

# HSBC India Next Portfolio

## PMS Product Note

May 2022

### 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:

Since the start of calendar year 2022, global equity markets have been mired in lot of uncertainty. Just as the global economy is looking to emerge from pandemic malaise, the Russia-Ukraine conflict, growing inflationary pressures and rising commodity prices are exerting new challenges to a global economy. The IMF has slashed global economic growth to 3.6% for year 2022. India's GDP growth has also been cut to 8.2% from earlier forecast of 8.9%. This still makes India the fastest growing economy in the world. Indian equities have been quite resilient relatively despite continued FII outflows over last few months. Indian equities remain expensive vis-à-vis most emerging markets on a P/E multiple basis however they have always been so in light of more resilient earnings expectations.

High frequency indicators for April month indicate the improvement in economic activity continues into 1QFY23. Improved manufacturing activity with PMI at 54.7, record-high GST collections of Rs.1.68 lakh crores, sharp jump in merchandise exports at \$38.2 billion (24.2% up), direct & indirect tax collections at 1.7x in FY22 the highest level since FY08 indicates that Indian economy is witnessing tax buoyancy, helping the government navigate a tight fiscal situation. Given robust economic growth momentum, a normal monsoon forecast and rising capacity utilisation levels in the economy, we believe the Indian equity market will continue to attract long-term investors once the near term uncertainty over. The expansion phase in the economy appears well on its way.

4QFY22 earnings season is broadly in line so far. We are closely analyzing corporate results and the subsequent management commentary to review the portfolio.

There is high probability of broad based multi-year earnings revival. This is due to factors such as supply side reforms, a strong pipeline of government capex & revival of private capex cycle, profit share move from unorganized to organized sector, deleveraging of corporate India etc. Also most of the long term themes like financialisation, digital transformation, Make in India, increasing consumerism are intact and will get further fillip when the supply side reforms play out.

The prevailing backdrop highlights the importance of building resilience into portfolios. We believe this is best achieved through optimal diversification and a focus on quality — particularly stocks of companies with strong balance sheets and healthy free cash flow characteristics.

Times of uncertainty can test investors' fortitude. Our rigorous efforts to construct the portfolio based on three structural themes and active monitoring of it in this dynamic environment can help us navigate in these challenging times in the pursuit of achieving long-term financial goals.

### Top 10 Holdings

Name	Weight	Theme	ROE (FY22e)	EPS CAGR (2Yrs)
RELIANCE INDUSTRIES LTD	6.64	Digital + Consumption	8.0	21.8
STATE BANK OF INDIA	6.15	Consumption + Digital	13.3	36.6
INFOSYS LTD	5.82	Digital	30.1	15.7
TITAN CO LTD	5.63	Consumption	27.8	26.0
PERSISTENT SYSTEMS LTD	5.08	Digital	22.1	33.1
AMBUJA CEMENTS LTD	4.90	GLOCAL	13.3	13.7
J.B. CHEMICALS & PHARMA LTD	4.82	Consumption	20.6	25.9
HDFC BANK LIMITED	4.81	Consumption + Digital	16.9	18.2
BAJAJ FINANCE LTD	4.79	Digital + Consumption	17.4	25.5
COROMANDEL INTERNATIONAL LTD	4.76	Digital	25.5	12.9

### Portfolio Fundamentals

Dividend yield FY21	0.6%
P/E FY21	53.5x
P/E FY22 estimates	42.9x
P/E FY23 estimates	31.4x
2 year EPS CAGR	22.1%
RoE FY21	17.7%
RoE FY22	26.6%

### Performance Attributes

Standard Deviation:	N.A.
Beta:	0.80
Sharpe Ratio:	N.A.

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2 years EPS CAGR: FY21 – 23e, Data as on 30 April 2022 Document Date - 8 May 2022

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	19.46
Information Technology	14.95
Consumer Discretionary	13.78
Materials	12.72
Industrials	7.49
Energy	6.64
Health Care	4.82
Real Estate	4.31
Consumer Staples	4.19
Communication Services	3.86

Market Capitalisation

Large Cap:	51.23%
Mid Cap:	24.37%
Small Cap:	16.62%
Avg. Weighted Market Capitalisation Rs 296,768 Cr	
Median Market Capitalisation Rs 62,844 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.	

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

Performance\*

	1 Month	3 Months	6 Months	1 Year	Since Inception
Portfolio (HINP)	-1.65 %	-2.66 %	-3.28 %	19.24 %	15.35 %
S&P BSE 200	-0.72 %	-0.37 %	-2.01 %	18.84 %	13.15 %

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

Data as on 30 April 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.