

PORTFOLIO MANAGEMENT SERVICES

Newsletter: June 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 Bharat Electronics Limited (BEL) which is one of the large positions in our portfolio and why we own it.

Bharat Electronics Limited: -

Bharat Electronics was started in 1956 for manufacturing of communication equipments for defense. But over the years it has broadened the basket of its products. For defense forces it manufactures defense communication equipment, land-based radars, naval systems, avionics, night vision equipment, missiles, Electronic warfare systems, simulators and tank electronics. It also makes non defense items like Electronic Voting machines, civilian radars, communication systems and equipment, homeland security, space satellite related equipment and e-governance systems. It's a Navratna company under Ministry of Defense.

Why we like the company?

- BEL is the only major company in India to cater to defense electronics - an area which in today's world is of immense potential. For many of the products they manufacture, they are the sole suppliers in the country both on defense side and civilian side.
- They operate in high technology space where R&D plays a critical role and BEL spent Rs 1,077 cr in FY2019 versus Rs 988 cr in FY2018. R&D spend is nearly 9% of its revenue for FY 2019. In FY 2019 96% of the sales were from products with indigenous technology. For any new company to enter the business now and reach a scale where they can spend this much money on R&D and develop their own products will take a significant amount of time and money. Defense being a critical area the focus of government is also to develop the technology within the country and hence the preference for domestic player in defense orders will remain for a very long period.
- The requirements of defense will keep on changing based on the threat perception from enemy countries and the evolution of the technology at the enemy country. Hence continuous product development will remain a constant feature in the defense business and an ability to spend significant amount of money and resources is a necessary requirement to succeed in the business.
- The company has focused on employee productivity and in last 6 yrs the productivity has doubled to revenue of Rs 1.26 cr per employee. 50% of the employees out of approximately 9600 employees are engineers.
- Wide range of product base catering to all the arms of defense forces (army, air force and navy), space and civil usage.
- Deep understanding of the customer requirements (armed forces) and being involved since the design and development of the product leads to strong and sticky relationship with the customer base in products which have long life cycle and hence it can find business opportunities throughout the product life (10 to 15 years) from manufacturing to servicing to upgradation of the products after few years. Also, it has good relationships with various research labs and different government agencies which also play an important role in the decision of final specification of a product.
- BEL has been focusing on newer opportunities like space. Last year it built and assembled a satellite for ISRO and expects to get future orders from ISRO for building future satellites. BEL has bought 30 acres of land in Karnataka to build a manufacturing facility for ISRO's space requirements.
- With focus of government on Make in India, we expect the company to benefit from import substitution and get orders also from defense offset in products which will get imported in future.
- BEL is also focusing on new areas for growth like homeland security, smart cards, smart cities etc.
- It has an orderbook worth Rs 51,798 cr as on 1 April, 2019 as compared to Rs 40,115 on 1 April, 2018. In FY2019 it won orders worth Rs 23,431 cr which is nearly twice its FY2019 revenue.
- The contribution of Indian Navy was Rs 25,000 cr, Indian Army was Rs 9000 cr, Indian Air Force was Rs 8,800 cr and exports was nearly Rs 800 cr of the orderbook.

Financial Highlights:-

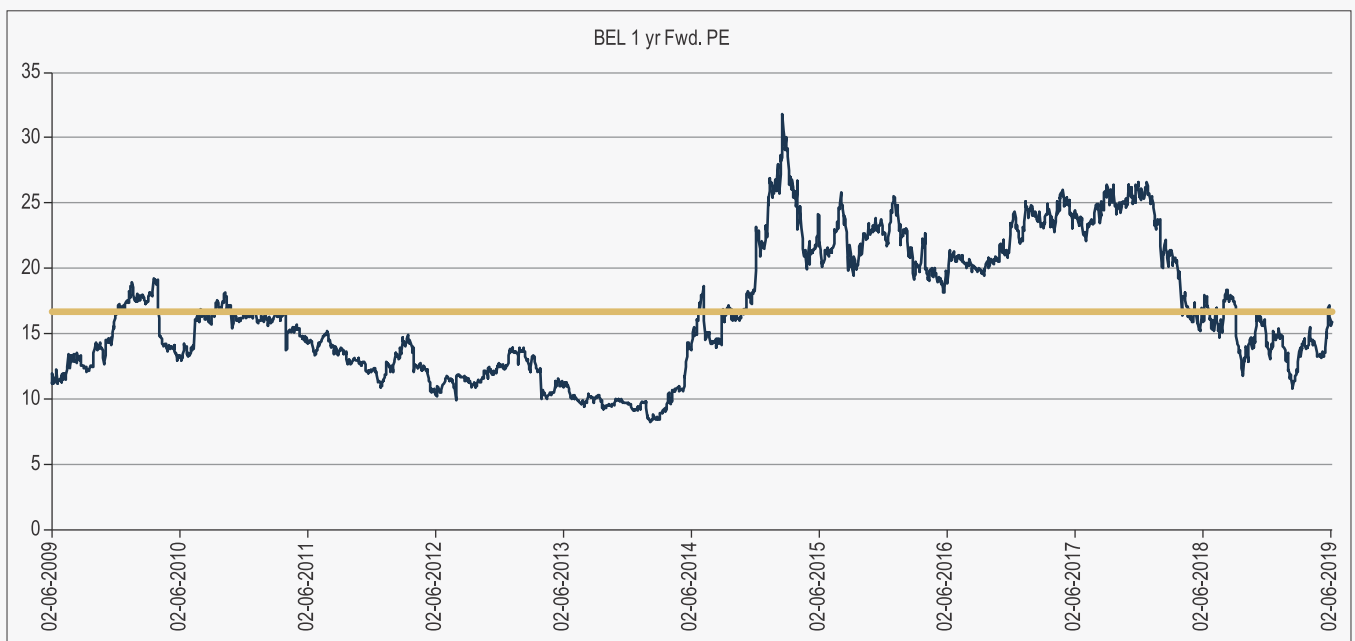
DESCRIPTION	Mar-19	Mar-18	Mar-17	Mar-16	Mar-15	Mar-14	10 yr CAGR	5 yr CAGR	3 yr CAGR
Total Income	12,164	10,485	9,221	7,729	7,093	6,518	9.7%	13.3%	16.3%
Total Expenditure	9,258	8,450	7,434	6,340	5,917	5,595	9.7%	10.6%	13.5%
PBIDT (Excl OI)	2,906	2,035	1,787	1,389	1,175	923	9.8%	25.8%	27.9%
Operating Profit	2,979	2,231	2,207	1,929	1,682	1,360	8.5%	17.0%	15.6%
Profit After Tax	1,848	1,407	1,497	1,304	1,197	952	9.4%	14.2%	12.3%
Diluted EPS before EI	7.7	5.9	6.2	5.1	4.5	3.6	10.5%	16.5%	14.9%
PBIDTM% (Excl OI)	23.9	19.4	19.4	18.0	16.6	14.2			
PATM%	15.2	13.4	16.2	16.9	16.9	14.6			
Equity Dividend %	340	200	225	170	292	233			
Orderbook	51,800	40,115	40,242	32,022	21,617	23,452			

Source: ACE Equity

Based on the strong orderbook, diversified customer base and focus on growing newer lines of business we expect the revenue of the company to grow in mid-teens over next three to five years which is in line with the growth in last 5 yrs. EBITDA is expected to grow at a faster rate than revenues because of the company's focus on cost management and economies of scale. As the nature of orders is bulky the revenue and orderbook numbers can be volatile in short term.

Valuation:- Currently the stock is at an average of 1 yr forward PE of 15 and in past few months it had fallen near to the lowest levels it has seen in past 10 years. Looking at the past track record and future potential of the company we had added the stock in our portfolio and is currently 5% of most of the portfolios.

Valuation chart for the company: -



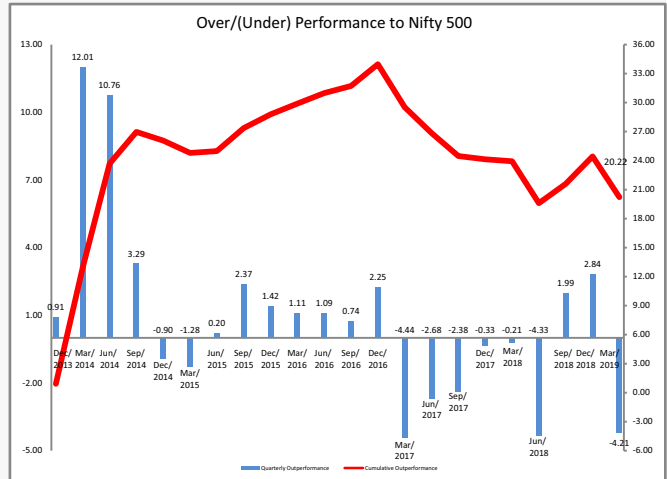
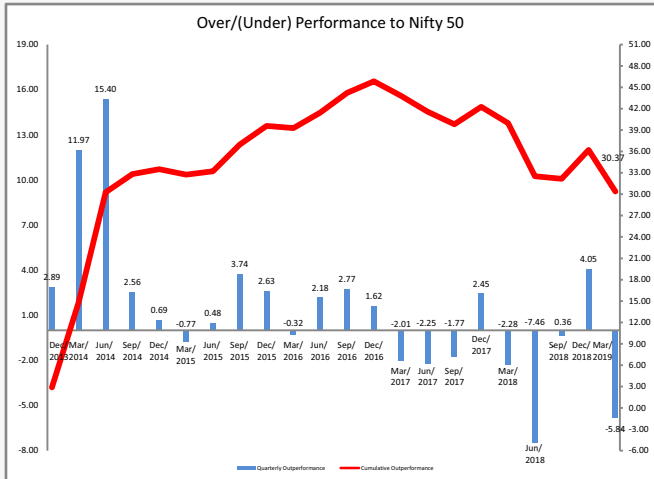
Source: Bloomberg

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 May 31st, 2019

Date of Purchase	Equity	Sector	%
Sep-2015	State Bank of India	Banking / Financial Services	6.22%
May-2018	Bharat Electronics Ltd	Industrial Electronics	5.32%
Jul-2013	Container Corporation of India Ltd	Logistics	4.87%
Jun-2015	ITC Ltd	FMCG	4.73%
Jul-2013	Indraprastha Gas Ltd	City Gas Distribution	4.56%
Feb-2018	Multi Commodity Exchange Of India Ltd	Other Financial Services	4.45%
Aug-2013	Cummins India Ltd	Engineering	4.44%
Mar-2015	Castrol India Ltd	Lubricants / oils	4.05%
Jan-2016	Oracle Financial Services Software Ltd	IT Services / Products	3.87%
Oct-2017	Power Grid Corporation Of India Ltd	Power- Transmission	3.86%
Jun-2018	Ge Power India Ltd	Power Equipment	3.18%
Jan-2018	Bank Of Baroda	Banks	3.18%
Aug-2013	Great Eastern Shipping Co Ltd	Shipping	3.17%
Jul-2013	Engineers India Ltd	Consulting	3.01%
May-2014	Infosys Ltd	IT Services	2.83%
	Total		61.74%

Model Portfolio Details

Portfolio Details as on May 31st, 2019

Weighted average RoCE	23.87%
Portfolio PE (1-year forward) (Based on FY 20)	22.06
Portfolio dividend yield	1.45%
Average age of companies	57 Years

Portfolio Composition as on May 31st, 2019

Large Cap	38.25%
Mid Cap	23.25%
Small Cap	25.50%
Cash	13.00%

Large Cap: Market cap of the 100th company in the Nifty 500 (sorted by market cap in descending order) as on May 31st, 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 May 31st, 2019

Small Cap: Market cap lower than the 250th company in the nifty 500 (sorted by market cap in descending order) as on May 31st, 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 May 31st, 2019

Period	Portfolio	NIFTY 50	NIFTY 500
1 Month	2.36%	1.49%	1.46%
3 Months	7.59%	10.47%	9.48%
6 Months	5.55%	9.62%	7.64%
1 Year	3.58%	11.05%	5.26%
2 Years	5.33%	11.33%	8.36%
3 Years	10.48%	13.48%	12.96%
5 Years	15.72%	10.52%	11.06%
Since inception date 08/07/2013	19.88%	12.77%	13.96%
Portfolio Turnover Ratio*	32.47%		

*Portfolio Turnover ratio for the period May 1st, 2018 to May 31st, 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 31-05-2019	2.54	9.76	6.93
08-07-2013 to 31-05-2019	19.88	12.77	13.96

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 June 14, 2019.

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