

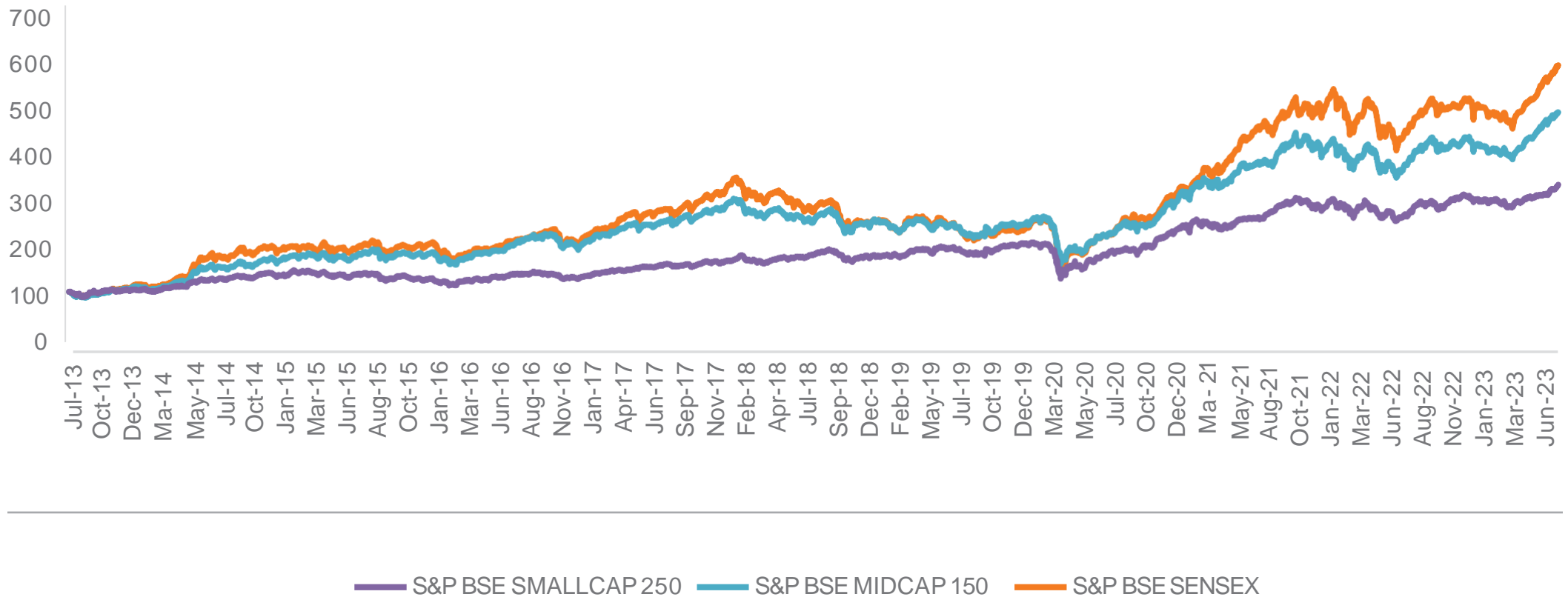
InCred Small & Mid Cap Portfolio



WHY SMALL CAP



Historically, Small Caps have yielded better long term returns

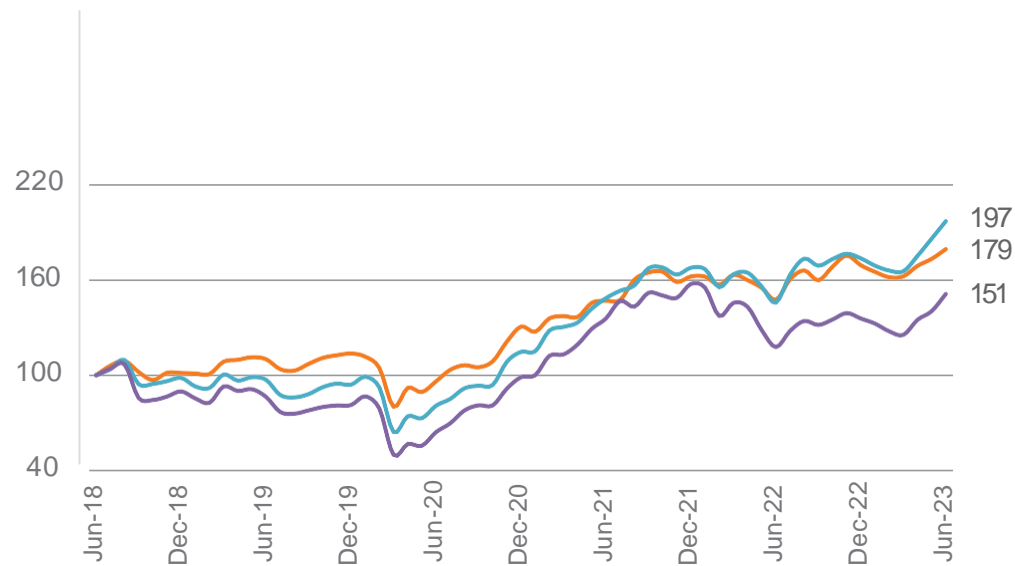


Data from 28th August 2013 to 30th June 2023, Rebased to 100. Source: bloomberg.com.
Past performance is no indication or guarantee of future performance

Over last few years small caps have meaningfully underperformed

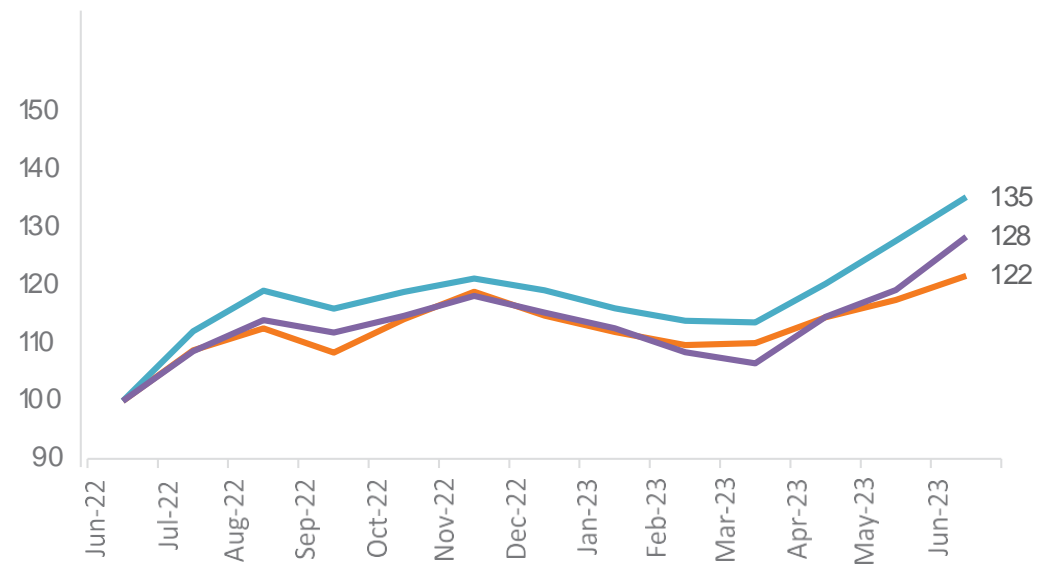
5-Year Annualised Return

Nifty: 11.4% | Mid Cap: 9.9% | Small Cap: 2.9%



1-Year Return

Nifty: -1% | Mid Cap: 1% | Small Cap: -14%



■ Nifty
 ■ Nifty Midcap 100
 ■ Nifty Smallcap 100

Focus on sectors which are under-represented in large caps

Business leaders opportunities in small cap



Largest Power/Commodity Exchange Company



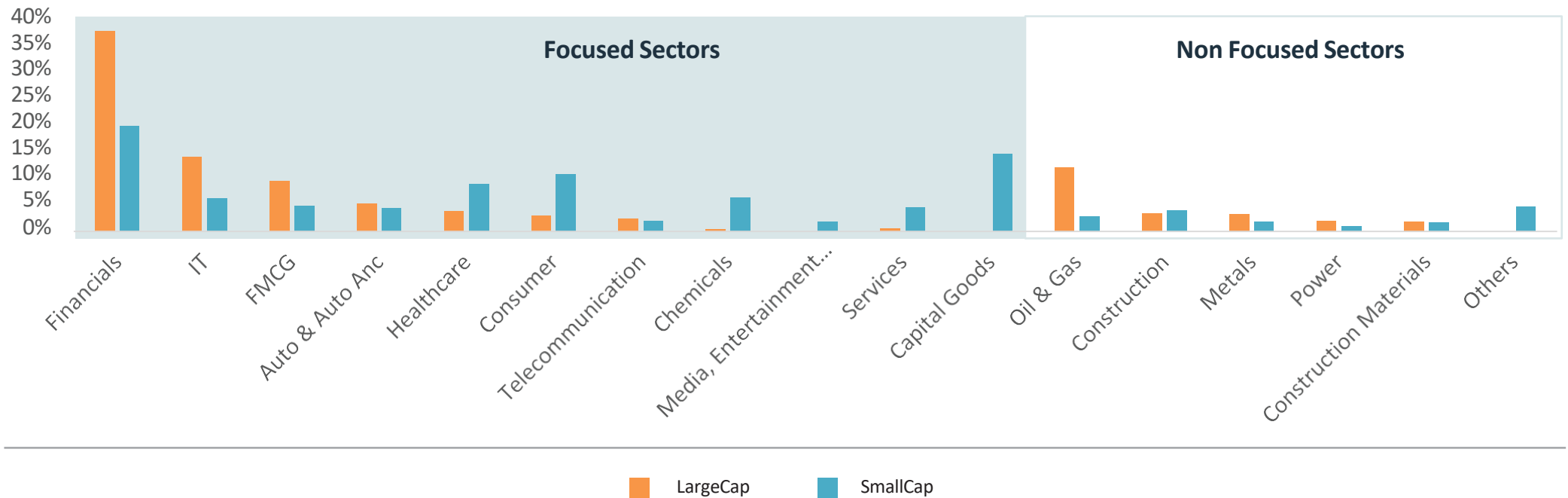
Largest Depository Company



Largest Movie Exhibitor

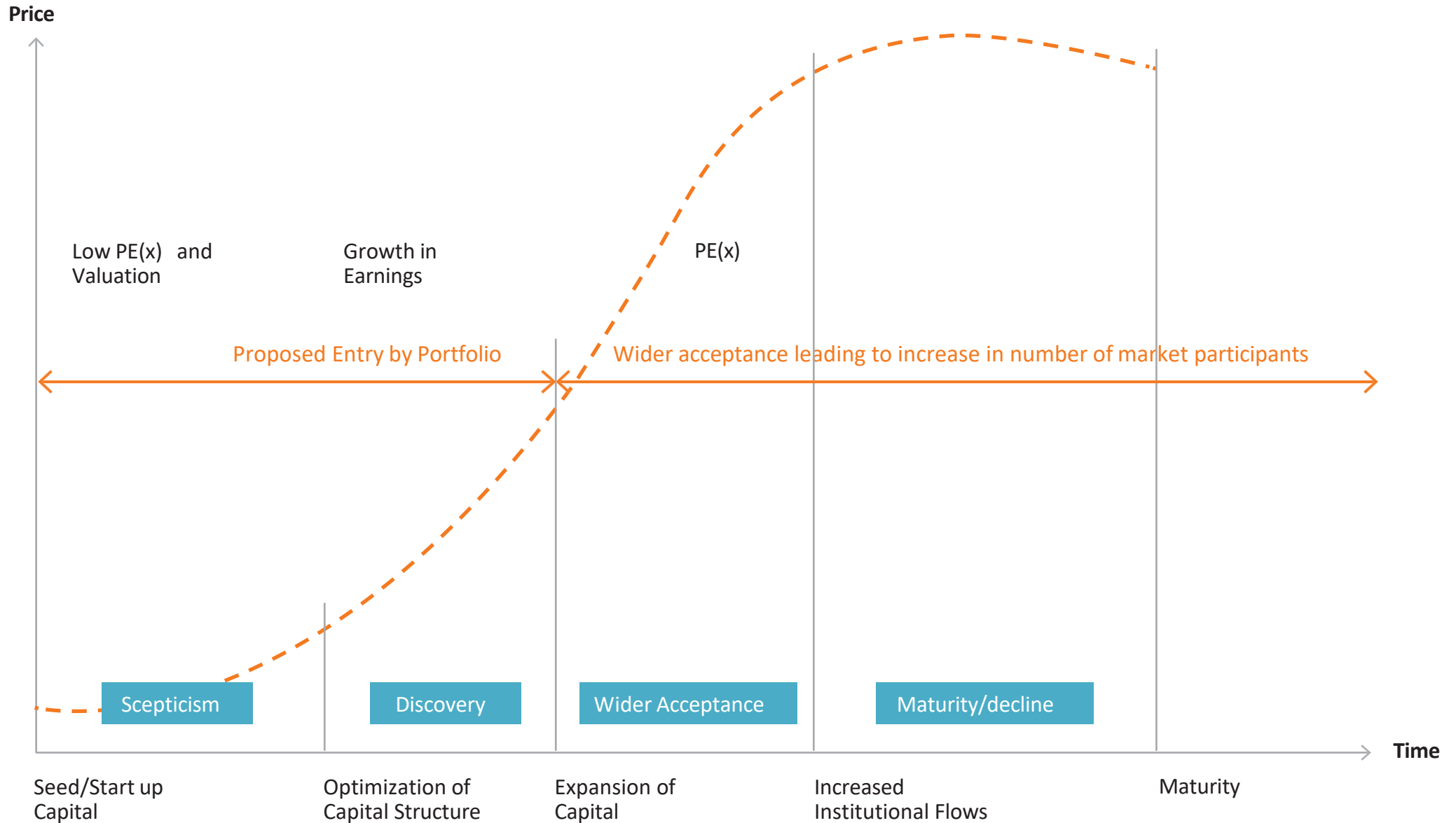


Leading Telecom Equipment Manufacturer



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



INVESTMENT THEMES



- The ambition of achieving Atmanirbhar Bharat through the **Production-Linked Incentive (PLI)** we believe the scheme is one of the most serious policy attempts to ensure

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

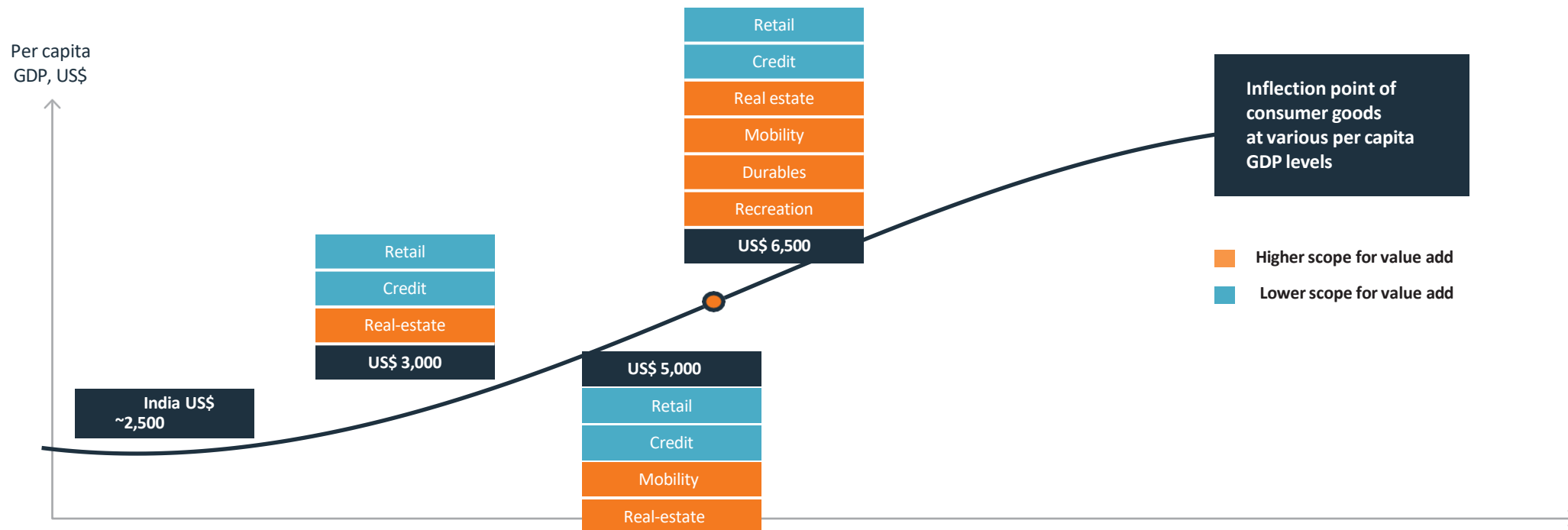
- Total 14 schemes announced by the Government of India .

- 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		

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



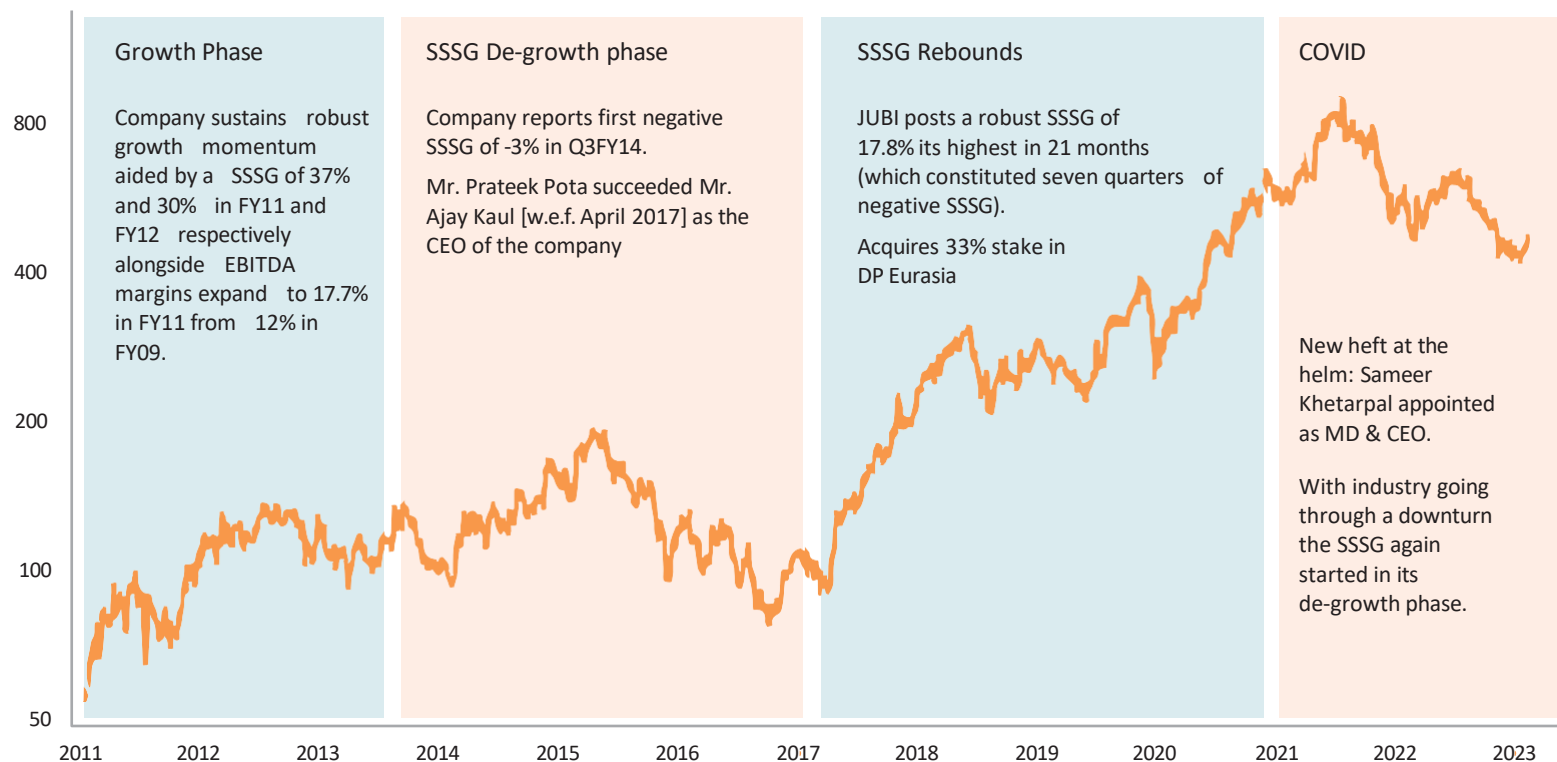
Source: Bain & co.

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	CAGR
Food Service Market Size(in ₹ Cr)	289724	312902	337934	364969	394167	425700	391664	450391	7%
QSR share in Food Service Market	6%	7%	7%	8%	8%	9%	7%	8%	
Jubilant Sales (in ₹ Cr)	2093	2438	2583	3018	3563	3927	3312	4396	11%
Operating Margins (in %)	12.2	10.8	9.3	14.6	16.8	22.3	23.3	25.2	
Return on Invested Capital (in %)	30	23	14	39	62	100	72	65	

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

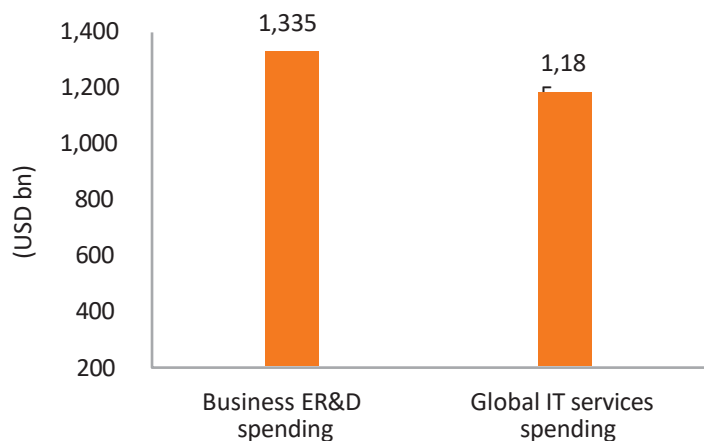
R&D spends are critical to maintain market share/relevance amidst shortening product cycles and disruption especially in software and automotive verticals. Through Covid, R&D intensity of global auto OEMs has increased despite shrinking revenues. ERD spend will be strongest in following sectors – automotive (ADAS, connected), 5G, 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 50% 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 is increasing fast.

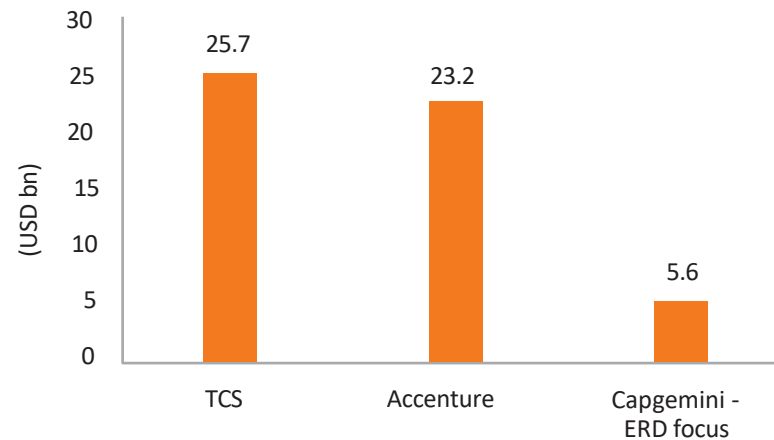
Digital ERD spend is expected to outpace overall IT spends @12% CAGR (vs 6% overall) over FY21-24 benefiting IT companies. In asset heavy industries, mechanical got substituted by electrical and now digital. Asset light industries like software and healthcare are also increasing spends, thereby increasing the TAM.

Indian players have c.30% 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)



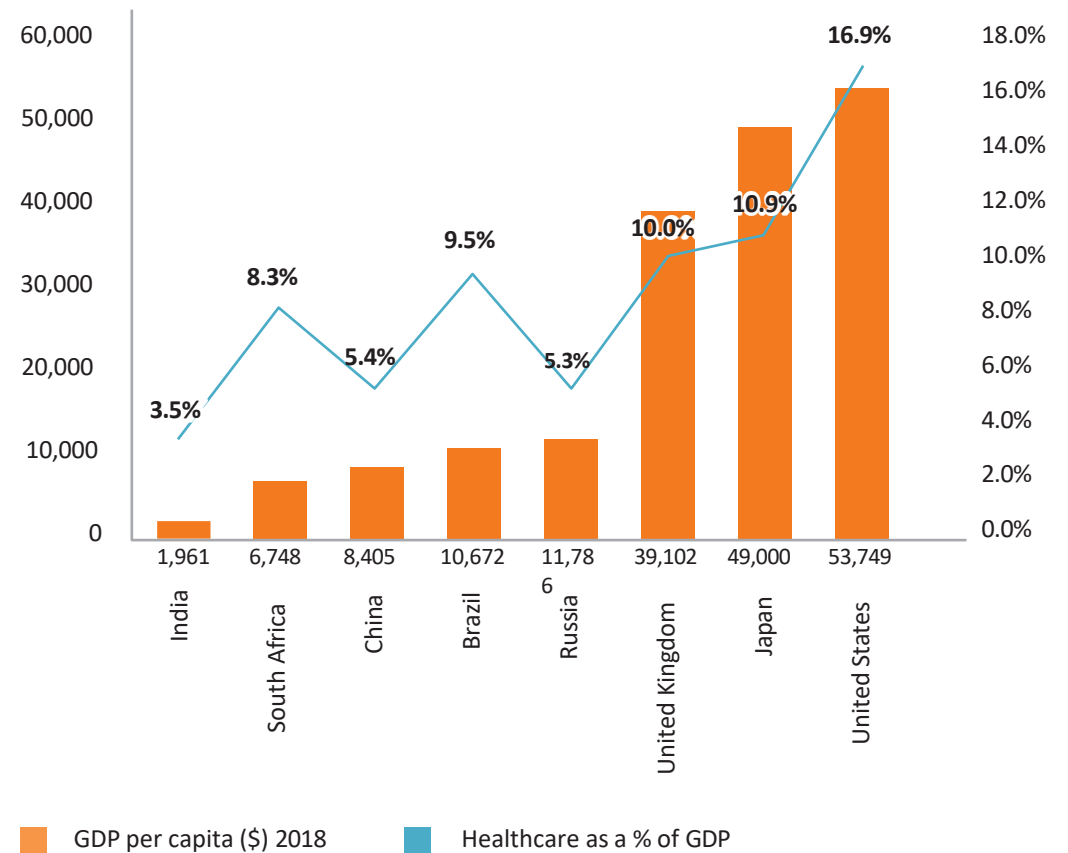
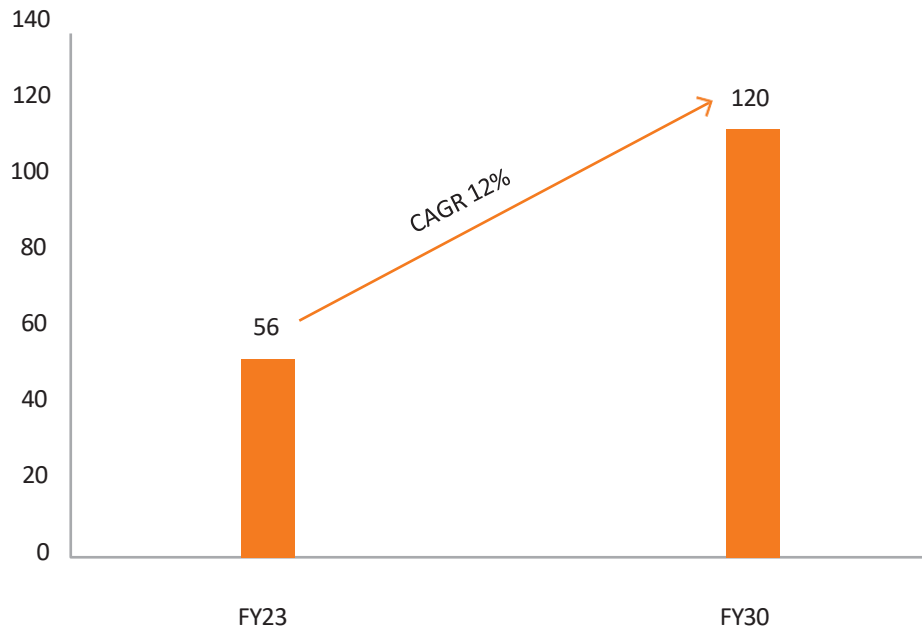
Largest IT services companies are 5x of the largest ERD operations



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.

Indian Pharmaceutical Market (USD BN)



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.

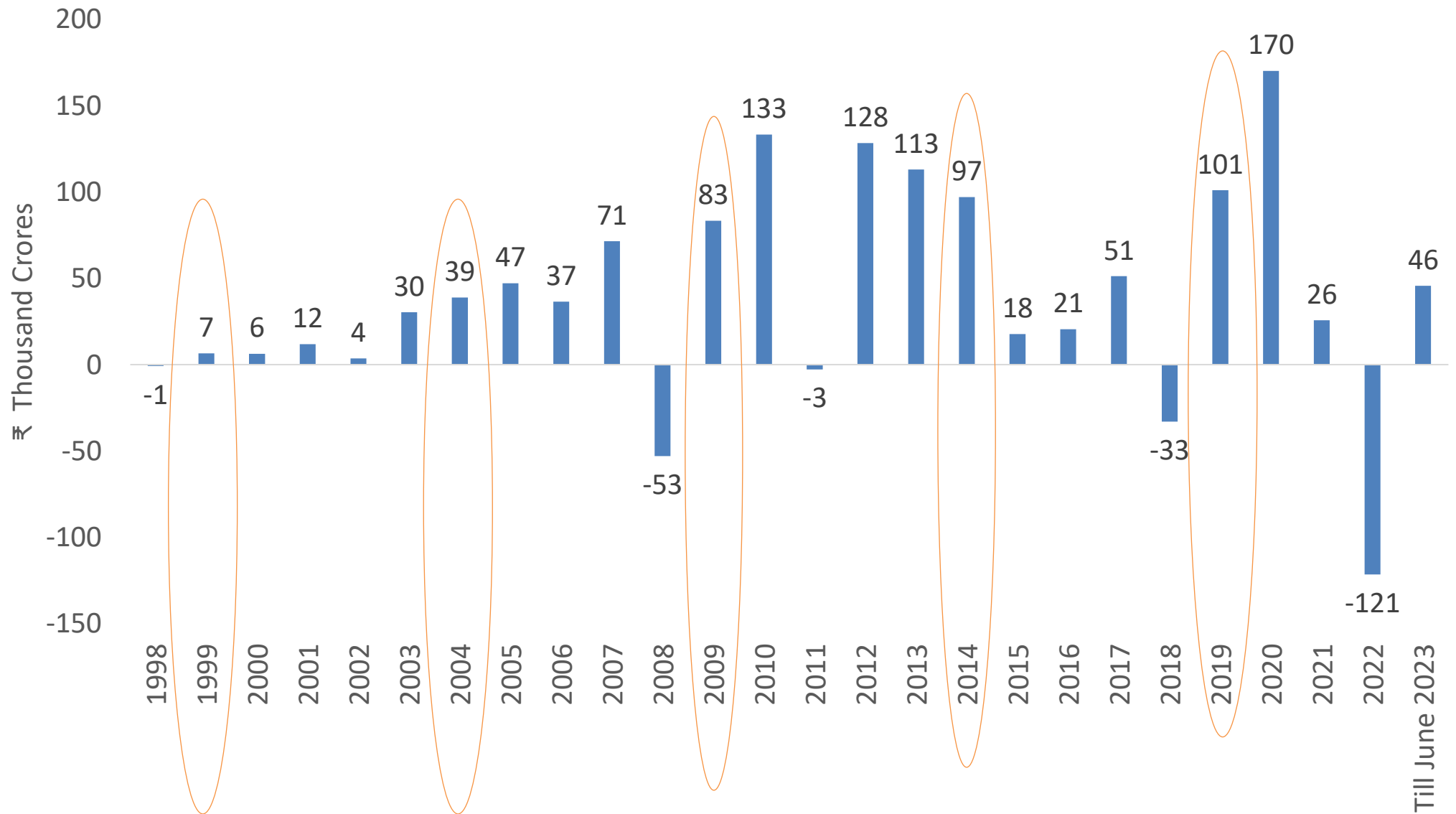
MARKET VIEW



India is the best performing amongst the emerging market countries

	% change in local currency								% change in USD							
	1-mo	3-mo	6-mo	CYTD	1-yr	3-yr	5-yr	10-yr	1-mo	3-mo	6-mo	CYTD	1-yr	3-yr	5-yr	10-yr
Developed markets																
Australia	(1)	2	(0)	1	8	22	14	50	1	2	(1)	(2)	3	18	3	7
France	(2)	2	10	11	18	46	36	92	(0)	4	13	13	22	42	27	61
Germany	(1)	6	13	13	20	30	29	99	1	7	16	15	24	26	21	67
Hong Kong	0	(6)	(4)	(5)	(13)	(24)	(35)	(8)	0	(5)	(4)	(5)	(13)	(25)	(35)	(8)
Japan	6	19	24	25	23	47	46	155	4	9	15	15	17	10	13	74
Singapore	(1)	(1)	(2)	(2)	3	23	(3)	3	(1)	(2)	(2)	(3)	5	27	(2)	(3)
UK	(2)	0	(0)	(0)	3	21	(1)	21	1	5	5	5	7	24	(5)	0
US (Dow Jones)	2	5	2	2	7	31	39	126	2	5	2	2	7	31	39	126
US (Nasdaq)	4	14	29	29	16	35	78	300	4	14	29	29	16	35	78	300
US (S&P500)	3	10	13	13	11	41	60	171	3	10	13	13	11	41	60	171
MSCI World									3	8	11	12	11	32	39	104
Emerging markets																
Brazil	7	20	9	8	21	24	67	152	12	32	19	20	32	39	32	16
MSCI China	0	(9)	(5)	(6)	(19)	(32)	(31)	14	0	(8)	(5)	(6)	(19)	(32)	(31)	13
India	1	10	4	3	19	82	74	234	2	11	5	4	14	67	45	148
Indonesia	(0)	(1)	(3)	(3)	(5)	36	14	45	(1)	(1)	1	0	(7)	29	8	(4)
Korea	1	7	11	15	9	22	10	45	2	6	9	11	8	12	(6)	28
Malaysia	(1)	(1)	(6)	(7)	(3)	(7)	(17)	(20)	(3)	(6)	(11)	(12)	(9)	(15)	(29)	(45)
Mexico	(1)	1	6	10	12	41	14	37	2	9	20	25	29	87	32	5
Russia	(2)	6	6	6	(27)	(18)	(7)	(18)	(2)	6	6	6	(27)	(18)	(7)	(18)
Taiwan	3	7	19	21	11	46	59	119	2	5	18	19	7	39	56	113
Thailand	(3)	(7)	(9)	(11)	(5)	12	(9)	4	(4)	(9)	(10)	(12)	(5)	(2)	(14)	(8)
MSCI EM									2	2	4	4	(2)	(1)	(7)	10

FII Net Inflow into Equities (Cash)



INCRED ASSET MANAGEMENT



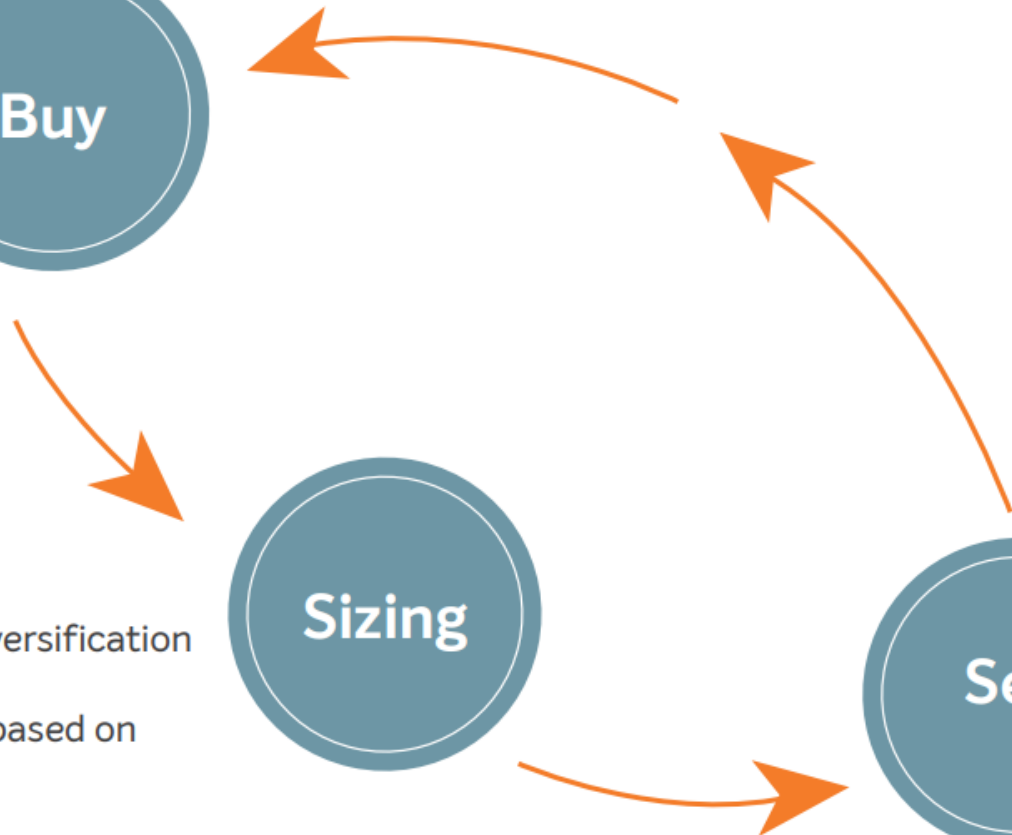
- "Great" businesses at fair value
- "Good" businesses at a discounted value
- Avoid "Bad" businesses



- 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

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

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

Our capabilities

Over 125+ 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.

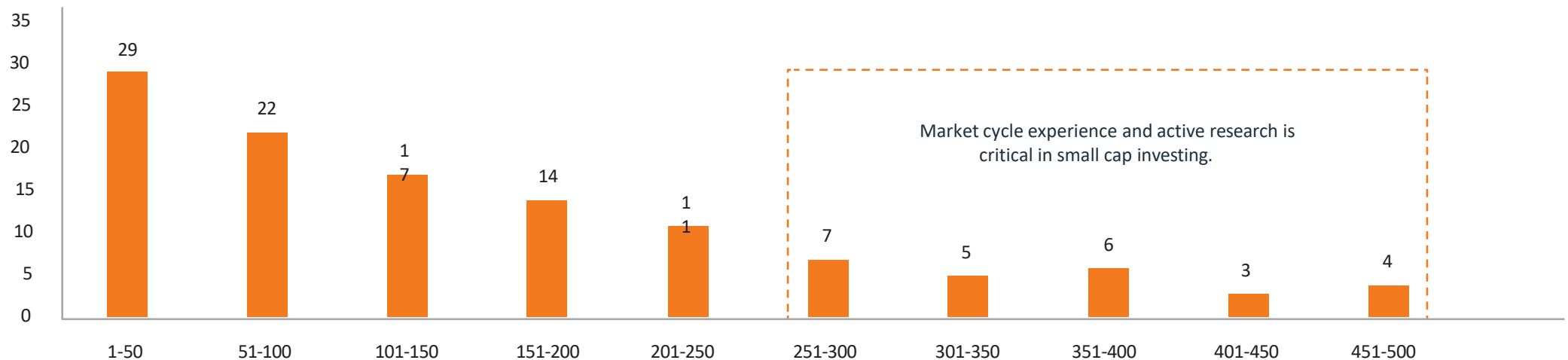
Having a sound investment framework helps in superior stock selection and minimize mistakes.

Strong in-house research with over 6 research analysts and 3 fund managers covering 160 stocks out of which 82 stocks are small cap and 41 are midcap stocks.

As on April 2023

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.

Average number of sell side analysts covering the stock*



*Stocks grouped by market capital categorization (Universe: NSE 500)

Source: Bloomberg

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.



Aditya Sood

Fund Manager, InCred Asset Management

- Overall investment experience of 19 years in equity markets out of which 17 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 Portfolio
-

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



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

– Aditya Sood

Since inception the schemes have returned 322.6% as against the BSE smallcap index’s gains of 230% - *Business Standard*

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

Weblink

[Economic Times](#)

[Business Standard](#)

Performance

Returns	Portfolio	BSE 500 TRI	Alpha	Additional Benchmark NIFTY Small Cap 100	Alpha
1 Month	6.4%	4.0%	2.4%	8.0%	-1.6%
3 Months	25.6%	12.5%	13.1%	21.0%	4.6%
6 Months	35.8%	14.8%	21.0%	23.2%	12.7%
1 Year	47.7%	17.4%	30.3%	27.6%	20.1%
2 Years	13.6%	13.1%	0.5%	5.5%	8.1%
Since Inception	16.3%	15.0%	1.3%	11.8%	4.6%

Sectoral Analysis

*Sectors	% Weight	Overweight / Underweight
Consumer	24.2%	Overweight
Technology	22.5%	Overweight
Financial	18.0%	Underweight
Healthcare	16.3%	Overweight
Auto & Auto Ancillary	8.4%	Overweight
Telecom	7.5%	Overweight
Chemicals	2.7%	Underweight

Market Capitalisation

	Portfolio	NIFTY SMALL CAP 100
Large Cap	-	-
Mid Cap	-	15%
Small Cap	100%	85%

*In comparison with Nifty Small Cap 100

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 30th June 2023. 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

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