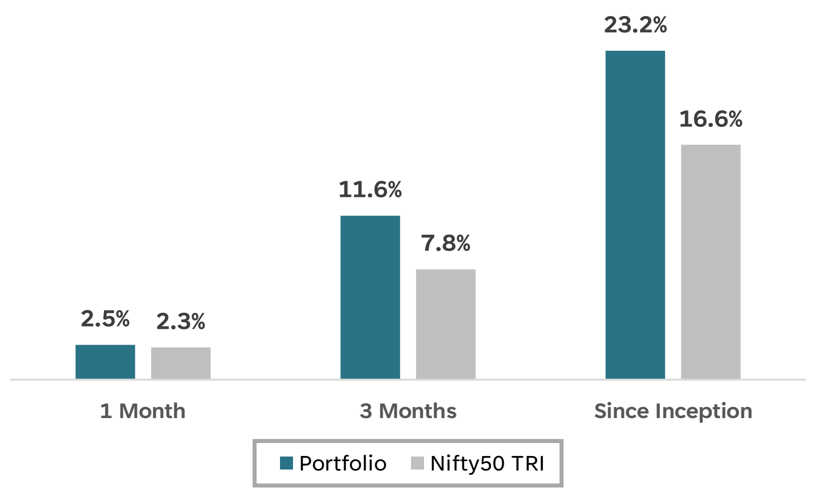
COURSER PARK ADVISORS

Quarterly Update — September 2024

Investment Objective

Courser Park Advisors ("CPA") uses a proprietary framework that combines fundamental and quantitative factors to identify businesses that can create long term wealth. The guiding philosophy is capital protection and compounding over longer periods by investing in companies with durable business models that can generate higher returns on capital over time. The singular goal and focus – invest only in those companies which have the lowest odds of permanent loss.

Chart 1: Strategy Returns[1]- GARP Scheme



1 The above returns are calculated by using the Time-Weighted Rate of Return (TWRR) method across all portfolios (Absolute returns for less than 1 year). The above returns are as on 30-09-2024, post fees and expenses; Note: Returns of individual clients will differ based on the timing of their investments.

Top Performers

Scrip Name	Purchase Date	Purchase Price (Rs.)	CMP (Rs.) as of 30-09-2024	Return (%)
Prudent Corporate	01-Apr-2024	1,255	2,603	107%
S.J.S. Enterprises	01-Apr-2024	611	1,002	64%
Crompton Consumer	01-Apr-2024	268	416	56%
ASK Automotive	01-Apr-2024	285	439	54%
Persistent Systems	25-May-2024	3,569	5,450	53%

Holding Companies*

Asset Concentration	Holding
Cash	0.0%
Top 5 Holdings	23.6%
Top 10 Holdings	42.6%
Highest Exposure	APOLLO HOS(6.1%)

Sector Allocation*

Sectors	Allocation (%)
Consumer	21.9%
BFSI	27.2%
Technology/IT Services	16.6%
Healthcare	8.9%
Auto & Others	25.4%

Market Capitalization*

Market Capitalization	Holding (%)
Large Cap	59%
Mid Cap	5%
Small Cap	36%
Avg. Market Cap (Rs. Bn)	2,018

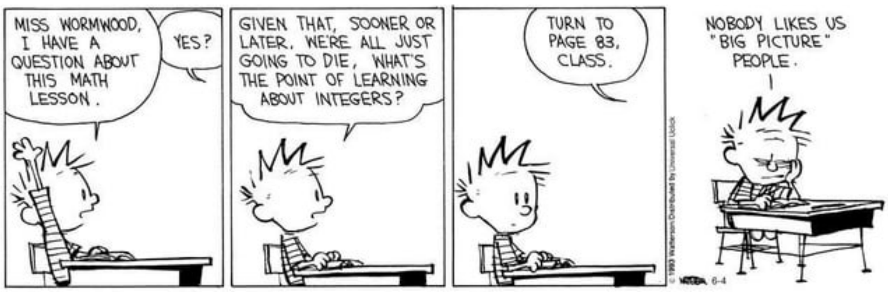
Qualitative Analysis*

Parameters	TTM
PAT Growth	31.0%
PE	53.9x
ROE	15.2%

***Represents Model Portfolio**

Disclaimers and Risk Factors

GARP Strategy Inception Date: 1st April, 2024. Data as on 30th September, 2024. Data Source: CPA Internal Research. Returns of individual clients may differ depending on time of entry in the Strategy. Past performance may or may not be sustained in future and should not be used as a basis for comparison with other investments.



It's been half year since the transition to Courser Park Advisors from RW began and we have now migrated most of our clients to the new structure. Surrender process of the RIA license is underway and should be completed by this month end.

Source: Calvin and Hobbes

Performance in the first six months has been decent with 7 (out of 34) companies in the portfolio going up 50% or more. This is unlikely to repeat and tells us the extent of exuberance in the market. The good part is some of the excesses in the broader market are going out in this ongoing correction in small and mid caps. We will continue to follow the process, look for new buying opportunities and exit ideas if and when growth tapers off in the existing set of companies.

In this newsletter, we primarily cover what we thought would be the investment thesis on SJS before investing and how it actually panned out - the lessons learnt in that process:

"We simply must come to a decision right now with as much as we know at this moment."

From Thinking in Bets: Making Smarter Decisions When You Don't Have All the Facts by Annie Duke

When you are making a series of decisions, the ones that appear fifty-fifty at the outset are the ones that teach you the most. Investing in SJS Enterprises was one such decision in the portfolio given that the company was a small cap and lacked research coverage. The company is based out of Bangalore and makes aesthetic products for automotive and consumer durable companies like stickers, logos, chrome-plated parts in 2 wheelers, cars and consumer durables – a relatively simple business to understand. Although it is a doubler* for us in the portfolio, the decision to buy at the time of investing was far from obvious.

We highlight some of our learnings from this investment below:

Invest in the present, not future

When we first invested in SJS, we had no doubts over management's execution skills after our factory visit. But we were sceptical about the size of the opportunity as the company was already servicing almost all the 2-wheeler companies (except Hero Motors) in India. It looked like wallet share increase was the only lever for growth.

Fast forward two years, the company diversified well both in terms of industry segments and new technologies, something no one could have foreseen. Two-wheeler contribution has come down from more than two-thirds to one-third; acquired new technologies like Chrome-plating and In-Mould Labelling that now contribute to 40% of revenue compared to less than 5% a few years ago.

While we were thinking about the limitations of existing products and the two-wheeler industry, the management executed well and diversified into newer products and segments.

**Doubler since our first purchase under RW Investment Advisors LLP*

Reasonable expectations over precision

SJS' revenues and profits had grown at a CAGR of 12% in the pre-covid period of FY15-19. On a steady state basis, we are most likely to assume a similar or slightly higher growth rate depending on the fundamentals of the business. For the next 5 years i.e. FY19-24, the company's revenue and profits grew at 21% and 18% CAGR respectively! But, CAGR can also be deceptive, because it never captures how bumpy the business ride would have been in the interim years.

Also, it would have been extremely difficult to factor the success of both Walter Pack and Exotech acquisitions, given the poor base rates for successful M&A, management's discipline not to overpay for acquisitions – let alone margin improvement and their cross selling ability.

Exotech got its first export order from Whirlpool, which was a long-standing client of SJS. Likewise, the recent inclusion of Dixon as a client as well as Cover Glass technology (car display screen cover) were not factored in our models a few months ago.

SJS (₹ Cr)	Sales	EBITDA	PAT
FY15	153	42	24
FY19	237	69	38
FY24	628	153	85
CAGR			
FY15-19	***12%***	***13%***	***12%***
FY19-24	***21%***	***17%***	***18%***

While dealing with complex systems, we should make reasonable assumptions and adjust our expectations, based on how a company evolves rather than looking for precise inputs or outputs on a spreadsheet.

Acting on incomplete information

Although it would have been difficult to foresee what we described above, what we did know was that SJS had:

1. Best operating margins among ancillaries
2. Strong cash generation
3. Negligible debt
4. Decent Return on Capital Employed
5. Market share gains
6. Decadal relationships with clients

Questions as to why the two promoters sold their stake to the third promoter? What did they not see that we are seeing now? PE investor's stake sale overhang? Why did Evergraph exit the company, when it could have been a strong technology partner? etc. - these became inconsequential compared to fundamental strength of the company even in the last couple of years.

What we could see was a franchise with leading operating metrics, consistent value-addition for clients and willingness to scout for growth. Some of the most successful decisions in our journey have been based on incomplete information such as KPIT tech, ICICI Lombard, Shriram Transport Finance etc.

The big learning from the last couple of decades is that there will always be some unanswered questions - one still needs to be decisive when the opportunity comes.

Always prefer simple over complex

Occam's razor is a principle that states that the simpler explanations are to be preferred over more complex ones.

What caught our eye in the initial study was the superior operating margins (25%) compared to other auto ancillaries (10 to 15%) despite having simpler products in the portfolio. Management highlighted that the products are customized as per the models, and they must go through multiple rounds of printing and colouring to arrive at the result. Pricing process is very opaque and is not linked to any commodity like steel, copper etc.

While this does help us appreciate the margin difference, what clears the air is the fact that per part cost is almost negligible for an OEM. SJS supplies very high-volume, low-ticket size parts to the OEMs. Between FY21 and FY24, units supplied went from 12 crore to 17 crores. However, price per unit price went from 22 rupees to 37 rupees – which is an extremely low-ticket size (less than 0.5% of overall vehicle cost) for the vehicle manufacturers, so much so that the OEMs may not care much about the margins made by SJS. Something, which is also evident from a company called Classic Stripes – a competitor to SJS.

Another metric that popped up was the number of Stock Keeping Units (SKUs) that the company handled every year, which has gone up from 6,000 to 7,000 in the last 3 years. This meant, close to 25 different types of products were being made every single day and that appeared improbable, as this is a labour-intensive process. Management clarified that only 20% of the stated units are active in a year i.e., 7 different types of products per day instead of 25 – and therefore, it not a big differentiating factor as we thought earlier.

In a nutshell, SJS investment taught us that the key to successful investing is also in knowing what to ignore.

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   - www.bseindia.com
   - www.nseindia.com
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   - *A brief overview of the risks associated with investment products is available in the client agreement.*
   - *Clients are advised to refer to this risk information before investing in any recommended product or securities*

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