

# PGIM India Equity Portfolio – Overview

## PGIM India Portfolio Management Services (PMS)

- Launched in July 2013
- Experienced investment team
- Offer equity strategies with a focus on Growth at Reasonable Price (GARP)



## PGIM India Equity Portfolio

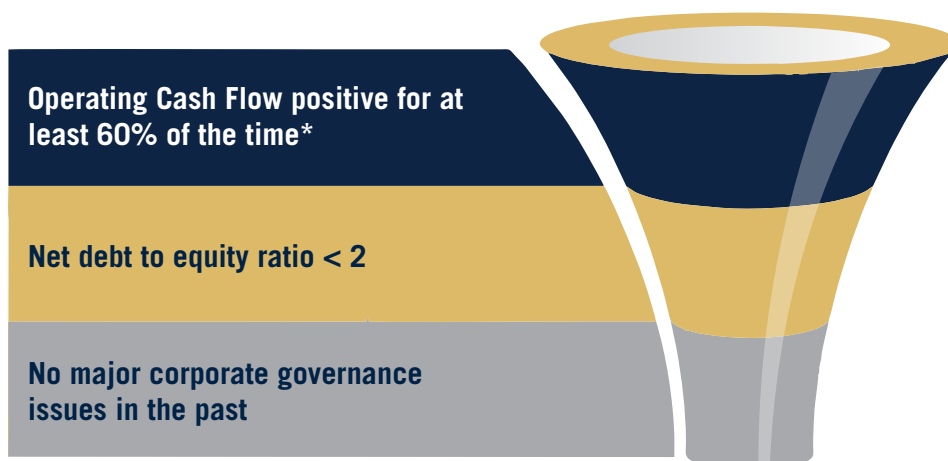
### Product Proposition

The portfolio will aim to invest in companies with a visibility of earnings growth over the next three to four years, with an aim for capital appreciation. The focus will be to look for:

- Beneficiaries of operating leverage (largely due to capacity expansion/ spare capacity)
- Companies at the bottom of a business cycle and a beneficiary of a recovery in the sector/ company.

### Portfolio Construction Process

We are conscious about downside business risk management and strength of the businesses while investing. We have three filters for including stocks in our investment universe:



\* Nifty 50, Nifty Midcap 100, BSE 200 and top 250 stocks defined by AMFI are automatically a part of the investment universe.

The portfolio manager shall have a leeway of up to 10% to invest in stocks beyond the above-mentioned process.

## Portfolio Build Up Strategy

The portfolio will comprise 20-25 businesses, which demonstrate the following qualities:

### Downside business risk management:

- 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

### Growth businesses with at least one of the following characteristics:

- Well capitalised
- Strong in technology/ knowledge-based businesses.

### The returns made in a stock generally comprises of 2 components:

- The ability of the company to deliver earnings growth in the future
- The stock is reasonably valued, which gives the chance of a PE re-rating

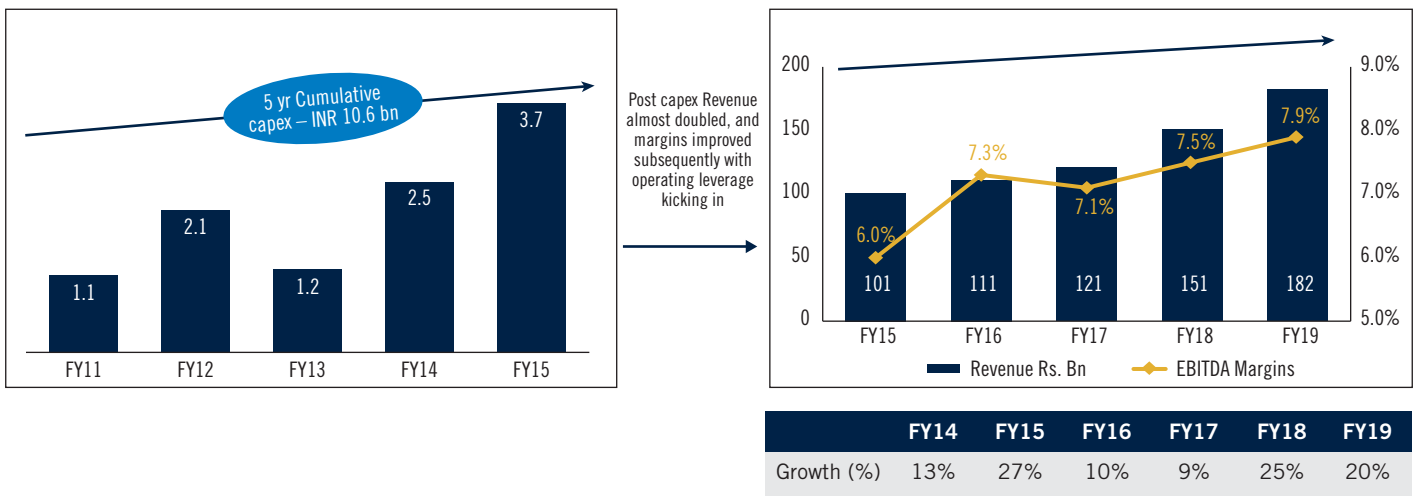
The team will consistently focus on companies that can grow their earnings in 4-5 years. This is easier said than done, as predictability of earnings over a 5 year is reasonably challenging. The portfolio construction process shall entail a framework, where the probability of this happening is more likely. To accomplish this, the focus will be on:

### Operating leverage:

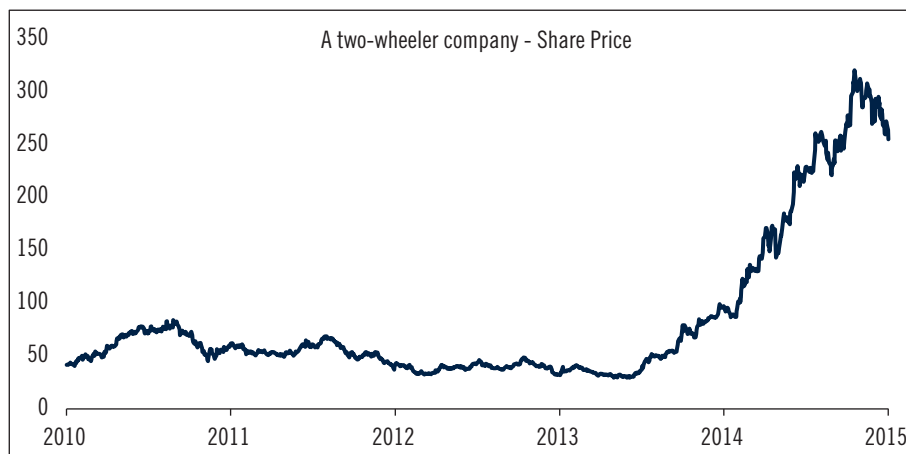
- Our focus will be on companies that are entailing capital expenditure or are more or less done with it.
- Increased gross block will likely lead to increased utilisation over the next 3-4 years.
- Increased utilisation leads to better topline, and a tight control on costs lead to strong operating leverage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

Below are a couple of examples where operating leverage has played out in the past:

#### 1. A two-wheeler company

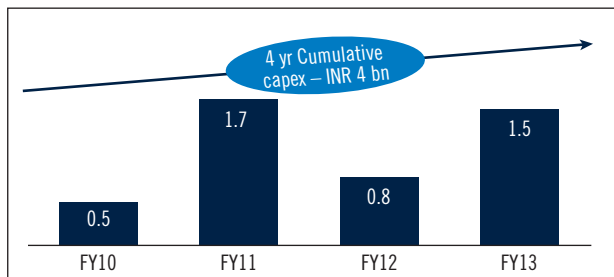


Source: Spark Capital, Internal research

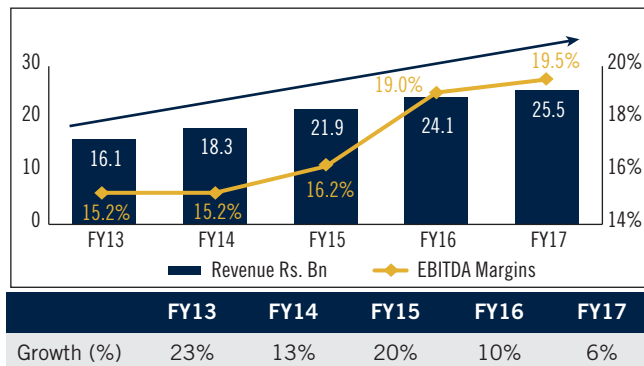


Source: ACE Equity, Internal research. Share price is shown for the period 1 Apr 2010 to 1 Apr 2015

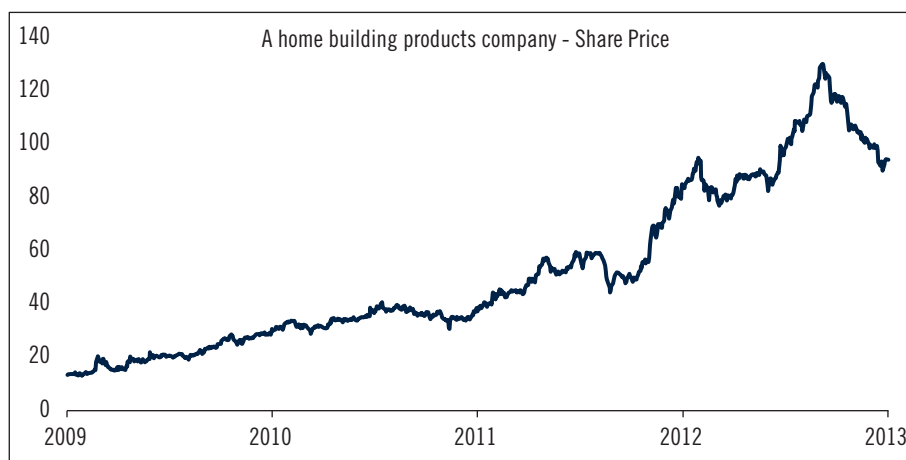
## 2. A home building products company



Post capex Revenue almost doubled, and margins improved subsequently with operating leverage kicking in



Source: Spark Capital, Internal research



Source: ACE Equity, Internal research. Share price is shown for the period 1 Apr 2009 to 1 Apr 2013

### 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 may start coming back over the next 3-4 years, these companies are likely, not only see stocks returns in tandem with earnings recovery, but also the chance of a PE expansion, if bought at subdued valuations.

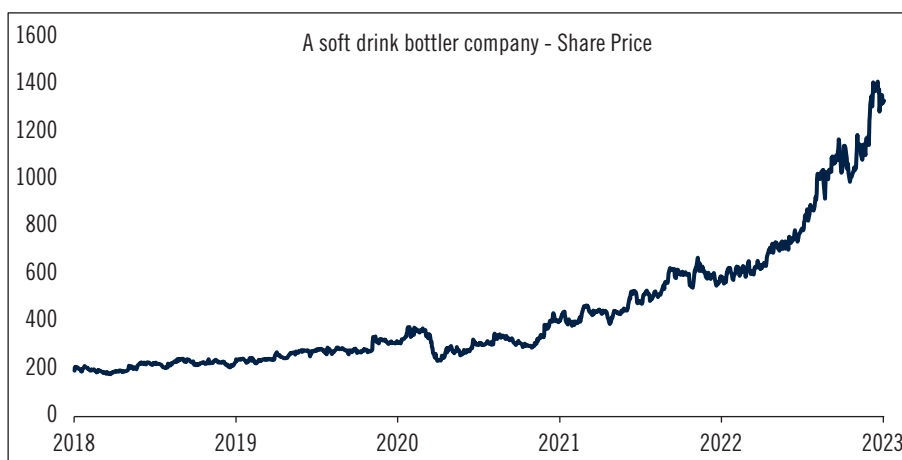
To ensure that these turnarounds, both sectors and stocks payout, the focus will be on turnarounds where:

- 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 (refer section on Downside business risk)

The portfolio will try to focus on buying business that benefit from the earnings visibility part and could see the added benefit of valuation expansion.

Below are a couple of examples of past turnaround stories:

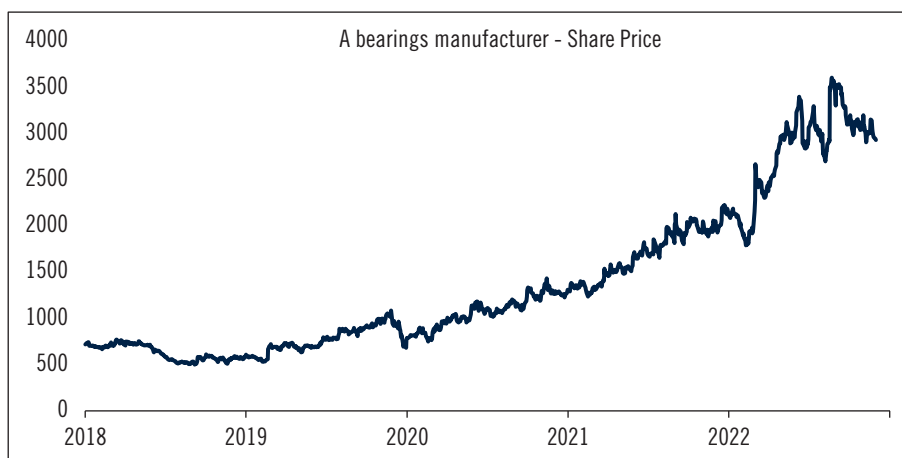
### 1. A soft drink bottler company



Period	Dec-18	Dec-19	Dec-20	Dec-21	Dec-22
Sales (Rs. cr)	5105	7130	6450	8823	13391
EBITDA (Rs. cr)	1017	1462	1215	1677	2788
PAT	431	692	429	1006	2023

Source: Bloomberg, ACE Equity, Internal research. Share price is shown for the period 1 Jan 2018 to 2 Jan 2023

## 2. A bearings manufacturer



Period	Mar-19	Mar-20	Mar-21	Mar-22	TTM
Sales (Rs. cr)	1664	1617	1411	2203	2671
EBITDA (Rs. cr)	289	363	252	510	587
PAT	149	246	143	327	408

Source: Bloomberg, ACE Equity, Internal research. Share price is shown for the period 2 Apr 2018 to 1 Mar 2023

**Valuation:** The valuation followed in the strategy is PEG, where P/E is divided by the predicted earnings growth over the next 3 years. This ensures that, every business, whether strong structural businesses or cyclical commodities moves through a common denominator framework and inevitably reduces the Affect Bias.

The Portfolio manager will have a leeway of investing maximum 20% of the funds in businesses outside the above themes.

**Benchmark:** Nifty 50 TRI

## About Us

PGIM India Portfolio Management Services (PMS) is a business of PGIM India Asset Management Private Limited, a wholly-owned business of PGIM. PGIM, with \$1.2 trillion (over Rs. 99 lakh crore) in assets under management, is the global asset management business of the US-based Prudential Financial, Inc (PFI). PGIM India Portfolio Management Services offers customized investment solutions to high net worth individuals and institutional investors. Led by a highly experienced investment team, we offer equity strategies with a focus on long-term growth and value generation.

Prudential Financial, Inc (PFI) is a Fortune 500 (current rank 55) entity with interests in insurance, asset management with an AUM of \$1.4 trillion (nearly Rs. 116 lakh crore). With a 145-year legacy of strength and stability, PGIM employs over 1400+ investment professionals serving in 18 countries and follows a multi-manager model with strong capabilities beyond traditional assets.

## Why PGIM India Portfolio Management Services

At PGIM India Portfolio Management Services (PMS), we seek to build on the strength and stability of a 145-year legacy. India is one of the fastest emerging economies in the world today. The Indian economy has many world class businesses listed on the stock exchanges and many more scaling up.

Through the three strategies viz. PGIM India Core Equity Portfolio, PGIM India Phoenix Portfolio and PGIM India Equity Portfolio, we offer investors an opportunity to benefit from our investment management expertise.

At PGIM India PMS, we seek to deliver superior risk-adjusted returns for our clients in the long-term, by identifying and investing in mispriced opportunities without compromising on the quality of the portfolio holdings. Our differentiated approach to portfolio construction ensures low overlap with traditional mutual fund offerings. We have a proven track record, backed by a highly experienced investment team, strong research and operational capabilities. We have in-house, best in class, IT systems and back-office support for our clients. We believe in consistent client interactions to build a sustainable long-term relationship and offer monthly performance reporting and fund manager outlook to keep clients updated on their investments.

Disclaimers and risk factors: PGIM India Asset Management Private Limited is registered with SEBI (Portfolio Managers) Regulations, 1993 [as repealed and superseded by SEBI (Portfolio Managers) Regulations, 2020]. This Document is for information purpose only. This Document and the Information do not constitute a distribution, an endorsement, an investment advice, an offer to buy or sell or the solicitation of an offer to buy or sell any securities/ schemes or any other financial products/investment products (collectively "Products") mentioned in this Document or an attempt to influence the opinion or behavior of the Investors/Recipients. Any use of the information contained herein for investment related decisions by the Investors/ Recipients is at their sole discretion & risk. Please read the Disclosure Document and the agreement along with the related documents carefully before investing. Investments in Products are subject to market risks, various micro and macro factors and forces affecting the capital markets and include price fluctuation risks. There is no assurance or guarantee/ warranty that the objectives of any of the Products will be achieved. The investments may not be suited to all categories of Investors/ Recipients. Investors/ Recipients must make their own investment decisions based on their own specific investment objectives, their financial position and using such independent professional advisors, as they believe necessary, before investing in such Products. The Client can avail the Portfolio Management Services directly from the Portfolio Manager without any recourse to distributors.

©2023 Prudential Financial, Inc. (PFI) and its related entities. PGIM, the PGIM logo, and the Rock symbol are service marks of Prudential Financial, Inc., and its related entities, registered in many jurisdictions worldwide.