QUARTERLY NEWSLETTER
JANUARY 2024

PGIM
India Portfolio
Management Services

Discovering Immense Potential

PGIM INDIA EQUITY PORTFOLIO

From the desk of Portfolio Manager

Surjitt Singh Arora,
Portfolio Manager

A perfect blend of operating leverage and turnaround candidates

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 up. 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 recommend a stock specific approach. Valuation of Nifty 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 100bps 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.

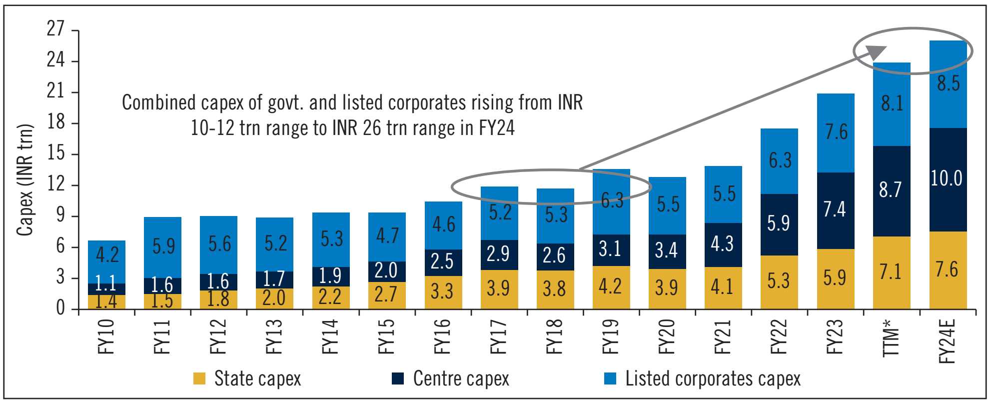
b) Inflation and fiscal deficit well contained as strong growth is driving tax collections.

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

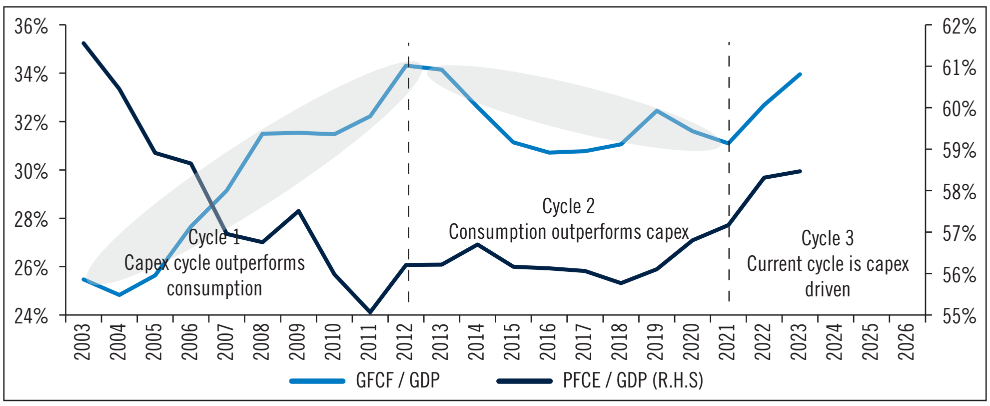
d) In upcoming general elections, most experts believe the present government will retain power – thereby ensuring continuation of policies.

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

CAPEX CYCLE PICKING UP



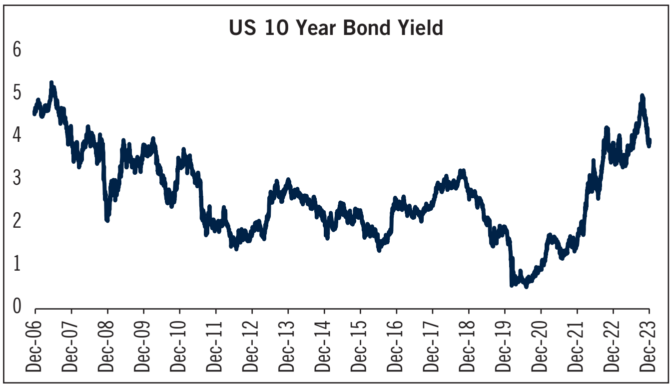
Source : ICICI Securities Research. TTM data as of Oct 2023



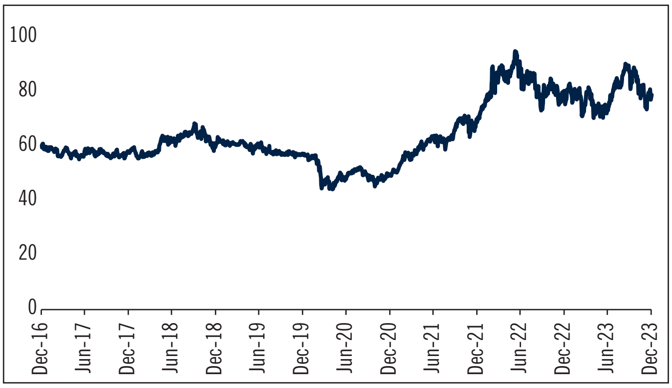
Source : ICICI Securities Research

From the desk of Portfolio Manager

We foresee the following 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.

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

With global economies seeing growth slowdown in an inflationary environment and uncertain geo-political situation, India appears favourably placed due to its relatively higher GDP growth rate and moderating inflation outlook. Higher proportion of working-age population, rising household income and stable Government policy will likely act as structural growth drivers for the economy. With focus on continuous asset creation, benign policy environment, prudent fiscal management and improved global perception, India stands out. Corporate India by and large is expected to see strong earnings growth on the back of this structural demand outlook coupled with its strong balance sheet.

We continue with our positive stance on the Indian equity market from a medium to longer term perspective. We see consumption and manufacturing spearheading India's growth led by demographics, higher per capita income and penetration with exports remaining a longer term but invaluable growth driver. We are positive on Healthcare, Consumer Discretionary, Industrials and Building Materials. We have increased our weight in Healthcare and continue to be Underweight on Financials. We continue to believe that investors with a 3 to 5-year view would benefit from investing in the current scenario.

PERFORMANCE UPDATE

Since inception (date : 19/01/23), the portfolio delivered a return of 35.36% vs 20.90% for Nifty 50 TRI, thereby outperforming by ~14.4%. The portfolio outperformed the index mainly on account of an overweight stance in Consumer Discretionary, Healthcare and Utilities sector. The outperformers were Artemis Medicare, Radico Khaitan and NTPC. The underperformers were Carborundum Universal and Hawkins Cooker.

The outperformance should be considered in the light of lower Beta i.e. 0.57 vs benchmark (Nifty 50 TRI). At the same time, the Sharpe ratio of the strategy is 3.24 vs 1.89 for Nifty 50 TRI. The portfolio offered good risk-adjusted returns.

Our portfolio delivered a return of 6.03% vs 10.85% return for Nifty 50 TRI during the quarter ended Dec'23. Our portfolio underperformed the Index by ~482bps on account of our overweight stance on Consumer Discretionary, Healthcare and Industrials Sector. The stocks which impacted our performance were Carborundum Universal and Hawkins Cooker.

From the desk of Portfolio Manager

WHAT'S IN AND WHAT'S OUT

Entry	Exit
1. **Suven Pharma:** ▪ Suven remains a focused CDMO play for global innovator MNC's in both Pharma & Specialty (Agro/Crop protection) where these segment together contribute ~95% of total revenues (mix remains steady at 60:35). ▪ Ongoing capex program of Rs 6 bn is being done with a view to cater to future potential from its pipeline. Entire capex is funded from its cash surplus which remains healthy at >Rs 3.8 bn (after paying Rs 1.5 bn for Casper M&A). ▪ Foray into formulation business eventually positions Suven as a complete CDMO player where it hopes to provide end-to-end solutions (ranging from Intermediates in Phase I to III and till Commercial stage, is also capable of supplying patented API's & Formulations in coming years).	1. **Cholamandalam Investment and Finance:** ▪ Seeking to rein in an observed rise in unsecured personal loans and credit cards, the Reserve Bank of India (RBI) directed banks and non-banking financial companies (NBFCs) to reserve more capital for risk weights. The mandatory risk weight requirement has been increased by 25 percentage points. This would be applicable to unsecured personal loans, credit cards and lending to NBFCs. ▪ The directions are expected to result in higher capital requirements for lenders and thereby, an increase in lending rates for consumers. ▪ The stock rallied 59.0% as of end of Oct'23 (Source: Bloomberg) and was trading at 4.0x FY25E P/BV, in line with historical averages. Given the run-up in the stock and the regulatory risk, in our view, it was prudent to book profits in the same. 2. **Credit Access Grameen:** ▪ Microfinance Institution (MFI) business by its virtue is sensitive and sometimes reacts to even unrelated events. For instance, Assam Crisis in Nov/Dec 2019 (protests against the MFIs demanding a ban on MFIs holding them responsible for suicides) led to negative price performance for the overall sector even when few players had negligible/nil direct exposure to Assam state. ▪ Geographic concentration risk with top 3 states accounting for majority of the AUM. ▪ The stock had run up ~25% till 1st October since the start of CY23. Given the run in the stock and the regulatory risk, in our view, it was prudent to book profits in the same.

TOP HOLDINGS RATIONALE

Name	**Artemis Medicare**
Sector	**Hospitals**
Portfolio holding (as of 29 December 2023)	**11.1%**
Company attributes	• Market Cap (as of 29 December 2023): Rs. 2,447 crore • RoE: 10.3%

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 may be proportionately less than revenue. Artemis' international patient mix has decreased from 35-40% pre-COVID to 26%, but is expected to improve and positively impact margins.

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

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

Name	**ICICI Bank Ltd**
Sector	**Financials**
Portfolio holding (as of 29 December 2023)	**5.5%**
Company attributes	• Market Cap (as of 29 December 2023): Rs. 699,098 crore

From the desk of Portfolio Manager

Investment Rationale

We are in the best of times for banks in term of credit growth and asset quality. ICICI Bank still is demonstrating its strength quite well in this cycle. (1) Diversified and granular loan book should withstand a slowdown against adverse credit costs. (2) Less market share or growth focus and emphasis in building better customer experiences to aid in building better liability and low-risk asset-side relationships. As a consequence, the probability that the bank would see a repeat of the previous cycle of higher credit costs or volatile underwriting performances appears to be far lower than feared.

The key risk for the sector and ICICI Bank is slowing pace of deposit mobilization which is seeing a widening gap with credit growth. Even this quarter deposit growth was weak for ICICI Bank at 10% YoY.

Name	**CDSL Ltd**
Sector	**Capital Markets**
Portfolio holding (as of 29 December 2023)	**5.1%**
Company attributes	• Market Cap (as of 29 December 2023): Rs. 19,065 crore

Investment Rationale

Central Depository Services Limited (CDSL) was found in 1999 and is one of the two depositories in India. The company has been steadily gaining market share in new Demat account openings. Issuer income received annually from companies is an annuity income for CDSL with an upside potential from increased listing on exchanges/dematerialization of unlisted companies. Account Aggregator, Insurance repository, Commodity repository, Dematerialization of MF assets, RTA services, GST Suvidha, Govt./ SEBI project, etc. provide optionality to CDSL's top line.

Key risks include swings in market volume, any regulatory changes to CDSL's tariff for Depository Participants (DPs) and Issuers, cyber threats and NSDL action on pricing / new products.

Name	**Radico Khaitan**
Sector	**Consumer Staples**
Portfolio holding (as of 29 December 2023)	**5.1%**
Company attributes	• Market Cap (as of 29 December 2023): Rs. 22,172 crore • RoE: 10.4%

Investment Rationale

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

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

Name	**Hawkins Cooker**
Sector	**Consumer**
Portfolio holding (as of 29 December 2023)	**4.8%**
Company attributes	• Market Cap (as of 29 December 2023): Rs. 4,013 crore • RoE: 38.7%

Investment Rationale

Hawkins Cookers Limited was incorporated in 1959 as Pressure Cookers and Appliances Pvt. Ltd. Hawkins is one of the leading manufacturers of pressure cookers in India, with the domestic market driving around 94% of its overall sales. Hawkins is an established brand as leading player in the pressure cooker segment. The company continues to invest in brand building and generating higher demand. The company has an established and growing pan-India distribution network, ensuring a wide reach.

The company has a strong financial risk profile, reflected in its high Return on Capital Employed, healthy cash generation from operations and a net debt-free position. The company had a comfortable capital structure.

Vulnerability to raw material prices, lower pricing power due to intense competition and relatively concentrated product portfolio with limited market size are key risks to the investment thesis.

From the desk of Portfolio Manager

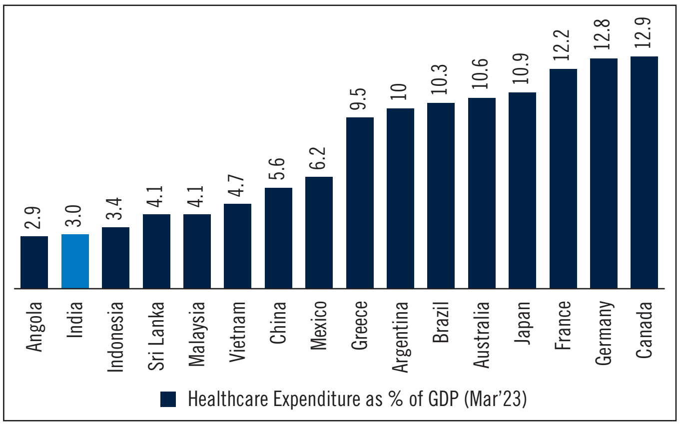
SECTORAL INSIGHTS

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

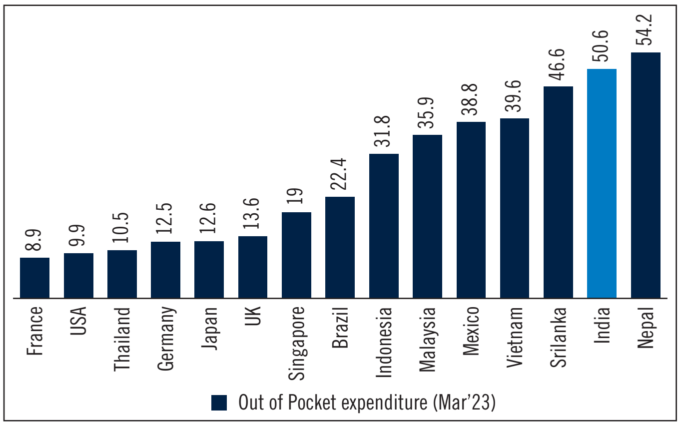
Overall, Healthcare industry in India grew at 23% CAGR over CY16-CY22, driven by growing coverage and higher spending by public and private sector companies. Further, the industry has significant scope for improvement driven by aging population, widespread lifestyle diseases, rising incomes, higher spending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



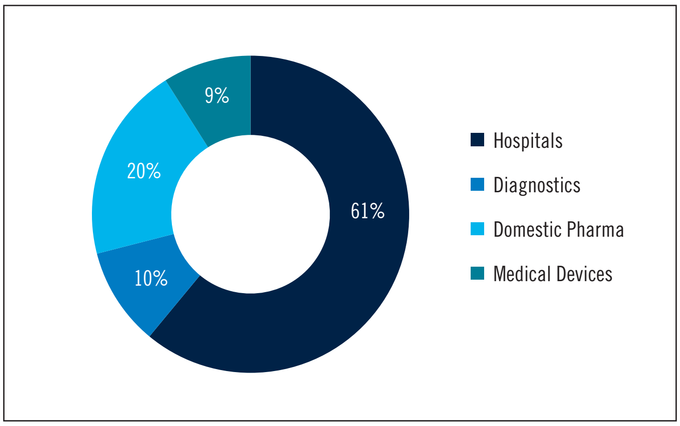
Source: Motilal Oswal Securities



Source: Motilal Oswal Securities

Hospitals

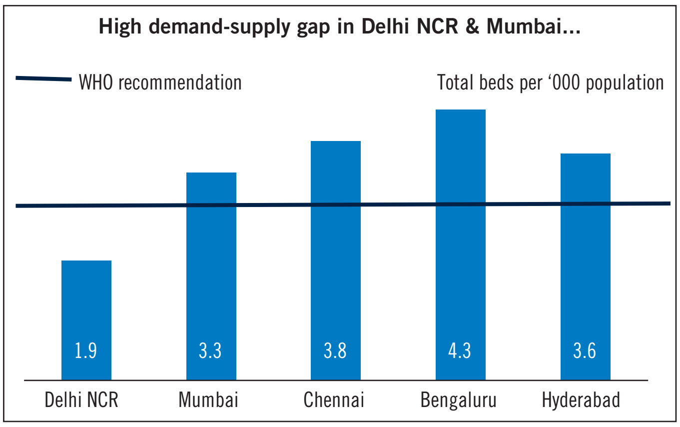
Among the four key components of the healthcare industry, hospitals form the majority share at 61% of the industry. Further, within hospitals, the in-patients contribute majority of the revenue.



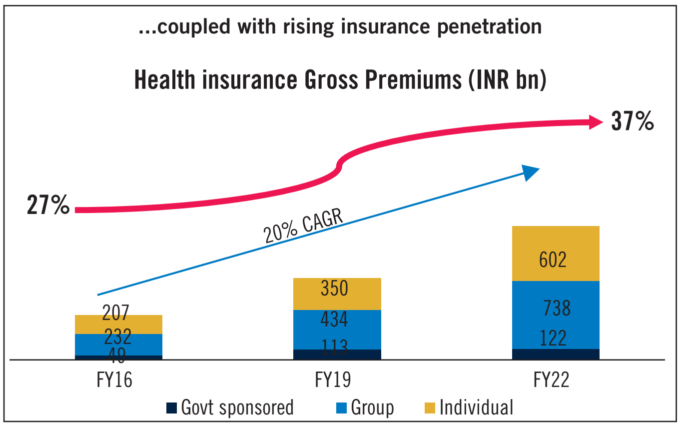
Source : Motilal Oswal Securities

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

From the desk of Portfolio Manager

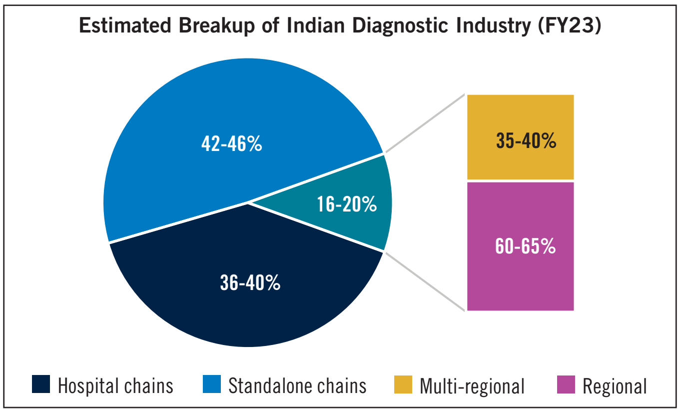
Higher complexity procedures at relatively lower treatment costs, coupled with clinical outcomes comparable to the best in the world, have resulted in medical tourism gaining momentum in recent years. Some of the factors that make India an attractive destination for quality treatments are the presence 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.



Source : Motilal Oswal Securities

We have an exposure of ~22% in Healthcare in the fund – Artemis Medicare (~11%), Sanofi India (~4%) and IOL Chemicals and Pharmaceuticals (~3%) are our top Healthcare holdings.

INVESTMENT PROCESS

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

Operating leverage:

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

Turnarounds:

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

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

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

Portfolio Details

Top 15 Holdings of PGIM India Equity Portfolio as on December 31st, 2023

Date of Purchase	Equity	Sector	%
12-Apr-23	Artemis Medicare Services Ltd	Health Care	11.08%
06-Nov-23	ICICI Bank Ltd	Financials	5.54%
26-Sep-23	Central Depository Services India Ltd	Financials	5.12%
02-Feb-23	Radico Khaitan Ltd	Consumer Staples	5.07%
08-Aug-23	Hawkins Cooker Ltd	Consumer Discretionary	4.75%
21-Mar-23	HDFC Asset Management Company Ltd	Financials	4.64%
20-Jan-23	Maruti Suzuki India Ltd	Consumer Discretionary	4.47%
15-Sep-23	Sanofi India Ltd	Health Care	4.11%
29-Nov-23	Coforge Ltd	Information Technology	3.83%
05-Sep-23	Gmm Pfaudler Ltd	Industrials	3.80%
24-Nov-23	Endurance Technologies Ltd	Consumer Discretionary	3.68%
05-Jul-23	NTPC Ltd	Utilities	3.53%
30-Aug-23	IOL Chemicals And Pharmaceutical Ltd	Health Care	3.21%
14-Jun-23	Kirloskar Pneumatic Company Ltd	Industrials	3.11%
01-Feb-23	Max Financial Services Ltd	Financials	3.09%
	Total		**69.03%**

Portfolio Details as on December 31st, 2023

Weighted average RoE(Ex financials)	12.39%
Portfolio PE (FY2025E)	27.60
Portfolio dividend yield	0.84%
Average age of companies (Years)	38

Portfolio Composition as on December 31st, 2023

Large Cap	15%
Mid Cap	17%
Small Cap	60%
Cash	8%

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 Equity Portfolio Performance as on December 31st, 2023

Period	Portfolio	NIFTY 50 (TRI)#
1 Month	2.84%	7.94%
3 Months	6.03%	10.85%
6 Months	16.38%	13.81%
Since inception date 19/01/2023	35.36%	20.90%

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

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

	Current Year* April 1, 2023 to December 31, 2023
PGIM India Equity Portfolio (Net of all fees and charges levied by the portfolio manager)	36.30%
Benchmark - NIFTY 50 (TRI)#	26.39%

*Absolute returns for YTD period.
#w.e.f. April 1, 2023, the benchmark has changed to the Nifty 50 (TRI) from Nifty 500 TRI.
Performance is calculated on Time Weighted Rate of Return (TWRR) basis.
The portfolio is live from Jan 2023 and thus the performance is shown for 1 and 3 months period.
To view the portfolio's performance relative to other Portfolio Managers, you may click here.

The above holding represents top 15 holdings of PGIM India Equity Portfolio based on all the client portfolios under PGIM India Equity Portfolio existing as on the date stated above, excluding any temporary cash investments. The above holdings do not represent the model portfolio being offered to the clients (including prospective clients) and hence it is possible that these stocks may not be part of the portfolios constructed for new clients. The above holdings are for illustration purpose only and it should not be considered as investment recommendation or analysis or advice or opinion from the Portfolio Manager on the above mentioned stocks. The above portfolio holdings are provided on an "as is" basis, and the Portfolio Manager makes no express or implied warranties or representations with respect to the accuracy, completeness, reliability, or fitness of the above portfolio holdings or any financial results you may achieve from their use. In no event shall the Portfolio Manager, its directors or employees or its affiliates have any liability relating to the use of the portfolio holdings.

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

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

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

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