

# INDIAN ENTREPRENEUR FUND

FUND FACTSHEET | AUGUST 2010

## Indian Entrepreneur Fund (IEF):

### Objective:

Launched in March 2010, Indian Entrepreneur Fund aims to invest in "Entrepreneur run and/or family owned businesses"; listed on the Indian stock markets, for compounding gains over the medium to long term. Indian Entrepreneur Fund aims to invest in high growth (listed) businesses owned and managed by Indian entrepreneurs/families for superior long term wealth creation. IEF will be a portfolio of 18-20 high growth, high quality businesses (mostly mid-size) led by entrepreneurs with vision and integrity, capable of at least doubling their bottom line in the next 3-4 year period.

### Research methodology and brief rationale:

Our study covered the universe of Top 500 listed companies by market cap and we segregated them into four categories based on their ownership structures - Entrepreneur run/ Family Owned Businesses (FOBs), Public Sector Undertakings (PSUs), Multi National Corporations (MNCs) and Pure Professional Firms. Since the widely held professional firms were only a handful in number, the three categories were taken up for intensive analysis and compared against a host of criteria i.e. sales growth, profit growth, operating margins, capital efficiency – RoE & RoCE and wealth creation. In each of the above comparisons, the entrepreneur run/family owned businesses fared exceedingly well. The summary of the findings are as below:

### Following are the findings and salient features of the research on Indian Entrepreneur and for Family Owned Companies:

- Continued Dominance of Entrepreneur / Family owned firms
  - Entrepreneur/Family Owned Firms comprise ~70% of India's market cap (in 1999 it was ~60%)
- Fastest growing businesses
  - Both Sales and Profits grew at ~30% CAGR over last 8 years
- Superior operating margins
  - 16-17% OPMs consistently since 1999 to 2009
- Improving capital efficiency
  - With rising turnover and profitability
  - Despite doubling the capital expenditure in the last 3 years
- Most sunrise businesses in India are run by entrepreneurs
  - New age, cutting edge, innovation led businesses like Information Technology, Telecom, Pharmaceuticals etc.
- Biggest wealth creators

### Portfolio Manager's Commentary:

Against a weakening global backdrop the Indian economy sustains a robust growth outlook. The outlook for India has improved as the agriculture sector will also kick in the current year. Thus, the 1Q GDP growth numbers at 8.8% while broadly in line, included agriculture growth picking up to 2.8% yoy, reflecting a good rabi crop. Furthermore with good monsoons, outlook for this leg of GDP growth remains robust for the year and overall GDP growth should be in the 8%-8.5% range.

### Fund Details

Investment geography	India
Investment style	Long only
Domicile	Mauritius
Base currency	US \$
NAV frequency	Every Thursday
Dividend policy	None
Website	www.ieof.com
ISIN	MU0185S00183
Bloomberg ticker code	INDENPR MP

### NAV details as on 26th August 2010

Class	Fee Type	NAV (US\$ / Share)
Retail - A	Fixed	1.120
Retail - B	Fixed	1.119
	Variable	1.124

Note:  
Please refer to the terms of the fund overleaf.

### Performance Snapshot (% US\$)

	1 month	2 months	3 months	Since Inception (26th March 2010)
Indian Entrepreneur Fund	0.43	7.05	9.28	10.80
BSE 500	(0.16)	1.74	6.04	1.29

### Sector allocation

Sectors	Portfolio (%)
Materials	17.91
Pharma	14.08
Industrials	13.96
Consumer Discretionary	10.21
Financials	9.77
Utilities	8.72
Telecommunication	3.75
Consumer Staple	1.25
Cash	20.35
Total	100.00

### Top 10 holdings

Stock	NAV (%)
Opto Circuits (I) Ltd	5.42
Yes Bank Ltd	5.20
Coromandel Intl.	5.16
Torrent Power Ltd	5.08
Rallis (I) Ltd	4.93
Voltas Ltd	4.72
Havell's (I) Ltd	4.67
Lupin Ltd	4.64
Shriram Transport Finance Co. Ltd.	4.57
Greaves Ltd	4.57
Total	48.96

# INDIAN ENTREPRENEUR FUND

FUND FACTSHEET | AUGUST 2010

## Brief on top 5 companies

- **Opto Circuits India Ltd.** addresses a large market size of over USD 10b in the global invasive (stent) market and the medical electronics market and is relatively new and small player with FY10 revenues of USD 230 m. It is led by a management with an impressive record of executing profitable growth. Going forward we expect 25%-30% pa revenue and earnings growth for at least the next two years. The stock currently trades at 13.5 x FY11e, closer to the lower side of its historical valuation range of 10-25 x 1 yr fwd.
- **Yes Bank India's** youngest bank) in a short span of 5 years has shown outstanding growth. After having grown its business (loans and deposits) at over 74% during FY06-10, we expect Yes Bank's loan book and deposits to grow at 33% CAGR during FY10-15. Yes Bank currently has 150 branches as of Mar-10 and a CASA of 10.5%. It plans to increase its branches to 250 by FY11 and to 750 by 2015. This is expected to drive its CASA ratio to 25% by FY12. We expect its asset quality to remain healthy (GNPA at 0.8% in FY13E) due to diversified loan book and its dependence on large and mid corporate. At current price (305), it trades at 2.8 x FY11 and 2.3 x FY12 ABV. The historical P/ABV has been 3 x.
- **Coromandel International** which is one of the largest players in the Phosphatic fertilizers in India particularly in the southern markets. With the Govt. thrust (introduction of Nutrient based subsidy scheme in April 2010) and continued investments in capacity expansion will lead to strong growth (@20-25%) in its businesses in the next 2-3 years.
- **Torrent Power Ltd.** is one of the largest private players in the power sector having experience in generation, transmission and distribution. Company has recently tripled its power generation capacity to 1650 MW and doubling it further in next 3 years. On the distribution side, the T&D losses in Ahmedabad and Surat are among the lowest in the country.

Torrent is among the pioneers in distribution franchise model in India. The success of Torrent Power in Bhiwandi circle (in Mumbai) has prompted many other SEBs to come up with franchising distribution circle. Torrent Power has reduced distribution losses from 67% in FY07 to less than 20% now. Torrent with its experience in Ahmedabad, Surat and Bhiwandi is best placed to tap this opportunity. RoEs for Torrent in Bhiwandi are in excess of 50%. Many distribution circles would come up for privatization, Torrent Power can gain significantly by replicating its Bhiwandi success model. The recently bagged Agra and Kanpur circle are testimony of the same.

Torrent Power has healthy mix of profits between regulated business (annuity): merchant power and distribution franchise. FY11 mix is expected to be 45:30:15. After growing its profits at 100% CAGR for the last 2 years, we expect the company to report 32% growth in FY11 and RoE further strengthening to 25% from 23%.

- **Rallis India Ltd.** is one of the largest generic agrochemical companies in India with a 13% market share. It is amongst the top 3 players in the branded formulation market having top 7 of the top 15 brands. Rallis will benefit from the fact that demand for its products is going to remain robust in the coming years which will be mainly due to the following:
  - Agro chemicals usage in India is the lowest in the world @ 0.6 kg/hectare despite having huge arable land. Therefore Indian markets are expected to grow @ 10% p.a.
  - Innovator companies concentrating more on seeds and bio tech business are creating opportunities for generic agro chemical companies for contract research and manufacturing. Rallis India has signed new agreements with key customers which have a revenue potential of 1000 cr over the next 5 years.
  - With a strong distribution network of 40,000 retailers across the country we expect a strong earnings growth @20-25% for the next two years.

## Terms of the Fund

Class	Retail - A	Retail - B	
Initial investment amount	US\$ 20,000 - US\$ 250,000	US\$ 250,000 - US\$ 1 mn	
Fee type	Fixed Fee	Fixed Fee	Variable Fee
Fee details	2.5%p.a.	2.25%p.a.	1.25%p.a. + 20% of performance fee over 10% annualised hurdle

### Notes:

- \* Performance Linked Fee (Calculated and charged on March 31, 2013 or early exit due to partial or full redemption whichever is earlier. Post March 31, 2013, calculated and charged on March 31 every year or partial or full redemption, whichever is earlier)
- Exit Charges – Exit loads applicable on redemption amount in addition to the above fees are chargeable as per slabs described below:  
Year 1 : 3% ; Year 2 : 2% ; Year 3 : 1% ; > 3 years : No exit load
- Please refer to the detailed term sheet.

## Service providers

Fund Administrator	Deutsche International Trust Corporation (Mauritius)
Auditor	Ernst & Young, Mauritius
Global Custodian	Deutsche Bank, (Mauritius) Limited
Indian Custodian	Deutsche Bank - India

## Contact details

### India Emerging Opportunities Fund Limited

Suite 450, 4th floor, Barkly Wharf East, Le Caudan Waterfront, Port Louis, Mauritius  
Tel: +230 20207881/202 7812 Fax: +230 202 7906  
Email: mru\_csd@list.db.com

### Fund Administrator

Deutsche International Trust Corporation (Mauritius) Limited  
Suite 450, 4th floor, Barkly Wharf East, Le Caudan Waterfront, Port Louis, Mauritius  
Tel: +230 20207881/202 7812 Fax: +230 202 7906 Email: mru\_csd@list.db.com

### Investment Manager

Enterprise Investment Managers Limited  
Halifax Management Limited, 4th Floor, Ebene Skies, Rue de l'Institut  
Ebene, Mauritius  
Ph: (230) 404-2200/ Fax (230) 404-21 88

### Investment Advisor

ASK Investment Managers Private Limited  
Corporate office  
No. 254, Bandbox house, Dr. Annie Besant Road, Worli, Mumbai - 400025, India.  
Ph: 91-22-66520000 Fax: 91-22-24985665. Website: www.askinvestmentmanagers.com  
Dubai Office  
Ph: 9714-3554770, Fax: 9714-3556476  
Sydney Office  
Ph: +612-2-88431312, Fax: +612-2-88431310

Important information: Past performance is not indicative of future results. Shares of the Fund are offered only pursuant to the Fund's current Information Memorandum and this summary should not be construed as an offer to sell or for solicitation of an offer to buy or a recommendation for the securities of the Fund. Any information contained in this fact sheet shall not be deemed to constitute an advice, an offer to sell/purchase or as an invitation or solicitation to do so for security of any entity and further India Emerging Opportunities Fund (IEOF) and its employees/directors shall not be liable for any loss, damage, liability whatsoever for any direct or indirect loss arising from the use of this information. Recipients of this information should exercise due care and caution and read the offer document (if necessary obtaining the advice of finance/ other professionals) prior to taking any decision on the basis of this information.