Twitter Thread by Money Theory

Money Theory
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Some interesting snippets from @MotilalOswalLtd 25th Wealth Creation Study:

(A Short thread)

1. Consumer/Retail is the biggest wealth-creating sector over 25 years.

Consumer/Retail is the Biggest Wealth Creating sector over 25 years

- At INR 12 trillion, Consumer/Retail is the biggest Wealth Creating sector during 1995 to 2020.
- 63 of the 100 Wealth Creators are from consumer-facing businesses, accounting for 68% of total Wealth Created.

Sector mix of Top 100 Wealth Creators (1995-2000)

Sector/	Net Wealth Created		Mkt Cap (INR bn)		1995-2020 CAGR		RoE		P/E	
{No. of companies)	INR bn	Mix	2020	1995	Mkt Cap	PAT	2020	1995	2020	1995
Consumer & Retail (14)	12,224	28%	12,571	220	18%	17%	29%	22%	40	36
Oil & Gas (2)	6,928	16%	7,738	164	17%	15%	10%	15%	16	13
NBFC (8)	4,002	9%	4,607	36	21%	21%	16%	16%	15	13
Pharma & Healthcare (15)	3,515	8%	3,758	79	17%	16%	8%	21%	32	30
IT (3)	2,839	7%	2,870	5	29%	33%	24%	14%	16	34
Banks - Private Sector (1)	2,293	5%	2,480	9	25%	22%	13%	26%	29	14
Paints (3)	2,272	5%	2,290	15	22%	18%	23%	25%	59	23
Autos (14)	2,235	5%	2,389	74	15%	16%	10%	15%	20	27
Cap Goods, Engg, Constn (8)	1,697	4%	1,881	98	13%	15%	14%	14%	16	25
Banks - Public Sector (1)	901	2%	1,758	83	13%	13%	6%	15%	11	12
Consumer Durables (6)	882	2%	911	24	16%	17%	17%	12%	25	31
Building Materials (4)	869	2%	915	20	16%	13%	12%	24%	35	18
Metals - Non-Ferrous (1)	642	1%	656	9	19%	19%	17%	10%	10	11
Chemicals (4)	343	1%	372	13	14%	14%	14%	14%	21	17
Textiles (2)	179	0%	183	4	17%	15%	20%	11%	16	12
Others (14)	1,292	3%	1,349	34	16%	16%	11%	14%	23	26
TOTAL (100)	**43,115**	**100%**	**46,729**	**887**	**17%**	**17%**	**12%**	**16%**	**22**	**20**

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2. Almost 60 of the top 100 market cap companies in 1995 did not make it to the Wealth Creators list.

Top companies in 1995 which did not make it to the Wealth Creators list

- Almost 60 of the top 100 market cap companies in 1995 did not make it to the Wealth Creators list, as their return CAGR was lower than that of the Sensex (9.2%).
- Below are the top 25 among them.

Top 25 companies in 1995 whose 25-year return CAGR was lower than that of the Sensex (9.2%)

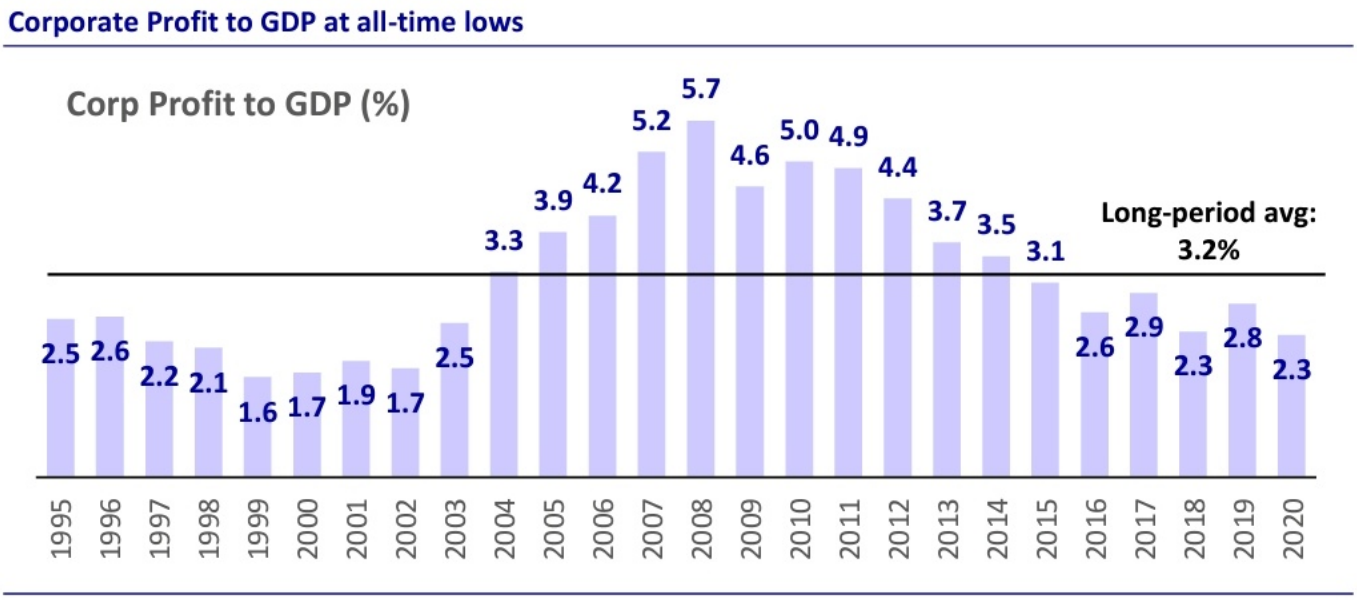
Company	Market Cap Rank in 1995	1995-2020 CAGR Price	1995-2020 CAGR PAT
SAIL	1	-2%	3%
MTNL	3	-13%	0%
Tata Steel	6	3%	P to L
HPCL	8	6%	9%
Tata Motors	10	1%	P to L
Tata Comm	11	0%	P to L
Colgate-Palmolive	13	8%	11%
Hindalco Inds.	16	3%	11%
Grasim Inds	17	7%	12%
Tata Chemicals	18	3%	6%
Castrol India	19	4%	10%
ACC	20	6%	10%
BHEL	21	4%	P to L
JCT	23	-16%	P to L
Century Textiles	24	4%	4%
Indian Hotels	26	2%	5%
MRPL	28	-3%	0%
Ashok Leyland	32	7%	7%
Reliance Infra	33	-10%	8%
Tata Consumer	36	9%	10%
Ambuja Cements	37	9%	14%
Standard Battery	38	-13%	-5%
Reliance Capital	39	-12%	P to L
GE Shipping	41	6%	-2%
Tata Power	42	-5%	-5%

Note: P to L stands for Profit to Loss

3.Corporate profit to GDP at all-time lows + Market cap to GDP close to an all-time high.

Corporate Profit to GDP at all-time lows

We seem to have hit the bottom in corporate profits. Corporate Profit to GDP has stagnated for the last 5 years. This is similar to 1999 to 2003, after which corporate profits took off for the next 5 years.



4. Permanent change in the long term interest rate band is leading to a change in valuation expectations.

Interest rates are softening

Permanent change in long-term interest rate band (from 12-14% to 6-8%) is leading to change in valuation expectations. Current valuations are supported by expected PAT revival after 5 years of stagnation and high liquidity led by low interest rates.

Interest rates are softening



Falling interest rate is driving up valuations to well above long-period average



5. Twenty-five stocks for the next twenty-five years. Read the Disclaimer.

The 25 for 25 stocks

1	Ajanta Pharma	10	Dr Lal Pathlabs	19	Mphasis
2	Alembic Pharma	11	HDFC AMC	20	Muthoot Finance
3	Astral Poly Tech	12	HDFC Bank	21	P&G Health
4	AU Small Finance	13	HDFC Life Insurance	22	Page Industries
5	Bajaj Finance	14	Honeywell Auto	23	Syngene International
6	Bata India	15	ICICI Lombard	24	Varun Beverages
7	Bayer Crop Science	16	ICICI Securities	25	Whirlpool India
8	Coromandel International	17	Indiamart Intermesh		
9	Dixon Technologies	18	Max Financial		

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6. The Q (Quality), G (Growth), L (Longevity), P (Price) checklist.

The QGLP Checklist

BUSINESS CHECKLIST

Q#1 What is the history of the company and management?

Q#2 Is the company's business model understandable? How does it make money?

Q#3 Is the company profitable? If not, is it expected to emerge?

Q#4 Are the company's terms of trade favorable? Is Cash flow healthy?

Q#5 What is the company's cost and margin structure? How has it changed in the past?

Q#6 How's the Du Pont Analysis for the company?

Q#7 What is the competitive landscape? What is the role of regulation in the business?

Q#8 Does the company enjoy an Economic Moat? What are its sources?

GROWTH CHECKLIST

Q#9 What is the addressable market opportunity and its key drivers?

Q#10 What is the company's growth plan? How sustainable is the growth?

MANAGEMENT CHECKLIST

Q#11 Is the management high on Integrity & transparency?

Q#12 Is the management competent?

Q#13 Does the management have passion / growth mindset?

Q#14 Does the company have a rational capital allocation policy?

Q#15 Does the company have a suitable organization structure and depth of management?

Q#16 What is the organization culture?

Q#17 Does the company have a sound succession plan?

Q#18 Do the owners have enough skin in the game?

Q#19 Have the promoters pledged a large portion of their holding?

PRICE CHECKLIST

Q#20 Has the financial modeling been done with earnings estimates for at least 3 years?

Q#21 Is it a QGL stock?

Q#22 Is valuation reasonable?

Q#23 Is there enough Margin of Safety?

Q#24 Is the stock reasonably liquid?

RISK CHECKLIST

Q#25 What can go wrong with the company narrative & numbers?

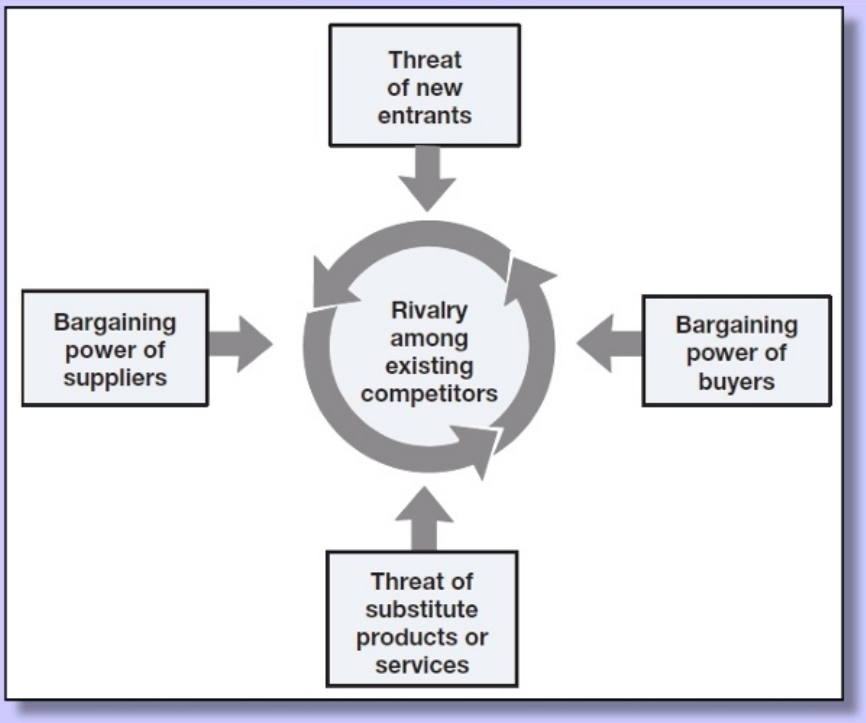
7.Sector structure score based on Porter's Five forces.

Framework #11

Porter's Five Forces

The Five Forces framework of Michael Porter is ideal to assess the attractiveness of industry structure. The exhibit below presents the diagrammatic representation of the Five Forces.

Porter's Five Forces framework



8. Current midcap stocks that demonstrate market leadership.

Current Mid stocks which demonstrate market leadership			
3M India	Container Corpn.	Indiamart Intermesh	REC
ABB	Coromandel Intl	Indian Hotels	Relaxo Footwear
ACC	CRISIL	Kajaria Ceramics	Schaeffler India
AIA Engineering	Dixon Technologies	Kansai Nerolac	Sun TV Network
Amara Raja Batt.	Dr Lal Pathlabs	LIC Housing Finance	Supreme Inds
Apollo Hospitals	Emami	Mahanagar Gas	Tata Chemicals
Apollo Tyres	Endurance Tech.	Manappuram Finance	TVS Motor
Astral Poly Tech	General Insurance	MRF	United Breweries
BHEL	Gillette India	New India Assurance	Varun Beverages
Bank of India	Glaxo Pharma	NHPC	Voltas
Bata India	Godrej Properties	Oracle Financial	WABCO India
Bayer Crop Science	Gujarat Gas	Page Industries	Whirlpool India
Bharat Electronics	Honeywell Auto	Polycab India	Zee Entertainment
Bharat Forge	IRCTC	Power Finance	
Castrol India	ICICI Securities	Rajesh Exports	

Other key takeaways:

1. Forget markets, Think stocks.

2. Too much money chasing too few stocks.

3. Speed thrills, but at times kills, drive with caution.

4. Quality biz + Steady earnings growth + Reasonable valuation = Consistent Wealth Creation.

5. Earnings growth = Price returns.

6. Financials can't remain behind for long.

7. Privatisation is the solution.

8. Mid to mega is a potent investment strategy.

9. PEG < 1x is a solid formula for superior returns.

10. PE < 10x almost invariably outperforms.

Finally, Economic stimulus and the COVID vaccine should turn the tide.

Thank you for reading.

The End.