

# India Capital Growth Fund

31 JULY 2020

India Capital  
GROWTH FUND

## Net Asset Value

The Net Asset Value (NAV) per share as at 31 July 2020 was 72.64 pence. In July the NAV up 3.15% in Sterling terms, whilst the BSE MidCap TR Index was down 0.37%, delivering an out performance against the notional benchmark of 3.52%. In local currency terms, the NAV was up 9.25% for the month.

## Portfolio activity

New purchases None

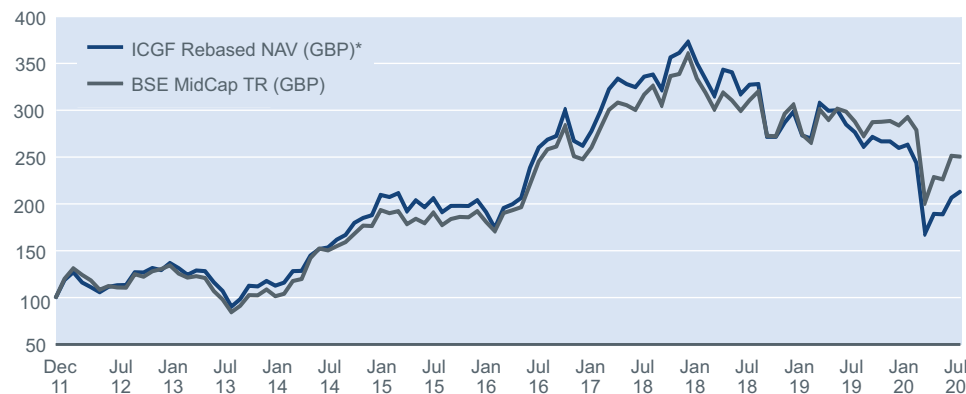
Exits None

## Holdings in focus

**Multi Commodity Exchange (MCX)** runs an exchange in India that facilitates 90% of the country's trading across most commodities. It has total dominance in non-agri global commodities of bullion, energy and base metals with nearly 100% of market share. MCX has approximately 700 registered members and 2.7 million connected terminals across more than 1,000 towns and cities in India. It has increased its market share in the last two years despite the entry of two strong competitors who dominate the capital markets, NSE and BSE, showcasing its strong network effects. The regulator has taken a lot of actions to support an expansion of the market by allowing new distribution channels (banks' broking subsidiaries), new products (option contracts, commodity index futures) and new participants (such as mutual funds). We believe these initiatives will go a long way in growing the commodity market in India, and MCX being the dominant player is the largest beneficiary. Increased margin requirements and shorter trading days impacted volumes during the early stages of the lockdown. They have since seen a two month recovery led by bullion and current daily volumes are tracking higher than the FY20 average. Overall MCX has a very attractive business model – FCF to net profits is ~100%, with negative working capital and a cash rich balance sheet. We expect an 18% CAGR in EBITDA over the next three years despite a marginal fall in earnings for FY21.

**Essel Propack** is the world's largest manufacturer of laminated tubes catering to the packaging requirements of manufacturers of oral care (toothpaste), pharmaceuticals and cosmetics. The company has twenty state of the art facilities across ten countries and supplies some of the leading brands in the world. While Essel is the global leader in the oral care segment (51% of revenues), over the past decade it has been increasing its presence in the higher margin personal care segment (e.g sun tan lotion), driving incremental revenues and margins. In April 2019 Blackstone bought a majority stake, further strengthening the board and management team. This has already improved the trajectory of growth, margins and return ratios. The pandemic has helped cement Essel's leadership status having become a leading packaging supplier for hand sanitizers to more than fifty global brands. The company is also at the forefront of sustainable packaging efforts, with leadership in reusable and recyclable packaging solutions across multiple product categories. We see earnings compound at 23% annually over the next three years driven by improving margins, whilst ROCE is set to expand from 12% to 18% on higher capital efficiency.

## Rebased NAV Performance since 31 December 2011 (%)



Source: Ocean Dial Asset Management Limited, Bloomberg

## Performance (%)

	1m	3m	6m	1yr	3yr	5yr
ICGF Rebased NAV*	3.2%	12.6%	(19.0%)	(22.9%)	(36.5%)	3.5%
ICGF NAV	3.2%	12.6%	(19.0%)	(22.9%)	(36.5%)	(2.7%)
BSE MidCap TR Index	(0.4%)	9.5%	(14.4%)	(13.0%)	(20.9%)	31.3%

\*The Rebased NAV is the fairest representation of the Manager's performance across all periods excluding the dilutive effect of the new ordinary shares issued on 8 August 2016 following the exercise of subscription share rights.

Source: Ocean Dial Asset Management Limited, Bloomberg

## Fund information

Listing	LSE Main Market
Domicile	Guernsey
NAV publication	Monthly (daily estimate)
Size (NAV)	£81.72m
Launch	22 December 2005
Adviser start	31 December 2011
Portfolio Manager	David Cornell
Portfolio Adviser	Gaurav Narain
Benchmark	S&P BSE MidCap TR
AMC	1.25% of market cap
Share price / NAV per share (p)	58.20 / 72.64

## Portfolio characteristics

Number of holdings	33
Median market cap	£876m
PE FY20	18.8
ROE (3y Avg)	16.5%
Tracking Error	5.7%
Active Share	86.8%

## India highlights

	MTD	YTD
BSE-500 (US\$)	7.8% (13.0%)	
iShares MSCI Asia ex-Japan (US\$)	8.2%	2.2%
iShares MSCI EM Index (US\$)	8.3%	(3.0%)
INR vs US\$ [stronger/(weaker)]	0.9%	(4.8%)
FII Net flows (US\$m)	896	(1,565)
DII Net flows (US\$m)	(107)	1,058

## Macro indicators

CPI inflation (March / 3m avg)	6.1%	6.5%
GDP Q4 FY20		3.1%
Current account/GDP Q4 FY20		(0.8%)

Source: Ocean Dial Asset Management Limited

## Team commentary

July	<a href="#">Monthly Book Review - Artificial Intelligence: A Guide for Thinking Humans</a>
July	<a href="#">India: 2020 vs 2010</a>
8 July	<a href="#">In conversation – An update on the virus, GTIF portfolio activity and an outlook for Indian equities</a>
June	<a href="#">Monthly Book Review: Sea of Poppies</a>
16 April	<a href="#">In conversation – The virus, lockdown, portfolio activity, balance sheet risk new ideas</a>
16 March	<a href="#">Covid-19 – What's the Indian market pricing in?</a>

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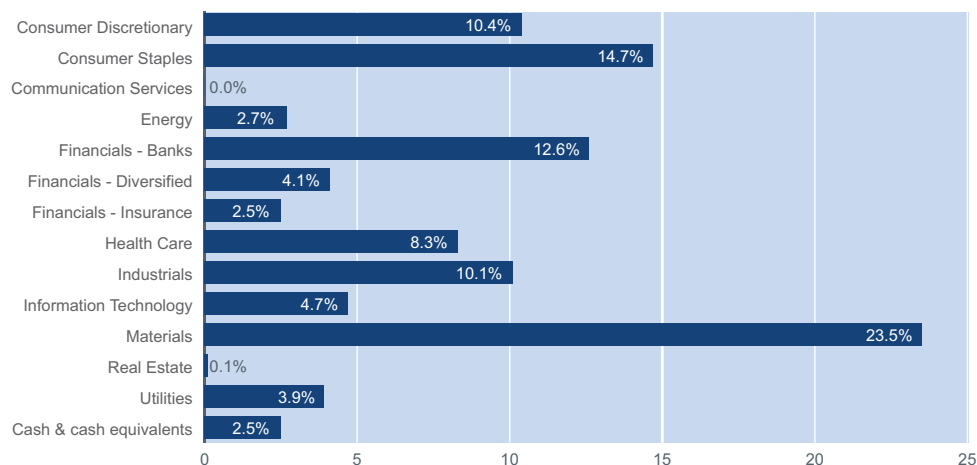
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### Top ten holdings

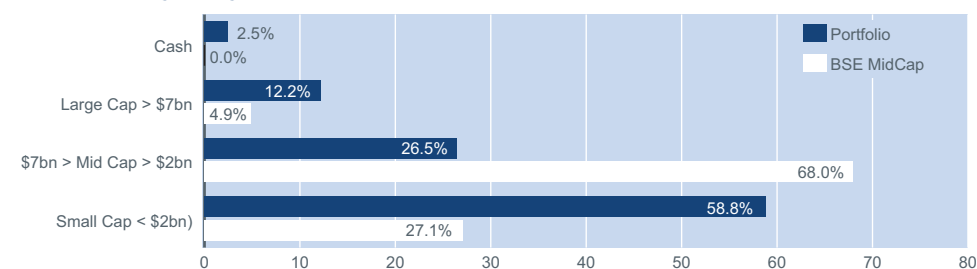
Portfolio Company	Weight	Characteristics	Market cap
PI Industries	6.3%	Quality agro-chemical company, high visibility, strong industry tailwinds in global supply chains	£3bn
Divi's Laboratories	5.9%	Quality pharmaceutical custom research / API manufacturer, strong industry tailwinds in global supply chains	£7bn
Federal Bank	5.0%	Well run mid-sized private sector bank, attractive valuations	£1bn
Emami	4.2%	Dominant player across multiple niche consumer product categories, attractive valuations	£1bn
Multi Commodity Exchange	4.1%	Quality business with high growth and attractive valuations	£876m
Gujarat Gas	3.9%	Key beneficiary of India's transition to cleaner energy	£2bn
Jyothy Laboratories	3.8%	Well diversified consumer portfolio, attractive valuations	£460m
Tech Mahindra	3.8%	IT services, leads telecommunications vertical with structural tailwinds	£7bn
JK Lakshmi Cement	3.7%	Deep value, capacity expansion complete and deleveraging underway	£353m
Balkrishna Industries	3.7%	High quality speciality off-highway tyre exporter, strong entry barriers	£3bn

Source: Ocean Dial Asset Management Limited, Bloomberg

### Portfolio analysis by sector



### Portfolio analysis by market capitalisation



Source: Ocean Dial Asset Management Limited, Bloomberg

### Quarterly attribution – 3 months to 31 July 2020 (%)

Top 5	Ave. weight	Ave. index weight	Return	Contribution
IndusInd Bank	2.65	0.00	71.92	1.74
Multi Commodity Exchange	3.33	0.00	49.14	1.53
JK Lakshmi Cement	3.41	0.00	44.66	1.45
Skipper	2.49	0.00	70.37	1.40
Balkrishna Industries	3.54	1.49	29.09	1.06
Bottom 5	Ave. weight	Ave. index weight	Return	Contribution
Indian Rupee	4.25	0.00	(4.88)	(0.12)
Berger Paints India	3.46	1.94	(8.06)	(0.46)
Ramkrishna Forgings	1.61	0.00	(23.70)	(0.47)
City Union Bank	3.16	0.00	(22.16)	(0.93)
DCB Bank	0.18	0.00	(51.70)	(1.94)

Source: Ocean Dial Asset Management Limited, Statpro

### Fund adviser



Gaurav Narain joined the Group in November 2011, having been immersed in the Indian equity markets for the previous 21 years. He has held senior positions as both a fund manager and an equities analyst in New Horizon Investments, ING Investment Management India and SG (Asia) Securities India. He holds a Masters degree in Finance and Control and a Bachelor of Economics degree from Delhi University.

### Investment philosophy

The investment manager believes that in India, optimal returns will be generated over time by investing in companies that are well placed to benefit from the structural growth potential of the Indian economy, combined with the highest quality of management best able to exploit this opportunity. The fund uses a consistent and disciplined bottom up stock picking process to select investments from our best ideas, unconstrained by a benchmark.

### Investment objective

To provide long term capital appreciation by investing predominantly in listed mid and small cap Indian companies. Investments may also be made in unquoted Indian companies where the Fund Manager believes long-term capital appreciation will be achieved. The Company may hold liquid assets (including cash) pending deployment in suitable investments. It is the Company's declared policy not to hedge exposure to the Indian Rupee.

### Capital structure

112,502,173 ordinary shares in issue.

### Board

Elisabeth Scott (Chairman)  
Peter Niven  
John Whittle

### Other advisers

#### Administrator

Apex Fund and Corporate Services (Guernsey) Limited

#### Broker

Shore Capital Stockbrokers Limited

#### Registrar and CREST Agent

Neville Registrars Limited

### Manager

Ocean Dial Asset Management Limited is authorised and regulated by the Financial Conduct Authority.

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Email: [enquiries@oceandial.com](mailto:enquiries@oceandial.com)

### Website

[www.indiacapitalgrowth.com](http://www.indiacapitalgrowth.com)

## Important information

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