

**WEBINAR (11<sup>TH</sup> MAR'20)**

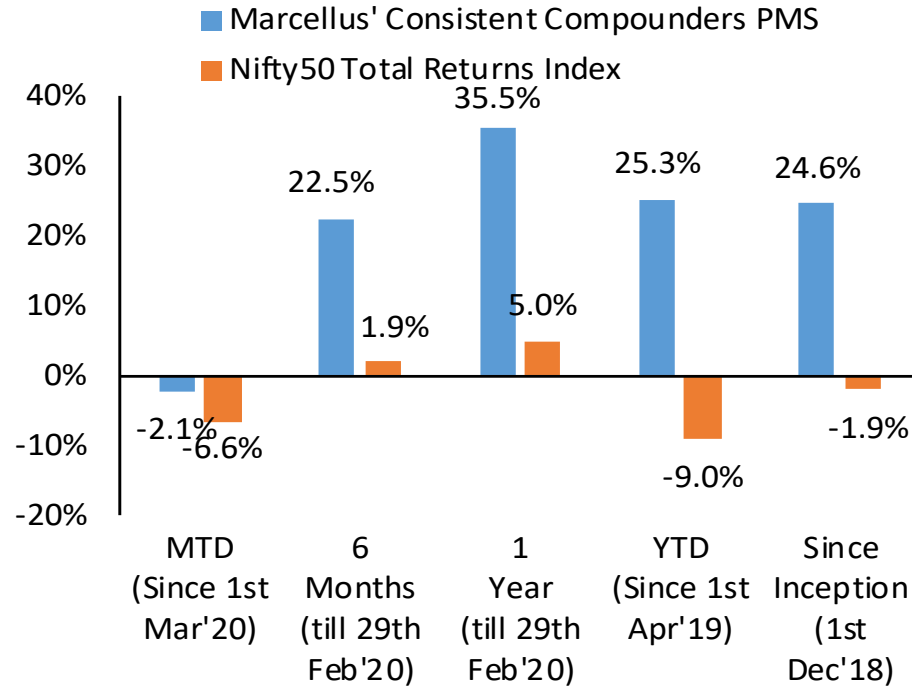
**IMPACT OF ONGOING EVENTS ON  
MARCELLUS' PMS PORTFOLIOS**



**MARCELLUS INVESTMENT MANAGERS PVT. LTD.**

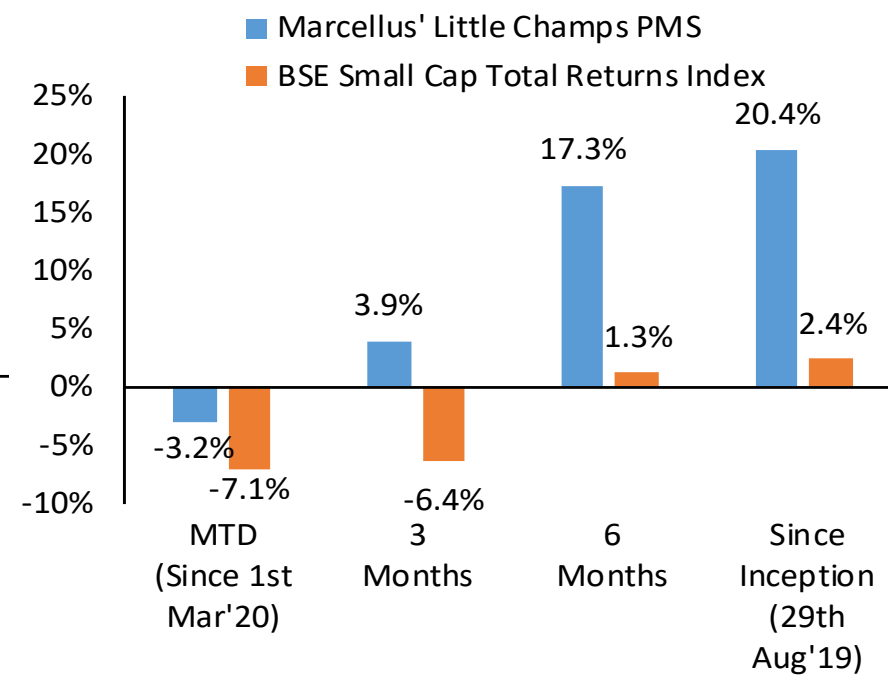
# CCP AND LCP: PERFORMANCE UPDATE - AS ON 11<sup>TH</sup> MAR'20

**Exhibit 1a: Marcellus' Consistent Compounders PMS performance as on 11th Mar'20 (INR)**



**Source: Marcellus, Bloomberg; All returns are net of fees and expenses (TWRR / XIRR); Since inception returns are annualised; Other time period returns are absolute**

**Exhibit 1b: Marcellus' Little Champs PMS performance as on 11th Mar'20 (INR)**



**Source: Marcellus, Bloomberg; All returns are net of fees and expenses (TWRR / XIRR); All time period returns are absolute**

# CCP'S PERFORMANCE IN FY20 FULLY SUPPORTED BY EARNINGS GROWTH

Exhibit 2: Share price performance of Marcellus' CCP stocks (healthy & broad based) and NIFTY50 index for last 5 years

Marcellus' CCP PMS stock	YTD FY20	FY17-20 (CAGR)*	FY15-20 (CAGR)*
Stock 1	113%	50%	32%
Stock 2	23%	20%	18%
Stock 3	61%	61%	64%
Stock 4	77%	33%	31%
Stock 5	5%	19%	19%
Stock 6	-30%	-10%	-1%
Stock 7	26%	25%	21%
Stock 8	51%	35%	19%
Stock 9	-8%	16%	11%
Stock 10	26%	31%	21%
Stock 11	109%	48%	38%
Stock 12	27%	51%	19%
Stock 13	55%	19%	
<b>Overall portfolio (Wtd avg.)</b>	<b>25%**</b>	<b>30%</b>	<b>25%</b>
<b>NIFTY 50</b>	<b>4%</b>	<b>10%</b>	<b>7%</b>

Source: Marcellus Investment Managers; Ace Equity; \*3-yr and 5-yr CAGR is calculated based on 28th Feb'2020 shares prices and overall portfolio return has been computed using current model portfolio allocations; \*\*TWRR based return NAV performance as shown in Exhibit 1a

Exhibit 3: Earnings growth of Marcellus' CCP stocks (healthy & broad based) and NIFTY50 index for last 5 years

Marcellus' CCP PMS stock	Q3FY20	9MFY20	FY20E*	FY17-20E (CAGR)*	FY15-20E (CAGR)*
Stock 1	59%	43%	42%	32%	23%
Stock 2	23%	34%	34%	14%	16%
Stock 3	52%	53%	54%	47%	43%
Stock 4	35%	43%	45%	15%	22%
Stock 5	30%	24%	25%	20%	19%
Stock 6	29%	26%	26%	15%	10%
Stock 7	28%	31%	33%	23%	21%
Stock 8	38%	27%	27%	27%	11%
Stock 9	-15%	-2%	4%	15%	16%
Stock 10	59%	40%	38%	14%	20%
Stock 11	52%	44%	44%	27%	19%
Stock 12	-5%	-6%	0%	8%	10%
Stock 13	19%	27%	27%	18%	
<b>Overall portfolio (Wtd avg.)</b>	<b>31%</b>	<b>30%</b>	<b>31%</b>	<b>21%</b>	<b>20%</b>
<b>NIFTY 50</b>	<b>9%</b>	<b>7%</b>	<b>9%**</b>	<b>3%**</b>	<b>3%**</b>

Source: Marcellus Investment Managers, Ace Equity; \*FY20E earnings growth is calculated based on actual growth for 9 months ended Dec'19 and our estimate of earnings growth for Q4FY20; \*\*NIFTY50's earnings growth forecast for FY20 is taken from broker reports

- More than 30% YoY growth in profits during 3QFY20 and 9MFY20 vs 25% portfolio performance since 1st April 2019.
- More than 20% annualized growth in profits over FY17-20 and over FY15-20.
- Accelerated market share gains in a difficult economic environment over the past five years.
- Recent regulatory changes (corporate tax rate cut, GST) = 'snowball effect' for the earnings growth, not yet been adequately factored into valuations.

# LCP: THE TRINITY OF HIGH ROCE, HIGH REINVESTMENT AND HIGH GROWTH

**Exhibit 4: Most of the Little Champs portfolio companies have been able to maintain the rare trinity of high RoCEs, reinvestment rates and earnings growth**

Company	Average RoCE			Average Reinvestment rate*			EPS CAGR		
	10YR	5YR	3YR	10YR	5YR	3YR	10YR	5YR	3YR
Stock 1	22%	25%	25%	65%	74%	79%	35%	15%	20%
Stock 2	19%	25%	27%	31%	25%	19%	24%	36%	27%
Stock 3	21%	25%	28%	40%	40%	43%	17%	22%	36%
Stock 4	11%	17%	14%	49%	50%	23%	25%	12%	19%
Stock 5	50%	62%	58%	52%	40%	41%	55%	47%	57%
Stock 6	28%	24%	23%	64%	71%	74%	29%	18%	20%
Stock 7	13%	15%	18%	83%	73%	65%	11%	44%	34%
Stock 8	23%	27%	29%	62%	66%	67%	38%	22%	15%
Stock 9	24%	24%	18%	66%	74%	78%	15%	31%	27%
Stock 10	22%	27%	29%	69%	75%	72%	45%	19%	30%
Stock 11	29%	29%	23%	38%	33%	33%	56%	19%	8%
Stock 12	13%	16%	19%	78%	77%	80%	37%	68%	26%
<b>Median</b>	<b>22%</b>	<b>25%</b>	<b>24%</b>	<b>63%</b>	<b>68%</b>	<b>66%</b>	<b>32%</b>	<b>22%</b>	<b>26%</b>

*Source: Companies, Ace Equity Note: \*Reinvestment rate calculated as aggregate of capex, strategic investments/acquisitions as % of total cash flows generated from operations, treasury income and debt & equity funding; Above table does not include 2 financial services stocks in LCP portfolio*

- Most of the Little Champs portfolio companies have been able to sustain healthy RoCE levels amidst high reinvestment rates resulting in healthy earnings CAGR
- Little Champs have been able to achieve this primarily on the back of disciplined capital allocation (growth for most of the portfolio companies has been sans any significant acquisition)
- Common templates successfully employed by the Little Champs portfolio companies have been:
  - i. taking the product from regional market to pan-India in a gradual manner (helped by improving integration within the economy) thereby chipping away shares from unorganised or weak local players (this also includes export markets); and
  - ii. successfully building franchises surrounding adjacencies by leveraging the customer relationships and/or distribution channels in core products

# RISE IN SHORT TERM UNCERTAINTIES - IMPACT ON OUR PORTFOLIO COMPANIES

## Short-term negatives

- Concerns around spread of coronavirus
  - Few countries under lockdown

## Short-term positives

- Crude oil price fall – positive for several portfolio companies (like Asian Paints, Berger, Pidilite etc)
  - Stimulus from central banks globally?

## Impact on CCP companies:

**Impact on demand:** Our portfolio companies' sell products and services which are small ticket essentials consumed on a day to day basis predominantly by middle class households in India. This demand is **not** affected by Coronavirus in a meaningful manner even in the short term.

**Impact on supply:** Exposure to raw material imports: 06 out of the 13 companies in our portfolio import up to 25% of their raw material (not much from China though) – bulk of which can be substituted with alternate sources

- Asian Paints & Berger: Titanium Dioxide (TiO<sub>2</sub>) is a key RM for paint companies and forms ~20% of their RM consumed. Our sense is that China accounts for over 40% of global TiO<sub>2</sub> capacity.

(contd..)

# RISE IN SHORT TERM UNCERTAINTIES - IMPACT ON OUR PORTFOLIO COMPANIES

- Pidilite: VAM is a key RM for Pidilite and forms ~15% of RM consumed. Pidilite has in-house VAM manufacturing capacity. However, it is currently importing VAM rather than making it in-house due to cost viability. Our sense is that China accounts for ~15-20% of global VAM capacity and the balance capacity is spread across USA & Europe.
- Page Industries: Page imports Elastic, Synthetic yarn and other accessories which forms ~15% of its COGS (cost of goods sold). Globally, China is one of the larger producers of these products
- Relaxo Footwears: Ethylene Vinyl Acetate (EVA) and Polyurethane (PU) are key RM's for Relaxo and forms ~35% of Relaxo's COGS. Our sense is that the major part of global capacity for these products is located in Western countries (Dow, Du Pont, Basell etc.) and China is a net importer of these commodities. India imports most of its EVA & PU requirements
- Divis: Divis procures some of its key RM's from China, but is in the process of setting up backward integration for such RM's which should operationalise in the coming quarters



# RISE IN SHORT TERM UNCERTAINTIES - IMPACT ON OUR PORTFOLIO COMPANIES

## Impact on LCP companies:

Exhibit 5: Little Champs' export revenues primarily to Western geographies

Company*	Domestic Revenue %	Export** Revenue %	Remarks
Stock 1	79%	21%	
Stock 2	42%	58%	Most of the exports are into North America and Europe.
Stock 3	74%	26%	Europe subsidiary largely catering to European region.
Stock 4	100%	-	
Stock 5	-	100%	Exports primarily into Latin America and Africa.
Stock 6	59%	41%	Exports primarily to European customers. Subsidiaries with localised operations in Europe and USA.
Stock 7	100%	-	
Stock 8	93%	7%	
Stock 9	69%	31%	Well diversified exports across several countries.
Stock 10	100%	-	
Stock 11	85%	15%	
Stock 12	98%	2%	
<b>Median</b>	<b>82%</b>	<b>18%</b>	
<b>Wt. Avg ***</b>	<b>71%</b>	<b>29%</b>	

Source: Companies, Ace Equity Note: \*The portfolio currently has 14 stocks, the list above does not include 2 Financial Services stocks because in case they do not have any export income. \*\* Export revenues include revenues from global operations/subsidiaries \*\*\* Weighted average calculated based on the allocation to the respective stock in the Little Champs portfolio

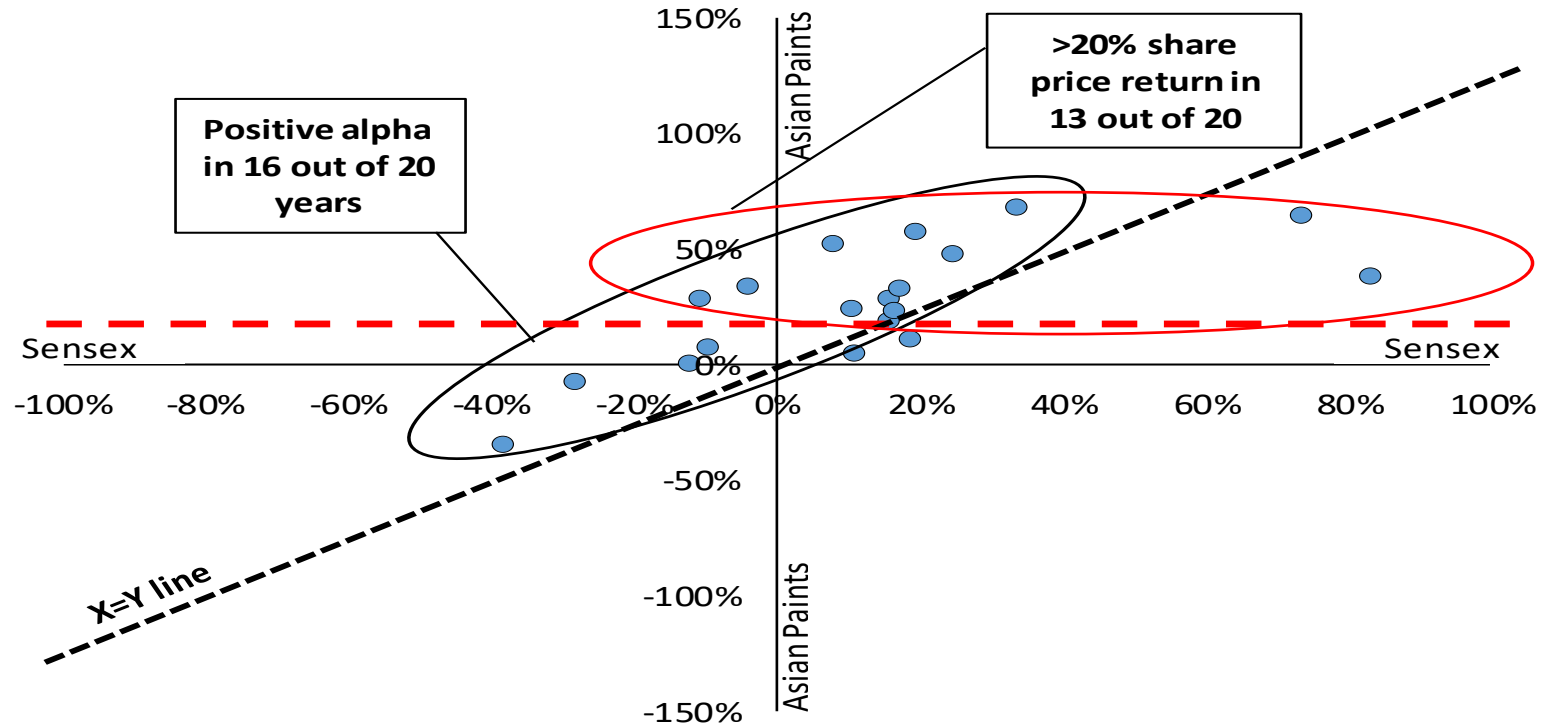
Exhibit 6: Except for one portfolio company, Little Champs has no meaningful exposure to Chinese imports

Company*	Indigenously sourced %	Imported %	Remarks
Stock 1	78%	22%	Imports of petrochemical based raw materials primarily from the Middle East
Stock 2	74%	26%	Imports of petrochemical based raw materials primarily from the Middle East
Stock 3	91%	9%	
Stock 4	100%	-	
Stock 5	37%	63%	Companies' imports are mainly from China
Stock 6	85%	15%	
Stock 7	70%	30%	Imports primarily from Japan
Stock 8	98%	2%	
Stock 9	63%	37%	Imports of petrochemical based raw materials primarily from the Middle East and Asia-pacific
Stock 10	100%	0%	
Stock 11	60%	26%	Imports mainly from countries other than China
Stock 12	90%	10%	
<b>Median</b>	<b>81%</b>	<b>19%</b>	
<b>Wt. Avg**</b>	<b>80%</b>	<b>20%</b>	

Source: Companies, Ace Equity Note: \*The portfolio currently has 14 stocks, the list above does not include 2 Financial Services stocks because in case they do not have any import exposure \*\* Weighted average calculated based on the allocation to the respective stock in the Little Champs portfolio

# CONSISTENT COMPOUNDERS OUTPERFORM DURING PERIODS OF MARKET STRESS

**Exhibit 7: Asian Paints delivered >20% share price performance in 13 out of 20 years, and a positive alpha vs Sensex in 16 out of 20 years**



*Source: Ace Equity, Marcellus Investment Managers; Note: the both the axis in these charts measure % change YOY in share prices*

- Sensex delivered a negative return in 6 out of the last 20 years (FY99-2019)
- Asian Paints delivered a negative return in 2 out of the last 20 years
- In 4 out of the 6 years of negative Sensex returns over FY99-2019, Asian Paints delivered a **POSITIVE** return (i.e. sitting on cash was a futile exercise during these market crashes)
- Opportunity loss of missing out from investment in Asian Paints: More than 20% share price return in 13 out of the last 20 years



# CONSISTENT COMPOUNDERS OUTPERFORM DURING PERIODS OF MARKET STRESS

**Exhibit 8: All consistent compounders have delivered remarkable resilience in their share prices over the past 20 years**

Analysis for 1999-2019 (last 20 years)	Sensex	Asian Paints	HDFC Bank	Pidilite	Relaxo
Share price CAGR - 20 years (1999-2019)	12%	28%	29%	27%	38%
<b><u>Number of years when the stock delivered...</u></b>					
A positive return	14	18	17	16	16
A positive return when Sensex was negative		4	3	2	3
A negative return when Sensex was positive		0	0	0	1
More than 20% absolute return	5	13	14	11	12

*Source: Ace Equity; Marcellus Investment Managers*

Asian Paints is not an exception – all consistent compounders have delivered similar resilience during market stress

# STAYING INVESTED IN GREAT FRANCHISES IS THE MOST PRUDENT APPROACH IN SUCH TIMES OF UNCERTAINTIES

The most frequently asked question is: ***“Why don’t we just sell everything and wait this out? Get back in when the dust settles?”***

- We do NOT know how long and how sharp will be the stress in the broader stock market.
- However, Marcellus’ PMS portfolio stocks are likely to demonstrate resilience given their robust fundamentals compared to the broader market.
- Also, please note that recovery in the broader markets after the 2008 crash or demonetisation crash or IL&FS crash happened much before fundamentals for the broader market started recovering.
- Hence, the idea of trying to time entry and exit from equities during periods of market stress has greater probability of failure than success.

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