

# PORTFOLIO MANAGEMENT SERVICES

Newsletter: April 2019

DHFL Pramerica Core Equity Portfolio Strategy



Pramerica

Dear Investor,

Over the past few days I got a chance to meet some of our investors and channel partners. In this month's newsletter I wish to elaborate on some of the points which were discussed at length.

“The longer the bull market lasts the more severely investors will be affected with amnesia; after five years or so, many people no longer believe that bear markets are possible.”

**- Benjamin Graham, The Intelligent Investor**

One of the discussion points was, “We sell a stock we are holding too early and don't participate in the rally” (E.g. HDFC Bank, Sundaram Finance, NALCO etc.). Our purchase decision is based on evaluating a company on four parameters management, business, financial and valuation. If there is any deterioration in the quality of management, business, finance or stocks become overvalued, we sell. In our opinion all four are equally strong and good reason to sell. In our investment process focus on valuation is an anchor which helps us in maintaining sanity in a highly irrational market.

Our firm belief is how good a company is, beyond a price it must be sold. The stock may go up for a period significantly above its fair value but eventually it will come to its fair value and may fall significantly below it once the euphoria gets over. For example, Eicher motors a strong company (which we appreciate for its achievements) led by a disciplined management, focused on its core product, great brand recall, good financials but in a business, which is cyclic by nature. In last few years the company has delivered exceptional performance. Till few months back whoever owned the stock was a good fund manager. It being in a portfolio meant that the portfolio was good. As the sales started to taper down, the consensus EPS estimates of Eicher started coming down. From beginning of 2018 the EPS estimates for FY 2019 have come down by nearly 20% and the stock has lost more than a third of its value. Resulting in whoever had owned it for last 4 years had abysmal returns despite the company having done very well over the last few years.

Change in FY 2019 EPS estimate for Eicher over last 3 yrs.:-



Source: Bloomberg

DESCRIPTION	Dec-14	Mar-16	Mar-17	Mar-18
Inc / Exp Performance				
Gross Sales	9351.74	6971.13	7939.45	9219.26
Total Income	8845.76	6351.55	7260.69	9245.06
Total Expenditure	7623.54	4483.85	4859.41	6157.33
PBIDT	1222.22	1867.70	2401.28	3087.73
PBIT	1002.40	1731.10	2247.47	2864.43
PBT	992.62	1728.98	2243.91	2859.09
PAT	701.74	1190.10	1523.61	1923.16
Market Cues				
Close Price (Unit Curr.)	15104	19140	25554	28337
Adjusted EPS	227.07	492.65	612.67	718.88



Source: ACE Equity

For sake of illustration we have taken two more cases of bellwether stocks which were and are widely covered: -

One is of Reliance where from FY 07 to FY 14 the revenue and profits grew by 20.6% and 9.3% CAGR respectively but still the returns were abysmal and had somebody bought it in 2008 the returns would have been negative for next few years.

Reliance Industries	Mar-07	Mar-08	Mar-09	Mar-10	Mar-11	Mar-12	Mar-13	Mar-14	CAGR%
Revenues (Rs. Crores)	120431.10	143004.98	155788.51	211727.07	276372.00	368571.00	408392.00	446339.00	
Growth in revenues%		18.7%	8.9%	35.9%	30.5%	33.4%	10.8%	9.3%	20.6%
Net profits	12074.74	19523.24	14950.31	24423.58	19272.00	19717.00	20886.00	22548.00	
Growth in net profits%		61.7%	-23.4%	63.4%	-21.1%	2.3%	5.9%	8.0%	9.3%
EBITDA margin%	17.25	20.35	16.26	19.69	14.69	11.04	10.02	9.81	
Debt/Equity	0.52	0.61	0.70	0.49	0.57	0.56	0.59	0.70	
Share price	339.00	569.00	379.00	544.00	524.00	362.00	387.00	457.00	4.4%

Source: ACE Equity

The other case is of Infosys where the revenue and profits grew by 47% and 45% CAGR respectively but the stock returns were only 9%.

Infosys Ltd. [INR-Crore]	Mar-00	Mar-01	Mar-02	Mar-03	Mar-04	Mar-05	Mar-06	Mar-07	CAGR
Inc I Exp Performance									
Total Income	921	1960	2670	3729	4888	6987	9255	13524	47%
Total Expenditure	542	1150	1565	2380	3186	4534	6121	8925	49%
PBIDT	379	810	1105	1349	1702	2453	3134	4599	43%
PBIT	326	697	944	1160	1471	2185	2725	4130	44%
PBT	326	696	943	1159	1470	2184	2724	4129	44%
PAT	286	623	808	958	1243	1859	2421	3777	45%
Close Price (Unit Curr.)	139	64	58	63	77	141	186	252	9%
Adjusted EPS	0.68	1.47	1.91	2.26	2.92	4.30	5.48	8.25	43%

Source: ACE Equity

In the financial markets, hindsight is forever 20/20, but foresight is legally blind. And thus, for most investors, market timing is a practical and emotional impossibility. - **Benjamin Graham, The Intelligent Investor**

Another point of recurring discussion was, “We have been too focused on value and not growth.” We don’t agree to this point. In markets we make money if our judgement about the growth of the company is better than other participants. For example, if market assumes that the company will grow by 7% and our assumption is that the company will do better than 7% and in future the company delivers 10% growth we will get rewarded vice versa if the markets assumes the company will deliver 30% growth and we also make similar assumptions but eventually the company delivers only 20% growth we will lose capital. Currently we are seeing such a scenario happening in auto related stocks where the growth numbers are below the market expectations.

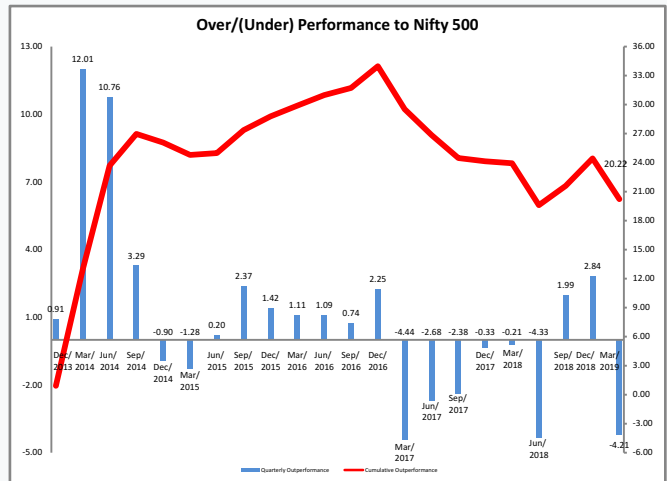
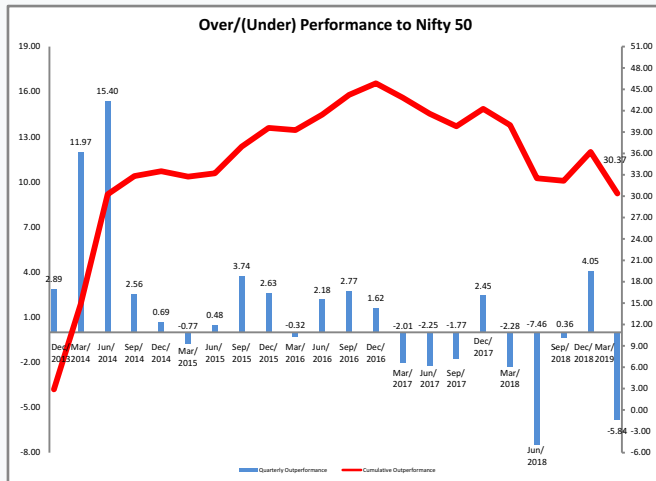
In simple terms the returns you generate by owning a stock is not dependent on what growth the company delivers in future but on the day of owning what was the implied growth in the stock price and what growth eventually the company delivers. We would like to own a company which can grow 20% but we would like to pay for much lower growth and that is an important risk mitigation part of our strategy.

The problem with buying a great company at any price is “Future was, is and will always remain uncertain. The uncertainty of future is the inherently risk in investments.” The only way we can minimize the risk of uncertainty is by not overpaying for the future and selling a stock in the portfolio whenever the justification of price requires very high growth assumption.

Yours Sincerely,

**(Himanshu Upadhyay)**  
Portfolio Manager

# DHFL PRAMERICA CORE EQUITY PORTFOLIO 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 Core Equity Portfolio 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 Core Equity Portfolio Strategy Discretionary Portfolio Regular Plan as on March 29th, 2019

Date of Purchase	Equity	Sector	%
Sep/2015	State Bank of India	Banking / Financial Services	6.79%
Jun/2015	ITC Ltd	FMCG	4.92%
Jul/2013	Indraprastha Gas Ltd	City Gas Distribution	4.88%
Jul/2013	Container Corporation of India Ltd	Logistics	4.88%
May/2018	Bharat Electronics Ltd	Industrial Electronics	4.65%
Mar/2015	Castrol India Ltd	Lubricants / oils	4.62%
Feb/2018	Multi Commodity Exchange Of India Ltd	Other Financial Services	4.49%
Aug/2013	Cummins India Ltd	Engineering	4.23%
Oct/2017	Power Grid Corporation Of India Ltd	Power- Transmission	4.03%
Jan/2016	Oracle Financial Services Software Ltd	IT Services / Products	3.85%
Aug/2013	Great Eastern Shipping Co Ltd	Shipping	3.20%
Jan/2018	Bank Of Baroda	Banks	3.18%
Jun/2018	Ge Power India Ltd	Power Equipment	3.05%
May/2014	Infosys Ltd	IT Services	3.01%
Jul/2013	Engineers India Ltd	Consulting	2.98%
	<b>Total</b>		<b>62.76%</b>

## Model Portfolio Details

### Portfolio Details as on March 29th, 2019

Weighted average RoCE	23.58%
Portfolio PE (1-year forward ) (Based on FY 20)	23.24
Portfolio dividend yield	1.24%
Average age of companies	56 Years

### Portfolio Composition as on March 29th, 2019

Large Cap	37.00%
Mid Cap	27.75%
Small Cap	20.75%
Cash	14.50%

**Large Cap:** Market cap of the 100th company in the Nifty 500 (sorted by market cap in descending order) as on March 29th, 2019

**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 March 29th, 2019

**Small Cap:** Market cap lower than the 250th company in the nifty 500 (sorted by market cap in descending order) as on March 29th, 2019

The above holding represents top 15 holdings of DHFL Pramerica Core Equity Portfolio 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 Core Equity Portfolio Strategy Portfolio Performance as on March 29th, 2019

Period	Portfolio	NIFTY 50	NIFTY 500
1 Month	6.14%	7.70 %	7.90 %
3 Months	1.17%	7.01%	5.38%
6 Months	4.53%	6.34 %	6.01 %
1 Year	4.48%	14.93 %	8.43 %
2 Years	5.49%	12.76 %	10.29 %
3 Years	13.08%	15.24 %	15.20 %
5 Years	15.99%	11.66%	13.18%
Since inception date 08/07/2013	20.29%	12.68 %	14.12 %
Portfolio Turnover Ratio*	35.33%		

\*Portfolio Turnover ratio for the period April 1st, 2018 to March 29th, 2019

### Consolidated Portfolio CY Performance of DHFL Pramerica Core Equity Portfolio Strategy

CY	Portfolio Performance	NIFTY 50	NIFTY 500
08-07-2013 to 31-12-2013	13.79	7.43	8.36
CY 2014	77.24	31.39	37.82
CY 2015	2.48	-4.06	-0.72
CY 2016	8.90	3.01	3.84
CY 2017	24.56	28.65	35.91
CY 2018	-2.98	3.15	-3.38
CY 2019 till 29-03-2019	1.17	7.01	5.38
08-07-2013 to 29-03-2019	20.29	12.68	14.12

**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 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 Core Equity Portfolio Strategy:** DHFL Pramerica Core Equity Portfolio Strategy seeks to generate returns by investing in a portfolio of value stocks which have the potential of wealth creation over long term.

**Disclaimers and risk factors:** DHFL Pramerica Asset Managers Private Limited (Erstwhile Pramerica Asset Managers Private Limited) is registered with SEBI as Portfolio Manager as Portfolio Manager under SEBI (Portfolio Managers) Regulations, 1993. This Document is for information purpose only. This Document and the Information do not constitute a distribution, an endorsement, an investment advice, an offer to buy or sell or the solicitation of an offer to buy or sell any securities/ schemes or any other financial products/investment products (collectively "Products") mentioned in this Document or an attempt to influence the opinion or behavior of the Investors/Recipients. Any use of the information contained herein for investment related decisions by the Investors/ Recipients is at their sole discretion & risk. Please read the Disclosure Document and the agreement along with the related documents carefully before investing. Investments in Products are subject to market risks, various micro and macro factors and forces affecting the capital markets and include price fluctuation risks. There is no assurance or guarantee/ warranty that the objectives of any of the Products will be achieved. The investments may not be suited to all categories of Investors/ Recipients. Investors/ Recipients must make their own investment decisions based on their own specific investment objectives, their financial position and using such independent professional advisors, as they believe necessary, before investing in such Products. Pramerica and Pramerica Financial are trade names used by Prudential Financial, Inc., (PFI) a company incorporated and with its principal place of business in the United States, and by its affiliated companies in select countries outside the United States. None of these companies are affiliated in any manner with Prudential plc, a company incorporated in the United Kingdom. Pramerica, the Pramerica logo, and the Rock symbol are service marks of PFI and its related entities, registered in many jurisdictions worldwide.

**This document is strictly confidential and meant for private & restricted circulation only and should not at any point of time be construed to be an invitation for subscribing to DHFL Pramerica Core Equity Portfolio Strategy and/or DHFL Pramerica Phoenix Strategy. The document is solely for the understanding of intended recipient and if you are not the intended recipient, you are hereby notified that any use, distribution, reproduction or any action taken or omitted to be taken in reliance upon the same is prohibited and may be unlawful.**

This document is dated April 11, 2019.

C15/2018-19