

Reliance PMS – Emerging India Portfolio

June 2018

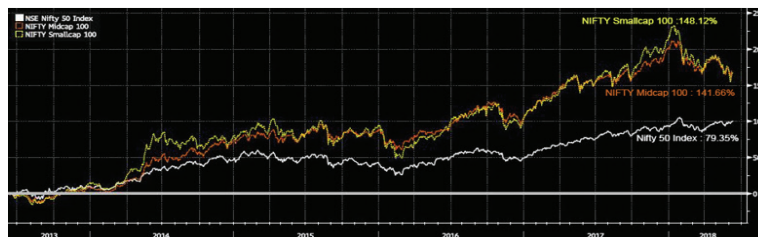
“Delivering Alpha”

Mid Cap and Small Cap indices have seen a marathon rally for nearly 5 years to reach all-time highs have been witnessing price corrections in recent months.

Correction an Investment Opportunity

Indices	YTD	1-Year Return	3-Year Return	5-Year Return
Nifty Small Cap 100 Index	-14.69%	9.02%	40.70%	148.12%
Nifty Mid- Cap 100 Index	-10.45%	7.96%	43.41%	141.66%
NSE Nifty 500 Index	-1.27%	11.54%	33.84%	98.98%
NSE Nifty 100 Index	1.52%	11.64%	30.16%	87.13%
NSE Nifty 50 Index	2.87%	11.59%	27.29%	79.35%

Note: Past performance may or may not sustain in future. Data as on 31st May 2018



Source: Bloomberg, NSE

While broader markets have fallen marginally by 3-4%, mid cap and small indices have corrected nearly 19% and 15% from their peak. While price correction may be attributed to below reasons

- Mutual Fund re-categorisation by SEBI
- Uncertain global cues and geo-political concerns
- Fed rate hike
- Rising crude oil prices
- Falling rupee

Both mid-cap and small cap stocks have been great wealth creators over the last 5 years. In our view this correction is a small blip and provides an investment opportunity in the long term. Strong consumption across urban and rural segments and government led capex has helped the economy to grow at 7.4% last quarter. We continue to remain extremely positive on the Indian economy and would use this correction as an investment opportunity

Positive Factors Supporting Long Term Growth

- ▶ India remains the fastest growing major economy in the world with GDP growth projected at 7.4% for FY 19
- ▶ India’s exports expected to record 15% growth to touch USD 350 BN by FY 19
- ▶ Bank credit grew at its fastest pace in 4 years and bank mortgage continues to grow at over 18% per annum
- ▶ India is expected to double farm income by 2022 boosting consumption in semi-urban and rural segments
- ▶ Robust performance of manufacturing and service sector is encouraging the investment climate in India

Source : RBI

We believe green shoots are evidently visible across select sectors and economic activity is seeing a meaningful recovery

Economic Greenshoots

GST Collections

- o GST bill expected to add 2% to India’s GDP
- o Revenue collections at INR 1.03 TN in April 18

Source : RBI, PMEAC

Automobiles

- o Medium & Heavy Commercial Vehicles (M&HCVs) grew by 12.48% and Light Commercial Vehicles grew by 25.42% during April-March 2018
- o Three Wheelers sales grew by 24.19% in April-March 2018 while passenger car sales registered a growth of 28.65%

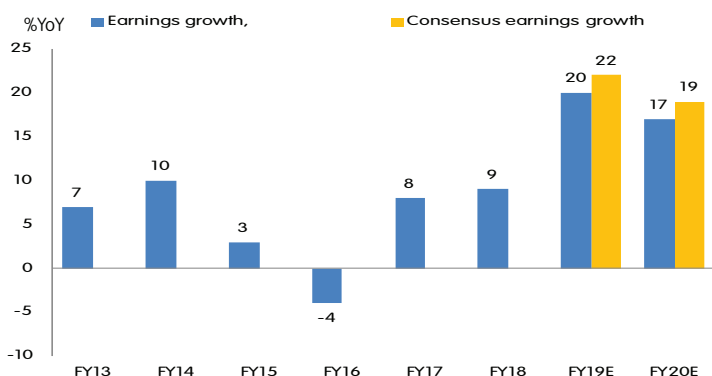
Loans & Mortgages

- o Credit penetration to increase meaningfully as populations getting richer
- o Home-loan outstanding at banks has grown by 13.5% y-o-y and mortgage Loans are expected to post a 18% CAGR in the near future

Road & Transportation

- o Domestic passenger traffic registering ~25% growth generated from Tier- II & III cities
- o The pace of building highways has picked up at 27 km per day between April-January of 2017-18 compared with 18.30 km per day in the same period last fiscal

Earnings Growth Expectations - 20% Earnings Growth for Nifty in FY 19-20 backed by sustained economy growth



Source: Bloomberg, CLSA

Data suggest investing in quality stocks for long term may deliver attractive returns directly proportional to the earnings growth in the future.

Performance Analysis – Emerging India Portfolio (EIP)

We believe the economy is showing promising signs of recovery and ample green shoots are visible across sectors. This correction should be an ideal investment opportunity to generate long term portfolio returns.

Portfolio Performance

Date	EIP	NIFTY	CNX MIDCAP
1 Month	-5.9%	0.0%	-6.8%
3 Months	0.2%	2.3%	-3.9%
6 Months	-5.3%	5.0%	-5.0%
1 Year	6.5%	11.6%	8.0%
Since Inception 07/03/2017	18.1%	15.9%	11.8%

Investment Framework

			FY 18		
Positioning	Return	Avg Market Cap (INR Cr)	ROE (%)	PAT Growth (%)	P/E
Mid Cap	High	8,678	22	29	28

Past performance may or may not sustain in future. Portfolio returns are post expense; investor level returns can be different from the portfolio level returns based on the time of investment, and expense charged. Data as on 31st May 2018. Investment framework as per bloomberg consensus estimates.

Investment Framework

Reliance Portfolio Management Services (RPMS) endeavours to, generate relatively outsize returns by creating **Benmark Agnostic Concentrated** portfolios of **Quality Stocks**, based on **fundamental research** driven **Bottom Up stock picking**.

BUSINESS POTENTIAL	CORPORATE GOVERNANCE	EARNINGS TRACK RECORD	PROMOTERS OWNERSHIP	CAPITAL ALLOCATION
<ul style="list-style-type: none"> Growth Opportunity (Scale) Sustainable Competitive Advantage 	<ul style="list-style-type: none"> Treatment of Minority Shareholders Promoters Track Record Accounting Red Flags 	<ul style="list-style-type: none"> Consistent Performance across Business Cycles Revenues, EBITDA, Profit Growth Margin Profile Return of Equity (ROE) Return on Assets (ROA) 	<ul style="list-style-type: none"> Equity Dilution Share Pledge 	<ul style="list-style-type: none"> Unrelated Diversification Leverage

Stellar Performance : EIP Earnings Growth

Sr No.	Company Name	% Assets	Profit after Tax			Profit after Tax		
			Q4FY17* hr- Mn	Q4FY18* hr-Mn	YoY Growth	2017	2018	YoY Growth
1	DCB	8%	529	642	21%	1997	2453	23%
2	VIP Industries	8%	191	351	84%	852	1268	49%
3	TATA Elxsi	7%	628	703	12%	1733	2400	38%
4	IIFL Holdings	6%	1865	2483	33%	6884	9112	32%
5	Whirlpool	6%	744	914	23%	3105	3507	13%
6	Cholamandalam	5%	2911	2196	33%	7187	9741	36%
7	Suprajit	5%	406	564	39%	1241	1386	12%
8	Ashoka Buildcon	5%	654	1055	51%	1761	2370	35%
9	Star Cement	5%	1259	1079	-14%	1947	3307	70%
10	Cyient	5%	985	1205	22%	3438	4021	17%

Wt Avg Earnings Growth

Q4FY18 : 38%

FY18 : 29%

Above stocks may or may not be part of future portfolio, Data as on 31st May 2018.
*Q4 FY17 and *Q4 FY18 are results for quarter ending March 31.

Key Holdings in EIP

Security	% Assets	Security	% Assets
Development Credit Bank Ltd	7.8%	Cholamandalam Investment and Finance Company Ltd	5.2%
VIP Industries Ltd	7.4%	Suprajit Engineering Ltd	5.1%
Tata Elxsi Ltd	6.7%	Ashoka Buildcon Ltd	5.1%
IIFL Holdings Ltd	6.3%	Star Cement Ltd	4.9%
Whirlpool of India Ltd	6.0%	Cyient Ltd	4.7%

We believe markets have delivered superior returns over the long term and portfolio returns can be generated by investing in good businesses at correct valuations. Our view is long term earnings growth is the correct investment style of identifying good businesses, with inherent fundamental strength thus providing higher returns than broader markets in the longer term

Disclaimer

Currently Equity Portfolios largely follows investment philosophy as given above. Emerging India Portfolio operates under Absolute Freedom Option strategy endeavors to manage portfolio within above limitations but it may or may not be able to restrict its portfolio within above stated restrictions due to changes in various market factors. Also above investment strategy may change depending upon changes in various Investment Decision Making Factors. In case, if there is any major change in the above strategy it would be communicated in this product note update and/or other product mailers.

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Absolute Freedom Option A highly flexible investment option, which offers a diversified investment portfolio across large cap, mid cap, small cap and micro cap stocks. This option follows an aggressive approach to portfolio construction with focus on highly active money management, using cash as an investment tool; and derivatives as a hedging tool.

The portfolio Manager is not responsible or liable for any loss resulting from the operations of the Products/ Portfolios. Each portfolio will be exposed to various risks depending on the investment objective, investment strategy and the asset allocation. Non-Diversified Portfolio tends to be more volatile than diversified portfolio. Please read the Disclosure Document before investing.

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