



**PGIM**

India Portfolio  
Management Services

Stable core.  
Strong portfolio.

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**PGIM INDIA**  
**CORE EQUITY PORTFOLIO**





**Surjitt Singh Arora,**  
Portfolio Manager

### 2022 – A year which will test conviction and patience

Dear Investor,

#### PERFORMANCE RECAP

On a one-year basis, our portfolio delivered a return of 35.2% vs 30.2% for CNX 500, outperforming the benchmark by 500bps. The investment approach outperformed the index mostly due to stock selection in consumer discretionary as well as being an Overweight in Industrials and Underweight in the Financial Sector.

Our portfolio has delivered a return of 2.13% vs 2.37% for CNX Nifty 500 during the month of Dec '21. Our Overweight stance on the Industrial Sector impacted our performance. This was partially negated by our Overweight stance in the Real Estate & Materials Sector. The stocks which dragged our performance were Oracle Financial Services, HDFC Ltd and ITC. The stocks which Outperformed were Vardhman Textiles, Navin Fluorine, Sun Pharma, and Infosys.

#### KEY CONTRIBUTORS (CY21)

**Vardhman Textiles** - Being the largest manufacturer of yarn and woven fabrics in India, the company is a key beneficiary of higher yarn spreads and saw strong improvement in demand for occasion and formal wear. Vardhman has one of the strongest balance sheets in the Indian textile industry.

**SBI** - As compared to the past few years where asset quality dominated the discussion, recent results suggest that this has shifted towards operating metrics. The retail, especially unsecured loans and Corporate asset quality has held up well both from NPLs and restructured loans perspective. With the economy gradually returning to normalcy and corporate India holding up well, we believe that the bank is well-positioned to see lower credit costs, which should help its ROEs improve further.

**Bharat Electronics** - With a strong order book in hand and parallel execution capability for multiple platforms, BEL has a strong P/L growth visibility. Further, domestic companies, including BEL, are likely to benefit from key changes in government policies, which clearly articulate defence PSUs like BEL as a tier I system integrator.

**Infosys** - Infosys has refreshed organization-wide capabilities in the past 3-4 years and will be at the forefront of these opportunities. Focused execution on strategic imperatives has led to revenue growth acceleration and recouping of margins.

**VST Tillers & Tractors** - VSTT is strategizing to transform from a tiller manufacturer to a small farm mechanization company. Taking advantage of import restrictions from China, the company has started supplying products to various new brands who were previously dependent on the Chinese market. The company added 155 new dealers in FY21 in the power tiller segment and 110 new dealers in the tractor segment.

#### KEY LAGGARDS (CY21)

**ITC** - The stock has under-performed mainly on account of : i) The company would score low on ESG metrics (given it is largely a cigarette/tobacco company and ii) rising health awareness would bring about volume decline. However, we reckon ITC offers a good value proposition due to i) improving FMCG business, ii) Possible restructuring (FMCG/Hotels may be carved out), iii) Doing a lot to improve ESG metrics and iv) Healthy dividend yield of close to 5%.

**Oracle Financial Services (OFSS)** - Oracle has underperformed in the recent past, given its low revenue and earnings growth and volatility in license sales on a quarterly basis. However, OFSS is a global leader in the underpenetrated CBS business, boasts of superior technology, provides integrated & reliable offering which would ensure that it emerge as the most preferred vendor in the segment. Superior pricing and brand appeal would mean steady earnings growth and improved cash generation and generous pay-outs.

#### NEW ADDITION TO THE PORTFOLIO

**Astral Polytechnik Ltd** - With a strong brand and distribution network (no. of dealers in pipe segment increased c.50% over last 4 years), geographical expansion, ability to launch new products (DWC pipes, Silencio, conduit pipes, etc.) and segments (water distribution / conservation / recycling), Astral has been gaining market share in PVC/CPVC resin segment and scaling up in adhesives. With a focus on capital allocation, conservative working capital management, return on investment and balance sheet, management quality has also been impressive.

## INVESTMENT PROCESS

We invest in structurally strong companies, that are termed as good quality companies. A good quality company is a company that has reached a minimum scale in terms of revenue, has gone through at least one downcycle and emerged as a stronger company, has a consistency in cash flows and higher return on capital employed over the last 10 years. The second aspect has been to always own companies which are market leaders in a particular domain. We have over a period of time seen that market leaders generally tend to come back stronger with higher market share after the downturn as weaker players usually vanish in the downturn.

All stocks which are large weightage in the portfolio currently SBI, Vardhman Textiles, Timken, Bharat Electronics, Asian Paints, HDFC Ltd, VST Tillers & Tractors, Phoenix Mills, etc. were bought with that thought process.

## PORTFOLIO OUTLOOK

The period of making easy money is behind us. Investor expectations in terms of risk-adjusted returns need to be moderated and be more realistic. 2022 would put demands on temperament (read patience) and will put conviction to test. Hence we have constructed our portfolio of Quality companies with stocks, where we have conviction to increase the weightage if they correct 10-15%.

Two risks in 2022 which could impact short-term returns are the interest rate increases globally and supply-side pressures on account of supply chain disruption. Notwithstanding the above risks, increased uptake of vaccines, coupled with government response should see COVID move towards the endemic stage as people learn to live normal lives with the virus present. Domestic story of reforms, strong earnings growth and low debt position of corporate India are the key positives for long-term equity investing.

Companies with strong brands, pricing power, and larger economies of scale continue to be a part of our portfolio. We continue to be positive on Industrials (Including Capital Goods) as we expect the capex cycle to pick-up pace. In addition, we are bullish on the Real Estate sector given the consolidation on the supply side and improvement in affordability on the demand side.

We continue to believe that Investors with a 3 to 5-year view would benefit from investing in the current scenario.

Yours Sincerely

**Surjitt Singh Arora**

### Top 15 Holdings of PGIM India Core Equity Portfolio Discretionary Portfolio Regular Plan as on December 31st, 2021

Date of Purchase	Equity	Sector	%
Sep-2015	State Bank of India	Financials	5.99%
Sep-2021	Phoenix Mills Ltd	Real Estate	5.94%
Oct-2017	Power Grid Corporation Of India Ltd	Utilities	5.36%
Sep-2021	Timken India Ltd	Industrials	4.93%
Sep-2021	KEI Industries Ltd	Industrials	4.87%
Sep-2021	Asian Paints Ltd	Materials	4.87%
Dec-2019	Vardhman Textiles Ltd	Consumer Discretionary	4.80%
May-2018	Bharat Electronics Ltd	Industrials	4.74%
Sep-2021	HDFC Ltd	Financials	4.44%
Oct-2021	Navin Fluorine International Ltd	Materials	4.31%
Sep-2021	ACC Ltd	Materials	4.19%
Dec-2021	Astral Ltd	Industrials	4.01%
Jan-2016	Oracle Financial Services Software Ltd	Information Technology	4.00%
Aug-2013	Cummins India Ltd	Industrials	3.99%
Jun-2015	ITC Ltd	Consumer Staples	3.89%
	<b>Total</b>		<b>70.33%</b>

### Model Portfolio Details

#### Portfolio Details as on December 31st, 2021

Weighted average RoCE	20.90%
Portfolio PE (2-year forward) (Based on FY 23)	29.57
Portfolio dividend yield	1.28%
Average age of companies	62 Years

#### Portfolio Composition as on December 31st, 2021

Large Cap	46.00%
Mid Cap	34.50%
Small Cap	17.00%
Cash	2.50%

**Large Cap:** Market cap of the 100th company in the Nifty 500 (sorted by market cap in descending order) as on December 31st, 2021

**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, 2021

**Small Cap:** Market cap lower than the 250th company in the Nifty 500 (sorted by market cap in descending order) as on December 31st, 2021

### PGIM India Core Equity Portfolio - Performance as on December 31st, 2021

Period	Portfolio	NIFTY 500	NIFTY 50
1 Month	2.13%	2.37%	2.18%
3 Months	3.27%	-0.38%	-1.50%
6 Months	9.73%	11.30%	10.38%
1 Year	35.22%	30.19%	24.12%
2 Years	20.64%	23.23%	19.41%
3 Years	13.01%	17.81%	16.90%
5 Years	11.38%	16.52%	16.22%
Since Inception Date 08/07/2013	15.87%	15.14%	13.63%
Portfolio Turnover Ratio*	49.27%		

\*Portfolio Turnover ratio for the period January 1st, 2021 to December 31st, 2021

The above holding represents top 15 holdings of PGIM India Core Equity Portfolio - 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 - Annualised Performance as on December 31st, 2021

	Current Year April 1, 2021 to December 31, 2021	April 1, 2020 to March 31, 2021	April 1, 2019 to March 31, 2020	April 1, 2018 to March 31, 2019
PGIM India Core Equity Portfolio	22.50%	53.25%	-23.66%	3.79%
Benchmark - NIFTY 500	21.78%	75.99%	-27.60%	8.43%

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

**Important Disclosures regarding the consolidated portfolio performance:** The performance related information provided herein is not verified by SEBI. 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:** PGIM India Core Equity Portfolio seeks to generate returns by investing in a portfolio of quality companies that are available at reasonable valuations and have the potential of superior wealth creation over long term.

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This document is dated January 10, 2022.

C275/2021-22