



ICICI Prudential PMS - Small Cap Portfolio
(A series under “The Focussed Portfolio”)

Big things often start small.



All data/information used in the preparation of this material is dated and may or may not be relevant any time after the issuance of this material. ICICI Prudential Asset Management Company Limited (the Portfolio Manager/the AMC) takes no responsibility of updating any data/information in this material from time to time. The recipient of this material is solely responsible for any action taken based on this material. The information contained herein are strictly confidential and are meant solely for the benefit of the addressee and shall not be altered in any way, transmitted to, copied or distributed, in part or in whole, to any other person or to the media or reproduced in any form, without prior written consent of the AMC. Further, the information contained herein should not be construed as forecast or promise. Past performance of the Portfolio Manager may not be indicative of the performance in the future. Please refer to page number 28-30 for risk factors and disclaimers.

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Executive Summary

Focused portfolio of 10-15 stocks which aims to deliver appreciation in capital by taking meaningful exposure in emerging companies.

Portfolio Term: 36 Months from the date of commencement of the portfolio (this period is collectively referred as “Term”). The Portfolio Manager reserves the right to redeem the portfolio before the end of the term as it may deem fit in the interest of the investors.

Distribution: Proceeds from investment exits may be distributed back to investors at the discretion of the manager in the best interest of the investors.

The portfolio manager does not intend to collect more than ₹ 100 Crore from all the investors taken together under this strategy.

Please refer to the disclosure document, client agreement and the product note for other details and risk factors pertaining to the Portfolio.

The Proposition – Investment Focus

Approach aiming to take meaningful stakes in small cap companies available at a discount to intrinsic value and offering potential to outperform broader markets in the medium to long term.

Target investees from the gamut of under researched and under discovered emerging companies starting from 281st company ranked in terms of Full Market Cap (below INR 2500 crore as on March 15, 2013).

Likely profile of investee companies:

- High growth with established business models.
- Addressing sizable revenue opportunity with unmatched Market cap.
- Superior capital productivity ratios.
- Competent and ambitious management.
- Enjoys an economic moat which helps generate economic profits over an extended period of time.
- May be out of flavor and offer significant potential for returns.
- May be available at distressed valuations wherein the value unlocking triggers are identifiable.

The investment strategy and the proposed composition of the portfolio as stated herein is only indicative in nature and is subject to change within the provisions of the disclosure document and client agreement without any prior notice to investors.

The Proposition – Investment Strategy

Focused portfolio of 10-15 stocks comprising of listed small Indian companies.

Buy stocks with a long term view and hold it till the intrinsic value is achieved.

“Bottom-up” approach, seeking to identify companies with above-average profitability supported by sustainable competitive advantages; “top-down” discipline for risk control and diversification.

Likely strategies to source stocks of investee companies:

- Buying directly from the Promoters at a discount.
- Subscribing to an Offer-For-Sale (OFS).
- Liaison with key broker relationships to scout for bulk deals.
- Anchor Investor in IPO Placements.

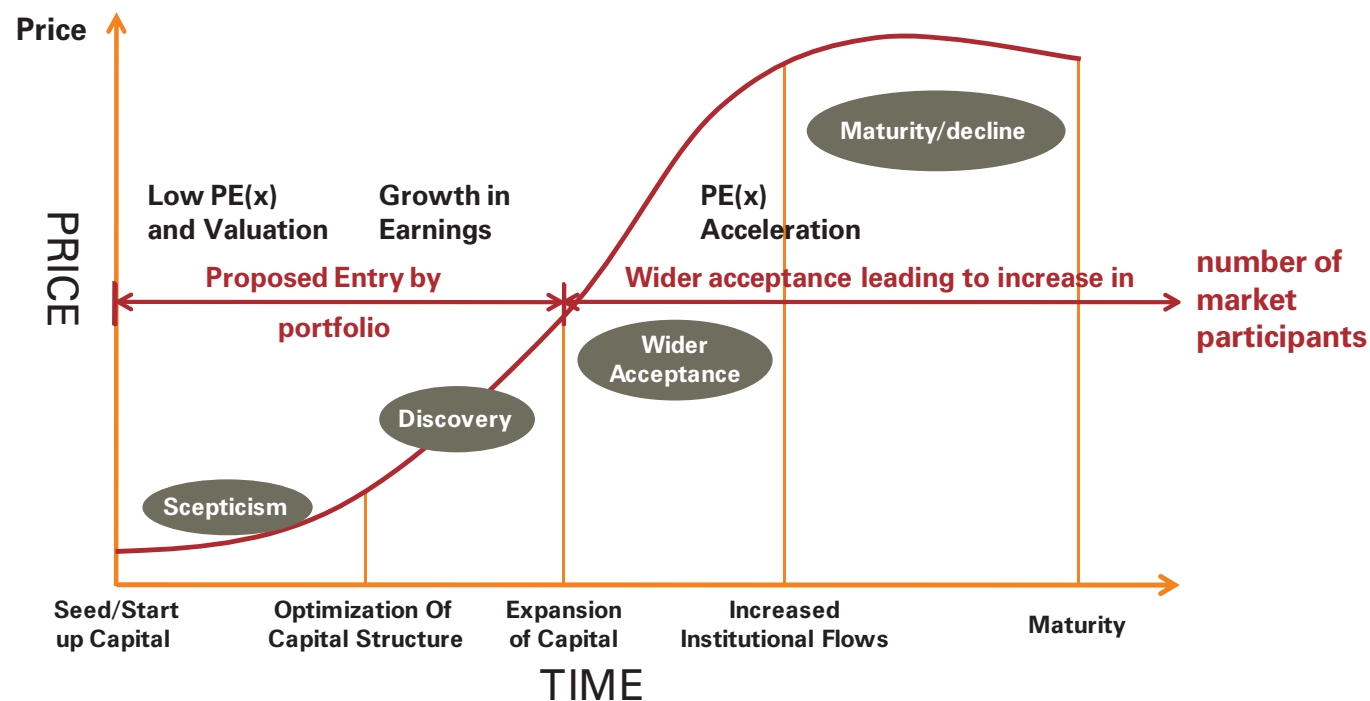
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The Proposition – Sources of Alpha

- 1) Investing in secular growth stories.
 - Potential of price appreciation backed by EPS growth.
- 2) Investing in companies with possibilities of demand explosion and margin expansions.
Taking meaningful stake in companies.
 - Expansion of revenue and profit growth rates surpasses historical averages leading to PE re-rating. Improves visibility and valuations leading to PE re-rating.
- 3) Buying businesses undergoing special situations, cyclicity and mispriced by market, now available at huge discount.
 - Aiming to provide margin of Safety.

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Investment Segment and Rationale



Time horizon - Typically 2 to 4 years

Total listed universe consisting of 5000 + companies, with over 3000 traded regularly on the exchanges. Outside the top 250 – 300 companies by market capitalization, many companies are under recognized, under researched and hence under owned providing a significant investment opportunity in the emerging companies segment.

A large number of companies are listed at a very early stage in their evolution, thus providing an opportunity for investors to take part in their growth.

Investment Segment and Rationale

Earlier, Small and Mid Cap companies suffered from limited access to:

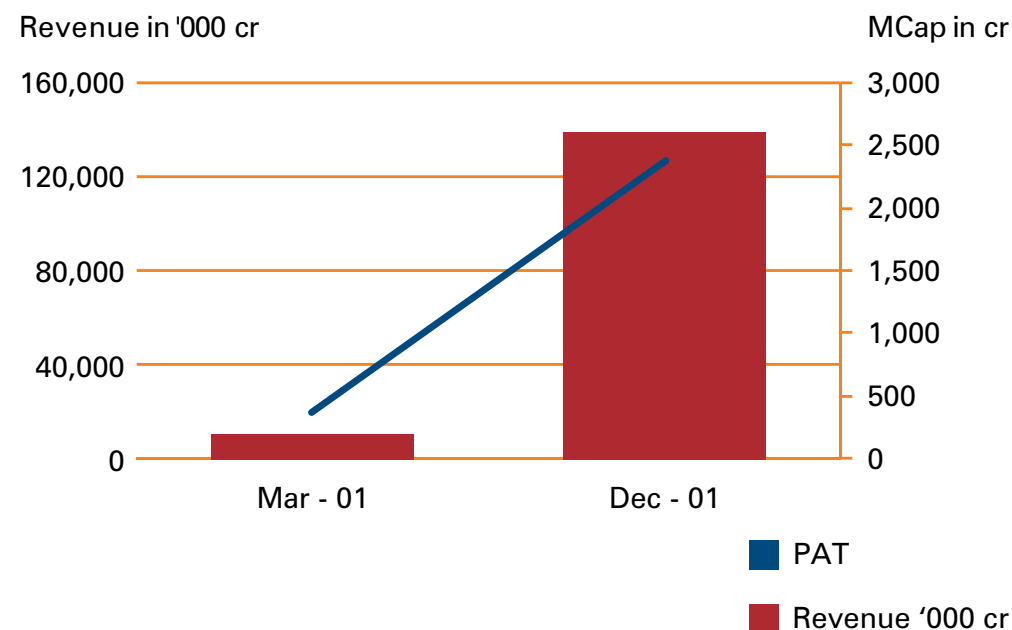
- Equity capital and debt financing.
- Sourcing of quality raw material and skilled manpower.
- Access to latest information and trends.
- Latest Technological advances.
- Professional / Technically sound management.
- Appropriate market for its product or service.

While some problems still exist, the scenario today, has changed considerably in favor of Small and Mid Cap companies.

Investment Segment and Rationale

Total PAT and Revenue of all Companies with MCap < 2500 cr in 2001

| Profit After Tax of Companies with MCap < 2500 | Number of companies | |
|--|---------------------|----------|
| | Mar 2001 | Dec 2012 |
| >=500 | 2 → 5 | 5 |
| >=100 to <500 | 45 → 126 | 126 |
| >=50 to <100 | 49 | 152 |
| <50 | 3199 | 3343 |



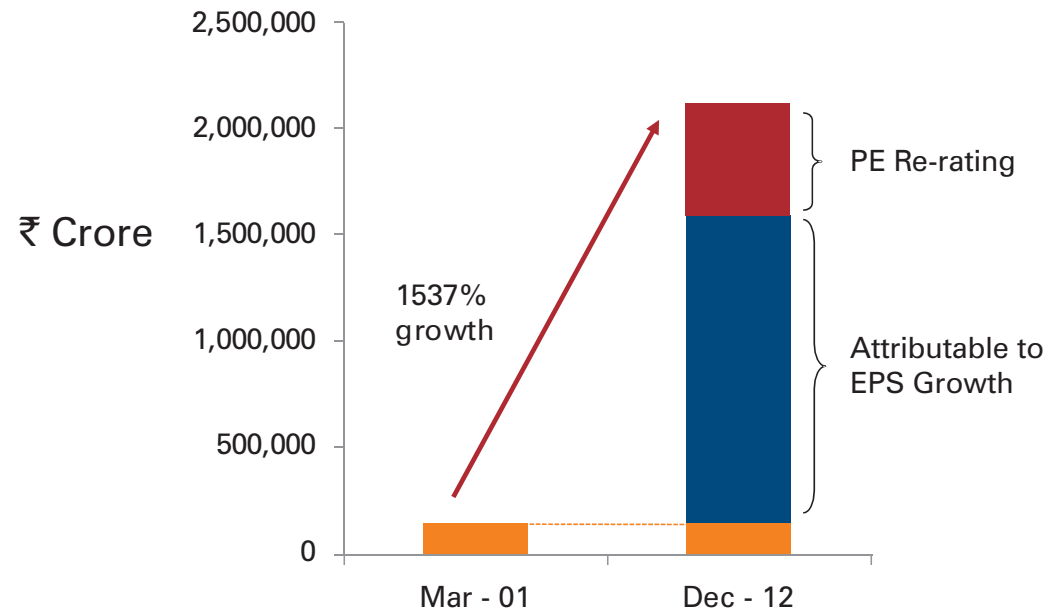
- For the target investee company segment, the number of companies with profit greater than ₹ 100 crores has nearly tripled since March 2001.
- Improvement in financial performance is on the back of improved productivity, better market visibility, professional management, technological advancement and availability of adequate funding necessary for growth.

Source: Motilal Oswal Securities.

Investment Segment and Rationale

$$\text{Market Price} \uparrow = \text{EPS} \uparrow \times \text{PE} \uparrow$$

Total MCap of all Companies with MCap < 2500 cr in 2001

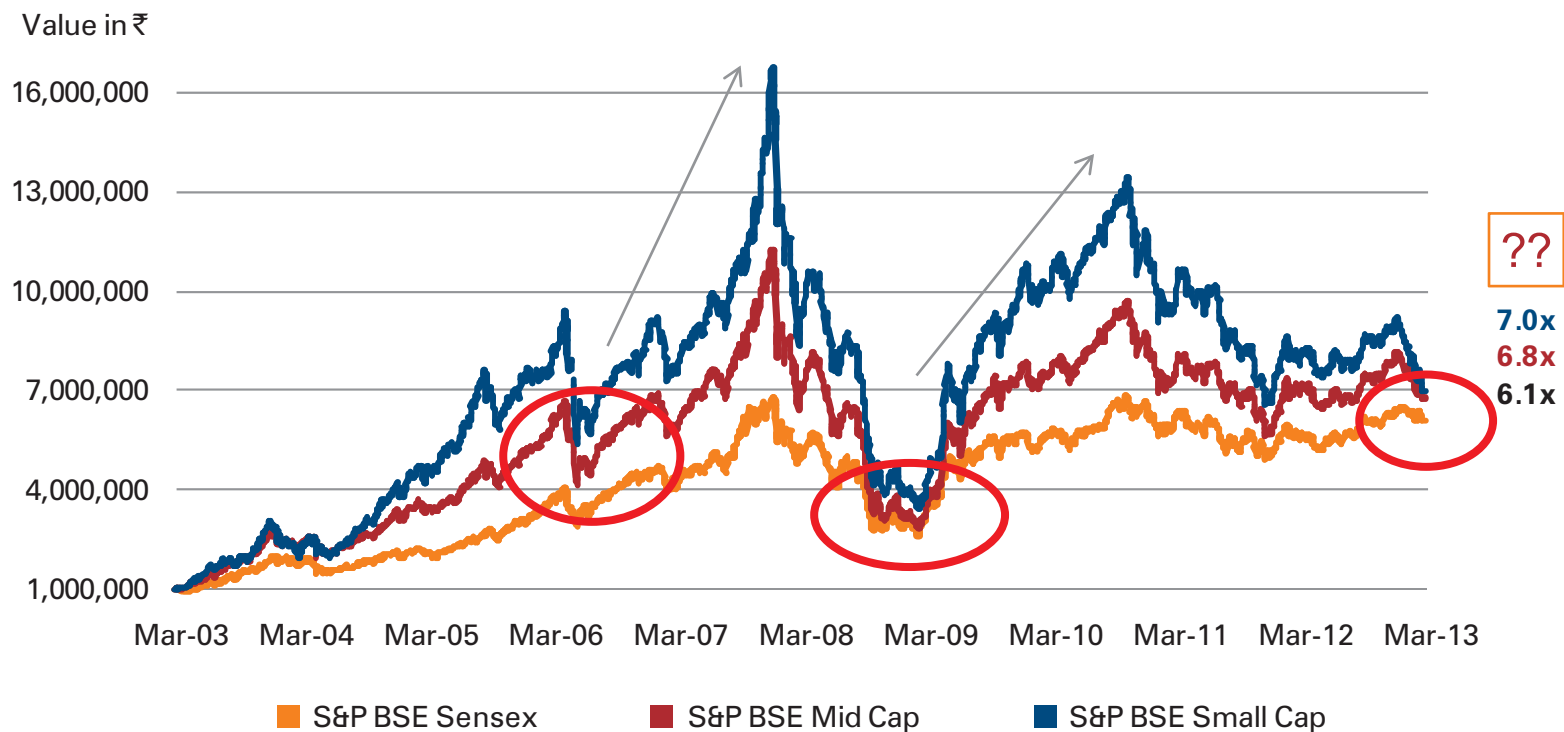


- Institutional ownership is significantly low in emerging companies, created by inefficient information flow (under researched, under recognized & hence under owned as compared to large cap companies) providing an avenue for institutional investors.
- Emerging companies tend to have a faster profit growth due to smaller base effect and subsequent re-rating has the potential to significantly outperform the broader markets in the longer term.

Source: Motilal Oswal Securities.

Investment Segment and Rationale

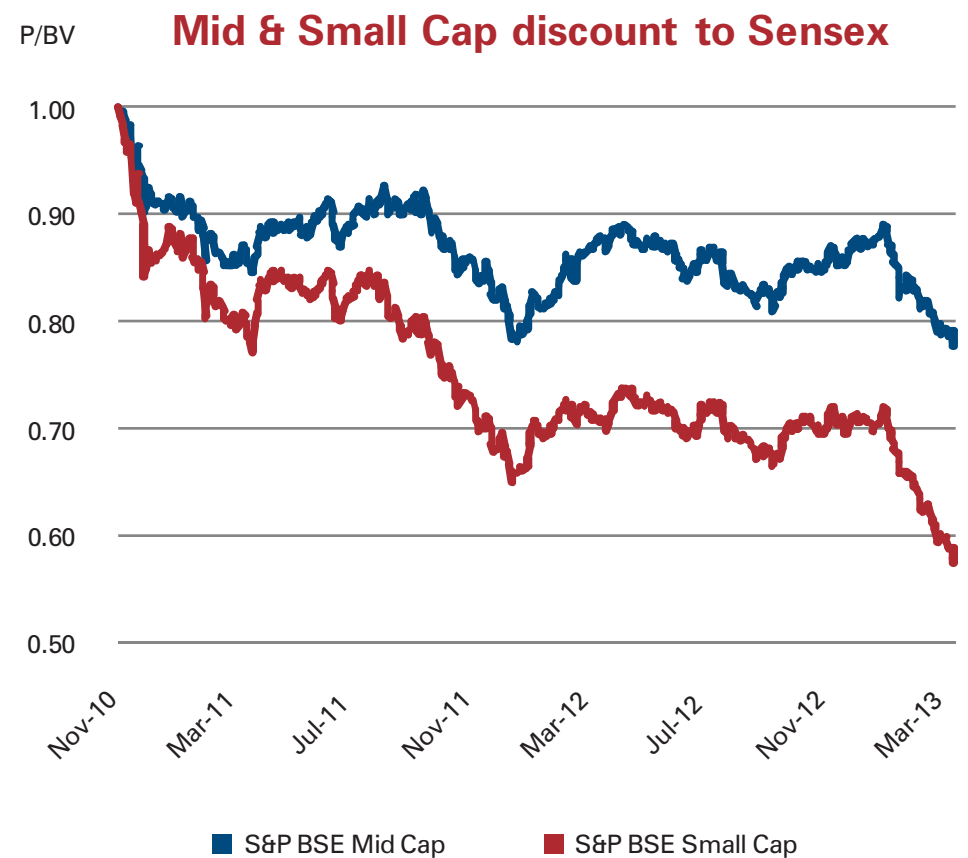
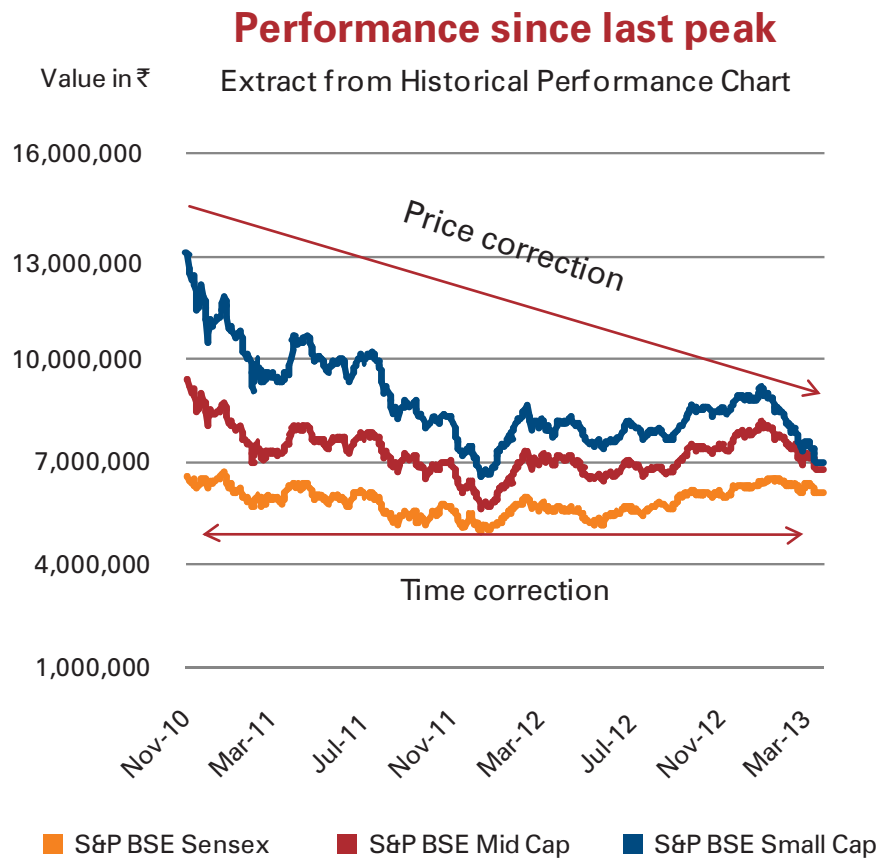
Historical Performance



Increase in value of investment (₹ 1,000,000) highest in the case of small cap (7.0 Times) followed by mid cap (6.8 Times) and large cap (6.1 Times)*. Moreover as evident from the diagram spurts after market fall most in small caps followed by mid caps and large caps.

Source: BSE Website.* ₹ 1,000,000 taken for illustration purpose only.

Investment Segment and Rationale



Since the last peak in mid – Nov 2010 the Small and Mid cap stocks are trading at a discount to their Large cap counterparts.

Source: BSE Website. *₹ 1,000,000 taken for illustration purpose only.

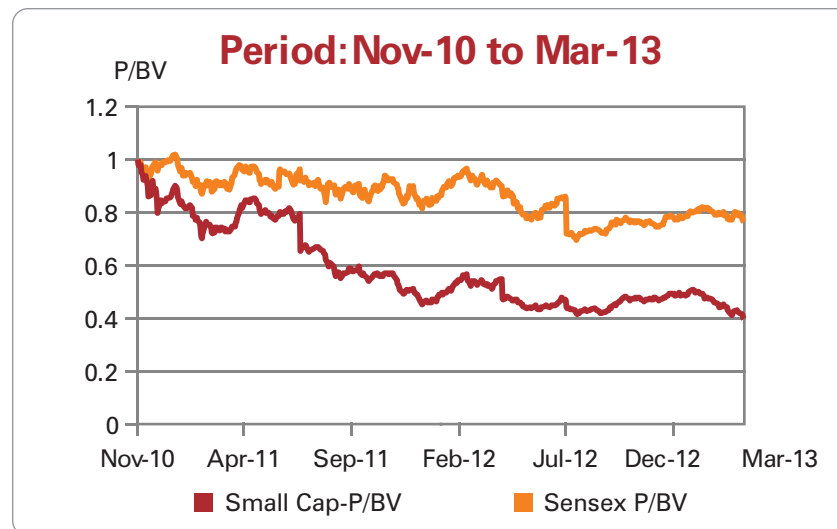
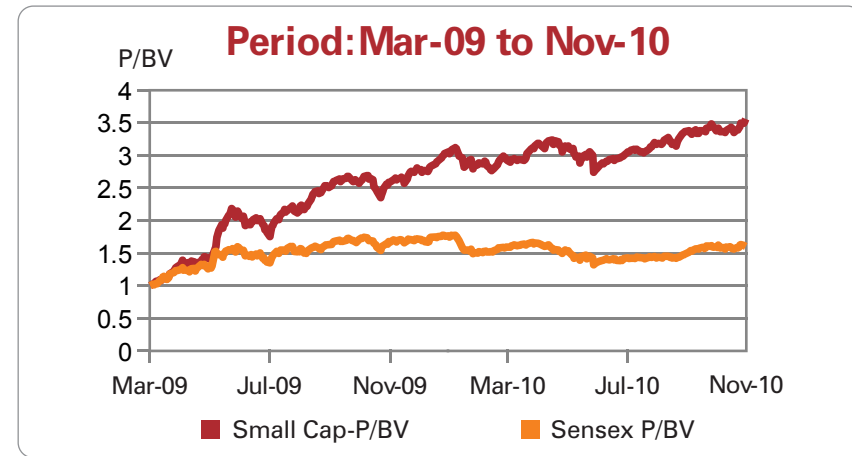
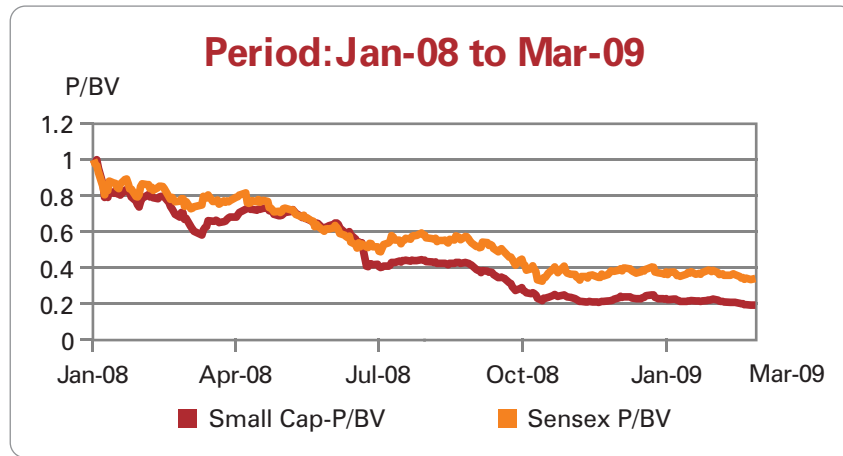
Investment Segment and Rationale



Small Caps historically trade at huge discount to their Large Cap counterparts and currently available at levels last witnessed during Mar-09. Small Caps currently available at reasonably attractive Price, almost equal to Book Value thereby implying inherent value in the stocks.

Source: BSE Website.

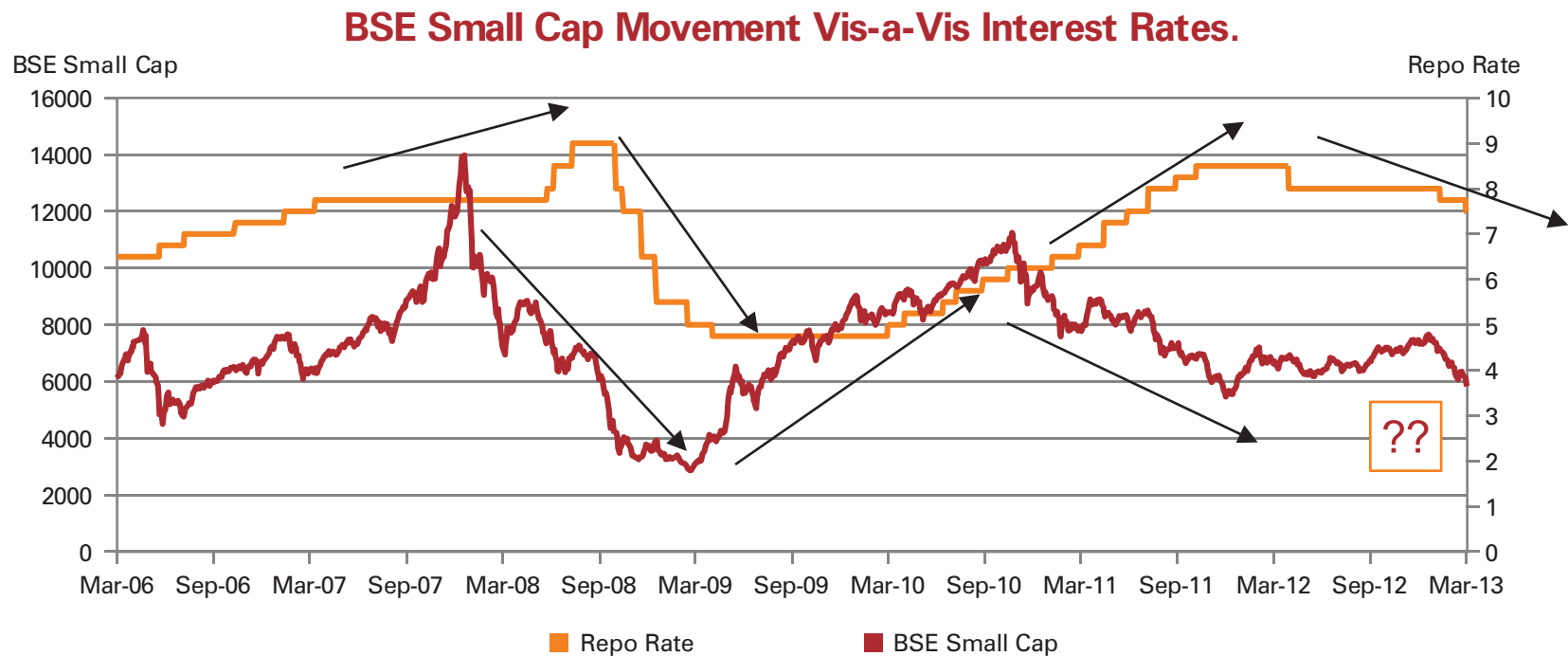
Investment Segment and Rationale



Small Caps historically tend to outperform the Large Caps during market up move and under perform during market down move. Recently, Small Caps have corrected more than Large Caps.

Source: BSE Website.

Investment Segment and Rationale



Equity markets historically tend to follow a negative co-relation with interest rates.
The current interest rate cycle having peaked out presents an attractive opportunity for equity investment.

Source: BSE Website and Bloomberg.com.

Our experience with small caps

- Only private player and the second-largest space provider for exhibitors in India.
- Bombay Exhibition Center's strategic location and scarcity of open spaces in Mumbai results in virtual monopoly status in trade exhibition business.
- Hosted over 500 exhibitions since inception.
- Commercial space to expand to 1.9mn sq ft (by FY16E).
- Expected Top line growth – 14% CAGR (FY13E-15E); Bottom line – 25% CAGR (FY13E-15E).



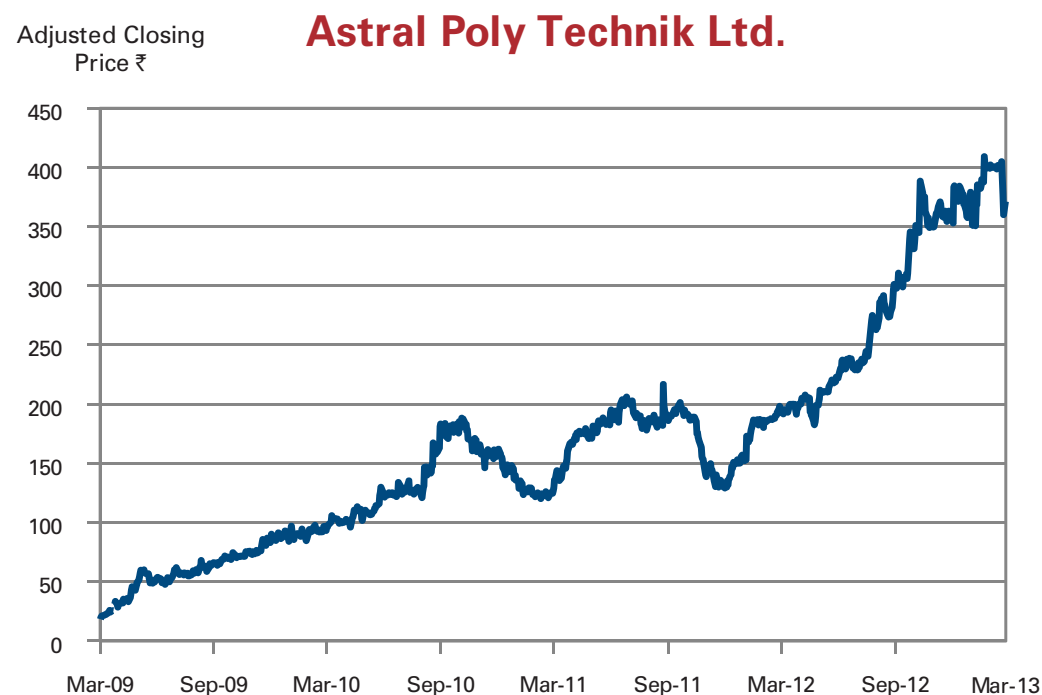
Source: BSE Website.

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Source: Nirmal Bang Research Report, March 8, 2013.

Our experience with small caps

- Pioneer in India – near monopoly CPVC pipes through entry barriers.
- Demand propelled by increased spending on infrastructure, rise in housing demand and industrial activity.
- Strong network of distributors and dealers gives wide coverage to serve small cities also.
- APTL has planned Rs. 40 cr Capex in FY13 to increase its capacity by 15-20k tonnes.
- Advantage of Cost and Longevity of product life.
- New product pipeline driven by innovation.



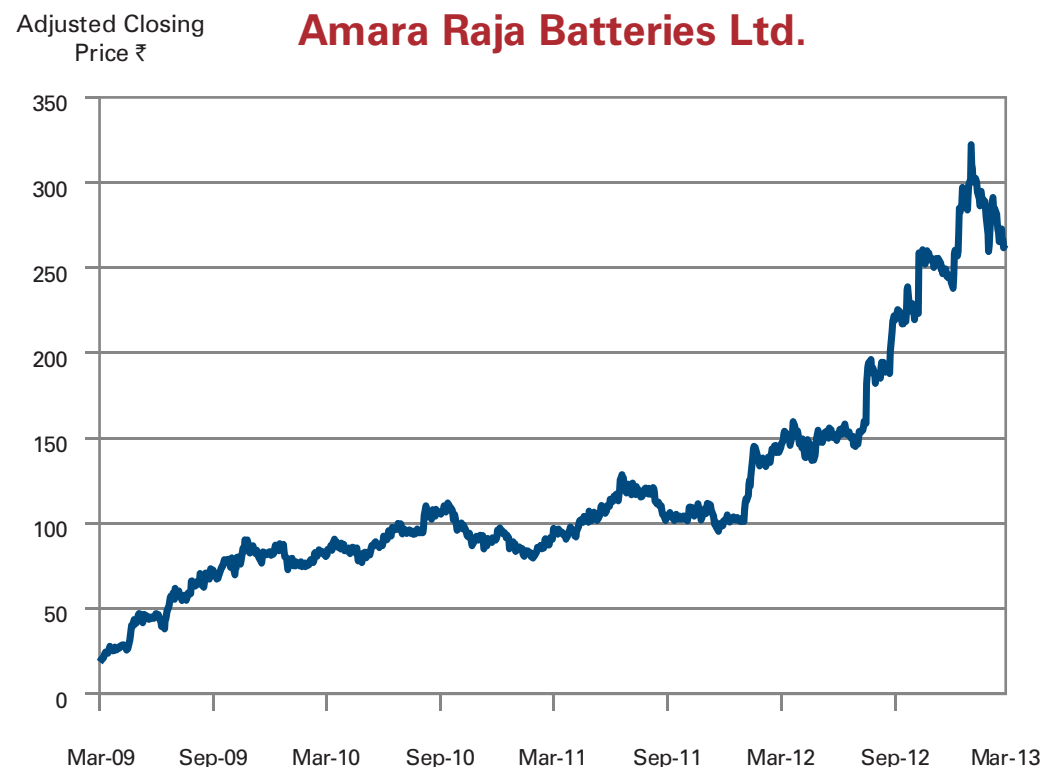
Source: BSE Website.

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Source: Dolat Capital Report. October 5, 2009, HDFC Securities 21st Aug 2012.

Our experience with small caps

- The automotive battery market is poised to grow led by healthy growth in replacement demand.
- AMRJ is India's second-largest manufacturer of lead batteries, with a market share of ~28%.
- AMRJ's top-line is expected to witness a strong CAGR of ~18% over FY2012–14E, leading to a ~26% CAGR in its net profit.



Source: BSE Website.

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Source: Angel Broking Report November 9, 2012.

Our experience with small caps

- Strong and qualitative business growth and maintained a healthy CAGR of 27% for the past four years.
- Strong regional banking player with operations concentrated in southern part of the country.
- Margins better than most of its peers, NIM has consistently hovered above 3% mark, higher than quite a few PSU banks.
- Loan book highly secured yet largely composed of high yielding customer segments.
- Network expansion expected to drive future growth.



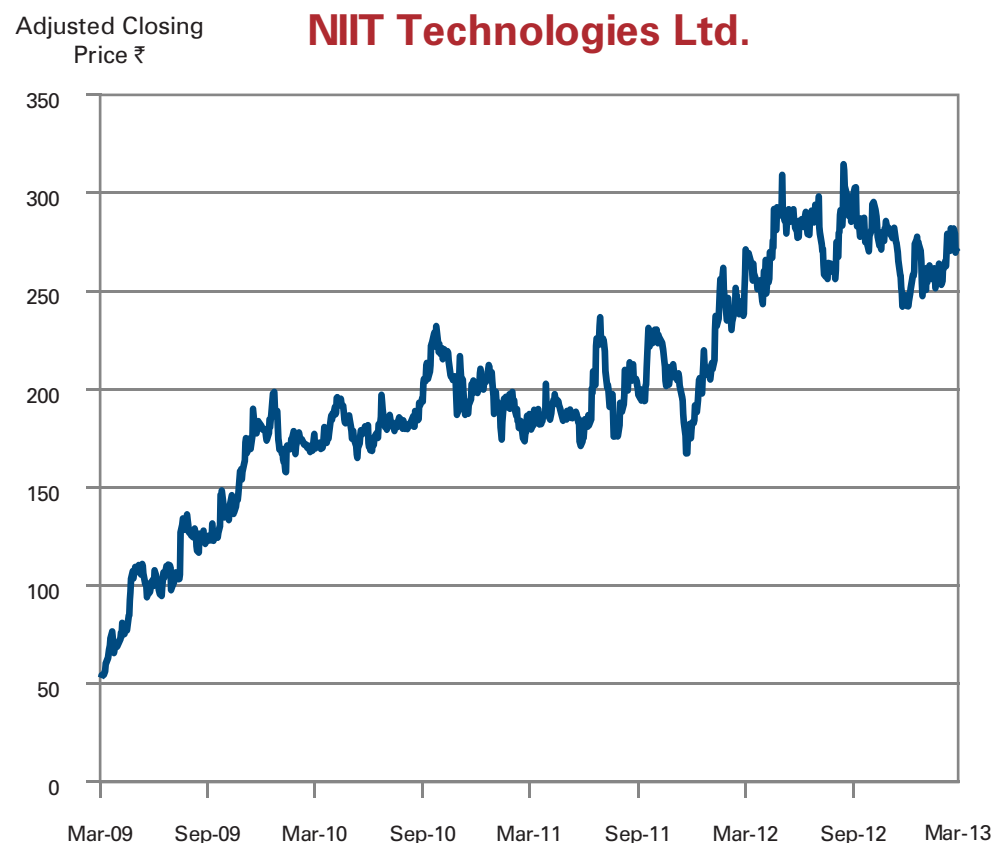
Source: BSE Website.

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Source: IFIN Research Report, September 27, 2012.

Our experience with small caps

- Mid-cap IT services company focused on (a) IT needs of travel & transportation sectors, and (b) insurance verticals.
- Long term relationships with a marquee and diversified customer base. Low client concentration.
- Strong order book in an uncertain economic environment.
- Highest revenue per employee amongst peers.



Source: BSE Website.

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Source: JM Financial Research Report, 3 September 2012.

Investment and Engagement-approach

Investment Approach

- Regular interaction with Key Stake holders.
- Intensive financial analysis.
- Strategic consideration with the perspective of MOAT.
- Interaction with industry experts, competitors, dealers.

Engagement Approach

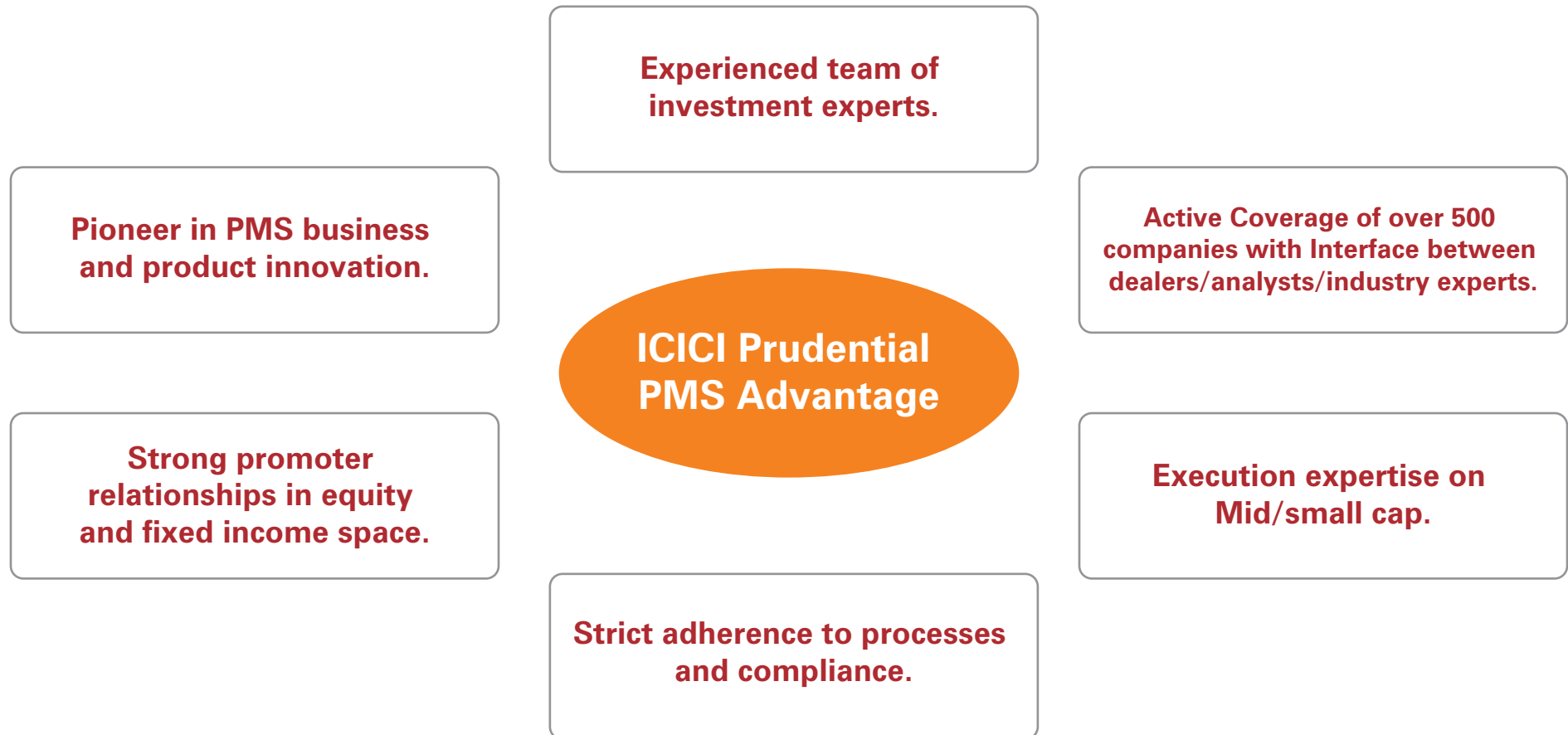
- Improving investor relations through road shows, regular conference calls with analysts.
- Stress on better corporate governance and disclosure norm building investor confidence.
- Introduction of Industry Expert to Board members.

Aiming to Maximise Returns

Combination of both the approaches aims to maximise investor returns.

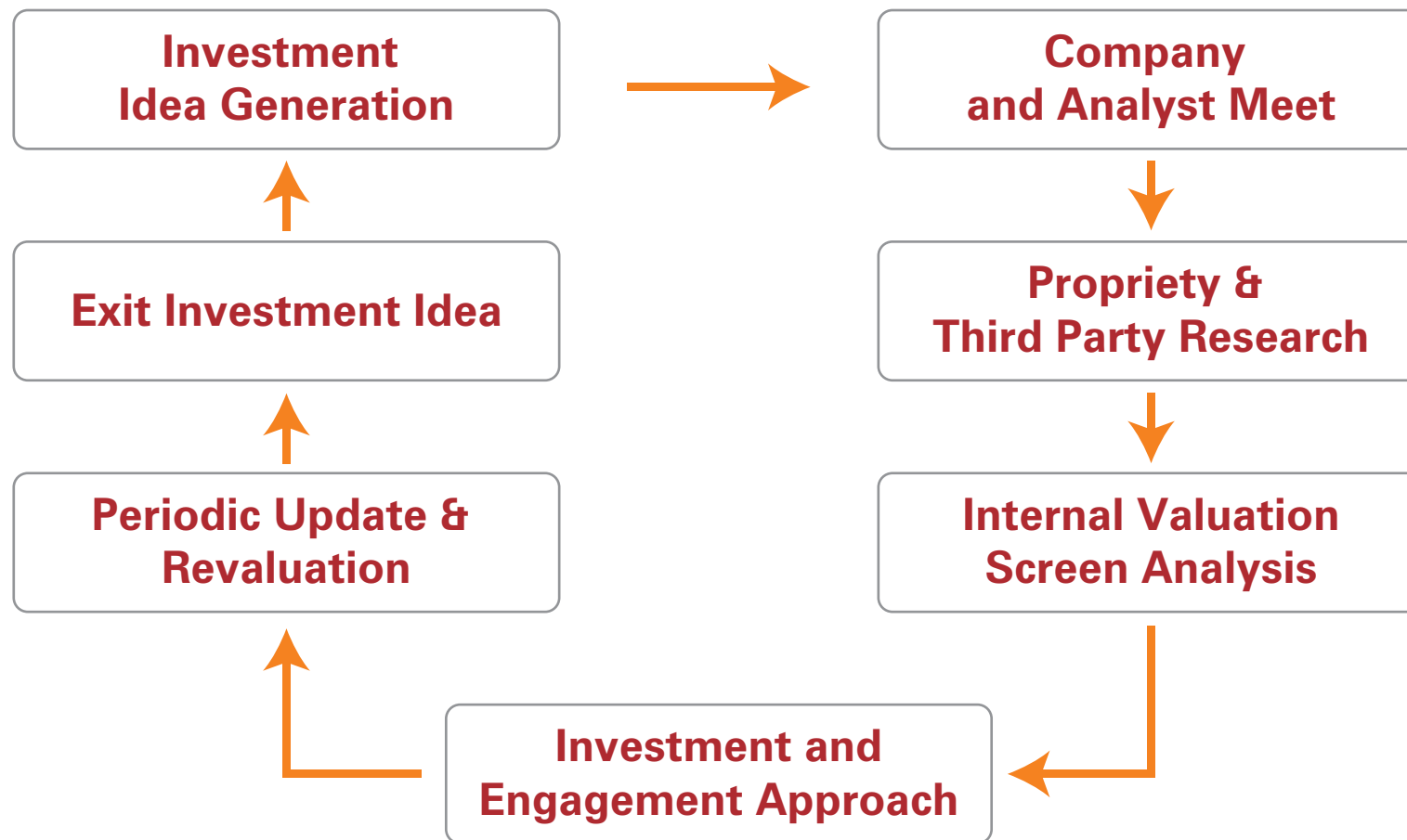
The aforesaid is only indicative of the approach to be adopted by the Portfolio Manager for this Portfolio. Please refer to the disclosure document.

ICICI PRUDENTIAL PMS FACTOR



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Investment Process



Investment Process-Small Cap Portfolio

Investment Idea Generation: Identification of pool of investment ideas along with preliminary analysis.

Company & Analyst Meet: Management contacts, a combination of meetings & plant visits and/or conference calls to decide whether to pursue investment idea.

Proprietary & Third Party Research: Basic proprietary research based on internal revenue & profitability forecast supplemented by third party research reports.

Internal valuation Screen: Earnings estimates inputted into internal valuation screen. The valuation screen is extensively used for studying absolute valuations, valuations relative to sector & peer group.

Investment and Engagement Approach: The Manager will not interfere and involve in the day to day management of the investee companies, but will selectively intervene in defined periodicity to add value in few areas depending upon the requirement of the investee company.

Periodic updates & Re-evaluation: Close monitoring of quarterly results & fundamental news flows. Periodic follow up meetings with managements are undertaken to re-evaluate earlier assumptions.

Exit Investment: Exit decisions formulated based on takeaway/ outputs from valuation screen.

Investment Team

Experienced Investment Team:

- Two Portfolio Managers with over 20 years of combined experience in equity and research.
- Fund Management expertise across various asset classes.
- Experienced pool of research analyst covering various sectors and themes.

Investment Expertise across Asset Classes:

- First AMC to obtain a PMS license & commence business in 2000.
- Established a track record of over 13 years.
- Investment expertise across a wide suite of asset classes/products to cater to investors with different risk-return profiles.
 - **Equity Portfolios:** Extensively used various investment strategies (Large cap, Mid cap, Small cap, Diversified/Concentrated, Value, Growth Strategies) in listed/unlisted equities & derivatives portfolios.
 - **Real Estate Portfolio:** First PMS to launch Domestic & Offshore Real Estate Portfolios. The portfolio has successfully invested in real estate development projects which is a private equity strategy.
 - **Principal Protected Portfolios:** First PMS to launch products on CPPI model with Gap Risk Guarantee and Enhanced Participation.
 - **Structured Products Portfolios:** First PMS to launch Gold Linked Debentures along with Index & Equity Linked Debentures to give investors opportunity to hedge their equity exposure.

The Structure

| | |
|---------------------------------------|--|
| Target Portfolio Size | The portfolio manager does not intend to collect more than ₹ 100 Crore from all the investors taken together under this strategy. |
| Portfolio Manager | Mr. Vinay Sharma. Vinay is a CFA charter holder and holds Post Graduate Diploma in Computer Aided Management from IIM Calcutta with overall work experience of 8 years. |
| Portfolio Term | The term of the Portfolio will be 36 months from the date of commencement of the Portfolio (this period collectively referred to as the Term). The Portfolio Manager reserves the right to redeem the Portfolio before the end of the Term, as it may deem fit in the interest of the investors. |
| Minimum Ticket Size | INR 25 lacs. |
| Benchmark | BSE Small Cap Index. |
| Set-up Fee (one time) | 1% of amount invested. |
| Management Fee | 2% per annum of AUM. |
| Carried Interest ^ | 15% (of the net profit subject to Hurdle Rate). |
| Hurdle Rate | 12% per annum compounded. |
| Distribution | Proceeds from investment exits may be distributed back to investors at the discretion of the manager in the best interest of the investors. |
| Exit Charge upon redemption by client | Upto 12 months - 3%, 12 to 24 months - 2%, 24 months to 36 months - 1%. No Exit load in case portfolio Manager redeems the Portfolio before term. |
| Exit Proceeds | The Portfolio Manager endeavours to disburse within 15 days from the date of redemption/Termination. |

^ Carried Interest with catch-up Please refer to the Schedule of fees and expenses to the client agreement for details and manner and computation of the fees and expenses.

Risk Factors & Disclaimers

Portfolio Specific Risk Factors:

In general, investment in the portfolio may be affected by risks associated with equities and fixed income securities.

Investing in small cap companies is based on the premise that relatively small companies will increase their earnings and grow into larger, more valuable companies. However, as with all equity investing, there is the risk that a company will not achieve its expected earnings results, or that an unexpected change in the market or within the company will occur, both of which may adversely affect investment results. Historically, small cap stocks have experienced greater volatility than other equity asset classes, and they may be less liquid than larger cap stocks. Thus, relative to larger, more liquid stocks, investing in small cap stocks, involves potentially greater volatility and risk. The biggest risk of equity investing is that returns can fluctuate and investors can lose money.

In addition, smaller companies may lack depth of management, be unable to generate funds necessary for growth or development, or be developing or marketing new products or services for which markets are not yet established and may never become established. They could also suffer from disadvantages such as - outdated technologies, lack of bargaining power with suppliers, low entry barriers and inadequate management depth. Overall, the risks of investing in medium /small companies are (a) transparency/liquidity levels may not be on par with established, large companies; (b) corporate governance may be an issue with some companies; and (c) they may not be resilient enough to withstand shocks of business/economic cycles.

Investing in securities including equities and derivatives involves certain risks and considerations associated generally with making investments in securities. The value of the portfolio investments may be affected generally by factors affecting financial markets, such as price and volume, volatility in interest rates, currency exchange rates, changes in regulatory and administrative policies of the Government or any other appropriate authority (including tax laws) or other political and economic developments. Consequently, there can be no assurance that the objective of the Portfolio would be achieved. The value of the portfolios may fluctuate and can go up or down. Prospective investors are advised to carefully review the Disclosure Document, Client Agreement, and other related documents carefully and in its entirety and consult their legal, tax and financial advisors to determine possible legal, tax and financial or any other consequences of investing under this Portfolio, before making an investment decision. The Stock(s)/Sector(s) mentioned in this material do not constitute any recommendation of the same and the portfolios may or may not have any future positions in these Stock(s)/Sector(s). The composition of the portfolio is subject to changes within the provisions of the disclosure document. The benchmark of the portfolios can be changed from time to time in the future. Trading volumes, settlement periods and transfer procedures may restrict the liquidity of investments in portfolios. Different segments of the Indian financial markets have different settlement periods and such periods may be extended significantly by unforeseen circumstances. The inability of the Portfolio Manager to make intended securities purchases due to settlement problems could cause the portfolio to miss certain investment opportunities. By the same rationale, the inability to sell securities held in the portfolio due to the absence of a well developed and liquid secondary market for debt securities would result, at times, in potential losses to the portfolio. The stocks./sectors mentioned in the document may or may not form part of the Portfolio.

Risk Factors & Disclaimers

Individual returns of Clients for a particular portfolio type may vary significantly from the data on performance of the portfolios which may be depicted. This may be due to factors such as timing of entry and exit, timing of additional flows and redemptions, individual client mandates, specific portfolio construction characteristics or structural parameters, which may have a bearing on individual portfolio performance. No claims may be made or entertained for any variances between the performance depictions and individual portfolio performance. Neither the Portfolio Manager nor ICICI Prudential Asset Management Company Ltd. (the AMC) its Directors, Employees or Sponsors shall be in any way liable for any variations noticed in the returns of individual portfolios.

The Client shall not make any claim against the Portfolio Manager against any losses (notional or real) or against any loss of opportunity for gain under various PMS Products, on account of or arising out of such circumstance/ change in market condition or for any other reason which may specifically affect a particular sector or security, including but not limited to disruption/prohibition/ discontinuation/suspension of trading in a particular Security including any index or scrip specific futures/options or due to any act of Company, Market Intermediary by SEBI or any other regulatory authority which may result in trading in such security (ies) being completely or partially affected, to which the Portfolio Manager has taken exposure/proposed to take exposure and is unable to take additional exposure/restrain him from taking any position in a particular equity or related derivative instruments etc. due to any reason beyond the control of the Portfolio Manager resulting in unhedged positions or losses due to unwinding of certain positions or losses due to any reason or related to any of the aforesaid circumstances.

By their nature, certain market risk disclosures are only estimates and could be materially different from what actually occurs in the future. As a result, actual future gains or losses could materially differ from those that have been estimated. The recipient(s) alone shall be fully responsible/are liable for any decision taken on the basis of this material. All recipients of this material should before dealing and/or transacting in any of the products referred to in this material make their own investigation, seek appropriate professional advice. The investments discussed in this may not be suitable for all investors. Financial products and instruments are subject to market risks and yields may fluctuate depending on various factors affecting capital/debt markets. There is no assurance or guarantee that the objectives of the portfolio will be achieved. Please note that past performance of the financial products, instruments and the portfolio does not necessarily indicate the future prospects and performance thereof. Such past performance may or may not be sustained in future. Portfolio Manager's investment decisions may not be always profitable, as actual market movements may be at variance with anticipated trends. The investors are not being offered any guaranteed or assured returns. The AMC may be engaged in buying/selling of such securities. Please refer to the Disclosure Document and Client Agreement for portfolio specific risk factors.

Portfolio Specific Risk Factors

Risks attached with the use of derivatives: Derivative products are leveraged instruments and can provide disproportionate gains as well as disproportionate losses to the investor. Execution of such strategies depends upon the ability of the portfolio manager to identify such opportunities. Identification and execution of the strategies to be pursued by the portfolio manager involve uncertainty and decision of portfolio manager may not always be profitable. No assurance can be given that the portfolio manager will be able to identify or execute such strategies.

Derivative products are specialized instruments that require investment techniques and risk analyses different from those associated with stocks and bonds. The use of a derivative requires an understanding not only of the underlying instrument but of the derivative itself. Derivatives require the maintenance of adequate controls to monitor the transactions entered into, the ability to assess the risk that a derivative adds to the portfolio and the ability to forecast price or interest rate movements correctly. There is the possibility that a loss may be sustained by the portfolio as a result of the failure of another party (usually referred to as the "counter party") to comply with the terms of the derivatives contract. Other risks in using derivatives include the risk of mis pricing or improper valuation of derivatives and the inability of derivatives to correlate perfectly with underlying assets, rates and indices.

Thus, derivatives are highly leveraged instruments. Even a small price movement in the underlying security could have a large impact on their value. Also, the market for derivative instruments is nascent in India. The risks associated with the use of derivatives are different from or possibly greater than the risks associated with investing directly in securities and other traditional investments.

In the preparation of this material the AMC has used information that is publicly available, including information developed in-house. Some of the material used herein may have been obtained from members/persons other than the AMC and/or its affiliates and which may have been made available to the AMC and/or to its affiliates. Information gathered and material used herein is believed to be from reliable sources. The AMC however does not warrant the accuracy, reasonableness and/or completeness of any information. For data reference to any third party in this material no such party will assume any liability for the same. We have included statements/opinions/recommendations in this material, which contain words, or phrases such as "will", "expect", "should", "believe" and also PE ratios, EPS and Earnings Growth for forthcoming years and similar expressions or variations of such expressions, that are "forward looking statements". Actual results may differ materially from those suggested by the forward looking statements due to risk or uncertainties associated with our expectations with respect to, but not limited to, exposure to market risks, general economic and political conditions in India and other countries globally, the monetary and interest policies of India, inflation, unanticipated turbulence in interest rates, foreign exchange rates, equity prices, the performance of the financial markets in India and globally, changes in domestic and foreign laws, regulations and taxes and changes in competition in the industry.

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