Hello Zebra Readers!

This book is written keeping in mind the needs of a retail investor who might be working in some other profession and wants to invest his money in the stock market. Now, retail investors will not have a lot of time during their weekdays to read and research companies.

They need a process that is simple, involves fewer technicalities, and requires less time to get the work done. This book serves exactly that purpose.

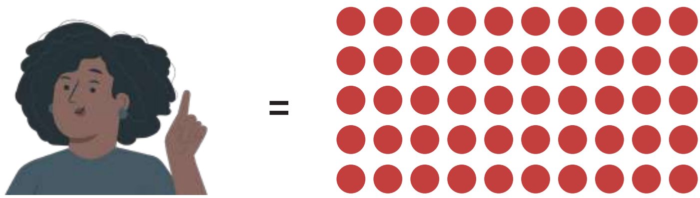
We have put in a conscious effort to simplify the process. So once you have read, and understood this book, you will be in a position to invest in the stock markets independently by allocating just a few hours every week.

Moreover, stock markets have been a crucial and rewarding investment avenue over many years. One should understand how markets work, whether they invest directly in the markets or invest via mutual funds or any other indirect investment instrument.

This book is useful for students in college, working professionals, entrepreneurs/ businessmen, and freelancers. They can come from a finance or a non-finance background to understand everything here. We have made a deliberate attempt to simplify the stock market with this book. So lets start our journey of learning and understanding about stock market.

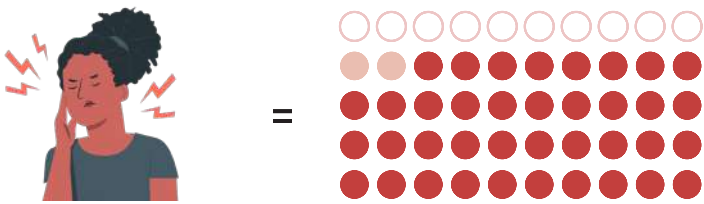
Why Invest in Stocks?

The concept of the time value of money says that money you hold today is worth more than your money tomorrow because of Inflation. Inflation increases prices of the same quantity of goods/services over time and decreases the spending capacity.



₹ 1000 **50 Units**

Lets say, you are able to buy 50 units for ₹1000. But after one year the value of increases due to inflation. Hence you will be able buy less units with the same ₹1000 i.e. your purchasing power decreases with time.



₹ 1000 **38 Units**

Likewise, hard-earned money left idle in bank accounts will eventually reduce in value, if it is not invested to atleast keep pace with inflation.

That is where stocks can be a valuable part of your investment portfolio. Owning stocks in different companies can help you build your savings, **protect your money from inflation and taxes, grow your wealth and diversify your risk.**

How does this book simplify Stock Investing?

This book **Stock Investing for Individuals** is an end-to-end guide especially curated for Retail and individual investors. It will be the perfect step-by-step guide for decoding the complexities of stock market investing and making it "**Simpler and Actionable**" in every possible way.

2 Signature Modules

Story Side Analysis

Art of Company Selection

Learn how to pick an Underrated Firm

Evaluate

Business Strengths + Financial Strengths

Two signature modules of this book are - **"Art of Company Selection"** and **"Story Side Analysis"** where we will focus on how to pick the most underrated companies and evaluate their business strength as well as strength in their financial numbers. Simple for individual investors.

> In nutshell, by the end of this book, you should be in a position to confidently invest in the stock market.

P.S. This book comes with the **101 Point Investing Checklist** and it makes investing simple for individual investors.

Are you looking for good investment opportunities?

Are you a professional in a non-finance field?

Do you wish to get higher returns from your assets?

Do you wish to protect your money from inflation?

Would you like to discover more about stocks, how they work and how can you win at them?

If the answer to all of these questions is

"YES"

then you're on the right path!

This book will act as an end to end guide for giving you the confidence in making informed stock selections and investments.

Some Basics for You!

Stock Investing refers to the art of identifying, researching and evaluating companies, so as to make investment decisions. The process involves analyzing the company from all aspects, from its business financials, management, and industry outlook and valuations, and then carefully selecting the stocks that we think would do well in the future.

There are two kinds of investors

Institutional Investors

AXIS MUTUAL FUND
kotak Mutual Fund
HDFC MUTUAL FUND
DSP MUTUAL FUND
FRANKLIN TEMPLETON INVESTMENTS

Retail Investors

How do they differ from each other?

Spends atleast **40** hrs. per week on **Stock Research**

Spends atmost **3-4** hrs. per week on **Stock Research**

Institutional Investors		Retail Investors
Purchases and sells shares for companies and funds that they work for. E.g Mutual Funds, Banks.	Account Used	Purchases and sells stocks in their own account.
Conducts sophisticated research.	Research	Doesn't have the expertise to conduct sophisticated research.
Transacts in really large quantities.	Quantity	Transacts in low quantities to begin with.

Difficulties faced by a Retail Investor

Resources

Institutional investors have access to premium resources, including access to expensive financial data subscriptions such as Bloomberg, Capital Line, and many more. Also, they gain insights from sell-side research, which means that many brokers who wish to get large investors' businesses provide them with free research in exchange for brokerage.

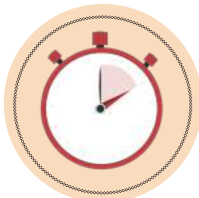
Level of Training

Institutional analysts are often C.A., M.B.A., or C.F.A., and the organization for which they work, continuously spends on refining their skills. Thus, Institutional analysts have a higher degree of training as compared to retail investors. Retail Investors may be qualified professionals such as doctors and lawyers but many lack the required financial understanding.

Access to Information

Institutional investors put up large amounts of money and therefore get direct access to the management of publicly traded corporations. For Instance, when an institutional investor likes a company with a market Capitalization of 1000 crores, they are capable of contacting and communicating with the CEO, CFO or MD directly. However, as retail investors, it becomes difficult to get direct access to management of the company because the cheque size is quite less comparatively.

Time put in Research



If a retail investor spends 4 - 5 hrs. per week on research, then an institutional investor spends 40 to 50 hours per week on research, which allows them to have an in-depth understanding of each company that they want to invest in. They conduct a much deeper analysis as compared to retail investors due to the time they've put in.

- **We first need to acknowledge these differences and the fact that there is no way to to overcome them.**
- **We can't raise the amount of time we put in or modify our access to information as retail investors, but we can certainly use effective techniques to systematically address these concerns in such a way that risk and return are properly handled.**
- **In this book, we will talk particularly about how you can go about things as a retail investor, keeping the constraints in mind.**

Are you a Retail Investor?

Now before reading this book let's check if you are a Retail Investor?

Do you spend less than 6 hours a week conducting equity research?

Are you formally not trained in picking and analyzing stocks?

Do you have a job/business that is not related to stock markets or mutual funds?

Are you just getting started and this is a passive income source?

If the answer to any of these is **"YES"** then you are a retail investor.

Proceed with your heads held high! If you have atleast 4-5 hours a week to follow what is written in the book. This book is specifically for you!

How will this book help you?

By avoiding common mistakes that retailer investors make.

By simplifying the analysis of complex stocks through various tools.

DISCLAIMER

Many readers who will read this will not meet their end goal.

This is because if you don't put in the time and effort to complete and more importantly practice, then this might not have the result you expected.

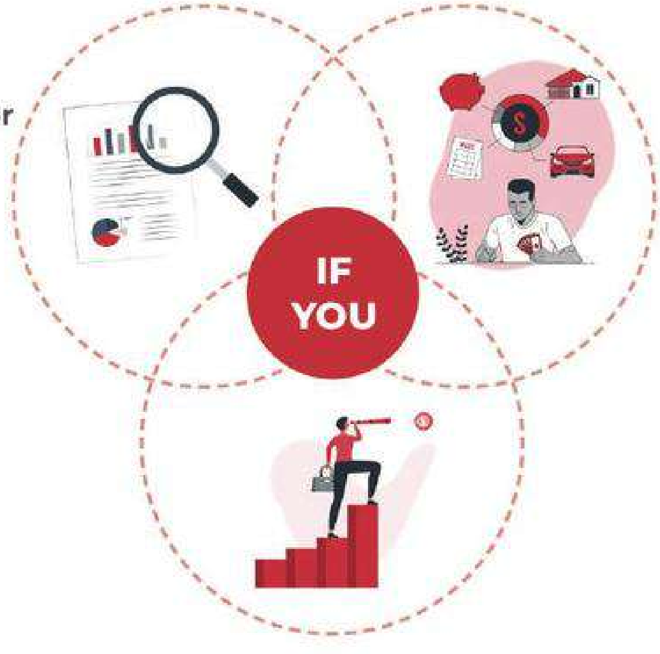
But if we do it together this might take us on a very rewarding journey.

This book is a guide and is not meant to spoon feed you with research!

Who this book is **NOT** for?

If you are looking for a job as an Equity Research Analyst?

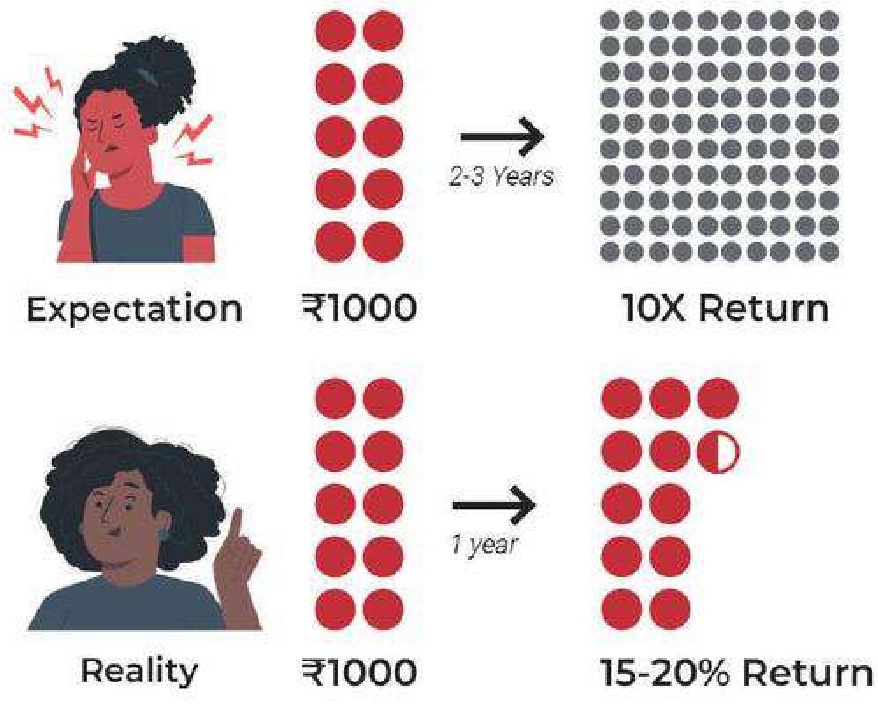
Requires relatively more sophisticated training say, if you are looking for a job as an Equity Research Analyst with Mutual Funds.



If you have significant amount say you have crores of investment?

Start learning from this and start managing a small amount. Seek professional help in the main portfolio and shift it under your control as you spend a few years in the market.

If you are looking to make a career in this field?



*Anyone looking to grow money 10-20 times in a span of 2-3 years , stock markets is not a place for them. **It is for those who can live with an annual returns of around 12-15%.***

So, it is advisable to correct your expectations or prepare yourselves for future disappointments.

Stock investing will test your patience and discipline. If you are not consistent, you may not have a pleasent experience.

> *"Successful Investing takes time, discipline, and patience. No matter how great the talent or effort, some things just take time: You can't produce a baby in one month by getting nine women pregnant."*
>
> *Warren Buffet*

What does this **book explain?**

We will go on a journey throughout this book learning the stock market terminologies and market indices. We will learn about the factors that influence the stock prices, resources available with the public and valuation techniques used to value stocks. Apart from that we will learn about market cycles and their mathematics, different methods to be used to research a particular company. We weill make this a very practical journey.

Finally we will talk about how a stock goes to 10X and then 10X to 100X. Renowned investors have different market philosophies which will be dicussed at the very end.

This book will take you to a ride through stocks but won’t spoon feed you with research and tips. That is an effort you need to put. So let’s start learning together.

Content

Stock Market 101

ZEBRALEARN

.1
Basics of Stock Market

1.1 Role of Stock Market

1.2 What is Stock Market & Market Cap?

1.3 Size of Companies

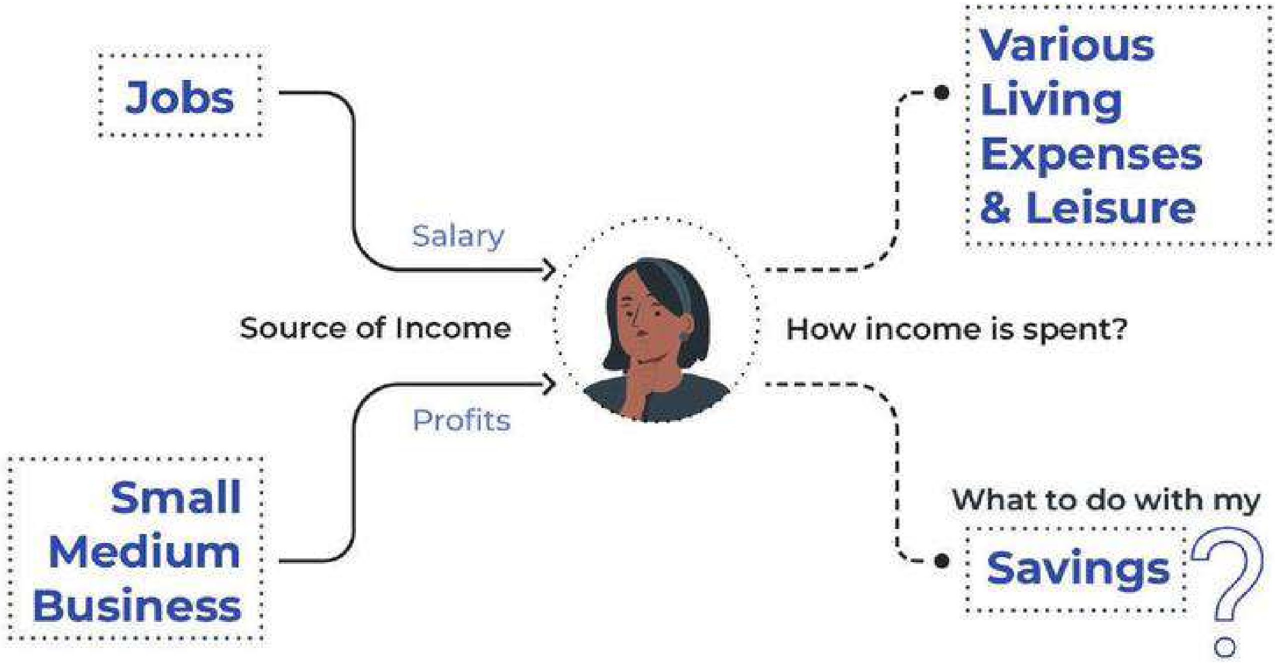
1.4 What is Sensex and Nifty?

Introduction

If you are a layman in the stock market, this chapter will help you comprehend the stock market and have and understanding about stocks and the stock market's role. The first segment will cover the fundamentals of the stock market. What is the purpose of stock exchange? Why does it exist? And what are its requirements?

1.1 Role of Stock Market

A common person earns in multiple ways. They might have jobs and own small enterprises at the same time, therefore they earn a livelihood by earning a salary from jobs or profits from small-medium businesses (SMBs).



A portion of this income is spent on various living expenses, leaving the rest as savings for an average person. So, what can one do with the money saved? Assume that the money is just kept idle at home!

From a financial standpoint this is not the best use of capital

For individuals -

- Cash savings does not generate adequate returns for future financial security.
- Idle cash is a lost opportunity as it is not capable of earning more money on its own.
- Over time it reduces in value due to inflation.

For economy-

- Companies need funds to grow.
- Idle cash at home does not contribute to the growth of economies.
- Money invested in companies will lead to.
- growth for the company and economy and in the exchange, personal savings would also grow with investment returns.

As a result, it is critical that individual savings should be invested in the system so that it can be reinvested and used for growth rather than being left idle. This is where stock markets come in. It acts as a framework to invest such savings back in the economy.

Investing Options for Retail Investors

A **retail investor**, also known as an individual investor, is a non-professional investor who has the following investment options-

Gold

- Low returns.
- Has cost to store.
- Money is not invested back into the economy.

Fixed Deposit

- Fixed returns.
- Lent to banks.
- Banks lend to people as loans.

Stock Market

- Two ways of investing.
  - Directly
  - Indirectly

    via Mutual Funds and Insurane.

Mutual Funds

- Basket of Security.
- Diverse basket of securities.
- Intention to invest in stock market.

Companies

Real Estate

- Contribute indirectly to economics development.
- Increase in job opportunities.
- Contribution of goods. Example: Bricks, Cement in turn benefitting other Industries.

Need for Stock Market

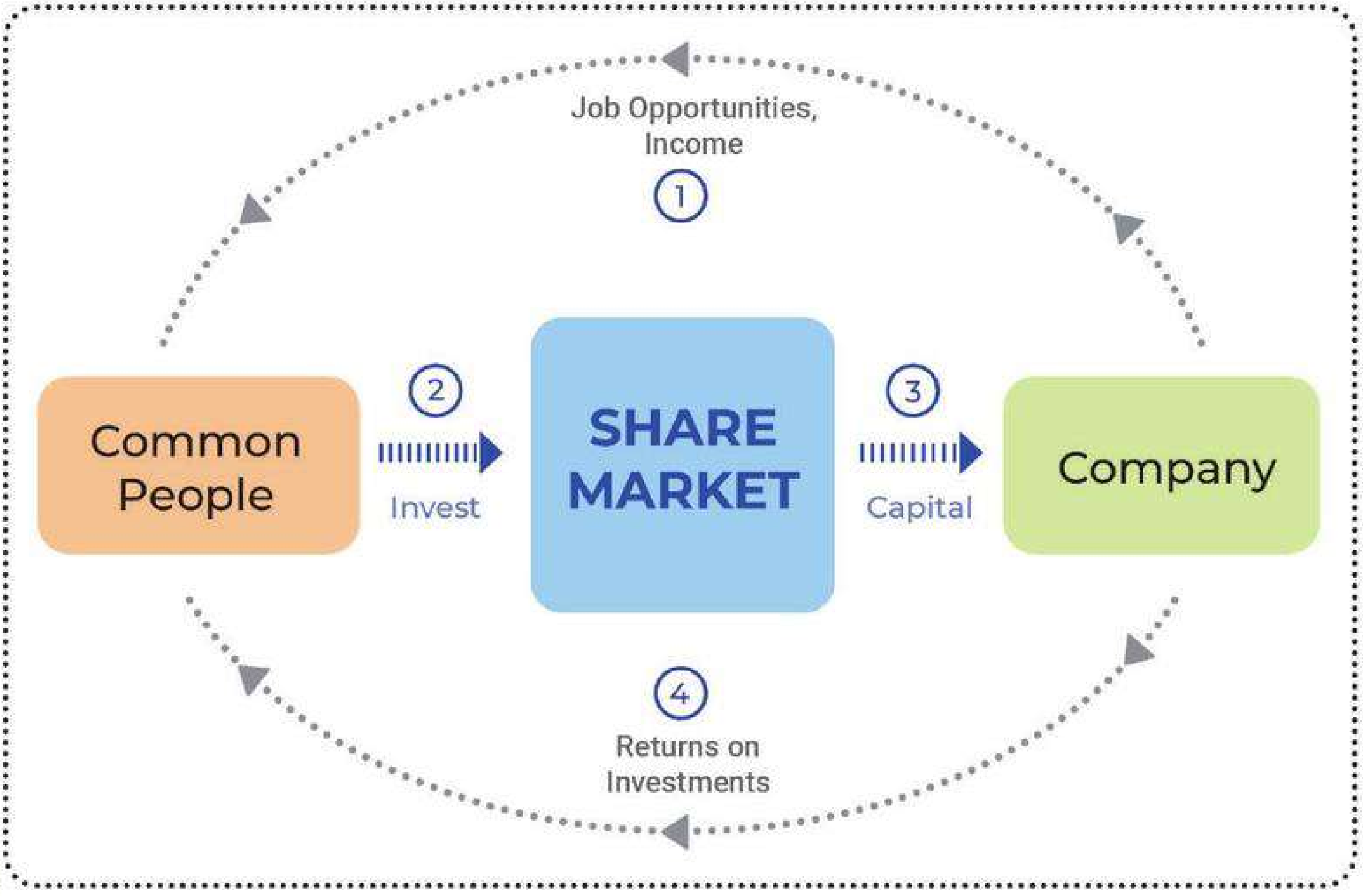
Stock market is a platform that channelizes the flow of capital from ordinary people to larger enterprises in the country, who then invest this money in their operations to grow their business.

What happens when these large companies grow?

As companies grow, more job opportunities are created, more income is earned by working class and the economy eventually as a whole grows. Since more money is dispersed to the general public, it leads to more savings which in turn means more money will be invested in the future for growth. It leads to a cycle of economic development. That is why a robust stock market is very important for an economy to do well.

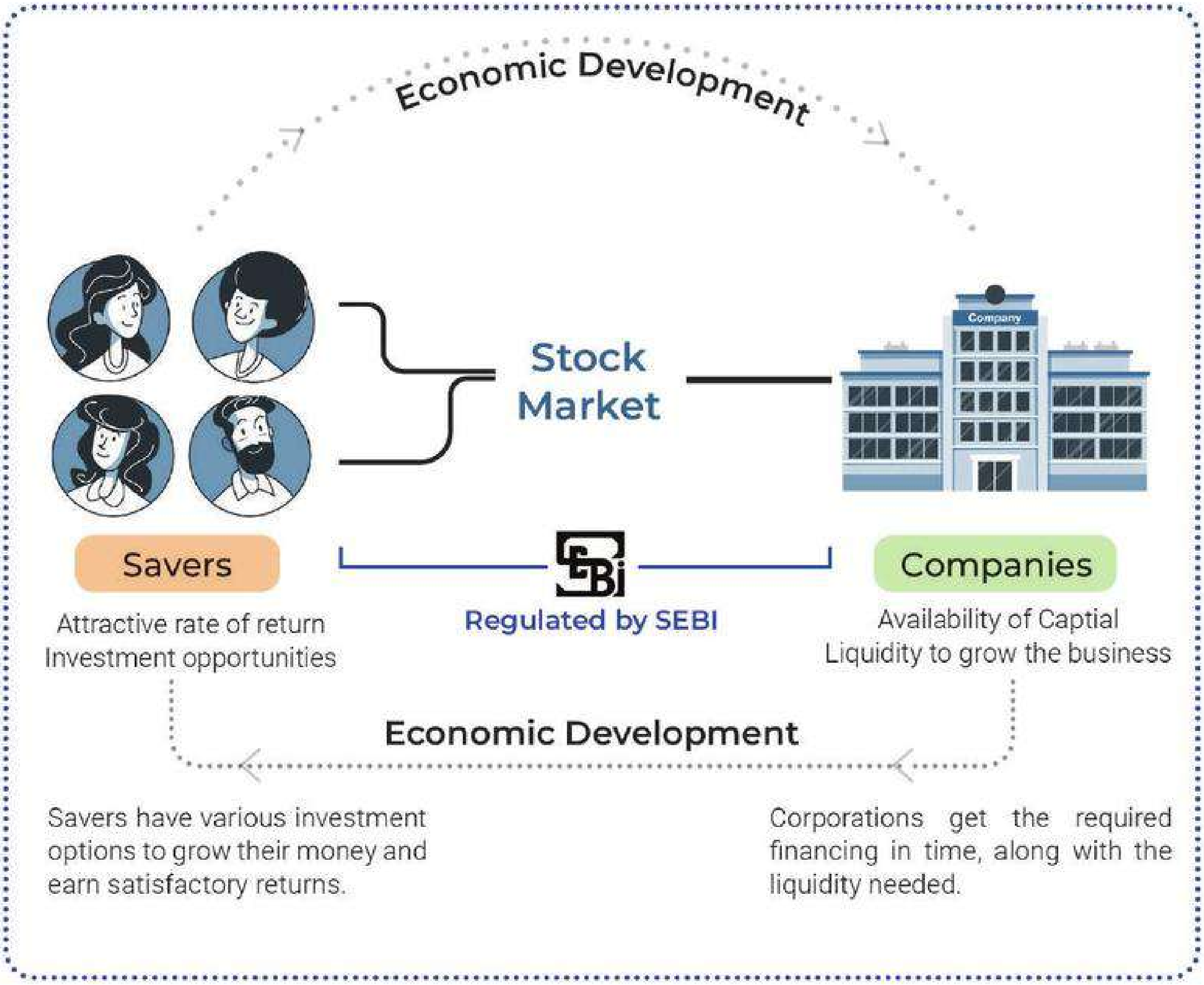
Now imagine, if our money was kept idle at home rather than being invested, this cycle of economic development would not go through.

Therefore, the stock market performs a very crucial role in the development of any economy.



Stock markets essentially exists to maintain a continuous flow of money from common people to companies, which then goes back to common people and then again to companies.

Economic development happens when there is a continuous flow of money from common people to companies, which then goes back to common people and then again to companies.



The stock market is a systematic and regulated system to transfer capital from savers to companies.

So, what do savers get in exchange?

Stocks offer a relatively higher rate of return on assets invested. Investments in a fast-growing business can have a highly appealing rate of return. However, poor investment decisions may lead to losses as well. From a Savers perspective, the stocks are investment opportunities, which otherwise would be idle money losing its value to inflation.

SEBI
(Securities and Exchange Board of India)

One of the most important roles of the Stock Exchange Board Of India(SEBI) is ensuring investment safety for the investors. SEBI looks after the interests of investors so that they are not taken advantage of.

The Securities and Exchange Board of India (SEBI) keeps monitors and regulates the functioning of exchanges and keeps on identifying new loopholes in the system. It is called the watch-dog of stock markets.

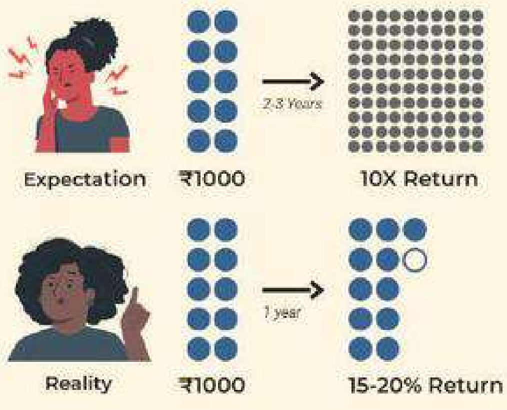
Role of SEBI

1. Promotes development of securities market.
2. Provides a platfrom for stock-brokers, sub-brokers, advisors, share transfer agents, bankers and others.
3. Prohibits insider trading(fraudulent and unfair practices).
4. Promotes investor education.
5. Ensures that companies maintain transparency thorugh disclosures.
6. Looks after the interests of retail investors.

Conclusion

"The stock market is a highly organized and controlled system for transferring funds from common people to business corporations."

It is not a game of chance or anywhere similar to gambling. It is highly regulated system to ensure and minimize risk to investors' capital.

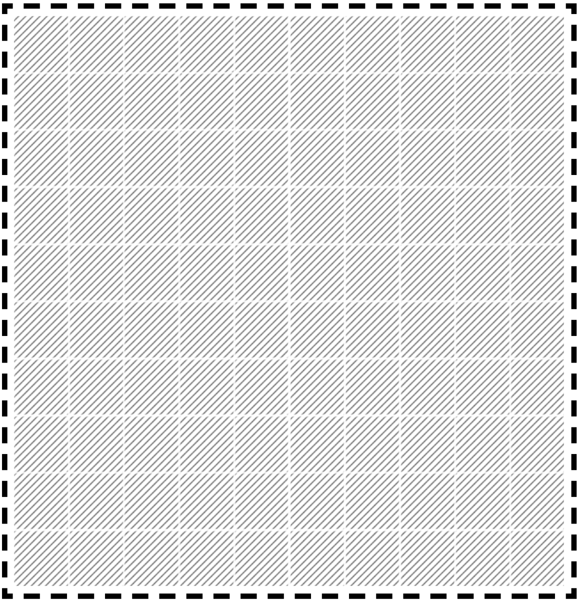


Notes

1.2 What is a Share?

Assume that the company is a big piece of land. Think of this huge land as the entire company. No one is ready to buy the entire land because it would cost them a lot of money!

So what can we do about it?



We divide this land into multiple smaller pieces. By doing so, instead of selling the entire land piece to a single individual, we are now selling small equal parts of it to multiple people.

This is exactly how shares works!

Since raising a large amount of funds from a few people are not always viable, the company divides itself into say 100 small parts called 'shares' and sells them to multiple individuals. Here each share equals 1% of the total company value.

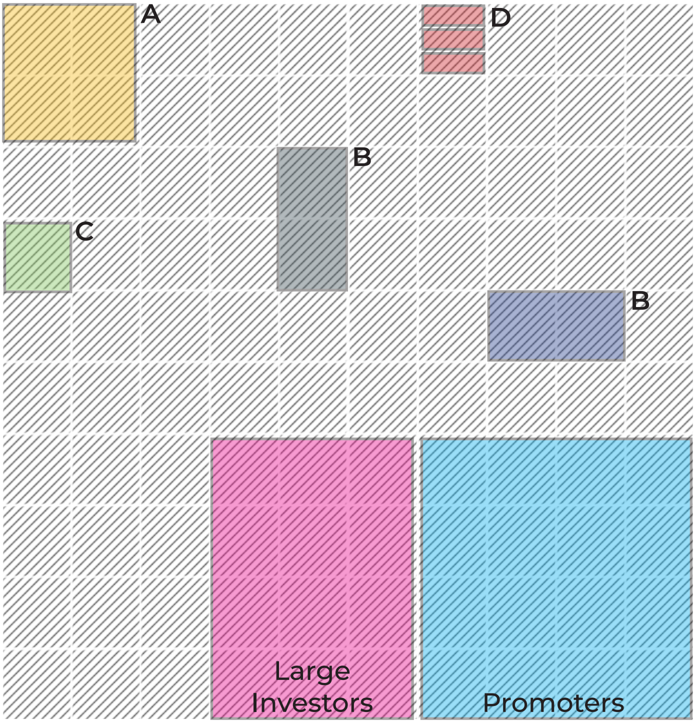
In reality, a company won't be divided into just 100 parts or shares. There might be thousands of it or sometimes even lakhs and crores.

Therefore, had the company been divided into 1 crore smaller parts, each share would represent 1/1,00,00,000th of the total company value.

Each share shall be owned by an someone, some people might own a single share while others may own a huge chunk of shares i.e. in lakhs.

What will happen if a Company divides itself and issues 100 Shares?

Company Shareholding Pattern



Own 12% of the company

Own 16% of the company

Person A owns 4% of the company

Person B owns 2% of the company

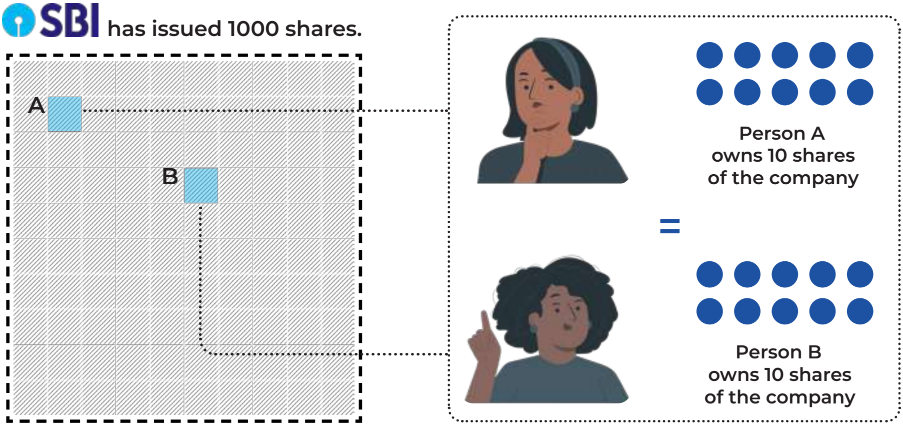
Person C owns 1% of the company

3 people hold one block with 0.33% of the company

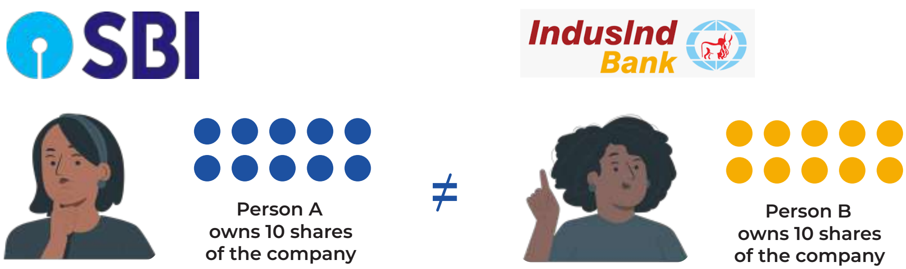
Entities such as Company's Promoters and large investors usually own a significant portion of any company. In the above illustration, we can see that Promotors own 16% of the corporation, which translates to 16 blocks, and Large investors own 12% of the company which is equal to 12 blocks.

For example,

SBI has issued 1000 shares.



It is important to note that if you own 10 shares of the company it represents the same value as someone else who has 10 shares of the same company. This essentially means that all the pieces of land i.e. shares behave in the exact same manner irrespective of who owns them. This means each share behaves as per the overall company performance and that is what we will learn to evaluate.



What is Market Capitalization?

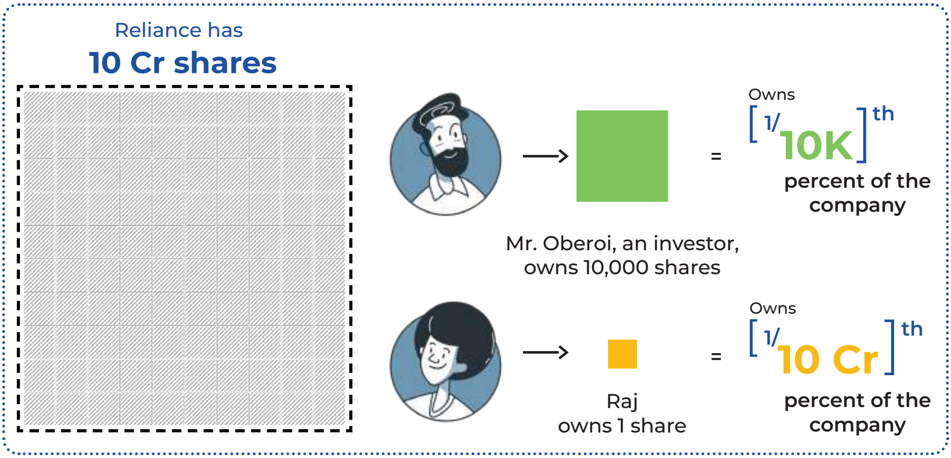
Market capitalization refers to the entire number of outstanding shares in the market multiplied by the current price of each share. It determines the total value of a firm as of today.

Market Capitalization = Price per Share x Total No. of Shares Issued

For instance, If Reliance has 10 crore outstanding shares with a share price of ₹ 2,000 each, then the Market Capitalisation of Reliance is 20,000 crores (2,000 x 10 crores)

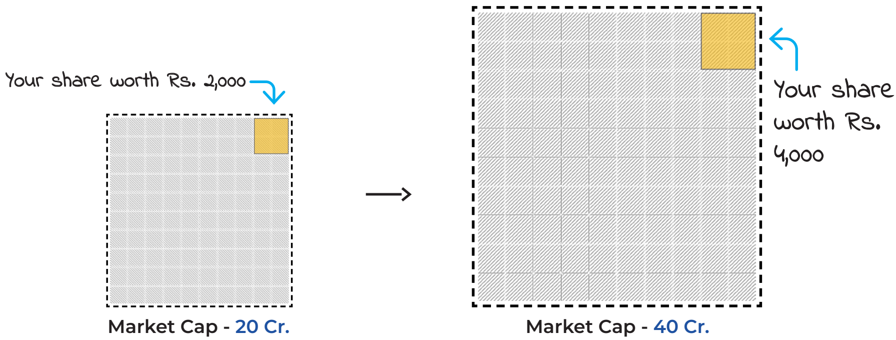
When we look at stock prices, we look at the price per share and not the company's total value. So for ₹ 2000, you receive one share of Reliance. We will see going forward how we need to focus more on the market cap over the price per share.

For example,



So, even if you own one share you are becoming a partner of (1/10cr)th percent of the company and buying a small ownership in this value. Whereas, Mr. Oberoi, an investor, who owns 10,000 shares of the same company will hold a larger portion of the Company. **However, all the shares will go up and down by same value. This is how stock ownership works. You own a small part of the entire business.**

For your ₹ 2,000 to become ₹ 4,000, the market capitalization of Reliance must increase from 20,000 crores to 40,000 crores. This will happen as the company increases its profits and also with everyday fluctuations in the share price.

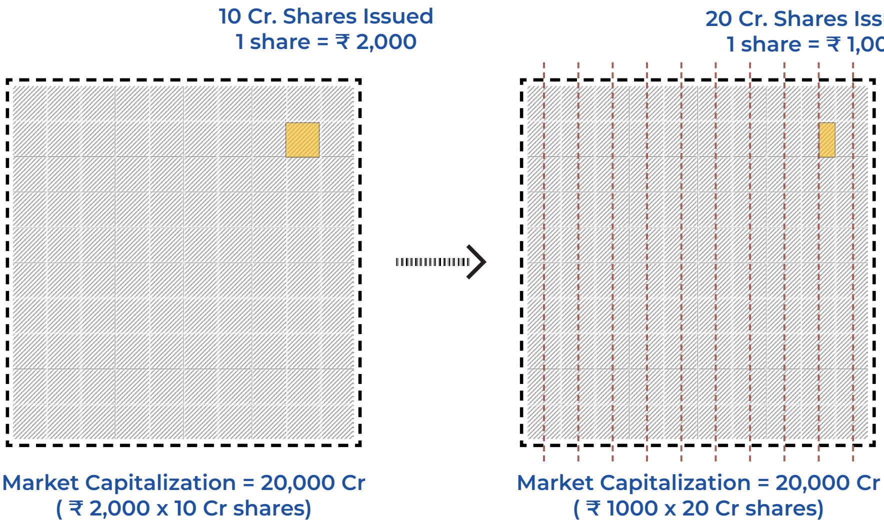


"You can never benefit alone; the entire company and all its share holders benefit or incur losses together. Even though we only own a small portion of the company, the entire company has to grow for our value to grow."

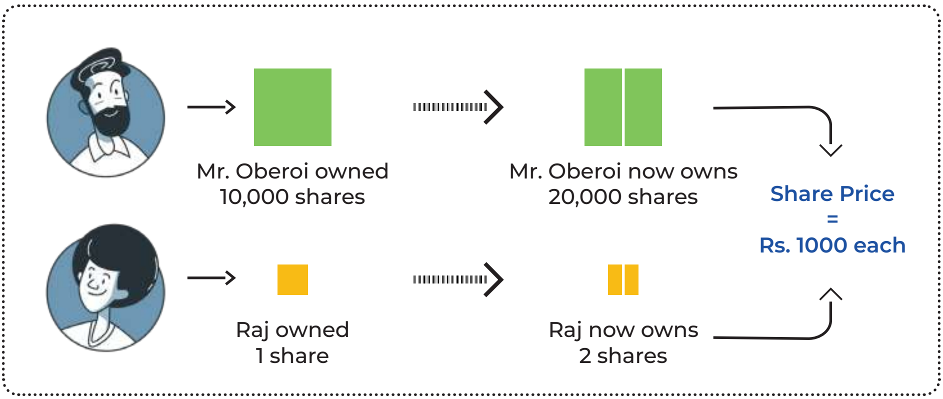
Market cap denotes the overall size of the company and as a result market capitalisations holds more importance than the price per share. This is because the company can increase or decrease the no. of shares and change the price per share but cannot change the market cap. It is the total value of the company as decided by the market.

For instance, Reliance could split its share in half at any time.

As a result, 1 share with a value of ₹ 2,000 is divided into 2 shares with a value of ₹ 1,000 each. As a result, a person owning 1 share, now owns 2 shares. Likewise, Mr. Oberoi who previously owned 10,000 shares will now own 20,000 shares at half the value.



Remember: The company's market capitalization remains unchanged in this case. Only the price of each stock is decreased by half.



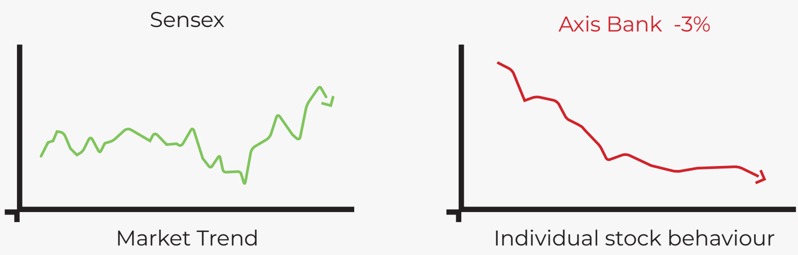
Share price went down by 50% just by changing the no. of shares. So, when we talk about any company's size, we essentially mean market capitalization of the company.

Notes

1.4 Sensex and Nifty

Two major stock indices in India are SENSEX and NIFTY. Stock indices are a group of stocks that represent the entire stock market. Its a basket of 30 (50 for NIFTY) stocks that includes the largest listed companies of India and represent the overall health of stock markets.

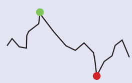
In the stock index, multiple stocks are included and each of them is given a weight. For e.g. Reliance is 12% of Sensex, HDFC Bank is 9% and soon. Now the overall movement in each stock multiplied by their weight determines the overall direction of the stock index and therefore the market. No one stock can influence the nifty or sensex. Its overall market trend of companies that moves the Nifty or Sensex.



So the stock market cannot be judged from the **performance of a single share.**

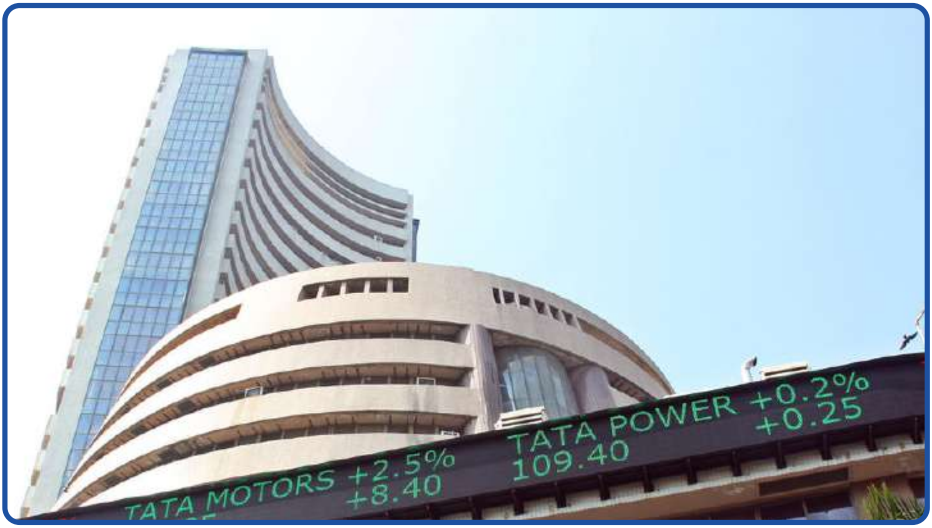
That's where the term "Index" comes into play.

The stock market index acts like a barometer that shows the overall conditions of the market. A stock index is a metric for determining how the market is moving. It keeps track of pricing changes and market performance.

Company Name	% Chg	Today's Trend	% Chg	Past 30 Days' Trend	365 Days' % Chg	Past 365 Days' Trend
Asian Paints	0.78		-12.16		-8.19	
HUL	0.14		0.72		-7.59	
Axis Bank	-0.05		0.16		-11.13	

BSE - Bombay Stock Exchange

Sensex is an index of the top 30 listed companies in India. Sensex is managed by the Bombay Stock Exchange (BSE). Each company contirbutes to the overall portfolio. For example, 6.3% of Sensex is contributed by HDFC. These are also called 'weights'. The companies keep on changing and so does their weight of each one. Each stock in Sensex moves and the movement is multiplied by their weights. This gives the overall change in sensex on a daily basis. We can see the weights in the next page.

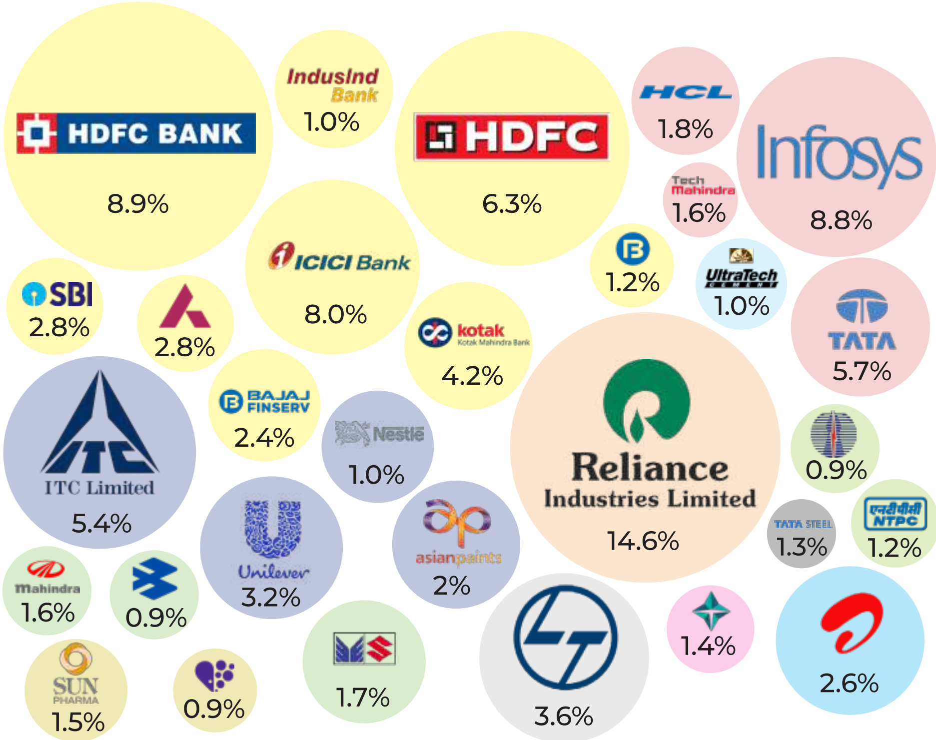


NSE - National Stock Exchange

Nifty works in a manner exactly similar to Sensex, however, instead of covering the top 30 companies in India, they cover the top 50 companies. Also, Nifty is managed by the National Stock Exchange (NSE)

Sensex

The Sensitive Index is abbreviated as Sensex. It is the portfolio of 30 companies from various sectors. Let us look at the different stocks in SENSEX and their weights. These weights are re-evaluated every 6 months.



Industry Sectors

Financial Services - 40.4%	FMCG - 11.2%	Telecom - 2.6%	Consumer Goods - 2.1%
Info Tech - 17.9%	Auto - 4.2%	Cement - 1%	Metal - 1.3%
Oil and Gas - 14.6%	Pharma - 2.4%	Power - 2.1%	Capital Goods - 3.6%

source: www.bseindia.com, July 2022

A change in the price of stock refers to the increase or decrease in the market cap of the company.

The process of (Weightage * % Change) is done for each stock. The cumulative sum of (weightage x percent change) represents the total change in Sensex.

Jun 3, 2022 (Close) BSE Index: 55,769.2 (-50 pts / -0.1% ↓)

COMPANY ▲	INDUSTRY	MARKET PRICE (Rs)	CHANGE (%)	NO OF SHARES (m)	MARKET CAP.** (Rs m)	FREE FLOAT ADJ. FACTOR	WEIGHTAGE (%)
ASIAN PAINTS	PAINTS	2,887.0	-0.7% ↓	959.2	2,769,204	0.5	2.1
AXIS BANK	BANKING	676.5	-2.2% ↓	3,061.5	2,071,081	0.9	2.8
BAJAJ FINANCE	FINANCE	6,030.1	-0.5% ↓	602.6	3,633,662	0.4	2.5
BAJAJ FINSERV	FINANCE	12,691.1	-2.1% ↓	159.1	2,019,621	0.4	1.2
BHARTI AIRTEL	TELECOM	686.4	-1.4% ↓	5,455.6	3,744,695	0.4	2.6
DR. REDDYS LAB	PHARMA	4,334.4	0.1% ↑	166.3	720,794	0.7	0.8
HCL TECHNOLOGIES	SOFTWARE	1,042.6	0.3% ↑	2,713.7	2,829,267	0.4	1.8
HDFC	FIN. INSTITUTIONS	2,278.1	-0.5% ↓	1,800.2	4,101,026	1.0	6.4
HDFC BANK	BANKING	1,380.3	-0.4% ↓	5,507.7	7,601,943	0.7	8.8
HUL	FMCG	2,292.2	0.3% ↑	2,349.6	5,385,535	0.4	3.2
ICICI BANK	BANKING	743.6	-0.9% ↓	6,903.7	5,133,587	1.0	8.1
INDUSIND BANK	BANKING	924.3	-2.0% ↓	757.1	699,754	0.9	0.9
INFOSYS	SOFTWARE	1,522.0	0.9% ↑	4,259.6	6,483,093	0.9	8.8
ITC	FMCG	272.8	-0.2% ↓	12,305.1	3,356,220	1.0	5.3
KOTAK MAHINDRA BANK	BANKING	1,858.2	0.0% ↑	1,980.5	3,680,027	0.7	4.3
L&T	ENGINEERING	1,651.6	0.9% ↑	1,404.3	2,319,270	1.0	3.6
M&M	AUTO	1,028.6	-1.5% ↓	1,243.2	1,278,748	0.8	1.5
MARUTI SUZUKI	AUTO	7,707.1	-2.8% ↓	302.1	2,328,146	0.4	1.6

Each stock in the index is assigned a particular weight.

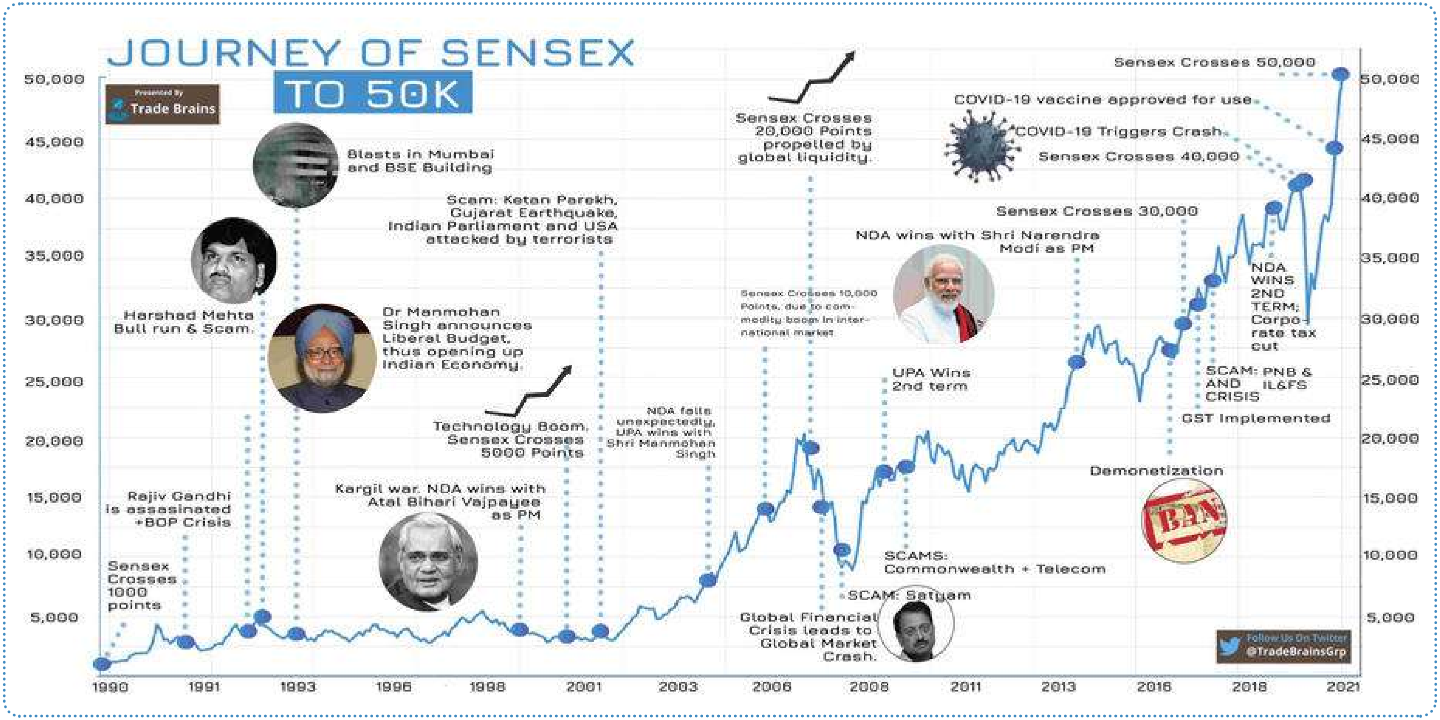
Weightage means the importance of any stock in the stock market index.

The sum total of Weightage of all stocks in any index is 100 %.

The free-float method takes into account the proportion of the shares which are readily tradable in the market and does not include the ones which held by various shareholders and promoters or other locked-in shares not readily available in the market.

Source: https://www.equitymaster.com/india-markets/bse-replica.asp

SENSEX Growth Timeline from 100 points to 52000 points
This 41 year journey of the Index has handsomely rewarded those investors who have been in the market for long term.



Source: https://stableinvestor.com/2019/09/explained-nifty-indices-nifty50.html

NIFTY

It is a combination of two words namely National Stock Exchange and Fifty, and represents the top 50 equity stocks traded on the stock exchange out of a total of 4000.

Nifty is managed by the National Stock Exchange (NSE)

NIFTY tracks the performance of the top 50 blue-chip businesses, which are the most liquid and largest in India. Similar to NIFTY, we also have other indices that represent particular part of the market.

The number of companies chosen for each of these indices may vary, but the working of it remains the same.

NIFTY 50

Represents are the largest 50 companies.

NIFTY Next 50

Represents next 50 large companies that have potential to make it to NIFTY 50.

NIFTY Bank

Represents the Banks companies.

NIFTY IT

Represents the IT companies.

NIFTY Mid-Cap

Represents the medium sized companies.

NIFTY Small-Cap

Represents the small cap companies.

“When Sensex and Nifty rise, it signifies that the majority of the large companies traded on BSE and NSE have had a positive trend in their share prices. Similarly, when Sensex and Nifty fall, it means that the stock prices of most of the top BSE and NSE stocks have fallen.”

Conclusion

We’ve learned that indices represent the entire market, such as the Nifty and Sensex, or specific market segments, such as the Nifty Auto Index, Nifty Bank Index, BSE small-cap index, BSE mid-cap index, and many others.

We also understood how the stock market indexes such as Sensex, Nifty, and other indices work.

Now, Let’s get started by diving deeper into stocks!

1.3 Size of Companies

As a beginner, we have a lot of questions when investing in the stock market. We need to develop sufficient expertise to analyze which stocks are a better fit for our investing plans and priorities because the stock market has a diverse investment options. Each offering offers a different level of risk and a different level of return potential.

Companies traded on the stock exchanges can be categorized into these three broad categories based on their Market Capitalization. These classifications are important to understand the behaviour of the stocks.

Large-Cap

Market Cap is > 10,000 Cr.

- Suitable for investors with a long-term investing horizon looking for lower risk.
- Less volatile and highly liquid.
- Little risk, relatively lower returns.
- Good reputation and higher chances of generating stable returns.

Mid-Cap

1,000 cr. < Market Cap < 10,000 Cr.

- Suitable for moderately risk tolerant with long term investing horizon.
- Relatively more volatile and quite liquid.
- Higher risk than large-cap.
- Relatively higher return potential.

Small-Cap

Market Cap is < 1,000 Cr.

- Suitable for risk-seeking investors.
- Highly volatile and less liquid.
- Higher risk,high returns.
- Higher potential for growth compared to large cap and mid cap.

These numbers are general indicators that change as the economy grows.

Large-Cap Companies

Large-cap Companies have a market capitalization of greater than 10,000 crores.

Reliance Industries
Market Summary

Market cap of Reliance Industries is 18,82,000Cr.

Hidustan Unilever Ltd.
Market Summary

Market cap of Hindustan Unilever Ltd. is 5,39,000Cr.

Source: https://www.google.com/finance/

Mid-Cap Companies

Mid-cap Companies have a market capitalization of greater than 1000 crores but less than 10,000 crores.

TCI Express Ltd.
Market Summary

Market cap of TCI Express is 7,110Cr.

Mahindra Logistics
Market Summary

Market cap of Mahindra Logistics is 3,580Cr.

Source: https://www.google.com/finance/

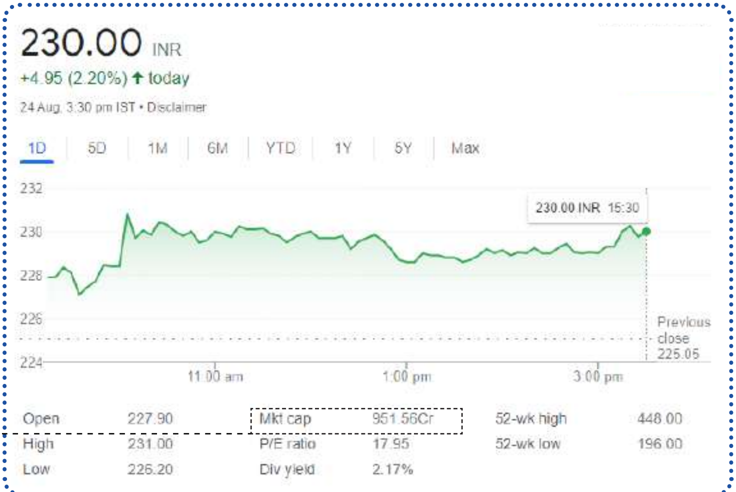
Small-Cap Companies

Small-cap companies are defined as companies with a market capitalization of fewer than 1000 crores.

Zee Media Corporation Ltd.
Market Summary

Market cap of Zee Media is 1,010Cr.

Aptech Ltd.
Market Summary



Market cap of Aptech Ltd. is 951.56Cr.

Source: https://www.google.com/finance/

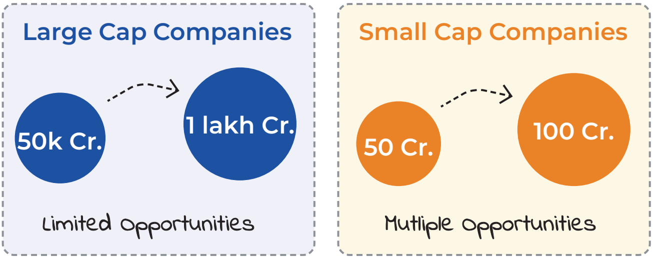
Please keep in mind that these definitions and figures are subject to change as the market prices usually fluctuate from here. Different people approach it in different ways, but we'll stick to these standards for the sake of simplicity.

Lets Dive in Deeper...

Large Cap Companies

Large-cap companies are large, well-established, and have a long history. They are relatively less risky because they have long operating history and large markets.They are stable and large businesses and therefore have lower potential return.

Let's take the case of Reliance Industries, which has a profit of Rs. 50000 crore. Now they must find another 50000 crores of earnings to double their profits, which will take time as compared to companies with 50 Cr.



Small Cap Companies

Small-cap enterprises have a market capitalization of 700 crores and profits of 30-50 crores. They aren't as stable as large cap companies. They have a lot of uncertainty about scaling up as they will be experimenting with new items. As a result, they have a higher risk, but they also have a larger return potential if they succeed in scaling up.

Sharma Ltd CO, which has a market capitalization of 50 crores, seeks to quadruple its profitability. They have way more opportunities as compared to a 50k Cr. company trying to quadruple.

Mid Cap Companies

Mid-cap companies are usually very useful in portfolio diversification as they provide a balance of growth and stability. They have a relatively smaller share in the market in comparision to the large-cap companies. They have higher risk than large cap companies but lower risk than small cap. They offer lower potential return than small cap and higher return than large cap. companies.

For example:

BLUE STAR
BLUE STAR INFOTECH

Blue Star has a market cap of 9,477 Cr. which falls under the range of 5,000 - 20,000 Cr. So we can say that it is a Mid-cap company.

.2

How Stock Prices Move?

Previously,

We learned about the fundamentals of the stock market and its overall working. We understood what exactly a share is. Now let us move further with how an individual can get their money in the stock market? What is its underlying system and structure?

We also need to understand the economics of the financial markets and how the capital flows in financial systems.

Indian Economy

Indian Economy

The Indian Economy is represented by a diverse range of industries. The majority of these are small businesses as compared to few large corporations. To raise large amounts to grow their business, these businesses list themselves on Stock Exchange.

Industries and Companies

The overall economy is composed of various industries and companies. We can find them on the stock market as well.

Earnings

When shares of the listed companies, we are essentially buying small ownership of the earnings. It is assumed that these companies. As the company grows, the individual investment in the form of share prices will rise as well.

2.1 Understanding Earnings

When we analyze any given company, we need to understand the quality of its earnings in detail.

Size of Earnings

Size of Earnings refers to our company's profits in a given quarter or fiscal year (1st April 2021 to 31st March 2022).

For example say,

Wipro	Infosys
Earns an annual profit of **100 crores.**	Earns an annual profit of **200 crores.**

So , here we can say that
Infosys has larger size of earnings as compared to Wipro.

Companies can Increase the size of earnings by

Increasing Volume of Goods Sold

The first way to increase the size of earnings is by increasing the volume of goods sold.

x **₹10** *Price per unit* = **₹1000**

x **₹10** *Price per unit* = **₹1500** *Increase in earnings*

For example, Cadbury sold 100 units of a product for Rs 10 each, and now they aim to sell say around 150 units of the same product at the same price. This will result in an increase in sales as well as profits.

Increasing Price of Goods Sold

Another alternative to increase earnings is by raising the price of the product/services offered. However, not every company can do that unless it has a advantageous market presence like Nestle, Cadbury etc.

x **₹10** *Price per unit* = **₹1000**

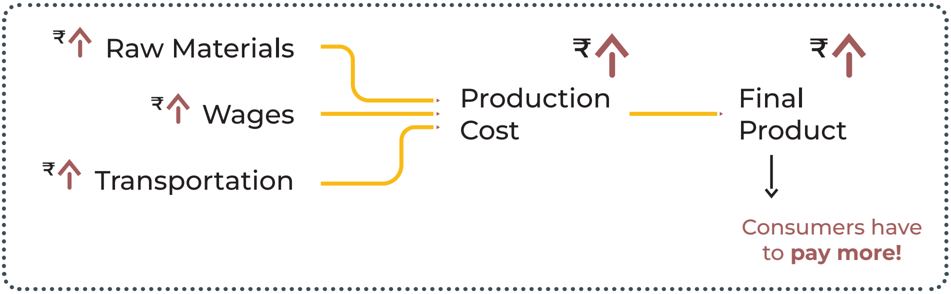
x **₹11** *Price per unit* = **₹1100** *Increase in earnings*

For Instance: Maggie sells 1000 units of Product A at a price of Rs 110 instead of Rs 100 each. This 10% increase in price will reflect in the earnings of company as well.

Further, the price of any product can increase due to -

Inflation

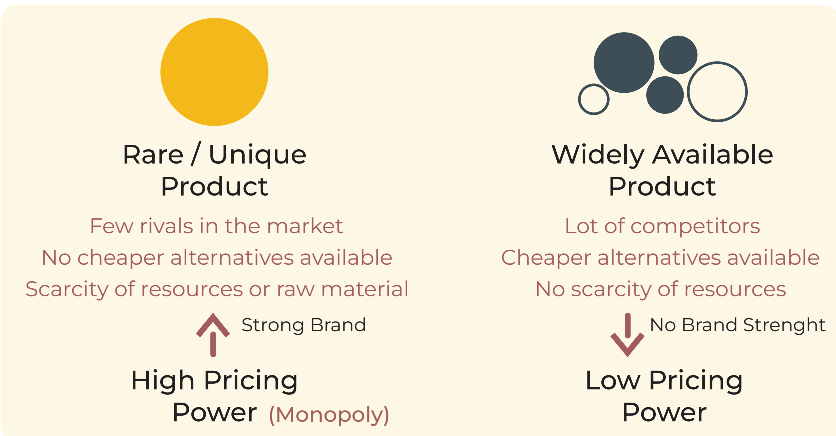
Inflation leads to an increase in prices of final goods due to an increase in production costs, such as raw materials and wages. The increased cost of production is passed onto the consumers in the form of higher prices of the final products or services.



Pricing Power

It refers to the degree of power a business has to increase its prices without letting its demand fall. For example, if Maggi increases its price from Rs. 10 to Rs. 12 per pack customers will still buy it. This indicates a high pricing power. However, if Spice Jet increases all its price fares by even 10% customers will switch to other flights. Therefore low pricing power exists in avaition industry.

If a company has a unique product, or a strong brand it can have a strong pricing power as there are no alternative products for the same and hence must pay the price charged. If there are lot of competitor products or services, the company will have a weak pricing power. Just sit back and ask, what will you do if a company increases its prices! If you will still consume, then company has pricing power and if not then the company does not have pricing power.



Pricing Power Examples

Parle-G

Parle-G biscuits have become a household name in India.

Primarily eaten as a tea-time snack, Parle-G is one of the oldest brand names in India. Initially Parle G was sold at Rs.2. The same quantity is now available for Rs 5, which indiciates a 2.5x rise in the price of the product in, say, 10 years.

Has there been so much inflation? Actually No!

However, Parle G has been able to increase its prices faster than inflation, which demonstrates its pricing power.

McAloo Tikki

McDonald's burger, which was once available for Rs.20 is now sold for Rs.40. It has been able to boost the prices of its products, and still maintain a high volume of sales.

Their sales have not dwindled due to rise in prices which means they have strong pricing power. As a result, the size of profit grows.

"Product prices rise at the same pace as inflation and, in some cases faster, due to pricing power. This refers to the ability to increase prices without reducing the volume of sales."

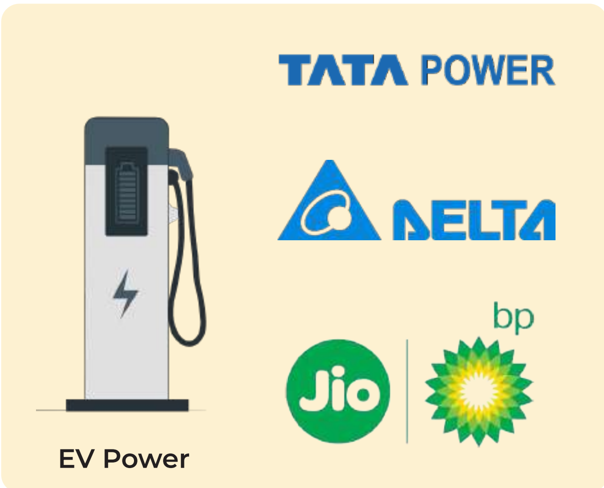
Quality of Earnings

The second component to understand earnings is the Quality of Earnings. Although Quality of Earnings is more subjective to understand and interpret, it is a very crucial element.

It essentially means that all earnings are not the same. They are determined by the business and the underlying strengths of the industry. Two companies earning 50 cr. each in PAT might have very different quality of earnings despite size being the same due to industry and business conditions.

Let's say there are two companies.

One operates in an industry that is being promoted by the government, is growing 20% y-o-y and has no substitute and low competition. Versus, another company that has been flat for the last 3 years and has high competition. Now, both companies may produce 50 cr. in profits, the quality of the first company's profits is much higher as compared to the second.



EV power is subsidised by the government.

Petrol power is in abundance and decreasing with time.

When we analyze the quality of earnings, we look into the health of the industry, company and its financials. We will ask questions like:

Industry

Is the industry large?
Is the industry growing or depleting?
Is the industry too competitive?
Is there any risk to the survival of the industry?

Business

Is the company competitively strong and well positioned?
Is the company's sales sustainable?
Is there any major survival risk the company faces?
Is the business run by able managers?

Financials

Does the company generate strong profitability?
Does the company have too much debt?
Is the sales growing for the company?
Is there any major liability coming up?

Conclusion

When we think of buying ownership in the earnings of a company, we must essentially evaluate its quality and size of earnings.

- We have discussed the various factors that influence the quality of earnings.
    - If the fundamental strength of the industry and business is weak, the company will be undervalued.
    - If the quality of earnings improves during our ownership, then our risk decreases.
    - Let's say certain elements emerge that function as a catalyst, and the company expands very quickly. As a result, the risk of longevity is now eliminated.
    - We will also get significant returns on our holdings.
- We must evaluate the organization and its capacity to increase its size of earnings.

Notes

2.2 True Value & Market Value

In the previous chapter we learned about earnings, its size and quality and how to evaluate a company based on them. In this section, we will understand how the stock price actually move.

We will be going through fundamental terms True value and Market value.

Value of a Stock

True Value

True value or the intrinsic value of a company is based on the fundamentals of a company its strengths and growth potential. Though this number is not quoted anywhere.

- This is subjective in nature and calculated after analysis of the company.
- Different people can have different true value for a company.

Market Value

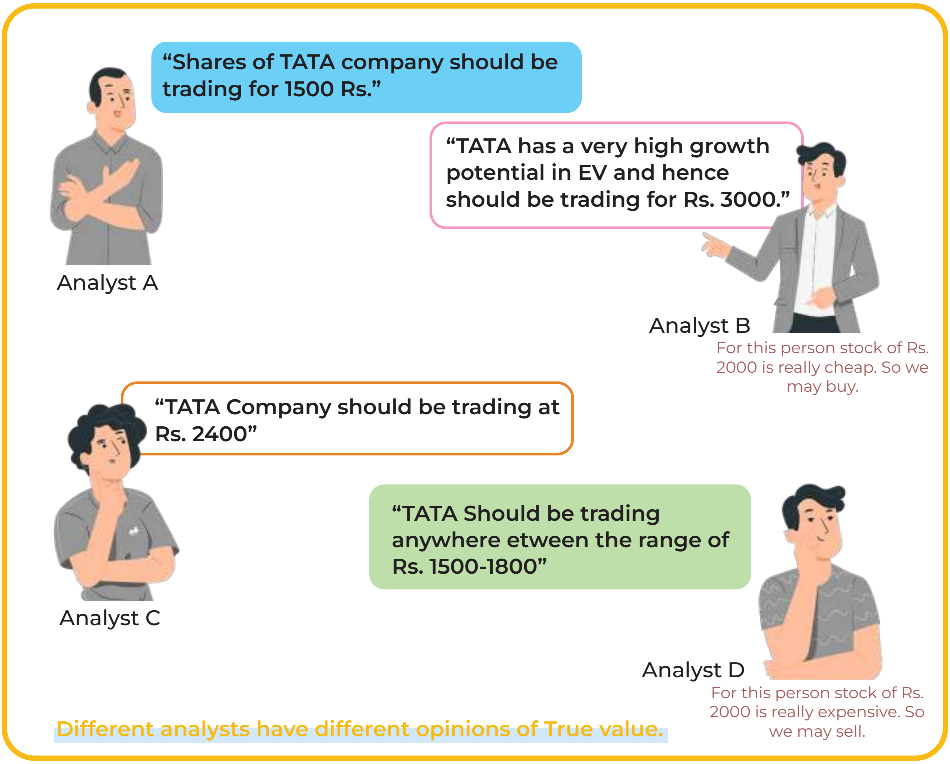
Market value is the current price of a company's stock. It is the price quoted at which the stock is traded. (You can see this on CNBC or stock market applications)

What should be the true value of any given company's market share?

The true value, unlike market value is not quoted anywhere.

If there are 4 analysts: Each of them can have different true value estimate that they believe for the company.

An analyst must understand a company's basic fundamentals and conduct a detailed research to estimate the true value for themselves. It is a highly subjective interpretation.



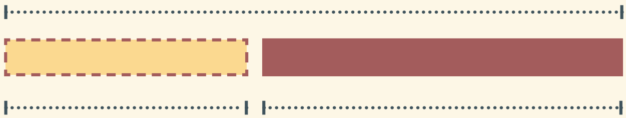
As a result, true value varies depending upon how each individual perceives the company. As previously mentioned, it does not have to be an exact value, and can be a range as well.

Now lets understand how true value and market value are linked together. Market value is the sum of true value and the sentimental value associated with the stock.

Relation between Market Value and True Value.

Price quoted in market.

Market Value



True Value

Sentimental Value

Actual value of stock.
Not volatile.

Value derived from emotions around that stock. Positive emotions meaning high sentiment value of stock. This is extremely volatile in nature and solely depends on market sentiments.

Do not invest in based on sentimental value, it is temporary.

Say for a company, the true value estimated is Rs. 100, So we can say that Rs. 50 is sentiment value due to positive sentiment around the company and the market value is Rs. 150.

On the other hand, Sentimental value can also be negative in some cases where the market is not so bullish about the stock. Say, you assume a company to be worth Rs. 100 per share but is quoting for Rs. 50. So the sentiment around it is not too positive i.e negative 50.

True Value	Rs. 100
Sentimental Value	(-) Rs. 50
Market Value	Rs. 50

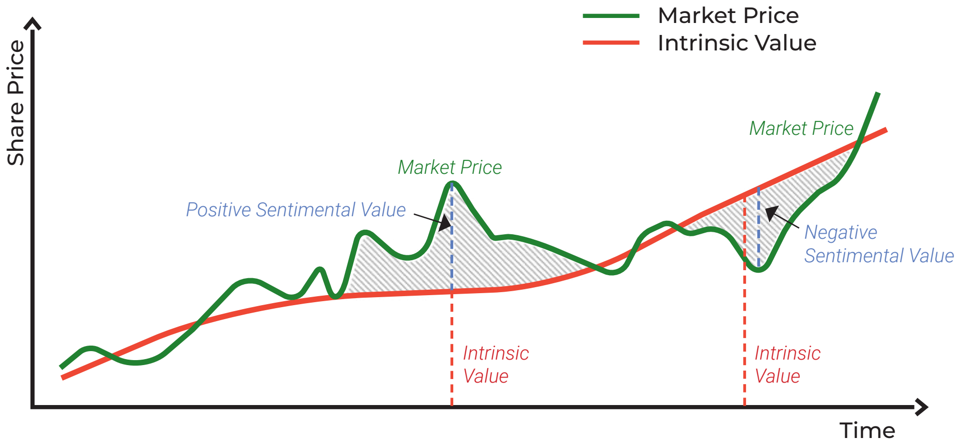
In these cases, such stock is trading at a discount than it's actual intrinsic price.

Now, the catch is, you can easily find the market value on BSE website/stock market applications.

However, the split between true value and sentiment value is something that every investor needs to analyse and estimate. If you are roughly correct, you will earn good return.

The art of valuation is important.

We will need to evaluate the true value of stocks and take investment decisions based on them. We will learn more about this in the further chapter.



True Value

- The Red line represents the estimated true value and is an estimate.
- It fluctuates in reference to the performance of the company
- Therefore, if the company is doing well, its true value will also increase simultaneously, and vice versa.
- The increase in intrinsic value is due to a parallel increase in the quality or quantity of earnings.
- The true value can be anything depending on how the company's quality and quantity of earnings percieved by the analysts. If both the size and quality of earnings are stagnant, the True value will also be a flat line.

Market Price

- The green line represents the market price. This is the actual graph we see in the market.
- Keeps fluctuating up and down because of presence of sentimental value based on the market sentiments.
  - A bullish market means that a stock price or overall market will go higher due to postive sentiments.
  - On the other hand, with a downturn in the stock market, prices continue to decline and fluctuate due to negative sentiment.

"When we compare the intrinsic value with market prices, we observe that the former is significantly more stable than the latter. However, in the long run, the market price might always follow the intrinsic value."

Market pricing must follow intrinsic value in the long run.

Point 1

At this point as per the chart, the intrinsic value and market price do not have a significant difference.

Point 2

At this point, the Market price is way above intrinsic value by a significant margin. The underlying reason is the positive sentiment in the market and as a result market price is outpacing its intrinsic value. At this point we can say that the stock is overvalued. We will learn more about valuation in further chapter.

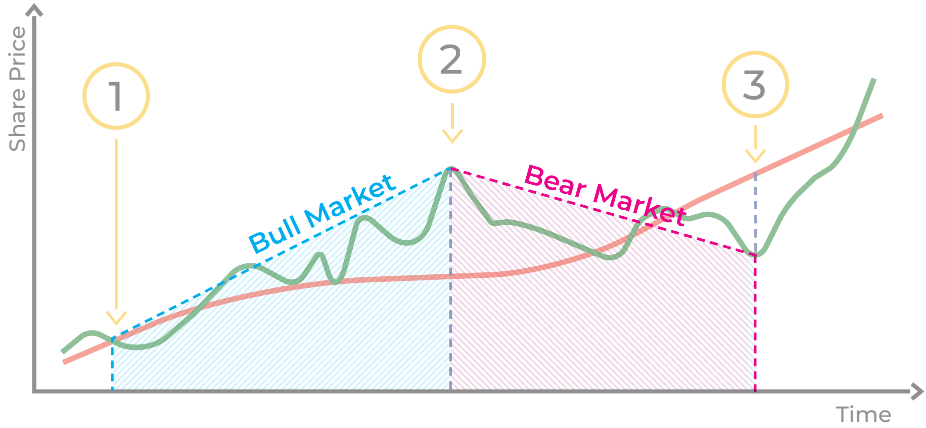
Point 3

We observe a negative sentiment in the market, that is why the intrinic value of the stock is more than the market price. We can say that the stock is undervalued here.

Learnings

In the long run, market prices moves around the true value. It may become periodically overvalued or undervalued, but largely it always moves around the true value. As analysts, our job is to find when it is undervalued and invest to benefit.

Bull Market v/s Bear Market



Bull Market

Bull market is the phase where the market participants are optimistic and have ample cash. As a result, positive sentiments exist and stock prices tend to go up.

This we can see in part from **1 - 2**.

v/s

Bear Market

Bear market is the phase where market participants are not too optimistic and cash crunched too. This leads to negative sentiment value as seen from point **2 - 3**.

Learnings

We generally try and buy stocks when they are undervalued. However, its not always possible to wait for Bear market, we should avoid very rich valuations of peak Bull markets.

> **"When others are apprehensive and hesitant due to the bearish market, instead of being afraid we must carefully invest in stocks. When others are greedy we must be concerned and fearful."**
>
> *- Warren Buffet*

Notes

2.3 How Fluctuations in Market Value Create Opportunities

Before understanding the opportunities, let us look at the 2 broad sentiments of the market.

Bull Market

A bullish market means that stock prices for the overall market will go higher due to the positive sentiments of the investors.

- High investor confidence and their is a positive sentiment around overall economic environment.
- Investors get greedy and fear of missing out starts to kick-in. Consistent buying of stocks pushes its prices up.
- Tip: Avoid extremely high valuations while buying.

Bear Market

A bearish market means that stock prices for the overall market will go down due to the negative sentiments amongst the people.

- Low investor confidence and people perceive that the market is risky.
- Investors are fearful and tempted to sell off their investments to eliminate the risk of losing even more money. Negative sentiments are inbuilt in the price.
- Tip: To make money we must look for buying opportunities here.

Opportunities Created

Bull market vs bear market - all affect the market prices.

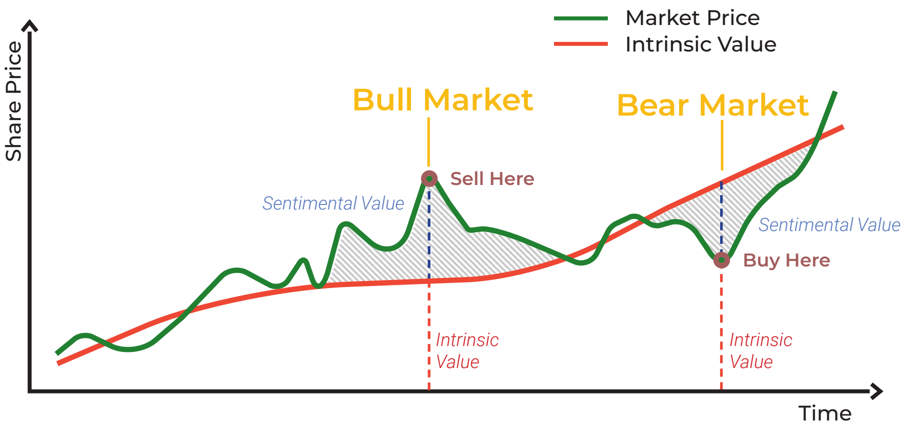
Whenever stock prices fall, the market value goes below the true value. This is good news- Buying Opportunity

However generally we do the reverse. We buy when the stock increases in the bull markets

Identifying these opportunities is hard but very rewarding.

Both Bull and Bear Market affect the sentiments and prices of the markets in general. However, these sentiments do not affect the true or the intrinsic value of the companies.

Let us understand Bull Market first



In a Bull market, the market tends to have more and more positive sentiments and this is in-built in the increased market prices as well. During these times, stock starts to trade well over its intrinsic value.

So, when we buy stocks in a bullish market, we need to be extremely cautious if we are paying for the true value or for the sentimental value that is in-built in the prices.

On the other hand, what if we purchase the shares in a Bear market?
When we buy during Bear markets we buy below the true value i.e. with negative sentimental value. As a result we tend to buy undervalued stocks. Now as the true value increases so do the sentiments, we tend to make profits which could have been missed due to high valuations.

So this is how opportunities can be created using bull and bear markets.

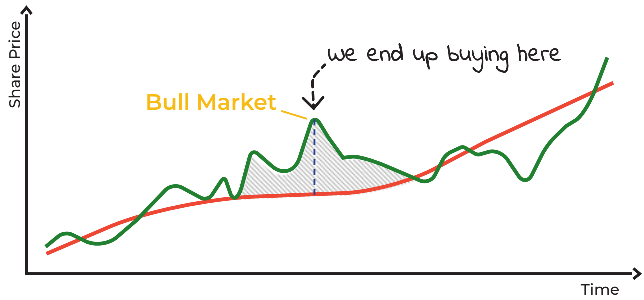
The purpose is to buy a share that is underpriced and sell it once the price exceeds the estimated value.

Buy a share whose true value is bound to increase due to improved quality or quantity of earningseven if the share is currently slightly overpriced. Increase in intrinsic value will ultimately increase the market price.

We ultimately want to buy stocks that are undervalued or for whom we can say that the true value will increase. Identifying opportunities is what we want from this book and this is what we will learn in the chapters ahead.

Where do we actually make mistakes?

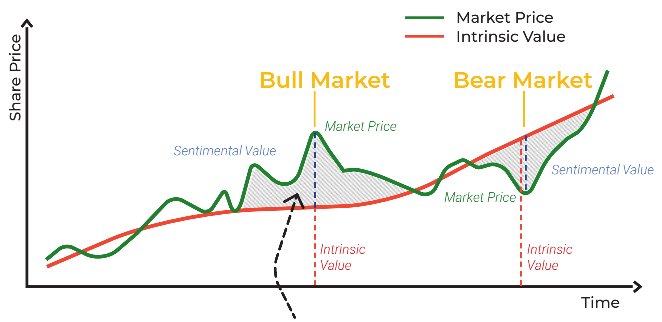
As retail investors, how do we generally behave in the Bull Market?



- During bullish times we have a lot of enthusiasm and believe that the uptrend will continue forever.
- With around-the-clock news coverage of financial markets, its updates, and news flashes that highlight a good return on investment, we usually end up buying stocks.

However, not all information is good and relevant. As investors, we must avoid the market noise.

Due to positive sentiments, the investor feels that the value of stocks will continue to an uptrend in the future as well.



- Ideally, we should buy stocks when there is negative sentimental value iunbuilt in stocks and **resist high valuations of the bull market.**
- However, we do the exact opposite. Rather than selling, we end up buying in a bull market and selling our stocks in a bear market area. In this process we incur losses and then run way from the markets!
- This is easier said than done, but we need to avoid the urge to give in to the fear of missing out, hearing our friends and as a result end up buying during high valuations.

What happens when we buy stocks low valuation?

We purchase shares at a lower price than their true or intrinsic value.

So, for example, the true or intrinsic value of the stock is around 100 Rs. However, in this situation, the market price is Rs.60. So the (-40) is the negative sentimental value inbuilt in price. Buying at these prices when everyone around us is fearful improves our chances for profits.

What would happen if we sell our stocks at low valuation?

We sell our shares at a price that is lower than their true or intrinsic value.

If we focus on the intrinsic value of stocks, we will notice that the fundamentals of the business have improved irrespective of the market price of the stock. However, our returns are negative since we are selling the stocks at the wrong time.

Company A share has

Market Value Rs. 60
True Value Rs. 100

What if we **Buy?**

+ Rs. 40

Positive Sentiment

Earned as we are able to buy cheap
Market value < Real Value

What if we **Sell?**

- Rs. 40

Negative Sentiment

Loss as we are selling when shares are cheap
Market value > Real Value

We want to buy when shares are cheap and sell when are too expensive.

This is how bull and bear markets affect market prices and create opportunities to buy and sell.

Institutional investors are trained to understand these market trends. They have a professional edge over retail investors when it comes to avoiding the market noise and controlling emotions. They fairly understand the rules of 'when to buy & when to sell.'

Therefore, as a retail investor, it is critical to understand the sentimental values embedded in the market price.

Avoid the temptation to buy when very high valuation exist and sell when very low valuations exist.

Identifying opportunities is hard, but it's rewarding. It takes a lot of discipline to read, analyze companies and keep a track of company's growth and business activities.

Do's

- Our focus should be mainly on determining or identifying the intrinsic value or real value.

Dont's

- Avoid buying when there is too high positive sentimental value inbuilt into the price.
- Avoid selling when there is too high negative sentiments in price.

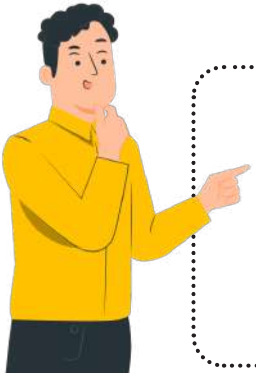
How to do these and identify opportunities is what we will learn in this book.

The best time to buy stocks is when its valuation is low.

There is always a chance that they will drop even further, but that is not what we are concerned about. If we buy at attractive valuations, irrespective where stock goes in short term, ultimately we will make money.

2.4 Value Creation

What creates value in the markets?



With time, the quality and quantity of earnings of good companies tends to go up. As this happens the real value of these companies go up as well and this is value creation.

As real value increases market value also moves around it which leads to attractive returns.

However, all this requires a lot of time and discipline. That is why it's said - Stock market is all about testing your Patience.

So What Is Value Creation?

When a company performs consistently, it increases the quality and quantity of its earnings, it leads to an overall increase in real value.

This value is captured when market value exceeds or follows its true value over time.

With time, the market value will reflect its true value, and we will be rewarded handsomely for identifying and investing those companies.

So when does real value increase?

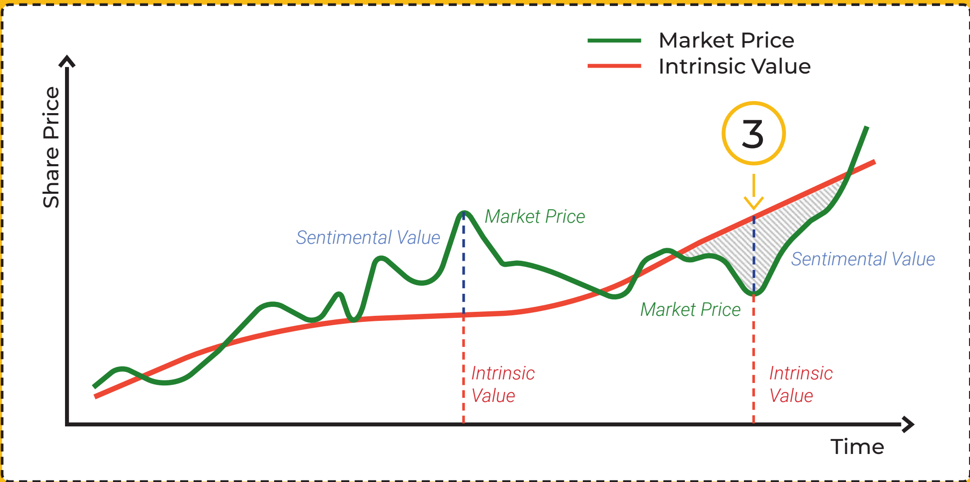
- A company's quantity of earnings has increased. It essentially means that the company has grown.
- When there is an increase in quality of earnings of a company. That is when the actual value is created.

We want to identify companies that can grow its true value at a reasonable place.

Understanding

Value Creation

Process



Value Creation

- Value creation process requires time and patience.
- As quality and quantity of earnings will improve, the real value will increase and this will lead to value creation.
- The market value will eventually follow the entire real value.

This is how the value creation process works, the quality and quantity of profits increase and creates value for us. It generates intrinsic worth, which is often followed by market price, which results in good investment returns for us.

Value Destruction

When size and quality of earnings go down.

Value Creation

When size and quality of earnings go up.

What is Value Destruction?

Value Destruction

- Due to unforeseen events and risk, the quality and quantity of earnings of any business can decline. It eventually weakens the fundamentals of the business.
- In such scenarios, value destruction happens when the real value starts declining instead of an upward trend. With time, the market price of stocks will also follow a similar pattern.
- In such circumstances, we will lose money and we would, be penalized for making bad investment decisions.

Reason

Our thesis while selecting a company went wrong due to multiple possible external or internal factors.

Value Destruction

Poor investment outcome.

We must be aware of the risks involved in the process of picking companies with different market or intrinsic values, especially when the market value is higher than the intrinsic value. We need a really good understanding of the quality of company that we are investing in. Losses will be incurred if wrong companies are picked.

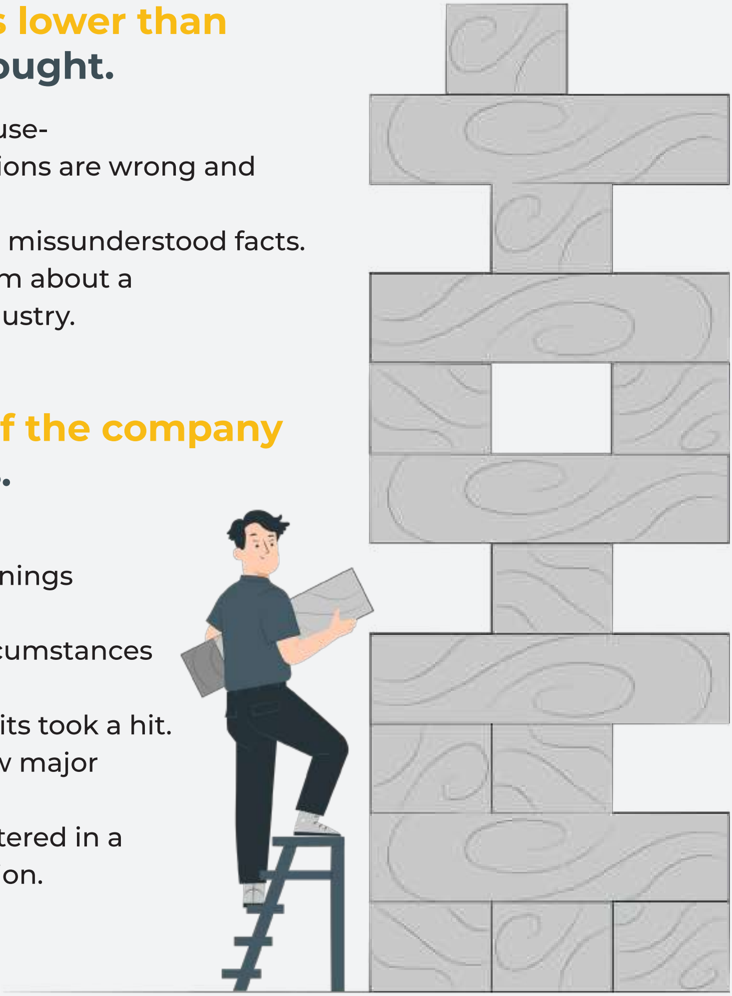
Let's look at where our analysis might go wrong.

Risks That We Face

Real value is lower than what we thought.

This can be because-

1.1 Our assumptions are wrong and influenced.
1.2 We may have missunderstood facts.
1.3 Over-optimism about a company/industry.



Real value of the company deteriorates.

This is because-

2.1 Quality of earnings deteriorates.
2.2 Business Circumstances deteriorate.
2.3 Industry profits took a hit.
2.4 Threat of new major entrants.
2.5 Company entered in a major litigation.

In most cases, these circumstances will lead to losses.

1.1 Our Assumptions may go wrong:

True or Intrinsic value is subjective in nature. It will vary from person to person as per their assumptions about the future performance of the company.

This is just our opinion.
The risk here is that we may be mistaken.

we estimate that the company's sales will increase to 3X in next 4 years.

Stock

*Based on this, we assume that the true value is around Rs. 1500, and **proceed with purchasing that stock available at Rs 1200 in the market.***

4 years later, sales has only increased to 1.5X and not 3X. Here our assumption went wrong and therefore, we will have a poor return.

We can be wrong with our estimates and assumptions in the process of determining the true value, and as a result, may end up buying overvalued share thinking they are undervalued.

For example,

We expected that NESTLE will grow at a rate of 15% per annum in terms of sales, instead, it grew at a rate of 5% per annum.

"Since the true value was lower than what we had assumed, we will end up with a relatively poor investment return."

Actual Value < Estimated True Value -----> Incorrect/Poor investment decision

So here, our assumption went wrong which lead to a poor investment decision.

1.2 Our understanding may have gaps:

Kia Celtos, BMW M3

Petrol Powered

Ola Scooters, TATA Nexon

Electrically Powered

Let us assume that we invested in a car company that produces only petrol vehicles.

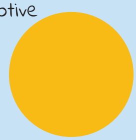
We conducted our research and came to the conclusion that EVs might not be able to capture a large portion of the automobile market. However, this did not happen.

- We've seen how electric vehicles are eroding the market for petrol vehicles. The electric vehicle industry in India is picking pace with new manufacturing hubs and increased push to improve charging infrastructure.

Lets say,

Maruti, Honda, Kia, Tata

Automotive Market

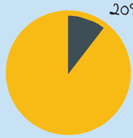


100% Market Share
Petrol Powered

5 years later

Ola, Tata, Ather, Hero

20% E.V. Market



80% Market Share
Petrol Powered

- 5 years later, electric vehicles occupy about 20% of the automobile sector whereas petrol vehicles which used to have 100% of market shar ehave reduced to 80% of the automobile sector.

We can clearly see that the trend is far more powerful than what we believed, and will continue to get stronger over time. Since we misinterpreted the facts during our analysis, we are being punished for the same.

Thus the second risk is that we have misinterpreted the facts. Our understanding may have gaps.

1.3 Over-optimism:

Over-optimism can be categorized as a psychological risk. Let us assume that your friend tells you that 'Cello' is a promising company. So now, even you consider Cello as a good company.

- So, in this situation, we are very confident that the company's share price will increase due to optimism we see around.
- We gave it a very biased and bullish assumption, we did not conduct our research. This is a classis example of over-optimism.

We believed that this firm was worth 1500 dollars instead of 1000 dollars because we love the product and a handful of our friends have suggested it.

2.1 Quality of earnings deteriorates:

The real value of a company can also go below its market value.

For example : We have invested in a company, whose performance has been satisfactory along with its quality of earnings. However, due to a new competitor, the quality of earnings have decreased with time.

Since the quality of earnings start degrading, the real value of the company also plummets, which ultimately leads to fall in stock prices.

2.2 Business Circumstances deteriorate:

- Business conditions deteriorated during COVID19
- Only a few businesses managed to flourish, while most industries saw a significant reduction in their activity and functions, such as restaurants and cinema industry.
- Even though many businesses bounced back to normal, a large number of companies still feel the pain 2 years after COVID. They got into high debt, lost the market and as a result real value was destroyed.
- As a result, when such unforeseen events occur, businesss may not be able to survive and in turn lead to value destruction.

Conclusion

- Losses are an inevitable part of any investor's journey. An investor, who has never incurred loss does not exist. It's a part of the process.
- Value destruction is the opposite of Value creation.
- We also saw the risks we might face while evaluating the real value of any company.
    - Our estimates could be completely incorrect.
    - It is possible that we're being over-optimistic and misinterpreting the facts.
    - The real value can deteriorate after we have bought the stock.

Thus Value Creation is when real value, increases due to an increase in the quantity and quality of earnings. If the true value rises, market value will eventually rise with it.

Now let us have a quick study of the different accounts we need to trade/invest in the stock market.

.3

Set-up your Trading Accounts

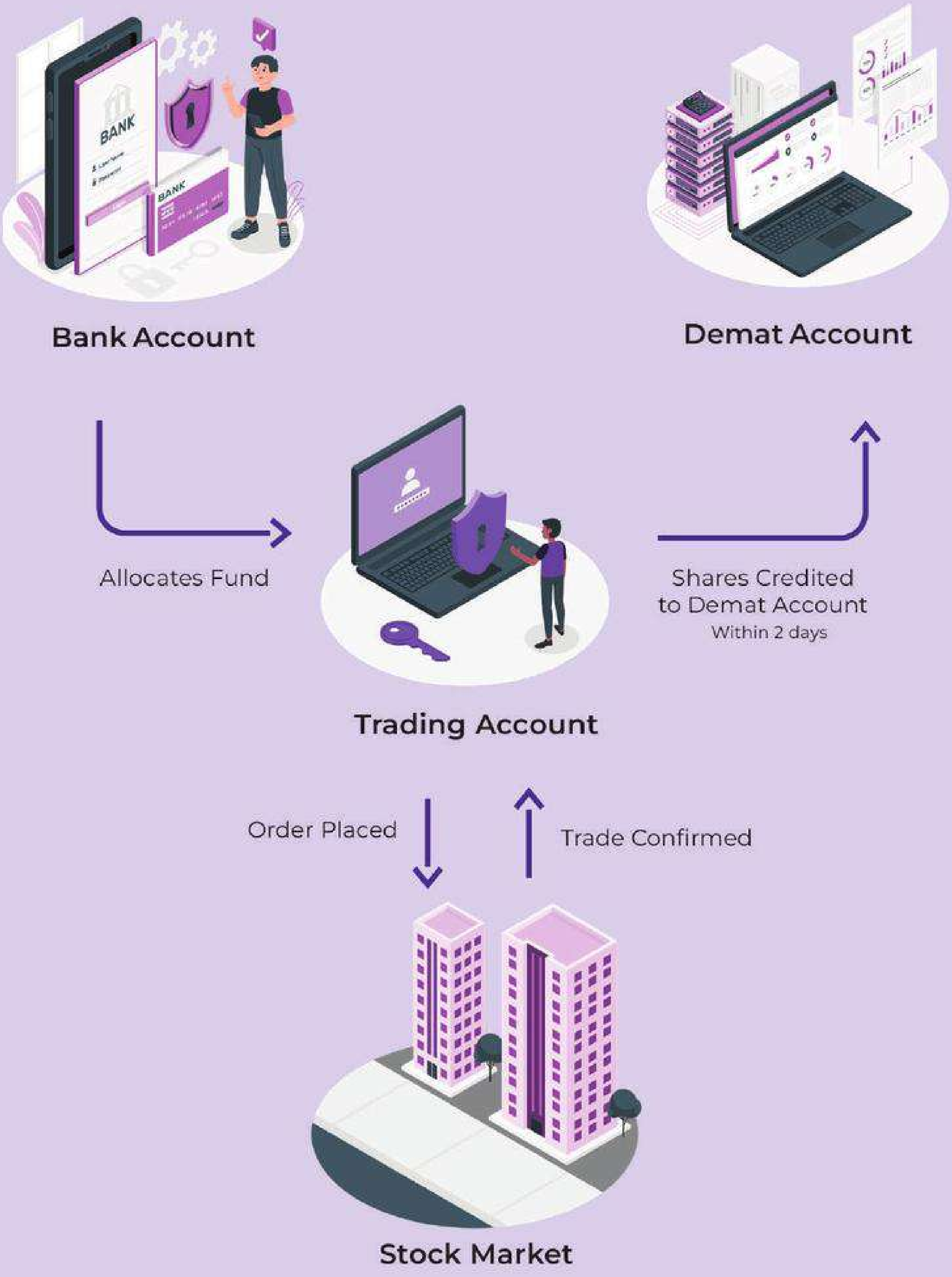
3.1 Acocunts Required to Trade in Stock Market

Introduction

Before we move forward to the next module let's quickly cover the accounts needed to trade in the stock market. Both investors and traders **require 3 accounts** to trade in the stock markets.

- ***Bank Account***
- ***Trading Account***
- ***Demat Account***

So lets Begin!


BANK
BANK
Bank Account
Demat Account
Allocates Fund
Shares Credited
to Demat Account
Within 2 days
Trading Account
Order Placed
Trade Confirmed
Stock Market

3.1 Accounts Required to Trade in Stock Market

Bank Account

A normal bank account where your money resides. It can be with banks such as SBI, Kotak Mahindra, HDFC, and many more.

Trading Account

A share broker account that allows you to trade in equity and stock market. This trading account must be opened via a broker such as Zerodha, Motilal Oswal, or Upstox. With a trading account, an investor can buy and sell stocks in the stock market.

Demat Account

A Demat account holds the equity shares purchased by an investor. Once we purchase shares, rather than getting a physical stock certificate we get digital version which is automatically placed in the Demat account..

When we Buy/Sell shares

- When an investor purchases a share through a trading account, the money is automatically deducted from the bank account, and stocks are digitally credited to the Demat account.
- Similarly, when shares are sold through a trading account, the money is automatically credited in the bank account and stocks are withdrawn from the Demat Account.

Stock

Research

1 Investing v/s Trading

2 Institutional Investors v/s Retail Investors

ZEBRALEARN

.1

Investing v/s Trading

Introduction

It is important to have a clear understanding of what is investing and what is trading. The basic principles and thought processes behind investing and trading are different we must clearly know when we are trading and when we are investing and behave accrodingly.

In this chapter, we will be looking at the difference between Investing and Trading, their mindsets, and how they conduct themselves on a daily basis.

Let us begin!

2.4 Difference between Trading & Investing

Trading	V/S	Investing
Short Term		Long Term
Technical Analysis		Fundamental Analysis
Generates Capital		Grow Capital
Benefits from Short Term Fluctuations		Ignores Short Term Fluctuations
Uses Charts, Candlesticks, etc		Annual Reports, Industry Reports, Management Meet etc.
Buy to sell		Buy to hold
Built around Crowd Following		Built around Contrarian Approach

Trading v/s Investing

Trading refers to buying and selling of shares to benefit from the short term fluctuations of the market. It focuses on market value rather than the true value. Traders show interest when there is a fluctuation in sentiments which leads to a rise and fall in market prices. **They are uninterested in the company's business and its growth. They are indifferent to the quality of goods/services and quantity of the earnings of a company. Thus, trading purely focuses on market fluctuations.**

Investing incorporates a **long-term approach** to acquiring stocks with the intention of holding and then **selling them when their real worth increases.**

Investors are interested in the company's business and growth. They keep a track of the quality and quantity of earnings, which ultimately results in an increase in true value followed by a rise in the market value.Here investors ignore short-term movements of stock price.

Short Term

Trading uses a short-term approach to buy and sell shares. **Its duration can range from a few minutes to a few months.**

Long Term

Investing refers to a long-term approach to the markets. **The investment usually lasts for 3-5 years or more as we try to benefit from growth in true value.** Since such growth demands a rise in quantity and quality of earnings, it won't reflect in the market in a few months.

Technical Analysis

Trading follows technical analysis. Technical analysis involves the usage of price and volume data of a stock to examine the demand and supply of the stocks. How much has the price changed? What is the volume behind it? Furthermore, to interpret the same, they apply various tools of technical analysis and generate trading ideas.

Thus, traders simply analyze and pay attention to the pricing and volume of trades using charts. They are uninterested in the company's business and its development. They are indifferent to the quality of the earnings of a company.

Fundamental Analysis

Investors conduct fundamental analysis. Investing aims for an increase in quantity and quality of earnings. Thus, Fundamental analysis involves understanding the industry and company, its products, competition, and management. These factors lead to changes in quality and quantity of earnings which ultimately affect the price of stock going ahead.

Investors do not focus on price movement. They rather look for attractive valuation, irrespective of its day-to-day movement, for the companies they like. Factors such as price and volume are not as valuable to the long term investors.

Generate Capital

Grow Capital

Trading generates capital. It follows a **high-risk high-return approach**. If things work out, a higher risk generates a higher return. Trading has been used to generate the investment capital, in the past by many investors.

Investing is a comparatively **low-risk low-return game when compared to trading**. Here the aim is to grow the capital that is generated through trading or business or a job.

Benefits from short term fluctuations

Ignores short term fluctuations

Traders benefit from **short-term fluctuations** as it solely depends on the market value of the stocks. **High volatility in the markets is beneficial for the traders in general.**

Investors often **ignore short-term fluctuations in market price.** Fluctuations are looked at from a valuation point of view, which allows us to enter the market at a reasonable price. **Investors are solely concerned with the fundamental strength of their company, its products, and markets, its industry, management, etc.**

Uses Charts, Candlesticks, etc

Annual Reports, Industry Reports, Management Meet

Trading primarily focuses on price and volume data, which it converts into tools such as **charts, chart patterns, indicators, oscillators, candlesticks, and many more.** The tools are very mathematical in nature.

Investing relies on analysis using **annual reports, industry reports, management meeting data, and other data points to help formulate an investment opinion.**

Buy to sell

Buy to hold

Traders purchase stocks looking for opportunities to **sell them according to their short-term approach to make profits from market fluctuations.**

Investors purchase stocks to hold for a longer period. During this timeline, they expect the true value of stocks to increase. **Our end goal is to make profits from an increase in the true value of the stocks.**

Built around Crowd Following

Built around Contrarian Approach

Trading principles are formulated around crowd following. A trader will go for the stocks which are purchased by a majority, assuming positive returns.

The idea behind crowd following is;
As more people get involved, prices will continue to increase, and eventually, we will be able to sell our stocks at a profit.
The candlesticks indicators and oscillators are tools that indicate the direction of the crowd.

Investing is built around a contrarian approach. When it comes to investing, we try to avoid the market noise or stocks which are very popular and therefore expensive to buy as positive sentiments are built into them. In such situations, they might end up buying overvalued stocks.

In the contrarian approach, we look for stocks that are not looked upon seriously or where the crowd is not directed. We do so to identify good companies with attractive valuations whose market value is equal to or less than the true value.

Many individuals do not have the initial capital required for investing. In such situations, we trade in limited capital to increase the capital by taking additional risks. This can however work both ways.
Once we've raised the capital, it starts to grow slowly and steadily. Once the capital base is of a considerable size, we protect it with low-risk low-return investments which compound with time.

This is how many investors have grown their capital. They have moved from generating to steady growth of capital. However, it's not required that we all trade. In fact, we can do just as well with stable salary/ profits and stable investments.

2.4 Differences in the mindsets of Traders and Investors

Trading	Investing
Instant Results	Delayed Results
Short Term Mindset	Long Term Mindset
Creates and Destroys Wealth Quickly	Creates and Destroys Wealth Slowly

High Greed and Fear

Instant Result

Trading provides with immediate results of whether we made profits or losses.

Delayed Result

Growth in true value **demands a rise in quantity and quality of earnings, it won't reflect in the market in a few years.** Thus , we cannot expect instant results and must have patience and discipline in the process.

Short Term Mindset

Traders operate with mindset of making profits in short period of time. They are essentially concerned with stock fluctuations in the next one month rather than the next 2-5 years.

Long Term Mindset

Since true value takes time to increase or decrease. Investors operate with a mindset of generating returns in a few years rather than a few months.

Creates and Destroys Wealth Quickly

Trading is a high-risk and high-return activity. Traders can take additional risks to generate capital which can instantly create or even destroy wealth. If the stocks are correctly selected then we will get short-term profits. On the contrary, wrong decisions can lead to losses immediately as well.

Creates and Destroys Wealth Slowly

Investing is a relatively low-risk low-return actively. Investing creates and destroys wealth at a relatively slower pace.

High Greed and Fear

The financial business is characterized by a mix of greed and fear. The stock market be it investing or trading are no different to this.

Difference between the Conduct and Day in Life of a Trader and An Investor

Traders	Investors
Typical Hours: 9:30 am - 3:30 pm	No fixed market hours
Market sentiments change each day.	Unaffected by daily market changes
Looks at various charts and conducts technical analysis.	Continuously ongoing analysis and conducts fundamental analysis
Does pre-market and post-market preparation and works on different strategies	Reads annual reports, interviews, Investor presentations and so on for better part of the day.

Notes

.1

Institutional v/s Retail Investors

1.1 Difference between Institutional & Retail Investors

1.2 Advantages to Institutional Investors over Retail Investors

1.3 How Diversification Works?

Introduction

In this chapter we will recall the difference between an institutional and a retail investor and the advantages that an institutional investor has over retail investors. In the last section, we will figure out ways to overcome our shortcomings as retail investors, in a very systematic manner.

2.4 Difference between Institutional & Retail Investors

Those who work for larger Companies/ Institutions and take investment decisions on behalf of the Institution.

Those who take investment decisions on their own money and do not professionally work in money management industry.

Institutional Analyst

(Full time job in the field of equity research)

Retail Investor

(Full time job in a field other than equity research)

Institutional Investor

An institutional investor is a person who conducts detailed research, reads annual reports of companies and analyzes the company and the industry as a professional. We can say that these people are working in Mutual Funds or Portfolio management companies as professionals to analyze companies and find good investment opportunities. Since they work along with companies and take investment decisions on behalf of large institutions, a substantial amount of money is involved.

Retail Investor

A Retail Investor, also known as an individual investor, is a non-professional investor who merely spends 3 to 4 hours per week analyzing a company and its industry. It includes anyone, from a lawyer, doctor, teacher, to your family who is ambitious and eager to invest. Since investment decisions are taken with their own money, or on behalf of friends and family, a small amount of money is involved.

2.4 Advantages to Institutional Investors over Retail Investors

Even though as retail investors, we have limitations, we will operate in stock markets with a very systematic approach. Now let us learn how to do the same:

It is important to have the **awareness**:

- We must acknowledge the fact that Institutional investors have an advantage over us.
- Institutional investors can invest and are in a better position simply because they devote more time and are much better trained professionally.

What could be the solution

Awareness

The very first thing is to acknowledge that we have a disadvantage over institutional investors. This should reflect in behavior too. How?
We will see soon.

Diversification

Diversification means holding a large number of company's stocks for smaller sums of money. The solution to systematically overcoming shortfalls of a retail investor is to diversify their investments.

Lets see how it reduces impact.

2.4 How Diversification Works?

First Method

Concentration

A portfolio where we hold **small number of stocks but each for a relatively larger amount.**

10 Stocks

10 stocks of equal amount worth Rs. 100

We can build our portfolio by purchasing 10 stocks at Rs 10 each. The portfolio size and total investment in this situation are Rs 100.

Second Method

Diversification

A portfolio where we hold a **large number of stocks but each for a smaller amount.**

25 Stocks

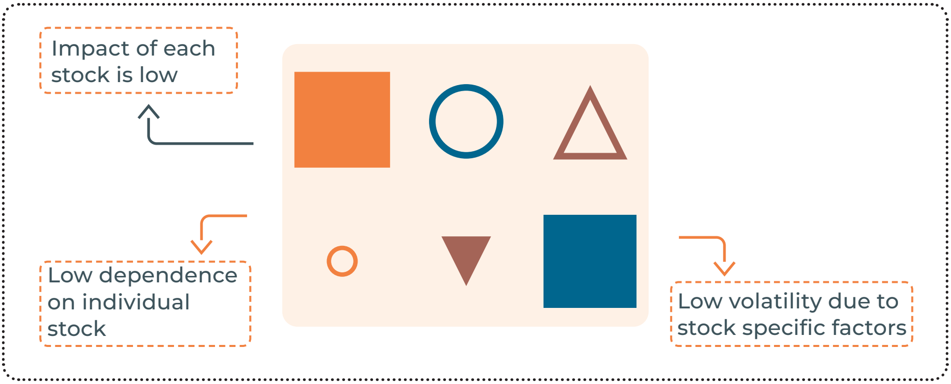
25 stocks worth Rs.100

Rather than purchasing 10 stocks for Rs 10 each, we will purchase 25 stocks for Rs 4 each. The portfolio size and total investment in this situation again are Rs 100.

Note

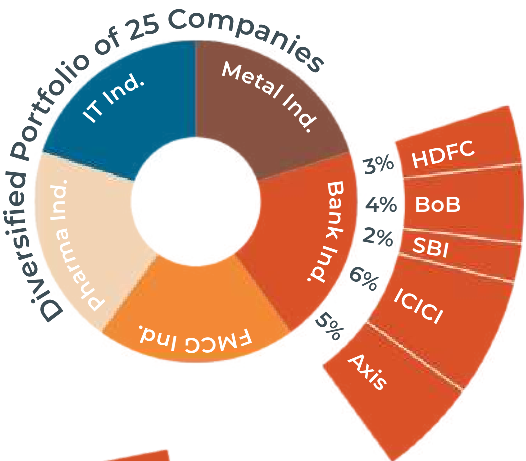
- Concentrated portfolio means that we are dependent on the performance of 10 firms. Although this may lead to higher returns, it also increases our overall risk as our exposure to each stock is relatively high.
- As retail investors, we will always try to create a diversified portfolio. We will acquire more stocks, for less amount each.
    - With a diversified portfolio investment strategy we will not incur major losses as we are not dependent on a small set of firms.
    - We can expect decent returns over time with this approach taking relatively low risk.

Features of Diversification



Impact of each stock is low

Let us assume our total portfolio size is Rs100 which is invested in 25 different stocks. Since we did not spend enough time researching the companies, there is a high possibility that we overlooked the risks involved in many companies.



With time, company A suffers a huge setback which leads to a drop in its stock prices by 60%!

3% of our total investments were in the company. Now, our portfolio will lose 1.8% of its value due to a 60% decrease in the stock price. As a result, we minimized our risk of losing a lot of value on our portfolio.

However, along with reducing risk, this also reduces reward potential. The portfolio will also increase by a lower amount. However, this will help us avoid any portfolio survival risk.

HDFC → 3%

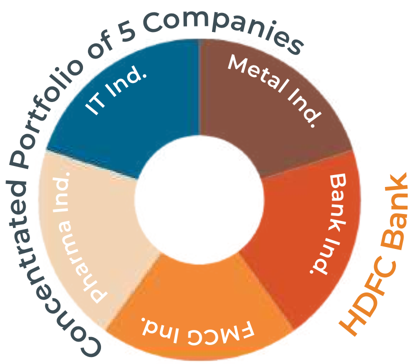
Suffers 60% fall in price

Value of our portfolio falls by

1.8% (60% of 3%)

Hence, each stock and its movement has a relatively lower impact on the overall portfolio.

In a concentrated portfolio we'd have invested in just 5 companies, we would have been largely dependent on this stock and would've suffered huge losses.



What if 20% of our total investments were in the company. Now, our portfolio will lose 12% of its value due to a 60% decrease in the stock price!

HDFC Bank ⟶ 20%

Suffers 60% fall in price

Value of our portfolio falls by

12% (60% of 20%)

Analysis

Now consider what would happen if the shares of the company jumped by **60%** as a result of certain **positive news**. In such a situation, a **concentrated portfolio** would have gained significantly more money, whereas a **diversified portfolio** would have gained only **1 to 2%** of our capital.

However, we will be risk cautious, minimize our risk, decent profits will follow, it will select good companies. This will also save us from any possible risk of Portfolio ruin as exposure to single stock is limited.

Institutional investors will have an in-depth understanding of each and every company. As a result, they can take large concentrated bets and select few companies, and get rewarded or penalised for their understanding, the time to cover the company from every possible angle.

Low dependence on individual stock

The next characteristic is to reduce the dependence on each specific stock, which is an extension of the previous characteristic.

Low Volatility due to stock-specific factors

Due to low stock-specific dependence, we have low volatility in the overall portfolio. When stock prices fluctuate, it is due to the following three factors:

- Market-specific Factors
- Industry-specific factors
- Stock-specific factors

Market-specific Factors:

- Market-specific factors are those that have an impact on the entire market, regardless of the stock or industry.
- For example, if a pandemic like COVID occurs, it affects the entire market, irrespective of the company involved, and the entire market is in anxiety. Such factors have an impact on the market as a whole.

Industry-specific factors:

- Let us take an example to understand Industry-Specific factors.
- What if interest rates prevailing in the market rise? It will have an immediate impact on the banking and real estate industry.
- These include factors that affect all companies in a given sector.

Stock-specific factors:

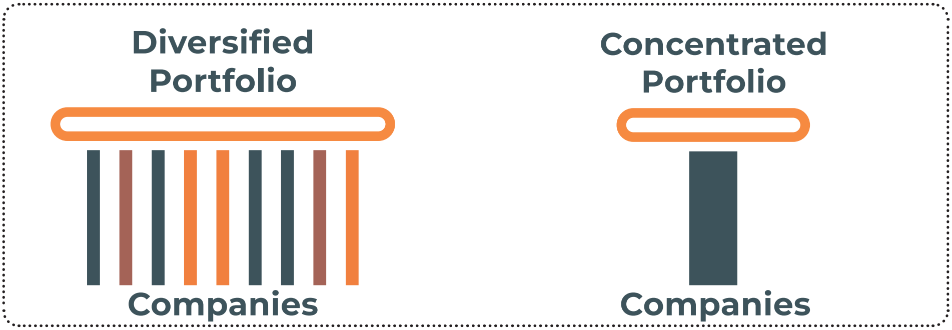
- If a company is launching a new product.
- If a company gets sued.
- All these factors are specific to a particular stock or company are called stock specific factors. They affect the price of just that one stock.
- If a company is not performing well, we will classify all of the above as stock-specific factors.
- When we have stock-specific factors, the entire industry will benefit.
- All of these are stock-specific characteristics that have an impact on equities to which these variables are linked. They're very unpredictable.

Conclusion

As retail investors, we will try to create a diversified portfolio, so that we are less dependent on stock-specific factors. **How?**

The impact of each stock will be very limited. Even if the stock experiences large fluctuations, the net movement in our portfolio will be less, which means less volatility. The impact of stock-specific and industry-specific factors will be limited. As a result, our portfolio will never face survival risk, still generating attractive returns.

How Diversification Works?



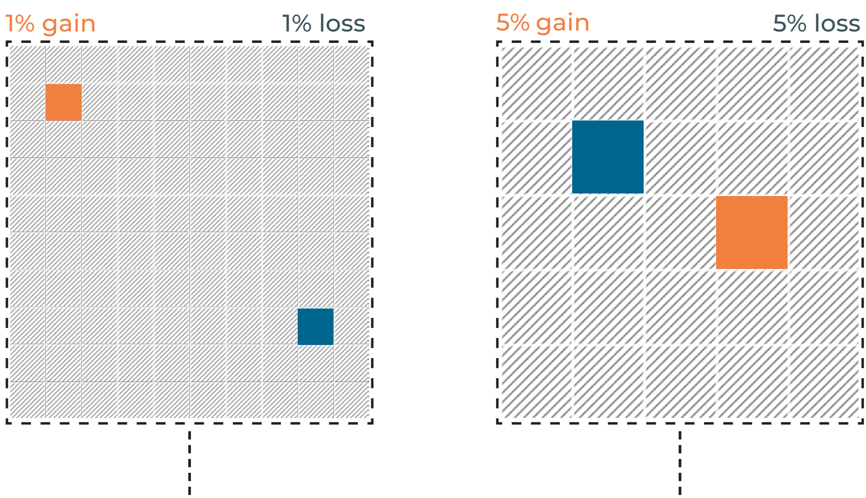
Consider individual stocks as pillars. The overall structure's reliance on each pillar is low and is evenly distributed. Now, what if one of the pillars develops cracks or collapses?

Although there will be significant damage in and around the location, the building's dependency on the individual pillar is not much and thus the whole structure is unlikely to collapse.

When we have a concentrated portfolio, the overall structure relies on a single pillar. Now, what would happen if something wrong happened with this pillar? The entire structure will collapse.

Similarly, in a concentrated portfolio, we have a high reliance on a few stocks. One news not in our favour, the entire portfolio suffers a significant loss. There is little room for a concentrated portfolio.

Since we as retail investors face some disadvantages when compared to institutional investors, we will seek diversification over concentration while building our portfolio to avoid risk of portfolio ruin.



Diversified Portfolio

If one or more blocks become red due to some unforeseen circumstances or due to our wrong decision to invest in certain stocks, the overall loss can be absorbed.

Concentrated Portfolio

However, if major events happen in our concentrated portfolio, we can lose a significant amount of money and might lose most of our portfolio as well.

Conclusion Although a diversified portfolio has limited rewards when compared to a concentrated one, it manages our risk well.

With a diversified portfolio, we still have room for mistakes, so that our portfolio's survival is never in danger. We don't want that risk at any cost, even if we let go of some returns for that.

Institutional Analyst

- Information Advantage
- Depth in Research

Retail Investor

Lower Exposure

- Lower exposure
- Lack of in-depth information.

Institutional investors have access to a lot of information. They have in-depth knowledge about each and every stock due to the time they invest in research and their training.

Institutional Investors have more comprehensive research than retail investors. We will have less depth in findings because they only spend limited time per week on their research.

They do not have concentrated positions in top firms and thus want to shield themselves from shocks.

Diversification will protect Retail Investors from any dangers in the movement of stock due to their limited exposure.

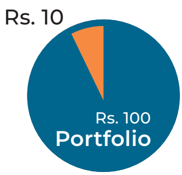
Diversification Rule

- Make a rule for maximum weight for a particular stock
- It is suggested, as a rule that we should not buy more than 10% worth of the portfolio for any stock. And have at least 20 companies in the portfolio.

To ensure that our portfolio is well-diversified, we will follow 3 basic rules:

Make a rule which specifies the maximum weight a stock can have:

- Maximum weight of a particular stock can range from 8%-10%. No stocks in the portfolio will be higher than 10%.
- Let us assume that 10% as a thumb rule to follow. Now even if you admire a stock, you really admire a stock, you will not be able to invest more than 10% of your total amount.



Say total portfolio is Rs 100, then the investment in one stock should not be more than Rs 10.

What is your maximum level of exposure to a certain industry?

- Same rule applies when it comes to industry selection
- Individual industries must not account for more than 20-25% of the portfolio. We should never put all of our eggs in one basket or in a single industry/company.

Select a number for companies in your portfolio:

- As we discussed earlier ceiling of 10/company, we may end up purchasing ten companies for a 10% stake each. However, this would rather result in a concentrated portfolio.

So, rather than doing that:

- We will ensure that our portfolio has at least 25 companies. So the weightage would be low for a lot of companies and we will have a diversified portfolio.
- You may apply the same principle to industries: Try and plan to incorporate at least 5 industries in the portfolio, preferably 6 to 7.
- Have at least 3-7 industries in your portfolio so that the portfolio is diversified at industry level.

Notes

Evaluating Companies

ZEBRALEARN

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.1 How to Generate Investment Ideas?

Introduction

Let us look at how **RETAIL INVESTORS** can produce investment ideas that are better than professional investors and how they can analyze these ideas.

We will discuss the tried and tested methods for generating ideas and how to pick stocks. There is no set sequence of steps to develop ideas as it is a subjective exercise. It can appear from anywhere and in any situation. It is an art rather than science. It's simply about keeping our eyes open and observing things changing around us and different people can see the same things differently. In this way, with time, we can come up with excellent ideas. Idea generation is a never-ending process that we'll subconsciously repeat every day.

Let's look at the methods to generate ideas worth evaluating further.

1.1 How does your Profession Helps in Generating Ideas

Retail investors are professionals in fields other than finance and investing. Knowledge about their profession is where they actually have an edge over institutional analysts. We must not forget to examine ancillary services to our profession.

Doctor

A doctor inherently has more knowledge about the medical and pharma industry than an analyst. As a doctor, the environmental setup is such that they will be well aware of the current status of the industry and current changes faced by the medical companies. They would know about new rising companies, and trends that are catching up in the industry.

Data Scientist

A data scientist will be well updated with companies related to artificial intelligence and machine learning. They will know which companies and products are winning in the industry as it is their area of expertise.

Textile Business

A lot of individuals are not into a professional career but own a small textile firm or maybe a factory. They'll have a direct connection with retail chains and logistics. Companies understand better about the different companies that are doing well in these industries.

Thus, the profession we work in has a lot of advantages and inherent industry knowledge where we are actually closer to the data. Hence, the best area to hunt for ideas is within our own respective industries, where the odds of making mistakes are negligible. So this is the first place you should seek inspiration.

1.2 Look Around Yourself i.e Your Environment

Now let us learn - how can we generate investment ideas from our environment. We use numerous products on a daily basis. A lot of these products or brands have been used in our homes for a very long time.

We have consumed Nestle products such as Maggie and KitKat since our childhood. Are we convinced that we will continue to consume Maggie and KitKat for the next 5 years? If the answer is yes, then we can proceed to research on those companies from an investment point of view. We can generate a lot of good ideas in this manner, just by looking around day to day items- food we eat, cars we drive, hotels we stay at, ads we see and so on. Just an open eye can give brilliant investment ideas.

Nestle

Marico

Jio

Lays

Note: We will have several ideas, but rather than getting excited about the conclusion, we must analyze them. Once an idea is generated we must move to the next step which is the 'evaluation of the companies'. We will dig deep into each idea. We have to evaluate the investment worthiness of ideas, we might not invest in even our favourite products, if they are not attractive investment wise.

1.3 Leg Work

One of the well-known investors, Peter Lynch is credited with coining the term "leg work." This method has gained popularity amongst people as anyone can perform it and generate interesting investment ideas. However this is a method that requires a lot of effort.

> **The idea behind walking around and investing is to actively go in different kinds of setup, look at products and services being consumed, the companies behind them and then generate investment ideas.**

Mall

Things to look at while you visit a Mall

- Check for new store openings.
- Stores with long lines
- Most common brand bags carried by people
- Which food stores have foot traffic?
- Check for stores that have closed recently

Construction Site

Questions to ask at a Construction Site

- Construction materials used
- Machines used for construction
- Transportation equipment and their brands.

Travelling

Things to observe while you travel

- Availability of products and their brands
- How people book tickets, hotels?
- Which hotel chains are most popular choices?
- Food choices of people

Conclusion Although it's very unlikely that we will act on every idea that is generated. But this exercise trains us to be more active and observant.This constantly tells us the things that are working and things that are not working. The companies that are performing on ground and ones that are not. Also this method requires effort which everyone is ready to put, so can your competitive edge over others.

1.4 Analyse What You Read

Another alternative to generate investment ideas is by reading newspapers and magazines.
However, they should be used in a systematic manner so that we can distinguish between good investment ideas and the market noise. We must not consume anything and everything but selectively filter and consume relevant content for us.

Newspaper

Avoid news headlines that have market noise.We will only limit our focus to facts and let go of opinions in newspapers. Also, we will just try and focus on facts about companies and industries. The updates and changes rather than focusing on everything.

Zee Entertainment- Sony India merger: Here are the top highlights of the mega-deal

The ZEEL Board concluded that the "merger will be in the best interest of all the shareholders and stakeholders and it is in line with ZEEL's strategy of achieving higher growth and profitability as a leading Media & Entertainment Company across South Asia."

Zee Entertainment is an Indian OTT platform. The merger between Zee Entertainment and Sony India is enormous news. Since both See and Sony has networks and huge audience on OTT platforms, their merger will have a significant market share.
Thus, we must investigate how this merger and the news affect both businesses. We must dive deeper here. This is news that is worthy of an investment idea and further analysis.

Source: zeenews.in

Five things to watch out for in TCS Q2 earnings today

TCS said the order will not have any impact on second quarter financial results expected on 12 October. Photo: Aniruddha Chowdhury/Mint

This is an example of market noise that we should avoid. Although we can read this, it will not give us a strong investment idea! We will avoid such short term news. Also we will avoid broad economy related, politics related news.

Source: livemint.in

Petrol, Diesel prices today: Petrol price hiked by 30 paise per litre; diesel touches Rs 100 mark in Mumbai | Check latest rates here

Prices of petrol and diesel touched fresh record highs after they were hiked for the fifth consecutive day on Saturday, October 9, 2021. Check the latest city-wise rates here.

In the last six months, the price of gasoline has climbed by 25%. Now, this can be important news with a significant impact. This is a natural incentive to switch to electric vehicles. Any company that is involved in manufacturing electric vehicles or its allied services such as charging stations stand to gain from this and therefore will come on the radar of investment analysts.

Source: indiatoday.in

Air India Sale Highlights: Reserve price for Air India was set at Rs 12,906 crore; Tatas quoted Rs 18,000 crore

Air India Sale Highlights: Tata Group, the winning Air India bidder, had quoted an enterprise value of Rs 18,000 crore, which, DIPAM Secretary Tuhin Kanta Pandey said, was well above the reserve price set by the government.

This might be breaking news, but not from TATA's perspective as TATA is a massive corporation that can be valued at upwards of $150 billion. Therefore, while reading we will begin to determine which corporation purchased Air India, how many bids were placed, and how significant an 18000 cr. is for that particular company. For TATA, the overall size of AIr India is small and not too significant so, we will not start looking at TATA companies only due to Air India news.

Source: indiatoday.in

Magazines

Magazine is one of the most sought after resources for industry updates.We can find a lot of industry and company stories that explain the industry, its products and trends in great detail. Such stories can be wonderful sources of investment ideas.However again we must be aware and avoid noise and any kind of opinions.

Magzter is an excellent resource for stock-related information. It has a paid subscription format to access the information. Start with business magazines like - Forbes, Fortune 500, Business Today and so on.

Source: https://www.magzter.com/

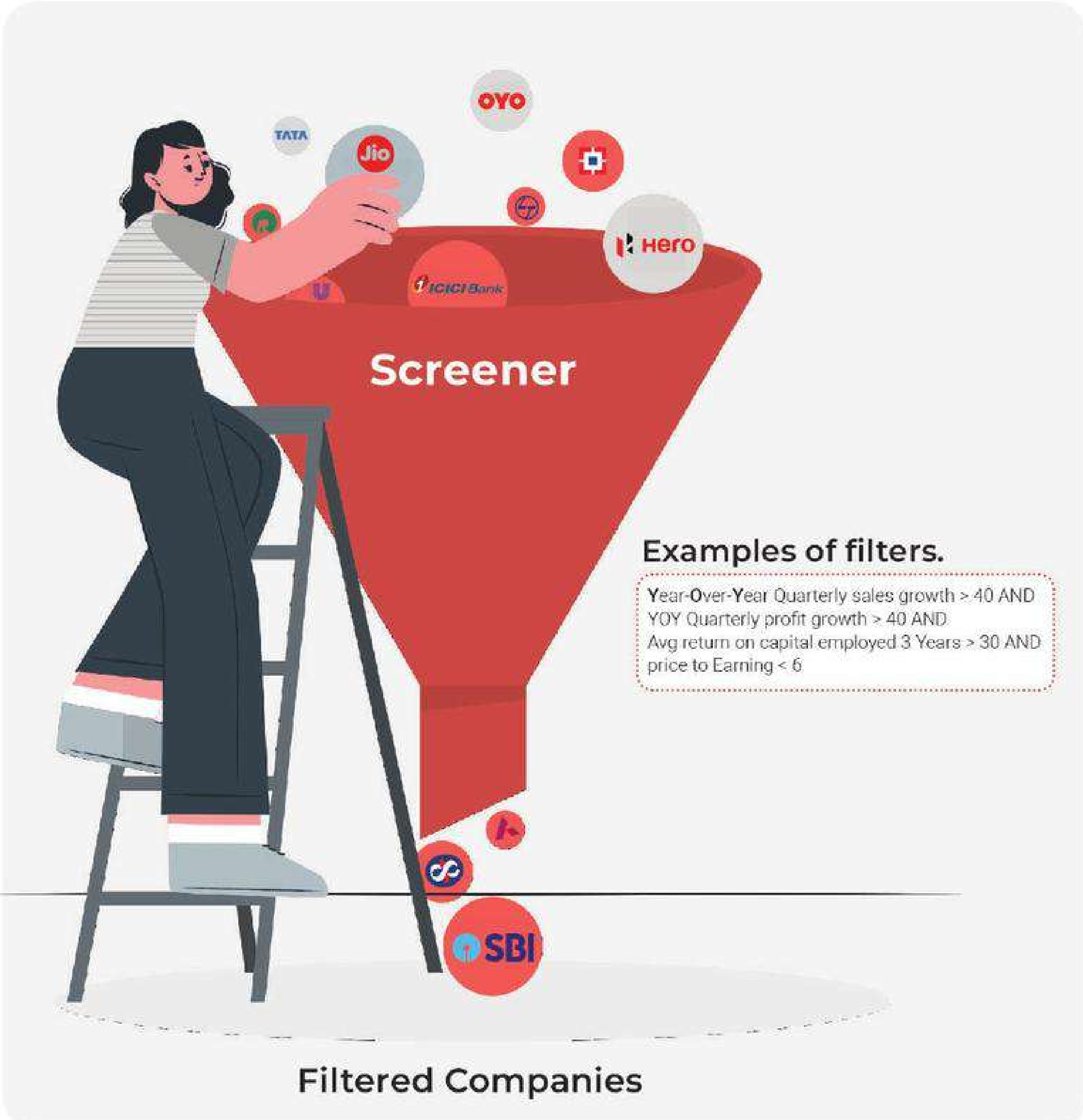
1.5 Use Tools like Screener

What is a screener?

A screener is a database that contains information on all publicly traded firms where we can define our criteria of companies, based on which the screener filters out a custom list of companies that fit their preferences. In India, we can use www.screener.in which is a free tool to run such filtering screens on public companies.

Now let us understand what is a stock screener?

Stock screeners are tools that allow investors and traders to sort through numerous individual securities to find those that fit their own methodologies perfectly.



An analyst may be interested in market capitalization, fixed assets operating cash flow, earnings per share, multi-year return on investment (ROI), dividend yield, etc. all of which can be easily accessed through the screener.

A lot of pre-built screens are available which can be used as well. As we add more criteria, the screener will provide us with a smaller pool of companies to invest in. It saves a lot of time and may lead to exploration of new undiscovered companies.

Now, let us look at several companies with a high dividend yield.
What conditions can be used? Remember, you can write your conditions as well.

This is how conditions look like

Dividend yield should be < 2% AND
Dividend payout should be < 100%AND
Profit growth for three years >10%OR
Profit growth for 5 years>10%OR

Profit growth for 7 years>10%AND
Average 5 years dividend >0 AND
Profit after tax>Net Profit last year
Dividend last year> Average 5 years dividend AND

screener HOME SCREENS TOOLS

Search for a company LOGIN GET FREE ACCOUNT

Highest Dividend Yield Shares

GET UPDATES BY EMAIL

Stocks that have been consistently paying out dividend sorted on highest yield.

by Pratyush

131 results found: Showing page 1 of 6

INDUSTRY EXPORT EDIT COLUMNS

S.No.	Name	CMP Rs.	P/E	Mar Cap Rs.Cr.	Div Yld %	NP Qtr Rs.Cr.	Qtr Profit Var %	Sales Qtr Rs.Cr.	Qtr Sales Var %	ROCE %	Payout ratio %	Profit Var 3Yrs %
1.	Vedanta	263.95	5.12	98042.00	17.05	5795.03	-13.09	39022.00	41.10	32.30	89.00	40.17
2.	PNB Gilts	61.60	6.91	1108.86	16.23	40.05	305.27	241.01	31.48	5.26	56.31	44.77
3.	Power Fin.Corpn.	98.90	1.86	26110.40	12.13	3205.83	3.72	18853.18	3.80	8.38	22.61	12.20
4.	Hinduja Global	848.10	0.86	3970.90	11.76	5686.24	3622.39	965.45	13.09	117.88	16.76	225.75
5.	REC Ltd	112.80	2.22	22257.14	11.27	2301.33	10.76	9633.37	4.58	3.11	30.11	20.46
6.	PTC India	72.95	5.19	2157.00	10.37	60.43	-43.39	3973.58	-12.39	17.33	49.48	41.90
7.	S A I L	68.45	2.76	28273.44	9.50	2478.82	-31.25	10756.82	32.10	24.30	79.52	68.03
8.	Coal India	182.65	6.46	112598.45	8.76	6692.91	45.92	32706.77	22.59	51.95	60.36	-3.20
9.	Polyplex Corpn	2087.65	11.62	6552.61	7.86	185.78	49.24	885.87	45.72	22.06	57.38	19.88
10.	I O C L	104.20	3.90	98004.02	7.68	6045.72	23.38	175202.02	45.93	15.08	47.25	13.27
11.	Geojit Fin. Ser.	46.40	7.37	1109.27	7.54	34.75	-4.48	122.60	1.17	26.54	47.01	77.90
12.	Oracle Fin.Serv.	2891.85	13.68	23839.57	6.89	481.74	4.66	1270.78	5.44	35.69	86.75	10.87
13.	Natl. Aluminium	75.70	4.71	13903.80	6.61	1025.65	3.62	4340.82	53.55	39.06	31.11	19.44
14.	GAIL (India)	138.95	5.63	61609.16	6.48	3464.24	33.91	27295.24	72.44	22.32	18.12	22.29
15.	H U D C O	33.55	3.91	5716.37	6.40	746.65	41.91	1726.02	1.58	9.16	32.07	13.31

Source: https://www.screener.in/screens/3/highest-dividend-yield-shares/

Highlights We must note that if a company has all **green flags** such as good returns and good growth then such companies should not trade at a **very low price**. Therefore, we must assess all these elements in our evaluation part.

On the other hand, 2-3 companies might be low-priced because they are yet to be discovered. Now, that is a great investment opportunity for us.

1.6 What Friends & Reports Says

The last 2 methods that we will discuss for generating investment ideas are **Peer Recommendations** and **Brokerage Reports**

Peer Recommendations

Rather than having a large group of people to discuss stocks, consider a closed group of 3-4 people to discuss stocks with. Have a group where you know the research and investment style of individuals and you know that they research in-depth and do not recommend without conducting their own research.

ASK QUESTIONS :

- Have they done basic research on the company?
- Do they have the basic research on the company?
- Have they assessed the company reports, or seen company interviews?
- How much debt does the company have?
- What are the company sales?
- Do they have sales growth?

Assuming, your peers have done their basic research before recommending. Now it is something you can work on, but if they just blindly forwarded it, be wary, ignore it, and take any judgement from that person. Always ask, how did they get that idea? If they have a logical answer, great. If they have a logical answer, great. If they say- they heard it somewhere, saw it on CNBC. XYZ is buying, ignore the idea.

Brokerage Reports

The last method to generate investment ideas is to use a brokerage report. Analysts at brokerage houses have access to a lot of good information from management. So, we can refer to the brokerage reports on different companies by them. However, ignore the buy-sell recommendation they give. Just focus on the data that they share in their reports and pick it up from there.

MOTILAL OSWAL

1 March 2018

Results Update | Sector: Metals

Rain Industries

BSE SENSEX	S&P CNX
34,184	10,493

Bloomberg	RINDL IN
Equity Shares (m)	336
M.Cap.(INRb)/(USDb)	128.1 / 2.0
52-Week Range (INR)	476 / 85
1, 6, 12 Rel. Per (%)	-4/159/329
Avg Val, INRm	850.0
Free float (%)	58.9

Financials & Valuations (INR b)

Y/E Dec	2017	2018E	2019E
Sales	113.0	148.9	163.6
EBITDA	22.7	29.3	31.1
NP	8.6	13.7	15.0
Adj. EPS (INR)	25.6	40.6	44.6
EPS Gr(%)	165.9	58.6	9.8
BV/Sh. (INR)	117.3	155.5	197.6
RoE (%)	24.7	29.8	25.2
RoCE (%)	19.5	26.9	27.9
P/E (x)	14.9	9.4	8.5
P/BV	3.2	2.5	1.9

Estimate change

TP change

Rating change

CMP: INR381 TP: INR480(+26%) Buy

Carbon prices and margins continue to improve

Interest and tax rate declining; Maintain Buy

Rain Industries' (RAIN) 4QCY17 EBITDA increased 2% QoQ (+58% YoY) to INR6.9b. Prices increased across products, but carbon product dispatches were impacted by shipment delays toward the end of the quarter. Adj. PAT increased 37% QoQ to INR3.3b, led by a lower effective tax rate (~21% v/s ~40% in 3QCY17). Exceptional charges include INR0.8b gain from reversal in deferred tax (due to US and Belgium tax rate changes), offset by INR1.1b toward refinancing and unabsorbed bond amortization charges.

- **Carbon – margins improved but shipments delayed:** Volumes fell ~10% QoQ to 744kt. CPC realization increased by USD78 QoQ to USD415/t and CTP realization by USD107 to USD708/t. EBITDA/t rose USD15 QoQ to USD133.
- **Chemical:** Volumes were largely unchanged QoQ at 53kt. Although EBITDA/t increased USD20 QoQ, it was subdued due to a squeeze in spreads.
- **Cement – pricing pressure continues:** Sales were largely unchanged QoQ at 509kt. Realization declined 4% QoQ to INR4,173/t. EBITDA/t decreased 3% QoQ to INR515.
- **USD25-30m savings on refinancing.** Net debt increased by INR5b YoY to INR69b due to a massive increase in working capital and appreciation of EUR against INR. Refinancing of ~USD489m debt is likely to save USD25-30m every year.
- **Positive outlook:** CPC business remains strong on declining exports from China, while CTP is benefitting from consolidation and capacity reduction in its key markets. Chemical business is likely to turnaround in 2HCY18. Tax rate is likely to be 200-300bp lower on a reduction in rates in the US and Belgium.
- **Maintain Buy** : The stock trades at 8.4x P/E and 5.5x EV/EBITDA on CY19E. We value the stock at INR480/share (Exhibit 2). Maintain **Buy.**

Source: https://www.motilaloswal.com/

So, let us talk about the Rain Industries brokerage report from Motilal Oswal. We should focus on the data and information provided by analysts. However, we should not stop here, we should further research and then decide if we should buy/sell stocks. We will completely ignore the buy/sell recommendation.

Note

- We must not be influenced by a company's buy/sell recommendations.
- Rather than focusing on target prices, and buy-sell recommendations we will focus on pure facts.
- We should keep our eyes open to the insights about the company. That's where we will generate excellent investment ideas.

Places you shouldn't look for investing ideas:

Don't look at News - Too Incentivized

Newspapers have a lot of market noise and are usually incentivized to promote a specific agenda. Therefore, investors must simply avoid them. This will give a lot of calm that is required to profitably pick stocks.

Don't look at Tips - Won't Tell When to Sell

If you consider tips before making investing decisions, then you'll miss the entire idea of this book. Tips usually tell us when to buy/ sell stocks. Normally we try to hold stocks for 3-5 years as the real worth increases. However, what if we stop accepting services from the individual who provided us with the tip? Now no one will truly inform us on when to buy/sell? And anyways if the tips were so good, why would they share. They would have raised client money and benefited from the same. Also if we have not done our own research then our conviction will also be low and we might end up selling if the stock periodically goes down. So, completely avoid tips!

.2 Company Reports - Where to Find Information

Introduction

Information related to different companies is necessary to understand and can be accessed to through various sources. We understand the different sources to collect information and analyze companies.

2.1 Primary Sources of Information

Annual Reports

A document showing the overall performance of the company which is published every year with around 50-250 pages. It conveys the company's financials, KMPs(Key Managerial Personnel), and employees of the company. Annual reports have multiple sections that we will see going ahead.

Investor Presentations

Management of various companies make presentations of about 20-40 slides. They give a very detailed description of the business. For instance, a logistics company will convey:

- The total number of trucks.
- What are their sales?
- What is the trend in the industry?

Conference Calls

Companies are presented in front of investors where the investors have a right to ask any question about the company. Conference call begins with a brief description of the company progress for the quarter and then spends most of the time taking questions from the management. The con calls are available in transcripted versions for the public to read.

Interview

When the management of the company comes forward to talk about the company via media namely, youtube, news channels, etc.

Draft Red Herring Prospectus (DRHP)

Every company, in the process of IPO, has to publish a DRHP. It is a very detailed document about 400-500 pages about the company.DRHP contains data about the company's business, its past financials, its industry, risk factors, utilization of funds, management, and so much more in a very detailed manner. For old companies, we will look at recent IPOs in the same industry and see the health of the industry. DRHP is the most detailed document submitted by the company ever.

CMYK

RED HERRING PROSPECTUS
Dated September 5, 2011
Please read section 60B of the Companies Act, 1956
Book Building Offer

OIL AND NATURAL GAS CORPORATION LIMITED

Our Company was incorporated in New Delhi on June 23, 1993 under the Companies Act, 1956 (the "**Companies Act**") as Oil and Natural Gas Corporation Limited and was granted the certificate of commencement of business on August 10, 1993.
Registered Office: Tower II, Jeevan Bharati Building, 124, Indira Chowk, New Delhi 110 001, India; **Telephone:** +91 (11) 2331 0156; **Facsimile:** +91 (11) 2331 6413
Corporate Office: Tel Bhavan, Dehradun 248 003, India; **Telephone:** +91(135) 275 1011; **Facsimile:** +91 (135) 275 5298
Company Secretary and Compliance Officer: Mr. N.K.Sinha; **Telephone:** +91 (11) 2331 0878; **Facsimile:** +91 (11) 2331 6413;
E-mail: fpo2011@ongc.co.in; **Website:** www.ongcindia.com.

PROMOTER: PRESIDENT OF INDIA, ACTING THROUGH THE MINISTRY OF PETROLEUM AND NATURAL GAS ("MoPNG"), GOVERNMENT OF INDIA

FURTHER PUBLIC OFFER OF 427,774,504 EQUITY SHARES OF ₹ 5 EACH ("EQUITY SHARES") OF OIL AND NATURAL GAS CORPORATION LIMITED ("ONGC" OR "OUR COMPANY") THROUGH AN OFFER FOR SALE BY THE PRESIDENT OF INDIA, ACTING THROUGH THE MoPNG, GOVERNMENT OF INDIA (THE "SELLING SHAREHOLDER") FOR CASH AT A PRICE OF ₹ [●]* PER EQUITY SHARE AGGREGATING UP TO ₹ [●] MILLION (THE "OFFER"). THE OFFER COMPRISES A NET OFFER TO PUBLIC OF 419,221,336 EQUITY SHARES (THE "NET OFFER") AND A RESERVATION OF 8,553,168 EQUITY SHARES FOR SUBSCRIPTION BY ELIGIBLE EMPLOYEES (THE "EMPLOYEE RESERVATION PORTION"). THE OFFER SHALL CONSTITUTE 5.00% OF THE PAID-UP EQUITY SHARE CAPITAL OF OUR COMPANY AND THE NET OFFER SHALL CONSTITUTE 4.90% OF THE PAID-UP EQUITY SHARE CAPITAL OF OUR COMPANY.

THE PRICE BAND, THE MINIMUM BID LOT AND THE RUPEE AMOUNT OF THE RETAIL DISCOUNT AND EMPLOYEE DISCOUNT WILL BE DECIDED BY THE SELLING SHAREHOLDER IN CONSULTATION WITH THE COMPANY AND THE BOOK RUNNING LEAD MANAGERS AND ADVERTISED IN THE FOLLOWING NEWSPAPERS : INDIAN EXPRESS (ALL EDITIONS), FINANCIAL EXPRESS (ALL EDITIONS), NEW INDIAN EXPRESS (ALL EDITIONS) AND JANSATTA (ALL EDITIONS) AT LEAST ONE WORKING DAY PRIOR TO THE OFFER OPENING DATE, WITH THE RELEVANT FINANCIAL RATIOS CALCULATED AT THE FLOOR PRICE AND AT THE CAP PRICE

THE FACE VALUE OF THE EQUITY SHARES IS ₹ 5 EACH.

Discount of ₹ [●] and ₹ [●] to the Offer Price is being offered to the Retail Individual Bidders ("Retail Discount**") and Eligible Employees Bidding in the Employee Reservation Portion ("**Employee Discount**") respectively.*

In case of revision in the Price Band, the Offer Period will be extended for at least three additional Working Days after the revision of the Price Band subject to the Offer Period not exceeding 10 Working Days. Any revision in the Price Band and the revised Offer Period will be widely disseminated by notification to the Self Certified Syndicate Banks ("**SCSBs**"), the Bombay Stock Exchange Limited (the "**BSE**") and the National Stock Exchange of India Limited (the "**NSE**"), by issuing a press release, and also by indicating the change on the websites of the Book Running Lead Managers ("**BRLMs**") and at the terminals of the members of the Syndicate.

This Offer is being made through the Book Building Process where up to 50% of the Net Offer will be allocated on a proportionate basis to Qualified Institutional Buyers ("**QIBs**") ("**QIB Portion**"). Further, 5% of the QIB Portion will be available for allocation on a proportionate basis to Mutual Funds only. The remainder will be available for allocation on a proportionate basis to QIBs and Mutual Funds, subject to valid Bids being received from them at or above the Offer Price. In addition, not less than 15% of the Net Offer will be available for allocation on a proportionate basis to Non-Institutional Bidders and not less than 35% of the Net Offer will be available for allocation on a proportionate basis to Retail Individual Bidders, subject to valid Bids being received at or above the Offer Price. Further, 8,553,168 Equity Shares shall be available for allocation on a proportionate basis to the Eligible Employees, subject to valid Bids being received from them at or above the Offer Price. Retail Individual Bidders and Eligible Employees bidding in the Employee Reservation Portion have an option to participate in the Offer either through the Bid cum Application Form or the ASBA Form. QIBs and Non Institutional Bidders must Bid through the ASBA process on a mandatory basis if they wish to participate in the Offer. ASBA Bidders may participate in this Offer by providing the details of the ASBA Accounts in which the corresponding Payment Amounts will be blocked by the SCSBs. For more information, please see "Offer Procedure" on page 510.

GENERAL RISKS

Investments in equity and equity-related securities involve a degree of risk and Bidders should not invest any funds in this Offer unless they can afford to take the risk of losing their investment. Bidders are advised to read the Risk Factors carefully before making an investment decision in this Offer. For making an investment decision, Bidders must rely on their own examination of our Company and this Offer, including the risks involved. The Equity Shares offered in this Offer have not been recommended or approved by the Securities and Exchange Board of India ("**SEBI**"), nor does SEBI guarantee the accuracy or adequacy of this Red Herring Prospectus. This being a fast track issue under Regulation 10 of the SEBI (Issue of Capital and Disclosure Requirements) Regulations, 2009, as amended from time to time ("**SEBI ICDR Regulations**"), our Company has filed the Red Herring Prospectus with the Registrar of Companies, National Capital Territory of Delhi and Haryana ("**RoC**") with a copy to SEBI and the Stock Exchanges. The attention of Bidders is invited to "Risk Factors" on page 20.

THE COMPANY'S AND THE SELLING SHAREHOLDER'S ABSOLUTE RESPONSIBILITY

Our Company and the Selling Shareholder, having made all reasonable inquiries, accept responsibility for and confirm that this Red Herring Prospectus contains all information with regard to the Company, the Selling Shareholder and this Offer which is material in the context of this Offer, that the information contained in this Red Herring Prospectus is true and correct in all material aspects and is not misleading in any material respect, that the opinions and intentions expressed herein are honestly held and that there are no other facts, the omission of which makes this Red Herring Prospectus as a whole or any of such information or the expression of any such opinions or intentions misleading in any material respect.

LISTING

The Equity Shares are listed on the BSE and the NSE. The BSE is the Designated Stock Exchange for the Offer.

BOOK RUNNING LEAD MANAGERS			REGISTRAR TO THE OFFER
JM FINANCIAL	citi	BofA Merrill Lynch	LINK INTIME INDIA PVT LTD
JM Financial Consultants Private Limited 141, Maker Chambers III, Nariman Point, Mumbai 400 021, Maharashtra, India Telephone: +91 (22) 6630 3030 Facsimile: +91 (22) 2204 7185 Email: ongc.fpo@jmfinancial.in Investor Grievance Id.: grievance.ibd@jmfinancial.in Website: www.jmfinancial.in Contact Person: Ms. Lakshmi Lakshmanan SEBI Registration No.: INM000010361	**Citigroup Global Markets India Private Limited** 12th Floor, Bakhtawar, Nariman Point, Mumbai 400 021, Maharashtra, India Telephone: +91 (22) 6631 9890 Facsimile: +91 (22) 6646 6366 Email: ongc.fpo@citi.com Investor Grievance Id.: investors.cgmib@citi.com Website: www.citibank.co.in; http:// www.online.citibank.co.in/rhtm/citigroupglobalscreen1.htm Contact Person: Mr. Shashank Pandey SEBI Registration No.: INM000010718	**DSP Merrill Lynch Limited** 8th Floor, Mafatlal Centre, Nariman Point, Mumbai 400 021, Maharashtra, India Telephone: +91 (22) 6632 8000 Facsimile: +91 (22) 2204 8518 Email: ongc.fpo@baml.com Investor Grievance Id.: india_merchantbanking@ml.com Website: www.dspml.com Contact Person: Mr. N S Shekhar SEBI Registration No.: INM000011625	**Link Intime India Private Limited** C-13, Pannalal Silk Millls Compound, L.B.S. Marg, Bhandup (West), Mumbai 400 078, Maharashtra, India Telephone: +91 (22) 2596 0320 Facsimile: +91 (22) 2596 0329 E-mail: ongc.fpo@linkintime.co.in Website: www.linkintime.co.in Contact Person: Mr. Sachin Achar SEBI Registration No.: INR000004058
HSBC	Morgan Stanley	NOMURA	
HSBC Securities and Capital Markets (India) Private Limited HSBC Building, 52/ 60 M.G. Road, Fort, Mumbai 400 001, Maharashtra, India Telephone: +91 (22) 2268 5555 Facsimile: +91 (22) 2263 1984 E-mail: ongcfpo@hsbc.co.in Investor Grievance Id.: investorgrievance@hsbc.co.in Website: http://www.hsbc.co.in/1/2/corporate/equities-global-investment-banking Contact Person: Mr. Gaurav Shimpi SEBI registration No.: INM000010353	**Morgan Stanley India Company Private Limited** 18F/19F, One Indiabulls Centre, Tower 2, 841 Senapati Bapat Marg, Mumbai 400 013, Maharashtra, India Telephone: +91 (22) 6118 1000 Facsimile: +91 (22) 6118 1040 Email: ongc_fpo@morganstanley.com Investor Grievance Id.: investor_india@morganstanley.com Website: http://www.morganstanley.com/indiaofferdocuments Contact Person: Ms. Mayuri Gupta SEBI Registration No.: INM000011203	**Nomura Financial Advisory & Securities (India) Private Limited** Ceejay House, Level 11, Dr. Annie Besant Road, Worli, Mumbai 400 018, Maharashtra, India Telephone: +91 (22) 4037 4037 Facsimile: +91 (22) 4037 4111 E-mail: ongc.fpo-in@nomura.com Investor Grievance Id.: investorgrievances-in@nomura.com Website: http://www.nomura.com/asia/services/capital_raising/equity.shtml Contact Person: Ms. Nisha Khetan SEBI Registration No: INM000011419	

OFFER PROGRAMME	
OFFER OPENS ON : SEPTEMBER 20, 2011	OFFER CLOSES ON (FOR QIB BIDDERS) : SEPTEMBER 22, 2011
	OFFER CLOSES ON (FOR ALL OTHER BIDDERS) : SEPTEMBER 23, 2011

Source: https://www.sebi.gov.in/sebi_data/attachdocs/1315392214565.pdf

Corporate Announcement

They are issued by the companies regularly talking about small or large updates happening within the company required to be communicated to its shareholders. It can be easily accessed on BSE or NSE.

Some examples of announcements-
- The company wants to enter a new market.
- Buy a new company.
- Management is changing.

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Great Place To Work Certified

REF: GPIL/NSE&BSE/2022/4789 Date: 26.07.2022

To,

1. The Listing Department,
The National Stock Exchange of India Ltd,
Exchange Plaza, BandraKurla Complex,
Bandra (E), MUMBAI – 400051
NSE Symbol: GPIL

2. The Corporate Relation Department,
The BSE Limited, Mumbai,
1st Floor, Rotunda Building,
Dalal Street, MUMBAI – 400 001
BSE Security Code: 532734

Dear Sirs,

Sub: **Intimation regarding Conference Call for Analyst/Institutional Investors/Fund House/Investors etc. under Regulation 30 of SEBI (Listing Obligations and Disclosure Requirements) Regulations 2015**

Pursuant to Regulation 30 of SEBI (Listing Obligations and Disclosure Requirements) Regulation 2015, we wish to inform you that a conference call for Analyst/Institutional Investors/Fund House/Investors etc. is scheduled to be held on Monday, 1st August, 2022 at 11:00 A.M. IST to discuss the GPIL Q1FY23 results and performance of the Company.

Dial in and other details of the call are enclosed herewith as Annexure.

The aforesaid information is also being hosted on the website of the company viz., www.godawaripowerispat.com.

Thanking you,

Yours faithfully,
For GODAWARI POWER AND ISPAT LIMITED

Y.C. RAO
COMPANY SECRETARY
Encl: As Above

Godawari Power & Ispat Limited
Registered Office and Works: Plot No. 428/2, Phase 1, Industrial Area, Siltara, Raipur - 493111, Chhattisgarh, India
P: +91 771 4082333, F: +91 771 4082234
Corporate Address: Hira Arcade, Near New Bus Stand, Pandri, Raipur - 492001, Chhattisgarh, India
P: +91 771 4082000, F: +91 771 4057601
www.godawaripowerispat.com, www.hiragroup.com

Source: https://www.bseindia.com/xml-data/corpfiling/AttachHis/d6d32221-9fcc-4195-aa9e-2394f1dec2d3.pdf

Reliance Industries Limited

Entered new Market

Jio

Coca-Cola

Acquired

Monster Energy

We have seen different sources of information to be used to get first hand data about the company. We will use these to obtain data about the company alone with the secondary reports that we will see next.

2.2 Secondary Sources of Information

Industry Reports

Various organizations and consulting firms publish reports on various industries. It includes the current trends, risks, market size and so much more. in the industry and various modifications. As a result, these reports are incredibly useful sources of information to understand more about the industry.

Government Reports

Several ministries such as the Ministry of Road transportation and Highway produce annual reports of government and circulars which can be a source of valuable information. These can be counted as reliable numbers and a lot of analysis and insights can be drawn from the same.

Industry Association

Each industry has its association to voice their collective concerns. Listed companies are generally part of these associations. So, these associations produce a lot of very valuable reports to explain the on ground status of industry.

Brokerage Report

Brokers deliver reports on companies and industries, which can be used to conduct research and decide the viability of our investment ideas. We will ignore the buy/sell recommendation, But use the facts that they have collected.

Reports are prepared by various financial organizations such as Deloitte, Edelweiss, Arthur D Little, Knight Frank, Pwc, and many more. As retail investors, we can read some of these reports understand the industry and the company and to make that we are evaluating.

Usually, these business organizations have no interest in how the listed companies work. For this reason, we can rely on the information provided by them as they will not be biassed with respect to any stock or company.

As a result, we can obtain a great deal of information about any industry and a company from secondary sources.

2.3 What Sources Shouldn’t be Used

Blogs

Blogs cannot be relied on as a legitimate source of information as they are a person’s personal opinion. Since anyone can write down blogs, their credibility is debatable and thus they lack accountability. Making investment decisions based on these blogs is not a very reliable way to conduct research.

Media Articles

One of the most common mistakes made by retail investors is believing the market noise in media. Good investors must avoid the individual articles from various media agencies because:

- It is opinionated.
- It has a Probability of being biased and being influenced.

We’ll use them to generate ideas, but we will never buy or sell without conducting our own first hand research.

Newspaper

Newspapers are an excellent source of generating ideas, but since they are an extension of media noise, we should avoid them while analyzing investment ideas. **”Newspapers can be a source for idea generation rather than a source for valuation.”**

2.4 How to Research Within 4-5 Hours a Week

These characteristics are unique to retail investors. If you wish to pursue a career in this area as an institutional investor, then you must go through all the available data. And as a result you will spend way more, go in more depth and take concentrated bets. But as retail investors, we will not do any of this.

A plethora of information, from both primary and secondary sources, is available to us. We are also aware of what information must be avoided. However, apprehending this information requires a significant amount of time, effort, and skill.

So how can Retail Investors research within 4-5 hours a week?

It is important to note that if Retail investors are unable to devote 4-5 hours of the week to research then directly investing in stock markets is not suitable for them in fact, there will be a high chance of incurring losses. In such situations, investing via indirect channels such as mutual funds, a Portfolio Management Service or will provide you with a better performance and outcome.

Compulsory to go Through

Annual Reports

Annual reports provide a complete documentation of the business activities and finances of the previous financial year. As retail investors, it is extremely essential that we go through it on a regular basis.

Investor Presentations

Primary purpose of investor presentations is monitoring the company's performance. These presentations can take 20-30 minutes to go through them. It essentially carries data related to operations and companies quarterly reports.

DRHP

A **Draft Red Herring Prospectus** (DRHP) is a document designed to introduce a new firm to a potential investor. The report explains the entire business quite elaborately and thus provides a very comprehensive understanding of the industry. DRHP reports may contain 400-500 pages, however as retail investors we are required to read around 150 pages.

Recommended to go Through

Interview

Interviews are relatively swift and as retail investors it is advisable to go through as many interviews as possible.

Industry Report

Retail investors are encouraged to go through industry reports as they allow us to better understand the industry. Although such reports demand more time commitment, but they provide us with more clarity before investing.

Let's say we have invested 25% of our portfolio in Industry 1, 20% in industry 2 and 10% in industry 3. The time we allocate to understand each industry report should follow the level of exposure in each industry.

Textile 25%

Food 20%

Telecom 10%

Conference Calls

We are encouraged to read at least 4 conference cells for each company that we analyze to better understand their current position.

You Can Skip

Brokerage Reports

Industry Association

Government Reports

As retail investors we might avoid government reports, industry reports and brokerage reports as it requires a lot of time and we will not be able to dedicate that amount of time.

.3 How to Read Annual Reports

3.1 Sections of Annual Report

3.2 What to look for in each Section?

Introduction

In this section we will explore the main sections of an annual report. We will also go through the financial statements and their various components. Generally, annual reports have a similar layout, format, and sequence with minor modifications. Now let us try to examine the annual report of **Godawari Power and Ispat Ltd.** and understand its various components.

3.1 Sections of Annual Report

01 Introduction and Highlights

02 Chairman's Letter and CEO's Letter

03 Responsibility Reports

04 Management Discussion & Analysis

05 Director's Report

06 Corporate Governance Report

07 Board of Directors and Management Team

08 Financials - Consolidated and Standalone

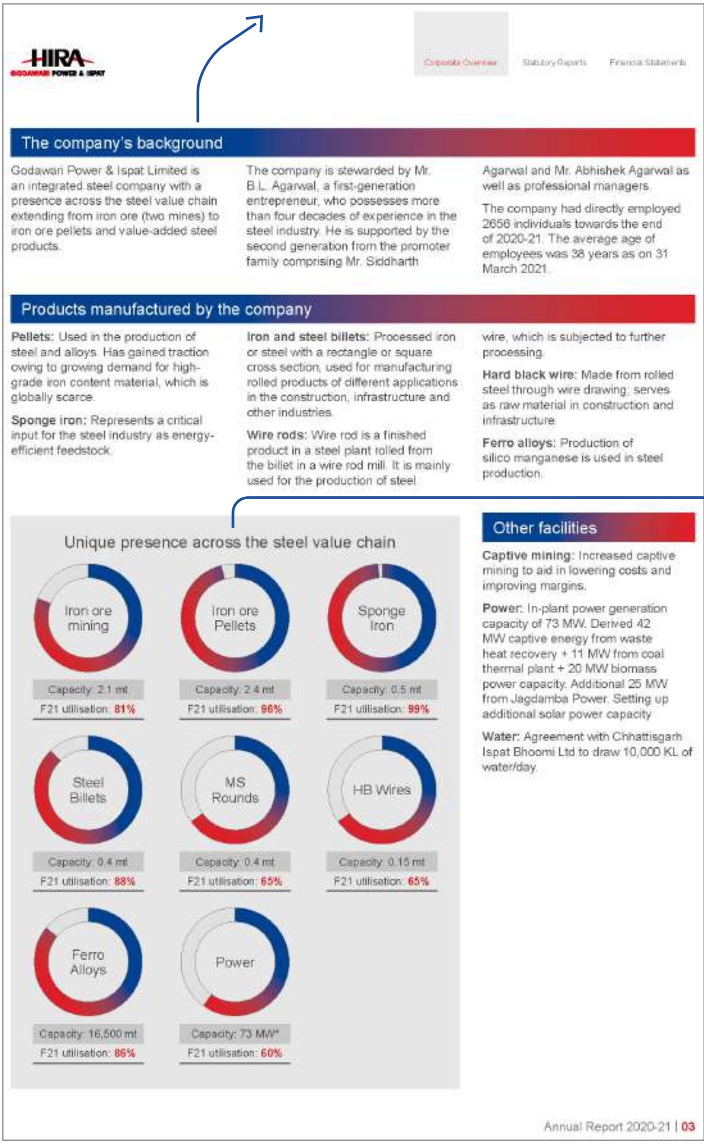
09 Notes to Financials

10 Notice to AGM

The example of Annual report used in the following pages is just for educational purpose.
Source : Godawari Power & Ispat Ltd Annual Report - FY 21

01 Introduction

In this section, a company focuses on its general introduction, its operations, its philosophies, a few important products/services, and the strengths they have. Basically the company introduces itself here.



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The company's background

Godawari Power & Ispat Limited is an integrated steel company with a presence across the steel value chain extending from iron ore (two mines) to iron ore pellets and value-added steel products.

The company is stewarded by Mr. B.L. Agarwal, a first-generation entrepreneur, who possesses more than four decades of experience in the steel industry. He is supported by the second generation from the promoter family comprising Mr. Siddharth Agarwal and Mr. Abhishek Agarwal as well as professional managers.

The company had directly employed 2656 individuals towards the end of 2020-21. The average age of employees was 38 years as on 31 March 2021.

Products manufactured by the company

Pellets: Used in the production of steel and alloys. Has gained traction owing to growing demand for high-grade iron content material, which is globally scarce.

Sponge iron: Represents a critical input for the steel industry as energy-efficient feedstock.

Iron and steel billets: Processed iron or steel with a rectangle or square cross section, used for manufacturing rolled products of different applications in the construction, infrastructure and other industries.

Wire rods: Wire rod is a finished product in a steel plant rolled from the billet in a wire rod mill. It is mainly used for the production of steel wire, which is subjected to further processing.

Hard black wire: Made from rolled steel through wire drawing; serves as raw material in construction and infrastructure.

Ferro alloys: Production of silico manganese is used in steel production.

Unique presence across the steel value chain

	Capacity	F21 utilisation
Iron ore mining	2.1 mt	81%
Iron ore Pellets	2.4 mt	96%
Sponge Iron	0.5 mt	99%
Steel Billets	0.4 mt	88%
MS Rounds	0.4 mt	65%
HB Wires	0.15 mt	65%
Ferro Alloys	16,500 mt	86%
Power	73 MW*	60%

Other facilities

Captive mining: Increased captive mining to aid in lowering costs and improving margins.

Power: In-plant power generation capacity of 73 MW. Derived 42 MW captive energy from waste heat recovery + 11 MW from coal thermal plant + 20 MW biomass power capacity. Additional 25 MW from Jagdamba Power. Setting up additional solar power capacity

Water: Agreement with Chhattisgarh Ispat Bhoomi Ltd to draw 10,000 KL of water/day.

Annual Report 2020-21 | 03

What sets it apart from its competitors?

To support this the company includes pages describing the company's history and products/services that the company is providing.

Stock Investing for Individuals

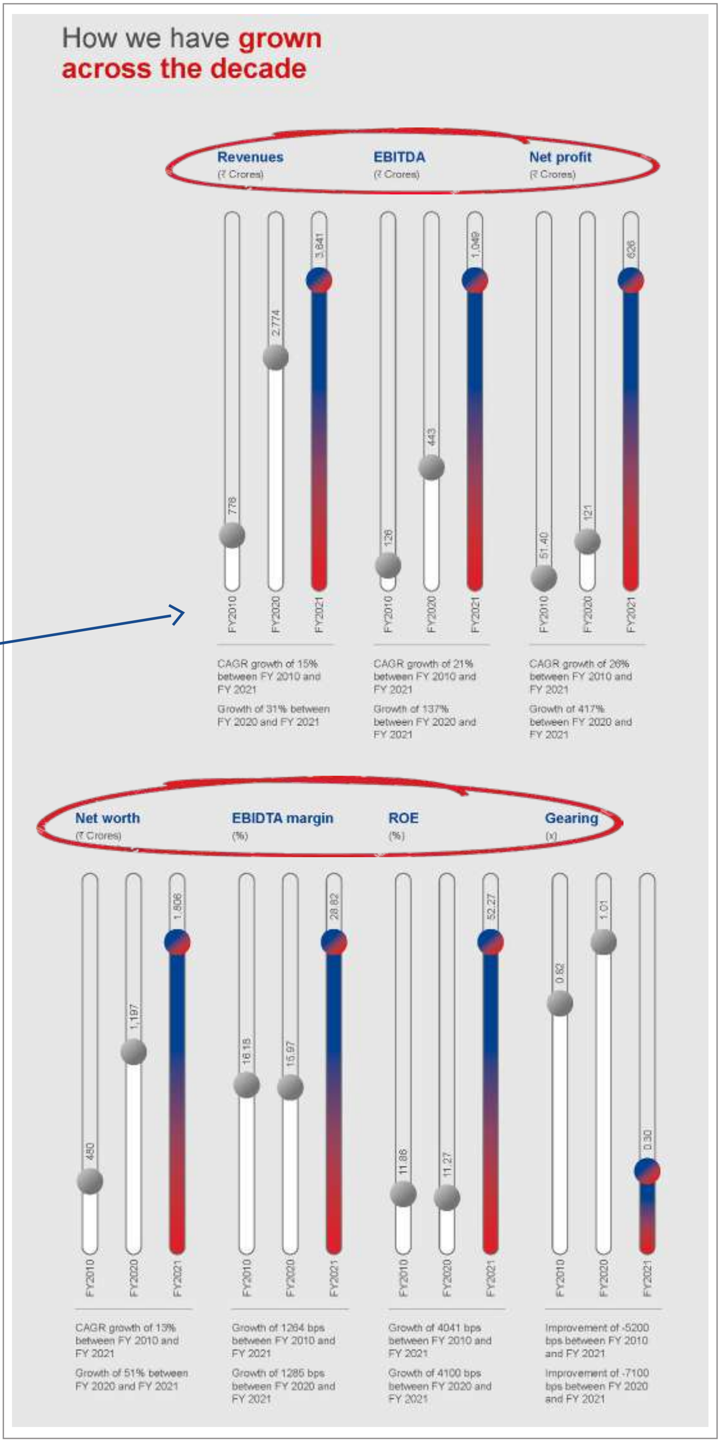
Highlights

In this section, company includes its accomplishments and highlights its performances from previous years. Although it is not mandatory, a company can explain its business and financial performance with a flexibility over here. This section allow the business to have full discretion over things written and are not bound by any rules.

ZEBRALEARN

The company has shown its performance from 2021.

The company has shown its growth across the decade under various parameters such as Revenues, EBITA, Net profits, net worth, EBITA Margin, ROE, and gearing. There are no rules about what is to be included here.



02 Chairman's letter and CEO's Letter

Letters from the top executives such as the Managing director, chairman, and CEO provide us with an overview of the company and its operations in their words.

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Their letter will mention the information of interest to its shareholders and potential investors.

Overview

At GPIL, we are endeavouring to build a truly sustainable mid-sized steel company that remains viable and profitable across all market cycles.

We embarked on this exercise a few years ago and I am pleased to communicate that the first – and most decisive – phase of our approach is likely to reach its logical conclusion in the near future. In doing so, your company will create a secure robust foundation that will make it possible to grow the business across market cycles in a manner that enhances value for all stakeholders.

Strategic imperatives

When we embarked on building a multi-cycle sustainable mid-sized steel company a few years ago, we recognised the five defining ways of getting there.

ESG commitment: At GPIL, we recognised that the direction of global opinion makers was moving from 'What is the maximum you can manufacture?' to 'What is the maximum you can manufacture in the most responsible manner?' In line with this direction, GPIL began to invest in businesses (renewable energy), equipment, talent and targets with the objective to moderate its carbon footprint. I am pleased to communicate that the company was among the first in India's mid-sized sector to have invested years ago in renewable energy; this direction will only be strengthened across the foreseeable future in the company's quest to emerge as a responsible 'green steel' manufacturer.

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Upstream rather than downstream: At GPIL, we recognised the need to build a secure upstream strategy on which to build the business. This entailed an investment in the production of resources and raw materials that would go into steel building. This approach was contrary to what most steel manufacturers had professed until then; most had invested in the front-end of the business which left them vulnerable and exposed on the raw material side of their business. The result was that in the event of a commodity up-cycle, such companies were extensively impaired by a sharp increase in their raw material costs. During such occasions, steel realisations also increased but with a lag, leaving the steel companies always attempting to play catch-up with the increase in their resource costs, perpetually mismatched time-lag and need to mobile a larger outlay of expensive working capital.

At GPIL, we selected to be contrarian. Even as we recognised that by going the upstream route, we would always be a materials provider to large downstream steel companies for a number of years, we felt that this was the only way in a long-term journey to remain liquid and viable while engaged in the pursuit of one's mission.

I believe that the decision to venture upstream rather than downstream was possibly the most decisive initiative to have kept us in business through one of the most extended steel sector downtrends seen in the last decade.

Integration: At GPIL, we recognised that going upstream and staying there would work for only a limited period. If we sustained this approach, we would have become a low margin resource provider to larger downstream steel companies with moderate scope of any meaningful value-addition. To integrate the business, the Company signed an MoU with the State Government of Chhattisgarh to set up a 1.5-million-ton per annum steel plant. The Company is working towards making GPIL a 1.5 million tonnes per annum integrated steel Company in about three years by diversifying into the manufacture of flat products.

That recognition resulted in GPIL building an integrated downstream approach. The iron ore that we mined – the building block of our business - would be beneficiated and converted into pellets. The company commissioned a sizable capacity that would eliminate the possibility of selling iron ore in its raw form; the company became, for all practical purposes, a quality pellets company that enhanced value over mined ore. Some years ago, the company took its integration ahead by utilising sponge iron for the manufacture of billets, a step closer to emerging as a front-end steel company. I am pleased to communicate that GPIL is now India's largest high grade quality pellets manufacturing company among secondary steel producers. The company's customers comprise small and mid-sized companies; the company marketed 34% of its domestic production within a mere 200 kms, exported 66% to China, Malaysia and South Korea and emerged as one of leading pellet exporters from Central India.

Moderating carbon footprint: At GPIL, we recognised that the respected steel companies of the future would be those that would have invested in people, process, best practices and plants with the objective to moderate their carbon footprint. The company invested in waste heat recovery generation.

The Company is now embarking on setting up a 250 MW solar power plant with an investment of INR 750 Crores that will not only replace high-cost, low-efficiency thermal power with a clean, cost-effective, sustainable energy source for manufacturing finished steel products but also provide the company with predictable annuity revenue. The initiative will not only lead to substantial savings in energy costs and improve operating margins but also make the Company the first Indian carbon-neutral company in the iron and steel sector.

Deleveraging: At GPIL, we believed that the most visible intent of our need to emerge as a sustainable company would be reflected in our commitment to reduce the long-term debt on our books. This need to moderate debt was in response to extensive changes in the market environment. Across the last two decades, the global economic order has been increasingly marked by unforeseen development, often referred to as Black Swans. During these phases, one of the first casualties has been a decline in public and private spending, affecting the offtake of steel products. These events have, in turn, affected the debt and interest repayment capability of the debt-burdened steel companies, turning some of them sick and some towards ownership transfer.

At GPIL, we realised that it is imperative to moderate debt to remain solvent in our capital-intensive sector. The company became increasingly focused on using credit discipline, with a premium on the ability to moderate

> The Company is now embarking on setting up a 250 MW solar power plant with an investment of INR 750 Crores that will not only replace the high-cost, low-efficiency thermal power with a clean, cost-effective, sustainable energy source for manufacturing finished steel products and also provide the company with predictable annuity revenue.

- Overall assessment of the company's operations and its work
- Identifying challenges faced by the company.
- Provide assurance that the organization is on the right track
- Provides assessment of the market in which the firm operates
- Thought process and the company's philosophies on how they wish to grow their business.

All responsibility reports include BR (Business Responsibility), CSR (Corporate Social Responsibility), and ESG (Environmental, Social, and Governance).

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Corporate Overview | Statutory Reports | Financial Statements

Section D: Business Responsibility (BR) Information:

1. Details of Director/Directors responsible for BR	
(a) Details of the Director/Director responsible for implementation of the BR policy/policies	
1. DIN Number	00479747
2. Name	Shri B.L. Agrawal
3. Designation	Managing Director
(b) Details of the BR head	
DIN Number (if applicable)	Not applicable
Name	Shri Vivek Agrawal
Designation	Chief Operating Officer
Telephone number	9893900112
e-mail id	Vivek.agrawal@hiragroup.com

2. Principle-wise (as per NVGS) BR Policy / Policies:

(a) Details of compliance (Reply in Y/N)

Sr. No.	Questions	P1 Business Ethics	P2 Product Responsibility	P3 Employee Wellbeing	P4 Stake holder Engagement	P5 Human Rights	P6 Environment Protection	P7 Public & Regulatory Policy	P8 CSR	P9 Customer Relation
1	Whether the Company has policies for each of the 9 Principles?	YES	YES	YES	YES	YES	YES	YES	YES	YES
2	Whether the policies have been formulated in consultation with the relevant stakeholders?	NO. While there is no formal consultation with all stakeholders, the relevant policies have evolved over a period of time by taking inputs from concerned internal stakeholders.								
3	Whether the policies conform to any national /international standards? If yes, specify (50 words)?	YES. The policies are in compliance with the national standards. They are also being reviewed and amended from time to time based on the amendments in the respective regulations.								
4	Whether the policies are being approved by the Board? If yes, has it been signed by MD/ CEO/ or any Director?	Some of the Policies which are statutorily required have been formulated by the respective committees and Board The Policies have been signed by MD of the company.								
5	Does the Company have a specified Committee of the Board/ Director/Official to oversee the implementation of the policies?	YES								
6	Indicate the link for the policies to be viewed online	As per the Corporate Governance requirements and as per the requirements of SEBI (LODR) Regulations, 2015, some of the Policies are available at https://godawaripowerispat.com/investorrelations/policies 2015.								
7	Whether the policies have been formally communicated to all relevant internal and external stakeholders?	YES								
8	Whether the Company has an in-house structure to implement the policy/ policies	YES								
9	Whether the Company has a grievance Redressal mechanism related to the policy/ policies to address stakeholders' grievances related to the policy/policies?	YES								
10	Has the Company carried out independent audit/evaluation of the working of this policy by an internal or external agency?	NO. Evaluation of the working of the policies shall be carried out during the current financial year by an internal or external agency.								

Let's take a look at the BR Report. We may assess all the principles P1-P9 to evaluate the company's performance.

The company has discussed its initiatives at various levels in terms of How responsibly it has carried out its operations.

The company has discussed each and every principle after the table,wherein they have talked about how they are attempting to achieve its various principles.

04 Management Discussion and Analysis

It is one of the most crucial sections of the annual report and cannot be ignored. It will help us understand:

what are the executive's opinions about the company? what is the current state of the industry? what is the situation of the economy and business? They also talk about the risks in the market, industry outlook, opportunities, dangers, and the background of their forecast.

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Corporate Overview | Statutory Reports | Financial Statements

ANNEXURE-09 TO DIRECTORS' REPORT 2020-21

Management Discussion and Analysis:

The operating and financial review is intended to convey the Management's perspective on the financial and operating performance of the Company for the Financial Year 2020-21, and outlook for the current financial year. This Report should be read in conjunction with the Company's financial statements, the schedules and notes thereto and other information included elsewhere in the Annual Report. This report is an integral part of the Directors' Report.

INDUSTRY SCENARIO

- India is currently the world's 2nd largest producer of crude steel and is the world's largest producer of Direct Reduced Iron (DRI) or Sponge Iron. India surpassed Japan to become the world's second largest steel producer in 2019 with crude steel production of 111.2 million tonnes (MT). In FY20, crude steel production and finished steel production in India was 108.5 MT and 101.03 MT, respectively.

Between April–February 2020-2021, India's cumulative production of crude steel was 92.782 MT and finished steel was 85.604 MT. In the month of Jan - Feb 2021, India produced 19.39 MT of crude steel.

Export and import of finished steel stood at 9.492 MT and 4.252 MT, respectively, April – February 2020-2021.

The steel industry suffered a setback due to the COVID19 pandemic outbreak and the consequent lock downs. The industry's key customer sectors like automobiles, construction and oil & gas drillers struggled hard to survive due to prolonged shutdowns, disrupted supply chains, collapsing confidence and delayed investment and construction projects, as well as a decline in consumption activity across the globe. The domestic automotive industry production has been facing a series of challenges on account of regulatory changes (Bharat Stage Emission Standards - BSVI, Corporate Average Fuel Efficiency - CAFE norms, Crash standards, revised axle norms etc.), Societal trends (ride sharing, traffic congestion, cost of ownership etc.), technological upheavals (electric vehicle) and liquidity crunch. The COVID-19 pandemic further exacerbated the situation as the supply chain got disrupted and there was suspension in production. Automotive, which is one of the most important end market for the steel industry, saw a severe sales plunge globally.

As a step towards supporting the economy, the Government of India unleashed policy stimulus equivalent to INR 20 trillion consisting of the following measures:

a. Liquidity injection and favorable business environment for the MSMEs

b. Impetus on the rural economy as measures are directly focused on increasing income and consumption

c. Structural reforms in the mining and manufacturing sector

The Govt. of India approved an incentive program worth 1.46 trillion rupees ($20 billion) to attract companies to set up manufacturing in the South Asian nation. The government will offer production-linked incentives to 10 sectors including automobile, solar panel and specialty-steel makers over a five-year period.

The stimulus package and incentive program with increased government spending will strengthen the demand situation in the country in the coming times.

Iron Ore & Pellets

Iron prices remained strong through out FY21 on account of supply constrains from the large miners. At over $200, global Iron Ore prices have touched a multi-year high. Among the 3 major iron ore producers globally only Vale has been projecting higher production in FY22. The demand supply is expected to remain tight for next 1-2years.

Pellet prices have been tracking higher iron ore prices and have remained strong. China is focussed on decarbonisation of the economy and this has increased demand for higher grade pellets and iron ore.

Government Initiatives

Government has taken various steps to boost the sector including the introduction of National Steel Policy 2017 and allowing 100% Foreign Direct Investment (FDI) in the steel sector under the automatic route. According to the data released by Department for Promotion of Industry and Internal Trade (DPIIT), the Indian metallurgical industries attracted Foreign Direct Investment (FDI) to the tune of US$ 14.24 billion in the period April 2000-September 2020.

Some of the other government initiatives in this sector are as follows:

- In December 2020, the Minister for Petroleum & Natural Gas and Steel, Mr. Dharmendra Pradhan, has appealed to the scientific community to Innovate for India (I4I) and create competitive advantages to make India 'Aatmanirbhar'.
- In September 2020, the Ministry of Steel prepared a draft framework policy for development of steel clusters in the country.
- On October 1, 2020, Directorate General of Foreign Trade (DGFT) announced that steel manufacturers in the country can avail duty drawback benefits on steel supplied through their service centres, distributors, dealers and stock yards.

The lockdowns and restrictions imposed on various activities due to COVID – 19 pandemic have posed challenges to the business of the Company.

However the Company's operations were closed only for few days. There was no disruption in the operations of the company throughout the year.

As economic activities have started recovering with the removal of the lockdown and gradual relaxation in mobility restrictions, the Company is continuously leveraging the opportunities to increase penetration in the domestic and international markets.

Opportunities

The company's operations are linked to the nation's steel sector in such a way that a rise in demand for steel would increase the demand for iron ore pellets, sponge iron and steel billets. The various sectors that are expected to contribute to the growing demand are infrastructure, roads, railways, bridges, airports, industrial plants, buildings, automobiles, etc.

The renewed importance given by Government on affordable -housing, roads, sagarmala projects and other infrastructure projects are expected to create steel demand, this will augur well for sponge iron industry also.

With the Global economies opening up gradually, India also needs to get back to its full capacity at the earliest to be the successful economy that it aims to be. The pandemic presents a unique opportunity for India and its industries to increase influence in the global supply chain. With a likely realignment of global supply chains, India has the skill, resources and expertise to emerge as a location of choice. The Rs.20 trillion fiscal and monetary stimulus package to make India self-reliant is a step in the right direction. The increased focus on strengthening the micro, small and medium enterprises (MSMEs), considered to be backbone of the economy, assumes paramount importance.

The Metals and Mining sector in India is expected to witness a major reform in the next few years, owing to reforms such as Atmanirbhar Bharat, Make in India Campaign, Smart Cities, Rural Electrification and a focus on building renewable energy projects under the National Electricity Policy as well as the rise in infrastructure development.

According to the IEA report, demand for power has seen an upward trend in recent years. Moreover, it is expected that it will continue on the same trajectory due to economic development, rapid urbanization, growing appliance ownership, and thrust towards rural electrification. The Government continues to focus on increasing the share from sustainable renewable energy sources to reduce the dependency on traditional fossil-fuel based energy sources. India's power sector is forecasted to attract investments worth Rs. 9-9.5 trillion between FY 2019-23.

The Cabinet Committee on Economic Affairs (CCEA) has approved commercial coal mining for private sector and the methodology of allocating coal mines via auction and allotment, thereby prioritizing transparency, ease of doing business and ensuring the use of natural resources for national development.

The Company is exploring the avenues available to it. The Company's New high value iron ore pellets are widely acceptable in the Global Market.

Threats

The key threat to the steel industry continues to be the smooth availability and the price volatility of iron ore and coal, which are the key raw materials. Due to the expiry of a large number of iron ore mining licenses in March, 2020, Steel producers faced a raw material crisis this year. Iron ore lumps prices are also increasing. The non- availability of non-coking coal and the rising prices of Iron Ore might pose significant challenge in the future.

Apart from the disruptions caused/to be caused by the COVID-19 pandemic, in the near future, we do not foresee any major threat to the industry segments in which the Company operates. We have taken a number of initiatives across the organization to improve quality and reduce cost which will aid in preserving and enhancing our margins. As we march forward with the hope of stepping into a better world post COVID-19, with the available infrastructure and strong team, the Company is all set to make its contribution in the growth of the nation.

OUTLOOK

The World Steel Association (Worldsteel) recently released its Short Range Outlook (SRO) for 2021 and 2022. Worldsteel forecasts that steel demand will grow by 5.8% in 2021 to reach 1,874.0 million tonnes (Mt), after declining by 0.2% in 2020. In 2022 steel demand will see further growth of 2.7% to reach 1,924.6 Mt.

The current forecast assumes that the ongoing second or third waves of infections will stabilise in the second quarter and that steady progress on vaccinations will be made, allowing a gradual return to normality in major steel-using countries.

Commenting on the outlook, Mr Al Remeithi, Chairman of the Worldsteel Economics Committee, said, "despite the disastrous impact of the pandemic on lives and livelihoods, the global steel industry was fortunate enough to end 2020 with only a minor contraction in steel demand. This was due to a surprisingly robust recovery in China, with growth of 9.1%. In the rest of the world steel demand contracted by 10.0%. In the coming years, steel demand will recover firmly, both in the developed and developing economies, supported by pent-up demand and governments' recovery programmes. However, for most developed economies a return to the pre-pandemic levels of steel demand will take a few years.

While it is hoped that the worst of the pandemic is passing, there is still considerable uncertainty for the rest of 2021. The

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05 Director's Report

The director's report is a mandatory requirement that covers the director's performance and their overview of the firm. It also provides us with information regarding various committees and key management employees such as managing directors and full-time directors ,CEO, CFO and so on and also their compensation.

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Director's Report

To
The Members,

Your Directors have pleasure in presenting the 22nd Annual Report on the business & operations of the Company together with the Standalone and Consolidated Audited Financial Statement for the year ended 31st March 2021.

1. FINANCIAL HIGHLIGHTS:

(₹ in crores)

Particulars	Standalone		Consolidated	
	2020-21	2019-20	2020-21	2019-20
Gross Revenue from operations	3640.87	2774.01	4071.92	3,288.53
Other Income	5.20	2.88	4.04	4.65
Total Revenue	3646.07	2776.89	4075.96	3,293.18
Operating expenses	2596.86	2333.99	2843.03	2664.28
Profit before Interest, Depreciation, Tax and Amortization (EBIDTA)	1049.21	442.90	1232.93	628.90
Finance Costs	109.99	153.86	153.94	211.93
Depreciation and amortization expenses	96.49	91.60	138.45	136.90
Profit/(loss) before exceptional item and tax	842.73	197.64	940.54	280.07
Exceptional item	63.00	-	-	10.28
Profit/(Loss) Before Taxation	905.73	197.65	940.54	269.79
Taxation (including Deferred Tax)	279.97	76.24	316.05	95.36
Profit/(Loss) after Taxation (PAT)	625.76	121.40	624.49	174.43
Add: Share of Profit/(Loss) of Associates & Joint Ventures (after tax)	-	-	30.03	2.81
Other Comprehensive Income	0.62	(1.68)	34.69	(11.13)
Total Comprehensive Income for the period comprising profit/(loss) and other comprehensive income for the period	626.38	119.72	689.21	166.11

2. REVIEW OF PERFORMANCE:

The Steel industry suffered a setback due to the prevailing COVID19 pandemic and the consequent lockdowns. The industry's key customer sectors like automobiles, construction and oil & gas drillers struggled hard to survive due to prolonged shutdowns, disrupted supply chains, collapsing confidence and delayed investment. Despite all these adverse circumstances, your company had out performed during the current financial year in all its operations achieving optimum utilization of its capacities.

Your Company's performance during the year has been very much satisfactory, in view of higher demand for iron ore & iron ore pellets in international and domestic market. During the year the realizations of all the products have also increased especially in iron ore pellets as compared to previous year which in turn contributed towards increased operating margins/EBIDTA margins of the Company. As communicated in our last reports, the Company's efforts for making grade pellet has been successful and started selling in the domestic and international markets. Your company is aiming to make 100% of high-grade pellet going forward. Given the above backdrop, the highlight of standalone & consolidated results are given below:

Standalone Operations:

- Revenue from operations for the year increased by 31.24% to ₹3640.87 Crores as compared to ₹2774.01 Crores achieved during previous Financial Year.
- EBITDA for the year increased by 136.89% to ₹1049.21 Crores as compared to EBITDA of ₹442.90 Crores achieved in previous Financial Year.
- Profit after tax increased by 415.46% to ₹625.76 Crores as compared to net profit of ₹121.40 Crores in previous Financial Year.
- Net debt of the Company at the end of year stood at ₹457 Crores as against ₹1055 Crores in previous year, reduction by ₹598 crores.

The annexures to a director's report are quite important and include very crucial information.

Annexure 1: Secretarial Audit Report

Every firm is required to comply with the Companies Act of 2013, a company secretary needs to audit this and give a certificate for the same.

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ANNEXURE-01 TO DIRECTORS' REPORT 2020-21

SECRETARIAL AUDIT REPORT

FORM NO. MR-3

FOR THE FINANCIAL YEAR ENDED MARCH 31, 2021

[Pursuant to Section 204(1) of the Companies Act, 2013 and Rule No. 9 of the Companies (Appointment and Remuneration of Managerial Personnel) Rules, 2014]

To,
The Members,
Godawari Power & Ispat Limited

I have conducted the secretarial audit of the compliance of applicable statutory provisions and the adherence to good corporate practices by M/s Godawari Power & Ispat Limited (hereinafter called the Company). Secretarial Audit was conducted in a manner that provided me a reasonable basis for evaluating the corporate conducts/statutory compliances and expressing my opinion thereon.

Based on my verification of M/s Godawari Power & Ispat Limited's books, paper, minute books, forms, and return filed and other records maintained by the company ,to the extent information provided by the company, its officers, agents and authorized representative during the conduct of secretarial audit and as per the explanations given to me and the representation made by the management, and considering the relaxations granted by the Ministry of Corporate Affairs and Securities and Exchange Board of India warranted due to the spread of the COVID-19 pandemic, I hereby report that in my opinion, the company has, during the audit period covering the financial year ended on 31st March , 2021 generally complied with the statutory provisions listed hereunder and also that company has proper Board process and compliance mechanism in place to the extent, in the manner and subject to the reporting made hereinafter.

I have examined the books, papers, minute books, forms and returns filed and other records maintained by the Company for the financial year ended on March 31, 2021 according to the provisions of:

1. The Companies Act, 2013 (the Act) and the rules made thereunder;
2. The Securities Contracts (Regulation) Act, 1956 ('SCRA') and the rules made thereunder;
3. The Depositories Act, 1996 and the Regulations and bye-laws framed thereunder;
4. Foreign Exchange Management Act, 1999 and the rules and regulations made thereunder;
5. The following Regulations and Guidelines prescribed under the Securities and Exchange Board of India Act, 1992 ('SEBI Act'):-
   a. The Securities and Exchange Board of India (Substantial Acquisition of Shares and Takeovers) Regulations, 2011;
   b. The Securities and Exchange Board of India (Prohibition of Insider Trading) Regulations, 2015;
   c. The Securities and Exchange Board of India (Registrars to an Issue and Share Transfer Agents) Regulations, 1993;
   d. The Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015
   e. The Securities and Exchange Board of India (Issue of Capital and Disclosure Requirements) Regulations, 2018;

   The following Regulations and Guidelines prescribed under the Securities and Exchange Board of India Act, 1992 ('SEBI Act') were not applicable to the Company during the year under report:
   a. The Securities and Exchange Board of India (Delisting of Equity Shares) Regulations, 2009;
   b. The Securities and Exchange Board of India (Buy Back of Securities) Regulations, 2018;
   c. The Securities and Exchange Board of India (Employees Stock Option Scheme & Employees Stock Purchase Scheme) Guidelines, 1999;
   d. The Securities and Exchange Board of India (Issue and Listing of Debt Securities) Regulations, 2008
6. The following Act, are specifically applicable to the Company
   1. Mines Act, 1952
   2. Mines & Minerals (Development & Regulation) Act 1957;
   3. Iron Ore Mines, Manganese Ore Mines & Chrome Ore Mines Labour Welfare Cess Act 1976;
   4. Electricity Act, 2003 &The Electricity Rules, 2005;
   5. Indian Electricity Rules, 1956;
   6. Energy Conservation Act, 2011;
   7. Central Electricity Authority (Safety requirements for construction, operation and maintenance of electrical plants and electric lines) Regulations, 2011;
   8. Indian Electricity Grid Code;

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The Companies Act includes a number of principles that communicate how a company should behave, and what a company can or cannot do to safeguard its stakeholder's interests and to ensure that companies are run in a fair way and yet efficiently.

Annexure 2: Secretarial Compliance Report

Companies must appoint a company secretary, whose primary duty is to make sure that the companies comply with all the provisions of The Companies Act 2013. The secretarial audit report and a Secretarial Compliance Report verify that the compliance was conducted under the supervision of the company secretary in practice.

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SECRETARIAL COMPLIANCE REPORT

FOR THE FINANCIAL YEAR ENDED MARCH 31, 2021

To,
The Members,
Godawari Power & Ispat Limited

I have examined:

(a) All the documents and records made available to us and explanation provided by **Godawari Power & Ispat Limited, (CIN:L27106CT1999PLC013756)**

(b) The filings/ submissions made by the listed entity to the stock exchanges,

(c) Website of the listed entity,

(d) any other document & filing, as may be relevant, which has been relied upon to make this certification.

For the year ended 2020-2021("Review Period") in respect of compliance with the provisions of :

(a) the Securities and Exchange Board of India Act, 1992 ("SEBI Act") and the Regulations,circulars, guidelines issued thereunder; and

(b) the Securities Contracts (Regulation) Act, 1956 ("SCRA"), rules made thereunder and the Regulations, circulars, guidelines issued thereunder by the and Securities Exchange Board of India ("SEBI");

The specific Regulations, whose provisions and the circulars/ guidelines issued thereunder, have been examined, include:-

(a) Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015;

(b) Securities and Exchange Board of India (Issue of Capital and Disclosure Requirements) Regulations, 2018;

(c) Securities and Exchange Board of India (Substantial Acquisition of Shares and Takeovers) Regulations, 2011;

(d) Securities and Exchange Board of India (Buyback of Securities) Regulations, 2018;

(e) Securities and Exchange Board of India (Share Based Employee Benefits) Regulations, 2014;

(f) Securities and Exchange Board of India (Issue and Listing of Debt Securities) Regulations, 2008;

(g) Securities and Exchange Board of India(Issue and Listing of Non- Convertible and Redeemable Preference Shares) Regulations,2013;

(h) Securities and Exchange Board of India (Prohibition of Insider Trading) Regulations, 2015;

(i) Securities and Exchange Board of India (Depositories and Participants) Regulations, 2018;

And based on the above examination, and considering the relaxations granted by the Ministry of Corporate Affairs and Securities and Exchange Board of India warranted due to the spread of the COVID-19 pandemic, I hereby report that, during the Review Period :

(a) The listed entity has complied with the provisions of the above Regulations and circulars/ guidelines issued there under.

(b) The listed entity has maintained proper records under the provisions of the above Regulations and circulars/ guidelines issued thereunder in so far as it appears from our examination of those records.

(c) There are no actions taken against the listed entity, its promoters/ directors/ material subsidiaries either by SEBI or by Stock Exchanges (including under the Standard Operating Procedures issued by SEBI through various circulars) under the aforesaid Acts/ Regulations and circulars/ guidelines issued thereunder.

(d) The listed entity has taken the following actions to comply with the observations made in previous reports: NOT APPLICABLE

Tanveer Kaur Tuteja
Practicing Company Secretary
M. No.:7704
C. P. No.:8512
PR: 1027/2020
UDIN: F007704C000341697

Place: Raipur
Date: 18.05.2021

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In general, we will look at any remarks that the auditor has issued. From a retail investor's point of view, institutional investors will go through these.

Annexure 3: Energy Conservation

Annexure 3 ascertains what steps a company takes to conserve energy and what kind of technology is used to achieve the same. It also talks about the foreign exchange earnings of the company.

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ANNEXURE-03 TO DIRECTORS' REPORT 2020-21

ENERGY CONSERVATION, TECHNOLOGY ABSORPTION AND FOREIGN EXCHANGE EARNINGS AND OUTGO.

(A) CONSERVATION OF ENERGY-

(i) **The steps taken or impact on conservation of energy:**

Steps Taken:

1) Variable Frequency Drive (VFD) provided for ABC HP Pump Kiln- 2 Sponge Iron Division (SID) Phase-1.
2) Variable Frequency Drive provided for ABC Fan Kiln- 2 Sponge Iron Division Phase-1.
3) Replacement of High Pressure Sodium Vapour lights with LED lights in Sponge Iron Division.
4) Replacement of Water Cooled AC to Air Cooled AC in Sponge Iron Division Phase-2Control Room.
5) Started Consuming low Gangue DRI Pellet instead of high Gangue DRI Pellet.
6) Installation of Sonic soot blower in Waste Heat Recovery Boiler-1 & 4.
7) Replacement of conventional lighting with LED lights.
8) Change in Motor Pump Rating from 75KW Motor to 45 KW Motor.
9) Change in Starter Method from Star Delta Motor Starter to Variable Frequency Drive.

The impact of above measures:-

1) By providing VFD for ABC HP Pump Kiln-2 SID Ph-1 there was a saving of 188100 units of Power annually.
2) By providing VFD for ABC Fan Kiln-2 SID Ph-1 there was saving of 189420 units of Power annually.
3) By replacing of HPSV lights with LED lights in SID there was saving of 103114 units per year.
4) By replacement of Water Cooled AC to Air Cooled AC in SID-2 Control Room there was saving of 153578 units per year.
5) Consuming Low Gangue DRI Pellet instead of High Gangue DRI Pellet reduced the heat timings due to which Power Consumption Reduced.
6) Installation of Sonic soot blower reduced Electricity and Coal consumption.
7) Replacement of conventional lighting with LED lights saved electricity 16000KWH per year.

(ii)	**The steps taken by the company for utilizing alternate sources of energy**	**None**
(iii)	**Capital investment on energy conservation equipments**	**₹ In Lacs**
1.	VFD provided for ABC HP Pump Kiln- 2 SID Ph-1.	8.00
2.	VFD provided for ABC Fan Kiln- 2 SID Ph-1.	2.50
3.	Replacement of HPSV lights with LED lights in SID Ph-1 & 2.	4.40
4.	Replacement of Water Cooled AC to Air Cooled AC in SID-2 Control Room.	11.00
5.	Installation of Sonic soot blower.	12.00
6.	Replacement of CT make up pumps.	0.20
7.	VFD Purchased 2 nos. 55KW Schneider make	2.35
	TOTAL INVESTMENTS	**40.45**
SAVINGS:		
1.	Savings by providing VFD for ABC HP Pump Kiln-2 Ph-1 (@ ₹5/- Per unit)	9.40
2.	Savings by providing VFD for ABC Fan Kiln-1 SID Ph-1 (@ ₹5/- Per unit)	9.40
3.	Savings by Replacement of HPSV lights with LED lights in SID (@ ₹5/- Per unit)	5.10
4.	Savings by Replacement of Water Cooled AC to Air Cooled AC in SID-2 Control Room	7.60
5.	Savings in electricity by Started Consuming Low Gangue DRI Pellet instead of High Gangue DRI Pellet as compared to previous FY 2019-2020 :-	451.00
6.	Savings on coal 40MT (@ ₹ 350/MT) and electricity saving 32200 KWH.	3.00
7.	Savings in electricity by replacement of conventional lightining to LED is 16000 KWH per year (@ ₹ 5 /- Per unit).	0.80
8.	Savings in KWH consumptions per day by 429 units	6.18
	TOTAL SAVINGS	**492.78**

(C) FOREIGN EXCHANGE EARNINGS AND OUTGO

The Foreign Exchange earned in terms of actual inflows during the year	₹125264.62 Lacs
Foreign Exchange outgo during the year in terms of actual outflows.	₹25114.94 Lacs

Annexure 4: Corporate Social Responsibility

CSR is an acronym for 'Corporate Social Responsibility'

As a general rule, every corporation is under an obligation to allocate 2% of its Profit after tax (PAT) towards any kind of social welfare activities such as education, village adoption, water supply maintenance and many such throughout the year.

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ANNEXURE-04 TO THE DIRECTORS' REPORT 2020-21

ANNUAL REPORT ON CSR ACTIVITIES TO BE INCLUDED IN THE BOARD'S REPORT FOR FINANCIAL YEAR COMMENCING ON OR AFTER 1ST DAY OF APRIL, 2020

1. Brief outline on CSR Policy of the Company- The CSR Committee has formulated a CSR policy of the Company for undertaking the activities as specified in Schedule VII of the Companies Act, 2013.
2. Composition of CSR Committee:

Sl. No.	Name of Director	Designation/Nature of Directorship	Number of Meetings of CSR Committee held during the year	Number of Meeting of CSR Committee attended during the year
1.	Mr. Shashi Kumar	Chairman (Independent Director)	2	2
2.	Mr. Abhishek Agrawal	Member (Whole-time Director)	2	1
3.	Mr. Vinod pillai	Member (Whole-time Director)	2	2

3. The web-link where Composition of CSR committee, CSR Policy and CSR projects approved by the board are disclosed on the website of the company -http://godawaripowerispat.com/investors-information/policies.
4. The details of Impact assessment of CSR projects carried out in pursuance of sub-rule (3) of rule 8 of the Companies (Corporate Social Responsibility Policy) Rules, 2014, if applicable (attach the report)- Not applicable.
5. Details of the amount available for set off in pursuance of sub-rule (3) of rule 7 of the Companies (Corporate Social Responsibility Policy) Rules, 2014 and amount required for set off for the financial year, if any -

Sl. No.	Financial Year	Amount available for set-off from preceding Financial Years (in ₹)	Amount required to be set-off for the Financial Year, if any (in ₹)
1	2019-20	NIL	NIL
2	2018-19	NIL	NIL
3	2017-18	NIL	NIL
	Total	**NIL**	**NIL**

6. Average net profit of the company as per section 135(5)- ₹23609.89 lacs
7. (a) Two percent of average net profit of the company as per section 135(5)- ₹472.20 lacs
   (b) Surplus arising out of the CSR projects or programmes or activities of the previous financial years- NIL
   (c) Amount required to be set off for the financial year if any- NIL
   (d) Total CSR obligation for the financial year 2020-21 (7a+7b-7c)- ₹472.20 Lacs
8. (a) CSR amount spent or unspent for the financial year 2020-21:

Total Amount Spent for the Financial Year (₹ In lacs)	Amount Unspent (₹ in lacs)				
	Total Amount transferred to Unspent CSR Account as per section 135(6).		Amount transferred to any fund specified under Schedule VII as per second proviso to section 135(5).		
	Amount	Date of Transfer	Name of the Fund	Amount.	Date of transfer
510.45	103.00	30.04.2021	NA	NIL	NA

In this annexure, we must look at the amount of money the company diverts towards CSR, its objective, and how it was spent.

Annexure 5: Financial Results of Subsidiaries and Associates

Subsidiaries refer to companies that are completely or majorly owned by the parent company while Associates refer to companies in which a corporation has invested but owns a smaller percentage.

Godawari Power and Ispat own 2 subsidiaries and 3 associates.

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ANNEXURE-05 TO DIRECTORS' REPORT 2020-21

FINANCIAL RESULTS OF SUBSIDIARIES AND ASSOCIATES FOR THE YEAR ENDED ON 31ST MARCH, 2021

₹ In lacs

Sr. No.	Particulars	Subsidiaries		Associate Companies		
		Godawari Green Energy Limited	Godawari Energy Limited	Ardent Steel Limited	Hira Ferro Alloys Limited	Jagdamba Power and Alloys Limited
		31.03.2021	31.03.2021	31.03.2021	31.03.2021	31.03.2021
		Audited	Audited	Audited	Audited	Audited
1	(a) Revenue from Operations (Gross)	11427.74	0.00	53828.58	31446.45	6382.40
	(b) Other Income	64.93	0.00	56.84	250.93	384.11
	Total	**11492.67**	**0.00**	**53885.42**	**31697.38**	**6766.51**
2	Expenditure					
	a) (Increase)/decrease in inventories of finished goods, work in progress, stock in trade and traded goods	0.00	0.00	(1069.42)	708.82	0.00
	b) Cost of raw material and component consumed	0.00	0.00	24124.53	19920.20	4693.50
	c) Purchase of Traded goods	0.00	0.00	355.77	64.11	0.00
	d) Employees Benefit Expenses	849.46	0.00	1472.27	1267.73	353.68
	e) Finance Costs	3985.74	0.70	519.14	549.30	7.38
	f) Depreciation & Amortisation Expenses	2948.64	0.00	1666.79	626.93	221.03
	g) Other Expenditure	1389.00	1.45	11303.69	6370.85	771.00
	Total	**9172.86**	**2.15**	**38372.77**	**29507.94**	**6046.59**
3	**Profit/(Loss) from ordinary activities before exceptional items and Tax (1-2)**	**2319.81**	**(2.15)**	**15512.65**	**2189.44**	**719.92**
4	Exceptional items	0.00	0.00	0.00	0.00	0.00
5	**Profit/(Loss) from ordinary activities before tax (3-4))**	**2319.81**	**(2.15)**	**15512.65**	**2189.44**	**719.92**
6	**Tax Expenses**					
	Current Tax	0.00	0.00	3355.51	375.47	107.55
	Deferred Tax	898.57	0.00	1043.26	(299.89)	104.23
7	**Net Profit/(Loss) from ordinary Activities after tax (5-6)**	**1421.24**	**(2.15)**	**11113.88**	**2113.86**	**508.14**
9	**Total comprehensive Income for the year, net of tax**	**1422.09**	**(2.15)**	**11124.21**	**9120.32**	**507.32**
10	Paid up equity share capital (face value of shares of ₹10/- each)	2344.70	2300.00	1056.50	1958.85	766.97
11	Other Equity	23702.28	504.80	28850.04	20644.06	7116.87
12	**Earning Per Share**					

This annexure allows us to compare the data of all the subsidiaries and associates.

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Annexure 6: Particulars of Employees and Related Disclosure

It includes a list of employees and directors, the top ten income earners along with their respective salaries. Furthermore, this annexure includes the % increase in the median employee salary, number of the permanent employees along with their average salary.

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ANNEXURE-06 TO DIRECTORS' REPORT 2020-21

PARTICULARS OF EMPLOYEES AND RELATED DISCLOSURE

1. The Ratio of the remuneration of each Director to the Median Remuneration of the employees of the company for the Financial Year 2020-21:

Name of Director	Designation	Remuneration (₹)	Median Remuneration (MR)	Ratio No. of times to MR
Mr. Biswajit Choudhuri	Independent Director	11,60,000	3,22,056	3.60
Mr. Shashi Kumar	Independent Director	9,40,000	3,22,056	2.92
Mr. B. N. Ojha	Independent Director	11,60,000	3,22,056	3.60
Mr. Harishankar Khandelwal	Independent Director	10,40,000	3,22,056	3.23
Ms. Bhavna G. Desai	Independent Director	11,00,000	3,22,056	3.42
Mr. B. L. Agrawal	Managing Director	2,40,00,000	3,22,056	74.52
Mr. Abhishek Agrawal	Executive Director	1,92,00,000	3,22,056	59.62
Mr. Dinesh Agrawal	Executive Director	1,92,00,000	3,22,056	59.62
Mr. Vinod Pillai	Executive Director	22,80,000	3,22,056	7.08
Mr. Dinesh Kumar Gandhi	Non Executive Director	25,00,000	3,22,056	9.17

2. The percentage increase in remuneration of each Director, CFO, CEO, Company Secretary for the Financial Year 2020-21 as compared to 2019-20:

Name of Director	Desgination	Remuneration 2019-20 ₹	Remuneration 2020-21 ₹	% increase/ (Decrease)
Mr. Biswajit Choudhuri	Independent Director	1145000	11,60,000	1.31
Mr. Shashi Kumar	Independent Director	890000	9,40,000	5.62
Mr. B. N. Ojha	Independent Director	1045000	11,60,000	11.00
Mr. Harishankar Khandelwal	Independent Director	1040000	10,40,000	0.00
Ms. Bhavna G. Desai	Independent Director	1100000	11,00,000	0.00
Mr. B. L. Agrawal	Managing Director	24000000	24000000	0.00
Mr. Abhishek Agrawal	Executive Director	19600000	19200000	-2.04
Mr. Dinesh Agrawal	Executive Director	18000000	19200000	6.67
Mr. Vinod Pillai	Executive Director	2280000	2280000	0.00
Mr. Dinesh Kumar Gandhi	Non Executive Director	2500000	2500000	-
Mr. Sanjay Bothra	CFO	6251610	6661723	6.56
Mr. Y.C.Rao	CS	5771389	6305224	9.25

3. The names of the top ten employees of the company in term of remuneration drawn are as under:

Name	Designation	Remuneration (per annum) (₹)
Mr. B. L. Agrawal	Managing Director	24000000
Mr. Abhishek Agrawal	Executive Director	19200000
Mr. Dinesh Agrawal	Executive Director	19200000
Mr. Vivek Agrawal	COO	9143332
Mr. Sanjay Bothra	CFO	6661723
Mr. Yarra Chandra Rao	CS	6305224
Mr. Vinay Shandilya	President (Power Division)	4937245
Mr. KVSKN Ravindra	President (Pellet Division)	2975148
Mr. Reetesh Kumar	President (Corporate Affairs)	2287224

The details of qualifications, experience, age, date of commencement of employment and last employment of the aforesaid employees are maintained at the Registered Office of the Company and are open for inspection. Any member interested in obtaining a copy of the same, may write to the Company Secretary.

06 Corporate Governance Report

A corporate governance report tells us how well is a company being governed by the board and who are the large investors that have invested in the company. The investors appoint the board of directors who govern that the company is being fairly run by the management.

The primary role of Board of Directors is to ensure that the firm is well operated and managed. The directors do not run the business directly, but further appoint the key management such as the CEO and CFO who take charge of running the company.

Investors $\xrightarrow{\text{Appoints}}$ **Directors** $\xrightarrow{\text{Appoints}}$ **Management** ⇢ runs the Business

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ANNEXURE-07 TO DIRECTORS' REPORT 2020-21

Corporate Governance Report

The Board of Directors of the Company pays utmost importance on the broad principles of Corporate Governance. The Company is complying with the disclosure norms pursuant to relevant provisions of Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015 (SEBI (LODR) Regulations, 2015).

1. COMPANY'S PHILOSOPHY ON CORPORATE GOVERNANCE:

Your Company prides itself on being a responsible corporate citizen, which is committed to running its business in the best possible manner while being completely transparent, complying with all relevant rules & regulations and contributing to society at large. The Company believes that maintenance of Code of Corporate Governance is essential for economic growth of the Company and protecting the interest of all the Stakeholders. Therefore, the Company is trying its best to follow the Code of Corporate Governance.

GPIL's Corporate Governance philosophy encompasses not only regulatory and legal requirements, such as the terms of listing regulations with stock exchanges, but also several voluntary practices aimed at a high level of business ethics, effective supervision and enhancement of value for all stakeholders. The Corporate Governance is based on the principal of truth, transparency, accountability, equity and responsibility in all our dealings with our employees, shareholders, customers, suppliers, government, lenders and community at large.

Thus, in any corporate governance report, we should try and analyze if the board of directors correctly govern the company. If the nominated directors do not attend meetings or do not look after the company, then the company's management will be ineffective.

If a person holds a lot of other directorships in a lot of different companies then their attention on every company might be scattered than a director who holds merely 2 other directorships. Furthermore, if a director belongs to the promoter group, it is likely that they may not be active on other boards. In all, fewer boards mean more focus. For the board members.

2. BOARD OF DIRECTORS:

a) Composition and category of Directors:

The Board of Directors has a combination of Executive and Non-Executive Directors. The Board comprises of Five Executive Directors, which includes One Managing Director and Four Executive Directors and Seven Non-Executive Directors including Five Independent Directors one of whom is a Woman Director. The Chairman of the Board is an Independent Director and more than one third of Directors are Independent Directors including a Woman Director. Except the Independent Directors and Managing Director all other Directors are liable to retire by rotation as per the provisions of the Companies Act, 2013. Accordingly, the composition of the Board is in conformity with SEBI (LODR) Regulations, 2015 and the provisions of the Companies Act, 2013.

The names and categories of the Directors on the Board, attendance at the Board Meetings and Annual General Meeting of the Company and also the number of Directorships and Committee Memberships and Chairmanship held by them during 2020-21 in other Companies are as under:

Name of the Directors	Category of Directors	No. of Board Meetings attended/held	Last AGM attended	No. of other Director-ship held	No. of other Board committees Member #	No. of other Board committees Chairman#
Mr. Biswajit Choudhuri*	Chairman, Non-Executive, Independent	07/07	Yes	03	05	04
Mr. Bajrang Lal Agrawal	Managing Director - Executive (Promoter)	06/07	Yes	01	Nil	Nil
Mr. Dinesh Kumar Agrawal	Executive (Promoter)	05/07	No	05	Nil	Nil
Mr. Abhishek Agrawal	Executive (Belongs to Promoter Group)	05/07	Yes	02	Nil	Nil
Mr. Vinod Pillai	Executive	05/07	Yes	06	02	Nil
Mr. Siddharth Agrawal	Non Executive (Belongs to Promoter Group)	06/07	Yes	10	Nil	Nil
Mr. Dinesh Kumar Gandhi	Non-Executive	07/07	Yes	03	01	Nil

we can see the list of different directors and the number of meetings they have attended since the last AGM in the corporate governance report.

However, as retail investors, we will not be able to judge and comprehend such information very accurately and we should not draw too many conclusions if we have limitations in understanding.

b) Changes in the Composition of Directors during the Year:

During the period under review, Mr. Prakhar Agrawal (DIN: 07547965) has been appointed as additional director by the Board in its meeting held on 11.08.2020 and he has been appointed as Whole-time Director by the Shareholders in the Annual General Meeting held on 25.09.2020. Other than this there has been no change in composition of the Directors of the Company. However, the consent of the shareholders has been accorded at their Annual General Meeting held on 25.09.2020 for re-appointment of Shri Bajrang Lal Agrawal (DIN: 00479747) as a Managing Director of the Company for a period of five years with effect from 12.08.2020.The Company has maintained the optimum combination of Executive and Non Executive Directors, as prescribed under Clause 17 of SEBI (LODR) Regulations, 2015.

c) Number of Board Meetings held:

During the Financial Year 2020-21, the Board met 07 times and agenda papers were circulated well in advance of each meeting to the Board of Directors. In order to ensure fruitful deliberations at the meetings, the Board of Directors of your Company is provided with all relevant information on various matters related to the working of the Company. The dates on which Meetings of the Board of Directors were held and the number of directors present in each meeting are given below:

S. No.	Date of Meeting	Board Strength	No. of Directors Present
1	08.04.2020	11	07
2	27.06.2020	11	11
3	11.08.2020	11	11
4	05.11.2020	12	12
5	22.12.2020	12	11
6	30.01.2021	12	11
7	02.03.2021	12	08

d) Relationship between directors inter-se:

Mr. Bajrang Lal Agrawal, Managing Director is father of Mr. Abhishek Agrawal, Executive Director and Mr. Siddharth Agrawal, Non Executive Director and Mr. Siddharth Agrawal and Mr. Abhishek Agrawal are Brothers. None other Directors of the Company is related to Key Managerial Person or other Director on the Board in terms of the meaning of the term 'Relative' given under the Companies Act, 2013¬

we can also find Changes in the Composition of Directors during the Year

We can also find the Number of Shares and Convertible Instruments like ESOPs held by the Non-Executive Directors.

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e) Number of Shares and Convertible Instruments held by the Non-Executive Directors:

There are no outstanding Convertible Instruments of the Company.

The total number of Equity Shares held by the Non-Executive Directors of the Company as on 31st March, 2021 as follows:

S. No.	Name of the Director	No. of Equity Shares held	% on Paid Up Capital
1.	Mr. Biswajit Choudhuri	Nil	0.000
2.	Mr. Shashi Kumar	Nil	0.000
3.	Mr. Bhrigu Nath Ojha	Nil	0.000
4.	Mr. Harishankar Khandelwal	1,000	0.002
5.	Ms. Bhavna G. Desai	218,000	0.619
6.	Mr. Dinesh Kumar Gandhi	18,000	0.051
7.	Mr. Siddharth Agrawal	94,000	0.267
	Total	**3,31,000**	**0.939**

f) Familiarization Programme for Independent Directors:

The programme aims to provide insights into the Company to enable the Independent Directors to understand its business in depth, to acclimatize them with the processes, businesses and functionaries of the Company and to assist them in performing their role as Independent Directors of the Company. The Company's Policy of conducting the familiarization programme has been disclosed on the website of the Company at http://godawaripowerispat.com/investors-information/policies.

g) Chart setting out the skills/ expertise/ competence of the Board of Directors:

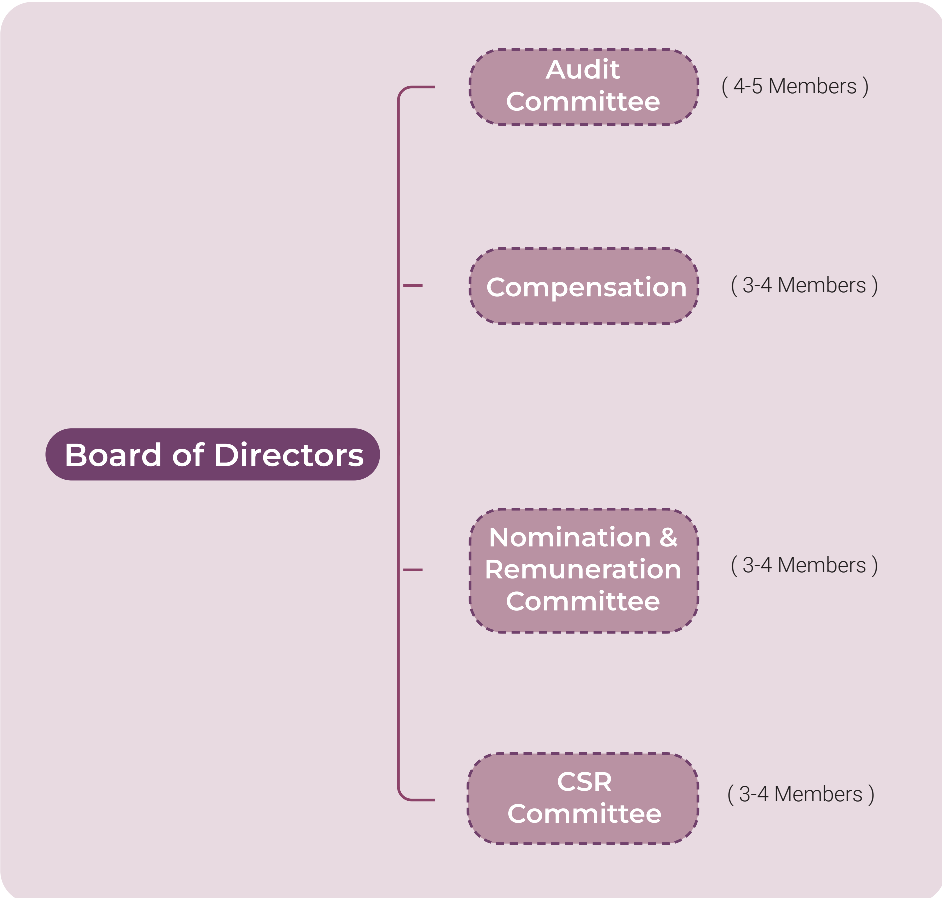
The Company is engaged in Iron and Steel Industry, Power Sector and Mining Sector. It is having an integrated steel manufacturing unit with facilities ranging right from captive iron ore mining to production of iron ore pellets, sponge iron, steel billets, rolled products, wires, ferro alloys and captive power plant.

The list of core skills/ expertise/ competencies identified by the Board of Directors as required in the context of its aforesaid business and sectors for it to function effectively and those actually available with the Board are as follows:

S. No.	Name of the Director	Qualification and Experience	Core Skills & Expertise
1.	Mr. Biswajit Choudhuri	B. Tech (Hons), Fellow Member of ICWAI Over five decades of experience	Engineering, Banking, Finance and Management
2.	Mr. Bajrang Lal Agrawal	B.E. (Electricals) Over four decades of experience	Strategic Planning, Project Planning, Production activities.
3.	Mr. Dinesh Kumar Agrawal	B.E. (Electrical) Over 25 years of experience	Production and Marketing activities
4.	Mr. Abhishek Agrawal	Masters Degree in International Business from Leeds University, U.K. Over a decade of experience	Operations and General Management, Raw Material Procurement,
5.	Mr. Vinod Pillai	Commerce graduate Over 25 years of experience	Sales, Administration, Liaisoning and Logistics.
6.	Mr. Siddharth Agrawal	B.Com and MBA Over 15 Years of experience	Plant maintenance, Production activities, Marketing of Finished Goods etc
7.	Mr. Dinesh Kumar Gandhi	Fellow Member of Institute of Chartered Accountants of India (ICAI) and Associate Member of Institute of Company Secretaries of India(ICSI) Over 25 years of experience	Finance and Strategic Planning, Financial Analyst, Taxation, Budgeting, Business Development and Administration
8.	Mr. Shashi Kumar	B.Sc. (Hons.) graduated in Mining Engineering Over four decades of experience	Coal Mining Sector
9.	Mr. Bhrigu Nath Ojha	Bachelor of Electrical Engineering Over four decades of experience	Power sector
10.	Mr. Harishankar Khandelwal	Chartered Accountant Over 25 years of experience	Finance, Accounts & Auditing, Taxation, Costing /Budgeting, Business Development and Administration
11.	Ms. Bhavna G. Desai	Bachelor in Commerce Over two decades of experience	Shares and security market activities
12.	Mr. Prakhar Agrawal	Graduate degree from London School of Economics and Diploma in Business Management from Century University.	Strategic Decision Modelling, Social Innovation and Entrepreneurship

An audit committee is a mandatory committee within the Board of Directors, for any company followed by the risk management committee, a compensation committee, a nomination & remuneration committee, and a CSR committee.

- An audit committee will oversee financial reporting and systems in place.
- Risk management ensures that the company should not undertake any steps that could jeopardize its survival. It monitors the risk exposure the company has.
- The remuneration committee will take decisions on the top-level executive and their remuneration.



It is possible that a single director serves in 3-4 committees. The idea here is that major decisions must be taken by the entire board whereas decisions pertaining to specific areas should be taken by committees which is often formed with respect to expertise of different members of the board.

There are various kinds of directors:

- Executive Directors are involved in running a business as well as are part of the Board of Directors.
- Non-executive directors are not involved running of the business.
- Independent directors do not own any shares of company and are just remunerated. They do not have any other interest in the company
- Non-Independent directors have a vested interest in the company and own shares of the company

b) Remuneration of Non-Executive Directors:

The Non-Executive Directors shall be entitled to receive remuneration by way of sitting fees and commission as detailed hereunder:

i) The remuneration / commission payable to Non-Executive / Independent Directors shall be fixed as per the slabs and conditions mentioned in the Articles of Association of the Company and the Act.

ii) The Non- Executive / Independent Directors may receive remuneration by way of fees for attending meetings of Board or Committee thereof as may be decided by the Board from time to time provided that the amount of such fees shall not exceed One Lac rupees per meeting of the Board or Committee or such amount as may be prescribed by the Central Government from time to time.

iii) Commission may be paid to Non- Executive / Independent Directors within the monetary limit approved by shareholders, subject to the limit not exceeding 1% of the profits of the Company computed as per the applicable provisions of the Act.

iv) The Independent Directors shall not be entitled to any stock option of the Company.

c) Remuneration of Whole-Time / Executive / Managing Director, KMP and Senior Management Personnel:

i) The Whole-time Directors/ KMP's and Senior Management Personnel shall be eligible for a monthly remuneration as may be approved by the Board on the recommendation of the Committee. The breakup of the pay scale and quantum of perquisites including, employer's contribution to P.F, pension scheme, medical expenses, club fees etc. shall be decided and approved by the Board/ the Person authorized by the Board on the recommendation of the Committee and approved by the shareholders and Central Government, wherever required.

ii) If, in any Financial Year, the Company has no profits or its profits are inadequate, the Company shall pay remuneration to its Whole-time Directors in accordance with the provisions of Schedule V of the Act and if it is not able to comply with such provisions, with the previous approval of the Central Government.

iii) If any Whole-time Director draws or receives, directly or indirectly by way of remuneration any such sums in excess of the limits prescribed under the Act or without the prior sanction of the Central Government, where required, he / she shall refund such sums to the Company and until such sum is refunded, hold it in trust for the Company. The Company shall not waive recovery of such sum refundable to it unless permitted by the Central Government.

iv) Increments to the existing remuneration/ compensation structure may be recommended by the Committee to the Board which should be within the slabs approved by the Shareholders in the case of Whole-time Directors.

v) Where any insurance is taken by the Company on behalf of its Whole-time Directors and/or KMPs, the Company Secretary and any other employees for indemnifying them against any liability, the premium paid on such insurance shall not be treated as part of the remuneration payable to any such personnel.

d) Details of Remuneration of Directors for the Financial Year Ended 31st March, 2021:

The Non-Executive Directors are paid sitting fees within the limit prescribed under the Companies Act, 2013 for attending the Board Meetings, Audit Committee Meetings and Other Committee Meetings. The Company has paid ₹50,000/- per meeting for attending Board meeting, ₹35,000/- per meeting for attending the Audit Committee meetings and ₹15,000/- per meeting for attending other committee meetings, as sitting fees.

The details of remuneration, sitting fees and commission paid to each of the Directors during the year ended 31st March, 2021 are given below:

(₹ in Lacs)

S. No.	Name of the Director	Consolidated Salary	Sitting Fees	Commission	No. of Equity Shares held
1.	Mr. Biswajit Choudhuri	Nil	5,60,000	6,00,000	Nil
2.	Mr. Shashi Kumar	Nil	3,40,000	6,00,000	Nil
3.	Mr. Bhrigu Nath Ojha	Nil	5,60,000	6,00,000	Nil
4.	Mr. Harishankar Khandelwal	Nil	4,40,000	6,00,000	1000
5.	Ms. Bhavna G. Desai	Nil	5,00,000	6,00,000	2,18,000
6.	Mr. Bajrang Lal Agrawal	2,40,00,000	Nil	Nil	17,31,398
7.	Mr. Dinesh Kumar Agrawal	1,92,00,000	Nil	Nil	18,46,347
8.	Mr. Abhishek Agrawal	1,92,00,000	Nil	Nil	85,000
9.	Mr. Vinod Pillai	22,80,000	Nil	Nil	Nil
10.	Mr. Siddharth Agrawal	Nil	Nil	Nil	94,000
11.	Mr. Dinesh Kumar Gandhi	Nil	Nil	25,00,000	18,000
12.	Mr. Prakhar Agrawal (w.e.f. 11.08.2020)	76,77,419	Nil	Nil	5,32,500

other information in the report includes how the stock has performed in the last year?

f) Performance in comparison to Broad Based Indices:

A comparative study of performance of Equity Shares of the Company with BSE Senses and NIFTY, for the Financial Year 2020-2021 is as follows:

GIPL VS BSE SENSEX

i) Distribution of Shareholding:

The Distribution of shareholding of Equity Shares of the Company as on 31st March, 2021 is as under:

No. of Shares	Shareholders		Shares Held	
	Number	% to Total	Number	% to Total
Up to 500	18897	90.30	1736687	4.93
501 – 1000	837	3.30	664326	1.89
1001- 2000	520	2.49	785445	2.23
2001 – 3000	185	0.88	480418	1.36
3001 – 4000	85	0.41	303992	0.86
4001 – 5000	74	0.35	343558	0.97
5001 – 10000	157	0.75	1158685	3.29
10001 and above	72	0.82	29763197	84.46
Total	**20927**	**100.00**	**35236247**	**100.00**

How are the shares distributed between small investors and large investors?

Shareholding Pattern as on 31st March 2021:

S. No.	Category of Shareholder	Total Number of Shares	Total shareholding as a % of total number of shares
(A)	PROMOTER AND PROMOTER GROUP		
i.	Individual / HUF	18975684	53.8528
ii.	Bodies Corporate	3685169	10.4584
iii.	Any Other (Trust)	1125000	3.1927
	SUB TOTAL (A)	**2378585341**	**67.5039**
(B)	PUBLIC		
a)	Institutions		
i.	Foreign Portfolio Investor	216881	0.6155
ii.	Mutual Fund	163290	0. 4634
iii.	Insurance Companies	29290	0.0831
b)	Non- Institutions		
i.	Individual		
	i.) Individual shareholders holding nominal share capital up to ₹2 Lakh	5091975	14.4504
	ii.) Individual shareholders holding nominal share capital in excess of ₹2 Lakh	3286327	9.3266
ii.	NBFC Registered with RBI	450	0.0013
iii.	IEPF	12002	0.0341
iv.	Trusts	476	0.0014
v.	Hindu Undivided Family	539584	1.5313
vi.	Non Resident Indians (Non Repat)	91329	0.2592
vii.	Non Resident Indians (Repat)	114988	0.3263
viii.	Other Director	237000	0.6726
ix.	Clearing Members	165925	0.4709
x.	Bodies Corporate	1501057	4.2600
	SUB TOTAL (B)	**11450394**	**32.4961**
	TOTAL (A+B)	**35236247**	**100.0000**

In what ways has the ownership structure changed?

Majority of the shares are owned by large investors, who own 67% of the company.

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07 Board of Directors and Managment Teams

Every company has public information or corporate information page with a list of all directors, CFO, CEO, auditors, other corporate offices, and bankers.

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Company Information

CIN: L27106CT1999PLC013756

BOARD OF DIRECTORS

Mr. Biswajit Choudhuri	Chairman (Independent Director)
Mr. B.L. Agrawal	Managing Director
Mr. Abhishek Agrawal	Executive Director
Mr. Dinesh Agrawal	Executive Director
Mr. Prakhar Agrawal	Executive Director (w.e.f. 11.8.2020)
Mr. Vinod Pillai	Executive Director
Mr. Dinesh Gandhi	Non-Executive Director
Mr. Siddharth Agrawal	Non-Executive Director
Mr. Shashi Kumar	Independent Director
Mr. B. N. Ojha	Independent Director
Mr. Harishankar Khandelwal	Independent Director
Ms. Bhavna G. Desai	Independent Woman Director

CFO
Mr. Sanjay Bothra Chief Financial Officer

COMPANY SECRETARY
Mr. Y.C. Rao, Company Secretary & Compliance Officer

AUDITORS
M/s. JDS & Co.
Chartered Accountants, Raipur (C.G.)

BANKERS

Canara Bank	IDBI Bank Ltd
State Bank of India	Indian Overseas Bank
Bank of Baroda	The Lakshmi Vilas Bank Ltd.
Axis Bank Ltd.	

SECURITY /DEBENTURE TRUSTEE
Axis Trustee Services Limited
IDBI Trusteeship Services Limited

REGISTERED OFFICE & WORKS
Plot No.428/2, Phase I, Industrial Area,
Siltara – 493 111, Dist. Raipur, Chhattisgarh, India
Tel: +91 – 771 4082333; Fax: +91 771 4082234

CORPORATE OFFICE
First Floor, Hira Arcade, Near New Bus Stand, Pandri,
Raipur – 492 004, Chhattisgarh, India
Tel.: +91 – 771 – 4082004; Fax: 4057601
Email: yarra.rao@hiragroup.com

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08 Financials - Consolidated and Standalone

There are two kinds of financials: Consolidated and Standalone.

We will always look at consolidated financials as

Standalone Financials + All Subsidiaries Financials = Consolidated Financials

The main business operation of Reliance is in the oil and gas industry, where they produce petrochemical goods. They have two subsidiaries: Reliance Retail which earns 20,000 crores, and JIO which also generates another 20,000 crores.

Example: (All values are hypothetical)

Reliance Industries
Oil and Gas Industry
Revenue = Rs. 30,000 Cr.

Reliance Retail
Revenue = Rs. 20,000 Cr.

Jio
Revenue = Rs. 20,000 Cr.

Therefore, when we look at the stand-alone financials, we consider the parent company only. So here the total revenues amount to 30000 crores. However, when we talk about consolidated sales, then the sales of subsidiaries will be included as well, bringing the total to 70000 crores. So, when we examine financial statements, we should always look at the consolidated statements.

Includes revenue of Reliance Ind. only

Standalone = Rs. 30,000 Cr.
Consolidated = Rs. 70,000 Cr. (30,000 + 20,000 + 20,000)

Includes revenues of Reliance Ind. and its subsidiaries: Reliance Retail and Jio

In consolidated financial statements, we will find an Auditors Report. All companies must get their books audited by an independent CA, to ensure that the company follows all the accounting laws and policies and that the company has fairly reported their members to shareholders.

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Independent Auditor's Report

To
The Members of
Godawari Power & Ispat Limited

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the accompanying consolidated financial statements of Godawari Power and Ispat Limited (hereinafter referred to as the 'Holding Company') and its subsidiaries (Holding Company and its subsidiaries together referred to as "the Group"), its associates and jointly controlled entities, which comprise the consolidated Balance Sheet as at March 31, 2021, and the consolidated statement of Profit and Loss (including Other Comprehensive Income), the consolidated statement of changes in equity and the consolidated cash flows Statement for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies (hereinafter referred to as "the consolidated financial statements").

In our opinion and to the best of our information and according to the explanations given to us, the aforesaid consolidated financial statements give the information required by the Companies Act, 2013 (the "Act") in the manner so required and give a true and fair view in conformity with the Indian Accounting Standards prescribed under section 133 of the Act read with the Companies (Indian Accounting Standards) Rules, 2015, as amended, ("Ind AS") and other accounting principles generally accepted in India, of their consolidated state of affairs of the Holding Company as at March 31, 2021, of consolidated profit (including total comprehensive income), consolidated changes in equity and its consolidated cash flows for the year ended on that date.

Ethics. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion on the consolidated financial statements.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment and based on the consideration of the reports of the other auditors on separate financial statements / consolidated financial statements and on the other financial information of the subsidiaries, associates and joint ventures, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

We have determined that there are no key audit matters to be communicated in our report.

Information Other than the Consolidated Financial Statements and Auditor's Report Thereon

The Holding Company's Board of Directors is responsible for the other information. The other information comprises the information included in the Management Discussion and Analysis, Board's Report including Annexures to Board's Report and Corporate Governance but does not include consolidated financial statements and our auditors report thereon.

Our opinion on the consolidated financial statements does

Opinion

In our opinion, the Holding Company and its subsidiary companies, which are companies incorporated in India, have, in all material respects, an adequate internal financial controls system over financial reporting and such internal financial controls over financial reporting were operating effectively as at 31 March 2021, based on the internal control over financial reporting criteria established by the Group considering the essential components of internal control stated in the

OP Singhania
Partner
Membership No. 051909

Raipur, 25th May, 2021
UDIN: 21051909AAAAAQ4661

Note: we should read the opinion at the end of the auditor report. We shall not continue researching the company if the management has issued any red flags suggesting that the company is not operating well. If the auditor has issued any warnings, we will drop the company then and there itself as retail investors.

The report is then followed by a consolidated Balance sheet, Profit and loss statement, cash flow statements, changes in equity statements, and notes to accounts.

09 Notes to Accounts

Every line item in the consolidated balance sheet is explained in the notes to accounts.

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GODAWARI POWER AND ISPAT LIMITED

Consolidated Balance sheet as at 31.03.2021

(₹ in Lacs)

Particulars	Note No	As at 31.03.2021	As at 31.03.2020
ASSETS			
Non -current assets			
(a) Property, Plant and Equipment	3	1,91,984.91	2,16,461.99
(b) Capital work-in-progress	3	14,417.42	13,745.67
(c) Other intangible assets	4	9,293.26	10,468.98
(d) Investments in associates and joint ventures	5	27,346.88	11,157.84
(e) Financial assets			
- Investments	6	401.54	1,189.87
(f) Other non-current assets	7	1,128.67	1,805.77
		2,44,572.69	**2,54,830.12**
Current-assets			
(a) Inventories	8	50,367.46	55,740.16
(b) Financial assets			
(i) Trade Receivables	9	27,523.30	17,678.11
(ii) Cash and cash equivalents	10	859.48	225.09
(iii) Bank Balances other than cash and cash equivalents mentioned above	10	5,162.03	2,670.93
(iv) Other financial assets	11	1,783.58	1,783.58
(c) Current tax assets (net)		11.85	52.51
(d) Other current assets	7	17,075.03	15,169.73
		1,02,782.73	**93,320.11**
Total Assets		**3,47,355.42**	**3,48,150.23**
EQUITY AND LIABILITIES			
Equity			
(a) Equity share capital	12A	3,411.12	3,411.12
(b) Other equity	12B	2,00,148.09	1,34,372.52
Equity attributable to owners of the Company		**2,03,559.21**	**1,37,783.65**
Non-controlling interest		7,242.19	12,471.76
Total equity		**2,10,801.41**	**1,50,255.40**
Liabilities			
Non-current liabilities			
(a) Financial Liabilities			
- Borrowings	13	77,105.52	1,46,448.53
- Other non-current financial liabilities	14	295.44	206.69
(b) Provisions	15	1,427.63	1,359.62
(c) Deferred Tax Liabilities (net)	16	16,782.00	4,482.10
		95,610.60	**1,52,496.93**
Current liabilities			
(a) Financial Liabilities			
(i) Borrowings	17	8,138.59	16,038.75
(ii) Trade Payables	18		
- total outstanding dues of micro enterprises and small enterprises"		85.10	27.62
- total outstanding dues of creditors other than micro enterprises and small enterprises		19,533.83	17,797.53
(iii) Other Financial Liabilities	19	9,166.24	10,957.18
(b) Other current liabilities	20	972.56	495.45
(c) Provisions	15	79.82	81.35
(d) Current tax liabilities (net)		2,967.28	-
		40,943.42	**45,397.89**
Total Equity and Liabilities		**3,47,355.42**	**3,48,150.23**
Summary of significant accounting policies	2		

The accompanying notes are integral part of the financial statements.

As per our report of even date
For JDS & Co.
(ICAI Firm Reg. No.018400C)
Chartered Accountants

per OP Singhania
Partner
Membership No.051909

Place : Raipur
Date : 25.05.2021

For and on behalf of the Board of Directors of
Godawari Power & Ispat Limited

B.L.Agrawal
Managing Director
DIN: 00479747

Y.C. Rao
Company Secretary

Abhishek Agrawal
Executive Director
DIN: 02434507

Sanjay Bothra
CFO

For example - what if we want the details of the items included in the property plant and equipment (PPE) with a total value of 1919 cr?

So, we can refer to note number 3 and see a detailed analysis of the entire property plant equipment, and understand how much money is allocated in what area?

Consolidated Notes to financial statements for the year ended 31st March, 2021

3. Property, Plant and Equipment

(₹ in Lacs)

	Freehold Land	Leasehold Land	Site & Land Development	Building	Plant and Equipment	Furniture & Fixtures	Vehicles	Total
Gross Block								
Carring Value								
At 1 April 2019	5,670.05	672.16	6,501.12	31,574.59	2,13,547.21	648.28	841.80	2,59,455.21
Additions	282.68	-	-	2,411.59	13,043.73	13.36	103.18	15,854.52
Disposals	29.76	-	-	-	186.69	1.61	90.44	308.49
At 31 March, 2020	**5,922.96**	**672.16**	**6,501.12**	**33,986.18**	**2,26,404.26**	**660.02**	**854.53**	**2,75,001.23**
Additions	117.86	-	232.28	1,276.38	2,557.80	11.62	205.69	4,401.63
Deletion relating to changes in control	162.29	-	105.86	2,861.93	18,893.02	69.89	89.80	22,182.80
Disposals	105.86	-	-	434.24	2,084.83	1.81	112.14	2,738.87
At 31 March, 2021	**5,772.67**	**672.16**	**6,627.54**	**31,966.40**	**2,07,984.21**	**599.94**	**858.28**	**2,54,481.20**
Depreciation								
At 1 April 2019	-	13.21	-	5,694.94	39,787.63	330.86	333.26	46,139.90
Charge for the year	-	5.90	-	1,329.58	11,080.84	67.29	115.01	12,598.62
(Disposals)/Adjustment	-	-	-	-	114.70	1.03	83.54	199.27
At 31 March, 2020	**-**	**19.11**	**-**	**7,024.53**	**50,733.76**	**397.12**	**364.73**	**58,539.25**
Charge for the year	-	5.90	-	1,248.64	11,367.82	61.97	93.80	12,778.13
(Disposals)/Adjustment	-	-	-	182.49	1,281.37	1.72	84.64	1,530.21
Deletion relating to changes in control	-	-	-	983.29	6,216.93	50.64	40.02	7,290.88
At 31 March, 2021	**-**	**25.01**	**-**	**7,107.39**	**54,623.28**	**406.74**	**333.87**	**62,496.28**
Net Block								
At 31 March, 2020	**5,922.96**	**653.05**	**6,501.12**	**26,961.66**	**1,75,670.50**	**262.90**	**489.80**	**2,16,461.99**
At 31 March, 2021	**5,772.67**	**647.15**	**6,627.54**	**24,859.01**	**1,53,360.93**	**193.20**	**524.41**	**1,91,984.91**

Movement in Capital Work-in-Progress

(₹ in Lacs)

	As on 01.04.2019	Addition	Transfer/ Deletion	As on 31.03.2020	Addition	Transfer/ Deletion	As on 31.03.2021
Capital Work-in-Progress	13,024.04	9,982.15	9,260.53	13,745.67	5,118.38	4,446.63	14,417.42
	13,024.04	**9,982.15**	**9,260.53**	**13,745.67**	**5,118.38**	**4,446.63**	**14,417.42**

Details of property, plant and equipment pledged against borrowings is presented in note 13 & 17.

Charge for the year	94.99	946.20	50.00	1,091.19
At 31 March, 2020	**404.96**	**3,799.79**	**250.00**	**4,454.76**
Charge for the year	83.30	946.20	37.50	1,067.00
Deletion relating to changes in control	-	-	287.50	287.50
At 31 March, 2021	**488.26**	**4,745.99**	**-**	**5,234.26**
Net Block				
At 31 March, 2020	**584.22**	**9,734.75**	**150.00**	**10,468.98**
At 31 March, 2021	**504.71**	**8,788.55**	**-**	**9,293.26**

5 Investments

(₹ in Lacs)

	As at 31.03.2021	As at 31.03.2020
Investment in associates and joint ventures		
Investments accounted for using the equity method		
Investment in associates		
Unquoted Equity Instruments	26,410.20	10,168.43
Investment in joint ventures		
Unquoted Equity Instruments	936.68	989.41
	27,346.88	**11,157.84**

6. Other investments

(₹ in Lacs)

	As at 31.03.2021	As at 31.03.2020
Carried at Fair Value through OCI		
Investments in Unquoted Equity Instruments	340.19	612.88
Investments in Unquoted Preference Instruments	-	516.00
Investment in mutual fund, fully Paid up (quoted)	61.36	60.99
	401.54	**1,189.87**

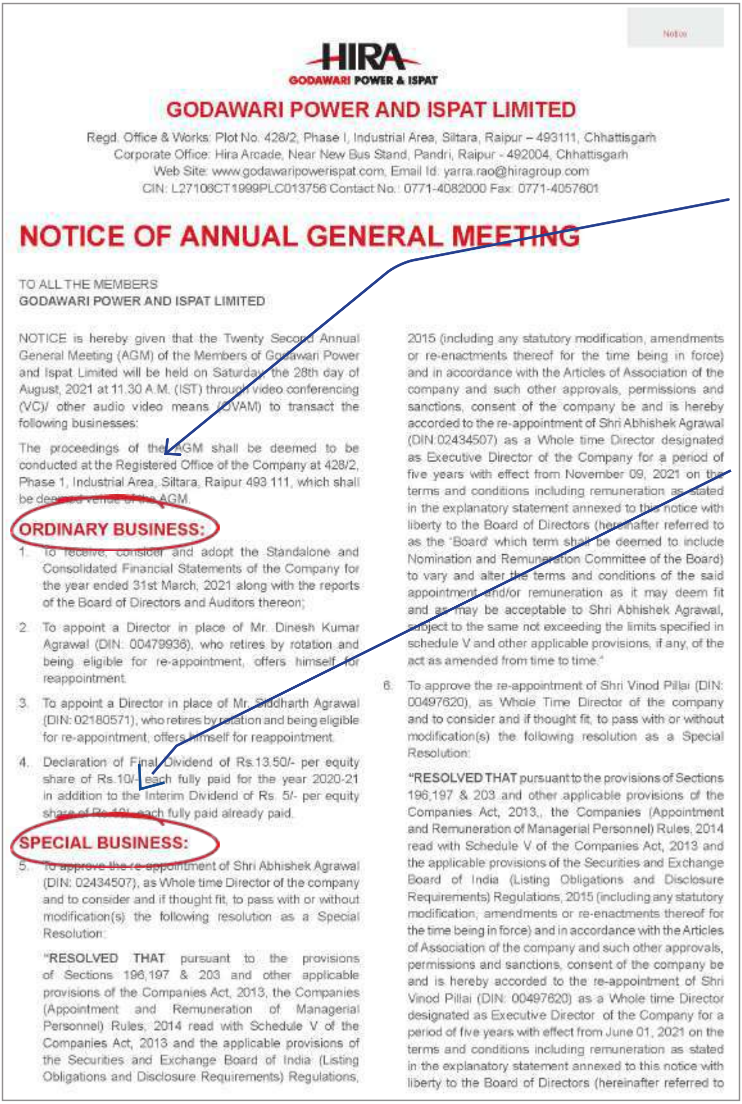
what is the company planning to do with the 273.46 crores of investments?

we can see in the notes of the report that a large amount of the investments is in unquoted equities or private equity products.

10 Notice to AGM

Whenever a company releases its annual report, it is followed by an AGM i.e. Annual General Meeting where investors can come and ask questions. The company highlights resolutions to be voted on during the AGM.

Here we will focus on 2 types of resolutions.



Notice

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GODAWARI POWER & ISPAT

GODAWARI POWER AND ISPAT LIMITED

Regd. Office & Works: Plot No. 428/2, Phase I, Industrial Area, Siltara, Raipur – 493111, Chhattisgarh
Corporate Office: Hira Arcade, Near New Bus Stand, Pandri, Raipur - 492004, Chhattisgarh
Web Site: www.godawaripowerispat.com, Email Id: yarra.rao@hiragroup.com
CIN: L27106CT1999PLC013756 Contact No.: 0771-4082000 Fax: 0771-4057601

NOTICE OF ANNUAL GENERAL MEETING

TO ALL THE MEMBERS
GODAWARI POWER AND ISPAT LIMITED

NOTICE is hereby given that the Twenty Second Annual General Meeting (AGM) of the Members of Godawari Power and Ispat Limited will be held on Saturday, the 28th day of August, 2021 at 11.30 A.M. (IST) through video conferencing (VC)/ other audio video means (OVAM) to transact the following businesses:

The proceedings of the AGM shall be deemed to be conducted at the Registered Office of the Company at 428/2, Phase 1, Industrial Area, Siltara, Raipur 493 111, which shall be deemed venue of the AGM.

ORDINARY BUSINESS:

1. To receive, consider and adopt the Standalone and Consolidated Financial Statements of the Company for the year ended 31st March, 2021 along with the reports of the Board of Directors and Auditors thereon;
2. To appoint a Director in place of Mr. Dinesh Kumar Agrawal (DIN: 00479936), who retires by rotation and being eligible for re-appointment, offers himself for reappointment.
3. To appoint a Director in place of Mr. Siddharth Agrawal (DIN: 02180571), who retires by rotation and being eligible for re-appointment, offers himself for reappointment.
4. Declaration of Final Dividend of Rs.13.50/- per equity share of Rs.10/- each fully paid for the year 2020-21 in addition to the Interim Dividend of Rs. 5/- per equity share of Rs.10/- each fully paid already paid.

SPECIAL BUSINESS:

5. To approve the re-appointment of Shri Abhishek Agrawal (DIN: 02434507), as Whole time Director of the company and to consider and if thought fit, to pass with or without modification(s) the following resolution as a Special Resolution:

   "RESOLVED THAT pursuant to the provisions of Sections 196,197 & 203 and other applicable provisions of the Companies Act, 2013, the Companies (Appointment and Remuneration of Managerial Personnel) Rules, 2014 read with Schedule V of the Companies Act, 2013 and the applicable provisions of the Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015 (including any statutory modification, amendments or re-enactments thereof for the time being in force) and in accordance with the Articles of Association of the company and such other approvals, permissions and sanctions, consent of the company be and is hereby accorded to the re-appointment of Shri Abhishek Agrawal (DIN 02434507) as a Whole time Director designated as Executive Director of the Company for a period of five years with effect from November 09, 2021 on the terms and conditions including remuneration as stated in the explanatory statement annexed to this notice with liberty to the Board of Directors (hereinafter referred to as the 'Board' which term shall be deemed to include Nomination and Remuneration Committee of the Board) to vary and alter the terms and conditions of the said appointment and/or remuneration as it may deem fit and as may be acceptable to Shri Abhishek Agrawal, subject to the same not exceeding the limits specified in schedule V and other applicable provisions, if any, of the act as amended from time to time."

6. To approve the re-appointment of Shri Vinod Pillai (DIN: 00497620), as Whole Time Director of the company and to consider and if thought fit, to pass with or without modification(s) the following resolution as a Special Resolution:

   "RESOLVED THAT pursuant to the provisions of Sections 196,197 & 203 and other applicable provisions of the Companies Act, 2013., the Companies (Appointment and Remuneration of Managerial Personnel) Rules, 2014 read with Schedule V of the Companies Act, 2013 and the applicable provisions of the Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015 (including any statutory modification, amendments or re-enactments thereof for the time being in force) and in accordance with the Articles of Association of the company and such other approvals, permissions and sanctions, consent of the company be and is hereby accorded to the re-appointment of Shri Vinod Pillai (DIN: 00497620) as a Whole time Director designated as Executive Director of the Company for a period of five years with effect from June 01, 2021 on the terms and conditions including remuneration as stated in the explanatory statement annexed to this notice with liberty to the Board of Directors (hereinafter referred to

Ordinary Business: Resolutions where management asks for vote on regular business activities which are regular business and recurring in nature.

Special Business: Here the management asks for vote on business activities that are not part of day to day business activities. We will pay special attention to resolutions of this kind.

If they say "we're hoping to rehire the company's director" it represents a once-in-a-lifetime opportunity.

Conclusion

We've gone over many sections of an annual report that can be perplexing at first glance. With so much information being thrown our way, it's easy to be overwhelmed. Any beginner who is not fluent in the language of finance will find it difficult to understand.
But we strongly advise you to go through multiple annual reports, so that you learn to identify these sections and start understanding them.

You should glance through it, not from the perspective of an annual report but to understand things that are covered in it, as this is the most reliable and detailed form of communication.

3.2 What to look for in each Section?

After understanding the different sections of an annual report lets look at the question to ask or data to look for each section.

1 Introduction and Highlights

1 **Products and Services**

One of the key focuses in this section is to understand the products and services that the company is offering and the thought process behind them.

2 **Achievements of the company during the year and how they have grown from the previous year.**

3 **Focus on facts**

Facts ✓	Opinion X
"Our revenues for the current fiscal year are 620 crores, which reflects a 24% increase from the previous fiscal year."	"We are confident in continuing to develop our sales, which have increased dramatically."

4 **How the management wants the company to be seen**

Here the management tries to point a certain image of the company in front of investors. This eventually is an investor focused sales pitch. As a result, it's very important to not get influenced by management optimism and just focus on the facts.

2 Chairman's Speech and CEO's Letter

Although the chairman's speech and CEO's letter are directed by mangement, we must not forget that it is written by a team of professionals with specific goals. We must try to concentrate on the company's goals for the next 2-5 years, as well as the overall managerial tone. Here the main idea to focus on direction in which the main idea to focus on direction in which the company is headed.

Is it positive or negative?

What is the overall tone?

Is their tone bearish or bullish?

We will learn to grasp these aspects with time and will eventually gain confidence to draw required insights from the management tone.
Currently, we will concentrate solely on the facts discussed over here on the future goals of the organization. We will also focus on the future goals of the company.

3 Responsibility Report

It has a brief overview of the company's responsibility, goals and efforts. However, from the perspective of a retail investor, there isn't much to read here.

1 **Corporate Social Responsibility Report**

2 **Environmental Social and Governance Report**

3 **Sustainability Report**

4 **Business Responsibility Report**

4 Management Discussion And Analysis Report

1 **Industry Status and Updates**

Read each and every line and try to pick the industry specific updates.

2 **Performance of Each Business Segment**

Comprehend each company's performance.

3 **State of competition**

Look at different competitors for the company.

4 **Future Goals**

5 **Outlook**

6 **Financial Highlights**

7 **Risks Foreseen**

Instead of having a positive or negative opinion, focus on the facts about the business.

5 Directors Report

The most important part of the Director's Report is the Annexures, and we also need to comprehend the management remuneration over here, which is a key aspect of our evaluation.

1 **Annexures are the Key**

2 **Management Remuneration**

6 Corporate Governance Report

The corporate governance report consists of the composition of the board and the members of the respective committes. We can even find the ownership structure of the company, get the attendance report of members and directors at meetings and their payment structure.

1 **Board Composition -** How independent are the directors on the board?

2 **Committees**

3 **Ownership Structure**

7 Corporate Information Directors And Management Team

1 Composition

We must look at the composition of directors and the management team.

2 Changes

Keep an eye out for any changes. Is there any change in persons or directors or management? Or who is the new management team that is appointed? Why did the former directors leave? These changes can only be identified only when we compare 2 corporate information reports of different years. We should also look and try to identify the reasons for such changes.

3 Reasons for Resignations

8 Financial Statements

The auditors' report, common-sizing and financial ratios will be presented here.

1 **Auditors' Report and Opinion**

2 **Common Size**

3 **Financial Ratios**

9 Notes to Account

1 **Breakup for each Line Item**

We will break down each line item. Priority should be given to major line items.

2 **Special Attention on Major Line Items**

If a company has total assets worth 1000 crores out of which 600 crores are in PPE Plant property and equipment. We will get a very detailed breakup of this 600 crores in Notes to accounts.

How much is in the plant?

How much is invested in land?

How much is into machines?

All of these things are critical to comprehend

10 Notes to AGM

The notes to the AGM will then focus on ordinary business and special business resolutions. Most importantly, we will concentrate on special business resolutions. Anything important must go through this.

1 **Ordinary Business Resolution**

2 **Special Business Resolution**

.4 Basics of Financial Statements

Income Statement

Lists all the sales and expenses incurred by the company during the year resulting in net profit or loss.

Balance Sheet

List all that the company owns [assets] and owes [liabilities] at a given point of time.

Cash Flows

List of Cash Inflows and Outflows from the company during the year.

We have learned how to interpret annual reports in previous chapters. Now we will discuss the income statement, balance sheet, and cash flows.

We will first understand these three items, go deeper in the same with financial analysis and ratio analysis.

4.1 Income Statement & Balance Sheet

The income statement is prepared for one of the following time periods:

1st April 20XX to 31st March 20XX
12 Months
(Annually)

1st Jan 20XX to 31st March 20XX
3 Months
(Quarterly)

Hence, the income statement lists a company's revenues and expenses for the year, and the difference between the two is the company's **Net profit or Net loss.**

Lets understand this with an example:

Reliance consists of three sales channel:

Petrochemical	Rs. 30,000 Cr.
Jio	(+)Rs. 20,000 Cr.
Reliance Retail	(+)Rs. 20,000 Cr.
Total Sales	**Rs. 70,000 Cr.**

The company has incurred **Rs. 50,000 Cr. in expenses** as a result of its sale.

Profits **Rs. 20,000 Cr.**

(-) **Rs. 6,000 Cr.** taxed at 30%

The net profit after tax is Rs. 14000 Cr.

This is how an income statement works, and net profit or loss is generated over a certain time frame.

Income Statement

Revenue Side

- Revenue from operations
- Other revenue
- Break-up of revenue from notes to accounts

Expense Side

- Cost of Goods Sold
- Employees benefit expense
- Finance costs
- Depreciation and Amortisation Expense
- Other Expense
- Break-up of line items from notes to accounts

Profit/Loss

- Profit/Loss before taxes
- Other comprehensive income
- Taxes
- Profit
- EPS (Earnings Per Share)
- Loss after taxes

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Corporate Overview | Statutory Reports | Financial Statements

Consolidated Statement of Profit & Loss for the year ended 31st March, 2021

(₹ in Lacs)

	Notes	2020-21	2019-20
INCOME			
Revenue from operations	21	4,07,191.84	3,28,852.59
Other Income	22	403.74	465.45
TOTAL REVENUE (I)		**4,07,595.58**	**3,29,318.04**
EXPENSES			
Cost of materials consumed	23	1,79,985.96	1,68,149.22
Purchases of Stock-in-Trade		7,467.32	8,807.66
Changes in Inventories of Work in Progress, Stock in Trade and Finished Goods	24	(2,692.62)	4,491.14
Employees benefits expense	25	14,280.24	13,041.76
Finance costs	26	15,394.17	21,193.41
Depreciation and amortization expense	27	13,845.13	13,889.81
Other Expenses	28	85,261.37	71,937.56
TOTAL EXPENSES (II)		**3,13,541.59**	**3,01,310.57**
Profit/(loss) before share of associates & joint ventures, exceptional items and tax		94,053.99	28,007.48
Add: Share of profit/(loss) of associates and Joint Ventures, net of tax		3,002.66	280.69
Profit/(loss) before exceptional items and tax		97,056.66	28,288.16
Exceptional Items (refer note - 31)		-	1,028.49
Profit/(loss) before tax		97,056.66	27,259.67
Tax expenses			
Current tax		17,578.64	4,952.25
Deferred Tax		14,026.73	4,583.77
Total tax expenses		**31,605.37**	**9,536.02**
Profit/(loss) for the year		**65,451.28**	**17,723.65**
Other Comprehensive Income			
A (i) Items that will not be reclassified to profit or loss			
Remeasurements gains/(losses) on defined benefit plans		4.96	(169.29)
Share of other comprehensive income in associates and Joint Ventures to the extent not to be classified into profit or loss		19.05	(1.27)

Source : Godawari Power & Ispat Ltd Annual Report - FY 21

In the end, we can see a Net profit after tax is 604 crores.

Revenue Side

Revenue from operations or operating revenue can be defined as the income generated by an entity from its daily core business operations.

Revenue generated by operations will include the sale of various items and services. Other revenue sources will include items like interest received on investments, gains from asset sales, and so on.

Expense Side

The expense side includes the cost of raw materials, employee expenses, interest rates, depreciation, and so on. We can find the breakdown of each line item moving forward, so we are aware of the structure of an income statement and its elements.

Profit/Loss

The net difference between revenue and expenses is profit/loss before taxes. There is an accounting term called other comprehensive income, which we can let go off as retail investors. We will subtract taxes from the profit/loss to get profit after tax. Finally, we have EPS, which is earning per share, which we have discussed earlier.

Let's imagine a corporation made 200 crores in profits and has five crore shares in the market; how much did we make each share:

EPS = 200 Cr. / 5 Cr. = Rs. 40 Cr.

Balance Sheet

A balance sheet lists down a company's assets, liabilities, and shareholders' equity at a specific point in time.

The company's assets include **cash, short-term investments, land, machinery, automobiles**, and so on. The liabilities include **loans from suppliers, bank loans, etc.**

A balance sheet is generated at the end of an annual year i.e. 31st March of every year.

Assets	Liabilities
Machinery Land Automobiles Short-term Investments Cash Investments Inventories	Bank Loans Provisions Loans from Suppliers Borrowings Trade Payables

As we can see, a balance sheet has two sides: Assets and Liabilities.

The total of both sides must be equal on a balance sheet.

Assets An asset is a resource which a company own and controls which has an ability to generate future economic benefit to the company.

Liabilities A liability is an obligation which a company owes and the company will have to transfer of the economic benefit to some external party.

Balance Sheet

Equity

- Profit/Loss after taxes
- Retained earnings
- Shareholder capital
- Reserves and surplus

Long-Term Assets

- Fixed Assets and work in progress
- Investments
- Other current assets
- Intangible assets
- Goodwill

Short-Term Liabilities

- Long term Borrowings
- Deferred tax liabilities
- Provisions
- Other Long term liabilities
- Break-up of line items from notes to accounts

Short-Term Assets

- Inventory
- Account Receivables
- Cash and Cash Equivalents
- Short term Investments
- Other current assets

Long-Term Liabilities

- Accounts payable
- Short term borrowings
- Other short term laibilities
- Break-up of line items from notes to accounts

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Corporate Overview | Statutory Reports | Financial Statements

GODAWARI POWER AND ISPAT LIMITED

Consolidated Balance sheet as at 31.03.2021

(₹ in Lacs)

Particulars	Note No	As at 31.03.2021	As at 31.03.2020
ASSETS			
Non -current assets			
(a) Property, Plant and Equipment	3	1,91,984.91	2,16,461.99
(b) Capital work-in-progress	3	14,417.42	13,745.67
(c) Other intangible assets	4	9,293.26	10,468.96
(d) Investments in associates and joint ventures	5	27,346.88	11,157.84
(e) Financial assets			
- Investments	6	401.54	1,189.87
(f) Other non-current assets	7	1,128.67	1,805.77
		2,44,572.69	**2,54,830.12**
Current-assets			
(a) Inventories	8	50,367.46	55,740.16
(b) Financial assets			
(i) Trade Receivables	9	27,523.30	17,678.11
(ii) Cash and cash equivalents	10	859.48	225.09
(iii) Bank Balances other than cash and cash equivalents mentioned above	10	5,162.03	2,670.93
(iv) Other financial assets	11	1,783.58	1,783.58
(c) Current tax assets (net)		11.85	52.51
(d) Other current assets	7	17,075.03	15,169.73
		1,02,782.73	**93,320.11**
Total Assets		**3,47,355.42**	**3,48,150.23**
EQUITY AND LIABILITIES			
Equity			
(a) Equity share capital	12A	3,411.12	3,411.12
(b) Other equity	12B	2,00,148.09	1,34,372.52
Equity attributable to owners of the Company		**2,03,559.21**	**1,37,783.65**
Non-controlling interest		7,242.19	12,471.76
Total equity		**2,10,801.41**	**1,50,255.40**
Liabilities			
Non-current liabilities			
(a) Financial Liabilities			
- Borrowings	13	77,105.52	1,46,448.53
- Other non-current financial liabilities	14	295.44	206.69
(b) Provisions	15	1,427.63	1,359.62
(c) Deferred Tax Liabilities (net)	16	16,782.00	4,482.10
		95,610.60	**1,52,496.93**
Current liabilities			
(a) Financial Liabilities			
(i) Borrowings	17	8,138.59	16,038.75
(ii) Trade Payables	18		
- total outstanding dues of micro enterprises and small enterprises*		85.10	27.62
- total outstanding dues of creditors other than micro enterprises and small enterprises		19,533.83	17,797.53
(iii) Other Financial Liabilities	19	9,186.24	10,957.18
(b) Other current liabilities	20	972.56	485.45
(c) Provisions	15	79.82	81.35
(d) Current tax liabilities (net)		2,967.28	-
		40,943.42	**45,397.89**
Total Equity and Liabilities		**3,47,355.42**	**3,48,150.23**
Summary of significant accounting policies	2		

The accompanying notes are integral part of the financial statements.

As per our report of even date
For JDS & Co.
(ICAI Firm Reg. No.018400C)
Chartered Accountants

For and on behalf of the Board of Directors of
Godawari Power & Ispat Limited

The company's total assets are 3473 crores, of which 1919 crores, or nearly 60%, are fixed assets. Investments account for 273 crores and inventory also holds a large amount of capital.

Source : Godawari Power & Ispat Ltd Annual Report - FY 21

- Therefore, Long-term assets (property and equipment), inventory, and trade receivables make up the majority of the company's assets.
- The company's non-current liabilities are 956 crores which are primarily financed by a loan of 771 crores. They owe 81 crores in short-term borrowings.
- Equity from the shareholders' capital makes up the remaining amount.

Cash Flow Statement

Cash flow from Operating Activities

- Working Capital Changes
- Direct taxes paid
- Net cash flow from/(used in) Operating system

Cash flow from Investing Activites

- Purchase and sale of fixed assets
- Purchase and sale of financial assets
- Interest received

Cash flow from Financing Activities

- Equity issued / Bought back
- Proceeds from issuance of new debt
- Capital used in payment of debt
- Interest / Dividend paid

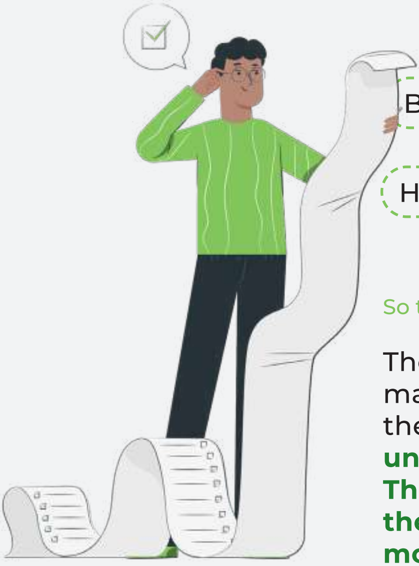
Net Cash Flow Change during the year

- Net changes in cash flow
- Cash in hand at year end

Cash Flow Statement

It is a list of all cash inflows and outflows for the business from **April 1 20XX to March 31 20XX** which is also the accounting year.

Now let's assume that we sold some thing for 10 crores on a 3-month credit. Although cash was not received immediately, the transaction will reflect in income statements as sales of 10 crores.



But has any cash transaction occurred?

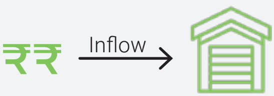
Has money exchanged hands?

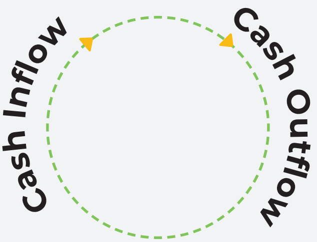
No!

So that amount **won't** appear in the cash flow.

The income statement or balance sheet may be altered once we receive or make the payment, **but the cash flow will be unaffected till money starts moving; This is the underlying principle behind the cash flow statement to track the movement of cash.**

Includes all cash received through sales, advance payments, and other sources. Debt financing by the company is also counted as cash inflow. Examples - Raising of capital, selling machines, etc.





Includes dividends paid and expenses incurred by the company or when money leaves the company due to any other reasons.

Cash flow from Operations:

All transactions where cash that is produced or consumed related to day to day business activities, together form cash flow from operations.

For example, Godavari Ispat is a power company.

- Money received for electricity sales.
- Payment for certain expenses
- Advances received for connections.

are included in operation.

The market demands more credit, adjustments to working capital, and tax payments which are all accounted for in cash flow from operations.

Cash flow from Investing:

A company is required to provide cash when they want to invest in other businesses or say to purchase land. Whenever a company buys long term assets of any kind it is called investing.

Any long-term assets purchased by the corporation constitutes investment, and even if they are sold, the resulting proceeds together form cash flow from investing in the form of cash.

Cash flow from financing activities:

Financing activities deal with equity and debt liabilities. If a company has issued new shares, purchased back equity, distributed the dividends, taken on new debt, or repaid debt, then all these actions fall under the category of financing activities. Together they form cash flow from financing activities.

You calculate the net changes in cash flow, which is calculated as per net sum of cash flow from operations investing and financing and then added to cash positions from previous year. This will give the current cash position.

Let's say Company A used Rs. 60 Cr. of cash last year.

Net cash flow	- Rs. 60 Cr.
Previous year cash flow	+ Rs. 200 Cr.
Cash on hand	Rs. 140 Cr.

This is essentially how a cash flow statement is constructed. It tells us how the management is using its cash and places a lot of emphasis on how the cash is being utilized within the company.

HIRA
GODAWARI POWER & ISPAT

Cash Flow Statement for the year ended 31st March, 2021

(₹ in Lacs)

		2021	2020
Cash Flow from operating activities			
Profit/(loss) before share of associates & joint ventures and tax		94,053.99	28,007.48
Non-cash adjustment to reconcile profit before tax to net cash flows			
Depreciation/amortization		13,845.13	13,689.81
Loss/(profit) on sale of property, plant & equipment		(53.96)	(132.12)
Loss/(profit) on sale of non current investment		-	(5.21)
Provision for employee benefits		249.28	171.39
Investment written off		1.00	
Provision/Allowances for credit loss on debtors		787.32	(387.56)
Finance costs		15,394.17	21,193.41
Interest Income		(241.91)	(324.06)
Exceptional items		-	(1,028.49)
OPERATING PROFIT BEFORE WORKING CAPITAL CHANGES		**1,24,015.03**	**61,174.64**
Movements in working capital :			
Increase/(decrease) in trade payables		6,556.18	(2,471.62)
Increase/(decrease) in other financial liabilities		1,708.72	112.40
Increase/(decrease) in other current liabilities		483.45	(814.08)
Increase/(decrease) in Other non-current financial liablities		88.76	47.01
Decrease/(increase) in trade receivables		(11,763.77)	(2,378.38)
Decrease/(increase) in inventories		(5,310.95)	5,902.79
Decrease/(increase) in other financial assets		-	512.85
Decrease/(increase) in other current assets		(4,341.88)	362.98
Decrease/(increase) in other non-current assets		123.01	(297.31)
Cash generated from/(used in) operations		**1,11,558.55**	**62,151.26**
Direct taxes paid (net of refunds)		(14,680.48)	(7,068.63)
Net Cash flow from/(used in) operating activities	**A**	**96,878.07**	**55,082.63**
Cash flows from investing activities			
Purchase of PPE, including intangible assets and CWIP		(5,154.39)	(16,576.14)
Proceeds from sale of property, plant & equipment		1,199.10	241.34
Proceeds from sale of non-current other investments		-	15.21
Proceeds/(investment) from/in bank deposits (having original maturity of more than three months)		(2,508.79)	983.27
Interest received		241.91	324.06
Net cash flow from/(used in) investing activities	**B**	**(6,222.16)**	**(15,012.25)**
Cash flows from financing activities			
Redemption of debenture		-	(3,219.00)

When we look at net cash flow from operating activities. The company generated 968 crores from the sale of steel and other goods and paid direct taxes of 146 crores in cash.

Source : Godawari Power & Ispat Ltd Annual Report - FY 21

Cash flow from investing activities: Purchase of property, plant, and equipment is Rs 51 crores. The company has invested Rs. 25 crores in bank proceeds.

ZEBRALEARN

Cash Flow Statement for the year ended 31st March, 2021

(₹ in Lacs)

		2021	2020
Repayment of long-term borrowings		(65,210.55)	(17,772.25)
Proceeds/(Repayment) of short-term borrowings (net)		(7,645.98)	2,107.95
Finance costs		(15,394.17)	(21,193.41)
Dividend paid		(1,761.81)	-
Net cash flow from/(used in) financing activities	**C**	**(90,012.52)**	**(40,076.71)**
NET INCREASE/(DECREASE) IN CASH & CASH EQUIVALENTS (A+B+C)		643.39	(6.34)
Cash and Cash Equivalents at the beginning of the year		216.09	231.43
Cash and Cash Equivalents at the end of the year (refer note-13)		**859.48**	**225.09**
Components of cash and cash equivalents			
Cash in hand		6.40	6.36
Stamp in hand		1.23	1.23
Balances with banks:			
On current accounts		738.85	217.50
Deposits with original maturity of less than 3 months		113.00	-
		859.48	**225.09**

Net Cash flow from financing activities is Rs. 900 crores. Rs. 652 crores were spent on repaying long-term debt and Rs 153 crores on interest payments

The Statement of Cash Flow has been prepared using Indirect method as per Ind AS 7.

As per our report of even date

For JDS & Co.
(ICAI Firm Reg. No.018400C)
Chartered Accountants

per OP Singhania
Partner
Membership No.051909

Place : Raipur
Date : 25.05.2021

For and on behalf of the Board of Directors of
Godawari Power & Ispat Limited

B.L.Agrawal
Managing Director
DIN: 00479747

Abhishek Agrawal
Executive Director
DIN: 02434507

Y.C. Rao
Company Secretary

Sanjay Bothra
CFO

This indicates that the company has a steady cash flow along with limited spend towards ongoing investment activities. The company has 6 crores additional left after paying off all the expenses and 8 crores left at the end of the year. Thus once we start analyzing cash flow statements for 3-4 years, we will have a good understanding of how a company generates cash and then consumes it.

Source : Godawari Power & Ispat Ltd Annual Report - FY 21

Conclusion

We have understood three important financial statements now.

Now, go through as many as you can. At first; you might feel intimidated by how much information there is. However, once you get used to it, it becomes a lot easier to find and analyze information. You get more and more and more used to it.

There is one more statement called the **statement of changes in equity. It reveals if the company has issued or repurchased any equity or otherwise altered the ownership structure.**

As a result, we now know how to read an annual report in depth. We will learn to use different tools to simply data extraction in later modules.

.5

Tools to Use

5.1 Screener.in

5.2 Ticker by Finology

5.3 Morning Star

Introduction

We will discuss various tools for conducting the analysis. These tools will greatly improve the speed and decrease function in the entire analysis process.

We'll focus on three tools in particular and discuss their features:

- Screener.in
- Ticker by Finology
- Morning Star

All of these tools are available for free but for accessing some special features you might need a premium. We should be good with the free version.

5.1 Screener.in

1. Enter the name of any company in the search column.

2. In the "About" section, we can find basic company information

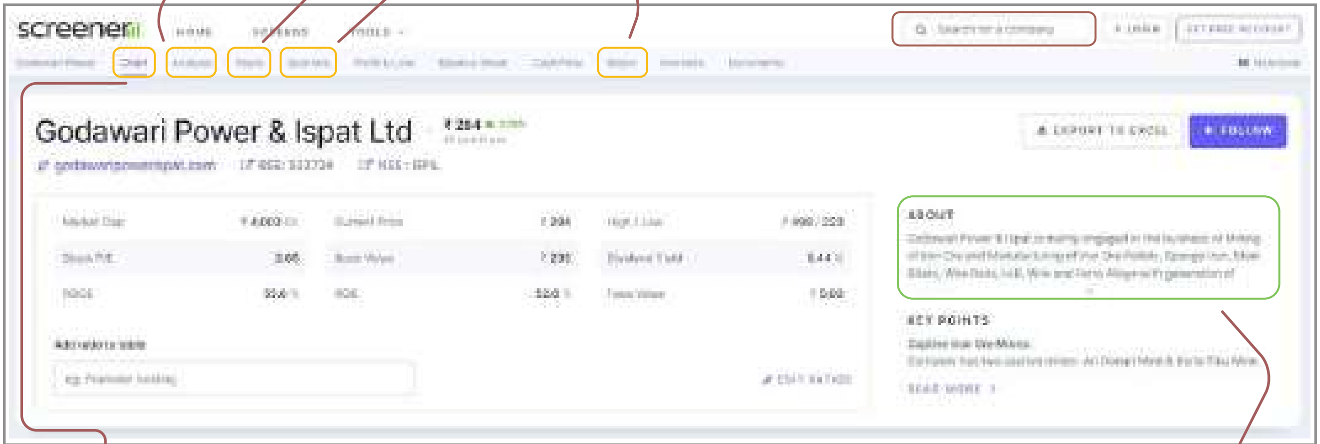
3. Numerous ratios, including return on equity, return on assets, promoter holding, change in promoter holding, etc., can be accessed from here.

4. Charts show price changes for a month, three months. 3 to 5 years and also the time period can be customized. How has the company performed across its lifetime. Additionally, charts for the price-to-earnings ratio, or PE ratio, are available.

5. The analysis section contains the pros and cons of the company. This is generated automatically, and occasionally it's not quite accurate.

6. The company's business segments and its competitors are shown under this tab.

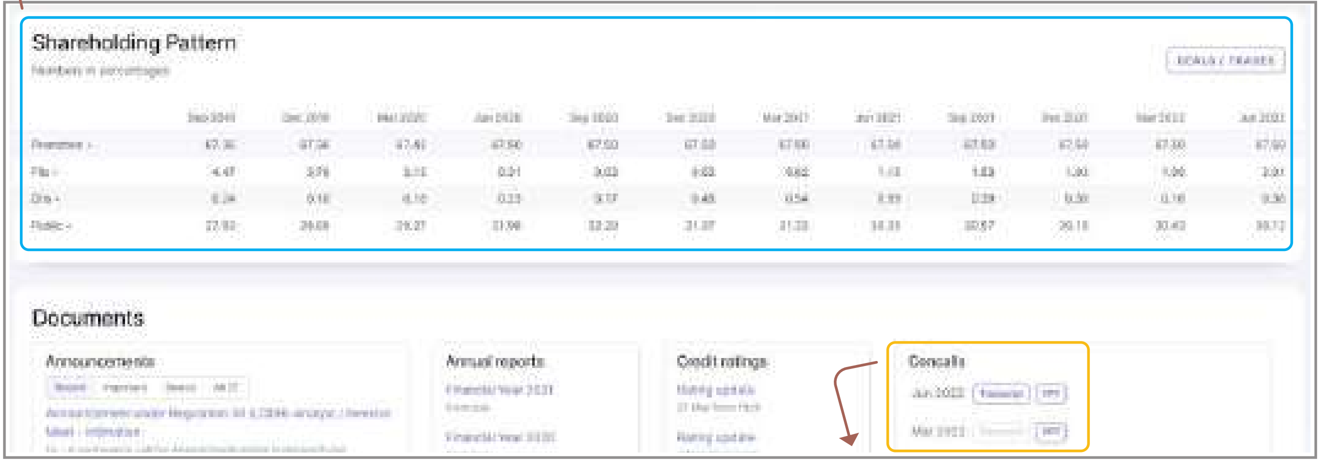
7. It provides a comprehensive breakdown of the previous 12 quarters on a single screen.



Source : https://www.screener.in/company/GPIL/consolidated/

8. From investors we get shareholding patterns as to who owns the company and how much do they own?

- o The goal is to determine whether or not the smart money is following the company.
- o Following that, we have FIIs, DIIs, and the general public for the last ten quarters.If their ownership has been generally increasing, it indicates that smart money is investing in the company, and if it has decreased, it indicates that smart money is selling the company.



Screens: The idea here is that we have over 5000 listed companies in India, so how do we narrow down a small list of companies that are more suitable to us? These are the companies we can dig deeper into.

9. We've arrived at the announcements. All of the company's corporate announcements are available. Con call transcripts are also available.

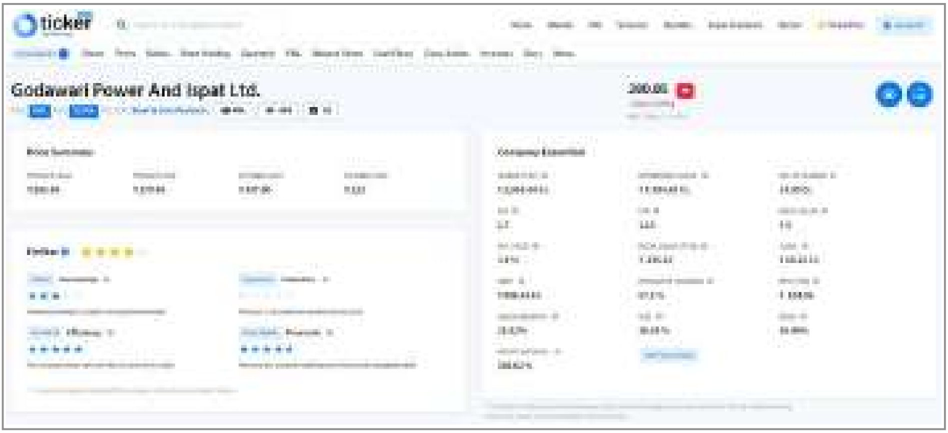
- o Concalls are basically when a company organises a call where analysts ask questions to the management of the company.

Source : https://www.screener.in/company/GPIL/consolidated/

5.2 Ticker by Finology

A lot of features in screener and ticker are similar.

We can use either one or both of them. We get a free account to use all of its features, and we have Ticker plus, which is a paid subscription.



Source : ticker.in

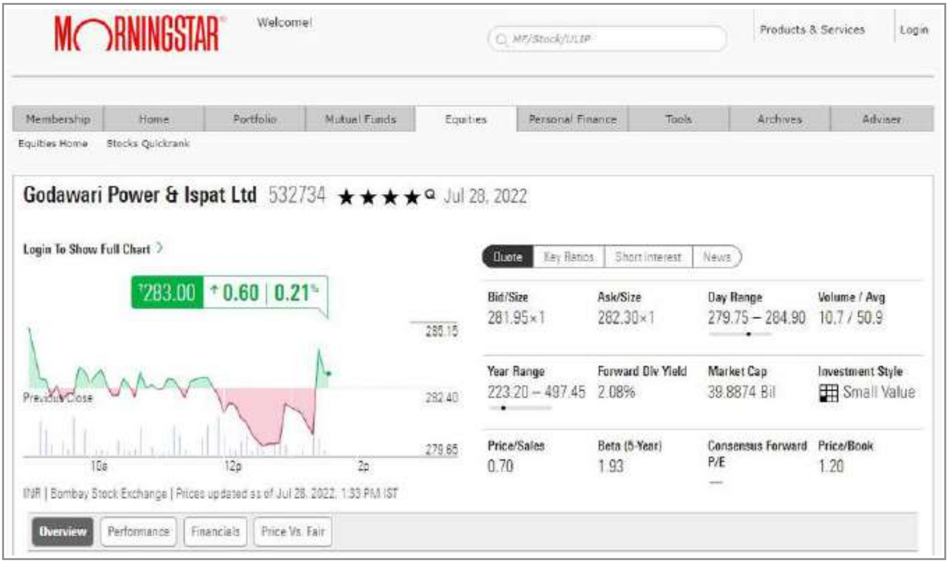
Here are some extra features

- o How many times has the company been viewed by different visitors?
- o How many users have added this to their watchlist to track the movement?
- o How many people have added this to their smart portfolio?

we can have price chart volume chart, PE(price to earnings) chart, PB (price to book) chart .How have they behaved in the last 5 years? we have peer comparison of similar companies Market cap ,P/B, P/E ,ROCE, EV/EBITDA all these ratios can be compared.

We can also take a look at the DRHP and RHP documents that were submitted for IPOs.

5.3 Morning Star



Source : morningstar.in

This is the user interface that Morning Star provides. Morning star has a host of tools and features that we can select.

- Through key ratios , we also receive an above average and below average rating for the last few years of company's performance.
- We get an overview of the company with its basic information.
- Financial data, operating data, valuation, and stock performance are all included.This tab is for any business and it specifically discusses numbers.

All of these data can be exported into an excel sheet.

- **The common size statement follows next. Every line item is represented in relation to revenue, which is taken to be 100.**
- **Comparing profitability ratios, growth rates, efficiency ratios, and the state of the company's finances allows us to evaluate the performance of the business and how it has changed over time.**

Morning Star provides us with a very in-depth analysis of the numbers and a comparison over years.

.6 How to Analyze a Company

Introduction

So far, we've looked at how to generate investment ideas with various tools and how to collect data from various resources. Now, how can we use all of this data to evaluate investment ideas that we had?

6.1 Introduction

So let's get started with understanding the

Products & Services

that the companie offers.

What are the products?

Who are their target audience?

Why do they purchase the products and services?

Following that, we will examine the

Industry Research

What's the industry's size and its structure?

What is the status of the

Business Research

We will learn about the company and its position in the industry in which it operates.

Does the company have a strong position in the market?

What is the

Management Backgrounds

Set of individuals running the company and their qualifications,

How are they compensated?

What are their vested interests in this organisation?

We will devote time to understand financial performance and different types of ratios. We will learn about different performance indicators and metrics that will facilitate evaluating companies. Identifying the correct KPIs for each company sector will be both challenging and critical. Then we will try to identify who owns the stock, if smart money follows the firm, and what is the ownership trend.

6.2 Product & Services of the Company

Welcome to the first section of evaluating stocks:

Firstly we will go ahead with the evaluation of the products and services of the company.

Features of Company's Products & Services

Who uses the Product and Why?

Uniqueness of the Product

Other similar Products & Services

Available Substitutes for Company's Product

Let us look at two examples - MARICO and APAR Industries.

Consumer Goods Company

Marico Company

MARICO is a brand that operates in different countries.

Parachute Hair oil, Set-Wet gel, Saffola Edible oil, and LIVON are everyday products brands by MARICO.

Industrial Electrical Equipments

APAR Industries

Apar industries are the third largest manufacturer of transformer oil.

Features of Company's Products & Services

Parachute Hair Oil

non-sticky

Set-Wet Hair Gel

no negative effects on hair

It is virtually impossible to proceed without first being acquainted with the product. Most of us will understand edible oil better than transformer oil, Someone in transformer oil industry may be more knowledgeable in transformer oil field than others.

The goal of this step is to have a solid understanding of the company's products and services we can know about them from the following data sources:

Data Sources

- Company Websites
- Youtube videos of the Product
- Product Brochures from company
- Annual Reports (Highlights and MD&A)
- Investor Presentations

Who uses the products and Why?

This provides a clearer picture of who utilizes the items and why. Who are the target users? What pain is the product solving? And so on.

Parachute Hair Oil

Target Audience:
Male and Female.
Age group(10 to 60 years).

Reason:
Hair Nourishment.

Saffola Edible Oil

Target Audience:
Male and Female.
Age group(20 to 50 years).

Reason:
Healthy mind and body.

Set-Wet Hair Gel

Target Audience:
Male Population.
Age group(15 to 30 years).

Reason:
For better hair quality and styling of hair.

Transformer Oils

Cables

When it comes to Apar Industries, the purchasers are mostly associated with power companies.

Therefore, we must understand the product's characteristics, along with its target audience and their reason for using it. If we don't understand this on its own we will need to get in touch with the people working in the industry and through them understand the products and its consumers behaviour.

Therefore, many investors prefer to invest in consumer companies with familiar products or services rather than putting money into unknown businesses. Investors opt for such unknown companies only when they have an edge in the market. or when they have an insight that others do not. We will also be better off investing in companies whose products we understand.

Uniqueness of products & services

To evaluate a product /service we must understand its uniqueness of it in the market. What is the unique selling point of the product/service or one product/service benefit that makes it superior to other competing brands?

In case of Marico:

Parachute oil has built brand recognition where people trust the brand and its products. This enhances their value proposition and distinguishes the product in the market.

In case of Apar:

APAR Industries has one of the strong brand recalls in this industry as compared to others.

Generally companies should produce better quality goods, or low cost or unique goods. It should have some unique selling proposition in the market and we need to identify it.

In case of Maggi:

A variety exists in the noodles market, however, MAGGI not only has a strong brand recognition but a huge distribution network as well.

Maggi packets can be found in stores PAN India, which means
Distribution Network + Brand Recognition = Maggi's popularity

Similar Products & Services by others

If we look at the list of brands similar to Parachute Hair Oil, **we can find ten competitors such as Trichup, Dabur, and Indulekha** that are well-known, but Parachute remains the leader.

So, for transformer oil manufacturers, we look to companies like **Velvex, and Lodha Petro.** We look at their prices and compare them with the company we're interested in.

Thus, we must dig deeper, compile a long list, and comprehend similar products by other players.

Available Substitutes For Company's Product

We must be aware of the substitutes available for a Company's product

Substitute products are those that can completely replace the use of the product in the market. Eg. EV can substitute petrol cars, When cars came they substituted horsecarts. So, look if the product as a whole can be substituted in the market.

People will continue to purchase and use these products irrespective of the Company producing them.

However, people can substitute Coke with Pepsi.
Buy and eat from burger King rather than Mac.D.

Are there any substitutes for the product in the market?

Yes?

Then, Dig Deeper!

Are people substituting the product?

No!

Go Ahead and Invest!

What are the advantages or the reason for substitution?

Ask yourself:

Do we understand the products and services that the company offers?

Are we confident that the company will be able to sell its product even five years from today?

This basic understanding of products/services of a company sets us up well.

6.3 Industry Research

Market Size

What is the size of the in the market? i.e how much of it is sold in the country/globe?

Market Stability

Do market leaders remain leaders for long or do leaders keep on changing?

List of industry leaders in the past and their current market position?

Health of Other Players in the Industry

Sub-standard performer in a good industry are better than good performer in a poor industry.

Industry Outlook

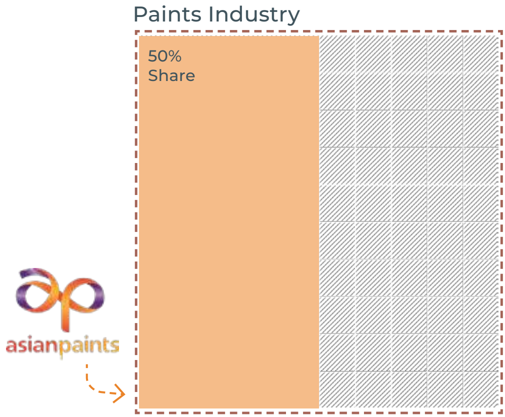
Major Risks

Growth Outlook

Market Size

It is important to understand how large the market that the company is catering to.

For example, when we look at the market size of the hair oil industry in India as of 2018, about Rs 8,000 crores with coconut oil having about 46% of it. At the same time, the size of the paint industry in India as of 2021 is Rs. 62,000 crores. At the same time, the size of the paint industry in India as of 2021 is Rs. 62,000 crores. At the same time, the passenger car market is about 32.7 billion USD as of 2022. As a result, car companies will be much bigger than paint companies which will be bigger than hair oil companies in size. This is what market size does. It explains how big a company can become.



If we take the paints industry, where already 50% of the market is held by Asian paints, for the company to grow the market has to grow. This puts restrictions on the company's growth. No company can become bigger than the industry.

For large companies, they can grow in two ways-

1. **Either the industry as a whole grows.**
2. **They enter new industries and new markets.**

Bigger the market size, bigger the company can become before it is forced to try new things.

Market Stability

The main question we ask here is

Who was the biggest company in this space 5 years/10 years back and where are they now?

For Example:

marico Dabur

Marico and Dabur have been the market leaders in the hair oil industry for the past 15 years. So, we can say that the hair oil market is quite stable as it is likely that market leaders will maintain their positions in the future.

Whereas:

Micromax, Motorola, and Nokia were market leaders in the mobile industry 10 years back. Then came a wave of Chinese companies like Oppo, Vivo, Redmi, etc which gained the majority of the market. As a result we can say that the mobile phone market is relatively unstable as compared to hair oil as leaders keep on changing.

micromax NOKIA motorola → mi oppo vivo

Here we cannot say that the leaders today will surely be leaders 10-15 years down the line so this is a classic example of an unstable market from which we will prefer to stay away as retail investors.

Health of Other Players in the Industry

What is the industry's overall health?

What is the status of other players' performance in the industry?

Let us assume there are 4 hair oil companies alongside Marico:

marico

TRICHUP
Beautiful hair for a lifetime

Dabur

indulekha

If

All the companies mentioned are doing well → Industry is healthy and most players are good.

All the companies except one have sub-standard performance. → Indicating that the whole industry might be struggling.

We must look for industries where most the companies, in general, are doing well!

Average performers in Healthy industries **>** ***Good Performance in Bad Industry***

airtel
vs
Jio

The telecom industry has been highly competitive for the past 3-4 years in India mainly competing on price. So in this case, can we call the telecom industry poor? For that we will need to dig deeper and read more about it.

Although institutional investors may make their decisions based on detailed research but as retail investors we must stick to healthy industries we will stick to industries where most companies make money i.e the industry as a whole is healthy and then stick to market leaders in those industries.
Example - Jio is current market leader in telecom industry

Industry Outlook

We will try and evaluate the next 5 years for any industry. We will try to look at the industry outlook in general with questions such as:

- **What is the long-term outlook for the industry?**
- **What are the industry expectations in the years to come?**
- **What is the growth forecast for the industry?**

	Major Risks	Growth Outlook
Post Covid Industry Scenario	How will the travel industry recover? How will Hotel industries cope with the financial strain on their balance sheets?	A lot of products/services are provided on digital platforms. Thus, technology and digital mediums are expected to have a positive growth outlook as an industry.
EV Automotives	The entire petroleum distribution industry is at risk, which means that all petrol pump companies may struggle if EVs become mainstream. The EV industry is expected to cover 40% of the market in the next decade. As a secondary factor, Petrol pumps may convert to EV stations.	Let us suppose that electric vehicles are expected to grow significantly over the next decade. This means that everything related to EVs such as charging infrastructure, various parts of EV vehicles, and battery manufacturers have a good long-term growth outlook.
Conclusion	If there are significant risks to the industry's survival in the next five years, we'll try to avoid such companies. We want industries with a bright future and no threats to their survival.	A company's management always presents news to portray a positive outlook. However, we will concentrate on industry reports and identify industries with favourable long term outlook.

Behavior Shifts

Companies selling to consumers will do well as long as the behavior of the consumer remains constant. Once the behavior changes, new companies enter the market and start doing well old ones struggle. In such a situation, we may have a lot of questions to investigate.

In general, we will prefer companies or industries where consumer behavior does not change drastically in the short run. For instance, not a lot changes with the hair oil industry. But there are many behaviour changes when it comes to consumer social platforms.

Industry research questions:

What's the market size?

How is the company expected to develop?

Is the user behavior changing?

What are the industry-specific risks?

Are the other industry players doing well?

Is the market stable?

Is the Industry healthy?

What is the industry outlook for the next 5 or more years?

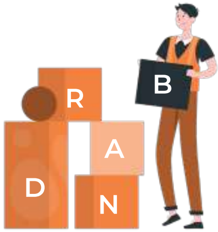
How big can a company grow within the same market?

Note Institutional investors will devote significant time to understand customer segments, value propositions, and competing industries. However, as retail investors, we will focus on four factors and stick to them. In most cases, it will lead to good industries which will create good returns for ourselves.

So far, we have covered the company's products and services, and understood its environment along with the industry in which it operates. Next, we will understand about the competitive position of the company.

6.4 Company Research

How strong is the company placed amongst its competitors?



Brand

Strong brand with loyal customer base.

Cost Advantages

Significant Cost Advantages -
Location, Resources and Labour etc.

Distribution

Distribution Advantages & Time to build such distribution.

Product Innovation

Uniqueness in Products & Services

Introduction

In this section, we will learn about Business Research.

> **What aspects help a company in becoming a market leader?**
> **How can a company distinguish itself from others?**

A simple answer to all these questions is **a competitive advantage.**
Mr. Warren Buffet coined the term **'Economic Moat'** which has become a commonly used phrase in the investment community.

What gives the company a competitive edge over others?

Why is the company leading in its market space?

How does the company continue to perform well?

Why is a company worth investing in?

How can a company create its competitive edge?

Lets learn...

1. Brand

Parachute has a strong brand recall and a devoted customer base. Customers often say **"Buy parachute oil"** rather than **"Buy hair oil"**, which shows that Parachute has Brand recognition as compared to other coconut hair oil companies.

"A brand need not be known to the mass market but must have a strong market recognition amongst its target audience."

For example:
If companies like Apar Industries have brand recognition among power companies, then Apar can be considered a brand even if it is not known to the mass market.

2. Cost Advantages

Does the company have a cost advantage over its competitors?

Can the company manufacture products at a price lower than its competitors?

For example:

Company Jio and Airtel manufacture similar products. Therefore, ideally, they should quote the same price for these products.

Jio		Artel
	< Service Cost	

However, for some reason, the service cost for Jio is less. **As a result, they can sell the product at a lower price even by maintaining profit margins. This is a Cost advantage.**

"In an environment where the companies are selling a commodity all products are the same, the only thing that matters is the price. In such an environment cost advantage can be a huge factor."

Does the company that we are analyzing has a specific cost advantage?

Some factors that can lead to cost advantages-

I. Location

Location is one of the most common factors.

If the company, its factory, and its plants are located closer to the market or raw materials, then it is implied that the company will save on logistics cost and will have a cost advantage.

Cement space is one such example.

Logistics - Transporting cement from point A to point B: is a significant cost component in production costs. if the location is closer to the origin of raw materials or the market, then the company will save a lot of money on logistics This results in a cost advantage. Eg. Amubja Cement.

II. Resources

Does the company have any unique resources that its competitors do not have that reduces its cost of production over others?

Let us take the example of 2 mining companies:

Due to the high quality of mines Company A extracts more minerals and materials with only 25% as waste.

Other companies generate 50 % waste in a similar process. As a result company A has a competitive edge due to its resources.

This is a systematic advantage that others cannot have.

III. Labour

What is the cost of labour?

Is the company located in a market where cost of labour is lower than its competitors cost of labour? Example: for a long period of time, companies manufactured in China due to its cost advantages due to low labour costs.

IV. Economies of Scale

Balaji manufactures **1000 units of a product because of their large sale of operation**

Due to the large scale of operations, their fixed cost is low. They are in a position to negotiate with the vendor and thus purchase cheaper raw materials.

Let's say the product is made for Rs 10 each.

Other chip companies, lets say manufactures 100 units of the same product.

Due to small scale, their fixed cost is higher, and are not able to negotiate with vendors, thus purchasing high-priced raw materials.

Let's say they manufacture the same product for Rs 9 each.

This is a clear-cut cost advantage because of economies of scale.

We must see that the companies that we consider:

- **either have a significant cost advantage over others,**
- **or must be doing something that other companies cannot easily duplicate.**

These are the factors that lead to a competitive advantage in the economy. Thus, we saw how brand and cost advantages provide a competitive advantage for the company in which we want to invest.

3. Distribution

Distribution refers to the overall process of how a product reaches from manufacturing to end consumers via distributors and retailers.

Distribution refers to transporting the product throughout the marketplace so that a large number of people can purchase it. Although a distribution channel requires a substantial amount of time and effort, it has its unique benefits.

Retailers and wholesalers will be willing to sell the company's products and that will only happen if the companies products sell well and they offer good incentives for them.

Let's talk about the distribution.
Assume Parachute and two other similar companies.

Company	No of stores across country	Visibility of products to public
marico	1,00,000	High Visibility
indulekha	35,000	Medium Visibility
TRICHUP® Beautiful hair for a lifetime	2,000	Low Visibility

Sales will depend upon market visibility and availability of any product. By having good visibility and availability, the product can maximize sales. However, building a strong distribution channel that keeps growing takes time. Wholesalers play a key role in product sales as they are responsible for product distribution to various retailers.

For example: If the incentives of Parachute are not favorable or do not have satisfactory earnings then the retailers and wholesalers will shift to another brand such as Indulekha. In such a situation, the advantages of Parachute will start to reduce.

Conclusion

- Distribution is dynamic and ever-changing. If the products are subpar, the brand's image can be tarnished and distribution can become obsolete.
- If the benefits to wholesalers and retailers are not satisfactory, the distribution may cease to exist because now they'll not participate.
- If the product sales rise, then the distribution channels can increase manifold in a short period of time.

Large distributors take time to build. Once it is built, it can be a huge competitive edge for the company in the market. Companies generally disclose their distribution numbers.

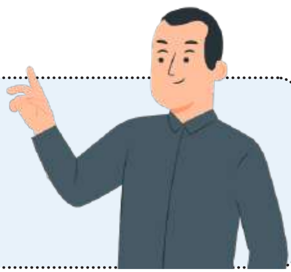
4. Product Innovation

A company has developed a product that is

- **Unique**
- **Has no competition**
- **Provides value to its customers**
- **We can say, such innovative products have an edge in the market.**

For example,

Let us talk about Facebook. What are its various alternatives today? Which platforms allow us to connect with our friends? Instagram? It belongs to the same company. WhatsApp has a competitor called Telegram. However, we often circle back to WhatsApp as we are only able to find a few friends on telegram.



Since the services offered by Facebook are unique, others are unable to compete with them. These products have continued to innovate with their functionality. Therefore, as consumers, we do not have many options.

There are reasons as well, such as social effects, network effects, distribution, that led to facebook's growth, but the product at the core it has been innovative overtime. Facebook when it started was one of its kind. As a result, innovative products and companies stay ahead of the market. We want our company to have at least one edge- Brand, cost, Distribution, or Innovation.

One way to identify competitive advantage are-

"There should be a significant difference in market share between the market leader and it's followers."

In terms of search engines, we can see Google owns 90% of the search engine market, while the remaining 7 to 8% is owned by all others combined. In this case, it is very clear that the business has a competitive advantage built-in; otherwise, something like this cannot happen. If something of this nature is built in the company, we will investigate further as to what is the source of the advantage? and then we will proceed!

Furthermore, it takes time to identify the advantages and disadvantages as the company will not communicate it directly. To figure this out, we'll have to go through Annual Reports and Investor Presentations on our own.We might also have to Examine the rating report, and the Industry Reports to identify the source of competitive advantage.

Conclusion

- So far, we've concentrated on determining the business's core competitive advantage over its competitors.
- If we look at the order, we have tried to understand the company's products and services. Is the industry good and healthy?
- If it is healthy, is our company better in terms of building better products, selling more of them, or does it have an advantage over others?
- Institutional analysts conduct detailed research. They work on it for months. As retail investors, we will keep it simple and try to complete all of these steps in about two weeks, spending four hours per week. This is what we intend to build on. The lack of depth in our research, will be taken care of by diversification in our investments. In the next module, we will discuss management and their interests.

6.5 Management Background

In the previous sections we have learned about a company's products and services, industry, the health in which they operate, the business, and its strengths. In this section, we will discuss management background as a part of business research.

Management Background

How much of the company does Management own?

Is it owner operated or not?

Management's Compensation Plan

ESOPs vs Commissions vs Fixed Salary

What percentage of management's net worth is the company?

How significant is the company to its management?

Management of the company means the senior people running the company - CEO,CFO,CTO,MD and so on.

All the past decisions and the work done decides the current position of the business.

Importance of Management

Company's future performance depends on them.

One of the most important factors in this regard is management.

Since the management is accountable for all the small and large decisions, it is crucial to have the right set of people running the company. Due to time constraints, it is not possible to everything about the management and evaluate it. Therefore, we will ensure that the overall objectives of the management align with ours in order to make good decisions on behalf of the minority shareholders and then trust them with the working of the company.

What steps will an institutional investor take to understand the management? They broadly classify their research into four parts:

Institutional Investor

The Ability of Management

- What are their competencies?
- How are they allocating capital?
- How are they utilizing the cash generated?
- Are they able to achieve their goals?

Vision

- What is the company trying to accomplish?
- What are the long-term and short-term goals?

Integrity

- Integrity is a very subjective topic to judge.
- Has the management done anything which was not in the best interests of the various stakeholders and the customers?

Motivation

- Motivation is essentially related to remuneration in this context.
- How are they compensated for their efforts in the company?

These are the four factors that every institutional investor will consider. Other considerations include:

Ownership structure

Corporate governance

Is the company well-run and well-managed by its directors?

Keeping things simple! We'll stick to 3 basic questions to determine whether we want to partner with particular management or not.

How much does the Management own?

There are two kinds of businesses:

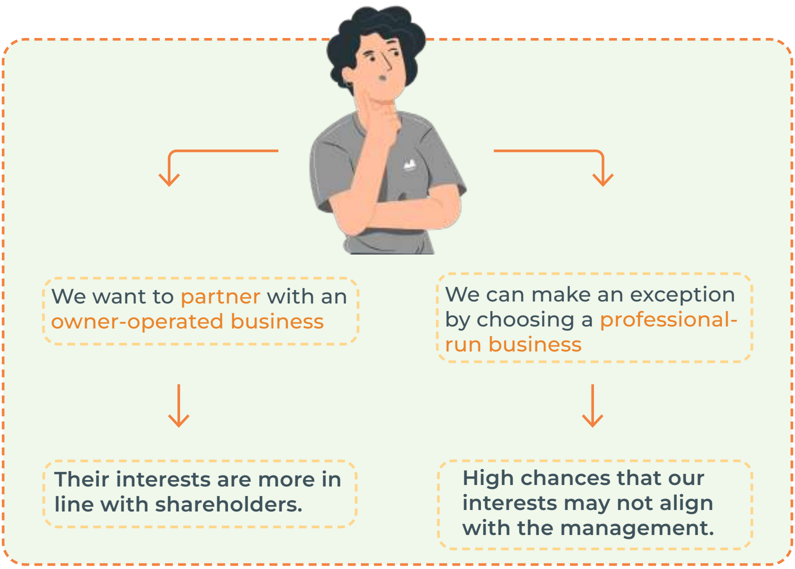
I. Owner Operated

The CEO and CFO belong to the senior management and are members of the promoter's family. This essentially means they own 40-50% of the company. Since they own such a large portion of the company, their best interest is to increase the value of the company rather than degrade it. Here the interests aligned. We want high ownership of senior management in the company.

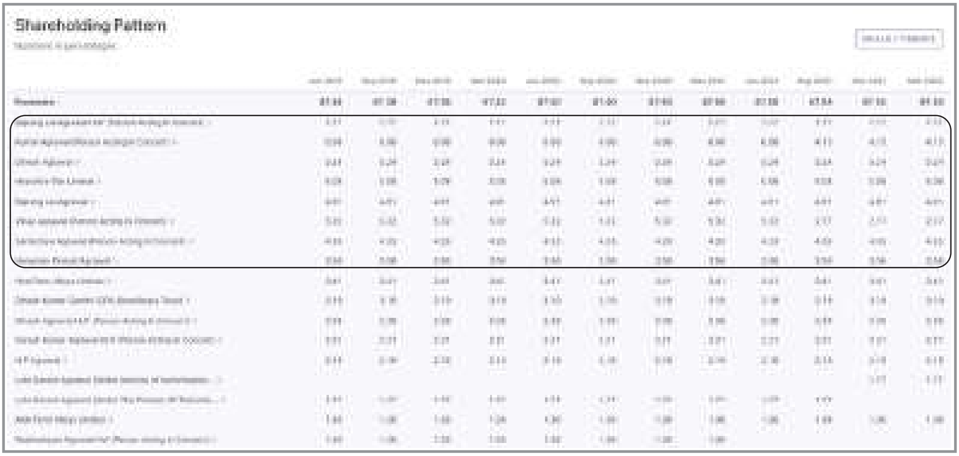
II. Professional Operated

If professional run companies, promotors have appointed professionals from various companies and prestigious colleges.

- They get a small percentage in the company, perhaps 2-4%, and are responsible for running a business on behalf of the promotors and the board.
- The board of directors are concerned about whether the professionals are running the company properly. If not, they will replace the professionals. i.e the senior leadership.



Example



Source: screener.in

Let's look at the annual report of Godawari Power and Ispat Co. ltd. We find that a large portion of the stock is owned by promotors.

So, this company is run by its promoters. Thus Gowawari Power and Ispat Co. is an owner-operated company.

On the other hand, if someone else was the CEO who owned just 1-2%, then we could conclude that it is a professionally operated company rather than an owner-operated company.

What % of management's net worth is there in this company?

This number essentially tells us the importance of a company to the management's overall wealth. Ideally, this number should be high, generally most people earn their wealth from 1-2 companies. If those core companies have generated wealth for a particular person, then they will look after the best interests of the company competently as it forms a significant portion of their total net worth.

Example

Company	Promoter's Total Net Worth	Contribution by their respective companies
Sharma & Co.	Rs. 1000 Cr.	Rs. 400 Cr.
Raheja & Co.	Rs. 100 Cr.	Rs. 85 Cr.

We can see that the promoter of Sharma & Co. has 400 crores (40%) as company's shares out of 1000 crores, while the remaining 60% could be in other properties or another company that they own.

On the other hand, promoters of Raheja & Co. have a total net worth of 100 crores, of which 85% comes directly from Raheja & Co. We observe that a major portion of this person's net worth is tied up with Raheja & Co. So in this case, the promoter is incentivized much better tomake decisions that are in the best interests of the company.

Interest of Promoter		
Sharma & Co.	<	Raheja & Co.
40%	<	85%

Management's Compensation Plan

How is the management being remunerated? How are they compensated?

Shares

Does the management own a large number of shares?
- Owner-operated businesses - They compensate their management by shares and the increase in the value of those shares.

ESOPs

ESOPs refer to employee stock options;
- It's quite common in professional-run businesses.
- Therefore, if the stock prices rise, the value of ESOPs escalate. ESOPs are tied to the performance of shares in the long term.

Fixed Salary

When a person receives a fixed salary, it has nothing to do with performance.
- Even if the company is struggling, the management personnel will be paid a fixed salary.

Commissions

Every year, commissions are paid. Assume that the commission is 5% of the net profit. Regardless of the company's performance, the commission will be paid as a fixed salary but with a variable component. The variable component is tied to the short-term metric of the current net profits, which is affected by company's decisions or performance.

Fixed ⟶ **Fixed percent of net profit**

Variable ⟶ **Based on performance**

Thus, the management can take decisions that benefit the company in the short run by increasing the net profits and commissions but they may jeopardize the company's interests in the long run.

Now if we go to the annual report we will find Management Remuneration in the "annexures to Directors Report"

(b) Remuneration paid to Executive Directors :

The break-up of remuneration paid / payable to the Managing Directors for the FY 2020-21 is as under:

Name of Directors	Mr. K. N. Desai	Mr. C. N. Desai
Designation	Chairman & Managing Director	Managing Director
Salary (₹)	1,296	1,296
Commission (₹)	1,93,06,201	1,93,06,201
Perquisites / Allowances (₹)	23,73,497	19,57,488
Total (₹)	2,16,80,994	2,12,64,985
Stock Option Granted (Nos.)	Nil	Nil
Service Contract	5 years from 01/01/2018 to 31/12/2022	5 years from 01/01/2018 to 31/12/2022
Notice Period	3 Months	3 Months

(c) Remuneration paid to Non-Executive Directors :

The Non-executive Directors receive the sitting fees for attending the Board and Committee meetings, as the case may be and reimbursement of expenses for participation in the said Meetings.

Details of remuneration paid to Independent & Non Independent - Non-Executive Directors for attending the meetings of Board of Directors and Committees are as given below:

Name of Directors	Sitting Fees (Gross) (₹)	No. of Stock Options granted
Mr. F. B. Virani	3,92,500	Nil
Mr. Rajesh Sehgal	3,17,500	Nil
Mr. Rishabh K Desai *	1,80,000	Nil
Smt. Nina Kapasi	3,17,500	Nil

*Non-Independent & Non-Executive

Source: Apar Industries Ltd - FY 21

- We can review the management's compensation structure and analyze it in terms of their title, pay, commission, and other factors.
- As was previously noted, they already hold 23–24% of the shares. Interests are aligned with shareholders in this case.
- The main reason behind this is that management is paid in shares, which ensures the company's long-term health. Commissions used as a balance so short-term performance is also taken care of.

Conclusion

If the management had been taking 20 crores of fixed salary, it would have been a **red flag**.

- This would indicate that their interests are not aligned with the shareholders.
- They are primarily interested in the salary that they have drawn from the company.

Majority data is available in 2 sections of the annual report that allow us to assess each company. These sections are the **Corporate Governance Report and Directors Report**.

We can conclude that

- Our interests should align with the management
- The management does not hold a significant number of stocks in any other company.
- The company serves as the primary source of income for the management.
- Management's compensation plan must be long term stock performance related.

If these conditions are satisfied, then you are good to go!

.7 Financial Ratios

Introduction

Until now, we have primarily focused on qualitative factors such as products and services, industry research, business research, and management background in order to analyze the company. Now, we will shift our attention to the quantitative factors.

We will do two things to do this.

- We will understand **financial ratios**, which are in themselves very effective for understanding various aspects of company operations that are denoted in numbers.
- We will use the **common size analysis**. We will talk about it more by using **Apar Industries as an example.**

Quantitative Analysis

- Common Size
- Financial Ratios

Lets explore this!

Qualitative Analysis

- Products & Services
- Industry Research
- Business Research
- Management Research

7.1 Introduction

Before reading the consolidated financial statements, we must review the opinion of the auditor under the independent auditor's report. **The auditor should state in clear writing that the company has followed all the conventions and accounting rules. He must not raise any red flags in this regard.** **If any red flags are raised, we will stop evaluating the company and move on to another one.**

Let us evaluate the **consolidated balance sheet and income statements** of Apar Industries.

APAR INDUSTRIES LIMITED

Consolidated Balance Sheet as at 31st March, 2021

(₹ in crore)

	Note	As at March 31, 2021	As at March 31, 2020
ASSETS			
Non-current assets			
Property, Plant and Equipment	2	819.10	830.18
Right to use Assets	2A	57.00	52.05
Capital work-in-progress	2	28.71	54.67
Other intangible assets	28	1.81	2.43
Intangible asset under development	28	-	0.04
Financial assets			
Investments	3	0.40	-
Trade receivables	9A	7.69	3.06
Derivatives assets	4	4.25	-
Other Financial Assets	5	13.40	13.51
Non current tax assets (net)		25.35	21.84
Other non-current assets	6	8.38	8.79
Total non current assets		**966.09**	**986.57**
Current assets			
Inventories	7	1,562.71	1,331.43
Financial assets			
Investments	8	60.00	-
Trade receivables	9	1,861.29	1,898.60
Cash and cash equivalents	10	209.34	163.92
Bank balances other than above	11	12.42	12.31
Loans	12	16.89	29.91
Derivatives assets	4	24.21	24.79
Other current assets	13	295.71	206.27
Total current assets		**4,042.57**	**3,667.23**
TOTAL ASSETS		**5,008.66**	**4,653.80**
EQUITY AND LIABILITIES			
Equity			
(a) Equity share capital	14A	38.27	38.27
(b) Other equity	14B, 14C	1,370.93	1,128.16
Equity attributable to equity holders of APAR Industries Limited		1,409.20	1,166.43
Non-controlling interests		-	-
Total equity		**1,409.20**	**1,166.43**
Non current liabilities			
Financial liabilities			
Borrowings	15	191.59	187.93
Leases Liabilities		55.11	48.55
Derivatives liabilities	16	0.72	7.34
Other financial liabilities	17	3.11	3.37
Provisions	18	8.13	8.18
Deferred tax liabilities (net)	19	20.18	0.67
Total non current liabilities		**278.84**	**256.04**
Current liabilities			
Financial liabilities			
Borrowings	20	21.49	94.02
Leases Liabilities		5.53	5.80
Trade payables	21		
a) Total outstanding dues of micro enterprises and small enterprises		27.77	17.23
b) Total outstanding dues of creditors other than micro enterprises and small enterprises.		3,010.31	2,830.73
Derivatives liabilities	16	46.92	124.50
Other financial liabilities	22	69.21	76.04
Other current liabilities	23	124.91	81.58
Provisions	24	3.15	1.43
Current tax liabilities (net)		11.33	-
Total current liabilities		**3,320.62**	**3,231.33**
Total liabilities		**3,599.46**	**3,487.36**
Total equity and liabilities		**5,008.66**	**4,653.80**
See accompanying notes to financial statement	1		

As per our report attached
C N K & Associates LLP
Chartered Accountants
Firm Registration No.101961W/W-100036

For and on behalf of the Board of Directors

Himanshu Kishnadwala
Partner
Membership No. 037391
Mumbai, 31st May, 2021

Kushal N. Desai
Chairman &
Managing Director &
Chief Executive Officer
DIN : 00008084
Mumbai, 31st May, 2021

Nina P. Kapasi
Director
DIN : 02856816

V. C. Diwadkar
Chief Financial Officer

Sanjaya R. Kunder
Company Secretary

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Source: Apar Industries Ltd - FY 21

Assets

The total assets of this company are Rs. 5,008 cr.
What are the major assets value-wise?

- Trade receivables account for approximately 37% of the assets.
- Outstanding inventory accounts for Rs.1,562 crores.
- Property, Plant, and Equipment are worth Rs. 819 crores.

Roughly if we combine these three elements,

Rs. 1800 Cr. (Debtors)
+ Rs. 1600 Cr. (Inventory)
+ Rs. 800 Cr. (Plant, Property & Equipment)
= Rs. 4200 Cr. (Total)

These items account for around 84% of the assets, so we will have to dig deeper to determine their constituents.

Other assets which are present are significantly smaller in size. Hence, we will not pay as much attention to small figures and we won't analyze them in much detail.

Liabilities

The Equity and Liabilities of this company is around Rs. 5,000 Cr.

- Apar Industries owes Rs 3000 crores to its creditors.
- The equity shareholders also known as the owners own about Rs. 1400 crores of equity.

Thus 90% of the amount is split a little unevenly between the creditors and equity.

APAR
Tomorrow's solutions today

Consolidated Statement of profit and loss as at 31st March, 2021

(₹ in crore)

	Note	For the year ended March 31, 2021	For the year ended March 31, 2020
Revenue			
I. Revenue from Operations	25	6,388.02	7,425.45
II. Other income	26	22.26	17.99
III. Total Income		6,410.28	7,443.44
IV. Expenses			
Cost of materials consumed	27	4,675.78	5,723.54
Purchases of stock-in-trade	28	78.97	148.60
Changes in inventories of finished goods, Stock-in -Trade and work-in-progress	29	45.35	(164.82)
Employee benefits expense	30	160.38	168.83
Finance costs	31	136.04	227.65
Depreciation and amortization expense	2,2A,23	93.44	87.12
Other expenses	32	1,012.68	1,084.33
Total Expenses		6,202.64	7,275.25
Less : Transfer to property, plant & equipment's		0.63	1.22
Net total expenses		6,202.01	7,274.03
V. Profit before share of profit/(loss) of an associate and exceptional items		208.27	169.41
VI. Share in net profit / (loss) of associate*		(0.00)	-
VII. Profit before exceptional items (V + VI)		208.27	169.41
VIII. Exceptional items		-	-
IX. Profit before tax		208.27	169.41
X. Tax expense:			
1. Current tax		51.45	46.49
2. Deferred tax		(4.20)	(12.33)
3. Taxes of earlier years		0.52	0.10
		47.77	34.26
XI. Profit/(Loss) for the year from Continuing Operations (IX-X)		160.50	135.15
XII.Other comprehensive income (OCI)		-	-
Items that will not be reclassified to profit or loss			
Items that will not be reclassified to profit or loss		0.73	(1.17)
Income tax relating to items that will not be reclassified to profit or loss		(0.18)	0.30
Items that will be reclassified to profit or loss			
Items that will be reclassified to profit or loss		105.27	(109.54)
Income tax relating to items that will be reclassified to profit or loss		(23.52)	26.97
Total Other comprehensive income (OCI)		82.30	(83.44)
XIII. Total comprehensive income for the year (XI+XII) (Comprising profit and other comprehensive income for the period)		242.80	51.71
Profit for the year attributable to			
a) Owners of the Parent		160.50	135.15
b) Non-Controlling Interests		-	-
Other comprehensive income attributable to			
a) Owners of the Parent		82.30	(83.46)
b) Non-Controlling Interests		-	-
Total comprehensive income attributable to			
a) Owners of the Parent		242.80	51.71
b) Non-Controlling Interest		-	-
XIV. Earnings per equity share (Face value of ₹ 10 each)	33		
Basic		41.94	35.32
Diluted		41.94	35.32
Significant accounting policies	1		

*Amount Less than ₹ 0.50 lacs

As per our report attached
C N K & Associates LLP
Chartered Accountants
Firm Registration No.101961W/W-100036

For and on behalf of the Board of Directors

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Director
DIN : 02856816

V. C. Diwadkar
Chief Financial Officer

Sanjaya R. Kunder
Company Secretary

Source: Apar Industries Ltd - FY 21

Income Statement

The most significant expense here is the cost of goods sold, which is quite big in itself i.e. 4675.78 Cr.

Employee expenses are low. Therefore, it is not a service business.

They do have some loans, but it is not too high, which in itself is good. Hence, finance cost i.e interest expenses are low.

Now, since we are aware of the profits earned, we can calculate EPS.
The cash flows will help us calculate the money earned by the company through its operations and also how the company decides to spend it.

This is exactly what we will do in the first segment!

We have to read the consolidated financials to understand where the majority of the value is i.e. in both the balance sheet and the income statement.

Let's move on to the next section, where we'll discover and calculate various ratios.

7.2 Understanding of Various Ratios

Solvency Ratio

- Debt to equity ratio
- Interest coverage ratio

Liquidity Ratio

- Current ratio

Efficiency Ratio

- Total assest turnover
- Working capital turnover
- Day sales in inventory
- Day sales in receivables

Profitability Ratio

- Gross profit margin
- EBIT margin
- Return on Equity

Cash Flow Ratio

- CFO / EBITDA
- CFO / Net Profit

A ratio refers to the relationship between two values, say X and Y which means we should have a value in the numerator and another value in the denominator, so as to know a ratio. Ratios in a different context assist us while making decisions. It aids in determining how effectively the businesses and organizations are run.

1. Solvency Ratio

Is the company solvent in the long-run? ---->

A solvent company owns more than what it owes. It has a positive net worth and a manageable debt load.

The solvency ratio examines the enterprise's capacity to meet its long-term financial commitments.

A business can experience solvency issues as well as liquidity issues. Let us take an example to understand this concept.

- Company A has assets to cover all its liabilities. One of those assets is land and the amount of time required to sell land in exchange for cash-in-hand is high.
- The company owns land that it will eventually sell and pay off the debt i.e. the company is solvent. But the company is not having short-term cash for debt which makes the company illiquid.
- Does the company have enough liquid cash to pay its short-term expenses and liabilities?
- A company can be illiquid or even insolvent. If the company is illiquid or solvent, then it's a short-term problem, but if the company is insolvent then it might be looking at bankruptcy procedures.Therefore, insolvency means that a company has liabilities but lacks the assets necessary to cover those liabilities.

Assets > Liabilities ⟶ Company is **Solvent**

Rs. 100 Cr. | Rs. 50 Cr.

Company can pay-off its Liabilities

Assets < Liabilities ⟶ Company is **Insolvent**

Rs. 50 Cr. | Rs. 100 Cr.

Company won't be able to pay-off its Liabilities

Could go out of business!

To check solvency ratios we need to know:

How is the long-term financial health of the company? Will they be able to pay off their debts in the future?

Therefore, We will compute the following two ratios:

.1 Debt to Equity **.2 Interest Coverage Ratios**

Stock Investing for Individuals

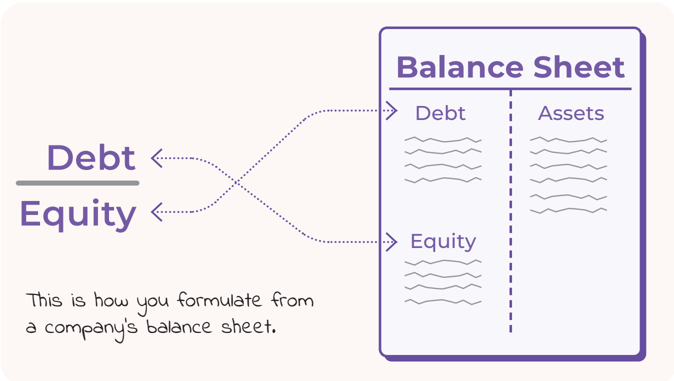
ZEBRALEARN

.1 Debt to Equity

The debt to Equity ratio is used to evaluate a company's leverage. It is calculated by dividing a company's debts (liabilities) by shareholders' fund (equity). Debt includes both short-term as well as long-term debt.

Now when we look at the balance sheet of Apar industries we get:

Debt= Rs. 212 Cr. (191+21)
Equity = Rs. 1,409 Cr.
(non-current liabilities + current liabilities)



Formula: **Debt / Equity**

= 212 / 1409

= 0.13

This figure indicates that the company's debt is 13% of the total equity. This helps us analyze that the company is in a strong position in terms of solvency, as it can easily repay its debts. It shows that the company is mainly funded by equity and not debt and as a result, the company can repay debt at any point, it has enough resources. This shows high solvency of the company.

We can directly access these ratios on the screener and other tools that we have seen in previous sections.

.2 Interest Coverage Ratios

The interest Coverage Ratio is used to assess how easily a business can repay the interest on its outstanding debt. In simple terms, it means how easily the entity can cover its interest expenses through its profits or earnings.

For instance, **Company A** has,

Earnings = Rs. 700 Cr.

Interest = Rs. 100 Cr.

We are reasonably confident that **we can pay the interest** on our debt.

And, if has,

Earnings = Rs. 150 Cr.

Interest = Rs. 100 Cr.

Business might be **unable to pay back** the interest.

Formula: **EBIT / Interest**

Where **EBIT = Earnings before interests and taxes**

To calculate the interest coverage ratio,

Now when we look at the balance sheet of Apar industries we get:

PBT (Profit before tax) **= Rs. 208 Cr.**

+ Interest (Finance Cost) **= Rs. 136 Cr.**

So for EBIT we will have to add PBT and interest amount.

EBIT = PBT + Interest Amount = Rs. 344 Cr.

Interest Coverage Ratio = EBIT / Interest

= 344 / 136 = 2.5 Times

Here we can say that interest is fairly covered.

The Debt to Equity ratio is low and the interest is well covered. Therefore, we can conclude that Apar Industries is solvent in the long run and is not under any threat.

We must check these ratios over time, so as to judge how the debt to equity ratio has changed over time.

Focus on the current figures and the past trends.
How is the debt to equity changing for the company?

KEY FINANCIAL RATIOS OF APAR INDUSTRIES (in Rs. Cr.)	MAR 22	MAR 21	MAR 20	MAR 19	MAR 18
PROFITABILITY RATIOS					
PBDIT Margin (%)	6.22	6.09	6.69	6.06	7.19
PBIT Margin (%)	5.17	5.08	5.32	5.02	4.23
PBT Margin (%)	3.66	3.14	2.27	2.71	3.02
Net Profit Margin (%)	2.75	2.51	2.81	1.75	2.48
NP After MI And SOA Margin (%)	2.75	2.51	3.81	1.75	3.48
Return on Networth/Equity (%)	14.96	11.18	12.86	11.21	13.06
Return on Capital Employed (%)	23.65	20.09	27.71	30.10	27.64
Return on Assets (%)	3.88	3.28	2.90	2.70	3.18
Total Debt/Equity (X)	0.25	0.13	0.24	0.08	0.08
Asset Turnover Ratio (%)	141.05	127.58	106.13	155.59	136.07

Source: Apar Industries Ltd - FY 21

Therefore, we can say that it is on an upward trend, and it is possible that it might even increase further.

Here, we can say that the trend for Apar Industries is quite stable and the company is doing well in terms of solvency!

2. Liquidity Ratio

Liquidity refers to the ability to pay off current liabilities (short-term liabilities), with current assets (short-term assets). In solvency we were evaluating the structural strength of finances, here we are concerned about the day to day working of the company.

> *"Current assets are the assets that are convertible into cash within a year. Current liabilities are the liabilities that are to be paid in cash within a year."*

Formula: **Current Assets / Current Liabilities**

Now when we look at the balance sheet of Apar industries we get:

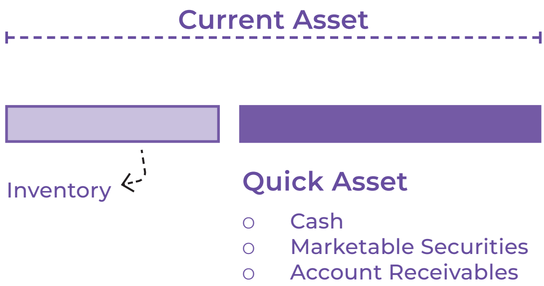
Current Ratio = Rs. 4042 Cr. / Rs. 3320 Cr.

= 1.2 Times

Here we observe that the current assets are 1.2 times the current liabilities of Apar Industries. In short, the company is reasonably liquid as well as solvent.

Simultaneously, we can also examine and compare the liquidity ratio of Apar Industries for previous years and analyze if the current ratios, as well as the quick ratio, has been maintained well throughout the years.

What are Quick Assets?



Quick Ratio

Formula: **Quick Asset / Current Liabilities**

Here quick ratio means quick assets (current assets[-]inventory) divided by current liabilities. Quick assets mean those that can be converted to cash quickly.

Since the company has maintained its current liquidity ratio, we can say that the business is managing its liquidity well.

Now we know that the company is doing well in terms of solvency and liquidity. In simple terms, the company has a strong position on long term financial health as well as day to day financial management. Let's now continue our further evaluation of ratios.

3. Efficiency Ratio

With the efficiency ratios we will assess:

> **How well is the company being run?**
>
> **How efficiently is the company utilizing its resources or its assets?**
>
> **How efficiently is the business running with respect to its working capital and account receivables?**

.1 Total Assets Turnover

This ratio measures how effectively a company uses its total assets to generate revenue. In other words, how much revenue can the company generate on a given size of the assets?

Asset required
Rs. 100 Cr.

Asset

If a company needs assets worth Rs.100 crores to generate a revenue of Rs.1000 crores.

Revenue Generated
Rs. 1000 Cr.

Then it is an
Asset-light Company

Asset required
Rs. 300 Cr.

Asset

If a company needs assets worth Rs. 300 crores to generate sales of Rs. 1000 crores.

Revenue Generated
Rs. 1000 Cr.

Then it is an
Asset-heavy Company

However, A company's total assets do not necessarily indicate whether it is a good or a bad company.

Formula: **Revenue / Total Assets**

= Revenue / Total Assets

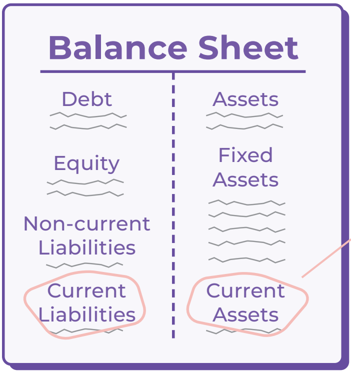
= Rs. 6410 Cr. / Rs. 5008 Cr.

= 1.3 Times

To conclude, the company is able to generate 1.3 times revenue in comparison to its total assets.

.2 Working Capital Turnover

It refers to the ratio between the net revenue of a business and the required working capital.



Current Assets

(-) Current Liabilities

(=) Working Capital

Formula: **Revenue / Working Capital**

Working Capital Turnover $= \dfrac{\text{Rs. 6410 Cr.}}{(\text{Rs.4042 - Rs. 3320})}$

$= \dfrac{6410}{700} \qquad = 9x$

This roughly translates to 9x. Therefore, we can say that the company can turn its working capital into revenues significantly or the company has low working capital requirement.

Similarly, there are other turnover ratios such as:

Account Receivables Turnover

Formula: **Revenue / Account Receivable**

Account Receivables Turnover = Rs. 6410 Cr. / Rs. 1861 Cr.

= 3.6 Times

This is how we can calculate the efficiency of a company's account receivable.

Next, we can take revenue/inventory.
Hence, we can pick items from either asset or liabilities side to determine how efficiently a company uses them.

When we revisit the morning star website, where the efficiency ratios are present.
We have to analyze four ratios, namely: Total assets turnover, Fixed asset turnover, Receivable turnover, and Inventory turnover. We can understand and evaluate the trends in the same and draw conclusions about the trends in performance.

Talking about the inventory turnover, it has also decreased, i.e. that inventory has also decreased which might be because of COVID, but we won't know for sure until the evaluation stage.

.3 Day Sales Outstanding

Formula: **Number of days in a year / Asset Receivable Turnover**

Day Sales Outstanding = 365 / 3.6

= 100 days

After how many days does the company receive its payments?

- Therefore, whenever a sale happens, the company provides an average credit of 100 days.
- The company can turn its receivables over 3.6 times where it takes 100 days per rotation.
- It means that for 100 days our sales remain outstanding before we receive our money from debtors.

.4 Days Inventory

How many days of inventory do we need at any given point in time to conduct our business?

.5 Payable Period

How many days do we take to make payments to our creditors?

Days Sales Outstanding	Days Inventory	Payable Period
How many days do we take to get the payment?	How many days do we take to sell our inventory?	How many days are we using to pay our creditors?
↓	↓	↓
108 Days	**108 Days**	**220 Days**

Cash conversion cycle= DSO+ Days Inventory- Payable Period.

If we have a payable period of 0 days to make payment to our creditors.

- It means, suppliers did not extend us any credit.
- Capital requirement would increase significantly and the company would have to commit its capital to fund the accounts receivables and inventory rather than getting credit from customers.

Thus Efficiency ratios discuss how well the company runs its operations.

4. Profitability Ratio

Profitability ratio tells us how profitable are the company's operations. There are plenty of ratios that can help us analyze the profitability of the Company- Gross profit margin, EBITDA margin, EBIT margin, PBT margin, and PAT margin or the Net margin.

Revenue (Sales)	**6410**
(-) Cost of goods consumed	**(4800)**
Gross Profit	**1610**
(-) Employee Benefit Expenses	**(161)**
(-) Marketing Expenses (Other)	**(1012)**
EBITDA (Earnings before Interest, Taxes, Dep., Amort.)	**438**
(-) Depreciation Expenses	**(93)**
(-) Amortization Expenses	
EBIT (Earnings before Interest, Taxes)	**345**
(-) Interest (Finance Costs)	**(136)**
PBT (Profit Before Taxes)	**209**
(-) Tax Expenses	**(47.7)**
PAT (Profit After Taxes) **+ OCI** (Other Comprehensive Expenses)	**242**

.1 Gross Profit Margin

It is the profit the business makes from the sale of its products alone after deducting direct costs like cost of goods sold. Think of it as the markup. Markup means how much a company charges over and above the cost of its product.

Formula: **Gross Profit / Revenue**

$$\text{Gross Profit Margin} = \frac{(6410 - 4800)}{6410} = 25\%$$

Next when we reduce the employee benefit expenses and the marketing expenses we will get the EBITDA. After that when depreciation and amortization expenses are deducted, we will reach EBIT, and consequently when finance costs(interest expenses) are deducted, that will give us the PBT.

.2 EBIT Margin

EBIT margin is a measure of a company's profitability calculated by dividing EBIT by revenue. It shows how much of each rupee of revenue was converted into profit. A higher EBIT margin indicates that a company is more profitable.

Formula: **EBIT / Revenue**

$$\text{EBIT Margin} = \frac{344.31}{6410} = 5.37\%$$

PAT Margin

Formula: **PAT / Revenue**

PAT = 242 Cr.

$$\text{So, PAT Margin} = \frac{242}{6410} = 4\%$$

As a result, we observed how the 25% gross profit reduced to 4% at net profit level gradually due to our other expenses. (depreciation expenses, amortization expenses, marketing costs, etc)

Margins at different levels and trends in them explain the major losses of the company. Increase in margins is a very healthy sign for any company.

.3 Return on Equity

Return on equity (ROE) is a financial ratio that shows how well a company is managing the capital that shareholders have invested in it. If the investors are the investors are putting in Rs. 100 worth of equity, how much is the company able to generate on that as returns.

Formula: **PAT / Equity**

Changes in Income Statement

Changes in Balance Sheet

$$\text{Return on Equity} = \frac{242}{1409} = 16\text{-}17\%$$

Thus, the company is generating a return of 16–17 percent on the capital used in the business as equity, which is a respectable return.Let us look at the trend once more.

Let us look at the calculation of **ROE for Dupont analysis.**

PAT / Equity i.e ROE can also be represented as

$$\text{Return on Equity} = \frac{\text{PAT}}{\text{Revenue}} \times \frac{\text{Revenue}}{\text{Equity}}$$

$$= \frac{\text{PAT}}{\text{Revenue}} \times \frac{\text{Revenue}}{\text{Assets}} \times \frac{\text{Assets}}{\text{Equity}}$$

$$= \text{PAT Margin} \times \text{Asset Turnover} \times \text{Leverage}$$

$$= \frac{242}{6410} \times \frac{6410}{5008} \times \frac{5008}{1409}$$

$$= 4\% \times 1.3\% \times 3.3\%$$

$$= 16\text{-}17\%$$

We must highlight that Dupont analysis uses net profit margin, asset turnover rate, and a high degree of financial leverage. We can understand the trend in these to identify the performance of the company at different fronts.

Return on equity is one of the most important financial ratios from analysis point of view as:

- Return on equity shows how efficiently capital is being used in the business.
- When anything in the income statement or the balance sheet gets affected, return on equity gets affected.
- Dupont analysis gives a very detailed breakdown of entire company's performance.

- Return of equity comprises PAT which gets affected due to changes in the income statement and equity gets affected due to changes in the balance sheet.

Return on equity can also be obtained directly multiplying by Net Margin, Asset Turnover, and Financial Leverage. We can look at the upward trend of these three and see that the business quality is improving.

Let's move on to the cash flow ratios, now that we have seen the strength of balance sheet efficiency and profitability.

5. Cash Flow Ratio

Is the company able to generate cash? The business may be making large profits, but let's say that if those profits are not being converted into cash as the sales are mainly credit. So we need to ensure that profits translate into cash. The business itself will be in trouble and constantly require more money if the profits are not converting to cash.

The business itself will be in trouble and constantly require more money if the profits are not converting to cash.

We will observe that in cash flow ratios.

.1 Formula: **CFO / EBITDA**

Ideally it should be closer to 1.

CFO = Rs. 323 Cr.

EBITDA = Rs. 440 Cr.

$$\text{CFO / EBITDA} = \frac{\text{Rs. 323 Cr.}}{\text{Rs. 440 Cr.}} = 0.7 \text{ Times}$$

As time goes on, this number should be closer to one. This guarantees that the majority of our profits are converted into cash. Closer to 1 this number is, more healthy is the company's cash generating ability.

.2 Formula: **CFO / Net Profit Margin**

$$\text{CFO / Net Profit} = \frac{\text{Rs. 323 Cr.}}{\text{Rs. 242 Cr.}} = 1.25 \text{ Times}$$

.3 Formula: **CFO / Revenue**

$$\text{CFO Margin} = \frac{\text{Rs. 323 Cr.}}{\text{Rs. 6410 Cr.}} = 5\%$$

Cash Flow ratios help us analyze how well are we able to convert our profits into cash. Because without cash we might not be able to sustain or run our businesses. Many companies in the past have generated attractive returns in profits but have As its said - Cash is King, Profit is Queen! We want to ensure that the company generates cash.

.4

Free Cash Flow =

CFO (How much did we generate from the business)

-

CFI (How much did we invest in business)

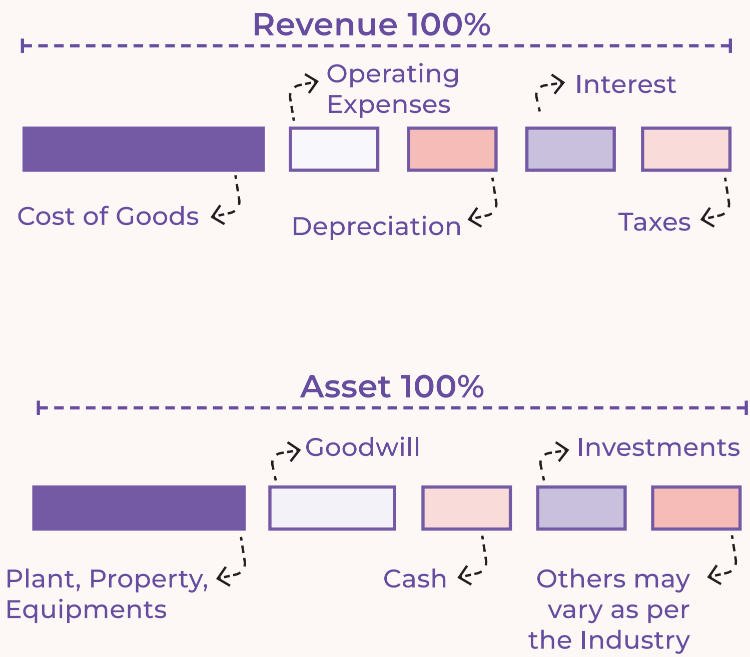
The job of any business is to produce cash over time and with a cash flow ratio, we are ensuring that happens. It should not be cashless profits.

We will evaluate these things about cash flow-

1) **How much cash is the company generating against reported profits?**
2) **How is it using that cash?**
3) **How has the number changed over time?**

7.3 Common Sizing

How has the composition of income and balance sheet statements changed over time? Ratios combined with the knowledge of common sizing will provide a very thorough understanding of the financial performance of the company.

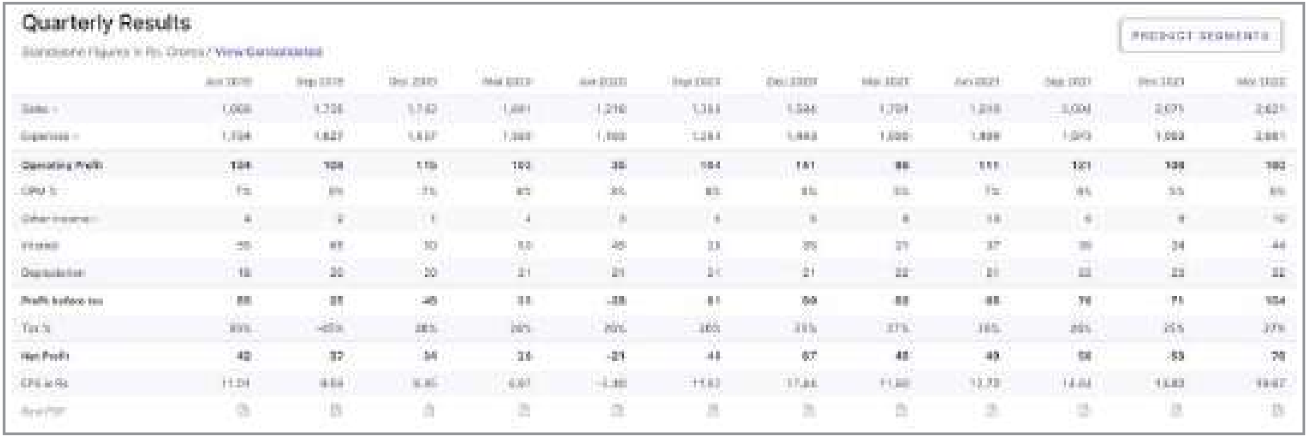


A common-size statement is an income statement, where each line item is expressed as a percentage of revenue or sales. It explains how the composition of income statements is changing.

Every year, revenue is assumed to be 100%, where every line item is expressed as a percentage of revenue.

What is the composition of the Income Statement?

Source: screener.in



Quarterly Results

Standalone Figures in Rs. Crores / View Consolidated

PRODUCT SEGMENTS

	Jun 2019	Sep 2019	Dec 2019	Mar 2020	Jun 2020	Sep 2020	Dec 2020	Mar 2021	Jun 2021	Sep 2021	Dec 2021	Mar 2022
Sales +	1,068	1,736	1,742	1,491	1,216	1,333	1,546	1,701	1,218	2,004	2,071	2,621
Expenses +	1,704	1,627	1,617	1,388	1,100	1,234	1,443	1,600	1,808	1,893	1,932	2,881
Operating Profit	104	108	119	103	35	104	141	96	111	121	138	180
OPM %	7%	6%	7%	8%	3%	8%	9%	6%	7%	6%	5%	6%
Other Income +	4	2	1	4	5	6	5	8	18	6	9	10
Interest	35	41	30	53	49	33	35	27	37	35	24	44
Depreciation	18	20	20	21	21	21	21	22	21	22	23	22
Profit before tax	55	38	-45	33	-38	61	90	55	68	70	71	104
Tax %	35%	<25%	26%	26%	20%	26%	33%	27%	28%	25%	25%	27%
Net Profit	42	37	34	24	-21	44	67	40	49	58	53	76
EPS in Rs	11.24	8.64	6.85	6.07	-5.30	11.62	17.44	11.00	12.73	14.04	13.83	19.67
Raw PDF												

Earlier, the cost of goods sold held a significant portion of the income statement. But now as the numbers decline, gross profit and operating profit start increasing in tandem with composition.

- Interest expenses are pretty much standard and stable.
- Margin-oriented proportions are increasing.
- Since expenses related to gross profit are decreasing, the gross profit increases.
- Both net income margin and EBITDA margins have risen.

Revenue is set at 100, and we are trying to examine how the composition of the income statement changes over time.

- Although the amounts are changing, when we use common size, everything is converted to 100%.
- Since the cost of goods sold (holds a significant portion) is shrinking, the net profits are increasing.
- Thus it explains the entire evolution of income statements over time in a very systematic manner.

Quarterly Results

Standalone Figures in Rs. Crores / View Consolidated

PRODUCT SEGMENTS

	Jun 2019	Sep 2019	Dec 2019	Mar 2020	Jun 2020	Sep 2020	Dec 2020	Mar 2021	Jun 2021	Sep 2021	Dec 2021	Mar 2022
Sales +	1,008	1,726	1,742	1,491	1,216	1,333	1,546	1,701	1,218	2,004	2,071	2,621
Expenses +	1,704	1,627	1,617	1,388	1,180	1,231	1,463	1,600	1,809	1,973	1,952	2,461
Operating Profit	104	108	119	103	36	104	141	98	111	121	108	162
OPM %	7%	6%	7%	8%	3%	8%	9%	5%	7%	6%	5%	6%
Other Income +	4	2	1	4	5	6	5	8	18	6	9	10
Interest	35	61	30	50	45	33	35	21	37	35	24	44
Depreciation	18	20	20	21	21	21	21	22	21	22	23	22
Profit before tax	55	28	45	33	-28	51	90	63	68	70	71	104
Tax %	35%	<0%	28%	26%	20%	18%	31%	27%	18%	20%	25%	27%
Net Profit	42	37	34	26	-21	48	67	46	49	58	53	76
EPS in Rs	11.04	8.84	8.85	6.87	-4.30	11.52	17.44	11.80	12.73	14.44	13.83	19.67
Raw PDF												

What if the modifications are significant?

Imagine Net profit increased from 5% to 8%, which is a significant increase. We can pinpoint this increase by observing that most of the benefits came from the cost of goods sold, and a small amount from interest expense. These two factors account for the majority of our margin expansion.

The common size statement of the balance sheet can be evaluated in the same way.

What is the composition of the balance sheet?

Source: screener.in

Balance Sheet

Standalone Figures in Rs. Crores / View Consolidated

CORPORATE ACTIONS

	Mar 2011	Mar 2012	Mar 2013	Mar 2014	Mar 2015	Mar 2016	Mar 2017	Mar 2018	Mar 2019	Mar 2020	Mar 2021	Mar 2022
Share Capital +	33	33	38	38	38	38	38	38	38	38	38	38
Reserves	547	433	923	909	958	722	919	881	1,037	1,097	1,287	1,547
Borrowings +	365	977	894	702	484	347	345	304	154	258	240	236
Other Liabilities +	873	1,328	1,862	1,326	1,718	1,669	2,008	2,876	3,364	2,958	3,113	4,317
Total Liabilities	1,818	2,771	3,208	3,025	2,849	2,777	3,309	3,909	4,683	4,314	4,666	6,158
Fixed Assets +	122	183	342	339	373	398	389	544	654	742	739	753
CWIP	2	22	45	15	9	27	33	79	155	55	29	37
Investments	30	4	338	33	31	110	414	0	167	3	32	32
Other Assets +	1,759	2,562	2,819	2,638	2,436	2,249	2,518	3,435	3,788	3,518	3,862	5,335
Total Assets	1,818	2,771	3,208	3,025	2,849	2,777	3,309	3,909	4,683	4,314	4,666	6,158

Every reference is depicted as a percentage of total assets. Current assets make up the majority of the assets.

- The majority of assets–roughly 68 % are in receivables and inventory.
- Although the ratio of receivables is decreasing, inventory is taking a toll on the company's resources.

So this gives us a visual as well as a pictorial representation of the company. Can we pinpoint the changes to see where they are?

- A significant addition has been made to the property plant and equipment.

Receivables use comparatively fewer resources than PPE and inventory on the assets side

while

Accounts payable form a majority of 60% on the Liabilities side.

So we won't pay much attention to smaller percentages like half a percent or one percent which is constituted by other current liabilities namely short-term debt or taxes payable.

The next major chunk is in equity. Equity is increasing because the company is paying off its debt.

Therefore common sizing helps us determine how the company's resources are used in general and how they change over time.

You receive pre-done work from the morning star tool, so we strongly advise you to experiment to gain a thorough understanding of any company's financials.

We have understood the ratios, how businesses operate and how the ratios change. Also, we have learned how to common-size them. We are primarily looking for changes.

Absolute numbers, such as a 4 percent net profit margin, are meaningless. We need to understand them over a period of time how they are changing and also compare with other players. Such analysis should give a very good explanation of the business.

Generally, Return on Equity should be at least 15% or increasing. The return on capital should be higher than 12% but it also depends on capital structure.

Such analysis can help us understand any business in great detail.

7.4 Key Performance Indicators

Every industry has a set of indicators that allows one to track the actual performance of the business. It does not necessarily mean sales or profits but other metrics that informs us how a business is coming along. These indicators explain the day working of the companies. These are higher than some companies.
These are highly industry-specific.

Asset Management Companies

- Assets Under Management
- Debt Equity
- Cost Ratio

Logistics

- Number of Trucks
- Warehousing Space
- Value Added Services
- PIN Codes Covered

Key Performance Indicators

Hotels

- Number of Rooms
- Occupancy Rate

Banks

- Loan Book Size
- Number of Branches
- Number of Account Holders

Let's look at a few instances:

Hotels

Let's look at a Hotel company that owns and operates a chain of hotels in the country. So what will be their Key performance Indicators?

We must first choose 3-4 factors that we believe are crucial to the operation of the business.

Hotel	No. of Rooms	Average Price
Hotel 1	10,000	5,000
Hotel 2	18,000	8,000

1. No of Rooms

We believe that the company's sales and profits are closely tied to the number of rooms, so we should keep a track of that. It explains the size of the business.

2. Occupancy Rate

> **What percentage of rooms on average are occupied?**
> **In short how many rooms are occupied?**

Some other factors that affect the KPIs can be revenue per available room.
It takes a lot of skill and judgement to decide which matrix should be used. Once we identify the right KPIs, we can compare different companies using them or even the same company over a period of time.

We cannot just evaluate the performance of a company using figures for sales and profits. Therefore, we need KPIs to go into greater detail.

KPIs are necessary for monitoring both company's and competitor's progress. These indicators are very crucial for our analysis of different companies.

Logistics

What if we invest in a logistics business?

How do we track it after we invest in it?

- They will communicate how many trucks they have and how much storage space they have almost every three months.
- We can compare the warehousing space for various companies, fleet size, pincodes covered and so on.

Secondly, what proportion of their revenues are generated by value-added services?

- Let's say that warehousing and trucking which are commodity businesses account for 80% of the revenue, and remaining 20% comes from value-added services, which is high margin business.

Therefore, we must identify KPIs which can be compared over time and across various companies.

Understanding and analysing the factors responsible for a company's success are quite subjective. KPI's help us track both a company's and industry's performance.

Asset Management Companies

Now, let us consider an Asset management Company.

If we are looking to invest in a mutual fund company, we should constantly monitor the proportion of AUM(Assets under management) invested in debt and equity as debt is a low-profit business than equity. We need to evaluate the AUM size.

We may add other metrics to the list such as the number of branches or any other factor that makes sense economically and is connected to the company's success and revenue.

Banks

Now, what if we are analysing a bank?

- The size of the total loan book of a bank.
- How many branches does the bank have?
- How many customers have an account?
- Which industries do they lend money to?

All these factors can be included.

To keep a track of KPIs each and every quarter, it is always advisable to create an excel sheet.

- We must track these KPI's every quarter.
- We will track KPI's of a company that indicate its operational direction.

Hence, tracking key performance indicators are the key to staying updated with performance and thus we will keep a track of it. It is critical to identify the correct FPIs and track them over time.

When the KPIs begins to deteriorate or stops performing, we know the company isn't doing well and we may need to re-evaluate its performance. Now that we've covered KPIs, let's look at the ownership structure.

7.5 Ownership Structure of Stocks

Let us now understand a company's ownership structure.

Who owns a company's stock that we are evaluating or purchasing?

Let us look at various people who own a company's stocks?

Promoters

Institutions

Significant Investors

Public

Promoters

Promoters are essentially the owners of the company who started the business and have a significant stake in it. As a result, they own a sizable portion of a particular company. Large ownership by promoters and companies still run by them is a great sign.

Institutions

Institutions include various mutual funds, portfolio management firms, insurance companies, and offshore funds. They have a significant amount of resources and analysts who spend a lot of time researching stocks.

So, what percentage of the company do these people own?

This is also known as smart money. Why?
Because they have invested a significant amount of time and effort in evaluating the investment and making an investment decision.

Significant Investors

Significant investors refers to people who are renowned and famous in the world of investing. Again, this is smart money.

That essentially means that when they purchase a stock, a lot of people try to follow their decision and buy the same stock

Such investors have a lot of experience and understanding of the fine details of how the market works. Hence, they have a lot of experience and followership as well.

Public

Common public includes retail investors like us. In general, it means people who do not devote a lot of time to active research.

If the stock has a very high percentage of public ownership, the management is rarely questioned. The reason behind it is that the general public does not spend as much time as institutions do.

Stocks are generally owned by four different types of people. We need to understand who is buying and who is selling?

We Must Know

- Who owns what percentage of the company?
  What is the ownership trend, or the direction in which the ownership is heading?
- **If institutional holdings increase, it means that more smart money is following a particular company.**
- **If a promoter's ownership increases, it indicates that promoters are bullish on the company's stock, which is a huge plus.**
- The promoter ownership may decrease due to a variety of reasons, but we do not want a significant or rapid decrease in a short period.
- Are significant investors increasing or decreasing their stakes?

Let us proceed to **screener.in** and look at the Shareholding pattern of Godawari Power and Espat.

- We can see that promoters' holding has remained consistent over the years.
- FII (Foreign Institutional Investor) holdings have almost halved and then increased for the last four quarters.
    - Foreign Institutional Investors (FIIs) are investors based outside of India.
- The institution's overall ownership is relatively low. DIIs are Indian Domestic Institutional Investors. Their stake has steadily increased over time, particularly in the last three quarters.

If the DIIs and FIIs are increasing their exposure to this company, it means that they have spent a lot of time and resources analyzing it, so we can be fairly confident that this company has met most analytical checks.

There are relatively fewer FIIs who own this stock, normally companies only disclose ownership that's more than 1% of the company, so anyone who is holding about 0.5% or 0.75% of the company won't be disclosed.

HIRA GODAWARI POWER & ISPAT

Corporate Overview | Statutory Reports | Financial Statements

Shareholding Pattern as on 31st March 2021:

S. No.	Category of Shareholder	Total Number of Shares	Total shareholding as a % of total number of shares
(A)	PROMOTER AND PROMOTER GROUP		
i.	Individual / HUF	18975684	53.8528
ii.	Bodies Corporate	3685169	10.4584
iii.	Any Other (Trust)	1125000	3.1927
	SUB TOTAL (A)	2378585341	67.5039
(B)	PUBLIC		
a)	Institutions		
i.	Foreign Portfolio Investor	216881	0.6155
ii.	Mutual Fund	163290	0. 4634
iii.	Insurance Companies	29290	0.0831
b)	Non- Institutions		
i.	Individual		
	i.) Individual shareholders holding nominal share capital up to ₹2 Lakh	5091975	14.4504
	ii.) Individual shareholders holding nominal share capital in excess of ₹2 Lakh	3286327	9.3266
ii.	NBFC Registered with RBI	450	0.0013
iii.	IEPF	12002	0.0341
iv.	Trusts	476	0.0014
v.	Hindu Undivided Family	539584	1.5313
vi.	Non Resident Indians (Non Repat)	91329	0.2592
vii.	Non Resident Indians (Repat)	114988	0.3263
viii.	Other Director	237000	0.6726
ix.	Clearing Members	165925	0.4709
x.	Bodies Corporate	1501057	4.2600
	SUB TOTAL (B)	11450394	32.4961
	TOTAL (A+B)	35236247	100.0000

Promoters own 67% of the shares/company.

The majority is made up of individual shareholders with a share capital of more than Rs. 2 lakh.

4% is being held by corporates.

Public and mutual funds institutions hold 32% of the company.

Source: Godawari Power & Ispat Ltd Annual Report - FY 21

Conclusion

We have covered the qualitative aspects of the industry and company. We looked at the size of the industry, health of other players and the long-term outlook.

We discussed company research where we learned about the company's competitive advantages and disadvantages, financial ratios and their implications for determining how the company is performing.

We understood how Return on Equity affects every line item on the income statement and balance sheet. We used KPIs to track the company's progress. We finally understood the ownership trend in terms of buying and selling.

Let's say we like a certain company and its business. Next is to determine an attractive price to invest in the same. For that, we'll move on to the valuation phase. We're interested to see if the price makes sense for us to buy or not.

Furthermore, we must accept that there is no such thing as a perfect company. No company will tick every box. It's just that we need to identify. Which are the ones we are comfortable with.

This brings us to the end of our discussion of company evaluation. Let's move to valuations.

.1 How to Value Stocks?

1.1 What is Valuation?

1.2 Types of Valuation

Introduction

In the previous section we learned about evaluating companies. We started with methods of generating investment ideas and get qualitative information from various sources and then analyze the companies to make investment decisions.

However when we think of investing in a business, we must determine whether the price at which the share is trading for that makes sense or not.It may happen that we buy an excellent company and still lose money if we buy at the wrong valuation.

So let us learn about Stock Valuation and this we will do from a retail investor's point of view. An institutional investor will use very sophisticated methods for it.

1.1 What is Valuation?

Understanding the True Value

Identifying quality companies that generate good profits at low cost is the first and foremost step in stock evaluation. If we choose a competent well-managed company but end up spending an exorbitant price! We will suffer from poor investment results. In such instances, we will end up paying more than the genuine value of the stock which ultimately results in lower returns than expected. Therefore, finding the correct price to buy or, more importantly, sell something is just as important as identifying a stock.

> *"All successful investment involves trying to get into something where it's worth more than you are paying. That's what successful investing is. There are a lot of different ways to find something worth more than what you are paying"*
>
> *- Charlie Munger*

Company A

Market Value > True Value

Avoid investing

Company B

Market Value < True Value

Looking to buy

Any stock or security has 2 types of values:

Market Value

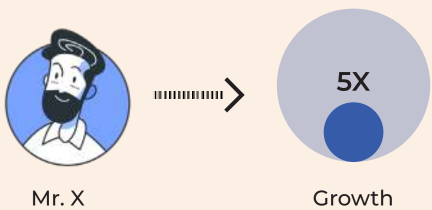
Market value is the current price of any company's stock. It is the price quoted at which the stock is traded on CNBC and our stock market applications like Money Control.

Instrinsic Value

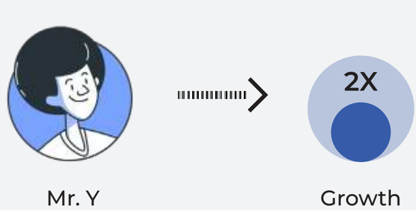
Intrinsic value is the real value of the company based on the quality & quantity of its earnings, its assets, and liabilities. It is something that analysts derive upon analysis.

Valuation is an Opinion

Two people can derive different valuations for the same organization.



Mr. X believes that Company A will grow at a rate of 5X in the coming years and **thus they assume that the true value of the stock is Rs 100.**



Mr.Y believes that Company A will grow at a rate of 2X in the coming years and **thus he assumes that the true value of the stock is Rs 60.**

Valuation is an Art

Valuation is **a combination of both art and science.**

Although stocks and their price movement have basic science to them, identifying their intrinsic value can be challenging even for professionals as it requires a great deal of subjectivity. Two individuals may get different answers even if they follow similar strategies for valuation. It is the best guess about what a company may be worth.

Valuation is the art of understanding the real value or true value of the company. We will use our analysis and industry research, to obtain their true/intrinsic value. Once the true value is derived, we will use this groundwork to decide if we should buy or sell the stocks of a company or not at current prices.

1.2 Types of Valuation

Two kinds of Valuation

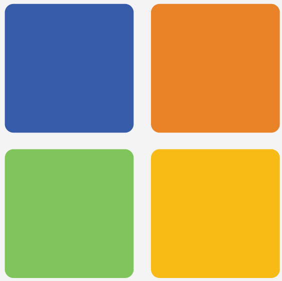
P/E, P/B, EV/EBITDA and other ratios are used

Relative Valuation

Valuation method which uses ratios and compares with its own past or with direct competitions.

Here the analyst does not try to estimate the exact value of the asset. Just analyses, whether they are comfortable buying or not.

Discounted cash flow method is used



Absolute Valuation

Valuation is done by estimating the current value of all profits and cash the company will generate in the future.

Comparison is not done by the analyst.An exact value of the company is estimated by the analyst.

Let's look at an example of how, in relative valuation, we don't need an absolute number, but by comparision we wdecide if a share is correctly priced.

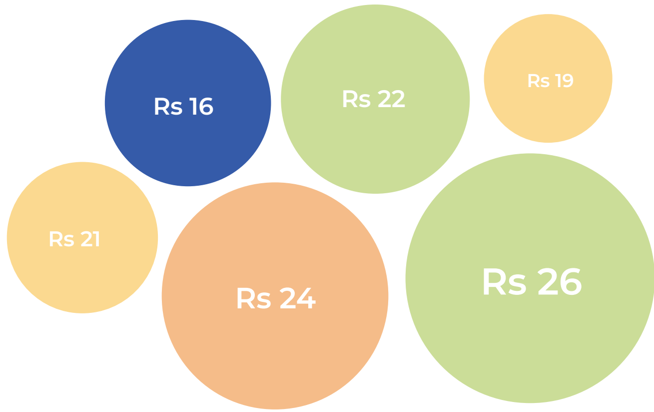
TATA share is being traded at

	2021	2022
Price	Rs 2	Rs 2.5
EPS	EPS = Rs. 10	EPS = Rs. 16

TATA motors was trading at a price to earnings of 10 in 2021 and in 2022 at 16. So we can say that it is more expensive than what it was. This is what we mean by relative valuation.

Now let us compare TATA with its competitors in the current scenario. Let us compare their prices to earnings.

TATA Share
v/s its
Competitors



This implies that firms from a similar industry are trading at a PE of 19-26.

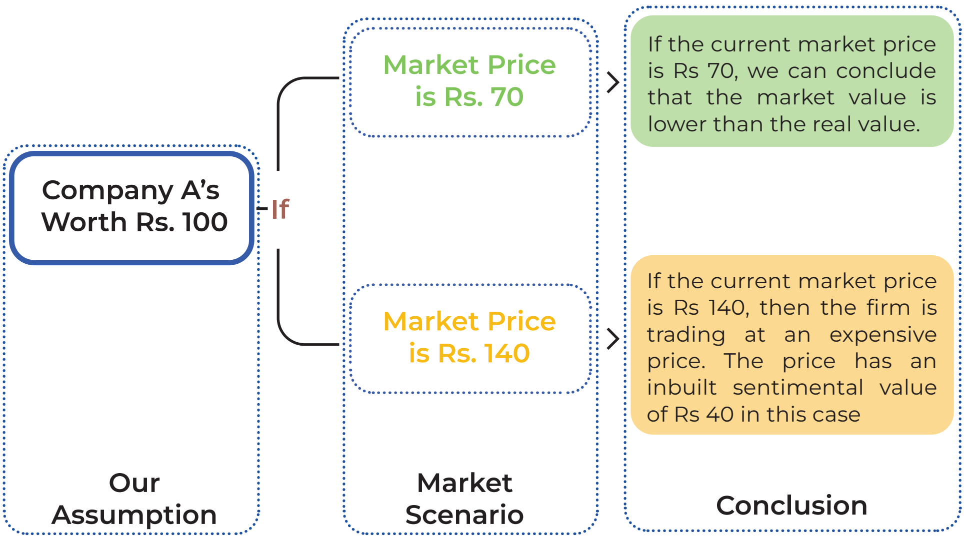
If the company is trading at a PE of 16, it shows the company is relatively cheap. We will first figure out the reason behind the fall in stock prices. If the company is in a disadvantageous situation, this is justifiable. However, if not, we can conclude that the company is trading at a lower price than its competitors, and thus we can proceed with the purchase of shares.

Conclusion If a stock is relatively expensive then we must wait, have patience and avoid purchasing the stock at that very moment. If the company is relatively cheaper it can be due to changes in the company or sentimental fluctuations in market value.

Historically Expensive	Historically Cheaper	No Change
↓	↓	↓
Wait & Avoid Purchasing	Find Reasons	BUY

Absolute Valuation

The analyst uses a discounted cash flow (DCF) analysis to assess a company's financial worth to obtain an exact value or range. No comparisions are being done by the analyst. The analyst here understands the past performance of the company and builds assumptions,forecasts the future performance value for the company.



Risks

Relative Valuation

When Relative valuation, issued we might overlook reasons that explain why a company is genuinely low-priced.

- The company has a real risk we don't yet understand.
- It can be because the quality of earnings of the company is lower than its competitors.

If we miss out on such reasons, We may end up buying overvalued companies thinking that they are cheap.t

Absolute Valuation

Hypothetically an analyst concluded that Company A's stock is worth Rs 100. However, this assessment can be wrong if they had predetermined a very optimistic and bullish outlook. If the assumptions are biassed then the valuation can also be based and we may end up entering at the wrong price or may not get excellent results.

Notes

.2 Relative Valuation

2.1 Valuation Ratios for Overall Markets

2.2 Valuation Ratios for Individual Markets

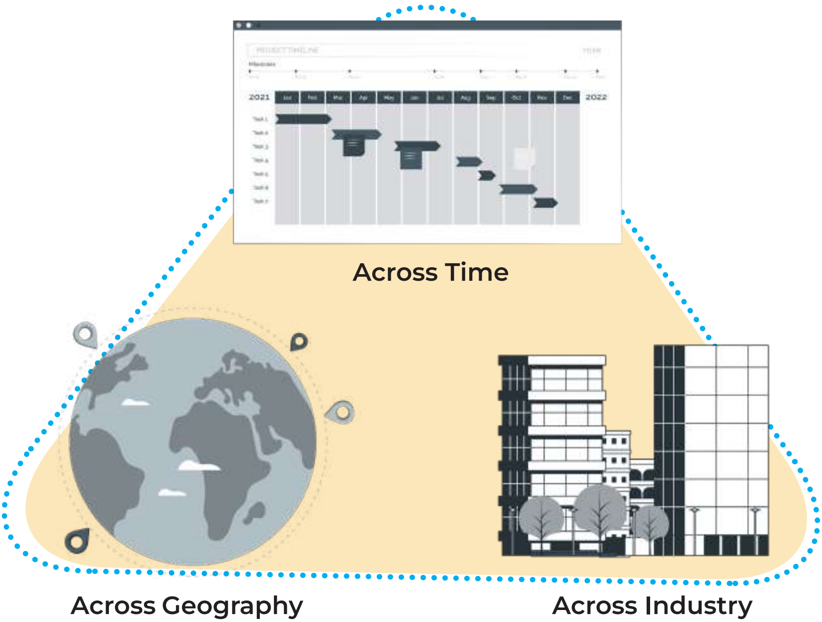
2.3 KPIs Driven Valuation Parameters

2.4 Valuation Bands

Introduction

In the previous chapter we discussed the term valuation and its **2 broad categories that are absolute and relative valuation.** In this section, we will focus on relative valuation in detail. Relative valuation uses various valuation ratios to compare and assess the current value of a company.

2.1 Valuation Ratios for Overall Markets



A ratio refers to the relationship between 2 values, say X and Y that assists us while making decisions. we can compare different kinds of ratios and draw conclusions from the same.

For example: If a mango costs Rs100 and an apple costs around Rs 50. The ratio of apple to mango is 100/50 = 2:1. As a result, we can conclude that each mango is equivalent to two apples in terms of their value.

Ratios can be used not only to evaluate financial performance as we saw in previous chapters but also to evaluate valuation levels.

Across Industry

Comparison of ratios of company X, Y, and Z across the industry.

Across Time

Comparing a company's performance across different financial years.

Across Geography

Comparison of valuation ratios of company X, Y, and Z within the same industry.

Market Valuation Ratios

Let's look at valuation ratios for overall markets to check if the index is over-priced or under-priced. How do we identify if NIFTY or Sensex are overvalued or under-valued? So Let's get started with the valuation ratios for overall markets.

1 Market Cap / GDP

The overall stock market capitalization-to-GDP ratio is a ratio used to determine whether the overall market is undervalued or overvalued compared to a historical average. It consists of two parts.

Formula:

Source: BSE

$$\frac{\text{Total Market Cap of all Listed Stocks}}{\text{Current GDP of the Country}}$$

Source: Govt. website

Market Value is a statistic for determining the total value of a firm, which is based on the profits it makes. Here we will look at the cumulative market capitalization of all the 6000 listed companies in India.

Total No. of Companies	All India Market Capitalisation (Rs. Cr.)	Top 10 Companies Market Capitalisation (Rs. Cr.)
5230	2,66,20,166.79	75,96,816.53

Source: BSE

GDP of India 2021 = 19.6482 Cr.

Source: Govt. website

Market Cap / GDP = 26.62 L Cr. / 19.6482 Cr. = **1.3** as (of Nov 2021)

If the value of the ratio is less than 1, then the overall market is relatively undervalued and vice-versa. Since the ratio is 1.3, we can conclude that the market is relatively overvalued.

1 < Ratio ⟶ Overall market is relatively high priced.

1 > Ratio ⟶ Overall market is relatively low priced.

2 NIFTY P/E

Nifty Price to earnings ratio refers to the amount paid by investors to earn one rupee of earnings in Nifty 50 companies. It essentially tells us what price-to-earnings ratio is the market index trading for?

What is P/E?

P/E Formula: Market cap of any company/ Total earnings of the company in years

NIFTY P/E Formula: Nifty value/ Weighted earnings of all NIFTY companies

P/E = Price / Earnings

P - stands for Price which basically means the **Current Market Price**

E - stands for **Earning per share**

EPS = Total Earnings / Total Number of Shares

In other words, how much money does each share earn?

In Case of Reliance.

Lets say, Reliance earns 100 rupees per share on average. This stock trades for Rs 2200 in the market. So, this means that the P/E ratio of reliance is 2200 /100 = 22x. Therefore this essentially means that a person must invest Rs 22 in Reliance to earn a profit of Rs 1 for their share.

P/E of Reliance = 2200 / 100 = 22x

In Case of Reliance

- While market share is a measure of the company's sentimental value, earnings show how well a business and its products/services are performing.
- We must compare one fundamental item and one market related item. So, in the instance of Reliance, we could argue that the price we paid for the stock was 22 times earnings.
- Based on the P/E ratio we can determine how much investors are valuing Rs. 1 of earnings of the company.

Conclusion Higher-quality of earnings with less risk and more predictability are valued higher and given higher multiples. On the other hand, a higher multiple also suggests that the stock is more expensive. So, higher multiple can mean both expensive as well as quality, we need to evaluate.

Let's examine a mediocre business.

The P/E of a company with **earnings per share of 100 rupees** and a **market price of 700 rupees** is 700/100 =7x.

P/E of company A = 700 / 100 = 7x

Now here, there are two possibilities. We can either conclude that the company is or that the share has a low-quality of earnings due to some risk. This requires analysis.

Now let us take an excellent company Britannia.

Lets say, the stock price is 5000 rupees, and the earnings per share are 100 rupees. Thus, the P/E ratio is 5000/100 = 50x, indicating that this investment is relatively expensive.

P/E of Britannia = 5000 / 100 = 50x

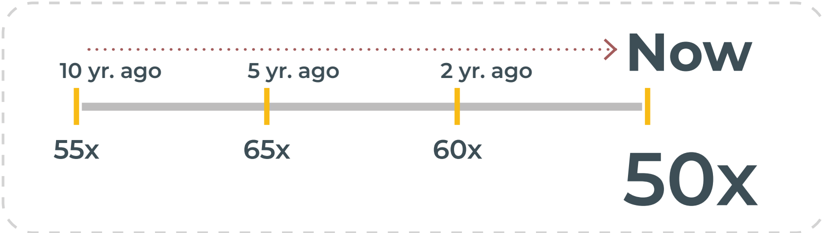
But high quality companies will always have high P/E. We can compare its own P/E with its past and then decide when it's relatively cheap.

Source: NSE

Formula:

$$\frac{\text{Nifty Value}}{\text{Weighted Earnings of all Nifty Companies}}$$

According to the table, the P/E value of 50x in the current year makes Britannia's stock relatively low-priced as compared to previous years.



Similarly, if we compare Britannia with other biscuit-producing companies in USA and China, we observe that these companies are trading at a P/E of 80, and 100. So we can conclude that Britannia is trading relatively cheaper.

Weighted Earnings of all Nifty Companies

Nifty 50 consists of 50 stocks which are then assigned weights. The sum of weights of all the 50 firms comes up to 100%.

Stock	Weights	EPS (Rs.)	Weights x EPS
1	12%	600	50
2	6%	400	24
3	5%	6000	300
4 upto 50	4.5%	91	4
total of all weighted earnings	100		1000

We can get the **Market Value of Nifty** from websites, television, and other sources.

For instance, the market value of Nifty is 17000.

$$\text{Nifty } P/E = 17000/1000 = 17x$$

This P/E may be obtained from NSE INDIA website for various indexes such as small-cap, midcap indices. If the Nifty P/E rises, it means the stock is more expensive and has a higher valuation, whereas if the ratio falls, it means the stock is less costly and has a lower value. **To make wise investment decisions, we must compare this ratio and see if Nifty is overvalued or undervalued.**

2.2 Valuation Ratios for Individual Stocks

Should we buy HDFC Ltd. shares at current levels?

Is Reliance an over-priced stock in the market?

Valuation ratios tell you about the market value a company's stock in comparison to its earnings, assets, or other fundamental measures. This can help you determine if a stock is overvalued, undervalued, or at a fair price.

1 Price / Earning

Current Price
TTM Diluted EPS

Formula: Current price/ TTM Diluted EPS

TTM is an abbreviation for "trailing 12 months." It depicts a company's financials for the last 12 months. The financial numbers for the previous four quarters are included in the trailing twelve months' results, which represent a fair and updated business performance.

Lets say, it is January 2022

TTM = Q4 FY21 **+ Q1** FY22 **+ Q2** FY22 **+ Q3** FY22

So, it's the last four quarters number we add to get TTM.

If we look for the Apple's financials in November of 2019 and want to calculate TTM revenue then we must add the revenues from Q4 2018 and Q1-Q3 2019.

Apple's

Q4 2018: **$84.3 Billion**

Q2 2019: **$53.8 Billion**

Q1 2019: **$58 Billion**

Q3 2019: **$64 Billion**

TTM = **$84.3 B** + **$58 B** + **$53.8B** + **$64B** = **$260.1B**

*Assuming Financial year ends in December.

Let's look at a graph to see how the PE Ratio Works:

Source: screener.in

Conclusion The median PE is 38.5, as shown in this graph. When the PE is below the median, it is a good time to buy as the stock would be relatively cheaper and the returns would be better!

For instance, cheaper it the PE was below the median in the years 2013 and 2016 and it would have been a good time to buy shares!

However, if we buy the companies at PE=57.5, which is above the median, the stock will be over-priced. If EPS is negative for an extended period, the PE ratio will not be useful in determining whether to buy or sell a company.

38.5 < 40 < 57.5

Underpriced | Median | Overpriced

2 Price / Book

$$\frac{\text{Current Price}}{\text{Last Disclosed Book Value}}$$

Book value is seen in the balance sheet.

A Company generates sales every year and also incurs expenditures such as daily expenses taxes and interests expenses which are subtracted from sales, we finally get the net profit.

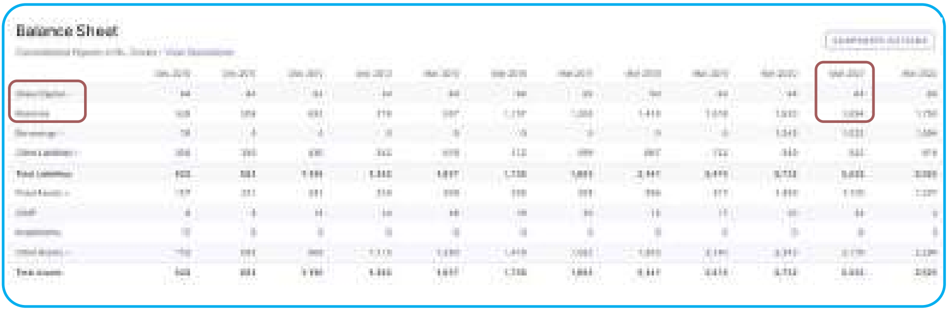
Net Profit can be used in two ways:

- It can be dispersed to the shareholders as dividends.
- It can be retained to reinvest in the expansion of the business.
  - The same profit will be added to Retained earnings i.e Equity.
  - As money was not distributed as dividends, the money belongs to the shareholders. This is used by the company in their day to day activity.
  - The book value of the net worth of equity represents the total amount of money invested in the company to date.

The idea is to identify the total capital used from equity shareholders and against that what is the value that has been created. Company's ability to generate above par return on equity also.

Companies that generate above par return on equity and have high quality earnings and require relatively less capital to grow, get a premium and therefore quote at high price/book value. We need to analyze if it's high quality or just expensive.

Chart 1



Source: screener.in

From chart 1 we can get the Book value

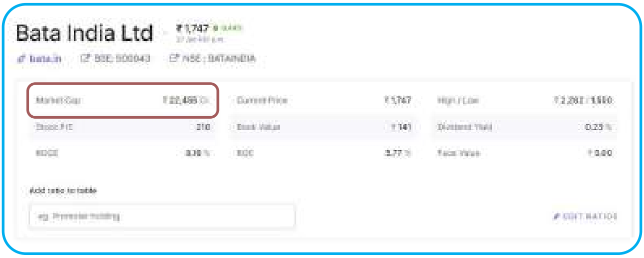
Book Value = **Share Capital** + **Reserves and Surplus**

= **64 + 1694** (Mar 21')

= **1750** Cr.

Rather than considering the current market price per share, we must take the current market cap because the book value in the denominator is book value per share.

Chart 2



Market Cap = **Rs. 22,541 Cr.**

Source: screener.in

Here we can say the company invested only 1750 cr. into the business and has generated a value worth ₹ 22,541 Cr.

Price / Book = **Rs. 22,541 Cr. / 1750 Cr.**

Thus, the company has a Book value of = **13x**

This ratio can then be used exactly like P/E to identify companies when they are trading below median levels.

3 EV / EBITDA

Formula: Enterprise value/ EBITDA

EV (Enterprise value) = Market Cap of the Company + Debt - Cash - Financial Investments

EBITDA = Earnings before Interest Taxes and Depreciation/Amortisation

Source: screener.in

EV = 4799 (Market Cap) + (896 (Borrowings) - 277 (Investments) - 60 (Cash))

EV / EBITDA = 1456 - 470 / 1686 = 2.6x

EBITDA = 1456 (Profit before Tax) + 121 (Depreciation) + 109 (Interest)

This Ratio is generally used where depreciation expenses are quite heavy.

4 EV / EBIT

This ratio is calculated in the same manner as the EV/EBITDA. The only difference here is that depreciation is not included.

EBIT = EBITDA — (-) Ammortisation, (-) Depreciation

2.3 KPI's Driven Valuation Parameters

What are KPIs?

KPI stands for **Key Performance Indicators**. We will use the denominator to represent KPIs that are essential to the company's performance and the ones we have already recognized during the evaluation step.

Hotels

Price per available room

Let us study an Indian Hotel Company.

Market Cap = **Rs. 32,030 Cr.**

Source: screener.in

KPI= Total number of rooms in The Indian Hotel Co. Ltd. Let us assume it has 4000 rooms. We get 32,030 cr.(market cap) / 4,000(rooms). So we can say the company will be valued at 8 Cr. per room. Similarly, the market cap = Rs. 4,060 Cr. and the number of rooms = 1,000 rooms for Lemon tree Hotel. We get Rs. 4,060 Cr.(market cap) / 1,000 (rooms) which makes the valuation to about 4 Cr. per room. (All numbers hypothetical)

Let us study an Lemon Tree Hotels Ltd.

Market Cap = **Rs. 5,169 Cr.**

Source: screener.in

When these 2 companies are compared we find that:

The Indian Hotel Co. Ltd. lends its room for Rs 6,000 per night, which can be considered as luxury rooms. Whereas, Lemon Tree Hotels charge Rs 2,000 per night, i.e. they are budget rooms.

Conclusion

- We can conclude that Lemon Tree is more cost-effective hotel for the consumer as compared to Indian Hotel Co. ltd. The business characteristics are also different. Indian Hotel require more capital per room but can generate more revenue per room too. If we dig further we will find the reason for difference in their multiple.

Social Media

Price per User

KPI is number of Users

Facebook : **$800B** Total Value

3B Users

It is valued at 277$ per User

Twitter : **$60B** Total Value

300M Users

It is valued at 200$ per User

Conclusion As a result, we use KPI valuation ratios to compare various firms.

The value of Facebook is 800 billion / 150 billion = 5.5 US dollars per minute spent on the platform, assuming that Facebook has 3 billion members and that each of them spends 50 minutes every day on the application. We can use any such metrics to value the company, one that makes sense to us.

Asset Management Companies

Price / AUM

Let's look at the KPIs of asset management companies that own and manage Indian Mutual Funds.

What are the important numbers for their business? Who are they?

One of them is AUM.

In such situations AUM (Asset Under Management) is a significant performance indicator for these businesses such as HDFC Mutual Fund which manages 10,000cr. Therefore, each industry has its own specific set of KPIs.

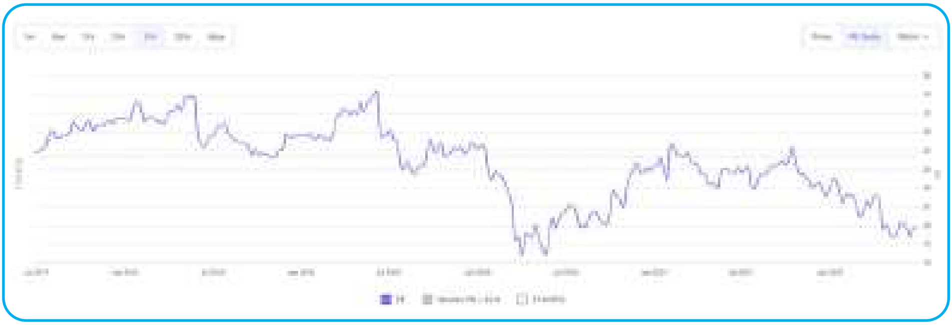
We can also make historical comparisons with this method. For instance, let's say HDFC AMC has 10,000cr AUM and a market cap of 2000 Cr. We can say that the price/Aum is 0.2. Let's say 2 years back, the company had AUM 6000 Cr. and market cap of 1500 cr it meant price/AUM = 0.25. So, we can say that company is relatively cheaper now than its past.

As a result, it is possible to choose the appropriate KPIs, obtain the market price or market cap, and compare them and the company's own historical numbers.

2.4 Valuation Bands

Ratios tend to move in a certain range.
They go up and down depending on the market sentiments. However, they tend to stay within a range.

These are Valuation Bands.



Source: screener.in

The P/E ratio will increase when the market has positive sentiment and decline in case of negative sentiments.

Since the market was dominated by pessimistic sentiments due to COVID-19 and recovered quickly as well. Earnings were not immediately affected as dramatically as the market prices. We observe that the company's P/E has fluctuated between 20 to 32 over the past 5 years including the COVID years as well.

"The Valuation Band is used for this. A company is said to be relatively expensive when it is on the higher side of the band, and comparitively cheaper when it is on the lower side of the band. Valuation bands help us avoid overpaying for stocks and stay disciplined when the market is in bull run."

When does a Valuation Band not Work?

- When a company changes its business fundamentally. For instance when Reliance expanded from an oil and gas company to a consumer-facing, technology-oriented company (JIO) company, leaving previous bands obsolete.
- The company might undergo P/E re-rating where valuation band itself due to change in quality of business.
- A major headwind or tailwind affecting the business: Any good news or bad news related to the company impacts the real value.
- Major Corporate Event: Divestitures/Acquisitions, mergers etc leave the band irrelevant.

.3 Absolute Valuation

Introduction

It is difficult to evaluate if a stock is over-valued or under-valued by simply looking at a company's market price. Hence, the valuation of any company is crucial before purchasing stock. We must acquire stocks when they are trading below their intrinsic value. In the previous section, we learned relative valuation where we did not calculate the exact value of the business.

As discussed earlier Absolute valuation is understanding and identifying the true value of the company. It involves calculating exact value for the company.

"The intrinsic value of a company is the discounted value of the cash that can be taken out of a business during its remaining life."

- Warren Buffet

3.1 DCF Introduction

DCF is a Valuation method which estimates the current value of future cash flows.

With DCF, we first need to forecast what the company will earn this year ,next year, 2 years from today and so on. This is only possible if we have a good understanding of the business. Next, we need to discount future profits to present value due to the time value of money.

Lets understand the Time Value of money with a simple example:

We have invested in Government securities with an interest rate of 6%

Let's assume we started with Rs.100.
Since the interest rate is 6%, we will earn Rs 6 and our total amount will be Rs106 in one year.
As a result, we can see that Rs 100 today is equal to Rs 106, ! year from today and more valuable than Rs 100, 1 year from today. This is what the time value of money says. With time the value of money falls. So if a company earns Rs10 crores next year, it is worth Rs 9.5 crores this year as the company would have earned interest on it too.

Year 1	Year 2	Year 3
100	106	112

Absolute Valuation

"Valuation by estimating the current value of future cash flows."

How it Works?

Estimate the cash flows for the next n years based on past performance.

Discount those cash flows to present value.

Give a value to business after N years.

Add value for the company's profits after the forecast period.

3.2 DCF Formula

In DCF method, we calculate the value by adding all discounted cash flows. Since the business is expected to survive, we are getting the present value of all cash flows generated by discounting them perpetually.

(Perpetuity means the business will continue for a longer period of time)

Now how can we calculate DCF?

The DCF formula is rather more complex than other models including the dividend discount model.

Formula

$$V_0 = \underbrace{\left[CF_1 + CF_2 + CF_3 \right]}_{\text{Discounted Cash Flows}} + \underbrace{\frac{CF_4}{(\text{Cost of Capital} - \text{Growth})}}_{\text{Discounted Perpetual Flows}}$$

Discounted Cash Flows + **Discounted Perpetual Flows**

$$\text{Where, } CF_1 = \frac{PAT}{(1 + r)^n}$$

For Example

	2022E	2023E	2024E	2025E
Revenue	1050	1150	1300	1500
Expenses	900	980	1100	1250
Interest	2	2	2	2
PAT	150	170	200	250

Research and understanding of the company.

For Perpetual Value:

Growth - 5% **Cost of Capital - 12%**

$$V_0 = \left[\frac{150}{(1.12)} + \frac{170}{(1.12)^2} + \frac{200}{(1.12)^3} + \frac{250}{(1.12)^4} \right] + \frac{CF4}{(R - G)}$$

In year 5 ie. we expect CF4 to grow by 5% so Rs 250 in 4th Year will become 262.5

So we get, $$\frac{262.5}{0.12 - 0.05} = 3750$$

$$V_0 = 141.51 + 151.98 + 161.92 + 198.03 + 3750$$

$$V_0 = 4403$$

So, let us assume that 3.83 crore shares are outstanding in the company. Now when we divide the value of the company by the total number of outstanding shares we get a value of Rs 1149 (4403 / 3.83).

This means that the company's stock should be trading at around Rs. 1149. So we can assume that the share value should be approx. Rs 800-Rs 900.

816 Rs.
True Share Value

If

Market Price is Rs. 1500 → **Overpriced**

Market Value > True Value

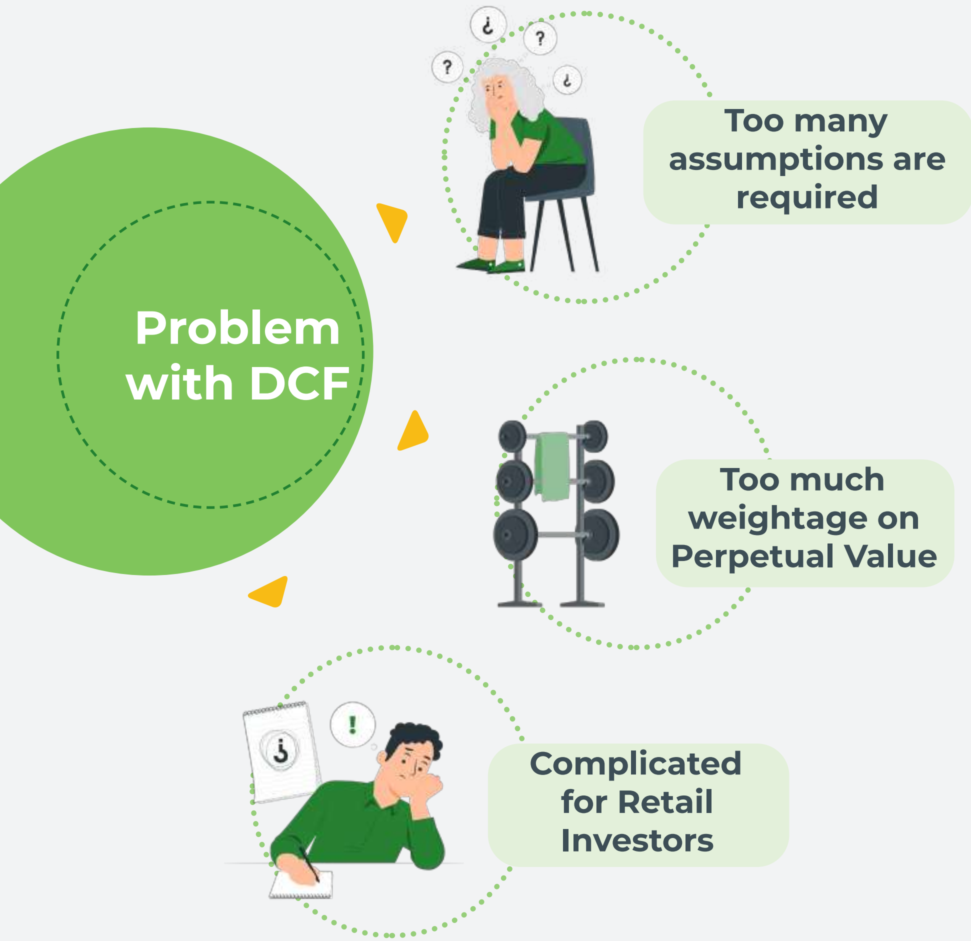
Investment is Not profitable

Market Price is Rs. 700 → **Underpriced**

Market Value < True Value

Likely to be profitable

3.3 Problems with DCF Formula



Problems

- Too many assumptions are needed.
- Too much emphasis is placed on perpetual value, which will significantly vary with even little change in the denominator. Over reliance on perpetual value is a major warning problem.
- For retail investors, it's too complicated
- This is far more complicated than the median P/E chart and relative valuation.

3.4 Which One to Choose - Relative or Absolute

We have previously seen the problem with DCF and absolute valuation. Additionally, we saw that if a company is losing money, relative valuation is ineffective.

Relative Valuation

- **Relative Valuation is a more applicable method and the data is easily accessible for retail investors despite the fact that forecasting is unnecessary and fewer assumptions are needed which makes it easier to begin with.**
- **Exit Multiple Approach is another excellent technique for relative valuation.**

or

Absolute Valuation

- **Absolute valuation makes it easier for us to identify the correct value of the company and is more flexible to reflect our assumptions.**

Institutional investors use absolute as well as relative valuation to support their research. They can do so as they can put a lot of their time & effort in research and they have the technical expertise. For Relative Valuation, we employ Valuation Bands.

As retail investors we will primarily use relative valuation- using exit multiple approach. Other than that feel free to play around with absolute valuation but do not act on it as of now.

To Summarise,

We have sufficient arsenal.
We have looked at the historical data, assessed it based on our knowledge of the business, and then made our future assumptions. We have made the forecast.

By discounting the **future cash flows**, we arrived at the present value, or to be more specific, 'How much that value should be worth right now.'

Additionally, and perhaps most critically, we added up the discounted **perpetual value** to arrive at the share price. Hence, we can refer to this share price and compare it with the market price to take our investment decisions.

.4

Exit Multiple Approach

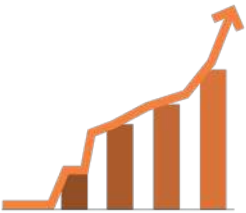
This approach aims at calculating the possible returns, they are the returns that we might get at the time of exit when we actually sell the share.

1

Assume a time horizon for exit

2

Current PE and what can be the range of future PE



3

Range of EPS growth

4

Calculate likely return range based on current price

We take two factors P/E that is the exit P/E and the possible EPS growth. What is the probable price-to-earnings ratio at the time we make the exit?

Currently, if we are buying the stocks trading at 20 P/E, therefore at the time of exit it can be 20, 15 or 10. Therefore,what is the possible P/E at the time of exit ?
So we took a different scenario as shown in the table.

	0%	2%	4%	6%	8%	10%	12%	14%	16%
10	-21%	-19%	-17%	-16%	-14%	-13%	-11%	-10%	-8%
12.5	-15%	-13%	-11%	-9%	-8%	-6%	-4%	-3%	-1%
15	-9%	-7%	-6%	4%	-2%	0%	2%	4%	5%
17.5	4%	-2%	-1%	1%	3%	5%	7%	9%	11%
20	0%	2%	4%	6%	8%	10%	12%	14%	16%
22.5	4%	6%	8%	10%	12%	14%	16%	19%	21%
25	8%	10%	12%	14%	25	18%	21%	23%	25%

Current Price - Rs. 1000 **Current EPS - Rs. 50** **Current PE - Rs. 20** **Time - 3 Years**

- Hypothetically let us take a 3 years time horizon for an exit and let's not worry about perpetuity.
- What kind of growth can be expected in the future P/E and projected EPS in three years from now, at the time of exit? The range should ideally be 4 to 12%, which is a large range, and thus it is very likely that our return will fall within this range. Similarly, the exit P/E will be in the range of 15 to 22. All of these presumptions are based on our knowledge and research of the company.
- We will calculate our probable return based on the current market price.

What If...

EPS = Rs. 50 (Grew at 0% in the next 3 Years)

& P/E = 10

Exit Price 250 x 10 = **Rs. 500**

So the price at which we sold our share is Rs. 500

- If the numbers in the orange-shaded section of the table are low, the share is reasonably pricey.
- On the other hand, higher numbers mean appealing returns.

Thus, we can make a purchase decision using the Exit Multiple Approach in a sophisticated way.

Conclusion Thus, we conclude our module on absolute and relative valuation, which has covered a variety of ratios and methodologies for valuing stocks.

Then we discovered the exit multiple approach, which must be employed with extreme caution. This method produces also positive outcomes for a retail investor.

"The current price is the only variable. In this area, patience pays well. As a result, we can experiment with the chart to assess. We can obtain the current market price from the market, the current EPS from the screener, and the current PE by dividing the current price by the current EPS, and for the time frame, we may use 3-5 years."

.1 When to Buy?

1.1 What Price do we Buy at?

1.2 Investment Philosophies

1.3 Developing your own Philosophy

1.4 At the Time of Buying - Know your Hypothesis

1.5 Tracking Indicators Track Progress

Introduction

So far, we've gone through the idea generation and evaluation process, along with various valuation concepts. So now, we are aware of what we are going to buy. However, the critical factor is knowing **when to buy** and **at what price to buy at.** The only thing we have control over is the price at which we can buy.

Once we purchase a stock,
The market determines what happens to stock prices.
The management decides what happens to the company.

We are rewarded if we team up with **the right management, choose the right value,** and **the market supports the price point we entered.**

1.1 What Price do we Buy at?

Patience

Patience is very important.
Wait for market to give you opportunity.
Even for companies you fall in love with.

Good Companies at Attractive Valuations

Buy good companies as per valuation bands.
Combine this with Exit Multiple Approach.

Reason

Know why are you buying?

Patience

Patience will be tested at the core

- A company appears to be very good as per our analysis. However, if it is trading at a high price, and if the exit multiple metrics show negative expected returns then it is a bad investment. As a result, a good company does not always imply a good investment.
- If it is truly a good company, we will wait a few months or even years until the market provides us with an opportunity or the price falls into the lower quarter of the valuation band.
- This reduces our chances of overpaying for positive sentiments, protects our downside, and creates room for upside.
- If we pay a high price for stocks, we are already paying most of the value to the markets. This leaves little upside for us.

With patience, we experience fear of missing out.

Once we have identified good companies, we don't want to miss out on them. We start believing that other investors are making a profit from these companies. However, we must remember that the prudent course of action is to wait because acquiring a good company at a high valuation does not guarantee a good investment outcome. We will only buy it when the price makes sense to us as well. Even if this means letting a few companies go, so be it. Discipline and consistency are the keys to good investment decisions.

Good Companies at Attractive Valuations

We should analyze a company based on various assessments such as industry, management, and its financials and then determine if it is a good company. Once we like a company and its fundamentals, we must wait for attractive valuation. If we only do one or two, we will end with poor return.

Good companies in terms of financials

Attractive valuations

combining these gives a good chance of generating good returns.

Reason

Know your reason behind the purchase of any stock?

Before we buy a stock, we need to put together our investment thesis.

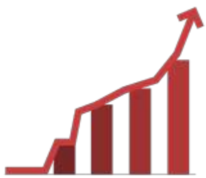
- Is the product new to the market and expected to perform well?
- Does the company have a large market share that it plans to keep for the next five years?
- Is the company developing a value-added product or establishing a new manufacturing facility?
  - What is the reason behind it? Even if it is mature, one reason could be that the company is doing well and will continue to do so in the future.

As a result, it requires patience, discipline, consistency, to find good companies at attractive valuations, and develop an investment thesis. We will sell the stock the moment we believe that the investment thesis has been proven wrong.

"There has to be a proper logical reason behind each of our investments."

Favourable Valuations & Long Term Outlook

You might expect that the company's product and services might be relevant 10 years from now.



Current changes and trends benefit the company.

You believe the company has advantages over competitors.

When can we say there's a favourable long term outlook

"Combine this with favourable valuations and you have good chance of finding a winning company."

Let us understand a major check-mark before investing in any company:

Do we expect a company's product and services to be relevant for 5-7 years from now ?

- Britannia's biscuits have been relevant for the last 100 years. It is expected that these biscuits shall be relevant for the next 8 to 10 years.
- We are skeptical that petrol cars will remain relevant in the future as they face stiff competition from electric vehicles. Since this is a relatively riskier option, we might be more cautious here.
- The company's product and service should remain relevant for the next 7 to 8 years, providing us with longevity, i.e. a favorable long-term outlook.

Current changes and trends benefit the company

Consider digital payment companies such as Paytm and Mobikwik.

These platforms will benefit significantly from the current trend and changes in the market. In other words, the long-term prospects of these companies are favorable.

You believe that a company has advantages over competitors

A good company generally witnesses entrants who try to imitate their products and earn profits.

For instance: We can often find biscuits with tastes or appearances that are similar to the products of Britannia and Parle G. However, these products do not have a brand name or recognition. **Britannia and Parle G will always have an advantage over such copy-cats.**

Britannia has nearly 4 million distributors to get its biscuits to every small town and big city in India and its supply chain ensures a consistent supply. As a result, the distribution network established is advantageous to the company as the new entrants or even existing ones will not have such large distribution networks.

“

If the answers to at least one of these questions is positive, the company is said to have a positive long-term outlook.

When a company has a favorable long-term outlook combined with favorable valuations, the chances of getting a good winning company is high. The real art is to identify such companies.

In this case, we can combine valuation bands with tried-and-tested methods of exit multiple approaches. As a result, the chances of investing at reasonable valuations will be high.

”

Invest when something is changing

New Product Launch

With market changes, new opportunities open up. It can be a good time to take a look at those companies that are participating in such opportunities. If a company launches a new product, it is a good time to invest after evaluating the product and the market.

Management Change

A company may not be well run in recent years, but if the management has changed, we can have a fresh look at the company and it might be a good time to analyze and invest.

Next Generation Entering Business

It can be an opportunity to buy if the next-generation of the promotor's family is entering the business. They may bring new changes with them. Thus, the company is worth taking a look at.

Merger and Aquisition

Mergers and acquisitions are transactions in which two companies join forces and merge into one. It can generate a lot of synergies, but it can also be risky and should be evaluated. But it can be a good opportunity to evaluate.

Entry in New Markets

When companies enter a new market, for example, if an Indian company begins its operations in China, Japan, or the United States, we can expect that company captures a portion of the market and thus can be an opportunity to invest.

When business changes fundamentally, past valuations do not apply.

"Understanding these changes takes a lot of time and skill. Retail investors must be extremely selective in this area and stick to what they truly understand. A retail investor is best advised to keep investing as simple as possible."

1.2 Investment Philosophies

Investment philosophies refer to the thought process, beliefs, and principles, developed over time that guide our investment decision-making.Experience and education influences our investment decisions:

- If we have previously gained from banking stocks, we will develop an affinity for that industry.
- Investment Philosophy varies from person to person.
- It is not formed overnight.
- It takes a long time to mature. It is determined by two factors: Education and market experience.

Everyone makes mistakes,not only in the beginning but later too! Not every investment will do well.

With time, your strategy and philosophy will develop which will be crucial while deciding what to buy and when to buy. Now, let's talk about the some common investment philosophies.

"It plays a key role in our decision of what to buy and when to buy".

Different Investment Philosophies

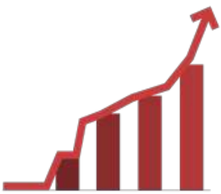
Value Investing

Tries to find a business that is trading at a value lower than its estimated true value i.e companies that are cheap

Real Value > Market Value

The primary focus is to identify and buy companies for a price which is cheaper than what they think is the value of the company. They are relatively less concerned about the growth of the company. They want really favourable valuations.

According to this philosophy, we want stable businesses with a true value greater than market value.



Growth Investing

Growth investing seeks companies that are growing at a fast rate. The valuation can be high, but they hope to cover it due to fast growth of the company.

They are ready to purchase over-priced stocks that slightly have a higher margin. Hypothetically the purchase can be for Rs.120 for something with a market value of Rs. 100.

Real Value < Market Value

Growth investing believes that Rs.100 will grow to Rs. 200 in the next two or three years.
Investors are looking for a company with a rapid growth rate despite its high valuations. They are willing to overpay for expansion.

Investors anticipate that sales will increase so quickly that market value will eventually catch up, and there will be room for a good investment.

In Value investing, the investor believes that:

- The market price of a stock increases from Rs 100 to Rs 120.
- Since their initial investment was of Rs. 60 that grew to Rs 120, it will help them gain higher profits.

Value Investing: Buy companies at lower prices in terms of value.

Growth Investing: Purchase over-priced companies with an expectation of rapid growth within 2-3 years.

	0%	2%	4%	6%	8%	10%	12%	14%	16%
10	-21%	-19%	-17%	-16%	-14%	-13%	-11%	-10%	-8%
12.5	-15%	-13%	-11%	-9%	-8%	-6%	-4%	-3%	-1%
15	-9%	-7%	-6%	4%	-2%	0%	2%	4%	5%
17.5	4%	-2%	-1%	1%	3%	5%	7%	9%	11%
20	0%	2%	4%	6%	8%	10%	12%	14%	16%
22.5	4%	6%	8%	10%	12%	14%	16%	19%	21%
25	8%	10%	12%	14%	25	18%	21%	23%	25%

Y-axis= Value Investor
X axis= Growth investor

In the case of Value Investing

Investors will try to buy low P/E companies and expect an exit at a higher P/E and thus earn from P/E re-rating even if the growth is low.

Even if the thesis fails, they are protected from the downside as they are not overpaying and will have an opportunity to exit without incurring significant losses.

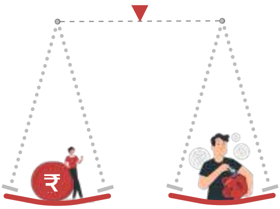
In the case of Growth Investing

The investor is comfortable to buy a high P/E stock, if they think that EPS growth will be really high.

Here they will buy stocks with high P/E as well and benefit from EPS growth. However, the downside is also significant as they are buying expensive.

The general thought process of a value investor would be lower in terms of earnings growth and higher in terms of p/e re-rating.

For the growth investor, the growth in the share of EPS is the main priority.



GARP (Growth at Reasonable Price)

Here we try to achieve a balance between growth and value.

In this Case

- The investor looks to invest in moderate EPS growth outlook, at reasonable valuations.
- The investor may still overpay a bit but not extraordinarily.
- Regarding valuations, we are very picky here.

So the difference between growth investing and GARP lies in the amount that **we are ready to pay**.

In growth, we are ready to pay exorbitant premiums for the company while in GARP we have a boundary, a limitation up to which we are ready to pay a premium.

Income Based Investing

The entire investment philosophy is based on dividends rather than stock capital gains.

Elderly people who have a regular need for cashflow to cover their living expenses follow such an approach.

They place more emphasis on dividends and cash flows than capital growth. A lot of investors concentrate on this as well and then reinvest in their portfolio.

End Note

Every investor will develop their investing philosophies that will act as a guide for investing and selecting stocks.

Assume that you follow value investing. Waiting a long time for attractive valuations is something that you would do.

Instead, if you are a growth investor, you might take a hit on the price and move forward for growth. But the risk is that is that you have paid significantly high amounts, and the downside is also relatively high if the growth does not play out.

1.3 Developing your own Philosophy

Now that we know some investment philosophies, we will go ahead and build our own preferences that will guide our decision- making. We will answer:

What to buy?

When to buy?

What valuations to buy?

1 Beginner - Reads and Borrows from what they Read.

Reading is an investor's best friend because it keeps you informed about current happenings around the globe. It also tells us about history, other practices, and mistakes that others have made. It makes us better and well-informed investors.

2 Follows what they read and learn. Few things work for them few don't.

When we first begin to learn, we will make mistakes. But it's fine! Even experts make a lot of mistakes in this field.

3 Repeats what works. Also, start testing own ideas.

Once we start investing, we realize few things that work and other that don't work for us. In light of what works, we must test and experiment with the ideas that work for us. If a particular type of company works for us, we will dig deeper in the same.

You will eventually start to understand what you are comfortable and what you are not comfortable with.

4 Time in market will get experience. This shapes beliefs and experience.

Start questioning what you read. This way, ideas can be tested. We gain a lot of confidence and experience with ideas, once they begin to work. Our beliefs and principles are shaped by experience. Hence, individual investment philosophy develops with time and with experience.

5 Time polishes Investment Philosoplies.

Only after some experience, we will be able to formulate an investment philosophy that will help us shape our investment decisions. A perfect investment philosophy does not exist.

Initially, no one has philosophy formed. So, just get started and keep applying what you have read.

1.4 At the Time of Buying - Know Your Hypothesis

Before making any investments, it is very important to know, what your hypothesis is. Why, exactly are you buying the stock.

Know your reasons before buying any stock. Because if you don't know, why you bought something, you will never know when to sell.

Before investing each time, answer this -

I am making this investment because...

- Because the product of the company is break through.
- 95% of the market share is being held by the company.
-
-

Be very specific while identifying why you are buying a particular stock.

Write down the facts here that you have accumulated from research that you know are correct.

I think I will make a good return because...

- The company releases a new product that will boost its sales in the coming years and will expand margins.
- The company merged, and we anticipate a positive return due to the synergies.
-
-

Write down all the assumptions you have made about the company. Things to that you will need to be free for us to earn attractive returns.

Next, explain why you believe the business will prosper or make good returns?

The risks that I know I am taking are...

- EV poses a risk to vehicles, in terms of maybe battery or even due to safety.
- The asset-liability match may not be ideal if we invest in banks. That is if the bank has 100 crores worth of short-term liability, it should have 100 crores worth of liquid assets to pay them off.
-

Finally, what are the risks that you are aware of through analysis as we invested despite them?

We should always know about the risks we knew and willingly took, and should write them down too.

So, this is our entire hypothesis for buying the stock. Following this, we will immediately make a list of assumptions. You have to be specific and use numbers or figures.

Let us take an example

After COVID 19, we assume that offline education will experience a 40% decrease in its customers. As a result, we believe that online education will benefit significantly. However, once the COVID restrictions are lifted, people may prefer offline activities over online ones, which contradicts our assumption. This might have an effect one or two years from COVID.

Therefore, it is crucial to write down our psychology or thought process for future reference. We will create our investment philosophy at the time of purchasing stocks and refer them once in a few months to see if something has changed. Remember to list all your assumptions and be specific.

If our assumptions are incorrect, Our investment will give a sub-par result which is how it should be.

Here is where we should sell, even if we lose money. We will talk about when to sell in the next session.

1.5 Tracking Indicators to Track Progress

In this section we will learn about tracking indicators required to monitor progress. In chapters relating to evaluating companies we spoke about Key performance indicators, which are leading indicators of companies performance. We have identified the KPIs at the time of investment itself. We will use the logistics company to track any company's performance.

Logistics Company

	2018	2019	2020	2021
No. of Trucks	12,000	13,000	14,500	14,200
Warehouse Area	2,20,000	2,50,000	2,60,000	3,00,000
Occupancy Rate	64%	72%	68%	55%

Let's say we have identified KPIs for a logistics company. While we fill the data for previous years, we will also try and write our assumptions for coming years.

- Lets say we believe that there should be 20,000 trucks and 500,000 square feet of warehouse space in the year 2024.
- We can lay down some soft goals and then monitor the company's progess against it.
- So, in the coming years, we will refer back to our previous numbers. We will try to analyze if the company is on the road to achieving its targets. If yes! Then our investments will be successful.

If the data is available, we will monitor it after every quarter. At the very least, we will monitor all the KPIs annually to assess the progress of a given company. If the KPIs are going in the right direction, financials will mostly follow the same. This is how we can track our investments.

- In this case, if the company is not getting business, they won't hire additional trucks.
- If a company doesn't anticipate strong demand, high occupancy rates, or strong future sales, it won't hire additional warehouse space.

So, these KPIs explain the business really well.

Finding KPIs and creating an excel spreadsheet for each company allows us to track if a company is struggling at an business level.

Similarly, if we want to analyze the Hotel industry and Asset management companies, we can use KPIs to track their performance.

Hotel Industry

	2018	2019	2020	2021
Rooms Available	6438	6855	7214	7011
RevPAR	5200	5400	5500	4900
Occupancy Rate	56%	72%	68%	51%

Asset Management Companies

	2018	2019	2020	2021
AUM	13,000	14,562	18,499	24,135
Debt - Equity Mix	52-48	48-52	49-51	45-55

We must write our assumptions at the time of purchasing stocks and monitor them every quarter. We must keep adding our assumptions while we analyze the company even further.

We must look at and have

1. **Positive long-term outlook**
2. **Evidence of change**
3. **Invest as per our own investment philosophies**
4. **Be aware of the Investment hypothesis at the time of purchase**
5. **A list of assumptions that helps us know when we have gone wrong and when to sell.**
6. **Regularly monitor the tracking indicators we set before investing in the company.**
7. **We will keep companies that are meeting its goals and sell companies that do not perform.**

We are now prepared to begin investing in stocks. We've covered idea generation, valuation, and when to buy; the next topic is when to sell.

.2
When to Sell?

Introduction

Market fluctuations happen when we buy stocks, which leads to profits/losses at the time of selling stocks. Therefore, buying correct stock at correct time is the key but equally important is timely selling it at a profit.

We book a loss when KPIs deteriorate.

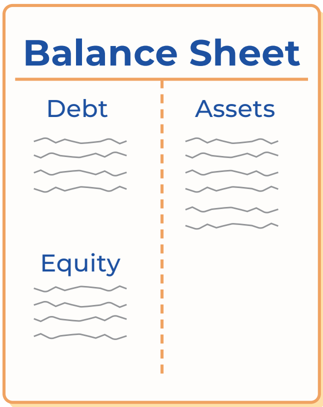
Stagnant or decreasing KPI is the first indication that the business is deteriorating.

KPIs

For instance, when the number of trucks in a logistics firm becomes flat and then starts declining. we should ask questions.

	2018	2019	2020	2021
No. of Trucks	12,000	13,000	14,500	14,200
Warehouse Area	2,20,000	2,50,000	2,60,000	3,00,000
Occupancy Rate	64%	72%	68%	55%

Impact will first be visible in KPI - related numbers before it reflects in the income statement and balance sheet.



Combine this with the annual reports and other documents.

It provides us with a good indicator as to why the KPIs are behaving in a particular manner.

If the company's performance is deteriorating, we must determine if the problem is a temporary due to external factors or a fundamental shift.

Let us assume that COVID 19, demonetization, or GST announcements are hiccups due to which the KPIs stagnate for a while, then we might not do anything. However, if KPIs deteriorates due to fundamental shift, then we can consider selling the stock irrespective of porfit or loss.

Effects of COVID-19 on the travel industry:

Experienced a massive lockdown due to COVID 19

The debt in their books are very high.

Interest coverage ratio went down.

As a result,

the business has suffered and the real value goes down too.

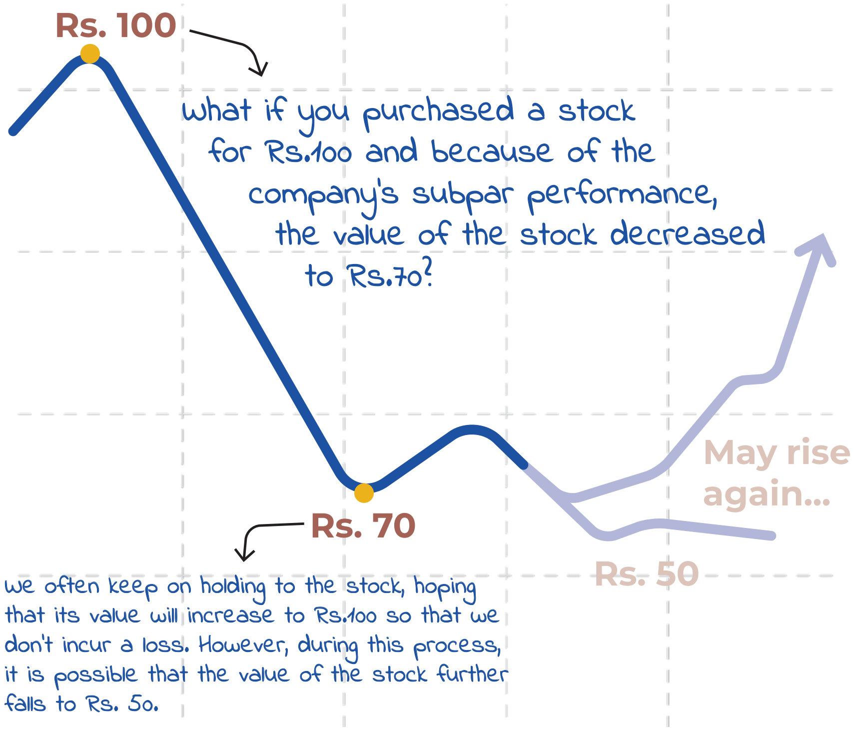
In this case, our initial investing theory of the travel industry goes wrong.

We may decide to sell our stocks due to fundamental shifts, a decline in KPIs, and deteriorating business conditions. The companies will take a lot of time to recover from debt.

These are significant changes due to which the real value of the company will go down.

We must analyze if it is a fundamental change or a small hiccup. If it is a fundamental change, we must sell the stocks immediately as our investment thesis has gone wrong. It is very common for investment there is to go wrong.

Why taking a loss is good?



The best option we have is to sell at Rs. 70. Book it as a loss and invest the money in another stock which might rise to Rs. 200.

It is important to understand the difference between a fundamental change and a small hiccup in the business.

- Most retail investors avoid selling at loss. However, selling at loss is a sign of a good investor.
- In this business, you are likely to be wrong rather than right. Therefore, admit your mistake and move your money to a better place rather than trying to recover it same way you lost it.

When why you bought is no longer true.
Sell the stock immediately. Irrespective of the price.

"Cut your weeds and water your flowers"

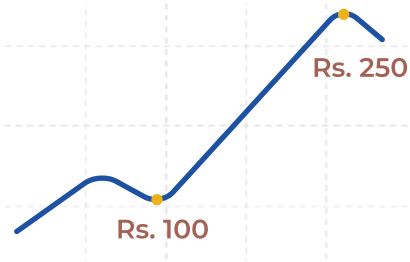
- Peter Lynch

If the reason why you bought is no longer true, cut the losses and sell it. Even if at a loss. We only will make money in 30-40% of our investments, lose money in 30% of our investments and just get the investment back in 30% of the portfolio. This is how it works for even most sophisticated investors. So no harm in booking losses.

This is a very famous quote by Peter Lynch, a well-known investor.

o Cut the companies that are not performing well because they are weeds in your portfolio.
  - **Remove** those companies which are constantly making **losses** in your portfolio
  - They are likely to be poor quality.

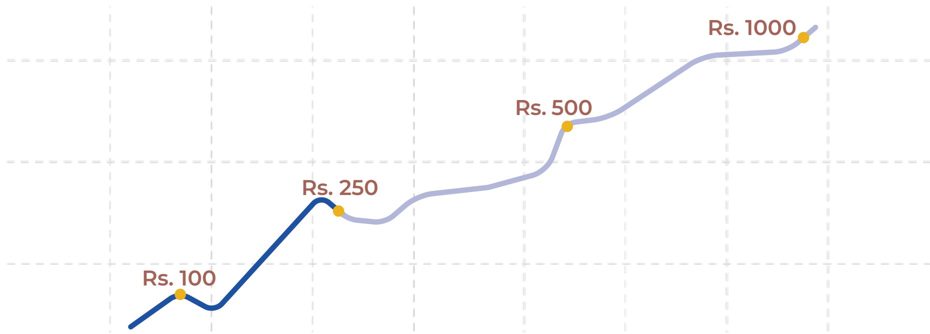
o Companies that are performing well, water them and hold them in your portfolio.
  - **Keep** those companies that are **growing** constantly in your portfolio. Do not sell companies where you are making profit.
  - Let winners become really big winners. That is how you grow your wealth. Don't cut your winners.



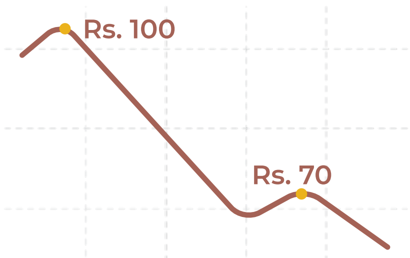
As retail investors, we try to make quick profits and sell our shares immediately when the stock prices increase from say Rs.100 to Rs.250.

Therefore, we cut the flowers rather than watering them. Which is a huge mistake.

Instead, we should wait! For any good company, a stock should climb from Rs.250 to Rs.500 and then from Rs.500 to Rs.1000. We don't want to miss the entire upside by selling has quick.



Therefore, it calls for patience and courage on our part. Unless we let a good company realize its full potential, we will not get huge returns. So, when our assumptions are correct, we must not expect to earn only small profits. Instead, we must wait till our money really grows and that's when our wealth is generated.

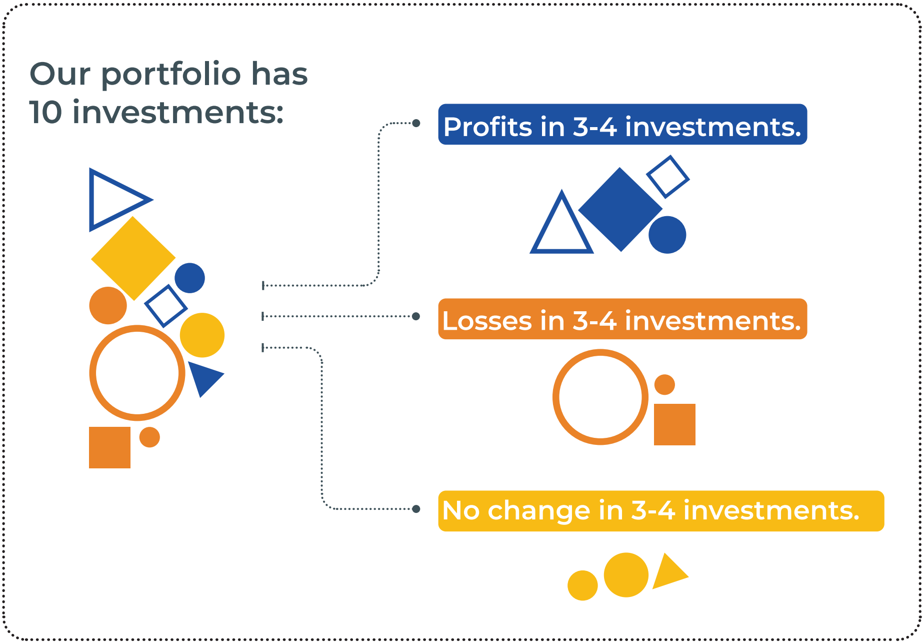


However, if a stock price drops from Rs. 100 to Rs.70, because of its poor business performance, then a stock is a weed and we should cut it. Therefore, instead of holding the stock, we should sell it and invest that amount elsewhere to generate good returns.

Due to a lack of patience, a lot of retail investors have wrong assumptions and tend to cut their flowers and water their weeds. We need to do the opposite - sell loss making companies if we are proved wrong and not sell profit making companies.

What should we do as retail investors?

Retail investors should let their winners become real big winners and sell the loss making companies. Sell wherever their hypothesis is no longer true.



When we are correct, we make profits, and at the time of mistakes, we sell and redirect the proceeds to more profitable investments. We must know that even the most sophisticated investors are often wrong. Admit it and move your money to a better place.

We must make sure that our correct assumptions earn us a lot, around 10 -20x. If you are wrong, admit it, shift your investments and move on.

If you are right, 5 out of 10 you will become a great investor.

Managment did something wrong?

We must immediately sell our stocks if there is some critical news about:

- The management admitting to a mistake.
- Management is implicated in some sort of fraud in the business.
- Management does not act fairly to the interests of the shareholders.

Although selling such stocks may result in either profits or losses, still, we should sell the stocks immediately if the management does something wrong.

Two instances were brought to light:

Satyam

Any frauds by the managment, we should **sell immediately**. But it should be material. You should not go for every small thing.

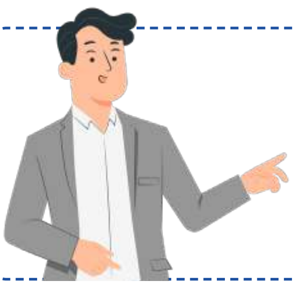
YES BANK

They might correct it later on, but its too complicated for a retail investor to understand. Its best to sell at this point.

Trusts break and the markets do not have confidence in the management of the company. Any major misconduct against the shareholders or the market has a significant effect on the enterprise. So sell the stocks immediately.

In the case of the Satyam Case - financial data was manipulated.

- The management had been deceiving the shareholders for a considerable amount of time by communicating incorrect financials.



When the management is involved in major misconduct, it questions their integrity. Thus it is strongly advisable to sell the stock. They can fix the mistakes in the future, but it will be very complex for the average investor to understand. Thus, it would be best to sell now.

We have countless companies and opportunities in listed stocks. We do not need to spend time on companies with poor management track record, no matter the opportunity.

Too expensive!

Sell when the valuation goes too far outside the valuation bands:

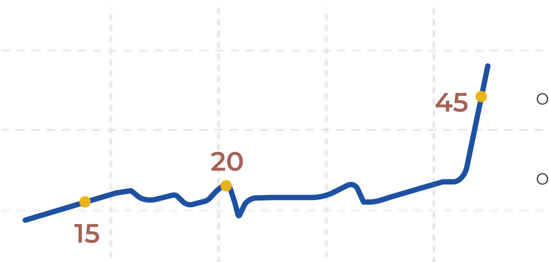
Problems with this -

- **We may sell mid-way of P/E re-rating.**
- **We may sell on small movements and miss out on the long term story.**

If we expect that the business has long-term potential in the upcoming 3 - 4 years, then we will avoid selling the company's stock. even if its valuation increases substantially.

However, if market price of a stock becomes astronomically expensive, it moves out from the valuation range as well. We may end up selling the stock. In this process we might miss P/E re-rating. It business has improved fundamentally, we might hold onto it even further.

Let's take an example to understand this concept.



- Stock A has been trading at a price-to-earnings ratio of 15 to 20 for 6 to 7 years.
- Suddenly, the PE ratio escalates to 40-45. This is quite expensive.

Here we will try and determine the fundamental changes in the business which led to PE re-rating. If we have solid reasons we will hold on else we will sell.

- We will not sell our stocks due to small movements or slight changes, as we will miss out on the long-term success of the company.
- We will sell our stocks when the price escalates and the valuation goes way beyond our valuation bands.

When the goal has been realized

The most compelling reason to sell stocks is when our goals are achieved. Once our hypothesis has played out and we have received the profits. We can sell when the story has played out, or else we can paricipate in the next leg of growth of the company.

We have 2 choices

If we agree to the company's new goals and objectives, we may decide to retain the stocks.

If we want to be a part of the company's plans, then we should update our investment thesis and retain stocks.

Identify the correct KPIs,

1. **Write down your assumptions again.**
2. **Write down the Hypothesis and KPIs again.**
3. **Keep on tracking again.**
4. **Repeat the entire process.**

We think that the investment story has played out and there is limited room for growth, we can sell the stocks.

For example, if the company decides on introducing a new product that differs from what it offered previously and has high risks, we may decide to sell the stocks.

Reasons why we should sell our Stocks

1. KPIs turn negative and business declines significantly.

2. If the thesis behind our investment is no longer valid, then it is a good reason to exit the market.

3. If management is involved in significant misconduct.

4. If the stock prices have skyrocketed and we are unable to comprehend the reason behind it? Small movements should be ignored to win the long-term gains.

5. When the goal has been achieved. Management may communicate further goals. We might sell if we do not align with them.

.1

Market Cycles & Business Cycles

Introduction

Before moving forward with 'What makes a 10x and 100x investment, let us first discuss market cycles and business cycles. We will look at the various phases of the market cycle and the factors influencing it. Furthermore, we will understand the psychology of sentiments revolving around the market and business cycle.

1.1 Phases of Market Cycle

Markets do not move in a straight line, but rather fluctuate constantly. Depending on valuations, market sentiments, and a variety of economic factors, markets operate in four phases.

- Operates around the Bottom
- Smart Money starts Accumulating
- Valuation Driven Market

- Prices Increases
- Different Investors jump in at different stage
- Market enters Bull phase.

Accumulation

Mark-Up

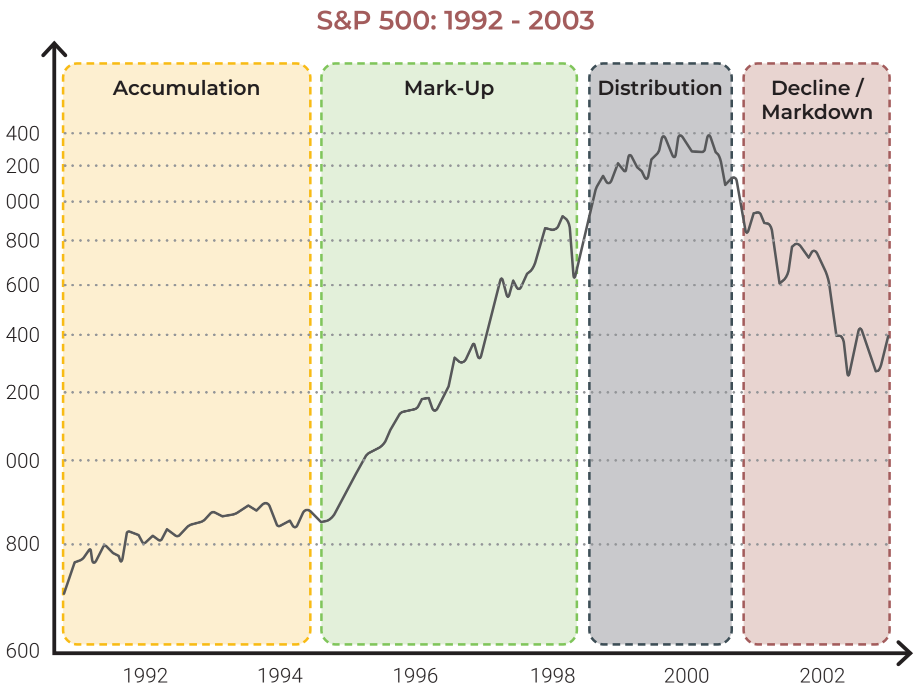
Decline

Distribution

- Prices fall
- Panic selling and Fear among security holders
- Market enters bearish stage

- Around the Top
- Smart Money starts selling and common public starts buying
- Excitement Driven Market

Lets understand this in greater detail.



Accumulation

The accumulation phase begins when the market is just around the bottom, there is a significant decline and the market is relatively under-priced.

Here, smart money begins to enter the market.

- During this phase, the institutional and trained professional investors begin purchasing the shares and acquire ownership in various companies.

  The market at this point is driven by low valuation.

- Stocks with attractive prices and high quality are bought whereas low-quality stocks do not gain popularity.

Therefore, accumulation refers to the smart money that begins to accumulate ownership of various stocks. For nomenclature, we generally use and follow what smart money does.

Mark-Up

In the mark-up phase, the prices start rising.

A large number of investors get in at different stages to invest in different companies.

As the stock market experiences an upbeat rally, we can declare it as a bull market.

Since smart money entered the market at the accumulation phase, in the markup phase, we can expect increased participation from retail investors.

is preceded by

Decline

During this phase, there is widespread fear due to which less experienced investors usually exit the market.

Accumulation

Fear starts declining as the market grows. The system strengthens with confidence and optimism. Thus smart investors start participating in the stock market.

Investors develop a varying degree of confidence and start to invest in the stock markets. This is referred to as the mark-up phase where prices start to escalate.

Distribution

- The distribution phase begins when the market is excitement driven. The ownership is distributed to retail investors.

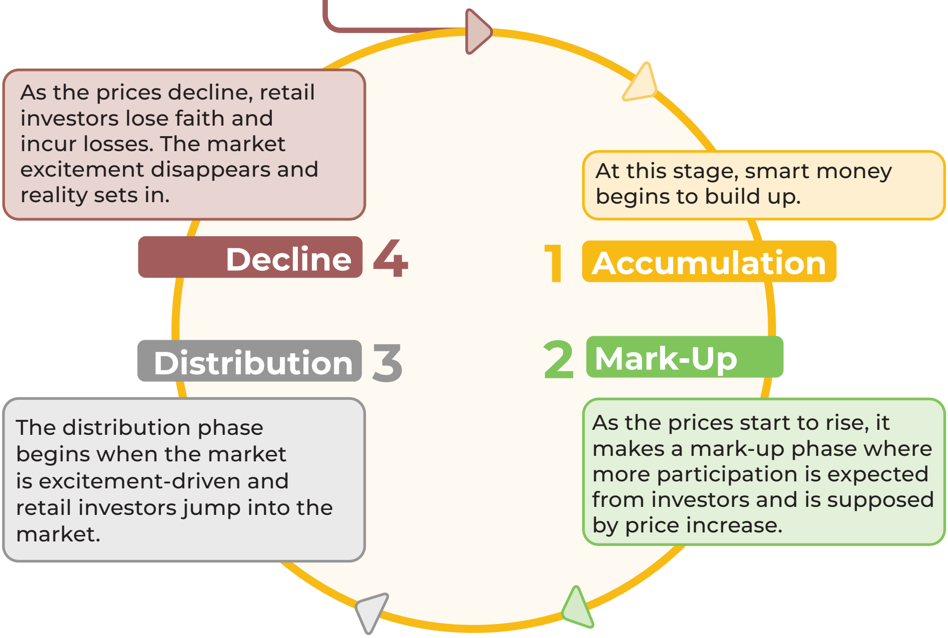
Due to the market's euphoria, smart money begins to sell and the general public begins to buy.

- Earlier the market was driven by valuation, whereas now it is excitement driven.

Now, the ownership is distributed amongst small investors instead of a selected few institutions dealing in smart money.

Decline

- As the prices start to decline, the excitement starts to fade.
- As excitement fades, there is widespread fear amongst stockholders and they start selling the stocks due to panic.
- By the time thisends, the market enters a bearish phase.



Again, decline phase is followed by an accumulation phase. This is how a stock market cycle typically moves between different stages.

As retail investors, we need to identify the ongoing market phase along with the knowledge of the phase that will follow the current phase.

During the accumulation phase, we are aware that there is a lot of fear amongst retail investors, however, we must remember that it will be followed by a mark-up phase.

Likewise, the distribution phase is excitement driven, but it will be followed by a decline.

It is important to note that in reality there are no clear boundaries between two market phases. So it is possible that when a market is in transition, we might not be able to clearly identify its current phase.

1.2 Broad Factors that Affect the Cycle

In the previous pages, we looked at the different phases of a market cycle and how they function as a whole. Now let us look at the two factors that influence this cycle, the total inflow, and outflow of capital in the markets.

Quality and quantity of earnings have an impact on the real value of a company. On the other hand, market value is largely influenced by two factors namely: Overall Sentiments and Liquidity.

Broad Factors that Affect the Cycle

Sentiment

Liquidity

General optimism of Investors

Avaibility of Capital in the Market

Cost of Capital

Sentiment

It refers to the amount of confidense and sentiment people have in the market.

Positive Long-term **Outlook** ▷ **Positive** Long-term **Sentiments**

Negative Long-term **Outlook** ▷ **Negative** Long-term **Sentiments**

Overall market Sentiment is identified by the overall outlook in the market and the confidence amongst the investors about the future. Positive events improve market sentiments, negative events degrade sentiments.

Events leading to Positive Sentiments

- Controlled inflation numbers.
- Growth in Industrial Production Index.
- Growth in GDP.

Events leading to Negative Sentiments

- Russia-Ukraine War.
- High Inflation in the economy.
- Political instability in a country.

Liquidity

The availability of funds or cash in the system is referred to as liquidity. Liquidity is when low interest rates are there in the market, economy is doing well, banks are lending well and so on.

In these scenarios, there is an ample cash to enter the market.

Notes

What does Liquidity do?

Availability of Capital in the Market

Liquidity ensures capital availability in the market. Availability of cheap and abundant capital ensures demand for stocks and as result, increase the in the market value.

Cost of Capital

Cost of capital refers to the interest rate that must be paid to borrow money. The cost of capital is low if the interest rates to borrow money in the market are low.

> **What is the market's overall valuation at the moment?**
>
> **Can companies raise more money with less dilution?**

Liquidity allows companies to raise more money. They can do this at a cheaper cost of capital too and therefore more money gets invested in the market.

March 2020 - COVID 19

Widespread fear amongst people led to a decline in the market prices as negative sentiments were inbuilt in the market and the price.

However, after a few months, the long term fear surrounding COVID subsided and people learned to manage things better. Aa a result, sentiments started to improve.

War Scare

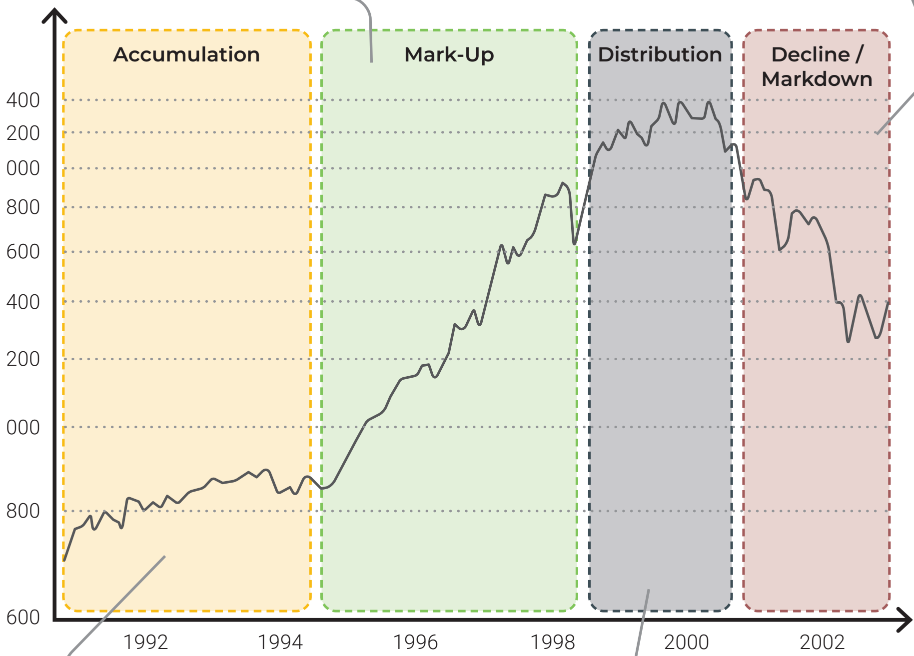
As countries enter war, a lot of negative sentiments prevail in the market due to which the market prices of stocks fall.

News that we read we should try and relate either of these two.

Either it increases liquidity and confidence or decreases it.

- Liquidity is expanding.
- Sentiments are improving.

- Either liquidity or sentiment will go down and the other will follow too.



S&P 500: 1992 - 2003

- Sentiments are poor.
- Limited liquidity.

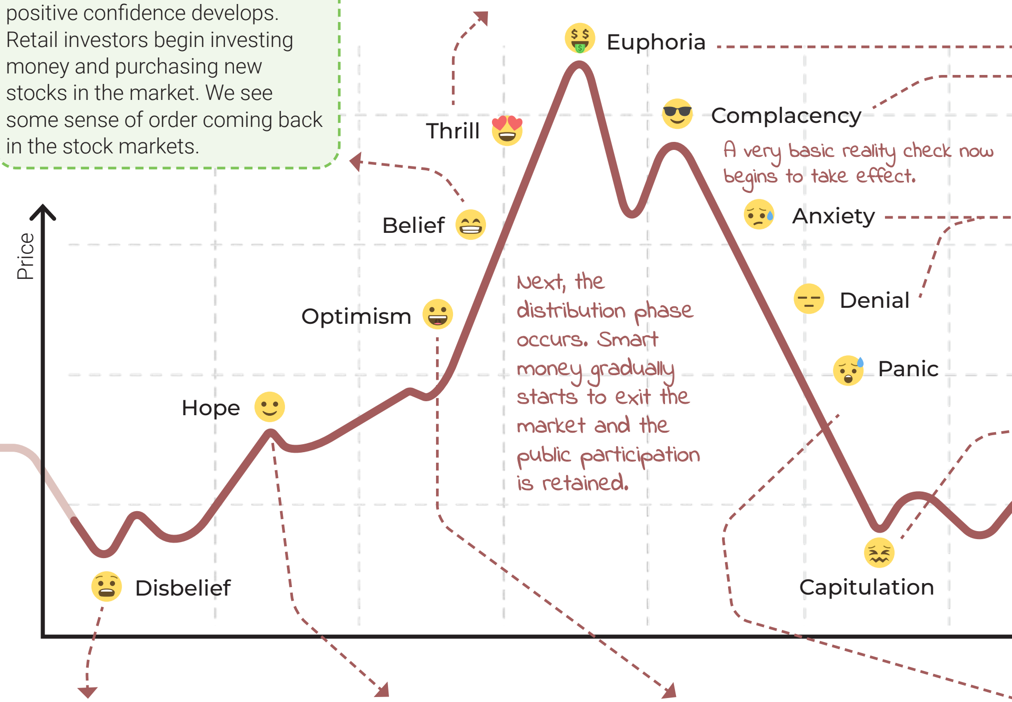
- Sentiment positive
- Liquidity is abundant

1.3 Psychology of the Market

Let's discuss the psychology of the entire market cycle and how emotions revolve around it.

The market continues to rise, and people experience Thrill They have earned paper profits, which gives them more confidence and excitement.

As the market continues to climb, positive confidence develops. Retail investors begin investing money and purchasing new stocks in the market. We see some sense of order coming back in the stock markets.



At this stage, people are not confident as they have incurred losses. It will take significant amount of time for the market to recover and people gain confidence.

Then there slight market improvement where it instills hope for a new beginning. However people do not have the courage to take action or buy a new position.

Although there is Optimism in the market people still lack confidence. Retail investors do not have confidence to buy something due to past losses. They might start buying in small quantities.

As retail investors, often many of our stocks are bought at higher levels and sold at lower level.

When the market prices touch its peak, euphoria comes into picture. Euphoria is when you listen to common people talking and predicting about a stocks behaviour and its growth in the upcoming years. There is lot of optimism and confidence in the market. Everyone wants to participate and no one wants to miss out of stock markets.

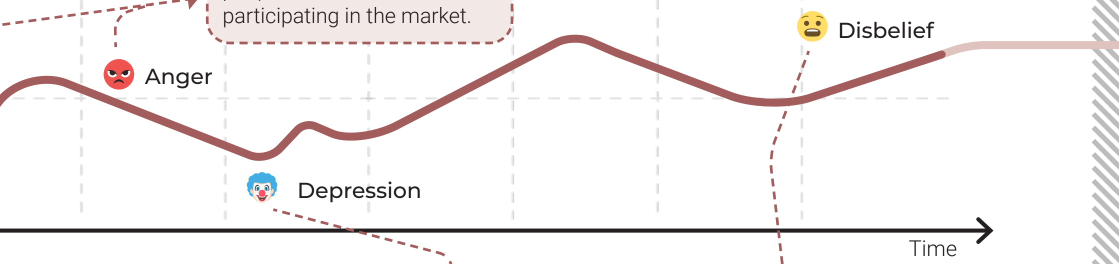
Due to slight decline, Complacency sets in as people believe that it is a minor hiccup in the market and its prices. In such instances, the market drops, makes a small recovery and keeps dropping again.

In no time, people are in denial and refuse to acknowledge that the market will continue to decline significantly. They believe that the market will recover again in near future.

A small percentage of them will proceed with selling their stocks. However, majority of them retain their stocks till the prices start rising due to some favorable conditions

Here, we must be cautious about whether our decisions are emotion-driven or whether owning that particular stock is justifiable.

Capitulation follows Anger in the next stage. At this stage, people are furious about participating in the market.



There is a great deal of Panic as the prices continue to fall. As retail investors we may experience losses and short to panic.

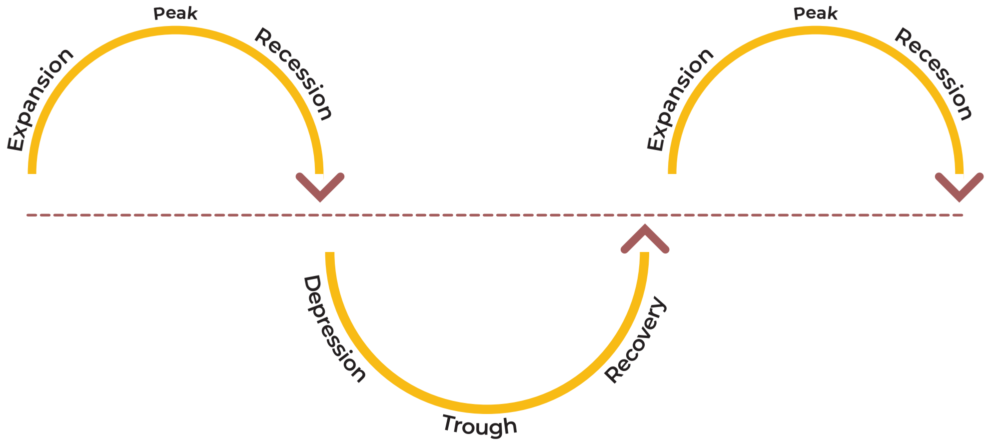
The rapid decline is followed by a gradual decline. Where we reach the Depression stage, people lose confidence in the market, record losses, and even exit the market with no intention to return.

Disbelief follows depression, after which the market starts to rise, and the same cycle starts again.

In general, we would experience losses as the purchase price is significantly higher than the selling price. We intend to be smart investors and we will not participate in emotiondriven way but in valuation driven manner.

1.4 Business Cycles

The economy as a whole experiences recurring cycles. It can be when the market expands, demand increases, and when the profitability is high. There are other times when the demand is less and as a result, the profitability is also stuggling.



Business cycles are long-term in nature and affect the real value of the company.

How?

By affecting the size, quality, and quantity of earnings.

How to identify if the industry is in good/bad position?

Things are not good in an industry when demand is limited and most companies in the industry are struggling.

v/s

When the economy is performing well as a whole, the demand, optimism, and earnings are all touching heights.

Components of Business Cycles

Demand

How much is needed?

Lets say, the market demands or requires Rs. 1000 Cr. of hair oil every year.

Supply

How much is provided?

Rs. 600 Cr. worth of hair oil is supplied every year for the demand of Rs. 1000 Cr. worth of hair oil.

Demand > Supply → We need **more demand** than supply is available.

High Profits

People are ready to pay extra money.

Demand < Supply → Higher supply means less profits for this manufactures.

Low Profits / Loss

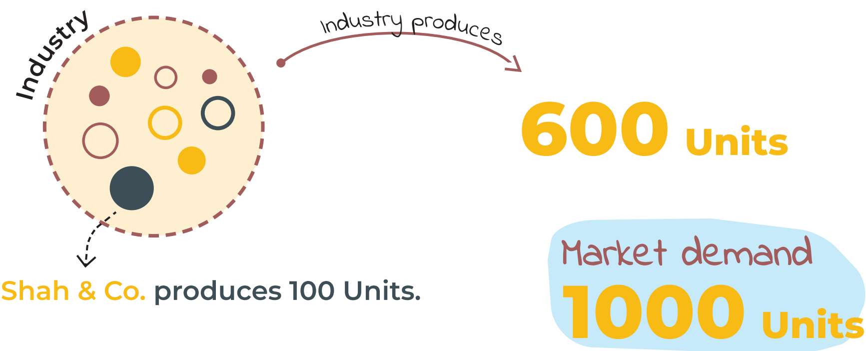
Everyone will try to sell product at cheaper rate.

This is how demand and supply affect a business cycle.
Now let's understand different phases of the business cycle:

Different Phases of the Business Cycles

1 Expansion

When the supply is insufficient to meet existing demands, the business typically experiences expansion. The business as well as its product are generally doing well.



In such cases, Shah Co. would want to increase its supply from 100 units to 150 units to earn more money and profits. Thus, they continuously make investments to increase the supply and the company eventually expands. Supply must increase to keep up with rising demand.

2 Peak

At this point, the demand stabilizes while supply keeps growing. Supply continues to attract investment. While supply is improving, the demand has reached its peak and supply will eventually surpass demand.

3 Recession

Gradually , we will enter the next phase i.e. recession where although the supply is growing, the total demand starts to decrease. At this stage, profits drop.

4 Depression

With time, the business cycle reaches a point where supply exceeds demand and profits are very low. Companies will incur losses and many industry players will exit the market as they struggle to survive and cover their production costs. As a result, the business cycle is in depression, where supply starts to fall.

5 Trough

At this stage, demand and supply are not in sync. Demand continues to decline till it reaches its lowest. The supply also declines at a slower rate, till it reaches its lowest. We refer to this phase as trough, which is the lowest point of the business cycle.

6 Recovery

Following the trough, the demand picks up. With time, the demand is equal to supply or can even surpass it as supply continues to decline. When there is significant demand, industry players will try to increase their supply due to which the cycle will eventually move back to the expansion phase.

Some industries have a business cycle of 4–5 years, while others have a cycle of 12–13 years. Tracking a business cycle takes a lot of effort, expertise and knowledge.

.1 Right Approach towards a Portfolio

1.1 Diversification

1.2 Return Expectations

1.3 Portfolio Attribution

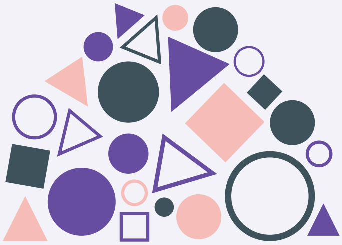
Introduction

Lets get started on how to have a look at the entire portfolio rather than individual stocks. How to take decisions, keeping the portfolio as a whole in mind.

1.1 Diversification

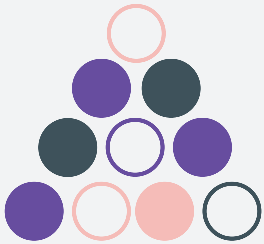
We must adopt this mindset to consider impact on entire portfolio rather than an individual stock while taking decisions. We will diversify our portfolio to overcome the challenges and short-comings that we may face as retail investors.

Do's



- Make sure that our portfolio has an industry-level diversification
- Make sure that our portfolio has a Stock-level diversification.
- Diversify on the basis of market captialization of companies as well. (small cap, mid cap and large-cap stocks)

Don'ts



- We will refrain from heavily investing in a single stock.
- Do not allocate say 40% of our portfolio to a single sector.

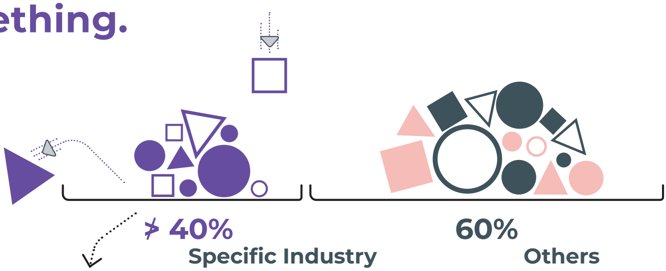
Always have a detailed portfolio with three columns:

Stock	Industry	% of Portfolio

Monitor the amount of exposure we have to each stock.

> **What should be our exposure in each industry?**
> **What are the market caps of those industries or companies?**

We'll always make sure our portfolio is properly diversified. Consider it whenever you buy or sell something.



Even though a company and its performance is excellent, we will not add it in our portfolio if 40% of our investments are already allocated in that sector.

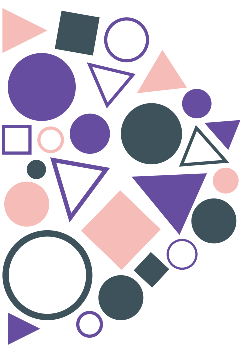
If we still want to add that particular company, we must essentially sell some companies from the same industry

The total returns from the portfolio matters rather than individual stock returns.

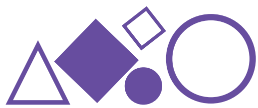
Ideal expectations from a portfolio:

In order to manage our portfolio we must act with discipline, consistency and patience.

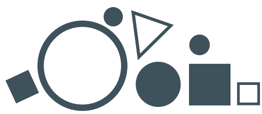
Assume that our portfolio comprises of 20 companies.



Approximately 5 companies will generate majority returns. Thus we can expect that 25–30% of your portfolio will be profitable.



30-35% of our portfolio will simply return the amount that was initially invested. If we have purchased 6-8 companies at Rs 100, we might be selling them 2 years later for Rs 100 itself.



The remaining 6-7 companies , which comprise 30-35% of our portfolio will incur losses.

1.2 Return Expectations

Profit Making	**25-30% of Portfolio**
Return Capital as it is	**30-35% of Portfolio**
Loss Making	**30-35% of Portfolio**

Out of 20 companies in a portfolio, the top 4-5 will be profit generators. Allow the winners to grow consistently as they will offset the losses and boost the overall returns in our portfolio.

Always think about the portfolio's allocation to different stocks and sectors.

If the performing companies receive 30-40% of portfolio allocation, it will be healthy returns for us. However, if the same companies have an allocation of 10-15% in portfolio it will not generate meaningful results for us. So, we need to keep in mind - allocation.

As beginners, retail investors expect that all their investments should generate profits. However, it will be inappropriate to have such return expectations right from all investments. This does not happen even for the most sophisticated investors.

We will have a successful investment journey, even if 4 out of 10 investments perform well with time.

NIFTY over the last 10 years has given a return of 17%.

With a diversified portfolio, at best we can hope to beat it by 1-2%

Anyone who expects to double their money in a year, will not survive in stock market long. The reason is, economics does not support it. You will depend on compunding to make really meaningful returns. And, compounding takes time.

1.3 Portfolio Attribution

Portfolio Attribution refers to identifying the sources of our gains and losses. Institutional investors conduct portfolio attribution regularly and it is suggested that retail investors should do the same. In a rather simple manner. The process takes around 30 minutes and should be done once in every six months.

What is the net gain/loss that we have on our position so far? As per the table there was a 14% net gain in Reliance shares. Talking about HDFC, there was a net loss by 8%.

Stock	Net Gain/Loss	% of Portfolio	Gain/Loss in Portfolio
Reliance Ltd	+14%	5%	+0.7%
HDFC Bank Ltd.	-8%	7%	-0.56%
Dr. Reddy's	-20%	8%	-1.6%
BHEL Ltd.	+16%	3%	+0.48%

Therefore , Reliance accounts for +0.7% of the portfolio return and BHEL accounts for +0.48%. Due to net loss, Dr. Reddy and HDFC Bank reduced profits by 1.60 % and 0.56% respectively.

Examine the net gain/loss situation for each company in the portfolio and repeat it for each stock. Thus portfolio attribution gives us a lot of insights about where our profits and losses are coming from. We can do this at Industry level too.

Whenever you are adding a stock - Think Portfolio

Factors to look for

Diversification

At the time of buying/selling stocks think about the other stocks in your portfolio too.

Relation to other portfolio companies

Make sure that you avoid related companies that are operating in the same industry. If the company in question is related to others, such as HDFC Bank and Kotak Bank, avoid including both them in the portfolio.

Hedging

We will hedge our risks by buying small quantities of both private and public banks as we are unsure about them. In such a way we can hedge EV and traditional automobile makers : traditional brokers like Motilal Oswal and discount brokers.

Depending on how each stock performs, we will balance our portfolio in future. But its very important to think of the entire portfolio and not one stock.

.1

What makes a 10X & 100X Investment

Introduction

We talked about how to pick and analyse stock ideas. financial ratios, portfolio analysis, and valuation.

And finally, what generates investments of 10x and 100x. Not every investment will get us this, but what are few things that we should look for that increase our chances.

> **What ought to be its economics?**
> **What should we look out for to make this work?**

1.1
What makes 10X Investment?

Large Market

Ideal timeframe 7-8 years

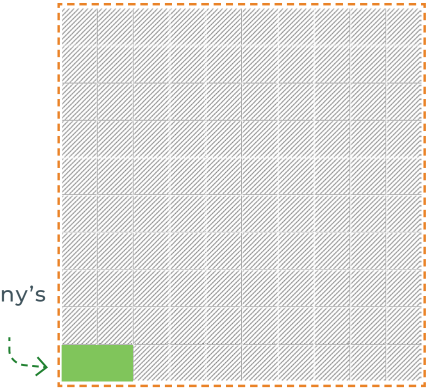
Company can grow profit by 4-5x in next 7-8 years

Bought Cheap
(Lower end of valuation band)

Large Market

The company ought to have a sizable market for its products to sell.

Rs. 5000 Cr. Market



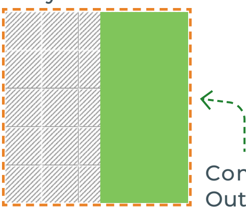
Company's Output

If a company is selling products worth Rs. 100 Cr. it should have a market worth of at least Rs. 5000 Cr.

For example, if we take the footwear industry

> Why do we require a broad market?
>
> If there is a small market, the company will not be able to grow beyond a point.

Footwear Industry - Rs. 500 Cr.



Company's Output

If it is a Rs. 500 Cr. market even if the company got 50% of it in the next few years it will still be at Rs. 250 Cr., which in itself looks like a small number when compared to other huge markets.

There are numerous difficulties in scaling in a small market. If there is a sizable market, the company can simply continue selling what they are selling and do so in great quantities.

Ideal timeframe 7-8 years

The ideal frame for a 10X investment is 7 to 8 years, as we are looking for businesses that can increase their profits by at least 5X in that particular time.

We should assume enough time for the company's real value to increase. 10x cannot happen purely due to market fluctuations.

Rs. 100 Cr. Sales

20% Margin

Rs. 20 Cr. Profit

In 7-8 Years

Rs. 100 Cr. Profit

Can grow profit by 4-5x in next 7-8 years

The above time allows the company to grow its sales and also expand the margin. We do not need sales to double each year. Consistent growth is more than enough.

	Sales	x	Margin	=	Profit
Existing	(Rs. 100 Cr.)		(20%)		(Rs. 20 Cr.)
Case 1 (Sales go up)	**Rs. 500 Cr.**		**20%**		**Rs. 100 Cr.** Sales increases by 5X.
Case 2 (Margin go up)	**Rs. 100 Cr.**		**25%**		**Rs. 25 Cr.** Margin increases by 5%.
Case 3 (Sales & Margin go up)	**Rs. 500 Cr.**		**25%**		**Rs. 125 Cr.** Margin increases by 5%. Sales increases by 4X.

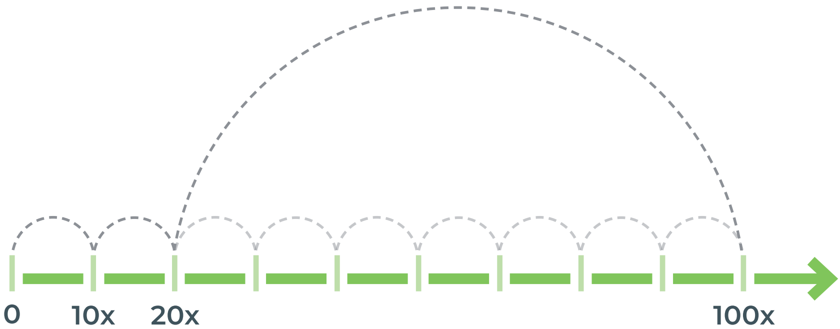
Bought Cheap
(Lower end of valuation band)

Companies bought at attractive valuation using valuation band or exit multiple, have scope for PE re-rating. This adds to the incremental returns.

So, the companies with room to grow bought at right valuations and given 7-8 years, can grow 10x in the same which can lead to very attractive returns for us.

1.2 What makes 100X Investment?

Searching for a 100x investment is incredibly hard because 100x takes a lot of time and research. Thus, we'll start by considering a 10X investment. And for these, we can only try. Out of 10 successful investments, maybe 1 of them goes to become 100x



We will be looking for 10X investments continuously over the next 7 to 8 years. Because a 15-year ideal time frame is too long to make any predictions. We will focus on identifying 10x companies and then see in a few years, if it has room to grow further.

Although it is rare for a company to grow 100 times its investment, when it does, a lot of wealth is created 1-2 100x investments can make all the difference in our investment journey.

For example, If a company's existing sales is Rs. 100 Cr.

Sales	x	Margin	=	Profit
Rs. 100 Cr.		20%		Rs. 20 Cr.
Rs. 1500 Cr.		40%		Rs. 600 Cr.

30X Earnings

Don't get distracted due to short term price movements, Look for favorable valuations.

In the next 12-15 years, we would want the company.

To grow EPS 30x-40x

Bought cheap

Huge market and must be growing.

Since these things are very difficult to identify on a 15 year timeline,we will stick to looking for 10x companies. And looking at its progress, we will decide or evaluate if it has the potential to grow 10x again after growing 10x.

Conclusion

So, we have covered quite a lot. We started with the basics and then learnt

- Idea Generation
- Qualitative Evaluation of Companies
- Financial Evaluation
- Valuations
- Portfolio Approach

and so much more.

However, your learning does not end here but it starts from here. So now it’s time for you to actually start practising it.

You have to spend time in the market .You'll have to read the annual report of businesses. You'll have to put money into it. The market will give you feedback. Some things will work properly while others won't.

The best teacher will be experience. You'll have to continue reading the various philosophies and books. Nothing can make up for your actual work.

Patience, perseverance, and discipline will be your friends. Always refer to these three when in doubt. You will have a great investing journey if you'll never leave the hands of the above three. Additionally, dedicate 4 - 5 hours every week to conducting research. With time, you will stock seeing the result.

We hope you will have a great investment journey going ahead and keep learning.

Wish you all the best!

ZEBRALEARN

The Equity Research Checklist for Retail Investors

	Title	Answer	Sentiment	Weightage	Remarks	Sources	Status
INDUSTRY RESEARCH							
☐	What stage is the Industry at? Innovation/ Growth / Maturity / Decline		Positive	☻ ☻ ☻			IN PROCESS
☐	What is the Market Size of the Industry?						
☐	Is the market size atleast 5x of company's sales?						
☐	Can the Industry Players increase price of their products each year?						
☐	What are the key success factors in the Industry?						
☐	Is there anything that keeps others from entering the industry?						
☐	Do the Industry leaders stay same or keep on changing over years?						
☐	Are most companies in the industry, doing well or struggling?						
☐	Do they hold too much bargaining power over the companies in the Industry?						
☐	· Customers						
☐	· Suppliers						
☐	· Competitors						
☐	What are the Major Risks?						
☐	Is it regulated? Strict or Linient?						
BUSINESS MODEL							
☐	What products/ services does the company sell?						
☐	How do they make their money? (Subscriptions/ ads/ selling products etc.)						
☐	Is the product/ service Unique? Can it stay that way?						
☐	Will the product/ service stay relevant 10 years from today according to you?						
☐	What are the subsitutes? Why are they better? Are customers switching?						
☐	Is the company growing its market share?						
☐	What are the major costs associated with selling the product?						
☐	Are the costs fixed or variable?						
☐	What unique assets does the company have that competitors don't?						
KNOWING THE COMPANY							
☐	What is the rank of Company in the Industry? (In competitive sense)						
☐	How long company has been in existence?						
☐	Has it had the same business in the past decade?						
☐	Is the core business expected to grow in next decade?						
☐	What are the pros and cons of the company in comparison with competitors?						
☐	What are the Competitive Advatages and Disadvantages that the company has?						
☐	Is its growth Organic or acquired?						

MANAGEMENT							
☐	Who are the top level management?						
☐	How has the company performed under same management in the past?						
☐	What is their Compensation structure?						
☐	What promises they have made and fulfilled in the past?						
☐	Are the promoters shares pledged? If yes, then what percentage?		Negative	☻ ☻			PENDING
☐	What is their holding %?						
☐	What % of management's net worth is this company?						
☐	Who are in Board of Directors?						
FINANCIAL STATEMENTS							
ANNUAL REPORT							
☐	What are the goals in Chairman's Letter and Ceo's letter?						
☐	What is the Tone of Management? Openness/ Honesty/ Ethical/ Secretative						
☐	What are the Future Goals? Do they seem realistic to you?						
☐	What are their views on Foreseeable risk?						
☐	What were the matters for which Special Resoltuions have been passed?						
INCOME STATEMENT							
☐	**REVENUE**						
☐	What are the Major sources of revenue?						
☐	What is the growth trend of revenue in the past?						
☐	What product lines are growing?						
☐	**COST OF GOODS**						
☐	What is its Gross Margin?						
☐	What are the major raw materials?						
☐	Does company benefits from economies of Scale?						
☐	**EXPENSES**						
☐	What are the largest expenses on a common-size Income Statement?						
☐	Are the costs in line with other Industry players?						
☐	Check the breakup of major line items from Notes to accounts.						
☐	**PROFITABILITY**						
☐	Are the Fixed Costs too high?						
☐	Are the margins increasing/ decreasing?						
☐	What is contributing to margin change as per common size?						
☐	Is return on equity more than 15%? Is it changing?						
BALANCE SHEET							
☐	What is company's Debt to Equity composition?						
☐	What is the Fixed Asset turnover for the company?						
☐	What is the working capital turnover for the comapny?						
☐	What are the biggest line items on the Balance Sheet?						
☐	How are the bigger line items changing over the years?						
CASHFLOW STATEMENT							
☐	Does this company have a cash flow from operations in line with the Profit After Tax over years?						
☐	How is the company using the capital over the years? (In CFI and CFF)						
☐	· Capital Expenditure?						
☐	· Acquisitions						
☐	· Dividends						
☐	· Buybacks						
☐	Does the company generate free cash flow consistently over the years (CFO - CFI)						

FINANCIAL RATIOS							
☐	Historical Performances of last 10 years:						
☐	· Gross margin						
☐	· EBITDA Margin						
☐	· EBIT Margin						
☐	· Return on Equity						
☐	· Return on Captial employed						
☐	· Return on Assets						
☐	Does the company generate ROE more than 15%						
☐	Does the company generate ROCE more than 12%						
OWNERSHIP							
☐	Who are the major investors in the company?						
☐	What is Promotors holding? Is there any change in last 2-5 Years?						
☐	Have the promoters bought any additional stake in the business recently?						
☐	Are the Insitutional investors increasing or decreasing their ownership in the company?						
VALUATION							
☐	What is the book value of company and per share?						
☐	What is Market Value/ Earnings?						
☐	Enterprise Value/EBITDA						
☐	Does the company have good expected return on Exit Multiple Table?						
☐	Are the valuation ratios within the historical valuation bands?						
☐	What is company's Growth rate in terms of?						
☐	· Earnings						
☐	· EBITDA						
☐	· Free Cash Flow						
☐	Are there any risks or threats to the survival of the company in next 5 years?						
QUESTIONS TO ASK							
☐	Does company have room to expand its core business?						
☐	Can it survive for long?						
☐	What are the 2-3 major risk factors? Eg: Ban on Plastic is Major risk for Plastic bag MFT.						
☐	Can you imagine yourself holding this company's stock for 5 years?						
☐	If someone had unlimited resources, what are the chances that they could become a good competition?						
☐	Will it help you diversify your Porfolio in business?						
☐	Has it earned good returns consistently in the past? Will it sustain?						
☐	Is something changing in the business? New product/ Management/ M&A/ Entry in new markets						

Scan this QR Code to download the **check list!**

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Tread lightly!

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