Value Research

Wealth Insight

November 2024

₹125

Ideas for savvy stock investors

Small banks for big returns

Why small finance banks are the next big bets for outsized returns

Analyst's Diary 30
Is this low-valued large cap a steal?

Words Worth Wisdom 42
Rallying for risk

Trusted for 20 INDEX SOLUTIONS

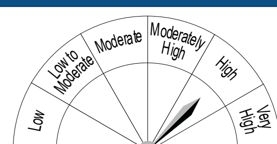
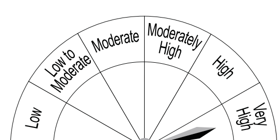
HDFC MUTUAL FUND
BHAROSA APNO KA

Consider investing in Gold & Silver Funds

HDFC Gold Exchange Traded Fund~ **HDFC Gold Fund**

HDFC Silver ETF~ **HDFC Silver ETF Fund of Fund (FoF)**

~ Investors can set up SIPs into ETFs as most brokers allow this feature. SIP - Systematic Investment Plan.

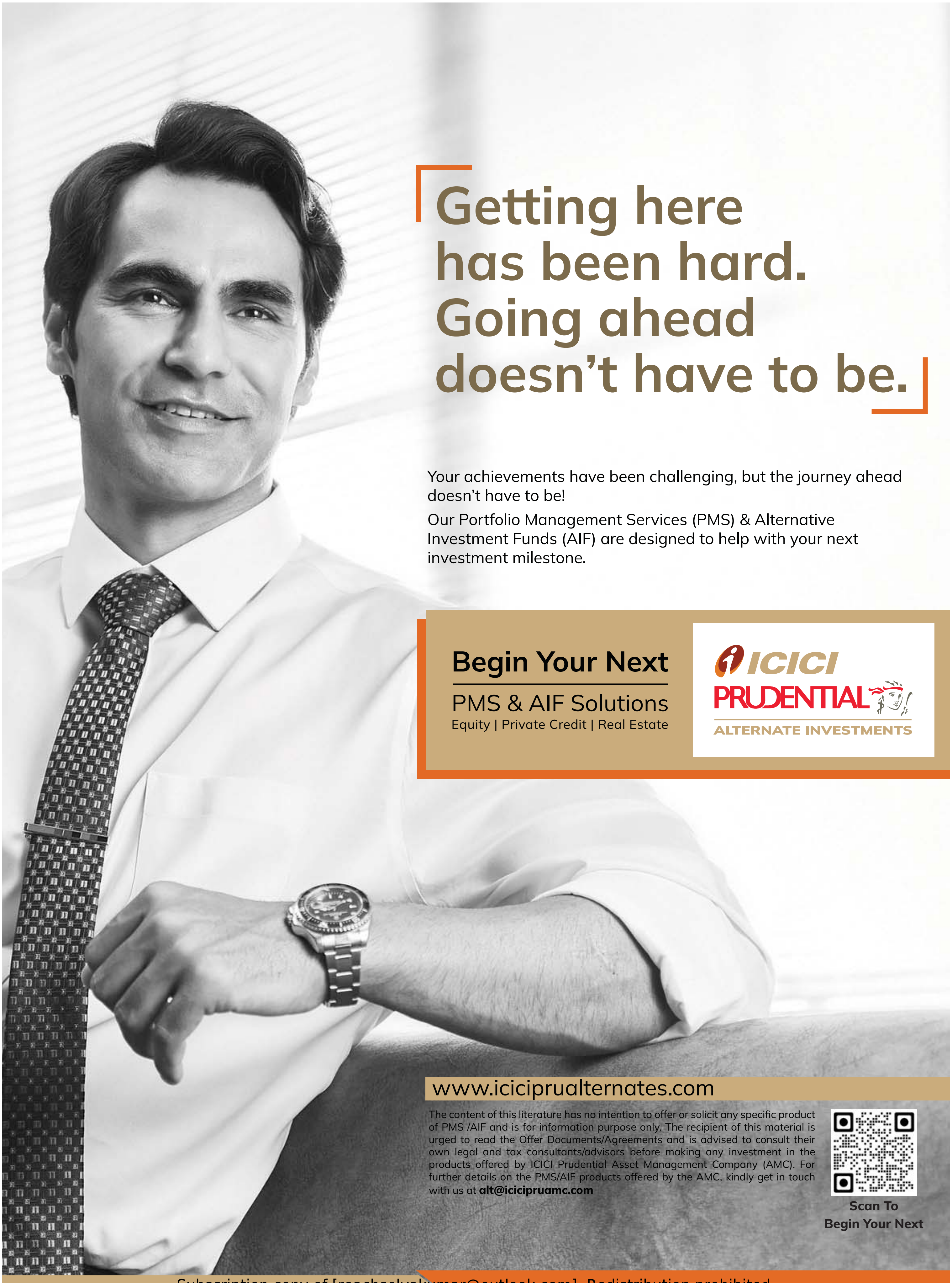
Name of Scheme / Investment Plan	This product is suitable for investors who are seeking*:	Scheme Riskometer#
HDFC Gold Exchange Traded Fund An open ended scheme replicating/tracking performance of Gold. NSE Symbol: HDFCGOLD BSE Scrip Code: 533230	• Returns that are commensurate with the performance of gold, subject to tracking errors, over long term • Investment predominantly in Gold bullion of 0.995 fineness	Investors understand that their principal will be at high risk
HDFC Gold Fund An open ended Fund of Fund scheme investing in HDFC Gold Exchange Traded Fund	• Capital appreciation over long term • Investment in Units of HDFC Gold Exchange Traded Fund (HGETF). HGETF invests in gold bullion of 0.995 fineness	Investors understand that their principal will be at very high risk
HDFC SILVER ETF An open ended Exchange Traded Fund (ETF) replicating/tracking performance of Silver. NSE Symbol: HDFCSILVER BSE Scrip Code: 543592	• Returns that are commensurate with the performance of silver, subject to tracking errors, over long term. • Investment in Silver bullion of 0.999 fineness.	
HDFC SILVER ETF FUND OF FUND (An open ended Fund of Fund scheme investing in HDFC Silver ETF)	• Capital appreciation over long term. • Investment in Units of HDFC Silver ETF (HSETF). HSETF invests in Silver and Silver related instruments.	

*Investors should consult their financial advisers if in doubt about whether the product is suitable for them.
For latest riskometer, investors may refer to the Monthly Portfolios disclosed on the website of the Fund viz. **www.hdfcfund.com**

Note: Investors in HDFC Silver ETF Fund of Fund and HDFC Gold Fund shall bear the recurring expenses of the Scheme in addition to the recurring expenses of the respective underlying Schemes (subject to regulatory limits).

HDFC Asset Management Company Limited has been managing equity Index Solutions for over 20 years. Index Solutions also include passively managed fund of funds and commodity(ies) based schemes.

MUTUAL FUND INVESTMENTS ARE SUBJECT TO MARKET RISKS, READ ALL SCHEME RELATED DOCUMENTS CAREFULLY.



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Value Research
Wealth Insight
November 2024
Volume XVIII, Number 5

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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Wealth Insight is owned by Value Research India Pvt. Ltd., 5, Commercial Complex, Chitra Vihar, Delhi 110 092.

Editor-In-Chief: Dhirendra Kumar. Printed and published by Dhirendra Kumar on behalf of Value Research India Pvt. Ltd. Published at 5, Commercial Complex, Chitra Vihar, Delhi 110 092. Printed at Option Printofast, 46, Patparganj Industrial Area, Delhi-110092

Total pages 72, including cover

by Dhirendra Kumar

Trying to make investing simple

Why investors make stock market success harder than it needs to be

Equity investing should be simple and based on just a few basic principles. Buy only profitable companies with good growth potential at reasonable prices. When prices fall too much, don't panic and sell if the business fundamentals remain strong. Similarly—and this is often harder—when prices rise significantly, resist the urge to sell prematurely.

However, for most investors, sticking to these simple rules feels as hard as dieting during Diwali. We're wired to react emotionally to losses. A 20 per cent drop in your portfolio triggers an instinctive panic that's tough to resist. Rationally, a good company's business doesn't collapse just because the stock market is down. Yet, fear can easily take over.

Ironically, instincts can also mislead us when things go well. Many investors feel an urge to 'lock in profits' after stock doubles, even if the company remains fundamentally strong. Consider those who sold TCS (Tata Consultancy Services) in January 2008 because they hit a profit target, missing out on future gains. There's a common saying in investing, "No one ever lost money booking profits," but selling winners too early often leads to a weaker portfolio filled with mediocre stocks. The hardest part of investing isn't finding great companies—it's having the patience to stick with them. Great companies can compound wealth over decades, but this only works if we resist the urge to sell too soon.

The real challenge: Ourselves

The real problem in investing isn't the complexity of the markets but our emotional responses. The solution? There are many, but one effective strategy is to have a knowledgeable guide. That's where Value Research Stock Advisor comes in. Our service acts as a guide, assistant, and counsellor, helping you navigate the ups and downs of the market with clarity.

At Value Research Stock Advisor, we carefully select stocks that meet stringent quality and growth criteria. But our value lies in more than just stock selection. We provide ongoing guidance to help you stay invested during market turbulence. When markets fall and panic sets in, we remind you of the fundamental strength of your investments. When a stock soars, we help you assess whether it's still worth holding, often finding that it is.

What we offer

Our approach goes beyond picking stocks. Each recommendation includes a detailed analysis explaining why a stock is worth buying. We also track key developments—whether quarterly earnings, management changes, or industry shifts—and provide you with clear, actionable insights on how these factors may affect your investments.

Equally important is helping you filter out the noise. Short-term market movements and news headlines can be distracting, but they often have little bearing on the long-term prospects of good businesses. We help you stay focused on what truly matters. We also regularly analyse broader trends—whether it's the evolution of specific sectors, the impact of economic changes, or which growth themes are sustainable. This big-picture understanding gives you the conviction to hold onto your investments for the long term instead of being swayed by short-term market fluctuations or premature profit-taking.

A simple start

For those new to investing, we've made things even simpler. Instead of building your portfolio from scratch, you can choose from our focused portfolios tailored to different investor needs. This makes it easier to get started, and we're offering this at a special introductory price.

By following our approach, you can avoid the costly mistakes of emotional investing and set yourself on a path to long-term wealth creation. My detailed column on page 64 explains how to do this.

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The purveyor of investing wisdom

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Why Follow

Sahil Khetpal's diverse expertise sets him apart. While working as an investment analyst in a New York hedge fund, he co-founded TIKR, a renowned stock analysis tool. Through his venture, Superinvesting, he also simplifies complex finance concepts. His X (Twitter) account is a repository of investing strategies and insights of legendary investors, blended with his own. His thread on the seven sins of investing on the right demonstrates his unique style.

Sin 1: Illusion of knowledge (Gluttony)
We tend to become overconfident when we have spent a lot of time understanding an investment. The more data we're given, the more confident we feel, even if the data doesn't really improve our accuracy.

Sin 2: Forecasting (Pride)
We tend to overestimate our ability to predict the future. Professionals are even more susceptible than average people to being overconfident in their forecasts and on average they do even worse! Most forecasts are just extrapolating current trends.

Sin 3: Meeting companies (Lust)
Management tends to be biased and over-optimistic, so meeting mgmt directly can make us less objective in evaluating a company. During the Dot Com bubble, 90% of tech CFOs thought their stock was undervalued.

Sin 4: Thinking you can out-smart everyone (Envy)
We tend to believe that we are smarter than everyone else. In fact, having "light bulb" moments where you think you have a key insight that others don't can often make you size too big and hold too long.

Sin 5: Short-time horizons and overtrading (Avarice)
The average holding period for a stock on the NYSE is less than 6 months! Our obsession with trying to predict what other people will do and doing it before them can lead us to avoid a 10% drop only to miss a 100% rally.

Sin 6: Believing everything you read (Sloth)
We tend to believe in stories that management or others tell. Instead of evaluating each fact individually, we tend to have preconceived notions and find facts that align with our prior beliefs while ignoring those that don't.

Sin 7: Group based decisions (Wrath)
Oftentimes, group decisions can be more biased than individual ones because of groupthink and the incentive to go along with everyone else. We also tend to be more confident in group decisions.

READER'S VOICE

Letters to the Editor's Note

Your response to the October 12 editorial 'A manifesto for equity investors'

Dhirendra Kumar's Editor's Note on how a blend of cautious optimism and long-term vision sets true equity investors apart received significant feedback from readers. The thoughtful responses underscored the importance and relevance of the topic. As a gesture of appreciation, we dedicate this section to our valued readers, whose insights help enrich these discussions.

Summary

Equity investors are eternal optimists, mixed with some caution. Our fundamental belief is not in blind positivity but in resilience, growth, and progress. With unwavering conviction, we understand that the future holds more promise than the past. Even in the darkest times, when markets falter and economies stutter, the underlying trend has always been growth.

Businesses adapt, innovate, and ultimately generate more wealth than before. We experience years of exuberant growth followed by sobering corrections. 2020 may prove less fruitful than 2019, and 2025 might face unforeseen challenges. Yet, zoom out, and the picture becomes clearer. With the utmost confidence, 2034 will be better than 2024, just as 2023 far surpassed the dark days of 2013.

This belief transcends mere numbers on a balance sheet or fluctuations in a stock index. Take away the financial models and economic theories, and you'll find this simple yet powerful belief at the heart of long-term investing. It's not about predicting every market movement or timing every trade perfectly. Instead, it's about recognising the underlying current of progress and positioning ourselves to ride that wave over decades, not just quarters.

This optimism doesn't blind us to risks or dismiss short-term challenges. It gives us the resilience to weather storms, knowing that calmer, more prosperous seas are beyond the tempest. This balance of cautious optimism and long-term vision defines the true equity investor, separating us from mere speculators or short-term traders.

Stock investing can be complex, but the path of progress may wind and occasionally double back. Still, its general direction is forward. In choosing to invest, we become part of the same growth that will generate returns for our investments – it's a virtuous, self-reinforcing cycle.

We believe, as optimists, that there will be growth and more prosperity. Based on that, we have to choose the best investments that can benefit from it. Investors who feel that investing is about predicting EPS and GDP have a different set of problems. People like us need faith that the world will grow and a rough sense of which companies are well-run. That's enough.

Illustration: ANAND

What our readers say

At the outset, season's greetings, and I know you are trying to remain positive while expressing pessimism about new retail investor behaviours.
All those experts who are called upon to provide their opinions are those who have been very successful investors with over 15 years of experience and have amassed enough wealth. In their interviews, all admitted that they have made mistakes, and the great Warren Buffett also admits he has made them. That is the real beauty of this equity investment game—that you learn to be patient and remain invested for a long time only if you have made mistakes. Such an experience makes you a better investor.
I, too, belong to the old school of thought as I have seen the worst period of 2008 and 2013 and the mid-cap crisis of 2018. The new retail investors have seen only a bull run from 2020 and no deep correction. The majority of them are intelligent investors and have already earned a lot/created a lot of wealth. Hence, they can live to see another correction and become even stronger, helping to grow their confidence in Indian equity markets.
There will be those who will do panic selling, but they will return to play well. But like the GDP index, our retail base will continue to grow. This is because, for India's growth, the sky's the limit. And that is because India is still a developing country.

Nandkumar J

Yes, I fully agree with your views. If statistics/data analysis could accurately predict the future (market and companies), then it would be so simple to invest, and anybody and everybody would follow this. But the fact is, it's not possible, which then brings a whole lot of excitement (nervousness) and enthusiasm to this exercise.
I think the same is equally true about all other aspects of life. So, let's play this game with the best of your wisdom and conviction and hope for the best.

Sanjay Kulkarni

Wonderful note at the need of the hour. We should understand that our heartbeat has always had ups and downs AND should not be a straight line.

Annamalai Rajan

This is one of the best messages I have read this year. Thank you.

Ananth P V

Very well-written and valuable advice. In short, your recommendation of staying invested over a long period is a golden one. Personally, I have been investing since 1993 (actively from 2002) and even though my portfolio went through many ups and downs it has returned me a CAGR of 18 per cent which is more than decent. Keep writing. All your advice is truly sincere and not biased in any way.

Krishnamurthy Muralitharan

I fully agree with your views. It is futile to be an investor unless we have a firm belief in our nation's future growth story. We have to stay invested without worrying about short-term blips in the market due to geopolitical or any other reasons.

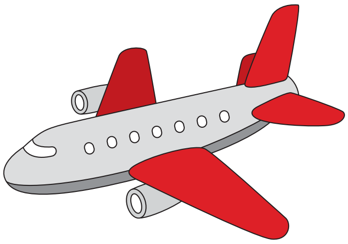
Tridivesh Gupta

Brilliant. Simply brilliant. I've been your reader for the last 20 years, and this is by far the best. Keep up the good work. Here's hoping to read many such stimulating writings on equities.

Krishnan Vedant

Hyundai Motor India sees lacklustre debut

Hyundai Motor India, which launched India's largest IPO of over ₹27,000 crore, saw a dismal debut on October 22, 2024. The stock listed at a 1 per cent discount and closed 7 per cent lower against the issue price. The offering, Asia's largest so far in 2024, was entirely an offer-for-sale. It witnessed a lukewarm retail interest despite strong institutional backing. Investors remain cautious as Hyundai faces fierce competition from rivals like Mahindra & Mahindra, Tata Motors, Kia, and MG Motors, which has been pressuring its market share in the Indian passenger vehicle segment.



SpiceJet raises ₹3,000 crore amid financial challenges

With a negative net worth and a six-year history of losses, Spicejet pulled a successful fundraise of ₹3,000 crore recently. The funding will help the debt-saddled airline operationalise grounded aircraft and expand its fleet. Some lessors have also agreed to convert their dues into equity, easing financial strain. With its debt reaching ₹5,300 crore, the capital infusion comes as a critical relief for the cash-strapped airline.

Star Health Insurance faces ransomware attack in data breach

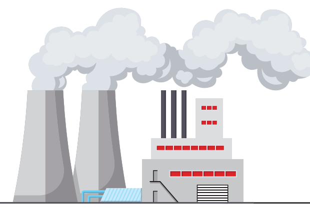
Star Health Insurance reported a ransomware attack and disclosed that the hackers demanded $68,000 in exchange for stolen customer data. The breach involved multiple threatening emails sent to senior executives. While the company asserts that daily operations remain unaffected, the incident has raised concerns about data security in the insurance sector. Star Health's management is under pressure to enhance cybersecurity measures to protect sensitive information and restore trust among its clients.

Ratan Tata dies at 86, leaving a lasting legacy

Ratan Naval Tata, the esteemed Emeritus Chairman of Tata Sons, died on October 9, 2024 aged 86. His leadership, which put the Tata Group on the global map, spanned over two decades. During this time, he orchestrated landmark acquisitions like Tata Steel's purchase of Corus and Tata Motors' acquisition of Jaguar Land Rover. Condolences flooded in from prominent figures, including Prime Minister Narendra Modi following his demise.

₹1.2 lakh crore

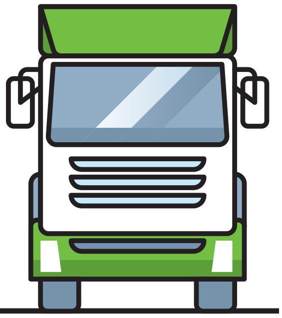
The amount that Tata Power will invest over 10 years for renewable energy, power distribution, green transition, nuclear power and EV projects in Rajasthan.



Anil Ambani-led Reliance Group secures ₹17,600 crore funding

Anil Ambani-led Reliance Group is attempting a turnaround. The Group raised ₹17,600 crore through various financial instruments, including a preferential issue and a QIP. This is in addition to promoter infusion of ₹1,750 crore. Separately, the company signed an agreement with Druk Holding and Investments to develop 1,270 MW clean energy projects in Bhutan, marking the largest investment by an Indian entity in Bhutan's green energy sector.

Ashok Leyland to set up EV truck facility after major order



Ashok Leyland plans to establish a new manufacturing line for medium and heavy electric trucks at its Hosur plant, with a capacity of 5,000 units annually. This comes after securing a ₹150 crore order from Billion Electric Mobility in what is India's largest e-truck contract. Deliveries have already begun, and the new manufacturing line is expected to be operational by Q4 FY25.

NCLT approves ICICI Securities delisting despite investor objections

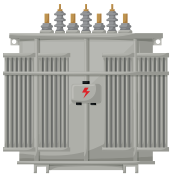
The National Company Law Tribunal (NCLT) has approved the delisting of ICICI Securities shares, dismissing objections from minority investors who claimed the delisting price was too low. In March, 68 per cent of non-institutional shareholders had opposed the scheme, while 84 per cent of institutional investors supported it. Under the approved scheme, shareholders will receive 67 ICICI Bank shares for every 100 shares held in the brokerage company.

IPO-bound NTPC Green forms JV for 10 GW renewable energy project

NTPC Green formed a joint venture with state-run Mahatma Phule Renewable Energy and Infrastructure Technology (Mahapreit) to develop renewable energy parks and projects with a combined capacity of 10 GW across Maharashtra and other states. This initiative supports its ambitious goal of reaching 60 GW capacity by 2030. The company has a 3 GW capacity and plans to soon launch an IPO to raise ₹10,000 crore.

Hitachi Energy to invest ₹2,000 crore in energy projects

Hitachi Energy India, the Indian arm of Zurich-based Hitachi Energy, plans to invest around ₹2,000 crore in the next five years to enhance India's energy transmission. This investment is part of its parent's $6 billion global expansion initiative. The investment will be used for expanding the company's large power transformer factory, relocating a bushings factory, and increasing traction transformer capacity for the Indian Railway network.



Mankind Pharma gets CCI nod to acquire Bharat Serums for ₹13,000 crore

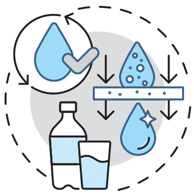
Mankind Pharma received approval from the Competition Commission of India (CCI) to go ahead with its acquisition of Bharat Serums and accines for over ₹13,000 crore. The acquisition will enable Mankind Pharma to strengthen its foothold in women's healthcare, particularly in fertility and maternity care. Additionally, Mankind plans to raise ₹10,000 crore through non-convertible debentures and commercial papers likely to finance this acquisition.

HDFC Bank sells ₹6,000 crore of home loans to ease credit burden

HDFC Bank sold a portion of its home loan portfolio, worth ₹6,000 crore, to some public sector banks to lighten its credit load amid industry-wide regulatory pressures. The bank also converted ₹9,000 crore in car loans into pass-through certificates for domestic asset management companies. These measures aim to lower the bank's credit-deposit ratio, which topped 100 per cent, and alleviate pressure from slow deposit growth.

VA Tech Wabag bags ₹1,000 crore desalination plant project

The company has bagged an order of ₹1,000 crore to build a 100 MLD (million litre per day) sea water desalination plant for Indosol Solar. The plant is meant for Indosol's 10 GW solar PV manufacturing facility in Andhra Pradesh. The contract will be executed over a 38-month period, followed by a 15-year operation and maintenance commitment. This project marks VA Tech Wabag's entry into the solar PV sector.

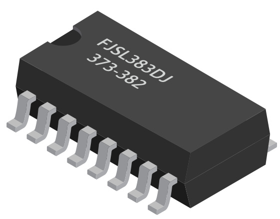


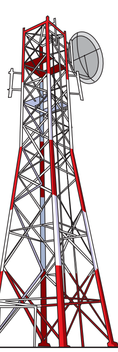
Ola Electric gets show cause notice for alleged consumer right violation

Ola Electric has received a show-cause notice from the Central Consumer Protection Authority following a rise in customer complaints that have crossed 10,000 this year. The notice comes after a public spat between CEO Bhavish Aggarwal and comedian Kunal Kamra regarding the company's service quality. The stock is down 40 per cent from highs amid increasing competition from established players like Hero, Bajaj, and TVS in the electric two-wheeler market.

CG Power acquires radio frequency components biz for $36 million

CG Power will acquire the radio frequency components business of Japan-based Renesas Electronics for $36 million. This acquisition strengthens the company's strategic move into the semiconductor sector. The development comes after CG Power formed a joint venture with Renesas and Stars Microelectronics in March to establish an Outsourced Semiconductor Assembly and Test (OSAT) facility in India. These moves are helping the company expand its footprint in the semiconductor industry.



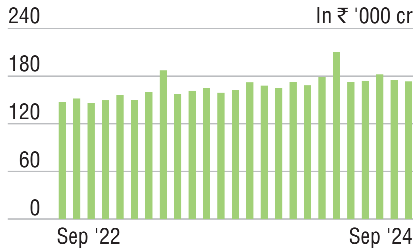


₹14,000 crore

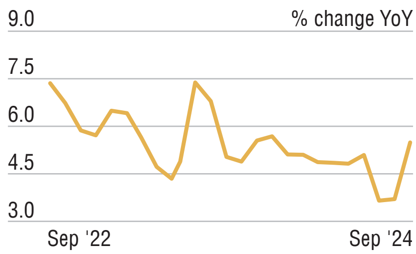
The amount for which Sweden's Ericsson will supply 4G and 5G equipment to Voda Idea. The deal is a part of Vi's plan to buy telecom equipment worth ₹30,000 crore.

ECONOMIC METRICS

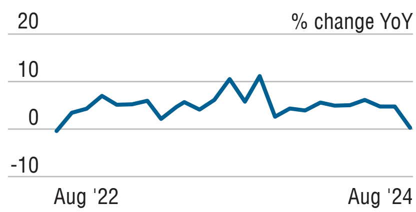
GST collection



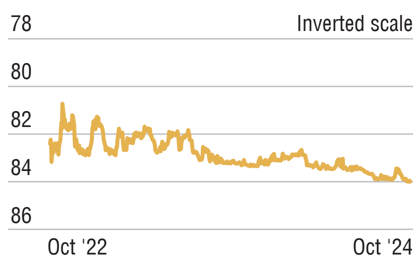
Inflation: Consumer Price Index



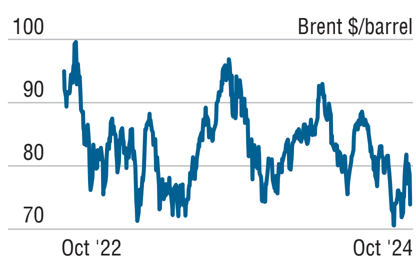
Industrial activity: Index of Industrial Production



₹ vs $



Crude oil



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Powering a greener future

Tracing the roots, and the highs and lows of India's green energy pioneer

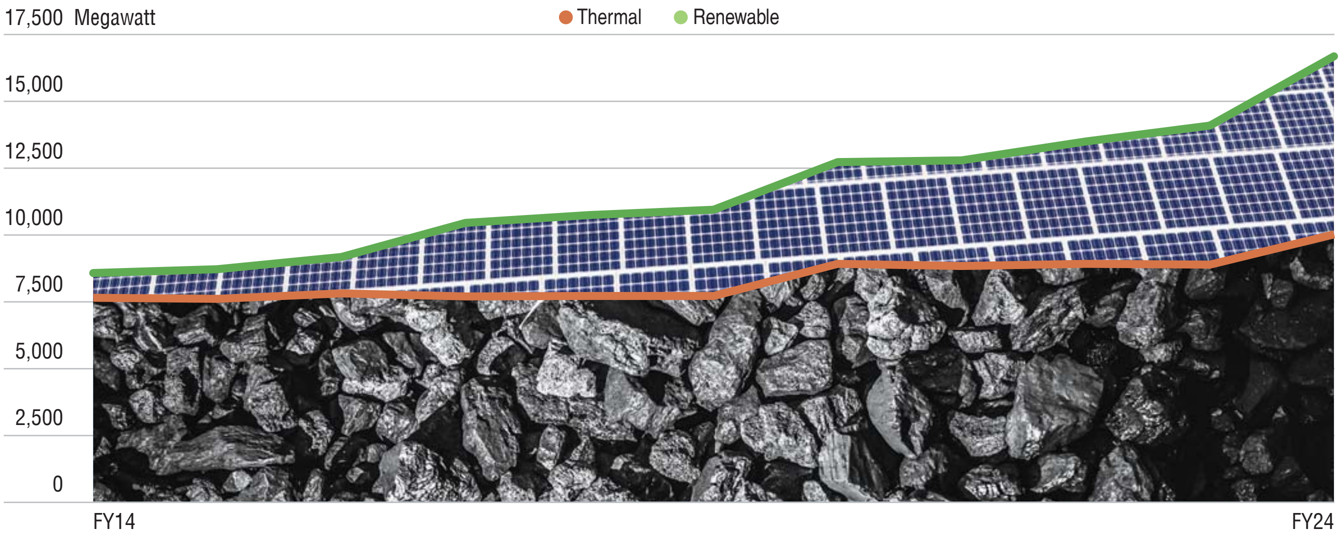
From pioneering clean energy over a century ago to leading India's green revolution today, Tata Power's journey is one for the books. The energy giant has steadily transformed its portfolio across conventional, renewable, and new-age energy solutions. Its gradual shift towards renewables has powered record profits and an eight-fold surge in its stock over the past five years, following an unimpressive 20-year performance.

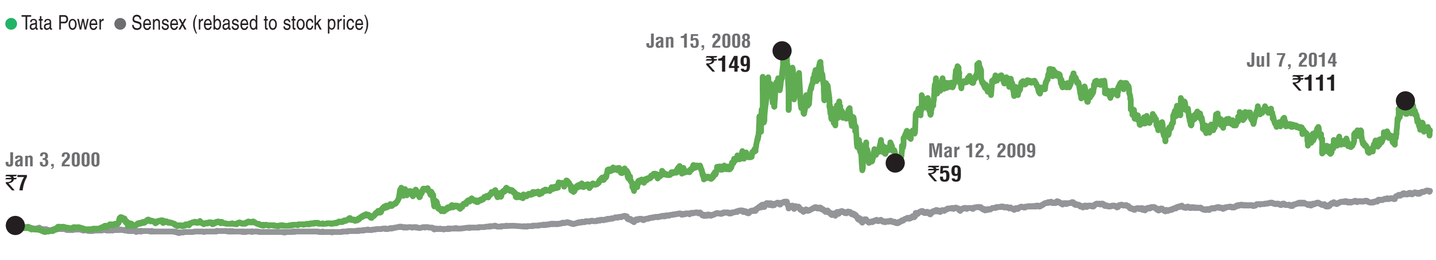
A legacy of innovation

Founded by the visionary Jamsetji Tata in the early 1900s, Tata Power started as Tata Hydroelectric Power. In 1915, the company set up India's first clean energy station—the 40 MW Khopoli plant.

Turning off the thermal!

Renewable energy installed capacities grew 22 per cent annually since FY14





June 27, 2002
Acquired Delhi government's 51 per cent stake in North-West Delhi Distribution Co

June 27, 2007
Bought 30 per cent stake in Indonesian coal mines, KPC Arutmin & Indo Coal, for $1.5 billion

November 8, 2012
Acquired 26 per cent stake in Baramulti Suksessarana for $152 million

September 20, 2016
Acquired 1,010 MW renewable energy assets of Welspun, rebranded as Walwhan Renewable Energy

September 27, 2019
Won bid for 105 MW floating solar plant in Kayamkulam, Kerala

As energy demand surpassed hydropower plant capacity, the company diversified into conventional energy sources with a thermal power plant. In 1956, it commissioned its first thermal power station in Trombay with a capacity of 62.5 MW and later acquired a coal-based plant in Jharkhand. By 1977, the company's revenue crossed ₹1,200 crore. In 2000, the Group's three energy verticals were consolidated to form Tata Power.

The bumpy ride to the top

The 2000s marked rapid expansion for Tata Power. It ventured into wind energy, formed a joint venture to develop power distribution in Delhi, and saw its revenue and net profit grow 19 and 18 per cent annually during FY02-11. But the tide turned with the Mundra thermal power project in 2013. The 4,000 MW coal-based plant, set up at a hefty ₹18,000 crore, struggled with profitability due to regulatory constraints and fixed coal agreements, rapidly increasing Tata Power's debt. The median debt-to-equity ratio hit 3.4 times between FY13-18, squeezing margins.

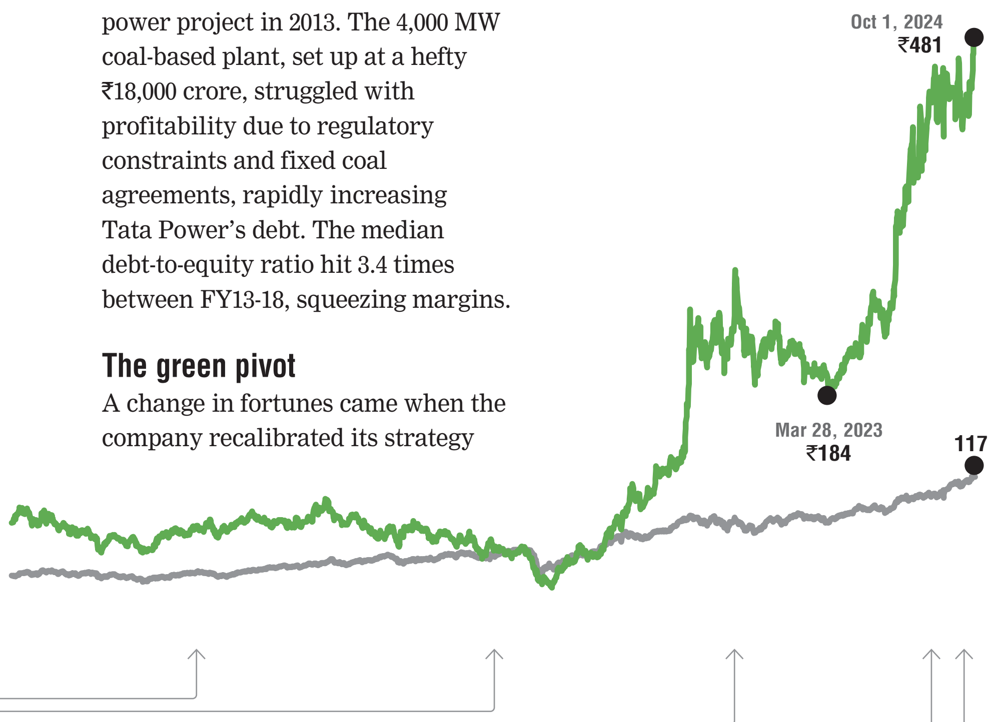
The green pivot

A change in fortunes came when the company recalibrated its strategy towards renewables. The thermal segment's revenue contribution slid from 45 per cent in FY20 to 30 per cent by FY24, and the company emerged as a leader in solar rooftops. It also managed to cut its debt, with the debt-to-equity ratio dropping from 2.8 times in FY19 to 1.3 times by FY24. This shift set the stage for a resurgence.

What's next?

The company plans to invest ₹20,000 crore in FY25, with 90 per cent earmarked for renewables, transmission, and distribution. However, intensifying competition may pose challenges with several big players entering the green energy fray. ☑

By Vishal Goyal

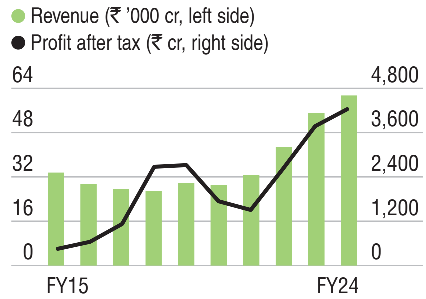


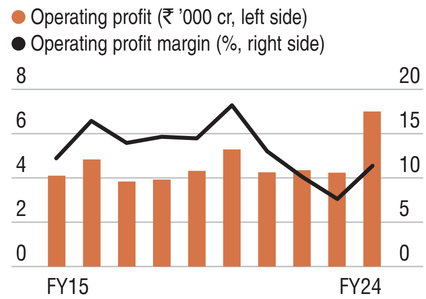
● **April 17, 2022**
Subsidiary Tata Power Renewable Energy raised ₹4,000 crore from Blackrock-Mubadala to expand renewables

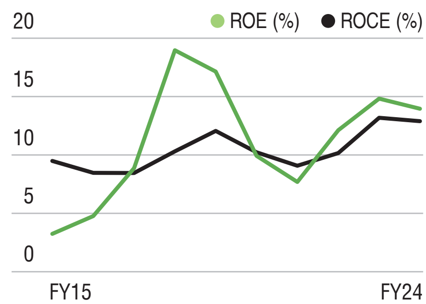
● **March 12, 2024**
Commissioned India's largest 100 MW solar PV project and a 120MWh battery energy storage project in Chhattisgarh

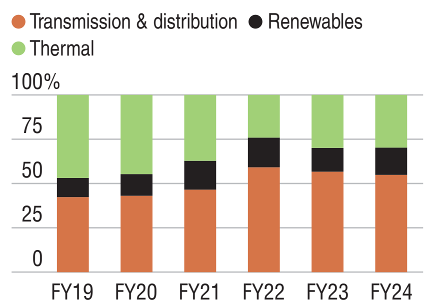
● **September 30, 2024**
Inked a deal with Rajasthan govt for ₹1.2 lakh crore investment in green energy projects

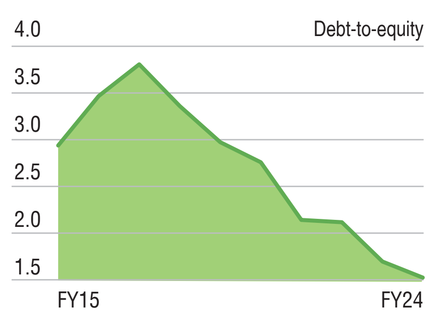
Performance metrics











Large caps

	Stock Rating	3M returns (%)	Price to earnings	3Y avg RoE (%)	3Y earnings growth (% pa)
Kalyan Jewellers Its Q1 FY25 profit after tax jumped 24 per cent YoY	★★★	46.3	122.6	10.7	634.8
Trent Its Q1 FY25 profit after tax was up 140 per cent YoY	★★★★★	43.2	169.3	22.3	408.6
Bharti Hexacom Brokerage upgrades on stock drove gains	Unrated	38.3	146.2	28.2	35.5
Suzlon Energy Won orders including a 1,166 MW project from NTPC	★★★	34.9	116.7	1.2	160.4
Hitachi Energy Announced plans to invest ₹2,000 crore in energy projects	★★	33.6	397.7	13.5	7.5
Divi's Laboratories US court holds FDA nod for competitor's heart failure generic	★★★★	33.5	96.9	18.3	-6.5
Mankind Pharma Acquired Bharat Serum for ₹13,630 crore	★★★★	27.9	56.1	21.0	14.5
Zomato Completed the acquisition of Paytm's ticketing business	★★★	22.0	410.0	-0.8	41.4
Dixon Tech Signed an MoU with Asus for manufacturing notebooks	★★★★	21.5	213.0	18.0	34.9
Hindustan Petroleum Will set up battery swapping stations in over 22,000 outlets	★★★	21.4	9.1	10.9	-2.8
Bajaj Auto Its Q2 FY25 sales volumes were up 17 per cent YoY	★★★★★	19.1	40.2	22.9	12.4
Shriram Finance Its board approved raising ₹1,000 crore from non-convertible debentures	★★★★★	17.9	2.5*	14.8	227.3
PB Fintech Its Q1 FY25 profit after tax soared four times YoY	★★★	16.5	551.8	-2.4	34.4
Adani Energy It posted a loss of ₹1,189 crore in Q1 FY25	★★	-0.9	844.4	0.8	2.9
Oil India Share price slipped due to falling crude prices	★★★★	-12.5	13.4	16.4	59.5

*Price-to-book ratio. Our large-cap universe has 148 large companies, making the top 70 per cent of the total market capitalisation. The above list mentions stocks that fluctuated the most in the last three months. Data as of October 15, 2024.

Mid caps

	Stock Rating	3M returns (%)	Price to earnings	3Y avg RoE (%)	3Y earnings growth (% pa)
IIFL Securities Its Q1 FY25 profit after tax was up 144 per cent YoY	★★★★	121.6	21.1	33.3	35.8
PCBL Its Q1 FY25 revenue was up 59 per cent YoY	★★★	77.6	37.9	17.6	8.7
Sarda Energy Acquired SKS Power for ₹2,000 crore	★★★	89.0	32.8	21.3	2.5
Neuland Laboratories Its Q1 FY25 profit after tax was up 58 per cent	★★★★	88.3	59.8	17.4	63.0
Gravita India Its Q1 FY25 profit after tax was up 30 per cent YoY	★★★	77.0	67.6	40.4	53.5
Motilal Oswal Financial Services Its Q1 FY25 profit after tax was up 68 per cent YoY	★★★★	74.3	19.8	25.0	26.1
PG Electroplast Its Q1 FY25 profit after tax was up 151 per cent YoY	★★	68.4	87.0	13.0	58.1
Authum Investment & Infra Will jointly acquire 47 per cent stake in Prataap Snacks with Mahi Madhusudan	★★★★★	67.3	6.1	28.7	78.2
MCX Its Q1 FY25 profit after tax was up four times YoY	★★★	67.2	190.6	6.4	-5.8
JM Financial Stock was up due to general market conditions	★★★	66.5	36.5	7.9	10.2
Marksans Pharma Subsidiary's products received regulatory approval in the UK	★★★★	57.1	40.0	17.9	10.0
One97 Communications Stock was up due to general market conditions	★★	55.5	-	-18.7	-2.4
Himadri Speciality Its Q1 FY25 profit after tax was up 35 per cent YoY	★★★	55.5	71.6	10.2	83.8
Reliance Power Board approved raising $500 million from foreign currency bonds	★	54.6	-	1.7	-292.8
Inox Wind Energy Its subsidiary won a 201 MW order	★★	52.4	-	-36.8	825.5

Our mid-cap universe has 324 mid-sized companies, making the next 20 per cent of the total market capitalisation. The above list mentions stocks that fluctuated the most in the last three months. Data as of October 15, 2024.

Small caps

	Stock Rating	3M returns (%)	Price to earnings	3Y avg RoE (%)	3Y earnings growth (% pa)
Marsons Stock was up due to general market conditions	Unrated	534.3	820.1	-44.7	72.8
Ashika Credit Capital Sold its entire stake in Cigniti Technologies	★★★	476.9	6.6*	11.6	66.2
Bharat Global Developers Stock was up due to general market conditions	Unrated	457.7	-	2.4	759.5
Sudarshan Pharma Stock was up due to general market conditions	Unrated	316.0	82.9	14.2	76.7
Pondy Oxides Board approved raising ₹250 crore through QIP	★★	315.3	65.5	20.3	40.1
RDB Realty Its Q1 FY25 profit after tax was up 53 per cent YoY	★★	270.5	272.4	2.4	34.1
Eraaya Lifespaces It recently acquired US-based IT company Ebix	Unrated	253.6	-	-	169.1
Sri Adhikari Brothers Television Stock was up due to general market conditions	Unrated	243.1	-	-	7.0
Indo Thai Securities Board approved raising up to ₹125 crore from convertible warrants	★★★	221.6	52.7	9.7	6.3
Kaycee Industries Its Q1 FY25 profit after tax was up 72 per cent YoY	★★★★	205.9	290.8	17.2	76.9
PC Jeweller Raised ₹2,705 crore from warrants issued on a preferential basis	★★	139.1	-	-13.0	-258.8
Kitex Garments Its Q1 FY25 profit after tax was up over three times YoY	★★	138.4	45.9	10.1	10.0
Panacea Biotec It availed a loan of $20 million from US DFC	★★	136.4	-	-15.3	17.3
Lotus Chocolate Its Q1 FY25 revenue tripled YoY	★★	132.9	133.9	-	60.8
Capital India Finance Stock was up due to general market conditions	★	132.5	3.2*	2.8	16.5

*Price-to-book ratio. Our small-cap universe (minimum market capitalisation of ₹700 crore) has 1,158 small-cap companies, making the bottom 10 per cent of the total market capitalisation. The above list mentions stocks that fluctuated the most in the last three months. Data as of October 15, 2024.

Hitting a speed bump

With a decline of 8.7 per cent, BSE PSU has been the worst-performing index in the last three months. However, it has still outperformed the Sensex over a five-year period, thanks to its post-Covid rally. Despite the correction, the index still appears expensive, given its P/E, P/B ratio, and dividend yield are higher than their five-year medians.

Key numbers

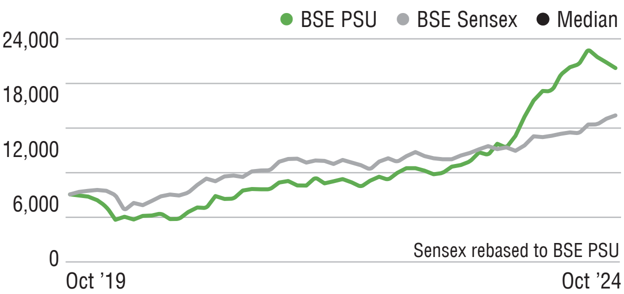
12.8
Price to earnings

2.2
Price to book

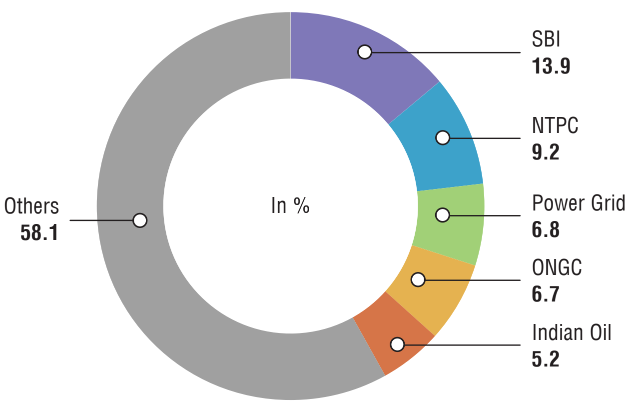
2.55
Dividend yield (%)

65.5
Market cap (₹ lakh cr)

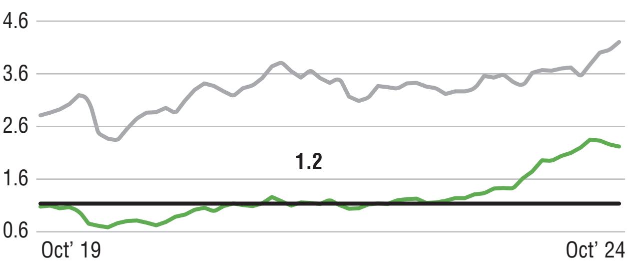
Index movement



Index weights



Price-to-book ratio (P/B)

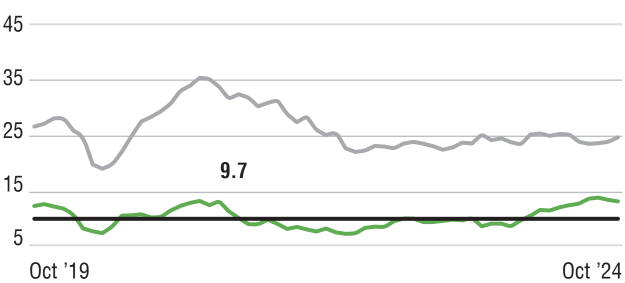


Valuations, dividends and returns

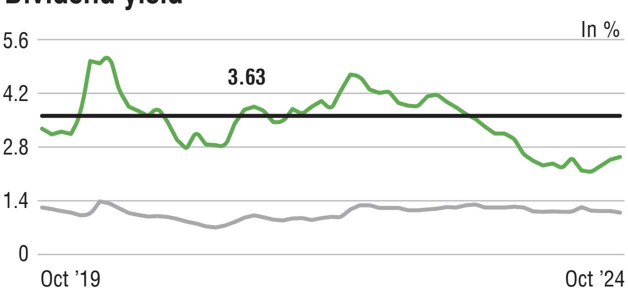
Company	Stock Rating	P/E	P/B	Dividend yield (%)	1Y return (%)
Cochin Shipyard	★★★★	51.2	8.5	0.6	224.5
Rail Vikas Nigam	★★★	67.9	11.0	0.5	181.6
NBCC	★★★★	70.5	12.6	0.6	168.0
Oil India	★★★★	13.4	1.8	2.6	166.3
HUDCO	★★★★	20.2	2.6	1.9	149.3
Hindustan Petroleum	★★★	9.1	1.9	7.5	147.4
Bharat Dynamics	★★★	76.3	12.2	0.4	140.3
HAL	★★★★	37.1	10.0	0.8	131.8
NALCO	★★★★	17.9	2.7	1.4	121.0
BHEL	★	-	3.9	0.1	111.5

Data as of October 15, 2024

Price-to-earnings ratio (P/E)



Dividend yield

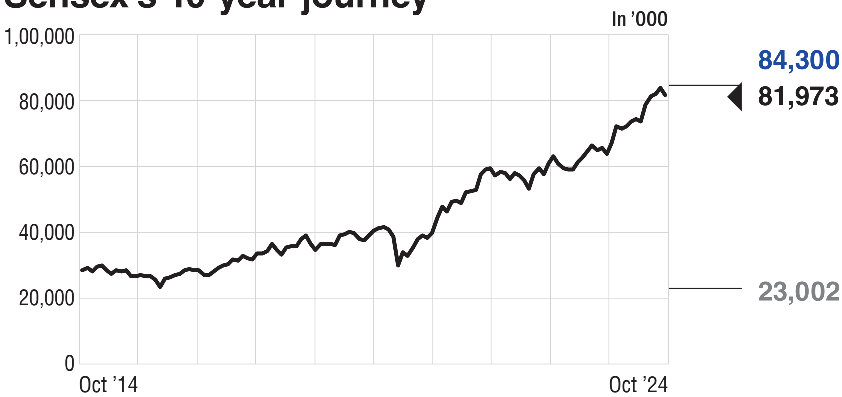


Trends and trails

Charts to help you make sense of the current market in terms of valuations and return potential

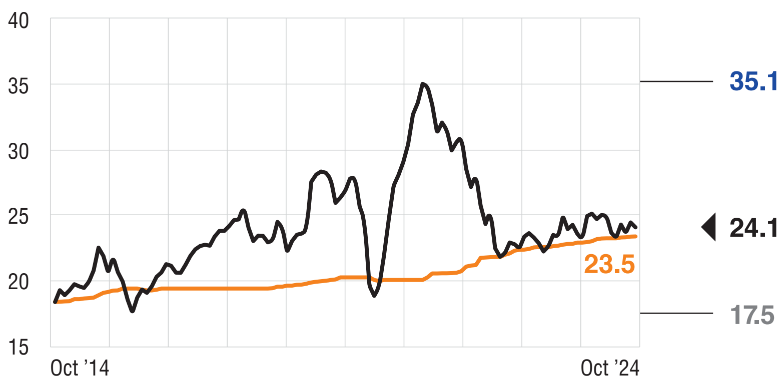
● Max ◀Current ● Median ● Min

Sensex's 10-year journey

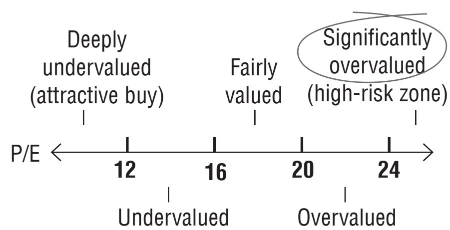


- The Sensex is a reliable gauge of the Indian market's overall performance.
- The 10-year graph shows a secular market rally, interrupted by several bearish phases.
- Key setbacks include: Chinese growth concerns (2015), demonetisation (2016), US–China trade tensions (2018), and the Covid-19 crash (March 2020).
- After a strong recovery post-March 2020, markets dipped due to the Russian-Ukraine conflict and rising interest rates.
- Now, with recession fears easing and rates stabilising, Sensex is hitting new all-time highs.

Sensex price-to-earnings ratio

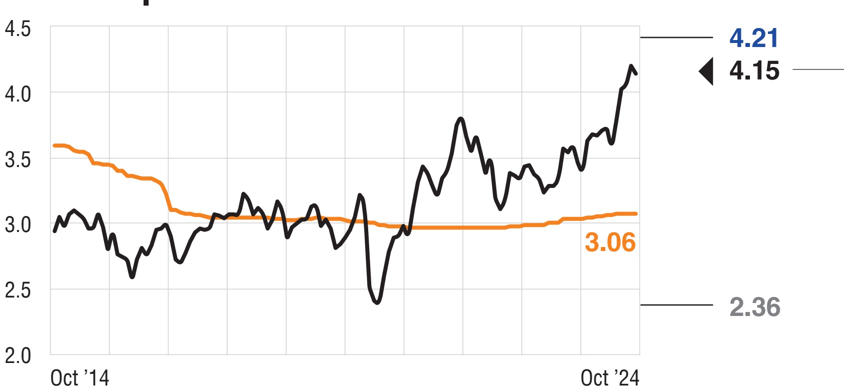


The **price-to-earnings (P/E)** ratio of the Sensex is a straightforward indicator of market valuation. Here's a general valuation guide:



This chart uses standalone data for Sensex companies. If consolidated figures are considered, the P/E ratio would likely be lower.

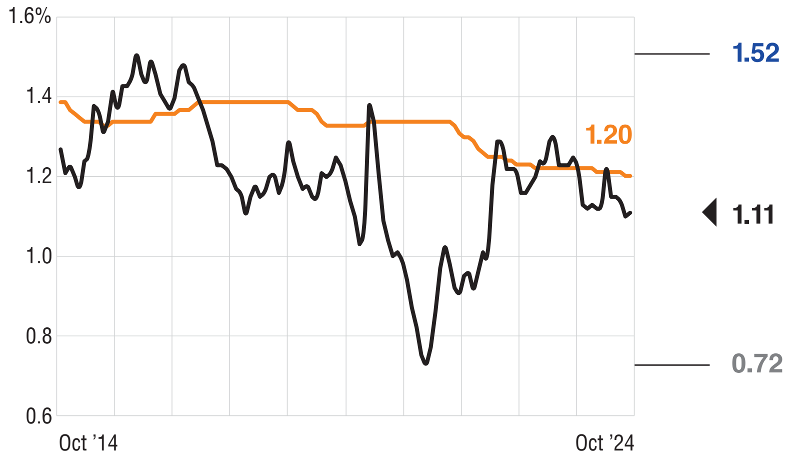
Sensex price-to-book ratio



The **price-to-book (P/B)** ratio reflects what investors are willing to pay for each rupee of net assets. With book value being more stable than earnings, it's often considered a better valuation measure than P/E.

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

Sensex dividend yield



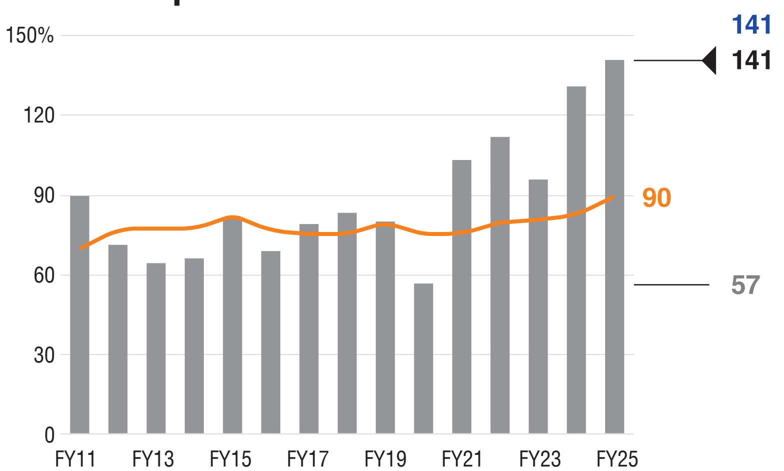
Dividend yield represents the return an investor earns through dividends. It's calculated as dividend per share divided by price per share. Typically, higher dividend yields indicate cheaper stock prices.

If:

Dividend yield > Median dividend yield = Undervalued

Dividend yield < Median dividend yield = Overvalued

Market cap-to-GDP



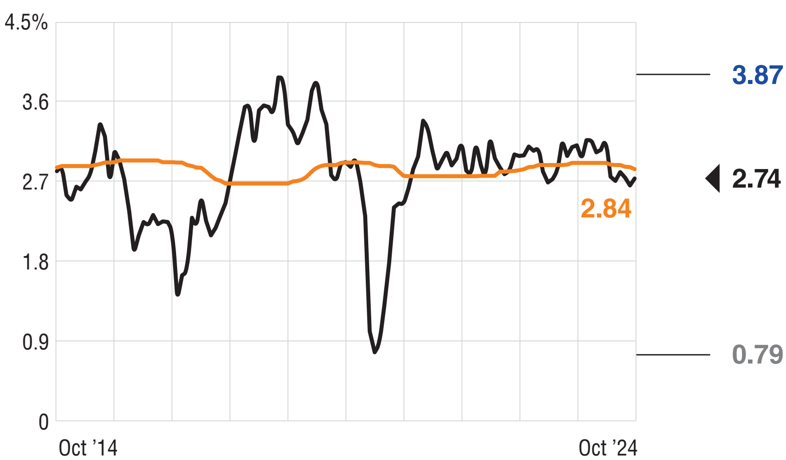
The **market cap-to-GDP ratio** is Warren Buffett's favourite valuation metric, calling it "the best measure of market valuations at any given moment."

If:

Market cap > GDP = Overvalued
Market cap < GDP = Undervalued

Considering the cumulative market cap of BSE-listed companies and the nominal GDP estimates: revised for FY23, provisional for FY24, and advance for FY25.

10Y G-sec yield gap to Sensex earnings yield



The **spread** between the 10-year government bond yield and Sensex earnings yield (inverse of P/E) is a key valuation metric. A significant deviation from the median indicates the degree of the Sensex's overvaluation or undervaluation.

If:

Spread > Median = Overvalued
Spread < Median = Undervalued

All data as of October 15, 2024

New kids on the block

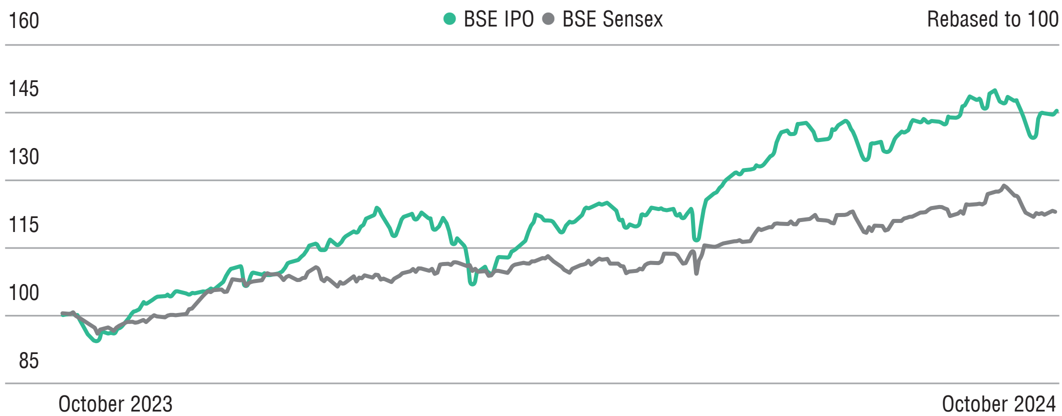
Here is how the S&P BSE IPO Index has performed over the last one year and how the biggest IPOs have fared

Highest listing-day gain
Tata Tech
140.0%

Highest listing-day loss
Gopal Snacks
-12.7%

Highest post-listing gain
IREDA
345.5%

BSE IPO vs BSE Sensex



Highest post-listing loss
Flair Writing
-41.2%

Most subscribed IPO
Manba Finance
224.1 times

Least subscribed IPO
Popular Vehicles
1.2 times

Biggest IPO
Bajaj Housing
₹5,093 cr

Total issue size
₹72,747 cr

Top 15 IPOs by issue size

Company	Listing date	Subscription ratio (times)	Issue size (₹ cr)	Issue price (₹)	List price (₹)	Current price (₹)	Listing gain (%)	Change post listing (%)	Sensex change (%)	Current P/E
Bajaj Housing	Sep 16, 2024	63.6	5,093	70	150	140	114.3	-6.7	-1.4	6.6*
Bharti Hexacom	Apr 12, 2024	29.9	4,275	570	755	1,474	32.5	95.2	10.2	146.2
Ola Electric	Aug 9, 2024	4.3	3,535	76	76	90	0.0	17.8	2.7	-
JSW Infrastructure	Oct 3, 2023	37.4	2,800	119	143	323	20.2	125.7	24.9	60.1
Brainbees Solutions	Aug 13, 2024	12.2	2,308	465	625	723	34.4	15.6	3.6	-
Tata Technologies	Nov 30, 2023	69.4	2,251	500	1,200	1,056	140.0	-12.0	22.1	63.1
Premier Energies	Sep 3, 2024	74.4	2,009	450	991	1,147	120.2	15.7	-0.9	223.4
Akums Drugs	Aug 6, 2024	63.6	1,858	679	725	881	6.8	21.5	4.1	-
Juniper Hotels	Feb 28, 2024	2.1	1,800	360	361	395	0.3	9.3	13.2	369.2
Honasa Consumer	Nov 7, 2023	7.6	1,702	324	324	429	0.0	32.4	26.0	110.5
IREDA	Nov 29, 2023	38.8	1,501	32	50	223	56.3	345.5	22.3	6.4*
Inox India	Dec 21, 2023	61.3	1,459	660	933	1,178	41.4	26.2	15.5	54.5
Go Digit Insurance	May 23, 2024	9.6	1,438	272	281	367	3.3	30.6	8.5	69.8
Cello World	Nov 6, 2023	38.9	1,430	648	831	893	28.2	7.5	26.0	58.7
Emcure Pharma	Jul 10, 2023	67.9	1,381	1,008	1,325	1,479	31.5	11.6	2.4	56.1

*Price-to-book ratio. Data as of October 15, 2024.

At 10x earnings multiple, is Tata Motors a steal?

Find out if the auto giant's low valuation is a golden opportunity or a red flag

Never mind the many successful turnaround stories in the Indian market, none come close to Tata Motors. Its story is one for the books. The Indian automotive giant, whose market value eroded by about 89 per cent between February 2015 and March 2020, has staged a comeback like no other. The share has soared over seven times in the last five years. What's more impressive is it still trades at a P/E (price-to-earnings) ratio of just 10 times. This mouth-watering valuation makes it much cheaper than peers like Maruti Suzuki and Ashok Leyland, which command a P/E of 27 times each. So, does that mean Tata Motor's rally still has legs? Before we get to the answer, let's first take a brief detour to its troubled history. It may have clues to the future.

The Land Rover acquisition: The first snag, which eventually sparked the company's decline, was its big-ticket acquisition of Jaguar Land Rover (JLR) in 2008. Tata Motors shelled out over $2.3 billion (a whopping ₹1 lakh crore at the time) to acquire the UK-based luxury car maker. This move, financed primarily by debt, was meant to be Tata Motors' ticket to the big leagues. Instead, it nearly became a death sentence.

As the 2008 financial crisis gripped the economy, JLR ended up becoming a burden on Tata Motors' books. In a bid to maintain market share, Tata resorted to aggressive pricing strategies that eroded JLR's margins. In FY20, the luxury brand posted losses of £263 million (₹2,300 crore) compared to net profits of £2 billion (₹20,000 crore) in FY15.

Home turf troubles: On the domestic front, Tata Motors' passenger vehicle segment was also getting hammered. As competition heated up, the company witnessed its volumes shrink by 10 per cent annually between FY2010-15. Several of its new launches including the most-hyped budget offering, Nano, also failed to take off. Tata Motors' commercial vehicle segment wasn't spared either. It fell victim to a cyclical downturn, with muted demand exacerbating the company's financial woes. The rising competition only made things worse for the company. Consequently, it posted losses in seven of the last 10 years. Further, the company's debt burden mounted to a staggering ₹1.35 lakh crore by FY21.

Rising from the ashes

Despite its troubled past, Tata Motors has managed a remarkable U-turn, changing its fortunes along with those of its backers in the market.

Refining the rough diamond: Jaguar Land Rover, Tata Motors' troubled child, has begun showing signs of recovery and promise. The British car maker managed to boost its operating margins to an impressive 8.5 per cent in FY24 from 1.6 per cent in FY23, putting it almost on par with industry stalwarts like BMW.

The key to this comeback was Tata Motors' decision to rationalise JLR's product lineup. By reducing its number of production platforms and phasing out underperforming models, particularly in the Jaguar

Stock Rating	Quality Score	Growth Score	Valuation Score	Momentum Score
★★★★☆	4/10	8/10	7/10	5/10

Data as of October 4, 2024

Back on track

Tata Motors has generated free cash flow of over ₹53,000 crore in the last two years

	FY20	FY21	FY22	FY23	FY24
Revenue (₹ cr)	2,61,068	2,49,795	2,78,454	3,45,967	4,37,928
Operating profit (₹ cr)	-4,125	5,626	-1,486	6,955	32,268
Profit after tax (₹ cr)	-10,975	-13,016	-11,235	2,690	31,807
ROCE (%)	-1.9	-1.3	1.2	7.7	21.4
Cash from operations (₹ cr)	26,633	29,001	14,283	35,388	67,915
Total debt (₹ cr)	1,17,459	1,35,057	1,33,969	1,27,918	92,007

range, the company was able to introduce common platforms for both JLR and premium domestic vehicles. This meant the company could use the same production platform for its cars that would have similar architecture, such as powertrain and chassis, increasing production efficiency and lowering costs. This newfound focus allowed the company to concentrate on a few models, steadily steering the luxury brand back to profitability. Tata Motors has also been reporting consecutive profits in the last seven quarters. An improvement in profitability also resulted in improved operating cash flow. The company started posting healthy free cash flows, with FY24 seeing a robust ₹36,732 crore.

Electrifying the EV market: Tata Motors' first-mover advantage in the EV (electric vehicle) space also paid off handsomely. Capitalising on government and consumer incentives, Tata's EV sales skyrocketed from a modest 19,000 units in FY22 to an impressive 73,000 units in FY24!

The ICE comeback: Simultaneously, Tata breathed new life into its ICE (internal combustion engine) segment by leveraging JLR's technical expertise and design prowess. This strategy, coupled with a growing consumer preference for SUVs, saw Tata's market share in the passenger vehicle segment surge from a mere 4.8 per cent in FY20 to 14 per cent in FY24. The commercial vehicle business also bounced back, riding the wave of economic recovery around FY21.

From being written off as a bad investment during its rough patch to staging an iconic turnaround, Tata Motors' shift to the top gear has taken it far ahead from where it was till FY20. Now coming to the burning question:

Is the stock a value buy or trap?

It's neither. The valuations, while inexpensive at first blush, are just reasonable. This is because the company's historical record, marred by poor financials and lagging performance metrics, raises questions about the sustainability of its recent success. More importantly, it's crucial to note that the company's past success has coincided with the broader economic upswing and an auto sector upcycle post-Covid. The timing then raises a doubt: would the company have achieved the turnaround had the market conditions been less favourable?

Not to forget, it also faces intense competition from Maruti and M&M, both of which have been launching successful models consistently. The EV segment is also likely to see increased competition as other automakers gear up to enter the market. You might be tempted to bet on hopes that the company, if it keeps the same pace, can become a consistent free cash generator, but its chequered past and the industry's cyclical swings are risks too big to ignore. Calling the stock undervalued might be jumping the gun. ☑

By Satyajit Sen

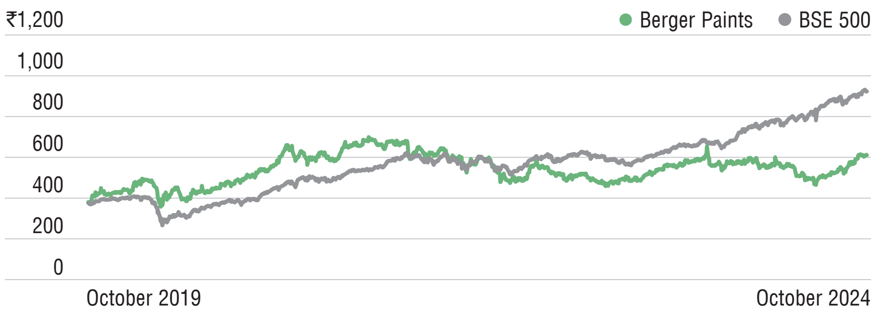
Thwarting attacks

Berger Paints' second spot is challenged by an ambitious new rival

A high-stakes scenario is playing out in India's paint industry. For years, the sector was dominated by a few giants, with Asian Paints reigning supreme and Berger Paints in the second spot. But the recent entrant, Aditya Birla Group's Grasim, has taken the industry by storm. It now aims to dethrone Berger Paints from its runner-up seat. With its deep pockets, Grasim is a formidable opponent. Its entry has justifiably unnerved investors. Berger Paints, once a D-Street darling that rewarded its backers with 37 per cent annual returns over two decades until April 2021, has been a laggard since then. Despite growing its annual profit by 18 per cent, the stock is down 13 per cent since July 2021.

Drab and grey!

The stock has continued to underperform despite consistent earnings growth



BSE 500 rebased to Berger Paints

The fear is just

The anxiety among investors is just. Grasim's entry with a massive investment of ₹10,000 crore is no small threat. And it has set an enterprising target of growing its revenue by nearly 10 times to ₹10,000 crore by the end of FY27. The company is clearly aggressive and ambitious. It has established six manufacturing facilities across India with a total capacity of 1.3 MLPA (million litres per annum), which will be fully operational by FY25-end. Berger Paints had a similar production capacity as of March 2024. Grasim has also taken up an aggressive pricing strategy. It is offering free paint tinting machines to distributors to penetrate the market. Thanks to its existing cement business networks, the company is also rapidly expanding reach in the paint business. Within the first six months of operations, the company's distribution network has already penetrated over 300 towns in India.

Berger's fightback

But Berger Paints is no stranger to competition. Many have come and gone over the company's long and decorated history of 100 years in India. And the company is in no mood to give up its dominance so easily. In fact, it plans to nearly double its revenue by FY29 to ₹20,000 crore—a daring leap! While the competition from Grasim is not to be taken lightly, Berger is ready to fight. Here's how the old guard is planning to defend its turf against the newcomer:

Ramping up capacity: The company has stepped up its capex as it recently cut the ribbon on its largest manufacturing plant in Salinda, Uttar Pradesh. The company has earmarked another ₹2,700 crore for two greenfield manufacturing facilities in West Bengal and Odisha, which should take its total capacity to 1.5 MLPA by the end of FY27 against 1.3 MLPA that Grasim will have by FY25.

Expanding distribution: Although Berger has a strong distribution network, its presence in Southern India is relatively small. However, this is set to change as the company plans to deploy over

Stock Rating	9/10	6/10	3/10	9/10
★★★☆☆	Quality Score	Growth Score	Valuation Score	Momentum Score

Data as of October 8, 2024

Financials stand tall

No major impact of rising competition on earnings record so far

	FY20	FY21	FY22	FY23	FY24
Revenue (₹ cr)	6,366	6,818	8,762	10,568	11,199
Operating profit (₹ cr)	870	977	1,105	1,223	1,530
Cash from operations (₹ cr)	725	796	567	976	1,591
Operating margin (%)	13.7	14.3	12.6	11.6	13.7
ROCE (%)	30.2	29.4	28.1	25.6	30.2

8,000 tinting machines in FY25 and another 9,000 in FY26, with 65 per cent of them to be strategically placed in the underpenetrated regions first.

Maximising efficiency: While Grasim's manufacturing plants are running at 15-20 per cent capacity, as shared by its largest packaging vendor Mold-tek Packaging in an earnings call, Berger's largest plant that began operations in FY24 was already working at a 40-45 per cent utilisation as of June 2024. The management is bullish on hitting optimal efficiency within two years, which will give a hefty boost to profitability.

Diversifying its product portfolio: Besides the decorative paint business, Berger wears the crown as India's largest player in the industrial paints segment. Additionally, it has a significant presence in the construction chemicals segment (waterproofing, tile adhesives, etc). These segments contributed 20 per cent to Berger's FY24 revenue. It recently launched multiple new products in these segments and operationalised extra production lines for them in the new facilities. The company expects robust growth from these verticals.

While Grasim's entry shouldn't be underestimated, Berger's established wide-scale operations and continuous investments to maintain its dominance make it a fierce incumbent. One that cannot simply be written off. It remains unlikely that Grasim will easily rob Berger of its title as the number two player in the industry.

Valuations still warrant caution

At its peak in July 2021, Berger traded at a lofty P/E ratio of 99 times. Grasim's entry was thus enough a trigger to spark the former's ongoing slump. The stock decline, since then, has brought the P/E down to 62 times – below its five-year median of 72 times. However, the current multiple is still at a high premium to its peers. The stock is expensive, also in light of the changing competitive landscape.

While Grasim's competitive heat may not snatch Berger's market share for the time being, it is expected to add to pressures for the company to maintain stable margins. Volatile raw material costs, primarily crude oil, have already impacted industry-wide profitability. Further, the company plans to grow its revenue 14 per cent annually by FY29 even as the paint industry is expected to grow only 9 per cent in the same time frame. Against this backdrop, investors should avoid paying top dollar for the giant.

By Hemkesh Khattar

Fighting to stay in flight

SpiceJet is hard at work, trying to steer a U-turn. But it won't be easy.

"This is an airline that refuses to die". SpiceJet CEO Ajay Singh told the media after raising ₹3,000 crore from a recent QIP, the first meaningful cash infusion in years for the debt-laden airline. With the offer getting oversubscribed by large institutional investors, D-Street now expects Singh to stick to his words and do what he does best: save the airline from death, like he did back in 2015.

The captain knows how it's been done before and he is confident of doing it again. The ₹3,000-crore capital raise was the latest action of his game plan. The money will be primarily used for ungrounding planes and revive operations. Singh also expects to pay off significant dues (remove the comma too after dues), owed to lessors and vendors in coming months with an assist from the debt restructuring agreements he's been forging with them.

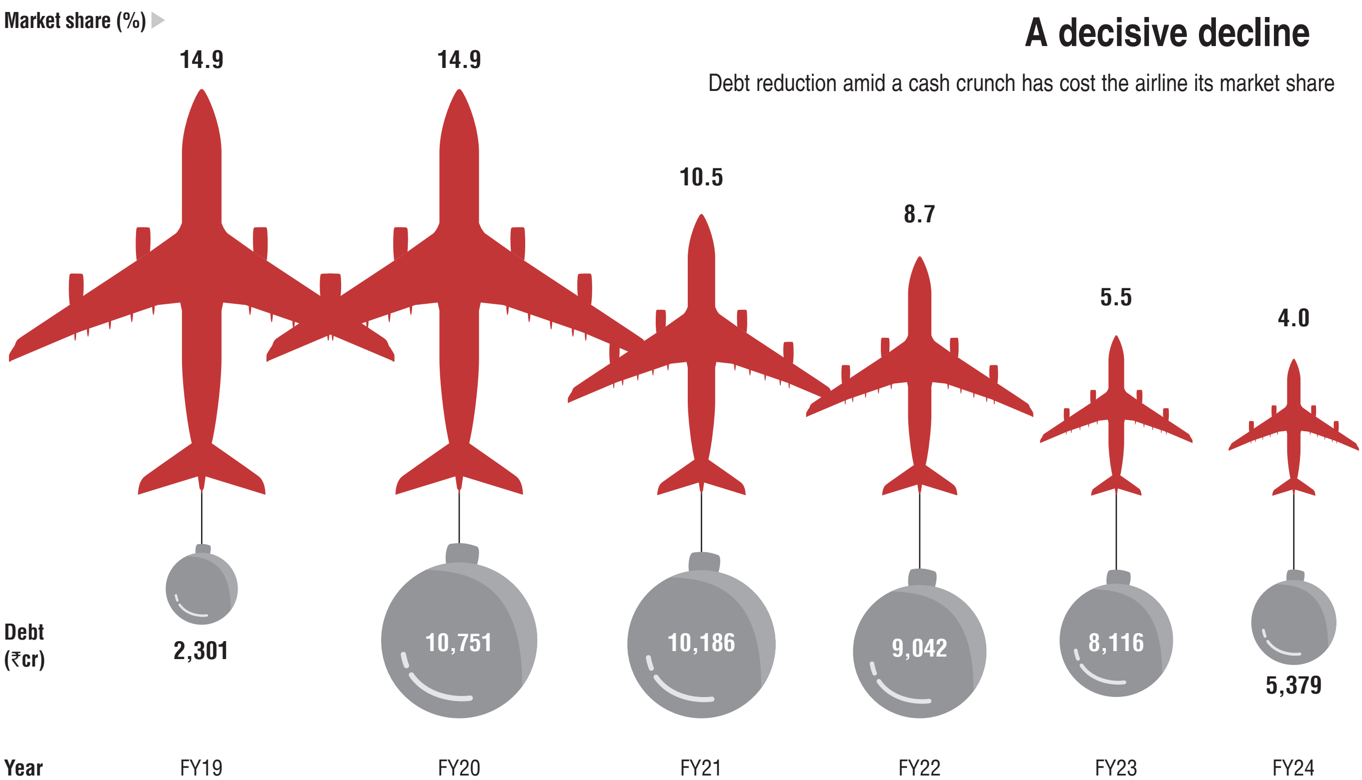
The efforts, Singh believes will help SpiceJet, saddled with a negative net worth of ₹2,825 crore and losses of ₹409 crore (as of FY24), turn profits in two to three years. For an airline that has done this before, it should be doable again, theoretically. theoretically. Below is its plan of action:

Draining the debt load: The debt pile has been SpiceJet's Achilles heel. But the company is settling dues with some of its biggest lessors like Carlyle Aviation. The lessor recently converted $30 million of owed dues (lease arrears) into equity in the airline. It wrote off another $40 million and turned about $20 million into convertible debentures for subsidiary SpiceXpress. The entire exercise means a reduction of around ₹587 crore debt of the total pile of ₹5,379 crore on the books. It plans to use ₹750 crore of the QIP proceeds towards paying off creditors as well.

Higher fleet for a higher flight: About 36 of its 64 aircraft (56 per cent) are grounded due to payment defaults,

A decisive decline

Debt reduction amid a cash crunch has cost the airline its market share



Flying into rough weather

Revenue has taken a sharp plunge, with most flights being grounded

	FY20	FY21	FY22	FY23	FY24
Revenue (₹ cr)	12,375	5,171	6,604	8,874	7,085
Operating profit (₹ cr)	-1,186	-1,598	-2,192	-2,007	-1,368
Profit after tax (₹ cr)	-937	-1,030	-1,744	-1,513	-424
Cash from operations (₹ cr)	1,784	228	1,004	82	-596

expensive maintenance costs, and a lack of spare parts. The company, however, plans to use most of the QIP money to unground these aircraft and increase the fleet. By the end of FY25, it's targeting a fleet of 40—almost double the current size of 22.

A strengthened operational capacity and reduced debt can certainly help the company survive, theoretically, like we said before. Practically? It's a long shot. Moreover, the real question to ask is: can the airline thrive beyond survival?

Past may not be prologue

Don't draw inspiration from the past. The airline's previous turnaround happened at a time when the industry's competitive makeup was still forgiving. Today, it's not. The line between the champions and the also-ran is too wide. Here's why:

Steep consolidation: Aviation remains a high-volume industry. Those who win market share, win the race. Competitors IndiGo and Air India are far ahead, holding a combined share of close to 90 per cent! Since SpiceJet has struggled with a stagnant fleet, its market share has sharply eroded from 15 per cent in 2020 to 4 per cent. Getting that back looks tough.

Behind on service quality: SpiceJet also loses out on customer service, which explains the weak brand image. A recent report by online survey platform LocalCircles revealed that the airline ranked at the bottom of its competitors for service satisfaction. Passengers have highlighted many pain points related to flight delays, in-flight services, boarding and check-in procedures, and timely information sharing.

No room for extra perks: IndiGo and Air India (now backed by Tata Group) are busy enhancing their offerings to capture premium passengers. The two heavyweights are also strengthening their positions by improving services. Compare this with SpiceJet that is still keeping busy with trying to stay afloat, leaving no room to focus on value added offerings.

Sectoral snags: Even if the company manages to reduce its debt and expand the fleet, the industry's high operating costs and slim margins will likely remain unforgiving. Any gains can quickly deteriorate after a few good years, as seen in the past.

Your takeaway

Getting the grounded planes back in the air and settling dues will ensure the airline stays afloat. But beyond survival, the prospects are bleak. It will be challenging for SpiceJet to snatch away market share from the big players. The question of thriving, then, does not even remain on the table. For the company to swing to big profits, it would have to be highly efficient both operationally and financially. Expect turbulence to continue. ☑

By Shubham Dilawari

A micro cap with mega potential

With healthy financials and a reasonable price, does Mazda deserve a place in your portfolio?

Finding a hidden gem in today's frothy market is a Herculean task. But we have unearthed a micro cap with qualities of a large cap! The company in question is Mazda (not to be confused with the Japanese automotive giant), which manufactures vacuum systems, evaporators, and pollution control equipment. Its market cap is a tiny ₹500 crore, but it can easily pass off as a large business, given its solid cash flows, financials and recurring dividend payouts. It is the only micro cap among 14 businesses that have hiked their dividend each year, without fail, in the last decade. The company has also delivered an impressive revenue and profit after tax growth of 10 and 18 per cent, respectively, between FY19-24.

It looks like a solid bet. But here's the puzzling part: the healthy performance doesn't have share price gains to match. The stock has barely moved in the last one year and the current P/E is an inexpensive 20 times. Is the stock just down on luck then? Not really. The low price is due to a number of reasons that make the valuation quite reasonable. We have mentioned the reasons below. But stick till the end to find out how the stock's fortunes can quickly change due to a new growth driver on the horizon.

Stock Rating	9/10	7/10	5/10	4/10
★★★★☆	Quality Score	Growth Score	Valuation Score	Momentum Score

Data as of October 9, 2024

A reality check

Despite strong books, there are several reasons why investors have been sleeping on Mazda:

Long-term performance: Over the last 10 years (FY14-24), Mazda's sales and profit after tax have been modest at best, growing only 8 and 12 per cent per annum, respectively. The uptick seen in the last five years had largely been due to an increased industrial activity, especially in the power sector.

Competitive pressure: Mazda has repeatedly acknowledged intensifying competition in the industry. Its export orders, which used to command a premium over domestic ones, have lost their edge as large foreign giants are aggressively establishing subsidiaries or buying out domestic players to procure industrial equipment.

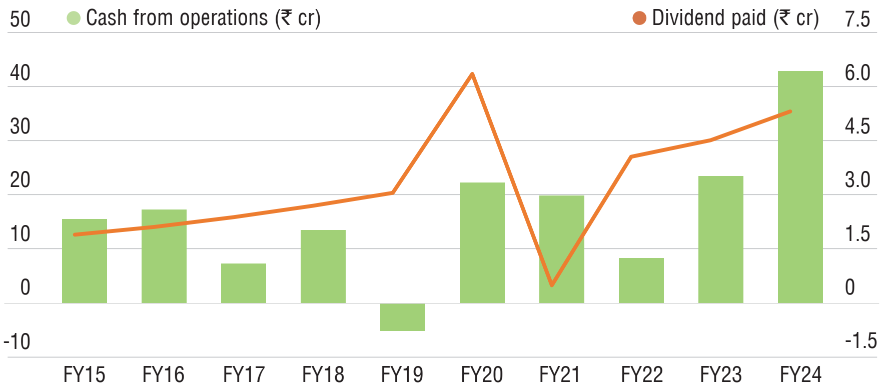
Limited market size: Mazda operates in niche segments and has already cornered a big chunk of its markets, which have limited growth potential. For instance, it commands 30-40 per cent of the entire ₹200 crore vacuum systems market and 10-20 per cent of the ₹400-500 crore evaporator market.

Excessive prudence: The management is overly conservative. It diversified into the low-growth FMCG sector (for instant drink powders, fruit jams, pickles, etc) a decade ago. And its restrained spending has yielded underwhelming results. As of FY24, this segment has generated just ₹30 crore in revenue, even with exports in the mix.

These factors justify Mazda's lack of price gains. However, a new product development may make the business a worthy bet.

Micro cap with a mighty record

Mazda's cash flow and dividend payout have more than doubled in the last 10 years



The new disruptor

Mazda has been developing new products with generalised use cases across industries, like water treatment, pharma, and beverages to expand its addressable market. While some initiatives like freeze crystallisers didn't pan out, the company has struck gold with its anti-scaling equipment.

Industrial or factory equipment often suffers from 'scaling' —a buildup of mineral deposits that saps efficiency—which forces companies to shell out big bucks for harsh chemicals to remove the buildup. Mazda's anti-scaling aka smart rod system is eyeing to disrupt the billion-dollar market of chemical descaling agents. This innovative product promises to eliminate the need for harsh chemicals, reduce effluent discharge, cut costs, and minimise downtime.

The management is optimistic about a 10-15 per cent revenue contribution from this product over the next two to three years. The long-term potential is projected to be more substantial. The product is already getting outsized attention from prominent industry players. The Birla Group has already adopted the technology, while discussions are currently in the works with other conglomerates such as the Reliance Group, the Adani Group, and Balkrishna Industries. Global beverage giant Coca-Cola's Indian arm, Hindustan Coca-Cola, has been so impressed with the product that they're reportedly planning to pitch it to the parent.

Investors' corner

Considering the growth promise from the new product, the stock looks like a calculated risk worth pursuing for value-oriented investors. The company's zero debt and strong free cash flow generation also provide a safety net at the current levels. However, risks that deserve attention include the low-entry barriers for its new product. And most importantly, the management's hesitancy to pursue aggressive growth, which has restricted gains in nearly all the segments in the past. The laid back approach, if extended to the new product, might yield unimpressive results and keep the share performance subdued. ☑

By Kunal Bansal

An investing checklist

How to invest like Terry Smith

'The English Warren Buffett', as he is fondly called, Terry Smith, has built a formidable reputation with his straightforward yet effective investment philosophy. As the founder of the London-based investment management company Fundsmith, the fund manager has earned admiration for his set-and-forget investment approach.

Since its launch in 2010, Fundsmith's flagship product, the Fundsmith Equity Fund, which focuses on global equities, has delivered an annualised return of 15 per cent (as of September 30, 2024), handily outpacing its benchmark, the MSCI World Index, which returned around 12 per cent during the same period.

Smith's secret to beating the market? A disciplined, long-term strategy focused on buying high-quality businesses and holding them for the long haul, as prescribed in his own words – "Buy good companies, Don't overpay, Do nothing". We have reviewed Fundsmith's Owner's Manual and compiled a checklist outlining the core principles that guide Smith's approach.

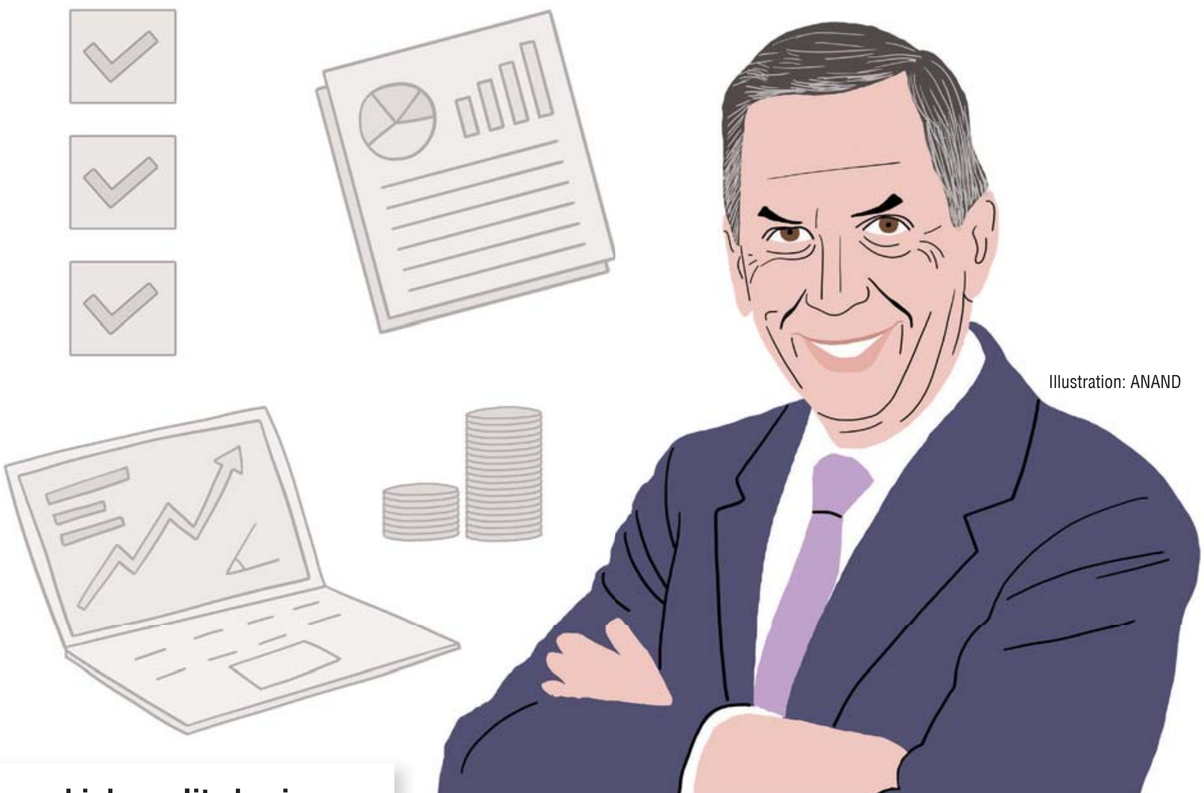


Illustration: ANAND

Focus on high-quality businesses

Smith's strategy starts with identifying companies that consistently generate high returns on operating capital employed – in cash, not just on paper. His focus is on cash returns rather than traditional metrics like earnings per share. And he's not just looking for a high rate of return; it has to be sustainable.

Specifically, he seeks businesses that generate repeat purchases from consumers. Smith avoids companies that don't sell directly to consumers or those offering products that aren't purchased regularly. In other words, if a consumer can delay a purchase, Smith is cautious.

Seek intangible assets

One of Smith's key criteria is investing in companies whose competitive advantage comes from intangible assets – brands, patents, dominant market share, or strong customer relationships. These assets are difficult to replicate, allowing the company to earn high returns on capital and maintain long-term resilience.

Smith believes companies with intangible assets break the rule of mean reversion, which suggests that returns will eventually regress to the average. Since markets often assume returns will revert to the mean, companies that buck this trend can become undervalued, presenting buying opportunities.

Avoid companies dependent on debt

Smith steers clear of businesses that rely heavily on borrowing to generate returns. Instead, he prefers companies that earn strong returns on their own capital without excessive debt. This rules out sectors like banking and real estate, where leverage is crucial for growth.

Look for sustainable growth

Growth alone isn't enough for Smith. He seeks companies that can reinvest their excess cash flow into the business to generate high returns on that reinvested capital, compounding shareholder wealth over time.

Don't over-diversify

Smith holds a concentrated portfolio of 20-30 high-quality companies. He believes that wide diversification is only necessary when you don't fully understand what you're investing in. By following this disciplined approach, Terry Smith has built a strategy designed for sustainable, long-term returns – one that any serious investor can learn from.

Invest in resilient businesses

Smith favours companies that are resistant to technological disruption or obsolescence. Businesses in stable, established markets – like consumer goods – are better positioned for long-term growth without the risk of being overtaken by innovation.

Buy at attractive valuations

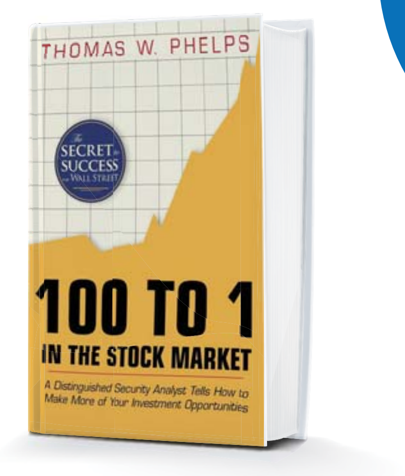
Even if a company meets all of Smith's criteria, he only invests if the price is right. His focus is on free cash flow yield, aiming to buy stocks that offer a higher yield than long-term interest rates and other investment options, both within and outside his portfolio. ☑

Want to find a 100-bagger?

Thomas Phelps has a few ideas!

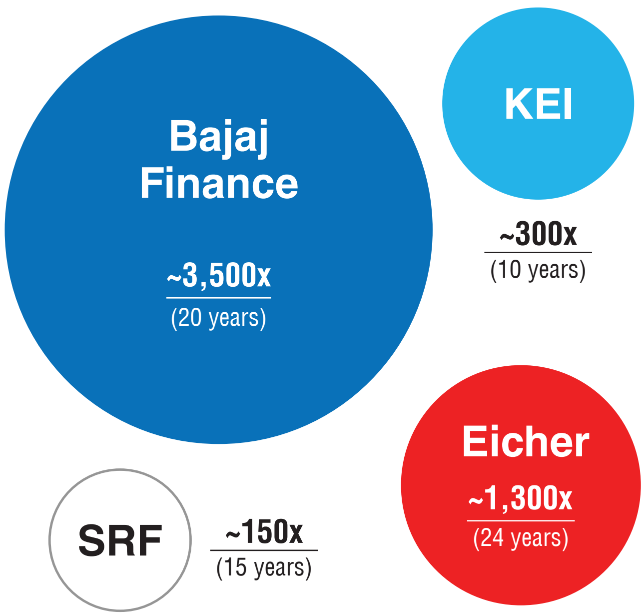
Every investor dreams of discovering a 100-bagger – a stock that multiplies 100 times over, turning small bets into vast fortunes. But finding one is as rare as hitting the lottery. For most, it's a distant fantasy. Yet, Thomas Phelps offers a glimmer of possibility in his classic 1972 book '100 to 1 in the Stock Market'.

Phelps spent over 40 years in the investing world working as a private investor, columnist, analyst, and financial advisor. In his book, he lays out a practical guide that could serve as a roadmap for those patient and savvy enough to pursue these extraordinary returns. While there's no guarantee, Phelps presents a method that just might lead a sharp investor to their own 100-bagger treasure. Let's get started!



What is a 100-bagger?

It's a stock that generates 100x returns!
Here are some 100-baggers:

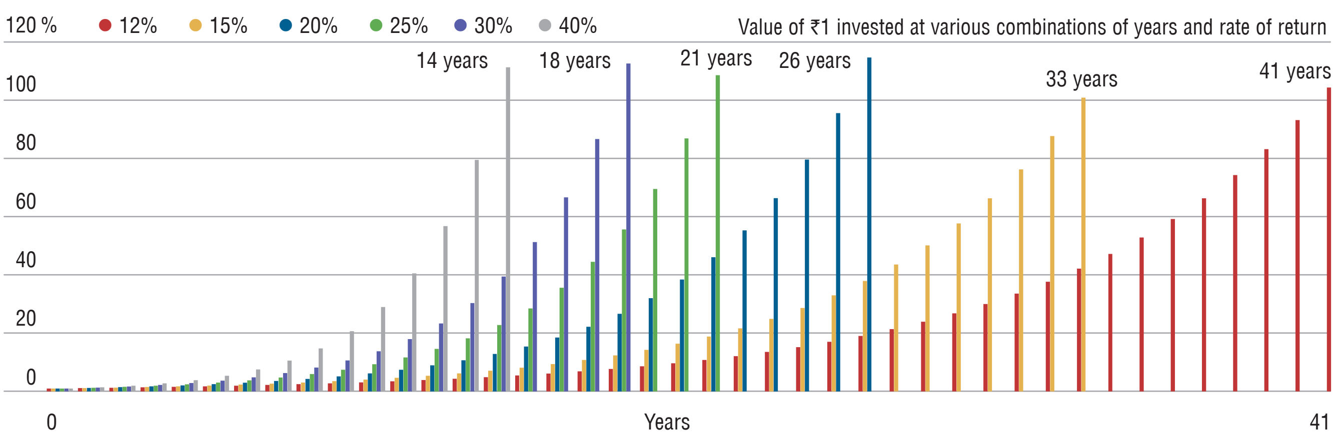


Data as of March 2024

Find one and you'll be investing royalty.
Find a few, and they'll write tales about you!

The math behind 100x returns

Here are the various combinations of years and rate of return



But remember, stock price growth is tied to the business's growth. So, what do you look for?

Focus on earning power, not just earnings

An above-average performance in the following metrics is indicative of high earning power.

Metric	EICHER
Sales growth	53 times
Profit margins	Median operating profit margin **FY2000-14: 6%** **FY2015-24: 21%**
Return on equity (ROE)	Median: 28%
Return on invested capital (ROIC)	Median: 31%
Ratio of sales to invested capital	Median: 325%

Sustainability of earning power is key

Without Royal Enfield's status & brand association, Eicher Motors would never have dominated the mid-sized motorcycle market.

Moreover, $\boxed{\text{High ROIC} + \text{High Reinvestment} = \text{Rapid Growth}}$

How much time will it take for earnings to grow 100-fold

Reinvestment rate (%) \ Return on invested capital (%)	15	20	25	30	35	40
20	>50Y	>50Y	>50Y	>50Y	>50Y	>50Y
33	>50Y	>50Y	>50Y	49	43	38
50	>50Y	49	40	33	29	26
75	40	33	27	23	20	18
100	33	26	21	18	16	14

Valuation matters!

Both investor expectations (P/E) and earnings drive stock prices up or down.

What goes up on a rise in investor expectations can go down on a fall in those expectations. Both can occur without any change in reported earnings.

$$\boxed{P = \frac{P}{E} \times E}$$

$$\boxed{P\,(100x) = \frac{P}{E}\,(4x) \times E\,(25x)}$$

$$\boxed{P\,(100x) = \frac{P}{E}\,(\tfrac{1}{2}x) \times E\,(200x)}$$

Phelps says to compare a stock's P/E ratio with that of a benchmark index to gauge if it's a smart investment.

What it takes

Finding the right company is just the start. The market will test your patience.

Tips for staying strong

Stay with your winners. If earnings are growing, don't sell!

Beware of external influence. People with different agendas will always try to persuade you.

Don't sell for non-investment reasons. For instance, if your stocks are not moving when others are, don't rush to the sell button. ☑

By Anushka Vats

Decode, don't dodge risk

Lessons from Howard Marks on how to get the delicate balance of risk and reward right

"When I joined the investment management industry at the tail end of the 1960s, everyone talked about returns, but few people talked about risk-adjusted returns or the idea that risk matters." This candid observation from Howard Marks, Co-founder of Oaktree Capital Management, reminds us of a crucial oversight many investors still make today.

Risk is often relegated to the background while chasing the siren call of high returns. On the other end is complete avoidance of it. However, Marks has many lessons to offer on how to avoid both extremes. It's done by "intelligently bearing risk", where higher risk does not necessarily mean higher returns and where a crucial distinction between risk management and avoidance finds recognition. He spoke about these nuances in a recent video lecture. We've distilled select excerpts from the thought-provoking discussion, but to fully appreciate his insights, we suggest you watch the complete video here: https://tinyurl.com/33p3hhn8

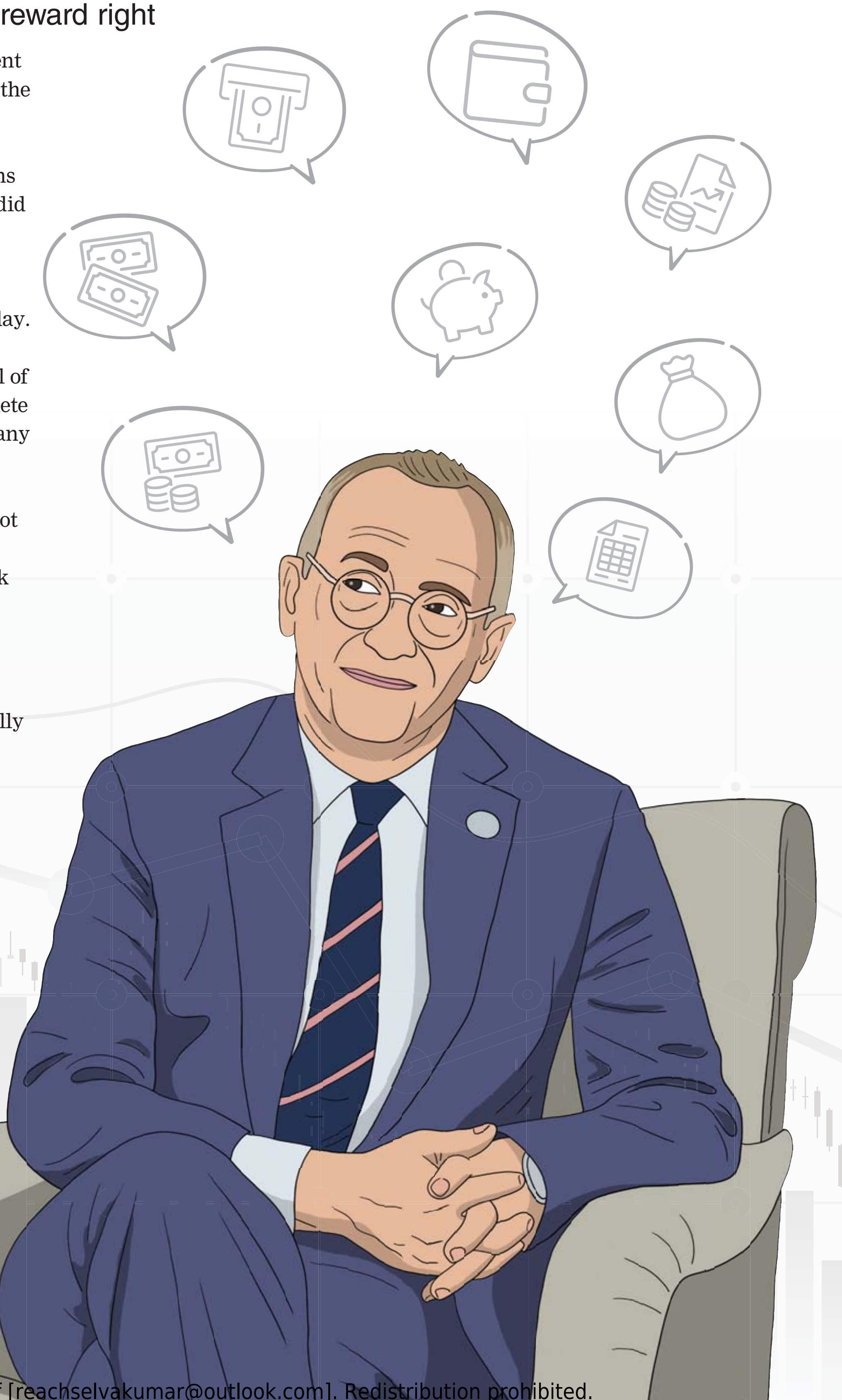


Illustration: ANAND

What is risk?

"Risk, in my opinion, is the ultimate test of an investor's skill. The return alone doesn't tell you how good a job the manager did. The key question is: you see the return, but how much risk did the manager bear to get that return?... Nobody should have to beat the market when it does well. But if you can do that and, at the same time, be ready to decline less when the market has its spells, I think that's accomplishing something very important."

What other forms of risk should investors consider?

"The possibility of loss is not the only form of risk. The risk of missing opportunities is another important risk. In other words, if you think about it, the risk of not taking enough risk. I think one of the key risks in investing is the chance of being forced out at the bottom. Which is a bigger mistake? Buying at the high and seeing a decline, or selling out at the low and missing out on the recovery? Clearly, it's the latter. If you sell at the bottom and miss out on the subsequent recovery, you've gotten off the track of investing, and may never get back on. In my opinion, selling at the bottom is the cardinal sin in investing."

Is risk quantifiable?

"The academics developing investment theory…adopted volatility as their measure of risk. I believe that risk is not volatility. Volatility can be an indicator of the presence of risk, a symptom, if you will, but it's not risk itself. Risk is the probability of loss. Nobody sitting around at Oaktree says, 'We shouldn't make that investment because it might be volatile.' No, they say that about the possibility of loss.

Another important question is whether risk is quantifiable in advance. And I believe it is not. Like most things occurring in the future, risk cannot be anything except a matter of opinion...A profitable investment may or may not have been risky. The bottom line is that it's impossible to quantify risk in advance or even in hindsight."

Where does risk come from?

"Risk says we don't know what's going to happen. We walk every moment into the unknown. There's a range of outcomes, and we don't know where the actual outcome will fall within that range, and often, we don't know the range. So, in other words, we have ignorance to varying degrees about what the future holds, and it is from this ignorance that risk ensues. If we knew what was going to happen, by definition, there would be no risk."

How should investors think probabilistically about risk?

"Risk means more things can happen than will happen. For most events that lie in the future, there are many things that could occur. We don't know which one it will be. That's where the risk comes in. The future should be viewed not as a fixed outcome destined to happen and capable of being predicted but as a range of possibilities. Even when you know the probabilities, that doesn't mean you know what's going to happen. Therein lies the uncertainty.

The expected value, the probability-weighted average of the possible outcomes, which is the basis on which people make many decisions, can be irrelevant...the expected value isn't even among the possibilities.

There's another problem with expected value, because even though course of action A can have a higher expected value than course of action B, course of action A may include some possibilities that you just can't live with. Maybe course of action A includes some remote possibility that you lose all your money.

It is unlikely, you may say; I don't want to contemplate that. So you don't take A, you take B instead, which has a slightly lower expected value, but without the risk of ruin."

What is the character of risk?

"I think it's interesting to note that risk is counterintuitive. They did an experiment in the town of Draktenhallen. They removed all the traffic lights, signs, and road markings. What do you think happened to the level of accidents and fatalities? It went down.

So, if you think about it, you realise that the risk of an activity doesn't just lie in the activity itself but, importantly, in how the participants approach it. The degree of risk present in a market or an investment doesn't come just from the market or the investment but from how people participate in that investment.

If they conclude that the market has become safer, they may say that it frees them to do riskier things. And that's why I believe risk is low when investors behave prudently and high when they don't. Just as risk is counterintuitive, I think that risk is perverse. As I said, the riskiest thing in the world is the belief that there's no risk."

What is the relationship between risk and asset quality?

"Risk is not a function of asset quality. A high-quality asset can be priced so high that it's risky. If you bought those great companies in 1969 and held their stocks tenaciously for the next five years, you lost more than 90 per cent of your money because the prices paid were just too high and unsustainable.

A low-quality asset can be cheap enough to be safe. It's not what you buy; it's what you pay. Investment success doesn't come from buying good things, but from buying things well. There are no assets that are so good that they can't become overpriced and dangerous. There are very few assets that are so bad that they can't be cheap enough to be attractive as investments."

How should risk be managed?

"Superior investors have a better sense of the tickets in the bowl, what proportion of them are winners and what proportion are losers than most other people. That's what makes them superior. Since risk cannot be measured, gauging it has to be the province of subject matter experts. I believe imprecise qualitative expert opinion about the probability of loss is far more useful than precise but largely irrelevant numbers concerning past and projected volatility."

What is the relationship between risk and return?

"Riskier assets have higher return: if it were true that riskier assets produced higher returns, then they wouldn't be riskier, would they? Investments perceived as risky have to be perceived as offering higher returns to induce people to make those investments. But they don't have to deliver. And it's from the possibility that the projected returns will not be delivered that the risk ensues. I've always felt that that was misleading.

So, I developed my own version, but with this new graph, as you move from left to right, the expected return increases just as it did in the old one. At the same time, the range of possibilities becomes wider, and the worst outcomes become worse. That's risk. This is the way to think about the risk-return relationship."

The bottom line

"Risk should be managed and controlled, but not avoided. Risk avoidance equates to return avoidance. Intelligent bearing of risk should be able to enable us to make good returns with the risk under control.

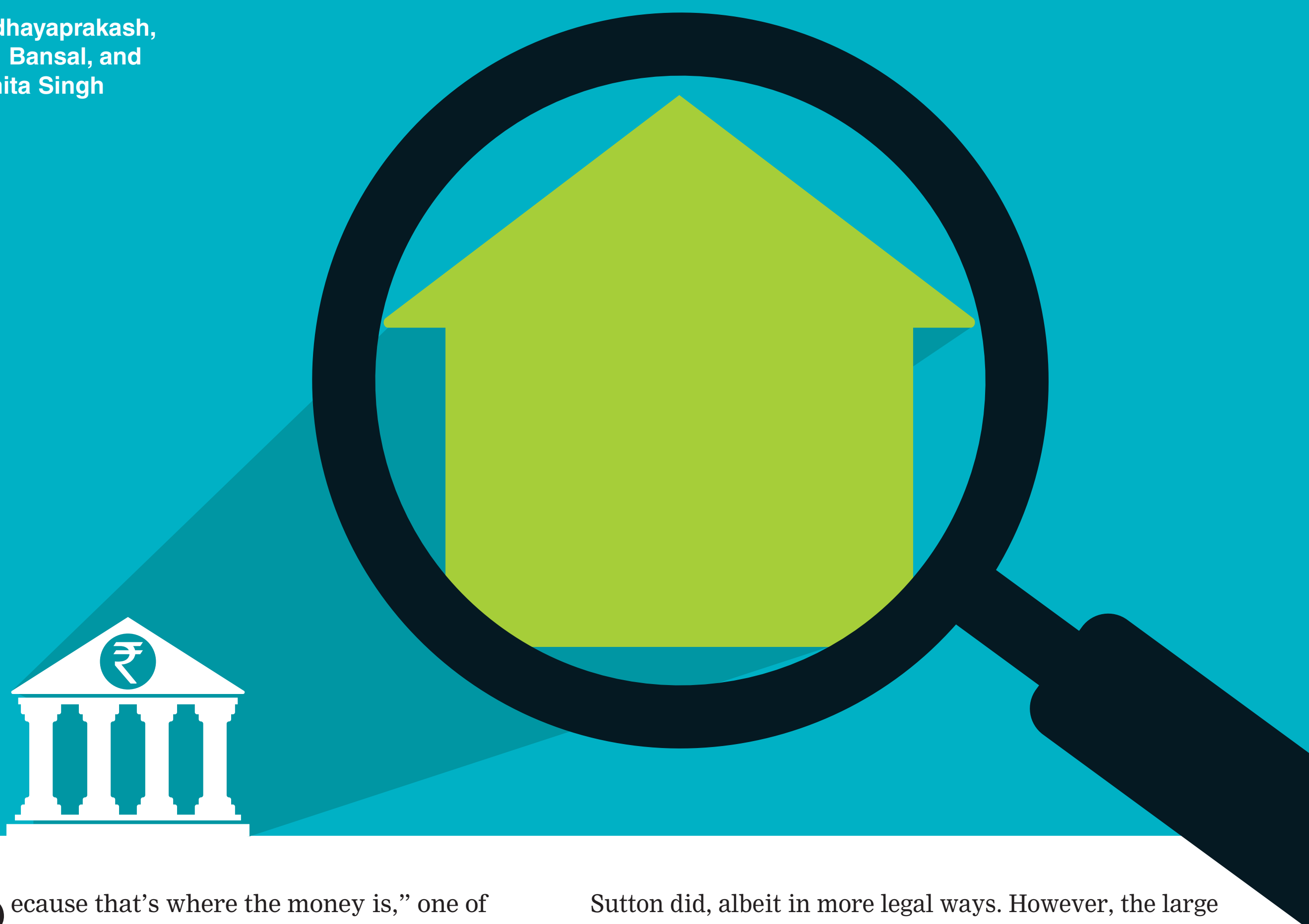
You've got to go out on a limb sometimes because that's where the fruit is. Outstanding investors are outstanding simply because they have a superior sense for the probability distribution that governs future events, the tickets in the bowl, and whether the potential return compensates for the risks that lurk in the distribution's unattractive left-hand tail." ☑

COVER STORY

Small banks for big returns

Why small finance banks are the next big bets for outsized returns

By Udhayaprakash, Kunal Bansal, and Harshita Singh



"Because that's where the money is," one of America's most notorious and famed bank robbers, Willie Sutton, infamously said when asked why he robs banks. Although Sutton later confessed not ever making the witty rejoinder himself, he admitted it was something almost anybody would say. "It couldn't be more obvious."

Indian equity investors will concur. They, too, have found enormous amounts of money in banking like Sutton did, albeit in more legal ways. However, the large banking stocks that earned them the big gains are now a sleepy group, ideal mostly for steady returns and low volatility. Therefore, the next round of big growth and bigger gains is to be found in small banks—particularly small finance banks (SFBs). They are fast outstripping the stodgy incumbents and are also much cheaper. Combine that with the vast opportunity size, and they look like bets where the money might be.

No guts, no glory

If you are a market watcher, you may be sceptical about our decision to bat for SFBs in this issue. Aren't they the hardest hit in the ongoing banking slump? Is betting on them not a high-stakes gamble? Well, you will only be partially correct.

SFBs haven't found favour in the market for a while now and for good reasons. Since they serve a niche purpose—to solely meet the banking needs of the underbanked and underserved populations— their remit is extremely narrow and much more restrictive and regulated than it is for large universal banks. The risk is also higher, as they primarily lend to vulnerable segments like agriculture, micro, small and medium enterprises (MSMEs), and low-income housing. So, why consider SFBs over safer universal banks?

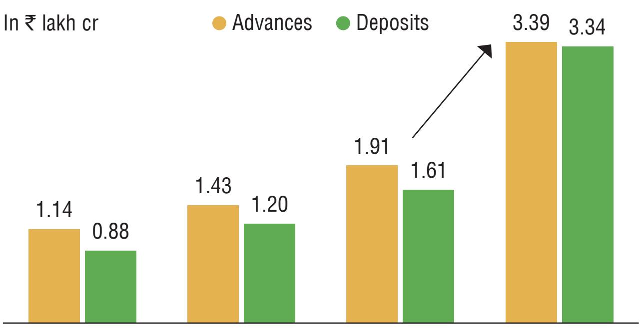
Because their explosive growth promise eclipses the risks. They are also handily outdoing their large peers on all key growth parameters. Besides, the large scale of heavy-footed universal banks leaves little room for outsized returns that new and nimble SFBs promise. More importantly, their downturn means you can buy them for a song right now! You get the perfect mix of value and fundamentals with SFBs, which warrants a closer look at them. We detail the risks later in the story.

Why pick SFBs over universal banks

1. Fast growth in a fast-growing market: The SFB industry has been growing stunningly, far outstripping the banking sector. Their advances and deposits leapt 42 and 57 per cent per annum, respectively, in the last five years ending FY23, compared to the industry's modest growth of 10 per cent over the same stretch. The outlook remains bright. SFBs' credit and deposits are projected to jump 33 per cent and 44 per cent annually between FY23 and FY25. See graph 'A potential goldmine'.

A potential goldmine

Market share of SFBs in total advances was just 1.3 per cent as of FY23



SFB industry data sourced from Jana Small Finance Bank RHP. P stands for projection.

The exponential growth is expected due to the massive opportunity for SFBs to capture a market hitherto dominated by informal lenders. As per a PwC report, while the MSME sector's credit demand was ₹69 lakh crore as of 2022, over half of this was met through informal lending channels. The large gap means a solid opportunity for SFBs to formalise the sector. And they are capitalising on it. Many are expanding aggressively by opening branches, which has led to robust growth in recent years. As universal banks filled the credit gap in urban pockets over the past three decades, SFBs aim to repeat similar success in semi-urban and rural areas. Complete government backing for financial inclusion and financing for MSMEs is also a critical tailwind.

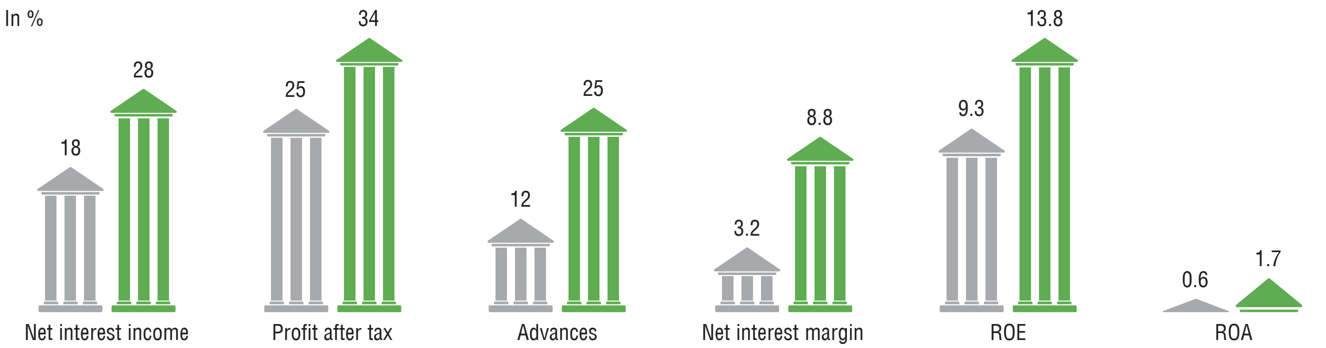
2. Leading the charge on key metrics: The robust demand in the underserved borrowing segment has resulted in astonishing outperformance of SFBs over universal banks on all financial metrics. SFBs have delivered a five-year median net interest margin (NIM) of 9 per cent against universal banks' paltry 3 per cent. They have also excelled in terms of returns on equity (ROE). The industry's five-year average ROE was around a robust 14 per cent versus just 9 per cent for universal banks (excluding the top five banks by advances). The higher return ratios result from the high interest rates SFBs charge borrowers to compensate for the steep risks they assume.

3. Touting a clean bill of health: Asset quality can make or break a bank. And SFBs are also head and shoulders above most universal banks on this metric. The recovery has been astounding after the deadly NPA mess during the Covid pandemic, which saw their average gross non-performing asset or GNPA ratio touching a dreadful high of 6 per cent in FY22. The average GNPA ratio of SFBs is now down to 2.7 per cent and continues to be on the mend. The improvement resulted from concerted efforts and the gradual improvement in borrowers' cash flows, which led to recoveries and sizable write-offs.

By comparison, most universal banks (excluding the top five) continue to have elevated GNPAs at an average of 3.3 per cent despite diversified loan books. Regarding SFBs, rating agency ICRA expects the industry to report steady GNPAs of 1.8-2.2 per cent by March 2025.

Don't mind the gap

Small finance banks exponentially outperform universal banks on all metrics



Numbers calculated on a median basis for both segments. Growth data for FY19-24.

4. The best bargains: In the current hot market where value is hard to come by, SFBs stand out. The solid financial performance, meaningful recovery in asset quality, and promise of growth have yet to translate into stock gains. That should be viewed against banks' overall muted performance in the last few years due to sluggish deposit growth, which has widened the credit-deposit gap. However, as soon as the mismatch reduces and investor attention turns back to the banking sector, SFBs will likely be the first to benefit. Seven of the eight are trading below their respective median P/B ratios (based on five-year data or since listing, whichever is earlier). Apart from AU Small Finance Bank, none trade at a P/B ratio of more than 2! You get to snap them up at a steal.

Universal banks offer a less impressive proposition. These stocks, while also low-valued, are cheaper mainly for the wrong reasons. Their average P/B ratio is 1.8 times, primarily due to poor asset quality (except the top five). The median GNPA ratio of inexpensive universal bank stocks (trading below a P/B of 2 times) is 3.5 per cent, compared to SFBs' 2.7 per cent.

They are still risky business

There's no such thing as a free lunch, especially in equity investing. SFBs' better growth and return potential are not without risks. Investors should bear some things in mind before investing in them.

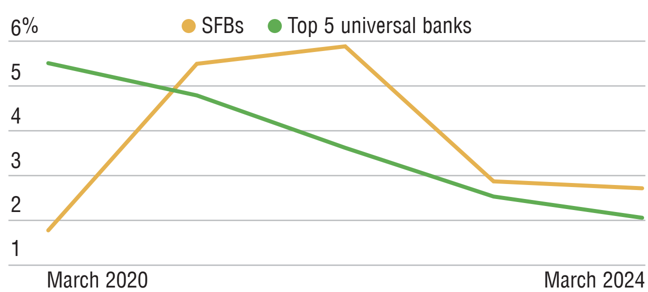
Fragile books: Unlike universal banks, SFBs are regulated with an iron fist. They have much higher capitalisation requirements and operational restrictions like caps on loan size and branch locations. Significant exposure to high-risk customers like low-income individuals and small businesses leads to higher credit and default risk. Any economic downturn can harm their loan books, as did during Covid-19 when loan recovery became difficult, and many of them had to sell their NPAs to asset reconstruction companies to improve asset quality. The graph 'As risky as they come' depicts how the industry's bad loans are highly susceptible to economic shocks.

Limited financial strength: Unlike larger commercial banks with deep pockets, SFBs have a smaller capital base, which limits their ability to absorb losses, especially during financial stress or economic slowdowns.

Shrinkage in margins: While the industry's return ratios and NIMs remain superior to the banking sector, they will likely witness pressure ahead, similar to FY24. Many SFBs reported a profit slowdown during the year due to higher provisioning and squeezed NIMs. The margins dropped as they actively sought to make their loan book more secure and

As risky as they come

SFBs' GNPA ratio peaked at 6.5 per cent in FY22 due to bad loans of ₹8,136 crore



Top 5 universal banks sorted based on advances in FY24; SBI, HDFC Bank, ICICI Bank, Bank of Baroda and Axis Bank in that order.

increase collateral-backed lending. However, secured loans don't yield high interest like unsecured loans, pressuring profitability.

Beaten down so far: The above factors explain, in part, SFBs' market underperformance. While the entire banking pocket has been on the back foot, with BSE Bankex delivering around 20 per cent return in the last year against BSE 500's 40 per cent gain, the underperformance of SFBs has been much sharper. The equal-weighted SFB category is down 5 per cent. Among the three newly-listed SFBs with less than a year's market track record, two have fallen by over 30 per cent in the last seven to eight months since their listing.

Competition on the boil: The heating up of the segments where they operate is another risk. Competition from large universal banks and even non-banking financial companies (NBFCs), increasingly entering semi-urban and rural markets, is seeing a substantial leap. With their strong brand recognition and scalability, these larger players can challenge SFBs' dominance.

How to spot SFBs worth their salt

There is no magic formula to differentiate the bad apples from the good ones. But the below framework serves as a good rule of thumb for banks. One can apply it to analyse SFBs as well:

GNPA ratio — 3%
Should not exceed 3 per cent, which indicates healthy asset quality.

Capital adequacy ratio — 20%
Should be at least 20 per cent since SFBs have a higher requirement of 15 per cent.

ROE — 12%
Should be at least 12 per cent, which indicates good returns on shareholders' equity.

Provision coverage ratio — 50%
Should be at least 50 per cent, which indicates resilience in the face of defaults.

NIM — 3%
Should be at least 3 per cent, which indicates healthy profitability at core operations.

Annual loan book growth — 10%
Should be at least 10 per cent over long term.

The table on the right shows how each listed SFBs measure up on the above parameters. While most have healthy asset quality as of FY24, remember that this is a result of cleaning up the books in the last two years only. At the same time, their provision and capital requirements have been consistently steady for many years. Investors should ensure that these metrics remain met while assessing SFBs, as they are useful for gauging whether the credit risks are adequately hedged for.

We have next discussed the business models and growth prospects of each of these lenders. But remember not to construe them as our recommendations.

How SFBs fare on above criteria

	GNPA	CAR	PCR	ROE	Loan book growth	NIM
AU SFB	✓	✓	✓	✓	✓	✓
Capital SFB	✓	✓	✓	✓	✓	✓
Equitas SFB	✓	✓	✓	✓	✓	✓
ESAF SFB	✗	✓	✓	✓	✓	✓
Jana SFB	✓	✓	✓	✗	✓	✓
Suryoday SFB	✓	✓	✓	✗	✓	✓
Ujjivan SFB	✓	✓	✓	✓	✓	✓
Utkarsh SFB	✓	✓	✓	✓	✓	✓

All numbers as of FY24. Five-year median considered for return on equity. Loan book growth for FY19-FY24.

AU Small Finance Bank

The bank started operations as a vehicle financier in 1996 and obtained the SFB licence from the RBI in 2015. Today, it is the largest player in the industry and the only SFB to be a part of the Nifty Bank index. It is present across 21 states and four union territories. It touted a loan book of over ₹90,000 crore as of Q1 FY25.

AU's strategy slightly differs from most of its peers, as the SFB has concentrated more on secured loans with a minimal focus on microfinance lending. The result of this approach brought stability to its financials. Even during the Covid pandemic, when other SFBs struggled to manage their profitability, AU maintained an average ROE of over 15 per cent. Don't mistake this for a conservative approach because the lender has grown its loan book by 26 per cent per annum during FY19-24.

4.2
P/B

16.6
5Y avg ROE (%)

73,163
Advances (₹ cr)

However, this strategy had its drawbacks. As the pandemic woes ended and interest rates began inching up, the bank struggled to maintain its high profitability. Its ROE fell from 16.5 per cent in FY22 to 13.5 per cent in FY24. This was primarily because of a higher share of fixed loans in its portfolio, which prevented it from repricing its loans, pressuring NIMs. The profit squeeze was also due to growing operating expenses (as it increased branches to garner deposits) and low ROA loans or secured loans, which don't offer higher yields.

To compensate for the profit decline, AU has recently merged Fincare SFB with itself to increase its presence in Southern India and the microfinance segment. Moreover, the bank is targeting to turn 65 per cent of its branches profitable by FY27 by increasing its other income and garnering more current account deposits.

Capital Small Finance Bank

The lender started its operations as a local bank in 2000. Capital SFB primarily serves regions in Rajasthan, Punjab, Haryana, Himachal Pradesh, Chandigarh, and Delhi NCR. Agriculture loans are the core of its business, accounting for about 37 per cent of its total portfolio.

Capital SFB's greatest strength lies in its deep connection with the regions where it operates. Having functioned as a local area bank for nearly 15 years, the lender has not only built a strong brand but also gained a deep understanding of the specific needs of consumers in these areas. This insight allows Capital SFB to tailor its products to meet local demands effectively. The bank's strategy focuses on serving customers with annual earnings between ₹4-5 lakh. Since it operates predominantly in rural areas, Capital SFB relies on a branch-led expansion model. Its primary emphasis is on prudence, as around 99 per cent of its portfolio is secured, with approximately 82 per cent backed by immovable property. This approach helped the lender maintain a GNPA of below 2.8 per cent, even during the challenging times of the Covid pandemic.

However, this focus on prudence and securitisation also presents a challenge for the company. By keeping its loan portfolio almost entirely secured, Capital SFB is unable to charge the higher interest rates that other SFBs typically do. As a result, it has consistently had the lowest yield on advances among its peers over the past five years and the lowest NIM in the industry currently at 3.9 per cent versus industry median of 8.6 per cent. Moving forward, the company plans to stick with its strategy of expanding its branch network in existing and adjacent regions while increasing its current account and savings account (CASA) base to lower its cost of funds. This approach could help the bank improve its NIMs over time.

1.1
P/B

12.3
5Y avg ROE (%)

6,075
Advances (₹ cr)

Equitas Small Finance Bank

Equitas SFB, while operating in 17 states and one union territory, derives the majority of its business from just one region: Tamil Nadu. The state accounts for 49 per cent of its advances and 29 per cent of its deposits. Although Equitas is present across several segments, its primary source of business comes from small business loans, which contribute 39 per cent to its total loan portfolio.

Equitas' strategy is straightforward: build a diversified loan book while maintaining a conservative approach. To achieve this diversification, the bank has expanded into the vehicle finance segment, offering greater flexibility by shifting focus between new and used vehicle financing. It has also entered other areas, including merchant overdraft facilities and financing for micro and small enterprises and NBFCs. On the conservative front, Equitas has concentrated on building a secured loan portfolio, aggressively growing its housing loan segment. As of FY24, about 82 per cent of its loan book was secured. Additionally, apart from selling a small portion of bad loans to asset reconstruction companies post-Covid, the bank has become more aggressive with provisions, increasing its provision coverage ratio (PCR) from 42 per cent in FY22 to 56 per cent in FY24.

Equitas is currently focused on a singular goal: becoming a universal bank. It recently missed this opportunity due to its net NPA ratio exceeding 1 per cent. To address this, the bank has made a floating provision of ₹180 crore (a provision against the entire loan book rather than specific assets), bringing its net NPA below 1 per cent. The aim is to maintain this level for the next two years. On the diversification front, apart from continuing its emphasis on vehicle financing, Equitas plans to offer loans to MSMEs engaged in export-import activities.

1.5
P/B

12.2
5Y avg ROE (%)

30,964
Advances (₹ cr)

ESAF Small Finance Bank

ESAF SFB primarily operates in South India, with Kerala being its key market, contributing 36 per cent to its total advances. The company's loan portfolio differs slightly from other SFBs, with microfinance loans making up the largest share at 70 per cent.

ESAF's greatest strength—and simultaneously its biggest challenge—lies in its focus on microfinance loans. Since its inception, the lender has concentrated on this segment and has committed to continuing this focus for future growth. Its strategy includes upselling and cross-selling products to existing customers while expanding into new geographies. However, the microfinance segment carries relatively high risk and the opportunities for loan-backing are limited due to the demographic it serves. This allows ESAF to charge higher interest rates, resulting in one of the highest yields on advances. Over the last five years, its median yield has stood at 20 per cent, the highest among all listed players. This has contributed to ESAF's record-high five-year median NIM of 10 per cent and ROE of 19.3 per cent!

However, this strength comes with significant risk. The low level of collateralisation, combined with the inherent risks of the microfinance segment, means the company generally has a higher level of GNPAs. During FY21 and FY22, when the full impact of the Covid pandemic unfurled, ESAF had one of the highest GNPAs, reaching as much as around 8 per cent. Despite selling ₹588 crore of loans to asset reconstruction companies and writing off another ₹495 crore, its GNPA remains high at nearly 5 per cent as of FY24, the highest among its listed peers. Although the company aims to diversify and increase its focus on the retail segment, the inherent riskiness of the microfinance loans it specialises in will continue to pose a threat to its asset quality.

0.9
P/B

19.3
5Y avg ROE (%)

18,293
Advances (₹ cr)

Jana Small Finance Bank

Jana Small Finance Bank is among the latest SFBs to go public. Although the bank was required to list by FY21, as per RBI regulations, market conditions at the time caused it to postpone the listing, which finally happened in 2024. Headquartered in Bengaluru, Jana SFB has become one of the fastest-growing players in the industry, achieving an advance growth rate of 30 per cent per annum between FY19 and FY24.

However, Jana SFB has faced significant challenges in the past. In FY19, the bank reported an alarming GNPA ratio of 42 per cent! This was primarily due to a refocusing of its loan portfolio, which led to a decline in its loan book, as well as weaker collections. The onset of the Covid pandemic again pushed GNPAs back above 7 per cent in FY21, resulting in substantial write-offs.

Despite these setbacks, Jana SFB worked diligently to strengthen its loan portfolio. The share of its secured loans grew from under 40 per cent in FY21 to more than 60 per cent as of Q1 FY25. The bank also reduced its geographic concentration, ensuring that no state accounts for over 15 per cent of its portfolio. Further, the bank's cost-to-income ratio (operating expenses as a percentage of operating income) saw a sharp decline, falling from 80 per cent in FY20 to less than 60 per cent in FY24, as branch-level economics improved over time. In FY24, Jana posted industry's highest ROE, driven by an improved business environment. However, note that despite being the most profitable SFB, Jana continues to face elevated credit costs, with its provision expenses (in absolute terms) being the highest in the industry during FY23 and FY24. The bank is encountering challenges in its business correspondent (agent-driven) loan segment, which grew rapidly between FY21 and FY24. But Jana is curtailing its growth by focusing on collection efforts.

SCAN PAY

1.6
P/B

7.9
5Y avg ROE (%)

23,111
Advances (₹ cr)

Suryoday Small Finance Bank

Founded as a microfinance company in 2009, Suryoday Small Finance Bank primarily operates in Maharashtra and Tamil Nadu, which together account for 55 per cent of its loan book. Microfinance, including loans provided to joint liability groups (JLG) and Vikas loans, forms the core of its advances, contributing 59 per cent of the total.

Suryoday's journey mirrors that of many other players in the microfinance segment, balancing high risk with high yields. Its five-year median yield ranks among the highest in the industry at 20 per cent, with an NIM of 9 per cent for the same period. However, the challenge lies in the segment it serves, particularly JLGs, which has been one of its fastest-growing but also one of the riskiest, as these loans are unsecured. The underperformance of this segment contributed to a spike in GNPAs, with the microfinance segment's GNPA reaching as high as 14 per cent and the overall GNPA standing at 11.8 per cent in FY22. Despite strong NIMs, the bank's profitability has been low due to the need for higher provisioning. Although its ROE has improved recently, the bank has maintained a capital adequacy ratio (CAR) above 25 per cent in recent years.

Looking ahead, Suryoday is actively working to change its trajectory. It has been gradually diversifying its loan portfolio, reducing the share of microfinance loans from 81 per cent in FY20 to 59 per cent in FY24. The bank is expanding into vehicle finance and secured small business loans. Even within the JLG segment, Suryoday aims to use it as a channel to attract individual customers from these groups. Until the high exposure to JLGs, which require large provisions, decreases significantly in the loan portfolio, the bank will continue to incur high credit cost, impacting ROEs.

1.0
P/B

5.1
5Y avg ROE (%)

8,078
Advances (₹ cr)

Ujjivan Small Finance Bank

Founded as an NBFC in 2005 and obtaining its SFB licence in 2015, Ujjivan Small Finance Bank primarily focuses on the joint liability group (JLG) lending model that targets economically active women. This segment accounted for 54 per cent of its FY24 loan book. With a presence in 26 states and union territories—and no state accounting for more than 15 per cent of its portfolio concentration—Ujjivan posted the highest return on assets (ROA) in the industry at 3.5 per cent in FY24.

Although its loan book is only 36 per cent the size of AU SFB's, Ujjivan's profit after tax is a remarkable 83 per cent of the latter's. The reason is its high-yielding portfolio, with approximately 70 per cent of its loan book consisting of unsecured loans. This was aided by a growing CASA base, which grew an impressive 55 per cent between FY20 and FY24, driving Ujjivan's strong performance.

However, this success comes with a troubled past. During the pandemic, Ujjivan was the worst-hit among its peers, with provisions exceeding ₹1,000 crore in FY22 and GNPAs rising above 7 per cent during the year. None of its peers have had such high levels of provisioning over the last five years.

To address this, Ujjivan sold off distressed assets to asset reconstruction companies, which helped clean up its loan book. As the credit environment improved, the bank's high-yielding loan portfolio, combined with reduced provisioning, drove its profitability. While Ujjivan still maintains a very risky loan book, it has acknowledged these challenges and has begun to shift its business model, aiming to have 50 per cent of its portfolio secured within the next five years.

1.3
P/B

15.3
5Y avg ROE (%)

26,883
Advances (₹ cr)

Utkarsh Small Finance Bank

Utkarsh Small Finance Bank is based in Varanasi, Uttar Pradesh. It has over 50 per cent of its loan book coming from rural and semi-urban areas and 66 per cent of the loan portfolio is concentrated in the microfinance segment, with a significant focus on women entrepreneurs. Among the SFBs we reviewed, Utkarsh achieved the highest five-year median ROE of 20 per cent!

This strong performance is largely due to its portfolio mix, which is similar to that of Ujjivan SFB, with JLGs making up a significant portion. Unsecured loans account for 66 per cent of its gross loan portfolio as of FY24, resulting in high yields. However, unlike Ujjivan, Utkarsh has a higher geographic concentration, with 45 per cent of its branches located in Uttar Pradesh and Bihar.

As these are some of the least financially penetrated states, with large populations in lower income brackets, Utkarsh believes its established base and experience in these regions will enable it to grow rapidly. During the challenging Covid period, while Utkarsh did face rising credit costs due to the unsecured nature of its loan book, the bank was still able to turn a profit, even as credit costs climbed to around 4 per cent in FY22.

Geographic concentration remains a significant risk for a lending company like Utkarsh, but the bank is gradually expanding its presence. It now operates in 26 states and union territories. Additionally, it is diversifying its product offerings, moving beyond JLG loans to individual loans, affordable housing, and other new products, while increasing the share of secured loans. This shift is evident in its portfolio mix, where the share of JLG loans has fallen from 88 per cent in FY20 to 57 per cent as of Q1 FY25.

1.6
P/B

20.2
5Y avg ROE (%)

16,365
Advances (₹ cr)

Price-to-book ratio as of October 1, 2024. Advances as of FY24. ROE for FY20-24 for all banks.

'Earnings slowdown could trigger a fair correction'

An exclusive interview with Taher Badshah, CIO at Invesco Mutual Fund

With over three decades of experience in the Indian equity markets, Taher Badshah, Chief Investment Officer (CIO) at Invesco Mutual Fund, oversees five equity schemes with a combined AUM (assets under management) of nearly ₹30,000 crore. His portfolio includes the four-star rated Invesco India Focused Fund and Invesco India Smallcap Fund. The Invesco India Contra Fund, with assets of ₹18,470 crore, stands is the AMC's largest scheme.

In this insightful interview, Badshah shares his seasoned investment philosophy and provides a comprehensive outlook on the current market landscape.

The markets have been hitting new highs regularly this year, but can this rally keep going with global uncertainty in the mix?

Today's market configuration doesn't give us a choice as investors. However, we need to evaluate the economic cycle separately from the market cycle. The Indian economic cycle appears to be in a reasonably good position, albeit some global elements merit attention. Overall, macro factors like inflation, interest rates, the current account deficit, and currency are all trending positively.

From a cyclical perspective, India has seen a much needed strong investment cycle over the last two years and is progressing reasonably well. However, we haven't witnessed a significant upswing in the broader parts of the consumption economy. The expectation of lower interest rates, moderate inflation, and a robust monsoon provide a compelling promise for an upswing in consumption, which could expand in scope. This will likely result in the economy's investment and consumption engines firing simultaneously.Meanwhile, on the investment side, the public investment cycle has remained robust up to this point, even as the private investment cycle is beginning to warm up. Increasing evidence suggests an upswing in the private capital expenditure cycle hereon. We are in a good place where the economic outcomes could be more balanced than we've seen in the last two years. Therefore, we are not overly concerned about the overall state of the economy. Of course, we will encounter some global issues along the way. We will also have to confront geopolitical risk at various points in time in our economic journey. From a domestic economy standpoint, the one concern is a potential cyclical slowdown in earnings. We have grown at a very strong pace between 20-25 per cent in earnings in the last two years.

While the market presently expects this to decelerate to around 15 per cent in the coming two years, any growth slower than this may induce a fair correction in the market. However, I do not envisage deep corrections in the market driven by valuation compression, as a top-down narrative for India remains very strong. The markets may have to confront a temporary loss in earnings momentum in the coming times.

Some of these (our) high-priced stocks are expensive because they offer the necessary longevity of growth and provide a pathway to grow over a longer period

You hold some high P/E stocks. How do you balance the risks and rewards there?

Some of these high-priced stocks are expensive because they offer the necessary longevity of growth and provide a pathway for businesses to grow over a longer period. Additionally, some of these companies are of high quality, possess a clean and well-managed balance sheet, and do not have significant leverage. In fact, many of these companies generate significant cash flow, which is why their valuations become well-supported. While some valuation compression is possible, I don't think it will cause fatal accidents. High-quality businesses deserve higher multiples than their competitors. But we have to be cognisant that at some point in time, there will be a period of underperformance, especially after they have witnessed a sharp rise and valuations have over extended in the short run.

If a stock has performed well, valuations have increased, and we observe either a decline in growth or other developments that may warrant caution, we will not hesitate to remove the stock entirely from the portfolio. Keeping the portfolio reasonably diversified is the best way to manage risk continuously. Even today, with just 20 stocks in our focused portfolio, we have exposure to almost every possible market segment or theme, including banking, healthcare, manufacturing, energy, IT services, consumption and defence.

Given the current state of the market, it could be beneficial to include a value component in the portfolio. While the strategy remains primarily focused on growth, we counterbalance it with a selection of value stocks that are not as expensive and, at the same time, represent quality businesses that may not have experienced significant market movement. Such a blend ensures that even though there might be some high P/E multiple stocks in the portfolio, the portfolio is still quite comfortable on an aggregate basis relative to the growth it provides.

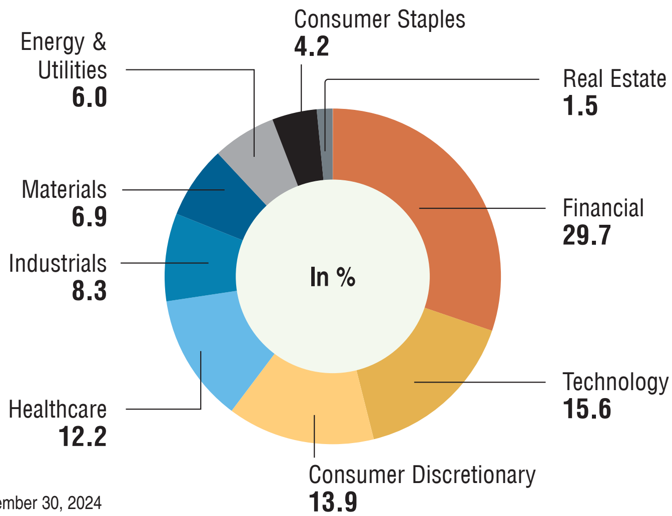
What is your investment philosophy? Are there any stocks or situations that excite you when evaluating potential buys?

There are challenges with both good and bad markets. Bad markets are challenging as investors don't see much excitement, and the industry turns sluggish, but from the fund manager's point of view, it's fun as we get to buy stocks cheaply. However, good markets, as we are currently experiencing and witnessing, also present challenges as opportunities can shrink. It's important to extend one's investment horizon and manage return expectations. Therefore, each market scenario presents its own unique set of challenges. But obviously, as professional managers, we must find our way through both market conditions, perform and position ourselves accordingly.

Regarding my personal style and approach, I started as a growth investor and generally thought about markets from a growth standpoint before I joined Invesco Mutual Fund. At Invesco, my

Sectoral distribution of Invesco India Contra Fund

AUM: ₹18,470 crore



Data as of September 30, 2024

perspective has broadened significantly. We run a value strategy called the Invesco India Contra Fund, our largest fund in terms of assets. I believe this value strategy has enhanced my skill set, as it is driven by a different mandate and necessitates a different approach to investing.

India is typically known as a growth market and probably will continue to be one for the foreseeable future. Therefore, coming up with value ideas in the Indian context is not an easy task. In developed markets, many sectors and industries have turned mature, and thus present themselves as value opportunities at some level or another. However, in India, the focus is on a blend of relative cheapness, de-rated growth entities, and turnaround stories, which is somewhat different from the more global definition of value. I have found this to be highly beneficial, and the investment process at Invesco has provided me with excellent support. It's an investment process that allows for growth and value investing.

At Invesco, we run every strategy according to their respective mandates and ensure we manage them actively at all times. I oversee several growth strategies, including small-cap and flexi-cap funds, all of which necessitate a growth orientation. Even our Focus 20 strategy follows a predominantly growth orientation, whereas running the Invesco Contra Fund necessitates switching hats and starting to think of contrarian or value. While this is easier said than done, our investment process has undoubtedly made this more manageable.

Which sectors have the best potential for wealth creation over the next 10 years? Are there any sectors investors should avoid?

That's a difficult question. The world is changing rapidly. Lifestyles are changing at a rapid pace and have undergone significant changes compared to just five years ago. The pre-pandemic and post-pandemic eras are significantly different, and we anticipate the emergence of new businesses and the challenges some established ones face. There will also be some traditional businesses, which will probably continue to exist the same way as they have been before. However, it is imperative that we remain vigilant about evolving technologies and competitive dynamics.

In this context, making a 10-year investment decision can be challenging, and it's important to maintain an open-minded perspective. It's also important to plan for a decade and account for potential uncertainties along the way. In short, some businesses will continue to exist the way they are. Consider examples such as banks, technology companies, and even the consumption basket.

Certain products/services may continue in their current form, while others will undergo a transformation, either in terms of product or method of delivery.

Commodity-related sectors will exhibit their own cyclical trends, and it is crucial to identify these trends at the very early stages of their upcycle. This is a crucial factor to consider when investing in commodity-led businesses.

What's your view on the banking sector? Do you think banks are undervalued, and what will drive their growth in the coming decade?

Indeed, they are reasonably priced within the current market context. In the last few years, we have seen a big improvement from the balance sheet perspective, and at the same time, the valuations appear on the cheaper side. We can understand cheapness when confronted with the challenge of balance sheets not being as strong. However, we don't currently face that risk; it may exist in a few pockets, but overall, the sector is performing reasonably well.

However, as the interest rate cycle changes, their margin profile is likely to improve as the present challenge of elevated cost of funds moderates, leading to a recovery in their profitability. At this point, I am inclined to consider banks primarily from a cyclical perspective, if not from a structural one.

We anticipate a reasonable increase in book value for much of the banking sector. At the same time, the downside appears limited due to the improved state of balance sheets in both public and private sector banks. When we think about it from the risk-reward standpoint, the banking sector appears much more balanced, perhaps even on the positive side, compared to a few other pockets of the market.

What do you think about small finance banks? What do you look at when evaluating them?

We are open to any ideas, whether it's a big bank or a small finance bank. That said, small finance banks are confronted with a different kind of customer set, and to that extent, asset quality matters more than the midsize of the large frontline banks. Unique nuances characterise this sector, including state-level volatility, specific conditions, and microeconomic factors such as growth, asset quality, and profitability. Being involved in this space is not an easy task and requires a considerably higher level of diligence and patience. For small banks, it is difficult to achieve the holy trinity of growth, profitability, and asset quality, the key determinants of strong value creation.

What warning signs prompt you to sell a holding?

With regard to selling, our thinking has evolved as we have encountered different kinds of business over time. However, a common mistake is to focus solely on the profit and loss (P&L) statement, neglecting the company's balance sheet. Even experienced fund managers often succumb to the lure of strong growth, which comes at the expense of the balance sheet. Deteriorating balance sheets or dwindling growth prospects generally are key reasons that trigger selling a holding. The second factor is related to the quality of management. However, there is no one-size-fits-all formula for this. A beneficial approach is to start with businesses where management is predictable and has demonstrated reasonable past performance. ☑

Margin of safety: The invincible defence for shrewd investors

Visiting Seth Klarman's timeless value principles in today's market

By **Anand Tandon**

Recently, a friend of mine, a portfolio manager, shared an interesting interaction he had with a client. This portfolio manager is one of the increasingly rare investors who firmly believe that stock price movements should ultimately reflect the financial performance of the companies they represent. In the current overheated market, he had been advising caution. However, his client was unimpressed. The client mentioned that his wife was about to enrol in a two-week course on technical analysis, after which he planned to entrust her with a significant amount of capital to leverage her newly acquired skills for substantial returns.

It's moments like these—when people overlook the second part of the famous investment adage, "Be greedy when others are fearful and fearful when others are greedy"—that remind us to return to the basics.

The wisdom of Seth Klarman

Seth Klarman is a renowned investor known for his unwavering commitment to value investing. He published 'Margin of Safety: Risk-Averse Value Investing Strategies for the Thoughtful Investor' in 1991. Since then, he has successfully applied these principles at his firm, Baupost Group, achieving returns that consistently outperform market indices. The book has become a foundational text for value investors, especially after Warren Buffett noted that he keeps a copy on his desk.

In 'Margin of Safety', Klarman distinguishes between investing and speculation. Investors view stocks as fractional ownership in businesses, believing that, over time, security prices will reflect the underlying business performance. In contrast, speculators treat stocks as mere paper assets whose prices fluctuate based on market sentiment. They tend to buy securities that are 'acting' well and sell those that aren't, a practice known as momentum investing. Klarman emphasises that investors must differentiate between stock price fluctuations and the reality of business performance. A rising stock price does not always indicate improved business health, and vice versa.

Investors should identify an asset's intrinsic value and purchase it at a discount to safeguard against potential losses. Buying an asset without an estimate of its intrinsic worth is an act of speculation, not investing. The inviolable principle of investing is not to lose money. Klarman argues that the best way to protect against losses is to buy securities at a significant discount to their intrinsic value, providing a buffer against adverse market conditions.

Klarman illustrates this point with an example: a fund that earns 20 per cent annually for nine years but then falls by 15 per cent in the last year will be worth less than a fund that generates a steady 16 per cent over the same period.

The bullish bias

Market intermediaries, such as fund managers, brokers, investment bankers, and even regulators, benefit from rising markets. This creates a prevalent bullish bias in the market, evident in practices like

The best way to protect against losses is to buy securities at a significant discount to their intrinsic value, providing a buffer against adverse market conditions

discouraging short-selling and implementing circuit breakers to prevent sharp declines in market values. Such measures make correcting overvaluation extremely challenging. Luckily, success begets its own failure. Each investment fad tends to attract increased supply; sectors performing well will soon see an influx of IPOs (initial public offerings) and follow-on offers, ultimately leading to corrections. This can often catch speculators off guard.

Institutional investors and common myths

Institutional investors are typically benchmarked against an index, with their performance measured daily. This creates pressure for short-term results and incentivises them to focus on assets under management rather than long-term fund performance. Consequently, statements like 'we don't take cash calls; asset allocation is left to the investor' become common. This implies a focus on relative performance rather than absolute performance. Most large funds end up as closet indexers, with performance close to that of the benchmark index. Unfortunately, investors, too, chase near-term performance and invest based on recent performance. This further creates the impetus towards short-termism.

Not all market scenarios offer opportunities for buying securities at a discount to intrinsic value. For value investors seeking a margin of safety, it's often essential to stay out of the market until appropriate opportunities arise, especially during euphoric market conditions. This sensible approach is discouraged with aphorisms like 'time in the market is more important than timing the market'. Here, it is assumed that all securities bear the same risk-return profile, and outsized returns cannot be generated with lower risk, an assumption that goes against the tenets of value investing.

Klarman critiques index investing, where stocks are purchased solely because they belong to an index. He believes this approach neglects critical evaluations of value and margin of safety, leading to irrational bubbles as more funds chase index performance. As a result, undervalued securities outside these indices often go unnoticed.

Valuation: An imperfect science

Klarman notes that attempting to pin down a single number as the 'value' of a stock is often futile. Instead, it's crucial to make estimates from various perspectives using conservative assumptions to derive a range of

Illustration: ANAND

values. Buying should commence at a significant discount to this 'fair' price to create a cushion for unforeseen changes. Klarman suggests employing methods like net present value computations, sum-of-the-parts analysis, and liquidation value assessments to determine intrinsic worth.

Value investing opportunities may be rare among large companies. However, recurring themes such as corporate restructuring, bankruptcy, mergers, demergers and other special situations create significant valuation mismatches and provide a large enough pool of investable opportunities for the value investor.

The latter chapters of 'Margin of Safety' illustrate how these principles can be applied in practice. Notable later works by Joel Greenblatt, such as 'The Little Book That Still Beats the Market' and 'You Can Be a Stock Market Genius', further elaborate on these concepts.

Conclusion

Beyond practical investment strategies, 'Margin of Safety' delves into the philosophy behind investing. It emphasises thorough research and highlights challenges posed by market intermediaries whose incentives may not align with those of individual investors. In an era dominated by momentum investing, Klarman's insights serve as a timely reminder that fundamental investment principles remain relevant despite changing market dynamics.

Ultimately, 'Margin of Safety' is not just about practical strategies; it encourages thoughtful reflection on the nature of investing itself, making it an essential read for both current and aspiring investors alike. ☑

'Thums Up' to markets

How Coca-Cola's journey in India demonstrates the power of free markets

By **Puja Mehra**

Indian politicians, regardless of whether they lean ideologically to the left or the right, have very little faith in markets. It makes them want to shape the economy with government directions and controls. Coca-Cola's history in India should give pause to politicians with such beliefs.

The entry, exit and re-entry of Coca-Cola in India

Coca-Cola entered India in the 1950s, about a decade after independence. It had a good run till the first non-Congress party government was elected after the emergency in the late 1970s. Prime minister Morarji Desai led it. The industry minister in this government, George Fernandez, asked Coca-Cola to leave India.

Coke had 100 per cent equity in its India business. However, the new industrial policy required foreign enterprises operating in non-priority sectors to reduce their equity to not more than 40 per cent in their Indian subsidiaries. Coke was willing to transfer 60 per cent of the shares of its Indian firm to a local partner in compliance with the new policy. Still, Fernandez, overtaken by swadeshi sentiments, insisted that it also reveal its secret recipe for Coca-Cola to its Indian shareholders. Coke guards this formula zealously. Fernandez told Coke it better exit the country if it wasn't prepared to share the secret formula. Coke preferred not to part with the secret formula and wound up its business in India.

The workers of Coke's bottling plant in Delhi gathered outside the official ministerial residence of Fernandez, protesting, and, according to some reports, stoned his car. He tried to explain to them that he wasn't taking away any jobs as Indian companies could take over Coke's business.

Years later, Fernandez explained in an interview that the thought of asking Coke to leave India occurred to him while he was touring a village. When he asked for a glass of water, an IAS officer offered him the fizzy drink. It made him furious that in 30 years of independence, the country hadn't succeeded in supplying drinking water to villages, but Coke had managed to set up its supplies.

India's private business proved more competent. Homegrown Parle leveraged Coke's exit to push its cola, Thums Up, which became India's largest-selling fizzy drink. There were also a few regional competitors like Campa Cola, and – believe it or not – the government entered the cola business through the public sector unit (PSU), which was making Modern bread. This government company started making a cola, 'Double Seven', which must have failed and folded up at some point since we don't hear of it any more. (Modern bread was privatised eventually).

In 1989, Fernandez was back as a cabinet minister in the minority government led by the *Janta Dal* party. A proposal came up before the cabinet to allow Pepsi

to enter the Indian cola market, which Fernandez opposed. Through the months when Pepsi's entry was being considered in the cabinet, he also ran a campaign against the American cola outside government but found few takers. The cabinet cleared the proposal.

In 1991, the minority Congress government led by Prime Minister PV Narasimha Rao liberalised foreign investment policies, following which Coca-Cola re-entered India in 1993. Thums Up held 80 per cent of the cola market, but Parle owned just about four of its 60 odd bottlers. (In those days, fizzy drinks were sold in recycled glass bottles). To displace Thums Up, Coca-Cola started signing up Parle's bottlers. The battle, it seems, turned ugly.

At last, Parle sold Thums Up to Coke. On completing the acquisition, Coke tried to shelve Thums Up, although it has never accepted this. The move backfired. Pepsi, not Coca-Cola, started lapping up Thums Up's market share. Coke quickly reintroduced Thums Up. Today, Thums Up is not only the largest cola in Coke India's portfolio but is also the largest fizzy drink in the country.

Market forces triumph

The markets did a better job than the political swadeshi agenda-driven foreign investment policies. Parle perhaps may well have been better placed to take on Coke's war on its bottlers if India had better functioning markets for capital. Still, the political insecurities about Indian businesses losing out to foreign competition turned out to be overblown, given Parle is doing rather well even after selling Thums Up.

Illustration: ANAND

Parle perhaps may well have been better placed to take on Coke's war on its bottlers if India had better functioning markets for capital

Thums Up has important lessons about markets for Coke and Indian politicians. But politicians never learn and always find excuses for increasing their own role in the economy and interfering in the functioning of markets. The latest example is the introduction of packaged food items like Bharat Atta and Bharat Dal. The excuse this time is inflation. It seems very noble when the government starts selling food products below market prices to ease the cost of living for the non-rich. In reality, market prices are often structurally high precisely because government policies distort markets in all sorts of ways.

Rising incomes are changing Indian diets, so cereals are being consumed less and less. Indians are consuming more pulses instead. Farmers have increased the production of pulses over the last few years, responding to the minimum support prices announced, but the country remains dependent on imports. The retail prices are pretty volatile.

In well-functioning markets, farmers would switch to producing more and more pulses. But they continue to produce wheat and rice in quantities far more than what India consumes (except for spells of bad weather or other factors that reduce farm output). That's because the government's subsidies, funded by taxpayers, incentivise the overproduction of wheat and rice regardless of consumption demand patterns. Producing pulses, on the other hand, is less profitable as subsidies provided by government are lower. Instead of selling Bharat Dal, removing these market distortions would be a better policy for incentivising increased production of pulses, which will stabilise prices. But the default response of Indian politicians for any problem is to increase, not decrease, their own control. This time, it isn't left-leaning politicians that have done this. ☑

Puja Mehra is a Delhi-based journalist and the author of 'The Lost Decade (2008-18): How the India Growth Story Devolved into Growth Without a Story'

Tug of war: Quality vs value

Find out which investment style is making a comeback

By **Manuj Jain, CFA**

Investment strategies can be aligned with specific factors such as value, quality, momentum, low volatility, alpha, or a combination of these. Value and quality are often viewed as opposing strategies, as they target different characteristics of a company.

The value investing approach centres on finding companies whose stock prices are below their intrinsic or fair value, often due to temporary challenges, broader market trends, or factors that fail to capture the company's long-term potential. Common valuation metrics such as low price-to-earnings (P/E), price-to-book (P/B), price-to-sales (P/S), and high dividend yield ratios help assess the degree of undervaluation. This strategy demands patience, as it can take time for the market to fully recognise and reflect the true value of these companies.

On the other hand, businesses associated with the 'quality' theme typically demonstrate strong fundamentals such as high return on equity (ROE), return on capital employed (ROCE), manageable financial leverage (debt/equity ratio), healthy free cash flow (FCF), the ability to generate superior returns on incremental capital, and good corporate governance.

These companies also often possess sustainable competitive advantages, leading to long-term stability, more predictable returns, less volatility, strong management, and sustainable growth. Quality companies usually have solid balance sheets with lower debt, ample liquidity, and resilient business models that allow them to withstand market disruptions.

How quality and value styles have alternated as winners

Calendar year	Returns (%) Nifty 200 Quality 30 TRI	Returns (%) Nifty 200 Value 30 TRI	Winner
2006	31.9	12.3	**Quality**
2007	50.5	87.7	**Value**
2008	-50.0	-48.5	**Value**
2009	131.0	123.4	**Quality**
2010	28.4	34.5	**Value**
2011	-10.1	-33.9	**Quality**
2012	31.4	45.6	**Value**
2013	19.6	-10.8	**Quality**
2014	40.5	53.7	**Value**
2015	2.4	-20.1	**Quality**
2016	1.0	24.1	**Value**
2017	30.3	35.4	**Value**
2018	8.9	-18.5	**Quality**
2019	5.6	-8.8	**Quality**
2020	26.3	4.0	**Quality**
2021	26.2	48.0	**Value**
2022	-4.4	25.2	**Value**
2023	31.7	62.8	**Value**
YTD 2024	25.4	35.2	**Value**
Since April 2005 (% pa)	19.4	17.5	**Quality**

Source: WhiteOak Capital, MFIE. YTD: Year till date. Data from April 1, 2005, and as of October 9, 2024. Returns less than one year are absolute, and more than one year are CAGR. **Past performance may or may not be sustained in the future and is not a guarantee of future returns.**

Style rotation

The value style underperformed from 2018 to 2020 before making a comeback in 2021. Similarly, the quality style had mixed performance in recent years. Historically, it has been observed that quality stocks perform relatively well during uncertain times. For example, the Nifty 200 Quality 30 Index performed relatively well during 2011, 2013, 2015, 2018, 2019, and 2020. Notably, all of these years were marked by

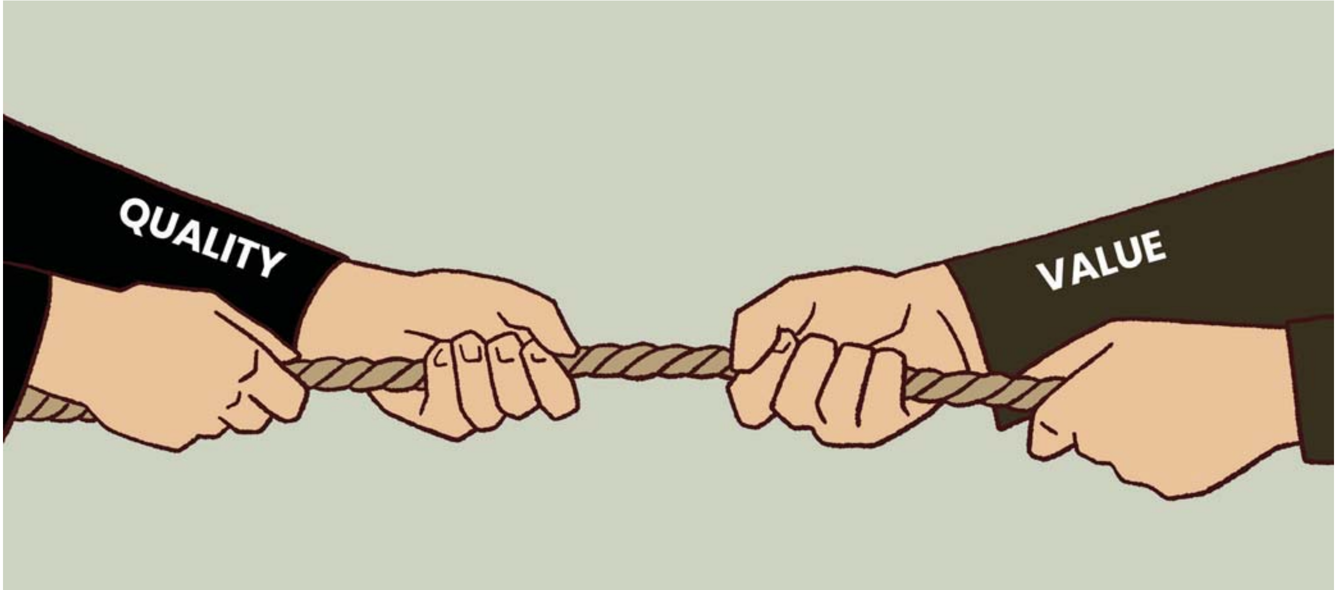


Illustration: ANAND

Value's early lead vs quality's mid-year comeback

2024	Returns (%) Nifty 200 Quality 30 TRI	Nifty 200 Value 30 TRI	Winner
January	0.4	7.6	**Value**
February	1.1	4.2	**Value**
March	-0.3	1.1	**Value**
April	0.9	10.4	**Value**
May	4.0	1.1	**Quality**
June	6.6	4.3	**Quality**
July	7.8	6.6	**Quality**
August	2.6	-0.3	**Quality**
September	2.3	1.4	**Quality**
MTD October	-2.0	-4.9	**Quality**

Source: WhiteOak Capital, MFIE. MTD: Month till date as of October 9, 2024.
Past performance may or may not be sustained in the future and is not a guarantee of future returns.

heightened uncertainty.

Since the beginning of 2021, value theme stocks have performed relatively well. However, what's interesting is that while the value theme did well in the first four months of 2024, the quality theme took over starting in May 2024. The last five months have once again been characterised by heightened uncertainty—initially related to the general election, followed by concerns around the Union Budget, the yen carry trade issues, the economic slowdown in the US, geopolitical tensions, and more recently, worries about FIIs (foreign institutional investor) reallocating money from countries like India to China.

It is important to note, as depicted in the table 'How quality and value styles have alternated as winners', that while the annual performances of the Nifty 200 Quality 30 TRI and Nifty 200 Value 30 TRI differ significantly, since inception, they have generated very healthy returns of 19.4 per cent and 17.5 per cent CAGR, respectively.

To sum up

Investors need to remind themselves that "winners rotate." Today's best-performing market segment may or may not perform well in the future, and vice versa. The broader equity market is an amalgamation of various factors. Therefore, when creating an equity portfolio, it is essential for investors to either choose a factor-diversified portfolio or diversify their equity investments across various schemes with different styles and factor tilts to ultimately create a factor-diversified portfolio. This approach should help improve the investing experience over time. For investors looking to make tactical calls on themes, as we say in football, "position yourself in the space where the ball will be, rather than chasing where it just was." ☑

Manuj Jain, a CFA charterholder, is a Director and Head of Product and Strategies at WhiteOak Capital Asset Management Company. He has been with the company for over two years and has over 16 years of experience in asset management. Part of the WhiteOak Capital Group, WhiteOak Capital Asset Management Company is the sponsoring entity of WhiteOak Capital Mutual Fund.

Convincing the doubters

Expert stock advice now at a low introductory price

by
Dhirendra Kumar

From analysing the traffic on our websites, it's pretty clear to me that many of our visitors go to the subscription page of Value Research Stock Advisor but never take the plunge. Some go only once, and some go a few times. A handful go many, many times. Why don't they try it out? My team and I have thought about this a lot. More than thinking about it, we've interacted with many of our doubters, figured out their problems, and, I believe, fixed them.

Problems and solutions

One was that beginners felt our service was too do-it-yourself. You had to construct your own investment portfolios out of the stocks we recommended. All the inputs were there, but let's be fair—we only had an *à la carte* menu but no *thali* or platter. Or, as they say in Japanese food, many of our guests needed an Omekase option.

Two, it wasn't possible to just try out the service for a short period by committing only a small amount of money. Our service was never expensive, and we have often had discounts, but still, you had to commit for an entire year.

I'm happy to say that we have solved both of these problems—not just solved them but eviscerated them. To understand how, let's step back and take a from-scratch look at Value Research Stock Advisor.

What is Value Research Stock Advisor?

For decades, I've had the privilege of observing investors' challenges in navigating the complex world of stock market investing. These observations led to the creation of Value Research Stock Advisor, a service we recently relaunched. At its heart, Value Research Stock Advisor is designed to be your trusted guide throughout your investment journey. The cornerstone of our service is a carefully curated list of stock recommendations, which forms the foundation for everything we offer.

Our main list currently features 46 meticulously selected stocks. These aren't just any stocks–they represent established, growing companies that we believe can help you build a profitable portfolio while managing risk. Each of these stocks has been chosen after rigorous analysis by our expert analysts, considering factors such as financial health, growth prospects, industry position, and valuation.

What sets our approach apart is the flexibility it offers. We understand that every investor is unique, with different goals, risk tolerances, and investment horizons. That's why we don't prescribe a one-size-fits-all portfolio. Instead, we provide you with this curated list of 46 stocks, empowering you to construct your portfolio as you see fit. Whether you prefer to invest in all 46 stocks or select a subset that aligns with your investment strategy, the choice is yours.

However, as I said earlier, we recognise that for some investors, especially those new to the stock market or those with limited time for research, choosing from so many options might feel overwhelming. That's why we've gone a step further. To make your investment journey smoother, we've created focused subsets, or portfolios, from our main list. These curated portfolios are designed to cater to different investor profiles and goals. For instance, we offer an aggressive growth portfolio for those seeking high-potential opportunities and are comfortable with a higher level of risk. Our long-term growth portfolio balances growth and stability, ideal for investors with a moderate risk appetite. For those prioritising value and perhaps income, our dividend growth portfolio focuses on companies with strong dividend track records and potential for future payouts.

These portfolios serve as excellent starting points, especially for those who might find the full list of 46 stocks daunting. They provide a ready-made selection of stocks that work well together, aligned with specific

Illustration: ANAND

investment objectives. As you gain confidence and experience, you can always expand your investments to include more stocks from our main list.

However, Value Research Stock Advisor doesn't stop providing you with a list of stocks or curated portfolios. Successful investing is an ongoing process, not a one-time decision. That's why we offer continuous guidance throughout your investment journey. Our team monitors all the stocks on our recommended list. We provide regular updates, including in-depth analyses of company performance, insights into industry trends, and our outlook for each stock. When significant developments occur —be it a change in company management, a shift in industry dynamics, or a major economic event—we provide timely updates to help you understand the potential impact on your investments.

Crucially, we don't just tell you what to buy; we also guide you on when it might be time to sell. If we believe a stock in our recommended list no longer meets our criteria for inclusion, we'll explain why and suggest an appropriate course of action. This could be trimming your position, selling entirely, or sometimes using market dips as an opportunity to buy more.

To complement our stock recommendations and ongoing guidance, we've developed a suite of tools to support your investment decisions. Our portfolio tracker allows you to monitor the performance of your investments easily. Our stock screener helps you identify potential investments based on criteria that matter to you. Our educational resources - including articles, webinars, and Q&A sessions - are designed to help you become a more informed and confident investor.

Many new members miss noticing that Value Research Stock Advisor is more than just a stock-picking service. It's a comprehensive platform designed to empower you at every stage of your investment journey. Whether you're just starting and prefer the simplicity of our curated portfolios or you're an experienced investor looking to construct your portfolio from our recommended list, we provide the tools, information, and ongoing support you need to invest with confidence.

And now, let's come to our special starter price. We believe you should be able to try out the service with a trivially small commitment. That's why we're offering Value Research Stock Advisor at an introductory price of just ₹499. It's a small investment in your financial future that can pay dividends for years, providing expertly curated stock recommendations, ongoing guidance, and the tools to make informed investment decisions.

If you're serious about growing your wealth through stock market investing, I invite you to join us at Value Research Stock Advisor. Let us be your trusted partner on the path to financial success. Visit our website today to start your subscription and take the first step towards a more prosperous future. To use a once-famous phrase, "Live long and prosper." ☑

Reasonably-priced growth

Investing in growth companies is one of the most popular ways to profit from stocks. But one shouldn't overpay for them. This is where this screen helps.

Tired of spending hours sifting through the vast listed universe? You need a reliable stock screener. It can help you get a list of promising stocks that deserve your attention with just a click of a button. Once you have a manageable list, you only need to research them further to find the ones worth investing in.

Value Research offers several carefully curated stock filters that can pick the most attractive companies from the listed Indian universe. In this issue, we cover the 'reasonably priced growth stocks' screen in detail. Also, we have given a concise list from the other screens. To view all the companies, visit: https://www.valueresearchonline.com/stocks-screener/

What does this screen offer?

Growth companies are those that, as you may have guessed it, in the growth phase. This means that they are expanding, growing their revenues and profits, and hence their share prices also tend to follow the course of the underlying business. Growth investing is perhaps the most popular form of investing. The main problem with growth stocks is that their valuations also tend to be high as growth commands a valuation premium.

As an investor, your job is to pick wealth-creating stocks at fair or less than fair value. This is what this screen is all about. It combines earnings growth and low valuations. However, do note that this is based on past performance. Your returns will be determined by future performance. So, don't forget to take into account the future prospects of the companies in the list.

A word of caution

Note that mere inclusion in a stock screen does not mean that a stock is investment-worthy. Consider the output of stock screens as the starting point for your research. You must apply your own analysis to select companies. However, if you are interested in a list of stocks to invest in right away, then subscribe to our recommendation service at Value Research Stock Advisor. You can access the details by visiting: www.valueresearchstocks.com

Key terms

Market cap
Stands for market capitalisation. Obtained by multiplying the stock price by the total number of shares. Shows a company's market value or size.

Price to earnings (P/E)
The ratio of the stock price and earnings per share (EPS). It shows in multiples how much investors are willing to pay for a share in a company's earnings. Note that a high-growth stock often will have a high P/E ratio, while a value stock will have a relatively lower P/E ratio.

P/E to earnings growth (PEG)
The ratio of P/E to the five-year EPS growth of the stock. Shows how high a price we are paying for the growth that we are purchasing. A PEG of less than one indicates an attractively priced stock.

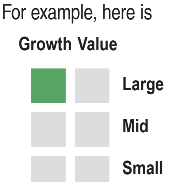
Quarterly EPS growth (%)
The YoY growth rate of the quarterly EPS.

TTM EPS growth (%)
The YoY growth rate of the trailing 12-month EPS.

5Y EPS growth (% pa)
The five-year annualised growth rate of the EPS.

Stock Rating
Value Research Stock Rating combines the three scores (quality, growth and valuation) based on assigned weights to arrive at a holistic stock rating. We have created a five-star rating system. The higher the stock rating, the better.

Stock Style
Derived from a combination of the stock's valuation – growth or value – and its market capitalisation – large, mid and small. For example, here is the stock style of a large-cap growth stock.



Growth at reasonable price

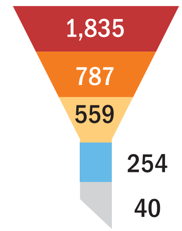
Reasons to invest

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

The filters

- Market cap more than ₹500 crore
- Quarterly EPS growth more than 20 per cent (YoY)
- TTM EPS growth more than 20 per cent
- 5Y annual EPS growth more than 20 per cent
- P/E between 1 to 15

No. of companies that cleared the filters



Company Industry	Stock style	Stock Rating	P/E	PEG	Quarterly EPS growth (%)	TTM EPS growth (%)	5Y EPS growth (% pa)	Market cap (₹ cr)	Share price (₹)	52-week high/low (₹)
Aditya Birla Money Brokerage Services		★★★★★	13.4	0.30	123.9	99.3	44.0	1,001	177	189-83
Agarwal Industrial Corp Petrochemical		★★★★	14.0	0.31	41.4	24.5	41.0	1,685	1,124	1,341-776
Almondz Global Securities Brokerage Services		★★★	14.9	1.29	53.0	122.9	44.9	543	32	39-13
Ashoka Buildcon Const. & Eng - Diversified		★★★★★	11.2	0.29	162.0	187.8	71.6	6,941	247	285-121
Aster DM Healthcare Hospitals & Clinics		★	4.0	-0.36	1,04,897.5	1,358.6	75.1	21,010	425	558-311
Authum Inv. & Infras Brokerage Services		★★★★★	6.0	0.06	3,253.1	1,582.0	155.9	30,997	1,828	1,850-732
Bank Of Maharashtra Banks - Diversified		★★★	8.4	0.39	44.2	39.2	20.1	41,242	54	74-39
Consolidated Const. Cons. Const. & Eng - Diversified		Unrated	1.2	-	101.0	730.2	62.3	847	21	29-11
Dolat Algotech Other Financial Institutions		★★★★★	11.5	0.43	457.1	138.5	32.2	2,492	141	187-52
Electrosteel Castings Steel Tubes & Pipes		★★★★★	13.4	0.32	150.9	172.6	86.3	11,909	191	237-78
Emami Paper Mills Paper & Paper Products		★★★	7.1	0.27	862.6	480.4	31.5	679	112	152-101
Emkay Global Investment Banking		★★★★	14.6	0.07	3,932.5	366.5	97.6	669	273	273-87
Godawari Power And Ispat Aluminium Products		★★★★★	12.6	0.54	24.1	45.9	34.3	12,510	186	245-115
Huhtamaki India Plastic Packaging		★★★★	7.0	4.52	166.5	534.8	42.3	2,950	393	452-262
ICICI Securities Brokerage Services		★★★★	14.2	0.55	94.1	74.9	32.8	27,817	860	922-622
Indian Bank Banks - Diversified		★★★	7.6	0.35	30.0	42.8	46.6	69,901	519	633-391

STOCK SCREEN

Company Industry	Stock style	Stock Rating	P/E	PEG	Quarterly EPS growth (%)	TTM EPS growth (%)	5Y EPS growth (% pa)	Market cap (₹ cr)	Share price (₹)	52-week high/low (₹)
Industrial Investment Trust Investment Holding Co		★★★★★	9.5	2.28	252.4	34.2	30.1	665	295	311-122
International Conveyors Industrial Machinery		★★★★★	7.3	0.08	115.1	118.3	134.5	584	92	125-70
Jaiprakash Power Ventures Power Generation - Diversified		★★★★	11.7	0.23	81.9	9,585.0	28.3	13,775	20	24-8
Jindal Saw Iron & Steel		★★★★	12.6	0.60	59.8	84.4	26.5	23,390	365	384-165
JK Tyre & Industries Tyres & Tubes		★★★	12.9	0.46	29.8	113.8	42.9	10,894	400	554-279
Karur Vysya Bank Banks - Diversified		★★★★★	9.9	0.85	24.8	31.6	52.4	17,750	222	233-138
Maithan Alloys Ferro Alloys		★★★★	4.1	0.18	659.4	142.3	25.4	3,092	1,054	1,359-955
MBL Infrastructure Const. & Eng - Diversified		★★	3.7	-	2,888.7	540.5	21.8	715	59	85-28
Naga Dhunseri Group NBFC - Diversified		★★★	13.5	1.26	82.6	130.5	172.8	570	5,749	6,689-1,715
Navneet Education Book Publishing		★★★	4.0	1.67	310.6	189.6	31.4	3,066	138	179-129
Northern ARC Capital Misc. Financial Services		Unrated	14.0	-	36.8	33.5	22.2	4,303	266	350-264
PNC Infratech Road & Highway Const.		★★★★	9.0	0.39	218.4	117.9	25.9	11,710	459	575-310
Prakash Pipes Plastic Tubes & Pipes		★★★★★	14.0	0.66	37.5	49.1	24.4	1,356	571	668-320
Pudumjee Paper Paper & Paper Products		★★★★★	9.6	0.25	145.3	116.6	45.2	1,097	115	137-43
PVP Ventures Real Estate Development		★★★	11.3	-	51.7	426.6	20.0	722	28	43-12
RattanIndia Enterprises Online and Direct Retailing		★★★★	8.9	0.56	354.7	871.6	398.0	9,818	71	95-48
Raymond Misc. Textiles		★★★	1.4	0.71	591.7	424.8	116.7	11,212	1,702	3,496-1,488
Shardul Securities Financial Serv. - Diversified		★★★★★	4.9	0.05	328.7	496.3	144.1	917	524	557-101
Sundaram Finance NBFC - Diversified		★★★	13.6	0.50	57.8	148.4	28.2	7,779	346	433-117
Tata Motors Automobile Manufacturers		★★★★	9.9	0.16	73.5	217.6	24.4	3,35,504	910	1,179-622
The Sandesh Adv. & Marketing - Diversified		★★★★★	6.2	0.25	52.4	69.4	28.4	1,280	1,704	2,058-975

Stock Rating and price data as of October 18, 2024. For the full list, scan the QR code.

Want more? Here you go

Other screens available on the Value Research website

High momentum largecaps

Gives a list of largecaps that are in the vogue right now

	P/E		P/E
Hindustan Zinc	**26.2**	Bharat Electronics	**49.4**
Mahindra & Mahindra	**33.3**	Bharti Airtel	**103.9**
Hindustan Aeronautics	**36.7**	Siemens	**113.2**
Bajaj Auto	**38.0**	Trent	**161.4**
Sun Pharma	**44.1**	Zomato	**381.9**

High momentum midcaps

Gives a list of midcaps that are in the vogue right now

	P/E		P/E
Motilal Oswal	**21.4**	UNO Minda	**60.8**
Coromandel International	**32.7**	Fortis Healthcare	**70.1**
Ajanta Pharma	**46.6**	Blue Star	**83.0**
Cochin Shipyard	**48.2**	BSE	**99.0**
Apar Industries	**49.1**	GE T&D India	**162.4**

High momentum smallcaps

Gives a list of smallcaps that are in the vogue right now

	P/E		P/E
Shriram Pistons & Rings	**21.2**	Kirloskar Pneumatic	**65.9**
CMS Info Systems	**27.1**	Prudent Corporate Advisory	**72.1**
Vesuvius India	**45.7**	Mrs. Bectors Food	**80.3**
Symphony	**57.8**	Vijaya Diagnostic Centre	**81.9**
Tips Industries	**64.7**	Balu Forge Industries	**83.8**

Cheap quality stocks

Gives you a list of stocks that qualify basic safety criteria

	P/E		P/E
K.C.P. Sugar And Industries	**6.4**	Ganesh Housing	**20.1**
Maharashtra Seamless	**9.3**	Tanla Platforms	**20.6**
Nitta Gelatin India	**9.7**	Force Motors	**20.9**
63 Moons Technologies	**13.3**	Sanghvi Movers	**21.4**
Bombay Burmah Trading	**17.6**	Thomas Cook	**35.0**

Top rated banks

Gives a list of banks that score high on our Stock Rating

	P/B		P/B
DCB Bank	0.7	Ujjivan Small Finance Bank	1.3
RBL Bank	0.8	City Union Bank	1.3
Tamilnad Mercantile Bank	0.9	Equitas Small Finance Bank	1.3
ESAF Small Finance Bank	1.0	Bandhan Bank	1.4
Suryoday Small Finance Bank	1.0	CSB Bank	1.4

WORDS WORTH NOW

N Chandrasekaran, Chairman, Tata Sons

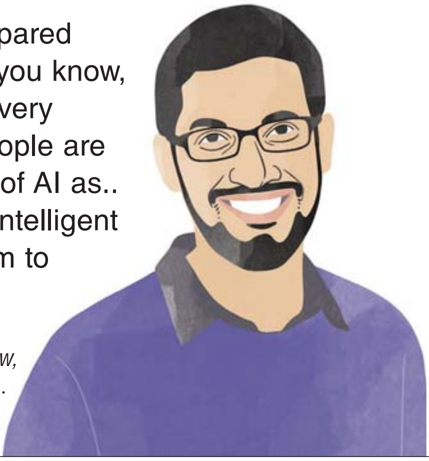
Remembering Ratan Tata

Mr. Tata's direction squarely focused on making sure employees were well taken care of - not just to resolve the dispute, but to ensure they and their families' well-being. Across the other group companies, his perspective on employees was uniform. It is something that has shaped a number of our leaders across the Group.

Linkedin, October 14, 2024.

Sundar Pichai, CEO, Alphabet

On AI and the next big thing in tech



That's why I have compared AI to fire or electricity, you know, it's gonna cut across every sector, everywhere. People are going to rethink. Think of AI as.. you're getting a really intelligent decision-making system to deploy everywhere.

David Rubenstein show, October 10, 2024.

Kiran Mazumdar-Shaw, Founder, Biocon

On Indian pharma going behind Biologics

India is rapidly establishing itself as a leading hub for biologics and biosimilars. The country's biopharma sector aims to replicate its global success in generic drugs and vaccines by focusing on biosimilars, emphasising affordable access through technological innovation and economies of scale.

Fortune India, October 2024.

Sanjiv Puri, Managing Director, ITC

Discussing the demerger of ITC's hotel business

The fundamental role of management is to create sustained value for stakeholders. It's for the market to look at the valuations. In business, we look how mature it is, and the competitive and opportunities landscape. Based on these factors, one looks at the business strategy and it leads you to take decision on the strategy of an organisation.

Fortune India, October 2024.

MUTUAL FUNDS *Sahi Hai*

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Franklin India Flexi Cap Fund has the flexibility to invest in large, mid and small sized companies depending on their growth potential in the near future.

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- Long Term Wealth Creation
- Education Corpus

PRODUCT LABEL

Franklin India Flexi Cap Fund

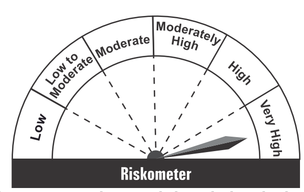
Type of scheme: An open-ended dynamic equity scheme investing across large, mid and small cap stocks.

This product is suitable for investors who are seeking*:

- Long term capital appreciation
- Dynamic Investing in large, mid and small cap stocks

*Investors should consult their financial advisers if in doubt about whether the product is suitable for them.

Riskometer



Investors understand that their principal will be at Very High risk

Riskometer is as on September 30, 2024

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^Data as on September 30, 2024

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