QUEST INVESTMENT ADVISORS
SEBI Registered PMS & AIF managers

The cycle of life continues... corporate earnings are back and so are lockdowns and 2nd wave of Covid

Dear Investor,

Hope my this letter finds you and your family in the best of health amidst this second wave of pandemic. Am sure we have all taken our learnings from last year seriously and we wouldn't allow the virus to disrupt our lives for a longer time this time around like it did last time and we would collectively get over this sooner than later.

The more you know about the past, the better prepared you are for the future – Theodore Roosevelt

In recent days, a common fear we get to hear in all conversations is that is it a repeat of 2020? We believe, though the current wave seems spreading fast and wide without sparing any age groups, but unlike the last time, **this time around companies and individuals know the rulebook and have the Plan B ready for any disruption to their normal working conditions**. A worrying state is the shortage of Covid medicines and Vaccines which we hope should see their supply lines resumed soon. Once we see the vaccination drives across the country back to normal pace, we should be in a better position in coming months in our fight against this menace. These I believe will be a big difference compared to the last year's experience when we neither had the vaccine nor the know-how to tackle the situation fast and the recovery from the surging cases will be faster this time around.

Coming back to the markets, Indian equity markets which were rising on global liquidity got a booster shot from sustained pickup in economy from the covid lows, several policy announcements for supporting domestic manufacturing, progressive budget focused on capex and asset building and accommodative stance of the central bank. **Recent months have seen strong demand for housing, auto, infra push by the government and also rising rural income and demand which augurs well for economy**. An uptick in global commodity cycle, the early stage of which we are seeing currently, will provide strong cash flows for some troubled sectors like steel and provide considerable relief to ailing bank NPA and also revive capex cycle. We believe **India's tackling of Covid 19 in next 2-3 months holds key to sustained market optimism and rally from current levels.**

On the earnings front, as we have entered the earnings season for Q4FY21, **we expect Nifty 50 companies to end FY21 with a 13% earnings growth** inspite of the first half of the year being a washout period and GDP seeing a decline of 4% for the full year. **This would be the highest earnings growth for Nifty since FY2011**. People ask how is earnings growth possible when GDP is declining. Two major reasons for this remarkable growth is **cost optimization at companies which has led to margin improvements and also shift of business from unorganised to organised players**. Both of these are long term structural changes and are here to stay.

Despite the near term challenges to economy and corporate earnings recovery, the long term outlook for Indian economy remains robust. We reiterate our view that **India is entering another growth super-cycle**, **although 2nd wave of Covid remains a near term challenge**. Taking the risk of being repetitive we would like to reiterate that following factors playing out over the next 5 to 10 years would push growth significantly:

The underlying economy and its triggers are falling well in place. Ingredients are ripe for a multi year upcycle in Indian economy once we get over the near term fears from covid-19

- **GST numbers making new highs** showing rising tax compliance from a large section of the business community
- Farm law reforms and govt plans to increase institutional credit and marketing of Agri produce to **double farm incomes**
- **Increase in housing construction** and real estate registrations given 25% decline in affordability Index in last 10 years
- Power consumption at life time highs and implementation of FastTag increasing the Toll collections and reducing slippages
- **Cleanup of the Banking system** and even PSU bank NPA cycle peaking out. Furthermore with rise in commodity cycle, many large NPAs of the industry will pay-up soon and further **strengthen bank balance sheets**
- After several years**, large public capex plans** from Govt of India to invest Rs 1 lakh crore over FY21-25 in areas of energy, roads, water, sanitation, metros, railways and irrigation etc. Also implementation of digitization, localization of Data centers, major private capex from Cement, Chemicals, Pharma API, Healthcare, etc sectors are gaining traction in order inflows.
- India becoming an export hub with **Large export opportunity** in Auto Components, IT Services, Pharma and Chemicals
- Atmanirbhar Bharat and **PLI based push for Rs 2 trillion capex** spread over the next 5 years across various sectors.
- **PSU privatization and disinvestment** barring a few strategic areas
- **RBI adopting an accommodative policy stance** despite rising inflation

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To achieve a multi-bagger in the portfolio, you have to hold onto a multi-bagger in the portfolio. Holding can be painful, especially winners as we tend to book too early often

However we all investors including fund managers are humans and **it is pretty normal for any human to let fear grip him** now and then as circumstances change and ignore all these positive macro triggers. The current environment is one such phase and **there seems to be more reasons among us to get fearful than greedy**. Rising inflation, rising covid cases, slowing pace of vaccination, new mutants of the virus, global slowdown in recovery and uncertainty on timeline to get back to normalcy. However **once as an investor we identify a great business that we would want to own, it becomes important for us to hold onto it for the stock to deliver what we envisaged it to do.** There would be testing times when investors would see a stock falling 30-40% and doubling from there and then again correcting a bit or maybe even remaining sideways for months at end. Expecting a stock to perform immediately after buying it and disposing it off if it doesn't do so in near term, are sure shot ways of missing out on the next big winner in your portfolio. Also its important to hold onto companies which have given us strong returns and not exit it just because the stock has doubled.

However the **vagaries of competitive markets make investors focus too much on near term performance rather than long term wealth creation**. Riding these waves of emotions and volatility one has to keep building on positions which has the potential to deliver higher returns in longer run. In the same effort, it also becomes important to cut down on positions which one sees as sub par with regard to potential to deliver even though one would have entered it with a view of compounder. In short, **realignment of portfolio from time to time, by adding more weights to high conviction ideas and reducing exposure in low conviction bets, is the formula for building long term wealth.**

Portfolio performance and positioning

We continue to realign our portfolio in line with our core strategy of sector rotation and have **increased some cyclicals in our portfolio** by taking some small exposure into deep value metal companies where we see significant margin of safety and strong balance sheets. In our view the commodity cycle is a multi year cycle and has just started. There would be hiccups along the way but then its here to stay for now. We **have been reducing our exposure to the Banking & Financials** as we see the current wave of covid pushing back the normalcy for the sector by a few more months or quarters. We have also **increased our exposure to IT & IT Services** which we see as being in a major earnings up-move for the next several quarters. In recent times **we have been raising the cash levels in the portfolio** in order to keep some dry gun powder for bad days for picking up some of the companies on our watchlist at attractive valuations.

We have closed FY2021 on a strong footing by building significant alpha inspite of it being a difficult year

As on 31st March 2021	3 months	6 months	1 year	2 years	5 years	Since Inception
Quest Flagship PMS	9.24%	30.04%	80.39%	13.10%	15.28%	16.82%
NIFTY-50	5.07%	30.61%	70.87%	12.40%	13.67%	7.67%
NIFTY – 500	6.91%	31.81%	75.99%	12.86%	13.79%	7.84%
Quest Multi PMS	8.71%	27.59%	88.73%	15.01%	15.94%	14.68%
NIFTY-50	5.07%	30.61%	70.87%	12.40%	13.67%	10.39%
NIFTY – 500	6.91%	31.81%	75.99%	12.86%	13.79%	11.09%
Quest Focus PMS	13.52%	34.54%	78.68%	8.89%	-	13.71%
NIFTY-50	5.07%	30.61%	70.87%	12.40%	-	14.08%
NIFTY – 500	6.91%	31.81%	75.99%	12.86%	-	14.07%

Note: These are TWRR returns as on 31st March'21 of all clients taken together of the individual strategies and individual client performance can be higher or lower than this depending on their joining dates and corpus in dates. The performance data mentioned above are provisional. The impact of the March'21 quarter end fixed fees and year end variable fee will get reflected in subsequent month performance. Returns over 1 year are annualized.

In conclusion would like to say that, we would continue to use the current weakness in the market to realign the portfolio and buy into high conviction ideas in the cyclical side of the market along with steady growth performers. **We would not be of the opinion that one should reduce equity exposure here on but rather be more agile and active in the portfolio construction from here on**.

Happy investing and wishing good health from all of us at Quest.

Yours Sincerely
Aniruddha Sarkar
Chief Investment Officer & Portfolio Manager

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