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## Investment trust review: India Capital Growth fund may be small but it's mighty

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Jayna Rana, investment companies analyst at QuotedData (Photo: James Gifford Mead)

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By Jayna Rana

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This week marks Diwali, also known as the festival of lights, an auspicious occasion celebrated by millions of people in India and around the world.

To celebrate, we take a look at the country which is on track to be one of the world's next superpowers, with its young population, rapidly expanding economy and close links to other dominant countries.

Investment bank Jefferies recently said that India's economic cycle suggests conditions are ripe for annual economic growth of between 8 per cent to 9 per cent over coming years. It thinks that the country is set for a repeat of its 2004 to 2010 style upturn which saw its markets boom.

One way investors can benefit from India's growing economy and investment opportunities is through the **India Capital Growth fund (IGC)**, a small but strong-performing investment trust with a focus on small- to medium-sized businesses.

## India Capital Growth fund (IGC)

AIC Sector	India
Price	117.50p
NAV	134.96p
Premium/(discount)	12.94 per cent
Yield	-
Market cap	£132.19m
Ongoing charge	1.82 per cent

*Source: QuotedData/Morningstar – as at 2 November 2021*

David Cornell, chief investment officer at Ocean Dial Asset Management (ODAM), which runs IGC, told us in an investor call just this week that, after 18 months of volatility in its new post-reformation world and amid the coronavirus pandemic, animal spirits are finally returning in India and that there are many pockets of value to be found for investors.

Though it is the smallest trust amongst its peers in the Association of Investment Companies' India sector at £132m, IGC is one of the best-performing year-to-date, behind only the £188m Ashoka India Equity investment trust.

Since the start of 2021, its share price has delivered 40 per cent while its net asset value is up 35.5 per cent.

For comparison, the average UK Equity Income and Global trust has returned 15.5 per cent and 10 per cent respectively in share price terms over the same period.

## **Small and mid-cap bias**

The trust's named manager is Gaurav Narain, who is based in India and has a team of analysts with him on the ground as well as in the UK. The strength of this team means IGC benefits from a deep research bias and is able to meet a whole range of companies face-to-face.

With its focus on small- to medium-sized businesses, IGC has its pick of an overlooked and under-researched pool of opportunities, with names such as Ramkrishna Forgings (market cap: £314m) and Sagar Cements (market cap: £326m) featuring in the portfolio. This portfolio has just 32 holdings – meaning it is highly concentrated – and has a low turnover which shows the team really likes to get to know its companies and holds a long-term view.

More interestingly, the team has noticed a newly flourishing IPO market in India as well as an increase in private companies growing before deciding to list.

There have been a record 32 unicorns (private companies worth more than \$1bn) created in India this year and Mr Cornell tells us there are 25 to 30 'soonicorn' (soon to be unicorns) on their way.

Though IGC hasn't yet held a private company, it does have board approval to invest 5 per cent of the portfolio in the space if the right opportunity arises – which may well be soon.

Mr Cornell said: 'These trends have a positive network effect across the economic spectrum. It also shifts India's investment narrative away from disappointing growth, disruptive reform and Covid, and towards the opportunities to invest in the new economy in a young and vibrant population.'

'This a major step change to which investors are only just beginning to wake up, as India becomes a realistic alternative to China and a meaningful investment opportunity.'

## **Digital revolution**

Another theme the manager is keeping a close eye on is what he calls 'the fast tracking of digitalisation across all levels of Indian society'.

This is of course a global trend, with different countries at different stages, but the picture in India is particularly significant as it coincides with the completion of its 'technology ecosystem'.

Newly digitalised banking regulations and systems, access to sufficient fibre optic capacity nationwide, and cheap smartphone handsets, among other developments, have enabled a rapid shift to digital adoption across multiple industries, sectors and subsectors, which have been further fast-tracked by the pandemic.

Mr Cornell added: 'India is seven to eight years behind China in terms of internet users, e-commerce, and digital adoption, but expects to catch up at a higher growth rate.'

IGC also has the advantage of its parent company, Avendus Capital having a market-leading position in the digital sector in India and therefore having the knowledge and relationships required to help the team understand what is driving the market and why.

## Redemption facility


Last year, shareholders of IGC approved the introduction of a redemption facility, giving shareholders the right to redeem all or part of their investment by the end of this year at an exit discount equal to a maximum of a 6 per cent discount to net asset value (NAV) per redemption share.

This means shareholders can exit the fund should they wish, but investors will also get the chance to buy stock at this level, which may look attractive if the trust's discount continues to narrow.

At the end of October, IGC was trading on a discount of 8.6 per cent. The board and the manager would like to see it eliminated altogether. This may be possible, especially considering the strong numbers it revealed in its most recent results. Its share price total return was 31.7 per cent and its NAV return was 25.1 per cent for the six months to 30 June 2021, outperforming the BSE Midcap TR Index.

Mr Cornell said the companies in the portfolio are still, on average, very cheap and as India performs well and continues to control the coronavirus and its vaccination programme, the trust could respond well to further improvement in India's economy.

The team has also expressed its positive outlook, saying the balance sheets of Indian companies are being repaired and corporate profitability is improving. IGC's focus on good quality companies with strong management capabilities and a clear path to growth continues to be the way to generate positive investment performance.

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