



IIFL CAPITAL



# Investing in a Changing world

**The World is Changing...**

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The world around us is changing. These changes are witnessed across various spectrums such as:

- Change in technology & AI adoption
- Realignment of supply chain and reducing dependency upon uncertain trade partners
- Increased focus on data security
- Modernising military capabilities & increasing focus on self-reliance
- Change in consumption pattern among the young consumers

Impact of these changes are reflected in the capital markets across globe. Beneficiary of AI adoption & tech evolution such as Bloom Energy (US) & SK Hynix (Korea) have compounded at over 100% in the last 3 years.

**Among all these changes, India is changing too. This is reflected across different areas such as:**

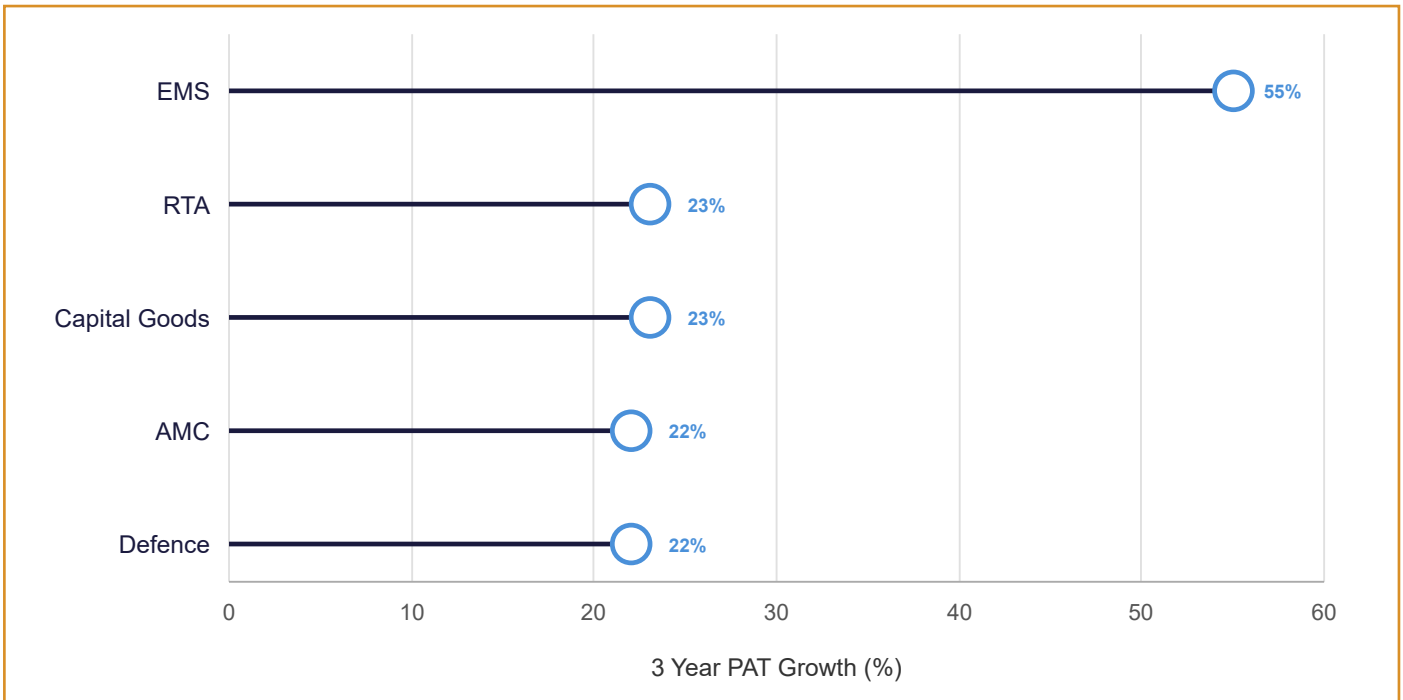
- Changing consumption pattern – Shift is happening from offline retail to online retail. This is resulting in shifting bargaining power from brand owners/manufacturers to large scale online retailers
- Energy transition – Moving from fossil fuel to renewable energy
- Shift towards EV adoption – Consumers are moving towards electric vehicles over ICE vehicles
- Defence modernization and self-reliance – Increasing budgetary allocations along with push for higher localization norms
- Introduction of PLI scheme to promote local manufacturing

**The following table highlights the changing business landscape across various strata;**

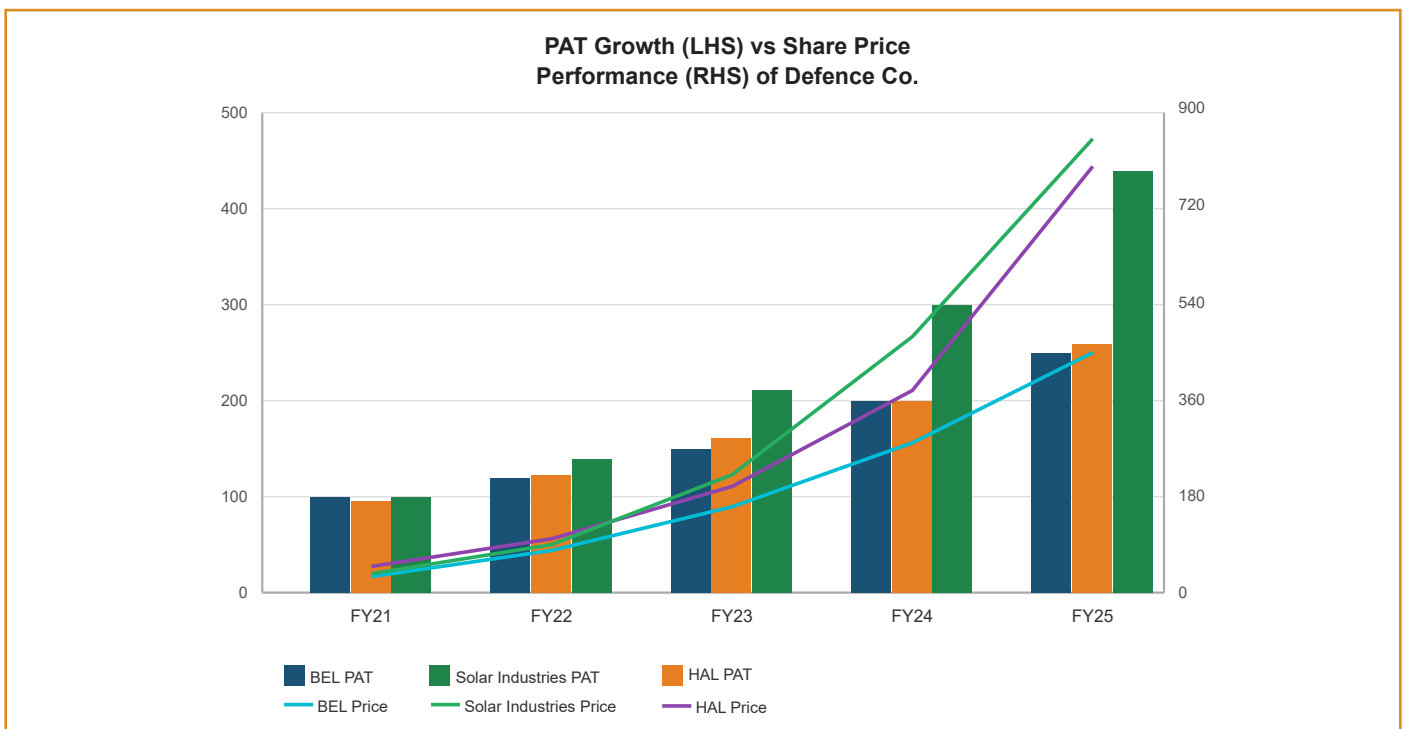
Category	Prevailing moat	Disruption	Beneficiary
FMCG	Distribution depth + brand recall	Quick commerce flattens distribution; category-focused D2C captures market share	QC platforms; D2C brands
QSR	Brand loyalty + prime locations	Aggregator-led choice expansion; regional cloud kitchens	Food-delivery platforms; new-age brands; cloud kitchens
E-commerce for Bharat	Affluent-focused legacy players ignored the mass market	Unbranded, low-AOV, zero-commission model for Tier 2/3	Meesho
Home services	Informal, unorganised supply	Trust, Service level agreements and quality aggregation at scale	Urban Company
Mobility	ICE OEM scale + dealer network	EV transition supported by policy tailwinds	EV OEMs
Media & cinema	Theatrical window; physical music distribution	OTT and audio streaming shifting consumption	Streaming platforms; music labels (Tips, Saregama)
Logistics	Asset ownership in fragmented market	Tech first + Supply aggregation at PAN India level	Delhivery

## Changes in profit pool

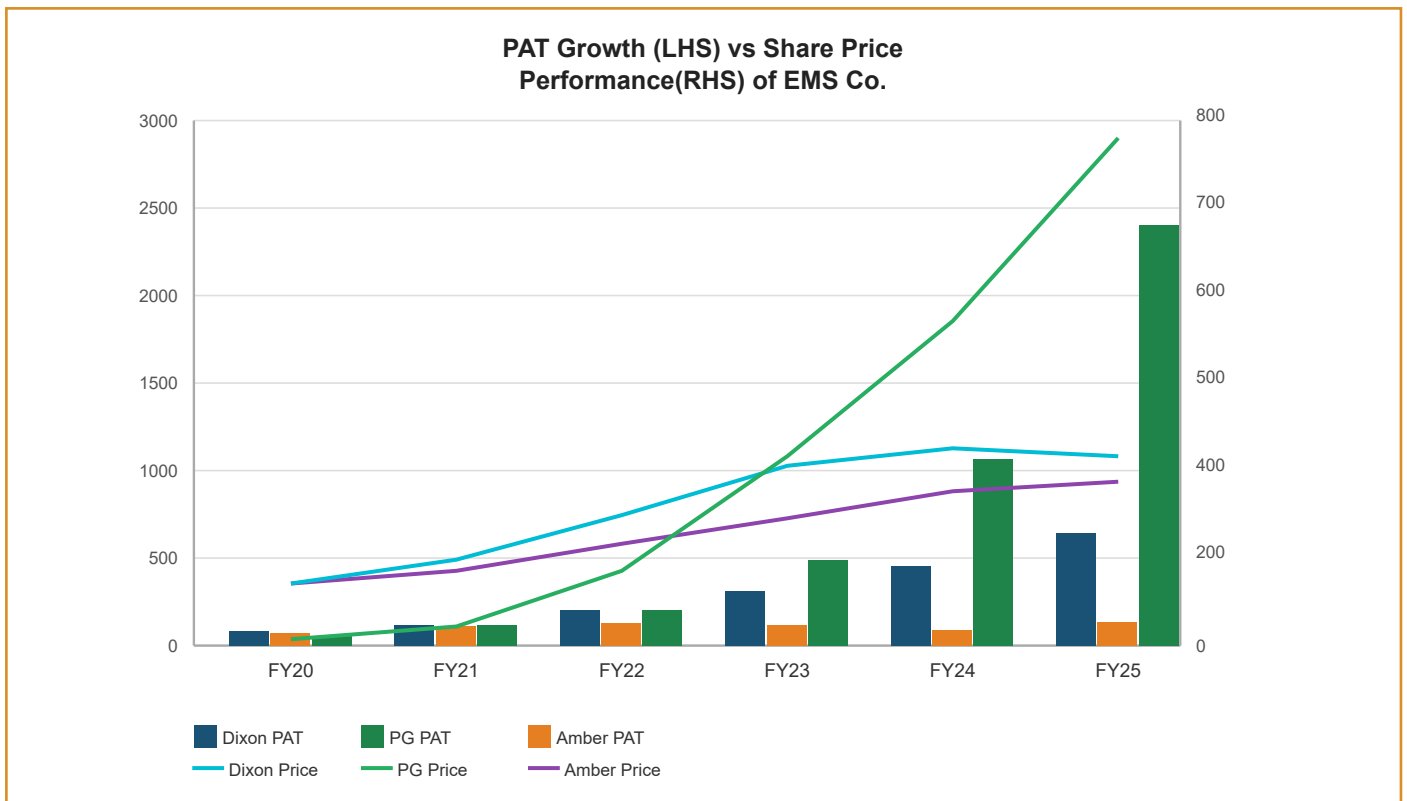
As the changes are happening, they are getting reflected in the profit pools of the company. For eg. profit pool of traditional media companies such as multiplex & print media is shrinking & is moving towards new age digital media companies. New profit pools such as Food Delivery, Quick Commerce, Home services & EMS (Electronics Manufacturing Services) have emerged (chart below) whereas profit growth of traditional IT & FMCG companies has slowed down to mid-single digit in the last 5 years.



Source: IIFL Capital Asset Management Ltd



PAT rebased to 100. Source: IIFL Capital Asset Management Ltd.



*PAT rebased to 100. Source: IIFL Capital Asset Management Ltd.*

As new profit pool emerges, investors will keep shifting towards these, leading to shift in valuation multiples as well – contraction of multiples in shrinking profit pools & expansion of multiples in growing profit pools. For instance, defence companies which used to trade at a median multiple of 15x PE when profit growth was moderate, are now trading at 35-40x PE. Similarly in the consumer sector, companies which are leveraging tech in their business are commanding far higher multiple (over 60x PE) vs others (35x PE) due to this shift resulting in higher profit growth.

At IIFL Capital Asset Management, our investment style is positioned towards identifying these shifts and investing into them. Some of the sectors where we are invested are food delivery, electronics, consumer tech platforms, defence, hospitals, and capital markets.