Update | Investment companies

30 January 2018

India Capital Growth

Moving to the main board

India Capital Growth (IGC) moved to the premium listing segment of the London Stock Exchange's main market on 24 January 2018. The board considers that this market is more appropriate for a fund of IGC's size and maturity, and provides a more suitable platform for its growth ambitions. It also believes that the move allows IGC to access an expanded investor audience, putting it on a par with its immediate peers, and that it will benefit from better liquidity in its shares, and potentially an improved rating, building on last year's narrowing discount (see pages 2 and 3).

IGC's adviser thinks that slowing earnings growth in India has bottomed, and the outlook is good, but believes earnings need to grow into current valuations and so the market may pause for breath.

Mid-and-small-cap listed investments in India

IGC's investment objective is to provide long-term capital appreciation by investing (directly or indirectly) in companies based in India. The investment policy permits the company to make investments in a range of Indian equity securities and Indian equity-linked securities. The company's investments will predominantly be in listed mid-and-small-cap Indian companies.

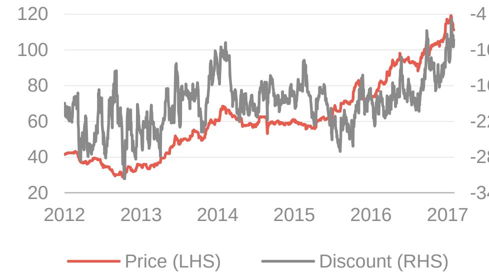
Year ended	Share price total return (%)	NAV total return (%)	Portfolio total return* (%)	S&P BSE Mid Cap TR (%)	MSCI India total return (%)
31/12/13	(14.5)	(9.2)	(9.2)	(16.8)	(5.7)
31/12/14	70.1	50.4	60.0	63.2	31.5
31/12/15	1.0	6.1	8.6	9.8	(0.7)
31/12/16	19.7	20.5	28.6	27.1	17.6
31/12/17	59.6	42.2	42.2	45.7	26.8

Source: Morningstar, Marten & Co. *Note rebased NAV returns

Sector	Country specialist – Asia Pacific
Ticker	IGC LN
Base currency	GBP
Price	112.00p
NAV	122.18p
Premium/(discount)	(8.3%)
Yield	Nil

Share price and discount

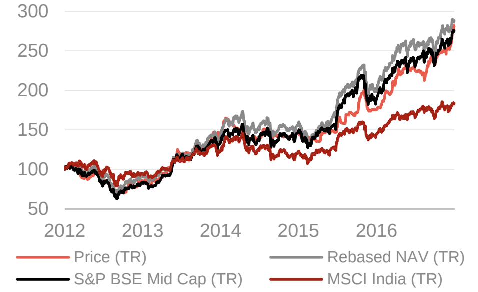
Time period 31/12/2012 to 29/01/2018



Source: Source: Morningstar, Marten & Co

Performance over five years

Time period 31/12/2012 to 31/12/2017



Source: Source: Morningstar, Marten & Co

Domicile	Guernsey
Inception date	22 December 2005
Manager and adviser	David Cornell and Gaurav Narain
Market cap (GBP)	126.0m
Shares outstanding	112.5m
Daily vol. (1-yr. avg.)	537.3k shares
Net cash	2.6%

Click here for annual overview note

Elisabeth Scott joins IGC's board as chairman

On 18 December 2017, IGC announced the appointment of Elisabeth Scott to its board, as non-executive chairman, with immediate effect. Concurrently, the outgoing chairman, Fred Carr, stood down from IGC's board as he had previously indicated at IGC's AGM. He is acting as a consultant to the company until 31 March 2018.

Elisabeth Scott has considerable asset management industry experience, with a strong emphasis on Asia.

Elisabeth worked in the asset management industry in Hong Kong from 1992 to 2008, where she was managing director and country head of Schroder Investment Management (Hong Kong) Limited and chairman of the Hong Kong Investment Funds Association. Elisabeth was elected to the Association of Investment Companies Board with effect of 17 January 2018. Elisabeth is also a non-executive director of Pacific Horizon Investment Trust, Dunedin Income Growth Investment Trust, Allianz Technology Trust and Fidelity China Special Situations.

India market-a time to pause?

Carried on a tide of positive sentiment from a reform-minded government delivering on its promises, the Indian market surged ahead during 2017, despite slowing earnings growth, with mid-and-small-cap companies seeing the greatest gains. This segment is IGC's 'sweet spot'. The manager says that the market's strong performance and the adviser's stock recommendations have allowed the fund to post very compelling returns. As discussed below, shareholders have also benefited from a marked narrowing of the discount. IGC's adviser, Gaurav Narain, thinks that the slowdown in earnings growth has passed its nadir and that India is now on a structurally higher growth trajectory. Nonetheless, he urges some caution as he thinks earnings need to grow into current valuations. He believes the market would benefit from a "pause for breath" rather than embarking on another sprint.

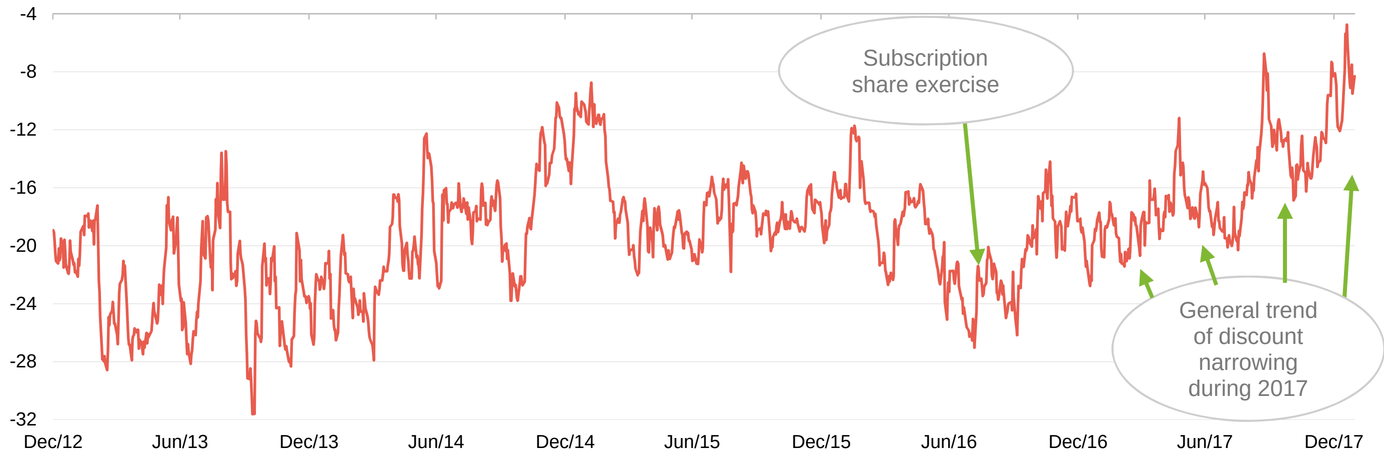
Narrower discount cements IGC's transformation

IGC's discount has narrowed significantly.

As illustrated in Figure 1, IGC's shareholders benefited from a significant narrowing of its discount during 2017. IGC began 2017 trading at a discount of 18.3%, which is comparable to its five-year average of 19.0% and closed the year at a discount of 8.3%. As at 29 January 2018, IGC was trading at a discount of 8.3%. The manager and board are very pleased with the progress IGC has made in this regard. It represents the culmination of a longer-term strategic plan to improve IGC's performance and rating. This started with the manager change in 2010 (phase 1), the strengthening of the advisory team in Mumbai and delivering superior absolute and relative performance (phase 2) and the subscription share issuance in 2014 (phase 3). In IGC's 2016 annual report, the chairman set the board's plans for phase 4, which was to achieve an enduring reduction in IGC's discount. As illustrated in Figure 1 below, this has been accomplished.

The manager thinks that the discount narrowing during 2017 reflects a number of things, including IGC's strong performance during the year; efforts to raise IGC's profile and bring it to the attention of investors; its increased size (IGC expanded following the subscription share exercise in August 2016 and, with asset growth, its market capitalisation is comfortably in excess of the £100m threshold that is considered a minimum for some investors); and the benefits of IGC achieving its premium main market listing on the London Stock Exchange (discussed on the front page). The manager, David Cornell, highlights that IGC now trades on the exchange's flagship electronic order book, SETS. He thinks that this will lead to improved liquidity in IGC's shares.

Figure 1: Premium/(discount) over five years



Source: Morningstar, Marten & Co.

Potential to grow?

If IGC trades close to asset value, this could open the prospect of it raising fresh capital. Expanding the size of IGC would benefit all shareholders by bolstering liquidity and reducing the ongoing charges.

Commentators believe that, if the government's reforms continue to deliver, India should find itself on a higher and more sustainable growth trajectory. This could benefit Indian companies across the board and funds, such as IGC who invest there. A continuation of peer group beating performance (see pages 10 and 11) could allow IGC's discount to narrow further. IGC has said that it does not have any plans to raise fresh capital but, if IGC trades closer to asset value, and the board feel that the timing is right, this could open up the prospect of expanding the fund. Reflecting the depth of the Indian market, the manager says that IGC's strategy could support considerable asset growth without any negative impact on returns (this is aided by Ocean Dial's investment in its analytical team) and that expanding the size of IGC would benefit all shareholders.

Strong market performance during 2017

Mid-and-small-cap stocks have benefited the most.

As illustrated in Figure 2, and in the performance table on the front page, Indian markets had a very strong run during 2017, which followed on from a robust 2016. The broader market, as measured by the S&P BSE Sensex, was up some 31% during 2017, but mid-and-small-cap stocks (IGC's sweet spot) benefited the most. The S&P BSE Mid-Cap Index provided a total return of around 46%, while the small-cap index returned around 57%.

This striking performance has occurred, somewhat counterintuitively, against a backdrop of slowing earnings growth. By way of example, IGC's adviser says that at the start of 2017, earnings growth for the broader market was in the region of 15%, but he expects that for 2017 growth will be single digit.

The adviser thinks that the worst is now behind us and that the earnings outlook is reasonably attractive from here. The manager comments that analysts have not been drastically reducing their earnings estimates for the next fiscal year (India uses a fiscal year that ends on 31 March, this is often abbreviated to FY) and that leading economic indicators, such as commercial vehicle orders, cement and consumer durables are picking up.

Slowing earnings growth is a short-term phenomenon; India is now on a higher growth trajectory

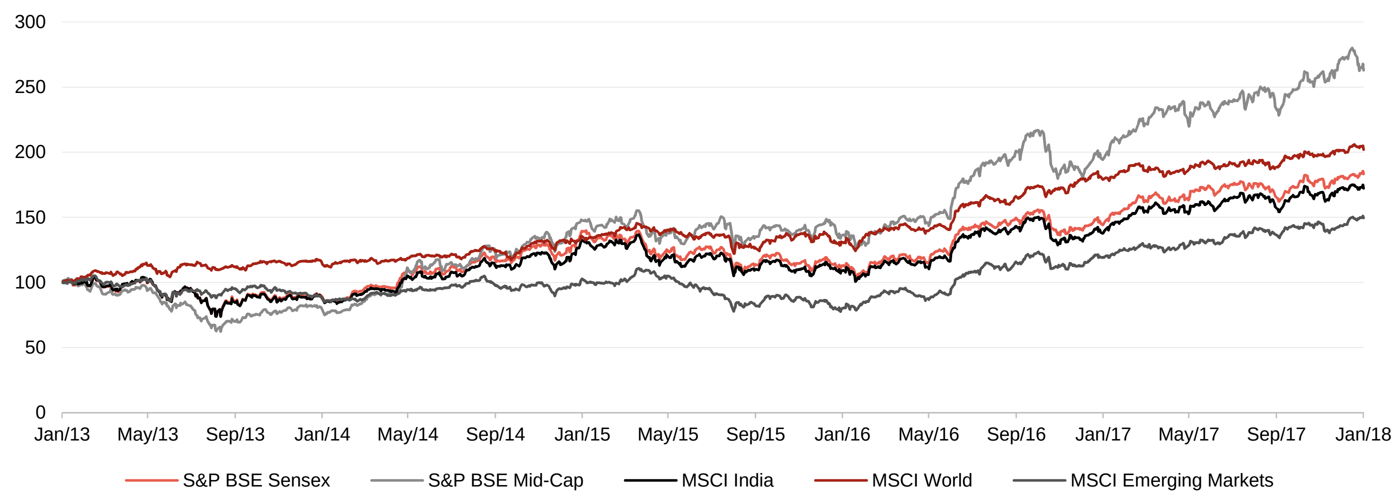
The effects of implementing GST and demonetisation have been the primary drivers of falling earnings.

The primary cause of the fall in earnings growth has been the impact of two key initiatives by the reformist government of Prime Minister Modi – implementation of the Goods and Services Tax (GST) and demonetisation (subjects covered in previous QuotedData notes). The impacts are viewed broadly as being short term in nature and the general expectation, and one that Ocean Dial strongly agree with, is that this will put India on a higher growth trajectory.

BJP election wins have bolstered market confidence that reforms can continue.

Despite the disruption these measures have caused, the government and its anti-corruption agenda remain popular. The market had some concerns that these radical measures could hurt the government's approval rating and elections in the states of Gujarat and Uttar Pradesh were seen as a test. In the event, the ruling Bharatiya Janata Party (BJP) comfortably won both elections and this has given markets renewed confidence that reforms can continue. The prevailing view is that the measures should benefit 'organised players' (transparent companies paying tax and sticking by regulations) by bringing the informal sector into the tax net, thereby levelling the playing field.

Figure 2: Indian market indices versus global and emerging markets indices performance, rebased to 100, over five years (GBP terms)

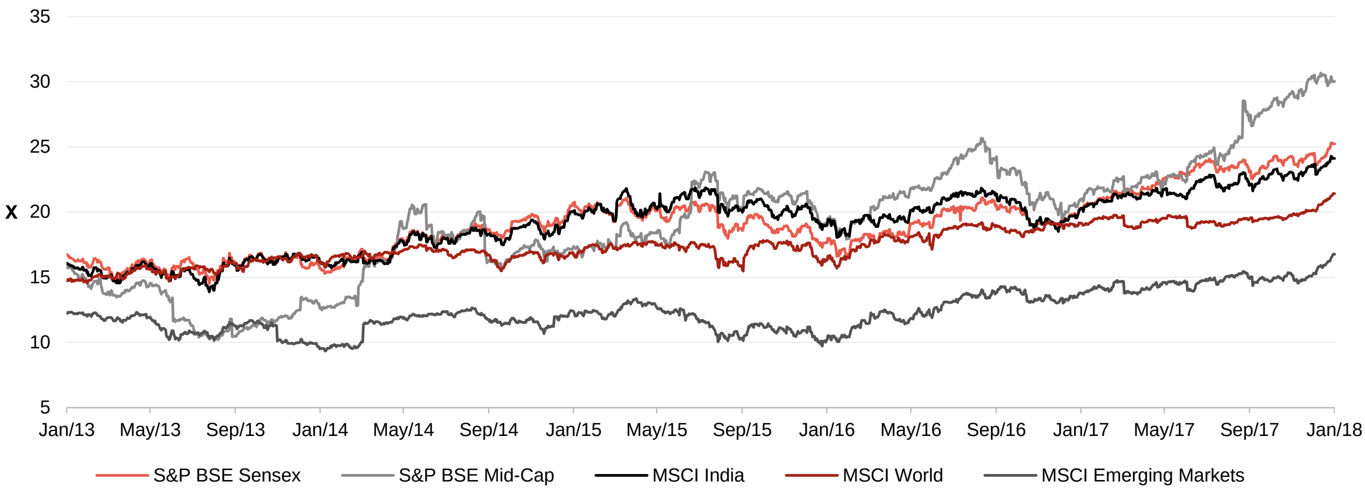


Source: Bloomberg, Marten & Co

The rising market has been primarily driven by domestic liquidity.

According to Gaurav, evidence suggests that the rise in Indian markets has been primarily driven by domestic liquidity. Domestic inflows to the mutual fund industry were in the region of US$18bn in 2017, in addition to some US$8bn from foreign investors. He says that the US$18bn is roughly 80% of the cumulative inflows received during the previous 10 years. Gaurav says that a lot of this money has gone into the mid-and-small-cap market, which is why this segment has performed so strongly, and this level of growth is rarely seen. The chart below, which shows the price earnings ratio (P/E ratio) for profitable stocks, illustrates that the Indian market is expensive relative to emerging market peers and this is particularly true of the mid and small caps as represented by the S&P BSE Mid-Cap Index).

Figure 3: Indian market indices versus global and emerging markets indices index adjusted positive P/E ratio over five years



Source: Bloomberg, Marten & Co

Manager and adviser's view

Valuations are a concern but have been driven by short-term effects

Elevated valuations are particularly acute in the mid-and-small-cap space.

The adviser's biggest concern is valuations. The Indian market motored ahead during 2017, against a tide of declining earnings, leaving it with elevated valuations. As illustrated in Figure 3, this issue is particularly acute in the mid-and-small-cap space with, for example, mid-caps clearly trading on higher multiples than large-cap stocks.

These are short-term impacts, caused by the implementation of GST and demonetisation.

Gaurav acknowledges that, on the whole, these are short term impacts, caused by the implementation of GST and demonetisation, and agrees with the consensus view that India should find itself on a structurally higher growth trajectory from here. However, he thinks that valuations, particularly in the mid-and-small-cap space, are now reflective of FY 2020 earnings (for the year starting March 2019) rather than the prospects for 2018. He thinks that we are through the nadir of falling earnings growth and that earnings growth should accelerate from here. He thinks that this is quite exciting as it should allow earnings to grow into current valuations. Nonetheless, Gaurav thinks that the market could be vulnerable to a correction should something disrupt the current consensus.

It is difficult to find quality companies on appropriate valuations, but the adviser is prepared to wait.

The Indian market is deep in terms of the opportunities available and Gaurav is able to find quality companies that he likes, but it is currently difficult to find these on appropriate valuations. Reflecting this, he has mostly been adjusting portfolio weights (trimming positions where valuations are becoming extended in favour of companies that are more fairly priced) rather than making any major changes. Gaurav is prepared to wait and is happy to allow the portfolio's cash balance to increase. This will allow the team to move quickly when the right price is found. In the meantime, the team continues to meet a lot of companies.

Macroeconomic challenges lie ahead

Quarterly GDP growth numbers are now on an upward trajectory again.

Looking at the economy, Gaurav says that earnings growth is improving once again and that all the ill effects from GST and demonetisation are behind us. Quarterly GDP growth numbers are now on an upward trajectory again; having bottomed out at about 5.8%, GDP growth is now around 6.2%. He thinks that most analysts' forecasts will be for GDP growth of 7% going into 2019.

The main challenges are on the macro side: commodity and food prices are rising, pushing up inflation, making an interest rate rise more likely.

Ocean Dial believes that the main challenges will be on the macro side. Commodity prices have gone up and India is a net importer of commodities, particularly oil. This is having repercussions. Inflation is now trending above the average and, at 4.9%, it is at its highest for two years, primarily driven by a higher oil price and, to some extent, rising food prices. The manager says that the comfort limit for the inflation rate is about 4%; as a result, the central bank is no longer looking at an easing cycle, and the probability of an interest rate rise is now more likely. The manager thinks that oil price rises can be absorbed for now but would be more concerned should the oil price rise above US$75 per barrel.

An increasing fiscal deficit is pushing up bond yields.

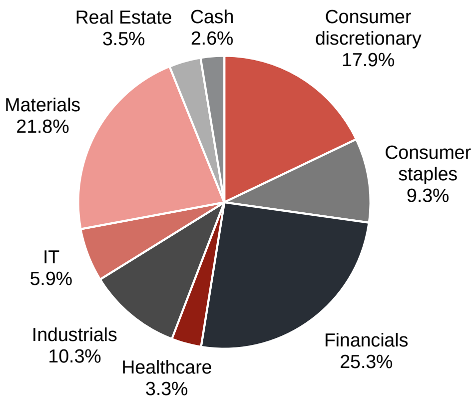
The adviser highlights that the government faces challenges with its finances. The government has increased wages for public sector workers and has been investing in rail and roads. Ocean Dial says that the government budgeted for a deficit of 3.2% of GDP for FY18, and 3.0% to 3.2% for FY19, but it thinks that the deficit will be closer to 3.4% for FY18, falling to 3.2% for FY19. Reflecting this, bond yields which had been on a rising trend appear to have steadied more recently. This may reflect the government's strong position and a recent statement that next week's budget will not include measures designed to be populist. Yields on 10-year bonds are now in the region of 7.4%. This is an increase of almost 100 basis points during the year, of which most has occurred during the last two months.

Asset allocation

The adviser has been trimming positions that have performed strongly.

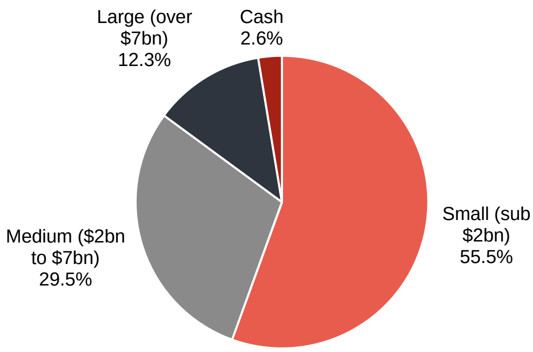
Reflecting the adviser's view that the Indian market looks fairly valued on 2020 earnings, a number of strongly performing positions have been trimmed and there has been just one new stock to enter the portfolio, Capital First, which is discussed below.

Figure 4: Portfolio breakdown by industry sector as at 31 December 2017



Source: Marten & Co, Ocean Dial Asset Management

Figure 5: Portfolio breakdown by size of company as at 31 December 2017



Source: Marten & Co, Ocean Dial Asset Management

Figures 4 and 5 show the allocation of the portfolio by industry sector and market capitalisation as at the end of 2017. Figure 5 shows the largest positions in each part of the portfolio as at 31 December 2017. Details of the rationale underlying some of these and other positions can be found in QuotedData's previous research notes. Some of the more recent changes are also discussed in detail below.

Cash levels

The allocation to cash fell modestly during the second half of 2017. Reflecting Gaurav's view that the market looks fairly valued on FY 2020 earnings, he has been trimming positions and is happy to let IGC's cash move up from here. The manager has indicated that a maximum cash balance would be in the range of 5% to 7%.

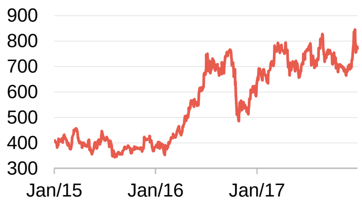
Figure 6: 10 largest holdings as at 31 December 2017

Stock	% of total assets 31 Dec 17	% of total assets 30 June 17	% change	Sector	Business
Dewan Housing	5.9	5.6	+0.3	Financials	Home loans
Ramkrishna Forgings	4.9	3.5	+1.4	Materials	Auto components
Motherson Sumi Systems	4.6	4.3	+0.3	Consumer discretionary	Auto components
Federal Bank	4.4	5.4	(1.0)	Financials	Full service bank
Sobha Developers	3.3	3.2	+0.1	Financials	Real estate
Kajaria Ceramics	3.3	3.5	(0.2)	Industrials	Tiles
Jyothy Laboratories	3.2	3.5	(0.3)	Consumer staples	Household goods
NIIT Technologies	3.2	3.4	(0.2)	IT	Digital services
Finolex Cables	3.2	2.4	+0.8	Industrials	Electrical cables
City Union Bank	3.0	3.2	(0.2)	Financials	Full service bank
Total of top 10 holdings	39.0	39.8	(0.8)		

Source: Marten & Co, Ocean Dial Asset Management

Capital First (new holding)

Figure 7: Capital First share price



Source: Bloomberg

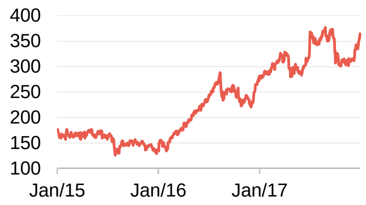
Capital First (www.capitalfirst.com) has been the only new addition to IGC's portfolio during the last few months. Capital First is a non-banking finance company that provides loans to SMEs, small entrepreneurs and Indian consumers. It is focusing heavily on retail loans and is using technology effectively to reduce the costs of managing these loans and limiting the risk of defaults.

The retail loan market in India is underpenetrated, which presents a high growth opportunity but, given the small transaction size, the cost of conducting credit analysis using a traditional approach is prohibitively expensive. CIBIL (Credit Information Bureau (India) Limited), India's first credit bureau, was established by the government and the Reserve Bank of India, but Ocean Dial says that it only covers 20% of retail purchases. Instead, Capital First uses its technology to interrogate social media sites; Gaurav says that this gives Capital First a good perspective of the type of client that it is dealing with. Its technology reduces both the time and the cost of doing transactions. The adviser draws comfort from the limited competition in the space. He highlights that the larger institutions are primarily focused on asset backed loans, and give limited attention to the consumer durable loans that Capital First is providing.

On 13 January 2018, Capital First and IDFC Bank (a full service private sector bank) announced a merger to create an entity with an assets under management of INR 880bn. Ocean Dial is positive on the merger: Capital First's CEO is to head up the new company and it believes that the merger ratio favours Capital First shareholders.

Yes Bank (trimmed)

Figure 8: Yes Bank share price



Source: Bloomberg

Yes Bank (**www.yesbank.in**) was IGC's largest holding, accounting for 5.1% of the portfolio as at 29 February 2017, when QuotedData published its annual overview note on IGC (this being the most recently available data). Looking at IGC's top 10 holdings as at 31 December 2017 (see Figure 6) Yes Bank no longer features. Gaurav says that this is a position that has performed very strongly for IGC and has been trimmed significantly. It is a position that he may exit altogether. Gaurav highlights that, during IGC's ownership, Yes Bank has become a large cap position and no longer fits IGC's profile of investing in mid-and-small-caps. The holding now accounts for roughly 2.5% of IGC's portfolio, having reached a high of approximately 6%. Proceeds from the sale have, in part, been used to build a position in Capital First (discussed above).

New entrants to top 10 holdings

NIIT Technologies

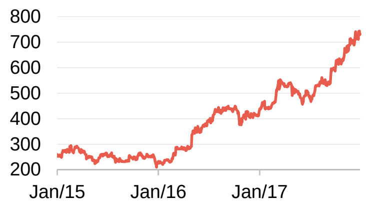
Figure 9: NIIT Technologies share price

Source: Bloomberg

NIIT Technologies (**www.niit-tech.com**) is a position that has been held in IGC's portfolio for 4 years. NIIT Technologies is an IT services company that operates in travel and transportation; banking and financial services; insurance; manufacturing; and media sectors, but has a strong presence in the global travel and tourism sector. By way of example, British Airways is an NIIT client. NIIT manages British Airways' website and all of its ticketing. NIIT also manages the entire baggage handling systems at airports in Singapore and Shanghai. In addition, NIIT has a reasonably strong business in the insurance space, which is primarily focused on the US. The company trades at about 10x P/E and Gaurav continues to see considerable value in the businesses.

Finolex Cables

Figure 10: Finolex Cables share price



Source: Bloomberg

Finolex Cables (**finolex.com**) is an Indian manufacturer of electrical and telecommunication cables based in Pune, Maharashtra. It describes itself as "India's largest and leading manufacturer of wires and cables, switches, LED lights, fans and miniature circuit breakers". Finolex has been held in IGC's portfolio for over three years and IGC's adviser says that it is a very well-run business that has a strong brand as well as a strong retail presence. Crucially, it is a price setter and is highly cash generative. Gaurav also sees it as a play on infrastructure growth in India as infrastructure investment almost always leads to higher demand for cables.

Performance

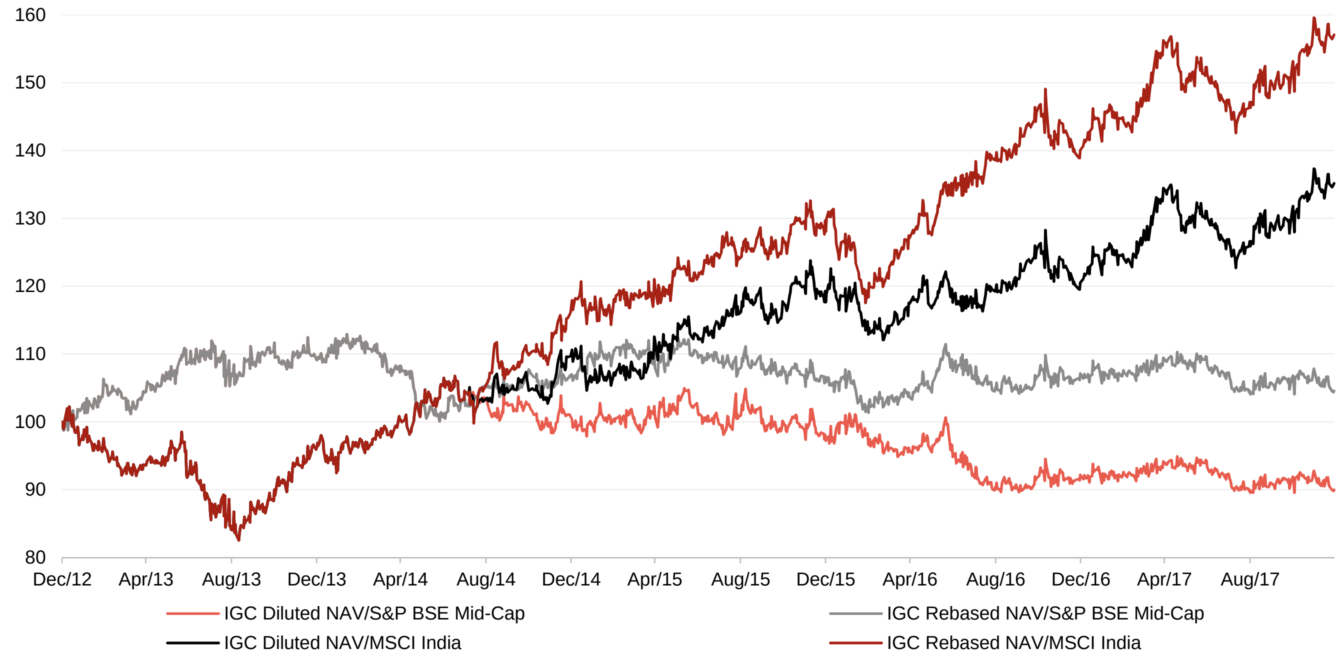
As illustrated in Figures 11 and 12, IGC's absolute returns have been very strong during the last 12 months. However, the fund has recently lagged its benchmark and this has pulled down its relative performance over the longer term (although it is still ahead of its peers – see pages 10 and 11). The manager says that most of this underperformance occurred in December, and was due to prices falling for a couple of IGC's larger stocks after a period of good performance. The manager considers that this is just healthy profit taking by the market, does not reflect any structural weakness in these positions and both he and the adviser continue to be positive for the outlook on these stocks. IGC has benefited from its mid-and-small-cap bias; it has outperformed the broader MSCI India index markedly during the last year.

Figure 11: Cumulative total return performance for periods ending 31 December 2017

Heading	1 month	3 months	6 months	1 year	3 years	5 years
India Capital Growth NAV (diluted)	3.2	15.8	14.9	42.2	81.7	148.2
India Capital Growth NAV (portfolio)	3.2	15.8	14.9	42.2	98.5	188.4
India Capital Growth share price	10.8	19.6	24.9	59.6	93.0	180.7
S&P BSE Mid Cap	6.4	17.1	19.1	45.7	103.2	175.8
MSCI India	4.9	10.8	10.7	26.8	48.1	83.6

Source: Morningstar, Bloomberg, Marten & Co

Figure 12: IGC NAV performance versus Indices



Source: Morningstar, Ocean Dial, Marten & Co

Contributions to performance

Figure 13 illustrates the top five contributors to returns during 2017. All of these are long time holdings in IGC's portfolio and have been discussed in QuotedData's previous notes.

Almost all of IGC's holdings made a positive contribution to performance. The manager highlights that there are only two exceptions; Neuland Pharmaceutical and Dish TV, with the latter's contribution being mildly negative. Some commentary on Neuland Laboratories is provided on page 10. Despite the negative contribution during 2017, the adviser thinks that the company is well positioned.

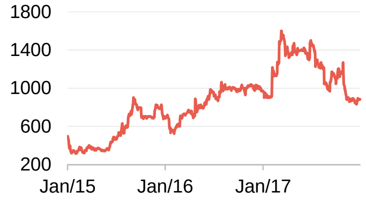
Figure 13: Top five positive contributors to return during 2017

Company	Average portfolio weight (%)	Contribution to return (%)
Dewan Housing	5.65	5.79
Ramkrishna Forgings	3.54	4.78
Sobha	3.17	3.61
Federal Bank	2.91	3.14
Motherson Sumi	2.70	2.70

Source: India Capital Growth

Neuland Laboratories

Figure 14: Neuland laboratories share price



Source: Bloomberg

Neuland Laboratories (www.neulandlabs.com) manufactures active physical ingredients (API) for the pharmaceutical industry. It offers worldwide compliant manufacturing facilities to its customers and guarantees not to compete with them on finished product. It also undertakes custom R&D for global pharmaceutical companies, which accounts for around 40% of its business.

Healthcare and IT services have been the two main areas that have been exceptions to the stratospheric rise in Indian markets in 2017. The performance of IT services has largely been in response to President Trump's vocal objections to outsourcing. Healthcare has also suffered in this way although there are additional issues. First of all, there has been a consolidation in the US medicine retail space, which has increased the bargaining power of the buyer. Secondly, The US Food and Drug Administration (US FDA) has also been very aggressive in giving approvals to new products and filings, which has increased competition from Indian companies. Thirdly, the frequency of US FDA inspections has increased significantly and, Gaurav says, a lot of companies are receiving negative observations, which take time to address. This has led to some disruption in the supply chain.

Gaurav says that, while there is inevitably a knock-on effect from healthcare having had a difficult year, Neuland has suffered somewhat unfairly. In his view, it is actually well positioned; a view that is not universally shared within the healthcare space.

Gaurav says that Neuland is in prime position to benefit from at least two products that have gone off patent in Europe, one of which is about to go off patent in the US in the next two to three months. Five players, all of which Neuland supplies the API for, have moved in to make a generic version. The generic versions have just been launched in Europe and the US launch is expected in a few months. Gaurav says that uptake of the new product has not been as high in Europe as expected so, while initial orders have been met, repeat orders are yet to come through, and this has impacted on Neuland's share price during the last two months.

Gaurav has spoken with the company and is comfortable that the orders will come through. He thinks that the product has the potential to double Neuland's earnings and that the company has four similar 'blockbusters' in its pipeline. In his view, it is well positioned and he remains very positive on the outlook for the stock.

Performance comparison of IGC against its peers

Up- to-date information on IGC and its peers is available on the QuotedData website.

Comparing IGC to its UK listed investment company peers, Aberdeen New India and JPMorgan Indian, you can see from Figure 15 that IGC's diluted NAV returns (which take into account the impact of its previous subscription shares) and that of the portfolio (no diluting effect) have both strongly outperformed those of both of its peers over the long term. When QuotedData last wrote on IGC, it had been lagging its peers for a few months prior (having suffered from a number of stock specific issues) but, as illustrated in Figure 15, it has since recovered and has markedly outperformed its peers over the three and six-month periods.

Figure 15: Indian equity funds subsector comparison (NAV total return data in sterling as at 31 December 2017)

	1 month (%)	3 months (%)	6 months (%)	1 year (%)	3 years (%)	5 years (%)
India Capital Growth (diluted)	3.2	15.8	14.9	42.2	81.7	148.2
India Capital Growth (portfolio)	3.2	15.8	14.9	42.2	98.5	188.4
Aberdeen New India	4.6	8.0	5.6	26.4	52.8	115.3
JPMorgan Indian	5.0	8.9	10.2	29.9	54.7	108.1

Source: Morningstar, Marten & Co

Fund profile

Further information is available at the company's website at: www.indiacapitalgrowth.com

IGC invests in India, predominantly in listed mid-and-small-cap Indian companies. The fund is aiming to generate capital growth for shareholders. IGC has not paid dividends in the past and the manager says it is unlikely to do so in the near future.

Management arrangements

IGC invests through a Mauritian subsidiary (IGC Q Limited) into a portfolio of Indian securities. By investing through a Mauritian subsidiary, IGC pays the lower of short-term capital gains tax due in India and Mauritius (effectively zero). There is no long-term capital gains tax in India at present.

IGC has been managed by David Cornell of Ocean Dial since 2010. He has been assisted in this, since November 2011, by Gaurav Narain (Gaurav or the adviser) of Ocean Dial Advisers Pvt, which is based in Mumbai. Gaurav has 24 years of experience in Indian capital markets having started his career at Credit Capital, a Lazard's group company.

Ocean Dial was acquired by Avendus Capital, an Indian financial services company backed by KKR, in August 2017.

Ocean Dial was previously owned by management and staff but, in August 2017, the company announced that it had been acquired by Avendus Capital Private Limited, an Indian financial services company backed by Kohlberg Kravis Roberts (KKR). The manager tells us that Avendus was keen to take on an offshore (to India) asset management business. There will be very little impact on the day-to-day operations at Ocean Dial Asset Management. The key members of the team have been incentivised to stay with the business.

In addition to IGC, Ocean Dial manages two open-ended funds: Gateway to India is a US$411m (as at 31 December 2017), Indian equities fund, with a large-cap focus, advised by Sanjoy Bhattacharyya (this fund has been closed to new investors) and Systematic India Return Fund, a concentrated Indian equity portfolio with hedging to provide downside risk protection, advised by Vamsi Tatavarthy. The seven-strong investment team is split between London and Mumbai. Each of the analysts is assigned responsibility for a number of industry sectors. The manager is responsible for monitoring the risk of the portfolio and all dealing is done from London.

Ocean Dial staff hold a significant number of shares in IGC, helping to align their interests with investors.

Following the subscription share exercise and a purchase of shares in August 2016, three members of Ocean Dial's team hold over 680,000 shares in IGC between them.

The board has an oversight role. Its permission must be sought before IGC can take on any permanent borrowings, invest in any unlisted investment or buy back shares. It is worth bearing in mind that the manager says it is highly unlikely that it will take on permanent borrowings or invest in unlisted investments. The board also sets the company's policy on currency hedging.

Index comparators

IGC's main focus is mid-and-small-cap companies. Its benchmark is the S&P BSE Mid Cap.

IGC's main focus is on Indian mid-and-small-cap companies, but the fund can and does hold large-cap stocks as well. The board and the manager use the S&P BSE Mid Cap Index (total return) for performance evaluation purposes, although the portfolio is not constructed with reference to this index. QuotedData has included this index in this report and, given the portfolio's weighting in large-cap companies (those with a market cap greater than US$7bn represented 16.5% of the portfolio at the end of February 2016), it may also be worth comparing IGC's performance against the MSCI India Index. The manager does not take benchmark weightings into account when constructing the portfolio.

Previous publications

Readers interested in further information about IGC, may wish to read QuotedData's last annual overview note *Full steam ahead* published on 29 March 2017. Also available are QuotedData's initiation note *Compounding machine,* published on 23 March 2016 and QuotedData's update notes, *Indian powerhouse* and *India at a significant discount,* published on 8 July 2016 and 21 October 2016 respectively. You can read the notes by clicking on them in Figure 16 or by visiting **www.quoteddata.com**.

Figure 16: Marten & Co previously published notes on IGC

Title	Note type	Date
Compounding machine	Initiation	23 March 2016
Indian powerhouse	Update	8 July 2016
India at a significant discount	Update	21 October 2016
Full steam ahead	Annual overview	29 March 2017

Source: Marten & Co.

QuotedData

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IMPORTANT INFORMATION