

# HSBC India Next Portfolio

PMS Product Note

October 2023

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

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

Growth themes may have potential to deliver 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 Clause 2.3 of Master Circular for Portfolio Managers dated March 20, 2023, an option to invest directly i.e. without intermediation of persons engaged in distribution services, is available to the investors.

### Portfolio Manager's commentary:

Global Equity markets remained weak in the month of September led by concerns over prolonged higher global interest rates, surge in crude prices, rise in US bond yields and weak global macro data. Indian markets bucked the global trend with Nifty50 gaining 2% in September'23 while mid-cap and small-cap indices outperforming large-cap. FIIs sold about US\$2.3 bn in Indian equities during the month whereas DIIs bought US\$2.4 bn.

India's macro data continues to support the growth momentum. August CPI contracted marginally to 6.83%, July's Industrial production improved sequentially (+5.7% YoY versus +3.8% in June); GST collection remained robust at INR 1.62 lakh crores in September month. India will be included in the GBI-EM Global index suite starting June 28, 2024, that is structurally positive for its fiscal & CAD financing. Monsoon showed strong recovery in the month of September'23 after poor spell in August, resulting cumulative rainfall at 6% below long-term average. However, the low reservoir levels may pose a risk to winter crop.

Going ahead, Indian markets might keep a close eye on upcoming Q2FY24 earnings season, crude price movement, US bond yields, RBI policy meet, geopolitical developments (Russia-Ukraine, India-Canada, etc) and the upcoming assembly elections.

During the month, we added new stock DLF Ltd, a prominent real estate company. DLF is primarily engaged in the business of development and sale of residential properties and the development and leasing of commercial and retail properties. From formalisation to consolidation, India's ~US\$265bn RE sector has come a long way in past two decades. Both demand (execution record, launch pipeline) and supply (capital availability) factors accelerated consolidation in recent years.

Since the pandemic, homebuyers are more inclined toward bigger houses, resulting in the emergence of high-end amenities and facilities. The rise in income levels and affordability have helped the luxury segment. As a result of these factors, demand for luxury housing has risen sharply in the past few years, especially in the markets, such as Noida and Gurugram. DLF's luxury high-rise residences at Gurugram at *The Arbour* were sold out within three days before its launch. This momentum in the luxury segment is likely to continue in the upcoming quarters.

We believe that DLF with its strong launch pipeline, robust cash flow generation aiding balance sheet deleveraging and growth, huge monetizable land bank (at historical costs) in a housing upcycle, excellent track record of timely project delivery, the only uber premium/ luxury developer with credibility not only in residential but commercial development as well, is likely to be big beneficiary in the current real estate upcycle.

### Top 10 Holdings

Name	Weight%	Theme	ROE (FY23) %	EPS CAGR (2Yrs)
STATE BANK OF INDIA	5.93	Consumption + Digital	16.7	2.3
TATA COMMUNICATIONS LTD	5.48	Digital	146.9	2.8
CRISIL LTD	5.42	GLOCAL	33.5	5.3
J.B. CHEMICALS & PHARMA LTD	5.35	GLOCAL + Consumption	17.8	11.0
BAJAJ FINANCE LTD	5.22	GLOCAL + Consumption	23.5	10.0
MARUTI SUZUKI INDIA LTD	5.04	Consumption	14.0	13.6
PHOENIX MILLS LTD	4.94	Consumption	17.8	(0.9)
TITAN CO LTD	4.87	Digital	30.7	7.9
INFOSYS LTD	4.81	GLOCAL + Consumption	32.0	3.5
RELIANCE INDUSTRIES LTD	4.47	Consumption	8.9	5.1

Performance#	1 Month	3 Months	6 Months	1 Year	2 Years	Since Inception
Portfolio (HINP)	0.70%	5.15%	22.36%	19.67%	9.41%	15.80%
BSE 500 TRI ^	2.11%	5.49%	19.39%	17.48%	8.47%	14.26%
BSE 200 ^^	2.17%	4.10%	16.57%	14.49%	6.34%	11.65%

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 30 September 2023. #Refer page no. 2 for detailed disclaimer. To view the portfolio's performance relative to other Portfolio Managers, you may click here ([apmiindia.org](http://apmiindia.org)).

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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%

## \* 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.

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## Sector Allocation

Sector Name	% of Net Assets	Market Capitalisation	
Financials	25.22	Large Cap:	49.74%
Consumer Discretionary	18.02	Mid Cap:	32.50%
Information Technology	12.22	Small Cap:	11.87%
Industrials	11.95	Avg. Weighted Market Capitalisation	
Real Estate	7.93	Rs.2,72,004Cr	
Communication Services	5.48	Median Market Capitalisation	
Health Care	5.35	Rs.89,355Cr	
Energy	4.47	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.	
Consumer Staples	3.47		

## Portfolio Fundamentals & Attributes

Dividend yield FY23	0.7%	2 year EPS CAGR	24.5%
P/E FY24 estimates	36.4x	RoE FY23	27.7%
P/E FY25 estimates	29.8x	Beta:	0.90

2 years EPS CAGR: FY23 – 25, Data as on 30 September 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.