Trusted for 20

HDFC MF INDEX SOLUTIONS

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HDFC MUTUAL FUND

BHAROSA APNO KA

# Unlock the Realty Potential

## HDFC NIFTY Realty Index Fund

NFO Period:

7th-21st March, 2024

HDFC Asset Management Company Limited has been managing equity Index Solutions for over 20 years.

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For more information call +91 9309806281

# Why invest in the HDFC NIFTY Realty Index Fund?

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- The Realty sector is recovering after a decade-long period of consolidation
- Rising per capita incomes, improving affordability, increased urbanization, government initiatives and RERA^ can drive growth for years to come
- Listed Realty companies are poised to benefit from the above tailwinds. Additionally:
  - Companies have strengthened their balance sheets and improved their profitability metrics over the last 6-7 years
  - There is room to additionally benefit from the continued premiumization and formalization of the sector
- Investors can get exposure to the Real Estate sector through the passively managed HDFC NIFTY Realty Index Fund

^ Real Estate (Regulation & Development) Act, 2016

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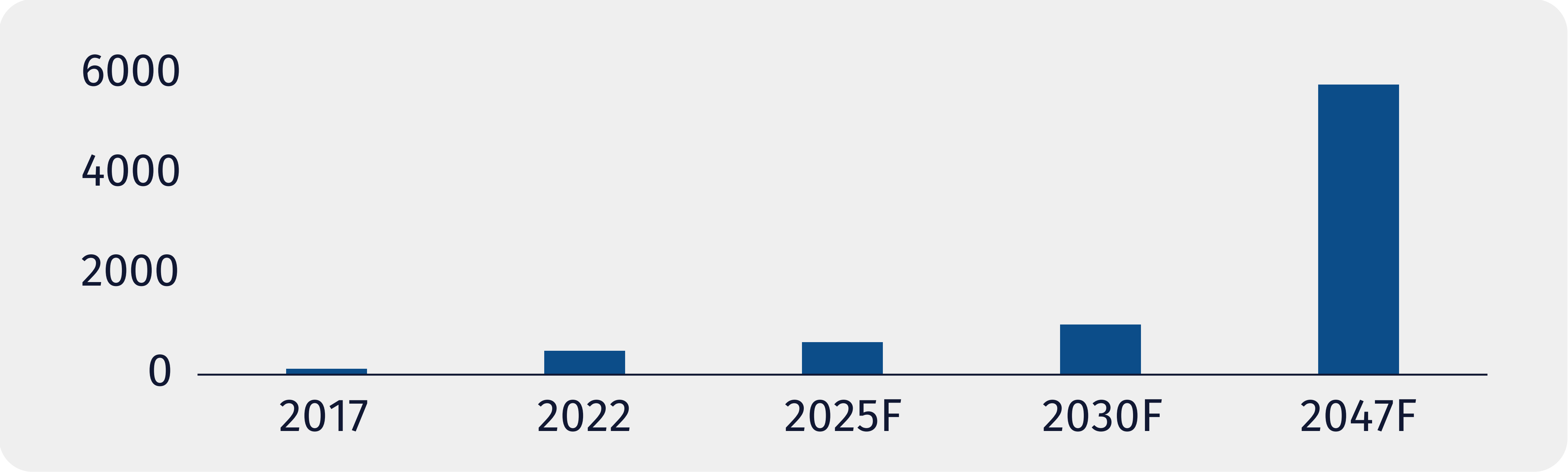
# The Realty sector: Poised for long-term growth

## Large growth runway ahead for Real Estate sector

The Real Estate sector is expected to:

- **Expand** - To $5.8trillion by 2047, from $0.48trn in 2022
- **Contribute** - 15.5% of India's GDP from existing share of 7.3%

## India's Real Estate Market (US$ billion)




## Current situation in India compared to China in 2005
(before the Chinese real estate upcycle)

| | India | | China | |
|---|---|---|---|---|
| | 2020 | 2030E | 2005 | 2015 |
| GDP (US $ tn) | 2.6 | 8 | 2.3 | 11 |
| Urbanization (%) | 35 | 50 | 43 | 54 |
| Home Ownership (%) | 69 | 81 | 65 | 85 |
| Real estate market size (US $ bn) | 200 | 1000 | 195 | 1500 |

## All-time highs

In FY23, home sales of India's residential property market reached an all-time high of Rs. 3.47 lakh crore, a 48% YoY increase.

Source: IBEF, Knight Frank, Jefferies

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# Multiple growth drivers for the real estate sector

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**Real Estate Sector**

| | |
|---|---|
| **Residential** | Regulatory initiatives like RERA have helped boost transparency and buyer confidence in the residential segment |
| **Commercial** | The commercial market has been driven mostly by growth in IT, BFSI, consulting and manufacturing industries |
| **Retail** | The large population below 30 years of age and further entry of MNC retailers is expected to drive demand for malls |
| **Hospitality** | A robust domestic tourism industry and the increasingly global nature of Indian businesses is helping boost demand for hotels, service apartments etc. |
| **Special Economic Zones (SEZs)** | 100% FDI permitted for developing townships within SEZs with residential areas, markets, playgrounds, clubs, recreation centres etc. |

Source: IBEF

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# Rising incomes and growing share of high income earners to support demand for housing

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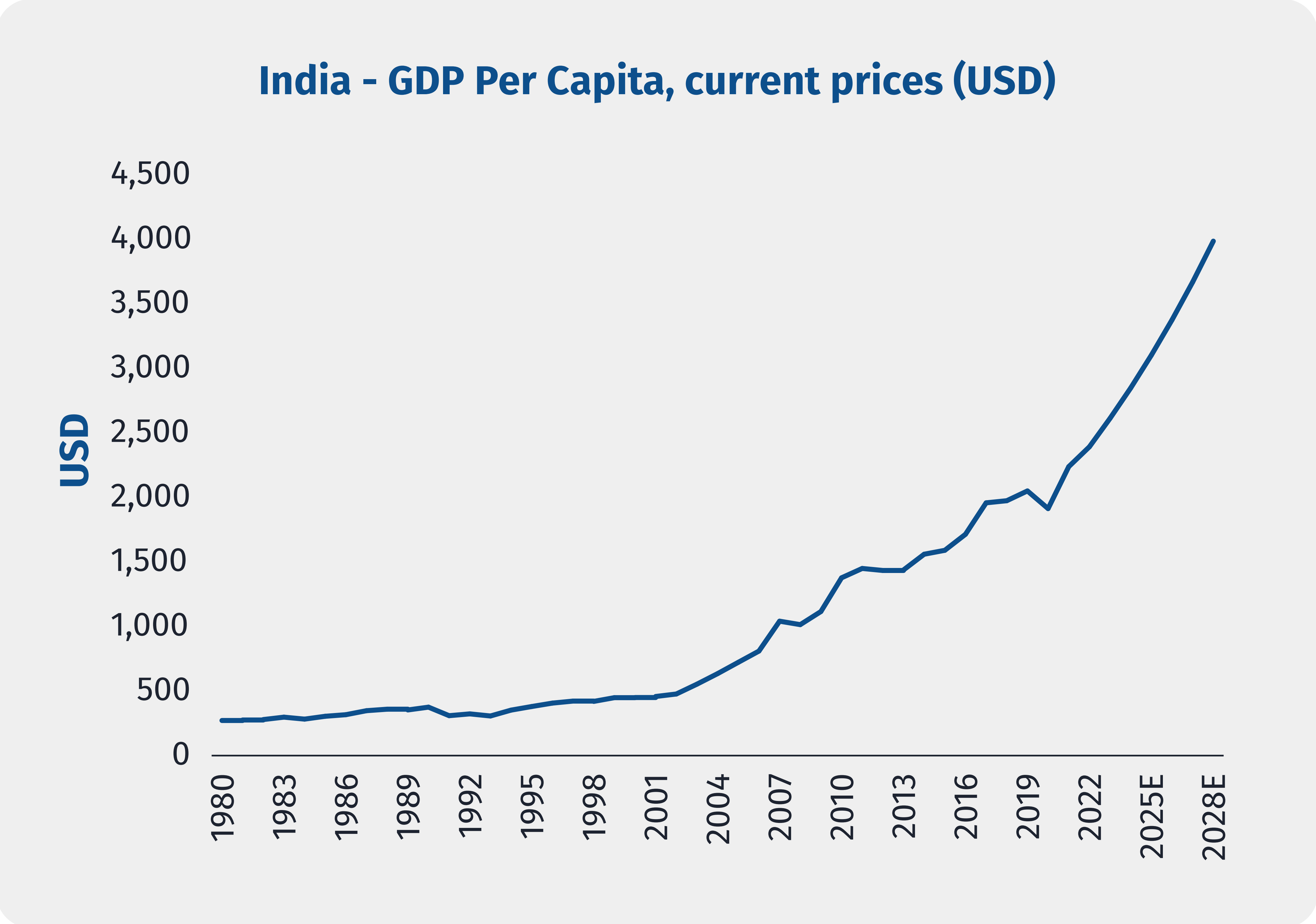
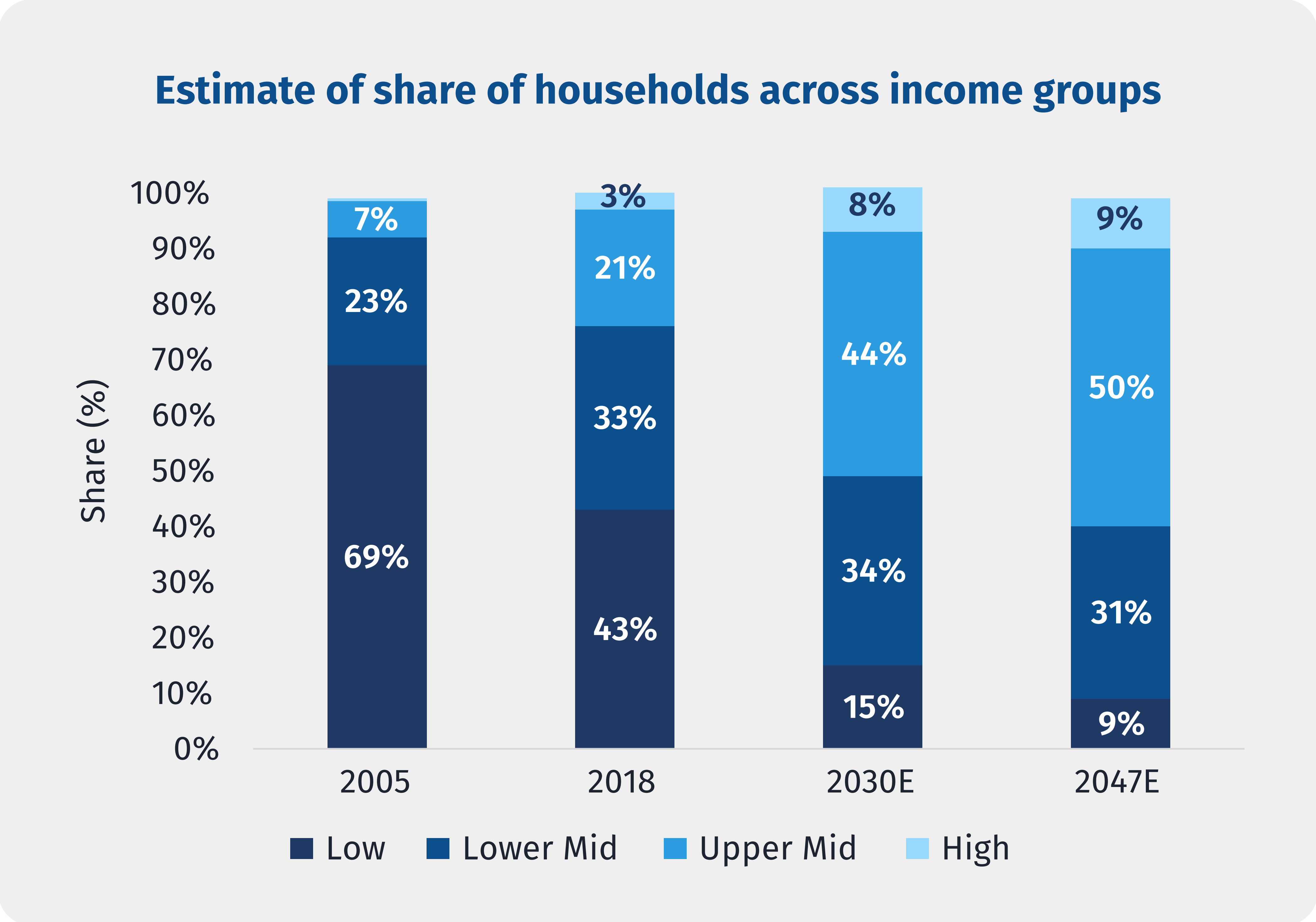
## Per Capita GDP is expected to rise...




Source: IMF

## ...With growing share of high income earners




Source: World Economic Forum, Knight Frank. Low Income: <$4,000, Lower-Mid: $4000-8500, Upper-Mid: $8,500-40,000, High Income: >$40,000 basis income per household per year in real terms

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# Home affordability has improved, thanks to lower home loan rates

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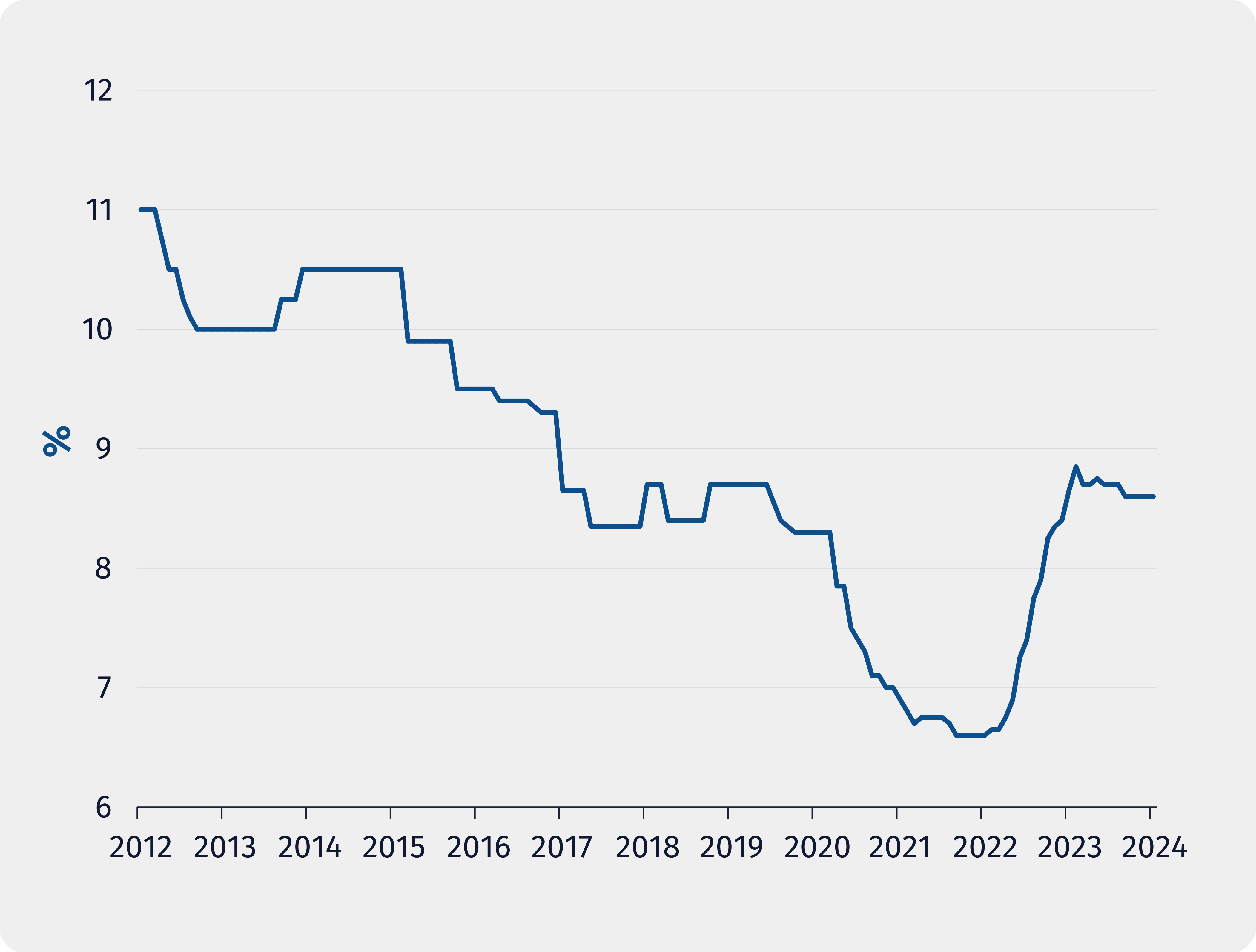
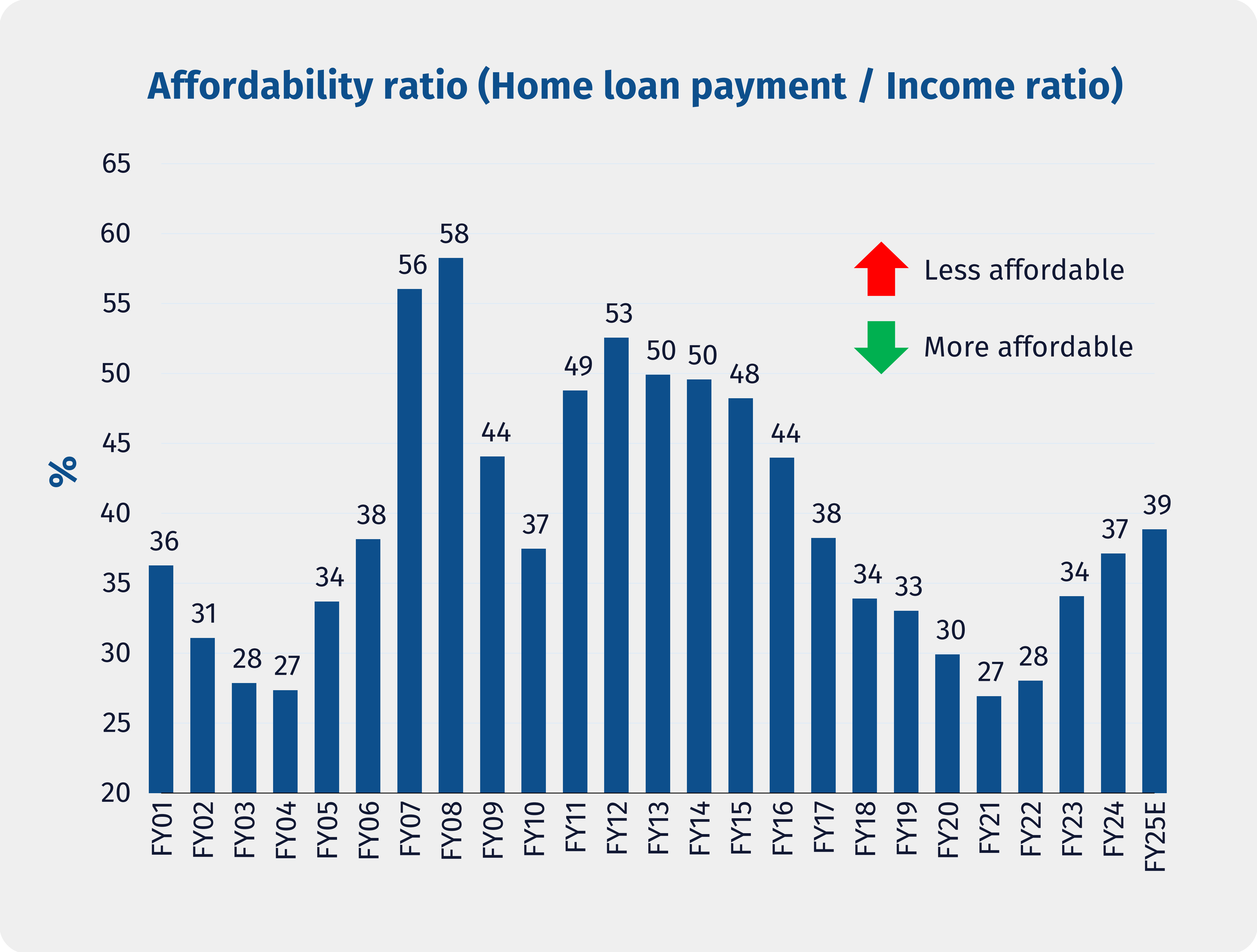
## Home loan rates are lower than 2012 levels...




Source: Jefferies

## ...leading to improved home affordability




Source: Jefferies

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# The trend of increasing urbanization continues

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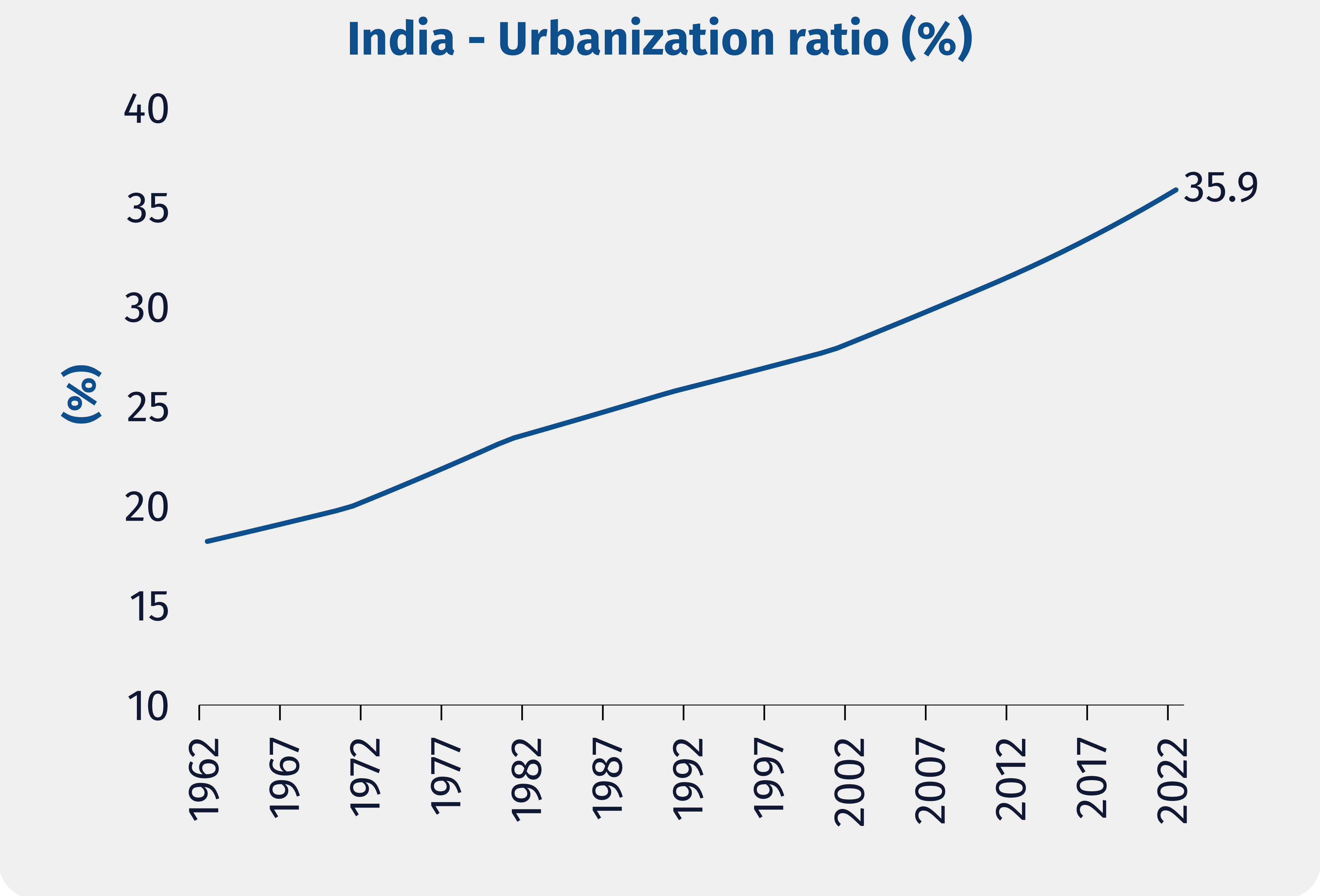
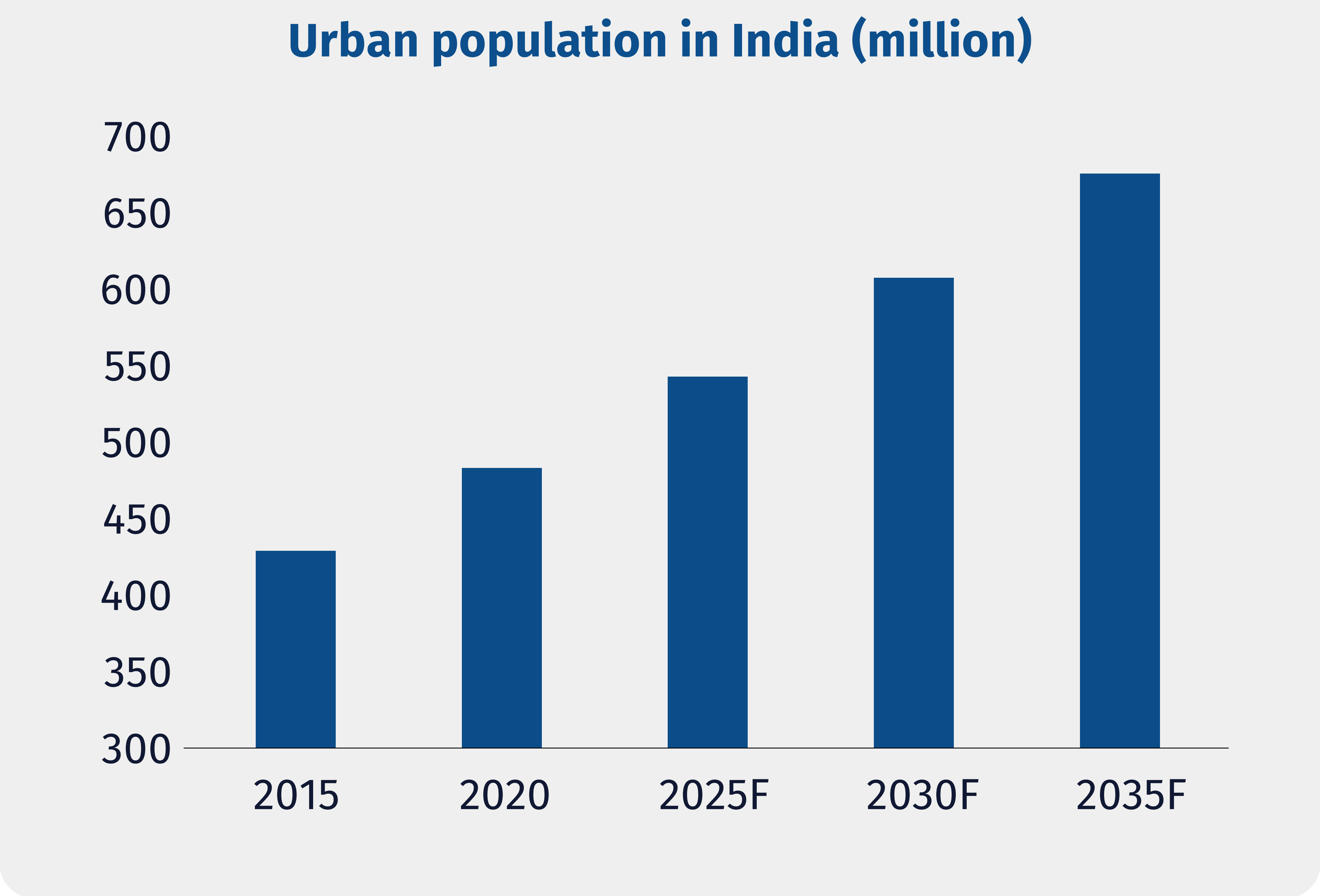



Source: IMF




Source: IBEF

**The number of Indians living in urban areas is expected to reach 542.7 million by 2025 and 675.5 million by 2035**

# Government support & improved transparency through regulatory initiatives

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## Key Government Initiatives:

01 Under its flagship scheme, **Pradhan Mantri Awas Yojana (PMAY) – Housing for all, 2022** – the Finance Ministry announced a commitment of Rs. 79,000 crores in Union Budget 2023-24, a 66% increase compared to the previous year

02 The Government has allowed FDI of upto 100% for townships and settlements development projects

03 Other initiatives include interest subsidy to home buyers, the Benami Transactions Act, introduction of Real Estate Investment Trusts (REITs) to boost investment in the sector etc.

## Positive Impact of Real Estate (Regulation & Development) Act, 2016 (RERA)

Some key buyer-friendly features include:

01 Projects can be marketed only after registration with the State's Real Estate Regulatory Authority is completed

02 Separate escrow account needs to be maintained for each project where a minimum of 70% of money from buyers will have to deposited. Proceeds can only be used for construction of the project and cost borne towards the land

03 Buyers' redressal mechanism including potential refunds with interest and compensation in case of builders delaying possession

Source: IBEF, publicly available data

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# New launches and sales have recovered strongly after consolidation

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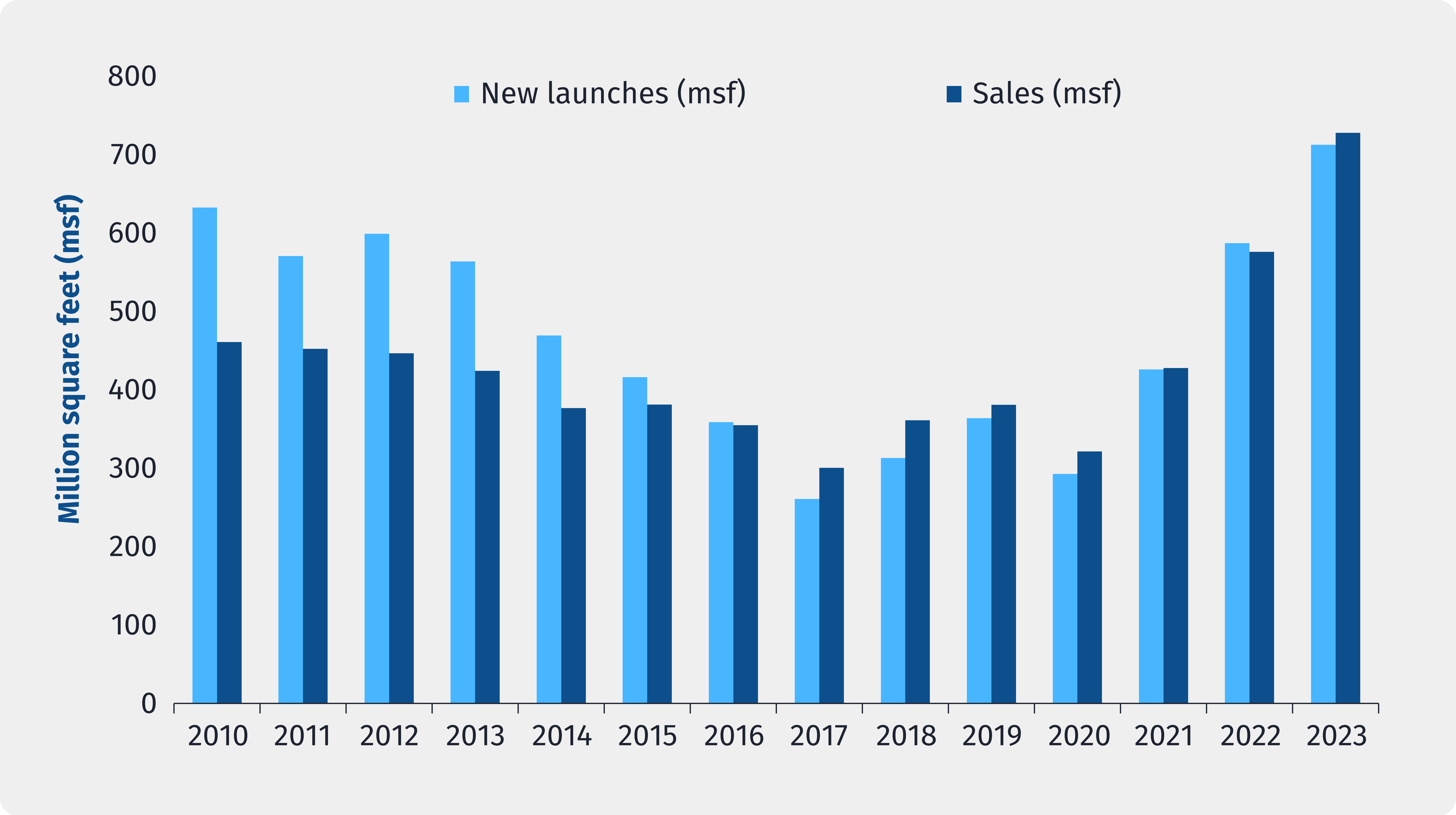


Source: Jefferies

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# Declining housing inventory has helped support house price growth

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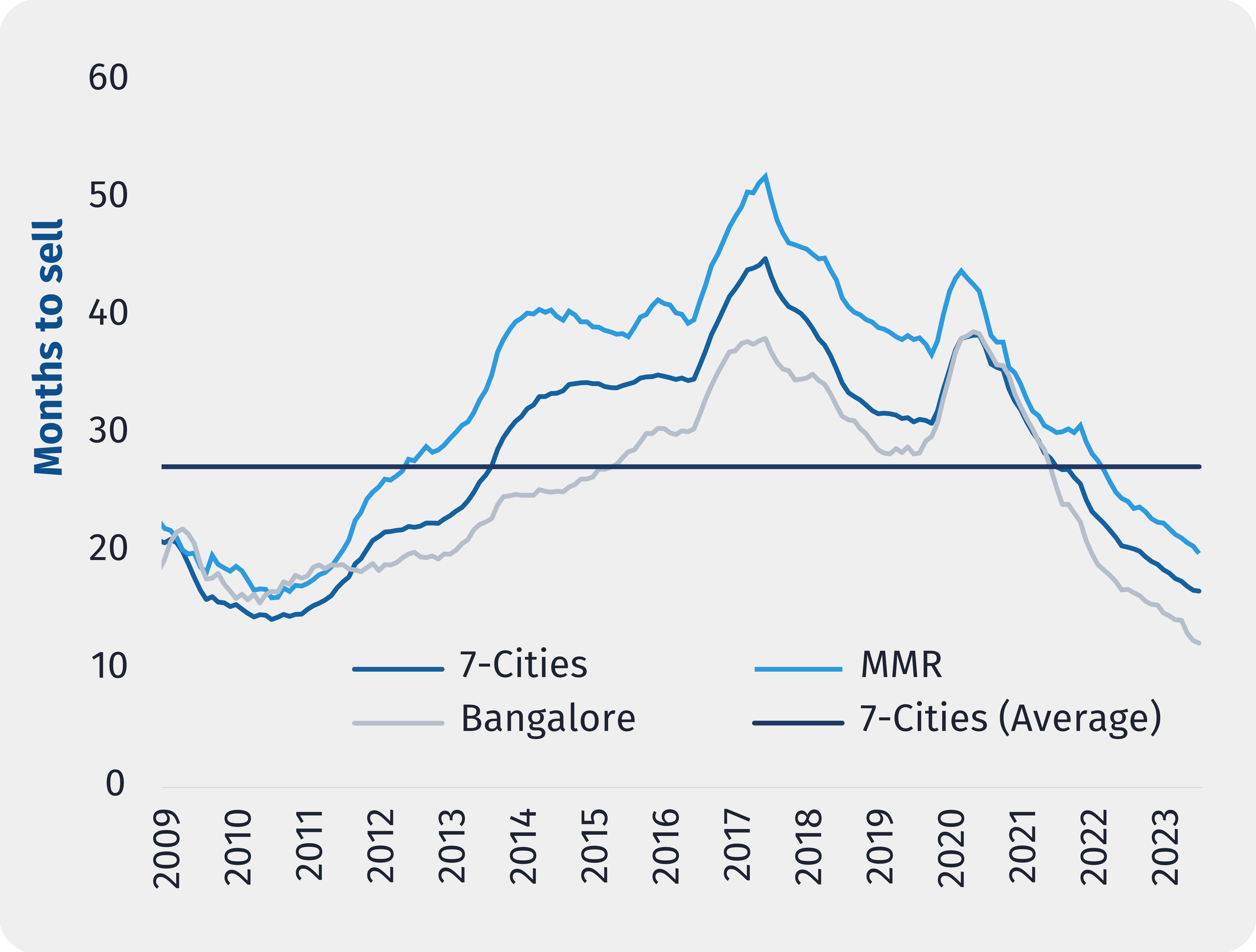
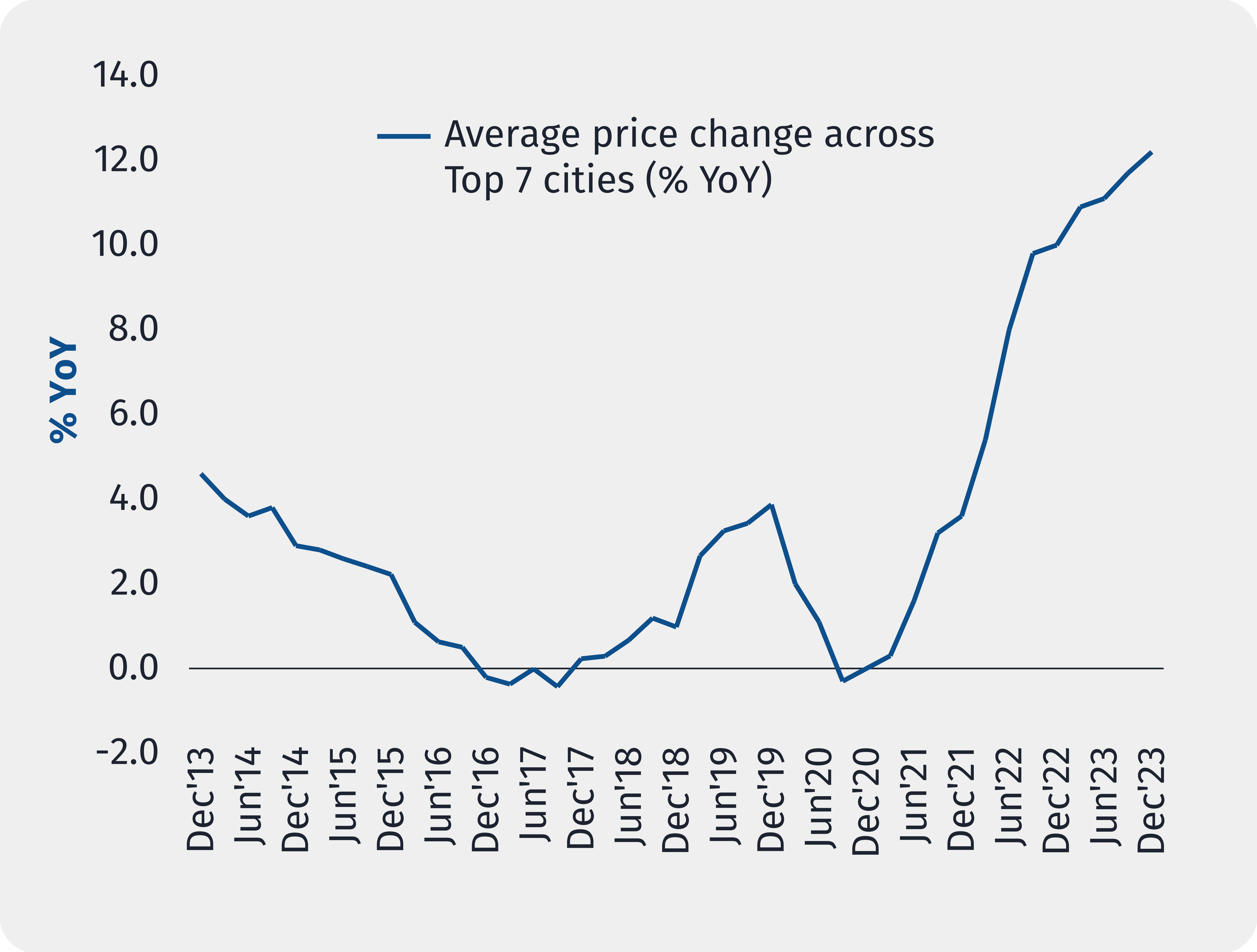
## Inventory levels have been declining across cities




Source: Jefferies

## House prices are recovering after low growth over 2013-21




Source: Jefferies

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# Demand for commercial and retail segments has remained strong

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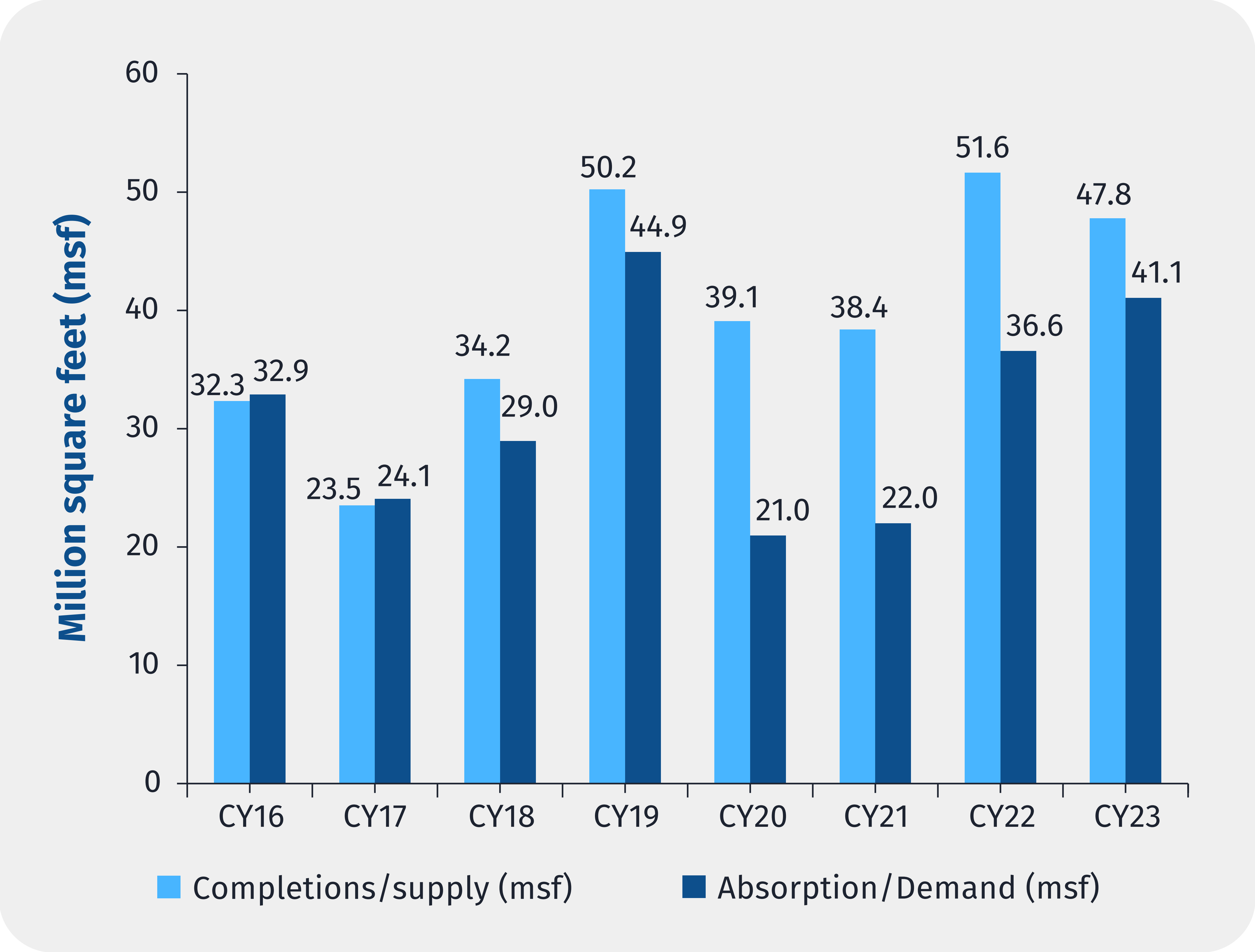
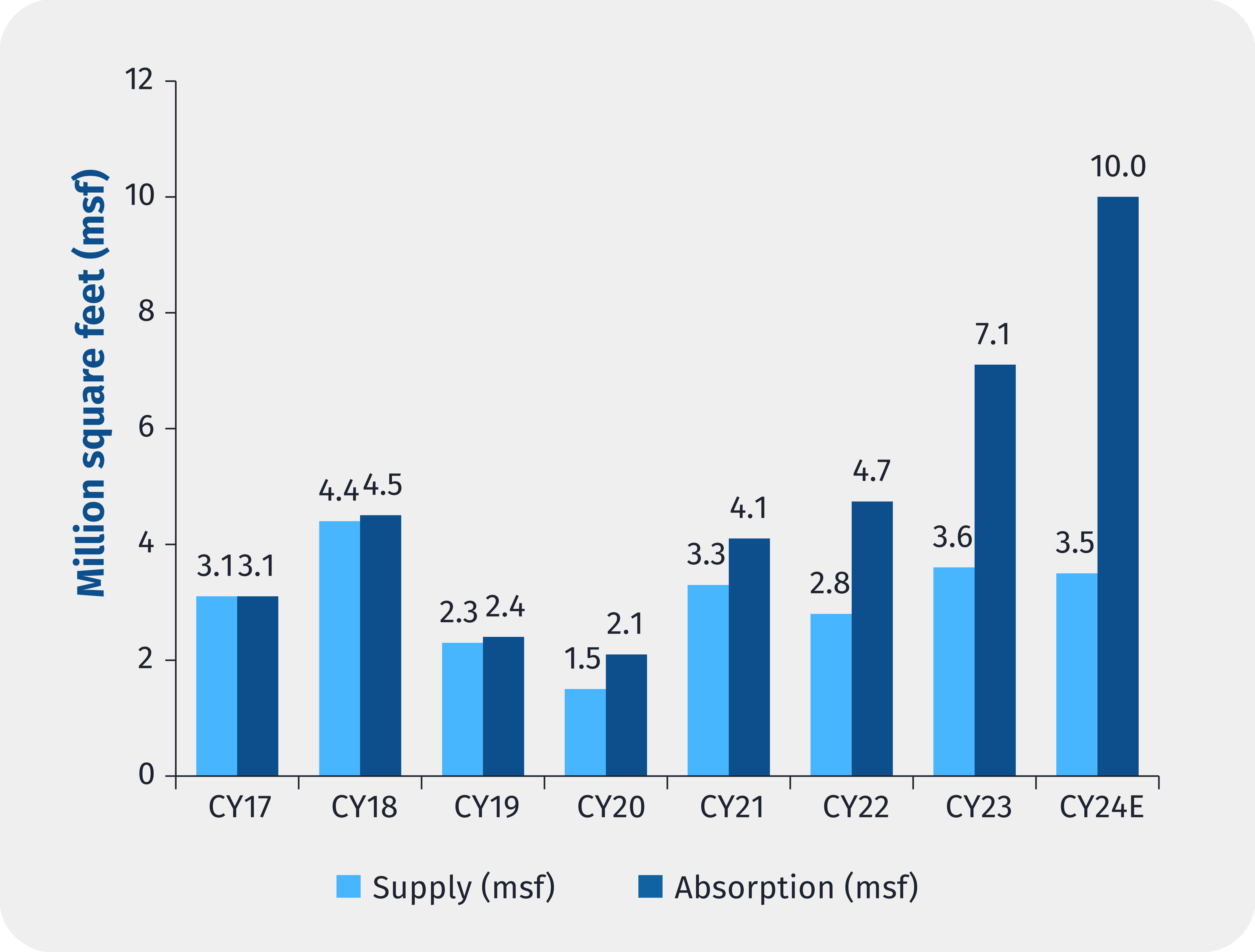
## Office space demand has recovered post-Covid




Source: IIFL

## Grade-A mall demand has been exceeding supply recently




Source: IIFL

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# Listed realty companies – Improving fundamentals (1)

Beneficiaries of ongoing premiumization & formalization of the sector

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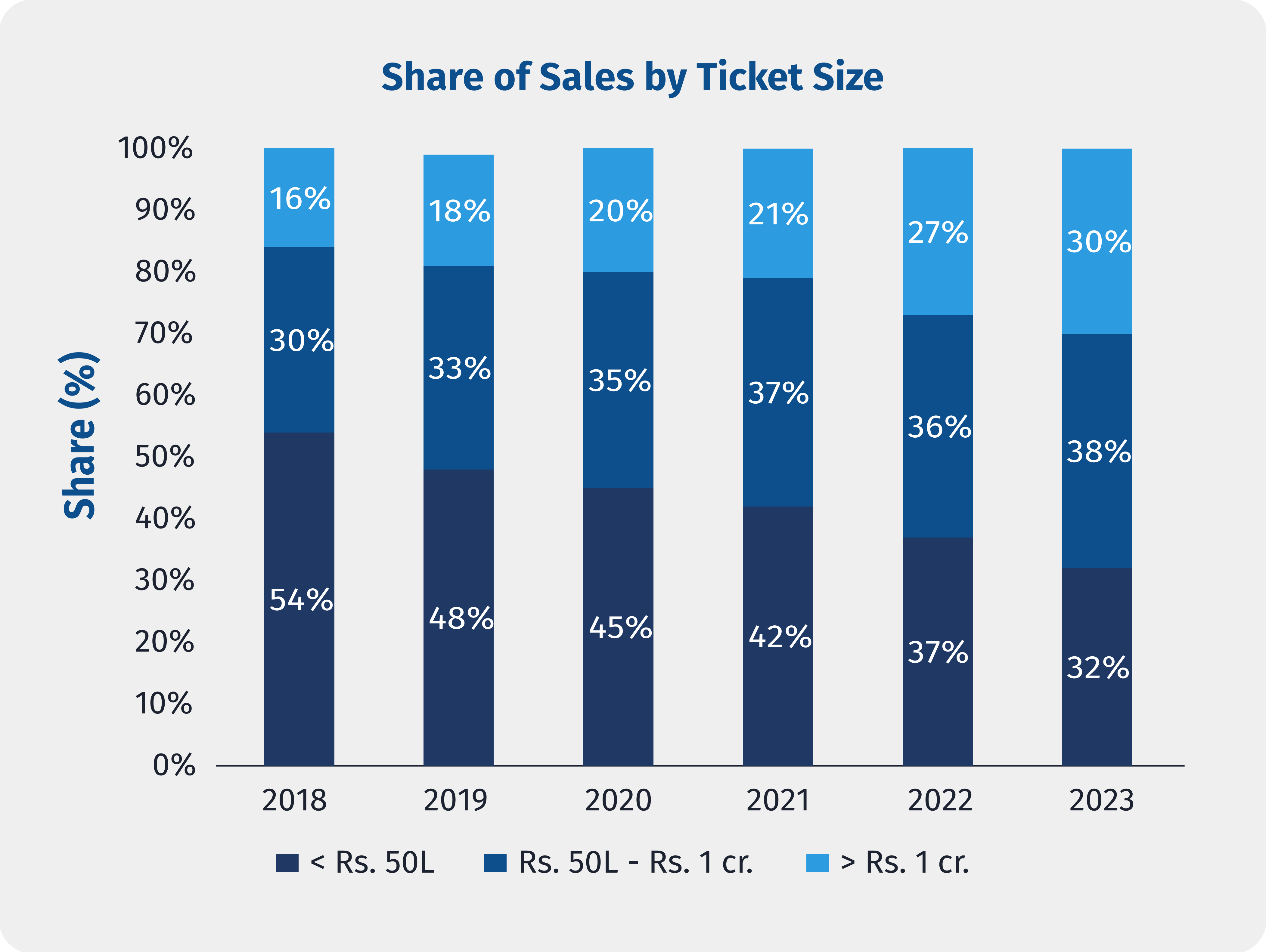
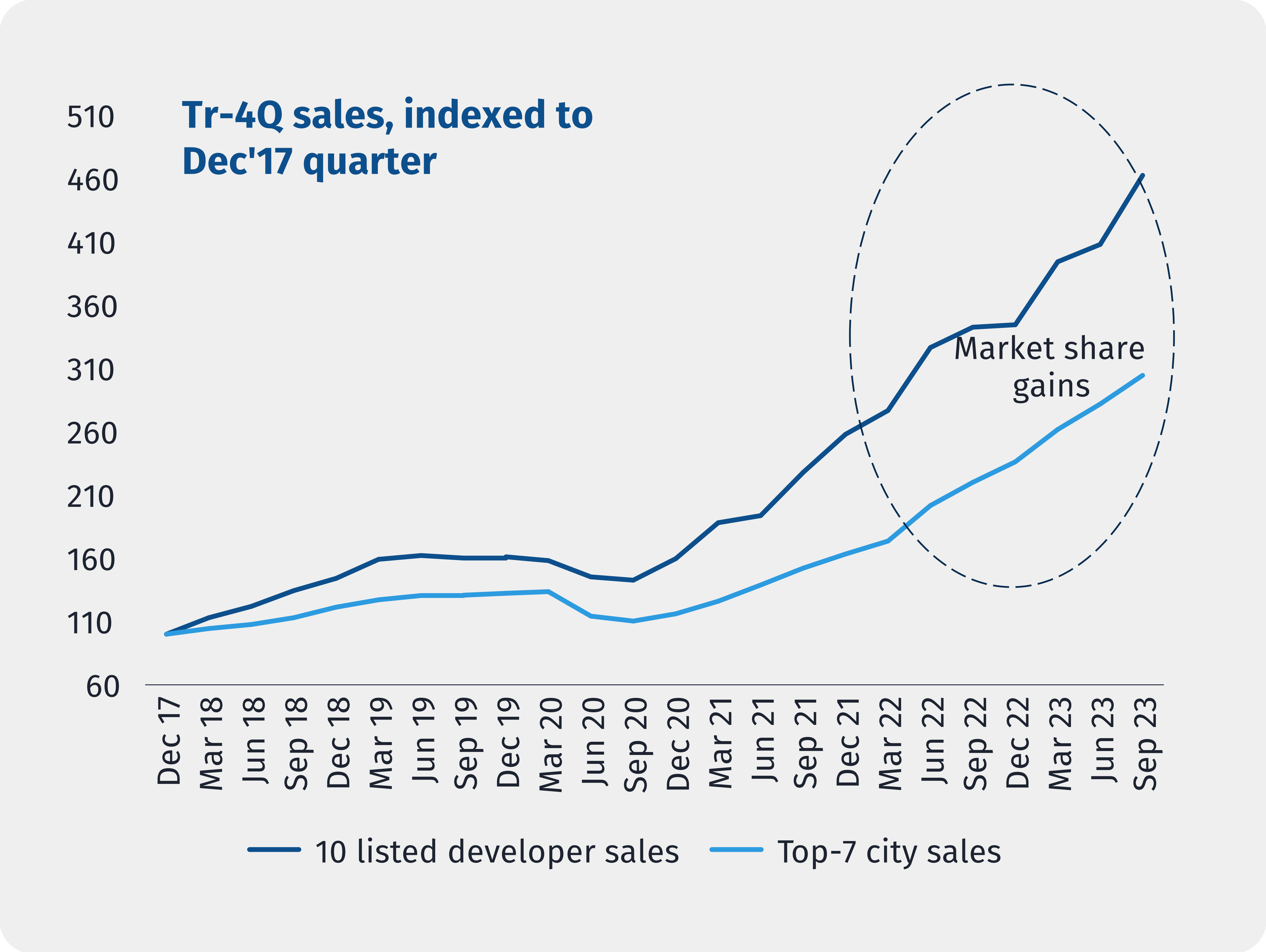
## Increasing demand for luxury homes




Source: Knight Frank

## Listed developers have gained market share




Source: Jefferies

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# Listed realty companies – Improving fundamentals (2)

Balance sheets stronger thanks to falling leverage, profitability metrics in uptrend

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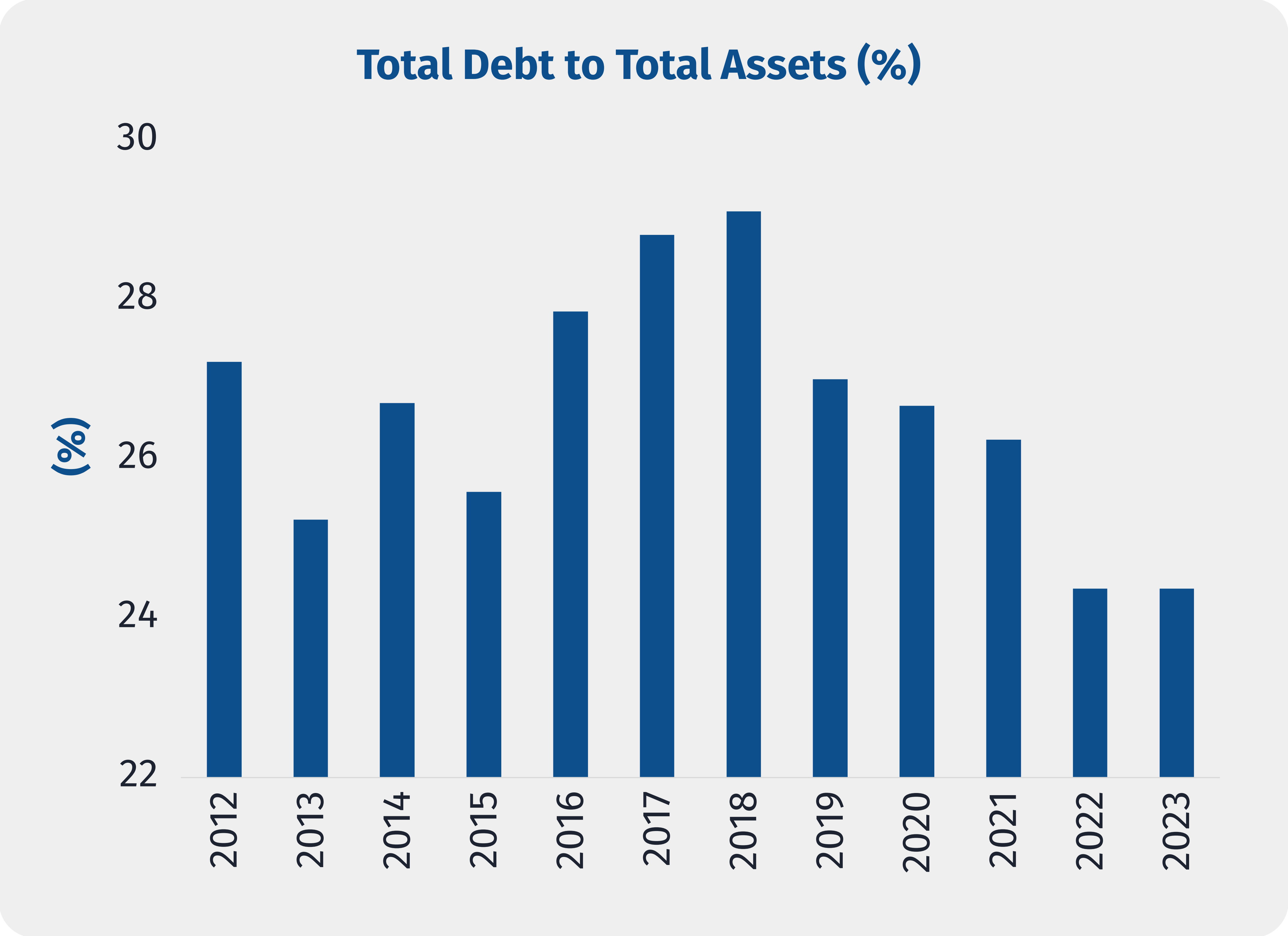
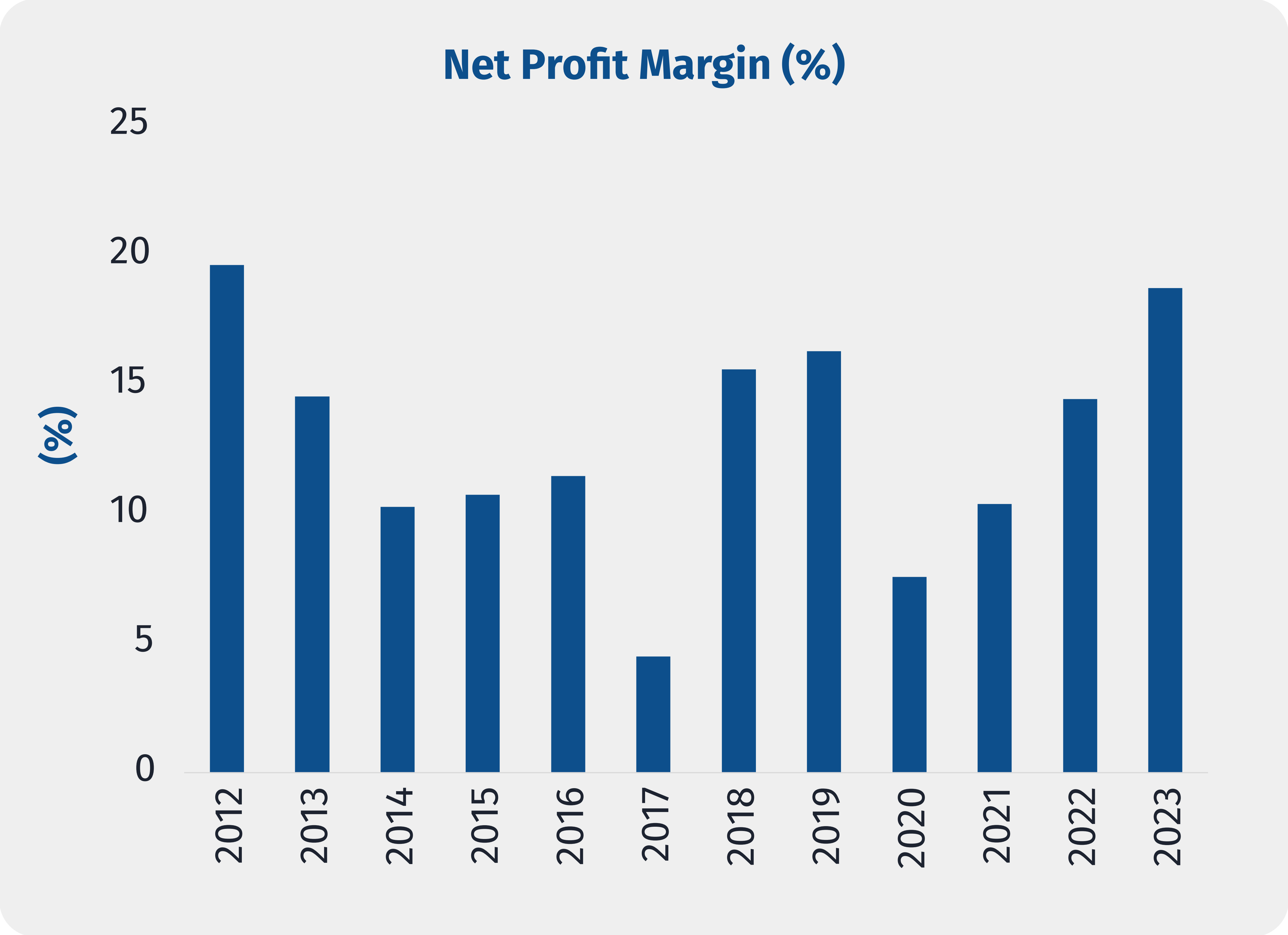
## Leverage reducing for NIFTY Realty constituents




Source: Bloomberg

## Net Profit Margin trending higher for NIFTY Realty constituents




Source: Bloomberg

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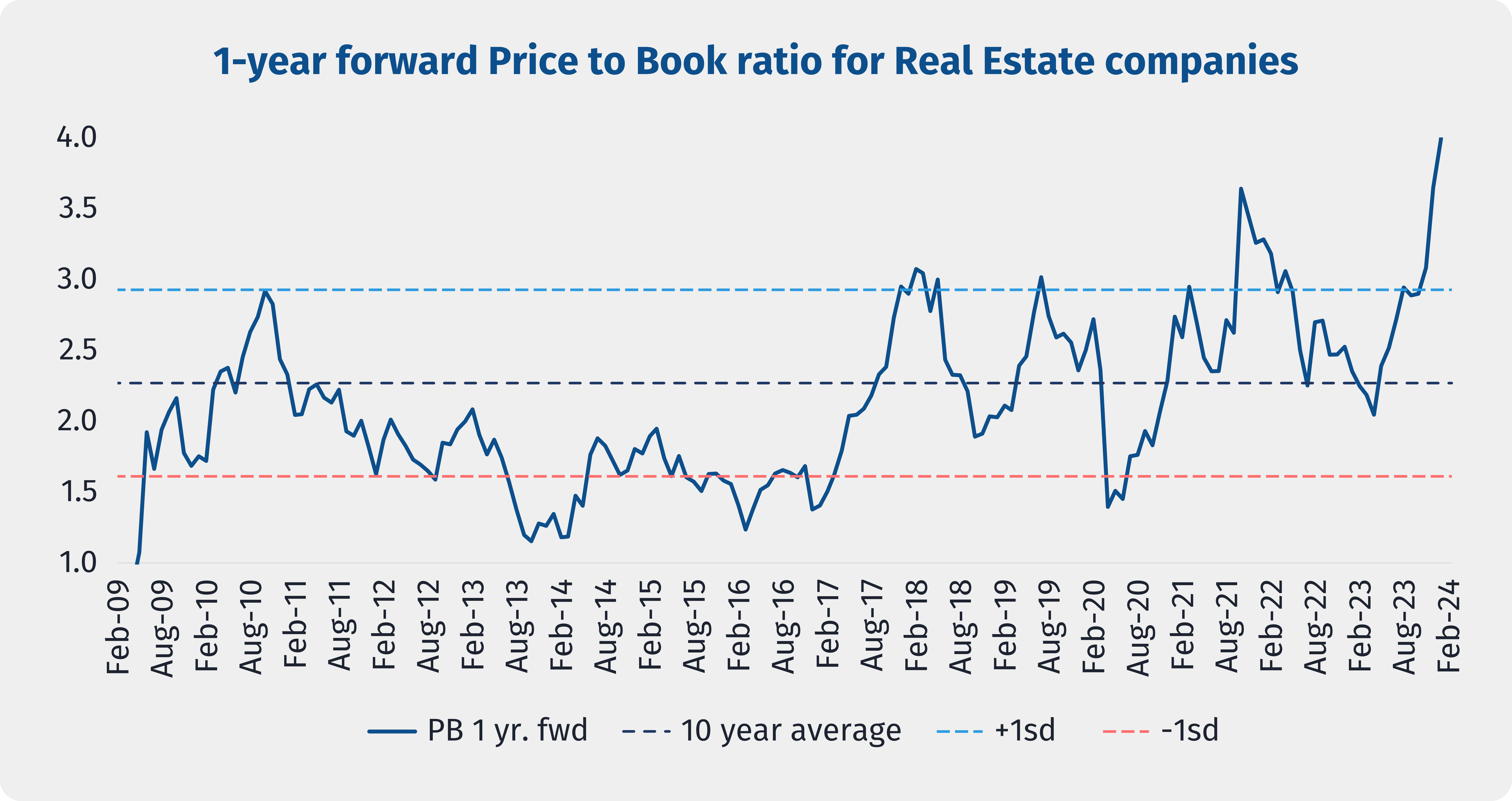
# Valuations of listed real estate companies
## 1-year forward Price to Book ratio




Source: Jefferies

**Valuations have risen as the industry has consolidated and company fundamentals have improved**

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# Snapshot of NIFTY Realty Index

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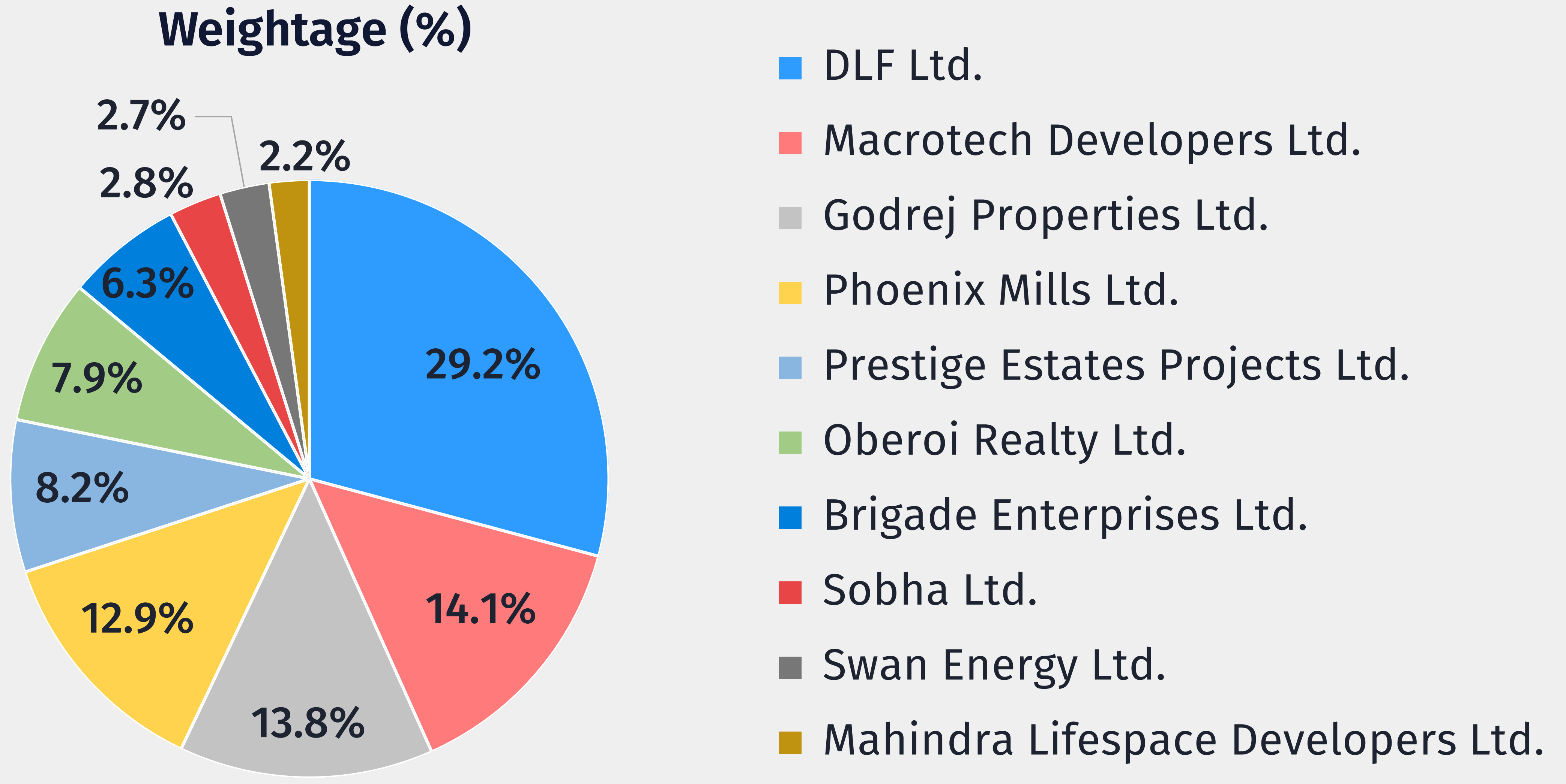
- Captures the performance of the real estate companies. Currently has 10 constituents
- Stocks capped at 33% each, top 3 stocks capped at 62% in aggregate
- Index is re-balanced on a semi-annual basis in March and September

## Constituent Weightages (%)




Source: NSE Indices Ltd. Data as of Feb 29, 2024

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## Key Index Stats

| | NIFTY Realty | NIFTY 500 | NIFTY 50 |
|---|---|---|---|
| Price Earnings Ratio (P/E) | 57.0 | 24.4 | 22.7 |
| Price Book Ratio (P/B) | 5.79 | 4.04 | 3.85 |
| Dividend yield | 0.25% | 1.11% | 1.22% |

Source: NSE Indices Ltd. Data as of Feb 29, 2024

# Advantages of Index Funds to get sector exposure

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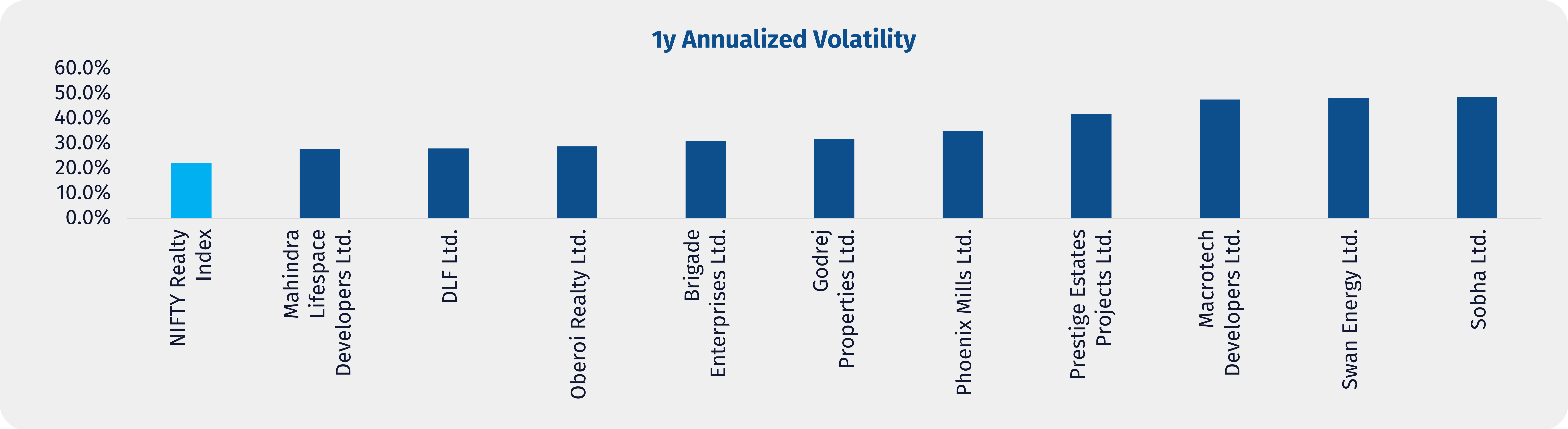
- A single Index Fund gives the investor sector exposure to multiple Realty stocks – no need for individual stock selection
- Advantage of the Index Fund is:
  - Less impact of company-specific risk
  - Capture performance of the sector with lower volatility than its underlying constituents




Data Source: NSE Indices Ltd., Bloomberg, internal calculations. 1y annualized volatility calculated for the 1-year period ended Feb 29, 2024

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# NIFTY Realty TRI, NIFTY 500 TRI and NIFTY 50 TRI – Performance since inception

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| Return Periods | CAGR* as on Feb 29, 2024 | | | Standard Deviation as on Feb 29, 2024 | | |
|---|---|---|---|---|---|---|
| | NIFTY Realty TRI | NIFTY 500 TRI | NIFTY 50 TRI | NIFTY Realty TRI | NIFTY 500 TRI | NIFTY 50 TRI |
| 1 year | 132.5% | 39.7% | 28.5% | 21.7% | 10.0% | 10.0% |
| 3 year | 37.9% | 19.3% | 16.1% | 27.8% | 14.0% | 14.0% |
| 5 year | 32.2% | 18.8% | 16.6% | 30.2% | 18.4% | 19.1% |
| 10 year | 20.1% | 16.6% | 14.7% | 30.8% | 16.2% | 16.5% |
| 15 year | 12.1% | 17.5% | 16.2% | 35.0% | 17.6% | 18.2% |
| Since inception (Dec 29, 2006) | 0.03% | 12.4% | 11.8% | 39.9% | 20.6% | 21.3% |

**Relative to the NIFTY 500 TRI and NIFTY 50 TRI, the NIFTY Realty TRI has:**
- **Outperformed over the last 1, 3, 5 and 10 years**
- **Had higher standard deviation (volatility) over the last 1, 3, 5, 10 and 15 years**

Heatmap Key: Rank 1 | Rank 2 | Rank 3

Source: NSE Indices Ltd. and internal calculations ^As on Feb 29, 2024. Dec 29, 2006 has been chosen as the base date since all 3 indices have values from this date onwards. **Past performance may or may not be sustained in the future and is not a guarantee of any future returns. HDFC AMC/Mutual Fund is not guaranteeing or promising or forecasting any returns.** *CAGR: Compounded Annual Growth Rate

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# NIFTY Realty TRI, NIFTY 500 TRI and NIFTY 50 TRI – FY Performance

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| FY | NIFTY Realty TRI | NIFTY 500 TRI | NIFTY 50 TRI |
|---|---|---|---|
| FY07 | -24.5% | -4.2% | -3.2% |
| FY08 | 38.4% | 22.9% | 25.1% |
| FY09 | -80.6% | -39.1% | -35.4% |
| FY10 | 114.4% | 90.0% | 75.3% |
| FY11 | -26.5% | 8.4% | 12.4% |
| FY12 | -23.3% | -7.7% | -8.2% |
| FY13 | -5.8% | 6.4% | 8.7% |
| FY14 | -16.9% | 18.7% | 19.3% |
| FY15 | 18.4% | 35.5% | 28.3% |
| FY16 | -26.5% | -6.5% | -7.82% |
| FY17 | 37.4% | 25.5% | 20.2% |
| FY18 | 37.6% | 12.9% | 11.8% |
| FY19 | -8.1% | 9.7% | 16.4% |
| FY20 | -34.3% | -26.6% | -25.0% |
| FY21 | 90.9% | 77.6% | 72.5% |
| FY22 | 39.1% | 22.3% | 20.3% |
| FY23 | -16.2% | -1.2% | 0.6% |
| FY24YTD | 136.0% | 39.3% | 28.1% |

Heatmap Key: Rank 1 | Rank 2 | Rank 3

| | NIFTY Realty TRI |
|---|---|
| Number of Financial Years* | 16 |
| Years of Outperformance over NIFTY 500 TRI | 6 (37.5%) |
| Years of Outperformance over NIFTY 50 TRI | 6 (37.5%) |

Source: NSE Indices Ltd. and internal calculations. FY is Financial Year FYTD: Financial Year To Date. Data as of Feb 29, 2024.
*Does not include data of FY24FYTD.
**Past performance may or may not be sustained in the future and is not a guarantee of any future returns.**
**HDFC AMC/Mutual Fund is not guaranteeing or promising or forecasting any returns.**

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*Presenting*

# HDFC NIFTY Realty Index Fund

An Open-ended scheme replicating/tracking the NIFTY Realty Index (TRI)

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# Why invest in the HDFC NIFTY Realty Index Fund?

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### Structural tailwinds for the real estate sector

Rising per capita incomes, improving affordability, increased urbanization, government initiatives and RERA can drive growth for years to come

### Listed companies' fundamentals improving

Listed Realty companies have strengthened their balance sheets and improved their profitability metrics over the last 6-7 years. They can benefit additionally from the continued premiumization & formalization of the sector

### Exposure to multiple stocks through a single index fund

The HDFC NIFTY Realty Index Fund will give the investor sector exposure to multiple real estate stocks through a single instrument – no need for individual stock selection

### HDFC AMC - Trusted for 20

HDFC AMC has been a trusted fund manager in Index Solutions for 20+ years (HDFC Index Fund – NIFTY 50 Plan and S&P BSE SENSEX Plan were launched in 2002)

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# Who should invest in HDFC NIFTY Realty Index Fund?

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## The HDFC NIFTY Realty Index Fund could be suitable for investors who:

- Seek diversified exposure to the growth potential of the Real Estate sector
- Have a high volatility tolerance
- Prefer a low-cost investment option to earn index linked returns

Investors may approach sector funds as complementary over existing exposure to other equity fund categories that are diversified in nature. Sectoral funds carry higher risk, thus one could take controlled exposure to such funds.

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# What are the key risks and mitigants?

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| Key Risks | Mitigants |
| --- | --- |
| The Real Estate sector is cyclical in nature. Cyclicality of the underlying business can cause volatility in index performance. Any slowdown in GDP growth or adverse changes in government policy can negatively impact the sector. | A longer holding period can potentially mitigate short-term fluctuations.<br>Rising per capita incomes, improving affordability, increased urbanization, government initiatives and RERA can support growth over the long-term. |
| Historically, the index has exhibited higher volatility and drawdowns than broad market indices like the NIFTY 500, NIFTY 50 etc. | Investors who are new to equity markets may wish to avoid investing in sectoral / thematic offerings or use the SIP route to take exposure over a period of time. |
| The NIFTY Realty Index offers exposure only to Real Estate companies. It does not include companies from other sectors like building materials, housing finance etc. | One may approach sector funds as complementary over existing exposure to other equity fund categories that are diversified in nature. |
| The Scheme being sectoral in nature carries higher risks versus diversified equity mutual funds on account of concentration and sector specific risks. | Sectoral funds carry higher risk, thus one could take controlled exposure to such funds. |

The above list of risks is not exhaustive. Please read all scheme related documents carefully.

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# HDFC AMC: Key strengths in passives

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### Trusted for 20 in index solutions

HDFC AMC has been a trusted fund manager in index solutions for 20+ years

### Wide Product Range

**19 ETFs, 18 Index Funds & 3 FoFs including:**

- Market-cap based– 7 ETFs and 7 Index Funds
- Sector based – 3 ETFs
- Smart Beta based – 5 ETFs and 3 Smart Beta Index Funds
- Commodities – 2 ETFs and 2 Fund of Funds
- Debt – 8 Index Funds, 1 ETF
- International – 1 Fund of Fund

### One of the largest funds across several categories:

- Market-cap based index funds
- Commodity ETFs with over 12+ years of history
- Smallcap ETF category

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# Fund facts: HDFC NIFTY Realty Index Fund

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| | HDFC NIFTY Realty Index Fund |
|---|---|
| **Type of Scheme** | An open ended scheme replicating/tracking NIFTY Realty Index (TRI) |
| **Investment Objective** | To generate returns that are commensurate (before fees and expenses) with the performance of the NIFTY Realty Index (TRI), subject to tracking error.<br>**There is no assurance that the investment objective of the Scheme will be realized.** |
| **Fund Manager** | Mr. Nirman Morakhia and Mr. Arun Agarwal |
| **Benchmark Index** | NIFTY Realty Index (TRI) |
| **Entry / Exit Load** | Nil |
| **Min. Investment Amount** | **During NFO Period and continuous offer period (after scheme re-opens for repurchase and sale):**<br>Purchase and additional purchase: Rs. 100 and any amount thereafter<br><br>**Note:** Allotment of units will be done after deduction of applicable stamp duty and transaction charges, if any. |

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# Asset allocation table – HDFC NIFTY Realty Index Fund

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Under normal circumstances, the asset allocation (% of Net Assets) of the scheme's portfolio will be as follows:

| Types of Instruments | Minimum Allocation (% of Total Assets) | Maximum Allocation (% of Total Assets) | Risk Profile |
|---|---|---|---|
| **Securities covered by NIFTY Realty Index** | 95 | 100 | Very High |
| **Debt securities & money market instruments, units of debt schemes of mutual funds@** | 0 | 5 | Low to Medium |

@ investments will be made in Cash or cash equivalents i.e. Government Securities, T-Bills and Repo on Government Securities, units of Liquid and Overnight Mutual Fund Schemes for liquidity purposes.

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# Product labeling and benchmark riskometer

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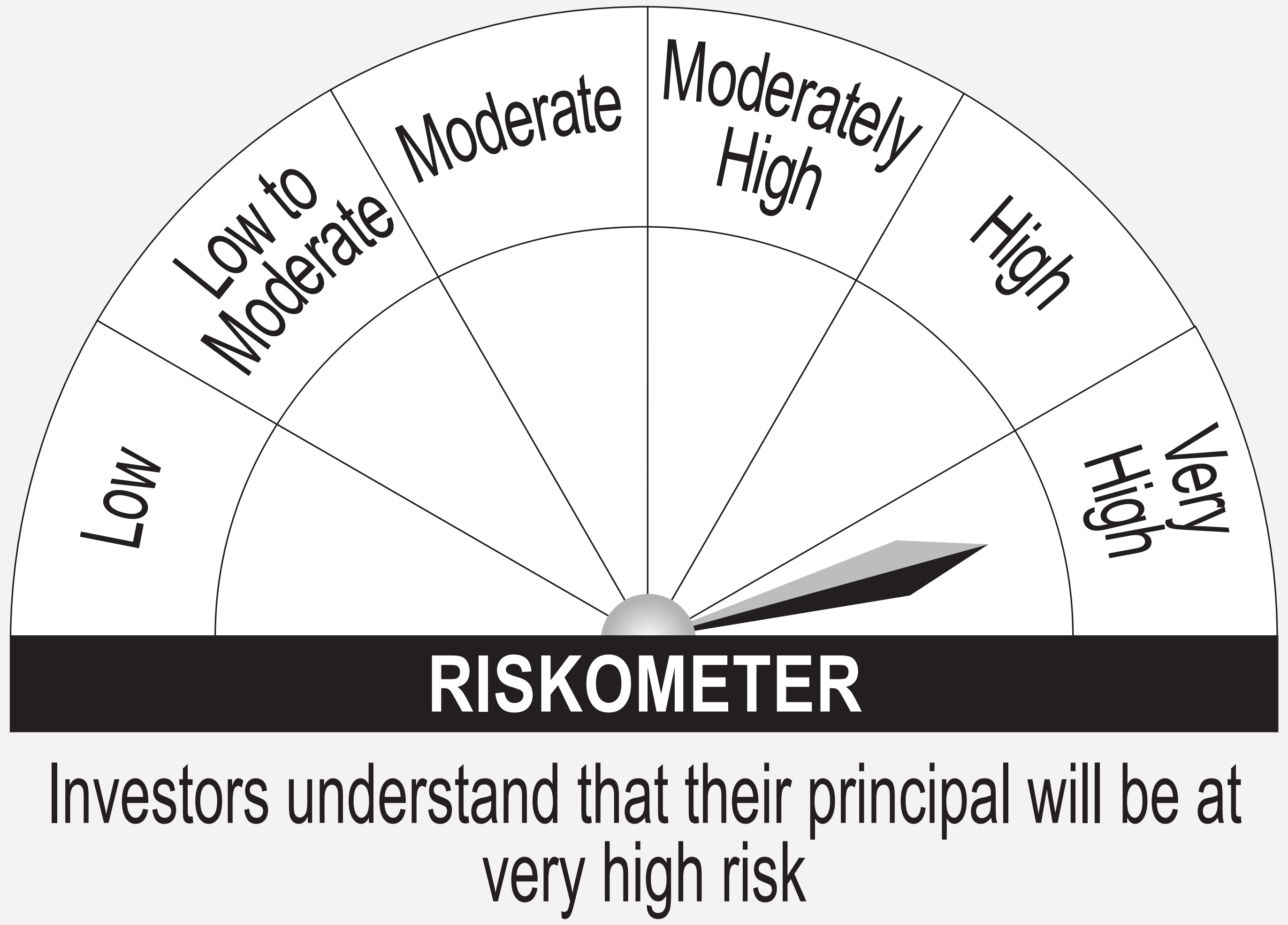
| This product is suitable for investors who are seeking*: | Riskometer# |
|---|---|
| • Returns that are commensurate (before fees and expenses) with the performance of the NIFTY Realty Index (TRI), over long term, subject to tracking error<br>• Investment in securities covered by the NIFTY Realty Index |  |
| *Investors should consult their financial advisers, if in doubt about whether the product is suitable for them. #The product labeling assigned during the NFO is based on internal assessment of the scheme characteristics or model portfolio and the same may vary post NFO when the actual investments are made.<br>The Scheme being sectoral in nature carries higher risks versus diversified equity mutual funds on account of concentration and sector specific risks. | |



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# Disclaimer

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**MUTUAL FUND INVESTMENTS ARE SUBJECT TO MARKET RISKS, READ ALL SCHEME RELATED DOCUMENTS CAREFULLY.**

For more information

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