

Business Valuation

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Food for Thought

- Name some companies which sell :
 - Cars
 - Men's Shaving Products
 - Common Salt
- Cars : Maruti, Hyundai, Honda, GM, Tata Motors, Mahindra, Mercedes, BMW, Audi etc
- Shaving Products : Gillette, V John, Park Avenue
- Common Salt : Tata Salt, Catch, Ashirwad [ITC]

Compare :

Which business requires more ?

	CARS	SHAVING PRODUCTS	COMMON SALT
TECHNOLOGY/ PATENTS			
LAND/LABOUR			
INVESTMENTS			
REGULATORY APPROVALS			
POLLUTION NORMS			
SAFETY FEATURES			
AFTER SALES SERVICE			

Food for Thought

- Cars looks like a much more difficult business to begin with than the other 2 businesses ?
- Why do we have more car companies around then ? So much more competition
- Why don't we have more companies competing for shaving products and common salt market ?
- Size of the market, scale economics, consumer habits, rate of change in the industry etc.
- ENTRY BARRIERS

Structure of the session

- Finance : Theory and Practice
- Business (E)valuation
- Business Valuation
- Case Study

Ignite your minds : Think
What makes a business good ?
What makes a business not so good ?



Understand & Enjoy Forever



A Small Advice

- Ask Questions. Both during and after the session.
- “He who asks a question is a fool for 5 minutes; he who does not ask a question remains a fool forever”- A Chinese Proverb
- This one quote changed me. After reading this, I have never kept questions in my head, no matter how silly they might seem to myself or to others.

Academics Vs Practice :

The case of Siamese Twins

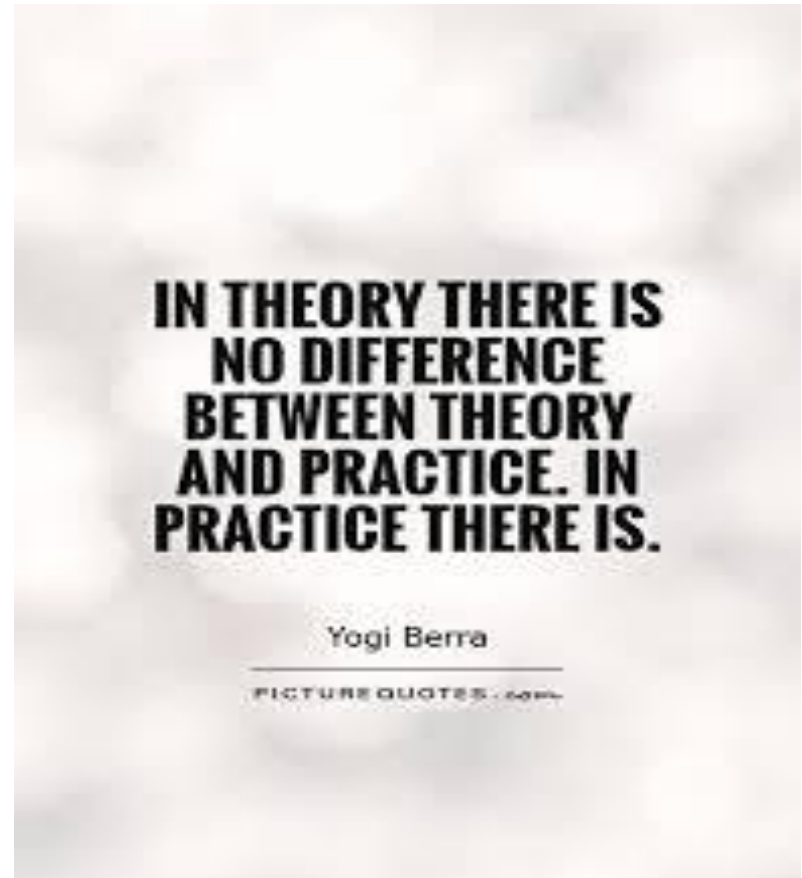


Joined but
Separate !

Theory and Practice : Similar

- There is one similarity and one only which is to equip the student/ investor with the ability to make sound and prudent financial/investment decisions

Theory and Practice: (Un) Similar ?



Theory and Practice : (Un) Similar

Theory

- Silos. Finance is different from Marketing. Marketing is different from Strategy, Human Resources
- Science is different from Humanities, Commerce , History, Psychology etc.

Practice

- Everything is connected to each other
- One uses different models from different disciplines to arrive at rational decisions



Sir Julian Huxley- British Biologist
“Life is just one damn relatedness after another.”

Theory and Practice : (Un) Similar

Theory

- Precision. In theory, we try to achieve precision
- Answer : Correct or incorrect

Practice

- Rational decision making is all about approximation
- There could be more than 1 correct answer and *also* possibly all wrong answers

**"It is better
to be
roughly
right than
precisely
wrong."**

- John Maynard Keynes

John Maynard Keynes- Economist

Theory and Practice : (Un) Similar

Theory

- Focus : Solve
- Every business can be valued
- What we need are variables and formulae. Once you have the variables, you can quickly arrive at an answer

Practice

- Focus : Think if you can solve
- Not really. Munger's 3 boxes. In, Out and Too Hard
- It's never possible to get all the variables required for a decision. Decisions are made under uncertainty

Charlie Munger's 3 baskets approach



We have three baskets for
investing: yes, no and too
tough to understand.

Charlie Munger

© 2013

Theory and Practice : (Un) Similar

Theory

- Focus: to be intelligent
- Very Intelligent

Practice

- Focus : not being stupid

"It is remarkable how much long-term advantage people like us have gotten by trying to be consistently not stupid, instead of trying to be very intelligent"

— Charlie Munger



Business (E)valuation – How ?

CARL GUSTAV JACOBI (1804-1851)



- German Mathematician, considered as one of the greatest mathematicians in history
- One of Jacobi's favourite maxim's was '*Invert, always invert*'. Jacobi always believed the solutions to difficult problems could be solved by inverting the problem

How to lead a happy and long life ?

- First figure out how to lead a miserable and short life ?
 - Take drugs
 - Take a lot of debt
 - Drink and drive. Text while on the wheel
 - Be dishonest in your dealings
 - Be envious of others
 - Have a sedentary lifestyle
- Avoid all this and you will automatically have a happy and long life.

How to value a business ?
Let's find *first*
how not to value a business.

Most commonly used concepts in Business Valuation : Practice

Price to Book value(P/B)

Mkt Price per share

Book Value per share

Price to Earnings Ratio (P/E)

Mkt Price per share

Earnings (PAT) per share

Book Value

- Value of total assets minus liabilities as carried in the books of accounts

or in other words

- It is the total value of the company's assets that shareholders would theoretically receive if a company were liquidated

Low (Price / Book Value)

- In investing, Low Price/ Book value is generally ascribed to a business being cheap
- Presumed that a low price to book value provides cushion to the investor in the form of asset protection and leads the path to superior investing performance

Case # 1 : MTNL



Calculate the book value




MAHANAGAR TELEPHONE NIGAM LIMITED BALANCE SHEET AS AT 31ST MARCH, 2014

Particulars	Note No.	As at 31.3.2014 (₹ in Million)	As at 31.3.2013 (₹ in Million)
EQUITY AND LIABILITIES			
Shareholders' Funds			
Share Capital	2	6,300.00	6,300.00
Reserves & Surplus	3	44,107.06	(34,144.25)
NON - CURRENT LIABILITIES			
Long Term Borrowings	4	81,100.00	69,373.50
Other Long Term Liabilities	5	32,126.39	31,414.93
Long Term Provisions	6	17,940.43	107,728.29
CURRENT LIABILITIES			
Short Term Borrowings	7	60,104.40	46,013.37
Trade Payables	8	1,834.67	2,054.96
Other Current Liabilities	9	28,856.39	28,893.17
Short Term Provisions	10	1,993.52	5,853.46
Total		274,362.86	263,487.43
ASSETS			
Non - Current Assets			
Fixed Assets			
(a) Tangible Assets	11	64,254.16	66,939.52
(b) Intangible Assets	12	47,955.33	82,052.31
(c) Capital Work In Progress	13	3,825.69	9,322.42
Non Current Investments	14	1,819.79	2,019.79
Long Term Loans And Advances	15	90,060.15	49,621.88
Other Non Current Assets	16	42,691.76	36,970.09
CURRENT ASSETS			
Current Investments	17	200.00	200.00
Inventories	18	698.94	819.54
Trade Receivables	19	2,918.00	3,809.98
Cash & Cash Equivalents	20	2,463.11	1,098.89
Short Term Loans & Advances	21	14,351.16	7,425.45
Other Current Assets	22	3,124.77	3,207.56
Total		274,362.86	263,487.43

F.V: Rs 10

Book Value of MTNL as on March 31,2014 was Rs 80 per share.

Quote As on Aug 14, 2015 16:00:02 IST 

Mahanagar Telephone Nigam Limited

Series: EQ |

Symbol: MTNL ISIN: INE153A01019 Status: Listed

Market Tracker

18.20	Pr. Close	Open	High	Low	Close
 0.30 1.68%	17.90	18.25	18.45	17.55	18.25

Trade Snapshot		Company Information		Peer Comparison		Historical Data					
		Print		Order Book		Intra-day Chart		Stock Vs Index Chart		Quarterly Charts	
VWAP		18.11									
Face Value		10.00									
Traded Volume (shares)		11,34,876									
Traded Value (lacs)		205.53									
Free Float Market Cap(Crs)		503.01									
52 week high		35.45 (05-SEP-14)									
52 week low		14.55 (16-JUN-15)									
Lower Circuit Band		14.25									

Buy Qty.	Buy Price	Sell Price	Sell Qty.
1,067	18.25	-	-
-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-
1,067	Total Quantity		-

- Book Value of MTNL is Rs 80 per share
- Market values MTNL stock at Rs 18 per share
- Price to Book Value of MTNL 0.22
- The market is valuing MTNL's business at 22 paise per rupee of book value. Is the market efficient?
- Is the business cheap ?

MTNL- June 2015 Results

MAHANAGAR TELEPHONE NIGAM LIMITED					
(A Govt. of India Enterprise)					
Regd. Office : Mahanagar Doorsanchar Sadan, 5th Floor, 9, CGO Complex, Lodhi Road, New Delhi-110003					
STATEMENT OF STANDALONE UNAUDITED REVIEWED RESULTS FOR THE THREE MONTHS ENDED ON 30/06/2015					
(Rs. In Crore)					
Sl. No.	Particulars	3 months ended 30/06/2015	Preceding 3 months ended 31/03/2015	Corresponding 3 months ended 30/06/2014 in the previous year	Previous year ended 31/03/2015
	(Refer Notes Below)	UNAUDITED	UNAUDITED*	UNAUDITED	AUDITED
1	2	3	4	5	6
1	Income from operations				
	(a) Net income from operations	800.20	873.01	854.33	3,386.52
	(b) Other operating income	3.43	3.41	1.69	13.56
	Total income from operations (Net)	803.63	876.42	856.02	3,400.08
2	Expenses				
	(a1) Employee benefits other than retirement benefits	591.88	621.78	595.12	2,347.93
	(a2) Employee benefits for retirement benefits	68.76	102.55	58.99	305.26
	(b) Revenue Sharing	63.60	79.66	97.18	370.02
	(c) Licence Fees and Spectrum Charges	59.23	78.34	65.80	270.61
	(d) Depreciation and Amortisation expenses	279.30	287.90	290.48	1,158.59
	(e) Administrative, Operative & Other Expenses	228.84	248.40	173.02	822.44
	Total Expenses	1,291.61	1,418.62	1,280.59	5,274.84
3	Profits/ (Loss) from Operations before other income, Finance cost and exceptional items (1-2)	(487.98)	(542.20)	(424.57)	(1,874.76)
4	Other Income	53.25	251.56	54.31	420.98
5	Profit / (Loss) from ordinary activities before Finance cost and exceptional items (3+4)	(434.73)	(290.63)	(370.26)	(1,453.77)
6	Finance costs	310.24	304.48	362.97	1,439.62
7	Profit / (Loss) from ordinary activities after Finance cost but before exceptional items (5-6)	(744.97)	(595.11)	(733.23)	(2,893.39)
8	Exceptional items				
9	Profit/ (Loss) from ordinary activities before tax (7+8)	(744.97)	(595.11)	(733.23)	(2,893.39)
10	Tax expense				

Possible Reasons

Why market may be right?

- Disruption. Business has lost significant market share
- Business is making losses. The value is eroding
- Huge contingent pension and other off balance sheet liabilities

Why market may be wrong ?

- Business may turn around and start posting profits
- Value of the licenses (2G, 3G etc) that MTNL holds has not been counted
- Market value of real estate much higher than the stated cost

Case # 2 : Page Industries

JOCKEY OR NOTHING



JOCKEY OR NOTHING



www.jockeyindia.com

 **JOCKEY®**

Calculate the Book Value

BALANCE SHEET AS AT 31ST MARCH, 2015

PARTICULARS	Note No.	As at 31 st March, 2015	As at 31 st March, 2014
		Rs.	Rs.
I. EQUITY AND LIABILITIES			
1 Shareholders' funds			
(a) Share capital	3	111,538,740	111,538,740
(b) Reserves and surplus	4	3,756,076,688	2,778,480,163
2 Non-current liabilities			
(a) Long-term borrowings	5	345,373,168	333,146,243
(b) Deferred tax liabilities (Net)	6	114,208,678	94,829,218
(c) Other long-term liabilities	7	556,124,652	465,989,431
(d) Long-term provisions	8	229,612,208	194,957,592
3 Current liabilities			
(a) Short-term borrowings	9	998,622,231	1,088,988,775
(b) Trade payables	10	820,956,916	585,933,742
(c) Other current liabilities	11	1,027,792,541	973,818,948
(d) Short-term provisions	12	274,304,436	228,450,733
Total		8,234,610,258	6,856,133,585
II. ASSETS			
1 Non-current assets			
(a) Fixed assets			
(i) Tangible assets	13	2,153,630,594	1,700,683,541
(ii) Intangible assets		18,997,841	27,640,366
(iii) Capital work-in-progress		1,079,707	35,926,381
(b) Long-term loans and advances	14	456,061,140	456,353,672
(c) Other non-current assets	15	26,693,469	43,711,970

F.V. Rs 10

Book Value of Page Industries as on March 31,2015 was Rs 348 per share.

Page Industries Limited

Get Derivatives Quote | Option Chain

Series: EQ |

Symbol: PAGEIND ISIN: INE761H01022 Status: Listed

Market Tracker

14,550.00	Pr. Close	Open	High	Low	Close
▲ 496.75 3.53%	14,053.25	13,907.00	14,625.00	13,869.00	14,535.90

Trade Snapshot	Company Information	Peer Comparison	Historical Data
	Print	Order Book	Intra-day Chart
VWAP	14,423.14	Stock Vs Index Chart	Quarterly Charts
Face Value	10.00	Buy Qty.	Buy Price
Traded Volume (shares)	26,742	Sell Price	Sell Qty.
Traded Value (lacs)	3,857.04	-	-
Free Float Market Cap(Crs)	7,943.99	-	-
52 week high	17,000.00 (02-JUN-15)	-	-
52 week low	7,101.00 (28-AUG-14)	-	-
Lower Price Band	12,647.95	-	-
Upper Price Band	15,458.55	-	-
		Total Quantity	-
		+ Security-wise Delivery Position (14AUG2015)	

- Book Value of Page Industries as on March 31, 2015 was Rs 348 per share
- Market values Page Industries share at Rs 14,550
- Price to Book Value of Page Industries is 42 times

Is the market efficient ?

Possible Reasons

Why market may be right?

- Undisputed market leader. Strong aspirational brands, quality product, pricing power
- Huge market potential
- Large population, move from unorganized to organized sector, repeat purchase by the consumers

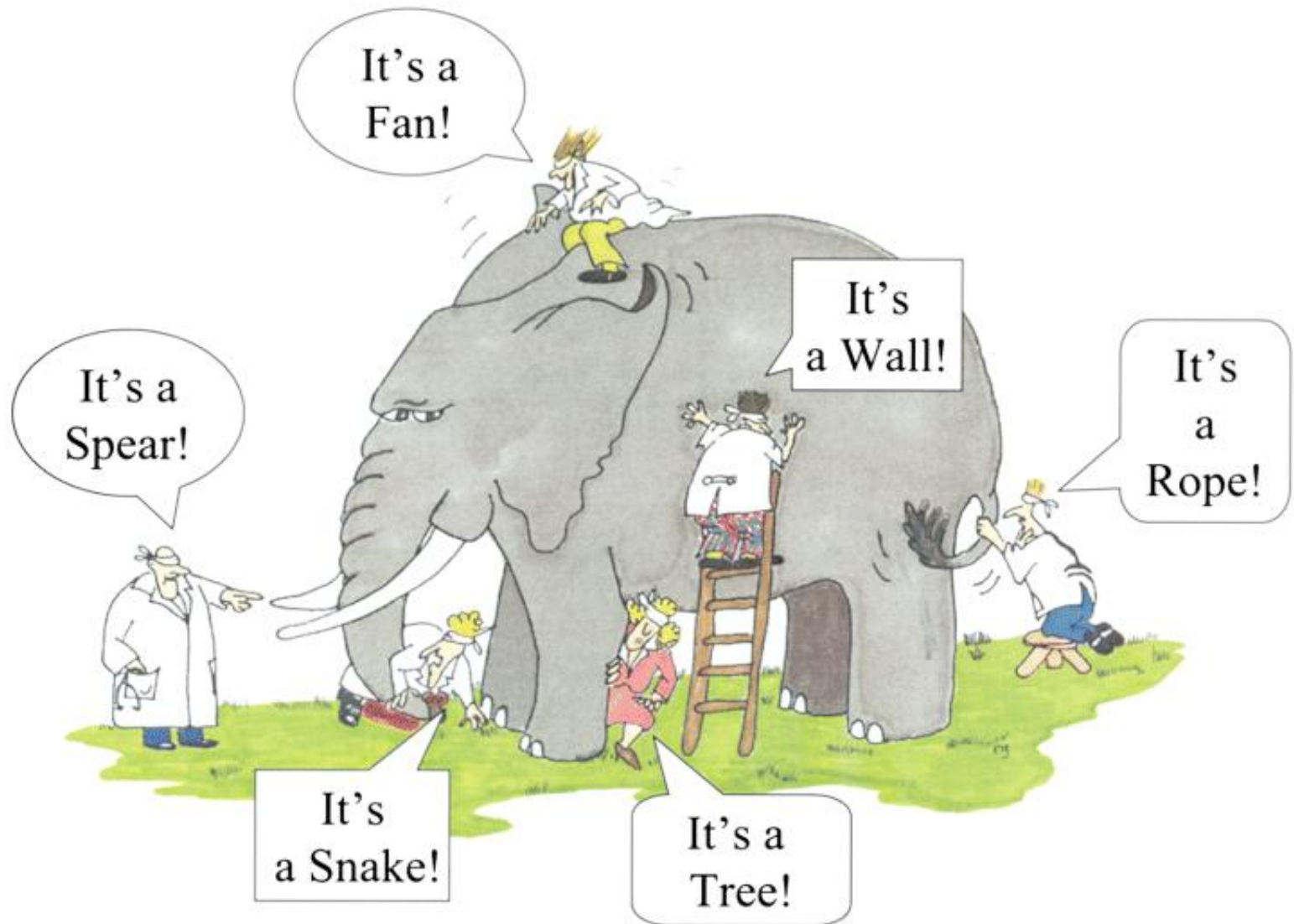
Why market may be wrong ?

- Competition may catch up
- Growth rates may be lesser than expected

Learnings :

- How do we know that MTNL is cheap or Page is expensive or vice versa
- Price to Book or Price to Earnings alone is inconclusive to value a business
- There are many more things which go into the recipe of business valuation

6 Blind Men and an Elephant



What's a great business ?

A great business is one which can generate high amounts of return , can invest large amounts of incremental capital and can continue doing that for a long period of time.

- Warren Buffett

Buffett's 4 filters : Profound Wisdom

Charlie and I look for companies that have :

- a) Business we understand;
- b) Favourable long-term economics;
- c) Able and trustworthy management; and
- d) A sensible price tag

Key to Investing

- The key to investing is not assessing how much an industry is going to affect society, or how much it will grow, but rather determining the **COMPETITIVE ADVANTAGE** of any given company and, above all, the durability of that advantage. The products or services that have wide, **SUSTAINABLE MOATS** around them are the ones that deliver rewards to investors.

—*Warren Buffett*

What's a poor business?

- A business that doesn't have a strong competitive advantage
- Poor Economics : Poor RoCE, Poor ROE and Poor Free Cash Flows
- Poor Pricing Power
- A business which is essentially poor and makes the shareholders poorer with time

Characteristics of a Commodity Biz

- Poor forces of cohesion between the provider of the product/ service and the consumer
- Which automobile do you use ?- Design, Quality, Mileage, Safety Features, After Sales Service, Resale Value etc. Not commodity
- Which petrol do you use ? IOC, HPCL, BPCL , Reliance etc.
 - The cheapest one. Commodity
- Which ATM do you use ?
 - The closest one. Commodity

If commodity businesses are not good, why do they exist?

- They are not excellent but they are not sick as well
- They make marginal profits and marginal RoCE for their owners
- (1) Difficult to create good businesses , *and*
(2) Difficult to stop doing poor businesses
- Commodity businesses just linger on

“ Any object continues to be in a state of motion or of rest unless an external force is applied to it” - Newton’s second law of motion

*Sara Sheher Mujhe Lion Ke Naam Se
Janta Hai*



Can we learn something from him ?

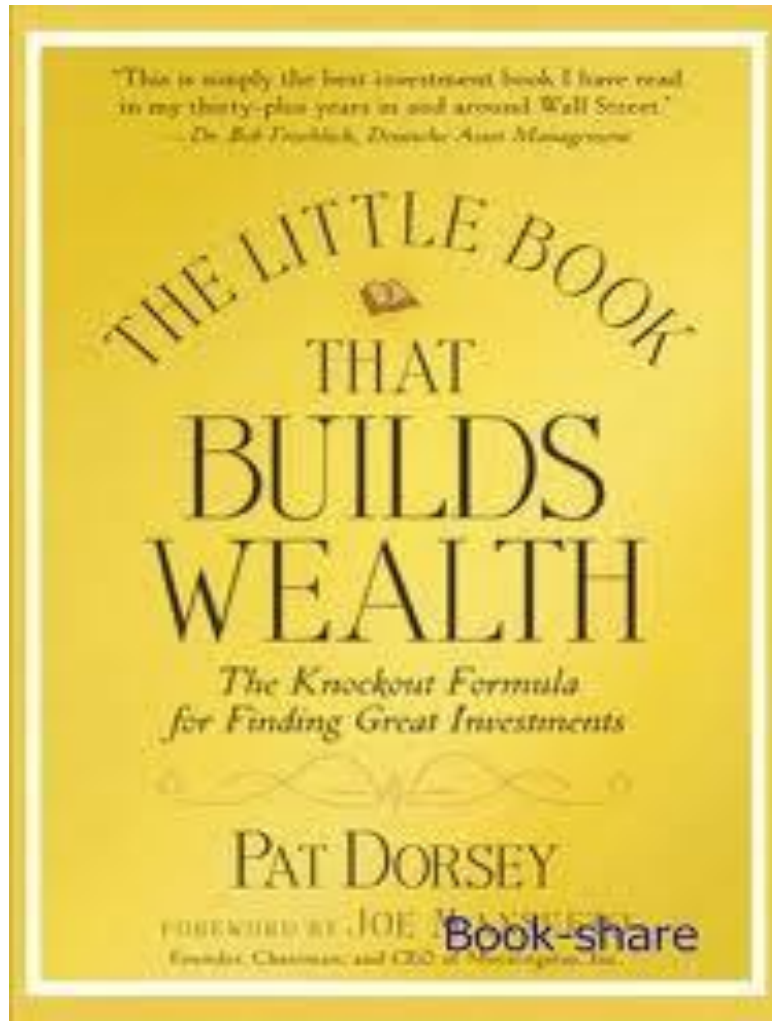


- *Isse Liquid Oxygen mein Daal Do. Liquid isse jeene nahi dega aur Oxygen isse marne nahi dega*
- *Isse commodity business mein daal do. Poor ROCE isse jeene nahi dega aur marginal profit isse marne nahi dega*

Key : Look for STRONG BUSINESS



The Little Book That...



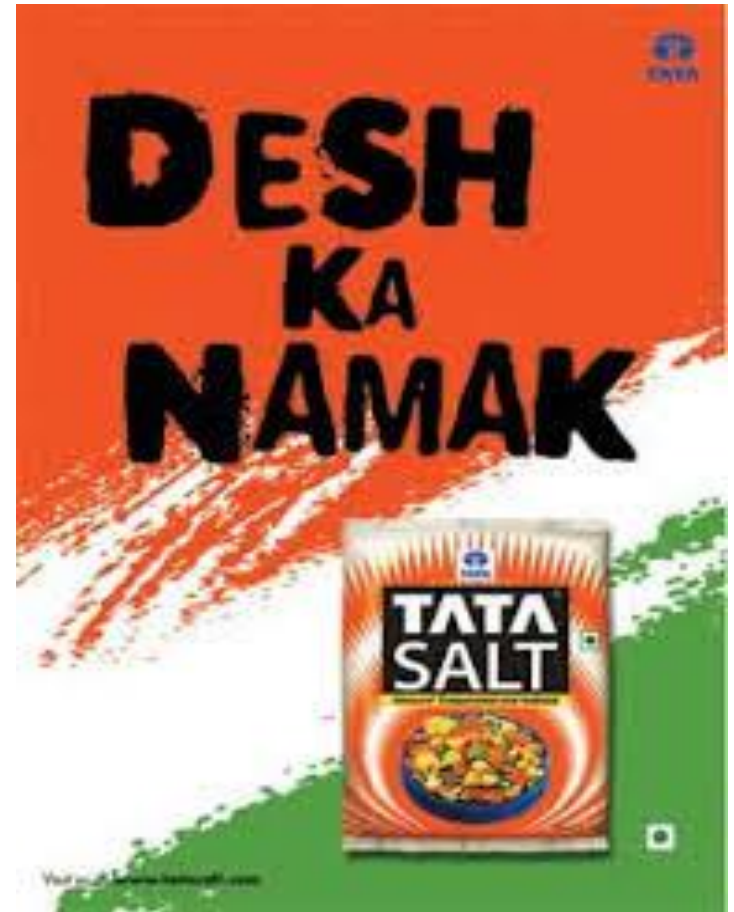
4 sources of competitive advantage

1. Intangible Assets : Brands, Intellectual Property, Patents , Distribution Network, Regulatory Licenses etc. Think of Nestle, Page Industries, Apple etc. Other Examples ?
2. Customer Switching Costs : Businesses where first mover advantage is high. Mobile Service Providers, DTH connection, Piped Gas connection etc.

4 sources of competitive advantage

3. Network Effect : If the value of a good or service increases with the number of people using it, then the most valuable network based products will be the ones that attract the most users, creating a virtuous circle that squeezes out smaller networks and increases the size of dominant networks. Think Facebook, Amazon, Flipkart, WhatsApp
4. Cost Advantage : Businesses where the company is the lowest cost producer. It is almost impossible for existing newer entrants to match the cost. Eg. Lowest cost producer of steel, medicines, common salt etc

Example : Lowest Cost Producer



Porter's 5 forces Model

The Five Forces That Shape Industry Competition



Business is *the* most important

- Strength or Competitive Advantage of a business is the most important criteria
- Quality of management comes next
- Valuation is an important criteria but should be the last one to be considered

Case : Cera Sanitaryware Limited

5 Point Investment Criteria

- Business
- People
- Risks to the Business
- Valuation
- Margin of Safety

CERA – Reflects My Style



A woman with long dark hair, wearing a white long-sleeved dress with a wide brown belt, stands in a modern bathroom. She is looking towards the camera with a slight smile. The bathroom features a white countertop with two sinks, a mirror, and a bathtub in the background. The website address www.cera-india.com is visible in the top right corner.

“My favourite fashion recommendation for the season?
Snow White! Inspired by my Cera Snow White.”

CERA
Reflects my style

What is Cera's business ?

- Vitreous Sanitaryware
- Faucetware : Taps
- Bathroom Fittings
- Other Bathroom Products — Bath tubs, Shower Cubicles , Shower Panels, Jacuzzi etc
- Kitchen Sinks and Mirrors

Very First Question

- Is this a simple business ?
- Do we have some idea about the product ?
- Yes. We see it all around. Houses, Schools, Malls, Offices. Having rest rooms is an absolute necessity.
- Prima-facie, are there too many variables in this industry? Licences, Regulatory Permits, Need for high end technology. Contrast it with industries like Sugar, Urea, Gas Distribution, Power etc.

Cera- Returns in the Business

[illegible]

Cera- Returns in the Business

Cera Sanitaryware						
ROCE						
	2010	2011	2012	2013	2014	2015
Net Sales	191.37	242.96	319.39	487.87	663.69	785.35
Gross Block	98.82	113.10	132.40	175.29	211.68	287.91
Cumulative Depreciation	30.22	34.77	42.14	50.23	59.97	73.23
Net Block	68.60	78.33	90.26	125.06	151.71	214.68
Equity Capital	3.14	6.32	6.32	6.32	6.32	6.50
Reserves	85.37	105.22	132.85	173.17	217.63	345.20
No of shares	0.6289	1.2654	1.2654	1.2654	1.2654	1.30
Book Value	140.74	88.15	109.98	141.84	176.98	270.54
	Bonus 1:1					
ROCE (PBIT/ Capital employed)		26.03%	23.30%	24.88%	26.36%	26.20%
ROE (PBT/ Equity)		41.51%	38.69%	42.56%	40.84%	35.06%

Growth Driver- Housing Stock

Variation in the Number of Census Houses – India 2001 & 2011

(In crore)

Census House	Total			Rural			Urban		
	2001	2011	Variation %	2001	2011	Variation %	2001	2011	Variation %
Number of census houses	24.9	33.1	32.8	17.8	22.1	24.3	7.2	11.0	53.8
Occupied census houses	23.3	30.6	31.3	16.8	20.7	23.1	6.5	9.9	52.1
Used as residence	17.9	23.6	31.7	12.9	16.0	23.9	5.0	7.6	51.6
Used as residence-cum-other use	0.8	0.9	8.8	0.6	0.6	3.3	0.2	0.2	23.3
Housing stock	18.7	24.5	30.7	13.5	16.6	23.0	5.2	7.8	51.0

Source: Census 2011

Growth Driver- Nuclear Families

Distribution of Households by Household Size - India

HHs (in %)

Household Size	Total		Rural		Urban	
	2001	2011	2001	2011	2001	2011
All Households	100.0	100.0	100.0	100.0	100.0	100.0
1	3.6	3.7	3.5	3.7	3.7	3.6
2	8.2	9.7	8.2	9.8	8.2	9.5
3	11.1	13.6	10.4	12.6	12.7	15.9
4	19.0	22.7	17.7	21.0	22.4	26.4
5	18.7	18.8	18.5	18.9	19.2	18.5
6-8	28.1	24.9	29.6	26.9	24.4	20.6
9 +	11.3	6.6	12.2	7.2	9.3	5.4

Source: Census 2011

Growth Driver- Lack of Bathrooms

AMENITIES

- Bathing facility:
 - 58% households have bathing facility (R – 45%;U – 87%)
 - Increase of 22 pts over 2001 (R -22 pts; U – 17 pts)
 - Rural-Urban difference reduced by 26 pts from 48 pts in 2001 to 22 pts in 2011

Growth Driver- Lack of Toilets

Households Having Latrine Facility India : 2001 & 2011

(HH in %)

	Have latrine facility within premises		Do not have latrine facility within premises	
	2001	2011	2001	2011
Total	36.4	46.9	63.6	53.0
Rural	21.9	30.7	78.1	69.3
Urban	73.7	81.4	26.3	18.6
Rural-Urban Diff.	51.8	50.7	-51.8	-50.7

Source: Census 2011

Strong Tailwinds- Nirmal Bharat Abhyan



Strength of the Sanitaryware Business

- Bargaining Power of Suppliers of Raw Material : Clay, Quartz etc. Commodity available in abundance. Lot of suppliers.
- Bargaining Power of Buyers : Only a few branded sanitaryware manufacturers. Hindware, Cera, Parryware combined command around 90% of the organized market. Other brands American Standard, Roca, Kohler, Toto etc. are super premium brands with less than 5-6% market share.

Strength of the Sanitaryware Business

- Threat of Substitutes : Industry with very low degree of rate of change. Low chance of a technological disruption. Low mortality rate due to technological obsolescence
- Rate of change is going to be very slow

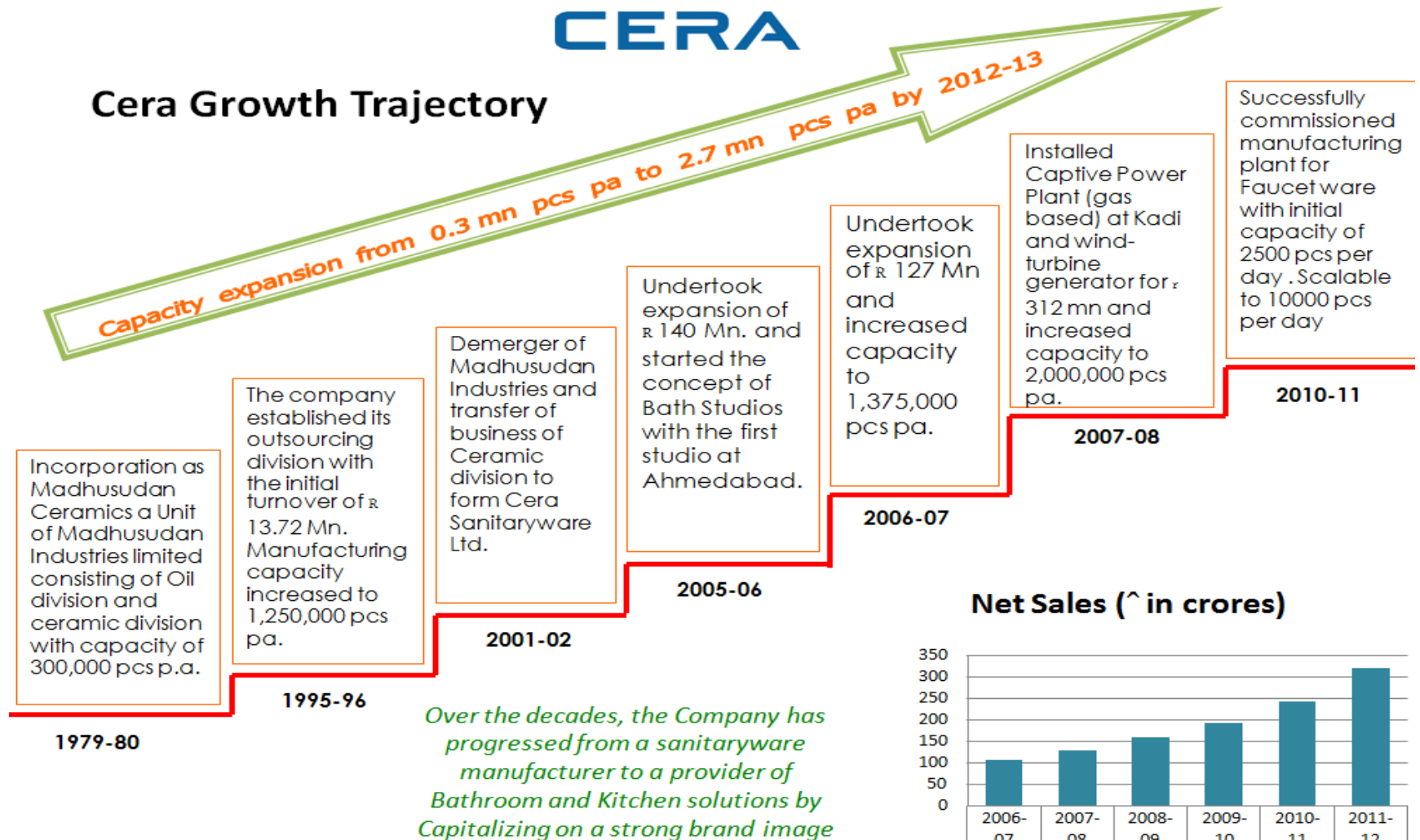
Think about Communication, Photography, Computing ?
How many generational changes have we encountered in our lives?

Strength of the Sanitaryware Business

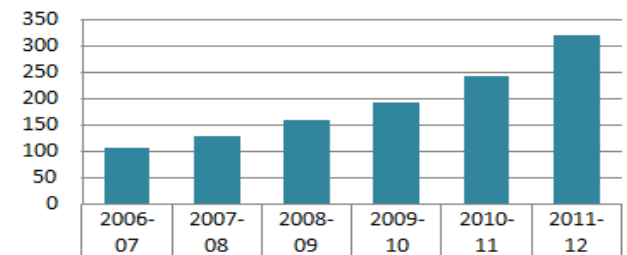
- Threat of New Entrants : In-house technology, Brands, Distribution network, Economies of Scale. Bulky product with high freight costs. Difficult for China or other countries to compete.
- Threat of existing firms : Study the existing companies : Hindustan Sanitaryware, Parryware. Cera is gaining market share at the expense of other companies. Inherent strengths of strong balance sheet, aggressive marketing and focus on the business.

CERA

Cera Growth Trajectory



Net Sales (^ in crores)



CERA

Product Mix

Sanitaryware

Cera has top end products like the Senator Collection, with Shower Temples and Jacuzzi features

Cera has the Premium Collection focused at middle - end users

The Regular collection includes Indian EWCs as well as European EWCs contributing to lower price range.

High End Segment

Lower & Upper Middle Segment

Mass Market Segment

In Bath Fittings, the Single Lever Bath fittings are for the elite.

The Quarter turn and the half turn fittings meant for people looking for more economical range.

Bath Fittings

Cera has a product mix that caters to all Segments of Market

Conclusions

- Sanitaryware is a large market (2500 crs p.a.) growing at a rate of 15% p.a.
- Potential to continue growing for a long period of time
- Strong tailwinds
- Cera emerges very strong on the parameters of Porter's 5 forces
- Management is competent and ethical. Should be able to grow better than the growth of the sanitaryware market

Risks

- Slowdown in the Real Estate sector
- Risk of a volatile currency. Large part of products imported from China
- Risk of the faucetware business not generating good profits
- Long term continuity of the management- Promoter's son died at a very early age of 31

Look at the numbers delivered

- Top line growth (5 years) : 32% CAGR
- Top line growth (3 years) : 41% CAGR
- PAT growth (5 years) : 26.5% CAGR
- PAT growth (3 years) : 32% CAGR

How to value the business?

- No precise value. Range of values
- Approximate conservative value of the business
- Discounted Free Cash Flows. Present value of all the future cash [Profit After Tax] to be earned by the business
- Free from all encumbrances
- Minus the required capex

What discount rate to use ?

- Cost of Capital ; or
- Opportunity Cost of Capital
- For me ,second best opportunity is to invest in FDs. Pre tax FD rate is around 10%. Post tax (marginal tax rate of 30%) is 7%.
- Add a risk premium/ margin of safety of 3%. I use a discount rate of 10%.

How much growth do I take ?

- A conservative one
- Given the strength of the business, quality of the company, aptitude of the management and historical track record, I have reasonable confidence that Cera's top line can grow *atleast* at 10% p.a for the next 10 years
- Terminal growth rate of 3%. Why ? Business is solid. India should be able to grow atleast 3% for a very very long time in the future
- Cera would atleast match the GDP growth rate
- What's the current intrinsic value ?

CERA

STATEMENT OF STANDALONE UNAUDITED FINANCIAL RESULTS FOR THE QUARTER ENDED 30TH JUNE, 2015

Particulars		Quarter Ended			(Rs. In Lacs)
		30.06.2015	31.03.2015	30.06.2014	Previous Year
		(Unaudited)	*(Audited)	(Unaudited)	Ended 31.03.2015
					(Audited)
PART I					
1	Income from operations				
	a) Gross Sales / Income from operations	20325.06	26160.08	16992.90	85799.49
	Less : Excise Duty	898.74	1115.85	759.61	3632.72
	Net Sales / Income from operations	19426.32	25044.23	16233.29	82166.77
	b) Other Operating Income	0.00	0.00	0.00	0.00
	Total Income from operations (net)	19426.32	25044.23	16233.29	82166.77
2	Expenses				
	a) Cost of materials consumed	1583.32	1755.42	1684.96	7087.07
	b) Purchases of stock -in-trade (Outsourcing)	6751.75	9022.57	6110.53	33215.75
	c) Changes in inventories of finished goods, work-in-progress and stock-in-trade	435.85	1797.78	(1,003.75)	(1,874.25)
	d) Employee benefits expenses	2586.11	2067.68	2279.15	9173.65
	e) Depreciation & amortisation expenses	368.13	447.71	334.73	1546.09
	f) Power and Fuel	623.73	1016.15	709.90	3415.75
	g) Other expenses	4621.58	5776.03	4038.13	19395.92
	Total expenses	16970.47	21883.34	14153.65	71959.98
3	Profit from Operations before other Income, finance costs & Exceptional Items (1-2)	2455.85	3160.89	2079.64	10206.79
4	Other Income	119.39	221.95	137.59	658.71
5	Profit from ordinary activities before finance costs & Exceptional Items (3+4)	2575.24	3382.84	2217.23	10865.50
6	Finance Costs	175.59	245.35	139.20	772.88
7	Profit from ordinary activities after Finance Costs but before Exceptional Items (5-6)	2399.65	3137.49	2078.03	10092.62
8	Exceptional items	0.00	0.00	0.00	0.00
9	Profit (+)/Loss (-) from ordinary activities before tax (7-8)	2399.65	3137.49	2078.03	10092.62
10	Tax expenses	833.05	925.66	714.81	3326.17
11	Net Profit(+)/Loss(-)from ordinary activities after tax(9-10)	1566.60	2211.83	1363.22	6766.45
12	Extraordinary items (net of tax expenses Rs. -)	0.00	0.00	0.00	0.00
13	Net Profit (+)/ Loss (-) for the period (11-12)	1566.60	2211.83	1363.22	6766.45
14	Operating Profit Before Exceptional Items				

Intrinsic Value- Range of Values

- Play around with numbers
- Different growth rates for different periods.
- Different perpetual growth rates
- Different discount rates

Cera Sanitaryware Limited

Series: EQ |

Symbol: CERA ISIN: INE739E01017 Status: Listed

Market Tracker

2,005.00	Pr. Close	Open	High	Low	Close
▼ -3.80 -0.19%	2,008.80	2,035.00	2,035.00	2,000.00	-

Trade Snapshot		Company Information	Peer Comparison		Historical Data	
		Print	Order Book	Intra-day Chart	Stock Vs Index Chart	Quarterly Charts
VWAP	2,004.86					
Face Value	5.00					
Traded Volume (shares)	3,218					
Traded Value (lacs)	64.52					
Free Float Market Cap(Crs)	1,112.52					
52 week high	2,960.90 (15-APR-15)					
52 week low	1,475.00 (26-SEP-14)					

Cera Sanitaryware

- Is the business cheap or fairly priced ?
- What are the risks in the assumptions ?
- How can you lose money?
- At what price would you buy ? Margin of Safety

How has Cera fared over the last 10 years?

Market Cap : Share price * No. of shares outstanding

Market Cap in 2005 : 30 crs

Market Cap in 2015 : 3000 crs

Stocks discussed in the lecture are only for demonstration purposes.

Thanks.
Questions ?

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