

India Capital Growth Fund

DECEMBER 2021

India Capital
GROWTH FUND

Net Asset Value

The Net Asset Value (NAV) per share as at 31 December 2021 was 134.74 pence. In December the NAV was up 2.29% in Sterling terms, whilst the BSE MidCap TR Index was up 0.83%. In local currency terms, the NAV was up 2.61% for the month.

Portfolio activity

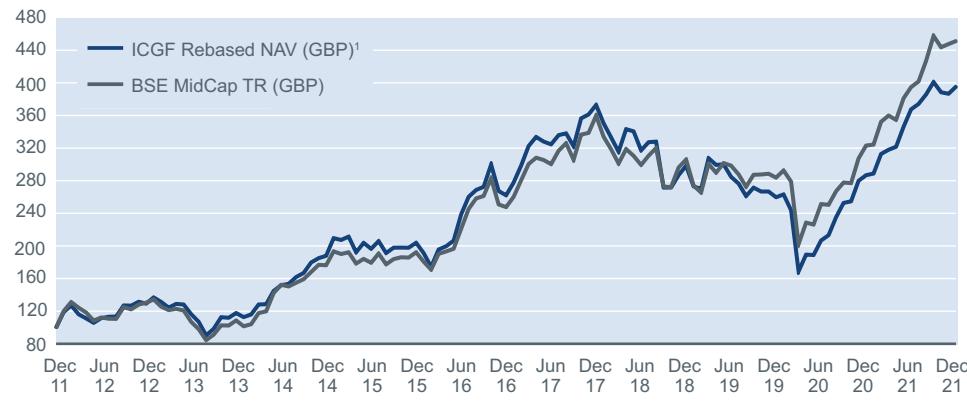
New purchases	None	Exits	Bajaj Consumer Care
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Holdings in focus

IDFC First Bank, is one of the youngest private sector banks in India. Formed by the merger in 2018 of Capital First (a retail lending Non-Banking Finance Company) and IDFC Bank (an infrastructure lender which got a banking license in 2015), it is transitioning to a new age retail Bank with a strong digital focus. Key to the transition is the management team of Capital First, headed by Mr. Vaidyanathan. He started his career at Citibank, is credited with building ICICI Bank's retail business during the 2000s and subsequently heading ICICI Prudential Life Insurance in 2009-10. He took over Capital First in 2012 and backed by Warbug Pincus built a US\$4bn retail book with an ROE of 15%. Post-Merger, the bank had shared its 5-year strategy, of which they have already achieved an industry best CASA ratio of 51%, Net Interest Margins of over 5.5% and a 70% retail mix in the loan book as of September 2021, with operating efficiency as the last leg to generate sustainable RoAs of 1.4-1.6%. Accelerated retail deposits growth due to COVID is helping the bank to diversify into less riskier segments like home loans and improve its customer base. Its share of prime customers (bureau score > 700) is now at 85%. COVID related restrictions had impacted asset quality for the bank, although we take comfort from a 60% coverage ratio. Having up-fronted potential stress in the legacy corporate and infrastructure book through aggressive provisioning, worries are now diminishing on that front. The impending reverse merger with the holding company is a step in right direction and clarifies the position of the promoters and ensures management stability. We believe the bank is poised for a period of strong sustainable growth and as the improving operating metrics play out, is poised for a rerating.

Ramkrishna Forgings (RMKF) is an auto ancillary company focusing on forgings for Medium & Heavy Commercial Vehicles (MHCV). It derives 40% of revenues from exports, primarily to the US Class-8 truck market. Unlike its bigger peer (Bharat Forge), RMKF's revenues are predominantly from the auto sector (90% of revenues). In the last three years, RMKF has added machining capacity and new clients in overseas markets of Europe, USA & Latin America. During this period of cyclical slowdown, it has received all the product approvals from customers and built a strong order pipeline. In India, MHCV volumes have picked up substantially and are expected to reach their peak levels in FY23/24. RMKF is gaining market share in the domestic market driven by higher content per vehicle due to regulatory changes. In export markets, the US Class-8 truck volumes are also rising and expected to remain strong for CY22 as well. It has added new customers driving higher growth than peers. We believe RMKF is well placed in this cyclical recovery with a diversified set of customers, presence in more geographies, orders for value-added products (higher machined products leading to higher realisation). Beyond automobiles, it has received approval from the Indian Railways for supplying coaches, which is expected to add to growth from FY23 onwards. We believe RMKF is on the cusp of strong growth driven by a pick-up in both key markets and a more diversified revenue stream, with 38% sales and 140% EPS CAGR across FY21-FY24. This strong growth will help it achieve a ROCE of 20% and ROE of 25% in FY23.

Rebased NAV Performance since 31 December 2011 (%)



Performance (%)

	1m	3m	6m	1yr	3yr	5yr
ICGF Rebased NAV ¹	2.3	(1.4)	7.6	37.9	32.5	50.9
ICGF NAV	2.3	(1.4)	7.6	37.9	32.5	50.9
BSE MidCap TR Index	0.8	(1.4)	14.3	39.7	47.5	82.2

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)	£151.03m*
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)	119.75 / 134.74
Discount to NAV	11.13%

* Before Redemption Facility applications

Portfolio characteristics

Number of holdings	32
Median market cap	£1.6bn
PE FY23E	18.5
ROE (3y Avg)	18.6%
Tracking Error	6.7%
Active Share	90.9%

India highlights

	MTD	YTD
BSE 500 (US\$)	3.4%	27.9%
iShares MSCI Asia ex-Japan (US\$)	1.1%	(5.7%)
iShares MSCI EM Index (US\$)	1.5%	(3.6%)
INR vs US\$ [stronger/(weaker)]	1.1%	(1.7%)
FII Net flows (US\$m)	(2,439)	3,846
DII Net flows (US\$m)	4,853	12,540

Macro indicators

CPI inflation (November/3m avg)	4.9%	4.6%
GDP Q2 FY22		8.4%
Current account/GDP Q2 FY22		(0.5%)

Source: Ocean Dial Asset Management Limited

Team commentary

11 January	Monthly Book Review - Cryptonomicon by Neal Stephenson
10 January	ICGF Redemption Facility Announcement
5 January	ODAM announcement - Appointment of Swati Jain as Global Head of Sales and Distribution
9 December	Hoodinar: India - From recovery to lift off.
8 December	Monthly Book Review - Invested by Charles Schwab
10 November	Monthly Book Review - Big mistakes: The best investors and their worst investments

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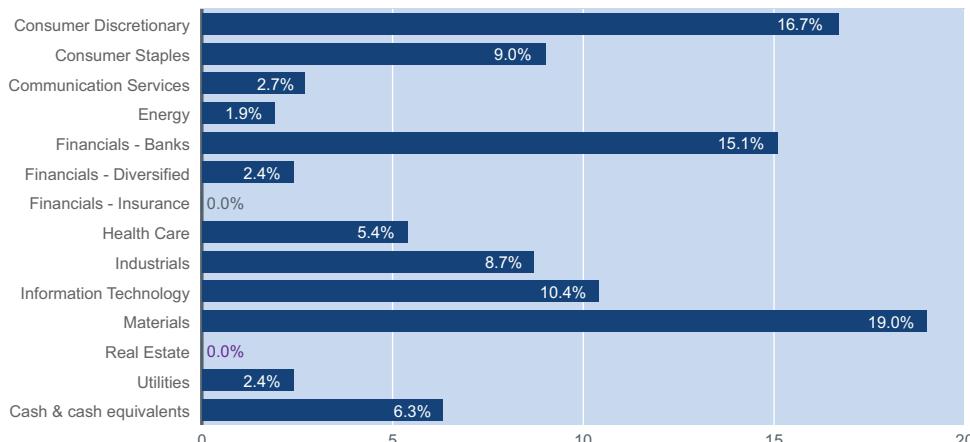
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Top ten holdings

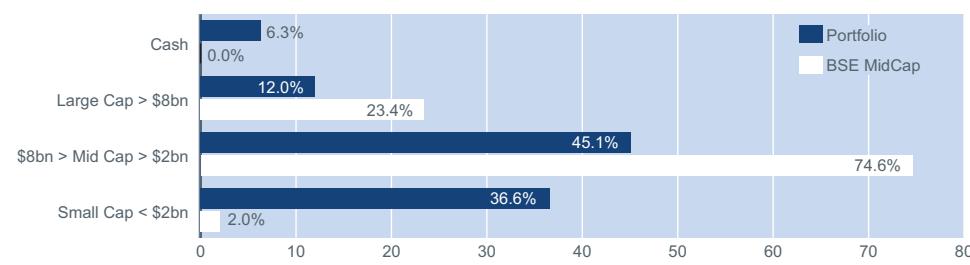
Portfolio Company	Weight	Characteristics	Market cap
Federal Bank	5.7%	Well run mid-sized private sector bank, attractive valuations	£2bn
Tech Mahindra	5.5%	IT services, leads telecommunications vertical with structural tailwinds	£17bn
Persistent Systems	4.9%	IT services company benefitting from 'digital transformation' of businesses globally	£4bn
Emami	4.0%	Dominant player across multiple niche consumer product categories, attractive valuations	£2bn
Welspun India	4.0%	India's largest home textile company, strong industry tailwinds in global supply chains and increased consumer focus on health	£1bn
Ramkrishna Forgings	3.8%	Auto ancillary company manufacturing forgings for commercial vehicles in both domestic and international markets	£303m
PI Industries	3.8%	Quality agro-chemical company, high visibility, strong industry tailwinds in global supply chains	£5bn
Indusind Bank	3.7%	Fifth largest private sector bank in India and poised to gain market share. Value play with ebbing asset quality concerns	£7bn
IDFC Bank	3.4%	Well capitalised private sector retail bank. Digitally-focused and on a high growth trajectory	£3bn
Dixon Technologies	3.2%	Dominant player in an emerging Indian Electronic Manufacturing Services industry with structural tailwinds	£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 31 December 2021 (%)

Top 5	Ave. weight	Ave. index weight	Return	Contribution
Tech Mahindra	4.71	-	30.43	1.29
Persistent Systems	4.37	-	31.39	1.22
Sona BLW Precision Forgings	2.62	0.48	33.19	0.67
Dixon Technologies	3.07	-	18.94	0.50
Ccl Products India	2.66	-	11.14	0.31

Bottom 5	Ave. weight	Ave. index weight	Return	Contribution
Emami	4.62	0.72	(9.33)	(0.45)
Jyothy Laboratories	2.62	-	(18.39)	(0.53)
Ramkrishna Forgings	4.53	-	(12.62)	(0.63)
Welspun India	4.23	-	(14.43)	(0.67)
Indusind Bank	4.32	-	(20.47)	(0.96)

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.
112,089,729 ordinary shares with voting rights.
Before Redemption Facility applications

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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