



# HSBC India Next Portfolio

PMS Product Note

February 2024

## Which themes can benefit the most in economic revival?

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

Growth themes may have potential to deliver sustainable growth

## HSBC India Next Portfolio (HINP)

Focus on Consumption | GLOCAL | Digitisation

**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 - S&P 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 March 20, 2023, an option to invest directly i.e. without intermediation of persons engaged in distribution services, is available to the investors.

### Portfolio Manager's commentary:

The first month of calendar 2024 was eventful one with red sea crisis, escalating geopolitical issues, grand opening of temple at Ayodhya, IMF's growth outlook, stock market at all time high levels etc. The month was characterized by elevated volatility in Indian stock markets. FIIs posted outflow of \$3.1 billion after the consecutive months of huge inflows. However strong domestic flows continued during the month.

The recent interim budget exemplifies the governments unwavering focus on sustainable economic development. The most redeeming part is the government has surprised positively on fiscal rectitude despite the general election backdrop. The government has stepped up its Capex target to INR 11.11 trillion to develop public infrastructure in FY25. The government's fundamental goal of policymaking to achieve inclusive growth and development remains intact. It has given big boost to many sectors such as housing, green energy, tourism, technology and infrastructure etc.

Overall, India's economy is in pretty good shape in the context of global environment. India is expected to deliver the highest growth among the larger countries. The risk variables like fiscal, current account deficit and currency are well under control. The India manufacturing PMI for January came in at four months high of 56.5 signifying strong expansion from the previous month. Services activity also rose with services PMI of 61.8 highest in last six-month period. A budget that avoids populist spending, reins in the deficit and boosts investment will further the buildout of infrastructure and India's integration into global supply chains. The recent US Fed meeting left the rates unchanged for the fourth straight meeting. Timing of rate cut during calendar year is getting delayed due to FED's attentive approach to inflation risks.

The 3QFY24 Corporate earnings scorecard has been in line with street estimates so far, growth has primarily been led by BFSI, metals, oil and gas, and auto sectors. We have been closely monitoring the quarterly results & management commentary of our portfolio companies. Key events to watch for will be RBI monetary policy and corporate earnings in near term.

We remain vigilant & selective in such euphoric markets while choosing stocks. Valuations are not cheap but falling interest rates will help support valuations. In current exuberant markets, we need to focus on valuation of companies to judge the stability & quality of earnings growth potential. Our portfolio, though thematic is constructed to be resilient across a range of plausible economic conditions, with an aim of generating positive long-term returns.

### Top 10 Holdings

Name	Weight%	Theme	ROE (FY23) %	EPS CAGR (2Yrs)
PERSISTENT SYSTEMS LTD	5.70	Digital	25.1	23.7
STATE BANK OF INDIA	5.64	Consumption + Digital	16.7	5.3
J.B. CHEMICALS & PHARMA LTD	5.42	Consumption	17.8	30.6
DLF LTD	5.32	Consumption	5.5	30.1
TITAN CO LTD	5.10	Consumption	30.7	21.1
INFOSYS LTD	4.95	Digital	32.0	7.5
RELIANCE INDUSTRIES LTD	4.83	Digital + Consumption	8.9	11.1
PHOENIX MILLS LTD	4.79	Consumption	17.8	(0.5)
INDIAN HOTELS CO LTD	4.59	Consumption	13.3	27.9
INTELLECT DESIGN ARENA LTD	4.57	Digital	13.8	31.5

Performance#	1 Month	3 Months	6 Months	1 Year	2 Years	Since Inception
Portfolio (HINP)	2.04%	12.95%	13.63%	34.56%	16.00%	18.24%
BSE 500 TRI ^	1.92%	17.88%	16.20%	33.42%	16.47%	17.82%
BSE 200 ^^	1.34%	16.91%	14.16%	28.96%	14.03%	15.06%

Source – Bloomberg. 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, Data as on 31 January 2024. #Refer page no. 2 for detailed disclaimer. To view the portfolio's performance relative to other Portfolio Managers, you may click here ([apmi.in](https://apmi.in)).

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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

**Allocation of portfolio across types of securities**

Instruments	Indicative Allocation (% of assets)	
	Minimum	Maximum
Equity and equity related securities	95%	100%
Units of liquid funds/overnight funds of HSBC Mutual Fund including cash and cash equivalents*	0%	5%

**\* 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		Market Capitalisation	
Sector Name	% of Net Assets		
Financials	22.09	Large Cap:	50.47%
Information Technology	15.22	Mid Cap:	33.44%
Consumer Discretionary	13.99		
Industrials	12.30	Small Cap:	10.00%
Real Estate	10.10		
Health Care	7.52	Avg. Weighted Market Capitalisation	Rs.2,97,480 Cr
Energy	4.83	Median Market Capitalisation	Rs.1,06,643 Cr
Communication Services	4.38		
Consumer Staples	3.47	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.	

Portfolio Fundamentals & Attributes			
Dividend yield FY23	0.6%	2 year EPS CAGR	24.8%
P/E FY24 estimates	41.7x	RoE FY23	25.8%
P/E FY25 estimates	34.2x	Beta:	0.90
2 years EPS CAGR: FY23 – 25, Data as on 31 January 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.