

Twitter Thread by Tar ■



Tar ■
[@itsTarH](#)



It's the weekend!

Grab a cup of coffee, in this thread I will explain

- 1. How to do Industry Research?**
- 2. How to research a Company from scratch?**
- 3. How to determine Margin of Safety and build an Investment Case?**

Lets dive right in.



The most frequent question I get asked is - How should I research an industry or a trend?

A good question indeed and my answer to this is simple.

Read, Read and then Read some more.

The more knowledge you consume, the better you will be able to identify and link trends across industries.



But reading doesn't mean you need to pick a newspaper or start reading random articles over the internet.

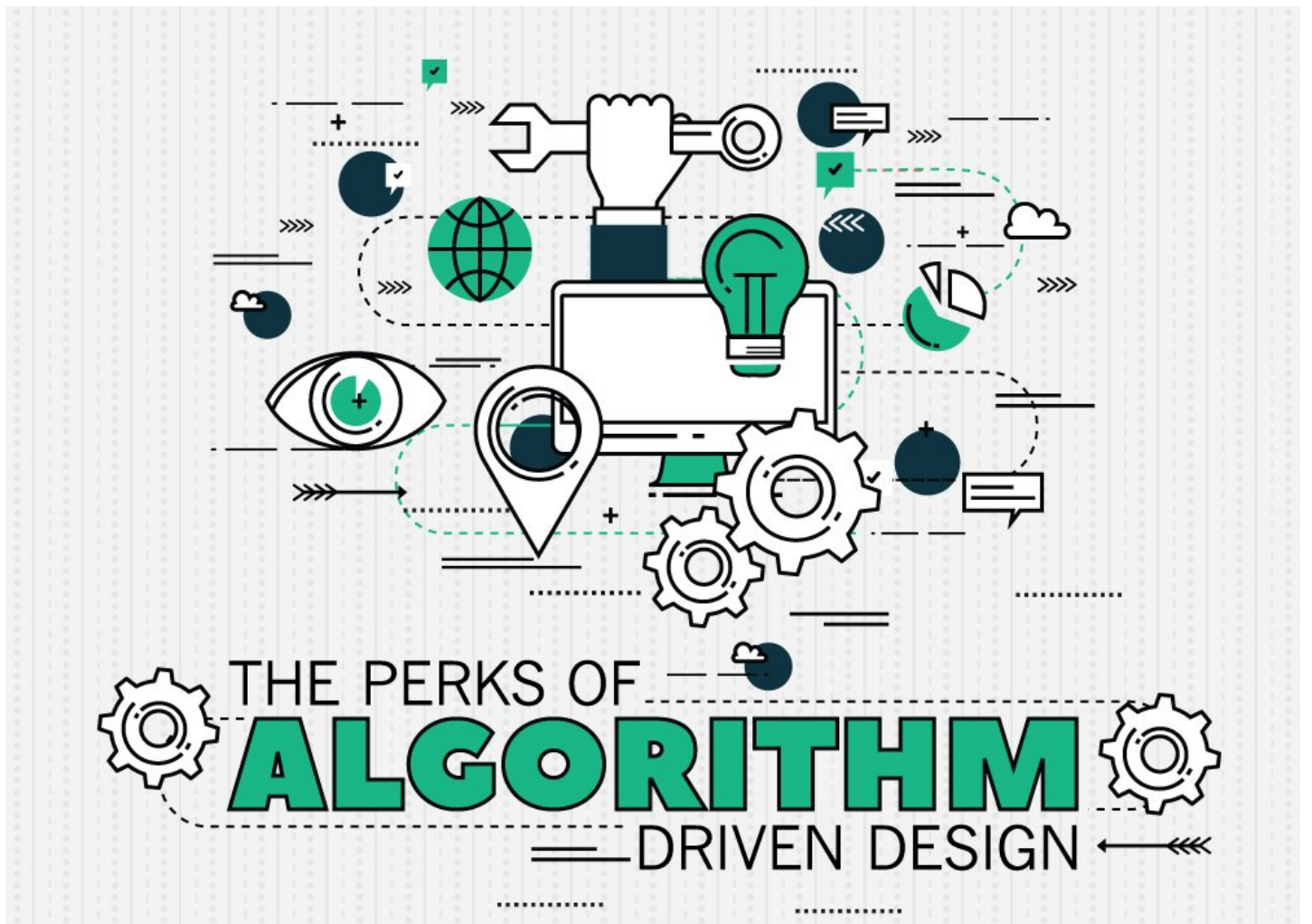
Your reading and research needs to be structured.

This is where technology comes in to help and make our lives easier.

Today, algorithms run our world and decide what data you consume.

Be it Instagram posts, TikTok reels or YouTube videos.

So learn to trick these algorithms and use them to your advantage.



Personally, I have a dedicated account on YouTube where I just subscribe to educational channels - handpicked by me over the years.

That account is not used to subscribe or watch to any other content - no music, no vlogs, no movie trailers, no fun stuff.

What this does is teaches the algorithm to feed and recommend new channels and videos to me that align with what I am looking for.

This way I discover new content without really doing any work to find it, the algorithm does all the hard work for me.

THE YouTube 'ALGORITHM'

(audience)



Another way to look for free industry research is to read and subscribe to publications of consulting and finance firms like

McKinsey

BCG

Deloitte

EY

Bain

Goldman Sachs

Most of these companies occasionally publish free to read detailed reports on a particular industry or sector

McKinsey Global Institute

I didn't know much about Specialty Chemical Industry in Feb 2020 until I came across a report by McKinsey that presented the industry as one of the fastest growing chemical segments in the world.

That was my introduction to companies like Vinati, Navin, Aarti and Deepak.

Because I read that report in Feb 2020, I could take advantage of the fall in share price of these companies in March of 2020.

Here is a link to that report

<https://t.co/e23DB5zmGg>

Similarly while researching for my write up on Policy Bazaar, I came across a report by BCG on Insurance Tech platforms around the world and with a special focus on India.

Here is a link to that report

<https://t.co/kCASwarOX9>

Similarly while researching on Zomato, I came across a report by BCG and Google on Food Tech and QSR industry in India.

Here is a link to that report

<https://t.co/m4AAPbrQ0J>

Goldman Sachs too publishes some really good content on various trends on its insights page, which is free to subscribe

<https://t.co/uPkMSasvD5>

One my favorite places to look for free and detailed industry research is IPO filings of domestic and international companies.



When a company wants to go public, it needs to file a prospect document with the regulator.

This document in India is called RHP (Red Herring Prospectus) and in US is called S-1.



Your First SEC Filing: Get to Know the S-1

You can find old and new RHPs and S-1 filings of various companies at below links

SEBI (India)

<https://t.co/15gCk1pOVj>

SEC - EDGAR (US)

<https://t.co/ulz3vpq6aH>

<https://t.co/wJGmccuBCr>

These pre IPO documents contains valuable research into industries that the respective company operates in.

Collect them and over time you will build a nice repository of industry specific content.

My point is you need to know

1. Where to Look
2. What to Look For and
3. How to Leverage Technology to your advantage

Structured learning



Reading 10 books on investing alone is not going to make you a better investor.

Practicing the above, finding, reading and learning from good and credible content will.

This brings us to second most frequently asked question.

How should I research a company?



Whenever you start researching a company, you need to act like a sponge.

All you're trying to do is gather and consume as much information as you can.



The best place to start is the website.

Look for mission statement of the company - what does it want to accomplish.

Understand what industry it operates in, what are its products, what it is selling and who runs it.

All you're looking for at this stage is basic information.



Once you have familiarized yourself with the company, its time to dig into more details.

Your next source of information should be Credit Reports.

These are free reports issued by credit agencies and contain valuable information into the state of the company and the industry.

Pursuant to SEBI notifications, CRISIL Limited (CRISIL) has transferred its Ratings business to its wholly owned subsidiary, CRISIL Ratings Limited (CRISIL Ratings), with effect from December 31st 2020. Any reference to CRISIL in the documents published by the Ratings division of CRISIL, such as Rating Rationales, Credit Rating Reports, Press Releases, Criteria, Methodology, FAQs, Policies and Disclosures, shall henceforth refer to CRISIL Ratings.

Rating Rationale

April 27, 2021 | Mumbai

Asian Paints Limited

Rating Action

Total Bank Loan Facilities Rated	Rs.1000 Crore
Long Term Rating	CRISIL AAA/Stable
Short Term Rating	CRISIL A1+

Rs.10 Crore Non Convertible Debentures	CRISIL AAA/Stable
Rs.50 Crore Short Term Debt	CRISIL A1+

1 crore = 10 million

Refer to Annexure for Details of Instruments & Bank Facilities

Detailed Rationale

CRISIL Ratings on the bank facilities and debt instruments of Asian Paints Limited (Asian Paints; part of the Asian Paints group) continue to reflect the leadership position of Asian Paints in the domestic paints sector, its healthy operating margin, and robust financial risk profile because of strong capital structure and surplus liquidity. These strengths are partially offset by susceptibility to volatility in raw material prices and limited pricing flexibility.

The group was affected by the decline in demand and temporary shutdown of plants in March-April 2020 due to the nationwide lockdown to contain the Covid-19 pandemic. However, unlock measures and the festive season improved demand across the domestic and industrial segment in the second half of fiscal 2021 and helped the group revive to almost the pre-Covid level. Revenue for the first nine months of fiscal 2021 was Rs 15,061 crore while operating margin was healthy at 23.49%. Revenue for the full fiscal is projected to decline in the low single digit, mainly because of the steep fall in the first quarter, and should rebound in the next fiscal with expected revival in the decorative and industrial paints segments and improved demand for new as well as existing products. The operating margin is expected to sustain at about 20% in fiscal 2021 due to benign raw material prices in the first nine months of the fiscal and cost rationalization measures.

At this stage, you are familiarized by the company and know its current state.

You are now looking for its past events and future prospects.

This is where quarterly conference calls helps.

I personally like to read through and highlight anything important from the most recent 4 quarters of conference calls.

This gives me enough idea about

1. Current problems with the company
2. What's working for the company
3. Where is it planning to go in future



Once you're done with conference calls, its time to read through the annual report.

Pick up the latest available annual report and directly jump to the section called "Management Discussion and Analysis".



"One helluva year."

This is the section where promoters and directors of the company discuss at length about the industry, economy and prospects of the company.

Once you're done with this section, you can read Chairman's and CEO's comments and other sections of the annual report.

You by now, have developed a detailed understanding and have some idea about the company.

Its now time to look at the numbers.



A Look At The Numbers

This is when you can dwell into investor presentations published by the company under the 'investors resources' section on its website.

These presentations contain information regarding company's financials, its future plans, any current challenges etc.

Learn to take this data with a pinch of salt as no company will criticize itself in its own investor presentation.



“Excellent job, Fenwick—especially the part where you employ Magic Realism to fudge third-quarter earnings!”

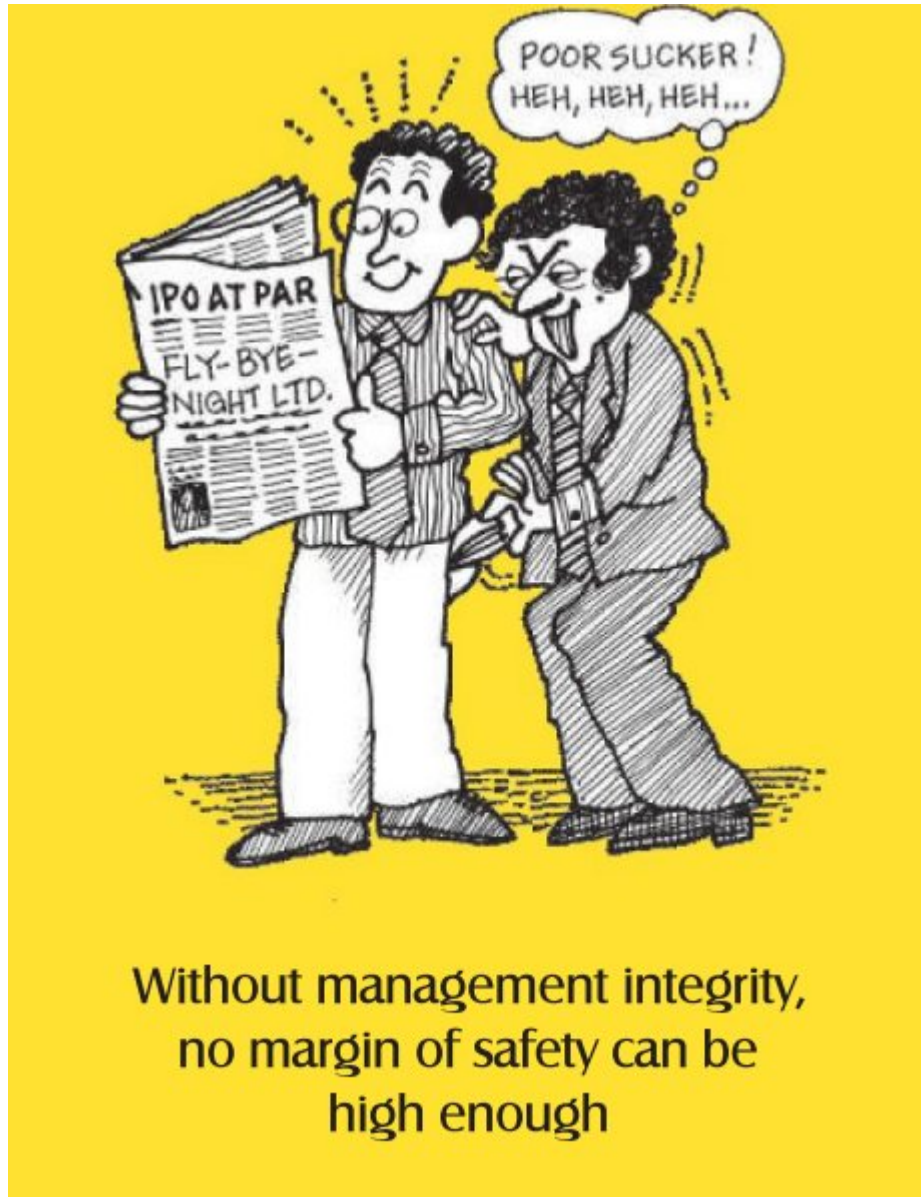
Keep a note of all of this information you consume.

Make notes.

The more notes you make, the better you will be able to connect the dots and find patterns.

Maybe the management of a company keeps giving bullish guidelines and in subsequent quarters give excuses for not achieving the targets.

Pattern like these will begin to emerge as you research more.



Try identify peers of the company and look at them to build comparisons.

Understand what they are doing, follow the entire process from above with these companies.

Doing this alone will put you ahead than 99% of investors in the market today.

So now

1. You know about the industry

2. You know about the company
3. You know about the peers of the company

Its time to build an investment case.

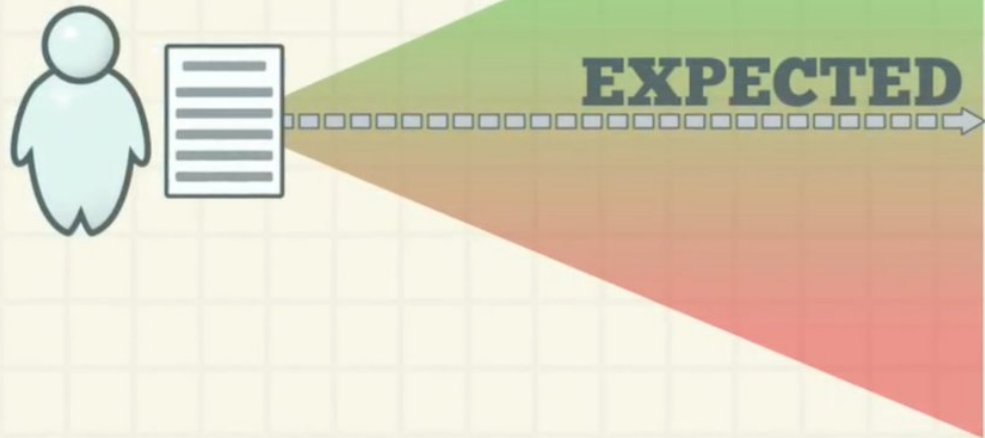


Before building an investment case, remember why you are investing in a company.

Is it cause investing in this opportunity suits your risk and return profile or just cause you have done so much research.

Invest cause of the former and not for the latter.

RISK-RETURN TRADE-OFF "NO RISK, NO REWARD"



INVESTOPEDIA®

All investments should be aligned to your portfolio objectives and required return.

If you require a return of 20% a year with low volatility then at this stage you will have to determine and understand if the opportunity to invest in this company fits into these goals.

First step in building an investment case is to start with the market cap of the company.

Lets assume the market cap today = 10,000cr

Your required return is 20% per year for next 5 years which means the market cap of the company 5 years later needs to be 25,000cr.



We now need to determine if the company can reach this market cap.

There are only two ways a company can increase its market cap

1. Earnings and EPS of the company increases
2. The multiple commanded by the company in the market increases

For the #1

We need to look at Sales, Operating Profit, EPS and determine if these will grow at 20% or more in next 5 years.

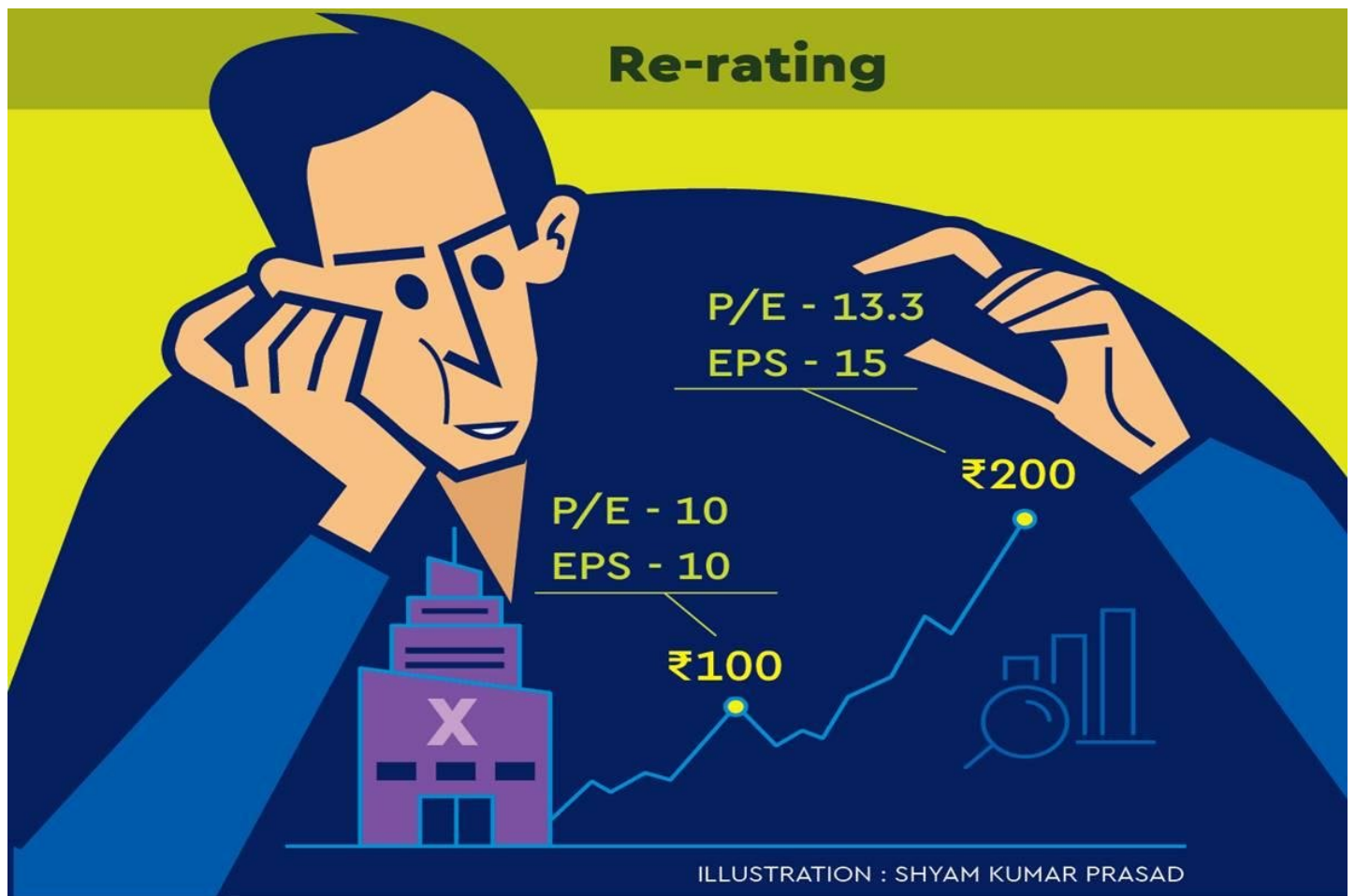
The triggers for growth can be capacity expansion, new higher margin product launches or increasing market share.

For the #2

We need to look at Operating Profit Margin commanded by the company today

If the margin earned by the company expands from a single digit (5%) to double digits (25%) and if these margins are sustainable then market will start giving a higher multiple to this company.

This is known as re-rating and this is where you get immediate multibaggers within a year.



Example of this is Intellect Design Arena.

In case of Intellect, look how the sales haven't really increased a lot but margin went from 6% to sudden 24%.

Result was Intellect being a 15 bagger since March'20. .

Profit & Loss

Consolidated Figures in Rs. Crores / [View Standalone](#)

	Mar 2015	Mar 2016	Mar 2017	Mar 2018	Mar 2019	Mar 2020	Mar 2021	TTM
Sales +	609	811	914	1,087	1,450	1,347	1,497	1,560
Expenses +	689	847	937	1,012	1,317	1,271	1,138	1,182
Operating Profit	-80	-36	-23	75	132	75	360	378
OPM %	-13%	-4%	-3%	7%	9%	6%	24%	24%

You can only know about these cases if and when you do deep industry and company research.

Intellect in its concalls was guiding for a margin increase, its just that no one was paying attention to Intellect and reading those concalls.

Whoever was, made 15x in one year.

Another good tool, I use while building an investment case is to apply Porter's Five Force Model.

It helps me determine the industry structure and how a company stands within it.

You can learn more about it in this thread below.

<https://t.co/IQ4dW3Jl8o>

Its the weekend!

Grab a cup of coffee, in this thread I will explain

1. What are Porter's 5 Forces?
2. How to use them while analyzing a business?
3. What information can they tell you about a business

We will be analyzing Divis Labs as an example.

Lets dive right in. <pic.twitter.com/Si03K4Q5l8>

— Tar \u26a1 (@itsTarH) [June 12, 2021](#)

Finally, its time to determine Margin of Safety.

Margin of Safety

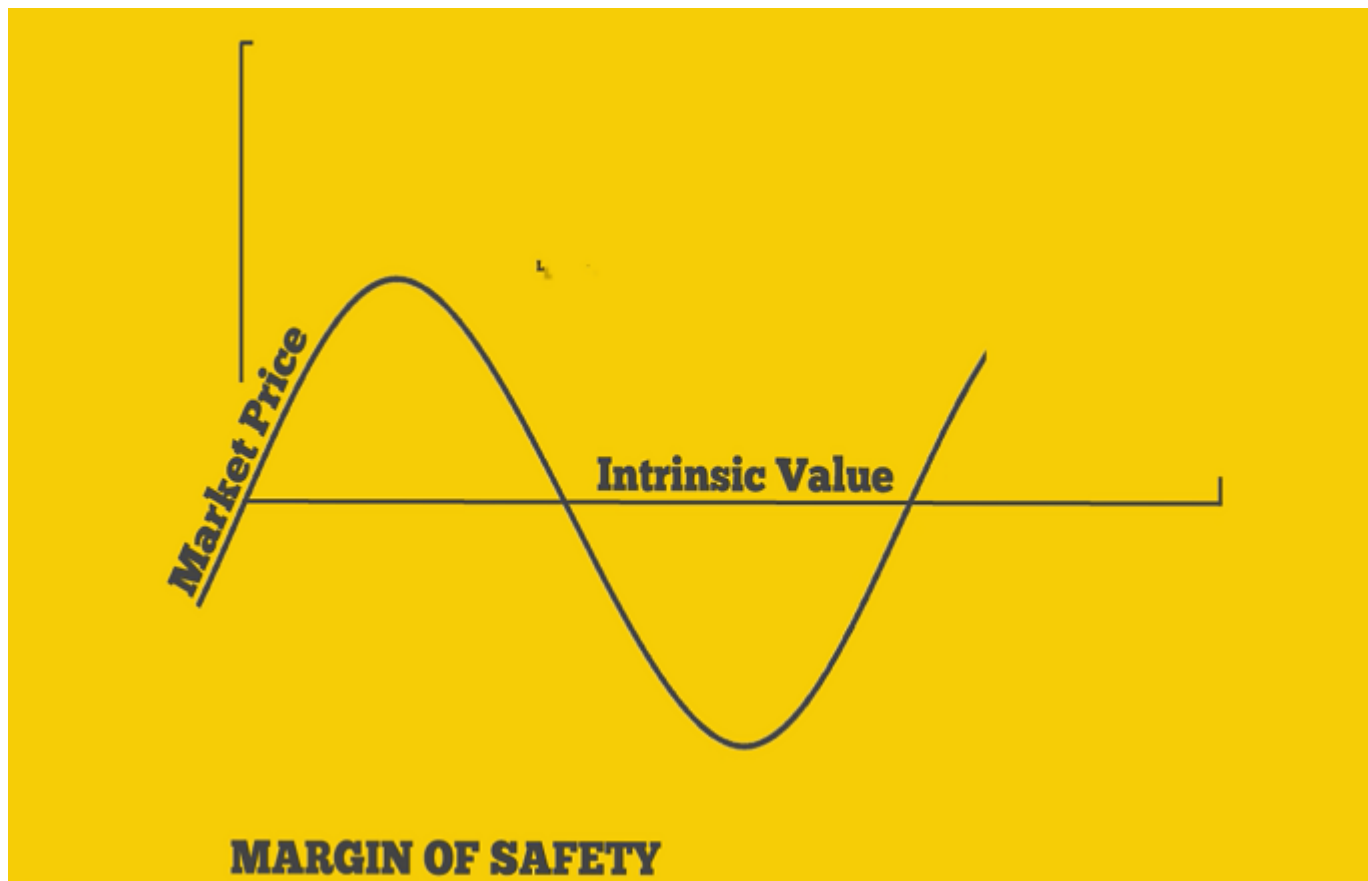


“A method used to reduce the chance of a process or system failing.”

Margin of Safety comes from buying a company well below its intrinsic value.

Based on all the research you did earlier you can determine a fair multiple to give to the company.

Look at peers of the company and examine the multiple they are getting and why.



If there is a mismatch between the valuation of peers vs the company you're researching - then you have a margin of safety for yourself.

An example of this Margin of Safety is Jubilant Ingrevia.



I bought Jubilant Ingrevia right after demerger at an average price of Rs 250 per share.

My buying reason was the massive discount to the company compared to its peer Laxmi Organics.

Since Mar of this year, Jubilant has rerated and the valuation gap between Jubilant and Laxmi Organics has minimized.

Again you will get to know about these opportunities only if you research dedicatedly.

Investing for me is a second full time job and one that rewards quite handsomely for the efforts.

All of the above is a summarized version of my investment process.

You need to build one for yourself and unless you put a method to this madness, your returns will never be extraordinary.

So that's how you do Industry Research, Company Research and Determine Margin of Safety before building an Investment Case for yourself.

I hope this thread helps you to build an investment framework for yourself.

Another important aspect of investment case, is incorporating risk management and determining appropriate position size for your portfolio.

You can learn all about it in this thread below.

<https://t.co/oBkUpb4w2X>

It's the weekend!

Grab a cup of coffee, in this thread we will explore

1. What is risk management?
2. What is position sizing?
3. How to apply both these concepts to reduce volatility and drawdowns in your portfolio?

Lets dive right in. pic.twitter.com/4lnZzvrq53

— Tar \u26a1 (@itsTarH) [August 14, 2021](#)

I am an advocate of visual learning and visualizing numbers beyond the excel sheets

I teach a small class of Data Visualizing using a Free tool called Tableau over [@skillshare](#)

Get access to the class by using the below link

<https://t.co/VyPiV7u7pp>

<https://t.co/UhAgK7aMIU>

I also teach a class on Personal Finance - concepts and frameworks that helped me achieve Financial Independence Early.

Here is a link to that class.

<https://t.co/NWZOPx8dvW>

<https://t.co/r7uNYuqjsn>

Also, write and publish long form articles on my substack (<https://t.co/pOJSMEyzOn>)

Subscribe for free, if you're interested.

Thank you to the 2500+ of you who already have!

If you find this thread useful then follow me

[@itsTarH](#)

I write a new thread every weekend.

All my previous work, can be found here.

<https://t.co/az1Rsw05TO>

All my Threads so far \U0001f9f5 \U0001f447\U0001f3fc

— Tar \u26a1 (@itsTarH) [June 5, 2021](#)

Thank you for reading, please retweet the first tweet in this thread for a broader reach.

See you all next weekend!

