-5.5%	7.2%
All Listed Companies	25.3%	16.4%	8.3%	16.5%	28.3%	19.3%	7.5%	18.1%	24.4%	14.6%	5.8%	14.7%

- FY 04 to 09 - saw a huge boom in manufacturing, core sectors led by global factors.
- FY 09 to FY 14 - witnessed a big capex cycle, spurious lending by banks, crony capitalism
- FY 14 to FY 19 – Consolidation, weaker players going bankrupt, capacity utilization inching up steadily
- **FY 19 to FY 24 – Revival in core sector led by domestic demand ?**

Area’s That We Are Interested In



- **Stocks where margins & valuations are at multi year low. Combination of capacities getting filled up + margin recovery should throw really interesting opportunities.**

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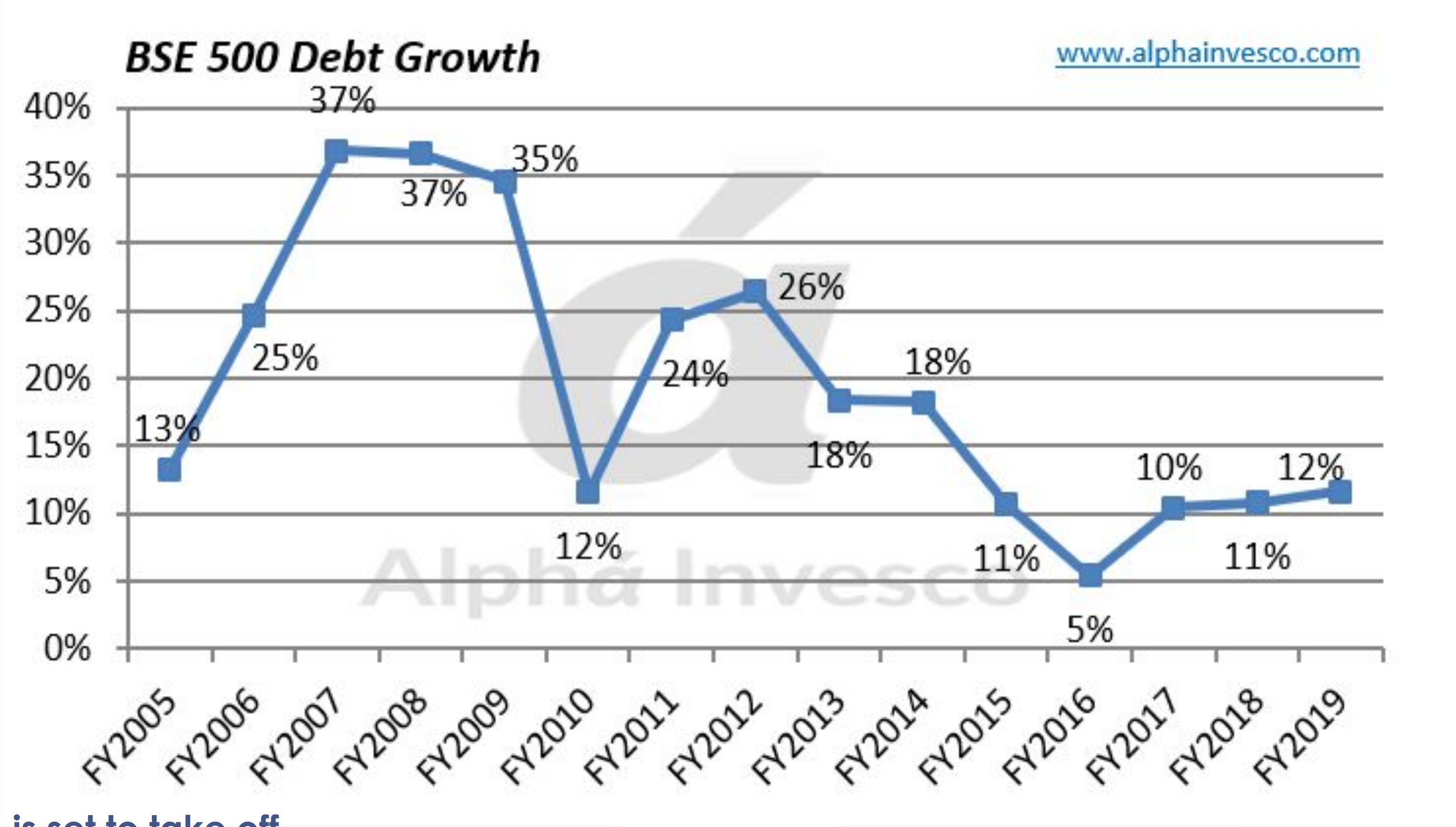
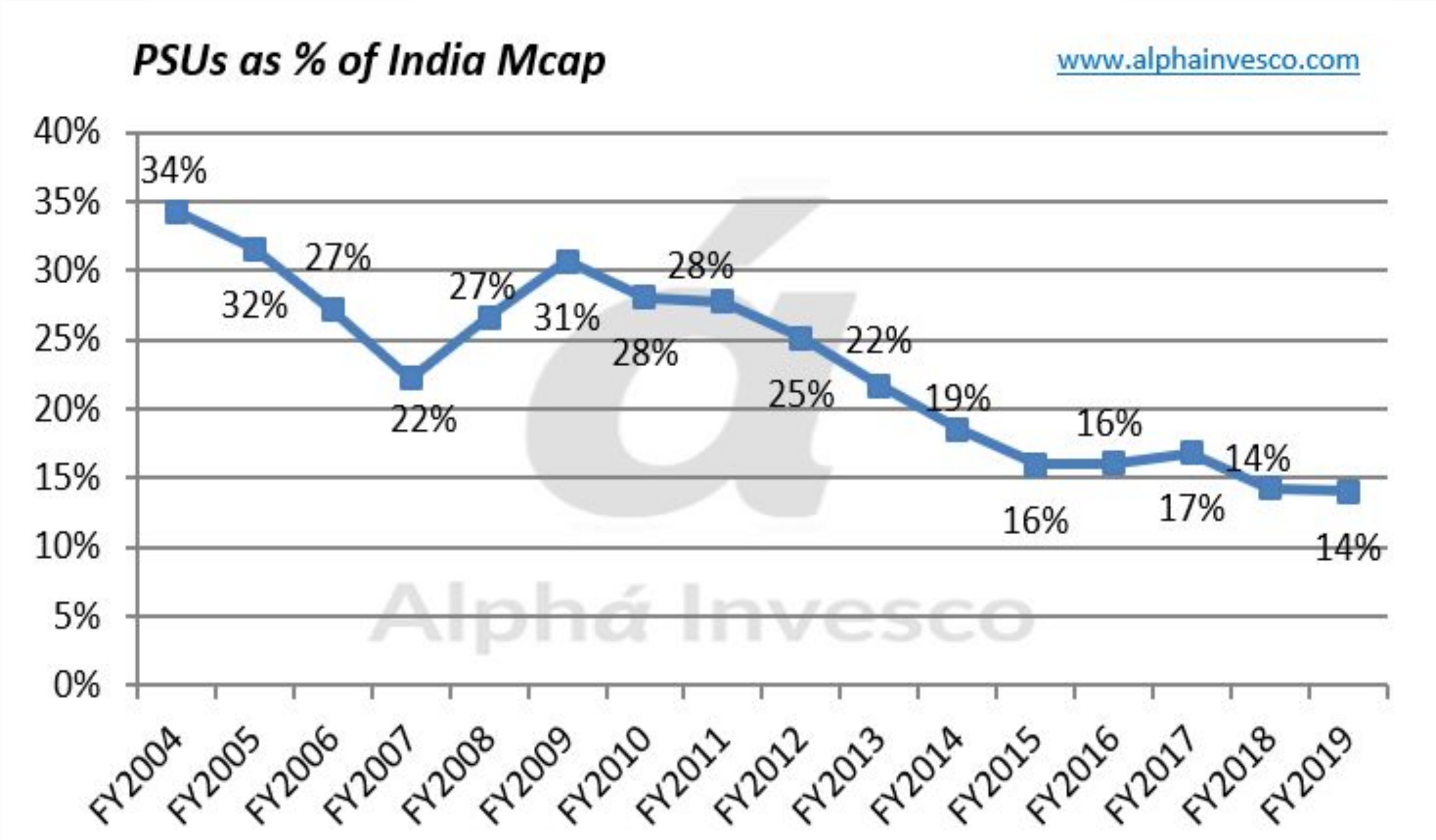


- **Credit cycle is set to take off.**
- **Current liquidity crisis is good. Companies have started chasing cash flows. Only stronger players will survive. Consolidation across various industries & supply chains.**

Area's That We Are Interested In



- **Throwaway valuations in PSU's. Haven't done well over the last 10 years. Investors are not willing to touch. Everyone wants to jump on the quality bandwagon at astronomical valuations.**
- **PSU's are directly linked with core economic recovery. Recovery in profitability + valuations ?**

Area’s That We Are Avoiding

- Overcrowded trades, anything that is trading at expensive valuations on normalized earnings. Quite often, we mistake industry tailwinds for moats or management brilliance.
- Buying something just because it has done well in the last 5-10 years. The economic landscape & consumption patterns in India are changing.
- Buying something just because stocks have fallen from the top. One may end up in getting into done & dusted themes.
- Buying into marginal players in the industry .

This Too Shall Pass…Great Time To Increase Equity Investments

- India is going through a period of big re-adjustment due to new regulatory frameworks such as GST & NCLT, coupled with increased tax compliance.

- Short term concerns like slowdown in a certain part of the economy, taxation issues are not going to kill the 5 trillion $ story overnight.

- This is certainly not the time to panic & run away from equity investments amidst all the gloom & doom.

Power Of Equities

Our old clients have witnessed the power of equity.

While those who are with us since last 3 years or so are witnessing the horror of equity at this point.

They too shall witness the power of equity.

Q n A

Please do write to us at support@alphainvesco.com if you have any suggestions.

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