Devina Mehra: Forgetting history can be costly, especially so while investing

Devina Mehra | 12 March 2025


After a spectacular bust in an industry, it takes only a few years for lessons from it to be lost.

SUMMARY

Why be condemned to repeat past errors? Oddly enough, investors seem to have woefully short memories. They should heed cautionary tales from government suppliers, airlines, banks, financial services, edtech companies and more.

In the last year, I noticed a pattern in the stories that people were telling about their stock picks—and in bull markets, everyone has a story.

Most stories were about companies supplying either goods or services to a government or a quasi-government entity, maybe for highways, railways, power, defence or something of that kind. This was not surprising, as for the last few years, India's economy has been running on a single engine of government expenditure. So naturally a lot of the economic activity was in this area.

But I thought to myself, have people already forgotten that not so long ago, supplying to the government was considered a huge risk area? It has always been well known that the government pays the least for any product or service. Also, it delays payments—sometimes endlessly. Just talk to any old-time company that has supplied to a state electricity board, or even to a defence entity for that matter, and find out how hard it is to get payments out of them. That is the flip side of fat order books.

As for orders for infrastructure projects, this is how it works. The order goes to the lowest bidder, which means that even on paper the margins are slim. Then there are cost and time overruns, inevitably so, but it is very difficult to get the additional money sanctioned and disbursed. We all love the Worli-Bandra Sea Link in Mumbai, but it became a crippling blow for the company that built it for precisely this reason.

Even after a project is complete, the government or authority retains a part of the money for a period of time as a guarantee that it would function as desired. Often, this is almost the entire margin on the project in the first place and promoters have to sweat blood to get these funds released.

In short, the government is almost the worst customer or paymaster you can have. But in times of euphoria, all this is forgotten even by veterans.

We have all heard of financial market bubbles, but it is not just financial markets that forget history. In every bubble, people tend to forget what happened in the past and once again get mesmerized by rosy projections of what are ultimately the same old things.

Take India's airlines industry, for instance. Damania, Modiluft, East West and NEPC Airlines were among our first lot of private airlines in the 1990s and early 2000s.

All of them eventually shut down, but this was merrily forgotten when Kingfisher, Deccan and Jet Airways started off a few years later. When their story was about to end, in came SpiceJet, Go Air, etc, in the next lot... and that's how it goes.

Bank licences are considered a gold mine, with examples like HDFC Bank and Kotak Mahindra Bank held up. But Centurion Bank, Times Bank, Global Trust, Yes Bank and many others started by experienced professionals, (besides several public sector and cooperative banks) that had to be shut down or restructured are forgotten.

These examples are about business people forgetting the track record of their industry and setting up companies not very different from failed ones in the hope that they will succeed where others haven't in the past. We see the same tendency among investors, whether they are retail investors or sophisticated institutions.

After a spectacular bust in an industry, it takes only a few years for lessons from it to be lost. There is no institutional memory of it.

For example, in financial services, the same business of giving people loans to buy things gets packaged differently, and investors excitedly jump in every time. But it usually ends with marginal borrowers being chased by lenders till there is a small or big crisis.

Of late, the flavour of the season is something called BNPL, or 'Buy now pay later'. This is supposed to be a big innovation. The reality? It's nothing but the centuries-old buying on instalments. But 'BNPL' sounds fancier and, more importantly, 'new' and 'innovative.'

How many remember the first round of scams in the education-technology (edtech) space, topped by Educomp, headed by IIM graduates? There were many others too at the time, like Treehouse, Everonn, Zee Learn, Jetking, etc.

We, at First Global, did a report on why none of the financials of Educomp made sense in 2007, when it was a much-owned and loved stock. Eventually, most of these edtech companies went bust. The Educomp stock peaked at ₹1,100-plus in January 2008 and then over the years drifted down. The last quote was at ₹2 (no zeroes missing there). But the interesting part lay in what happened thereafter.

After a decorous mourning period of a few years, once again edtech became the darling of the investors, this time more in the unlisted space, where the likes of Byju's raised over $5 billion(!) in spite of very well-documented holes in its business model and corporate governance. Yet, its funding rounds continued, probably fuelled by the 'greater fool' theory that investors would get an exit by palming off their stake to someone else, or maybe through an initial public offer (IPO). Except that the story began to unravel and the edtech sequel is in theatres now.

As the cliché goes, those who forget history are condemned to repeat it.

More on this another time.

The author is chairperson, managing director and founder of First Global, an Indian and global asset management company, and author of 'Money, Myths and Mantras: The Ultimate Investment Guide'. Her X handle is @devinamehra