

# PPT for CFA Institute India - Mumbai Team only



**Using Ranking of Business  
Model Framework to Select &  
Allocate to Great Businesses**

**-Ashish Kila  
Perfect Research**

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# ❖ About Ashish Kila



ASHISH KILA  
CIO, PERFECT RESEARCH

Ashish Kila is a rank holder CA and MBA from MDI Gurgaon. He has worked with leading investment banks like Goldman Sachs & Morgan Stanley in their equity research division and now is the Director at Perfect Group.

Ashish looks after the strategic functions at the group and manages the family office fund. Ashish has over the years conducted seminars on value investing showcasing investing frameworks and ideas in prominent institutions/forums like IIM Calcutta, MDI Gurgaon, MOI Global, CFA Society India, Indian Investing Conclave, Alpha Ideas Meet, Strictly Invest Meet, October Quest, Flame Investment Lab - Alumni Meets, TIA meet, NIRC (ICAI), IIF, IIIT – Delhi, etc..

# ❖ Acknowledgements

- Our Chairman – Mr. R.A.Kila



- Perfect Research Team

PPT for CFA III - Team only

# ❖ Blessed to have got Vicarious Learning's from my Role Models ...



*With Mr. Sanjay Bakshi and Mr. Mohnish Pabrai*



*With Mr. Thomas Russo*



*With Mr. Rajeev Thakkar and Mr. Parag Parikh*



*With Prof. Aswath Damodaran*



*With Mr. Bharat Shah*



*With Mr. Basant Maheswari*



*With Mr. Ashish Dhawan*



*With Mr. Tom Gayner*

# ❖ Perfect Research Annual Investing Study



2013

- Role of Management

2014

- 4C's of Investing

2015

- Standard Valuation Matrix

2016

- Capacity to Suffer

2017

- Side Car Investing

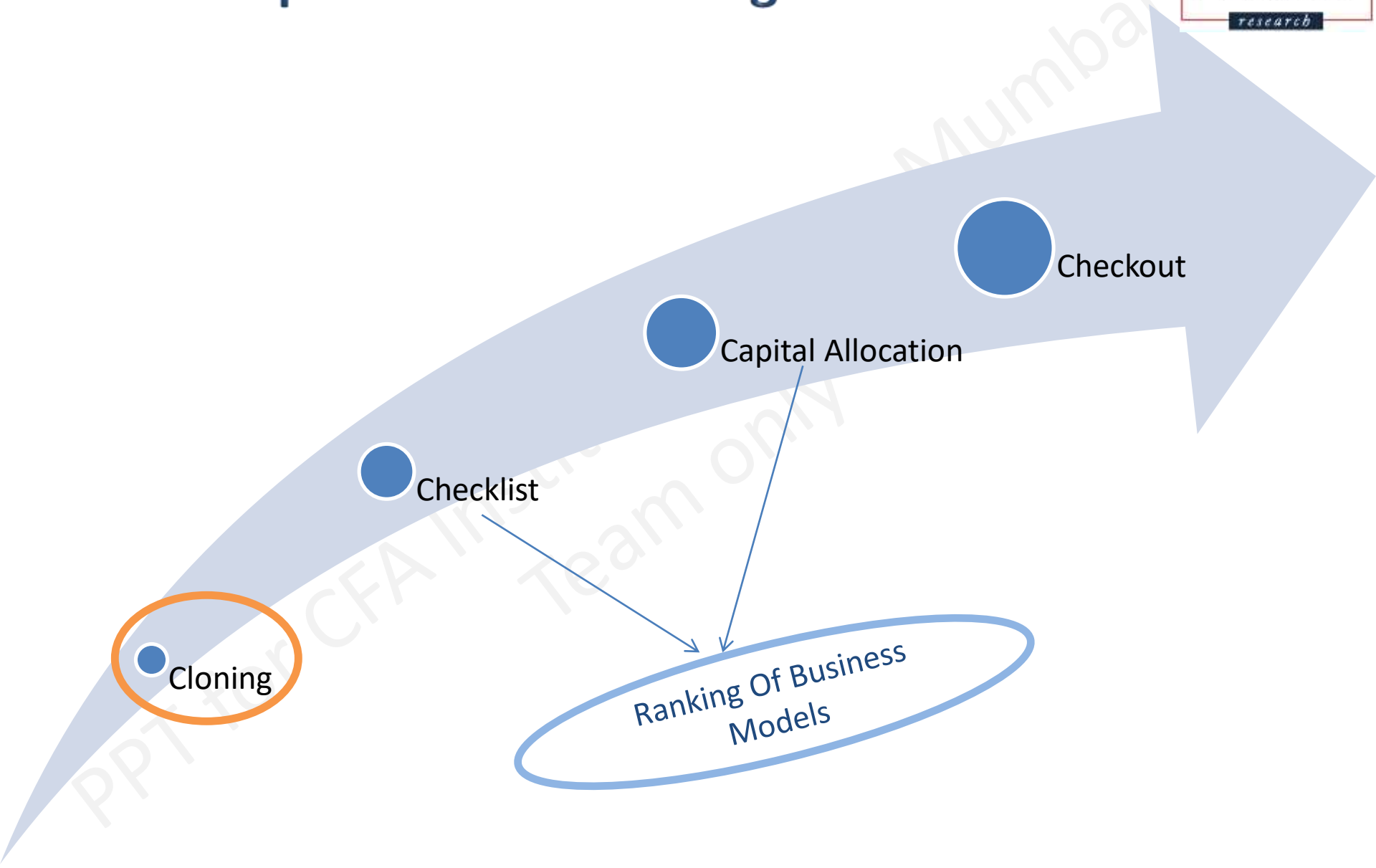
2018

- Ranking of Business Model

## ❖ Why Ranking of Business Models?

- Over the years, using our various frameworks we were able to eliminate Error of Commission.
- So the next step was to study the past wealth creators and develop a framework which could help capture such opportunities in future.
- Thus was born the **‘Ranking of Business Models Framework’**.

# ❖ Roadmap – 4C's of Investing



Cloning

Checklist

Capital Allocation

Checkout

Ranking Of Business Models



# ❖ Our investing process: 4Cs of investing

## 1. Cloning - Creating a universe of businesses to then further study

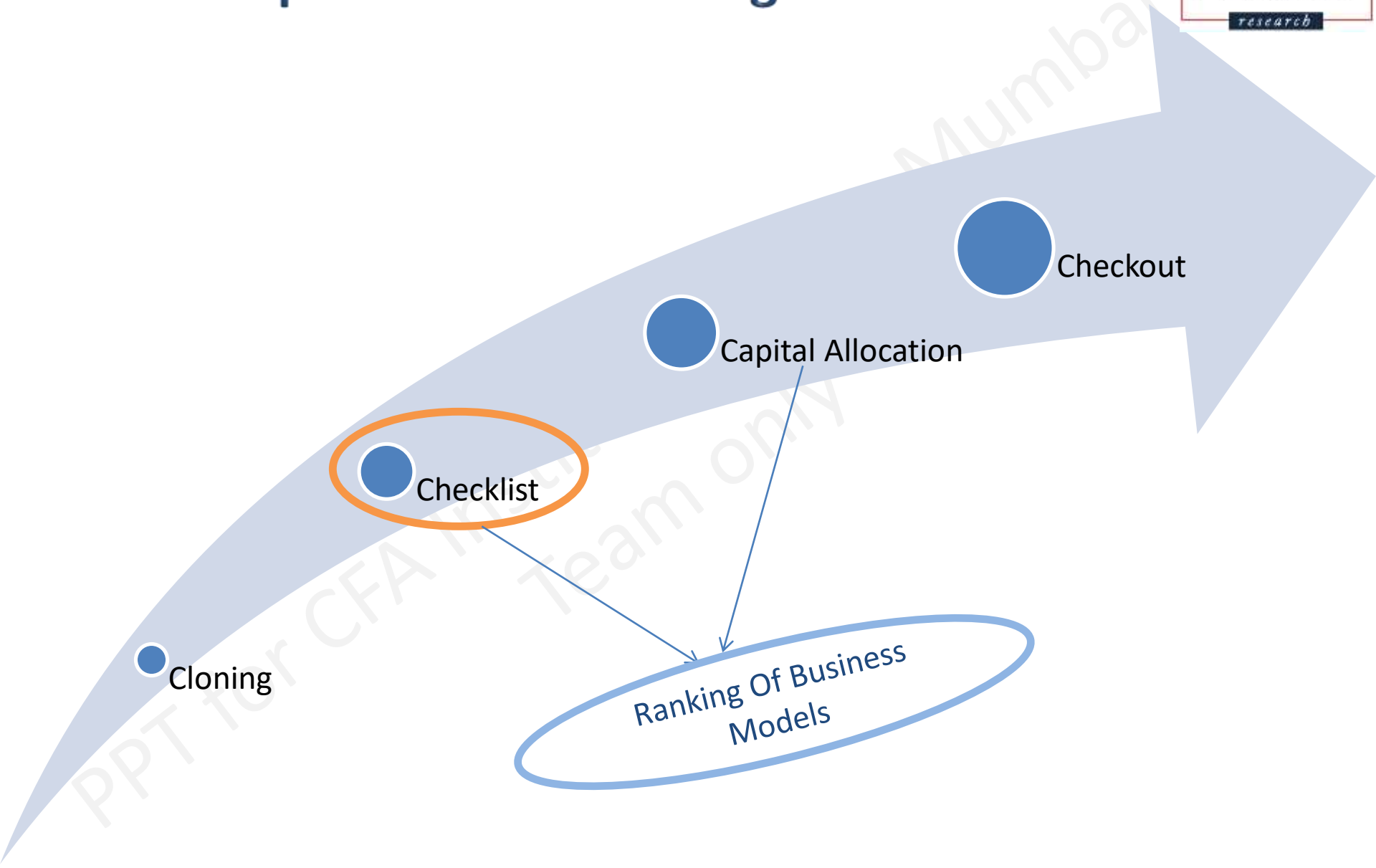
### ➤ Legendary Investors

- Indian - e.g. Prof. Bakshi, Bharat Shah, Nalanda, Westbridge etc..
- Global – e.g. Thomas Russo, Nick Train, Mohnish Pabrai etc..

### ➤ Base Rates Globally e.g. QSR, food delivery, staffing

**Newly Added Framework**

# ❖ Roadmap – 4C's of Investing



Cloning

Checklist

Capital Allocation

Checkout

Ranking Of Business Models

# ❖ Checklist - Ranking of Business Models

**Selection** of a stock is based on,

Essential qualities/characteristics of Business Models in order of preference:

1. Management : Integrity, Intelligence and Energy.
2. Longevity – In a particular Category, the medium through which the demand is catered is completely disrupted by another new medium.
3. No Structural Headwind/Long Term Tailwind
4. Scalability – huge size of an opportunity
5. Favorable Industry Structure –
  1. Limited Players
  2. Regulatory Disruption

Selection is basically an elimination test; all criterias need to be satisfied.

# ❖ Roadmap - Checklist

Management

Longevity

No Structural Headwinds/Long  
term tailwinds

Scalability

Favourable Industry  
Structure

# ❖ Checklist - Management

# INTEGRITY



**Intelligence**

# ENERGY

Management

Integrity

Intelligence

Energy

# ❖ Checklist – Management – Quick Checks

## Promoter Check – Past misdemeanors within same co/Group

### ➤ Frauds

- Check for company and director frauds on **Watch Out Investors** and by doing a Google search with the keyword such as fraud or cheating.

### ➤ Culture

- One can also talk to the various stakeholders in the value chain e.g. past employees and check the employee reviews on Glassdoor.

### ➤ Intent

- e.g. Jubilant Foodworks
  - Group company HMVL holds lot of cash
  - Proposal for unnecessary royalty fees



# ❖ Checklist – Management – Quick Checks

- Absence of red flags mentioned above
- Track record of wealth creation
- Background and journey of promoter
- Alignment of interest
  - Low promoter holding
- High % of pledging – Reduces Staying Power
  - Sterlite Tech
  - Emami
  - Zee Entertainment
  - Bajaj Consumer

There are no permanent friends or permanent enemies, just permanent interests.

— Carol Moseley Braun —

# ❖ Checklist – Management – Deeply Covered

One can review the content given by fellow investors on the below platforms for the corporate Governance issues.

- Role of Management PPT (Perfect Research Blog)
- 2point2capital (By Amit Mantri)
- Vardharajan PPT – IIC(Alpha Series – Ep. 8 (free))
- Safal Niveshak Courses and Blog



*Bakshi*

"We used to cook the books, but now we deep-fry them. Everything's better when it's deep-fried."

Source – Prof. Bakshi Tweet

Management

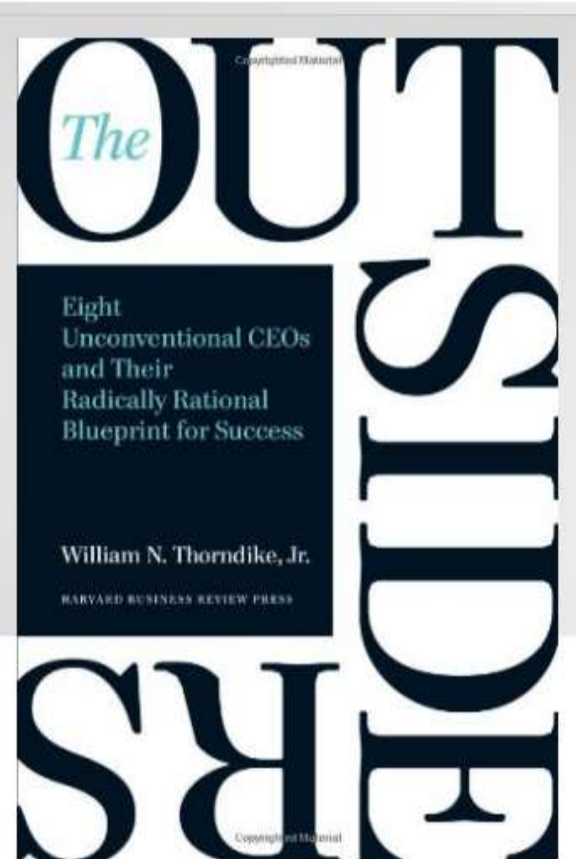
Integrity

Intelligence

Energy



# ❖ Checklist – Management – “Intelligence”



“The best CEOs are “masters of “capital allocation- the process of deciding how to deploy the firm’s resources” ... capital allocation is investment, and as a result all CEOs are both capital allocators and investors. They have the investor’s mind set”

**William Thorndike,**  
*The Outsiders*

# ❖ Checklist – Management – “Intelligence”

Warren Buffett view on management:-

- Managers who stick to doing what the company does best; **‘the best business returns are usually achieved by companies that are doing something quite similar today to what they were doing five or ten years ago.’**



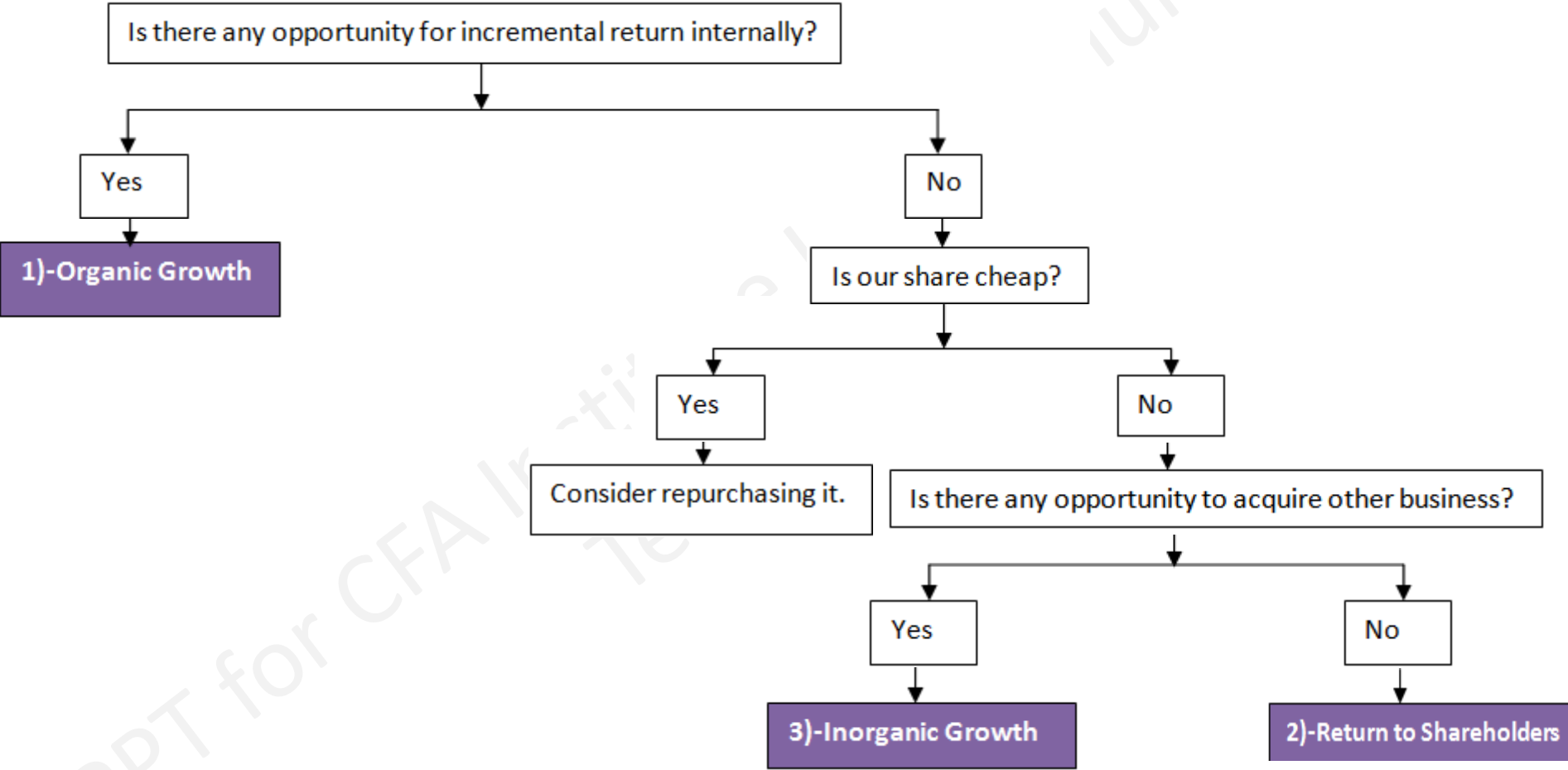
Management

Integrity

Intelligence

Energy

# ❖ How the management should think about Capital Allocation?



# ❖ Checklist – Management - Execution



Source – Intelligent Fanatics PPT – Prof. Bakshi

Management

Integrity

Intelligence

Energy

# ❖ Checklist - Management

## Moat

Execution

	Shallow	Deep
Poor	Valuation Gap e.g. PSU Banks	Opportunity Cost e.g. Accelya
Good	Intense Monitoring required e.g. Ryan Air, Apple, Prataap Snacks	Best Case e.g. Titan

This is the pond we tend to fish in.

# ❖ Roadmap - Checklist

Management



Longevity



No Structural Headwinds/Long  
term tailwinds



Scalability



Favourable Industry  
Structure

# ❖ Checklist – Longevity

Requirement	Medium	Players
Navigation	Physical Maps	Lovell Johns

Requirement	Medium	Players
Navigation	GPS Devices	Garmin, TomTom

Requirement	Medium	Players
Navigation	Digital Maps	Google Maps



# ❖ Checklist – Longevity Risk

Requirement	Medium	Players
Entertainment (Music & Information)	Radio	Entertainment Network India Ltd

Requirement	Medium	Players
Entertainment (Music)	Streaming Apps	Gaana, Saavn, Spotify
Entertainment (Information)	News applications, Podcasts, audio books	TOI App, AajTak App, Inshorts, Spotify & Audible

**Major Shift**





# ❖ Checklist - Longevity



Cloning

Checklist

Capital Allocation

Checkout

# ❖ Checklist - Longevity



- A family requires a house – rented or owned
- However cars can be rented on a trip basis, so the same car can service multiple families

# ❖ Roadmap - Checklist

Management



Longevity



No Structural Headwinds/Long  
term tailwinds



Scalability



Favourable Industry  
Structure

## ❖ Longevity V/s No Structural Headwind/Long term Tailwinds

- Under longevity we can see a high/major shift in the medium of consumption e.g. Maps and Radio
- Under the structural headwind, we can see a partial shift in the medium of consumption, which may not turn into a permanent shift in the future e.g. Movies

# ❖ Structural Headwind

Requirement	Medium	Players
Entertainment (Watching Movie)	Theaters	PVR, Inox



Requirement	Medium	Players
Entertainment (Watching Movie/ TV Shows)	OTT	Netflix, Amazon Prime

**If Jio launches first day first show it could be longevity risk**

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# ❖ Structural Tailwinds



# ❖ Roadmap - Checklist

Management



Longevity



No Structural Headwinds/Long  
term tailwinds



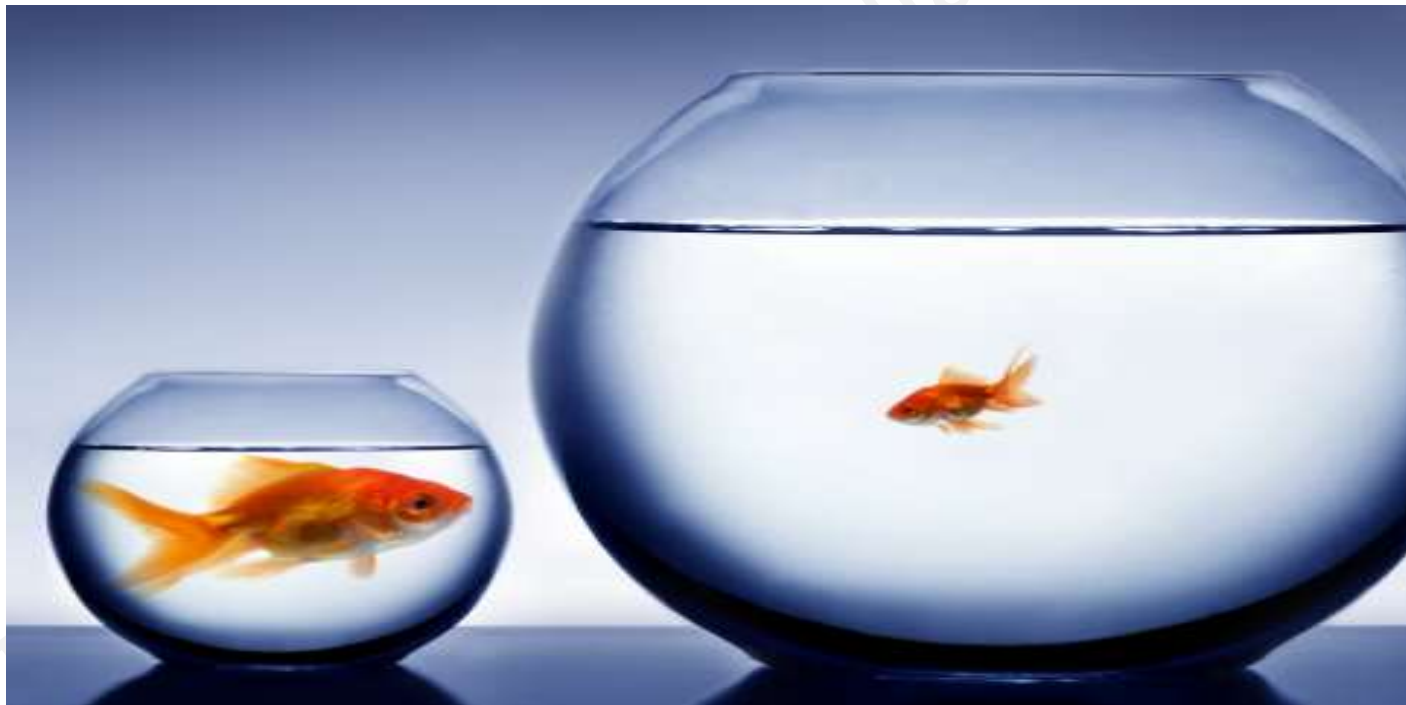
Scalability



Favourable Industry  
Structure

# ❖ Checklist - Scalability

**Size of Opportunity** – Huge Size of Opportunity , Market Cap of a business is not important, size of the fish is important in relation to size of the pond.





# ❖ Checklist – Scalability – High Market Share



Your CONDUIT to Performance.™



High Market Share is a speed breaker to compounding especially when the addressable market is not growing fast.

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Checklist

Capital Allocation

Checkout

# ❖ Checklist - Scalability

## Mental Models (Competitive Advantage)

### ➤ Network Effect

infoedge

**MCX**  
METAL & ENERGY  
Trade with Trust

### ➤ Scaled Economies Shared

**D Mart**

# ❖ Checklist - Scalability

## Mental Models (Competitive Advantage)

➤ Intangible Assets –  
Trusted Brands



➤ Switching cost

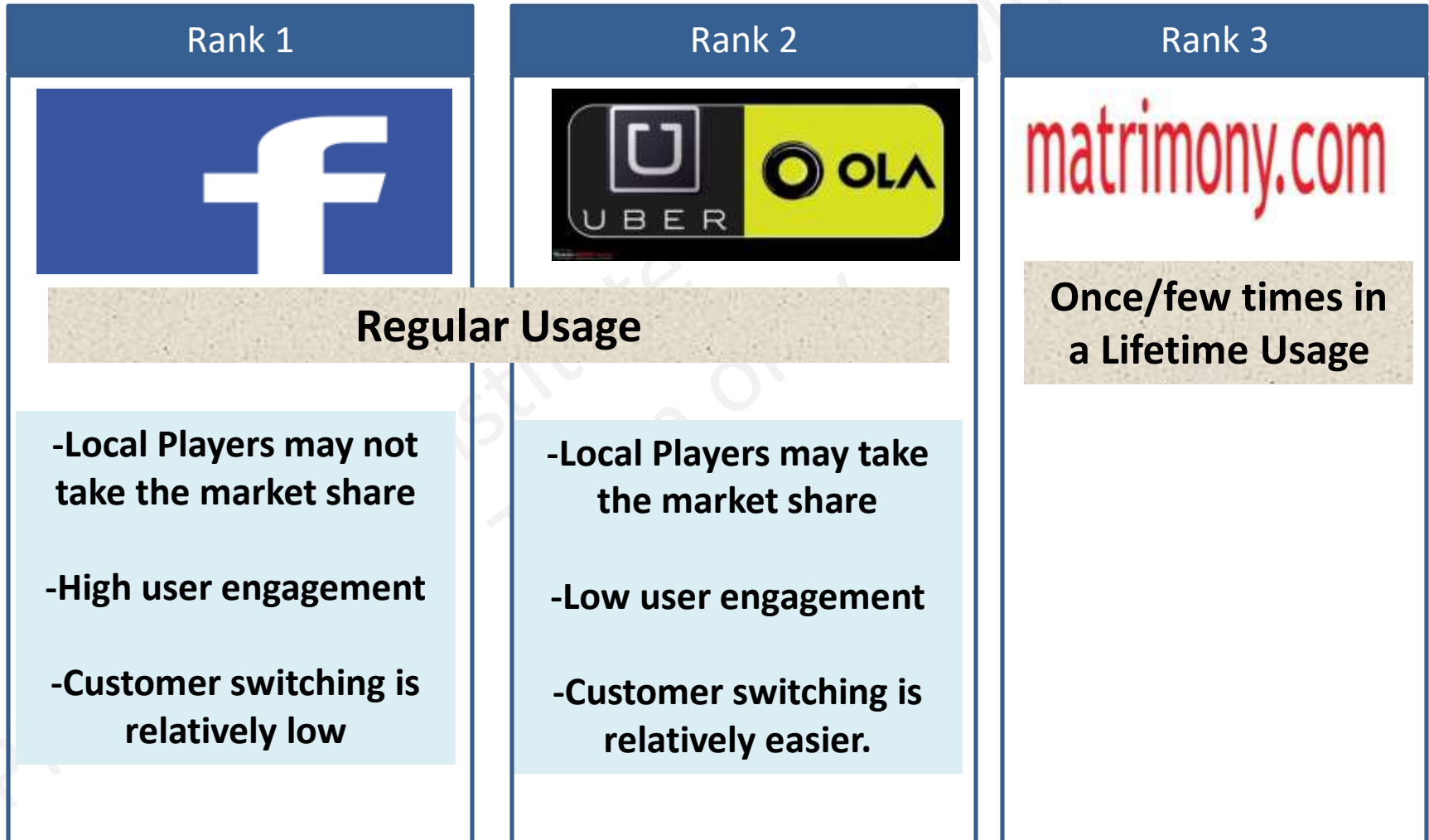


➤ Management Bet



# ❖ Checklist – Scalability – Case Study

## Network Effect



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Checklist

Capital Allocation

Checkout

# ❖ Checklist – Scalability – Case Study

## Scale Economics Shared :- FMCG V/s Diagnostics

Higher Rank



-People search for cheaper commodity products as they are assured of the same quality from a good brand

Lower Rank



Think Thyroid. Think Thyrocare.

-Low cost is a concern of quality for people

**Not all low cost models are equal**

# ❖ Checklist – Scalability – Case Study

## Intangible Assets

### ➤ Brands

### ➤ Lower Search Costs



Vs

**bajaj**  
Corp Ltd.



Vs



Source – Pat Dorsey

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Checklist

Capital Allocation

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# ❖ Checklist – Scalability – Case Study

## Intangible Assets

### ➤ Positional Value



Vs

 WATCH



Source – Pat Dorsey

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Checklist

Capital Allocation

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# ❖ Checklist – Scalability – Case Study

## Intangible Assets

### ➤ Confer Legitimacy

MOODY'S

nielsen  
.....

CRISIL  
An S&P Global Company

Shift from professional ratings to wisdom of crowds

Source – Pat Dorsey

Cloning

Checklist

Capital Allocation

Checkout



# ❖ Checklist – Scalability – Case Study

## Intangible Assets

➤ Professional Opinion – Wisdom of the crowd



Vs



Vs



Vs



Source – Pat Dorsey

Cloning

Checklist

Capital Allocation

Checkout

# ❖ Checklist – Scalability – Case Study

## Switching Cost

**Higher Rank**



**Motherson Sumi  
Systems Limited**

**Why Higher Rank?**

- **Higher Potential to Scale**
- **Higher Potential to cross sell**

**Lower Rank**



**ramco**



**accelya**



**MAJESCO**

# ❖ Checklist – Management - Execution

## Management Bet discussed earlier in Execution



Source – Intelligent Fanatics PPT – Prof. Bakshi

Management

Integrity

Intelligence

Energy

# ❖ Roadmap - Checklist

Management



Longevity



No Structural Headwinds/Long  
term tailwinds

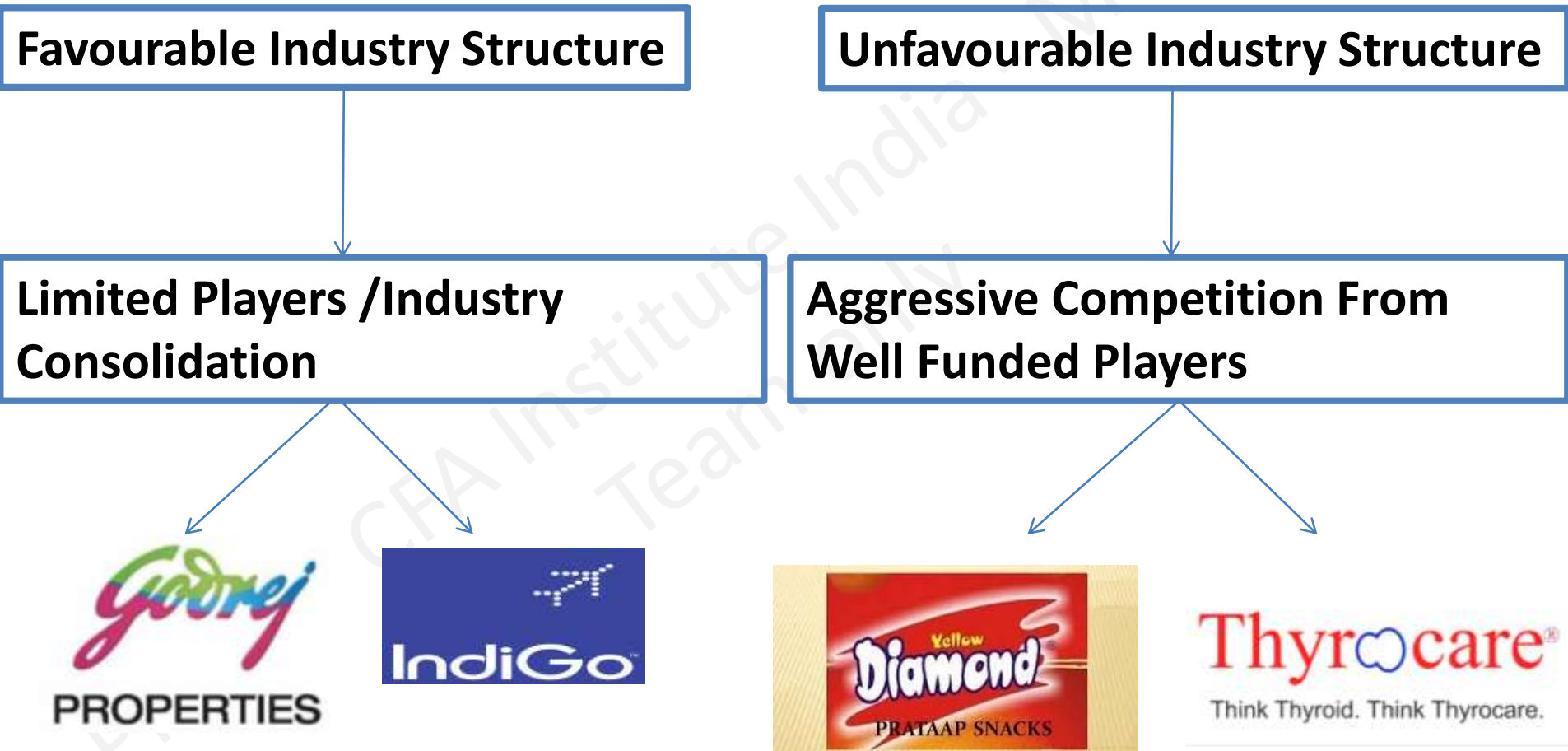


Scalability



Favourable Industry  
Structure

# ❖ Checklist – Industry Structure



# ❖ Checklist – Industry Structure

## Regulatory Action -

**Sin Businesses**



Existence is under threat



**Public Sentiments Businesses**



Margins are under threat

Risk of concentration in Goa



Lower risk due to diversification in many states

# ❖ Checklist – Industry Structure

## Regulatory Action -

### Public Sentiments Businesses

#### Essentials

Margins could come under threat

Ayushman Bharat Is The Most Powerful Disruption Happened In Healthcare Space: A. Velumani, Chairman, Thyrocare

**Coronary Stent Price Control in India: Two Years and Counting**

Govt's would endeavour to make things Cheaper

#### Vote Bank

Sometime even continuity of a business could come under threat

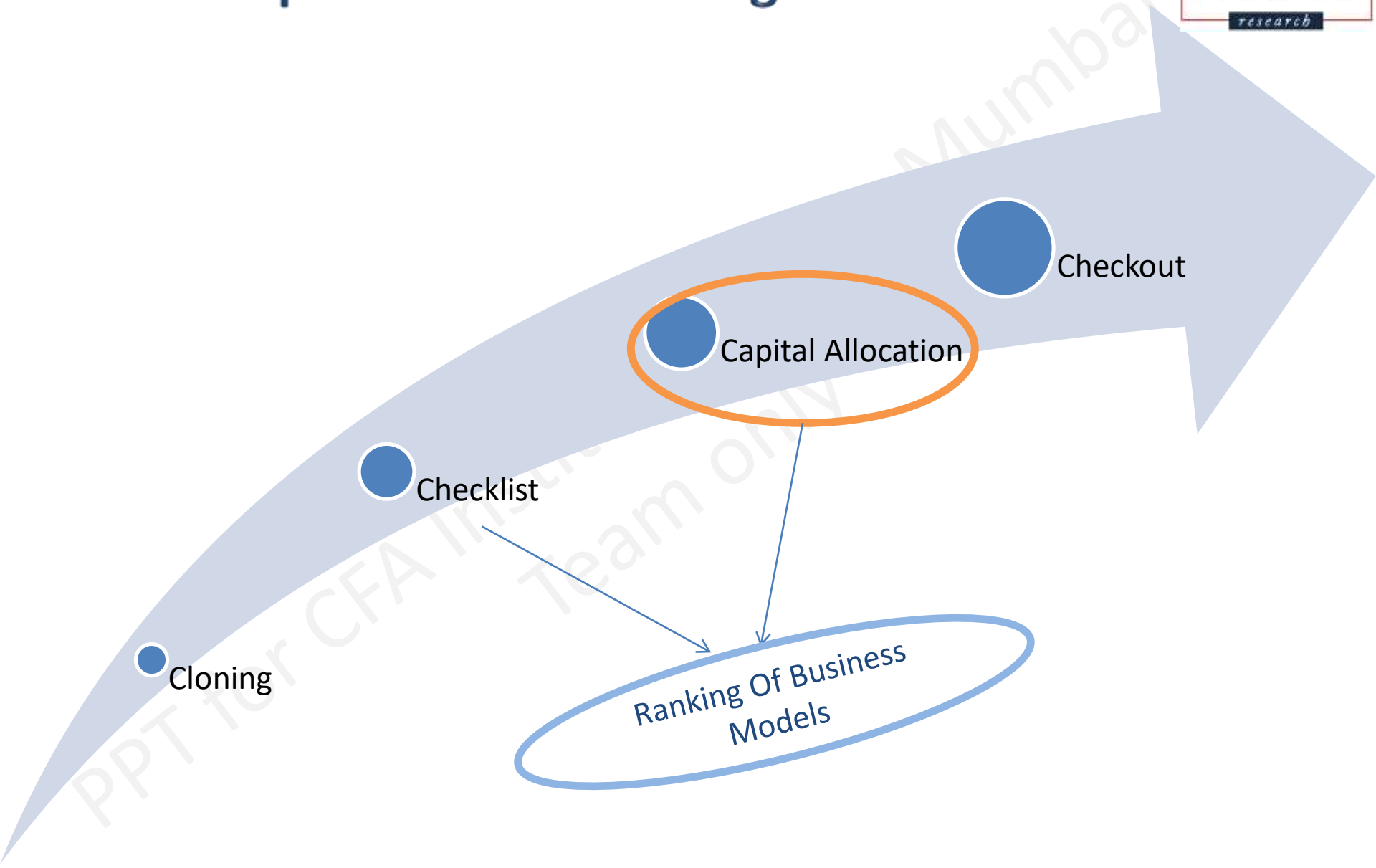
**Farm loan waivers to hit MFIs harder than 'rural' NBFCs**

**Goa Assembly election: BJP cornered over casinos**

*Over the past decade, the demand for shutting the casinos of Goa has become an issue for the Assembly elections.*

Govt focus is to appease the vote bank, may sometimes disrupt entire business  
E.g. SKS Microfinance

# ❖ Roadmap – 4C's of Investing



Cloning

Checklist

Capital Allocation

Checkout

Ranking Of Business Models



# ❖ Capital Allocation

## Bet Sizing - General Principles

➤ Select on the basis of upside, size them on the potential downside.

### Essentials

- Management
- Longevity
- No structural headwinds/  
Long-term Tailwinds
- Scalability
- Industry Structure

### Desirables

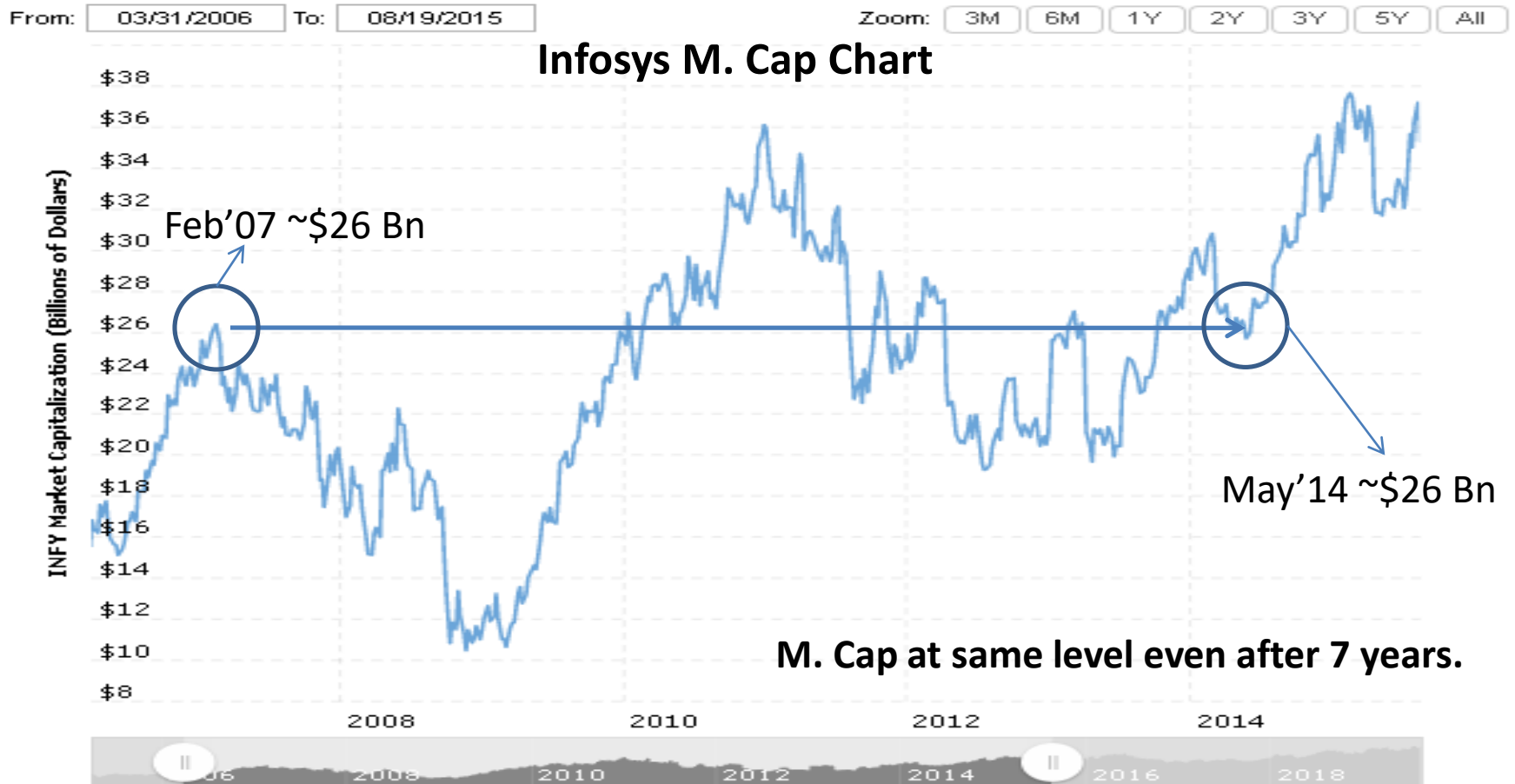
- Valuation
- Annuity
- Switching Cost
- Optionality
- Side Car Investing
- Ability to capture  
Dominant Market share

**Position sizing is the primary driver of portfolio returns.**

# ❖ Desirables for Allocation

Desirable Competitive advantages we look at in a business:

- 1. Reasonable Valuations** – Using Reverse DCF, find the growth rate implied in the current market price and estimate the businesses potential whether it can grow with that rate or not over a 10/20 year period.



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# ❖ Desirables for Allocation

## 2. Annuity Revenues

### Rank 1

Annuity (Frequency of consumption/ cross sell)



**Nestlé**

### Rank 2

Non - Annuity with Lower Market Share



### Rank 3

Non - Annuity With Higher Market Share



# ❖ Desirables for Allocation

## 3. High Switching Cost/Pricing Power

Higher Rank

High Switching Cost



Lower Rank

Low Switching Cost



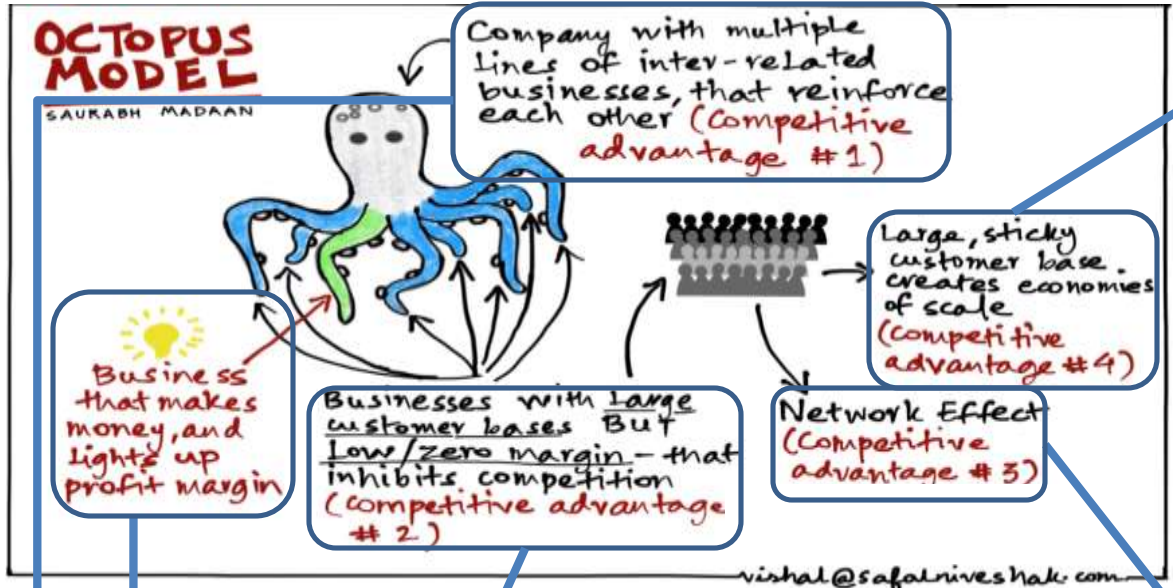
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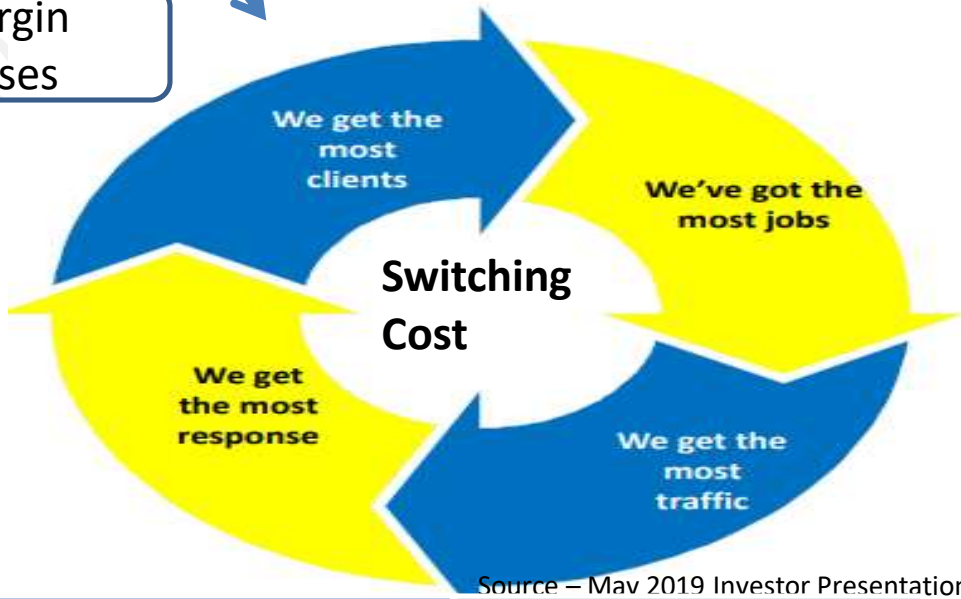
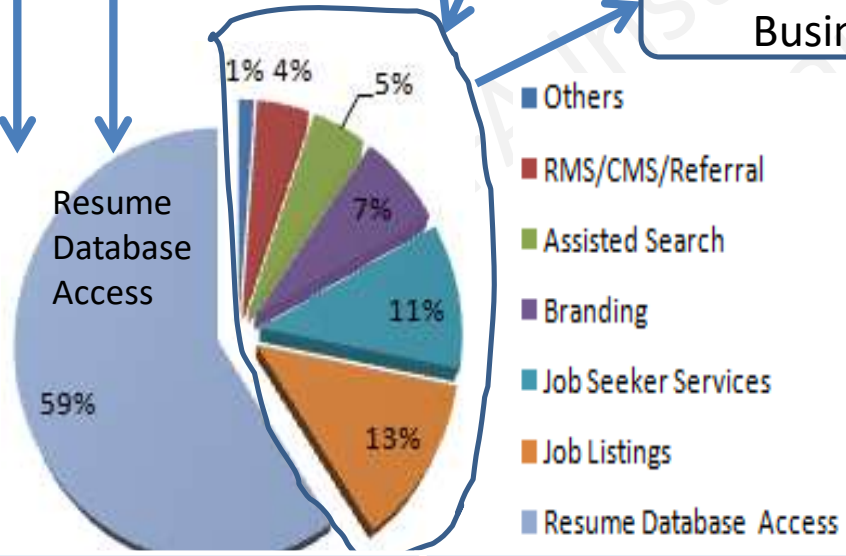
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# ❖ Applying the Octopus Model in Naukri.com



- It has over 100% of industry profits enabling greater investment in
  - Product Innovation
  - Sales Network
  - Engineering
  - Servicing Back Office
  - Brand Support
  - Superior Talent

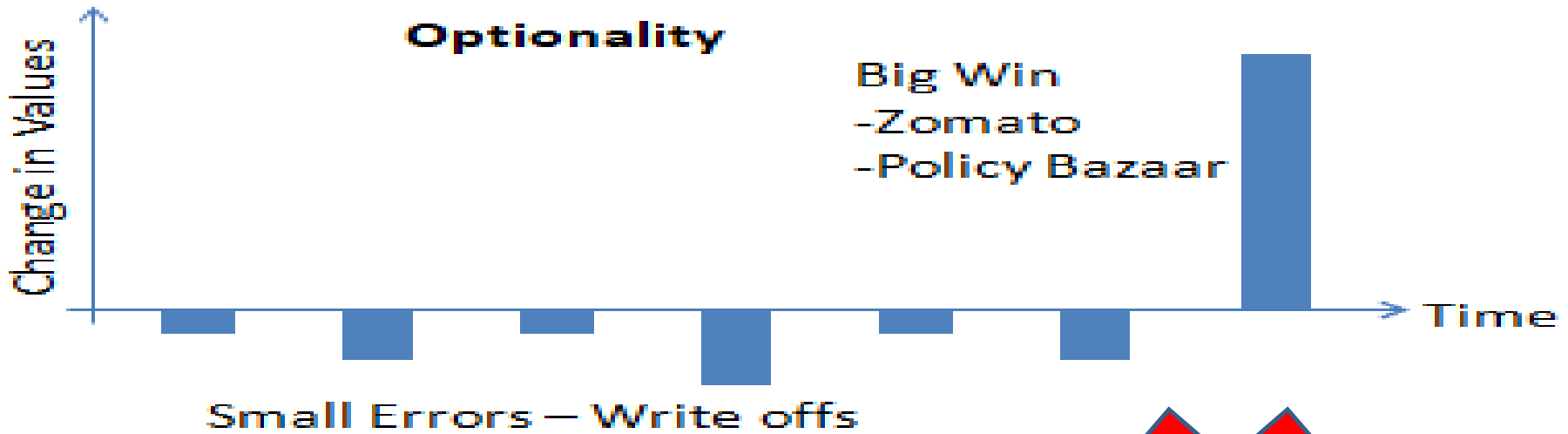
Less Margin Businesses



Source – Mar 2019 Investor Presentation

# ❖ Desirables for Allocation

## 4. Optionalities – Free/Cheap lottery ticket



# ❖ Continued

Optionalities – Free/Cheap lottery ticket



Grooming Products



Global Attestation Platform



Education Site for School Students



Enrollment management platform



Tour Operator Website Builder and Booking Engine



compare kiya kya?



Medical Records Storage Platform



Sales Force Management Solutions for Enterprises



Career Counselling & College Guidance Platform for K-12 Schools



Facilitating B2B Sales Process for fashion/apparel industry



Empowering Retailers

B2B Platform for Retailers



Bulk Shoe Delivery Platform

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# ❖ Desirables for Allocation

## 5. Side Car Investing



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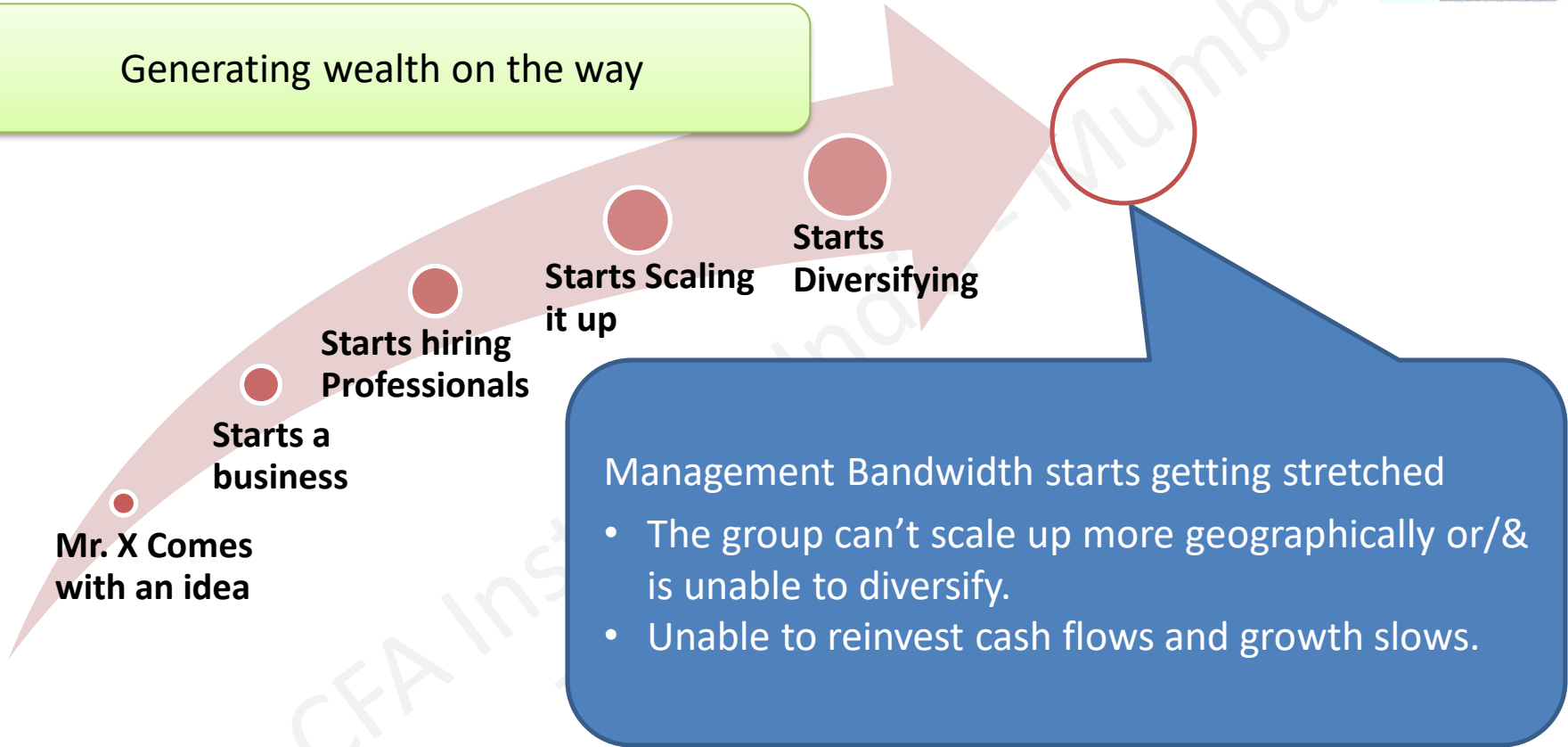
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# ❖ Let's take a Life Cycle of a Typical Business

Generating wealth on the way



They might go for inorganic growth but, mostly Inorganic Growth is unsuccessful but exceptions include...

## ***Berkshire Hathaway***

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# ❖ Ranking of Businesses (Side Car)

**Rank 1**



**-Making Strategic Investments, the bandwidth is free**

**Rank 2**

**Same Team**

**Retains the same team, bandwidth gets moderately stretched.**

**Rank 3**

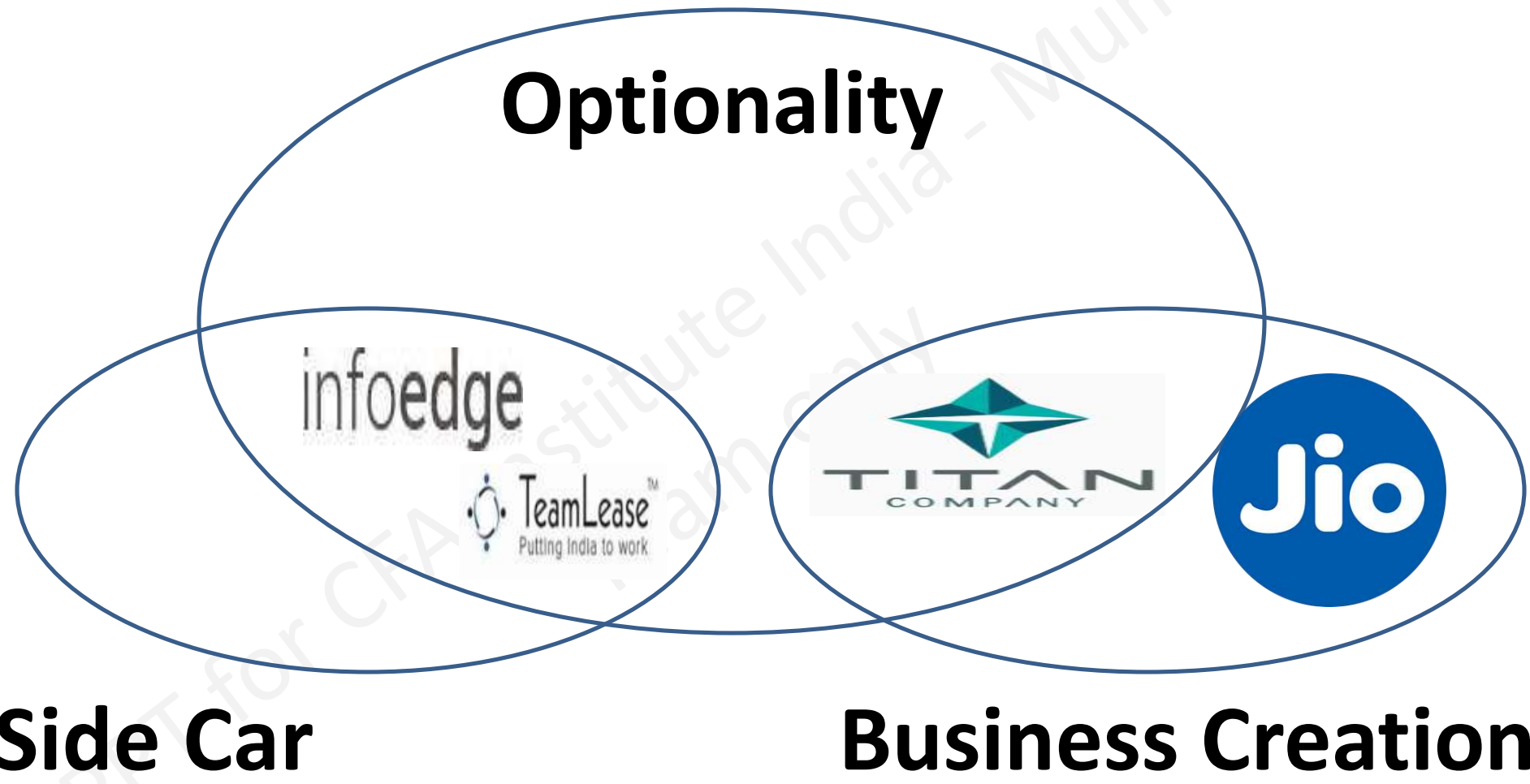




**New Team**

**Own team replaces acquired management, bandwidth gets fully stretched.**

# ❖ Optionality Vs Side Car



**Side Car**

**Business Creation**

# ❖ Desirables for Allocation

## 6. Ability to capture dominant market share



v

Allocation is a grading test, you may not satisfy all criteria, but the more grades you get, the higher the allocation.

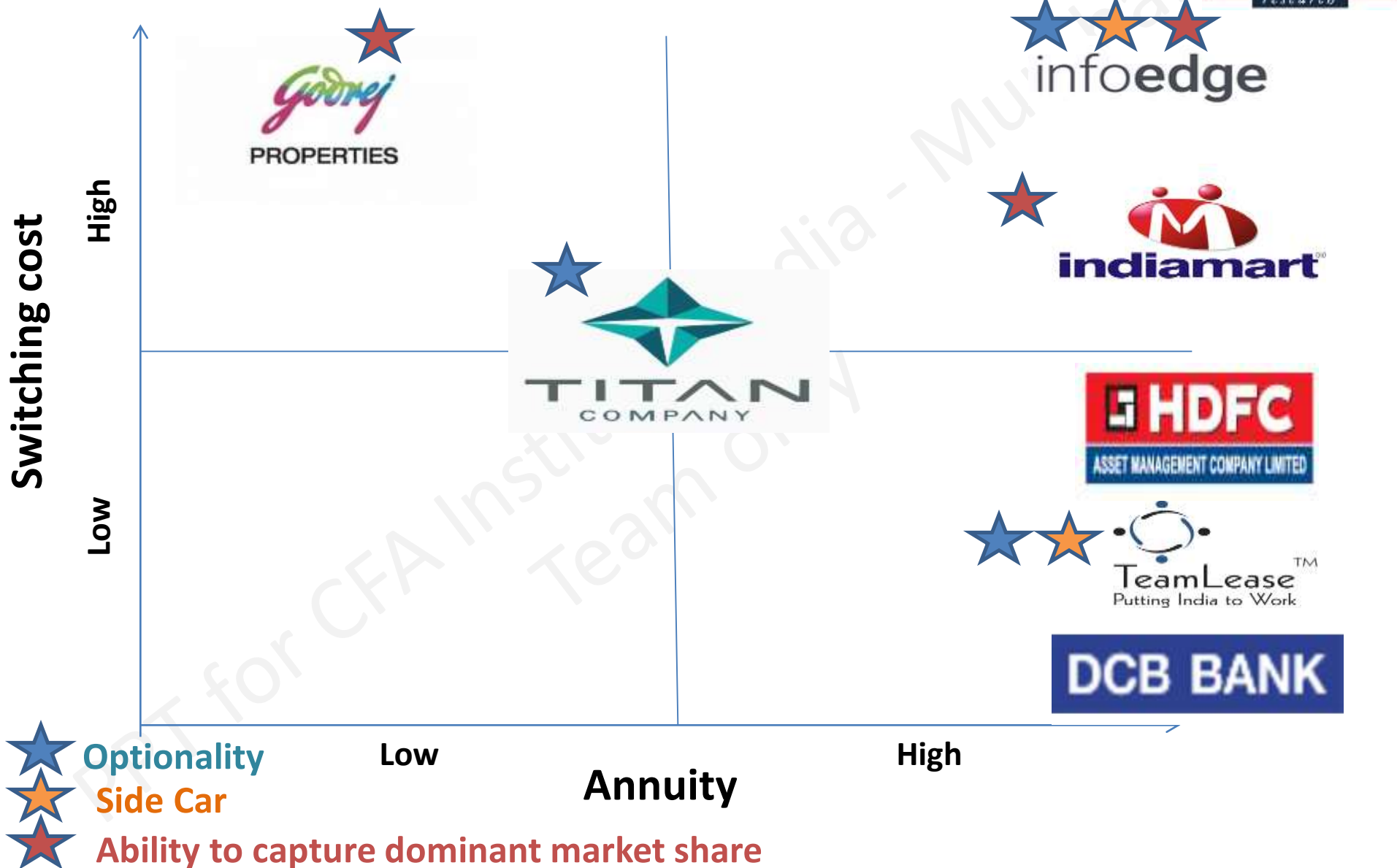
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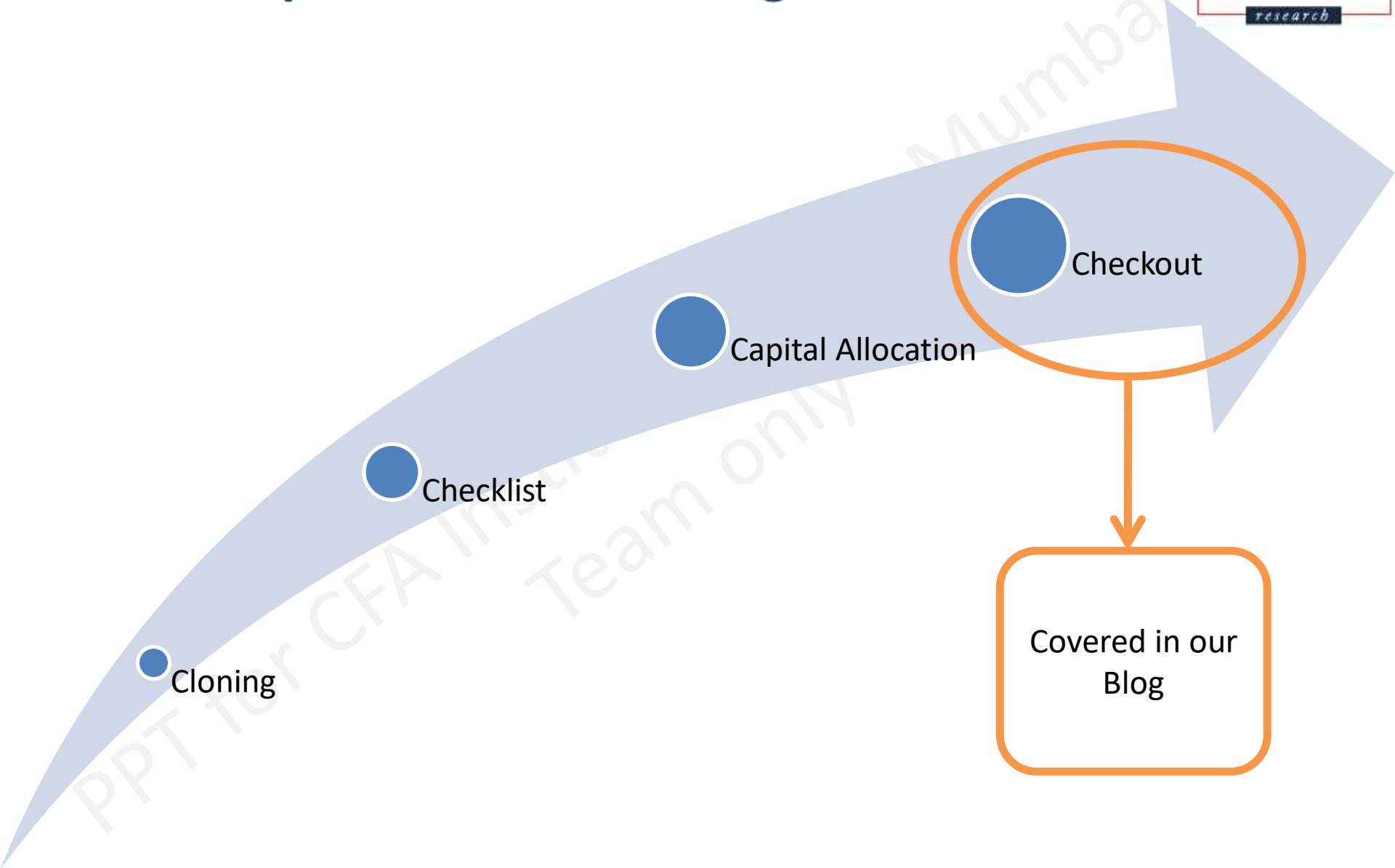
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# ❖ Ranking of Businesses on desirables



- ★ Optionality
- ★ Side Car
- ★ Ability to capture dominant market share

# ❖ Roadmap – 4C's of Investing



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Covered in our  
Blog

PPT for CFA Institute Team only

Mumbai



**Thank You For Listening**

**Please feel free to ask/give any questions, concerns, comments or suggestions.**



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