

India Capital Growth Fund

AUGUST 2021

India Capital
GROWTH FUND

Net Asset Value

The Net Asset Value (NAV) per share as at 31 August 2021 was 131.44 pence. In August the NAV was up 3.10% in Sterling terms, whilst the BSE MidCap TR Index was up 6.26%. In local currency terms, the NAV was up 0.34% for the month.

Portfolio activity

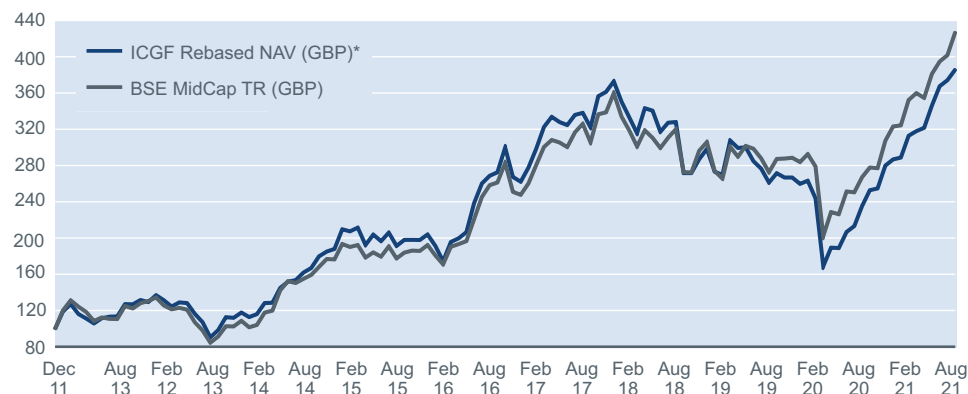
New purchases Affle India Ltd **Exits** None

Holdings in focus

Affle India (Affle) is a digital ad-tech company operating only in the mobile space. Using data science algorithms, Affle enables advertisers to drive targeted marketing campaigns to acquire new customers or engage existing ones. It earns 89% of revenue through an ROI based cost-per-converter-user revenue model where Affle gets paid when a potential customer is converted. It has strong position in markets such as India (revenue c. 48%) and other Emerging markets across SEA, MENA, and LatAm – which provides large market opportunity with high barriers to entry due to disjointed demographic and lower shopper penetration. With increasing smartphone usage and online shopping both accelerated by Covid-19, we believe Affle provides exposure to a large market opportunity across the digital ecosystem. Advertisers continue moving towards digital marketing from the traditional media; and within digital marketing, mobile based ROI-linked programmatic advertising is gaining share due to targeted advertising and alignment of incentives. Affle's ROI-linked revenue model is supported by strong network effects – more data enables better efficacy of AI/ML algorithm, driving higher conversions and leading to more advertisers joining Affle's platform with more insightful consumer data. It is a leader in its space and has compounded earning at a CAGR of 52% over the last 3 years. Its business model is only getting stronger given evident network effects. We believe Affle to be a high growth business and expect the earning to grow at a CAGR of 47% between FY21 and FY24E.

Bajaj Consumer is a household name. Its flagship brand, Bajaj Almond Drops Hair Oil (ADHO), commands a 60% volume share in the premium category of light hair oils. Though the business is highly profitable with 28-30% operating margins, growth over the last 5 years slowed down to a low single digits due to dependence on a single product (90% of sales from ADHO), increased competition and a strategy focused on maintaining profitability. The Board has however taken several initiatives to change the growth profile of the business. The Appointment of a new CEO (18 months ago) with 3 decades of experience in sales and marketing has been followed up with a revamped senior management team. The company is diversifying its portfolio and has launched new products and brand extensions across hair oil categories, including niche offerings targeting digital consumers. This has also been accompanied by reforms to its distribution chain with a cluster-based approach as well a big rural penetration push through a rural van initiative. With all these initiatives we expect the company revenue growth to accelerate, even though margins will rightly settle lower as the company increases its marketing spend. It trades at PE of 14x FY23 18% discount to its 5-year average. This is well below its FMCG peers. As growth revives we expect this discount to narrow supported by a strong balance sheet with cash at 16% of market cap and ROIC over 30%.

Rebased NAV Performance since 31 December 2011 (%)



Source: Ocean Dial Asset Management Limited, Bloomberg

Performance (%)

	1m	3m	6m	1yr	3yr	5yr
ICGF Rebased NAV ¹	3.1	11.5	23.3	64.0	17.6	43.6
ICGF NAV	3.1	11.5	23.3	64.0	17.6	43.6
BSE MidCap TR Index	6.3	12.0	21.2	59.8	33.4	65.3

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 Limited, Bloomberg

Fund information

Listing	LSE Main Market
Domicile	Guernsey
NAV publication	Monthly (daily estimate)
Size (NAV)	£147.88m
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)	115.50 / 131.44
Discount to NAV	12.13%

Portfolio characteristics

Number of holdings	33
Median market cap	£1.4bn
PE FY23E	17.5
ROE (3y Avg)	19.3%
Tracking Error	7.0%
Active Share	92.6%

India highlights

	MTD	YTD
BSE 500 (US\$)	8.5%	26.8%
iShares MSCI Asia ex-Japan (US\$)	1.1%	(0.9%)
iShares MSCI EM Index (US\$)	1.6%	1.4%
INR vs US\$ [stronger/(weaker)]	1.9%	0.1%
FII Net flows (US\$m)	669	7,475
DII Net flows (US\$m)	1,327	2,902

Macro indicators

CPI inflation (July/3m avg)	5.6%	6.2%
GDP Q1 FY22		20.1%
Current account/GDP Q4 FY21		0.9%

Source: Ocean Dial Asset Management Limited

Team commentary

31 August	Monthly Book Review - Tiananmen Square
31 July	Monthly Book Review - Talking to Strangers
13 July	HOODcast - Industry Leaders: Welspun India (discussion on the note)
30 June	Monthly Book Review - How to Avoid a Climate Disaster
6 June	HOODstock - India Capital Growth Fund's Industry Leaders: #2 Welspun India

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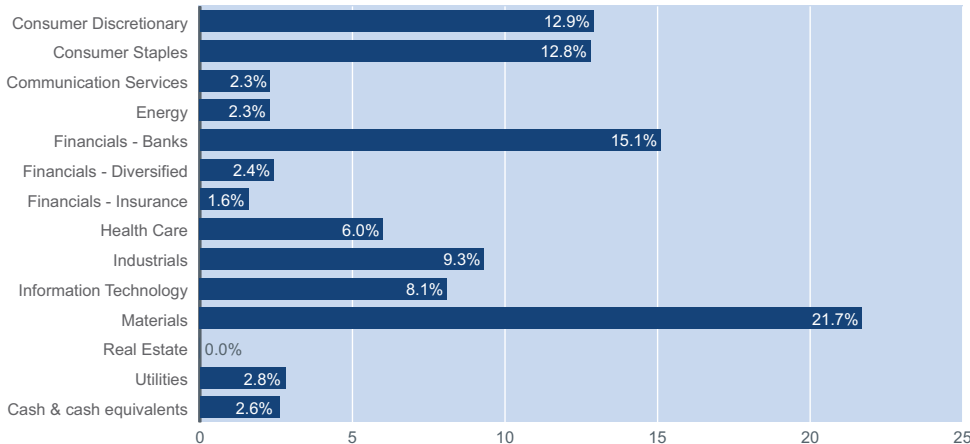
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Top ten holdings

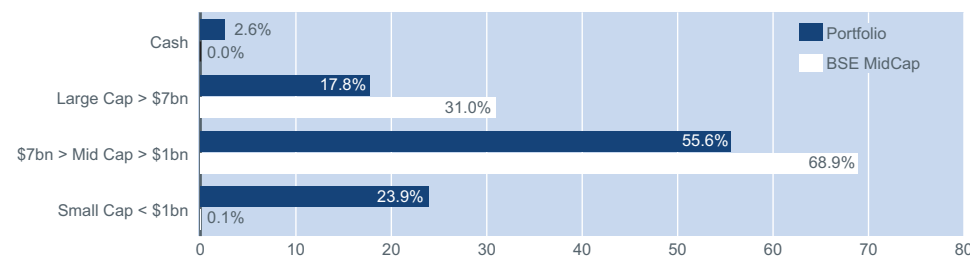
Portfolio Company	Weight	Characteristics	Market cap
Federal Bank	5.7%	Well run mid-sized private sector bank, attractive valuations	£2bn
Emami	5.3%	Dominant player across multiple niche consumer product categories, attractive valuations	£3bn
Tech Mahindra	4.5%	IT services, leads telecommunications vertical with structural tailwinds	£14bn
Ramkrishna Forgings	4.5%	Auto ancillary company manufacturing forgings for commercial vehicles in both domestic and international markets	£314m
PI Industries	4.3%	Quality agro-chemical company, high visibility, strong industry tailwinds in global supply chains	£5bn
IndusInd Bank	4.3%	Fifth largest private sector bank in India and poised to gain market share. Value play with ebbing asset quality concerns	£8bn
Welspun India	3.8%	India's largest home textile company, strong industry tailwinds in global supply chains and increased consumer focus on health	£1bn
Kajaria Ceramics	3.7%	Ceramic tile manufacturer, gaining market share from the unorganised sector following restrictions surrounding coal gasifiers	£2bn
Persistent Systems	3.6%	IT services company benefitting from 'digital transformation' of businesses globally	£3bn
Sagar Cements	3.3%	Fastest growing cement player in Southern India with strong technical manufacturing expertise and sharp focus on efficiency and sustainability	£326m

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 August 2021 (%)

Top 5	Ave. weight	Ave. index weight	Return	Contribution
Ramkrishna Forgings	3.64	0.00	56.10	1.74
Tech Mahindra	3.80	0.00	48.22	1.61
Gujarat Gas	3.65	0.00	37.33	1.47
Sagar Cements	2.96	0.00	63.49	1.43
Welspun India	3.54	0.00	45.37	1.35
Bottom 5	Ave. weight	Ave. index weight	Return	Contribution
City Union Bank	2.22	0.00	(10.00)	(0.27)
Federal Bank	5.93	1.29	(4.34)	(0.31)
Neuland Laboratories	3.16	0.00	(21.45)	(0.69)
Aegis Logistics	2.92	0.00	(24.47)	(0.78)
IDFC Bank	3.97	1.06	(25.19)	(1.14)

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
Lynne Duquemin

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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