

“Compounding is hard because a bad month can feel longer than a good decade” – Morgan Housel

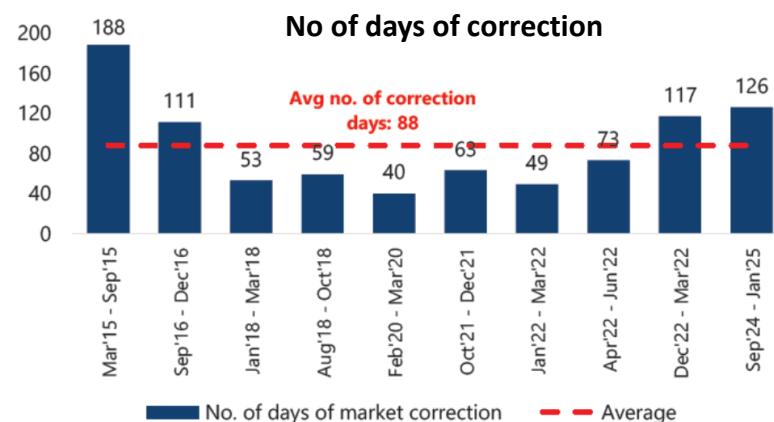
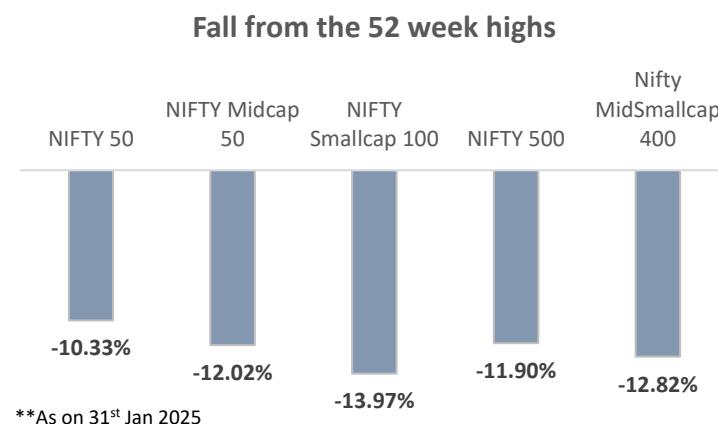
Dear Investors,

After a decent year for Indian equities in 2024, markets have started 2025 on a soft footing amidst heightened fears from all fronts. Most people wanted a correction for last several months on the back of valuations being rich and earnings slowing down. But like they say, expecting something bad to happen is one thing, but its always painful when it actually happens. **Sharp cuts in headline index has eroded some part of the gains seen for the whole of last year** as can be seen from the table below. But excesses happen on both sides in the market and the current situation is of extreme pessimism. Also, what is evident is that even within Largecaps, Nifty NEXT 50, which did better than NIFTY-50 last year, saw higher correction accordingly in Jan’25.

INDEX	CY 2024 Returns	1 month return as on 31st Jan'25
NIFTY 50	8.8%	-0.6%
NIFTY NEXT 50	27.4%	-7.1%
NIFTY MIDCAP 50	21.5%	-6.4%
NIFTY SMALLCAP 100	23.9%	-9.9%
NSE 500	15.2%	-3.6%

Sharp drawdowns in Jan'25 have led to 6 months return turning negative for all indices

In Rupee terms the different headline indices have corrected between 10-14% from the peak levels over the last 3-4 months. Infact **the current correction in the market is the second longest correction we have seen in Indian markets in the last 10 years** and is already 126 days long.



What was seen in the month of January’25 were bouts of extreme panic selling on the back of fears around FII selling, further deep cuts happening in markets due to economic slowdown, fear around Budget 2025 surprises and fear that Q3FY25 earnings would be weaker than estimates. Most of these fears had little logic to it which will try to address.

FII continue to sell in secondary though primary market show a different picture; INR weakening

FII continue to invest in Primary market while taking off from the secondary market on valuation concerns

Interestingly FIIs have been net sellers in the secondary market for the whole of CY2024 totaling a Net Sell figure of USD 13.78 bn for the year. However, **they have shown strong participation in the Primary market and have been net buyers of USD 14.49 bn** there thereby taking the full year figure to a small net buy of USD 0.71 bn in Indian equities. **January’25 was a different picture wherein FIIs sold almost USD 9.5 bn in secondary market** thereby being the second highest sell figure in the last 12 months. Lack of much IPOs in a weak environment also did not see any FII flows hence we saw the impact on India’s Forex reserves and Rupee touched the lowest levels in its history. However, we get comfort from the DXY index which has seen some moderation in recent times and if one goes by the history, as can be seen from the graph below, **Dollar has depreciated significantly in the first 14 months of Mr Trump’s first term as President.**

(USD bn)	Equity		
	Secondary	Primary	Total
Dec-24	0.30	2.12	2.42
Nov-24	-4.66	2.10	-2.56
Oct-24	-13.55	2.36	-11.19
Sep-24	5.55	1.33	6.88
Aug-24	-0.66	1.53	0.87
Jul-24	3.12	0.75	3.87
Jun-24	2.92	0.27	3.19
May-24	-3.67	0.60	-3.06
Apr-24	-2.80	1.76	-1.04
Mar-24	3.52	0.72	4.24
Feb-24	-0.38	0.57	0.19
Jan-24	-3.47	0.38	-3.10
Total for 2024 (\$bn)	-13.78	14.49	0.71

Dollar Index had depreciated in first 14 months of Trump's last presidency



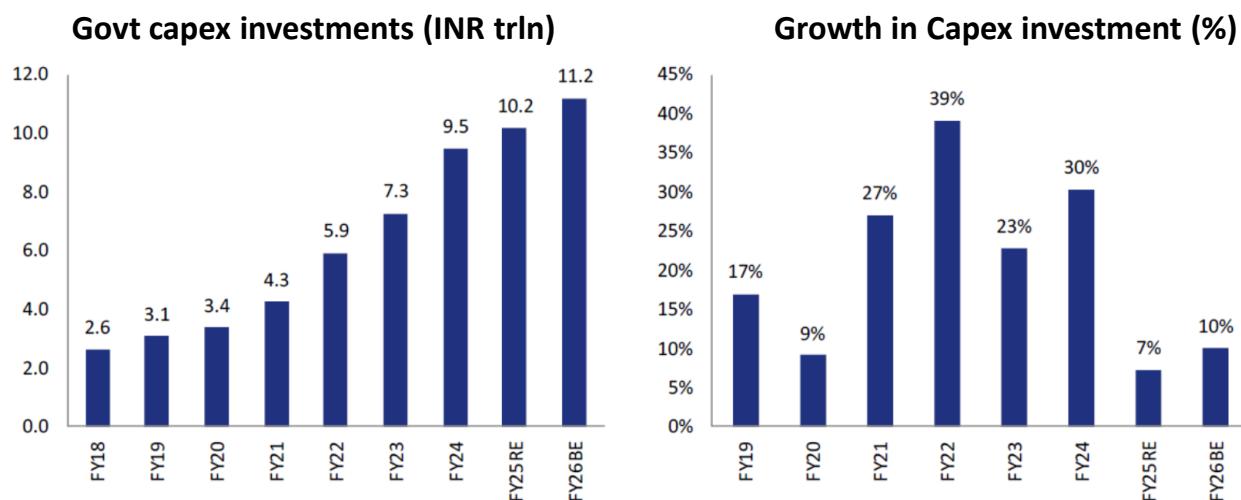
Trump's Make in America and Tariff wars could make Dollar Index weaker as seen in his last term as President

The strengthening of the USD amidst an improved macroeconomic environment in the US remains the major cause of concern for the Rupee. US job growth unexpectedly accelerated in December while the unemployment rate fell to 4.1% as the labor market ended the year on a solid footing, indicating the low chances of a rate cut from the Fed. However, we would have to wait and watch how Mr. Trump's make in America policy and increased Tariffs on various countries impacts inflation in America. **A depreciating dollar is good for emerging market equities like India.**

Earnings slowdown was real; weak Capex to be blamed; recovery in FY26 to be seen post Budget 2025 push though short-term weakness to continue

The Union government's Capex has missed the FY2025 target of INR 11.1 trillion (~3.4% of GDP), due to lower-than-expected spending in the first eight months of the fiscal year. General elections led to government capex slowing down which happens in almost every election year. Further, strong monsoons in 2QFY25 disrupted supply chains. Market expectation however was of a pickup in government spending post the election season but that did not materialize. **Capital expenditures in the Budget for F2026 are pegged at INR 11.2tn, growing 10.1% YoY vs. 7.4% YoY in F2025RE.** As such, the share of capital spending in GDP is estimated at a healthy rate of 3.1% of GDP in F2026BE, similar to F2025RE. The central government continues to push states to increase capex, as it Budgeted INR 1.5tn for 50-year interest-free loans to states to be treated as capex, vs. INR 1.25tn in F2025RE.

Capex which has been below the budgeted estimates in FY25, could see 10% growth in FY26



Budget 2025 provides much needed boost to sagging domestic consumer demand and sentiments

Wage growth was outpaced by inflation, leading to declines in real wages which then impacted the consumption from the middle class population. RBI's regulatory action on unsecured loans, non-banking finance companies (NBFCs), and digital lending further impacted credit growth and consumption. This led to a deceleration in GDP growth in 2QFY25 to 5.4% YoY (sharply lower than market expectations of 6.5% YoY). However now RBI has addressed liquidity issue in the system over the last 3 months.

The government has made significant increase in the tax exemption limits for the middle classes raising the exemption limit from Rs 7 lakhs to Rs 12 lakhs. This would make almost more than 80% of the taxpayers currently registered, as beneficiaries saving anywhere between Rs 30,000 to Rs 1,10,000 per annum in tax savings. **This would spur in consumption demand for discretionary items which had seen some slowdown in recent quarters due to rising inflation and lower income growth.** Retail would be the biggest beneficiary since elasticity of demand is the highest in retail on account of lower price points. **Other sectors to benefit from increased demand would be consumer durables and automobiles.** The government's focus on job creation and support for MSME continues. This segment is the biggest job creator in India and also plays crucial role in raising income levels of households. The finance minister rolled out various measures to boost domestic production, support MSMEs, and improve ease of doing business: (1) Revised classification criteria for MSMEs by raising their thresholds to at least 2x, to help them achieve better efficiency and capital access; doubled credit guarantee cover for them. (2) Additional Rs 100bn government contribution for start-up AIFs. (3) New scheme for 500,000 first-time entrepreneurs from disadvantaged sections.

Current Portfolio construct & Performance

We have for most part of the last 18 months **maintained our biasness towards Urban Consumption and Industrial Capex theme** as we believe these are multi year themes and beyond short term pauses or weakness will continue to deliver as India remains the fastest growing economy in the world with the twin engines of infrastructure and manufacturing led growth and followed by a large domestic captive consuming population. Our current sectoral allocation looks something like the below:

Consumption and Industrials continue to dominate the portfolio with nearly 60% of the portfolio allocation into these two themes

Sectors/Themes	Weightage	Sectors/Themes	Weightage
Urban & Semi Urban Consumption	35.5%	Financials	23.0%
Auto & Auto Anc.	8.1%	Private Banks	11.3%
Consumer Discretionary	16.2%	PSU Banks	3.0%
Hotels	3.8%	Asset Management Co.	3.1%
Real Estate & Ancillaries	2.5%	Wealth Management Co.	2.3%
Chemicals & Textiles	4.9%	Exchange	3.3%
Industrial & Capex	24.4%	Others	16.2%
Capital goods & Engineering	5.0%	IT & ITeS	4.1%
Energy, Power & Utilities	13.5%	Pharma & Healthcare	10.1%
Logistics Shipping & Railways	3.9%	Diversified	2.0%
Telecom	2.0%	Cash & Cash Equivalent	1.0%

Attribution analysis of calendar year 2024's performance shows that **20% of the outperformance came from Sector Selections** (overweight in performing sectors and underweight in under-performing sectors). **Remaining 80% of the outperformance came from company selection** within those sectors. In 2024 out of the top six positive contributing companies, three were from Consumption sector, namely **Trent Ltd, Zomato and Indian Hotels**. Last couple of months Ironically, we have seen some weakness in these consumption companies and infact in January three out of the top five negative attribution companies in the portfolio have been from consumption sectors namely **Trent Ltd, Zomato Ltd and SH Kelkar**. Interestingly now post the Budget 2025 announcements, we are confident that our consumption focus in the portfolio will revive again and would be showing positive contribution in the portfolios.

Regarding the performance of the portfolios, what one month of sharp cut can do to overall returns can be seen in below table:

(As on 31 st Dec'24)	1 Month	3 Months	6 Months	1 Year	2 Years	3 Years	5 Years	Since inception
Quest Multi PMS	0.46%	-2.50%	8.84%	42.44%	34.28%	20.18%	25.72%	18.04%
BSE 500 TRI	-1.50%	-7.79%	-0.74%	15.81%	21.03%	15.35%	19.04%	14.58%

(Returns for periods more than 1 year are annualized returns. Base month changes as we move from 31st Dec'24 o 31st Jan'25)

(As on 31 st Jan'25)	1 Month	3 Months	6 Months	1 Year	2 Years	3 Years	5 Years	Since inception
Quest Multi PMS	-12.39%	-11.14%	-8.53%	16.86%	28.19%	15.85%	21.90%	16.40%
BSE 500 TRI	-3.45%	-4.84%	-8.25%	9.68%	20.96%	14.15%	18.24%	14.07%

After maintaining consistent outperformance in portfolios for almost 16 months, Jan'25 has seen some sharp under-performance which we believe is momentary

We remain confident that the current portfolio allocations are well constructed and will be able to recover most of the underperformance of this month in coming months and quarter itself as **we see the fall in the stock prices in this month more from panic rather than from any fundamental reasons**. We have shared our investment thesis (Annexure 1) on some of the top underperforming companies of this month and reiterate our conviction in all our portfolio companies.

About current market-cap bias in the portfolio, we continue to maintain our allocation of 40-42% into Largecaps and balance in Smallcap and Midcap. **We are expecting the highest earnings growth in the Smallcaps and Midcaps** hence would not want to change our allocation in midst of current panic.

Month Ended	Large cap	Midcap	Small cap	Cash
31-Jan-24	40.0%	17.1%	41.9%	1.0%

Tariffs have been the biggest concern under Mr Trump and that remains a overhang now for globalization

Market outlook and Portfolio strategy ahead

Indian equity markets could remain lackluster for the next couple of months as market absorbs news flow around Trump tariffs on various countries and their impact on India and global supply chains. However **I see limited price correction from current levels and more of a time correction in the market.** The recent imposition of tariffs by US President Donald Trump on imports from China, Mexico, and Canada has significant implications for the global economy. It would import inflation into US thus making rate cuts difficult. On the other hand, there is a possibility that some manufacturing could shift to countries like India which have low tariff barriers now, however that too seems a bit tricky as US companies would be hesitant to put capital into a new geography not knowing when that country could face the wrath of Trump tariffs. There is a high likelihood that Trump uses the tariffs more for striking a deal and might not be long term in nature. Also, **how China, Canada and Mexico retaliate would also change the course and intensity of the tariffs.**

In midst of all the market volatilities and market noise, we continue to focus on our core strength of finding pockets of earnings strength which is supported by the right valuations. We continue to remain fully invested in the market and have not taken any aggressive cash calls in our portfolio. **We believe the current downturn in the market is more temporary and not a structural downfall which warrants any major risk aversion. There is a high probability of earnings upgrades over the next 4-6 months.**

We remain confident of H2FY25 being better than H1FY25 and see strong recovery in earnings for India Inc. in FY26. Among the consumer facing companies **we see strong recovery in earnings for Autos and Consumer discretionary companies.** Q3 is of major importance due to concentration of the festive and wedding season and hence lot of improvement in the numbers could be seen in the next two quarters with further aid from the budget 2025 tax incentives. **In the capital goods sector most companies have indicated that 2HFY25 will see an uptick in revenues** and order inflows following the state elections and they have maintained their full year growth targets. **Cement companies expect profitability to improve in 2HFY25,** led by positive operating leverage, favorable fuel prices, and cost-saving initiatives. Even in Pharma and healthcare space we expect earnings growth momentum to sustain in the coming quarters, led by ongoing niche launches and improved operating leverage.

Index valuations have seen decent corrections from the peak and provide opportunity for investors to build portfolio over the next few months

After the recent correction **Nifty-50, currently trades at 19x P/E for FY2026 earnings and 17.5x P/E for FY2027 earnings.** We don't see these valuations being expensive from a standalone perspective as its very close to historical average valuations. However, when seen on a relative basis to China it looks expensive because China has massively under-performed India in the last 5 years due to its own structural problems. If we look at **NSE-500 which is more broad based, it currently trades at 20.2x P/E on FY2026 earnings and 18.2x P/E for FY2027 earnings.** Again, a sharp drop from the recent 25x and 22x respectively it was trading just a few quarters back. With most commentary highlighting a stronger H2FY25, our view is that we would see some recovery in earnings from Q3FY25 and meaningful recovery from Q4FY25. **From now till the end of the FY25 I see good opportunity for investors to pick quality companies at reasonable valuations during the volatile period.**

Happy Investing!

Aniruddha Sarkar
CIO and Portfolio Manager
Quest Investment Advisors

Annexure 1: Investment Rationale on some portfolio companies which have seen some sharp corrections in recent month

Oracle Financial Services Software Ltd (OFSS)

- ❖ This quarter witnessed the lumpy nature of the business with Products segment declining by 7% on a YoY basis but still growing by 9% YoY during the 9MFY25 period. The other negative surprise came in from a sharp increase in employee cost which formed 49.7% of sales during the quarter vs 46.9% QoQ and 41.70% YoY. However, over a nine-month period employee cost is stable at 46.7% of sales vs 47.0% last year. During 9MFY25, the License and Cloud revenue grew 20% YoY as the demand for cloud-based products increases.
- ❖ The deal signing continues to perform well with 21 deals signed during the quarter of which 12 deals had Oracle Core Banking application. These deals are spread across geographies which reduces concentration risk, and the complex nature of deals makes it a high entry barrier for the competitors. Overall deal pipeline also continues to remain robust. We remain confident of company delivering steady growth going forward as share of license and cloud-based deals starts increasing.

Piramal Pharma Ltd

- ❖ In its 2 out of the 3 segments, the company has seen good growth in CDMO & CHG (Complex Hospital Generics) and better than expectation in 9MFY25, whereas the ICH (India Consumer Health) is at 200-300 bps lower than expectation. Margin trajectory is witnessing Q-o-Q improvement and in-line with the expectations. On a consolidated basis, the company is witnessing higher than expected tax outflows due to some geographies highly (mostly India) and others still reporting losses which can normalize in the upcoming quarters. Since PPL is viewed as a CDMO play, delay in clearance of Biosecure Act in the US had a bearing on the stock price in the recent past.
- ❖ Management is on track to achieve goals set for FY30. Over FY24-30, it aspires to achieve revenues of USD 2bn (15% CAGR over FY24-30) with a 3x jump in EBITDA, margins of 25%. Within the business verticals, its CDMO/CHG businesses are likely to have revenues of USD 1.2bn/USD 600mn with margins of ~25% each by FY30; ICH is likely to have revenue of USD 200mn with double-digit EBITDA margins. Further it targets to reduce net debt to EBITDA at ~1x (2.8x currently) and enhance ROCE to mid-teens (0.9% in FY24).

SH Kelkar & Company Ltd

- ❖ In a challenging environment due to multiple factors such as fire incident at Vashivali plant (key unit for domestic fragrances) and volatility in key raw material prices, the company has been able to navigate H1FY25 with 18.3% revenue growth. Amidst all these headwinds, the management continues to do growth investments in form of new creative development centers (CDCs) in Europe and the US which is affecting the profitability margins in FY25.
- ❖ The medium-term growth outlook for the company remains positive with scale up in Unilever contract, market share gains in global market, revival in domestic FMCG demand and ramp-up in recent and . On margins, we expect SHK to be able to largely pass along input cost fluctuations and extract operating leverage on recent growth investments.
- ❖ Insurance claim and cash flows from operations should help the company par down the debt and acceleration of the same should start happening from FY27 onwards.

Zomato Ltd

- ❖ The food delivery segment is witnessing a consumption slowdown, similar to what was seen in H2FY23. We maintain our assumptions of 20% growth over medium term while factoring the near term slowdown. Budget'25 tax incentives would see discretionary spends increasing thereby supporting its GMV growth mainly because eating out, ordering food, buying clothes, etc sees the biggest jump with disposal income rise among middle class.
- ❖ Blinkit continues to ramp up ahead of expectations, albeit competitive pressure and rapid store addition will drive higher near-term costs. We believe the network may have to carry a greater load of underutilized stores, which will impact near-term profits in the next few quarters. However, once it comes out from this period of expansion, the business is likely to turn meaningfully profitable, as a larger part of the business starts comprising mature stores compared to newly added ones as can be seen from the current cohort shared by the management.
- ❖ We derive comfort from strong execution history of management in the past. With a strong cash balance (~Rs.192bn) post QIP, we believe Zomato is well-positioned to invest in and expand its offerings across both the quick commerce and Going-out (District) business segments, which should drive medium-term growth. We have been holding Zomato for several Quarters now & believe the current correction is only a blip in the long-term journey.

Trent Ltd

- ❖ After a lower-than-expected revenue growth of 40% in Q2FY25, Trent's stock has corrected sharply from recent highs. Additionally, concerns have emerged regarding the relatively slower pace of store openings in the last few months, putting pressure on the growth hypothesis that has driven the stock since we added it to our portfolio several quarters ago.
- ❖ However, we are looking at this from a different lens—square footage addition rather than store count. Over the past six quarters, the average Zudio store size has increased by 23%, from ~7.7K sq. ft. in Q1FY24 to ~9.5K sq. ft. in Q1FY25. While the company defines a Zudio store as ranging between 7,000-10,000 sq. ft., we observe that each new store is becoming even larger. The average size of an incremental Zudio store has surged by 70%, from ~10K sq. ft. in Q3FY24 to ~17K sq. ft. in Q2FY25. This suggests that despite a moderation in store openings, overall retail space expansion remains robust.
- ❖ Another concern has been potential cannibalization, with multiple stores opening in close proximity. While this is a valid point, we believe it is premature to assume it will materially impact Trent's growth trajectory, at least in the near term. The company's expansion strategy appears to be focused on deepening penetration in key markets rather than saturation.
 - Moreover, Zudio continues to add new adjacent categories, including:
 - Beauty (with an expanding assortment),
 - Fashion Jewellery (such as LGD), and
 - Innerwear (via its JV with MAS from Sri Lanka).

These categories offer higher gross margins and higher store throughput compared to value apparel, strengthening Zudio's positioning while creating natural adjacencies for both Zudio and Westside. Despite occasional short-term blips, Trent remains on a strong long-term growth trajectory. Management has demonstrated exceptional execution, creating globally recognized retail formats with improving profitability. We have held Trent for several quarters and believe the current correction presents a temporary pause rather than a structural issue in its long-term growth journey.

Kalpataru Projects International Ltd

- ❖ KPIL ended 2QFY25 with a robust order book of ~INR 606bn, supported by record-high order inflows of INR 84bn, marking a 74% YoY growth. While execution picked up despite heavy monsoons, delivering 9% YoY growth in Q2, management has indicated a potential shortfall in its 20% revenue growth guidance as H1 was impacted by election-related disruptions and slower government spending. Especially in the water segment, collections were slow due to multiple state elections, leading to a moderation in execution.
- ❖ We continue to remain positive on KPIL as it remains a strong beneficiary of multiple macro triggers, including:
 - Government's continued investment in transmission connectivity capex for renewable energy projects.
 - Strong real estate momentum, driving demand for urban infrastructure.
 - Increased spending on water supply projects, particularly under Jal Jeevan Mission.
 - A large order from Saudi Aramco, reinforcing its international growth trajectory.
- ❖ Moreover, KPIL's strategic initiatives, such as the divestment of non-core assets and improved subsidiary performance, enhance confidence in sustained growth with improving RoEs. The company's strong execution capabilities, diversified order book, and improving financial metrics position it well to capitalize on these macro tailwinds.

Hitachi Energy India Ltd

- ❖ The company has in recent months seen some correction owing to concerns globally of lesser than needed capex in Power space due to lesser power needs for Data Centers. We believe this is too short term a view and doesn't reflect the real picture of rising power needs for an emerging economy like India.
- ❖ Hitachi has recently won a large HVDC order for Khavda Nagpur HVDC line. Even ex of the HVDC order, the base order inflows for Q3FY25 have gone up in double digits. The HVDC order has helped them repay short term WC debt with the advances received and it has become a net cash company as of December. Hitachi remains one of the key players in Indian HVDC line projects. Another HVDC order is likely to get finalized in the next 3-6 months, while the third one will get finalized by Q4FY26. Hitachi plans to bid for all projects irrespective of technology, across LCC and VSC.
- ❖ The company has reported strong earnings in Q3FY25 against industry trends. EBITDA came at Rs 1.7bn, up 145% YoY. EBITDA margin at 10.3%, up 496bps YoY (vs Bloomberg consensus of 9.2%), on back of favorable execution mix and improved operational efficiencies. The company remains a key player in the power capex plans of the government in India and will be the biggest beneficiary in the same because of its wide spectrum of technological expertise in various types of transmission types and scale.



ABB India Ltd

- ❖ ABB India is to be one of the major beneficiaries of increasing investments in automation, digitization, productivity, and efficiency. Government's strong capex push in the areas of renewables, water & wastewater, manufacturing, infrastructure, warehouse & logistics, electrical vehicles, transport infrastructure, etc., augurs well for ABB's growth due to its highly diversified product portfolio. Sectors such as electronics, railways and metro, data centers, warehouse & logistics, renewables are expected to deliver 15%+ growth for the company.
- ❖ Order book remains robust at INR 9995 Crore at the end of 3QCY24. Order intake grew 11% YOY in 3QCY24 to INR 3342 Crore driven by diverse sectors such as transportation, metals, and even new ones like the data centers etc.
- ❖ ABB Global has talked of capex in India in 2025 (quantum and timeline not specified). This is a positive read through for ABB India. Their view on data center is similar to our view that lower AI costs will push for more data centers as usage and adaptability goes up in various industries. Past five years it has seen a 25% CAGR in data centers from 2019-2024. It does not expect 2025 to bring that number down. It is not seeing any change in customer plans in the last few months.



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