



**PGIM**

India Portfolio  
Management Services

Small today.  
Large tomorrow.

---

**PGIM INDIA**  
**PHOENIX STRATEGY**





**Himanshu Upadhyay,**  
Portfolio Manager

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

Dear Investor,

In this newsletter, we wish to discuss some stock updates and a new stock which we have added to the portfolio viz. Indian Hotels Co. Ltd.

**Portfolio updates:**

January 2020 has been an interesting month during which most of our large positions have done quite well. For example, Dhanuka Agritech is up by nearly 25% (Rs. 405 to Rs. 515), JB chemicals is up by nearly 22% (Rs. 405 to Rs. 495), Mahanagar Gas is up by nearly 10% (Rs. 1065 to Rs. 1173), Ahluwalia is up by nearly 13% (Rs. 299 to Rs. 339), CCL products is up by nearly 12% (Rs. 201 to Rs. 225), etc. However, two positions have given negative returns, and they are ONGC (down by 16% - Rs. 128 to Rs. 109) and Bajaj Consumer Ltd (down by nearly 4% - Rs. 237 to Rs. 224).

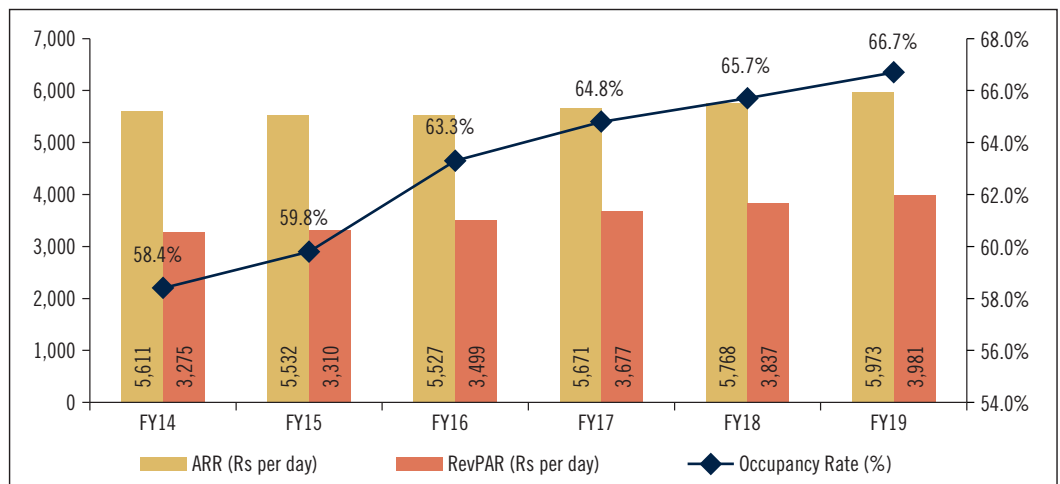
We bought Bajaj Consumer on the basis that the company has one of the highest EBITDA margins in the industry, valuations are cheap, growth lagging but management is focused on getting growth back. But the headwinds that the sector is facing have increased and growth is becoming a challenge for the sector. Historically, what we have seen is once growth in a sector subsides, it takes a while to come back, especially in consumption-related sectors. Looking at the market scenario and other opportunities available in the market, we will reconsider this position of ours.

We have decided to exit Himatsingka Seide from our portfolio because of increased leverage on the balance sheet over the last few quarters as a result of its capex and we have not seen a commensurate increase in the profits. In the type of macro environment we are in, we want to remain cautious on companies having high debt.

**Rationale for adding Indian Hotels to the portfolio:**

Hotels is a highly cyclic industry. The room rates depend on the occupancy in the markets where a hotel chain is present. More the occupancy, higher the opportunity for a hotel operator to increase room rates. It is a business of high operating leverage as when the occupancy improves and room rates increase, revenues grow faster than costs, leading to very high growth in profitability as the margins also improve. In the last few years, we are seeing the occupancy, ARR (Average Room Rate) and RevPAR (Revenue per Available Room) improving across the industry. Based on our understanding, the hotel industry has turned the corner and the next few years should be good for the industry.

Figure 1: Performance of Hotels – Overall average



Source: Hotelivate and Care Ratings

Indian hotels is one of the largest chains of hotel rooms in the country with nearly 18,000 rooms. It has a pan-India presence and operates four brands - Taj (luxury), Vivanta (upper upscale), Ginger (economy) and SeleQtions. Under the new management, there has been significant improvement in the performance of the company and its EBITDA margins have improved quite significantly from a low of 11.7% in FY 15 to 18.4% in FY 19.



Consolidated P&L Statement:-

| Y/E March                           | FY14          | FY15          | FY16          | FY17          | FY18          | FY19          |
|-------------------------------------|---------------|---------------|---------------|---------------|---------------|---------------|
| <b>Total Income from Operations</b> | <b>40,662</b> | <b>41,886</b> | <b>40,230</b> | <b>40,206</b> | <b>41,036</b> | <b>45,120</b> |
| Change (%)                          | 8.6           | 3.0           | -4.0          | -0.1          | 2.1           | 10.0          |
| <b>Total Expenditure</b>            | <b>35,066</b> | <b>37,001</b> | <b>34,709</b> | <b>34,110</b> | <b>34,332</b> | <b>36,823</b> |
| % of Sales                          | 86.2          | 88.3          | 86.3          | 84.8          | 83.7          | 81.6          |
| <b>EBITDA</b>                       | <b>5,596</b>  | <b>4,886</b>  | <b>5,521</b>  | <b>6,096</b>  | <b>6,704</b>  | <b>8,297</b>  |
| Margin (%)                          | 13.8          | 11.7          | 13.7          | 15.2          | 16.3          | 18.4          |
| Depreciation                        | 3,081         | 2,913         | 2,848         | 2,994         | 3,012         | 3,279         |
| <b>EBIT</b>                         | <b>2,515</b>  | <b>1,973</b>  | <b>2,673</b>  | <b>3,102</b>  | <b>3,692</b>  | <b>5,019</b>  |
| Int. and Finance Charges            | 1,685         | 1,756         | 3,756         | 3,238         | 2,690         | 1,901         |
| Other Income                        | 598           | 987           | 997           | 549           | 617           | 834           |
| <b>PBT bef. EO Exp.</b>             | <b>1,427</b>  | <b>1,204</b>  | <b>-86</b>    | <b>413</b>    | <b>1,618</b>  | <b>3,951</b>  |
| EO Items                            | -5,548        | -3,529        | -827          | -108          | 225           | 66            |
| <b>PBT after EO Exp.</b>            | <b>-4,121</b> | <b>-2,325</b> | <b>-913</b>   | <b>306</b>    | <b>1,843</b>  | <b>4,017</b>  |
| Total Tax                           | 1,110         | 1,146         | 906           | 1,137         | 1,211         | 1,571         |
| Tax Rate (%)                        | -26.9         | -49.3         | -99.3         | 372.2         | 65.7          | 39.1          |
| Minority Interest                   | 307           | 310           | 493           | -200          | -376          | -422          |
| <b>Reported PAT</b>                 | <b>-5,538</b> | <b>-3,781</b> | <b>-2,312</b> | <b>-632</b>   | <b>1,009</b>  | <b>2,868</b>  |
| <b>Adjusted PAT</b>                 | <b>10</b>     | <b>-252</b>   | <b>-1,485</b> | <b>-524</b>   | <b>784</b>    | <b>2,802</b>  |
| Change (%)                          | 325.0         | NA            | NA            | NA            | NA            | 257.4         |
| Margin (%)                          | 0.0           | -0.6          | -3.7          | -1.3          | 1.9           | 6.2           |

Source: Motilal Oswal Research

The company aims to focus on further improving its PAT margin by 10% by 2022 by focusing on all line items in the P&L statement.

**Aspiration 2022 – Margin Expansion**

| Particulars                                     | Margin Improvement |
|---|--------------------|
| <b>Revenue</b>                                  |                    |
| RevPAR Growth                                   | } 3 to 4%          |
| Other Operating Income                          |                    |
| Management Fee Income                           |                    |
| Incremental Income from New Inventory           |                    |
| <b>Costs</b>                                    |                    |
| Operational Payroll                             | } 3 to 5%          |
| Procurements (Raw Materials, Stores & Supplies) |                    |
| Corporate Overheads                             |                    |
| Admin and General Expenses                      |                    |
| Fuel, Power & Light                             |                    |
| Asset Contract Costs                            |                    |
| <b>EBITDA Margin Improvement</b>                | <b>8.0%</b>        |
| Depreciation                                    | 1.0%               |
| Interest  | 1.0%               |
| <b>PAT Margin Improvement</b>                   | <b>10.0%</b>       |

Source:- Indian Hotels Presentation

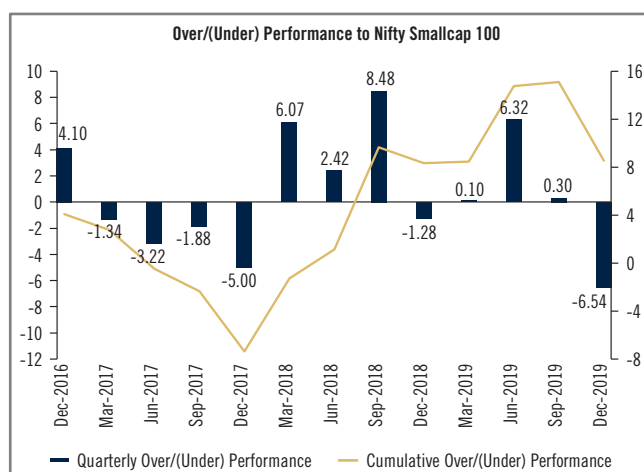
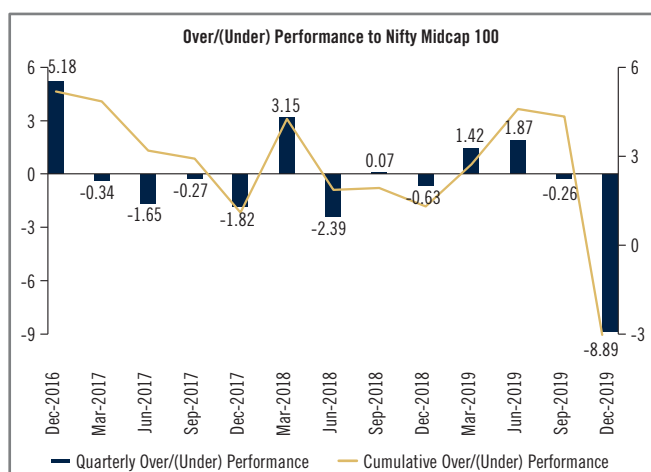
We believe with favourable tailwinds in the hotel industry and a management focused on improving the efficiency of its operations, reducing debt on the books and focusing on asset-light growth (by signing management contracts) should result in good times for the company going ahead.

Yours Sincerely,



# PGIM INDIA PHOENIX STRATEGY

## KEY PORTFOLIO PERFORMANCE INDICATORS



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 may or may not be sustained in future.

### Top 15 Holdings of PGIM India Phoenix Strategy as on January 31st, 2020

| Date of Purchase | Equity                                 | Sector                              | %             |
|------------------|--|-------------------------------------|---------------|
| Aug-2016         | Great Eastern Shipping Co Ltd          | Shipping                            | 6.26%         |
| May-2019         | Dhanuka Agritech Ltd                   | Pesticides And Agrochemicals        | 5.71%         |
| Aug-2016         | Federal Bank Ltd                       | Banks                               | 5.39%         |
| Aug-2016         | JB Chemicals & Pharmaceuticals Ltd     | Pharmaceuticals                     | 5.38%         |
| Apr-2018         | Mahanagar Gas Ltd                      | LPG/CNG/PNG/LNG SUPPLIER            | 4.96%         |
| Sep-2016         | Oracle Financial Services Software Ltd | IT Services / Products              | 4.45%         |
| Aug-2016         | Ahluwalia Contracts India Ltd          | Cement Products                     | 3.91%         |
| Apr-2017         | Hexaware Technologies Ltd              | Computers - Software                | 3.75%         |
| Mar-2018         | Cummins India Ltd                      | Engineering                         | 3.59%         |
| Aug-2016         | Oberoi Realty Ltd                      | Residential/Commercial/ Sez Project | 3.52%         |
| Aug-2016         | Sobha Ltd                              | Residential/Commercial/ Sez Project | 3.49%         |
| Sep-2016         | D B Corp Ltd                           | Printing And Publishing             | 3.07%         |
| Mar-2018         | Kewal Kiran Clothing Ltd               | Fabrics And Garments                | 2.98%         |
| Mar-2019         | Bajaj Consumer Care Ltd                | Personal Care                       | 2.96%         |
| Oct-2016         | DCB Bank Ltd                           | Banks                               | 2.93%         |
|                  | <b>Total</b>                           |                                     | <b>62.35%</b> |

### Model Portfolio Details

| Portfolio Details as on January 31st, 2020     |        |
|--|--------|
| Weighted average RoE                           | 12.82% |
| Portfolio PE (1-year forward) (Based on FY 20) | 14.41  |
| Portfolio dividend yield                       | 1.85%  |

| Portfolio Composition as on January 31st, 2020 |        |
|--|--------|
| Large Cap                                      | 3.00%  |
| Mid Cap  | 24.50% |
| Small Cap                                      | 65.50% |
| Cash   | 7.00%  |

**Large Cap:** Market cap of the 100th company in the Nifty 500 (sorted by market cap in descending order) as on January 31st, 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 January 31st, 2020

**Small Cap:** Market cap lower than the 250th company in the Nifty 500 (sorted by market cap in descending order) as on January 31st, 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 January 31st, 2020

| Period                          | Portfolio | Nifty Midcap 100 | Nifty Smallcap 100 |
|---------------------------------|-----------|------------------|--------------------|
| 1 Month                         | 5.20%     | 5.31%            | 6.71%              |
| 3 Months                        | 3.75%     | 7.08%            | 8.37%              |
| 6 Months                        | 1.30%     | 13.12%           | 12.76%             |
| 1 Year                          | -2.50%    | 6.54%            | 1.52%              |
| 2 Year                          | -8.13%    | -6.92%           | -15.98%            |
| 3 Year                          | 3.80%     | 5.33%            | -0.40%             |
| Since Inception Date 01/08/2016 | 4.64%     | 5.82%            | 0.65%              |
| Portfolio Turnover Ratio*       | 16.81%    |                  |                    |

\*Portfolio Turnover ratio for the period February 1st, 2019 to January 31st, 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 31-01-2020  | 5.20%                 | 5.31%            | 6.71%              |
| 01-08-2016 to 31-01-2020 | 4.64%                 | 5.82%            | 0.65%              |

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

**Disclaimers and risk factors:** PGIM India Asset Management Private Limited (erstwhile DHFL Pramerica Asset Managers Private Limited) is registered with SEBI as Portfolio Manager under SEBI (Portfolio Managers) Regulations, 1993. This Document is for information purpose only. This Document and the Information do not constitute a distribution, an endorsement, an investment advice, an offer to buy or sell or the solicitation of an offer to buy or sell any securities/ schemes or any other financial products/investment products (collectively "Products") mentioned in this Document or an attempt to influence the opinion or behavior of the Investors/Recipients. Any use of the information contained herein for investment related decisions by the Investors/ Recipients is at their sole discretion & risk. Please read the Disclosure Document and the agreement along with the related documents carefully before investing. Investments in Products are subject to market risks, various micro and macro factors and forces affecting the capital markets and include price fluctuation risks. There is no assurance or guarantee/ warranty that the objectives of any of the Products will be achieved. The investments may not be suited to all categories of Investors/ Recipients. Investors/ Recipients must make their own investment decisions based on their own specific investment objectives, their financial position and using such independent professional advisors, as they believe necessary, before investing in such Products.

© 2019 Prudential Financial, Inc. (PFI) and its related entities. Prudential Financial, Inc. of the United States is not affiliated in any manner with Prudential plc, incorporated in the United Kingdom or with Prudential Assurance Company, a subsidiary of M&G plc, incorporated in the United Kingdom. The PGIM logo and the Rock symbol are service marks of PFI and its related entities, registered in many jurisdictions worldwide.

**This document is strictly confidential and meant for private & restricted circulation only and should not at any point of time be construed to be an invitation for subscribing to PGIM India Phoenix Strategy. The document is solely for the understanding of intended recipient and if you are not the intended recipient, you are hereby notified that any use, distribution, reproduction or any action taken or omitted to be taken in reliance upon the same is prohibited and may be unlawful.**

This document is dated February 26, 2020.

C242/2019-20

