

# HSBC India Next Portfolio

## PMS Product Note

February 2023

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

CONSUMPTION		GLOCAL		DIGITISATION		HIGH ALPHA
<ul style="list-style-type: none"> <li>Secular, high 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 have great potential to deliver high alpha

High growth potential themes have potential to deliver superior & 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 – S&P BSE 200

#### Rationale for selection of benchmark

The portfolio is being benchmarked against the BSE200 index since its composition is in line with the objective of the investment approach. The index is broad based and is most suited for comparing the performance of the portfolio

### Fund Manager

Sheetalkumar Shah, Total Experience: 24 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 SEBI circular no. SEBI/HO/IMD/DF1/CIR/P/2020/26 dated February 13, 2020, an option to invest directly i.e. without intermediation of persons engaged in distribution services, is available to the investors.

### Portfolio Manager's commentary:

Calendar year 2023 has seen a turbulent start in Indian stock markets mainly due to an American research firm's scathing report on prominent Indian corporate group.

The recently announced union budget has ensured that fiscal impulse is maximized to improve potential growth, while signaling adherence to medium-term fiscal sustainability. The focus on better resource allocation and sectoral reforms has continued, even as policymakers face a stiff global macro climate, which has had adverse impact on the twin deficit in FY23. Push for a transparent tax regime is likely to continue ahead. Adjustments in personal income tax and support for the rural economy would be positive for the consumption related stocks. The big capex push (37% up) bodes well for many of our GLOCAL set of companies. The government continued to prioritize on digitization and e-governance by focusing on digital public infrastructure, digilocker, data governance framework and digital skill development. Overall, it was a relief to see the government resisting populism pressures since this was the last full budget before 2024 general elections.

Given the continuity of policy focus and pronouncements, we believe markets will discount the Union Budget 2023 and shift their focus to: a) overall growth-inflation paradigm in a challenging global backdrop and b) corporate earnings growth trajectory, which has remained resilient so far in 1HFY23. The forthcoming RBI policy meet will be an important policy event to gauge any pause in the near-term monetary tightening measures.

The US Fed delivered a widely expected 25bp rate hike and they maintain rate policy forward guidance of "ongoing increases," signaling another 25bp rate hike in March.

The 3QFY23 corporate earnings season is underway and the initial trend is quite mixed in terms of revenue & profitability matrix. We have been closely monitoring these results including our portfolio stocks.

We exited Teamlease Services from our portfolio during the month. Last two quarters, the company has been experiencing lower revenue & profitability mainly due to weakness in IT staffing business and the degree apprenticeship business. Our positive thesis on this name was mainly due to the attractiveness of the sector in terms of formalization of labor market and Teamlease with its strong credentials & balance sheet, was expected to be key beneficiary. However in view of the muted result and cut in both revenue & earnings growth for FY23 & FY24, we have removed from the model portfolio so as to enable us to invest in alternate investment idea.

### Top 10 Holdings

Name	Weight	Theme	ROE (FY22e)	EPS CAGR (2Yrs)
STATE BANK OF INDIA	6.70	Consumption + Digital	11.9	39.2
INFOSYS LTD	6.24	Digital	29.1	15.1
J.B. CHEMICALS & PHARMA LTD	5.62	Consumption	19.5	23.0
RELIANCE INDUSTRIES LTD	5.47	Digital + Consumption	8.2	20.0
PERSISTENT SYSTEMS LTD	5.43	Digital	22.4	37.6
TITAN CO LTD	5.33	Consumption	25.9	27.8
CRISIL LTD	5.28	GLOCAL	32.2	14.8
MARUTI SUZUKI INDIA LTD	5.16	GLOCAL + Consumption	7.1	17.8
HDFC BANK LIMITED	5.15	Consumption + Digital	16.7	17.3
TIMKEN INDIA LTD	5.07	GLOCAL	21.8	21.6

Performance*	1 Month	3 Months	6 Months	1 Year	Since Inception
Portfolio (HINP)	-1.61%	-3.32%	-0.34%	-0.03%	10.65%
S&P BSE 200	-3.53%	-3.52%	1.46%	0.82%	8.52%

Source – Bloomberg, Returns over 1 year are 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.

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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%

## 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
Financials	25.51
Consumer Discretionary	13.48
Information Technology	11.67
Industrials	9.48
Materials	8.56
Health Care	5.62
Energy	5.47
Real Estate	4.54
Communication Services	4.27
Consumer Staples	4.22

## Portfolio Fundamentals & Attributes

Dividend yield FY22	0.8%	2 year EPS CAGR	28.7%
P/E FY22	45.4x	RoE FY22	32.0%
P/E FY23 estimates	34.5x	Beta:	0.9

2 years EPS CAGR: FY22 – 24, Data as on 31 January 2023

## 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.<sup>^</sup>

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

Data as on 31 January 2023 <sup>^</sup> 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 are 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.