

Monthly Manager Views

FSSA Regional India Strategy

Godrej Industries

Our investment philosophy is to back owners and managers with whom we feel strongly aligned. These owners typically have track records of treating all stakeholders fairly, in both good and bad times. They are ambitious in growing their business, but also risk-aware in their pursuit of growth. In India, we typically find these traits in family-owned companies (commonly referred to as “promoter groups”). Families are able to take a multi-decade view of their business and act counter-cyclically to create value for all shareholders. Our favoured promoter groups are those who recognise the advantages of introducing professionally-run management teams, high-quality boards and other best practices with respect to governance. We follow such changes closely to identify the cultural markers of families which are likely to succeed over time, and others that may be left behind.

The Godrej group was founded in 1897 and has been stewarded by the family successfully across generations. Its current leaders, Pirojsha and Nisaba Godrej, are from the fourth generation of the family. While they lead the group’s governance, the day-to-day operations of each underlying business are led by talented professional managers. This combination of family ownership and professional management has helped Godrej build leading businesses in segments ranging from Home & Personal Care products to Residential Real Estate and Animal Feed. Godrej Industries is the group’s listed holding company, which owns a 24% stake in Godrej Consumer Products, 47% in Godrej Properties and 62% in Godrej Agrovet. It has a track record of successfully incubating new businesses, such as Godrej Properties, which was listed in 2010 (current market capitalisation of USD 8.6bn) and Godrej Agrovet, which was listed in 2017 (current market capitalisation of USD 1.6bn). We have been shareholders of Godrej Industries for the most part of the last decade.

RISK FACTORS

This is a financial promotion for The FSSA India Strategy. This information is for professional clients only in the UK and Switzerland and elsewhere where lawful. Investing involves certain risks including:

- **The value of investments and any income from them may go down as well as up and are not guaranteed. Investors may get back significantly less than the original amount invested.**
- **Currency risk:** the Fund invests in assets which are denominated in other currencies; changes in exchange rates will affect the value of the Fund and could create losses. Currency control decisions made by governments could affect the value of the Fund’s investments and could cause the Fund to defer or suspend redemptions of its shares.
- **Indian subcontinent risk:** although India has seen rapid economic and structural development, investing there may still involve increased risks of political and governmental intervention, potentially limitations on the allocation of the Fund’s capital, and legal, regulatory, economic and other risks including greater liquidity risk, restrictions on investment or transfer of assets, failed/ delayed settlement and difficulties valuing securities.
- **Single country / specific region risk:** investing in a single country or specific region may be riskier than investing in a number of different countries or regions. Investing in a larger number of countries or regions helps spread risk.
- **Smaller companies risk:** Investments in smaller companies may be riskier and more difficult to buy and sell than investments in larger companies.

For a full description of the terms of investment and the risks please see the Prospectus and Key Investor Information Document for each Fund.

If you are in any doubt as to the suitability of our funds for your investment needs, please seek investment advice.

Recent developments at the company have been encouraging. Its board has been refreshed with four new independent directors as long-standing directors retired. The new board members include the ex-CFO of Novartis India, a partner associated with Fidelity International, the co-founder of a reputed Venture Capital firm and the chairman of a leading Home and Kitchenware brand. Additionally, Godrej Housing Finance, which was set up in 2020, has been injected by the family into Godrej Industries for a nominal sum, and Manish Shah, an executive with significant experience at Citigroup, was appointed its CEO. Given the strong reputation of the Godrej group, the housing finance business is able to access funding at attractive rates. Its pilot program with Godrej Properties has received a strong customer response. Similar to Godrej Properties and Godrej Agrovet, we believe this business has potential to create significant value over the long term.

Godrej Industries' shareholding in Godrej Consumer Products and Godrej Properties account for 90% of its net asset value. Godrej Consumer Products' growth has been weak in recent years. It recently appointed Sudhir Sitapati, who has spent over two decades at Unilever, as its new CEO. We expect its performance to improve under Mr Sitapati's leadership. Godrej Properties is benefiting from



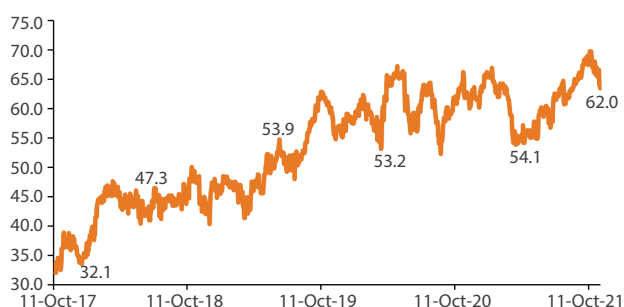
the consolidation in India's fragmented real estate industry, as poor-quality local developers lose out to leading brands like Godrej. These expectations are reflected in its expensive valuations. In stark contrast, Godrej Industries' valuations are exceptionally attractive, in our view, at a 62% discount to the value of its stakes in its listed subsidiaries and associates. The family appears to share the same view, having increased its stake in Godrej Industries by 6% since 2019.

| | Market Value* (INR million) | Godrej Industries' Shareholding | Per share value for Godrej Industries (INR) | % of Net Asset Value Per Share** |
|--|--------------------------------|---------------------------------------|---|--|
| Godrej Consumer Products | 939,854 | 23.8% | 665 | 38% |
| Godrej Properties | 637,425 | 47.3% | 897 | 52% |
| Godrej Agrovet | 116,555 | 62.5% | 173 | 10% |
| Standalone Net Debt | -29,126 | | -87 | |
| Net Asset Value Per Share (INR) | | 1,648 | | |
| Current market price (INR) | | 631 | | |
| Discount to Net Asset Value | | 62% | | |

*Market value of Godrej Consumer Products, Godrej Properties and Godrej Agrovet, as at 12th November 2021.

**The % of Net Asset Value is adjusted for the standalone net debt. Source: FactSet, BSE India.

Godrej Industries' Discount to Net Asset Value since the listing of Godrej Agrovet



Source: ICICI Securities, 12th November 2021

Performance Commentary

The FSSA Indian Subcontinent Fund declined in October. The key contributors to performance were **ICICI Bank** and **Mahindra CIE Automotive**.

ICICI Bank rose after it reported strong quarterly results. Its Net Interest Income (NII) rose by 25% and earnings per share (EPS) by 29% over the same period last year. The bank's asset quality and Return on Assets (ROA) continue to improve steadily.

Mahindra CIE Automotive also rose after it reported strong financial performance. Its revenues grew by 21% and operating profit by 78% over the same period last year. The company benefited from a rebound in automotive demand in both its Indian and European operations, and market share gains. Its efforts to improve operating efficiency over the last year has helped it strengthen its profitability.

The key detractors were **Solara Active Pharma** and **Colgate Palmolive (India)**.

Solara Active Pharma declined due to concerns about price inflation on its key raw materials. However, our discussions with the management reassured us that the long-term prospects are still bright, with the CEO stating an ambition to grow revenues nearly four-fold over the coming five years.

Colgate Palmolive (India) declined following concerns about rising commodity costs affecting its profitability. It has dominant market share in oral care which affords the company strong pricing power. Colgate has a long track record of improving its profitability consistently. In our view, it will be able to continue improving its profitability over the medium term, as it passes on price increases to consumers and upgrades its product portfolio to more premium products.

Composite Performance (to 30 September 2021)

| Discrete 1 Year Returns | 12mths to 30/09/21 | 12mths to 30/09/20 | 12mths to 30/09/19 | 12mths to 30/09/18 | 12mths to 30/09/17 |
|----------------------------|--------------------|--------------------|--------------------|--------------------|--------------------|
| Indian Subcontinent | 53.07% | -5.43% | 7.77% | -2.77% | 19.96% |
| MSCI IN Gross | 53.70% | 0.73% | 4.73% | 1.09% | 14.18% |

These figures refer to the past. Past performance is not a reliable indicator of future results. For investors based in countries with currencies other than USD, the return may increase or decrease as a result of currency fluctuations.

The strategy performance figures is the weighted average performance of FSSA IM's funds that contribute to the strategy in question, is based on monthly performances and are net of a default annual management fee of 0.85%. The strategy was launched 7 February 1994.

Source: Lipper IM / First Sentier Investors (UK) Funds Limited.

*Company data retrieved from company annual reports or other such investor reports. Financial metrics and valuations are from FactSet and Bloomberg. As at 31 October 2021 or otherwise noted.

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