

KINGS OF CAPITAL

AN INVESTMENT STRATEGY FROM MARCELLUS INVESTMENT MANAGERS

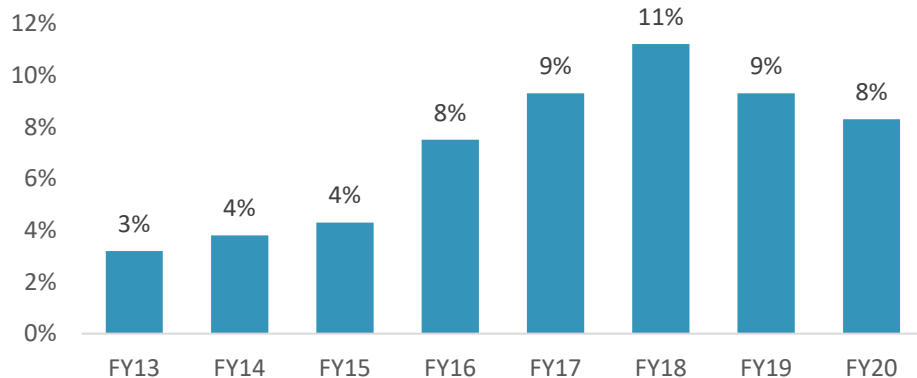


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 **MARCELLUS**

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

■ Banking sector GNPA%

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

- Sep 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

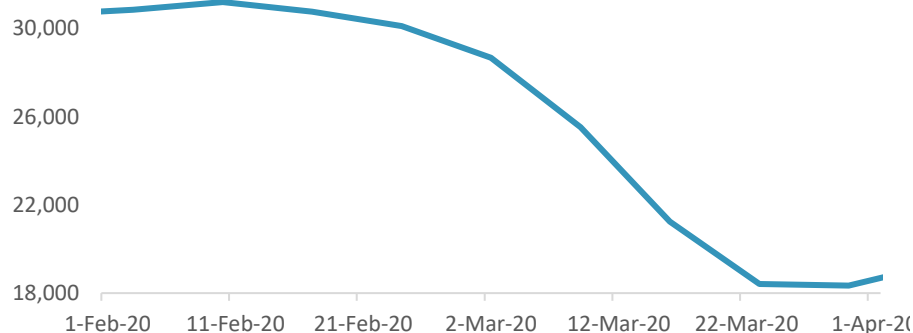
- July 2019, The Mint

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

— Bank Nifty

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

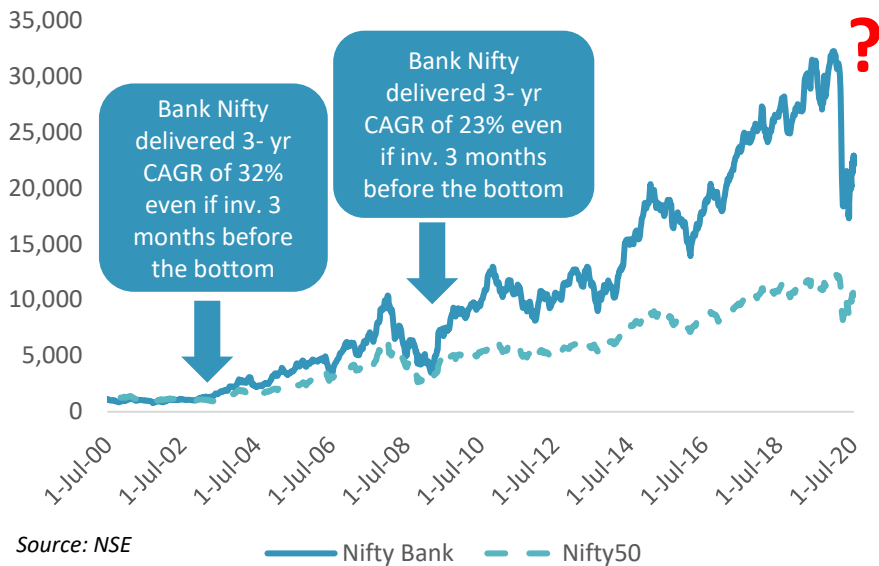
- Mar 2020, Financial express

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

Bank Nifty vs. Nifty



Extreme negativity during a crisis provide opportunities to long term investors

Worst Crisis Since '30s, With No End Yet in Sight
- Sep 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 - Sep 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

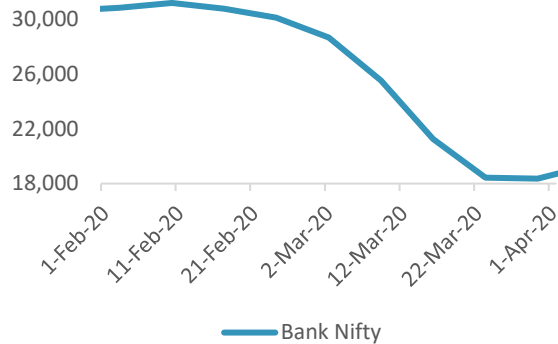
Late 90s & early 2000s NBFC crisis

	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 Sep, 2001; Source: NSE

THREE QUESTIONS THAT NEED TO BE ANSWERED

Bank Nifty since 1st Feb, 2020



Source: NSE

Growth? Value?
Management? Brand?
Leader? Challenger?
Governance?



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

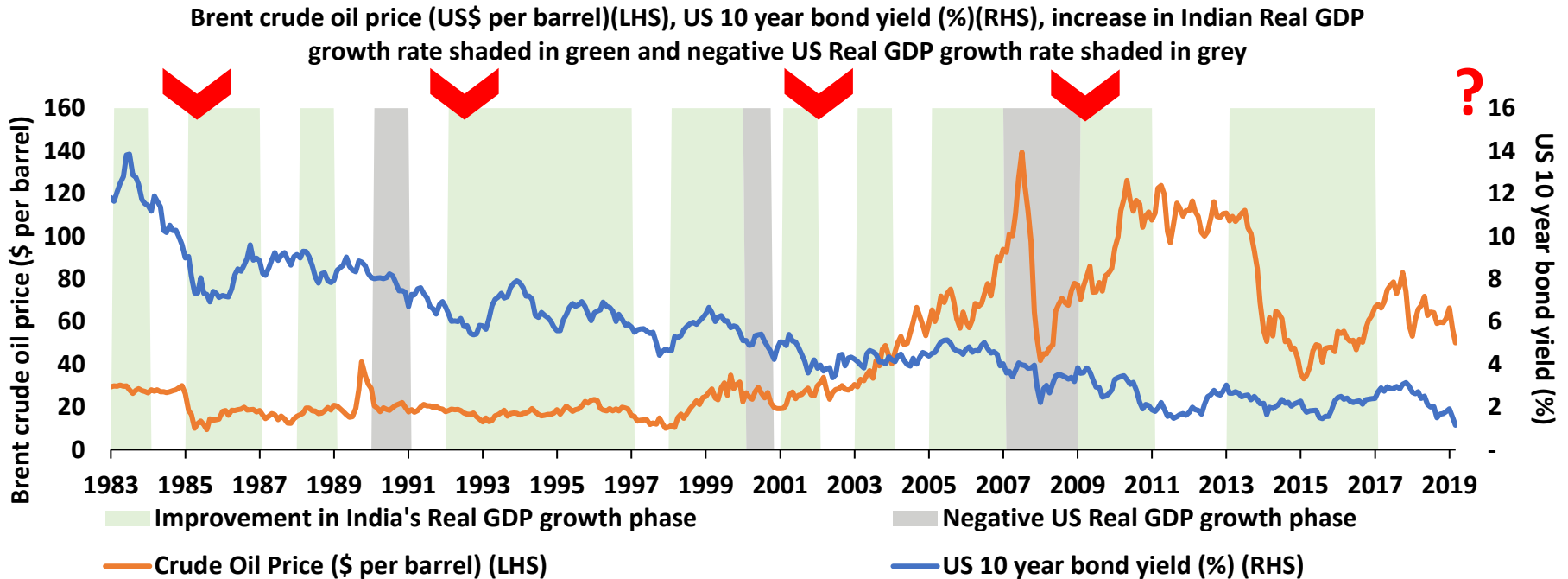


Question 2: Even if the crisis is bottoming out, how does one select the right Financial Services stocks to invest in?



Question 3: How does one know when to sell?

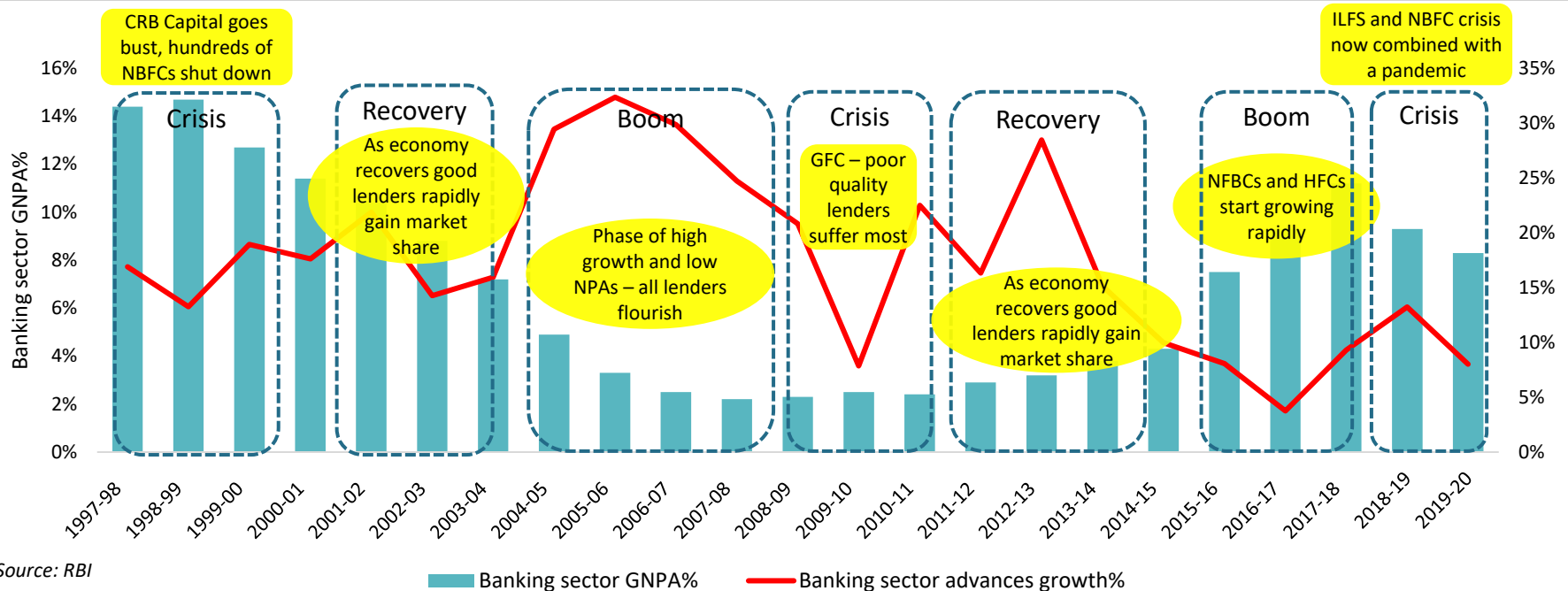
THE FOUNDATIONS OF INDIA'S ECONOMIC RECOVERY ARE IN PLACE



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

Banking sector GNPA% Banking sector advances growth%

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%

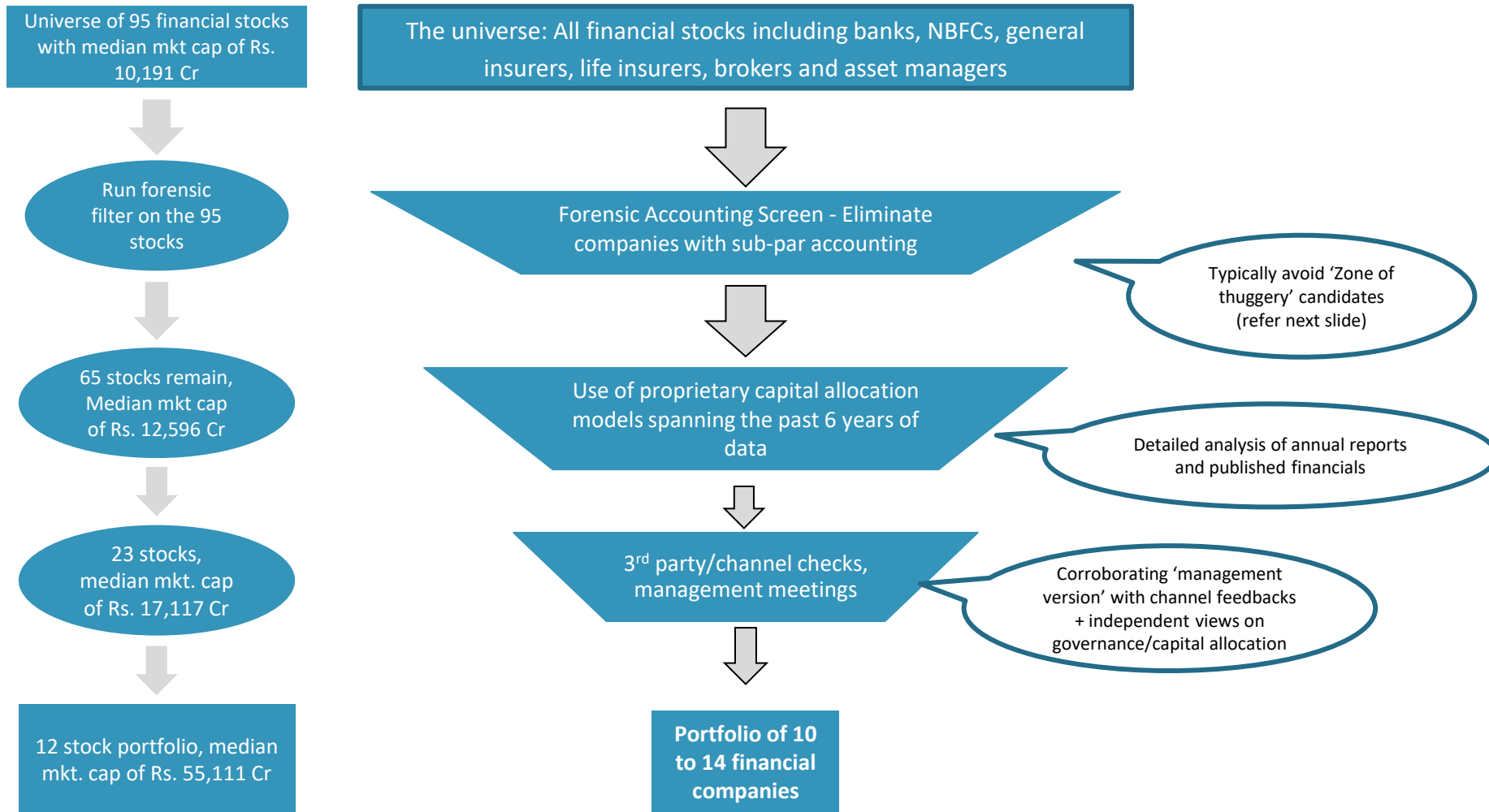
Source: Marcellus Investment Managers, Ace Equity

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 GREAT FRANCHISES



Note: Mkt cap of companies is as on 1st Jul, 2020
 Source: Ace Equity

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

Methodology

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'.

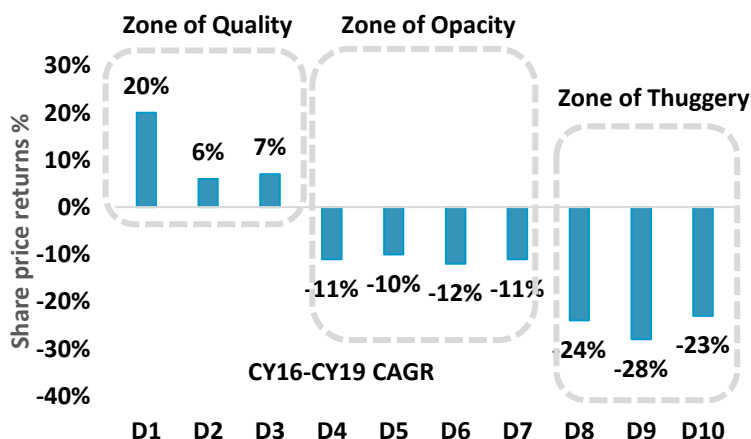
A few of our forensic ratios

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

54% for Yes Bank vs. 28% for Kotak

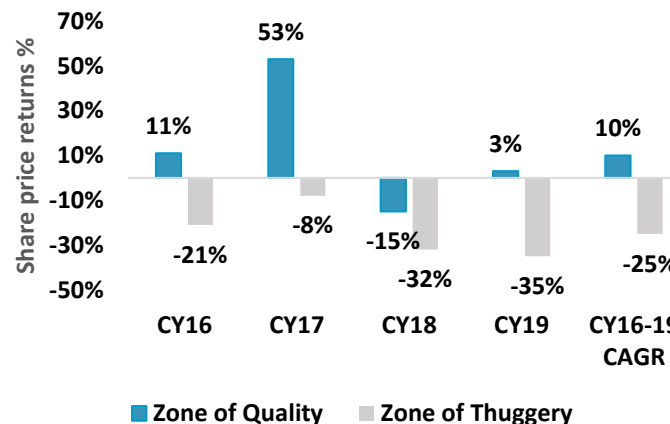
23x for Yes Bank vs. 4x for Kotak

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)

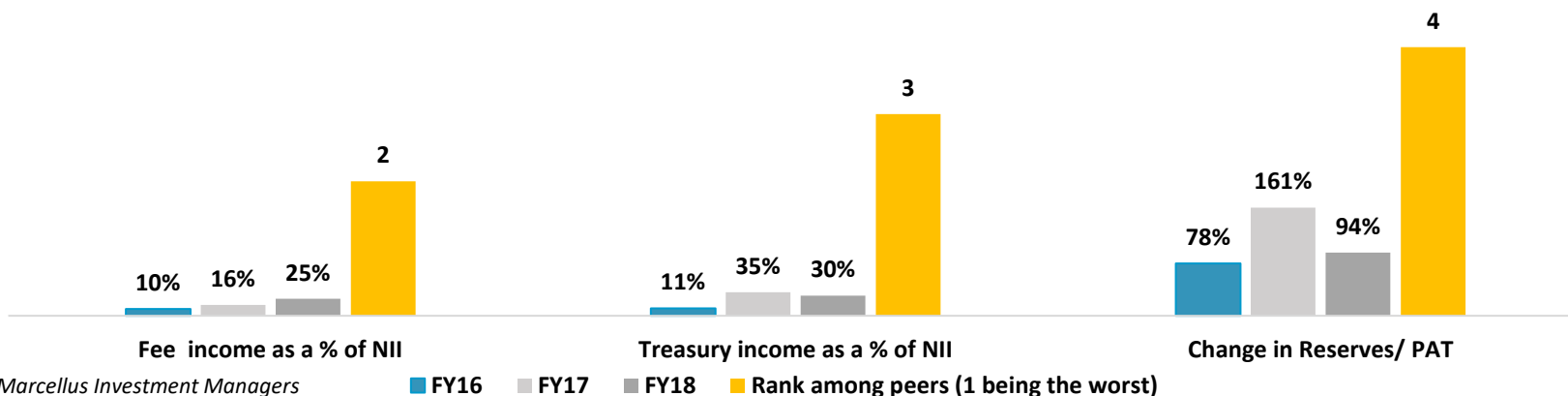
How did we spot anomalies in DHFL’s accounting?

- 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%

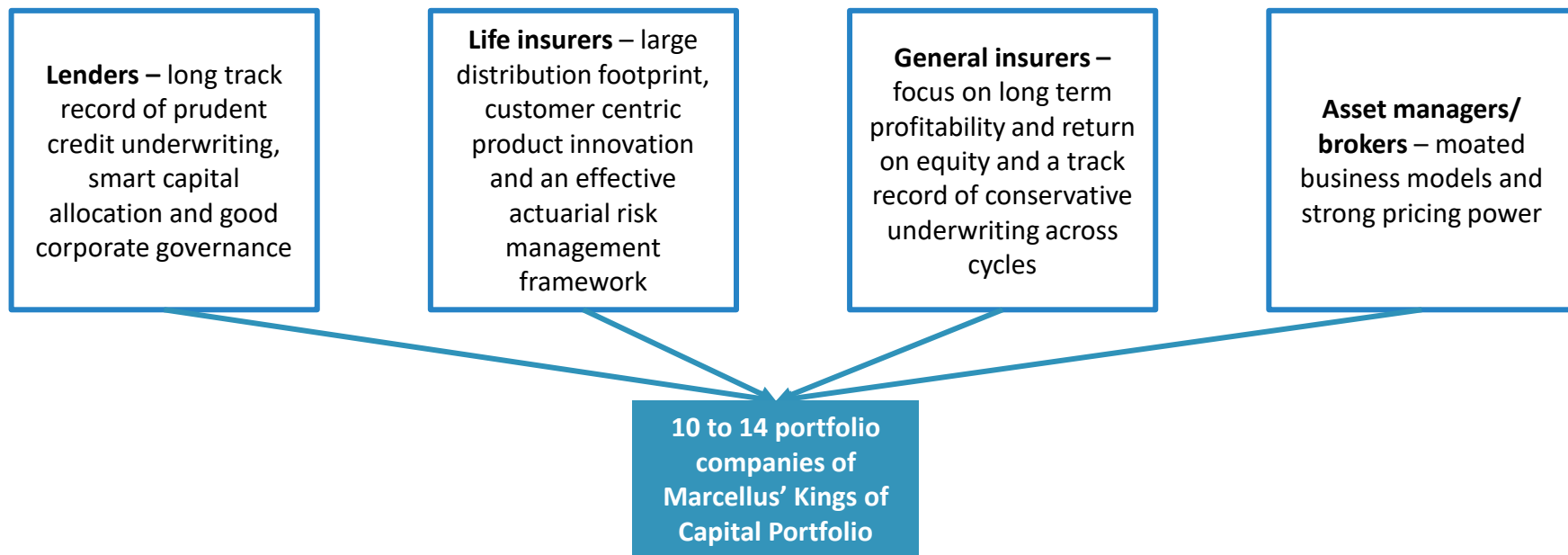
Forensic ratios that pointed to poor quality accounting

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

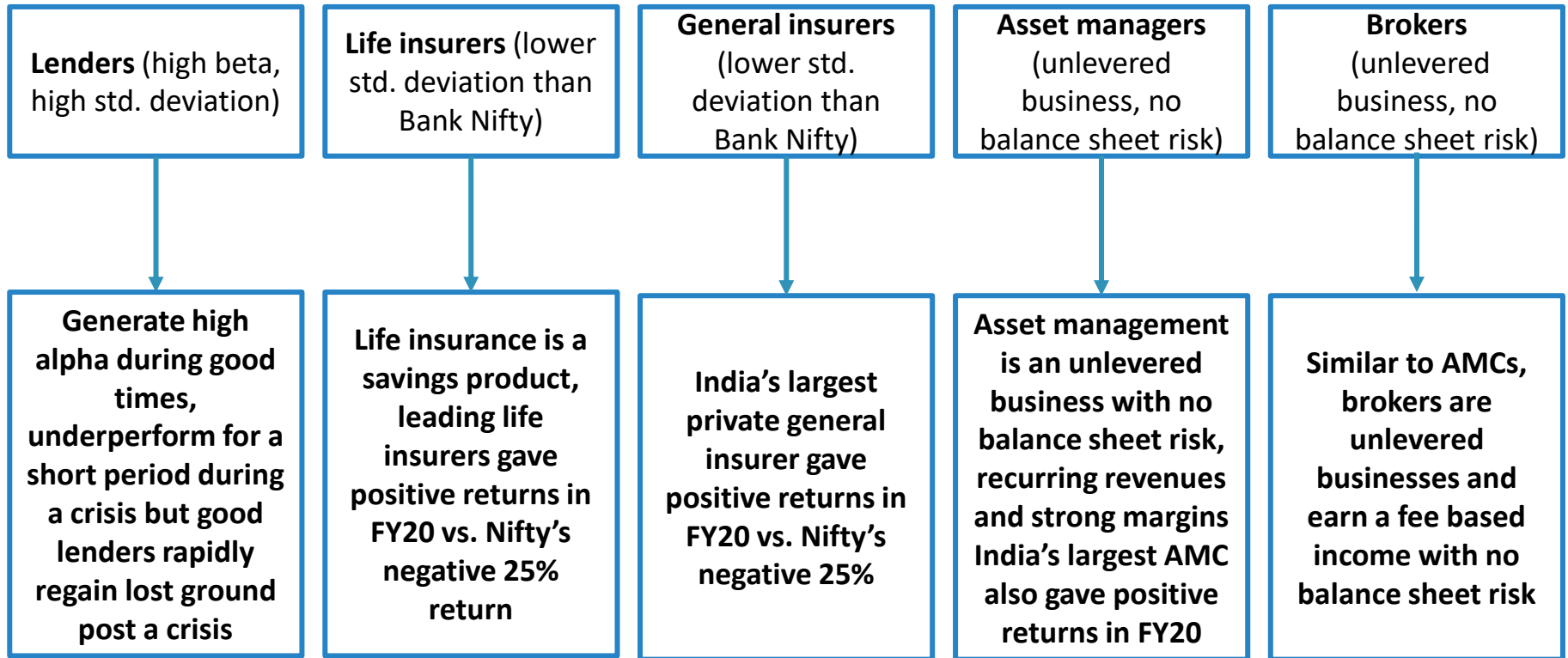


OUR KINGS OF CAPITAL PORTFOLIO WILL SPAN THE ENTIRE FINANCIAL SERVICES SECTOR



- We will create a portfolio of 10 to 14 high 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

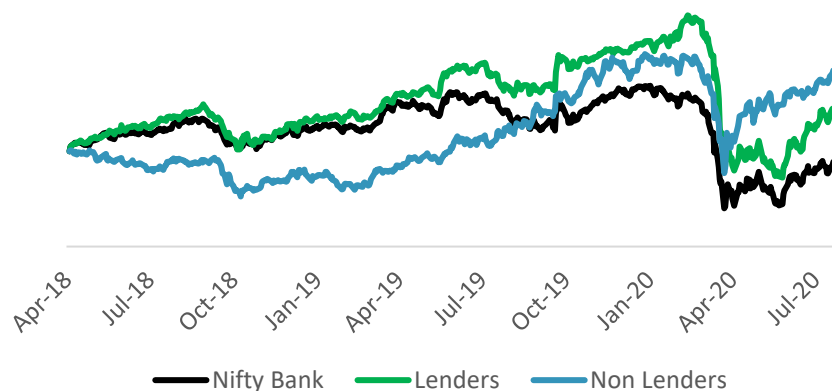
INSURERS, ASSET MANAGERS AND BROKERS ADD RESILIENCE TO THE PORTFOLIO – FY20 IS A GOOD EXAMPLE



- 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

A PORTFOLIO OF LENDERS AND NON LENDERS GENERATE ALPHA ALONG WITH BETTER SHARPE RATIOS

Backtest returns of lenders and non lenders in the Kings of Capital Portfolio (2018-20)



Source: Marcellus Investment Managers, NSE

Performance (2018-20)	Returns	Standard Deviation	Sharpe Ratio
Backtest of Kings of Capital portfolio	12%	29%	0.2
Lenders	10%	34%	0.1
Non lenders	16%	28%	0.4
Benchmark performance			
Bank Nifty	(-2%)	30%	(-0.2)
Nifty	5%	23%	0

Note:

1. The above returns are on a CAGR basis
2. The returns are for the period 1st Apr, 2018 to 23rd Jul, 2020

Portfolio metrics	FY15-20 earnings CAGR	FY20 RoE	P/E ratio (FY20)
Kings of Capital portfolio	19%	19%	36x
Benchmark performance			
Bank Nifty	7%	10%	23x
Nifty	1%	12%	26x

- Despite multiple hiccups for the financial sector in the past two years – the ILFS crisis, Yes Bank collapse and now Covid, the portfolio would have generated a 12% CAGR return vs. -2% for the Bank Nifty during the period
- Correlation of the portfolio with the Nifty is 69% vs. 95% correlation between the Nifty and Bank Nifty
- As seen in the table above, non lenders reduce volatility and add to portfolio returns. Correlation of non lenders with the Nifty is only 26% vs. 82% for the lenders

Source: Marcellus, NSE; metrics are as on 30th Jun, 2020

HOW DO WE KNOW WHEN TO SELL? (1/2)

We plan to sell when:

- The next raging economic boom is upon us – usually 3 to 4 years after a crisis
- Banks and NBFCs start raising money through IPOs and QIPs again
- NBFCs start borrowing from the CP market on a large scale and poor-quality banks and NBFCs start growing rapidly

Investing during a crisis proves to be very lucrative..

2008-09 global financial crisis					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			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		Bank Nifty	Nifty50	Bank Nifty	Nifty50
1 yr return	164%	96%	101%	80%	1 yr return	35%	11%	11%	-3%
3 yr CAGR returns	45%	28%	23%	19%	3 yr CAGR returns	49%	26%	32%	12%
5 yr CAGR returns	28%	20%	21%	17%	5 yr CAGR returns	46%	33%	30%	22%

...and exiting 3 to 4 years after a crisis is prudent capital allocation..

2008-09 global financial crisis					Late 90s & early 2000s NBFC crisis				
	Exit 4 years after investing in Bank Nifty at its lowest point		Exit 4 years after investing in Bank Nifty 3 months before its lowest point			Exit 4 years after investing in Bank Nifty at its lowest point		Exit 4 years after investing in Bank Nifty 3 months before its lowest point	
	Bank Nifty	Nifty50	Bank Nifty	Nifty50		Bank Nifty	Nifty50	Bank Nifty	Nifty50
1 yr return post exit	-1%	10%	-2%	8%	1 yr return	13%	42%	5%	39%
3 yr CAGR returns	8%	8%	11%	9%	3 yr CAGR returns	12%	19%	15%	25%

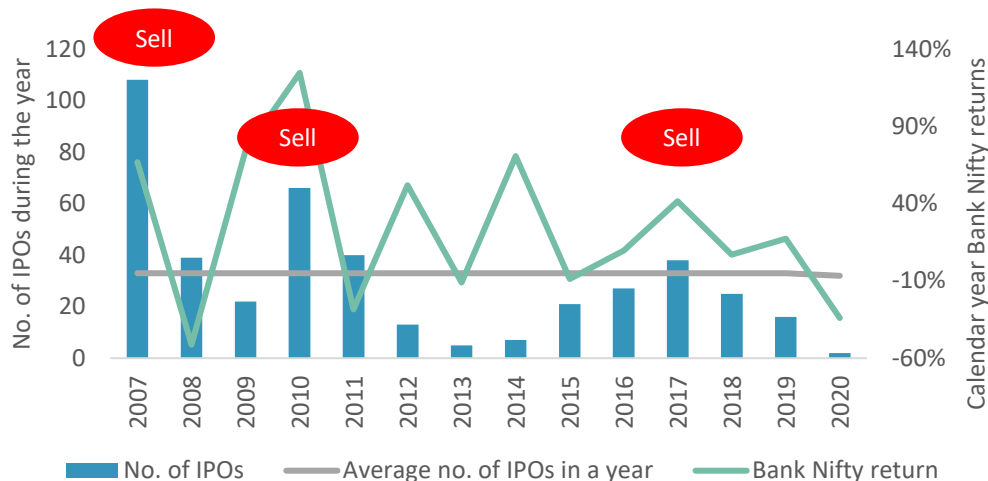
Note: During the 2008-09 crisis, the Bank Nifty was at its lowest on 9th Mar, 2009

Source: NSE
Private & Confidential.

Note: During the NBFC crisis, the Bank Nifty was at its lowest on 24th Sep, 2001

HOW DO WE KNOW WHEN TO SELL? (2/2)

Years which see a large number of IPOs are signs of a raging bull market and are a good time to exit financial stocks

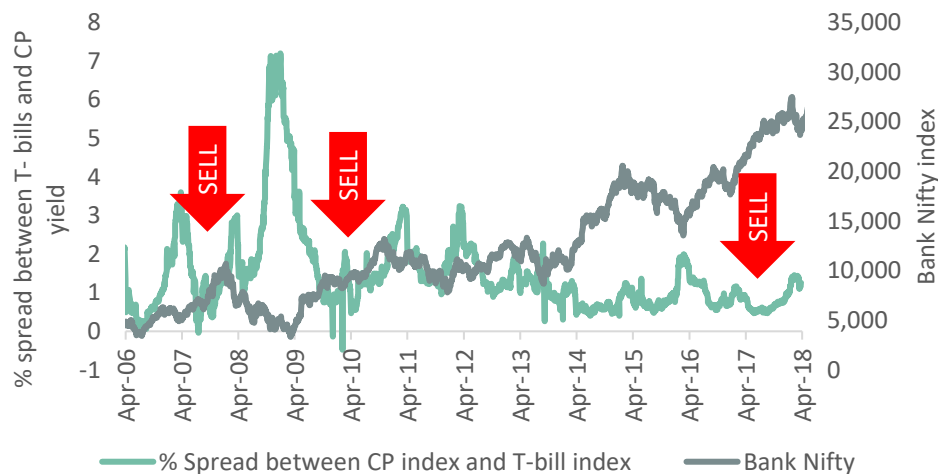


Investors could have avoided the two most severe Bank Nifty drawdowns in the past decade by following the simple strategy of exiting financial stocks during years which see a large number of IPOs

Year	No. of IPOs	Next 1-yr Bank Nifty return
2007	108	-51%
2010	66	-28%
2017	38	7%

Source: SEBI, NSE

Narrowing of spread between commercial paper and treasury bond yields are a good SELL sign



Similarly, 3 instances in the past decade where narrowing spreads between Commercial Paper (CP) and Treasury yields were a clear SELL sign

Year	Min. CP and T-bill spread during the yr*	Next 1-yr Bank Nifty return
2007	-0.04%	-51%
2010	-0.47%	-28%
2017	0.47%	7%

Source: Bloomberg
Private & Confidential.

* This is the minimum spread between commercial paper yield and treasury bill yield during the calendar year

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’”

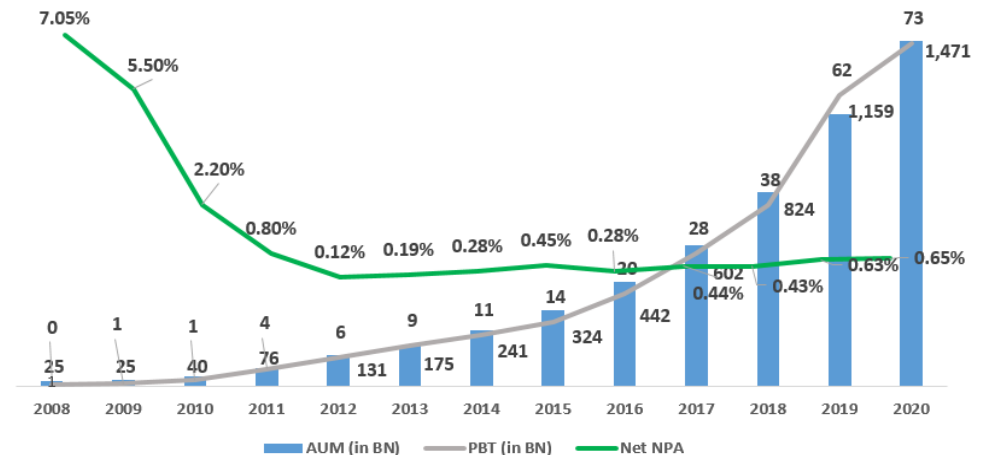
— Rajeev Jain, MD, Bajaj Finance

- 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 -20)

Indicators	FY08	FY20	CAGR
AUM (Rs. Cr)	2,478	1,47,153	41%
PBT (Rs. Cr)	30	7,322	58%
RoA	0.9%	4.1%	
RoE	3.2%	20.2%	
NNPA	7.05%	0.65%	

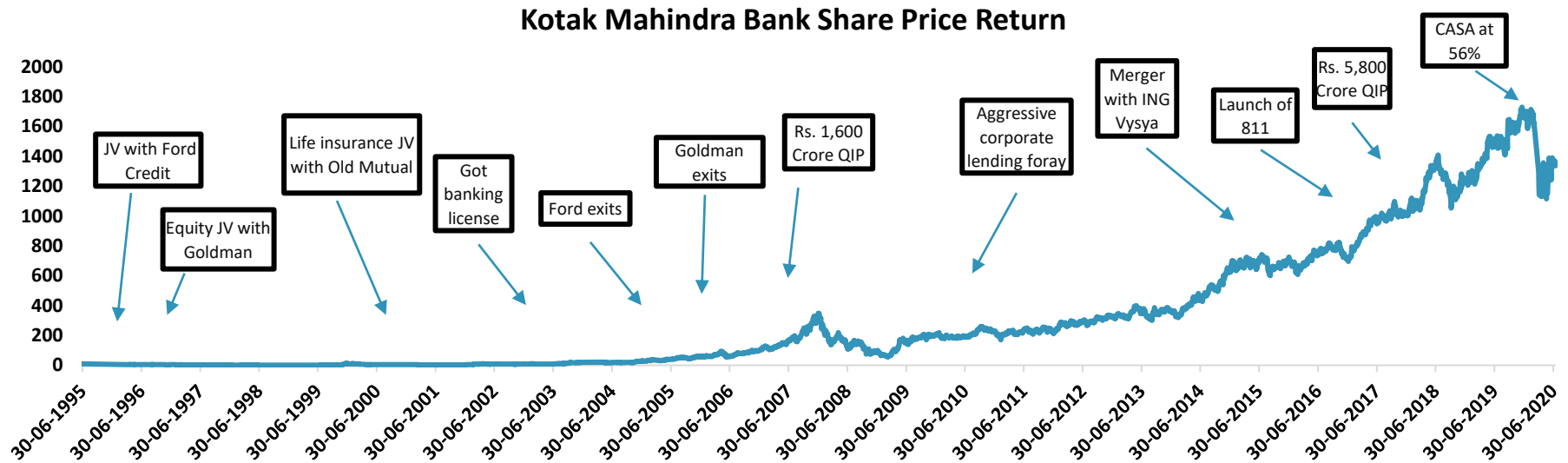
13 Year Financial snapshot



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 focussed 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

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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.

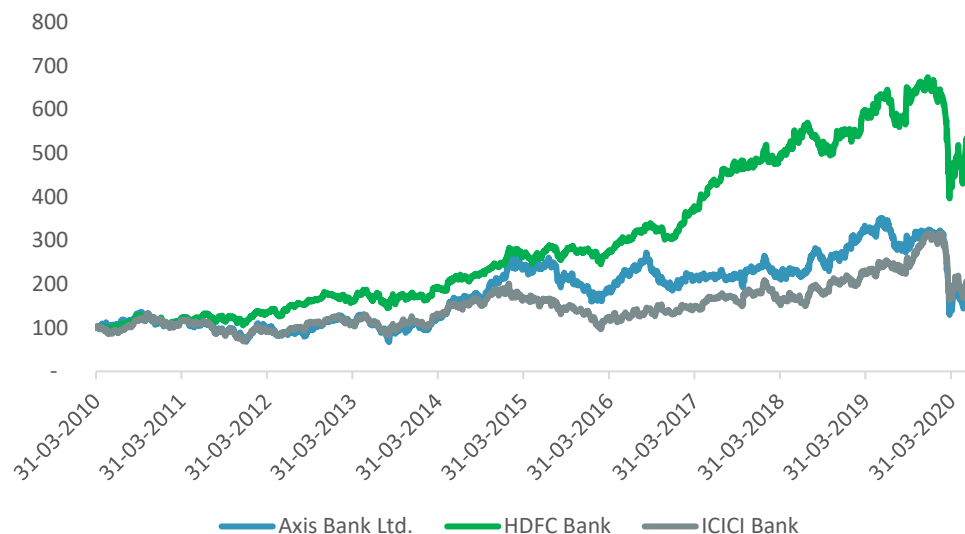
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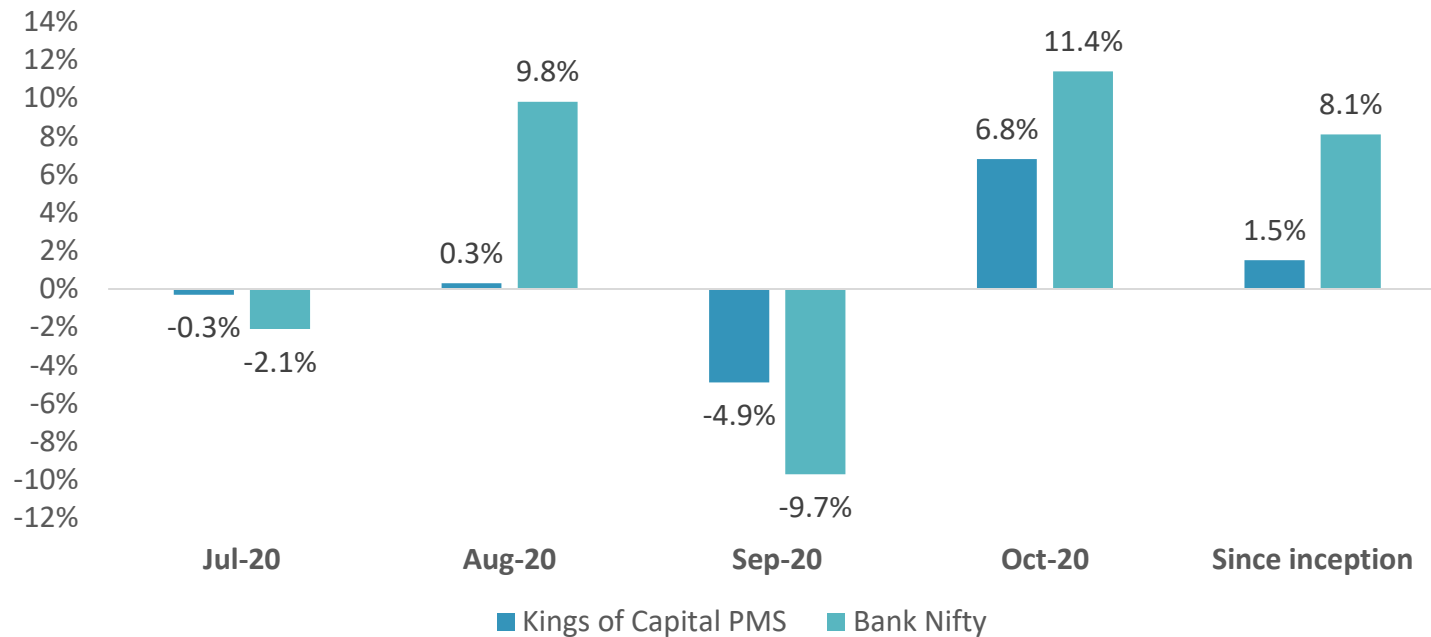
Key Performance Matrices: HDFC Bank vs Peers (FY 2015 -20)

<i>Indicators</i>	<i>HDFC Bank</i>	<i>ICICI Bank</i>	<i>AXIS Bank</i>
Net Interest Margins	4.4 %	3.3 %	3.3 %
Gross NPA to Gross Advances	1.1 %	6.3 %	4.6 %
Avg. ROAs	1.9 %	1.0 %	0.8 %
Avg. ROEs	17.7 %	9.4 %	8.5 %

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



LIVE PORTFOLIO PERFORMANCE (AS ON 30TH OCT, 2020)



Source: Marcellus; All returns are absolute returns, net of fees and expenses and calculated by using TWRR method

Date of inception of Kings of Capital PMS is 28th July, 2020

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

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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

Clients also have the option to be onboarded directly (without intermediaries/ distributors). Such clients can choose from the following fee structures:

- **Option 1 (fixed fee model)**: 2.0% p.a. fixed fees and zero performance fees
- **Option 2 (hybrid model)**: 1.25% 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

TEAM MARCELLUS (1/3)



Saurabh Mukherjea, CFA - Chief Investment Officer

Saurabh 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 three bestselling books: 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 is Head of Sales in Marcellus and manages the sales & marketing efforts of the firm. 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 a Portfolio Manager at Marcellus Investment Managers. He spent 6 years (2005-2011) covering UK equities with Lloyds Bank (Director, Institutional Equity Research) and Execution Noble (Sector Lead analyst). During these six years, he was ranked amongst the top-3 UK Insurance analysts (Thomson Reuters Extel survey) in the mid-cap space. Since 2011, Rakshit led Ambit Capital's consumer research franchise which got voted as No.1 for Discretionary Consumer and within top-3 for Consumer Staples in 2015 and 2016. He launched Ambit's Coffee Can PMS in Mar'17 and managed it till Dec'18. Under his management, Ambit's Coffee Can PMS was one of India's top performing equity products during 2018. Rakshit has a B.Tech from IIT (Delhi).

TEAM MARCELLUS (2/3)



Ashvin Shetty, CFA – Fund Manager

Ashvin is a Portfolio Manager at Marcellus Investment Managers. 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 was ranked in Starmine Analyst Awards 2013 and 2016 for his stock picking abilities during this stint. 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).



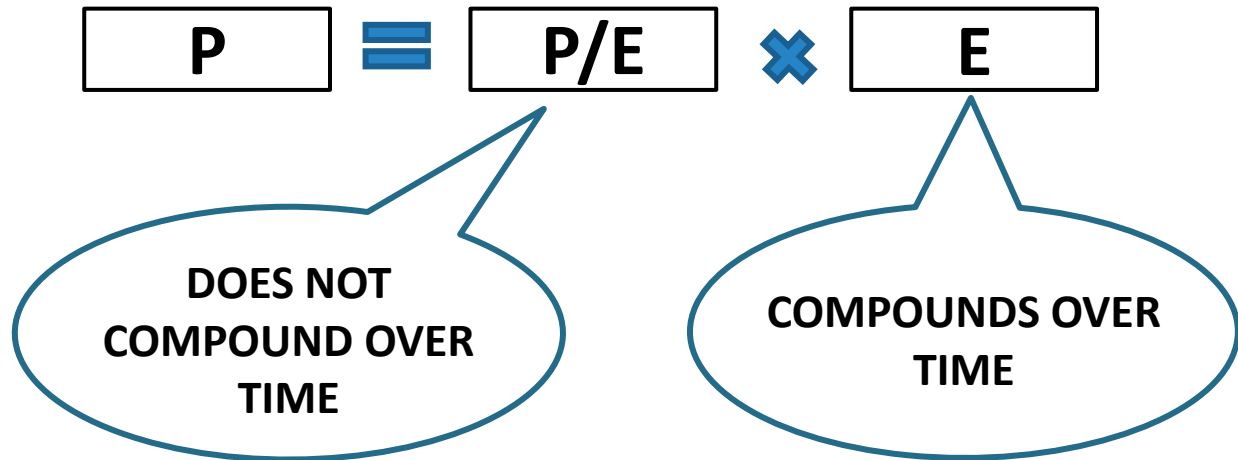
Nitesh Bhadani – Director, Sales

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

$$\boxed{\triangle P} = \boxed{\triangle P/E} + \boxed{\triangle E}$$

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%

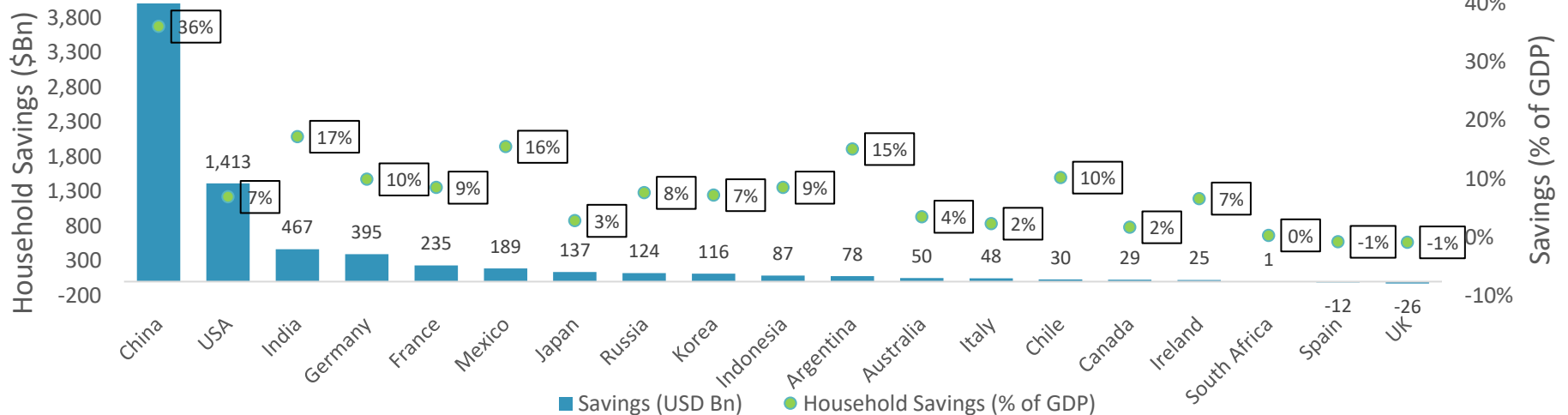
+

25%

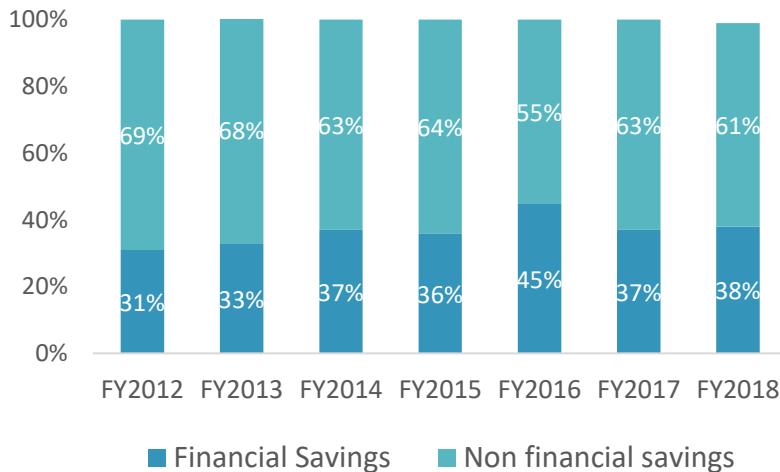


FINANCIALIZATION OF INDIAN HOUSEHOLD SAVINGS IS WELL UNDERWAY

India has the 3rd largest household savings globally...



...which are rapidly moving from physical to financial assets...



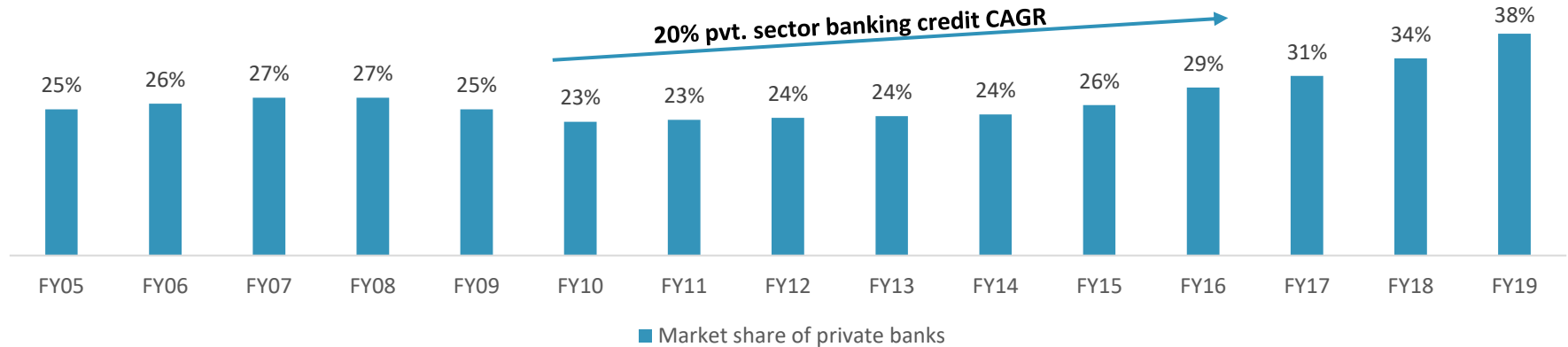
- Though India has the 3rd largest household savings globally, this wealth has been locked up in gold and real estate since generations. This is unusual in the global context and especially so for a young population
- The gains from reallocation of household wealth to financial assets over the next decade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

Source: RBI

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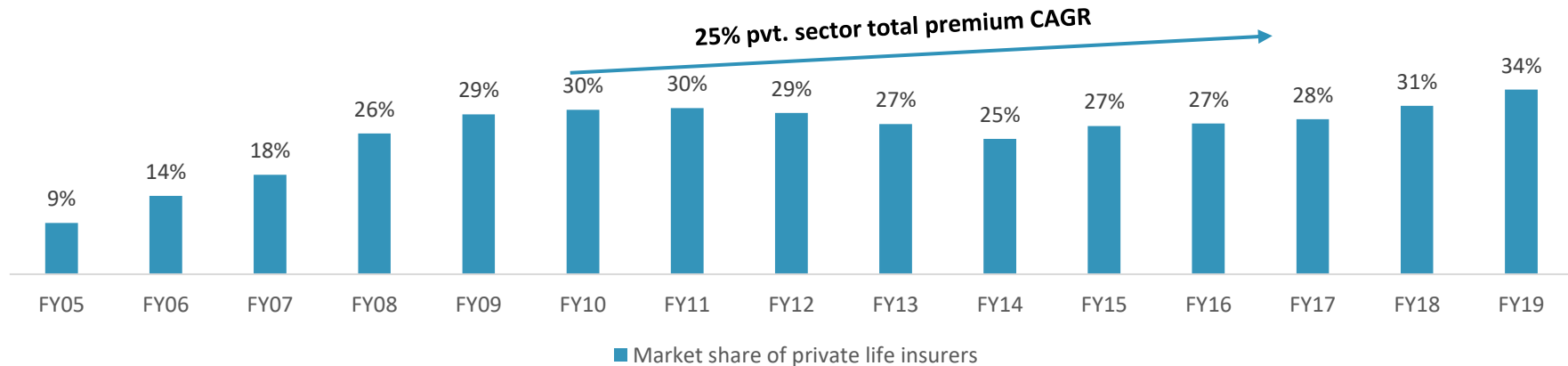
PRIVATE PLAYERS ARE RAPIDLY CAPITALISING ON THE FINANCIALIZATION OPPORTUNITY (1/2)

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



Source: RBI

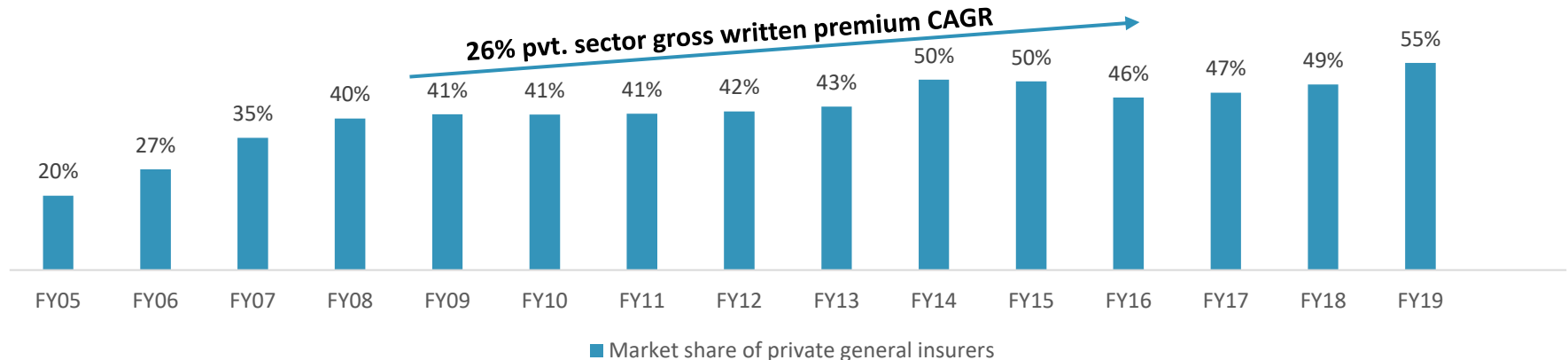
Life Insurance – market share of private life insurers increased from 9% to 34% in the past 15 years



Source: IRDAI

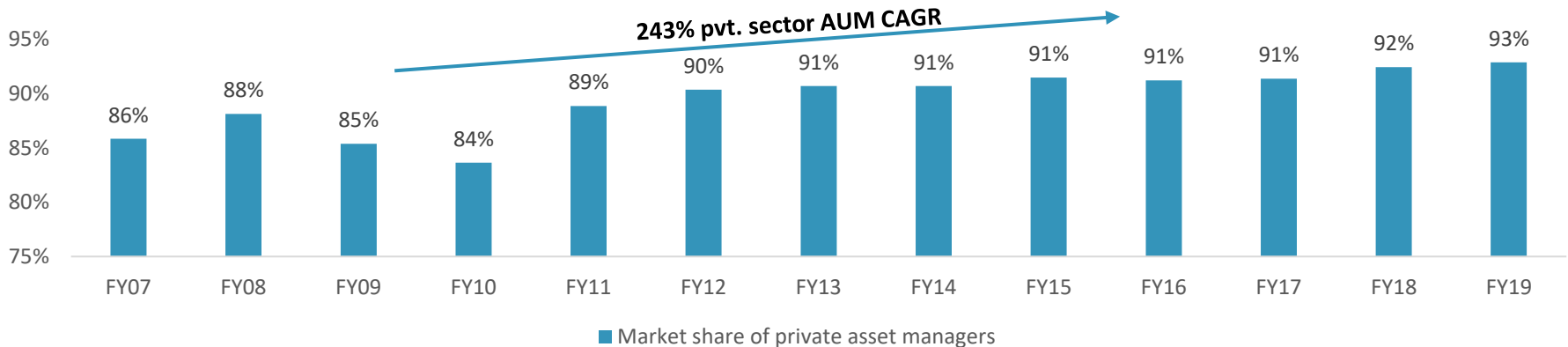
PRIVATE PLAYERS ARE RAPIDLY CAPITALISING ON THE FINANCIALIZATION OPPORTUNITY (2/2)

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



Source: IRDAI

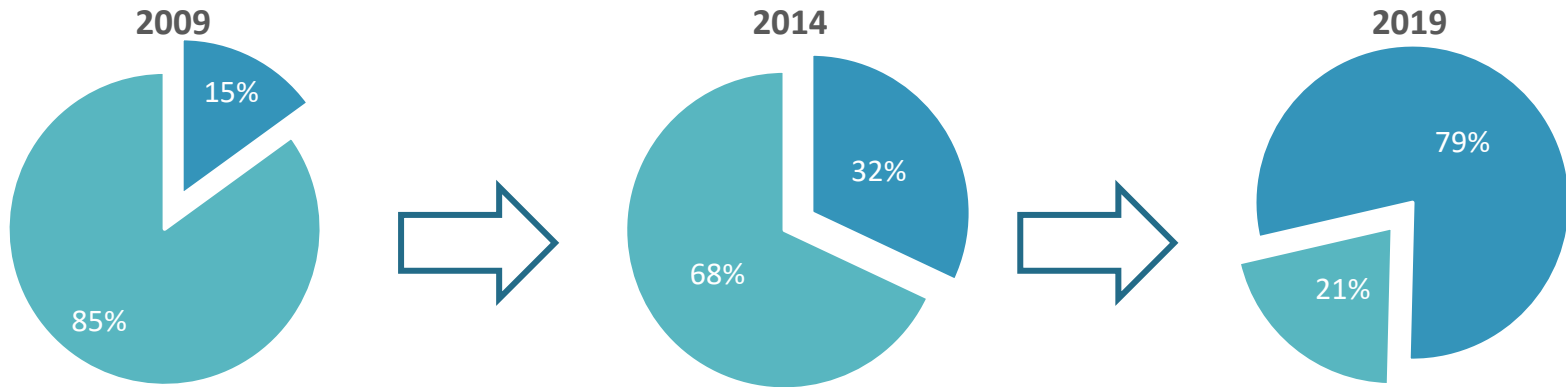
Asset Management – market share of private asset managers increased from 86% to 93% in the past 12 years



Source: AMFI

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

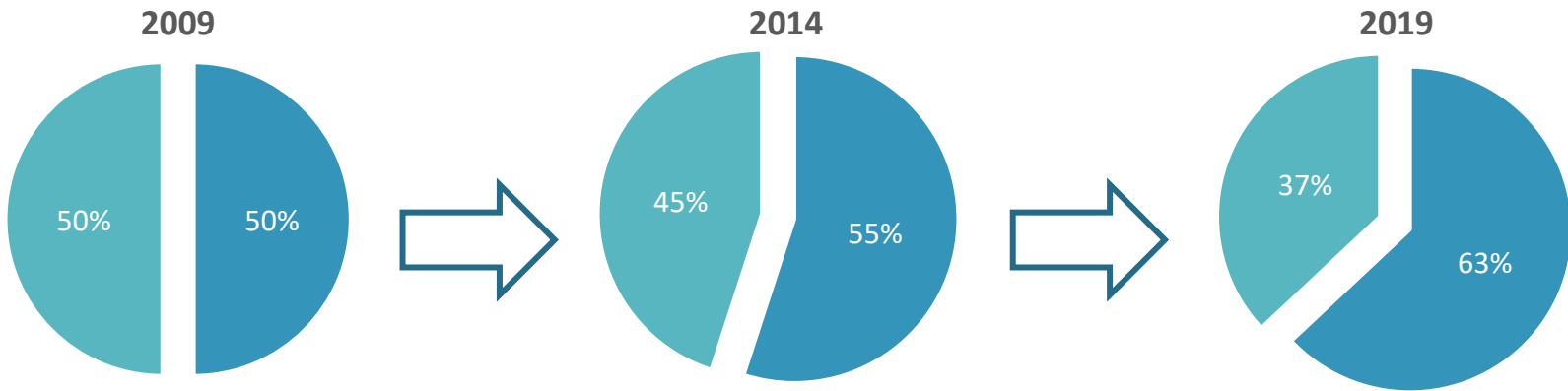
79% of the banking sector's profits are earned by 4 private sector banks



■ Market share (based on PAT) of 4 largest pvt. banks ■ Market share of all other players

Source: RBI, Company financials

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



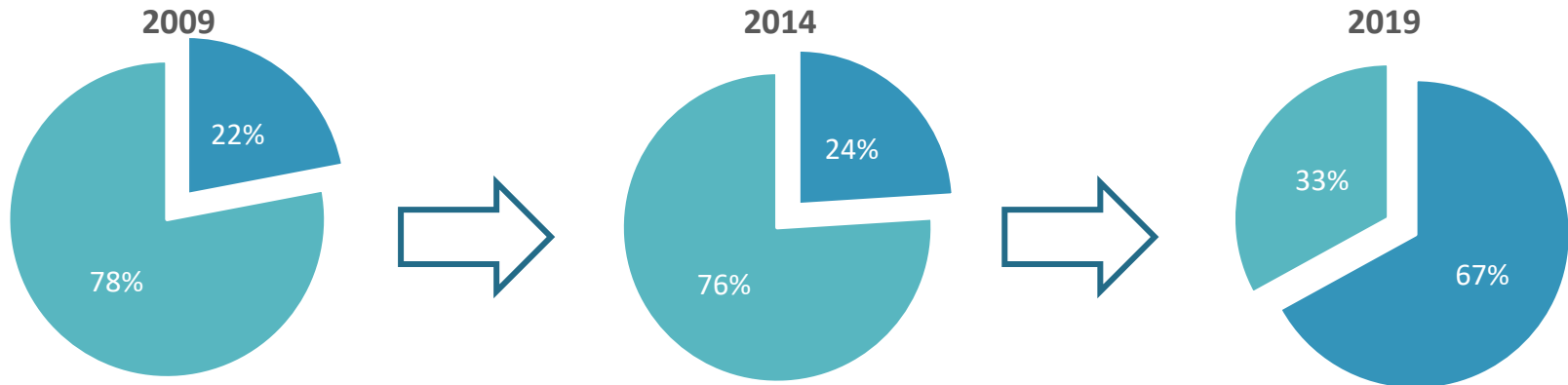
■ Market share of 4 largest pvt. life insurers ■ Market share of all other private players

Source: IRDAI, Company financials

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

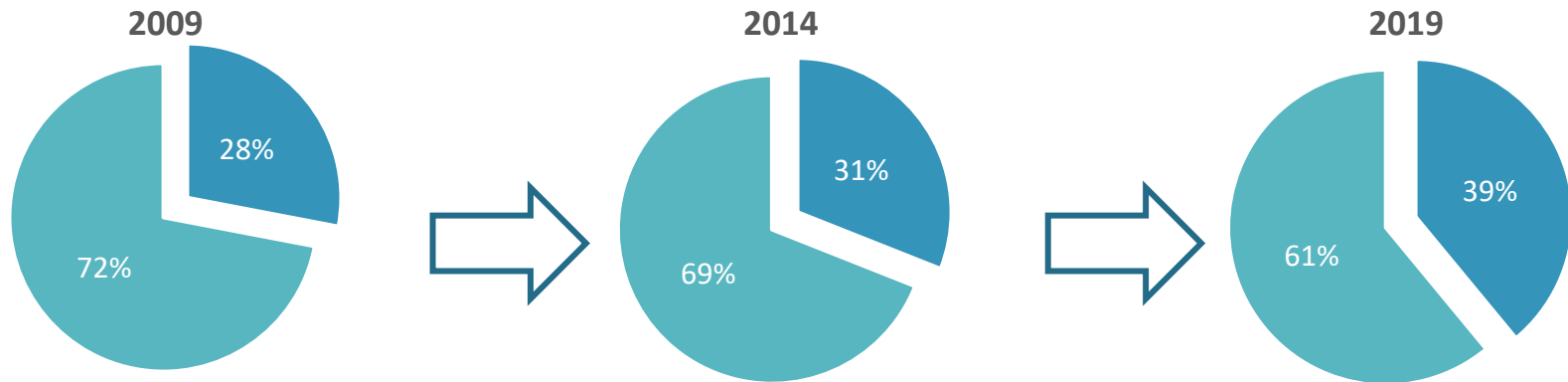
2/3rd of the profits of the general insurance industry are earned by the 3 private general insurers



■ Market share (based on PAT) of 3 largest pvt. general insurers ■ Market share of all other players

Source: IRDAI, Company financials

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



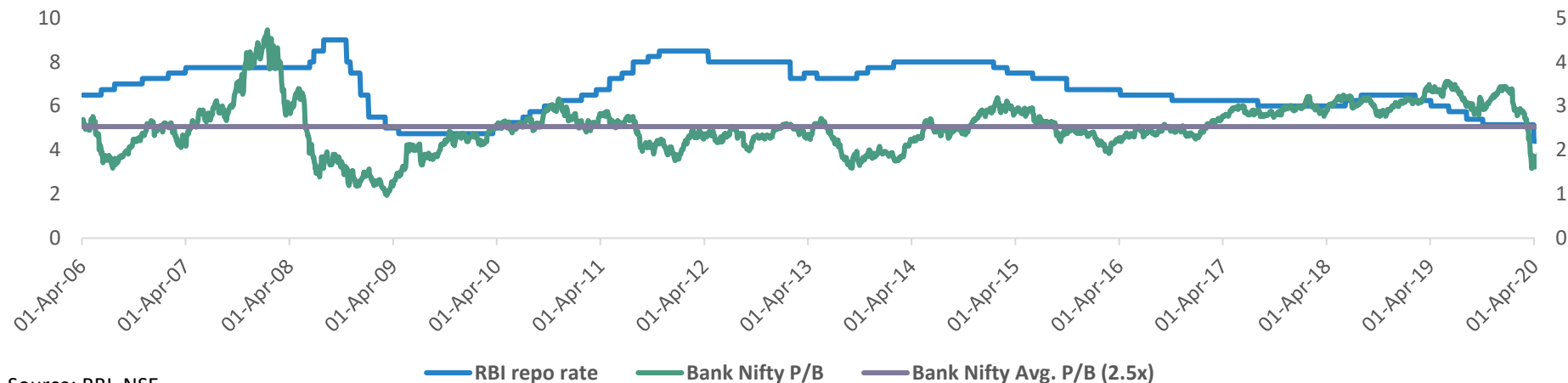
■ Market share of the 3 largest pvt. AMCs ■ Market share of all other players

Source: AMFI

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FINANCIAL STOCKS ARE AVAILABLE AT INEXPENSIVE VALUATIONS IN A LOW INTEREST RATE ENVIRONMENT

Bank Nifty valuations are 30% below their historical average at a time when interest rates are at an all time low



- Historically, a low interest rate environment is followed by an expansion in multiples while a high interest rate environment is followed by a compression in P/E multiples
- India entered the 2006-08 period with relatively low interest rates of ~6%. During the period P/B multiples expanded by 270% from their lows. Similarly, to tackle the global financial crisis the RBI reduced interest rates during the 2008-09 period to ~5% which again saw P/B multiples expand over 2010-11
- The most powerful effect of low interest rates is on P/B or P/E multiples of growth stocks with a consistent and reliable outlook (these are the sort of stocks that Marcellus tends to invest in) because a majority of their earnings lie in the future.
- The equity markets are currently offering an attractive opportunity to invest in companies with consistent growth prospects at inexpensive valuations in a low interest rate environment

WHAT IS OUR EDGE?

Trait

Desired outcome

Patience

- No rush to deploy money or to make money
- 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]
- Tenacity to keep digging, keep searching for outstanding companies

Forensic accounting skills

- Deep pool of accounting talent in the team
- Pan-India network of relationships with Chartered Accountants
- 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
- We have built a pan-India network of dealers & distributors
- Most senior financial journalists are friends
- 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
- 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
- We have built several businesses together

- We know each other’s weaknesses
- We believe in each other’s integrity, intelligence, industry and in each other’s rules

DISCLAIMER

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