QUEST PMS PORTFOLIO UPDATE – APRIL 2020

Dear Patrons,

Hope all of you continue to remain in the best of health and are safe and sound during the current crisis.

After a confidence wracking fall seen in the month of March'20, Indian indices gave some breather and reason to calm investor's nerves in the month of April'20. Whether we call it a bear market rally or genuine buying of deep value stocks, fact remains that indices have bounced nearly 15-20% from the lows of March, while selective individual stocks have seen sharper rise. However **one should not get carried away either on the falls or on the rise** as is quite typical of humans when faced with fear and greed. As I have been saying in my earlier communications also, such times are **best times to rebalance and realign your portfolio with focus on stability and growth in an otherwise uncertain world environment**. Leaders change in the market and earnings cycle change and we as investors need to know where the next opportunity lies. That we have to live with the virus alongside now for months till a vaccine is discovered is now a fact well accepted by governments and people globally.

So what has changed in the last 30 days since my last detailed communication at the end of March'20? Well India continues to be in lockdown with some partial relaxation in green and orange zones. This was required and I believe we need to start opening up industries and services gradually in a calibrated way and at the same time monitor the spread of cases and contain the red areas strictly. **A complete lockdown cannot go on longer as the economic costs and destruction of livelihood for millions will start outweighing the cost of human lives lost due to the pandemic**. Nevertheless economic impact has already started showing its ugly face with PMI data and GST collections being the best indicators for the same. We cannot take April data as a benchmark considering everything was shut, but **there are many second and third order repercussions which will start impacting the economy** if factories don't start turning the wheels soon. Job losses, income erosion, wealth erosion are already building up and will have short term impact on consumption. State revenues have dwindled and there was no other option than to open up alcohol sales as it's a large contributor to state finances. Our economy is so intertwined that an economic activity allowed in one part of the country could be constrained by supply-and-demand bottlenecks in other parts. Supply chains, demand centers, and labor corridors would need to be restored while the country ensures that lockdowns are sharply targeted in the locations and for the activities required to contain the virus.

The way we see things shaping up ahead can be broken down into three buckets based on the time period into consideration:

Bucket 1 – Short term (1- 3 months): During this time as we see segments of society opening up with restrictions, there would be sudden **surge in demand for small ticket discretionary spends** like electronic gadgets, clothes, non essential household items etc demand for which have been pent up for months now. A part of this spending behaviour would be '**Revenge buying**', which means people want to spend and feel good after they come out of the boredom at homes. The other part would be **genuine need based** which could not be full-filled in the months under lock-down. We could also see some surge in demand for 2 wheelers and cars as **people want to move to personal transport and avoid public transport**. These would be the ones whose earnings have not been significantly impacted and were earlier in two minds about public transport vs owned vehicle. Seeing this buying behaviour **many could attribute this to a 'V' shaped recovery citing similar behaviour seen in China and US markets**. However would advise people not to draw parallels with those countries as we have had different problems of our own pre-Covid which are yet to be addressed. Sectors which would continue to be under pressure during this period would be entertainment (movie halls), tourism and airlines, large ticket discretionary spends, Real Estate and consumer facing banking and NBFC.

Bucket 2 – Medium term (3 – 9 months): This is a crucial phase as it could define the market sentiments ahead. **During this time frame we could see the second and third order impact hitting the economy** which would be a result of job losses and salary cuts in urban India. We see further damage to the domestic demand as people become less optimistic of their cashflows and turn to savings. **Blue collared workers would see large impact in their earnings and livelihood** as companies resort to cost rationalization in an environment of weakened demand. However at the same time there would be a resilient rural economy in India which would have seen a good monsoon, a good harvest and stable food prices. It wont be surprising if **rural India growth outperforms Urban India growth in next few quarters**. Government borrowing would also increase adding stress to fiscal deficit and possible ratings downgrade for India. Nevertheless we could see government pushing for infrastructure projects to bring back jobs in the unorganised sector. **Consumer staples** could make a comeback, **pharma** would continue to see improved exports to US and other countries and **Indian technology companies** would resume their full operations and earnings would resume pickup in Q2-Q3FY2021. **Consumer facing financial companies** could make a comeback as people borrow to make good their cashflow shortfalls and also we could see MSME increase their borrowing from NBFCs and banks**. Export oriented companies** could see an uptick as trade channels open up completely and global demand resumes.

Bucket 3 – Long term (12 months and beyond): During this longer time frame **we see structural changes happening in the global economic balance** as more and more companies would want to diversify from their concentration in China as their manufacturing or sourcing hub and India and other Asian countries emerging as a major beneficiary. Though we do not see any major movements out of China and believe **China would continue to dominate world economics going ahead** much more than ever before, yet there would be **some sectors where India could benefit**. Sectors benefiting would be **Chemicals, Pharma, Auto and auto ancillary, Electronics and light industrial machinery**, etc. We see this anti-china sentiment as a genuine uprising in US, Europe and Australia though would not want to extrapolate too much too soon into it. Displacing China overnight is a herculean task and one that is not possible also, but even if India manages to get 10-15% of Chinese manufacturing business it would be a big shift in global balance in favour of India.

The way we have positioned the current portfolios is pretty much a blended mix of the above three buckets:

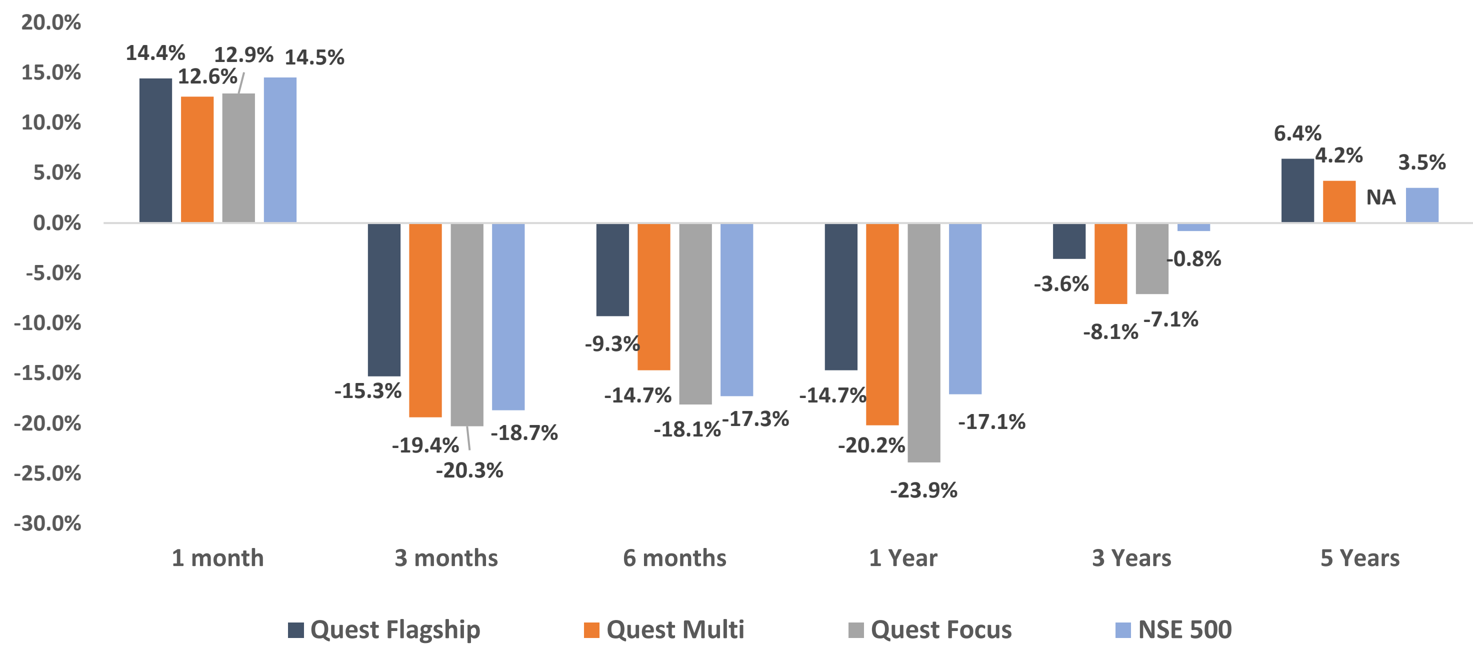
- Over the last several months, we have been **overweight on Pharma** as we see the sector picking up both on earnings front and companies seeing valuation re-rating going ahead. Increased US FDA approvals and limited damage to its earnings would be factors for the re-rating of selective stocks in the sector. Divis Labs, Sun Pharma, Biocon and IPCA remain some of the key exposures for us in the sector.
- Though we are **neutral on Financials** but within financials we are playing it through a mix of large private banks like HDFC Bank, Kotak Bank, insurance companies like HDFC Life and SBI Life and broking businesses like ICICI Securities. Post Covid we see increased focus of individuals towards insurance and also established bank backed broking/wealth management firms like ICICI Securities. Smaller brokers would be losing market and shutting shop and we see consolidation in the industry. Within NBFC space we find deep value in Bajaj Finance and Bajaj Finserv at current levels.

- Within the industrial space, we would want to play the economic recovery though cement and have exposure to The Ramco Cement and ACC. We are **underweight** on **Capital goods & Infra** as we see still time for the space to pick up any earnings in foreseeable future.
- We see Auto as a sector being deep value and valuations make it attractive if one is to take a 2-3 year call from current levels. The sector has been in doldrums since a long time owing to demand destruction and weak sentiments coupled with BS6 migration. With most of these now behind us, things can only get better from here even though slowly. Bajaj Auto, Maruti and Eicher in the OEM and Endurance and Varroc engineering in the auto ancillary is what we own in the different strategies.
- We have also been building exposure in **specialty chemicals** space though Atul Ltd, Deepak Nitrite and Galaxy Surfactants in the different strategies.
- We are **underweight on IT & IT services** but are in the process of building positions there as we see the sector rebounding faster than expected in the medium term.
- We continue to maintain between 9-15% cash levels in portfolio as we see a W shaped recovery in the equity markets linked with a gradual recovery in the economy.

Performance snapshot:

Our overweight position in the right sectors and active management of cash levels in recent times has helped us in improving our performance significantly in recent quarters. We continue to maintain a balanced mix of consistent secular growth companies, P/E re-rating candidates and deep value companies in the portfolio and would continue to build a high quality high growth portfolio to weather the volatilities better.

Our portfolio has a P/E of 19.6 based on FY22 earnings and an earnings growth CAGR of 21.54% over FY20-FY22. The Debt/Equity ratio of the portfolio is as low as 0.29x and ROE is around 16.75%.



We would continue to focus on Quest Investment Advisors philosophy of looking for mispriced opportunities in the market across the market capitalizations and sectors and at the same time keep an eye on the risk and uncertain global and local environment to ensure our clients get the best risk adjusted returns from Indian equities.

Happy Investing and be safe and stay healthy!

Aniruddha Sarkar
Portfolio Manager & Co-Head Equities

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Annexure: PMS Comparison among peer strategies for the month of April 2020:

As on 30th April 2020		PMS Performance Comparison Snapshot											
PMS Provider	Strategy Name	1M		3M		6M		1 year		3 years		5 years	
		Return	Rank	Return	Rank	Return	Rank	Return	Rank	Return	Rank	Return	Rank
Average performance of comparable Peer PMS Portfolios		11.05%		-22.53%		-18.84%		-15.99%		-2.95%		4.68%	
Quest Investment Advisors	Flagship	14.40%	2	-15.30%	1	-9.30%	2	-14.70%	9	-3.60%	11	6.40%	5
Quest Investment Advisors	Multi	12.60%	7	-19.40%	7	-14.70%	4	-20.20%	13	-8.10%	15	4.20%	9
Quest Investment Advisors	Focus	12.90%	5	-20.30%	8	-18.10%	10	-23.90%	14	-7.10%	14	NA	NA
Aditya Birla Capital	Core Equity Portfolio	12.53%	8	-20.46%	9	-18.28%	11	-13.71%	8	-6.52%	13	3.28%	10
Aditya Birla Capital	SSP	11.03%	11	-23.89%	13	-19.34%	12	-19.33%	12	-8.86%	16	2.40%	13
Alchemy	Select Stock	9.30%	15	-26.50%	15	-26.10%	17	-24.90%	15	-2.60%	8	5.30%	7
Alchemy	High Growth	7.90%	18	-25.90%	14	-26.70%	18	-26.10%	16	-6.30%	12	3.10%	11
ASK	IEP	11.10%	10	-18.70%	6	-15.10%	6	-8.60%	4	3.40%	3	7.40%	3
ASK	India Select	11.20%	9	-16.40%	2	-16.50%	8	-6.00%	2	1.50%	5	7.10%	4
AXIS	Brand Equity	9.30%	15	-17.60%	4	-15.90%	7	-5.60%	1	5.60%	2	NA	NA
ICICI Pru	Flexi Cap	13.15%	4	-22.20%	12	-16.78%	9	-11.31%	6	-1.04%	7	4.26%	8
IIFL AMC	Multicap PMS	14.25%	3	-21.04%	10	-15.09%	5	-6.96%	3	5.80%	1	13.19%	1
Invesco India	RISE	14.80%	1	-16.99%	3	-8.23%	1	-12.83%	7	0.05%	6	NA	NA
Kotak AMC	SSV Series 1	12.80%	6	-29.60%	17	-25.20%	16	-32.00%	18	-16.30%	18	-3.30%	15
Motilal AMC	IOP	10.13%	12	-31.03%	18	-21.96%	14	-27.89%	17	-14.27%	17	0.54%	14
Motilal AMC	NTDOP	9.35%	14	-22.18%	11	-20.50%	13	-17.36%	11	-2.96%	9	6.36%	6
Sundaram AMC	PACE	9.30%	15	-27.50%	16	-22.50%	15	-17.10%	10	-3.40%	10	2.60%	12
Tata PMS	Emerging Opportunities	9.58%	13	-17.97%	5	-14.45%	3	-10.23%	5	1.63%	4	8.65%	2
NIFTY - 50	**Largecap**	14.70%		-17.60%		-17.00%		-16.10%		2.00%		3.80%	
NIFTY MIDCAP - 100	**Midcap**	15.40%		-25.00%		-19.70%		-23.10%		-9.30%		1.20%	
BSE 500	**Multicap**	14.60%		-18.70%		-17.30%		-16.80%		-0.70%		3.50%	

Source: PMS-AIF.com and PMSBazaar.com