

MARCELLUS RISING GIANTS

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

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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

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 ?
- The Investment Team
- Investing in India's transformation
- Five Mega Themes making their way into our portfolio
- The Indian Mid-Cap Opportunity
- Investment Philosophy
- Bottom-up research process and case studies
- Performance
- Fee Structure
- Factsheet
- Disclaimers

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 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

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).



Pramod Gubbi, CFA

- B.Tech from NITK and PGDM from IIM Ahmedabad
- Former Head of Institutional Equities at Ambit Capital
- Led Ambit's institutional sales in the far East as head of Ambit Singapore
- Former technology analyst at Clear Capital



Rakshit Ranjan, CFA

- B.Tech from IIT (Delhi).
- Lloyds Bank and Execution Noble.
- Led Ambit Capital's consumer research franchise.
- Launched Ambit's Coffee Can PMS in Mar'17.

Investing in India's transformation



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 658 million in FY22 (CAGR of 37%).
- Domestic airline passenger traffic has grown 5x (16% CAGR).
- 15 years ago, only 1 in 3 Indian families had a bank account; now nearly all Indian families have a bank account.



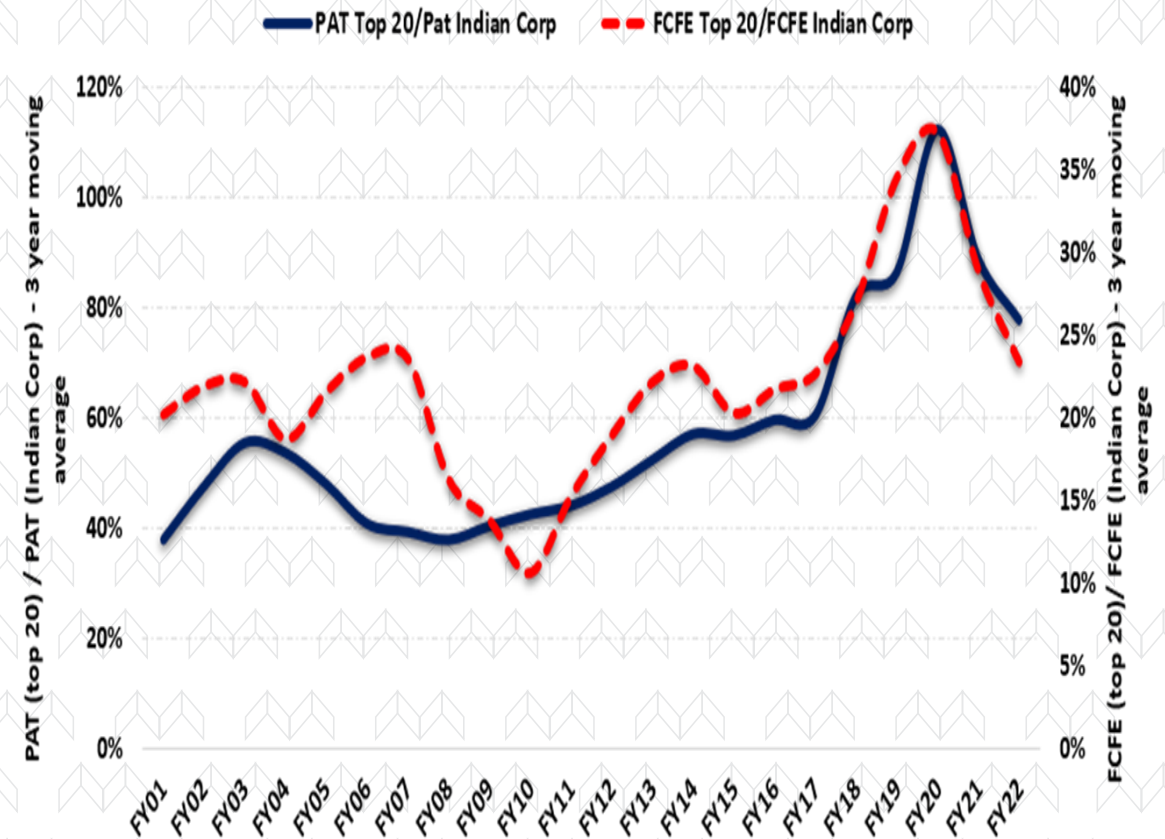
The inception of a single **Goods & Services Tax** in 2017 has allowed companies to consolidate their supply chains (from multiple state-level structures to unified national supply chains).



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



PAT and Free cash flow of top 20 companies



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

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



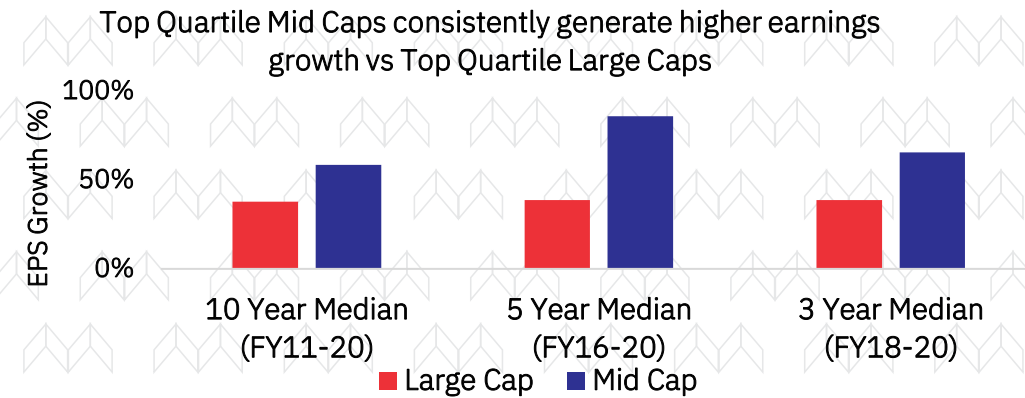
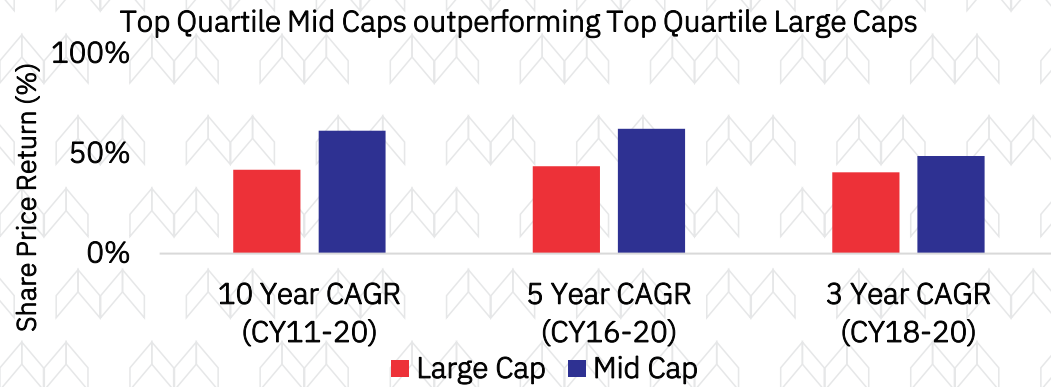
Octopus

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

Quality Mid-caps*: the sweet spot in Indian equities



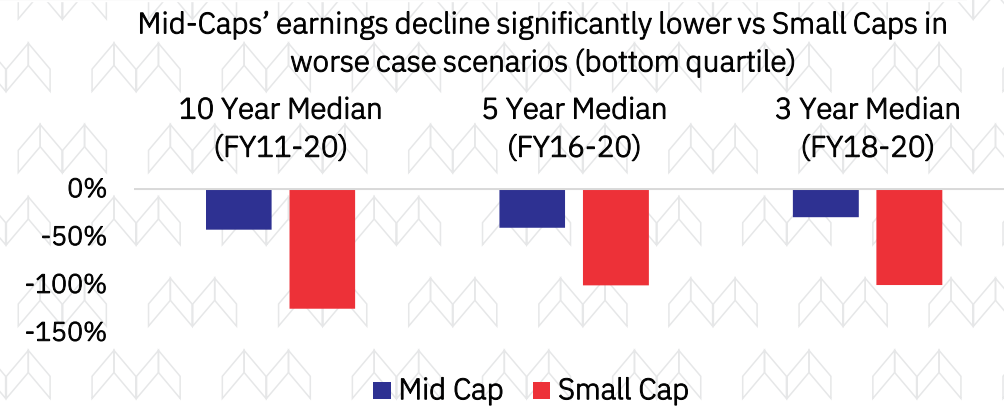
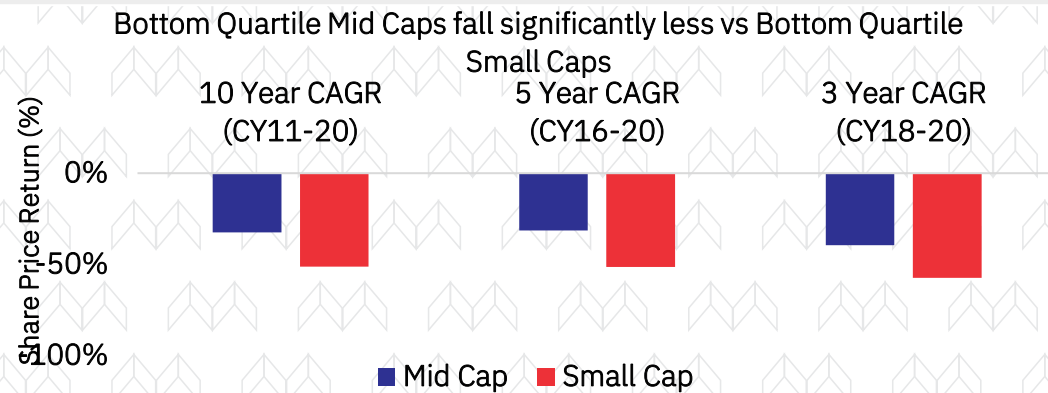
High quality mid-sized companies have been amongst the largest wealth creators in Indian equities



Source: Ace Equity, Marcellus Investment Managers. Note: (1) Calendar Year (CY) returns are calculated using average annual returns and then calculating CAGR of those annual returns over different time-periods. (2) Quartiles based on annual returns.

Source: Ace Equity, Marcellus Investment Managers. Note: (1) EPS Growth above is calculated as the median of the annual EPS growth for the different time periods (2) Quartiles are calculated based on annual EPS growth.

Mid-sized companies' earnings and returns are less volatile vs small companies



Source: Ace Equity, Marcellus Investment Managers. Note: (1) Calendar Year (CY) returns are calculated using average annual returns and then calculating CAGR of those annual returns over different time-periods. (3) Quartiles based on annual returns.

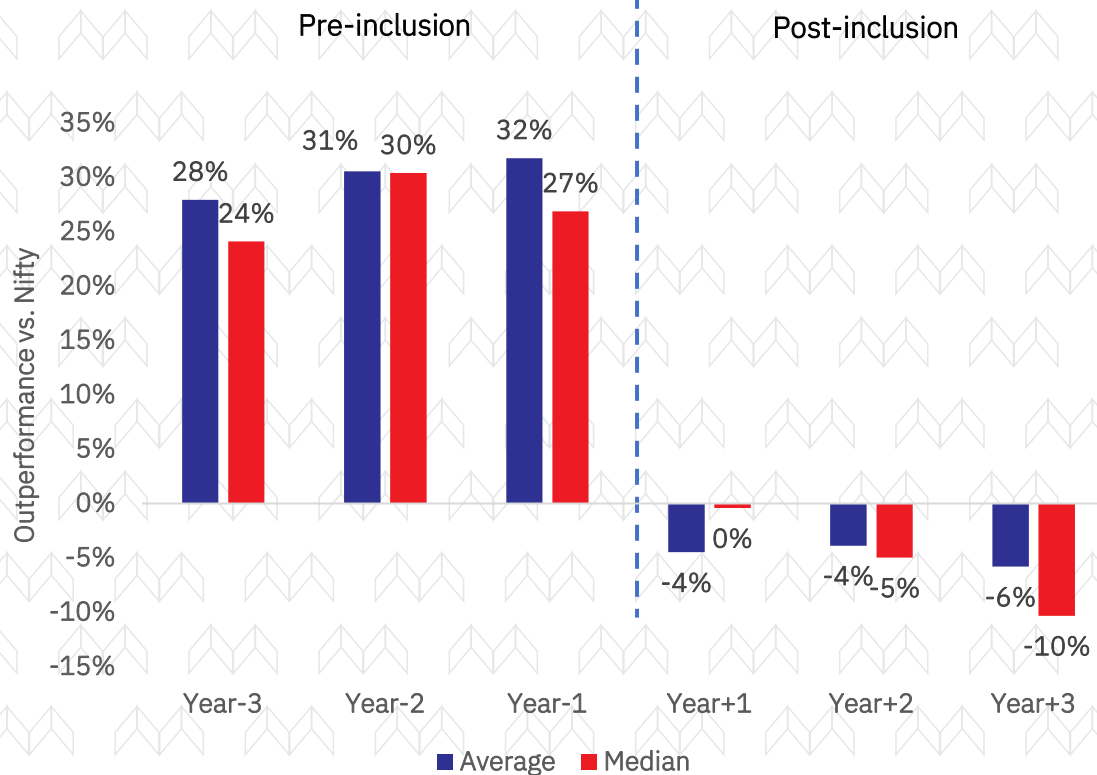
Note: (1) EPS Growth above is calculated as the median of the annual EPS growth for the different time periods (2) Quartiles are calculated based on annual EPS growth.

* Note: We classify companies with market cap above Rs750bn as large cap, between Rs35bn to Rs750bn as mid cap and below Rs35bn as small cap in this presentation.

Rising Giants aims to capture potential Nifty 50 entrants



Significant returns on way to entry into Nifty 50

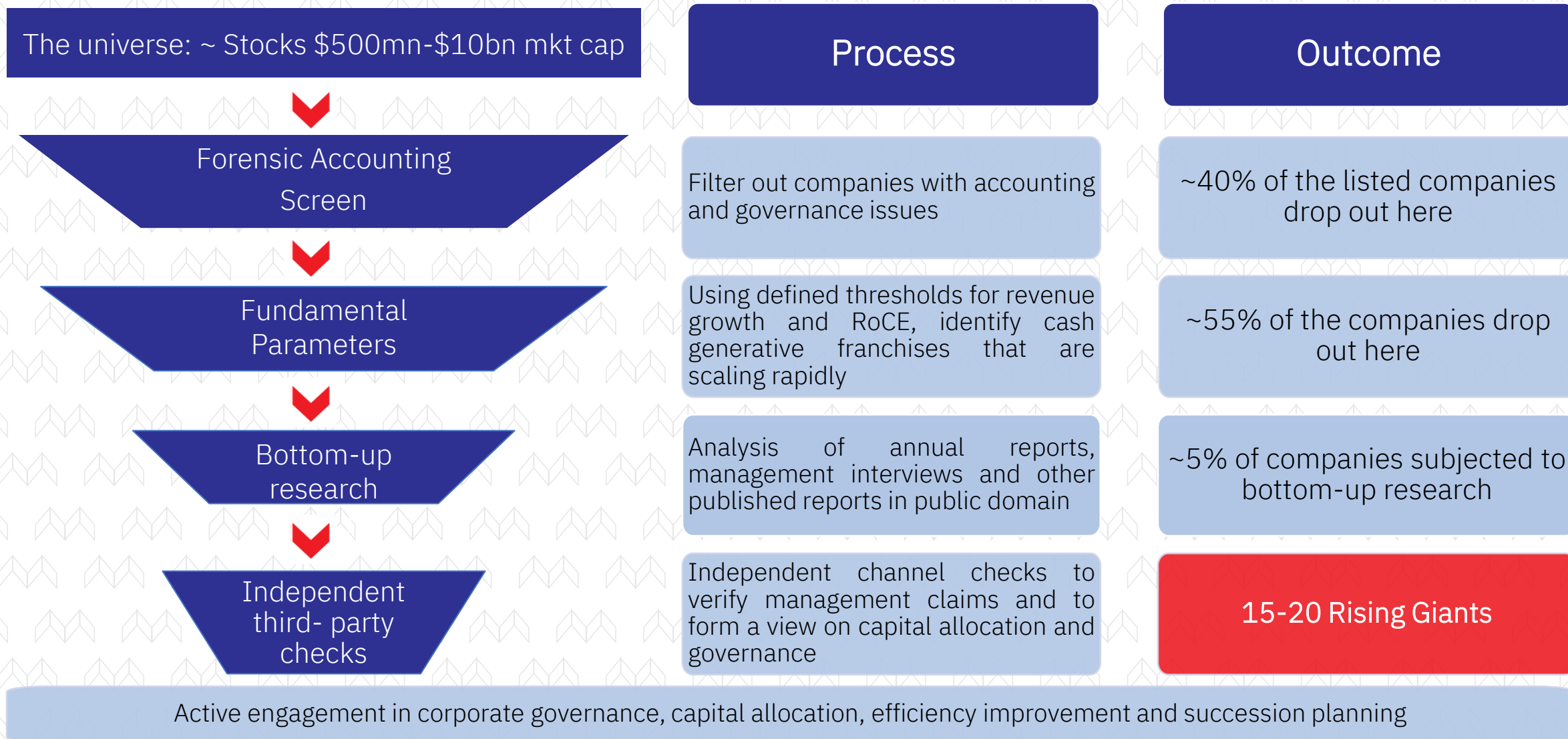


Source: Companies, Ace Equity, Marcellus Investment Managers

The returns shown above are returns relative to Nifty50 and calculated as medians CAGR of share price returns for respective periods for 34 entries in the Nifty50 index from April 2010 to July 2020 with full 6 year price data (3 years prior and post entry). Returns are based on share prices and do not include dividends.

- Total AUM under both AIF and PMS at INR 5.34 bn as on March 31, 2024
- Strategy under AIF was launched on 13th August 2021 and under PMS on 27th December 2021
- Investment universe: Listed companies in India in the USD 500m – 10 bn market cap range.
- Investment Framework:
 1. Clean accounts and governance.
 2. Strongly moated dominant companies in niche segments not yet well discovered by the market participants.
 3. Strong track record of capital allocation with high reinvestment in the core business and continuous focus on adjacencies for growth.

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

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.

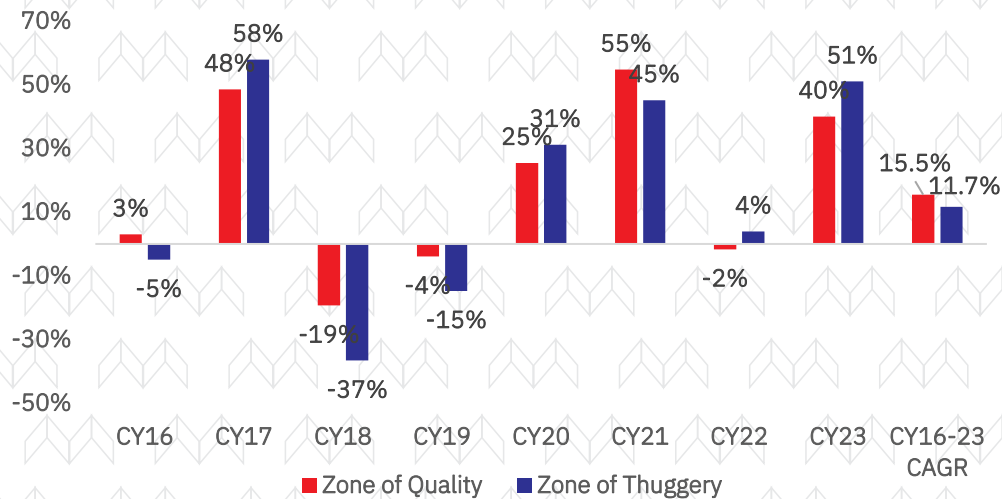
First rank stocks on each of the 12 ratios individually (some examples outlined in the table on the right). These ranks then cumulated across parameters to give a final pecking order on accounting quality for stocks.

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

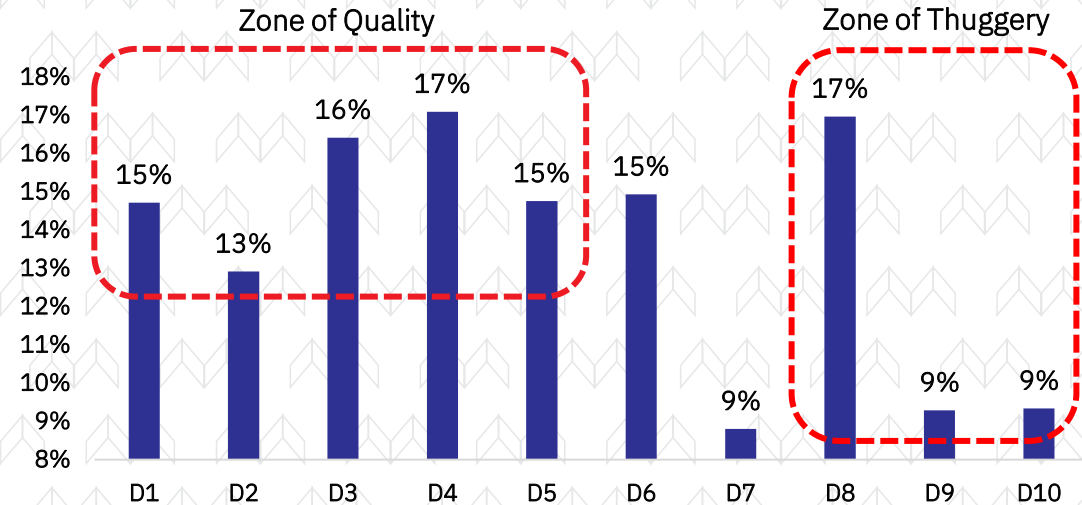
The forensic analysis toolkit

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

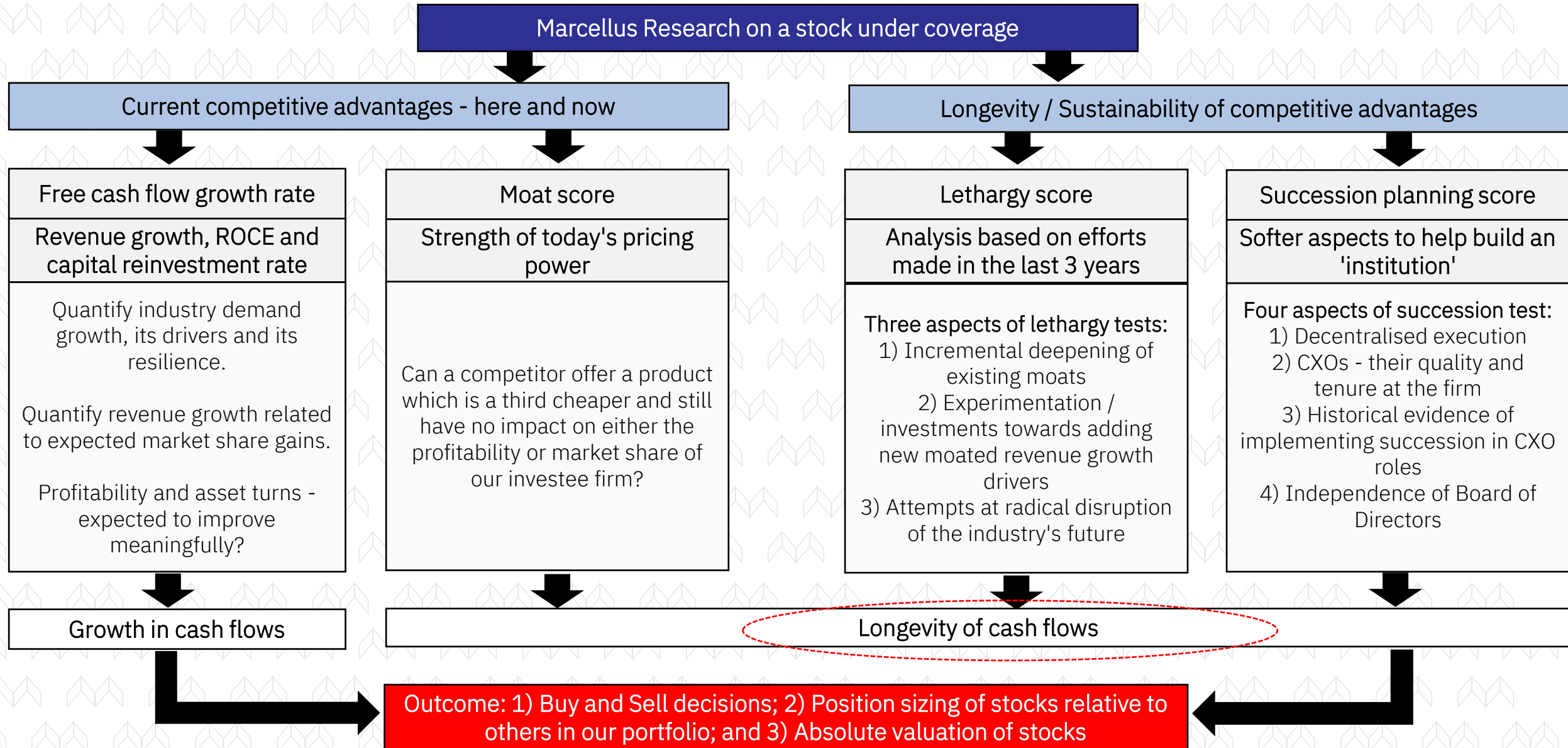


Accounting quality directly impacts investment returns

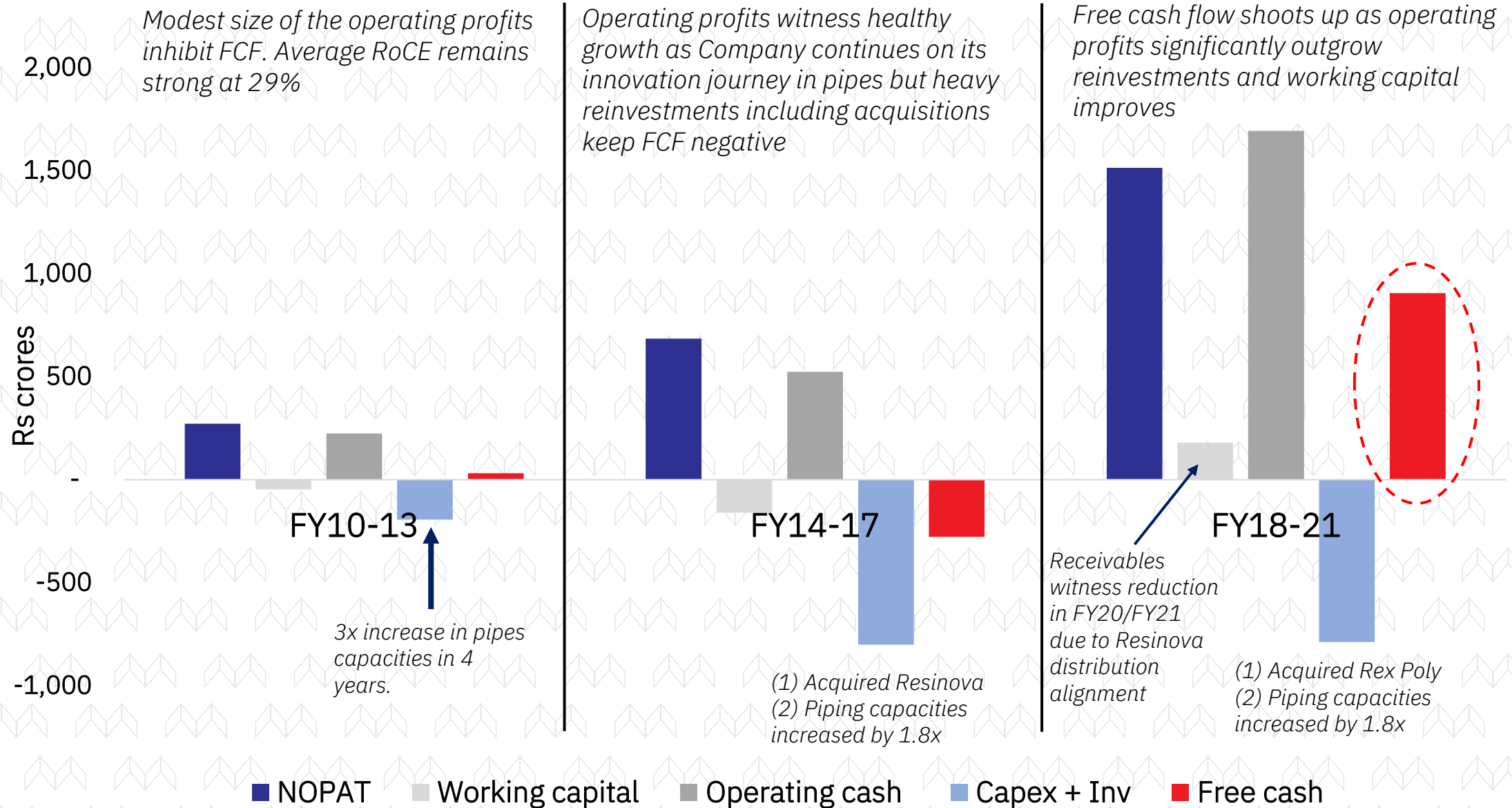


Source: Marcellus Investment Managers, Ace Equity

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



CASE STUDY: HOW ASTRAL TURNED INTO A FREE CASH FLOW MACHINE?



RIISING GIANTS - 'EXPONENTIAL GROWTH PHASE' OF FREE CASH FLOW GENERATION



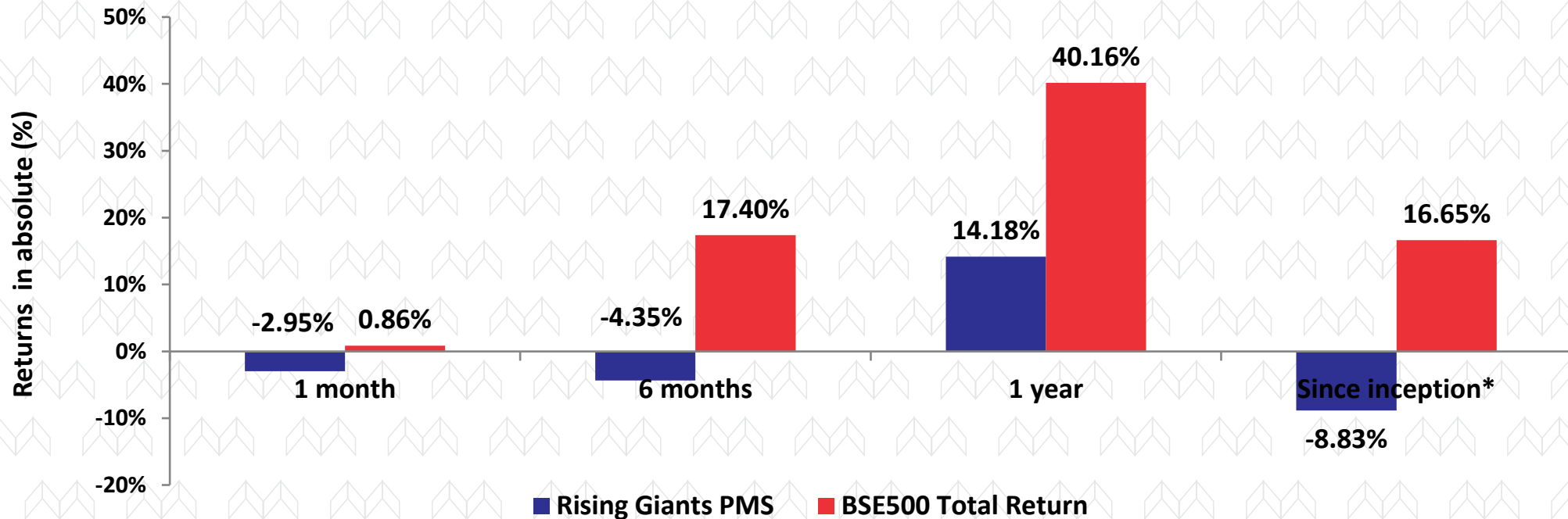
Company	FY13-16 CAGR					FY16-19 CAGR					FY19-23 CAGR				
	Rev.	EBITDA	CFO	FCF	RoCE (avg)	Rev.	EBITDA	CFO	FCF	RoCE (avg)	Rev.	EBITDA	CFO	FCF	RoCE (avg)
Suprajit Engineering	27%	26%	22%	NA**	26%	19%	14%	35%	NM	23%	15%	8%	4%	-3%	17%
Astral	27%	22%	27%	42%	30%	14%	23%	22%	19%	22%	20%	20%	24%	55%	25%
Clean Science	NA	NA	NA	NA	NA	41%	42%	42%	33%	50%	31%	29%	20%	-4%	53%
GMM Pfaudler	11%	30%	-1%	44%	22%	22%	27%	16%	-25%	29%	66%	60%	60%	8%	26%
Page Industries	27%	28%	30%	44%	63%	17%	18%	13%	61%	65%	14%	9%	-2%	-6%	64%
Dr. Lal Pathlabs	21%	29%	24%	35%	52%	15%	12%	7%	53%	38%	14%	14%	18%	-36%	31%
Grindwell Norton	8%	6%	5%	44%	27%	11%	14%	3%	-3%	26%	12%	16%	22%	24%	29%
Alkyl Amines Chemicals	10%	17%	36%	61%	25%	21%	22%	14%	-27%	26%	19%	20%	27%	29%	37%
L&T Technology Services	NA*	NA*	NA*	NA*	NA*	18%	21%	-20%	7%	41%	12%	17%	39%	51%	38%
Tata Elxsi	20%	50%	32%	56%	59%	14%	19%	15%	75%	54%	18%	23%	26%	26%	46%
Divi's Laboratories	21%	0%	28%	61%	34%	9%	0%	6%	1%	29%	12%	0%	22%	30%	28%
Aavas Financiers	112%	148%	NA**	NA**	20%	66%	71%	NA**	NA**	12%	22%	20%	NA**	NA**	13%
Chola Inv & Finance	18%	31%	NA**	NA**	18%	19%	18%	NA**	NA**	20%	17%	20%	NA**	NA**	18%
ICICI Lombard	9%	26%	NA**	NA**	20%	21%	34%	NA**	NA**	17%	13%	6%	NA**	NA**	19%
Info Edge	18%	-3%	-5%	NA**	22%	15%	36%	NA**	NA**	28%	18%	23%	NA**	43%	33%
Trent	-9%	444%	NM	NM	6%	16%	33%	-15%	142%	13%	33%	26%	NA**	28%	14%
Metro Brands	11%	14%	NM	NM	41%	15%	20%	19%	68%	37%	15%	29%	26%	30%	31%
RHI Magnesita India	8%	8%	11%	27%	56%	18%	15%	6%	2%	43%	38%	29%	26%	NM	29%
Eicher Motors	-1%	45%	38%	NM	31%	17%	20%	21%	52%	45%	10%	4%	1%	1%	24%
Narayana Hrudayalaya	24%	29%	57%	57%	7%	21%	18%	17%	17%	10%	12%	35%	40%	40%	18%
Tube Investment India	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	8%	15%	11%	-32%	21%
SKF India Limited	10%	12%	-15%	79%	24%	0%	10%	30%	-17%	25%	9%	11%	14%	13%	28%
Motilal Oswal	32%	35%	NA**	NA**	10%	33%	28%	NA**	NA**	14%	13%	20%	NA**	NA**	15%
Eureka Forbes Limited	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA
Median	18%	27%	26%	44%	26%	18%	20%	15%	18%	27%	15%	20%	22%	25%	28%
BSE500	10%	15%	17%	14%	15%	13%	15%	11%	12%	16%	11%	10%	13%	16%	16%

Source: Marcellus Investment Managers, Ace Equity. Notes: (i) *L&T Technology Services started business only in last quarter of FY14, hence data is not available for FY13-16; (ii) ** NA for financial services stocks in the portfolio namely - Aavas Financiers, Cholamandalam Investment, ICICI Lombard, Motilal Oswal and Info-Edge since CFO and FCF are not relevant metrics for financial services companies; (iii) 3-year average was used to calculate CFO CAGR, FCF CAGR and RoCEs; (iii) NM: Not measurable since negative FCF either in the current or base year. (iv) Standalone figures have been considered for Tube Investments of India Limited. (v) Eureka Forbes values have not been considered on account of its corporate restructuring.

RETURN ANALYSIS - ACTUAL PORTFOLIO VS BENCHMARK



Rising Giants PMS performance vs. the benchmark BSE500 total return index (till 31st March 2024)*



Source: Marcellus Investment Managers. Note: (i) Portfolio inception date is December 27, 2021. (ii) Returns as of March 31, 2024. (iii) Performance data is net of annual performance fees charged for clients whose account anniversary falls upto the last date of the performance period. Since fixed fees and expenses are charged on a quarterly basis, effect of the same has been incorporated up to 31st March 2024. (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 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.

FEE STRUCTURE (DIRECT)



Portfolio Name Marcellus Rising Giants Portfolio

Minimum Investment 50 lakhs

Operating Expenses <https://marcellus.helpscoutdocs.com/article/43-pms-charges>

Fee Structures

Structure	% Fixed Fee	Profit Share	Hurdle Rate
Fixed Only	2.00%	Nil	Nil
Hybrid	1.25%	10% & 5%	6% plus benchmark

Performance Fee (where applicable)

- Phase I** - If the appreciation in the pre-tax NAV (before charging performance fee) is above the 6% p.a. hurdle rate of return: 10% with no catch up
- Phase II** - If appreciation in the pre-tax NAV (before charging performance fee) is above the BSE500 TRI rate of return for the relevant performance period, then the Investment Manager shall be entitled to an additional performance fee of 5%

*****High water mark applies for performance fees*****

STP (Systematic Transfer Plan) Clients can opt for STP using which clients can stagger their investment in tranches spread over 5months.

<https://marcellus.helpscoutdocs.com/article/96-stp>

RGP Factsheet



Fund Details

Strategy Name	Rising Giants
Fund Manager	Ashvin Shetty, CFA
AUM In INR Crs.	307
Category	Mid-cap
Benchmark	BSE500 Total Return Index

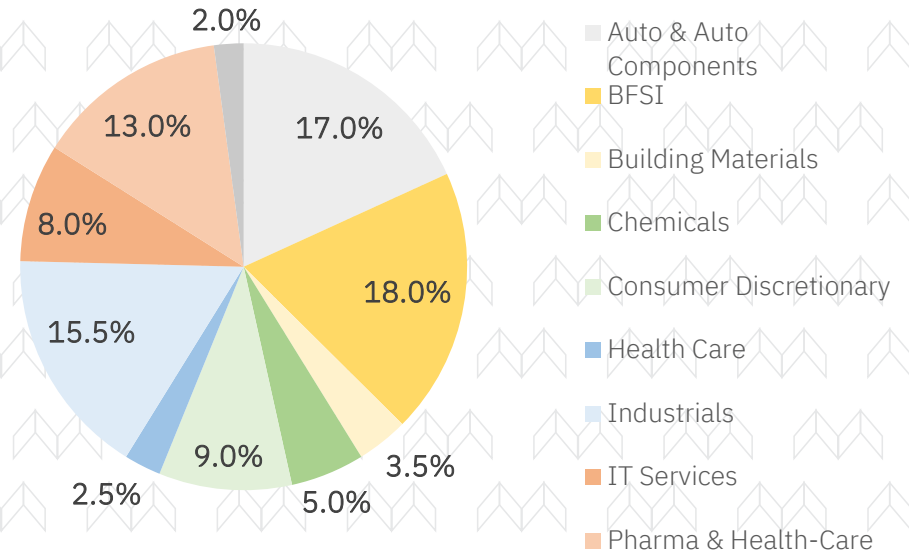
Top 5 Holdings (accounts for ~29% of allocation)

GMM Pfaudler Ltd.	Industrials
Alkyl Amines Chemicals Ltd.	Chemicals
Eicher Motors Ltd.	Automotive
SKF India Ltd.	Chemicals
Divi's Laboratories Ltd.	Chemicals

Market-Cap Wise Allocation

Large- Cap	21.5%
Mid-Cap	40.0%
Small-Cap	32.0%

Sector Wise Allocation



Portfolio Metrics

Wtd Avg Market Cap (INR Cr.)	45,090
Portfolio P/E (FY25)	52
Dividend Yield	0.6%
Churn Ratio (TTM)	66%
Standard Deviation (12 month rolling)	11.3%
Sharpe Ratio (12 month rolling)	-0.84

Disclosures



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