Value Research

Mutual Fund Insight

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Complete Personal Finance Guide

The one fund for first-time investors

NIRMAY CHOKSI

Growth is exciting. Quality is enduring

Growth shines in the short-term, quality compounds in the long-term

In financial markets, "quality" is a word so overused that it risks becoming meaningless. For many investors, quality is shorthand for glamour: fast growth, hot sectors, or soaring stock prices. But genuine quality lies in strong fundamentals, consistent earnings, prudent capital allocation and resilience in downturns.

Bull markets blur this distinction. Popular businesses riding temporary tailwinds are quickly labelled high-quality. Yet, when conditions tighten, it becomes clear which companies were built on substance and which were fuelled by sentiment. Popularity may deliver in the short term. True quality survives in the long term.

The fast and the fragile

Not all growth deserves applause. High velocity often hides weak structures—over-leveraged balance sheets, erratic cash flows, or risky expansion. These firms shine in fair weather but stumble when the cycle turns.

Think of the rabbit and the tortoise. The rabbit, like a growth stock, is fast and eye-catching, cheered by onlookers. The tortoise, like a quality stock, is slow, steady, and disciplined. Markets may prefer the rabbit, but over full cycles, it is the tortoise that finishes stronger.

True quality leaves clues: high and consistent return on equity, reliable cash flows, modest debt and dividend discipline. By contrast, volatile earnings and high leverage signal fragility, not strength.

High growth firms often have similar traits to that of low quality

While SGR leaders often overlap with high quality

	Average overlap (%)			Correlation		
	Revenue growth top 100	EPS growth top 100	SGR top 100	Revenue growth top 100	EPS growth top 100	SGR top 100
NJ Quality+	13.5	14.3	24.6	0.58	0.68	0.78
Low Quality	24.7	22.5	7.7	0.84	0.83	0.66

Source: CMIE, NJ Asset Management Private Limited Internal Research, and NJ's Smart Beta Platform (an in-house proprietary model of NJAMC). Average overlap is calculated as the average of individual overlaps for the period from September 30, 2006, to July 31, 2025. Correlation is computed for the same period after adjusting for excess returns over the Nifty 500 TRI, on a daily frequency. Revenue Growth Top 100, SGR Top 100, and EPS Growth Top 100 are constructed by identifying the Top 100 stocks based on Revenue Growth, Sustainable Growth Rate, and Earnings per Share Growth Rate, respectively, using NJAMC's internal proprietary methodology. High Quality Portfolio and Low Quality Portfolio refer to the NJ Quality+ Model and NJ Low Quality Model, respectively, both of which are in-house proprietary methodologies developed by NJAMC. These methodologies are dynamic in nature and will continue to evolve with ongoing research and insights, and may be updated from time to time. Past data may or may not be sustained in the future and is not an indication of future return.

Revenue and EPS growth toppers come with high volatility

Top Quality and SGR deliver more gain with less pain

Portfolio	Annualised volatility (%)	Maximum drawdown (%)	1Y loss probability (%)	5Y loss probability (%)	5Y median rolling ret. (% pa)
Revenue Growth Top 100	22.1	-77.5	38.7	14.0	10.5
EPS Growth Top 100	21.1	-74.3	30.9	1.2	15.7
SGR Top 100	18.7	-68.4	27.9	0.2	15.8
High Quality Model	16.8	-59.1	17.3	0.0	19.4
Low Quality Model	22.9	-77.8	40.7	17.2	8.9
Nifty 500 TRI	20.1	-63.7	20.9	1.2	13.1

Source: CMIE, NJ Asset Management Private Limited Internal Research, and NJ's Smart Beta Platform (an in-house proprietary model of NJAMC). Calculations are for the period 30th September 2006 to 31st July 2025. Revenue Growth Top 100, SGR Top 100, and EPS Growth Top 100 are constructed by identifying the Top 100 stocks based on Revenue Growth, Sustainable Growth Rate, and Earnings per Share Growth Rate, respectively, using NJAMC's internal proprietary methodology. High Quality Portfolio and Low Quality Portfolio refer to the NJ Quality+ Model and NJ Low Quality Model, respectively, both of which are in-house proprietary methodologies developed by NJAMC. These methodologies are dynamic in nature and will continue to evolve with ongoing research and insights, and may be updated from time to time. Past performance may or may not be sustained in the future and is not an indication of future return.

The growth delusion

Growth measures speed. Quality measures durability. The two are not interchangeable.

Data makes this distinction plain. The top 100 revenue growers tend to have much higher leverage and weak profitability with a median debt-to-equity ratio of 58 per cent and over a third of them make losses. Here, growth signals stress, not strength.

NJ's Quality+ universe, representing the top 100 quality companies, by contrast, shows a median debt-to-equity ratio of just 9.6 per cent, with stronger cash flows and more consistent returns. The gap is structural. Growth without quality may excite, but it doesn't endure.

Speed rarely compounds wealth. Sustainability does. A sustainable business may not climb fastest, but it climbs longest. That is what matters for compounding.

Sustainable growth > high growth

Speed rarely compounds wealth. Sustainability does. That's where the Sustainable Growth Rate (SGR) matters. SGR reflects how fast a company can grow without over-relying on debt or equity dilution. It's calculated by multiplying the company's fundamentals, i.e., its capital efficiency (ROE), with the profit retention ratio—measuring internal strength, not external ambition. SGR leaders post better returns with conservative leverage. As the data in both tables highlight, top revenue and EPS growers often overlap and correlate with low quality, whereas the SGR leaders are more aligned with high quality.
The SGR leaders offer a less bumpy (volatile) ride as well, making them more resilient in downturns.

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Where quality meets growth

The solution isn't to shun growth but to seek growth grounded in quality. Businesses that manage capital responsibly and expand with discipline deliver not just speed, but stamina.

Figure 'Revenue and EPS growth toppers come with high volatility' proves this. Companies that blend growth with quality generate better long-term returns while reducing drawdowns. This is the sweet spot: higher compounding, lower anxiety.

Such businesses do not rely on hype. They simply execute, year after year, cycle after cycle, turning patient capital into durable wealth.

The mirage and the moat

Markets will always be drawn to excitement. But excitement is not the same as endurance. Perceived quality—glamour wrapped in growth—often vanishes with the cycle. True quality persists because it is measurable and repeatable.

For investors, the lesson is clear. Growth is welcome, but only when tied to discipline. Quality is non-negotiable. Do not chase shooting stars. Look for the steady compounders, the companies that carry moats rather than mirages. They may look dull in the moment, but over time, they are the ones that build wealth. ☑

Nirmay Choksi is the Director and Head of Investment at NJ Asset Management Private Limited. The views expressed above are his own.