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Management Services

Stable core.
Strong portfolio.

PGIM INDIA
CORE EQUITY PORTFOLIO

From the desk of Portfolio Manager

Surjitt Singh Arora,
Portfolio Manager

Quality at a Reasonable Price

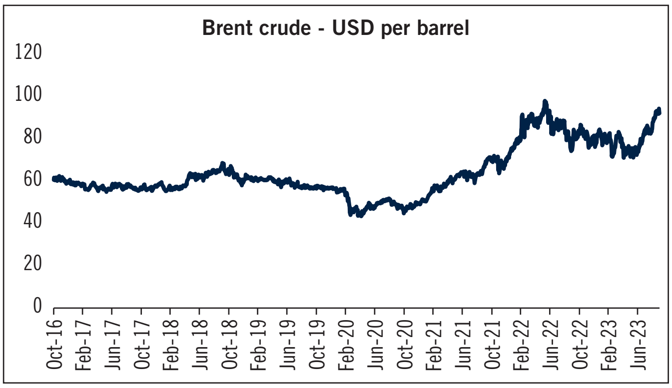
PORTFOLIO OUTLOOK

India's inclusion in the global bond indices has been under consideration for several years; several issues had delayed this, including fundamental objections over perceived higher volatility on exposure to global capital, lack of suitable Government bond pool and taxation mechanisms etc. With a USD 300bn+ pool of G-Secs now available, and other objections suitably addressed, the index inclusion will finally happen. The passive flows should amount to ~USD 20-25bn and gradually pace from Jun'24 to Mar'25. Other such EM/Global bond indices inclusion may follow, taking potential inflows to ~USD 40bn+ over the next 2-3 years. (Source : Jefferies India Research).

The bunched up FX inflows could potentially support the INR over the medium term. Annual CAD for India is est. at USD 65-70bn/annum, and largely supported by a Capital Account surplus of USD 50bn+. An infusion of ~USD40bn over the next ~2 years would thus provide a cushion to the Balance of Payment (BoP) / FX reserves of the RBI.

Expectations for annual Indian Rupee (INR) depreciation have nosedived from 9% to under 2% in 10 years (Source : CLSA) as belief has risen on India’s growth story along with a stable political and economic policy set-up. This has been instrumental in the over 150bps fall in Indian bond yields during this period while developed market (DM) yields have spiked by over 200bps. Keeping INR depreciation expectations low may not only feed into higher equity valuations but also help secure the affordable capital necessary for manufacturing- and infrastructure-led sustainable economic growth.

We have increased our allocation towards Large Caps (now accounts for ~30%). At the same time, we have created cash position of more than 10.0% given the increasing risk to Global Equities highlighted below :



Source : Bloomberg

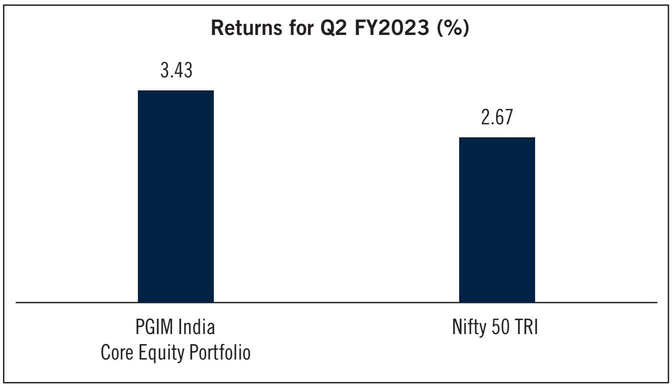
a) US 10-year Treasury yield trading around levels last seen in 2007, as investors fretted over the potential for tighter Federal Reserve monetary policy for longer than expected

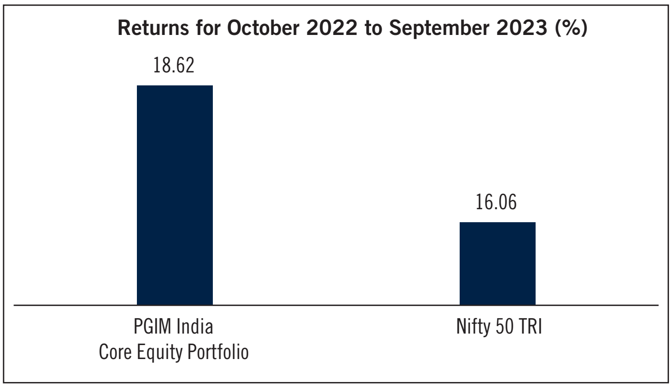
b) Brent Crude is up 25% since June 2023 thanks to the prospect of more production cuts by leading oil exporters.

In the near-term, market focus would shift towards the general election schedule in 2024. As we approach closer to the date, we could see increased market volatility due to speculation about the election outcome. We are of the view that these are transient factors and would advise investors to look past these factors to benefit from the long-term India growth story. We continue with our positive stance on the Indian equity market from a medium to longer term perspective.

We see consumption and manufacturing spearheading India’s growth led by demographics, higher per capita income and penetration with exports remaining a longer term but invaluable growth driver. We are positive on Healthcare, Consumer Discretionary, Industrials and Building Materials. We have increased our weight in Pharmaceutical and reduced our weight in IT. We continue to believe that investors with a 3 to 5-year view would benefit from investing in the current scenario.

PERFORMANCE RECAP





From the desk of Portfolio Manager

Our portfolio delivered a return of 3.43% vs a 2.67% return for Nifty 50 TRI during the quarter ended Sept'23, thereby, Outperforming by ~76bps. Our overweight stance on Consumer Discretionary, Industrials and Healthcare and underweight stance on Information Technology (IT) and Financials aided our performance for the quarter. The stocks which outperformed were VST Tillers & Tractors, Maruti Suzuki, FDC, Syngene International and Mphasis Ltd. The stocks which impacted our performance were Astral Ltd and Timken India.

For the one year period ending Sep 2023, our portfolio delivered a return of 18.62% vs a 16.06% return for Nifty 50 TRI, outperforming the benchmark by ~256 bps. The portfolio outperformed the index due to our overweight position in Consumer Discretionary, Industrials, Healthcare, and Underweight stance in the Information Technology (IT) and Financials sector. Five of our top holdings i.e. VST Tillers & Tractors, Maruti Suzuki, FDC, Phoenix Mills, and Syngene International contributed meaningfully to our outperformance, thereby, reflecting the high conviction calls in the portfolio. Infosys and MCX were the laggards in our portfolio.

The outperformance should be considered in the light of lower Beta i.e. 0.79 vs benchmark (Nifty50 TRI). At the same time, the Sharpe ratio of the strategy is 1.65 vs 1.50 for Nifty50. The portfolio offered good risk-adjusted returns.

WHAT'S IN AND WHAT'S OUT

Entry	Exit
1. **Eureka Forbes:** Eureka has (1) established brands like Eureka Forbes, Aquaguard and Select, (2) multi-channel presence with access to 20,000 GT outlets and 10,000+ pin codes, and (3) large product portfolio to cater to consumer needs like storage, hot water, copper/zinc benefits and non-electric water purifier 2. **Hindustan Unilever:** HUL's 5% volume growth was better in the context of a decline in market volumes during FY23. The company achieved the twin objectives of growing consumer franchise and protecting business model as evidenced in the volume/value share gains with higher margins. HUL now has 19 brands with Rs.10 bn+ turnover, which contributed 80%+ to its FY2023 topline. Homecare business grew volumes by 9-10% despite high inflation, led by its premium portfolio. Beauty & personal care business grew volumes even as market volumes declined in mid-single digits. All sub-segments grew in double-digit during the year. Valuations are well below five-year medians, beyond which they have not fallen apart from black-swan events. At the same time, it's a low beta stock. 3. **FDC:** FDC is a leading manufacturer of Oral Rehydration Salt (ORS), anti-infectives and ophthalmology products in India. Other major therapies include Vitamins & Nutrition, Energy drinks & Anti-fungals. It has a product portfolio of over 160 products and has 3,615 Medical Representatives (MRs). The company has developed strong brand equity with mega brands like Zifi & Electral. FDC's domestic business generates healthy cash flows & also maintains a strong balance sheet with no debt.	1. **Navin Fluorine:** Radesh R Welling has resigned as the Managing Director and a Director on the Board of the Company for personal reasons. Mr. Welling joined NFIL in Dec'18 and played a pivotal role in driving a capital expenditure program exceeding Rs. 20bn for FY20-23. The full execution of this capex program was anticipated to be realized in FY25E. Nevertheless, the future capex initiatives may face uncertainties, as Mr. Welling had identified multiple projects expected to be announced within the next 12-36 months. 2. **Cummins India:** An extension of the CPCB4+ compliance deadline delays the potential product led competitive edge for the company. The company expects power gen growth to taper in the near term post the pre-buying. Exports also indicating a slowdown given uncertainty in global economy. 3. **MCX:** SEBI circular on "Trading Preferences by Clients" – would allow clients to trade on all Exchanges for that segment if a client has given approval for that segment on any Exchange. Earlier, brokers were required to take separate approvals for each segment in an Exchange as well as for each Exchange for the same segment. This may increase competition risk for MCX – as most brokers had client approval for the commodity segment only for MCX. Now the same clients would also be allowed to trade on NSE and BSE's commodity platforms.

TOP HOLDINGS RATIONALE

Name	VST Tillers Tractors
Sector	Automobile OEM
Portfolio holding (as of 30 September 2023)	7.9%
Company attributes	• Market Cap (as of 30 September 2023): Rs. 3,158 crores • RoCE: 11.37%

Investment Rationale

VST Tillers & Tractors (VSTT) has the capacity to produce 30,000 tractors, of which the company manufactures only 8,000-10,000 units. Management is thus focusing on capacity utilization over market share gains, and is targeting 100% utilization, including production of compact and higher Horsepower (HP) tractors. VSTT has over 75% market share in power tillers in India and is a leader in compact tractor segment.

VST Tillers Tractors is expanding its product line in the higher Horsepower (HP) space in collaboration with Czech firm Zetor. Its capital expenditure is expected to rise over the next couple of years, with benefits expected to kick in over the following periods. Over the next three years, higher horsepower (HP) is expected to be 20% to 30% of the overall mix. The company has a strong distribution network in South, East and West regions, especially in the small farm mechanization space. Price increases in December 2022 in the compact and higher HP segment are likely to benefit VST's margins.

Market response to the VST-ZETOR range of products and margin trajectory are key risk.

Uneven/deficient monsoons and ability to efficiently scale operations are key risks.

From the desk of Portfolio Manager

Name	**Maruti Suzuki India Ltd (MSIL)**
Sector	**Automobile OEM**
Portfolio holding (as of 30 September 2023)	**5.8%**
Company attributes	• Market Cap (as of 30 September 2023): Rs. 3,20,525 crores • RoCE: 50.12 %

Investment Rationale

Maruti Suzuki (MSIL) is the leader in passenger vehicles with 40%+ market share. It aims to be the market leader in the Sports Utility Vehicle (SUV) segment on the back of its recent new launches including Grand Vitara, Jimny and Fronx. Higher share of SUVs is leading to increase in Average Selling Price (ASP / vehicle) thereby highlighting the richer product mix. After the implementation of Real-Time Driving Emission (RDE) norms from April 2023, the Passenger Vehicle mix is expected to accelerate the shift in favour of petrol. MSIL is likely to be a key beneficiary of the same, given that it has a petrol-only mix. This may help MSIL recover some of its lost market share in FY24. Benign input costs may also help boost MSIL's earnings growth.

Market share recovery in SUV segment, demand trends in passenger vehicles in a rising interest rates and inflationary environment are key risk.

Rising interest rates, high inflation, high fuel prices and regulatory headwinds are key risks.

Name	**FDC Ltd**
Sector	**Pharma**
Portfolio holding (as of 30 September 2023)	**5.8%**
Company attributes	• Market Cap (as of 30 September 2023): Rs. 6,365 crores • RoCE: 11.76%

Investment Rationale

FDC is a leading manufacturer of Oral Rehydration Salt (ORS), anti-infectives and ophthalmology products in India. Other major therapies include Vitamins & Nutrition, Energy drinks & Anti-fungals. It has a product portfolio of over 160 products. The company has two blockbuster brands: Zifi (25% Cefixime market share) and Electral (75% ORS market share). The company is growing in all categories across therapies.

FDC's domestic business generates healthy cash flows and also maintains a strong balance sheet with no debt. Its major part of sales comes domestically (India branded formulations), while exports continue to grow. Going forward, for the first time, the company is planning to establish its business into niche segments of CE mark Ophthalmic Medical Devices in Malaysia and Australia. In addition, the company is gradually expanding in emerging markets of the CIS region.

Increase in raw material costs and price erosion in US generics market are some key risks to the investment thesis.

Name	**Timken India**
Sector	**Bearings**
Portfolio holding (as of 30 September 2023)	**5.3%**
Company attributes	• Market Cap (as of 30 September 2023): Rs. 23,284 crores • RoCE: 23.45%

Investment Rationale

Timken India's has an expansive roller bearings product line with dedicated manufacturing in Jamshedpur and Bharuch. It is a leader in Tapers for Railways, Differential and pinion for Commercial vehicles. The company is expanding capacities at both these facilities and may benefit from several domestic trends. Firstly, the government's focus on electrification and modernisation of Indian Railways is likely to increase demand for Timken's products. Secondly, the Government's pledge for an Atmanirbhar Bharat has encouraged the bearing manufacturers with local manufacturing capability.

Auto-ancillary manufacturers are now looking to enhance their capabilities to decrease dependencies on imports and the segment is likely to grow to Rs 156.8 billion by 2024, registering a CAGR of 18% between 2020 and 2024 (source: ACMA).

Thirdly, multiple nation-wide projects and initiatives such as development of industrial corridors, smart cities and 'Make in India', among others, are likely to aid performance of the industrial sector over the next few years.

Timken is also at the forefront of innovation. It has developed power-dense, fuel-efficient bearing designs for commercial vehicles axles, that are smaller and lighter than others in the market. For wind market, Timken has developed special bearings to reduce wear and tear on the components that helps to keep the blades turning.

Rising competition in the railways bearings segment and rising commodity prices are key risks.

From the desk of Portfolio Manager

Name	Eureka Forbes
Sector	Consumer Durables
Portfolio holding (as of 30 September 2023)	5.0%
Company attributes	• Market Cap (as of 30 September 2023): Rs. 9,432 crores • RoCE: 1.70%

Investment Rationale

Eureka Forbes is India's leading health and hygiene brand with a multi-product portfolio spanning water purification, vacuum cleaning, air purification and home security solutions. It has a dominant market leadership position in the organized market since the past 15 years in electric water purifiers and vacuum cleaners. It has 20 million customers with 450 cities and towns in its reach. It has Asia's largest direct sales force and consumer channel consisting of 21,000 stores.

The categories where the company operates are under-penetrated, which may lead to high sales growth. The company management is focused on cost rationalisation, new product launches and premiumisation, which may result in improved profitability.

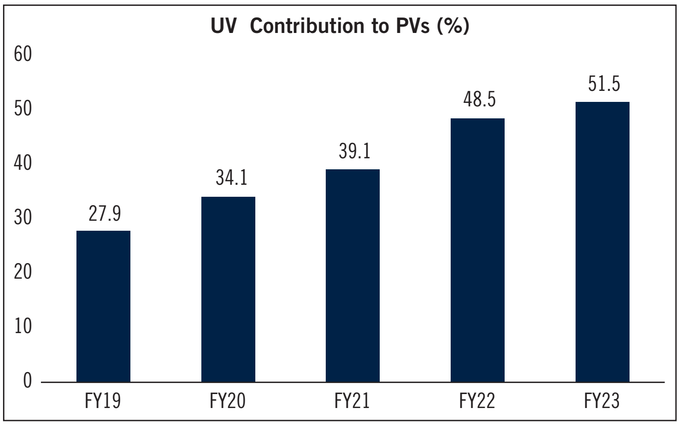
Increased competition, delay in implementation of cost rationalisation plan and delay in product launches are key risks to our investment thesis.

SECTORAL INSIGHTS

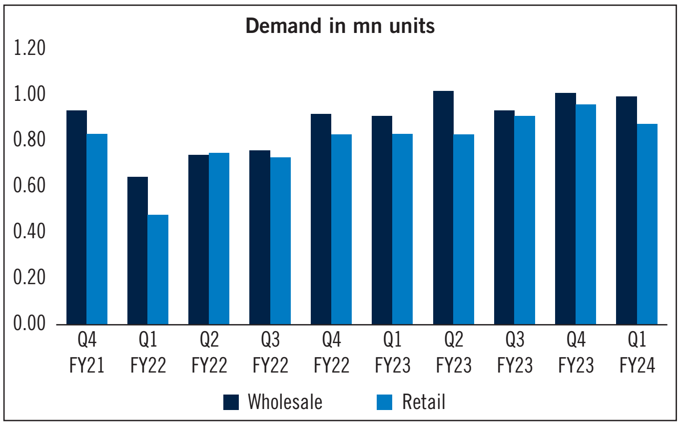
In the first of the sectoral series, we start with **Automobiles** as a sector where we continue to have a positive stance in our portfolio.

Let us look at the trends playing out in the three sub-sectors of Automobiles:

1. **Passenger Vehicles (PV)**



Source: SIAM, HSIE Research



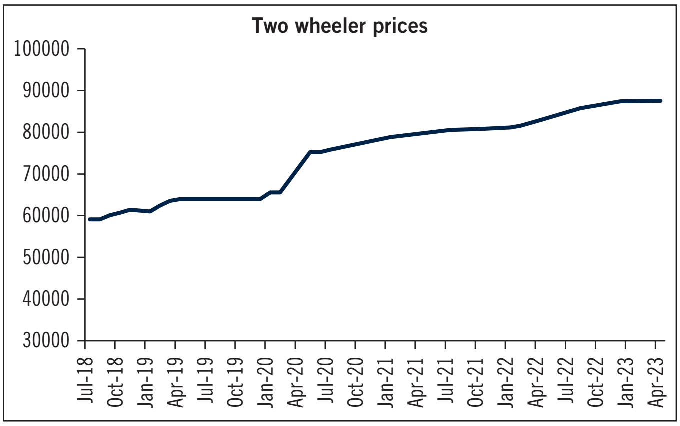
Source: SIAM, HSIE Research

Customer preference is rapidly shifting towards the Utility Vehicle (UV) segment. UV's contribution to PV sales has increased from 28% in FY19 to 51.5% in FY23.

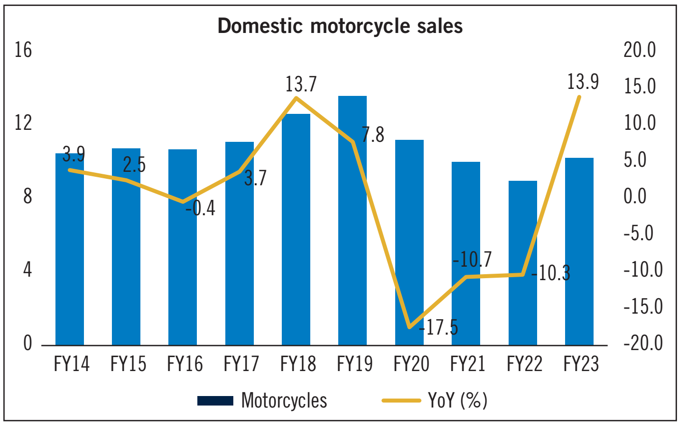
With chip shortage impact gradually waning out, waiting periods for key models are also cooling off.

Sharp increase in cost of acquisition, high fuel prices and rising interest rates would be key risks going forward.

2. **Two Wheelers**



Source: SIAM, HSIE Research

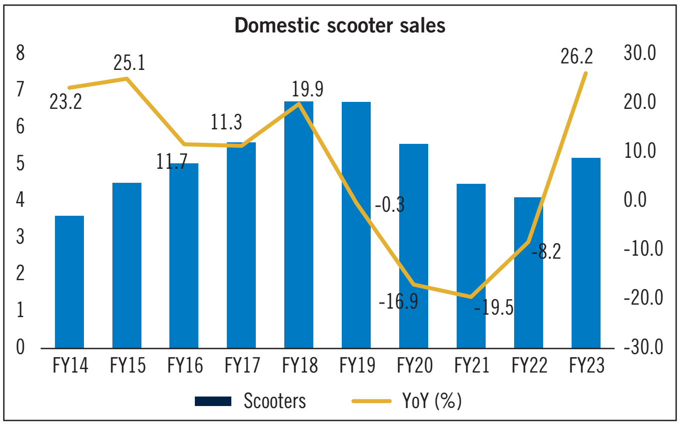


Source: SIAM, HSIE Research

Two wheeler prices have risen 40% over the last 4 years.

After 3 consecutive years of decline, both motorcycles and scooters rebounded strongly in FY23.

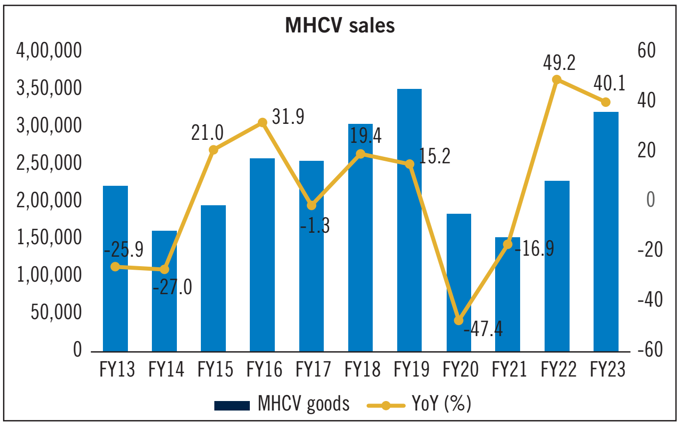
From the desk of Portfolio Manager



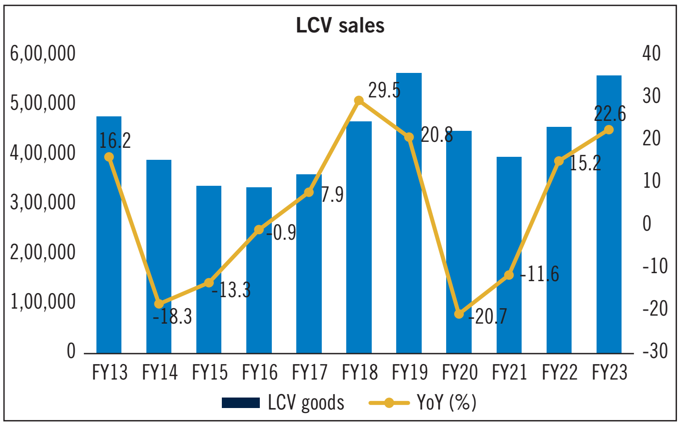
Source: SIAM, HSIE Research

With the advent of Electric Vehicles (EVs), share of scooters has again started inching up

3. Commercial Vehicles



Source: SIAM, ICRA, HSIE Research



Source: SIAM, ICRA, HSIE Research

After hitting a decade low in FY21, the MHCV goods industry saw strong revival in FY22-FY23. Bus segment is leading the growth in CVs in the current fiscal.

LCV goods have recovered to previous peak in FY23 itself

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. 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 exit in the downturn.

Portfolio Details

Top 15 Holdings of PGIM India Core Equity Portfolio Discretionary Portfolio as on September 30th, 2023

Date of Purchase	Equity	Sector	%
08-Jul-13	VST Tillers Tractors Ltd	Industrials	7.93%
29-Nov-22	Maruti Suzuki India Ltd	Consumer Discretionary	5.83%
04-Jul-23	FDC Ltd	Health Care	5.78%
07-Sep-21	Timken India Ltd	Industrials	5.29%
02-May-18	Bharat Electronics Ltd	Industrials	5.08%
20-Jul-23	Eureka Forbes Ltd	Consumer Discretionary	4.96%
13-Feb-23	Nestle India Ltd	Consumer Staples	4.94%
10-Aug-17	P I Industries Ltd	Materials	4.79%
05-Sep-23	Havells India Ltd	Industrials	4.75%
20-Jun-23	ICICI Lombard General Insurance Company Ltd	Financials	4.64%
06-Feb-23	Mphasis Ltd	Information Technology	4.59%
21-Jun-23	Hindustan Unilever Ltd	Consumer Staples	4.51%
09-Oct-17	Power Grid Corporation Of India Ltd	Utilities	4.24%
17-Dec-21	Astral Ltd	Industrials	4.18%
20-Apr-23	Syngene International Ltd	Health Care	4.14%
	Total		**75.65%**

Portfolio Details as on September 30th, 2023

Weighted average RoCE (Ex Financials)	21.92%
Portfolio PE (FY2025E)	27.32
Portfolio dividend yield	0.95%
Average age of companies (Years)	47
Standard Deviation	10.75%
Sharpe Ratio	1.65
Treynor Ratio	22.49
Jensen Alpha	5.5
Beta	0.79

Portfolio Composition as on September 30th, 2023

Large Cap	30%
Mid Cap	33%
Small Cap	24%
Cash	13%

Large Cap: Market cap of the 100th company in the Nifty 500 (sorted by market cap in descending order) as on September 30th, 2023

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 September 30th, 2023

Small Cap: Market cap lower than the 250th company in the Nifty 500 (sorted by market cap in descending order) as on September 30th, 2023

PGIM India Core Equity Portfolio - Performance as on September 30th, 2023

Period	Portfolio	NIFTY 50 (TRI)#
1 Month	-0.54%	2.00%
3 Months	3.43%	2.67%
6 Months	22.30%	14.02%
1 Year	18.62%	16.06%
2 Years	15.71%	6.85%
3 Years	25.17%	21.88%
5 Years	14.11%	13.77%
Since inception date 08/07/2013	15.90%	13.91%
Portfolio Turnover*	78.07%	

*Portfolio Turnover ratio for the period October 1st, 2022 to September 30th, 2023.
#w.e.f. April 1, 2023, the benchmark has changed to the Nifty 50 (TRI) from Nifty 500.
To view the portfolio's performance relative to other Portfolio Managers, you may click here.

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 - Annual Performance as on September 30th, 2023

	Current Year* April 1, 2023 to September 30, 2023	April 1, 2022 to March 31, 2023	April 1, 2021 to March 31, 2022	April 1, 2020 to March 31, 2021	April 1, 2019 to March 31, 2020
PGIM India Core Equity Portfolio (Net of all fees and charges levied by the portfolio manager)	22.30%	4.89%	24.45%	53.25%	-23.66%
Benchmark - NIFTY 50 (TRI)#	14.02%	0.59%	20.26%	72.54%	-25.02%

*Absolute returns for YTD period
Performance is calculated on Time Weighted Rate of Return (TWRR) basis. #w.e.f April 01, 2023 benchmark has changed from NIFTY 500 to NIFTY 50 (TRI)
To view the portfolio's performance relative to other Portfolio Managers, you may click here.

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. 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.

Please note that performance of your portfolio may vary from that of other investors and that generated by the Investment Approach across all investors because of
1) the timing of inflows and outflows of funds; and
2) differences in the portfolio composition because of restrictions and other constraints.

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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C90/2023-24