

LITTLE CHAMPS

An investment strategy for Indian small-caps from Marcellus Investment Managers

Disclaimer: The mentioned stock forms the part of Marcellus portfolio thus Marcellus clients, Marcellus employees and their immediate relatives may have interest in these stocks. The described stocks are for illustration & education purpose only and not recommendatory

Private and confidential

Note: Circulation not intended for US clients

 **MARCELLUS**

Marcellus Investment Managers Pvt. Ltd.

Marcellus Investment Managers



- Who we are and what we do?
- Investment Team
- Investing in India's Transformation
- Five Mega Themes making their way into our portfolio
- Investment Philosophy and proprietary research process
- Bottom-up research process and case studies
- Key Metrics of the LCP Portfolio
- Fund Performance
- Fee Structure
- Factsheet
- Disclaimer

Introduction – who we are and what we do?



Team: Long-term working relationship

- Employee-owned boutique and Indian & Global 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)

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 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

Key Investment members have worked together for >12 years now



Saurabh Mukherjea, CFA, FRSA

- Educated at the London School of Economics.
- Co-founder of Clear Capital.
- Former CEO of Ambit Capital.
- Founding director of Association of Portfolio Managers in India



Ashvin Shetty, CFA

- Small & midcap portfolio manager in Marcellus for the past four years
- Led Auto sector in Ambit from 2010-17
- Worked for KPMG's and Deloitte's statutory audit departments from 2004-07. He is a qualified Chartered Accountant (ICAI India).

Five Mega Themes making their way into our portfolio



W . E . S . C . O



Women

Urban Indian Women Have More Money in the Bank Than Men



Education

For the first time, people from non-IIT, non-IIM, non-foreign degrees run the majority of Nifty50 companies



South

Seven Southern states have per capita incomes 50% higher than the rest of the country



China+1

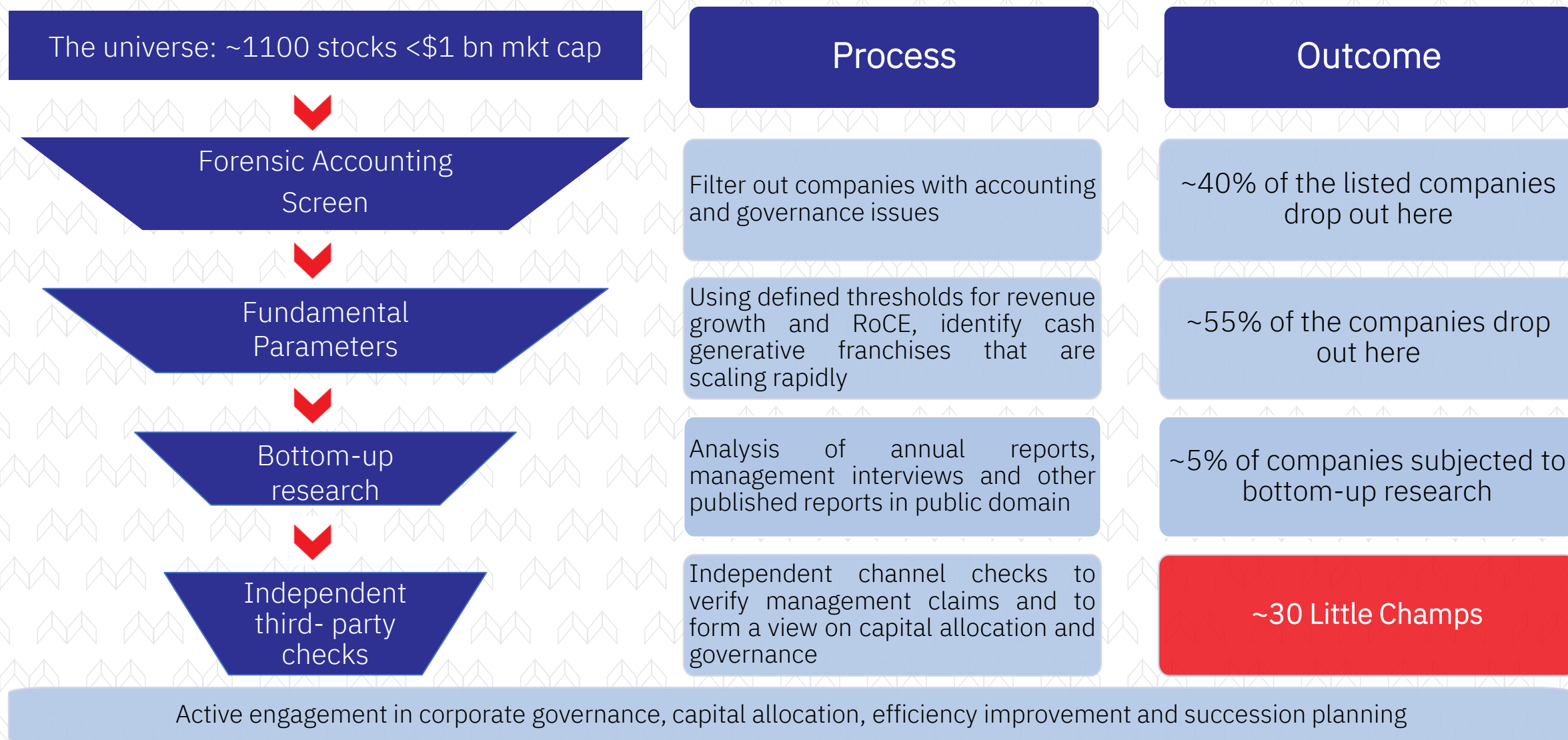
China's Unravelling and Creation of a US\$ 300 Billion per annum opportunity for India



Octopus

Emergence of ~200K octopi families whose wealth has surged more than 16x in the last 20 years

Marcellus' portfolio construction process



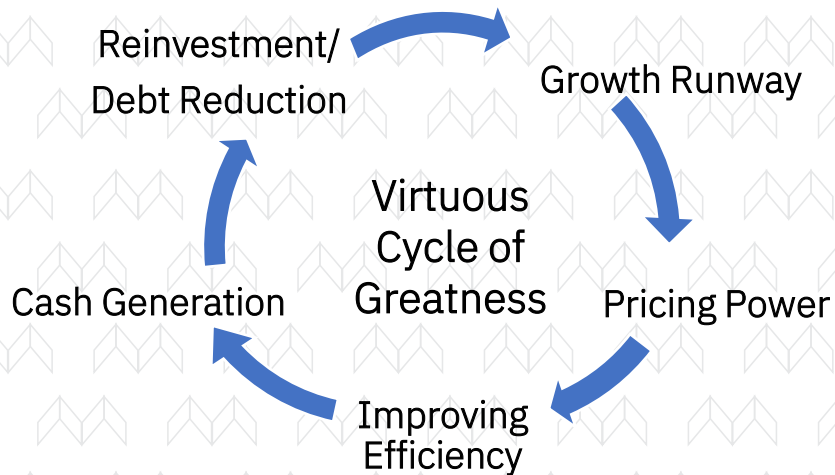
Note: The fund manager maintains discretion on stock inclusion in the universe. In case, a stock does not clear the above filters, the fund manager must record and present to the Investment committee for approval with the reasons for such inclusion

LITTLE CHAMPS: A Portfolio of Niche companies with strong moats & sustainable growth



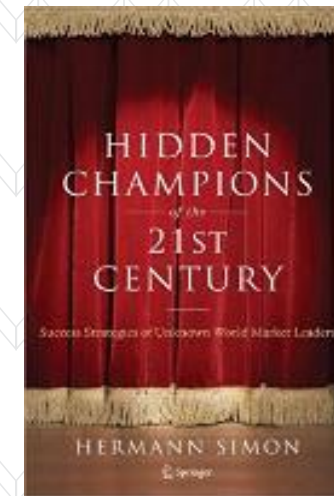
Little Champs

- Identity small-cap companies (market cap <US\$1billion) with good corporate governance and capital allocation track record and strong sustainable competitive advantages built around brands, business processes and strategic assets.
- Characteristics of a typical portfolio company:
 - Sector leading franchise with stellar track record of capital allocation;
 - Clean accounts and corporate governance; and
 - High growth potential.



Look for Hermann Simon's celebrated 'Hidden Champions'

- SMEs, often family owned, producing inconspicuous products but ranked top globally for that product.
- Normally work in niche markets for which they design unique products often using proprietary process.
- Operate extremely close to their customers who depend on their products and cannot easily change their source.
- Competitive advantages of such firms are rarely because of cost leadership but more because of quality, total cost of ownership, high performance, and closeness to the customer.

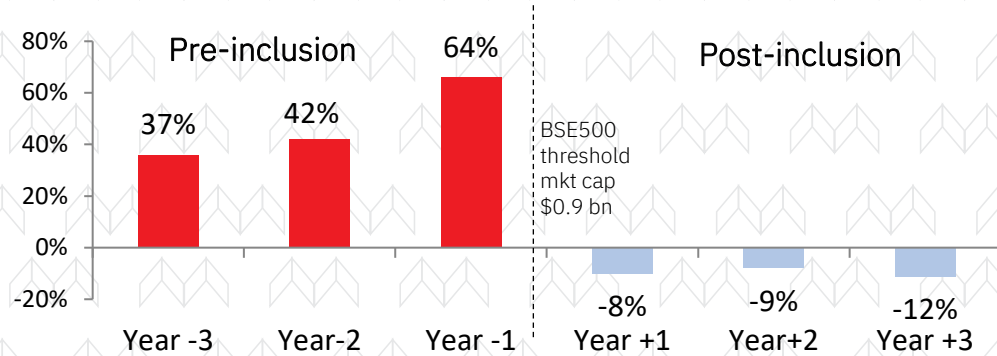


Source: *Hidden Champions of the 21st Century*, Hermann Simon; Disclaimer: Copyrights of above book is exclusively reserved with Author/Publisher of the above book.

'Little Champs' – A small caps portfolio with focus on discovering potential BSE500 entrants



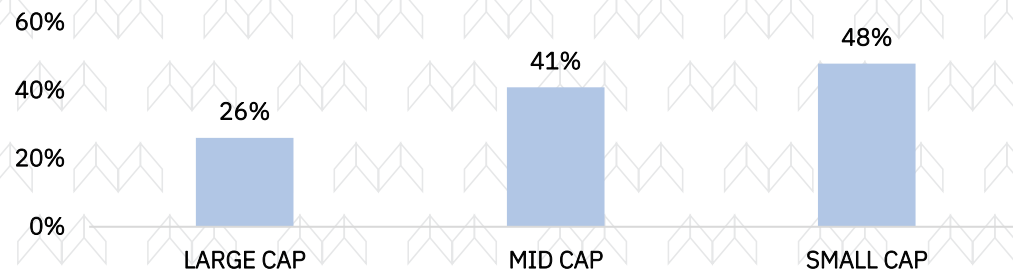
Huge relative and absolute performance before Small Caps (mkt cap < Rs30bn) enter the BSE500 (FY03-23 data)



Source: Ace Equity. Relative returns (to BSE 500) are medians CAGR of stocks that have been included in the BSE 500. For prior returns, returns are measured until 1 quarter preceding the quarter of entry. The above returns calculation is for the entries from June 2003 to Dec 2023.

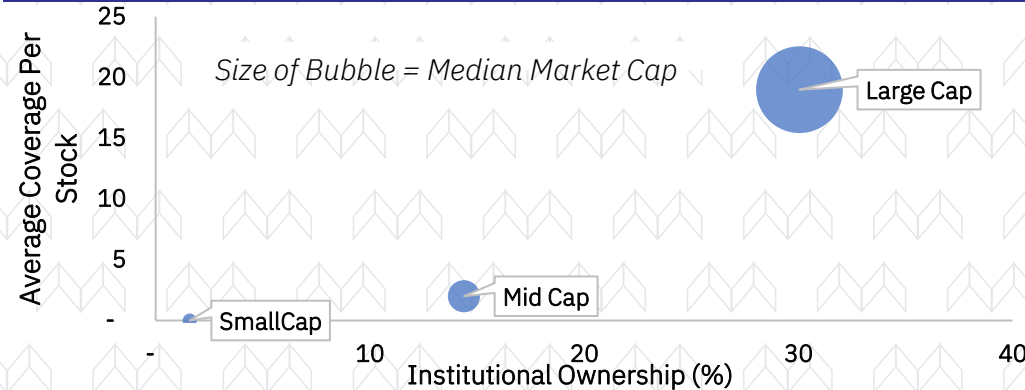
Quality Small Caps deliver stronger earnings compounding than their larger counterparts....

Highest Quartile Earnings CAGR (FY18-23)



Source: Ace Equity Note: (1) We classify companies with market cap of >Rs150bn as Large Cap, between Rs30bn to 150bn as Mid Cap, and below Rs30bn as Small Cap (2) Returns calculated for four baskets (Large, Mid, and Small cap) with equal allocation to each stock within those baskets.

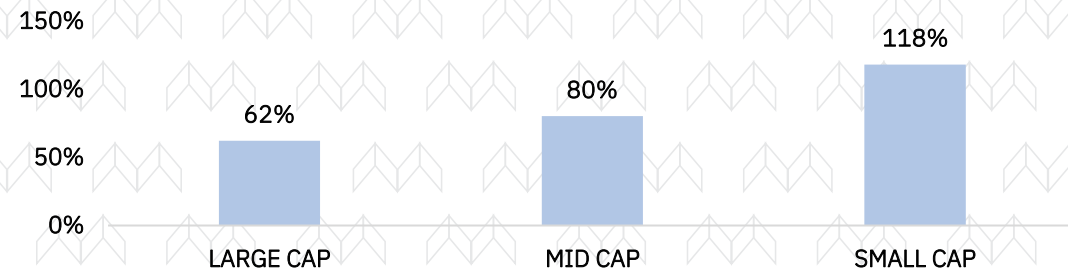
Small Caps are under-researched and under-owned.



Source: Ace Equity Note: (1) We classify companies with market cap of >Rs250bn as Large Cap, between Rs75bn to 250bn as Mid Cap and below Rs30bn as Small Cap (2) Market cap and Analyst coverage as of Dec 2023-end; Institutional ownership as of September 2023-end

Quality Small Caps massively outperform vs comparable larger companies

Highest Quartile Return (July 2018-23)



Source: Ace Equity Note: (1) We classify companies with market cap of >Rs150bn as Large Cap, between Rs30bn to 150bn as Mid Cap, and below Rs30bn as Small Cap (2) Returns calculated for four baskets (Large, Mid, and Small cap) with equal allocation to each stock within those baskets. Stocks rebalanced annually at July-end based on market cap criteria; (3) No dividends, transactions costs and other charges considered in the above returns calculations.

Step1: Proprietary forensic accounting algo to avoid naughty companies



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.

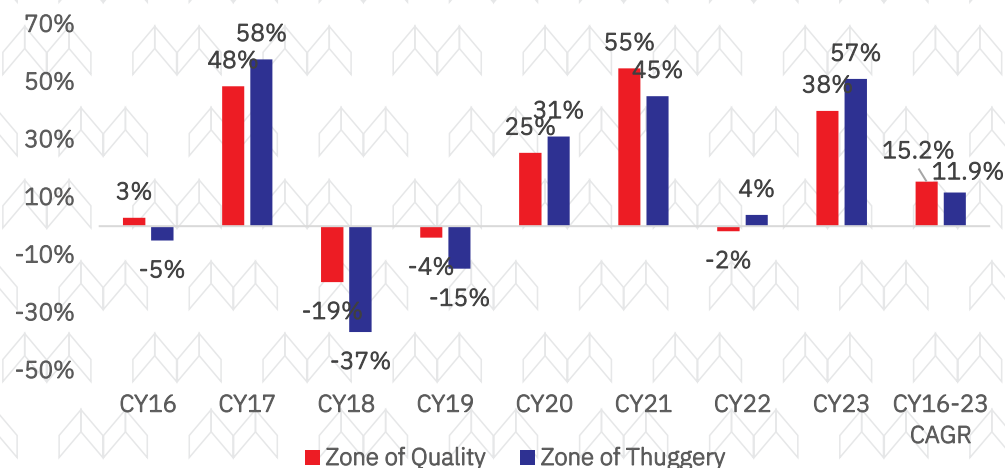
First rank stocks on each of the 12 ratios individually (some examples outlined in the table on the right). These ranks then cumulated across parameters to give a final pecking order on accounting quality for stocks.

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

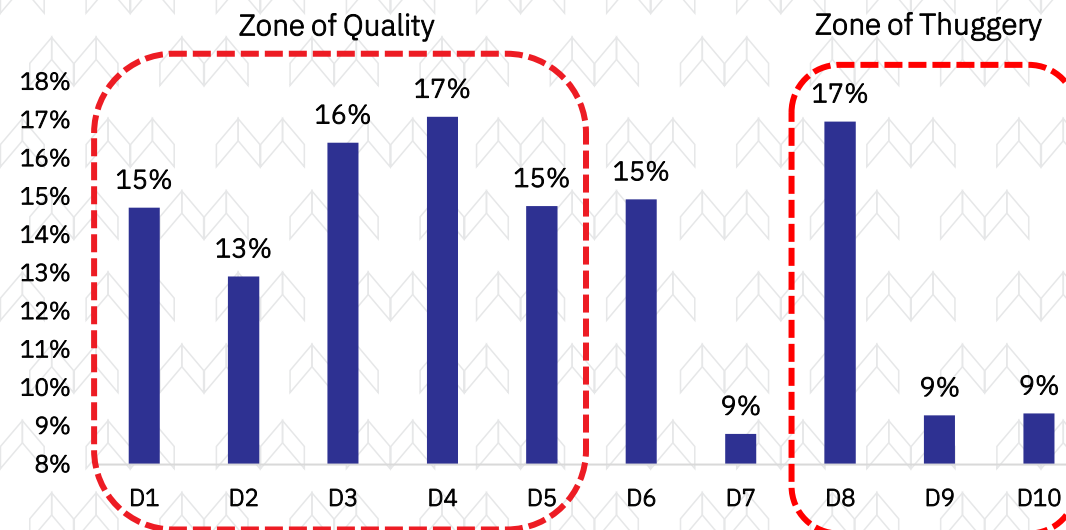
The forensic analysis toolkit

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

Quality wins big in the long-term

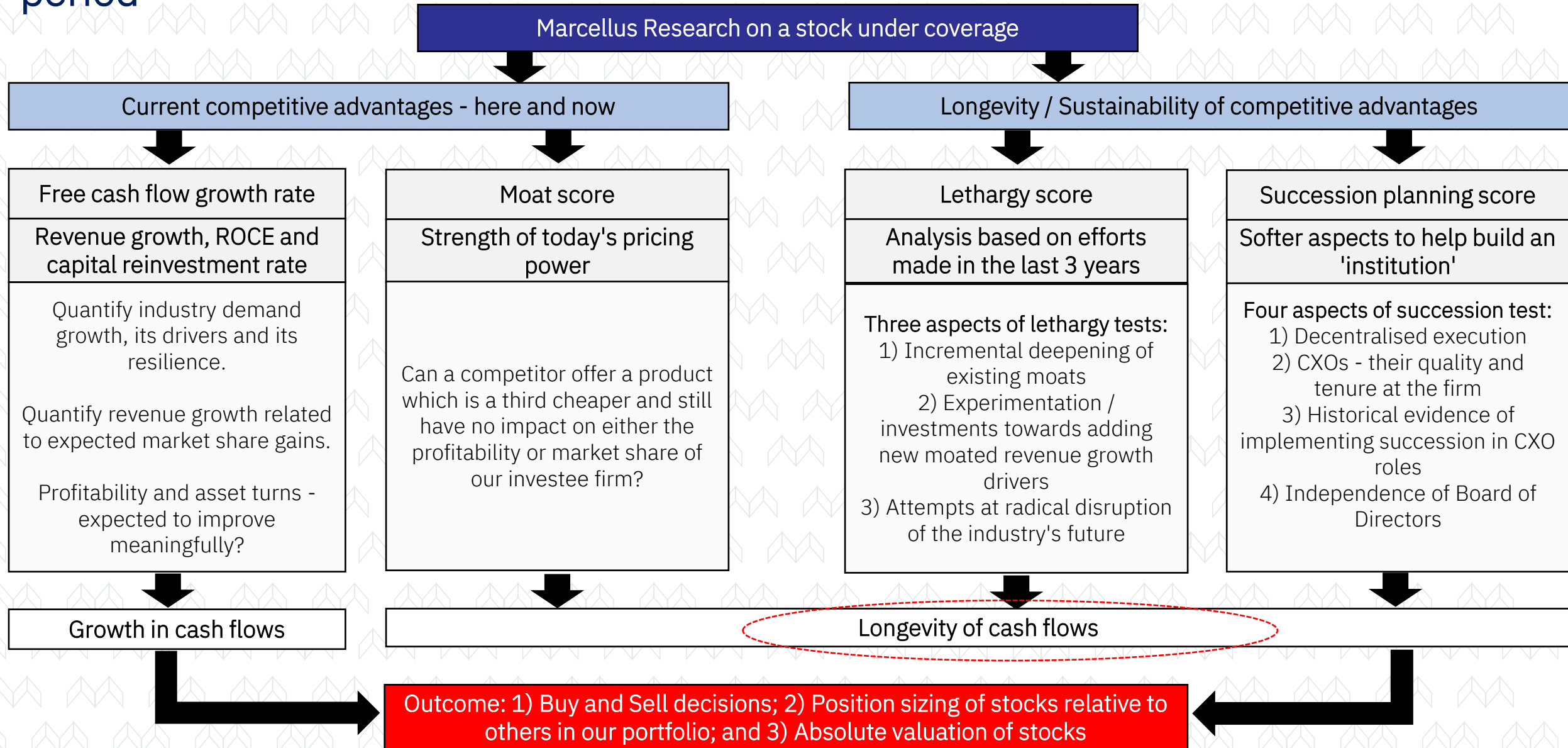


Accounting quality directly impacts investment returns



Source: Marcellus Investment Managers, Ace Equity; Decile portfolio is not model portfolio. The charts depict returns of quality stocks when we apply the forensic filter to the larger universe of BSE 500.

Step2: Longevity analysis helps quantify the length of the 'comp advantage' period



Key metrics of the Little Champs Portfolio



Stock No	FY19-24 CAGR			Q4 FY25 YoY	
	Revenue	EPS	ROCE	Revenue	EPS
Stock 1	17%	14%	23%	10%	50%
Stock 2	11%	12%	34%	8%	20%
Stock 3	25%	16%	26%	37%	11%
Stock 4	22%	27%	20%	7%	19%
Stock 5	6%	8%	12%	18%	13%
Stock 6	15%	20%	50%	16%	5%
Stock 7	15%	27%	24%	-1%	6%
Stock 8	16%	17%	20%	21%	435%
Stock 9	12%	16%	22%	2%	-12%
Stock 10	36%	92%	39%	12%	8%
Stock 11	5%	12%	24%	13%	5%
Stock 12	10%	8%	14%	0%	23%
Stock 13	11%	10%	15%	34%	9%
Stock 14	13%	20%	22%	16%	43%
Stock 15	19%	24%	29%	6%	63%
Stock 16	22%	43%	20%	15%	-14%
Stock 17	17%	21%	21%	0%	-13%
Stock 18	70%	NA	-19%	13%	108%
Stock 19	11%	1%	27%	33%	-48%
Stock 20	13%	0%	15%	44%	57%
Stock 21	12%	68%	19%	15%	8%
Stock 22	9%	17%	20%	17%	11%
Stock 23	13%	19%	29%	7%	18%
Stock 24	15%	6%	23%	28%	32%
Stock 25	7%	3%	26%	23%	-2%
Stock 26	9%	6%	23%	1%	16%
Stock 27	19%	19%	29%	6%	14%
Stock 28	15%	34%	16%	7%	8%
Stock 29	14%	11%	37%	18%	-9%
Stock 30	10%	23%	41%	12%	28%
Median	13%	17%	23%	13%	12%
Weighted Avg	17%	20%	22%	15%	37%

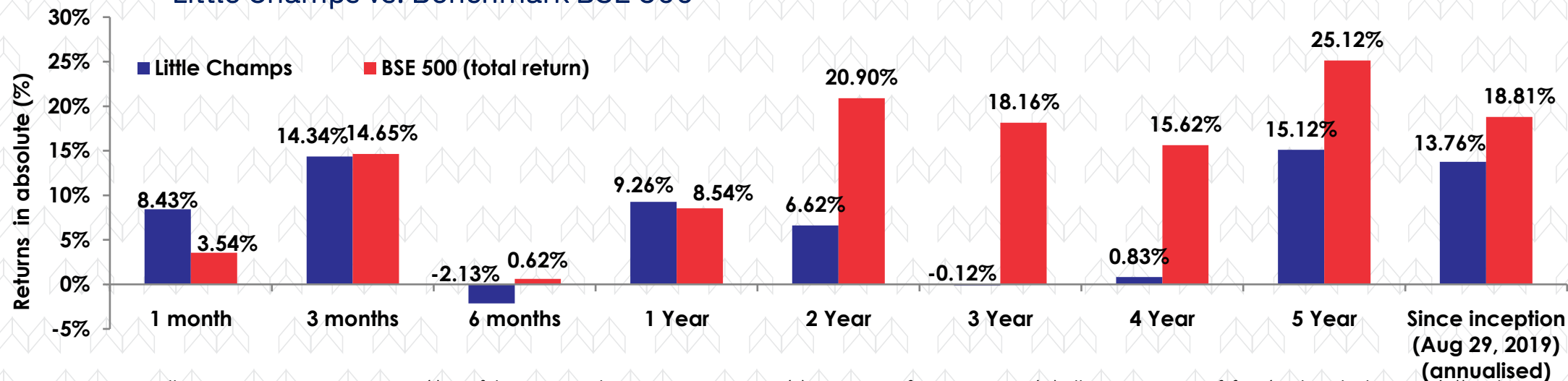
Source: Ace Equity Note: The above portfolio is as on 31st May-25; *RoE instead of RoCE for financial companies.

Private and confidential

LIVE PORTFOLIO PERFORMANCE AND COMPARISON WITH BENCHMARK



Little Champs vs. Benchmark BSE 500*



Source: Marcellus Investment Managers. Note: (i) Portfolio inception date is August 29, 2019. (ii) Returns as of May 31, 2025. (iii) All returns are net of fees (as described in point (iv)) and expenses. (iv) Fixed Fees are charged on a quarterly basis and have been charged till 31st Mar 2025.

Performances fees are charged on cumulative gains at the third anniversary of the respective client account, thus the effect of the same has been incorporated for client accounts whose third account anniversary falls up to the last date of this performance period. Performance data is not verified either by Securities and Exchange Board of India or U.S. Securities and Exchange Commission. (v) Returns shown above are net of transaction costs and includes dividend income. (vi) Total returns index considered for BSE 500 above.

*For relative performance of particular Investment Approach to other Portfolio Managers within the selected strategy, please refer the following link

<https://www.apmiindia.org/apmi/welcomeiaperformance.htm?action=PMSmenu>. Under PMS Provider Name please select Marcellus Investment Managers Private Limited & select your Investment Approach Name for viewing the stated disclosure.

Little Champs' returns and drawdowns vs BSE 500

Performance (Since Inception)	Return since inception (Annualized)	Maximum Drawdown
Little Champs	13.76%	-36.70%
Performance of Benchmark		
BSE 500	18.81%	-38.11%

Source: Ace Equity Note: Maximum drawdown based on daily returns from Aug 29, 2019 to May 31, 2025

Fee Structure



Marcellus offers the Little Champs Strategy in a PMS construct

- **Fixed fees:** 1.5% per annum (charged quarterly) + **Performance fees:** 20% profit share above a 10% hurdle. Performance fees will be charged on cumulative gains at the third anniversary*. Performance fees will be charged without catch-up i.e. the first 10% return per annum (net of fixed fees) will be not be subject to performance fees. High water mark applies for performance fees.

*If redeemed prior to the completion of three years, performance fees will be charged as on redemption date.

Exit Load: 3%, 2% and 1% if redeemed in the first, second and third year respectively.

Minimum investment: INR 50 lacs

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

LCP Factsheet



Fund Details

Strategy Name	Little Champs
Fund Manager	Ashvin Shetty, CFA
AUM In INR Crs.	264.47
Category	Mid-cap
Benchmark	BSE500 Total Return Index

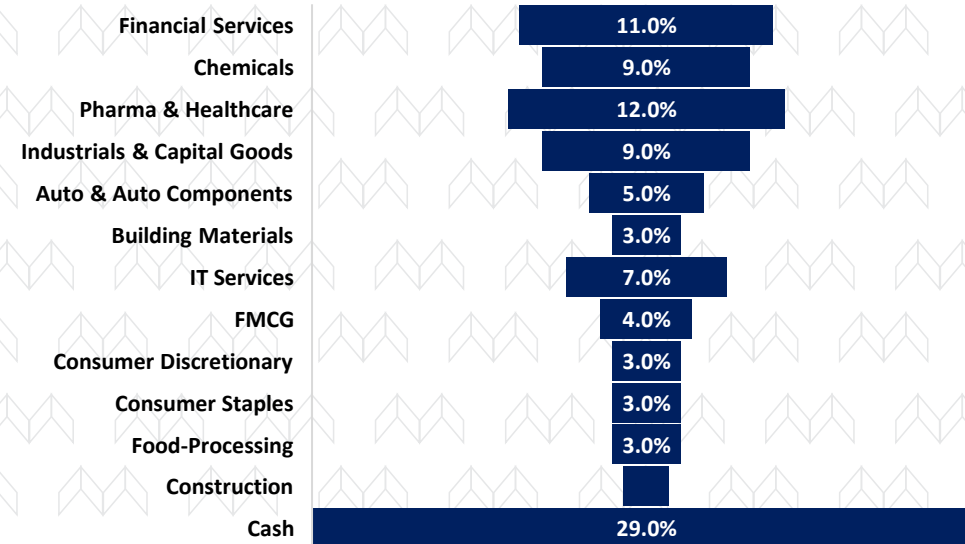
Top 5 Holdings (accounts for ~16% of allocation)

Dodla Dairy Ltd	FMCG
Control Print Ltd.	Industrials & Capital Goods
Escorts Kubota Ltd.	Auto & Auto Components
City Union Bank Ltd.	Financial Services
CMS Infosystems Ltd	Financial Services

Market-Cap Wise Allocation

Small-Cap	61.0%
Mid-Cap	10.0%
Cash	29.0%

Sector Wise Allocation



Portfolio Metrics

Wtd Avg Market Cap (INR Cr.)	15,530
Portfolio P/E	39
Dividend Yield	0.6%
Churn Ratio (TTM)	120.6%
Standard Deviation (12 month rolling)	29.3%
Sharpe Ratio (12 month rolling)	0.37

Disclosures



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