

# HSBC India Next Portfolio

## PMS Product Note

July 2023

### Which themes can benefit the most in economic revival?

CONSUMPTION		GLOCAL		DIGITISATION		HIGH ALPHA
<ul style="list-style-type: none"> <li>Secular, high 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 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:** 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 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:

The Indian stock markets scaled new highs during the month supported by strong FII inflows, improved corporate earnings outlook and favorable macro-economic indicators. The recent bull run in the market for last three months has to be seen against backdrop of rising interest rates, hawkish central bank commentaries, lingering fears of global recession and ongoing geopolitical tensions. India remains an attractive destination for global investors offering steady growth, falling inflation, improving corporate earnings growth trajectory and prudent fiscal policies. Valuations for India have moved up, so there could be some near term consolidation possible. However, longer term, the factors driving India's growth are trending well which over time will get reflected in earnings and stock prices.

During the month, we added new stock, Inter globe Aviation (INDIGO) to the portfolio. We believe the company's dominant market position (~56% domestic market share) makes it well placed to benefit from healthy demand emerging from 1) access to low fare air travel across domestic and international routes, 2) lucrative international routes across Europe, Asia and Africa & 3) opportunities in cargo segment. It is expected that FY24 to be the best year for INDIGO on 1) anticipated 22% domestic demand growth, comprising 10% pent-up demand. 2) possibility of either permanent GoFirst grounding or major reduction in GoFirst fleet along with other carriers' inability to expand as per plan on global supply chain issues and 3) dip in crude prices. Indian aviation industry offers an immense long-term growth opportunity given its penetration potential coupled with robust demand drivers of underlying macroeconomic growth and growing first-time flyers with regional connectivity. INDIGO is strong rerating candidate, given its strong balance sheet (INR 234 bn), favorable demand growth environment and ramp-up in international traffic. We booked partial profit booking in JB Chemical and increased weight in Credit Access Grameen during the month. With unwavering focus on our portfolio investments on high quality companies with resilient business models and durable growth prospects, we believe that fundamental outlook for these companies remain robust.

### Top 10 Holdings

Name	Weight	Theme	ROE (FY23)	EPS CAGR (2Yrs)
STATE BANK OF INDIA	6.04	Consumption + Digital	16.7	5.8
TITAN CO LTD	5.95	Consumption	30.7	20.0
CRISIL LTD	5.72	GLOCAL	33.5	14.6
RELIANCE INDUSTRIES LTD	5.16	Digital + Consumption	8.3	13.8
BAJAJ FINANCE LTD	5.11	Digital + Consumption	23.5	21.8
MARUTI SUZUKI INDIA LTD	4.95	GLOCAL + Consumption	14.0	35.6
TATA COMMUNICATIONS LTD	4.87	Consumption	147.3	5.4
TIMKEN INDIA LTD	4.84	GLOCAL	21.2	23.5
ABB INDIA LTD	4.83	GLOCAL	22.6	8.6
INFOSYS LTD	4.81	Digital	32.0	11.6

Performance*	1 Month	3 Months	6 Months	1 Year	2 Years	Since Inception
<b>Portfolio (HINP)</b>	4.90%	16.37%	12.69%	25.62%	12.40%	15.15%
<b>BSE 500 TRI ^</b>	4.28%	13.18%	6.78%	23.98%	11.72%	13.31%
<b>BSE 200 ^^</b>	3.80%	11.98%	5.37%	21.45%	10.12%	11.06%

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. ^ Regulatory benchmark ^^ Secondary benchmark, Data as on 30 June 2023

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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%

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	26.99
Consumer Discretionary	17.98
Industrials	13.85
Information Technology	8.85
Energy	5.15
Communication Services	4.86
Health Care	4.51
Real Estate	4.51
Materials	4.28
Consumer Staples	3.75

Market Capitalisation

Large Cap:	50.66%
Mid Cap:	35.34%
Small Cap:	8.73%
Avg. Weighted Market Capitalisation Rs.283,058 Cr	
Median Market Capitalisation Rs.93,727 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	0.7%	2 year EPS CAGR	23.5%
P/E FY24 estimates	35.9x	RoE FY23	28.1%
P/E FY25 estimates	29.9x	Beta:	0.9

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

^ 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.