

India Capital Growth Fund

JANUARY 2021

India Capital
GROWTH FUND

Net Asset Value

The Net Asset Value (NAV) per share as at 29 January 2021 was 98.39 pence. In January the NAV was up 0.71% in Sterling terms, whilst the BSE MidCap TR Index was up 0.36%. In local currency terms, the NAV was up 1.13% for the month.

Portfolio activity

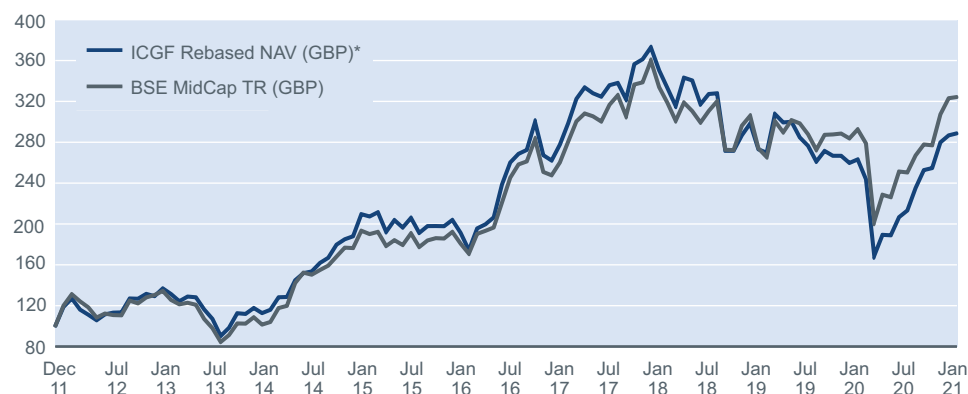
New purchases None **Exits** None

Holdings in focus

Dixon Technologies is India's leading Electronic Manufacturing Services (EMS) company. It manufactures products for consumer durables brands, providing cost efficient, end to end solutions to MNC's and domestic Original Equipment Manufacturers (OEMs). It has a dominant market share in each of the product segments it is present in - ~45% of outsourced manufacturing capacity in LED TVs, ~80% in domestic LED lighting, and ~50%+ share in washing machines. We expect the EMS sector in India to show strong growth of 25%+ over the next 3-4 years driven by a) Make in India initiative by the Govt. of India, which is keen on reducing imports of consumer durables (2nd largest import after crude) and promote domestic manufacturing, b) India emerging as a strong manufacturing alternative to China, c) under penetration of consumer durables, d) increased outsourcing by OEMs due to cost pressures. Dixon is rightly placed to capture this growth opportunity with its market leadership, strong management team and a capital efficient business model. Most recently, Dixon was selected by the Govt. for its Mobile Production-Linked Incentive scheme, a strong growth opportunity with the aim to make India a global hub for mobile phone manufacturing. Dixon has already signed up with Motorola to meet a large proportion of their global requirements and with Nokia for their India requirement. With a strong order book in place, the company is expanding capacity across all its product lines, while exploring new product verticals such as wearables and outdoor lighting. We expect Dixon to generate 45%+ revenue CAGR for the next 3 years, while maintaining its industry leading 30%+ ROCE.

Sagar Cement is a cement manufacturer with a capacity of 5.75m tonnes predominantly serving southern India. Since its inception, the company has maintained a clear focus of doubling its capacity every 10 years through expansion and acquisition. Continuing this focus and diversifying its geographical reach, Sagar is increasing its capacity by a further 2.5MTPA through greenfield expansion in Central and East India, expected to be commissioned by the first half of FY22. In the last four years, the company has delivered a volume CAGR of 13.5% (outperforming the industry by 9.2%), revenue growth of 12% and EBITDA growth of 12% despite cement realisation declining by 1.4% CAGR over this period. It has outperformed its peers through various cost efficiency measures including increasing captive power capacity, usage of alternative fuel, reducing lead distance and building railway siding to ensure last mile connectivity to the end market. On an ESG front, the company published its first sustainability report in 2019, it has achieved 100% water reuse, and generates 33% of its power from green and renewable sources. Sagar's valuations are attractive at US\$36 EV/tonne FY22 (its peer group trades at ~US\$80 EV/tonne), and its FY22 EV/EBITDA multiple is 5.9x, a 28% discount to its five year average. Over the next three years we expect Sagar to deliver strong double digit volume and EBITDA growth on the back of its timely capacity expansion and robust demand for cement led by rural housing and the Govt.'s increase in infrastructure spending. With sound management and comfortable net debt-to-equity of 0.4, we expect Sagar to reduce its valuation gap against its past historical average and its peers.

Rebased NAV Performance since 31 December 2011 (%)



Source: Ocean Dial Asset Management Limited, Bloomberg

Performance (%)

	1m	3m	6m	1yr	3yr	5yr
ICGF Rebased NAV*	0.7	13.4	35.5	9.7	(17.6)	51.0
ICGF NAV	0.7	13.4	35.5	9.7	(17.6)	38.9
BSE MidCap TR Index	0.4	17.1	29.5	10.8	(2.9)	79.4

*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)	£110.7m
Launch	22 December 2005
Adviser start	31 December 2011
Portfolio Manager	Ocean Dial Asset Management
Portfolio Adviser	Gaurav Narain
Benchmark	S&P BSE MidCap TR
AMC	1.25% of market cap
Share price / NAV per share (p)	83.00 / 98.39

Portfolio characteristics

Number of holdings	33
Median market cap	£1.2bn
PE FY21E	21.6
ROE (3y Avg)	18.2%
Tracking Error	7.9%
Active Share	92.0%

India highlights

	MTD	YTD
BSE 500 (US\$)	(1.6%)	(1.6%)
iShares MSCI Asia ex-Japan (US\$)	4.4%	4.4%
iShares MSCI EM Index (US\$)	3.2%	3.2%
INR vs US\$ [stronger/(weaker)]	0.2%	0.2%
FII Net flows (US\$m)	1,978	1,978
DII Net flows (US\$m)	(1,633)	(1,633)

Macro indicators

CPI inflation (December/3m avg)	4.6%	6.4%
GDP Q2 FY21		(7.5%)
Current account/GDP Q2 FY21		1.3%

Source: Ocean Dial Asset Management Limited

Team commentary

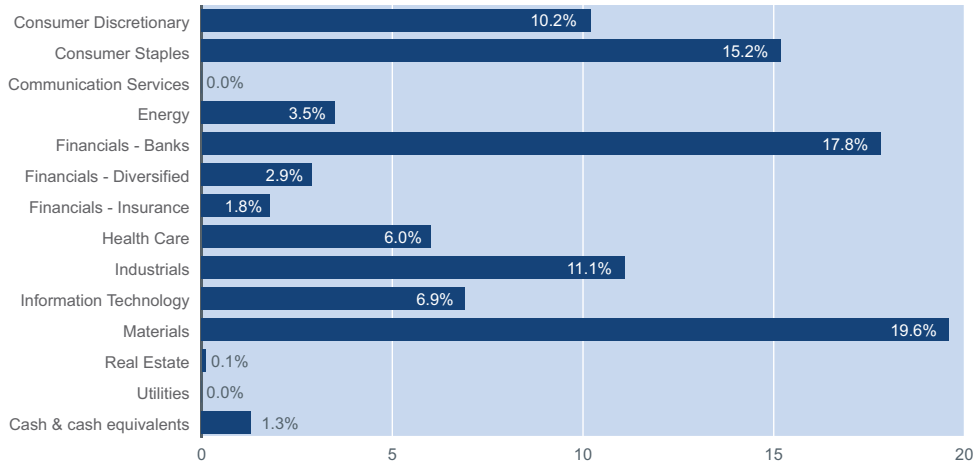
- 5 February [The Great Indian Budget 'Tamasha' II](#)
- 31 January [Monthly Book Review - The Black Swan](#)
- 28 January [In Conversation - India's turn to shine](#)
- 31 December [Monthly Book Review - Only the Paranoid Survive](#)
- 30 November [Monthly Book Review - Range: How Generalists Triumph in a Specialized World](#)
- 5 November [In Conversation - Early adopters are focusing on India once again](#)

Top ten holdings

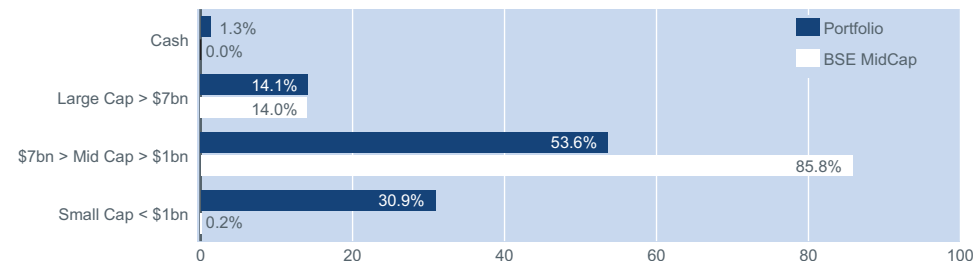
Portfolio Company	Weight	Characteristics	Market cap
Federal Bank	6.5%	Well run mid-sized private sector bank, attractive valuations	£1bn
Emami	6.1%	Dominant player across multiple niche consumer product categories, attractive valuations	£2bn
IndusInd Bank	5.0%	Fifth largest private sector bank in India and poised to gain market share. Value play with ebbing asset quality concerns	£6bn
PI Industries	4.4%	Quality agro-chemical company, high visibility, strong industry tailwinds in global supply chains	£3bn
Tech Mahindra	4.2%	IT services, leads telecommunications vertical with structural tailwinds	£9bn
Kajaria Ceramics	4.1%	Ceramic tile manufacturer, gaining market share from the unorganised sector following restrictions surrounding coal gasifiers	£1bn
Jyothy Laboratories	3.6%	Well diversified consumer portfolio, attractive valuations	£595m
Gujarat Gas	3.6%	Key beneficiary of India's transition to cleaner energy	£3bn
Ramkrishna Forgings	3.6%	Auto ancillary company manufacturing forgings for commercial vehicles in both domestic and international markets	£162m
Aegis Logistics	3.5%	Leading port terminal operator in liquified petroleum gas and chemicals. Key beneficiary of India's transition to cleaner energy	£981m

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 January 2021 (%)

Top 5	Ave. weight	Ave. index weight	Return	Contribution
Federal Bank	5.69	1.32	38.03	1.81
IndusInd Bank	5.25	0.00	39.13	1.78
Emami	5.53	0.92	29.88	1.49
Kajaria Ceramics	3.45	0.00	39.50	1.15
IDFC Bank	2.65	0.84	48.56	1.04
Bottom 5	Ave. weight	Ave. index weight	Return	Contribution
Essel Propack	2.49	0.00	(4.45)	(0.08)
Multi Commodity Exchange	3.02	0.00	(6.95)	(0.24)
Welspun India	2.92	0.00	(8.86)	(0.29)
Sagar Cements	2.41	0.00	(14.21)	(0.40)
PI Industries	5.11	1.88	(11.51)	(0.51)

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.

Tel: +44 (0) 20 7068 9870
Email: enquiries@oceandial.com

Website

www.indiacapitalgrowth.com

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.

Past performance is not a guide to future performance and investment markets and conditions can change rapidly. Emerging market equities can be more volatile than those of developed markets and equities in general are more volatile than bonds and cash. The value of your investment may go down as well as up and there is no guarantee that you will get back the amount that you invested. Currency movements may also have an adverse effect on the capital value of your investment. Investing in a country specific fund may be less liquid and more volatile than investing in a diversified fund in the developed markets. This Fund should be seen as a long term investment and you should read the London Stock Exchange Listing Prospectus published in December 2017 (the "Prospectus") whilst paying particular attention to the risk factors section before making an investment. Please refer to the Prospectus for specific risk factors.

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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