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CAPITAL**



FUTURE FOCUS

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Relevance of Carl Icahn 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 a Guru Investor, who mainly carried **ACTIVIST INVESTOR** tag - **Carl Icahn** - and his relevance in Today's Market.

Carl Icahn - commenced his journey in stock market in 1960 after graduating from Princeton University in Philosophy. In initial years he concentrated on Options. Commenced his own Option Trading Firm with investments from his uncle and set the foundation of Icahn Enterprises, a public company later.

In 1980s, He was reputed as "**Corporate Raider**". He took over many companies through hostile bidding and later sold the company at a profit. Among the Notable Takeover bid was - Tappan,

Bayswater Realty, Capital Corporations, ACF Industries etc. The main hostile Takeover was : Trans world Airlines, (1988). Texaco, Marvel comics (1999) Xo communication (2005) Take 2 Interactive(2006)s etc . Among the notable failed bids was US streets, Pan Am, Lionsgate Films.

"A lot of people died fighting Tyranny The least I can do is vote against it."

In the end of Twentieth Century, gradually, he turned into an **Activist shareholders** by acquiring to be amongst large shareholders and try to steer the managements and companies through Proxy voting control. In this phase Biogen (2007), Yahoo & Motorola (2008), Clorox (2011), Netflix (2011), Apple (2014), Lyft (2015) Xerox (2015) and Hertz (2016) are notable ones. In 2014, he pushed Ebay to sell off Paypal and then later exchanged his ebay share for PayPal. In more recent phases his fight as Activist shareholders through Open letter to McDonald, Krogger for Organic protein, to Board of South-West Gas and Oxydental for risking shareholders capital to protect Board/

Continued Page 2

MARKET WATCH

Equity Indices	Monthly Open	Monthly Close	Monthly Change %	2022%	2021%
S & P	3719	4076	9.6%	-22.0%	26.9%
Nasdaq	10772	11482	6.6%	-31.1%	21.4%
FTSE 100	6936	7523	8.5%	-6.5%	14.8%
Shanghai CompSITE	3051	3156	3.4%	-16.2%	4.8%
NIFTY	17569	18670	6.3%	1.2%	16.4%
Nairobi SE 20	1695	1637	-3.4%	-10.7%	1.7%
Egypt SE 30	10163	13639	34.2%	-15.0%	10.2%
Tanzania All Shares	1884	1876	-0.4%	-0.7%	4.5%
Nigeria SE 30	1630	1717	5.3%	-5.3%	4.9%
Morrocco All Shares	11323	11022	-2.7%	-15.2%	18.3%
Bangladesh DSE 30	2277	2216	-2.7%	-10.0%	21.7%

Commodity	Monthly Open	Monthly Close	Monthly Change %	2022%	2021 %
Gold	1650	1814	9.9%	-0.82%	-3.8%
Crude Oil	90.26	87.03	-3.6%	12.31%	49.8%
WTI Oil	82.69	81.17	-1.8%	7.50%	56.2%
Copper	3.34	3.82	14.4%	-13.57%	25.6%
Iron Ore	95.21	103.1	8.3%	-8.36%	-27.8%
Aluminium	2182	2496	14.4%	-10.89%	41.5%

Management Interest; to HP Board to stop merger with and with Xerox,

Icahn said, "My investment philosophy, generally, with exceptions, is to buy something when no one wants it."

Icahn aggressively purchases a significant position in the corporation and either calls for the election of an entirely new board of directors or the divestiture of assets in order to deliver more value to shareholders. Icahn focuses publicly on CEO compensation, arguing that many top executives are grossly overpaid and that their pay is not commensurate with shareholder returns.

Investors followed his lead and bought into the businesses he set his focus upon. The increase in stock price caused by the anticipation that Icahn would uncover shareholder value became known as the "Icahn lift".

Thus his style of investing is unconventional but the main relevance in today's day, is you have to follow an activist shareholding investor as they create a rise in the valuation of the Target company within a medium term window. But as a Harvard study puts it only 17% of them see success.

Activist Shareholder & Investor

An activist shareholder is a shareholder of a corporation who attempts to use his or her equity stake in a company to achieve certain goals. The main goal of activist shareholders is bringing change within or for the company. They intend to affect the behavior of a company by exercising their voting power or influencing other shareholders. An activist shareholder does not necessarily need to own a large equity stake in a company.

The reasons for the shareholders' activism may be **financial or non-financial**. **Financial goals** include cost-cutting, changes in the corporate or financial structure, or a spin-off

or merger. **Non-financial goals** may be the **abandonment of operations in certain markets or the adoption of socially or environmentally friendly policies.**

Forms of Shareholder Activism

Activist shareholders can avail themselves of different methods to push the desired changes within or for the company, includes :

1. Shareholder resolution : This is a proposal that can be submitted by the shareholders for a vote at the company's annual meeting.

2. Proxy Fights : When a group of shareholders is not content with the company's management or its actions/decisions, it may persuade other shareholders to use their proxy votes to effect changes in the management.

3. Publicity campaigns : An activist shareholder may use mass media to draw the public's attention to a problem or issue in a corporation.

4. Negotiations with management : Sometimes, activist shareholders can reach their goals through a simple negotiation with corporate management.

5. Litigation : Activist shareholders can also initiate legal action against the company's management to reach their goals but a least desirable option.

Activist investors see weaknesses or problems resulting in undervaluations but they also envision solutions in the form of strategic initiatives that they believe will increase shareholder value. These are :

Increasing operational Efficiencies and cost reduction, Strategic M&A/ assets stripping, capital Allocation and Share Buy back and Governance change of Board or management.

Other Top Activist shareholders are Daniel Loeb, Bill Ackman, Paul Singer, Nelson Peltz, Barry Rosentien etc.

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	0.983	1.051	6.92%	-7.16%	-6.7%
GBP USD	1.130	1.225	8.41%	-9.53%	-1.0%
USD INR	82.350	81.200	1.42%	-8.28%	-1.9%
USD KES	121.100	122.550	-1.18%	-7.67%	-3.0%
USD EG POUND	19.680	24.565	-19.89%	-36.05%	0.8%
USD TZS	2332	2334	-0.09%	-1.24%	0.6%
USD NAIRA	436.350	443.950	-1.71%	-7.37%	-7.3%
USD TAKA	101.700	102.450	-0.73%	-16.33%	-0.8%



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- **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)
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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?

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- 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.

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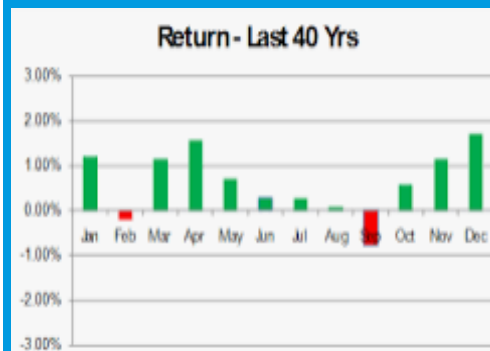
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BEST CHART OF THE MONTH

S& P 500 Returns in USA



Jan	-1.61%
Feb	-2.33%
Mar	1.12%
Apr	2.68%
May	0.71%
Jun	-2.28%
Jul	0.34%
Aug	-0.25%
Sep	-0.97%
Oct	0.51%
Nov	1.68%
Dec	1.26%



Jan	1.22%
Feb	-0.19%
Mar	1.15%
Apr	1.58%
May	0.72%
Jun	0.25%
Jul	0.25%
Aug	0.08%
Sep	-0.77%
Oct	0.58%
Nov	1.15%
Dec	1.71%



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 2)

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”.

Debashish wrote in the last Newsletter (please **click** for reading)

He already discussed first three components **Vision, Focus and Energy**

4) Intelligence - Extremely knowledgeable, yet humble (a CA with a Management degree).We saw him reviewing the production guys and the project guys working on the new factory . He looks like an all rounder, **"feet on ground person"** –who looks after production, sales and business development, finance & HR –typical of a promoter run business. Having said that he is modern and not old fashioned promoters with ego .He didn't have a flashy cabin nor a separate toilet in factory. In fact he ate lunch with all in the same small area in pantry, enough to accommodate only 5-6 people !

We met few production guys in the company. Looks like an environment of openness and transparency, with freedom for employees to show their talent and capability .The organization doesn't look bureaucratic .People have an empowerment feeling !

These small things matter as it talks about the “middle class human side “of the company where typically most people are happy and no one loses in the process.

5) Integrity - He feels people have contributed a lot for the company's success . –We felt he doesn't want to retrench employees ,looks for rankers which is why the attrition rate for senior management is less than 2 % .The entire day we saw Rahuls simplicity ,doesn't show off ,not extravagant at all ,no ego , gives his car for us for another factory visit (not NGL), opens the door for us – conjecture -these type of people generally don't have personal integrity issue.

Figure 1



When the operating margin had peaked at 31% ,he repeatedly said that the operating margin is not sustainable but the investors never believed him and now when the operating margin have tanked he still repeats same thing –that his steady state margin is around 15% which again investors are not believing and stock price have tanked !

I believe the operating margin has some inverse correlation to crude prices in a way with some time lag of 6 months (see Figure 1)

Execution – The numbers speaks for itself !

I feel NGL have some pricing power like FMCG .The reasons I am saying so are as follows:

1.In FMCG ,brands like Parachute, Dabur have pricing power ,hence they can pass on prices but with a time lag (much shorter time lag than NGL) .

2. Having said that when commodity prices come down, they reduce consumer prices with also a time lag and use that “abnormal” profit by increasing advertising spends (creating more stickiness for consumers for future) and/or park the excess in provision for difficult times. Because of this FMCG margins and return ratios are much more stable in short run.

3. In case of NGL I feel there is very high customer (B2B) stickiness because of NGL’s quality, service delivery assurance and long term orientation (where NGL take time to pass on costs in short run) which is why NGL margin and return ratios take a beating in short run.

4. Over longer period of few quarters or a year, the equilibrium (of excess supply vis a vis demand because of under cut in prices by players) sets in and margin & return profile, if taken, over a 3/5/7 year period averages out.

5. While comparing with FMCG brands of Marico and Dabur is not fair to NGL, but just to make a point NGL have created a superior business which is on a “sustainable profitable growth” with enviable margin and return ratios similar to FMCG, hence comparison & expectation in short run because of sector dynamics, by analysts/investors on margin/return ratios, is not far from my view.

I have appended a comparison of margin and return ratios of NGL with Marico and Dabur (Table 1). The right comparison would be Dabur as their business is much more diversified like NGL, whereas Marico profitability is more driven by two brands – Parachute & Saffola.

I have also compared NGL with other good chemical companies, the return ratio is very much at par/even better than some of them! (Table 2)

Table 1 : Comparison with FMCG Brand

	NGL Fine Chem Ltd	Marico Ltd	Dabur India Ltd
Market Cap	940	67,407	101,061
Current Price	1,520	521	570
High / Low	₹ 3,435 / 1,377	₹ 608 / 456	₹ 659 / 482
Stock P/E	28.2	54.3	56.0
Book Value	334	26.4	47.4
Dividend Yield	0.13	1.75	0.91
ROCE	34.7	42.7	27.2
ROE	28.9	36.6	22.5
Face Value	5.00	1.00	1.00
ROCE3yr avg	35.1	42.9	27.4

Table 2 Comparison with Peer Companies

ROCE %	NGL Fine Chem	22%	11%	19%	24%	29%	37%	34%	22%	28%	15%	52%	35%
Alkyl Amines	13%	18%	21%	28%	26%	26%	26%	24%	25%	29%	41%	56%	33%
Balaji Amines	24%	23%	19%	18%	18%	24%	30%	32%	25%	18%	35%	50%	
Laxmi Organic						12%	22%	25%	19%	12%	20%	26%	

Like Ian Cassel said “ Intelligent fanatics let their execution do the talking”. Financial number over long period of time is an outcome of THAT execution!!

Risk to the Business :

Now NGL is in a challenging situation – in a double whammy kind of situation – volume growth coming down and raw material prices going up. I feel this is temporary, like I said before which is a factor of excess supply vis a vis demand (of the sector) because of under cut in prices by unorganized/small players.

Having said that in future, I feel business growth to come from :

- Existing product & new geography** – though would not be much here, as penetration is high and NGL have market share of 50%+ in top 5
- Growth to come from new category – ie poultry**
- New products** – NGL plans to launch 2-4 new product every year

4. In Future new regulated markets

Operating margin should be upwards of 15% + due to

- Increasing operating leverage
 - Crude oil impact
- In my view, profit should grow at 18% -20% pa for next 5/7 years –hence **logically the share price would be 10x in 10 years !**

Last but not the least, was very impressed with the succession planning. His son Aahan is young dynamic and a quick learner, has a very positive attitude. He is an IT professional, studied and worked in USA.

Can I be wrong in my future assessment of NGL –offcourse I can be completely wrong as because of my investment I am completely biased –but only truth is I have tracked Rahul from an outside in perspective for long met him recently, **hence I would rather bet on a person who has walked the talk and doesn’t talk / make castles in air –ultimately promoter and quality of management makes the difference**

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Debashish



Saugata

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%

to be continued

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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.

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