

# PORTFOLIO MANAGEMENT SERVICES

Newsletter

July 2018



Pramerica

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

Dear Investor,

You would have observed that over the years, our approach to investing has been consistent. We focus on identifying businesses that are strong and capable of effectively competing in their respective businesses, but we buy them when such businesses are priced not-too-expensively.

The stocks of such strong companies are available at not-too-expensive prices only when such companies are going through a period of uncertainty. In this, two points are essential for long-term success:

- Never deviate from the principle of buying only companies with very strong balance sheets, and where there is confidence that their primary ability to compete has not been eroded; and
- With reasonable diligence of research, we should be confident that the difficulty that the company is going through is temporary, and not a terminal difficulty.

Let us remind you of some stocks that were causing some consternation to investors one year ago, and how they have performed during the past year:

Company	Price (July 2017)	Price (July 2018)	(*) % rise	Reason for earlier fear
Infosys	951	1343	41.2%	Management concerns, slow growth, Visa issues
Persistent Systems	669	808	20.7%	Slow growth, visa issues
Divi's Laboratories	670	1064	58.8%	US FDA notification
Abbott India	4209	7070	67.9%	Pharma slowdown
Sanofi India	4160	5156	23.9%	Pharma slowdown

(\*) 3rd July 2018

Right now, there are some stocks that are likely to be causing some concerns to you. Let us discuss our views on a couple of them in this note.

### Castrol India Limited

The company is showing an undiminished robustness in its ability to compete. These are selected performance indicators:

Parameters	CY08	CY09	CY10	CY11	CY12	CY13	CY14	CY15	CY16	CY17
Revenues (₹ million)	22,057.00	23,279.9	27,429.00	29,932.00	31,209.00	31,796.00	33,923.00	32,980.00	33,579.3	35,843.00
Operating profit (₹ million)	3,998.00	5851.9	7,332.00	6,698.00	6,225.00	6,877.00	7,167.00	8,948.00	10,048.7	10,330.00
Net profit (₹ million)	2624.5	3811.2	4,903.00	4,810.00	4,474.00	5,087.00	4,746.00	6,152.00	6,749.1	6,918.00
Total volumes sold (KL)	214,578	204,536	219,134	208,694	203,900	196,800	194,900	191,000	199,200	204,600
Operating profit per KL (₹)	18.63	28.61	33.46	32.09	30.53	34.94	36.77	46.85	50.45	50.49
Net profit per KL (₹)	12.23	18.63	22.37	23.05	21.94	25.85	24.35	32.21	33.88	33.81
Return on Capital Employed	91.3%	120.1%	141.2%	124%	106.7%	109.2%	116.8%	177.5%	133.8%	107.00%
Free cash flow (₹ Crores)	131.53	555.2	483.61	384.77	452.64	414.86	518.06	728.86	704.72	616.51

### Data source : ACE Equity

The slowdown this year is, we are confident, a temporary slump, caused by the after-effects of the twin steps of demonetization and the GST implementation. In a country where auto sales are robust, it is unlikely that the best-known lubricant company is going to face a permanent setback in sales.

The stock is now quoting at a PE multiple of about 21 times (one-year forward earnings, according to the consensus estimates of Bloomberg), compared to its 10-year average PE Multiple of 27 times.

### Great Eastern Shipping

We had discussed this company in a previous newsletter, but since then the stock has further corrected. We retain our view on the company and would like to reiterate it here:

GE Shipping is a 70-year old company, and a market leader in this field. It has a diversified business mix of dry bulk carriers, oil tankers, petroleum product tankers, oil rigs, and offshore supply vessels.

- Brent crude has risen from about US \$ 50 per barrel to US \$ 78.2 per barrel in the past year. It is, in our opinion, reasonable to assume that the rig rates, OSV rates and oil tanker charter rates would rise in response to rise in crude rates.
- The scrapping of old ships is increasing, according to media reports, and also confirmed by the management in a recent meeting. This augurs well for fleets that are still competing.
- The capex on new ships is almost at the end for this cycle, leading to better cash flows
- The stock is available at a dividend yield of 2.7%, and at a discount of about 30% to its estimated net asset value.
- The stock is trading at its lowest valuation in a decade.

Dear investor, in both these cases, the company concerned is a market leader, has a strong balance sheet, and an undisputed ability to compete. Reasons that (we are confident) are temporary have been the cause of the shares being depressed, thus providing an opportunity for investors to buy them relatively inexpensively.

The same things we did in Infosys, Divi's and Persistent about a year ago, we are doing in these stocks now.

We would like to reassure you that every one of these decisions is fully consistent with the mandate of the product.

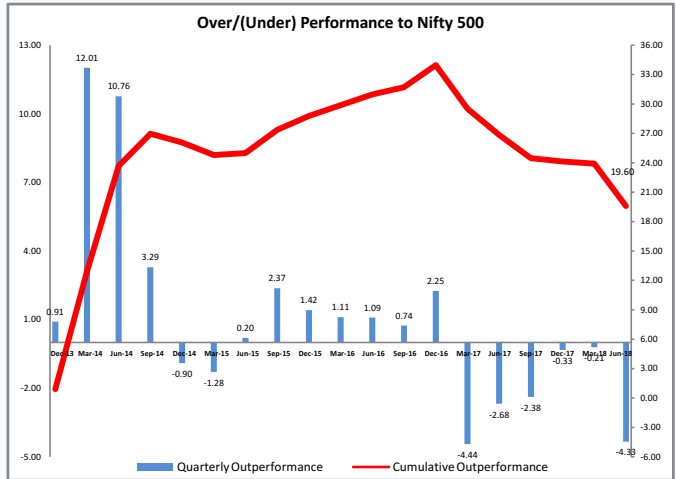
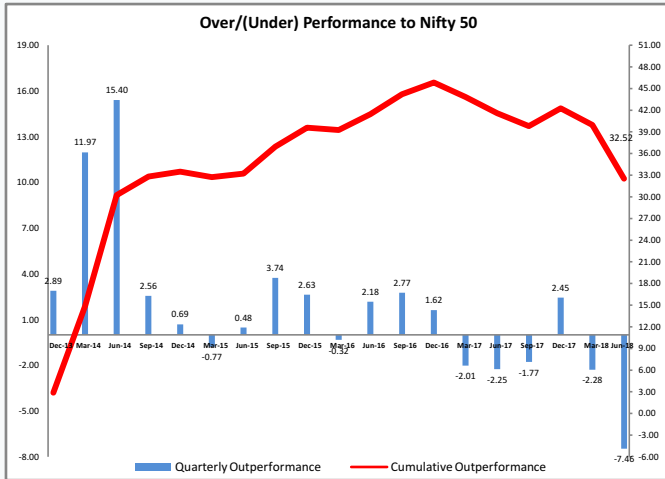
Warm regards,

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 June 30th, 2018

Date of Purchase	Equity	Sector	%
Sep/2015	State Bank of India	Banking/Financial Services	6.03%
Jul/2013	Container Corporation of India Ltd	Logistics	5.14%
Jun/2015	ITC Ltd	FMCG	4.86%
May/2014	Infosys Ltd	IT Services	4.57%
Jul/2013	Indraprastha Gas Ltd	City Gas Distribution	4.21%
Apr/2016	Sanofi India Ltd	Pharmaceuticals	4.16%
Mar/2015	Castrol India Ltd	Lubricants/oils	3.85%
Oct/2013	Divis Laboratories Ltd	Pharmaceuticals	3.75%
Feb/2018	Multi Commodity Exchange Of India Ltd	Other Financial Services	3.70%
Jan/2016	Oracle Financial Services Software Ltd	IT Services/Products	3.63%
May/2017	Abbott India Ltd	Pharmaceuticals	3.55%
Aug/2013	Cummins India Ltd	Engineering	3.43%
Oct/2017	Power Grid Corporation Of India Ltd	Power-Transmission	3.35%
Jun/2016	Amara Raja Batteries Ltd	Batteries - Automobile	3.26%
Jul/2014	Oil & Natural Gas Corporation Ltd	Oil Exploration	3.19%
<b>Total</b>			<b>60.68%</b>

### Model Portfolio Details

#### Portfolio Details as on June 29th, 2018

Weighted average RoCE	27.01%
Portfolio PE (1-year forward )	24.32
Portfolio dividend yield	1.44%
Average age of companies	54 Years

#### Portfolio Composition as on June 29th, 2018

Large Cap	41.75%
Mid Cap	29.25%
Small Cap	14.00%
Cash	15.00%

**Large Cap:** Market cap of the 100th company in the Nifty 500 (sorted by market cap in descending order) as on June 29th, 2018.

**Midcap:** Market cap below 100th company to the market cap of the 250th company in the Nifty 500 (sorted by market cap in descending order) as on June 29th, 2018.

**Small Cap:** Market cap lower than the 250th company in the nifty 500 (sorted by market cap in descending order) as on June 29th, 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 June 29th, 2018**

Period	Portfolio	NIFTY 50	NIFTY 500
1 Month	-3.80%	0.76 %	-1.17 %
3 Months	-1.52%	5.94 %	2.81 %
6 Months	-7.49%	1.74 %	-3.46 %
1 Year	3.95%	12.73 %	10.38 %
2 Years	10.56%	14.29 %	15.19 %
3 Years	9.43%	8.80 %	10.21 %
Since inception date 08/07/2013	22.46%	12.86 %	15.17 %
Portfolio Turnover Ratio*	21.30%		

\*Portfolio Turnover ratio for the period 1st July 2017 to 30th June 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 Investors,

In this month's newsletter we will share our thoughts on Federal bank which we have in our portfolio and why we chose it.

**Federal bank has a good CASA (Current Account and Saving Account) ratio.** At the end of Q4FY 18 it was at 33.26% which was at 30.4% in Q4 FY15. Management expects it to reach 35% by FY 2019 end. The other important thing to remember is they have grown their SA balances not at 5% or 6% which other banks have done but at 3.5% which helps in keeping the cost of deposits low. 88% of deposits are from retail depositor's which is more stickier deposit base. Having low cost of deposits helps a financial institution to choose a customer which is low risk on the loan side also. We like Federal bank for its increasing CASA ratio and at low rates.

**Federal Bank has a well-diversified loan book.** The agriculture and retail is 38%, SME is 21% and corporate is 41%. Also, its share of corporates rated BBB and above as of Q4 FY 2018 is 91% which was 72% at the end of Q4 FY 2016. We think it will be a good strategy over the long-term for the bank as it will add scalability to loan book and gets more business from these customers (like salary accounts of the employees, Channel financing etc,) it also reduces the probability of loans turning bad and its cost of deposits are at levels where it can make profits by servicing these customers.

**Federal bank has a 15% market share in the remittances in FY2018 which was at 10% in FY2015.** The Non- Resident Deposits is 40% of its deposit base in FY 18 versus 34.2% in FY2015. Earlier the bank was focused solely on the state of Kerala for remittances but has now focused on increasing the remittances from outside of Kerala also and it contributes to more than 10% of the remittances business. We like the banks focus on this niche business and strategy to grow this business. The bank had expanded in states of Punjab, Haryana and Gujarat which can also give good Non- Resident deposits and can help it increase the market share in remittances.

**Federal Bank has a high and growing market share in Kerala in both deposits and loan accounts.** Despite the entrant of new and larger competitors entering the state of Kerala the bank has grown its market share in both deposits and loans.

Bank wise break-up of deposits and loans in Kerala, March fiscal year-ends, 2015-3QFY18 (%)

	Deposit share in Kerala (%)					Loans share in Kerala (%)				
	2015	2016	2017	2QFY18	3QFY18	2015	2016	2017	2QFY18	3QFY18
State Bank group	33.1	33.5	33.2	33.2	32.9	28.9	27.5	26.7	24.0	23.6
Nationalized banks	27.4	26.4	26.1	25.9	25.7	34.2	32.9	32.8	32.5	33.2
Canara Bank	7.4	6.8	7.2	7.1	7.2	0.0	9.2	8.7	8.8	9.4
Others	20	19.6	18.9	18.8	18.6	25.2	23.7	24.0	23.7	23.8
Private-sector banks	36.1	37.2	37.7	38.0	37.9	32.2	34.5	35.2	38.1	37.7
Federal Bank	14.1	14.7	15.5	15.5	15.6	10.5	11.1	10.8	13.2	11.5
South Indian Bank	8.3	8.3	8.4	8.4	8.1	6.3	6.9	7.1	7.3	7.8
Axis Bank	1.6	1.8	1.9	2.0	2	2.5	2.7	2.7	2.7	2.8
HDFC Bank	2.8	3.0	3.1	3.3	3.3	4.3	4.8	5.2	5.7	5.6
ICICI Bank	1.8	1.8	2.1	2.0	2.2	2.0	2.3	2.7	2.6	3.0
Others	7.6	7.5	6.8	6.8	6.6	6.6	6.6	6.6	6.6	7.1
Others (RRB, foreign banks)	3.3	2.9	3.0	2.9	3.5	4.8	5.1	5.4	5.4	5.5

Source: Kotak Research Report

The bank is growing its business now outside the state of Kerala at a rate faster than in Kerala. This should over a period help it in being a better geographically diversified bank.

**Federal bank has a stable management with not much churn at the top level.** In a financial service company, the stability of management is important for growth, to build a culture and to maintain the trust of the customers.

There are two things which have spoilt the overall growth story and are the challenges for the bank:

- Volatility in the NPA numbers.** The Net NPA for the bank in Q4 FY2018 increased by 41 bps to 1.69%. We expect this number to gradually reduce by the Financial Year end. What gives us comfort that there would not be many hidden cockroaches in the balance sheet is in last two RBI audits (for FY 2016 & FY 2017) there have not been any large divergences in asset classification and provision requirement.

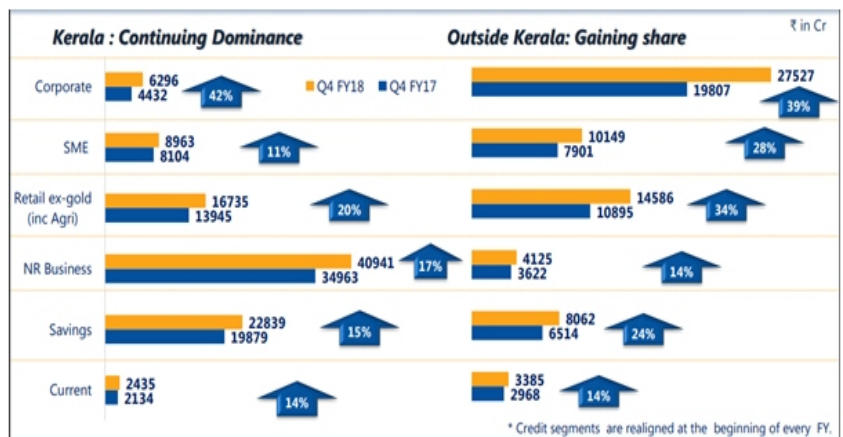
In a lending business NPA's are bound to happen. In a bad economic environment, the companies will fail and find it difficult to repay the loans. But what a management can do is to minimize the exposure to clients which can get distress in future. We remain circumspect of financial institutions which grow rapidly and don't show any NPA's even when all other are having stressful loans. In the end what we need to remember everybody is fishing in the same pond. If everybody is fishing at the same time and same place the results cannot be materially different.

- High cost to income ratios.** Federal bank ended FY 2018 with cost to income ratio of 52.82. It is because of low other income and some interest income reversals.

Currently we own Federal Bank with 4% weightage in our client portfolios. The stock trades at 1.3 times Price to Book Value (Book Value as of Q4 FY2018 is 61.55). Post Q1 results we will relook at the position.

Yours Sincerely,

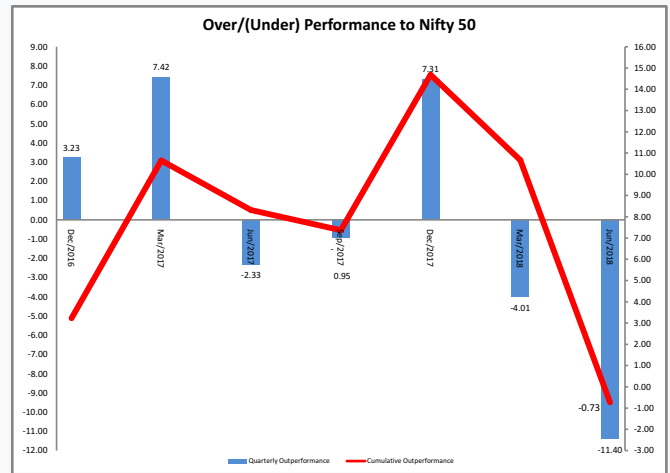
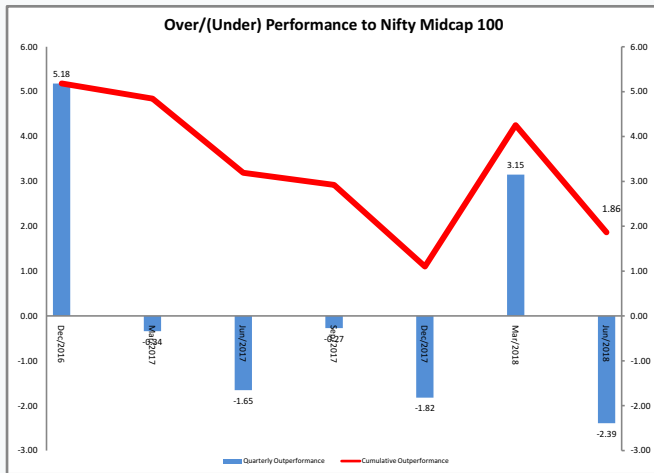
**Himanshu Upadhyay**  
Portfolio Manager (Phoenix Strategy)



Source: Federal Bank



# DHFL PRAMERICA PHOENIX STRATEGY KEY PORTFOLIO PERFORMANCE INDICATORS



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

Date of Purchase	Equity	Sector	%
Aug/2016	Great Eastern Shipping Co Ltd	Shipping	4.84%
Aug/2016	Greaves Cotton Ltd	Diesel Engines	4.56%
Jan/2018	Vijaya Bank	Banks	4.35%
Jan/2018	Indian Bank	Banks	4.31%
Aug/2016	Prestige Estates Projects Ltd	Residential/ Commercial/Sez Project	4.07%
Aug/2016	JB Chemicals & Pharmaceuticals Ltd	Pharmaceuticals	4.07%
Sep/2016	D B Corp Ltd	Printing And Publishing	4.01%
Aug/2016	Federal Bank Ltd	Banks	3.87%
Apr/2017	Hexaware Technologies Ltd	Computers - Software	3.50%
Aug/2016	Ahluwalia Contracts India Ltd	Cement Products	3.46%
Feb/2017	Sanofi India Ltd	Pharmaceuticals	3.43%
Sep/2017	Pokarna Ltd	Sanitary Ware	3.26%
Jan/2017	Techno Electric & Engineering Co Ltd	Engineering-Designing-Construction	3.25%
Dec/2017	Himatsingka Seide Ltd	Fabrics And Garments	3.16%
May/2017	MOIL Ltd	Industrial Minerals	2.96%
	<b>Total</b>		<b>57.10%</b>

## Model Portfolio Details

### Portfolio Details as on June 29th, 2018

Weighted average RoE	13.20%
Portfolio PE (1-year forward )	12.93
Portfolio dividend yield	1.19%

### Portfolio Composition as on June 29th, 2018

Large Cap	0.00%
Mid Cap	21.50%
Small Cap	63.00%
Cash	15.50%

**Large Cap:** Market cap of the 100th company in the Nifty 500 (sorted by market cap in descending order) as on June 29th, 2018.

**Midcap:** Market cap below 100th company to the market cap of the 250th company in the Nifty 500 (sorted by market cap in descending order) as on June 29th, 2018.

**Small Cap:** Market cap lower than the 250th company in the nifty 500 (sorted by market cap in descending order) as on June 29th, 2018.

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## DHFL Pramerica Phoenix Strategy Portfolio Performance as on 29<sup>th</sup> June, 2018

Period	Portfolio	Nifty Midcap 100	Nifty 50
1 Month	-5.46%	-4.23 %	0.76 %
3 Months	-5.46%	-3.07 %	5.94 %
6 Months	-11.81%	-13.97 %	1.74 %
1 Year	4.01%	3.30 %	12.73 %
Since inception date 01/08/2016	13.69%	11.48 %	11.93 %
Portfolio Turnover Ratio*	24.44%		

\*Portfolio Turnover ratio for the period 1st July 2017 to 30th June 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 July 10, 2018.

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