HSBC Asset Management

HSBC India Next Portfolio

PMS Product Note

September 2022

Which themes can benefit the most in economic revival?

CONSUMPTION		GLOCAL		DIGITISATION		HIGH ALPHA
• Secular, high growth sector • Conventional yet progressive theme	+	• Play on MNCs in India • Structural, long term theme	+	• Disruptive and New age theme	=	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:

Indian markets continued with its upward journey with extended gains even in August aided by factors such as FII inflows, above normal monsoon, 1QFY23 corporate results and tax buoyancy. This is despite negative news flow in the global economy. The Fed commentary post Jackson Hole Economic Symposium was hawkish, signalling restrictive monetary policy to remain for some time.

1QFY23 GDP growth came in at 13.5% y-o-y, below Bloomberg consensus estimate of 15.3%, With crude oil prices cooling, both WPI and CPI inflation have moderated. The growth momentum sustained due to an acceleration in consumption and investment demand. Total direct tax collections surged 72.6% y-o-y to Rs. 1.1tn in Jul'22 led by a sharp rise in personal income tax collections (up 79.4% y-o-y to Rs. 691bn) and corporate tax collections (up 61% y-o-y to Rs. 357bn). Indirect tax collections grew 11% y-o-y to Rs. 1.1tn in Jul'22 as GST collections grew by 41% y-o-y.

Foreign buying resumed with $ 7.3 bn inflows in August after record FII exodus over past few months.

India is better placed than most peers amid the global volatility. The Indian market does face headwinds from external factors such as hawkish US fed, slowing global growth, high oil & gas prices but domestic factors continue to lend support, in our view. India's corporate earnings and quality of its balance sheet are likely to outperform among emerging markets.

We see some structural themes likely to play out within India over time: pick up in manufacturing, discretionary consumption, curtailed imports/exports step-up, improving tax compliance & rapid digitization. These trends combined with continued reforms momentum have the potential to kick start multi-year upcycles across various segments of economy and help to reduce India's twin deficits in the long-term. Our HINP portfolio endeavors to capture these themes by investing in high quality, well-managed, scalable companies.

We added CRISIL Ltd, a GLOCAL company in the portfolio. CRISIL is a globally diversified analytical company providing ratings, research and advisory services. S&P holds 66.9% stake in CRISIL. It is the oldest and largest rating agency by revenue in India. CRISIL has a successful track record of building its research business through acquisitions of INFAC, Irevna, Coalition and Greenwich. An improved credit environment and market-leading position in the bond market, following corporate preference for "flight to safety", has seen CRISIL rating revenue gather momentum. The fear around recession and its impact on the research revenues is limited as products like risk assessment do well in such an environment. The company delivers a diversified revenue mix, superior margins, solid return ratios, and free-cash-flow yield, unique to very few companies.

Top 10 Holdings

Name	Weight	Theme	ROE (FY22e)	EPS CAGR (2Yrs)
STATE BANK OF INDIA	6.32	Consumption + Digital	11.9	36.4
RELIANCE INDUSTRIES LTD	5.72	Digital + Consumption	8.2	21.9
TITAN CO LTD	5.69	Consumption	25.9	26.6
BAJAJ FINANCE LTD	5.67	Digital + Consumption	17.4	26.2
COROMANDEL INTERNATIONAL LTD	5.33	Digital	26.6	15.8
PHOENIX MILLS LTD	5.25	Consumption	4.1	21.3
INFOSYS LTD	5.13	Digital	29.1	14.8
TIMKEN INDIA LTD	5.09	GLOCAL	21.8	21.1
ABB INDIA LTD	5.07	GLOCAL	13.6	30.8
MARUTI SUZUKI INDIA LTD	5.07	GLOCAL+Consumption	7.1	16.8

Performance*

	1 Month	3 Months	6 Months	1 Year	Since Inception
Portfolio (HINP)	3.47%	10.61%	8.12%	7.33%	16.57%
S&P BSE 200	4.49%	8.70%	7.63%	5.61%	13.12%

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.

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	
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)

Sector Allocation

Sector Name	% of Net Assets
Financials	25.10
Consumer Discretionary	14.51
Industrials	13.68
Information Technology	8.95
Materials	8.28
Energy	5.72
Real Estate	5.25
Health Care	4.82
Consumer Staples	4.22
Communication Services	4.19

Market Capitalisation

Large Cap:	46.44%
Mid Cap:	34.85%
Small Cap:	13.43%
Avg. Weighted Market Capitalisation	Rs 277,146
Cr Median Market Capitalisation	Rs 57,981 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.

Portfolio Fundamentals & Attributes

Dividend yield FY22	0.8%	2 year EPS CAGR	30.8%
P/E FY22	53x	RoE FY22	31.2%
P/E FY23 estimates	37.7x	Beta:	0.80

2 years EPS CAGR: FY21 – 23e, Data as on 31 August 2022 Document Date - 8 September 2022

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

Data as on 31 August 2022 ^ 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.

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.