

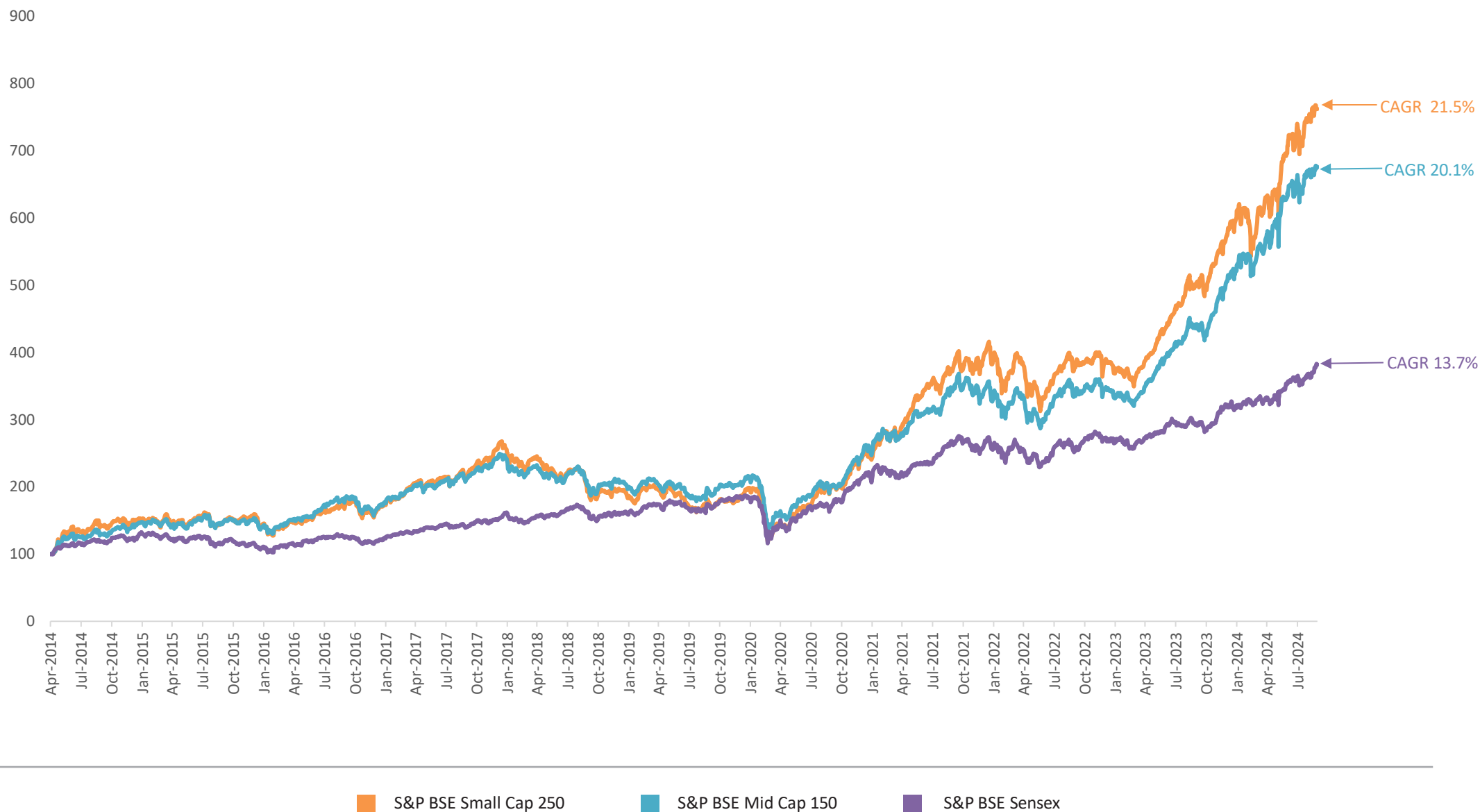
InCred Small & Mid Cap Portfolio



WHY SMALL CAP ?



Historically, Small Caps have yielded better long-term returns



Contraction

Economic activity slows down
GDP declines for two consecutive quarters (typical recession)
Unemployment rises and consumer spending reduces
Overall Market and business does not do well.



Recovery

Market starts to do well in anticipation of business doing well



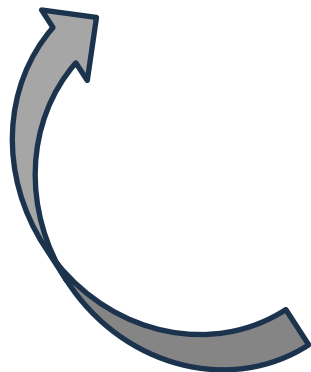
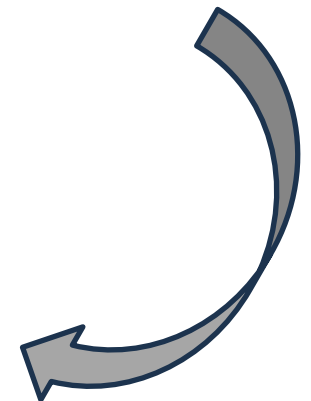
Expansion

Economic growth expectations rise
GDP increases and unemployment decreases
Market delivers nominal return 10-12%
Consumer spending and business investment rise

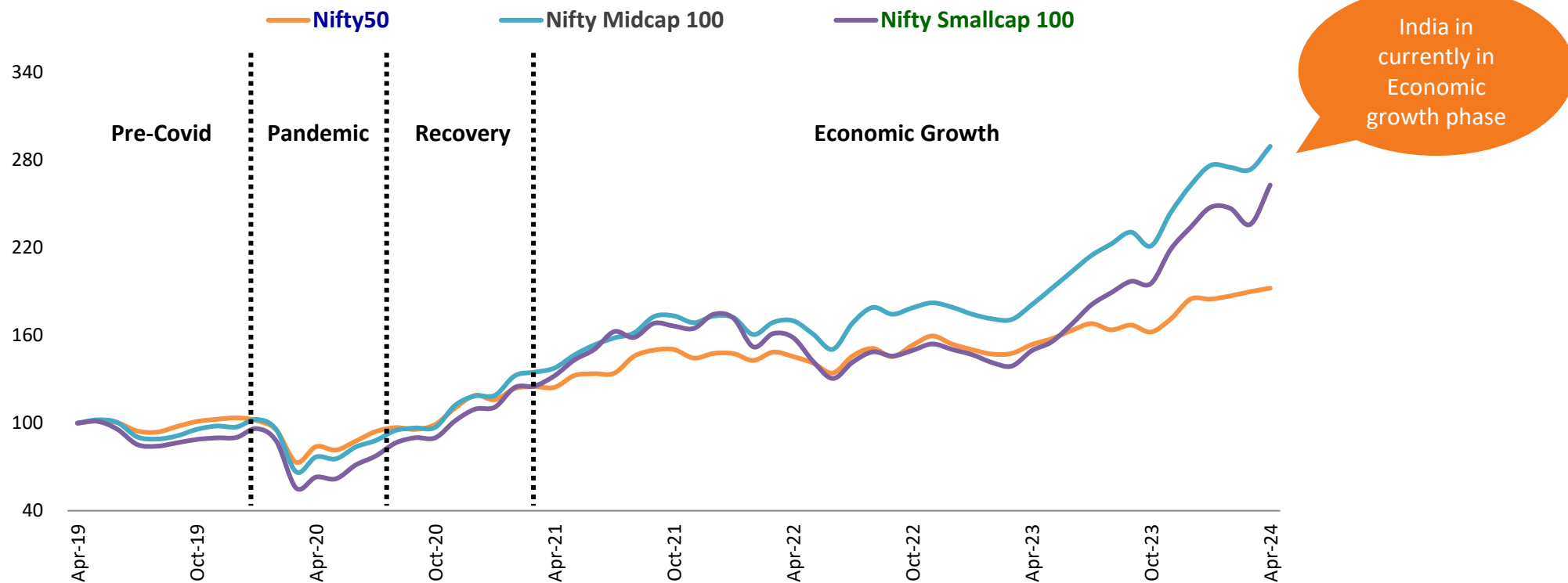


Peak

Economic activity reaches its highest point
Market valuations are high
Inflation may rise due to high demand



SmallCap tend to outperform in expansion phase



	Pre-Covid	Pandemic	Recovery	Economic Growth
Period	April-19 to Jan-20	Jan-20 to May-20	June-20 to Jan-21	Jan-21 to April-24
Nifty 50	2.2%	-37.4%	21.7%	14.6%
Nifty Midcap 100	3.0%	-50.6%	24.6%	26.2%
Nifty Smallcap 100	-4.5%	-64.9%	26.5%	27.9%

Focus on sectors which are under-represented in large caps

Business leader opportunities in small cap



Largest Power/Commodity Exchange Company



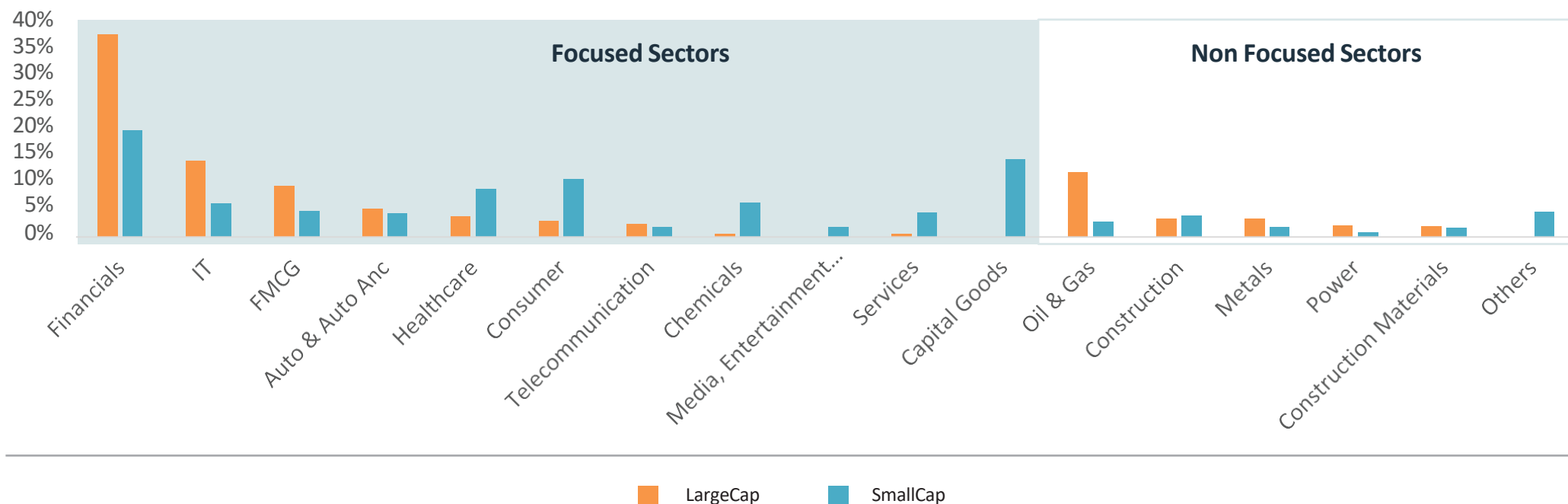
Largest Depository Company



Largest Movie Exhibitor



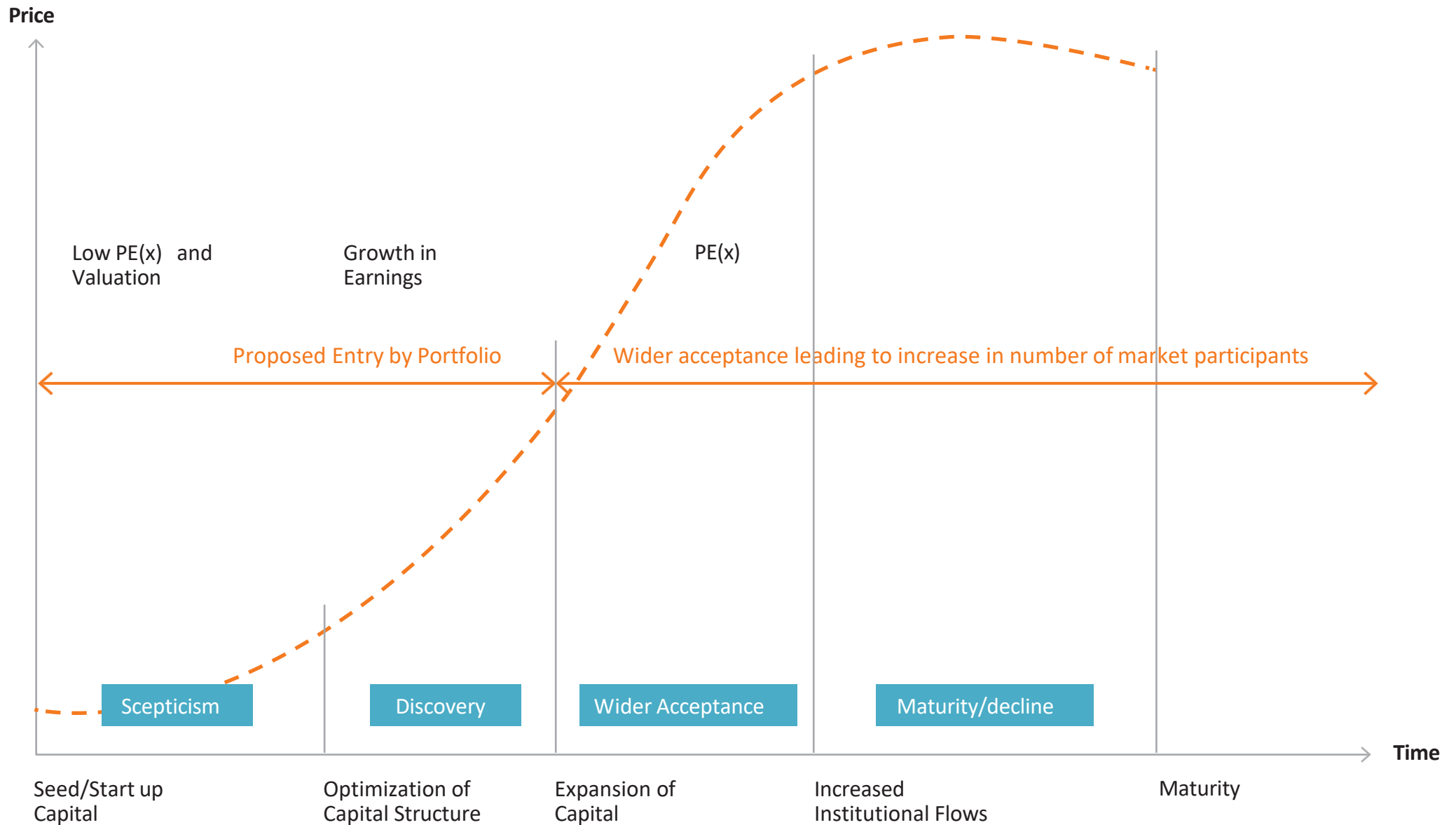
Leading Telecom Equipment Manufacturer



Disclaimers: LargeCap represented by Nifty; SmallCap represented by Nifty SmallCap 100. Focused sectors represent the sectors currently believed to be attractive by the Portfolio Manager from amongst sectors under Nifty and Nifty Smallcap 100 indices. These sectors do not constitute any recommendation of the same and the product may or may not have any future position in these sectors.

LHS : % of sector allocation in index

Many smaller companies at inflection point can give opportunities for capital growth



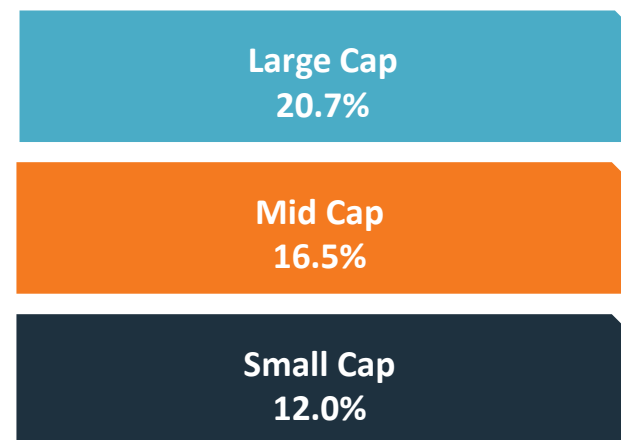
SmallCap are Under Researched and Under Owned

In FY23 to FY24



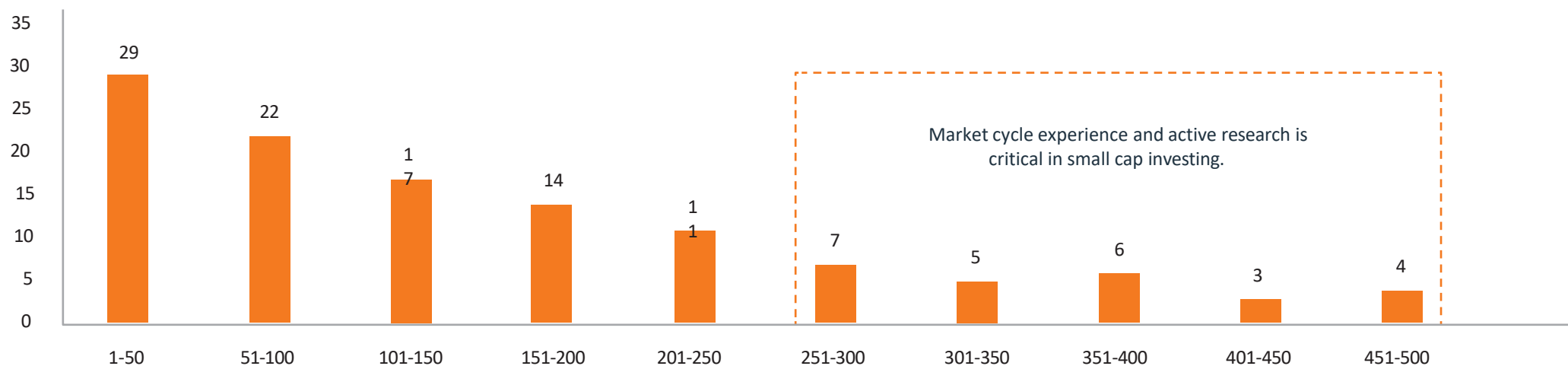
Source: AMFI data

DII ownership in FY23-24



Source: Mint

Average number of sell side analysts covering the stock*



MARKET VIEW





INCRED ASSET MANAGEMENT



- Great“ Business at fair value
- Good“ business at a discount to Intrinsic Value
- Avoid “Bad” business



- Optimal Diversification
- Allocation based on conviction

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

	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

Contrary to perception more experience is required to do small cap investing

Our capabilities

Over 130+ years of investing experience between the senior management and core investment team.

Top quartile track record of the investment management team across market cycles spanning over 18+ years in managing funds.

Having a sound investment framework helps in superior stock selection and minimize mistakes.

Strong in-house research with over 7 research analysts and 2 fund managers covering 200 stocks out of which 82 stocks are small cap and 41 are midcap stocks.

Out of our coverage we would have 72 plus stocks where there would be negligible coverage by the sell side hence we rely on our ability to ideate, screen, research and invest.

As on October 2024

Capital Allocation Skills

Management teams ability to allocate incremental capital to enhance shareholder returns.

Over Longterm ability to earn Return on Invested Capital in excess of cost of capital.

Superior Management

We look for owner operator management teams that are aligned to minority shareholder interest.

Key man risk is high and hence management team evaluation is the key.

Potential for High Growth

We look for companies that are in high growth industries and have a large total addressable market.

The company should be able to gain and sustain market share.

Small In Size

Companies small in size have a potential to grow revenues, profits, cash flows and generate superior return on capital.

Longevity in Earnings Growth

The growth in earnings should be sustainable over long periods of time and across business cycles, cash flows should be durable.

Reasonable Valuations

Companies should be available at a reasonable price and should have enough margin of safety.

Market Capitalization

Fund rarely invests in companies that have market capitalization less than 1000 Crs. The average market capitalization of companies in the fund is 6900 Cr.

Daily Average Volume

The purchase or sale of the stock must be executed within five days, ensuring that the traded volume does not exceed 30% of the stock's daily average volume. This helps to avoid abrupt price spikes or drops.

Leverage Parameters

Excluding financials, the fund aims to invest in companies that have low Net Debt. Small and MidCap PMS has an average Debt/Equity of 0.01 and 15 companies are Net Debt free. Average Net Debt to EBITDA is 0.5.

INVESTMENT THEMES



•Achieving Atmanirbhar Bharat through the **Production-Linked Incentive (PLI)**

- Expansion of the manufacturing sector,
- Localization of the manufacturing ecosystem
- To reduce dependence on other economies as much as possible

•Total **14** schemes announced by the Government of India .

•PLI holds the potential to generate **~Rs 3 trn** of capex over the scheme period (3-4 years). These investments are incremental to earlier capex cycles, promoting export competitiveness and import substitution.

Select Schemes in focus sectors

Category	Approval by Cabinet	Period	Outlay	Production	Exports
		Years	INR bn	INR bn	INR bn
White Goods(Air-conditioners and LED lights)	07-Apr-21	5	62.4	1680	644
IT Hardware	24-Feb-21	4	73.25	3260	2445
Pharmaceutical Drugs 2.0	24-Feb-21	6	150	2940	1960
Telecom & Networking Products	17-Feb-21	5	122	2400	2000
Medical Devices	21-Mar-20	5	34.2	684.4	
Pharmaceutical Drugs (KSM/API)	21-Mar-20	8	69.4		

R&D spends are critical to maintain market share/relevance amidst shortening product cycles and disruption especially in software and automotive verticals. Through Covid, R&D intensity of global auto OEMs has increased despite shrinking revenues. ERD spend will be strongest in following sectors – automotive (ADAS, connected), TMT (Technology, media and telecom), AI, Industry 4.0, Medtech and sustainability.

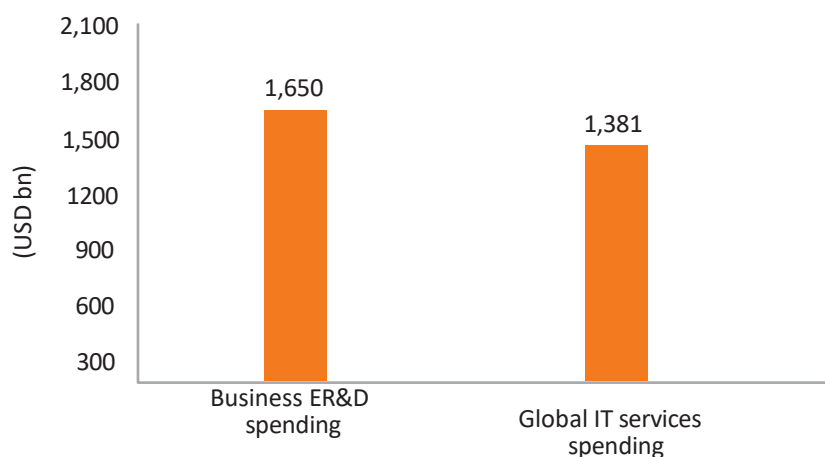
ERD outsourcing penetration is in high single digits vs c.30-40% for IT services. Of this, nearly 2/3rd goes to captives. Europe is equally large (as the USA) in ERD spender even though the latter is higher in overall IT spending. European outsourcing has been lower and has been growing relatively faster.

Digital ERD spend is expected to outpace overall IT spends, and is expected to grow @12% CAGR (vs c.8% overall IT Services) over FY23-30 benefiting IT companies. In asset heavy industries, mechanical handling may get substituted by electronic / digital engineering. Asset light industries like software and healthcare are also increasing spends, thereby increasing the TAM.

Indian players have c.20% market share in ERD vs c.50% in IT Services. Russia-Ukraine crisis has also forced some ERD spenders to diversify from eastern Europe.

IT US ERD

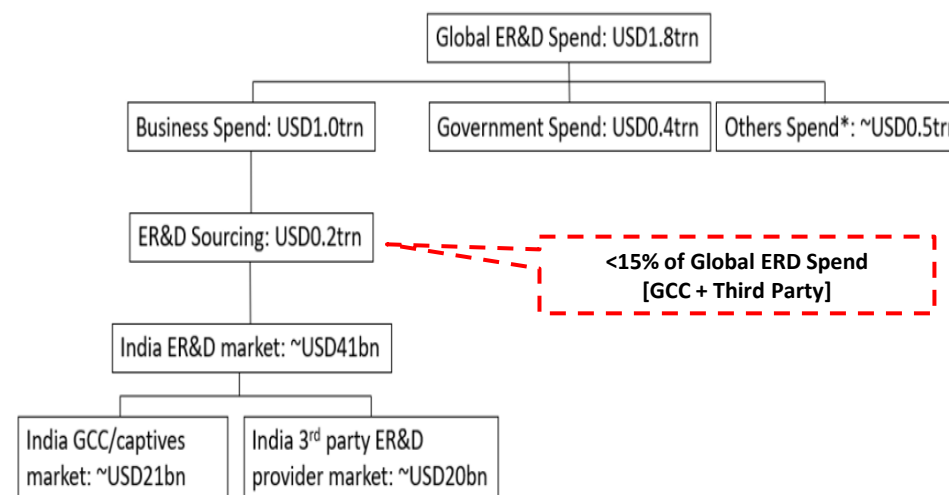
(Engineering and Research & Development)



Source: ER&D data – BCG NASSCOM, ER&D Report 2023, InCred Asset Management – 1,650 is taken as a mid point ranging from 1,500 to 1,800
Gartner, InCred Asset Management

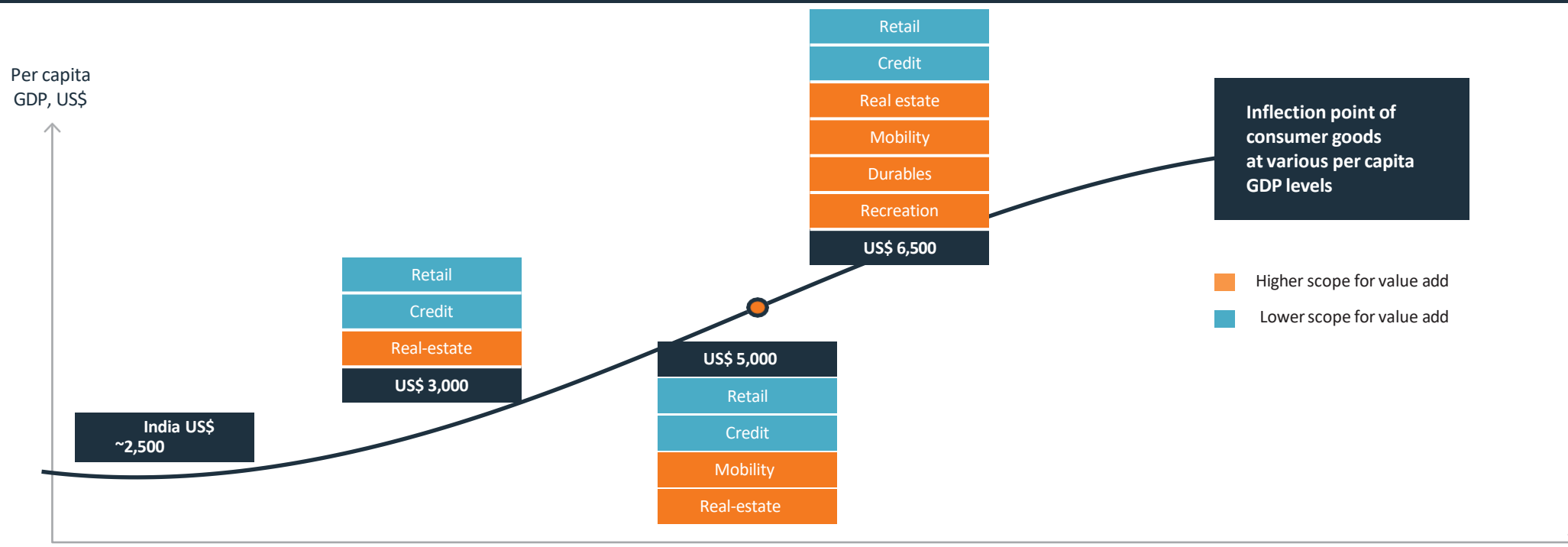
Sizing The ER&D Market Opportunities

(ER&D Penetration is still low in India)



Source: BCG, Everest Group, Zinnov, Emkay Research. Note: *Others include academia and public sector

THEMES | Consumption at an inflection point with the exponential growth in per capita income



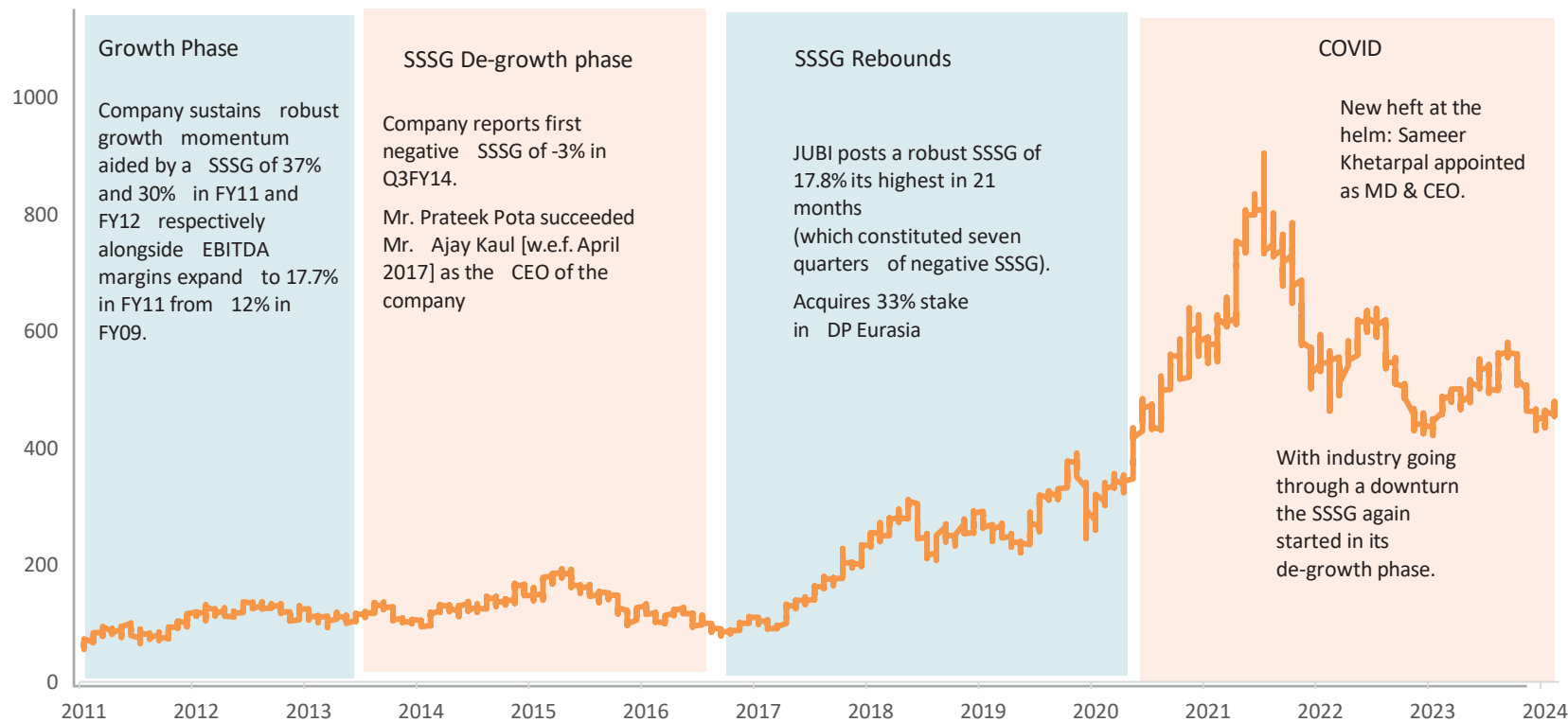
Source: Bain & co.

Sectors	Current Estimated Market Size (in \$ Bn)	Expected Market Size FY30 (In \$ Bn)	Growth (x)
Cosnsumer Durables	20	70	3.5
Consumer Staples	1330	3536	2.7
Media & Entertainment	22	39	1.8
Real Estate	257	400	1.6
Auto & Auto Ancillary	222	358	1.6
Retail	96	155	1.6
Healthcare	280	411	1.5
Food Service	39	55	1.4

Source: IBEF, Gol

THEMES | Consumption growth case study

- Jubilant Foodworks Ltd.



QSR industry has faced several headwinds which are now cooling off.

As seen in the past as well, this can create an opportune time to enter the space to generate superior alpha.

	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	CAGR
Food Service Market Size(in ₹ Cr)	289724	312902	337934	364969	394167	425700	391664	450391	481918	448184	7%
QSR share in Food Service Market	6%	7%	7%	8%	8%	9%	7%	8%	8%	9%	
Jubilant Sales (in ₹ Cr)	2093	2438	2583	3018	3563	3927	3312	4396	5158	5351	12%
Operating Margins (in %)	12.2	10.8	9.3	14.6	16.8	22.3	23.3	25.2	22.2	19.4	
Return on Invested Capital (in %)	30	23	14	39	62	100	72	65	45	40	

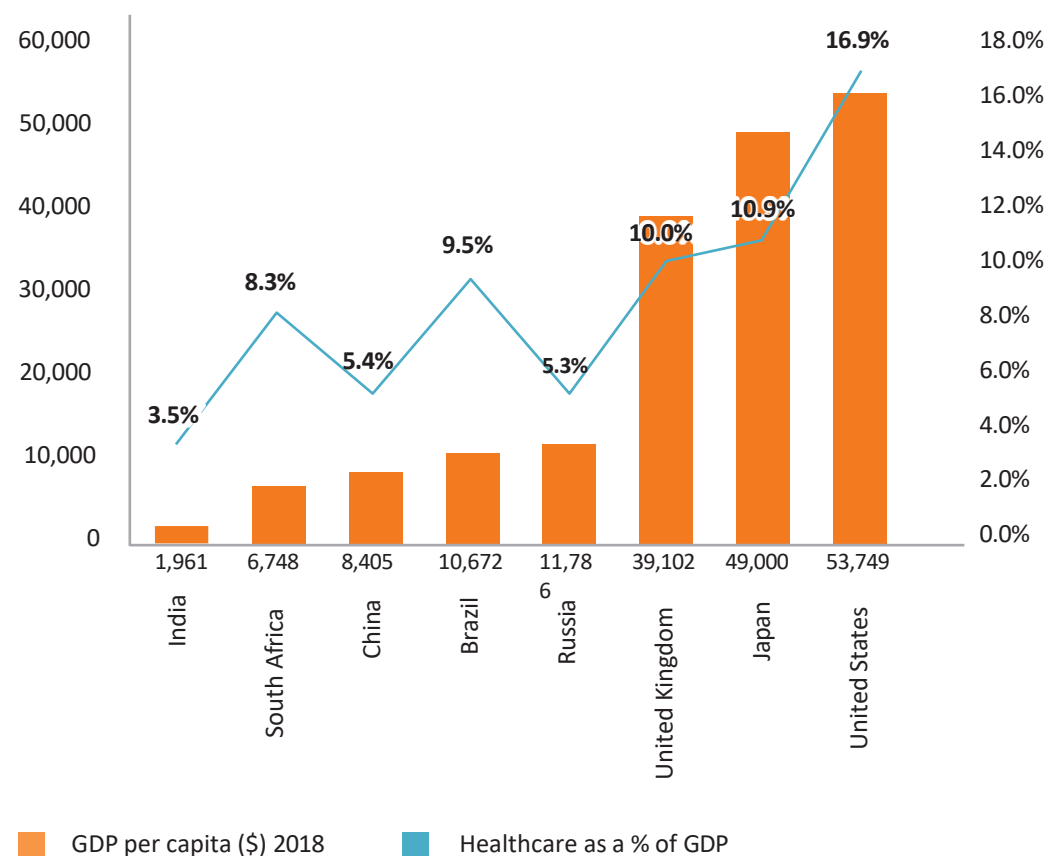
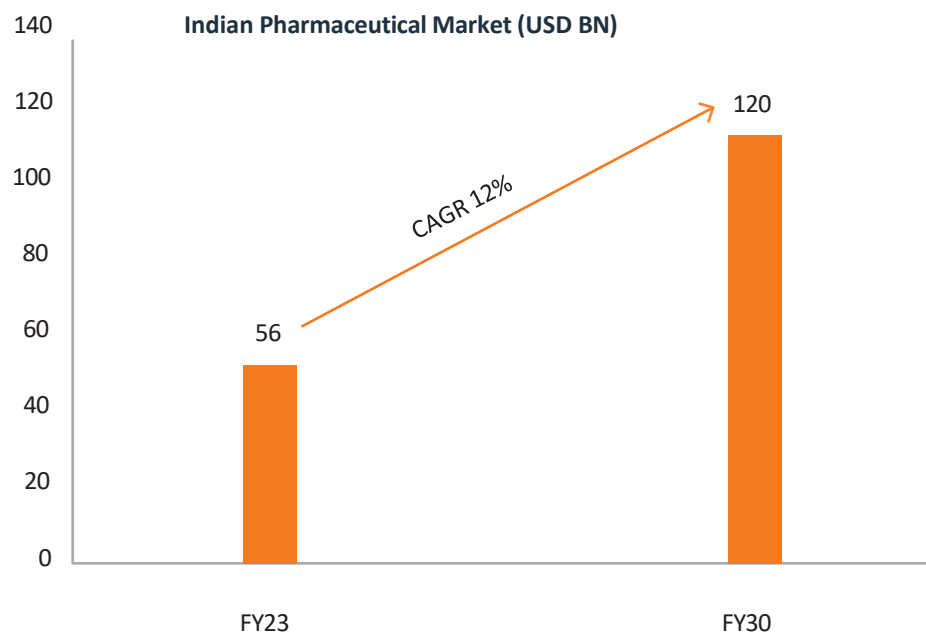
Source: InCred Asset Management, Company, TradingView. (QSR)Quick service restaurant. SSSG: same sales store growth

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

THEME | Healthcare spending to grow

As GDP per capital increases, healthcare spend increases significantly. Developed economies have a very high expenditure on Healthcare as % of GDP vs developing economies.

This gives us comfort that there is significant headroom for growth in this sector for India.



Branded Domestic Business

High margin,
low capex & steady
cash flow business

- Branded generics has high sustainable cash flows, low capex & high RoE with high barriers to entry (8-10% growth & 40%-80% RoE)
- Increasing lifestyle related diseases, better diagnostics and affordability driven by Ayushman Bharat (affordability to expand from 150-200m individuals to 500-600m individuals over time)

APIs/CDMO/CMO

'China + 1'
a huge boost to
API players

- Anti-China rhetoric could play out well for Indian API players. China exports ~USD30 bn worth of APIs vs ~USD4 bn from India. A 10% shift in demand can double India's API industry size.
- Given noncompliance to ESG and recent supply disruptions, Big Pharma is also looking at diversifying sourcing beyond China.

Hospitals

Capex phase
largely over; time
to monetize

- Indian hospital players have incurred huge capex to increase capacity which is coming to an end (Mature hospitals RoE at ~20% vs consolidated 4%-12%)
- This may lead to better margins, cash flows and lower debt resulting in re-rating of the business.



Aditya Sood

Fund Manager, InCred Asset Management

-
- Overall investment experience of 20 years in equity markets out of which 18 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
 - Funds managed - InCred Multicap, small and midcap Portfolio, IVGF-1 and EBF.
-

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 small cap index's gains of 230% - **Business Standard**

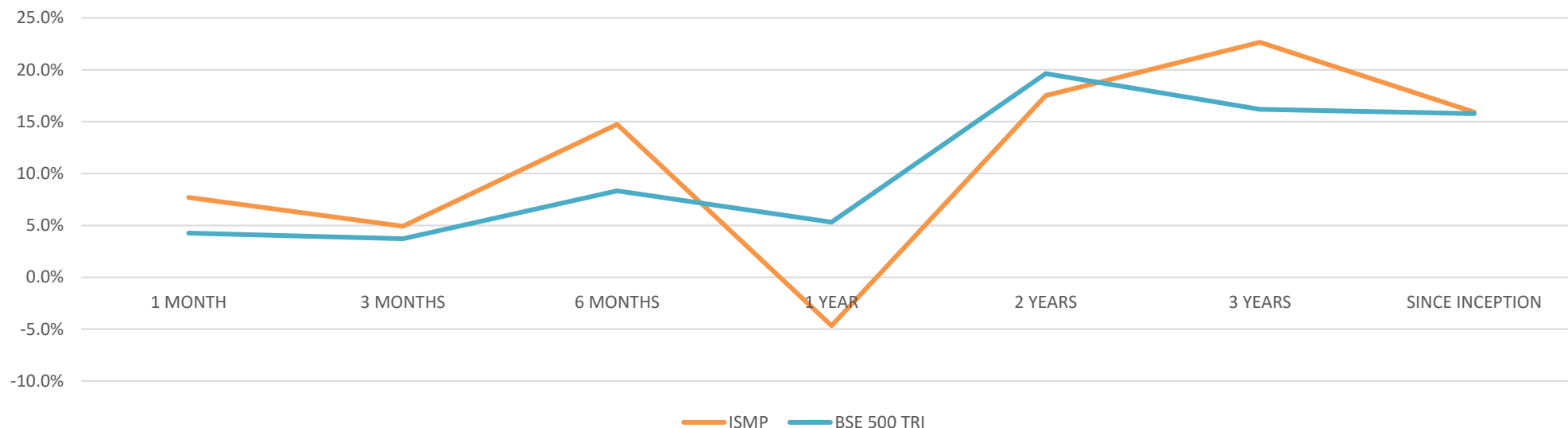
In July 2024, InCred AIF – IVGF returned capital along with gains two months earlier to investors.



“The scope for incremental IRR is reducing due to the steep valuations in the market. – **Aditya Sood**

“Since inception the schemes have returned 165% as against the BSE 200 index's gains of 142.7% - **Economic Times**

Small and Mid Cap Portfolio Performance



Returns	Portfolio	BSE 500 TRI	Alpha
1 MONTH	7.7%	4.3%	3.4%
3 MONTHS	4.9%	3.7%	1.2%
6 MONTHS	14.7%	8.3%	6.4%
1 YEAR	-4.7%	5.3%	-10.0%
2 YEARS	17.5%	19.6%	-2.1%
3 YEARS	22.7%	16.2%	6.5%
SINCE INCEPTION	15.9%	15.8%	0.2%

*In comparison with BSE 500

ISMP is an Investment Approach /Product offered under Equity Strategy in terms of SEBI circular dated Dec 16, 2022. Inception date: 24th May 2021. Benchmark Index: BSE 500 TRI. Data as on 31st October 2025. Past performance may or may not be sustained in future and should not be used as basis for comparison with other investments. Returns are composite of all the Portfolios aligned to the investment approach. Returns for individual client may differ depending on the timing of inflows and outflows of funds and/or differences in the portfolio composition because of restrictions and other constraints, if any. Returns for 1 year or lesser time horizon are absolute returns. Where last 2, 3,4,5 year performance returns are not available, they have not been shown. Returns have been calculated using Time Weighted Rate of Return method (TWRR) as prescribed by the SEBI. Performance figures are net of all fees and expenses. The performance related information provided herein is not verified by SEBI nor has SEBI certified the accuracy or adequacy of the same. For performance details of other Portfolio Managers for similar strategy, please refer to <https://www.apmiindia.org/apmi/welcomeiaperformance.htm?action=PMSmenu>.

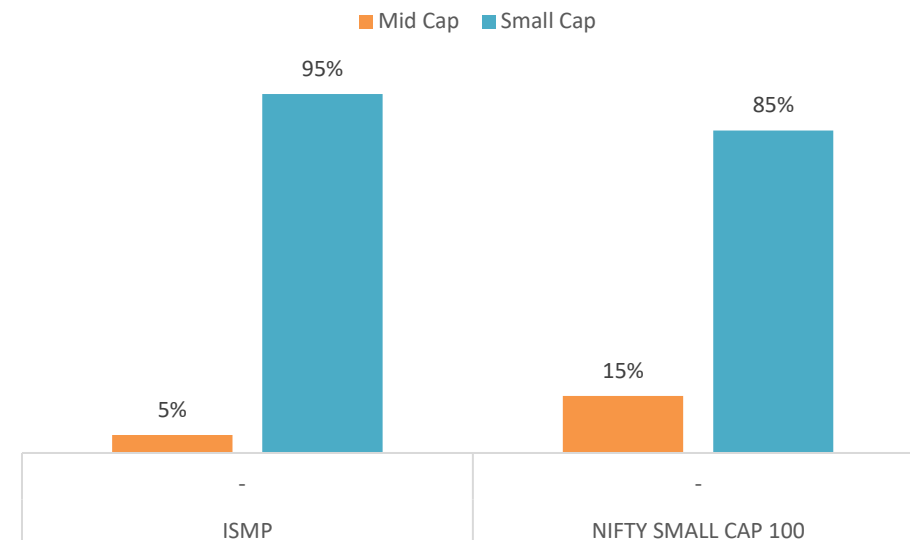
* ISMP – InCred Small and Mid Cap Portfolio

InCred Small and Midcap / Portfolio Details

Top 10 Holdings

Name	% Weight
INDRAPRASTHA MEDICAL CORPORATION LTD	11.6%
NEULAND LABORATORIES LTD	11.6%
TEJAS NETWORKS LTD	6.1%
ARMAN FINANCIAL SERVICES LTD	5.9%
INTELLECT DESIGN ARENA LTD	5.3%
CHOLAMANDALAM FINANCIAL HOLDINGS LTD	4.7%
RELIGARE ENTERPRISES LTD	4.4%
CITY UNION BANK LTD	4.1%
STOVE KRAFT LTD	4.1%
BAJAJ HEALTHCARE LTD	3.8%
Cash	0.7%

Market Capitalization



Sector Analysis



Healthcare
33.6%



Financials
19.1%



Consumer
13.3%



Technology
10.3%



Auto & Auto Ancillary
6.3%

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