

Self-Reinforcing Business Model?

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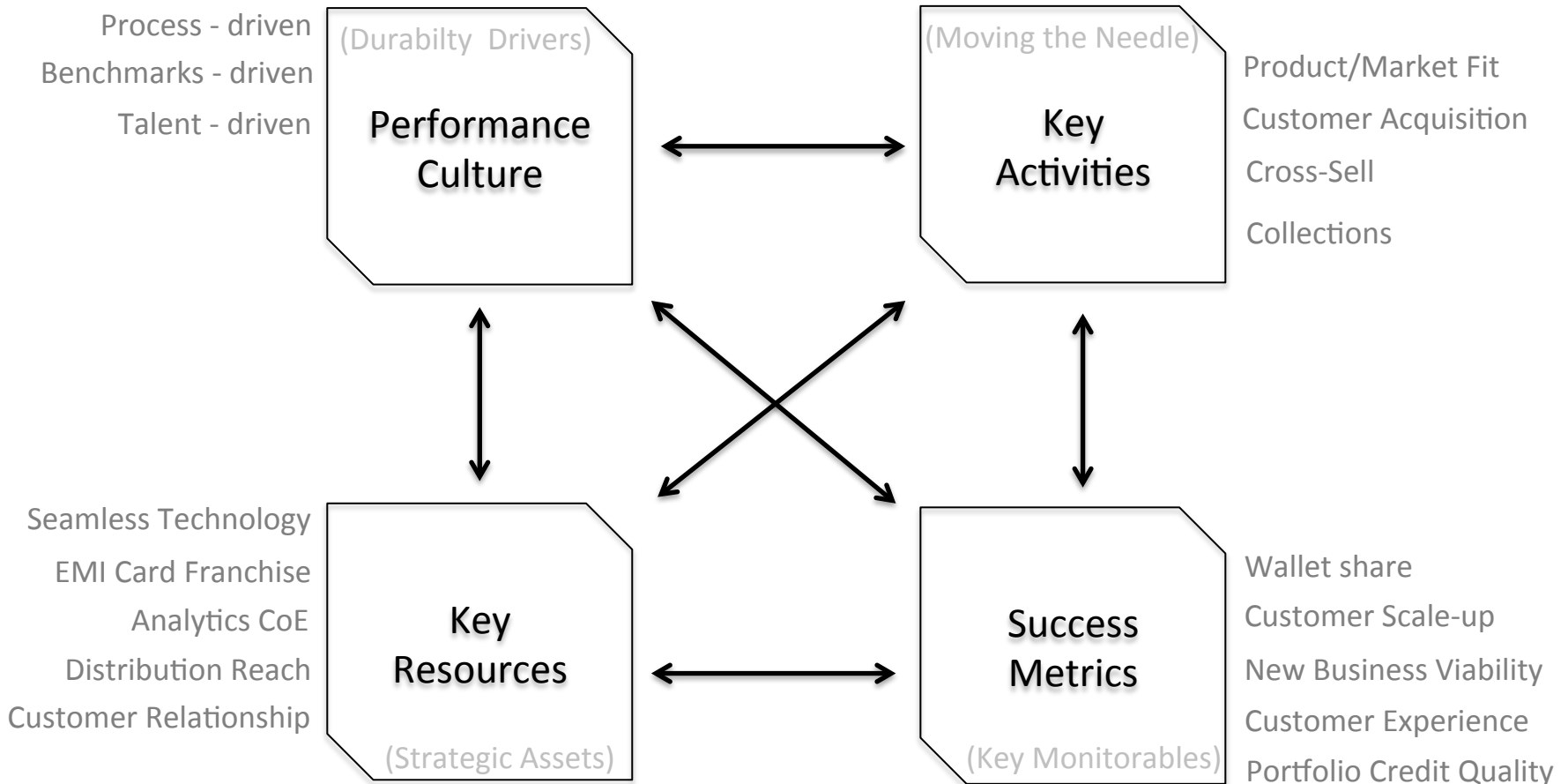
Self-Reinforcing Business Models

- Well-Performing Business models often see mean reversion (or get priced for mean reversion)
 - in VP Portfolio experience, we see that usually every 3-4 years
 - that is rational - mean reversion is the rule, rather than the exception
- Potential exists (though) for great results to be obtained by owning a non-mean reverting business over the long term
 - in VP Portfolio experience, we have owned some for 6-7 years now, with brilliant results
- We think the business models that are most likely to *defy* mean-reversion, are *self-reinforcing* business models
 - the likelihood of future success *increases*, as time goes on

Self-Reinforcing Dynamics??

- Abstraction
 - Identify the pieces (people, activities, assets, resources etc.), how they fit together in a reinforcing manner in the businesses that we are evaluating
- Tangible Evidence
 - The more parameters we identify in each different business case – the more clearly we will be able to see the essence of this *causal relationship* between the moving parts, and how they *reinforce* to make the business stronger
- Investor Toolkit
 - The idea is to evolve a kind of frame of reference – that allows us to look at any Business - and be able to *extract* specific characteristics that shows *evidence* of this "self-reinforcing model" at play

Business Execution Model



Business/Execution Model Canvas

PRODUCT			MARKET		
Business Model Key Moving Parts	Growth Engines	Key Partnerships	UNIQUE VALUE PROPOSITION	Customer Segments	Competitive Environment
		Cost Structures		Customer Reach	Regulatory Environment
Execution Model Processes/Metrics (Visibility into robustness/scalability of model)			Unfair Scale-Advantage Story (Increasing the distance with Peers..rendering them irrelevant, in time)		
Key Resources	<i>Seamless Technology (Loan Approval)</i>				
	<i>EMI Crad Franchise</i>				
	<i>Analytics CoE</i>				
	<i>Distribution Reach</i>				
	<i>Customer Relationship</i>				
Key Activities	<i>Product/Market Fit</i>				
	<i>Customer Acquisition</i>				
	<i>Credit Quality</i>				
	<i>Cross Sell</i>				
Key Success Metrics	<i>Wallet Share</i>				
	<i>Customer Scale Up</i>				
	<i>New Business Viability</i>				
	<i>Customer Experience</i>				
	<i>Portfolio Credit Quality</i>				

Execution Model Processes/Metrics (Visibility into robustness/scalability of model)				Unfair Scale-Advantage Story (Increasing the distance with Peers..rendering them irrelevant, in time)		
Key Resources	<i>Seamless Technology (Customer qualification/ approval)</i>	Key to Speed of Integration & Customer Experience	Platform Integration	New Customer Acquisition	Crossed 2.1 Million per quarter in Q3FY16	
	<i>EMI Card Franchise</i>	Already 2nd largest card issuer in country; great driver of good credit performance	5.5 Mn	Consumer Durable Sales	18-19% of all consumer electronics sold in country	Dominates the Market
	<i>Analytics CoE</i>	Across Sales, Pricing, Risk, Marketing, Collection & Service	Key to Velocity	Loan App Download - transformational POS purchase/ underwriting	200,000 logins, 140000 approvals, 60000 took loans	Adhar, Google+, FB enabled, backed by Application scorecard fraud algorithm and bureau score approval in 60s. Although approval to Loan ratio at 30% versus traditional 85-90%, this shows remarkable customer pull
	<i>Distribution Reach</i>	As retail competition intensifies, this will be key to sustainability	Top 25 -50 Cities 50- 100 100-200 200 plus	Digital Financing (Mobile, Laptop, Tab)	Crossed 1 million mobile phones; 6% of Apple phones sold in country	
	<i>Customer Relationship</i>	100 Mn Custmers with Credit tested score 7.5 plus; BFL mission is to have all 100 million as Customers - that's the franchise to be after	8.5 Mn Best of Best 300,000 Cr Mortgage; 12000 Cr Personal Loan	EComm Seller Finance	300 Cr disbursal in FY16; pay by EMI card next fiscal with Flipkart, Snapdeal	Millenials buy this way; Although marginal in impact today, could be disproportionately large long-term when seamlessly integrated across tech platforms
Key Activities	<i>New Product/Market Fit</i>	Focus on continued product/market development investments in Adjacent areas	3-4 years	Retailer Relationships	20000 Retailers	
	<i>Customer Acquisition</i>	Increasing velocity of Customer Acquisition	7.21 Lakh /qtr up from 5.3 lakh Q415	Cloud based Decision Support system for SME	Reduces processing cost by 50%; only 14-15 variables input vs 2-3 kg file paperwork earlier	Approval rate used to be 55%; Now 95% as SME loan originator inputs only those that can supply all 14-15 variables
	<i>Collections</i>	?	?			
	<i>Cross Sell</i>	Heart of the System; Repeat sales for 12 - 24 months on board	Retail: 60%, PPC 1.7 SME: 40% PPC 2.2			
	25/07/16					8

Key Success Metrics	<i>Wallet Share</i>	Benchmarks set Retail PPC: 3; SME PPC: 5	Retail PPC: 1.67 SME PPC:1.37
	<i>Customer Scale Up</i>	New Customer acquisition ~1.6 mn per quarter	2 mn in Q3Fy16
	<i>New Business Scale Viability</i>	Investments identified in adjacent/related market segments if potential	50-100 Cr PBT in 5 years; \$0.5 Bn Sales in 5
	<i>Customer Experience</i>	Customers approved who take the Loan; much less paperwork or effort	85-90% approval rate
	<i>Portfolio Credit Quality</i>	98.6 to 98.8 for few qtrs triggers portfolio stress anticipation	99-99.25% no dues

India Total Bureau Customers

100 Mn

BFL Total Franchise

16 Mn

BFL Bureau Franchise

8.5 Mn

EMI Cards Franchise

7.5 Mn

5.5 Mn

3 Mn

Product/
Market Fit1

1 Mn

Business Segments

24

Product/
Market Fit

16

12

Impacts

Analytics
Engine

Impacts

Sales
Profie

20,000

Cross-Sell

15,000

Risk
Profie

12,000

Retail Institutions

Sales

Sales

Impacts

Approval
Velocity

Enhances

Customer
Experience

Predisposes

24000