



PGIM

India Portfolio
Management Services

Discovering
Immense Potential



**PGIM INDIA
EQUITY PORTFOLIO**





Surjitt Singh Arora,
Portfolio Manager

A thematic approach to investing

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.

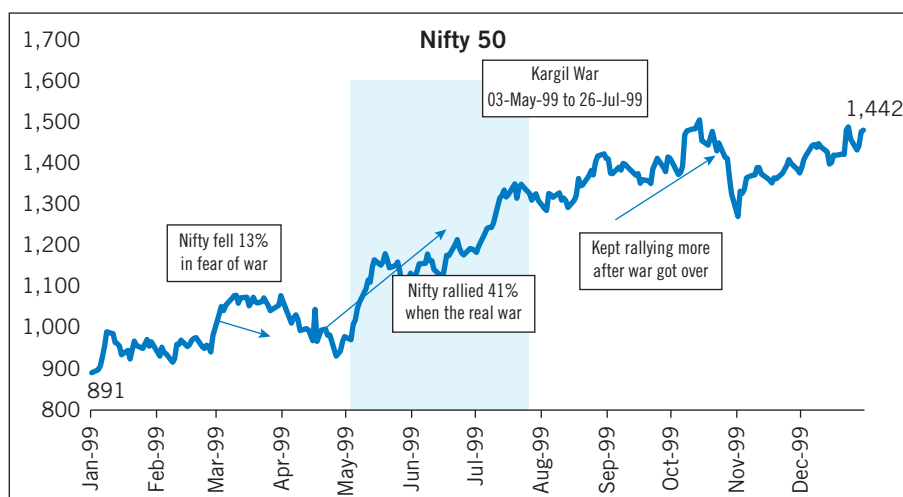
The monetary stimulus unleashed by China has sparked a wave of tactical FII outflows from India. Corporate earnings, after four consecutive years of healthy double-digit growth, are moderating due to pressures from commodities and fading tailwinds from BFSI asset quality improvements. The recent print 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

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

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 ~13% CAGR (at risk) in earnings over FY24-26E period (Source : Bloomberg).

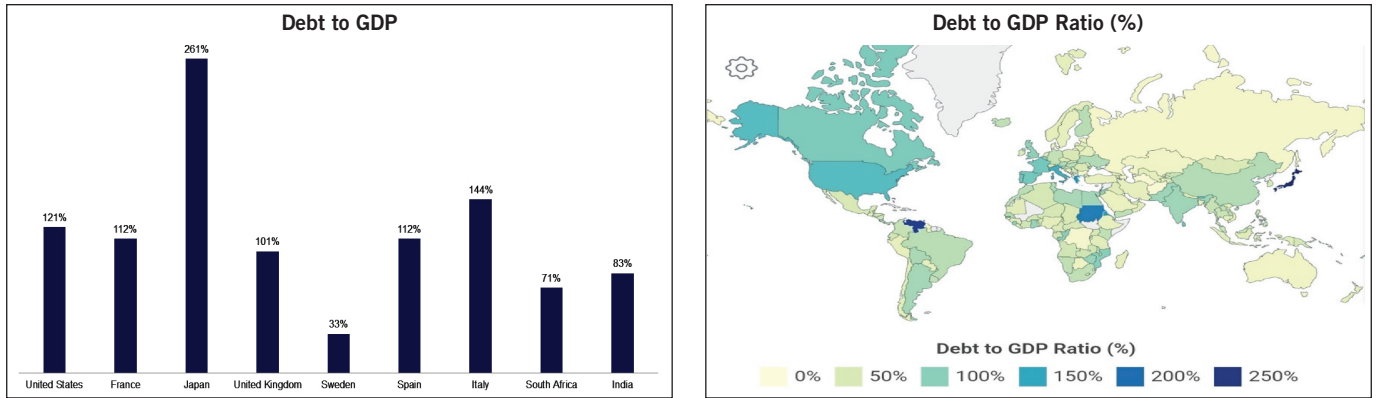
We believe the market fundamentals will be driven by “narrative” in the near term moving forward, especially in the absence of any major trigger. The market will continue to find direction based on 1) Macroeconomic developments, 2) Direction of bond yields, 3) Oil prices & Dollar index and 4) Q2FY25 earning season. Though India is relatively better placed, valuation is a concern, hence we recommend a stock specific approach.

KEY RISKS GOING INTO FY25

The increasing risk to Global Equities is highlighted below :

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.

Risk #2 The US Consumer Debt Dilemma: Credit Card Delinquencies on the Rise

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.

Exhibit 2: Credit card loan delinquencies

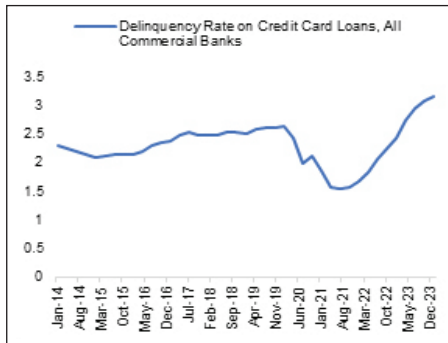


Exhibit 3: Share of debt in delinquency

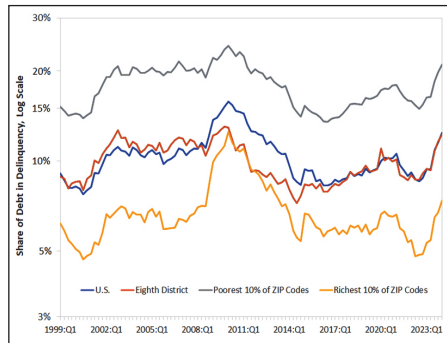
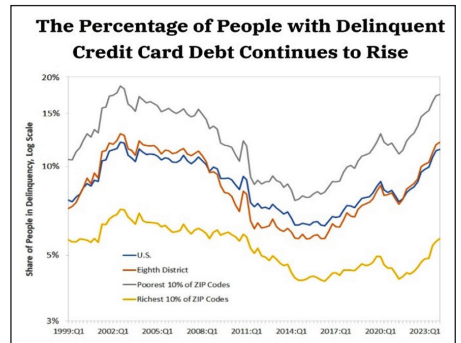


Exhibit 4: % of people with delinquent CC debt



Source: FRED, st.louisfed

From the desk of Portfolio Manager

PERFORMANCE UPDATE

Our portfolio delivered a return of 31.76% in line with the 33.00% return for Nifty 50 TRI during the last one year.

The positive returns were contributed by an overweight stance in Consumer Discretionary and Healthcare sector. Utilities sector. The outperformers were Artemis Medicare, Bharat Rasayan, Affle and Kirloskar Oil Engine. The underperformers were Paushak, Endurance Technologies and Syngene International.

The performance should be considered in the light of lower Beta i.e. 0.74 vs benchmark (Nifty50 TRI). At the same time, the Sharpe ratio of the strategy is 2.69 vs 2.19. The portfolio offered good risk-adjusted returns.

Since Inception (date : 19/01/23) , the portfolio delivered a return of 35.77% vs 24.46% for Nifty 50 TRI, thereby outperforming by ~11.3%. This was on account of our overweight stance on Consumer Discretionary, Healthcare and Industrials Sector.

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 and Industrials. We continue to be Overweight on Healthcare and Underweight on Financials. We continue to believe that investors with a 3 to 5-year view would benefit from investing in the current scenario.

WHAT'S IN; WHAT'S OUT

Entry

- Bajaj Finserv:** Our positive stance on the stock is underpinned by three factors: 1) Notwithstanding temporary hiccups, the established businesses of Bajaj Finance (BAF) and Bajaj General Insurance Company (BAGIC) remain arguably the best in the industry and maintain an edge. 2) Bajaj Allianz Life Insurance Company (BALIC) has navigated well through challenging times and is now among the top non-bank-owned franchises. 3) Newer businesses like Bajaj Finserv AMC and Bajaj Securities complete the product suite, while Bajaj Finserv Health provides a huge optionality in the long term with its endeavor to create a mark in the healthcare space.

Powered by superior tech/data analytic capabilities as well as an impressive management team with a solid execution track record, BAF has consistently demonstrated its ability to outgrow the industry with excellent profitability metrics.

BAGIC has successfully displayed its ability to deliver profitable growth in the General Insurance sector not just over the decades of intense competition but also amid deteriorating profitability for the sector. Looking ahead, BAGIC is set to stay among the most profitable companies in the sector.

Exit

- Endurance Technologies:** 30% of Revenues for Endurance is coming from Europe which is currently going through a phase of slowdown. Lot of Auto OEMs have cut their production guidance given the uncertainty prevailing due to ongoing war between Russia-Ukraine. At the same time, there is a meaningful slowdown across the globe for Electric Vehicles. Given the risk and the near term uncertainty, we booked profits in the name.

TOP HOLDINGS RATIONALE

Name	Artemis Medicare
Sector	Hospitals
Portfolio holding (as of 30 September 2024)	7.76%
Company attributes	<ul style="list-style-type: none">Market Cap (as of 30 September 2024): Rs. 3,912 croreRoCE: 11.46%

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.

From the desk of Portfolio Manager

Name	Hawkins Cooker
Sector	Consumer Discretionary
Portfolio holding (as of 30 September 2024)	5.63%
Company attributes	<ul style="list-style-type: none"> Market Cap (as of 30 September 2024): Rs. 4,607 crore RoE: 36.03%

Investment Rationale

Established brand as leading player in the pressure cooker segment – Incorporated in 1959, the company is one of the leading players in the pressure cooker and cookware segment with a strong brand equity in the domestic market, built over decades. The company continues to invest in brand building and generating higher demand.

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.

The company plans to launch several new products like an electric kettle etc. The plan is to focus more on growth

The company has hired around 40 new mid management employees to support the growth initiatives of the company

Slowdown in Demand and raw material inflation are the key risks.

Name	Affle India
Sector	Information Technology (IT)
Portfolio holding (as of 30 September 2024)	5.36%
Company attributes	<ul style="list-style-type: none"> Market Cap (as of 30 September 2024): Rs. 22,289 crore RoCE: 15.0%

Investment Rationale

Affle is a global technology company (“AdTech”) that provides a consumer intelligence platform, delivering recommendations and Conversions of consumers to marketers via relevant mobile advertising. Affle owns a no. of platforms (Appnext, Jampp, MAAS, mDMP, mediasmart, mTraction Enterprise, RevX, Vizury, YouAppi) that help enhance marketer/advertisers’ ROI via its ‘CPCU’ (Cost per Converted User) model. This business model helps deliver online & offline user conversions (312mn+ in FY’24) across connected devices.

With over 4.4Bn mobile internet users globally, 148Bn+ downloads in CY’23, combined (iOS+Playstore) Revenue generated of \$136Bn, and bullish commentary by Tech giants (Meta, Alphabet) establishes Digital advertising spend as a mega trend over time. As per Data.ai intelligence, Global Consumer spend data is projected to increase by 7.7% CAGR (CY23-30E).

International Biz. (70% of Rev), witnessed a growth drag through FY23 and H1FY24 due to macro headwinds affecting Developed Markets (20% of Rev). However, post a 360 turnaround plan (announced in Q1’24), with greater efforts in upselling & cross-selling of all platform use-cases, team re-alignment, incl. sales being directly led by M.D & CEO, and right incentives, saw Affle rebound with early-teens organic growth for H2’24 with 65% YoY growth in international biz. Focus on premium conversions, defending CPCU rates, early adoption of new ecosystems (Apple iOS SKAN, Samsung Galaxy store) are the key monitorable.

Key risks:

- Big-Tech Policies: Ad-Tech, Social platform and Tech giants such as Apple, Google, Meta, and their policies with respect to user data privacy can affect Affle’s consumer targeting. While Affle has done well in the past with respect to overcoming Apple’s IDFA privacy policy challenge, Google’s privacy sandbox remains a developing area of concern with respect to usage of consumer data. Additionally, changes in commission rates can affect inventory and data costs.
- Ad-Tech players have scaling issues: The Ad-tech market is filled with large number of DSP (Demand Side Platform – buys impressions, i.e, a loading image inventory), DMP (Data management platform) and other Ad-tech players. Ad-tech players have struggled in the past to achieve scale or profitability issues after achieving a certain size.

Name	Bajaj Finserv
Sector	Financials
Portfolio holding (as of 30 September 2024)	5.20%
Company attributes	<ul style="list-style-type: none"> Market Cap (as of 30 September 2024): Rs. 3,15,085 crore RoCE: 15.27%

Investment Rationale

Our positive stance on the stock is underpinned by three factors: 1) Notwithstanding temporary hiccups, the established businesses of Bajaj Finance (BAF) and Bajaj General Insurance Company (BAGIC) remain arguably the best in the industry and maintain an edge. 2) Bajaj Allianz Life Insurance Company (BALIC) has navigated well through challenging times and is now among the top non-bank-owned franchises. 3) Newer businesses like Bajaj Finserv AMC and Bajaj Securities complete the product suite, while Bajaj Finserv Health provides a huge optionality in the long term with its endeavor to create a mark in the healthcare space.

From the desk of Portfolio Manager

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BAGIC has successfully displayed its ability to deliver profitable growth in the General Insurance sector not just over the decades of intense competition but also amid deteriorating profitability for the sector. Looking ahead, BAGIC is set to stay among the most profitable companies in the sector.

Name	HDFC Bank
Sector	Financials
Portfolio holding (as of 30 September 2024)	5.14%
Company attributes	<ul style="list-style-type: none">Market Cap (as of 30 September 2024): Rs. 13,21,320 croreRoE: 17.49%

Investment Rationale

According to the RBI's sectoral credit growth data, system credit growth (adjusted for HDFC merger) was largely steady at 15.0% y-y as of Aug-24 (vs 15.1% y-y in Jul-24). Including HDFC merger, system credit growth was lower at 13.6% y-y (13.7% y-y in Jul-24). System deposit growth (according to the latest fortnightly data) remains soft at 11.6% y-y as of 6 Sep 2024 (vs 11.3% in Aug-24), and system-level LDR ratio remains at an elevated level of 79%. However, overall system deposit growth of 5.4% in FYTD25 is higher than ~1.6% q-q deposit growth reported by large banks (on a combined basis) in 1Q25. This indicates that the banks can report healthy sequential pickup in deposit growth in 2QFY25.

Q2FY25 saw strong deposit mobilization by HDFC Bank after a muted Q1FY25. This coupled with loan securitization helped in lowering LDR further. Key balance sheet highlights for Q2FY25: (i) gross advances grew 7% YoY (+1.3% QoQ) vs decline of 0.8% QoQ in Q1FY25 (ii) total deposits grew +5.1% QoQ vs flat QoQ in Q1FY25, (iii) LDR for Q2FY25 improved to 100.8% vs 104.5% / 108.4% in Q1FY25 / Q2FY24, (iv) LCR improved to 127% in Q2FY25 vs 123% in Q1FY25. Favorable change in loan mix can help NIM.

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 payout, 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, 2024

Equity	Sector	%
Artemis Medicare Services Ltd	Health Care	7.76
Hawkins Cooker Ltd	Consumer Discretionary	5.63
Affle India Ltd	Communication Services	5.36
Bajaj Finserv Ltd	Financials	5.20
HDFC Bank Ltd	Financials	5.14
Asian Paints Ltd	Materials	5.03
Kirloskar Oil Engines Ltd	Industrials	4.85
Hariom Pipe Industries Ltd	Materials	4.78
Windlas Biotech Ltd	Health Care	4.71
Havells India Ltd	Industrials	4.65
Syngene International Ltd	Health Care	4.63
ABB India Ltd	Industrials	4.22
Bharat Rasayan Ltd	Materials	4.14
RBZ Jewellers Ltd	Consumer Discretionary	3.98
Gillette India Ltd	Consumer Staples	3.53
Total		73.61

Portfolio Details as on September 30th, 2024

Weighted average RoE(Ex financials)	15.24%
Portfolio PE (FY2026E)	33.44
Portfolio dividend yield	0.41%
Standard Deviation	11.42%
Sharpe Ratio	2.69
Treynor Ratio	41.31
Jensen Alpha	14.41
Beta	0.74

**Data are from Since Inception*

Portfolio Composition as on September 30th, 2024

Large Cap	27%
Mid Cap	7%
Small Cap	58%
Cash	8%

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 Equity Portfolio Performance as on September 30th, 2024

Period	Portfolio	NIFTY 50 (TRI)
1 Month	-1.30%	2.28%
3 Months	9.22%	7.81%
6 Months	23.87%	16.58%
1 Year	31.76%	33.00%
Since inception date 19/01/2023	35.77%	24.46%

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.

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

	April 1, 2024 to September 30, 2024	April 1, 2023 to March 31, 2024
PGIM India Equity Portfolio (Net of all fees and charges levied by the portfolio manager)	23.87%	36.73%
Benchmark - NIFTY 50 (TRI)	16.58%	30.08%

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 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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C149/2024-25