

India Capital Growth Fund

JUNE 2021

India Capital
GROWTH FUND

Net Asset Value

The Net Asset Value (NAV) per share as at 30 June 2021 was 125.22 pence. In June the NAV was up 6.18% in Sterling terms, whilst the BSE MidCap TR Index was up 3.58%. In local currency terms, the NAV was up 6.26% for the month.

Portfolio activity

New purchases Sona BLW Precision Forgings Limited
Exits Arihant Foundations & Housing, BLS International Services

Holdings in focus

Jyothy Laboratories (Jyothy) is a mid-sized consumer staples company manufacturing and selling a diversified product basket across fabric wash, soaps, household insecticides, and dishwashing. Jyothy is the market leader in post-wash fabric whitener, Ujala Supreme, and second in dish wash and mosquito repellent coils. Despite the pandemic-led lockdown, Jyothy grew its revenue by 12% and increased its market share across all product categories in FY21 driven by distribution expansion and penetration gains led by small unit packs in rural India. The majority of Jyothy's revenue comes from South and West India but it is now increasing its focus on the North and East. This, along with initiatives such as digitalisation of distributors, sales-force automation, and rationalisation of the trade pipeline by implementing a continuous replenishment system (CRS), should help drive revenue going forward. In FY21, the fabric wash product line was adversely impacted on the back of reduced out-of-home activity, resulting in lower usage of detergent and post-wash products. A high margins segment for the company, the vaccination roll-out and a return to pre-pandemic activity would boost revenue from fabric wash and, in turn, aid margins. We expect Jyothy to grow its revenues at 12% CAGR and PAT at 15% CAGR over the next two years. The Company trades at a PE of 21x FY23, a discount of 25% against its average 1-year forward PE multiple over the last five years. With growth and profitability improving we expect the company to re-rate back to its historical valuation.

Sona BLW Precision Forgings (Sona BLW), an auto ancillary company, is a new addition to the ICGF portfolio following a recent IPO where one of its principal promoters, Blackstone Group, sold a part of their holdings. It supplies critical auto components such as differential assemblies, differential gears, starter motors and traction motors to automotive companies across the world. It has two business segments: 1) the driveline business, which makes differential gears and assemblies, and 2) the electrical business, which makes starter motors for conventional and micro-hybrid vehicles. Sona BLW is a direct beneficiary of electric vehicle (EV) adoption globally as differential assemblies and gears are a critical component to manage high torque requirements in EV. In FY21, EV contributed 14% of revenues, out of which Tesla accounts for 13%. Sona BLW has won significantly large orders from Tesla and is the sole supplier to Tesla's China plant. Beyond this, it has a strong order book, winning 15 deals from 10 EV manufacturers. Sona BLW's strength comes from in-house design of dies, knowledge of metallurgy and in-house warm forging, making it one of the most integrated players in the differential gears market, and with higher margins (27-28% EBITDA margin in the last four years). We expect revenue to grow at 41% CAGR over the next three years driven by strong order books in both its segments, margins to stay in the range of 28-29%, and ROCE to jump to over 30%. We believe Sona BLW is in a strong position to benefit from EV adoption unlike many other auto ancillary players who will likely face disruption as a result.

Rebased NAV Performance since 31 December 2011 (%)



Source: Ocean Dial Asset Management Limited, Bloomberg

Performance (%)

	1m	3m	6m	1yr	3yr	5yr
ICGF Rebased NAV*	6.2	15.6	28.2	77.8	15.8	54.0
ICGF NAV	6.2	15.6	28.2	77.8	15.8	50.3
BSE MidCap TR Index	3.6	9.7	22.2	57.0	31.9	78.7

*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)	£140.87m
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)	110.50 / 125.22
Discount to NAV	11.8%

Portfolio characteristics

Number of holdings	32
Median market cap	£1.4bn
PE FY23E	16.9
ROE (3y Avg)	18.7%
Tracking Error	6.7%
Active Share	92.5%

India highlights

	MTD	YTD
BSE 500 (US\$)	(0.6%)	15.2%
iShares MSCI Asia ex-Japan (US\$)	0.3%	5.3%
iShares MSCI EM Index (US\$)	0.4%	6.2%
INR vs US\$ [stronger/(weaker)]	(2.4%)	(1.7%)
FII Net flows (US\$m)	2,210	8,169
DII Net flows (US\$m)	968	(497)

Macro indicators

CPI inflation (March/3m avg)	6.3%	5.4%
GDP Q3 FY21		1.6%
Current account/GDP Q3 FY21		0.9%

Source: Ocean Dial Asset Management Limited

Team commentary

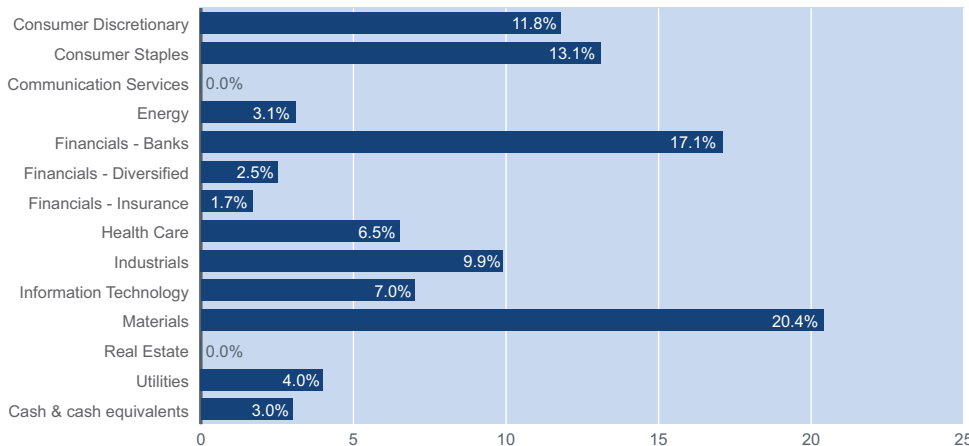
30 June	Monthly Book Review - How to Avoid a Climate Disaster
6 June	HOODstock - India Capital Growth Fund's Industry Leaders: #2 Welspun India
31 May	Monthly Book Review - Essentialism: The Disciplined Pursuit of Less
25 May	HOODcast - A Tale of Two Stocks (discussion on the note)
30 April	Monthly Book Review - Slowly Down the Ganges
29 April	HOODinar - Covid-19: India's second wave
12 April	HOODnote - A Tale of Two Stocks

Top ten holdings

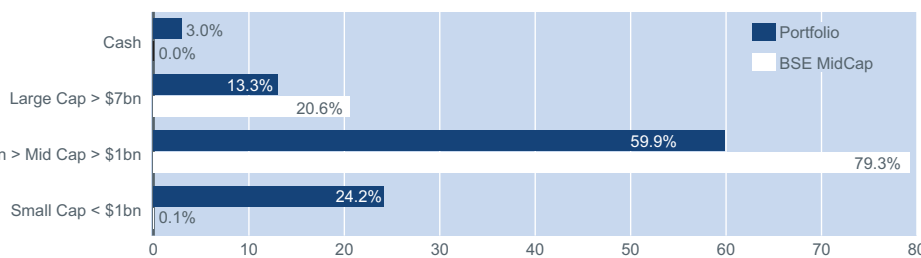
Portfolio Company	Weight	Characteristics	Market cap
Federal Bank	6.0%	Well run mid-sized private sector bank, attractive valuations	£2bn
Emami	5.2%	Dominant player across multiple niche consumer product categories, attractive valuations	£2bn
IndusInd Bank	4.6%	Fifth largest private sector bank in India and poised to gain market share. Value play with ebbing asset quality concerns	£8bn
PI Industries	4.4%	Quality agro-chemical company, high visibility, strong industry tailwinds in global supply chains	£4bn
IDFC Bank	4.2%	Well capitalised private sector retail bank. Digitally-focused and on a high growth trajectory	£3bn
Gujarat Gas	4.0%	Key beneficiary of India's transition to cleaner energy	£4bn
Tech Mahindra	3.6%	IT services, leads telecommunications vertical with structural tailwinds	£10bn
Persistent Systems	3.4%	IT services company benefitting from 'digital transformation' of businesses globally	£2bn
Neuland Laboratories	3.4%	API and Custom Manufacturing solutions (CMS) provider to multinational pharmaceutical companies. Beneficiary of China-dominated supply chain disruptions	£269m
Kajaria Ceramics	3.2%	Ceramic tile manufacturer, gaining market share from the unorganised sector following restrictions surrounding coal gasifiers	£2bn

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 30 June 2021 (%)

Top 5	Ave. weight	Ave. index weight	Return	Contribution
Persistent Systems	2.85	0.00	49.94	1.27
PI Industries	4.48	1.72	26.38	1.14
CCL Products India	2.45	0.00	51.59	1.13
Sagar Cements	2.31	0.00	50.65	1.02
Skipper	2.51	0.00	44.32	0.97
Bottom 5	Ave. weight	Ave. index weight	Return	Contribution
The Ramco Cements	2.03	1.03	0.33	(0.03)
Multi Commodity Exchange	2.78	0.00	(1.38)	(0.04)
Sona BLW Precision Forgings	0.10	0.00	(4.59)	(0.07)
IDFC Bank	4.69	1.17	(4.58)	(0.16)
PSP Projects	1.27	0.00	(11.52)	(0.20)

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.

Tel: +44 (0) 20 7068 9870

Email: enquiries@oceandial.com

Website

www.indiacapitalgrowth.com

Important information

The information in this document does not constitute or contain an offer or invitation for the sale or purchase of any shares in the Fund in any jurisdiction, is not intended to form the basis of any investment decision, does not constitute any recommendation by the Fund, its directors, agents or advisers, is unaudited and provided for information purposes only and may include information from third party sources which has not been independently verified.

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.

This document is issued by Ocean Dial Asset Management Limited and views expressed in this document reflect the views of Ocean Dial Asset Management Limited and its Mumbai based affiliated company and advisor, Ocean Dial Asset Management India Private Limited as at the date of publication.

This information may not be reproduced, redistributed or copied in whole or in part without the express consent of Ocean Dial Asset Management Limited. Ocean Dial Asset Management Limited is authorised and regulated by the Financial Conduct Authority in the United Kingdom. Registered office 13/14 Buckingham Street, London WC2N 6DF.