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PGIM INDIA

CORE EQUITY PORTFOLIO STRATEGY





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From the desk of the Portfolio Manager for PGIM India Core Equity Portfolio Strategy

Dear Investor,

In this newsletter, we wish to reflect on two companies from our portfolio which have strong business models, have done well in financial terms historically and are currently unpopular in equity markets and hence available at attractive valuations. Based on our experience, what we have found is that the returns we generate by owning a stock is not dependent on what growth the company delivers in future, but on the day of buying shares what was the implied growth in the stock price and what growth eventually the company delivers.

As investors what we can do is look at the historical track record of a company, new opportunities for growth on which the company is focusing, potential or size of those opportunities and what is factored in the valuations of the company.

The first company is ITC. We like the company for the transformation it has undergone in last two decades from only being a cigarette focused company to a diversified conglomerate company with number of growth drivers.

Exhibit1: Q1 FY 20 performance of companies in the portfolio

Description	Mar-08	Mar-09	Mar-10	Mar-11	Mar-12	Mar-13	Mar-14	Mar-15	Mar-16	Mar-17	Mar-18	Mar-19
Revenue												
Agri Business	2470	2240	2304	2815	3412	4922	5013	5566	4257	5314	4474	6075
FMCG - Cigarettes	14326	15755	18112	20721	23232	27136	30418	31856	34063	35878	24848	22913
FMCG - Others	2524	3031	3657	4495	5556	7028	8129	9044	9739	10524	11339	12517
Hotels	1167	1087	971	1139	1063	1126	1186	1241	1345	1400	1480	1728
Others	456	584	585	644	828	1042	1308	1494	1534	1440	1525	1884
Paperboards, Paper and Packaging	1366	1668	1994	2264	2525	2666	3194	3558	3753	3733	3695	4230
Net Segment Revenue	22309	24364	27623	32079	36617	43921	49247	52759	54691	58288	47363	49348
Result												
Segment Results	4514	4897	6146	7324	8766	10449	12370	13717	14423	15383	16360	18185
Agri Business	129	256	436	566	643	731	835	904	934	926	841	793
FMCG - Cigarettes	3721	4328	5107	6001	7191	8694	10419	11637	12348	13204	14128	15412
FMCG - Others	-259	-490	-380	-332	-215	-89	12	31	57	26	170	326
Hotels	436	335	231	283	294	149	146	52	61	117	145	186
Lifestyle Retailing Business												70
Others	70	61	99	58	94	136	181	232	166	103	127	172
Paperboards, Paper and Packaging	453	509	684	819	937	964	892	921	908	966	1042	1239
Capital Expenditures	2155	1810	1308	1220	2534	2624	2606	2779	1986	2624	2870	2768
Agri Business	114	37	12	91	159	90	84	214	128	161	93	54
FMCG - Cigarettes	462	526	456	370	656	575	1021	614	256	262	96	171
FMCG - Others	318	197	170	113	277	366	466	719	838	1157	836	1325
Hotels	322	374	421	369	765	819	298	985	383	472	919	936
Others	53	98	42	26	84	83	74	93	31	10	16	22
Paperboards, Paper and Packaging	886	579	208	250	594	690	663	154	350	561	910	259

Source : Ace Equity

FMCG other businesses:-

From being a fringe player in FMCG industry a decade back, it has become 3rd largest FMCG player in the country. Today it has a diversified basket of products in various categories and strong brands in the focused categories.

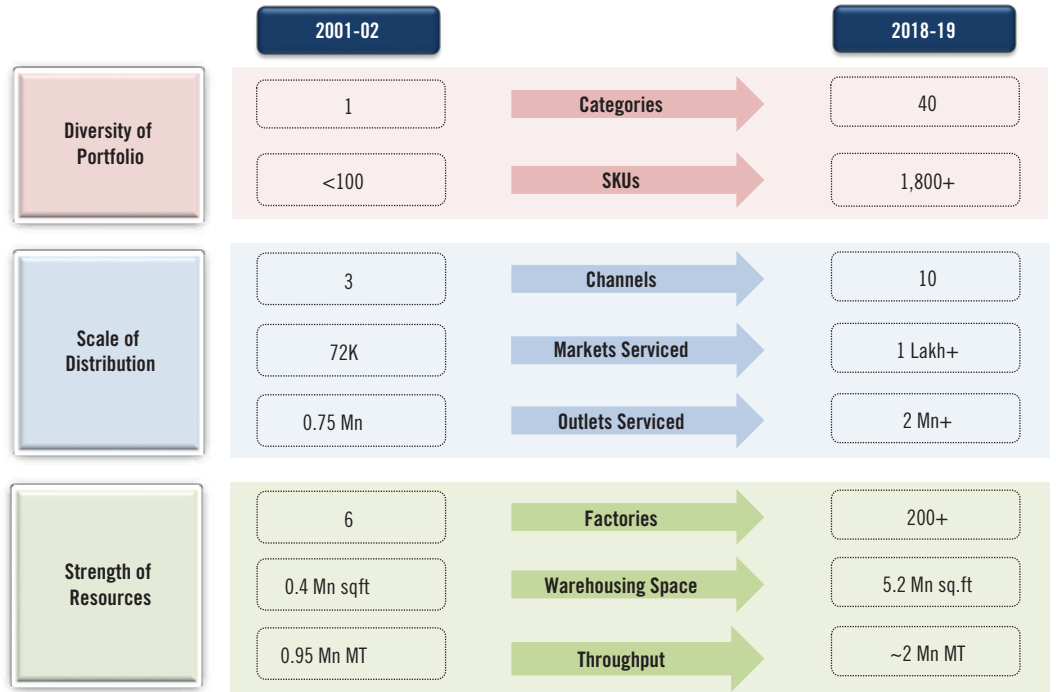
Brand ranking in particular category:-

- Aashirwad is the number one atta brand in the country
- Sunfeast is number 1 in Cream Biscuits and number 3 in overall biscuits
- Yippee is number 2 in noodles space
- Classmate is number 1 in notebooks
- Engage is number 2 in deodorants space
- Fiamia is number 2 in bodywash
- Mangaldeep is number 1 in dhooop and number 2 in agarbatti

Source : Company Presentation

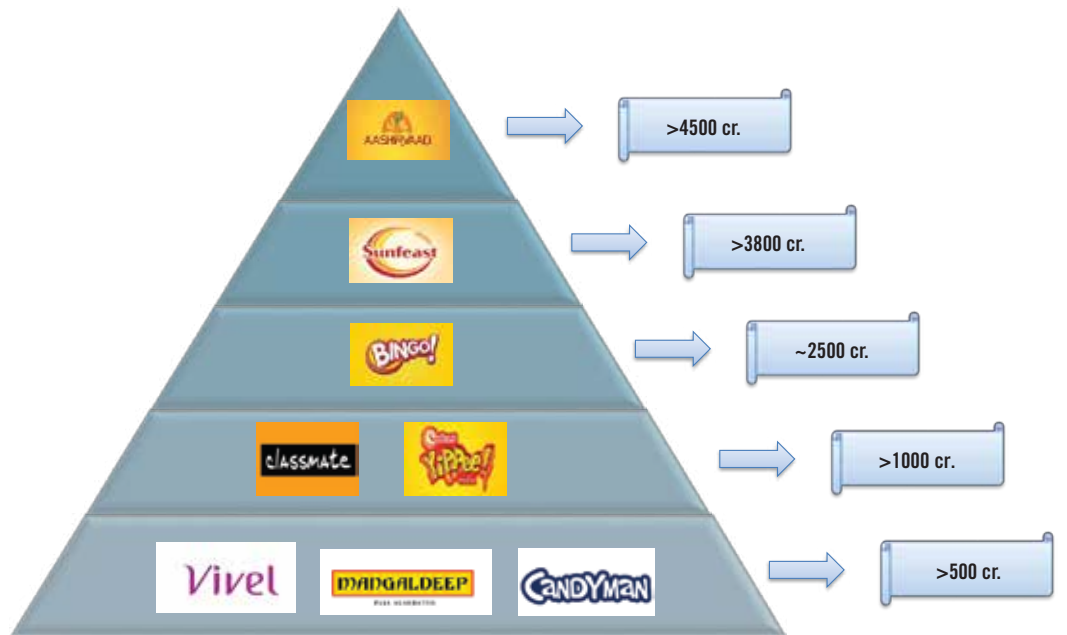


Exhibit 2: FMCG business transformation



Source: - Company presentations

Exhibit 3: Size of brands across categories



Source: - Company presentations

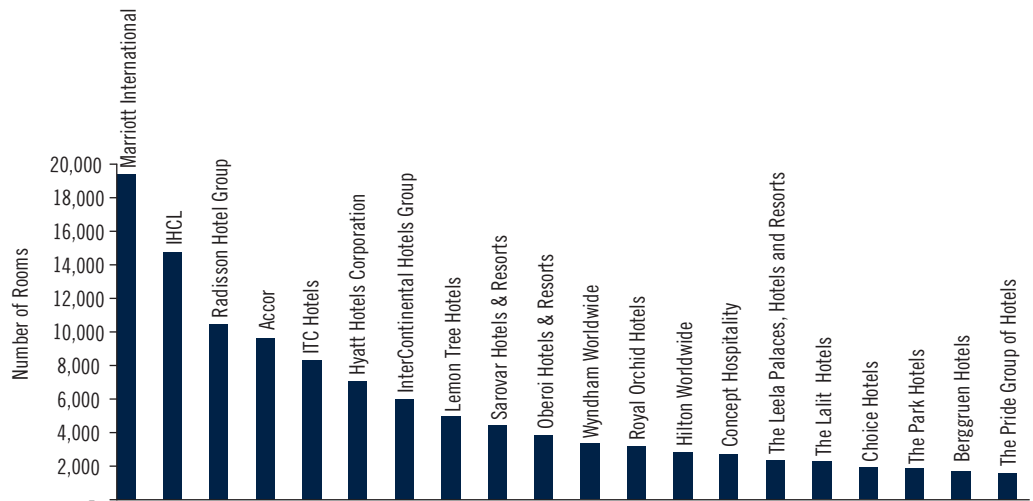
FMCG business has turned around and the profitability has been improving every year, we expect the profitability trend to continue in the coming years and the growth also to continue in near future.

Hotels:-

It is one of the fastest growing hotel chains in the country, second largest by revenue in the country and the 5 largest by room inventory. Among all the players, ITC has been investing (approx. Rs 3700 cr of capex in last 5 yrs) most aggressively in the hospitality industry and would be a bigger beneficiary of the upcycle in hospitality industry. Though, currently it looks a small proportion of the profitability (EBIT) but in the last upcycle of the hotel industry it was nearly 10% of the overall profitability(EBIT). In our experience the cycles tend to surprise both on the upside and the downside and in the case of hospitality also it will be no different in the next upcycle.



Exhibit 4: Top 20 hotel chains in India

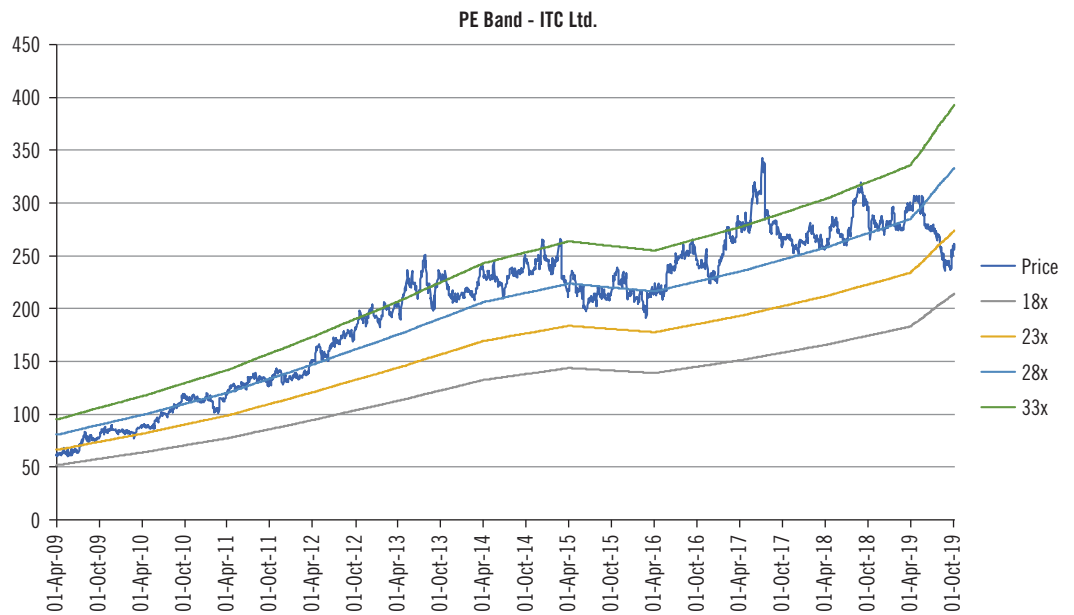


Source: 2019 Indian Hospitality Trends and Opportunities, hotelivate.com

For ITC, hotels and FMCG:- others business segments have been a drag on the profitability and where maximum investments have happened in last few years. In our opinion, both the business are at an inflexion point and should become more profitable and self-sustaining in the next few years.

Valuations:- Currently the stock is at the lowest end of its last 10 yrs valuation band and we have further added ITC in the portfolio.

Exhibit 5: ITC 1 yr forward PE chart for last 10 yrs.



Source: Ace Equity

The other company we wish to speak about is Power Grid Corporation of India Ltd. It owns 85% of the inter-state transmission system in the country. As per World Bank it is the 3rd Largest Transmission Utility in the World. Based on the Platts ranking, it is the fastest growing electric utility in Asia for 5 consecutive years. If we look at the growth numbers of the company for last 5, 10 and 15 yrs it has continued to grow in high teens, which in our opinion is no mean achievement for such a large utility. Based upon the work in hand and opportunities which will arise out of intra state power transmission and increased grid requirements as renewable sources of power increase, we expect the company to grow in low teens over next 3 to 5 yrs. Currently at a price of Rs 200 the stock quotes at a PE of 10 for FY20 Bloomberg estimates.



Exhibit 6: Historical Growth Trends for Power Grid and last 5 yrs numbers

Power Grid Corporation Of India Ltd. -Standalone- [INR-Crore]

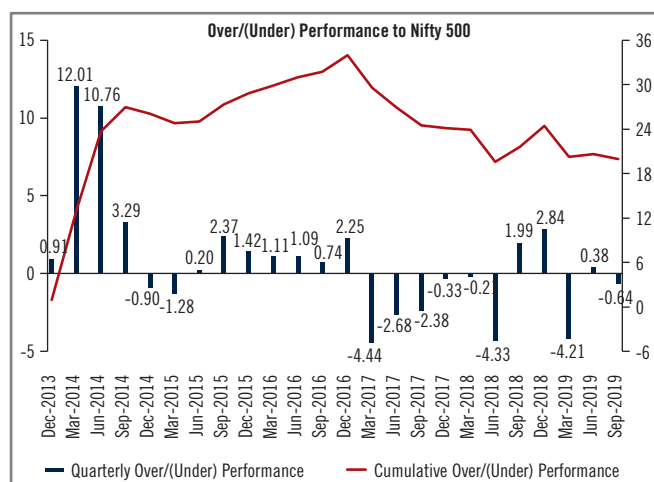
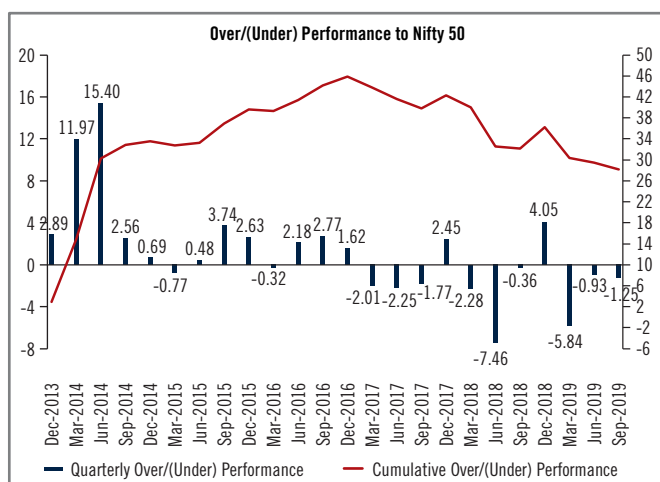
DESCRIPTION	Mar-15	Mar-16	Mar-17	Mar-18	Mar-19	5 yr CAGR	10 yr CAGR	15 yr CAGR
Inc / Exp Performance								
Total Income	17973	21243	26726	30770	35733	17.40%	19.16%	18.45%
Total Expenditure	159	2388	3143	3819	4840	71.99%	23.29%	19.25%
PBIDT	17814	18855	23583	26952	30893	14.49%	18.63%	18.33%
PBIT	12728	12675	15920	21144	18166	9.19%	14.97%	16.38%
PBT	6289	7541	9570	13554	8962	7.43%	14.93%	18.37%
PAT	4979	5949	7520	8245	9939	17.18%	19.38%	18.82%
Cash Profit	10065	12128	15183	17336	20139	18.85%	21.88%	19.71%
Gross Block	118264	121337	149730	177100	197793	15.43%	17.24%	16.55%
Key Ratios								
ROCE(%)	10	9	10	13	10	—	—	—
RONW(%)	14	15	17	19	23	—	—	—
PBIDTM(%)	104	91	92	91	91	—	—	—
PATM(%)	29	29	29	28	29	—	—	—
CPM(%)	59	59	59	58	59	—	—	—

Source: Ace Equity

Yours Sincerely.

PGIM INDIA 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 PGIM India 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 PGIM India Core Equity Portfolio Strategy Discretionary Portfolio Regular Plan as on September 30th, 2019

Date of Purchase	Equity	Sector	%
Jul-2013	Container Corporation of India Ltd	Logistics	5.68%
May-2018	Bharat Electronics Ltd	Industrial Electronics	5.45%
Feb-2018	Multi Commodity Exchange Of India Ltd	Other Financial Services	5.42%
Sep-2015	State Bank of India	Banking / Financial Services	5.01%
Jun-2015	ITC Ltd	FMCG	4.81%
Jul-2013	Indraprastha Gas Ltd	City Gas Distribution	4.52%
Oct-2017	Power Grid Corporation Of India Ltd	Power- Transmission	4.45%
Jan-2016	Oracle Financial Services Software Ltd	IT Services / Products	4.28%
Mar-2015	Castrol India Ltd	Lubricants / oils	4.23%
Aug-2013	Cummins India Ltd	Engineering	3.68%
Aug-2013	Great Eastern Shipping Co Ltd	Shipping	3.66%
Jul-2013	Engineers India Ltd	Consulting	3.48%
Jun-2018	GE Power India Ltd	Power Equipment	3.44%
Jul-2016	Rallis India Ltd	Pesticides And Agrochemicals	2.92%
Apr-2016	Sanofi India Ltd	Pharmaceuticals	2.89%
	Total		63.92%

Model Portfolio Details

Portfolio Details as on September 30th, 2019	
Weighted average RoCE	23.28%
Portfolio PE (1-year forward) (Based on FY 20)	17.98
Portfolio dividend yield	1.45%
Average age of companies	59 Years

Portfolio Composition as on September 30th, 2019

Large Cap	39.75%
Mid Cap	20.25%
Small Cap	26.50%
Cash	13.50%

Large Cap: Market cap of the 100th company in the Nifty 500 (sorted by market cap in descending order) as on September 30th, 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 September 30th, 2019

Small Cap: Market cap lower than the 250th company in the nifty 500 (sorted by market cap in descending order) as on September 30th, 2019

The above holding represents top 15 holdings of PGIM India 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.



PGIM India Core Equity Portfolio Strategy Portfolio Performance as on September 30th, 2019

Period	Portfolio	NIFTY 50	NIFTY 500
1 Month	3.15%	4.09%	4.05%
3 Months	-3.92%	-2.67%	-3.28%
6 Months	-3.52%	-1.29%	-3.34%
1 Year	0.89%	4.98%	2.47%
2 Years	2.08%	8.28%	4.22%
3 Years	4.61%	10.05%	8.10%
5 Years	6.86%	7.58%	7.80%
Since Inception Date 08/07/2013	17.92%	11.36%	12.29%
Portfolio Turnover Ratio*	26.86%		

*Portfolio Turnover ratio for the period October 1st, 2018 to September 30th, 2019

Consolidated Portfolio CY Performance of PGIM India 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 30-09-2019	-2.40	5.63	1.86
08-07-2013 to 30-09-2019	17.92	11.36	12.29

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 PGIM India Core Equity Portfolio Strategy: PGIM India 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.

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This document is dated October 11, 2019.

C131/2019-20

