



DIGITIAN  
CAPITAL

Issue



# DIGITIAN VIEW

A monthly investment outlook



## FUTURE FOCUS

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Valuation faces a Paradigm Shift during Covid

“.. It is a great opportunity to get access to the long term Investors' investment book with a research capsule, buy/sell real time guidance, and get a return of 20%-60% in 3-9 months - this is the unique offer Surrogate Investor brings ”

# DIGITIAN VIEW!

## MARKET WATCH

If you observe the eventful year 2020, then you would be surprised to note the bumper year it was from the point of the stock markets (refer to the side Table), as if the world has seen huge economic surge and expecting a double digit real growth in 2021-22. I analyzed this many times in our Newsletter, that the power of liquidity is never seen before like 2020. Today I would discuss the change in the Valuation Paradigm.

At the start of 2020, All major fund managers in USA projected after a great year of growth of 30% of all indices, that overall market P/E will be between 18.5x to 20x (Refer December 2019 news letter)



When a Mutual Fund provides a dollar return of 8-10% at max it is considered excellent, in comparison If your return becomes 60% + at a portfolio level in a year it is a matter of concern. Still I believe on a portfolio level 15%-20% return is an excellent return and sustainable if smart investment choices are made. Given such an abnormal return, the major effect will be on valuation.

Now observe the chart using **Cyclically Adjusted Price Earnings (CAPE) ratio** - which is calculated as the current Price divided by the average earnings over the prior 10 years for comparability. It may be seen that the P/E(cape) is at 35 times only lower than P/E during Internet bubble( around 45x ) in 2000.

Equity Indices	Monthly Open	Monthly Close	Monthly Change %	2021 YTD %	2020 %	2019 %
S & P	3756	3773	0.5%	0.5%	16.2%	28.9%
Nasdaq	12888	13403	4.0%	4.0%	43.6%	35.2%
FTSE 100	6460	6466	0.1%	0.1%	-14.3%	12.1%
Shanghai CompSite	3473	3505	0.9%	0.9%	13.9%	22.3%
NIFTY	14919	14281	-4.3%	-4.3%	22.5%	12.2%
Nairobi SE 20	1868	1874	0.3%	0.3%	-29.6%	-6.3%
Egypt SE 30	10845	11546	6.5%	6.5%	-22.3%	7.1%
Tanzania All Shares	1817	1795	-1.2%	-1.2%	-11.8%	0.9%
Nigeria SE 30	1640	1721	4.9%	4.9%	39.2%	-16.9%
Morocco All Shares	11288	11624	3.0%	3.0%	-7.3%	7.1%
Bangladesh DSE 30	2079	2160	3.9%	3.9%	38.4%	-20.1%

Commodity	Monthly Open	Monthly Close	Monthly Change %	2021 %	2020 %	2019 %
Gold	1901	1863.9	-2.0%	-2.0%	25.1%	18.5%
Crude Oil	51.72	56.35	9.0%	9.0%	-21.7%	22.0%
WTI Oil	48.34	52.2	8.0%	8.0%	-21.0%	33.6%
Copper	3.52	3.546	0.7%	0.7%	25.8%	6.3%
Iron Ore	155.84	148.42	-4.8%	-4.8%	70.3%	32.4%
Aluminium	1980	1961	-1.0%	-1.0%	9.8%	-20.1%



Thus, the current P/E has at - 2 Std Deviation level and presently at 77% above average. But this is still at macro level now lets look at the situation at the micro level.(With Companies having \$20 bio + Market cap)

At the micro level, valuation wise markets are divided into three segments: a) **Traditional companies** still measured in Terms of PE ratio, PEG Ratio or PB ratio (Still the traditional Ben Graham, Warrent Buffet, Charlie Munger wisdom and valuation would work)

FAANG companies sport a PE ratio of 25x-35x except Amazon(121x) and Netflix sporting(87x) (Total Market Cap \$ 6.45T). Most of the companies are within the range of 35x accross Industries; Microsoft (34x) Target (24x), Deers(32x), Fedex (28x), Pepsi (29x) etc For Amazon Sum of parts Valuation will work.

But loss making traditional stock - **Burlington** (Off price Retail) Trailing PE 289x PB: 61x due to **Forward PE** is 38x, TJ max PE 931x but **FPE 25.7**

However, **BFSI** segment sports PE of 10-13x,Energy/Aviation/Physical/travel/Entertainment,Manufacturing Industries, Metals, Pharmaceuticals are within 25x

It becomes complex when you are estimating Forward PE and projecting the market recovery within Traditional framework

b) **IT, Media and New technology Companies with breakeven Profit** getting measured in terms of Price To Sales(P/S) or Enterprise Value/Revenue, Comparable sales, price/cash flow, Average revenue Per customer etc

**VEEVA systems** TPE 129x P/S 32x EV/R 101.67; **SQ** TPE 573x FPE 200x P/S 12.8x **Disney** FPE 156x P/S 5.73x mainly due to customer acquisition in Digital platform **FICO** FPE : 50x P/S 11x

**TSLA** (Electric Vehicle/Solar Energy/Battery) TPE 934x FPE 147x P/S 25x

**This segment is mainly using different parameters relating to product/usage/users etc with loose reference to P/S or EV/R. This is the new trend in Valuation for this types of company;**

c)**New Age Companies loss making** with significant R&D and Marketing expenditure valued mainly in terms of New age uniqueness, Future market potential, Customer Acquisition/ Usage Trend, lower Cash Burning rate, early break even etc

**Zillow (Digital Real Estate):** FPE 192x P/S 8x EV/R 36x (**Future virtual REO**); **TWTR (Social media):** FPE77x P/S 15x 191m Monthly Active Users(MAUs);**UBER (Movement): P/S 7x** EV/R 29x(**success of Uber Eats**);**PAL Alto:P/S 9.5x** EV/R34x (cybersecurity); **Zoom:** FPE 118x P/S 56x EV/R 121x (Video conference); **AirBnb** (Virtual Accomodation) P/S 21x EV/R 99x.

There are more than 100+ companies like these.

Biotech Companies in the likes of **Moderna** (Covid Vaccine) with P/S 62-100x;

The valuation takes the form of private equity investment. Increasingly, valuing on the basis of future market potential is becoming new normal. This is the new benchmark for identifying **multibagger** in developed economy.

## COUNTRY DATA

Countries	GDP (USD Bn)	Market Cap (USD Bn)	GDP Growth 2021 %	Inflation %
USA	21729	50808	1.0%	2.24%
China	14340	10290	7.0%	1.9%
India	2650	2500	9.0%	4.0%
Egypt	220	42	3.2%	6.00%
Kenya	70	21	6.4%	5.4%
Tanzania	54	6.5	6.6%	3.7%
Ghana	43	11	4.8%	8.7%
Nigeria	421.12	42.00	1.90%	13.8%
Bangladesh	318	57	6.8%	5.19%

Forex	Monthly Open	Monthly Close	Monthly Change %	2021 YTD %	2020 %	2019 %
EUR USD	1.213	1.206	-0.61%	-0.6%	8.2%	-2.3%
GBP USD	1.367	1.367	0.00%	0.0%	3.2%	3.6%
USD INR	73.090	72.860	0.32%	0.3%	-2.5%	-2.1%
USD KES	109.740	110.050	-0.28%	-0.3%	-6.5%	-0.7%
USD EG POUND	15.840	15.720	0.76%	0.8%	1.26%	11.6%
USD TZS	2319	2317	0.07%	0.1%	-0.8%	0.0%
USD NAIRA	381.200	381.050	0.04%	0.0%	-4.9%	0.5%
USD TAKA	85.069	84.795	0.32%	0.3%	-0.2%	-1.8%





# Be a millionaire Start Surrogate Investment ?

**World First digital surrogate investor platform** is now ready and for the first 6 months registration is **FREE**

Surrogate Investment refers to getting the benefits of Investment in stock like a professional without the pain of tracking the stock, studying the market trend and the time it takes to do the same. **REAL TIME**

## Why it is a success:

- **Skin in the game:** the fund managers picked up these shares and invested in themselves basis proprietary Research
- **Time to market :** They are keeping daily watch on the stock/market behaviour and that of the global trend
- **Regular Profit booking :** They make profit and you make too in the short run

- **Professional Expertise & Performance Track:** Fund managers are super Qualified Professional Experts with their Return CAGR varies between 35%- 48% over last 10 years

## What you have to do ?

- Have your trading account for full control of your money
- Act fast when Buy and Sell advice is given and make Huge Profit
- Only pay Back if you made money

## Success returns :

Surrogate Investors are making 100%+ to 450% annualised return from each trade

## New Service : Surrogate Investment

Digitian Capital (DC) has launched a new service "Surrogate Investment". We have come across many of our readers who may not have USD 100,000 or equivalent to join the club and make their investment fortune. Further, we understand **TRUST & BELIEF** are two big factors confronting the medium value investors. The service is designed to address these issues while creating a family of DIGITIAN investors :

The features of Surrogate Investment (SI) :

1. Invest your own Money through your own custodian account (so no money transfer )
2. Only two markets : India and USA
3. Atleast investable funds of USD 20,000 or AED 10,000 or INR 10,00,000
4. Digitian Capital would give you names of only 1(one) share (on the basis of our model **WINGS to freedom**)
5. You will invest yourself on the basis of that Tips on that share
6. Digitian will advice you to sell the the shares at right point in time.
7. You transfer 20% of the profit you generated out of the sale of shares. (Say you invested USD 20000/- in Apple and you sold it at USD 24000 then you will pay DC, USD

800 (20% of gain of USD 4000)  
8. On receipt of USD 800 DC will provide you another name of shares where you will invest again USD 20000 or more.

**If you have a loss from a tip it will be adjusted first from subsequent gain, before upside kicks in.**

So it is **SIMPLE .. SIMPLE**

Why You should avail this service?

- You do not have time like Professional Fund Managers like us, so you are getting a professional specific advise
- Your money is in your own account. You can sell whenever you want
- Digitian capital is doing all the hard work, Selecting the share, monitoring the performance of the company, attending AGM and Investors Conference, advising you the buy and sell time with entry and exit price.

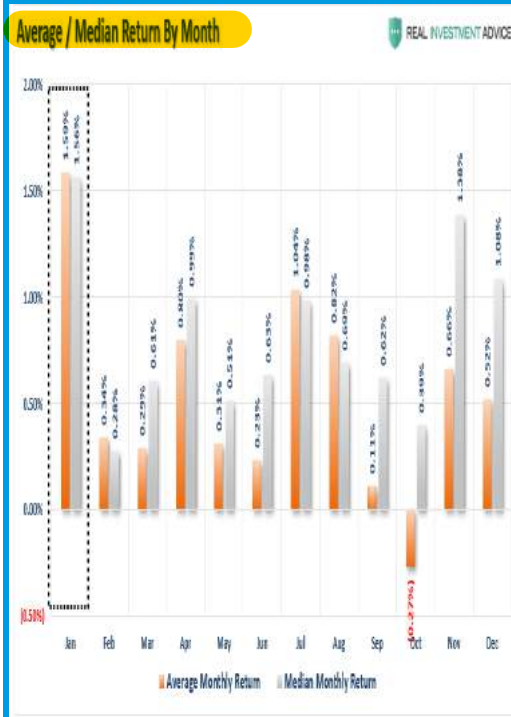
### Fees for the Service :

- a) ZERO UPFRONT Fees
- b) Upside of 20% of the profit **only on realisation** of the profit (So Zero risk)

Process :

- 1) Sign up : [digitiancapital.com](http://digitiancapital.com)
- 2) Start Your millionaire Journey

## BEST CHART OF THE MONTH



This is a good to have Chart at the start of the year. The chart sums up the monthly performance of US Stock market over the last 70 years. This shows that historically which month is performing better in terms of stock market returns. As per the historical Trend

**Best Month is January**  
**Good Return Months are :** April, July, August, November and December

All other months are average with September to October there could be a fall.

There are 60% probability of matching return in a month;



# VALUE INVESTING

Debashish Neogi

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“ I like companies with pricing premium which is reflected in their operating margin, I never compromise on this when I look at micro /small caps - ceteris paribus, pricing power is the single most valued parameter for identifying multibagger”

## How to find Multibaggers ? - The crux of Value Investing

These two simple Advertisement below when posted on social media, it created a lot of curiosity.

The curiosity was for two reasons :

1)"Surrogate Investor" advisory portal – the entire model is on “ pay as you grow model” which means anyone registering on surrogate portal will only pay Digitian when they as individual investor makes money .The entire money of the investor is also safe in his /her name in their respective custodian account . Plus availability of research through online Portal - provide complete openness and transparency .

2) How Debashish & Saugata identifies these nil researched or less researched micro and small cap stocks and are creating multi-baggers for themselves and their investors

Hence this article in our 25th Issue.

The detailed work we go through before identifying a stock through our proprietary model adds all the value. We see lot of details and go through a process before we invest in / recommend a stock. I will discuss one of the most important criterion which I look at when identify these diamonds which have potential to become multibaggers.

Now before I dwell into one of the single most important factor ,please read this small story .

*An economist once went to the movie theater.*

*He noticed that Coke and popcorn were priced way too high relative to their prices elsewhere. Yet they sold like hot cakes.*

*The poor soul was so puzzled, he spent hours researching on it. He could understand why first-class airplane seats are sold for more than train coach seats. But all his theories couldn't help him understand why coke and candy bars sell for so much at theaters.*

**Charlie Munger** once narrated this story to his partner and world's richest investor, Warren Buffett.

In fact, this was the story that laid the foundation of the Buffett-Munger partnership.

**Before he met Munger, Warren Buffett used to invest like his guru, Benjamin Graham. In the first few decades of his career, Buffett would mostly invest in deep discount stocks. Following the principles of Benjamin Graham, Buffett rarely looked for things like management quality and pricing power of the businesses.**

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Performance during Covid: India

Name of the Company	Date of Purchase	Entry Price	Actual Gain
HQ, Fire Chem	19-Mar-20	301.5	35.2%
Tata Elxsi	27-Apr-20	790	263%
R&C, Geotech	4-Aug-20	65	218%
Bajaj Finance	22-May-20	1960	156%
Glenmark	3-Apr-20	218	121%
NewGen Software	4/22/2020	118	148%
Esorte Limited	4-Mar-20	592	141%
Aurobinda Pharma Ltd	8-Apr-20	397	143%
State Bank of India	2-Jun-20	165	136%
PNB Housing Finance	27-May-20	172	129%

Debashish

Saugata

Missed it ?

Surrogate Investor gains 40%+ p.a

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Years later, Munger put across his rule of buying great businesses with these words :

**" There are actually businesses, that you will find a few times in a lifetime, where any manager could raise the return enormously just by raising prices - and yet they haven't done it. So, they have huge untapped pricing power that they're not using. That is the ultimate no brainer"**

**Buffett listened to Munger. And together they identified many examples of pricing power. They bought Disney, Coca Cola, See's Candy and Gillette for this single reason.**

Decades later, Buffett bought Lubrizol in 2010. Lubrizol had raised prices 18 times between 2004 and 2010, without hurting its market share. Lately Apple for that matter.

**The single most important decision in evaluating a business is pricing power.** If you've got the power to raise prices without losing business to a competitor, you've got a very good business. And if you have to have a prayer session before raising the price by 10 percent, then you've got a terrible business.

**- Warren Buffett, 2011 (Financial Crisis Inquiry Commission)**

Margin is a factor of pricing premium, hence being student of Warren Buffet and Charlie Munge, I like companies with pricing premium which is reflected in their operating margin, I never compromise on this when I look at micro /small caps (I don't care about input cost increase because if companies are able to pass on that cost, that is what I like), hence if you see Company X's OPM (we haven't released our research

report and hence the name is not disclosed ), it is trailing OPM is at 15% (last 5 years is between 14-18% ,Mar 20 was an exception )

	Mar 2015	Mar 2016	Mar 2017	Mar 2018	Mar 2019	Mar 2020	TTM
Sales	95	99	119	158	193	187	183
Opex	80	85	100	132	158	166	155
OPM	15	14	19	26	36	21	28
OPM%	16%	14%	16%	16%	18%	11%	15%

If you look at the steadiness of margin as a % with increasing volume for last 5 years , this one aspect in micro cap, I never compromise.

If you look at NGL Finechem, which we recommended, last 5 years OPM between 17% - 26%, trailing OPM is at 25%, now when you have increasing OPM, and pricing not compromised with increasing volumes (see last 2 sales bar in the pic below the table) **PE get re-rated, that's when multi baggers happen...now imagine all this has been happening when it was Rs 250 crore market cap.**

	Mar 2015	Mar 2016	Mar 2017	Mar 2018	Mar 2019	Mar 2020	TTM
Sales	95	99	119	158	193	187	183
Opex	80	85	100	132	158	166	155
OPM	15	14	19	26	36	21	28
OPM%	16%	14%	16%	16%	18%	11%	15%



**GPM% OPM% NPM% Quarter Sales**



Please look at RAEL Geartech's, trailing OPM % at 24% for a market cap of less than Rs 100 cr when we had recommended !

	Mar 2015	Mar 2016	Mar 2017	Mar 2018	Mar 2019	Mar 2020	TTM
Sales	107	117	116	136	190	212	184
Opex	92	103	101	118	158	170	141
OPM	16	15	15	18	32	43	43
OPM%	15%	13%	13%	13%	17%	20%	24%

Its already a 4X Multibagger in just little over 6 months !!When we recommended there was no research report available on this stock ,that's our conviction on our process and hence on our recommendation



To put things into perspective the return of 4 X in 6 months is equivalent to Nifty return over a 10-11 year period (which means to get the same return of Racl you have to wait for 10/11 years if you had invested in Nifty).

Just a word of caution –pricing power is just one factor we look at (and which we never compromise ), there are many other things which we look into for value.

Happy Investing !

\*all charts and data are from [www.screener.in](http://www.screener.in)





DIGITIANS are those who born in or after the year 2000 and will be a dominant force through 2075. They are completely different in usage of their left brain and motor nerves. They are different from the Millennials in behaviour, thinking and action.

The world is changing superfast – media, communications, banking, currencies, education, retail channels, health & medicines, travel and tourism, consulting, manufacturing, agriculture, – every sectors facing disruptive innovations; Nano technology, internet of things, artificial intelligence and robotics will be overwhelmingly embedded. In this age, model disruption, extinction, miniaturisation, real time delivery, speed and virtualisation are neo normals.

*We make you ready for them*

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- ⌘ Unique Access to Frontier & Emerging Markets
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- ⌘ Value Stock Pick
- ⌘ Multi-bagger return
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