



**DIGITIAN
CAPITAL**



FUTURE FOCUS

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Our Prediction of the 2022 Market was right again !

DIGITIAN VIEW!

We completed 2022 a down year for the major stock Markets except India .

The markets in bear mode after most gains in the last 3 years (2019, 2020 & 2021).

While China and India will register minor growth Of 4-7%

US Markets performed badly than the projection due to the beginning of **Ukraine -Russia War** and also the **prolonged China Lock down** which created unprecedented Inflation in USA. However, we were clear that the USA market will be in a bearish phase and guided our investors correctly in their investments.

Our Projection for **India** turns out to be almost matching with a **7.5%** growth. This is mainly due to performance of India in Covid management, China Plus one policy helped India and continuous investment by Government in infrastructure projects.

Only our Projection about **China** appears to be not correct as the market further slided by **13.3%**. This is mainly due to the fact that China continued with their COVID 2.0 Lock down for the entire 2022 almost.

MARKET WATCH

Equity Indices	Monthly Open	Monthly Close	Monthly Change %	2022%	2021%
S & P	4076	3839	-5.8%	-14.5%	26.9%
Nasdaq	11482	10466	-8.8%	-26.6%	21.4%
FTSE 100	7523	7451.74	-0.9%	1.4%	14.8%
Shanghai CompSITE	3156	3089	-2.1%	-13.3%	4.8%
NIFTY	18670	18145	-2.8%	7.5%	16.4%
Nairobi SE 20	1637	1676	2.4%	-13.8%	1.7%
Egypt SE 30	13639	14645	7.4%	14.1%	10.2%
Tanzania All Shares	1876	1881	0.3%	-1.2%	4.5%
Nigeria SE 30	1717	1842	7.3%	-0.2%	4.9%
Morocco All Shares	11022	10827	-1.8%	-17.5%	18.3%
Bangladesh DSE 30	2216	2195	-0.9%	-12.4%	21.7%

Commodity	Monthly Open	Monthly Close	Monthly Change %	2022%	2021 %
Gold	1814	1830	0.9%	0.05%	-3.8%
Crude Oil	87.03	86	-1.2%	10.98%	49.8%
WTI Oil	81.17	80.15	-1.3%	6.14%	56.2%
Copper	3.82	3.83	0.3%	-13.35%	25.6%
Iron Ore	103.1	111.28	7.9%	-1.08%	-27.8%
Aluminium	2496	2380	-4.6%	-15.03%	41.5%

USA market :

USA economy is facing the **threat of recession**. Given the high inflation of over **8%** since the start in 2022, Fed has no options but start to raise the Fed rate from near 0% to almost 4.75% in 2022. Still the inflation remains strong and so is the economy, so the FED will continue to rise the rate to minimum 6%. The liquidity squeeze is felt in the market as well which tanked especially the high PE stocks in the IT segment which faced cut in the investment budget of clients - laid off thousands of employees signaling the slow down. Other consumer Discretionary, Consumer Staple Manufacturing, all faced the increase in th cost of Operation due to supply chain issues contributed by the Ukraine - Russia War and China Lock down.

The only Sector which remained strong in this rout is **Energy** due to ongoing Russia Ukrain war and opening of China in 2023. The demand situation will be high while the supply situation is constrained as Russian supply is cut.

The economy is still doing strong reflecting in the unemployment rate of 3.5% which is at 50 year low. This shows that rescission is still some quarters away and further rate hike is on the card.

Indian Market :

In line with our projection, Indian stock market is the only major market which registered 7.5% growth. This is mainly due to the fact that India did not close the economy for long during COVID 2019, second the Government continuously infuse money in infrastructure spending and third the China plus one strategy of the Government clicked as China remain closed for long. Another important

factor is that flow of foreign portfolio Investment (FPI) increased substantially with the weakness in the US markets and Indian Rupee became cheaper to Dollar. **(with a 10% slide)**

FPI outflow
January - June 2022 Rs 2.32 lacs crore
= The stock market tanked

FPI Inflow
July- December 2022 Rs 1.11 lacs crore
Which helped the market to bounce back with Domestic participation in the rally.

It is good to note that domestic investors are majorly involved in this rally. This is new phenomenon. In terms of economy Indian market has bounced back with 6.8% GDP growth rate while inflation is around 7.4% mainly energy driven. Thus at the end of 2022, Indian market looks good and ready for another rally. Since the India will go for election in 2024 so there will be lots of government spending will be in 2023, the market will remain bullish for the same. Further, given the volatility of USA market and the resilience of Indian Market, FPI will be higher in 2023 for sure.

Africa Market :

Like India Egypt market has also seen a yearly growth of **14.1%** which is also linked to the fall of EGP to the Dollar by **36.6%**. Thus major drop in EGP attracted more funding in the stock market from abroad. Other African markets continued the trend that if USA markets are down, they also got cold. But due to currency depreciation most of the markets reduced the fall of the relevant indices. Further African markets are yet to be internationally linked so their response is mainly driven by local economy coming out of COVID related stress.

We shall take closer look at the market and our estimation in January 2022.

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	1.051	1.069	1.71%	-5.57%	-6.7%
GBP USD	1.225	1.205	-1.63%	-11.00%	-1.0%
USD INR	81.200	82.710	-1.83%	-9.95%	-1.9%
USD KES	122.550	123.300	-0.61%	-8.24%	-3.0%
USD EG POUND	24.565	24.770	-0.83%	-36.58%	0.8%
USD TZS	2334	2327	0.30%	-0.95%	0.6%
USD NAIRA	443.950	447.000	-0.68%	-8.00%	-7.3%
USD TAKA	102.450	103.250	-0.77%	-16.98%	-0.8%



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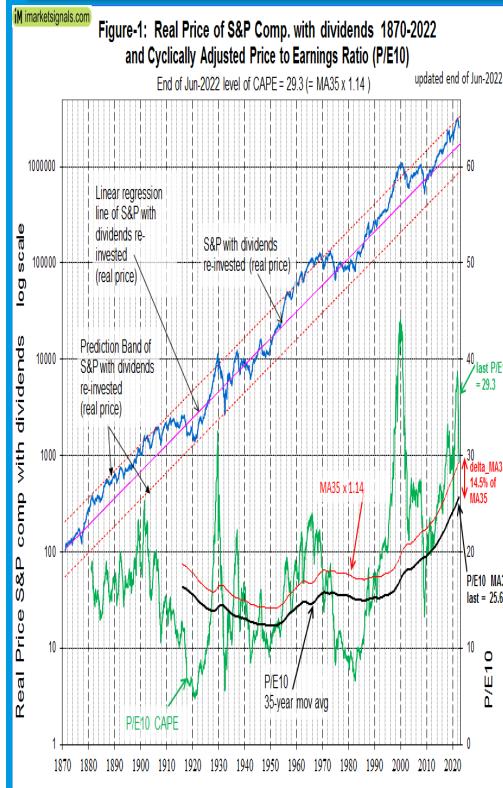
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BEST CHART OF THE MONTH



The projections here are partly based on "Estimating Forward 10-Year Stock Returns using the Shiller's S&P series CAPE Ratio and its 35-Year Moving Average. (MA35), At the end of June 2022 having values of 29.3 and 25.6, respectively. Thus, the falling CAPE is now only about 15% above the MA35 .

The Dec 2022 S&P level of 3839 is 48% above the long-term trend line Reverting to the mean trend would entail a 33% decline which does not look feasible. Currently, the CAPE-MA35 ratio of 1.15 forecasts a probable 10-year annualized real return of about 6.8% to June 2032 this means the Index at 7,524, which is much above the 10 year Longterm return of 2.3%. Hence S&P is overvalued.



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) (Repeat)

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%

Continued Page 5

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

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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

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