

Amplify opportunities

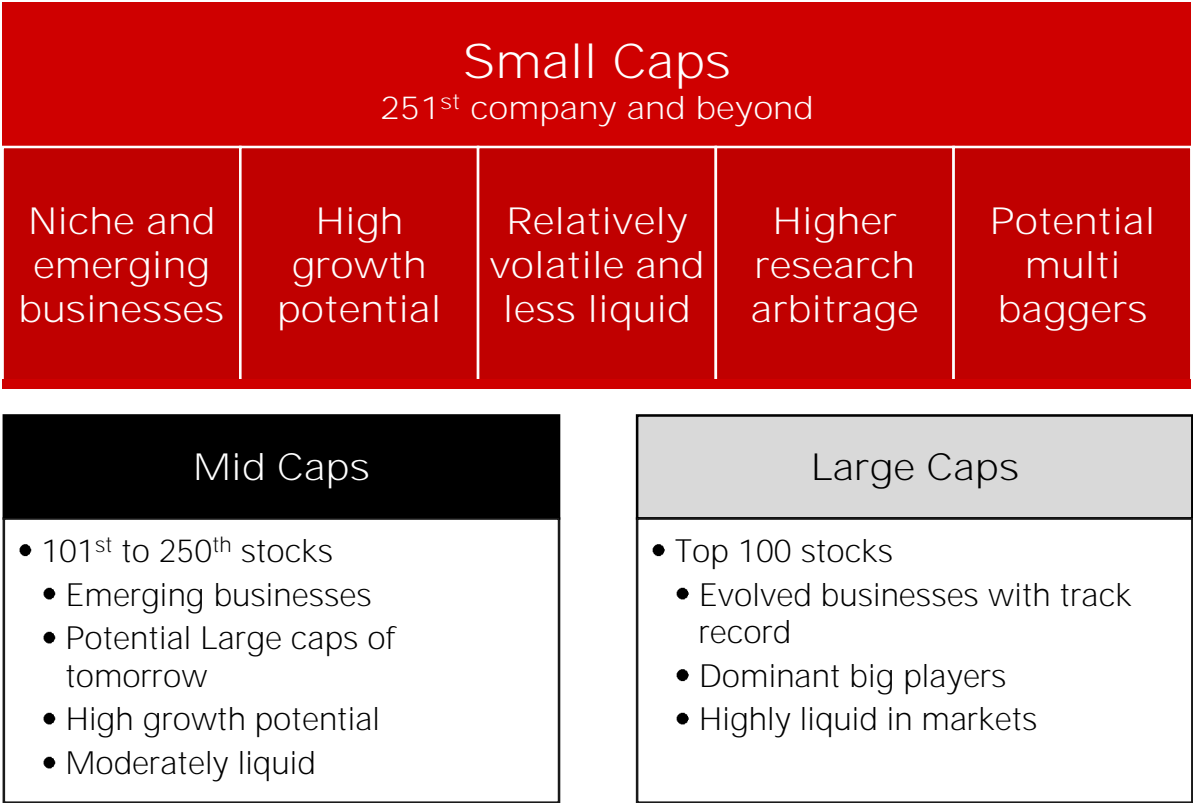
# HSBC Small Cap Fund



# What are Small Caps?

Small Cap Pearls

Emerging businesses with an opportunity to generate higher Alpha



Small Cap advantage – emerging businesses with growth potential

The asset allocation and investment strategy will be as per the strategy features. Large-caps are represented by the top 100 stocks on full market capitalisation basis & Mid caps are represented by the next 150 stocks based on full market capitalisation and Small Cap stocks beyond 250<sup>th</sup> stock based on full market capitalisation basis as per AMFI list.

# How we define “Emerging Businesses?”

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✓ Emerging businesses are typically smaller size businesses which are in their early stage of development

These businesses have potential to grow their revenues and profits at a higher rate as compared to broader market

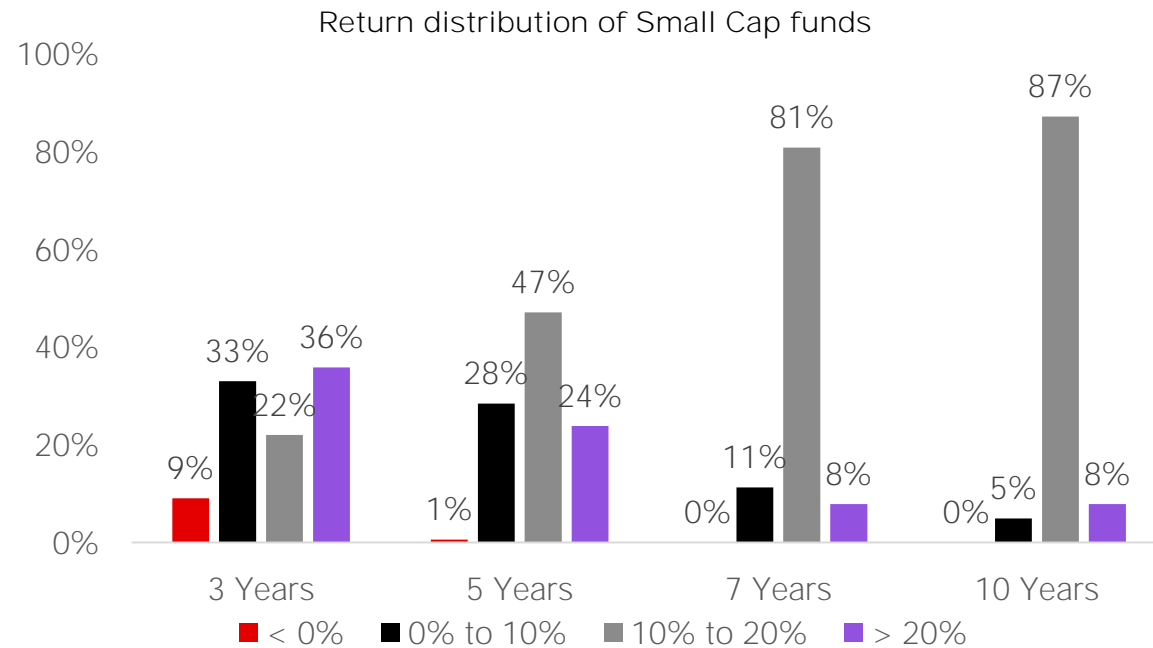
Management team of such companies are generally more hands-on and are key contributors to the prospects of the company

They typically fall into one of the following categories

- Companies in evolving industries
- Smaller players in a large industry catering to niche segments
- Smaller players looking to acquire share of the unorganized players in a large industry

# Why Small Caps?

## Potential alpha generators



Large under owned universe of small cap stocks

## Small Cap Features



Multi-baggers of tomorrow



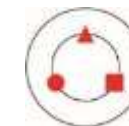
High earnings growth potential



Under-researched and under-owned



Opportunities to spot pricing anomalies



Diversity and alpha potential

Small Caps offer more probability of delivering high alpha

For illustration purpose only. Source: NSE, CRISIL, Data as at December 2022, Small Cap Funds are represented by weighted average index of 23 Small Cap funds representing the Small Cap category, Return distribution based on a daily rolling returns of various holding periods. Period considered: 1 January 2005 – 31 December 2022, Returns of Small cap funds is average of funds from respective category. Past performance may or may not be sustained in the future.

## Expanding universe of stocks with higher profitability

- Market cap of the 250<sup>th</sup> company currently is Rs.17000Cr vs 10000Cr in FY17.
- Number of companies between Rs.1000Cr to Rs.17300Cr market cap : 730 (vs 600 in FY17).

	FY17	FY23
PAT	Number of Companies	Number of Companies
Greater than Rs.100Cr	232	449
Greater than Rs.250Cr		214
Greater than Rs.500Cr		99
Greater than Rs.1000Cr		36

The stock universe continues to see additions, growth in profits and market cap

Source: Bloomberg

## However, stock selection is extremely critical in this segment...

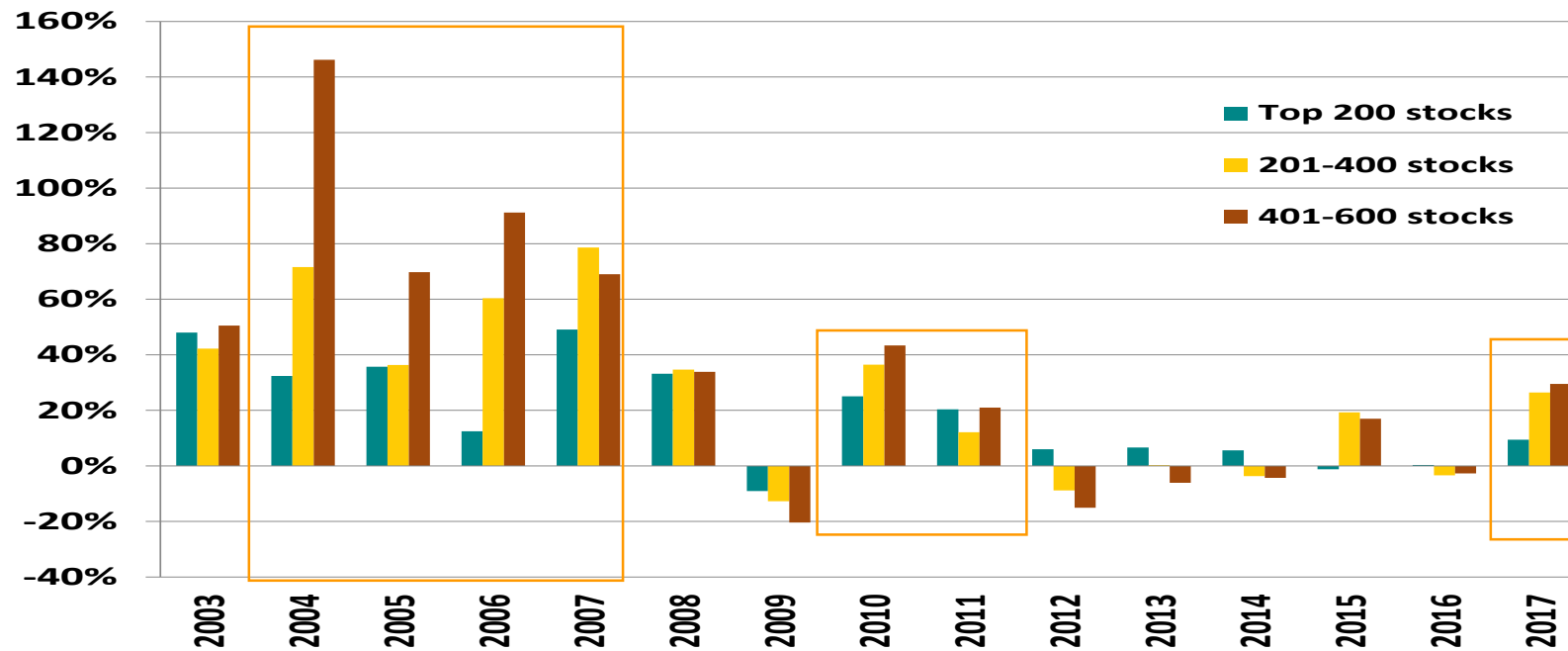
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- Though smaller companies have the potential to grow at a higher rate, not all smaller companies would grow to become mid or large cap over time.
- The key is to identify companies with
  - Scalable opportunities
  - Competent management / promoters
  - Strong corporate governance practices
  - Balance sheet strength
  - Moats

Such businesses when bought at reasonable valuations could offer significant upside potential over the medium to long term

# Smaller companies tend to do well during earnings recovery...

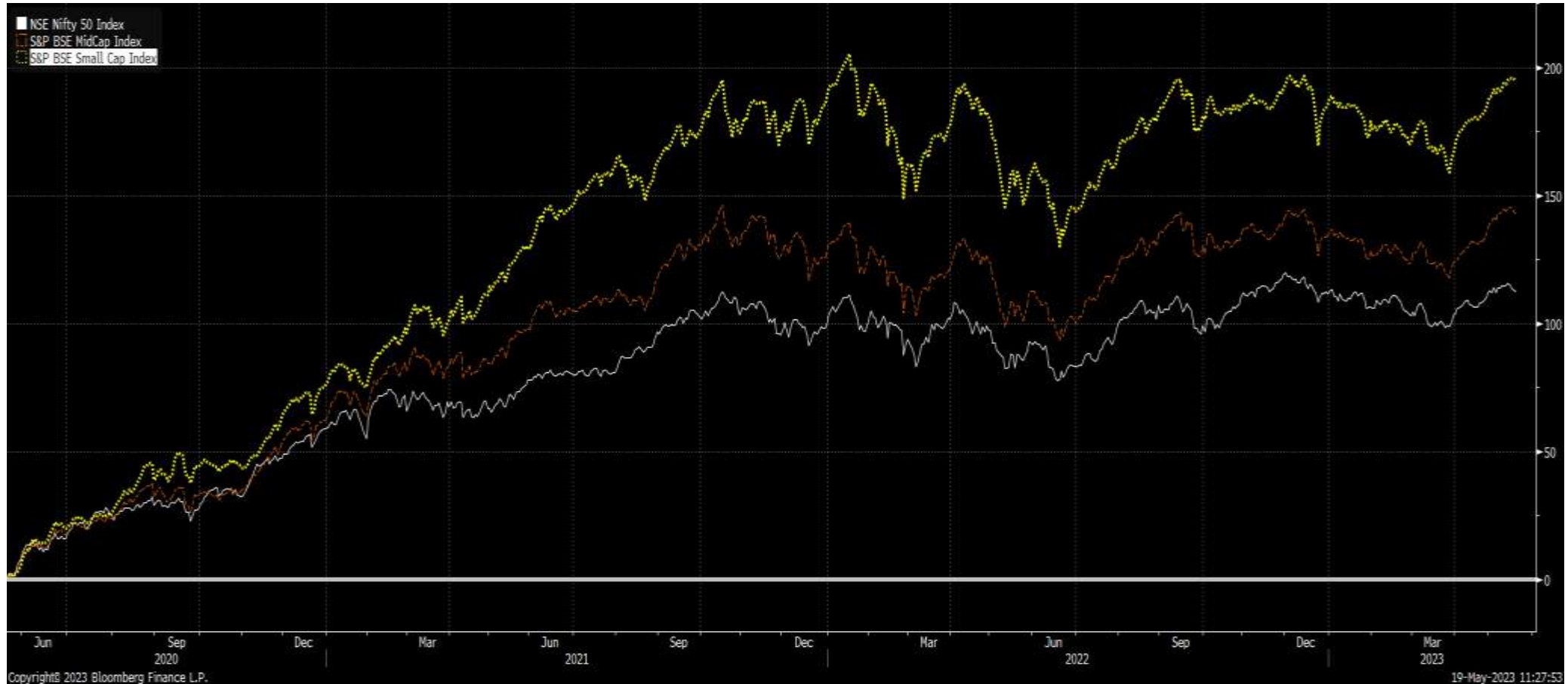
YoY earnings growth for companies across different market cap segments



When earnings recover, smaller companies tend to post significantly higher profit growth

Source: Ace Equity. Based on aggregate earnings growth for each of the financial year. Market cap ranking of Top 200, 201-400 and 401-600 is based on market capitalization at the end of respective financial year.

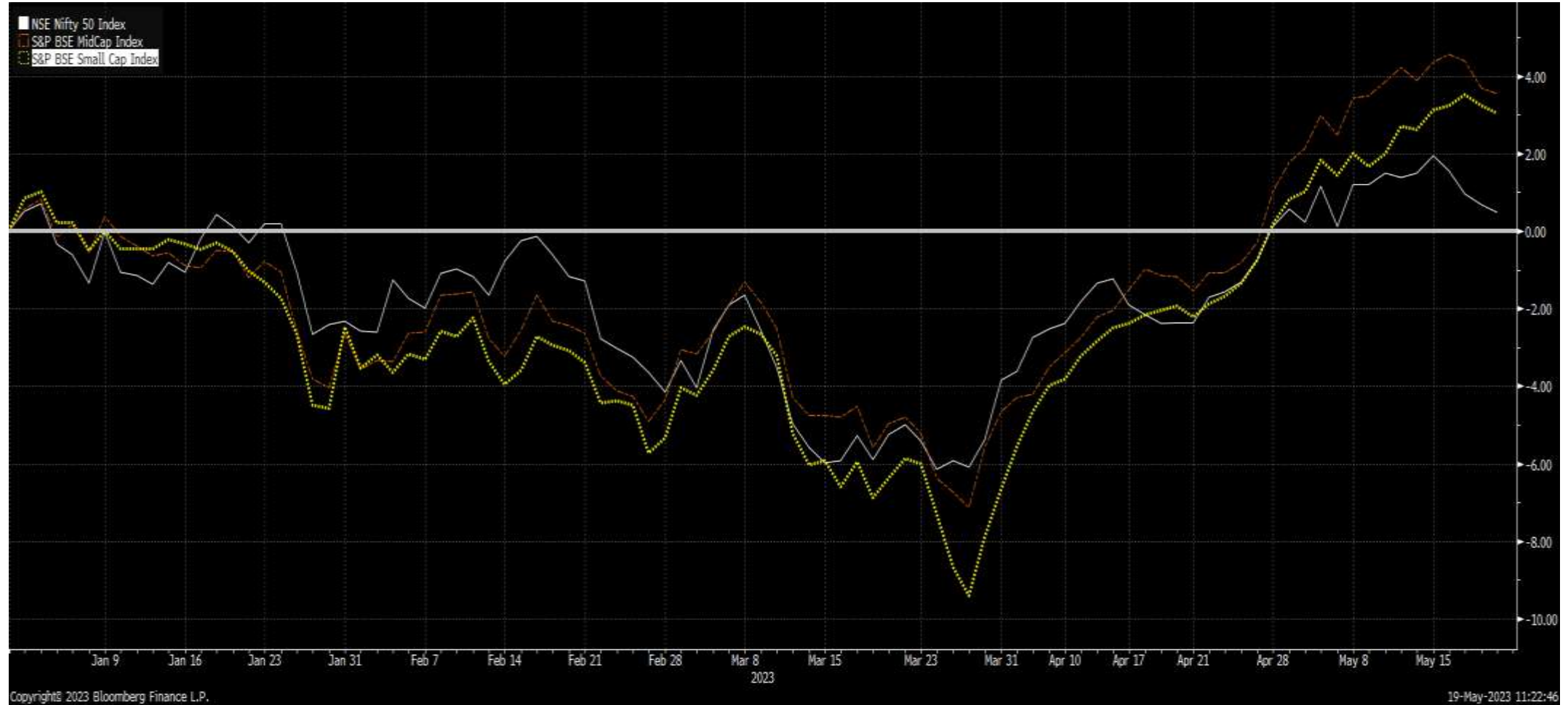
3 Yr – Small caps have outperformed the other indices.



Source: Bloomberg



## YTD performance of the indices – Volatility between Dec 22 and Mar 23.



Source: Bloomberg

## HSBC Small Cap Fund

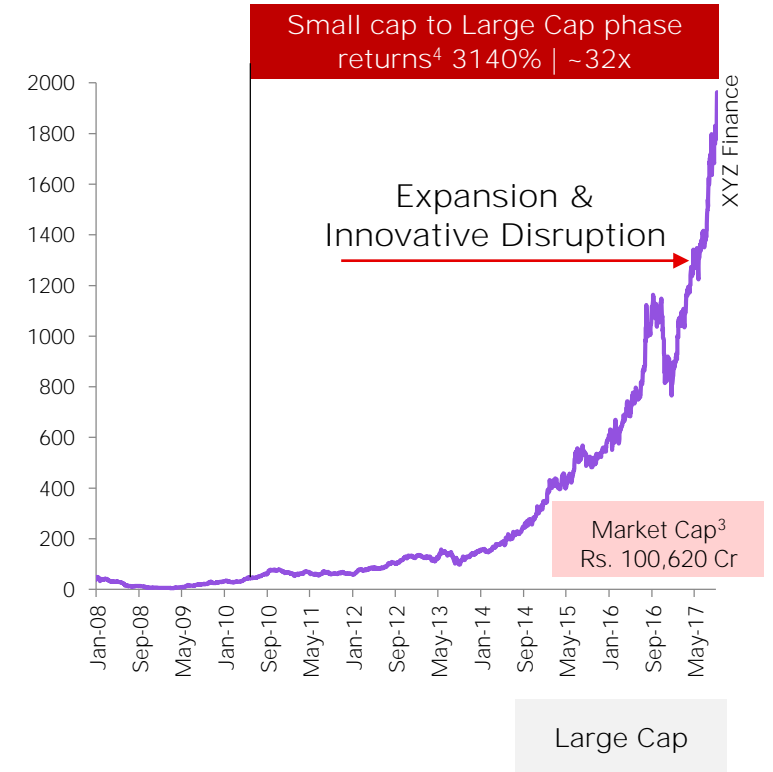
Fund Category	Fund Manager	Benchmark <sup>1</sup>	Inception Date	AUM
Small Cap Fund	Venugopal Manghat and Vihang Shankar Naik	NIFTY Small Cap 250 TRI	12 May 2014	Rs. 9000 Cr

- Follows bottom-up stock selection
- Actively managed portfolio
- Pre dominantly growth oriented but focus is on buying at reasonable price.
- Exposure to mid caps in the portfolio to lend stability
- Relatively low churn of portfolio

# Small Cap to Large Cap progression

## Journey of a Small cap stock – XYZ Finance

### XYZ Finance stock progression

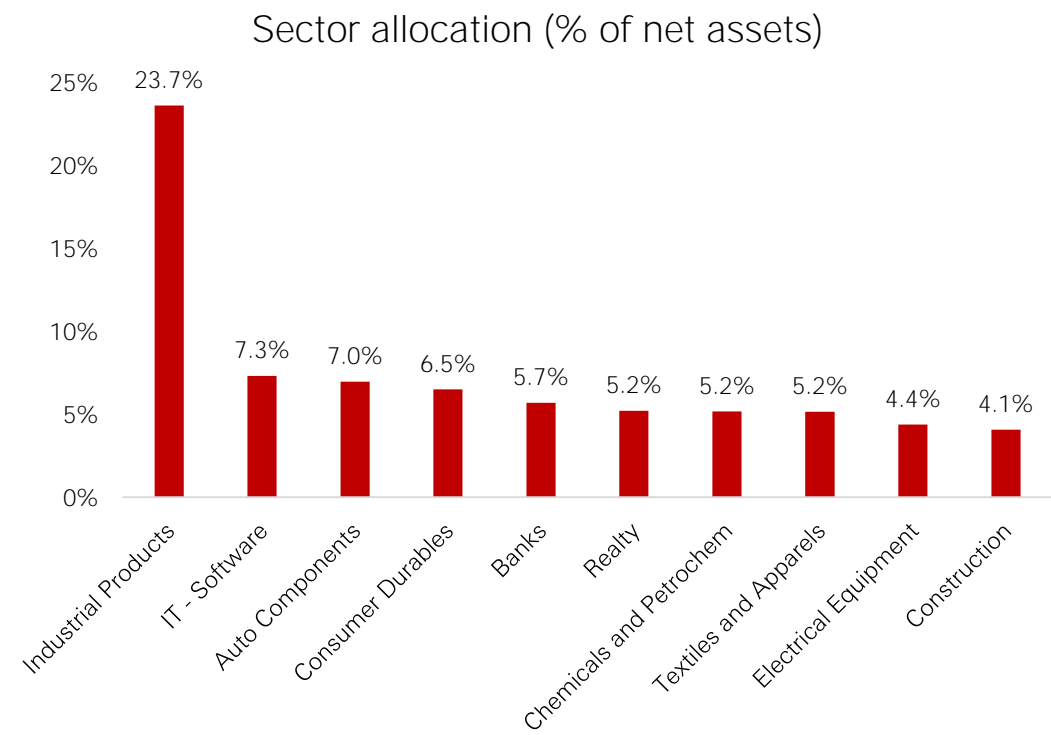


## Benefit through the journey of Small Cap companies to Large Cap

Source: Bloomberg, The above chart and names of the stock is provided for illustration purpose only. Market Cap as on 1 : 9 Mar 09, 2: 31 Jul 10, 3 : 28 Aug 17, 4. Price movement is from 1 Aug 10 to 31 Aug 17, The above information is for illustrative purpose only and it should not be considered as investment research, investment recommendation or advice to any reader of this content to buy or sell investments. The Fund may or may not have any future position in these stocks. Past performance may or may not be sustained in the future.

# Portfolio positioning

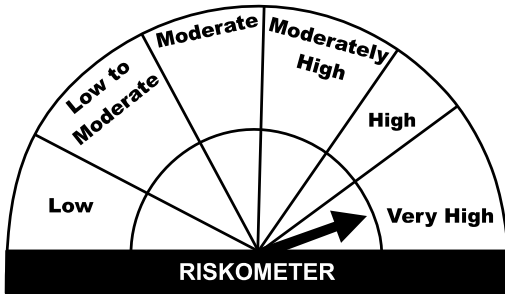
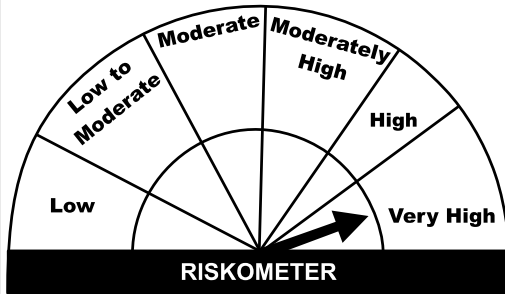
## Sector allocation



Portfolio (Top holdings)	% of net assets
KPR Mill Limited	3.37%
Apar Industries Limited	3.34%
KEI Industries Limited	2.59%
JK Lakshmi Cement Limited	2.58%
Carborundum Universal Limited	2.54%
Indian Bank	2.50%
Grindwell Norton Limited	2.43%
Sonata Software Limited	2.35%
KPIT Technologies Limited	2.31%
Cera Sanitaryware Limited	2.27%

Source: HSBC Asset Management India, Data as at March '23

**HSBC Small Cap Fund (Erstwhile L&T Emerging Businesses Fund) - Small Cap Fund** – An open ended equity scheme predominantly investing in small cap stocks

Scheme name and Type of scheme	*Riskometer of the Scheme	Riskometer of the benchmark
<p>This product is suitable for investors who are seeking*:</p> <ul style="list-style-type: none"> <li>• Long term capital appreciation</li> <li>• Investment predominantly in equity and equity-related securities, including equity derivatives in Indian markets with key theme focus being emerging companies (small cap stocks); and foreign securities</li> </ul> <p>(Benchmark : S&amp;P BSE 250 Small Cap Index TRI Index)</p>	 <p>Investors understand that their principal will be at Very High risk</p>	

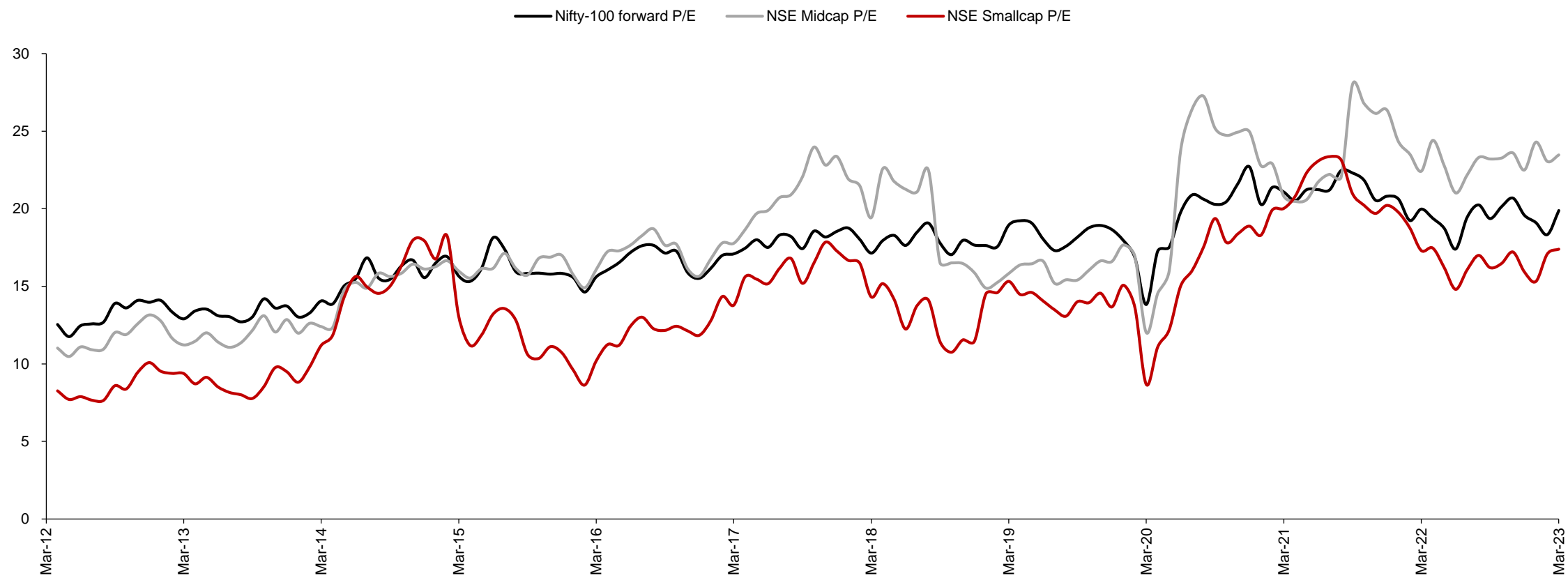
\* Investors should consult their financial advisers if in doubt about whether the product is suitable for them.

Note on Risk-o-meters: Riskometer is as on 31 March 2023, Any change in risk-o-meter shall be communicated by way of Notice cum Addendum and by way of an e-mail or SMS to unitholders of that particular scheme

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# Annexure

# Valuations have corrected

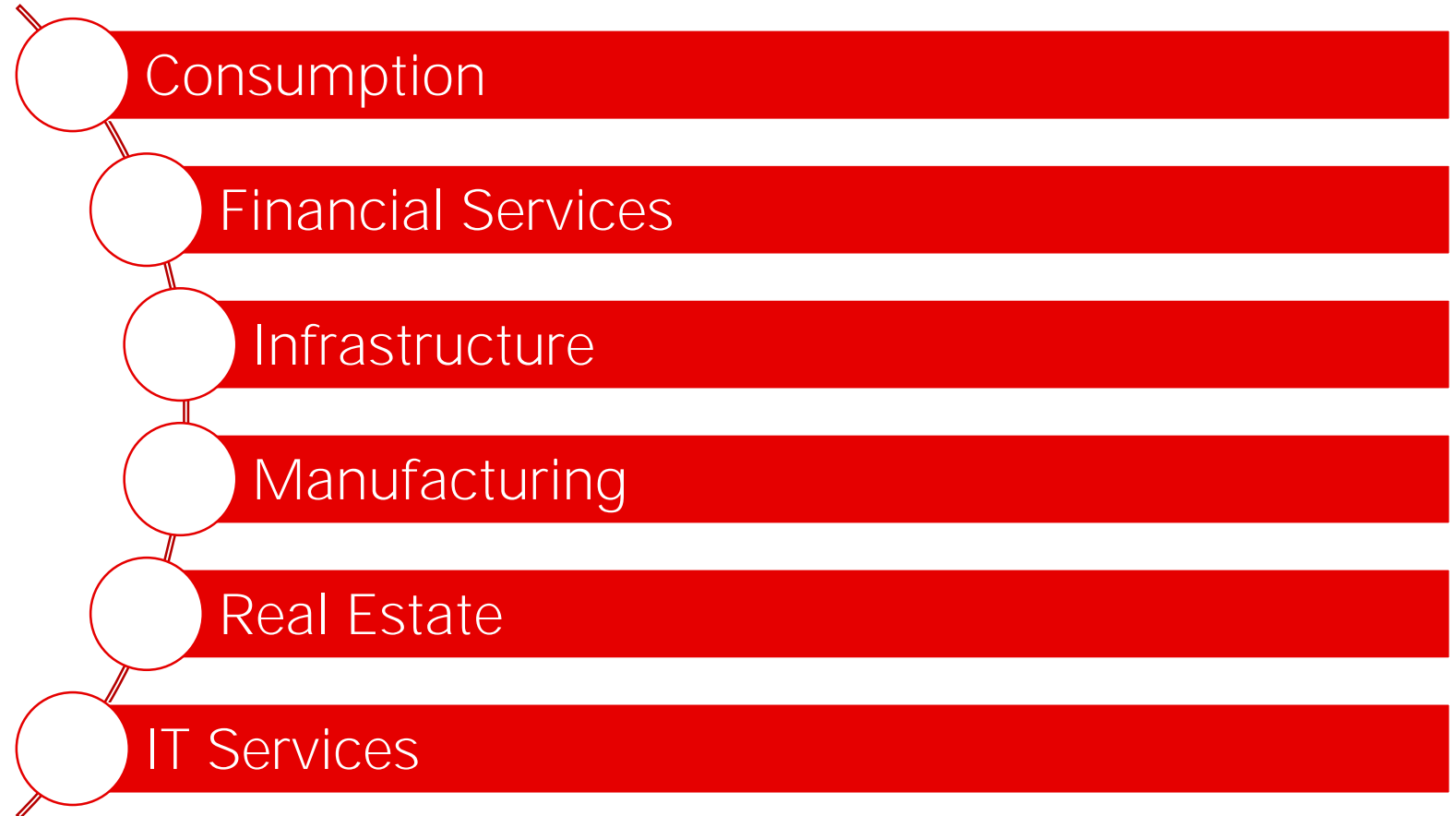


Source – Kotak, 1 year forward PE, Data as at Feb '23, 1-year forward P/E of Nifty100, NSE Mid Cap and NSE Small Cap indices, calendar year-ends, 2012-23 (X),

# India – Multiple investment themes at play

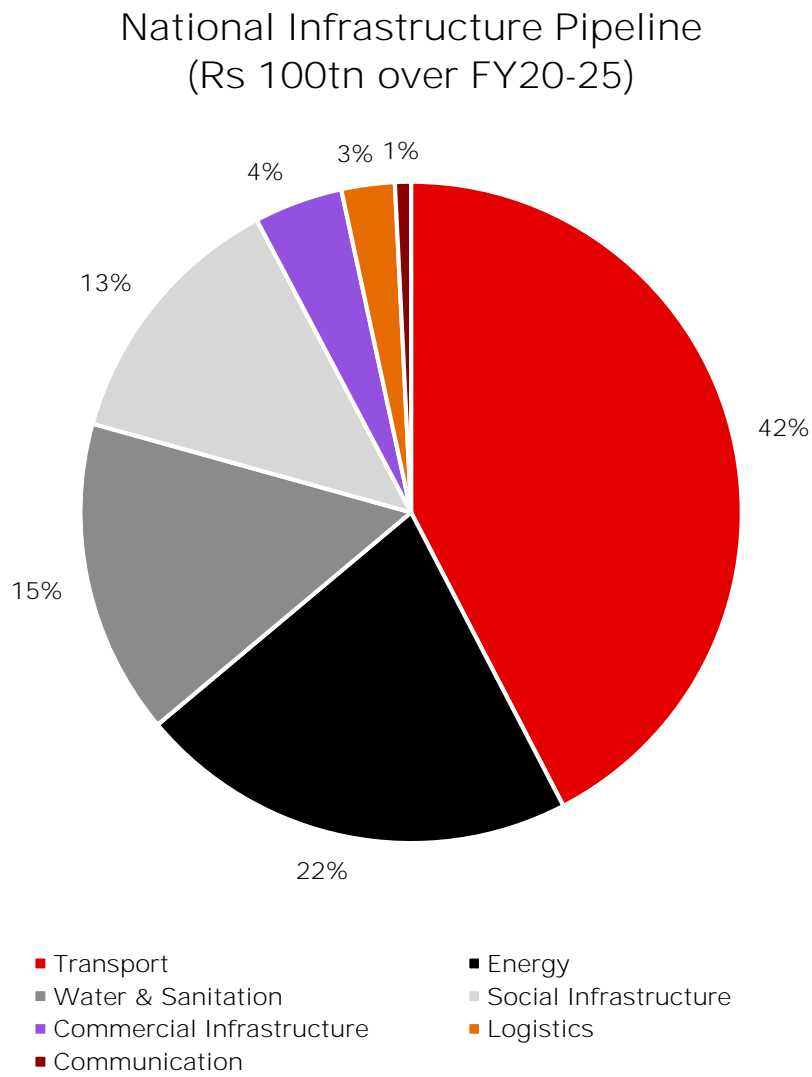
Several parts of the economy are likely to benefit from India's rapid growth

- Banking sector asset quality issues have been resolved and is poised for a pick-up
- Real Estate after a decade long slowdown looks set for a recovery
- Manufacturing is also likely to benefit from new drivers like clean energy which would lead to development of new industrial ecosystems.





Infrastructure remains a key focus area for the government



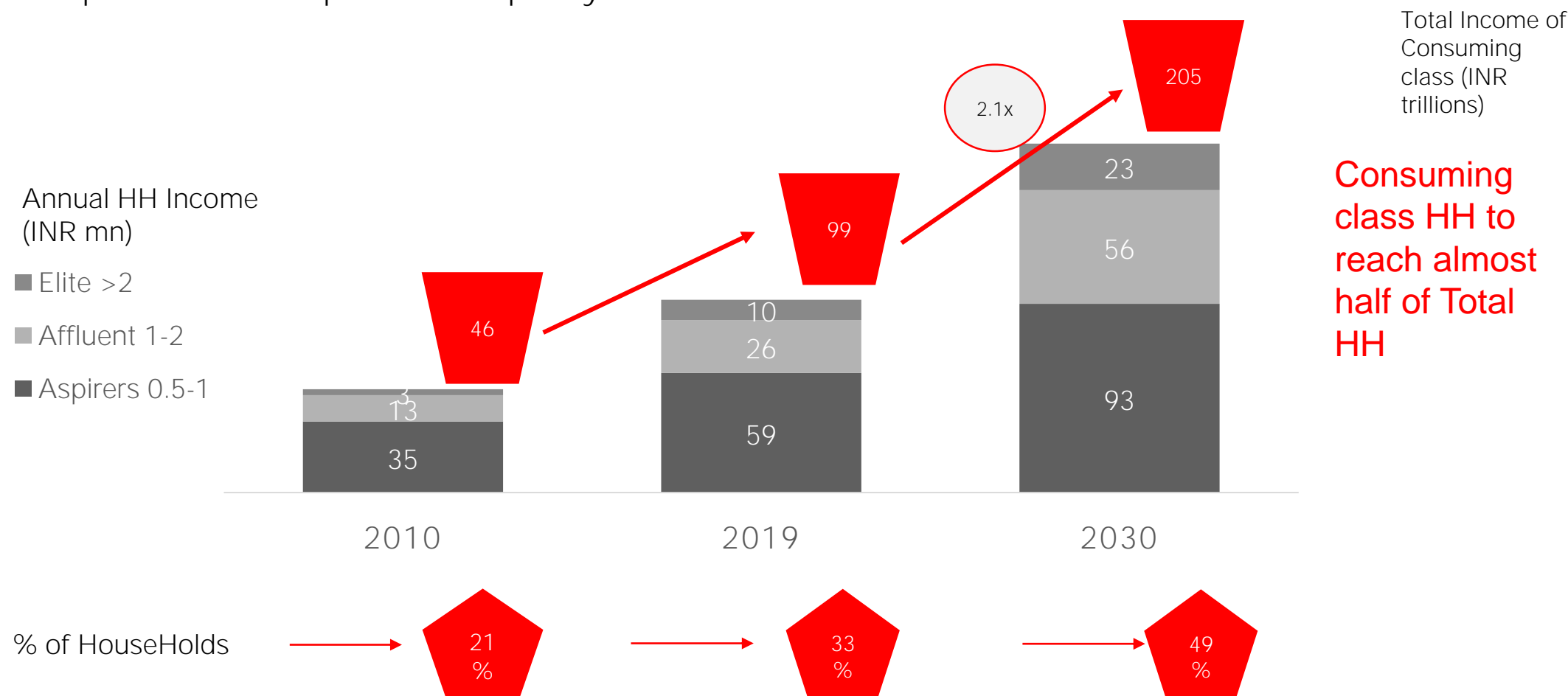
Railways	Logistics	Power	Urban Infra
<ul style="list-style-type: none"><li>• Dedicated Freight Corridor</li><li>• Increase rail share in freight to 45%</li><li>• National Rail Plan</li><li>• 400 Vande Bharat trains over the next 3 years</li></ul>	<ul style="list-style-type: none"><li>• Decrease logistics cost from 14% of GDP to single digit</li><li>• National logistics policy for multi-modal transport</li><li>• Transition to organized to accelerating with GST and E-invoicing compliance</li></ul>	<ul style="list-style-type: none"><li>• Renewable energy target of 500 GW by 2030</li><li>• Power transmission capex of Rs. 2.44Tn by 2030</li><li>• Revamped Distribution Sector scheme of Rs. 3tn to improve performance</li></ul>	<ul style="list-style-type: none"><li>• Budgetary allocation for Housing and urban dev. increased to Rs 943 bn from Rs 265bn in 2015</li><li>• 445Km Metro under construction and another 425Km of approved routes</li></ul>

Source: [indiainvestmentgrid.gov.in](http://indiainvestmentgrid.gov.in)

# Consumption in India remains an exciting opportunity

Consuming class income (Households earning above Rs 0.5mn) of India to double by 2030

Overall consumption market expected to triple by 2030



Source: BCG

# Discretionary spends will take a larger share of that pie

As GDP per capita moves from \$2000 to \$4000

CAGR  
(2019-2030)

8.2%

9.1%

9.6%

9.3%

8.2%

## FMCG

- Packaged Foods
- Beauty & Personal Care
- Alcohol Beverages

## Discretionary

- Fashion
- QSR
- Jewelry
- Footwear
- Ecommerce

## Services

- Healthcare
- Education
- Leisure

## Durables

- White Goods
- Wearables & Hearables

## Transportation

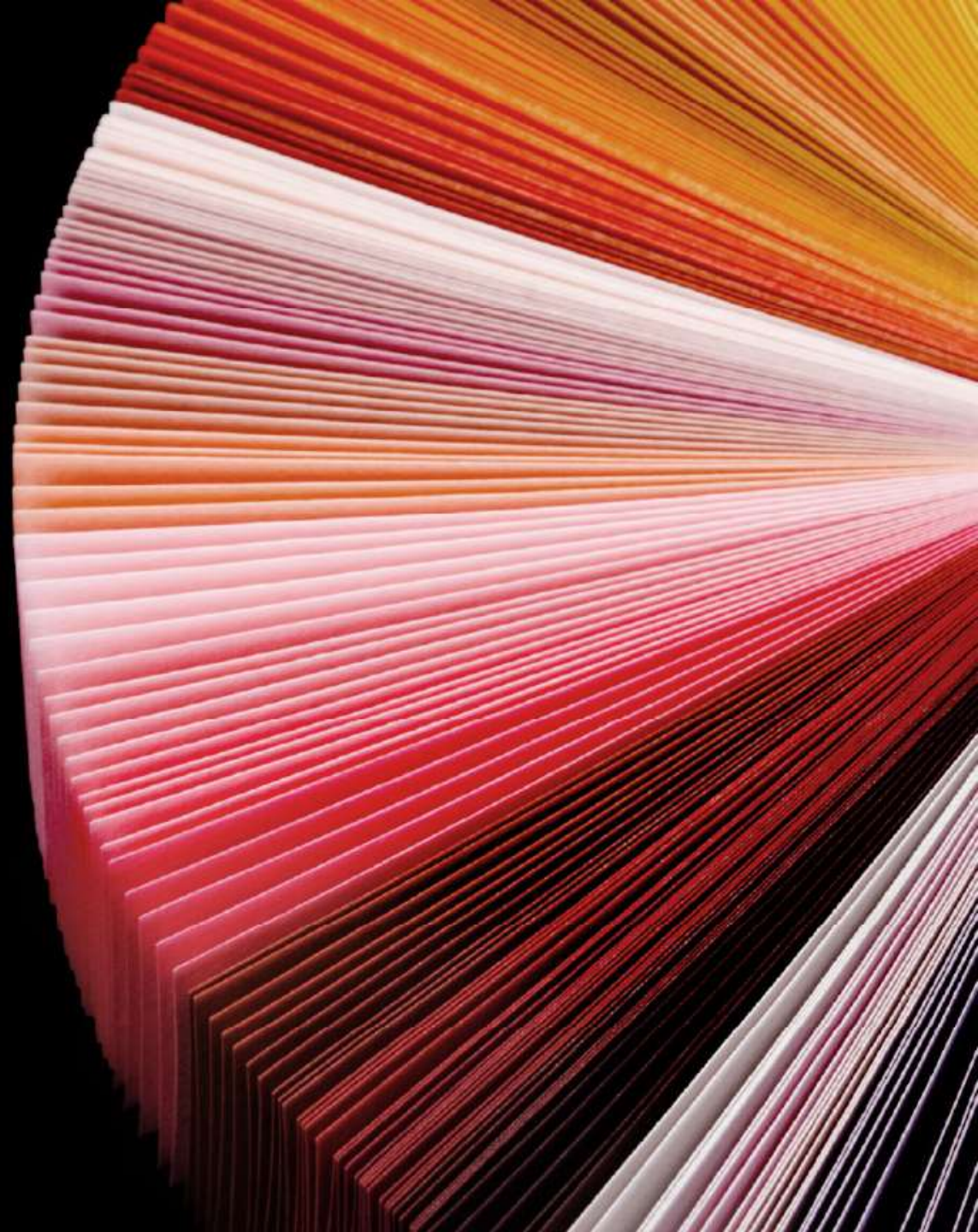
- Autos
- Air Travel

Source: BCG

# HSBC Mutual Fund

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## Equity Investment Process



450+ companies\* covered across sectors & market caps

Large Cap  
Stocks  
coverage -  
95%\*

Mid Cap  
Stocks  
coverage -  
95%\*

Small Cap  
Stocks  
coverage –  
75%\*

Sectors - Auto & Auto comps, Pharma & Healthcare, Paints, Media, Textiles, Consumer Staples, Consumer Discretionary, Durables and bldg materials, Real Estate, O&G Sugar Telecom, Capital Goods, Power & infra, Logistics, Tech Services, Metals, Cement, Banks and lenders, Financial services, Chemical and Paper

\*Large Cap: top 100 stocks on full market capitalisation basis; Mid caps - next 150 stocks based on full market capitalization; Small Cap: Stocks in Nifty 250 small cap index; 437 companies from NIFTY 500 TRI, remaining outside Nifty 500 TRI  
Source: HSBC Mutual Fund

# Stocks Coverage

450+ companies\* covered across sectors & market caps

GICS classification - Sectors	Stocks in Coverage	Stocks in NIFTY 500 Index	% of Coverage
Financials	70	84	83%
Information Technology	28	34	82%
Materials	73	87	84%
Consumer Discretionary	72	79	91%
Energy	11	11	100%
Consumer Staples	26	33	79%
Industrials	71	79	90%
Health Care	48	49	98%
Utilities	14	17	82%
Communication Services	13	17	76%
Real Estate	11	11	100%
Total	437*	501	87%

Source: HSBC Mutual Fund; \*437 companies from NIFTY 500 Index; remaining outside NIFTY 500 Index

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# Equity - Investment Approach

Guiding principles that drive Investment philosophy and approach

## Investment mandate

- Ensures that the fund manager adheres to the investment style stated in the prospectus

## Active fund management

- Focus and conviction on long-term business fundamentals
- Coupled with disciplined yet active fund management generate superior long-term performance

## Research based stock selection

- Focus is on identifying stocks with
  - Strong business fundamentals,
  - Better growth prospects and
  - Undervalued relative to their intrinsic worth

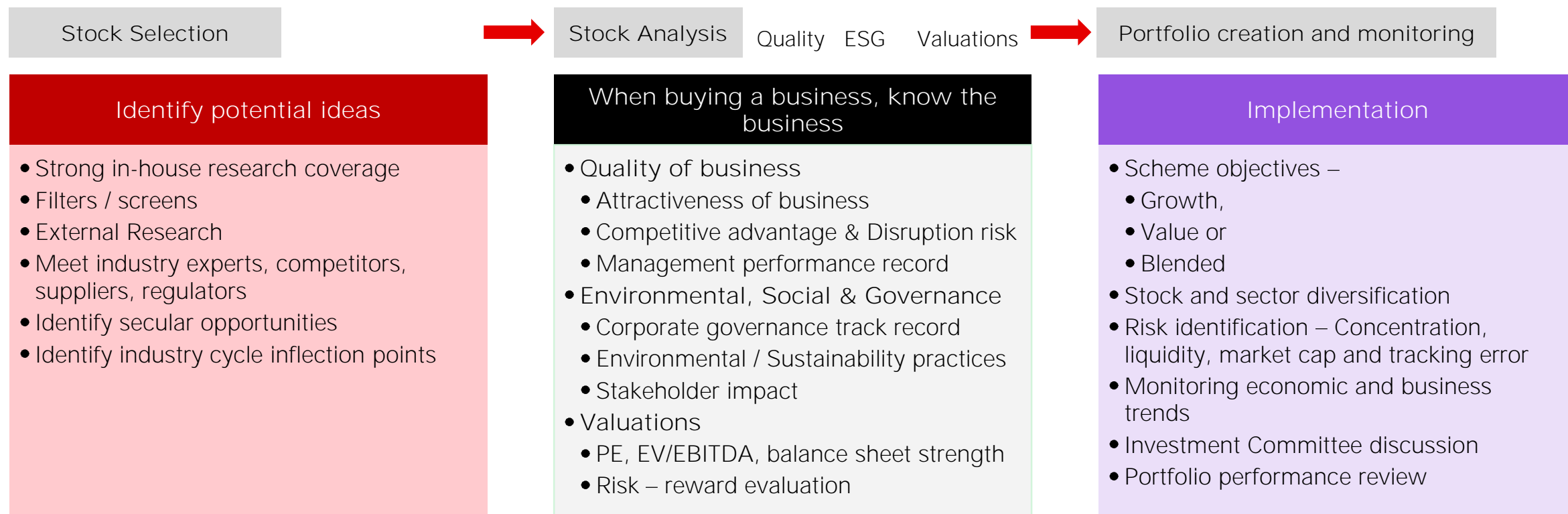
## Robust risk management

- A robust framework for evaluating, monitoring and managing various risks are an integral part of the investment process



# Equity - Investment Process

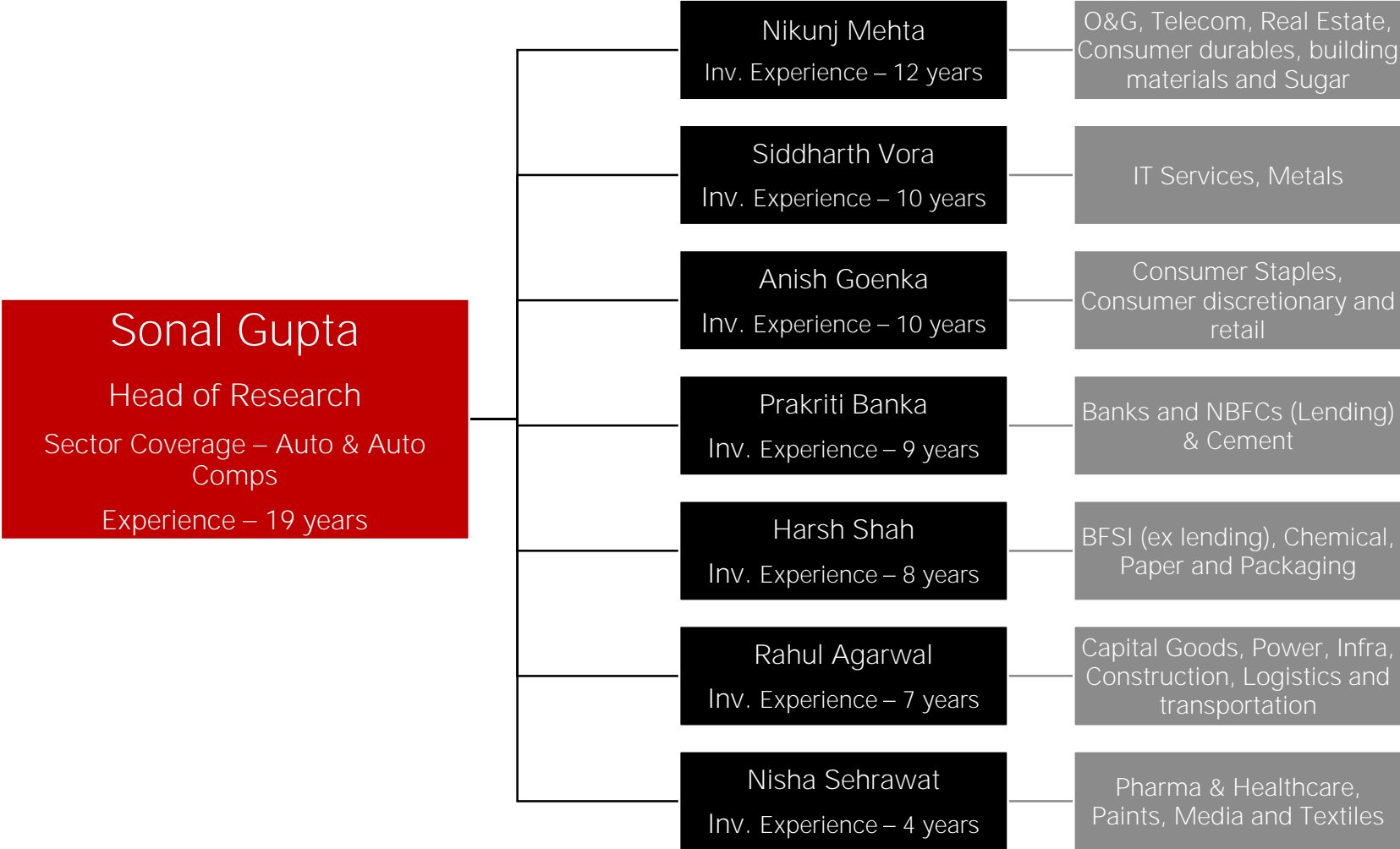
Power of SAPM - Equity investment process comprises three stages





# Equity Research Team

- Team of 8 Analysts with wide sector coverage
- More than 50% of the team with 8+ years investments experience



Source: HSBC Mutual Fund

## Fund Managers Profile

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**Mr. Venugopal Manghat**  
**CIO – Equities, Fund Manager**

Mr. Venugopal Manghat: Fund Manager for HSBC Small Cap Fund. He has an experience of 29 years in Indian equity markets. Prior to becoming CIO Equities at HSBC Asset Management, he was Head Equities at L&T Investment Management.

Before that he was Co-head of Equities at Tata Asset Management. He started his career as a research analyst on the sell side before joining Tata Asset Management. He holds a Bachelor of Mathematics degree and an MBA in Finance.



**Vihang Naik**  
**SVP, Fund Manager**

Vihang Naik: Co-Fund Manager for HSBC Small Cap Fund

Vihang Naik is an equity fund manager at HSBC Mutual Fund. Vihang has an overall experience of 16 years in equity research. Prior to this, he was associated with for L&T Investment Management as equity fund manager. His previous assignments include research analyst in MF Global Sify Securities, Motilal Oswal Securities and SBI Cap Limited.

Vihang is a Certified Financial Analyst and a Bachelor of Management Studies from Mumbai University.

# Disclaimer

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