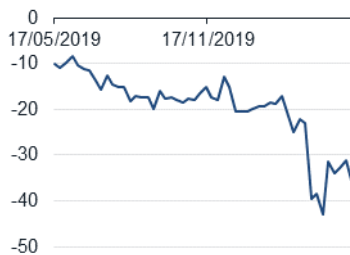


House Stock
Current price 41.5p
United Kingdom

Fund in the spotlight: IGC

IGC Discount



Source: Bloomberg

Code	IGC
NAV	61.1p
Discount	32.1%
Mkt Cap	£46.5m

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India Capital Growth Fund +

Bold fiscal policy may start recovery

The Indian economy entered the COVID-19 crisis in a relatively weak position. A sequence of structural measures including demonetisation and the introduction of the Goods and Services Tax (GST) had sapped the growth rate of the economy. A shadow banking crisis followed the surge in non-performing loans in public sector banks as inflation rates declined. We believe that India will exit the lockdown on 18 May 2020. A bold fiscal and monetary package (around 10% of GDP) is being proposed and we believe that this coupled with major structural pro-growth steps that the government is likely to announce will set the stage for a revival of the Indian economy and allow mid and small cap companies to navigate these difficult times and resume on their growth path in the medium-term. India Capital Growth (IGC) offers investors exposure to a portfolio of resilient mid and small companies, trading at attractive pre-COVID valuations, well placed to capitalise on the revival of growth in India.

Prime Minister Narendra Modi has spelt out the broad framework for a bold fiscal package. Coupled with the monetary support and the previously announced packages, the total impact is expected to be c.10% of GDP. This is a welcome step in our opinion and we await details.

We also await the substantial reform that Modi has promised. In India, leaders of industry have expressed a high degree of optimism even as they wait for the details of the package. There is likely to be a strong emphasis on a quantum transformation of the economy as well as support measures to boost demand. Make in India, a key focus of the government is likely to see huge emphasis as self-reliance has become critical, in the shadow of the pandemic.

Additionally, we are likely to see India begin to substantially exit the lockdown from 18 May 2020, while trying to control the spread of the virus with measures such as extensive testing, face masks and social distancing. We await the plans for relaxing the current lockdown measures, the economic stimulus details and the reform agenda which has the potential to be transformational.

Indian mid and small cap companies tend to be beneficiaries of accelerating growth and should the bold policy measures that have been promised, actually start to be implemented, we are likely to see a meaningful rally in these stocks that have been substantially de-rated.

The portfolio of India Capital Growth Fund (IGC) has been stress-tested, for liquidity and cash burn under a zero revenue condition for six months and the portfolio advisor, Gaurav Narain, believes the several companies in the portfolio should see a sharp rebound as the economy re-opens and be in a position to capture a rebalancing in global trade, were it to occur.

IGC: Mid-cap exposure

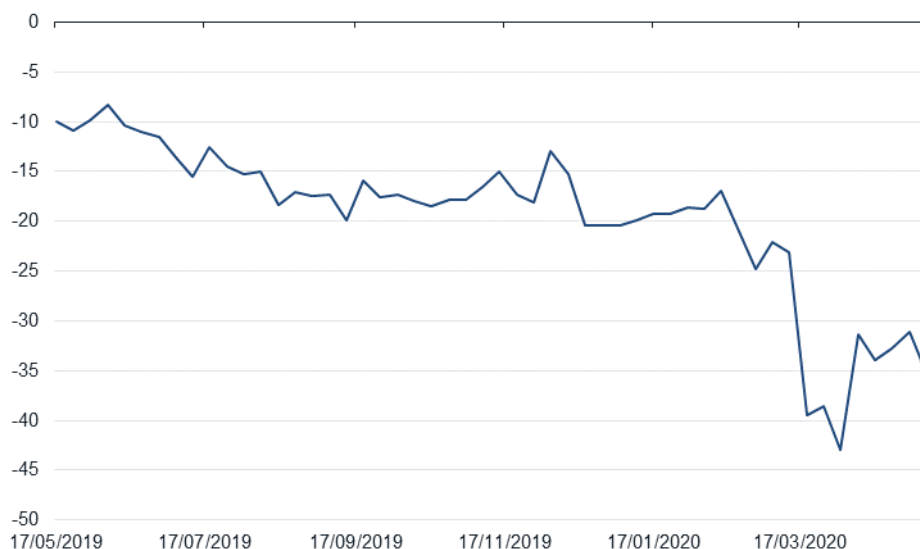
Well positioned to benefit from the potential transformation

Almost immediately after the lockdown was announced in India, the government announced a package of c.£17bn, under a new scheme called the Pradhan Mantri Gareeb Kalyan Yojana (PMGKBY), to address the immediate economic distress in the wake of the lockdown prompted by COVID-19 to ensure food and cash reached the marginalised segments of society. These included additional food transfers at no cost, cash for vulnerable segments, concessions on government schemes aimed to help households reduce their expenditure, and support those on the frontline of the battle against the pandemic. The primary beneficiaries of these measures were those below the poverty line, farmers, women, elderly citizens, the physically challenged, construction workers, and workers in both the unorganised and organised sectors.

While this helped, the lockdown in India has had a significant impact on the economy and the monetary and fiscal steps that had been announced earlier were clearly not enough. The proposed package is expected to take the total stimulus measures to c.\$270bn. We believe that if the government executes on the measures outlined in Modi’s speech yesterday, this could be a major boost for the medium and long-term growth prospects of the Indian economy substantially. Several industrialists have compared this to the moment in 1991, when a Narasimha Rao government, with ex-PM Manmohan Singh as the finance minister, unleashed a sequence of major reforms, while facing a precarious balance of payments crisis.

Mid-cap stocks should be beneficiaries of the major structural change and the fiscal and monetary support that is being promised. Given the wide discount that IGC is currently trading at, investors in IGC should see a narrowing discount and strong NAV performance over the medium term, if the government delivers on its fiscal and monetary support measures and transformative structural reform.

Figure 1: IGC Discount (32.1% as at 11 May 2020, %)



Source: Bloomberg

We note that IGC's NAV performance has been relatively weak. We believe that the primary driver was the economic slowdown in India, which led to a substantial de-rating of mid and small cap stocks in India, though some individual stock specific factors also contributed to the underperformance. Narain believes that pre-COVID, the portfolio was trading at a 15.4X PE multiple, based on expected earnings for the FY ending March 2020, as at 30 April 2020. Narain has stress-tested the portfolio and believes that virtually the entire portfolio has the balance sheet strength to weather a zero-revenue situation for a prolonged period of time.

Figure 2: IGC NAV TR vs. BSE MidCap TR Index as at 30 April 2020 (in GBp)

	1m	3m	6m	1yr	3yr	5yr
ICGF Rebased NAV*	12.1	-28.1	-29	-36.8	-43.3	-1.5
ICGF NAV	12.1	-28.1	-29	-36.8	-43.3	-9.2
BSE MidCap TR Index	13	-21.9	-20.5	-21.1	-25.8	28.1

*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, Bloomberg

While there is a risk that once again the details of the package disappoint equity markets, the risk-reward for investors in IGC is looking attractive, given the discount it is trading at, the valuation of the underlying portfolio and the possibility that the Indian economy stabilises with the help of a substantial fiscal package and subsequently moves to a higher growth trajectory.

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India Capital Growth Fund +	1,3,4,5,9,13	15 Apr 19	House Stock

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