"It's not easy Duryodhana, to accept the success of our own relatives and friends – let alone our enemies. However, when we are unable to accept and show grace, it shows that we are infested with jealousy – the supreme cause of chaos in men. At times, even the greatest saints and seers have failed here. But do know that – this jealousy makes your life a living hell, first. Be watchful – stop comparing yourself with others, there's no meaning in comparing. Comparing ourselves with others and then acting without wisdom is a sure path to doom."
[Source:](#)

"It's not enough that we succeed. Cats must also fail."

Performance "comp"ing is an occupational hazard for us investment managers - at first, it starts with knowledge comping - know the company better than anyone else; then it is relationship "comp"ing - I know the VP, nay, I know the CEO; diligence comping - how many annual reports have you read?; then jargon comping - articulate the non-existent moat better than company's mgmt, AUM "comp"ing, then the starkest of all - performance "comp"ing. First the benchmark, then the same cap comp, then the other cap comp and then universe "comp"ing. For most money managers, tail wags and goes up when the performance is up and tail wilts when the performance is down, and then there is that constant drone of mystock, I bought, went up 'n' times, syndrome - on the lines of Gollum going gang busters about "my precious". As we embark on the Courser Park journey, we would like to build guard rails to keep our thoughts in check, with benchmark being NIFTY TRI 50 alone for the large and midcap strategy and leave everything aside. Essentially we plan to "do our own painting and see if we deserve an applause". As we articulated earlier in the Dec 2013 annual letter at RW, our endeavor would be to beat the index by 5% over a rolling 3 year performance cycle.

In this newsletter, we cover what the work that we did for improving our existing process to improve the outcomes:

How do we make our process better to capture some of the high growth opportunities?

"It is crucial to look at our past missteps as learning lessons and nothing more. We play, we learn and we don't bring guilt or regret with us into future games" - Bobby Fischer at War, Jordan Davis

BECTOR – PRICE FOR 20%IRR

Particulars	H1FY23	H2FY23	FY23	FY24	FY25
Sales	648	648	1296	1491	1714
YoY				15%	15%
EBITDA	76	84	160	193	222
EBITDAM	11.7%	13.0%	12.4%	13.0%	13%
PAT	34	43	77	98	112
PATM	5.3%	6.6%	6.0%	6.6%	6.6%
YoY				27%	15%
O/S			5.88	5.88	5.88
EPS			13	17	19

20% IRR target

		PE				
	₹ 384	25	28	30	32	35
	12.0%	273	306	328	350	383
	12.5%	298	333	357	381	417
EBITDAM	13.0%	320	358	384	409	448
	13.5%	347	388	416	444	485
	14.0%	371	415	445	475	519

Margin expansion seems unlikely beyond 13% given that employee expenses is historically lower at 11-12%while long term data suggests 14-15%is the trend.

Other Expenses also likely to inch up from 11%seen in FY21 & FY22, because of travelling and other covid related expenses coming back.

30-35PE implies ~35%discount to BRIT's 10Y median PE of 51. This seems fine seeing as the company has grown faster on TTM basis.

This should be bought somewhere around 410.

Chart on the side is from an internal presentation on Bector Foods, while we were evaluating investing in the company.

After a lot of internal debate, we left Bector purchase because it was slightly higher than our expected purchase price (after that it became near three-bagger in less than a year). Tega, AIA, Apar and other companies fall into the same category. This led us to introspect about how to make our investing process even better for companies growing faster than averages because such companies lead to disproportionate returns?

Considering the Bector example above, in hindsight, we were conservative in our assumptions on 1) revenue growth 2) EBITDA margin and 3) multiple that it can trade at. This happens often, when historical performance is not superlative and we tend to extrapolate that into the future. But once there is evidence of strong results i.e. better than our forecasts, we don't recalibrate our purchase price in time. Usually, this means that we may have to pay more than what we originally envisaged. Essentially, to spot the companies at an inflection point, we conducted a study on finding out the right multiples to pay using our PEG study:

PEG study to capture some of the fast growth companies:

For the PEG study:
E stands for annualized current quarter earnings i.e. current quarter EPS * 4
G stands for Next 12 month EPS growth over last 12 months EPS growth
P stands for Current market price.

In general, we are looking for sharp acceleration in near term earnings as part of this study. Key considerations for the purpose of analysis:

- Time Frame: 5 year period between Q1FY18 to Q2FY23 for analyzing quarterly data
- Company Criteria: Mcap >1000cr, Working Capital days < 150 days, RoCE >15%
- Look forward period for return computation uniformly begins 2 months post a financial quarter end, irrespective of when the company results are declared
- Look forward period = 12 months or 1 year
- Segmentation: PEG categorization into 3 buckets: 0.1 to 0.3 and further split this range from 0.3 to 0.5, 0.5 to 0.7
- Brokerage was assumed to be 50 bps; taxes were not considered

Results of the study are as under:

Ending Values for Period Starting 1st September 2017 till 22nd November 2023					
	Result Quarter	Q1	Q2	Q3	Q4
	Base Value	*100*	*100*	*100*	*100*
	PEG Values				
Index Performance (Ending Values)	0.1-0.3	167	157	128	164
	0.3-0.5	173	139	169	138
	0.5-0.7	167	167	141	115
Portfolio Performance (Ending Values)	0.1-0.3	271	246	165	205
	0.3-0.5	253	279	153	199
	0.5-0.7	94	178	186	180

CAGR for Period Starting 1st September 2017 till 22nd November 2023					
	Result Quarter	Q1	Q2	Q3	Q4
	PEG Values				
Index Performance (IRR)	0.1-0.3	8.5%	7.9%	4.4%	9.5%
	0.3-0.5	9.2%	5.7%	9.6%	6.1%
	0.5-0.7	8.5%	9.0%	6.1%	2.6%
Portfolio Performance (IRR)	0.1-0.3	17.4%	16.2%	9.2%	14.0%
	0.3-0.5	16.1%	18.7%	7.7%	13.4%
	0.5-0.7	-1.1%	10.1%	11.5%	11.3%

Key Conclusions that are useful for an investor are:

- Strategy seems to outperform nearly 90% of the time over a 5 year period; Particularly, companies with PEG between 0.1 to 0.5 x are the best in terms of outperformance. Key thing here is if the expected growth is 50%, it is ok to pay 25 P/E; by extension, if the growth rate is 100%, it is ok to pay 50 P/E. Lot of good companies with great growth characteristics, tend to have high starting multiples.
- Irrespective of how low the PEG was, drawdowns were high in 2018/2019, when there was a change in SEBI regulations – for an investor, there is no escape from drawdowns irrespective of the strategy
- 2/3rd of the time, combination of high growth and low PEG was found in small cap opportunities. In that sense, this study is more useful for constructing high growth small cap companies in our portfolio
    - In addition, it could also mean that large cap companies given their stable performance and ownership may not trade at such low PEG ratios – a study we should consider for future newsletters

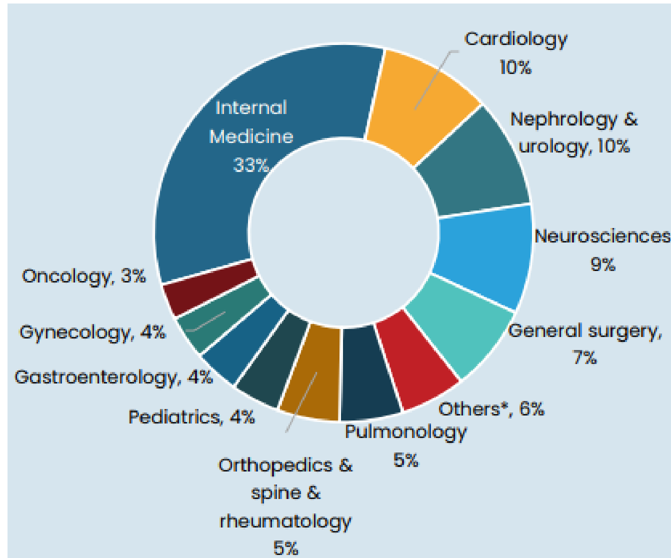
In conclusion, we should look for high growth companies with PEG ratio between 0.1 to 0.5 x for a higher probability of outperformance. Legendary investor Peter Lynch used to recommend PEG under 1, for high growth companies growing earnings anywhere between 20 to 25%, with clean balance sheets.

In our current portfolio, Rishabh Engineering and Yatharth Hospitals are the companies that fit this criteria. It will be interesting to see how the stock performance for these companies pans out. PFA briefs below on both the companies:

Yatharth Hospital & Trauma Care Services

Established in 2008, the company operates 4 specialty care hospitals – 3 in Noida and 1 in Jansi-Orchha, MP. The company is among the top 10 largest private hospitals of Delhi NCR region in terms of number of beds. The company follows affordable pricing model with 15-20% discount to peers.

Thesis



Better Case-Mix: With 33% revenue from Medicine, the case mix is inferior to peers (less than 20% for large players.) However, for FY21-23, top 5 growing specialty are Pulmonology (209%), Gastro (131%), Pediatrics (108%), Nephro (82%) and Gynec (79%). Cardiology is sixth at 77% CAGR. Organ transplant started in Dec-22 and Radiation Oncology will start in Jan-2024.

Improving Occupancy: Blended Occupancy (45% in Q2FY23) is expected to go up to 60% by Q4FY24. Most of the empanelment are done for Jhansi hospital and numbers should start coming in from Q3FY24. With increasing occupancy in Extension & Jhansi Orchha, exit EBITDA margins for the year could be higher than 26.6% in Q2.

Expansion: The management aims to double the bed capacity over the next 3-4 years via mix of both greenfield and brownfield expansion. One acquisition is expected in H2FY24.

Deleveraging: The company has used part of the IPO proceeds to pay down its debt completely. This should help in PAT margin expansion going forward. Full impact of debt reduction on finance cost will be further visible during Q3.

Hospital - Q2FY24	Sales-Mix	Bed-Mix	Occupancy
Greater Noida	36%	28%	73%
Noida	28%	18%	96%
Noida Extension	31%	32%	45%
Jhansi Orchha	5%	22%	20%
Total			***57%***

PEG Valuation

Based on our estimates, improving occupancy and operating margins along with nil finance costs would lead to 50-55% growth in Next Twelve Months (NTM) PAT over TTM (Trailing Twelve Months). This implies a forward PEG of 0.46 if the execution is steady state.

PEG Table	Figure
TTM PAT	85.2
NTM PAT	130.9
Growth	*53.7%*
Mcap	3220
NTM PE	25
NTM PEG	*0.46*

Risk: Jhansi-Orchha hospital seizure order is not targeted at the company particularly and injunction order has been received from the court. The hospital contributes 5% to revenue only and even lesser to EBITDA.

Rishabh Instruments

Incorporated in 1985, the company manufactures electronic testing and measurement instruments, industrial panel devices, solar strings, and aluminium high pressure die-casting products. It has manufacturing facilities in Nashik, Poland, and China, with modification centres in the US and the UK. Products include transducers, analogue and digital panel meters and electrical TMIs, such as hand-held Multimeter, and digital and analogue insulation testers.

It is also one of the leading non-ferrous die-cast players in Europe (40% of revenue). It is the first company in India to design, develop & manufacture Solar String Inverters end to end in the country.

Thesis

Capital Goods Proxy: 60% of business comes from electrical instruments and it has been associated with Siemens and Lucy Electric India for over 5 years, while ABB India, Gama Electrical Trading, Perel OY, Pronutec and Lucas-Nulle, have been with them for over 8 years. We believe this is a safer way to play the theme, especially considering the rich valuation in marquee names.

Revenue Mix	FY23
Electrical Automation	9.9%
Metering, Control & Production Devices	42.6%
Portable Test and Measurement	7.2%
Solar Inverters	0.7%
Aluminium Casting	39.6%

Exports Legacy: The company started with being a CMO for German players in 1980s after completion of Mr. Goliya's MS at Stanford – where his project was on micro-electronics. On request of the German customers for near-sourcing, the company acquired a distressed asset in Poland from the government and turned it around over the last decade (3x revenue with 10-12% reduction in employee). Currently, 60-65% production is in Europe.

Geography-Mix	FY23
Asia	24.7%
USA	4.8%
Europe (Ex-Poland)	49.4%
Poland	20.6%
Other	0.5%

Improving Economics: In FY23, electrical instrument business was impacted by supply chain disruprion of Integrated Chips (8x rise in costs) and Aluminium business was impacted by 5x jump in gas prices due to Ukarine war. These prices have corrected from peak, cost pass-thru has been done. Esop costs have also impacted the margins in Q1FY24 and management believes 18-20% EBITDAM (adjusting for ESOP) is sustainable for the business. As per our estimates, 2.5% EBITDA margin expansion should come from declining ESOP costs over the next 2 years.

Sustained Growth: Management is guiding for 20-25% organic growth guidance and target of reaching 1000 crore by FY26. Q3 demand is better than H1FY24. They expect to close one acquisition (100 Crore budget) by Q4FY24.

China + 1: Solar String Inverters which are entirely made in India by the company offer import substitution optionality.

PEG Valuation

PEG Table	Figures
TTM PAT	61
NTM PAT	99
Growth	61.6%
Mcap	2181
NTM PE	22
NTM PEG	*0.36*

Based on the guidance and our estimates, NTM PAT growth is expected to be *61.6% YoY*. This implies a forward PEG of *0.36*. This is without factoring in any acquisition as well.

Risks & Concerns:

- Working capital days could be better (117 days) especially considering ABB is negative and Siemens and Schneider are less than 50.
- 40% of the business is Aluminium die-casting which doesn't seem as complicated as intruments business.

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