Twitter Thread by Tushar Bohra



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This is in response to the question by @unseenvalue

If I had to buy 1 stock today, anywhere in the world, no avg. up or down, 5 year holding period (I will make that as 10 year for thesis to play out)

Since I track mainly Indian equities, restricting the choice to this space

Few points to look for
1. Strong macro tailwind rather than headwind, huge growth runway for company/segment. It can't be in a niche space & demand must not be easily substitutable
2. Strong Biz Model, high growth curve (15%+ over the period), strong ROE profile (hurdle rate 20%)

3. Low or no leverage, efficient capital allocation, (read minimal or zero fresh dilution requirements), strong cash flows and correspondingly high dividend payout ratios (consistent dividend history) and finally strong moat and with limited regulatory involvement / no reg issues

4. Promoter quality and intention must be beyond reproach, proven management with skin in the game
5. Capability to manage disruption, and if possible to even profit from it. If you can't be disrupted easily, you will eventually adapt your game to gain scale

6. There must be a possibility of non-linear growth if the scale-up hypothesis gets proven right. It's like an FD with low fixed return plus significant upside optionality. Multiple revenue streams / margin levers / IP that can provide non linearity in growth

7. Either starting valuation is comfortable (it will rarely be cheap), or the end mcap possible must be a large multiple of current. And your conviction should be high while market understanding and conviction can be low, although the stock must be respected / the story credible

8. There are very few stocks that one can both invest in, and recommend for investment at the same time. Companies that one would be proud to recommend and which when doing well will generate significant positive goodwill, not just returns. Find such a company!

The stock: Tata Elxsi! Why?
Debt free (net cash), best in class margin, ROCE/ROE profile, good capital allocation, high & rising cash flow / dividend, strong growth curve, building own IP, design skills are differentiator, best in class corp. governance 1/3

Presence in several exciting tech. of tomorrow, profiting from disruption, massive optionality sitting in business. Tata Group has sector leaders like TCS (global IT giant), Tata Motors (best-in-class EV capability), Titan (understanding of consumer focus / design principles) 2/3

Hence Elxsi has the best capabilities and leadership strength available within the group; why can't it aspire to be a 100bn USD mcap company over next 10-15 years? If they get the optionality right, can easily grow biz 25%+ cagr for best part of next decade! 3/3

Tata Elxsi is just an example, and not a recommendation. I first built this thesis 4 years back, stock has moved a lot since then. Can look at few more examples in other sectors. Laurus may be one such - a good bet in Pharma, but bal. sheet is a bit stretched today. No reco.