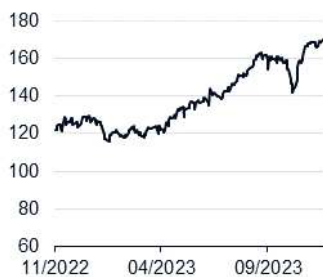


House Stock

Current price 171p
United Kingdom

Fund in the spotlight: IGC

IGC share price



Source: Bloomberg

Code	IGC
NAV	180.1p
Discount	5.8%
Mkt Cap	£164m

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India Capital Growth Fund +

Premium performance, structural tailwinds

India Capital Growth Fund (IGC) offers investors exposure to a portfolio of high quality mid and small-cap companies that have promising growth prospects. India's mid-cap companies have outperformed over the medium term and IGC has delivered strong outperformance vi-a-vis the other India trusts. IGC has an attractive redemption facility, balancing the closed-ended structure and the need for liquidity. We believe Indian equity markets benefit from a strong secular growth story and a domestic investor class that has embraced the systematic investment plan model. The virtuous cycle, IGC's premium performance and the structure of the fund, should lead to the fund trading at a small premium or close to NAV for significant periods.

Domestic inflows a major strength: The emergence of strong retail inflows into systematic investment plans, run by professional portfolio managers, is perhaps the biggest reason for our long-term positive outlook for the Indian mid and small-cap sectors. Given India's demographic profile and the fact that it is a capital-controlled economy, well run Indian companies that are growing their earnings consistently are highly attractive vehicles, which may for long periods of time experience elevated valuations. The buy on the dip mentality is fairly well ingrained in India as well and hence corrections are likely to be shallow.

Turbulence can challenge these assumptions: Markets are always likely to experience periods of heightened volatility, and this can challenge the buy on the dip mentality and even cause a reversal in inflows. However high valuations are typically not a reason. Periods when India's mid and small-cap stocks have broadly underperformed have been due to either external shocks or irregular actions by some corporates or a sector, shaking the faith in mid and small-cap companies.

Elections, capex cycle are further tailwinds: With general elections due in 2024, the government is focused on ensuring that the momentum that the capex cycle currently has does not wane. We are likely to see growth remain robust during the next twelve months. We believe the structural reforms implemented over the last few years positions India for strong growth, irrespective of the election outcome. Modi's popularity and recent state election results point to a high probability to the ruling Government winning with a strong majority.

Strong performance and an attractive structure: Since the last redemption date opportunity in December 2021, IGC has had an NAV TR of over 34%. Its closest performer in the peer group has returned c.18.6% while the worst has had an NAV TR of c.7.9%. We believe that IGC's portfolio, which is estimated to have annualised earnings growth of 25% over the next two years, deserves to be a core holding for investors focused on long-term returns. We believe that the regular redemption facility should ensure that discounts are likely to remain relatively narrow over the medium to long-term.

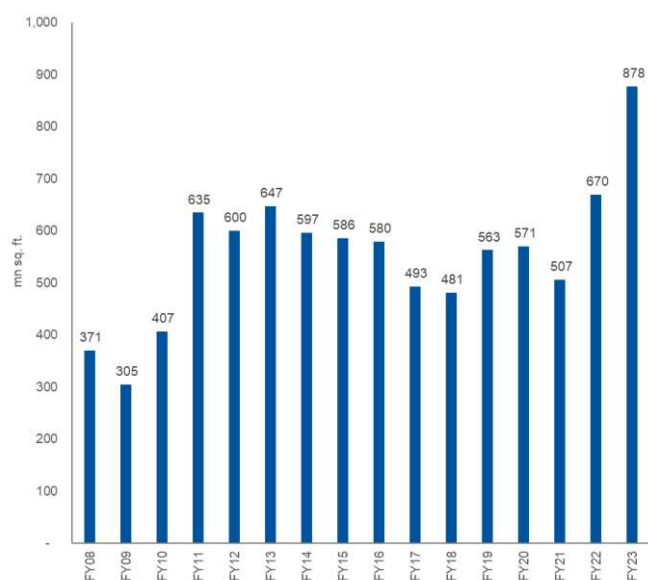
IGC: Strong returns, robust expectations

Real estate and industrial capex cycles underway

Real estate sector is a tailwind.
Housing affordability has improved substantially in the last few years

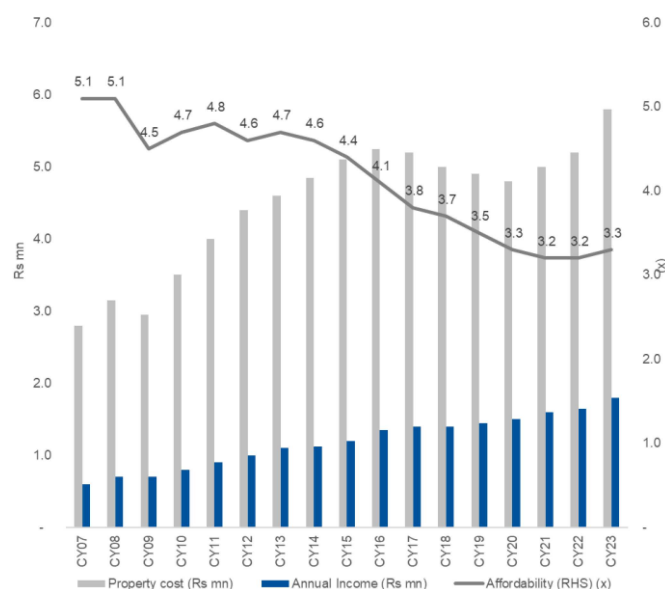
The interest cycle in India has been relatively modest and the real estate sector is likely to be a strong tailwind for the Indian economy for a prolonged period of time, supported by the country's demographic profile. Housing affordability has improved and the sector is emerging from a long period of stagnation. This is a significant source of employment and promises to be a strong theme for the secular earnings growth story that Indian equity markets should continue to enjoy.

Figure 1: Residential sales (millions of Sq feet)



Source: Company Data

Figure 2: Improving affordability



Source: Company Data

Infrastructure investments boosting GDP growth

Prime Minister, Narendra Modi, has a clear vision of manufacturing being a key feature of India's GDP growth, shifting from a consumption led growth model. To ensure competitiveness there is a significant investment occurring in infrastructure. Currently, there is a pipeline of over US\$ 1.5tr of infrastructure projects. We believe that this focus on infrastructure boosts growth prospects both in the short-term as well as over the medium to long-term. Over the medium to long-term, this ensures the competitiveness of the production linked incentives schemes (PLIs) introduced by the government.

PLIs have already led to investment from global and domestic companies. Infrastructure investment should lead to further capex in manufacturing

The PLIs have already attracted both global and domestic "champions" looking to move away from China (and other competing countries) in order to take advantage of the incentives offered by India to establish alternative manufacturing facilities to support global supply chain management diversification. We believe as India's infrastructure develops, we should see an acceleration in the pace of investments to benefit from PLIs.



The vast domestic market in India, which has experienced further integration and rationalisation because of the introduction of the Goods and Services Tax (GST) regime, was already seeing strong capital inflows. The PLI schemes target growth in downstream production across industries and the incentives offered will last for over five years. 14 sectors are already covered by these schemes including mobile manufacturing, white goods, IT hardware, medical equipment, telecom networking equipment, food processing, drones, solar PV modules, active pharmaceutical ingredients (APIs), drugs, advanced chemistry cell battery and semiconductors.

Companies such as Samsung have already made extensive investments in India, because of the introduction of these incentives. Other companies that are also active include Hon Hai Precision Industry Co., known as Foxconn and Pegatron Corp. India plans to cover more sectors, which may include toys and leather under the program.

Figure 3: India Investment as % of GDP

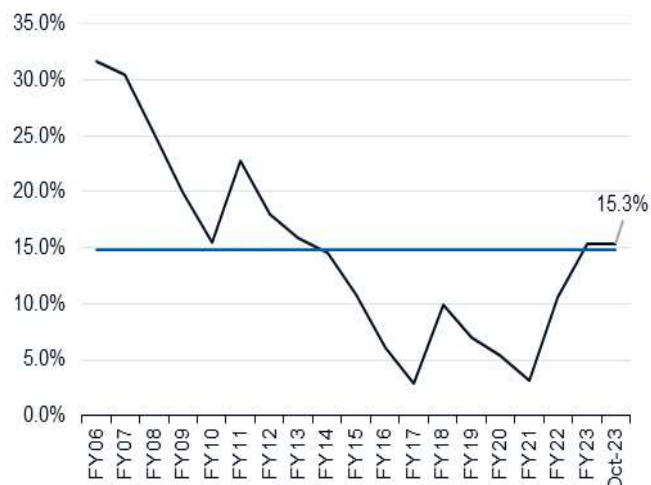


Source: IMF

Banking sector is sitting on the best asset quality in decades

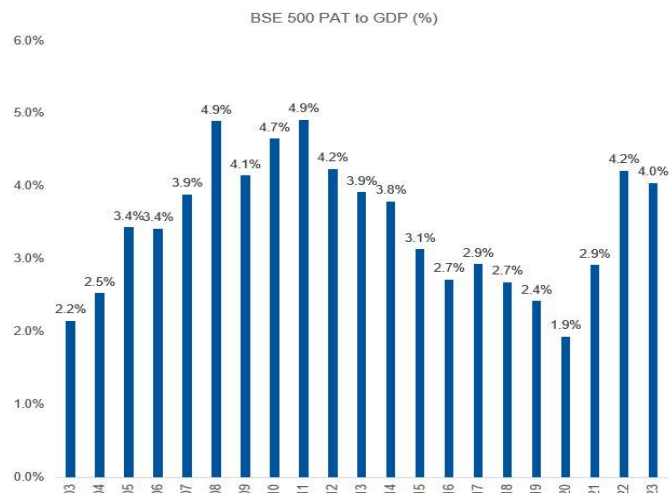
The banking sector had already addressed some of the issues related to non-performing loans and is now sitting on the best asset quality in decades. Slippages are low and provision coverage is high. Thus, this sector is now able to support the capex cycle.

Figure 4: Credit Growth (YoY, %)



Source: Reserve Bank of India, Company data

Figure 5: BSE 500 PAT as % of GDP



Source: Bloomberg

RBI is in a position to support growth if required

Given the strength of corporate balance sheets, a significant portion of the incremental capex requirement is being financed via internal accruals and thus bank lending growth may lag actual investment growth. While interest rates have risen in India as well, the change in 10-year bond yields in India has not been substantial enough to destabilise the capex cycle. With inflation under control, we believe that the Reserve Bank of India is in a position to cut rates to support economic growth, if required.

Figure 6: India Combined CPI (YoY, %)



Source: Central Statistics Office India

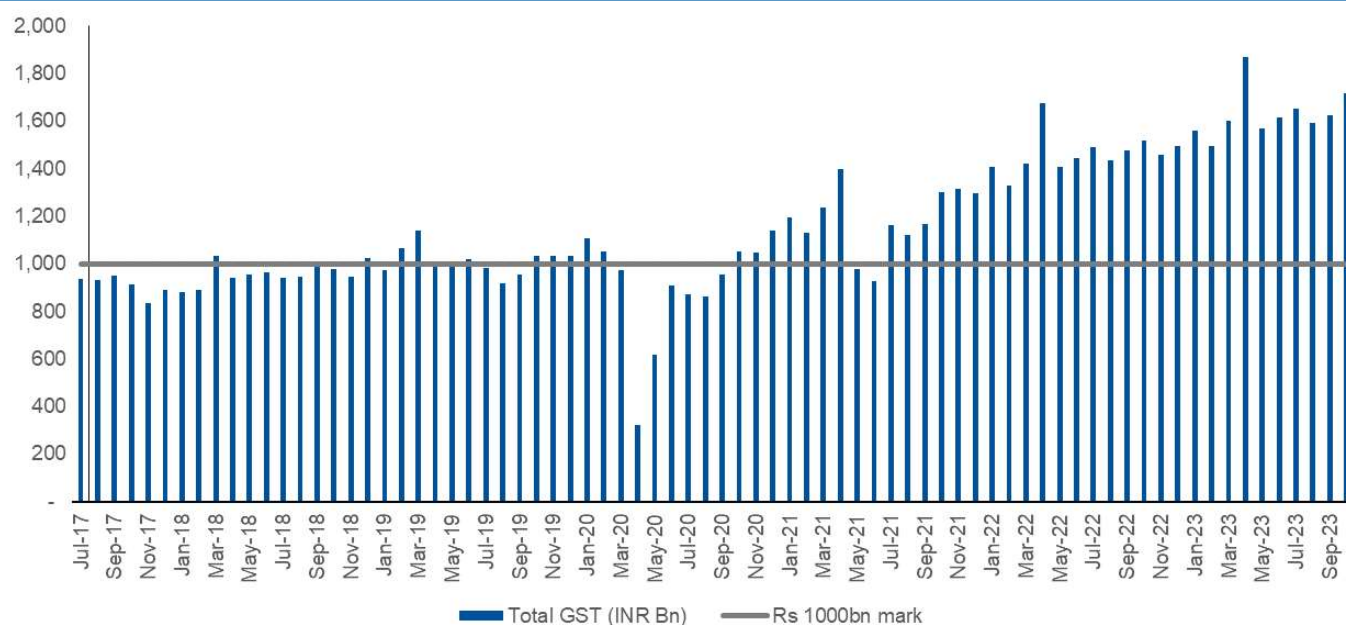
Figure 7: India 10-year bond yields (%)



Source: Bloomberg

The reforms initiated by the government over the past few years have created a highly supportive regulatory framework. However, looking forward it is economic growth that has become the paramount consideration for India's ruling party. GDP growth over the next few years is likely to continue to surprise on the upside as this new framework allows the inefficiencies of the past to be eliminated or significantly reduced. India has also built a robust public digital infrastructure. Amongst the various measures implemented, the introduction of the unique identification number (UID, assigned to all citizens), and united payment interface (UPI) have been most vital, allowing industry to develop rapidly (including the development of national credit scoring measures). Other benefits include a dramatic decline in the inefficiencies associated with the distribution of subsidies to the poor, as well as the effective rollout of the vaccination program during Covid. Direct and Indirect tax collection or GST, has seen a sharp uptick from pre-Covid levels, demonstrating growth momentum in the economy and more efficient collection.

Figure 8: GST collections in billions of INR



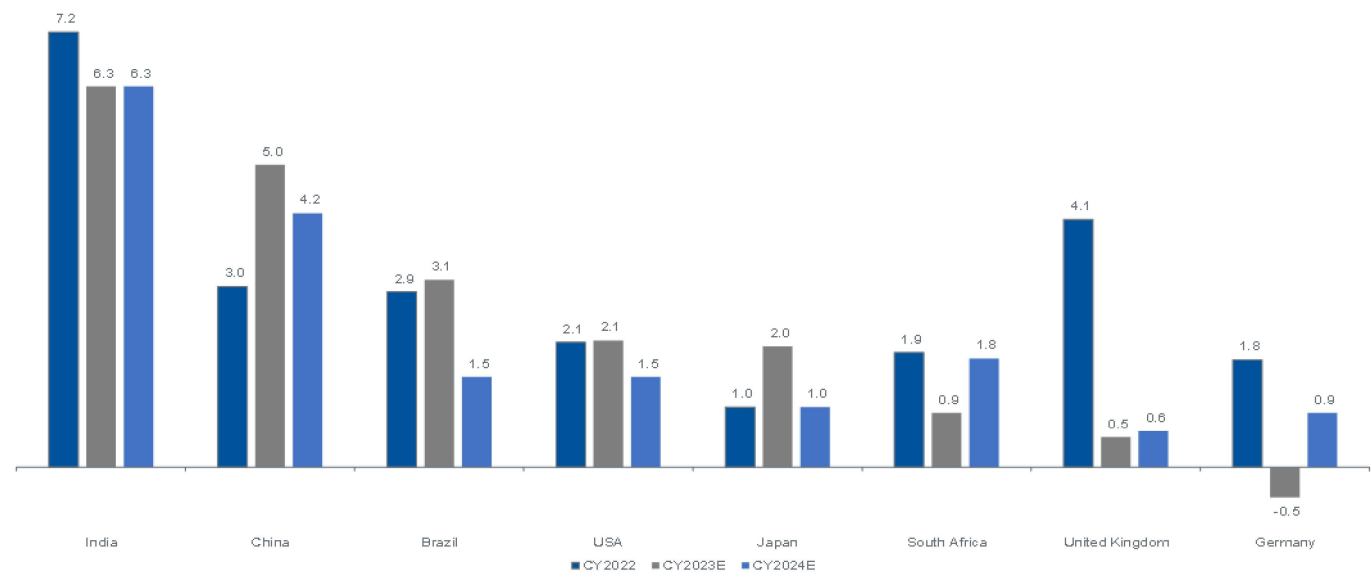
Source: Company Data

7% real GDP growth outlook conservative

India's nominal GDP has delivered over 10% annualised growth in USD terms over the last decade. We believe that given the platform that has been created in India, there is a significant chance that growth can accelerate over the next few years. The RBI has recently upgraded India's growth outlook.

"The Indian economy presents a picture of resilience and momentum," Reserve Bank of India governor Shaktikanta Das said in his last press conference on 8 December 2023, while the RBI deputy governor Michael Patra said the upgraded estimate of 7% was actually "conservative".

Figure 9: India projected to be the fastest growing major economy



Source: IMF

Consistent earnings growth allows for higher valuations

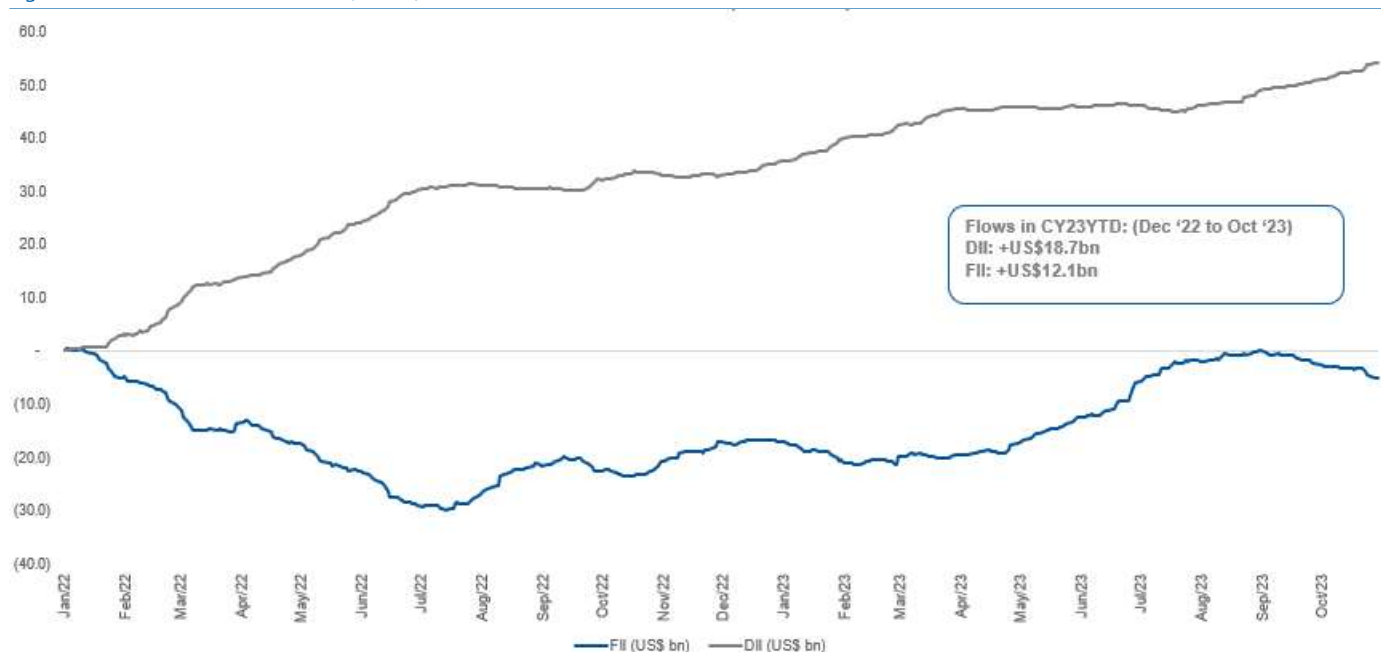
Significant inflows into domestic mutual funds. Likely to grow over time

The domestic demand for equities

One of the key reasons why we remain constructive as far as the Indian equity market is concerned, despite higher valuations, is their consistent earnings growth. Emerging markets often have a patchy record of translating GDP growth into earnings growth for corporates. Indian equities, in contrast, have delivered a higher RoE than several of its peers.

This link between real GDP growth and corporate profitability has captured the imagination of the retail investor in India and domestic financial institutions (DIIs) are continuing to see robust inflows into equities. Since January 2022, there has been significant inflows into assets managed by DIIs. As long as domestic growth remains strong this long-term trend can sustain significantly higher valuations. As of now, monthly domestic inflows are averaging US\$2bn. Given India's demographic and growth profile, this is likely to continue to increase.

Figure 10: Cumulative flow of funds (in US\$)

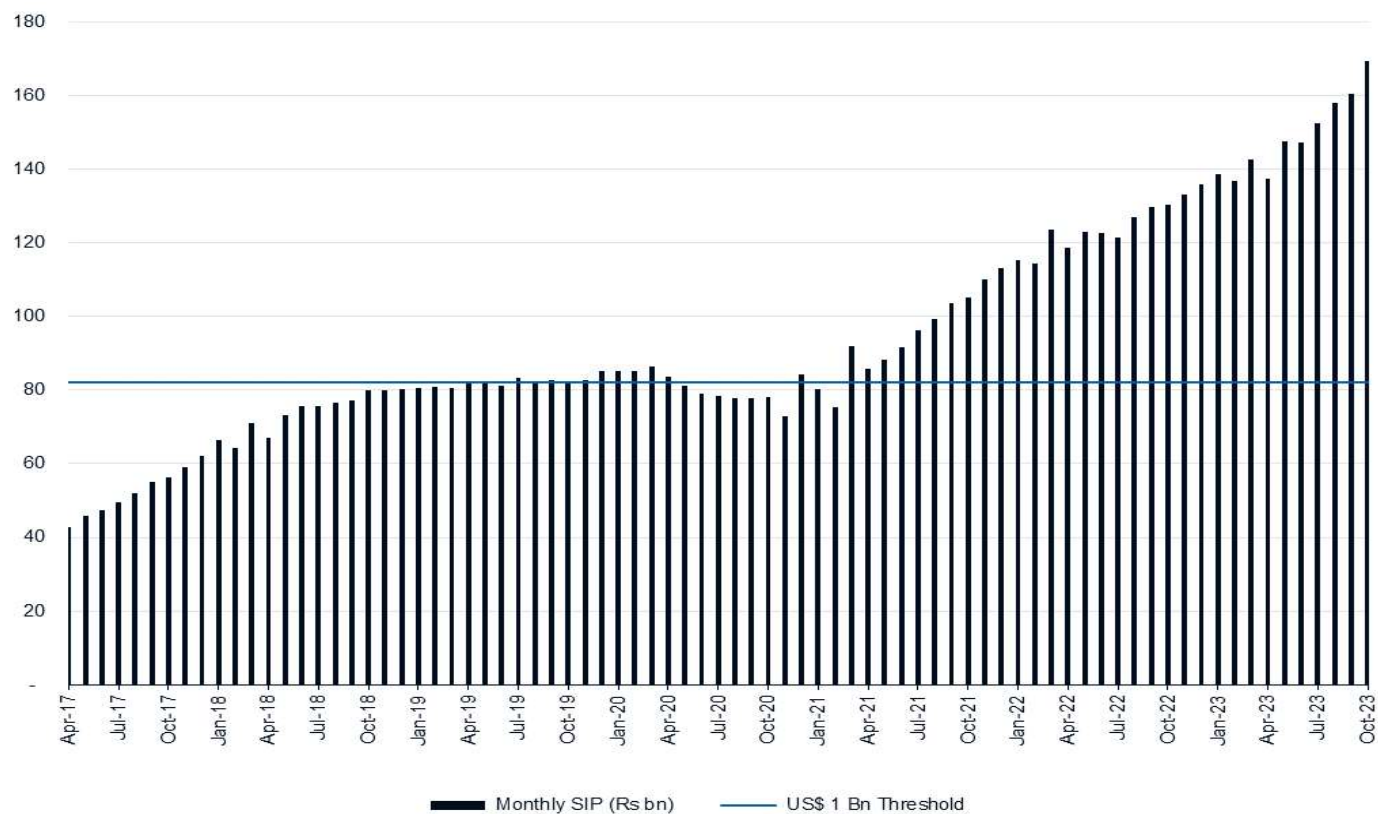


Source: Company Data; Bloomberg

Over 73m systematic investment plans (SIPs) that are channelling over US\$2bn a month into Indian equity markets

We believe that most corrections in Indian equity markets are likely to be relatively shallow, unless the belief that domestic retail investors have is called into question. A bulk of flows into DIIs is from retail investors in the form of systematic investment plans (SIP) which are direct monthly transfers from their bank account. There are over 73m such SIP accounts, predominantly from the investors in smaller towns in India. Retail investors believe that equities need to be bought for the long-term and dips are worth buying.

Figure 11: Monthly SIP inflows (INR, billions)



Source: Company Data

We believe that these expectations can be self-reinforcing and will lead to Indian equity markets being less correlated with global markets, *ceteris paribus*. India's economic growth provides a tailwind for Indian equities. Over the medium-term these inflows allow companies that are successfully growing organically to look at inorganic sources of growth as well thereby helping generate a virtuous cycle.

Infrastructure push is producing opportunities in the mid-cap space

Portfolio positioning

As discussed earlier, infrastructure investments have accelerated as both central and state governments remain focused on delivering GDP growth. India Capital Growth's Portfolio Advisor Gaurav Narain believes that this infrastructure push is generating substantial opportunities in the mid-cap space. IGC owns shares in PSP Projects (PSPPL IN), a mid-sized construction company based out of Gujarat. Its core business is commercial construction for industrial and institutional clients, both in private and government sectors. They have built industrial plants and office complexes on behalf of pharmaceutical companies amongst which include Zydus Cadila, Torrent Pharma and consumer companies like Nestle. Narain highlights that PSP's focus on quality and governance, their execution of projects and focus on client needs has ensured steady and profitable growth in a sector where many developers have failed.

PSP's scale now enables it to qualify to bid for large government projects with limited competition and as government commitment to infrastructure projects in housing, urban development, healthcare and railways continues to grow, there is an increasing pipeline of projects. Its average ROCE over the last 5 years is 33% and average ROE over the same period is 24%. Narain forecast 23% CAGR in revenues and 25% CAGR in profits over the next 3 years.

Figure 12: PSPPL share price (in INR)



Source: Bloomberg

Figure 13: SKIPPER IN share price (in INR)



Source: Bloomberg

Skipper (SKIPPER IN) is one of India's largest transmission tower manufacturers, with a galvanizing capacity of 300,000 metric tonnes. It is one of the lower cost producers globally, mainly because of its fully integrated operations of billet rolling to angle manufacturing. Skipper also manufactures polymer pipes with capacity of 51,000 metric tonnes, with 22,000 distribution "touchpoints". The company is seeing strong order flows from overseas markets as well as a pickup in demand domestically. There is significant demand globally for upgrading transmission grids, on the back of growth in renewable energy projects. Existing grids have seen limited investment over the last few decades and hence there is strong replacement demand from which Skipper will benefit. Skipper is also enjoying tangible gains from the "China+1 strategy" and is winning incremental business from customers in Australia and the United States, who traditionally sourced from China. Narain estimates that Skipper's share price is trading at c.22x March 2025 earnings and expects substantial earnings growth in the next few years.

This infrastructure cycle should lead to further investments in manufacturing capex and hence domestic cyclical recovery is a key theme within the company's portfolio. These elements are also expected to lead to a recovery in consumer spending, another area of significant portfolio exposure. Gaurav believes that these themes, in conjunction with encouraging signs of global companies increasingly relocating a part of their manufacturing capacity to India (where the portfolio also has exposure), form the major pillars of the portfolio.

Figure 14: Sector breakdown, top ten holdings as at 30 November 2023

Sector	No. of Companies	% of Portfolio Stock	Sector	%
Financials	7	24.1%	Federal Bank	Financials - Banks 5.7
Materials	7	17.5%	IDFC Bank	Financials - Banks 4.7
Consumer Discretionary	7	17.0%	IndusInd Bank	Financials - Banks 4.7
Industrials	7	13.5%	Neuland Laboratories	Health Care 4.5
Consumer Staples	3	9.7%	Ramkrishna Forgings	Materials 4.3
IT	2	5.5%	Emami	Consumer Staples 4.2
Health Care	1	4.5%	Skipper	Industrials 4.1
Communication Services	1	2.6%	PI Industries	Materials 3.9
Net Cash		5.7	Persistent Systems	Information Technology 3.7
Total Portfolio	35	100	Dixon Technologies	Consumer Discretionary 3.5

Source: Company Data

Financial sector benefitting from revival in the housing sector as well as the capex cycle

The financial sector is benefitting from the revival in the both the real estate sector as well as the capex cycle. The opportunities in the financial sector in India extend well beyond the largest banks and there are several well-run mid-cap banks that are digitally savvy and have significant growth opportunities.

For example, the largest holding as at 30 November 2023, Federal Bank (FB IN) started out as a single branch bank in the state of Kerala over 75 years ago and now has a customer base of over 16 million. With a nationwide banking presence and around 1400 branches, it has been growing its loan portfolio by around 20% per annum. Credit quality remains robust and net non-performing assets have consistently remained below 1% (0.64% in the last quarter). Despite continuing to consistently execute on the growth front, the shares still trade at a P/B of 1.1x March 25 and have a PE multiple on less than 9x.

Figure 15: FB IN share price in INR terms



Source: Bloomberg

Figure 16: IDFC Bank share price in INR terms



Source: Bloomberg

Likewise, IDFC First Bank is a new age bank which has built a strong and diverse retail lending franchise. It is rated amongst the best digital banks using various digital tools in growing its retail lending book at 25% p.a. and yet maintaining pristine asset quality. Despite being a young bank, it has expanded to over 800 branches and built industry leading low-cost liability franchise. While advances should grow above 20% p.a., declining cost structure will ensure higher earnings growth and rising return ratio. The bank trades at P/B of 1.7x March 2025 and has a PE multiple of 13x.

The domestic cyclical recovery should also benefit cement companies, which make for the majority of the portfolio's materials exposure (aside of speciality chemicals). Gaurav has always stayed away from companies operating in the commoditised segment of the materials sector and this remains unchanged. Other themes in the portfolio include digitisation, green economy and domestic consumption.

Consumer companies like Jyothy Labs, which have recalibrated their business models, now amongst the fastest growing in the segment

While several of the consumer companies in IGC's portfolio suffered from a surge in input prices briefly, these have now been absorbed and margins have recovered. Several of the mid-cap consumer companies have re-calibrated their business models and are now amongst the fastest growing companies in the sector. For example, Jyothy Labs (JYL IN) has come a long way from manufacturing and selling a single product to a household name in the category. Today JYL manufactures a range of household products in fabrics, home care, washing detergents and personal care products. After a period of consolidation, following the purchase of a range of brands from Henkel, JYL is among the fastest growing consumer company in India. New product launches, aggressive brand advertising and distribution expansion is driving the performance. It is also leveraging technology to strengthen its back-end and front-end to derive operating efficiencies, leading to margin expansion and strong operating performance growth.

Figure 17: JYL IN share price in INR



Source: Bloomberg

Figure 18: Emami share price (HMN IN, in INR)



Source: Bloomberg

Emami (HMN IN), another investee company operating in the consumer goods space, and a leading FMCG player in India has operated in health, beauty, and personal care products for over 30 years. Emami has sustained a particularly prominent position in therapeutic and ayurvedic based products, ensuring strong entry barriers for competition. Whilst the management acknowledged that the company had underperformed in recent years, much of this underperformance was put down to problems relating to the demonetisation of India's currency in 2016, as well as Emami's own "internal issues" relating to the group business. The latter problems consequently led to underinvestment in its business. Gaurav now believes that the company is past this phase, supported by the fact that the management has more recently been investing across areas such as distribution (across channels) and products, including D2C.

The management is clear on several key strategic points. First, it will not move into mass market products. Second, that e-commerce (modern trade) will eventually make up 50-70% of the market. And finally, although the D2C space is a vital area to address, it will not achieve this effectively without external support. Whilst the focus of the company remains in the healthcare and the ayurvedic product range Emami has also identified inorganic growth as key part of its future strategy.

Exceptional long-term performance of the BSE Midcap India index

We believe that a portfolio of high quality mid and small-cap stocks in India has the potential to deliver high returns over the medium to long-term. This segment tends to capture the performance of some of the most dynamic companies in the Indian economy and this has led it to outperform not just the large cap indices in India but also indices like the S&P500 and FTSE All Share Index over the medium and long-term.

Figure 19: Annualised performance of the BSE Midcap Index vs. select peers (in GBP terms, %)

Index	1 year	3 years	5 years	10 Years	15 Years
Nifty	2.1	25.1	11.2	13.9	13.2
BSE Midcap (India)	25.1	14.2	15.5	19.5	16.4
MSCI Brazil	21.4	11.8	3.9	4.3	7.8
MSCI China	0.4	-15.7	-2.8	3.8	7.5
S&P 500 (USA)	10.5	11.6	13	14.6	15.7
FTSE 100 (UK)	2.8	7.6	4.9	5.1	9.1

Source: Bloomberg

IGC portfolio tends to have low turnover

India Capital Growth's portfolio has low turnover and is focused on owning companies with consistent long-term growth prospects. This approach of focusing on high quality companies in the portfolio, is reflected by the fact that over 30% of the portfolio's investments have no net debt, and only 15% of portfolio (5 stocks) has a net debt/equity ratio of greater than 0.5x.

Figure 20: Portfolio characteristics vs the Nifty index based on estimates

As at 30 November 2023	P/E FY24 ends March '24	P/E FY25 ends March '25	Earnings Growth FY24	Earnings Growth FY25
Weighted for Portfolio	23.8	18.9	23.8%	25.7%
Nifty 50 Index	21.0	18.8	21.2%	11.8%

Source: Company Data

The portfolio is trading at 24x March 2024 earnings with 26% earnings growth projected in the following year

Gaurav estimates that the portfolio is trading at 24x March 2024 earnings, with earnings growth of over 24%. For the financial year ending March 2025, the estimated PE multiple is 18.9x with earnings growth of 26%. Companies in the portfolio are beginning to think about earnings growth for March 2026, and Narain is positive about the prospects over the next two years.



Figure 21: IGC holdings split by Mkt Cap as at 30 Nov 2023

By Mkt Cap	Number of companies	%
Small Cap (M/Cap < US\$2bn)	19	47.8
Mid Cap (US\$2bn < M/Cap < US\$8bn)	13	38.9
Large Cap (M/Cap > US\$8bn)	3	7.6
Total Equity Investment	35	94.3
Net Cash		5.7
Total Portfolio	35	100

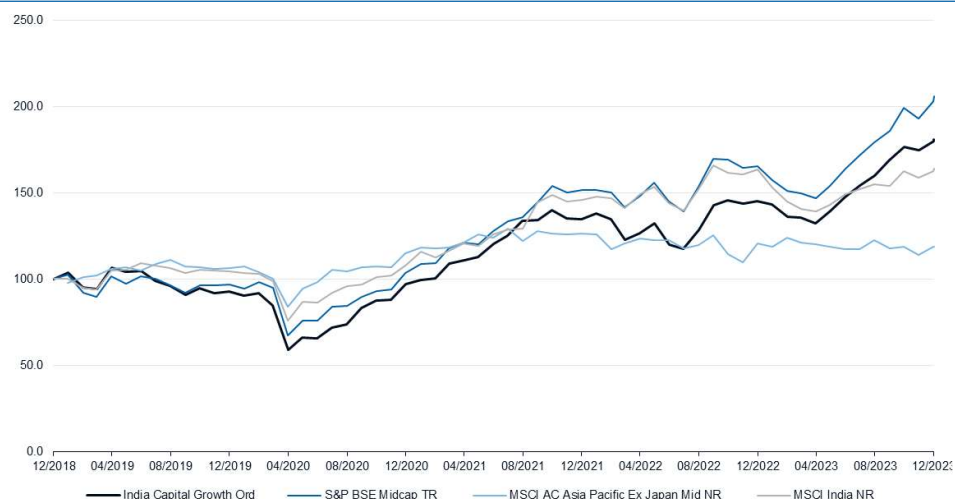
Source: Company Data

One of the best performing India funds listed on the LSE

IGC performance and discount

Since December 2011, when Narain joined as the portfolio advisor to IGC, it has delivered 14.7% annualised returns on an undiluted basis in GBP terms, as at 30 November 2023. Over the last one, three and five years it has outperformed most of its peers in the listed funds space.

Figure 22: IGC rebased NAV TR YTD compared to various indices (in GBP terms)



Source: Morningstar

Narain expecting 26% earnings growth for portfolio in the next financial year

We believe that over the medium to long-term, strong performance from Indian equities is likely to continue. Comparing the valuations of IGC's portfolio, (18.9x based on earnings estimates for the year ending March 2025), to that of the MSCI Asia ex-Japan index (12x), we note it trading at higher levels. However, given Ocean Dial's expectation of earnings growth at 26% for the next financial year (FY2025), this premium appears reasonable particularly given the portfolio will deliver healthy growth in its NAV, assuming forecasts prove accurate. Interestingly, the portfolio is trading at similar valuation levels to the Nifty 50 large-cap index, but with much stronger earnings growth estimates.

BSE MidCap Index has delivered c19% annualised return in GBP terms over the last decade

As discussed earlier, the BSE MidCap Index has been one of the best performing indices, delivering c19% annualised return, in GBP terms over the last decade (c16% in USD terms). This is during a period when nominal GDP growth was around 10% in USD terms. We believe the pattern of the mid-cap index achieving returns that are higher than those achieved by the large cap stocks is likely to continue over the medium to long-term even though there are likely to be periods when the Mid Cap index underperforms.



Figure 23: IGC and other India trusts NAV TR



Source: Morningstar

Over the last one and three years IGC has been the strongest performing investment trust listed on LSE (of the direct competition) in terms of NAV on a TR basis.

Figure 24: IGC NAV TR performance vs peers as at 6 December 2023

Fund	Ticker	Latest Discount (Cum Fair)	Prem/Disc 12 Mo Avg	Latest Market Capitalisation	1 year	3 years	5 years	10 years
Aberdeen New India	ANIL	-17.6	-19.4	338.6	7.7	33.4	45.9	223.3
Ashoka India Equity Investment	AIE	2.2	0.1	289.7	17.2	83.1	145.5	
India Capital Growth	IGC	-5.2	-7.9	162.8	25.0	83.1	80.9	295.5
JPMorgan Indian	JII	-17.4	-18.3	657.0	4.8	42.1	37.7	183.1

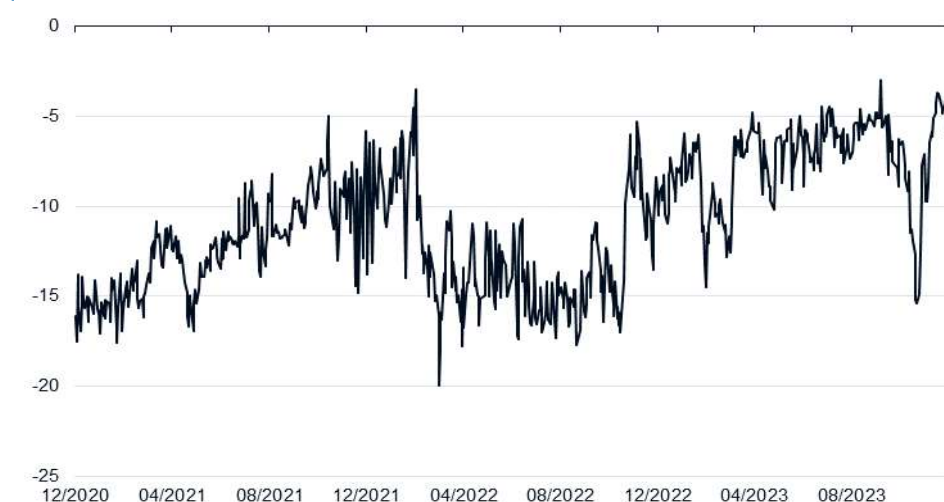
Source: Morningstar

Strong NAV performance and regular redemption facility

Given the strong NAV performance and the regular redemption facility that IGC offers we would expect IGC to trade at or around NAV over the medium-term. The redemption facility usually allows shareholders to request the redemption of part, or all, of their shareholding every two years.

The next redemption facility on 29 December 2023, will enable shareholders on record as at 29 September 2023 to request redemption at an exit discount of 3%, for shares held continuously at all times since the 29 September 2023. The Board has also been proactive about addressing a sustained widening of the discount by announcing a buyback programme.

Figure 25: IGC Discount to NAV (%)



Source: Bloomberg

Conclusion

The mid and small-cap section of Indian equity markets has delivered highly attractive returns over the last few years. Over the long-term the performance record is as highly attractive. IGC gives exposure to this segment of the Indian equity market. While valuations are higher than that of the large-cap counterparts the superior growth potential implies that IGC's portfolio trades at a PE multiple similar to that of the large-cap Nifty Index based on March 2025 earnings.

We believe that the rise of the domestic investor, using systematic investment products to capture this long-term growth story makes this a compelling investment opportunity. Not only do systematic investment plans provide a tailwind to India's growth story but also reduce the correlation that India equities are likely to have with global equities.

A housing market that is enjoying a revival, a capex cycle that is underway, including the significant investment in infrastructure and a banking sector that is well positioned to support this growth makes us hopeful that India's demographic profile will translate into a dividend.

IGC is managed by Ocean Dial Asset Management, a River Global company. The acquisition of ODAM completed in October 2023 allowing access by the Company to enhanced risk management, research and distribution. The investment team remains unchanged. With its diversified approach, long term track record, stable investment team and a presence on the ground in Mumbai and infrastructural support from the team at River Global company, India Capital Growth is uniquely placed to capture the medium to long-term opportunities in India.

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India Capital Growth Fund +	1,3,4,5,9,11,13	15 Apr 19	House Stock

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- 3 Shore Capital makes a market in the company's shares.
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- 6 The company held 5% or more of the issued share capital of Shore Capital Group Limited at the end of the last calendar month.
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