

India Capital Growth Fund

OCTOBER 2021

India Capital
GROWTH FUND

Net Asset Value

The Net Asset Value (NAV) per share as at 29 October 2021 was 132.36 pence. In October the NAV was down 3.11% in Sterling terms, whilst the BSE MidCap TR Index was down 3.04%. In local currency terms, the NAV was up 0.04% for the month.

Portfolio activity

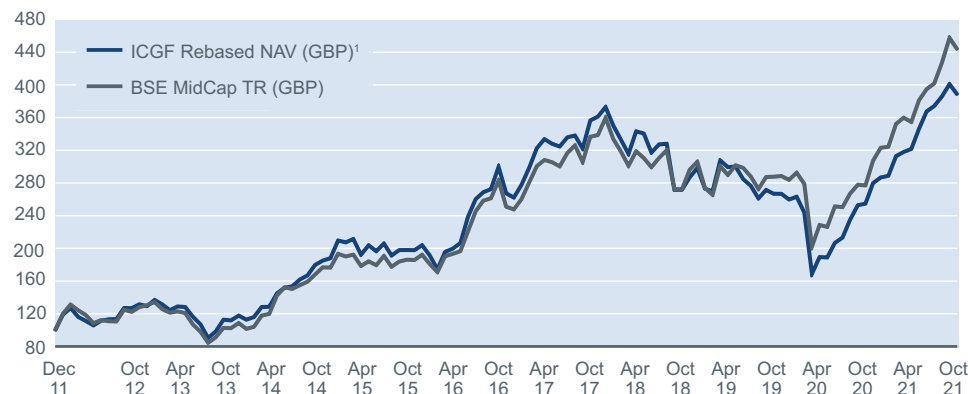
New purchases None **Exits** None

Holdings in focus

MCX is India's largest commodity exchange with more than 90% of market share in commodity derivatives trading. It has nearly 100% share in non-Agricultural commodities consisting of bullion, energy and base metals, and has increased its share of Agriculture to 21% in FY21 from 17%, in FY19. MCX has 600+ registered members, 4.2mn connected terminals in ~ 1000 cities in India. It has maintained such a strong monopoly over the last two years with 90%+ share despite the entry of 2 strong competitors – NSE and BSE, showcasing the business's strong network effects. Given the nascence of commodity derivatives in India (0.5% volume/GDP, FY19), the regulator has been taking steps to expand the market – allowing the addition of new distribution channels (banks' broking subsidiaries), new products (option contracts, commodity index futures, new participants (institutions like MFs, AIFs, FPIs) and very recently a gold spot exchange with the objective of making India, a price maker in bullion. We believe these initiatives will go a long way in growing the commodity market in India, and MCX being the dominant player is well-placed to benefit the most. FY21 was a tough year on account of COVID-driven restricted timings and upfront margin requirements, but going forwards, we expect a 23% CAGR in EBITDA and margins expanding to 60% from 47% over FY21-23E, on the back of improving volumes and operating efficiency due to lower software costs. With FCF to net profits at ~100%, negative working capital, high cash levels in on its balance sheet and a steady dividend payout MCX is an attractive play on India's financialisation story.

Gujarat Gas is India's largest city gas distribution company with volumes of ~12mmscmd (million metric standard cubic meter per day). It operates in 24 districts in the industrialised states of Gujarat and Maharashtra supplying gas to small industries (75% of revenues) with a network of 24,000+km pipeline. Its major user industries are ceramic tiles, chemicals, agrochemicals and pharmaceuticals. It supplies gas to the majority of factories in Morbi (in the state of Gujarat), a ceramic tile manufacturing hub, producing 90%+ of India's total tiles. In the last 2 years, there has been increased regulatory pressure by National Green Tribunal on industries to move to cleaner fuels. Gujarat Gas also has nearly 500 Compressed Natural Gas stations which is a higher margin part of the business. The demand environment is strong, which is also reflected in Gujarat Gas being able to exercise considerable pricing power. Hence, despite a spurt in spot LNG prices from \$8/mmbtu to \$30/mmbtu in the last 6-8 months, Gujarat Gas has been able to take 2 consecutive price increases of over 20% each with negligible volume impact. We forecast 18% annualised growth in volumes from FY21-24 driven by a 24% yearly expansion in the more profitable CNG business. We believe Gujarat Gas will be able to maintain its margin in the stated range of ~Rs5.5-6/scm driving 19% CAGR in earnings. More importantly, this stability in earnings is should drive a consistently high ROCE of ~30% versus ~19% in the previous 5 years.

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) | 3.8 | 20.8 | 52.5 | 43.0 | 29.6 |
| ICGF NAV | (3.1) | 3.8 | 20.8 | 52.5 | 43.0 | 29.6 |
| BSE MidCap TR Index | (3.0) | 10.4 | 25.1 | 60.1 | 63.0 | 56.8 |

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) | £148.91m |
| 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) | 121.00 / 132.36 |
| Discount to NAV | 8.58% |

Portfolio characteristics

| | |
|--------------------|--------|
| Number of holdings | 32 |
| Median market cap | £1.3bn |
| PE FY23E | 18.2 |
| ROE (3y Avg) | 18.9% |
| Tracking Error | 6.8% |
| Active Share | 92.1% |

India highlights

| | MTD | YTD |
|-----------------------------------|---------|--------|
| BSE 500 (US\$) | (0.5%) | 28.1% |
| iShares MSCI Asia ex-Japan (US\$) | 1.6% | (3.4%) |
| iShares MSCI EM Index (US\$) | 1.1% | (1.0%) |
| INR vs US\$ [stronger/(weaker)] | (0.9%) | (2.5%) |
| FII Net flows (US\$m) | (2,540) | 6,343 |
| DII Net flows (US\$m) | 614 | 4,305 |

Macro indicators

| | | |
|------------------------------------|------|-------|
| CPI inflation (September / 3m avg) | 4.4% | 5.1% |
| GDP Q1 FY22 | | 20.1% |
| Current account/GDP Q1FY22 | | 0.4% |

Source: Ocean Dial Asset Management Limited

Team commentary

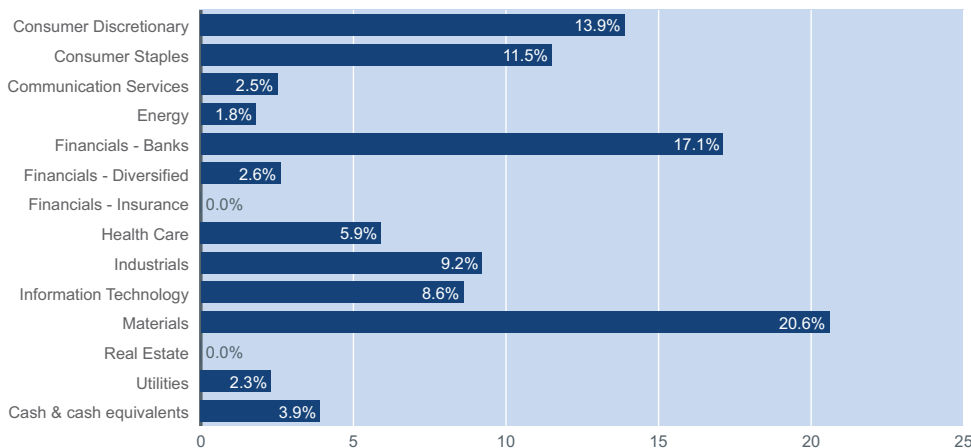
| | |
|--------------|---|
| 10 November | Monthly Book Review - Big mistakes: The best investors and their worst investments |
| 21 October | Hoodinar: Where next for India's equity investors? |
| 07 October | Monthly Book Review - Zero to one notes on startups or how to build the future |
| 14 September | Mello Trusts and Funds - David Cornell and Gaurav Narain present the investment case for India at Mello Trust and Funds' virtual conference |
| 31 August | Monthly Book Review - Tiananmen Square |

Top ten holdings

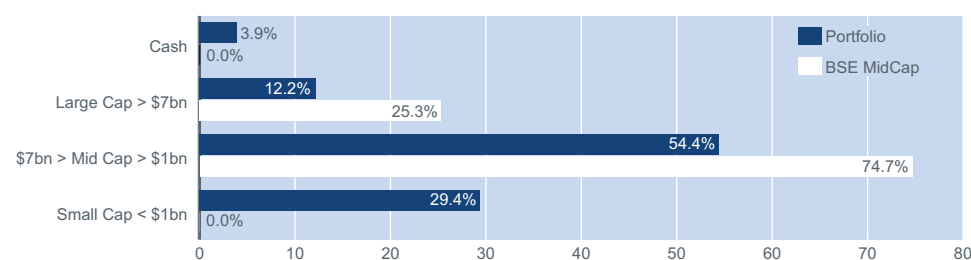
| Portfolio Company | Weight | Characteristics | Market cap |
|---------------------|--------|--|------------|
| Federal Bank | 6.7% | Well run mid-sized private sector bank, attractive valuations | £2bn |
| Ramkrishna Forgings | 4.8% | Auto ancillary company manufacturing forgings for commercial vehicles in both domestic and international markets | £338m |
| IndusInd Bank | 4.7% | Fifth largest private sector bank in India and poised to gain market share. Value play with ebbing asset quality concerns | £9bn |
| Emami | 4.6% | Dominant player across multiple niche consumer product categories, attractive valuations | £2bn |
| Tech Mahindra | 4.5% | IT services, leads telecommunications vertical with structural tailwinds | £14bn |
| Persistent Systems | 4.2% | IT services company benefitting from 'digital transformation' of businesses globally | £3bn |
| Welspun India | 4.0% | India's largest home textile company, strong industry tailwinds in global supply chains and increased consumer focus on health | £1bn |
| PI Industries | 3.7% | Quality agro-chemical company, high visibility, strong industry tailwinds in global supply chains | £4bn |
| Kajaria Ceramics | 3.7% | Ceramic tile manufacturer, gaining market share from the unorganised sector following restrictions surrounding coal gasifiers | £2bn |
| IDFC Bank | 3.5% | Well capitalised private sector retail bank. Digitally-focused and on a high growth trajectory | £3bn |

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 29 October 2021 (%)

| Top 5 | Ave. weight | Ave. index weight | Return | Contribution |
|---------------------------------|-------------|-------------------|---------|--------------|
| Ramkrishna Forgings | 4.57 | 0.00 | 32.31 | 1.20 |
| Tech Mahindra | 4.34 | 0.00 | 22.91 | 0.88 |
| Persistent Systems | 3.77 | 0.00 | 25.58 | 0.83 |
| Sona BLW Precision Forgings Ltd | 2.08 | 0.20 | 48.34 | 0.79 |
| Kajaria Ceramics | 3.53 | 0.00 | 23.57 | 0.74 |
| Bottom 5 | Ave. weight | Ave. index weight | Return | Contribution |
| Skipper | 2.20 | 0.00 | (15.16) | (0.35) |
| Bajaj Consumer Care | 1.92 | 0.00 | (18.41) | (0.39) |
| Ccl Products India | 2.72 | 0.00 | (13.05) | (0.39) |
| Neuland Laboratories | 2.84 | 0.00 | (15.51) | (0.46) |
| Aegis Logistics | 2.12 | 0.00 | (32.50) | (0.86) |

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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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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