

JANUARY 2025

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

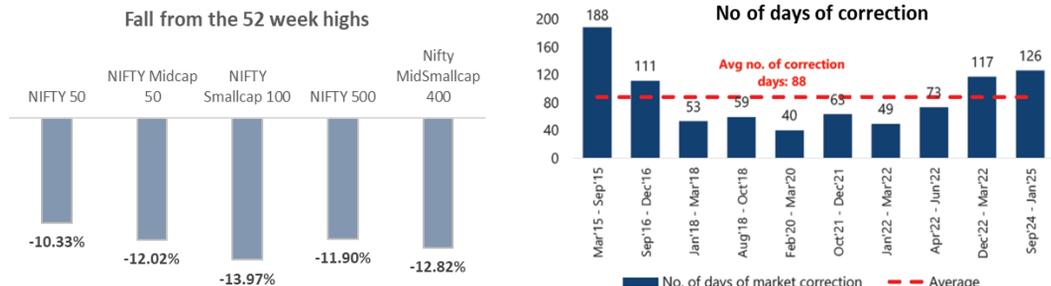
Dear Investors,

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

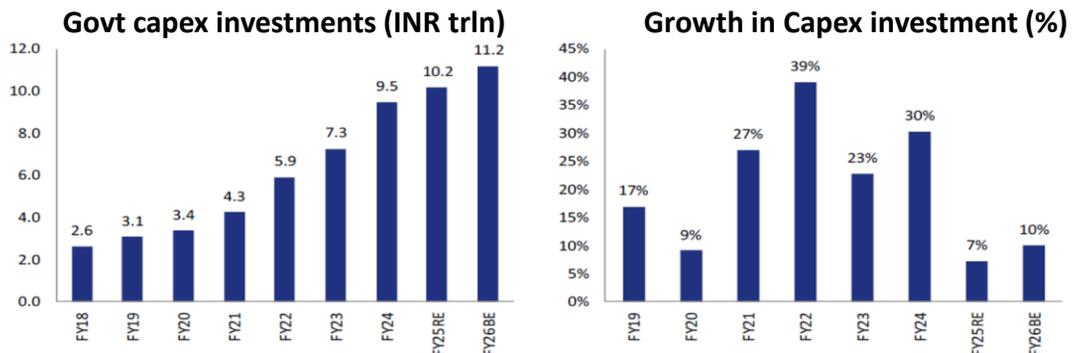
The strengthening of the USD amidst an improved macroeconomic environment in the US remains the major cause of concern for the Rupee. US job growth unexpectedly accelerated in December while the unemployment rate fell to 4.1% as the labor market ended the year on a solid footing, indicating the low chances 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.**

JANUARY 2025

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 market capitalizations and sectors.
- The AIF strategy would be **market-cap agnostic** as defined by their market capitalizations and also take tactical cash calls from time to time.
- It would be a sector agnostic portfolio and invest in maximum four themes at any point of time. It would be a concentrated portfolio of 15-25 stocks.
- The portfolio is suited for clients who have a **minimum of 4 - 5 years investment horizon**

Key Terms

Inception Date:	10 th May 2022
Benchmark Index:	NSE 500
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 (10/5/2022)
Quest Smart Alpha – Sector Rotation AIF (A1 Class shares)	-3.60	1.87	35.92	24.17
Quest Smart Alpha – Sector Rotation AIF (A2 Class shares)	-3.53	1.99	35.92	24.43
Quest Smart Alpha – Sector Rotation AIF (A3 Class shares)	-3.45	2.18	36.47	26.20
NIFTY - 500	-7.71	-0.82	15.16	19.41

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

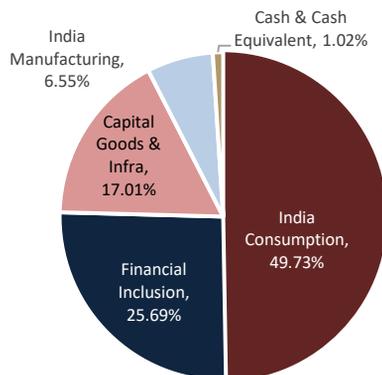
PERFORMANCE SUMMARY POST TAXES

(As on 31st January 2025)

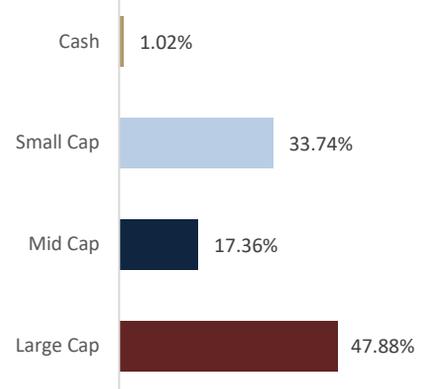
Particulars	3 Months	6 Months	1 Year	Since Inception (10/5/2022)
Quest Smart Alpha – Sector Rotation AIF (A1 Class shares)	-11.80	-14.31	13.22	17.42
Quest Smart Alpha – Sector Rotation AIF (A2 Class shares)	-11.73	-14.15	13.25	17.68
Quest Smart Alpha – Sector Rotation AIF (A3 Class shares)	-11.66	-14.06	13.67	18.94
NIFTY - 500	-4.89	-8.29	8.96	17.19

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

KEY THEME WEIGHTS As on 31st Dec' 2024



MARKET CAPITALIZATION As on 31st Dec' 2024





THEMATIC SUMMARY OF INVESTEE COMPANIES – As on 31st December 2024

Company Name	Theme	Weightage (%)
Zomato Ltd	India Consumption	8.14%
Trent Ltd	India Consumption	7.90%
ICICI Bank Ltd	Financial Inclusion	7.31%
Ajmera Realty And Infra India Ltd	India Consumption	6.90%
360 One WAM Ltd	Financial Inclusion	4.93%
ABB India Ltd	Capital Goods & Infra	4.79%
HDFC Bank Ltd	Financial Inclusion	4.78%
Indian Hotels Company Ltd	India Consumption	4.73%
Kalpataru Projects International Ltd	Capital Goods & Infra	4.45%
Techno Electric And Engg. Co. Ltd	Capital Goods & Infra	4.26%
Bharti Airtel Ltd	India Consumption	3.91%
TVS Holdings Ltd	India Consumption	3.75%
Indigo Paints Ltd	India Consumption	3.46%
Vishal Mega Mart Ltd	India Consumption	3.12%
Siemens Ltd	India Manufacturing	3.02%
Axis Bank Ltd	Financial Inclusion	2.79%
Voltas Ltd	India Consumption	2.76%
Kirloskar Ferrous Industries Ltd	India Consumption	2.51%
Star Health & Allied Insurance Co. Ltd	Financial Inclusion	2.49%
IRCON International Ltd	Capital Goods & Infra	2.15%
Interglobe Aviation Ltd	India Consumption	2.11%
Container Corporation Of India Ltd	India Manufacturing	1.82%
Bajaj Housing Finance Ltd	Financial Inclusion	1.77%
Home First Finance Co. India Ltd	Financial Inclusion	1.63%
ESAB India Ltd	India Manufacturing	1.45%
Indus Towers Ltd	Capital Goods & Infra	1.37%
Huhtamaki India Ltd	India Consumption	0.44%
SKF India Ltd	India Manufacturing	0.26%
Cash And Cash Equivalent	Cash & Cash Equivalent	1.02%

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

* Companies following CY reporting, hence CY23E-25E used for estimation



188/3 Gurukrupa Building, First Floor, Jain Society, Sion (west), Mumbai – 400022



022-69166700



www.questinvest.com

SUMMARY FINANCIALS OF INVESTEE COMPANIES – As on 31st December 2024

Company Name	Revenue Growth (FY 24-26E CAGR)	PAT Growth (FY 24-26E CAGR)	Pe FY26
Zomato Ltd	52.9%	6.9%	113.1
Trent Ltd	39.6%	63.7%	104.9
ICICI Bank Ltd	9.9%	10.0%	18.3
Ajmera Realty & Infra India Ltd	30.4%	42.1%	18.6
360 One WAM Ltd	18.5%	21.5%	41.2
ABB India Ltd *	17.1%	27.4%	72.4
HDFC Bank Ltd	8.1%	8.2%	19.0
Indian Hotels Company Ltd	20.8%	29.1%	59.4
Kalpataru Projects International Ltd	19.8%	33.9%	24.2
Techno Electric & Engg. Co. Ltd	54.3%	35.0%	37.0
Bharti Airtel Ltd	12.9%	96.6%	31.3
TVS Holdings Ltd	12.0%	35.0%	6.6
Indigo Paints Ltd	13.7%	11.6%	36.4
Vishal Mega Mart Ltd	17.6%	20.8%	71.1
Siemens Ltd	17.7%	12.9%	67.2
Axis Bank Ltd	7.6%	3.9%	12.3
Voltas Ltd	19.1%	114.7%	51.0
Kirloskar Ferrous Industries Ltd	14.1%	34.7%	16.1
Star Health & Allied Insurance Co. Ltd	16.3%	24.6%	21.3
Ircon International Ltd	6.2%	8.1%	20.0
Interglobe Aviation Ltd	12.4%	8.6%	18.2
Container Corporation of India Ltd	13.1%	17.2%	27.7
Bajaj Housing Finance Ltd	27.7%	24.4%	39.6
Home First Finance Company India Ltd	27.1%	23.8%	20.2
ESAB India Ltd	15.0%	18.5%	39.7
Indus Towers Ltd	9.3%	13.2%	11.1
Huhtamaki India Ltd *	10.8%	37.0%	12.6
SKF India Ltd	9.7%	13.1%	31.4

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

* Companies following CY reporting, hence CY23-25E used for estimation



188/3 Gurukrupa Building, First Floor, Jain Society, Sion (west), Mumbai – 400022



022- 69166700



www.questinvest.com

Vishal Megamart Ltd



About the company

- Q Vishal Mega Mart (VMM), originally incorporated as 'Rishanth Wholesale Trading Private, is one of India's leading value retail chains.
- Q Headquartered in Gurugram (Haryana), VMM is owned by Samayat Services LLP and Kedaara Capital Fund II LLP.
- Q It caters to three segments – Apparel, General Merchandise and FMCG contributing 43.8% , 28.5% , 27.5% to revenue respectively in FY24.
- Q Positioned as a one-stop destination for budget conscious consumers, VMM operates a mix of large-format stores, targeting tier I/II, and smaller towns, with a focus on providing quality products at competitive prices.

Investment Thesis

- Q **VMM leveraging mass market opportunity:** VMM stands out as a leader in India's price-sensitive retail market, strategically catering to the middle and lower-middle income households with value-driven offerings, with a loyal customer base of 133.8mn in H1FY25.
- Q **Market Leadership:** VMML is a leader in offering affordable products at opening price points, appealing to budget-conscious consumers.
- Q **Geographic Presence:** Operating 626 stores across India, primarily in Tier-2 cities, VMML derives 72% of sales from North and East regions.
- Q **Asset-light business model:** It operates an asset-light business model with all distribution centers and stores being leased, and products manufactured by third-party vendors or sourced from third party brands.

SWOT Analysis

Strengths	Weaknesses	Opportunities	Threats
Own brands contributed 70%+ to revenues.	Over 72% of sales are concentrated in North and East India, leading to Ltd geographic diversification.	The Indian retail market is projected to grow at a 9% CAGR from ₹76 trillion in CY23 to ₹112 trillion by CY28, presenting significant growth opportunities.	Dependence on middle-income households makes the business sensitive to macroeconomic fluctuations.
Strong working capital management with low inventory days and high creditor turnover	While the omni-channel strategy is evolving, online sales accounted for just 1% of total revenues in FY24.	Increasing disposable incomes and urbanization are driving demand for aspirational and discretionary products, such as apparel and packaged foods.	Increasing penetration of online retail may impact brick-and-mortar sales.
Own brands recorded strong performance, with 19 brands achieving sales over ₹1 billion in FY24 and six surpassing ₹5 billion.	Heavy reliance on own brands for sales may limit flexibility in adapting to consumer preferences for third-party products.	Opportunity to expand the store network in under-penetrated regions like the West and South of India.	Dependence on offline channels may restrict scalability in the growing e-commerce segment.

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 the 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

This document is not for public distribution and has been provided to you in your capacity as an investor in the Fund and is meant for information purposes only. This information has been provided to its recipient upon the express understanding that the information contained herein, is strictly confidential and is intended for the exclusive use of its recipient. It shall not be photocopied, reproduced or distributed to others at any time without prior written consent. The information contained herein is from publicly available data or other sources believed to be reliable. Any information mentioned in this presentation is indicative only and may change depending upon prevailing market rate, taxation, regulatory and other relevant factors. Further, investments in proposed securities are subject to certain risks, including but not limited to investments in illiquid securities, restriction on withdrawal and transfer of investments, changes in market conditions, levy of taxes and other regulatory changes, etc. Investment Manager reserves right to modify or make investment in accordance with provisions of the Trust Deed / PPM/ Contribution agreement of the Fund. The details of deals / sectors / investments mentioned in this material can be changed within the provisions of the PPM. The returns herein are not verified by SEBI.

This communication does not constitute or form part of any offer or recommendation or solicitation to subscribe or to deal with the Fund. The views expressed above are the views of Investment Manager as on the date mentioned. These should not be construed as investment advice to anyone. This communication may include statements that may constitute forward looking statements. The statements included herein may include statements of future expectations and, are based on Investment Managers views, observations and assumptions and involve known and unknown risks and uncertainties that could cause the actual results, performance or events to differ substantially or materially from those expressed or implied in such statements. Investment Manager does not undertake to revise the forward looking statements from time to time. No representation, warranty, guarantee or undertaking, express or implied is or will be made.

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.

QUEST INVESTMENT ADVISORS PVT LTD,

 188/3 Gurukrupa Building, First Floor, Jain Society, Sion (west), Mumbai – 400022

 022-69166700 |  www.questinvest.com