



# Identifying Multibaggers

**CA Kishor Ostwal**  
**Founder, CNI Research Ltd**

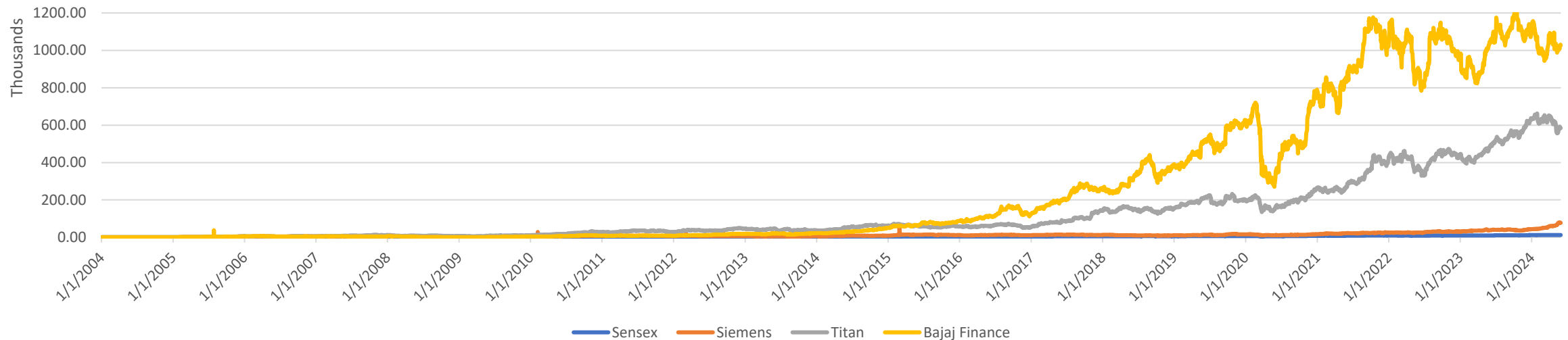
*Channel Partners with Bloomberg, Dow Jones, Reuters and S&P*  
*Twitter (X) Handle : @KISHOROSTWAL*

# The Magic of Compounding

- ***The longer the time horizon of investment, the greater the magic of compounding***
- ***While Sensex returns are good, for massive wealth creation, you need to compound money at a higher rate***

| Particulars                 | Sensex   | Siemens  | Titan     | Bajaj Finance |
|-----------------------------|----------|----------|-----------|---------------|
| CAGR Returns since 1-1-2004 | 13.3%    | 23.8%    | 36.7%     | 40.5%         |
| Invested Amount on 1-1-2004 | 10,000   | 10,000   | 10,000    | 10,000        |
| Value on 28-5-24            | 1,27,074 | 7,74,077 | 58,45,348 | 1,02,73,063   |

Comparison of the above 4 different investment opportunities



## Disclaimer:

- ***The companies mentioned in the slide are for educational purposes only and not recommendations to buy***
- ***The author may have investments in some or all the companies discussed in the presentation.***

# Introduction - Factors to watch



## Market Trend Analysis

Understanding market trend and Nifty's direction is essential for identifying multi-bagger stocks



## Nifty PE Ratio Analysis

FY25 PE ratio = 19; average PE over 33 years = 25. If compounded 15% for next 5 years, Nifty can progress towards 60000



## Corporate Earnings Growth Potential

Key to believing in India's growth potential of at least 15% for the next five years



## Government Spending Projection

Provision to spend Rs 21 lakh crores capex as per Budget FY22-23 and FY 23-24.  
Equity efficiency ratio suggests 4x revenue in course of time.


# Qualitative Criteria

# Does the business have a competitive advantage?

**A business with a 'moat' is one which has high barriers to entry making it difficult for competition to enter**


- *Entry barrier businesses always have the possibility of turning into multi-baggers*
- *Companies which benefit from Network Effect- Ex- Stock Exchanges, Food Aggregator Apps - Because of number of buyers and sellers on the platform, difficult for new players to gain share*
- *Companies with brands, patents or licenses have higher chances of becoming multi-baggers*

**Brand Moat**




- CocaCola (Global)
- HUL (Surf XL, Dove)
- Asian Paints
- Maruti Suzuki
- Titan
- Nestle (Maggi, Kitkat)
- Pidilite (Fevicol)

**License Moat**




- Coal India (exclusive access to mines)
- NTPC
- PGCIL
- Certain pharma companies who have patents

**Network Effect Moat**



- Meta (Global)
- NSE and BSE (Stock Exchanges)
- Zomato (Aggregator Platforms)

**Cost Advantage Moat**



- Tata Steel
- InterGlobe Aviation
- Shree Cement
- Avenue Supermarts

**Disclaimer:**

- *The companies mentioned in the slide are for educational purposes only and not recommendations to buy*
- *The author may have investments in some or all the companies discussed in the presentation.*

# Sunrise sectors

Invest in sectors where the growth story has just begun and the runway is long

- *Investing in sunrise sectors is more likely to yield multi baggers.*
- *We can see vertical growth due to domestic consumption, Infra spending, Govt spending, etc.*

## Sectors unlikely to see hyper-growth

Mature growth sectors such as



FMCG



PHARMA

## Sectors that can show hyper-growth



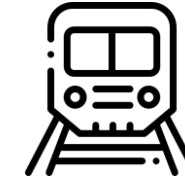
RETAIL



ENGINEERING



MINING



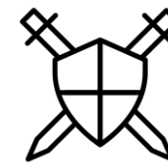
RAILWAYS



DATA  
COMMUNICATION  
AND CLOUD



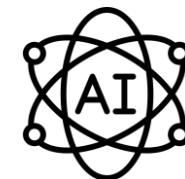
SHIPPING



DEFENCE



CIVIL  
AVIATION

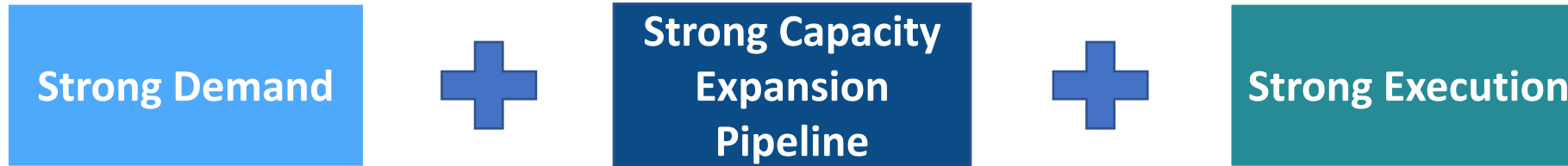


AI

and many more

# Visibility of Rapid Expansion

Combination of strong demand, significant capacity addition pipeline and strong execution capabilities



- *Flat revenue and flat profits will never make winners. For finding out winning horses we must focus on expansion*
- *Post expansion, due to massive growth potential, PE re-rating may happen*
- *When earnings rise rapidly and PE expands, there is multi bagger potential*
- *However, demand-supply mismatch should be favourable, else capacity expansion will not convert to sales and lead to a debt trap*
- *In industries like chemicals and pharma, the capex execution track record matters a lot*

# Visibility of Rapid Expansion

Some of the below segments have seen multibaggers due to the combination of these 3 factors aligning

## Utilities Sector

- Ambitious govt plans of 500 GW renewable capacity by 2030
- All traditional power companies (thermal, hydro) are now transforming into renewable companies through massive capacity expansion on wind and solar energy side
- Those who bid sensibly for new capacities and execute on time and will benefit the most



## QSR and Retail Space

- Rise of the Indian middle and affluent class (premiumisation)
- This has driven major expansion by QSR chains, fashion retailers, multi-brand outlets and departmental store chains to Tier-2 and Tier-3 cities
- The efficient players are doing better at exploiting the demand

### QSR Industry



## Railways

- Vande Bharat train programme, signalling upgrades and other projects of railways have provided business opportunities to numerous Indian companies
- These include rolling stock manufacturers, transformer, traction motor suppliers, panels, generator sets





# Promoter's integrity, stake and corporate governance

## A promoter lacking integrity can destroy shareholder value

- *High promoter stake or increasing promoter stake is a positive*
- *Corporate governance practices including accounting practices, related party transactions, corporate structure*
- *Where promoter is aware about the value of equity, such companies could be cases of multi bagger stocks*
- *Promoter track record and professional management are key factors for a company's growth*

### Corporate Governance Successes



ADITYA BIRLA GROUP



### Corporate Governance Disasters



# Debt Restructuring – Second Innings

## Some companies rise from the ashes

- *This is the biggest case where we can find multi baggers. Many companies have chosen to restructure the debt*
- *Once done, the business flourishes and so does the market prices*
- *CG Power is a classic example of massive value being created post debt restructuring and management change*



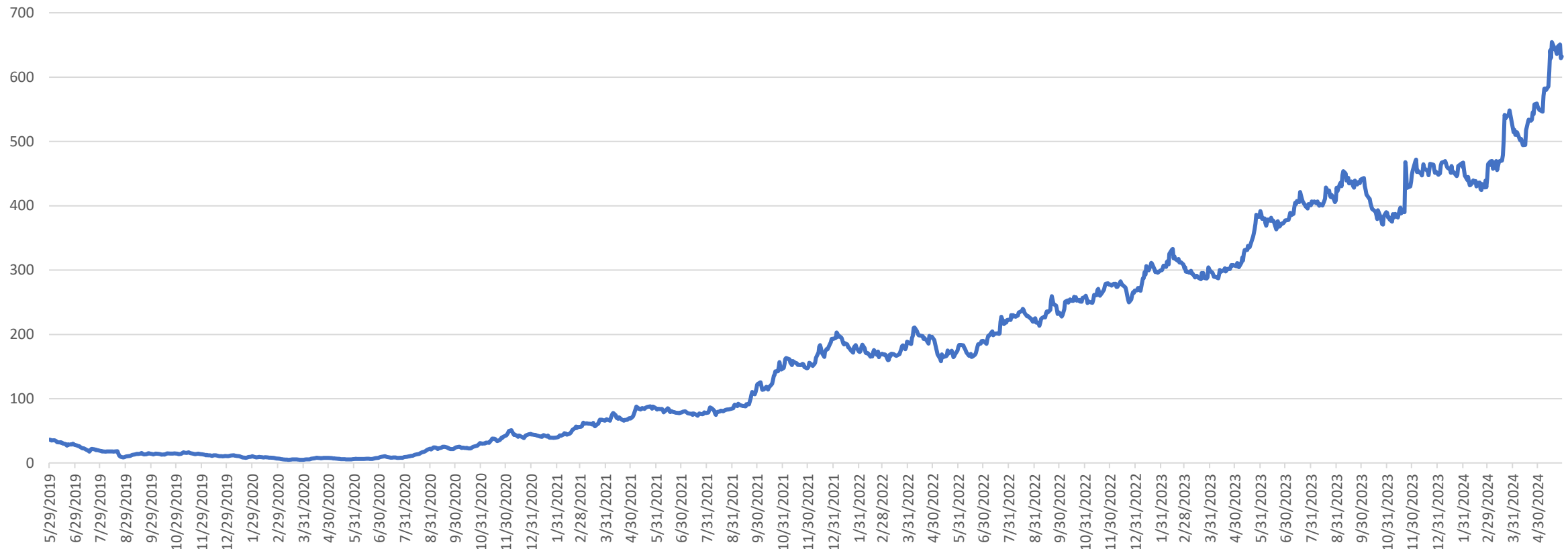
### Disclaimer:

- *The companies mentioned in the slide are for educational purposes only and not recommendations to buy*
- *The author may have investments in some or all the companies discussed in the presentation.*

# Debt Restructuring – Second Innings

The stock has, since April 2020 multiplied investor wealth 79 times in 4 years, at a CAGR of 198%

Adj Close



## Disclaimer:

- *The companies mentioned in the slide are for educational purposes only and not recommendations to buy*
- *The author may have investments in some or all the companies discussed in the presentation.*

# Quantitative Criteria

# Debt Equity Ratio

## Everything in life is okay in moderation

- *Debt is a double edged sword- If used sensibly, it increases equity returns*
- *Debt should not be nil*
- *There should be some debt to optimize capital structure*
- *Also, with external debt there is outside answerability- monitoring + discipline*
- *However, Debt-equity ratio should be comfortable*

### Wind Turbine Manufacturer



- Highly Leveraged
- Product Defect and wind cycle slowdown caused sales to fall drastically
- But massive leverage destroyed the business

### One of India's oldest full service private airlines



- Faced intense competition and escalating costs
- Combined with huge debt, co struggled to meet obligations, salaries and eventually ceased operations

#### Disclaimer:

- *The companies mentioned in the slide are for educational purposes only and not recommendations to buy*
- *The author may have investments in some or all the companies discussed in the presentation.*

# ROCE and ROE

## One of the most important metrics of business efficiency and performance

- *Companies with high ROCE and ROE (>20%) preferred*
- *Continuity of ROCE over years is important*

| Business Description | NP Margin | Asset Turnover | Financial Leverage | ROE  | Driver of business                      |
|----------------------|-----------|----------------|--------------------|------|---|
| Nestle               | 18%       | 2.13           | 3.66               | 138% | Strong on all 3 metrics                 |
| Trent                | 12%       | 1.62           | 1.76               | 34%  | Decent margins, good asset turns        |
| CDSL                 | 52%       | 0.5            | 1.22               | 32%  | High margins                            |
| Dixon                | 2%        | 3.03           | 4.12               | 26%  | High asset turns and financial leverage |
| ABB                  | 12%       | 1.03           | 1.85               | 23%  | Average on all 3 metrics                |
| KEC                  | 2%        | 1.06           | 4.65               | 9%   | High financial leverage                 |

### Disclaimer:

- *The companies mentioned in the slide are for educational purposes only and not recommendations to buy*
- *The author may have investments in some or all the companies discussed in the presentation.*

# Equity efficiency ratio (Equity/Revenue)

## Another quick metric to check revenue efficiency

- *In this ratio, Equity means (Equity + Reserves). Only those companies become multi baggers which use capital resources judiciously*
- *Ratio above 4 is considered good for potential multi-baggers and below 4 is inefficient and cannot grow rapidly.*



**Equity base**



**Revenue**

### Example of equity efficiency across different companies

- ✓ 1. Small equity base – Small cap starch manufacturer
- ✗ 2. Large equity base – Gear Manufacturing Co.
- ✗ 3. Very large equity base – Struggling telecom Co.

40 crores

1078 crores

68000 crores

364 crores

1200 crores

2.40 lakh crores

#### Disclaimer:

- *The companies mentioned in the slide are for educational purposes only and not recommendations to buy*
- *The author may have investments in some or all the companies discussed in the presentation.*

# Value of underlying assets (Book value)

## The market value of some companies is significantly lower than book value of assets

- *Sometimes, the value of underlying assets of a company does not reflect in the market valuation of the company due to a mix of factors*
- *If there is a trigger related to sale of land bank, demerger of company holding land banks, or sale of fixed assets critical to the business of a company, value unlocking can happen*

### Auto Company



- Capital invested = 1000 crores
- Mcap = Rs. 500 crore
- If you add up inflation over the investment period, you can get the approximate net worth of the company

### Leading Metals PSU



- Gross block at cost (without the value of mines) = ~Rs 1.3 lakh crores
- Debt = ~Rs 11000 crore
- Company valued at Rs 70,000 crores.
- Thus, market value is significantly lower than gross block of company

#### Disclaimer:

- *The companies mentioned in the slide are for educational purposes only and not recommendations to buy*
- *The author may have investments in some or all the companies discussed in the presentation.*



# Valuation

## Paying a fair price is as important as buying a good business

- *If stock is trading below its intrinsic value, there is higher multibagger potential due to two drivers- valuation re-rating and earnings growth*
- *Remember- P/E multiple depends on the growth and quality of business both*

| Stock Name                           | Sub-Sector                       | Market Cap (INR cr) | PE Ratio |
|--------------------------------------|----------------------------------|---------------------|----------|
| <u>Reliance Industries Ltd</u>       | Oil & Gas – Refining & Marketing | 19,84,445.00        | 29       |
| <u>Tata Consultancy Services Ltd</u> | IT Services & Consulting         | 13,97,775.75        | 30       |
| <u>HDFC Bank Ltd</u>                 | Private Banks                    | 11,64,754.05        | 18       |
| <u>ICICI Bank Ltd</u>                | Private Banks                    | 8,00,610.07         | 18       |
| <u>Bharti Airtel Ltd</u>             | Telecom Services                 | 7,75,261.27         | 93       |
| <u>State Bank of India</u>           | Public Banks                     | 7,40,787.41         | 13       |
| <u>Infosys Ltd</u>                   | IT Services & Consulting         | 5,85,528.27         | 22       |
| <u>ITC Ltd</u>                       | FMCG – Tobacco                   | 5,48,079.27         | 29       |
| <u>Hindustan Unilever Ltd</u>        | FMCG – Household Products        | 5,23,089.50         | 51       |
| <u>Larsen and Toubro Ltd</u>         | Construction & Engineering       | 4,94,811.97         | 47       |

All data as on 1<sup>st</sup> May 2024

# Period of Holding

**Give your investments time and see the magic of compounding unfold**

- *Multi-baggers can't be made in weeks and month*
- *You will have to wait for years and keep tracking the results continuously*

| Particulars                 | Sensex   | Siemens  | Titan     | Bajaj Finance |
|-----------------------------|----------|----------|-----------|---------------|
| CAGR Returns since 1-1-2004 | 13.3%    | 23.8%    | 36.7%     | 40.5%         |
| Invested Amount on 1-1-2004 | 10,000   | 10,000   | 10,000    | 10,000        |
| Value on 28-5-2024          | 1,27,074 | 7,74,077 | 58,45,348 | 1,02,73,063   |



*“The big money is not in the buying or selling,  
but in the waiting”*

*- Charlie Munger*

**Disclaimer:**

- *The companies mentioned in the slide are for educational purposes only and not recommendations to buy*
- *The author may have investments in some or all the companies discussed in the presentation.*

# Companies for Case Study

**Study some of these companies in detail and build your own investment thesis**

| Company Name                         | Sectors                    |
|--------------------------------------|----------------------------|
| MK Exim (India) Ltd                  | Fashion                    |
| Akar Auto Industries Ltd             | Auto Ancillary             |
| A. K. Spintex Ltd.                   | Textiles                   |
| Investment & Precision Castings Ltd  | Auto Ancillary and Defence |
| Forbes Company Ltd                   | Landbank                   |
| Mafatlal Industries Ltd              | Land, Defence and Textiles |
| Cambridge Technology Enterprises Ltd | Artificial Intelligence    |
| Eurek Forbes Ltd                     | Home Appliances            |
| Den Networks Ltd                     | Broadcasting               |
| Andhra Cements Ltd                   | Cement                     |
| Tirupati Starch & Chemicals Ltd      | Chemicals                  |
| Shivam Autotech Ltd                  | Auto Ancillary             |
| Steel Authority of India Ltd         | Metals and Mining          |

**Disclaimer:**

- ***The companies mentioned in the slide are for educational purposes only and not recommendations to buy***
- ***The author may have investments in some or all the companies discussed in the presentation.***

# Final Words

- *As a Chartered Accountant, you are better equipped than almost anybody to understand financial statements*
- *Use your edge to analyse companies, build conviction, invest and create wealth*
- *Also, always invest based on your goals, mandate and risk appetite*
- *Lastly, enjoy the investing journey and marvel at the experiences along the way while you chase that elusive pot of gold*

# THANK YOU!

- *Special thanks to the Committee on Financial Markets and Investors' Protection, ICAI for giving me an opportunity to share knowledge within the community*
- *Thank you to all participants for your patient listening and inquisitive questions*