

The Business Checklist will lead to a thorough understanding of the company's business and its moat (i.e. sustainable competitive advantage). This sets the stage for two key questions related to its growth opportunity and growth plans.

Q9 ? What is the addressable market opportunity and its key drivers?

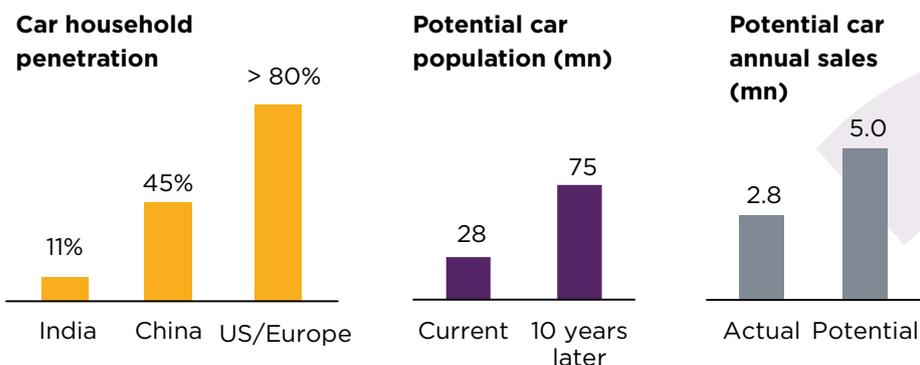
Objective:

This question helps to assess the growth potential of a company. It is very challenging for a company to grow sales and profit when its end-market itself is not growing.

What to look for:

- ◆ The current and potential size of the market(s) which the company operates in
There are various ways to assess the potential market size for a company's products or services.
- ◆ **Level of domestic penetration e.g. Indian cars opportunity**
 - ◆ India's car population is estimated at 28 million. Considering 250 million households, this translates to penetration of 11%. For the US and most European countries, this number would be 80-100%. China's penetration currently is 45%. Even if we reach 30% penetration in 10 years' time, we are looking at a population of over 75 million cars i.e. incremental volumes of 4.7 million every year. Further, at least 10% of current population will come up for replacement every year. Thus, it's a 5 million cars per annum opportunity versus the current annual sale of 2.8 million cars. Thus, there's a huge addressable opportunity.

India's potential car sales is 5 million per annum v/s current 2.8 million



◆ Global benchmarking E.g. insurance

IRDA's (Insurance Regulation & Development Authority) latest Annual Report suggests that world insurance premium is at USD 5.2 trillion or 6% of global GDP. Against this, India's premium is about USD 100 billion i.e. 3.7% of GDP. Despite the second highest population in the world, India ranks 10th in life insurance and 15th in non-life insurance. Thus, India's annual insurance market potential is at least 1.6x the current level.

Insurance is a lucrative opportunity in india

Insurance Premium (% of GDP)

India's global rank

World 6.1%

Life insurance 10

India 3.7%

Non-life 15

Source: Insurance Regulatory & Development Authority Annual Report, 2018 - 19

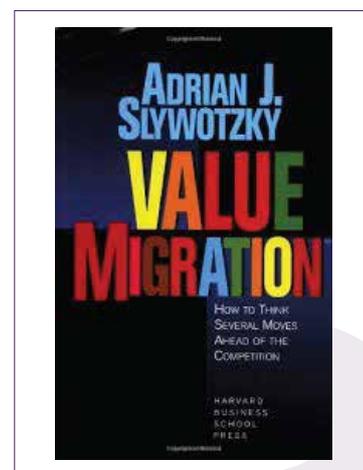
Framework #15

Value Migration

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 is shared. It creates a sizable and sustained business opportunity for its beneficiaries. It has two broad varieties -

1. **Global Value Migration** e.g. global manufacturing value migrating to China; value in IT and healthcare sectors migrating to India.
2. **Local Value Migration** e.g. value in telephony migrating from wired networks to wireless networks; value in Indian banking migrating from public sector banks to private banks.



Examples of Value Migration

Sector/Company	Value migration from	Value migration to
IT Services	Developed world	Low labor-cost countries
Pharmaceuticals	Developed world	Low-cost chemistry countries
Banking	State-owned banks	Private banks
Telecom	Fixed line networks	Wireless networks
e-tailing	Brick-and-mortar retailing	Online retailing
Gems & Jewellery	Unorganized Jewellery market	Organized jewellery retailing
Aviation	Full service airlines and railways	Low cost airlines

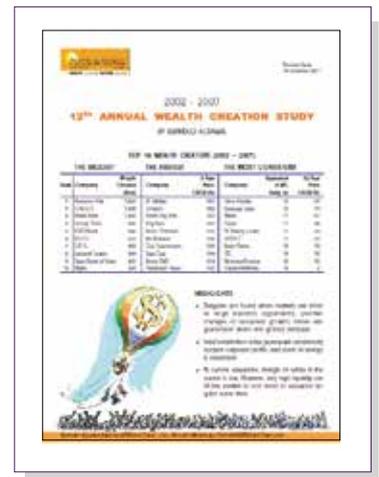
Framework #16

India's NTD Opportunity

We covered India's NTD Opportunity in our 12th Wealth Creation Study (2007).

NTD here stands for Next Trillion Dollar of India's GDP. The essence of the framework is this -

- ◆ It took India over 60 years post-Independence to clock its First Trillion dollar of GDP.
- ◆ Having achieved this, every successive NTD is taking shorter and shorter time (see chart below).

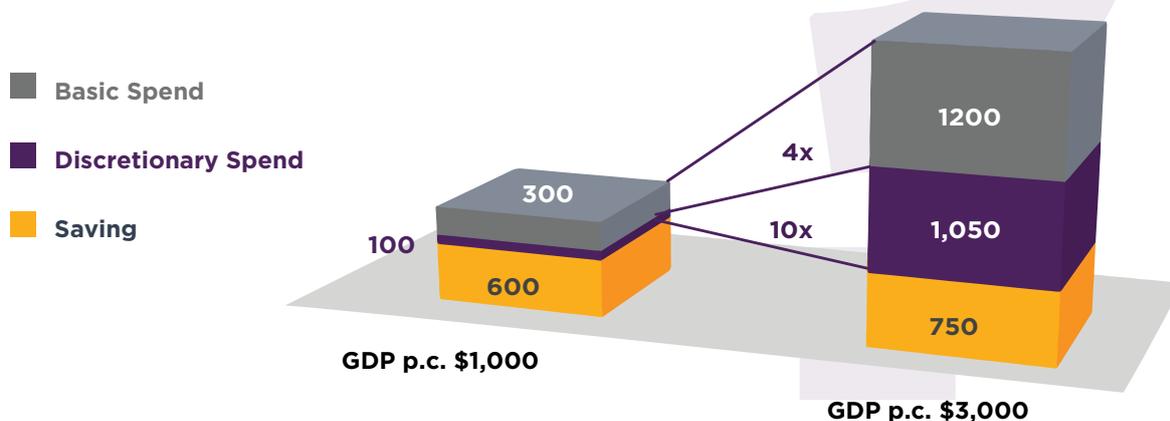


The Next Trillion Dollar opportunity India GDP trend (USD bn)



The chart below depicts the typical disposal of per capita GDP. At per capita GDP of USD 1,000, 60% of it would be towards basic spend (food, clothing, shelter, health), 10% towards discretionary spend such as education and travel, and 30% towards saving. When per capita GDP trebles to US\$ 3,000, basic spend would increase barely 20% to around USD 750, discretionary would increase to USD 1,050 and leaving the balance as savings

Trebling of per capita GDP leads to 10x opportunity in discretionaries and 4x opportunity in savings & investment products



Thus, linear GDP growth leads to exponential opportunity for many sectors, especially those catering to discretionary needs such as two-wheelers, cars, ACs, etc and savings/investment products such as bank deposits, mutual funds, insurance, etc.

Framework #17

Winner categories, category winners

We covered Winner Categories, Category Winners in our 14th Wealth Creation Study (2009).

Winner Categories are categories (i.e. sectors) which are -

1. Expected to grow at least 1.5x nominal GDP growth; and
2. Consolidated i.e. not too many players to partake of the expected growth.

Category winners are companies in Winner Categories with (1) Entry Barriers / Competitive advantage and (2) Great Management.

Winning investments happen when Category Winners are bought at reasonable valuation.

Example: Eicher Motors

Consider the period 2010 to 2020.

- ◆ **Winner Category:** Auto 2/3-wheelers is a Winner Category with revenue growth at 21%, more than 1.5x the corresponding nominal GDP growth of 12%. It is a highly consolidated sector with only a handful of players.
- ◆ **Category Winner:** Eicher Motors enjoys huge competitive advantage in its niche of super premium motorcycles, coupled with a change of management led by Siddharth Lal.
- ◆ **Winning Investment:** In March 2010, Eicher Motors was reasonably valued at a P/E of 21x. As a result, over the next 10 years, it is a massive outperformer with FY10-20 return CAGR of 35% v/s 5% for the Sensex.

In 2010, Eicher was a category winner available at reasonable valuation i.e. A winning investment



Eicher Motors Share Price Movement

