

# Marcellus Investment Managers Kings of Capital



An investment strategy for Indian Public Equities

The stocks described in the presentation do form the part of Marcellus' portfolio so we as Marcellus, our clients and our immediate relatives do have interest and stakes in the described stocks

Private and confidential. Circulation NOT intended for US clients

November 2023

 **MARCELLUS**

**Circulation not intended for US Clients**

# Contents



- **Who we are and what we do?**
- **KCP : Portfolio will span the entire Financial Services sector**
- **Insurers, asset managers and brokers add resilience to the portfolio – FY20 is a good example**
- **Marcellus investment funnel for financial stocks**
- **Marcellus' forensic screen to identify clean firms**
- **Strong Fundamentals of KCP Companies**
  - **KCP companies continue to report strong business performance in Q1FY24**
  - **KCP's Long term fundamental performance vs. Bank Nifty**
- **KCP stock valuations are now at multi-year lows**
- **KCP is now at 24x trailing P/E for 19% RoE and 20%+ PAT compounding**
- **CASE study: Bajaj Finance (big data is barrier to entry)**
- **Live portfolio performance**
- **KCP Factsheet**
- **Disclaimers**

# Introduction – who we are and what we do?



## Team: Long-term working relationship

- Employee-owned boutique and local manager of Indian public equities; founded in Dec-2018
- The core team worked together for ~15 years, during which they built two successful and independent research firms in the UK and in India . Research team handpicked and trained internally

## Strategy: Long only Indian equities

- India is the world's fifth largest and fastest-growing major economy which allows ample growth runway for well run companies (clean governance, good capital allocation and capable managements)
- Fruits of patient investing: India ranks 5<sup>th</sup>/ 2<sup>nd</sup>/ 3<sup>rd</sup> on 30Y/20Y/10Y on USD investment returns

## Philosophy: Quality over quantity

- Invest in a concentrated portfolio of clean and high-quality compounders with low churn
- Ignore short term noise and focus on consistent free cash flow compounding of investee companies

## Process: In-depth bottom-up research

- Team of 24 investment professionals trained in forensic accounting and focussed on bottom up research
- Proprietary research framework that uses extensive primary research to ascertain moats, capital allocation, growth longevity and succession planning

## Performance and incentive alignment

- Fees are structured such that we do not make money unless our investors do. Transparent communication through monthly newsletters/webinars to educate and inform investors

# Investment Committee



**Saurabh Mukherjea is the Founder and CIO of Marcellus.** Saurabh is the CIO at Marcellus. He is the former CEO of Ambit Capital and played a key role in Ambit's rise as a broker and a wealth manager. When Saurabh left Ambit in June 2018, assets under advisory were \$800mn. In London, Saurabh was the co-founder of Clear Capital, a small cap equity research firm which he and his co-founders created in 2003 and sold in 2008. In 2017, upon SEBI's invitation, he joined SEBI's Asset Management Advisory Committee. In 2019, Saurabh was part of the five man Expert Committee created by SEBI to upgrade & update the PMS regulations. Saurabh has written four bestselling books including Gurus of Chaos (2014), The Unusual Billionaires (2016) and "Coffee Can Investing: The low risk route to stupendous wealth" (2018). Saurabh was educated at the London School of Economics where he earned a BSc in Economics (with First Class Honours) and MSc in Economics (with distinction in Macro & Microeconomics).



**Pramod Gubbi 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 National Institute of Technology, Karnataka and has a Post-graduate Diploma in Management from the Indian Institute of Management – Ahmedabad.



**Rakshit Ranjan is the Portfolio Manager of Marcellus' Consistent Compounders strategy.** Rakshit is the Portfolio Manager of Marcellus' flagship Consistent Compounders strategy. Rakshit spent 6 years (2005-2011) covering UK equities with Lloyds Bank (Director, Institutional Equity Research) and Execution Noble (Sector Lead analyst). Since 2011, Rakshit led Ambit Capital's consumer research franchise. He launched Ambit's Coffee Can PMS in Mar'17 and managed it till Dec'18. Rakshit has a B.Tech from IIT (Delhi).

Source: Marcellus Investment Managers

# Portfolio managers



**Ashvin Shetty manages Marcellus' Little champs and Rising Giants portfolios.** Ashvin is the Portfolio Manager of Marcellus' Little Champs strategy. 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. 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).



**Salil Desai manages Marcellus' advisory portfolios.** He joined 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.



**Tej Shah manages Marcellus' Kings of Capital portfolio.** 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 Chartered Financial Analyst.



# Portfolio construction

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# Portfolio will span the entire Financial Services sector



**Lenders** – long track record of prudent credit underwriting, smart capital allocation and good corporate governance

**Life insurers** – large distribution footprint, customer centric product innovation and an effective actuarial risk management framework

**General insurers** – focus on long term profitability and return on equity and a track record of conservative underwriting across cycles

**Asset managers/ brokers** – moated business models and strong pricing power

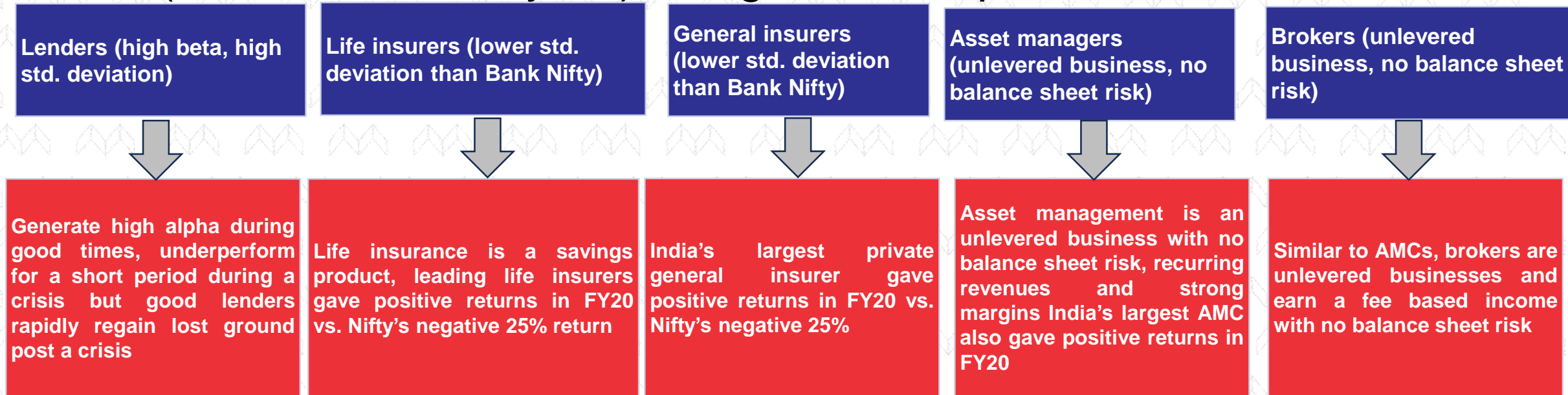
**10 to 14 portfolio companies of Marcellus' Kings of Capital Portfolio**

- Objective: Identify financial companies with clean books of accounts, a long record of profitable growth and promoters with prudent capital allocation skills
- To benefit from the financialization of Indian household savings over the next decade, the portfolio will consist of the full spectrum of financial service providers – lenders (banks, NBFCs and housing finance companies), life insurers, general insurers and asset managers/brokers
- Financial companies are leveraged businesses and hence the impact of poor accounting quality is magnified. By virtue of Marcellus' intense focus on accounting quality and corporate governance, we have a good chance of avoiding extreme downfalls
- High quality financial services companies with profitable growth and prudent capital allocation will stand to benefit from the demise of the public sector institutions across the financial landscape with market share gains accelerated by the multiple disruptions witnessed in the financial industry over the past few years

*Note: The fund manager maintains discretion on stock inclusion in the portfolio. In case, a stock does not clear the above filters, the fund manager must record and present to the Investment committee for approval with the reasons for such inclusion*

# Insurers, asset managers and brokers add resilience to the portfolio

– FY20(COVID affected year) is a good example

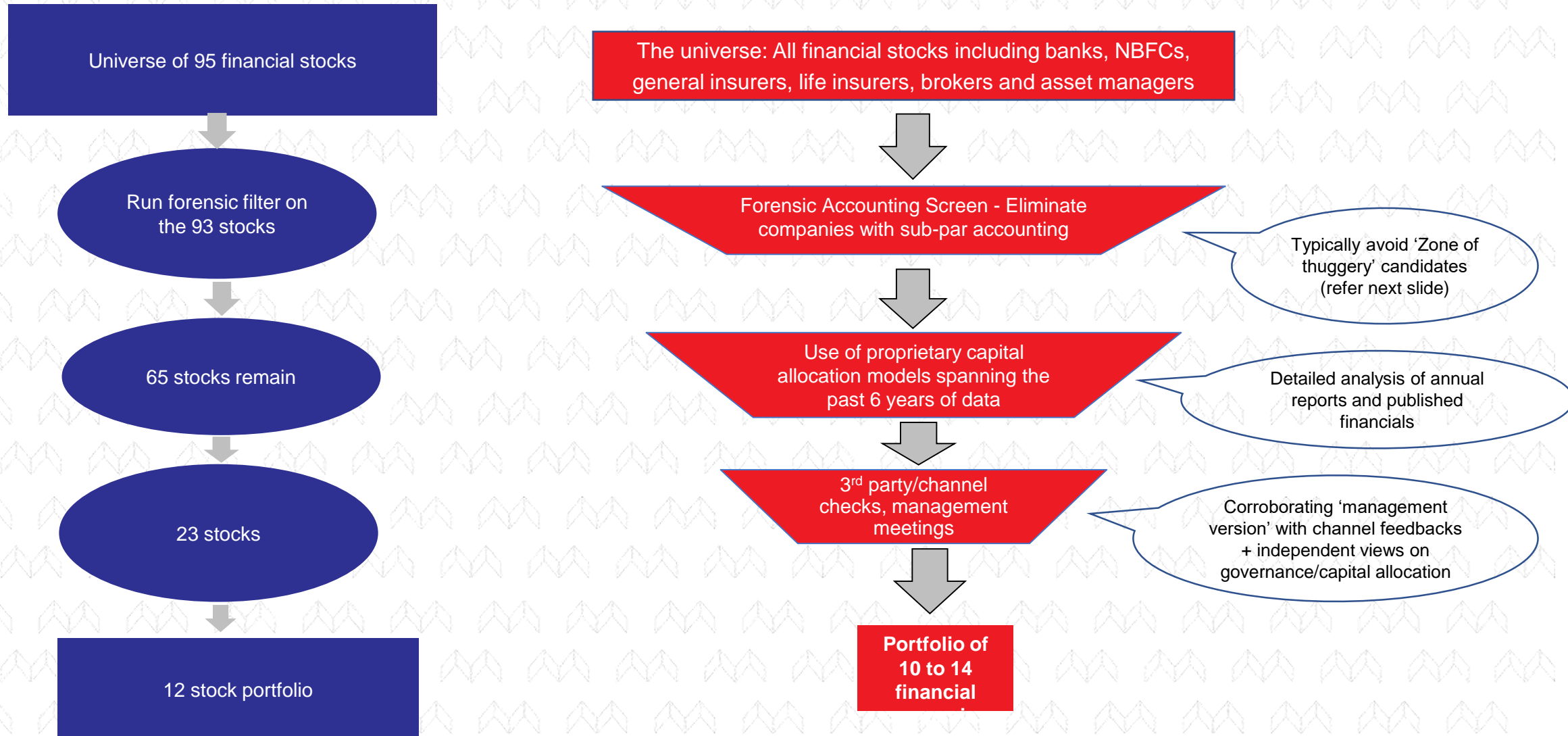


- We are building a multi-cap portfolio of financial stocks which includes not only lenders but also general insurers, life insurers, asset managers and brokers
- As equity markets trend upwards in the long run, lenders in the portfolio add a high beta element to the portfolio which helps it outperform the broader indices over the long term. As a result, over FY09 to FY20 the Bank Nifty has given a 14.8% return vs. 9.8% for the Nifty i.e. a 1.5x higher return with a 1.4x higher std. deviation
- The non lending part of the portfolio adds resilience to the portfolio during times of stress because insurers have a lower beta than lending businesses while asset management and brokerage businesses do not take any balance sheet risk

*Note: The fund manager maintains discretion on stock inclusion in the portfolio. In case, a stock does not clear the above filters, the fund manager must record and present to the Investment committee for approval with the reasons for such inclusion*



# The Marcellus investment funnel for Financial stocks



Source: Ace Equity Note: The fund manager maintains discretion on stock inclusion in the portfolio. In case, a stock does not clear the above filters, the fund manager must record and present to the Investment committee for approval, the reasons for such inclusion; Note: Mkt cap of companies is as on 27<sup>th</sup> Nov, 2020; Financial Services companies >1000 crs Market Capitalisation are considered

# Using Forensic screens to identify clean firms is highly rewarding



## Methodology

- 11 accounting ratios covering income statement (revenue/ earnings manipulation), balance sheet (correct representation of assets/liabilities), NPA recognition and audit quality checks.
- Six years of historical consolidated financials.
- First rank stocks on each of the 11 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.
- Selection of these ratios has been inspired by Howard M. Schilit's legendary forensic accounting book 'Financial Shenanigans'.

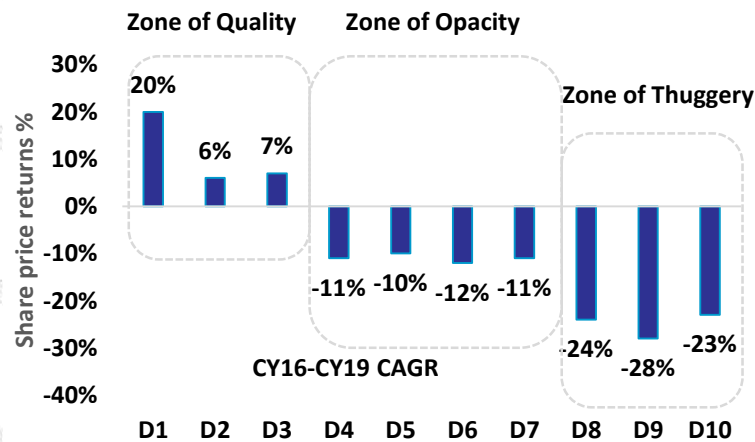
## A few of our forensic ratios

Checks	Ratio
Income Statement	1) Fee income as a % of net int. income 2) Volatility in net interest income yields
Balance Sheet	1) Contingent liability as % of networkth 2) NPA volatility
Auditor	Growth in auditors' remuneration to growth in net interest income

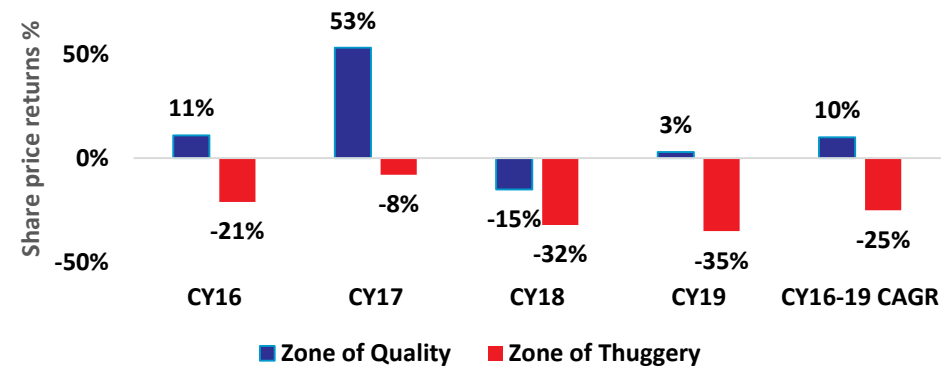
53% for Yes Bank vs. 29% for Kotak

24x for Yes Bank vs. 5x for Kotak

## Strong correlation between accounting quality and shareholders' returns



## Quality wins and wins big over the long term





# Portfolio fundamentals

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# STRONG FUNDAMENTALS OF KCP COMPANIES



Company	FY19-22 CAGR				FY23 CAGR				Share Price as on 30/10/2023	
	Revenue	PPOP	PAT	RoE	Revenue	PPOP	PAT	RoE	1yr Share Price Return	2yr Share Price CAGR
HDFC Bank	16%	17%	21%	17%	16%	10%	19%	17%	-1%	-5%
Bajaj Finance	22%	23%	21%	17%	32%	31%	64%	23%	5%	0%
Kotak Bank	13%	13%	21%	13%	25%	23%	28%	14%	-10%	-11%
ICICI Lombard	12%	1%	7%	19%	15%	23%	36%	18%	16%	-5%
HDFC Life	16%	NA	13%	20%	37%	NA	47%	20%	12%	-6%
Info Edge	12%	11%	13%	20%	38%	69%	58%	39%	4%	-19%
Axis Bank	12%	9%	76%	7%	23%	30%	69%	18%	9%	12%
Cholamandalam Investment	13%	21%	22%	17%	24%	18%	24%	21%	63%	36%
Aavas Financiers	23%	21%	27%	14%	26%	18%	21%	14%	-28%	-28%
ICICI Bank	17%	19%	91%	12%	24%	25%	37%	17%	2%	5%
Home First Finance	30%	51%	60%	11%	30%	26%	23%	13%	29%	15%
Prudent Corporate	27%	39%	56%	32%	36%	52%	46%	40%	76%	NA
<b>Weighted Avg</b>	<b>17%</b>	<b>16%</b>	<b>31%</b>	<b>16%</b>	<b>26%</b>	<b>26%</b>	<b>41%</b>	<b>21%</b>	<b>9%</b>	<b>-2%</b>
<b>Median</b>	<b>16%</b>	<b>19%</b>	<b>22%</b>	<b>17%</b>	<b>25%</b>	<b>25%</b>	<b>36%</b>	<b>18%</b>	<b>7%</b>	<b>-5%</b>

Note (1) 3 yr Simple Average ROEs were used for Bank Nifty and portfolio companies; (2) PPOP is operating profit and revenue is total net income (NII + other income); (3) Standalone data used for all portfolio banks and consolidated data used for Bajaj Finance; (4) For HDFC Life, PAT denotes value of new business (VNB); (5) For insurance companies, revenue denotes Net Written Premium (NWP); Portfolio compositions at at 30<sup>th</sup> October,2023

Source: Marcellus Investment Managers; Bloomberg



# KCP companies continue to report strong business performance in Q1FY24

## KCP Lenders performance in Q1FY24

Name of Co.	YoY loan growth	YoY PAT growth	NNPA	RoA	RoE
HDFC Bank	15.8%	30.0%	0.3%	1.9%	16.7%
Kotak Bank	17.3%	66.7%	0.4%	2.8%	16.2%
Axis Bank	22.4%	40.5%	0.4%	1.7%	18.1%
ICICI Bank	18.1%	39.7%	0.5%	2.4%	18.7%
Bajaj Finance	32.4%	32.3%	0.3%	5.4%	24.5%
Chola Investment	40.1%	39.7%	2.8%	2.4%	19.8%
Aavas Financiers	23.2%	23.0%	0.7%	3.2%	13.2%
Home First Finance	33.3%	34.9%	1.1%	3.9%	15.0%
<b>Median KCP Lenders</b>	<b>23.2%</b>	<b>34.9%</b>	<b>0.5%</b>	<b>2.8%</b>	<b>16.7%</b>

## Non-Lenders performance

HDFC Life*	13.1%	28.2%			15.2%
ICICI Lombard \$	23.3%	11.7%			14.7%
Prudent Corporate**	29.8%	45.4%			32.1%
InfoEdge India	15.1%	39.1%			NA

- Significant market share gains for KCP lenders continue in Q1FY24
- In Q1FY24, YoY loan book growth for KCP lenders accelerated and now is well above pre-covid levels
- Adequate capital and liquidity will enable KCP lenders to gain market share

Source: Company financial reports, NSE, BSE, UL, growth data derived from financial statements, Bajaj Finance, Chola Investment, Home First Finance; \* Loan growth denotes APE growth, PAT growth denotes EVOP growth, RoE denotes operating RoEV, \$ Loan growth denotes NWP growth. \*\*For Prudent, loan growth denotes revenue growth

# KCP's Long term fundamental performance vs. Bank Nifty



Particulars	FY17		FY18		FY19		FY20		FY21		FY22		FY23	
	BNF	KCP	BNF	KCP	BNF	KCP	BNF	KCP	BNF	KCP	BNF	KCP	BNF	KCP
YoY Loan book growth (%)	15.4%	21.3%	20.8%	28.6%	20.1%	27.9%	14.2%	18.0%	10.7%	9.7%	17.3%	21.5%	18.6%	23.2%
GNPA (%)	4.3%	3.4%	5.1%	3.6%	4.2%	3.0%	4.0%	2.9%	3.9%	2.9%	2.9%	2.5%	2.3%	2.2%
RoE – BNF and KCP Lenders (%)	12.8%	14.8%	10.6%	12.9%	9.6%	13.5%	10.5%	13.0%	12.3%	12.8%	13.4%	15.3%	15.2%	17.3%
RoA – BNF and KCP Lenders (%)	1.4%	2.0%	1.2%	1.9%	1.1%	2.0%	1.2%	2.0%	1.4%	2.0%	1.5%	2.5%	1.7%	2.7%
Leverage - BNF and KCP Lenders (x)	9.4	7.6	8.8	7.0	9.1	6.7	8.9	6.5	8.9	6.5	8.8	6.2	8.8	6.3
RoE - KCP portfolio (Lenders + Non Lenders) (%)		16.1%		15.2%		15.7%		15.0%		15.3%		16.7%		20.2%
P/B - BNF and KCP Lenders (x)	3.0	2.5	3.5	2.8	3.5	3.8	2.3	2.6	3.2	4.8	2.9	5.4	2.6	4.7

Source: Company financial reports,

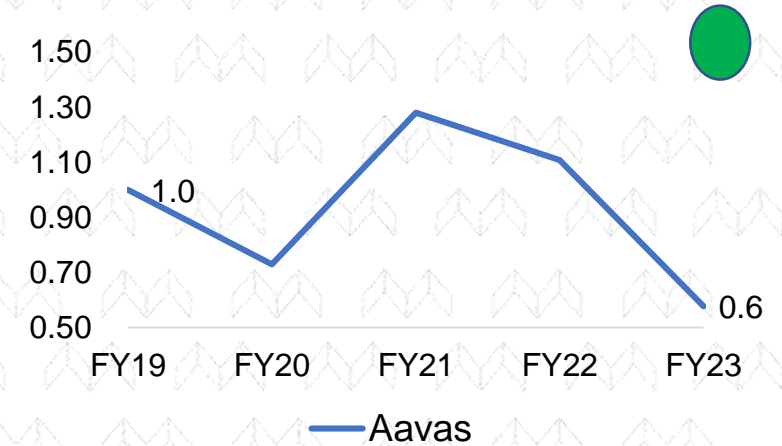
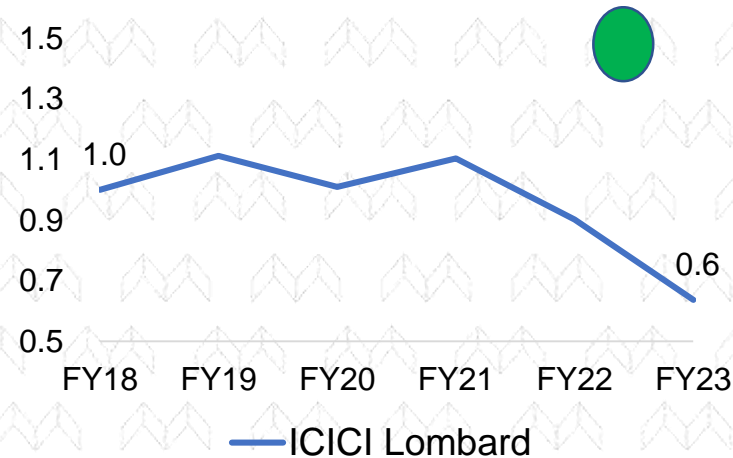
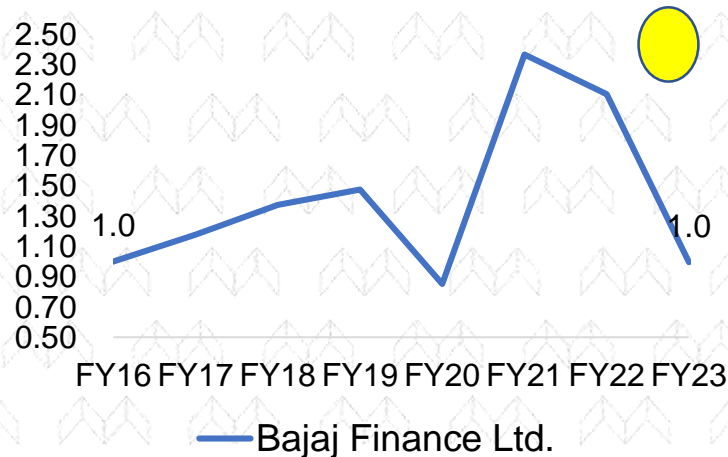
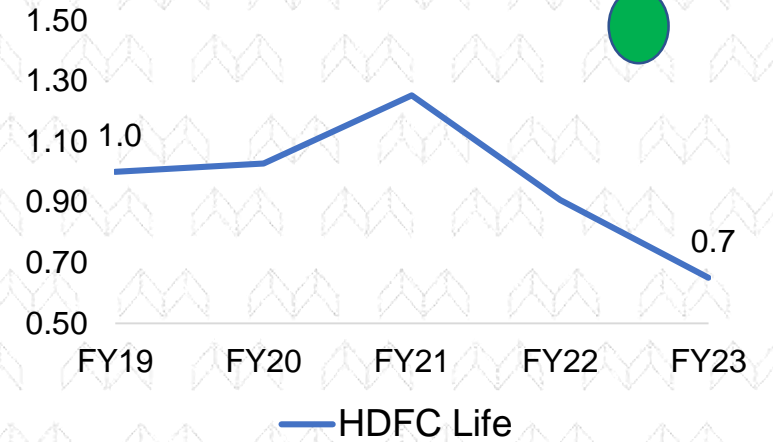
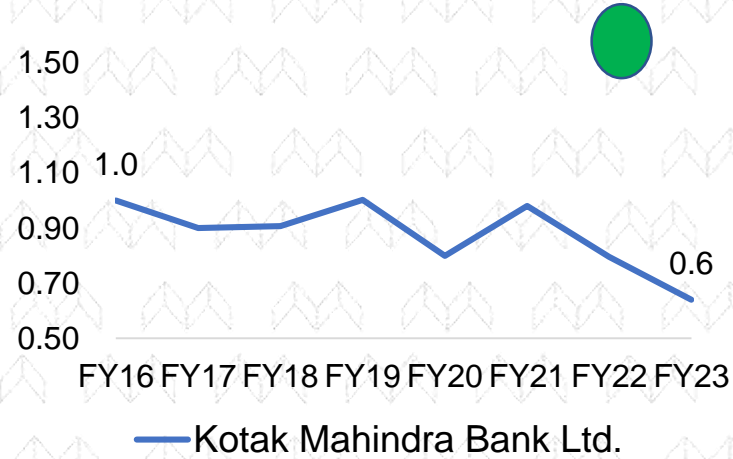
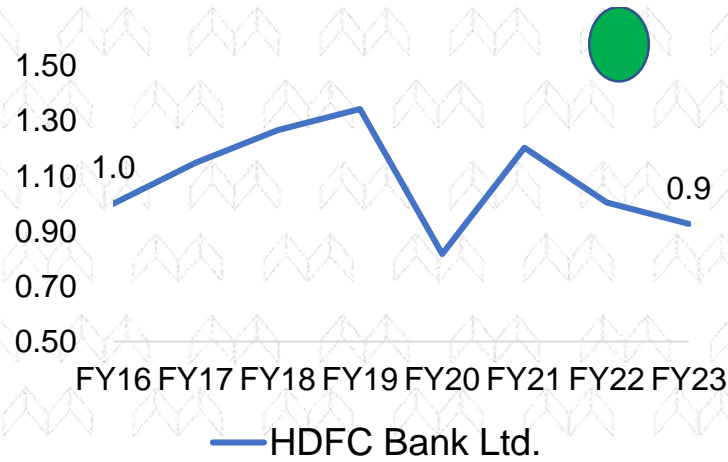
Note: BNF data is calculated basis the BNF weights as per NSE



# Portfolio valuations

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# KCP stock valuations are now at multi-year lows



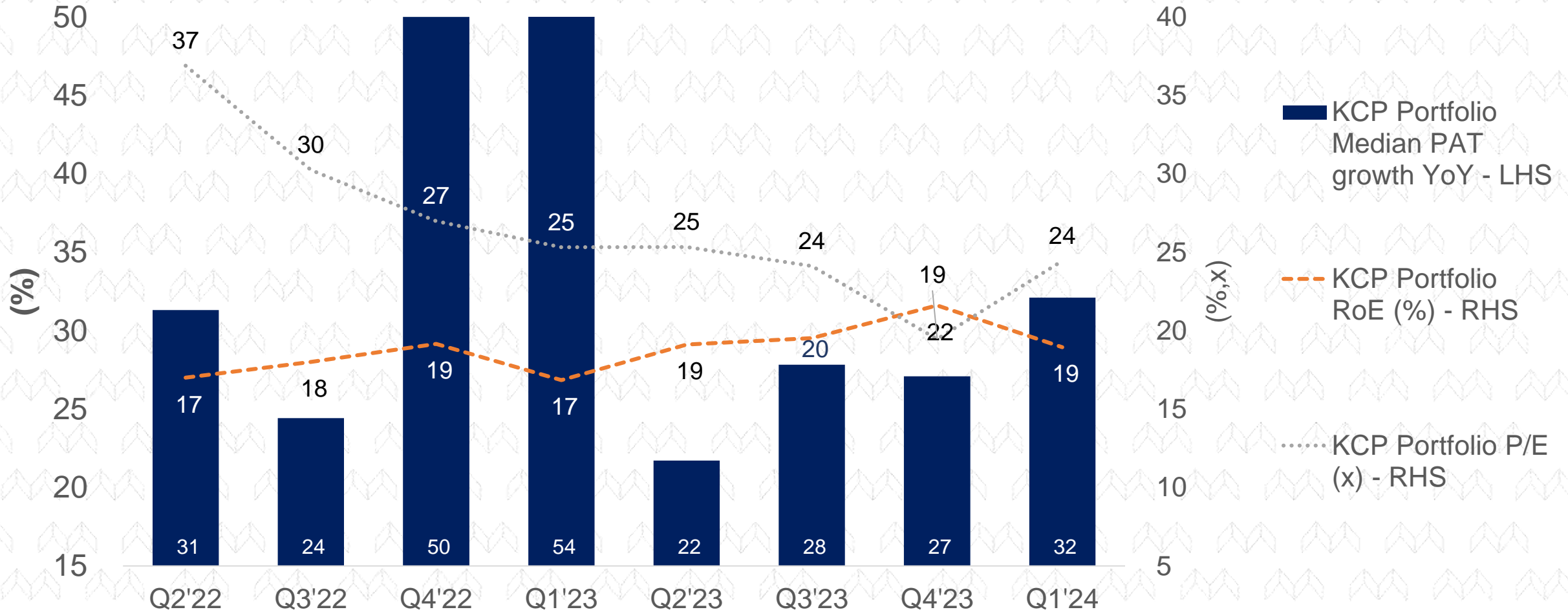
Source: Ace Equity, Bloomberg, Marcellus Investment Managers. Note: P/E rebased to 1 for all stocks; Above companies consists majority (63%) of Portfolio



# KCP is now at 24x trailing P/E for 19% RoE and 20%+ PAT compounding



## Rising RoE, consistent growth and falling P/E multiples for KCP portfolio



Source: Ace Equity, Bloomberg, Marcellus Investment Managers. PAT/RoE/P/E is weighted average basis the weights in portfolio. P/E is calculated basis normalized earnings for the same quarter.

# CASE study: Bajaj Finance (big data is barrier to entry)



**“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

- 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

## Key Performance Matrices: Bajaj Finance (FY 2008 -23)

Indicators	FY08	FY23	CAGR
AUM (Rs. Cr)	2,478	2,47,379	36%
PBT (Rs. Cr)	30	15,528	52%
RoA	0.9%	4.7%	
RoE	3.2%	23.5%	
NNPA	7.05%	0.3%	

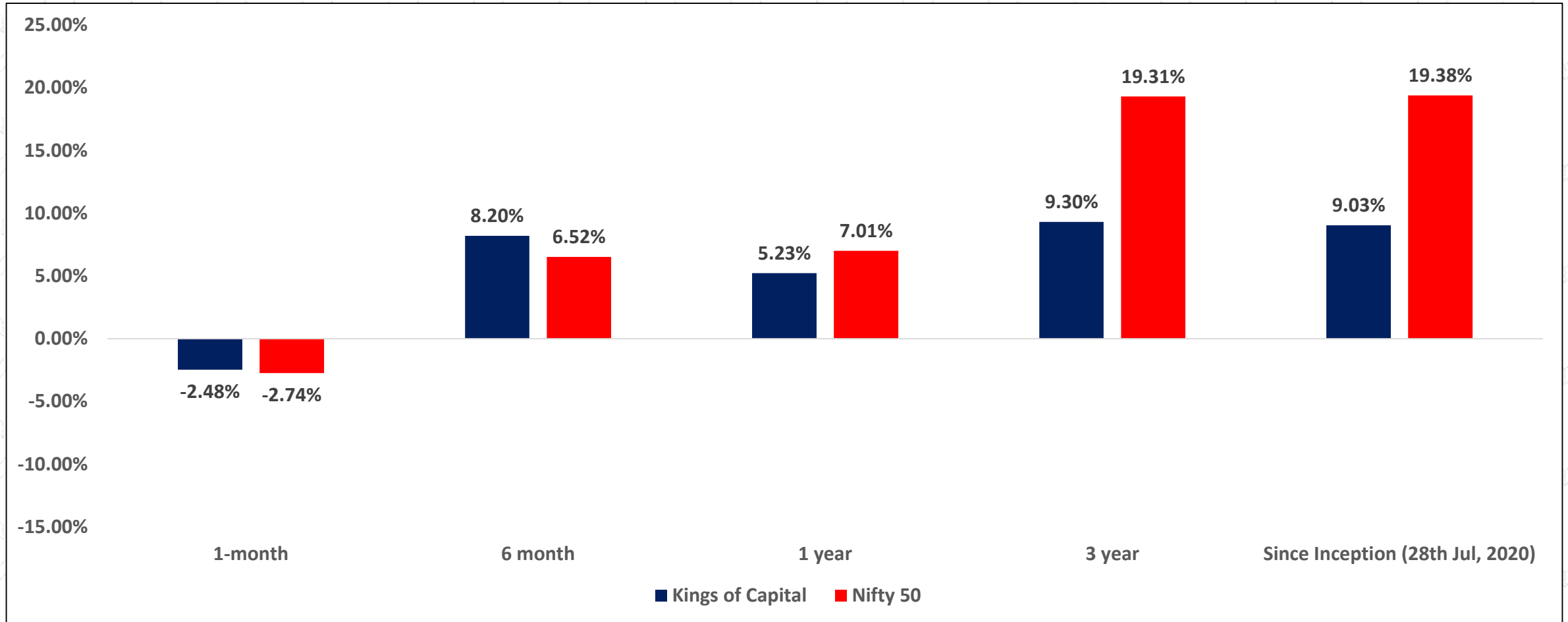
13 Year Financial snapshot



Source: Company financial reports & analyst reports

Above data is purely for information purposes and does not construe to be an offer or solicitation of an offer to buy/sell any securities nor is to be construed as research.

# LIVE PORTFOLIO PERFORMANCE (AS ON 31<sup>ST</sup> OCTOBER 2023)



Performance data is net of annual performance fees charged for client accounts whose account anniversary date falls upto the last date of this performance period. Since fixed fees and expenses are charged on a quarterly basis, effect of the same has been incorporated upto 30<sup>th</sup> September 2023.

\*For relative performance of particular Investment Approach to other Portfolio Managers within the selected strategy, please refer. Under PMS Provider Name please select Marcellus Investment Managers Private Limited and select your Investment Approach Name for <https://www.apmiindia.org/apmi/WSIAConsolidateReport.htm?action=showReportMenuviewing> the stated disclosure

# Fund structure



Marcellus offers the Kings of Capital Portfolio in a PMS construct with zero entry/ exit load and with no lock-in.

Clients who are onboarded through intermediaries/distributors can choose from one of the following two fee structures:

- Option 1 (fixed fee model): 2.5% p.a. fixed fees and zero performance fees
- Option 2 (hybrid model): 1.5% p.a. fixed fees and performance fees of 15% profit share over a hurdle of 10% without catchup

*High watermark applies for performance fees. Minimum investment: INR 50 lakhs*

*\*\*\*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. For more details please read our FAQs <https://marcellus.helpscoutdocs.com/article/100-systematic-investment-plan-sip-faqs>*

*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.helpscoutdocs.com/article/96-stp>*

# KCP FACTSHEET (1/2)



## Fund Details

Strategy Name	Kings Of Capital
Fund Manager	Tej Shah
AUM In INR Crs (31 <sup>st</sup> Oct 2023)	482.44
Category	Large-Cap
Benchmark	Nifty 50 Total Return Index

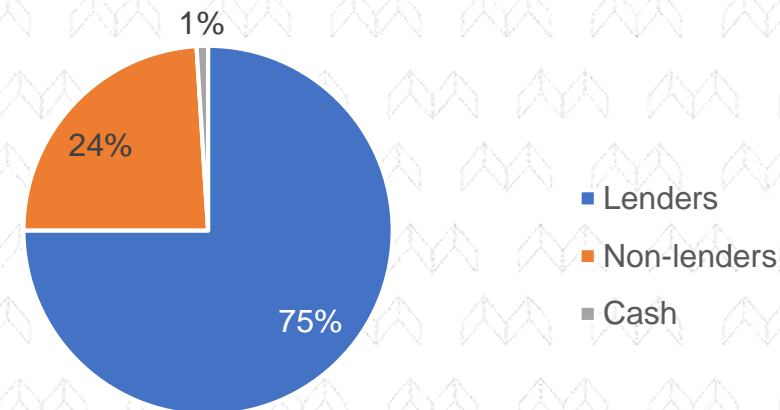
## Top 4 Holdings (accounts for ~50% of allocation)

Bajaj Finance	Lender
HDFC Bank	Lender
Kotak Bank	Lender
ICICI Bank	Lender

## Market-Cap Wise Allocation

Large-Cap	85.0%
Mid-Cap	0.0%
Small-Cap	14.0%
Cash	1.0%

## Sector Wise Allocation



## Portfolio Metrics

Wtd Avg Market Cap (INR Cr.)	398,640
Portfolio P/E (FY23)	29
Churn Ratio (TTM)*	29.55%
Std Dev (Inception – Oct 23)	17.5%
Sharpe Ratio (Inception – Oct 23)	-0.113

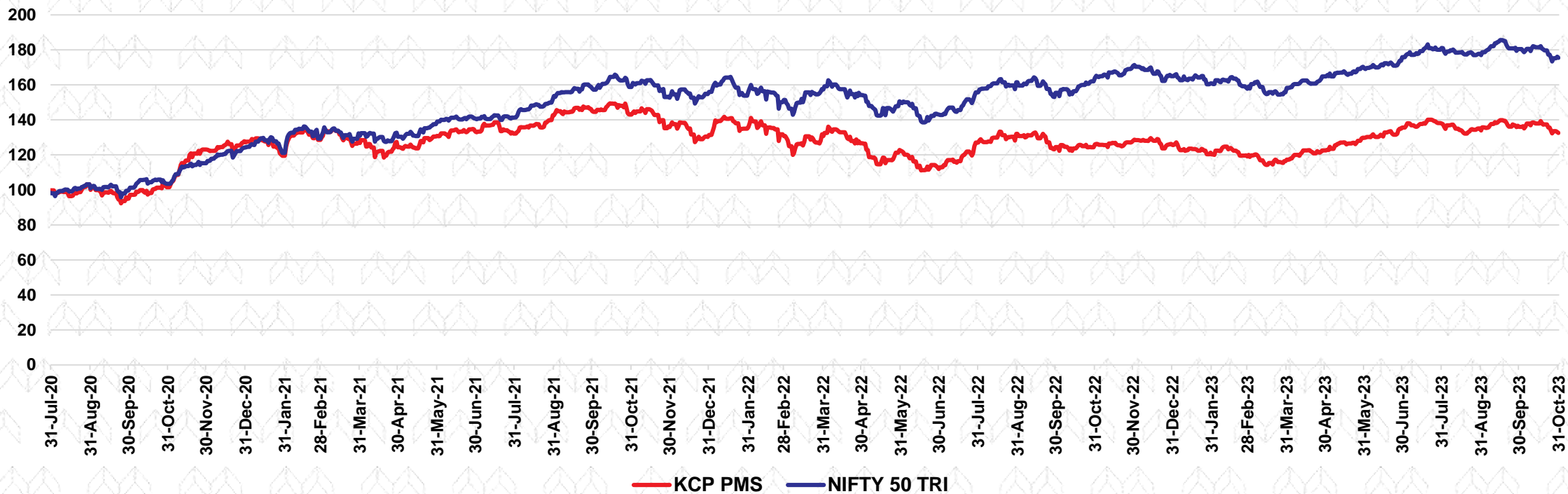
Source: Marcellus Investment Managers

Large cap defined as M.cap > US\$ 10 bn; Mid-cap as US\$ 1 – US\$10 bn and small cap less than US\$ 1 bn.

# KCP FACTSHEET (2/2)



## NAV Comparison



\* Based on NAV's rebased to 100

Performance data is net of annual performance fees charged for client accounts whose account anniversary date falls upto the last date of this performance period. Since fixed fees and expenses are charged on a quarterly basis, effect of the same has been incorporated upto 30<sup>th</sup> Sep 2023.

Private and confidential

Source: Marcellus Investment Managers

# Disclosures



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