PGIM
India Portfolio
Management Services

Discovering Immense Potential

PGIM INDIA
EQUITY PORTFOLIO

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Portfolio Manager

A perfect blend of operating leverage and turnaround candidates

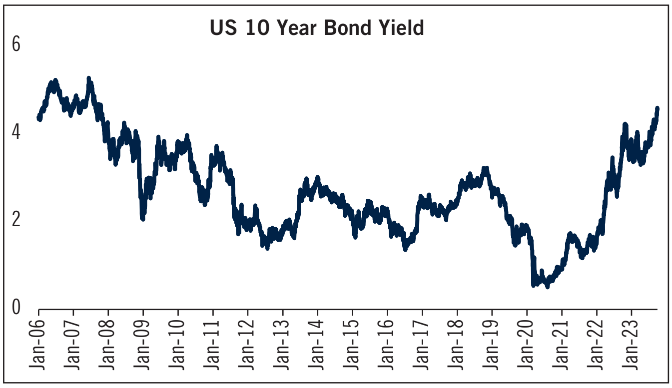
PORTFOLIO OUTLOOK

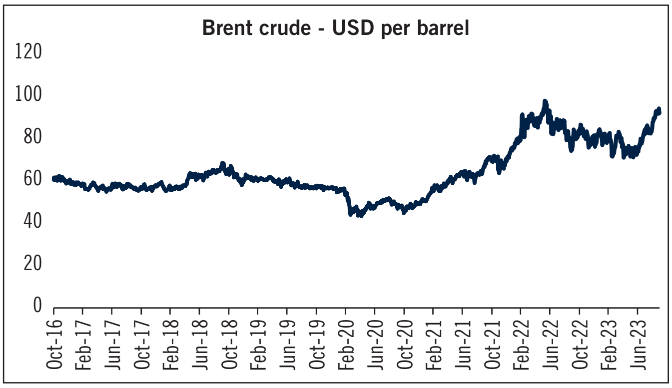
India's inclusion in the global bond indices has been under consideration for several years; several issues had delayed this, including fundamental objections over perceived higher volatility on exposure to global capital, lack of suitable Government bond pool and taxation mechanisms etc. With a USD 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 created more than 10% cash position given the increasing risk to Global Equities highlighted below :





Source : Bloomberg

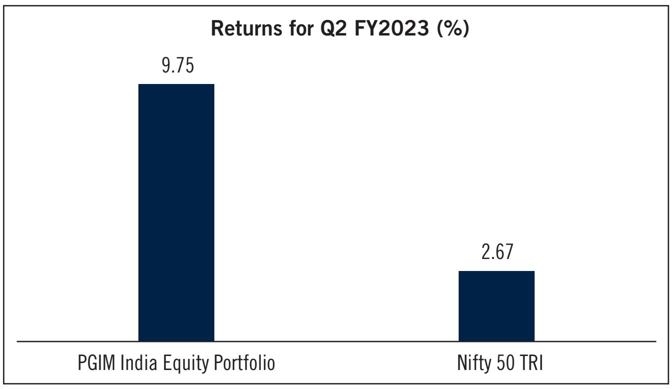
a) US 10-year Treasury yield trading around levels last seen in 2007, as investors fretted over the potential for tighter Federal Reserve monetary policy for longer than expected

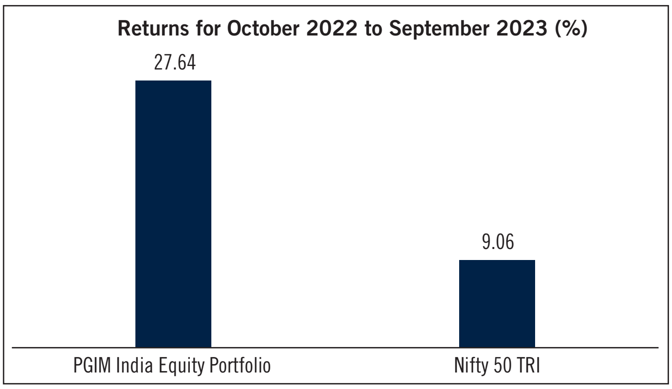
b) Brent Crude is up 25% since June 2023 thanks to the prospect of more production cuts by leading oil exporters.

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 a 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 Healthcare and continue to be Underweight on Financials. 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 9.75% vs 2.67% return for Nifty50 TRI during the quarter ended Sept'23. Our portfolio outperformed the index by ~708bps on account of our overweight stance on Consumer Discretionary, Auto Ancillary and Healthcare Sector and underweight stance on Financials. The stocks which aided our performance were Artemis Medicare Services, RamKrishna Forgings, Maruti Suzuki, Sharda Motors and Radico Khaitan. This was partially negated by the underperformance of Jubilant Ingrevia and Aarti Industries.

The portfolio inception date is 19th Jan, 2023. Since Inception, the portfolio has delivered a return of 27.64% vs 9.06%, thereby Outperforming the benchmark by ~18.58%. The portfolio outperformed the index mostly on stock selection in Healthcare Services, Real Estate as well as Consumer Discretionary Sector and our underweight stance on Industrials, Financials and Information Technology (IT).

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	1. **RamKrishna Forgings:** We booked profits given the run-up in the stock (up 2.2x and 45% in 6 months and 3 months respectively as of 30th Sept'23.
2. **Hawkins Cooker:** The company has a strong financial risk profile, reflected in its RoCE of 46.5%, healthy cash generation from operations in FY2023 with a net debt-free position. The company had a comfortable capital structure, reflected in its gearing of 0.2 times as on March 31, 2023 (0.2 times as on March 31, 2022). Established distribution network with pan-India presence – The company has an established and growing pan-India distribution network, ensuring a wide reach. The same helped the company build a strong brand, supporting its revenue growth. In FY2023, the domestic market contributed 94% to total sales with the balance contributed by exports.	2. **Jubilant Foodworks:** We booked profits given the run-up in the stock (~23% over 6 months). The stock is trading at 78.9x FY24E EPS and 58.6x FY25E EPS (Source : Bloomberg)
3. **IOL Chemicals and Pharmaceuticals:** Global demand for Ibuprofen is 35-36k TPA while IOL has one of the highest capacities for Ibuprofen in the world at 12000 TPA. IOL enjoys 35% market share in terms of capacity and 30% market share in terms of sales. IOL is the only backward integrated company in the world producing all intermediates and KSM of Ibuprofen.	3. **HEG:** We booked profits given the run-up in the stock (~87% over 6 months). At the same time, near-term headwinds led by geo-political issues in Europe and slowing Global economy remain.

TOP 5 HOLDINGS RATIONALE

Name	**Artemis Medicare**
Sector	**Hospitals**
Portfolio holding (as of 30 September 2023)	**9.6%**
Company attributes	• Market Cap (as of 30 September 2023): Rs. 2,154 crore • RoE: 10.33%

Investment Rationale

Artemis Medicare Services Limited established Artemis Hospital in 2007, the first hospital in Gurugram to get accredited by JCI and NABH. It offers advanced medical and surgical interventions, inpatient and outpatient services using modern technology. Artemis is a ~540 bed hospital based in Gurugram with plans to add ~250 beds over next 3 years. The incremental revenue expected from the expansion may come at a higher margin as expansion in medical staff and other expenses will be proportionately less than revenue. Artemis' international patient mix has decreased from 35-40% pre-COVID to 26%, but is expected to improve and positively impact margins.

Apart from the hospital, the company has 9 cardiac care centres, 3 Daffodils centres (specialty centre for mother and Child) and 1 Lite Centre (small neighbourhood hospital). While currently the contribution of the centres is minimal, given the limited capex needed for expansion, the same can be an added kicker if it takes off and hence offers some optionality.

Regulatory intervention, inability to complete bed expansion, inability to scale up asset light initiatives like Dafodils and high competition in the Gurugram region are some of the key risks to the investment thesis.

Name	**Kirloskar Pneumatic Company Ltd**
Sector	**Industrials**
Portfolio holding (as of 30 September 2023)	**5.5%**
Company attributes	• Market Cap (as of 30 September 2023): Rs. 4,272 crore • RoE: 14.94%

From the desk of Portfolio Manager

Investment Rationale

Kirloskar Pneumatic (KKPC) is a play on refrigeration and gas compressors/packages benefitting from tailwinds in these core segments as build-out of CNG infrastructure gains pace. KKPC is also adding new products to address gaps vs MNC peers and seeks to benefit from cost leadership owing to in-house foundry, manufacturing, engineering and design as compared to assembled products by MNC peers. Helped by referrals, efforts to break into stringent Mid-East markets are now delivering as exports now form 12-14% of revenue vs <3% earlier. KKPC is one of the reasonably valued companies in the industrial universe despite better growth outlook.

Key risks include - slower than expected expansion of the CGD network and higher commodity costs.

Name	NTPC
Sector	Power Utilities
Portfolio holding (as of 30 September 2023)	4.4%
Company attributes	• Market Cap (as of 30 September 2023): Rs. 2,38,102 crore • RoE: 11.98%

Investment Rationale

NTPC is India's largest energy conglomerate with presence in the entire value chain of the power generation business. Starting with fossil fuels, it has forayed into hydro, nuclear and renewable energy sources. This move is expected to reduce its carbon footprint. The corporation has diversified into consultancy, power trading, training, rural electrification, ash utilisation and coal mining. The company is expanding its renewable energy portfolio across storage-based solutions and Commercial and Industrial markets, at better profitability. Capacity addition led growth may result in improving profitability. Lowest cost of borrowing is a big advantage for NTPC that none of the peers have. Historic dampeners of low coal supply / PAF led fixed under recoveries have been overcome.

Lack of coal availability, possibility of stake sale by government and Lack of buying (especially by FIIs due to ESG concerns) are some key risks.

Name	Radico Khaitan
Sector	Consumer Staples
Portfolio holding (as of 30 September 2023)	4.4%
Company attributes	• Market Cap (as of 30 September 2023): Rs. 16,096 crore • RoE: 10.41%

Investment Rationale

Radico Khaitan is one of India's oldest and largest liquor manufacturers. Its product range includes whisky, rum, brandy, vodka and gin. Its brand Magic Moments commands 50% market share in Vodka category. The company recently successfully commissioned its dual feed plant at Rampur. Bottling operations at the green field Sitapur plant have also begun, while the distillery operations at the Sitapur plant were commissioned in September 2023. The company expects the grain-based extra neutral alcohol (ENA) from its plants to provide substantial delta to the gross margin in the coming years. The company's focus on premium product launches, strengthening of existing brands and increasing reach in the under indexed states may provide strong topline growth visibility over the medium to long-term. Strategically located manufacturing plants ensure better control on raw materials and backward integration into producing its captive ENA requirements, which further enhances margin growth visibility. With a major capex cycle now behind, the leverage on the balance sheet is also expected to gradually narrow down going forward.

Lower than expected volume growth, significant rise in raw material prices which the company may not be able to pass on and adverse government action/taxation on alcohol sales are some key risks.

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 crore • RoE: 14.02%

Investment Rationale

Maruti Suzki (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.

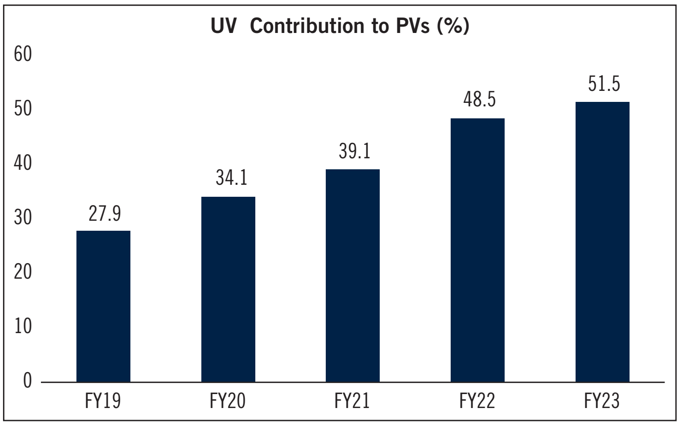
From the desk of Portfolio Manager

SECTORAL INSIGHTS

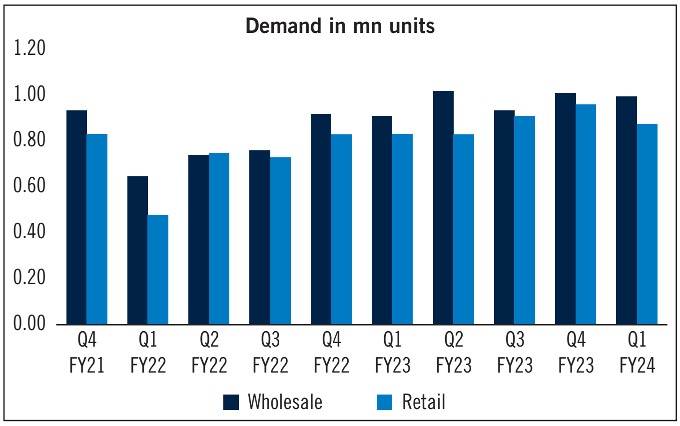
In the first of the sectoral series, we start with **Automobiles** as a sector where we continue to have a positive stance in our portfolio.

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

1. Passenger Vehicles (PV)



Source: SIAM, HSIE Research



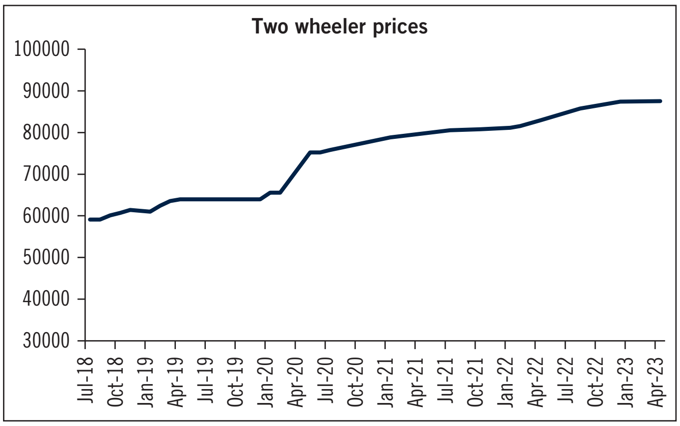
Source: SIAM, HSIE Research

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.

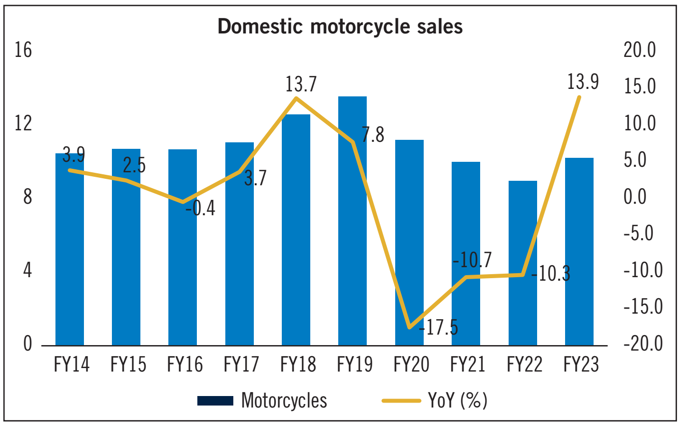
With chip shortage impact gradually waning out, waiting periods for key models are also cooling off.

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

2. Two Wheelers



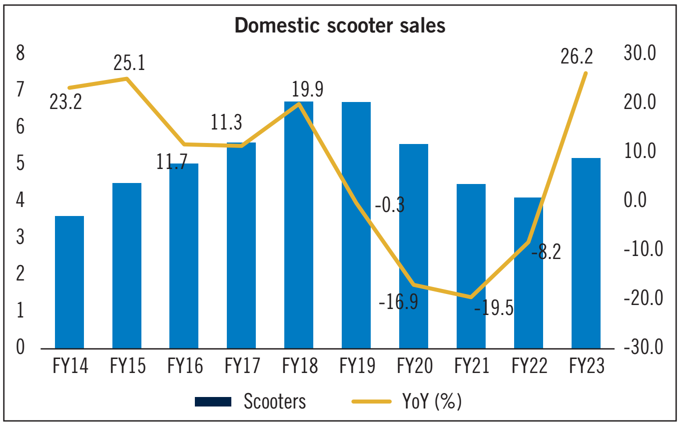
Source: SIAM, HSIE Research



Source: SIAM, HSIE Research

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

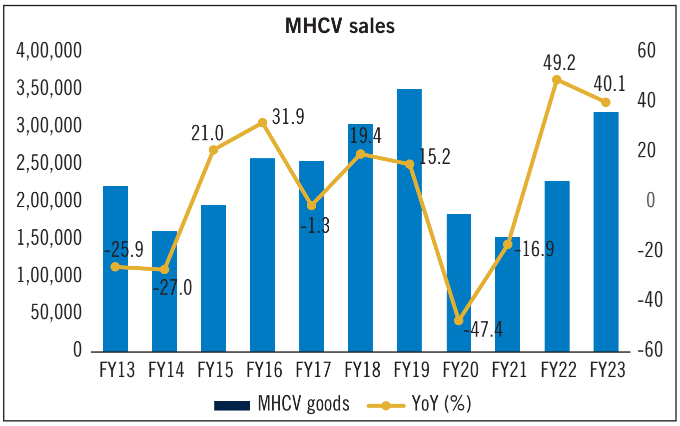
After 3 consecutive years of decline, both motorcycles and scooters rebounded strongly in FY23.



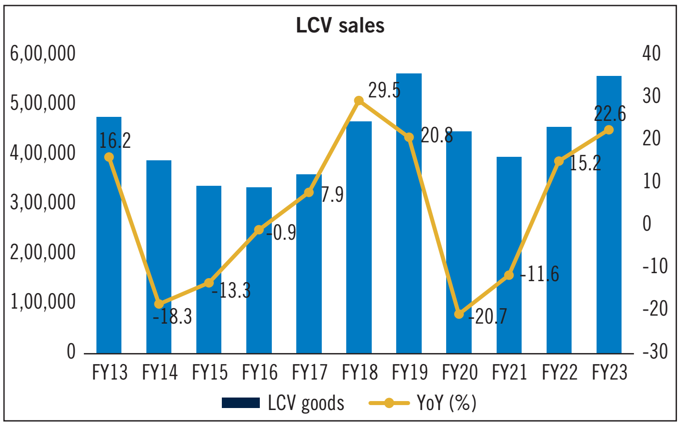
Source: SIAM, HSIE Research

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

The team will consistently focus on companies that can grow their earnings in 4-5 years. This is easier said than done, as predictability of earnings over a 5 year is reasonably challenging. The portfolio construction process shall entail a framework, where the probability of this happening is more likely. In this Investment Approach, we use a judicious mix of Operating Leverage and Turnaround Candidates

Operating leverage:

- Our focus will be on companies that are entailing capital expenditure or are more or less done with it.
- Increased gross block will likely lead to increased utilisation over the next 3-4 years.
- Increased utilisation leads to better topline, and a tight control on costs lead to strong operating leverage playing out, in terms of a swing in profitability.

Turnarounds:

- Our endeavour will be to buy good businesses at the bottom of a cycle.
- Good businesses are the ones that have demonstrated strong cashflows and have a clean balance sheet over their history.
- At the bottom of the cycle, near term profitability is impaired. This leads to subdued stock prices and valuations. As earnings start coming back over the next 3-4 years, these companies are likely, not only to see stocks returns in tandem with earnings recovery, but also the chance of a PE expansion, if bought at subdued valuations.
- To ensure that these turnarounds, both sectors and stocks playout, the focus will be on turnarounds where:
  - Historical cashflows have been strong (60-70% positive Operating Cash Flow generation through the history)
  - Balance sheets are clean, hence debt servicing is not an issue

As a process, we manage the Downside risk by taking into account the following parameters

- Positive Operating Cashflows for at least 60% of the business history
- Low leveraged balance sheets (Net debt: Equity < 2)
- No major corporate governance issues in the past

Portfolio Details

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

Date of Purchase	Equity	Sector	%
12-Apr-23	Artemis Medicare Services Ltd	Health Care	9.64%
14-Jun-23	Kirloskar Pneumatic Company Ltd	Industrials	5.52%
05-Jul-23	NTPC Ltd	Utilities	4.42%
02-Feb-23	Radico Khaitan Ltd	Consumer Staples	4.35%
20-Jan-23	Maruti Suzuki India Ltd	Consumer Discretionary	4.29%
01-Feb-23	Max Financial Services Ltd	Financials	4.10%
08-Aug-23	Hawkins Cooker Ltd	Consumer Discretionary	3.89%
26-Jun-23	Syngene International Ltd	Health Care	3.61%
21-Mar-23	HDFC Asset Management Company Ltd	Financials	3.41%
17-Apr-23	Jubilant Ingrevia Ltd	Materials	3.23%
24-Jul-23	Carborundum Universal Ltd	Materials	3.04%
14-Feb-23	Creditaccess Grameen Ltd	Financials	2.69%
14-Feb-23	Kajaria Ceramics Ltd	Industrials	2.68%
10-May-23	Sagar Cements Ltd	Materials	2.36%
30-Aug-23	IOL Chemicals And Pharmaceutical Ltd	Health Care	2.35%
	Total		**59.58%**

Portfolio Details as on September 30th, 2023

Weighted average RoE(Ex financials)	10.19%
Portfolio PE (FY2025E)	23.31
Portfolio dividend yield	0.59%
Average age of companies (Years)	40

Portfolio Composition as on September 30th, 2023

Large Cap	12%
Mid Cap	22%
Small Cap	46%
Cash	20%

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 Sepember 30th, 2023

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

Period	Portfolio	NIFTY 50 (TRI)#
1 Month	2.47%	2.00%
3 Months	9.75%	2.67%
6 Months	28.54%	14.02%
Since inception date 19/01/2023	27.64%	9.06%

#w.e.f. April 1, 2023, the benchmark has changed to the Nifty 50 (TRI) from Nifty 500 TRI.
The portfolio is live from Jan 2023 and thus the performance is shown for 1 and 3 months period.
To view the portfolio's performance relative to other Portfolio Managers, you may click here.

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

	Current Year* April 1, 2023 to September 30th, 2023
PGIM India Equity Portfolio (Net of all fees and charges levied by the portfolio manager)	28.54%
Benchmark - NIFTY 50 (TRI)#	14.02%

*Absolute returns for YTD period.
#w.e.f. April 1, 2023, the benchmark has changed to the Nifty 50 (TRI) from Nifty 500 TRI.
Performance is calculated on Time Weighted Rate of Return (TWRR) basis.
The portfolio is live from Jan 2023 and thus the performance is shown for 1 and 3 months period.
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 Equity Portfolio based on all the client portfolios under PGIM India Equity Portfolio 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.

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 PGIM India Equity Portfolio 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 Equity Portfolio: PGIM India Equity Portfolio seeks to achieve long term capital appreciation by investing in equity and equity related instruments across market capitalization. However, there can be no assurance that the investment objective will be achieved.

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