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**PGIM INDIA**

**CORE EQUITY PORTFOLIO STRATEGY**





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## From the desk of the Portfolio Manager for PGIM India Core Equity Portfolio Strategy

Dear Investor,

In this newsletter, we wish to discuss and reflect on the results of companies we have in our portfolio. The sectors that we are present in, why we chose those sectors and what is the way forward.

### Exhibit2: Q3 FY20 performance of companies in the portfolio

Company	Q3 FY2019				Q3 FY 2020				Growth				Sectors
	Revenue/ NII	EBITDA/ PPoP	PAT	EPS	Revenue/ NII	EBITDA/ PPoP	PAT	EPS	Revenue/ NII	EBITDA/ PPoP	PAT	EPS	
Rallis	417	28	14	0.71	534	56	38	1.96	28%	102%	176%	176%	Agrochemicals
PI Industries	708	149	107	7.8	850	187	130	9.4	20%	26%	21%	21%	Agrochemicals
Castrol	1,033	317	212	2.10	1,012	341	271	2.70	-2%	7%	28%	29%	Auto
BOSCH *	3008	412	335	109.90	2537	320	190	64.50	-16%	-22%	-43%	-41%	Auto
State Bank of India	22691	12625	3955	4.40	27779	18223	5583	6.30	22%	44%	41%	43%	Banks
Cummins	1514.3	228.2	197.5	7.1	1456.4	216.5	199.9	7.2	-4%	-5%	1%	1%	Capital Goods
Thermax Ltd	1437	107	76	6.70	1410	113	85	7.50	-2%	5%	12%	12%	Capital Goods
GE Power Ltd.	552	78	41	6.12	765	78	100	15.01	39%	-1%	144%	145%	Capital Goods
Bharat Electronics Limited	2,717	768	508	2.10	2,271	355	215	0.90	-16%	-54%	-58%	-57%	Capital Goods
Coal India Ltd	23385	5127	4566	7.40	21566	3347	3925	6.30	-8%	-35%	-14%	-15%	Commodities
ITC Ltd	11228	4326	3209	2.60	11793	4613	3934	3.20	5%	7%	23%	23%	Consumer
Engineers India	577	95	91	1.40	891	86	109	1.70	54%	-10%	20%	21%	Engineering Services
MCX	77	21	42	8.30	89	39	52	10.10	16%	87%	23%	22%	Exchanges
Infosys limited	21,400	5,410	3,610	8.29	23,092	5,801	4,466	10.50	8%	7%	24%	27%	IT
Oracle Financial Services	1185.9	499.5	306.0	35.6	1160.1	526.2	456.7	53.2	-2%	5%	49%	49%	IT
Container Corporation	1572.2	333.5	274.7	4.50	1527.6	371.7	175.5	2.88	-3%	11%	-36%	-36%	Logistics
Vardhman Textiles	1729	307	196	34.70	1825	212	199	35.30	6%	-31%	2%	2%	Textiles
Cipla	4,008	708	332	4.12	4,371	758	351	4.35	9%	7%	6%	6%	Pharmaceuticals
Sanofi India Ltd	726.4	137.3	79.3	34.48	826.3	178.2	97.3	42.26	14%	30%	23%	23%	Pharmaceuticals
Jagran Prakashan	614	133	67	2.20	553	147	76	2.60	-10%	11%	14%	18%	Print Media
Great Eastern Shipping	952.0	371.1	68.6	4.6	1077.4	538.9	274.2	18.1	13%	45%	300%	293%	Shipping
Indraprastha Gas Ltd.	1510	320	198	2.83	1664	392	284	4.06	10%	23%	43%	43%	Utilities
Power Grid	8312	7410	2331	4.50	9354	8238	2674	5.10	13%	11%	15%	13%	Utilities

Source of data: Company fillings

Over the last two years, we have been extremely cautious on the market and have continuously tried to minimize any form of high leverage, existential and over-valuation risk in any of the businesses we have in the portfolio. The market dynamics however worked predominantly in favour of companies that enjoy the perception of high growth with investors willing to pay any price for the growth. Our set of companies though with underlying businesses doing well did not catch the fancy of the investors leading to our portfolios underperforming the benchmark. This is what we believe is a transient phenomenon and our portfolios will do well as soon as rationality returns to the market. The focus remains on buying businesses where we see strong moats, good cash-flows (and where we expect the cash-flows to continue to increase in the foreseeable future), good dividend yields and very low / nil leverage.

We have chosen our bets very carefully. As in, there may be short term volatility in the P&L, but having strong balance sheets should help our companies overcome any economic volatility that may arise. Also, these companies can leverage their balance sheet strength to grow in a very tough economic environment. This is one of the reasons why we have much larger positions in sectors like capital goods, logistics and media which are highly geared to the business cycle, but are underweight on the financial space where the P&Ls are stable but the high gearing on their balance sheet, financial excesses in the system and perpetual requirement of good liquidity conditions can magnify the negative ramifications of any slowdown in the economy. For the time being, we will continue to run the portfolio with this mindset.

### Results in a nutshell:

**Agriculture:** We have two companies in the portfolio, Rallis and PI Industries. Revenue growth was led by growth in exports and good sales improvement in the domestic market because of increased sowing in this season.

**Automobiles:** We have two companies in the automobiles space, Bosch and Castrol. The slowdown in automobile sales has impacted their performance and we expect subdued performance over the next 2 quarters. Having a high proportion (greater than 65%) of revenue from aftermarket and the continuous focus on improving unit margins



have helped Castrol grow its EBITDA (Earning before Interest, Depreciation and Taxes) even in a tough market. We prefer auto ancillaries companies to automobile manufacturers because of uncertainty in long term on which OEM's model line-up will gain market share in future and low proportion of revenues from aftermarkets.

**Banks:** We have State Bank of India in the portfolio. The results are improving and we continue to believe the worst of the NPA cycle is over for SBI. We had bought it because of cheap valuations and strong performance of its subsidiaries. Listing of these subsidiaries should lead to value unlocking in case of SBI. Overall, we remain cautious on the banking sector. The slow economic growth will lead to lower growth in the credit requirement across the board and increased competition in the financial services will impact the performance of the financial institutions over the longer term, leading to compression in valuation multiples. This remains our base hypothesis and we stick to it.

**Capital Goods & Engineering Services:** Other than the results of Bharat Electronics Ltd. (BEL), the results of all other companies were broadly along expected lines. Results of BEL did give a negative surprise. BEL reported a miss in 3QFY20 results on the back of project-specific hurdles in execution, which lead to negative operating leverage and weak realization from execution of projects with high material content. BEL expects deferral of revenues of 3QFY20 to get booked in 4QFY20.

**Commodities:** We have Coal India in the portfolio; prolonged and heavy rain impacted the operations of the company in the last two quarters leading to lower volume offtake in 3QFY20. We expect Q4FY20 to be better and coal production should ramp up.

**Consumer:** We have ITC in the portfolio and the results were along expected lines. ITC is one of the cheapest large cap consumer-focussed stocks and we remain confident that FMCG will continue to grow at a decent rate and the profitability will also improve from here on. ITC has invested heavily in hotels business and we expect the hotels cycle to become more favourable and the profitability of the hotels business to also improve from here on. Currently, the stock trades at one of its cheapest valuations in last 10 years and because of our expectation of improved profitability in other businesses ex-cigarettes, ITC has one of the highest weightages in our portfolio. We have further added to our position in the recent correction in stock price.

**Exchange Services:** We have MCX which has a dominant position (94.4% in 3QFY20) in the commodities exchange space and the increased volatility in gold and crude led to increase in the average daily traded volumes by 16% YOY for the quarter. Resulting in high growth in revenue and EBITDA.

**IT Services:** We have two companies in IT sector, Oracle Financial Services and Infosys. For Oracle, the results were weak and new license signing was also weak. But the increase in margins and lower tax rates led to very high growth in profits for the company.

**Logistics:** Slowdown in economic growth has led to slower growth in volumes for Concor in both domestic business and exim business. We continue to hold the stock with the thesis that, over the longer term, railways will gain market share from road in goods transportation. Concor being the market leader in container transportation through rail network should benefit from this change.

**Print Media:** The slowdown in economy has led to a fall in the advertisement revenue in both radio and print media, resulting in declining sales for these companies. Last year, the price of paper rose quite significantly and had led to an erosion in margins. The price of paper has been falling and that has led to an improvement in margins. Looking at the current macro-economic environment, growth in advertisements will remain a short-term challenge. Fall in the prices of paper and cost control should lead to stable margins. Jagran Prakashan has completed its buyback with the purchase of 1.52 crore shares.

**Shipping:** The Q3FY20 results were one of the best results for GE Shipping in the last many years. Profits tripled from the same quarter last year. Barring some hiccups in short term, we remain constructive on the business because of low leverage, strong cash generating capability even in a very tough environment and reducing orderbook for new ships.

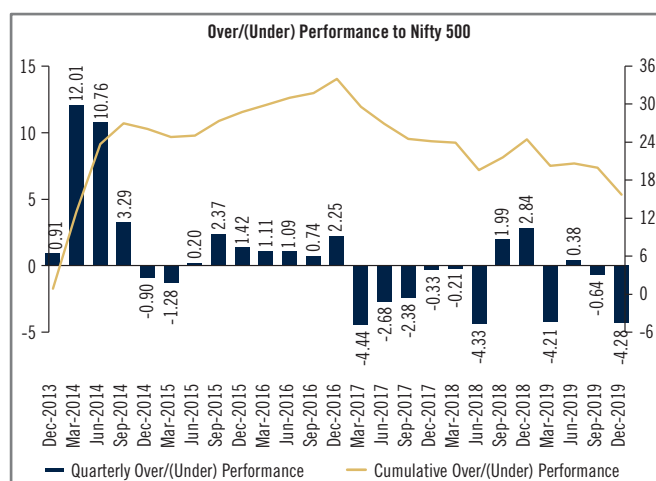
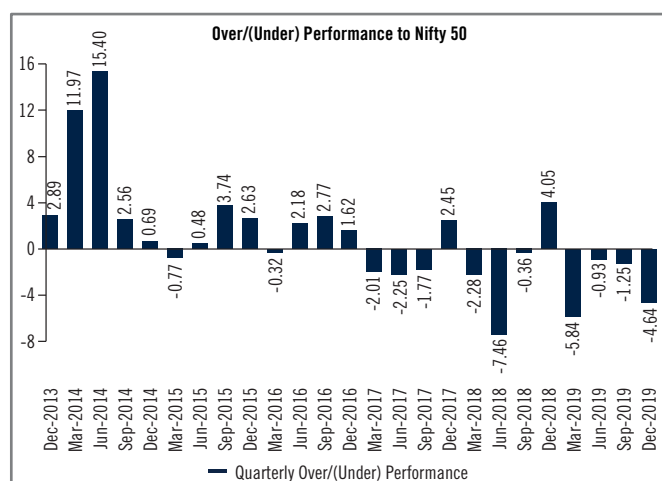
**Utilities:** Results of both Indraprastha Gas and Power Grid were in line with expectations and we expect the good performance for both companies to continue in the near future.

Yours Sincerely.



# PGIM INDIA CORE EQUITY PORTFOLIO 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 the Regular Portfolio of PGIM India Core Equity Portfolio 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 Core Equity Portfolio Strategy Discretionary Portfolio Regular Plan as on February 28th, 2020

Date of Purchase	Equity	Sector	%
Feb-2018	Multi Commodity Exchange Of India Ltd	Other Financial Services	6.03%
Sep-2015	State Bank of India	Banking / Financial Services	5.79%
Jul-2013	Container Corporation of India Ltd	Logistics	4.76%
Jul-2013	Indraprastha Gas Ltd	City Gas Distribution	4.69%
Oct-2017	Power Grid Corporation Of India Ltd	Power- Transmission	4.68%
Jun-2015	ITC Ltd	FMCG	4.41%
Mar-2015	Castrol India Ltd	Lubricants / oils	4.33%
Jan-2016	Oracle Financial Services Software Ltd	IT Services / Products	4.28%
Jul-2016	Rallis India Ltd	Pesticides And Agrochemicals	3.89%
May-2018	Bharat Electronics Ltd	Industrial Electronics	3.87%
Aug-2013	Cummins India Ltd	Engineering	3.71%
Aug-2013	Great Eastern Shipping Co Ltd	Shipping	3.28%
Jun-2018	GE Power India Ltd	Power Equipment	3.15%
Aug-2018	Cipla Ltd	Pharmaceuticals	3.09%
Aug-2019	Coal India Ltd	Industrial Minerals	2.99%
	<b>Total</b>		<b>62.95%</b>

### Model Portfolio Details

#### Portfolio Details as on February 28th, 2020

Weighted average RoCE	23.75%
Portfolio PE (1-year forward) (Based on FY 20)	15.83
Portfolio dividend yield	1.76%
Average age of companies	60 Years

#### Portfolio Composition as on February 28th, 2020

Large Cap	32.75%
Mid Cap	22.25%
Small Cap	29.50%
Cash	15.50%

**Large Cap:** Market cap of the 100th company in the Nifty 500 (sorted by market cap in descending order) as on February 28th, 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 February 28th, 2020

**Small Cap:** Market cap lower than the 250th company in the Nifty 500 (sorted by market cap in descending order) as on February 28th, 2020

The above holding represents top 15 holdings of PGIM India 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.



## PGIM India Core Equity Portfolio Strategy Portfolio Performance as on February 28th, 2020

Period	Portfolio	NIFTY 50	NIFTY 500
1 Month	-8.44%	-7.08%	-7.24%
3 Months	-6.77%	-7.81%	-6.42%
6 Months	0.09%	1.41%	2.96%
1 Year	-1.51%	3.79%	3.13%
2 Years	-3.73%	3.33%	-0.14%
3 Years	1.63%	8.06%	6.21%
5 Years	3.81%	4.70%	4.99%
Since Inception Date 08/07/2013	13.12%	10.22%	11.30%
Portfolio Turnover Ratio*	13.17%		

\*Portfolio Turnover ratio for the period March 1st, 2019 to February 28th, 2020

## Calendar Year Performance of PGIM India Core Equity Portfolio Strategy

Calendar Year	Portfolio Performance	Nifty 50	Nifty 500
08-07-2013 to 31-12-2013	13.2%	7.4%	8.4%
CY 2014	61.7%	31.4%	37.8%
CY 2015	1.8%	-4.1%	-0.7%
CY 2016	9.2%	3.0%	3.8%
CY 2017	22.8%	28.7%	35.9%
CY 2018	-3.3%	3.2%	-3.4%
CY 2019	-0.8%	12.0%	7.7%
CY 2020 till 28-02-2020	-5.37%	-7.94%	-6.45%
08-07-2013 to 28-02-2020	13.12%	10.22%	11.30%

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 the Regular Portfolio of 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 Core Equity Portfolio Strategy:** PGIM India 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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