

Twitter Thread by Sahil Sharma



Sahil Sharma

[@sahil_vi](#)



Lets discuss how to invest in equity directly, the end to end picture, taking as an example my largest holding: RACL ■■ ■■

■■■■

How to Invest in Equity (Directly)

Sahil Sharma

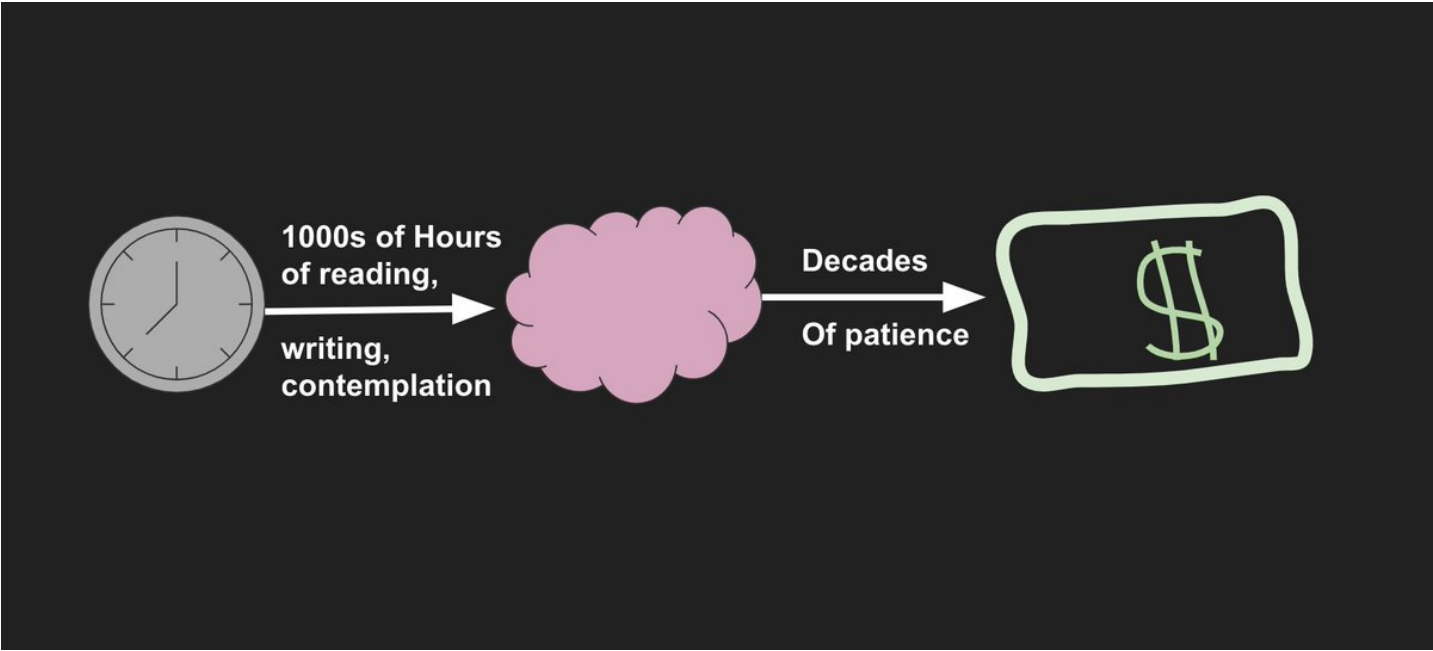
I am not a financial advisor & please don't treat any of this as financial advice. Also, please dont think of whatever i say here as gospel or the absolute truth. This is only my perception of the truth.

I am not your Guru.



A little bit of framework/paradigm building up-front, please bear with me.

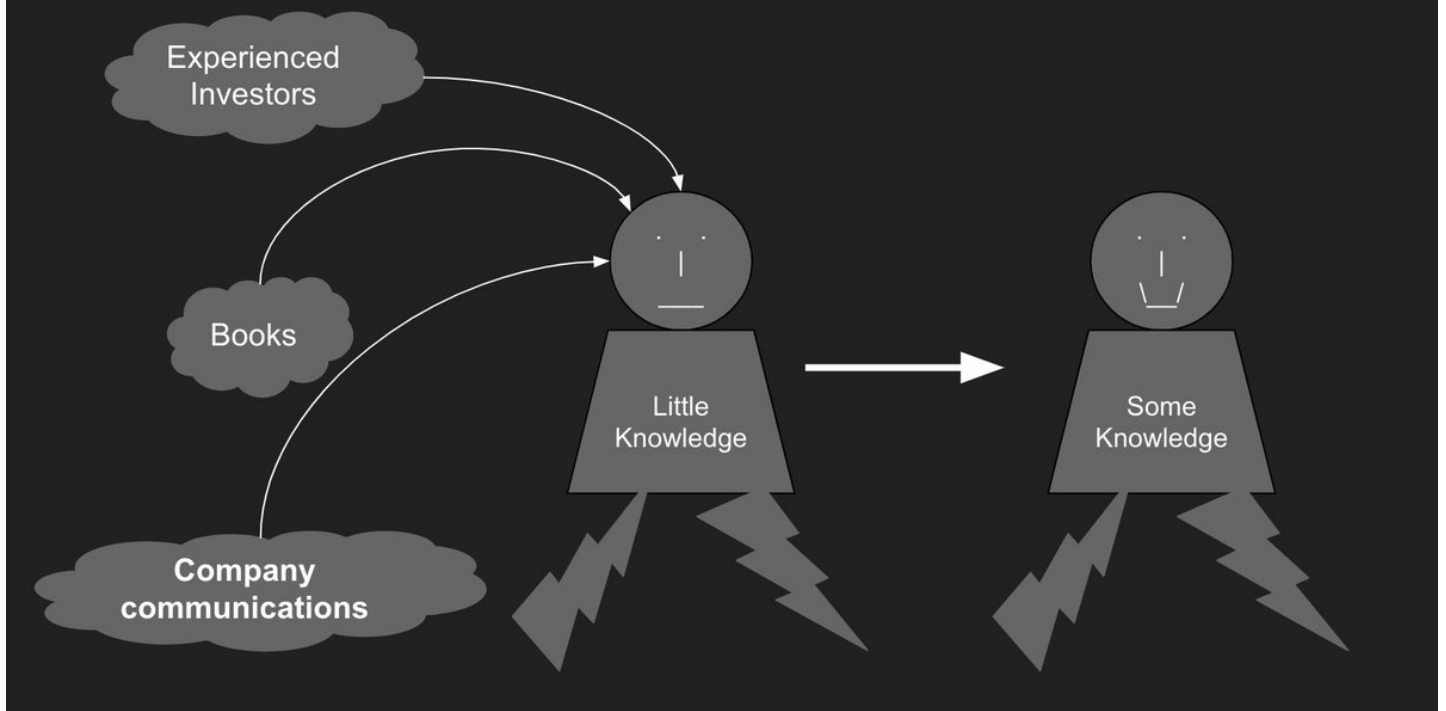
Here is the 1 tweet summary. 1000s of hours of reading, writing & contemplation.
Then, decades of patience. If we get both the steps roughly right, then some ■■.



The first step a Direct Equity investor with little knowledge has to do is to perceive their world accurately.

We do this by seeing interviews by experienced investors, books they're writing & reading company communications.

Perception

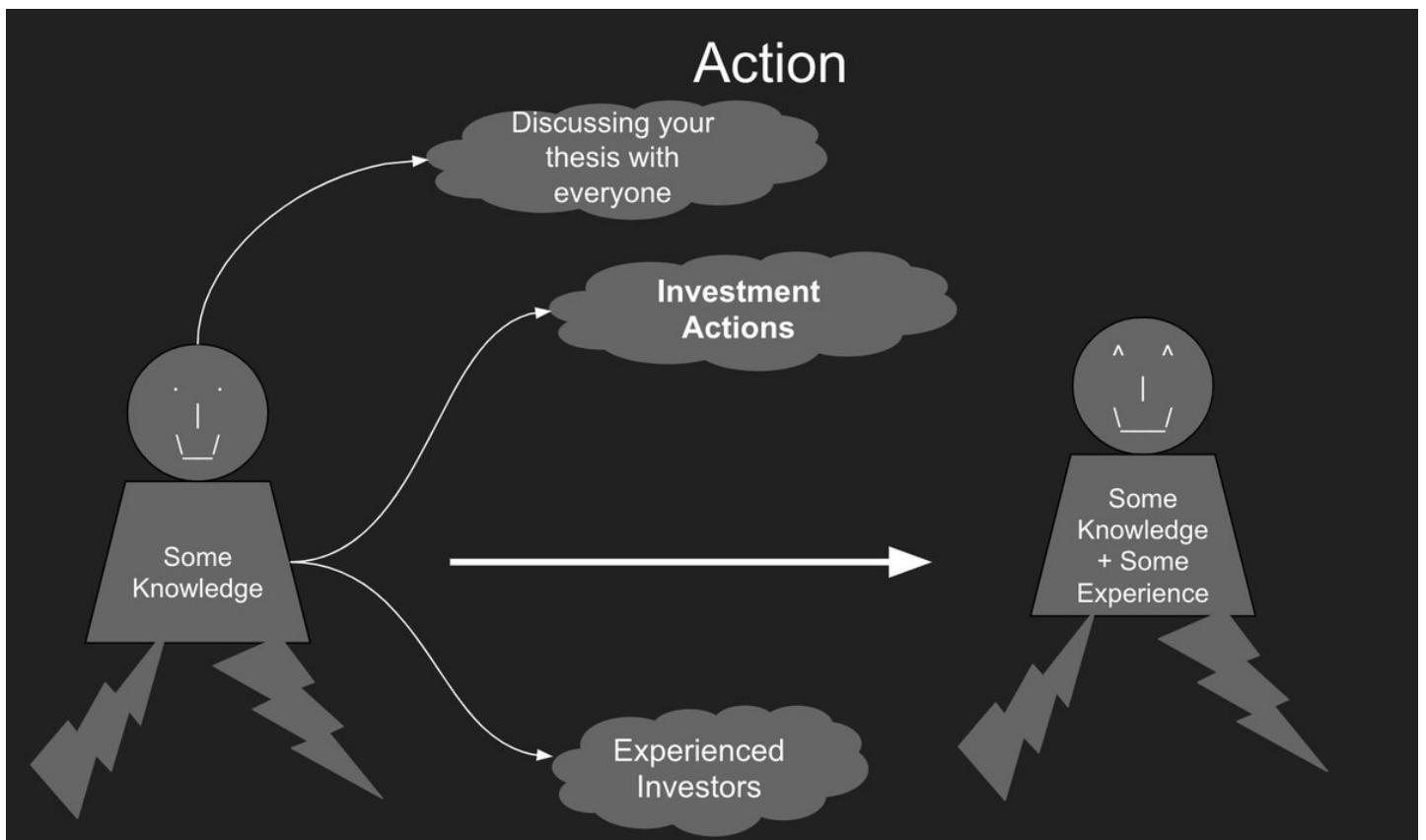


When we perceive our world through reading & listening, we go from being an investor with little knowledge to an investor with some knowledge. We are building mental models by learning from experienced investors

See how many our investor became :D

This learning helps us build a framework into which we then fit all the information we process: Capex, capacity utilization, margin accretive, asset light, demand scenario, sticky client relationships, how long it takes to break into client supply chains, moats.

But it is not enough to perceive our world. The only way to go from being wise to being experienced, is to act. That is the only way to go from having some knowledge to having some knowledge + some experience.



Discuss your thesis with anyone & everyone who will listen. That is what this account is to me. I learn through disagreement & thus become a better investor.

<https://t.co/z6VVcSop3m>

Agreed with tar. 2 people can have slightly different views on a business. That is not an argument. If we don't disagree then how do we learn from each other. \U0001f600\U0001f600\U0001f600\U0001f4af

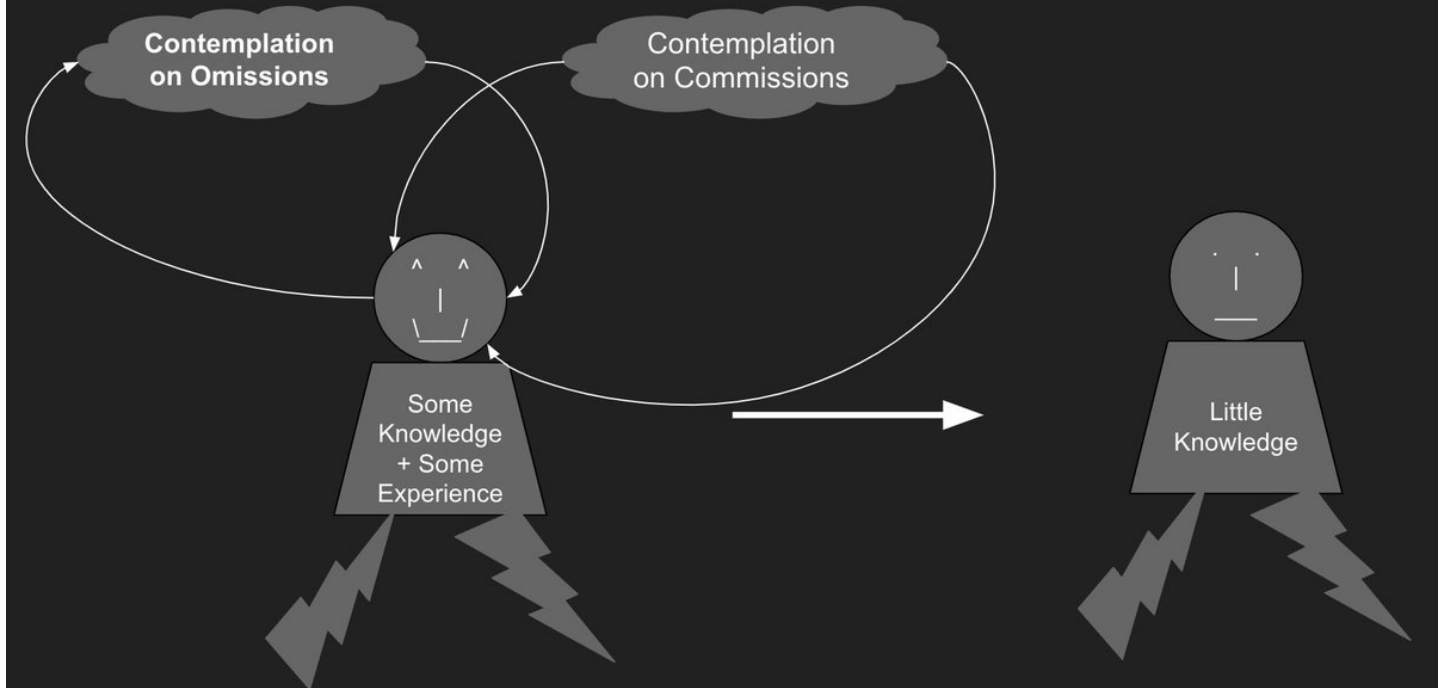
<https://t.co/WdE8Kfruhd>

— Sahil Sharma (@sahil_vi) December 7, 2021

If you're a newbie, make paper trades. If you have enough experience, courage & conviction, make real positions. Many investors have said & it bears repeating: without skin in the game, there is no learning.

Is it enough to perceive & act. No, we must contemplate on our actions. Just because I sold Poly medicare & sequent scientific does not mean it's out of sight out of mind. I must constantly monitor both my omissions & commissions & contemplate whether those decisions were good.

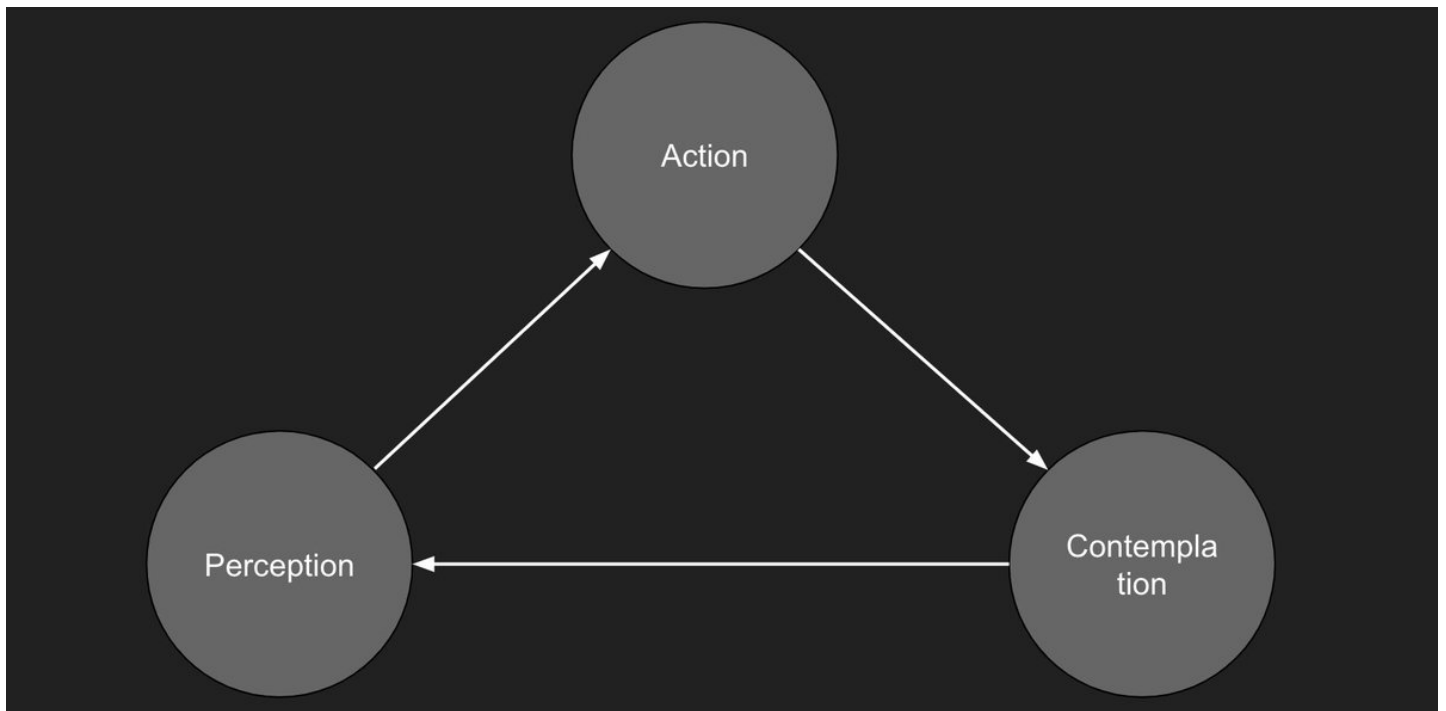
Contemplation



Contemplation causes us to realise how little we know. Madhu Kela sir always says that despite being in market for 30 years he only knows 20% of all there is to know. Thus, contemplation helps us realize that we are only an investor with little knowledge.



The trifecta of learning flywheel looks like this: perceive, act, contemplate.

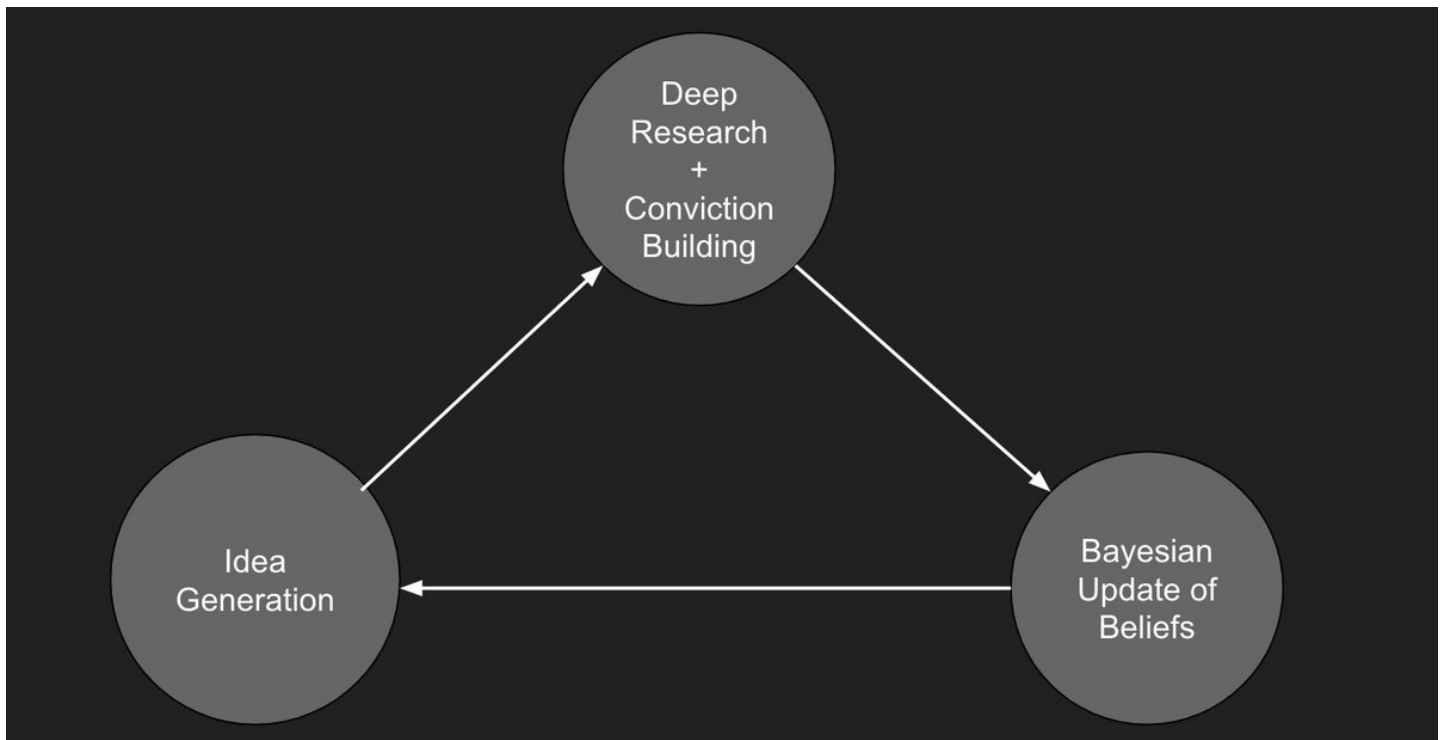


If we do 1 level deeper, how does this look like for equity research?

There are 3 steps:

- (i) Idea generation
- (ii) Deep research & Conviction Building
- (iii) Probabilistic Update of beliefs

I will take the example of RACL Geartech to walk us through this process.



The idea of investing in RACL could have been generated in many ways in June 2020. 2 prominent ways that I generally generate ideas is through Screeners & by tracking investors who i consider as efficacious (high ability to generate alpha).

1. Idea Generation - Screener

I was running a screener looking for companies which were

(i) microcap (highest assymetric risk reward once we understand business)

(ii) I wanted a company which earns above its cost of capital & thus creates value through growth. 3 yr ROCE > 15%

(iii) I was looking for companies which were not stretched on valuations. So I was looking for companies which even optically appear cheap. so P/E < 10

(iv) In Indian equity market generally growth is what creates value. So I looked for company continuously growing its sales. So Sales growth 5Years > 10

(v) I wanted a company with improving cashflows. So i looked for average operating cashflows in last five years < average operating cashflows in last 3 years.

Putting it all together I ran a screener similar to this:

Market Capitalization < 3000

AND

Average return on capital employed 5Years > 15 AND

Price to Earning < 10

AND

Sales growth 5Years > 10

AND

Operating cash flow 5years /5 < Operating cash flow 3years /3

The result of running such a sceener in June 2020 was a list of around 30 companies. I read all of them. Might have taken 1 weekend.

screeneril		FEED		SCREENS		TOOLS		Q Search for a company										SAHIL	
Univast India	65.05	74.01	65.58	1.14	2.00	64.27	0.00	0.98	20.24	17.30	16.39	72.90	37.80	16.73	0.00	32.33	0.00		
Ishan Dyes & Ch.	100.30	160.16	91.08	1.76	2.07	48.08	0.17	0.26	23.59	18.20	5.89	26.92	22.29	15.67	1.81	2.41	5.00		
Name	CMP Rs.	Mar Cap Rs.Cr.	Sales Rs.Cr.	M.Cap / Sales	CMP / BV	GPM Qtr %	cwip by na	Debt / Eq	ROCE 5Yr %	ROIC %	Sales Var 5Yrs %	Profit Var 5Yrs %	OPM %	NPM Ann %	pe_dr	Debt Prev Ann Rs.Cr.	Plotski Scr	Pa	
Suyog Telematics	388.05	406.77	140.93	2.89	2.60	68.94	0.03	0.44	29.38	14.03	24.68	15.14	53.40	18.51	1.32	43.52	6.00		
Rudrabhish. Ent.	199.95	346.70	87.98	3.94	4.09	100.00	0.00	0.07	16.82	24.52	14.49	13.04	30.60	18.09	2.56	4.91	6.00		
Mold-Tek Technol	76.00	214.64	87.29	2.46	3.11	100.00	0.00	0.05	25.44	17.01	9.40	17.47	20.67	12.06	1.61	5.26	5.00		
Prima Agro	33.75	17.52	16.67	1.05	1.36	81.90	0.00	0.48	27.65	70.00	6.44	31.85	27.53	16.53	1.37	6.59	8.00		
Jenburkt Pharma	535.00	245.53	124.07	1.98	2.29	74.74	0.35	0.04	32.16	22.18	3.15	8.89	22.31	15.10	0.93	3.44	9.00		
Roto Pumps	322.40	498.23	153.19	3.25	4.23	69.91	0.05	0.12	19.51	16.36	5.55	95.53	24.06	14.46	1.60	17.07	8.00		
DHP India	689.00	206.70	97.04	2.13	1.53	48.67	0.00	0.00	23.54	47.32	13.88	37.92	32.73	23.30	0.69	2.00	7.00		
Menon Bearings	80.90	453.36	184.64	2.46	4.08	58.78	0.02	0.21	28.38	16.69	6.06	4.73	21.56	12.58	1.01	38.41	7.00		
Panasonic Carbon	436.55	209.54	53.15	3.94	1.61	69.37	0.00	0.00	21.10	17.17	-0.04	7.04	35.43	38.64	0.79	0.00	7.00		
SNL Bearings	252.65	91.21	47.35	1.93	2.22	71.84	0.10	0.00	30.83	18.76	3.96	0.86	30.50	16.37	0.72	3.00	8.00		
Lak. Auto. Looms	639.00	42.73	11.28	3.79	2.44	91.03	0.00	0.20	22.42	16.66	30.65	21.18	35.99	23.82	0.71	4.92	4.00		
RACL Geartech	534.80	576.60	258.68	2.23	4.82	65.38	0.02	1.24	17.63	13.87	11.63	45.16	24.32	11.71	2.85	87.89	7.00		

I generally do 3 things in reading a company.
(i) Check its screener wiki.

RACL Geartech Ltd

raclgeartech.com [BSE: 520073](#)

[EXPORT TO EXCEL](#) [UNFOLLOW](#)

Market Cap	₹ 719 Cr.	Current Price	₹ 667	High / Low	₹ 699 / 120
Stock P/E	25.8	Book Value	₹ 111	Dividend Yield	0.15 %
ROCE	20.2 %	ROE	24.7 %	Face Value	₹ 10.0
Market Cap to Sales	2.78	Price to book value	6.00	OPM	24.3 %
PEG Ratio	0.57	ROCE 5Yr	17.6 %	5Yrs PE	7.25
Debt to equity	1.24	Debt preceding year	₹ 87.9 Cr.	Int Coverage	5.21
Debt	₹ 149 Cr.	Cash Equivalents	₹ 0.54 Cr.	Dividend Payout	4.62 %
Pledged percentage	0.00 %	Sales growth 5Years	11.6 %	Profit Var 5Yrs	45.2 %
Unpledged Prom Hold	53.4 %	Sales	₹ 259 Cr.	ROCE	20.2 %

ABOUT


RACL Geartech Limited, formerly Raunaq Automotive Components Limited, is an India-based company, which is engaged in automotive gears and components business.

KEY POINTS

Marquee Clients ^[1]
Company manufactures high-precision products (various types of transmission gears and shafts) for the premium segment and has reputed global majors such as BMW, Kubota, [Ford Motor, Hino, Hyster, and Doosan Infracore](#).





[READ MORE >](#)

(ii) Check the company's website to read about its products.



RACL Geartech Ltd.

Formerly Raunaq Automotive Components Ltd.



ABOUT US

OUR PRODUCTS

INFRASTRUCTURE

ENGINEERING





QUALITY

AWARDS


INVESTORS

CLIENTS

CONTACT US



Welcome to RACL



RACL Geartech Ltd. is located in the heart of the national capital, New Delhi. Established in the year 1989, RACL is recognized for manufacturing...+

News Highlights

- Global presence of RACL is being duly recognized by various GOVT & Apex bodies by Conferring various awards.
- Awards for excellence in exports by ACMA
- RACL has been awarded BRONZE TROPHY, SILVER TROPHY, & most prestigious GOLD TROPHY

Our Clients

RACL has evolved as a leading supplier to OEM's in the Automotive Sector and prominent names from the global arena have entrusted their faith in the company.

(iii) Check screener for how its return ratios have behaved. Its last few years margins, ROCE, asset turn etc.

When i did all of this, RACL stood out to me & i decided to study it more deeply. That is how i discovered this idea. One could have discovered it in an alternate way.

1. Idea Generation - Cloning

One of the most famous cloners among investors is mohnish pabrai. At the same time, its important to add your own hardwork to add your own conviction.

If you are tracking the right investors, you could have seen RACL on your screen as early as Jun 2019 and definitely in Jun 2020

	Jun 2016	Sep 2016	Dec 2016	Mar 2017	Jun 2017	Sep 2017	Dec 2017	Mar 2018	Jun 2018	Sep 2018	Dec 2018	Mar 2019	Jun 2019	Sep 2019	Dec 2019	Mar 2020	Jun 2020	Sep 2020	Dec 2020	Mar 2021	Jun 2021	Sep 2021
Bluechip Tex Ind	1.52	1.35	1.32	1.44	1.42	1.46	1.62	1.62	1.75	1.77	1.77	1.76	1.78	1.78	1.78	1.78	1.78	1.78	1.78	1.76	1.76	1.76
M K Exim India																						1.33
RACL Geartech														1.02	1.03	1.03	1.03	1.03	1.03	1.03	1.03	1.03
Riba Textiles																						1.11
South. Magnesium				1.09	1.30																	
Space Incubatric										0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
SPS Intl.	3.10				1.50			1.50		1.50		1.06	1.09	1.09	1.09	1.09	1.10	1.02	1.02	1.17	1.15	1.11
Sybyl Industries	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00

2. Deep research & conviction building

Once an idea has been generated, we must go as deep as we can, talk to as many professionals, investors, tom, dick & harry as we can to understand the business/dhanda of the company as deeply as we can.

Different investors have different methodology for going deep. For me, valuepickr is a sureshot brahmastra to do so.

pre-cooked research spanning over decades & many years available waiting for us to go & read it, consume it, understand it, use it to build our conviction.

This is what I did. I started reading the RACL thread.

When we do that, we get to know about the company's history. It's humble beginnings. How it went to hell & came back. Through the hardwork of 1 technocrat 1st gen promoter

- We went into BIFR in FY00 as our erstwhile promoters were not focused on the company only. We also felt that we are going down the drain. We had investment from UP Investment Corporation. We took the challenge to revive the company. Not many companies have come out of it. Everyone supported the company - employees and banks. We had the right strategy and we came out of BIFR in FY09 and did lot of changes in the company. I have been a technical guy throughout my life. We had sales of Rs.14 crore when we went into BIFR and have now reached around Rs.190 crore sales in FY19. I still remember that I went to IDBI Head Office in Mumbai for them to restructure our account

If we do that, we get to know how difficult company's life had been in bankruptcy & how it came out, how it not just survived but thrived.

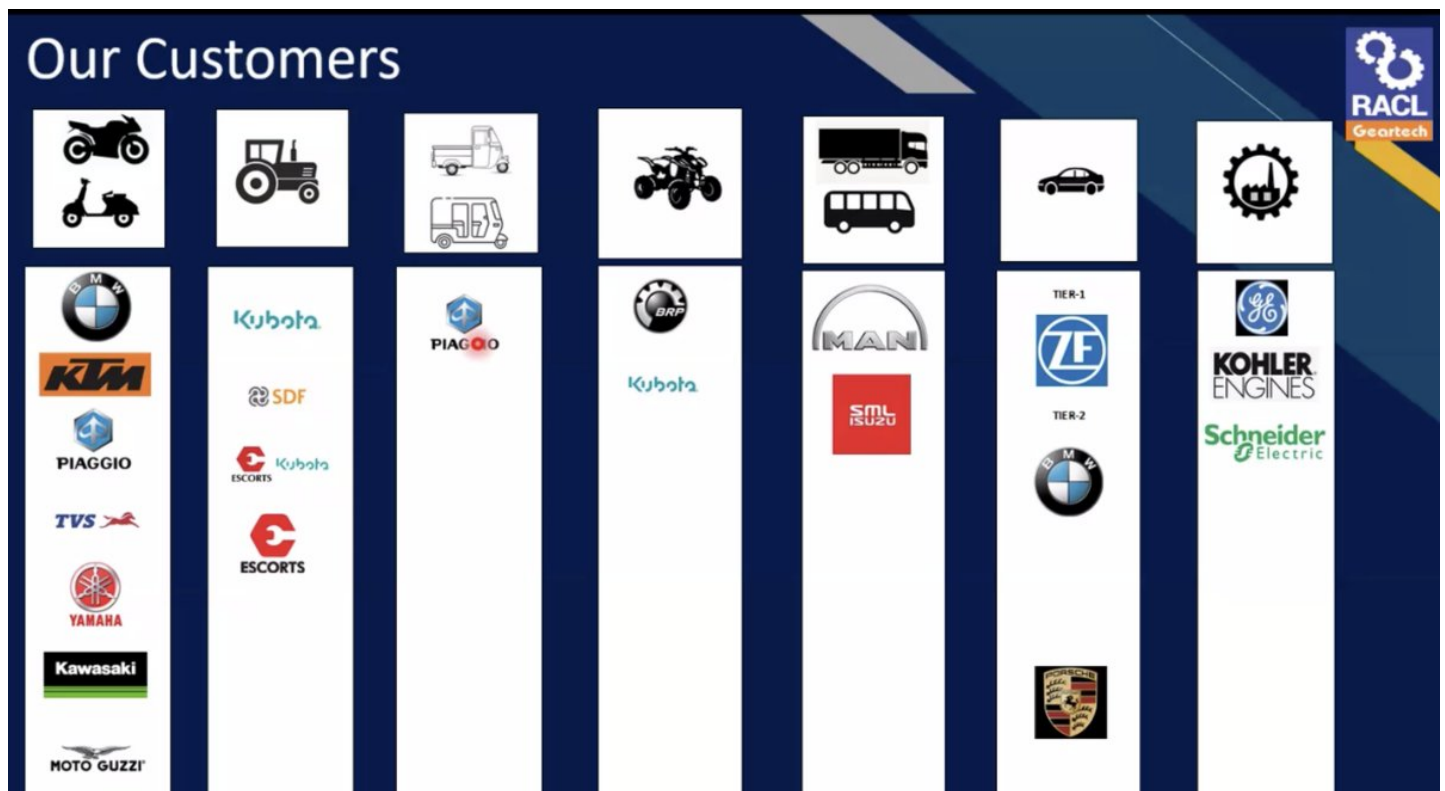
We get to know what their secret sauce is. We get to know the story behind the numbers. The narrative behind the industry leading 22% Operating profit margins. We get to know how they manage operate at double the industry margins.

- During 2010 – 2015, we had invested a lot in building the company primarily in technology. Between those period there was not much growth but we invested in technology. We anticipated slowdown in domestic markets and exports have picked up. Those strategies are working. As a product, we chose niche product like luxury markets which doesn't slow down. Our product is for bikes of 1 liter and above. It doesn't cost less than 30,000 – 40,000 EUR. The person buying such product is not salaried class. Combination of all such factors helping us.

We get to know, that their customers care about quality, first & foremost. We get to know that in a 40,000\$ bike, client will not do bickering over 10-20\$. We get to know what for the client sitting 1000s of KM away, the quality of the part is most important.

When we read this thread, we get to know about management's strategic vision to focus on niche luxury bikes, looking at its demand as an inelastic curve. We get to know that management has some appreciation for the anti-fragile nature of luxury goods markets.

In a concall today, RACL disclosed its full sorted list of customers. And what a list it is. BMW, Porche, Kubota, Piaggio, TVS, Yamaha, ZF.



But there were no concalls in June 2020. At that point investor was wondering how the hell can it be that this tiny nanocap has such amazing clientele. it is at that point that reading the VP thread would have helped the investor build conviction.

The main advantage RACL has is that its CEO & MD is a technocrat & an engineer first. Not what one has in mind when we think about an engineer led 'start-up'.

- How did we acquire such prestigious customers? Main advantage is that I, top leadership, is an engineer. Normally, other cos have top management who just talk about numbers. BMW (for bikes) got confident meeting me. For those customers, main issue is the right product at the right time with right technology. We were offering them solution. We work with the customers to make product cheaper without compromising from technology. It always starts with humble nos.
- We got Kubota as client while I met their procurement guy on flight. We started with just 2 components with them in 2004. First company in India to get export of gears from Japan. For first 4 years, we were supplying just 2 components to them. It was hardly contributing to our revenue. 100% of time with 100% quality. Today, we are supplying 110 different parts to Kubota. Now we supply to 4 locations in Japan, 1 in Thailand, 2 in USA and 1 in India. Likewise we participated in many trade shows and got customers from there. I am active in ACMA and got new customers.

This helps them because the clients get to discuss hard technical details. MD understands client needs better than any management leader could & is able to then promise & deliver the quality standards they are looking for.

RACL was 1st auto anc to export to Japan.

They got Kubota as a client serendipitously in 2004, started with 1 part & today supply 100s of parts to Kubota. a 17 year old relationship. I think their client stickiness speaks for itself.

So what did we see in June 2020:

A differentiated auto ancillary company that was :

- (i) Bucking the slowdown trend (headwinds) in auto sector & growing,
- (ii) Had pricing power with its clients (shown in its operating margins)
- (iii) Has wonderful unit economics (20% ROCE)

(iv) Has sticky customer relationships built over a decade.

(v) Operating in a niche market (Luxury bikes, tractors) where quality matters more than price.

(vi) Doing capex signalling growth.

(vii) Available at 5 P/E

(viii) 200cr topline company available at mcap of 70 cr.

Now tell me if this was not a screaming buy, what would be

Warren Buffett has said about valuation that it should be so juicy that it hits you on the head with a 4x4 plank. That is exactly what RACL was in Jun 2020. Deep research led to conviction. Conviction => position sizing

As important as our endeavour to perceive, is our endeavour to act. Only by acting into, engaging with & adding value to the community can I hope to develop the deep conviction required to hold companies through gut wrenching 50% drops. This is the essence of taking actions.



sahil_vi Collaborator

1 Aug '20



greengoblin:

. Does this company not organize ConCalls

It does not. I have found this forum and the annual reports to be the major source of my learnings about this company. Was led here from my screen which looks for small-cap turn around companies. The company is severely undervalued, though the value added by the company (in terms of its products) is low, the small size of the company wrt the market makes it an attractive stock to own imo. The downside is really limited compared to upside. They provide auto parts like Gears and shafts for export to international 2-wheelers and tractors both of which are one of the more robust segment among vehicles. They have long-term relations with reputed auto-makers. When the economic cycle turns and auto sector turns, RACL would have good tailwinds manifesting in a larger earnings expansion and valuation expansion and I'm excited to hold until the company remains a value creator and also add until then.

Disc: invested, full portfolio is [on this thread](#) 131 .

3 ❤️ 🔗 ... ↩ Reply

All my past RACL sharings:

<https://t.co/PMewi1EXIv>

<https://t.co/H9kyeo4Vik>

<https://t.co/42rc53UJNC>

Should be looked at from this prism. I share my thesis. You poke holes. All of us improve.

Racl in today's concall:

Le racl: Got a lot of requests for factory visits. But if we do that, then it'll create information asymmetry with some investors knowing more than others.

Le me: these guys keep hitting it out of the park with their corporate governance.

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— Sahil Sharma (@sahil_vi) December 10, 2021

3. Probabilistic updation of our beliefs

Perceive => Idea Generation

Act => Position sizing, investment, sharing investment thesis

But this is not enough. We need to contemplate on our investment. Update our beliefs based on new information

What happened since my initial investment?

(i) Company Started doing concalls. Great step in transparency & also enabling investors to understand company even better.

(ii) Great steps taken on corporate governance: Pleasant surprise for a co of this size

<https://t.co/PMewi1EXlv>

strong preference NOT to create information asymmetry for investors.

Refused to meet investors privately 1:1. even meeting with white oak uploaded to BSE.

Racl in today's concall:

Le racl: Got a lot of requests for factory visits. But if we do that, then it'll create information asymmetry with some investors knowing more than others.

Le me: these guys keep hitting it out of the park with their corporate governance.

\U0001f92f\U0001f92f\U0001f92f

— Sahil Sharma (@sahil_vi) December 10, 2021

(iii) We got to understand their ambitions of doubling topline in 3 years. They want to become 500cr company by 2025. Have concrete plan for that based on confirmed orders & advanced discussions with enough margin of safety.

(iv) We got to understand their R&D led product co-development model.

Around 20% of employee costs are spent in process R&D being done jointly with customers. Shows how deeply they are integrated into customer supply chain.

(v) We got to know that their revenue is EV-proof.

Just in today's concall we got to know that share of wallet will be same for EV & ICE, 150\$ per bike for one of the example projects, though parts will go down from 40 to 7-8. Higher value addition per bike in EV.

Already getting 1% of revenue from EV, planning to get 4% in FY23 from EV. 8% more to be engine agnostic.

(vi) We got to know that they signed a 10 year contract with a customer.

We got to know that they developed BMW CE4 jointly with BMW in last 3 years since 2018: <https://t.co/wVq3StUioj>

We got concrete details which show customer stickiness & thus predictability of revenues.

(vii) We got to know that they started supplying to Passenger vehicles too (BMW in last 2 concalls, and Porche we got to know today itself).

Porche is the poster boy example of Veblen goods. What happens when you are a supplier to Veblen goods??

With all this new info, the investment thesis got updated too. We now know a lot more about the company.

RACL:

A differentiated auto ancillary company that consciously chose to focus on luxury bikes as a niche market & was thus able to outgrow the auto industry.

Due to their deep sticky client relationships focussed on joint process R&D developed over many years, due to their deep integration into the client supply chain, ...

... due to client dependence on RACL not just for cutting costs but also upholding quality required for a 40k Euro bike, they have pricing power.

EV will actually prove to be positive for company. Even though Number of gears going into electric bikes is lower, the demand for precision is much higher which results in much higher realization per gear.

Margin will remain the same, but could asset turns be higher leading to better ROICs?? We have to confirm but that is what it seems like to me.

Result of investment process:

Even though initial investment has become 9-10x.

Runway is much longer, company is executing well so i am adding to my position based on my conviction & expanded probabilistic understanding.

Having said all of that, future is not deterministic. I could be wrong.

Will continue to watch out for anti-thesis pointers on RACL i shared already.

<https://t.co/k1sfldkWOC>

■ ■

Racl geartech

1. Biggest anti-thesis pointer is their size itself. Yes, learning curve and client relationship is a competitive advantage. However, if mother-son sumi decides to set up a similar biz and hire all of racl employees at 2x the pay (coz they can afford to)

— Sahil Sharma (@sahil_vi) August 18, 2021

Having said all of that, of course margin of safety is not there any more. It is fairly valued now. Any slip ups in execution can be published by downward pressure.

Do your own due diligence before investing. ■ ■ ■

Some interesting things we got to learn in today's concall:

(i) share of wallet in ev expected to be same but with 4x lower volumes & same margin. Could lead to higher asset turns & thus ROCE.

(ii) racl supplies to porche. That's pretty interesting & amazing. Have to figure out the details in subsequent concalls.

(iii) the ev scooter which was under development was bmw ce4 to be sold in Europe. <https://t.co/RWKSFoanR7>

Production Supplies have started already.

(iii) in talks with an indian ev 2w company for supplying. Production supply to bmw and porche passenger vehicles could begin in Feb 2022.

(iv) inventory is high because of high SKUs. 500 different gears. Low volume high value products. Need to maintain inventory.

(v) won't do individual plant visits since it creates information asymmetry for investors. Will try to create a factory interactive video or something & share in some upcoming concall.

(vi) expecting 4% from ev in fy23 & 8% from chassis & steering which is engine agnostic.

Expecting ice to be around for 10 years in some form.