

HSBC India Next Portfolio

PMS Product Note

June 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 - 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:

The month of May saw increased volatility in stock markets mainly due to election & quarterly results. On economic front, 4QFY24 real GDP growth at 7.8% was higher than expectations. Headline inflation remained stable at 4.83% in April month. Core inflation hit a new low at 3% with weakness across goods and services. GST revenue was robust in May at INR 1.73 tn, growth of 10% yoy driven by a strong increase in domestic transactions (up 15.3%) and slowing of imports (down 4.3%). Another big positive surprise was RBI's record dividend of INR 2.1 tn. This larger-than-expected windfall significantly improves the new government's fiscal degrees of freedom this year. Rating agency S&P Global has upgraded India's sovereign rating outlook to positive from stable and affirmed the 'BBB-' long-term local currency sovereign credit ratings.

Corporate earnings season ended on a strong note with widespread outperformance across aggregates. Domestic cyclical such as autos & financials along with healthcare, capital goods and cement reported better than expectations whereas global cyclical such as metals, oil & gas dragged down overall profitability.

The 2024 General Election results came out as a negative surprise – contrary to exit polls and broad expectations the NDA coalition underperformed by a margin with the BJP itself losing its majority status in the Lok Sabha. This may increase policy uncertainty. Passing of unpopular reforms may especially become more difficult. Also, a combination of coalition government and their own underperformance may make the government become more populist.

These election results may finally compel investors to focus more on numbers and less on narratives. It will be back to basics where investors need to focus on sectors/stocks where earnings visibility is more certain. The Budget will become even more important and the next big event to watch out for. During the month, we have increased allocations to some of our portfolio companies such as Zomato, Tata Power & Credit Access Grameen based on their quarterly result and growth outlook. With robust GDP growth, healthy corporate earnings growth, strong domestic flows, control over inflation and above-normal monsoon expectation would continue to support domestic equity markets.

Top 10 Holdings

Name	Weight%	Theme	ROE (FY23) %	EPS CAGR (2Yrs)
STATE BANK OF INDIA	6.92	Consumption + Digital	16.7	10.2
ABB INDIA LTD	5.81	GLOCAL	22.8	26.7
PHOENIX MILLS LTD	5.77	Consumption	17.8	(0.4)
J.B. CHEMICALS & PHARMA LTD	5.37	Consumption	17.8	30.5
INTERGLOBE AVIATION LTD	5.32	Consumption	N/A	N/A
DLF LTD	5.09	Consumption	5.5	29.2
MARUTI SUZUKI INDIA LTD	4.89	GLOCAL + Consumption	14.0	45.5
INDIAN HOTELS CO LTD	4.88	Consumption	13.3	32.5
RELIANCE INDUSTRIES LTD	4.53	Digital + Consumption	8.9	9.7
INTELLECT DESIGN ARENA LTD	4.40	Digital	13.8	30.5

Performance [#]	1 Month	3 Months	6 Months	1 Year	2 Years	3 Years	Since Inception
Portfolio (HINP)	-2.17%	0.55%	13.99%	30.66%	23.27%	17.93%	18.34%
BSE 500 TRI [^]	0.83%	5.19%	17.75%	34.70%	23.27%	18.07%	18.28%
BSE 200 ^{^^}	0.61%	4.79%	17.15%	30.88%	20.56%	15.74%	15.74%

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 31 May 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.in/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	22.71
Consumer Discretionary	17.94
Information Technology	11.94
Industrials	11.13
Real Estate	10.86
Health Care	8.56
Energy	4.53
Utilities	3.68
Consumer Staples	3.07

Market Capitalisation

Large Cap:	59.79%
Mid Cap:	24.87%
Small Cap:	9.77%
Avg. Weighted Market Capitalisation Rs. 3,19,043Cr	
Median Market Capitalisation Rs. 1,68,976 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	31.3%
P/E FY24 estimates	61.8x	RoE FY23	18.0%
P/E FY25 estimates	40.5x	Beta:	0.90

2 years EPS CAGR: FY23 – 25, Data as on 31 May 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.