



Multiple Disruptions Disrupting Capital Markets

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- One of the things that fascinated me as I took my first step into investment banking in 1992 was the uncertainty of the capital markets. The volatility that the market thrives on apart, the environment then was continuously changing. In my very initial years in this exciting profession, I witnessed multiple transformational events – be it the advent of SEBI, the infamous Harshad Mehta scam, the Asian crisis, the dot-com bubble or the computerization and online trading of the stock trading, there was never a dull moment
- With time, the Indian capital markets have matured significantly. Today, it is the sixth largest market globally in terms of market capitalization. It follows, and often leads, the global standards of most matured markets and has one of the best integrated technology platforms, be it for trading or the payment system. And even though in terms of complexity it is second to none, the Indian capital market has been operating seamlessly. But the volatile nature of the market, fundamental to its existence, continues and may be is more pronounced in recent times due to global factors. Very often, when the market reacts the way it does, we find that reasons for the reaction are in other markets – not local – or due to some seemingly unconnected developments

Going forward, I see 3 Specific Global Trends, or Rather Disruptions, that would Continue to Bear upon the Market

- **Disruption No 1 – The Tech Revolution**
 - The first disruptor being ‘Technology’ – and not in the way the operations of the market will change with advent of artificial intelligence, blockchain, robotics process, etc. It has to do with the way businesses across the different sectors are being disrupted with new technologies. When I moved to Bombay 35 years back, we had enrolled for a fixed line phone connection with a wait period of 30 years. Now, by just one phone call or over an app, in less than 3 mins one can get a mobile phone, a landline and high-speed broadband with television connectivity. Similarly banking which was truly intimidating then with its brick and mortar format, is today on our fingertips
 - From buying movie and train tickets in black through agent to booking them online, from an all-day cooking ritual at home for guests to Swiggying food, from making a trek on traffic jammed roads to buy a Ganpati for Ganesh Chaturthi to Amazoning it – sector after sector is witnessing a revolution because of disruptive technologies. Electric vehicles, different options of mobility like Uber and Ola, and improvement in the public transport infrastructures have altered the business models of the automobile industry, including that of the small garages. OYO has made it easy and affordable for people stay in the hotel while traveling than staying with their friends and relatives. Convergence of telecom, technology and media has provided a complete makeover to all three industries. No sector today is untouched by the technology revolution. As a result, people across big and smaller cities are going through a lifestyle transformation
 - After the Agricultural Revolution and the Industrial Revolution, the Technology Revolution is permanently altering the way Homo sapiens live, consume, interact, travel and every other part of their life. The incessantly evolving business models can risk the very survival of hitherto

established companies or conventional sectors. We have seen the decimation of traditional music and camera industries. Outsourcing of services has become a way of life, be it our house, kitchen, vehicle, wardrobe, office premises, computer system or communication. 3D printing is knocking at the doors of manufacturing industry. And we can just go on and on. The Technology Revolution is here to stay and will clearly impact the corporate valuations, the business models and risks, and therefore the capital markets

- The other impact of technology on businesses can be assessed from the new vulnerabilities that it exposes businesses to. The cyber security breaches apart, the recent attack on Saudi Aramco’s refineries through drones underlines the infinite security risks technology poses to corporates

▪ **Disruption No 2 – Nationalism or Localization**

- The second most disruptive phenomenon we are witnessing in the recent past is ‘Nationalism or Localization’, a global volte-face on globalization. At the start of the economic liberalization in 1991, India had followed the world in decisively embracing globalization. Back then, the world was moving in the direction of globalization – both technologically as well as commercially. The immense interest that Thomas Friedman’s famous book “The World is Flat” generated, was reflective of how globalization had caught the imagination of all corporate and political gurus. Most countries believed in free trade, open boundaries and free movement of goods, services and people. India started receiving all time high foreign direct investment, foreign companies set up offshore operations in India, and our foreign currency reserve only went skywards. Global trade became a norm
- However, in the last several months, political rhetoric in some of the developed countries and large economies has changed noticeably. Voices of nationalism and protectionism have started making headlines. Tariff and trade wars are in the open. Free movement of capital and trade is once again conspicuously constricted. It has been a remarkably sudden and substantial change that the world has to deal with which has grave and far-reaching long-term impact on the capital markets

▪ **Disruption No 3 – The Rise of Intellectual Capital vs. Financial Capital and Permits**

- Traditionally, setting up new businesses and large businesses required large financial capital and permits. Post-independence, India had adopted the policy of controlled economy. At one stage we converted a number of private enterprises into national assets - be it banks, coal mines and some others. Licenses/ Permits were required to be obtained to start any new business. Foreign investment needed a series of approvals. There was a complete control on foreign trade and foreign investment
- Part of this dynamics changed post the economic liberalization, though the government control was still very pronounced. In the 90s and early 2000, businesses started investing directly into capacity expansion. This unprecedented expansion required significant infusion of financial capital, some of which came through leverage of the existing cashflows, assets and the shareholding of the businesses. A bank lent to a viable project and if investment was being

made in hard assets in the form of plant and machinery. But today, business dynamics has totally turned this on its head - intellectual capital is taking centerstage

- Unprecedented business models are now first conceptualized using intellectual capital, set-up with negligible financial capital and rarely with any leverage. Then they automatically attract a slew of investors. Hard assets are no longer a pre-requisite to raise financial capital. Valuations are no more about profits, but about ideas. Licensing, permits and approvals are no more about being somebody with connects in power corridors. Young entrepreneurs have started building businesses as start-ups which are growing and creating significant value. Companies with soft assets and intellectual property today form part of the top market cap companies around the world and in India. The BSE Sensex in 1988 had 20 industrials category companies out of the total 30. Today, only 6 out of 30 belongs to this category
- With the hitherto unseen focus on corporate governance, an extension of this trend is emerging in India - the advent of professionally managed companies supported by professional pool of capital. The new norms around the board compositions, independent directors and related party transactions, has tilted the equations in favor of professional management as against promoter run businesses. We have seen buy-out funds investing around USD 26bn already and they own and run 160 companies across the different sectors. Additionally, businesses are being incubated by Private Equities
- The power of knowledge economy is for all to see - while it took more than 60 years for an automobile or an airline industry to reach a 50mn user base, a Pokemon Go achieved it in 19 days! With 87% of India's population already possessing mobile phones, the intellectual capital is only gaining more power. Knowledge economy is changing the world. As per the latest study, India has 31 unicorns, and the start-ups have raised more than USD 50bn of capital since 2014
- Our capital markets, going forward, will be shaped by the new realities. The above disruptions are already exerting influence. This will only be more pronounced as we step further into the future. Our capital markets will have to take cognizance of these ever-evolving trends and future business models, and continuously assess the impact of these on business risks, valuations and viability of businesses



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