

HSBC India Next Portfolio

PMS Product Note

December 2024

Which themes can benefit the most in economic revival?

CONSUMPTION		GLOCAL		DIGITISATION		HIGH ALPHA
<ul style="list-style-type: none"> Secular growth sector Conventional yet progressive theme 	+	<ul style="list-style-type: none"> Play on MNCs in India Structural, long term theme 	+	<ul style="list-style-type: none"> Disruptive and New age theme 	=	Disruptive themes combined with secular & progressive ones aim to have potential to deliver alpha

Inception Date : 18 February 2021

Minimum Application Amount

For (1) Fixed fee option and (2) Fixed & Performance-linked option = INR 5 million

Investment Objective

HSBC India Next Portfolio aims to generate returns and provide long term capital appreciation by investing in equity and equity related securities across market cap of businesses benefitting from transformation in Indian economy

Benchmark: Primary - BSE 500 TRI, Secondary - BSE 200 Index.

Rationale for selection of benchmark – Primary Benchmark prescribed by APMI as mandated by SEBI to evaluate relative performance of the portfolio. It is as per market cap based methodology for equity strategy. Secondary benchmark – Since its composition is in line with the objective of the investment approach. Index is broad based and is also suited for comparing the performance of the portfolio.

Fund Manager

Sheetalkumar Shah, Total Experience: 27 years, managing this portfolio since 18 February 2021

Indicative tenure or investment horizon

Medium to Long Term (3 years+)

Description of types of securities

- Equity and equity related securities including convertible bonds and debentures and warrants carrying the right to obtain equity shares.
- Derivative instruments as may be permitted by SEBI / RBI.
- Units of liquid funds/overnight funds of HSBC Mutual Fund. Cash and cash equivalents
- Any other instruments as may be permitted by RBI / SEBI / such other Regulatory Authorities from time to time

Investors should note that pursuant to Clause 2.3 of Master Circular for Portfolio Managers dated June 7, 2024, an option to invest directly i.e. without intermediation of persons engaged in distribution services, is available to the investors.

Portfolio Manager's commentary:

After a sharp correction in October month, Indian stock markets marginally gained in November month. FIIs remained sellers for 2nd consecutive month with \$2.6bn outflows, while DIIs remained buyers with \$4.6bn inflows. Global market sentiment saw sharp volatility in the aftermath of Republicans winning all three branches of the US government, resulting in rising US bond yields and dollar as well as the US equity markets beating most emerging markets. In Q2 of FY25, India's GDP grew by a slower-than-expected 5.4%, well below consensus of 6.5% and the RBI's estimate of 7.0%. The slowdown in GDP growth was mainly due to slower growth in manufacturing segment (from the supply side) and consumption & investments (from the demand side). This growth shock may trigger some policy action in our view. The recent Maharashtra state election win could provide the much needed near term breather to the markets but eventually growth and earnings will trump over any election outcome and 3Q earnings will be keenly watched from that perspective.

During the month, we exited Nestle India Ltd from the portfolio. Nestle has been reporting tepid revenue growth for last two consecutive quarters owing to weak domestic volume growth as well as the subdued performance of the export business (which grew 3%). Domestic volume declined 1.5% and management partially attributed this sub-par performance to external factors such as muted consumer sentiment, persistent consumer inflation, and curbing purchasing power. Additionally, an elevated RM basket comes with an inability to take price hikes without further hurting demand. Considering this, we believe growth will remain under pressure and hence exited from the portfolio to replace with alternate idea Varun Beverages.

Varun Beverages Ltd (VBL) is the second largest franchisee in the world (outside US) of carbonated soft drinks and non-carbonated beverages sold under trademarks owned by PepsiCo. The company is also involved in the production and distribution of CSDs (carbonated Soft Drinks), NCBs and packaged drinking water. VBL's operations span across 6 countries – 3 in the Indian Subcontinent (India, Sri Lanka, Nepal) and 3 in Africa (Morocco, Zambia, Zimbabwe). The company has grown its revenue & profit at CAGR of 25.7% & 47.6% respectively over last five-year period with improvement in operating margins.

With a population of ~1.5bn and India predominantly being a tropical country, the nonalcoholic beverages (NAB) industry has grown at ~14.5% CAGR in volume terms and ~13.7% CAGR in value terms VBL has consistently built scale by adding capacities as well as acquiring new territories to capture growth. This is demonstrated by the rapid scale up of manufacturing facilities from 21 in CY16 to 48 as on 2QCY24. Moreover, the company now commands ~90% share of Pepsi volumes from 45% in CY17.

A testimony to its distribution heft is its 30% rural volume share, comparable with FMCG companies, despite lower penetration of the beverage category. In addition, VBL's best-in-class execution is reflected in its strong organic volume growth. VBL has multiple levers to drive its 10% organic volume growth in medium term.

International business has grown almost at the same rate in the last 5 years in volumes (21.5% CAGR) through addition of new regions and capacities. Through recent commissioning of numerous greenfield and brownfield facilities across strategic geographies, VBL plans to strategically diversify its operations geographically owing to seasonality of the core CSD business. In addition to existing portfolios, VBL has announced further snacking partnerships in the African market which complements their existing PepsiCo distribution. Pro-active capacity additions in domestic as well as international businesses along with long runway for distribution expansion, gives us good visibility on medium-to-long term growth.

Recently, VBL has strengthened its presence in Africa through acquisitions in two new geographies, Tanzania and Ghana (100% stake in both entities) at attractive valuations. Considering its strong execution prowess, we see these acquisitions as another step towards VBL's strong hold in Africa.

We have undertaken partial profit booking in Fortis healthcare considering sharp price movement post its result and added Crompton Greaves Electricals further in the portfolio

Top 10 Holdings

Name	Weight%	Theme	ROE (FY24) %	EPS CAGR (2Yrs)
INDIAN HOTELS CO LTD	6.40	Consumption	14.4	30.0
STATE BANK OF INDIA	6.29	Consumption + Digital	17.3	11.1
ZOMATO LTD	5.73	Consumption	1.8	194.5
PERSISTENT SYSTEMS LTD	5.67	Digital	24.5	25.8
INTERGLOBE AVIATION LTD	5.13	Consumption	N/A	4.9
ABB INDIA LTD	4.79	GLOCAL	22.8	40.6
INFOSYS LTD	4.78	Digital	32.1	7.2
DLF LTD	4.75	Consumption	7.1	25.8
PHOENIX MILLS LTD	4.68	Consumption	12.3	24.8
MARUTI SUZUKI INDIA LTD	4.01	GLOCAL+Consumption	18.3	23.5

Performance#	1 Month	3 Months	6 Months	1 Year	2 Years	3 Years	Since Inception
Portfolio (HINP)	3.30%	-1.53%	8.00%	23.12%	21.19%	16.33%	18.11%
BSE 500 TRI ^	0.06%	-4.44%	7.87%	27.01%	20.02%	16.85%	18.02%
BSE 200 ^^	0.02%	-4.76%	6.63%	24.91%	17.05%	14.62%	15.46%

Source – Bloomberg, Data as on 29 November 2024. Returns upto 1 year are absolute & over 1 year are Compounded Annualized. Returns are adjusted for inflows/outflows. The above information is for general information 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 portfolio may or may not have any future position in these stocks. ^ Regulatory benchmark ^^ Secondary benchmark, #Refer page no. 2 for detailed disclaimer. To view the portfolio's performance relative to other Portfolio Managers, you may visit apmiindia.org.

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Basis of selection of types of securities

The investment approach is to create long term wealth for investors by participating in companies from sectors that are likely to be beneficiaries of transformation in the Indian economy including themes such as, digitization, consumption, GLOCAL i.e. Global companies working in local markets, etc. The portfolio manager intends to do the same by buying equities of these businesses and hence, equity and equity related securities are chosen for investment. The portfolio manager may, from time to time, invest un-deployed funds in units of liquid funds/ overnight funds of HSBC Mutual Fund including cash and cash equivalents for cash management purposes

* For cash management and pending deployment in the portfolio

Why invest in HSBC India Next Portfolio (HINP)?

Fueled by focused themes

The portfolio aims to gain by focusing on the select themes such as Consumption, GLOCAL and Digitisation in a more concentrated manner that can propel growth.

Growth with new age portfolio

HINP's allocation to Discretionary spending can offer above average growth over a long term. Allocation to Digitisation adds new age investment ideas.

Earning visibility

Expected earnings acceleration can offer high alpha generation opportunities effectively.

High conviction and concentration

High conviction and concentrated portfolio of HINP can provide high alpha generation opportunities with our portfolio construction process and TVSQ strategy. (TVSQ – Dominant Themes, Reasonable Valuations, Scalability & Sustainability and Management Business Quality)

Risk associated with investment approach

Deployment of monies under the investment strategy will be oriented towards equity and equity related securities of companies belonging to themes/sectors that are likely to be beneficiaries of transformation in the Indian economy including themes such as digitization, consumption, GLOCAL i.e. Global companies working in local markets, etc. and hence will be affected by risks associated with these industries as well as any factors that affect the broader macro-economic environment such as interest rate changes, liquidity, cross border fund flows, statutory/regulatory changes etc.

Since the portfolio is expected to be concentrated with exposure to select themes/sectors, it may perform differently from the broader stock markets/ benchmark but may still be impacted by broad market movements. It is likely that the portfolio may also experience period of volatile performance and liquidity challenges in view of the limited number of stocks invested in by the fund manager.

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Sector Allocation

Sector Name	% of Net Assets
Consumer Discretionary	27.08
Information Technology	13.63
Financials	11.13
Industrials	9.92
Real Estate	9.43
Health Care	7.87
Communication Services	3.87
Energy	3.77
Utilities	3.25
Consumer Staples	2.89
Portfolio Fundamentals & Attributes	

Dividend yield FY24	0.5%
P/E FY24 estimates	62.9x
P/E FY25 estimates	53.6x
P/E FY26 estimates	36.3x

Market Capitalisation

Large Cap:	54.13%
Mid Cap:	20.10%
Small Cap:	18.61%
Avg. Weighted Market Capitalisation Rs. 3,05,074	
Cr Median Market Capitalisation Rs. 1,57,263 Cr	
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.	
2 years EPS CAGR: FY24 to FY26 – 26, Data as on 30 November 2024	

Investment Strategy

The portfolio strategy endeavors to capitalize on long term wealth creation opportunity by investing in select high growth potential businesses from sectors that are likely to be beneficiaries of transformation in the Indian economy including themes such as Digitisation, Consumption, GLOCAL i.e. Global companies working in local markets, etc. The portfolio would be market cap agnostic and would focus on select themes with potential to deliver alpha over medium to long term.*

However, it is expressly clarified that clients are not being offered any guaranteed / assured returns and that the Portfolio Manager only endeavors to meet the investment objective

HSBC India Next Portfolio offers high conviction, concentrated investment portfolio focused on sectors that are likely to be beneficiaries of transformation in the Indian economy

* The Portfolio Manager may also participate in the Securities Lending Scheme.

Portfolio Disclaimer: The portfolio attributes of the investment approach mentioned above are based on all clients' portfolios existing as on the date stated above, excluding any temporary cash investments, and does not represent the model portfolio being offered to the clients, including prospective clients, and hence it is possible that these stocks may not be part of the portfolios constructed for new clients. **The above information is for illustrative purpose only and it should not be considered as investment recommendation or advice or opinion from the Portfolio Manager on the above mentioned stocks/ sectors.** In no event shall the Portfolio Manager, its directors or employees or its affiliates have any liability for any financial impact to the recipient on account of use of the above information.

*** Past performance may or may not be sustained in future.** Time weighted - Daily valuation method is used for rate of return calculation. Returns up to 1 year are absolute & over 1 year are Compounded Annualized. The performance disclosed above is based on all clients' portfolios under the investment approach, existing as on the performance calculation date, using Time Weighted Rate of Return (TWRR) of each client. All cash holdings and investments in liquid funds are also considered for calculation of performance and the performance data is net of all fees and all expenses (including taxes). Since inception date stated above is the date on which the first client investment was made under the investment approach. Please note that the actual performance for a client portfolio may vary due to factors such as expenses charged, timing of additional flows and redemption, individual client investment restrictions, if any, etc. These factors may have an impact on client's portfolio performance and hence may vary significantly from the performance disclosed above. Neither the Portfolio Manager, nor its directors or employees shall in any way liable for any variation noticed in the returns of individual client portfolios. The performance related information provided herein is not verified by SEBI.