29th ANNUAL WEALTH CREATION STUDY
(2019-2024)

Creating Wealth Through

Bruised Blue Chips

HIGHLIGHTS

- Blue Chips are aspirational investments, but mostly richly valued
- Bruised Blue Chips bought at close to lows offer handsome returns
- Probability of permanent loss of capital is low for Bruised Blue Chips
- The main elements of the process to invest in Bruised Blue Chips are:
  (1) Create a watchlist
  (2) Await buying triggers, mainly sector tailwind and change of management
  (3) Buy at attractive valuations, typically Price/Book less than 2x
- Wealth Creation in the last 5 years is the highest ever; Wealth Destruction is among the lowest
- PSUs are regaining prominence in Wealth Creation

TOP 10 WEALTH CREATORS (2019-2024)

BIGGEST

Rank	Company	Wealth Created (INR b)
1	Reliance Industries	11,178
2	TCS	8,312
3	Bharti Airtel	5,449
4	ICICI Bank	5,109
5	State Bank of India	4,176
6	Infosys	3,893
7	Larsen & Toubro	3,530
8	Adani Enterprises	3,408
9	Tata Motors	3,164
10	HCL Technologies	3,150

FASTEST

Company	5-year Price CAGR (%)
Adani Green	118
Adani Enterprises	85
Jindal Stainless	77
Dixon Technologies	74
Linde India	68
Persistent Systems	67
CG Power	66
Adani Power	62
Trent	62
Varun Beverages	61

CONSISTENT

Company	No. of years outperformed	5-year Price CAGR (%)
Linde India	5	68
Varun Beverages	5	61
Hind. Aeronautics	5	58
Bharat Electronics	5	46
Thermax	5	34
NMDC	5	26
Adani Green	4	118
Adani Enterprises	4	85
Jindal Stainless	4	77
Persistent Systems	4	67

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Motilal Oswal 29th Annual Wealth Creation Study

Abbreviations and Terms used in this report

Abbreviation / Term	Description
2014, 2019, 2024, etc	Reference to years for India are financial year ending March, unless otherwise stated
Avg	Average
CAGR	Compound Annual Growth Rate
INR bn	Indian Rupees in billion
L to P / P to L	Loss to Profit / Profit to Loss. In such cases, calculation of PAT CAGR is not possible
Price CAGR	In the case of aggregates, Price CAGR refers to Market Cap CAGR
WC	Wealth Created
Wealth Created	Increase in Market Capitalization over the last 5 years, duly adjusted for corporate actions such as fresh equity issuance, mergers, demergers, share buybacks, etc.

Note: Capitaline database has been used for this study. Source of all exhibits is MOFSL analysis, unless otherwise stated

Wealth Creation Study

Objective, Concept & Methodology

Objective

The foundation of Wealth Creation is to buy businesses at a price substantially lower than their "intrinsic value" or "expected value". The lower the market value compared to the intrinsic value, the higher is the margin of safety. Every year, as in the past 28 years, we endeavor to cull out the characteristics of businesses that create value for their shareholders.

As Phil Fisher says, "It *seems logical that even before thinking of buying any common stock, the first step is to see how money has been most successfully made in the past.*" Our Wealth Creation Studies are attempts to study the past as a guide to the future, and gain insights into the various dynamics of stock market investing.

Concept & Methodology

Wealth Creation is the process by which a company enhances the market value of the capital entrusted to it by its shareholders. It is a basic measure of success for any commercial venture. For listed companies, we define Wealth Created as the difference in market capitalization over a period of last five years, duly adjusted for corporate events such as fresh equity issuance, dividends, share buybacks, mergers, etc.

We rank the top 100 companies in descending order of absolute Wealth Created, **subject to the company's stock price at least outperforming the benchmark index (Nifty 50 Total Return Index in our case).** These top 100 Wealth Creators are also ranked according to speed (i.e. price CAGR during the period under study).

We define **Consistent Wealth Creators** based on the number of years the stock has outperformed in each of the last 5 years. Where the number of years is the same, the stock price CAGR decides the rank.

We define **All-round Wealth Creators** based on the summation of ranks, under each of the 3 categories – Biggest, Fastest and Consistent. Where the scores are tied, the stock price CAGR decides the All-round rank.

Report structure

We present the 2019-2024 Wealth Creation Study highlights in pages 2-3. The detailed findings are presented in pages 46-60. Appendix 1 (pages 62-63) ranks the top 100 Wealth Creators by size. Appendix 2 (pages 64-65) ranks the same 100 Wealth Creators by speed. Appendix 3 (pages 66-67) lists the Consistent Wealth Creators. Appendix 4 (pages 68-69) presents the All-round Wealth Creators. Appendix 5 (pages 70-71) provides an alphabetical listing of the Wealth Creators. Appendix 6 (page 72) carries the list of top 20 Fastest Wealth Creators under various market cap categories, namely, large, mid, small and mini.

This year's theme study titled "Creating **Wealth Through Bruised Blue Chips"** is featured in pages 4-45.

Wealth Creation 2019-2024: Highlights

Reliance emerges as the biggest Wealth Creator for the 6th time in a row

- For the sixth time in succession, **Reliance Industries** has emerged the biggest Wealth Creator over 2019-24.
- This takes Reliance's overall No.1 tally to 11 in the last 17 five-year study periods.

Exhibit 1 **Top 10 Biggest Wealth Creators (2019-24)**

Rank	Company	Wealth Created INR bn	% share	CAGR (%) Price	PAT	P/E (x) 2024	2019	RoE (%) 2024	2019
1	Reliance Inds	11,178	8.1	20	12	29	22	9	10
2	TCS	8,312	6.0	16	8	30	24	52	35
3	Bharti Airtel	5,449	3.9	33	L to P	58	-	15	-1
4	ICICI Bank	5,109	3.7	23	60	17	60	17	4
5	State Bank of India	4,176	3.0	20	100	10	136	17	1
6	Infosys	3,893	2.8	17	11	24	21	34	24
7	Larsen & Toubro	3,530	2.6	23	8	40	22	15	14
8	Adani Enterprises	3,408	2.5	85	34	103	20	9	5
9	Tata Motors	3,164	2.3	42	L to P	11	-	38	-2
10	HCL Technologies	3,150	2.3	26	9	27	15	23	24
Total of Top 10		**51,369**	**37**	**21**	**25**	**24**	**27**	**17**	**10**
Total of Top 100		**1,38,034**	**100**	**25**	**23**	**26**	**23**	**17**	**11**

Adani Green has emerged the Fastest Wealth Creator

- **Adani Green** has emerged the Fastest Wealth Creator with 2019-24 Price CAGR of 118%.
- Two more Adani group companies have made it to the list of top 10 Fastest Wealth Creators - **Adani Enterprises** and **Adani Power.**
- INR 1 million invested in 2019 in these top 10 companies would be worth INR 17.5 million in 2024, a return CAGR of 77% vi/s 14% for Nifty 50.

Exhibit 2 **Top 10 Fastest Wealth Creators (2019-24)**

Rank	Company	Price Appn. (x)	Price CAGR %	PAT CAGR %	Mkt Cap (INR bn) 2024	2019	P/E (x) 2024	2019
1	Adani Green	49	118	L to P	2,905	58	226	-
2	Adani Enterprises	22	85	34	3,641	162	103	20
3	Jindal Stainless	17	77	79	572	19	22	14
4	Dixon Technologies	16	74	42	448	27	121	42
5	Linde India	13	68	76	547	42	127	163
6	Persistent Systems	13	67	27	615	51	57	16
7	CG Power	13	66	L to P	825	27	59	-
8	Adani Power	11	62	L to P	2,058	186	10	-
9	Trent	11	62	56	1,404	120	154	121
10	Varun Beverages	11	61	47	1,817	158	86	52

Linde India is the Most Consistent Wealth Creator

- We define Consistent Wealth Creators based on the number of years the stock has out-performed in each of the last 5 years. Where the number of years is the same, the stock price CAGR decides the rank.
- Based on this, over 2019-24, **Linde India** has emerged as the Most Consistent Wealth Creator. It has outperformed the Nifty Total Return Index in all the last 5 years, and has the highest price CAGR of 68%.
- Consistent Wealth Creation is a challenge – only 6 out of 100 have outperformed in each of the 5 years.

Exhibit 3 **Top 10 Most Consistent Wealth Creators (2019-24)**

Rank	Company	No. of years of outperformance	2019-24 Total Ret. CAGR (%)	2019-24 PAT CAGR (%)	RoE (%) 2024	2019	P/E (x) 2024	2019
1	Linde India	5	68	76	12	2	127	163
2	Varun Beverages	5	61	47	31	15	86	52
3	Hind. Aeronautics	5	58	27	26	19	29	10
4	Bharat Electronics	5	46	16	24	20	37	12
5	Thermax	5	34	10	13	12	85	31
6	NMDC	5	26	5	23	18	10	7
7	Adani Green	4	118	L to P	13	-24	226	-
8	Adani Enterprises	4	85	34	9	5	103	20
9	Jindal Stainless	4	77	79	18	6	22	14
10	Persistent Systems	4	67	27	22	14	57	16

Adani Enterprises is the Best All-round Wealth Creator for the third time in a row

- We define All-round Wealth Creators based on the summation of ranks, under each of the 3 categories – Biggest, Fastest and Consistent. Where the scores are tied, the stock price CAGR decides the All-round rank.
- Based on the above criteria, **Adani Enterprises** has emerged as the Best All-round Wealth

Creator.

- Two other Adani group companies – **Adani Green** and **Adani Power** – also feature in the top 10 All-round Wealth Creators.

Exhibit 4 **Top 10 All-round Wealth Creators (2019-24)**

All-round Rank	Company	Rank Biggest	Rank Fastest	Rank Consistent	Total of Ranks	2019-24 Price CAGR (%)
1	Adani Enterprises	8	2	8	18	85
2	Adani Green	12	1	7	20	118
3	Hind. Aeronautics	17	12	3	32	58
4	Varun Beverages	25	10	2	37	61
5	Adani Power	21	8	12	41	62
6	Bharat Electronics	32	18	4	54	46
7	Trent	33	9	13	55	62
8	Tata Motors	9	19	41	69	42
9	CG Power	53	7	11	71	66
10	Siemens	28	27	19	74	37

Detailed findings page 46 onwards.

Theme Study

Creating Wealth Through Bruised Blue Chips

Spotting and exploiting this high-return opportunity

Warren Buffett has popularly said, "Turnarounds seldom turn around!" Bruised Blue Chips come across as an exception to this maxim. When bought at the right time and right price, Bruised Blue Chips generate handsome returns.

1. Backdrop

Bruised Blue Chips – the best way to make turnarounds work

Conventional investing is all about buying into healthy companies. Investing in troubled companies – or potential turnarounds – is a contrarian approach. The biggest risk in this approach is mortality of the companies invested in i.e. permanent capital loss. As Warren Buffett says, "Turnarounds seldom turn around".

The best – if not the only – way to make turnarounds work is by investing in "Bruised **Blue Chips"** – large companies with a very strong track record, currently going through troubled times i.e. bruised. As stated later, the returns in this approach are handsome, and probability of mortality is near-zero.

The Study is structured as follows –

- Defining Bruised Blue Chips and making a case for investing in them
- What causes Blue Chips to get bruised
- What causes Bruised Blue Chips to heal
- The process of investing in Bruised Blue Chips
- Current watchlist of Bruised Blue Chips
- Conclusions and
- Case Studies.

2. Defining Bruised Blue Chips

Blue Chips which have fallen more than 50% from their 5-year high

2.1 What are Blue Chips?

There is no textbook definition of Blue Chips. Wikipedia defines Blue Chips as stocks with a reputation for quality, reliability, and the ability to operate profitably in both good and bad times. The typical characteristics of Blue Chips are –

1. Track record: Blue Chips have a fairly long track record of financial performance and stock market listing.
2. Size: Blue Chips are large companies in terms of market capitalization, sales, profits, etc.
3. Market leadership: Most Blue Chips are market leaders in their respective businesses.

4. Profitability: Blue Chips not only generate huge profits, they also tend to be profitable i.e. high return on capital invested in the business.

Considering all of the above, for the purpose of this Study, we define Blue Chips are under –
1. Track record: Listing history of minimum 10 years.
2. Size: Top 50 companies by market cap.
3. Profitability: If not among the top 50 companies by market cap, companies need to fulfill two criteria to qualify as Blue Chips –
(a) They must be within the top 250 stocks by market cap and
(b) They must have 10-year average RoE (Return on Equity) of at least 20%.

By these criteria, the list of 68 Blue Chips for financial year 2023-24 is tabled in Exhibit 1 (pages 7 and 8). Glancing through the names makes it evident that most of them are leaders in their respective marketplaces. What is also evident s that most of the Blue Chips are richly valued. The average FY24 P/E of these 68 Blue Chips is as high as 40x, 60% higher than the Nifty 50 P/E of around 25x.

This makes it amply clear that under normal or elevated market conditions, given their several positive attributes, Blue Chips are unlikely to be available at reasonable price. Hence the need for Blue Chips to be "bruised", as a golden entry point.

2.2 What are Bruised Blue Chips?

We have borrowed the phrase "Bruised Blue Chips" from a booklet titled, "How *To Create Wealth Investing In Turnaround Stocks*". However, even the booklet does not specifically define the term "bruised".

For the purpose of this Study, we have defined a Bruised Blue Chip as one whose stock price, at any time over the next 10 years, has fallen by 50% or more from its 5-year high. For instance, the universe of Bruised Blue Chips during FY15-24 is the number of stocks whose price at any point in time during these 10 years was lower by 50% or more from the FY10-14 (5-year) high. For the sake of simplicity we have taken the low price during FY15-24 and checked whether the same is lower by 50% or more than the FY10-14 high. If yes, it's a Bruised Blue Chip else no.

2.3 Why Bruised Blue Chips?

There are 3 main reasons for strongly considering investing in Bruised Blue Chips –

1. Golden opportunity to build large positions in Blue Chips
2. Attractive returns and
3. Asymmetric payoff
4. Very low mortality.

2.3.1 Golden opportunity to build large positions in Blue Chips

By definition Bruised Blue Chips are down at least 50% from their 5-year high prices. This implies a significant correction in their otherwise rich valuations. Assuming there is no structural decline in the companies' fundamentals, such bruising offers a golden opportunity to build large positions in these aspirational Blue Chips.

Exhibit 1 **Blue Chips as of March 2024**

	Mkt Cap Rank	RoE	FY14-24		P/E
Company	(Mar-2024)	FY24	PAT CAGR	Price CAGR	FY24/CY23
Among top 50 by Mkt Cap					
Adani Enterprises	16	7%	5%	30%	103
Adani Ports	25	16%	18%	22%	33
Adani Power	39	22%	L to P	27%	10
Asian Paints	27	26%	16%	18%	50
Axis Bank	22	10%	15%	14%	12
Bajaj Auto	31	22%	9%	16%	33
Bajaj Finance	12	18%	35%	45%	31
Bajaj Finserv	29	13%	18%	35%	32
Bharat Electronics	48	19%	15%	33%	37
Bharti Airtel	5	8%	17%	16%	58
Coal India	28	44%	9%	4%	7
DLF	38	3%	18%	18%	83
Grasim Inds	46	8%	12%	17%	26
HCL Technologies	13	23%	9%	15%	27
HDFC Bank	3	15%	22%	14%	17
Hind. Unilever	10	28%	11%	14%	52
IOCL	35	16%	21%	14%	6
ICICI Bank	4	12%	15%	17%	17
Infosys	7	26%	9%	14%	24
ITC	9	24%	9%	6%	26
JSW Steel	40	16%	36%	23%	24
iKotak Mahindra Bank	18	13%	22%	16%	19
Larsen & Toubro	11	13%	11%	16%	40
M&M	34	12%	10%	15%	21
Maruti Suzuki	14	12%	18%	20%	29
Nestle India	32	64%	11%	17%	81
NTPC	21	12%	6%	13%	16
ONGC	20	12%	7%	2%	7
Pidilite Inds	45	22%	15%	26%	86
Power Grid Corp	30	16%	13%	17%	16
Reliance Inds	1	9%	13%	22%	29
SBI	6	9%	17%	15%	10
Sun Pharma	15	13%	7%	11%	39
Tata Motors	17	9%	8%	10%	11
Tata Steel	41	10%	8%	15%	26
TCS	2	39%	9%	14%	30
Titan Company	19	24%	17%	31%	97
Trent	50	8%	L to P	44%	154
UltraTech Cement	26	11%	13%	16%	40
Wipro	33	17%	3%	9%	23

Exhibit 1 (continued) **Blue Chips as of March 2024**

	Mkt Cap Rank	RoE	FY14-24		P/E
Company	(Mar-2024)	FY24	PAT CAGR	Price CAGR	FY24/CY23
Among top 250 by mkt cap with 10-year Avg RoE >= 20%					
Abbott India	139	27%	23%	31%	48
Ajanta Pharma	237	23%	13%	24%	35
APL Apollo Tubes	176	21%	29%	54%	57

BPCL	57	23%	21%	15%	5
Berger Paints	120	21%	17%	24%	57
Britannia Inds	68	42%	19%	28%	55
Colgate-Palmolive	114	60%	11%	15%	55
Coromandel Inter.	216	22%	16%	17%	19
CRISIL	213	29%	10%	14%	49
Dabur India	86	23%	7%	11%	50
Deepak Nitrite	233	23%	34%	48%	40
Eicher Motors	73	20%	27%	23%	27
Glaxosmith. Pharma	209	28%	4%	3%	50
Hero Motocorp	84	23%	7%	8%	25
Hindustan Zinc	62	26%	2%	9%	16
K P R Mill	235	21%	19%	53%	36
Lloyds Metals	224	42%	L to P	65%	25
Marico	126	35%	12%	17%	44
Oracle Financial	111	27%	5%	11%	34
P & G Hygiene	145	53%	8%	15%	79
Page Industries	185	42%	14%	18%	67
Petronet LNG	182	22%	18%	14%	11
Solar Industries	107	24%	22%	48%	87
Supreme Inds	147	23%	14%	23%	52
Tata Comm	138	75%	30%	21%	53
Tata Elxsi	161	32%	27%	40%	61
Torrent Pharma	94	22%	9%	26%	56
TVS Motor	77	22%	25%	36%	63

Exhibit 2 demonstrates how bruising transforms the investment-attractiveness of Blue Chips. For instance, Cummins India was trading at a P/E of 26x at its high price, which collapsed to 13x at its low price. Likewise, its Price/Book contracted from 6.1x to 2.1x. For all the stocks tabled, median P/E was 23x at the high price and 8x at the low. Median Price/Book was 5.5x at the high price and 0.8x at the low price.

Such attractive valuations limit the downside and offer significant upside opportunity.

Exhibit 2 **Bruising makes valuations of Blue Chips exceptionally attractive**

Blue Chip Stock	High Price 2010-14 (INR)	Low Price 2015-24 (INR)	Price fall High to Low	Return CAGR from low to Mar-2024	P/E (x) at High	P/E (x) at Low	Price/Book (x) at High	Price/Book (x) at Low
Cummins India	602	282	-53%	**81%**	26	13	6.1	2.1
Bank of Baroda	210	36	-83%	**67%**	11	Loss	2.1	0.2
M&M	527	246	-53%	**67%**	21	15	3.8	0.8
Glenmark Pharma	612	168	-73%	**54%**	26	8	5.9	1.0
Shriram Finance	880	430	-51%	**53%**	23	3	5.2	0.6
Sun Pharma	653	315	-52%	**50%**	27	19	8.0	1.8
NTPC	201	74	-63%	**46%**	24	5	3.4	0.7
Jindal Steel	778	48	-94%	**42%**	19	Loss	7.6	0.3
GAIL (India)	100	44	-56%	**42%**	20	5	3.7	0.7
Engineers India	269	50	-81%	**42%**	39	9	14.5	1.4
MEDIAN			**-60%**	**51%**	**23**	**8**	**5.5**	**0.8**

2.3.2 Attractive returns

Exhibit 2 also captures the attractive return that Bruised Blue Chips generate. Further, Exhibit 3 suggests that such returns are high across time periods. Also, returns of Bruised Blue Chips are significantly higher than that of non-Bruised Blue Chips.

Exhibit 3 **Bruised Blue Chips offer attractive returns across time periods**

10-year period ending	2018	2019	2020	2021	2022	2023	2024	Avg
10 years ago								
No. of Blue Chips	62	83	79	79	83	80	82	**78**
No. of Bruised Blue Chips	**54**	**61**	**40**	**39**	**36**	**25**	**28**	**40**
No. of Non-Bruised Blue Chips	8	22	39	40	47	55	54	**38**
Avg fall from 5-year high to 10-year low								
Bruised Blue Chips	**-77%**	**-73%**	**-78%**	**-74%**	**-76%**	**-76%**	**-71%**	**-75%**
Non-Bruised Blue Chips	-41%	-33%	-22%	-28%	-22%	-29%	-22%	**-28%**
Avg Return from 10-yr low								
Bruised Blue Chips	**30%**	**73%**	**24%**	**131%**	**38%**	**36%**	**52%**	**55%**
Non-Bruised Blue Chips	28%	20%	14%	27%	23%	23%	24%	**23%**

2.3.3 Asymmetric payoff

Bruised Blue Chips offer an asymmetric payoff i.e. upside is multiple times the limited downside.

As Exhibit 3 suggests, Bruised Blue Chips are on average lower by 75% over their 5-year high. Hypothetically, if the high is INR 100 and the low is INR 25, further downside from this level is likely to be low. However, if the Blue Chip were to go back at least to its previous high, the upside is INR 75 i.e. 300%. Likewise, if the fall is 50%, the upside is a minimum 100% if at least the previous high is restored.

2.3.4 Near-zero mortality

There were 99 Bruised Blue Chips in our study of seven rolling 10-year periods ending 2018 to 2024. Of these, every single company continues to exist today. Thus, by investing in Bruised Blue Chips, mortality is near-zero and risk of permanent loss of capital is low.

3. What causes Blue Chips to get bruised

A combination of internal and external factors

By definition, Blue Chips are large companies with healthy profitability during both good and bad times. What then causes them to be bruised? There are a variety of factors which can be categorized as follows –

1. Stock market-related
2. Company related –
   i. External to the company
   ii. Internal to the company

3.1 Stock market-related bruising

Very rarely, there occur major collapses in the stock market as a whole, causing Blue Chips also to get bruised i.e. their prices fall by 50% or more from their 5-year high. Such major stock market collapses occur mainly due to sudden and usually unforeseeable events such as the dotcom bust of 2000-01, the global financial crisis of 2008-09, India's demonetization announcement in November 2016, and the more recent Covid-led lockdown in 2020.

These market-related bruises are the best opportunity to load up on Blue Chips. More often than not, the stock price fall is disproportionately higher than the impact on their fundamentals and financials. Further, given inherent strengths, Blue Chips are likely to quickly regain their financials, leading to a sharp recovery in stock prices.

Exhibit 4 **Bruised Blue Chips' return CAGR from Covid lows is much higher than in other periods**

		Low Price in	
	Total	Year 2020	Others
No. of 2015-24 Bruised Blue Chips	28	18	10
Fall from 2010-14 high	-71%	-70%	-73%
Return CAGR from low to Mar-2024	**52%**	**58%**	**41%**

3.2 Company-related bruising

Company-related causes of bruising can be further categorized into 2 –

1. External to the company and
2. Internal to the company.

3.2.1 External causes of bruising

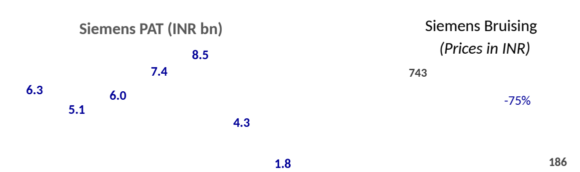
The most common external causes of bruising include –

- Economic recession / Sector slowdown
- Adverse change in competitive landscape
- Adverse change in government regulation
- Value outflow and
- Global events.

3.2.1.1 Economic Recession / Sector slowdown

Economic recession is marked by fall in consumption expenditure and/or fall in private and government investment. This leads to a demand slowdown in several sectors, causing Blue Chips in such sectors to get bruised.

Exhibit 5 **Economic Recession / Sector slowdown causes Blue Chips to get bruised**

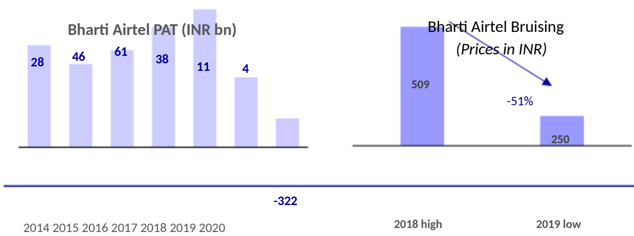


2008 2009 2010 2011 2012 2013 2014 2004-08 high 2009-14 low

3.2.1.2 Adverse change in competitive landscape

A sector's competitive landscape changes adversely when new players enter the arena, especially those with deep pockets. This impacts financial performance of incumbents, driving down profits and profitability, in turn, causing even Blue Chips to get bruised.

Exhibit 6 **Reliance Jio's entry into telecom caused Bharti Airtel to get bruised**



3.2.1.3 Adverse change in government regulation

Change in government regulation can adversely affect financial performance and prospects of some Blue Chips, causing them to get bruised.

Example: Indian oil marketing companies are vulnerable to government whims on pricing of petrol and diesel. At times, when crude prices rise, they are unable to pass on the same to consumers, causing their profits to fall and the stock to get bruised.

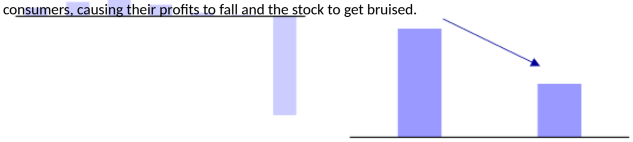
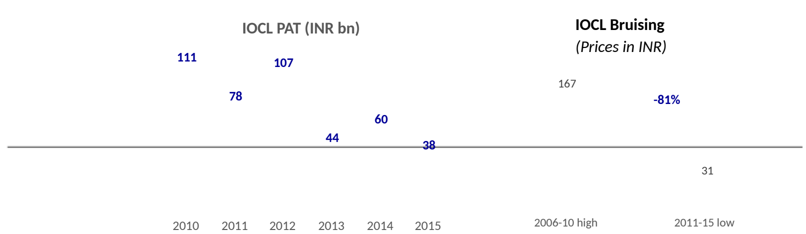


Exhibit 7 **IOC's vulnerability to government pricing whims causes it to get bruised**



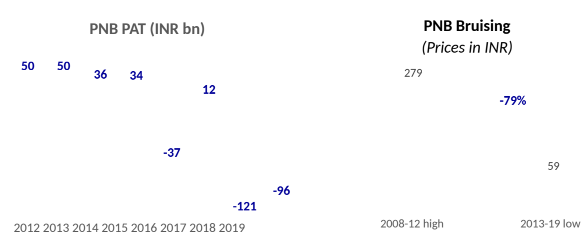
3.2.1.4 Value outflow

In his book Value Migration, author Adrian J Slywotzky says, "Value migrates from outmoded business designs to new ones that are better able to satisfy customers' most important priorities." Value here stands for profits and market cap.

Value Migration results in a gradual yet major shift in how the current and future Profit Pool in an industry gets shared. It creates a sizable and sustained business opportunity for its beneficiaries (where there is value inflow), and adversity for the affected (where there is value outflow). Such value outflow causes Blue Chips to get bruised.

Example: In India's banking sector, much of the value has migrated from state-owned banks to private banks, thanks to the latter's superior value proposition. In other words, many state-owned banks are facing value outflow and getting bruised.

Exhibit 8 **Punjab National Bank is a victim of value outflow, causing it to get bruised**

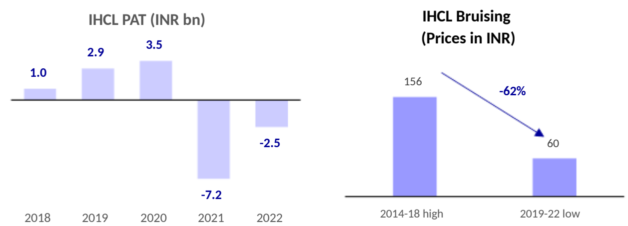


3.2.1.5 Global events

Global events like wars, geopolitical instability, trade wars, pandemics, etc, can negatively impact international businesses, particularly for Blue Chips that rely on global markets and supply chains.

Example: During the Covid pandemic, tourism came to a standstill worldwide, causing large hotel chains to get bruised.

Exhibit 9 **Covid caused Indian Hotels (IHCL) to get bruised**



3.2.2 Internal causes of bruising

The most common internal causes of bruising include –

- Capital misallocation, mainly in the form of unsuccessful mega mergers & acquisitions
- Weak or outdated management strategy
- Poor corporate governance
- Debt pile-up and
- Deterioration in financial performance.

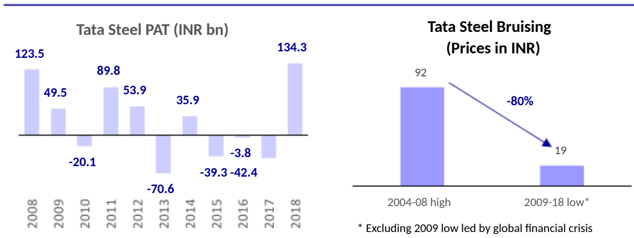
3.2.2.1 Capital misallocation

While a company's capital misallocation may take many forms, the most bruising one comes in the form of unsuccessful mega mergers & acquisitions (M&As), especially if they are global. Due to reasons such as culture clash, such M&As don't get fully integrated, and end up as a major drain of financial and managerial resources of the acquiring company.

Sooner rather than later, such capital misallocation starts affecting profits and profitability, causing the Blue Chips to get bruised in the process.

Example: Tata Steel made a USD 12 billion acquisition of Corus, UK in fiscal 2008. In the 10 subsequent years, it reported a financial loss in 5 years, causing it to be bruised.

Exhibit 10 **Corus acquisition causes Tata Steel to get bruised**



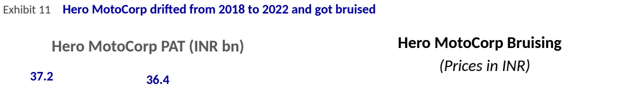
* Excluding 2009 low led by global financial crisis

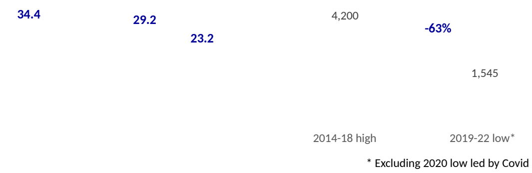
3.2.2.2 Weak or outdated business strategy

At times – e.g. after a succession – the management tends to rest on its laurels, causing business strategy to get weak or outdated. In such a situation, externally, competition tends to get stronger, and internally, cost pressures tend to mount. Both factors combined adversely impact profits and profitability, causing the Blue Chip to gradually get bruised.

Example: Despite being a Blue Chip in 2-wheelers, between 2018 and 2022, Hero MotoCorp seemed to have rested on its laurels. Profit drifted down from INR 37 bn to INR 23 bn, and the stock got bruised.

Exhibit 11 **Hero MotoCorp drifted from 2018 to 2022 and got bruised**



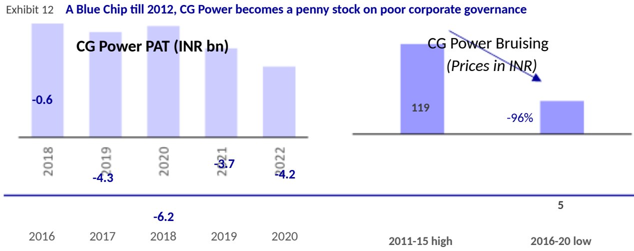


3.2.2.3 Poor corporate governance

Needless to say, this is a recipe for disaster. The “Blue Chip” in question will most likely lose its Blue Chip status, ending up as insolvent and a takeover candidate. Again, needless to say, the stock will not only get bruised but battered.

Example: A Blue Chip till 2012, CG Power (part of erstwhile Crompton Greaves of the Gautam Thapar group) got embroiled in a financial scam. It became a penny stock before finally being taken over by the Murugappa Group (also see full Case Study, page 28).

Exhibit 12 **A Blue Chip till 2012, CG Power becomes a penny stock on poor corporate governance**



3.2.2.4 Debt pile-up

Debt pile-up is a common factor across many Bruised Blue Chips. The mega acquisitions and aggressive capacity build-ups are all mostly backed by debt. When the acquisitions and capacities

fail to meet expectations, the debt pile-up leads to rising interest cost, dragging down profits, and bruising the stock.

Exhibit 13 **Debt pile-up is a common factor across many Bruised Blue Chips**

INR bn		Debt		Interest cost		Stock price as on		Fall in
	Year end	Peak	5 yrs ago	Peak	5 yrs ago	Peak debt	5 yrs ago	stock price
Jindal Steel	Mar-16	464	135	33	4	60	697	-91%
Suzlon	Mar-15	178	127	21	14	25	67	-63%
CG Power	Mar-19	33	22	4	1	43	55	-22%

3.2.2.5 Deterioration in financial performance

One or more of the above factors will end up in deterioration of the Blue Chip’s financial performance, culminating in the stock getting bruised.

4. What causes Bruised Blue Chips to heal

Rectification of the things that went wrong

In principle, Bruised Blue Chips heal when the things that went wrong in the first place get rectified. Like the Bruising, the common triggers for healing can also be categorized as follows –

1. Stock market-related
2. Company related –
   i. External to the company
   ii. Internal to the company.

4.1 Stock market-related healing trigger

When the stock market recovers from its sharp falls, so do prices of Blue Chips, delivering healthy returns in the process, as shown earlier in Exhibit 4 (page 10).

4.2 Company-related healing triggers

Company-related healing triggers can be further categorized into 2 –

1. External to the company and
2. Internal to the company.

4.2.1 External healing triggers

The most common external healing triggers include –

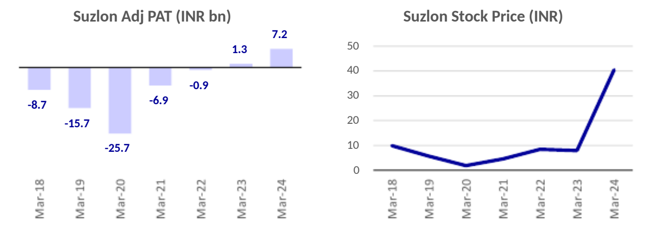
- Economic recovery / Sector tailwind
- Improvement in competitive landscape
- Favorable change in government regulation.

4.2.1.1 Economic recovery / Sector tailwind

This is the opposite of 3.2.1.1. A recovering economy or favorable economic conditions such as lower interest rates, higher consumer spending and rising investment, can benefit companies across the board. Even Bruised Blue Chips can see a rebound when the broader market improves.

Further, some sectors go through cyclical downturns (e.g. commodities, capital goods). If a Blue Chip is in a cyclical sector, an upturn in that specific sector can heal the Bruised Blue Chip.

Exhibit 14 **Suzlon is a huge beneficiary of a tailwind in the wind energy sector**

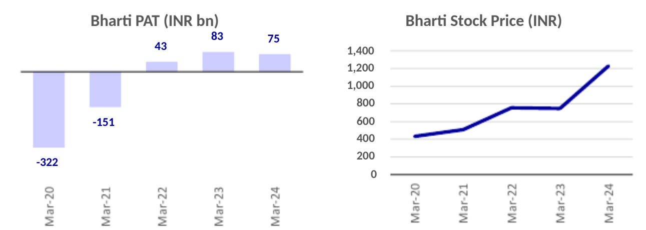


4.2.1.2 Improvement in competitive landscape

This is the opposite of 3.2.1.2. As stated there, a new, powerful entrant into the marketplace can adversely affect the competitive landscape causing incumbent Blue Chips to lose market share, hurting revenue and profits. However, in time, the new entrant settles down as an incumbent itself, and the competitive landscape gets stabilized.

At other times, a strong incumbent may also get weakened, improving the competitive landscape for the remaining players.

Exhibit 15 **Bharti's competitive landscape improved with Jio turning incumbent and Vodafone going weak**

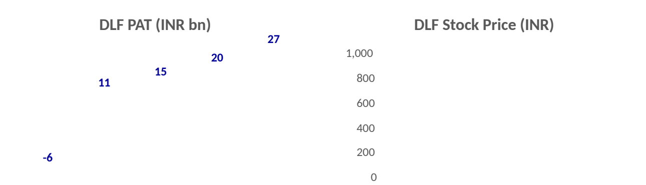


4.2.1.3 Favorable change in government regulation

This is the exact opposite of 3.2.1.3. Favorable change in government regulation can boost the prospects of sectors and Blue Chips therein.

Example: In India, the RERA (Real Estate Regulatory Authority) was formed in 2017. This has significantly enhanced credibility of the real estate sector, benefiting the larger players vis-à-vis smaller ones. DLF is one such beneficiary.

Exhibit 16 **DLF is a beneficiary of a favorable government regulation**



4.2.2 Internal healing triggers

The most common internal healing triggers include –

- Corporate restructuring
- Change in management team and strategy
-

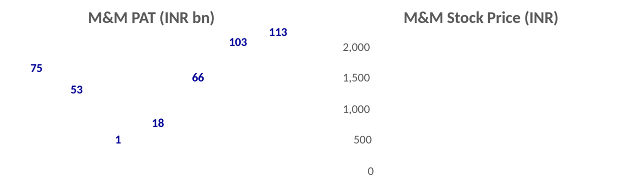
- New product launches
- Cost control & Operational efficiency
- Debt reduction/restructuring and/or equity infusion
- Recovery in financial performance.

4.2.2.1 Corporate restructuring

This is rectification of 3.2.2.1 Capital misallocation. At times, Blue Chips get into a structural and financial mess with mega acquisitions and unrelated diversifications. The need of the hour is a major corporate restructuring. However, typically, the incumbent management team which made all those strategic decisions is unlikely to be able to undo them.
So, most corporate restructuring cases are accompanied by a fresh management team which dispassionately assesses the situation and takes corrective action, causing the Bruised Blue Chip to heal.

Example: Mahindra & Mahindra has undertaken a sweeping corporate restructuring – from divesting overseas subsidiaries to exiting many unrelated and unprofitable businesses (also see detailed Case Study on page 24).

Exhibit 17 **M&M's restructuring has had the healing effect**

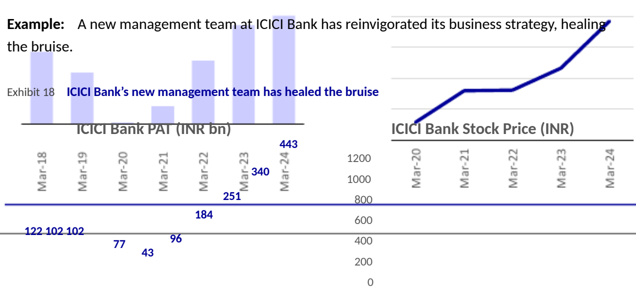


4.2.2.2 Change in management team and strategy

This is rectification of 3.2.2.2 Weak or outdated business strategy. Like in the previous point, this merits a change in management team to take a fresh view of the situation and heal the Bruised Blue Chip.

Example: A new management team at ICICI Bank has reinvigorated its business strategy, healing the bruise.

Exhibit 18 **ICICI Bank's new management team has healed the bruise**

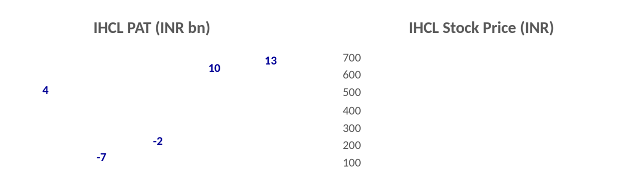


4.2.2.3 New product launches

Successful new product launches can change the financial trajectory of a Bruised Blue Chip, causing it to heal.

Example: Indian Hotels has transitioned from a "branded house" to a "house of brands". New brands include Qmin and Amã Stays & Trails while existing brands like Ginger, TajSATS and The Chambers have been revitalized and repositioned to meet market demands. This helped it to quickly recover from the Covid setback.

Exhibit 19 **Indian Hotels' product initiatives helped it heal faster from the Covid bruise**

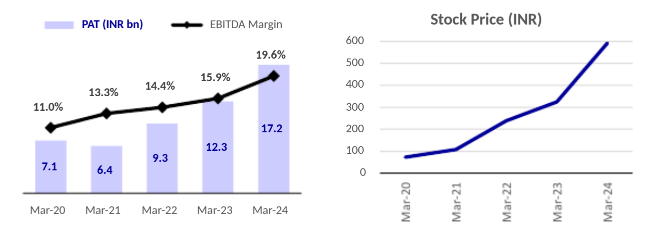


4.2.2.4 Cost control & Operational efficiency

This is usually a low-hanging fruit. Financially troubled Blue Chips many times resort to specific cost control and operational efficiency frameworks like Kaizen and Six Sigma. If successfully executed, this restores the profitability of the Bruised Blue Chip, causing it to heal.

Example: Cummins India runs multiple cost control programs which leverage the Six Sigma approach – Accelerated Cost Efficiency (ACE), Accelerated Move towards Zero Defects (AMaZE), and Accelerated Supply Chain Excellence and Transformation (ASCENT). This boosted its EBITDA margins and PAT, helping it heal from the Covid-led bruise.

Exhibit 20 **Cummins India's cost control programs have helped it heal faster from the Covid bruise**



4.2.2.5 Debt reduction/restructuring and/or equity infusion

This is rectification of 3.2.2.4 Debt pile-up. A key healing factor is repayment or restructuring of debt. Also, in many cases, Bruised Blue Chips need conversion of debt into equity or fresh equity infusion itself. This eases interest burden, reviving profits and boosting the stock price.

Exhibit 21 **Debt reduction is a key healing factor**

INR bn	Debt		Interest cost		Stock price as on		Rise in
	Peak	Latest	Peak	Latest	Peak debt	Current	stock price
Jindal Steel	464	173	33	13	60	897	1395%
Suzlon	178	3	21	2	25	64	154%
CG Power	33	0	4	0	43	754	1665%

4.2.2.6 Recovery in financial performance

This is rectification of 3.2.2.4 Deterioration in financial performance. One or more of the above factors will revive the financial performance of the Bruised Blue Chip. Soon, the stock market will take notice of the same, causing it to heal.

Having understood each of the above Bruising and Healing factors with isolated examples, we have provided a few comprehensive case studies of Bruised Blue Chips and their subsequent healing (see Annexure, page 24 onwards).

5. Process of investing in Bruised Blue Chips

Create a watchlist, await healing triggers, buy at attractive valuations

The key to profit from Bruised Blue Chips is to buy them close to the lows, post the bruise. This necessitates the following steps –

1. Create a watchlist of Bruised Blue Chips
2. Clearly understand the reasons for the bruising
3. Await healing triggers

4. Buy only if the company's future prospects are bright, and valuation is attractive, typically Price/Book around 2x.

5.1 Create a watchlist of Bruised Blue Chips

At any given point in time, there will be Blue Chips which are bruised i.e. significantly down from their recent highs. We need to create a watchlist of such Bruised Blue Chips for investigation and further action at the appropriate time.

5.2 Clearly understand the reasons for the bruising

As discussed earlier, there are a wide variety of reasons for Blue Chips to get bruised. We need to clearly understand the reasons for the bruising. This is because, as also discussed earlier, Bruised Blue Chips heal only when what went wrong gets rectified.

5.3 Await healing triggers

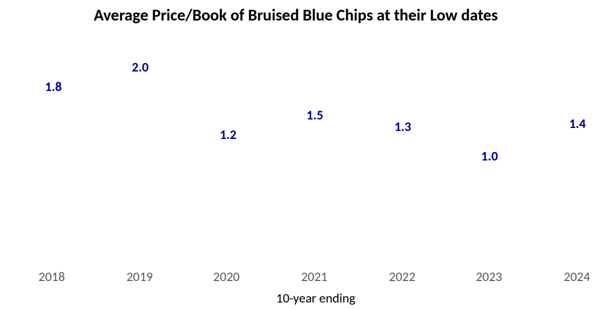
Having understood the reasons for the bruising, we next need to await healing triggers. The most important ones to look for are sector tailwind (external) and change of management (internal).

5.4 Buy only if the company's prospects are bright and valuation is attractive

Bruising alone cannot be the sole reason for buying into a Blue Chip. Its prospects of profit and profitability need to be bright. Else, the Bruised Blue Chip will end up as a value trap.

When it comes to valuation, over the last seven 10-year periods, at the low price, the average Price/Book of Bruised Blue Chips is 1.5x (Exhibit 22). Hence, on average, Bruised Blue Chips should be bought only if valuation is attractive i.e. Price/Book around 2x at best.

Exhibit 22 **Bruised Blue Chips trade at attractive valuations on their low dates**



5.5 A short note on Technical Analysis

The key to deriving maximum returns from Bruised Blue Chips is to buy them close to the turnaround. Though not our forte, a basic understanding of Technical Analysis may help to better time the buying of Bruised Blue Chips. Some popular buy patterns are –

- Double-bottom
- Reverse head and shoulders
- Rounding bottom and
- Flat base.

Strong fundamentals coupled with a favorable price chart should help investors to buy close to the point of maximum pessimism, and maximize returns from that level.

Exhibit 23 **Double Bottom pattern**

Exhibit 24 **Reverse Head & Shoulders pattern**

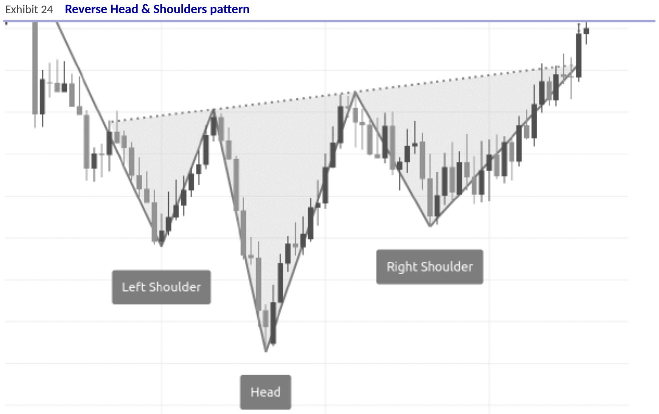


Exhibit 25 **Rounding bottom pattern**

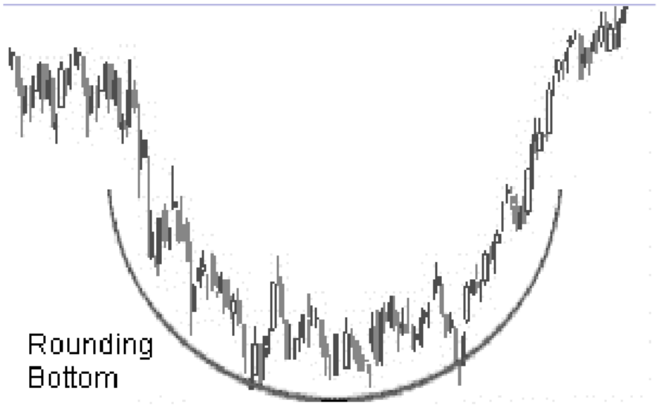


Exhibit 26 **Flat Base pattern**

6. Current Bruised Blue Chips watchlist

Elevated market gives limited options

Bruised Blue Chips are more visible during market downturns. Current Indian markets are in an extremely elevated state, giving limited options of Bruised Blue Chips. We present below a basic watchlist of 2024 Blue Chips which are lower by 30% or more from their 5-year highs.

Exhibit 27 **Bruised Blue Chips watchlist**

Company	2020-24 High Price	Current Price (28-Nov-24)	Drawdown
Adani Total Gas	3,998	803	-80%
Adani Green	3,048	1,088	-64%
Adani Enterprises	4,190	2,437	-42%
Gujarat Gas	787	472	-40%
SBI Cards	1,165	714	-39%
Tata Elxsi	10,760	6,755	-37%
Avenue Supermarts	5,900	3,712	-37%
IRCTC	1,279	814	-36%
Berger Paints	727	489	-33%
Asian Paints	3,590	2,459	-32%
IOCL	197	138	-30%

7. Conclusions

Bruised Blue Chips bought at close to lows offer handsome returns

- Blue Chips are aspirational investments, but mostly richly valued
- Bruised Blue Chips bought at close to lows offer handsome returns
- Probability of permanent loss of capital is low for Bruised Blue Chips
- The main elements of the process to invest in Bruised Blue Chips are:
  (1) Create a watchlist
  (2) Await buying triggers, mainly sector tailwind and change of management and
  (3) Buy at attractive valuations, typically Price/Book less than 2x.

Annexure: Case Studies of some Bruised Blue Chips

M&M, CG Power, Suzlon, Jindal Steel, Bharti Airtel

Mahindra & Mahindra

Brief about the company

- Mahindra & Mahindra (M&M), a flagship company of the Mahindra Group, is a leading Indian multinational conglomerate, holding a dominant position in India's UV (Utility Vehicles) and tractor markets.
- The company's automotive division manufactures SUVs (Sports Utility Vehicles), commercial vehicles, and electric vehicles (EVs), with popular models like the Scorpio, Bolero, XUV series, and Thar contributing significantly to its success. M&M has also made strides in electrification, introducing EV models under the Mahindra Electric brand.
- In the farm equipment sector, M&M is a market leader in India and a significant global player, producing a wide range of tractors and agricultural machinery under the Mahindra Tractors brand.
- M&M's diverse portfolio also spans two-wheelers, IT, finance, real estate, and hospitality.

What went wrong (over 3-5 years ending FY20)

EXTERNAL TO THE COMPANY

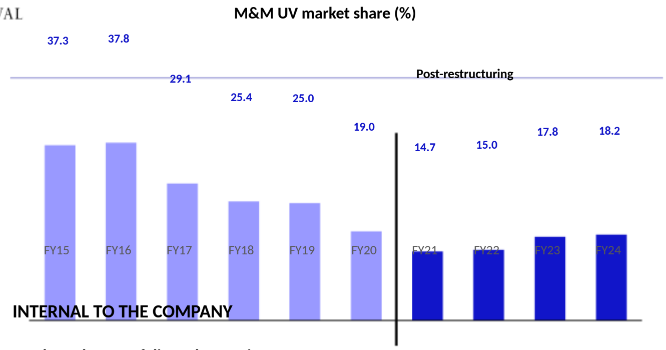
Macroeconomic and regulatory challenges

- The rural economy faced multiple setbacks, including weak monsoons in certain years, low crop prices, and uneven implementation of government schemes, which directly impacted tractor and entry-level vehicle sales.
- Liquidity constraints in non-banking financial companies (NBFCs), which were major financiers for rural customers, further dampened demand. This compounded the challenges for M&M's automotive and tractor segments.
- The transition to BS6 emission norms in FY20 required significant R&D investments and led to higher vehicle prices, affecting affordability and demand across segments.

Slowdown in core businesses

- **Automotive Segment:** M&M's dominance in the UV (utility vehicle) segment weakened due to intense competition from new and existing players. Launches from competitors Maruti Suzuki (Vitara Brezza), Hyundai (Creta), and Kia (Seltos) were well-received, and outperformed M&M's offerings in design, features, and value proposition. This led to erosion in market share from 37% in FY15 to 19% in FY20.
- **Tractor Segment:** While M&M remained a market leader in tractors, demand fluctuations due to weak monsoons in some years, slower rural income growth, and economic challenges in the agricultural sector impacted overall tractor sales. The company also faced pricing pressures and increased competition from regional players. The tractor industry retails witnessed a flattish FY15-20; however M&M still managed to outperform the industry.

Competition from existing and new players weakened M&M's dominance in the UV market



INTERNAL TO THE COMPANY

Weak product portfolio and execution

- M&M's SUV portfolio struggled to keep pace with evolving market expectations. Despite being a strong player in the larger SUV segment, M&M was slow to effectively assess and respond to the rapid growth of the compact SUV market. M&M's attempts to compete in this space with models like the TUV300 and KUV100 were not as successful, primarily due to their design shortcomings and limited feature sets.
- M&M's attempts to diversify into electric vehicles (EVs) through models like the e2o also underperformed due to low adoption rates, high costs, and inadequate infrastructure support.

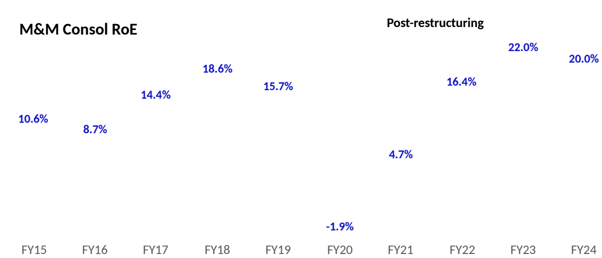
Suboptimal Capital Allocation

- M&M's global investments, including the acquisition of SsangYong, the launch of GenZe (an electric scooter venture), and investments in other foreign subsidiaries failed to generate the expected returns.
- SsangYong, in particular, proved to be a financial burden with recurring losses, liquidity issues, and poor market performance in South Korea and other regions. This strained M&M's consolidated financials and diverted management focus from core domestic operations.
- The company also invested in businesses like aerospace (Mahindra Aerospace) and two-wheelers (Mahindra Two Wheelers), which failed to scale up and were eventually scaled down or exited.
- This began to get reflected in its return ratios – for instance, Consolidated RoE actually went negative in FY20.

High Operating Costs

- Rising raw material prices put pressure on margins, especially as M&M struggled to pass on cost increases due to competitive pressures in the market. EBITDA margin between FY10-14 averaged at 14.4%, which declined to 13.7% over FY15-20.
- Increased R&D spending to develop BS6-compliant engines, electrification technologies, and other regulatory requirements also strained the company's profitability. Despite these investments, the return on capital employed (ROCE) remained low due to underwhelming product success.

M&M's suboptimal capital allocation and subsequent rectification



- These factors, individually and collectively, weakened M&M's growth trajectory and profitability. Poor execution, market share loss in core segments, inefficient capital deployment, and external challenges forced the company to re-evaluate its strategies, streamline operations, and focus on core businesses in the years following FY20.

Dependence on Diesel

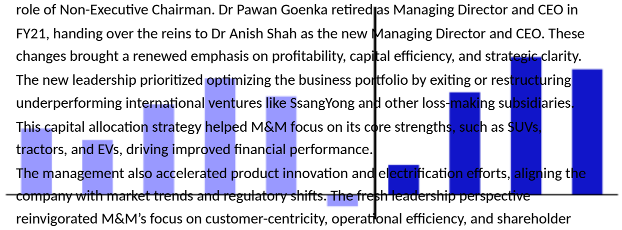
- M&M had historically built its dominance in SUVs and tractors on diesel powertrains. However, regulatory changes such as BS6 emission norms, restrictions on diesel vehicle sales in certain regions (e.g., Delhi-NCR), and rising customer preference for petrol engines eroded its competitiveness.
- The company was slow to transition to alternate powertrains like petrol, leaving a gap in its offerings, especially in urban markets where diesel demand declined more sharply.

What went right (FY20-24)

INTERNAL TO THE COMPANY

Strategic shift in leadership approach

- M&M underwent significant management changes in recent years, marking a strategic shift in its leadership approach and business focus. In FY20, Anand Mahindra transitioned to the role of Non-Executive Chairman. Dr Pawan Goenka retired as Managing Director and CEO in FY21, handing over the reins to Dr Anish Shah as the new Managing Director and CEO. These changes brought a renewed emphasis on profitability, capital efficiency, and strategic clarity.
- The new leadership prioritized optimizing the business portfolio by exiting or restructuring underperforming international ventures like SsangYong and other loss-making subsidiaries. This capital allocation strategy helped M&M focus on its core strengths, such as SUVs, tractors, and EVs, driving improved financial performance.
- The management also accelerated product innovation and electrification efforts, aligning the company with market trends and regulatory shifts. The fresh leadership perspective reinvigorated M&M's focus on customer-centricity, operational efficiency, and shareholder value, leading to a more streamlined and profitable organization.



Initiated strategic turnaround to improve profitability

- The company began by evaluating all its subsidiaries, particularly loss-making ones, and categorized them into three buckets: (1) Those capable of achieving 18% RoE within 3-5 years. (2) Those with significant strategic contributions to the group, and (3) Those with no clear path to profitability.
- For the third category, M&M planned to divest such businesses either fully or partially, though identifying suitable partners for such divestments could take time. The initial focus was on international subsidiaries, as rationalizing these could deliver significant impact.
- The 18% RoE target was communicated to all the group companies, with clarity that the new management would be focused on value creation. Also, evaluation parameters for the senior management were then seen inclusion of RoE/RoCE targets (constitutes 15-20% weight), over and above topline & bottomline targets.

Revitalized portfolio

- Between FY21-FY24, M&M's new model launches played a pivotal role in driving market share gains, particularly in the SUV segment. The introduction of the Thar (2020) marked a major success, combining off-road capability with modern features, making it a hit among younger buyers and adventure enthusiasts. The XUV700, launched in 2021, further boosted M&M's presence in the mid-size SUV segment, offering advanced features like ADAS, premium styling, and competitive pricing, setting new benchmarks in the category.
- Additionally, refreshed versions of the Scorpio, including the Scorpio-N, continued to attract a loyal customer base while expanding its reach to urban markets. In the compact SUV space, the XUV300 strengthened its position with safety-first features and an electric variant to cater to evolving customer needs.
- These launches, backed by strong customer demand, not only enhanced M&M's product portfolio but also enabled it to capture significant market share, positioning the company as a leader in the growing SUV market. As a result, its market share in SUV increased from ~15% in FY21 to 18% in FY24.

Appointment of new R&D and design heads

- During FY21-FY24, M&M made strategic leadership appointments in its R&D and design teams, significantly bolstering its innovation and product development capabilities. R Velusamy, a seasoned automotive expert, was appointed as the head of R&D, bringing a strong focus on developing cutting-edge technologies, including electrification and advanced powertrains.
- His leadership played a critical role in creating BS6-compliant engines, ADAS technologies, and EV platforms, which became key differentiators for M&M's product line-up.
- Similarly, M&M appointed Pratap Bose, a renowned automotive designer, as the Executive Vice President and Chief Design Officer in 2021. Bose's expertise in creating modern and aspirational vehicle designs revitalized M&M's styling philosophy.
- His influence was evident in the design success of models like the XUV700, Scorpio-N, and Thar, which gained immense popularity for their bold, contemporary aesthetics along with the new brand logo.
- These appointments underscored M&M's commitment to innovation, enhancing its competitive edge in a dynamic market.

Impact

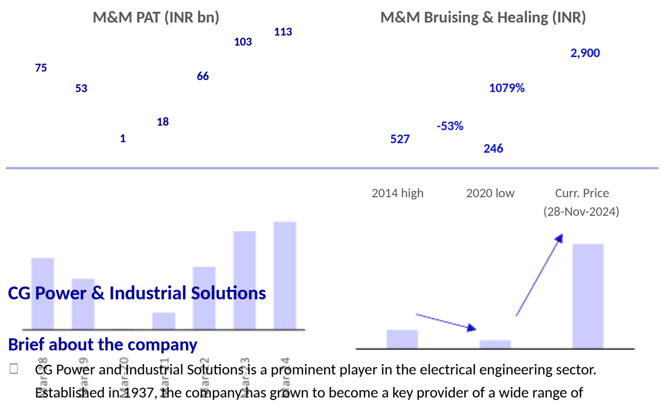
(A) On Financials

- Revenue CAGR over FY20-24 was 22%.
- EBITDA CAGR was 20% led by operational efficiencies, despite significant increase in commodity prices.
- PAT CAGR was 31% over the same period.
- Lower business from loss-making subsidiaries coupled with a prudent capital allocation policy expanded RoE/RoCE from 10%/9% in FY20 to 22%/20% by FY24.

(B) On stock price

- M&M's share price declined by over 50% between FY14 and FY20 led by the operational inefficiencies in the business, weak capital allocation plans and some impact of COVID.
- Since then, the stock is almost 12x its Covid low.

Turnaround in M&M's financials heals the bruise



CG Power & Industrial Solutions

Brief about the company

- CG Power and Industrial Solutions is a prominent player in the electrical engineering sector. Established in 1937, the company has grown to become a key provider of a wide range of products and services in the power and industrial equipment domain.
- CG Power was acquired by the Murugappa Group in 2020, after the previous promoters were embroiled in controversies and allegation of misappropriation of company funds.
- The company operates in two businesses – (1) Industrial Systems (67% of total revenue) and (2) Power Systems (32% of total revenue).
- The company has 17 manufacturing facilities across India in 9 different locations and one facility in Sweden, which caters to key markets such as Nordic countries, Germany, Netherlands, Middle East and Africa.

What went wrong (pre-FY20)

Erstwhile management siphoned off company funds

- In 2019, the company announced on the stock exchanges that its then-promoter, Avantha Holdings (led by Mr Gautam Thapar) connived with past and then-present key management

personnel, non-executive directors and certain employees of CG Power to engage in fraudulent transactions resulting in the company being defrauded of a considerable sum of money and understatement of liabilities. The risk and audit committee pegged the extent of understatement at INR 10.5 bn at the company level and INR 16 bn at the group level, as of FY18.
- The company was illegally made party to unauthorized transactions, such as sale of leased and owned property in Nashik and Kanjurmarg, raising of debt which was then siphoned off, making advance payments to vendors which were related parties of international subsidiaries and other such irregularities. As a result, the new management decided to disclose all malpractices and restate the company's financials to account for the fraudulent practices.

Global acquisitions became a drag

- With a view to expand its geographical footprint, capitalize on global opportunities and become a "full service provider", the company made a flurry of acquisitions in Belgium, Hungary, Ireland, US, UK, Brazil, Sweden, etc. Most of the acquisitions did well till FY11, owing to global tailwinds in the power T&D space. However, things went downhill in the aftermath of the global financial crisis, which caused a sharp demand slowdown particularly in developed markets.
- Additionally, the integration of the new entities did not pan out on expected lines. While the company did take corrective measures, they did not have the desired effect and the entities continued to incur losses. Ultimately, CG Power took a call to sell/wind up these businesses and become a domestic-oriented company. Accordingly, its various entities in Canada, UK, Brazil, Indonesia, Belgium, Hungary, Ireland, etc were disposed of. However, it still retained its Swedish operations.

Mounting debt on the balance sheet

- In order to fund the sustained losses in its international subsidiaries, the company took on additional debt, which doubled from INR 16 bn in FY18 to INR 33 bn in FY19. This resulted in widening losses at the consolidated level, as the interest cost jumped from INR 800m in FY16 to INR 3.8 bn in FY19. The company's inability to dispose of the loss-making entities in time further compounded matters.