

The next decade belongs to India but is it “a buy” at any price?

Gaurav Narain, November 2022



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OCEAN DIAL – INVESTMENT MANAGER TO INDIA CAPITAL GROWTH FUND

Who we are?

- + FCA authorised and regulated asset manager

What we do?

- + Only Indian equities with Investment team based in Mumbai

How we do it?

- + Fundamental research in Small and Mid Caps, with a long term mind-set

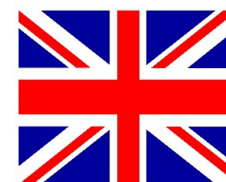
Why small and mid caps?

- + More opportunities, better value, determined by local factors

Why an investment trust structure?

- + Fits with small and midcap focus
- + Aligns with the long term investment approach

INDIA IN PERSPECTIVE



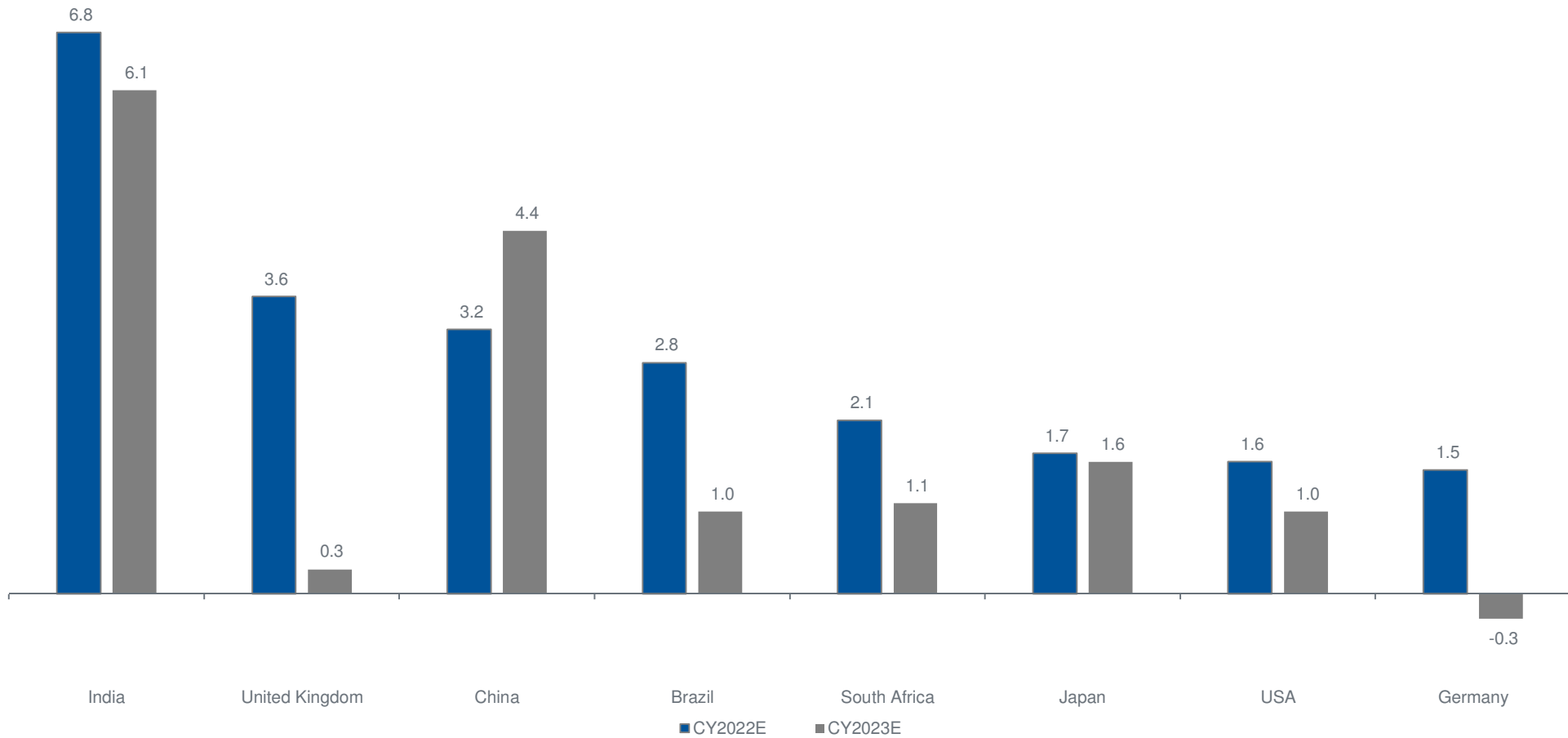
<u>Demographics</u>			
Average Age	41yrs	v	28yrs
25 years or below	16m	v	600m
<u>Growth rates</u>			
GDP \$bn in 2026 (World Bank)	3,800	v	4,100
GDP growth 2023 (IMF)	0.5%	v	6.1%
<u>Debt</u>			
Total Debt/GDP %	271%	v	181%
Household Debt/GDP	87.2%	v	11.0%
<u>Macro</u>			
FX Reserves \$bn (Sep 22)	171	v	537
Inflation CPI (Sep 22)	10.1%	v	7.4%

Strong structural growth story

IMF WORLD ECONOMIC OUTLOOK



India projected to be the fastest growing economy in FY23 and FY24
GDP growth (%)

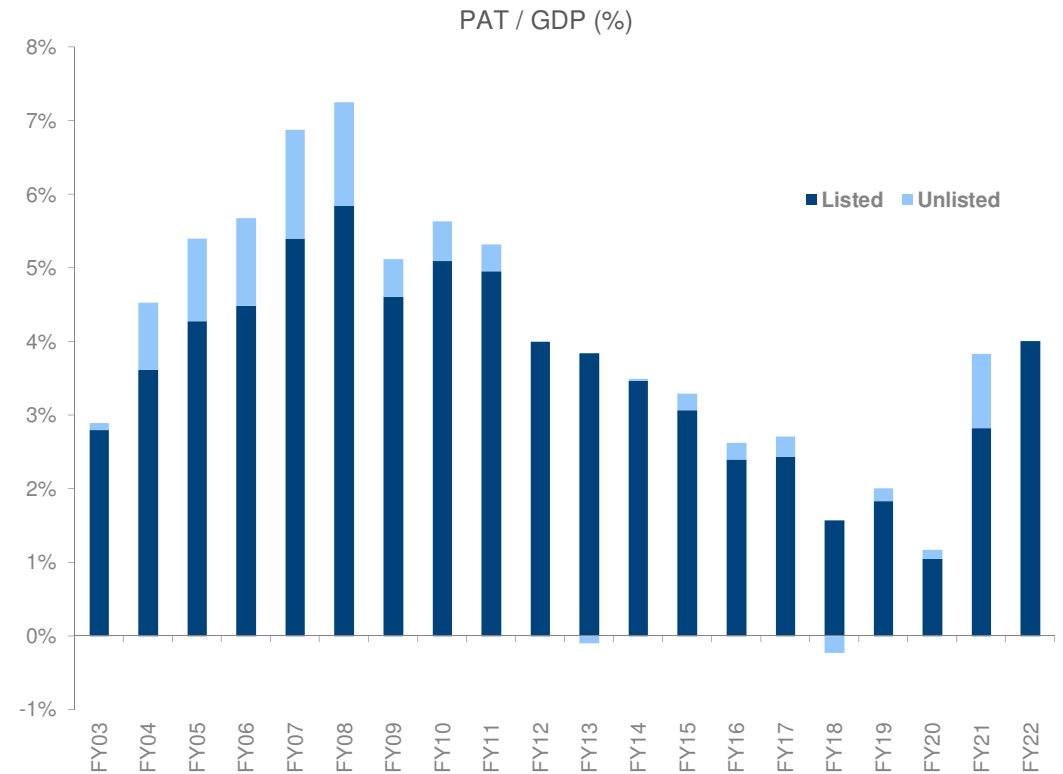
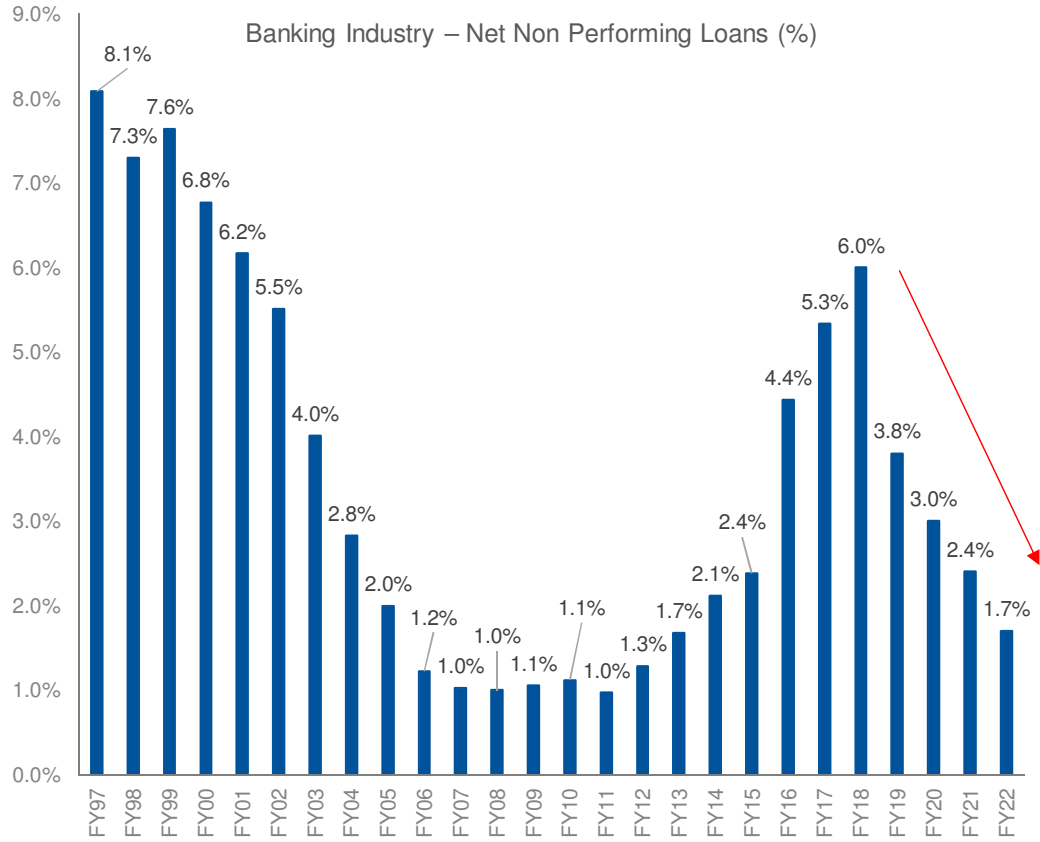


Note: For India, CY21 =FY22, CY22E = FY23E and CY23E = FY24E

Source: Ocean Dial Asset Management, IMF: World Economic Outlook- October 2022



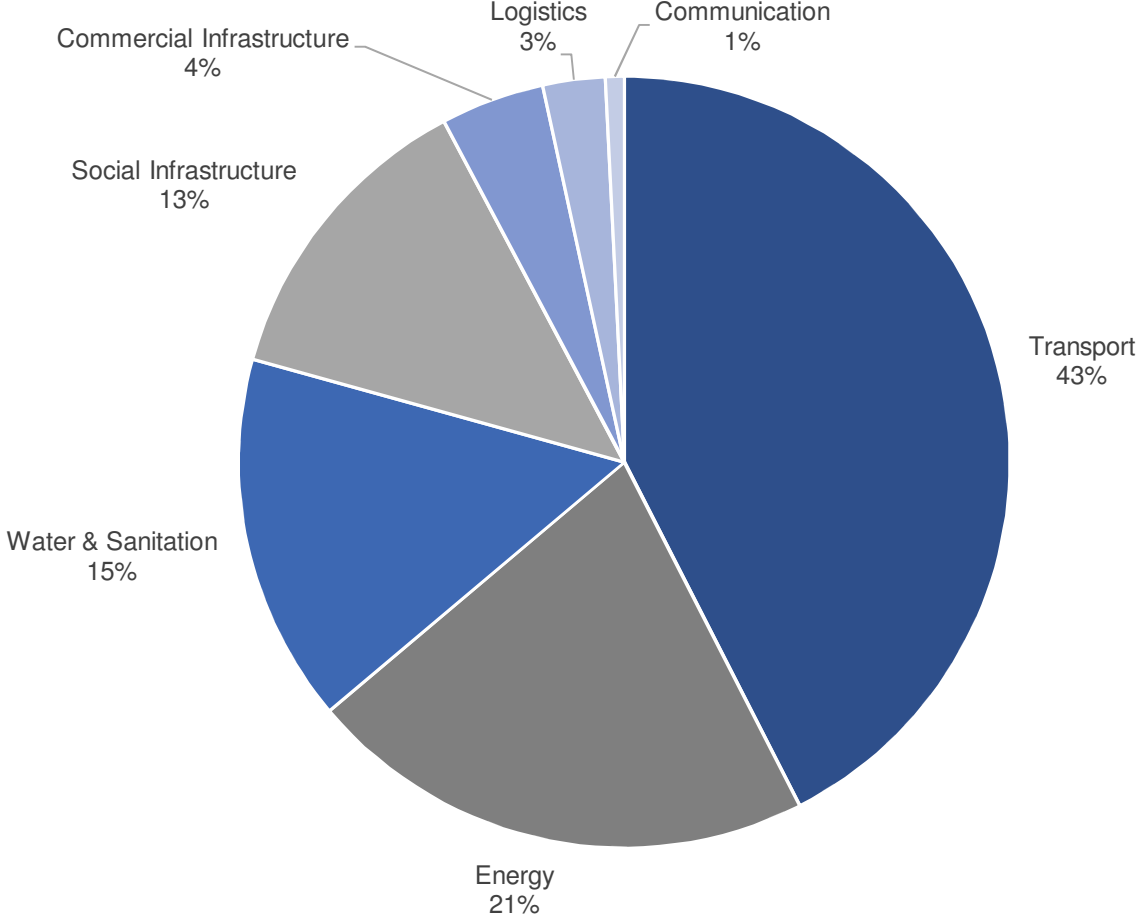
REFORMS: BUSINESS ENVIRONMENT HAS IMPROVED



Source: RBI, Ocean Dial Asset Management, Bloomberg, IIFL



INFRASTRUCTURE INVESTMENT – US\$1.8TR PIPELINE OVER 5 YEARS



Source: Invest India, Ocean Dial Asset Management

PRIVATE CAPEX: PLI SCHEME TO ADD ~\$450BN OF PRODUCTION VALUE OVER NEXT 5-7 YEARS



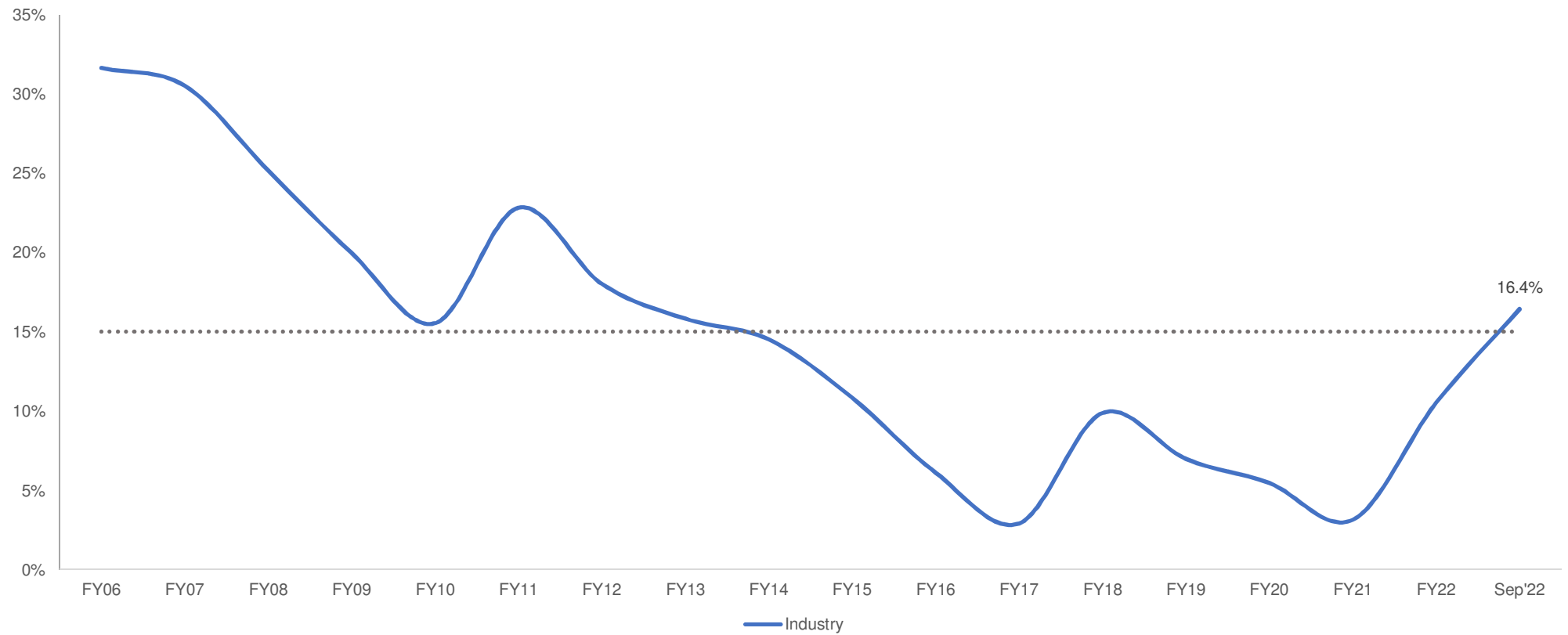
S. No.	Sectors	Financial Outlay (US\$ bn)	Status
1.	Semiconductor	10.1	Capex phase
2.	Large Scale Electronics Mfg.	5.1	Production started in H2FY21
3.	IT Hardware (Laptop/Tab)	1.0	Production started in FY22
4.	White Goods (ACs & LEDs)	0.8	Production started in FY22
5.	Automobiles & Auto components	3.5	Capex phase
6.	Advanced Chemistry Cell (ACC) Battery	2.4	Capex phase
7.	Telecom & Networking Products	1.6	Production started in FY22
8.	High-Efficiency Solar PV Modules	3.2	Approvals done
9.	(KSMs)/DIs and pharma APIs	0.9	Production started in FY22
10.	Manufacturing of Pharmaceutical Drugs	2.0	Capex phase
11.	Manufacturing of Medical Devices	0.4	Capex phase
12.	Food Products	1.5	Capex phase
13.	Specialty Steel	0.8	Application phase
14.	Textile Products	1.4	Approvals done
15.	Drones and Components	0.0	Application phase
	Total (US\$ bn)	34.9	

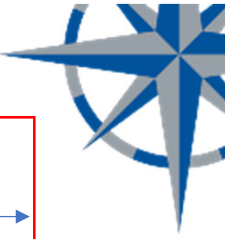
Source: Ocean Dial Asset Management, HDFC Securities.



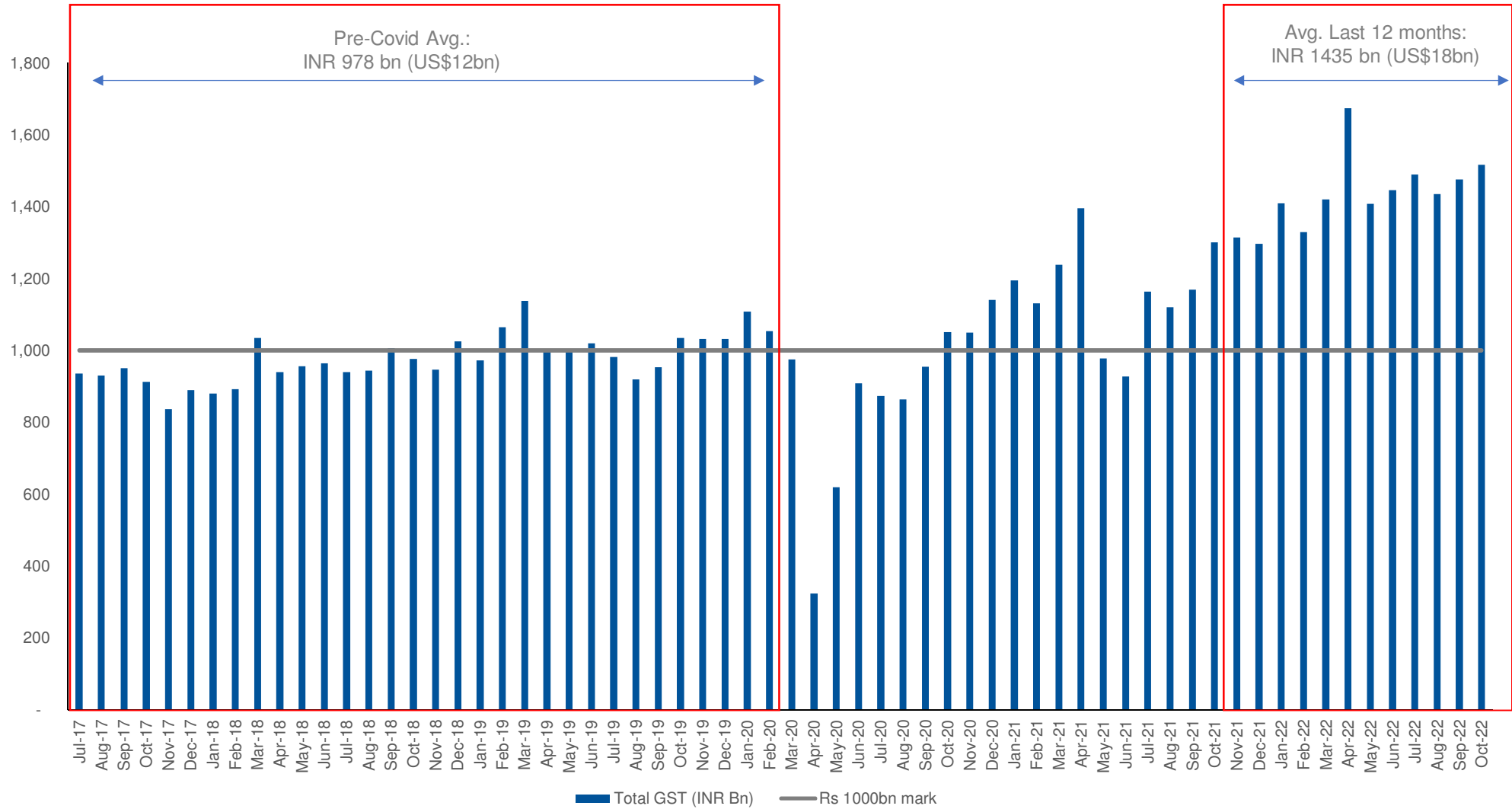
CREDIT GROWTH – BANKING SECTOR

Credit growth (%)





ROBUST INDIRECT TAX COLLECTION



Source: Ocean Dial Asset Management, Bloomberg

Global Risks – India displays resilience

CURRENCY HAS BEEN LESS VOLATILE

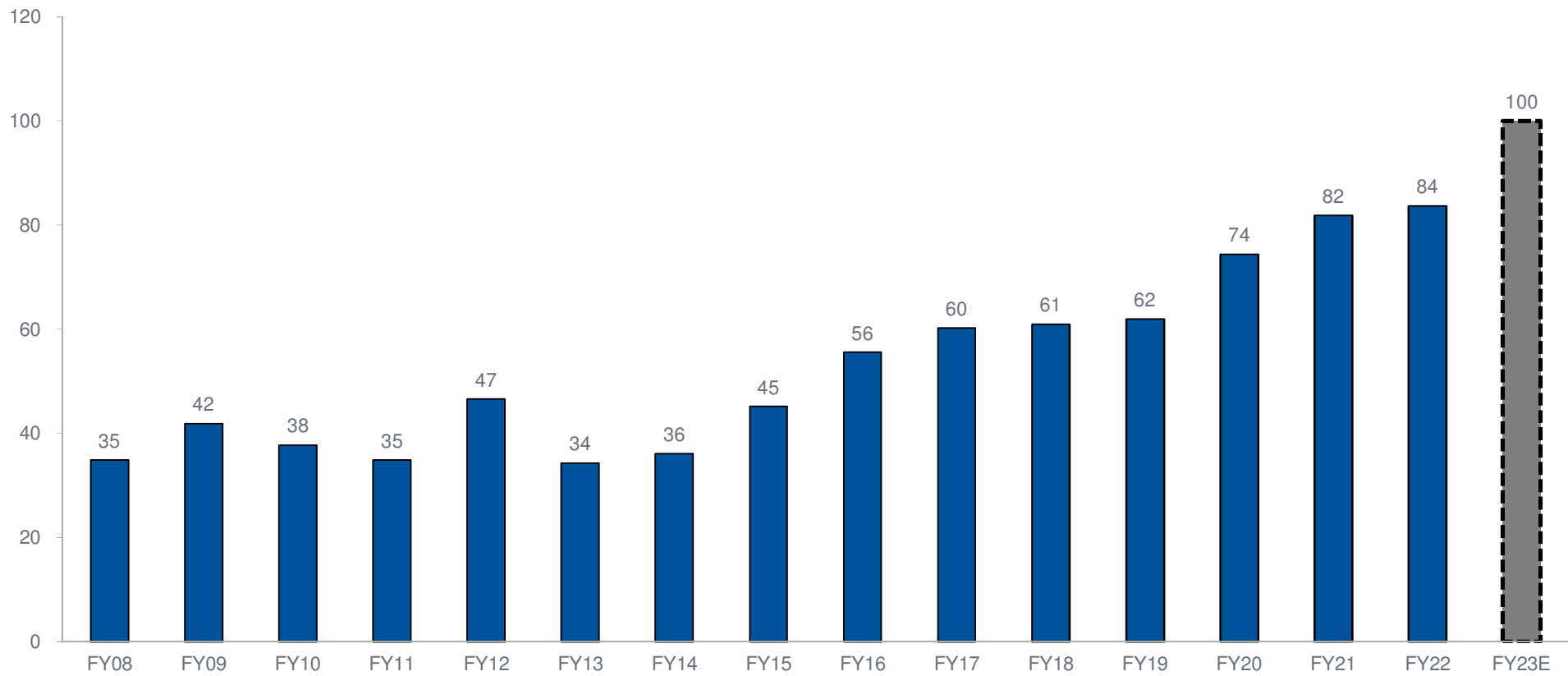


Source: Bloomberg, Ocean Dial Asset Management



FOREIGN DIRECT INVESTMENT IS FLOWING TO INDIA

Gross FDI (US\$ bn)



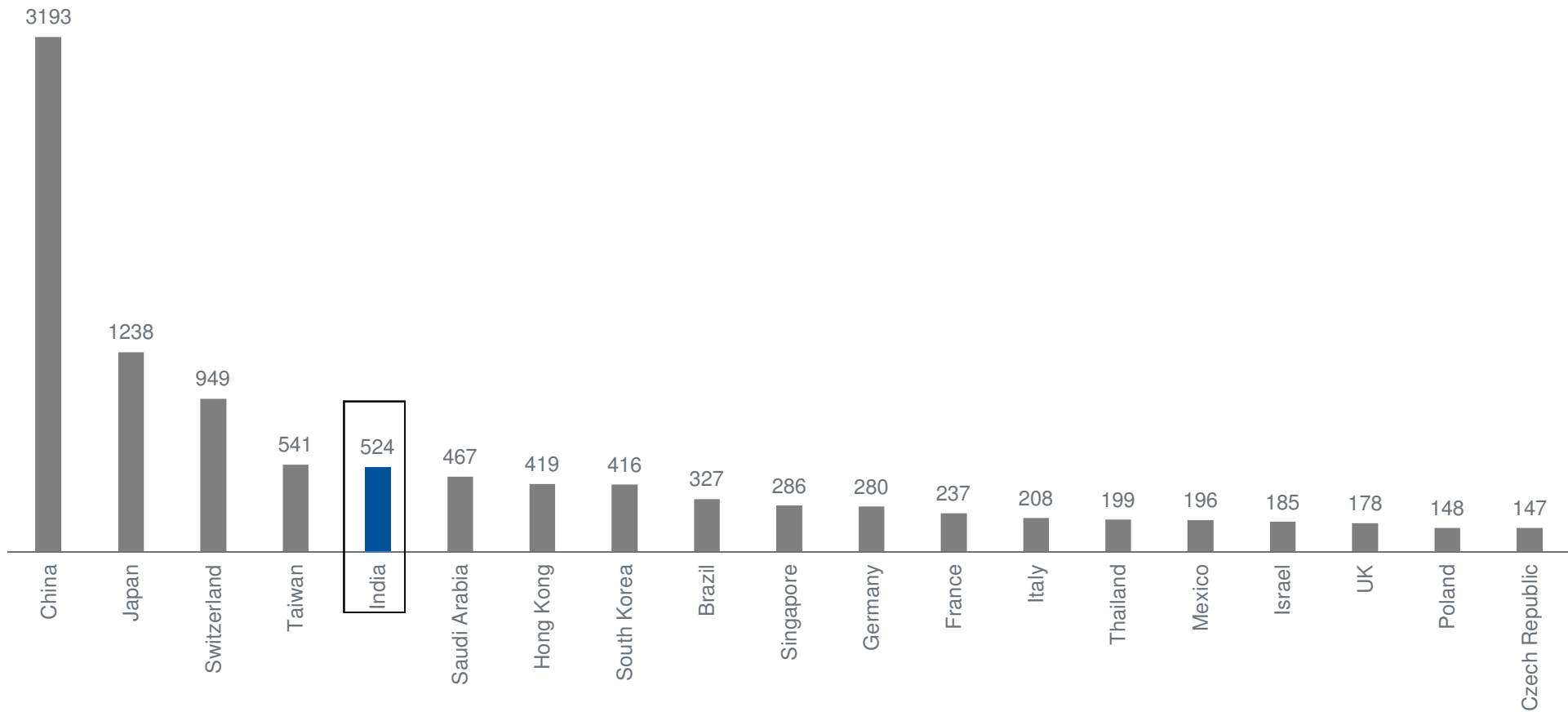
Source: RBI, Ocean Dial Asset Management, Note: Data for FY ending March

Government Target



TOP 20 FOREX RESERVES IN THE WORLD: INDIA STANDS STRONG AT 5TH

Forex Reserve (US\$bn)

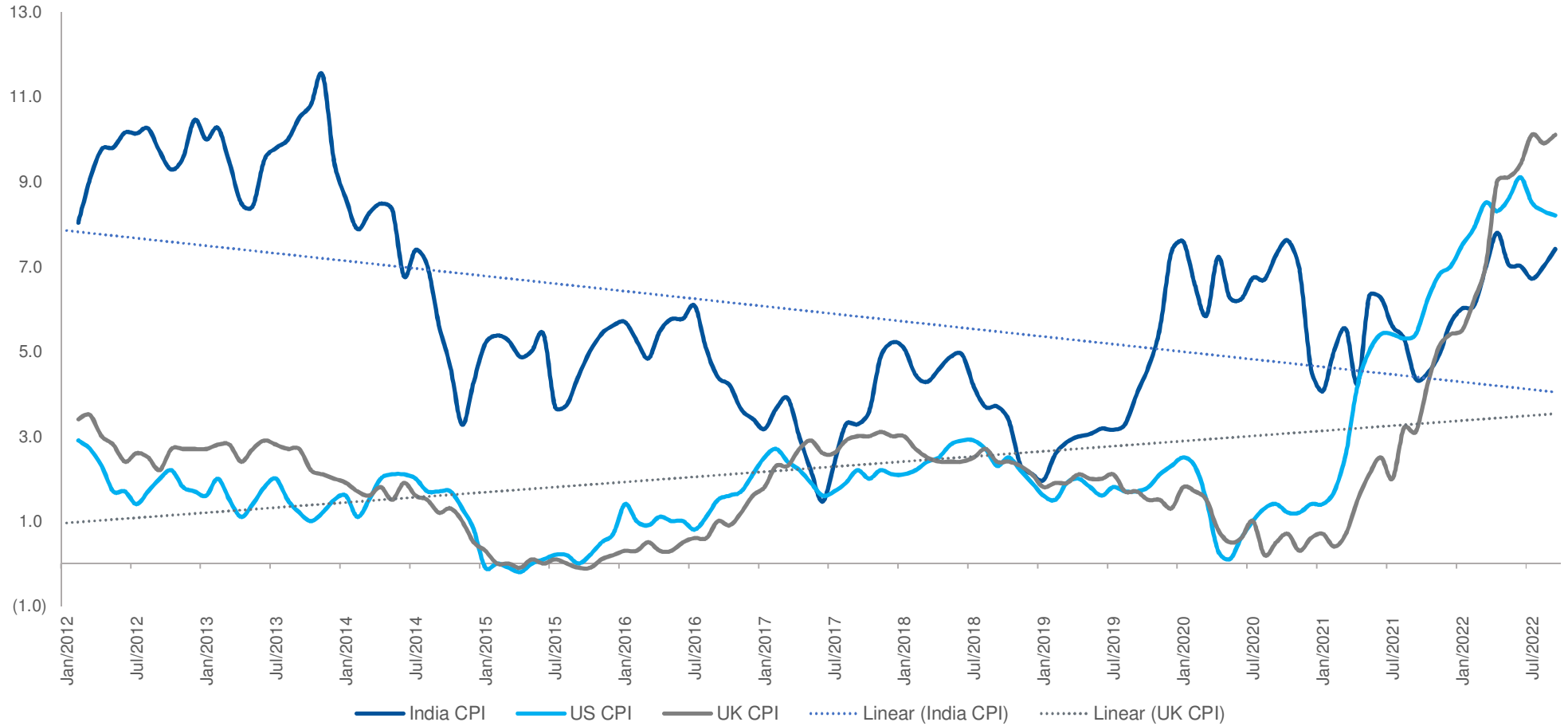


Source: Ocean Dial Asset Management, Bloomberg. As on September 2022, FX data as of 28th October 2022 for India



INFLATION – A DIFFERENT PROBLEM TO THE WEST

Inflation - India US & UK



Source: Ocean Dial Asset Management, Bloomberg

India Capital Growth Fund



INDIA CAPITAL GROWTH FUND – INVESTMENT PHILOSOPHY

Absolute return mindset

- + Over 90% active share position

Long term focus

- + ~ 61% of the portfolio held for over 5 years

Core portfolio centred around long term compounders

- + Low portfolio turnover – average 12-15%

What we look for in our investee companies

- + Management: focused, trustworthy, growth oriented
- + Business: scalable, predictable, entry barriers
- + Fundamentals: + free cash flow, ROCE above threshold
- + Look at 10-year historical track record



INDIA CAPITAL GROWTH FUND TEAM



Tridib Pathak	
Job title	Co-Head of Equities
Joined Ocean Dial	2019
Experience	30 years
Previous companies	Enam, IDFC, Lotus
Favourite dish	Misal Pav



Gaurav Narain	
Job title	Co-Head of Equities
Joined Ocean Dial	2011
Experience	26 years
Previous companies	New Horizon, ING, SG Asia
Favourite dish	Butter chicken



Shahil Shah	
Job title	Assistant Fund Manager
Joined Ocean Dial	2005
Experience	15 years
Previous company	N/A
Favourite dish	Bhel Puri

Independent Board		
	Experience	Previous company
Elisabeth Scott, Chair	25 years	Schroders, Allianz, AIC
Patrick Firth, Audit committee Chair	32 years	Rothschilds, GIFA, Riverstone
Lynne Duquemin	30 years	Credit Suisse,
Nick Timberlake	30 years	HSBC, F&C



Saurabh Chugh	
Job title	Analyst
Joined Ocean Dial	2006
Experience	17 years
Previous company	Dolat Capital
Favourite dish	Butter chicken



Ritika Behera	
Job title	Analyst
Joined Ocean Dial	2021
Experience	12 years
Previous company	Elara, B&K, Crisil
Favourite dish	Rajma Chawal



Vishal Agarwal	
Job title	Analyst
Joined Ocean Dial	2022
Experience	18 years
Previous company	Enam
Favourite dish	Pani Puri



GEARED FOR CONSISTENT LONG-TERM GROWTH

Consistent compounders

PI Industries (\$6.0bn)

Balkrishna Industries (\$4.6bn)

Emami Ltd (\$2.5bn)

Jubilant Foodworks (\$4.9bn)

Kajaria Ceramics (\$2.1bn)

High Growth

Sona BLW (\$3.3bn)

Affle India (\$1.9bn)

Dixon (\$3.3bn)

Persistent Systems (\$3.4bn)

Vedant Fashions (\$4.3bn)

Positive Δ in fundamentals

IDFC First Bank (\$4.2bn)

Aarti Industries (\$3.1bn)

Bajaj Electricals (\$1.6bn)

Federal Bank (\$3.4bn)

Neuland Labs (\$0.2bn)

Cyclicals at deep value

PSP Projects (\$0.3bn)

Sagar Cements (\$0.3bn)

Ramkrishna Forgings (\$0.4bn)

Skipper Ltd (\$0.1bn)

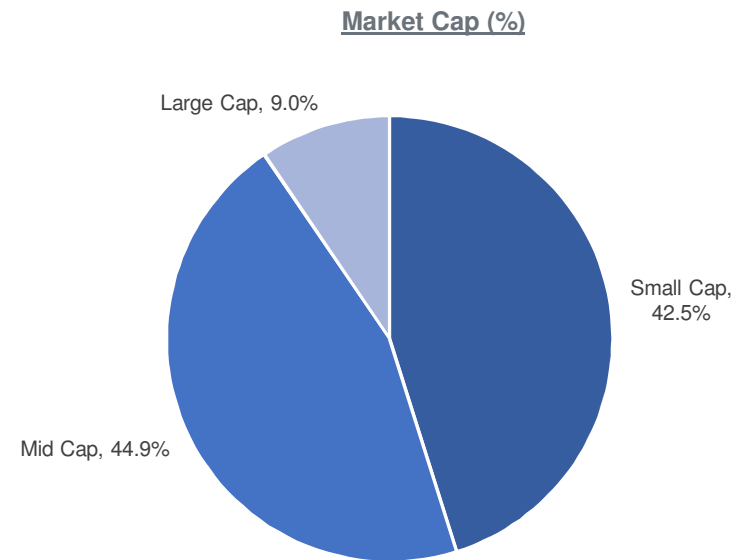
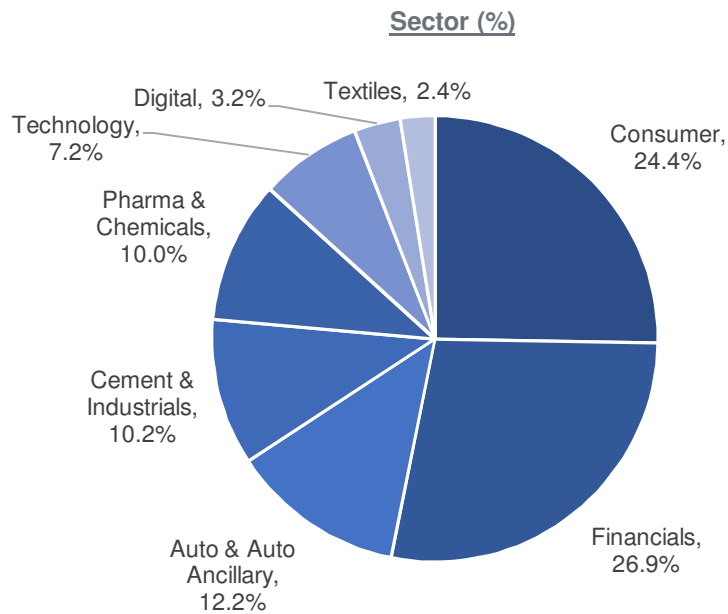
JK Lakshmi (\$0.8bn)

- + ~40% of portfolio has no leverage, only ~17% of the portfolio (6 stocks) have a D/E (net) of more than 0.5X
- + 35 stocks; 67% of the stocks have been held for over 5 years
- + Median market cap ~\$2.3bn



ICGF VALUATION AND PORTFOLIO BREAKDOWN

As at 31 st October 2022	P/E FY23 ends March '23	P/E FY24 ends March '24	Earnings Growth FY23	Earnings Growth FY24
Weighted for Portfolio	20.1	15.4	35.7%	30.5%
Nifty 50 Index	21.4	18.2	15.7%	17.8%



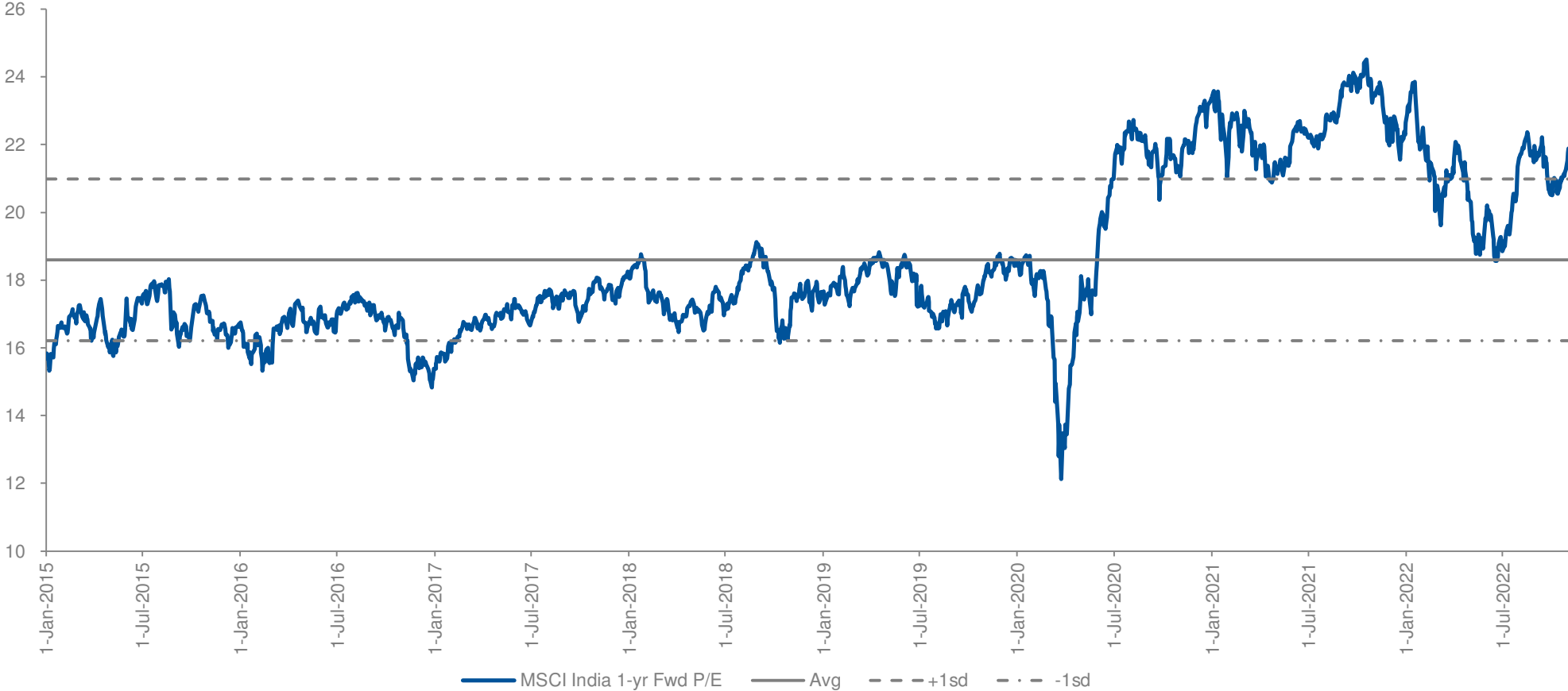
Source: Ocean Dial Asset Management as at 31st October 2022, IIFL. Small Cap < US\$2bn, US\$2bn < Mid Cap < US\$8bn, Large Cap > US\$8bn

So, is India a buy at any price?



INDIA'S VALUATION

MSCI India 1-yr Fwd P/E

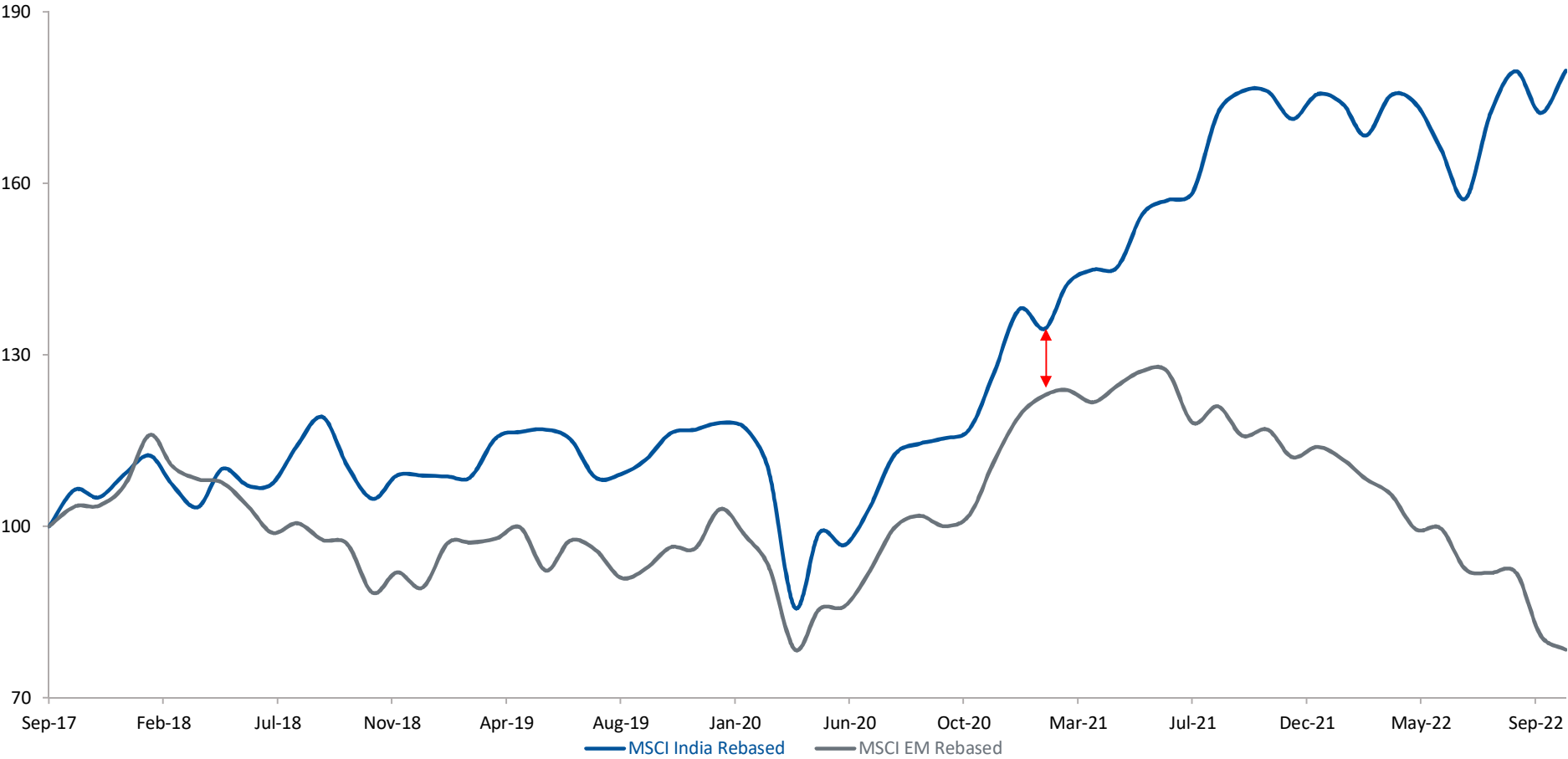


Source: Ocean Dial Asset Management, Bloomberg, Spark Capital. Data as on 31st October 2022



INDIA'S RECENT STRONG PERFORMANCE

5 year performance of India relative to Emerging Markets

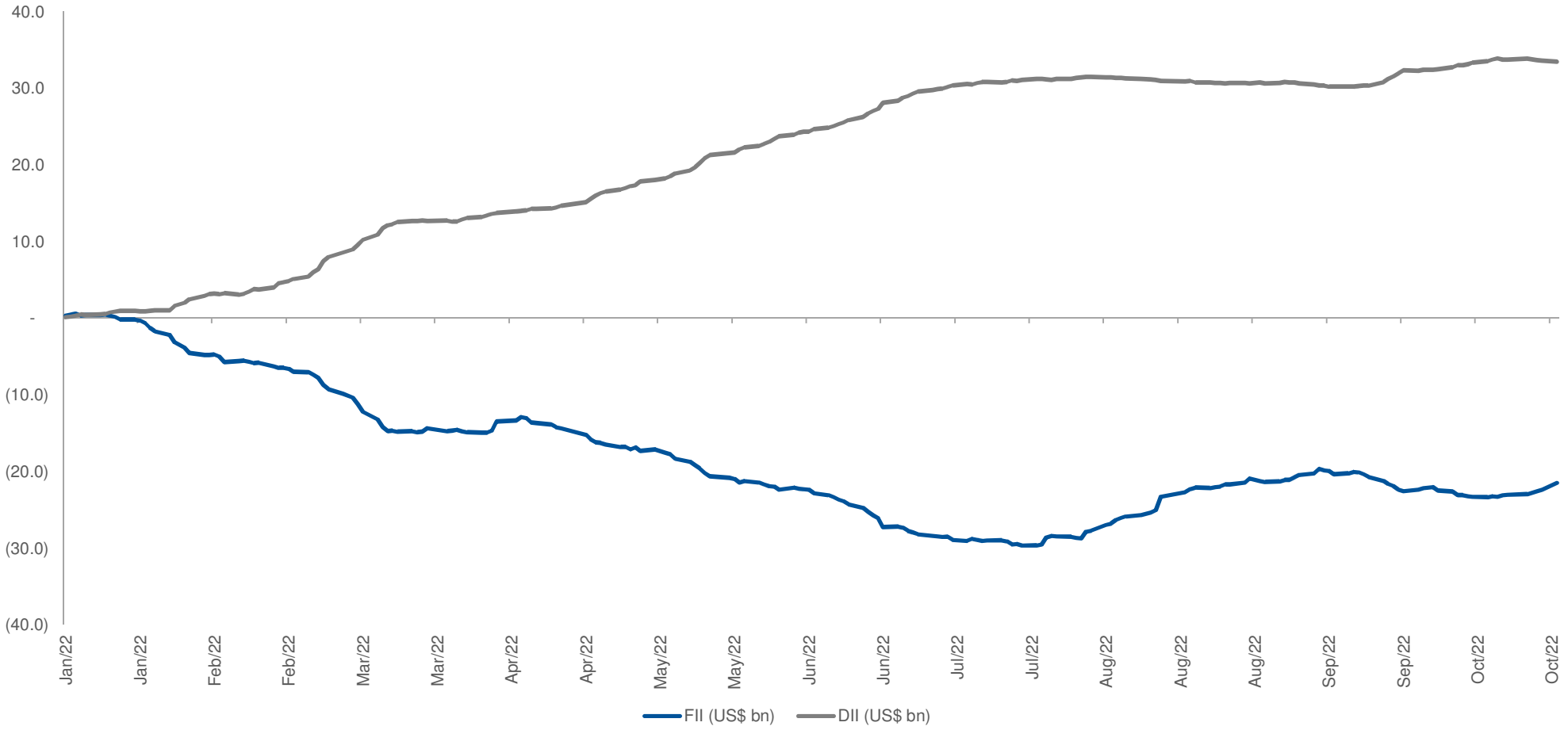


Source: Ocean Dial Asset Management, Bloomberg, 31 Oct 2022



RECENT FUND FLOWS INTO INDIA LISTED EQUITIES

Cumulative Flows



Source: Ocean Dial Asset Management, Bloomberg

LONG TERM INVESTMENT CASE FOR INDIA

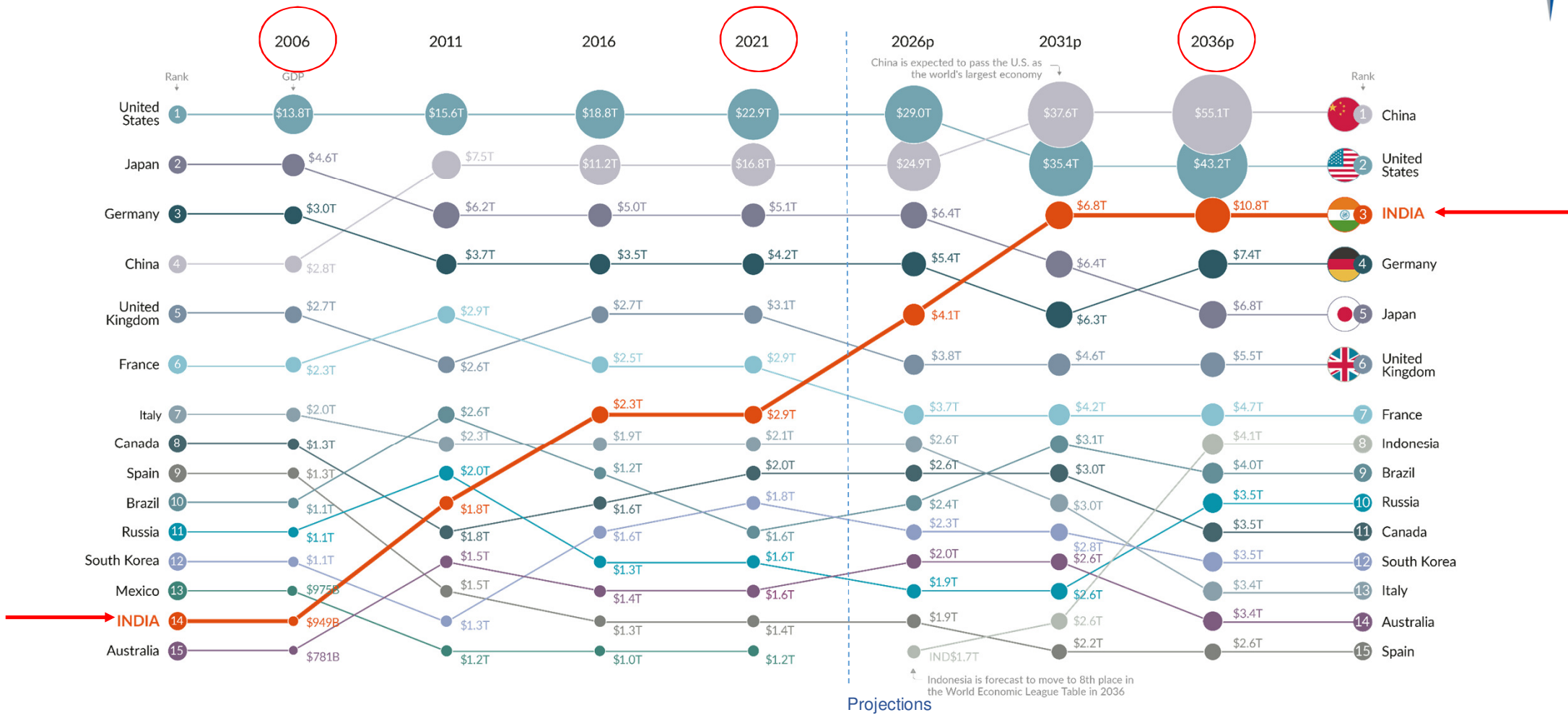


Compound Annual Growth Rate – GBP £			
Index	10 Years	15 Years	20 Years
BSE Midcap (India)	14.8%	8.1%	NA
BSE30 (India)	13.1%	8.1%	16.7%
MSCI Brazil	-1.6%	-2.1%	9.4%
MSCI China	1.3%	-1.2%	7.9%
S&P 500 (USA)	14.5%	10.6%	9.3%
FTSE 100 (UK)	2.1%	0.4%	2.9%

India Capital Growth Fund's NAV has risen at a CAGR of 13.9% since the portfolio adviser joined in December 2011



THE GLOBAL ECONOMIC SHIFT – ECONOMIES RANKED BY PROJECTED GDP



Source: Visual Capitalist, The Center for Economics and Business Research, The World Bank and Trading Economics



STAY IN TOUCH

- + India Capital Growth website is www.indiacapitalgrowth.com
 - + Sign up for regular updates and to attend Webinars on India and portfolio specific issues
 - + Listen to Podcasts on recent portfolio activity
 - + Read the Investment Team's latest thoughts on current issues

- + Follow us on
 - + LinkedIn: India Capital Growth Fund / Ocean Dial Asset Management

 - + Twitter: @OceanDial

- + Contact the Ocean Dial team with any queries
 - + swati.jain@oceandial.com

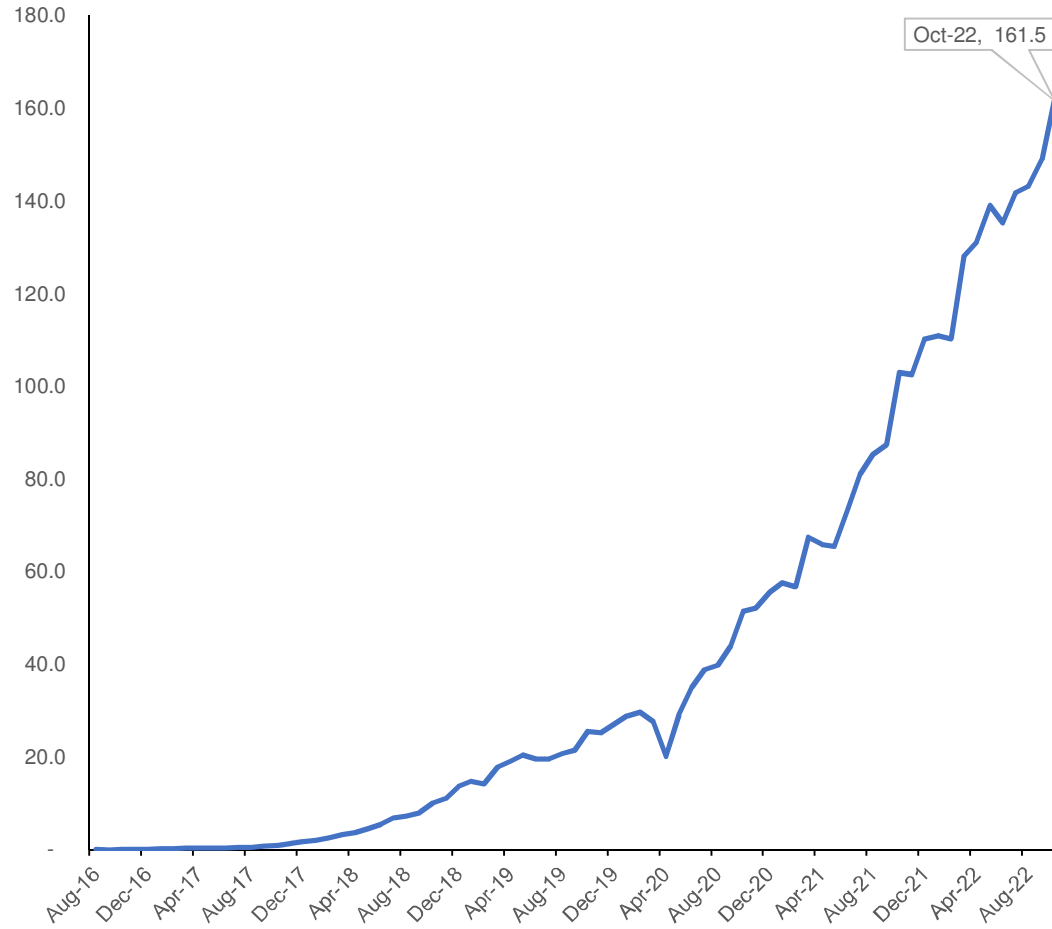
 - + david.cornell@oceandial.com

Appendices

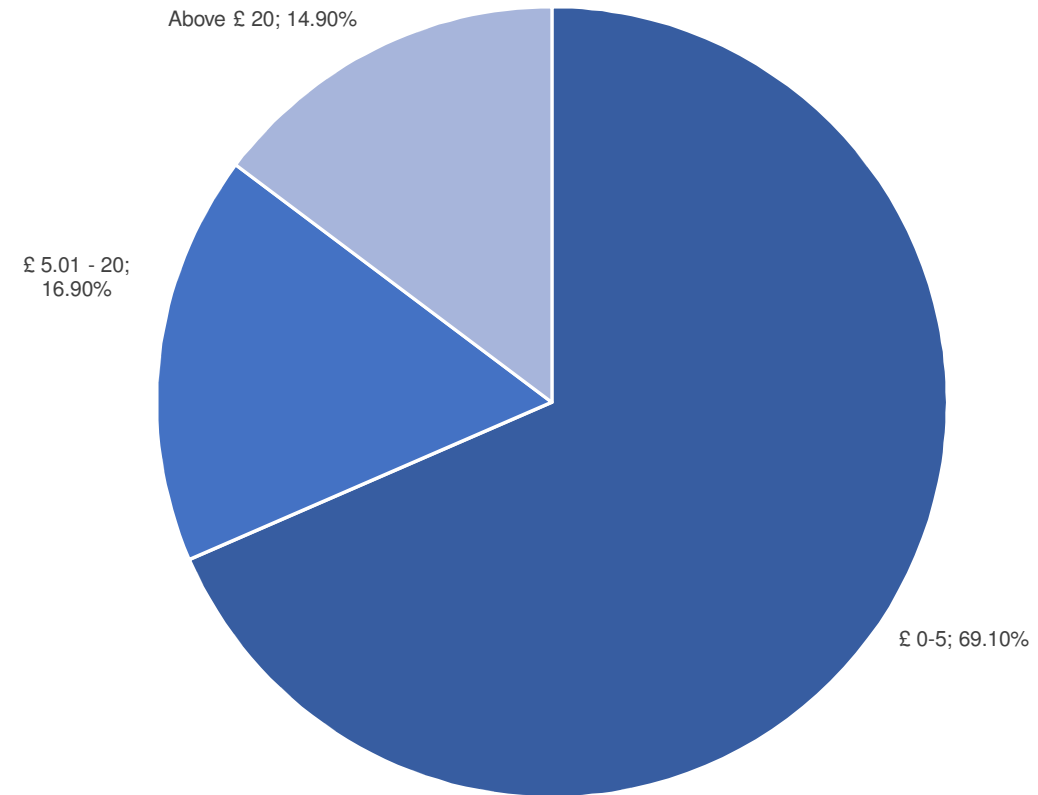


UPI DIGITAL TRANSACTIONS

Monthly Transaction Value (US\$ Bn)



Share of transactions (%) – July 2022



Source: NPCI, Ocean Dial Research, Business Standard



CASE STUDY – PI INDUSTRIES

About

Leading agrochemical company providing innovative solutions by partnering with leading global manufacturers.

Investment Thesis

Strong reputation, sustainable long-term growth, with a healthy pipeline of branded patented product.

Why we trade

Core holding, expect 18-20% earnings CAGR over next few years, with premium multiples expected to sustain.



Weighted average purchase price (INR)	205
Weighted average sale price (INR)	1853
Holding period (years)	9
Average holding period return (INR) – IRR	46%
# entry trades	33
# exit trades	14

Source: Ocean Dial Asset Management, Bloomberg, Data as on 25th October 2022



CASE STUDY – KAJARIA CERAMICS

About

India's largest manufacturer of ceramic and vitrified tiles. Has a product range of 2800+ SKUs of floor and wall tiles

Investment Thesis

Commands pricing power due to strong brand, superior product mix & unmatched distribution network. Rising home improvement spends and revival in real estate are growth drivers.

Why we trade

Core holding: 15-20% p.a. CAGR expected over next 3 years.

Accelerating growth: Entry into new growth areas of Bath ware and plywood segments.



Weighted average purchase price (INR)	255
Weighted average sale price (INR)	680
Holding period (years)	10
Average holding period return (INR) – IRR	37%
# entry trades	18
# exit trades	35

Source: Ocean Dial Asset Management, Bloomberg, Data as on 25th October 2022



PORTFOLIO VALUATION DYNAMICS

- + High earnings growth, with better quality
 - + More concentrated (consolidation, GST etc)
 - + Less leverage
 - + More structural (longer term visibility, multiple levers)

- + On our fair value, 85% of portfolio gives +ve upside, 42% gives 10%+ upside
 - + 15% of portfolio gives 5%+ downside

- + Ocean Dial Hood Universe too reflects value in broader universe
 - + 39% of Universe gives a 10%+ absolute upside, 14% give a 10%+ downside

- + Absolute valuation moderately higher than historic, relative is the concern



OUR APPROACH TO ESG

- + ESG considerations are growing in relevance to the long-term sustainability of business models
- + ESG issues have the potential to impact investment risks and thus returns
- + Integration of ESG factors in our investment decision making will help improve our long-term risk adjusted returns
- + ESG is not a style factor but will be an integral part of our process
- + A systematic approach to ESG is lacking in India. We would like to focus on this and be ahead of the learning curve



INVESTMENT PROCESS: ESG INTEGRATION

WHAT WE HAVE ACHIEVED

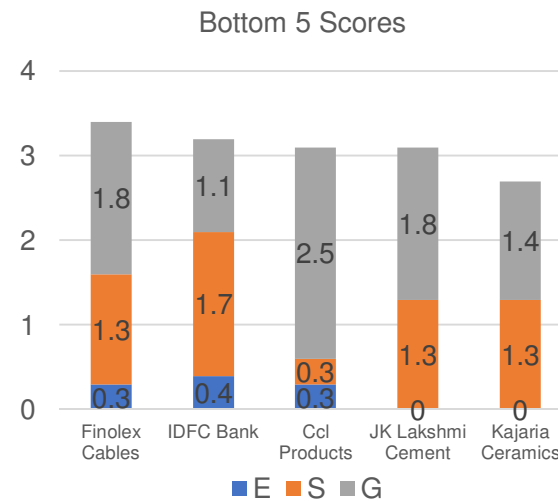
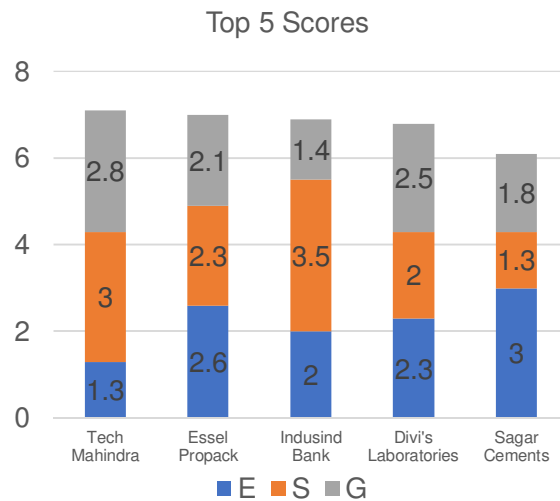
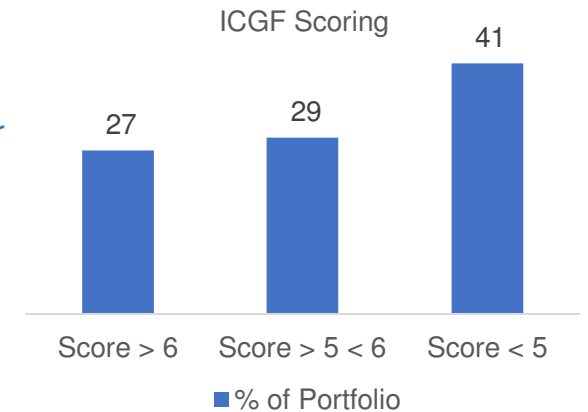
1. Exclusion Screening before they enter the investment universe.
 - + Sin stocks (cigarettes, alcohol, gambling, and arms)
 - + Corporate governance issues
2. Building ESG capability internally rather than using any 3rd party research.
3. Set material parameters for each sector and compiled data based on these parameters.
4. Comparing and rating each company within and across sectors.
5. Build a ESG scoring model and scored all the portfolio companies.



ESG SCORING

OUTCOME:

- The overall ICGF portfolio ESG score is 4.7 out of 9.
- Top 5 and Bottom 5 Companies were all from different sectors so clearly there is no sector trend.
- Bottom 5 Companies were mainly the ones who had almost no Environment disclosure.
- 26% of the portfolio had no Environmental disclosure
- 10% of the portfolio had no Social disclosure.





NEXT STEPS: A CONTINUOUS PROCESS

ESG Scoring is providing us with key insight into how portfolio companies are faring on ESG. With the help of scoring we will be able to measure the progress Companies are making over a period of time.

ENGAGE

- *Engage with portfolio companies to get incremental data which is not publicly disclosed.*

MONITOR

- Will continue to monitor and update the scores as more material data gets available.

INTEGRATING ESG SCORES INTO OUR INVESTMENT PROCESS

- Will incorporate ESG score and its trend over a period of time to assign valuation multiples/ financial assumptions for Companies.

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