

# Reach new heights with great **focus**

## HSBC Focused Equity Fund (HFEF)

Focused Fund: An open ended equity scheme investing in maximum 30 stocks across market capitalisation (i.e. Multi-cap)

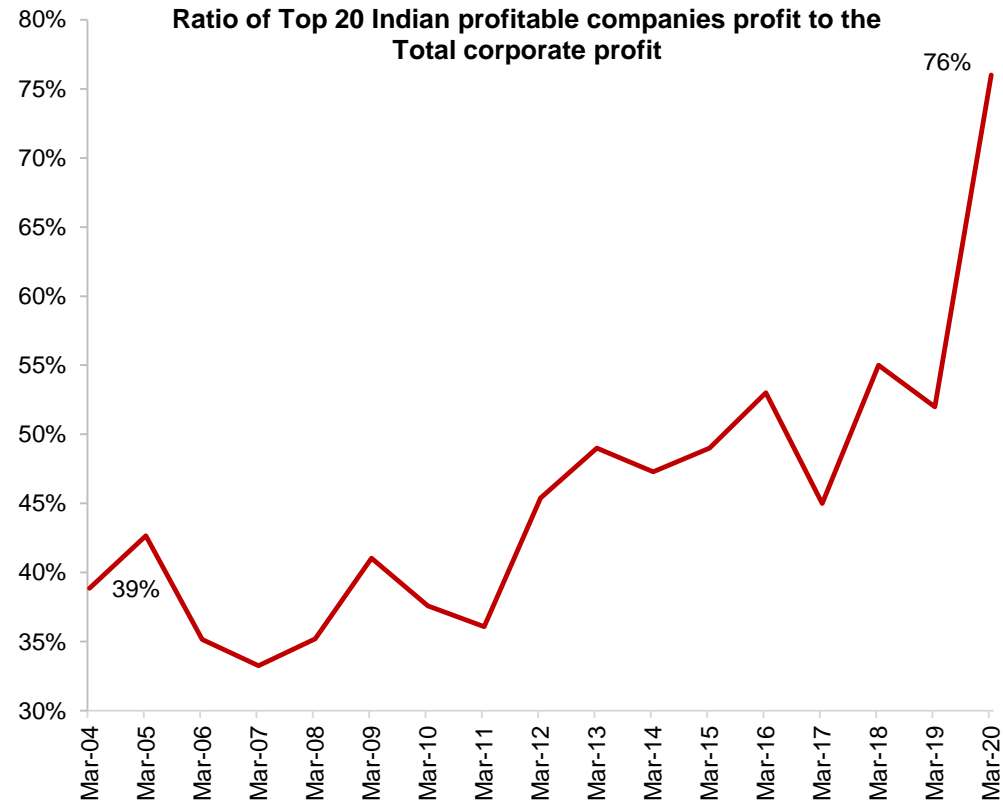


**HSBC**  
Asset Management

17 Jan 2022

# Why Focus Strategy?

Profitability of companies getting concentrated among few players



## Profit pool consolidation

- Profit pool is getting consolidated with the dominant players in respective sectors / industries.
- The trend is likely to accelerate due to current disruption.

## Profit consolidation at overall level

- Top 20 companies profit share (in all listed companies) has increased by 94% (from 39% to 76%) in the last 16 years.

## Profit consolidation with sectors

- In financials, profit share of Private sector banks has increased at the cost of Public sector banks.
- HDFC Bank's profit share has increased from 1.06% in FY10 to 5.6% in FY21.
- In Consumer Staples, HUL profit share has increase from 0.76% in FY10 to 1.4% in FY21.
- In IT, TCS profit share has increase from 2.5% in FY10 to 5.7% in FY21.
- Similar opportunities exist in mid and small cap names.
- We expect the overall market to do well but companies which are dominant in their segment and / or gaining market share are likely to do better than the overall market
- Hence a focus strategy makes more sense.

**D**ominant players + **S**ustainable profitability + **R**easonable valuations = **DSR** portfolio framework for HFEF

Source: Bloomberg, MOSL, Data as at December 2020, For illustration purposes only. Profit of 20 most profitable listed companies in India to the total profit of India's listed corporates.

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Consolidation has accelerated in recent years in number of sectors

Sector	Parameter	Share	Companies	FY10	FY17	FY20	FY21	Incremental Share* FY21 v/s FY17
Bank Credit	Credit Market Share	Top 6	SBI, HDFC Bank, Kotak, ICICI, Axis, IndusInd	37.4%	43.2%	48.4%	49.3%	67.3%
NBFCs – Housing Finance Companies	AUM Share	Top 2	HDFC, LIC Housing	76.0%	70.0%	72.0%	73.0%	89.0**
Cement	Sales Volume	Top 5	Holcim, UltraTech, Shree, Dalmia, Nuvoco	40.6%	51.3%	57.5%	60.2%	100.0%
Steel	Sales Volume	Top 6	Tata, JSW, JSPL, Arcelor (Essar), SAIL & RINL	57.0%	56.0%	62.0%	68.0%	95.0%
Telecom	Revenue Market Share	Top 3	Jio, Airtel & Vodafone Idea	65.2%	66.3%	83.4%	87.0%	NM
Aviation	Available Seat Kms	Top 4	Indigo, Spicejet, GoAir & Air India	75.0%	77.0%	85.0%	NA	95.0%
Real Estate								
Number of developers	-	-	-	2085	1911	1100	NA	~NA
New launches share in tier-1 cities	Launches	Top 30		42.0%	49.0%	60.0%	NA	203 vs 166***
Ports - Share of Non-Major Ports	Volume	Top 7	Adani group, Pipavav, Sikka, Magadalla, Gangavaram, Kakinada, Dharamtar	35.0%	42.8%	45.0%	46.3%	74.6%
Power Generation - Share of Private	Units		-	16.0%	38.0%	38.0%	39.5%	58.0%
Paints	Profit	Top 4	Asian, Berger, Kansai & Akzo	99.0%	99.5%	99.0%	98.0%	98.5%
Passenger Cars	Volume	Top 2	Maruti & Hyundai	61.0%	64.0%	68.0%	73.0%	~NM
General Insurance	Gross Domestic Premium	-	Private Sector Share	42.0%	47.0%	57.0%	57.2%	75.8%
Breweries	Volume	Top 3	United Breweries, AB InBev & Carlsberg	82.0%	88.0%	90.0%	NA	NA
Multiplex	Gross Box office collections	Top 2	PVR, Inox	6.0%	24.0%	28.0%	NA	NA
Domestic Pharma	Revenue market share	Top 20	-	61.1%	65.0%	65.8%	67.5%	75.8%

- More consolidation in categories like Electrical Cables, Tiles, Batteries, Pipes, Luggage and Grocery retail.
- Incremental market share between FY20 v/s FY17 garnered by a few players should logically lead to more pricing power.

Consolidation across many sectors has accelerated in the last three years



# Portfolio positioning – HSBC Focused Equity Fund (HFEF)

We built and managed focused portfolio of dominant and sustainable businesses

Companies	Sector	Weight	Remarks
ICICI BANK LTD	Financials	9.09	Leading Private Sector Banks
HDFC BANK LIMITED	Financials	8.32	
AXIS BANK LTD	Financials	4.11	
BAJAJ FINANCE LTD	Financials	4.83	Leading NBFC
HOUSING DEVELOPMENT FINANCE	Financials	4.70	
TATA MOTORS LTD	Consumer Discretionary	4.17	Leading Auto companies
ASHOK LEYLAND LTD	Industrials	1.27	
MARUTI SUZUKI INDIA LTD	Industrials	0.84	
DIXON TECHNOLOGIES INDIA LTD	Consumer Discretionary	2.67	Leading Electronic Manufacture
AMBER ENTERPRISES INDIA LTD	Consumer Discretionary	1.72	
INFOSYS LTD	Information Technology	9.80	Dominante IT Company
LARSEN & TOUBRO LTD	Industrials	5.25	Largest Infra company
RELIANCE INDUSTRIES LTD	Energy	4.10	Dominante in Energy / Telecom
SUN PHARMACEUTICAL INDUS	Health Care	4.02	Dominante Pharma Compnay
TITAN CO LTD	Consumer Discretionary	3.36	Leader in Jewellery
SBI LIFE INSURANCE CO LTD	Financials	3.31	Dominant in Life Insurance
DALMIA BHARAT LTD	Materials	3.20	Dominant Cement Company
HINDUSTAN UNILEVER LTD	Consumer Staples	2.86	Leading FMCG companies
DLF LTD	Real Estate	2.20	Largest Real Estate Company
KAJARIA CERAMICS LTD	Industrials	1.67	Dominant in Tiles
VOLTAS LTD	Industrials	1.58	Largest AC company
PVR LTD	Communication Services	1.24	Leading Multiplex
JINDAL STEEL & POWER LTD	Materials	0.98	Dominant in Steel
COFORGE LIMITED	Information Technology	4.08	Dominante in some niche segments
APL APOLLO TUBES LTD	Materials	2.59	
PI INDUSTRIES LTD	Materials	2.10	
SRF LTD	Materials	1.59	
IPCA LABORATORIES LTD	Health Care	1.69	
KEI INDUSTRIES LTD	Industrials	2.02	

## Dominant players

- About 85% of portfolio companies are dominant in their sectors such as Large Private Banks, Leading NBFC, Commercial Vehicle (CV), Dominant IT companies and Largest Electronic companies.

## Dominant position - niche segments, growing market share

- Remaining ~15% companies have dominant position in some of their niche segments and has been growing market share from IT, Materials, Healthcare and Industrials sector.

About 85% of portfolio companies are dominant in their sector

## HFEF's Portfolio focus on sustainable profitability

We also focused on sustainable profitability while building portfolio



- Profit Growth: Our portfolio companies aggregate profit has grown at CAGR of 9% in last 4 years (FY17-21). Next three years (FY21-24) growth is potentially expected to be 26.4%.
- ROE: Portfolio ROE is potentially expected to increase to 15.3% in FY24 from 10.2% in FY21
- Valuations: Portfolio FY23 P/E is 24.3x and FY24 P/E is 20.5x.

Portfolio continues to focus on building sustainable profitability which is integral to investment

Source: Bloomberg, HSBC Asset Management, Data as at Dec 2021, For illustration purposes only. ROE – Return on Equity

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# Key portfolio themes

## 1. Financials (Lending)

- FINANCIALS
  - Strong capital
  - Granular liability franchise (High CASA)
  - NPA Cycle behind us
  - Investment into Digitisation (avoid under invested banks)
  - Financials are available at least premium to their historical average compared to peers
  - Eg: ICICI Bank, Axis Bank, HDFC Bank & Bajaj Finance.

## 2. Global Growth

- Global businesses
  - Positive on sectors expected to benefit from strong global growth
- TECHNOLOGY
  - Strong demand outlook on multi-year tech upcycle
  - Market share Gains for Indian vendors to continue
  - Eg: Infosys, & Coforge
- CHEMICALS
  - Sustained Earnings visibility
  - Beneficiaries of global supply chain diversification
  - Eg: PI Industries & SRF
- PHARMA
  - Decent Earnings visibility
  - Reasonable valuations
  - Eg: Sun Pharma & IPCA
- OTHERS
  - Others where bulk of business is outside India
  - Eg. Tata Motors

## 3. Real Estate & allied sector

- REAL ESTATE
  - Residential affordability is best since 2003
  - Industry consolidation
  - Eg: DLF
- OTHERS
  - Sector dependent on Real estate such as Flooring, Electricals, wires and cables
  - Eg: Kajaria Ceramics, KEI, Voltas, APL Apollo

## 4. Capex Cycle

- INDUSTRIALS
  - Government's focus and outlay on Infrastructure
  - Capex revival
  - Eg: L&T, Ashok Leyland
- CEMENT
  - Domestic demand recovery
  - Higher utilization
  - Eg; Dalmia Bharat
- OTHERS
  - PLI Scheme will promote domestic manufacturing and will also aid in reviving private capex cycle
  - Eg: Dixon, Amber

Prefer Financials followed by Global growth, Real estate and Capex Cycle

Source: HSBC Asset Management India, Data as at December 2021, Stock examples are the key active companies in HFEF portfolio. Past performance may or may not sustain in the future and does not guarantee or assure future returns, Any forecast, projection or target when provided is indicative only and is not guaranteed in anyway. HSBC Asset Management India accepts no liability for any failure to meet such forecast, projection or target. The above information is for illustrative purpose only and it should not be considered as investment research, investment recommendation or advice to any reader of this content to buy or sell investments. Past performance may or may not sustain and doesn't guarantee the future performance. The Fund may or may not have any future position in these stocks.

# Key sectors position of HFEF

View	Sector			
Overweight	Consumer Discretionary	Financials	Industrials	Real Estate
Neutral	Healthcare	IT	Materials	-
Underweight	Consumer Staples	Energy	Utilities	Communication Services

## Industrials

- Positive view is maintained as we see potential revival in the investment cycle over the medium term
  - Driven by government's increased focus and
  - Outlay towards the Infrastructure sector, which we are already witnessing
- Industrial capex to follow the Infra capex and hence expect the Industrial capex pick up to happen after a year or so
- Our preference is for companies with
  - Strong balance sheet
  - Execution capabilities and
  - Scale advantages
- Continue to remain positive on CV, cables and on select Infra & capital goods companies.

## Consumer Discretionary

- We are positive on Auto and cyclical recovery plays and prefer them over consumer goods.
  - Within Auto we have a preference for PVs followed by CVs.
  - Auto OEMs are currently facing dual headwinds of supply and margin owing to global chip shortages and cost inflation respectively.
  - We believe that these are more temporary in nature.
- Consumer services come last in our pecking order.
- Within other sub-sectors we have exposure to beneficiaries of PLI scheme.

## Financials (Lenders)

- Positive on financials (i.e. large private banks / lenders), driven by the thesis of
  - Cyclical recovery in the economy and
  - Expectation of large lenders to emerge stronger post pandemic with their ROAs/profitability to be near or above previous peaks
- Large lenders appear attractive on valuations
- We expect them to re-rate
  - With normalisation of credit cost (now mostly done)
  - Followed by pick up in credit growth, which we are already starting to witness.
- They should continue to gain market share on account of the strength in
  - Capital adequacy
  - Granular deposit franchise and
  - Investments in digital infrastructure.
- We also have taken exposure to Insurers, which would benefit from financialisation of savings

Earnings growth is core to stock selection – Sustainable earnings growth and on top of that, emphasis on earnings surprises

# HSBC Focused Equity Fund – Portfolio & allocations

## HSBC Focused Equity Fund Portfolio

- We have 29 stocks in portfolio
- Focused to have high active share to showcase our conviction but also to keep the overall risk in mind
- Fund has invested across market cap with ~72.5% in large cap while mid cap has ~21.8% and small cap has ~4.9%.
- Stock selection based on medium to long term perspective

## Portfolio characteristics in line with our strategy

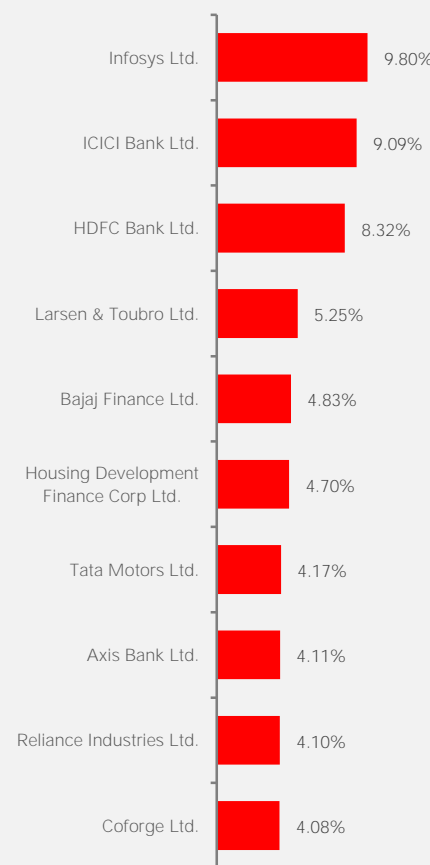
- Portfolio of less than 30 stocks
- Portfolio of dominant players in respective sectors
- Companies with sustainable profitability, better management
- Companies which have quality and financial strength
- Focus on companies that have potential to gain market share

## Investment Objective

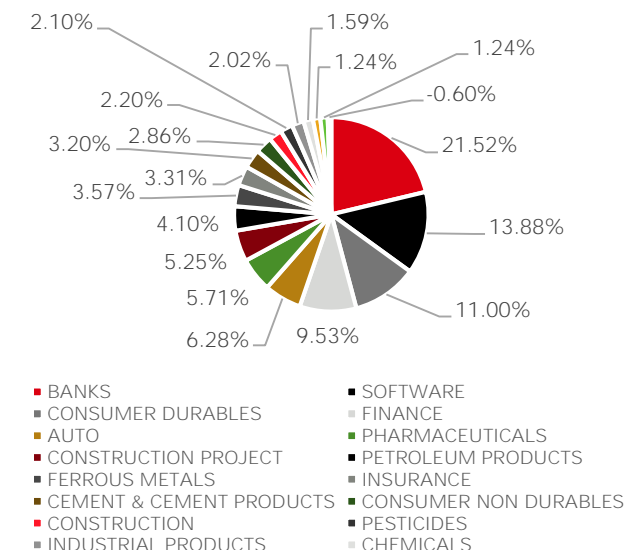
- To seek long term capital growth through investments in a concentrated portfolio of equity & equity related instruments of up to 30 companies across market capitalization. However, there is no assurance that the investment objective of the Scheme will be achieved.
- Benchmark - BSE 200 Index TRI

## Portfolio

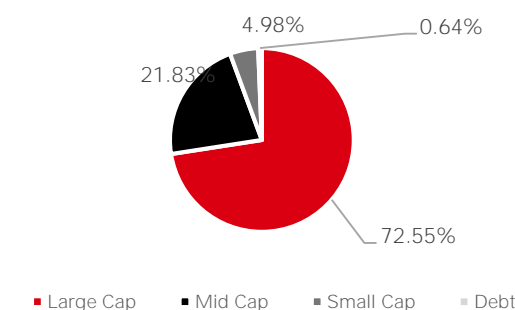
Top 10 Holdings as on 31 December 2021



## Asset Allocation



## Market Capitalisation

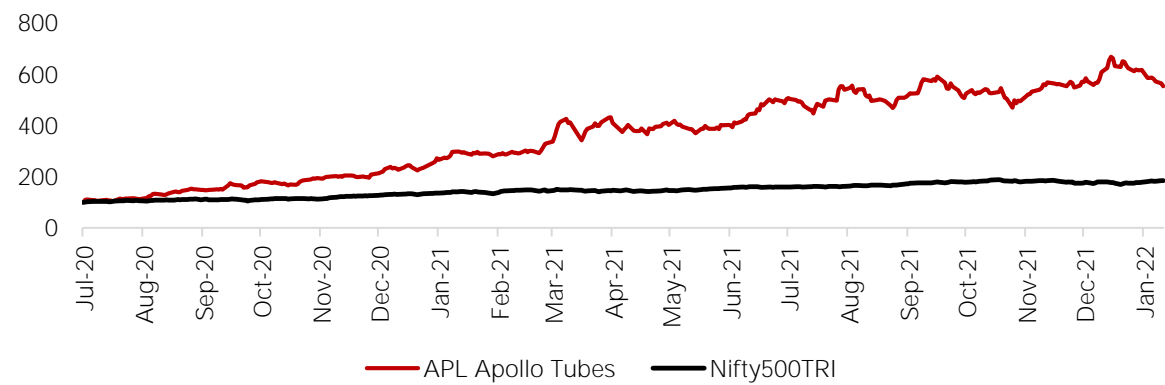


Portfolio of dominant players in respective sectors

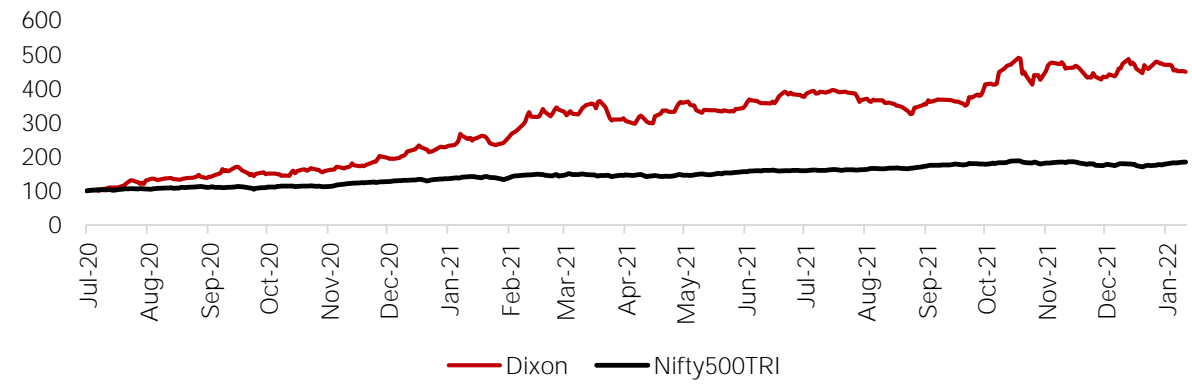


# Outcome of our approach - HFEF success stories

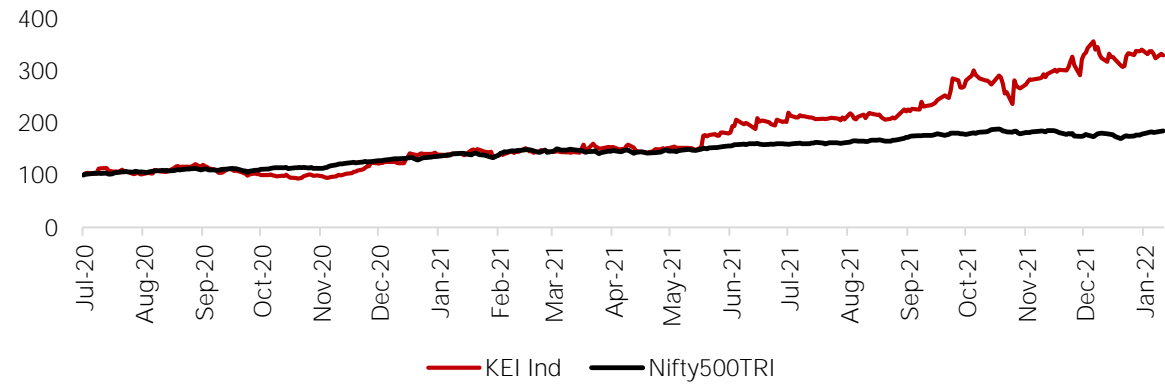
◆ APL Apollo Tubes (up ~4.6x in fund)



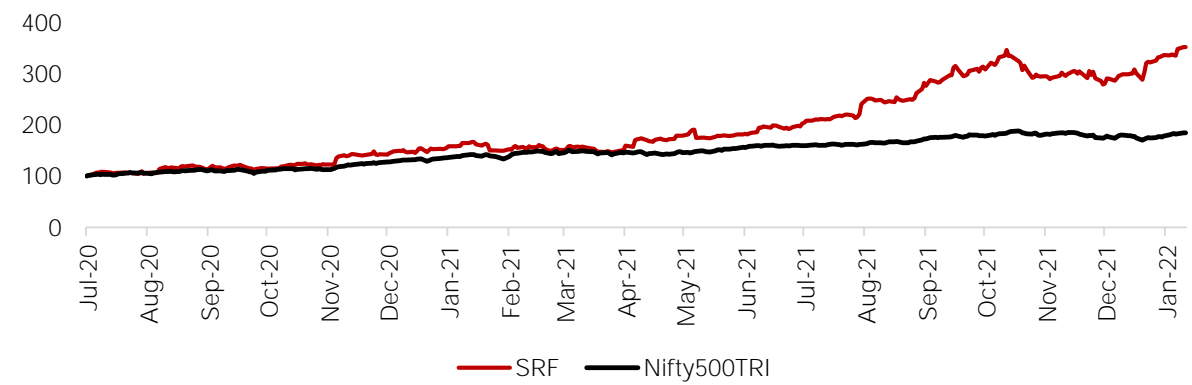
◆ Dixon (up ~3.3x in fund)



◆ KEI Industries (up ~3.2x in fund)



◆ SRF (up ~3.1x in fund)



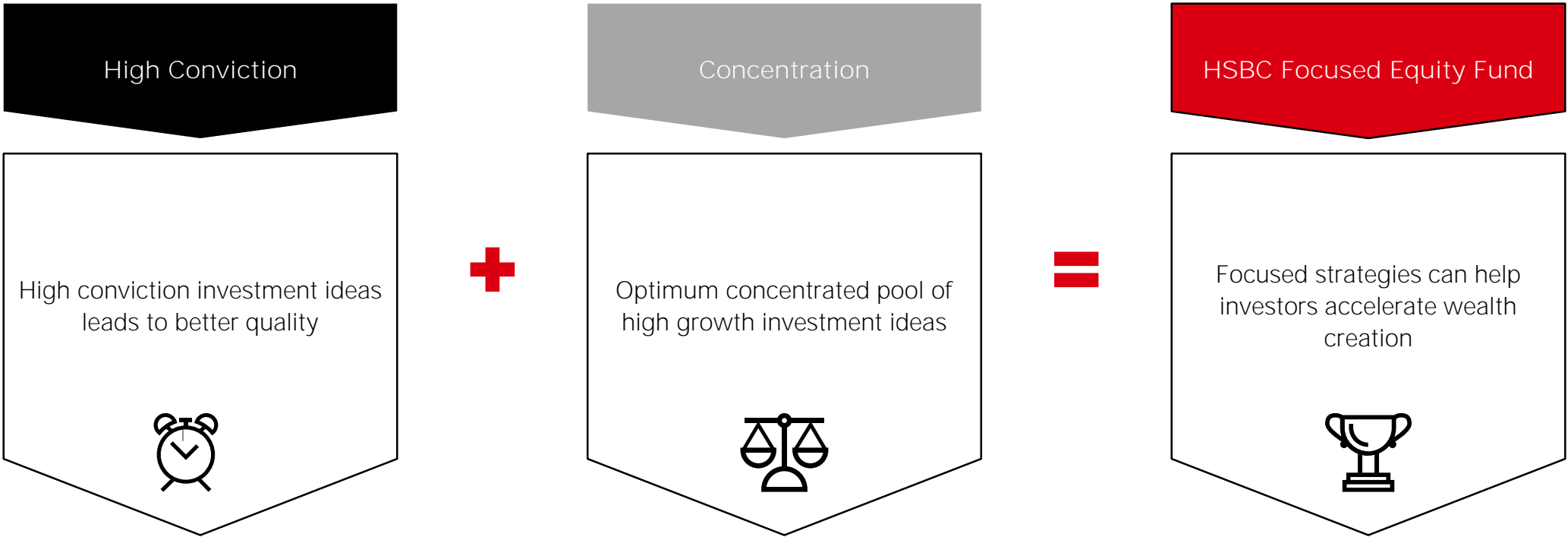
In HFEF portfolio some of the names have delivered over 3x to 5x returns since investment

Source: HSBC Global Asset Management, Data as at Dec 2021, Stock and index prices rebased to 100  
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# Conviction & Concentration builds Focused strategy

## HSBC Focused Equity Fund (HFEF)<sup>1</sup>

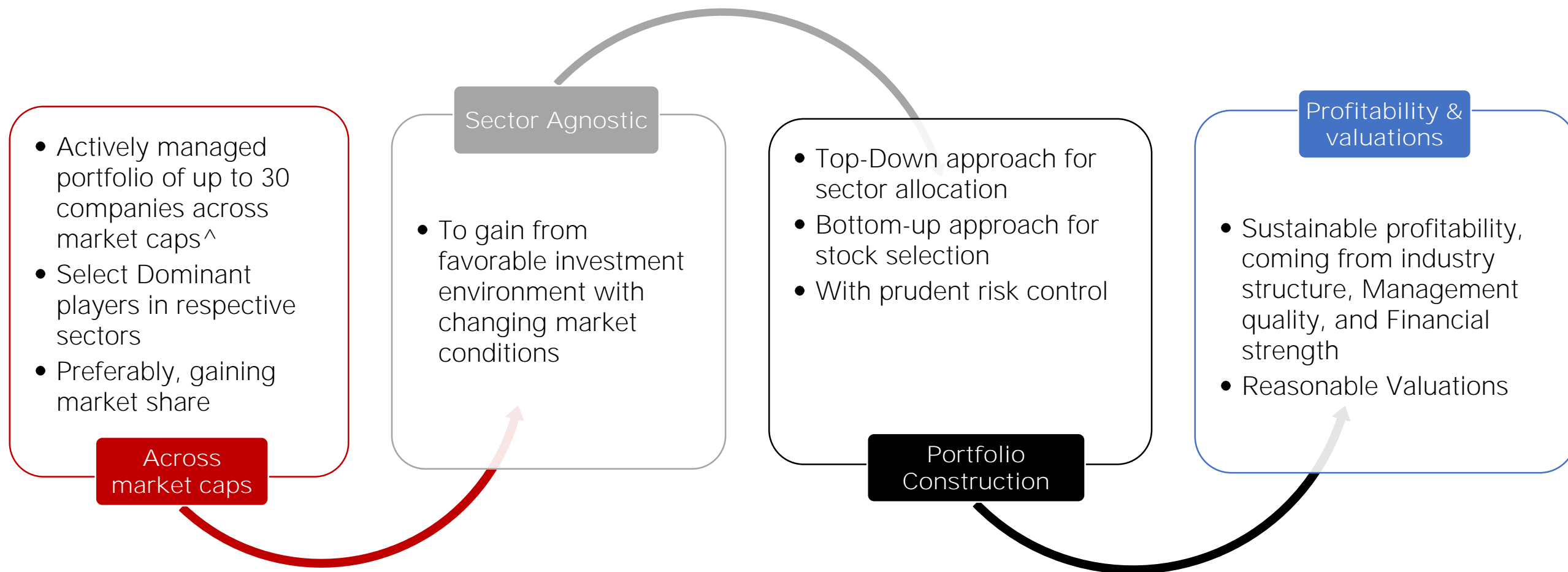
HSBC Focused Equity Fund aims to build “Concentrated portfolio of equity & equity related instruments up to 30 companies across market capitalisation”.



High Conviction & Concentration can build potential outperformer

1. Focused Fund - An open ended equity scheme investing in maximum 30 stocks across market caps (i.e. Multi-Cap).

## Investment approach - HFEF

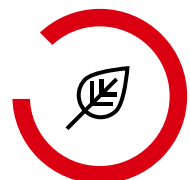


Dominant players + Sustainable profitability + Reasonable valuations = DSR portfolio framework for HFEF

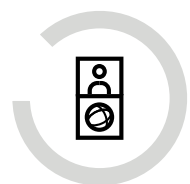
<sup>^</sup> Currently the large cap companies are the 1st-100th, mid cap companies are 101st - 250th and small cap companies are 251st company onwards in terms of full market capitalization updated by AMFI.  
Note: The above asset allocation and strategy may not have all details.  
For complete details on asset allocation and investment strategy, please refer to the SID (Scheme Information Document of HSBC Focused Equity Fund)

# Summary

## What we said during HFEF NFO?



Profitability of companies Getting concentrated among few players.



Players having Dominant positioning, Sustainable businesses and Reasonable valuations (DSR) are expected to do well.

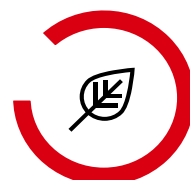


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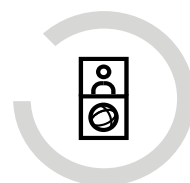


Companies which are dominant in their segment and / or gaining market share are likely to do better than the overall market.

## What we did and achieved post NFO?



Built a focused portfolio of less than 30 stocks with medium to long term view.



Achieved portfolio positioning in line with the DSR investment approach, Significantly overweight on companies are dominant in their sector and rest have dominant position in niche segment.



During HFEF's journey over the last one year portfolio remained overweight on private banks.



APL Apollo Tubes, leader in structural steel piles (up ~4.6x in fund), Dixon Tech, leader in nascent electronic manufacturing (up ~3.3x in fund).

With High Conviction & Concentration HFEF is positioned to be a potential outperformer over a long term

# Disclaimer & Riskometer

HSBC Focused Equity Fund Riskometer		
<div><p><b>HSBC Focused Equity Fund</b></p><p>Investors understand that their principal will be at Very High risk</p></div>	<div><p><b>Focused Fund</b> - An open ended equity scheme investing in maximum 30 stocks across market caps (i.e. Multi-Cap).</p><p><b>This product is suitable for Investors who are seeking**:</b></p><ul style="list-style-type: none"><li>• Long term wealth creation.</li><li>• Investment in equity and equity related securities across market capitalization in maximum 30 stocks.</li></ul><p><b>**Investors should consult their financial advisers if in doubt about whether the product is suitable for them.</b></p><p>Please note that the above risk-o-meter is as per the product labelling of the Scheme available as on the date of this communication/ disclosure.' As per SEBI circular dated October 5, 2020 on product labelling (as amended from time to time), risk-o-meter will be calculated on a monthly basis based on the risk value of the scheme portfolio based on the methodology specified by SEBI in the above stated circular. The AMC shall disclose the risk-o-meter along with portfolio disclosure for all their schemes on their respective website and on AMFI website within 10 days from the close of each month. Any change in risk-o-meter shall be communicated by way of Notice cum Addendum and by way of an e-mail or SMS to unitholders of that particular Scheme.</p></div>	<div><p><b>Benchmark: S&amp;P BSE 200 TRI</b></p><p>RISKOMETER</p></div>

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