QUEST PMS PORTFOLIO UPDATE – JUNE 2020

Dear Investors,

With the social distancing and work from home being the new normal for everyone, hope all of you are doing great on both health and work front.

We went from a bull market to a bear market and back to a bull market within few months

Vladimir Lenin is famously quoted as saying "**There are decades where nothing happens; and there are weeks where decades happen**". Seems like Lenin made this statement foreseeing year 2020! All theories and principles of investing have been put to test and greed and fear of investors has also been tested to the fullest. The euphoria among investors in the beginning of the year saw it getting butchered into extreme fear in March and now from the 'Ides of March' we have seen a sharp rally and euphoria setting in and a feeling of missing out is all too evident. Nevertheless as we speak to hundred of investors, there seems to be another round of fear setting up in the mind of investors, as there seems to be an increased consensus opinion on the street that there has to be another round of sharp sell-off as the number of Covid-19 cases increase again in India and globally. But knowing that consensus view seldom goes right, the question we all as investors need to ask is – **are we here investing for the next 3 months or 6 months or are we here to take advantage of a one of its kind opportunity of our lifetime to ride the next wave of growth in India.**

If you can stomach near term volatilities over the next few months, then it's a golden time to top-up on your equity allocations with a 3-5 year horizon. Such opportunities of extreme fear come only few times in our lives

There are a number of reasons which makes us think that if the investors have the appetite to ride short term volatilities, this is a time to top up their equity investments with a 3-5 year horizon. History is a testimony that investments made during the crisis have yielded the biggest returns in post crisis years. Since the lows of March we have been communicating that one thing common to all bear markets is that they come to an end and when the next bull run starts, you need to have a head start. Some of the key factors driving our confidence are:

- ✓ **Inexpensive valuations** – we continue to trade below 2.5x Price/Book which is the long term historical average P/B for the market. There is empirical evidence that whenever the markets has traded at such valuations, the next 3 year returns have been one of the highest. On a P/E multiple also, based on FY22 numbers we are trading at 17-18x which is comfortable valuation levels. Many stocks are quoting at much lower multiples across sectors.
- ✓ **Macro data inching up faster than expected** – whether it is the employment data or IIP data or electricity consumption data or even traffic data on highways, we seem to be almost at 80-90% of the pre-covid levels inspite of strict restrictions now. This surely shows demand (whether pent up or new) is surely there and would lead to recovery faster from the forced economic slump of last few months.
- ✓ **Rural India resilient and emerging stronger than ever before** – our Agri economy remains resilient amidst the lockdowns and has seen sharp rise in area under acreage and strong harvest season. In addition monsoons has been good so far and is projected to be better than normal this year aiding confidence in Rural economy leading from the front. Consumer facing companies have been reporting very strong offtake from rural India. With 60% of our population residing in the villages and more than 30% of our economy dependant on agriculture, this remains a silver lining and one of the driving force for increase in per-capita income in India.
- ✓ **Economic crisis has separated the men from the boys among corporate India** – bear markets and crisis times are when lot of chaff gets cleared from the wheat. Something similar has happened this time around with companies with strong operating cash flows and balance sheets and leadership position on technology and process efficiencies and customer connect and market share have become stronger than ever before and gained market share from the unorganised players. This has helped to cut a lot of flab from the market and made it simpler for investors to build a quality portfolio for the long term.

We are now in the medium term consolidation phase post the March'20 sell-off and are preparing base for next round of sector rotation and leadership change for the long run

Over our last 3-4 months communications, we have been highlighting the sectors which we have been overweight on and how we see the economic environment shaping up over the short term (bucket 1), medium term (bucket 2) and long term (bucket 3) (refer to our April'20 end newsletter). This seems to be playing in line with our expectations. We now happen to have entered the medium term phase of bucket 2 list, wherein we had said **Rural and Agri related sectors and companies would show robust earnings**. Incidentally tractor, seeds and Agri chemical sales remains higher than last year inspite of the economic disruption, thereby highlighting the resilience of our rural economy. We had also said **Technology companies would see a resumption of their business as usual** from Q2 onwards and that happens to be the guidance as is evident from recent management commentary of Tier-1 IT companies. We were also of the view that **consumer facing financial firms like NBFC and Private banks would report pick up in business** and the same seems to be evident in recent commentary from the managements of the leading NBFCs and Pvt banks. We see this theme being played out in the market over the next few quarters and continue to position our portfolios in that direction.

Atmanirbhar Bharat Abhiyan could not have had a better timing for propelling India's dream of emerging as a manufacturing hub for the world

Over the next decade, Indian GDP growth could be in high single digits as per Global Think Tanks coupled with significant surge in per-capita income

Now I would like to draw the attention of investors to the long term (Bucket 3) list which we see as the base for significant wealth creation opportunities in the next 3 – 5 years. Some drivers for our this optimism is listed below which we see unfolding in the coming years:

- **Structural changes and disruption in the global supply chain:** We see two potent cocktails working in India's favour at the same time. One is "**Look away from China or China+1" and the other is "Make in India".** India could not have had a better chance and time to focus on domestic manufacturing across various industries with its Atmanirbhar Bharat Abhiyan. Sectors which can become clear beneficiaries are **Specialty Chemicals (both Industrial and Agri chemicals), Auto and auto ancillaries and Electronics manufacturing** (consumer durables and other white goods). India clearly has many factors in its favour which gives it an edge over other emerging countries. Some macro factors in favour of India are:
  - **Largest working population** in the world and one of the youngest population base
  - **Lowest tax regime** for new manufacturing units setting up shop here
  - These tail-winds are leading to a **surge in FDI in the country** (2020 has seen one of the highest FDI in India ever at USD 161 bn which is almost double of that seen in 2019) and could be just the beginning
  - **Strong technical know-how** in chemicals, autos, and pharma business built over the last decade through JVs and in-house R&D
  - **Perception of Global MNCs changing** and seeing India as both a large captive consumer base as well as large export hub
  - **Power sector reforms** undertaken and making cheap power available 24x7 across industrial belts. Cheap renewable energy share also surging
  - **Faster clearance** to projects and online bidding and auctions increasing transparency

- **Increased consumption of bandwidth and rising internet penetration in every day life:** We see two things playing out in the Telecom sector in India. One is rising consumption of internet for media and work which is **leading to rising ARPU for the industry.** Second is consolidation in the industry into **largely a 2-player industry** with a distant 3rd and 4th player. ARPUs are bound to rise significantly in the coming years and this would lead to **geometric rise in Free Cash Flows** for the incumbent leading players. The major telecom players are also emerging like consumer facing conglomerates with multi-faceted business opportunities ranging from data consumption to media & entertainment to e-commerce.

- **Increased financial penetration of consumer finance, insurance and investment products: Rising awareness** about insurance and deeper penetration in the smaller towns is leading to insurance companies seeing stable growth which is higher than GDP growth of the country. Consumer finance too continues to see robust growth. The **under-penetration** is the main reason for this. Same applies to the under penetration of various investment products which is leading to increased SIPs month on month (barring the recent crisis) which is evident of the immense scope for growth of Asset Management companies in India.

- **Agri reforms and rising per-capita income leading to rising domestic consumption:** Mahatma Gandhiji had famously said that India resides in its towns and villages and not in its cities. With more than 65% of our population residing in smaller towns and villages and the current per-capita income of rural household being half of that of the urban household, we see a greater contribution from rural household in the next decade in increasing the per-capita income of India. With the recent **Agri reforms related to the removal of the APMC act**, we see this as a landmark reform which if implemented in its earnest has one of the **biggest potentials in raising farm income** and thereby driving domestic consumption and GDP of the country in the decades ahead.

At the end I would like to answer some quick questions most investors I have interacted with in recent months have asked us:

Q: Is the current rally sustainable?

A: Current rally is driven by liquidity in global markets is now known to all. Rally in many sound companies are driven by fundamentals and is not froth and as mentioned above, valuations in India atleast remain attractive even now. So its quite possible that if US markets fall by 10-15% from here, other global markets would also follow suit including India. But these would be again opportunities to top-up on your equity investments.

Q: So shouldn't I be waiting for a fall?

A: When investors ask me this, I always get reminded of the famous teaching of legendary investor Peter Lynch who said – "Far more money has been lost by investors preparing for corrections, or trying to anticipate corrections, than has been lost in corrections themselves". This time around too if you see around you will find many people have been waiting since 8000 levels of Nifty for new lows. Ultimately we buy businesses and not index and there are ample example of companies which have out-performed the larger index by more than 2x in a rebound. So its futile waiting for the bottoms and always better to look at standalone valuations of companies you are entering into and keep building positions in them during panic sell-offs.

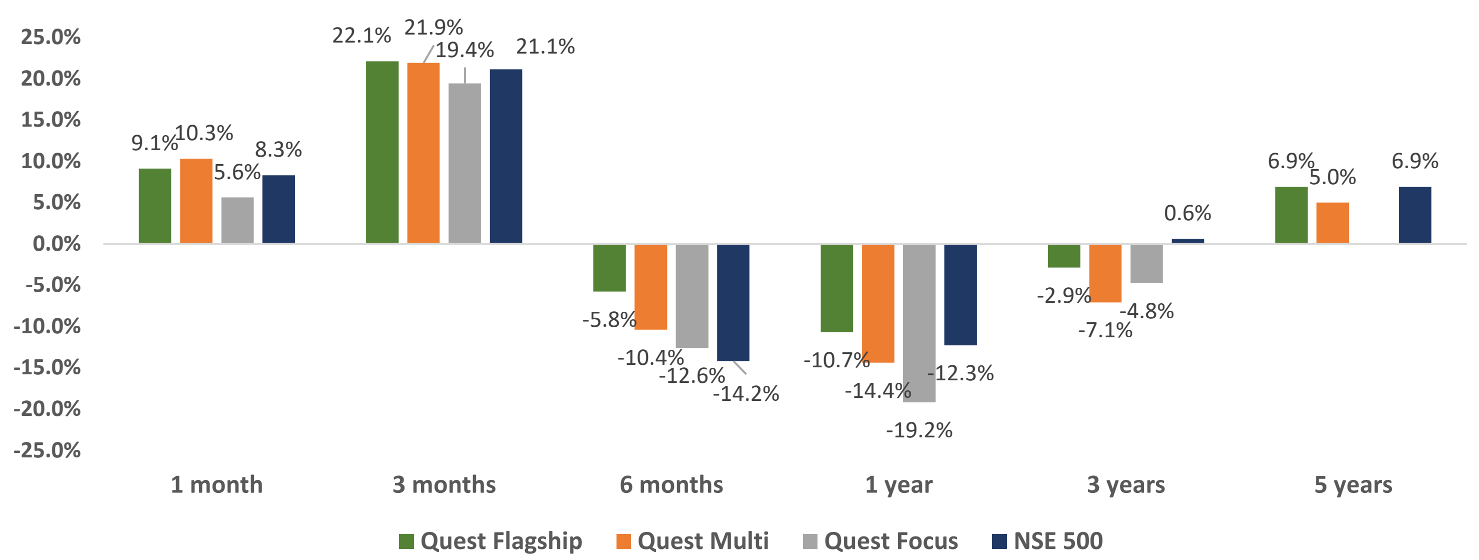
No one has ever got it perfect with timing the market. So a staggered way of additional deployment into the market is ideal in such uncertain times

Q: So are we saying there wont be any fall? What are some of the triggers of the next fall?

A: Volatility in the market would continue in the near to medium term due to both Covid-19 related news flows and also due to US presidential elections and its fallout on the US markets. Also we feel US markets have been a bit frothy in recent time and could give some cool-off but we do not see any major sell-off like that seen in March of this year. India too would be volatile in the same period and we would be actively managing our cash levels during these volatile times to take advantage of any mis-priced opportunities in the market.

PORTFOLIO ACTIONS AND PERFORMANCE

In line with our recent views wherein we had said, midcaps and smallcaps look more attractive on valuations front than compared to large-caps, we continue to look for interesting ideas in the space. Nevertheless our multicap allocation remains with nearly 40-55% into large-caps and rest in midcaps and smallcaps. We have been on an average maintaining 10-15% cash levels in recent times and look forward to maintain the same in coming months and finance a new stock addition with some profit taking in an existing holding mostly.



Note: Returns for period of 1 year and less are absolute while for periods more than 1 year are annualized IRR returns. Quest PMS portfolio returns are for Model portfolio client. Considering different clients would have joined at different time frame, their returns could be different from this

Maintaining cash levels of around 10% would be continued in coming months to take advantage of mis-priced opportunities amidst volatile markets

During the month:

- We have added to our exposure in Escorts as we remain bullish on growth of Agri equipment and tractors business of the company.
- We added to our exposure to State Bank of India owing to its cheap valuations of 0.4x P/B which provides ample risk-reward comfort
- We added Laurus labs in the portfolios which is a high quality turn around smallcap pharma company which has multiple levers for multiple expansion on the back of margin improvement and scope for ROE expansion.
- Within the cement space, we exited from ACC completely and we added Birla Corporation which is available at one of the cheapest EV/Ton valuations within the cement sector of comparable size players.
- We continue to remain extremely bullish on Reliance and have added to our exposure there in the form of Reliance Industries Partly paid shares in addition to the Reliance Industries ordinary shares.
- We have booked some gains in Tech Mahindra and look to add some under-valued IT player in near future.

Looking forward to some exciting times for stock selection and wealth creation ahead. Happy Investing and be safe and stay healthy!

Aniruddha Sarkar
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Annexure 1: Comparison among peer strategies for the month of June 2020:

As on 30th June 2020		Peer Performance Comparison Snapshot											
Name of Fund house	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 Portfolios		7.10%		15.13%		-15.17%		-10.26%		-1.25%		4.75%	
Quest Investment Advisors	Flagship PMS	8.30%	5	22.10%	1	-5.80%	3	-10.70%	10	-2.90%	12	6.90%	3
Quest Investment Advisors	Multi PMS	10.30%	1	21.90%	2	-10.40%	5	-14.40%	15	-7.10%	16	5.00%	7
Quest Investment Advisors	Focus PMS	5.60%	17	19.40%	5	-12.60%	8	-19.20%	17	-4.80%	13	NA	NA
Aditya Birla Capital	Core Equity Portfolio	4.88%	19	16.74%	9	-17.27%	14	-12.56%	11	-6.01%	15	2.86%	12
Aditya Birla Capital	SSP	6.75%	13	13.59%	14	-19.76%	17	-13.98%	14	-9.15%	17	1.78%	15
Alchemy	Select Stock	6.00%	16	13.00%	17	-23.10%	19	-23.70%	18	-2.10%	9	4.90%	8
Alchemy	High Growth	7.00%	11	11.60%	19	-22.00%	18	-25.10%	19	-5.20%	14	2.60%	14
Alfa Accurate	AAA Focus Plan	8.05%	8	18.04%	7	-9.98%	4	-6.52%	6	2.42%	4	6.44%	5
ASK	IEP	7.81%	10	13.89%	13	-13.49%	10	-6.66%	9	3.98%	3	6.88%	4
ASK	India Select	6.21%	15	14.10%	12	-12.67%	9	-4.78%	3	1.68%	6	6.18%	6
AXIS	Brand Equity	7.90%	9	12.30%	18	-14.20%	12	-6.40%	5	5.30%	2	NA	NA
ICICI Pru	Value Portfolio	5.13%	18	13.10%	16	-11.28%	6	-12.86%	12	-0.16%	8	2.68%	13
IIFL AMC	Multicap PMS	9.32%	3	21.23%	3	-13.76%	11	-5.68%	4	7.35%	1	13.78%	1
Kotak AMC	SSV Series 1	8.20%	6	17.50%	8	-25.10%	20	-27.70%	20	-15.90%	18	-2.40%	16
Motilal AMC	Value	8.13%	7	19.73%	4	-17.25%	13	-7.83%	8	1.55%	7	3.65%	10
Motilal AMC	NTDOP	8.59%	4	14.53%	11	-17.72%	15	-13.16%	13	-2.12%	10	4.69%	9
Marcellus	Consistent Compounders	3.30%	20	9.30%	20	-4.80%	2	17.30%	1	NA	NA	NA	NA
Sundaram AMC	PACE	10.30%	1	15.90%	10	-19.40%	16	-14.80%	16	-2.40%	11	3.20%	11
Tata PMS	Emerging Opportunities	6.28%	14	13.52%	15	-11.75%	7	-8.83%	9	2.01%	5	9.24%	2
White Oak Capital	India Equity Portfolio	6.80%	12	19.20%	6	-4.30%	1	-1.10%	2	NA	NA	NA	NA
NIFTY - 50	**Largecap**	7.53%		19.82%		-15.34%		-12.61%		2.66%		4.25%	
NIFTY MIDCAP - 100	**Midcap**	10.78%		25.63%		-14.01%		-16.71%		-6.05%		2.48%	
NIFTY 500	**Multicap**	8.34%		21.12%		-14.16%		-12.25%		0.57%		4.21%	

Source: PMS-AIF.com and PMSBazaar.com