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Value Research
August 2018
₹125

Wealth Insight

PROFIT 100

India's most profitable companies

Value Guru p. 23

Invest in companies with share of mind the Warren Buffett way

Special Feature p. 35

Aswath Damodaran, the valuation guru, talks about how to value a business

MUTUAL FUNDS *Sahi Hai*

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Presenting HDFC Capital Builder Value Fund.

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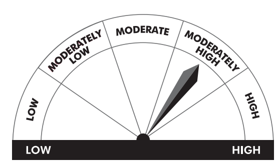
- Investment primarily in undervalued stocks

Riskometer



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Mutual Fund investments are subject to market risks, read all scheme related documents carefully.

Value Research
Wealth Insight

August 2018
Volume XII, Number 2

EDITORIAL POLICY

The goal of *Wealth Insight*, as with all publications from *Value Research*, is not just limited to generating profitable ideas for its readers; but to also help them in generating a few of their own. We aim to bring independent, unbiased and meticulously- researched stories that will help you in taking better-informed investment decisions, encouraging you to indulge in a bit of research on your own as well.

All our stories are backed by quantitative data. To this, we add rigorous qualitative research obtained by speaking to a wide variety of stakeholders. We firmly stick to our belief of fundamental research and value-oriented approach as the best way to earn wealth in the stock market. Equally important to us is our unwaveringly focus on long term planning.

Simplicity is the hallmark of our style. Our writing style is simple and so is the presentation of ideas, but that should not be construed to mean that we over-simplify.

Read, learn and earn – and let's grow and evolve as we undertake this voyage together.

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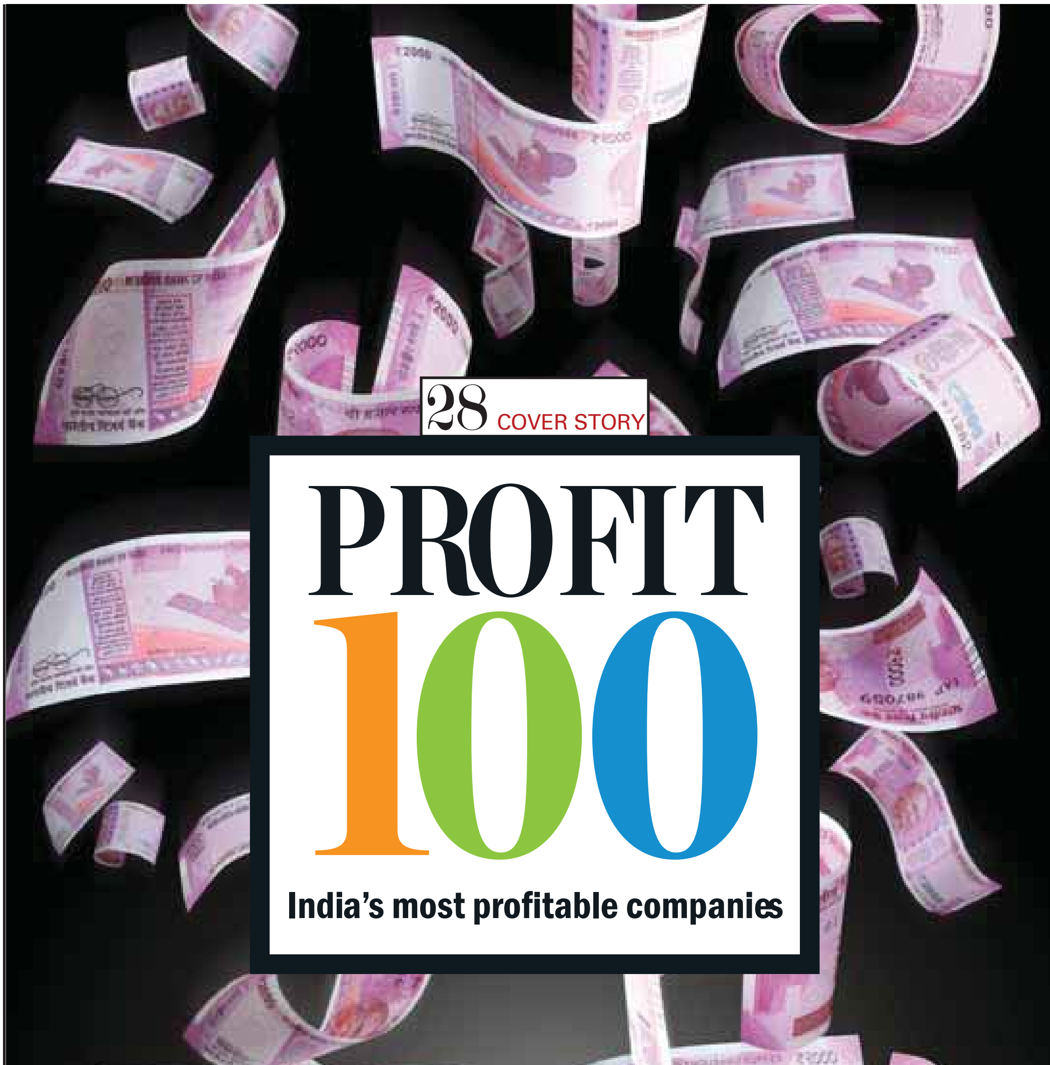

Columns

MUTUAL FUNDS *Sahi Hai*

3 Daily Good Habits

Drinking eight glasses of water

Exercising

Reading the newspaper

Cultivate another. Invest through

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The chosen ones

Based on long-term ROE and profit growth, our Profit 100 list can be a good starting point to research on promising stocks

DHIRENDRA KUMAR

The 'list' articles that business magazines and newspapers are fond of doing seem to have little utility for readers from an investment perspective. It's entertaining to learn which is the largest company by sales or market capitalisation in the world, and I guess those list articles are a kind of beauty parade for those running the companies to be featured in an XYZ 100 or 500 listing. But these listings are not a useful input of any kind to an investment-research process. Without context, the revenue or market cap of a company mean nothing.

However, as you can see, the *Wealth Insight* issue that you are reading now itself has a list-based story. So why is *Wealth Insight* doing such a story? Why are we abandoning our own dislike of such articles? Our list is not based on market cap or sales or anything else which is essentially a surrogate for a company's size. It's not even based on profits, which is what you might have thought at first sight of the cover headline. Instead, it is based on net profit growth and return on equity (ROE), which have a deep significance in investing. Moreover, it's not even based on a one recent snapshot of profit and ROE but a very long-term trend of 10 years. This makes it a very robust, high-fidelity measure of the quality of a company as an investment prospect.

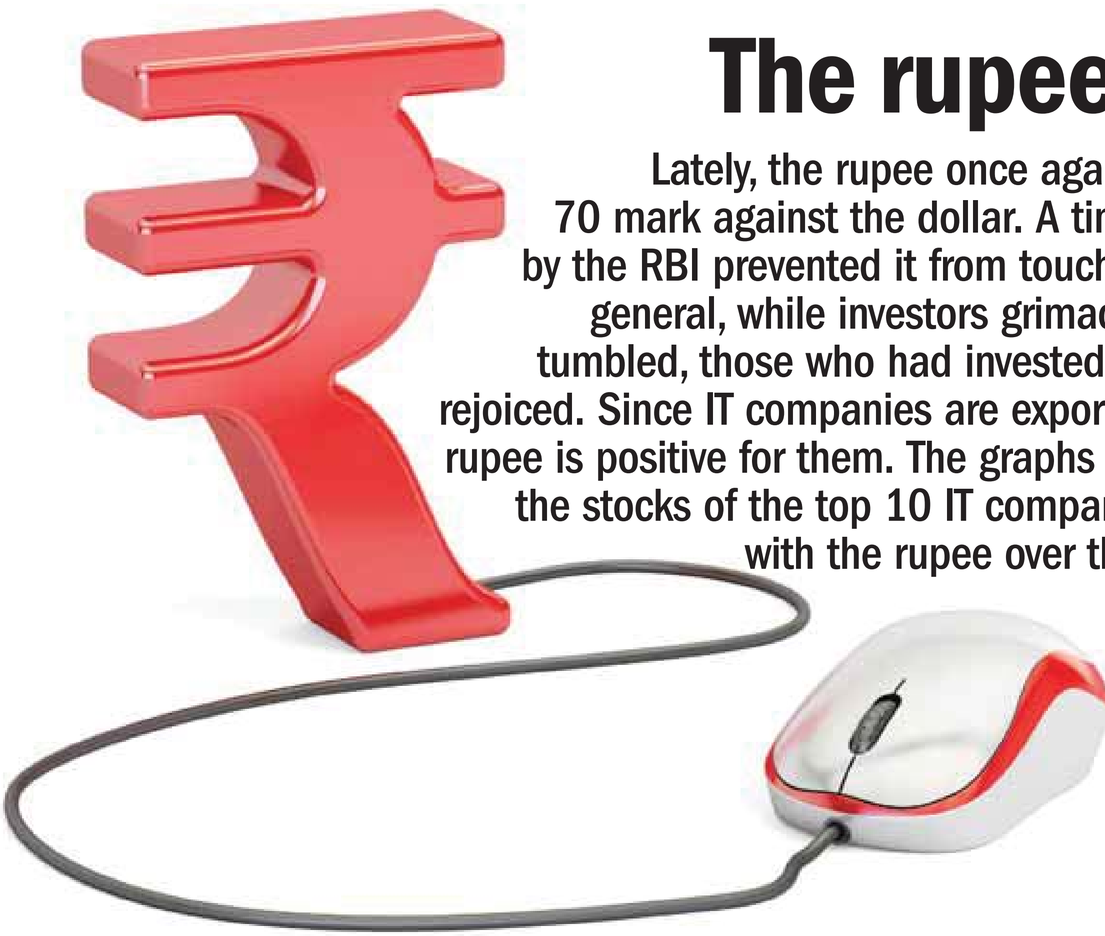
Profit growth is a great indicator of a company's financial health, the sustainability of its profits are and, most importantly, how well it can sustain itself through adverse times. A company that is thin on profit growth may spiral into losses and decline when conditions turn bad. A more profitable company can easily survive bad times and come back stronger. More-profitable companies can also compete much harder if they need to. They can invest more in the business and when needed, they can fight price battles with weaker competitors. Thus, at Value Research, we feel that if a list is to be done at all, then it must be of use to investors and selecting the most profitable companies is the best way to select any list.

Just as I'm writing this page, there's some news that's a great example of this. Alphabet's (Google's parent company) quarterly results have been released, revealing that its net profit is up 73 per cent. When you get numbers like these, you can look at the rest of the financials (sales are up 25.8 per cent to $31 billion), but there's little doubt about the basic business situation.

Long-term trends in profitability are a good fundamental measure to look at. However, that hardly means that investors are not obsessed with the short-term shaking and rattling that is always going on. Over the last few months, I'm getting more than a little tired of the moaning and groaning from investors about the sharp decline in mid caps. People have a long list of complaints, which are basically in the nature of how much X or Y stock was rising and how much further they thought it would rise but instead it fell.

We all know that, and the cure is definitely not to wish that such things would not happen or that one should not invest. The cure is actually very simple. Choose stocks carefully based on fundamentals, and on top of that, practise cost averaging and diversification in a disciplined manner. Most casual stock investors do not make or follow any rules or even guidelines for themselves. Often, one comes across people who are almost all mid caps, with most of their capital in just three-four stocks.

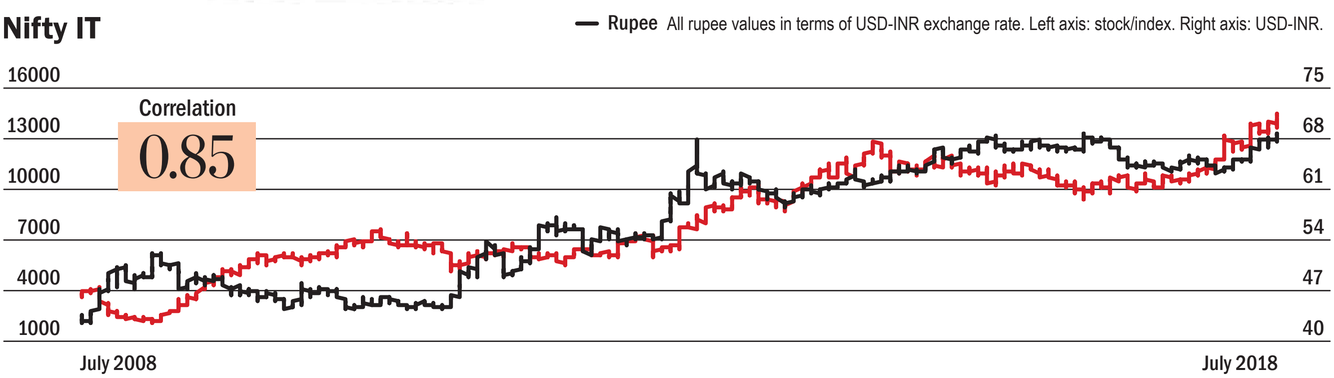
I think most of our readers know why that is wrong and what to do about it. The trick is to actually implement it.



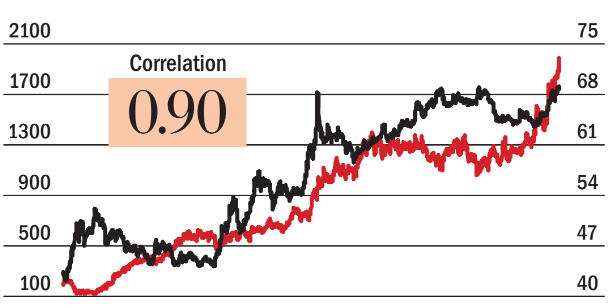
The rupee factor

Lately, the rupee once again headed to the 70 mark against the dollar. A timely intervention by the RBI prevented it from touching the mark. In general, while investors grimaced as the rupee tumbled, those who had invested in IT companies rejoiced. Since IT companies are exporters, a fall in the rupee is positive for them. The graphs below show how the stocks of the top 10 IT companies have moved with the rupee over the last 10 years.

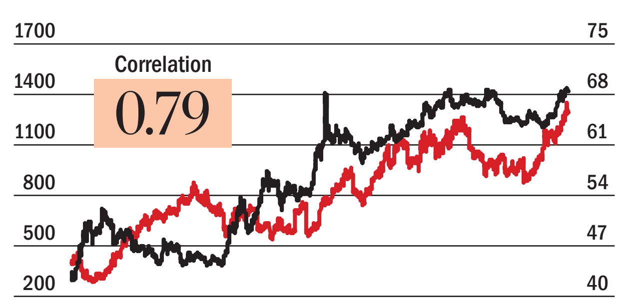
Nifty IT



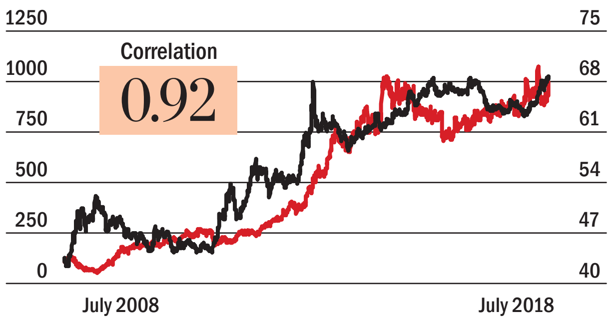
Tata Consultancy Services



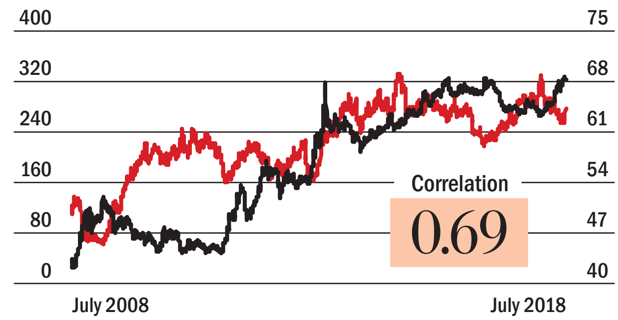
Infosys



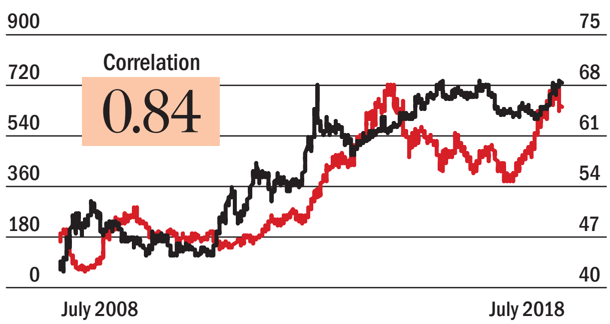
HCL Technologies



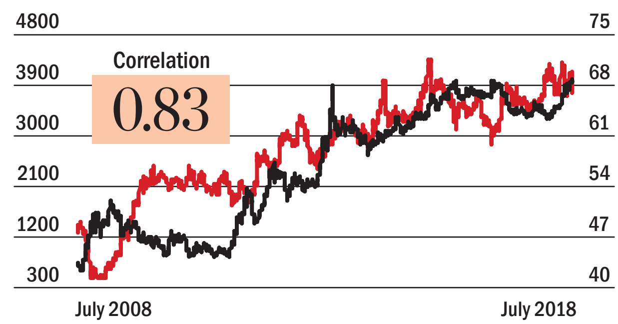
Wipro



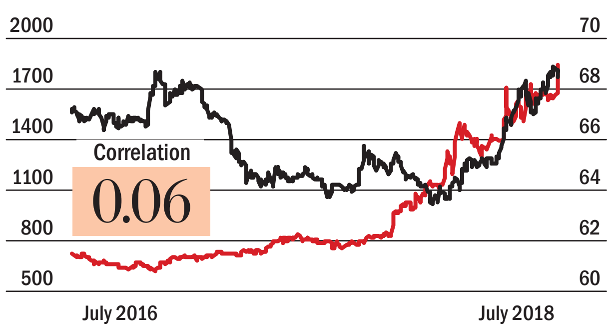
Tech Mahindra



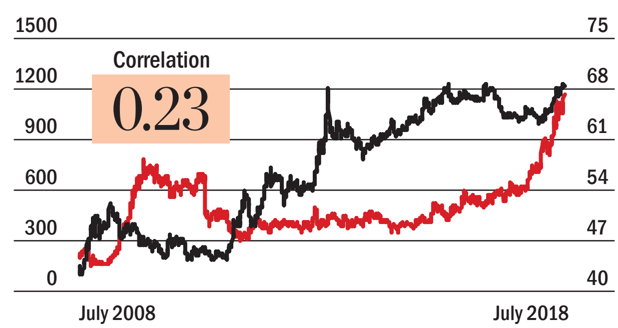
Oracle Financial Services Software



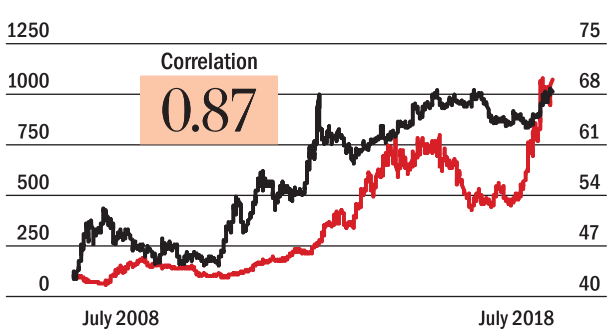
Larsen & Toubro Infotech



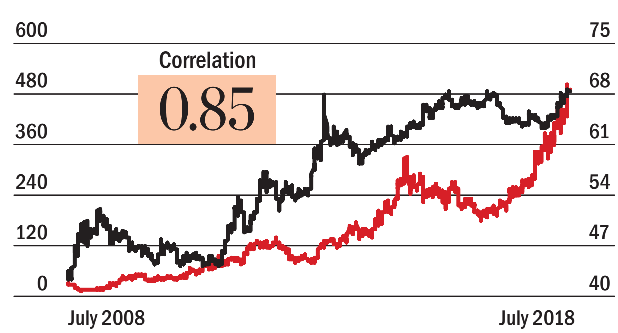
Mphasis



Mindtree



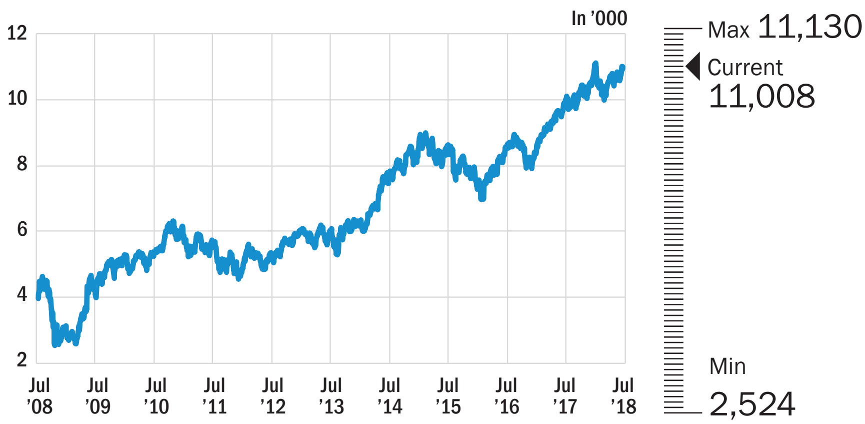
Hexaware Technologies



Market barometer

Here are some charts that will help you make sense of the current market in terms of valuations and return potential

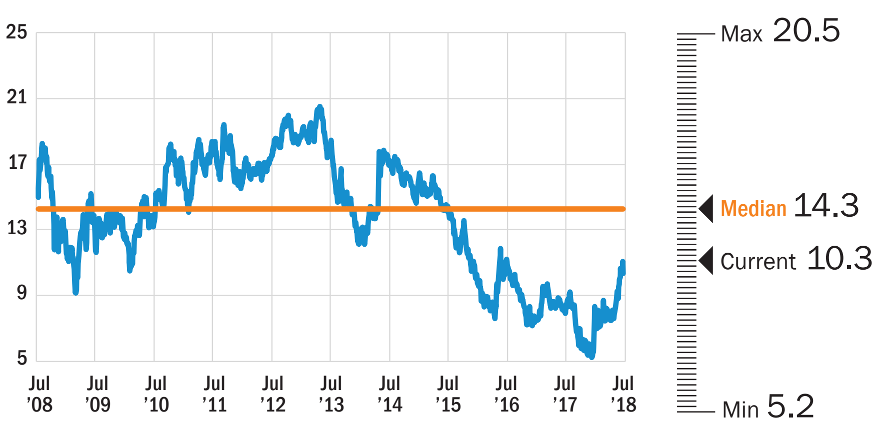
Nifty 50's movement



The Nifty 50 is the most convenient indicator to tell the state of the market. Since 2014, with the coming of the NDA government, the Nifty 50 has been on the rise. Sure there have been hiccups in between, but the upward trend has remained intact.

Three events caused a fall in the Sensex in the interim: Chinese growth concerns in 2015, demonetisation in 2016 and the latest sell-off in the market in 2018.

Nifty 50's 10Y rolling returns



While the above chart does tell you about the general direction of the Nifty 50, it tells you little about the relative returns, i.e., what returns you would have made at various points in time.

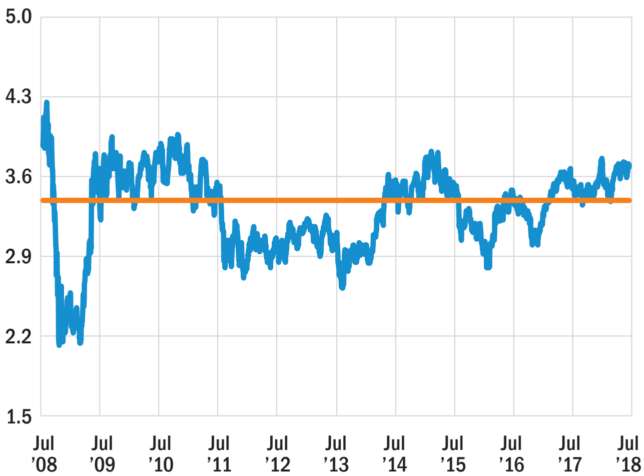
The accompanying chart is a 10-year rolling-return chart that helps you compare 10-year returns from the Nifty 50 at various points.

Nifty 50's price to earnings

The price-to-earnings ratio of the Sensex is a simple market-valuation ratio. A general guideline to help understand the valuation is:

P/E > 24	=	Dangerously overvalued
P/E > 20 < 24	=	Overvalued
P/E > 16 < 20	=	Fairly valued
P/E > 12 < 16	=	Undervalued
P/E < 12	=	Highly undervalued (mouthwatering valuations)

Nifty 50's price to book value



Max 4.3

Current 3.7

Median 3.4

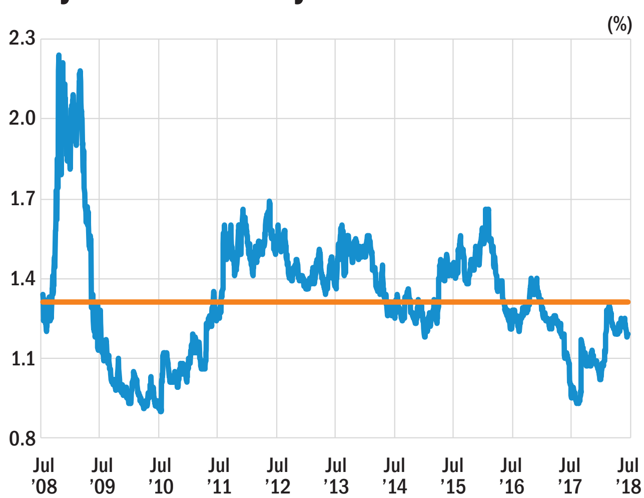
Min 2.1

The price-to-book value ratio tells us how many times an investor is ready to pay for a rupee of net assets.

Since book value is stable and less volatile than earnings, some consider it better than the P/E as a measure of valuation. If

P/B > Median P/B = Overvalued
P/B < Median P/B = Undervalued

Nifty 50's dividend yield



Max 2.24

Median 1.31

Current 1.19

Min 0.90

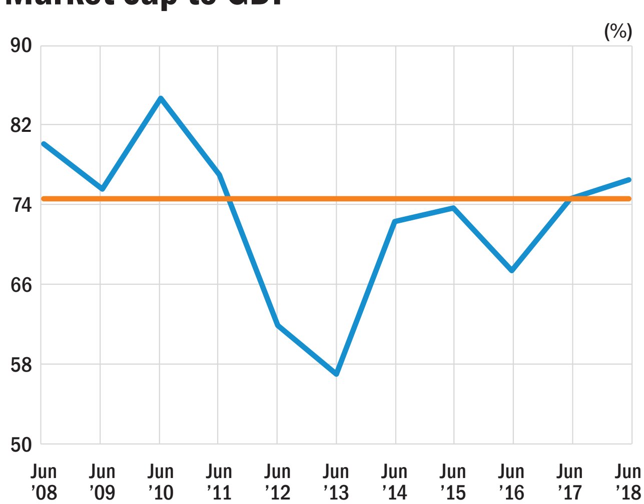
Dividend yield is nothing but the return an investor gets in the form of dividend on his investment. It is measured as dividend per share divided by price per share.

Generally speaking, when stocks are cheap, dividend yields are high.

If

Dividend yield > Median dividend yield = Undervalued
Dividend yield < Median dividend yield = Overvalued

Market cap to GDP



Max 84.7

Current 76.5

Median 74.6

Min 57.0

This measure is Buffett's personal favourite. He said, "It is probably the single best measure of where valuations stand at any given moment."

Here we have considered the market capitalisation of all the listed companies on the BSE.

If

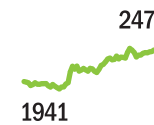
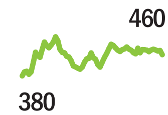
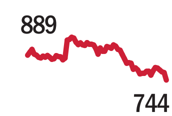
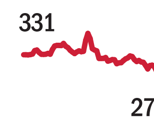
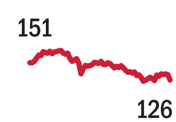
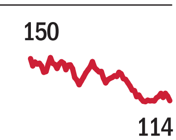
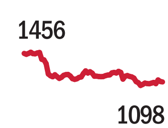
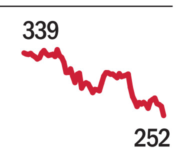
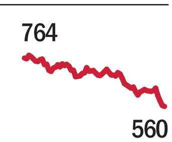
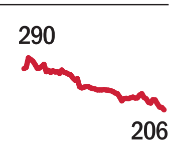
Market cap > GDP = Market overvalued
Market cap < GDP = Market undervalued

Data as on July 16, 2018

MARKET COMPASS

BIG MOVES: LARGE CAPS

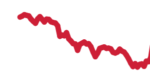
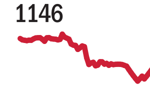
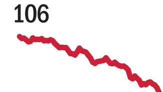
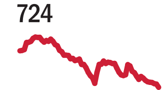
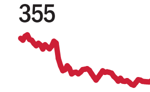
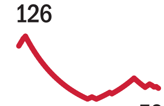
Our large-cap universe has 102 large companies, making the top 70 per cent of the total market capitalisation. The list mentions the stocks that have fluctuated most wildly in the last three months.

	3M returns (%)	Price to earnings / 3Y avg RoE (%)	Net profit (₹ crore) / 3Y earnings growth (%)	3M price (₹) movement
Bajaj Finance The company's profit grew 60% YoY in Q4, to ₹721 crore from ₹449 crore.	27.4	53.1 21.1	2647 43.4	 2473 / 1941
Indiabulls Ventures The FY18 net profit rose by 131.5% YoY, to ₹237 crore from ₹102 crore.	21.0	120.4 35.6	237 16.3	 460 / 380
Sun TV Network The stock fell amidst the recent market-wide correction.	-16.3	26.3 25.7	1093 14.0	 889 / 744
The New India Assurance The company reported a 39% drop YoY in Q4 profit.	-16.3	21.3 9.9	2091 —	 331 / 277
Ashok Leyland The increase in axle-load limit of trucks is a negative for the company.	-16.7	21.4 24.2	1821 51.2	 151 / 126
Bank of Baroda The bank's losses swelled to ₹3,102 crore in Q4 as compared to the profit of ₹155 crore a year ago.	-24.1	— -4.2	-2432 -189.4	 150 / 114
Interglobe Aviation A steep rise in crude-oil prices is negative for the company.	-24.6	19.2 74.3	2242 —	 1456 / 1098
Tata Motors A slowdown in JLR sales and a drop in margins hit the stock.	-25.8	8.3 16.1	6813 -21.5	 339 / 252
UPL The company failed to meet its revenue guidance of 8–10% in FY18.	-26.7	14.4 28.1	2122 22.1	 764 / 560
Vedanta Trade-war fears have resulted in a meltdown in metal stocks.	-29.1	7.6 -11.9	13890 47.7	 290 / 206

Data as on July 16, 2018

BIG MOVES: MID CAPS

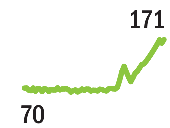
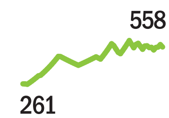
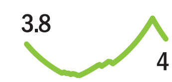
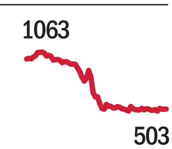
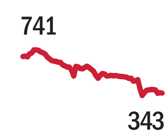
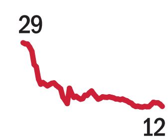
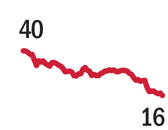
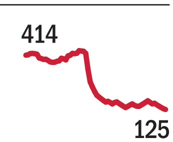
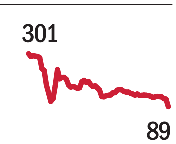
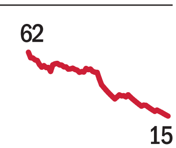
Our mid-cap universe has 234 mid-sized companies, making the next 20 per cent of the total market capitalisation. The list mentions the stocks that have fluctuated most wildly in the last three months.

Company	3M returns (%)	Price to earnings 3Y avg RoE (%)	Net profit (₹ crore) 3Y earnings growth (%)	3M price (₹) movement
Graphite India Steep increase in graphite prices due to Chinese restrictions on mining led to a multi-fold increase in profits.	30.0	18.3 17.8	914 123.2	 918 706
KRBL The company is allegedly involved in the Agusta helicopter scam.	-22.4	17.8 23.8	434 10.5	 433 336
Adani Power The company reported a loss of ₹667 crore in Q4. Its revenue fell by 36% YoY.	-24.6	— -72.4	-2090 -182.6	 26 20
ITI The Q4 profit fell 24% YoY.	-33.5	33.5 23.1	231 40.5	 127 85
Dilip Buildcon The rumours of the auditor's resigning led to a sharp correction in the stock.	-34.9	17.5 21.4	620 5.2	 1146 746
NCC The stock fell amidst a sharp correction in mid and small caps.	-39.1	30.0 2.8	287 36.9	 131 80
NBCC India The company's South Delhi project has been stayed by NGT over cutting trees.	-41.8	31.8 21.5	366 9.6	 106 61
Avanti Feeds The company's growth momentum stalled in Q4, when its profits fell 3% YoY.	-42.1	12.9 48.4	465 58.6	 724 419
Rain Industries The stock took a deep dive after the company's inclusion in SEBI's Advanced Surveillance Measures list.	-51.9	6.0 14.1	992 111.9	 355 171
Vakrangee The company is under SEBI investigation on account of alleged price manipulation by its promoters.	-60.2	7.4 33.5	680 28.3	 126 50

Data as on July 16, 2018

BIG MOVES: SMALL CAPS

Our small-cap universe (minimum market capitalisation ₹400 crore) has 594 small-cap companies, making the last 10 per cent of the total market capitalisation. The list mentions the stocks that have fluctuated most wildly in the last three months.

	3M returns (%)	Price to earnings 3Y avg RoE (%)	Net profit (₹ crore) 3Y earnings growth (%)	3M price (₹) movement
Atlas Jewellery India Investors are betting on a quick revival of the company after its founder was granted bail in a debt-default case.	145.4	— -2.3	-4 -208.0	 171 70
Sadhana Nitro Chem The company reported 167% and 1650% growth in revenues and profits, respectively, in Q4 YoY.	113.8	16.8 250.9	31 95.3	 558 261
Alok Industries The company is facing liquidation under the Insolvency and Bankruptcy Code.	4.2	— -66.6	-17797 -517.0	 3.8 4
Weizmann Forex The Q4 profit dropped 85% in Q4 YoY.	-52.6	18.3 21.9	34 22.4	 1063 503
8K Miles Software Services The company delayed declaring its Q4 results.	-53.7	221.5 36.6	5 90.7	 741 343
Reliance Naval and Engineering The company made a loss of ₹409 crore on revenues of ₹33 crore in Q4.	-59.4	— -24.6	-956 -192.9	 29 12
Hathway Cable & Datacom The company is likely to face intense competition from Reliance Jio GigaFiber.	-59.5	— -18.5	78 34.7	 40 16
Manpasand Beverages The company's auditor resigned.	-69.8	14.3 14.0	100 49.3	 414 125
PC Jeweller The company's had to withdraw its buyback proposal.	-70.5	6.2 17.8	567 14.5	 301 89
Kwality The company deferred its buyback offer. It has also shut its Dubai operations.	-75.0	3.8 24.4	71 -20.4	 62 15

Data as on July 16, 2018

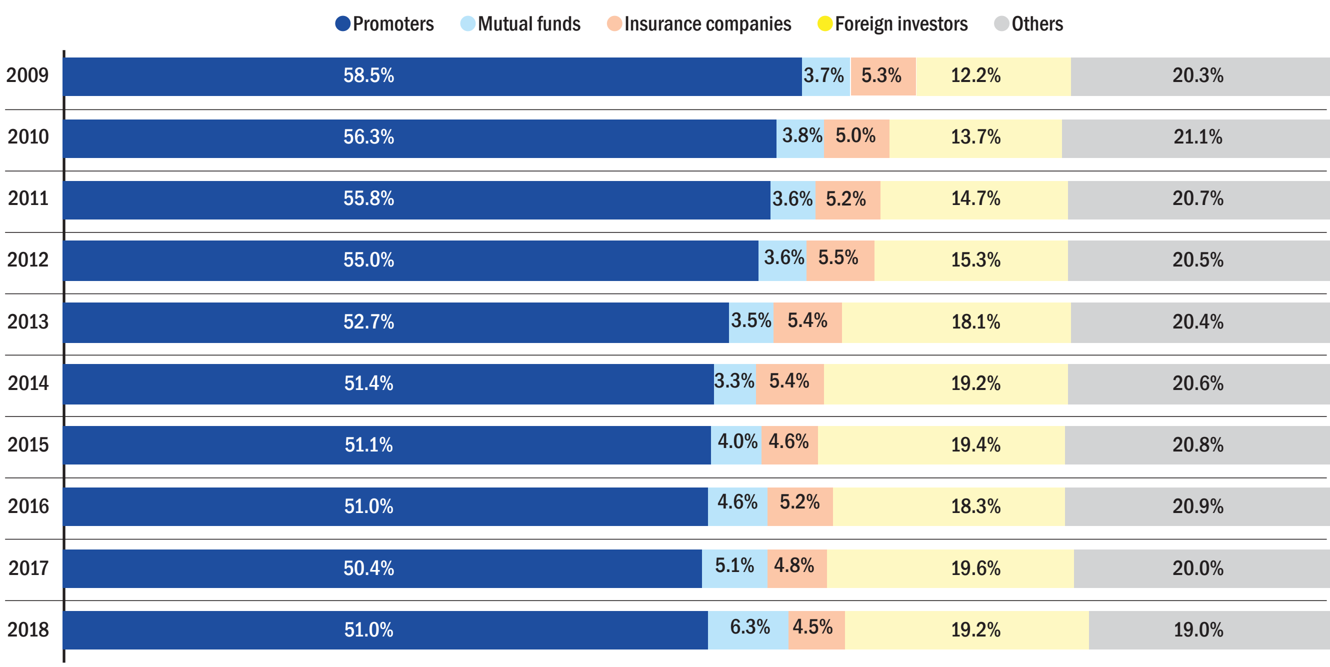
Who owns how much?

Shareholding pattern tells us who owns how much of a company. Companies are mandated to report their shareholding patterns quarterly. An aggregate picture of the shareholding pattern tells us which investor group has the most clout in the market. Here is some historical perspective on the shareholding patterns of all listed companies on the BSE.

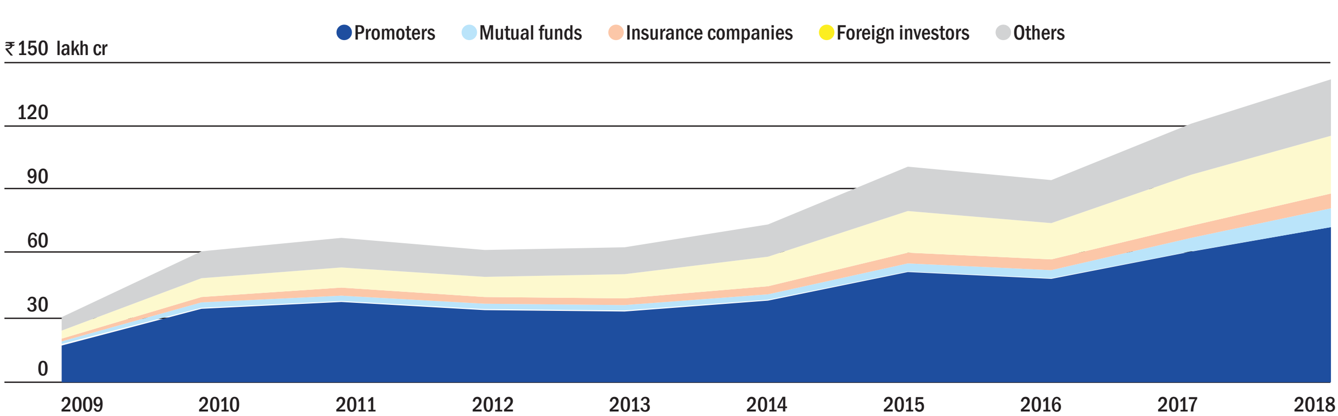
All data as of March-end.

Segmenting the market

Here is how the shareholding pattern of all the listed companies on the BSE has changed over time. As one can observe, promoters' holdings have come down since 2009 and the ownership by mutual funds and foreign investors has gone up.

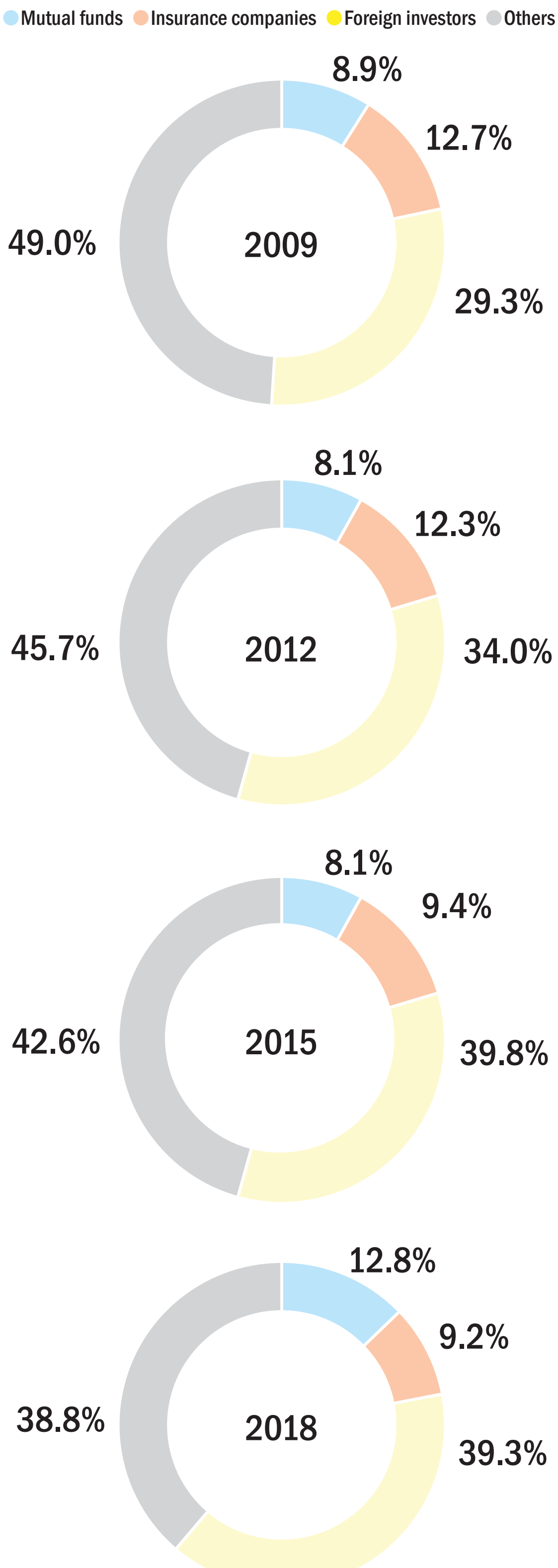


Here is how the ownership pattern has changed over time in terms of market capitalisation.



The free-float donut

In the non-promoter portion of shares, or free float, foreign investors have raised their stakes substantially



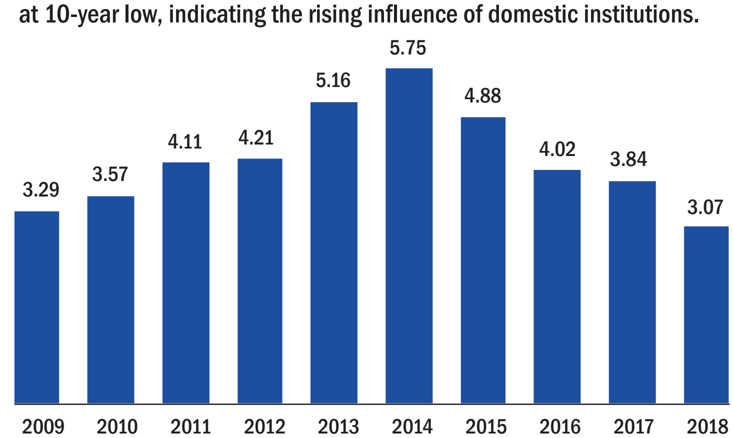
The top 20

Here is the list of top 20 shareholders. The bracketed items mention the companies in which some of these shareholders hold their stakes.

Top 20	Value of investments (₹ cr)	% of total m-cap
Government of India	12,83,500	8.67
Tata Sons	6,18,669	4.18
LIC	6,17,270	4.17
Uniliver (in HUL)	2,12,964	1.44
HDFC (in HDFC Bank)	1,68,340	1.14
Suzuki Motor Corporation (in Maruti Suzuki)	1,62,158	1.09
HDFC Mutual Fund	1,06,272	0.72
Azim Premji & Trust (in Wipro)	91,912	0.62
Grasim (in Ultratech and Aditya Birla companies)	90,392	0.61
Tobacco Manufacturers (India) Limited (in ITC)	82,813	0.56
Europacific Growth Fund	82,746	0.56
Uday Suresh Kotak (in Kotak Mahindra Bank)	77,828	0.53
Vedanta (in Hindustan Zinc)	77,648	0.52
ICICI Mutual Fund	77,449	0.52
Bajaj Finserv Holdings	75,207	0.51
Devarshi Commercials LLP (in Reliance Industries)	74,941	0.51
Bharti Telecom (in Bharti Airtel)	73,569	0.50
Srichakra Commercials LLP (in Reliance Industries)	72,601	0.49
Bajaj Holdings and Investment (in Bajaj Auto)	68,849	0.46
SBI Mutual Fund	68,583	0.46

Desi vs *videshi*

The ratio of ownership by foreign investors and domestic institutions is at 10-year low, indicating the rising influence of domestic institutions.



The PSU tracker

Government interference and lack of animal spirits are often blamed for the dismal condition of public-sector undertakings or PSUs. However, many PSUs operate in areas crucial for the country's development. They are also among the biggest companies in the country. Here is a synopsis of their past performance and current valuations. Since PSUs are also known for their high dividends, their dividend history has also been presented.

How are you, PSU?

Excluding public-sector banks

Company Name	Industry	Market cap (₹ cr)	5Y total ret. (%, CAGR)*	Earnings yield (%)	Current ROE (%)	5Y median ROE (%)	P/E	5Y median P/E	Dividend yield (%) Min	Dividend yield (%) Current	Dividend yield (%) Max
ONGC	Oil Exploration	2,00,648	-2.5	13.7	9.7	10.1	9.0	11.4	2.0	3.9	4.7
Coal India	Mining & Minerals	1,67,693	6.7	8.0	31.2	33.3	24.0	15.7	4.5	6.5	13.7
Indian Oil	Refineries	1,50,679	29.0	15.3	21.4	10.6	6.9	12.1	1.4	7.9	8.0
NTPC	Power Generation	1,25,414	4.0	7.2	10.7	12.3	11.7	11.4	1.5	3.2	4.5
Power Grid	Power Distribution	95,006	13.7	7.4	16.8	14.9	11.9	14.6	1.1		3.2
BPCL	Refineries	80,555	31.9	12.3	29.2	24.3	9.0	12.1	1.9	5.8	5.9
GAIL	Industrial Gases	78,183	16.1	7.6	10.4	10.4	16.2	14.8	1.2	2.0	3.4
NMDC	Mining & Minerals	32,604	8.5	15.8	10.0	20.6	8.6	9.7	3.2	4.2	19.1
SAIL	Steel & Iron Products	32,425	13.0	-3.2	-7.6	4.5	–	11.0	1.7	2.2	5.2
Container Corp	Logistics	30,886	18.7	3.7	9.7	14.5	29.8	29.3	0.7	1.4	1.9
BHEL	Industrial Equipment	24,929	-8.7	5.9	1.3	4.3	58.5	21.8	0.3	2.7	5.3
Bharat Electronics	Industrial Equipment	24,914	25.6	8.6	17.6	14.8	18.9	22.6	0.6	2.5	3.1
NHPC	Power Generation	23,648	11.4	13.4	12.8	9.8	13.6	10.0	1.2	5.3	8.5
Oil India	Oil Exploration	23,322	-2.2	7.4	3.9	11.8	8.5	11.1	3.3	6.1	7.2
REC	NBFC	19,729	8.1	12.4	20.2	23.3	4.4	5.0	2.5	10.1	11.0
Power Finance Corp	NBFC	19,075	10.0	10.2	6.1	20.0	3.4	5.7	2.6		10.8
NBCC (India)	Construction	12,384	53.4	5.4	21.9	22.5	34.5	46.7	0.1	0.4	3.7
NALCO	Aluminium	11,559	22.3	11.7	5.7	5.7	8.8	8.1	2.2		12.6

Company Name	Industry	Market cap (₹ cr)	5Y total ret. (%, CAGR)*	Earnings yield (%)	Current ROE (%)	5Y median ROE (%)	P/E	5Y median P/E	Dividend yield (%) Min	Current	Max
NLC India	Power Generation	11,487	12.2	13.8	15.4	11.2	5.9	7.9	2.5		6.0
KIOCL	Mining & Minerals	11,443	160.8**	0.9	2.3	1.4	141.5	244.9	0.0		0.2
SJVN	Power Generation	10,689	13.8	22.0	13.5	13.1	8.8	8.4	3.2	8.8	9.1
Engineers India	Engineering	7,716	16.3	9.5	11.7	12.1	21.3	22.1	1.2	2.5	4.9
ITI	Telecommunication	6,920	36.6	4.8	0.0	0.0	30.2	–	–	–	–
Hindustan Copper	Metal - Non Ferrous	5,584	-0.7	2.4	4.0	4.0	70.2	78.8	0.2	0.3	2.3
MMTC	Trading	4,860	-8.2	2.1	4.6	4.0	135.7	136.3	0.1	0.6	0.9
MOIL	Mining & Minerals	4,489	16.6	27.4	9.8	12.7	10.6	10.8	1.2	3.4	4.4
Chennai Petroleum	Refineries	4,459	31.7	16.6	34.8	-1.9	4.7	–	0.0	7.0	7.9
Rashtriya Chemicals	Fertilizers	3,873	18.0	6.1	6.2	10.0	49.3	13.5	1.0	1.6	5.6
BEML	Industrial Equipment	3,389	39.9	3.9	3.9	0.3	26.9	108.6	0.1	1.0	1.9
GMDC	Mining & Minerals	3,283	1.9	13.4	8.4	16.3	9.6	10.0	1.7	2.9	5.6
ITDC	Hotel & Restaurants	3,265	-20.6	0.5	2.9	2.9	159.3	171.9	0.0	0.4	1.4
FACT	Fertilizers	2,876	16.4	4.2	0.0	0.0	–	–	–	–	–
HMT	Tractors	2,818	-2.4	-6.9	0.0	0.0	–	–	–	–	–
Shipping Corp	Shipping	2,795	12.8	5.0	2.0	2.0	9.6	4.2	–	–	–
National Fertilizers	Fertilizers	2,213	7.8	10.2	11.8	0.5	10.4	10.4	0.0		4.1
Dredging Corp	Shipping	1,403	24.6	1.9	0.5	2.7	82.9	24.3	0.0		1.2
Andrew Yule	Diversified	1,127	19.0	2.7	11.8	5.3	72.2	49.3	0.0	0.2	0.6
MTNL	Telecommunication	986	-1.9	-9.3	0.0	0.0	–	0.0	–	–	–
State Trading Corp	Trading	823	9.9	5.7	0.0	0.0	22.3	22.0	0.7	1.5	2.8
Scooters India	Two & Three Wheelers	354	16.0	-5.7	-11.0	5.7	–	22.4	–	–	–
Hindustan Organic	Chemicals	139	17.0	-36.7	0.0	0.0	–	–	–	–	–
Bharat Immunologicals	Pharmaceuticals	75	10.4	-19.1	17.5	14.3	–	17.3	–	–	–
Punjab Communications	Telecommunication	34	-7.1	24.0	-7.0	-7.0	–	95.5	–	–	–

*Including dividends. **Returns since November 29, 2016. Data as on July 5, 2018.

SHIBANI SIRCAR KURIAN
Senior VP and Head of Equity Research, Kotak Mahindra AMC

'Never take the management at face value'

Shibani Sircar Kurian leads a team of analysts at Kotak Mahindra AMC. As head of equity research, she is an integral part of the stock picks that are hand-delivered to the fund managers. She also tracks the BFSI and IT sectors.

In an interview with **Kumar Shankar Roy**, Shibani talks about how trailing P/E valuation metric removes bias, explains the stock screeners her team uses and shares her outlook on banking and IT stocks.

Apart from being good at maths and finance, what are the other requisites for being a good analyst?
The basic requisite for being a good analyst is the ability to understand financial numbers, read annual reports and project earnings. In reality, equity research goes much beyond. To be a good analyst, one has to be able to understand sectors and their key drivers of value, cycles that they go through, and the key strengths and weaknesses of the companies operating in them. Assessing the quality of management, understanding capital-allocation policies and an ability to predict turnarounds are also some of the traits that a good equity analyst must build on.

In your fund house's newest offering Kotak Balanced Advantage Fund, Nifty 50's trailing price-to-earnings (P/E) ratio is one of the two factors used to decide asset allocation. Why is trailing P/E a good indicator of valuation and why don't you look at the forward P/E?
The trailing P/E captures what has happened and therefore will not undergo any change. Any forward-looking projection will have a human element or a bias to it. For example, in the last few years, we have seen a huge difference between what was projected at the beginning of the year as earnings for the market and what it finally reported. Hence, the trailing P/E ratio eliminates this bias or any error of estimation.

We also believe that the P/E is a better indicator of the market than something like the price-to-book (P/B) ratio. In fact, P/B, when looked in isolation, without looking at the return on equity (RoE), does not make much sense. So, for the P/B to work, you must look at it in conjunction with RoE.

For banking, we are always told to look at P/B. Can we use P/E for banks?
Yes, you can. There are a set of banks where the earnings growth trajectory is very stable or has been moving up. So, P/E as a valuation parameter works well for

these banks. However, each sector has its own commonly used valuation parameter. In the case of banks, P/B is often used since the net worth of a bank is the key component in estimating its value. However, as mentioned above, P/B must be looked at in conjunction with sustainable growth and return on equity to get a sense of the extent of overvaluation or under-valuation in a company.

Can you tell us about the screeners that your equity-research team uses?
We follow our Business, Management, and Valuation (BMV) model. When we speak of a business, we are looking at growth – companies that are growing faster than the market; companies that have a scalable business model; and those that are gaining market share. So, that is the starting point of analysis.

Second, we look at the management and corporate governance of the company. This is especially crucial for mid-cap companies where the promoter ownership is very high. Therefore, capital-allocation policies become extremely important to decide whether the right corporate-governance standards are being followed. In fact, we signed up for the United Nations-supported Principles for Responsible Investment (UNPRI), becoming the first domestic asset-management company to lead the responsible-investing narrative in India. This means we are incorporating environmental, social and governance (ESG) factors into our investment framework.

Finally, we look at valuations. We look at valuations from absolute, intrinsic and relative perspectives. Essentially, we look at how stocks stack up against each other in the sector and what the intrinsic value of a stock is. We use various methodologies, including the discounted-cash-flow methodology, residual-growth model and dividend-discount model, depending on the sector.

After you run these elaborate screeners, what is the investible universe that you come to?
Today, the number of listed companies in India is about 3,000. When you come down to companies with ₹1,000 crore and above market value, you have about 700–800 companies. From these, our research team covers about 360–370 stocks, which translate into about 82 per cent of the overall market cap of India. These further percolate into schemes depending on the fund's philosophy and what each fund manager wants to own.

> **"The trailing P/E captures what has happened and therefore will not undergo any change. Any forward-looking projection will have a human element or a bias to it."**

In the case of banking stocks, there is a shift of investments from the public sector to the private sector. What do you make of it?
What we have seen clearly is the shift in market share away from public-sector banks to private-sector banks. This shift is now accelerating very sharply, with a large number of PSU banks being under RBI's prompt correction action (PCA). Also, over a period of time, a lot of risk aversion has set in for PSU banks because of certain events in the recent past. So, their focus is to lend to a select group of highly rated corporates. This means there is a huge opportunity for private-sector banks to gain even more market share. What we have also seen in the case of retail-oriented private-sector banks is that the retail asset-quality cycle has been playing out really well. Today, retail delinquencies are probably at their lowest in terms of stress. So, retail-oriented banks are growing at a pace faster than the market, gaining share in loans and deposit, along with low credit costs and significantly higher return on equity. Their earnings-growth trajectory is predictable and sustainable. So, our view is that this could possibly continue as a structural theme for a period.

How long can this earnings growth continue?
Currently, private-sector banks have a 25–30 per cent market share of loans while public-sector banks still have about 70 per cent market share. We believe over the next five years, the shift in market share in favour of private-sector banks can be quite substantial. Even if the valuations of the private-sector banks do not expand significantly, a lot of the names in the private-sector space, especially the retail-oriented ones, are more of structural compounding stories and need not necessarily be multiple re-rating stories. Also, private-sector banks that typically trade at higher valuation multiples are typically able to raise capital at a fast pace and thereby add to book value. This helps play out their compounding theme even better.

The retail segment of the banks is obviously making them a lot of money. But is retail big enough to move the needle?

The opportunity in retail is still fairly high. The under-penetration is huge if you look at any of the retail-loan segments. In India, the credit-to-GDP ratio is far lower than what it is in many developed countries. There are opportunities in segments, which earlier banks were not even catering to. A large population has come to the formal banking system and now has bank accounts as part of the Jan Dhan scheme. So retail products have a lot of space to grow.

You talked about risk aversion in PSU banks. But have private-sector banks built safeguards so as to avoid making the costly mistakes committed by PSU banks?
We can hope that private-sector banks have learned from the mistakes of the past. Clearly, the focus should be on better risk management, better credit assessment and better collaterals. Another thing is that the banking sector will move to a new accounting platform called IndAS from April 2019 onwards. In the new regime, the way you calculate credit costs will be significantly different from what you do today, wherein bank are following RBI norms of 90-day NPA recognition. In IndAS, you will have to calculate the expected credit loss for your entire portfolio and the probability of default. Therefore, the onus is on the banks to ensure that their risk-management practices are far more robust if they want to minimise their credit cost. This will lead to better practices for the banking sector overall.

You are also an IT sector specialist. You must have come across alarmist views about Indian IT. The last five-six months have been very different. What is your view on the sector?
Over the last few years, the IT sector has seen a large drop in spends by global clients, especially

> **"Equity research is not only about listening to management discussions or analyst calls. You need to verify what is being said and match the actions as well."**

by large banks in the US and Europe. The clients were going through a turmoil of their own, which resulted in lower allocation to IT budgets, and this resulted in lower growth in traditional IT services in the areas of application development and maintenance. Also, there has been a phenomenon of insourcing among clients.

In the last few years, Indian firms have invested in building pockets of capability on the digital side, which is enabling them to win deals now. From here on, our belief is that we will see an improvement in revenue-growth trajectory, but it may not be a sharp up-move. It will be a slow and gradual improvement, with the possibility of high single-digit or low double-digit earnings growth over the next couple of years.

On the margins front, it does appear that most of the companies have exhausted the low-hanging fruits of better utilisation and other such traditional levers. As growth comes back, you will have to hire more, give wage hikes, which means the cost pressures will start to build in.

However, the rupee acts as a tailwind now and better automation could result in some degree of cost control and therefore help IT companies protect the margins to a large extent. Do remember that these IT services firms are huge cash generators. Their cash-flow yields are significantly high. They are also returning capital back to their shareholders. This is providing a downside support at current valuations for the IT companies.

The earnings season is going on. This is typically a time when company managements wax eloquent about prospects. How do you separate the wheat from the chaff?
The number one rule is never to take the management at face value but as just one of the parameters to consider in the overall framework of evaluation. Equity research is not only about listening to management discussions or analyst calls. You need to verify what is being said and match the actions as well. Primary research, interacting with players which are part of the ecosystem like dealers and intermediaries, etc., can give you a great idea of what is really happening on the ground. It is extremely important to understand the industry dynamics. The annual report is also an excellent source of information and gives clues as to how the company is being run and what the key strategic directions are. It gives you data pertaining to cash flows, off-balance sheet items, capital-allocation strategies, etc. WI

Invest in companies with share of mind the Warren Buffett way

Companies that have the top share of consumers' minds have both pricing power and brand loyalty, which result in wealth creation for the shareholders

Let's start with a quick test. Recall the first company when you think of the following products:

- **Shaving blades**
- **Coffee**
- **Malt drinks**
- **Noodles**
- **Adhesives**
- **Lubricants**
- **Adventure bikes**

Now check if your responses were the following: Gillette, Nescafe, Horlicks, Maggi, Fevicol, Castrol, Royal Enfield.

If your responses were indeed these, that's because these companies own the top share of your mind. Even if you came up with a different company, that name has your share of mind. In this article, we look at why Buffett searches out companies with the top share of mind of consumers and how we can improve our own stock-search strategy using this approach.

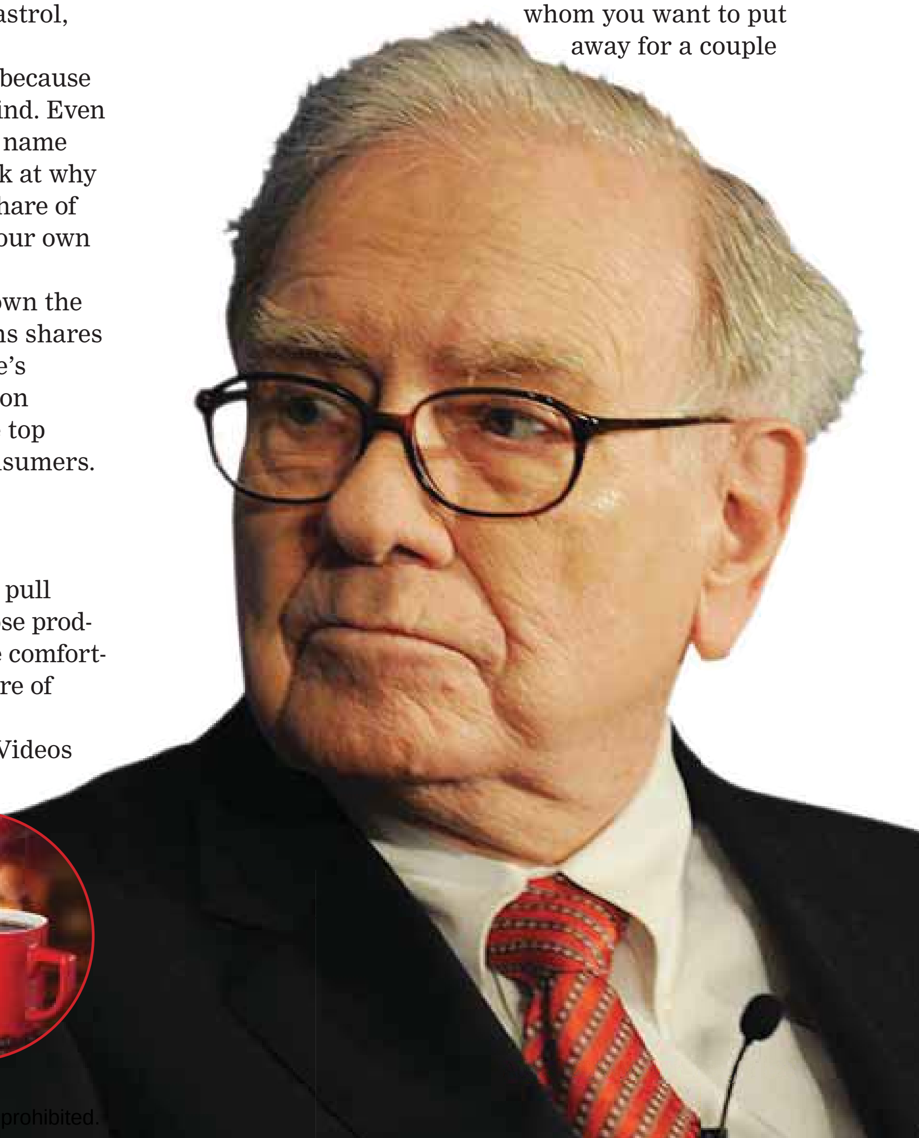
Buffett loves investing in companies that own the top share of mind in their industries. He owns shares in Coke, Apple, American Express, Heinz, See's Candies and Geico, among others. The common theme running across these companies is the top share of mind each commands among its consumers.

Why Buffett likes companies with top share of mind

Companies with top share of mind are able to pull such customers in who want and buy only those products and services they know very well and are comfortable with. Here is Buffett explaining what share of mind is.

"Think of Disney. Disney is selling Home Videos for $16.95 or $18.95 or whatever. All over the world—people, and we will speak particularly about mothers in this case, have something **in their mind** about Disney. Everyone in this room, when you say Disney, has something **in their mind** about Disney. When I say Universal Pictures, if I say 20th Century Fox, you don't have anything special **in your mind**. Now if I say Disney, you have something special **in your mind**. That is true around the world.

Now picture yourself with a couple of young kids, whom you want to put away for a couple



of hours every day and get some peace of mind. You know if you get one video, they will watch it twenty times. So you go to the video store or wherever to buy the video. Are you going to sit there and premier 10 different videos and watch them each for an hour and a half to decide which one your kid should watch? No. Let's say there is one there for $16.95 and the Disney one for $17.95—you know if you take the Disney video that you are going to be OK. So you buy it. You don't have to make a quality decision on something you don't want to spend the time to do. So you can get a little bit more money if you are Disney and you will sell a lot more videos. It makes it a wonderful business. It makes it very tough for the other guy."

Look at the emphasis on mind above. Buffett brings it up no less than four times in a single paragraph. Disney has a moat, not in the kind of movies it makes, not in the amusement parks world over and even not in the world renowned cartoon characters like Mickey Mouse and Donald Duck. Its moat lies in having a share of mind of its users – what they think of when the Disney name pops up. Same goes for Coke and a host of other companies in the exercise at the beginning of this story. Fevicol's moat is not in the adhesive it sells. It's in the image it has created in the minds of its consumers – "*Yeh Fevicol ka jod hai, tootega nahi.*" Is Nescafe really the highest quality coffee you can get? Most likely not. But you know you won't go wrong with Nescafe anytime. What about Maggi? Even with the lead scandal a couple of years back, if offered a choice, we would more likely pick up Maggi at the stores than any newer brand we just don't know enough about. On the other hand, Maggi is something we've grown up on.

All these companies own a dominant position in the minds of their consumers, who come back again and again for their products. A top share of mind gives companies a big advantage over others.

"Anytime you can charge more for a product and maintain or increase market share against well-entrenched, well-known competitors, you have something very special in people's minds."

Why a top share of mind is attractive

A top share of mind gives companies pricing power or the ability to raise prices without losing customers to competitors. Buffett explains how American Express was able to get away with higher prices only because it had top share of mind.

"American Express had a very special position in people's mind about financial integrity over the years, and ubiquity of acceptance. When the banks closed in the early '30s, American Express traveler's checks actually substituted, to some extent, for bank activity during that period.

American Express still had two-thirds of the market after 60 or 70 years – two-thirds of the worldwide market – while charging more for the product than these other very well-known competitors charged.

Anytime you can charge more for a product and maintain or increase market share against well-entrenched, well-known competitors, you have something very special in people's minds."

Buffett saw this share of mind at work in another of his companies, See's Candies. He discusses how share of mind worked for See's Candies.

"What we did know was that they [See's Candies] had share of mind in California. There was something special. Every person in California has something in mind about See's Candy and overwhelmingly it was favorable. They had taken a box on Valentine's Day to some girl and she had kissed him. If she slapped him, we would have no business. As long as she kisses him, that is what we want in their minds. See's Candy means getting kissed. If we can get that in the minds of people, we can raise prices. I bought it in 1972, and every year I have raised prices on December 26th, the day after Christmas, because we sell a lot on Christmas."

Top share of mind in our daily lives

A top share of mind keeps customers coming back for the same product again and again. How often have you changed your shaving blade. The likelihood is not very often. This is a behavioural response created by Gillette in our minds through years of effective advertising. Bombarded with its marketing jingle, we now believe Gillette is indeed the best a man can get.

Now think of shirts. You are more likely to buy shirts of a company you have not used before. This is because no shirt retailer in India has been able to create a distinct share of mind that will pull in customers to itself. Think of socks. Do you really care what brand of socks you buy or just grab those on sale in a triple pack?

A top share of mind is an important metric most of us investors often ignore. Buffett, on the other hand, pays a lot of attention to share of mind.

"We always think in terms of share of mind versus share of market because, if share of mind is there, market will follow.

People – virtually – probably 75 percent of the people in the world – have something in their mind about Coca-Cola. And overwhelmingly it's favorable. Everybody in California has something in their mind about See's Candy, and overwhelmingly it's favorable.

The job is to have it in a few more California minds – or world minds in the case of Coke – over the years, and have it even be a little more favorable as the years go by. If we have that, everything else follows."

"The job is to have it in a few more California minds – or world minds in the case of Coke – over the years, and have it even be a little more favorable as the years go by. If we have that, everything else follows."

How to find companies with top share of mind

With a little effort, you can start searching out for companies that command their customers' share of mind. Here's Buffett on how you can train your mind to look for companies with share of mind.

"One of the interesting things to do is walk through a supermarket sometime and think about who's got pricing power, and who's got a franchise, and who doesn't. If you go buy Oreo cookies, and I'm going to take home Oreo cookies or something that looks like Oreo cookies for the kids, or your spouse, or whomever, you'll buy the Oreo cookies. If the other is three cents a package cheaper, you'll still buy the Oreo cookies. You'll buy Jello instead of some other. You'll buy Kool Aid instead of Wyler's powdered soft drink. But if you go to buy milk, it doesn't make any difference whether its Borden's, or Sealtest, or whatever. And you will not pay a premium to buy one milk over another. You will not pay a premium to buy one [brand of] frozen peas over another, probably. It's the difference between having a wonderful business and not a wonderful business."

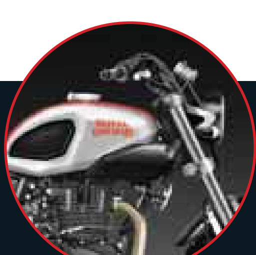
Once you find companies with share of mind

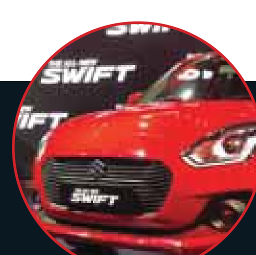
Once you've found companies with top share of mind, you need to think: will consumers still be buying this product 10–15 years from now?

Let's do this exercise again. Which companies do you think will continue to dominate their industries in the following product categories in 2028–2030?

Shaving blades
Coffee
Malt drinks
Noodles
Adhesives
Lubricants
Adventure bikes

Of course, there will be some companies that will be disrupted or will lose their share of mind, but most of the top names today are likely to be still going strong even 10 years from now. The important thing is to develop a thinking process that looks out for companies with such dominant share of mind. That will up your investment game to an unmatched level. **WI**





ANALYST'S DIARY

Finding value in FMCG

Only four FMCG companies have shown a consistent rise in operating margin and revenues

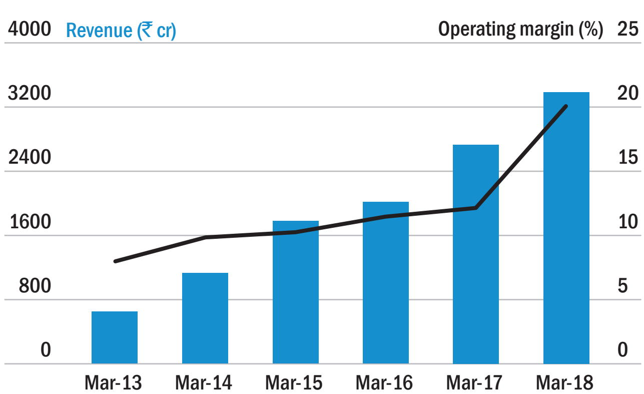
Gillette India trades at a P/E multiple of over 90. This means that if Gillette's earnings remain constant, an investor in Gillette can expect to recover his capital in little less than a century. As alarming as it may sound, Gillette India is not an exception. Several blue-chip FMCG companies trade at eye-popping valuations, such as Emami and P&G at 80, Britannia at 75, Nestle and Hindustan Unilever at 70.

As a sector, FMCG companies have always been known to trade at high valuations. The story of a stable business backed by brand power and the consumption theme is simple enough to cause a bidding war among investors, resulting in rich P/E multiples. But do FMCG companies deserve such sky-high multiples?

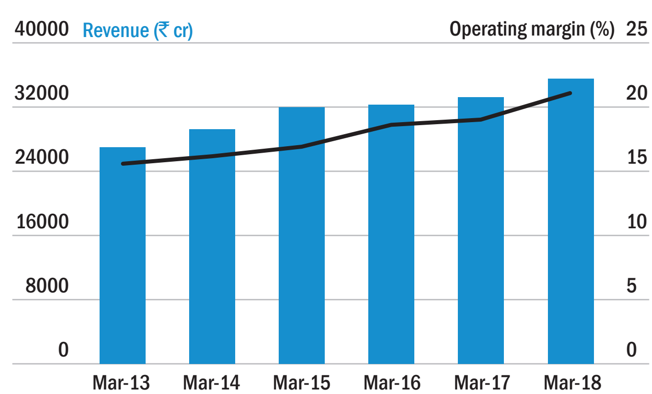
To warrant such high numbers, there needs to be something fundamentally different in the businesses of FMCG companies – a durable advantage that offers superior returns over other sectors, otherwise also known as a moat. While there are several different types of moats, strong pricing power is a common theme among companies with a durable advantage. To screen for such a common theme, we surveyed all FMCG companies in the BSE 500 index and filtered for companies that, for the past five years, have (1) consistently increased their operating margin every year and (2) achieved a simultaneous growth in revenue every year. Four companies were able to make the cut. These are as follows: Avanti Feeds, Hindustan Unilever, Relaxo Footwears and Varun Beverages. Their operating margins and revenue charts are given below.

While these companies may look promising in the FMCG pack, don't immediately call your broker to place a buy order. Thoroughly research them before you invest in them. **WI**

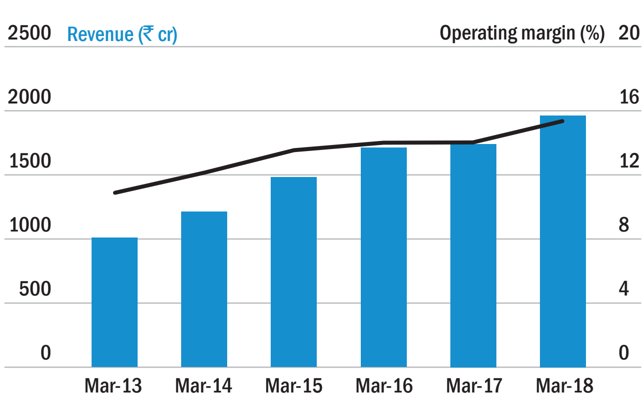
Avanti Feeds



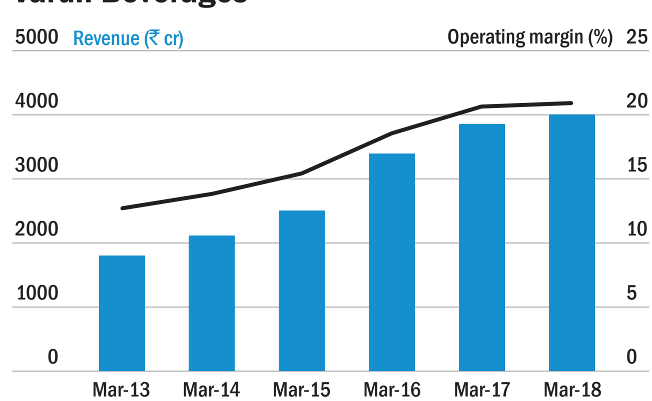
Hindustan Unilever



Relaxo Footwears



Varun Beverages



Exceptionals as usual

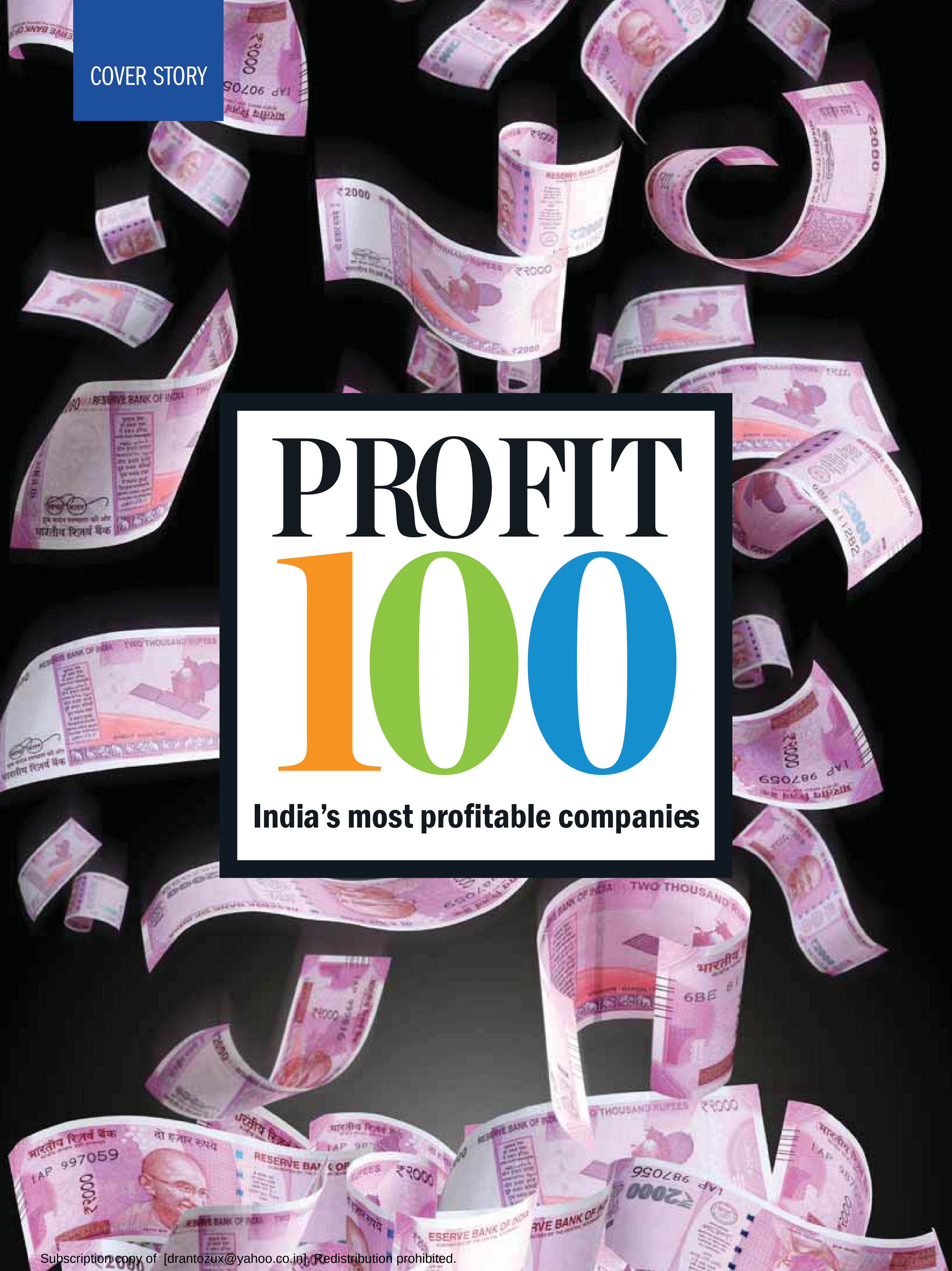
The problem of consistently occurring exceptionals

Exceptional profit or loss arises as a by-product of a company's ordinary activities. Some of its sources include currency fluctuations, asset write-downs and money spent on litigation. As the name implies, this income is intermittent and can't be projected or forecast. While analysing the income statement, analysts adjust the profit for exceptional income. However, there are some companies that not only have high exceptionals but it also occurs regularly. This makes analysing such companies and judging their valuations particularly tricky. The following table lists companies that have reported sizeable exceptionals in at least three of the last five years. **WI**

Exceptions are always there

Company name	Sector	Market cap (₹ cr)	Exceptional income (₹ cr) | PAT (₹ cr) 2018	2017	2016	2015	2014	5Y stock return (%, CAGR)	P/E
Bharti Airtel	Telecom	1,44,626	-793 1,123	-1,170 3,197	2,174 5,826	-853 5,053	54 2,498	3.5	125.9
Vedanta	Non - Ferrous Metals	78,563	2,897 13,692	-114 9,873	-33,785 -17,863	-22,199 -11,373	-167 10,339	6.9	7.4
Tata Steel	Iron & Steel	66,985	9,599 17,589	-4,324 -4,176	3,990 -387	-3,929 -3,956	-28 3,664	17.3	4.7
Hindalco Industries	Non - Ferrous Metals	49,519	1,774 6,208	-8 1,907	-577 -873	-1,940 84	-396 2,128	16.8	7.8
Siemens	Capital Goods	35,192	567 1,137	2,992 2,914	783 1,174	383 603	33 194	12.3	28.4
DLF	Realty	33,817	8,765 4,292	429 800	-197 462	-68 469	-330 604	1.4	7.1
Tata Communications	Telecom	17,349	-376 -309	-1,063 1,230	-103 10	-105 3	216 160	28.6	–
Info Edge (India)	IT	16,012	313 545	-32 147	-32 419	-6 -14	-3 61	35.2	29.7
Indian Hotels	Hospitality	15,092	22 63	-11 -83	-83 -182	-353 -347	-555 -523	21.5	147.4
BASF India	Chemicals	8,223	159 247	17 -14	172 -30	29 -67	-10 128	28.3	32.9
MMTC	Trading	5,145	-8 26	91 57	65 53	23 78	-209 60	-3.6	127.7
Jaiprakash Associates	Construction Materials	3,941	1,116 -1,927	-3,090 -9,413	-207 -3,164	514 -1,551	395 -703	-20.9	–
ITDC	Hospitality	3,675	31 34	-11 9	-8 18	4 32	1 8	-19.3	166.9
Strides Shasun	Healthcare	3,313	-44 87	-101 446	-41 100	-7 1	-27 51	-13.7	4.8
FACT	Chemicals	2,857	68 -105	51 -199	12 -459	9 -373	104 -265	16.5	–
Rane Holdings	Finance	2,840	14 22	75 183	13 78	42 96	-52 45	62.0	22.5
Jindal Saw	Iron & Steel	2,620	-91 6	62 47	-21 -80	-30 -27	-68 -100	9.1	13.7
Welspun Enterprises	Realty	2,335	-20 72	-23 7	-23 -3	174 1	-34 -61	63.4	30.8
Arshiya	Logistics	1,343	395 50	-57 -393	-223 -604	-6 -474	-213 -846	27.0	23.6
Jindal Poly Films	Plastic Products	1,036	-31 139	25 275	9 453	-117 187	-27 69	8.8	11.6
Ganesh Benzoplast	Chemicals	363	51 81	-2 13	36 48	19 0	0 0	67.3	4.1

Data as on July 12, 2018



PROFIT 100

India's most profitable companies

In this third edition of India Inc's 100 most profitable companies, we take a fresh look at those commanding the highest margins.

This year, we have tweaked our methodology to make it more rigorous. Last time, our universe of companies was BSE 500. This time, we have considered the top 1000 companies listed on the BSE (minimum market cap Rs 1,000 crore). We have introduced return on equity to filter out companies for quality. Then we have looked at profit growth to give higher points to those growing their profits year after year. These tweaks have made the Profit 100 our most stringent ever.

Non-cyclicals grab the top spots this year. FMCG companies top our list with the most number of players featuring in the top 100. Zydus Wellness, Jubilant Foodworks and Britannia top the FMCG space. All three hit new highs in 2018.

Pharmaceutical companies mark the second highest presence in our list. Interestingly, mid-cap pharma stocks are having a field day, while their larger peers stumble on various issues. All pharma companies featuring in our list this year are from the mid-cap space.

The technology sector features the next highest number of companies. Unlike the pharma sector, tech companies from all market capitalisations figure in. At one end are TCS and HCL Tech, while on the other are smaller firms like Accelya Kale Solutions and L&T Infotech. A weak rupee has bumped up the prices of tech firms in recent times.

A recurring feature of the companies that feature in the list is the presence of competitive advantages that allows them to get away with the margins they charge. These advantages could either stem from a high brand recall, an unparalleled distribution network, a monopoly in play, the advantages of economies of scale kicking in, intellectual property rights or a superior technology at work.

Turn over to the following pages to find out the top 100 most profitable companies you can find today. This list also provides a good hunting ground to search for your next investment.

Let's first see the filters that we applied in order to arrive at the top 100 companies.

First filter: Quality of business

The first filter is the quality of the business. If you invest in a low-quality business, no matter how competent the management or how great the opportunity, over the long term, your returns are likely to be below average. One reliable metric to measure quality of business is return on equity (ROE). A high return on equity indicates that the company is allocating shareholders' money to profitable ventures.

As a shareholder, you should be especially concerned about how much return the company is generating on its equity. Some companies generate extraordinary return on capital (equity + debt) but end up paying most of it in interest or taxes, leaving little for the equity shareholders. Unlike return on capital employed (ROCE), a high ROE assures that a company is creating wealth for its shareholders. Generally, companies generating high ROEs tend to outperform the market over the long run.

Consider the telecom major Bharti Airtel. Bharti's low return on equity of just 1.6 per cent, along with its high debt, means only trouble for Bharti's shareholders. It should come as no surprise that Bharti Airtel is continuously divesting its stake in Bharti Infratel to raise money to fight competition and incur capital expenditures in an increasingly tough market.

In our quest for the most profitable Indian companies, we set a minimum ROE requirement of 15 per cent. To further check for consistency and remove exceptional cases, we analysed ROEs of previous 12 years and selected only those companies whose ROEs were above 15 per cent in at least nine of those 12 years.

Further, we took the weighted average ROE, with higher weights assigned to the recent numbers, to capture the effect of the full cycle. Then we selected only those companies whose weighted average ROE was above 15 per cent.

Out of top 1,000 companies, most of the companies were eliminated in this filter. The adjacent table shows some of the prominent companies which didn't qualify our ROE criterion of at least 15 per cent in nine out of 12 years. Note that these companies clear the weighted average ROE criterion. Overall, only 226 companies cleared the first filter.

Failing the first filter

Company name	Industry	M-cap (₹ cr)	ROE (%)	Weighted avg ROE (%)
Maruti Suzuki India	Automobiles	2,83,629	21.7	18.3
ONGC	Oil Exploration	2,01,674	11.7	15.5
Larsen & Toubro	Engineering	1,78,615	15.9	18.3
Bajaj Finance	Finance - NBFC	1,36,401	20.5	17.2
IndusInd Bank	Bank - Private	1,14,752	16.5	15.5
Ultratech Cement	Cement	1,08,339	8.8	19.1
Eicher Motors	Automobiles	76,862	31.1	27.8
Grasim Industries	Diversified	64,752	10.0	18.8
Indiabulls Housing Finance	Finance - Housing	48,969	25.5	22.5
Piramal Enterprises	Pharmaceuticals	44,807	23.4	24.0
Ambuja Cements	Cement	40,130	9.5	16.9
Ashok Leyland	Automobiles	39,155	26.3	16.1
Dr. Reddys Laboratories	Pharmaceuticals	38,444	7.4	16.8
TVS Motor Company	Automobile	27,555	27.1	19.5
3M India	Diversified	22,424	22.5	18.4
Gillette India	Personal Products	21,213	35.3	22.8
Pfizer	Pharmaceuticals	11,620	14.1	20.3
Avanti Feeds	Consumer Food	6,263	55.8	33.1
Bajaj Electricals	Domestic Appliances	5,535	10.5	17.4
Ceat	Tyres and Allied	5,183	8.4	17.2
Can Fin Homes	Finance - Housing	4,496	24.9	18.0
La Opala RG	Glass	2,564	15.7	21.5
Tata Coffee	Tea/Coffee	2,206	17.2	18.7
Somany Ceramics	Ceramics	2,094	14.3	17.6
Hindustan Media Ventures	Printing and Publishing	1,534	14.8	16.7

Data as on July 11, 2018

Second filter: Profit growth

Let's say 20 years ago, you were earning ₹10,000 monthly. Now assume that you are still earning the same amount. After adjusting for inflation, the amount is equal to ₹2,500. Have you done well over these 20 years? The same argument applies for companies. It is very important for a business to grow its profits at least more than the rate of inflation to expand its operations and reward its shareholders.

To ensure consistency in profitability, we took weighted average of three-year annualised profit growth calculated for each year (called 'rolling') over the last 10 years. We assigned greater weights to the recent numbers and lesser to the older numbers to make the average more skewed to the current performance. We then eliminated those companies (see the adjacent table) which were unable to increase their profits at a rate of at least 10 per cent, assuming inflation at 7 per cent. Also, we dismissed the ones whose three-year rolling profit growth was negative in three or more cases out of 10.

Final step

Finally, we assigned ranks to each company based on the weighted average profit growth on a rolling basis and weighted average ROE. These ranks were combined to arrive at the final list. If the combined rank turned out to be the same for two or more companies, the subsequent ranking numbers were skipped. For instance, Page Industries, TVS Srichakra and Zydus Wellness, all have the same combined score, 45. Hence, their rank is the same, six. The next company, Vinati Organics, has a rank of nine as it occurs after three companies that have the same rank. **WI**

Failing the second filter

Company name	Industry	M-cap (₹ cr)	Weighted avg ROE (%)	Weighted avg net profit growth* (%)
Anuh Pharma	Pharmaceuticals	383	19.5	9.9
Plastiblends India	Chemicals	547	18.1	9.9
KCP	Cement	1,399	22.6	9.9
Shakti Pumps	Pumps	857	18.4	9.8
Mahindra & Mahindra	Automobiles	1,15,650	19.7	9.8
FDC	Pharmaceuticals	4,149	18.7	9.7
Jamna Auto Industries	Auto Ancillary	3,590	28.7	9.2
Monsanto India	Agriculture	4,963	25.2	9.2
Akzo Nobel India	Paints	8,772	21.7	9.1
Ratnamani Metals	Castings/Forgings	4,159	22.4	9.0
Biocon	Pharmaceuticals	37,632	16.8	8.7
Cummins India	Diesel Engines	18,373	25.1	8.5
Bharat Forge	Forgings	29,611	17.0	8.4
Sanofi India	Pharmaceuticals	12,404	19.8	8.3
Foseco India	Chemicals	855	28.9	8.3
Grindwell Norton	Abrasives	5,679	20.1	8.2
Bharat Electronics	Industrial Equipment	26,364	17.8	7.9
Nestle India	Consumer Food	98,585	61.7	7.7
Gandhi Special Tubes	Castings/Forgings	520	17.6	7.4
Balmer Lawrie	Diversified	2,396	17.6	6.8
Blue Star	Air Conditioners	6,591	24.2	5.8
Munjal Auto Industries	Auto Ancillary	638	20.9	5.8
Sundaram-Clayton	Auto Ancillary	8,293	20.7	5.7
Coal India	Mining & Minerals	1,65,024	33.4	5.3
Havells India	Electric Equipment	35,527	29.7	4.2
VIP Industries	Personal Products	5,880	22.4	3.8
MOIL	Mining & Minerals	4,688	22.0	3.6
Tata Chemicals	Fertilizers	17,916	15.8	0.3
IL&FS Inv. Managers	Finance - Investment	453	27.6	-0.6
NMDC	Mining & Minerals	32,556	23.6	-0.8
Alicon Castalloy	Castings/Forgings	829	16.9	-0.8
GSK Pharma	Pharma. & Drugs	24,098	23.7	-1.8
Disa India	Industrial Equipment	847	28.4	-2.1
Ahluwalia Contracts	Real Estate	2,267	19.4	-3.2
Tata Motors	Automobiles	77,439	21.6	-4.3
Harita Seating Systems	Auto Ancillary	517	19.6	-17.4
Bodal Chemicals	Chemicals	1,530	29.6	-21.7
GE Power India	Engineering	5,042	16.6	-36.1
Vedanta	Metal - Non Ferrous	80,663	15.3	-93.5

Price data as on July 11, 2018. *On a rolling basis.

Profit 100: India's most profitable companies

Final rank	Company name	Sector	M-cap (₹ cr)	Current ROE (%)	Weighted average ROE (%)	Weighted average Profit growth (%)*	10Y CAGR returns (%)	Trailing 12M P/E	Median P/E	Weighted average ROE rank	Weighted average Profit growth* rank
1	Symphony	Consumer Durables	9,787	35.8	72.8	43.5	80.5	50.6	63.7	4	8
2	Accelya Kale Solutions	IT	1,702	62.2	49.3	43.5	40.1	19.1	21.1	7	7
3	Caplin Point Laboratories	Healthcare	3,042	49.2	39.0	52.5	73.6	21.0	32.3	16	5
4	Ajanta Pharma	Healthcare	9,103	26.0	31.8	39.8	58.3	19.5	30.6	30	10
5	Whirlpool Of India	Consumer Durables	19,351	21.4	31.2	39.2	43.6	55.5	41.7	32	12
6	TVS Srichakra	Tyres	2,280	19.6	32.2	38.6	42.4	19.5	15.8	28	17
6	Zydus Wellness	FMCG	5,587	21.9	30.6	42.9	33.2	41.7	30.3	36	9
6	Page Industries	Textile	31,677	45.9	49.7	30.8	50.8	91.2	66.2	6	39
9	Vinati Organics	Chemicals	5,021	19.5	30.1	38.9	51.2	35.3	21.8	38	15
9	Motherson Sumi Systems	Auto Ancillaries	61,496	23.4	33.6	33.4	34.7	38.5	36.0	24	29
11	PI Industries	Chemicals	10,867	20.7	28.0	51.9	61.0	29.3	32.7	51	6
12	Jubilant FoodWorks	FMCG	18,845	22.1	29.0	38.7#	34.9	95.9	73.8	45	16
13	Mayur Uniquoters	Miscellaneous	1,848	23.2	30.5	35.1	56.4	19.0	24.9	37	25
14	Bliss GVS Pharma	Healthcare	1,753	17.3	28.0	39.1	23.5	29.9	19.0	50	14
15	Hatsun Agro Products	FMCG	10,495	25.4	31.2	31.2	42.5	115.8	69.7	31	37
16	eClerx Services	IT	4,977	24.0	46.7	23.0	29.5	17.2	16.0	8	68
16	TTK Prestige	Consumer Durables	6,717	28.2	30.6	29.0	48.2	25.7	40.6	35	41
18	Galaxy Surfactants	Chemicals	4,499	24.4	25.0	89.4#	-4.5	28.2	–	76	2
18	Torrent Pharmaceuticals	Healthcare	24,910	15.1	32.0	27.0	33.5	36.4	19.2	29	49
20	Kaveri Seed Company	Agri	3,697	20.9	28.8	31.2	28.0	17.4	18.2	47	38
20	Godrej Consumer Products	FMCG	90,515	28.3	39.7	22.5	35.8	55.2	43.3	15	70
22	Tech Mahindra	IT	64,588	21.5	25.9	35.3	14.1	16.9	17.0	64	24
23	Dhanuka Agritech	Chemicals	2,699	21.8	29.3	26.5	32.3	20.9	27.0	42	50
24	Gruh Finance	Finance	24,829	29.1	29.9	24.5	48.0	68.7	42.7	39	55
25	Relaxo Footwears	FMCG	9,027	23.6	25.3	35.4	67.6	56.1	45.9	72	23
25	Larsen & Toubro Infotech	IT	30,937	31.8	41.5	21.0#	61.3	27.8	13.2	12	83
27	Hawkins Cookers	Consumer Durables	1,483	45.0	63.4	19.5	32.0	30.5	35.1	5	92
27	Advanced Enzyme	Healthcare	2,416	18.3	25.5	33.6#	-4.5	26.9	–	70	27
29	Manappuram Finance	Finance	8,944	18.6	23.4	53.5	31.6	13.3	11.9	96	4
30	Kovai Medical	Healthcare	1,105	22.2	27.0	27.5	38.1	19.0	21.5	57	46
30	Suprajit Engineering	Auto Ancillaries	3,581	23.5	27.3	27.4	45.4	26.0	32.4	56	47
32	Marico	Agri	44,599	34.0	38.4	20.1	29.9	54.5	44.1	18	88

Final rank	Company name	Sector	M-cap (₹ cr)	Current ROE (%)	Weighted average ROE (%)	Weighted average Profit growth (%)*	10Y returns (%)	Trailing 12M P/E	Median P/E	Weighted average ROE rank	Weighted average Profit growth* rank
33	Nesco	Diversified	3,615	19.2	31.0	22.3	19.3	20.4	21.2	34	73
34	Cadila Healthcare	Healthcare	38,155	22.5	29.3	23.2	24.5	21.4	27.1	43	67
34	Tata Consultancy Services	IT	7,61,504	30.3	39.9	19.2	25.8	27.8	22.6	14	96
36	Asian Paints	Chemicals	1,30,628	25.6	35.7	19.5	29.2	63.9	52.9	21	93
36	HCL Technologies	IT	1,38,531	25.1	29.7	21.9	23.6	15.9	16.0	40	74
38	Minda Industries	Auto Ancillaries	10,973	25.1	21.7	54.3	36.2	35.2	22.7	119	3
39	Pidilite Industries	Chemicals	55,505	27.3	27.8	22.4	32.0	57.2	45.7	53	71
40	Kajaria Ceramics	Construction Materials	7,551	18.1	23.5	33.0	41.1	32.1	35.3	95	31
41	CRISIL	Ratings	12,760	29.9	38.6	17.5	17.8	40.8	45.1	17	110
42	Muthoot Capital Services	Finance	1,761	18.8	23.7	30.0	42.0	32.5	10.6	89	40
43	Amara Raja Batteries	Batteries	14,036	17.0	25.3	23.9	34.7	29.7	30.5	71	59
44	Adani Ports	Logistics	77,340	19.1	22.5	35.6	13.1	21.0	21.2	109	22
45	Hexaware Technologies	IT	14,575	27.5	23.9	27.4	33.9	27.8	17.0	84	48
45	Dabur India	FMCG	67,295	26.3	41.8	15.9	23.2	49.4	40.6	11	121
47	Titan Company	Diamond & Jewellery	72,284	23.7	31.0	18.9	31.4	63.7	45.4	33	100
48	V-Guard Industries	Capital Goods	8,627	19.5	26.5	22.4	48.5	63.6	37.3	63	72
49	MRF	Auto Ancillaries	32,254	12.3	22.5	33.5	36.8	28.5	18.0	108	28
50	GM Breweries	Alcohol	1,467	28.3	25.1	23.3	35.9	17.2	13.8	73	66
50	Dewan Housing Finance	Finance	19,131	14.2	21.6	37.0	27.4	16.4	8.5	120	19
52	APL Apollo Tubes	Iron & Steel	4,034	20.8	20.7	39.1	26.8	25.4	17.7	128	13
53	Balaji Amines	Chemicals	1,825	27.3	23.5	25.3	39.5	15.8	12.8	94	52
54	Castrol India	Lubricants	15,861	69.1	78.0	13.7	18.0	22.8	31.5	3	144
54	Yes Bank	Bank	85,473	17.7	20.1	39.2	31.9	20.2	18.0	136	11
56	NBCC	Realty	12,375	20.3	33.0	15.7#	45.9	34.8	40.8	25	124
56	Divis Laboratories	Healthcare	29,717	15.5	27.8	19.2	12.9	33.9	27.7	52	97
58	Reliance Nippon Life	Finance	13,963	25.1	24.2	22.6#	-20.3	27.1	38.5	81	69
59	Poly Medicure	Healthcare	1,870	22.7	25.0	21.7	47.1	26.5	35.1	74	77
60	Natco Pharma	Healthcare	14,851	29.4	20.4	35.9	50.5	21.2	38.3	133	21
60	P&G Hygiene & Health Care	FMCG	33,516	39.9	34.6	15.1	30.4	81.8	53.1	22	132
62	Rajesh Exports	Diamond & Jewellery	17,005	20.2	22.2	28.8	27.0	13.4	13.1	114	43
62	Colgate-Palmolive	FMCG	31,065	48.3	85.3	12.2	20.0	46.1	45.4	2	155
64	Hero MotoCorp	Automobile	70,586	33.0	41.5	13.7	18.1	19.0	20.8	13	145
65	Astral Poly Technik	Plastic Products	12,458	19.1	21.3	31.3	51.5	70.4	56.8	124	36
66	Cera Sanitaryware	Construction Materials	3,612	17.8	22.5	26.2	45.0	34.8	36.3	110	51

Final rank	Company name	Sector	M-cap (₹ cr)	Current ROE (%)	Weighted average ROE (%)	Weighted average Profit growth (%)*	10Y returns (%)	Trailing 12M P/E	Median P/E	Weighted average ROE rank	Weighted average Profit growth* rank
66	Supreme Industries	Plastic Products	15,204	22.1	26.7	19.0	42.9	35.0	29.7	62	99
68	Hindustan Unilever	FMCG	3,70,921	74.8	92.0	10.9	23.1	71.2	44.1	1	163
69	Emami	FMCG	24,217	16.3	32.3	14.4	29.8	78.8	53.9	27	138
70	GSK Consumer Healthcare	FMCG	26,920	21.2	28.5	16.3	26.6	38.3	37.7	48	118
71	Wim Plast	Plastic Products	1,089	15.9	19.7	33.7	43.0	24.3	27.3	142	26
72	VST Tillers Tractors	Automobile	2,021	20.4	23.9	20.9	39.5	18.2	18.2	85	84
73	Century Plyboards	Construction Materials	5,319	21.2	33.6	13.2	16.1	32.6	29.4	23	147
73	Abbott India	Healthcare	15,021	26.1	25.6	18.6	29.1	37.4	35.7	68	102
73	Balkrishna Industries	Tyres	23,467	19.3	23.8	21.0	39.6	32.2	14.2	88	82
76	JBM Auto	Auto Ancillaries	1,348	17.5	22.0	23.7	45.2	19.2	11.4	115	61
77	Kansai Nerolac Paints	Chemicals	26,394	17.3	23.3	21.1	30.8	51.2	44.4	98	80
78	Berger Paints India	Chemicals	29,505	22.5	25.0	18.2	35.9	64.2	52.1	75	104
79	Alkyl Amines Chemicals	Chemicals	1,346	22.8	21.9	23.6	30.4	20.4	14.4	118	62
79	VST Industries	FMCG	4,445	32.4	38.1	11.1	25.1	24.8	19.1	19	161
81	Solar Industries	Explosives	10,186	23.2	22.9	21.4	30.6	46.0	37.6	104	78
82	Aarti Industries	Chemicals	10,163	23.5	20.6	24.2	42.9	30.7	18.9	130	58
82	Sun TV Network	Media & Entertainment	31,568	25.5	26.8	15.4	10.8	27.8	21.3	60	128
84	Infosys	IT	2,90,445	24.1	27.7	14.5	12.2	18.0	18.1	54	136
85	Zensar Technologies	IT	5,555	15.7	25.5	15.8	34.5	23.0	13.6	69	122
85	UPL	Chemicals	30,787	25.6	22.8	20.6	15.7	15.2	17.8	106	85
87	ITC	FMCG	3,37,169	24.1	29.2	13.1	16.8	29.9	31.1	44	148
87	HDFC Bank	Bank	5,60,089	18.4	18.9	27.9	26.0	30.2	25.1	147	45
89	Swaraj Engines	Automobile	2,371	31.3	27.0	14.7	25.2	29.4	23.8	59	134
90	Goodyear India	Tyres	2,629	17.2	24.1	17.4	26.0	20.1	13.3	83	112
90	Glenmark Pharmaceuticals	Healthcare	16,560	16.7	24.2	17.3	-0.8	20.4	29.9	82	113
92	LT Foods	FMCG	1,917	15.9	17.8	31.7	29.5	14.3	7.1	162	34
93	Rallis India	Chemicals	3,628	14.5	28.9	11.3	21.3	21.6	25.0	46	160
93	Zee Entertainment	Media & Entertainment	51,937	20.7	23.0	18.0	18.6	35.1	34.2	100	106
95	Lupin	Healthcare	40,887	1.9	25.7	14.1	20.5	162.2	26.1	67	140
96	Tide Water Oil	Lubricants	2,011	15.4	20.5	21.9	20.4	18.8	18.0	132	76
97	Blue Dart Express	Logistics	8,578	30.1	29.6	10.1	18.9	59.0	72.5	41	168
98	Bayer CropScience	Chemicals	15,691	15.7	22.3	19.2	34.2	52.3	37.9	113	98
99	Kewal Kiran Clothing	Textile	1,732	18.9	24.6	14.7	20.1	24.1	24.8	79	135
99	Petronet LNG	Oil & Gas	33,060	23.1	22.4	18.2	22.8	15.7	20.5	111	103

Data as on July 11, 2018. *Stands for weighted average net profit growth on a rolling basis. #Returns since listing (less than 10 years).

The perfect recipe for valuations

Known worldwide as an authority on valuation, Aswath Damodaran tells us what it takes to value a business

Aarati Krishnan

When you're fighting for a chair in an overpacked auditorium on a Sunday evening to listen to a talk on stock valuation, you know that it's a talk by Aswath Damodaran, professor of finance at Stern School of Business, New York University.

With a blog ('Musings on Markets') that attracts a global fan following that pop stars would envy, Professor Damodaran attracts adulation from students and market veterans alike for his lucid and practical posts on valuation. His willingness to stick his neck out on some of the most hard-to-value assets in the financial world, be they Uber, Tesla, Bitcoin or Facebook, is a big reason for this fan following.

Professor Damodaran recently delivered a talk at a fund-raiser event sponsored by the Rotary Club of Chennai Kilpauk to an eclectic crowd of students, analysts, fund managers and private investors at Chennai. Here are some of the takeaways from the lecture, which had the audience glued to their seats though dinner time.

Valuation is like cooking

No, the professor isn't referring to the kind of cooking that Indian managements like to do with their companies' books.

He begins his talk with the theoretical question: is valuation an art or a science? Many analysts believe valuation is a science because they work with spreadsheets and calculators to put a precise number to a company's stock price. But he demolishes this notion quickly by pointing out that different folks can arrive at vastly different valuations for the same business. Poking some fun at analysts who can value a business right down to the second decimal place, he points out that mathematics is the only pure science because there's only one right answer to a question. But different people can arrive at different valuations for the same business.

"Valuation cannot be learnt by reading books or listening to lectures. So, go on, pick a company and value it. Just like the first time you cook, it will most probably be a disaster. But keep doing it and you'll get better."

But then, valuation is not wholly an art either, as it isn't based wholly on perception and has a basis in numbers.

He concludes that valuation is a craft, like cooking. He advises people keen on learning about valuation to practise it as often as they can. "Valuation cannot be learnt by reading books or listening to lectures," he quips. "So, go on, pick a company and value it. Just like the first time you cook, it will most probably be a disaster. But keep doing it and you'll get better."

He regales us with the story of how there was no subject called valuation when he first began teaching his course at the Stern School, NYU. "Students thought they were enrolling into this boring course called securities analysis. But I taught valuation and gradually the class size expanded." He found that as he valued more companies, there was more course content to teach!

Number cruncher or story teller?

Most of us in the business of investing think we're hard-headed folks who are great at numbers and have no room for stories. But the professor takes a diametrically opposing view.

To be good at valuation, he claims, you need to be a good story teller and also a good number cruncher. He asks the audience to think if they would describe themselves as number crunchers or story tellers first. He says people usually have an affinity for one or the other. People who love algebra hate English. Those who love literature hate numbers and love nuances and hidden meanings.

"A good valuation is never all about the numbers, and never all about stories. Good valuation is a bridge between stories and numbers."

But as the audience chuckles, he adds that number crunchers think they have the upper hand, but they don't. Number crunchers suffer from the delusion of precision, the delusion of being objective and the delusion of being in control. But then valuations depend on assumptions and can go badly wrong if the assumptions are wrong.

Story tellers on the other hand get carried away by the delusion of creative exclusivity. They extrapolate too much from a few anecdotes. Often fanciful stories don't translate into real-world valuations.

So, his message is – "A good valuation is never all about the numbers, and never all about stories. Good valuation is a bridge between stories and numbers."

Weapons of mass distraction

He takes a mild detour to pick up a $20 bill, put it in an envelope and hand it to a volunteer from the audience.

What would you pay for it, he asks. Then he writes the word 'control' on a piece of paper and slips it into the envelope and challenges, "Now would you pay three times that sum? Four times?"

His point is that often, in acquisitions, companies use words such as 'control premium', 'synergy' and 'brand value' to justify overpaying for a business. He asks investors to take the 'fairness opinions' done by investment bankers with a bucket of salt. No deal can be fair to both sides. If it is fair to the other side, investment bankers use 'synergies' to justify it, he quips.

He makes a special mention of another really dangerous word – 'strategic'. To mask a stupid deal, companies often call them 'strategic'. Words are weapons of mass distraction in valuation, he concludes. Don't pay for empty words.

If the management justifies overpaying for its acquisitions by using words like 'control premium', 'synergy', brand value', 'strategic and so on, be specially cautious.

Getting to the narrative

So how does one go about mixing and matching narratives with numbers? He cites his own first attempt at valuing Uber in 2014. He had heard about Uber from a friend and decided to hail an Uber to experience the ride for himself.

After asking the driver to drive around the city aimlessly, he chatted with him to find out more about this new taxi service. Not only was he impressed with how promptly the car arrived to pick him up, he was also impressed with the business model which ensured that Uber was an aggregator and not asset owner. It was making profits off every ride simply on account of its technology.

The following was the narrative that formed the basis of his Uber valuation model. Uber was an urban car service company far more convenient than the local taxis. It functioned on very low capital. It could scale up on the back of a local network effect, i.e., new customers and drivers in a locality automatically joined Uber's network because it was the largest there. Thus, he posited that Uber could rapidly eat into the market for conventional taxi services in cities where it managed to be first. Once he had this narrative, all he had to do was model the numbers that fit this narrative. This helped him build out the worksheet where he valued Uber at $6 billion, far below what private-equity investors were then paying for it.

To have faith in your valuation and act on it, you need a story that holds together the numbers.

He has two lessons to offer from that.

Private-equity investors are great at 'pricing' companies, not valuing them. They try to second-guess what other investors will pay for a business.

One, to have faith in your valuation and act on it, you need a story that holds together the numbers. Every part of your spreadsheet needs to be consistent with the story you are telling.

Two, private-equity investors are great at 'pricing' companies, not valuing them. They try to second-guess what other investors will pay for a business. The most successful private-equity guys are those who get in and get out at the right time. Mark Cuban of the Shark Tank fame, he points out, made his millions by exiting a tech venture at the top of the dot-com boom.

Five steps to valuation

Drawing on his own experience, he lays down the five steps to valuing any business.

1. Tell a story about a company
2. Evaluate if it is possible, plausible and probable (be realistic).
3. Convert the narrative into numbers in a spreadsheet. Make sure the numbers are consistent with the story.
4. Check your story and numbers with outsiders. Your own circle may be an echo chamber.
5. Keep the feedback loop open.

Taking off from his own Uber example, he talks of how his blog post was shared in a variety of forums around the world. The most valuable feedback he got and one which helped him hugely improve his valuation model was that from a ride-sharing association, whose members had a lot of criticisms on his blog. These taxi drivers gave him insights about Uber's business model that he wouldn't have got from any company management.

Don't fall in love with your spreadsheet or story. Revise them as many times as needed based on feedback from those in the know.

His message is that company managements are the last persons to talk to if you want to build a realistic valuation model. It is far better to talk to customers, workers, suppliers, associates. "I have never ever spoken to the top management of a company I am valuing."

Keep the feedback loop open

Finally, it is very important to be humble and open-minded. Welcome opportunities to talk to people who will be the devil's advocate on your valuation.

Company managements are the last persons to talk to if you want to build a realistic valuation model. It is far better to talk to customers, workers, suppliers, associates.

He remembers how an email from Bill Gurley, who was on Uber's board of directors, vastly changed his story about Uber and caused him to sharply revise his valuation upwards. Basically, Gurley made the point that Damodaran was wrong in valuing Uber as a car-services company, when in fact, it was a logistics and delivery company. That small tweak led to a vast upward revision in Uber's potential market size in the professor's spreadsheet and upped its valuation by many billion dollars.

The final message: Don't fall in love with your spreadsheet or story. Revise them as many times as needed based on feedback from those in the know. That's the recipe for a perfect dish. **WI**

A crumbling empire

How Ranbaxy, Fortis, Religare and other group businesses wasted away under Malvinder Singh and Shivinder Singh

Shivinder Singh

"But, how could they...? I mean how did they manage to bring down such a massive business empire," a Delhi-based industrialist said, when asked about how the Delhi Club views the decline of the Singh brothers – Malvinder Singh and Shivinder Singh of Fortis Healthcare.

Delhi Club was founded along the lines of the Rahul Bajaj-led Bombay Club of the 1990s. It doesn't have a leader. It was once mentored by Hero Group founder Brijmohan Lall Munjal and now looks up to Bharti Airtel founder Sunil Mittal.

The industrialist insisted that Sunil Munjal and Anand Burman should have sued Fortis for not letting them take over the company after they formally won the first round of bids, which was cancelled. But, why initiate a legal process? "Because such assets are built once in a lifetime... You don't get an opportunity like that... There was a time when we thought the brothers will create a business giant out of Delhi. We envied them...," he said, requesting not to be named.

"So, where did they go wrong?" There were no definite answers to questions on where they went wrong, though some said it was about being overambitious, while a few others said it was about being over-smart. But in doing so, they have brought down a business empire set up by their grandfather Bhai Mohan Singh and grown by their father Parvinder Singh, both of whom are now deceased.

To be sure, the two brothers are sharp and intelligent individuals with education from some of the world's best institutions. They represented a legacy that had been created by their father, who grew the business exponentially to make Ranbaxy India's foremost pharmaceuticals firm. However, in the 1980s, the group saw a bitter family tussle and boardroom battle between father (Bhai Mohan Singh) and son. Finally, Parvinder wrested control of Ranbaxy. One of Parvinder's milestones came in 1992 when Ranbaxy entered into a marketing agreement with the US drug maker, Eli Lilly.

Parvinder died of cancer, aged 56, in 1999, a week after he formalised a succession plan in line with his belief of letting professionals run the company. He didn't induct his sons to the company's board. Instead, he named senior executive D.S. Brar as the CEO. While Malvinder, then 27, had joined the company, Shivinder, then 23, was finishing his education. From him they inherited Ranbaxy and financial services firm Religare, besides tertiary businesses in aviation and so on. Shivinder and Malvinder co-founded Fortis Healthcare in 2001.

Dismal report card

Initially, the going was good. Religare did some half a dozen acquisitions, and aspired to become a bank. Fortis also grew rapidly through a dozen-odd acquisitions and spread its presence to 11 countries. The sale of the family jewel Ranbaxy to Japan's Daiichi Sankyo in 2008 for $4.6 billion gave the Singh brothers the cash to fuel their ambitions. But 10 years later, nobody knows where that money has gone.

The sale took place just months before the US Food and Drug Administration banned imports from two of the generic drugmaker's Indian plants. That same year, the US department of justice launched a probe, eventually resulting in a guilty plea by Ranbaxy and a $500 million settlement for selling adulterated drugs. The Singh brothers were not named in the probe. It ended badly in February 2018, with the Delhi high court upholding an international arbitration order directing the brothers to pay ₹3,500 crore to Daiichi Sankyo for misleading the Japanese drug maker during the deal by withholding information.

The other businesses floundered.

In a burgeoning business such as healthcare, where the Singh brothers should have leveraged their strong presence along the value chain (pharmaceuticals production and distribution to hospitals) for market leadership, they found themselves out in the cold, even as newer entrants such as Sun Pharma and Dr Reddy's in pharma, and Manipal and Apollo in hospitals, took up pole positions.

A look at the operational results of Fortis since 2010 shows the rot did not set in overnight, but had been a long time in the making. Net profit at the firm, which was ₹30 crore in 2009–10, went up to ₹201 crore in 2011–12. Thereafter, profit started declining. Since 2014–15, the company has been posting losses.

In a burgeoning business such as healthcare, where the Singh brothers should have leveraged their strong presence along the value chain for market leadership, they found themselves out in the cold

What's worse, the loss of business came with a series of allegations and investigations into murky dealings in the companies controlled by them. Recently, Securities and Exchange Board of India (SEBI) and Serious Fraud Investigation Office (SFIO) have opened an investigation of alleged money laundering to the tune of ₹445 crore in Fortis, followed by a Luthra and Luthra report, which has blamed the brothers.

In fact, investigations and court cases have become routine affairs. In January, Religare was taken to the Delhi high court by a New York investor. The promoters of financial services firm Religare Enterprises allegedly siphoned some $300 million to their privately held firms. Subsequently, the company denied any wrongdoing. The "allegations were completely baseless and we categorically deny them," Religare had told Bloomberg in an emailed response. The matter is now sub judice.

In the beginning

The story began in pre-Independence India in Amritsar, Punjab. Ranbaxy got its name from two cousins, Ranjit and Gurbax, who started a drug distribution firm in 1937. After failing to repay a loan, they had to forego their company in 1947 to a businessman, Bhai Mohan Singh, who had come to Delhi from Rawalpindi in Pakistan after Partition. Under Bhai Mohan, the company launched its first blockbuster drug, Calmpose, in 1961. His son, Parvinder, took the company abroad, setting up plants outside India. Following Parvinder's death in 1999, Malvinder and Shivinder expanded the company's horizons beyond pharmaceuticals. Shivinder was in his first year of MBA at Duke University when his father died of cancer.

Parvinder's brother, Analjit, is a billionaire investor, who owns the Max group that runs businesses spanning hospitals, insurance and real estate. Analjit owned a 24.65 per cent stake in Vodafone's Indian subsidiary until 2014, around the time the telecom industry went into a downward spiral in India.

Parvinder and Analjit have another brother, Manjeet, who used to own Montari Industries, which owned the Indian franchise of Bausch and Lomb. Manjeet once wanted to build a five-star hotel on the family house in Lutyens Delhi. Today, these properties are controlled by Analjit.

Malvinder and Shivinder were

MALVINDER SINGH

close at one time, but now they seem to have differences. Shivinder, a former executive vice-chairman of Fortis, claimed that he was not in a position of authority when Fortis gave unsecured advances worth ₹445 crore to three companies affiliated to the Singh brothers. Malvinder, who stepped down as executive vice-chairman in February, countered this by saying that all decisions were taken collectively, and were approved by designated signatories.

The allegations and counter-allegations have surfaced after government agencies opened a probe against the Singh brothers following an internal investigation by law firm Luthra and Luthra, which found mismanagement of funds. The latest development has put the once close relationship between the two brothers to the test. "Post retirement, I continued as a shareholder of the group. My role in Fortis was that of a non-executive board member, effective January 2016, till I resigned from the board in February 2018," Shivinder said in an interview. "I had no role in Religare since I stepped off the board in 2010. I got back on the board of Religare in July 2016 when certain mismanagement came to light," he added.

Now it seems Shivinder wants to fix problems at Fortis Healthcare. "Shivinder went to spiritual sect Radha Soami Satsang Beas (RSSB) to be there permanently, but now he has to get back his reputation. He wants to fix the issues and then go back," said a person close to the family, requesting anonymity.

The family friend

Religare was run by the Singh brothers' one-time close confidante Sunil Godhwani from 2001 to 2017, before he decided to step down. "He was introduced to the Singh brothers by the RSSB," the person close to the family said, adding that Godhwani was also an ardent follower of the sect.

According to another person, who once oversaw operations at the group, Fortis's treasury operations – under scrutiny now for approving unsecured loans to the Singh brothers – were started by Godhwani. While Shivinder and Malvinder were involved in Fortis Healthcare and SRL Diagnostics, Godhwani ran Religare and privately-held companies of the family, including RHC Holding. The group also had an aviation business, Religare Aviation, which was run by Sanjay Godhwani, Sunil's brother.

Sunil Godhwani enabled the Ranbaxy-Daiichi deal for the Singhs. He was actively involved in Fortis's acquisition of Wockhardt Hospitals and Parkway Hospitals in Singapore. "He looked at group treasury operations, group funding, group financing and group deployment of money. In 2011, he was the person who started the treasury operations in Fortis. This has been a consistent activity and this has been the only profitable activity of the business because the hospital business never made profits till today. That has been an ongoing operation and a successful operation," said the person who oversaw operations at Fortis.

"There was a fallout between them (the brothers and Godhwani)," said the person quoted above. The Singh brothers have blamed Godhwani for creating legacy issues in the organisation and they parted ways in 2014. "The company is in the present situation due to the legacy issues of the previous management led by Sunil Godhwani. The serious mismanagement under his leadership drew the attention and intervention of the regulators. The situation forced the Singh brothers to come on to the board of Religare," a Religare spokesperson told *The Economic Times* in February.

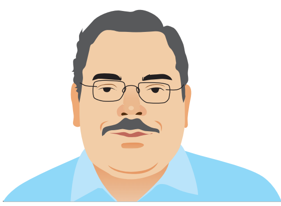
The Ranbaxy business dynasty is now in disarray. With a slew of legal and regulatory battles ahead, the Singh brothers have limited elbow room to start a new business or revive remnants of existing ones. A rich legacy has been squandered. **WI**

By Amrit Raj and Teena Thacker. In arrangement with HT Syndication / Mint

STRAIGHT TALK

Democracies and bad policies

Bad economic policies in a democracy are a result of rulers adopting the policies desired by the ruled



ANAND TANDON

Almost any body of knowledge works by making some simplifying assumption and developing a model to explain a certain outcome. The model is then used to make predictions and success or failure of these help to improve the model and its assumptions. In the field of economics, one such simplifying assumption is that of individual 'rationality'. It seems reasonable to assume, for example, that given a choice of buying two items with identical benefits but different prices, the consumer will choose the lower-priced item. Studies of human behaviour have often revealed the lack of rationality in actions. Behavioural finance has pointed out several inconsistencies such as the 'anchoring effect'. How these affect voter behaviour and, through it, economic policies of a nation is the subject of a book by Bryan Caplan, titled *The Myth of the Rational Voter: Why Democracies Choose Bad Policies.*

> **Caplan makes the point that the alternative to democratic government is not dictatorship but 'markets', i.e. less government interference in economic policies**

Democracy vs markets

Before any shortcomings of democracy are examined, it is important to deal with Winston's Churchill's famous aphorism: "Democracy is the worst form of government, except all those other forms that have been tried from time to time." Caplan makes the point that the alternative to democratic government in the present-day context is not dictatorship – with its appalling track record – but 'markets', i.e. less government interference in economic policies.

Caplan's central argument is that democratic governments often make policies that are harmful to their voters. He calls this the 'paradox of democracy'. But why would the ruled appoint rulers that work to their detriment? His short answer is that this is not an outcome of a failure of democracy, where policymakers once elected ignore the desires of their electorate and instead work for narrow interest groups. In fact, he emphasises that it is democratic success. Economic policies that are bad for people are a result of rulers adopting policies that are desired by the ruled. Just that people at large vote for 'irrational' policies. Weaker government, which usually is taken to mean less government oversight/interference of markets, may actually be a good thing.

Rational ignorance and the miracle of aggregation

Caplan postulates that it is actually rational for voters to not invest time in understanding politics and economics since for the individual voter the probability of his one vote amounting to a change in mandate is infinitesimally small. Usually, this does not result in policies that are all bad because if most voters make random errors in policy understanding, these errors would cancel out. In other words, even if 1 per cent of voters understood what policies are beneficial and the rest voted randomly, the outcome would be good policies. In Caplan's words, the winner will be "whoever has the support of the majority of the well informed." This result is called the 'miracle of aggregation'.

Systematic error

However, this assumes ill-informed voters vote randomly on policy – some for and some against. What

if there are systematic biases? Then clearly these would be reflected in political choice and if the biases are not based on correct economics, they will lead to bad policy choices. Caplan asserts that voters have systematic biases on economic issues. He identifies four dominant biases – anti-market, anti-foreign, make-work and pessimistic bias.

Anti-market bias is the inability to understand how the 'invisible hand' of the market aligns private greed with public benefit. Anti-foreign refers to the inability to understand comparative advantage and the benefits of interaction and trade with 'outsiders'. Make-work bias refers to the confusion between output (production) vs employment and the inability to understand that the former is what leads to social prosperity. The pessimistic bias shows up in people thinking that economic conditions are bad and getting worse despite data to the contrary.

Much of the book explains at length the empirical evidence available to demonstrate the existence of such biases.

Preference over beliefs

Does this mean that rationality assumption of economic theory is unwarranted? Caplan suggests that people operate with a belief structure where some beliefs are more 'preferred' than others. Religion is an example – counter-examples to religious beliefs are largely ignored. As Nietzsche said, "'Faith' means not wanting to know what is true."

"Preferences over beliefs is the critical idea that reconciles the theory of rational choice with the facts of voter irrationality," writes Caplan. In rational-choice analysis, total cost of a particular choice vs its alternative is what determines preference. The cost of fealty to one's ideology is the material wealth foregone to believe. In a democracy, the probability that one vote changes policy is extremely low. The cost to the voter is not the per capita reduction in wealth but that, discounted by the probability, his vote flipped the outcome of the election. This would be close to zero. It is, therefore, absolutely sensible for a voter to vote for his political belief system since the cost of a bad choice is negligible.

To quote from the book, "The fanatical protectionist who votes to close the borders risks virtually nothing, because the same policy wins no matter how he votes. Either the borders remain open, and the protectionist has the satisfaction of saying, "I told you so"; or the borders close, and the protectionist has the satisfaction of saying, "Imagine how bad things would have been if we hadn't closed the borders!"

In the current context of closing borders and trade wars, Professor Caplan's book needs a wider audience – and a critical examination of our own belief systems as elections loom over the next 12 months. **WI**

Anand Tandon is an independent analyst.

TAKING STOCK

Regaining glory

Infosys' lower valuations and improving prospects mean that it could be a multi-bagger

MALINI BHUPTA

India's two largest IT services companies TCS and Infosys announced their quarterly numbers in July. After TCS announced its results, its stock was up by about 5.5 per cent. On the other hand, after Infosys announced its results, its stock was up by about 1.8 per cent. For long-term investors, quarterly gyrations should not matter much, but when the gap in market capitalisation between two companies in the same sector is over $60 billion, then it makes sense to go a little deeper and understand if Infosys can catch up.

TCS' market capitalisation crossed the $100 billion mark in July, while currently Infy's market capitalisation is a little over $40 billion. TCS' price-to-earnings multiple is at 28, while that of Infosys is at 18. This suggests that there's enough headroom for Infy's multiple expansion if it manages to report higher growth and bigger deal wins. Typically, maximum wealth creation happens when one catches the stock when it is fairly priced or relatively undervalued. A fully-priced stock would not deliver great returns even if it continues on its growth trajectory. From a valuation perspective, Infosys does look better placed than TCS. If Infosys catches up with TCS, then the stock could be a multi-bagger.

TCS' market cap crossed the $100 billion mark in July, while currently Infy's market cap is a little over $40 billion. TCS' price-to-earnings multiple is at 28, while that of Infosys is at 18.

Before going into granularities, it makes sense to take a look at the quarterly numbers. TCS reported sequential revenue growth of 1.6 per cent in dollar terms and 4.4 per cent in constant-currency terms. The IT services major exited the June quarter with an operating margin of 25 per cent, down 40 basis points sequentially. TCS' revenue growth was led by a revival of the banking and financial-services vertical. The vertical accounted for $1.9 billion out of a total $4.9 billion in deal wins. The digital business grew at 9.1 per cent sequentially and 44 per cent annually in the June quarter and it accounts for 25 per cent of total revenues.

Infosys, on the other hand, reported revenue growth of 2.3 per cent in constant-currency terms and 0.9 per cent in dollar terms. The company had an operating margin of 23.7 per cent, down 100 basis points quarter on quarter. The financial-services vertical, which accounts for 31.8 per cent of the revenue, declined during the quarter. The total contract value of new deals during the quarter was $1.12 billion, which is the highest in eight quarters. This was split between renewals and new deal wins. Digital business accounted for 28 per cent of revenues and this segment has grown by 8 per cent in constant currency and 25 per cent year-on-year in the June quarter. The company has made two acquisitions in the UK and the US, which have enhanced its capabilities in the agile digital business.

Smart investors tend to focus on valuations and by that logic shares of Infosys appear cheaper, given its sector-leading performance in the past. But doing what it has done in the past may not be good enough to get it back on track. Even though, broadly, the market accepts that Infosys is going in the right direction, the turnaround story under promoter-chairman Nandan Nilekani is still work in progress. Interestingly, TCS was in the same spot nearly a decade and a half ago when it got publicly listed in 2004. Back then, TCS

faced problems of client concentration, low-margin business clients and a higher proportion of fixed-price contracts in its kitty. Today, the tables have been turned and Infosys is attempting to break out of its risk-averse style of doing business.

So what does Infosys need to do to close the valuation gap between itself and TCS? Experts believe that Infosys has stayed away from the large multi-service deals. The company may need to make more acquisitions, like Brilliant Basics, in newer areas – cloud, data analytics, artificial intelligence, augmented and virtual reality, smart machines and IoT – where it needs to spruce up its competencies. It also has to build an ecosystem through partnerships and collaborations if it wants to bid for the large transformational deals in digital.

Today, large digital contracts require service providers to build cross-functional teams that can work with multiple vendors. These deals have to be shaped from conception at times and for this Infosys needs to invest in building new teams or retrain its existing workforce.

The market is now getting ready to move away from pilot projects to large-scale transformational engagements. For this, Infosys will need to hire fresh talent and make some sensible acquisitions. The success in digital will determine Infy's long-term growth trajectory. There is a positive uptick in the corporate profits in the US and higher outsourcing from Europe. All pointers suggest that a revenue uptick is most likely.

While Infosys has spoken about its intent to invest more in growing the business, it also needs to reset its margin band. The rupee's recent decline has given the company headroom to revise its margins despite wage hikes and higher expenses in sales and marketing. Also, the company should try to bring down the attrition.

Given that the promoter chairman is back at the helm, analysts and market believe that Infosys will underpromise and overdeliver, as it has in the past. Once seen as the poster boy of Indian IT, Infosys may not be very far from regaining its mojo. **WI**

The author is the editor of Value Research Stock Advisor

Boom time

Graphite India and HEG have benefited from a supply constraint of graphite electrodes. Here is how they compare with each other.

Graphite India

Started in 1967 in collaboration with Great Lakes Carbon Corporation of USA, Graphite India is the third largest graphite-electrodes producer in the world, with a global market share of 12 per cent. Its total capacity stands at 98,000 kilo tonne. It operates six manufacturing plants in India, which have a combined capacity of 80,000 kilo tonne. Its German subsidiary accounts for 18,000 kilo tonne.

Financials — All numbers in ₹ cr

Revenue	Operating profit	Net profit	Net worth	Total debt	Cash from operations	Market cap
3,266	1,533	1,032	2,732	272	760	19,188

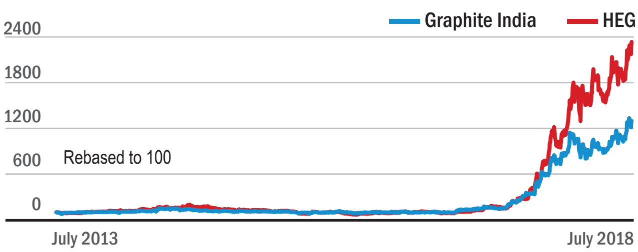
HEG

Incorporated in 1972, HEG was earlier know as Hindustan Electro-Graphites. Its graphite-electrodes division was started in 1977 in collaboration with SERS, a French company. HEG is the fourth largest graphite-electrodes producer in the world, with a global market share of 10 per cent. It has one of the largest integrated graphite-electrode plant in the world, with a combined capacity of 80,000 kilo tonne.

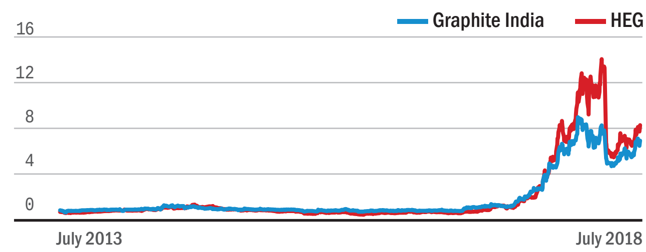
Financials — All numbers in ₹ cr

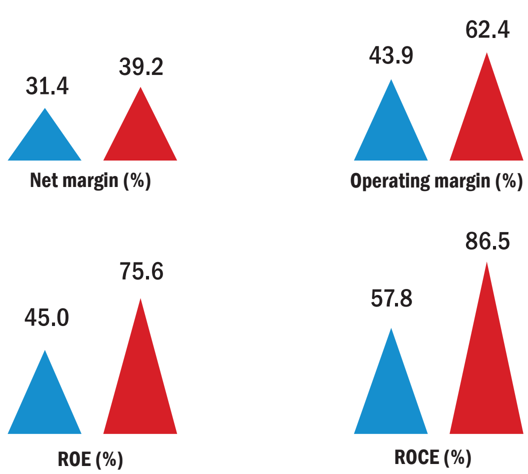
Revenue	Operating profit	Net profit	Net worth	Total debt	Cash from operations	Market cap
2,750	1,734	1,081	1,908	297	586	15,923

Price chart



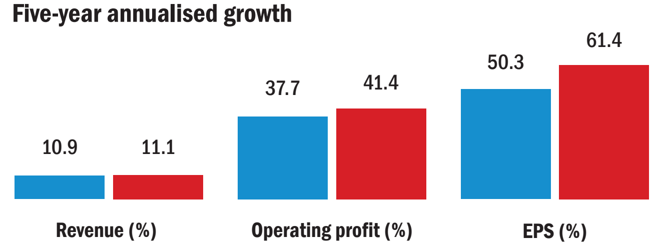
P/B chart





	Price to earnings	Price to book	Dividend yield (%)	Debt to equity
Graphite India	18.6	7.0	1.73	0.10
HEG	14.5	8.3	2.01	0.16

Five-year annualised growth



Data as on July 18, 2018

! Chinese ban on graphite production led to an over five-fold rise in the price of graphite electrodes. This benefited Indian graphite-electrode makers like HEG and Graphite India. Increasing use of the electric furnace method, especially in China, for producing steel to reduce pollution will further increase the demand for graphite, while it will take another two-three years to increase its supply. **WI**

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Our scorecard

Over the years, we have analysed and recommended several stocks. The table below shows our performance since July 2011. Yes, we have a few failures, but we also have many successful picks. A portfolio comprising the stocks below has delivered an IRR of 22.52 per cent, including dividends, assuming one had invested ₹10,000 in each of the stocks at the time of the recommendation. In all one would have invested ₹10,10,000. The current value comes to ₹31,91,609 (including dividends) on July 19, 2018, whereas investing the same amount in the Nifty 50 would have generated ₹20,67,567 (including dividends), yielding 13.29 per cent. **WI**

Performance

Total returns* since July 2011

22.5% Stock Analyst's Choice

13.3% Nifty 50 Index

*As on July 19, 2018

Recommendation date		Recommended price (₹)	Current price (₹)	Value of ₹10K invested (₹)	Total return (% per annum)
Jul-11	Asian Paints	295	1,405	47,613	25.8
	Bosch	6,917	17,682	25,563	15.2
	Castrol India	122	157	12,845	6.1
	Colgate-Palmolive	458	1,124	24,537	15.5
	CRISIL	693	1,770	35,401	16.2
	Cummins India	481	639	13,294	6.8
	Exide Industries	149	263	17,601	9.4
	ITC	123	269	21,792	14.1
	Larsen & Toubro	730	1,279	17,521	9.3
	Nestle India	3,888	10,278	26,435	15.9
	NMDC	258	95	3,705	-9.0
	Pidilite Industries	159	1,051	65,951	31.6
	Titan Company	229	871	38,028	21.0
Aug-11	Lupin	461	805	17,479	9.2
	Opto Circuits	213	13	624	-32.3
Sep-11	Bank of Baroda	152	121	8,004	-2.5
	Castrol India	127	157	12,343	5.6
	Power Grid Corporation	103	180	17,555	10.8
	Rural Electrification	87	93	10,745	8.4
	Tata Coffee	70	110	15,553	7.6
	Torrent Power	211	223	10,558	2.3
	Zee Entertainment Ent.	123	516	41,818	24.0
Oct-11	CMC*	858	2,032	23,674	25.7
	Graphite India	78	995	1,28,387	47.3
	Zylog Systems	197	1	64	-51.3

Returns for less than one year are absolute. Total returns include dividend income. Returns as on July 19, 2018. Transactional fees not taken into account.
*CMC merged with TCS with effect from September 29, 2015. Its current price is the last traded price.

STOCK ANALYST'S CHOICE

Recommendation date		Recommended price (₹)	Current price (₹)	Value of ₹10K invested (₹)	Total return (% per annum)
Nov-11	Godrej Consumer Products	198	1,320	66,558	33.4
	Tata Consultancy Services	543	1,977	36,390	23.9
	Transformers & Rectifiers	20	18	8,959	-1.5
Dec-11	Gujarat State Petronet	92	186	20,201	12.0
	Noida Toll Bridge	23	10	4,099	-3.5
	Tata Motors	180	256	15,559	6.4
Jan-12	GAIL	218	360	16,468	10.0
	Mahindra Lifespace	245	552	22,521	15.4
	MRF	6,859	74,430	1,08,445	44.0
Mar-12	Bajaj Finance	83	2,418	3,24,098	71.1
	Gabriel India	23	142	62,418	34.7
	Opto Circuits	221	13	602	-35.3
Apr-12	Shriram Transport Finance	581	1,217	20,938	13.6
	TTK Prestige	2,647	5,853	22,111	14.0
May-12	Bata India	423	826	19,541	12.0
	GSK Consumer Healthcare	2,770	6,404	23,117	15.5
	Swaraj Engines	395	1,747	44,239	32.6
Jun-12	Ajanta Pharma	75	973	1,28,975	53.4
	Elecon Engineering	53	56	10,526	2.8
	Kirloskar Pneumatic	470	900	19,149	13.1
Aug-12	Hero Motocorp	2,082	3,488	16,750	12.3
	Supreme Industries	237	1,155	48,808	32.9
	VST Industries	1,695	2,520	14,870	9.9
Sep-12	Amara Raja Batteries	195	768	39,386	27.2
	Redington India	71	109	15,248	9.3
Oct-12	Lupin	567	805	14,189	7.1
	MindTree	172	953	55,457	36.8
	Solar Industries	197	1,111	56,494	35.6
Nov-12	Grindwell Norton	130	498	38,318	28.2
	KPIT Technologies	120	293	24,423	17.6
	Mcleod Russel	306	138	4,499	-11.7
Dec-12	City Union Bank	44	169	41,608	28.1
	Petronet LNG	79	208	26,413	20.1
	Wockhardt	1,647	566	3,436	-16.6
Feb-13	Balkrishna Industries	145	1,169	80,516	46.9
	KEC International	64	319	49,968	34.8
	Torrent Pharmaceuticals	365	1,440	39,410	31.6
Mar-13	Emami	205	550	26,809	21.2
	Gruh Finance	54	326	60,505	40.7

Returns for less than one year are absolute. Total returns include dividend income. Returns as on July 19, 2018. Transactional fees not taken into account.

Recommendation date		Recommended price (₹)	Current price (₹)	Value of ₹10K invested (₹)	Total return (% per annum)
Apr-13	Berger Paints India	69	308	44,817	33.3
	Innoventive Industries#	103	4	407	-62.8
May-13	Kaveri Seed Company	252	555	22,065	17.0
	Navneet Education	57	115	20,070	17.6
	V-Guard Industries	35	190	54,853	39.1
Aug-13	Cairn India##	296	285	9,650	2.9
	Indraprastha Gas	62	274	44,277	36.1
	Nesco	146	497	34,023	28.4
Nov-13	Bajaj Corp	237	407	17,153	16.1
	HCL Technologies	581	981	16,899	14.2
Dec-13	Voltas	89	537	60,101	48.2
Feb-14	J&K Bank	135	47	3,491	-20.0
	Tata Consultancy Services	1,107	1,977	17,865	16.0
Mar-14	Cummins India	433	639	14,748	12.3
	Swaraj Engines	622	1,747	28,106	31.6
Apr-14	AIA Engineering	560	1,595	28,478	28.7
	Godrej Consumer Products	382	1,320	34,550	34.0
May-14	Rallis India	167	187	11,191	4.4
	Titan Company	256	871	34,054	34.1
Jun-14	Finolex Cables	164	581	35,426	36.5
	NBCC	20	65	32,576	34.5
Aug-14	Gateway Distriparks	232	166	7,175	-4.6
	GMDC	154	106	6,891	-6.8
	V-Guard Industries	47	190	40,504	42.5
Sep-14	Finolex Industries	297	553	18,637	19.6
	Hindustan Media Ventures	155	168	10,855	2.9
Oct-14	Mahindra Holidays & Resorts	199	293	14,721	11.7
	Tata Coffee	93	110	11,747	5.8
Nov-14	Infosys	966	1,318	13,634	11.3
	Tata Motors	482	256	5,553	-15.6
Jan-15	Apollo Tyres	208	272	13,071	9.0
Mar-15	Ipca Laboratories	681	743	10,912	2.7
	Voltas	256	537	20,956	24.9
Apr-15	Astral Poly Technik	449	1,057	23,532	29.3
	VST Tillers Tractors	1,380	2,272	16,463	17.1
May-15	Just Dial	1,253	571	4,551	-21.4
	Shriram Transport Finance	1,099	1,217	11,075	4.2
	PORTFOLIO TOTAL			**30,64,187**	**22.5**

#Stopped trading since Jun '13. ##Stopped trading since Apr '17. Returns for less than one year are absolute. Total returns include dividend income. Returns as on July 19, 2018. Transactional fees not taken into account.

Ideas to delve deeper

Sound investment methods outlast cycles and fads and generate profits over the long run. Value Research presents stock screens based on time-tested principles.

What are stock screens? These are a listing of attractive stocks based on the objective principles of sound investment. We apply stock filters carefully crafted by Value Research analysts on the universe of Indian stocks to identify these attractive stocks. The filters are devised to identify stocks of the following kinds:

- Quality stocks available cheap
- Attractive blue chips
- Stocks available at a steep discount to book value
- High dividend-yield stocks
- Growth stocks available at reasonable prices

We believe that stocks listed in this section are a good starting point to start a close scrutiny before adding them to your portfolio.

However, please *note that they are not our recommendations*.

Each stock screen explains the reason behind picking the stock, which over time will help you develop your own investing rules. As we will be evolving such models and implementing changes to the methodology to be in line with economic and market cycles, the list will be dynamic and updated periodically.

In the following pages of 'Stock Screen', we present five categories that collectively list a number of stocks. With these, you will be well-equipped to select stocks to build your own portfolio after doing further research. If you think that stock picking is a lot of hard work, you can get started with these screens and with time understand the way the ideas are shaping to make your own judgement on stock selection.

Great investments are not easy to find, but practice, patience and sound principles are all that you need.

Key terms

Universe companies In order to arrive at our universe of companies, we checked if the companies traded on all the days for the last two quarters. We considered the companies with a market capitalisation of more than ₹400 crore.

Price to book value (P/B) Price to book value is the ratio of the price of a stock to the book value per share of the company. It shows how much premium investors are willing to pay for the underlying net assets of the company.

Price to earnings (P/E) The price-to-earnings ratio, or the P/E ratio, is simply the ratio of the price of a stock to its earnings per share. It shows in multiples how much investors are willing to pay for the earnings. The thumb rule of valuing a stock is that a high-growth stock will have a high P/E ratio, while a value stock will have a relatively lower P/E ratio.

Earnings per share (EPS) Earnings per share, or EPS, is calculated by dividing the company's net profit with the total number of outstanding shares.

EPS growth Growth of the EPS over a specified time period – trailing 12 months (TTM), a quarter or five years. Quarterly comparisons are on a year-on-year basis. For five years, the figures are annualised.

Price-earnings to growth (PEG) This ratio demonstrates how high a price we are paying for the growth that we are purchasing. It is the ratio of price to earnings to the EPS growth of the stock. In all our analyses, we have taken five-year historic EPS growth.

Earnings yield Earnings before interest and taxes (EBIT) divided by enterprise value. Enterprise value is market cap added to total debt and less cash and equivalents.

Dividend per share Total dividend declared during the year divided by the total number of outstanding shares.

Net sales This is simply the income that a company derives by selling the goods and services that it produces. The downside of taking sales as an indicator of growth is that it may not be matched by a similarly scintillating bottom-line (net profit) performance. A company may be earning revenue at a high rate. But if it is doing so by incurring a very high cost, the bottom line may not grow in proportion to the growth in the top line (sales).

Interest-coverage ratio (ICR) This indicator is generally used to gauge whether a company has the ability to service its debt. The interest-coverage ratio is calculated as the ratio of operating profit to interest outgo. A company with an ICR of more than two implies that it can service more than twice its current interest charges.

Debt-equity ratio The debt-equity ratio is calculated as the ratio of total outstanding borrowings of the company to its total equity capital. It essentially tells us which companies use excessive leverage to achieve growth. Conventionally, the debt-equity ratio of less than two is considered safe.

Return on equity (RoE) This is measured by taking profit after tax as a percentage of net worth of the company. It indicates how efficiently the company has been able to utilise investors' money.

Stock return Stock return is calculated by taking the percentage change in the price of the stock adjusted for bonus or split.

Dividend yield This is defined as the percentage of the dividend paid per share to the current market price of the stock. Since the denominator in this ratio is the market price, a stock's dividend yield changes every day.

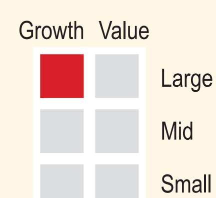
Dividend-payout ratio This is the total dividend paid to the shareholders as a percentage of net profit.

Altman Z-Score Developed by Edward Altman of New York University, the Z-Score predicts a company's financial distress or the possibility of its going bankruptcy within two years.

Modified C-Score It tells the probability of financial manipulations. In order to develop it, we have modified James Montier's C-Score.

Piotroski F-Score Developed by Joseph Piotroski, the F-Score highlights financial performance as compared to that in the previous year. It thus points out to the current outperformer in terms of profitability and financial improvement.

Stock style It indicates the style of the stock. It is derived from a combination of the stock's valuation — growth or value — and its market capitalisation — large, mid and small. For example, on the right we have shown the stock style of a large-cap growth stock.



Quality stocks available cheap

The stocks listed below clear essential checks on solvency, accounting, recent financial performance and valuations

REASONS TO INVEST

- Safety
- Soundness
- Good performance
- Reasonable valuations

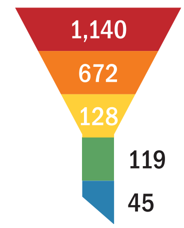
THE FILTERS

- Market cap greater than ₹400 cr
- Z-Score greater than 2.99
- F-Score greater than or equal to 7
- C-Score less than 4
- PEG less than 1

P/E to median P/E less than 1.5

Earnings yield greater than 5%

No. of companies that cleared the filters



Banking and finance companies were removed from this analysis as the metrics don't apply to them.

Safe bets

For updated numbers, visit: www.ValueResearchOnline.com

Company	Stock style	Altman Z-Score	Piotroski F-Score	Modified C-Score	Earnings yield (%)	P/E	PEG	Market cap (₹ cr)	Share price (₹)	52-week high/low (₹)
Action Const Equipment Construction		6.7	9	0	5.8	27.3	0.56	1,457	124	204-58
Ambika Cotton Mills Textiles		6.7	8	3	11.6	12.1	0.83	737	1,269	1860-1200
Automotive Axles Automobile		7.7	8	2	7.3	21.3	0.51	1,791	1,186	1849-704
Banco Products (India) Automobile		7.5	8	0	13.0	12.2	0.89	1,430	201	277-195
Bhansali Engg Polymers Chemicals		7.6	9	2	7.8	20.8	0.18	2,066	127	225-70
Bharat Seats Automobile		4.8	9	1	8.3	17.7	0.45	499	158	274-103
Bodal Chemicals Chemicals		6.2	8	2	12.7	11.5	0.22	1,416	117	190-110
Cheviot Company Textiles		12.2	8	0	14.1	10.5	0.88	567	1,320	1735-1070
Datamatics Global Services Technology		9.5	8	0	16.5	9.1	0.53	585	100	153-94
DCM Shriram Diversified		3.8	9	2	15.4	8.3	0.31	5,584	346	628-237
Federal-Mogul Goetze (I) Automobile		5.9	8	2	6.1	25.9	0.52	2,290	417	592-403

STOCK SCREEN

For updated numbers, visit: www.ValueResearchOnline.com

Company	Stock style	Altman Z-Score	Piotroski F-Score	Modified C-Score	Earnings yield (%)	P/E	PEG	Market cap (₹ cr)	Share price (₹)	52-week high/low (₹)
Filatex India Textiles		3.0	8	2	9.5	15.3	0.32	914	42	50-25
Goa Carbon Energy		4.5	8	3	20.3	8.4	0.16	464	509	1215-252
Graphite India Engineering		15.3	8	2	8.0	18.7	0.45	19,303	1,000	1027-179
Grauer & Weil (India) Chemicals		6.6	8	0	9.6	15.6	0.62	992	44	86-38
Insecticides (India) Chemicals		4.3	8	1	9.1	16.4	0.82	1,382	658	964-642
International Paper APPM FMCG		3.3	9	1	11.2	15.0	0.46	1,247	315	418-277
Jubilant Life Sciences Healthcare		3.0	8	1	7.4	18.4	0.67	11,838	742	1039-600
Kalyani Steels Metals		3.5	8	2	15.4	9.0	0.24	1,041	240	465-237
Kellton Tech Solutions Technology		5.7	8	1	22.7	5.9	0.06	405	42	85-40
KPR Mill Textiles		5.0	9	1	8.7	15.2	0.66	4,419	613	850-555
LG Balakrishnan & Brothers Automobile		5.0	9	0	8.5	16.8	0.89	1,444	465	671-333
Maithan Alloys Metals		7.2	8	2	22.5	6.1	0.13	1,773	617	1026-403
Man Infraconstruction Construction		7.7	8	1	24.0	15.3	0.86	1,015	42	75-40
Meghmani Organics Chemicals		4.4	9	2	15.2	12.3	0.23	2,106	84	129-49
National Peroxide Chemicals		10.0	9	0	9.1	17.2	0.90	1,650	2,911	3890-1386
NR Agarwal Industries FMCG		3.3	9	1	13.5	7.8	0.10	708	410	600-244
Petronet LNG Energy		5.2	8	3	10.6	14.8	0.68	31,275	208	276-198
Phillips Carbon Black Chemicals		3.0	8	1	8.6	15.2	0.23	3,488	207	319-109
PPAP Automotive Automobile		5.3	9	2	8.0	18.5	0.35	729	524	723-281

STOCK SCREEN

For updated numbers, visit: www.ValueResearchOnline.com

Company	Stock style	Altman Z-Score	Piotroski F-Score	Modified C-Score	Earnings yield (%)	P/E	PEG	Market cap (₹ cr)	Share price (₹)	52-week high/low (₹)
Quick Heal Technologies Technology		41.2	8	1	9.7	20.8	0.65	1,725	250	404-172
Rico Auto Industries Automobile		3.3	8	0	8.2	15.8	0.27	911	69	111-62
Rushil Decor FMCG		5.5	9	2	5.3	28.9	0.57	894	599	1195-580
Sadhana Nitro Chem Chemicals		5.3	9	2	6.1	16.5	0.33	512	554	639-53
Sandur Manganese Metals		5.5	9	1	29.6	6.4	0.24	710	800	1470-695
Sharda Motor Industries Automobile		5.3	8	1	11.7	12.5	0.50	1,101	1,831	3140-1743
Star Cement Construction		4.7	8	1	7.9	14.3	0.21	4,737	111	152-102
Sterling Tools Engineering		8.6	8	3	6.5	24.4	0.89	1,195	329	478-225
Sunteck Realty Construction		3.7	8	2	5.9	26.5	0.22	5,677	390	470-215
Suven Life Sciences Healthcare		9.6	9	0	9.3	22.3	0.80	2,763	220	251-155
Tata Metaliks Metals		4.0	8	0	12.1	10.0	0.27	1,590	638	976-585
Vardhman Textiles Textiles		3.8	9	0	10.6	11.8	0.28	6,848	1,201	1560-1138
VenkyS (India) FMCG		5.0	9	1	13.3	12.7	0.25	2,543	1,895	4725-1600
West Coast Paper Mills FMCG		3.2	9	2	12.2	7.6	0.10	1,694	265	348-173
Zee Learn Services		4.2	8	2	7.0	23.2	0.85	1,141	35	51-31

Data as on July 18, 2018. Indicates new entrants.

STOCK SCREEN

Attractive blue chips

Investing in blue chips at reasonable valuations is one of the simplest methods of wealth creation with limited pain

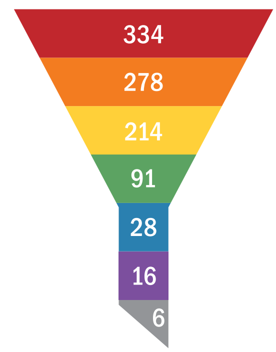
REASONS TO INVEST

- Liquidity
- Large companies in respective businesses
- Strong balance sheets
- Liked by institutions

THE FILTERS

- Large and mid caps
- Debt-equity ratio of less than two
- Interest coverage ratio should be more than two
- Average ROE should not have fallen more than 20 per cent in any year
- Annualised earnings growth of more than 20% over the past five years
- PEG of less than 1.5
- Five-year average return on equity above 20%

No. of companies that cleared the filters



Solid foundation

Company	Stock style	P/E	PEG	Debt-equity ratio	Interest coverage ratio	5Y avg RoE (%)	5Y EPS growth (%)	Market cap (₹ cr)	Share price (₹)	52-week high/low (₹)
Aarti Industries Chemicals		29.8	1.30	1.1	4.5	22.0	22.8	9,922	1,216	1360-821
Aurobindo Pharma Healthcare		13.9	0.26	0.4	46.8	28.8	32.6	33,778	576	809-527
Avanti Feeds FMCG		12.6	0.17	0.0	147.7	48.7	71.5	5,611	413	980-390
BPCL Energy		9.7	0.39	1.2	19.3	23.7	27.0	87,182	402	552-360
Tata Elxsi Technology		36.8	0.59	0.0	456.5	39.1	62.8	8,829	1,417	1454-791
UPL Chemicals		14.0	0.59	0.9	3.5	24.0	29.2	28,403	557	903-549

Data as on July 18, 2018. EPS growth rates are annualised.

High dividend-yield stocks

Good dividends are not just a bonus in addition to stock returns, they also accumulate to become sizeable in the long run

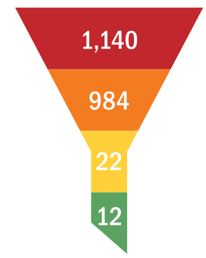
REASONS TO INVEST

- Cushion against volatility
- Higher total return
- Generate regular tax-free income

THE FILTERS

- Market cap greater than ₹400 cr
- Dividend payout ratio of less than 40%
- Stocks with a current dividend yield of more than 3%
- Stocks with sustained per share dividend and amount over the past five years

No. of companies that cleared the filters



Dear dividend

Company	Stock style	P/E	PEG	Dividend per share (₹)	Dividend yield (%)	Dividend pay-out ratio (%)	Earnings yield (%)	Market cap (₹ cr)	Share price (₹)	52-week high/low (₹)
Andhra Sugars Diversified		7.5	1.29	10.0	3.1	22.3	16.1	876	318	715-304
BSE Financial		6.1	0.04	36.0	4.3	27.0	48.4	4,316	824	1107-726
HPCL Energy		6.0	0.13	30.0	7.0	37.0	16.2	43,589	278	493-251
Ingersoll-Rand (India) Engineering		18.2	6.83	6.0	45.9	24.5	13.7	1,616	510	915-504
NTPC Energy		12.1	-3.11	4.8	3.1	36.8	7.0	1,27,887	155	188-150
NLC India Energy		5.6	0.82	4.5	6.3	35.2	13.9	10,906	71	119-69
PTC India Financial Services Financial		40.3		1.5	9.7	27.9	-	996	15	44-15
PTC India Energy		5.9	0.30	3.0	4.3	21.4	5.0	2,088	71	130-69
Reliance Capital Financial		6.6	0.54	10.5	3.1	24.4	15.5	8,696	349	880-334
RSWM Textiles		28.3	-1.06	12.5	5.0	28.3	6.8	593	248	434-236
Rural Electrification Corp Financial		3.8	0.96	9.7	10.6	30.2	11.5	18,011	94	185-90

Data as on July 18, 2018. Indicates new entrants.

Reasonably priced growth stocks

Growth investing is about picking companies that are fast growing their bottom lines. But make sure that the valuations are not overheated.

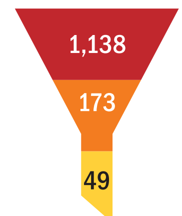
REASONS TO INVEST

- All-weather style
- Companies with strong fundamentals
- Greater stability vis-a-vis value or growth

THE FILTERS

- Market cap greater than ₹400 cr
- Earnings growth of:
  - At least 20% in the past five years
  - At least 20% in the trailing 12 months YoY
  - At least 20% in latest quarter YoY
- Stocks with a P/E of less than 15

No. of companies that cleared the filters



On fast track

Company	Stock style	P/E	Median P/E	PEG	Quarterly EPS growth (%)	TTM EPS growth (%)	5Y EPS growth (%)	Market cap (₹ cr)	Share price (₹)	52-week high/low (₹)
8K Miles Soft Services Technology		6.6	29.3	0.04	2,838.5	198.8	141.7	1,140	373	1030-314
Ajmera Realty & Infra India Construction		8.8	14.4	0.21	32.2	26.4	51.6	724	203	366-174
Andhra Petrochemicals Chemicals		9.8	-	0.14	319.5	659.5	40.0	454	53	78-23
Asian Star Company Cons Durable		12.3	17.1	0.69	82.3	76.6	25.7	1,345	840	1614-589
Bajaj Holdings & Inv Financial		10.3	7.6	0.40	42.4	28.8	21.7	32,856	2,985	3248-2214
Balaji Amines Chemicals		14.5	12.5	0.50	85.6	32.3	29.4	1,637	506	782-294
Bharat Bijlee Engineering		10.4	37.3	0.15	628.2	322.6	70.7	636	1,121	1790-964
Capital First Financial		14.8	29.4	0.38	32.4	32.2	28.6	4,830	487	902-475
DLF Construction		6.8	42.2	0.15	66.1	524.5	43.0	30,463	171	274-153
Gallantt Ispat Metals		10.3	13.9	0.43	106.5	23.7	34.1	796	276	389-183
Goa Carbon Energy		8.8	11.8	0.17	29.6	285.6	30.6	489	536	1215-252
Gujarat Narmada Valley Chemicals		7.8	11.6	0.13	38.0	58.7	32.1	6,228	402	549-255

Company	Stock style	P/E	Median P/E	PEG	Quarterly EPS growth (%)	TTM EPS growth (%)	5Y EPS growth (%)	Market cap (₹ cr)	Share price (₹)	52-week high/low (₹)
HEG Engineering		14.5	8.2	0.24	18,637.4	2,263.1	72.6	15,923	3,986	4090-393
Indiabulls Housing Fin Financial		13.3	12.2	0.30	21.8	31.6	41.5	51,185	1,200	1440-1057
Indiabulls Real Estate Construction		3.3	11.9	0.05	1,796.5	392.4	72.3	6,556	144	270-142
International Paper APPM FMCG		14.9	35.8	0.46	110.0	156.4	33.8	1,236	312	418-277
JSW Steel Metals		11.5	17.8	0.29	194.2	116.0	43.0	71,719	296	347-211
Kellton Tech Solutions Technology		6.2	12.2	0.07	54.5	27.8	74.6	421	43	85-40
Kiri Industries Chemicals		4.9	2.9	0.12	106.7	30.1	50.3	1,762	564	682-230
KNR Construction Construction		12.3	18.3	0.31	52.1	73.0	39.2	2,985	212	349-193
KSE FMCG		12.9	10.1	0.18	76.8	325.0	72.0	900	2,813	4000-1196
Manpasand Beverages FMCG		14.4	59.7	0.29	36.4	28.5	39.1	1,442	126	512-120
Meghmani Organics Chemicals		12.6	12.3	0.24	111.5	95.3	56.8	2,165	85	129-49
NR Agarwal Industries FMCG		7.7	7.9	0.10	6,095.5	81.5	81.4	697	414	600-244
Orient Paper & Industries FMCG		11.8	27.6	0.39	23.5	356.1	28.3	579	27	175-25
Piramal Enterprises Healthcare		9.0	20.5	0.10	1,121.2	297.2	88.6	46,205	2,560	3009-2275
Prakash Industries Diversified		4.3	6.8	0.16	169.6	254.3	32.1	2,087	131	276-92
Rain Industries Construction		6.1	8.8	0.30	324.2	133.8	20.3	5,837	173	475-106
Renaissance Jewellery Cons Durable		8.4	5.0	0.30	39.7	50.8	38.5	531	278	412-164
Sandur Manganese Metals		6.4	18.0	0.24	20.4	89.9	26.8	703	804	1470-695
Sanwaria Consumer FMCG		10.3	11.6	0.42	133.4	122.5	23.2	1,038	14	34-7

STOCK SCREEN

Company	Stock style	P/E	Median P/E	PEG	Quarterly EPS growth (%)	TTM EPS growth (%)	5Y EPS growth (%)	Market cap (₹ cr)	Share price (₹)	52-week high/low (₹)
Sarda Energy & Minerals Metals		6.6	7.6	0.77	198.9	43.0	20.1	1,346	371	642-258
Shipping Corp Of India Services		9.1	19.1	0.11	173.9	80.3	20.3	2,774	60	113-56
Shreyas Shipping Services		10.9	14.3	0.24	284.2	2,206.7	45.0	1,006	461	647-290
Stovec Industries Engineering		14.4	19.2	0.45	110.3	41.8	39.7	484	2,319	3875-2278
Summit Securities Financial		6.6	12.8	0.12	749.2	1,250.1	66.1	796	737	1350-515
Sunflag Iron & Steel Co Metals		8.0	14.1	0.12	190.3	97.4	62.3	1,036	58	100-42
Tata Chemicals Chemicals		7.0	15.9	0.20	276.2	145.0	43.5	17,013	667	788-560
Tata Metaliks Metals		10.2	7.0	0.27	35.2	37.0	67.5	1,622	640	976-585
Tata Power Company Energy		7.6	22.5	0.12	678.9	175.3	94.3	18,866	70	102-68
Tata Steel Metals		4.5	0.0	0.13	873.9	390.1	30.2	60,772	504	756-501
Thirumalai Chemicals Chemicals		8.3	9.9	0.26	215.3	151.4	31.4	1,407	1,378	2440-987
Thomas Cook (India) Services		1.7	46.4	0.01	44,419.3	13,469.1	133.2	10,103	274	303-212
Torrent Power Energy		11.3	16.1	0.57	59.8	119.7	20.5	10,646	221	307-177
Universal Cables Engineering		5.8	8.8	0.13	264.1	44.1	51.8	478	138	210-98
VenkyS (India) FMCG		13.3	17.1	0.26	22.8	60.1	51.8	2,648	1,881	4725-1600
West Coast Paper Mills FMCG		7.7	55.9	0.10	55.3	73.7	105.1	1,725	260	348-173
WPIL Engineering		14.3	23.0	0.70	355.6	124.5	24.7	574	588	799-440

Data as on July 18, 2018. EPS growth rates are annualised. Indicates new entrants.

Discount to book value

Stocks available at a discount to their book value indicate bargain and inherent value, provided the business fundamentals are sound

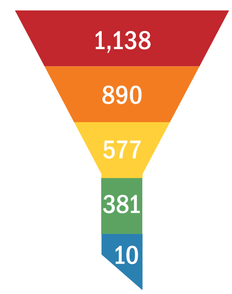
REASONS TO INVEST

- Really cheap
- Relatively undervalued
- Companies with assets

THE FILTERS

- Market cap greater than ₹400 cr
- Debt-equity ratio of less than 1.5 times
- Return on net worth of more than 10% in the most recent year
- Companies must have a five-year earnings growth of more than 10%
- Price at least 10 per cent below the book value

No. of companies that cleared the filters



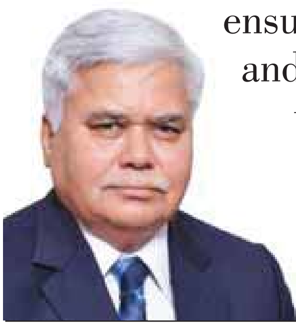
Bargain hunt

Company	Stock style	P/B	P/E	PEG	Dividend yield (%)	Debt-equity ratio	RoE (%)	Market cap (₹ cr)	Share price (₹)	52-week high/low (₹)
Cosmo Films Chemicals		0.68	6.5	0.16	2.77	1.3	10.8	420	218	444-214
Hindustan Media Ventures FMCG		0.96	9.4	1.28	0.68	0.1	18.6	1,288	176	290-173
HT Media FMCG		0.56	4.6	0.31	0.65	0.5	11.2	1,423	61	118-60
Indian Metals Metals		0.70	7.4	0.28	4.74	0.7	16.4	853	314	799-287
NLC India Energy		0.82	5.6	0.82	6.31	1.0	15.4	10,906	72	119-69
Polyplex Corporation Chemicals		0.54	8.6	0.26	1.63	0.3	14.9	1,378	434	602-406
Prakash Industries Diversified		0.73	4.3	0.16	0.00	0.3	14.5	2,087	131	276-92
Srikalahasthi Pipes Metals		0.82	6.6	0.10	2.90	0.6	18.6	966	207	449-204
Trident Textiles		0.93	10.4	0.26	2.79	1.0	13.0	2,742	54	110-51

Data as on July 18, 2018. Indicates new entrants.

WORDS WORTH NOW

...Data protection of consumers in the telecom sector is an issue which is certainly related to the interest of consumers... You already have a framework, a law, rules for telecom service providers, and till you have a general data protection law which will take care of many of the issues, you please ensure that these rules also start to apply on devices, OS, browsers and apps. We're saying that there's regulatory imbalance because these entities are not following any law, so the government can come up with a broad framework but till that time let the telecom rules apply on them too.



R S Sharma Chairman, TRAI, *The Economic Times*, July 18, 2018

While all countries will ultimately be worse off in a trade conflict, the US economy is especially vulnerable because so much of its global trade will be subject to retaliatory measures.

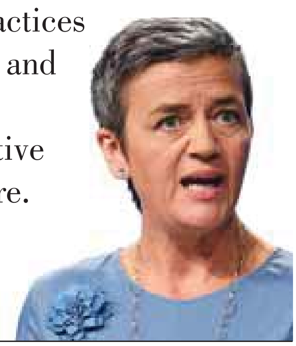
Christine Lagarde, MD, IMF, *Financial Express*, July 19, 2018

In India, capitalism is stigmatised, has a bad name and the consequence of that is it becomes very difficult to give the private sector a greater role in taking over public sector assets. So, the privatisation, whether the airline sector or banking, is proving to be difficult.

Arvind Subramanian Outgoing Chief Economic Advisor, *Financial Chronicle*, July 18, 2018

Google has used Android as a vehicle to cement the dominance of its search engine. These practices have denied rivals the chance to innovate and compete on the merits. They have denied European consumers the benefits of effective competition in the important mobile sphere.

Margrethe Vestager European Competition Commissioner, *BusinessLine*, July 19, 2018



Arysta has a differentiated position in the crop protection market, given its focus primarily on speciality applications and tailored local solutions. This is in line with our long-term vision of becoming a premier global provider of agricultural solutions designed to secure the world's long-term food supply.

Jaidev Shroff Group CEO and ED, UPL, *BusinessLine*, July 21, 2018

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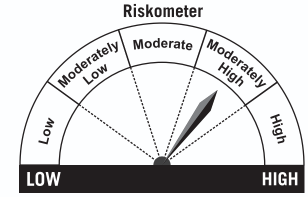

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