

# Management Meet Tool-Kit

Last week during an interaction with one of our clients, I was asked that how have I interacted with over 150 small and mid-cap companies' management at such a young age. That inspired an idea of compiling this article so that it helps all curious investors on how to approach a management meet.

In this tool-kit you will find following:

1. Template e-mail to be sent to setup the management meet
2. 50 Questions to ask during a management meet
3. My first management meet of a micro-cap company in 2015
4. One more sample management meet

(In case of small and micro-cap companies, meeting a management is of supreme importance as that gives an investor an information edge over other average investors. The primary reasons for this being lack of accurate information about most micro/small cap companies in public domain.)

**Note\*: All the company names mentioned in this article are my old management meets and in no way to be considered as recommendations!**

## ➤ The E-mail

Find the contact details (Linked In or cursory internet search is enough) of CEO/CFO/MD and shoot the mails as below: -

Dear Mr. X,

I'm *\_(name)\_\_\_\_\_* and part of **Stockifi**. We have access to numerous retail investors through our blog and twitter handle (*Stockifi\_invest*). Our major objective is to invest in small to mid-size companies. Your company drew our attention because of *\_\_\_\_(xyz)\_\_\_\_\_* reasons. We would like to understand your company a bit better as it happens to fit our criterion for investments.

We would like to meet /have a telephonic interaction with you in this regard.

Kindly let us know if next week will be feasible for a short meeting/call.

Regards,

Your name

A meticulously designed LinkedIn profile 😊

**PS: One of the best ways to interact with management of companies is during an AGM/ Analyst meets. However, one-on-one meets can be more elaborates ones.**



## ➤ 50 Questions to ask during a management meet:

1. *If there is one company that you truly respect in your field? Which company would be it and Why?*
2. *How does your products/technologies differ from competitors' products?*
3. *What are some things that differentiate you as a company from your competitors?*
4. *Who are your top 5 competitors?*
5. *Can you shed some light on the industry growth prospects and where it is heading?*
6. *What are the entry barriers in our business? How strong is the customer stickiness?*
7. *What do you perceive to be our greatest weaknesses going into next year?*
8. *How are we going to address them?*
9. *How strong are the relationship with our client? What is switching costs risk?*
10. *Has the market accepted our new product? How much has it contributed to the sales? Also, any scope of margin expansion? (in case of recent new product/service launch)*
11. *What is your approximate market share segment wise?*
12. *How much is it likely to be 3-5 years from now?*
13. *Which is the lowest cost producer of our output in India and globally? How far are we in catching up?*
14. *Could you explain in brief your marketing strategy and how you are trying to position yourself in the market?*
15. *Who are the top 5 customers of the company and approx. what % of sales are accounted by each one of them?*
16. *What is the approximate contribution of foreign customers to the company's revenues? How is it likely to change in the next 3-5 years?*
17. *What is the company's dividend distribution policy?*
18. *What is our current order book?*
19. *By when are we planning to complete these orders?*



20. *What is our sales target for next 2/3 years?*
21. *Any plans of bettering up our Working Capital Cycle?*
22. *If Inventory days are high, what is the reason for them to be high?*
23. *What is our present capacity utilization ratio?*
24. *What will be present replacement costs of our assets?*
25. *Any expansion plans? And how will you raise money for the same? (debt or internal accruals?)*
26. *What is our raw material? Is our raw material linked to crude?*
27. *What is the overall raw material/ input price scenario?*
28. *Do we have plans on retiring debt?*
29. *What percentage of revenue is domestic/exports?*
30. *Which countries mainly they export? Percentage?*
31. *What is the management remuneration policy? Are we following the 11% managerial remuneration mandate?*
32. *Any plans of promoters increasing stake further?*
33. *Have we got any plans to dilute equity in near future?*
34. *What is the total manpower of the company?*
35. *Company planning to recruit any experienced industry professional in near future?*
36. *Can we see the plant any day and talk to our employees?*
37. *What are we doing on that part to make employees happy?*
38. *Barring the promoters who are our major shareholders. Does any of our client or input supplier have any major position in the company? Can we have an interaction with them?*
39. *What is the deterrent to our company? Any major threats going forward?*
40. *How passionate are you in running the business?*



41. *What if our company's stock price never moves up in coming 5 years? How concerned are you as a shareholder to see a higher Market cap?*
42. *Please share more info which is not in public domain. About the industry. Am not interested in old asses as you know real value is created by innovators and disrupters.*
43. *How strong is the company foundation? God forbid, if something happens to the promoters. What will happen to the company?*
44. *Going forward, the ability of the company to increase scale of operations coupled with improved profitability margins and efficient management of working capital would remain the key rations sensitive, my question is what we doing to address the rating sensitive profile of the company?*
45. *What is the sectorial growth rate?*
46. *The growth rate in last 10 years? What's expected growth rate in coming 5 yrs.?*
47. *What was or is or will be the turning point of the company?*
48. *Have you got any business interest other than in the company? Any associate or privately held company?*
49. *As an organization, where do we see ourselves in 2025? What is the vision?*
50. *Your message to the shareholders?*

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## ➤ Vidhi Dyestuff Management Meet Notes (2015)

Just so that you get an idea about an actual management meet, I've shared the following interactions from my visit in 2015. Vidhi Dyestuff being my premier one on one management meet, has indeed a special place in my heart.

- a) *What are the entry barriers in our business? How strong is the customer stickiness for a seemingly commodity product?*

**Ans:** Switching suppliers is a big hassle for clients as colour component is very small (colour comprises of ~0.5% of the cost of the final product). We have spent 20 years carefully establishing relationship with clients and distributors across 80 countries.

**b) *Is our business a commodity business? Are there any risks to our business?***

**Ans:** ‘You may keep a halt on buying Ferrari during recession, but what about strawberry cream biscuits and flavoured chocolates?’ More than 95% of our manufacturing revenues are from exports thus exposing us to currency risks but apart from that none.

**c) *Who are our direct competitors?***

**Ans:** Due to a small overall market size of synthetic food colours, there are only four major players worldwide. Sensient Technologies (20,000 MTPA), Roha Dyechem (9000 MTPA), we are the third largest manufacturers with 4,200 MTPA, Emreld USA (2,200 MTPA). No competition from china as market size is too low for them (40k MTPA, growing at 5%).

**d) *Where is Sensient focusing given it is losing its market share in synthetic food colours? Sensient's website suggests increased focus on natural food colours, how strong is the shift in trend? What is the natural vs synthetic dilemma all about?***

**Ans:** First it is a myth that Synthetic colours are harmful. Natural flavours have less variety in terms of colour and only premium products are using it. There is no apparent trend shift towards natural colours and it is just a propaganda. We are selling our product 25% cheaper than the world leader Sensient and thus gradually taking their market share.

**e) *What is our expansion plan and how are we planning to fund the upcoming expansion?***

**Ans:** We are aiming at capacity of around 8,400 MTPA by 2020, capturing around 20% of market share. We are just waiting for environmental clearance to start with the incremental capacity addition. Mix of internal accruals and debt will be used for the same, around 60:40 ratio.

**f) *Why the decision to stop trading and cause a de growth in the coming year as the new capacity will take time to ramp up?***

**Ans:** Trading is a high capital and a low return business and thus we will discontinue it from the next month onwards. Trading is ruining our balance sheet and we rather use that WC for manufacturing. We are running at almost full capacity and want to focus on high margin manufacturing business.

**g) *Is there any pricing differential in our product and Roha Dyechem? Will get any benefit in terms of lower raw material price with recent fall in crude oil price?***

**Ans:** There is none and we don't touch their customers and nor they touch ours. Yes some of the benefit we will pass to the customer but some we will keep for us.

**h) *Can Sensient buy us out in coming years? Will we be open for it?***

**Ans:** Yes, if they have an ‘offer which we can't refuse’ 😊 !

i) *Are we looking to enter in the Naturals arena? Do we have any presence in that segment? Apart from that do we have any other opportunity to expand?*

**Ans:** Yes, we are developing one colour at a time in natural segment. So far we have developed couple of natural colours and we are the sole manufacturers for one of the colour. Apart from Natural we have the Pigment market of 15k Crore to explore in future. So market opportunity is there.

j) *Where do we see ourselves in 2020? What is the vision?*

**Ans:** Over Rs. 500 Cr. in top line with 20% OPMs, Capacity of around 8,400 MTPA.

### ➤ **Plastiblend India management meet (2015):**

➤ *Can you shed some light on the industry growth prospects and where it is heading?*

**Ans:** Plastic industry is one of the fastest growing sectors in Indian economy and is growing at double the pace of the national GDP. Plastic processing industry in India has grown at a CAGR of 12 % from 6 MMT in 2008 to 12 MMT in 2014 and is expected to maintain similar level of growth over the next 4-5 years. Also, India's per capita consumption of plastic products is ~10 kg against 32 kg in Brazil, 45 kg in China, 65 kg in Europe and 109 kg in US. Current low per capita consumption level of plastic products as compared to developed countries per capita consumption suggests that India offers a huge opportunity over long term.

➤ *What is our raw material? Is our raw material linked to crude?*

**Ans:** Master batches are key ingredients in successful product formulation for plastic Industry. These are concentrated mixture of pigments & additives which are used by plastic processors to lend and enhance the performance properties of the end product and also help reduce cost of the end product. More than 65% of its raw materials are crude derivatives. Recent fall in crude prices is likely to add to margins.

➤ *What is our market share and are we still in the leading position in organised sector?*

**Ans:** Masterbatch market size is estimated to be 4,25,000 MT per annum. The total market size is thus worth about Rs.3,000 crores. Plastiblends holds a market share of 17% of the overall masterbatch industry and about 60% market share of the organized sector. Masterbatches forms a very small component in the production of its end product. However, the quality of masterbatch ultimately determines not only the quality but also the pricing of the product. Thus, for high quality products, manufacturers rely on the organized sector for their masterbatch requirements.

➤ ***What is going to be an impact on us post the introduction of GST (Goods and Services Tax)?***

**Ans:** With the introduction of GST (Goods and Services Tax), the organized sector is expected to get an upper hand over the unorganized sector. Presently, players in the unorganized sector are scattered throughout the country and have huge tax advantage. GST will enable level playing field and is likely to squeeze out the unorganized sector. Any incremental market share will most likely go to large dominant players like us.

➤ ***What is our expansion plan and how are we planning to fund the upcoming expansion?***

**Ans:** In view of market potential and demand, the Company has planned 60,000 tonnes of capacity expansion and has acquired land near Palsana, Surat to set up new unit. The new unit is expected to start commercial operations in phase-wise manner and intends to fund the same largely through internal accruals. Besides capacity expansion, the company is continuing to focus on introduction of new high performance and specialty masterbatches and the same will result in margin expansion.

➤ ***Are we focusing more on exports as well?***

**Ans:** We export to a large number of countries worldwide and has a strong foothold in the global market. Share of exports to total net sales has increased gradually from 10% in FY 05 to 30% in FY 15. Going forward, we expect exports to grow at faster pace than domestic sales and we aim to take export share to ~50% of net sales in FY 20. Exports constitute a very big market and with production facilities from west making way for low-cost manufacturing in India and other Asian countries, the size of the opportunity becomes even bigger.

➤ ***What's the way forward and what will be the growth guidance?***

**Ans:** During the last 5 years the sales have grown at a rate of 19% CAGR and we expect to maintain the growth rate of 15-20% going forward. Despite wide variations in the crude oil prices, the company has been consistent in terms of maintenance of gross margins at around 28%-30% which shows that we are able to transfer the increase in pricing to our customers and the trend shall continue.

➤ ***What is the deterrent to our company? Any major threats going forward?***

**Ans:** In case of huge volatility in raw material prices, we may not be able to pass on the same instantly to its customers and thereby the profitability can get impacted in the shorter term. Technological changes in the master batch industry or if substitute products come up then our business can get impacted.

