



**DIGITIAN  
CAPITAL**



## FUTURE FOCUS

**Saugata Banerjee**  
saugatab@mydigitian.com

“..It is a great opportunity to get access to the long term Investors' investment book with a research capsule, buy/hold/sell real time guidance, and get a return of 20%-60% in 6-12 months - this is the unique offer Surrogate Investor brings ”

### Relevance of Joseph D Piotroski in Today's market

# DIGITIAN VIEW!

I hope you are enjoying this small capsules of stalwart Investors and brushing up your investment funda. In my Investor Guru Series, I will discuss the philosophies of another Guru Investor, **JOSEPH d PIOTRISKI - A Professor of Accounting in Finance in Stanford Graduate Business School and his relevance in Today's Market.**

Joseph Periotroski is known for his **Periotroski F score model** published in 2000. The model got the attention of the Investment community for his 2000 paper, **Value Investing: The Use of Historical Financial Statement Information to Separate Winners from Losers**, which appeared in the Journal of Accounting Research. This score is now overwhelmingly used as a selection basis for stocks.

This model examined whether an accounting-based fundamental analysis

driven stock selection strategy, when applied to a broad portfolio of high book-to-market firms, could impact returns for investors. The Piotroski F-score is a 9-point valuation metric derived on this research.

He began by limiting his search to firms whose **book/market ratios** (the inverse of the price/book ratio) were in the top 20% of the market. He then ran those firms through an array of tests involving their balance sheets and income statements, using nine metrics.

Through back-testing, Piotroski found that buying the top stocks in the market according to his methodology and shorting those that got the worst scores would have resulted in **23% annualized gains from 1976 through 1996, more than double the S&P 500** broad market index return. **The strategy appears to be robust across time and to controls for alternative investment strategies.**

Within the portfolio of high BM firms, the benefits to financial statement analysis are concentrated in small

## MARKET WATCH

Equity Indices	Monthly Open	Monthly Close	Monthly Change %	2022%	2021%
S & P	3932	3719	-5.4%	-17.5%	26.9%
Nasdaq	11634	10772	-7.4%	-25.6%	21.4%
FTSE 100	7386	6936	-6.1%	-0.4%	14.8%
Shanghai Compsite	3238	3051	-5.8%	-11.0%	4.8%
NIFTY	18005	17569	-2.4%	3.7%	16.4%
Nairobi SE 20	1787	1695	-5.1%	-5.9%	1.7%
Egypt SE 30	10397	10163	-2.3%	-13.0%	10.2%
Tanzania All Shares	1905	1884	-1.1%	0.4%	4.5%
Nigeria SE 30	1770	1630	-7.9%	2.8%	4.9%
Morrocco All Shares	12417	11323	-8.8%	-7.0%	18.3%
Bangladesh DSE 30	2353	2277	-3.2%	-7.0%	21.7%

Commodity	Monthly Open	Monthly Close	Monthly Change %	2022%	2021 %
Gold	1711	1650	-3.6%	-9.79%	-3.8%
Crude Oil	92.87	90.26	-2.8%	16.48%	49.8%
WTI Oil	87.06	82.69	-5.0%	9.51%	56.2%
Copper	3.53	3.34	-5.4%	-24.43%	25.6%
Irone Ore	101.43	95.21	-6.1%	-15.37%	-27.8%
Aluminium	2306	2182	-5.4%	-22.10%	41.5%

nd medium-sized firms, companies with low share turnover, and firms with no analyst following.

Secondly, the market initially under-reacts to the historical information. the evidence suggests that the market does not fully incorporate historical financial information into prices in a timely manner.

$$F\_SCORE = F\_ROA + F\_ΔROA + F\_CFO + F\_ACCRUAL + F\_MARGIN + F\_ΔTURN + F\_ΔLEVER + F\_ΔLIQUID + EQ\_OFFER.$$

Where Variables are :  
 MVE = Closing Market Value of Equity  
 ROA = Net Income Before Extraordinary items scaled by Opening Total Assets  
 Δ ROA = Change in ROA over past year  
 CFO = Cash Flow from Operation scaled by Total Assets  
 Δ Margin = Gross Margin (Net Sales less Cost of goods sold) scaled by Net Sales  
 ACCRUAL = Net Income Before Extraordinary items less Cash Flow Operation scaled by Total Assets  
 Δ LIQUID = Change in the firm's current ratio  
 Δ TURN = Change in the firm's Turnover ratio  
 Δ LEVER = Change in the Firm's Debt to Assets Ratio

Figure 2 :

	Mean ROA <sub>t+1</sub>	Proportion of Firms with Performance Delisting	n
All firms	-0.014	0.0427	14,043
<b>F_SCORE</b>			
0	-0.080	0.070	57
1	-0.079	0.106	339
2	-0.065	0.079	859
3	-0.054	0.064	1618
4	-0.034	0.052	2462
5	-0.010	0.036	2787
6	0.006	0.032	2579
7	0.018	0.028	1894
8	0.028	0.017	1115
9	0.026	0.021	333
High-Low Diff.	0.106	-0.083	—
(t-statistic)	(15.018)	(-7.878)	—

Given the nine underlying signals, F\_SCORE can range from a low of 0 to a high of 9, where a low (high) F\_SCORE represents a firm with very few (mostly) good signals.

It is statistically proven with 14403 companies, that high F score companies has better return over a period of 20 years, refer Figure 2.

It does not necessarily mean that all high F score companies will have higher future performance. It shows that close to 2% of the High F score companies D-list within next 2 years. However Low F Score companies have 5x higher chances.

This model is not meant for evaluating the performance prospects of individual “value” firms. However, investors can use relevant historical information to eliminate firms with poor future prospects from a generic high BM portfolio.

It is also seen that firms with strong historical improvements in asset turnover and margins earn the strongest future returns

Periotroski's F Score is the first order condition and helps us to concentrate on right sizing the sample for value investing portfolio. However, Other qualitative factors for value investing are the required secondary conditions to select Individual stocks in the Portfolio.

Happy investing.

## COUNTRY DATA

Countries	GDP (USD Bn)	Market Cap (USD Bn)	GDP Growth 2022 %	Inflation %
USA	23420	48264	2.6%	8.20%
China	16000	7620	3.2%	3.5%
India	3050	3210	6.8%	7.4%
Egypt	340	49	6.6%	8.50%
Kenya	107	23	5.5%	7.5%
Tanzania	62	7	5.0%	4.8%
Morocco	122	11	2.0%	8.30%
Nigeria	445	54	3.10%	20.2%
Bangladesh	400	68	7.2%	6.20%

Forex	Monthly Open	Monthly Close	Monthly Change %	2022%	2021%
EUR USD	0.997	0.983	-1.40%	-13.16%	-6.7%
GBP USD	1.148	1.130	-1.59%	-16.54%	-1.0%
USD INR	79.580	82.350	-3.36%	-9.56%	-1.9%
USD KES	120.250	121.100	-0.70%	-6.57%	-3.0%
USD EG POUND	19.180	19.680	-2.54%	-20.17%	0.8%
USD TZS	2332	2332	0.00%	-1.16%	0.6%
USD NAIRA	428.000	436.350	-1.91%	-5.76%	-7.3%
USD TAKA	102.430	101.700	0.72%	-15.71%	-0.8%







# VALUE INVESTING

## Debashish Neogi

“ In case of mastering the art of investing in small cap , the most important focus be on Founders/ management and their execution skills - whther they are intelligent fanatics who are less charismatic but more believe walking the talk”

### The Art of investing in small cap (Part 1)

The smaller the company, the more should be the focus on management and qualitative analysis. CEOs of small microcap companies tend to wear a bunch of hats, so their influence is much greater than larger companies. Founders are the difference makers.

**Intelligent Fanatic = (Long Term Vision + Focus + Energy + Integrity + Intelligence) x Execution**

The combination of all these traits multiplied by execution is what makes an “intelligent fanatic”. Many investors mistake an executive with charisma for being an intelligent fanatic. The micro-cap space in particular is filled with snake oil salesman and executives that talk too much and do too little. Do not mistake a story telling, charismatic CEO as an intelligent fanatic. In fact, many intelligent fanatics are not charismatic. Intelligent fanatics let their execution do the talking.

For a small micro-cap company to be a market leader, it must dominate a small market. I want to own businesses that dominate a small market that is expanding. This normally pushes quality attributes down to the financial.

Above are the words of Ian Cassel ,it looks like it has been written keeping **Rahul Nachane ,MD of NGL Finechem** in mind .Rahul doesn't sell his company nor is charismatic

In fact someone who is a very good investor met him before looking for investment in NGL commented “**thakela with no fire in the belly**”. He felt the management running the business were not aggressive and very passive . Having said that “execution” have done the talking for Rahul . The past performance of NGL, on any time frame speaks for itself. (Figure 1).

#### Lets analyze NGL basis Ian Cassels Intelligent Fanatic model .

- 1) **Long term Vision** : NGL took a very different & unique strategic approach to business. They carved out a niche in unregulated market .They operate in this space with products which has 7-8 chemical processes focusing on quality, cost and timely delivery. They have 99% customer stickiness for over more than last 2 decades. They currently have around 35 people in R&D s ,which is 10% of the total work force . NGL acquired Macrotech for a cash consideration of INR 7 cr and invested further (Total 2INR 5 cr ) aimed in providing supply of intermediates for its existing API

products

It is also expanding a new factory in **Tarapur** for which civil work have started in full swing .Its going to invest Rs 140 cr (debt and equity mix of 2:1 ) in modular fashion. First the “intermediates set up” would be ready in the factory by May 23 .The new factory is being made keeping regulated markets (like North America –the largest market for animal healthcare )in mind

- 2) **Focus** –For more than 2 decades for NGL, the strategy was to focus on the core which is unregulated Animal API market .

Then they extended to adjacent vertical in the sector which is the poultry market .

Now the strategy is slowly get into regulated market .

In all these years there was laser sharp focus on cost and return ratio. NGL is an excellent allocator of capital which is reflected in ROCE/ ROE over long period of time .

Figure 1

Compounded Sales Growth		Compounded Profit Growth		Stock Price CAGR		Return on Equity	
10 Years:	24%	10 Years:	48%	10 Years:	57%	10 Years:	27%
5 Years:	26%	5 Years:	29%	5 Years:	33%	5 Years:	28%
3 Years:	28%	3 Years:	37%	3 Years:	40%	3 Years:	30%

**Richa Jha of Equitymaster.com puts it very aptly**

“You see, for successful investment results, one thing that is most critical, and at the same time, most tricky to assess, is management quality. This is truer for small-cap companies as compared to their larger peers. That's because while bigger companies can run on the auto pilot mode, the management of small-cap companies is a critical make or break factor. Also, to spot such managements, we need to interact/meet with them. I believe it's often small details, unconscious gestures or statements rather than their talk on media channels or interviews in the financial dailies that reveal the true person. For instance, you will find a lot of managements talking big about cost consciousness, adopting fancy Japanese six sigma practices, hiring a prestigious

consultancy firm (and paying them crazy amount) for suggestions on cost savings. The same managements, however, can be seen making an obscene amount of expense on areas that will do nothing to improve the firm's productivity. This includes setting up offices at the poshest locations, lavish office interiors, obscene expenses during AGMs and analyst meetings”

It may seem like I'm nit-picking, but for small caps, these seemingly random details are quite telling.

**It's the small things that give you big clues whether the management tends to walk the talk”**

**3) Energy** –Definitely it is not visible in body language of Rahul but action speaks louder than voice.

Rahul appeared extremely humble, feet on ground person.

After being in the business for over 3 decades, he still visits the factory once in a week on a Tuesday travelling almost 5 hours by car . Last month in one such visit we joined him,. He and his son Aahan picked us up and later dropped us to our hotel. We spend a full day where we got to know him more as a person .

Below are some pictures of the new factory expansion.



to be continued .....

**World first Digital Advisory Platform**



**Performance during Covid: India**

We only publish Top Multi bagger stocks with return >100%

Name of the Company	Date of Purchase	Entry Price	Actual Gain Published in Feb2021	Actual Gain Published in Dec2021	Actual Gain Published in March 2022
NGL Fine Chem	13-Mar-20	302	352%	767%	729%
Tata Elxsi	27-Apr-20	790	263%	646%	1057%
RACL Geartech	4-Aug-20	65	204%	897%	877%
Arman Financial	8-Feb-17	243	Not in List	327%	332%
Shivalik Bimetal	5-Feb-21	69	407%	443%	697%
Vedanta	7-Apr-20	73	190%	373%	477%
Trident	1-Oct-20	6.55	123%	648%	740%
Triveni Engineering	5-Apr-21	80	New	181%	300%



**Debashish**



**Saugata**

**Still Missed it ?**

**Surrogate Investor gains 40%+ p.a**



*Don't Wait*  
Join free /Register :

<https://www.digitiancapital.com/SurrogateInvestor/Login.aspx>



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*

## HOW TO INVEST IN DIGITIAN CAPITAL

Presently DIGITIAN is raising money from Equity Investor in various classes (A, B and C) depending upon investment amount. This is a Unique opportunity to select a Zero Tax destination to Invest money especially for Diasporas. If you need to know about Investment opportunities, Please write to us for more details at [info@mydigitian.com](mailto:info@mydigitian.com)

- ⌘ Unique Access to Frontier & Emerging Markets
- ⌘ Cheaper Cost
- ⌘ Value Stock Pick
- ⌘ Multi-bagger return
- ⌘ Online Investment Platform
- ⌘ Open & Transparent Upside Sharing

[mydigitian.com](http://mydigitian.com)

Visit our website :

- Market Vision
- [Indian Budget 2022 special](#)

We are looking for Virtual Analyst.

Apply at  
[Career@mydigitian.com](mailto:Career@mydigitian.com)



Contacts us :

[info@mydigitian.com](mailto:info@mydigitian.com)  
Standard Chartered Tower  
Level 5 Emaar Square  
Down Town, Burj Khalifa  
PO Box : 35482  
Dubai UAE

## DISCLAIMER

Disclaimer: This communication is issued by DIGITIAN Investment Inc (Digitian Capital) on a strictly confidential basis. Digitian Capital is not a regulated entity. This document must not be regarded as independent research and has been prepared by Digitian Capital for information purposes only. Digitian Capital and its directors, employees, agents and consultants shall have no liability for any statements, opinions, information or matters arising out of, contained in or derived from, or any omissions from, this information package. All recipients of this information should make their own independent evaluations, should conduct their own investigation and analysis and should check the accuracy, reliability and completeness of the information. Investments discussed in this publication may not be suitable for all investors. Advice should be sought from a professional and authorized financial adviser regarding any investment products discussed in this publication before investments are made. Where this information package summarizes the provisions of any other documents, that summary should not be relied upon and the relevant documentation must be referred to for its full effect. This document is not directed to, nor intended for distribution or use by, any person or entity in any jurisdiction or country where the publication or availability of this document or such distribution or use would be contrary to local law or regulation, including the USA. The News letter is published from RAK, UAE