

HSBC India Next Portfolio

PMS Product Note

November 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:

Indian equity markets bounced back smartly in Oct'22 with gain of 5.4% MoM for Nifty 50 index - the second highest since Aug'21. India has emerged as an outperforming market in CY22 amid varied global macro headwinds including, inflation, interest rates, currency, and geopolitics. While most global equity markets are down 20-25% in YTD'CY22, India is up 4%.

Currently, it is estimated that global growth will slow down due to aggressive monetary tightening and geopolitical risks. What is not known is the timing and the extent of slowdown/recession in various economies. The pace of tightening across the globe has been sharp and more is expected to continue. Additionally, China, the global engine of growth for the past few years is struggling with domestic factors such as the ones we have seen in real estate and in the technology sector, while India continues to do well.

The 2QFY23 corporate earnings have been in-line so far with growth being led by BFSI and Autos while Metals, Oil & Gas and Cement posting a YoY earnings decline. In our view, the upside from hereon will be a function of stability in global and local macros and continued earnings delivery v/s expectations.

From our portfolio perspective, Financials, Auto & IT companies have delivered better than consensus estimates. There has been margin pressure for few companies in consumption pack due to commodity inflation and demand slowdown. As the benefit of the recent moderation in commodity costs start accruing in 2HFY23, we expect the improvement in margins and revenue growth going forward. Many times, active portfolio reshuffling based on quarterly numbers is harmful in the long run especially for the companies who are leaders in their respective segments and have healthy balance sheets. Having said this, we are closely evaluating financial performance, subsequent management commentary and channel checks to take appropriate portfolio action if required.

Another important point to highlight from our portfolio construction perspective is avoiding euphoria in new age economy stocks. During last one-year period many new age companies got listed at hefty valuations and most of them have significantly corrected 50-80%. These set of companies were perfectly fitting in our digital theme however we avoided exuberance in these stocks with our investment philosophy of buying companies with strong cash flow generation characteristics and reasonable valuations. It is very important from portfolio construction perspective what to avoid especially in concentrated portfolio of PMS strategy to generate risk adjusted return in the long term.

The current global economic landscape is fairly tenuous as governments as well as central banks across the world are trying to strike a balance between higher interest rates, an inflationary environment and currency risks. In this context, India appears to be an oasis for investors. The growth enablers such as an enabling regulatory environment, strong consumer demand, a thriving business ecosystem and increasing digital adoption are key factors for India's long term growth potential. Though in near term, India can witness some stress due to external environment, India's prospects as an investment destination have improved meaningfully. Our portfolio, though thematic is constructed to be resilient across a range of plausible economic conditions, with an aim of generating positive long term returns.

Top 10 Holdings

Name	Weight	Theme	ROE (FY22e)	EPS CAGR (2Yrs)
STATE BANK OF INDIA	6.76	Consumption + Digital	11.9	36.6
INFOSYS LTD	6.10	Digital	29.1	14.8
TITAN CO LTD	5.99	Consumption	25.9	27.0
RELIANCE INDUSTRIES LTD	5.75	Digital + Consumption	8.2	20.5
BAJAJ FINANCE LTD	5.62	Digital + Consumption	17.4	26.3
PHOENIX MILLS LTD	5.37	Consumption	4.1	21.7
MARUTI SUZUKI INDIA LTD	5.36	GLOCAL + Consumption	7.1	17.8
J.B. CHEMICALS & PHARMA LTD	5.25	Consumption	19.5	22.9
COROMANDEL INTERNATIONAL LTD	4.88	Digital	26.6	15.9
HDFC BANK LIMITED	4.74	Consumption + Digital	16.7	17.2

Performance*

	1 Month	3 Months	6 Months	1 Year	Since Inception
Portfolio (HINP)	2.78%	3.08%	6.23%	2.74%	14.57%
S&P BSE 200	4.37%	5.17%	4.88%	2.78%	12.19%

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.

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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	25.04
Consumer Discretionary	14.63
Industrials	12.34
Information Technology	10.22
Materials	8.10
Energy	5.75
Real Estate	5.37
Health Care	5.25
Consumer Staples	4.40
Communication Services	4.21

Market Capitalisation

Large Cap:	48.49%
Mid Cap:	33.79%
Small Cap:	13.02%
Avg. Weighted Market Capitalisation Rs.298,240	
Cr Median Market Capitalisation Rs.57,456 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	30.8%
P/E FY22	52.2x	RoE FY22	31.7%
P/E FY23 estimates	37.4x	Beta:	0.9

2 years EPS CAGR: FY22 – 24, Data as on 31 October 2022 Document Date - 8 November 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 31 October 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.