



OCTOBER 2024

“Your success as an investor will be determined by how you respond to punctuated moments of terror, not the years spent on cruise control” – Morgan Housel

Dear Investors,

Financial year 2025 seems to be quite an eventful year with something or the other keeping investors on the edge of the seat every month not just in India but also the rest of the world. While April to June was dominated by local general elections in India, July was dominated by budget fears of increased capital gains tax. August onwards we had central bankers differing actions taking centre stage globally. While US Fed was in rate cut mode, we had the Japanese central bank increasing rates after decades and fueling fears of Yen carry-trade unwinding. However, in recent times the market volatility in Indian markets have been driven by three key factors which I believe could remain the near-term drivers for the markets. Let's look at each of these factors a little more in details to understand their implications on Indian markets.

After decades of above par growth in China, the economy seems to be plagued with overcapacity and underutilisation

Factor 1: China stimulus which could make China once more attractive for global investors

Chinese economy which has been seeing a steady decline in its economic activity since covid days, has been making all efforts to revive their growth but to no avail. Real estate crisis has been the biggest disasters there which has led to all around gloom among the locals. Government in a bid to revive the sentiments have done some aggressive policy announcements in September'24 as follows with an objective to give an immediate boost to the sentiments and domestic consumption there in China:

- Reducing the bank reserve requirements by 50 bps
- Reducing the 1-year medium term lending facility rate by 30 bps
- Reducing the 7-day reverse repurchase rate by 20 bps
- Issuing \$1.4 trillion extra debt to refinance local govt bonds and also approve purchase of idle local land and property

The immediate market reaction to all these major policy announcements was positive, with the Shanghai composite index witnessing significant gains in the month of Oct'24. Whether these can be sustained over time will primarily depend on whether the targeted objectives, i.e., resumption in consumption and growth, will be achieved or not. In that regard, a study of similar policy measures in the past and the corresponding movement of the Shanghai composite index in the short-term (6-months), medium-term (1-year), and long-term (2-years and above) could be interesting.

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Past Chinese stimulus measures and its impact on equity markets in China don't give the confidence that current one would have any meaningful impact either

Year	Macro environment	Measures announced	Short-term	Medium-term	Long-term
2019	Trade war & Economic slowdown	<ul style="list-style-type: none"> - Cut the top tier of the value-added tax (VAT) rate to 13% from 16% - Increased the personal income tax threshold and allowed more pre-tax deductions - Total tax cuts amounted to 2.3 trillion yuan (US\$324 billion) in 2019 	20.8%	23.3%	35.3%
2020	Covid 19 Pandemic stimulus	<ul style="list-style-type: none"> - Fiscal stimulus of around 4% of GDP, US\$ 506 billion - China's State Council called on banks to sacrifice 1.5 trillion yuan (US\$212 billion) in profits in 2020 to finance cheap loans to companies as a way to offset the economic fallout - China's central bank had temporarily purchased 40% of unsecured loans made to small and medium-sized firms from select local banks, using 400 billion yuan (US\$56 billion). 	20.0%	23.9%	18.6%
2022	Economic Stabilisation Policies	<ul style="list-style-type: none"> - More targeted infrastructure investments - Central bank interest rate cuts and additional RRR cuts - Tax rebates for businesses and extended fiscal support for struggling sectors. 	-6.4%	-14.9%	-8.1%
2023	Targeted Stimulus	<ul style="list-style-type: none"> - Increased fiscal spending on infrastructure projects - Incentives to boost consumer spending, particularly in auto and household appliances - Cuts to key policy rates to spur lending - Relaxation of real estate purchasing & borrowing limits. 	-9.5%	-6.9%	-

Not surprisingly, considering that such measures take some time to percolate into the economy and engender the desired benefits, their impact on the market is usually more short-term in nature as can be seen from above. Over the longer term, structural factors hold more sway, and we would have to see how the recent policy measures impact the economy in the medium to long term. We believe the FII outflows are more hedge fund money looking for short term trading opportunities and not long-term investors.

Factor 2: Earnings weakness in Q2FY25 and expectations in H2FY25

With nearly 80-90% of the listed companies having reported their earnings so far, there has been more disappointments than positive surprises. Earnings of the Nifty-50 companies that have declared results so far have been flat YoY (vs. est. of +2% YoY). Q2FY25 was anyways expected to be a weak quarter due to base effect, election effect and also overall weakness in domestic consumption and infrastructure activity. However, it seems to be turning out to be the worst quarter in last four years since the covid bottom regarding growth in topline and bottom-line. In fact nearly 60% of the companies which have reported results so far have seen earnings downgrades. The aggregate performance was hit by a sharp drag from global commodities. Excluding Metals and Oil & Gas, Nifty clocked 11% earnings growth vs. expectations of 10% growth. The modest earnings growth was driven once again by BFSI, with positive contributions from Technology, Real Estate, Utilities, Telecom and Healthcare. Conversely, earnings growth was weighed down by global cyclicals, such as Oil & Gas (OMC's profit plunged 92% YoY), which saw a dip of 58% YoY, along with Metals (-28% YoY), Cement (-41% YoY), Chemicals (-23% YoY), and Consumer (+3%).

Q2FY25 is turning out to be the worst earnings quarter since the Covid bottom



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Elections during Q1FY25 impacted the infrastructure and capex activity for 3-5 months which is resulting in all round weakness

One major trend seen in all management commentary in this quarter was that the second half of the financial year (H2FY25) would be much better than the first half as the first half had elections and historically elections lead to infra and project delays across the economy. Among the consumer facing companies from Autos to Consumer staples and 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. 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.

Factor 3: Impact of US Presidential election outcome

In the run up to the US elections, markets were anxious regarding the outcome though the opinion polls consistently showed the return of Mr Donald Trump to the Whitehouse. As Donald Trump prepares to begin his second innings at the White House, stock markets worldwide are already feeling the ripple effect. Investors are closely watching the potential implications of his return, with some sectors rallying in anticipation of his pro-business policies, while others brace for uncertainty amid his controversial economic strategies. Based on protectionism, tariffs, corporate tax cuts, increased infrastructure spending, deregulation, immigration control and strengthening local manufacturing, Trumponomics aims at fostering economic growth, raising incomes and creating more American jobs. But critics say these could stoke inflation, add to fiscal deficit and favour the rich citizens.

Let's look at what could be some of the positive and negative impact for India under the second term of Mr Donald Trump.

BRIGHTER SIDE:

- **Commodity prices under check** – Trump's push for fossil fuels and tariffs on China could slow down Chinese growth further and keep commodity prices lower. India being a net commodity importing country, mainly crude oil, could benefit from the same as the import bill would be lower. Also as the nation continues capex building, lower metal prices could also keep project costs under check.



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There seems to be more structural positives under the new regime of Mr Trump and we would want to wait and watch how things play out

- **Boost to Indian manufacturing and exports** – Trump has repeatedly highlighted about higher import tariffs on Chinese goods and relatively lower tariffs on other countries including India. This could make Indian manufacturing more competitive relative to Chinese goods in the US Markets. Sectors like auto ancillaries, solar panels, chemicals, pharma API, etc could benefit. With improving US and India trade relations, this can potentially drive strong exports of electronics goods from India, which are quite low today. Potentially any exports of mobiles, RACs, PCBAs could be positive for Indian companies.
- **Geopolitical tensions could ease** – If global conflicts are resolved under his administration, it could ease supply chain challenges, benefiting Indian companies. Trump's focus on US manufacturing and military strength may also indirectly support Indian players and their JVs with US defense companies.
- **Boost for Indian IT companies and GCC work** – Indian IT sector growth primarily depends on i) how much AI LLM application work will come to us; ii) increase in IT Budgets of US Inc. as Presidential uncertainty is removed and iii) Fed rate cut impact on growth. The relatively less important direct effects of potential US policy changes are: Reduced Corporate Tax + Make-in-America (to help loosen US IT budgets). US Tax cuts would help Indian IT subsidiaries, US Banking recovery to help and any tightening of Visa restrictions may not affect our IT companies as they are more localized now than 5 years back.

DARKER SIDE:

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

- **Tariffs galore to come** – Looking at the past term of Mr Trump and his election speeches in this year, its very clear that trade and tariffs would be the key narrative to look out for. In the past the US has chosen the countries it tariffs based on whom it has the largest trade deficit with. In the EM space, after China, Mexico and Vietnam, India comes next in the order of its goods trade deficit size. If one were to add services to it, the deficit would only get larger. However, with the incoming President Trump's narrative reportedly focusing more on China-tariffs, how India gets impacted we will have to wait and watch. Its tariff increases are apparently based on 3 considerations, i.e trade balances, currency manipulation & China threat to security. India comes mostly in the 2nd category; hence it is possible that some negotiations will occur about mutual tariffs on specified items rather than a blanket increase and a tariff war as it could be for China.

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- **Rupee depreciation** – Any tariff increases by US (India being categorized as “currency manipulator”) could lead to global competitive currency devaluation. This is a worry for our macro as well as our US exports. Also, with growth picking up in US economy and more focus on domestic manufacturing in US, we could see continued FII outflow from India and other EMs and that would flow back to the US market. This could add further pressure on the Rupee.

Current Portfolio construct & Performance

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. As can be seen from the below table, we have been able to maintain outperformance in all time periods over the short term, medium term or long term in your portfolio.

The current weakness in the market overall has a lot to do with a mix of weak Q2FY25 numbers coupled with FII outflows which is actually heading back to US post Mr Trump’s victory rather than going to China which was perceived to be the case by many earlier. Global Fund managers seem to be betting on Mr Trump giving a substantial boost to Corporate America’s profitability through tax cuts and push for domestic manufacturing. I believe some time correction in our markets can bring our markets back to attractive levels and India would continue to nevertheless trade at premium to rest of the world in the medium to long term.

After the recent correction of nearly 10% in Nifty-50, it currently trades at 19.3x P/E for CY2025 earnings and 17.4x P/E for CY2026 earnings. I 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 I look at NSE-500 which is more broad based, it currently trades at 20.7x P/E on CY2025 earnings and 18.7x P/E for CY2026 earnings. Again, a sharp drop from the recent 24x and 21x respectively it was trading just a few months 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 we see good opportunity for investors to pick quality companies at reasonable valuations during the volatile period.

Happy Investing!!

Team Quest

Consistent outperformance over benchmark remains key focus area for the portfolio in all market conditions

Index valuations are becoming more comfortable with every small correction in the market and offering good entry levels for long term investors



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 30th September 2024)

Particulars	3 Months	6 Months	1 Year	Since Inception (10/5/2022)
Quest Smart Alpha – Sector Rotation AIF (A1 Class shares)	5.67	23.86	52.54	28.99
Quest Smart Alpha – Sector Rotation AIF (A2 Class shares)	5.72	24.01	52.59	29.25
Quest Smart Alpha – Sector Rotation AIF (A3 Class shares)	5.83	24.23	53.16	31.56
NIFTY - 500	7.47	19.70	40.21	25.81

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

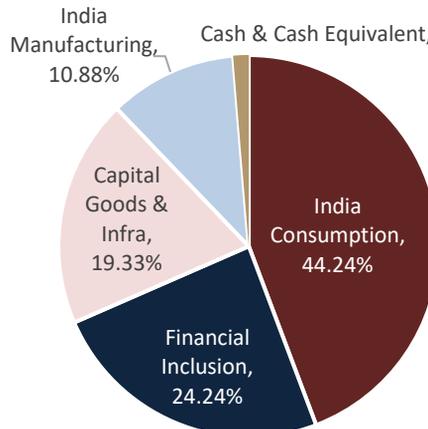
(As on 31st October 2024)

Particulars	3 Months	6 Months	1 Year	Since Inception (10/5/2022)
Quest Smart Alpha – Sector Rotation AIF (A1 Class shares)	-2.85	9.51	47.16	25.55
Quest Smart Alpha – Sector Rotation AIF (A2 Class shares)	-2.75	9.64	47.20	25.81
Quest Smart Alpha – Sector Rotation AIF (A3 Class shares)	-2.71	9.83	47.76	27.79
NIFTY - 500	-3.58	8.06	35.05	21.53

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

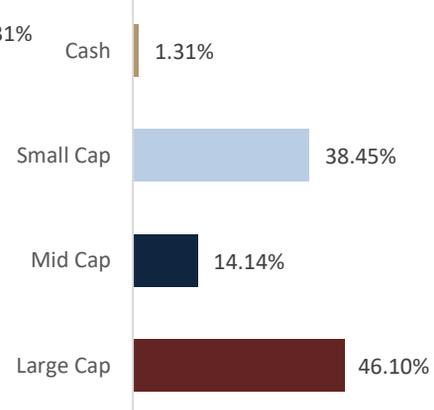
KEY THEME WEIGHTS

As on 30th Sep' 2024



MARKET CAPITALIZATION

As on 30th Sep' 2024





THEMATIC SUMMARY OF INVESTEE COMPANIES – As on 30th September 2024

Company Name	Theme	Weightage (%)
Trent Ltd	India Consumption	8.62%
Zomato Ltd	India Consumption	7.85%
ICICI Bank Ltd	Financial Inclusion	6.97%
ABB India Ltd *	Capital Goods & Infra	5.20%
Kalpataru Projects International Ltd	Capital Goods & Infra	4.71%
HDFC Bank Ltd	Financial Inclusion	4.48%
Ajmera Realty And Infra India Ltd	India Consumption	4.25%
Bharti Airtel Ltd	India Consumption	4.12%
Techno Electric And Engineering Company Ltd	Capital Goods & Infra	3.99%
360 One WAM Ltd	Financial Inclusion	3.73%
Indigo Paints Ltd	India Consumption	3.56%
Indian Hotels Company Ltd	India Consumption	3.44%
TVS Holdings Ltd	India Consumption	3.39%
Star Health And Allied Insurance Company Ltd	Financial Inclusion	3.14%
Siemens Ltd	India Manufacturing	3.12%
Ircon International Ltd	Capital Goods & Infra	2.78%
Kirloskar Ferrous Industries Ltd	India Consumption	2.66%
Voltas Ltd	India Consumption	2.65%
Indus Towers Ltd	Capital Goods & Infra	2.65%
ESAB India Ltd	India Manufacturing	2.47%
Home First Finance Company India Ltd	Financial Inclusion	2.38%
Container Corporation Of India Ltd	India Manufacturing	2.26%
Bajaj Housing Finance Ltd	Financial Inclusion	2.21%
Interglobe Aviation Ltd	India Consumption	2.20%
Timken India Ltd	India Manufacturing	1.62%
Huhtamaki India Ltd	India Consumption	1.49%
SKF India Ltd	India Manufacturing	1.40%
Axis Bank Ltd	Financial Inclusion	1.33%
Cash & Cash Equivalent	Cash & Cash Equivalent	1.31%

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

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



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SUMMARY FINANCIALS OF INVESTEE COMPANIES – As on 30th September 2024

Company Name	Revenue Growth (FY 24-26E CAGR)	PAT Growth (FY 24-26E CAGR)	PE FY26
Trent Ltd	34.8%	51.8%	123.9
Zomato Ltd	30.8%	166.1%	97.1
ICICI Bank Ltd	9.9%	10.0%	18.1
ABB India Ltd *	23.6%	27.2%	84.6
Kalpataru Projects International Ltd	17.8%	31.9%	25.1
HDFC Bank Ltd	15.4%	15.6%	16.3
Ajmera Realty And Infra India Ltd	40.2%	42.1%	11.5
Bharti Airtel Ltd	13.3%	99.0%	34.6
Techno Electric And Engineering Company Ltd	53.7%	34.5%	37.9
360 One WAM Ltd	23.2%	20.6%	32.5
Indigo Paints Ltd	17.4%	16.1%	35.0
Indian Hotels Company Ltd	14.4%	26.5%	48.3
TVS Holdings Ltd	12.0%	35.0%	8.9
Star Health And Allied Insurance Company Ltd	16.4%	25.1%	27.0
Siemens Ltd	15.3%	14.1%	74.2
Ircon International Ltd	5.7%	5.2%	22.5
Kirloskar Ferrous Industries Ltd	16.5%	74.6%	12.9
Voltas Ltd	16.4%	101.8%	59.5
Indus Towers Ltd	8.0%	9.4%	14.6
ESAB India Ltd	15.0%	17.8%	42.0
Home First Finance Company India Ltd	27.1%	23.8%	22.6
Container Corporation Of India Ltd	18.2%	25.0%	28.4
Bajaj Housing Finance Ltd	31.2%	26.1%	46.7
Interglobe Aviation Ltd	12.3%	9.1%	19.0
Timken India Ltd	16.9%	22.1%	48.5
Huhtamaki India Ltd	12.0%	115.1%	15.7
SKF India Ltd	9.9%	18.4%	34.7
Axis Bank Ltd	13.8%	11.9%	12.3

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

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



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Axis Bank Ltd



About the company

- Q Axis Bank commenced operations in 1994 as UTI Bank, which was renamed in July 2007, and is now the third-largest private sector bank in India.
- Q The bank was jointly promoted by the administrator of SUUTI, LIC, GIC, and four public sector general insurance undertakings.
- Q As on Sept 30, 2024, the bank had 5,577 network domestic branches including extension counters across the country.
- Q On March 30, 2022, Axis Bank and Citibank announced that their respective Boards of Directors have approved the acquisition of Citibank's consumer businesses (credit cards, retail banking, wealth management, asset backed financing and consumer loans) in India by Axis Bank.

Investment Thesis

- Q **Strong Deposit Franchise:** Axis has a strong CASA ratio of ~41% (Sept 2024) on back of its vast branch network and focus on continuously adding new liability relationships. The Bank added 2.42mn new liability relationships in Q2FY25. Also, the deposit growth for the bank has been around 14% over the last few years and above the industry average.
- Q **Citi Acquisition is accretive and synergistic:** Axis Bank announced the acquisition of Citibank's India Consumer Business for a cash consideration of INR 123.2 bn. With the acquisition, Axis gets (1) Loans of INR 274 bn in retail segments like credit cards, mortgages, small business, personal loans and asset backed finance (2) Deposits of INR 502 bn, of which ~81% is CASA (3) Wealth management AUM of INR 1.1trn, (4) overall 3mn customers including 2.5mn cards customers. Revenue upside would flow from cross-sell and up-sell of differentiated products to a larger combined customer base and attracting new-to-bank customers with a wider product bouquet. Management indicated cost synergies of 30-40% of Citibank's expenses – to be realized over 2 years post deal closing. This would primarily be attributable to the savings from global shared services, global oversight, infra, technology cost, etc.
- Q **Medium-term RoE of 16-18%:** The levers to maintain a medium-term RoE of 16–18% are in place. NIM stabilization is around 4% and a decline in opex will be the key drivers. As for credit cost, absence of lumpy provisioning seen in the previous cycle will lead to a lower-than-normal credit cost leading to higher profitability and subsequent increase in return ratios.
- Q **Domestic Subsidiaries well positioned:** The domestic subsidiaries have been performing well for the bank and incrementally strengthening capital adequacy of the bank. H1FY25 PAT of domestic subsidiaries grew by 35% on YoY. PAT of key domestic subsidiaries such as Axis AMC, Axis Finance, Axis Capital and Axis Securities grew by 29%, 24%, 29% and 139% respectively.

SWOT Analysis

Strengths	Weaknesses	Opportunities	Threats
Maintains a healthy capital adequacy ratio (CAR) of 16.61%.	Bank's NPA ratio has improved to 1.44% but it still poses a risk to profitability and financial stability.	Bank is expanding its presence in Tier 2 markets through new branches and enhanced service offerings, tapping into the growing demand for banking services in these regions.	Interest rate changes
Offers a wide range of financial products and services, including retail banking, corporate banking and wealth management.		Innovative Financial Products cater to niche markets and high net-worth individuals.	Changes in regulations imposed by RBI can impact operational flexibility and profitability margins
Strong management team.			Lower growth in system deposits can lead to higher competition for deposits and hence higher cost of funds.

Bajaj Housing Finance Ltd



About the company

- Q Bajaj Finance Ltd (BAF) launched its mortgage business in 2009 with LAP products, and it hived off into Bajaj Housing Finance (BHFL) into a separate entity in FY18.
- Q In its eighth year of independent existence, the company has crossed AUM of INR 1 lakh crore with home loan accounting for 57%, majority skewed towards salaried customers.
- Q The company operates from 215 units to 174 locations, of which the majority are in rural regions. Its rural branches are collocated with BAF branches.

Investment Thesis

- Q **Strong Market Position:** BHFL is one of the top mortgage originators in India, growing at 32% CAGR over the last 5 years. Its strategic focus on a desirable ticket size of INR 4.5-5 million addresses approximately 65% of home loan originations in the country, positioning it well to capture significant market share as the housing finance sector expands.
- Q **Operational Efficiency:** The company has transitioned to in-house loan origination, which has reduced customer acquisition costs and improved credit quality. This operational strategy, combined with leveraging its existing customer base from Bajaj Finance, enhances cross-selling opportunities, driving profitability and efficiency.
- Q **Strong Parentage and Capital Infusion:** With backing from the reputable Bajaj Group, BHFL benefits from a strong capital base, having received substantial capital infusions totalling INR 95 billion. This financial strength not only supports growth initiatives but also allows BHFL to maintain competitive borrowing costs, further enhancing its profitability prospects.
- Q **Robust Financial Performance:** BHFL is expected to continue growing its mortgage book from FY24 to FY27 at a CAGR of 26-28%. The company aims for a return on equity (ROE) of 14-15% and maintains a low gross non-performing asset (GNPA) ratio of 0.6-0.8%, indicating strong asset quality and effective risk management.

SWOT Analysis

Strengths	Weaknesses	Opportunities	Threats
BHFL benefits from being a subsidiary of BAF which provides access to lower-cost funds	Highly competition from banks restricting spreads around 2-3%	Focusing self-employed individuals and affordable housing segments can broaden the customer base.	Changes in regulations governing housing finance
Focus on desirable ticket sizes (INR 4.5-5 million) that cater to approximately 65% of home loan originations, positioning it favorably in a growing market.	Dependable on housing cycle	Leveraging scalable technology infrastructure	Margins can be volatile within an interest rate cycle



Indigo Paints Ltd

About the company

- Q Established in 2000, Indigo Paints has emerged as a leading paint company in India.
- Q In an unconventional approach, the Company has started operations by focusing on Tier-3 and Tier- 4 cities.
- Q Having established its presence in the bottom of the pyramid, the Company has started focusing on growth in Tier-1 and Tier-2 cities.
- Q The Company aims to tap into the vast potential of these developing regions with rising disposable incomes and increasing demand for quality paints.

Investment Thesis

- Q **Innovative Product Portfolio:** Indigo Paints has established itself as a category creator in the decorative paints segment, offering differentiated products like Metallic Emulsions, Dirtproof Exterior Laminates, and specialized waterproofing solutions. This innovation-driven approach enhances brand equity and allows the company to command a premium in a competitive market.
- Q **Strong Market Position in Tier 3 and Tier 4 Cities:** The company has effectively capitalized on smaller cities and rural markets, building a robust dealer network with 18,718 active dealers and 10,555 tinting machines (as of September 2024). This first-mover advantage provides a solid foundation for sustained growth as it expands into Tier 1 and Tier 2 cities.
- Q **Diversification into High-Growth Adjacent Segment:** The acquisition of Apple Chemie has enabled Indigo Paints to enter the construction chemicals and waterproofing segments, leveraging India's booming infrastructure development. This diversification reduces reliance on decorative paints and creates new revenue streams.
- Q **Favourable Industry Dynamics:** India's paints industry is poised for robust growth, driven by urbanization, rising disposable incomes, and increasing consumer focus on home improvement. Indigo Paints is well-positioned to benefit from these trends due to its strong brand recall and innovative offerings.
- Q **Growth Potential in Urban Markets:** Indigo Paints' growing focus on Tier 1 and Tier 2 cities, combined with its strategic marketing efforts, presents a significant opportunity to capture a larger share of the urban decorative paints market.

SWOT Analysis

Strengths	Weaknesses	Opportunities	Threats
Presence in rural area and hence does not have major competition from new incumbent in the industry.	Reliance on the decorative paint market for a significant portion of revenues makes it vulnerable to sector-specific risks.	Launch of new products like waterproofing and construction chemicals, gives a good diversification in product portfolio and contribution to revenue.	Macroeconomic factors like inflation and reduced consumer spending could dampen demand.
Category-creator in products such as Metallic Emulsions, Tile Coat Emulsions, Bright Ceiling Coat Emulsions and Floor Coat Emulsions in India.	While Indigo Paints has a strong foothold in Tier 3 and Tier 4 cities, its presence in Tier 1 and Tier 2 cities remains relatively weaker. This limits its ability to capture a larger share of the urban market.	Large-scale infrastructure projects in India create opportunities for the company's industrial and construction chemicals business to grow its B2B presence.	Dependence on petroleum-based inputs makes it susceptible to fluctuations in raw material costs.

TVS Holdings Ltd



About the company

- TVS Holdings Ltd (TVSHL) was incorporated in Chennai in the year 1962 and was formerly known as Sundaram Clayton Ltd (SCL). The company was a leading manufacturer of aluminum die-casting components
- In August 2023, the aluminium diecasting business of SCL was demerged into a separate entity, SCL DCD and SCL was renamed as TVSHL which retained the investments in TVS Motors Ltd and TEL (TVS Emerald Limited). The demerger was done through an elaborate scheme of arrangement.

Investment Thesis

- Holding Value:** The company 50.26% stake in TVS Motors which is valued at over INR 49,000 crore (TVS Motor's market cap ~ INR 1,08,000 crore as on date). This implies a meaningful holding company discount of around 50% and rest of the assets and businesses of the company available free.
- Exploring Opportunities in Real Estate:** Emerald Haven Realty Limited (EHRL) is the real estate venture of the TVS Group. TVS Emerald has already delivered close to 2 million sqft. of residential housing to its customers across 5 projects in Chennai. TVS Emerald plans to launch five more projects soon, all with the single aim of making high - quality living spaces available to home buyers.
- Strong Brand Recognition:** TVS is an established and well trusted brand not only in South India but all over India. A robust brand name is the key to success in the automotive sector, particularly with its two-wheeler and three-wheeler products as well as in real estate business. This strong brand equity fosters customer loyalty and enables premium pricing strategies.

SWOT Analysis

Strengths	Weaknesses	Opportunities	Threats
Healthy cover for the holding company as it holds 50.26% stake in TVS Motors	High reliance on dividend inflows from holding	Monetization of real estate assets on back of strong brand recall	Downturn in real estate cycle can
Strong history assets in form of real estate in marquee locations		Corporate restructuring can unlock significant value	Slowdown in two-wheelers can affect TVS Motors and in turn TVSHL given its still a large part of overall value of company



VOLTAS Ltd

About the company

- Established 7 decades ago through a partnership between Tata Sons and Volkart Brothers, Voltas has evolved as a dynamic force shaping the air conditioning and engineering solutions industry landscape.
- The Company's offerings encompass a range of cutting-edge products like air conditioners, air coolers, air purifiers, home appliances, water heaters and water dispensers, water coolers, products used for commercial refrigeration, a suite of commercial air conditioning products.
- The Company through its wholly owned subsidiary, is also present in engineering services, textile machinery services and mining & construction services

Investment Thesis

- Market Leadership in Cooling Solutions:** Voltas commands a leading market share of 21.2% in the Indian room air conditioner (RAC) segment, bolstered by its strong brand equity and extensive distribution network. Its diverse cooling product portfolio ensures resilience against market fluctuations and sustained consumer demand.
- Strategic Diversification:** Voltas' well-diversified business model spans unitary cooling products, engineering projects, and engineering products. The Voltas Beko joint venture enhances its foothold in the consumer appliances market, providing a growth catalyst through innovative product offerings and entry into newer categories.
- Robust Manufacturing Capabilities:** The company's state-of-the-art facilities, such as the 2-million-unit capacity Chennai plant and backward integration initiatives, enhance operational efficiency, cost management, and scalability to meet growing demand.
- Favourable Industry Dynamics:** Increasing urbanization, rising disposable incomes, and climate change-driven demand for cooling solutions create long-term growth opportunities. Additionally, government policies supporting energy-efficient appliances align with Voltas' product strategy.
- Strong Execution in Engineering Projects:** Voltas has a robust order book of Rs. 7,487(as of September,2024) crores across domestic and international markets, reflecting its expertise in large-scale infrastructure projects. Strategic focus on high-margin international projects ensures steady cash flow and profitability.

SWOT Analysis

Strengths	Weaknesses	Opportunities	Threats
Strong position in the Indian AC market with a 21.2% market share as of September 2024.	Heavily reliant on summer sales, particularly for air conditioners.	Diversification benefit due to Joint Venture with Arcelik, offering kitchen appliances.	Fluctuations in raw material costs and exchange rates can impact profitability.
Backward integration initiatives will ensure cost efficiency and supply chain resilience.	Despite high revenues, lower margins in certain business segments like infrastructure solutions and textile machinery.	India's rapid urbanization and investments in smart cities and commercial infrastructure drive demand for HVAC systems and cooling solutions	Presence in international projects exposes Voltas to geopolitical risks

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 30th September 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

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