

JANUARY 2025

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

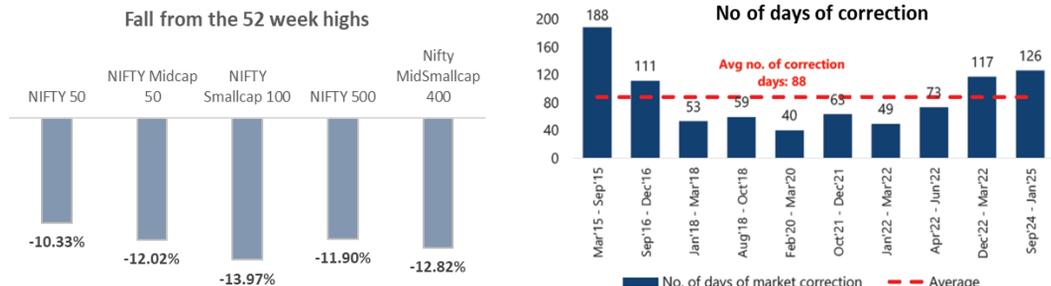
Dear Investors,

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.

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

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%

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.



^^ - As on 31st Jan 2025

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.

JANUARY 2025

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

FII's 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



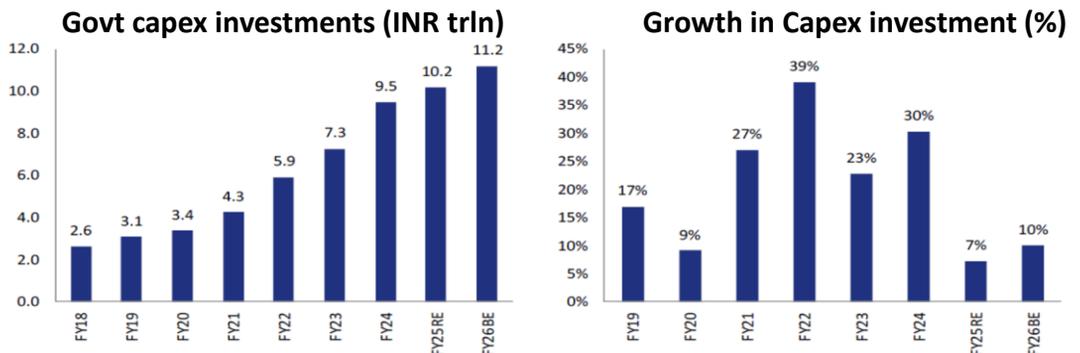
Trump's Make in America and Tariff wars could make Dollar Index weaker as seen in his last term as President

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.

JANUARY 2025

- 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.

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 Ltd 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.**

JANUARY 2025

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

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



Fund Strategy, Objective and Theme

- To generate long term capital appreciation and **superior Risk Adjusted Returns** for clients in the long run by creating alpha through selection of a basket of high-quality listed companies across small and mid cap space.
- The AIF strategy would be small and mid cap focused as defined by their market capitalizations and would also take tactical cash calls from time to time.
- It would be a sector and theme agnostic portfolio and invest via a bottom-up approach. It would be a diversified portfolio of up to 20 - 25 stocks.
- The portfolio is suited for clients who have a **minimum of 4 - 5 years investment horizon**

Key Terms

Inception Date:	28 th April 2023
Benchmark Index:	Nifty MidSmall Cap 400
Minimum Investment:	Rs 1 Crore

Fund Manager

Mr. ANIRUDDHA SARKAR

Aniruddha is the CIO and Fund Manager at Quest Investment Advisors since Feb-2020. He brings with him over 17 years of experience in the capital markets with diverse role managing money for investors across PMS, AIF and Advisory business. He has an eye for sector themes and has been instrumental in catching many themes early on in their lifecycle over the years. Prior to joining Quest, he was with IIFL group companies for over 11 years. At IIFL AMC in his last role, he was the Portfolio Manager for IIFL Multicap PMS since its inception in 2014 where he had generated industry leading performance over the 5 years till Dec 2019 and the same was also recognized in Industry awards in 2019. He holds a Bachelor's degree in Commerce and an MBA in Finance.

PERFORMANCE SUMMARY POST TAXES

(As on 31st December 2024)

Particulars	3 Months	6 Months	1 Year	Since Inception (28/4/2023)
Quest Smart Alpha – Rising Leaders AIF (A1 Class shares)	-4.04	7.70	24.84	25.77
Quest Smart Alpha – Rising Leaders AIF (F Class shares)	-4.04	7.70	23.81	18.80
Nifty MidSmall Cap 400	-4.65	2.30	24.74	43.34

Note: The above returns are unaudited and computed on TWRR basis post all fees & expenses and post taxes paid on all realized gains. Returns less than 1 year are on absolute basis. Client returns could vary depending on their dates of investment and subsequent drawdowns

PERFORMANCE SUMMARY POST TAXES

(As on 31st January 2025)

Particulars	3 Months	6 Months	1 Year	Since Inception (28/4/2023)
Quest Smart Alpha – Rising Leaders AIF (A1 Class shares)	-13.14	-10.94	3.57	15.87
Quest Smart Alpha – Rising Leaders AIF (F Class shares)	-13.14	-10.95	2.72	7.56
Nifty MidSmall Cap 400	-7.04	-10.09	8.88	34.55

Note: The above returns are unaudited and computed on TWRR basis post all fees & expenses and post taxes paid on all realized gains. Returns less than 1 year are on absolute basis. Client returns could vary depending on their dates of investment and subsequent drawdowns



Holdings as on 31st December 2024

Company Name	Weightage (%)
Piramal Pharma Ltd	8.73%
S H Kelkar And Co. Ltd	7.08%
Ajmera Realty And Infra India Ltd	7.07%
Nippon Life India Asset Management Ltd	6.79%
Sansera Engineering Ltd	6.10%
Sequent Scientific Ltd	5.72%
Styrenix Performance Materials Ltd	5.20%
TVS Holdings Ltd	4.77%
Kirloskar Ferrous Industries Ltd.	4.60%
Natco Pharma Ltd	4.55%
Gokaldas Exports Ltd	4.50%
Indigo Paints Ltd	4.48%
Home First Finance Company India Ltd	3.75%
PCBL Ltd	3.32%
Samhi Hotels Ltd	3.29%
GMM Pfaudler Ltd	2.90%
Huhtamaki India Ltd	2.30%
Cash And Cash Equivalent	14.84%



As on 31st December 2024

SUMMARY FINANCIALS OF INVESTEE COMPANIES

Company Name	Revenue Growth (FY 24-26E CAGR)	PAT Growth (FY 24-26E CAGR)	PE FY26
Piramal Pharma Ltd	15.9%	491.5%	56.5
S H Kelkar And Co. Ltd.	9.4%	30.3%	16.3
Ajmera Realty And Infra India Ltd	30.4%	42.1%	18.6
Nippon Life India Asset Management Ltd	24.4%	18.7%	29.6
Sansera Engineering Ltd	16.0%	24.6%	32.0
Sequent Scientific Ltd	63.9%	NA	15.4
Styrenix Performance Materials Ltd	15.5%	25.3%	19.0
TVS Holdings Ltd	12.0%	35.0%	6.6
Kirloskar Ferrous Industries Ltd.	14.1%	34.7%	16.1
Natco Pharma Ltd	18.1%	22.6%	11.9
Gokaldas Exports Ltd	47.3%	33.8%	27.5
Indigo Paints Ltd	13.7%	11.6%	36.4
Home First Finance Company India Ltd	27.1%	23.8%	20.2
PCBL Ltd	24.4%	27.0%	21.4
Samhi Hotels Ltd	18.8%	NA	22.0
GMM Pfaudler Ltd	2.4%	-0.3%	29.8
Huhtamaki India Ltd*	10.8%	37.0%	12.6

The estimates in the table above are on consolidated basis except for banks & financials.

* Companies following CY reporting, hence CY23 -25E



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Gokaldas Exports Ltd



GOKALDAS EXPORTS LIMITED

About the company

- Gokaldas Exports Ltd (Gokex), established in 1979, stands as one of the leading players in India's apparel manufacturing industry. With over four decades of experience, it has cultivated a reputation of delivering high-quality garments to prestigious fashion brands and retailers across more than 50 countries.
- It has 30+ state of the art manufacturing facilities with an annual production capacity of 87mn pieces. The state-of-the-art facilities, equipped with over 30,000 advanced machines, enable it to produce a diverse range of apparel products with precision and efficiency. Workforce of over 51,000 skilled employees, predominantly women, forms the backbone of operations.
- Recently, they have strategically expanded global footprint through key acquisitions. The addition of Atraco, with operations in Kenya and Ethiopia, has provided it with valuable duty-free access to key markets and strengthened global presence. Similarly, the acquisition of Matrix Design has enhanced capabilities in the high-value knitwear segment and expanded customer base in Europe and the UK.

Investment Thesis

- **Capabilities & Infrastructure:** Over the years Gokex has built a robust infrastructure and comprehensive capabilities that position it as a leader in the global market. A relentless commitment to innovation, quality, and sustainability driven operations enables it to deliver exceptional value to clients worldwide. They have a fully integrated value chain, which spans the entire spectrum of apparel manufacturing. Their capabilities include design & development, cutting & sewing, printing, quilting, washing, and finishing.
- **Investment for the Future:** Gokaldas Exports is committed to continuous improvement and expansion. Over the period of FY22 – 24 they have invested ~INR 360crs for modernization and upgradation of plants and adding new capacities. This includes the addition of a new sewing factory in Bhopal. Commissioned Phase I of a new sewing factory with a capacity to manufacture 3 million pieces per annum. Another one is addition of fabric processing unit in Tamil Nadu and diversifying into knit fabric processing with a new facility in Perundurai, Tamil Nadu. The commissioning activity is ongoing, and this unit will enhance its vertical integration capabilities.
- **Recent Acquisitions to Drive Earnings Growth:** Atraco, with its strong presence in Africa, brings valuable duty-free access to key markets and enhances Gokex's global footprint. The acquisition adds five manufacturing facilities across Kenya and Ethiopia, along with over 11,000 skilled workers. Matrix Design strengthens its position in the high-value knitwear segment and provides greater access to European and UK markets. With five manufacturing facilities in India and a workforce of 4,500+, Matrix brings expertise in knitwear manufacturing and a complementary customer base. They have invested ~INR 350crs in BRFL Textiles Private Ltd who is the largest fabric manufacturer with an established brand in India. It has fabric processing plants at Tarapur, Maharashtra with a capacity of 4 lakh meters per day. It has infrastructure capabilities and technical expertise to process multiple fibers, including cotton, viscose, linen, polyester, wool, nylon, modal, silk, and Tencel.



**GOKALDAS EXPORTS
LIMITED**

Gokaldas Exports Ltd

SWOT Analysis

Strengths	Weaknesses	Opportunities	Threats
<p>Fully integrated manufacturing capabilities, spanning the entire value chain.</p>	<p>Fabric represents the largest component of the company's input costs. Any increase in the prices of inputs such as cotton, yarn, or fabric, as well as rising wage costs and inflation, could potentially lead to a decline in the company's profitability.</p>	<p>The ongoing trend of diversifying supply chains away from China presents a significant opportunity for Indian textile manufacturers. Many global brands are looking to increase their sourcing from India as part of their "China Plus One" strategy.</p>	<p>Most Asian countries have established free trade agreements with the European Union, making them more competitive than India in terms of exports to the EU. This poses a challenge for Gokex in accessing the European market and may require strategic measures to enhance competitiveness in this region.</p>
<p>Strategically expanded global footprint through key acquisitions. It has provided Gokex with valuable duty-free access to key markets and strengthened its global presence.</p>	<p>Gokex has been relying on external funding like QIB, and Preferential Issue to raise capital resulting in dilution of equity.</p>	<p>Programs like the PLI scheme for textiles and the proposed Free Trade Agreements (FTAs) with key markets like the UK and EU are expected to boost the sector's competitiveness.</p>	<p>Gokex faces exposure to foreign exchange rate fluctuations as a significant portion of its revenue is derived in U.S. Dollars and Euros. While the Company employs hedging measures to moderately mitigate these risks, adverse movements in exchange rates could have a material impact on profitability.</p>

Risk Management
(Disclosures Under Regulation 22 (g) of SEBI (Alternative Investment Funds) Regulations, 2012)

Parameters	Level	Mitigants
Concentration Risk	Fund	<ul style="list-style-type: none"> Fund shall not invest more than 10% of the NAV in any single Investee Company.
Foreign Exchange Risk	Fund	<ul style="list-style-type: none"> Fund has invested only in Indian securities hence the fund's investments do not face any Foreign Exchange Risk.
Leverage Risk	Fund	<ul style="list-style-type: none"> The fund hasn't taken any borrowings or invested in derivatives till 31st December 2024 nor does it plan to do so in future.
Leverage Risk	Investee Company	<ul style="list-style-type: none"> Strong Balance Sheet is one of the key investment parameters and hence most investments are likely to be in companies where the Debt Equity ratio is very comfortable.
Realization Risk	Company/Fund	<ul style="list-style-type: none"> We will be investing only into listed equities which shall mitigate realization risk to a large extent. Till the funds are invested, they may be parked in overnight / liquid funds.
Reputation Risk	Company	<ul style="list-style-type: none"> The fund prefers to invest in high quality businesses run by capable management teams that have a clear focus on growth and cash flows. The strategy attempts to invest in companies with improving business fundamentals. Periodic evaluation of management decision/strategy and company financials is being undertaken.
Extra Financial Risk	Company/Fund	<ul style="list-style-type: none"> The fund aspires to manage satisfactory liquidity at all times for better management of any financial emergency. All expenses and financial obligations are well managed and provided for. For any investment in smaller companies, liquidity may be a risk. The Fund manager endeavours to take these risks by relying extensively on primary research. For such stocks, risk-reward trade-off between liquidity and long-term prospects is considered before investing and is also reviewed periodically post investments. Portfolio construction will be post considering the overall macro environment, valuations and risk reward equation at that point in time and reviewing each of the investment.
Regulatory Risk	Fund	<ul style="list-style-type: none"> There have been no instances of any inquiries/ legal actions by legal or regulatory bodies against the Fund, Sponsor, Investment Manager or Trustees to the Fund.
Strategy Risk	Company/Fund	<ul style="list-style-type: none"> The investment philosophy and strategy has been discussed in detail earlier. The fund will perform reasonable due diligence/research and seeks to make Fund Investments in Investee Companies that have the potential to earn superior returns vis-a-vis the broader markets.

Disclaimers

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The Fund, the Investment Manager, Trustees and any of its directors, officers, employees and other personnel shall not be liable for any loss, damage of any nature, including but not limited to direct, indirect, punitive, special, exemplary, consequential, as also any loss of profit in any way arising from the use of this material in any manner whatsoever. The recipient alone shall be fully responsible/are liable for any decision taken based on this material. Please read the Private Placement Memorandum (PPM) & Contribution agreement for details about the fund.

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