# KINGS OF CAPITAL

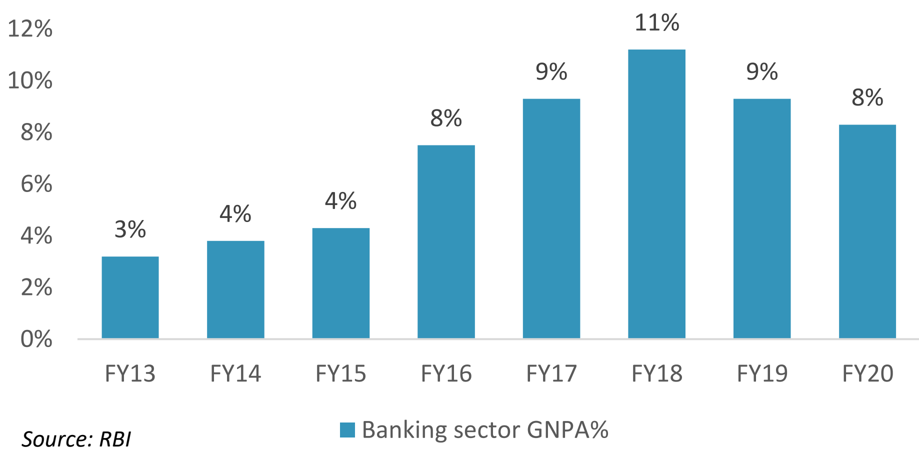
AN INVESTMENT STRATEGY FROM MARCELLUS INVESTMENT MANAGERS

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

**Circulation not intended for US Clients**

# INDIA'S FINANCIAL SERVICES SECTOR HAS BEEN HAMMERED OVER THE PAST 7 YEARS

## India's banking sector was suffering with rising NPAs even before the Covid-19 crisis hit us




*Source: RBI*

**Demonetisation still unfolding, says RBI, lowers growth estimate, leaves key rate unchanged**
- Dec 2016, The Indian Express

**IL&FS kept raising debt days before default**
- Oct 2018, The Indian Express

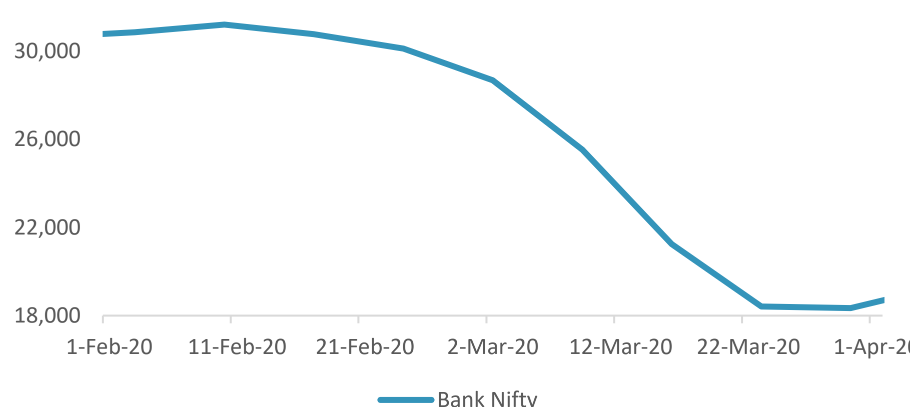
**Bailout buzz, RBI supersedes Yes Bank board, caps withdrawals at ₹50,000**
- Mar 2020, The Indian Express

**1,701 NBFC licences cancelled in FY19 as RBI cracks the whip** - July 2019, The Mint

IL&FS had 350 cos, losses hit ₹90k cr
**- Dec 2018, The Economic Times**

## The Covid-19 lockdown has made the situation worse by putting further pressure on weak lenders

**Bank Nifty is down 39% during 1st Feb to 1st April**




*Source: NSE*

Indian lenders face debt reckoning due to coronavirus lockdown **- Apr 2020, Financial Times**

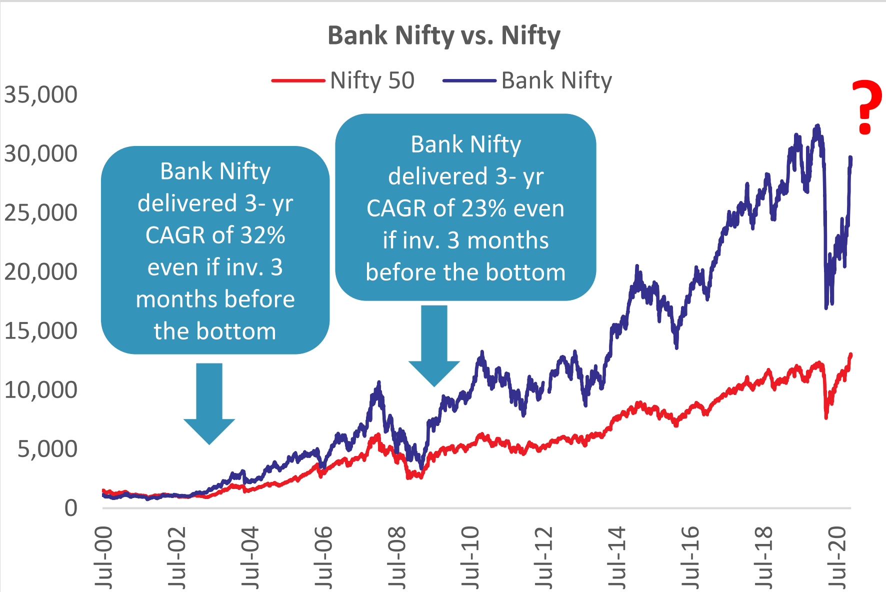
Coronavirus impact: Franklin Templeton Mutual Fund shuts six schemes, Rs 30,800 crore investor wealth stuck
**- Apr 2020, Business Today**

Coronavirus impact: RBI's TLTRO 2.0 gets cold-shoulder from banks
- Apr 2020, Business Standard

**Coronavirus lockdown set to hit NBFCs hard: Icra**
**- Mar 2020, Financial express**

**Coronavirus: NBFCs to face liquidity pressure on lack of clarity on RBI's moratorium, poor collection, says Crisil**
**- Apr 2020, Economic Times**

# HOWEVER, INVESTING IN HIGH QUALITY FINANCIAL STOCKS DURING A CRISIS PROVES TO BE HIGHLY REWARDING




*Source: NSE*

**Extreme negativity during a crisis provide opportunities to long term investors**

Worst Crisis Since '30s, With No End Yet in Sight
**- Oct 2008, Wall Street Journal**

EXCLUSIVE-Soros says US banks 'basically insolvent' **- Apr 2009, Reuters**

**Business model of NBFCs being questioned as crisis intensifies**
**- Nov 2008, The Mint**

**Buffett's Crisis-Lending Haul Reaches $10 Billion**
Berkshire Hathaway Reaps Benefit From Tossing Lifeline to Handful of Firms
- Oct 2013, Wall Street Journal

**Jamie Dimon and JP Morgan are the big winners on Wall Street since Lehman, tripling investors' money - Oct 2018, CNBC**

| 2008-09 global financial crisis | | | | |
|---|---|---|---|---|
| | Invest when the Bank Nifty is at its lowest | | Invest 3 months before the Bank Nifty is at its lowest | |
| | Bank Nifty | Nifty50 | Bank Nifty | Nifty50 |
| 1 yr return | 164% | 96% | 101% | 80% |
| 3 yr CAGR returns | 45% | 28% | 23% | 19% |
| 5 yr CAGR returns | 28% | 20% | 21% | 17% |

*Note: During the 2008-09 crisis, the Bank Nifty was at its lowest on 9th Mar, 2009; Source: NSE*

| Late 90s & early 2000s NBFC crisis | | | | |
|---|---|---|---|---|
| | Invest when the Bank Nifty is at its lowest | | Invest 3 months before the Bank Nifty is at its lowest | |
| | Bank Nifty | Nifty50 | Bank Nifty | Nifty50 |
| 1 yr return | 35% | 11% | 11% | -3% |
| 3 yr CAGR returns | 49% | 26% | 32% | 12% |
| 5 yr CAGR returns | 46% | 33% | 30% | 22% |

*Note: During the NBFC crisis, the Bank Nifty was at its lowest on 24th Oct, 2001; Source: NSE*

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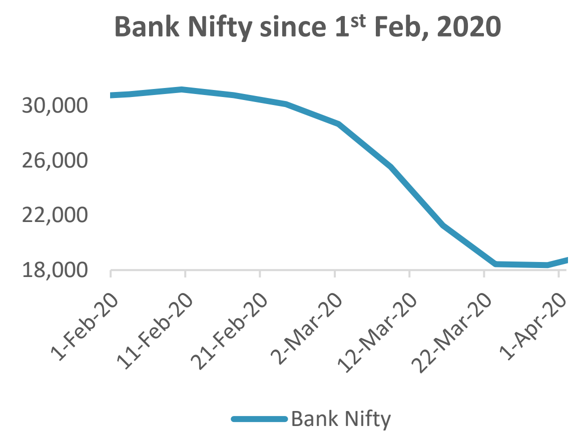
# THREE QUESTIONS THAT NEED TO BE ANSWERED




*Source: NSE*

Growth? Value?

Management? Brand?

Leader? Challenger?

Governance?

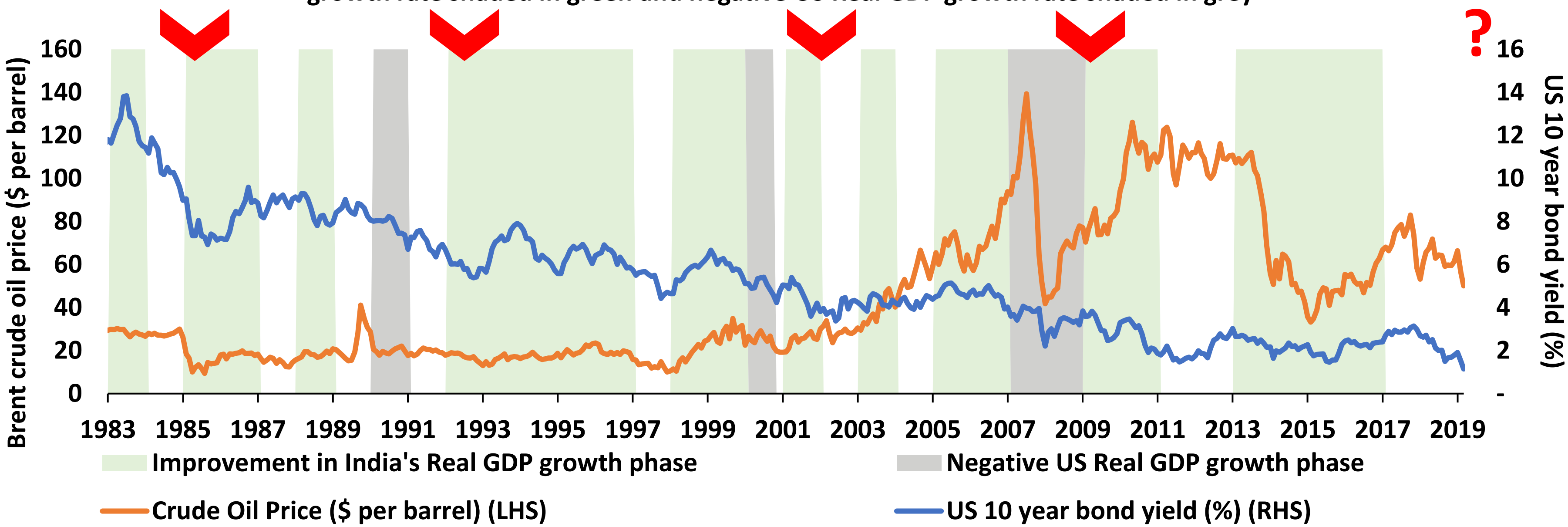

**Question 1:** How does one know that the crisis is bottoming out?

**Question 2:** Even if the crisis is bottoming out, how does one select the right Financial Services stocks to invest in?

**Question 3:** How does one know when to sell?

# THE FOUNDATIONS OF INDIA'S ECONOMIC RECOVERY ARE IN PLACE

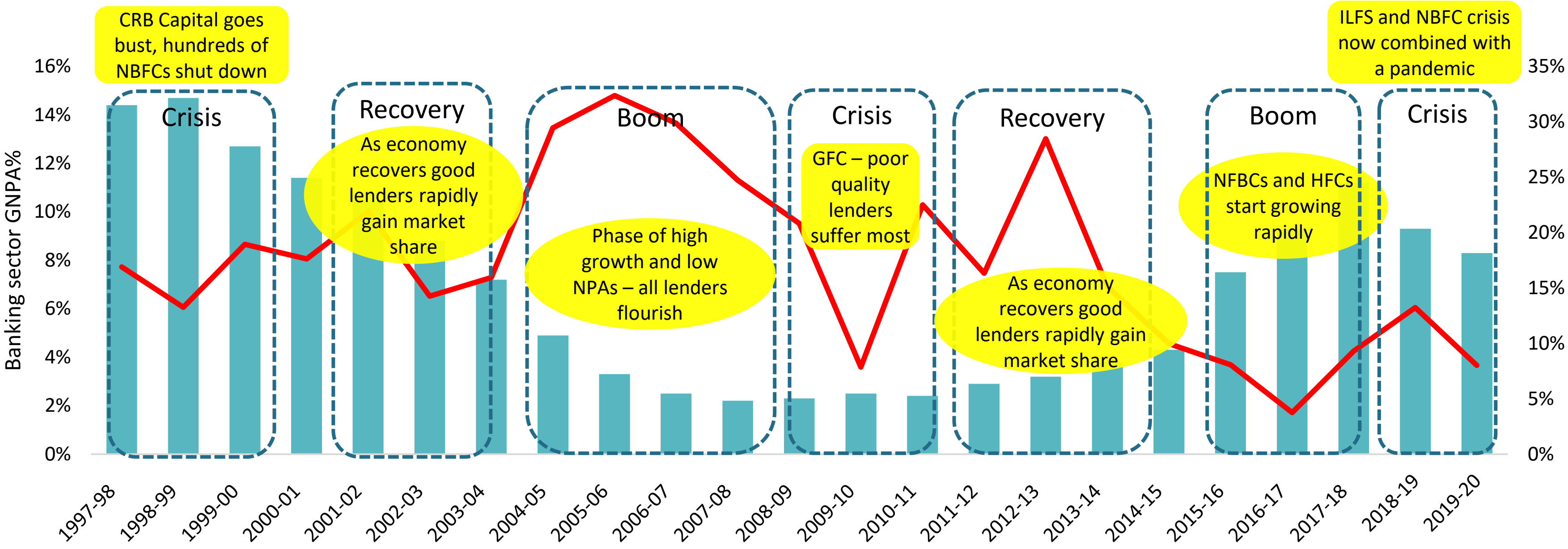
**Brent crude oil price (US$ per barrel)(LHS), US 10 year bond yield (%)(RHS), increase in Indian Real GDP growth rate shaded in green and negative US Real GDP growth rate shaded in grey**




*Source: Marcellus Investment Managers, Bloomberg*

- Four times in four decades – a strong economic recovery in India has been preceded by a congruence of three events –
  **a) US recession b) alongside Falling US bond yields c) Falling oil prices**
- All ingredients now in place for sustained recovery in Indian earnings growth over the next few years:
  **a) Cheap oil b) Cheap money c) GST implementation d) Corporate tax rate cuts**
- The Financial Services sector is a leveraged play on the Indian economy and hence will benefit most from the recovery. However, as we will see in the coming slides, certain companies will benefit more than the others

# A LONG TERM HISTORICAL VIEW OF INDIAN CREDIT CYCLES SUGGESTS THAT CREDIT GROWTH RECOVERY IS INEVITABLE




*Source: RBI*

*What is certainly clear is that again and again, countries, banks, individuals, and firms take on excessive debt in good times without enough awareness of the risks that will follow when the inevitable recession hits. This time may seem different, but all too often a deeper look shows it is not… More money has been lost because of four words than at the point of a gun. Those words are 'This time is different.'* – **Carmen Reinhart and Kenneth Rogoff, 'This Time Is Different: Eight Centuries of Financial Folly' (2009)**

- As illustrated in the exhibit above, every credit crisis in India has been followed by a period of recovery and eventually rapid growth
- History has taught us that recovery of India's credit growth and as a result the growth of India's banking sector is inevitable no matter how gloomy the picture might look sitting in the middle of a crisis
- However, it is important to note that not all lenders are able to survive a crisis or come out of a crisis without long term ramifications. It is therefore important to build a handpicked portfolio of high quality financial companies

# GOOD QUALITY LENDERS TEND TO GAIN MARKET SHARE POST A CRISIS

**Winners in the financials sector**: There are only two factors to take a call on:
a) will the lender be able to survive through the crisis without any bail-outs?; and
b) will the lender have enough strength on the liabilities side of the balance sheet on the other side of the crisis to help accelerate loan book growth and lead the consolidation of market share once the crisis is behind us?

A. The well-funded lenders are able to absorb any NPA blow and therefore are amongst the ***'last men standing'***
B. Once India's COVID-19 outbreak is over, competition will reduce for well-funded lenders and
   a) Their loan book growth will accelerate because of their best quality liabilities franchise
   b) Their NPA ratios will fall materially
   c) NIMs will expand as these lenders will be able to pick and choose borrowers
C. As point B above is implemented, P/E multiples compression will fully reverse and earnings will grow at an accelerated pace

**Performance of HDFC Ltd. during the NBFC crisis of the late 1990s**

| | FY96 | FY97 | FY98 | FY99 | FY00 | FY01 | FY02 | FY03 | FY04 |
|---|---|---|---|---|---|---|---|---|---|
| PAT growth% | 34% | 27% | 18% | 14% | 20% | 18% | 22% | 19% | 23% |
| Loan bk growth% | 27% | 20% | **22%** | **18%** | 22% | 31% | 30% | 26% | 29% |
| NIM% | 3.3% | 3.7% | **3.0%** | **2.4%** | 2.2% | 2.4% | 2.8% | 3.0% | 3.2% |
| GNPA% | | 0.5% | **0.7%** | **1.0%** | 0.9% | 0.8% | 0.9% | 1.0% | 1.2% |
| P/E ratio | 20.1 | 13.6 | **13.1** | **8.1** | 11.3 | 13.8 | 14.4 | 11.7 | 18.7 |
| RoE% | 17% | 16% | 17% | 18% | 20% | 21% | 23% | 24% | 27% |

*Source: Marcellus Investment Managers, Ace Equity*

**Performance of HDFC Bank during the 2008-09 global financial crisis**

| | FY06 | FY07 | FY08 | FY09 | FY10 | FY11 | FY12 | FY13 | FY14 |
|---|---|---|---|---|---|---|---|---|---|
| PAT growth% | 31% | 31% | 39% | 41% | 31% | 33% | 32% | 30% | 26% |
| Loan bk growth% | 37% | 34% | 35% | 56% | 27% | 27% | 22% | 23% | 26% |
| NIM% | 3.6% | 4.0% | 4.1% | 4.2% | 3.9% | 4.1% | 4.1% | 4.2% | 4.0% |
| GNPA% | 1.5% | 1.4% | **1.4%** | **2.0%** | 1.4% | 1.1% | 1.0% | 1.0% | 1.0% |
| P/E ratio | 27.8 | 26.6 | **29.4** | **18.3** | 30 | 27.8 | 23.6 | 22.1 | 21.2 |
| RoE% | 16% | 19% | 18% | 17% | 17% | 17% | 19% | 21% | 19% |

*Source: Marcellus Investment Managers, Ace Equity; Note: Adjusting for the CBOP merger, FY09 PAT growth would have been 34% and advances growth would have been 38%*

# THE MARCELLUS INVESTMENT FUNNEL FOR INVESTING IN FINANCIAL STOCKS

Universe of 95 financial stocks with median mkt cap of Rs. 10,191 Cr

Run forensic filter on the 93 stocks

65 stocks remain, Median mkt cap of Rs. 14,452 Cr

23 stocks, median mkt. cap of Rs. 31,860 Cr

12 stock portfolio, median mkt. cap of ~Rs. 63,000 Cr

The universe: All financial stocks including banks, NBFCs, general insurers, life insurers, brokers and asset managers

Forensic Accounting Screen - Eliminate companies with sub-par accounting

Typically avoid 'Zone of thuggery' candidates (refer next slide)

Use of proprietary capital allocation models spanning the past 6 years of data

Detailed analysis of annual reports and published financials

3rd party/channel checks, management meetings

Corroborating 'management version' with channel feedbacks + independent views on governance/capital allocation

**Portfolio of 10 to 14 financial companies**

*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 27th Nov, 2020*

*Source: Ace Equity*

# FORENSIC ACCOUNTING TO IDENTIFY COMPANIES WITH CLEAN ACCOUNTING PROVES TO BE HIGHLY REWARDING

**<u>Methodology</u>**

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'.

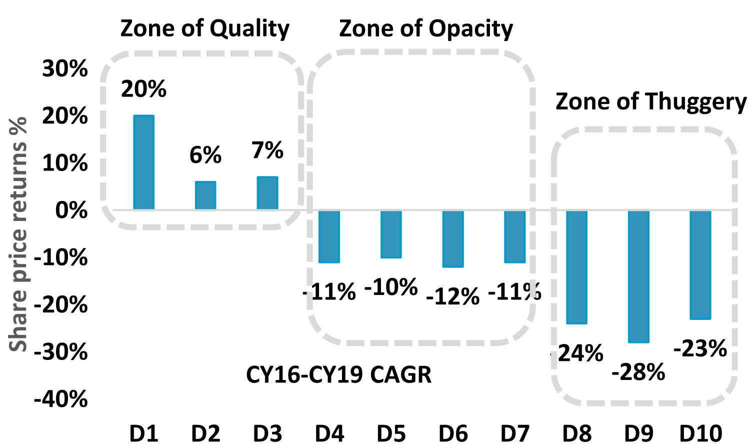
**A few of our forensic ratios**

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

54% for Yes Bank vs. 28% for Kotak

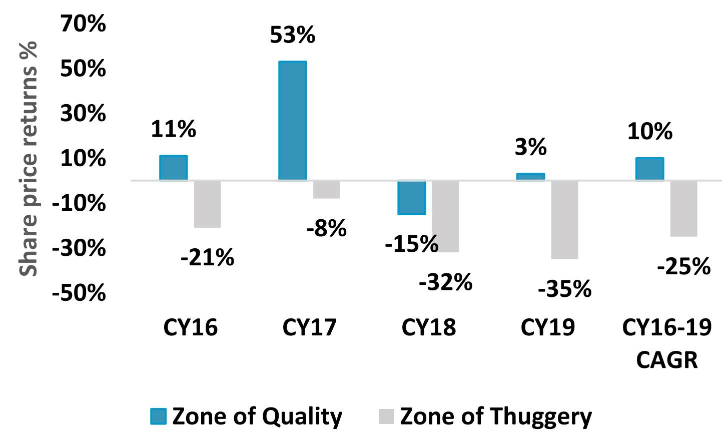
23x for Yes Bank vs. 4x for Kotak

**Strong correlation between accounting quality and shareholders' returns**




*Source: Marcellus Investment Managers, NSE*

**Quality wins and wins big over the long term**




*Source: Marcellus Investment Managers, NSE*

# FORENSIC ACCOUNTING CASE STUDY – DEWAN HOUSING FINANCE LIMITED (DHFL)

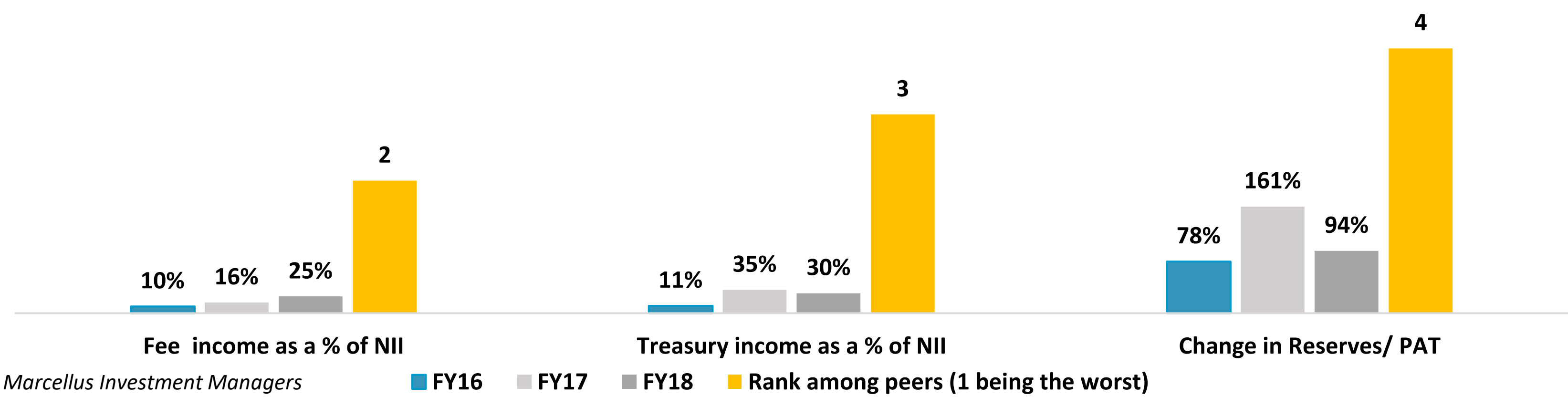
**How did we spot anomalies in DHFL's accounting?**

- Marcellus' forensic accounting framework rates housing finance companies such as DHFL on eleven different ratios which are calculated from its P&L, balance sheet and notes to accounts
- The forensic framework ranks housing finance companies on each of these 11 ratios and gives a final pecking order with D10 being the worst score and D1 being the best
- DHFL was rated as D10 (worst score) in our forensic score based on the analysis of its FY13-FY18 annual report i.e. well before its collapse in FY19
- The major red flags pointed out by our forensic framework related to upfronting of income i.e. high fee income, earning from non-core income i.e. high treasury income and multiple adjustments in the P&L i.e. change in reserves as a % of PAT not equalling 100%

**Forensic ratios that pointed to poor quality accounting**

| Checks | Rationale |
|---|---|
| Fee income as a % of net int. income | DHFL had the second highest fee incomes as a % of NII amongst its housing finance peers – second only to Reliance Home Finance |
| Treasury income as a % of net int. income | DHFL had the third highest treasury incomes as a % of NII amongst its housing finance peers with XYZ HFC being the first one |
| Change in reserves as a % of PAT | DHFL routed expenses such as interest on ZCBs through the balance sheet |

**Marcellus' forensic accounting model pointed out multiple red flags in DHFL's accounting well before its collapse in 2019**




*Source: Marcellus Investment Managers*

# OUR KINGS OF CAPITAL 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**

- We will create a portfolio of 10 to 14 quality financial companies with clean books of accounts, a long historical track 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 *(see slide 13 for more details)*
- A portfolio of financial companies which have a long historical track record of profitable growth and prudent capital allocation, will stand to benefit from the demise of the public sector institutions across the financial landscape and acceleration in market share gains caused by the multiple disruptions caused 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, the reasons for such inclusion*

# INSURERS, ASSET MANAGERS AND BROKERS ADD RESILIENCE TO THE PORTFOLIO – FY20 IS A GOOD EXAMPLE

| Lenders (high beta, high std. deviation) | Life insurers (lower std. deviation than Bank Nifty) | General insurers (lower std. deviation than Bank Nifty) | Asset managers (unlevered business, no balance sheet risk) | Brokers (unlevered business, no balance sheet risk) |
|---|---|---|---|---|
| **Generate high alpha during good times, underperform for a short period during a crisis but good lenders rapidly regain lost ground post a crisis** | **Life insurance is a savings product, leading life insurers gave positive returns in FY20 vs. Nifty's negative 25% return** | **India's largest private general insurer gave positive returns in FY20 vs. Nifty's negative 25%** | **Asset management is an unlevered business with no balance sheet risk, recurring revenues and strong margins India's largest AMC also gave positive returns in FY20** | **Similar to AMCs, brokers are unlevered businesses and earn a fee based income with no balance sheet risk** |

- 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 14.7% 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

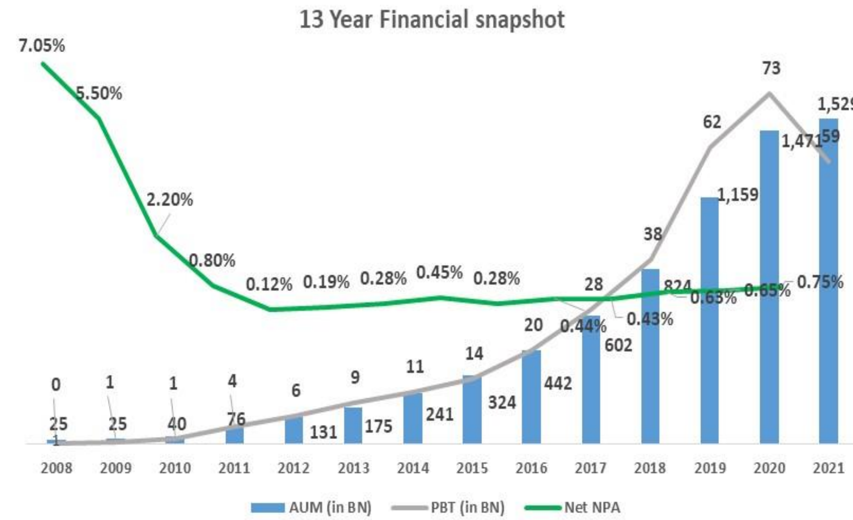
# CASE STUDY: BAJAJ FINANCE (BIG DATA IS BARRIER TO ENTRY)

**"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

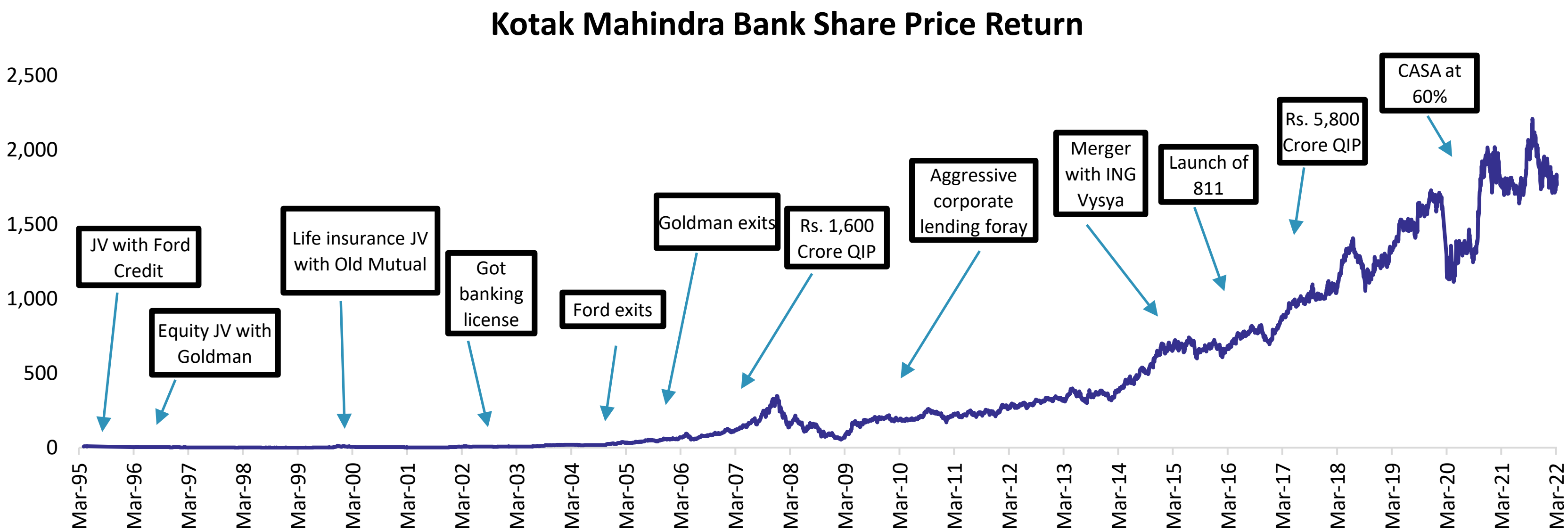
**Key Performance Matrices: Bajaj Finance (FY 2008 -21)**

| *Indicators* | *FY08* | *FY21* | *CAGR* |
|---|---|---|---|
| AUM (Rs. Cr) | 2,478 | 1,52,947 | 37% |
| PBT (Rs. Cr) | 30 | 5992 | 50% |
| RoA | 0.9% | 3.1% | |
| RoE | 3.2% | 12.8% | |
| NNPA | 7.05% | 0.75% | |




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.

# CASE STUDY: KOTAK MAHINDRA BANK (PERFECTION IN CAPITAL ALLOCATION)




**'We are going to position ourselves as a world-class financial institution. We want to do things that are comparable to the best in the world. The ability to scale up is hard. So the best model for us is concentrated India, diversified financial services, and through this, we can get significant scale on an Indian platform.'**

— Uday Kotak, MD & CEO, Kotak Mahindra Bank

- Conservative approach to lending without any concentrated bets on a sector or troubled corporate groups has helped them come out stronger through multiple credit cycles
- HDFC Bank has focused on processes. Kotak on the other hand has been built with a strong entrepreneurial culture. As seen in the chart above, smart capital allocation calls have led to shareholder wealth creation
- Have been able to achieve an all-time high CASA ratio of 56% at a time when many financial institutions are struggling to raise deposits

Source: Company financial reports, analyst reports, NSE

# CASE STUDY: HDFC BANK (THE SOP BANK)

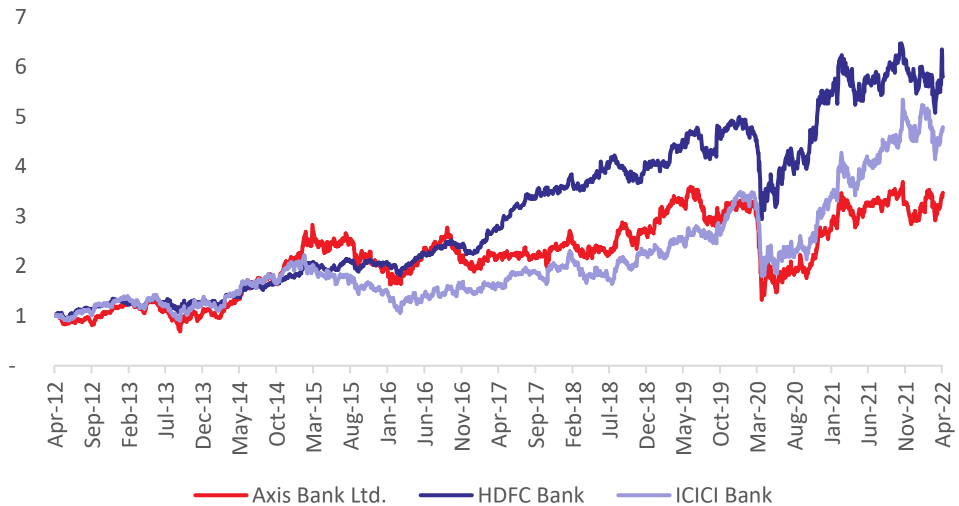
**"When we came here, we had foreign banks with products and services and nationalized banks with brand and money — and we said we will bring both together."**
— Aditya Puri, MD, HDFC Bank

- Strategic focus on building a low-cost franchise – first to build low cost CASA franchise, first to introduce "at par cheques" for cooperative banks in return of these banks keeping interest free deposits with HDFC Bank.
- Heavy focus from 2000 on building a market leading position retail franchise – pioneer in mobile banking.
- Learns from others' mistakes before venturing in any new segment - started pushing credit card business post Lehman crisis and is now the market leader in segment.

**Key Performance Matrices: HDFC Bank vs Peers (FY 2016 -21)**

| *Indicators* | *HDFC Bank* | *ICICI Bank* | *AXIS Bank* |
|---|---|---|---|
| Net Interest Margins | 4.2 % | 3.8 % | 3.5 % |
| Gross NPA to Gross Advances | 1.2% | 6.5% | 4.6% |
| Avg. ROAs | 1.9% | 1.1% | 0.7% |
| Avg. ROEs | 16.2% | 8.5% | 7.2% |

**Share Price (rebased to 100) over 10 Years- HDFC Bank vs Peers**




Source: Company financial reports, analyst reports, NSE
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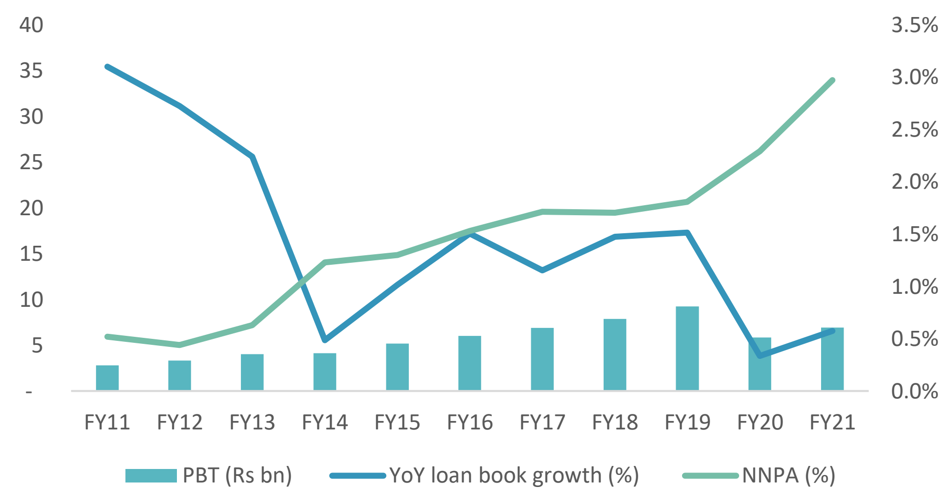
# CASE STUDY (SELL): CITY UNION BANK

- City Union Bank historically had consistently delivered loan book growth in excess of 20% (24% CAGR over FY05-15) and RoEs well in excess of 15%.
- However, post the onset of covid, the SME sector was the worst hit, consequentially, CUB's asset quality worsened materially (NNPA increased from 1.7% to 3.0%) while growth increasingly became challenged as evidenced by 9% loan book CAGR over FY18-21.
- Hence, we decided to exit the stock as we could find better growth and RoE profile in Chola Investment and Finance Company Limited.

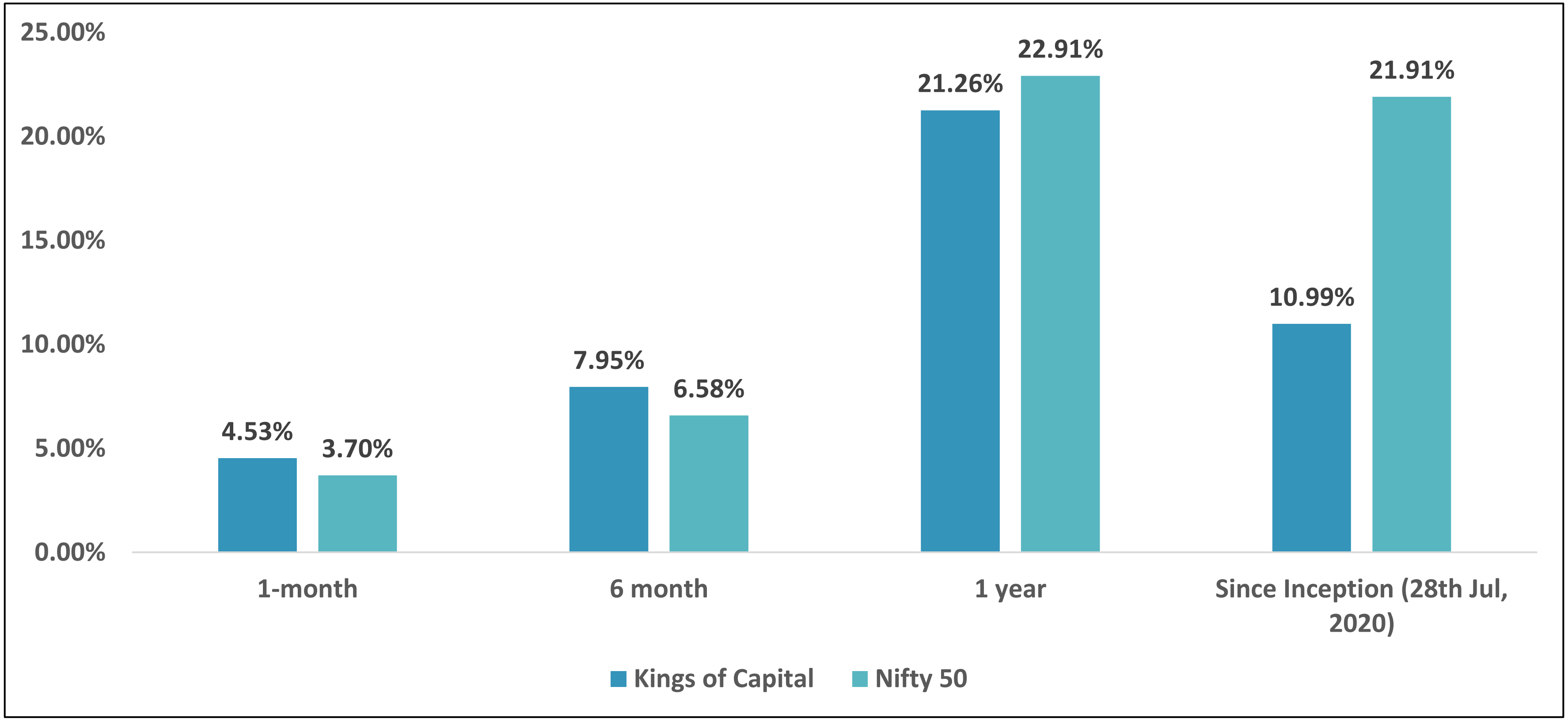
**Key Performance Matrices**

| *Indicators* | *FY13-18* | *FY18-21* |
|---|---|---|
| Loan Book CAGR (%) | 13% | 9% |
| PBT CAGR (%) | 14% | -4% |
| Average RoA (%) | 1.5% | 1.3% |
| Average RoE (%) | 16.3% | 11.8% |
| Exit NNPA (%) | 1.7% | 3.0% |

**10 Years Financial Snapshot – City Union Bank**



# LIVE PORTFOLIO PERFORMANCE (AS ON 30TH JUNE 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 30th June 2023.

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

Past Performance is not indicative of future performance of the Strategy. The data presented above is not verified by SEBI and SEC.

# 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*

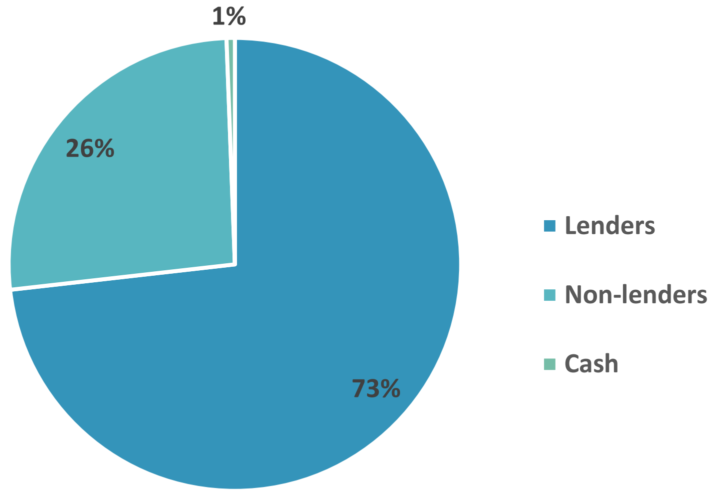
# KCP FACTSHEET (1/2)

| Fund Details | |
|---|---|
| Strategy Name | Kings Of Capital |
| Fund Manager | Tej Shah |
| AUM In INR Crs (30th June 2023) | 565.62 |
| 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 |
| Axis Bank | Lender |

| Market-Cap Wise Allocation | |
|---|---|
| Large-Cap | 86.4% |
| Mid-Cap | 0.0% |
| Small-Cap | 13.0% |
| Cash | 0.6% |

## Sector Wise Allocation

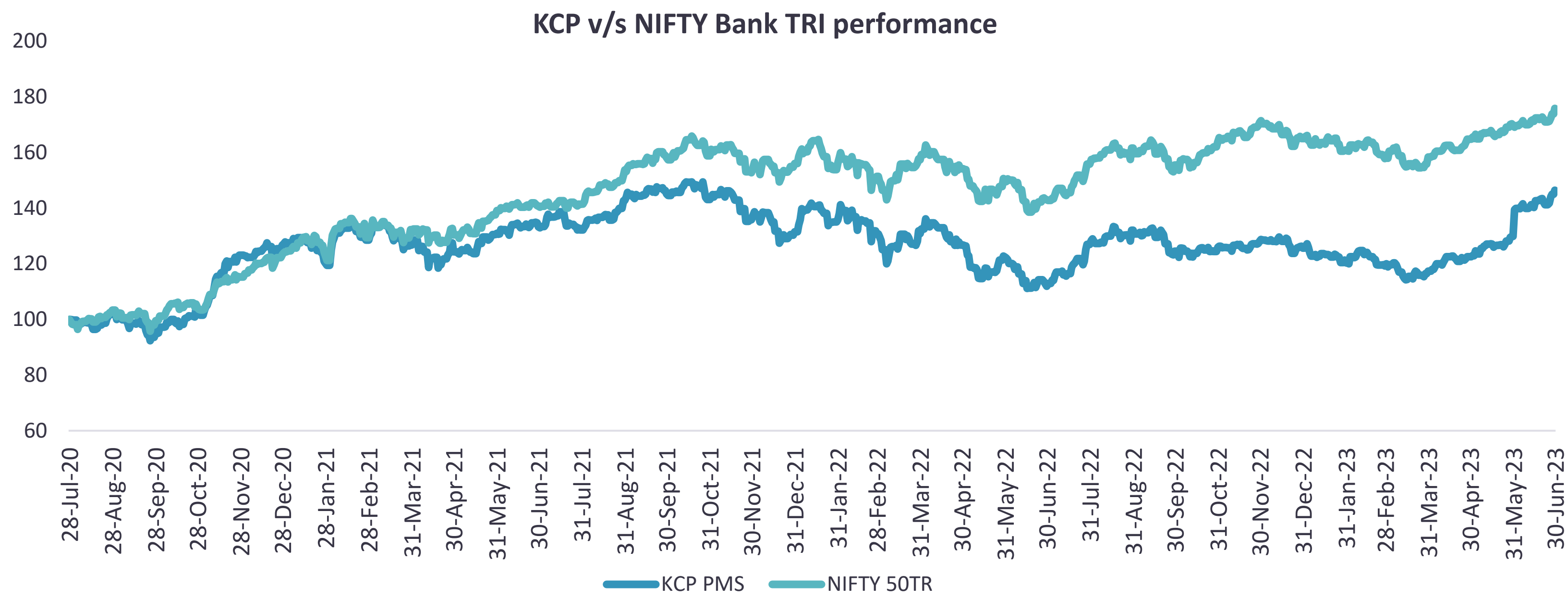



| Portfolio Metrics | |
|---|---|
| Wtd Avg Market Cap (INR Cr.) | 361,430 |
| Portfolio P/E (FY23) | 30.62 |
| Churn Ratio (TTM) | 48.0% |
| Std Dev (Inception – June 23) | 19.3% |
| Sharpe Ratio (Inception – June 23) | -0.073 |

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.

*based on stock entry/ exit from the portfolio

# KCP FACTSHEET (2/2)




*** 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 30th June 2023.

# TEAM MARCELLUS (1/3)

**Saurabh Mukherjea, CFA - Chief Investment Officer**

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, CFA – Head of Sales**

Pramod 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 Regional Engineering College, Surathkal and has a Post-graduate Diploma in Management from the Indian Institute of Management – Ahmedabad.

**Rakshit Ranjan, CFA – Fund Manager**

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).

# TEAM MARCELLUS (2/3)

**Ashvin Shetty, CFA – Fund Manager**

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 – Portfolio Counsellor**

Salil joins Marcellus 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. He completed his graduation in Commerce from Mumbai University

**Tej Shah, CFA – Fund Manager**

Tej is a Portfolio Manager at Marcellus. 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 was involved in the end to end execution of IPOs, QIPs and buybacks. Tej is a Chartered Accountant and has cleared all levels of the CFA exam. He holds a B. Com degree from Ahmedabad University.

# TEAM MARCELLUS (2/3)

**Sudhanshu Nahta – Portfolio Counsellor**

Prior to joining Marcellus, Sudhanshu was Executive Assistant to the CEO at Ambit Capital and worked in the Institutional Equities' Strategy team. He has also worked with KPMG in the statutory audit team from 2013 to 2016 gaining extensive experience across Indian accounting standards, financial control systems and financial statement analysis & reviews.

Sudhanshu is a qualified Chartered Accountant and a CFA Level 3 candidate. He has completed his graduation in Commerce from Mumbai University

**Manish Hemnani – COO & Head, Client Relations**

Manish comes from quantitative data analytics and research background, and has more than 12 years of experience working with banks and financial institutions across east-Asia, India and Europe.

Prior to founding Marcellus, he founded Crosstab Limited (2011), a London based quantitative data analytics outfit. Prior to that he worked with a Mumbai based boutique analytics consulting firm. Manish holds an MBA from University of Warwick – Warwick Business School (UK).

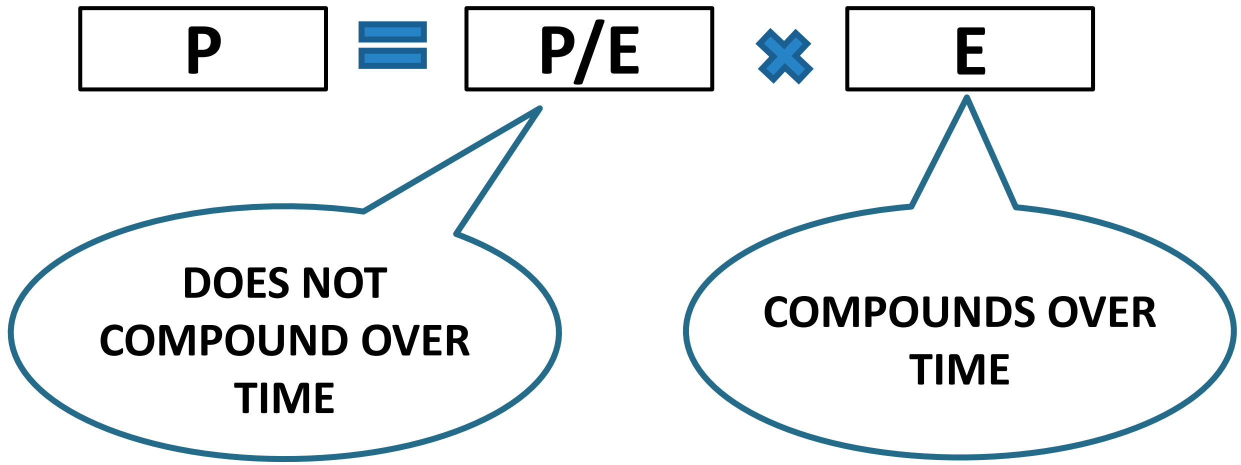
**Nitesh Bhadani – Director, Sales**

In his 6 years stint in Ambit Private Ltd, Nitesh worked across Institutional Equities and Investment Banking division of the firm. Prior to that Nitesh worked in the investment team of private equity firm SAIF Partners in Gurgaon. Before joining SAIF, Nitesh worked as equity research analyst in CRISIL and used to track the Indian Telecom & Cement sector.

Nitesh is a Chartered Accountant and MBA from the Indian School of Business – Hyderabad.

# APPENDIX

# STRONG 10 YR EARNINGS GROWTH MAKES P/E REDUNDANT

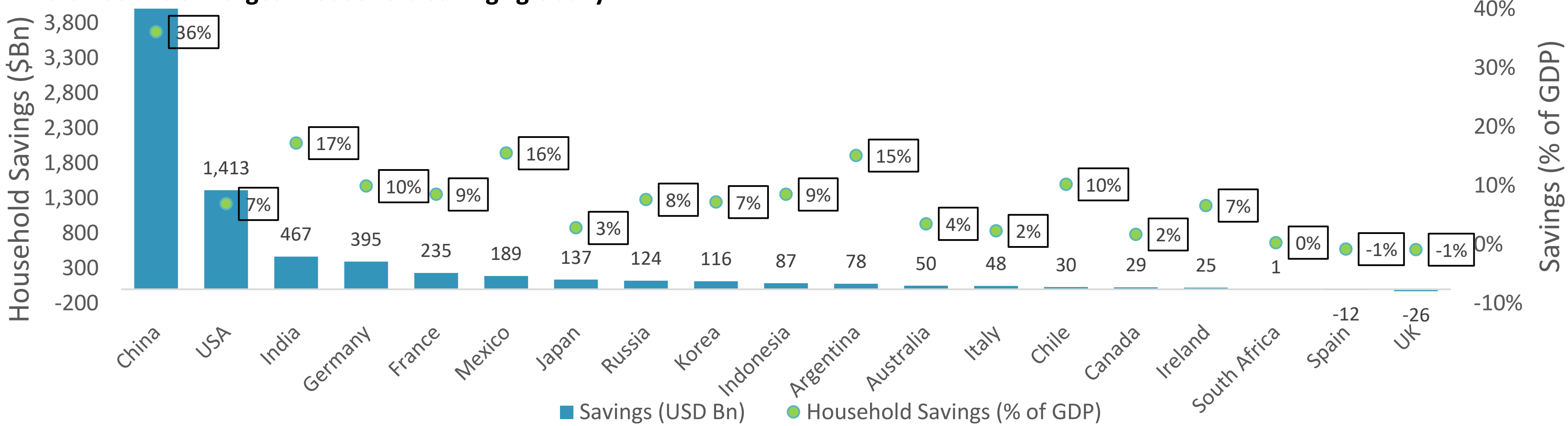


# STRONG 10 YR EARNINGS GROWTH MAKES P/E REDUNDANT

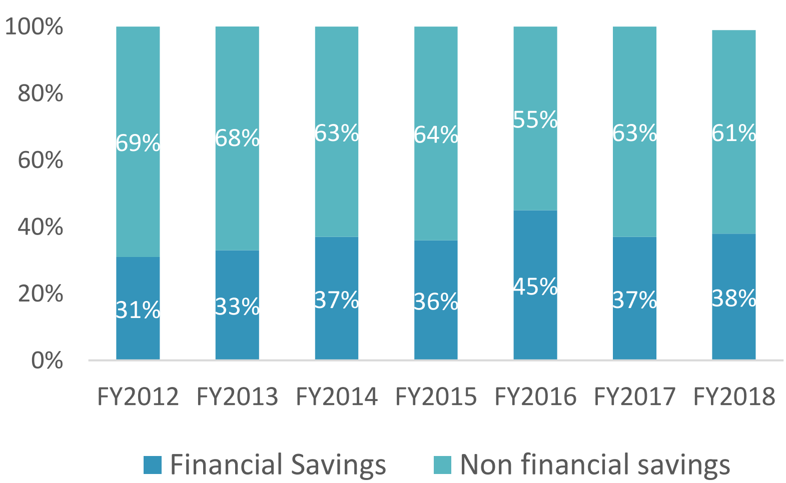
| | | $\Delta$P | | $\Delta$P/E | | $\Delta$E |
|---|---|---|---|---|---|---|
| A for Airlines (e.g. Telcos) | P/E doubles | +7% | = | +7% | + | 0% |
| | P/E halves | -7% | = | -7% | + | 0% |
| B for Buffett (e.g. Maruti, HUL) | P/E doubles | +19% | = | +7% | + | 12% |
| | P/E halves | +5% | = | -7% | + | 12% |
| C for MARCELLUS' CONSISTENT COMPOUNDERS (e.g. Asian Paints, HDFC Bank) | P/E doubles | +32% | = | +7% | + | 25% |
| | P/E halves | +18% | = | -7% | + | 25% |

# FINANCIALIZATION OF INDIAN HOUSEHOLD SAVINGS IS WELL UNDERWAY

**India has the 3rd largest household savings globally…**




**…which are rapidly moving from physical to financial assets…**



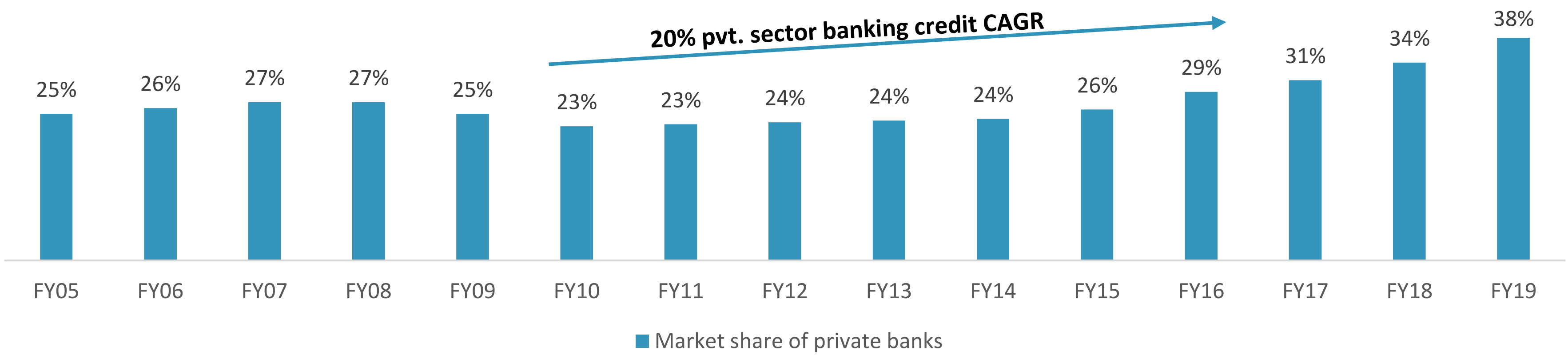

Source: RBI

- Though India has the 3rd largest household savings globally, this wealth has been locked up in gold and real estate since generations. This is unusual in the global context and especially so for a young population
- The gains from reallocation of household wealth to financial assets over the next decade will accrue to:

1. **Lenders** – Banks which will be able to gain deposits and then act as efficient distributors of credit will benefit. From the perspective of Indian households, a simple shift to organised lenders will increase annual incomes by 2%-4%
2. **Life insurers** – Indian household finance landscape is distinctive through the near total absence of pension wealth. A large section of the Indian population has not taken any active steps to financially secure their retirement. Life insurers which are able to offer customer centric products along with strong risk management frameworks will benefit
3. **General Insurers**: With the increasing awareness of health insurance, general insurers which are able to underwrite well across cycles will benefit
4. **Asset Managers/brokers:** Indian households can benefit greatly by reallocating assets from gold and real estate to financial markets. As per the RBI Household Finance Survey, annual household incomes can move up between 1% to 5% just by reallocation of wealth held in the form of gold to financial assets

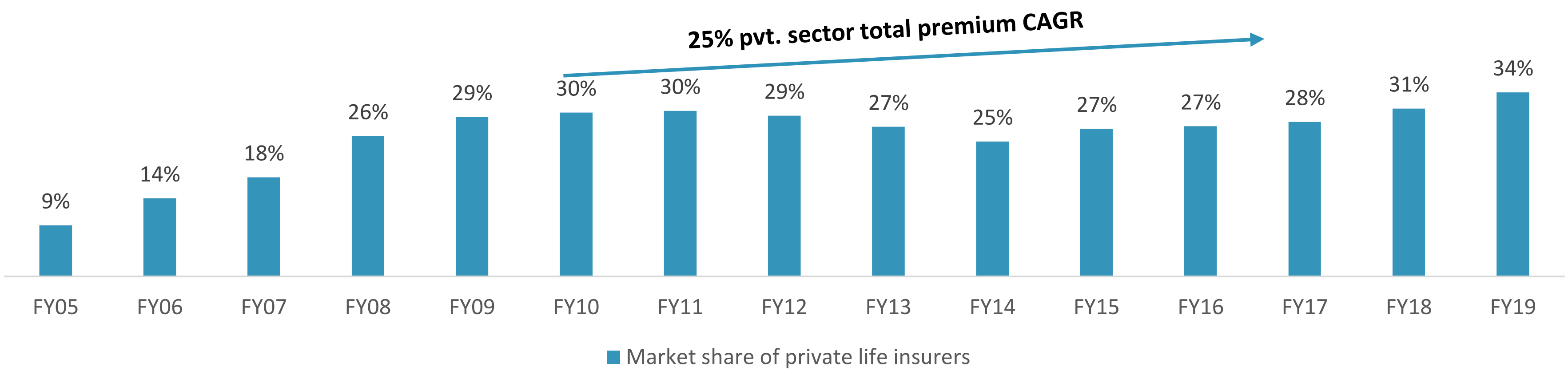
# PRIVATE PLAYERS ARE RAPIDLY CAPITALISING ON THE FINANCIALIZATION OPPORTUNITY (1/2)

**Banking – market share of private banks increased from 25% to 38% in the past 15 years**




Source: RBI

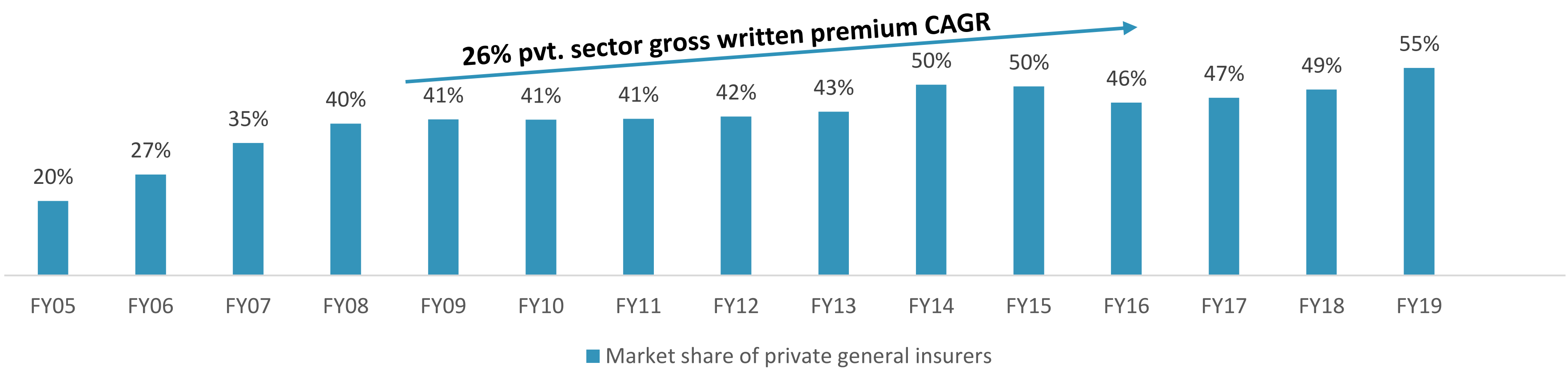
**Life Insurance – market share of private life insurers increased from 9% to 34% in the past 15 years**




Source: IRDAI

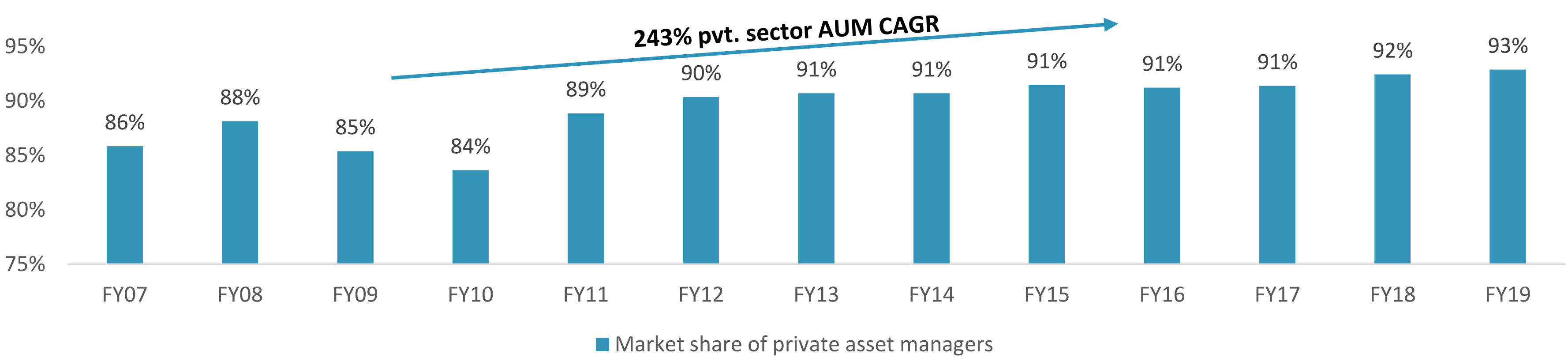
# PRIVATE PLAYERS ARE RAPIDLY CAPITALISING ON THE FINANCIALIZATION OPPORTUNITY (2/2)

**General Insurance – market share of private general insurers increased from 20% to 55% in the past 15 years**




Source: IRDAI

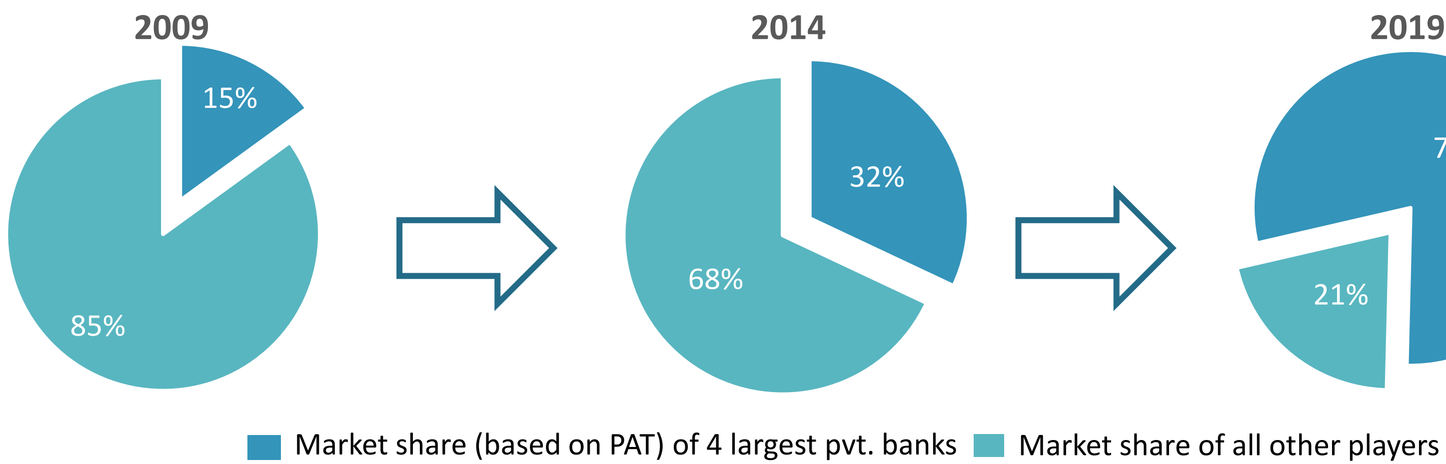
**Asset Management – market share of private asset managers increased from 86% to 93% in the past 12 years**




Source: AMFI

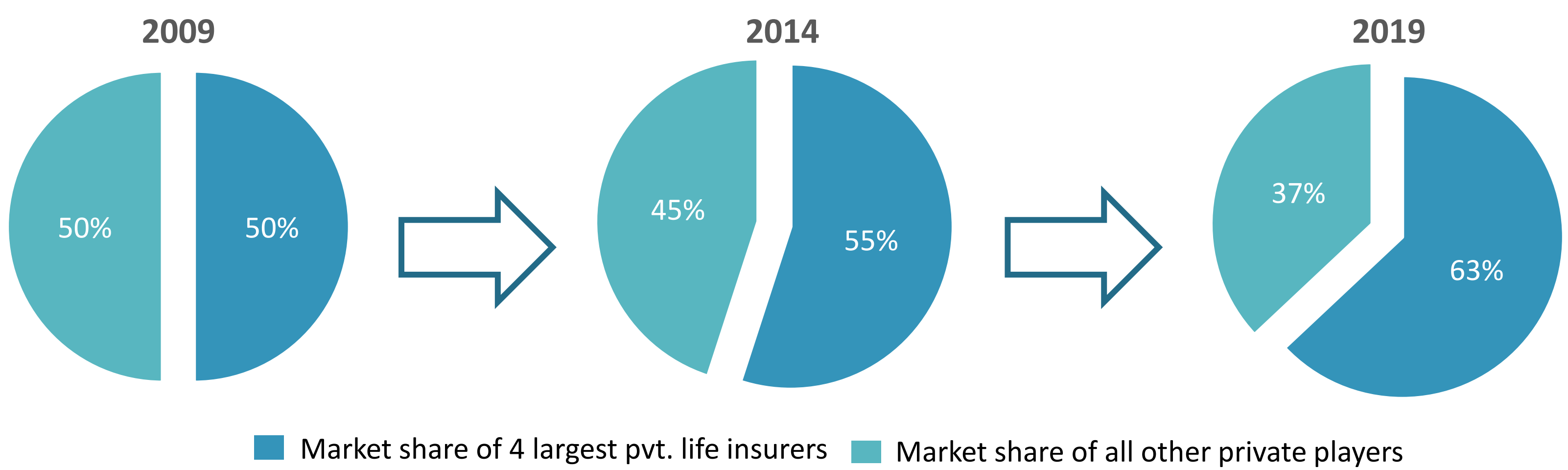
# HOWEVER NOT ALL PRIVATE PLAYERS ARE BENEFITTING, PROFITS ARE GETTING CONSOLIDATED IN THE HANDS OF A FEW PLAYERS

**79% of the banking sector's profits are earned by 4 private sector banks**




Source: RBI, Company financials

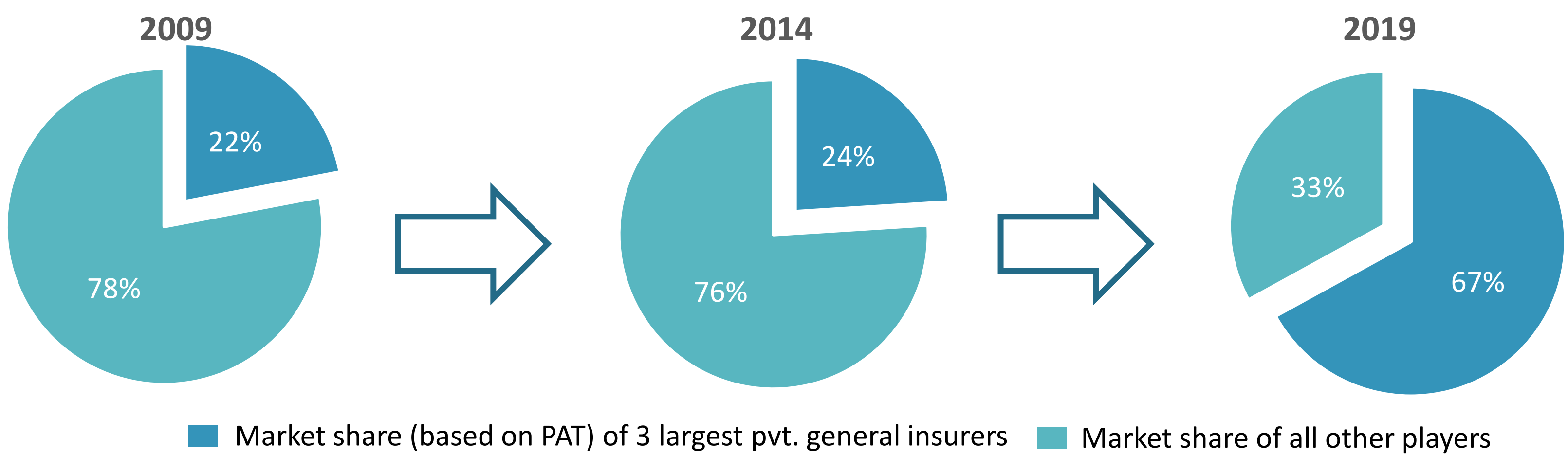
**63% of the private life insurance sector premiums are earned by 4 private life insurers**




Source: IRDAI, Company financials

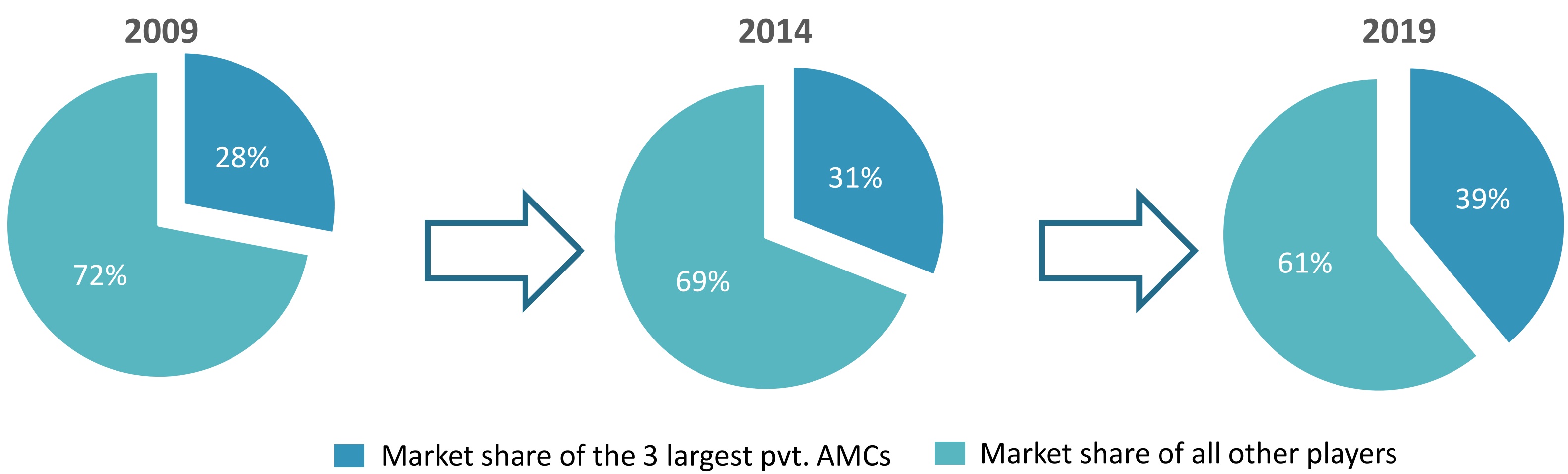
# HOWEVER NOT ALL PRIVATE PLAYERS ARE BENEFITTING, PROFITS ARE GETTING CONSOLIDATED IN THE HANDS OF A FEW PLAYERS

**2/3rd of the profits of the general insurance industry are earned by the 3 private general insurers**




Source: IRDAI, Company financials

**39% of the industry's AUM is now managed by 3 AMCs**




Source: AMFI

# WHAT IS OUR EDGE?

| | Trait | Desired outcome |
|---|---|---|
| Patience | • No rush to deploy money or to make money<br>• 15 years of experience of being "long term greedy" in building firms from scratch (via building talent, frameworks, IP, rules) | • Ability to create AND follow "rules" [for rule-based investing]<br>• Tenacity to keep digging, keep searching for outstanding companies |
| Forensic accounting skills | • Deep pool of accounting talent in the team<br>• Pan-India network of relationships with Chartered Accountants<br>• Over the past 10 years we have done over 1000 bespoke accounting projects for institutional investors | • 1 in 2 listed Indian companies cook their books. Our skills and our knowledge give us a good chance of avoiding them |
| Access to primary data/ insights | • We have access to almost all promoters and to most current & former non-exec directors<br>• We have built a pan-India network of dealers & distributors<br>• Most senior financial journalists are friends<br>• We know the regulators due to our participation in the policymaking process | • We can access many different perspectives on a promoter's integrity and her work ethic<br>• We can access deep insights into a listed company's sustainable competitive advantages |
| Trust in talent | • We have worked with each other for most of our careers<br>• We have built several businesses together | • We know each other's weaknesses<br>• We believe in each other's integrity, intelligence, industry and in each other's rules |

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