QUEST MULTI PMS NEWSLETTER
APRIL 2026

Indian equity markets in last 3 months have transitioned from watching the AI related disruption to Iran-US-Isreal conflict which has led to severe disruption in Energy basket for not just for India but many major economies (as has been highlighted in our earlier note Iran–Israel/US Conflict – March 2026). The immediate macro risk for India from this conflict is not merely higher crude; it is the combination of Oil, LNG, LPG, freight, petrochemical and foreign-exchange volatility feeding into inflation expectations and hedging costs.

The RBI's response has been surgical rather than blunt: tighter foreign-exchange market rules, restrictions on speculative positioning, continued liquidity management, and temporary trade-credit relief for exporters.

The Government's response has been operational rather than rhetorical: assuring fuel availability, postponing some refinery maintenance, expanding LPG allocation in phases, enabling more flexible domestic sales from export zones, reduction in taxes on retail fuel products, and accelerating pipeline-gas infrastructure where possible.

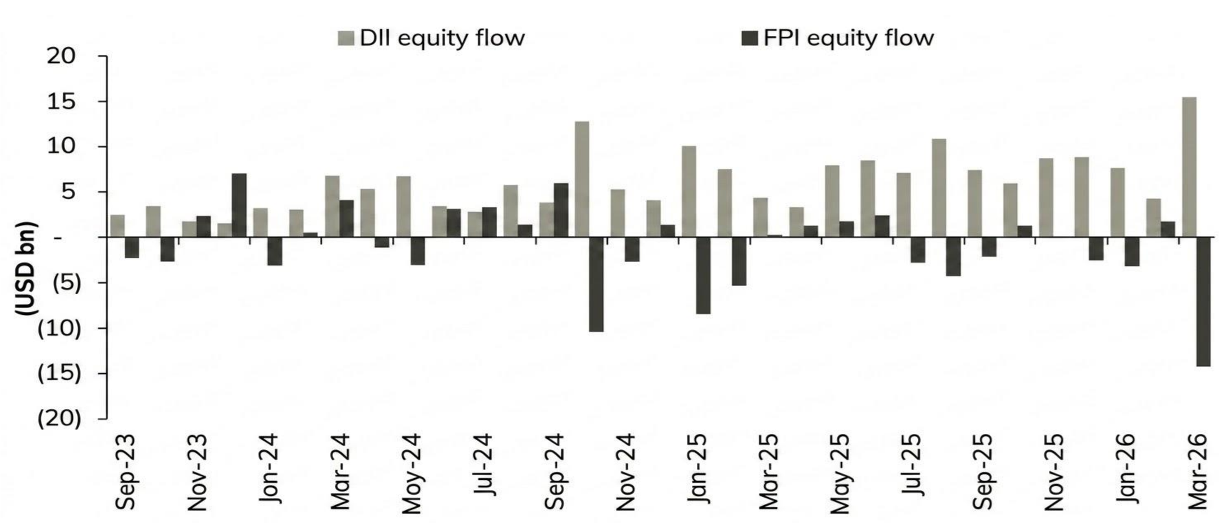
Markets in March 2026 have also weathered the strong FII outflow which has reached the highest monthly outflow in last few years and hence there has been sharp sell off across many sectors which had **high** FII holdings. The action seems mainly triggered by West Asia war and consequential concern on FX rate, govt fiscal, growth moderation etc.

However post the recent correction the market valuations has become very palatable with expected FY27 P/E of ~18.5x (broadly inline with last 10 year average) with earnings growth expected to be ~10% (Iran conflict and higher energy basket would impact earnings by 2-4% compared to earlier expected growth of 12-14%). We remain confident of a strong earnings recovery in FY27, led by BFSI, consumer discretionary, auto and auto ancillaries, manufacturing, and private capex-linked sectors, despite lingering uncertainty around energy costs.

Exhibit 1 – Sectoral FII outflows (USD mn, Mar'25-Mar'26)[1]

Month	Auto	Cap Goods	Chemical	Durables	Consumer Services	FMCG	BFSI	Pharma	IT	Media	Metals	O&G	Power	Realty	Telecom	Others
Mar'25	-327	-32	57	-174	-353	-643	1,675	15	-973	51	219	-397	-24	68	360	74
Apr'25	-375	-6	103	-6	212	343	2,169	-84	-1,777	13	-398	-40	106	-84	544	-194
May'25	11	623	153	-203	-58	95	470	-306	-285	16	8	295	-292	-194	946	1,042
Jun'25	553	-215	278	-290	158	-463	1,042	-47	137	4	-42	716	-735	156	320	138
Jul'25	-412	37	130	-302	347	175	-671	-8	-2,285	-23	388	-372	8	-450	169	1,240
Aug'25	205	216	179	-224	-52	-125	-2,657	-162	-1,287	18	-75	-698	-464	-142	660	614
Sep'25	411	340	-43	-409	-381	-474	113	-690	-682	8	208	-88	-305	-255	-273	-177
Oct'25	110	-77	-105	-198	-391	-482	1,501	-351	-248	-5	355	1,030	109	-91	243	248
Nov'25	-183	280	-132	-13	-449	-534	-357	-202	-652	-35	-76	804	-295	-90	1,610	-102
Dec'25	-228	-284	-5	66	372	-648	-1,164	-330	129	-35	331	259	-304	-104	27	-579
Jan'26	-392	301	16	-113	-603	-828	-942	-672	-204	-20	1,260	-104	-204	-291	-523	-633
Feb'26	394	1,336	28	-83	-459	-215	928	-37	-1,866	8	620	593	497	81	-207	873
Mar'26	-1,333	343	-24	-311	-225	-579	-6,488	-497	-202	-2	-332	-443	-23	-501	-602	-1,357

Exhibit 2 – Monthly DII and FPI equity flows[2]



The FII ownership in last few months has been declining and has reached lowest level in more than a decade to ~15% compared to more than 20% levels in Aug 2016 while the DII holdings has been steadily increasing during this period from levels of ~10% to more than 18%.

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Exhibit 3 – FII ownership of Indian equities[3]

Key to note that the earning trajectory has been improving over last 2-3 quarters and even 4QFY26 and FY27 have been anticipated to be normalization of earnings in the range of 12-14% yoy earnings growth. It was well encapsulated in the high frequency data that highlighted continue improvement across various segments.

Exhibit 4 – High-frequency data indicates manufacturing and construction activities picked up in recent times[4]

Consumption Indicator	Jun'25	Jul'25	Aug'25	Sep'25	Oct'25	Nov'25	Dec'25	Jan'26	Feb'26	Mar'26
Personal Loan growth	12.11%	11.86%	11.84%	11.75%	13.97%	12.76%	14.38%	15.29%	15.22%	NA
4W growth	-6.28%	1.50%	-9.05%	0.62%	15.79%	18.14%	26.84%	7.99%	7.28%	NA
2W growth	-3.36%	8.71%	7.14%	6.66%	2.15%	21.17%	39.39%	26.17%	35.16%	NA
IIP - Primary Goods	-2.50%	-0.73%	5.37%	1.34%	-0.60%	2.23%	4.38%	3.13%	1.77%	NA
IIP Consumer Goods Durables	2.83%	7.27%	3.47%	10.01%	-1.31%	11.19%	12.44%	7.23%	7.28%	NA
IIP Consumer Goods Non-Durables	-0.90%	0.54%	-6.42%	-0.34%	-5.19%	8.03%	8.51%	-2.30%	-0.61%	NA
Petrol Consumption	6.86%	5.94%	5.48%	7.94%	7.42%	2.60%	7.08%	6.14%	6.14%	NA
S&P Global India Serv PMI	60.4	60.5	62.9	60.9	58.9	59.8	58	58.5	58.1	57.5
CPI	2.10%	1.61%	2.07%	1.44%	0.25%	0.71%	1.33%	2.73%	3.21%	NA
Passenger - all airports	3.66%	-0.99%	1.03%	-0.69%	4.67%	7.05%	-2.80%	3.92%	0.50%	NA
GST Collections (INR bn)	1,846	1,957	1,863	1,890	1,959	1,750	1,791	1,993	1,888	2,001
Consumer confidence index	NA	96.46	NA	96.85	NA	98.4	NA	98.07	NA	NA

Consumption indicator (quarterly)	Sep'23	Dec'23	Mar'24	Jun'24	Sep'24	Dec'24	Mar'25	Jun'25	Sep'25	Dec'25
Private final consumption exp real	2.95%	5.69%	6.23%	8.28%	6.41%	8.15%	5.95%	7.05%	7.95%	8.69%

Industrial Indicator	Jun'25	Jul'25	Aug'25	Sep'25	Oct'25	Nov'25	Dec'25	Jan'26	Feb'26	Mar'26
Non-food credit growth (fortnightly)	9.31%	9.88%	9.90%	10.25%	11.12%	11.41%	14.04%	13.83%	14.30%	13.66%
Industry loan growth	5.87%	5.99%	6.55%	7.34%	9.98%	9.56%	13.35%	12.12%	13.54%	NA
IIP growth	1.52%	4.27%	4.12%	4.63%	0.53%	7.16%	8.04%	5.14%	5.23%	NA
Core sector growth (%)	2.20%	3.75%	6.53%	3.28%	-0.06%	2.07%	4.66%	4.72%	2.27%	NA
Power demand	-2.27%	2.60%	3.83%	3.53%	-5.82%	-0.58%	5.79%	3.78%	1.00%	NA
IIP Capital Goods	2.96%	6.75%	4.47%	5.41%	2.11%	10.12%	8.28%	4.11%	12.48%	NA
S&P Global India manufacturing PMI	58.4	59.1	59.3	57.7	59.2	56.6	55.0	55.4	56.9	53.9
WPI Commodity price index	-0.19%	-0.58%	0.52%	0.19%	-1.02%	-0.13%	0.96%	1.81%	2.13%	NA
Import Growth (%)	-3.43%	9.09%	-9.54%	17.67%	16.94%	-1.94%	8.67%	19.85%	24.12%	NA
Export growth (%)	-1.34%	13.27%	5.72%	6.03%	-12.51%	18.66%	1.29%	0.57%	-0.81%	NA
Trade Deficit (USD bn)	-19.11	-27.86	-27.20	-32.96	-41.98	-24.78	-25.26	-34.68	-27.10	NA

Industrial indicator (quarterly)	Sep'23	Dec'23	Mar'24	Jun'24	Sep'24	Dec'24	Mar'25	Jun'25	Sep'25	Dec'25
Capacity utilisation	74.0	74.7	76.8	74.0	74.2	75.4	77.7	74.1	74.3	NA
GFCF	11.71%	9.34%	6.05%	6.65%	6.70%	5.23%	9.41%	7.82%	7.33%	7.81%

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Iran US Conflict – Energy shock deserves a broader lens

The common analytical mistake is to look only at crude. The present disruption is broader because the region matters simultaneously for oil, gas, LPG, shipping lanes, freight insurance, and petrochemical feedstocks. For India, that widens the transmission channel from pump prices to power costs, working capital, import bills, hedging costs, and sentiment.

That distinction matters for policy as well. A normal inflationary phase can often be handled through demand management and calibrated pass-through. A geopolitical supply shock requires market stabilization first, supply assurance second, and only then a slower assessment of second-round inflation.

Exhibit 5 – One shock, multiple transmission channels into India

Channel	What moves first	Policy focus	Investment implication
Energy	Crude, LNG, LPG and fuel availability	Assure supply, smooth logistics, avoid panic shortages	Direct beneficiaries narrow; import users face margin risk first
Currency	Rupee depreciation, hedging demand, offshore pressure	Curb speculation, tighten FX rules, preserve orderly markets	Broad multiples compress before earnings fully adjust
Freight & trade	Shipping rerouting, insurance, transit time	Trade facilitation and working-capital support	Exporters and importers diverge more sharply
Inflation	Fuel and petrochemicals first, then second-round pass-through	Manage transmission rather than suppress all pricing	Pricing power matters more than raw growth
Confidence	FPI flows, bond yields, corporate caution	Signal macro stability and policy credibility	Balance-sheet strength rises in importance

What the RBI has done

The RBI has responded primarily through the currency and funding channel. Rather than leaning immediately on rates, it has tightened the rules around speculative foreign-exchange activity, supported market functioning, and kept targeted relief in place for exporters affected by West Asia-related disruptions.

Exhibit 6 – RBI response – from market defence to trade-flow support

RBI step	What it does	Why it matters now	Read-through
Tighter limits on banks' FX positioning	Forces unwinding of directional or arbitrage-heavy positions	Helps reduce one-way pressure on the rupee during offshore-led stress	Stability-first, not growth-sacrifice-first
Restrictions on client NDF access and rebooking of cancelled contracts	Breaks easy onshore–offshore arbitrage loops	Cuts speculative demand spillover into the domestic market	Hedging costs can rise even as the rupee stabilises
Support to orderly FX markets	Improves price discovery and curbs disorderly moves	Signals that currency weakness will not be allowed to become destabilising	Importers often use the recovery to hedge more aggressively
Extended export-credit and export-realisation relief	Lengthens credit tenure and cash realisation windows for exporters	Eases pressure on trade-linked firms facing disruption and delayed shipments	Supports external-sector resilience without broad stimulus
Policy-rate caution with focus on liquidity and guidance	Avoids overreacting to a supply shock with blunt tightening	Protects growth while reserving room for later action if inflation persists	More surgical than historical crisis playbooks

Source note: Reuters reporting on RBI foreign-exchange measures, hedging-cost impact, and export-credit relief through March–April 2026.

What the Government of India has done

The Government's response has been operational and supply-oriented. The emphasis has been on assuring petroleum product availability, managing refinery operations, easing pressure on sectors dependent on LPG and supporting trade continuity where global freight and tariff conditions have become more difficult.

Exhibit 7 – Government response: energy availability, trade flexibility and system adaptation

Government step	Mechanism	Immediate objective	Broader implication
Assurance of adequate petroleum-product availability	Coordination with oil-marketing and refining system	Reduce fears of physical shortage and panic pricing	Confidence support matters as much as physical barrels
Postponement of some refinery maintenance	Keeps more refining capacity available for domestic supply	Protects fuel availability during a volatile period	Reduces the risk of domestic supply tightness amplifying global shock
Phased restoration and additional allocation of commercial LPG	Raises supply to priority users and states in stages	Protects small business, food-service and industrial users reliant on LPG	Shows targeted rather than blanket subsidy design
Push toward PNG / city-gas transition where feasible	Links additional allocation with reform and infrastructure expansion	Reduce future dependence on LPG bottlenecks	Crisis response doubles as medium-term energy-security reform
Temporary flexibility for export-zone output to be sold locally	Allows select export units to sell domestically at reduced duty burden	Absorb global trade disruption and support domestic supply chains	Useful for sectors facing freight, tariff or route dislocation
Broader inter-ministerial monitoring and overseas preparedness	Tracks fuel, logistics and citizen support issues together	Contain spillovers early rather than react late	Signals administrative readiness during a fluid shock

Impact on Fiscal so far seems limited

Exhibit 8 – Potential fiscal slippages and center's provision for offsetting the slippages in FY2027 (Rs bn)

	Optimistic scenario	Base scenario	Adverse scenario
Center's revenue loss	1,100	3,050	3,300
- Fertilizer subsidy	–	1,000	1,000
- LPG subsidy	–	400	650
- Excise duty cut	1,100	1,650	1,650
Offsetting factors	1,106	2,906	2,588
- Economic Stabilization Fund	300	1,000	1,000
- Increase in RBI's surplus transfer	250	250	250
- Potential expenditure switches	–	1,100	1,100
- Drinking water and sanitation	–	500	500
- Telecom infrastructure (Bharatnet)	–	200	200
- Capital infusion in BSNL	–	200	200
- Research, development and innovation	–	200	200
- Export excise duty hike	556	556	238
Net fiscal slippage	**-6**	**144**	**712**
Revised GFD/GDP with fiscal slippage (%)	**4.3**	**4.3**	**4.5**
Effect of lower nominal GDP (%)	**0.1**	**0.1**	**0.1**
Estimated FY2027 GFD/GDP (%)	**4.4**	**4.4**	**4.6**

Source note: PIB and Reuters updates through early April 2026 on petroleum availability, LPG allocation changes, SEZ domestic-sale flexibility and related preparedness steps.

The Gas Chokepoint - West Asia War & Its Impact on Indian Industries

The US-Israel attack on Iran (February 28, 2026) and Iran's subsequent closure of the Strait of Hormuz have precipitated the most severe global energy supply disruption in recent memory. While crude oil has drawn attention, the natural gas and LNG dimension poses a more acute threat to Indian industries. India has ~25 days of strategic crude reserves and has diversified 70% of oil imports to non-Hormuz routes. In stark contrast, India has virtually no strategic LNG reserves and over 50% of LNG imports transit through Hormuz. The crisis deepened on March 18 when Iran's missile attack on Qatar's Ras Laffan facility destroyed 17% of Qatar's LNG export capacity for up to five years, converting a temporary shipping disruption into a medium-term structural deficit.

1. India's Natural Gas Import Profile

India consumed ~195 MMSCMD of natural gas in FY25 (~65-70 bcm annually). Domestic production meets ~50%; the balance is imported LNG (~27 MT in FY25, making India the world's 4th-largest LNG importer). The IEA projects imports doubling to ~65 bcm/year by 2030

The Strait of Hormuz, a 33-km wide passage between Iran and Oman, carries approximately 20% of global LNG trade. Qatar and the UAE, whose LNG exports are almost entirely routed through Hormuz (93% and 96% respectively), together represent nearly 20% of global LNG exports. There are no scalable alternative pipeline or maritime routes for Qatari or Emirati LNG to reach global markets.

Qatar alone supplies 40-47% of India's LNG imports (anchored by Petronet LNG's 7.5 MMTPA Ras Laffan contract). Including UAE and Oman, ~50-60% of India's LNG transits Hormuz. Unlike crude (25 days strategic reserve), there is no strategic LNG reserve — the single most important structural gap in India's energy security.

2. Sector-Wise Natural Gas Usage in India

Natural gas serves dual roles across Indian industry: as fuel (providing heat, power, or motive energy) and as feedstock (a chemical raw material transformed into other products). This distinction is critical because feedstock users face irreplaceable input dependency, while fuel users have partial fuel-switching optionality.

Sector	Share of Gas	Primary Use	Key Products / Sub-sectors
Fertilisers	30-35%	Feedstock	Urea (ammonia via Haber-Bosch), DAP, NPK complexes
City Gas (CGD)	~20%	Fuel	CNG (transport), PNG (household cooking, commercial kitchens, SME industry)
Power Generation	~15%	Fuel	Gas turbine power plants (peaking power, grid balancing)
Refineries	~10%	Fuel + Feedstock	Hydrogen production, desulphurisation, process heat, petrochemical integration
Petrochemicals	~8%	Feedstock + Fuel	Methanol, ethylene, propylene, polymers, solvents
Other Industries	~12%	Fuel (primarily)	Ceramics/tiles, glass, textiles, steel (DRI), auto manufacturing, sponge iron

Among feedstock users, fertilisers dominate – gas is the primary raw material for urea comprising 70%+ of production cost; India produced ~30 MT of urea in FY25 against ~40 MT demand, consuming ~32 MMSCMD of gas. Petrochemicals and methanol production (90% import-dependent) similarly rely on gas as a starting material for plastics, PET, adhesives, and solvents. Refineries use gas for hydrogen production, desulphurisation, and increasingly for integrated petrochemical operations.

Among fuel users, City Gas Distribution (CGD) is the fastest-growing segment (12% CAGR, FY16-24), supplying CNG for transport and PNG for households and SMEs. Ceramics and glass manufacturing – particularly the Morbi cluster in Gujarat (Rs 750 billion industry, ~80% of India's output) – depend on gas and propane for continuous high-temperature kiln operations and have been among the most acutely affected, with ~550 factories halting production in mid-March.

Secondary cascades (per Jefferies, March 23): Methanol (+65%, 90% imported), sulphur/sulphuric acid (+80%, 57% imported), VAM (+25%, 100% imported), bromine (+100% y/y, 75% imported). These feed into plastics, PET, paints, adhesives, refrigerants, and crop protection — amplifying a single chokepoint into a multi-industry cost shock.

3. Impact Analysis: Inventory, Pricing & Margins

3.1 LNG Price Trajectory

LNG prices: JKM spot surged from ~$10/MMBtu (pre-war) to ~$25 peak, currently ~$20 (+100-140% above pre-war). Domestic spot LNG at Rs 100-110/scm vs contracted gas at Rs 40/scm — a 3x premium. Tanker freight doubled; war-risk insurance spiked 12-fold. Government rationing (March 9): PNG/CNG at 100% supply; industrial at up to 80%; fertiliser at 70%; power on reduced priority. GAIL cut industrial supply by 50% in Gujarat.

3.2 Sector-Wise Impact Assessment

Sector	Severity	Key Points
Fertilisers	Severe	70% gas allocation; urea stocks 6.2 MT vs 18-19 MT Kharif need; stress from July; subsidy bill +25%
CGD	High	Pooled pricing squeeze (Rs 40 vs Rs 100-110/scm blending); Gujarat Gas force majeure; industrial volumes cut
Ceramics/Tiles	Severe	Morbi shut ~1 month; ~550/900 factories halted; 80% large units idle; shutdown until at least Apr 15
Chemicals	Moderate-High	Crop protection insulated (PI, NFIL); SRF packaging hit (PET +38%); refgas margins pressured
Paints/Adhesives	Moderate	VAM +25%, methanol solvents elevated; 1-2 quarter pass-through lag for Asian Paints, Berger, Pidilite
Glass / Power	Mod-High	Glass: continuous furnaces at risk; Power: low PLF but peaking demand rising into summer

The West Asia gas crisis exposes a structural vulnerability in India's energy architecture that goes well beyond temporary shipping disruptions. The Ras Laffan attack on March 18 converted a short-term supply squeeze into a medium-term structural deficit that will reshape LNG markets and Indian industrial operations for multiple quarters, regardless of how quickly the conflict itself is resolved.

Inflation is a friend for businesses and equity markets

Inflation in India has historically coincided with strong equity market and corporate earnings performance, particularly when it remains within a moderate range. Higher inflation typically lifts nominal GDP growth, enabling revenue expansion and operating leverage across sectors. Periods such as 2003–08, 2009–11, and 2020–23 saw robust gains in the BSE Sensex and Nifty 50, supported by earnings acceleration. Cyclical sectors—including commodities, financials, and capital goods—tend to outperform in such environments. While elevated inflation may compress valuations, strong nominal earnings growth has historically offset this effect. Overall, moderate inflation has acted as a tailwind for Indian equities rather than a headwind.

Inflation vs Market Performance

Period	Avg Inflation (CPI/WPI)	Nominal GDP Growth	Market Performance	Key Drivers
2003–2008	~5–7%	~12–15%	BSE Sensex ~6x	Commodity boom, capex cycle
2009–2011	~8–10%	~14–16%	Nifty 50 strong recovery (~2x from lows)	Global reflation, liquidity
2020–2023	~5–7%	~10–15%	Nifty 50 new highs (~80–100% from COVID lows)	Liquidity, earnings rebound

Market Outlook – valuation comfort emerging but uncertainty on Earnings growth is concern

Relative valuation of Indian equities to bonds has narrowed to long-term average levels, which could trigger a relative attractiveness signal for equities in hybrid portfolios.

Exhibit 9 – Hybrid models likely to signal increased weightage to equities as bond – earnings yield spread reduces [5]

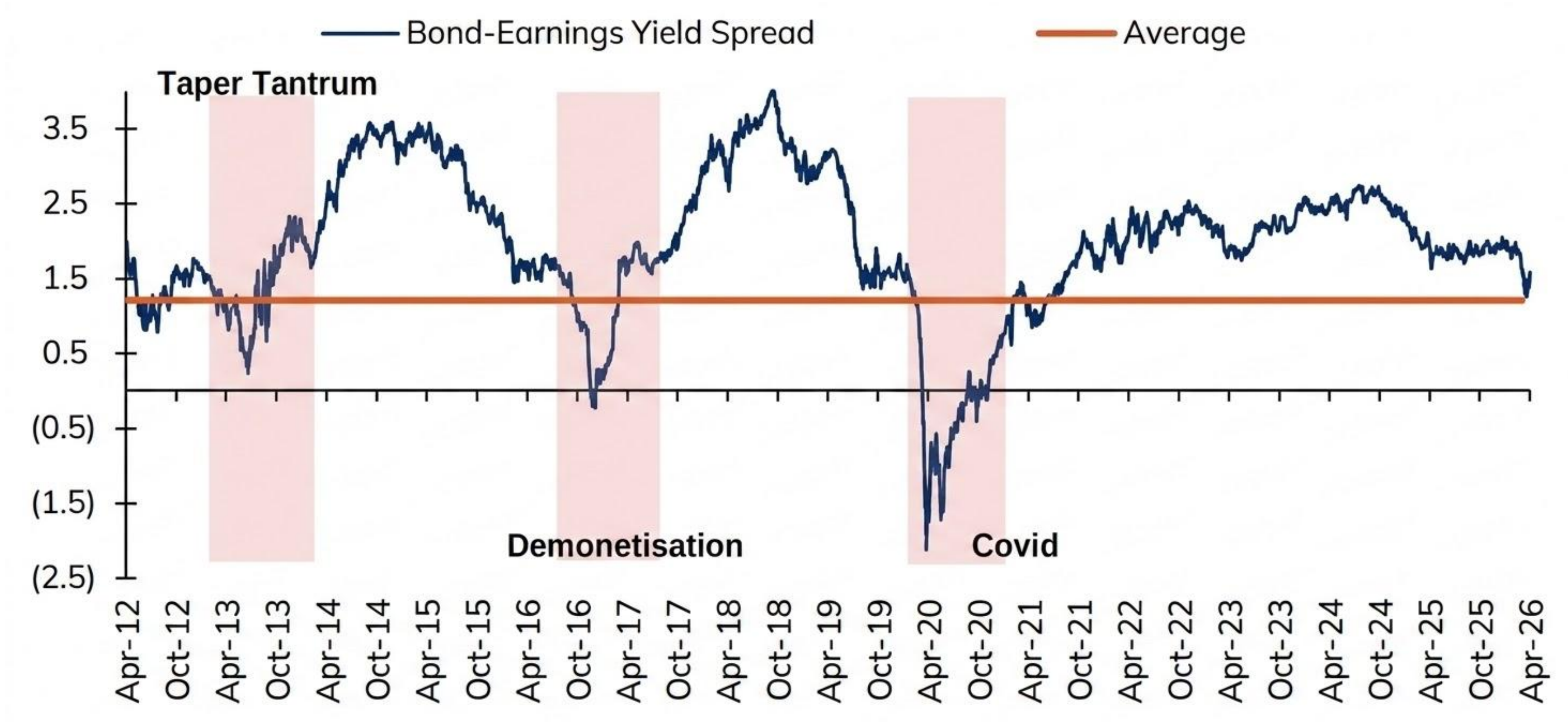

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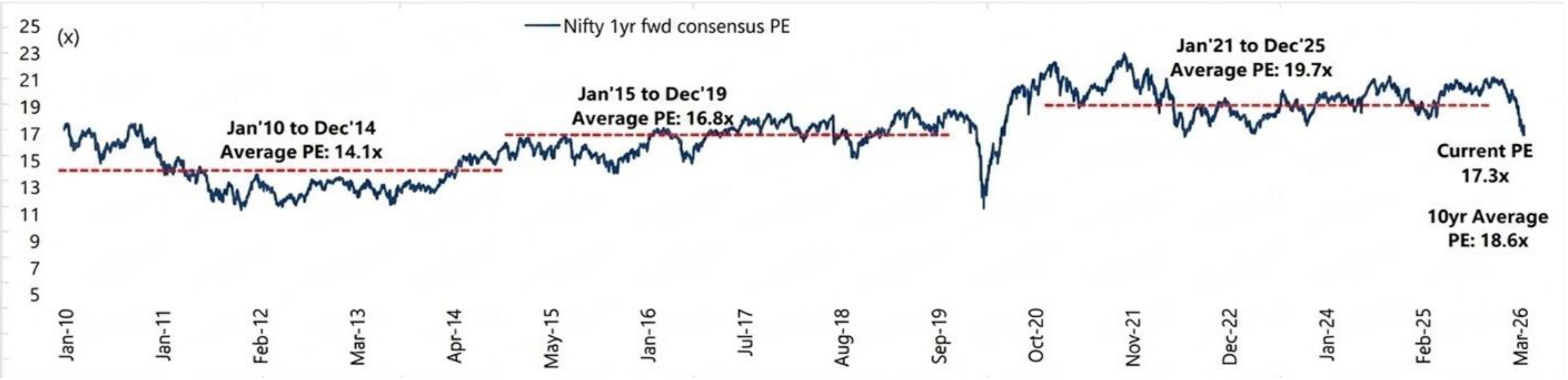
Exhibit 10 – India's valuation premium to EMs is also approaching average valuations levels. [6]

Recent market correction has brought the Nifty 12-m forward P/E multiple to ~17x, i.e., close to the pre-Covid (Jan'15-20) average and the recent rebounded in Nifty brings its valuation to ~18.5x (~5% discount to the last 5 years). While EPS cuts of 2–4% are possible for Mar'27, large cuts for Mar'28 appear unlikely.

Exhibit 11 – Nifty 1yr fwd PE and key indicators



	Metrics	Jan'10 to Dec'14	Jan'15 to Dec'19	Jan'21 to Dec'25	Apr'16 to Mar'26
Market performance (CAGR)	Nifty 50	10%	8%	13%	11%
	Nifty Midcap / smallcap				
Relative performance	Midcap / smallcap	11%/9%	6%/2%	24%/20%	15%/12%
	MSCI India vsMSCI EM(USD terms)	Outperformance+9ppt	Outperformance+3ppt	Outperformance+47ppt	Outperformance+27ppt
Nifty earnings CAGR (%)		8.00%	4.20%	16.80%	10.70%
Nifty avg. RoE (%)		16.20%	14.00%	14.40%	14.10%
Avg. PE		14.1x	16.8x	19.7x	18.6x
India Real GDP growth		7.60%	6.90%	7.90%	6.00%
CPI Inflation (avg. annual)		9.40%	4.20%	4.90%	4.70%
Bond yields (avg.)		8.20%	7.30%	6.80%	6.80%
Bond yield gap (avg.)		1.0ppt	1.3ppt	1.7ppt	1.4ppt
INR/USD (avg. annual)		Depreciate 6%	Depreciate 2%	Depreciate 4%	Depreciate 3%
Crude oil prices (avg. USD/bbl)		102	58	80	69

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Current Portfolio Construct & Performance

We have maintained a constructive stance on consumer discretionary, banking and capital market ecosystem plays, along with power T&D capex over the past year. Policy support from the Government and the RBI to stimulate consumption has underpinned our higher allocation to discretionary, with a focus on delivery platforms, retail and hospitality—segments where demand has remained resilient and is poised to strengthen further as lower taxes and interest rates support leveraged consumption.

We have recently trimmed our exposure to capital market plays and redeployed capital into a mid-sized private bank, which we believe is well-positioned to benefit from improving credit growth, stable asset quality, and margin expansion driven by a declining cost of funds.

The sharp rally in precious metals has boosted AUM for asset management companies, supporting near-term earnings; however, elevated price volatility remains a key risk, warranting moderation in valuation multiples.
Additionally, recent Securities and Exchange Board of India (SEBI) changes to the TER framework are likely to pressure wealth management firms, as AMCs may pass on a significant portion of the fee compression, impacting earnings trajectories.
Our underweight stance on materials (especially metals) has weighed on performance in recent months, as geopolitical tensions and rising energy costs have lifted commodity prices. In steel, recent safeguard duty measures by the Government of India have further driven sharp sectoral gains.

On the other hand, our underweight position in IT & ITES over the past two years proved beneficial, particularly during the sharp sell-off in February 2026. Following this correction, select mid-sized, high-growth IT services companies appear attractively valued, prompting us to increase exposure, including through Coforge.

Increased exposure to	Exited or reduced exposure
Avalon Technology	Nippon Asset Management
Vishal Mega Mart	360 One WAM
Coforge	Trent
SP Apparel	AU Small Finance Bank
City Union Bank	Hitachi Energy Ajmera Realty

Following the announcement of the proposed US–India trade deal, we have turned constructive on companies such as Avalon Technologies and SP Apparels, which derive a significant share of revenues from the US. These businesses have remained competitive despite elevated tariff barriers, and we expect the proposed tariff reductions to further enhance their competitiveness—supporting both market share gains and margin expansion.

We have also tactically reallocated within retail, reducing exposure to Trent and increasing allocation to Vishal Mega Mart. While growth trajectories appear broadly comparable, we see a meaningful valuation gap that could narrow over the medium term.

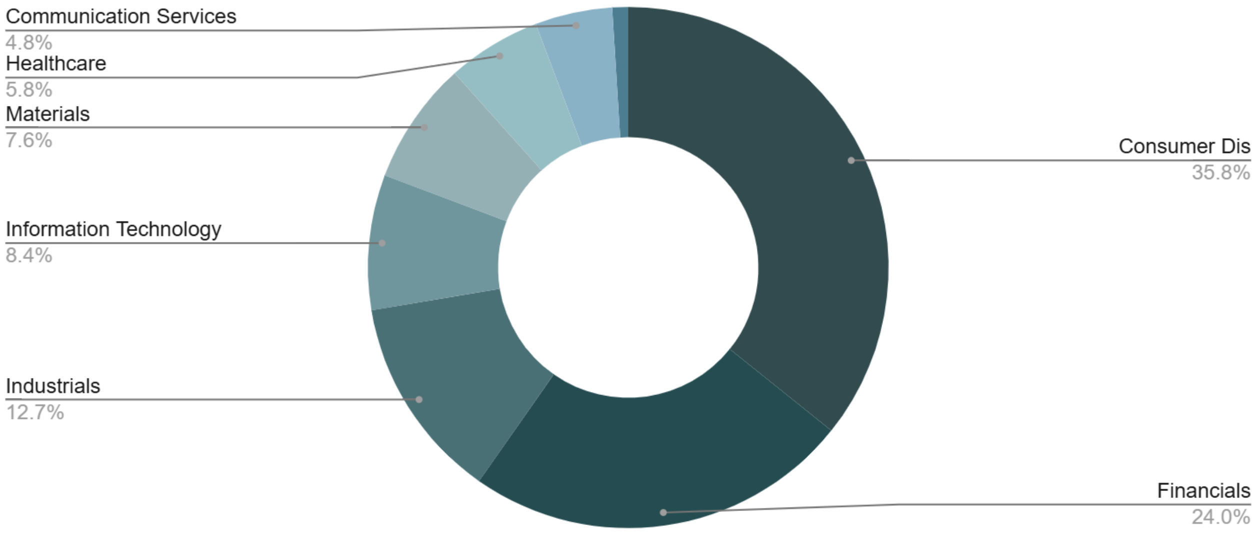
Performance Summary

Last 18 months of the Indian equity market has very challenging with broader market seeing sharp drawdowns more so in the small cap space and our portfolios exposure to small caps (~40% of portfolio) has been key reason for our underperformance in this time-period and especially during last 6 months.

	1 Month	3 Month	6 Month	1 Year	2 Years	3 Years	5 Years	Since Inception
Quest Multi	-11.78	-14.91	-14.72	-2.75	1.33	16.23	13.01	13.89
BSE 500 TR INR	-11.37	-13.94	-9.62	-3.12	1.32	12.89	11.76	12.19

The performance related information provided is not verified by SEBI. Returns are calculated on TWRR basis and are post all expenses and fees.

Portfolio Summary



Small-cap stocks have witnessed sharp drawdowns, with valuations in many cases turning compelling relative to the expected recovery in earnings. Our elevated exposure to this segment, driven by a bottom-up approach, positions us well to benefit over the next 12 months as risk-reward dynamics have become increasingly favourable.

Urban discretionary consumption remains a key area of conviction, supported by rising disposable incomes, policy tailwinds and attractive valuations. Segments such as retail, platform businesses, auto, auto ancillaries and hospitality are well-placed to deliver strong performance, and we have maintained a positive bias here for several quarters. Conversely, we remain underweight consumer staples, where elevated valuations appear misaligned with a relatively subdued growth outlook, particularly given the potential impact of an El Niño–driven weak monsoon on rural demand.

While we continue to see structural tailwinds in capital market plays and rising equity penetration in financial savings, we have recently moderated exposure in favour of banking, where improving credit growth—led by retail, agri and MSME segments—offers a more favourable risk-reward profile.

Power generation and T&D remain key focus areas, with rising electricity demand driving significant investments across the transmission ecosystem. Our exposure spans power generators, transmission OEM suppliers, transmission EPC players and substation EPC companies, enabling us to capture opportunities across the value chain.

Market Outlook & Portfolio Strategy Ahead

Post the recent correction in Indian equity markets, the valuations as highlighted earlier has become very palatable with expected FY27 P/E of ~18.5x (broadly inline with last 10 year average) with earnings growth expected to be ~10% (Iran conflict and higher energy basket would impact earnings by 2-4% compared to earlier expected growth of 12-14%).

We remain confident of a strong earnings recovery in FY27, led by BFSI, consumer discretionary, auto and auto ancillaries, manufacturing, and private capex-linked sectors, despite lingering uncertainty around energy costs.
Within the small-cap universe, nearly two-thirds of companies have corrected over 30% from their 52-week highs. Given the expected earnings rebound and improved valuation comfort, we believe this segment offers a favourable medium-term return profile.

FII outflows have continued to weigh on markets, although these have been largely offset by strong DII inflows, supported by sustained retail participation in mutual funds. A recovery in earnings could help stabilise and potentially reverse FII flows over the next 6–12 months.

Market sentiment is also likely to improve with progress on resolving the Iran–US–Israel tensions and greater clarity around the Strait of Hormuz, which would be critical for energy price stability.

In this backdrop, we see the current market environment as an attractive opportunity to accumulate quality businesses and sectors with strong medium-term growth prospects at reasonable valuations. Our cash levels remain tactical, allowing for opportunistic deployment as opportunities arise.

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