

PORTFOLIO MANAGEMENT SERVICES

Newsletter: June 2019

DHFL Pramerica Phoenix Strategy



Pramerica

From the desk of the Portfolio Manager for DHFL Pramerica Phoenix Strategy

Dear Investor

In this newsletter, we wish to discuss and reflect on the quarterly results of the companies we have in the portfolio across various themes we are playing.

	Company	Q4 FY2018				Q4 FY 2019				Growth				Theme
		Revenue/ NII	EBITDA/ PPoP	PAT	EPS	Revenue/ NII	EBITDA/ PPoP	PAT	EPS	Revenue/ NII	EBITDA/ PPoP	PAT	EPS	
1	Bajaj Consumer Ltd	222	70	55	3.8	246	76	61	4.1	11%	9%	9%	9%	Consumer
2	Kewal Kiran Clothing	120	26	19	15.8	133	28	20	16.3	11%	5%	3%	3%	Consumer
3	Hexaware Technologies	1049	163	134	4.5	1264	189	139	4.6	20%	16%	3%	2%	IT
4	Oracle Financial Services	1075	352	236	27.5	1215	522	326	37.9	13%	48%	38%	38%	IT
6	Mahanagar Gas	587	176	105	10.6	723	214	134	13.5	23%	21%	27%	27%	Utilities
7	Great Eastern Shipping Co Ltd	769	224	-419	-27.8	974	318	148	9.8	27%	42%	-135%	-135%	Shipping
8	Prestige Estates Projects Ltd	1849	373	107	2.86	1979	488	139	3.71	7%	31%	30%	30%	Real Estate
9	Oberoi Realty Ltd	345	183	142	4.2	574	210	154	4.5	66%	14%	9%	7%	Real Estate
10	Sobha Ltd	770	136	65	6.9	1398	244	113	11.9	82%	79%	73%	72%	Real Estate
11	CCL products	321	71	47	3.6	262	54	36	2.7	-18%	-24%	-25%	-25%	Manufacturing
12	Carborundum	650	114	63	3.5	702	119	61	3.3	8%	5%	-3%	-6%	Manufacturing
13	Mayur Uniquoters	136	34	24	5.3	124	27	20	4.4	-9%	-22%	-18%	-18%	Manufacturing
14	NOCIL	276	85	51	3.1	242	59	36	2.2	-12%	-30%	-30%	-29%	Manufacturing
15	Kirloskar oil engine	791	78	44	3.1	848	138	92	6.4	7%	77%	109%	108%	Manufacturing
16	Kirloskar Brothers limited	615	59	33	4.1	762	73	36	4.6	24%	24%	12%	12%	Manufacturing
17	Apar Industries Ltd	1768	126	40	10.5	2465	135	44	11.4	39%	7%	9%	9%	Manufacturing
18	Cummins India Ltd.	1233	173	163	5.90	1340	172	141	5.1	9%	-1%	-13%	-14%	Manufacturing
19	Ahluwalia Contracts (India) Ltd	447	53	31	4.60	487	57	31	4.6	9%	6%	0%	0%	Construction
20	JB Chemicals & Pharmaceuticals Ltd	319	39	22	2.63	379	60	42	5.13	19%	51%	91%	95%	Pharmaceuticals
21	MOIL	398	172	128	4.81	437	158	135	5.24	10%	-8%	6%	9%	Commodities
22	ONGC Ltd	23970	11382	5915	4.60	26759	12371	4045	3.2	12%	9%	-32%	-30%	Commodities
23	D B Corp Ltd	567	98	57	3.10	589	104	55	3.1	4%	6%	-5%	0%	Media
24	Federal Bank Ltd	933	589	145	0.73	1097	755	382	1.91	17%	28%	163%	162%	Banks
25	DCB Bank Ltd	264	142	64	2.0	301	185	96	3.1	14%	31%	50%	50%	Banks
26	Dhanuka Products Ltd	185	31	29	5.8	193	33	27	5.6	4%	5%	-6%	-3%	Agrochemicals
27	Pokarna Ltd.	91	23	13	4.0	145	50	26	8.5	60%	121%	112%	111%	Exports
28	Himatsingka Seide Ltd	563	124	50	5.10	691	139	48	4.9	23%	12%	-4%	-4%	Exports

Source of data: Company fillings

Consumer facing companies:- We have two companies which are consumer facing in the portfolio Kewal Kiran Clothing Limited (KKCL) and Bajaj Consumer Limited. The results were not spectacular but in line with our expectations and the market scenario. We are comfortable holding on to the two companies as we find both at reasonable valuations (KKCL at 18 times PE for FY20 EPS and Bajaj Consumer at 19 times PE for FY20EPS), with no debt on balance sheet and with good dividend yield. In our opinion there is decent growth opportunities for both the companies in future.

IT companies:- We have two companies which are from Information Technology space. Hexaware is in services space and Oracle Financial Services is in Core Banking software product. Both companies showed decent growth in revenues and profitability. In case of Oracle the value of licensed deals they signed in FY2019 was 24% higher than the previous years and we expect the company to continue to do well next year also.

Utilities (CGD):- We hold Mahanagar Gas Ltd. In the portfolio from CGD space. The results were good with 7.4% YoY volume growth for the quarter and EBITDA per unit also increased to Rs 7.9 per scm for the quarter versus Rs7 per scm in 4QFY2018. We expect the company to sustain the growth for next few quarters, with net cash on balance sheet of approx. Rs 950 cr at the end of Q4 FY2019, good dividend payout ratio and at 16 times FY20 PE, we find the stock attractive to hold.

Shipping:- We have Great Eastern Shipping in our portfolio and we remain optimistic on the long-term prospects of the company. The stock price has performed very poorly in last few years and has tested the patience of investors. The down phase of the cycle has been long, and we remain happy with the way the company has managed itself during the downcycle. The important things which we look are the operating cash flows, leverage on balance sheet, size of the fleet and global orderbook in various classes of ships. In a scenario when most companies in the shipping business have wound down their operations, GESCO has been generating good operating cash flows, debt has remained flattish, the size of fleet has increased from 30 ships in FY2014 to 47 ships in FY2019 and it has been paying dividend continuously. What makes us optimistic about the future is the reducing overbook in shipping across all the major classes of ships where Great Eastern Shipping is present.

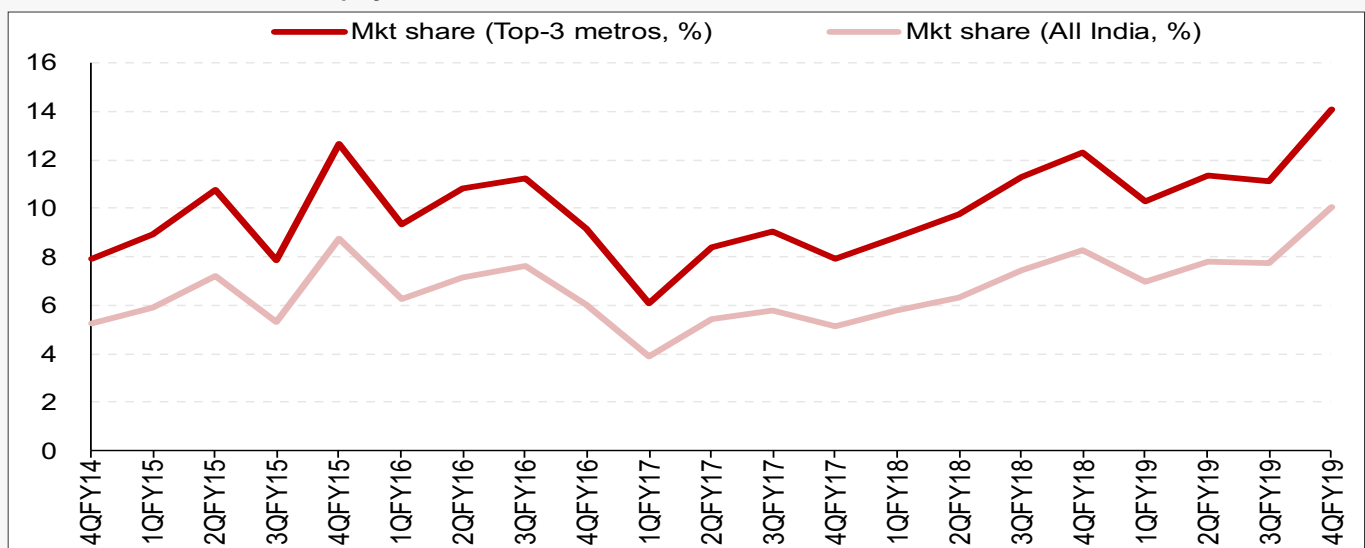
Exhibit 2: operational parameters of GESCO

Operational Parameters	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019
Operating cash flow	1358	1444	2059	1476	978	1075
Gross Debt	6119	6540	5758	6815	6213	5988
Net Debt	2577	2806	1858	2475	2430	2504
Equity	6773	7431	6563	7223	6929	6809
Net Debt: Equity	38.00%	38%	28%	34%	35%	37%
DPS	9.00	11.00	13.50	10.10	7.20	5.40
CEPS	81.76	90.38	124.45	107.26	50.77	58.65
Fleet of GESCO						
Offshore vessels	21	22	21	19	19	19
Rigs	3	4	4	4	4	4
Ships	30	29	32	45	49	47
Global Orderbook						
Dry Bulk	21%	16%	16%	8%	9.90%	10.90%
Product tankers	15%	17%	15%	11%	9.50%	7.35%
Crude tankers	12%	17%	19%	13%	13.50%	10.50%

Source: - Company presentations

Real Estate:- We hold three stocks in the portfolio from real estate Prestige, Sobha and Oberoi. We are playing the theme of consolidation in the real estate sector and in our opinion the sector is near the bottom of the cycle.

Exhibit 3: Market share of listed players



Source:- Companies, PropEquity, Kotak Institutional Equities

Exhibit 4: Sales trends for some of the listed companies in recent 8 quarters

	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19
Sales								
Oberoi	2,870	3,533	4,063	2,633	6,235	5,675	2,416	3,191
Sunteck	1,278	1,698	1,040	1,860	1,816	4,211	3,106	2,890
Godrej	14,740	13,350	12,200	10,530	8,200	8,070	15,280	21,610
Brigade	1,830	2,165	2,621	2,347	2,185	4,597	4,458	5,198
Sobha	5,627	5,927	6,105	6,558	6,118	6,166	6,002	7,115
Prestige	4,511	5,277	5,231	10,482	7,638	7,974	9,368	11,222
DLF	-1,250	-550	4,800	7,500	6,000	6,250	5,630	6,500
Sales (Rs mn)	29,606	31,400	36,060	41,910	38,192	42,943	46,260	57,726
Sales growth (%)								
Oberoi	-30	-31	52	-24	117	61	-41	21
Sunteck	69	-37	-18	6	42	148	199	55
Godrej	304	131	76	210	-44	-40	25	105
Brigade	-14	-36	41	7	19	112	70	121
Sobha	20	14	64	30	9	4	-2	8
Prestige	-12	-12	51	100	69	51	79	7
DLF	-127	NM	NM	111	NM	NM	17	-13
Sales growth (%)	18	-4	36	70	29	37	28	38
Collections								
Oberoi	1,026	1,456	4,301	5,466	5,666	5,637	3,487	4,024
Sunteck	1,305	1,455	1,006	1,542	1,611	1,405	1,529	2,065
Godrej	11,670	7,400	9,020	12,770	11,280	11,100	9,180	12,250
Brigade	5,305	3,673	4,230	4,714	4,622	6,082	5,527	6,185
Sobha	5,738	4,338	4,874	5,980	5,030	5,396	5,583	5,767
Prestige	10,050	6,588	9,469	8,363	7,546	8,493	9,334	9,906
Collections (Rs mn)	35,094	24,910	32,900	38,835	35,755	38,113	34,640	40,197
Sales (mn sq. ft)								
Oberoi	0.1	0.17	0.15	0.13	0.29	0.24	0.15	0.15
Sunteck	0.04	0.11	0.04	0.07	0.09	0.72	0.33	0.27
Godrej	1.8	1.56	1.43	1.47	1.17	1.07	2.8	3.72
Brigade	0.31	0.37	0.46	0.43	0.43	0.8	0.78	0.96
Sobha	0.82	0.86	0.93	1.02	0.96	1.03	0.91	1.13
Prestige	0.68	0.8	0.78	1.55	1.11	1.33	1.21	2.08
Sales (mn sq. ft)	3.75	3.87	3.8	4.67	4.04	5.19	6.17	8.3
Realizations (Rs/sq. ft)								
Oberoi	29,327	20,376	26,775	20,092	21,739	23,791	16,407	21,982
Sunteck	29,813	15,531	26,306	25,727	20,350	5,867	9,438	10,604
Godrej	8,190	8,578	8,532	7,155	7,012	7,551	5,452	5,811
Brigade	5,865	5,915	5,661	5,509	5,117	5,725	5,745	5,426
Sobha	6,902	6,883	6,541	6,457	6,372	5,977	6,604	6,301
Prestige	6,634	6,596	6,706	6,763	6,881	5,995	7,742	5,395
Realizations (Rs/sq. ft)	8,233	8,264	8,232	7,373	7,963	7,070	6,581	6,169

Source: Kotak Institution Equities report

The performance of the companies in our portfolio has been good. For Sobha in terms of sales last year was the best year in its history, for Prestige also the residential business did well and in the case of Oberoi the performance of residential was lower than our expectations. For us the concern remains the leverage on Prestige Balance Sheet and higher unsold inventory in case of Prestige and Oberoi.

Manufacturing:- We are over-weight on the manufacturing side with eight companies in the portfolio and other than Kirloskar Oil Engines most of the results have been mediocre to say the least. Downturn in auto sector, lower growth rate in exports, volatility in price of raw materials and customer related issues were the general reason for the poor performance of companies in the portfolio. The slowdown in the sector is a temporary slowdown and we expect the companies to do well once there is recovery in the manufacturing side. All the companies in our portfolio are dividend paying and most have no debt on the balance sheet. So, the leverage risk is not there. We need to wait for the cycle to recover to see improvement in the performance.

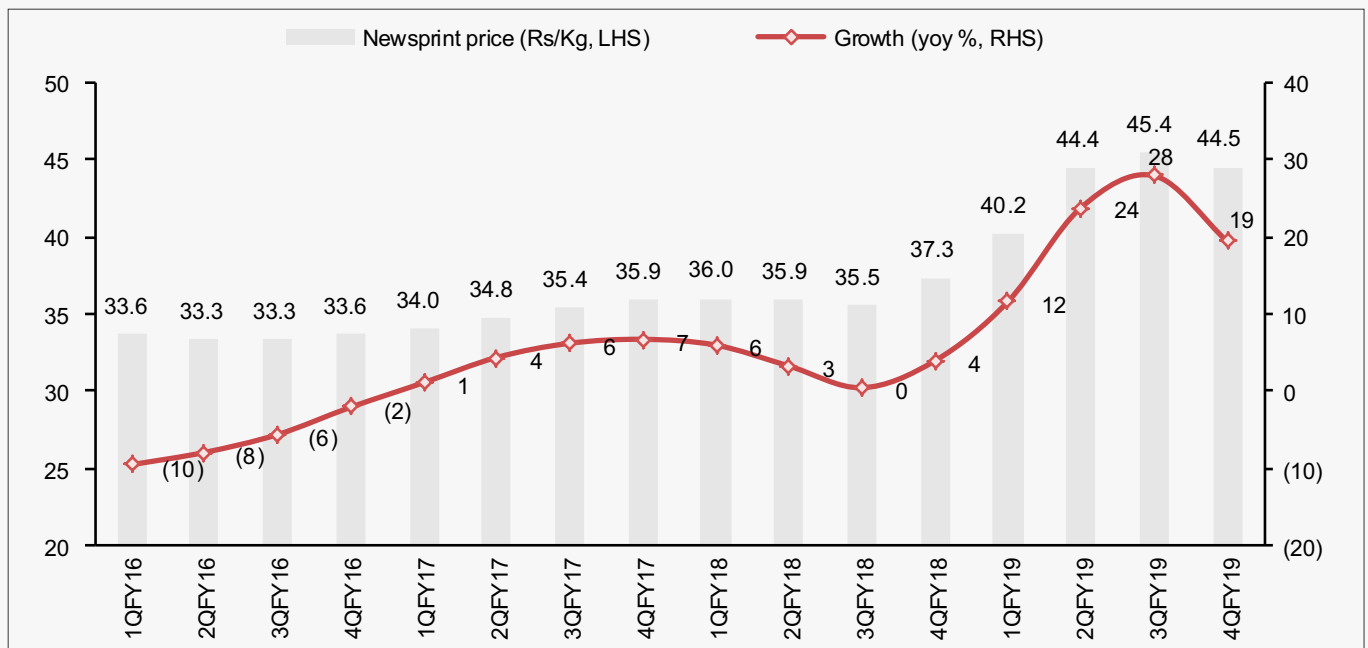
Construction:- We have Ahluwalia contracts in our portfolio and because of project level issues there was margin compression and lower growth in revenue. The total order inflow in FY2019 was Rs 4700cr and order book is Rs 6000cr which is approximately 3.5 times FY2019 revenue. The company has gross debt of Rs 60 cr and cash & cash equivalent of approx. Rs 200cr. It is one of the most well managed contracting companies and with such large orderbook we expect decent growth in future.

Pharmaceuticals:- We have exposure to pharmaceuticals through one company which is JB Chemicals - one of the best results in pharmaceutical companies which we track. Domestic formulations grew by 16.27% YoY in Q4 FY2019 to Rs 162 cr., export formulations grew by 17% YoY in Q4 FY2019 to Rs 175 cr and API grew by 23% YoY to Rs 25.32 cr in 4QFY2019.

Commodities:- We have exposure to two commodity companies ONGC and MOIL. Both are in the space of extraction of resources from Earth and have low cost of production resulting in these companies being profitable even when the commodity price is at low end of the cycle. In case of ONGC despite there have been volatility in crude prices the company did not have to share any subsidy. The stock is currently at 7 PE on FY20 EPS estimates and at 4% dividend yield based on FY19 dividend it declared. MOIL is available at 12 PE on FY20 EPS estimates and has Rs 2400 cash on balance sheet which is 60% of the Market Cap of the company.

Media:- We have exposure to media through a print company DBCorp. Last few years have been bad for the print media where low growth in economy has meant poor advertisement revenue growth, Rupee depreciation and in last year the prices of paper increased. The price of paper has come off from the peak by approximately 20% and it should benefit the company going forward and as economy starts doing well we expect the advertisement revenue to pick up. Company paid total dividend of Rs 10 for the FY20.

Exhibit 5: Newsprint price for DB Corp. over the last few quarters



Source: Kotak Institutional Equities

Banks:- We have exposure to banking sector through two banks DCB and Federal Bank. The results of both the banks were good and the NPA's are in control and we expect them to grow at a decent rate with improving profitability (Reducing Cost to Income ratios). Both the banks are conservative and forthcoming in accepting the problem assets which they have.

Agrochemicals:- We have exposure to agrochemicals through Dhanuka Agritech. The results of the company were in line with expectations. Monsoons have been poor resulting in lower demand of agrochemicals, raw material prices increased because of supply chain issues and poor financial condition of farmer meant not being able to transfer the increased price. We expect the business scenario to mean revert and the company to benefit from increased demand of agrochemicals in domestic markets.

Exports:- Besides IT sector we have two companies which get major portion of revenue from exports business. One is Pokarna which is in the business of exporting quartz and granite stones and the other is Himatsingka Seide which is in the business of exports of home textiles. Results of both these companies were in line with our expectations. In the last few model portfolios we have removed both; because of high leverage and very high dependence on USA markets. We continue to closely monitor both and like them because of their strong position in the business. Our worry is if US goes into recession both can get negatively impacted in the short term. Hence, we have taken a wait and watch approach.

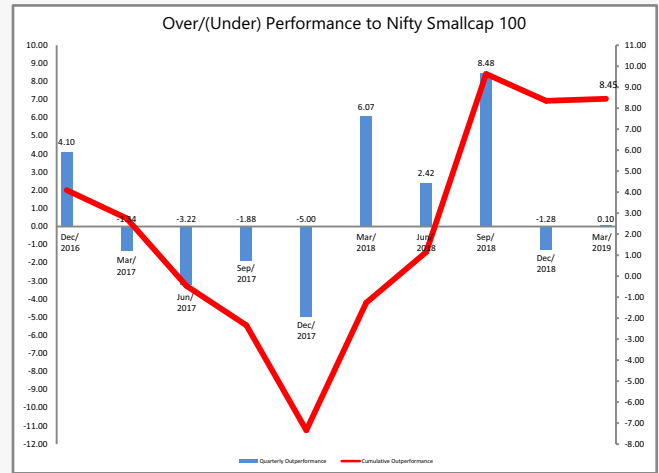
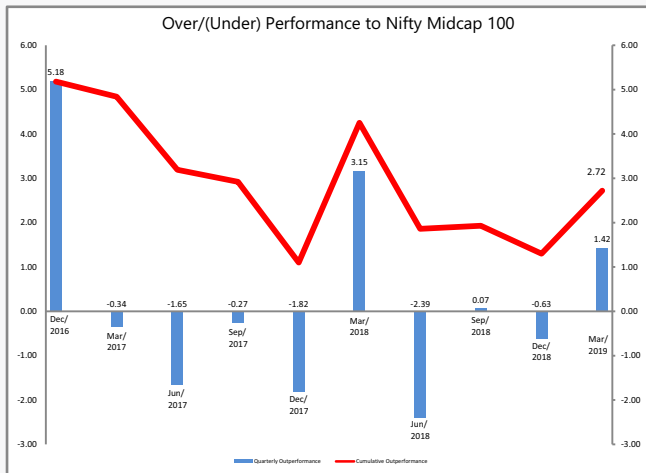
Note : PE wherever it is discussed is based on Bloomberg consensus estimate EPS for FY20.

Warm regards,

Yours Sincerely,

(Himanshu Upadhyay)
Portfolio Manager

DHFL PRAMERICA PHOENIX STRATEGY KEY PORTFOLIO PERFORMANCE INDICATORS



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 may or may not be sustained in future.

Top 15 Holdings of DHFL Pramerica Phoenix Strategy as on May 31, 2019

Date of Purchase	Equity	Sector	%
Aug-2016	Great Eastern Shipping Co Ltd	Shipping	5.09%
Aug-2016	Federal Bank Ltd	Banks	5.03%
Aug-2016	JB Chemicals & Pharmaceuticals Ltd	Pharmaceuticals	4.41%
Mar-2018	Cummins India Ltd	Engineering	3.75%
Apr-2018	Mahanagar Gas Ltd	LPG/CNG/PNG/LNG SUPPLIER	3.59%
Aug-2016	Sobha Ltd	Residential/ Commercial/Sez Project	3.59%
Aug-2016	Ahluwalia Contracts India Ltd	Cement Products	3.49%
Oct-2016	DCB Bank Ltd	Banks	3.48%
Sep-2016	Apar Industries Ltd	Power Equipment	3.37%
Apr-2017	Hexaware Technologies Ltd	Computers - Software	3.33%
May-2018	Kirloskar Brothers Ltd	Compressors / Pumps	3.33%
Sep-2016	Oracle Financial Services Software Ltd	IT Services / Products	3.30%
Sep-2016	D B Corp Ltd	Printing And Publishing	3.27%
Mar-2019	Bajaj Consumer Care Ltd	Personal Care	2.95%
Aug-2016	Oberoi Realty Ltd	Residential/Commercial/ Sez Project	2.94%

Model Portfolio Details

Portfolio Details as on May 31st, 2019	
Weighted average RoE	14.67%
Portfolio PE (1-year forward) (Based on FY 20)	15.98
Portfolio dividend yield	1.38%

Portfolio Composition as on May 31st, 2019	
Large Cap	7.00%
Mid Cap	17.50%
Small Cap	62.00%
Cash	13.50%

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 Phoenix Strategy based on all the client portfolios under DHFL Pramerica Phoenix Strategy 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 Phoenix Strategy Portfolio Performance as on May 31st, 2019

Period	Portfolio	NIFTY MIDCAP 100	NIFTY SMALLCAP 100
1 Month	3.91%	2.24%	1.25%
3 Months	10.62%	7.40%	10.35%
6 Months	8.65%	2.60%	5.34%
1 Year	-0.35%	-5.00%	-16.36%
2 Year	3.58%	1.28%	-4.52%
Since Inception Date 01/08/2016	9.84%	7.14%	2.62%
Portfolio Turnover Ratio*	28.84%		

*Portfolio Turnover ratio for the period May 1st, 2018 to May 31st, 2019

Consolidated Portfolio CY Performance of DHFL Pramerica Phoenix Strategy

Period	Portfolio	NIFTY MIDCAP 100	NIFTY SMALLCAP 100
01-08-2016 to 31-12-2016	1.08	-2.85	-5.01
CY 2017	42.13	47.26	57.3
CY 2018	-12.72	-15.42	-29.08
CY 2019 till 31-05-2019	5.77	9.76	6.93
01-08-2016 to 31-05-2019	9.84	7.14	2.62

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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