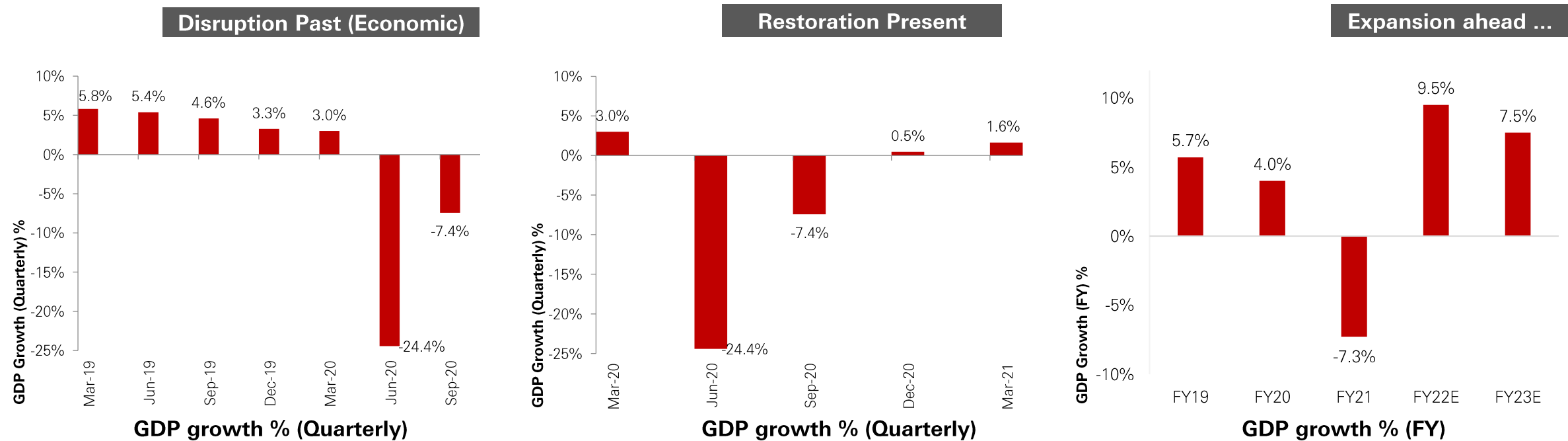


Mid caps

Benefit from Restoration, Expansion and Disruption

Disruption, Restoration, Expansion - Looking back and forward

2020-21: Economic indicator, GDP fell significantly but expected to show strong recovery



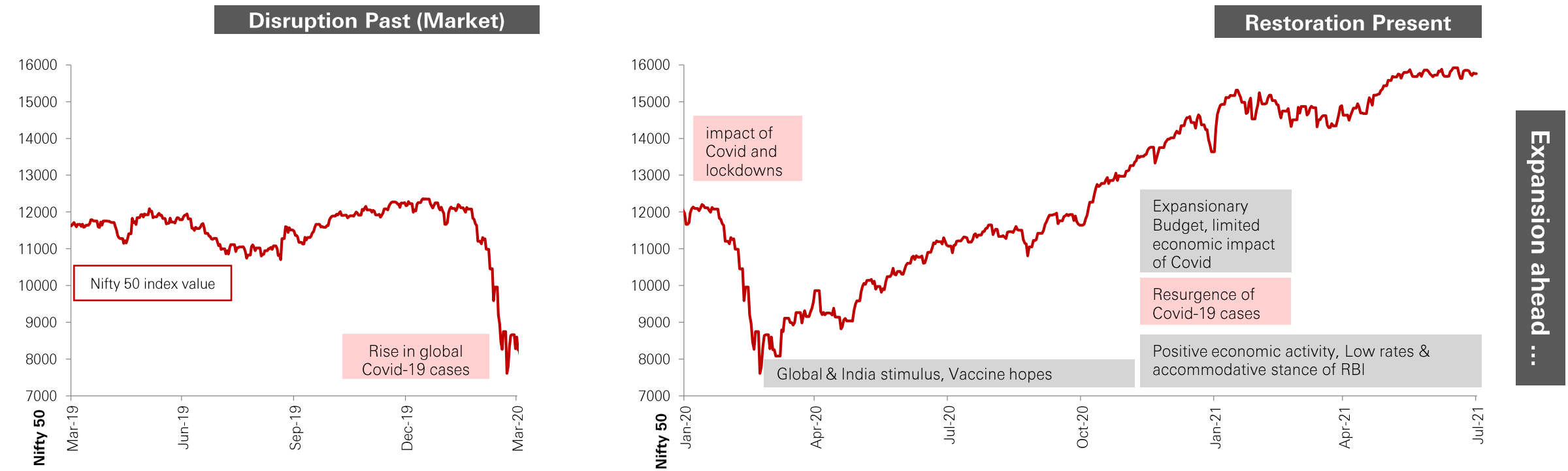
- 1. COVID – 19 led **Disruption** impacted Indian economy
- 2. **Restoration** of Indian economy visible through various economic and market indicators
- 3. Indian economy moving towards the fresh **Expansionary phase**

Expansionary policies post Disruption likely to benefit economy

Source: Bloomberg, Morgan Stanley, CRISIL, IMF, Data as of 31 July 2021, Chart 2: GDP: Source: IMF, World Bank, Data as at July '21, FY: Financial Year data
The GDP projection start after fiscal year 2022 and are shown with sign 'E' in this graph is for illustration purposes only and is not guaranteed. Past performance may or may not sustain and does not guarantee future performance.

Disruption, Restoration, Expansion

Equity market journey



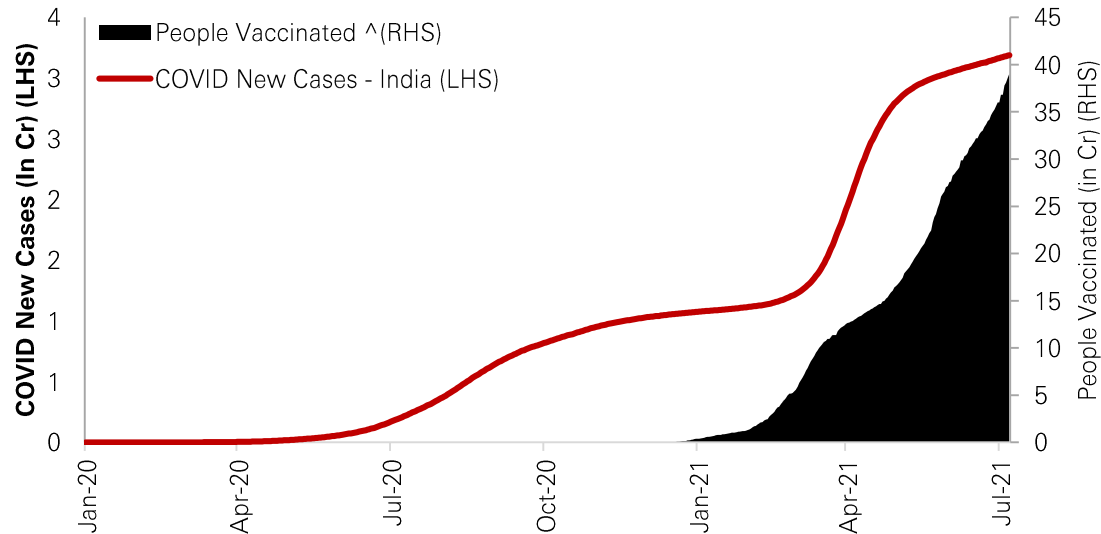
Equity market fall followed by strong recovery indicates significant economic expansion ahead

Source: Bloomberg, NSE, NSE sector classification, HSBC Asset Management, Data as of 31 July 2021, Past performance may or may not sustain, past performance does not guarantee the future performance.

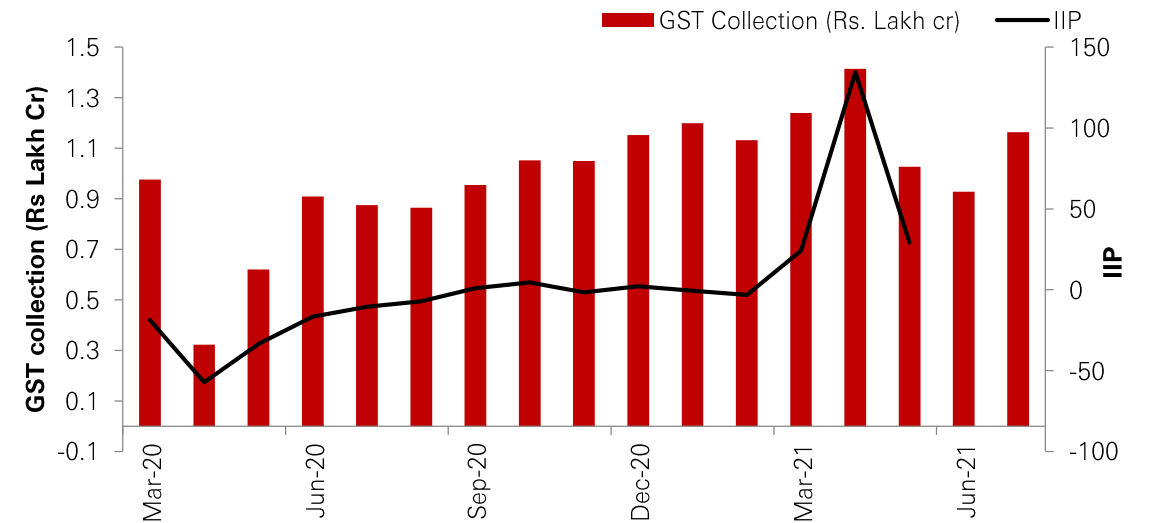
What is driving 'Restoration' over the medium term?

Vaccination progress and GOI initiatives to support restoration

Covid cases & Vaccination (Cr)



IIP and GST collections (Rs Lakh Cr)

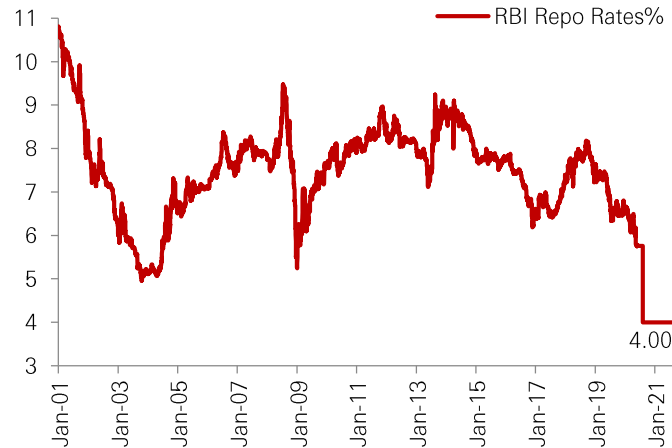


Vaccination, RBI-GOI measures have helped ongoing economic restoration

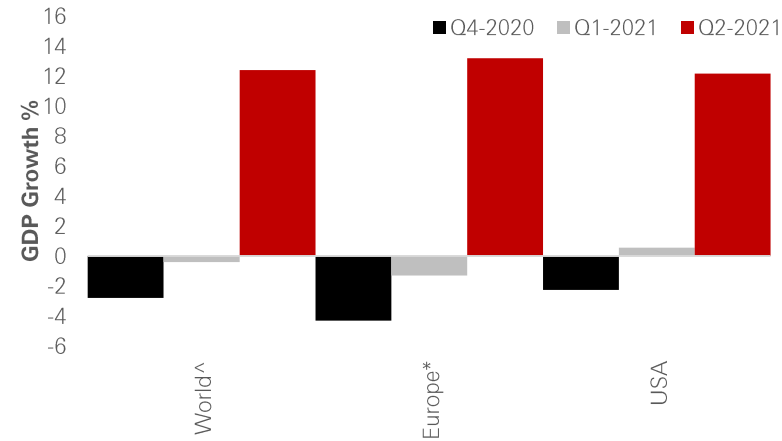
What will drive 'Expansion'?

BCG - **B**udget, **C**ost of Capital & **G**lobal growth

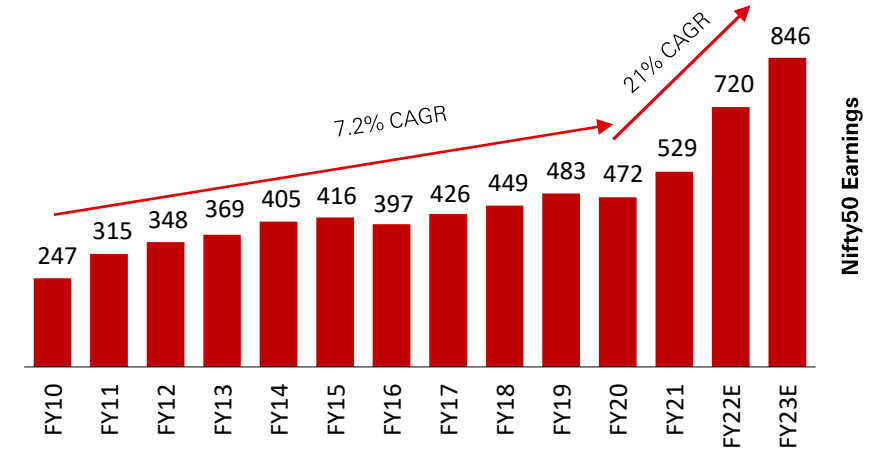
Low Cost of capital



Global growth support



Expansionary Budget | Earnings growth | FDI



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

- **Global strong growth**, significant growth ahead
- India's exports: all time high US\$95bn Apr-Jun'21
- Strong "**Cyclical catch-up growth**" in Q2/Q3

- **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**
- **India: highest ever FDI inflow** of US\$81bn^^

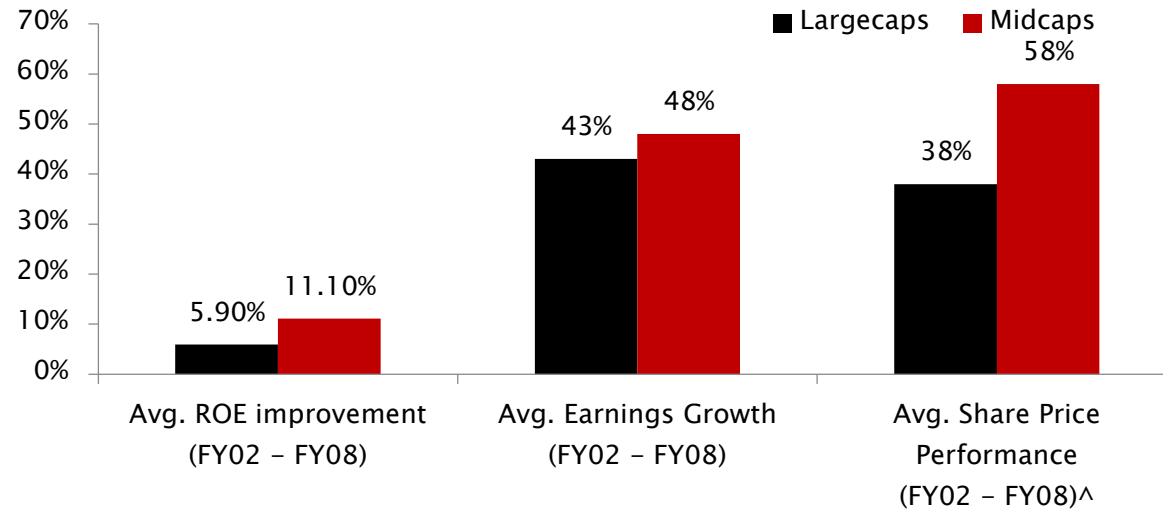
Expansionary Budget, global growth and low cost of capital to propel economy to Expansion phase

Source: Bloomberg, MOSL, OECD, Bloomberg, Data as at July 2021 except otherwise mentioned. Past performance may or may not sustain, past performance does not guarantee future performance. ^^ FY21
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

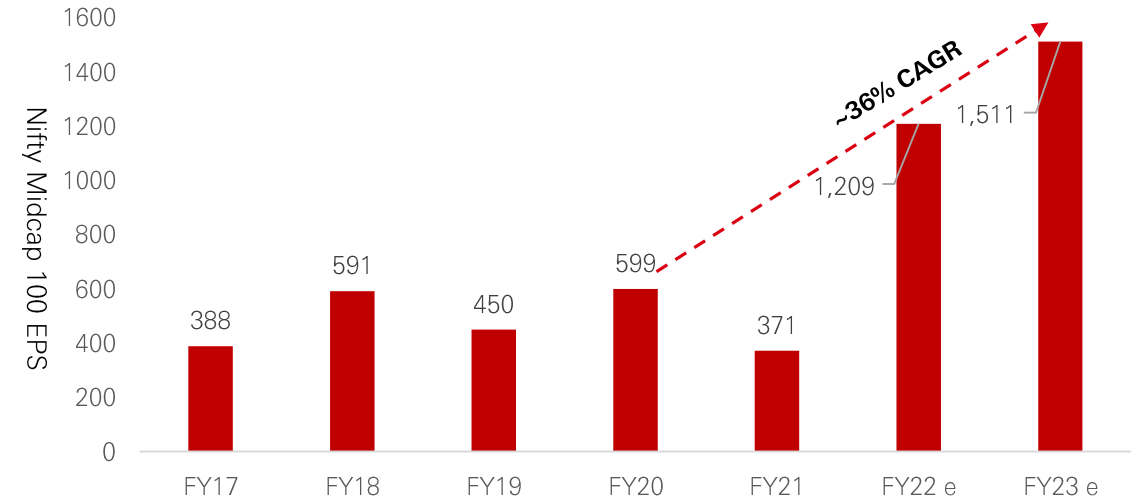
Mid cap behaviour during expansion

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

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



Earnings: Nifty Midcap 100 index



- **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
- **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 significantly higher during FY22 and FY23

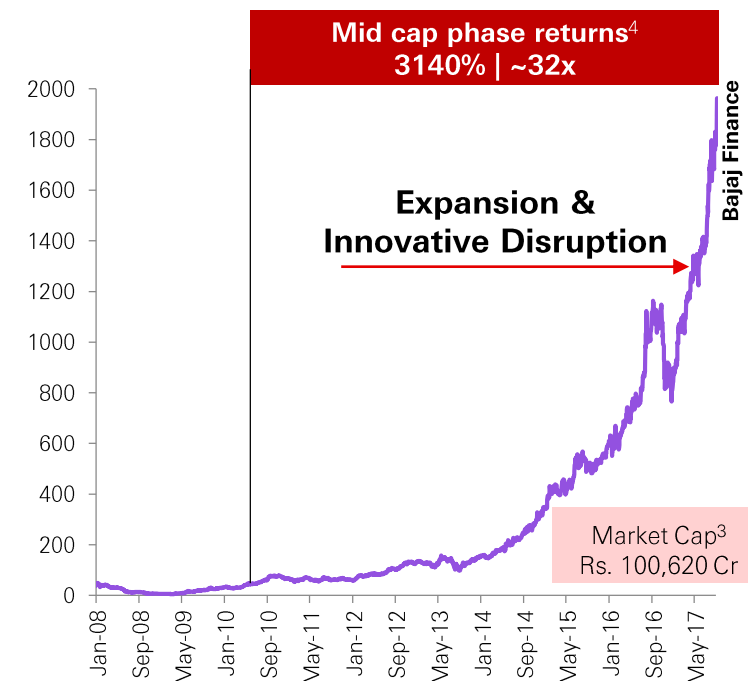
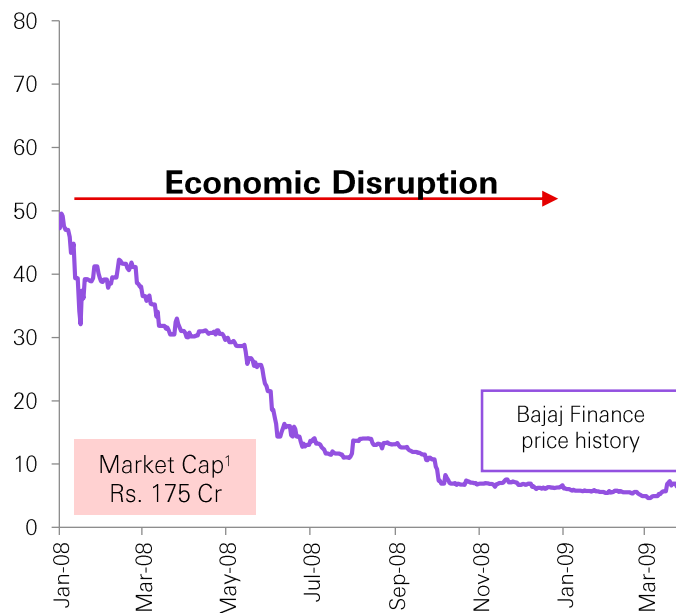
Source: AMBIT Capital Research, Data as at July 2021, **Note: Large-caps are represented by the top 100 stocks on market capitalisation basis & Mid caps are represented by the next 150 stocks based on market capitalisation. ^ Apr '02 to Mar '08, * During Dec 2002 to Dec 2007. Midcap earnings: MOSL, Nifty 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

7

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

Journey of Bajaj Finance: expansion to innovative disruption



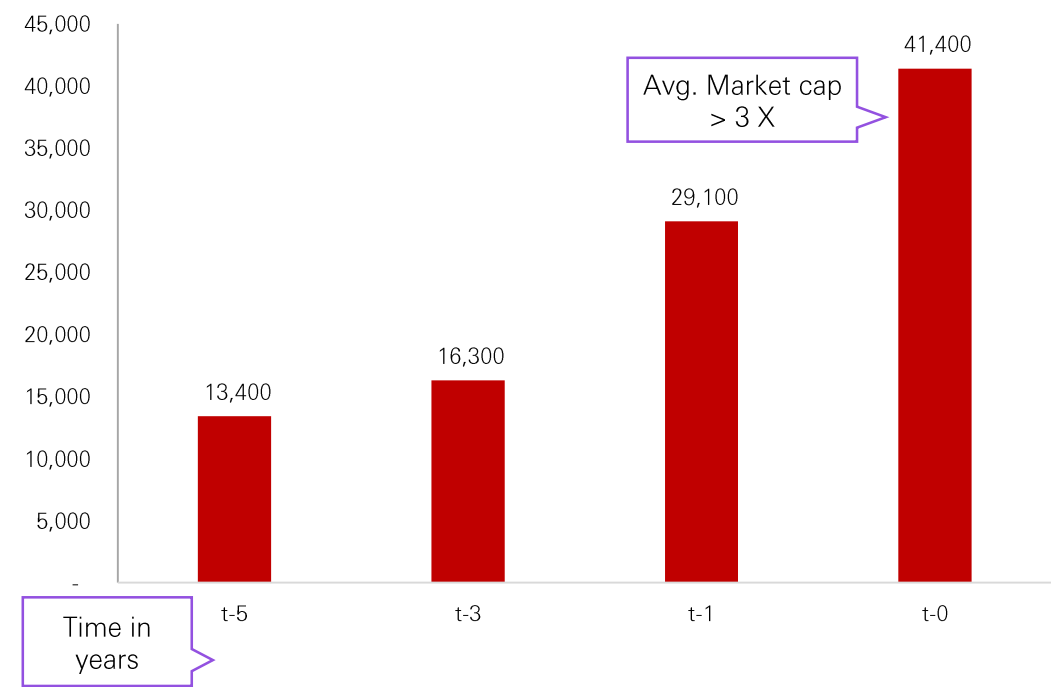
Economic Restoration, Expansionary policies with Innovative Disruption to benefit Mid cap companies

Source: Bloomberg, Data as of 31 July 2021, 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.

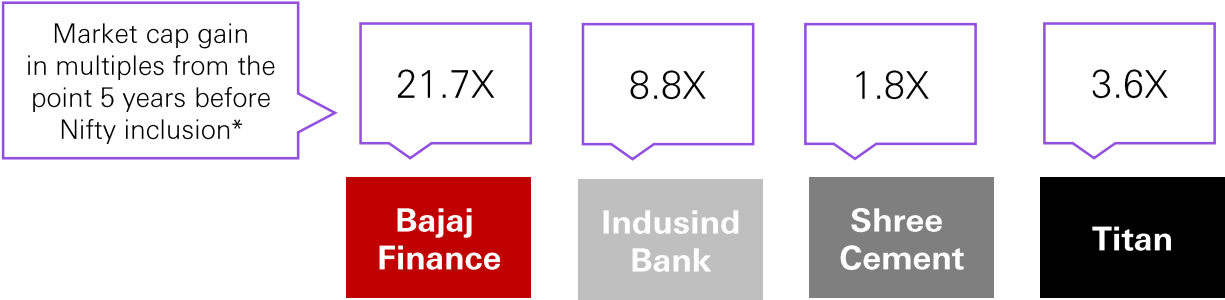
Tracking stocks progression to Nifty50

Nifty’s constituents changed over the last two decades

Journey of Nifty50 entrants (In 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!



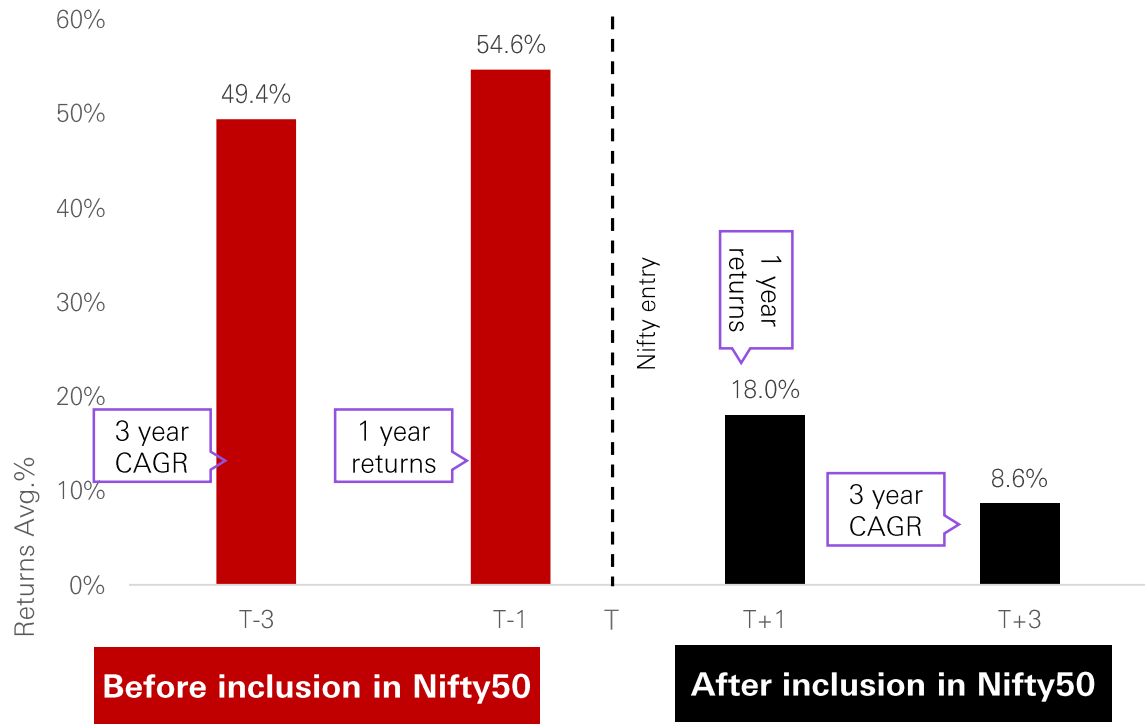
Mid caps have potential to become the large caps of tomorrow

Source: AMBIT Capital Research, Data as at July 2021, 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: Past performance may or may not sustain and doesn’t guarantee the future performance. 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.

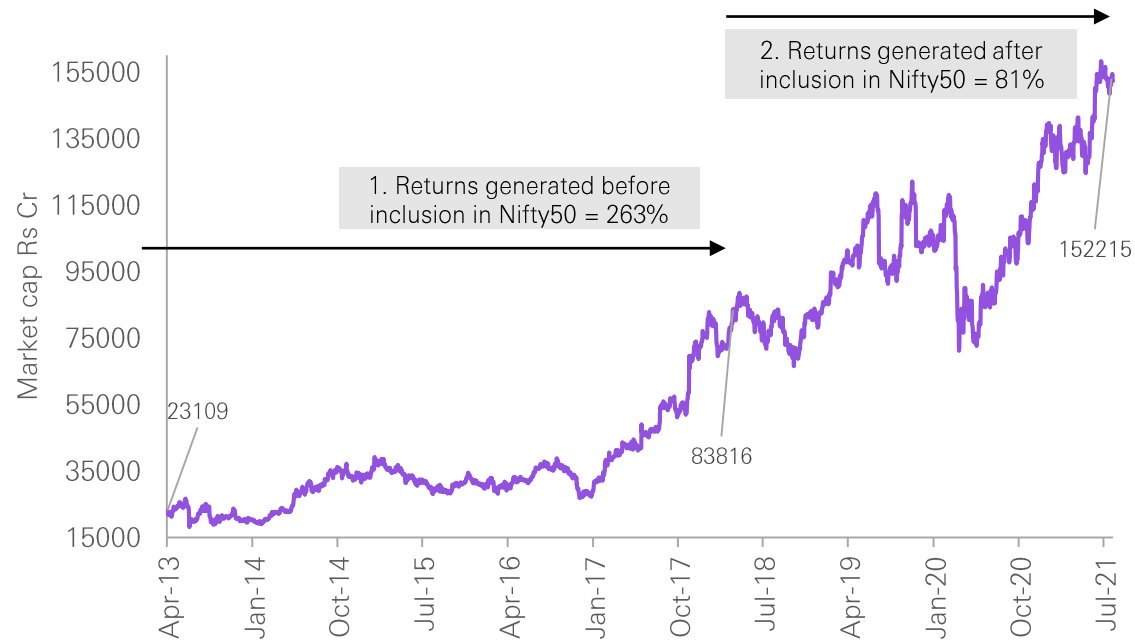
Transition phase provides real opportunity

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

Price Performance (Avg.) of Nifty Entrants



Titan: Before and After



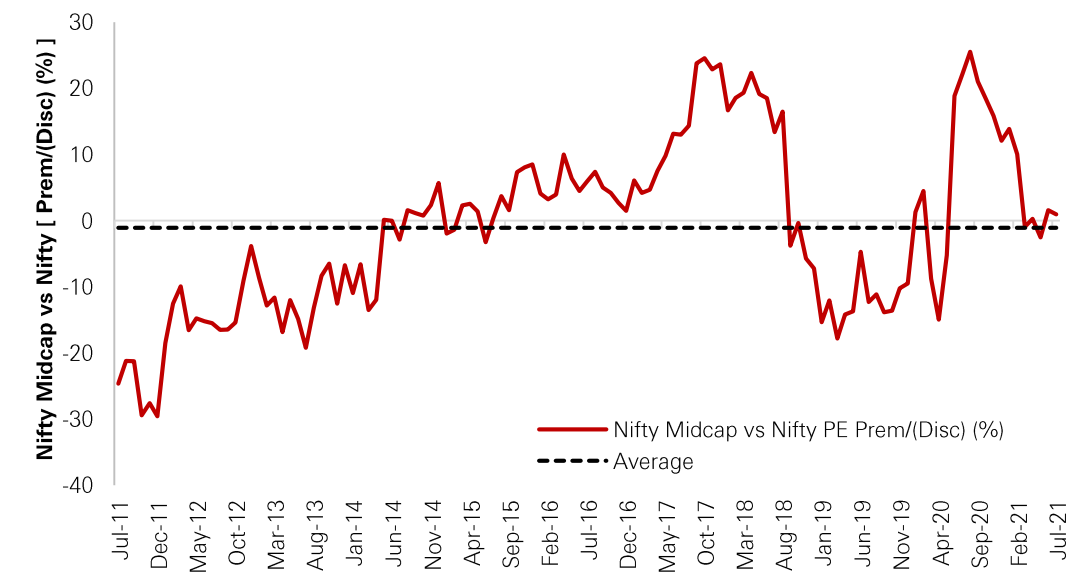
Invest in early signs: The value of investing in these stocks is before they enter the index and not after!

Source: Bloomberg, Data as at July 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 (1year prior to inclusion), T – 3 (3 year prior to inclusion), T + 1 (1year 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.

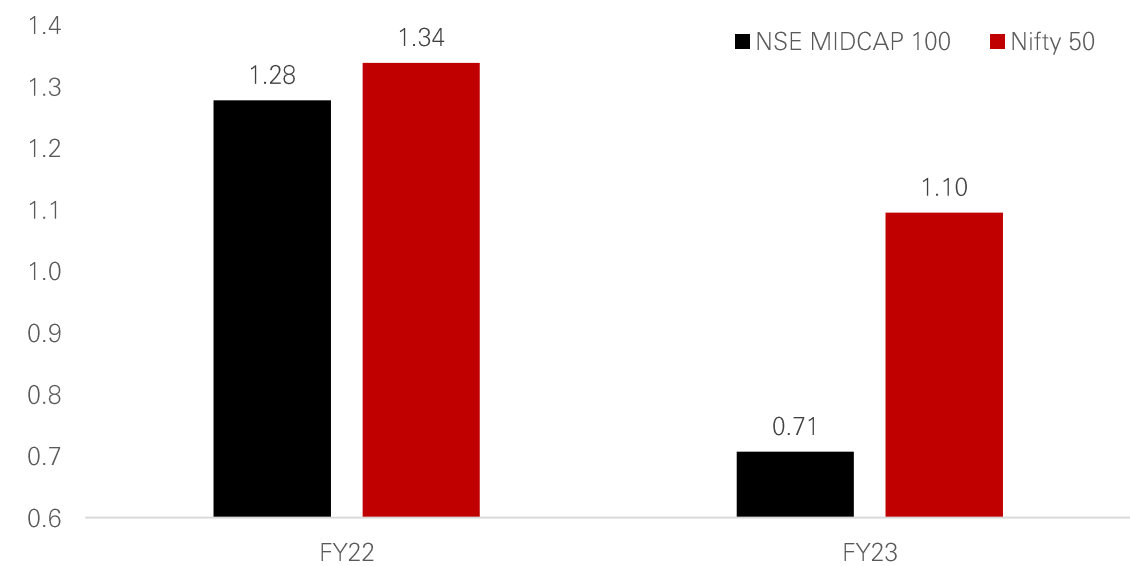
Mid cap valuations reasonable considering higher growth potential

Valuations just above long term averages but relatively reasonable

Valuation premium / discount – Large vs Mid cap



PEG¹ ratio: Mid cap vs Large cap



1. Valuations of midcaps are only marginally higher and not at a premium to large caps
2. Typically, Mid caps enter an underperformance cycle only after crossing higher valuation premium
3. We expect Mid cap companies to grow faster than large caps, so 2 year forward multiples would actually be lesser for midcap companies even today

Valuations above long term averages but relatively reasonable considering favourable environment

Source: Bloomberg, MOSL Data as at June 30, 2021, PEG ratio: Nifty 50 and Nifty Midcap 100 index data, Data as at Aug '21, Valuation chart: Nifty Midcap 150 vs Nifty 50 data, FY22-23 data are estimates, 1- PEG ratio: Price/Earnings to Growth
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An essential diversification – Nifty50 vs Nifty Midcap150

Sector wise allocation – Nifty50 vs NiftyMidcap150 index

	Sector	Allocation %	
		Nifty50	Nifty Midcap 150
1	Financial Services	37.2	21.7
2	IT	17.5	6.4
3	Oil & Gas	11.2	4.2
4	Consumer Goods	10.9	10.8
5	Automobile	4.9	7.1
6	Metals	4.1	2.9
7	Pharma	3.7	6.6
8	Construction	2.8	2.9
9	Cement & Cement products	2.7	2.7
10	Telecom	1.9	1.6
11	Power	1.7	3.3
12	Services	0.7	1.9
13	Fertilisers & Pesticides	0.7	3.0
14	Industrial Manufacturing		9.7
15	Chemicals		6.7
16	Healthcare Services		3.0
17	Consumer Services		3.1
18	Media, Entertainment & Publications		1.5
19	Textiles		1.2

Variation in
Sector
allocation

Additional
sector
opportunities

Greater
Diversification

Greater
Opportunities

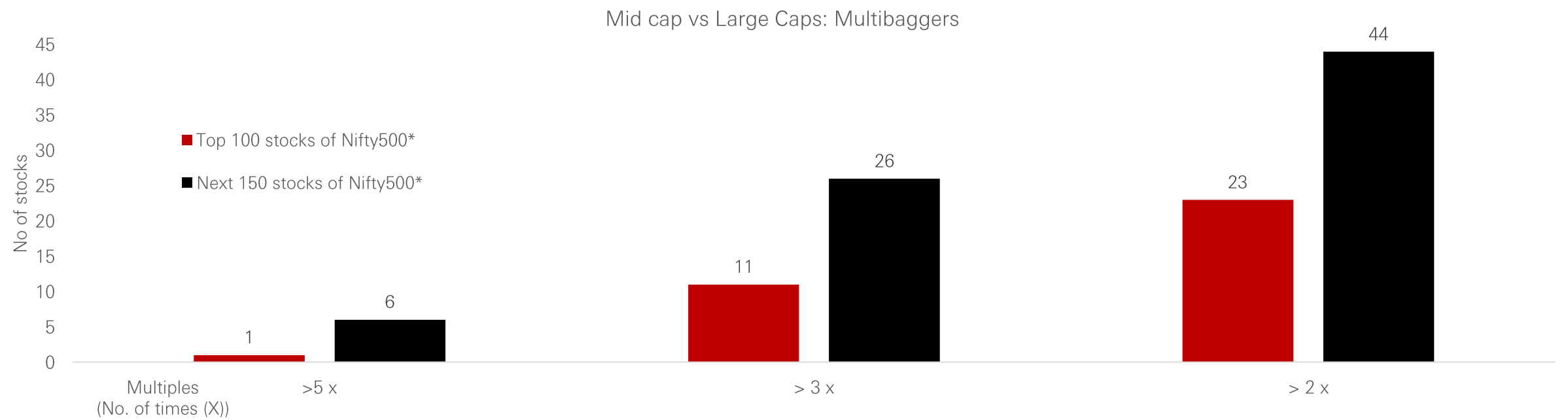
Mid caps offer more diversified universe for investment

Source: Bloomberg, NSE, Data as at July 2021, Nifty 50 and Nifty Midcap 150 index sector allocation
The above data is provided for illustration purpose only.

Multibagger opportunities

Performance of top100 vs Next150 stocks of Nifty500

Performance in multiples over the 5 years period



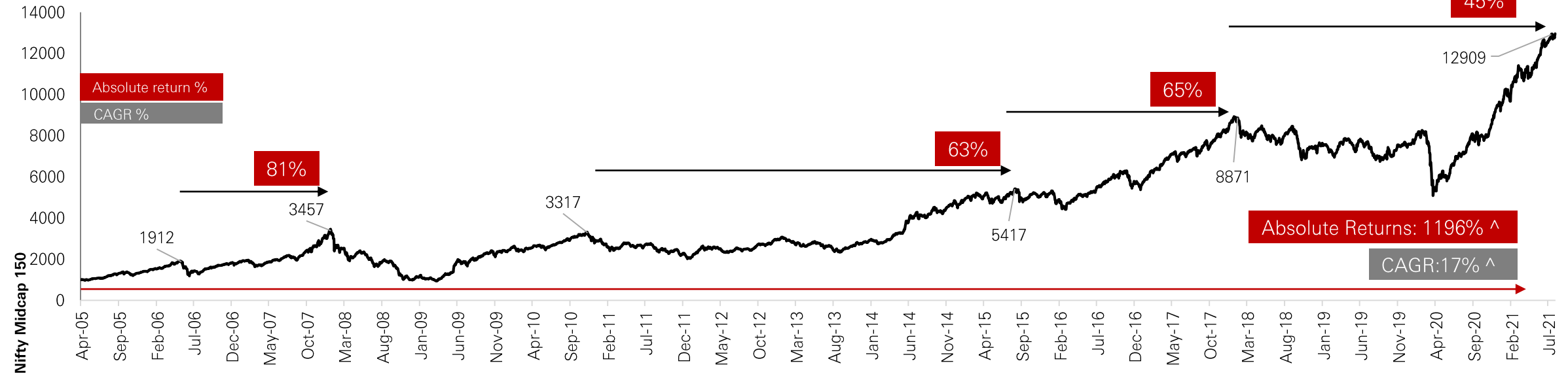
23 out of Top100^ and 44 from Next150^ stocks of Nifty500 have given 2x returns over the past five years

Source: Bloomberg, Data as at July 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.

Peak to peak journey of Mid caps

One peak to another, Mid cap index still delivered significant performance

Mid cap index performance



Nifty Midcap 150 Index (Equity) - Rolling Returns	3 years	5 years	7 years	10 years	15 years
Average rolling period returns	11%	13%	13%	12%	12%
Positive investment periods	85%	98%	100%	100%	100%

The longer you stay invested, lower is the possibility of negative returns

Source - Bloomberg, Nifty Mid cap index, Data as at 31 July '21, All red boxes have absolute returns%, Grey box has CAGR returns.

Peak to Peak absolute returns are calculated above from select major top of Nifty Mid Cap 150 index point to another top of Nifty Mid Cap Index point for relevant period.

Returns period Peak (1) 10 May 06 to 7 Jan 08, Peak (2) 10 Nov 10 to 6 Aug 15, Peak (3) 6 Aug 15 to 8 Jan 18, Peak (4) 8 Jan 18 to 30 Jul 21

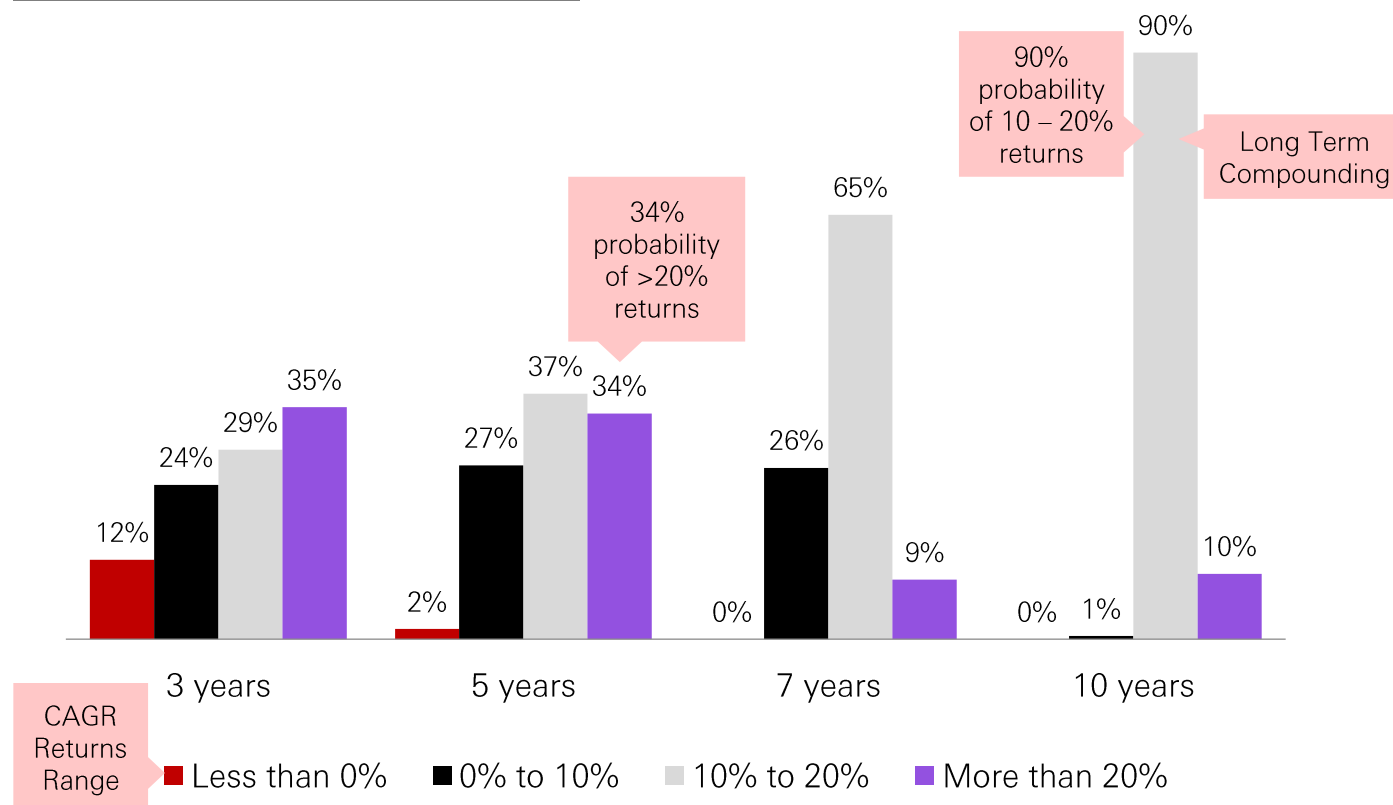
^ returns of Nifty Mid cap index from 1 Apr '05 to 31 July '21

Nifty Midcap Rolling Returns table: Source: BSE, CRISIL Research, Financial Yearwise Data as at July 2021. The above data is provided for illustration purpose only. Past performance may or may not sustain and doesn't guarantee the future performance. Monthly rolling returns for respective holding periods since inception. For instance, in case of 15-year monthly rolling returns, there will be no. of return periods. The first return period will be Apr 2005- Mar 2021 and the last return period will be Aug 2006-2021. Positive investment periods – The investment periods during which returns have been positive..

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



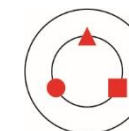
Earnings acceleration



Under-researched



Under- owned



Diversity and alpha

Offers quality investment opportunities with additional emerging themes

Source: NSE, CRISIL, CY data as at December 2020

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.

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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

Source: HSBC Asset Management, Data as at July '21

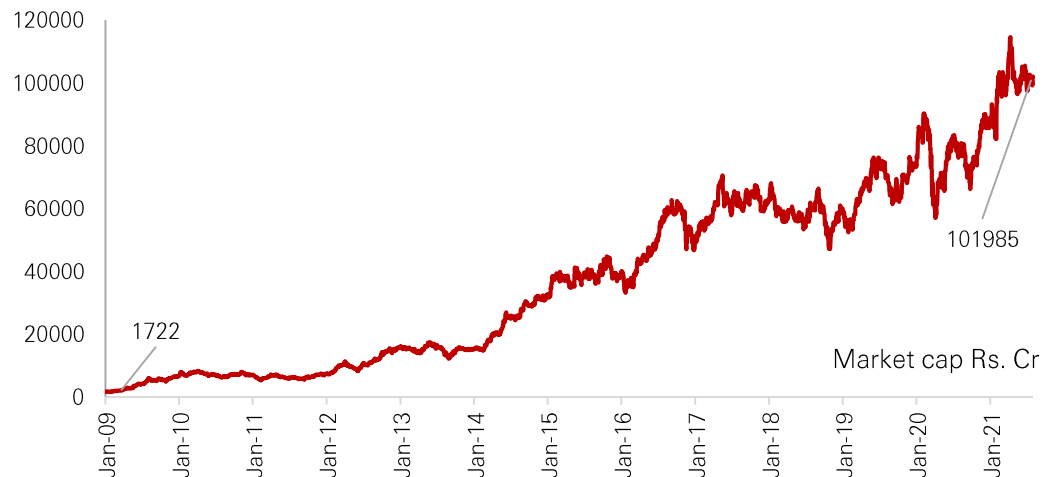
Large Cap: 1st 100 company in terms of full market capitalization. Mid Cap: 101st to 250th company in terms of full market capitalization. Small Cap: 251st company onwards in terms of full market capitalisation.

Annexure

Once upon a time, we were Mid caps

Journey of few Mid caps to Large caps

Shree Cement



Market Cap = Rs. 1,722 Cr

Market Cap = Rs. 101,985 Cr

Price[^] = 495

Price = 28,266

Price return multiples = ~ 57 X

Bajaj Finance



Market Cap = Rs. 2,082 Cr

Market Cap = Rs. 386,282 Cr

Price^{^^} = 55

Price = 6,228

Price return multiples = ~ 113 X

These companies have set the benchmark

Source: Bloomberg, Data as at July 2021, Largecaps = Top 100 companies of Nifty500, Midcaps = Next 150 companies of Nifty500, Smallcaps = Last 250 companies of Nifty500 in terms of Market capitalisation

Past performance may or may not sustain and doesn't guarantee the future performance. ^ Price 1 Jan '09 to 31 July '21 ^^ Price 31 July '10 to 31 July '21

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We are Mid Caps now

Journey of some Mid cap companies with a potential to become Large caps

Dixon Technology



Market Cap = Rs. 2840Cr

Market Cap = Rs. 25212 Cr

Price = 522

Price = 4305

Price return multiples = ~ 8 X

Vinati Organics



Market Cap = Rs. 2165 Cr

Market Cap = Rs. 20344 Cr

Price = 210

Price = 1979

Price return multiples = ~ 9 X

Some Mid cap stocks that have performed well

Source: Bloomberg, Data as at July 2021, Large Cap:1st 100 company in terms of full market capitalization. Mid Cap: 101st to 250th company in terms of full market capitalization. Small Cap: 251st company onwards in terms of full market capitalisation.

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