

HSBC India Next Portfolio

PMS Product Note

March 2023

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 remained volatile during February despite cooling global commodities & growth oriented budget. Factors such as uncertain global growth, rising interest rates, geo political pressures and sharp fall in stock prices of prominent corporate group entities impacted overall sentiment.

With GDP growth at 4.4% for 3QFY23, India's GDP growth is expected to be 7% for FY23, a bright spot for the world. RBI hiked the repo rate by 25 bps to control the inflation, in line with central banks around the globe. Corporate earnings were slightly weaker during 3QFY23 result season led by weak demand environment & macro headwinds.

We have added two quality stocks, Indian Hotel & Credit Access Grameen in the portfolio during the month. Indian Hotel (IHCL) is best positioned to capitalize on the surging recovery in hotel industry in India, with occupancies & RevPARs expected to rise in near to medium term. With its strong pipeline of hotels, improving margin profile, mix of leisure & business Hotels, incremental asset light strategy and new initiatives/segments, IHCL is a strong turnaround story. IHCL has emerged stronger and has led the Industry recovery in terms of RevPAR from the covid-led slump in business. With a new set of initiatives, company boasts of a sprawling range of brands across multiple sectors of hospitality and price points. While hotel recovery would be mainstay, company would also benefit from scaling up of new initiatives like (1) Improving hotel mix toward management contracts and growth in Ginger (Leanluxé) category; (2) Omin offerings in food delivery, food trucks, QSR formats; (3) Staycation offering via amā Stays; (4) focus on high margin Chambers income. Being net debt free, there is stronger focus to keep balance sheet lean, high free cashflow generation, prudent capital allocations, monetisation and simplification of holding structure. While there is clear visibility on the near-term outlook due to G-20 meetings, the cricket world cup, strong wedding season etc, the medium- to long-term outlook is equally strong, mainly because of a favourable demand-supply equation. With its leadership position in listed hotel space in India, IHCL is well positioned to capture an outsized portion of hotel segment recovery and its improving margins/return profile.

Credit Access Grameen (CREDAG), a high quality, pure play microfinance company is well-positioned to ride industry and regulatory tailwinds. Demonstrating resilience across cycles, INR 3 trillion Indian microfinance industry is poised to post 21% CAGR growth in FY22-25 period triggered by favourable regulatory tailwinds and rural penetration. CREDAG has demonstrated strong business traction since inception, led by niche positioning and scalable model. It posted an 32% loan CAGR and 35% NII CAGR over FY18-FY22. During pandemic period too, CREDAG has treaded a sustainable, calibrated loan expansion path. With a lending model based on a tight knit JLG (Joint Liability Group) construct, stringent focus on customer selection/training, hi-touch collections, multi product approach tailored to customer payment behaviour, frequent branch audits are some of the key differentiating factors for CREDAG. A high return profile with 4%+ RoAs, ~20% RoEs, backed by calibrated growth expansion and strong funding support positions CREDAG among top-league NBFCs.

Top 10 Holdings

Name	Weight	Theme	ROE (FY22e)	EPS CAGR (2Yrs)
STATE BANK OF INDIA	6.33	Consumption + Digital	11.9	40.3
INFOSYS LTD	6.06	Digital	29.1	15.1
CRISIL LTD	5.69	Consumption	32.2	14.8
RELIANCE INDUSTRIES LTD	5.40	Digital + Consumption	8.2	20.1
J.B. CHEMICALS & PHARMA LTD	5.36	Consumption	19.5	22.4
TITAN CO LTD	5.32	Consumption	25.9	27.7
HDFC BANK LIMITED	5.11	Consumption + Digital	16.7	17.2
MARUTI SUZUKI INDIA LTD	5.01	GLOCAL + Consumption	7.1	17.8
ABB INDIA LTD	5.00	GLOCAL	13.6	32.5
BAJAJ FINANCE LTD	4.98	Digital + Consumption	17.4	26.3

Performance*	1 Month	3 Months	6 Months	1 Year	Since Inception
Portfolio (HINP)	-0.21%	-4.86%	-3.89%	3.91%	10.11%
S&P BSE 200	-2.96%	-9.45%	-5.77%	1.42%	6.66%

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	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%

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	26.29
Consumer Discretionary	17.07
Information Technology	10.51
Industrials	9.79
Materials	8.97
Energy	5.40
Health Care	5.36
Real Estate	4.60
Communication Services	4.19
Consumer Staples	4.14

Market Capitalisation

Large Cap:	48.53%
Mid Cap:	39.43%
Small Cap:	8.36%
Avg. Weighted Market Capitalisation	Rs.270,882 Cr
Median Market Capitalisation	Rs.44,139 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	28.4%
P/E FY22	45.0x	RoE FY22	31.04%
P/E FY23 estimates	37.1x	Beta:	1.0

2 years EPS CAGR: FY22 – 24, Data as on 28 February 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

Data as on 28 February 2023 ^ 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.