

# Invest in the early signs

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## HSBC Mid Cap Fund

Mid Cap Fund – An open ended equity scheme predominantly investing in mid cap stocks



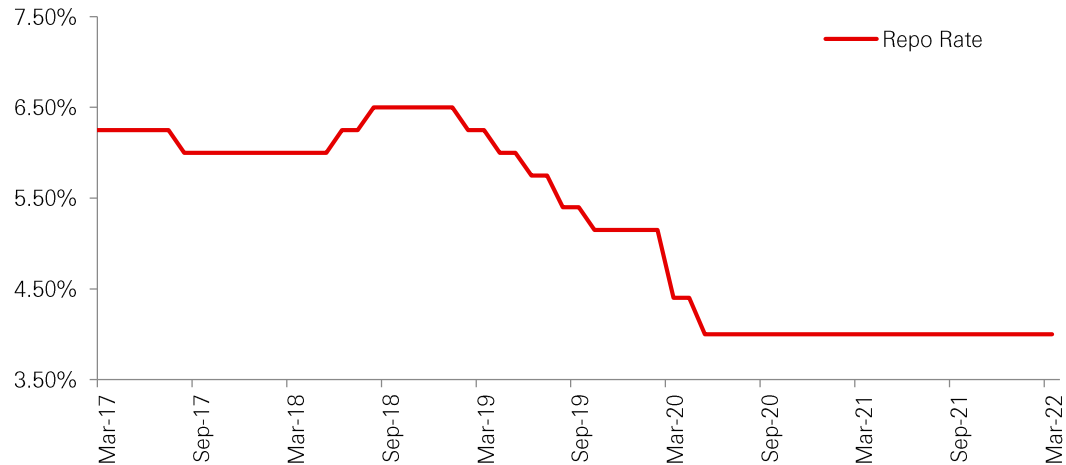
**HSBC**  
Asset Management

Date: 20 April 2022

# What will drive 'Expansion'?

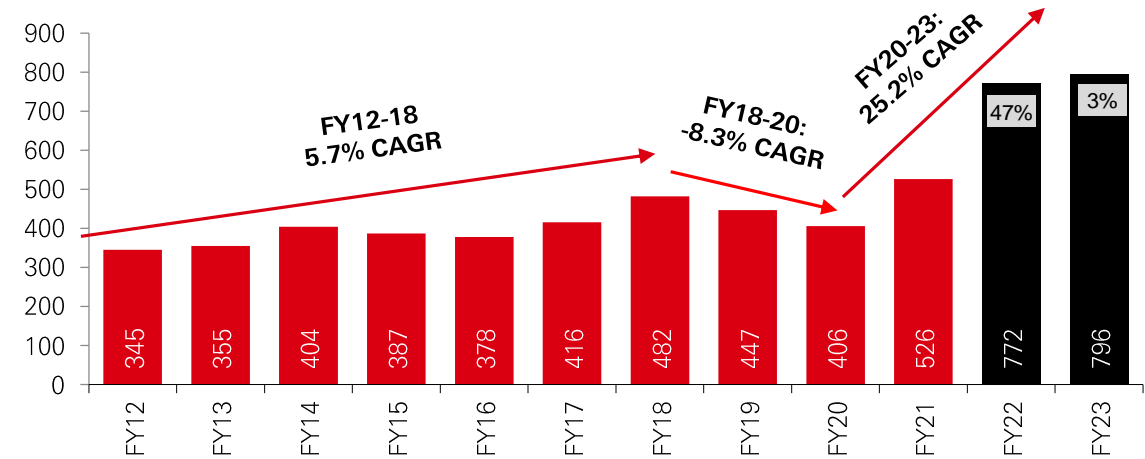
## Budget and Cost of Capital

### Low Cost of capital



- **Low Cost of Capital** and lower rates
- Cost of capital **at 20 year lows**
- RBI's accommodative stance

### Expansionary Budget | Earnings growth | FDI



- **Expansionary Budget:** long term structural growth
- **Strong Capex push** (highest seen since FY08)
- **Earnings** to see significant growth during FY22-23
- Cyclical revival multi-year **earnings visibility**

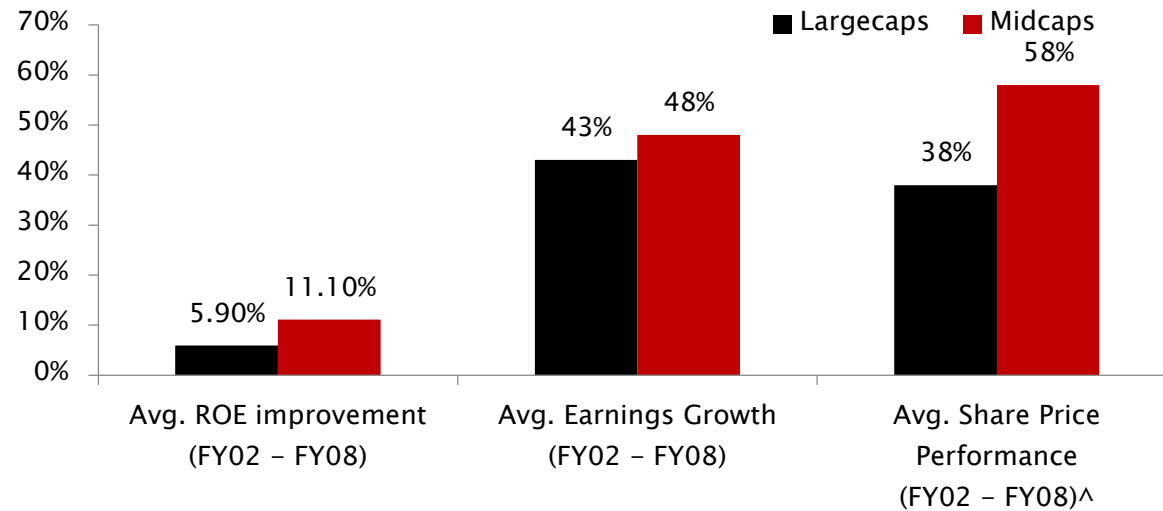
## Expansionary Budget and low cost of capital to propel economy to Expansion phase

Source: Bloomberg, MOSL, OECD, Data as at March 2022 except otherwise mentioned. Past performance may or may not sustain, past performance does not guarantee future performance.  
 Global growth support: \* European Union - EU – 27 countries (from 01/02/2020) ^ World (OECD - Total), Q2-21 Simple avg. of only available data from select countries for Q2-2021

## Mid cap behaviour during expansion

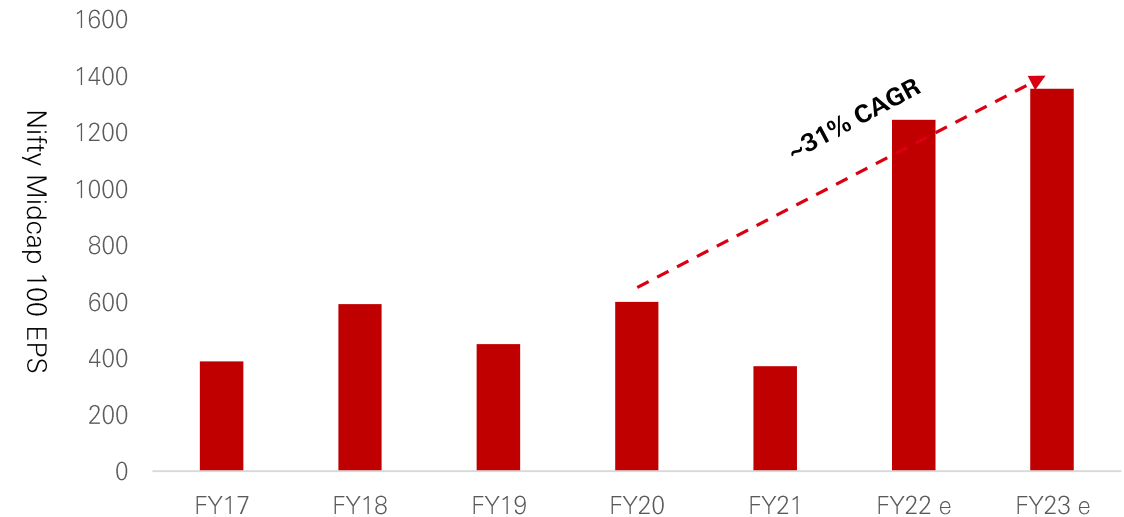
Mid cap earnings rise faster relative to Large cap when the cycle turns

### Economic upcycle (FY02-08) encouraging for midcaps\*\*



- **Economic cycle FY02-08:** Mid cap earnings grown faster than Large caps\*\*
- **Economic cycle:** GDP growth of India averaged ~7.9% during this period\*
- Mid cap companies show pronounced cyclical

### Earnings: Nifty Midcap 100 index



- **Cyclical revival & Expansionary Budget:** multi-year earnings visibility
- **Significant improvement in earnings** in FY22-23
- Cyclically, economic revival should imply Mid cap rerating

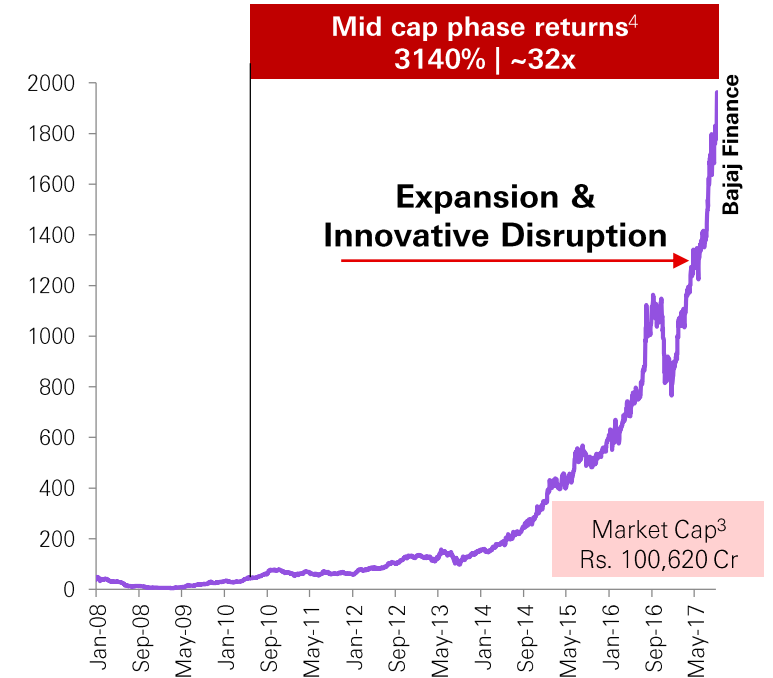
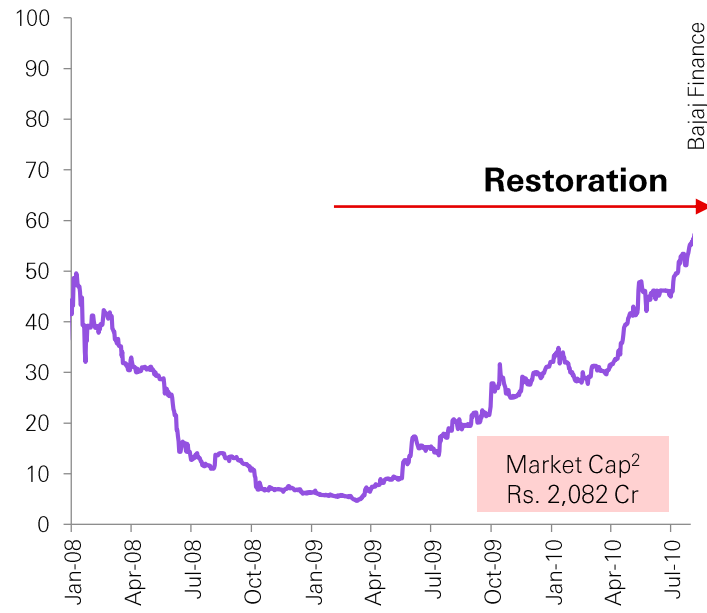
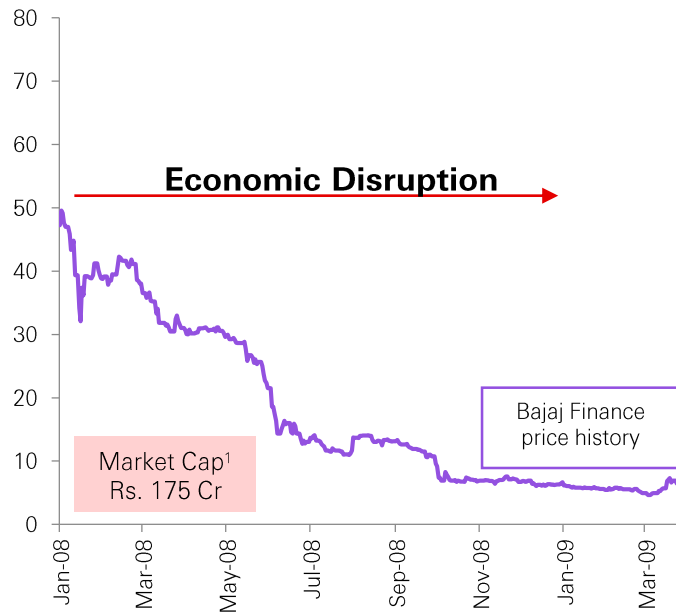
**Midcap stocks earnings expected to grow higher during FY22 and FY23**

Source: AMBIT Capital Research, Data as at March 2022, \*\*Note: Large-caps are represented by the top 100 stocks on market capitalisation basis & Mid caps are represented by the next 150 stocks based on market capitalisation. ^ Apr '02 to Mar '08, \* During Dec 2002 to Dec 2007. Midcap earnings: MOSL, Nifty Midcap 100 index EPS data, EPS = Earnings Per Share, e = estimates, GDP data: World Bank. For illustration purpose only. Past performance may or may not sustain and doesn't guarantee the future performance.

# Disruption to Expansion (+ 'Innovative Disruption') – learnings from the past

2008: Disruption to Expansion developed some of the major companies in India e.g. Bajaj Finance

## Journey of Bajaj Finance: expansion to innovative disruption



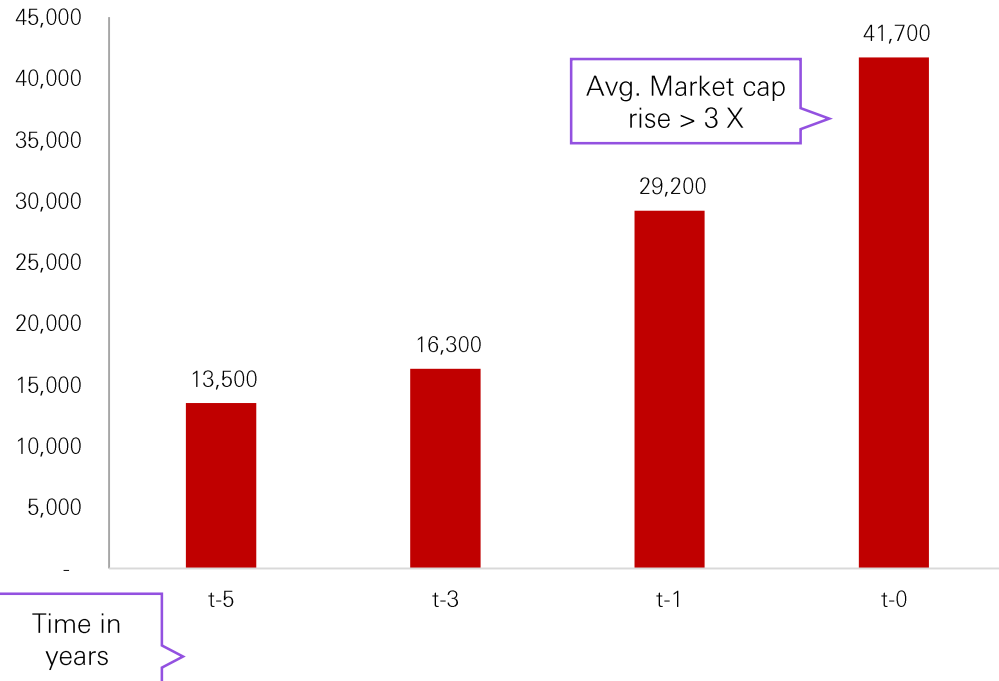
**Economic Restoration, Expansionary policies with Innovative Disruption to benefit Mid cap companies**

Source: Bloomberg, The above chart and names of the stock is provided for illustration purpose only. Past performance may or may not sustain, past performance does not guarantee the future performance  
 Market Cap as on 1: 9-03-09, 2: 31-07-10, 3: 28-08-17, Returns: 4: From 1-08-10 to 31-08-17, Mid caps - In India, companies listed on the stock exchanges between 101st - 250th in terms of full market capitalization are called Mid Cap companies (Mid Cap stocks). The above information are 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. The Fund may or may not have any future position in these stocks.

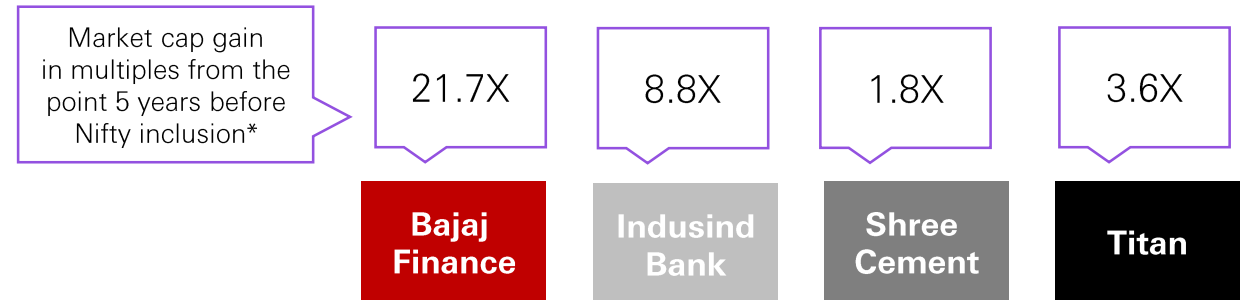
# Tracking stocks progression to Nifty50

Nifty's constituents changed over the last two decades

## Journey of Nifty50 entrants (average market cap (Rs. Cr))



- Historically, Nifty's constituents change by 50% every decade
- Mid caps can progress to large caps and replace current Nifty constituents
- Mid caps: Best options to gain exposure to rapidly growing businesses
- In last 10 years, some Mid cap stocks entered Nifty50
- 5 years prior to their inclusion, stocks were smaller in size and much less discussed!



**Mid caps have potential to become the large caps of tomorrow**

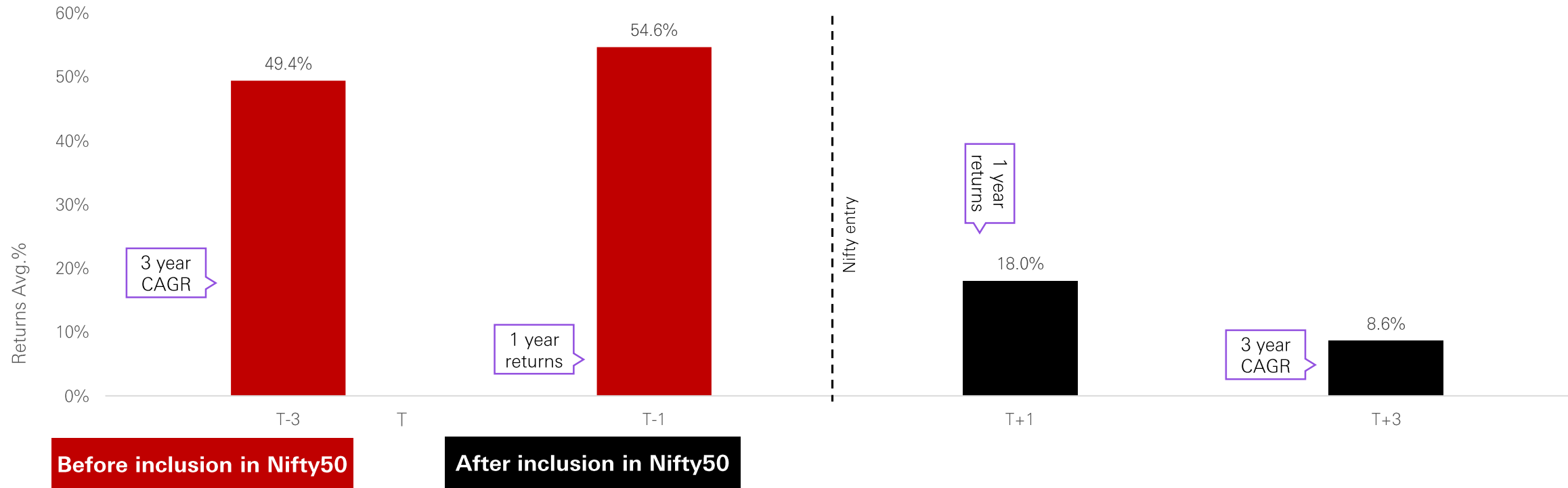
Source: AMBIT Capital Research, Data as at March 2022, Chart: Data used here belong to stocks entered into Nifty50 since Sep 1996, The chart has given an aggregate average market cap journey of all stocks for 5 years before the inclusion in Nifty50 index. Based on market cap data from the point of 5 years before entering Nifty50 to the date of Nifty50 entry. t-0 represents the year in which the stock has been included in Nifty50. t-1 is 1 year before the inclusion in Nifty50. Similarly going down to t-5 indicates the market cap of stocks 5 years before the inclusion in Nifty50. \* Market cap gain in multiples:

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## Transition phase provides real opportunity

Mid cap stocks should be tapped at an early stage of their life-cycle

### Price Performance (Avg.) of Nifty Entrants



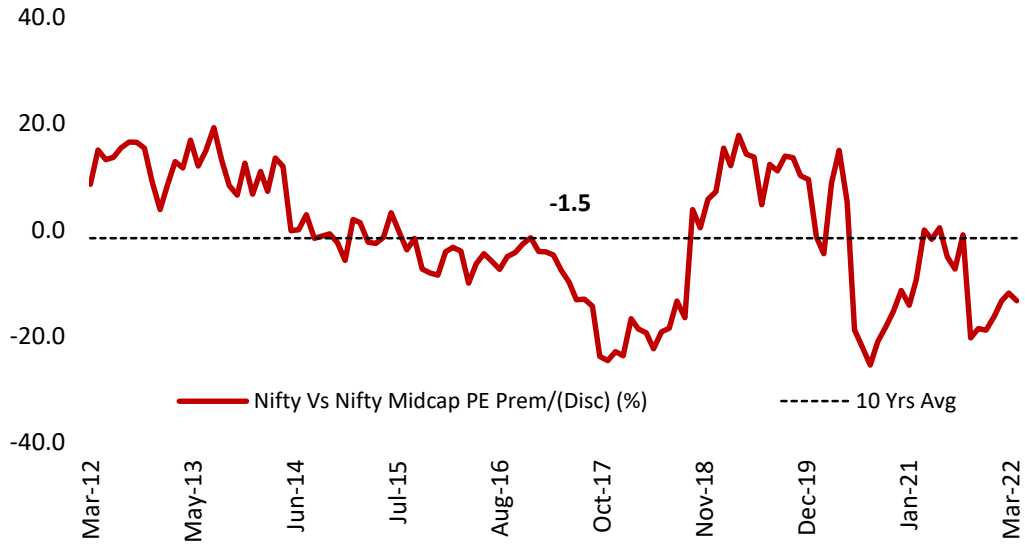
**Invest in the early signs:** The value of investing in these stocks is before they enter the index and not after!

Source: Bloomberg, Data as at Dec 2021, For Price performance (Aggregate average returns) of all Nifty50 entrants data from 1 Jan 2001. T is the date of inclusion in Nifty50, T - 1 (1 year prior to inclusion), T - 3 (3 year prior to inclusion), T + 1 (1 year after inclusion), T + 3 (3 years after inclusion). CAGR returns for 3 year period. Some of the recently entered Nifty50 stocks have not completed 3 years period but their 1 year performance is included, 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.

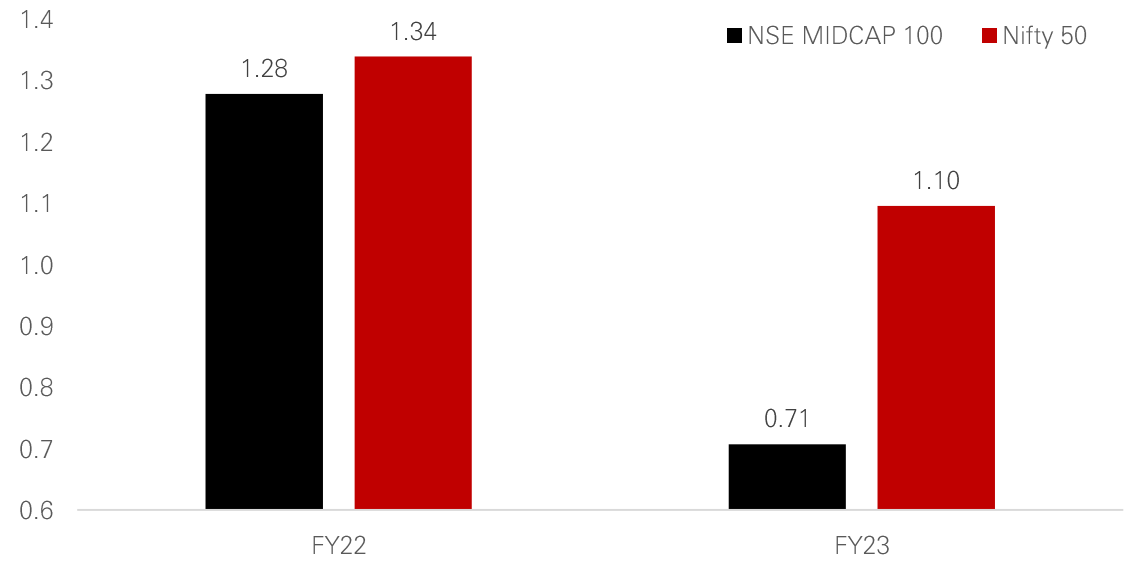
# Mid cap valuations reasonable considering higher growth potential

Valuations just above long term averages but relatively reasonable

**Valuation premium / discount – Large vs Mid cap**



**PEG<sup>1</sup> ratio: Mid cap vs Large cap**



**Valuations above long term averages but relatively reasonable considering favourable environment**

Source: Bloomberg, MOSL Data as at Mar 2022, PEG ratio: Nifty 50 and Nifty Midcap 100 index data, Data as at Sep '21, Valuation chart: Nifty Midcap 150 vs Nifty 50 data, FY22-23 data are estimates, 1- PEG ratio: Price/Earnings to Growth  
 The above data is provided for illustration purpose only. Past performance may or may not sustain and doesn't guarantee the future performance. While any forecast, projection or target where provided is indicative only and not guaranteed in any way. HSBC Asset Management accepts no liability for any failure to meet such forecast, projection or target.

# Invest in the early signs

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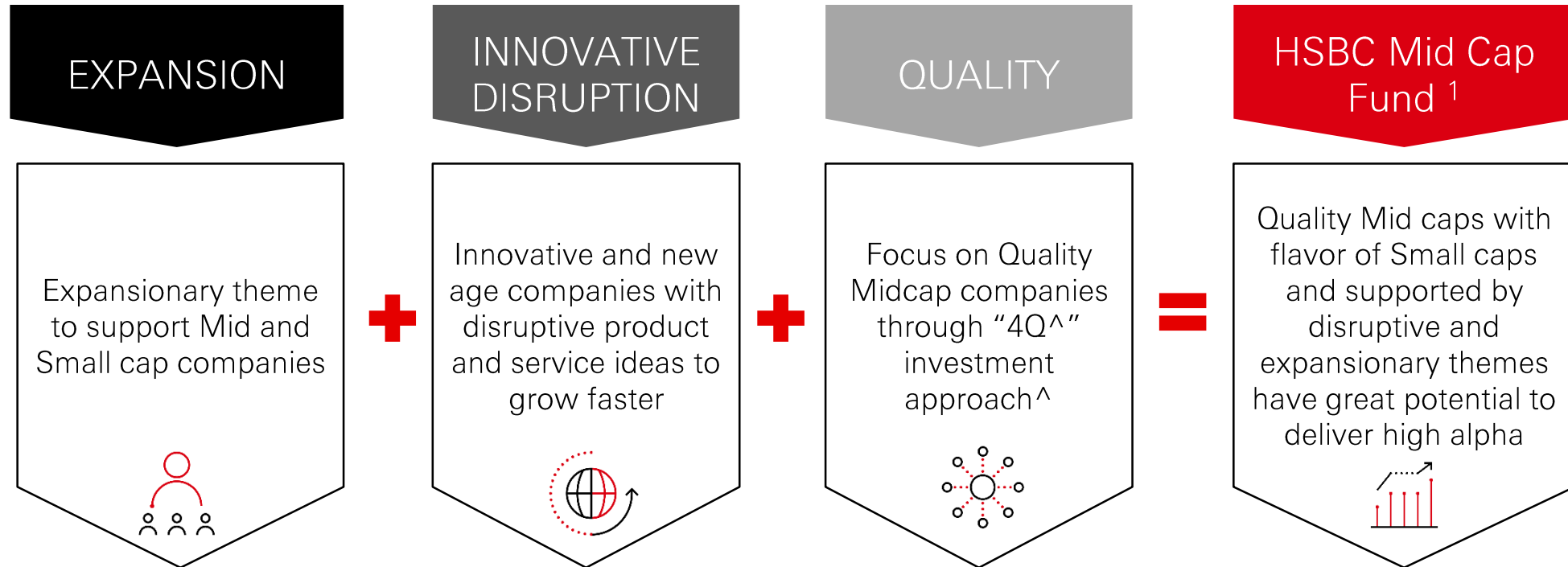
## HSBC Mid Cap Fund

Mid Cap Fund – An open ended equity scheme predominantly investing in mid cap stocks



# Quality Mid caps with flavor of Small caps^ have great potential to generate alpha

Focus on Quality Mid caps with flavor of Small caps^



**Expansion, Disruption & focus on Quality can lead HSBC Mid Cap Fund (HMF) to generate alpha**

Source – HSBC Asset Management India, For illustration purpose only., ^4Q approach – refer to slide 19 for details on 4Q approach

1. Mid Cap Fund – An open ended equity scheme predominantly investing in mid cap stocks

^The scheme has a flexibility to invest anywhere between 65% to 100% in mid cap stocks and upto 35% in debt & money market instruments and stocks other than mid cap stocks i.e. small and large cap stocks. Also the scheme has a provision to invest upto 10% in Units issued by REITs and InvITs. The above view/strategy is as per current view of the investment team and this is subject to change without any notice.

# Portfolio Strategy

## Fund Philosophy & Key themes

- Invest on scalable businesses that are outperforming their market segment.
- Invest in businesses that have great track record of execution and are leader / strong challenger in their respective segment
- Focus is on companies that are likely to deliver strong earnings growth in the medium term.

### Key portfolio themes:

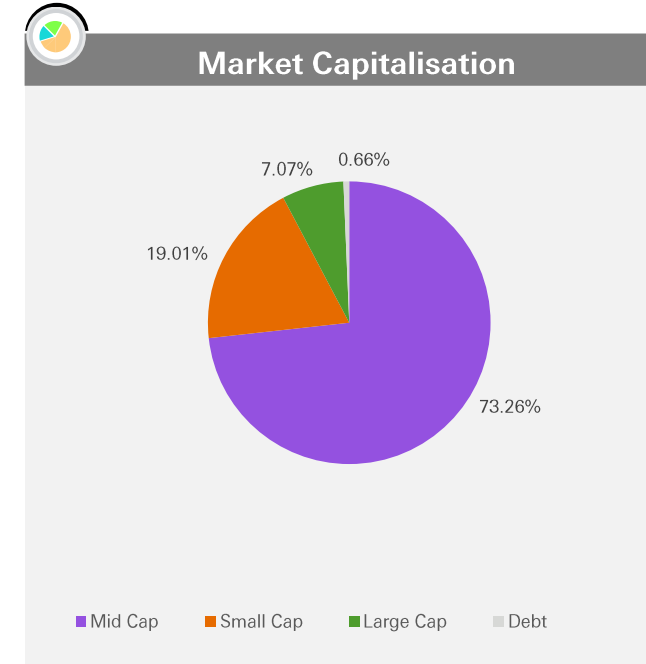
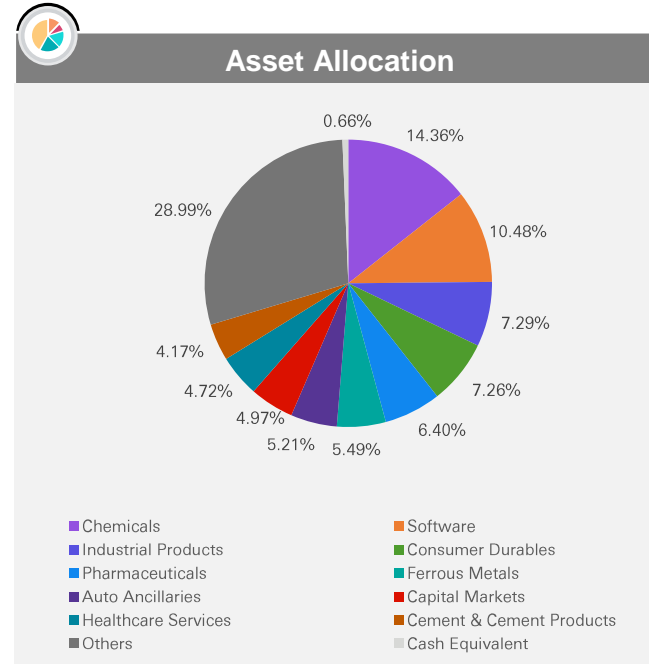
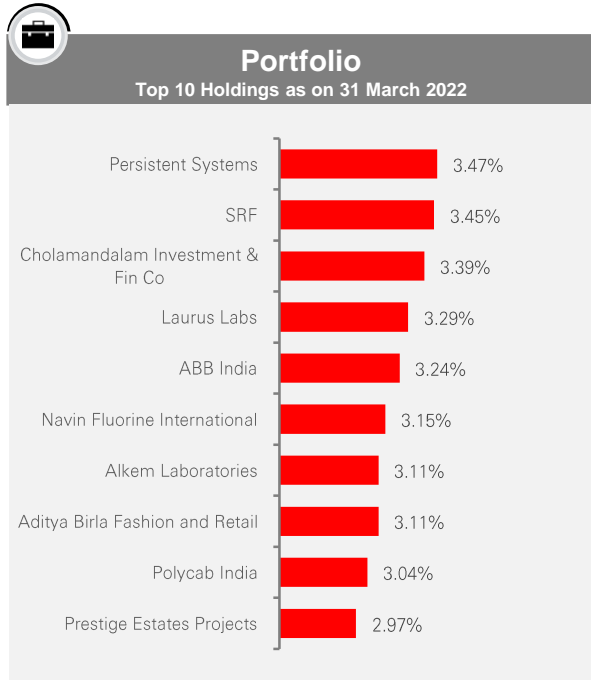
- Geo political issues has led to sharp commodity price inflation which is likely to hurt the margins of many businesses in the short term. However, for many sectors the underlying growth trends remain strong and we remain constructive on the businesses that are participating in the current growth trends.
- Positive on exports given the diversification of global supply chains and improved competitiveness of Indian players. Strong growth in end user markets is also aiding to the overall growth of the segment.
- Positive on Make in India theme given the strong push by the government.
- Positive stance on fast growing digital economy of India and the opportunities it is throwing up.

### Portfolio sectoral positioning:

View	Sector		
Positive view	Specialty Chemical	Information Technology	Healthcare
Neutral	Consumer Discretionary	Real Estate	Industrials
Negative	Financials	Energy	Communication Services

# Portfolio Strategy

## Fund Philosophy & Key themes



### Specialty Chemicals

- We continue to maintain a positive view on Specialty chemicals space, as we believe it will benefit on demand arising from end user industries like agrochemicals, pharma etc. Diversification of global supply chain away from China is also improving the outlook for Indian companies.

### Information Technology

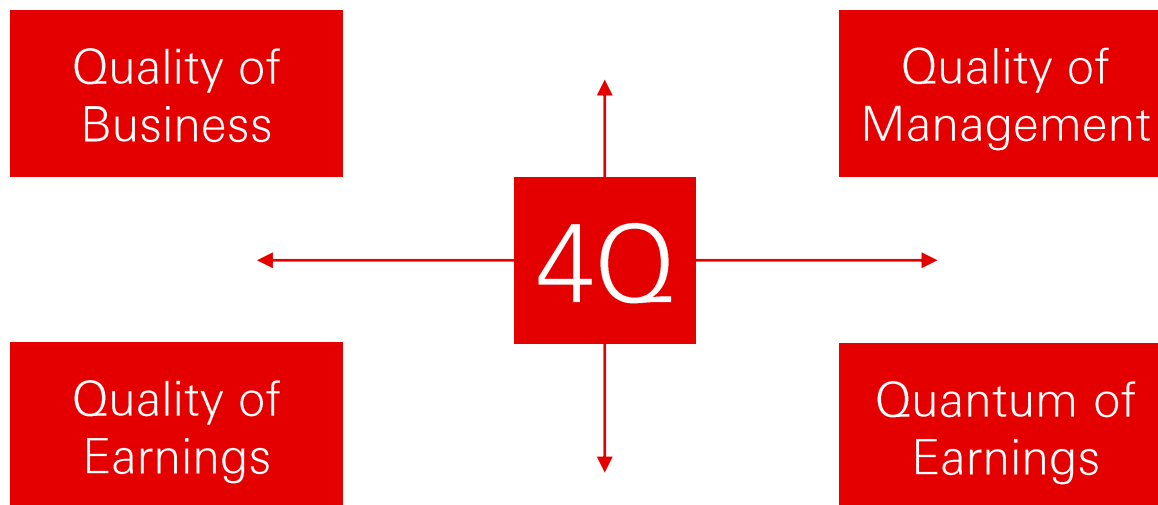
- We are seeing strong growth trends for most IT companies as Covid has forced most global companies to invest heavily on digital.
- IT demand growth has improved to mid-teens after a few years of single digit growth rate.
- We expect the current trends to continue as the opportunity size available for IT companies remain very large..

### Consumer Discretionary

- We are invested in leading companies in the consumer discretionary space. After the Covid led disruption, the demand has come back strongly.
- Most of the leading players are gaining from this underlying demand trends and are gaining market share.
- We continue to invest in market leaders/strong challengers in this space as we believe the trend of these players capturing market share at the cost of weaker players will continue.

## HMF's Investment approach: Focus on Quality and Quantum

Midcap are good but Midcaps with Quality & Quantum are better



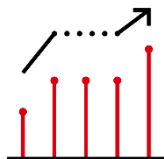
### 4Q Investment approach

1. **Quality of Business:** Scalability of business, Competitive Advantage, Market Share, Longevity, Pricing power, Brand strength
2. **Quality of Management:** Track record, Corporate governance, Promoter background, Capital allocation
3. **Quality of Earnings:** Consistency in earnings, Capital intensity, Cashflow
4. **Quantum of Earning:** Strong growth in earnings

**4Q to support HMF's investment journey while identifying investment opportunities and avoiding accidents**

## Mid caps with flavour of Small caps

Quality Mid and Small cap^ opportunities



- ◆ **Potential to outperform** in an economic up-cycle
- ◆ One of the best options to gain exposure to the **rapidly growing industries**
- ◆ Better **earnings acceleration** due to **emerging businesses**

Some examples which may or may not be a part of our portfolio

### Mid Caps

- ◆ Dixon Technology – Leading Contract manufacturer of mobile and electronics
- ◆ Vinati Organics – Leading player in chemicals
- ◆ PI Industries – A fast growing **agri-sciences company** with a **unique business model**
- ◆ Dr. Lal Path Labs – Leading service provider of diagnostic and healthcare tests

### Small caps

- ◆ JB Chemicals and Pharma – **Leading player from Chemicals and pharma industry**
- ◆ Amber Enterprises - Solution provider for AC, **OEM/ODM Industry**
- ◆ INOX - Leading **entertainment company** in India
- ◆ Kajaria - Leading **Ceramic Industry player**

**Quality Mid caps with flavour of Small caps may help HMF to generate alpha**

Source – Bloomberg, Respective corporate websites, HSBC Asset Management India, Data as at March '22. The above information are 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. The above themes are as per current view of the investment team and this is subject to change without any notice. 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.

^The scheme has a flexibility to invest anywhere between 65% to 100% in mid cap stocks and upto 35% in debt & money market instruments and stocks other than mid cap stocks i.e. small and large cap stocks. Also the scheme has a provision to invest upto 10% in Units issued by REITs and InvITs. The Fund may or may not have any future position in these stocks.

# HMF - Themes

Innovative Disruption and new age businesses

Theme	Opportunity
<p data-bbox="96 337 198 572" style="writing-mode: vertical-rl; transform: rotate(180deg);">Innovative Disruption &amp; New age businesses</p> 	<ul style="list-style-type: none"> <li>◆ India: ambitious target of a <b>\$1 trillion digital economy</b> by 2025<sup>1</sup></li> <li>◆ Opportunities from <b>JAM</b> based digital economy</li> <li>◆ <b>Digital adoption</b>: significant economic value addition</li> <li>◆ New age businesses are expected to grow at <b>~30% to 50% CAGR</b><sup>^</sup></li> <li>◆ HMF will have an <b>opportunity to build fresh portfolio</b> in this new economic upcycle</li> <li>◆ Recently listed Zomato commands <b>~Rs.1 tn market cap</b></li> </ul>

**Some examples which may or may not be a part of our portfolio**

## Leading disruptors

- ◆ **Food delivery apps:** Zomato
- ◆ **Innovative mobility services:** Cartrade
- ◆ New age sectors:
  - **Ed-tech start ups**
  - **Renewable Energy,**
  - Advanced Infrastructure,
  - Inventory management, **Delivery solutions**
  - Cloud solutions
  - **Omni channel Retail**

## IPOs^^

- ◆ Other major upcoming IPOs: NSE, Aditya Birla MF
- ◆ Recently listed new age IPOs: Easy Trip, CAMS, Barbeque Nations, Happiest Minds, Route Mobile, Nyka, Adani Wilmar

**Theme: The fund can explore opportunities in Innovative Disruption theme**

Source – Data as at March '22, ^Paytm DRHP, July 2021, ^FY21 to FY26, Make in India (GOI), <sup>1</sup> Ministry of Electronics and Information Technology (MeitY), 1. These GOI schemes subject to other conditions, refer MakeinIndia website for more details. Production Linked Incentive Scheme (PLI), Scheme for Promotion of Manufacturing of Electronic Components and Semiconductors (SPECS), Modified Electronics Manufacturing Clusters Scheme (EMC 2.0)

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(JAM-Jandhan, Aadhaar, Mobile). The above themes are as per current view of the investment team and this is subject to change without any notice. 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. ^^HMF can not invest in unlisted companies.

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## Make in India and Exports

<p><b>Make in India</b></p> <ul style="list-style-type: none"> <li>◆ India registered its <b>highest ever FDI</b> Inflow of about US \$82 billion in FY21</li> <li>◆ India's <b>production of electronics increased</b>: 2015-21 - USD29bn to 67bn</li> <li>◆ <b>GOI incentives</b> for manufacturing: PLI, SPECS and EMC to improve profitability             <ul style="list-style-type: none"> <li>▪ <b>PLI</b>: 4% to 6% incentive on sales of goods manufactured in India</li> <li>▪ <b>SPECS</b>: financial incentives of 25% on capital expenditure</li> <li>▪ <b>EMC</b>: Financial assistance of 50% of the project cost for EMC projects</li> </ul> </li> </ul>
<p><b>Some examples which may or may not be a part of our portfolio</b></p>
<p><b>Make in India:</b> Examples Fresh opportunities across sectors:</p> <ul style="list-style-type: none"> <li>▪ <b>Electronics, Chemicals, Defence</b>, IT, Auto, Food processing, Electricals, Renewable energy, etc.</li> <li>◆ Dixon Technologies (contract manufacturing)</li> <li>◆ Amber Enterprises (contract manufacturing)</li> </ul>

<p><b>Exports</b></p> <ul style="list-style-type: none"> <li>◆ Exports improvement due to a sharp rise in demand for goods and services as global markets rebound</li> <li>◆ Exports likely to rise further as global trade activity gains momentum and incentives from the government</li> <li>◆ Achieved another all-time high of \$400 billion merchandise exports in the current fiscal year*</li> </ul>
<p><b>Some examples which may or may not be a part of our portfolio</b></p>
<p><b>Exports:</b> Examples</p> <ul style="list-style-type: none"> <li>◆ Gaining prominence in the fields such as             <ul style="list-style-type: none"> <li>◆ Pharma API</li> <li>◆ Specialty chemicals</li> <li>◆ Textile</li> <li>◆ Aqua culture</li> </ul> </li> <li>◆ IT industry accounted for 8% of India's GDP in 2020</li> </ul>

**HMF expected to benefit from construction of fresh portfolio at the beginning of the expansion cycle**

Source – Bloomberg, Morgan Stanley, OEC World, Respective corporate websites, HSBC Asset Management India, Data as at December 2021 \* Ministry of Commerce & Industry, PIB.gov.in. For illustration purpose only. The above information are 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. The above themes are as per current view of the investment team and this is subject to change without any notice. 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.

# HSBC Mid Cap Fund

Mid Cap Fund – An open ended equity scheme predominantly investing in mid cap stocks

## Investment Objective

- ◆ To seek to generate long-term capital growth from an actively managed portfolio of equity and equity related securities of predominantly mid cap companies. However, there can be no assurance or guarantee that the investment objective of the scheme would be achieved.

## Benchmark

- ◆ NIFTY Midcap 150 Index TRI

## Where will the scheme invest?<sup>1</sup>

- ◆ The corpus of the Scheme will be invested in equity, equity related and various fixed income securities.
- ◆ The Scheme will have flexibility to invest across large, mid and small cap companies but will be invested predominantly (at least 65%) in mid cap companies. <sup>2</sup>
- ◆ Bottom up approach: A bottom up approach to invest in equity and equity related instruments supported by top down view

## Fund Manager

- ◆ Ankur Arora
- ◆ Over 16 years of experience in Research and Fund Management

Source – HSBC Asset Management India,

1. Refer Scheme Information Document for complete investment universe and asset allocation of HSBC Mid Cap Fund

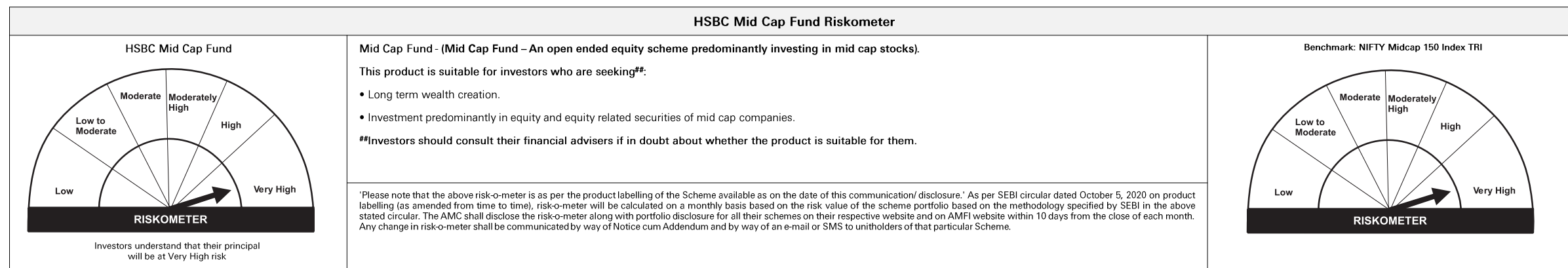
2. The scheme has a flexibility to invest anywhere between 65% to 100% in mid cap stocks and upto 35% in debt & money market instruments and stocks other than mid cap stocks i.e. small and large cap stocks. Also the scheme has a provision to invest upto 10% in Units issued by REITs and InvITs.



# HSBC Mid Cap Fund<sup>1</sup>

Mid Cap Fund – An open ended equity scheme predominantly investing in mid cap stocks

- **Minimum Application Amount (Lump sum):** Rs.5000 | Rs.1 (multiples)
- **Minimum Additional investment:** Rs.1000 | Rs.1 (multiples)
- **Minimum Application Amount (SIP):** Rs.500 per month (12 installments)
- **Entry Load:** Not applicable<sup>2</sup>
- **Exit Load<sup>3</sup>:** NIL, if units are redeemed/switched-out after 1 year from allotment, 1% if Any redemption / switch-out of units within 1 year from allotment.



For complete details on asset allocation of the scheme, please refer to the Scheme Information Document of HSBC Mid Cap Fund.

1. Mid Cap Fund – An open ended equity scheme predominantly investing in mid cap stocks
2. In terms of SEBI circular no. SEBI/IMD/CIR No.4/ 168230/09 dated June 30, 2009, no entry load will be charged to the investor effective August 1, 2009. No exit load (if any) will be charged for units allotted under reinvestment of IDCW option.
3. The exit loads set forth above is subject to change at the discretion of the AMC and such changes shall be implemented prospectively.

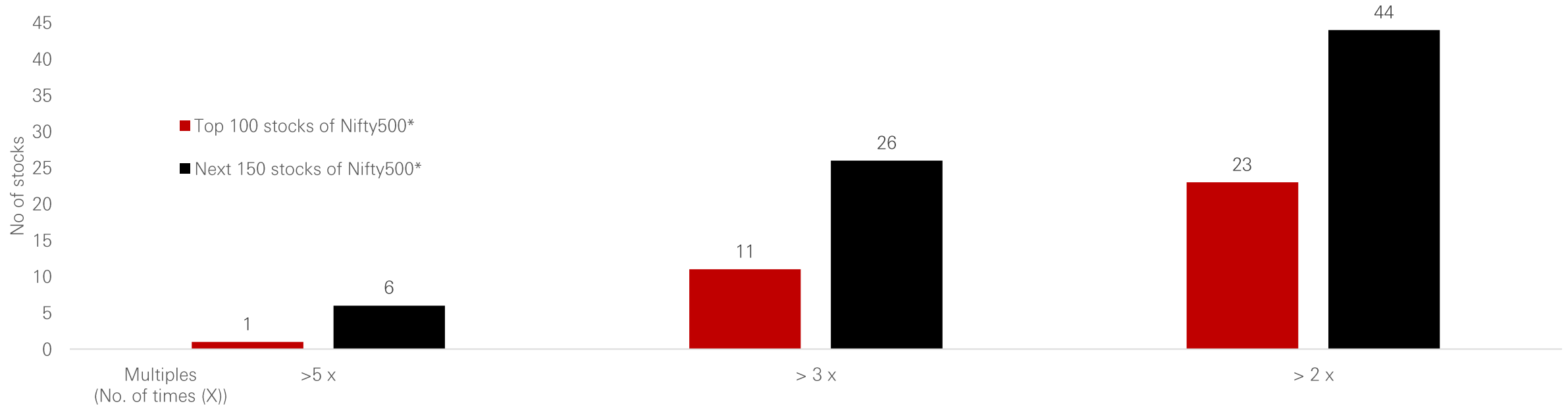
# Annexure

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# Multibagger opportunities

Performance of top100 vs Next150 stocks of Nifty500

## Performance in multiples over the 5 years period



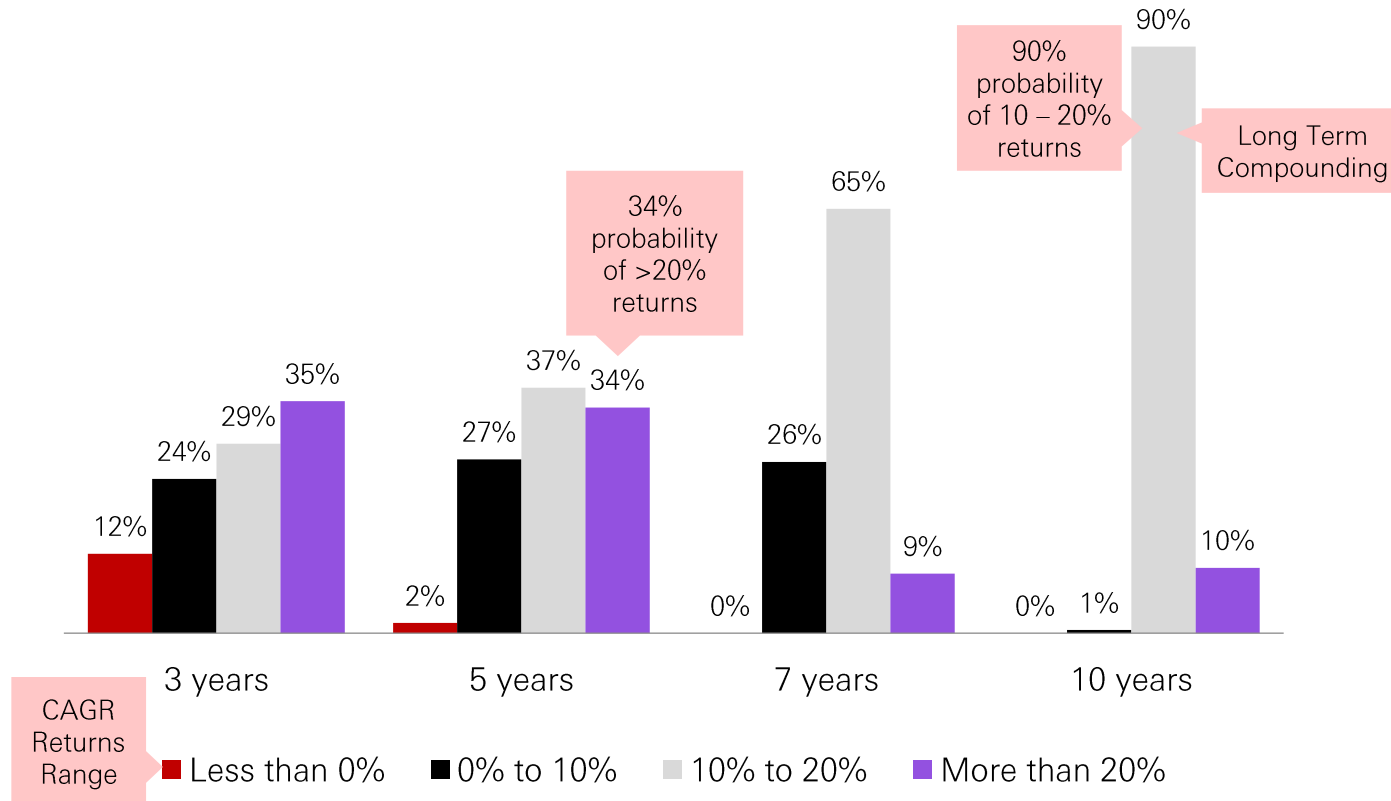
**23 out of Top100^ and 44 from Next150^ stocks of Nifty500 have given 2x returns over the past five years**

Source: Bloomberg, Data as at December 2021, \*^Nifty 500 index data, Top 100 stocks of Nifty 500, Next top 150 stocks of Nifty 500 in terms of market capitalisation. The above data is provided for illustration purpose only. Past performance may or may not sustain and doesn't guarantee the future performance.





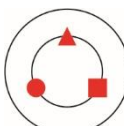
# Mid Caps – A healthy addition for long term compounding

Underlying features of Mid caps make them potential outperformers

## Returns distribution of Mid Caps



## Mid Cap features

-  **Above average performance**
-  **Earnings acceleration**
-  **Under-researched**
-  **Under- owned**
-  **Diversity and alpha**

**Offers quality investment opportunities with additional emerging themes**

Source: NSE, CRISIL, CY data as at December 2021

Mid Cap index represented by Nifty Midcap 150 TRI, Return distribution based on a daily rolling returns of various holding periods. Period considered: CY January 2005 – December 2020

The above data is provided for illustration purpose only. Past performance may or may not sustain and doesn't guarantee the future performance.

## Myth caps to Mid caps

Misconception about Mid caps cleared

### Myth 1: Midcaps are of inferior quality

- Midcap - a set of companies with mix of good and not so good companies same as large caps.
- Many of these midcaps are leaders in their segments and are very efficient.
- And by virtue of their excellence, they deliver good returns.
- Many mid caps companies have excellent track records of execution as well as of governance.
- So it's unfair to say that midcaps are of inferior quality.

### Myth 2: Crisis hits Midcaps the most

- Most of the category leaders in each category have gained during the COVID period as market consolidated.
- Many of these category leaders are mid cap companies.
- Midcap companies shouldn't be confused with mid size companies. These are large companies in their own right with market cap typically above a certain threshold.
- Many of these companies have actually gained during the COVID event.
- So the argument that crisis hit them the most is incorrect.

### Myth 3: Midcaps are over valued

- Valuation for midcaps is not always at a premium to large caps and currently just marginally higher.
- Midcap companies are expected to grow faster in the current expansionary phase.
- As the midcap companies are growing faster, the forward multiples for these companies would still be at a discount to the larger cap adjusting for higher growth.
- Midcaps tend to outperform large caps over the longer term especially in expansionary phase of the economy.

### Myth 4: Global liquidity chases large caps

- Midcaps perform very well during periods of high global liquidity.
- A low-interest-rate environment also disproportionately benefits mid cap businesses as their capital costs are higher than large caps.
- These factors, combined with the ongoing better-than-expected recovery across domestic sectors are an attractive combination for the mid-cap segment to do well over the medium term.

**Liquidity, low rates and ongoing recovery across sectors an attractive combination for Mid caps**



**Tushar Pradhan**

Chief Investment Officer

Tushar has over 25 years of experience in various roles through his career. He is an MBA in Investment Finance, having graduated from the University of Hartford, Connecticut, USA in 1992. Prior to joining HSBC Global Asset Management, India in June 2009, Tushar has also worked in international positions in the United States for a couple of years before returning to India. In India he has worked with HDFC Asset Management and more recently with AIG Global Asset Management in senior asset management roles.



**Neelotpal Sahai**

Head of Equities & Fund Manager

Neelotpal Sahai is currently Head of Equities and Fund Manager since September 2017. He has been a Senior Vice President and Portfolio Manager in the Onshore India Equity team in Mumbai since 2013, when he joined HSBC. Neelotpal is responsible for managing three HSBC Mutual Fund equity funds. Neelotpal has been working in the industry since 1991. Previously, Neelotpal was Director at IDFC Asset Management Company Ltd in Mumbai, responsible for equity fund management, and held a variety of positions at Motilal Oswal Securities Ltd. in Mumbai, Infosys Technologies in Mumbai, Vickers Ballas Securities Ltd. in Mumbai, SBC Warburg in Mumbai, UTI Securities Ltd. in Mumbai and HCL HP Ltd. in Mumbai. Neelotpal holds a Bachelor's degree in Engineering from IIT BHU – Varanasi and a Post-Graduate Diploma in Business Management from IIM Kolkata, both in India.



**Ankur Arora**

SVP and Fund Manager

Ankur Arora is a Senior Vice President and Fund Manager – Equities in the onshore India Equity Team. Ankur brings with him more than 16 years of experience spread across fund management, research and strategy. Prior to joining HSBC, Ankur has worked with Aegon Life Insurance, Arvind Ltd, IDFC Asset management, ING Investment Management, Macquarie Securities, Evalueserve and UTI Asset Management in various capacities. A management graduate from of Indian Institute of Management, Lucknow, Ankur also holds a CFA from CFA Institute and a B. Com from Guru Nanak Dev University, Amritsar.

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