QUARTERLY NEWSLETTER
OCTOBER 2024

PGIM
India Portfolio
Management Services

Stable core.
Strong portfolio.

PGIM INDIA
CORE EQUITY PORTFOLIO

From the desk of Portfolio Manager

Surjitt Singh Arora,
Portfolio Manager

A Growth at Reasonable Price (GARP) Oriented Portfolio

MARKET OUTLOOK

In recent years, Indian equities has been a one way street, soaring higher and higher without a pause. This journey can be attributed to a combination of factors: robust corporate earnings, with a staggering 24% Nifty earnings CAGR over FY20-FY24 (source : Bloomberg); a surge in domestic flows into equities, amassing an impressive USD107b during CY21-CY24YTD; and a remarkably resilient macro landscape that has weathered the storms.

The markets have negotiated critical events such as the General Elections and the Budget with minimal volatility, as every minor dip has been met with robust buying activity. However, as we gaze into the horizon, it appears that it would be a bit turbulent for Indian equities in the short term. The recent escalation in the Israel-Iran conflict only adds fuel to the fire of the already simmering geopolitical tensions from the ongoing Russia-Ukraine and Israel-Palestine conflicts.

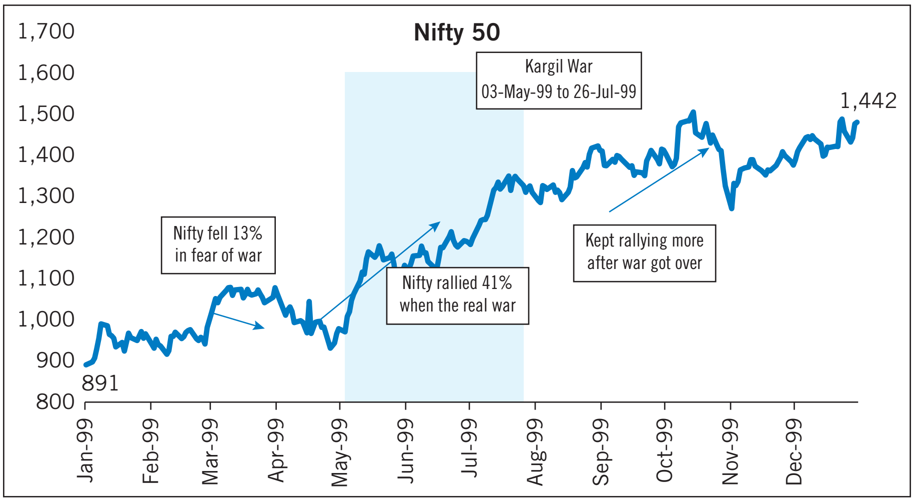
The monetary stimulus unleashed by China has sparked a wave of tactical FII outflows from India. Corporate earnings, after four consecutive years of healthy double-digit growth, are moderating due to pressures from commodities and fading tailwinds from BFSI asset quality improvements. The recent print from high-frequency indicators, such as power demand, PMI data, GST collections, and auto numbers, also indicates a softening in demand. Lastly, the outcomes of the recent state elections, while not a needle mover, may keep the markets on edge, as exit polls predict losses for the BJP in both Haryana and Jammu & Kashmir.

Despite the challenges, the ongoing festive season, better-than-expected monsoon over Jul-Sep'24, and consequent pick-up in rural consumption provide a near-term catalyst for economic activity. Major global central banks, with the US Fed at the forefront, have decidedly pivoted towards a monetary easing cycle (not in response to an extant crisis – like Covid or GFC – but to normalize rates). This shift implies a favorable environment for risk assets. Consequently, markets appear to be experiencing a genuine tug-of-war between the headwinds and tailwinds.

Markets and War

Date	Conflict	- 1 Month	- 1 Week	+ 1 Week	+ 1 Month	+ 3 Month
15-May-48	Arab-Israel War	0.10%	-2.70%	10.90%	2.00%	-0.80%
25-Jun-50	Korean War	2.40%	1.60%	-10.00%	1.50%	4.90%
01-Nov-54	Algerian War	-1.50%	-0.70%	6.90%	15.50%	19.40%
01-Nov-55	Vietnam War	-3.20%	0.30%	7.30%	4.10%	13.90%
05-Jun-67	Six-Day War	-6.40%	-0.70%	3.30%	6.50%	7.70%
08-Mar-69	War of Attrition	-4.70%	0.30%	1.50%	3.50%	-6.00%
06-Oct-73	Yom Kippur War	-4.50%	1.50%	-4.50%	-10.00%	-15.30%
29-Mar-76	Dirty War	2.70%	-1.00%	-0.30%	1.40%	2.90%
29-Mar-80	Iran-Iraq War	3.50%	1.20%	1.20%	4.10%	2.80%
02-Apr-82	Falkland Islands War	2.20%	2.80%	1.10%	-6.50%	6.00%
02-Aug-90	Gulf War	-2.20%	-1.20%	-3.30%	-8.20%	-11.30%
06-Apr-92	Bosnian Conflict	0.30%	0.60%	0.10%	2.80%	2.00%

Source : CLSA Research



Source : CLSA Research

From the desk of Portfolio Manager

<u>It is quite evident from the above table and chart, that in the medium to long-term war doesn't have a meaningful impact on equities</u>

<u>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 22.0x FY25 and 19.0x FY26 is demanding, in context of the consensus growth estimate of ~14% CAGR (at risk) in earnings over FY24-26E period (Source : Bloomberg).</u>

We believe the market fundamentals will 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 and 4) Q2FY25 earning season. 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.

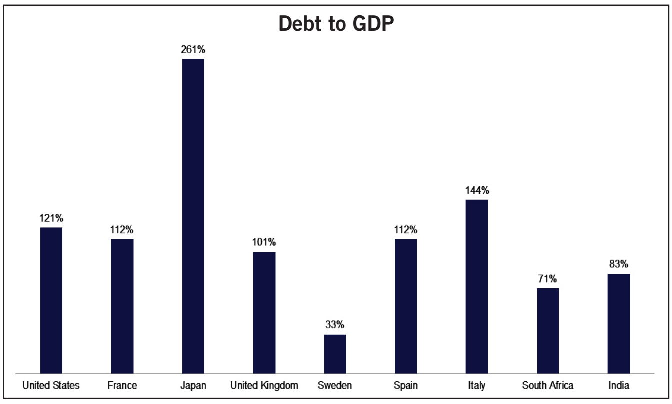
We are Overweight on Consumer Staples, Consumer Discretionary and Healthcare. We continue to remain Underweight on Financials. However, we have increased the weight of NBFCs within Financials. We believe that investors with a 3 to 5-year view would benefit from investing in the current scenario.

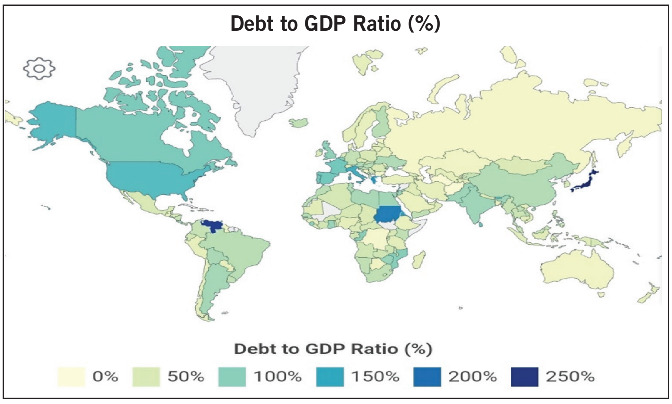
KEY GLOBAL RISKS: CHALLENGES ON THE HORIZON

<u>Risk#1: The Debt Deluge – Rising Interest rates & Debt/GDP of countries</u>

The debt-to-GDP ratio has been rising for many countries around the world leading to limited fiscal flexibility, countries with high debt-to-GDP ratios are more vulnerable to rising interest rates. An increase in interest rates can significantly raise the cost of servicing debt, leading to budget deficits and potentially triggering a debt crisis.

Exhibit 1: Debt to GDP of countries



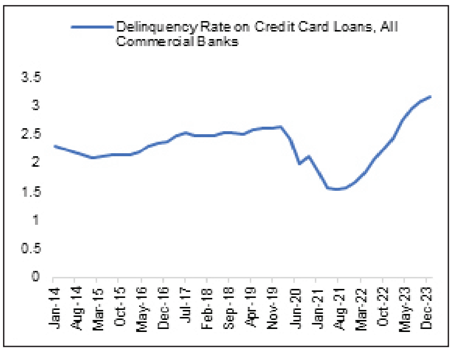


Source: Trading Economics, visual capitalist, IMF, world population review.

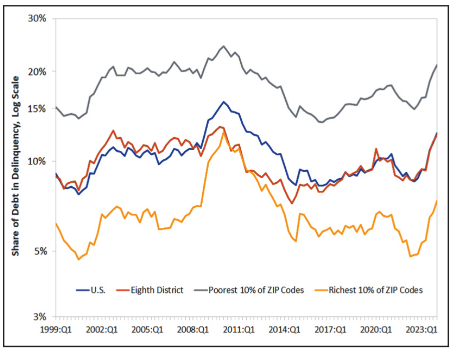
<u>Risk #2 The US Consumer Debt Dilemma: Credit Card Delinquencies on the Rise</u>

The surge in credit card delinquencies across the United States poses a significant risk to the economy. With delinquency rates surpassing pre-pandemic levels, it indicates a growing strain on household finances. The escalation can partly be attributed to the end of pandemic relief measures, but higher interest rates and tighter monetary policies have exacerbated the situation. This trend not only threatens financial stability for individuals but could also dampen consumer spending, a critical driver of economic growth. The potential for reduced consumption, as households struggle to manage debt, looms as a major concern, potentially leading to a slowdown in economic activity.

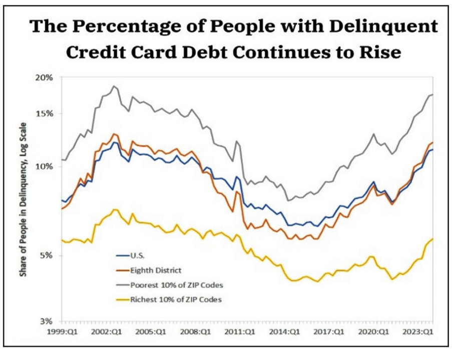
<u>Exhibit 2:Credit card loan delinquencies</u>



<u>Exhibit 3: Share of debt in delinquency</u>



<u>Exhibit 4:% of people with delinquent CC debt</u>



Source: FRED, st.louisfed

From the desk of Portfolio Manager

In response to the high-interest-rate environment and the multifaceted risks that characterize the current global landscape, our approach to portfolio construction emphasizes robust financial health and earnings sustainability. We have strategically reduced our exposure to lending companies and those with high leverage, favoring instead businesses with clean balance sheets and healthy operating cash flows. Our focus is on the fundamental earnings growth of the investee companies, aiming to assemble a portfolio that boasts a double-digit sustainable earnings growth rate. We pay particular attention to valuation metrics, ensuring that our investments are reasonably priced based on the Price/Earnings to Growth (PEG) ratio.

The rationale behind this strategy is straightforward: as long as valuations are underpinned by solid earnings growth, the businesses may face volatility, but they are poised to rebound swiftly during a market recovery, regardless of their market capitalization. Our ultimate goal is to create portfolios that are fortified with strong, sustainable earnings, bolstered by robust cash flows and low debt levels. This approach not only enhances the resilience of our investments but also positions our portfolios to be resilient in various market conditions.

PERFORMANCE UPDATE

For the quarter ended Sept'24, our portfolio delivered a return of 8.54% vs a 7.81% return for Nifty 50 TRI, Outperforming the benchmark by ~73 bps. The portfolio Outperformed the index due to our overweight position in Consumer Discretionary, Industrials and Healthcare. The stocks which aided our performance were Havells, Hero Motocorp, Sumitomo Chemicals, ICICI Lombard, and CAMS.

Our portfolio delivered a return of 27.38% in comparison with the 33.00% return for Nifty 50 TRI during the last one year. Our Overweight stance on Consumer Discretionary and Industrials dragged the performance. This was partially negated by our Underweight stance on Financials and Information Technology (IT). The stocks which outperformed were Bharat Electronics, Syngene, ICICI Lombard, Hero Motocorp and FDC. The stocks which impacted our performance were Maruti Suzuki and Astral Ltd

The one-year performance should be considered in the light of lower beta i.e. 0.73 vs benchmark (Nifty 50 TRI). At the same time, the strategy's Sharpe Ratio is at 1.64 vs Nifty 50's Sharpe Ratio at 1.22, denoting better risk-adjusted returns.

WHAT'S IN; WHAT'S OUT

Entry
1. **Bajaj Finance:** Strong loan book growth, driven by a higher-yielding consumer durable loan book, and rural financing. The company has a strong new customer acquisition track record and it's fast-growing cross-sell base franchise. Management expects FY25 to see normalisation of loan growth to 26-28% & credit costs of >2%. Key positives were improvement in rural B2C quality & expected credit costs falling to 1.8-1.9% in FY26. The company is driving smoother transition at top management with Anup Saha as CEO-candidate. Bajaj Finance doesn't aspire to be a bank in medium term & should benefit as rates fall.

Exit
1. **Tata Steel:** Domestic HRC prices continued to decline due to elevated levels of imports. Imports remain a key concern. As % of consumption, in Aug'24, imports had risen to 7% (5-year average at 4-5%) while exports dwindled to 2% of production (5-year average at 13%). Flat steel imports, in particular, continue unabated, having reached 0.85mt in Aug'24 (up 25% MoM and 67% YoY). Imports from China are 37% of overall (vs 15% on average over the past five years). While traders are reluctant to book fresh imports in light of the investigations initiated by the Directorate General of Trade Remedies (DGTR) against Vietnam (carbon steel) and China (certain stainless-steel products), we believe domestic HRC price might remain under pressure.

TOP HOLDINGS RATIONALE

Name	Sumitomo Chemicals
Sector	Speciality Chemicals
Portfolio holding (as of 30 September 2024)	6.17%
Company attributes	• Market Cap (as of 30 September 2024): Rs. 84,838 crore • RoCE: 13.95%

Investment Rationale

Sumitomo Chemical India Ltd. (SCIL) was incorporated as a private limited company in the year 2000 as a wholly owned subsidiary of Sumitomo Chemical Limited Japan (SCC) to act as a distribution/sales company for SCC's Household insecticides portfolio in India. SCIL manufactures and sells household insecticides, agricultural pesticides, public health insecticides, and animal nutrition products in India and internationally. The company is present in all product segments - insecticides, weedicides, fungicides, fumigants and rodenticides, plant growth nutrition products, and plant growth regulators. The company operates under 3 business segments - Agrochemicals, Environmental Health and Animal Nutrition.

SCIL has a well-diversified portfolio spread across different geographies. The company's top 10 products contribute less than 50% of total revenues with no product/molecule share higher than 15%.

Company has guided for a regular capex of INR700-750mn for maintenance capex.

Company has also bought 2 additional land parcels for future expansion: a) ~20 acre adjoining existing Bhavnagar land, and b) ~50 acre land in Dahej.

Further, company has alluded to invest INR3-4bn over the next 3-4 years for scaling up the export business.

Key risks are decline in global agrochemical prices and slowdown in export markets

From the desk of Portfolio Manager

Name	**Muthoot Finance**
Sector	**Financial Services**
Portfolio holding (as of 30 September 2024)	**6.03%**
Company attributes	• Market Cap (as of 30 September 2024): Rs. 81,571 crore

Investment Rationale

- Gold loan remains a specialized business and challenging for multi-product lenders, specifically banks, to sustain
- Muthoot reported 20.0% yoy and 6.5% qoq AUM growth in 4QFY24, driven by value and volume growth. Average ticket size of loans was up 5.1% qoq and 12.3% yoy, driven by sharp appreciation (6.4% qoq and 11.1% yoy) in gold prices during 4QFY24. Gold tonnage was up 2.2% qoq and 4.4% yoy in 4QFY24, signaling strong volume growth. According to management, the impact of Rs 20,000 regulatory cap on cash disbursal on Muthoot's business will be limited and have guided for 15% AUM growth in FY2025E.
- Gains from restriction on IIFL Finance by RBI and likely lower aggression by banks will augur well over the medium term.
- Muthoot Finance's subsidiaries, engaged in microfinance, housing finance and auto loans, contributed ~16% to its overall consolidated AUM. Management had a positive outlook on the home loans and MFI segments; the vehicle finance space is crowded, according to management.

Key risks include competition from most lenders (including select banks) that may have increased focus on gold loans. As such, rising competitive pressure may drive pressure on new customer acquisition and incremental business growth. A sharp fall in gold prices, the risk of fraud or theft by employees/ agents/ customers and impact on growth and collection efficiency owing to any further lockdowns etc.

Name	**ITC**
Sector	**Consumer Staples**
Portfolio holding (as of 30 September 2024)	**5.97%**
Company attributes	• Market Cap (as of 30 September 2024): Rs. 6,48,081 crore • RoCE: 37.22%

Investment Rationale

The commentary on the FMCG sector reflects a cautious yet positive outlook. ITC's focus on the FMCG sector, despite the economic headwinds, is yielding incremental gains. On a YoY basis, growth is expected to be in the high single digits, with the potential for double-digit growth if a strong second half (2H) performance materialises based on better rural demand from monsoons. Despite facing challenges posed by economic slowdown, floods in certain places, and inflationary pressures on key commodities, the company seems to be growing steadily across most businesses.

ITC's cigarette business, historically a core revenue driver, faces mixed challenges. ITC continues to innovate in its product portfolio. Some of the new product launches in the cigarette portfolio include Classic Icon, Uni Clove, Indi Mint King, and Goldflake Social Red Line (Rs 15 per pack), highlighting ITC's strategy to maintain and grow its market share across various segments.

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

Name	**Syngene International Ltd**
Sector	**Healthcare**
Portfolio holding (as of 30 September 2024)	**5.88%**
Company attributes	• Market Cap (as of 30 September 2024): Rs. 36,164 crore • RoCE: 12.81%

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.

From the desk of Portfolio Manager

Name	**Bajaj Finance**
Sector	**NBFC**
Portfolio holding (as of 30 September 2024)	**5.16%**
Company attributes	• Market Cap (as of 30 September 2024): Rs. 4,76,813 crore

Investment Rationale

Over the past three quarters, Bajaj Finance (BAF) faced some headwinds, leading to profit growth trailing loan growth. The first was the RBI ban, which resulted in a Rs2bn hit to quarterly fee income. This was followed by NIM compression post RBI's risk-weight guidelines on bank lending to NBFCs. Lastly, BAF experienced higher credit costs over the past 2-3 quarters; this may take 1-2 more quarters to normalise, in our opinion. Even if BAF increases its credit cost guidance to 2%, we estimate FY25 EPS would fall only 1-1.5%.

With headwinds receding, the focus will be back on fundamentals – superior loan growth, operating leverage over 1-2 years and reasonable valuations. Moreover, with the blockbuster listing of the subsidiary, the parent trades at a lower multiple than the consolidated entity, despite a higher ROE

Key risks : Evolving competitive landscape – entry of Jio in consumer and merchant lending business post demerger announcement

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 Proposition

- **Market Leaders and Challengers:** We prioritize investing in companies that are leaders or challengers within their specific sectors that have competitive advantage and industry expertise.
- **Focus on High Quality companies:** We invest in companies that are structurally strong and demonstrate resilience and quality:
- **Achieved a Minimum Revenue Scale:** Companies that have reached a minimum scale in terms of revenue, ensuring stability and growth potential.
- **Proven Resilience Through Downcycles:** Companies that have weathered at least one market downcycle and emerged stronger and have consistency in cash flows.
- **Strong Fundamentals:** Companies with a consistent track record of generating strong cash flows and achieving high Return on Capital Employed (ROCE)
- **Concentrated Portfolio:**
- **Concentrated Holdings:** A focused portfolio of 20-25 carefully selected stocks with potential to grow while managing risk.
- **Multi-Cap Approach:** Invests across market capitalizations to capture growth opportunities wherever they arise.
- **Low Overlap:** Ensures portfolio differentiation and active management by maintaining low overlap with the benchmark.
- **Risk Management Principles:** No more than 10% of the portfolio is invested in a single stock to mitigate concentration risk. Exposure to any single sector is restricted to 30% to ensure diversification across industries.

Portfolio Details

Top 15 Holdings of PGIM India Core Equity Portfolio Discretionary Portfolio as on September 30th, 2024

Equity	Sector	%
Sumitomo Chemical India Ltd	Materials	6.17
Muthoot Finance Ltd	Financials	6.03
ITC Ltd	Consumer Staples	5.97
Syngene International Ltd	Health Care	5.88
Bajaj Finance Ltd	Financials	5.16
Aurobindo Pharma Ltd	Health Care	4.87
Havells India Ltd	Industrials	4.45
Computer Age Management Services Ltd	Financials	4.43
HDFC Life Insurance Company Ltd	Financials	4.31
Hero Motocorp Ltd	Consumer Discretionary	4.12
Vardhman Textiles Ltd	Consumer Discretionary	4.04
Tata Consultancy Services Ltd	Information Technology	3.96
Persistent Systems Ltd	Information Technology	3.86
Astral Ltd	Industrials	3.51
Radico Khaitan Ltd	Consumer Staples	3.50
Total		**70.26**

Portfolio Details as on September 30th, 2024

Weighted average RoCE(Ex Financials)	17.38%
Portfolio PE (FY2026E)	33.61
Portfolio dividend yield	0.76%
Standard Deviation	11.33%
Sharpe Ratio	1.64
Treynor Ratio	25.31
Jensen Alpha	7.76
Beta	0.73

**Data are for 3 years period*

Portfolio Composition as on September 30th, 2024

Large Cap	41%
Mid Cap	27%
Small Cap	25%
Cash	7%

Large Cap: Market cap of the 100th company in the Nifty 500 (sorted by market cap in descending order) as on September 30th, 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 September 30th, 2024

Small Cap: Market cap lower than the 250th company in the Nifty 500 (sorted by market cap in descending order) as on September 30th, 2024

PGIM India Core Equity Portfolio - Performance as on September 30th, 2024

Period	Portfolio	NIFTY 50 (TRI)
1 Month	1.55%	2.28%
3 Months	8.54%	7.81%
6 Months	19.91%	16.58%
1 Year	27.38%	33.00%
2 Years	22.90%	24.23%
3 Years	19.46%	14.93%
5 Years	19.46%	18.97%
Since inception date 08/07/2013	16.88%	15.49%

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, 2024

	April 1, 2024 to September 30, 2024	April 1, 2023 to March 31, 2024	April 1, 2022 to March 31, 2023	April 1, 2021 to March 31, 2022	April 1, 2020 to March 31, 2021
PGIM India Core Equity Portfolio (Net of all fees and charges levied by the portfolio manager)	19.91%	29.91%	4.89%	24.45%	53.25%
Benchmark - NIFTY 50 (TRI)	16.58%	30.08%	0.59%	20.26%	72.54%

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