

HSBC India Next Portfolio

PMS Product Note

January 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 Fixed fee option = INR 5 million Fixed & Performance-linked option = INR 10 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 have delivered strong returns in CY21 & was one of the best performing markets, relative to emerging markets. That rubbed off on the primary market with Indian companies raising a record amount via initial public offerings.

The US fed has made a strong pivot towards tightening in the form of explicit comments for a faster taper and implicit signals for rate increases. RBI is likely to start normalizing its current accommodative monetary stance in a phased manner in CY22.

India's manufacturing PMI hit 10-month high in Nov at 57.6%, a jump from 55.9% in October '21. However, PMI for services dropped moderately to 58.1 in November. FII selling was largely absorbed by DII buying, contributed by both the mutual funds and insurance companies.

India's fiscal balance sheet is in far better shape – GST collections are at record highs, corporate balance sheets repaired and asset quality for banks taken care of. We are confident about the fundamental prospects of India, though we remain extremely mindful of how we are not entirely out of the woods with respect to Covid. The recent emergence of the new Omicron variant has again underscored the fragility of the pandemic environment, re-introducing volatility to stock markets.

Inflation, hiccups in the pandemic recovery and even supply chain disruptions are global headwinds that are not unique to India. However, India is better prepared today in the face of the pandemic and managing interest rate hikes or inflation due to a healthier fiscal and current account position.

Valuations for India have moved up, so there could be some near term consolidation while earnings catch up. However, longer term, the factors driving India's growth are trending well which over time will get reflected in earnings and stock prices.

Key events to watch out in near future are: 3Q results & management commentary, Union Budget and outcome of key assembly elections.

With unwavering focus of our portfolio investments on high quality companies with resilient business models and durable growth prospects, we believe that fundamental outlook for the portfolio companies remain robust.

Top 10 Holdings

Name	Weight	Theme	ROE (FY21)	EPS CAGR (2Yrs)
INFOSYS LTD	6.92	Digital	27.3	16.5
PERSISTENT SYSTEMS LTD	6.73	Digital	17.4	41.8
TITAN CO LTD	5.69	Consumption	13.7	17.5
STATE BANK OF INDIA	5.63	Consumption + Digital	8.4	52.6
RELIANCE INDUSTRIES LTD	5.56	Digital + Consumption	8.5	20.1
BAJAJ FINANCE LTD	4.95	Digital + Consumption	12.8	14.7
TIMKEN INDIA LTD	4.92	GLOCAL	9.8	0.3
J.B. CHEMICALS & PHARMA LTD	4.92	Consumption	27.6	38.5
HDFC BANK LIMITED	4.87	Consumption + Digital	16.6	17.9
AMBUJA CEMENTS LTD	4.83	GLOCAL	10.1	25.7

Portfolio Fundamentals

Dividend yield FY21	0.6%
P/E FY21	53.6x
P/E FY22 estimates	44.9x
P/E FY23 estimates	33.0x
2 year EPS CAGR	25.7%
RoE FY21	18.4%
RoE FY22	28.1%

Performance Attributes

Standard Deviation:	N.A.
Beta:	0.80
Sharpe Ratio:	N.A.

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2 years EPS CAGR: FY21 – 23e, Data as on 31 December 2021 Document Date - 8 January 2022

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	19.10
Information Technology	17.86
Consumer Discretionary	12.88
Materials	12.29
Industrials	8.62
Energy	5.56
Health Care	4.92
Consumer Staples	4.43
Communication Services	3.92
Real Estate	3.86

Market Capitalisation

Large Cap:	55.10%
Mid Cap:	24.80%
Small Cap:	13.54%
Avg. Weighted Market Capitalisation Rs 277,981 Cr	
Median Market Capitalisation Rs 68,775 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.	

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

Performance*

	1 Month	3 Months	6 Months	Since Inception
Portfolio (HINP)	2.93 %	0.10 %	11.09 %	22.72 %
S&P BSE 200	2.04 %	-1.05 %	10.45 %	16.72 %

Returns over 1 year are annualized. Returns are adjusted for inflows/outflows.

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 December 2021 [^] 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.