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Ashish Kila
Perfect Research

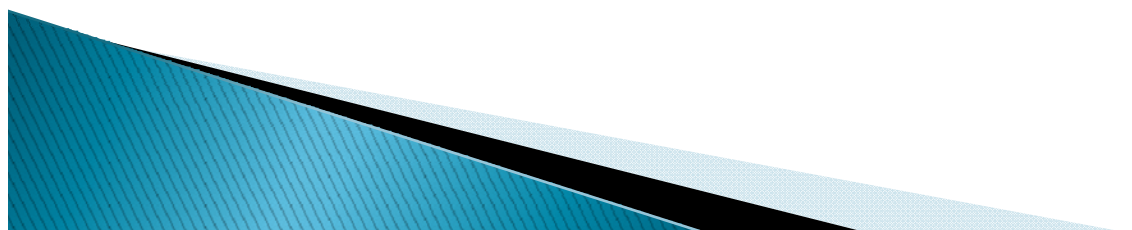
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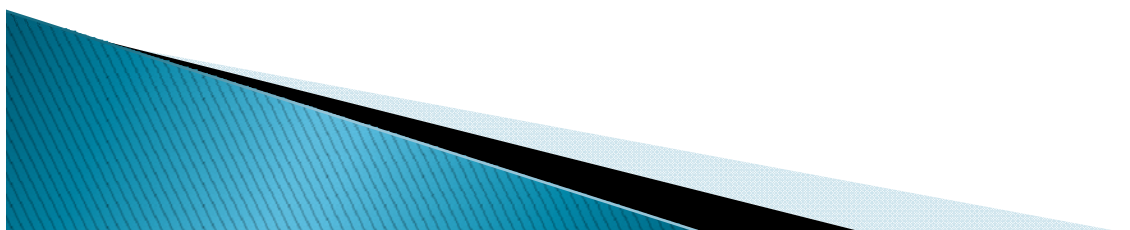
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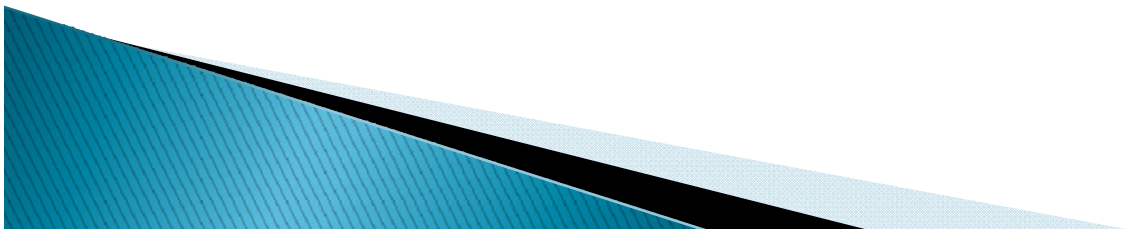


Acknowledgements...

- Our Chairman - Mr. R.A. Kila



- Perfect Research Team



❖ Blessed to have got Vicarious Learnings from my Role Models ...



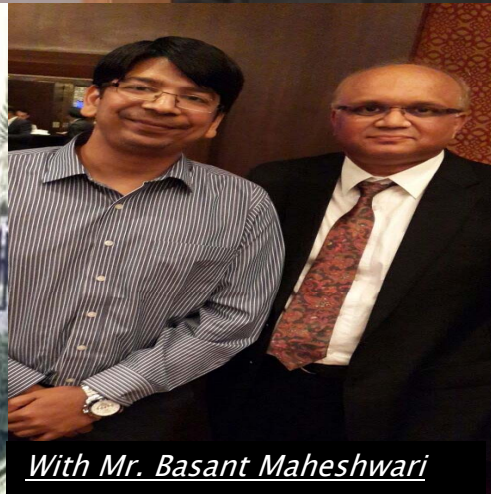
From L to R: Mr. Sanjay Bakshi, Mr. Mohnish Pabrai & Me

My Profile

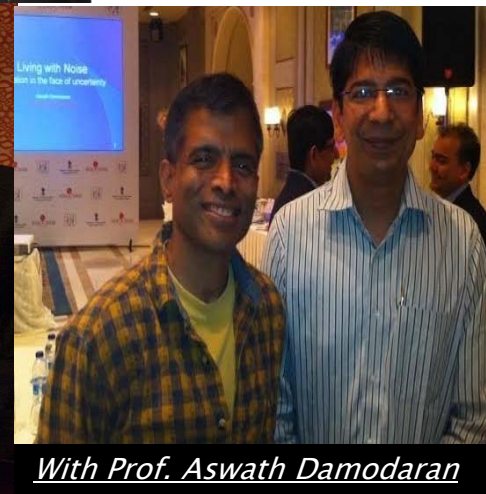
- CA
- MBA from MDI, Gurgaon
- Worked with - Goldman Sachs, Religare Securities & Morgan Stanley
- Currently working as
 - Director, Perfect Group
 - CIO, Perfect Research



With Mr. Ashish Dhawan



With Mr. Basant Maheshwari



With Prof. Aswath Damodaran



With Mr. Bharat Shah

Roadmap–



Life Cycle of a Typical Business



Why is Berkshire Hathaway a superior Business?



Finding the next Berkshire Hathaway?



Valuing the Business



How Does the Market Perceive the Business?

❖ Let's take a Life Cycle of a Typical Business



Generating wealth on the way

Mr. X Come
with an idea

Starts a
business

Starts hiring
Professionals

Starts
Scaling it up

Starts
Diversifying

Management Bandwidth starts getting stretched

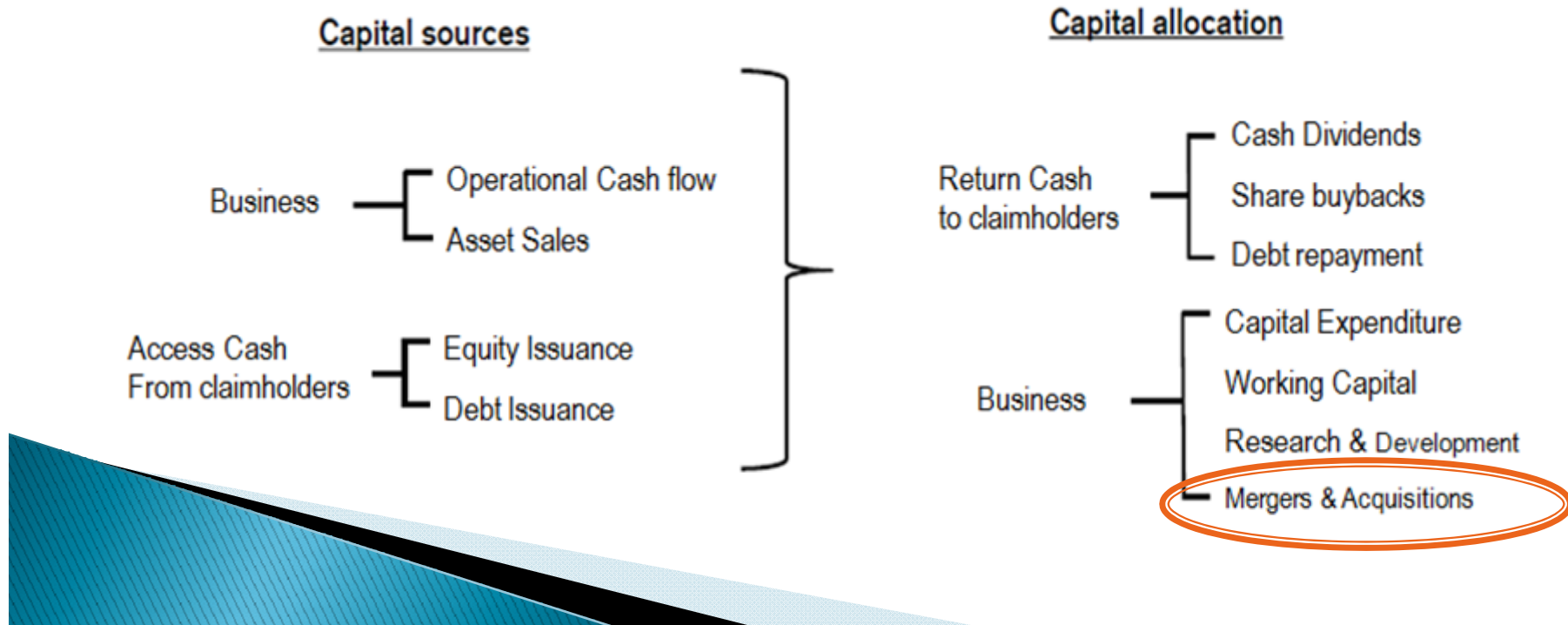
- The Group can't scale up more geographically or/& is unable to diversify

Unable to reinvest cash flows and growth slows

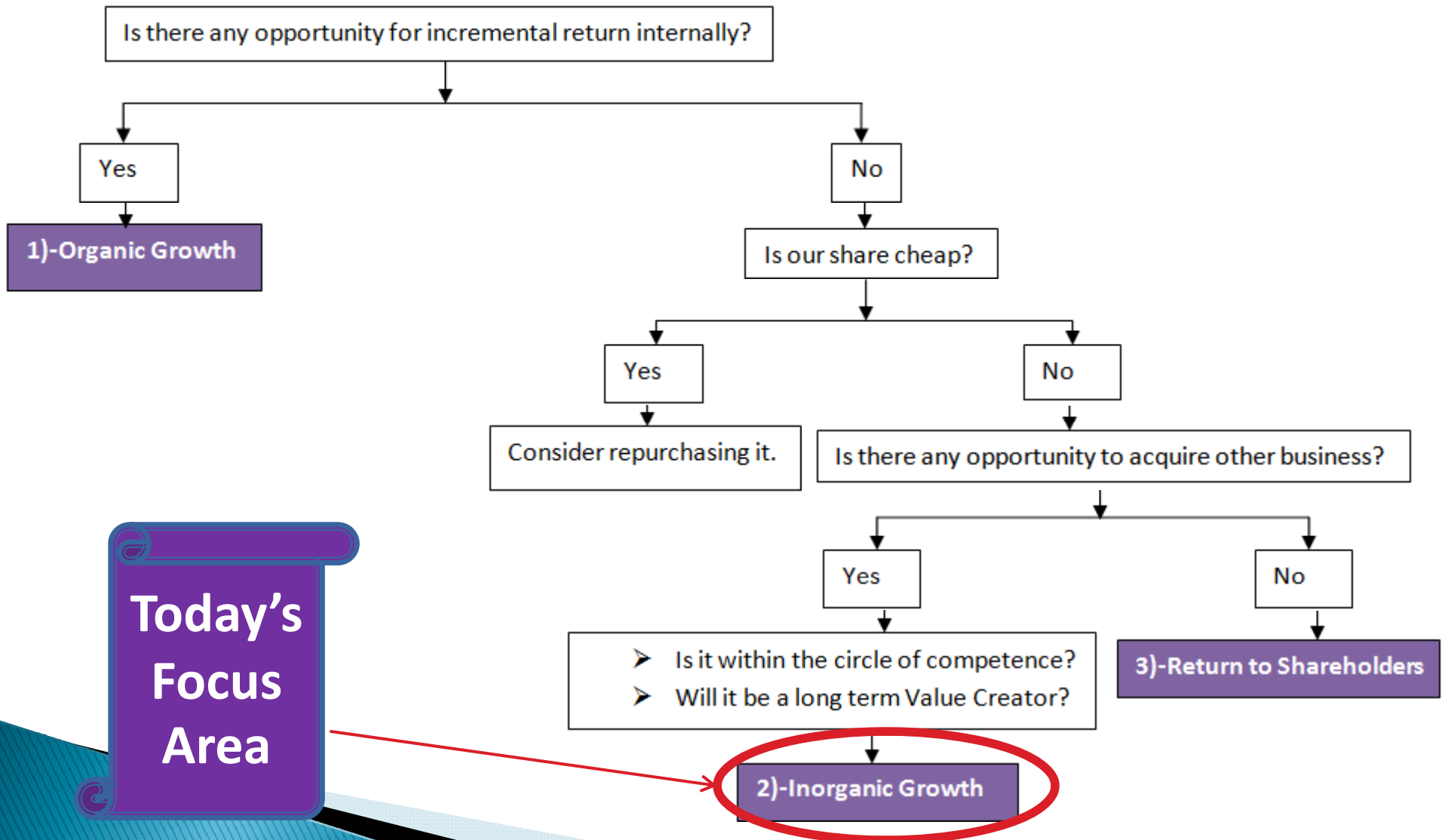
❖ Capital Allocation



- It is the role of the management to deploy capital to add value for the shareholders
- William Thorndike has mentioned the sources and uses of financial capital in his book '**The Outsiders**'



❖ How we think management should think about capital allocation.



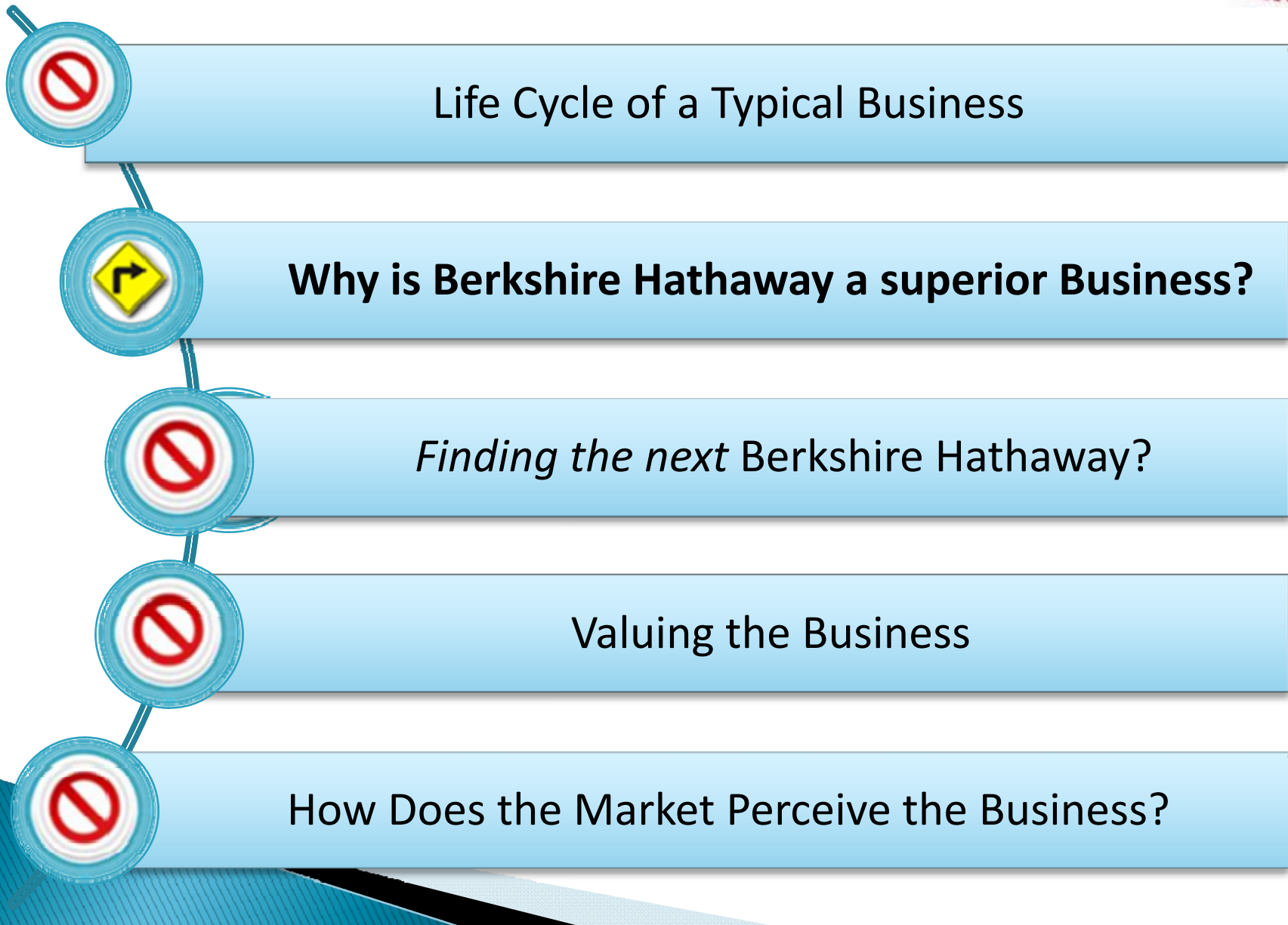
❖ Cont...



Rank ⇅	Name ⇅	Industry ⇅	Revenue (USD million) ⇅	Revenue growth ⇅	Employees ⇅	Country ⇅	Headquarters ⇅	CEO ⇅	Ref ⇅
1	Walmart	Retail	\$485,870	▼ 0.7%	2,300,000		Bentonville, Arkansas	Doug McMillon	[1]
8	Toyota	Automotive	\$236,592	▼ 4.5%	348,877		Toyota, Aichi	Akio Toyoda	[8]
9	Apple	Consumer electronics	\$233,715	▲ 27.9%	110,000		Cupertino, California	Tim Cook	[9]
10	BP	Oil and gas	\$225,982	▼ 37.0%	79,800		London	Bob Dudley	[10]
11	Berkshire Hathaway	Conglomerate	\$210,821	▲ 8.3%	331,000		Omaha, Nebraska	Warren Buffett	[11]
26	General Electric	Conglomerate	\$140,389	▼ 5.3%	333,000		Boston, Massachusetts	Jeffrey Immelt	[26]

- Very few companies are able to have sufficient management talent to keep on scaling up businesses and diversify as required
- General Electronics is one of the few and even then Berkshire is ahead of GE

Roadmap–



❖ *Berkshire Hathaway- Compounder over 52 years*



Book Value Growth

- Over the last 52 years (that is, since present management took over), per-share book value has grown from \$19 to \$172,108, a rate of 19% compounded annually.

Share Value Growth

- Share price of Berkshire Hathaway has grown with a CAGR of 20.8% since inception

A \$10,000 investment in Berkshire Hathaway stock in 1965
would be worth \$88 million today

Source: <http://bit.ly/2qWNnqQ>

**What is Berkshire
Hathaway?**

**Re-Investment of Cash
Flows**

**Why Berkshire
Hathaway?**

❖ What is Berkshire Hathaway?



History:

- Berkshire was a leading New England-based textile company, with investment appeal as a classic Ben Graham-style "net-net"
- Buffett took control of Berkshire on May 10, 1965
- At that time, the company had a **market value of about \$18 million** and shareholder's equity of about \$22 million

Today:

- Berkshire Hathaway today is the 11th largest company in the world (and 4th largest in the U.S.) by revenues
- Company has a **market cap of \$409 billion** and is generating revenue of \$224 billion

Source: Tilson Fund Presentation

BERKSHIRE HATHAWAY INC.

What is Berkshire Hathaway?

Re-Investment of Cash Flows

Why Berkshire Hathaway?

❖ Today's Empire of Berkshire Hathaway

From a small bank to giant railroad



- When Buffett took over the control of Berkshire in 1965, that time it was only a textile company.
- But within few years Buffett turned the company into an investment vehicle by investing surplus cash flows in quality businesses.

Source: Tilson Fund Presentation

Company	Shares	Price	Value (\$B)
Kraft Heinz	325.6	\$89.70	\$29.2
Wells Fargo	500.0	\$55.18	\$27.6
Coca-Cola	400.0	\$43.66	\$17.5
IBM	81.2	\$159.05	\$12.9
American Express	151.6	\$78.33	\$11.9
Bank of America	700.0	\$23.85	\$11.7
Apple	61.2	\$146.53	\$9.0
Phillips 66	74.6	\$78.24	\$5.8
U.S. Bancorp	101.9	\$52.31	\$5.3
Moody's	24.7	\$119.40	\$2.9
Delta Airlines	54.9	\$48.64	\$2.7
Goldman Sachs	11.4	\$226.59	\$2.6
Southwest Airlines	43.2	\$58.34	\$2.5
DaVita	38.6	\$65.24	\$2.5
Charter Comm.	6.8	\$322.60	\$2.2
Sanofi	22.2	\$98.34	\$2.2
United Continental	26.6	\$74.91	\$2.0
General Motors	50.0	\$33.15	\$1.7
USG	43.4	\$28.99	\$1.3
Verisign	13.0	\$90.56	\$1.2
Liberty Global	31.5	\$34.20	\$1.1
Bank of NY Mellon	21.7	\$47.61	\$1.0

Notes: Share count as of 12/31/16 13-F; Stock prices as of 5/4/17. Excludes holdings (if any) in POSCO and BYD. BofA net of \$5B.

What is Berkshire Hathaway?

Re-Investment of Cash Flows

Why Berkshire Hathaway?

❖ Outcomes of Re-investment of Cash flows..



- Berkshire Hathaway has reinvested their free cash flows over 52 years that is the reason that the book value per share has grown from \$19 to \$172,108, a rate of **19% compounded annually**.
- Warren Buffett manages multiple business employing approx. 3,60,000 people across the world, with just 25 people who sit at Headquarters in Omaha.



What is Berkshire Hathaway?

Re-Investment of Cash Flows

Why Berkshire Hathaway?

❖ Why Berkshire model is more superior to others???



This is where the genius of this century Mr. Warren Buffett comes in, and how he made so much wealth for him and his shareholders

- Warren Buffett early on realized that compounding is the 8th wonder of the world and for that he has to continuously re-invest its cash flows
- When he acquired Berkshire Hathaway in 1965, he didn't see any future in the textile business. So he started using free cash flows in acquiring great businesses
- These acquisitions were not like GE acquiring another company or any conglomerate adding any other company where decision process would involve a top level group board of the directors taking key strategic decisions.

**What is Berkshire
Hathaway?**

**Re-Investment of Cash
Flows**

**Why Berkshire
Hathaway?**

❖ Betting on the 'Jockey'- "Warren Buffett"



Rather, Buffett created a hands-off culture that encourages entrepreneurs to sell their private companies to Berkshire

Management takeaways from Warren Buffett's 50 years at Berkshire Hathaway

- **Leave your managers alone** — Managers at the 60-plus business units owned by Berkshire have a lot of autonomy, and that encourages them to stick around.
- Warren Buffett somewhere realized that management bandwidth will always be scarce to manage different diverse interest
- His genius was to find motivated, passionate entrepreneurs who have the ability to grow manifold but are looking for a home which can provide them a long run vision and allow them to think long term

Source: <http://for.tn/2rVM7t2>

**What is Berkshire
Hathaway?**

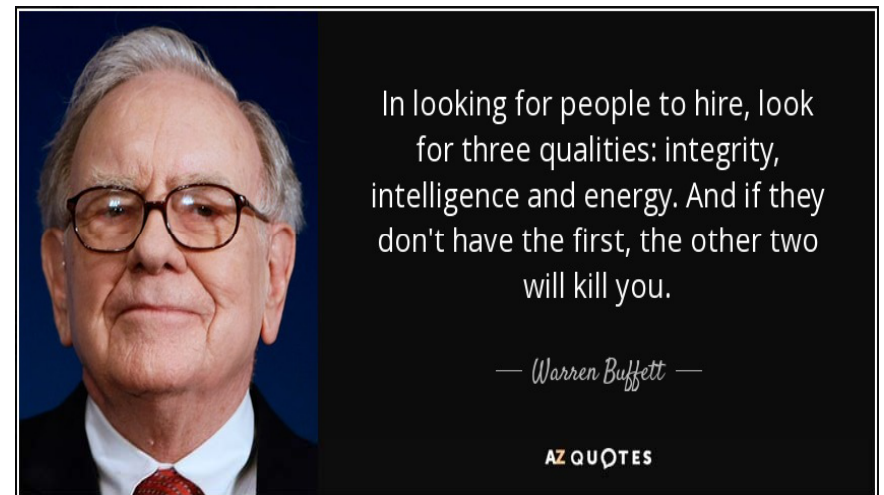
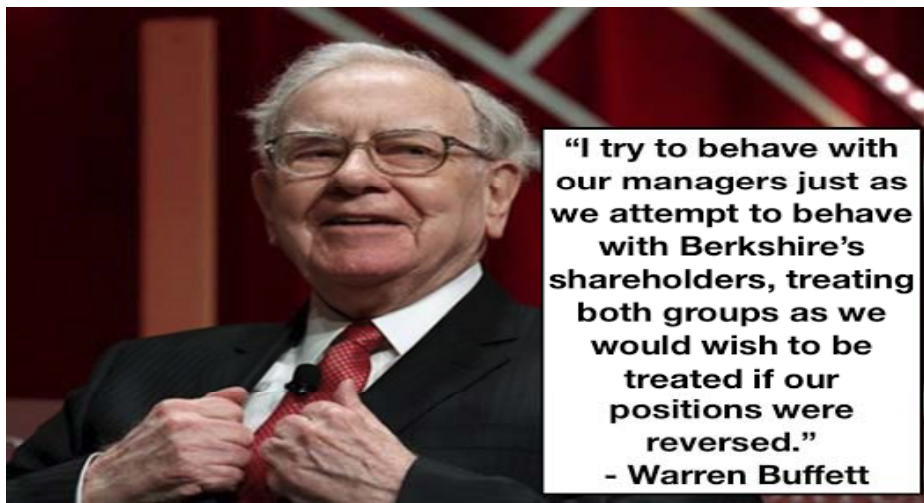
**Re-Investment of Cash
Flows**

**Why Berkshire
Hathaway?**

❖ Cont...



- **Incentives:** That is how Buffett's management incentives work—the more cash you send him, the more you get paid. Rewarding site managers and regional executives based on productivity gains related to low capital deployment
- **Don't follow the Herd—** Buffett ignores street expectations of short term quarterly profits and doesn't question them every quarter



Source: <http://bit.ly/2rGAXWb>

What is Berkshire Hathaway?

Re-Investment of Cash Flows

Why Berkshire Hathaway?

Roadmap–



Life Cycle of a Typical Business



Why is Berkshire Hathaway a superior Business?



Finding the next Berkshire Hathaway?



Valuing the Business



How Does the Market Perceive the Business?



*Who wouldn't want to own
another Berkshire Hathaway in
the making?*





❖ Followers of Warren Buffett's Style of Management

- We have found that there have been many brilliant investment managers who have learnt from this and tried to replicate it. One of them is Prem Watsa who is also known as the “**Warren Buffett of Canada**”

Similar to Berkshire Hathaway, the financial target of Fairfax is to:

“Compound mark-to-market book value per share over the long term by 15% annually by running Fairfax and its subsidiaries for the long term benefit of customers, employees and shareholders - **at the expense of short term profits if necessary.**”



Source: <http://bit.ly/2qSEunf>

Fairfax Holdings

Why not Berkshire or FairFax?

Thomas Cook



❖ What is Fairfax Financial Holdings?

- Prem Watsa founded Toronto-based financial services firm Fairfax Financial Holdings in 1985
- The insurance conglomerate today has a revenue of more than \$9 billion with more than \$28 billions worth of Investments which owns companies in Canada, the U.S. and almost a dozen in other countries worldwide.

Fairfax Empire

Source: <http://bit.ly/2rScLD6>
<http://bit.ly/2oCTZK6>
<https://bloom.bg/2s6gfBN>

FAIRFAX
FINANCIAL HOLDINGS LIMITED

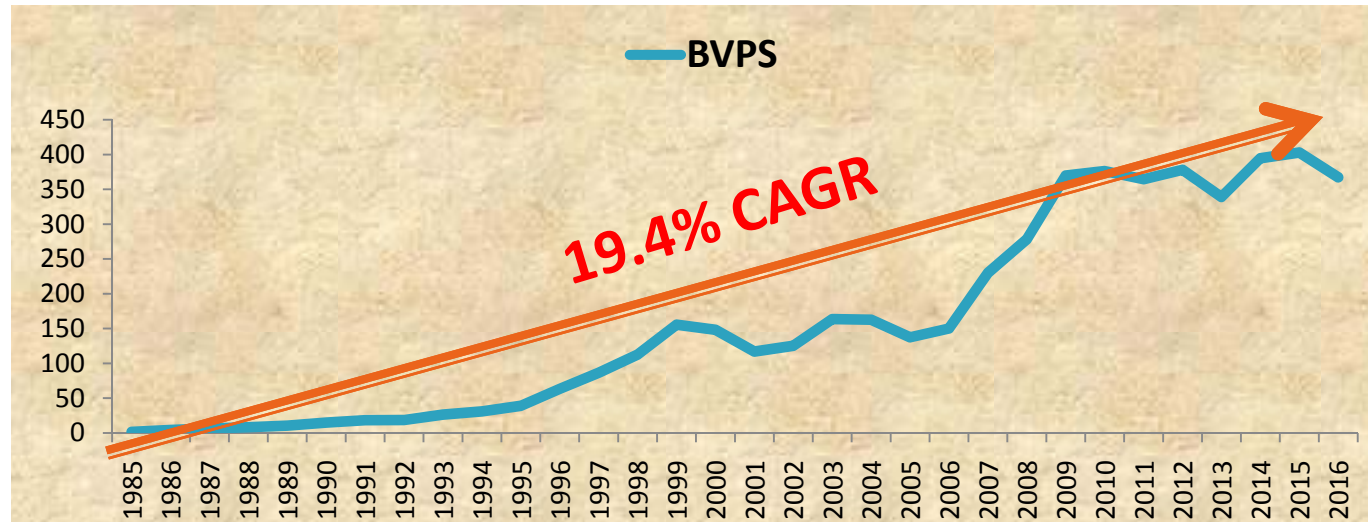
Fairfax Holdings

Why not Berkshire or FairFax?

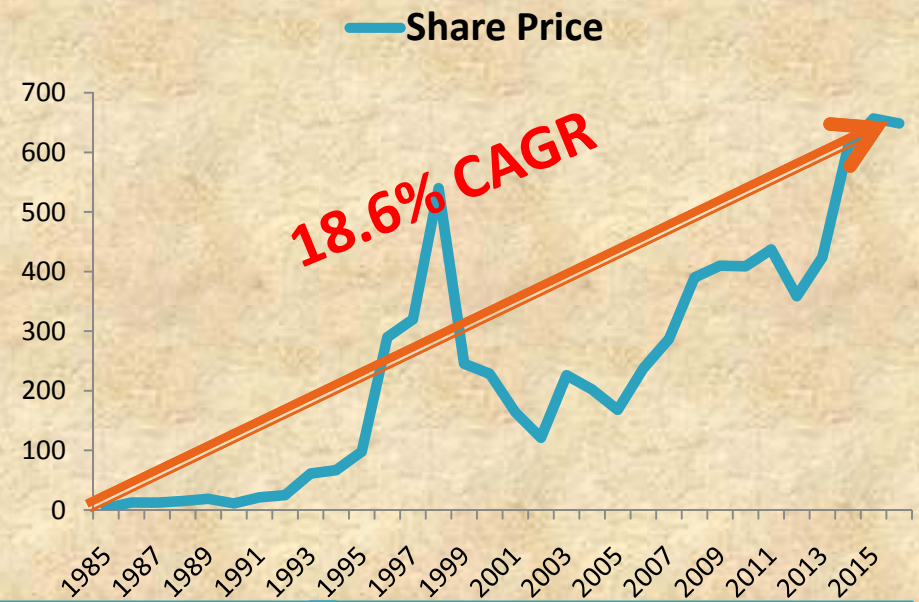
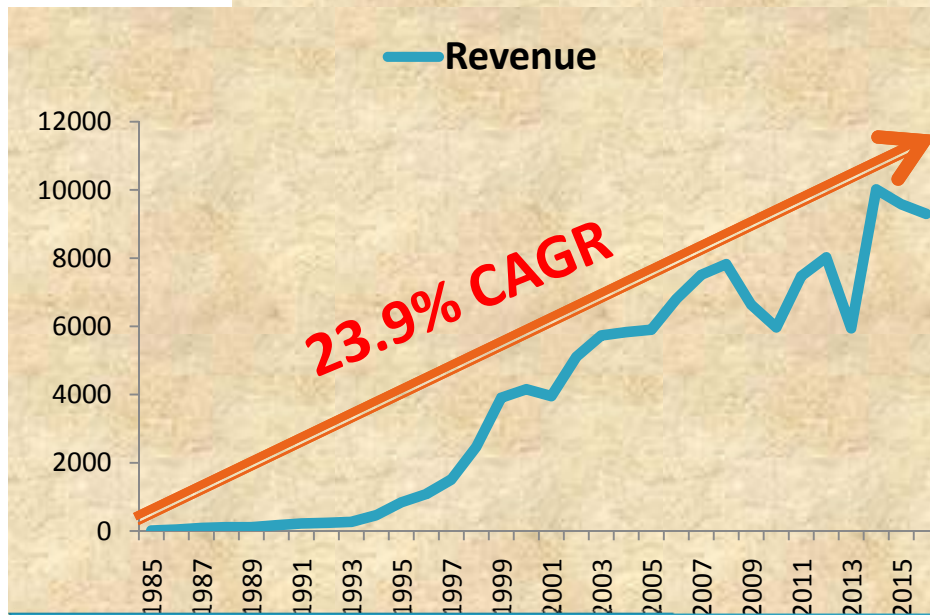
Thomas Cook

❖ FairFax Operating history (31 Years)

All Values in \$Mn except share prices



Source: Fairfax
Annual Report



Fairfax Holdings

Why not Berkshire or FairFax?

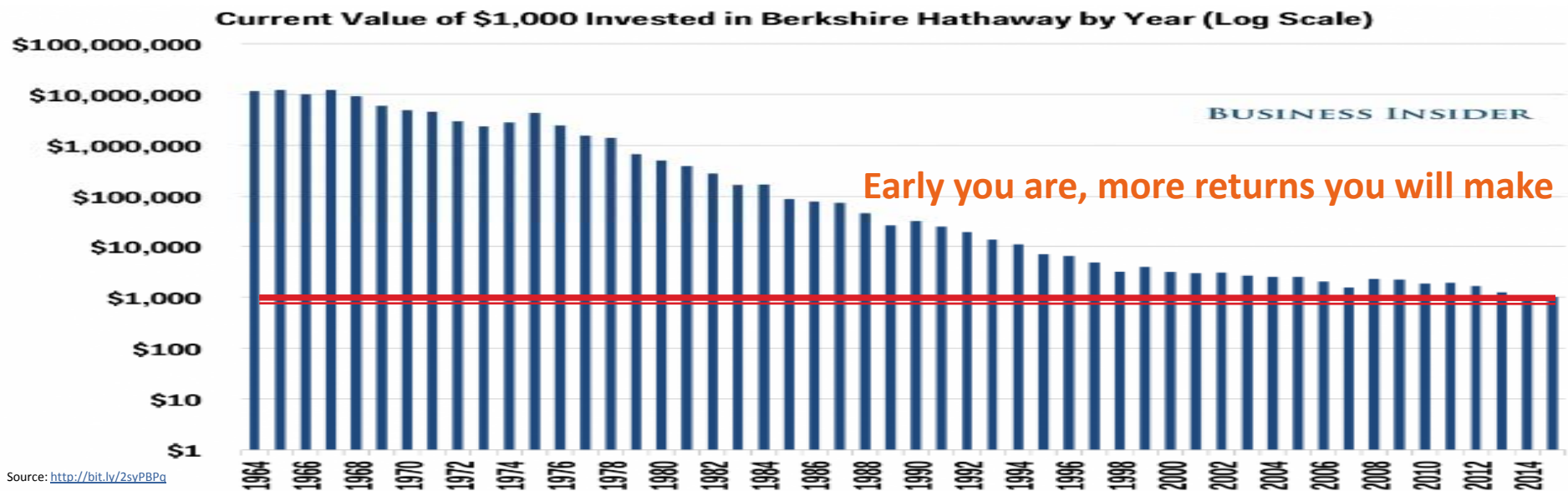
Thomas Cook

❖ Then why not to own Berkshire Hathaway or Fairfax Holdings?



- In case of Berkshire Hathaway, lot of the returns came while investing in early stage of the life, we believe after 50 years of compounding , base has magnified.

To find a wonderful business, one needs to find them small and get them when they're little.



Fairfax Holdings

Why not Berkshire or FairFax?

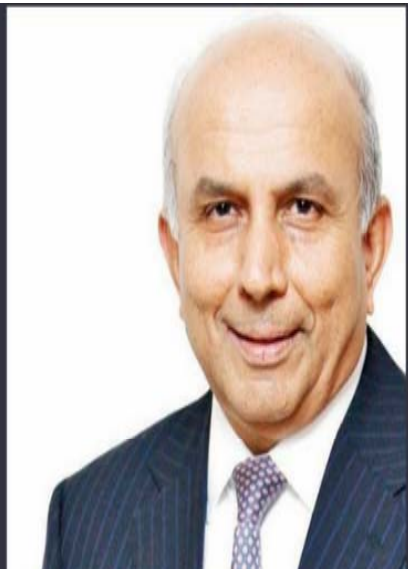
Thomas Cook

❖ 'India' - A new Investment Destination



- Prem Watsa has always seen major growth potential in his birthplace of India that was the reason he took an entry into India on May 21, 2012 by acquiring a 76.81% stake in Thomas Cook India

'Of All The Countries In
The world, I Am Most
Bullish On India,' Says
Prem Watsa, The
Warren Buffet Of
Canada



**Thomas Cook to become Fairfax's
investment vehicle in India**

*"We are so high on Thomas Cook India that we
expect the company will be our vehicle for further
expansion in India"*

**— Prem Watsa at Fairfax
Stockholder's Meeting in April 2013**

Source: <http://bit.ly/2rScLD6>
Fundoo Professor

Fairfax Holdings

Why not Berkshire or FairFax?

Thomas Cook



❖ Cont...

- Following the same principles if we can find something which is replicating the philosophies of Berkshire, run by an equally competent manager like Prem Watsa, then why not take advantage from that
- Fairfax is following the same business strategy of Berkshire Hathaway. Since Inception Fairfax has compounded the book value at 19.4% CAGR
- We are very excited given the massive size of opportunity that Prem Watsa sees in India and the potential to get into this story early and ride the journey as a side car investor



Fairfax Holdings

Why not Berkshire or FairFax?

Thomas Cook

❖ What is Thomas Cook (India)



Thomas Cook (India)

- Thomas Cook India Limited (TCIL) is India's largest, fully integrated and highly profitable Foreign Exchange and Travel Operator having a current market cap of ~ INR 8800 crore and FY17 revenue of ~ INR 8588 crore(Consolidated Basis)
- Since the company went public around 35 years ago, TCIL has never suffered a loss except in year 2016 where they suffered a loss on account of accounting of one off of approx. 100 cr. In Sterling Holiday business.

Source: <https://fundooprofessor.wordpress.com/>

Figures from BSE India dated 30
Nov, 2017

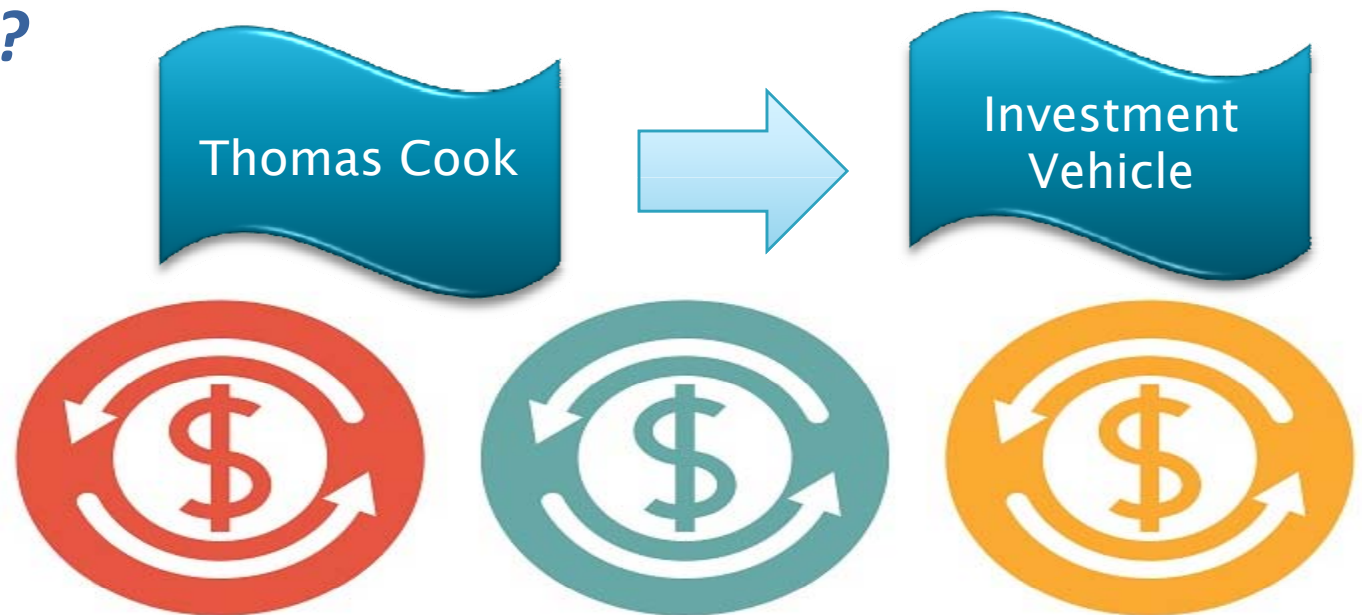
Fairfax Holdings

Why not Berkshire or FairFax?

Thomas Cook



Who doesn't want to invest in a company which can potentially keep on reinvesting incremental cash flows at reasonably high ROE's for perpetuity?





❖ Thomas Cook, Re-investing Surplus Cash Flows

- Company is throwing ample free cash flow every year which is getting re-invested in acquiring quality business consistently

2013

- Quess Corp. for a consideration of **259.24cr.**

2015

- Sterling Holidays for a consideration of 870cr.
- Hofincons InfoTech & Industrial Services for a consideration of **50.3cr.**

2016/17

- SOTC/Kuoni Travel India for a consideration of **320cr.**
- Kuoni Travel (China) **215.6cr.**
- Luxe Asia Private Ltd. (Sri Lanka) for a consideration of **2.34cr.**
- Recently acquired Kuoni's global network of destination management specialists (Deal Size undisclosed)
- Tata Capital Forex Ltd and Tata Capital Travel and Services Ltd **12cr.**
- Heptagon Technologies Pvt Ltd **9.77cr.**
- Vedang Cellular Services **40cr.**
- TATA Business Support Services **153 cr.**
- Trimax Smart Infraprojects Pvt Ltd **2cr.**
- Manipal Integrated Services Pvt Ltd(bought only these segments - Facility management and Related services) **220cr.**
- Inticore VJP Advance System Pvt Ltd **3.5cr.**

❖ Cont.... Key Acquisitions till date



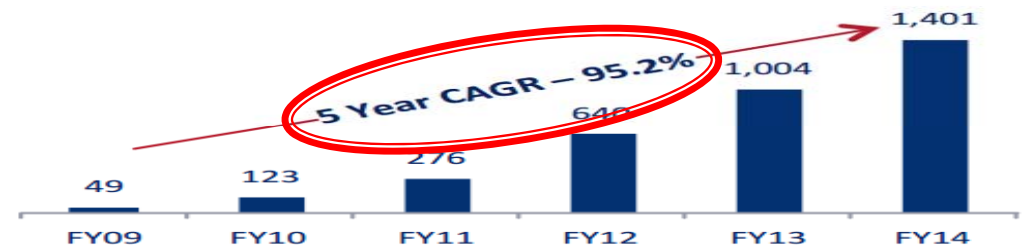
Quess

1.) Quess Corp (erstwhile IKYA)- (2013)

- Thomas Cook India invested ~\$47 million for 74% ownership
- Evolved from a 1 Room Operation in 2007 to 90,000 employees in 2014
- Quess has diversified operations focused on:
 - 1.) Human resources services
 - 2.) Facilities management;
 - 3.) Skills development
 - 4.) Food and hospitality services

Founded	October 2007
Headquarters	Bangalore
Ownership	Majority owned by Fairfax Financial Holdings
Headcount	~90,000
Present in	5 countries across Asia and North America

Gross Consolidated Revenue (INR Cr)



*As on FY14 (During the time of Acquisition)

Post Acquisition

- Revenue has grown **4x** from 1000cr. (FY13) to approx. 4150 cr. In FY17
- During the same period PAT has grown **6x** from 17.8cr. To approx. 110 cr. In FY17

❖ Cont....



2.) Sterling Resorts- (2014)

- Company then forayed into hospitality sector by acquiring vacation ownership pioneer Sterling Holiday Resorts India for Rs 870 crore
- At the time of acquisition
 - Sterling Holidays had a total inventory of 1512 rooms
 - Had 19 resorts in 16 scenic holiday destinations in India.



Source: <http://bit.ly/2png8Bd>
<http://bit.ly/2pBN6K1>

❖ Cont....



Post Acquisitions

- Today Sterling has a total inventory of 2002 rooms spread across a network of 28 resorts across India across 24 holiday destinations in India.
- Thomas Cook spent a sum of Rs 90 crore till FY16 and had a plan for spending 100cr. more in FY17 and coming years towards renovating the resorts of Sterling Holidays.
- 95% of total refurbishment has been done already, no major capex expected

Source: <http://bit.ly/2png8Bd>

<http://bit.ly/2pBN6K1>



❖ Cont....



3.) Kuoni's India & HongKong -(2015)

- Thomas Cook acquired Swiss tour operator Kuoni Group's business in India and Hong Kong for about Rs 535 crore as a part of its strategy to scale up the inbound tour business

4.) Now, Thomas Cook had acquired Kuoni's global network of destination management specialists (DMS).

- The acquired business consists of six business units and is spread over 17 countries in Asia and Africa besides Australia and the US.
- Integration with Kuoni helps Thomas Cook save Rs. 20 crore & Looking to earn more than 100crs profit from the acquisition of Kuoni inbound business alone in the next few years.

Source: <http://mybs.in/2UV5Gnj>

<http://bit.ly/2qBHhw8>

<http://bit.ly/2s9KI4j>

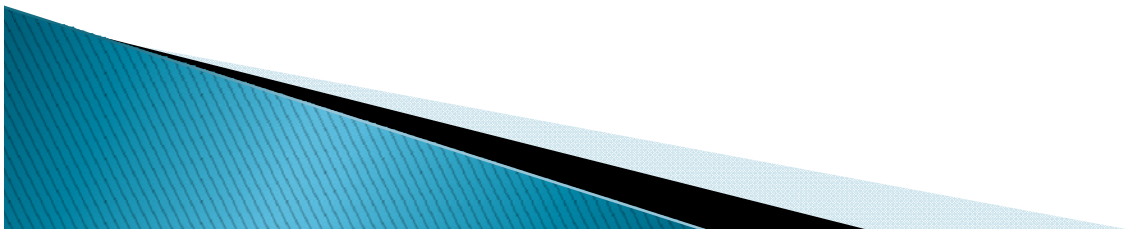


KUONI | Destination Management

❖ Thomas Cook...From Travel Operator to a Diversified Conglomerate



- **Diversification Philosophy:** Management is targeting new businesses to diversify its operation just like its parent Company 'Fairfax' to tap the market opportunity.
- Company's main travel business which was contributing 82% to its total operating profit is now contributing only 31.6%
- Whereas, Quess corp. is running the show with 55% contribution overall.
- Company is expecting fair contribution from each segment in long run

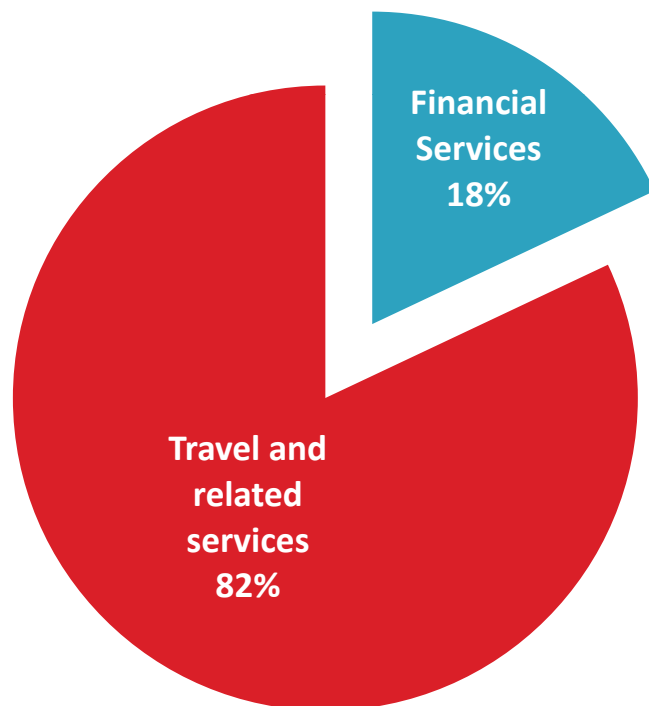


❖ Cont...

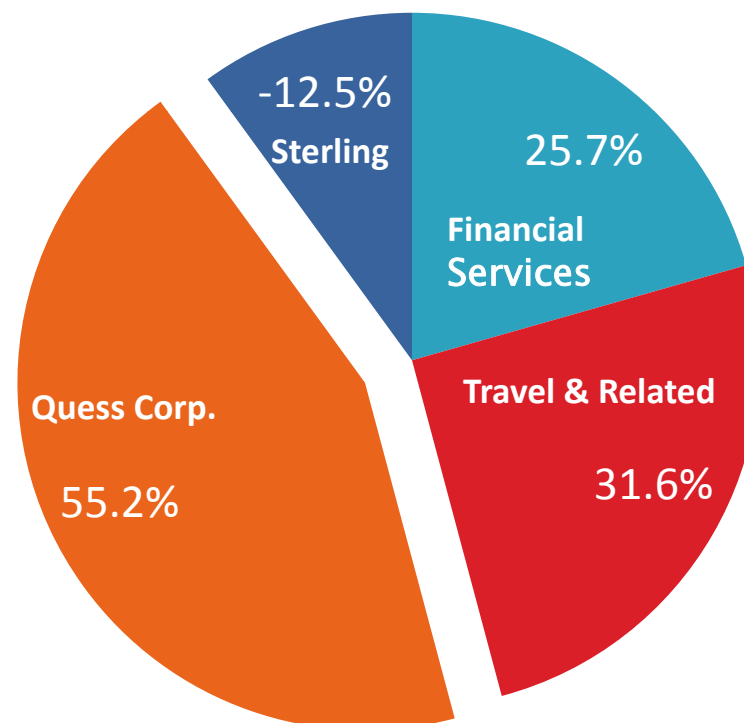


Segmental EBIT

CY11



FY17

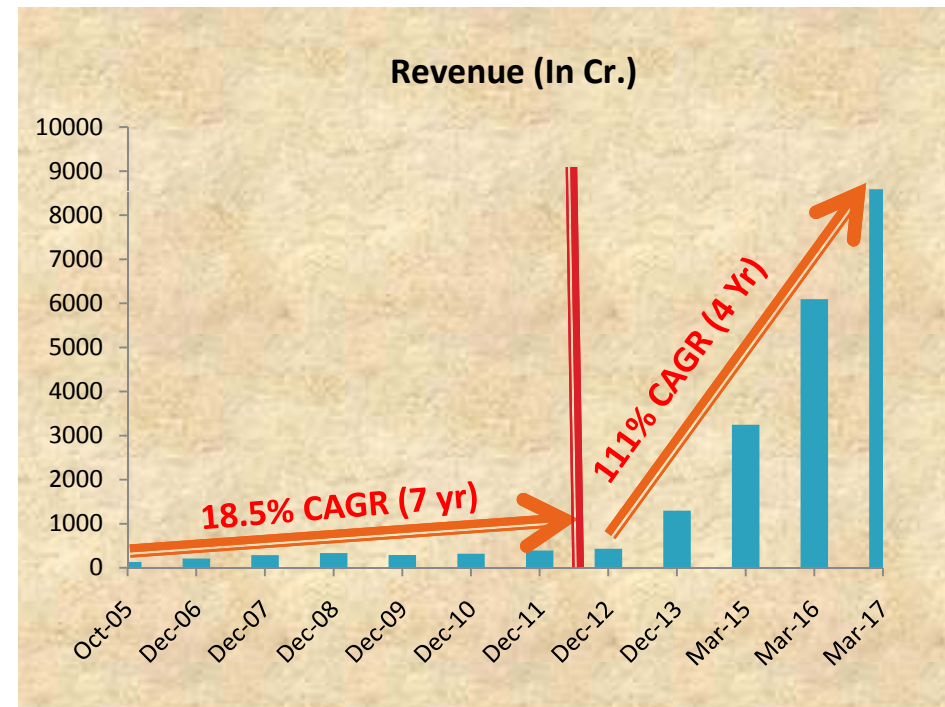


❖ Cont...



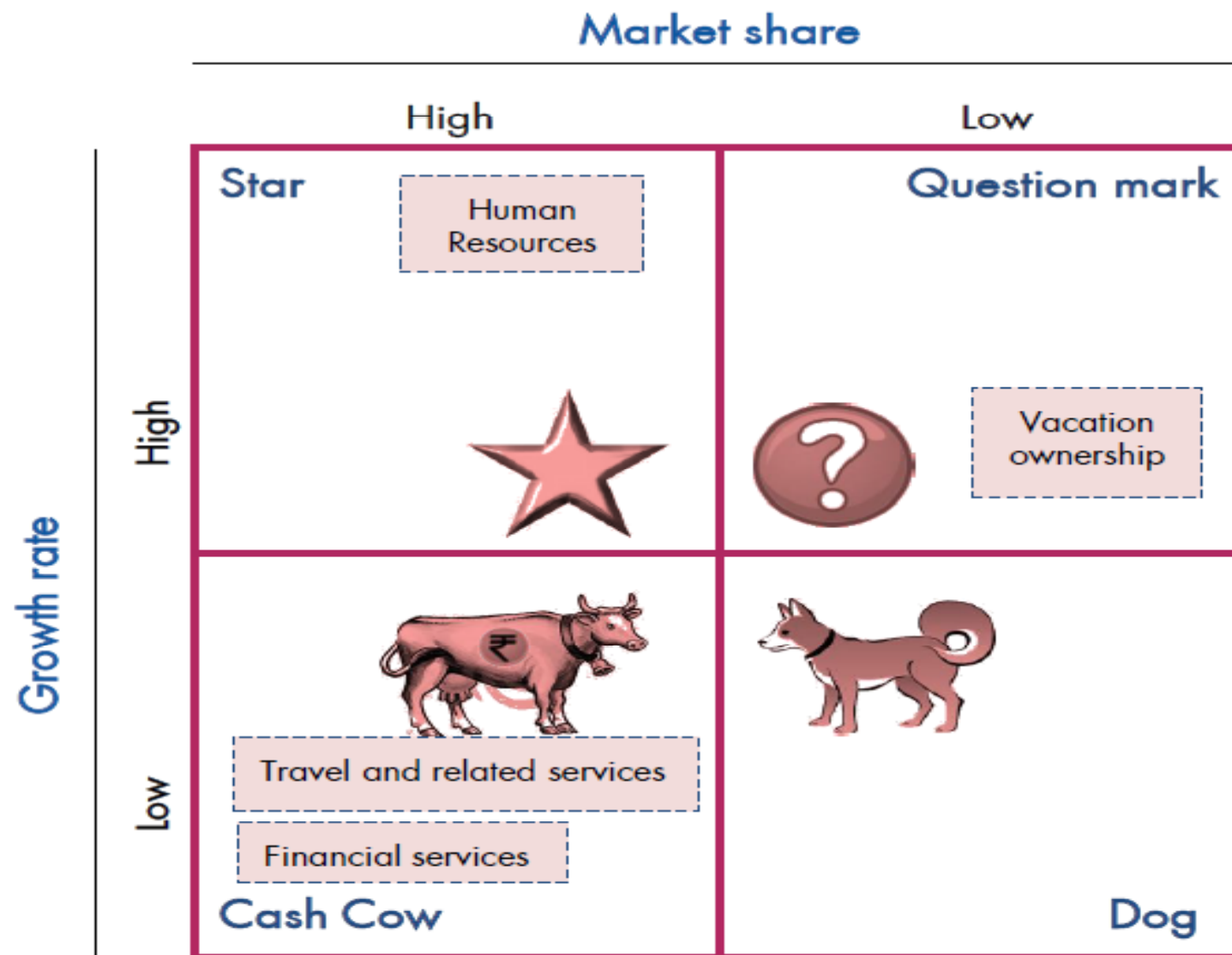
Thomas Cook Group Revenue

- Company has clocked revenue CAGR of 85% within last 5 years,
- Mainly because it is adding quality businesses consistently
- As per the recent management commentary they are open to diversify their business across segments
- Which will enable them to grow even more by adding high quality businesses





❖ Market share & Growth rate Compared



Source – Axis Direct
Report dated August
29, 2017



❖ 'Thomas Cook' vs. 'Berkshire Hathaway'

Thomas Cook is available at the Following valuations:

Particulars (2017)	Amt. (cr.)
Revenue	8587.99
Profit	77.56
M.Cap	7600

1965 Berkshire Hathaway



Berkshire Hathaway Today –
after 51 years

Particulars	Amt. (In Cr.)**
Revenue	320.45
Net Earnings	14.3
M.Cap	122

Particulars	Amt. (In Cr.)	51 Yrs CAGR
Revenue (2016)	1453400	17.95%
Net Earnings (2016)	159250	20.05%
M.Cap*	2658500	21.64%

•As on latest as per Tilson Fund Presentation

** \$1= 65INR As on current dollar rate

Source: Latest filings by the company

<http://bit.ly/2sdJW0X>

<http://bit.ly/2sVN8hp>

Roadmap–



Life Cycle of a Typical Business



Why is Berkshire Hathaway a superior Business?



Finding the next Berkshire Hathaway?



Valuing the Business



How Does the Market Perceive the Business?



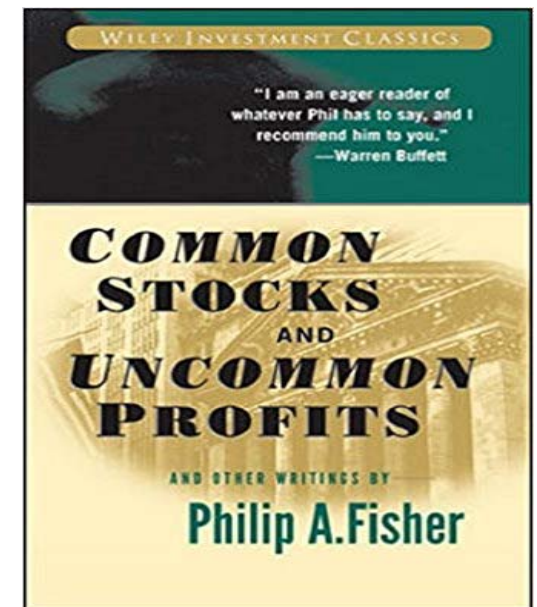
Valuation

“In investing, 90% is the management, 9% is the business and only 1% is other things that matter”
~ **Philip A. Fisher**



Reference
Standard Valuation Matrix PPT

[Link](#)



❖ Valuation –Implied Growth Rate on Basis of Exit Multiple (Book value)



- Here, we tried to calculate implied growth rate in Book Value for next 10 years.
- We have taken 10% as cost of capital which is our opportunity cost of capital, as Buffett says we try to build conservatism in cash flows rather than discount rates
- We have assigned exit P/B multiple of 2x to arrive at the Future Book value per share and discounted it back to the present value.
- Then using the goal seek function we applied reverse DCF function. Then we arrived at implied growth rate in BVPS to arrive at CMP

Reverse DCF

Capacity to Suffer

Compounding Effect



❖ Exit multiple (Book Value)

Particular	2017
Book Value Per Share	49.13

Year	Delta BVPS
1	9.18
2	10.89
3	12.93
4	15.34
5	18.21
6	21.61
7	25.64
8	30.43
9	36.12
10	42.87
Total	223.22

Total Future BVPS	272.34
Exit P/B	2.00
Total FV (Price)	544.69
PV	210.00
CMP	210.00

Implied Growth Rate	18.68%
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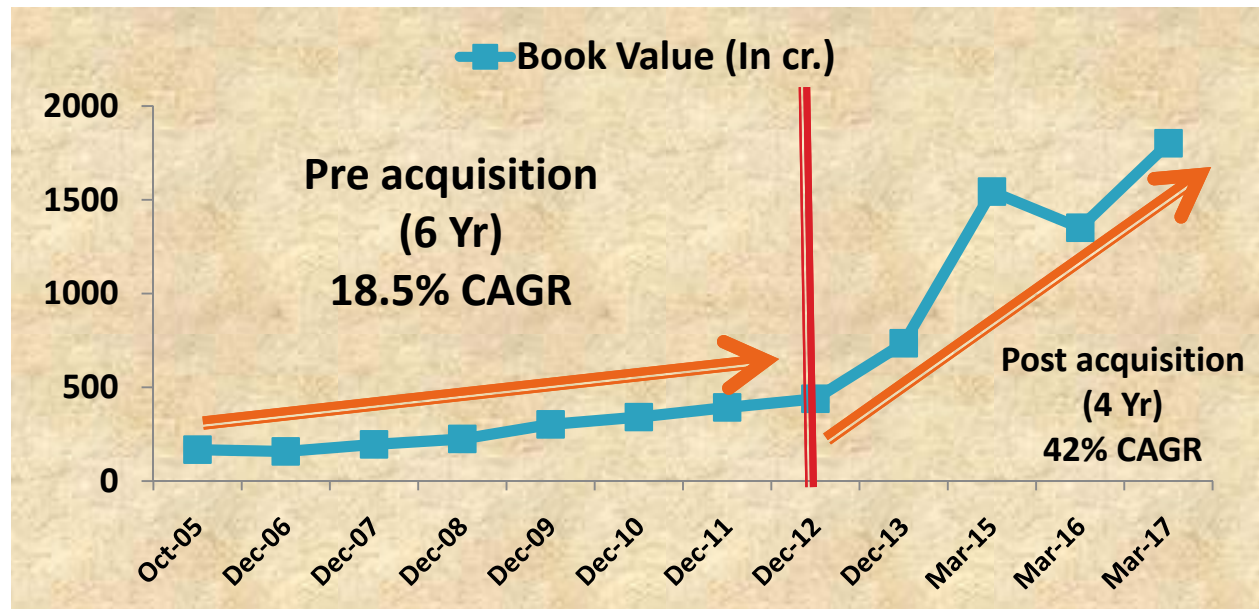
As per Market price of Rs.210 as on
June 5, 2017

Reverse DCF

Capacity to Suffer

Compounding Effect

Summary



Company	CMP	Trailing P/B	Exit multiple Implied Growth rate			Historical BV Growth	
			PB 2x	PB 3x	PB 4x	Pre acquisition (6 Yr)	Post Acquisition (4 Yr)
Thomas Cook India Ltd	210	4.27	18.68%	14.00%	10.73%	18.5%	42.38%

- Market is factoring 18.68% growth in book value per share of the company with an exit multiple of 2x (Conservative Number)

Reverse DCF

Capacity to Suffer

Compounding Effect

❖ Experts on Buying Expensive Businesses



If a business earns 18% on capital over 20 or 30 years, even if you pay an expensive looking price, you'll end up with a fine result." and "Occasionally, you'll find a human being who's so talented that he can do things that ordinary skilled mortals can't ~ **Charlie Munger**

❖ Tom Russo – Short term hits for long term Gains



- Management has to take decisions to expand business which could impact near term reported earnings but holds the key for future success and growth for the company and ignore the analyst and fund manager's short term view on the stock price
- Invest in companies which have capacity to reinvest because they have capital allocation strategies which have impact around the world and management who are willing to suffer in near term
- Role of management and promoters is very important in such businesses. Promoters should be patient enough to suffer losses in present and management should have belief in their capital allocation strategies.

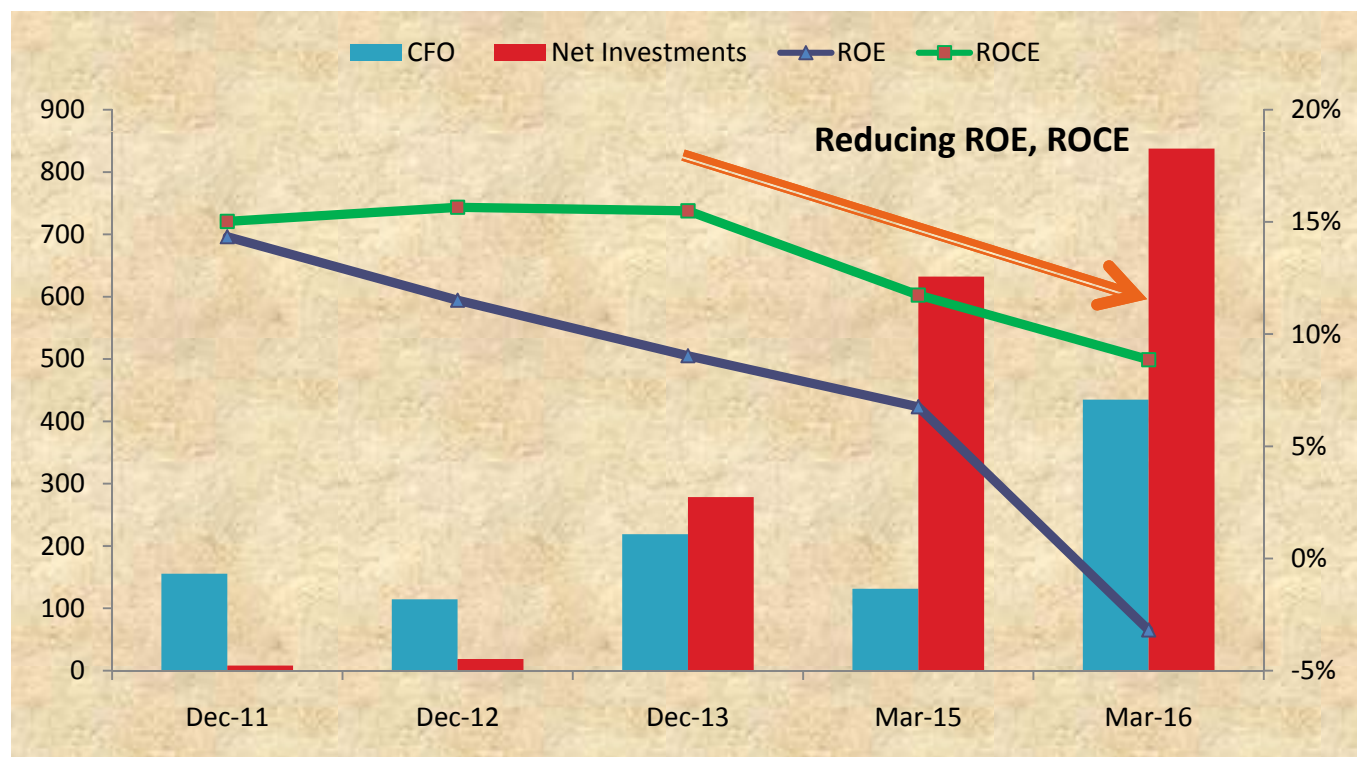


❖ Capacity to Suffer



Making difficult but value creating capital allocation choices:

Aggressive Investments in Quality Businesses, taking hit on short term return ratios



Source: Company Annual Report

Note: ROE, ROCE are on secondary axis

Reverse DCF

Capacity to Suffer

Compounding Effect

❖ Another e.g...

- Increase down payment in Sterling Holiday payment plan from 10% to 25-40%
- Which even though leads to loss of customers in short run,
- But will ensure good customer experience as drop outs will be far lesser and NPA's will be much lower on account of lapse in plan



Reverse DCF

Capacity to Suffer

Compounding Effect

❖ Compounding Story...



$$FV = PV (1+r)^n$$

Where,

FV = Future value

PV = Present Value

To maximize returns (Well Compounded
Future Value)

You have to play either with 'r' or 'n'



Source: 'Prof. Sanjay Bakshi ji' ~ October Quest 2016

Reverse DCF

Capacity to Suffer

Compounding Effect



❖ From a Business Point of View

R – Return on Equity N – Longevity of Business

- Company should have capacity to suffer even if it is impacting their earnings in short run while reinvesting cash flows for building their future
- Companies which maximize ‘r’ in the short run tend to suffer shareholder or public or regulatory wrath, e.g. Valeant
- Companies which are able to sacrifice short term focus on R to maximize the N, then truly benefit in long run e.g. Nestle while introducing Nespresso or Thomas Cook in our case

Source: ‘Prof. Sanjay Bakshi ji’~ October Quest 2016

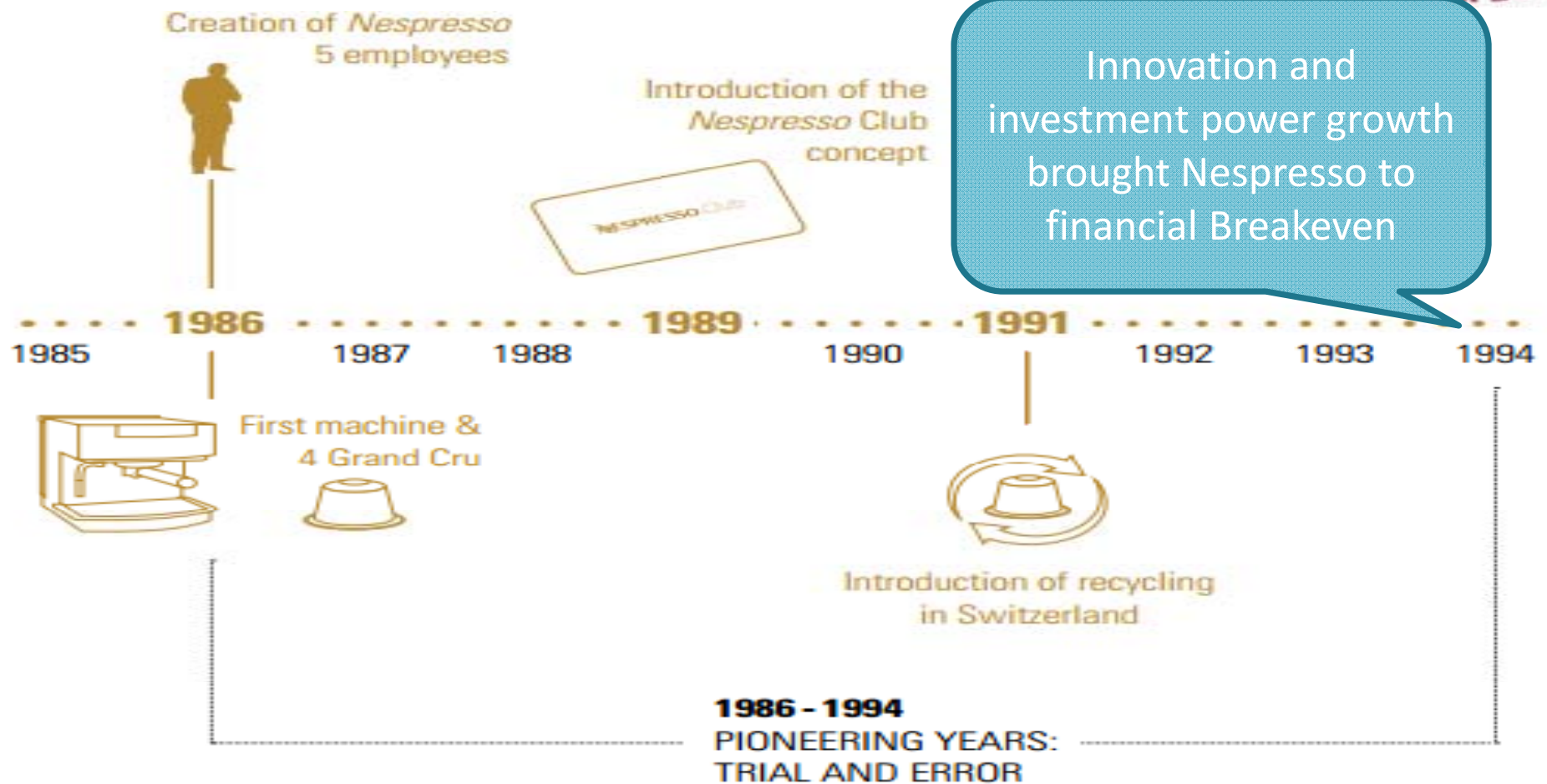
Reverse DCF

Capacity to Suffer

Compounding Effect



❖ 'Nespresso'- A success Story



That was the capacity of this company to suffer in short run and bare loses for 10 years. Now The company sets its ambition to become the highest quality and most sustainable portioned coffee brand through its Positive Cup sustainability strategy

Source:
<http://bit.ly/2f9Mg6N>



❖ From an Investor Point of View

R – Expected Return from Stock N – Years of Compounding

- **Maximizing the “R”** – We will continue shifting from one business to another in order to maximize the expected return but we don't realize that probability of wrong decisions compounds as we continue to make more and more decisions
- **Maximizing the “N”** – Even if the expected return is reasonable but over a very long period of time, result will be much better.
- Keeping this in mind, an investment vehicle business like Berkshire truly maximizes the “N”

Source: 'Prof. Sanjay Bakshi ji' ~ October Quest 2016

Reverse DCF

Capacity to Suffer

Compounding Effect

Roadmap–



Life Cycle of a Typical Business



Why is Berkshire Hathaway a superior Business?



Finding the next Berkshire Hathaway?



Valuing the Business



How Does the Market Perceive the Business?

❖ Market Perception in context of Holding Company Discount:



➤ What is the Market Saying

- Thomas Cook (India) has a market capitalization of 8800cr. whereas its subsidiary Qess Corp. (51.56%) alone has a market capitalization of 12700cr.
- In addition Thomas Cook has investments in multiple businesses like Sterling Holidays, SOTC etc.



Source:- Figures from BSE India dated 30 Nov, 2017

**Holding Company
Discount**

**Multiple
Investment Vehicle**

Travel only

**Which is more a
Dog Business?**

Forex



➤ What we think:

- Thomas Cook is an operational entity not a passive holding company, moreover, we really like the underlying assets.
- We think Fairfax will keep on creating value by focusing on cash flow, scaling up and reinvesting cash flow in buying more great businesses. Our thesis is based on the above.
- Thomas Cook should be viewed as an investment vehicle like Berkshire Hathaway



Holding Company
Discount

Multiple
Investment Vehicle

Travel only

Which is more a
Dog Business?

Forex

❖ If you like Quess so much, why not buy Quess directly?



- By buying Thomas Cook we can get a lot of optionality of further such opportunities like Quess as Thomas Cook is an investment vehicle, also we are bullish on travel space.





❖ Market Perception in context of Multiple Investment Vehicle:

➤ What is the Market Saying

- *Berkshire Hathaway operates via single investment vehicle which takes all investment decisions but Fairfax has multiple investment vehicles across geographies.*
- *In India also it has separate Investment vehicles Fairfax (India) as well as Thomas Cook (India)*
- India-born Canadian billionaire Prem Watsa's Fairfax investment in Indian operations has reached around \$5 billion, including \$2.9 billion from its own account.

Source: <http://bit.ly/2oCTZK6>





➤ **What we have to say**

“Last year we said that Thomas Cook India would be our vehicle for further expansion in India. For the reasons mentioned above, we have now added Fairfax India as an investment vehicle in India. **Thomas Cook India’s resources may constrain the size of deals it can do, although we expect that deals in its area of expertise will continue to be done in that company.** In determining the appropriate vehicle for any investment, we will consider all of the relevant circumstances and we will be fair, as always, in order not to disadvantage one of these vehicles.”

Prem Watsa’s March 2015 shareholders letter

Source: <http://bit.ly/2iTq1Va>

Holding Company
Discount

Multiple
Investment Vehicle

Travel only

Which is more a
Dog Business?

Forex

❖ Market Perception in context of Travel only



Market Concern :

After starting Fairfax India as a separate investment vehicle, all investments by Thomas Cook have been in the travel space only

What we have to say...

In the Q2FY17 Concall of Thomas Cook (India) we asked the same question to the company's management , they said we were getting opportunities in travel space so the recent spate of acquisitions have all been there, we are always open to different business segments.





❖ TCIL has a license that will expire

Market Concern :

TCIL has a license to use the 'Thomas Cook' brand for 13 years. What happens after that?

What we have to say...

Prof. Bakshi asked the management the same and the answers were (1) they will build their own brand(SOTC); and (2) when the time comes, they will likely request a renewal.



❖ Travel is a Sunset Industry??..



What Market Thinks??

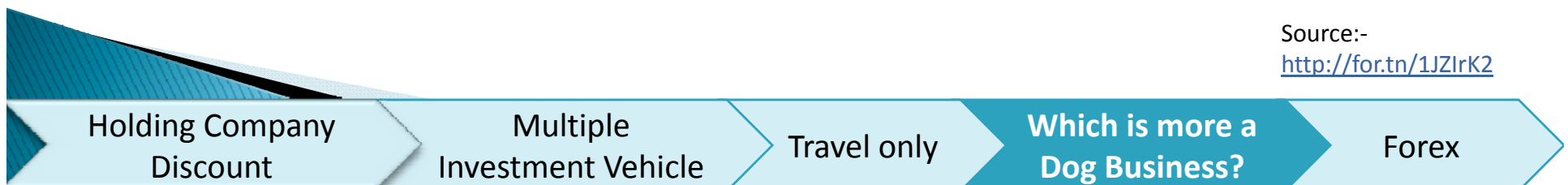
- Travel is a Sunset Industry, as new generation is doing self planning of holidays rather than approaching to a tour operator

What we think...

Assuming travel is a bad business

- Which is more a Dog Business - 'Travel' of Thomas Cook (India) or 'Textile' of Berkshire Hathaway ???
- It is evident from the history that Textile industry has always been considered as a cyclical, high competitive intensive business across the globe.
- Even Buffett himself confessed that he failed to turnaround the company's textile mills. He eventually closed Berkshire's operations two decades later.

Source:-
<http://for.tn/1JZlrK2>



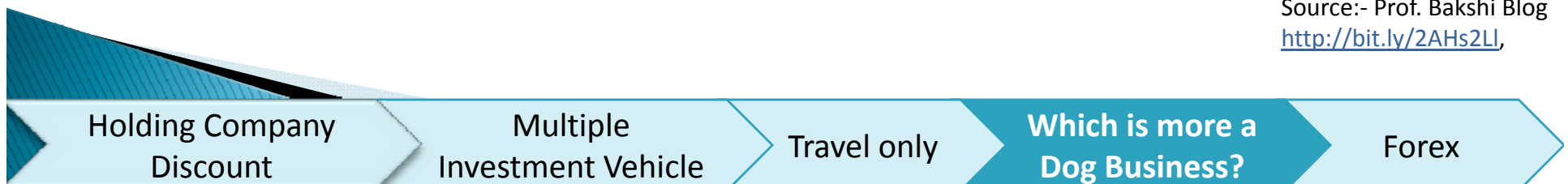


Thought process of Mr. Bakshi regarding travel

- In the words of Prof. Bakshi “Before the sun sets on this industry, it will be rising for a long long time. It important to form views based on actual data rather than perceptions formed from one’s own opinions.
- “I haven’t used a travel agent for a holiday for more than a decade. I don’t wear Relaxo flip flops. I don’t wear Killer Jeans either. Nor do I use Bajaj almond oil or any hair oil for that matter. I don’t use products made by Page Industries either. But the business volume growth experienced by companies who manufacture these products tell a different story.”
- In the very long run, I agree this would be sunset industry, but as of now outbound travel volumes are growing at more than 25% a year.



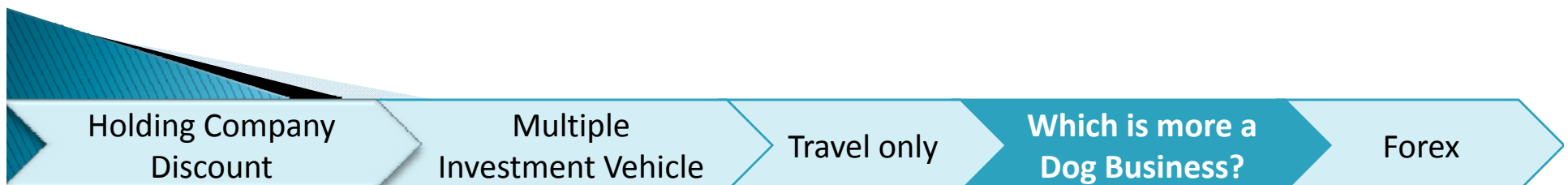
Source:- Prof. Bakshi Blog
<http://bit.ly/2AHs2LI>,





Our thought process regarding travel

- People want to unwind and not be stressed about making arrangements especially food even when on holidays so they choose a tour operator, and
- For any person travelling abroad, will be more comfortable with a tour operator who has got a good name & presence(which TCIL has) rather than any local tour operator for any help in emergency





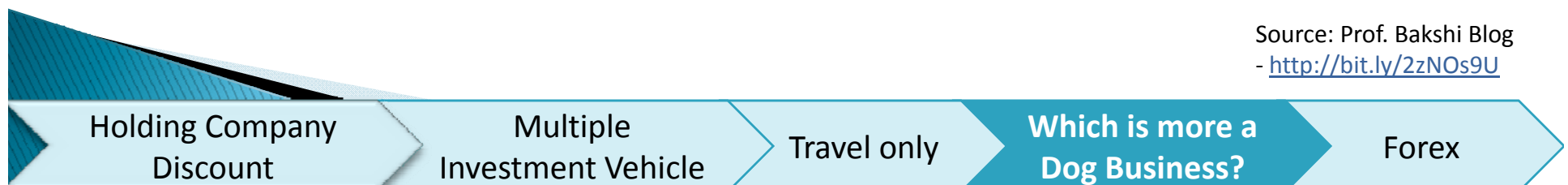
And this is what Prem Watsa has to say for Travel opportunity in India:

“You will understand the great potential of this company when you realize that currently only 1 million Indians annually travel outside India for holidays. This compares to some 40 million outbound tourists in China and 100s of millions of outbound tourists in the western world. Enormous Opportunity Indeed!”

–Prem Watsa
In letter to Fairfax Stockholders’
for FY2012 annual report



Source: Prof. Bakshi Blog
- <http://bit.ly/2zNOs9U>



❖ Why TCIL for Forex??..

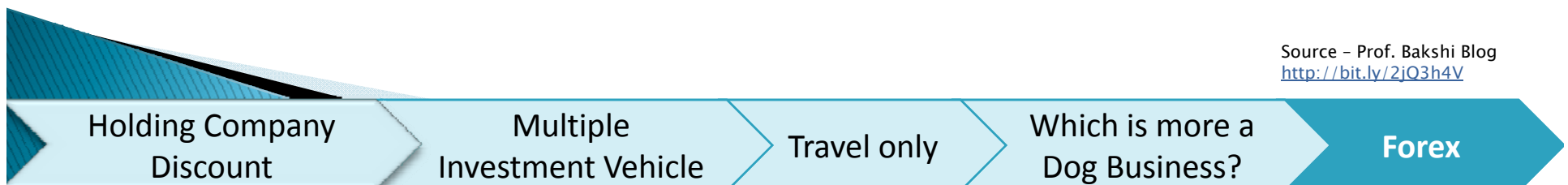


What Market Thinks???

- Why will a person take expensive rates for the currency from TCIL and not take from other players in the market

What we think...

- When a person booking his holidays for lakhs of rupees with TCIL won't make a thought to go searching for a forex dealer in market providing a cheaper rate as it will be very miniscule amount of difference and more waste of time
- Just as people don't think too much about the pricing of accessories when they have bought a car and also convenience, however, comes at a cost





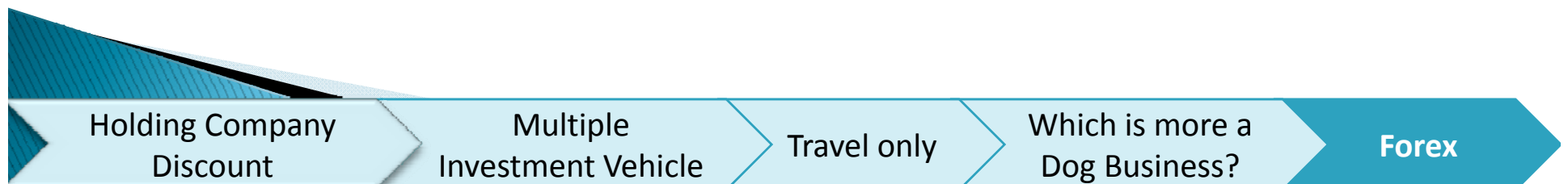
What we think...

- Also there is a threat of fake currency when taken from other unorganized players, people have been sent to Jail in foreign country for carrying fake currencies received from small players without bill
- To cater to this risk of carrying cash and fake currencies TCIL has a multi currency card in which the major currencies can be loaded for use in abroad

Indian national arrested for counterfeit banknotes - The Nation

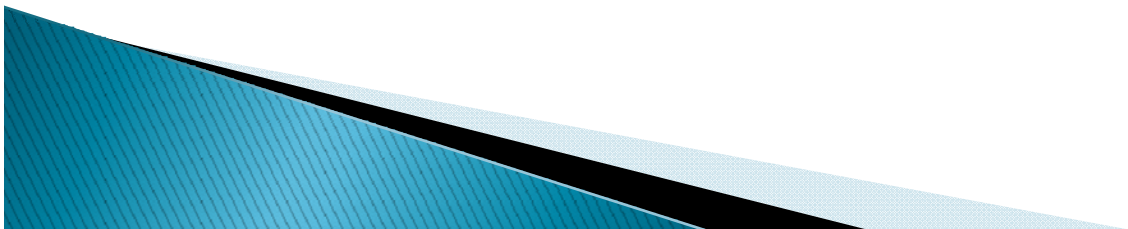
www.nationmultimedia.com/detail/breakingnews/30322963 ▼

Aug 6, 2017 - An Indian man was **arrested** by police in front of a **money** exchange kiosk in Pattaya





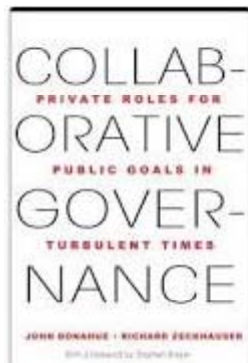
When we find such a sidecar
investment we
DON'T LET GO
of such opportunity.



❖ Richard Zeckhauser



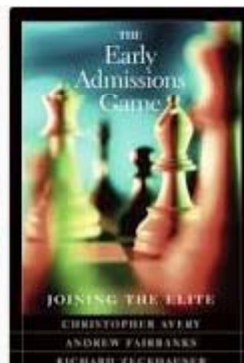
- ▶ A Frank P. Ramsey Professor of Political Economy at Kennedy School, Harvard University
- ▶ He graduated from Harvard College and received his Ph.D. there
- ▶ In 2014, he was named a Distinguished Fellow of the American Economic Association.



Collaborative
Governance: ...
2011



The Patron's
Payoff: Cons...
2008



The Early
Admissions ...
2003

Betrayal Aversion: Evidence from Brazil, China, Oman, Switzerland, Turkey, and the United States

Investing in the Unknown and Unknowable

Status Quo Bias in Decision Making

Source – <http://bit.ly/2qrEi70>
<http://bit.ly/2fYE5rD>
<http://bit.ly/2xtwpst>



❖ Inorganic Acquisitions- Our Sidecar Investments



- **Mr. Richard Zeckhauser** advises that when a 'Sidecar Investment' opportunity comes, one should never miss it.
- Prof. Bakshi Quoted an example of film 'Sholay' in which one sees Veeru driving the mobike and Jai enjoying the free ride in a sidecar attached to the bike.
- A sidecar investment should be with an Individual who has great capital allocation & exceptional sourcing skills and a track record of value creation through inorganic growth (Warren Buffett, Prem Watsa, Ajay Piramal in this case)
- The more the investor is confident on driver's integrity and his motorcycle's capabilities, the more attractive is the investment.

Source: Prof. Sanjay Bakshi
<http://bit.ly/2sT3Ey0>



❖ Conclusion



- The financial and travel business needs very little tangible capital and is also a float engine.
- Management is expecting this business to be a cash machine which is already earning 100% on invested capital
- This surplus cash would be used for new acquisitions and there won't be any need of debt to grow
- To conclude, Thomas Cook is a once in a life time opportunity to go back in time and buy an investment vehicle like Berkshire Hathaway when it was still in its infancy....

❖ Learn More



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