

Megatrends and Leadership

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Megatrends and Leadership: Outline

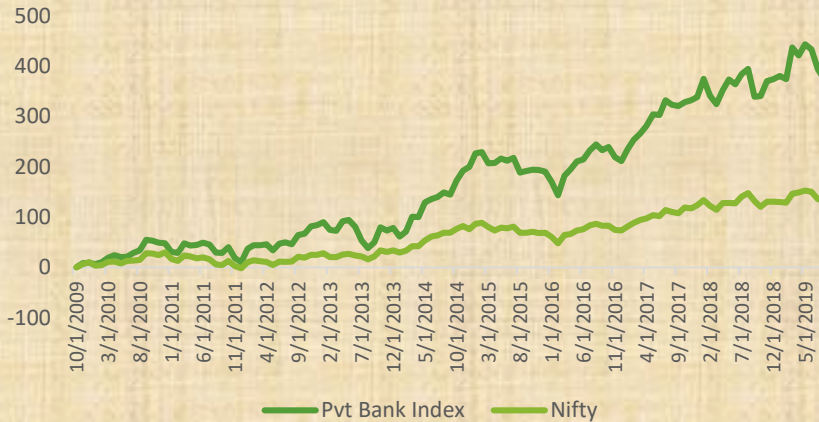
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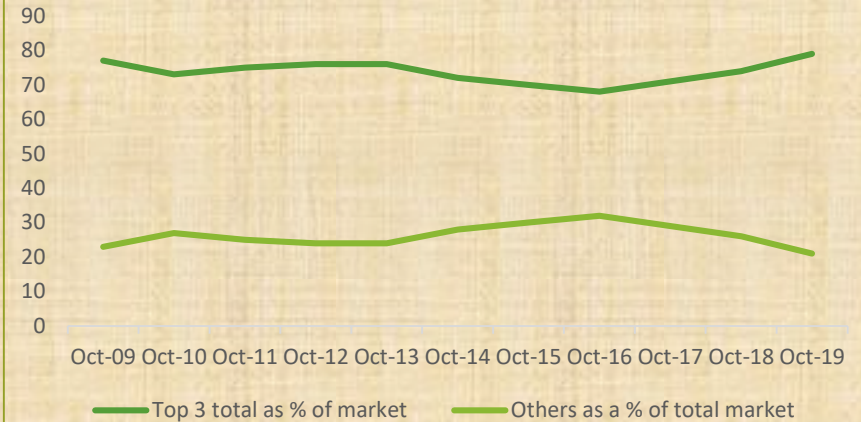
- ❖ Learnings from History
- ❖ Megatrends decoded
- ❖ Leadership decoded
- ❖ Economic cycles amplify Leadership
- ❖ Valuing Megatrends and Leadership
- ❖ Portfolio management for Megatrends and Leadership
- ❖ Gorilla Investing

Learnings from History

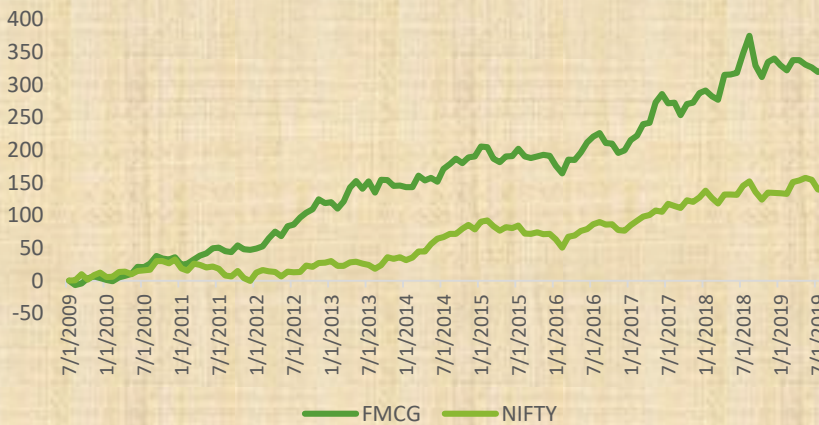
Nifty Vs Pvt Bank Index (% Return)



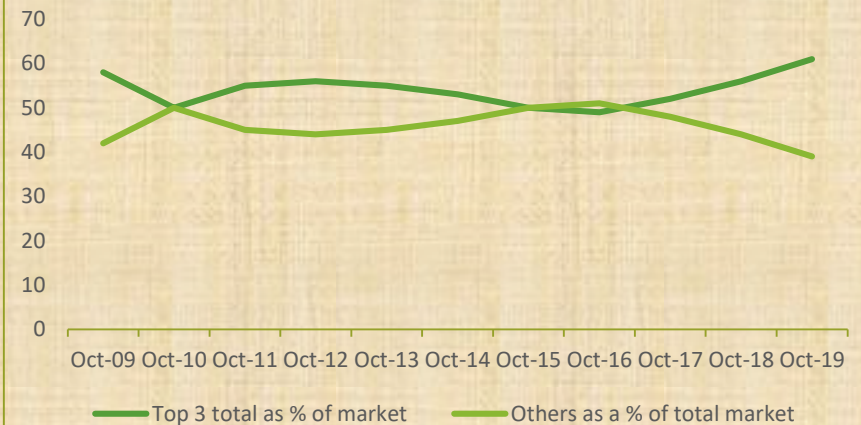
Pvt Banks - Top 3 Mkt Cap/ Sector Mkt Cap(%)



Nifty Vs FMCG (% Return)

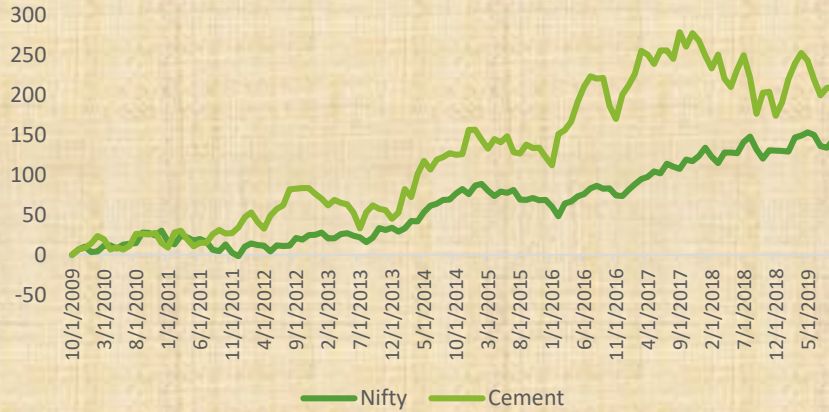


FMCG - Top 3 Mkt Cap/ Sector Mkt Cap(%)

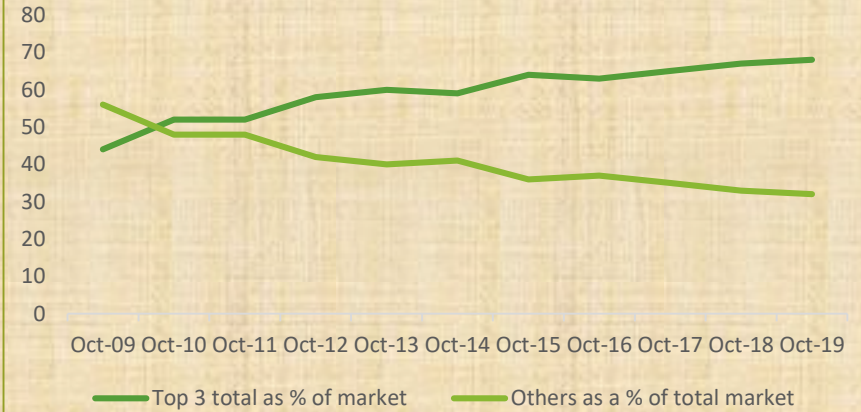


Learnings from History

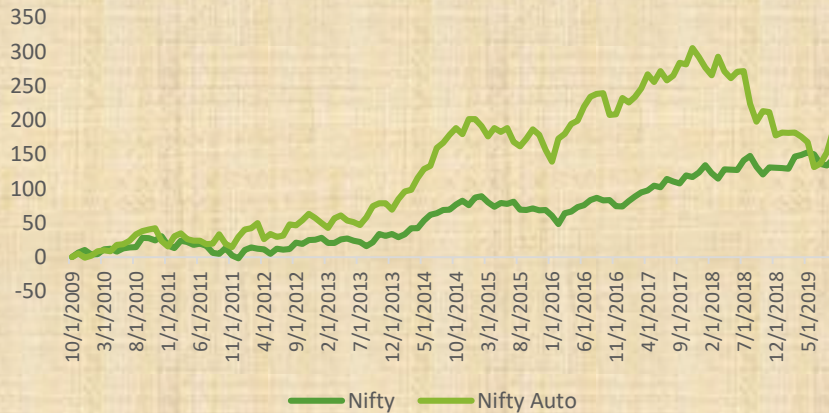
Nifty Vs Cement (% Return)



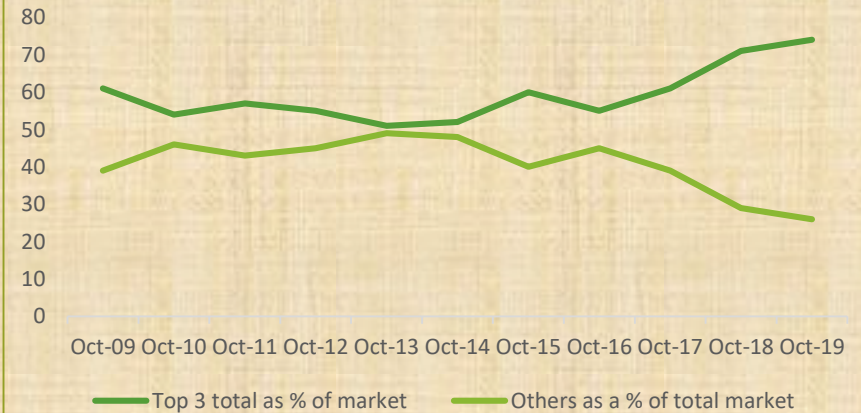
Cement Sector: Top 3 Mkt Cap/ Sector Mkt Cap(%)



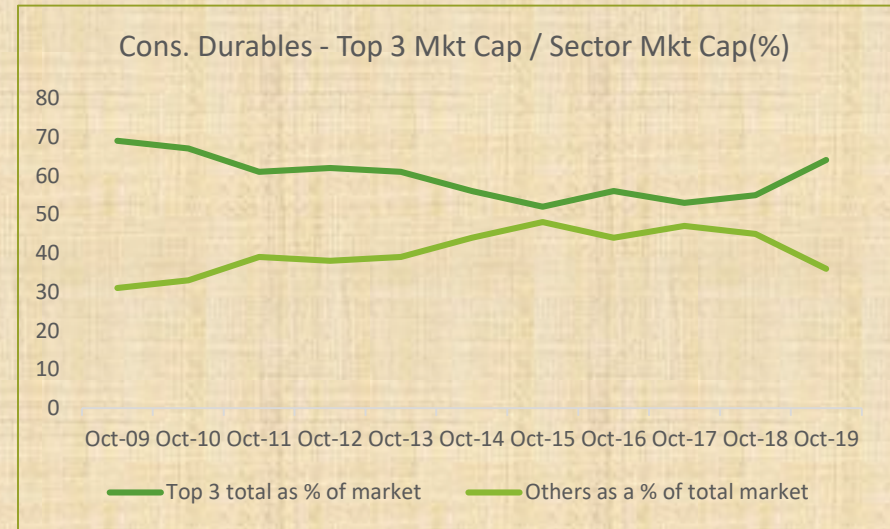
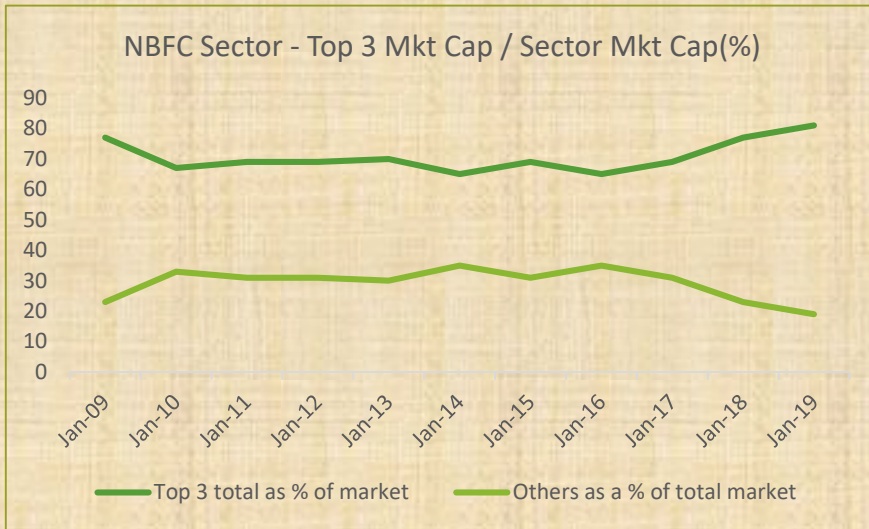
Nifty Vs Auto (% Return)



Auto OEM: Top 3 Mkt Cap/ Sector Mkt Cap(%)



Learnings from History



1. There are sectors that have consistently outperformed broader indices over long-term due to structural change (Megatrends)
2. There are other sectors that have consistently reverted to mean while oscillating around the mean over long-term due to cyclical changes, whether Global or Domestic
3. In most sectors, Top 3 Market Cap as % of Sector Market Cap is high on a sustained basis, and in fact keeps rising inexorably over long-term (Leadership)
4. Hence, on an incremental basis, Top 3 Market Cap as % of Sector Market Cap is even higher reflecting that Leaders create most value across sectors over many cycles

- ❖ Megatrends are structural shifts that are longer term in nature and have irreversible consequences for the world around us
- ❖ Megatrends have multiple dimensions, layers and outsized implications that are difficult to fathom at the very beginning
- ❖ Megatrends require both a broader perspective and a narrower focus
- ❖ Megatrends reset the rules, throw up new opportunities and threats, bring about new winners and losers
- ❖ Megatrends transcend geographies, generations and governments
- ❖ The awareness of Megatrends in investment processes offers real insights

Megatrends over time:

- IT revolution
- Urbanization
- Demographic evolution
- Consumption boom
- Women in the workforce
- Financial deepening
- Digital transformation
- Unorganized to Organized sector shift
- Culling of “Dwarfs”

Megatrends Case study: IT Sector

❖ Confluence driving Opportunity size and Longevity:

➤ Benign supply side conditions

- Large engineering skills base
- Large cost differentials
- Precipitous drop in cost of data transit and data storage

➤ Changing demand side stance

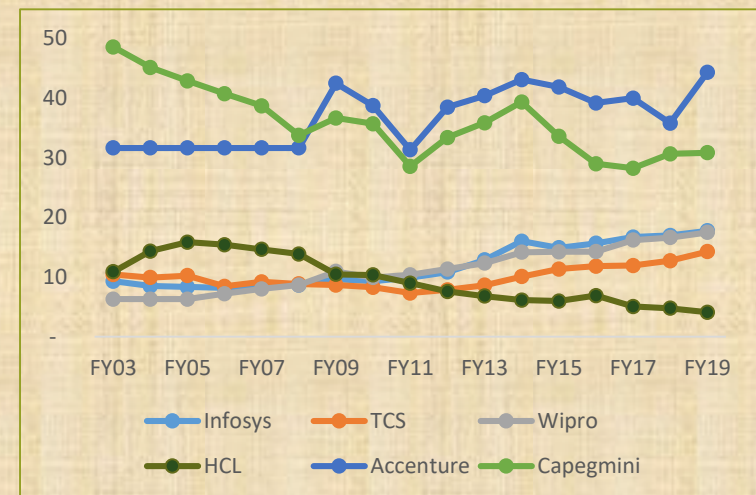
- Focus on core competence
- Start of outsourcing
- GE pioneering outsourcing to India

➤ Innovative business model

- Offshoring
- Global Delivery Model
- Offshore Dedicated Centres
- Master Services Agreements
- Infrastructure Management Services



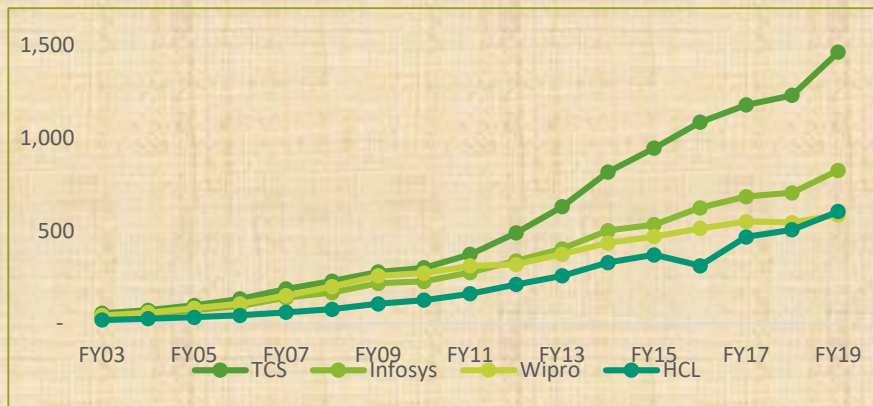
Network and Storage Cost – Source BackBlaze reports.



Avg Salary INR Lac– Source Company

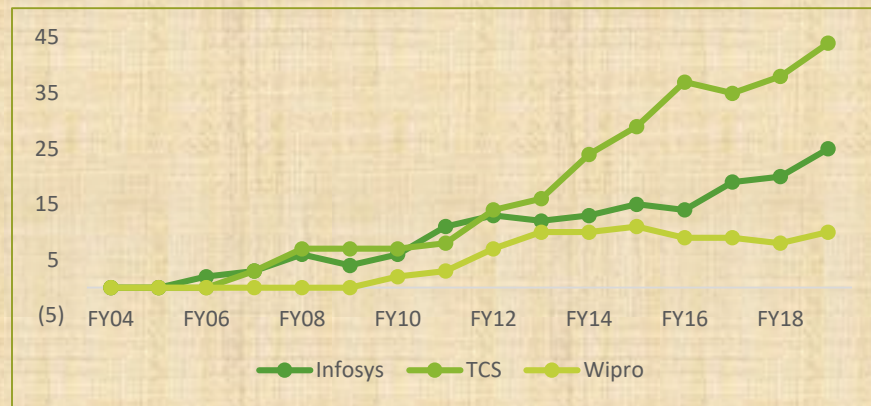
Megatrends Case study: IT Sector

❖ Scalability and Granularity: Growth drivers and enablers; that also De-risked and aided Scale



Scale up in Revenue (INR Bn)– Source Company

Indian IT market share in global IT services spend rose from 2.2 % to 13.0% from FY04 to FY19



Scale up in Nos of 100+ mn Clients– Source Company

From modest count of #2 clients giving \$100mn annual business, industry today boasts of a roster of 79 clients

				Hospitality	Hospitality
				Media & Enter	Media & Enter
			Energy & Utility	Energy & Utility	Energy & Utility
		Hi-Tech	Hi-Tech	Hi-Tech	Hi-Tech
		Health Care	Health Care	Health Care	Health Care
		Transportation	Transportation	Transportation	Transportation
	Retail & Dist	Retail & Dist	Retail & Dist	Retail & Dist	Retail & Dist
Telecom	Telecom	Telecom	Telecom	Telecom	Telecom
Manufacture	Manufacture	Manufacture	Manufacture	Manufacture	Manufacture
BFSI	BFSI	BFSI	BFSI	BFSI	BFSI
FY05	FY07	FY09	FY11	FY12	FY13

Scale up in # Industries served by Majority of Indian IT – Source TCS, Infosys, etc
Indian IT successfully broke into newer verticals and scaled them well

						Digital
						Asset Leveraged Soln
						Asset Leveraged Soln
					Engineering & Industrial	Engineering & Industrial
				Assurance Services	Assurance Services	Assurance Services
			Biz Process Outsourcing	Biz Process Outsourcing	Biz Process Outsourcing	Biz Process Outsourcing
			Infra services	Infra services	Infra services	Infra services
	Biz Intelligence	Biz Intelligence	Biz Intelligence	Biz Intelligence	Biz Intelligence	Biz Intelligence
Enterprise Soln	Enterprise Soln	Enterprise Soln	Enterprise Soln	Enterprise Soln	Enterprise Soln	Enterprise Soln
Application Dev & Main	Application Dev & Main	Application Dev & Main	Application Dev & Main	Application Dev & Main	Application Dev & Main	Application Dev & Main
FY05	FY08	FY10	FY13	FY14	FY16	FY18

Scale up in Line of Biz (LOB) of Majority of Indian IT – Source TCS, Infosys, etc
Client bucket & vertical aggregation coincided with expanding set of LOB

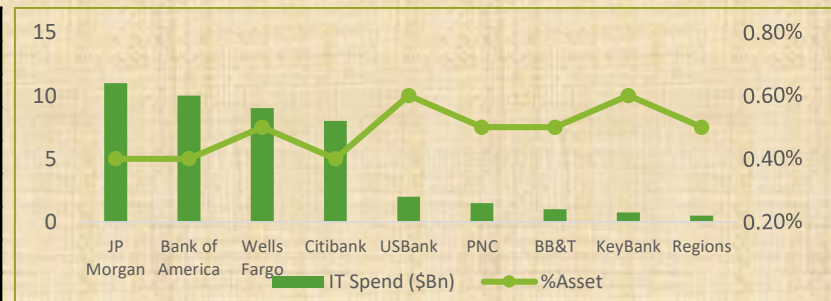
Megatrends Case study: IT Sector

❖ Displacement:

1. IT Outsourcing / Global IT Spend %
2. Offshoring / Outsourcing Spend %
3. Share of Outsourcing
4. Share of Offshoring

USD Bn	FY09	FY10	FY11	FY12	FY13	FY14	FY15	FY16	FY17	FY18
Global IT Services Spend	761	782	848	881	922	955	865	894	931	982
% of Global GDP	1.20%	1.18%	1.24%	1.26%	1.29%	1.30%	1.14%	1.15%	1.16%	1.14%
IT Outsourcing Spend			247	251	288	296	271	284	295	306
Offshore Efforts										
TCS	44%	51%	51%	51%	53%	53%	52%			
Infosys	76%	77%	76%	75%	75%	69%	71%	71%	70%	71%
HCL	73%	72%	73%	73%	74%	75%	75%	75%	75%	75%
Wipro	76%	78%	77%	76%	77%	77%	77%	77%	77%	77%
% of Offshore Employees										
IBM				25%					33%	
Accenture	46%	57%	60%	63%	66%	67%	72%	74%	75%	75%

IT Budget as % of Revenue - 2016-17	EBIT
Consumer Biz and Retail	2.0% / 4.0%
Biz & Professional Services	5.80% / 11.5%
Education & Non Profit	5.80% / 10.4%
Tech and Communication	3.70% / 11.0%
Insurance	3.60% / 11.5%
Health Care Services	3.50% / 2.0%
Energy and Resources	2.50% / 8.7%
Construction	1.50% / 4.5%



Megatrends Case study: IT Sector

❖ Resilience:

- Dot com bust
- Global Financial Crisis

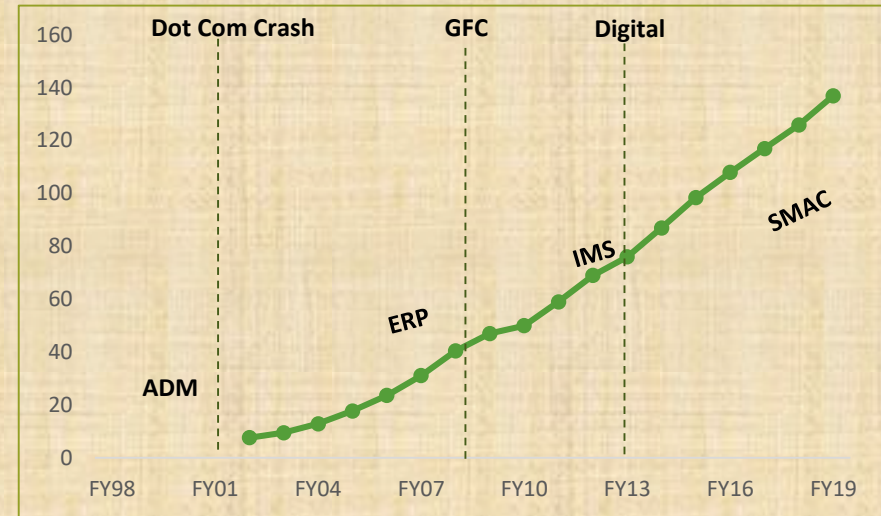
❖ Adaptability:

- Rise of Mini Computing
- Client Server Era
- Breakout of Internet
- Proliferation of ERP
- SMAC/Digital

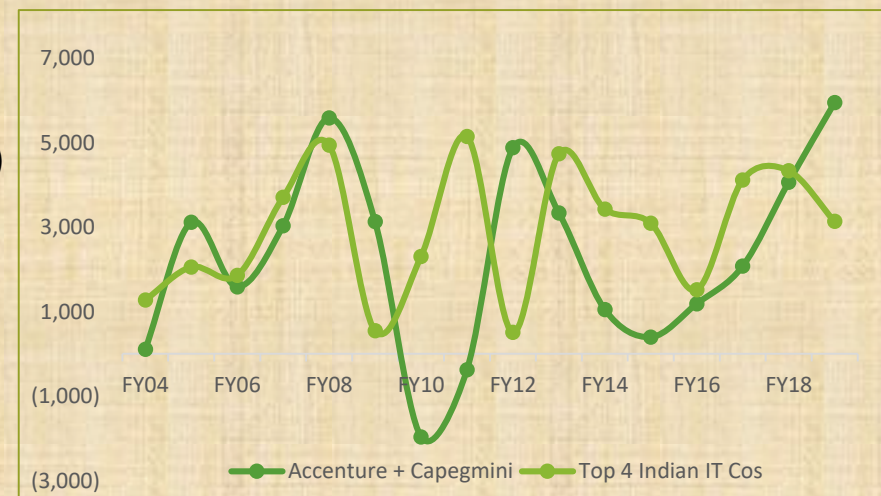
❖ Transformation:

- Intrinsically Project business
- Granularity (Verticals, Customers, LoB, Wallet shr)
- Longer term contract rollovers
- Business model: Annuity streams @ Scale

❖ Global competitiveness, Leadership



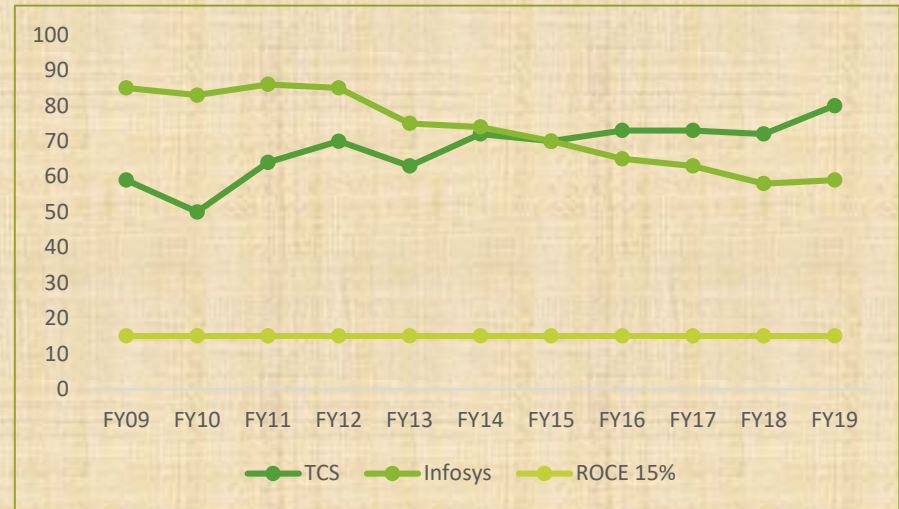
Indian IT & ITEX Export Rev (\$BN) – Source Nasscom,
*SMAC – Social, Mobility, Analytics, Cloud



Incremental Revenue of Top 4 Indian IT Vs ACN+Cap (INR Bn)

❖ Resilient Value Creation

- Consistently high RoCE
- Consistently superior growth rate
- Competitive intensity mitigated by:
 - Size of Opportunity
 - Quality of Leadership
 - Scalability
 - Moats
 - Innovation



- ❖ Leadership attributes – Intangibles > Tangibles
- ❖ Culture – Customers, Team, Risk, Governance
- ❖ Strategy and Execution
- ❖ Profitability, Scalability, Durability
- ❖ Battle tested through multiple cycles
- ❖ Resilience and Adaptability
- ❖ Capital allocation and Capital structure
- ❖ Management depth and transition

Leadership icons:

- ❖ HDFC Bank
- ❖ Asian Paints
- ❖ Titan
- ❖ Bajaj Finance
- ❖ TCS
- ❖ Nestle India
- ❖ Page Industries

Leadership decoded: Icons setting examples

Leadership Attributes: Quantitative

- ❖ Market share → Asian Paints
- ❖ Delta Market share → Bajaj Finance
- ❖ Least cost player → Shree Cement
- ❖ Share of Profit pool → Page Industries
- ❖ Share of Cashflows → Maruti Suzuki
- ❖ Leadership Durability → Nestle
- ❖ Leadership in new Segments → HDFC Bank

Leadership Attributes: Qualitative

- ❖ Culture → Titan
- ❖ Innovation → Nestle
- ❖ Execution → TCS
- ❖ Expanding TAM → Bajaj Finance
- ❖ Elongating CAP → D-Mart
- ❖ Embracing Disruption → Info Edge
- ❖ Redefine competition → HUL

Macro Perspective of Cycles

- ❖ Schumpeter's "Creative Destruction"
through economic cycles, non-linear shift
- ❖ 4D framework for economic cycle drivers:
 - Debt
 - Disruption
 - Displacement
 - Dis-intermediation
- ❖ Cycle duration shrinking; challenging CAP

Micro Perspective of Cycles

- ❖ Incumbents vs. Challengers
- ❖ Men are separated from the Boys
- ❖ Treadmill speed and incline keeps rising
- ❖ Value paradigm evolves
- ❖ Value migration accelerates
- ❖ Inflexion points expand TAM for Adapters

- ❖ Imperative to value Intangibles
- ❖ Value reinforced and magnified thru economic cycles
- ❖ Intersection of Megatrends and Leadership is a multi-sigma event, valuation metrics cannot reflect this “Outlier” event appropriately
- ❖ Terminal Value impact disproportionate, hence difficult to capture in conventional Valuation frameworks
- ❖ Favourable Value migration overshadows conventional Valuation frameworks
- ❖ “We overestimate change in the short run, and underestimate change in the long run” → Valuations reflect this reality

- ❖ Focus on 3-4 Megatrends where you have high conviction
- ❖ In each Megatrend, focus on 2-3 players with Leadership attributes
- ❖ From amongst the above shortlist, classify them:
 - Clear Leaders
 - Near Leaders
 - Emerging Leaders
- ❖ Ballast component of the Portfolio to comprise Clear Leaders
- ❖ Aspirational component of the Portfolio to comprise Near Leaders
- ❖ High-risk component of the Portfolio to comprise Emerging Leaders
- ❖ High Concentration in Portfolio to reflect conviction in Megatrends and Leadership



- ❖ Many Monkeys in a jungle, but very few Gorillas – **Rare**
- ❖ Gorillas are outsized as compared to Monkeys – **Dominant**
- ❖ Gorillas are not challenged by Monkeys – **Moats and Knights**
- ❖ Gorillas have a lifespan double that of Monkeys – **Longevity**
- ❖ Right Jungle (**Megatrend**) + Right Animal (**Leadership**)

Thank You

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