

Marcellus MeritorQ

June, 2025

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

This circulation is NOT intended for US Clients

Some timeless principles for successful investing



Buy Good Companies

- *High return on capital*
- *Solid financial condition*
- *Clean accounts*

At prices below intrinsic value

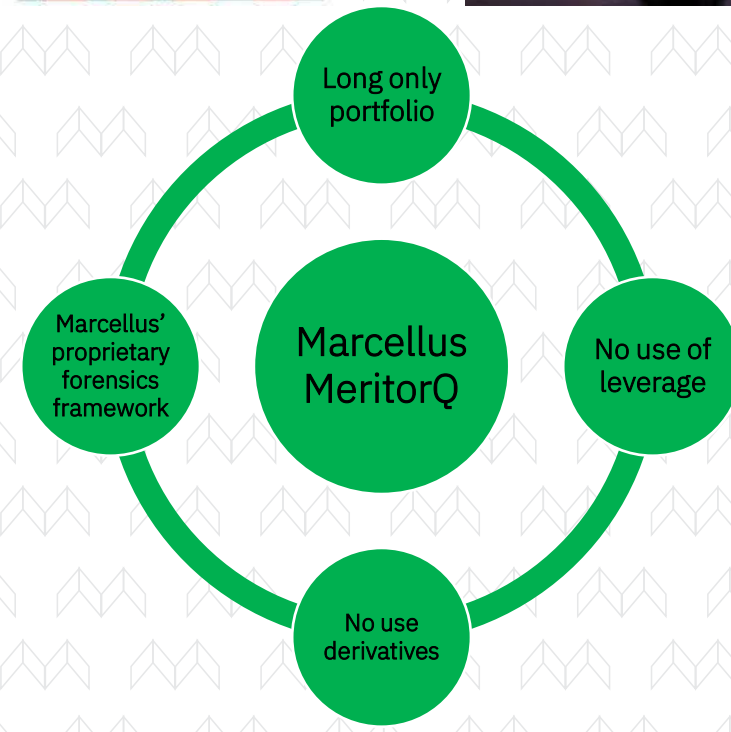
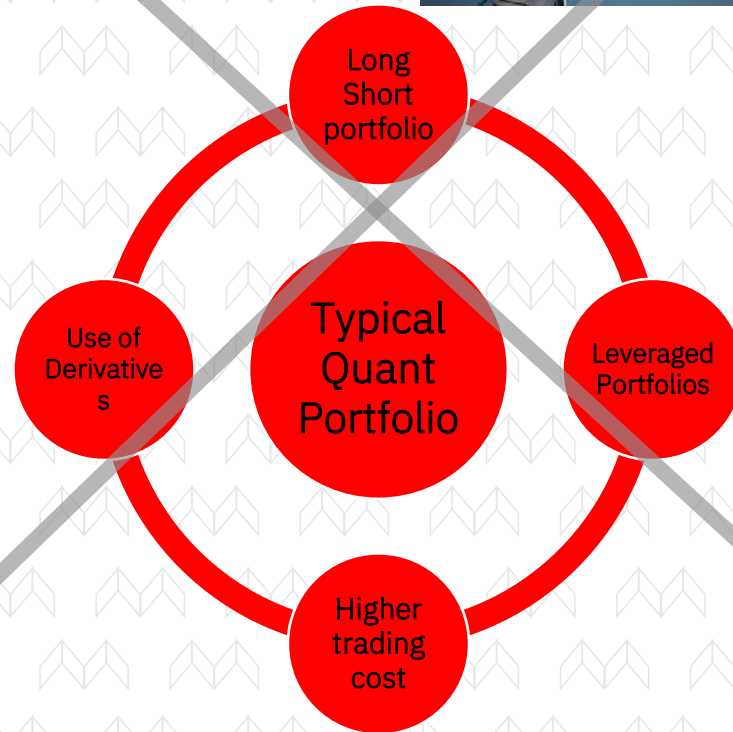
- *Discount to intrinsic value compared to rest of the market*
- *Intrinsic value based on free cash flow*

Mitigate human biases

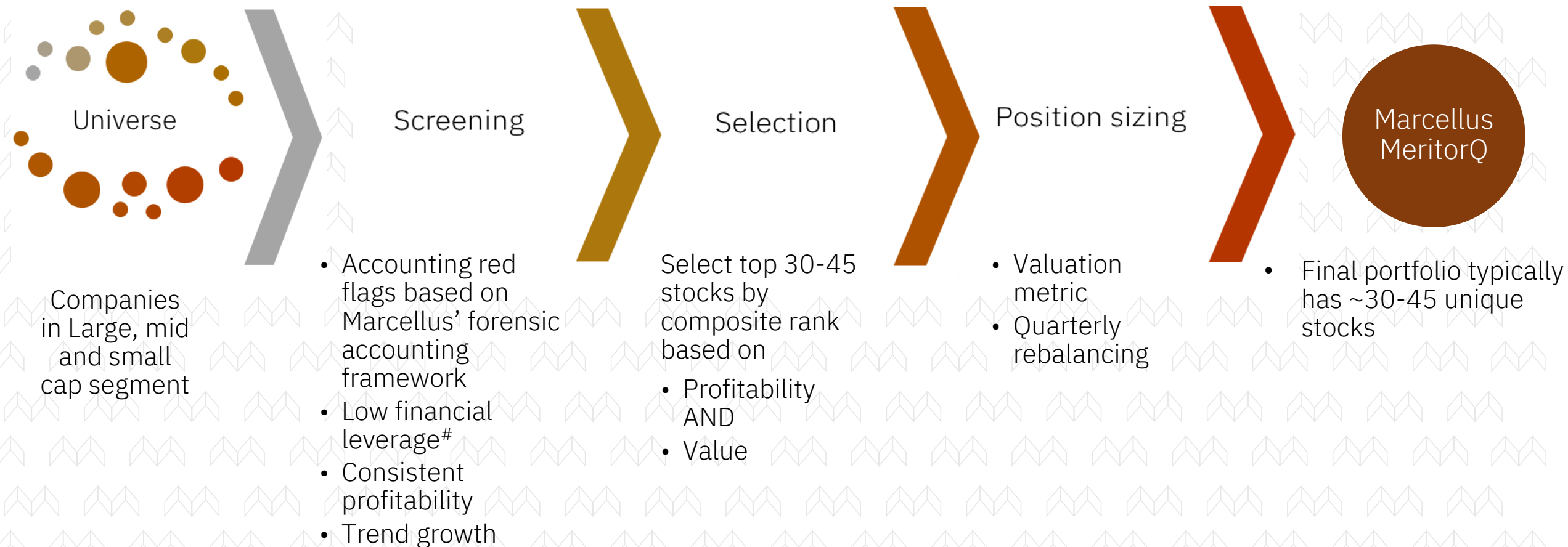
- *Avoid behavioural biases*
- *Process over discretion**

**Except where Marcellus has concerns over governance issues in selected stocks.*

MeritorQ sticks to good investing principles



Our investment process combines Marcellus' forensic framework with a rules-based approach



Source: Marcellus Investment Managers.

[#]For debt-equity screening - Financials (Lenders & Non-lenders are considered separately)

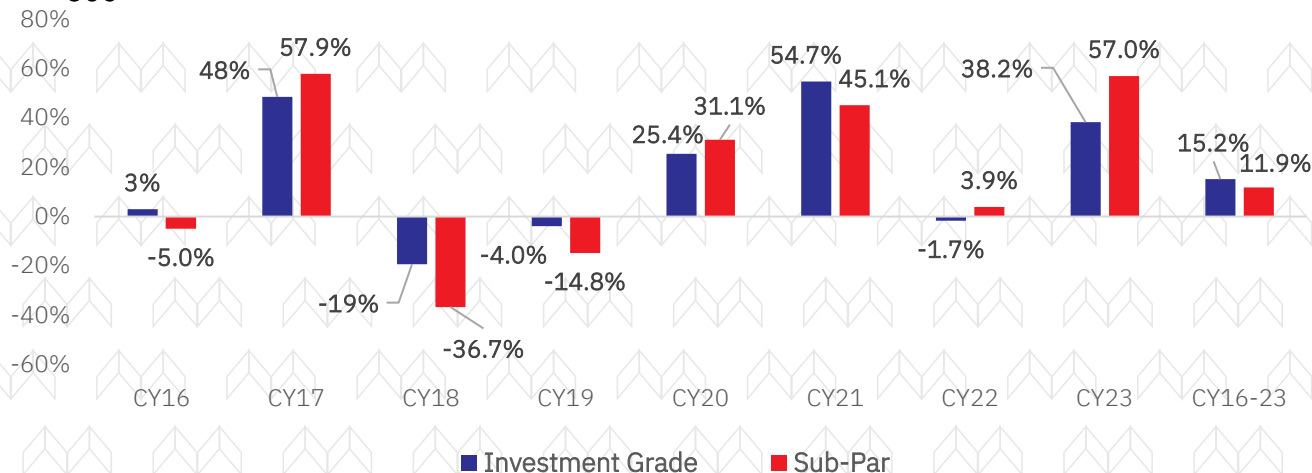
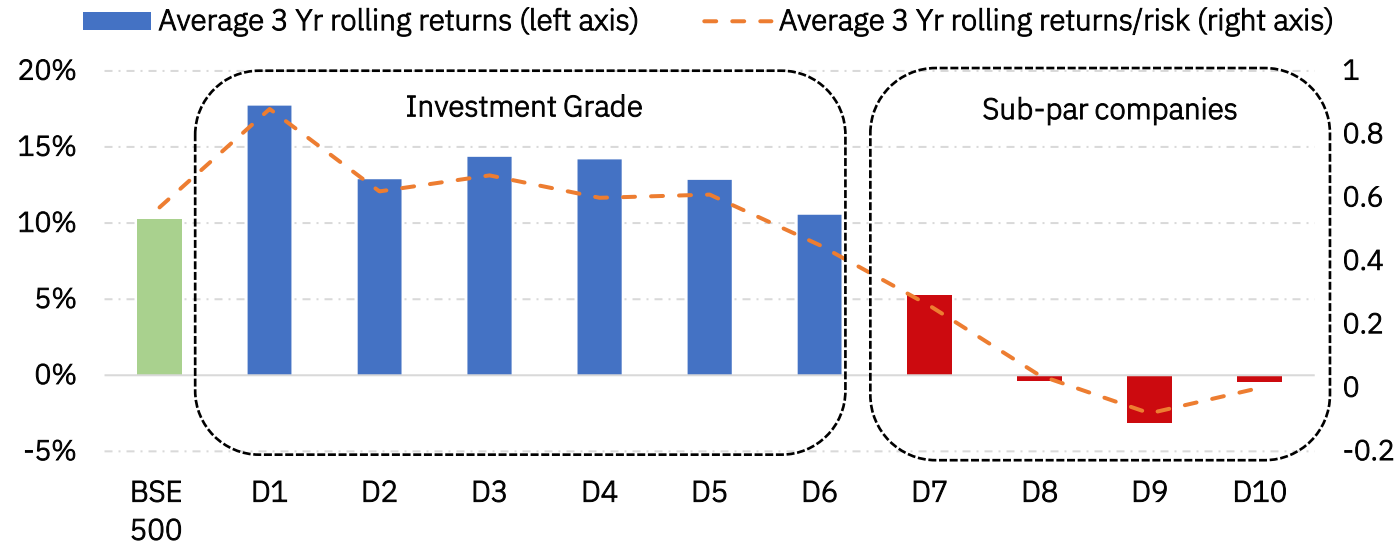


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Forensic screen is the first screening step followed by profit consistency



Accounting quality directly impacts investment returns



Some sample ratios considered for non-financial companies

Income statement checks

- CFO as % of EBITDA: To check aggressive revenue and earning recognition

Balance sheet checks

- Contingent liabilities as a % of net worth (for the latest available year): Indicative of the extent of off-balance sheet risks

Cash theft checks

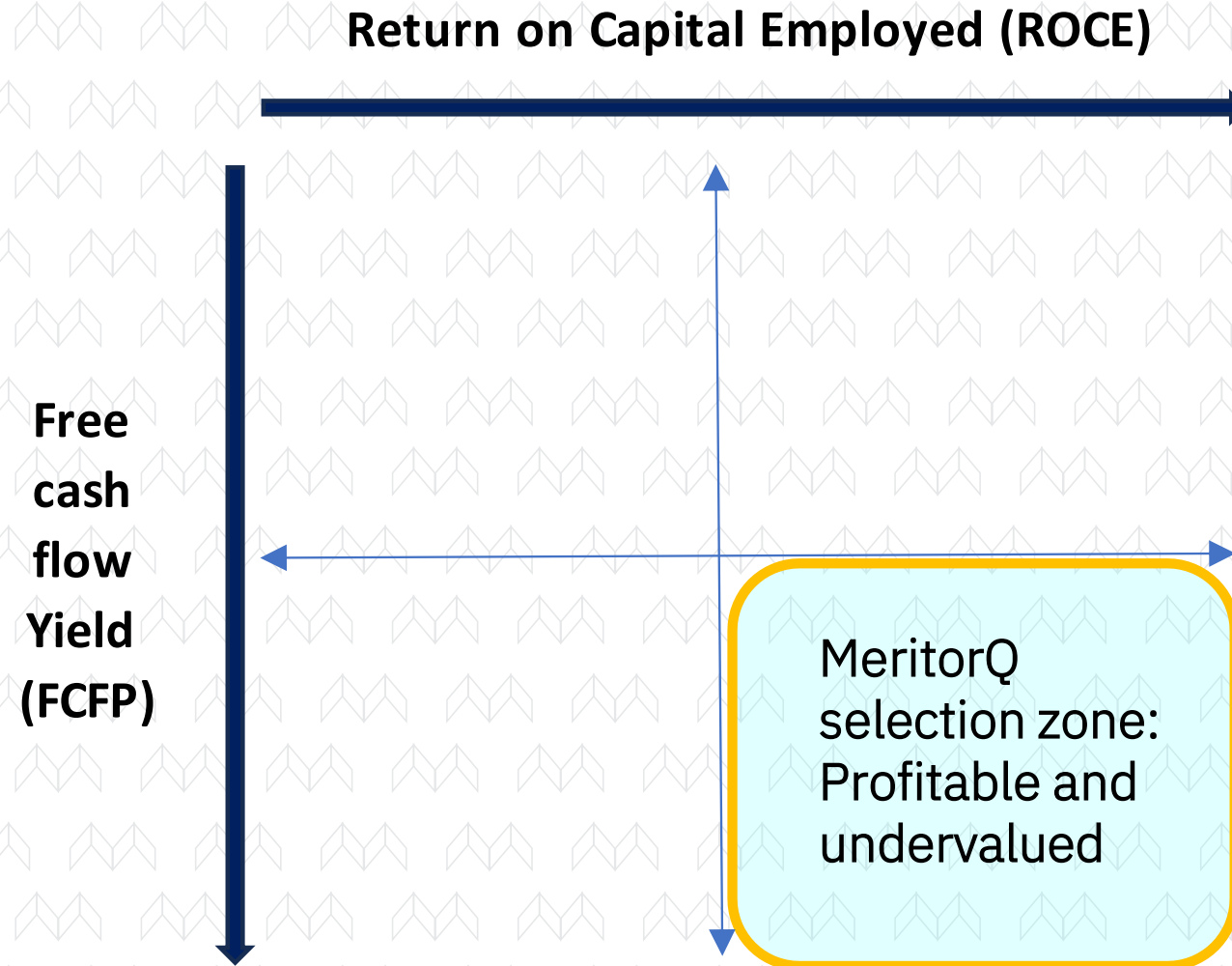
- CWIP to gross block: A high number would indicate unsubstantiated capex

Auditor checks

- Growth in auditors' remuneration to growth in revenues: Faster growth in auditors' remuneration vs company's operations raises concerns surrounding auditors' objectivity

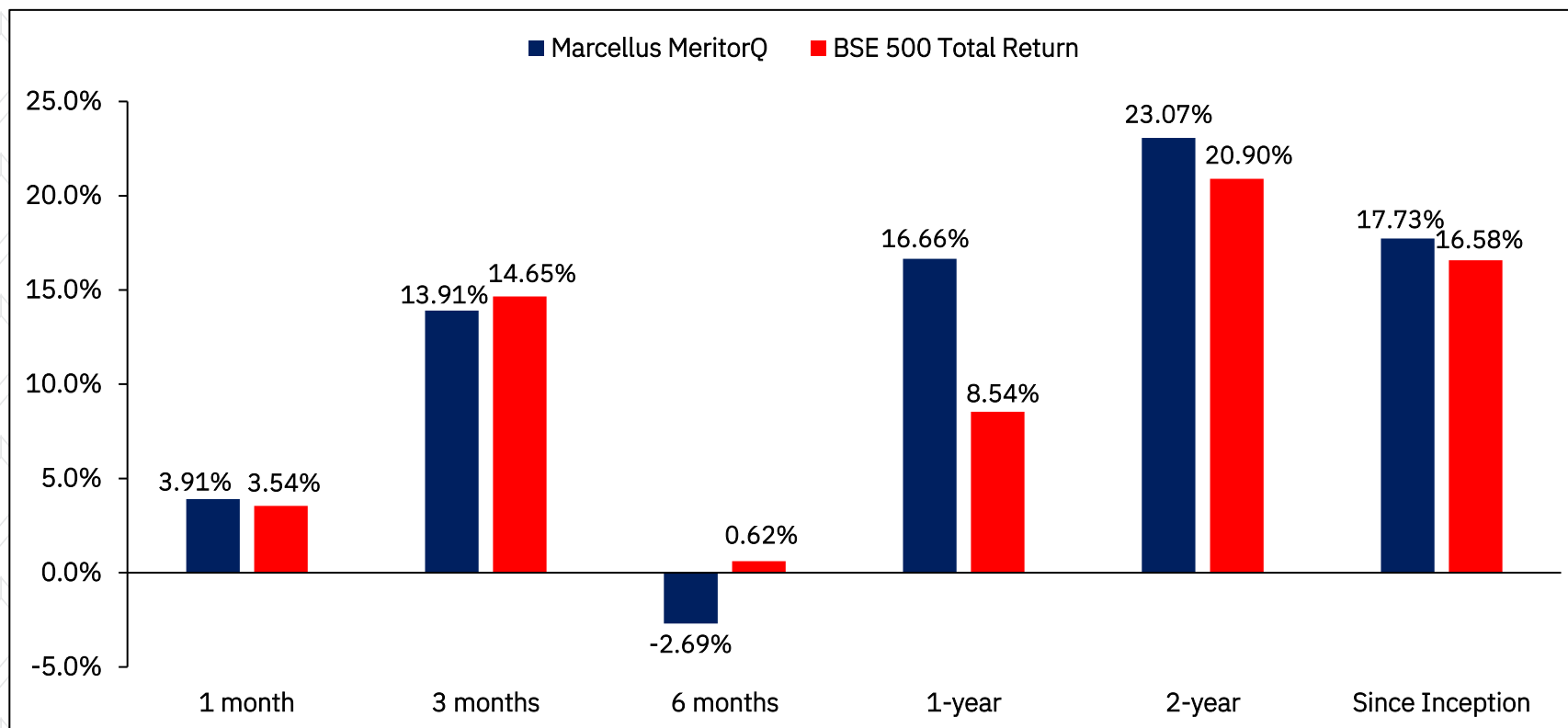
Source: Ace Equity, Bloomberg. Analysis period : July 2006 to September 2022; Decile portfolio are formed from BSE 500 universe in September every year over the analysis period and equal weighted. Decile portfolio is not model portfolio. The chart depicts returns of investment grade stocks against sub par stocks when we apply the forensic filter to the larger universe of BSE 500.

Post-screening, we move to the “selection step”



Source: Marcellus Investment Managers; For financials Return on Equity (ROE) and Book Yield (BP) is considered.

MeritorQ PMS Live performance vs. BSE 500 total return index (till 31st May 2025)*



Source: Marcellus Investment Managers. Note: (i) Portfolio inception date is November 15, 2022. (ii) Returns as of May 31, 2025. (iii) Performance data is net of fixed fees and expenses charged on a quarterly basis, the effect of the same has been incorporated up to March 31, 2025. Performance data is not verified either by Securities and Exchange Board of India or U.S. Securities and Exchange Commission. (iv) Total returns index considered for BSE500 above.

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



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Sector and Size distribution: We are underweight smidcaps



Sector Allocation	MeritorQ	BSE 500 Equal Wtd [^]
IT	12%	6%
Consumer Discretionary	9%	13%
Materials	24%	17%
Health Care	21%	9%
Industrials	15%	18%
Consumer Staples	4%	6%
Utilities	0%	4%
Financials	15%	19%
Comm. Svcs	0%	3%
Energy	0%	3%
Real Estate	0%	2%

Size Allocation	MeritorQ	BSE 500 Equal Wtd [^]
Large cap	47%	20%
Mid cap	23%	30%
Small cap	30%	50%

Source: Bloomberg, Ace Equity; MeritorQ refers to the portfolio created as of 21st March 2025. BSE 500 constituents as of 31st March, 2025 have been considered for showing BSE 500 Equal weighted allocations. Large, mid and small cap categorization of stocks within BSE 500 is based on membership of BSE 100, BSE 150 mid cap and BSE 250 small cap index respectively.



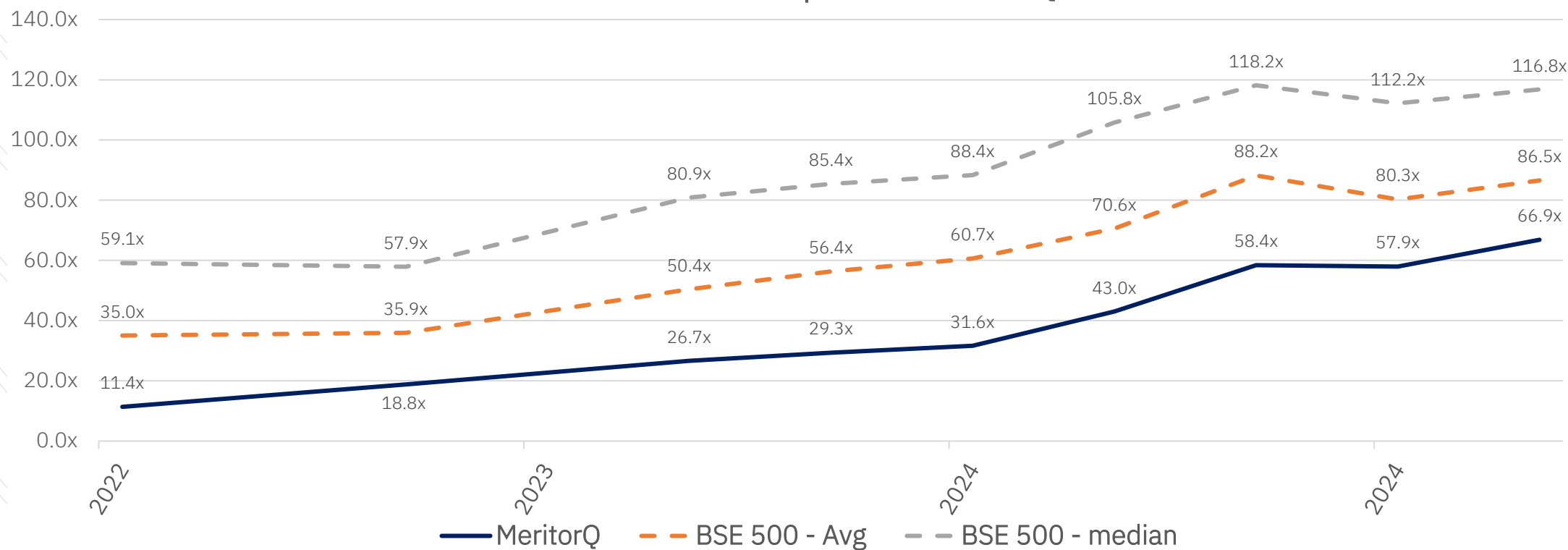
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MeritorQ is consistently cheaper than the benchmark...



Despite screening checks for quality and selecting stocks with higher profitability, MeritorQ is consistently cheaper than benchmark

Price to Free Cash Flow comparison MeritorQ vs BSE 500



Source: Ace Equity, Marcellus Investment Managers; Price to FCF is calculated as Mkt cap/3- year average free cash flow to firm value; average calculated on MeritorQ and BSE 500 constituents quarterly *MeritorQ portfolio constituents are considered from launch date of Nov-2022 to March-2025; only non-lending companies in BSE500 and MeritorQ are considered.



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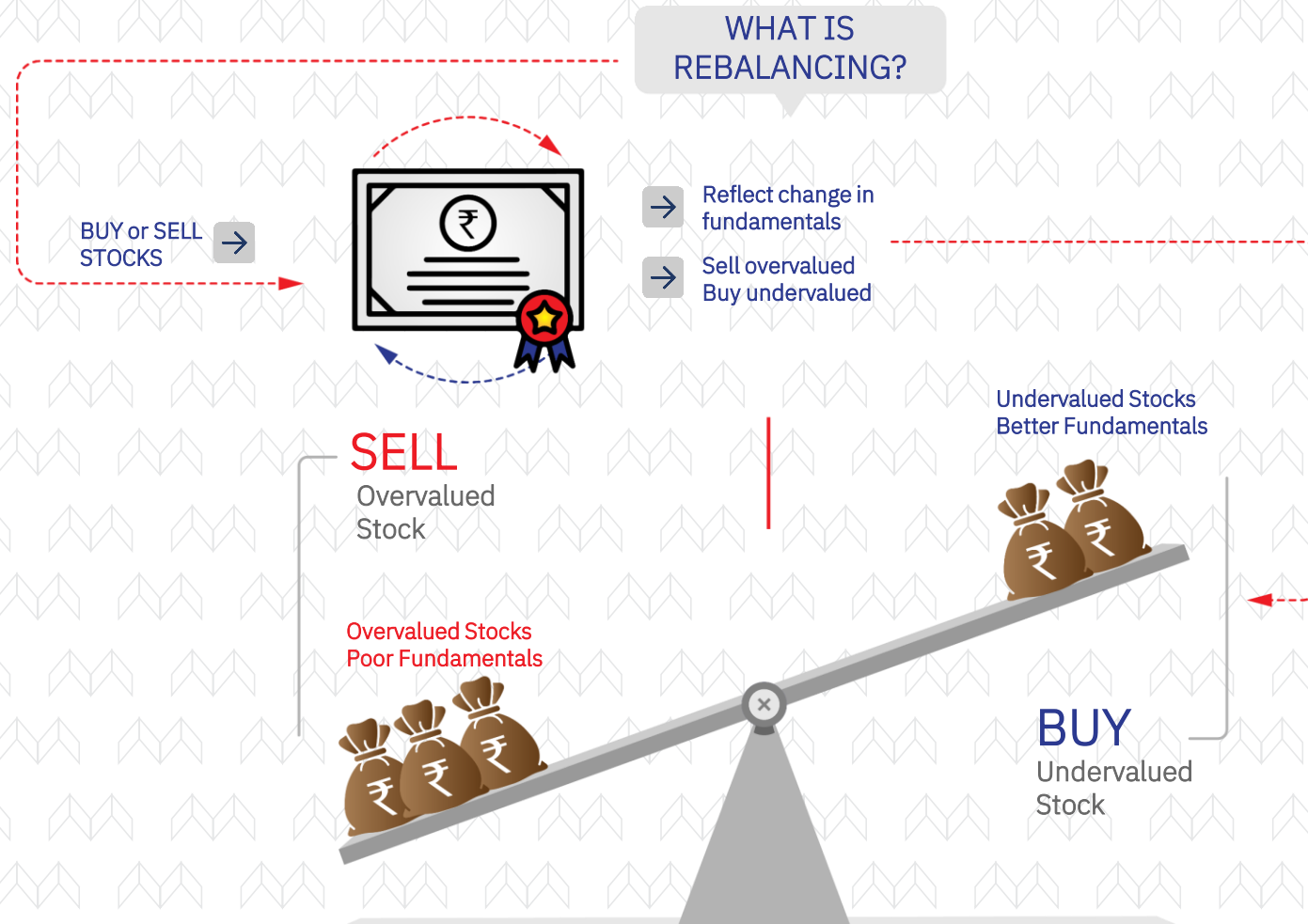
...and yet has significantly stronger fundamentals



Metrics	MeritorQ	BSE 500 Equal Weighted^
Number of stocks	37	500
Allocation to top 5	35%	1%
Allocation to top 10	53%	2%
ROCE*	31.4%	22%
ROE	21.4%	18%
Price/Earnings	31x	24.2x
P/FCF*	66.9x	86.5x
Dividend Yield	0.8%	1.2%

Source: Bloomberg, Ace Equity; * - data considered only for non-financials; Portfolio Stats are calculated on weighted averages of corresponding metrics for portfolio stocks.; MeritorQ refers to the portfolio created as of 21st March 2025. ^BSE 500 constituents considered as of 31st March, 2025

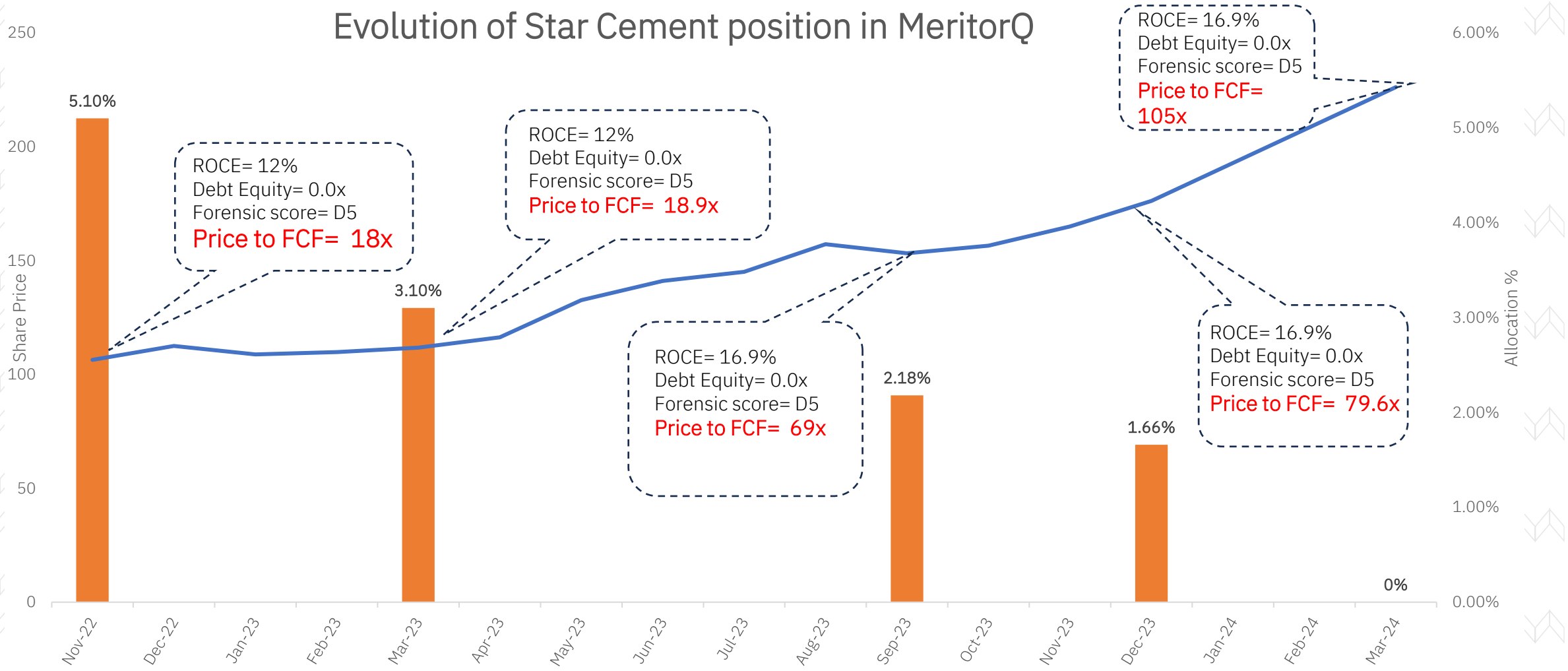
Quarterly rebalancing is an important driver of returns



Rules in action: Benefits of disciplined rules-based investing + regular rebalancing



Evolution of Star Cement position in MeritorQ



Source: Marcellus Investment Managers;
Bar charts show the allocation to Star cement since inception of MQP portfolio and at each of the 3 rebalancing at the end of March-2023, September-2023, December-2023 and March 2024. Star Cement has not been a part of the portfolio since March 2024.

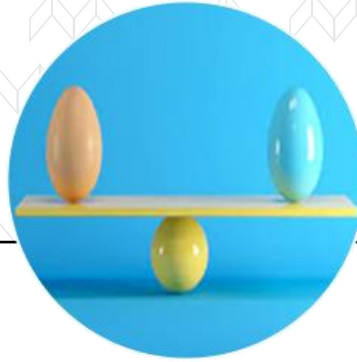


Closing thoughts



Diversification

- Diversified exposure to uncorrelated factors like value and quality
- Possibility to capture performance from smaller companies. No market cap bias



Periodic Rebalancing

- Quarterly portfolio rebalancing and review according to rules
- Ensures portfolio is aligned to investment objectives
- Balance between portfolio churn and picking up undervalued stocks regularly



Rules based

- Method and portfolio construction tested across ~16 years of history
- Investment process over discretion*
- No portfolio manager risk
- Final portfolio and rules are actively monitored to ensure alignment with investment objectives

**Except where Marcellus has concerns over governance issues in selected stocks.*

Fee Structure



Fixed Fee: 0.75% p.a.

Minimum investment: INR 50 lacs

- We also have an STP (Systematic Transfer Plan) plan using which clients can stagger their investment in tranches spread over 5 months :- <https://marcellus.helpscoutdocs.com/article/96-stp>
- Existing Investors have the option to save and invest regularly in Marcellus Funds through Systematic Investment Plan (SIP) :- <https://marcellus.helpscoutdocs.com/article/100-systematic-investment-plansipfaqs>

Fund Management Team



Omkar Sawant, CA

Omkar is the Fund Manager of Marcellus' MeritorQ PMS. Prior to joining Marcellus, he worked with a CA firm in statutory audit departments from 2017 to 2020 gaining extensive experience across Indian accounting standards, financial statement analysis & taxation. He is a BCom graduate from Mumbai University. He is a qualified Chartered Accountant (ICAI India).



Thank You!

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