QUEST FOUNDATION

QuestPMS

QUEST INVESTMENT ADVISORS PVT. LTD.

Jul 31, 2017

Synopsis

- Investment Outlook
- Investment Philosophy
- Valuation Fundamentals
- Performance
- Portfolio Strategies
- Quest Foundation
- Stock Picking – Case Studies

Investment Outlook

Rising tide lifting boats selectively

Despite capital markets being in the midst of a bull phase, top 5 Nifty50 stocks (as of June 30, 2014) have hardly given any return; cumulative market capitalization remains more or less the same after over 3 years

- However, at least 5 Nifty50 stocks have given over 25% CAGR return in the last 3 years

TAILWINDS

- Low crude prices helping fiscal and current account deficit and inflation
- Providing fiscal space for investment in infrastructure
- 7th pay commission & lowering of interest rates enabling higher discretionary spend
- Good monsoon to help rural demand

HEADWINDS

- Clamp down on crony capitalism
- Over leveraged balance sheets and low capacity utilization
- Above factors leading to low private capex
- Implementation of GST
- Protectionist policies of major developed economies

Divergent Corporate Performance

India to be the foremost equity story globally for many years to come

India running a marathon and not a sprint

- Significant improvement in policy framework over the last 3 years: Bankruptcy Law, GST, FDI liberalization (abolition of FIPB)
- Transparent Governance: Direct Benefit Transfer, auction of natural resources, digitization of the economy
- Predictability & stability in government policies: to provide comfort to corporates
- Crude prices structurally lower: Shale technology to keep a cap on prices
- Macroeconomic situation likely to continue to be benign
- Stable political situation: Modi government likely to continue for another 7 years
- Much improved standing of India in the global community

- India building a very strong foundation for sustainable high single digit growth

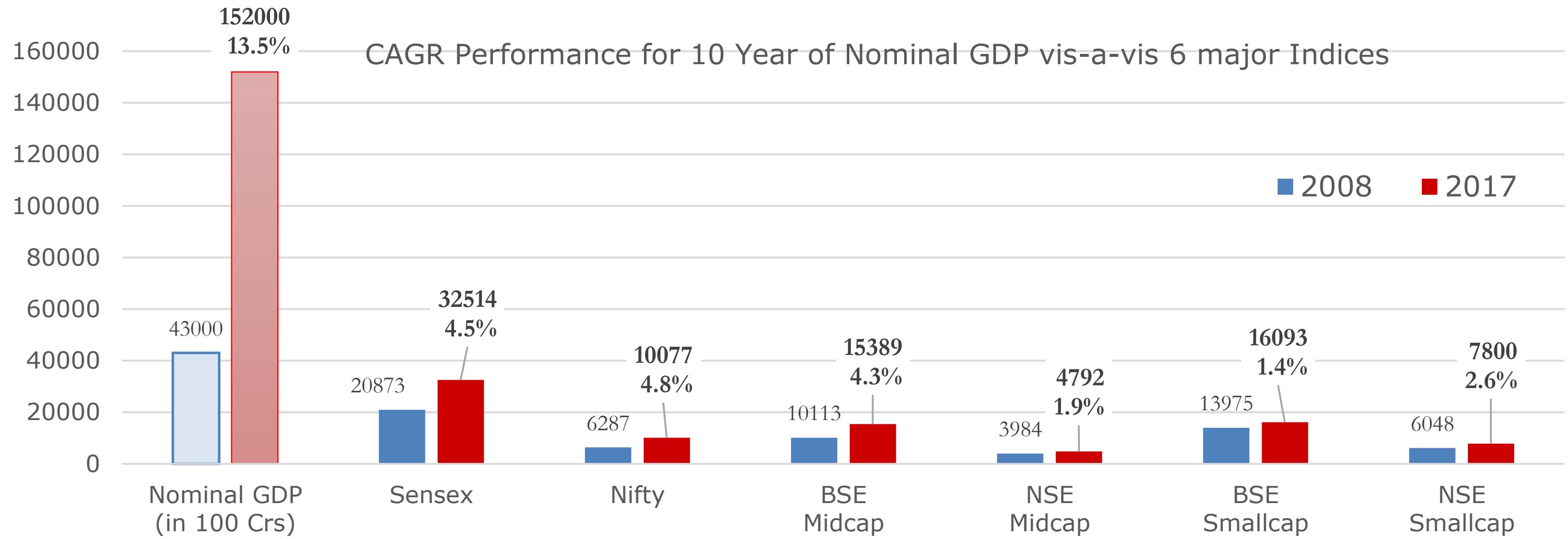
- With monsoon progressing well and GST jitters likely to be out of the way in the next few months, outlook for Indian economy continues to improve
- Overall corporate performance expected to be much better in 12 months from now; however, divergence in performance to continue

India to be the foremost equity story globally for many years to come

Bottom up stock picking to be the mantra for superior returns

- While the tussle between 'long term gains' and 'short term pain' continues, well positioned portfolios have given 20%+ CAGR return in the last 3 years
  - Nifty50 and Sensex have given single digit return during this period
  - Mid cap and small cap indices returns are in mid to high teens
- Indian economy positioned to show significant traction from H2FY18; However, drivers of superior business performance have changed significantly in the last 3 years
  - Companies aligned with Modi government's vision for India expected to do better
  - Core business strength carry much more weight in the current set up
  - Managements' capability to adapt to rapid technological and other changes has never been more important
- Positioning of not only different sectors put even companies within the same sector vary significantly in the current environment
- Unlike the bull phase of 2003 – 08 when rising tide lifted most boats, bottom up stock picking will be key to superior performance in the current bull phase

Market at new highs – Can we invest now?



- India’s Nominal GDP has grown at a CAGR of 13.5% between FY2007-FY2017
- In comparison, CAGR returns for 6 major indices from highs of 2008 to July 2017 ranged between 1.4% - 4.8%
- Above indices have significantly underperformed GDP growth for several years now
- PE multiples seem elevated due to low profitability in several industries viz. metals, infra, PSU Banks; this will reverse as benefit of low interest rates, higher capacity utilization and overall growth in the economy reflects in corporate earnings

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Challenges for the world and Indian economy

Many reasons to fret as well and they will hopefully provide opportunities to savvy investors!

- Implementation of GST can be disruptive in the short term
- Loan waiver schemes of state governments is threatening to spiral out of control
- Effective resolution of the NPA issue can result in jump in provisioning
- Tapering of the massive bond buying programme in the European Union
- Faster than anticipated increase in interest rates by US Federal Reserve
- Geo political risks emanating from North Korea and Iran
- Border dispute with China and confrontation with Pakistan
- Build up of debt in China
- Increasing risk of malware attacks
- Disruption caused by new technologies such as artificial intelligence, internet of things, biotechnology, etc.

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Investment Philosophy

Why Quest

- Our Passion to identify tomorrow's blue chip yesterday
- Quest's out performance is due to consistently investing in growth oriented quality stocks at a reasonable price
- Avoid wasting time on understanding global macros – The Lesson of Oil
- Like governance - investing is a long term process

Our Investment Strategy

- Identify ***under research***, ***ignored*** (***out of favour) and/or turn around stories*** whose intrinsic / fair value is not yet reflected in the market price
- Look for fundamentally sound companies that are coming out of slow growth phase vs their long period averages and are moving into much ***higher growth trajectory***
- Construct a ***reasonably concentrated portfolio*** and nurture the investment as a private equity investor over 3 to 5 years
- Remain invested though company's journey from being a mid cap to a large mid-cap - ***gaining from earnings growth, P/E expansion and price discovery***

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Our Investment Philosophy

Investment Universe

- Macro economic factors, technology, commodity prices, market movements
- Forecasting these is not our strength

Focus List

- Sound businesses backed by management with vision, having crisis management capabilities and hunger for growth

Portfolio

- Sound businesses as above that are available at discount to their intrinsic value

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Few Quotes which describe our Philosophy

- *Herd-like stock selection can only lead to herd-like performance. To get to the top of the performance distribution you have to escape the crowd* – Howard Marks

- *Keep all your eggs in one basket, but watch that basket closely.* — Warren Buffett

- *Our portfolios are set up to outperform in bad times, and that's when we think our performance is essential. Clearly, if we can keep up in good times and outperform in bad times, we will have above average results over full cycles and below average volatility, and our clients will enjoy outperformance when others are suffering.* − Howard Marks

- *In stocks as in romance, ease of divorce is not a sound basis for commitment. If you have chosen wisely to begin with, you won't want a divorce.* – Peter Lynch

- *A concentrated portfolio of strong and predictable companies acquired at a price that makes sense will do the job.* - Charles T. Munger

- *You learn quickly in this business that you are not going to look smart all the time, which invariably brings criticism. We always remind ourselves of a quote* ***"I had rather lose clients then lose clients' money"*** – David Samara

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Valuation Fundamentals

QuestPMS Valuation Fundamentals

Current Index - PEs				
	SENSEX	NIFTY 50	Nifty-Midcap50	Nifty Full Small100
Index Value	32514	10077	4792	7800
PE as reported by exchange (TTM basis)	23.7	25.7	67.0	59.3

QUESTPMS Companies – Composite PE	
FY-2017A	24.9
FY-2018E	20.8
FY-2019E	16.4
Estimated weighted average CAGR growth for 3 years till FY20	
Revenue	12%
EPS	23%

QuestPMS portfolio companies' revenues are expected to grow at CAGR of ~12%, however, due to margin expansion, projected earnings are expected to grow at a substantially higher ~23% CAGR over the next 3 years (FY17-20)

QuestPMS portfolio's weighted average price-earnings multiple is 20.8 times FY18 and 16.4 times FY19 earnings

(Source: Quest Internal Research)

QuestPMS portfolio is trading at reasonable valuations providing margin of safety & giving us confidence in its ability to outperform in future as well

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Performance

Flagship Performance as on Jul 31, 2017 - XIRR

Period	XIRR Performance %						
	Portfolio	Sensex	Nifty 50	BSE Midcap	Nifty Midcap 50	BSE Small Cap	Nifty Small 100
3 Months	6.6	8.7	8.3	4.0	2.9	4.7	4.8
6 Months	21.2	17.6	17.7	19.7	24.0	24.4	23.8
1 Year	21.9	15.9	16.7	21.6	30.1	30.7	28.2
2 Years	19.1	7.5	8.7	16.8	18.0	16.6	16.8
3 Years	24.4	7.9	9.3	18.8	15.0	17.2	15.5
5 Years	27.0	13.5	14.0	20.7	18.4	20.1	19.4

- The Above returns are of a Model Client as on Jul 31, 2017. Returns shown above are post fees & expenses.
- Returns of individual clients may differ depending on time of entry in the Strategy. Returns above 1 year are CAGR
- Past performance may or may not be sustained in future and should not be used as a basis for comparison with other investments.

Consistent outperformance across benchmarks and time periods

Flagship Performance as on Jul 31, 2017 - Absolute

Period	XIRR Performance %						
	Portfolio	Sensex	Nifty 50	BSE Midcap	Nifty Midcap 50	BSE Small Cap	Nifty Small 100
3 Months	6.6	8.7	8.3	4.0	2.9	4.7	4.8
6 Months	21.2	17.6	17.7	19.7	24.0	24.4	23.8
1 Year	21.9	15.9	16.7	21.6	30.1	30.7	28.2
2 Years	41.8	15.6	18.2	36.4	39.2	36.0	36.4
3 Years	92.5	25.6	30.6	67.7	52.1	61.0	54.1
5 Years	230.4	88.4	92.5	156.2	132.7	149.9	142.7

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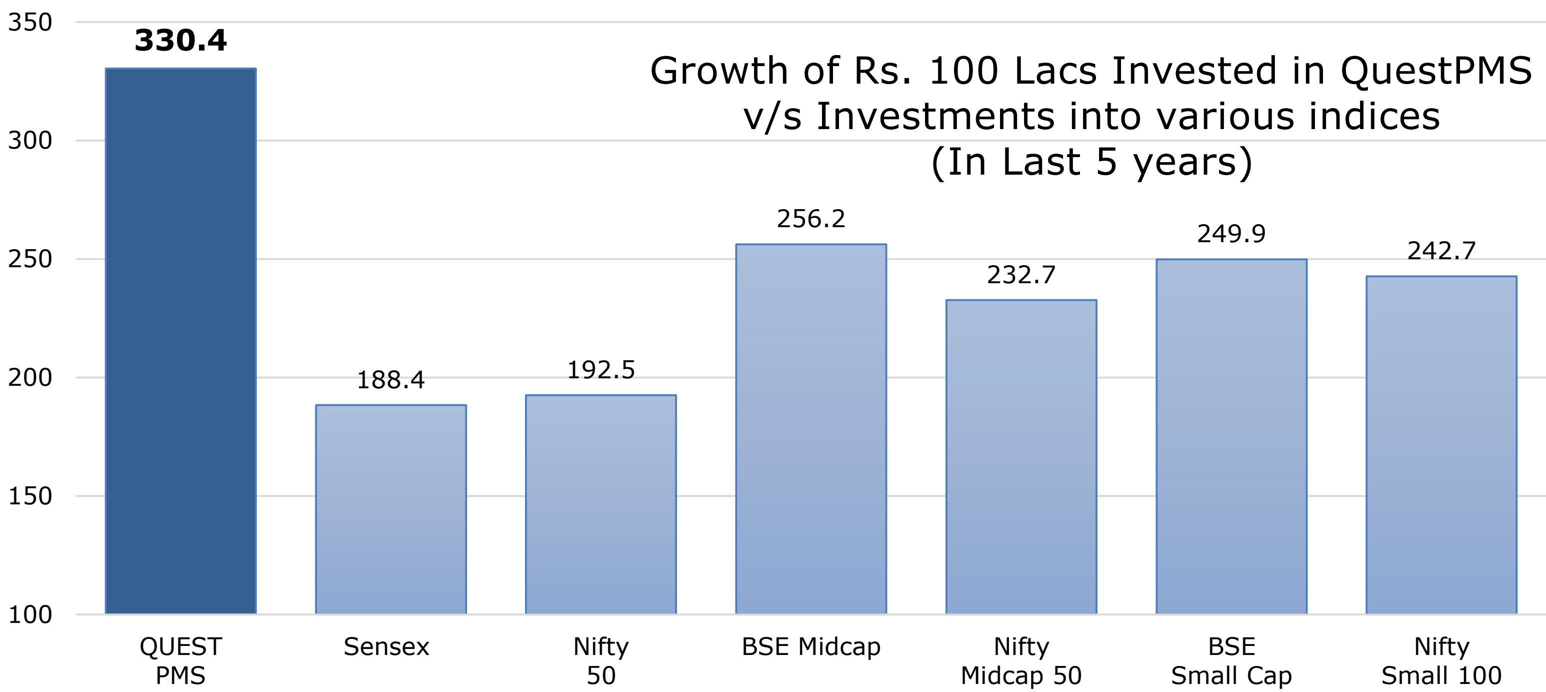
Consistent outperformance across benchmarks and time periods

Flagship Performance as on Jul 31, 2017



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Consistent outperformance across benchmarks and time periods

Quest Foundation

Quest Foundation

Stated objective

- Quest Founders have publicly pledged to use all their profits for charitable and spiritual activities; contributed over Rs. 31.83 crores in ~5 years
- Quest Foundation presently operates Iyengar Yoga classes from a 4,000 sq. ft. premises in Sion
- Quest Foundation also runs Nutun Gyan Dhara, a free public library with over 5,000 titles on various subjects like spirituality, healthcare, etc.
- Currently Quest Foundation is actively associated with
  - Sion Hospital – Mumbai (Medical)
  - SNDT College – Wadala – Mumbai (Education)
  - Tribal Integrated Development Trust – Mumbai (Tribal work)
  - Shri Ram Hospital – Gondal – Gujarat (Rural Healthcare)
  - Bellur BKS Iyengar Trust – Bangalore (Education and Medical)
  - Chinmaya Mission – Mumbai (Spiritualism)

Our obligation to Society

Disclaimer

- Investors are NOT BEING offered any guaranteed / assured returns.
- Investments in equities are subject to market and other risks.
- Value of investments may go up or down due to various factors and forces affecting the capital market.
- Our past performance does not indicate the future performance of the portfolio manager and/or the portfolio management scheme.
- Investors are urged to apply appropriate caution while making investment in the QuestPMS.
- There is no capital guarantee in the QuestPMS.

Thank you

Quest Investment Advisors Private Limited

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Stock picking case studies

Carborundum Universal (CUMI)

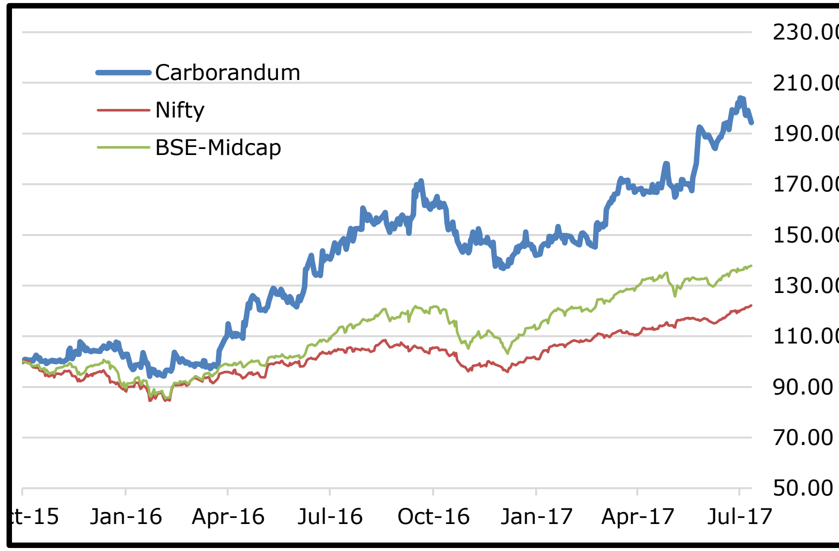
Investment Date: 17-Oct-2015

Rationale at time of Investment:

- EMD business was struggling due to declining sales of micro-grit (a key product used in solar panels) & operational challenges with South African acquisitions However, turnaround was in sight with Management restructuring operations, developing new capabilities and value added products
- Ceramic business to be mainly driven by strong demand for engineered ceramics & acquisition of metallized cylinder plant
- Domestic abrasive growth to be driven by Make in India and infrastructure focus of the Government

Current Outlook:

- Plant relocation (from South Africa to India) has been completed & operations to kick-start in 1Q FY 2018. CUMI has created a strong portfolio of value added products which will augment revenue & margin of EMD business going forward
- Ceramic division to benefit from sustained growth in engineered ceramic coupled with Metz cylinder plant operationalizing in 1Q FY 2018
- Abrasive business to benefit from strong domestic growth coupled with operational break-even to be achieved In China in FY 2018
- Topline expected to grow @ CAGR of ~15% (FY17-20) & margins to expand 220 bps to 18% in FY 2020



Valuation then: Was available at 15 times FY 2017 estimated consolidated EPS of Rs. 11.2

Current Valuation: At CMP of Rs. 340, share trades at P/E of 23.2 times FY 2019E earnings

Source: Internal Research

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Kirloskar Ferrous

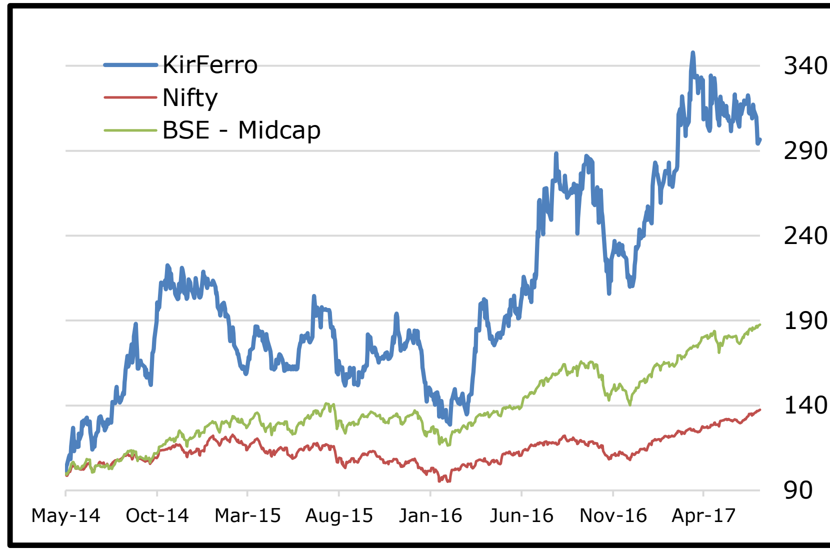
Investment Date: 28-May-2014

Rationale at the time of Investment:

- Post the expansion, KFL would be one of the largest foundries, with capacity of 1.5 lac tons – to manufacture intricate engine blocks for marquee clients like Daimler, Volvo, HINO, M&M and all major domestic tractor manufacturers. It is also one of the most efficient pig iron manufacturer
- Higher contribution from casting business (higher margin) will transform the company from primarily a commodity player to a value added auto component company

Current Outlook:

- We expect gradual improvement in utilization of new foundry to increase profits. Improved profitability and efficient management of working capital will help maintain its borrowings at current levels despite increasing sales
- Acquisition of iron ore mine by the company can have a very substantial positive impact on the Pig Iron business
- Company is confident of achieving superior margins resulting in faster growth in bottomline vis-à-vis topline growth



Valuation then: At Rs. 32, share was available at P/E of 8 times FY 2015 earnings

Current Valuation: At CMP of Rs. 93.75, share trades at P/E of 11.3 times FY 2019E earnings

Source: Internal Research

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KEC International

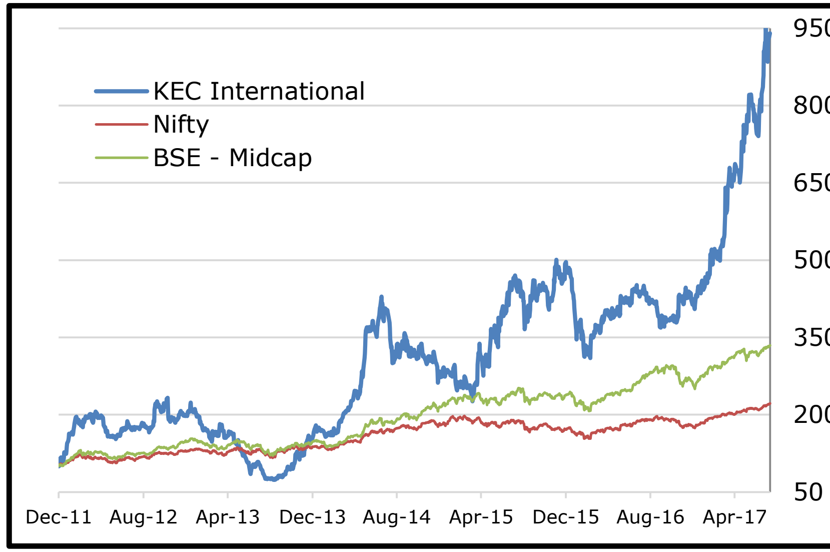
Investment Date: 20-Dec-2011

Rationale at time of Investment:

- A global infrastructure EPC major with presence in the area of power transmission/systems, railways and water. Company is also into manufacturing of power and telecom cables
- Present in 45 countries across South Asia (including India), Middle East, Africa, Central Asia and America
- It is a dominant player in transmission line towers in India and many other countries overseas

Current Outlook:

- Topline expected to grow @ CAGR of ~11% for next 3 of years (FY17-20)
- Improvement in EBIDTA (by 50 bps) coupled with interest savings (Interest to Sales to improve by 25 bps) would enable PAT to grow at faster pace than top line. Earnings are expected to grow @ CAGR of ~23% for next 3 years (FY17-20)
- Savings in interest is expected to be on two counts – reduction in working capital requirements and decrease in interest rate on borrowings



Valuation then: Was available at 5 times FY 2012 estimated consolidated EPS of Rs. 6.54

Current Valuation: At CMP of Rs. 305, share trades at P/E of 15.5 times FY 2019 earnings

Source: Internal Research

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The Ramco Cement (TRCL)

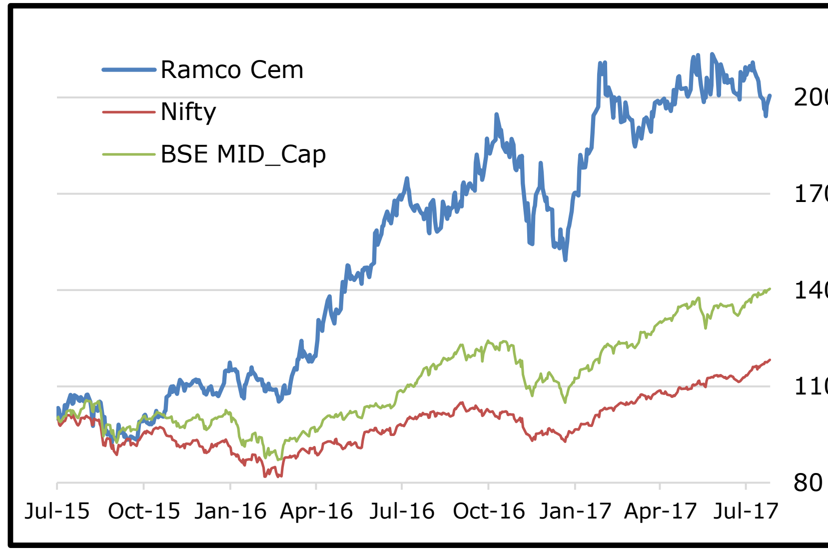
Investment Date: 06-JULY-2015

Rationale at time of Investment:

- Cement demand was languishing in Southern India due to political instability & capacity overhang. Demand revival seemed inevitable & prominent players like TRCL expected to be prime beneficiaries
- Company was planning to increase its usage of petcoke to reduce its fuel cost and improve margins
- Company had plans to expand regionally by further penetrating into newer regions like Orissa

Current Outlook:

- Ramco Cement has emerged as one of the most efficient cement player in India
- Company's current capacity utilization is around 60% and higher operating leverage benefit will be realized once these utilization levels improve (with strong demand emanating from AP/Telangana region) going forward
- Company continues to work on improving its freight (100% coastal shipping used to transport clinker to West Bengal unit) and fuel cost (optimum use of pet-coke which is still 15-20% cheaper than coal on K/Cal basis)
- Company is expected be net debt free within next 2 years



Valuation then: Was available at 18 times FY 2017 estimated consolidated EPS of Rs. 19.1

Current Valuation: At CMP of Rs. 680, share trades at P/E of 19.5 times FY 2019E earnings

Source: Internal Research

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