QUARTERLY NEWSLETTER
APRIL 2024

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CORE EQUITY PORTFOLIO

From the desk of Portfolio Manager

Surjitt Singh Arora,
Portfolio Manager

FY25 – A year of consolidation for the markets

MARKET OUTLOOK

FY24 was a remarkable year for the Indian equity market, especially the broader market in which Mid and Small -cap indices rallied by 57.9% (Nifty Midcap 150 TRI) and 64.6% (Nifty Smallcap 250 TRI) respectively while the Large-cap Nifty 50 TRI went up by 30% over the same period. Realty, PSU banks, Auto, Energy, Infra, and Pharma indices were the biggest outperformers in FY24. On the other hand, Media, Private Banks, and FMCG indices delivered muted returns.

During the financial year, we witnessed a recovery in the broader market, which was led by 1) Improvement in high-frequency indicators, 2) Healthy growth in Indian corporate earnings, 3) Improvement in investors sentiments on policy continuity, and 4) Robust domestic and foreign inflows.

Revenue growth in FY25E could be muted as the underlying volume growth across sectors seems tepid. At the same-time, the tailwinds on the raw material side are turning into headwinds, given the recent increase in the metal prices across the board. Valuation of Nifty 50 at 21x FY25 and 18.5x FY26 is demanding, in context of the consensus growth estimate of ~13% CAGR (at risk) in earnings over FY24-26E period (Source: Bloomberg).

We believe the market fundamentals may be driven by "narrative" in the near term moving forward, especially in the absence of any major trigger. The market will continue to find direction based on 1) Macroeconomic developments, 2) Direction of bond yields, 3) Oil prices & dollar index, 4) Q4FY24 earning season, and 5) Pre-election cues. Though India is relatively better placed, valuation is a concern, hence we recommend a stock specific approach.

In light of the above developments, we believe style and sector rotation will play a critical role in alpha generation moving ahead. Moreover, with a strong catch-up by Mid-caps and Small-caps in the last couple of months, we still believe the margin of safety in terms of valuations for these segments at current levels has reduced as compared to that available in Large-caps. Keeping this in view, the broader market may see some time correction in certain pockets in the near term and flows will likely shift to Large-caps. In this context, two themes – 'Growth at a Reasonable Price' and 'Quality' look attractive at the current juncture.

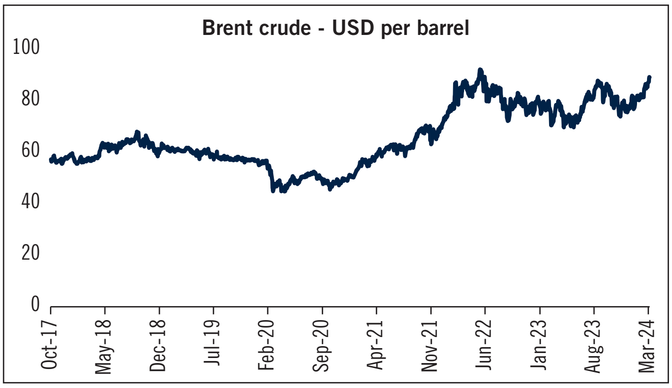
We are Overweight on Consumer Discretionary, Healthcare and Industrials. We continue to remain Underweight on Information Technology (IT) and Financials. We believe that investors with a 3 to 5-year view would benefit from investing in the current scenario.

We have increased our allocation towards Large Caps (now accounts for ~49% from ~44% in December Quarter)

KEY RISKS GOING INTO FY25

We have increased our allocation towards Large Caps given the increasing risk to Global Equities highlighted below:

Source : Bloomberg



Source : Bloomberg

a) Inflation goes back up in US as its economy continues to be on strong footing. Consequently, US bond yields may stay buoyant.

b) Rising crude oil prices can stoke high inflation globally.

c) Geopolitical situation gets out of hand and other nations join the war.

d) Global recovery gets delayed – as recovery in Europe remains weak.

e) Closer home, rural recovery remains weak.

The year 2024 is going to be peculiar because many elections are scheduled to take place – the US, India, the European Union, and the UK. But there are many more events and developments which warn us of a stormy world. The Cold War, which was over 30 years ago, is reviving in a surprising way. Russia's war in Ukraine has now entered another year, but the surprise is the reluctance of the Republicans in the US to back Ukraine and USA's support to Russia. It could easily be that even before elections in the US, Ukraine may have lost the war.

From the desk of Portfolio Manager

PERFORMANCE UPDATE

Our portfolio delivered a return of 29.91% in line with the 30.08% return for Nifty 50 TRI during FY24. Our Overweight stance on Industrials and underweight stance on Information Technology (IT) and Financials positively contributed to the returns. This was negated by our Overweight stance on Consumer Discretionary and Healthcare. The stocks which outperformed were Bharat Electronics, Nestle and FDC. The stocks which impacted our performance were Eureka Forbes, Syngene International, and VST Tillers. Four of our top holdings i.e. Nestle, FDC, Bharat Electronics and Maruti contributed meaningfully to our performance, thereby, reflecting the high conviction calls in the portfolio.

The one-year performance should be considered in the light of lower Beta i.e. 0.65 vs benchmark (Nifty50 TRI).

For the quarter ended Mar'24, our portfolio delivered a return of 1.37 % vs a 2.92% return for Nifty 50 TRI, underperforming the benchmark by ~155 bps. The portfolio underperformed the index due to our overweight position in Consumer Discretionary, Industrials and Healthcare. The stocks which impacted the performance are Eureka Forbes, LTI Mindtree, VST Tillers & Tractors and Syngene International.

WHAT'S IN AND WHAT'S OUT

Entry	Exit
1. **Tata Steel:** China's growth re-bounding coupled with lower interest rates over the next 12-month period are the tailwinds for the metals sector. Tata Steel (TATA) has announced cessation of coke oven plant operations at Port Talbot in Tata Steel UK (TSUK) due to deterioration of operational stability. This is in continuation with its earlier announcement of the planned closure of the iron and steel making assets at Port Talbot as they reach their end of life – the first blast furnace (BF) by Jun'24, and the second BF along with the remaining heavy-end assets by Dec'24. These closures are aimed at transitioning to a sustainable, low-CO2 electric arc furnace (EAF) based steelmaking in TSUK with an investment of GBP 1.25 bn (including a government grant of GBP 500 mn). In our view, this would help in improving the balance sheet meaningfully as UK entity was a loss-making one.	1. **LTI Mindtree (LTIM):** Notwithstanding the promise of merger-related synergies, LTIM's growth continued to disappoint through FY24. The company started the year with an industry-leading double-digit growth aspiration, but has since had to revise the near-term outlook due to industry-wide challenges and delays and slower ramp-up of the deal wins through the year. The company's growth trajectory has slowed down materially as it fared worse off compared to tier 2 peers, defying the merger promise of faster growth as a merged entity. The problems have been compounded by initial integration related challenges and organizational churn through recent months, which challenged our initial thesis of meaningful synergies accruing from the merger. 2. **The Ramco Cements:** Utilization rates dropped 800bps QoQ to 74% in Q3FY24 as demand was affected by extreme rainfall in the southern region (75% volume share; lost 0.3mt volumes) and weak demand in eastern regions (25% volume share). Blended realization improved Rs 219/ton QoQ to Rs 5,272/ton, owing to price increases; however, prevailing prices are lower by Rs 5-10/bag from Q3's average. Management had increased its capex guidance over the past three years on the back of newer projects embedded in its execution pipeline, land acquisition cost to build its growth pipeline, purchase of limestone /land from Prism Cement amongst others. Our thesis of de-leveraging got challenged as the capex intensity was higher than earlier anticipated. Additionally, the water levels in the reservoirs is depleting which could have an impact on the industry.

TOP HOLDINGS RATIONALE

Name	**FDC Ltd**
Sector	**Pharma**
Portfolio holding (as of 31 March 2024)	**7.48%**
Company attributes	• Market Cap (as of 28 March 2024): Rs. 6,918 crore • RoCE: 11.8%

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.

From the desk of Portfolio Manager

Name	**Maruti Suzuki**
Sector	**Automobile OEM (Consumer Discretionary)**
Portfolio holding (as of 31 March 2024)	**6.01%**
Company attributes	• Market Cap (as of 28 March 2024): Rs. 3,96,158 crore • RoCE: 50.1%

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.

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

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

Name	**Hero MotoCorp**
Sector	**Automobile OEM (Consumer Discretionary)**
Portfolio holding (as of 31 March 2024)	**6.27%**
Company attributes	• Market Cap (as of 28 March 2024): Rs. 94,409 crore • RoCE: 25.4%

Investment Rationale

The company continues to expect double-digit revenue growth in FY25, led by gains in the 125cc category, premium motorcycles, and EVs.

Harley-Davidson X440 bookings stood at 30k+ units as of Q3, translating into revenue visibility for 3-4 months. Management expects production ramp-up of the X440 and Karizma XMR to ~10k units/month by Mar'24.

HMCL launched Mavrick 440 and Xtreme 125R at its annual Hero World event, further expanding the premium portfolio. The company is planning a foray into EV motorcycles with the launch of three products in the performance, premium and mid-premium segments by FY26.

Slowdown in rural consumption and below par monsoons are the key risks to volume recovery.

Name	**Tata Steel**
Sector	**Metals**
Portfolio holding (as of 31 March 2024)	**5.76%**
Company attributes	• Market Cap (as of 28 March 2024): Rs. 1,94,554 crore • RoCE: 7.2%

Investment Rationale

- Management expects NSR to reduce by Rs1,000/ton qoq in 4QFY24. Further downside should be capped, given the rebound in international prices.
- Recent China monthly export run rate of ~7-8 mn tons is expected to reduce in CY2024, providing support to international steel prices.
- Tata Steel (TATA) has announced cessation of coke oven plant operations at Port Talbot in Tata Steel UK (TSUK) due to deterioration of operational stability. This is in continuation with its earlier announcement of the planned closure of the iron and steel making assets at Port Talbot as they reach their end of life – the first blast furnace (BF) by Jun'24 and the second BF and remaining heavy-end assets by Dec'24.
- These closures are aimed at transitioning to a sustainable, low-CO2 electric arc furnace (EAF) based steelmaking in TSUK with an investment of GBP 1.25 bn (including a government grant of GBP 500 mn). In our view, this would help in improving the balance sheet meaningfully as UK entity was a loss-making one.
- Domestic demand remains strong with 10% yoy growth.
- China steel production and steel inventory data, stimulus announced to revive the infra and real estate sector in China would be the key monitorable.

Sharp fall in Domestic HRC prices and sharper than expected Interest rate hikes by global central banks are the key risks.

From the desk of Portfolio Manager

Name	**Syngene International Ltd**
Sector	**Healthcare**
Portfolio holding (as of 31 March 2024)	**5.47%**
Company attributes	• Market Cap (as of 28 March 2024): Rs. 28,244 crore • RoCE: 13.0%

Investment Rationale

Syngene is a global Contract Research Organization (CRO) providing discovery, development and manufacturing services for small and large molecules, antibody drug conjugates (ADC) and oligonucleotides. The Company has been providing scientific services for 25 years and has active strategic partnerships with 331 clients across industries ranging from pharmaceutical, biotechnology, nutrition, agrochemicals, animal health, specialty chemicals and consumer goods.

Syngene's operations are classified under three business units:

1. Dedicated R&D Centres(customised R&D centres with dedicated infrastructure)
2. Discovery Services (chemistry, biology, toxicology and bioinformatics services for both small and large molecules)
3. Development and Manufacturing Services.(includes process development and manufacturing of molecules for clinical supplies, regulatory batches and initial commercialisation.

Delay in scale-up of business form the Mangalore API facility and client concentration are key risks to the business.

SECTORAL INSIGHTS

In the third part of the sectoral series, we are covering Banking & Financial Services sector where we continue to be Underweight in our portfolios.

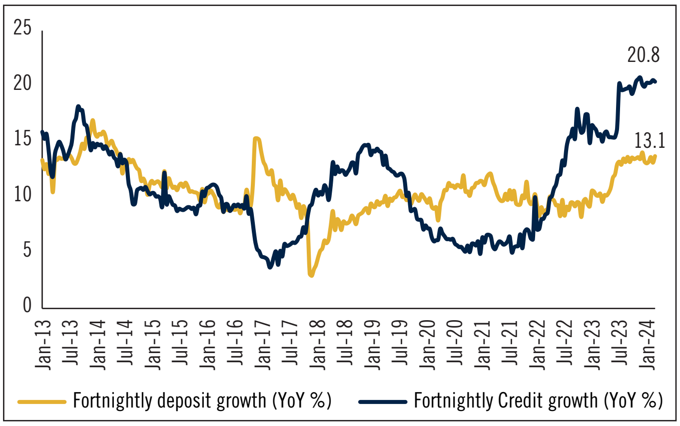
The Banking & Non-banking financial companies, particularly in lending, have been a focal point in the Indian markets, evident in their significant sectoral weight in the overall indices. This trend has influenced both passive & active funds, aiming to align with the benchmarks, resulting in reasonable exposure to banking & NBFC sectors.

In the past couple of years, the sector has witnessed a notable turnaround in terms of asset quality, spanning both public sector & private sector banks, as well as NBFCs. The historical challenge of deteriorating asset quality in the Indian banking system is gradually abating and is currently not a major concern.

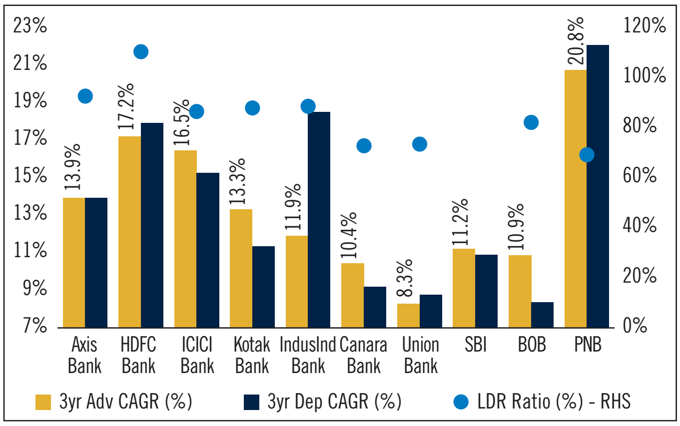
Mobilisation of deposits a challenge:

It is important to note that system credit growth continues to significantly outpace deposits growth, and with deposit mobilisation being a challenge for the system as a whole, we continue to build loan growth moderation for the banking system to 13% y-y by FY25F (Source: Nomura Securities).

The RBI's sector credit data also show a gradual moderation of unsecured retail loan growth (21% y-y in Feb-24 vs 23% y-y in Nov-23) and a sharp moderation of loans to NBFCs (15% y-y in Feb-24 vs 22% y-y in Nov-23) after the increase in risk weights by the RBI in these segments (~20% of bank credit) in Nov-23.



Source: Motilal Oswal Securities

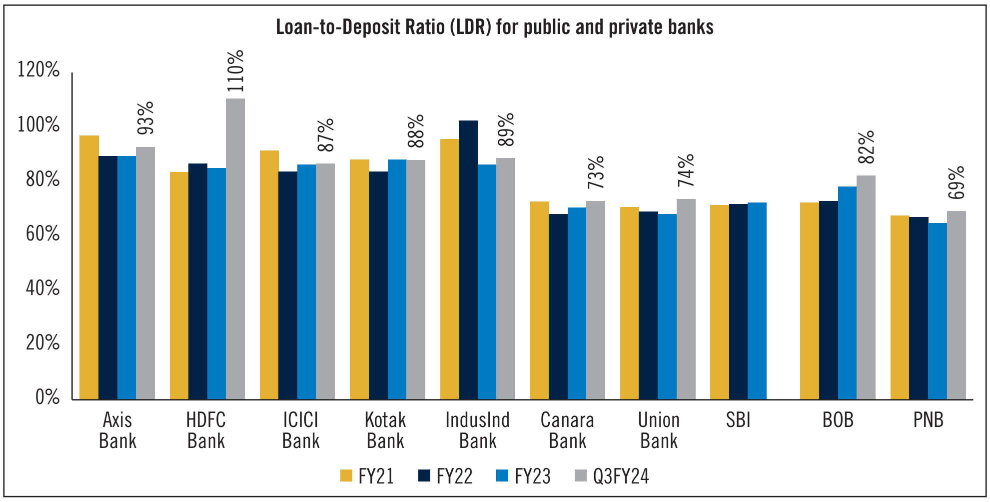


Source: Motilal Oswal Securities

Credit growth to slowdown:

According to Crisil Ratings, Systemic credit growth is expected to moderate to 14% in FY25 (~16% in FY24) amid lower GDP growth and the impact of higher risk-weights on NBFCs and unsecured lending.

For NBFCs, growth may moderate to 15-17% in FY25 (~18% in FY24). Annual capex growth is anticipated to range between 9% and 11% over the next few years.



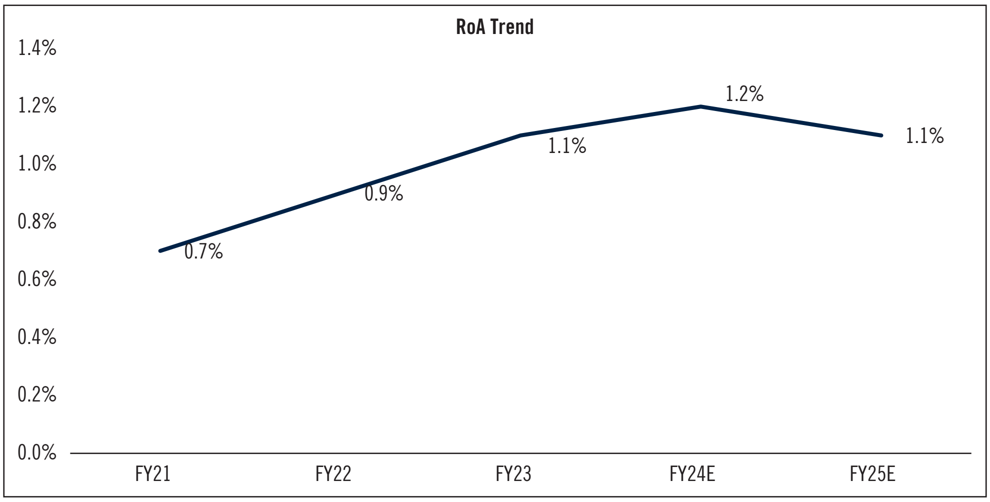
Source: Motilal Oswal Securities

As investors, the focus has been on growing lending and higher credit growth has always been rewarded in a bull market. Our belief is, lending is an easy game. Anyone, can go ahead and lend money. The key to success lies is in the collection process. Everything, from profits to asset quality hinges on how well and timely collections are done.

<u>Margins to moderate</u>

According to Crisil Ratings, margins are expected to decrease by 10-20bps to 3-3.1% in FY24 (from 3.2% in FY23), primarily due to the upward trend in deposit rates. In terms of capitalization, the banking sector possesses adequate buffers and is well-positioned for growth in the medium term.

Despite recent regulatory adjustments such as increased risk weights on exposure to unsecured consumer credit and higher-rated NBFCs, which may slightly impact capital adequacy levels, the PSU banks have benefited from government capital infusion.



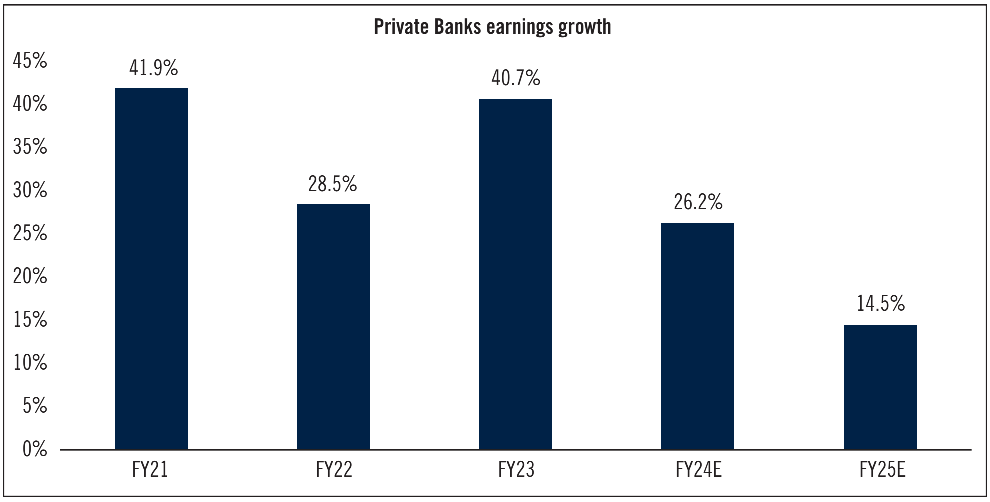
Source : Crisil, Motilal Oswal Securities

The pressure on Net Interest Margins (NIMs) may accentuate, as eventually they may have to raise interest rates on deposits, to attract money. We believe, as overall growth in the economy continues, Net Interest Margins (NIMs) may continue be under pressure for the foreseeable future.

Banks have enjoyed reasonably good Net Interest Margins (NIMs) over their history, but with structural challenges to the deposit and incremental deposit base, maintaining Net Interest Margins (NIMs) may be an ongoing challenge.

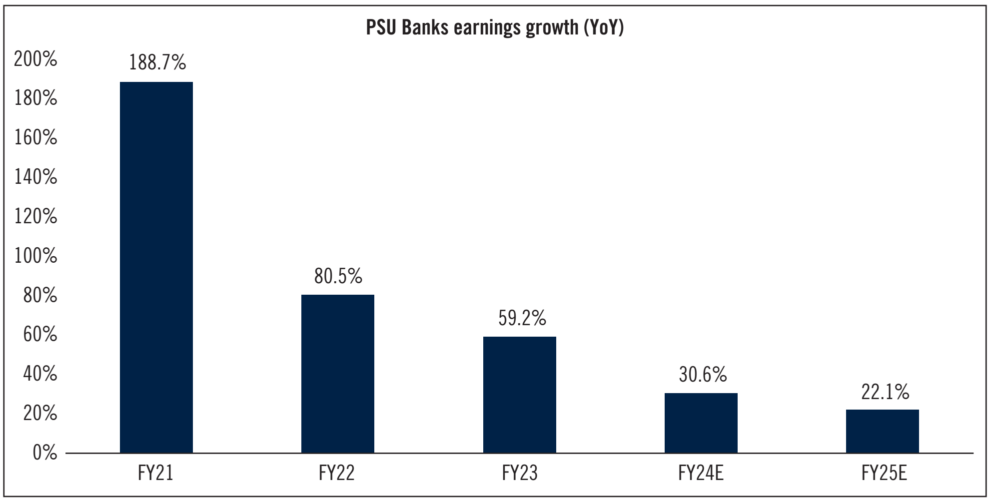
<u>Earnings growth likely to decelerate</u>

Private banks earnings grew at 31.6% CAGR over FY21-FY24E period. However, in our assessment, the earnings growth can slow-down to 16.2% CAGR over FY24-FY26E period for the reasons mentioned above.



Source : Motilal Oswal Securities

Public Sector banks earnings grew at 55.4% CAGR over FY21-FY24E period. However, in our assessment, the earnings growth can slow-down to 18.6% CAGR over FY24-FY26E period for the reasons mentioned above.



Source : Motilal Oswal Securities

Our stance on Banking & financials:

The lending segment stands out as one of the most leveraged and high-beta sectors. The combination of high leverage & high beta is intoxicating and one needs to be aware of the type of exposure one wishes to take.

Over the long run, the sector has delivered ROA in line with the market coupled with an average earnings growth. Also, growth is dependent not only on deposit accretion, where there is a scramble, but also intermittent equity dilution.

The sector may probably continue to deliver inline returns with the market, but investors or funds which are good at stock picking, might reduce leverage and beta in a portfolio by having low/ no exposure to lending financials and might continue to deliver returns on a risk-adjusted basis.

We have an exposure of ~16.4% in BFSI in the portfolio –ICICI Lombard (~5.7%), ICICI Bank (~5.4%) and CAMS (~5.3%)

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 March 31st, 2024

Date of Purchase	Equity	Sector	%
04-Jul-23	FDC Ltd	Health Care	7.48%
08-Jul-13	Hero Motocorp Ltd	Consumer Discretionary	6.27%
29-Nov-22	Maruti Suzuki India Ltd	Consumer Discretionary	6.01%
05-Feb-24	Tata Steel Ltd	Materials	5.76%
20-Jun-23	ICICI Lombard General Insurance Company Ltd	Financials	5.73%
20-Apr-23	Syngene International Ltd	Health Care	5.47%
13-Feb-23	Nestle India Ltd	Consumer Staples	5.39%
21-Jan-15	ICICI Bank Ltd	Financials	5.37%
12-Oct-23	Computer Age Management Services Ltd	Financials	5.28%
02-May-18	Bharat Electronics Ltd	Industrials	5.08%
08-Jul-13	VST Tillers Tractors Ltd	Industrials	4.70%
05-Sep-23	Havells India Ltd	Industrials	4.56%
17-Dec-21	Astral Ltd	Industrials	4.49%
24-Dec-19	Vardhman Textiles Ltd	Consumer Discretionary	4.12%
01-Jan-24	ZF Commercial Vehicle Control Ststems India Ltd	Consumer Discretionary	4.04%
	Total		**79.75%**

Portfolio Details as on March 31st, 2024

Weighted average RoCE(Ex Financials)	22.88%
Portfolio PE (FY2025E)	32.09
Portfolio dividend yield	1.04%
Average age of companies (Years)	50
Standard Deviation*	11.13%
Sharpe Ratio*	2.43
Treynor Ratio*	41.6
Jensen Alpha*	9.44
Beta*	0.65

**Data are for 1 year period*

Portfolio Composition as on March 31st, 2024

Large Cap	49%
Mid Cap	20%
Small Cap	26%
Cash	4%

Large Cap: Market cap of the 100th company in the Nifty 500 (sorted by market cap in descending order) as on March 31st, 2024

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 March 31st, 2024

Small Cap: Market cap lower than the 250th company in the Nifty 500 (sorted by market cap in descending order) as on March 31st, 2024

PGIM India Core Equity Portfolio - Performance as on March 31st, 2024

Period	Portfolio	NIFTY 50 (TRI)#
1 Month	-0.02%	1.57%
3 Months	1.37%	2.92%
6 Months	6.23%	14.09%
1 Year	29.91%	30.08%
2 Years	16.65%	14.38%
3 Years	19.04%	16.31%
5 Years	14.56%	15.27%
Since inception date 08/07/2013	15.76%	14.62%

#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 March 31st, 2024

	April 1, 2023 to March 31, 2024 to	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)	29.91%	4.89%	24.45%	53.25%	-23.66%
Benchmark - NIFTY 50 (TRI)#	30.08%	0.59%	20.26%	72.54%	-25.02%

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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C15/2024-25