QUARTERLY NEWSLETTER
JANUARY 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

Growth at Reasonable Price

MARKET OUTLOOK

In CY23, the Indian markets remained resilient and strong amid weak global macros, rising interest rates, and geopolitical uncertainties that kept global markets volatile and jittery. The Nifty-50 clocked eight successive years of positive returns. The benchmark index hit an all-time high in Dec'23 and surged 20% YoY in CY23 (vs. only 4% growth in CY22).

While multi-year high interest rates, geopolitical tensions, volatility in crude oil prices, slowing growth, and recessionary environment in developed markets remained the key concerns during the year, India's strong economic growth, healthy corporate earnings, moderate inflation, waning crude oil prices, reinforced FII and DII inflows, and strong retail participation propelled the Indian markets to greater heights.

A combination of strong underlying domestic economy coupled with visible increase in consumption of premium items will likely be the dominant driver of market in 2024, in our view.

We see continuing trend of greening up of economy along with increase in automation across manufacturing set ups. Companies involved in these areas will likely continue to be favourably looked at by investors.

Though India is relatively better placed, valuation is a concern. Hence, we recommend a stock specific approach. Valuation of Nifty 50 at 23x in FY24 and 20x in FY25 is demanding, in context of the consensus growth estimate of ~15% in earnings for FY25E (Source : Bloomberg).

Global Equities: Good time for Emerging Market (EM's)

a) Inflation has peaked across the world, US dot-plot indicates 3 rate cuts in CY24.

b) US 10 year yield falls 100 bps from the top, creating a rally in Emerging Markets.

c) Surprisingly, oil prices have remained contained, even after Israel war, due to weak global demand.

Indian Equities: Indian economy in Goldilocks scenario, valuations run ahead as liquidity drives the market

a) Economy growing well, supported by both consumption and capex, exports remain tepid.

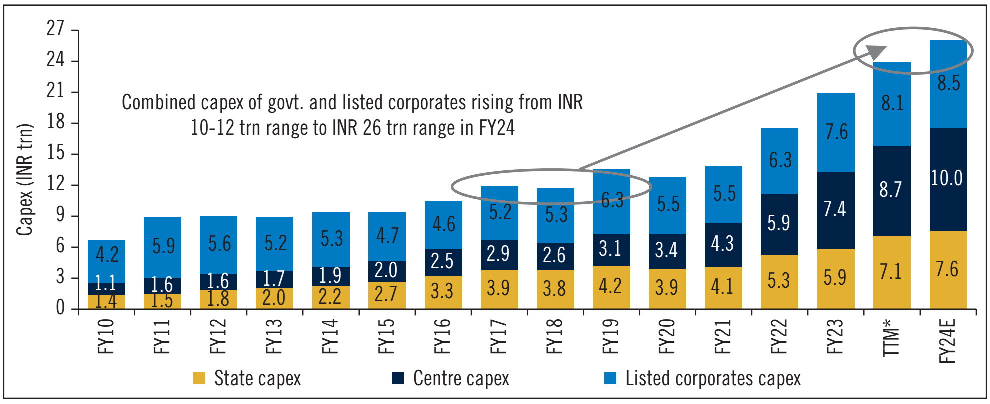
b) Inflation and fiscal deficit well contained as strong growth is driving tax collections.

c) Rural economy still slow as inflation eats into spending power.

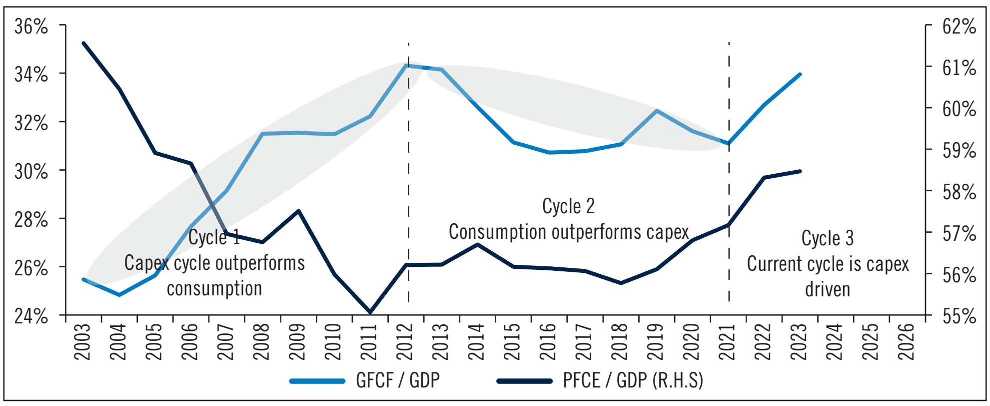
d) In upcoming general elections, most experts believe the present government will retain power – thereby ensuring continuation of policies.

e) Domestic flows continue unabated, driving mid/small cap valuations beyond comfort zones.

CAPEX CYCLE PICKING UP



Source : ICICI Securities Research. TTM data as of Oct 2023

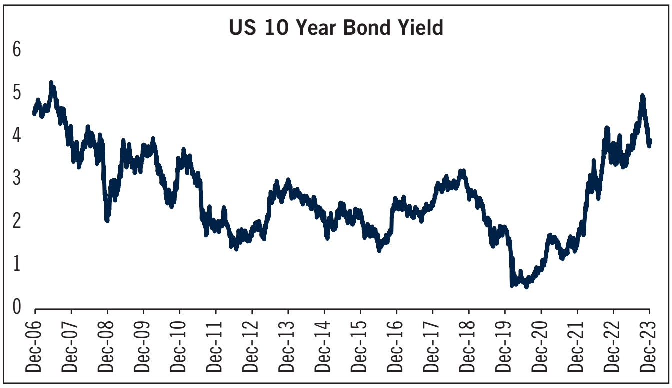


Source : ICICI Securities Research

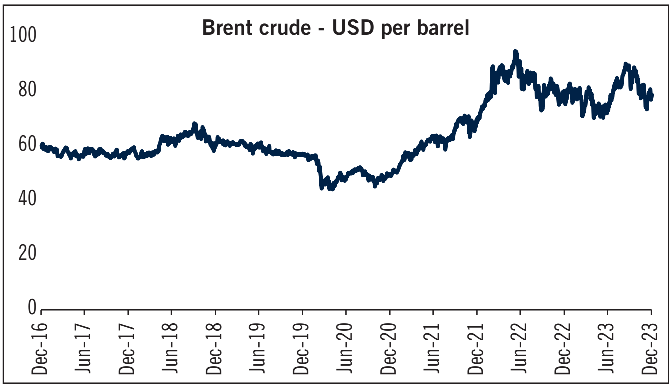
From the desk of Portfolio Manager

KEY RISKS GOING INTO 2024

We have increased our allocation towards Large Caps (now accounts for ~44% from ~30% in September Quarter) given the increasing risk to Global Equities highlighted below:



Source : Bloomberg



Source : Bloomberg

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

b) Global recovery gets delayed – as recovery in China and Europe growth remains weak.

c) Closer home, rural recovery remains weak – El Niño next year may cause further problems.

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 ~USD20-25bn 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).

In the near-term, market focus may shift towards the general election schedule in 2024. As we approach closer to the date, we could see increased market volatility due to speculation about the election outcome. We are of the view that these are transient factors and would advise investors to look past these factors to benefit from the long-term India growth story.

We continue with our positive stance on the Indian equity market from a medium to longer term perspective. We see consumption and manufacturing spearheading India’s growth led by demographics, higher per capita income and penetration with exports remaining a longer term but invaluable growth driver.

We are 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.

PERFORMANCE UPDATE

Our portfolio delivered a return of 23.37% vs a 21.30% return for Nifty 50 TRI during CY23, thereby, outperforming by ~207bps. Our overweight stance on Consumer Discretionary, Industrials and Healthcare and underweight stance on Information Technology (IT) and Financials aided our performance for the year. The stocks which outperformed were VST Tillers & Tractors, Bharat Electronics, Nestle and FDC. The stocks which impacted our performance were Syngene International and Eureka Forbes. Five of our top holdings i.e. VST Tillers & Tractors, Nestle, FDC, Phoenix Mills, and Bharat Electronics contributed meaningfully to our outperformance, thereby, reflecting the high conviction calls in the portfolio.

The one-year outperformance should be considered in the light of lower Beta i.e. 0.69 vs benchmark (Nifty 50 TRI). At the same time, the Sharpe ratio of the strategy is 1.80 vs 1.73 for Nifty 50 TRI. The portfolio offered good risk-adjusted returns.

For the quarter ended Dec’23, our portfolio delivered a return of 4.79% vs a 10.85% return for Nifty 50 TRI, underperforming the benchmark by ~606 bps. The portfolio underperformed the index due to our overweight position in Consumer Discretionary, Industrials and Healthcare. The stocks which impacted the performance are Syngene, PI Industries, Eureka Forbes and VST Tillers & Tractors.

From the desk of Portfolio Manager

WHAT'S IN AND WHAT'S OUT

Entry	Exit
1. **Computer Age Management Services (CAMS):** CAMS remains one of the best plays on India's financialisation story. The aggregate nature of its business gives the company a steady growth outlook. It is a leader in a duopoly market with ~69% AUM share and 10 of the 15 largest MFs are its clients. Due to the nature of the industry, the clients are sticky and replicating Registrar and Transfer Agent (RTA) processes in house is unlikely. The company has a strong balance sheet, healthy return ratios, EBITDA margins, dividend payout ratio and is poised to benefit from growth in MF industry over the long term. 2. **LTI Mindtree (LTIM):** With USD 4.1bn revenue base and ~83,000 employees, LTIM will now be eligible to bid for/win large deals. LTI and Mindtree always had delivery capabilities across the spectrum—digital transformational/cost take-out deals. Now, it shall be able to monetize those capabilities even in deals wherein size is a critical factor. LTIM, by virtue of LTI's strong presence in BFSI, now derives 38% of revenue from this segment—in line with most large-cap peers. It also inherits Mindtree's strong presence in hi-tech (now 23% of LTIM revenue)—by far the highest share among all premier listed players. Alongside, LTIM's presence in niche verticals such as travel (~6% of revenue) makes its profile well-rounded and highly amenable to strong growth. 3. **ICICI Bank:** In Q2FY24, ICICI Bank reported ~35% yoy earnings growth, led by ~20% yoy operating profit growth and ~60% yoy decline in provisions. We wanted to have exposure to at least one lender in our portfolio. Loan growth for the banking system is resilient, contrary to the expectation of a slowdown. Given the growth outlook and reasonable valuation, we added the stock to our portfolio.	1. **Oracle Financial Services Software Ltd (OFSS):** Given OFSS is a single vertical BFSI focused product company, catering mainly to large global banks there may be volatility in its quarterly earnings and risks from unexpected developments in the global financial system/ global macros along with large deal transition costs and delays. Given the run-up of ~40% in the last one year (as of 29th Dec'23), we booked profits in the same. 2. **The Phoenix Mills:** Phoenix Mills stock has rallied 58% in the last one year thereby outperforming the benchmark. At the CMP of Rs 2,244 (29th Dec'23), the stock is trading at 31.5x FY25E earnings, which captures majority of the positives, in our view. Hence, we booked profits in the same.

TOP HOLDINGS RATIONALE

Name	**VST Tillers Tractors**
Sector	**Automobile OEM**
Portfolio holding (as of 29 December 2023)	**7.0%**
Company attributes	• Market Cap (as of 29 December 2023): Rs. 3,264 crore • RoCE: 11.4%

Investment Rationale

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

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

Market response to the VST-ZETOR range of products and margin trajectory are key risk. Uneven/deficient monsoons and ability to efficiently scale operations are key risks.

Name	**Syngene International Ltd**
Sector	**Healthcare**
Portfolio holding (as of 29 December 2023)	**6.3%**
Company attributes	• Market Cap (as of 29 December 2023): Rs. 28,199 crore • RoCE: 13.0%

From the desk of Portfolio Manager

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 scaleup of business from the Mangalore API facility and client concentration are key risks to the business.

Name	**FDC Ltd**
Sector	**Pharma**
Portfolio holding (as of 29 December 2023)	**6.2%**
Company attributes	• Market Cap (as of 29 December 2023): Rs. 6,455 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.

Name	**CAMS Ltd**
Sector	**Capital Markets**
Portfolio holding (as of 29 December 2023)	**6.1%**
Company attributes	• Market Cap (as of 29 December 2023): Rs. 13,024 crore • RoCE: 41.6%

Investment Rationale

CAMS Ltd acts as a Registrar and Transfer Agency to the Indian Mutual Fund industry. CAMS is the leader in a duopoly market, serving ~69% of the average assets under management as of June 2023. 10 of the 15 largest MFs are its clients. It also provides services to Alternatives and Insurance Companies. CAMS also operates a pan-India network of service centres, white label call centre, online, mobile app and chatbot. Improvement in operational parameters such as equity/SIP market share is encouraging for the company.

New customer acquisition, trend in equity MF AUM and fee yield movement are key risk. Key risks to the business include potentially slower new deal wins in new business segments, volatility in AUMs handled and probable EBITDA dilutive growth in non-mutual fund businesses.

Name	**Eureka Forbes**
Sector	**Consumer Durables**
Portfolio holding (as of 29 December 2023)	**6.1%**
Company attributes	• Market Cap (as of 29 December 2023): Rs. 9,854 crore • RoCE: 1.7%

Investment Rationale

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

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

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

From the desk of Portfolio Manager

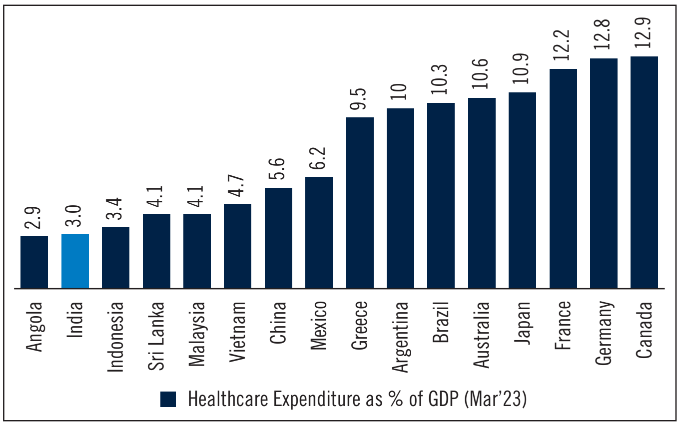
SECTORAL INSIGHTS

In the second part of the sectoral series, we will cover Healthcare sector where we continue to be positive in our portfolios.

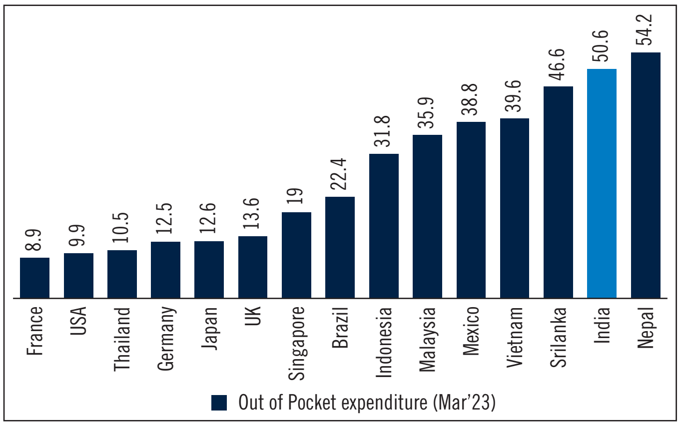
Overall, Healthcare industry in India grew at 23% CAGR over CY16-CY22, driven by growing coverage and higher spending by public and private sector companies. Further, the industry has significant scope for improvement driven by aging population, widespread lifestyle diseases, rising incomes, higher spending on insurance and medical value tourism.

India's healthcare expenditure as a % of GDP is one of the lowest in the world, while the out of pocket expenditure is one of the highest. Owing to this fact, there is scope for increase in Insurance penetration in India.

Also, with enhanced awareness, the expectation by patient for better healthcare facilities would also drive growth for Indian healthcare market.



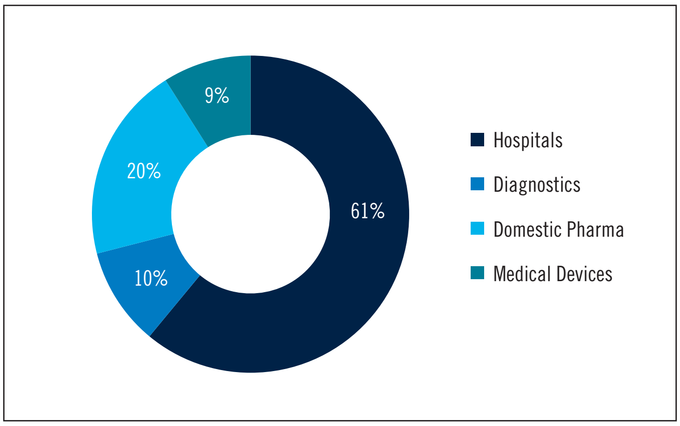
Source: Motilal Oswal Securities



Source: Motilal Oswal Securities

Hospitals

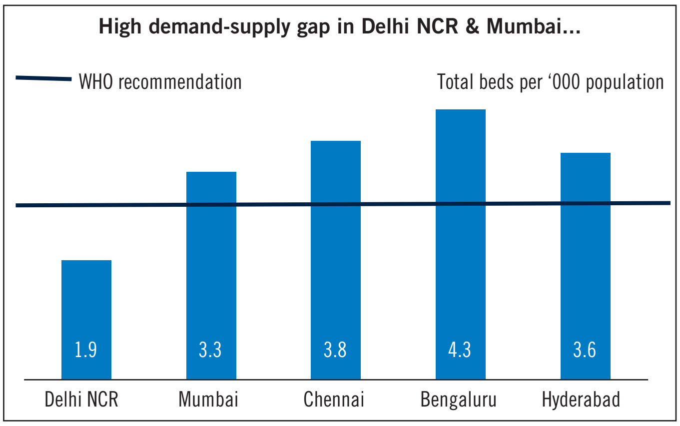
Among the four key components of the healthcare industry, hospitals form the majority share at 61% of the industry. Further, within hospitals, the in-patients contribute majority of the revenue.



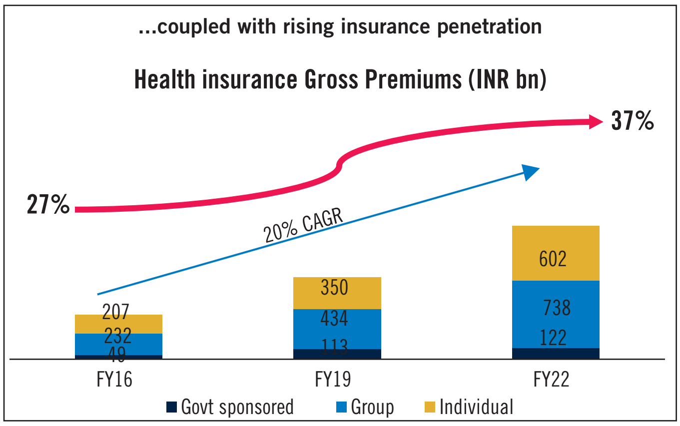
Source : Motilal Oswal Securities

In metro cities, the average number of beds required per thousand population is 3. This is much lower for India on absolute as well as relative basis. This also implies high demand and supply gap, particularly in all the metro cities.

Accordingly, the listed companies are geared up to add beds through greenfield as well as brownfield expansion.



Source : Motilal Oswal Securities



Source : Motilal Oswal Securities

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From the desk of Portfolio Manager

Higher complexity procedures at relatively lower treatment costs, coupled with clinical outcomes comparable to the best in the world, have resulted in medical tourism gaining momentum in recent years. Some of the factors that make India an attractive destination for quality treatments are the presence of technologically advanced hospitals with highly experienced and specialised doctors, ease of travel and other facilities such as e-medical visa.

Additionally, the treatment cost in India is lowest compared to other countries as shown in the below table.

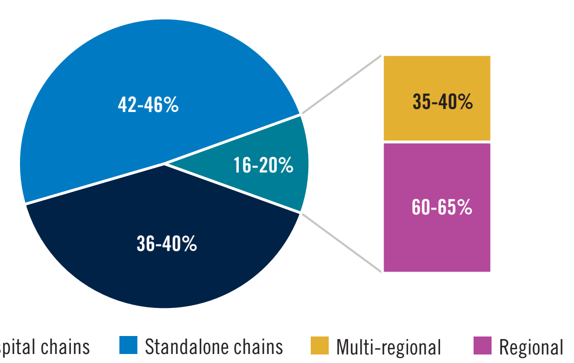
Ailments (in USD)	US	Korea	Singapore	Thailand	India
Hip replacement	50,000	14,120	12,000	7,879	7,000
Knee replacement	50,000	19,800	13,000	12,297	6,200
Heart Bypass	1,44,000	28,900	18,500	15,121	5,200
Angioplasty	57,000	15,200	13,000	3,788	3,300
Heart Valve replacement	1,70,000	43,500	12,500	21,212	5,500
Dental implants	2,800	4,200	1,500	3,636	1,000

Diagnostics

Increased income levels, growing prevalence of chronic and lifestyle diseases, improved awareness about health and rising elderly population is expected to drive growth for diagnostic industry in India. Within industry, large diagnostic chains are expected to witness higher growth on the back of integrated network benefit, enough scope of growth in newer regions through organic as well as inorganic route. Due to scale, large diagnostic chains are favourably placed to provide customized service at optimal cost, driving mutual benefit to patient as well.

Diagnostic chains possessing better national and international accreditations and scalable business model, wherein through brand reputation and operational efficiency these chains can cater to a larger set of population. This has led to an increase in the share of diagnostic chains to 16-20% of the overall diagnostics industry as of FY23 from 13-17% in FY20.

Estimated Breakup of Indian Diagnostic Industry (FY23)



Source : Motilal Oswal Securities

We have an exposure of ~13% in Healthcare in the fund – Syngene International (~7%) and FDC (~6%)

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 December 31st, 2023

Date of Purchase	Equity	Sector	%
08-Jul-13	VST Tillers Tractors Ltd	Industrials	7.04%
02-May-18	Bharat Electronics Ltd	Industrials	6.63%
20-Apr-23	Syngene International Ltd	Health Care	6.30%
04-Jul-23	FDC Ltd	Health Care	6.23%
12-Oct-23	Computer Age Management Services Ltd	Financials	6.11%
20-Jul-23	Eureka Forbes Ltd	Consumer Discretionary	6.11%
13-Feb-23	Nestle India Ltd	Consumer Staples	5.61%
09-Oct-17	Power Grid Corporation Of India Ltd	Utilities	5.35%
20-Jun-23	ICICI Lombard General Insurance Company Ltd	Financials	5.09%
21-Jun-23	Hindustan Unilever Ltd	Consumer Staples	5.00%
05-Sep-23	Havells India Ltd	Industrials	4.84%
15-Dec-23	LTIMindtree Ltd	Information Technology	4.42%
29-Nov-22	Maruti Suzuki India Ltd	Consumer Discretionary	4.09%
21-Jan-15	ICICI Bank Ltd	Financials	4.00%
17-Dec-21	Astral Ltd	Industrials	3.89%
	Total		**80.71%**

Portfolio Details as on December 31st, 2023

Weighted average RoCE (Ex Financials)	25.05%
Portfolio PE (FY2025E)	32.52
Portfolio dividend yield	0.97%
Average age of companies (Years)	48
Standard Deviation	12.15%
Sharpe Ratio	1.80
Treynor Ratio	31.7
Jensen Alpha	8
Beta	0.69

Portfolio Composition as on December 31st, 2023

Large Cap	44%
Mid Cap	20%
Small Cap	32%
Cash	4%

Large Cap: Market cap of the 100th company in the Nifty 500 (sorted by market cap in descending order) as on December 31st, 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 December 31st, 2023

Small Cap: Market cap lower than the 250th company in the Nifty 500 (sorted by market cap in descending order) as on December 31st, 2023

PGIM India Core Equity Portfolio - Performance as on December 31st, 2023

Period	Portfolio	NIFTY 50 (TRI)#
1 Month	0.88%	7.94%
3 Months	4.79%	10.85%
6 Months	8.37%	13.81%
1 Year	23.37%	21.30%
2 Years	16.62%	13.24%
3 Years	22.48%	17.22%
5 Years	14.42%	16.24%
Since inception date 08/07/2013	16.01%	14.67%

#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 December 31st, 2023

	Current Year* April 1, 2023 to December 31, 2023	April 1, 2022 to March 31, 2023	April 1, 2021 to March 31, 2022	April 1, 2020 to March 31, 2021	April 1, 2019 to March 31, 2020
PGIM India Core Equity Portfolio (Net of all fees and charges levied by the portfolio manager)	28.15%	4.89%	24.45%	53.25%	-23.66%
Benchmark - NIFTY 50 (TRI)#	26.39%	0.59%	20.26%	72.54%	-25.02%

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

Important Disclosures regarding the consolidated portfolio performance: The performance related information provided herein is not verified by SEBI. Performance depicted as at the above stated date is based on all the client portfolios under the Regular Portfolio of existing as on such date, using Time Weighted Rate of Return (TWRR) of each client. Past performance is no guarantee of future returns. The above portfolio performance is after charging of expenses. Return for period upto 1 year is absolute. Since inception date stated is considered to be the date on which the first live client investment was made under the strategy. Please note that the actual performance for a client portfolio may vary due to factors such as expenses charged, timing of additional flows and redemption, individual client mandate, specific portfolio construction characteristics or other structural parameters. These factors may have impact on client portfolio performance and hence may vary significantly from the performance data depicted above. Neither the Portfolio Manager, nor its directors or employees shall in any way be liable for any variation noticed in the returns of individual client portfolios. The Portfolio Manager does not make any representation that any investor will or is likely to achieve profits or losses similar to those depicted above.

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

Investment objective of PGIM India Core Equity Portfolio: PGIM India Core Equity Portfolio seeks to generate returns by investing in a portfolio of quality companies that are available at reasonable valuations and have the potential of superior wealth creation over long term.

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