

# PORTFOLIO MANAGEMENT SERVICES

Newsletter

May 2018



Pramerica

## From the desk of the Portfolio Manager for DHFL Pramerica Deep Value Strategy

Dear Investor,

This month in our Newsletter, we thought it is appropriate to discuss the rationale for one of our recent purchases, simply because we believe this purchase exemplifies what we are trying to do in DHFL Pramerica Deep Value PMS.

We have added Bosch Ltd to the portfolio again. Older investors would recall that we had this stock in the portfolio, but had stopped buying it when the stock sharply rose. It had risen to a price of nearly ₹ 28000 in March 2015. Recently it had fallen to approximately ₹ 17000 when we re-entered the stock.

Bosch is one of the world's leading automotive parts companies. It has extensive R&D and engineering skills, a strong track record, strong market share, a strong balance sheet, good global and local clientele, and very conservative accounting.

### Bosch Ltd - selected financials

DESCRIPTION	Mar-17	Mar-16	Mar-15	Dec-13	Dec-12	Dec-11	Dec-10	Dec-09	Dec-08	Dec-07
Total Income	11735.50	11286.70	12650.80	9109.30	9028.30	8486.10	7089.36	5280.77	5056.26	4661.46
PBIDT	2865.80	2507.90	2546.60	1641.30	1718.70	1832.20	1460.69	1098.24	1167.76	1113.62
PBIT	2409.60	2121.50	1970.20	1257.10	1351.70	1574.40	1206.73	794.60	865.30	859.72
PAT	1741.10	1531.40	1337.70	884.70	958.30	1122.70	858.91	590.65	633.86	609.21
Cash Profit	2197.30	1917.80	1886.10	1268.90	1325.30	1380.50	1112.87	894.28	936.33	863.11
Net Worth	8799.60	9534.90	7347.00	6294.30	5573.30	4728.40	4098.04	3385.23	3095.46	2563.41
Total Debt (Long Term plus Short Term)	0.00	50.00	110.90	183.10	230.40	307.10	276.39	284.31	264.37	245.10
Capital Employed	8799.60	9584.90	7457.90	6477.40	5803.70	5035.50	4374.43	3669.54	3359.82	2808.50
Cash Flow from Operations	1456.70	1317.70	1396.30	1057.00	871.20	444.60	885.91	897.56	483.11	624.53
Free Cash flow	1949.60	1661.80	1618.40	912.00	580.20	242.10	796.70	1051.75	371.18	437.64
<b>Key Ratios</b>										
Debt to Equity(x)	0.00	0.01	0.02	0.03	0.04	0.06	0.07	0.08	0.09	0.10
Current Ratio(x)	1.97	2.06	1.76	1.93	2.04	2.65	1.64	1.63	2.30	1.87
ROCE (%)	26.21	24.90	28.28	20.47	24.94	33.46	30.00	22.61	28.06	34.01
PBIDTM (%)	23.86	21.95	19.74	17.37	18.33	20.89	20.51	21.60	22.93	23.40
PATM (%)	14.50	13.41	10.37	9.36	10.22	12.80	12.06	11.62	12.45	12.80
CPM (%)	18.30	16.79	14.62	13.43	14.14	15.74	15.62	17.59	18.38	18.14

Data Source: ACE Equity

### 10-year valuation history of Bosch Ltd



### **Why we think it fell, and why we think these reasons are not important**

The stock had corrected nearly 40% from its recent peak. The primary reason, we believe, was the impression that electric vehicles would make the diesel and petrol vehicles irrelevant in the long run.

We believe that this fear is largely unfounded. Electric car manufacturers such as Tesla have a 0.2% market share of the US car market. We certainly do not wish to close our eyes to newer technologies, but rather have a realistic estimate of what is going on.

Bosch, through its extensive R&D, has recently announced that diesel NOx emissions would be cut by almost 90%. Bosch's worldwide CEO Dr. VolkmarDenner recently announced a breakthrough in diesel technology, that is, according to the company's press release, not only significantly below current limits, but also those scheduled to come into force from 2020. (Source: auto.ndtv.com).

Our approach in the DHFL Pramerica Deep Value PMS is to buy into strong businesses when they are unpopular. The lack of popularity is when we can enter the stock at a reasonable price. As can be seen from the earlier chart, the present valuation of Bosch Ltd is lower than its 10-year average valuation.

Buying stocks just because they are "cheap" is not what we are trying to do. We would like to buy highly competitive companies with strong balance sheets and future growth prospects, when they are reasonably priced. And companies such as this are "reasonably priced" only when there is some fear associated with that stock.

We believe that diesel and petrol engines will continue to dominate the automotive industry for at least another 2 decades. There are, we believe, significant improvements possible in diesel and petrol engines themselves, and Bosch, as it has recently demonstrated, is in the forefront of such technologies.

### **History of the organization**

Bosch Ltd's parent, Robert Bosch GmbH, is a 131-year old conglomerate with 2017 revenues of 78 billion Euros and net profits of 4.1 billion Euros. The company has been operating in India since 1922, and started manufacturing operations in the country since 1951.

Bosch has a dominant market share in engine management systems (greater than 80% market share in CRDi systems, which is an essential component for complying with the Bharat Stage IV emission norms).

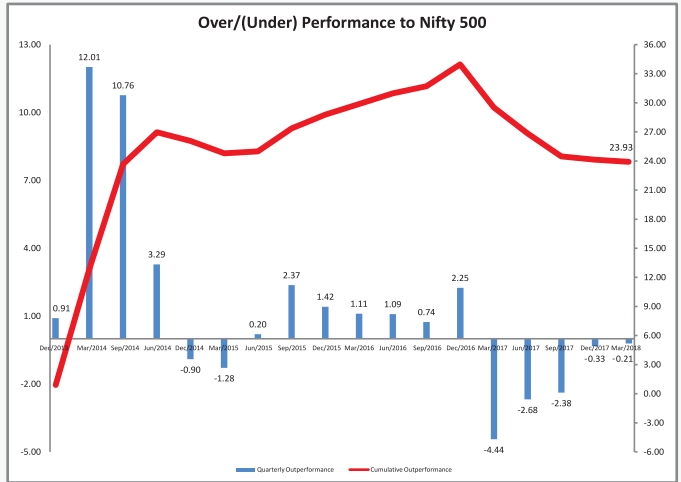
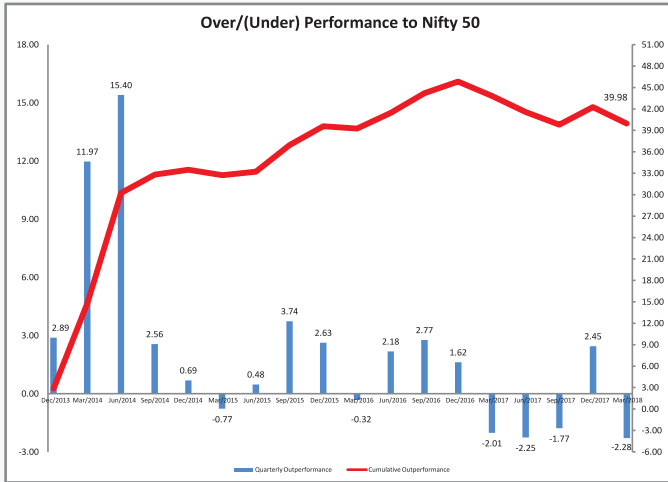
We shall continue to focus on strong businesses, and will buy them when they are unpopular. The caveat is that we should have strong reasons to believe that the company concerned has not lost its basic ability to compete, and that the difficulty it is going through is temporary.

Warm regards,

Yours Sincerely,

(EASundaram)  
Portfolio Manager

# DHFL PRAMERICA DEEP VALUE STRATEGY KEY PORTFOLIO PERFORMANCE INDICATORS



Performance depicted as at the above stated date is based on all the client portfolios under the Regular Portfolio of DHFL Pramerica Deep Value Strategy existing as on such date, using Time Weighted Rate of Return (TWRR) of each client and then computing an arithmetic average for the overall strategy. Past performance may or may not be sustained in future.

### Top 15 Holdings of DHFL Pramerica Deep Value Strategy Discretionary Portfolio Regular Plan as on April 30th, 2018

Date of Purchase	Equity	Sector	%
Sep/2015	State Bank of India	Banking / Financial Services	5.34%
Jul/2013	Container Corporation of India Ltd	Logistics	4.85%
May/2014	Infosys Ltd	IT Services	4.79%
Jun/2015	ITC Ltd	FMCG	4.76%
Oct/2013	Divis Laboratories Ltd	Pharmaceuticals	4.50%
Mar/2015	Castrol India Ltd	Lubricants/oils	4.26%
Jul/2013	Indraprastha Gas Ltd	City Gas Distribution	3.82%
Jan/2016	Oracle Financial Services Software Ltd	IT Services/Products	3.77%
Apr/2016	Sanofi India Ltd	Pharmaceuticals	3.76%
Aug/2013	Cummins India Ltd	Engineering	3.67%
Jun/2016	Amara Raja Batteries Ltd	Batteries - Automobile	3.62%
Feb/2018	Multi Commodity Exchange Of India Ltd	Other Financial Services	3.60%
Jul/2014	Oil & Natural Gas Corporation Ltd	Oil Exploration	3.58%
Nov/2016	Persistent Systems Ltd	Computers - Software	3.37%
May/2017	Abbott India Ltd	Pharmaceuticals	3.30%
	<b>Total</b>		<b>60.99%</b>

### Model Portfolio Details

#### Portfolio Details as on April 30th, 2018

Weighted average RoCE	28.44%
Portfolio PE (1-year forward)	19.26
Portfolio dividend yield	1.33%
Average age of companies	54 Years

#### Portfolio Composition as on April 30th, 2018

Large Cap	47.50%
Mid Cap	26.25%
Small Cap	16.50%
Cash	9.75%

**Large Cap:** Market cap of the 100th company in the Nifty 500 (sorted by market cap in descending order) as on April 30th, 2018.

**Midcap:** Market cap below 100th company to the market cap of the 300th company in the Nifty 500 (sorted by market cap in descending order) as on April 30th, 2018.

**Small Cap:** Market cap lower than the 300th company in the nifty 500 (sorted by market cap in descending order) as on April 30th, 2018.

The above holding represents top 15 holdings of DHFL Pramerica Deep Value Strategy - Regular Portfolio based on all client portfolios existing as on the date stated above, excluding any temporary cash investments. The above holdings do 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 holdings are for illustration purpose only and it should not be considered as investment recommendation or analysis or advice or opinion from the Portfolio Manager on the above mentioned stocks. The above portfolio holdings are provided on an "as is" basis, and the Portfolio Manager makes no express or implied warranties or representations with respect to the accuracy, completeness, reliability, or fitness of the above portfolio holdings or any financial results you may achieve from their use. In no event shall the Portfolio Manager, its directors or employees or its affiliates have any liability relating to the use of the portfolio holdings.

## DHFL Pramerica Deep Value Strategy Portfolio Performance as on April 30th, 2018

Period	Portfolio	NIFTY 50	NIFTY 500
1 Month	4.81%	6.19%	6.56%
3 Months	-1.76%	-2.61%	-2.08%
6 Months	3.56%	3.91%	3.75%
1 Year	9.09%	15.43%	15.61%
2 Years	14.25%	16.98%	20.07%
3 Years	10.06%	9.49%	12.05%
Since inception date 08/07/2013	24.82%	13.38%	16.59%
Portfolio Turnover Ratio*	20.28%		

\*Portfolio Turnover ratio for the period 1st May 2017 to 30th April 2018

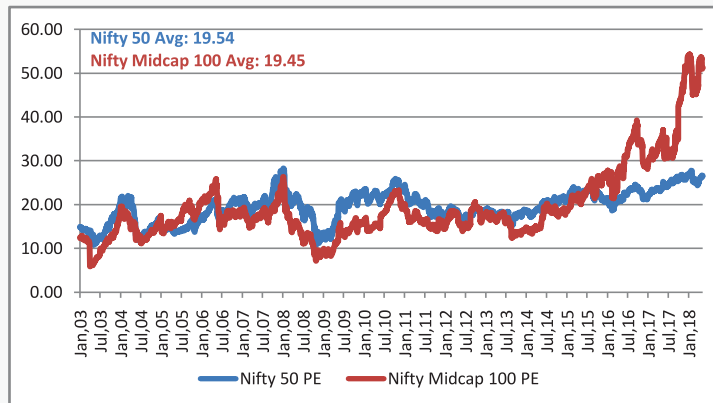
**Important Disclosures regarding the consolidated portfolio performance:** Performance depicted as at the above stated date is based on all the client portfolios under the Regular Portfolio of DHFL Pramerica Deep Value Strategy existing as on such date, using Time Weighted Rate of Return (TWRR) of each client and then computing an arithmetic average for the overall strategy. Past performance is no guarantee of future returns. The above portfolio performance is after charging of expenses (as depicted above). Return for period upto 1 year is absolute. Since inception date stated is considered to be the date on which the first client investment was made under the strategy. 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 mandate, specific portfolio construction characteristics or other structural parameters. These factors may have impact on client portfolio performance and hence may vary significantly from the performance data depicted above. Neither the Portfolio Manager, nor its directors or employees shall in any way be liable for any variation noticed in the returns of individual client portfolios. The Portfolio Manager does not make any representation that any investor will or is likely to achieve profits or losses similar to those depicted above.

**Investment objective of DHFL Pramerica Deep Value Strategy:** DHFL Pramerica Deep Value Strategy seeks to generate returns by investing in a portfolio of value stocks which have the potential of superior wealth creation over long term.

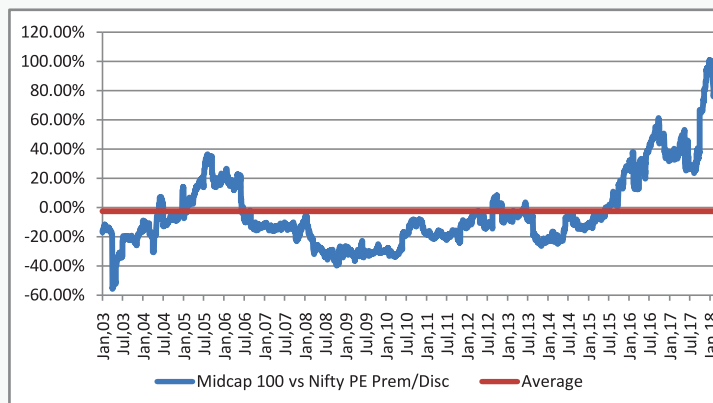
## From the desk of the Portfolio Manager for DHFL Pramerica Phoenix Strategy

Dear Investor

In this newsletter, we wish to articulate our views on the mid cap valuations and how are we placing our bets and what risks we are trying to avoid.



Source of Data:- NSE Website



Source of Data: - NSE Website & Internal Working

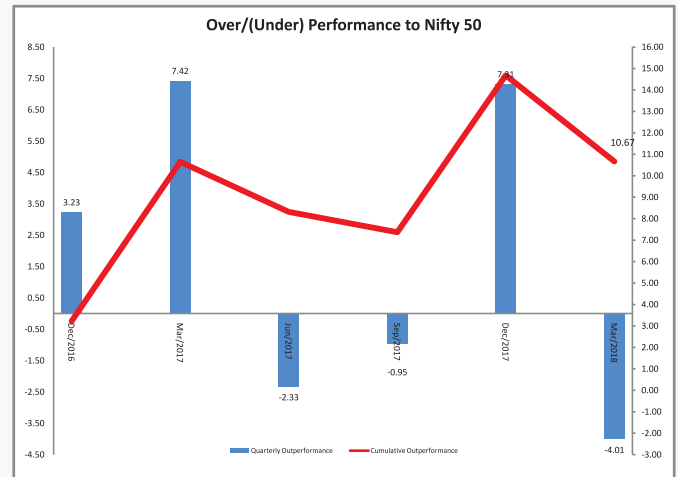
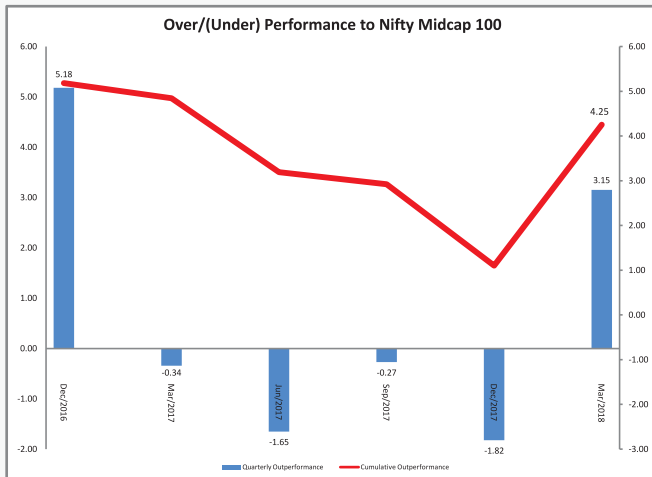
The valuations of midcap are at elevated levels in comparison to last 15 years history and are also at a 92% premium to Nifty PE as on 7th May 2018. That is one of the reasons why we are extremely careful in investing at the current juncture. Some of the ways in which we are trying to take care of the valuation risks are:-

1. Invest new client's money over a reasonable period in the market.
2. Try to keep limited number of companies where the leverage is high (debt / equity more than 0.5). Other than banks; companies where leverage is high are Prestige Estates (D/E is 1.25), Sobha Realty (D/E is 0.8), Inox Leisure (D/E is 0.6), Pokarna Ltd (D/E is 1.3) and Himatsingka Seide (D/E is 1.9). The total weightage of all these companies in the portfolios is approximately 14%.
3. Focus on companies which have healthy operating cash flows and pay dividends regularly. In our view dividends play a key role in wealth creation over the longer term and can be a regular source of money to reinvest in the markets. Ahluwalia contracts Ltd., MPS and Inox leisure are the three companies in our portfolio which did not pay dividends last year.
4. Minimize the number of companies where the valuations are expensive. In last eighteen months the following companies in our portfolio have done a buyback of shares MOIL, FDC, JB chemicals, Sobha, Apar Industries, Techno Electric and Mayur Uniquoters. Besides low Price to Earnings ratio (14 times FY 19) of the portfolio this should be another important indicator for our investors; that we are genuinely trying to buy stocks where there is value. Few stocks where the valuations in last few months have run up and we continue to keep in our portfolio because of better growth prospects are Oberoi Realty, Sobha, Prestige, Ahluwalia contracts, DCB Bank and Hexaware technologies.
5. Have a well-diversified portfolio of stocks from various sectors so that even if one sector or stock goes down the portfolio does not get impacted very sharply. Currently the highest weightage for a sector is approx. 15% for banks and then real estate whose weightage is approx. 7%. The portfolio is currently more diversified than what we would like to have in an ideal situation.
6. Always have some amount of cash to capitalize on the volatility in the market.

We would like to assure our investors that we are cognizant of the inherent valuation risks in the market and are being very careful in investing their money in the mid & small cap space.

Himanshu Upadhyay  
Portfolio Manager (Phoenix Strategy)

# DHFL PRAMERICA PHOENIX STRATEGY KEY PORTFOLIO PERFORMANCE INDICATORS



Performance depicted as at the above stated date is based on all the client portfolios under DHFL Pramerica Phoenix Strategy existing as on such date, using Time Weighted Rate of Return (TWRR) of each client and then computing an arithmetic average for the overall strategy. Past performance may or may not be sustained in future.

## Top 15 Holdings of DHFL Pramerica Phoenix Strategy as on April 30th, 2018

Date of Purchase	Equity	Sector	%
Aug/2016	Great Eastern Shipping Co Ltd	Shipping	4.21%
Jan/2018	Vijaya Bank	Banks	3.99%
Sep/2016	D B Corp Ltd	Printing And Publishing	3.53%
Aug/2016	Federal Bank Ltd	Banks	3.38%
Aug/2016	JB Chemicals & Pharmaceuticals Ltd	Pharmaceuticals	3.33%
Aug/2016	Greaves Cotton Ltd	Diesel Engines	3.32%
Jan/2018	Indian Bank	Banks	3.27%
Aug/2016	Ahluwalia Contracts India Ltd	Cement Products	2.90%
Oct/2016	DCB Bank Ltd	Banks	2.80%
Dec/2017	Himatsingka Seide Ltd	Fabrics And Garments	2.79%
May/2017	MOIL Ltd	Industrial Minerals	2.69%
Jan/2017	Techno Electric & Engineering Co Ltd	Engineering-Designing-Construction	2.68%
Feb/2017	Sanofi India Ltd	Pharmaceuticals	2.67%
Sep/2016	Apar Industries Ltd	Power Equipment	2.67%
Sep/2017	Pokarna Ltd	Sanitary Ware	2.59%
	<b>Total</b>		<b>46.82%</b>

## Model Portfolio Details

Portfolio Details as on April 30th, 2018	
Weighted average RoE	14.08%
Portfolio PE (1-year forward )	13.85
Portfolio dividend yield	1.25%

Portfolio Composition as on April 30th, 2018	
Large Cap	3.75%
Mid Cap	26.00%
Small Cap	57.75%
Cash	12.50%

**Large Cap:** Market cap of the 100th company in the Nifty 500 (sorted by market cap in descending order) as on April 30th, 2018.

**Midcap:** Market cap below 100th company to the market cap of the 300th company in the Nifty 500 (sorted by market cap in descending order) as on April 30th, 2018.

**Small Cap:** Market cap lower than the 300th company in the nifty 500 (sorted by market cap in descending order) as on April 30th, 2018.

The above holding represents top 15 holdings of DHFL Pramerica Phoenix Strategy based on all the client portfolios under DHFL Pramerica Phoenix Strategy existing as on the date stated above, excluding any temporary cash investments. The above holdings do 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 holdings are for illustration purpose only and it should not be considered as investment recommendation or analysis or advice or opinion from the Portfolio Manager on the above mentioned stocks. The above portfolio holdings are provided on an "as is" basis, and the Portfolio Manager makes no express or implied warranties or representations with respect to the accuracy, completeness, reliability, or fitness of the above portfolio holdings or any financial results you may achieve from their use. In no event shall the Portfolio Manager, its directors or employees or its affiliates have any liability relating to the use of the portfolio holdings.

## DHFL Pramerica Phoenix Strategy Portfolio Performance as on April 30th, 2018

Period	Portfolio	Nifty Midcap 100	Nifty 50
1 Month	5.83%	8.17%	6.19%
3 Months	1.49%	-2.38%	-2.61%
6 Months	7.87%	3.64%	3.91%
1 Year	14.99%	12.19%	15.43%
Since inception date 01/08/2016	22.61%	19.92%	13.27%
Portfolio Turnover Ratio*	27.75%		

\*Portfolio Turnover ratio for the period 1st May 2017 to 30th April 2018

**Important Disclosures regarding the consolidated portfolio performance:** Performance depicted as at the above stated date is based on all the client portfolios under DHFL Pramerica Phoenix Strategy existing as on such date, using Time Weighted Rate of Return (TWRR) of each client and then computing an arithmetic average for the overall strategy. Past performance is no guarantee of future returns. The above portfolio performance is after charging of expenses (as depicted above). Return for period upto 1 year is absolute. Since inception date stated is considered to be the date on which the first client investment was made under the strategy. 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 mandate, specific portfolio construction characteristics or other structural parameters. These factors may have impact on client portfolio performance and hence may vary significantly from the performance data depicted above. Neither the Portfolio Manager, nor its directors or employees shall in any way be liable for any variation noticed in the returns of individual client portfolios. The Portfolio Manager does not make any representation that any investor will or is likely to achieve profits or losses similar to those depicted above.

**Investment objective of DHFL Pramerica Phoenix Strategy:** The objective of the strategy is to generate capital appreciation over the long term by investing in a portfolio of equity of Indian companies

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This document is dated May 10, 2018.

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