

# HSBC India Next Portfolio

## PMS Product Note

March 2024

### 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:

Equity markets continued its upward march in February on the back of 3QFY24 corporate results on expected lines, interim budget focusing on fiscal consolidation, favourable macros etc. India's Q3 GDP growth at 8.4% was well above estimates of 6.7% while GVA growth of 6.5% was in line. With this, FY24 GDP estimate is revised upwards to 7.5% with growth primarily driven by investments. Most monthly high frequency indicators remain robust during February month.

India is expected to deliver the highest growth among the larger countries. The risk variables like fiscal, current account deficit and currency are well under control. RBI is likely to cut rates in second half of calendar 2024. The Interim Budget has continued to focus on government capex. Rising private capex should further accelerate the capex cycle. Corporate balance sheets and banks are in great shape laying a platform for a private capex cycle. Consumer sentiment is the key monitorable in the near-term.

US rate cuts, weakening USD, falling oil and other commodity prices bode well for the Indian economy and earnings growth of domestic oriented corporates. Valuations are not cheap but falling interest rates will help support valuations. With Elections coming up and no major near-term fundamental triggers, we may see markets consolidating for the next couple of months unless foreign inflows increase dramatically.

During the month, we have undertaken portfolio reshuffling based on quarterly results. We exited Timken India Ltd post its 3QFY24 result announcement. With sustained decline in exports since past few quarters and not high enough revenue growth rate in the domestic market, coupled with likely headwinds in the cyclical MHCV industry are looming, Timken India is likely to see deceleration in revenue & PAT growth along with range bound margins.

We have allocated this cash to Zomato, India's unique end-to-end food services platform company. The platform has 2 core B2C offerings - Food Delivery and Dining-out, in addition to its B2B offering Hyperpure - a one-stop procurement solution which supplies high quality ingredients & kitchen products to restaurants. Zomato Gold is a customer loyalty program which encompasses food delivery & dining-out. Zomato through Blinkit also offers quick commerce.

Zomato is structurally well positioned to show sustained strong growth given the large addressable market, stable regulation & continued positive unit economics at contribution level. We expect limited incremental competition to challenge the stronghold of Zomato & Swiggy given their strong brand recall & network effect traction. The online food delivery industry in India has all the structural drivers in place – lower penetration (4% of the food services market) compared to the U.S. (~10%) & China (~13%) and favorable industry structure (duopoly), among others. We expect further rerating in this name driven by (1) strong revenue growth especially in Blinkit, with improving profitability, 2) possible synergies in the last mile delivery between Blinkit and food delivery and 3) EBITDA (including ESOP/Blinkit) for Zomato breaking even in FY24.

### Top 10 Holdings

Name	Weight%	Theme	ROE (FY23) %	EPS CAGR (2Yrs)
STATE BANK OF INDIA	6.23	Consumption + Digital	16.7	7.2
DLF LTD	5.66	Consumption	5.5	30.1
INTELLECT DESIGN ARENA LTD	5.33	Digital	13.8	31.5
INDIAN HOTELS CO LTD	5.18	Consumption	13.3	31.8
PHOENIX MILLS LTD	5.17	Consumption	17.8	1.0
J.B. CHEMICALS & PHARMA LTD	4.79	Consumption	17.8	30.7
ABB INDIA LTD	4.75	GLOCAL	21.7	18.6
TITAN CO LTD	4.74	Consumption	30.7	20.5
INFOSYS LTD	4.73	Digital	32.0	7.6
CRISIL LTD	4.71	GLOCAL	33.1	12.7

Performance#	1 Month	3 Months	6 Months	1 Year	2 Years	3 Years	Since Inception
Portfolio (HINP)	5.44%	13.37%	18.63%	42.17%	21.53%	20.02%	19.79%
BSE 500 TRI ^	1.66%	11.93%	18.86%	39.47%	19.79%	19.46%	17.96%
BSE 200 ^^	1.92%	11.80%	18.10%	35.43%	17.19%	17.00%	15.36%

Source – Bloomberg. 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. Data as on 29 February 2024. #Refer page no. 2 for detailed disclaimer. To view the portfolio's performance relative to other Portfolio Managers, you may click here ([APMI \(apmiindia.org\)](https://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)

## Sector Allocation

Sector Name	% of Net Assets
Financials	22.12
Consumer Discretionary	17.46
Information Technology	14.56
Real Estate	10.84
Industrials	8.79
Health Care	7.55
Energy	4.68
Communication Services	4.60
Consumer Staples	3.42

## Market Capitalisation

Large Cap:	53.62%
Mid Cap:	30.29%
Small Cap:	10.12%
Avg. Weighted Market Capitalisation Rs.3,07,304 Cr	
Median Market Capitalisation Rs.1,33,856 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	0.6%	2 year EPS CAGR	26.2%
P/E FY24 estimates	55.2x	RoE FY23	25.0%
P/E FY25 estimates	37.1x	Beta:	0.90

2 years EPS CAGR: FY23 – 25, Data as on 29 February 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.<sup>&</sup>

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**

<sup>&</sup> 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.

## 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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