

HSBC India Next Portfolio

PMS Product Note

July 2024

Which themes can benefit the most in economic revival?

CONSUMPTION		GLOCAL		DIGITISATION		HIGH ALPHA
<ul style="list-style-type: none"> Secular 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 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 - 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 June 7, 2024, 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 their upward trajectory with benchmark indices reaching new highs In June month despite surprising election results. Before the poll results, the markets had already discounted India's high growth rates, revival in capex, strong corporate balance sheet, pretty much every positive thing about Indian economy – high valuations were proof of that. Global markets are also on course for their longest stretch of monthly gains since March. Valuations in certain pockets are quite divergent from the earnings growth expectations. In such euphoric environment, we will have to remain more focused & disciplined in managing portfolios sticking to our investment philosophy to generate risk adjusted sustainable returns in long term. Going ahead, markets will take a cue from corporate earnings, upcoming budget & monsoon progress.

During the month, we have exited JB Chemicals and replaced with Sanofi India, an MNC pharma company with a twin objective of reaping the benefit of demerger of its consumer business & strong domestic pharma play. Recently the consumer health business has been demerged (1:1 ratio) to unlock value for shareholders and enable each entity to focus on their core operations. The consumer entity is likely to be listed in near future. Sanofi India's pharma business has strong presence in diabetic, cardiology, neurology segments. The launch of new product pipeline from parent may drive earnings growth going forward in our view. New management under Rodolfo Hrosz has infused new life into Sanofi India through several measures viz reduced business divisions to 3 from 8 earlier, focus on key pillars of growth (Diabetics, CHC, GTM), demerger of consumer business to give better focus to pharma Rx business & consumer business. Recently, the company has signed exclusive distribution partnerships with Emcure for CVS portfolio and Cipla for CNS portfolio to expand reach of its strong brands with the help of strong distribution infrastructure of Cipla & Emcure. With a good brand portfolio high margin profile, better return ratios, track record of dividend payout and India for India strategy by new management, Sanofi India is a possible rerating candidate in our view.

Another addition to portfolio is PVR INOX Limited, the largest film exhibition company in India with 1760 screens across 363 properties in 113 cities. With its primary focus on the movie exhibition business, the combined entity (PVR+INOX) continues to ramp up margin-accretive segments such as F&B revenues and advertisement revenues, which will drive the EBITDA expansion for the business. The film Industry had to brave a dull show in last few months largely due to a weak content calendar, heatwave in vast swathes of the country, general elections and cricket (IPL). A healthy content pipeline in second half of calendar year gives confidence about revenue & earnings visibility in FY25. The company is also undertaking a slew of new initiatives such as: 1) tying up with Devyani International to launch branded food courts near its properties, 2) trying franchisee owned company operated (FOCO) model to reduce capex requirements, 3) experimenting with 'no-ads' in premium screens and 4) monetising real estate assets to reduce debt. The management has guided that the new capital-light expansion models will help reduce capex, improve return ratios, cash generation and reduce debt over time. We feel that risk reward is in favour at current valuations.

Top 10 Holdings

Name	Weight%	Theme	ROE (FY24) %	EPS CAGR (2Yrs)
STATE BANK OF INDIA	6.61	Consumption + Digital	17.3	10.1
ABB INDIA LTD	5.63	GLOCAL	22.8	27.3
PHOENIX MILLS LTD	5.20	Consumption	12.3	23.6
INDIAN HOTELS CO LTD	5.20	Consumption	14.4	27.4
INTERGLOBE AVIATION LTD	5.10	Consumption	N/A	4.8
DLF LTD	4.89	Consumption	7.1	23.6
INTELLECT DESIGN ARENA LTD	4.88	Digital	14.3	32.5
RELIANCE INDUSTRIES LTD	4.71	Digital+Consumption	9.2	16.5
MARUTI SUZUKI INDIA LTD	4.50	GLOCAL+Consumption	18.3	23.2
INFOSYS LTD	4.22	Digital	32.1	6.2

Performance#	1 Month	3 Months	6 Months	1 Year	2 Years	3 Years	Since Inception
Portfolio (HINP)	5.58 %	3.50 %	14.23 %	31.51 %	28.51 %	18.43 %	19.78 %
BSE 500 TRI ^	7.05 %	11.66 %	16.68 %	38.28 %	30.91 %	19.94 %	20.21 %
BSE 200 ^^	6.46 %	9.97 %	15.22 %	34.24 %	27.67 %	17.63 %	17.49 %

Source – Bloomberg, Data as on 30 June 2024. Returns upto 1 year are absolute & over 1 year are Compounded 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, #Refer page no. 2 for detailed disclaimer. To view the portfolio's performance relative to other Portfolio Managers, you may click here (APMI (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

* 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
Financials	22.31
Consumer Discretionary	18.13
Information Technology	13.29
Industrials	10.73
Real Estate	10.10
Health Care	7.14
Energy	4.71
Utilities	3.55
Consumer Staples	3.17
Communication Services	2.99

Market Capitalisation

Large Cap:	59.27%
Mid Cap:	21.40%
Small Cap:	15.45%
Avg. Weighted Market Capitalisation Rs. 3,41,773Cr	
Median Market Capitalisation Rs. 1,70,118 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 FY24	0.6%	2 year EPS CAGR	18.0%
P/E FY24 estimates	56.9x	RoE FY24	19.0%
P/E FY25 estimates	43.3x	Beta:	0.90

2 years EPS CAGR: FY23 – 25, Data as on 30 June 2024

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 is 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.