VALUEQUEST

VQ Perspectives

April 2025

Cracks in the Castle

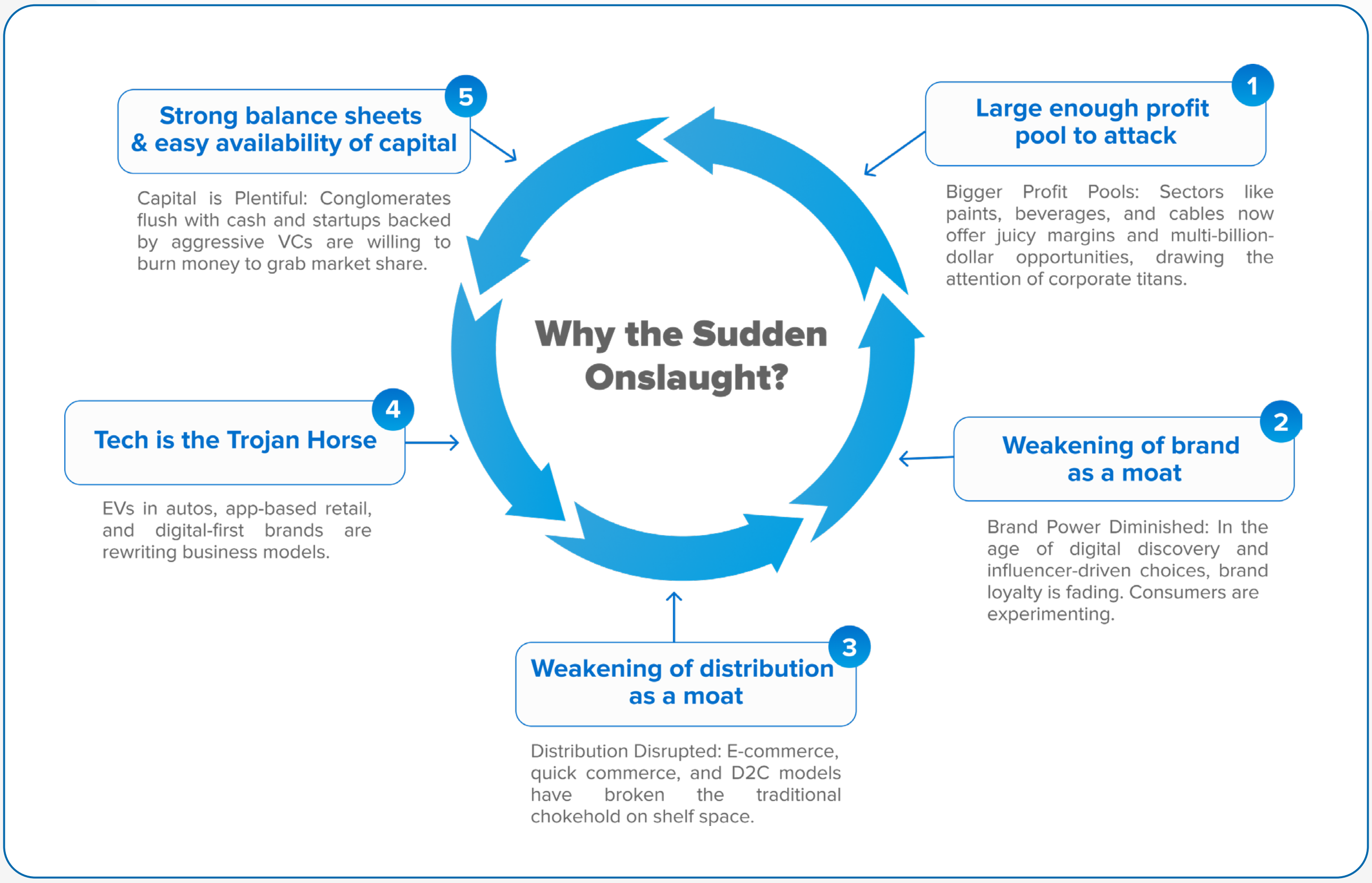
The Great Disruption of India's Oligopolies' Moats

India Inc. is no longer a playground for a select few. The walls guarding decades-old profit fortresses are crumbling, and the battle for dominance is heating up across sectors once deemed impenetrable. From paints to colas, cables to scooters, deep-pocketed challengers are storming the gates, bringing with them a whirlwind of competition, margin pressure, and market shake-ups. The game has changed. **The question is: who adapts, who survives, and who falls? And what does an investor do?**

In recent years, India's corporate landscape has witnessed a series of bold moves by large conglomerates venturing into markets traditionally dominated by a few key players. This trend raises pertinent questions about potential disruptions in these oligopolistic sectors and the broader implications for market dynamics and valuations.

Is this driven by the fact that traditional barriers to entry weakening? Or is it more a compulsion for the conglomerates to find new pools of profit? Or are they really seeing big opportunity to create new businesses? While the real reason might be a combination of all the above, what remains uncertain is the full impact of this and whether they will succeed in making a dent in the markets. These strategic moves are introducing a new risk paradigm that Indian markets have not witnessed in decades.

Why the Sudden Onslaught?



Where have we seen disruptive threats emerging over the last few years?

1. Paints: When the Walls Got Colourful

A fortress built on tinting machines and loyalty discounts. Asian Paints, the crown jewel of India's paint industry, once looked invincible. Enter Grasim with a Rs. 10,000 crore war chest and JSW with clever campaigns. In less than a year, Grasim has grabbed over 4% market share by piggybacking on its white cement network and channel incentives. Asian Paints has seen a 25% earnings dip, and its stock has corrected 40%.

When Grasim launched its paints division, a senior distributor in Rajasthan reportedly said, "I haven't seen this much excitement in the channel since Asian Paints introduced tinting machines in the '90s."

Source: Channel Research

The Story

Up until a few years back, the paints industry was the darling of investors given the large & growing market size, oligopolistic market structure with the leader having significant market share and very strong profitability & ROCE's..

Particulars	2024
Market size (crs)	70,000
5y CAGR growth %	12%
Organized	67%

		2019-24		
Player	**Market Share%**	**Avg . EBITDA%**	**5y PAT CAGR%**	**Avg. ROCE%**
Asian Paints	42%	20%	15%	30%
Berger Paints	12%	17%	12%	26%
Kansai Nerolac	7%	13%	18%	16%
Total	**61%**	**17%**	**15%**	**24%**

Source: Company Financials

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But wouldn't all of these characteristics lead to more players entering? No, they cannot, we were told. The belief was that the existence of moats in the form of brand, distribution network and efficient logistics were very strong. The requirement for distributors to keep large tinting machines within their shops meant that there was limited space for them to stock multiple brands.

JSW was the first large group to launch their foray into this space. They tried the innovative marketing approach (one colour, one price) which has led to some sporadic successes, but could capture <1% market share in 2021, after more than 2 years of launch. This re-affirmed the belief of many that the paints industry could not be materially disrupted.

Come 2021, Grasim Industries (a flagship company of the large conglomerate group, Aditya Birla) announced their foray into the paints sector with a capex of Rs. 10,000 crores! For context, the announced capex was almost equivalent to the gross block of the largest player, Asian Paints!

Grasim finally launched in 2024, and has managed to grab 4%+ market share (our estimate) in <1 year of launch. This has been achieved by aggressively leveraging the group's white cement distributor relationships, offering higher channel margins and lower pricing to consumers. The company has set an ambition to achieve 10%+ market share in the next 3 years and looks on course to do so.

Due to incremental competitive pressures & the consumer growth downcycle, incumbents have seen significant earnings stress over the last 12 months with Asian Paints seeing 25% earnings decline.

While the eventual scale up & ultimate size that Grasim & JSW can establish remains to be seen, it seems that there will be an incremental growth & profitability impact on the incumbent players with both growth & profitability being lower vs. historical levels going ahead. In this scenario, the valuation multiples of these stocks, which used to be extremely elevated earlier – have now corrected significantly (stocks are down 35-50% from their respective peaks in 2022) as markets price in this disruption.

2. Campa Cola: The Fizzy Resurgence

Once a nostalgic relic, Campa Cola is now Mukesh Ambani's latest weapon. Taking on Coca-Cola and Pepsi in a market they've ruled for decades, Reliance is betting on pricing, massive IPL branding, and distributor incentives. The soft drink giants have responded with discounts and ad blitzes. But Reliance's deep pockets and relentless push have made this fizz-fight one to watch.

The Story

For decades, the global carbonated soft drinks (CSD) market has been a virtual duopoly, dominated by Coca-Cola and PepsiCo. This holds true in India as well, where both companies command a combined market share of over ~85%. Their strength lies in an deep-rooted brand power driven by decades of marketing expertise, extensive distribution networks and product diversification that has historically made them unchallenged in most markets. These players have thus been able to earn high margins (15-20%) & ROCE's (20-25%) over the long term.

However, a threat has now emerged in the form of Reliance, which has acquired the brand Campa Cola and is making an aggressive push to capture market share, leveraging multiple strategic levers:

- **Aggressive Pricing Strategy:** Offering lower prices to attract cost-sensitive consumers.
- **Distributor & Retailer Incentives:** Providing higher margins to trade partners to drive penetration.
- **High-Visibility Marketing:** Investing in marquee events like IPL and Kumbh Mela to strengthen brand recall.

Source: Bloomberg

The incumbents have not remained passive. Both PepsiCo and Coca-Cola have responded with selective price reductions and increasing brand marketing activities. Their extensive retail reach, built over decades, remains a formidable barrier to entry. However, unlike previous challengers, Reliance has the financial strength to sustain prolonged cash burn and thus the incumbents will need to respond accordingly.

While Campa Cola has created a lot of initial buzz, the beverage industry is characterized by strong consumer preferences, high advertising spends, and an entrenched distribution network. Thus, sustaining momentum in a category dominated by multinational giants will be a steep climb.

3. Ola, Ather, and the EV Charge

The traditional 2W kings - Hero, Bajaj, TVS - were caught napping as EVs stormed the gates. Ola and Ather now command a combined ~40% share of the EV scooter segment (as of March 2025), even if EV penetration is still low. The incumbents are racing to catch up, but the technology gap, agility, and first-mover branding of startups do pose a threat to the incumbents.

The Story

The Indian 2-wheeler industry is a large, growing market which has been dominated by 3-4 players historically. By virtue of their strong brands, distribution reach and wide product range, they had been able to create strong moats around this business. This reflected in their financial metrics as well, with the players having very healthy margins (15-20%) and earning high ROCE's (20%+) while accumulating tons of cash.

Particulars	2024 (in crs)
Market size (crs)	1,50,000
5y CAGR growth %	6-8%

		2019-24		
Player	Market Share%	Avg . EBITDA%	5y PAT CAGR%	Avg. ROCE%
Hero Motocorp	31%	14%	2%	26%
Bajaj Auto	13%	21%	9%	28%
TVS Motors	15%	13%	20%	13%
Eicher Motors	5%	28%	12%	24%
Total	**64%**	**19%**	**11%**	**23%**

Source: Company Financials

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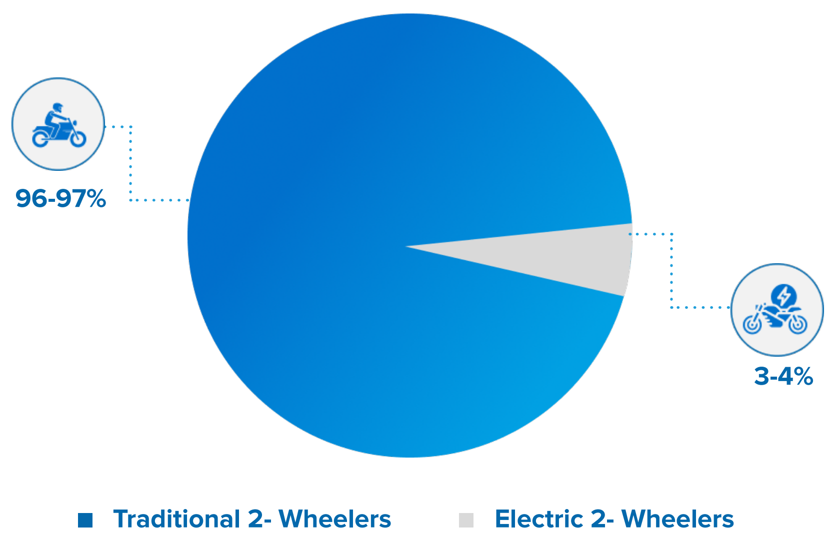
However, we have seen a technological shift occurring globally in the entire auto industry, with the advent of electric vehicles. Globally, this movement has been driven by new entrants such as Tesla & BYD which have got the opportunity to enter a difficult to break into industry.

Even in India, we have seen new entrants like Ola & Ather enter into the 2 wheeler industry with new EV products. In 2022, Ola's S1 launch event had more live viewers online than some Bollywood trailer debuts. The hype was real. Ola has since managed to garner 25-30% market share and Ather 10-12% in EV 2 wheelers, however their combined industry market share remains at 3-4% as industry EV penetration remains low.

The industry incumbents, which were initially behind the curve to launch their own EV's, have had to spend aggressively on R&D and technology to catch up with the new entrants. We have seen incumbents like Bajaj & TVS managing to launch successful EV models and now aggressively competing for market share with the likes of Ola.

Globally, we have seen varying levels of EV 2W adoption & penetration, ranging from 5% EV penetration in Vietnam to 35% in China. While it is difficult to ascertain the pace of EV adoption in India and the eventual winners, as the industry undergoes this transition, it is likely that we will see a period of elevated competitive intensity as all players jostle for market share.



Source: ValueQuest Internal Research

4. Quick Commerce: Blink and You Miss It

With Blinkit, Instamart, and Zepto offering delivery in 10 minutes, Indian consumers are rewiring their buying habits. D-Mart, built on frugality and bulk buying, now finds itself grappling with a consumer that wants instant gratification. Flipkart and Amazon have scrambled to join the quick commerce race. Store count in this segment is expected to triple in 18 months.

The Story

Despite the launch of modern retail & e-commerce formats over the last 2 decades, Indian retail has remained largely traditional, with traditional retail still commanding an 80% share of industry sales.

The rapid rise of quick commerce platforms like Blinkit and Instamart is challenging the traditional retail models as these platforms offer near-instant delivery of essentials, appealing to urban consumers' convenience preferences. Given the speed, accessibility & increasing assortment being offered, consumers have taken to these with aplomb with 4-5 cr customers already using these platforms. While these platforms are yet to turn profitable, they are already delivering best in industry store throughput.

This has forced the retailers & e-commerce companies to retaliate with increased marketing spends, higher discounting & price competitiveness and also launch quick commerce offerings of their own to stay relevant to the customer. The likes of Flipkart and Amazon have already launched their own quick commerce offerings.

We seem to be setup for a phase of extremely high competitive intensity in this space over the next 12-18 months as both incumbents & new entrants are expanding their store network rapidly, with industry store base expected to grow 3x over the next 18 months. Players are spending aggressively on marketing & branding, customer acquisition and discounting.

While the eventual penetration levels & economics of this format beyond the large urban towns (top 50 cities) is yet to be proven, the rapid growth of quick commerce is certain to have an impact on the strategy of other retailers. Retailers like D-Mart, which had built their business on low-cost bulk purchasing and physical retail stores, now face a new competitive reality where speed and accessibility are redefining consumer expectations. This requires incumbents to be more agile in responding to these threats

5. Wires that caught fire (attention)

The wires & cables industry has seen rapid growth over the past few years given the strong demand drivers. The industry is characterized by barriers to entry in the form of strong brands, difficult to penetrate distribution network & customer base and a long product approval and certification cycle. This has enabled the incumbents to grow rapidly while earning high returns with the industry seeing 20%+ profit CAGR while delivering 18-20% ROCE's over the past few years.

Particulars	2024 (in crs)
Market size (crs)	1,20,000
5y CAGR growth %	15%

		2019-24		
Player	Market Share%	Avg . EBITDA%	5y PAT CAGR%	Avg. ROCE%
Polycab	17%	13%	29%	21%
KEI Industries	7%	10%	26%	25%
RR Kabel	4%	9%	25%	18%
Finolex Cables	4%	13%	11%	12%
Total	**32%**	**11%**	**23%**	**19%**

Source: Company Financials

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This performance may have attracted the attention of conglomerate groups like Birlas & Adani's, with Ultratech Cement (from the Birla group stable) committing a capex of 1800 crs with their plant coming up by Dec'26 and sales ramping up by 2030/31. Ultratech will look to leverage their existing building material distribution stores network (Ultratech building solutions) & raw material sourcing from group company, Hindalco. However, they lack synergies with the wire distribution network and influencer base, as well as the necessary product approvals and certifications for cables, making it unlikely to be an easy journey to scale up this business. While there is limited clarity on the exact plan & strategy that the Adani group will undertake, they do have the advantage of their group businesses (power & infrastructure) being a large consumer of cables where the cable requirements can be supplied by their own group entity in the future.

For the incumbents, there is a possibility of heightened competitive intensity especially in the wires business once Ultratech launches as they might need to increase marketing & brand spends, compete on pricing and offer higher channel margins to defend their turf. However, in the cables segment, Ultratech will likely find it difficult to disrupt given the long gestation cycle for obtaining product approvals and certifications while for Adani, in-housing their group demand for cables is the likely starting point. However, one needs to still assess the scale of investment and commitment being made.

While the entry of Ultratech remains more than 2 years away, the equity market has reacted significantly negatively, with incumbent stocks seeing significant de-rating post Ultratech & Adani's announcement. We believe that there will be limited impact on company earnings for next 2-3 years and there exists space for new entrants given the large market opportunity. However, we will need to continuously assess the new entrants' plans and the response by incumbents as the competitive landscape evolves.

Financial Implications of Increased Competition

While the impact will vary by industry which needs to be assessed individually, some impact on the incumbent's financials is likely, in the form of:

- **Slower incremental growth:** New players aim to capture 5-10% market share in sectors where incumbents have long enjoyed dominance leading to slower incremental growth vs. earlier.

Contribution margin compression: There is a likelihood of some margin compression given higher channel margins & discounting.

Increased operational costs: Defensive marketing strategies, expansion of distribution networks, higher R&D spending and pressure to retain quality talent should push costs higher for incumbents.

Navigating an Era of Disruption as Investors

These new risks have not been seen in Indian markets in decades. While consumers may benefit from better pricing and innovation, businesses must adapt to a more intense and uncertain competitive landscape.

New entrants will find it difficult to displace established players quickly, but incumbents will face increasing pressure on margins and market share in the coming years. The question is not whether these disruptions will persist, but rather how long it will take for the market to stabilize and who will emerge stronger from this evolving battleground.

Investors must now factor in greater competitive intensity, pricing pressures, and potential market share redistribution when assessing businesses and valuations.

Equity markets have reacted sharply to these developments, often exaggerating potential threats from new entrants. However, as portfolio managers and investors, we need to take cognizance of the fact that rising competitive intensity & uncertainty might lead to ascribed valuation multiples being lower at least in the interim until the industry settles & more clarity emerges on the actual impact.

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