

# HSBC India Next Portfolio

PMS Product Note

October 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 - 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:

Though Indian Equity markets reached all time high levels in September month, there has been significant rotation into defensive sectors and mid & small caps underperforming large caps. FII flows of \$5.9 bn were highest since December 2023 whereas DIIs remained net buyers to the tune of \$3.8bn.

The US Fed kicked off its easing cycle with somewhat surprising 50bp rate cut, reflecting its greater comfort with recent inflation data and a desire to deliver a soft landing for the economy. Going ahead there is expectation of potentially two more cuts coming this year and 100bps in 2025. China announced host of policy measures last week, addressing the liquidity situation in the country with an aim to stimulate its economy. These measures included cut in RRR and Loan prime rates, stabilization fund for equity markets and it would be easier to acquire land of real estate companies through bank loans etc. China equity markets cheered these policy measures with benchmark index CSI 300 index gaining 26%. There is possibility of foreign funds further investing in China within EM basket considering this stimulus and reasonable valuations. Geopolitical concerns remain dominant, with both Ukraine – Russia and Israel-Hamas, Israel-Iran conflict continuing incessantly.

India's macroeconomic position continues to be quite strong with strong growth outlook and moderate, but improving fiscal situation. India's MPC committee has been in pause mode for the past 9 monetary policy meets. With core inflation well below 4.0% for the past few months and US Fed rate cut, RBI is likely to cut rates by 50 bps in FY25 (mostly back ended). In 2024, India's Southwest monsoons ended 'above normal', with a surplus of 8% versus a deficit of 5.6% in 2023. Despite the above-normal rainfall, the distribution was skewed, with only ~53% of the subdivisions receiving normal monsoons compared with ~73% last year.

Corporate earnings season 2QFY25 will start and we will keenly watch the results and the management commentary and rebalance the portfolio if required. We exited Bajaj Finance from the portfolio during the month. With sharp run up of @ 16% mainly due to Bajaj Housing Finance IPO, we feel that positives are priced in the stock. Bajaj Finance's pivot from a 'mass affluent' base to a 'mass' market base via new products viz. microfinance, vehicle finance, agri loans and a ramp up in gold loans as more of a bid to shore up growth over the medium term than as a disruptive foray. The newer product foray does little to alleviate the high churn, high on disbursements and an operationally intense business model. In addition, we remain wary of regulatory headwinds in the form of 'bank like regulations' being imposed on upper layer NBFCs. Considering the impact of regulatory oversight by RBI, increase in credit costs and precedence of balance sheet strengthening over profitability and growth, the company may face near term challenges.

### Top 10 Holdings

Name	Weight%	Theme	ROE (FY24) %	EPS CAGR (2Yrs)
STATE BANK OF INDIA	5.66	Consumption + Digital	17.3	10.5
INTERGLOBE AVIATION LTD	5.37	Consumption	N/A	3.5
ZOMATO LTD	5.36	Consumption	1.8	215.9
INDIAN HOTELS CO LTD	5.29	Consumption	14.4	26.5
PERSISTENT SYSTEMS LTD	5.01	Digital	24.5	25.3
PHOENIX MILLS LTD	4.99	Consumption	12.3	22.7
ABB INDIA LTD	4.97	GLOCAL	22.8	30.7
DLF LTD	4.94	Consumption	7.1	27.1
INFOSYS LTD	4.63	Digital	32.1	7.4
MARUTI SUZUKI INDIA LTD	4.59	GLOCAL+Consumption	18.3	25.7

Performance#	1 Month	3 Months	6 Months	1 Year	2 Years	3 Years	Since Inception
Portfolio (HINP)	3.04 %	7.04 %	10.79 %	33.88 %	26.56 %	17.02 %	20.53 %
BSE 500 TRI ^	2.09 %	7.65 %	20.20 %	41.11 %	28.73 %	18.40 %	21.12 %
BSE 200 ^^	2.12 %	7.39 %	18.09 %	38.48 %	25.89 %	16.12 %	18.49 %

Source – Bloomberg, Data as on 30 September 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 click here (APMI ([apmiindia.org](http://apmiindia.org))).

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)

Sector Allocation

Sector Name	% of Net Assets	Market Capitalisation	
Consumer Discretionary	25.47	Large Cap:	55.26%
Information Technology	13.71		
Industrials	10.34	Mid Cap:	18.95%
Financials	10.14		
Real Estate	9.93	Small Cap:	18.59%
Health Care	8.34		
Energy	4.12	Avg. Weighted Market Capitalisation Rs. 3,19,057 Cr	
Communication Services	4.00	Median Market Capitalisation Rs. 1,70,692 Cr	
Utilities	3.63		
Consumer Staples	3.12	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 FY24	0.5%	2 year EPS CAGR	18.9%
P/E FY24 estimates	61.0x	RoE FY24	19.0%
P/E FY25 estimates	50.2x	Beta:	0.90
P/E FY26 estimates	37.1x		
2 years EPS CAGR: FY24 – 26, Data as on 30 September 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.

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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