

HSBC India Next Portfolio

PMS Product Note

August 2022

Which themes can benefit the most in economic revival?

CONSUMPTION		GLOCAL		DIGITISATION		HIGH ALPHA
<ul style="list-style-type: none"> Secular, high growth sector Conventional yet progressive theme 	+	<ul style="list-style-type: none"> Play on MNCs in India Structural, long term theme 	+	<ul style="list-style-type: none"> 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:

After three months of downturn, Indian benchmark indices bounced back with over 8% returns in July month. The reduced intensity of FII selling after many months, also helped to lift the sentiments. FIIs for the first time in CY2022 turned net buyers in the month of July to the tune of -\$780M even as DII buying continued at +\$1.32bn.

The fact that US entered into recession territory after reporting a second consecutive quarter of GDP de-growth was shrugged off by markets as just a technical data point, with dovish commentary from policymakers aiding sentiment. The FOMC decision to hike rates by 75bps was along expected lines.

South-West monsoon picked up pace and registered above normal rainfall at 9% above LPA till July end. This should help softening of food inflation going forward. GST collections remained robust at Rs1.49 lakh crore for July'22, the second highest level since rollout of the indirect tax regime. May IIP growth rose sharply to 19.6% due to a low base and increased sequentially by 2.3%. CPI Inflation for the month of June flattened over last month at 7.01% and showing early signs of easing. RBI in its upcoming monetary policy meeting is likely to increase policy rates by 50 bps to contain the inflationary pressures.

The 1QFY23 corporate earnings so far have been a mixed bag but the spread of earnings has been decent with majority of universe either meeting or exceeding consensus profit expectations. Overall, revenue growth is ahead of expectation, suggesting a healthy demand environment. Profit growth is being led by BFSI with cement, auto and metals posting a YoY earnings decline while IT and oil & gas posting reporting flattish YoY earnings for the quarter. As the benefit of the recent moderation in commodity costs start accruing in 2HFY23, other sectors are expected to contribute too.

In the midst of weakening global growth, India's resilient economy offers long term growth opportunities for investors. As narrative changes towards growth from inflation, Indian equities are expected to outperform meaningfully. Taking a long term perspective can help investor stay the course when markets move from crisis to opportunity and back again. We continue to remain focused on three mega themes namely consumption, Glocal & digitization in the long term and high quality, high earning growth stories selected from these themes are expected to deliver superior risk adjusted returns over a long term.

How long you stay invested for, will likely be the single most important factor determining how well you do at investing. — Morgan Housel

Top 10 Holdings

Name	Weight	Theme	ROE (FY22e)	EPS CAGR (2Yrs)
STATE BANK OF INDIA	6.42	Consumption + Digital	11.9	36.5
BAJAJ FINANCE LTD	5.87	Digital + Consumption	17.4	26.1
RELIANCE INDUSTRIES LTD	5.86	Digital + Consumption	8.2	22.6
INFOSYS LTD	5.65	Digital	29.1	14.8
COROMANDEL INTERNATIONAL LTD	5.44	Digital	26.6	14.7
TITAN CO LTD	5.29	Consumption	25.9	25.3
MARUTI SUZUKI INDIA LTD	5.12	GLOCAL + Consumption	7.1	16.6
PHOENIX MILLS LTD	4.89	Consumption	4.1	16.8
J.B. CHEMICALS & PHARMA LTD	4.88	Consumption	19.5	24.5
TIMKEN INDIA LTD	4.87	GLOCAL	21.8	18.1

Performance*

	1 Month	3 Months	6 Months	1 Year	Since Inception
Portfolio (HINP)	10.06 %	3.06 %	0.31 %	6.40 %	14.89 %
S&P BSE 200	9.59 %	-0.27 %	-0.64 %	8.53 %	10.54 %

Returns over 1 year are annualized. Returns are adjusted for inflows/outflows.

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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	
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	20.85
Consumer Discretionary	14.23
Industrials	12.91
Materials	12.40
Information Technology	9.85
Energy	5.86
Real Estate	4.89
Health Care	4.88
Consumer Staples	4.31
Communication Services	3.63

Market Capitalisation

Large Cap:	51.12%
Mid Cap:	29.14%
Small Cap:	13.55%
Avg. Weighted Market Capitalisation Rs 284,752 Cr	
Median Market Capitalisation Rs 59,901 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	30.7%
P/E FY22	51.7x	RoE FY22	28.2%
P/E FY23 estimates	35.1x	Beta:	0.80

2 years EPS CAGR: FY21 – 23e, Data as on 29 July 2022 Document Date - 8 August 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 29 July 2022 ^ The Portfolio Manager may also participate in the Securities Lending Scheme.

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