

# HSBC India Next Portfolio

## PMS Product Note

June 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:** 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 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:

The adage of "sell in May and go away" did not hold true this year for the Indian equity markets. The broader equity markets did much better as compared to frontline indices (BSE 500 up 8.2%) during the month. Factors such as decent 4QFY23 earnings print, FII inflows, favorable macro economic indicators etc helped to improve the market sentiment. The US debt ceiling issue that was a major overhang for global markets, was resolved by the US house towards the month end. FII flows continue to be supportive, with more than \$6bn of inflows since April. India's 4QFY23 GDP growth recorded a stronger-than-expected 6.1% print. The strong construction and manufacturing growth in Q4FY23 GDP numbers can provide good tailwinds in next couple of quarters for the rural and semi-urban wage growth. The monetary tightening cycle is near its peak after RBI raising the policy repo rate cumulatively by 250 bps between May 2022 and February 2023 period. As per the Indian Meteorological Department (IMD), the south-west monsoon seasonal rainfall over the country is likely to be at 96% of the long-period average (LPA). Amid a challenging global macro backdrop, India Inc.'s profitability remained healthy in 4QFY23. Overall, Nifty 500 Companies 4Q cumulative revenue grew by 13% yoy while 4Q cumulative net earnings at Rs3.28 trillion grew 11% yoy. Sectors that reported healthy growth were Auto, Auto-Ancillary, Engineering and Capital Goods, BFSI, Ceramics, Hotels, Healthcare, Paint, Tyres, Power, Realty. Bearings, Pharmaceuticals, Agrochemicals, Chemicals, FMCG, Retailing were mixed bags. Sectors with weak earnings were Cement, IT, Consumer Durables, Footwear, Logistics, Metal, Oil & Gas & Textiles. The quarterly results of our portfolio companies are mostly in line with our estimates. The management commentary of most of these companies indicates positive outlook for their respective businesses during FY24.

As stated in our earlier communication, our investment philosophy of identifying companies with robust earnings growth trajectory, strong cash flow generation characteristics and quality management that are trading at sustainable valuations will continue to outperform in medium to long term.

### Top 10 Holdings

Name	Weight	Theme	ROE (FY23)	EPS CAGR (2Yrs)
STATE BANK OF INDIA	6.51	Consumption + Digital	16.7	5.3
CRISIL LTD	5.82	GLOCAL	33.5	14.6
TITAN CO LTD	5.76	Consumption	30.7	20.0
J.B. CHEMICALS & PHARMA LTD	5.26	Consumption	17.8	28.3
RELIANCE INDUSTRIES LTD	5.22	Digital + Consumption	8.3	13.9
BAJAJ FINANCE LTD	5.18	Digital + Consumption	23.5	21.7
MARUTI SUZUKI INDIA LTD	4.95	GLOCAL + Consumption	14.0	35.4
INFOSYS LTD	4.89	Digital	32.0	11.7
TIMKEN INDIA LTD	4.89	GLOCAL	21.2	24.1
ABB INDIA LTD	4.71	GLOCAL	22.6	8.4

Performance*	1 Month	3 Months	6 Months	1 Year	2 Years	Since Inception
<b>Portfolio (HINP)</b>	5.65%	9.41%	4.10%	16.32%	12.05%	13.33%
<b>BSE 500 TRI ^</b>	3.78%	8.92%	-0.83%	12.85%	10.56%	11.75%
<b>BSE 200 ^^</b>	3.39%	8.43%	-1.81%	11.07%	8.86%	9.67%

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. ^ Regulatory benchmark ^^ Secondary benchmark, Data as on 31 May 2023

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.

**Disclaimer:** HSBC Asset Management (India) Private Limited is a SEBI registered Portfolio Manager. This document is for information purpose only. This document and information contained therein do not constitute distribution, endorsement, investment advice, offer to buy or sell or solicitation of an offer to buy or sell any securities or any other financial or investment products (collectively “Products”) mentioned in this document or an attempt to influence the opinion or behavior of investors/ recipients. Any use of information contained herein for investment related decisions by the investors/ recipients is at their sole discretion and risk. Please read Disclosure Document and client agreements along with other related documents carefully before investing. Investment in Products is subject to market risks, various micro and macro factors and forces affecting the capital markets and include price fluctuation risks. There is no assurance or guarantee that the objective of any Products will be achieved. The investments may not be suited for all categories of investors/ recipients. Investors/ recipients must make their own investment decisions based on their own specific investment objectives, their financial position and using such independent professional advisors, as they believe necessary, before investing in such Products. This document is intended only for those who access it from within India and approved for distribution in Indian jurisdiction only. Distribution of this document to anyone (including investors, prospective investors or distributors) who are located outside India or foreign nationals residing in India, is strictly prohibited. Neither this document nor HSBC Asset Management India Private Limited have been registered under Securities law/Regulations in any foreign jurisdiction. The distribution of this document in certain jurisdictions may be unlawful or restricted or totally prohibited and accordingly, persons who come into possession of this document are required to inform themselves about, and to observe, any such restrictions. If any person chooses to access this document from a jurisdiction other than India, then such person do so at his/her own risk and HSBC and its group companies will not be liable for any breach of local law or regulation that such person commits as a result of doing so. © Copyright. HSBC Asset Management (India) Private Limited 2023, ALL RIGHTS RESERVED. HSBC Asset Management (India) Private Limited, 9-11 Floors, NESCO IT Park, Building no. 3, Western Express Highway, Goregaon (East), Mumbai – 400 063, India. Email: hsbcpms@hsbc.co.in | Website: www.assetmanagement.hsbc.co.in

Sector Allocation

Sector Name	% of Net Assets
Financials	27.01
Consumer Discretionary	17.97
Industrials	9.58
Information Technology	9.23
Materials	8.39
Health Care	5.25
Energy	5.21
Real Estate	4.43
Communication Services	4.08
Consumer Staples	3.70

Market Capitalisation

Large Cap:	46.80%
Mid Cap:	39.21%
Small Cap:	8.84%
Avg. Weighted Market Capitalisation	Rs.274,397 Cr
Median Market Capitalisation	Rs.55,353 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 FY23	0.8%	2 year EPS CAGR	19.6%
P/E FY24 estimates	33.4x	RoE FY23	27.4%
P/E FY25 estimates	27.9x	Beta:	0.9

2 years EPS CAGR: FY23 – 25, Data as on 31 May 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.^

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 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.