

CONSISTENT COMPOUNDERS PORTFOLIO

AN INVESTMENT STRATEGY FOR INDIAN
STOCKS FROM MARCELLUS INVESTMENT
MANAGERS

AUGUST 2021



INVESTMENT COMMITTEE



Saurabh Mukherjea, FRSA

Saurabh Mukherjea is the Founder and CIO of Marcellus. Saurabh was educated at the London School of Economics where he earned a BSc in Economics (with First Class Honours) and an MSc in Economics. In London, Saurabh was the co-founder of Clear Capital and in 2007 he was rated by the Extel Survey as one of the top small cap analysts in the UK. In India, Saurabh was rated as the leading equity strategist in 2015, 2016 and 2017 by the Asiamoney polls. Prior to setting up Marcellus, Saurabh was the CEO of Ambit Capital. Saurabh is a SEBI registered investment advisor. Upon SEBI's invitation, he joined SEBI's Mutual Fund Advisory Committee. In 2019, Saurabh was part of the Expert Committee constituted by SEBI to upgrade the PMS regulations. Saurabh has written four bestselling books.



Pramod Gubbi, CFA

Pramod leads the business development efforts at Marcellus. He also sits on Investment Committee that discusses and approves investment strategies of the firm. Pramod was previously the MD & Head of Institutional Equities at Ambit Capital. Prior to that Pramod, served as the head of Ambit's Singapore office. Before joining Ambit, Pramod worked across sales and research functions at Clear Capital. Besides being a technology analyst, Pramod has served in technology firms such as HCL Technologies and Philips Semiconductors. Pramod did his B.Tech from Regional Engineering College, Surathkal and has a Post-graduate Diploma in Management from the Indian Institute of Management – Ahmedabad.



Rakshit Ranjan, CFA

Rakshit is the Portfolio Manager of Marcellus' Consistent Compounders strategy. Rakshit spent 6 years (2005-2011) covering UK equities with Lloyds Bank (Director, Institutional Equities) and Execution Noble (Sector Lead). During these years, he was ranked amongst the top-3 UK Insurance analysts (Thomson Reuters Extel survey) in the mid-cap space. From 2011, Rakshit led Ambit Capital's consumer research franchise and was voted as No.1 for Discretionary Consumer and within top-3 for Consumer Staples in 2015 & 2016. He launched Ambit's Coffee Can PMS in Mar'17 and managed it till Dec'18. Under his management, Ambit's Coffee Can PMS was one of India's top performing equity products during 2018. Rakshit has a B.Tech from IIT (Delhi).

THE NETWORKING OF INDIA ALONGSIDE TECH CHANGES IS CREATING POLARISATION

The Indian economy has been 'networked' at a rapid pace over the past decade:

- The length of India's national highways has doubled.
- The number of broadband users has increased from 20 million in FY11 to 687 million at the end of FY20 (CAGR of 48%).
- Airline passenger traffic has grown at a CAGR of 16%.
- 15 years ago, only 1 in 3 Indian families had a bank account; now nearly all Indian families have a bank account.

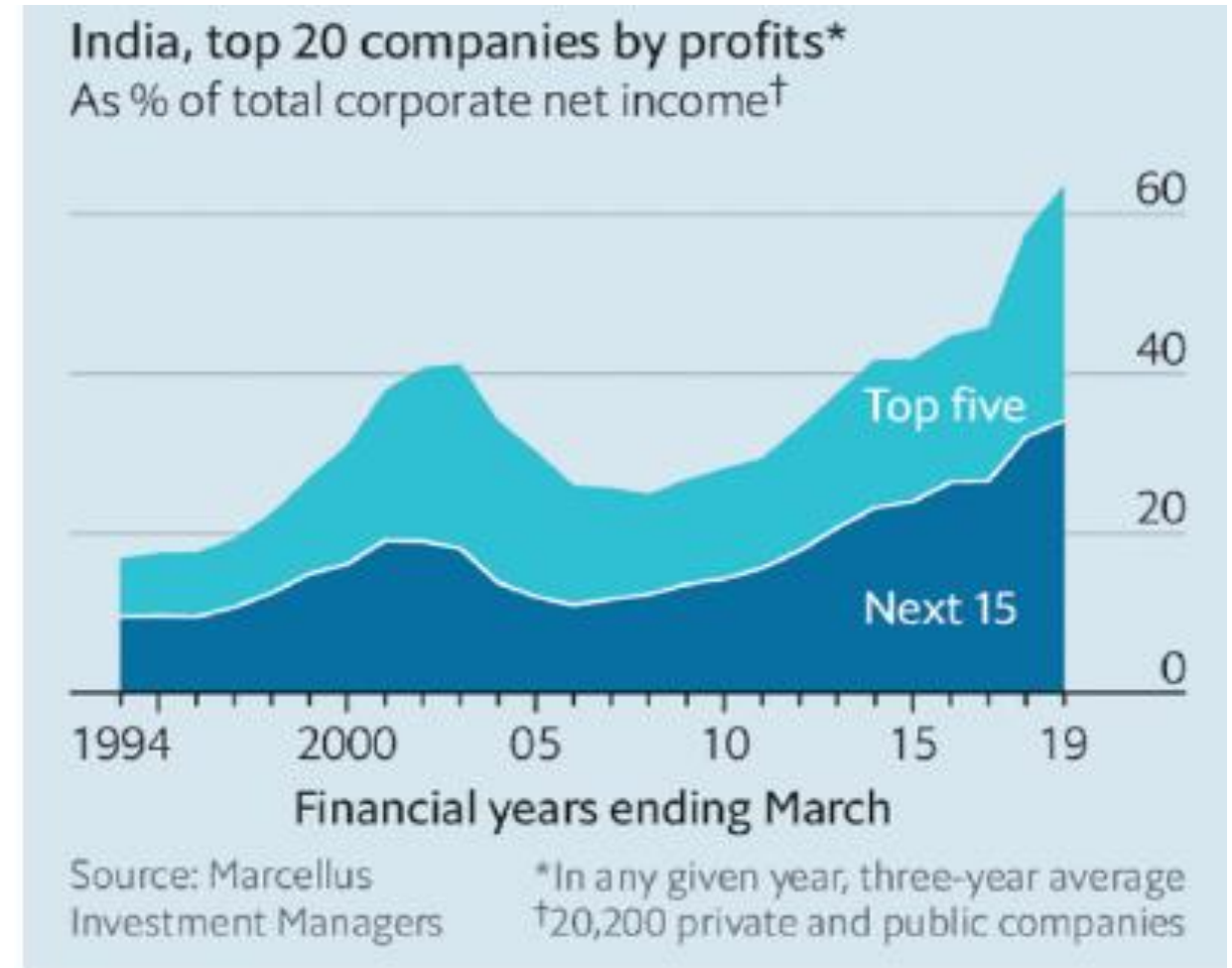
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The inception of a single Goods & Services Tax in 2017 has allowed companies to consolidate their supply chains (from multiple state-level structures to unified national supply chains)

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The rise of low cost SaaS (e.g. Salesforce, SAP) alongside RFID tracking and big data gleaned from 400mn internet connected mobile phones is allowing companies to improve working capital cycles, asset turns, profit margins and hence RoCE

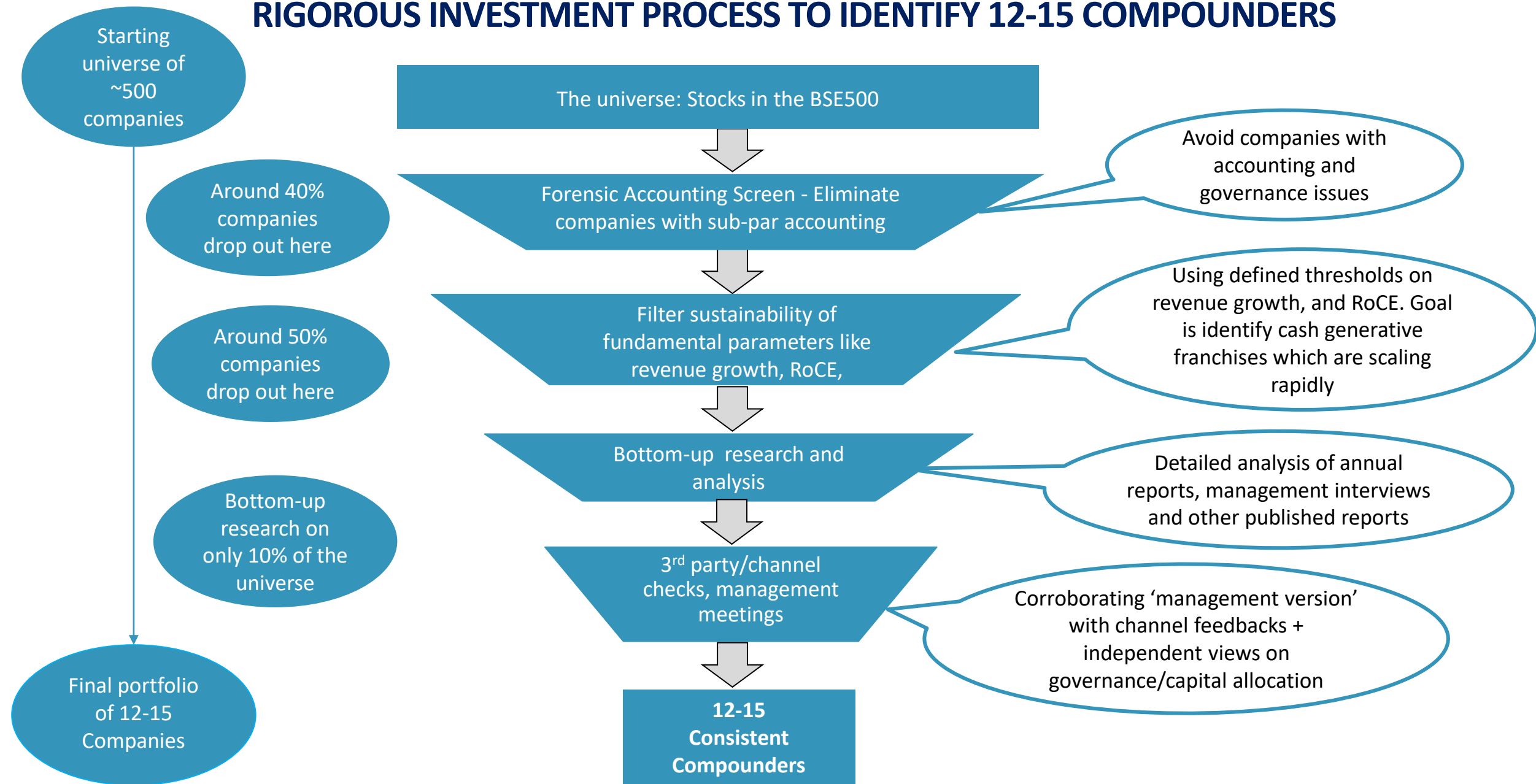
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The Economist

Source: Marcellus Investment Managers,
CMIE, Ace Equity, Bloomberg, Ministry of
Aviation, TRAI, Ministry of Road Transport.

RIGOROUS INVESTMENT PROCESS TO IDENTIFY 12-15 COMPOUNDERS



STEP 1: USE FORENSIC ACCOUNTING TO AVOID MOST COMMON PITFALLS

Methodology

12 accounting ratios covering income statement (revenue/ earnings manipulation), balance sheet (correct representation of assets/liabilities), cash pilferage and audit quality checks.

Six years of historical consolidated financials.

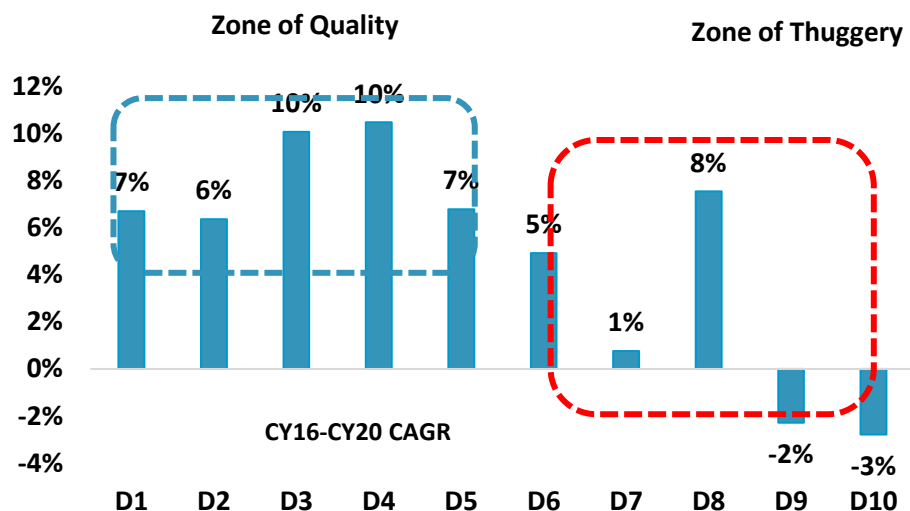
First rank stocks on each of the 12 ratios individually (some examples outlined in the table on the right). These ranks then cumulated across parameters to give a final pecking order on accounting quality for stocks –for instance D1 being the best, D10 being the worst.

Selection of these ratios has been inspired by Howard M. Schilit's legendary forensic accounting book 'Financial Shenanigans'.

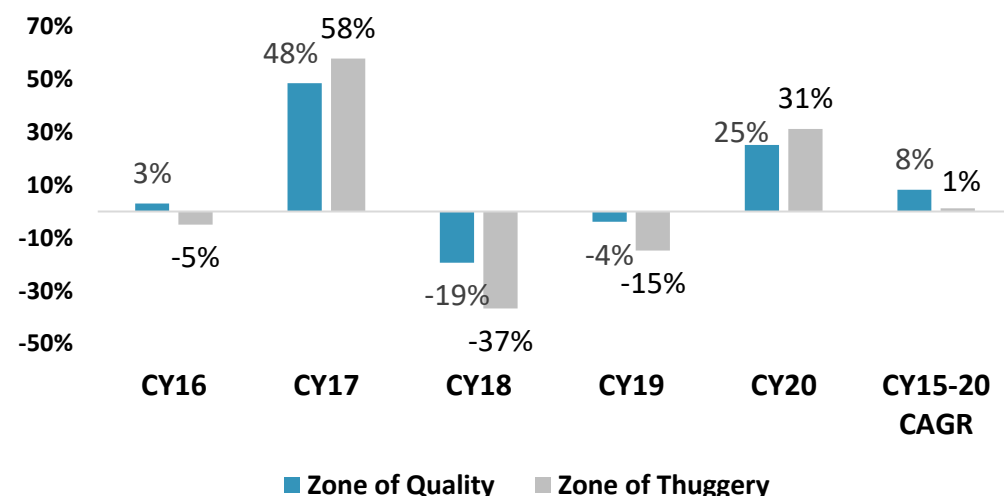
A few of our forensic ratios

Category	Ratios
Income statement checks	(1) Cashflow from operations (CFO) as % of EBITDA (2) Provisioning for Debtors
Balance sheet checks	(3) Yield on cash and cash equivalents (4) Contingent liabilities as % of Networth (for the latest available year)
Cash theft checks	(5) CWIP to gross block
Auditor checks	(6) Growth in auditors' remuneration to growth in revenues

Strong correlation between accounting quality and shareholders' returns



Quality wins and wins big over the long term

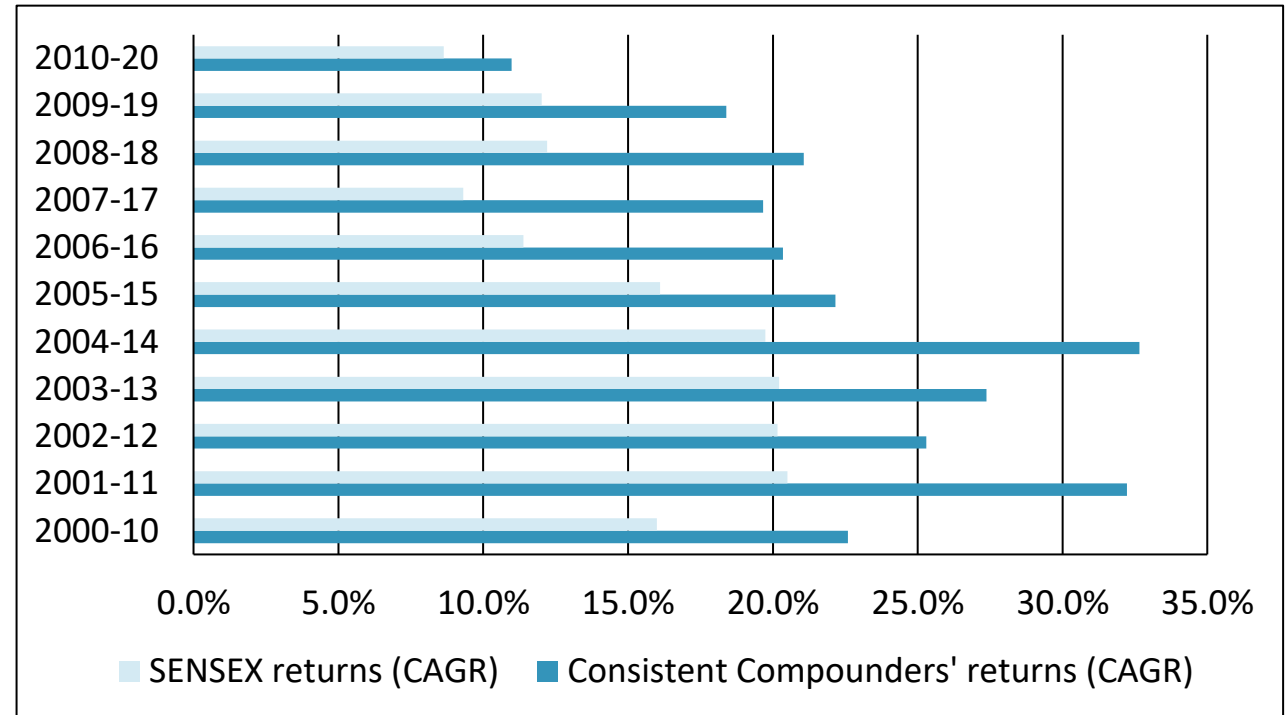


STEP 2: IDENTIFY COMPANIES WITH SUPERIOR CAPITAL ALLOCATION

We create a list of stocks using a twin-filter criteria of double-digit YoY revenue growth and return on capital being in excess of cost of capital, each year for 10 years in a row.

Next, we build a portfolio of such stocks each year and hold each of these annual iterations of portfolios for the subsequent 10 years (without any churn).

The bar chart on the right shows the back testing performance of such a filter-based portfolio.



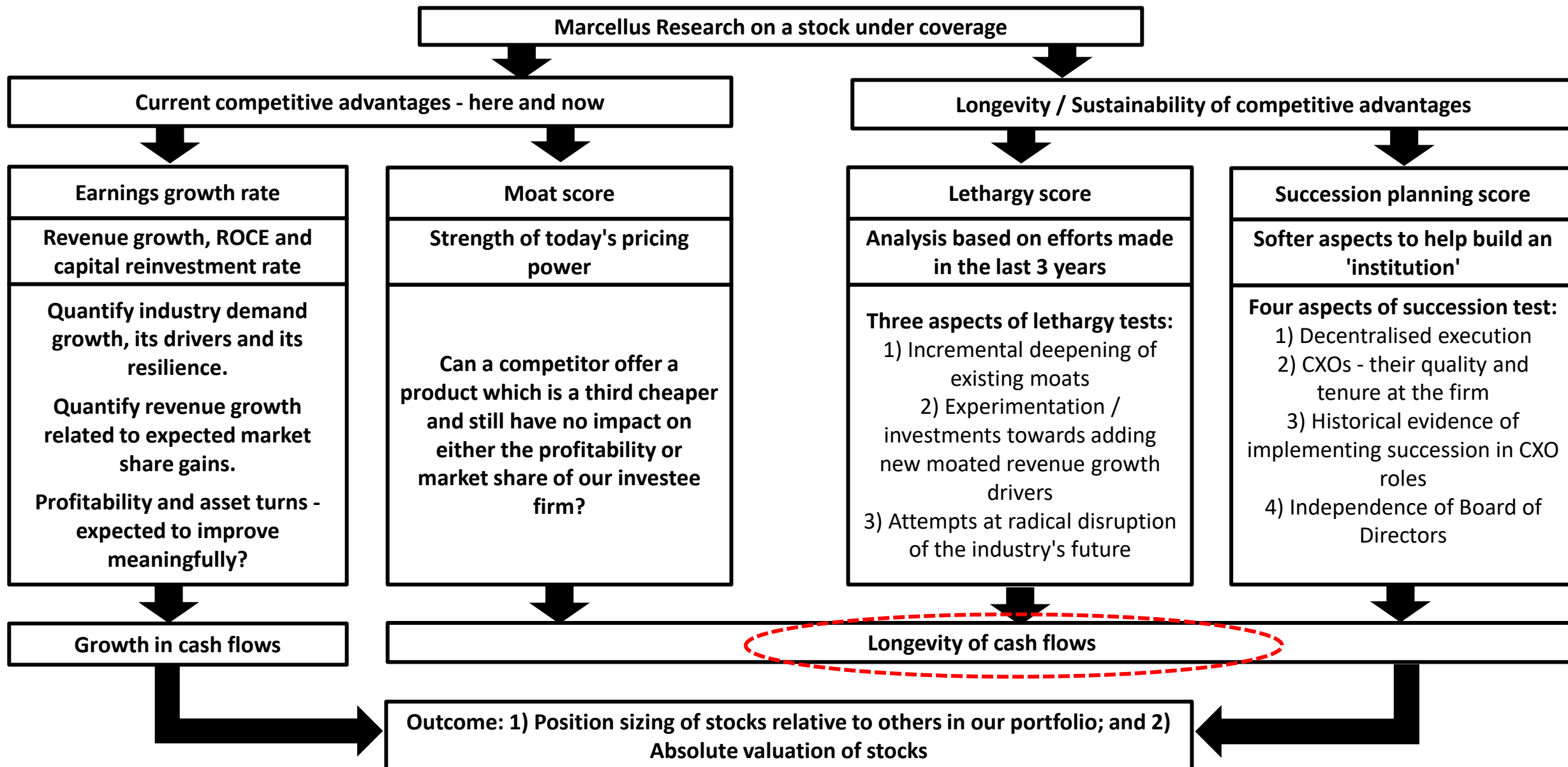
Source: Bloomberg. Note: Only the Consistent Compounder Portfolios which have finished their 10year run have been shown. Note: These are Total Shareholder returns in INR terms.

There are two conclusions from this exercise:

- This filter-based portfolio delivers returns of 20-30% p.a. (of INR returns) and 8-12% outperformance relative to the Sensex.
- The volatility of returns of such portfolios, for holding periods longer than 3 years, is similar to that of a Government of India Bond.

Returns here (both for our portfolio and for the Sensex) are on a Total Shareholder Return basis i.e., all dividends are included in the returns.

STEP 3: INVEST IN FRANCHISES WITH HIGH PRICING POWER AND HIGH REINVESTMENT RATES USING MARCELLUS' LONGEVITY FRAMEWORK



CONSISTENT COMPOUNDING OF FREE CASH FLOW FOR MARCELLUS' CCP PMS COMPANIES

Stock Name	Free Cash Flow (FCFE) CAGR							Share Price CAGR						
	5-years				10-years		20-years	5-years				10-years		20-years
	FY01-06	FY06-11	FY11-16	FY16-21	FY01-11	FY11-21	FY01-21	FY01-06	FY06-11	FY11-16	FY16-21	FY01-11	FY11-21	FY01-21
Abbott India	-10%	-1%	48%	24%	-6%	35%	13%	16%	12%	29%	26%	14%	28%	21%
Asian Paints	19%	41%	18%	19%	30%	19%	24%	28%	33%	27%	19%	31%	23%	27%
Berger Paints	24%	-1%	44%	10%	10%	26%	18%	49%	11%	41%	34%	28%	38%	33%
Nestle	17%	15%	10%	15%	16%	12%	14%	11%	32%	9%	26%	21%	17%	19%
Pidilite	42%	4%	83%	1%*	22%	40%*	30%*	40%	23%	32%	25%	31%	28%	30%
Titan	-16%	179%	-21%	62%	54%	13%	32%	82%	35%	12%	36%	57%	23%	39%
Divis Labs	NA	54%	35%	9%	34%^	21%	27%^	NA	29%	24%	30%	NA	27%	NA
Page Ind	NA	36%	33%	39%	25%**	36%	31%**	NA	NA	50%	20%	NA	34%	NA
Relaxo	NA	NA	-36%	293%	23%	59%	40%	-7%	51%	67%	37%	18%	51%	34%
Dr. Lal Pathlabs	NA	NA	49%	22%	NA	35%	NA	NA	NA	NA	24%	NA	NA	NA
Weighted Average	15%	40%	29%	39%	24%	28%	25%	33%	29%	30%	26%	30%	28%	28%

Source: Marcellus Investment Managers; Ace Equity; FCFE = Operating cash flow less Capex less Investment in Subsidiaries/Strategic investments /Acquisitions less Net debt repayments less Interest Paid less Lease liabilities; *In case of Pidilite, high capex on account of Araldite acquisition skews the CAGR % making it incomparable, hence we have taken FY16-20, FY11-20 and FY01-20; ^Divis' FCFE is for FY02-11 and FY02-21 since company was not listed in FY01; **Page's FCFE is for FY04-11 and FY04-21 since company was not listed prior to FY04; @Relaxo's FCFE for FY01-06 and FY06-11 shows NA since company had near ZERO FCFE during those periods

- FCFE compounding for CCP companies has been **healthy, consistent and accelerating** over the last 2 decades
- Market Cap compounding for CCP companies has been broadly in line with FCFE compounding over the last 2 decades

STRONG 10 YEAR EARNINGS GROWTH MAKES P/E REDUNDANT

$$\boxed{P} = \boxed{P/E} \times \boxed{E}$$

NON-COMPOUNDING + OSCILLATING

CAN COMPOUND OVER TIME

$$\boxed{\triangle P \%} = \boxed{\triangle P/E \%} + \boxed{\triangle E \%}$$

A for Airlines (e.g. Telcos)

P/E doubles

+7%

=

+7%

+

0%



P/E halves

-7%

=

-7%

+

0%



B for Buffett (e.g. Maruti, HUL)

P/E doubles

+19%

=

+7%

+

12%



P/E halves

+5%

=

-7%

+

12%



C for CCP (e.g. Asian Paints, HDFC Bank)

P/E doubles

+32%

=

+7%

+

25%



P/E halves

+18%

=

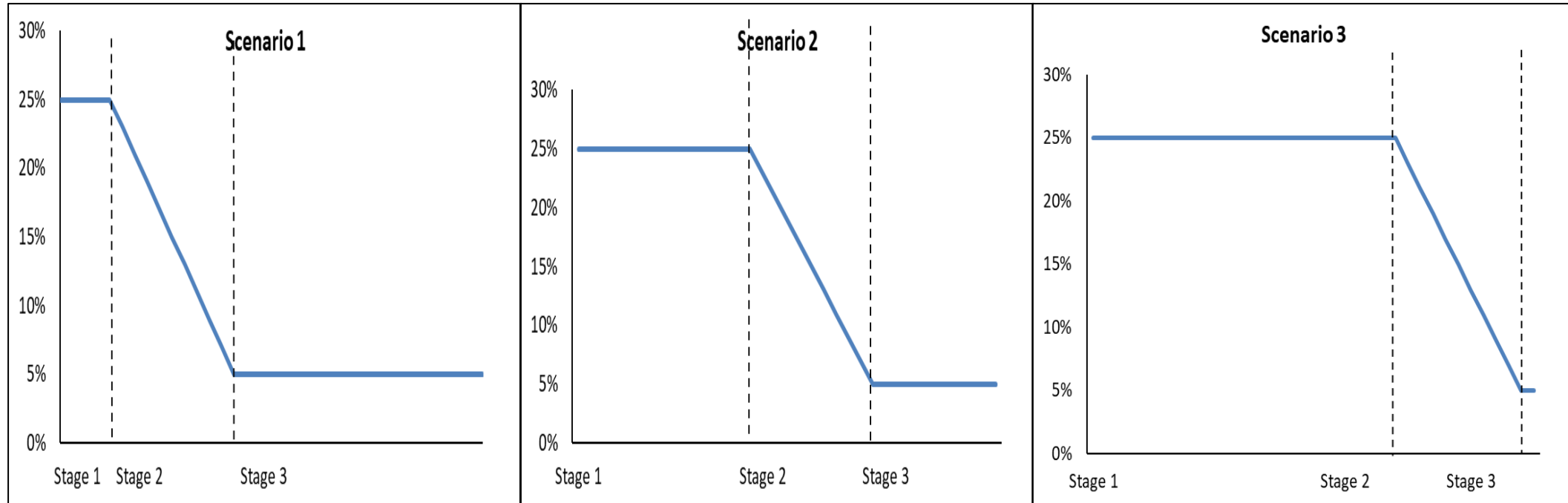
-7%

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25%



THE CONVENTIONAL DCF METHOD UNDERVALUES LONGEVITY OF A BUSINESS



	Stage 1 duration	Stage 2 duration	Stage 1 earnings growth CAGR	Terminal earnings growth rate	Cost of Equity	P/E (x)
Scenario 1	5 yrs	10 yrs	25%	5%	12%	24
Scenario 2	15 yrs	10 yrs	25%	5%	12%	79
Scenario 3	25 yrs	10 yrs	25%	5%	12%	245

Source: Marcellus Investment Managers

Fair value P/E increases with increasing conviction in longevity assumptions

CCP TYPICALLY OUTPERFORMS THE BENCHMARK BY 10% POINTS

CCP'S ENTIRE OUTPERFORMANCE IS DUE TO EARNINGS GROWTH

High hit
rate

Earnings growth of Marcellus' CCP stocks (healthy & broad based) and NIFTY50 index

Name	FY21	FY18-21 (CAGR)	FY15-21 (CAGR)
Abbott India Ltd.	16%	20%	20%
Asian Paints Ltd.	17%	16%	15%
Bajaj Finance Ltd.	-16%	21%	30%
Berger Paints India Ltd.*	11%	17%	18%
Divis Laboratories Ltd.*	44%	31%	15%
HDFC Bank Ltd.	17%	20%	20%
Kotak Mahindra Bank Ltd.	15%	17%	22%
Nestle India Ltd.	6%	17%	10%
Page Industries Ltd.*	0%	0%	10%
Pidilite Industries Ltd.	1%	5%	14%
Relaxo Footwears Ltd.	29%	22%	19%
Titan Company Ltd.	-35%	-5%	3%
Dr. Lal Pathlabs Ltd.	30%	20%	
HDFC Life Insurance Co Ltd.	5%	7%	
W. Avg.	10%	15%	17%
NIFTY 50**	10%	0%	4%

Source: Marcellus Investment Managers; Ace Equity, Bloomberg; *FY21 earnings growth is based on broker estimates since March'21 quarter results are not yet announced; **NIFTY50 EPS is taken from Bloomberg

Share price performance of Marcellus' CCP stocks (healthy & broad based) and NIFTY50 index

Name	FY21	FY18-21 (CAGR)	FY15-21 (CAGR)	Since Inception (1st Dec'18)
Abbott India Ltd.	-3%	40%	25%	33%
Asian Paints Ltd.	52%	31%	21%	29%
Bajaj Finance Ltd.	132%	43%	52%	33%
Berger Paints India Ltd.	54%	44%	31%	42%
Divis Laboratories Ltd.	82%	49%	26%	45%
HDFC Bank Ltd.	73%	17%	20%	15%
Kotak Mahindra Bank Ltd.	35%	19%	18%	15%
Nestle India Ltd.	5%	28%	16%	21%
Page Industries Ltd.	79%	10%	14%	5%
Pidilite Industries Ltd.	33%	25%	20%	20%
Relaxo Footwears Ltd.	46%	40%	32%	41%
Titan Company Ltd.	67%	18%	26%	23%
Dr. Lal Pathlabs Ltd.	93%	46%		59%
HDFC Life Insurance Co Ltd.	58%	15%		26%
W. Avg.	60%	30%	25%	28%
NIFTY 50	71%	13%	10%	13%

Source: Marcellus Investment Managers; Ace Equity; *1yr, 3-yr and 6-yr CAGR portfolio return has been computed using current model portfolio allocations

CCP'S SUPERIOR EARNINGS GROWTH IS DRIVEN BY HIGH ROCE AND HIGH REINVESTMENT RATE

ROCE and Reinvestment rate of Marcellus' CCP stocks

Name	ROCE* (FY21)	Avg. ROCE* (FY16-21)	Avg. Reinv. rate (FY16-21)**
Abbott India Ltd.	38%	37%	2%
Asian Paints Ltd.	37%	38%	35%
Bajaj Finance Ltd.	13%	20%	89%
Berger Paints India Ltd.	30%	31%	57%
Divis Laboratories Ltd.	25%	28%	51%
HDFC Bank Ltd.	16%	18%	87%
Kotak Mahindra Bank Ltd.	13%	13%	98%
Nestle India Ltd.	148%	76%	10%
Page Industries Ltd.	58%	62%	17%
Pidilite Industries Ltd.	30%	37%	48%
Relaxo Footwears Ltd.	29%	28%	55%
Titan Company Ltd.	21%	25%	29%
Dr. Lal Pathlabs Ltd.	36%	39%	25%
HDFC Life Insurance Co Ltd.	18%	24%	79%
W. Avg.	36%	34%	50%

*Source: Marcellus Investment Managers; Ace Equity; *ROE considered instead of ROCE for*

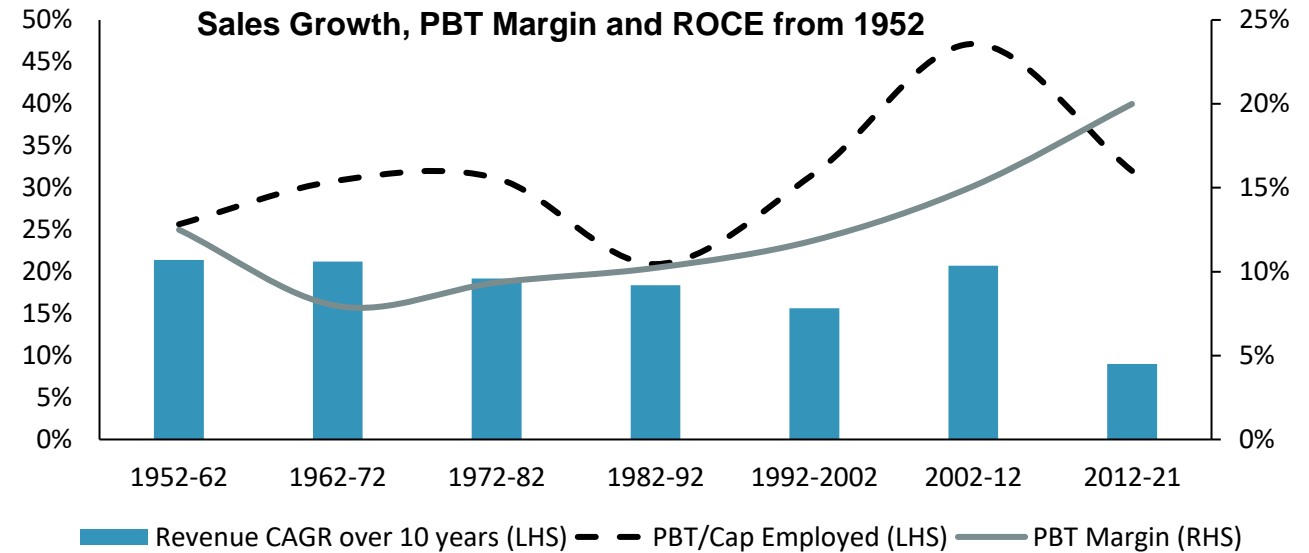
*BFSI companies; **Reinvestment rate for financials = (1 - dividend payout ratio(%));*

***Reinvestment rate for non-financials is 'cumulative CFI divided by cumulative CFO over last six years'; *ROCE for FY21 is assumed to be same as FY20 since March'21 quarter results are not yet announced*

CASE STUDY: ASIAN PAINTS [MKT CAP \$37 BN]

- *“We have been lucky to have new jewels in the form of professional managers who attempted to do things that haven’t been done before, and lucky to have a management that allowed them to do so” — K.B.S. Anand, Former MD & CEO, Asian Paints*
- **Growth drivers:**
 - Moats built predominantly around supply chain efficiencies:** No room for competition to disrupt through better product quality or high trade margins as the market dynamics force dealers to make money on volumes.
 - Strong HR:** Attracts top quality talent from the most prestigious institutions and then grooms and empowers them. Result – talented & independent professional management team.
 - Tech investments:** Makes use of technology to improve operating efficiencies, which helps in three ways – a) shape up moats around systems and processes (e.g., demand forecasting); b) suffocates competition through fewer price hikes; and c) disrupts itself once every 2-3 decades
 - Addition of new revenue growth drivers:** Foray into adjacencies such as waterproofing (1/10th of paints market), Launch of service offerings (SAFE Painting service), Launch of Home Decor service (interior design & execution), Scaling up of new retail formats – Beautiful Homes stores (all in one stores), Colour Ideas

NOTE: Asian Paints forms a part of most of Marcellus’ portfolios



Source: Marcellus Investment Managers; Ace Equity

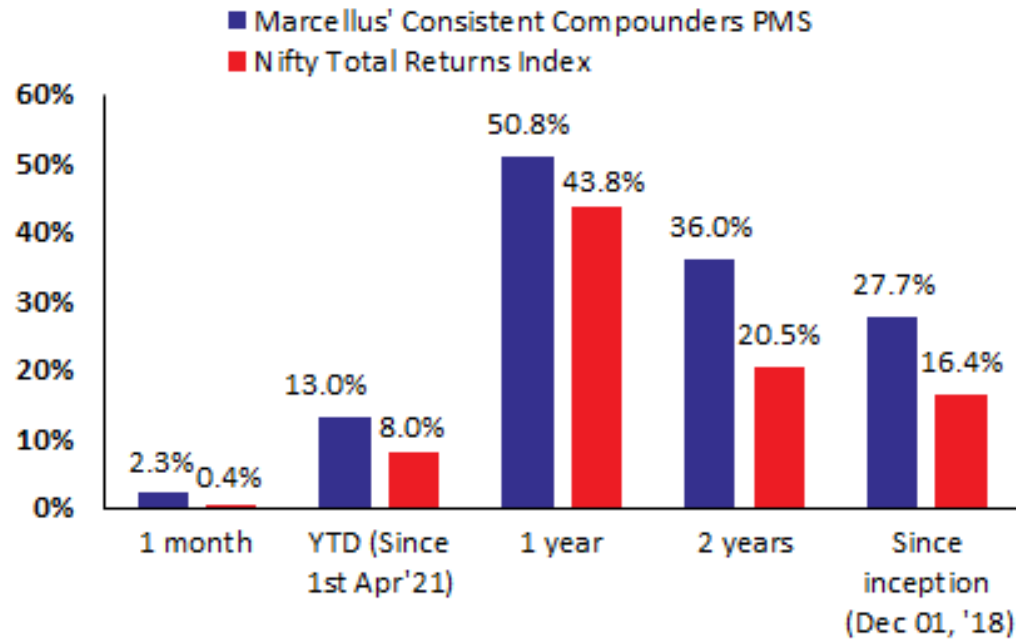
Volume growth, Sales growth and Earnings growth (FY01-21)

	FY01-06	FY06-11	FY11-16	FY16-21
Volume CAGR	11%	16%	10%	11%
Sales CAGR	19%	21%	14%	9%
PAT CAGR	15%	33%	15%	12%
FCFE CAGR	19%	42%	17%	21%

Source: Marcellus Investment Managers; Ace Equity; FCFE = Operating cash flow less Capex less Net Debt Repayments less Interest Paid

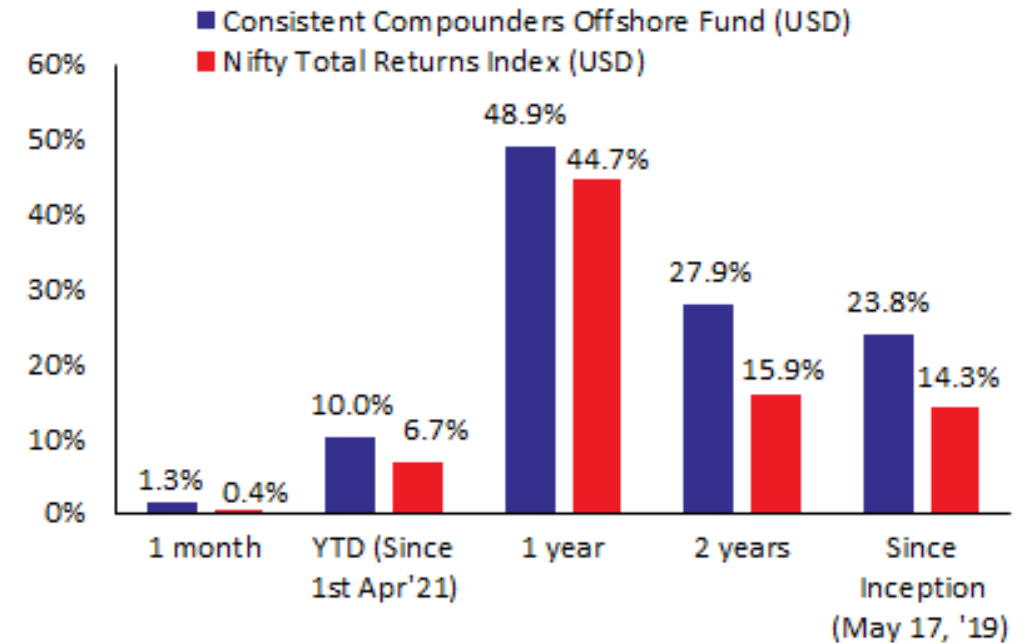
FUND PERFORMANCE (AS ON 31ST JULY'2021)

Exhibit 1a: Marcellus' Consistent Compounders PMS performance as on 31st July'21 (INR)



Source: Marcellus, Bloomberg; All returns are net of fees and expenses (TWRR); Since inception and 2 years returns are annualised; Other time period returns are absolute

Exhibit 1b: Consistent Compounders offshore fund advised by Marcellus - as on 31st July'21 (US\$)



Source: Marcellus; All returns are net of fees and expenses (TWRR); Since inception and 2 years returns are annualised; Other time period returns are absolute; NSE /FBIL for USD-INR exchange rate

At Marcellus we don't believe in timing the market and hence deploy the money into our strategies as soon as the investor transfers the funds to us. However, we do recognise the emotional aspect of loss aversion in the short term and have launched **STP (Systematic Transfer Plan)** plan using which clients can stagger their investment in tranches spread over 5 months.

For more details please refer to our FAQs <https://marcellus.in/wp-content/uploads/2020/11/STP-FAQs.pdf>

FUND STRUCTURE

Marcellus offers Consistent Compounders Portfolio with a zero fixed fees option

The Consistent Compounders PMS comes with ZERO entry load/exit load and with no lock-in. Our clients can choose any of the following fee structures:

1. a fixed fees model (2% p.a. fixed fees + zero performance fees) or
2. a variable fees model (zero fixed fees + performance fees of 20% profit share above a hurdle of 8%, no catch-up)*
3. a hybrid model (1% p.a. fixed fees + performance fees of 15% profit share above a hurdle of 12%, no catch-up).

High water mark applies for performance fees; Minimum investment: INR 50 lacs

****Clients also have the option to be onboarded directly (Direct Fee Code).*

*Marcellus is delighted to offer its clients a **Systematic Investment Plan (SIP)**. Investors now have the option to save and invest regularly in Marcellus Funds. <https://marcellus.helpscoutdocs.com/article/100-systematic-investment-plan-sip-faqs>*

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CCP FACTSHEET (1/2)

Fund Details

Strategy Name	Consistent Compounders
Fund Manager	Rakshit Ranjan, CFA
AUM In INR Crs	4,811
Category	Large Cap
Benchmark	Nifty50 Total Return Index

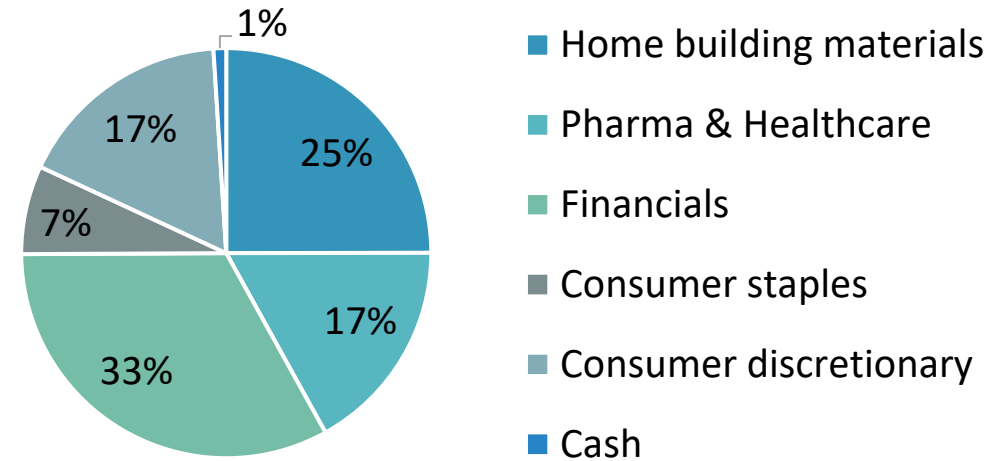
Top 5 Holdings (accounts for ~50% of allocation)

Asian Paints	Home Building Materials
HDFC Bank	Financials
Bajaj Finance	Financials
Pidilite Industries	Home Building Materials
HDFC Life	Financials

Market-Cap Wise Allocation

Large-Cap	79%
Mid-Cap	20%
Cash	1%

Sector Wise Allocation

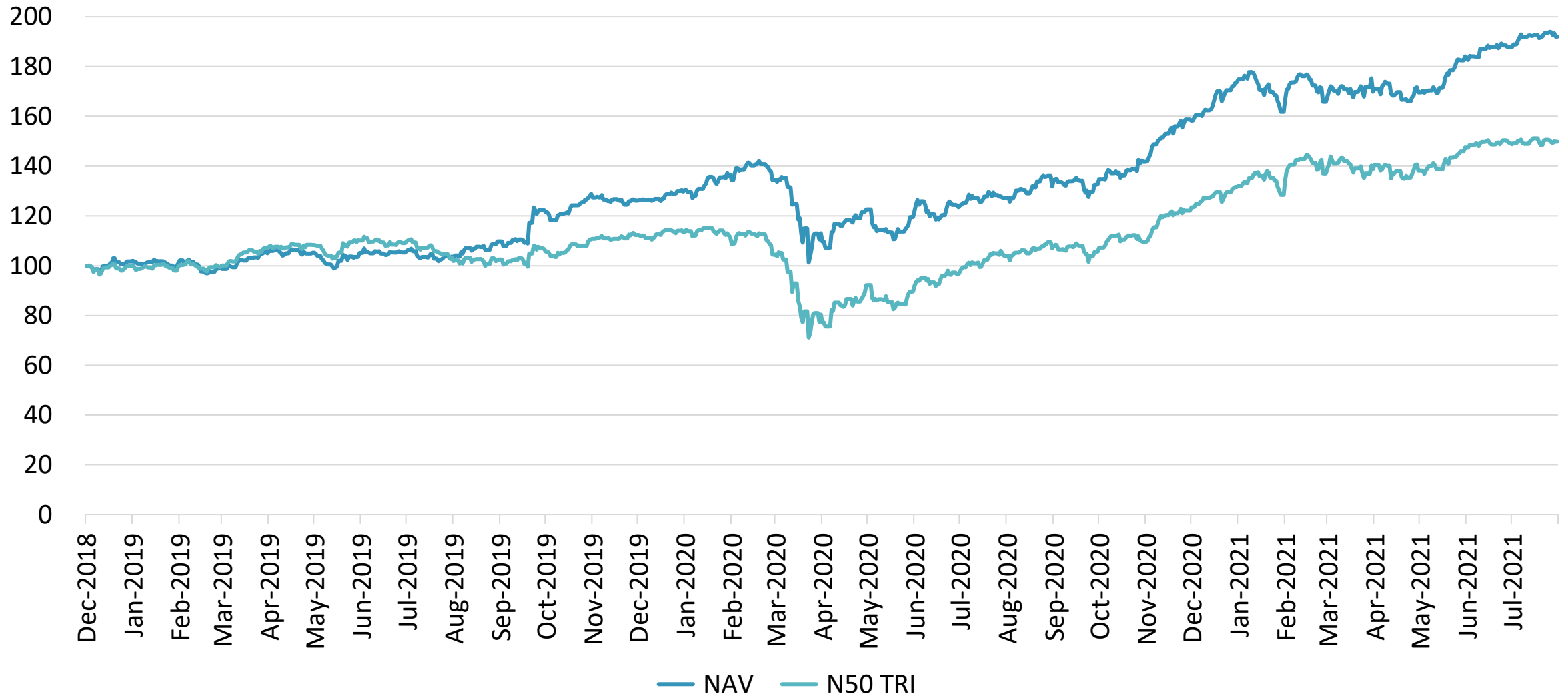


Portfolio Metrics

Wtd. Avg. Market Cap (INR Cr.)	2,30,220
Portfolio P/E (TTM)	82.41x
Dividend Yield	0.8%
Churn Ratio (TTM)	12%
Std Deviation (12 month rolling)	13.8%
Sharpe Ratio (12 month rolling)	1.52

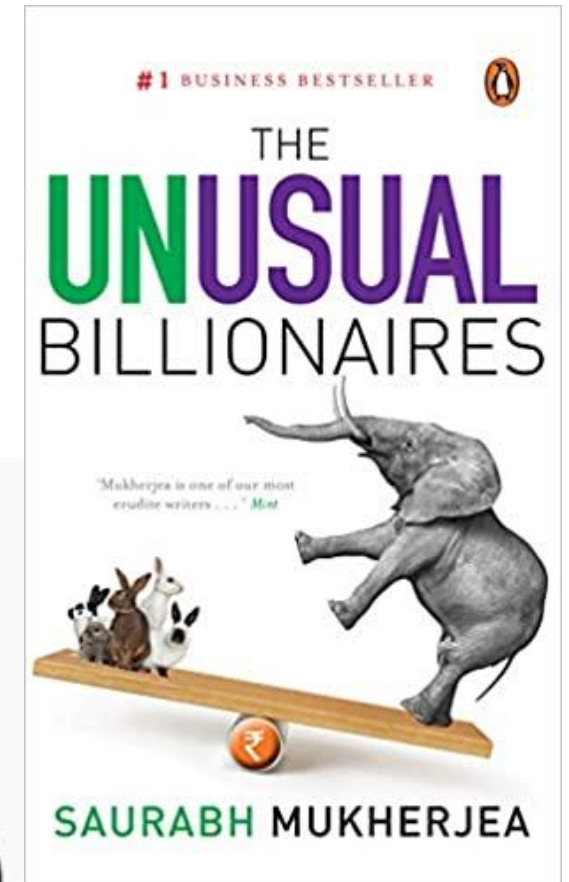
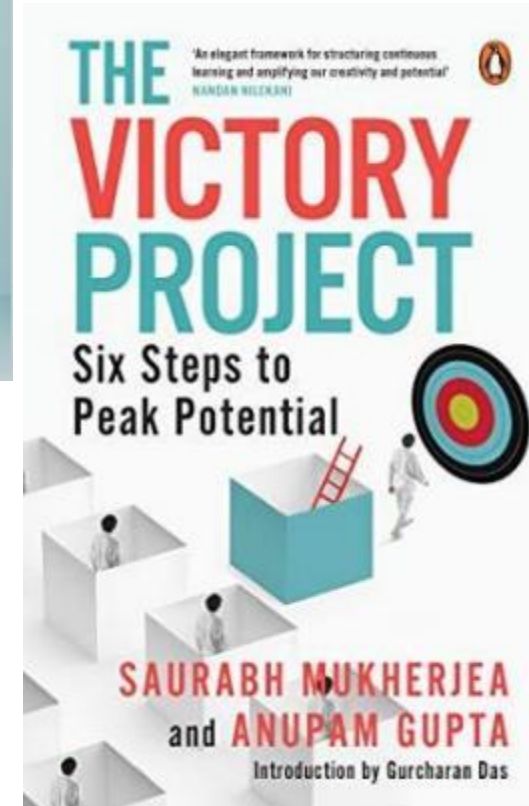
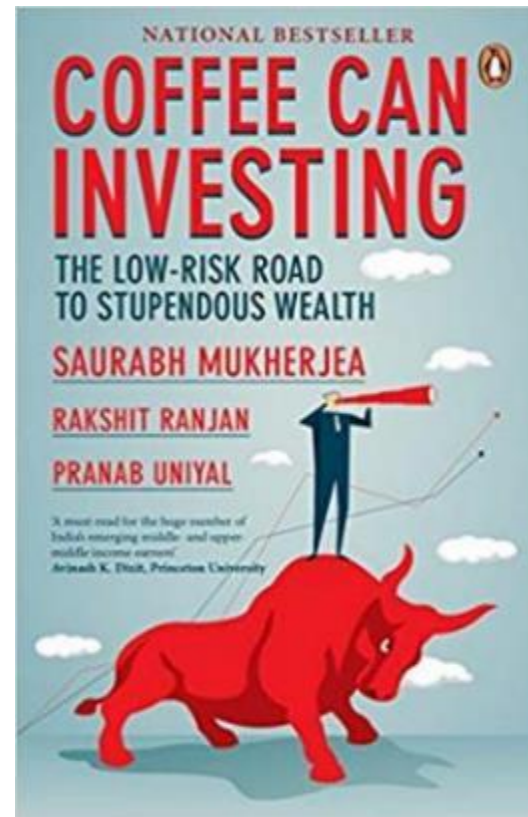
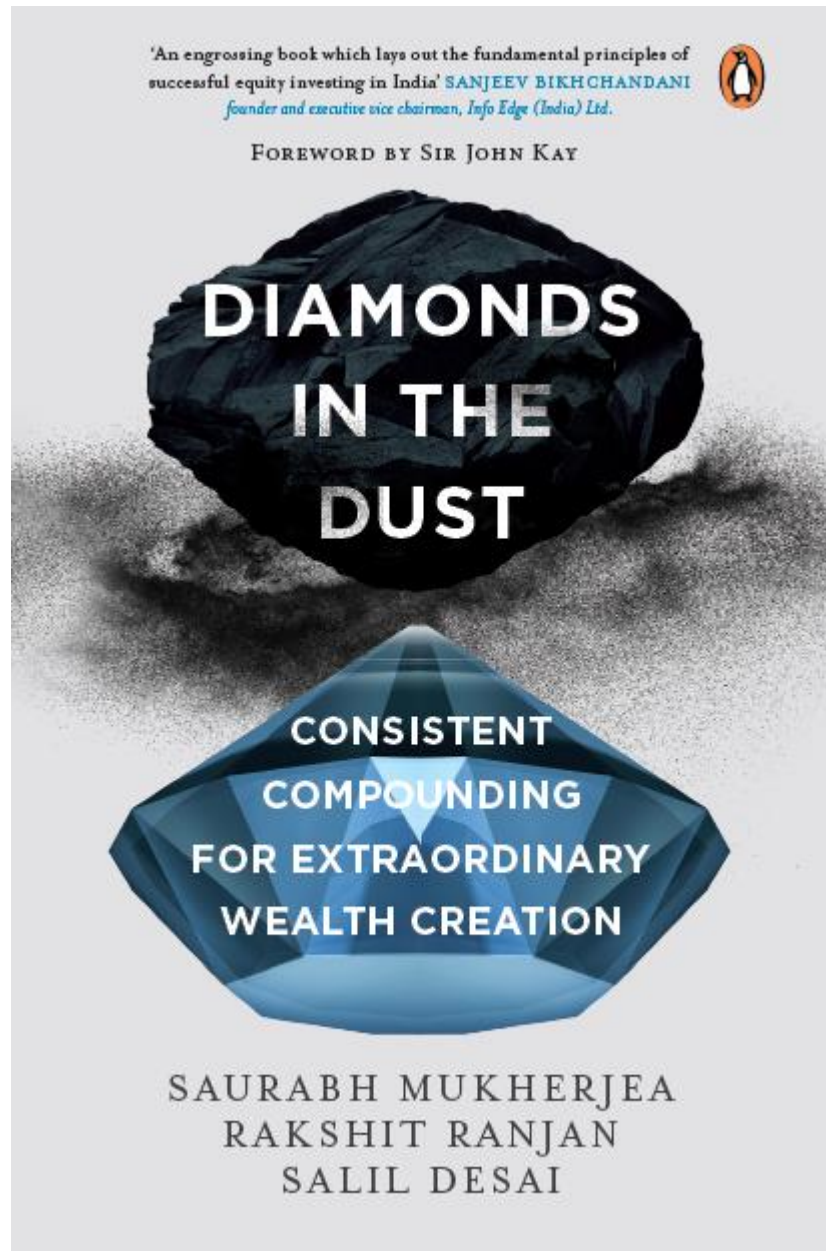
CCP FACTSHEET (2/2)

CCP v/s NIFTY50 performance



* Based on NAV's rebased to 100

BESTSELLING BOOKS WHICH WILL GIVE YOU MORE INFORMATION



WE PROACTIVELY SEEK TO INFLUENCE CHANGE

Area of engagement	Desired outcome
Corporate governance	<ul style="list-style-type: none"> • If we spot diversion on a meaningful scale, we exit • If we spot the beginnings of what look like small scale diversion, we speak to the 'Promoter' and explain to her why her wealth creation can be compromised
Succession planning	<ul style="list-style-type: none"> • Through our discussions with suppliers, customers and competitors of a company, we keep a close eye on whether the 'promoter' is on top of his game. • If his successors either do not exist or have not been groomed adequately, we discuss the matter and its consequences with him.
Capital allocation	<ul style="list-style-type: none"> • Our investment strategy – of investing in dominant franchises with ROCE of around 40% - naturally leads us towards companies which generates heavy Free Cashflow. • If this Free Cashflow is not reinvested wisely, the compounding of the franchise suffers • If we see a company either hoarding cash or moving into an unrelated, we engage with the 'promoter' to understand her thinking on capital allocation. • If we are not convinced about the fitness of what she's doing, we present our point of view (arguing in favour of a different capital allocation strategy) • If six months later we see that our engagement has made no difference, we consider exiting
Regulatory constructs	<ul style="list-style-type: none"> • Regulation – both in corporate law and in securities market law – is still evolving in India. This creates risks for the unwary. • By being a part of multiple regulatory committees, by writing in the press and by being vocal on social and broadcast media about regulatory reform, we have sought to improve transparency in the fund management industry in India

OUR TEAM - PORTFOLIO COUNSELLORS



Ashvin Shetty, CA, CFA

Ashvin has more than 10 years of experience in equity research. He led the coverage on automobile sector at Ambit Capital from 2010 to 2017 during which he was ranked in the Starmine Analyst Awards 2013 and 2016 for his stock picking abilities. He thereafter worked as a senior analyst for Ambit's Mid and Small cap PMS funds till November 2018. Prior to joining Ambit, he worked with Execution Noble as an analyst covering consumer and media space. He has also worked with KPMG's and Deloitte's statutory audit departments from 2004 to 2007 gaining extensive experience across Indian accounting standards and financial statement analysis. Ashvin is a BCom graduate from Narsee Monjee College (Mumbai). He is a qualified Chartered Accountant (ICAI India) and Chartered Financial Analyst (CFA Institute, USA).



Sudhanshu Nahta, CA

Prior to joining Marcellus, Sudhanshu was Executive Assistant to the CEO at Ambit Capital and worked in the Institutional Equities' Strategy team. He has also worked with KPMG in the statutory audit team from 2013 to 2016 gaining extensive experience across Indian accounting standards, financial control systems and financial statement analysis & reviews. Sudhanshu is a qualified Chartered Accountant and a CFA Level 3 candidate. He has completed his graduation in Commerce from Mumbai University.



Salil Desai, CA, MBA

Salil joined Marcellus from Premji Invest, India's largest family office by assets under management, where he spent 6 years as a senior member of the team that managed ~US\$2bn in listed equities. Prior to that, Salil worked for IDFC Securities, a prominent equity brokerage in Mumbai, where he came to be known as one of India's leading analysts for core economy sectors. Over a career spanning 12 years in equities, he has tracked multiple sectors, including industrials, infrastructure, utilities, insurance, cement, metals and logistics. Salil is a Chartered Accountant and a Post Graduate Diploma in Business Management from NMIMS, Mumbai. He completed his graduation in Commerce from Mumbai University.



Tej Shah, CA, CFA

Prior to joining Marcellus, Tej worked at Mayfield, a Silicon Valley headquartered venture capital fund which manages \$3Bn globally and \$220Mn in India. Tej spent 2 years as a part of Mayfield India's investment team covering multiple sectors and being at the centre of India's evolving venture ecosystem. Prior to Mayfield, Tej was a part of the equity and capital markets team of Ambit Capital where he worked on executing IPOs, QIPs and buybacks. Tej is a Chartered Accountant and has cleared all levels of the CFA exam. He holds a B. Com degree from Ahmedabad University.

OUR TEAM - OPERATIONS, HR, COMPLIANCE & LEGAL, IT



Manish Hemnani, MBA

Operations

Manish is one of the Founders of Marcellus. Manish comes from quantitative data analytics and research background, and has more than 12 years of experience working with banks and financial institutions across east-Asia, India and Europe. Prior to founding Marcellus, he founded Crosstab Limited (2011), a London based quantitative data analytics outfit. Prior to that he worked with a Mumbai based boutique analytics consulting firm. Manish holds an MBA from University of Warwick – Warwick Business School (UK).



Sapana Bhavsar

Human Resources

Sapana has 15 years of experience in Human Resources. In her prior stint with CRISIL, Sapana was leading the India HR Shared Services and was the Business HR for CRISIL's Research division. Before CRISIL, Sapana was associated with Bank of America Merrill Lynch and has donned varied hats across the BAML entities. Sapana is a University Gold Medallist and has a Master's degree in Labour Studies from Mumbai University.



Parimal Deuskar, Company Secretary

Compliance and Legal

Parimal heads Compliance & Legal function at Marcellus. In his last assignment, Parimal set up the Group Compliance Function at Avendus Capital, an investee company of KKR US. He is experienced in dealing with securities market regulators in US, Europe and Asia. Over his career spanning 15+ years he has set up fund structures in jurisdictions like India, Singapore, Ireland and Mauritius. His previous employers include Ambit, and Prudential UK's India KPO. Parimal holds Bachelor of Commerce and Bachelor of Law degrees from Mumbai University. He is also a qualified Company Secretary.



Siddharth Joshi

Information Technology

Siddharth has more than 15 years of experience in Technology. During these 15 years, he has provided technology consultation to a variety of functions within investment banks and financial institutions. Before joining Marcellus, Siddharth was working with Nomura where he was head of multiple teams, responsible for providing IT solutions to front office, operations and risk. He has expertise in Middleware, Automation, DevOps, Cloud and Messaging for low-latency trading. Prior to working with Nomura, he has been associated with Wells Fargo and TCS. Siddharth has a Bachelor of Engineering from Rajiv Gandhi University, Indore.

OUR 70 EMPLOYEES COME FROM A VARIETY OF BACKGROUNDS

Our **PURPOSE** - *To make wealth creation simple and accessible, by being trustworthy and transparent capital allocators.*

- Overall Gender diversity - 31%; At mid-management level - 41%; thus creating a **pool of potential women leaders**
- Average Age – 31 years; age range - 20 to 50 years; 55% of the team below 31 years; thus constituting a **fair mix of new age and experienced generations**.
- Educational background ranges from Finance, Management, Economics, Statistics, Engineering, Law and Company Secretarial; 25% of the team has dual post-graduation degrees; average total experience of 8 years; thus **creating domain experts across functions**



- Diverse opinions and ideas encouraged and invited during the **'All Marcellus' weekly meeting**.
- The team follows a **no-designation policy**. Use of hierarchical "job titles" not allowed in the firm.
- Research team meets twice a week for 3-hour long deliberations on existing portfolios; this also includes **cross team discussions and ideations** across all levels.
- An integral part of performance assessment is feedback on behaviours (30% weightage) that is sought via **360 degree feedback** and is published to the whole firm on a monthly basis.
- The team's inputs on the firm's policies and practices are captured by an **anonymous third party engagement** survey; these inputs drive the firm's People priorities

ANNEXURE

PORTFOLIO FUNDAMENTALS

FY21 FUNDAMENTALS OF MARCELLUS' CCP PORTFOLIO COMPANIES

Stock	Q4FY21 Sales YoY	Q4FY21 Earnings YoY	FY21 Earnings YoY	Remarks
Abbott India Ltd.	14%	37%	16%	Sales growth of 5% yoy in FY21. Displayed resiliency during a turbulent year
Asian Paints Ltd.	43%	81%	17%	48% yoy volume growth in Q4FY21 and 13% yoy volume growth in FY21 led by market share gains.
Berger Paints India Ltd.	50%	98%	9%	55-60% yoy volume growth in Q4FY21 and double digit yoy volume growth in FY21 led by market share gains.
Divis Laboratories Ltd.	29%	29%	44%	Sales growth of 21% yoy & earnings growth of 44% yoy in FY21 led by improvement in capacity utilisation, backward integration and debottlenecking projects.
Nestle India Ltd.	9%	15%	6%	10% yoy growth in domestic sales largely driven by volume & mix. Added focus on expansion of rural distribution and new product launches.
Page Industries Ltd.	63%	272%	-1%	Sales growth of 63% yoy and volume growth of 54% yoy in Q4FY21 led by strong growth in athleisure, kidswear and e-commerce.
Pidilite Industries Ltd.	45%	96%	1%	Volume & mix growth of 45% yoy in consumer segment led by market share gains, rapid expansion of distribution and investments in digital.
Relaxo Footwears Ltd.	38%	97%	29%	Volume growth of 8% yoy in FY21 led by market share gains on account of resilient supply chain and robust distribution.
Titan Company Ltd.	59%	66%	-35%	70% yoy in jewellery segment in Q4FY21 and 32% yoy retail growth in Jan & Feb'21 led by market share gains and digital initiatives.
Dr. Lal Pathlabs Ltd.	43%	161%	30%	27% yoy growth in non-covid business. Accelerated network expansion during FY21 - 20% yoy increase in Patient Service Centres
HDFC Bank Ltd.*	19%	16%	17%	Growth in advances and deposits much higher than that of the industry reflective of market share gains.
Bajaj Finance Ltd.*	26%	42%	-16%	Annualised QoQ loan book growth in Q4 reflects the pick-up in business momentum post. Earnings impacted due to conservative provisioning.
Kotak Mahindra Bank Ltd.*	18%	31%	15%	Annualised QoQ loan book growth in Q4 reflects the pick-up in business momentum post.
HDFC Life Insurance Co Ltd.**	21%	14%	14%	Market share based on Individual WRP increased from 14.2% in FY20 to 15.5% in FY21 on the back of a balanced product and distribution mix.
Overall Avg. (CCP Portfolio)	34%	74%	11%	

Source: Ace Equity; Marcellus Investment Managers; *Sales growth for lenders is equal to annualised QoQ loan book growth in Q4FY21; **Sales growth for HDFC Life reflects the growth in Total Premiums during Q4FY21 and Earnings growth for Q4FY21/FY21 reflects the growth in Value of New Business (VNB)

EXAMPLES OF MARKET SHARE GAINS BY OUR INVESTEE COMPANIES

Fundamentals of lenders in Marcellus' CCP PMS vis-à-vis industry

	Annualised QoQ loan book growth (Q4FY21)	Tier 1 capital (Q4FY21)	Cost of funds (Q4FY20)	Cost of funds (Q4FY21)
HDFC Bank Ltd.	20%	17.6%	5.0%	4.1%
Kotak Mahindra Bank Ltd.	19%	21.4%	4.8%	3.8%
Bajaj Finance Ltd.	29%	25.1%	8.0%	7.1%
Average for the banking industry	13%	13.3%*	5.5%	4.9%*

Source: Marcellus Investment Managers; Ace Equity; *as on Sept'20

Fundamentals of Paint companies in Marcellus' CCP PMS vis-à-vis peers

	Q4FY21	Q3FY21	Q2FY21	Q1FY21	Q4FY20	FY21
YoY Sales growth (consolidated)						
Asian Paints Ltd.	43%	25%	6%	-43%	-7%	7%
Berger Paints India Ltd.	50%	25%	9%	-46%	-8%	7%
Kansai Nerolac Paints Ltd.	35%	20%	4%	-59%	-11%	-5%
Akzo Nobel India Ltd.	34%	7%	-4%	-64%	-18%	-9%
YoY Volume growth (decorative)						
Asian Paints Ltd.	48%	33%	11%	-38%	3%	13%
Berger Paints India Ltd.	60%	32%	17%	-40%	2%	~12-14%
Kansai Nerolac Paints Ltd.	37%	21%	15%	-44%	-6%	

Source: Marcellus Investment Managers; Ace Equity; Volume growth numbers for Berger Paints and Kansai Nerolac are based on broker estimates/management interviews

Fundamentals of Dr. Lal Pathlabs vis-à-vis peers

	Q4FY21	Q3FY21	Q2FY21	Q1FY21	Q4FY20	FY21
YoY Sales growth (consolidated)						
Dr. Lal Pathlabs Ltd.	43%	38%	18%	-21%	0%	19%
Metropolis Healthcare Ltd.	41%	23%	29%	-30%	3%	17%
Thyrocare Technologies Ltd.	45%	31%	32%	-49%	-4%	14%
YoY Sales growth (non-covid)						
Dr. Lal Pathlabs Ltd.	27%	8%	-5%	-38%	-2%	-3%
Metropolis Healthcare Ltd.	21%	0%	-15%	-50%	6%	-11%
Thyrocare Technologies Ltd.	25%	5%	-9%	-70%	-4%	-13%

Source: Marcellus Investment Managers; Ace Equity

CASE STUDY: BAJAJ FINANCE [MKT CAP \$47 BN]

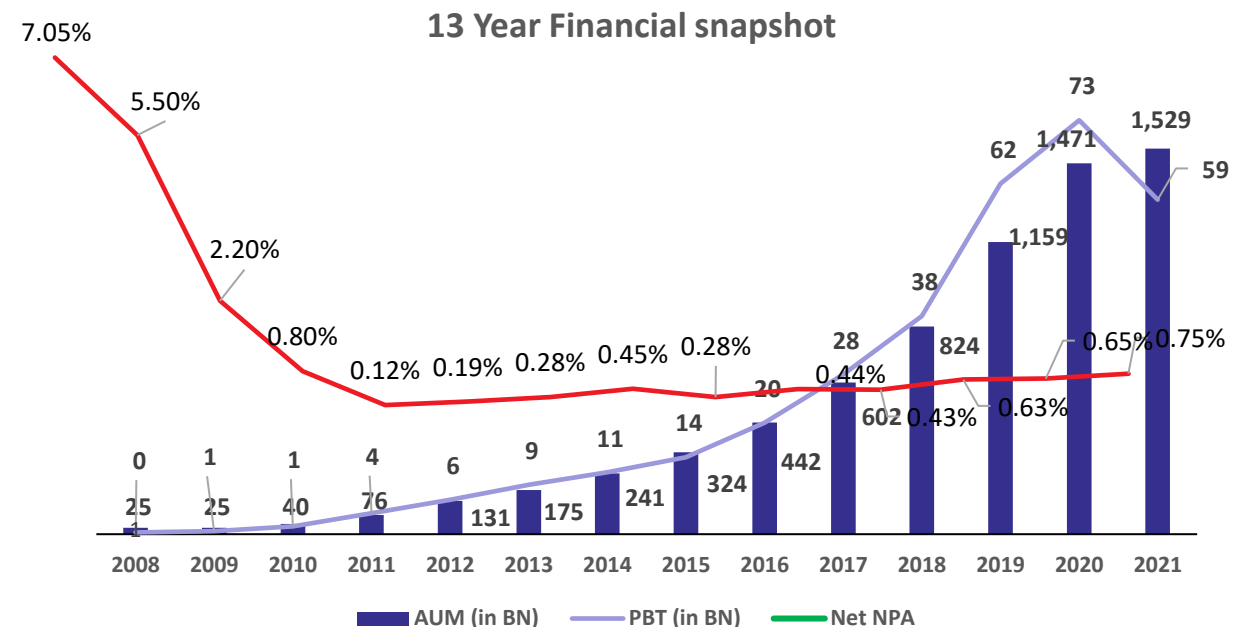
- *“We had been showing ALM data for the past five years. Two years ago, nobody paid much attention to it, so we pushed it back as an annexure in our presentations. Now when investors ask for it, I tell myself, ‘Thank God, I did not treat ALM as an annexure to my business model’”* — Rajeev Jain, MD, Bajaj Finance
- **Company has built its strengths around:**
 - Found a niche, differentiated business opportunity in consumer durable financing 10 years ago. Today, more than 70% of all consumer durables financing in India is done by Bajaj Finance.
 - Focus on high velocity, small ticket size lending with turnaround times and customer convenience as the differentiation rather than interest rates.
 - Ability to switch gears across products based on data driven risk and underwriting models. Completely stopped construction equipment financing in 2014 due to muted RoE and profitability prospects.
 - Data science backed credit algorithms to capture data points over & above those captured by credit agencies

NOTE: Bajaj Finance forms a part of most of Marcellus’ portfolios

Key Performance Matrices: Bajaj Finance (FY 2008-21)

Indicators	FY08	FY20	FY21	13- year CAGR
AUM (Rs. in bn)	25	1,471	1,529	37%
PBT (Rs. in bn)	0.3	73	60	50%
RoA	0.9%	4.1%	3.1%	
RoE	3.2%	20.2%	12.8%	
NNPA	7.05%	0.65%	0.75%	

Source: Marcellus Investment Managers; Ace Equity



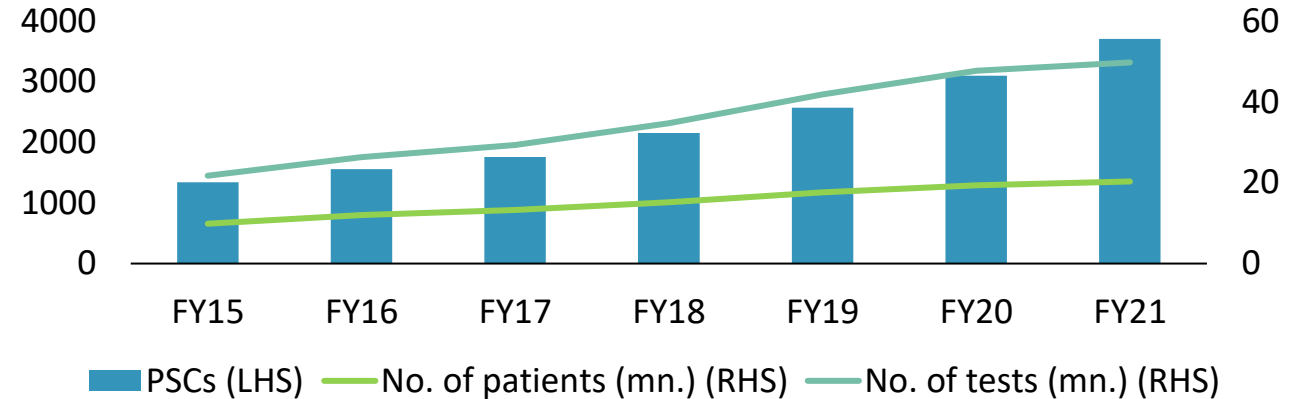
Source: Marcellus Investment Managers; Ace Equity

CASE STUDY: DR. LAL PATHLABS [MKT CAP \$3.2 BN]

- Dr. Lal provides pathology diagnostics in North and East India with a network of 200+ labs, 3000+ collection centres (CCs) and 6000+ pick-up-points (PUPs).
- Over the past five years, it has strengthened its moats through:
 - Optimising its hub and spoke retail network** – Using tech investments in store level data collection, Dr. Lal Pathlabs is leveraging on its 15 years learning curve to optimise the location, size and supply chain infrastructure of its CCs and labs.
 - Timely report generation** – With complete ownership or control on lab technicians, sample handling toolkits, CCs, PUPs and labs, Dr. Lal differentiates against its competitors in the timeliness of its report generation.
 - Extending home collections to smaller cities** – During the COVID-19 crisis, Dr. Lal has significantly invested in home collections infrastructure in smaller cities, which is helping it gain substantial market share from both org as well as unorg. competitors.
 - Disciplined capital allocation** – Diagnostic labs industry is ripe for consolidation as pan-India firms gain share from mom-and-pop labs. Dr. Lal currently has more than 750 crores worth of surplus capital on its balance sheet. Over the past 5 years, capital allocation towards acquisitions has been prudently done in a bolt on manner.

NOTE: Dr. Lal Pathlabs forms a part of most of Marcellus' portfolios

~3700+ collection centres, ~20mn patients annually,
~50mn tests annually



Source: Marcellus Investment Managers; Ace Equity

Rs mn	FY15	FY16	FY17	FY18	FY19	FY20	FY21	6-year CAGR
Revenues	6,596	7,913	9,124	10,569	12,034	13,304	15,813	16%
EBITDA	1,551	2,077	2,375	2,640	2,936	3,436	4,363	19%
PAT	964	1332	1556	1718	2004	2276	2965	21%
RoCE (pre tax)	49%	47%	43%	38%	35%	32%	35%	
Net debt/Equity	-0.55	-0.54	-0.58	-0.58	-0.71	-0.71	-0.79	

Source: Marcellus Investment Managers; Ace Equity

FY14-19: HIGH QUALITY STOCKS WERE IN VOGUE

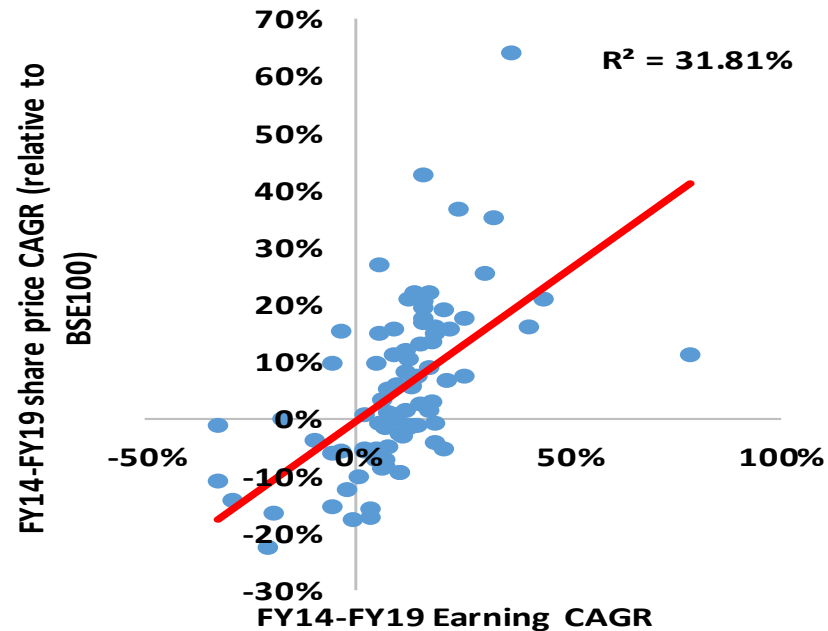
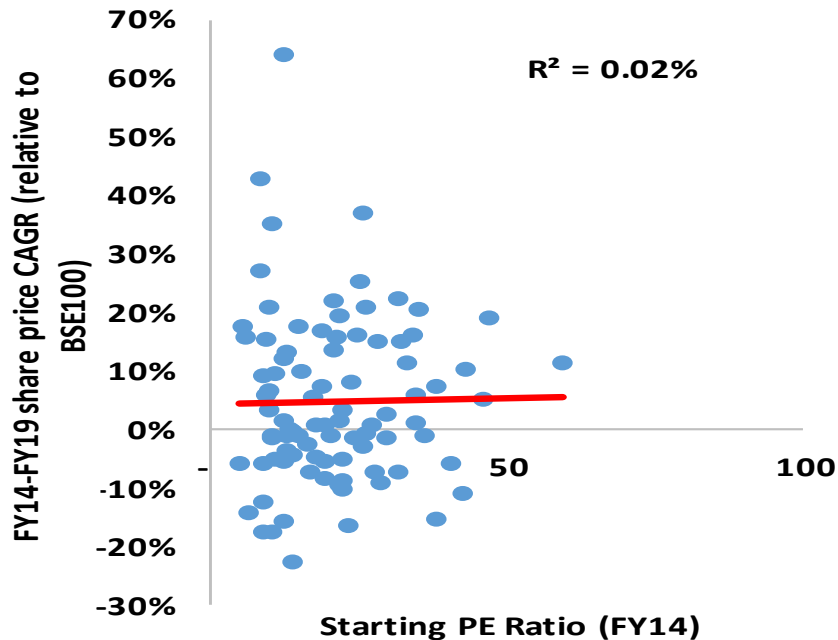
PE Multiples for FY14 and FY19 and EPS and Share Price CAGR from FY14 to FY19

	PE - FY14	PE - FY19	EPS CAGR (FY14-19)	Share price CAGR (FY14-19)
BSE100	18	26	4%	12%
Asian Paints Ltd	43	66	12%	22%
HDFC Bank Ltd	21	28	18%	25%

Alpha in
EPS =
alpha in
share prices

Source: Ace Equity, Marcellus Investment Managers

Correlation between relative share price performance with starting PE and EPS CAGR



Source: ACE Equity, Marcellus Investment Managers;

Correlation analysis has been done for the constituents of today's BSE100 index companies, hence companies which were unlisted at the start of the period are excluded;

Companies with negative EPS or where EPS isn't available in the start or end period have been excluded;

Companies with EPS CAGR >100% or opening PE >100 have been excluded.

- BSE100 index delivered earnings CAGR of 4%, but underwent a 50% expansion in its P/E multiple from 18x to 26x
- Despite it being a phase of significant P/E expansion for the index, share price outperformance was driven by earnings growth

FY04-08: CAPEX & INFRA BOOM

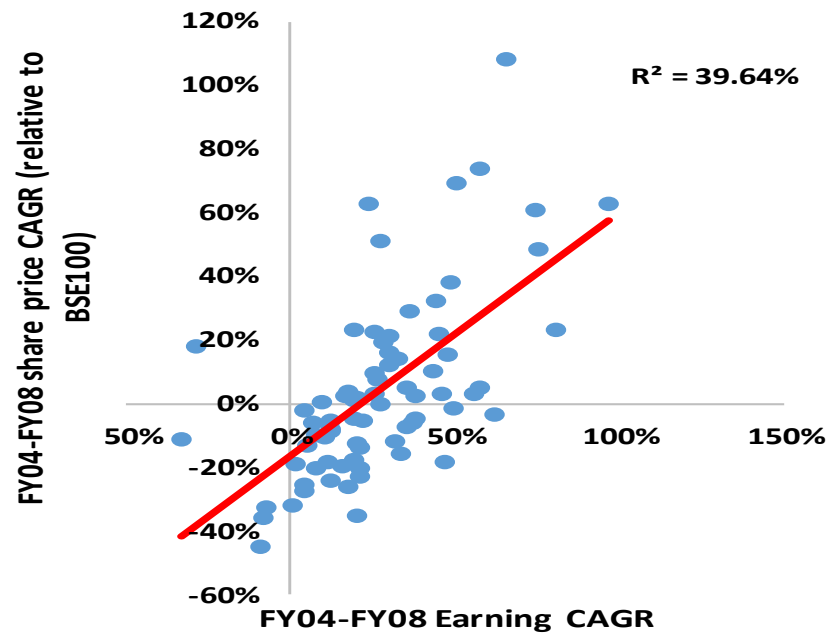
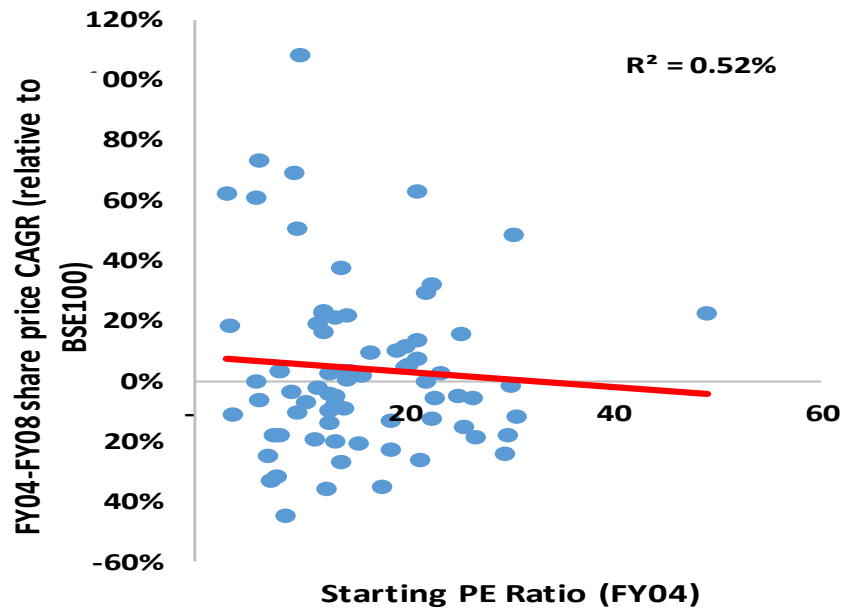
PE Multiples for FY04 and FY08 and EPS and Share Price CAGR from FY04 to FY08

	PE - FY04	PE - FY08	EPS CAGR (FY04-08)	Share price CAGR (FY04-08)
BSE100	16	20	22%	29%
Asian Paints Ltd	20	28	30%	41%
HDFC Bank Ltd	21	29	26%	37%

Alpha in
EPS =
alpha in
share prices

Source: Ace Equity, Marcellus Investment Managers

Correlation between relative share price performance with starting PE and EPS CAGR



Source: ACE Equity, Marcellus Investment Managers;

Correlation analysis has been done for the constituents of today's BSE100 index companies, hence companies which were unlisted at the start of the period are excluded;

Companies with negative EPS or where EPS isn't available in the start or end period have been excluded;

Companies with EPS CAGR >100% or opening PE >100 have been excluded.

- Earnings growth was broad based with only a narrow gap between quality stocks & not-so-quality stocks. P/E expanded at modest pace.
- Despite it being a phase of broad-based earnings growth, share price outperformance was driven by earnings growth rather than starting P/E

FY94-04: P/E MULTIPLES HAVE HALVED

PE Multiples for FY94 and FY04 and EPS and Share Price CAGR from FY94 to FY04

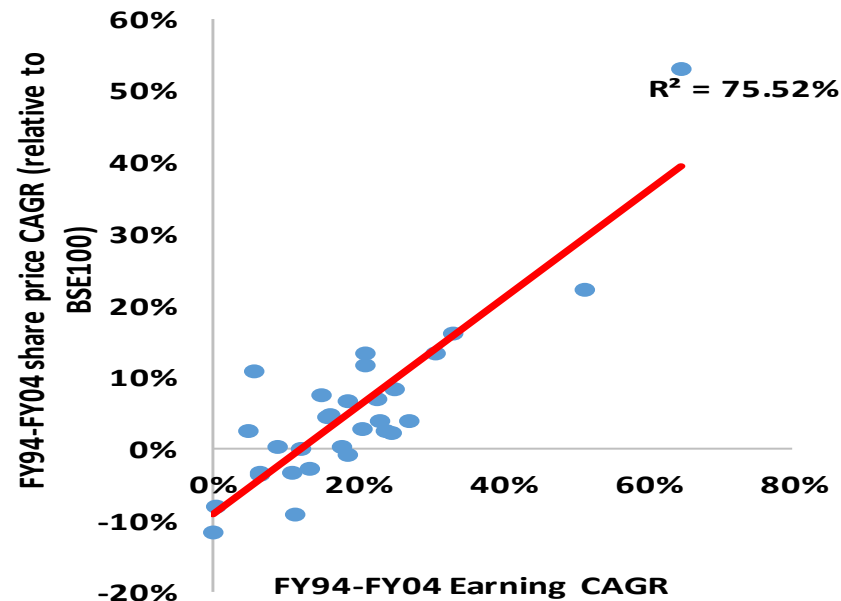
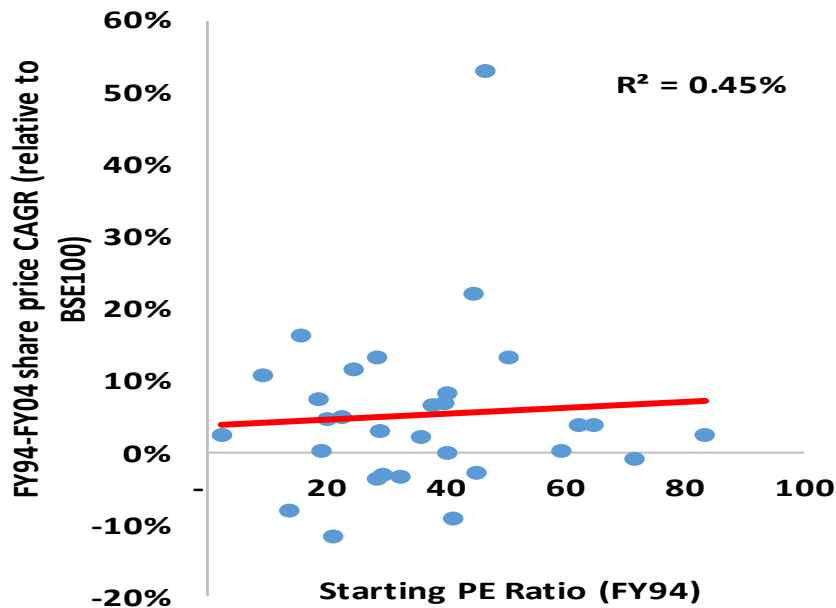
	PE - FY94	PE - FY04	EPS CAGR (FY94-04)	Share price CAGR (FY94-04)
BSE100	47	16	17%	5%
Asian Paints Ltd	38	20	19%	12%
HDFC Bank Ltd**	32	21	43%	35%
ITC Ltd	40	16	23%	12%
Nestle Ltd*	64	22	20%	8%

Alpha in
EPS =
alpha in
share
prices

Source: Ace Equity, Marcellus Investment Managers; *Period considered is from CY94 to CY04; **Starting PE multiple is from FY96 and EPS and Share Price CAGR is for 8 years from FY96 to FY04.

- BSE100 underwent a massive compression in P/E from 47x to 16x. This P/E compression was broad based including quality stocks also

Correlation between relative share price performance with starting PE and EPS CAGR



- Despite it being a phase of significant P/E compression, share price outperformance was driven by earnings growth rather than starting P/E

Source: ACE Equity, Marcellus Investment Managers;

Correlation analysis has been done for the constituents of today's BSE100 index companies, hence companies which were unlisted at the start of the period are excluded;

Companies with negative EPS have been excluded;

Companies with EPS CAGR >100% or opening PE >100 have been excluded;

For 5 companies EPS from FY95 and EPS CAGR for 9 years have been taken due to non-availability of data.

FY04-19: THE LONG TERM STORY

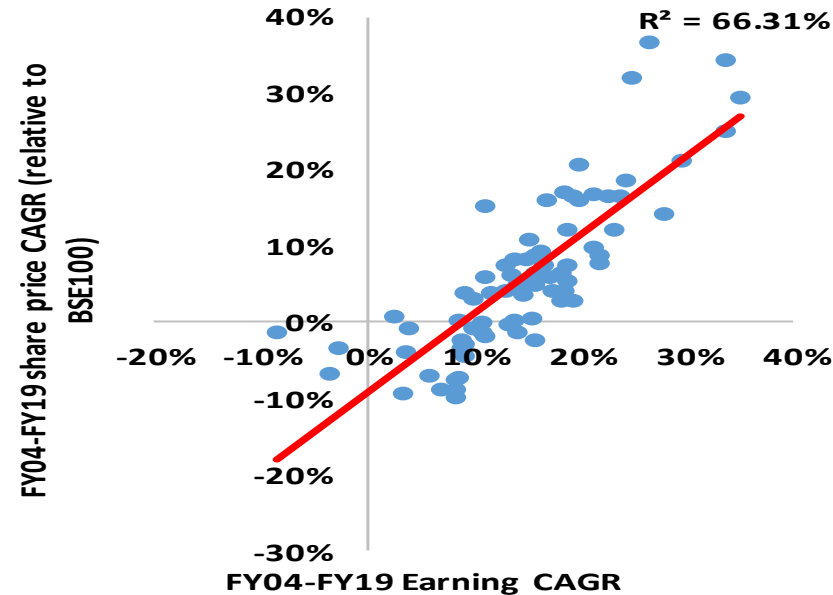
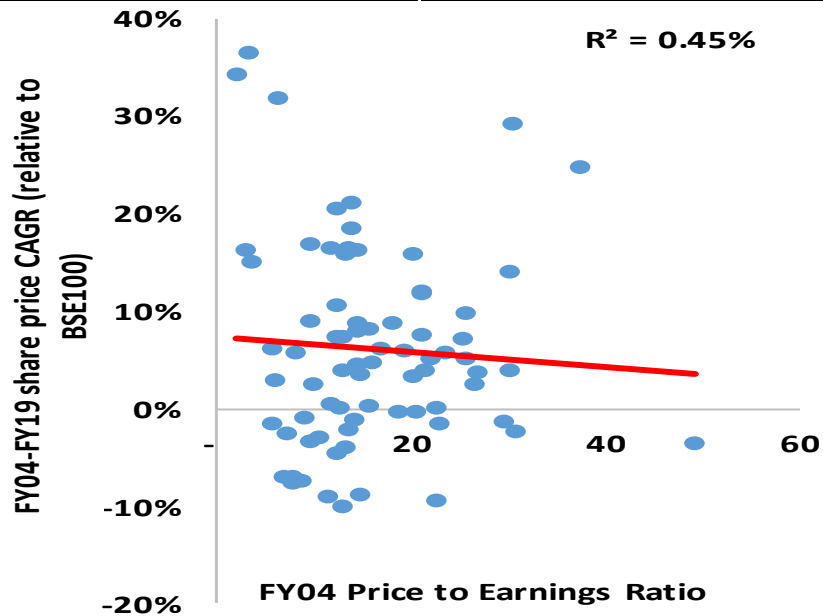
PE Multiples for FY04 and FY19 and EPS and Share Price CAGR from FY04 to FY19

	PE - FY04	PE - FY19	EPS CAGR (FY04-19)	Share price CAGR (FY04-19)
BSE100	16	26	10%	14%
Asian Paints Ltd	20	66	20%	30%
HDFC Bank Ltd	21	28	23%	26%
ITC Ltd	16	29	14%	19%
Nestle Ltd*	25	67	13%	20%

Alpha in EPS = alpha in share prices

Source: Ace Equity, Marcellus Investment Managers; *Period under consideration is from CY03 to CY18

Correlation between relative share price performance with starting PE and EPS CAGR



Source: ACE Equity, Marcellus Investment Managers;

Correlation analysis has been done for the constituents of today's BSE100 index companies, hence companies which were unlisted at the start of the period are excluded;

Companies with negative EPS or where EPS isn't available in the start or end period have been excluded;

Companies with EPS CAGR >100% or opening PE >100 have been excluded.

- On a long-term period covering the different market phases, it is the earnings growth which drives the returns
- 70% of the index returns is explained by earnings & less than 30% by P/E expansion

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