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INTERNATIONAL

India Capital Growth

Investment companies | Update | 17 June 2021

Lessons learnt

Though India's second coronavirus wave – which started in March 2021 and saw as many as 414,000 recorded daily cases as recently as 6 May – has been described as one of the worst in the world, Gaurav Narain, India Capital Growth's (IGC's) investment adviser, believes the peak has now passed. The number of new daily cases appears to be on a declining trend and the country's vaccine rollout has been ramping up after a temporary slowdown following production constraints.

Gaurav also believes India's government learnt its lesson from the first outbreak. He says that its decision to allow businesses to continue to operate this time around has helped the economy to recover faster and emerge stronger.

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 are predominantly in listed mid- and-small-cap Indian companies.

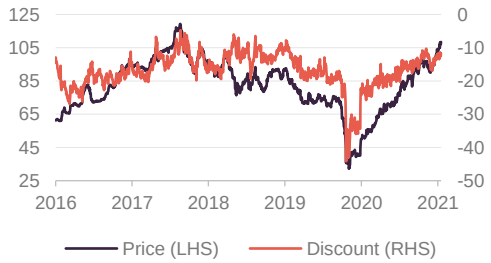
Year ended	Share price total return (%)	NAV total return (%)	Portfolio total return* (%)	S&P BSE Mid Cap TR (%)	MSCI India total return (%)
31/05/16	53.3	49.3	58.9	52.6	34.8
31/05/17	2.2	3.8	3.8	2.5	3.5
31/05/18	(4.5)	(11.9)	(11.9)	(2.9)	12.9
31/05/19	(45.4)	(37.0)	(37.0)	(25.0)	(20.6)
31/05/20	107.0	82.5	82.5	67.8	46.5

Source: Bloomberg, Morningstar, Marten & Co. * Note rebased NAV returns (see explanation on page 11)

Sector	India
Ticker	IGC LN
Base currency	GBP
Price	108.50p
NAV	122.98p
Premium/(discount)	(11.8%)
Yield	Nil

Share price and discount

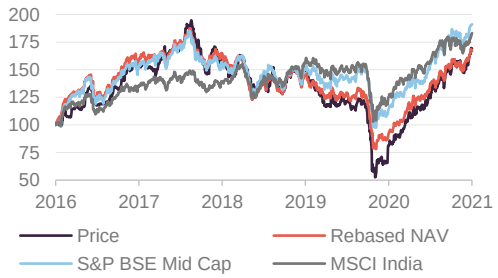
Time period 31/05/2016 to 15/06/2021



Source: Morningstar, Marten & Co

Performance over five years

Time period 31/05/2016 to 31/05/2021



Source: Morningstar, Marten & Co

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Contents

Domicile	Guernsey
Inception date	22 December 2005
Manager/Adviser	David Cornell / Gaurav Narain
Market cap	122.1m
Shares outstanding (exc treasury shares)	112.5m
Daily vol. (1-yr. avg.)	308.4k shares
Net cash	2.2%

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Analysts

Jayna Rana
jr@martenandco.com

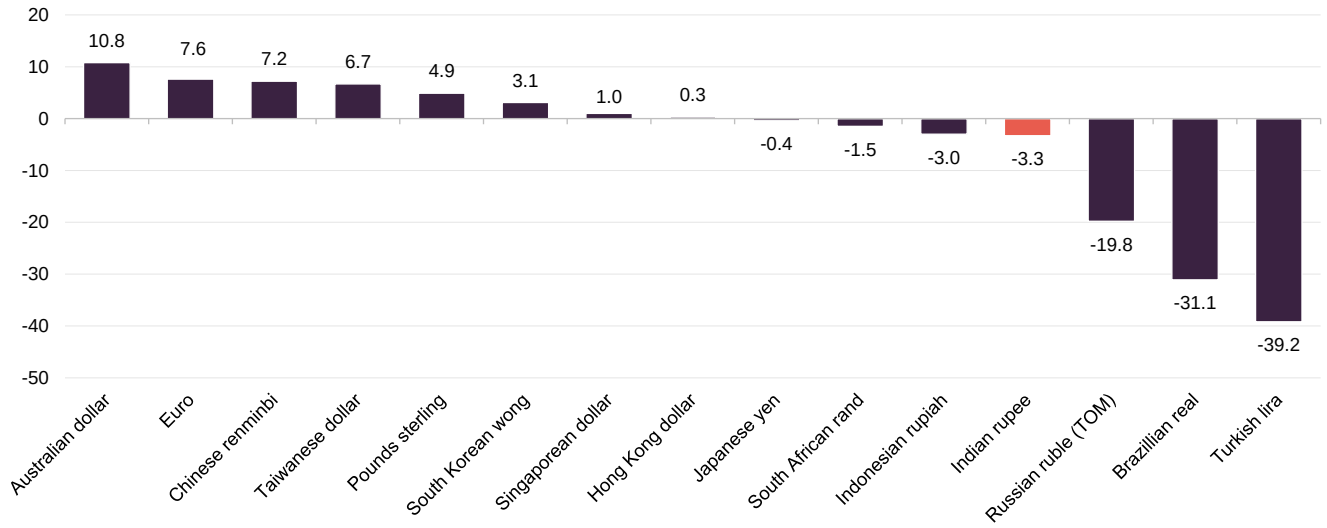
Matthew Read
mr@martendandco.com

James Carthew
jc@martendandco.com

Market outlook

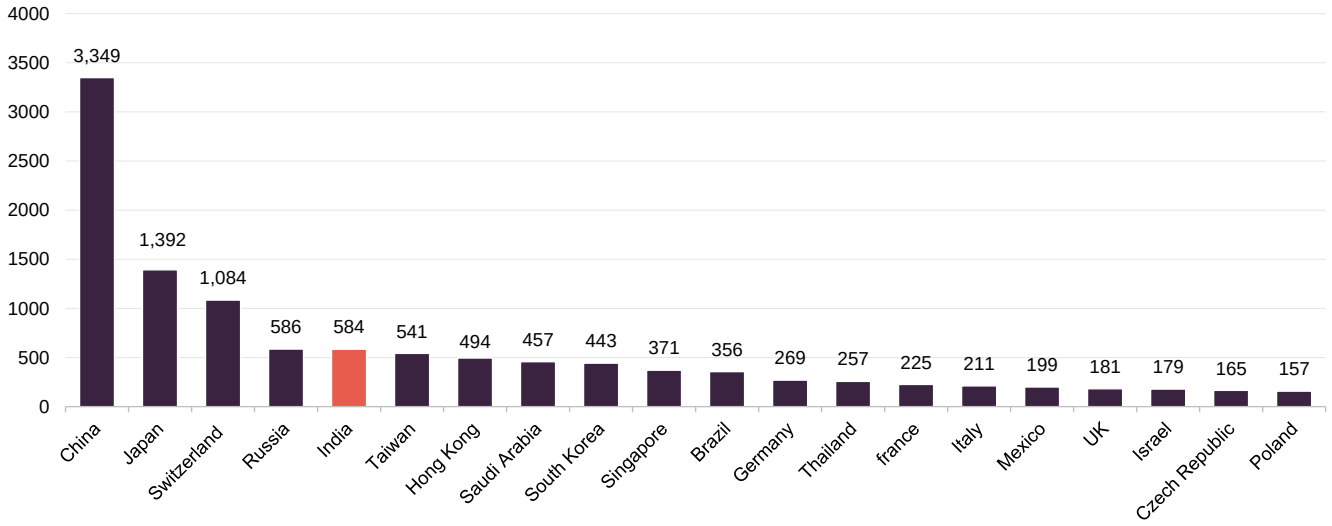
India was one of the better performing markets during 2020, with the MSCI India Index returning 11.99%, only slightly behind the total return for the MSCI World Index at 12.32%. By way of comparison, the UK market was down 13.23% over the year. Year-to-date, India is up 10.08%, versus 8.24% for MSCI World but still behind an 11.73% return for the UK, which has so far achieved a successful ongoing vaccination programme and a gradual easing of lockdown restrictions.

Figure 1: Currency movements versus US$ (from January 2020 to 10 May 2021)



Source: Ocean Dial Asset Management, Bloomberg. As at 10 May 2021.

Figure 2: Forex Reserves (US$ bn)



Source: Ocean Dial Asset Management, Bloomberg. As at 10 May 2021.

As illustrated in Figure 1, the Indian Rupee appears to have held up relatively well over the pandemic, having fallen by just 3.3% against the US dollar since January 2020, which would appear to differentiate it from some other emerging markets. IGC's managers think that this is a reflection of the macroeconomic stability that Prime Minister Narendra Modi and his government have brought about. As illustrated in Figure 2, India has strong FX reserves and IGC's managers say that this, as well as increased foreign direct investment, is supporting low currency volatility.

The AIC's India sector was the worst performing in April but bounced back to the second-best performer by May 2021.

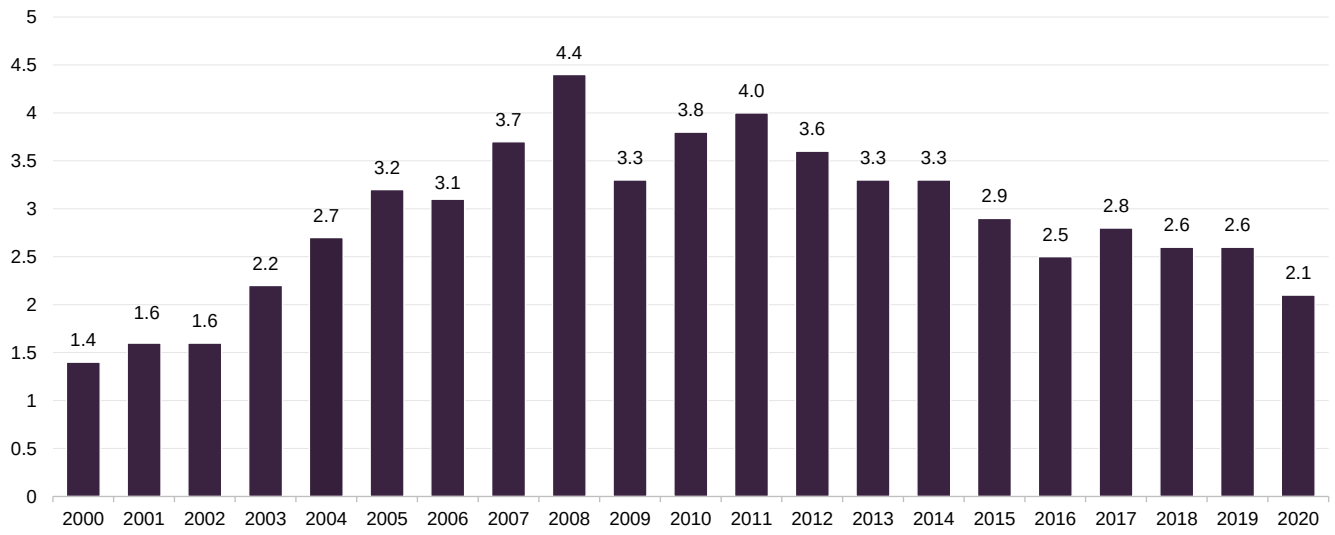
Though the Association of Investment Companies (AIC)'s India sector was the worst performing for April in share price terms (down by 3.7%), it appears to have bounced back in May, as the second-best performer, with a median share price total return of 6.7% and median NAV total return of 5.5%. The median discount, however, is still wide at 12.8% as at 31 May 2021.

Valuations and recovery potential

IGC's manager says that its portfolio currently trades at 16x historic earnings, and 12.9x one-year forward earnings, with earnings per share growth of 35% and 24% respectively. In comparison, it says that the Nifty 50 Index is more expensive, trading at 20.3x historic earnings and 17.6x one-year forward earnings, with comparable historic earnings growth of 36% and 15.4% earnings growth over the next twelve months.

As illustrated in Figure 3, the ratio of corporate profits to GDP is at a multi-year low (it is now at its lowest since 2003) suggesting strong recovery potential. The managers think there is the potential for a longer-term upward revision cycle if this ratio returns to its mean level of 3.5 to 4%.

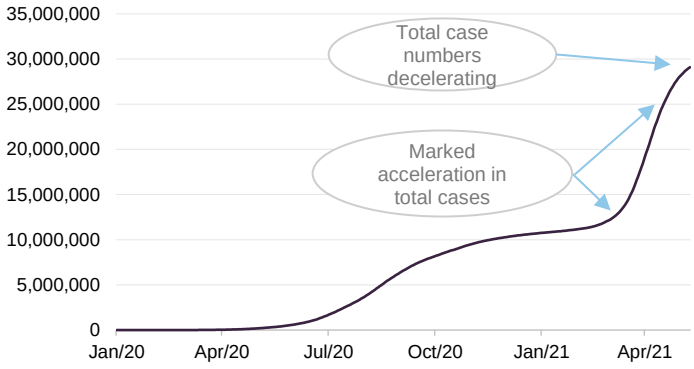
Figure 3: BSE corporate profits to GDP ratio (%)



Source: Ocean Dial Asset Management, Ace Equity

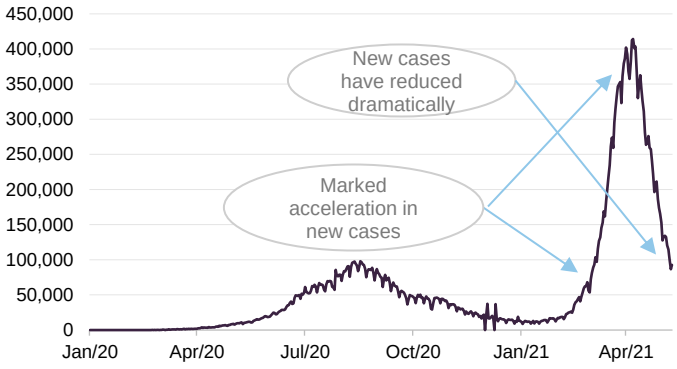
The big – COVID – picture in India

Figure 4: India total COVID cases



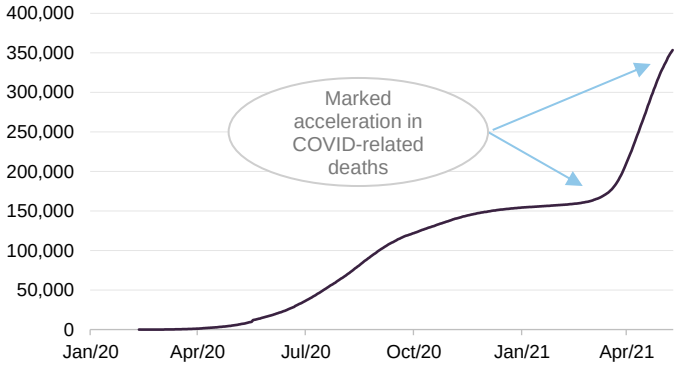
Source: Our World in Data, Marten & Co

Figure 5: India new COVID cases



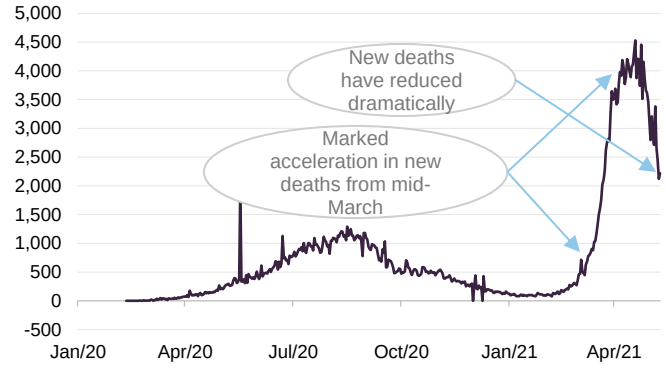
Source: Our World in Data, Marten & Co

Figure 6: India total COVID deaths



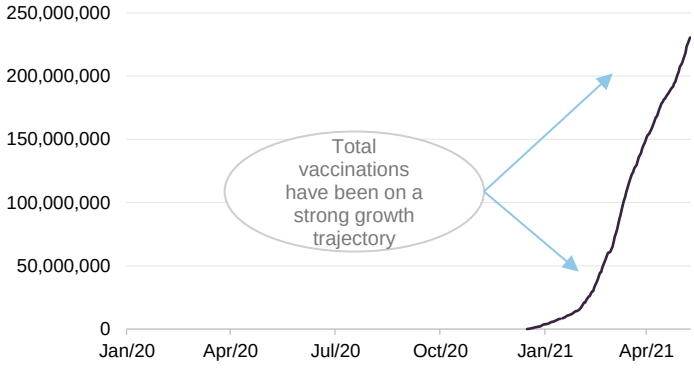
Source: Our World in Data, Marten & Co

Figure 7: India new COVID deaths



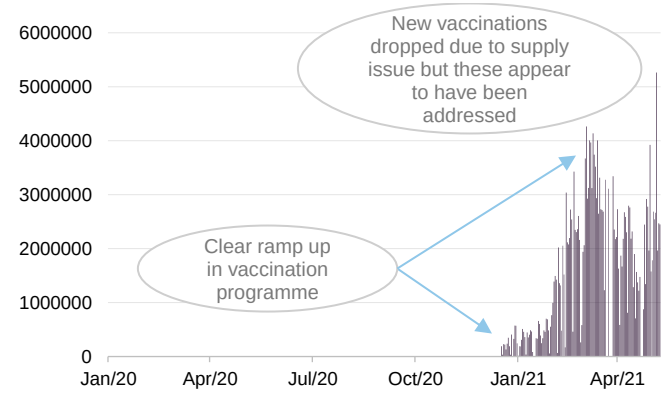
Source: Our World in Data, Marten & Co

Figure 8: India total vaccinations



Source: Our World in Data, Marten & Co

Figure 9: India new vaccinations



Source: Our World in Data, Marten & Co

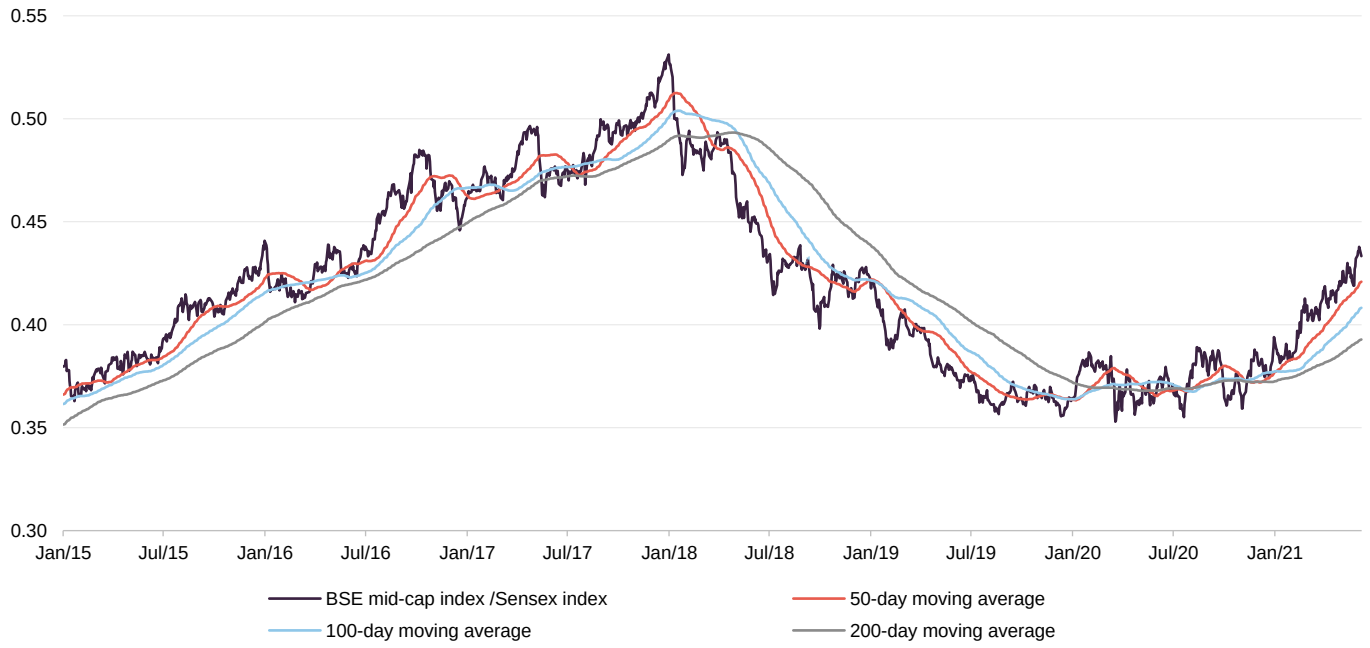
Over the past week, national capital, Delhi and financial hub, Mumbai, are among the regions across the country that have started to reopen, albeit partially. This is arguably a significant development considering that less than two months ago, the crushing second wave saw hospital beds, medicine and oxygen supplies run short. India has administered more than 230m jabs so far - but less than four percent of its 1.4bn-strong population have been fully vaccinated.

> 29.7m coronavirus cases and 382,000 deaths have been recorded in India.

A botched initial roll-out of the vaccination programme also saw demand outstrip supply and so the country struggled. Most recent figures show India saw 67,208 new reported infections on 16 June, and more than 2,330 deaths. Though still problematic, this is far lower than the nearly 400,000 daily cases it recorded in May. 29.7m cases and 382,000 deaths have been recorded so far, though experts believe the actual toll is much higher.

Rise of the SMID cap

Figure 10: Indian mid-cap versus large cap stocks



Source: Morningstar, Marten & Co

IGC says that there has been an important shift in market sentiment towards small- and medium-sized companies in India, as the reformation has encouraged greater transparency, less corruption and a genuine strive for better businesses. Figure 10 illustrates this graphically, showing that mid-caps have recently been outperforming the large caps. The managers believe that market is looking through recent upheavals towards a sustained domestic economic recovery, with the small- and mid-caps the engine room of growth. The small- and mid-caps have been laggards since late 2017 and have been catching up recently.

Manager's view – Not as bad as it looks

IGC's adviser, Gaurav Narain, believes that while India remains one of the hardest hit countries with regards to the coronavirus pandemic, the recent data suggests the severity of the virus has peaked and the worst may well be over. Though absolute numbers for infections remain high relative to other parts of the world, active cases are falling and those states that were the worst-affected (such as Maharashtra and Delhi) have all seen a prominent decline.

The adviser believes that the second coronavirus wave saw businesses given the freedom to continue to operate, unlike during the first outbreak.

Furthermore, Gaurav says that the government learnt its lesson from the first outbreak in 2020, which saw a strict lockdown implemented across the country lasting two months. This time, businesses were given the freedom to continue operating, which he says has given the economy a much better standing to get through the crisis.

Gaurav is also reassured by the vaccine rollout which appears back on track after a slowdown caused by production issues. As many as four million doses were given in just one day in early April, but this has since declined to around two million per day. Gaurav agrees this needs to be faster but is not as concerned as perhaps some observers – and investors – from overseas may be.

To that regard, he feels India has been unfairly portrayed by the media – both nationally and globally – and that while the situation has certainly been dire, he considers that the Indian government's handling of the pandemic has nonetheless been over-criticised. He said the scaremongering has been led by the bulk of the Indian media, which is then picked up internationally, is painting a somewhat bleaker picture than what is really going on.

Gaurav feels that India has been unfairly portrayed by the media.

He feels that the negative story surrounding India used to be focused on disappointment around Prime Minister Modi's reforms but since these have been proven to 'clean up the system', the media has simply looked for something else to critique.

Playing the economic recovery

On that note, Gaurav is confident that the challenges that have threatened India over the past decade have finally been addressed by many of Modi's reforms. In his view, some may have been met with an initial backlash and caused a period of disruption, but they have now created an economy for India that helps small businesses that want to grow and punishes those that thrive on corruption.

Regulatory changes and the increasing use of technology and artificial intelligence have helped this to become possible, in his view. Companies on the verge of defaulting can no longer move from bank to bank in search of another lifeline and the digitalisation of transactions means the methods by which others evaded taxes have been addressed. These changes did initially hurt the economy, but Gaurav says that these have since proven to be necessary, while stronger balance sheets and a cleaned-up banking system have allowed a better handling of the pandemic.

Gaurav thinks that regulatory changes and an increasingly digital economy have helped address corruption.

Meanwhile, the economic bounce back after the first COVID outbreak was much sharper than Gaurav and the IGC team expected, and certain areas were even booming. While big cities came to a grinding halt, rural areas enjoyed the rewards

from two good monsoon seasons, a rise in agriculture prices and hardly any impact from the virus. The team downgraded their prospective earnings yet found themselves putting them back up again as new data came out and they soon realised they needed to be more aggressive.

Despite these quantifiable changes and a clear pathway to an improving economy, the wider – and negative – view of India is taking longer than Gaurav was expecting to shift, though when it does, he considers that IGC's portfolio is well positioned to play the economic recovery that will follow. He says when it eventually swings from a narrative of disappointing earnings, disruptive institutional reform and COVID, to one with a government set on a growth-driven agenda, a successful vaccination rollout and being the fastest growing economy, investors need to be ready to take advantage. He says India's story is still backward-looking but when it starts to turn, mid-and-small cap companies will be the biggest beneficiaries.

Push for growth

The Union Budget of India for 2021-2022 unveiled plans for a new healthcare and infrastructure growth strategy.

On 1 February 2021, the Union Budget of India for 2021-2022 was presented by minister of finance, Nirmala Sitharaman. Due to low demand in the Indian market and a high unemployment rate, these were the areas of focus along with a huge push for better healthcare and infrastructure growth.

The healthcare strategy included a new programme and scheme sponsored by Central Government called *PM Aatmanirbhar Swasth Bharat Yojana*, which would focus on establishing new institutions that would work in the field of detection and cure from new diseases, including the National Institution for One Health. Meanwhile the infrastructure strategy listed more than 7,000 projects, mainly around the development of the country's rail and road networks. The National Rail Plan aims to develop adequate rail infrastructure across India by 2030 to cater for the projected traffic requirements up to 2050. Gaurav says this is what will provide momentum in India and has helped change the mindset of those running out of patience with the government's lack of plans for growth. He expects high GDP growth going forward, which should be sustained for at least the next four to five years.

The market appeared to welcome February's Budget, with the BSE Sensex closing with a 5% gain.

Prior to the budget announcement, there was mass speculation that the government would increase tax rates to decrease its fiscal deficit, causing a dip in the BSE Sensex. However, the market appeared to welcome the budget, as the index (BSE Sensex) closed with a 5% gain, the highest since the 'dream budget' of 1997.

Asset allocation

As was highlighted in our December 2020 annual overview for IGC, Gaurav made a lot of changes to IGC's portfolio throughout the year as the crisis continued. He reduced his exposure to financials but since February's Budget, has been building his weighting back to the usual 19-20% level, though this has been purely in the banking space. He continues to avoid stocks which are B2C export orientated as he thinks that their future remains uncertain in the light of the pandemic and its long-term impact.

Money has instead been deployed into more stable businesses such as those in the electronics manufacturing space. Gaurav says the backlog of reforms has also started finally having an impact on the languishing real estate sector, and there has been increasing demand and registrations of property.

IGC's cash level has been at its lowest since June 2020, ranging between 1-2.2%, compared to a typical holding of between 3-5%. As at 31 May 2021, the net cash level stands at 2.2%.

IGC's net cash level currently stands at 2.2% - a low amount compared to the trust's history.

Top 10 holdings

Figure 11 shows IGC's top 10 holdings as at 31 May 2021 and how these have changed since 30 November 2020 (the most recently-available data when we last published). New entrants to the top 10 since then are IDFC Bank, Neuland Laboratories, Aegis Logistics and JK Lakshmi Cement. Names that have moved out of the top 10 since then are Divi's Laboratories, City Union Bank and Jyothi Laboratories. We discuss some of the more interesting changes in the following pages. Readers interested in other names in the top 10 should see our previous notes, where many of these have been previously discussed (see end of this note)

Figure 11: Top 10 holdings as at 31 May 2021

Holding	Sector	Business	Allocation 31 May 2021 (%)	Allocation 30 November 2020 (%)	Percentage point change
Federal Bank	Financials – Banks	Private bank	6.3	5.4	0.9
Emami	Consumer staples	Health and beauty products	5.0	5.8	(0.8)
Indusind Bank	Financials – Banks	Private bank	4.9	5.3	(0.4)
IDFC Bank	Financials - Banks	Private bank	4.8	n/a	n/a
PI Industries	Materials	Agricultural chemicals	4.4	5.0	(0.6)
Gujarat Gas	Utilities	Natural gas	4.2	3.5	0.7
Tech Mahindra	IT	IT, networking technology and BPO	3.6	4.0	(0.4)
Aegis Logistics	Energy	Natural gas	3.6	n/a	n/a
Neuland Laboratories	Healthcare	API Manufacturing	3.5	n/a	n/a
JK Lakshmi Cement	Materials	Cement manufacturer	3.4	n/a	n/a
Total of top 10			43.7	n/a	n/a

Source: India Capital Growth Fund, Marten & Co, Marten & Co

Figure 12: Neuland Laboratories share price (INR)

Source: Bloomberg

Figure 13: JK Lakshmi Cement (INR)

Source: Bloomberg

Read manager Gaurav Narain's latest thoughts on Kajaria Ceramics at www.oceandial.com.

Neuland Laboratories

Neuland Laboratories (www.neulandlabs.com) is a leader in the pharmaceutical space in India and moved up into IGC's top ten holdings in April, with an allocation of 4.5%, though this now stands at 3.5% as the manager has trimmed into the rally. It performed well after the first coronavirus outbreak in 2020 as well as more recently, and has delivered more than 500% over the past 12 months, as illustrated in Figure 12. Gaurav says that the company has suffered over the past three to four years but has consistently come out stronger each time. The healthcare sector in general has also done well as of late and Gaurav says this is set to grow in line with the government's plans for the sector as outlined in February's Budget.

JK Lakshmi Cement

Another one of IGC's May top 10 new additions, JK Lakshmi Cement (www.jklakshmicement.com) is a part of the 132 years old JK group and has a 3% market share in India with 13.3m tonnes per annum (MTPA) cement capacity. Its primary operations are based out of northern and western India and it has three cement plants and four grinding units. Gaurav says the company plans to undertake a brownfield capacity expansion of 2.5MTPA in the north-western state of Rajasthan once the pandemic wanes, further strengthening its position in this region.

It has also enjoyed a reduction in debt, with leverage falling from 1.1x to 0.4x and has achieved this strong operating performance despite COVID-led demand headwinds and raw material cost inflation. With the expectation of strong robust demand led by increased infrastructure spending in northern and eastern India, Gaurav believes JK Lakshmi Cement will benefit from its strong presence in these regions. Meanwhile, a recent change in management will bring fresh perspective and renewed focus on key performance parameters in his view which, coupled with robust demand outlook, will help the company maximise performance to its full potential.

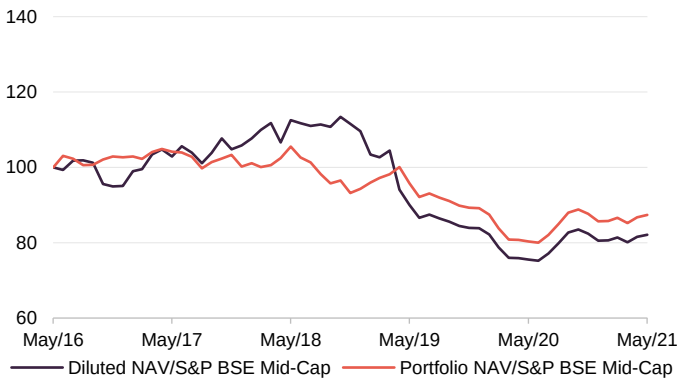
Kajaria Ceramics

Though Kajaria Ceramics (www.kajariaceramics.com) fell out of IGC's top 10 holdings in May (it is now the 11th largest holding, representing 3.4% of the portfolio), it is still worth mentioning as one of the company's longer-term investments. Kajaria is the largest tile manufacturer in India and eighth largest in the world. Gaurav says the business is of 'gold standard' in its sector and is the name that competition look to benchmark themselves against. He has observed that through each economic cycle the company emerges stronger, reducing the volatility of its earnings profile, and allowing it to command a higher and more constant valuation multiple for the future. As India's prosperity takes-off, the manager is confident that shareholders will watch it climb the global rankings, whilst as minority business owners, benefitting from strong returns of an exceptionally well-managed company.

Performance

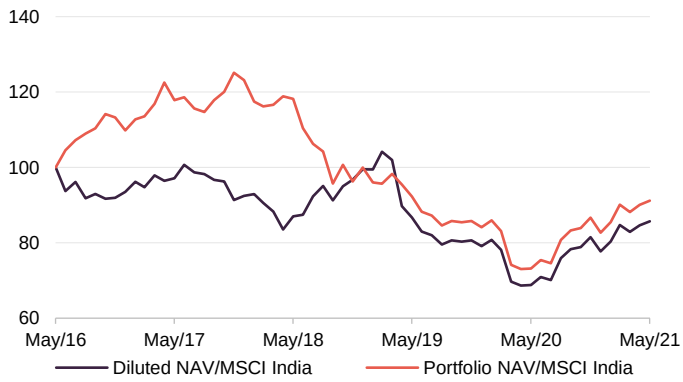
The data in Figures 14, 15 and 16 show returns for both IGC's published NAV and for an adjusted, 'portfolio' NAV. The portfolio NAV removes the dilutive effects of IGC's subscription shares (which were exercised in full in August 2016) and represents the performance generated by the manager and adviser.

Figure 14: IGC performance relative to S&P BSE Mid Cap*



Source: Morningstar, Bloomberg, Marten & Co, *Note: monthly data

Figure 15: IGC performance relative to MSCI India*



Source: Morningstar, Bloomberg, Marten & Co, *Note: monthly data

Figure 16: Cumulative total return performance over periods ending 31 May 2021

	1 month (%)	3 months (%)	6 months (%)	1 year (%)	3 years (%)	5 years (%)	YTD (%)
India Capital Growth NAV (diluted)	7.2	10.2	23.2	82.5	1.2	57.0	20.2
India Capital Growth NAV (portfolio)	7.2	10.2	23.2	82.5	1.2	67.0	20.2
India Capital Growth share price	11.3	16.0	36.0	107.0	7.9	69.0	23.4
S&P BSE Mid Cap	6.5	9.2	23.6	67.8	22.3	91.2	17.9
MSCI India	5.9	8.9	17.1	46.5	31.3	83.2	9.0

Source: Morningstar, Bloomberg, Marten & Co

Small- and medium-sized Indian companies have generally underperformed larger ones, for much of the last three years, and this has impacted on IGC's performance relative to the MSCI India Index.

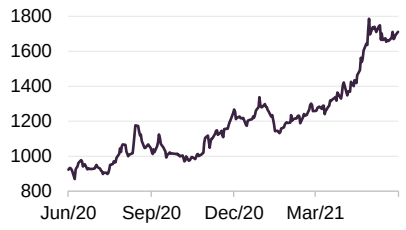
Stock selection decisions have also weighed on IGC's performance in the past, relative to the S&P BSE Mid Cap Index. However, last year the team was vocal about its mistakes and made public statements declaring the changes it would make to turn performance around. As we discussed in our May 2020 note, the changes put in place to give more rigour to the investment process were showing early signs of improving the stock selection performance, and this has continued. The improvement in performance is particularly evident over the past year.

Attribution

Aarti Industries

Aarti Industries (www.aarti-industries.com) is the 17th largest holding and represents 2.9% of IGC's portfolio. It is a leading manufacturer of speciality chemicals and pharmaceuticals and a global leader in the benzene chemistry chain supplying to the likes of Pfizer, Bayer, BASF, 3M, Dow and Unilever, as well as a whole host of Indian blue chips. Customers are looking to de-risk their sourcing from China, whose chemicals manufacturing base is ten times the size of India's. Gaurav says that Aarti boasts a strong order book and has an excellent track record in executing on its product pipeline. Furthermore, he says that the company has high visibility of its earnings and along with other IGC holdings in the chemicals space, and he predicts a conservative 20% growth trajectory for the coming years.

Figure 17: Aarti Industries share price (INR)



Source: Bloomberg

Emami

Emami (www.emamiltd.in) is a long-time holding of IGC, having been in the portfolio for almost seven years. It is also the second biggest holding, representing 5% of the portfolio. As discussed earlier, it is one of the trust's holdings that is highly geared to rural consumers in India and has seven manufacturing units across the country. It is a part of the increasingly popular Ayurvedic segment (Ayurveda is a traditional Indian system of medicine) and though it fell around 60% in 2020, it has participated in the sharpest end of the recovery in sales, largely thanks to strong cash flow. Gaurav thinks Emami remains very attractively valued relative to both its own history and its peers.

Figure 18: Emami share price (INR)

Source: Bloomberg

Ramkrishna Forgings

Ramkrishna Forgings (www.ramkrishnaforgings.com) was promoted to IGC's top ten in April but fell just outside of it again in May, in 12th position. It now represents 3.3% of the trust. A manufacturer of large forgings for trucks, initially for heavy commercial vehicles in India, the company now gets 60% of its business from overseas, mainly North America and Europe. Gaurav says it has taken on new clients which it has gained from the China Plus One strategy – India's business strategy designed to encourage businesses to diversify their supply chains away from China.

More recently it has started receiving more enquiries from South America and though it is a small cap business, is home to one of the largest automated presses in India. When COVID first hit in 2020, the stock fell but Gaurav topped up IGC's holding. He bought shares in the company at different times for between 160 to 240 rupees. They are now worth 630 rupees each. Gaurav said Ramkrishna Forgings is an example of a company he has nothing but conviction in and knows well enough to double his exposure to in times of distress.

Figure 19: Ramkrishna Forgings share price (INR)

Source: Bloomberg

Other portfolio developments

Towards the end of last year, Gaurav added Dixon Technologies to the portfolio. This company has expanded its base to be an outsourced manufacturer for the likes of Xiaomi, Panasonic, Phillips and Samsung for items including televisions, mobile phones, and medical equipment. The manager believes the company is in the right place at the right time, as companies look to broaden their geographic production locations and while the Indian government is providing significant incentives to reduce its electronics import bill of over $40bn (mainly from China). Gaurav says Dixon has spent the first half of 2021 rapidly adding brands to its portfolio, across various segments, and is now set to grow at a 'staggering' pace over the next few years.

Financials exposure in IGC is now exclusively towards banks.

As mentioned earlier, Gaurav reduced financials exposure during the first wave of the pandemic but started building that back up again towards the end of 2020 and this year so far, though this has been exclusively in the banking space. IDFC Bank, which is a more retail focused bank, was promoted to the top 10 in April. Gaurav says it is well-capitalised and has used the Reserve Bank of India's moratorium on recognising defaults to boost provision coverage ratios in anticipation of higher non-performing loans. Along with other private bank holdings (City Union, Federal Bank and IndusInd Bank) Gaurav believes IDFC First Bank will emerge amongst a pack of stronger survivors.

Other areas of interest include the tech start-up space, which is now home to more than 100 'unicorns'. While IGC does not invest in unlisted companies, Gaurav says he keeps a close eye on many of them and meets directly with their management teams. He believes there are many opportunities to be found as and when these names go public.

Peer group – marked improvement in IGC's near term relative performance

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

Since the end of March, IGC has been a member of the AIC's India sector, having previously been a member of the AIC's Country Specialist: Asia Pacific-ex Japan sector. This change has had no effect on our peer group analysis as, reflecting the diverse range of funds in its previous sector (there were 12 different funds with a range of remits) we have previously focused our peer group analysis on the four pure Indian equity funds, which are listed in Figures 20, 21 and 22. Within this peer group, IGC is the most-focused on small and medium-sized companies.

Figure 20: Peer group cumulative NAV total return performance to 31 May 2021

	1 month (%)	3 months (%)	6 months (%)	1 year (%)	3 years (%)	5 years (%)	YTD (%)
India Capital Growth NAV (diluted)	7.2	10.2	23.2	82.5	1.2	57.0	20.2
India Capital Growth NAV (portfolio)	7.2	10.2	23.2	82.5	1.2	67.0	20.2
Aberdeen New India	4.5	6.6	11.8	39.7	18.2	69.2	3.7
Ashoka India Equity	5.2	11.7	22.0	54.9	N/A	N/A	14.1
JPMorgan Indian	5.7	6.2	13.0	40.1	4.0	42.0	6.2
IGC (diluted) rank	1/4	2/4	1/4	1/4	3/3	2/3	1/4
Sector arithmetic avg.	5.7	8.7	17.5	54.3	7.8	56.1	11.1
Sector arithmetic avg. exc IGC	5.1	8.2	15.6	44.9	11.1	55.6	8.0

Source: Morningstar, Marten & Co

The marked improvement in IGC's NAV performance coincides with the changes to the investment process.

As illustrated in Figure 20, there has been a marked improvement in IGC's cumulative NAV total return performance relative to peers during the last 12 months, following the change in investment process. Performance over this period has been so strong that it has pulled up IGC's performance over the longer-term periods. As illustrated in Figure 20, IGC's diluted NAV now ranks second over the five-year period, with a performance that is marginally ahead of the sector average. Otherwise, IGC ranks first over one-month, six-months, one year and YTD. The continued strong performance since we last published in December 2020 lends credence to the manager's statement, at that time, that the changes to the investment process were bearing significant fruit, according to its own internal analysis. As we have said previously, if the adviser's changes continue to drive outperformance, IGC could continue to move up the rankings over the longer-term periods as well.

If IGC continues to outperform its peers, this could lead to additional interest from investors, closing the discount.

Looking at Figure 21, a similar picture can be seen for IGC's share price performance (in fact, the only period for which it doesn't rank first is the three-year period, where it ranks second). It is possible that IGC is yet to feel the full benefit from its improved NAV performance but, if it continues to outperform it peers, it seems reasonable that this could lead to additional interest from investors, thereby closing the discount and driving superior share price returns. Nonetheless, as illustrated in Figure 22, IGC's discount is not particularly out of line with those of the two largest funds in the sector. It is worth noting that, for a strategy such as this, longer-term time frames are generally considered to be more relevant to assessing performance, and it is possible that the market may still be waiting to see if the recent strong performance is maintained.

Figure 21: Peer group cumulative share price total return performance to 31 May 2021

	1 month (%)	3 months (%)	6 months (%)	1 year (%)	3 years (%)	5 years (%)	YTD (%)
India Capital Growth	11.3	16.0	36.0	107.0	7.9	69.0	23.4
Aberdeen New India	4.4	6.6	13.6	44.4	20.0	67.9	2.2
Ashoka India Equity	8.0	11.5	21.1	64.0	N/A	N/A	13.1
JPMorgan Indian	5.3	3.2	14.9	44.3	4.3	39.4	5.9
IGC rank	1/4	1/4	1/4	1/4	2/3	1/3	1/4
Sector arithmetic avg.	7.3	9.3	21.4	64.9	10.7	58.8	11.2
Sector arithmetic avg. exc IGC	5.9	7.1	16.5	50.9	12.2	53.7	7.1

Source: Morningstar, Marten & Co

Figure 22: Peer group comparison – size, fees, discount, yield and gearing as at 15 June 2021

	Market cap (£m)	St. dev. of NAV returns over 5 years	Ongoing charges (%)	Perf. fee	Premium/ (discount) (%)	Dividend yield (%)	Gross gearing	Net gearing
India Capital Growth	122.1	1.30	1.63	No	(11.8)	Nil	Nil	(2.2)
Aberdeen New India	324.0	1.24	1.14	No	(14.2)	0.04	6.5	9.6
Ashoka India Equity	134.6	1.30*	0.87	Yes	3.2	Nil	nil	7.1
JPMorgan Indian	579.3	1.33	1.01	No	(14.2)	Nil	0.7	(0.5)
IGC rank	4	2	4		2	2	1	1
Sector arithmetic avg.	290.0	1.29	1.16		(9.3)	0.01	1.8	3.5
Sector arithmetic avg. exc IGC	346.0	1.29	1.0		(8.4)	0.0	2.4	5.4

Source: Morningstar, Marten & Co *Note: Ashoka India Equity standard deviation of returns is from launch on 6 July 2018.

As illustrated in Figure 22, IGC is the smallest of the four funds focused on India and listed in London and this is a significant reason why it has the highest ongoing charges ratio of this peer group. Ashoka India Equity (the next smallest fund) has a particularly low ongoing charges ratio, because it does not charge a base management fee, but unlike the rest of the peers charges a performance fee of 30% of outperformance (capped), measured over three years, to compensate. Consequently, in years where the performance fee falls due, its ongoing charges ratio will increase accordingly, pushing it up the rankings.

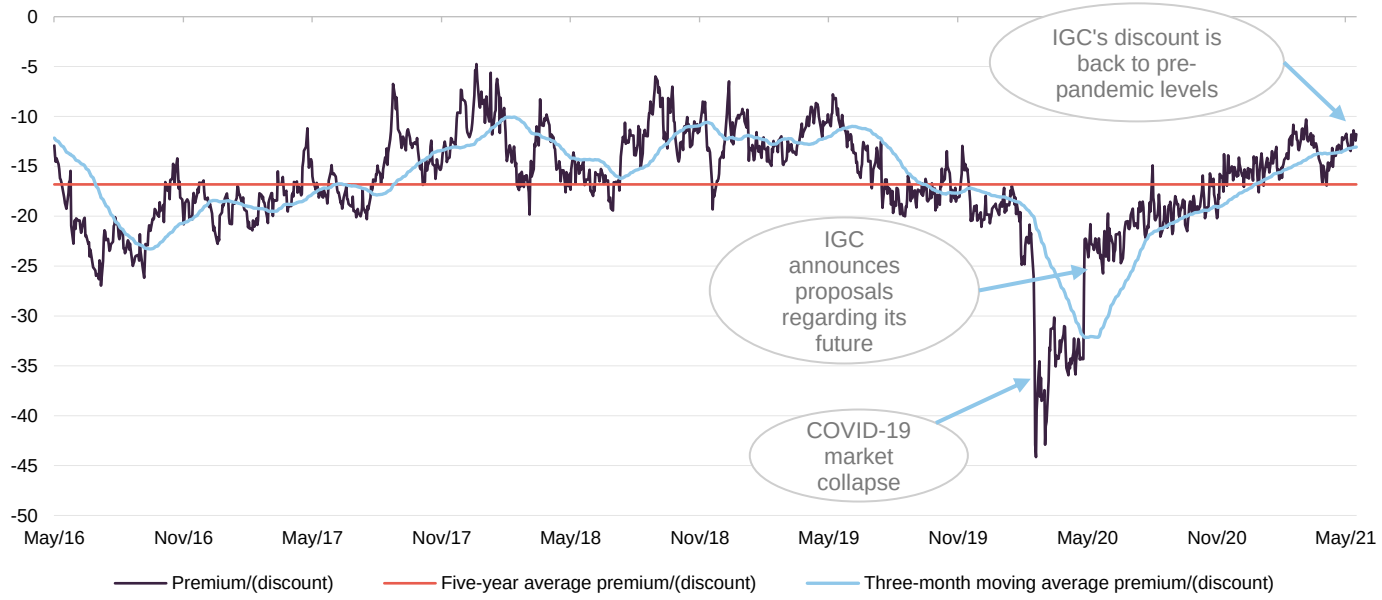
IGC is operating with the largest net cash position (unlike its peers, it does not utilise gearing). Volatility of NAV returns, as measured by the standard deviation of daily NAV returns over five years, are broadly comparable across the four peers, although IGC's volatility is broadly in line with the sector average.

Premium/(discount)

Over the year ended 31 May 2021, IGC's shares have traded consistently on a discount, ranging from 35.9% to 10.2%, with an average discount of 18.5%.

At 15 June 2021, IGC's shares were trading at a discount of 11.8%, which, as illustrated in Figure 23, is more akin to its levels prior to the onset of the pandemic.

Figure 23: IGC discount over five years



Source: Morningstar, Marten & Co

Like many other funds, IGC's discount was impacted by the onset of the pandemic. As discussed in our notes of May 2020 and December 2020, IGC published a series of proposals regarding its future on 26 May 2020, which led to a dramatic narrowing of its discount. Following the announcement of these proposals, shareholders voted to approve IGC's continuation on 12 June 2020. Readers interested in more details of the proposals should see our May 2020 note, which covered them in more detail. However, to recap, a summary of the proposals is provided as follows:

- the introduction of a redemption facility, giving shareholders the right to request the redemption of part or all of their shareholding on 31 December 2021 and every second year thereafter at an exit discount equal to a maximum of a 6% discount to NAV per redemption share;
- a change to the investment manager's fee from 1.25% of total assets per annum to the lower of 1.25% of average market capitalisation (calculated on a daily basis) per annum or 1.25% of total assets per annum with effect from 1 July 2020 with a further review to the investment manager's fee in 2022; and
- IGC may seek to satisfy redemption requests by matching such requests with demand for new ordinary shares from incoming investors.

As we said in our December 2020 note, IGC has until December 2021 to prove itself but, as discussed in the performance section, there has been a marked

improvement, with the fruits of the change in investment process clearly visible. As illustrated in Figure 23, reflecting both better than expected economic data, and welcome news on the development of a vaccine, IGC's discount has continued to narrow as markets recovered.

However, it is possible that IGC is yet to reap the full benefits of its improved performance (in our December 2020 note, we highlighted that both an improvement in IGC's relative performance and an improvement in sentiment towards mid-cap Indian stocks as being possible catalysts for a narrowing of IGC's discount).

We continue to think that if India is able to improve its vaccination rate as planned and is visibly able to get a better handle on controlling the virus, this might suggest that the trust could respond well to an improvement in India's economy. We think that if there is the narrative change that the adviser expects, and IGC's portfolio companies continue to see a marked uplift in performance, this is could provide momentum for the discount to continue to narrow, particularly if markets turn their focus towards India's valuations and its long-term opportunity to widen its manufacturing base.

Fund profile

IGC is an investment company listed on the Main Market of the London Stock Exchange. It 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.

Further information is available at www.indiacapitalgrowth.com

While IGC's main focus is on Indian mid- and small-cap companies, 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. The other funds in IGC's peer group benchmark themselves against the MSCI Index and therefore we have included this index within the report as well.

Exit opportunity

The introduction of a redemption facility last year gave shareholders the right to request the redemption of part or all of their shareholding on 31 December 2021 and every second year thereafter at an exit discount equal to a maximum of a 6% discount to NAV per redemption share.

Management arrangements

Long-standing, experienced investment team of six, split between London and Mumbai.

IGC has been managed since 2010 by David Cornell of Ocean Dial, a company owned by Avendus Capital Private Limited, which in turn is backed by KKR. He has been assisted in this since November 2011 by Gaurav Narain of Ocean Dial Asset Management India Private Limited, which is based in Mumbai. Gaurav has over 25 years of experience in Indian capital markets, having started his career as vice president of research for SG Asia. The seven-strong investment team is split between London and Mumbai. Each of the analysts is assigned responsibility for several industry sectors. The manager is responsible for monitoring portfolio risk and all dealing is done from London.

Ocean Dial manages two funds investing in India: IGC and an open-ended fund, Gateway to India fund. Ocean Dial had AUM of US$250 as at the end of May 2021.

Recent developments

Ocean Dial's responsible investment policy can be read at **www.oceandial.com**.

Earlier this year, Ocean Dial appointed two equity analysts to its Mumbai office, bringing the total number to six, including co-heads of equity Gaurav Narain and Tridib Pathak.

London-based Shahil Shah was also appointed as a dedicated ESG analyst and is now responsible for integrating ESG into the investment process across the trust's investible universe of 135 companies, known as the 'House of Ocean Dial'. Shahil was part of the original Ocean Dial investment team which was set up in 2005. He works with Gaurav Narain in conducting investment research for IGC and specialises in telecommunications, consumer, healthcare, and media. Shahil holds a Masters in Commerce and Finance from Mumbai University.

On 1 April 2021, Ocean Dial became a signatory to the United Nations Principles of Responsible Investment.

Lynne Duquemin was appointed as a non-executive director of IGC with effect from 1 June 2021. She has taken over from Peter Niven, who will step down from the board at the end of 2021. Lynne has over thirty years' experience in financial markets, initially in London, before being seconded by Credit Suisse to Guernsey, Channel Islands, where she is still based. Lynne is a member of the CFA Society of the UK and holds the ASIP qualification. She is also a member of the CFA Institute, Fellow of the Chartered Institute for Securities and Investment, Chartered Director and Chartered Wealth Manager. Lynne was previously a non-executive director of Aberdeen Frontier Markets Investment Company Limited.

The next annual general meeting for India Capital Growth will take place on 14 July 2021.

Alignment of interest

Employees of Ocean Dial collectively hold 373,972 shares in IGC, while members of IGC's board collectively own 112,500 shares between them. Combined, Ocean Dial employees and the three directors hold 0.4% of IGC's issued share capital.

Previous publications

Readers interested in further information about IGC may wish to read our previous notes (details are provided in Figure 24 below). You can read the notes by clicking on them or by visiting our website.

Figure 24: QuotedData's previously published notes on IGC

Title	Note type	
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
Moving to the main board	Update	30 January 2018
A return to earnings growth	Annual overview	26 June 2018
Shakeout uncovers value	Update	29 November 2018
Discounted value	Annual overview	1 October 2019
Needs more time	Update	26 May 2020
Recovery potential and redemption opportunity	Annual overview	15 December 2020

Source: Marten & Co

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123a Kings Road, London SW3 4PL
0203 691 9430

www.QuotedData.com

Registered in England & Wales number 07981621,
2nd Floor Heathmans House,
19 Heathmans Road, London SW6 4TJ

Edward Marten (em@martenandco.com)
David McFadyen (dm@martenandco.com)
Alistair Harkness (ah@martenandco.com)

INVESTMENT COMPANY RESEARCH:

Matthew Read (mr@martenandco.com)
James Carthew (jc@martenandco.com)
Jayna Rana (jr@martenandco.com)
Richard Williams (rw@martenandco.com)