

India Capital Growth Fund

DECEMBER 2020

India Capital
GROWTH FUND

Net Asset Value

The Net Asset Value (NAV) per share as at 31 December 2020 was 97.70 pence. In December the NAV was up 2.44% in Sterling terms, whilst the BSE MidCap TR Index was up 5.14%. In local currency terms, the NAV was up 3.36% for the month.

Portfolio activity

New purchases None **Exits** None

Holdings in focus

Ramkrishna Forgings (RKF) is an auto ancillary company focusing on forgings for medium and heavy commercial vehicles (MHCVs). It derives ~40% of revenues from exports and, unlike its peer, Bharat Forge, the majority (93%) from the auto sector. It carried out a large capex project from 2013-15 to set up a fully automatic 12,500-ton heavy press to capture market share in India and generate large international orders. This strategy proved successful up to 2018 but a sharp decline of 50%+ in the domestic CV market, as well as poor economic growth in US, affected new orders. Over the past two years, RKF has focused on improving its products to generate new business, and so far has welcomed orders from three new clients and is in talks with a large US-based OEM for what would be its largest order to-date. In the domestic market, it has received approvals from Indian Railways to supply for its new generation LHB coaches and the company is now on the cusp of strong growth, driven by a pick-up in both key markets and diversification benefits. The domestic CV market volumes have improved substantially with RKF gaining share as it has increased content per vehicle (due to BS6 norms being implemented) and is supplying to light CVs as well. Exports are accelerating with new customer wins and the Indian Railways order will add to growth FY22 onwards. We expect 35% revenue CAGR and 214% EPS CAGR in FY21-FY23. This strong growth should help it to achieve ROCE of ~17% and ROE of 20% in FY22.

Federal Bank, the largest holding in our portfolio, is a mid-sized private sector bank whose history predates India's Independence. Its asset book of US\$17bn is well balanced between corporates (48%) and retail (52%). Over the past five years, the company has transformed itself into a leading private sector bank with a strong board and professional team hired from leading multinational and private sector banks. In the process it has built a strong asset book with low levels of stress (in spite of Covid-19). Its corporate book is largely comprised of 'A' rated businesses with no large wholesale accounts. Similarly, its retail book is mainly secured with negligible exposure to stressed sectors or credit card and personal loans. The bank has among the best liability franchises of mid-tier private sector banks, with CASA ratio at 34% and 88% of deposits being retail. What has challenged the bank is its low yield on assets (NIM of 3%) and lower share of other income, both of which have limited its ROA to under 1%. This is being addressed through entry into new retail segments, more distribution tie-ups and the build out of a strong digital platform. The bank is well capitalised with Tier 1 Capital Adequacy at 13.5%, and it has made adequate provisioning for unanticipated post-Covid asset issues. The bank trades at below book value, at a discount to both its historical multiples and its mid-sized banking peers. We believe it is poised to re-rate as it enters a strong growth phase and an increase in profitability drives its ROA above 1%.

Rebased NAV Performance since 31 December 2011 (%)



Source: Ocean Dial Asset Management Limited, Bloomberg

Performance (%)

	1m	3m	6m	1yr	3yr	5yr
ICGF Rebased NAV*	2.44	13.44	38.74	10.40	(23.10)	40.62
ICGF NAV	2.44	13.44	38.74	10.40	(23.10)	31.74
BSE MidCap TR Index	5.14	16.31	28.56	13.86	(10.20)	68.10

*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)	£109.9m
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)	83.90 / 97.70

Portfolio characteristics

Number of holdings	33
Median market cap	£112.4m
PE FY21E	23.7
ROE (3y Avg)	16.2%
Tracking Error	8.4%
Active Share	91.8%

India highlights

	MTD	YTD
BSE 500 (US\$)	8.8%	14.0%
iShares MSCI Asia ex-Japan (US\$)	3.5%	23.4%
iShares MSCI EM Index (US\$)	4.3%	17.0%
INR vs US\$ [stronger/(weaker)]	1.3%	(2.4%)
FII Net flows (US\$m)	7,267	23,373
DII Net flows (US\$m)	(5,064)	(4,910)

Macro indicators

CPI inflation (November / 3m avg)	6.9%	7.3%
GDP Q2 FY21		(7.5%)
Current account/GDP Q2 FY21		1.3%

Source: Ocean Dial Asset Management Limited

Team commentary

- 31 December [Monthly Book Review - Only the Paranoid Survive](#)
- 30 November [Monthly Book Review - Range: How Generalists Triumph in a Specialized World](#)
- 5 November [In Conversation - Early adopters are focusing on India once again](#)
- 31 October [Monthly Book Review - Atomic Habits](#)
- 28 October [One year up...](#)

Top ten holdings

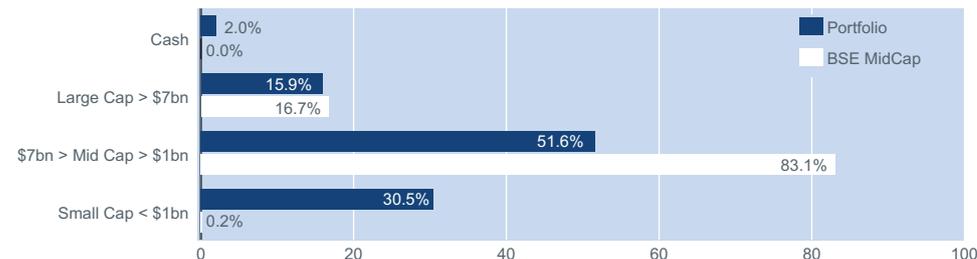
Portfolio Company	Weight	Characteristics	Market cap
Federal Bank	6.0%	Well run mid-sized private sector bank, attractive valuations	£1bn
Emami	5.4%	Dominant player across multiple niche consumer product categories, attractive valuations	£2bn
IndusInd Bank	5.4%	Fifth largest private sector bank in India and poised to gain market share. Value play with ebbing asset quality concerns	£7bn
PI Industries	4.8%	Quality agro-chemical company, high visibility, strong industry tailwinds in global supply chains	£3bn
Tech Mahindra	4.3%	IT services, leads telecommunications vertical with structural tailwinds	£9bn
Divi's Laboratories	4.1%	Quality pharmaceutical custom research / API manufacturer, strong industry tailwinds in global supply chains	£10bn
Gujarat Gas	3.7%	Key beneficiary of India's transition to cleaner energy	£3bn
Kajaria Ceramics	3.5%	Ceramic tile manufacturer, gaining market share from the unorganised sector following restrictions surrounding coal gasifiers	£1bn
City Union Bank	3.4%	High quality regional bank, consistent compounder, dominant in SME lending	£1bn
Jyothy Laboratories	3.3%	Well diversified consumer portfolio, attractive valuations	£540m

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 December 2020 (%)

Top 5	Ave. weight	Ave. index weight	Return	Contribution
IndusInd Bank	4.92	0.00	61.41	2.44
Federal Bank	5.15	1.29	30.54	1.39
Ramkrishna Forgings	2.69	0.00	37.13	0.89
Emami	5.40	0.92	15.93	0.89
Divi's Laboratories	4.25	0.00	19.89	0.82
Bottom 5	Ave. weight	Ave. index weight	Return	Contribution
Welspun India	3.14	0.00	(3.60)	(0.08)
CCL Products India	2.73	0.00	(3.35)	(0.13)
Multi Commodity Exchange	3.26	0.00	(4.45)	(0.21)
Jyothy Laboratories	3.48	0.00	(5.34)	(0.25)
Neuland Laboratories	2.83	0.00	(9.05)	(0.29)

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
Patrick Firth

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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Important information

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Interests in the Fund have not been and will not be registered under any securities laws of the United States of America or its territories or possessions or areas subject to its jurisdiction, and may not be offered for sale or sold to nationals or residents thereof except pursuant to an exemption from the registration requirements of the U.S. Securities Act of 1933, as amended (the "Securities Act"), and any applicable state laws. While all reasonable care has been taken in the preparation of this document, no warranty is given on the accuracy of the information contained herein, nor is any responsibility or liability accepted for any errors of fact or any opinions expressed herein.

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Where reference to a specific Class of security is made, it is for illustrative purposes only and should not be regarded as a recommendation to buy or sell that security. Market index information shown herein such as that of the S&P BSE Midcap TR is included to show relative market performance for the periods indicated and not as standards of comparison, since indices are unmanaged, broadly based and differ in numerous respects from the Fund.

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