

ICAI Seminar on Capital Market

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Mumbai

Strategy for picking MB Stock

1. What is a Multibagger?
2. Some Past MB Success Stories
3. Few Disasters (stocks, sectors, promoters)
4. Essentials for picking Multibagger Stock
5. Strategy to select Multibagger Stock
6. Examples for Case Study

What is a Multibagger (MB)?

- ◆ Stock which can give multi-bagger returns over a period of time.

Since 1x is one bagger,

so 2x, 3x, 4x and so on are “multi” baggers

- ◆ Thus, by definition, MB has to be a distress stock, can not be a blue chip, with longer time-frame, with higher risk reward.

Some Past MB Success Stories

- ◆ Hindustan Zinc – production went up 10x in 17 years since privatization
- ◆ TCI Industries – compelling real estate story
- ◆ Reliance Industrial Infrastructure – a Mukesh Ambani pipeline company
- ◆ Greaves Cotton – classic turnaround story
- ◆ RCF – PSU having transformed with real estate story

MBs are few and rare

Long list of **Past Disasters**

- ◆ Suzlon Energy
- ◆ Shankara Building Products
- ◆ Vakrangee
- ◆ Binani Industries
- ◆ Yes Bank
- ◆ Sterling & Wilson

.....to name a few

Few Sectors have been Disastrous

- ◆ Real Estate – Unitech, HDIL, DB Realty
- ◆ Infrastructure – JP Associates, GVK, A2Z, MEP Infra
- ◆ Telecom – RCom, Idea Vodafone, MTNL
- ◆ Power & Steel – Bhushan, Essar, Monnet, JSPL
- ◆ Education – Educomp, Everonn, Tree House
- ◆ Aviation – Jet Air, Kingfisher
- ◆ Gem & Jewellery – Gitanjali Gems, Su-Raj Diamonds, Shree Ganesh Jewellery

Few Promoters notorious for Wealth Erosion

- ◆ ADAG
- ◆ Zee/Essel Group
- ◆ Videocon
- ◆ Essar
- ◆ JP Associates
- ◆ Ranbaxy
- ◆ DHFL
- ◆ Bhushan Steel
- ◆ Alok Industries
- ◆ Thapars (CG Power)

Essentials for picking a MB

- ◆ Investor **Patience**: long time horizon of 3-7 years
- ◆ **Disciplined** approach to investing: total exposure of not over 10% of portfolio in MB stocks
- ◆ **Tolerance** to loose entire money: as it is a high risk-high return strategy
- ◆ Must have **Conviction** on promoter and sector: avoid the examples discussed earlier

Strategy to select a MB

- ◆ Has to be a **Distress stock**, else risk-reward doesn't justify the name multi-bagger (x times)
 - Hence, wrong to consider Blue chip as MB
- ◆ **Promoter** a key criteria for selecting MB, as managerial expertise a pre-requisite for growth
- ◆ **Sector** must possess potential of PE expansion
- ◆ PE/Venture Capital investing & MB are similar
 - But we mistake MB stock as Blue Chip Investment, due to our love and bias for penny stocks.

Examples for Case Study

- ◆ Century Textiles
- ◆ Jain Irrigation
- ◆ CG Power
- ◆ Hind Copper

Happy Investing!