

We need fresh blood! Indian start-ups must list in India: Shankar Sharma

Synopsis

'Data talks to you in ways as no human beings can. express to each other. That is a seminal change in my way of investing. I feel cheated that we did not have these tools available to us in the 90s.'



*India needs to have more tech listing. The moment you have that, I will guarantee you there will be 20-25 companies with \$10, \$15, \$20, \$30 billion market caps, if not more than that, says **Shankar Sharma**, Vice Chairman & Joint MD, **First Global**.*

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Which company has surprised you with its ability to change? Which company has disappointed you? A company which no one thought will go belly up but which has done so?

The first answer is straightforward and the second is a little complicated. The first one is obviously Reliance, it has really remade itself which is really remarkable to say the least. Anybody who could have foreseen this has to be a genius because

when the KG Basin thing was on, that was the hot story of 2007-08-09-10. At that point did you know that **Reliance** NSE -2.37% would become more of a **tech play** than a oil and gas play? I mean it is just impossible.

The scale of transformation what has been engineered is massive and it is still work in process because obviously oil to chemicals is more their bread and butter business, they understand tech is a new business and there is a little bit more competition in tech than in old line business and so there is still work to be done. It is not over yet but they have done an amazing job.

I think it is as momentous as Dhirubhai Ambani coming back from the Middle East and forming Reliance from those humble beginnings. So I think it is just phenomenal, it makes me proud that at least one Indian group thought along those lines and at that scale.

I know you are a big believer of mean reversion and you always believe that whatever goes down has to come up and whatever goes up has to come down. How do you see this next couple of years changing for companies like Maruti and Tata Motors?

For the next two years, I do not see a problem. There could be longer term problems down the road but to write them off as no-hopers is unwise. I have a lot of belief in at least a good part of Indian corporate managements. They are not dummies, they are smart people, it is not that they cannot see this threat and only we can see the threat. They can see the threat more clearly than you and I can and they are doing things and they will do things to mitigate the effects of all the talk around EVs and if at all it becomes reality, they will be ready too. It is not to say that Maruti or Tata Motors or Mahindra & Mahindra will sit it out.

Just to give you an example, Indian IT companies were in threat of being disrupted in 2015-16 with the advent of the Cloud where a lot of the processes were getting automated, a lot of stuff was going out of the physical market into the Cloud market and I for one, was apprehensive on the Indian IT services companies ability to adapt and change with this new reality and look how wrong all of us were! These guys have re-engineered themselves. Now digital is such a big part of their businesses. Look at the stock prices! 27 years after Infosys listed, you still want to own Infosys.

The Indian managements are good, they are not dummies, they will find ways around it, they will find ways out of it. So let us have belief in at least the successful Indian groups and successful Indian managements. They are not going to go down without putting up a very solid fight.

The components of the index have also changed. Earlier, it was commodities, textiles, now it is IT, pharma. How do you think the components will change going forward?

I just hope that more Indian start-ups list here instead of going and listing abroad because that is one thing that can lead to a change in this competition. Otherwise, it has become a very static list of companies. Reliance was there even before my time. A lot of other companies like the Tata Group companies are very old school. We need more fresh blood. We need more tech. We need more new generation, new economy, new entrepreneurs entering the stock market and I just hope that Indian start-ups choose to list in India rather than just going to Nasdaq or some other market.

There are quite a large number of unicorns in India -- companies which at least on paper are over \$2 billion, \$5 billion, \$10 billion. If they list and hopefully do well in the aftermarket, you can look at a series of newer inclusions into the Nifty in the next 10 years time. I think this market will welcome Indian tech plays. For all those startups which sell in India, would do well here rather than abroad where they are hardly known.

Sometimes I get bored by the same Baja Auto, same Reliance and same HDFC Bank. Let us have some newer companies, it is better challenge intellectually.

Which are the next two or three companies which do you think will be part of the \$100 billion club? Right now only TCS and Reliance is there. HDFC Bank is nearing it.

We have been so busy buying smaller companies that we do not buy \$100 billion companies. We do not like to buy them. Our focus is more on the smaller ones-- the \$1 billion-\$2 billion companies. It will take a while for them to go to the \$100 billion club. But the only space where that can happen very quickly is tech. There is no other space where you will find companies go from \$2-\$3 billion to \$50 billion in market cap.

If you look at the Chinese market as an example, you will be stunned at the number of companies with \$25, \$50, \$75, \$80-billion market cap and even \$100 billion market cap. It is phenomenal I mean I lose track of the number of companies there and the reason for that is because it is purely tech. So, India needs to have more tech listing. The moment you have that, I will guarantee you there will be 20-25 companies with \$10, \$15, \$20, \$30 billion market caps numbers, if not more than that.

For the existing crop on a very linear growth path, \$100 billion will take a while. Let us be absolutely realistic about this but the new crop, new listing particularly in tech, will see 20-25 companies coming up to \$10-30 billion range easily. It is a tsunami of multi-billion dollar companies. We have bought a lot of them in global funds and made a lot of money. I just hope and I pray that Indian stock market and India in a stock market regulation should also be flexible enough to allow Indian tech companies to list because if you do not do that, you will just keep losing listings to other markets if that were to happen you will be surprised with the number of Indian companies that get into this kind of market cap range.

Any learnings from your journey in the markets up until now?

Oh! yes the biggest learning is that we grew up thinking investing was an art and I think it was totally wrong. It is pure science. There is no art to this game. If you take an engineering approach to it, you will do far better and have far more peace of mind. The old line one company at a time is so '90s. The whole market is changing, the tech is changing. It boggles my mind to see the kind of nuances you can see in data. Data talks to you in ways as no human beings can express to each other. That is a seminal change in my own way of investing. I just feel cheated that we did not have these tools available to us in the 90s and we were still going around in small nooks and crannies of India and trying to figure out whether you know one toothpaste will sell or one biscuit will sell. That is a huge change and it will disrupt the investing business itself and it will allow a newer crop of people to come into this business and disrupt the old crop of people who are still used to doing it the way Warren Buffet was doing. We know that Warren Buffet has not bought anything right in the last 20 years and likewise I fear that a lot of our old school generation will lose out merely because we are still doing things the old way.

ET Now: There is a time when the brokerages rates were 1.5% to 2% and even 3.5% during the badla days. Now platforms have kicked in and you can buy and sell on a click of a button. Zero commission is the new norm. What is going to happen to that part of the market in this decade?

Shankar Sharma: The broking business makes money from the interests that

you make on margin flows and the ways around regulations that all the pure line retail online brokers do. The other theme of course is that if people delay their payments. There is a huge charge, it is almost like a credit card business. So you do not make money so much from the transaction but you make money more from the financing activities around that transaction.

These armies of highly paid CEOs and CIOs, I do not see how that will survive. I do not think anybody is going to get fired but the entire financial services business will keep getting more and more disrupted and newer people will come in and if more people do not re-engine themselves, then they will become dinosaurs.

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