InCred PMS

MULTICAP

Portfolio

InCred Group & InCred Capital Overview

InCred
Borrow. With Confidence.

Consumer Loans

MSME loans

InCred Capital

Investment Banking and Structured Finance

Debt Broking and Capital Markets

Equities Research, Broking and Capital Markets

Wealth Management Domestic and International Wealth

Asset Management + Alternative Investments

BACKED BY LEADING INVESTORS

oaks | INVESTCORP | paragon partners | memg manipal education and medical group | ELEVAR EQUITY | MVP VC Funds Moore Venture Partners

Founder & CEO

Bhupinder Singh
Founder & CEO – InCred Group

- Bhupinder Singh founded InCred Group in 2016 with InCred Finance starting in March 2016.
- He has a global track record of identifying and building successful businesses across Fixed Income, Credit, Equities and Investment Banking. Prior to InCred, he worked at Deutsche Bank for 16 years in various capacities, in London and Singapore.
- Most recently, he co-headed the Corporate Banking and Securities ('CB&S') of Deutsche Bank for the Asia Pacific region, based out of Singapore. In this capacity, he managed Deutsche Bank's Fixed Income,Equities and Investment Banking divisions and was a member of the global CB&S executive committee.
- He was also the Head of Corporate Finance division for Deutsche Bank in the Asia Pacific region managing the bank's corporate coverage, investment banking, capital markets, advisory and treasury solutions businesses.
- Prior to his move to Asia, he was the Global Head of Deutsche Bank's Fixed Income Structuring business based in London, covering all aspects of fixed income product structuring.

InCred PMS

InCred Group Positioning and Strengths

Global Experience & Local Expertise

Management team at InCred group brings together significant global experience with domain expertise in local markets

Group leadership team offers a unique combination of experience across multiple asset classes and businesses

Strong in-house proprietary research following a rigorous and holistic approach

Differentiated Products

Differentiated product offerings covering a wide spectrum including long-only equity, long-short equity, quantitative asset allocation, structured debt, and unlisted equity

Benefit from Group Synergies

NBFC - Support on credit and industry understanding that helps us understand new trends in the business

Investment Banking - Access to corporate insights and understanding of deals supports in staying abreast of the corporate affairs and analytics

Offshore Relationships

Strong global network and relationships help to provide global markets perspective to enhance Indian strategies

International expertise and connections help offer strategies to Indian clients

Leadership Team – Asset Management

Mrinal Singh

CEO & CIO – InCred Asset Management

- Over 2 decades of rich experience in Investment Management & Equity Research
- Formerly Deputy CIO - Equities of ICICI Prudential AMC- amongst the top fund management houses in India, where he was instrumental in setting up research processes, designing product strategy as well as for talent development
- He actively managed assets of INR 25,000 crores including some of the largest flagship funds for ICICI Prudential. Under his management the Value Discovery fund grew from INR 1,500 crores to INR 20,000 crores
- Has a track record of delivering industry leading returns through market cycles
- Has been awarded and recognized at various industry forums & consistently rated highly by Morningstar

Fund Manager

Aditya Sood

Fund Manager

- Overall investment experience of 18 years in equity markets out of which 16 years in fund management.
- Global experience of managing emerging market equities in the United Kingdom.
- Formerly headed the investment function of ICICI Prudential PMS managing assets of over INR 4,000 crores
- He combines a philosophy of focusing on 'Return of Capital" along with "Return on Capital" and picked a high point in the market to close his PMS at ICICI Prudential and return capital to investors with a handsome profit
- Also spearheaded small / mid cap research at ICICI Prudential Asset Management

Manager Track Record

In Jan 2018, ICICI Prudential's PMS unit returned Rs. 700 crore to investors citing "extremely rich" valuations.

The decision to return investor money is in line with the philosophy that return of capital is also important along with return on capital

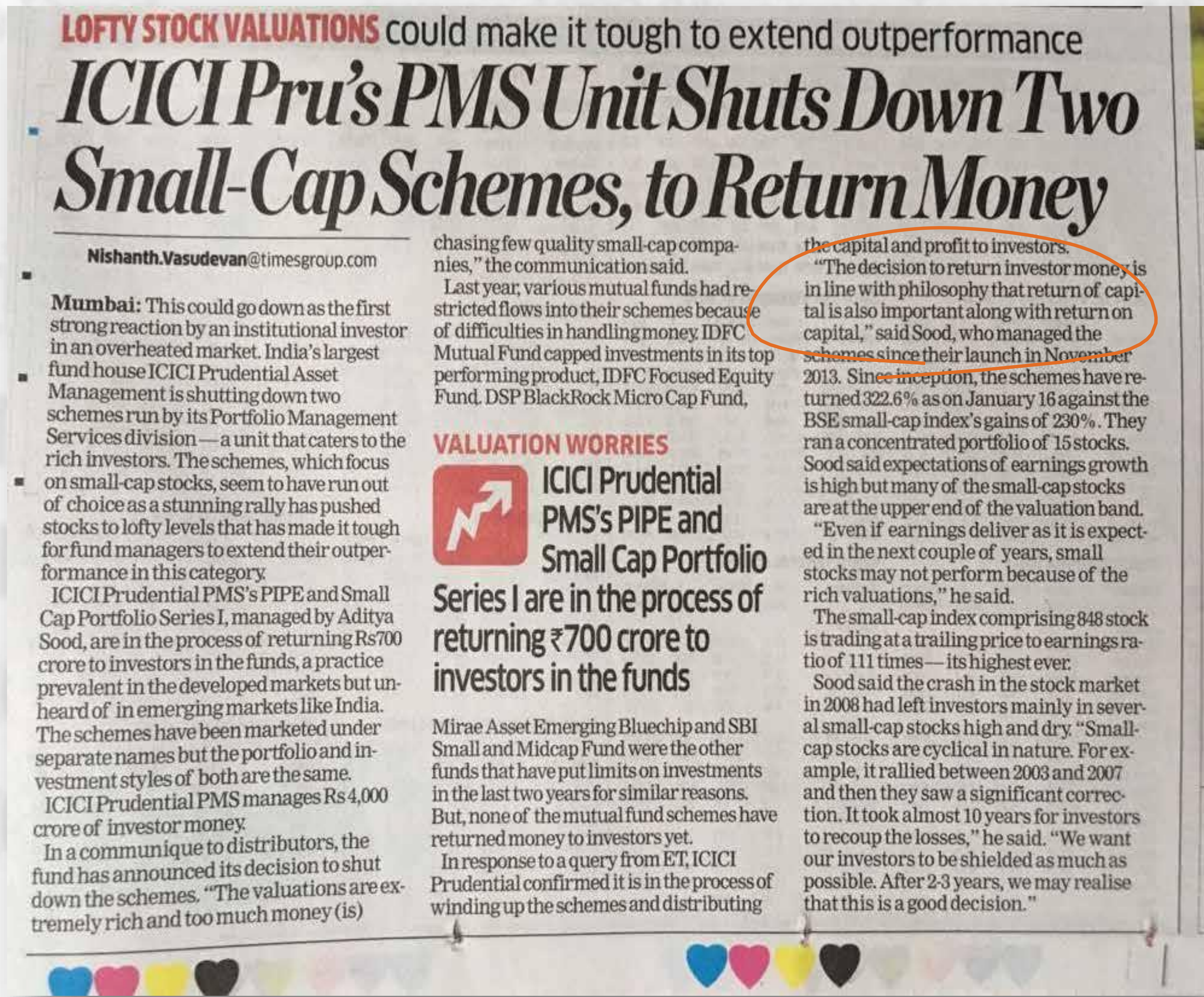
– Aditya Sood

Since inception the schemes have returned 322.6% as against the BSE smallcap index's gains of 230%

- Business Standard

This decision is more or less unheard of in the Indian context though it does happen more often in developed markets

– Business Standard



LOFTY STOCK VALUATIONS could make it tough to extend outperformance

ICICI Pru's PMS Unit Shuts Down Two Small-Cap Schemes, to Return Money

Nishanth.Vasudevan@timesgroup.com

Mumbai: This could go down as the first strong reaction by an institutional investor in an overheated market. India's largest fund house ICICI Prudential Asset Management is shutting down two schemes run by its Portfolio Management Services division — a unit that caters to the rich investors. The schemes, which focus on small-cap stocks, seem to have run out of choice as a stunning rally has pushed stocks to lofty levels that has made it tough for fund managers to extend their outperformance in this category.

ICICI Prudential PMS's PIPE and Small Cap Portfolio Series I, managed by Aditya Sood, are in the process of returning Rs700 crore to investors in the funds, a practice prevalent in the developed markets but unheard of in emerging markets like India. The schemes have been marketed under separate names but the portfolio and investment styles of both are the same.

ICICI Prudential PMS manages Rs 4,000 crore of investor money.

In a communique to distributors, the fund has announced its decision to shut down the schemes. "The valuations are extremely rich and too much money (is) chasing few quality small-cap companies," the communication said.

Last year, various mutual funds had restricted flows into their schemes because of difficulties in handling money. IDFC Mutual Fund capped investments in its top performing product, IDFC Focused Equity Fund. DSP BlackRock Micro Cap Fund,

VALUATION WORRIES

ICICI Prudential PMS's PIPE and Small Cap Portfolio Series I are in the process of returning ₹700 crore to investors in the funds

Mirae Asset Emerging Bluechip and SBI Small and Midcap Fund were the other funds that have put limits on investments in the last two years for similar reasons. But, none of the mutual fund schemes have returned money to investors yet.

In response to a query from ET, ICICI Prudential confirmed it is in the process of winding up the schemes and distributing the capital and profit to investors.

"The decision to return investor money is in line with philosophy that return of capital is also important along with return on capital," said Sood, who managed the schemes since their launch in November 2013. Since inception, the schemes have returned 322.6% as on January 16 against the BSE small-cap index's gains of 230%. They ran a concentrated portfolio of 15 stocks. Sood said expectations of earnings growth is high but many of the small-cap stocks are at the upper end of the valuation band.

"Even if earnings deliver as it is expected in the next couple of years, small stocks may not perform because of the rich valuations," he said.

The small-cap index comprising 848 stock is trading at a trailing price to earnings ratio of 111 times — its highest ever.

Sood said the crash in the stock market in 2008 had left investors mainly in several small-cap stocks high and dry. "Small-cap stocks are cyclical in nature. For example, it rallied between 2003 and 2007 and then they saw a significant correction. It took almost 10 years for investors to recoup the losses," he said. "We want our investors to be shielded as much as possible. After 2-3 years, we may realise that this is a good decision."

InCred PMS

INVESTMENT PROCESS

Decision Making Process

Buy

- "Great" businesses at fair value
- "Good" businesses at a discounted value
- Avoid "Bad" businesses

Sizing

- Optimal diversification
- Allocation based on conviction

Sell

- When incremental Upside-Downside ratio is unfavourable
- When the underlying business starts to deviate from the investment thesis

Parameters of the Framework

	Great Business	Good Business	Bad Business
Quantitative			
ROIC vs WACC*	ROIC > WACC	ROIC = WACC	ROIC < WACC
Capital structure	Efficient capital structure	Average capital structure	Inefficient capital structure
Cash flow adequacy	Strong coverage	Adequate coverage	Weak coverage
Covenants	Appropriate	Average	Poor
Growth	Long runway and outperforms industry growth rates	Better than industry growth rate but can be volatile	Highly volatile, below industry growth rates
Qualitative			
Competitive advantage	Identifiable & sustainable	Identifiable but fading	Not detected
Pricing	Pricing power	Market pricing	Price taker
Character of management	Superior	Average	Poor
Alignment of interest with minority shareholders	Clear	Indistinguishable	Non existent
Dependence of external variables	Low dependence	Dependent	High dependence

*ROIC = Return on Invested Capital ; WACC = Weighted Average Cost of Capital ; The above framework is for Illustration purpose

PORTFOLIO CONSTRUCT

Benefits of Multicap Portfolio

Market Cap Graduation ⟶ Multicap takes an advantage of opportunities across market cap sizes as companies move from one segment to the other segment

Large to Giant cap	Mid to Large cap	Small to Mid cap
HDFC Limited, ICICI Lombard, United Spirits	Sundaram Finance, Max Financial	India Mart, CFHL, Barbeque Nation

- Multi-cap strategy with an aim to capitalize on the valuation gap between small, mid, and large-cap segments.
- Mid- and small-caps can significantly outperform the market with good timing, stock selection, and holding period.
- It aims to invest in companies, which have the potential and are at the inflection point of graduating from small-cap to mid-cap, mid-cap to large-cap, and large-cap to giant-cap respectively.

The above companies are for illustration purposes only for explaining the above concept. The companies mentioned above may or may not form part of the Investment Approach/Product.
CFHL - Cholamandalam Financial Holdings Ltd. | ICICI Lombard - ICICI Lombard General Insurance Company Ltd. | Max Financial - Max Financial Services Ltd. | Barbeque Nation - Barbeque Nation Hospitality Ltd.

Investment Themes

Theme	Description
Value	While inflation and global macro uncertainties persist, recent market correction has created opportunities to invest in some great companies that are trading below their historic average valuations while fundamentals are unchanged/ improving.
Risk-Adjusted Growth	Housing demand is increasing with inflation in IT salaries and still low-interest rates. Well-managed NBFCs who have strong parentage and got the previous cycle right in terms of managing risk and resisting the temptation to grow post the credit boom. The same holds true for vehicle financiers and microfinance companies. Autos are also looking at a cyclical upturn as supply-side issues (raw material prices, chip shortage) recede. In the sector, ancillaries that have an adaptable product and are not exposed to EV transition offer a more diversified exposure over OEMs.
New Paradigms	Covid has brought permanent changes in terms of work culture, data usage and health focus (Insurance, Diagnostics). It has also accelerated certain ongoing transitions as e-commerce, fintech, mobile IoT, near-shoring, etc. , creating sustainable tailwinds for sectors like IT and Internet. We opportunistically invest in companies that are either witnessing pent up demand/recovery from covid or best positioned to capitalize on the paradigm changes. We continue to believe in consumer discretionary stories that capitalize on aspirational demand, especially at the entry level, whether it is QSR, home improvement or personal care.
Corporate Restructuring	Some of our holdings offer significant upside potential from value unlocking, whether it is by way of a merger with significant revenue synergies or unraveling of holding company discount through organizational restructuring. Then there are stories where capital allocation is improving, leading to higher ROIC.
MNCs	MNCs (Multinational Corporation) have a sustainable competitive advantage on account of superior technical know-how (access to patented technologies), strong management teams (global talent pool), access to capital from the parent and a clean balance sheet. We also invest in companies that are leaders in niche sectors that offer a long runway to growth.

NBFC - Non-Banking Financial Company | EV - Electric Vehicles | OEMs - Original Equipment Manufacturer | IoT - Internet of Things | QSR - Quck Service Restaurant | ROIC - Return on Invested Capital

CASE STUDIES

High Conviction Idea | Cholamandalam Financial Holdings Ltd.

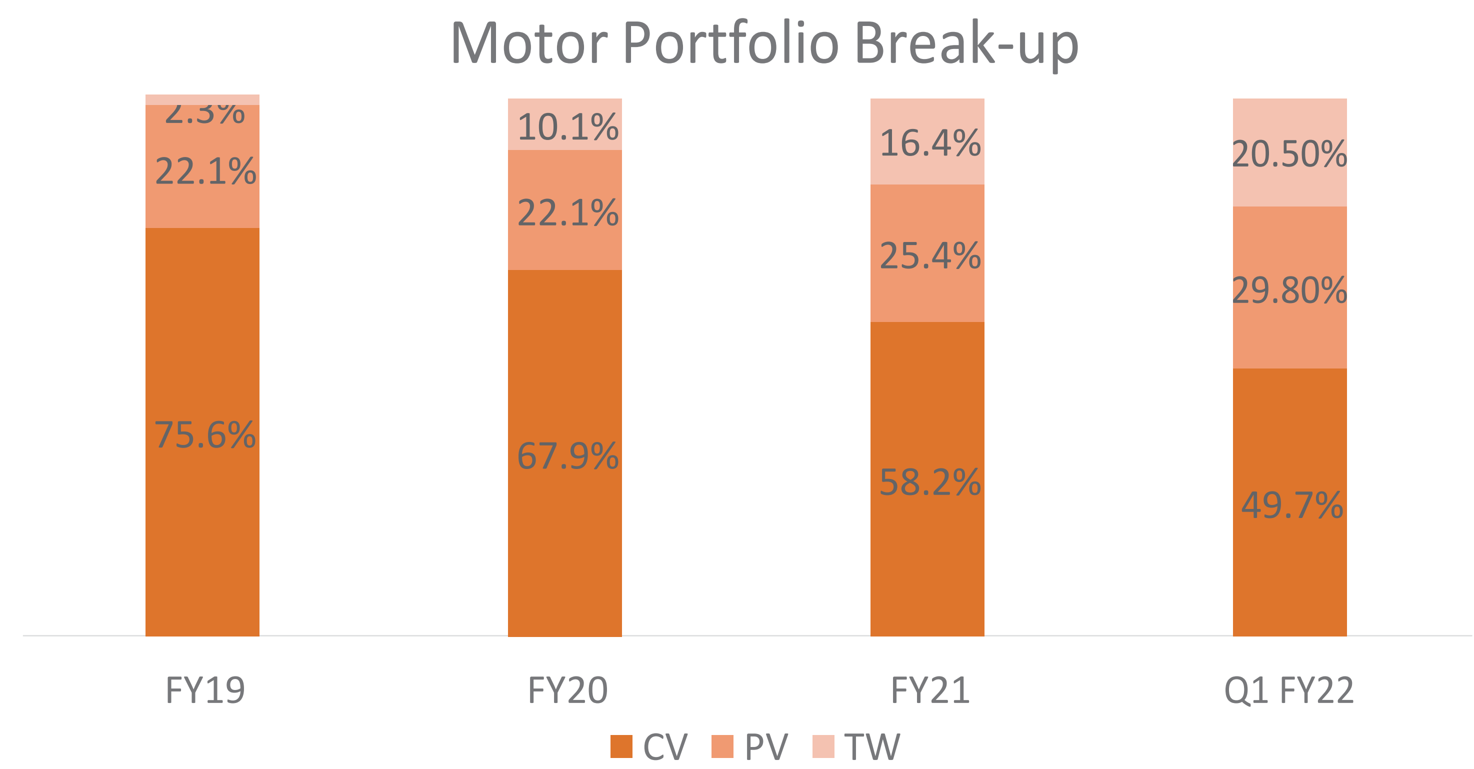
- Cholamandalam Financial Holdings Ltd. (CFHL) was incorporated in 1949 and is a part of the Murugappa group, one of the most diversified business conglomerates of India. CFHL remains the best proxy for playing the next CV cycle as CIFC (Cholamandalam Investment and Finance Co Ltd) mainly focuses on financing used and new CV and Chola General Insurance derives 68% of its total premium from motor insurance (CV forms 68% of total motor insurance premium)

- Chola General Insurance is a strong retail underwriting franchise focusing on profitable segments like Motor, Health, PA, SME & Home. It is also increasing its focus on 2W, increasing its OD contribution, focusing on retail health indemnity and augmenting its distribution.

- CFHL should be looked at as more of an investment company (such as Bajaj Finserv) and not merely a pure holding company. CIFC stock price is up 5.1x from the Covid low in March FY20 whereas CFHL is up 2.8x and has massively underperformed during the same period. At current prices, after taking CHFL stake in CIFC and applying 30% holding company discount, we are getting GI business at a reasonable valuation.

- In 2016, Mitsui Sumitomo Insurance (MSI)raised its stake in Chola GIC valuing it at ~Rs. 6300cr. Currently MSI holds 40% stake in Chola GIC. We expect the company to raise additional capital in near future due to a lower solvency ratio, which might help in further stock rerating

Rs. Crs.	FY19	FY20	FY21	FY22
Gross Written Premium	4429	4398	4388	4824
Net Earned Premium	3050	3437	3202	3437
Profit Before Tax	257	260	375	106
Profit After Tax	179	149	282	77
Net worth (Incl. FV change)	1453	1603	1855	1988
Investment Portfolio	7596	9078	11061	12354
Solvency Ratio	1.55	1.58	2.08	1.95
Earning Per Share (Rs.)	6	5	9	3
Book Value of Equity Per Share (Rs.)	4	55	64	66
Return On Net Worth (%)	12.31%	9.76%	16.20%	3.90%
Investment Corpus to Networth	5.23	5.66	5.96	6.4

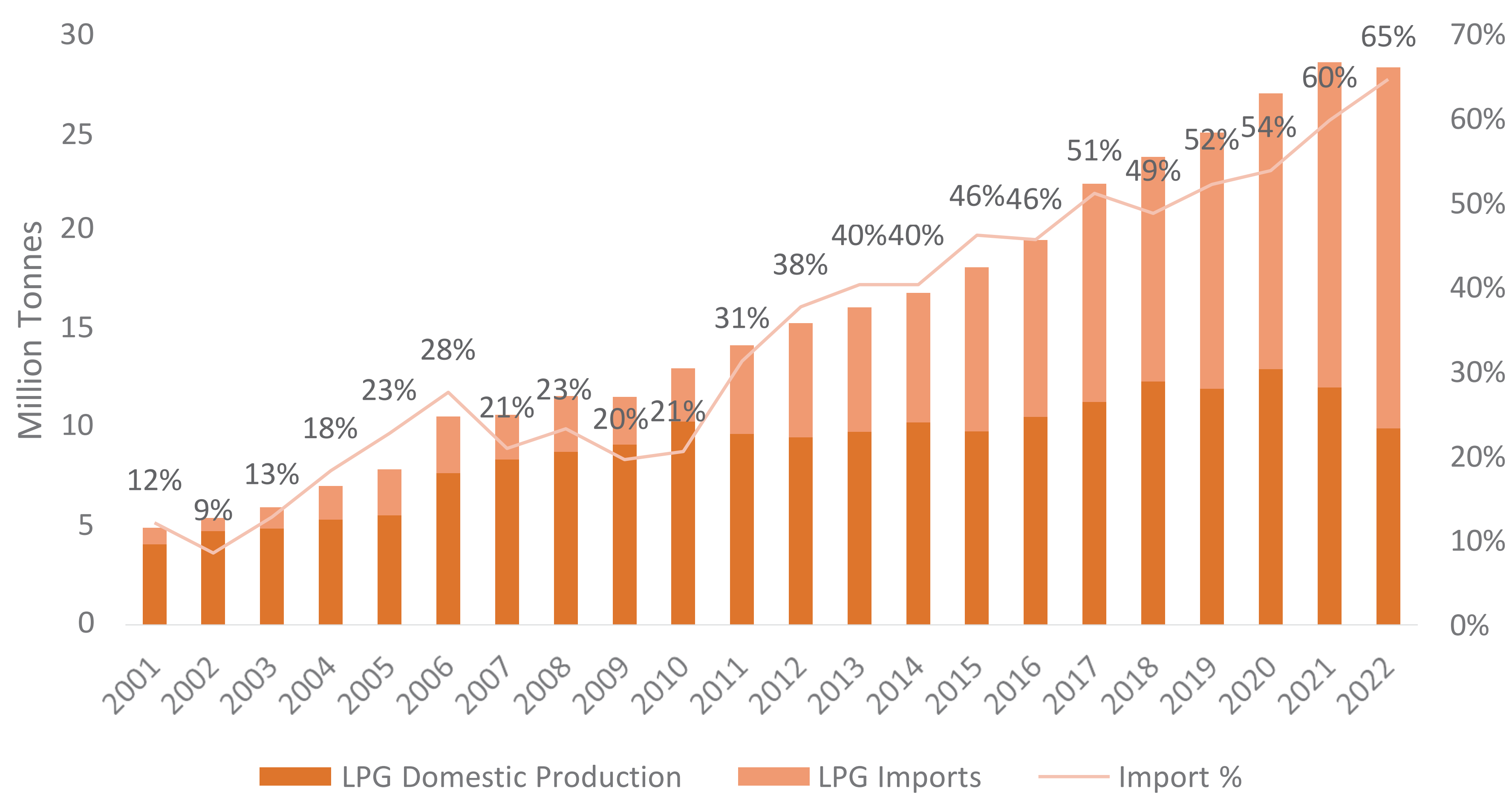


*Source: Company, Internal Analysis *Notes – CV- Commercial Vehicles, PV – Private Vehicles, TW- Two Wheeler, PA – Personal Accidental, GIC – General Insurance Company Ltd. GI- General Insurance, SME – Small and Medium Enterprise*

High Conviction Idea | Aegis Logistics Ltd.

- Incorporated in 1956, Aegis logistics is one of the leading LPG sourcing and distribution company along with that Aegis operates oil chemical storage terminals as well
- LPG is one fuel that the Government of India has been pushing as an alternative fuel to be used for Cooking. The LPG demand has grown by 7% CAGR from 2018 to 2022. India being a net importer of LPG, the incremental demand for LPG is going to be met through imports.
- The Government of India has been building the world's longest LPG pipeline of 2800 KM from Kandla to Gorakhpur which can carry 8.25 Mn tons, i.e. 25% of India's LPG demand. Aegis is already connected to this pipeline via the port and railway gantry. It is expected that Aegis can handle around 2 Mn tons out of this 8.25 Mn tons of demand. This may act as a big boost for the LPG business of Aegis.
- Aegis has invested in LPG handling and distribution terminals to reap benefits of the increased dependence of imports of LPG. Today Aegis sources 20% of LPG imports into India which we believe may double over the next five years.
- Aegis has also created a joint venture with Royal Vopack to increase its gas and liquid storing capabilities.
- Currently, the stock is trading at 12x FY24 Earnings and we believe that the earnings can compound at a double digit CAGR for next three years.

Rs Crs.	FY17	FY18	FY19	FY20	FY21	FY22
Revenue	5616	7183	3843	4631	4791	4631
EBITDA	369	515	486	534	266	534
EBITDA Margin	7%	7%	13%	12%	6%	12%
PAT	252	335	326	385	214	385
RoIC	26%	22%	19%	16%	17%	16%



Source: Company, Internal Analysis, LPG: Liquified Petroleum Gas, ROIC – Return on Invested Capital, EBITDA- Earnings Before Interest, Taxes, Depreciation, and Amortization, PAT – Profit After Tax
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High Conviction Idea | Matrimony.com Ltd.

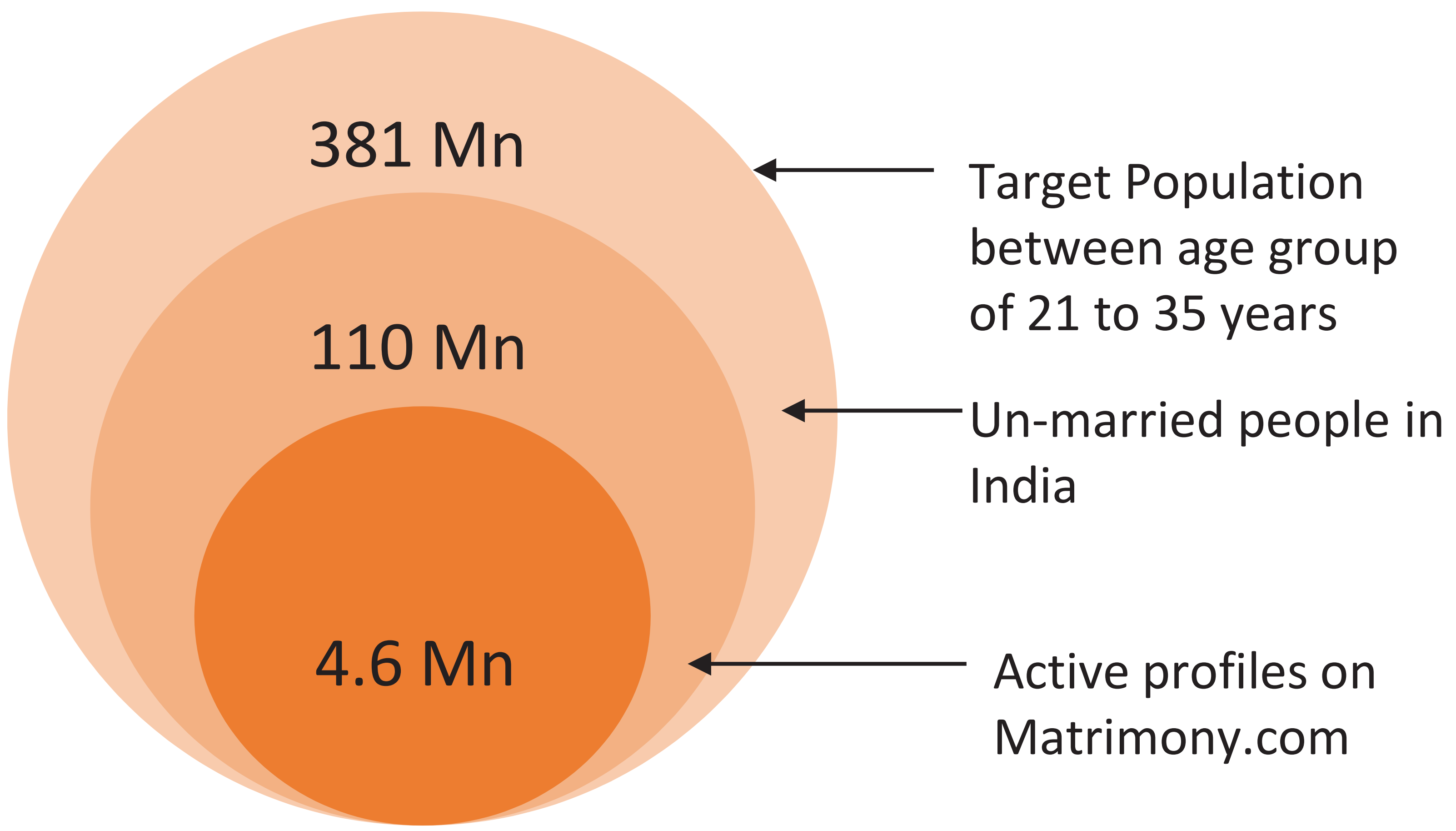
- Incorporated in 1999, the company started as an online service provider website for people from south of India. Today, Bharat Matrimony is a dominant market leader in the matchmaking industry.

- Matrimony network has 4.6 mn active profiles today and the opportunity size is large with c.110 mn unmarried young individuals in the country. Matrimony is a huge beneficiary of economies of scale and network effects present in the industry.

- Matrimony has been consistently gaining market share from the last four years which stands at 61% and is the only profitable player in the industry ~ 100% of the profit pool.

- Currently the stock is trading at 55x TTM Earnings. With just 4% share of the total addressable market listed on its network, we see matrimony to sustain double digit revenue growth through market share gains and earnings growth through improved pricing strategy and reducing competitive intensity.

Rs Crs.	FY19	FY20	FY21	FY22
Revenue	348	372	378	434
EBITDA	54	53	68	86
EBITDA Margin	16%	14%	18%	20%
PAT	43	39	41	54
RoE	21%	13%	15%	20%



RoE - Return On Equity, EBITDA- Earnings Before Interest, Taxes, Depreciation, and Amortization, PAT – Profit After Tax
CAGR- Compounded Annual Growth Rate, Source – Company, Internal Analysis. TTM – Trailing 12 months
Source: Company, Internal Analysis
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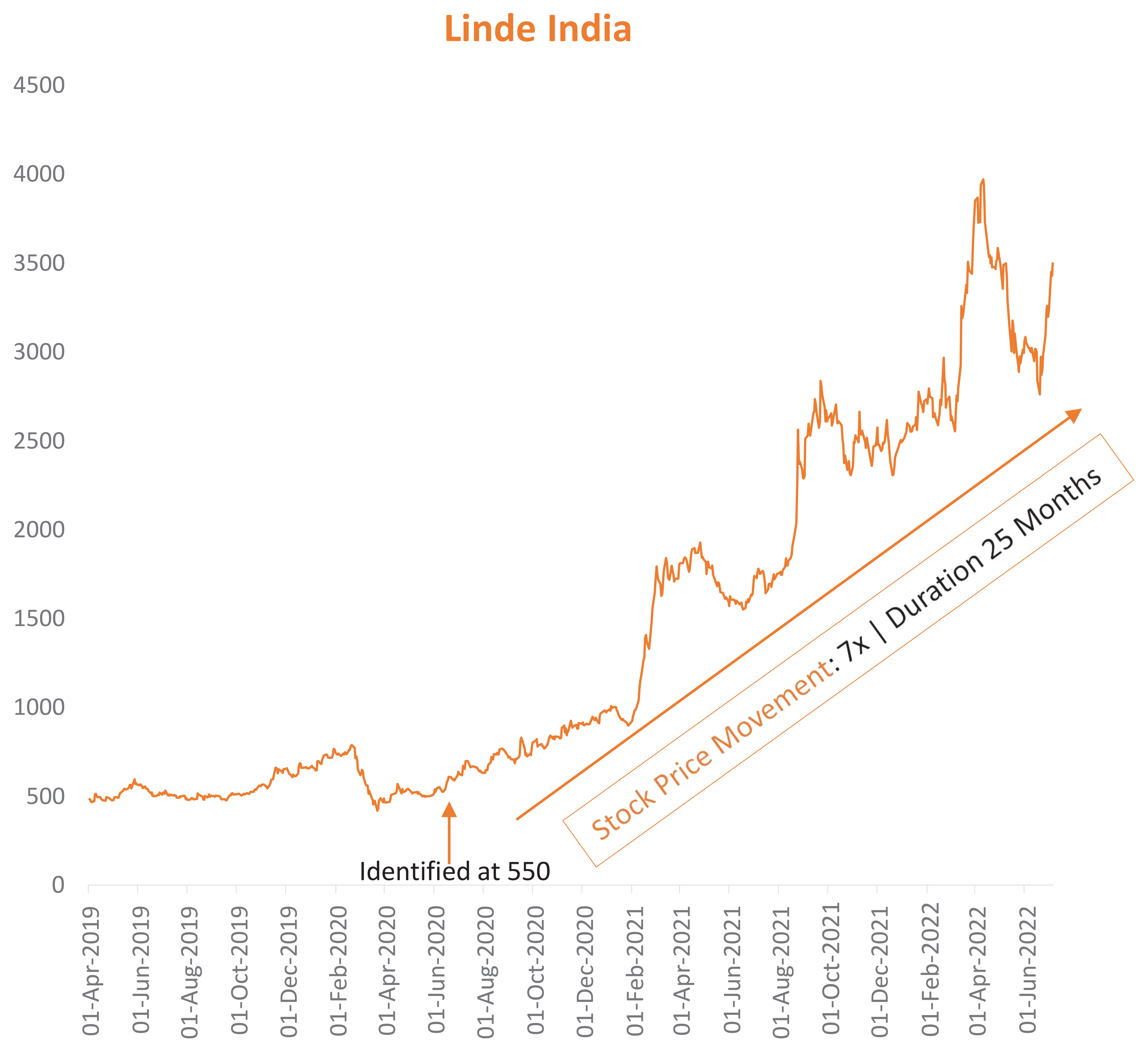
Success Stories | Linde India Ltd.

- Incorporated in 1935, Linde is one of the leading industrial gases company in India backed by a strong parentage of what it now the biggest industrial gases company in the world – Linde plc.
- Linde operates in two segments, Gases and PED (Project Engineering Division). Gases contribute 82% of the revenues and PED contributes 18%. The major applications are in steel, chemicals and refinery sectors and a large number of merchant liquid customers primarily in metal, glass, automobile, petrochemicals and pharmaceutical sectors.
- The merger of Linde AG and Praxair who are the two biggest industrial gases players globally and domestically (with dominant market shares of 55 to 70 per cent in India) brings pricing power and concentration to the industry. It may lead to operating margin convergence (domestic 18% to international 28%).
- Due to anti-trust laws, Linde India and Praxair India had to divest plants. Their plants were sold at 3-3.5x of their respective revenues. Taking that benchmark, Linde India is trading at replacement cost of it's gases business. Given that, the 500cr turnover of PED business is available at very little cost.



Source: Company , Internal Analysis

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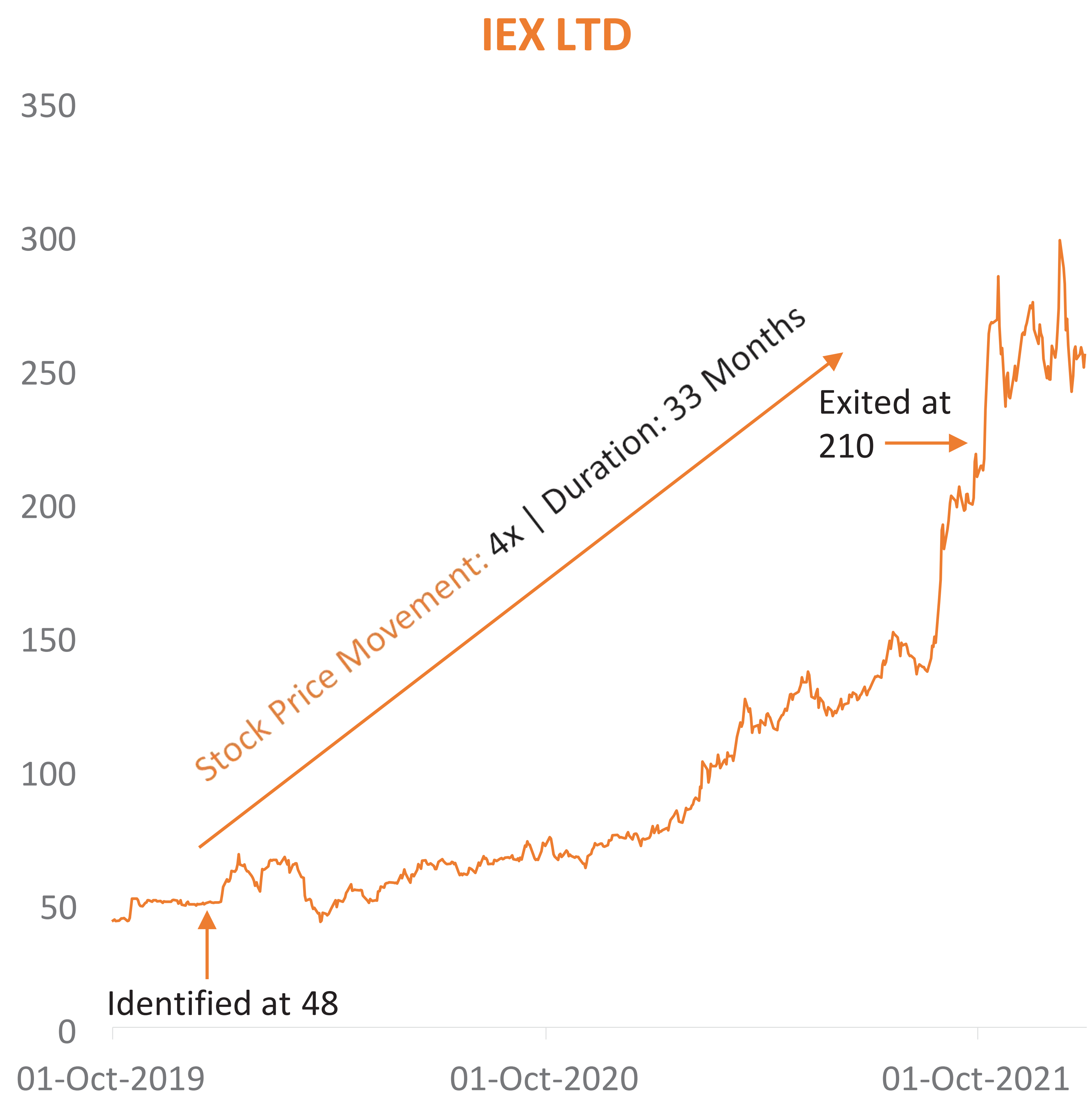
Success Stories | India Energy Exchange Ltd. (IEX)

- Incorporated in 2007, IEX is the first and largest energy exchange providing a nationwide automated platform for physical delivery of electricity. More than 6,500 participants are registered on the exchange. As of FY22, 102 billion units of electricity were traded on the exchange.
- The energy sector is undergoing significant transition and requires innovative solutions to respond to new upcoming opportunities and challenges. Market-based instruments indeed constitute the most efficient way to tackle some of those challenges and in supporting a successful energy transition.
- IEX is benefitting power sector by (i) providing benchmark prices for all electricity transactions, (ii) providing transparent mechanism for price discovery and (iii) creating high liquidity on exchange ensuring lowest cost and assured supply.
- The company has a monopoly in Electricity Exchange market (97.2% market share). Despite exponential growth, the Indian power market is yet to achieve its true potential. Presently, a meagre 11% of total power generated is traded in the short-term power market.



Source: Company, Internal Analysis
Stock Price as on 10th Dec 2021- Rs.295.25 & CMP (12 July 2022)- Rs 163.

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