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**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 on what we are observing in the economy and how companies are looking at the situation and guiding us about the future and how we are positioning the portfolio in the market.

Last few years have been a challenging period for most companies in the economy. The challenges faced by the companies are: overall demand growth has been low, getting payments on time has become a challenge, intensity of competition has become higher and overall capacity utilization has been low. High intensity of competition is leading to competitors giving more discounts or reducing the prices, increasing receivable days and in case of financials, the lending rates for almost all consumer products are reducing.

Most of the portfolio companies we are meeting today are accepting that the situation can continue for some more quarters and rather than looking at the government or outside market conditions to improve, the focus has moved to what they can do internally to grow and reduce costs to improve profitability of the company. So for example, we have two consumer-facing companies: Bajaj Consumer and KKCL. Both companies have seen slower growth in the end markets and have spoken of belt tightening to improve focus on cost and focus more aggressively on increasing the distribution reach, launching newer products, trying to focus on lower price points and increase spending on brand building. These steps should lead to better growth going forward, but one of the things which we need to monitor is how much margin compression takes place and how much impact all these measures have on profits and cashflows. Similarly, real estate companies in our portfolio have started focusing more aggressively on mid-income housing, more sales at launches and faster turnaround of land parcels they are buying and not blocking very large sums in land with a distant timeframe.

In certain businesses like financials, we would not like to see the portfolio companies become very aggressive in a slowing economy and go for market share gains as it can lead to future NPAs. Growing book by distributing loans is the easier part but getting the loans back is the real challenge. Also, if too many loans become NPA in the downcycle, we have found that it has taken a lot of time for the financial institution to clean it and as a consequence miss the next growth cycle. So, from our perspective, a cautious and consistent growth is what we are looking for in a financial institution.

Also, we don't want growth to come at the expense of higher receivable days, which again to our mind is poor quality of growth.

In our opinion, it is a tough time period for the economy and companies which are ready to think out of the box will be the winners. Also, as investors, we have to monitor more closely our investments as companies are trying to take various measures to grow fast.

### Portfolio updates:-

Last quarter has been one of the worst quarters for us where we have significantly underperformed the market. This was mainly due to few stocks with large underperformance like Apar Industries, Oracle Financial Services, Cummins, Sobha, CCL Products, Kirloskar Oil Engines and Pokarna Ltd. We have looked at each of them closely and reevaluated them on the standalone basis. In some cases, we have added more at the lower levels. In case of Pokarna, we decided to exit the company and move ahead because of uncertainty on the immediate future performance because of duties on its sale of products in USA.

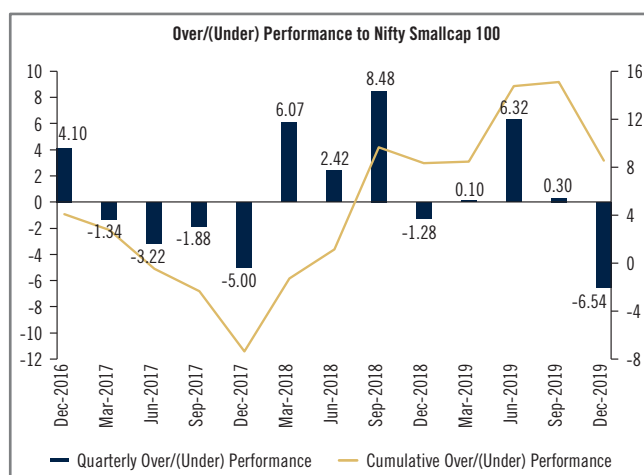
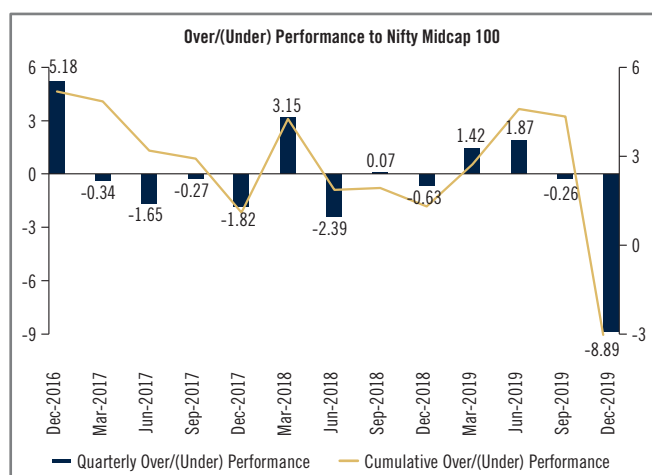
We had thought of participating in JB Chemicals and MOIL because the stock prices were significantly lower than the buy-back price. But between the date we wrote the last newsletter and the buy-back, there were two important events: one there was clarity on Ranitidine products - they were not getting banned and other was one time price increase of 50% given by the regulator in Metronidazole which could increase the domestic revenue of the Company by 5%. Hence, in case of JB we tendered half the quantity of shares we were holding. In case of MOIL, the current market price is above the buy-back price and hence it did not make any sense to tender the shares in buy-back.

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 and then computing an arithmetic average for the overall strategy. Past performance may or may not be sustained in future.

### Top 15 Holdings of PGIM India Phoenix Strategy as on December 31st, 2019

Date of Purchase	Equity	Sector	%
Aug-2016	Great Eastern Shipping Co Ltd	Shipping	6.49%
Aug-2016	JB Chemicals & Pharmaceuticals Ltd	Pharmaceuticals	5.61%
Aug-2016	Federal Bank Ltd	Banks	5.47%
Apr-2018	Mahanagar Gas Ltd	LPG/CNG/PNG/LNG SUPPLIER	4.83%
May-2019	Dhanuka Agritech Ltd	Pesticides And Agrochemicals	4.74%
Sep-2016	Oracle Financial Services Software Ltd	IT Services / Products	4.34%
Aug-2016	Ahluwalia Contracts India Ltd	Cement Products	3.64%
Aug-2016	Oberoi Realty Ltd	Residential/Commercial/ Sez Project	3.64%
Mar-2018	Cummins India Ltd	Engineering	3.63%
Apr-2017	Hexaware Technologies Ltd	Computers - Software	3.61%
Mar-2019	Bajaj Consumer Care Ltd	Personal Care	3.30%
Aug-2016	Sobha Ltd	Residential/Commercial/ Sez Project	3.29%
May-2017	MOIL Ltd	Industrial Minerals	3.19%
Mar-2018	Kewal Kiran Clothing Ltd	Fabrics And Garments	3.16%
Sep-2016	D B Corp Ltd	Printing And Publishing	3.14%
	<b>Total</b>		<b>62.08%</b>

### Model Portfolio Details

Portfolio Details as on December 31st, 2019	
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 December 31st, 2019	
Large Cap	3.00%
Mid Cap	21.50%
Small Cap	66.00%
Cash	9.50%

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

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

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 December 31st, 2019

Period	Portfolio	Nifty Midcap 100	Nifty Smallcap 100
1 Month	0.43%	-0.69%	0.34%
3 Months	-2.17%	6.72%	4.31%
6 Months	-11.45%	-3.12%	-5.89%
1 Year	-10.79%	-4.32%	-9.53%
2 Year	-11.58%	-10.05%	-19.91%
3 Year	2.91%	6.02%	0.31%
Since Inception Date 01/08/2016	2.97%	4.38%	-1.23%
Portfolio Turnover Ratio*	15.86%		

\*Portfolio Turnover ratio for the period January 1st, 2019 to December 31st 2019

## 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	42.13%	47.26%	57.30%
CY 2018	-12.72%	-15.42%	-29.08%
CY 2019	-10.79%	-4.32%	-9.53%
01-08-2016 to 31-12-2019	2.97%	4.38%	-1.23%

**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 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 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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[www.pgimindiapms.com](http://www.pgimindiapms.com)

022-6159 3131

[care@pgimindia.co.in](mailto:care@pgimindia.co.in)