PGIM

India Portfolio
Management Services

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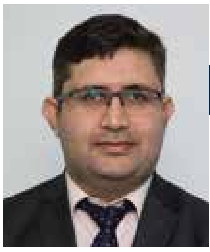
# Large tomorrow.

## PGIM INDIA
## PHOENIX STRATEGY

# From the desk of the Portfolio Manager for PGIM India Phoenix Strategy



**Himanshu Upadhyay,**
Portfolio Manager

## Structural & Cyclical Growth Strategy

Dear Investor,

The month of April saw a pullback rally in the markets, with Nifty 50 rising by 14.68% for the month. Phoenix delivered 12.51% as compared to 15.36% by Nifty Midcap and 13.44% by Nifty Small Cap. Sobha, Dhanuka Agritech and Nocil were the top three gainers. The three poor performers were DB Corp, Ashiana Housing and DCB Bank. It has been more than a month now since the lockdown was announced and the economy, at least in some parts, has started to get back on track. Going through the transition, we believe it would be appropriate to share our thoughts on the construct of the portfolio. The Phoenix portfolio is a mix of businesses that are either beneficiaries of underlying structural growth or cyclical revival.

The exposure to structural growth themes is in the form of pharmaceuticals, agrochemicals, real estate and software services. On the other hand, banking, manufacturing and shipping form the core of the cyclical theme.

In pharma we have JB Chemicals, a company that manufactures and markets *pharmaceutical formulations,* herbal remedies and APIs – both domestically and to **30-plus countries** worldwide. We bought as it was growing at a decent pace, management was taking many steps to expand the business in a systematic way, it had a strong balance sheet and was available at discount to fair value. We started buying the stock in August 2016 at around Rs 300. Despite the company performing well during the last four years, the stock price has started moving up only in recent times. The stock saw new highs even during the recent markets decline. The fact that the market is recognizing the strength of the company, albeit with a lag, increases our faith in buying the right company at the right prices.

The consumption of agrochemicals is low in our country as compared to other countries. We expect, over a period of time, the consumption will grow in India as there is focus on improving farm productivity. We are participating in the theme via Dhanuka Agritech. It is into the space of formulations of agrochemicals and focused on Indian markets. We bought the stock when the company was facing multiple challenges; on the raw materials front, demand front due to poor rainfall and erosion in margins. The challenges were transient in nature in our opinion and are not going to damage the company's market position.

Real estate is one of the largest sectoral positions in our portfolio. Our thesis is that the industry will see a consolidation due to low demand, demonetization, RERA regulations, GST, and economic slowdown. COVID 19 only further accentuates the process. The emergence of a few large players with dominant market share in few micro markets is what we envisage. The country still has a lot of unmet housing requirements. With interest rates going down, and house prices being flat for many years, we expect pent-up demand in a post crisis scenario to lead to a revival in the sector. Our exposure is mainly to the residential segment of real estate with three companies in three different geographical markets. Sobha in southern markets, Oberoi in Mumbai markets and Ashiana in Northern markets. The portfolio companies have emerged much stronger players in their micro markets despite the challenging period faced by the sector.

Though there is near-term uncertainty on the demand in the IT space, we expect the demand for IT services to remain high over the longer term, led by new services like automation, cloud analytics etc. We hold two companies in the IT space; Oracle Financial Services which offers banking software products, and Hexaware in the IT services business. Availability of a large talent pool at cheaper rates in comparison to other countries coupled with the first mover advantage in IT services are the advantages that India has, and we expect these advantages to continue over the next few years.

The cyclical part of the portfolio consists of exposure to manufacturing, banking and shipping. Manufacturing has seen a prolonged down cycle. So has shipping and logistics. Banking and financials have entered the lower trajectory. Every downcycle will be followed by an upcycle for companies with the right mix of financial strength, management capability, product mix etc. Hence, it is our endeavor to buy companies in down cycles as stocks quote at favorable valuations.

The Indian economy is facing a challenge in the form of lack of job creation on the manufacturing side. To attract manufacturing to the shores the government has cut tax rates for new manufacturing facilities in India, is working on improving ease of doing business, and trying to bring in related reforms. Post-COVID many global companies are trying to diversify their supply chains away from China and this could be a big boost to the manufacturing companies in India over the next few years. We have chosen to play this development through a diverse set of companies which are the largest players in their fields.

- Kirloskar Brothers is the largest pump company in India
- Cummins and Kirloskar Oil are number 1 & 2 respectively in the independent engine manufacturers category
- Carborundum Universal is the largest player in abrasives, ceramics and refractories space in India.
- Nocil is the largest rubber chemicals producer and exporter from India
- Mayur Uniquoters is the largest artificial leather manufacturer in India with applications in automobiles, shoes, purses and upholstery.
- Apar industries is the 4th largest manufacturer of transformer oil in the world and among the largest conductor manufacturers in the world, used in power transmission and distribution.

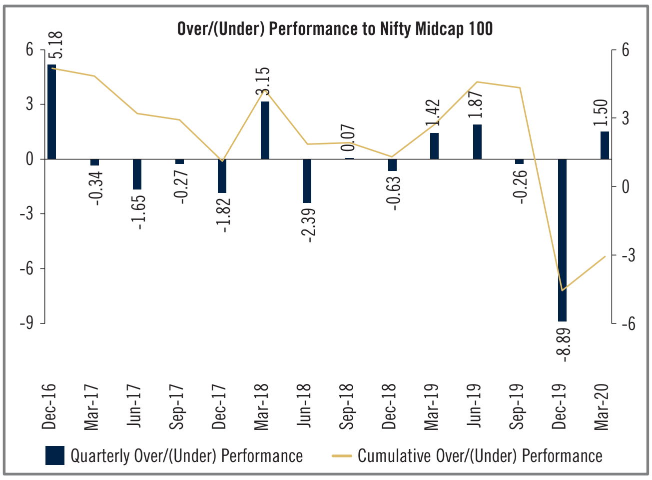
The shipping industry has been undergoing a consolidation over the past few years The industry's order book is at the lowest in last many years in many classes of ships and the average age of ships is also increasing. Our play on shipping i.e. Great Eastern shipping is through one stock where its stock price movement has tested our patience the most. Despite good performance on various financial parameters the stock did not deliver. In recent times, however, the oil glut led to a demand for ships for storage of oil leading to revival of charter rates. We remain convinced that the company is well-poised to capture the next cyclical upmove and hence continue to hold it.

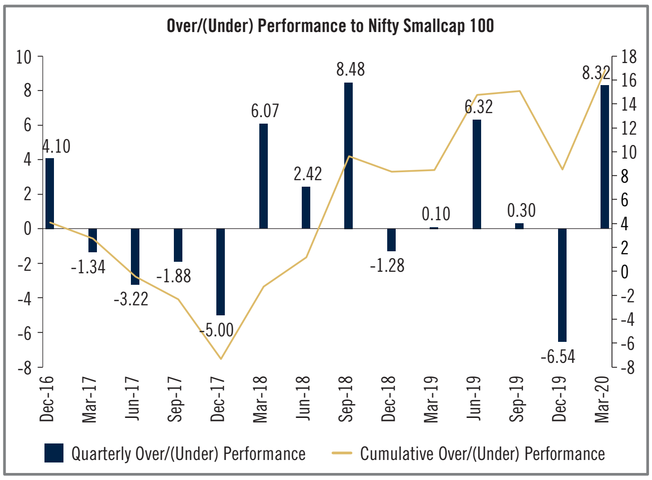
We have been cautious on the banking and financials front, primarily due to the euphoria in the markets. We stayed away from NBFCs and newly incorporated banks. We believe that financing is an extremely risky business with high leverage, and it is always important to be with people who are focused on managing risk in this business. It is important that the institutions have good underwriting standards in comparison to their peers, honest and upright management not focusing blindly on growth in loan book but also cognizant of the risks. In our understanding, Federal Bank Ltd and DCB Bank Ltd meet the requisite criteria, along with a quality asset book, low GNPAs, NNPAs. Among all the financial institutions we track, DCB was one of the few to highlight rising risks in the environment in its last annual report. We expect both the financial institutions to come out stronger with least or minimal damage to their balance sheets and gain market share in the next upturn when most of their peers would be focusing on cleaning the loan book and providing for the problem assets.

We are closely monitoring the developments on the economic front. We are vigilant and will be agile to make changes as and when necessary.

Yours Sincerely.

# PGIM INDIA PHOENIX STRATEGY
# KEY PORTFOLIO PERFORMANCE INDICATORS




Performance depicted as at the above stated date is after charging of expenses and based on all the client portfolios under PGIM India Phoenix Strategy existing as on such date, using Time Weighted Rate of Return (TWRR) of each client. Past performance may or may not be sustained in future.

## Top 15 Holdings of PGIM India Phoenix Strategy as on April 30th, 2020

| Date of Purchase | Equity | Sector | % |
|---|---|---|---|
| Aug-2016 | JB Chemicals & Pharmaceuticals Ltd | Pharmaceuticals | 8.06% |
| Aug-2016 | Great Eastern Shipping Co Ltd | Shipping | 7.02% |
| May-2019 | Dhanuka Agritech Ltd | Pesticides And Agrochemicals | 7.00% |
| Apr-2018 | Mahanagar Gas Ltd | LPG/CNG/PNG/LNG SUPPLIER | 5.60% |
| Sep-2016 | Oracle Financial Services Software Ltd | IT Services / Products | 5.50% |
| Apr-2017 | Hexaware Technologies Ltd | Computers - Software | 4.42% |
| Mar-2018 | Cummins India Ltd | Engineering | 4.17% |
| May-2017 | MOIL Ltd | Industrial Minerals | 4.13% |
| Aug-2016 | Federal Bank Ltd | Banks | 4.09% |
| Oct-2016 | CCL Products India Ltd | Tea & Coffee | 3.80% |
| Sep-2016 | Apar Industries Ltd | Power Equipment | 3.22% |
| Mar-2018 | Kewal Kiran Clothing Ltd | Fabrics And Garments | 3.19% |
| Jul-2017 | Mayur Uniquoters Ltd | Textiles | 3.14% |
| Aug-2016 | Oberoi Realty Ltd | Residential/Commercial/ Sez Project | 3.11% |
| Jan-2018 | Oil & Natural Gas Corporation Ltd | Oil Exploration | 3.01% |
| | **Total** | | **69.46%** |

## Model Portfolio Details

| Portfolio Details as on April 30th, 2020 | |
|---|---|
| Weighted average RoE | 12.63% |
| Portfolio PE (1-year forward ) (Based on FY 20) | 10.31 |
| Portfolio dividend yield | 2.43% |

| Portfolio Composition as on April 30th, 2020 | |
|---|---|
| Large Cap | 3.00% |
| Mid Cap | 24.50% |
| Small Cap | 64.75% |
| Cash | 7.75% |

**Large Cap:** Market cap of the 100th company in the Nifty 500 (sorted by market cap in descending order) as on April 30th, 2020

**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 April 30th, 2020

**Small Cap:** Market cap lower than the 250th company in the Nifty 500 (sorted by market cap in descending order) as on April 30th, 2020

The above holding represents top 15 holdings of PGIM India Phoenix Strategy based on all the client portfolios under PGIM India 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.

## PGIM India Phoenix Strategy Portfolio Performance as on April 30th, 2020

| Period | Portfolio | Nifty Midcap 100 | Nifty Smallcap 100 |
|---|---|---|---|
| 1 Month | 12.51% | 15.36% | 13.44% |
| 3 Months | -25.21% | -25.03% | -34.50% |
| 6 Months | -22.41% | -19.72% | -29.02% |
| 1 Year | -29.94% | -23.14% | -36.95% |
| 2 Year | -20.73% | -18.41% | -30.26% |
| 3 Year | -10.70% | -9.28% | -18.17% |
| Since Inception Date 01/08/2016 | -3.45% | -2.37% | -10.13% |
| Portfolio Turnover Ratio* | 15.90% | | |

*Portfolio Turnover ratio for the period May 1st, 2019 to April 30th, 2020

## Calendar Year Performance of PGIM India Phoenix Strategy

| Calendar Year | Portfolio Performance | Nifty Midcap 100 | Nifty Smallcap 100 |
|---|---|---|---|
| 01-08-2016 to 31-12-2016 | 1.08% | -2.85% | -5.01% |
| CY 2017 | 40.71% | 47.26% | 57.30% |
| CY 2018 | -12.50% | -15.42% | -29.08% |
| CY 2019 | -10.46% | -4.32% | -9.53% |
| CY 2020 till 30-04-2020 | -21.32% | -21.05% | -30.11% |
| 01-08-2016 to 30-04-2020 | -3.45% | -2.37% | -10.13% |

Performance is calculated on Time Weighted Rate of Return (TWRR) basis

**Important Disclosures regarding the consolidated portfolio performance:** Performance depicted as at the above stated date is based on all the client portfolios under PGIM India Phoenix Strategy existing as on such date, using Time Weighted Rate of Return (TWRR) of each client. 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 live 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 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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