



WHAT IS QUALITY INVESTING?

Understanding the characteristics of quality investing

THE EQUITY COMPASS

EDITION
07

Imagine two batters.
One is known for his explosive hitting in T20 cricket.
Another is known for his defensive technique in Test matches.

Both are highly skilled, but their strengths are often linked to specific formats.

A quality batsman, however, is someone who can adapt and perform across Tests, ODIs and T20s. His success comes from strong fundamentals, sound technique, temperament and the ability to handle different match situations.

Quality investing follows a similar idea.

It focuses on companies that demonstrate **consistency, financial strength, disciplined management, and the ability to perform well across market cycles overtime.**

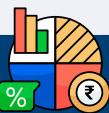
Quality investing is not about chasing the fastest-growing company. It is about investing in businesses built to survive, compete, and compound over long periods.



WHAT MAKES A COMPANY A "QUALITY" BUSINESS?

A quality company usually demonstrates:

- Strong Profitability • High ROE (Return on Equity) & ROCE (Return on Capital Employed) • Strong Cash Flows
- Low or Manageable Debt • Stable Earnings • Good Corporate Governance



WHAT QUALITY TELLS US?

QUALITY INDICATOR	WHAT IT MAY SUGGEST
High ROE & ROCE	The company is generating healthy profits while using capital efficiently.
Stable Earnings	The business is able to deliver consistent performance across different market conditions.
Strong Cash Flows	Profits are supported by actual cash generation, indicating financial strength.
Lower Debt	The company may be better positioned to navigate challenging economic environments.
Good Governance	Management may be focused on long-term value creation and prudent capital allocation.

Quality investing helps investors focus not just on growth overtime, but on the **sustainability of that growth.** The companies or business may not always grow the fastest in the short term, but they often demonstrate **resilience and consistency** in the long term.

This is why quality investing is often associated with **steady long-term compounding.**



QUALITY DOES NOT ALWAYS MEAN CHEAP

High-quality businesses often trade at **premium valuations**.
Why?

BECAUSE INVESTORS ARE USUALLY WILLING TO PAY MORE FOR:

Predictability | Stability | Strong management | Lower business risk | Long-term compounding potential

However, quality investing does not mean buying any expensive company.
Quality is important, but the price paid for that quality also matters.



QUALITY INVESTING IN MUTUAL FUNDS

A **QUALITY-ORIENTED MUTUAL FUND** TYPICALLY INVESTS IN COMPANIES WITH:

- High profitability ratios • Strong balance sheets • Consistent earnings profile
- Sustainable competitive advantages • Better corporate governance standards

Fund managers evaluate both **quantitative factors** like ROE, ROCE and debt levels, as well as **qualitative factors** such as management quality and business durability.

Example:

If a fund consistently invests in companies with **strong cash flows, healthy balance sheets, and stable profitability**, it may indicate a tilt towards **quality businesses**.

However, quality should always be viewed along with valuations, sector exposure, and market conditions.