

PORTFOLIO MANAGEMENT SERVICES

Newsletter: July 2019

DHFL Pramerica Core Equity Portfolio Strategy



Pramerica

From the desk of the Portfolio Manager for DHFL Pramerica Core Equity Portfolio Strategy

Dear Investor,

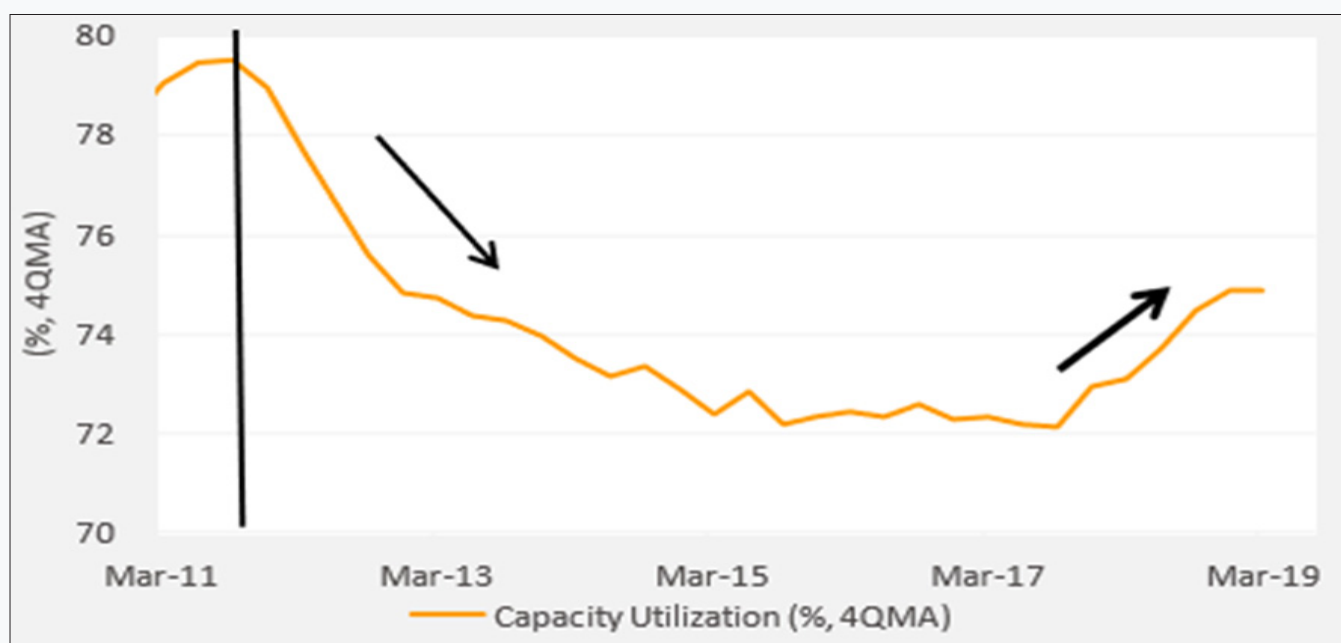
In this newsletter, we wish to discuss our current thought process on a particular sector and why are we overweight on an unpopular sector.

The market, like the Lord, helps those who help themselves. But, unlike the Lord, the market does not forgive those who know not what they do. For the investor, a too-high purchase price for the stock of an excellent company can undo the effects of a subsequent decade of favourable business developments. - Berkshire Hathway Annual Report 1982.

While building a portfolio, we have to keep two things in mind. One is buying the right quality of stock and second, to buy it at a right price. Buying the right quality of companies insures that we don't lose capital and buying at a right price insures we make a decent return for staying invested in a stock. Also, trying to buy at a right price does lead to buying stocks when they are unpopular or too early in to the cycle. Sometimes it does lead to a test of patience for us and our investors.

Currently, we are overweight on the industrial capex theme and own 5 companies (Cummins, Bharat Electronics, GE Power, Thermax and Engineers India) in this space. We hear a lot of gloom and doom on the capital goods sector. To a certain extent, we beg to disagree with the market. There are certain sectors where the demand is falling Y-o-Y like auto and auto ancillaries. But it is not a true image of all the industries. For the last few years we have seen extremely low capex happening across the industries resulting in improving capacity utilization across various industries like steel, cement, aluminum, mining, power etc.

Chart1: Capacity Utilization across the industry over the years



Source: What's Trending, Edelweiss Investment Research Report.

One of the questions which has been asked quite often in last few days is why not wait for revival across the industries and then invest; as capex driven industries are cyclic by nature?

Our opinion is the companies which we have chosen are market leaders in their area of operations, have strong balance sheet and are net cash generating companies. If we look at the orderbook of these companies, we can clearly see that they are past the troughs of the cycle and are on an improving trajectory. Some delays in execution of the orderbook is a calculated risk which we have taken.

Table 1: Yearend orderbook of companies in our portfolio:-

Orderbook	FY 15	FY 16	FY 17	FY 18	FY 19
Bharat Electronics	21,617	32,022	40,242	40,115	51,800
GE Power	5,178	4,243	4,506	5,919	7,657
Thermax	5,670	4,186	3,976	5,689	5,370
Engineers India	3,640	3,788	7,761	7,873	11,188

Source:- Company annual reports and presentations, Figures are in crores.

From our perspective, the bigger risks which we feel are currently in market are leverage and high valuations. If we look at the model portfolio, other than Banks and Power Grid we have no company which has Debt : Equity (D/E) of more than 0.5x and the PE ratio of the portfolio is 18 times FY20 (Based on Bloomberg consensus estimates).

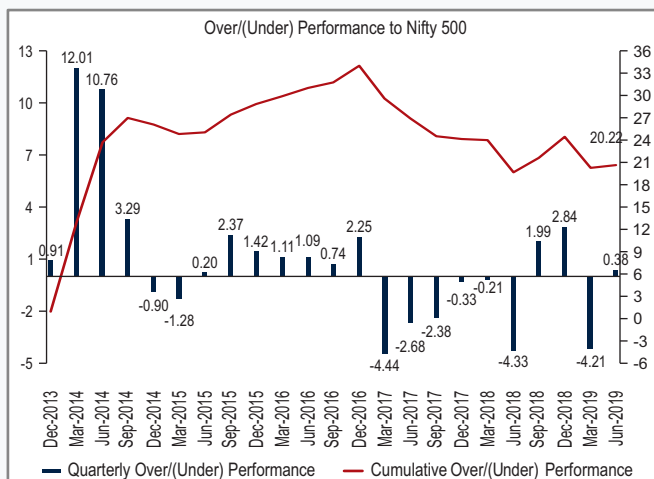
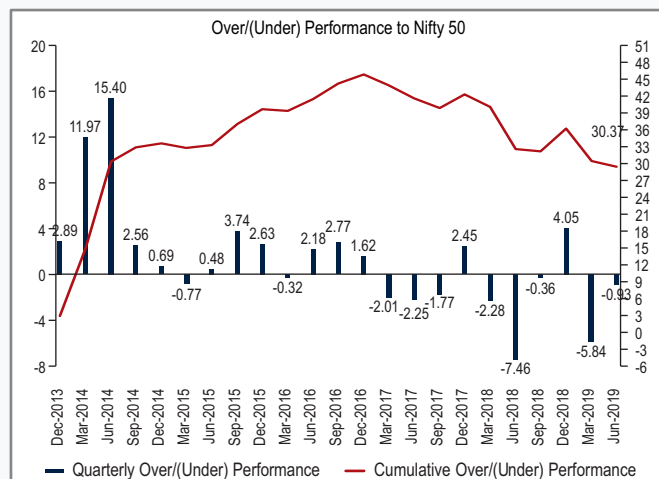
Warm regards,

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 June 30th, 2019

Date of Purchase	Equity	Sector	%
Sep-2015	State Bank of India	Banking / Financial Services	6.58%
May-2018	Bharat Electronics Ltd	Industrial Electronics	5.39%
Jul-2013	Container Corporation of India Ltd	Logistics	5.18%
Jun-2015	ITC Ltd	FMCG	4.72%
Feb-2018	Multi Commodity Exchange Of India Ltd	Other Financial Services	4.63%
Aug-2013	Cummins India Ltd	Engineering	4.32%
Oct-2017	Power Grid Corporation Of India Ltd	Power- Transmission	4.29%
Jul-2013	Indraprastha Gas Ltd	City Gas Distribution	4.15%
Mar-2015	Castrol India Ltd	Lubricants / oils	3.69%
Jan-2016	Oracle Financial Services Software Ltd	IT Services / Products	3.61%
Jun-2018	GE Power India Ltd	Power Equipment	3.22%
Jul-2013	Engineers India Ltd	Consulting	3.15%
Aug-2013	Great Eastern Shipping Co Ltd	Shipping	3.12%
Jan-2018	Bank Of Baroda	Banks	3.01%
Apr-2016	Sanofi India Ltd	Pharmaceuticals	2.70%

Model Portfolio Details

Portfolio Details as on June 30th, 2019	
Weighted average RoCE	23.5
Portfolio PE (1-year forward) (Based on FY 20)	17.99
Portfolio dividend yield	1.34%
Average age of companies	57 Years

Portfolio Composition as on June 30th, 2019	
Large Cap	41.50%
Mid Cap	20.25%
Small Cap	25.50%
Cash	12.75%

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

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

Period	Portfolio	NIFTY 50	NIFTY 500
1 Month	-1.14%	-1.17%	-1.61%
3 Months	0.96%	1.89%	0.58%
6 Months	2.04%	8.55%	5.52%
1 Year	7.94%	11.33%	6.87%
2 Years	4.89%	11.46%	8.01%
3 Years	9.62%	13.21%	12.21%
5 Years	10.59%	9.44%	9.69%
Since Inception Date 08/07/2013	19.42%	12.39%	13.49%
Portfolio Turnover Ratio*	32.89%		

*Portfolio Turnover ratio for the period June 1st, 2018 to June 28th, 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 28-06-2019	1.62	8.53	5.32
08-07-2013 to 28-06-2019	19.42	12.39	13.49

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.

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This document is dated July 16, 2019.

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