Quest Investment Advisors
SEBI Regd PMS & AIF Managers

JANUARY 2025

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

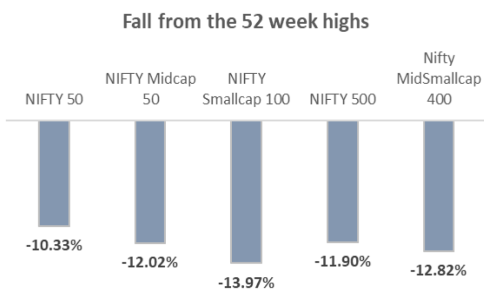
Dear Investors,

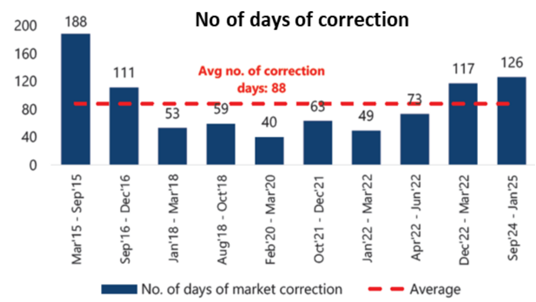
After a decent year for Indian equities in 2024, markets have started 2025 on a soft footing amidst heightened fears from all fronts. Most people wanted a correction for last several months on the back of valuations being rich and earnings slowing down. But like they say, expecting something bad to happen 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.

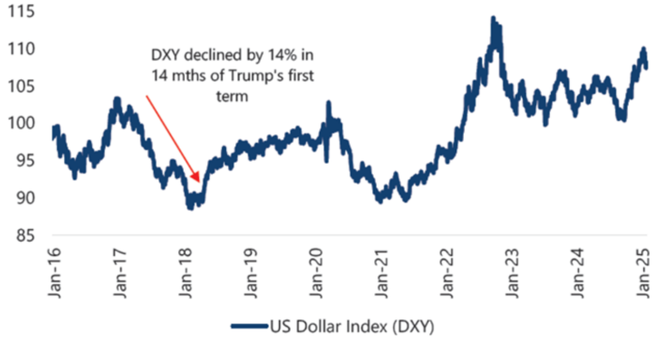
FIIs continue to sell in secondary though primary market show a different picture; INR weakening

FIIs 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



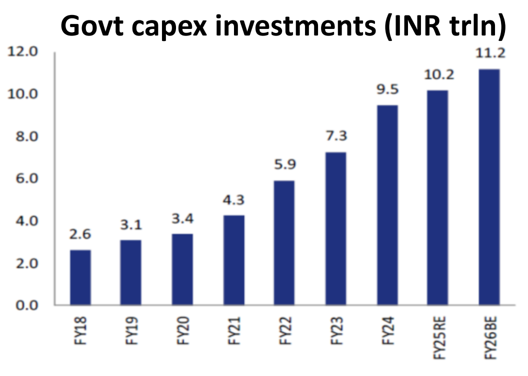
Trump's Make in America and Tariff wars could make Dollar Index weaker as seen in his last term as President

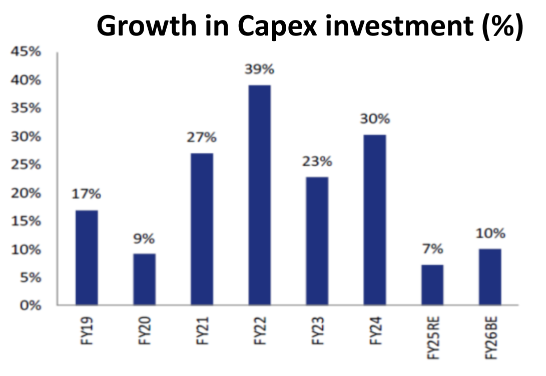
The strengthening of the USD amidst an improved macroeconomic environment in the US remains the major cause of concern for the Rupee. US job growth unexpectedly accelerated in December while the unemployment rate fell to 4.1% as the labor market ended the year on a solid footing, indicating the low chances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

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.**

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

QUEST SMART ALPHA – SECTOR ROTATION SERIES II AIF

Quest Investment Advisors
SEBI Regd PMS & AIF Managers

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:	13th Sep 2024
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 (13/09/2024)
Quest Smart Alpha – Sector Rotation Series II AIF (A1 Class shares)	-1.70	-	-	-0.80
Quest Smart Alpha – Sector Rotation Series II AIF (A2 Class shares)	-1.23	-	-	-1.34
Quest Smart Alpha – Sector Rotation Series II AIF (B1 Class shares)	-1.01	-	-	-0.02
NIFTY - 500	-7.71	-	-	-6.41

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

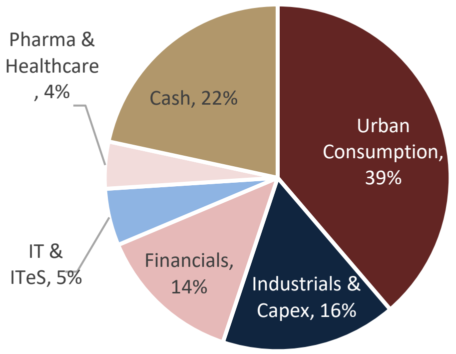
PERFORMANCE SUMMARY POST TAXES

(As on 31st January 2025)

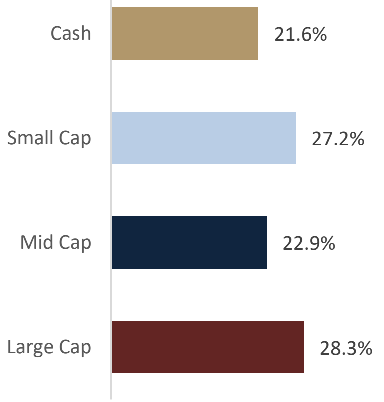
Particulars	3 Months	6 Months	1 Year	Since Inception (13/09/2024)
Quest Smart Alpha – Sector Rotation Series II AIF (A1 Class shares)	-7.29	-	-	-10.53
Quest Smart Alpha – Sector Rotation Series II AIF (A2 Class shares)	-6.94	-	-	-11.35
Quest Smart Alpha – Sector Rotation Series II AIF (B1 Class shares)	-6.78	-	-	-9.74
NIFTY - 500	-4.89	-	-	-9.73

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



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

Company Name	Theme	Weightage (%)
Hitachi Energy India Ltd	Industrials & Capex	5.21%
ICICI Bank Ltd	Financials	4.46%
TVS Holdings Ltd	Urban Consumption	4.37%
Trent Ltd	Urban Consumption	4.12%
Zomato Ltd	Urban Consumption	3.73%
BSE Ltd	Financials	3.71%
ABB India Ltd	Industrials & Capex	3.57%
EPACK Durable Ltd	Urban Consumption	3.43%
Nippon Life India Asset Management Ltd	Financials	3.18%
Sansera Engineering Ltd	Urban Consumption	3.08%
Gokaldas Exports Ltd	Urban Consumption	2.92%
Swiggy Ltd	Urban Consumption	2.79%
Vishal Mega Mart Ltd	Urban Consumption	2.75%
Indian Hotels Company Ltd	Urban Consumption	2.72%
NTPC Ltd	Industrials & Capex	2.70%
Chemplast Sanmar Ltd	Industrials & Capex	2.69%
Persistent Systems Ltd	IT & ITeS	2.67%
Oracle Financial Services Software Ltd	IT & ITeS	2.64%
PCBL Ltd	Urban Consumption	2.55%
United Spirits Ltd	Urban Consumption	2.52%
Sequent Scientific Ltd	Pharma & Healthcare	2.45%
S H Kelkar And Co. Ltd.	Urban Consumption	2.29%
Bharti Airtel Ltd	Industrials & Capex	2.25%
Axis Bank Ltd	Financials	2.20%
Piramal Pharma Ltd	Pharma & Healthcare	1.92%
Samhi Hotels Ltd	Urban Consumption	1.45%
Cash And Cash Equivalent	Cash	21.64%

- The estimates in the table above are on consolidated basis except for banks & financials.
- The fund was incepted only on 13th Sep 2024 and is under the initial phase of portfolio construction and hence cash level looks elevated

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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
Hitachi Energy India Ltd	26.1%	96.1%	96.9
ICICI Bank Ltd	9.9%	10.0%	18.3
TVS Holdings Ltd	12.0%	35.0%	6.6
Trent Ltd	39.6%	63.7%	104.9
Zomato Ltd	52.9%	6.9%	113.1
BSE Ltd	42.9%	73.3%	59.4
ABB India Ltd *	17.1%	27.4%	72.4
EPACK Durable Ltd	43.5%	38.4%	77.9
Nippon Life India Asset Management Ltd	24.4%	18.7%	29.6
Sansera Engineering Ltd	16.0%	24.6%	32.0
Gokaldas Exports Ltd	47.3%	33.8%	27.5
Swiggy Ltd	32.7%	NA	NA
Vishal Mega Mart Ltd	17.6%	20.8%	71.1
Indian Hotels Company Ltd	20.8%	29.1%	59.4
NTPC Ltd	13.0%	12.1%	12.4
Chemplast Sanmar Ltd	16.3%	NA	23.0
Persistent Systems Ltd	19.0%	24.9%	58.9
Oracle Financial Services Software Ltd	11.4%	12.8%	39.3
PCBL Ltd	24.4%	27.0%	21.4
United Spirits Ltd	8.7%	12.0%	71.1
Sequent Scientific Ltd	63.9%	NA	15.4
S H Kelkar And Co. Ltd.	9.4%	30.3%	16.3
Bharti Airtel Ltd	12.9%	96.6%	31.3
Axis Bank Ltd	7.6%	3.9%	12.3
Piramal Pharma Ltd	15.9%	491.5%	56.5
Samhi Hotels Ltd	18.8%	NA	22.0

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

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

ABB India Ltd

- ABB India (ABB) is a power and automation engineering company that offers solutions for electrification products, industrial automation and robotics & motion to industrial and utility segment.
- ABB is a leading global technology company that energizes the transformation of industry to enhance productivity and achieve sustainability.
- The Company's portfolio ranges from light switches to robots, and from huge electrical transformers to control systems that manage power networks and factories.
- It serves its customers through 4 divisions viz Electrification (39% of sales), Motion (36% of sales), Process Automation (21% of sales) & Robotics & Discrete Automation (4% of sales). (For CY23)

Investment Thesis

- **Strong technical capabilities:** ABB is known for its technical expertise in the areas of energy efficiency and process automation apart from electrification products such as switchgears, circuit breakers etc. It is one of the top 4 players in Low voltage (LV) segment and the market leader in Medium voltage (MV) products.
- **Healthy demand revival:** 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.
- **Entry in Tier 3/4 cities:** Revenue contribution from distribution channel for ABB increased to 35% from 30% earlier, driven by penetration in tier 3/4 cities.48% of domestic order intake now comes from tier 3 & 4 cities compared to 43% in CY21. Going forward, order inflow momentum to continue, led by company's focus on strong customer connect through diversified channels.
- **Increasing Share of Exports:** Share of exports is at 10% in revenues and the same is likely to witness strong growth given ordering trends are strong from the group entities. The Parent company has permanently mandated ABB India to supply certain products in Middle East, South & North America which will drive exports business for the company.
- **Strong Order book**: 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.
- **Improving Margins**: ABB has been consistently witnessing margin expansion mainly on account of favorable mix, improved execution, operating efficiency and forex gain. Stabilizing material costs, operating leverage and improved pricing environment in market can help maintain strong margin trajectory in coming quarters. Management has maintained its target of 10% PBT margin going forward, excluding any exceptional item.

ABB India Ltd

SWOT Analysis

Strengths	Weaknesses	Opportunities	Threats
Professional management & Proven track record. Access to Parent's technology	Order inflows to be volatile due to short cycle nature of business	Post Covid, many companies are focusing on Automation, leading to increased demand for company's products	Private industrial capex uncertainty
ABB is one of the top 4 players in LV and the market leader in MV products	Exposed to restructuring decisions by parent company	Catering to diverse industries leading to stronger growth opportunities. Capex revival on domestic side to support strong growth momentum	Supply-chain disruption
Highly diversified product portfolio		Strong order inflow supported by short cycle orders boosting order backlog	Forex fluctuations
Strong Balance Sheet			High competitive intensity in electrification segment

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BSE Ltd

About the company

- BSE Ltd (formerly known as the Bombay Stock Exchange) is the oldest stock exchange in Asia, established in 1875. BSE was the first listed stock exchange in India (2017) and is the fastest exchange globally, with a trading speed of 6 microseconds.
- BSE provides an efficient and transparent market for trading in equity, currencies, debt instruments, derivatives and mutual funds. Indian Clearing Corporation Ltd—a wholly-owned subsidiary of BSE—acts as the central counterparty to all trades executed on the BSE trading platform.
- The exchange operates diverse platforms, including:
  - BSE SME Platform: India's largest SME trading platform.
  - BSE STAR MF: The country's largest online mutual fund platform.
  - India INX: A global trading platform offering access to over 30,000 stocks across multiple markets

Investment Thesis

- **Digitization and Financialization of Markets**: Indian exchanges benefit from healthy GDP growth, rising mkt cap/GDP (India at 100% vs 130-200% for peers) along with financialization of savings and rising equity mkt participation (investor base up ~4x in 5 yrs). Moreover, exchanges are insulated from risks of compression in fees, unlike the debate between active & passive AMCs as well as discount & full-service brokers.
- **Rapid Growth in Derivatives Market:** Since inception in May 2023, Average Daily Premium for derivative segment has increased to INR 9551 Cr in Sep 2024 and quarterly revenue contribution has crossed INR 130 Cr mark in Q2FY25. Its market share in terms of premium has crossed 9% in Aug 2024 and is expected to gain further in coming months. This segment is expected to be the major growth driver for the BSE revenues and profits in coming quarters.
- **Diverse revenue streams to fuel revenue growth:** BSE's diverse revenue streams include its dominant STAR MF platform, which had a market share of ~85% in FY24 and clocked 63% YoY revenue growth. Another growth driver will be the improved revenue contribution from AIPL with new indices offerings and improved data subscription revenue. BSE's colocation facility is likely to add new revenue stream as volumes build up and the company starts charging for order throughput and market data feed.

SWOT Analysis

Strengths	Weaknesses	Opportunities	Threats
Diverse Revenue Streams: Includes transaction fees, mutual funds, and corporate services	Relatively weaker position compared to market leader NSE	Strong growth in derivative segment	Regulatory Risks: SEBI's increasing oversight on derivatives and transaction taxes
Strong market position: Duopoly market between BSE and NSE		Expansion of Mutual Fund Business: STAR MF platform, other revenue streams: co-location services, enhanced index offerings, and fintech collaborations	Cybersecurity Risks: Growing digital transactions increase the risk of cyber threats
		Benefit due to recent regulatory changes	**Competition from NSE:** The larger market player could introduce aggressive pricing or product changes

INVESTMENT RATIONALE AND SWOT

Quest Investment Advisors
SEBI Regd PMS & AIF Managers

EPACK Durable Ltd

About the company

- Established in 2003, Epack Durable Ltd (Epack) began its journey as an OEM for Room Air Conditioning (RAC) brands. Since then, they have expanded operations to manufacture a range of components. These include sheet metal, injection-moulded parts, crossflow fans, and PCBA components, all essential for the manufacturing of RACs. Additionally, they have expanded into the Large Domestic Appliances (LDA) segment with the introduction of Air Coolers, further enhancing portfolio. To diversify and leverage existing manufacturing infrastructure they have strategically broadened their operations to small domestic appliances (SDA) market. This reduces the seasonality of the business. Within the SDA, they design and manufacture induction cooktops, mixer grinders, and water dispensers.

- Starting with a single manufacturing unit in Dehradun (Uttarakhand), the company now operates additional facilities in Bhiwadi (Rajasthan), and Sri City (Andhra Pradesh), boasting a cumulative production capacity of 2.2mn units as of FY24. Its vertically integrated manufacturing facilities enable it to maintain operational costs and logistics management.

- Epack focuses on strong product development and design capabilities which helps in differentiating its products in competitive contract manufacturing of RAC and SDA. The company has dedicated R&D team of 66-members spread across four locations in India. Epack has dedicated R&D centres in: (1) Noida, (2) Bhiwadi, (3) Dehradun, and (4) Sri City. These centres have modern infrastructure comprising endurance test labs for all their business segments (RACs, SDAs, and newly added LDAs).

- Over the years, Epack has established strong customer relationships with several well-known Indian and global brands such as Voltas, Lloyd, Blue Star, Carrier Midea, Haier Appliances, Infiniti retail, Godrej, etc., with an average customer relationship length of 8.7 years.

Investment Thesis

- **Strategically Positioned to Leverage RAC Demand Tailwinds:** Epack's strong capacity addition across business segments (preferably in RAC) puts it in a better position to capitalize on demand tailwinds. India's RAC industry is poised for robust growth, lifted by favorable demand tailwinds over the medium term. Unprecedented volume growth witnessed during the summer of CY24 may be deemed as an initial indicator. Its Sri City plant-driven capacity addition may play a pivotal role in generating higher volumes in unprecedented demand scenarios.

- **Diversification Strategies in Place to Toggle Lean Quarters:** Cutting off the seasonality of RAC business, Epack has consciously expanded into manufacturing of small domestic appliances (SDAs). The manufacturing of SDA will assist Epack to utilize its manufacturing capacity during the non-peak season of its core RAC segment.

- **Actively Adding New Clients:** Epack has entered into a strategic alliance with Hisense for RAC and washing machines as an OEM partner. While washing machines help Epack make inroads into the LDA segment, and further expanding its SDA vertical, the tie-up for RAC drives improved visibility for Epack's volume growth journey. The alliance is structured in a manner wherein Hisense will bring in its technological expertise and premium design capabilities, whereas EPACK will be its EMS partner.

EPACK Durable Ltd

SWOT Analysis

Strengths	Weaknesses	Opportunities	Threats
Epack's product portfolio evolution along with an ability to provide customized manufacturing solutions to its customers is driven by its focus on R&D and testing capabilities. This technical expertise is crucial as an ODM player, as it must meet client requirements while maintaining cost efficiencies and product quality.	A larger part of the revenue is derived from the RAC industry. Any slowdown within the RAC industry can impact revenues of Epack.	The penetration levels for RAC remain extremely low at ~10%. This is expected to significantly increase over the next 3-4 years driven by rising disposable incomes, increasing access to power, consumer finance, frequent heatwaves, etc. This has led to consumers viewing RAC as a necessity rather than a luxury. Hence, these tailwinds suggest strong industry growth.	Rise in competition due to entry of new players and existing players into Epack's operating segments may impact the earnings.
Epack has organically backward integrated its operations and manufactures several RAC components, such as heat exchangers, sheet metal parts, cross flow fans, PCBAs, universal motors, induction coils axial fans, moulds and more. Backward integration also improves the quality of its products, minimizing dependence on third-party suppliers.	In FY21-24, EPACK generated 71.22%, 76.82%, 82.66%, and 80% of its revenue from its top 5 customers. Any loss of a client or a reduction in their demand could severely impact business growth.	By foraying into LDA/SDA, Epack is gradually transitioning from a RAC-heavy product portfolio to a comprehensive appliances' provider. As the RAC and appliances segments typically have distant peak seasons, Epack may achieve relatively higher capacity utilization, thereby boosting profitability.	PLI announcements may induce RAC brands to make investments for building/expanding their own manufacturing. It may partly impact the financial performance of contract manufacturers, including Epack.

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.

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Gokaldas Exports Ltd

GOKALDAS EXPORTS LIMITED

SWOT Analysis

Strengths	Weaknesses	Opportunities	Threats
Fully integrated manufacturing capabilities, spanning the entire value chain.	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.	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.	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.
Strategically expanded global footprint through key acquisitions. It has provided Gokex with valuable duty-free access to key markets and strengthened its global presence.	Gokex has been relying on external funding like QIB, and Preferential Issue to raise capital resulting in dilution of equity.	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.	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.

Hitachi Energy Ltd

Hitachi Energy

About the company

- Hitachi Energy India Ltd (formerly known as ABB Power Products and Systems India Ltd) is the Indian arm of Hitachi Energy—a global leader in power technologies, providing the most comprehensive grid portfolio across the entire value chain.
- It is composed of four business units, namely Grid Automation, Grid Integration, High Voltage Products and Transformers with 16 manufacturing units at five locations, 17 sales offices and more than 2,000 employees across India.
- With a strong commitment to sustainability, Hitachi Energy Ltd. India is strategically positioned to capitalize on the growing demand for renewable energy, smart grids, and energy storage solutions.

Investment Thesis

- **Growth drivers**: 1. Transmission capex: RE capacity is expected to increase to 648 GW by FY31 from 191 GW in FY24. INR 2.44 Lakh Cr investments will be required by FY30 in transmission sector for evacuation. 2. Data center: Doubling the capacity by 2025. Investment from major players like AWS, Adani, NTT 3. Industry: Revival of private Capex in Hydrogen, Steel, O&G and Cement. 4. Distribution: Discom upgradation & modernization and RDSS scheme 5. Rail: Metro, High-Speed Rail, Rail Electrification, Rolling stock Upgrade
- **With a strong commitment to sustainability**, Hitachi Energy Ltd. India is strategically positioned to capitalize on the growing demand for renewable energy, smart grids, and energy storage solutions.
- **Currently, it has order book of INR 8910 Crore as of Sep 2024** which gives visibility for 20 months and order booking outlook remains strong. Hitachi is one of the 3 players in HVDC segment. 2 HVDC projects are expected in the next 12 months when the company is a strong contender.
- E**xports**: Currently exports account for 25% of revenues and management expects it to further improve to 30% over time. Supplies to other Hitachi plants and markets will be the key driver for exports.
- **Margin expansion:** Management expects the double-digit EBITDA margins to sustain by FY25 end. HVDC order, exports and services will drive the gross margins while operating leverage will aid the EBITDA margins over the next 2-3 years.

SWOT Analysis

Strengths	Weaknesses	Opportunities	Threats
Benefits from parent's cutting-edge technology, particularly in the areas of power grids and energy solutions	Poor past performance in terms of margins	Clean Energy Transition	Global supply chain issues, forex fluctuations
Wide range of products and services, including transformers, switchgear, power grid automation, and renewable energy solutions	Dependence on government policy	Government Initiatives: India's focus on renewable grid integration, e-mobility, data centres, and infrastructure development	Intense competition

Indian Hotels Ltd

IHCL

About the company

- IHCL is the largest player in Indian Hospitality sector. The company along with subsidiaries bring together a group of brands and businesses that offer a fusion of warm Indian hospitality and world-class service. These include Taj – the iconic brand for the most discerning travelers, SeleQtions – a named collection of hotels, Vivanta – sophisticated upscale hotels, and Ginger – which is revolutionizing the lean luxe segment.

- As of June 2024, IHCL has a portfolio of 232 operational hotels & 25,230+ rooms – Taj 82 hotels & 12,302 rooms, Selections – 25 hotels & 1,893 rooms, Vivanta 30 hotels & 4,057 rooms and Ginger 66 hotels & 5,882 rooms, Gateway hotels & 531 rooms.

Investment Thesis

- **Indian hospitality and tourism industry at cusp of long term upcycle** - Strong recovery in the Indian Travel & Tourism industry is driven by 1) Easing supply-side constraints that would improve Rev PAR and occupancies, 2) Release of pent-up demand in domestic leisure travel, extended stays, weddings, and social events, 3) Government delegations, and 4) Spiritual and Medical tourism. Furthermore, the opening of economic activities has increased international travel, improving occupancies in the upcoming quarters. This cyclical recovery could last for period of 4-7 years, given the demand-supply mismatch in India.

- **Strategic Initiatives to augment sustainable revenue growth and margins** – Company has declared 2030 Goals

  a. 700+ Hotels portfolio, 500+ operational hotels

  b. INR 15000 Cr consolidated and INR 30000 Cr enterprise revenues

  c. 20%+ ROCE

  d. Sustain +ve Net Cash Position

  e. Revenue contribution: Traditional business: 60%-65%, New business: 15%-18%, Reimagined business:12%-14%, Management fees: 7%-10%

- HCL is benefiting from the multi-brand strategy (presence across the price ladder of Hotels) and heterogeneous offerings. Further, asset light growth should continue to be strong for the company.

- **Strong Cash flow generation constituting ~50%-60% of operating profit** – The company has strong focus on Balance Sheet and doesn't intend to take any meaningful leverage for expansions. It is only selectively doing the greenfield projects. With focus on cost optimization & asset light management contract model to expand room portfolio along with its net debt free balance sheet, IHCL is expected to generate FCF of Rs 1,000-1,500 Cr per year after incurring a minimal Capex of Rs 400 Cr per year over the next 3 years.

- **Expansion plans:** To benefit from the current upcycle in hospitality industry, company has plans to add another 225 hotels across the steady growth brands i.e. Taj, SeleQtions, Vivanta while it will add 275 hotels across Gateway, Ginger, Tree of Life brands by 2030.

SWOT Analysis

Strengths	Weaknesses	Opportunities	Threats
Strong promoter pedigree	Hospitality industry is very sensitive to economic cycles	Indian hospitality and tourism industry at cusp of a turnaround	Weal global macro which could impact corporate / international travel
Largest hospitality chain in South-East Asia	US and South Africa based subsidiaries profitability to be a key monitorable	Strategic Initiatives to augment sustainable revenue growth and margins	Significant increase in land lease and other costs
Taj – renowned hospitality brand globally		Strong cash flow generation	Significant increase in supply in upscale segment in key micro markets

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Persistent Systems Ltd

Persistent

About the company

- Incorporated in 1990, Persistent is a global software company offering product engineering services, platform-based solutions and IP-based software products to its global customers.
- The company has proven expertise, strong presence in newer technologies, and strength to improve its IP base.
- PSL has been focusing on product development, establishing processes to build distributed agile teams and partnering with the world's leading product companies to build software contributing across the entire product lifecycle.
- Persistent specializes in software product and technology services and has delivery centers in North America, Europe, and Asia. The company is helping enterprises to transform their business to software-driven business.

Investment Thesis

- **Deal Momentum:** During Q2FY25 TCV wins grew by 10.4% YoY and ACV was up by 10.3% YoY. Management highlighted broad-based growth in healthcare vertical and remained confident of sustained growth momentum in this vertical. For Hi-Tech vertical management highlighted some green shoots in this vertical which along with the order book inspire confidence on a pickup in growth over the next few quarters.
- **AI Ready**: The company has two broad vectors in AI: AI for technology and AI for business. AI for technology is about transforming the way software gets developed, while AI for business is about transforming enterprises. The company has developed a set of IPs and accelerators, such as IRR and GenAI Hub, which enable enterprises to speed up the adoption of Genei use cases.
- **Growth Outlook:** Persistent System is confident in delivering its growth and margins boost due to various revenue enhancement as well as cost optimization initiatives to provide a significant boost by FY25. The company, on its journey to $2bn revenue, has spawned off two companywide initiatives, with one focused on enhancing service offerings and their approach in mining strategic accounts and the other on cost optimization. Furthermore, Management highlighted that Starfish acquisition is likely to be completed soon. Overall, management remains confident of a strong growth delivery in FY25 without any major incremental investments.
- **Margin Outlook:** The company expects EBIT margin to remain stable YoY in FY25. It retained the aspiration to improve the margin by 200-300 bps over the next 2-3 years. It has initiated a cost optimization program and has hired an external consultant to benchmark its cost with peers. It will be looking to rationalize its employee expenses and long-term incentives (ESOPs) in line with its peers. It expects this program to drive certain one-time benefits as well as some long-term structural benefits.

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Persistent Systems Ltd

Persistent

SWOT Analysis

Strengths	Weaknesses	Opportunities	Threats
The company's growth has consistently outstripped that of the industry for several quarters. Expect strong growth to continue in coming years.	Persistent has higher exposure to BFSI, and Hi-Tech & Emerging Verticals which are going through downturn currently.	High readiness for next-gen technologies, especially in data engineering. Its SASVA platform is already ahead of peers in solving teething GenAI issues, and its pivot to becoming a platform-based service company should give it further upside.	Elongated deal closures due to recession / slowdown fears in Europe and the US economy.
Strong Balance Sheet and Experienced management team with robust execution capabilities	It has lower EBITDA Margin as compared to peers because of higher cost of professionals.	The company signed a strategic partnership agreement with Google that further strengthens its hyper-scaler-led offerings centered on AI-led industry solutions. This will help it drive joint go-to-market activities and accelerate digital transformation for enterprise customers globally.	As it increases in size, Persistent has been trying to play the game of Tier-1 IT services players by bidding for large-sized 'cost take-out' contracts. These typically involve dislodging an existing larger-sized vendor and would require the commitment of saving costs for the customer. If it is not able to do so, it can impact the growth going forward.

INVESTMENT RATIONALE AND SWOT

Quest Investment Advisors
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Swiggy Ltd

Swiggy

About the company

- Swiggy was established as Bundl Technologies Private Ltd on December 26, 2013, in Andhra Pradesh, India.
- Swiggy launched its food delivery operations in 2014, creating a hyperlocal on-demand delivery network that enabled users to order food from a wide range of restaurants via its app and website.
- Swiggy launched its quick commerce segment, "Instamart," in 2020, focusing on delivering groceries and household items within an average of 12.6 minutes
- Swiggy's sales mix has shifted, with food delivery's contribution dropping from 65.1% in FY2022 to 43.2% in FY2024, while quick commerce grew from ₹828 million to ₹9,786 million and supply chain revenue surged from ₹14,653 million to ₹47,796 million during the same period.

Investment Thesis

- **Diversified Revenue Streams:** Swiggy’s strategic investments in supply chain services and dining-out experiences have broadened its revenue base. Supply chain revenue surged from ₹14,653 million in FY2022 to ₹47,796 million in FY2024, showcasing the company's ability to monetize new opportunities effectively.
- **Launch of Swiggy bolt:** Swiggy's 10-minute food delivery service, Bolt, contributes 5% to the company's overall food delivery business.
- **Assortment breadth:** As of Sep,’24, Instamart offered over 19,000 SKUs across grocery and household categories and operates a large network of 609 active dark stores across 44 cities in India, up from 27 cities in Mar’24.
- **Technology infrastructure**: Its proprietary technology infrastructure, combined with advanced data analytics, drives route optimization and inventory forecasting. This technological advantage creates a strong competitive moat, setting Swiggy apart from newer entrants and ensuring sustained operational excellence.

SWOT Analysis

Strengths	Weaknesses	Opportunities	Threats
Strong customer base and restaurant partnerships	Ltd penetration or slower growth in Tier-2 and Tier-3 cities poses concentration risk, especially with increased competition in smaller markets.	Large Target Addressable Market with a young population.	Labor law changes on gig workers impacting delivery partners
One application to serve all the needs of customer i.e. food delivery, quick commerce and dining out.	Although Swiggy was a first mover in the market, its execution has faced challenges and has not been entirely successful.	Eating out culture has just taken off in India.	Pricing wars, aggressive discounting, and customer acquisition costs could erode margins and market share.
			Restaurants pressure on take rates and setting up their own delivery

INVESTMENT RATIONALE AND SWOT

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Vishal Megamart Ltd

About the company

- Vishal Mega Mart (VMM), originally incorporated as 'Rishanth Wholesale Trading Private, is one of India's leading value retail chains.
- Headquartered in Gurugram (Haryana), VMM is owned by Samayat Services LLP and Kedaara Capital Fund II LLP.
- It caters to three segments – Apparel, General Merchandise and FMCG contributing 43.8% , 28.5% , 27.5% to revenue respectively in FY24.
- 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

- **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.
- **Market Leadership:** VMML is a leader in offering affordable products at opening price points, appealing to budget-conscious consumers.
- **Geographic Presence:** Operating 626 stores across India, primarily in Tier-2 cities, VMML derives 72% of sales from North and East regions.
- **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	▪ Fund shall not invest more than 10% of the NAV in any single Investee Company.
Foreign Exchange Risk	Fund	▪ Fund has invested only in Indian securities hence the fund's investments do not face any Foreign Exchange Risk.
Leverage Risk	Fund	▪ 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	▪ 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	▪ 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	▪ 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	▪ 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	▪ 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	▪ 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.

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