ITUS CAPITAL

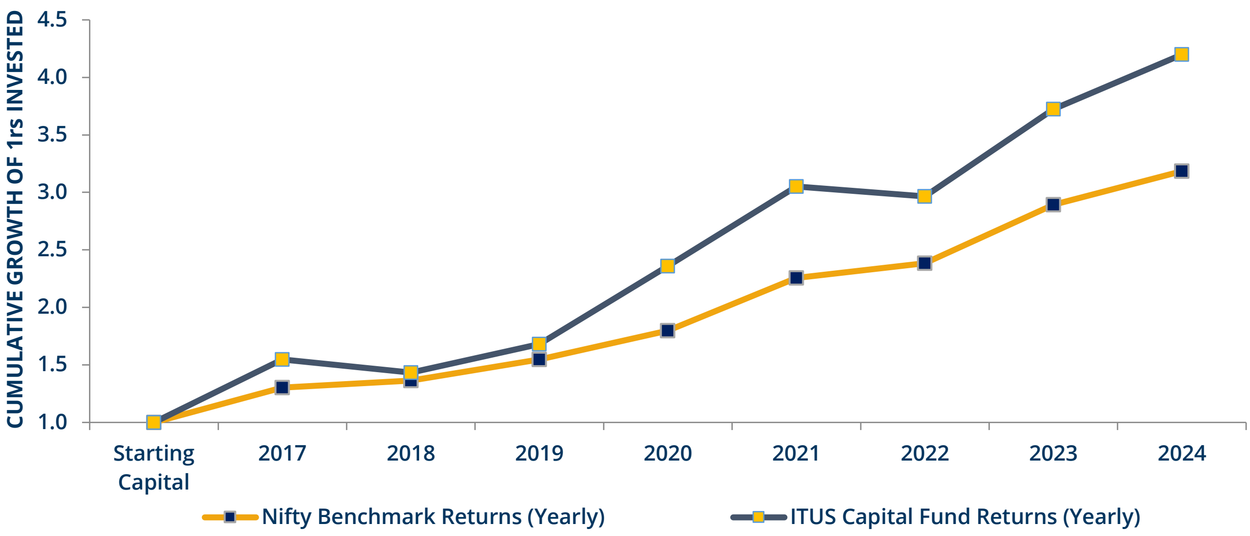
Annual Investor Letter 2024

Dear Shareholders and Investors,

As we end the year in 2024, our fund had a CY return of 12.76% as against the benchmark that gave a return of 10.09% over the same period. This puts our since inception return at 320% as against the benchmark at 218% over the same period (Jan 17 – Dec 2024 : Returns represented in INR).

The following Figure (Fig 1 below) gives the compounding of the invested capital in the fund since inception vs the Benchmark.

Fig 1: Cumulative Growth of INR 1 Cr invested in the fund against the benchmark



In this letter, we look to review the drivers of the market from our lens, the key drivers of performance of the fund in the year that went by, and our key learnings from the year around what worked well and the misses as we look back. We then discuss our expectations for 2025 and how we think about our own positioning within this context.

The year that was driven by the domestic investor

Just as markets operate in cycles, every country goes through cycles that determine the flow of money too. These have broad implications from a longer-term perspective and determine the incremental returns for an active investor.

Currently, India is going through a cycle which is driven by the domestic participation in the equity markets. Typically, these tend to be structural in nature (tend to last 10 years+) and have long term significance for an investor. We saw a structural theme in the US in the decade of the 90s which then transitioned to China which saw a structural theme between 2003 and 2013, and we are during a similar cycle in India. The cumulative inflows from Domestic Institutions in India over the last 3 years stand at ~10L Cr (USD 120 billion). Over the same period, Foreigners have net sold ~5.9L Cr (USD 70 bn) over the same 3-year period in the secondary markets. The net selling of FIIs over 2024 (in the calendar year) has cumulatively been at USD 35bn. While I do not see FIIs come back to India in a hurry (unless there are clearer signs of USD depreciation), the domestic inflows are no-longer cyclical. Like in any market, there would be bumps along the way, but the participation in Indian equities from domestics is on an uptick, which will increase the financialization of the country. This trend has structural implications on the allocations and how we look to construct bottom-up portfolios in the fund.

Out of the 3.5L Cr of net inflows that have been invested in the mutual fund industry in equities this year, ~30% of this has been into sector or theme-based fund or sector-based funds (An order of magnitude of this nature was last seen in 2007). This has also resulted in significant hot money chasing IPOs, new listings, OFS (some part of this are discussed later in the letter). With the magnitude of money increasing to numbers not seen (even in % terms) in the last 15 years, calling the market cheap or expensive as a blanket term, is beginning to lose increasing relevance. While there are sectors and companies, that do look over-valued and borderline frothy, there continues to remain good opportunities to position portfolios in sectors that are growing above their base rate where one does not need to overpay to own them. While I continue to be optimistic in 2025, I expect the year to be more volatile, throwing up good opportunities in the year to incrementally al-locate capital as we deploy our cash.

Our performance breakdown in 2024 – A Review

In this section, we review the Top Sectors and positions that contributed to the returns in 2024, alongside the top Detractors.

Top Performers:

Table 1: Contribution of our returns in 2024

Sector	Allocation Effect	Selection Effect	Total Effect
Healthcare	2.13%	1.53%	4.6%
Construction & Realty	-0.10%	1.33%	1.23%
Auto & Auto Components	2.41%	-2.33%	0.08%
Insurance	-0.13%	0.81%	0.68%
Financial Services	0.00%	0.95%	0.95%
Consumer Durables	0.00%	0.42%	0.42%
Oil & Gas	0.09%	0.49%	0.58%
FMCG	0.19%	0.73%	0.92%

Commentary on our sector positioning (Performers) – (Table 1 Above):

We continue to be positive in Healthcare (Pharma and Hospitals) and this continues to be our largest exposure across portfolios. We believe CY25, should be a strong growth sector for pharma and this would be reflected across our portfolio positioning here.

Our returns in Construction and Realty have been realized in 2024 (positions we have exited). The only exposure we carry forward in 2025, is our positioning in L&T.

Auto is one sector where have been reducing our exposure in the portfolio. As of September 23, our weight in the sector was at 22.9% (Including the gains we were sitting on). There were 2 aspects of risks we were uncomfortable with Inventory build-up specifically in the 4W Segment alongside increased competition building up with the launch of new models (with the right to win no longer being clear) and Increased margin erosion in the auto ancillaries. This alongside, the auto cycle being in the fourth year of upcycle left little room of margin of safety which made us trim our weights significantly starting December 2023. Today our exposure in Auto is only in the 2W segment, which we cover in further detail in the later section of the letter (on the numbers we are tracking and the trends we see).

We continue to be optimistic on the structural growth prospects of the non-lending financial sec-tor (which includes asset management, insurance and platform plays). While the portfolio has done well in 2024 through our selection here, we would like to increase our allocation over time in this space at the right valuations.

The last bucket I want to comment on is FMCG. While this has been the weakest performing sector in CY24, our performance has been strong as we stuck to rural recovery focused themes and were opportunistic around our buys. We continue to believe this should continue into CY25 and are appropriately positioned in portfolios.

Table 2: Detractors of our returns in 2024

Sector	Allocation Effect	Selection Effect	Total Effect
Banks	-2.26%	-0.91%	-3.17%
IT	-1.89%	-0.39%	-2.28%
Telecom	-0.75%	-0.35%	-1.10%
Mining & Minerals	0.01%	-0.26%	-0.25%

Commentary on our sector positioning (Detractors) – (Table 2 Above):

While banks have done well in the last quarter of 2024, from a price perspective, and valuations are certainly below the last 10Y median end of the range, we continue to be underweight banks. Our underperformance here continues to come from the allocation effect within banks, which we are comfortable to continue into 2025. However, we continue to have a position in ICICI bank, as they continue to execute the best (both from a NII Growth and from an asset quality perspective). While banks could perform relatively better in the first half of 2025, as broader economic capex slows down, we will monitor the space from a relative risk-reward perspective.

IT is another area where we have underperformed from an allocation point of view, as we have been underweighted here (due to growth not coming through in a strong way). We continue to own positions in platform plays rather than the traditional services-based businesses where the potential to get non-linear growth is low.

The last sector to comment on which we expect to do well is metals, especially Copper. India continues to be a net importer of copper and global demand for the metal continues to increase at 2x the pace at which new mines have come up. In fact, the supply of the metal globally continues to be tepid, which makes me believe the price of the metal should be higher towards the end of 2025 vs where we are today. This is an area I continue to be bullish on, where we are positioned towards (though this has not yet played out in 2024).

Looking back on the year – Postmortem Learnings

i) One aspect of our positioning, we should have been better on is our weights in capital market plays. We were slow to ramp up our exposures in the year, when our models and our tech platforms showed that the growth here was non-linear. We continue to fi-ne tune our positioning frameworks as we continue to grow.

ii) One of the areas where we had no positioning where we saw a clear trend was in hotels. While hotels are not an area we naturally look at (due to the historical high capex nature of the business, funded by debt and demand being poor structurally), the dynamics of ARR increase, supply vs demand mismatch, pivot to scaling through a non- asset heavy model and the occupancy trends increase shown meant that we should have been better positioned here.

iii) EMS (Manufacturing) has been one of the strongest themes for CY24, where we had no exposure in. While I continue to review the sector, I continue to maintain that the mar-gin profiles of the sector still do not give us comfort to be owning the space. While the growth continues to be north of 40% at a sector level, this does not lend itself to incremental RoCE. So, while the portfolio had an opportunity cost in not being in this space, I do not believe this necessitates a change in stance from where we sit.

Activity in the fund – How we are integrating technology into our research process

Over the last 2 years, we at Itus, have invested a disproportionate amount of capital in building a technology stack that acts as a foundation layer to our fundamental research process. In order to give an overview of this, we break down the stack into multiple layers:

a) The role of technology in data aggregation
One of the core roles of the analysts at Itus has been to continually gather data (from both public and private sources) to monitor and build the thesis into the investment ideas in the portfolio. Investing is not about getting the maximum number of investments right but is a combination of reducing the mistakes we make in the portfolio construct which in turn means, questioning our thesis every time the data does not match with our thesis.
Collecting, parsing and assimilating the data has been at the core of what an analyst does. This layer for the firm, has moved to our technology stack which basically means, that the analyst has more time to analyse the data (rather than spend time only collecting) and more importantly, the accuracy of data becomes a lot more reliable at scale.

b) Technology acting as a research assistant

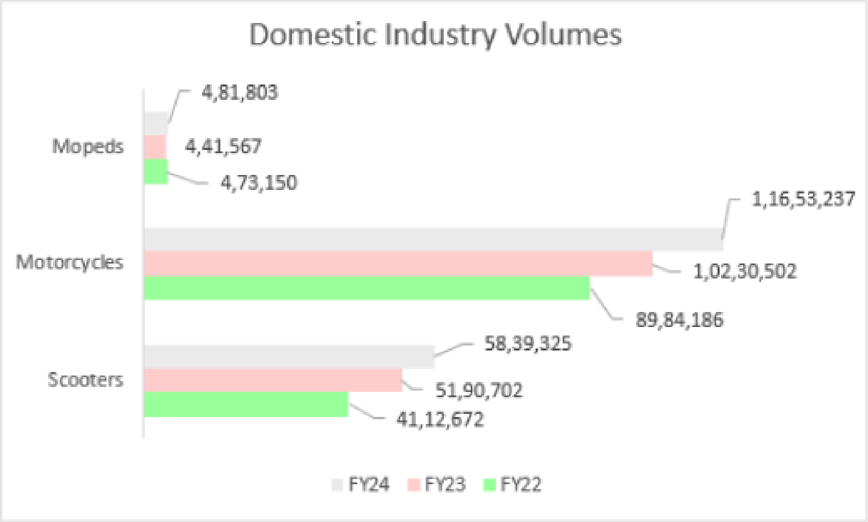
As we continue to scale our systems, the stack we have built in the firm, gives us access to a tech-based research assistant through which conversations can be tracked, monitored and analysed. Today, we track 250+ companies (through all publicly available information and filings) where insights on guidance, estimates, trends are put together by the tech LLM which makes doing qualitative work on the ground a lot more scalable.

The next section gives an insight into 3 of our portfolio companies, around what metrics we track, and how the data flows through to our analysts around our conviction.

Two Wheelers & our positioning

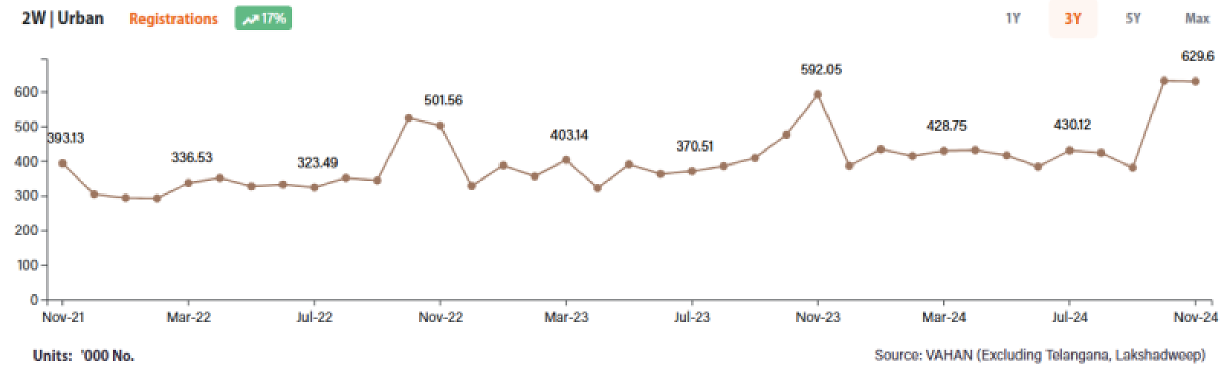
We began highlighting the two-wheeler trend from Q2FY24 onwards in our quarterly letters. The Indian two-wheeler market demonstrates a strong trajectory for continued growth, underpinned by several key factors. 2W demand shifted from sub-125cc motorcycles to scooters and premium 125cc+ bikes over FY13-18; however, this trend reversed over FY19-22 as the rural economy held up better than urban, while the replacement cycle, in our view, got delayed amid Covid. However, since 2023 we can observe that the premium segment (motorcycles) has been on rise with driven by urbanization, premiumization and electrification. (Shown in Fig 2 Below).

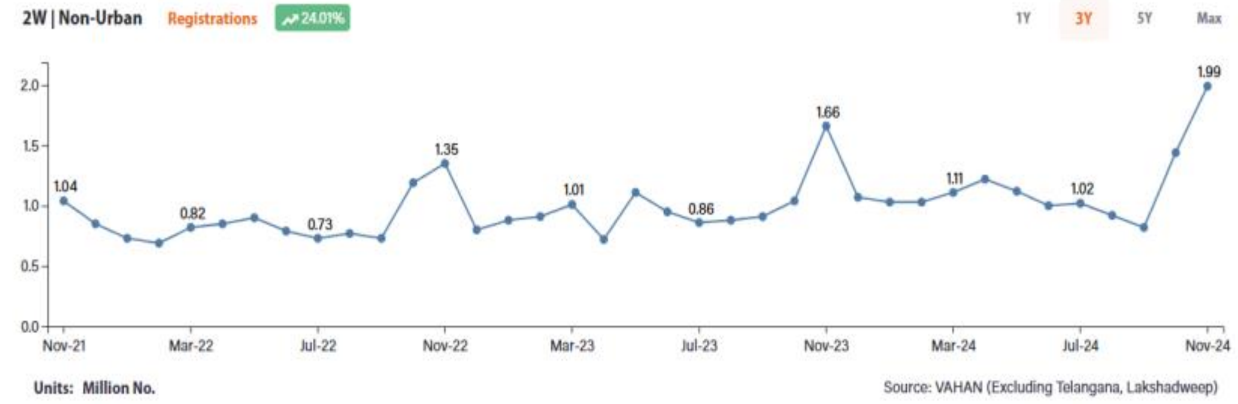
Fig 2: Domestic Industry Volumes of Two-Wheeler in India



The provided charts on our platform, illustrate a consistent increase in registrations over the past three years, in both urban and rural markets. This sustained demand reflects the growing reliance on two-wheelers and helps back our thesis and positioning in the sector. The management's commentary on the ground also highlights, how after nearly 2 years, the rural demand is outpacing the urban demand. Given, nearly 50% of 2W sales come from rural India, it acts a proxy to outlook on rural demand. With rural pickup, we expect the 2W's volumes to sustain and our investments in Two-wheeler OEM'S are an extension of the same.

Fig 3: Urban & Rural Two-Wheeler registrations in India – Granular data tracked monthly

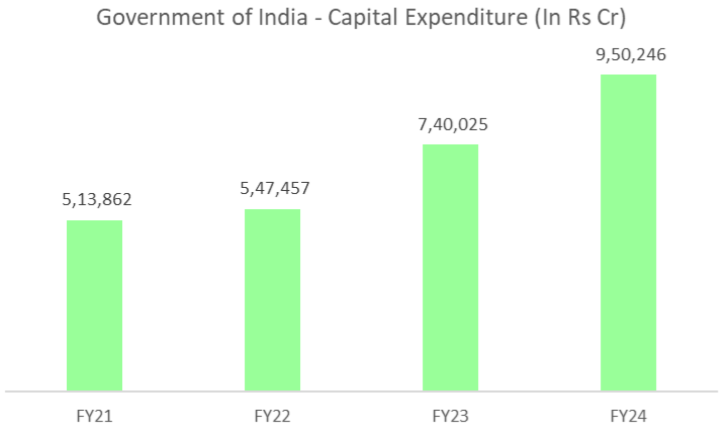




KEI Industries

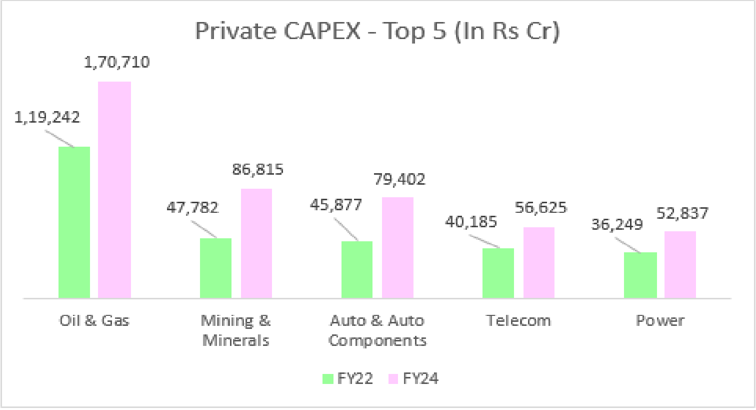
Cable and Wires are proxies to capital expenditure – government, private and pick up in real estate demand. We have observed trends in increased government and private spending over the last three years. Government CAPEX in FY24 stood at 9.48 lakh Cr versus 5.92 lakh Cr in FY22 (Shown in Fig 4 Below).

Fig 4 : Annual Government Capex by year



Private CAPEX of the top 1000 companies (excluding banks, NBFCs, Insurance and IT companies) was 6.99 lakh Cr in FY24 versus 4.58 lakh Cr in FY22. Below are the top 5 sectors which contributed to 64% of private CAPEX in FY22 and FY24.

Fig 5: Private capex by top 5 sectors in India



In the real estate markets, we did observe an increase in launches and reduction in unsold inventory. All the above factors do bode well for ancillary segments like cable and wires.

In the backdrop of strong tailwinds and continuing trends, we took a position in KEI. Factors that provide tailwinds for KEI were

- Cables heavy portfolio with this segment contributing to +60% of revenues. Power has been one of the top sectors in terms of CAPEX spends both for the private and public sector.

- First mover advantage in EHV cables, these cables are primarily used in transmission of electricity at voltages above 230 kv, facilitate the integration of renewable energy into the grid, industries that require high-capacity electricity and demand for underground EHV cables.

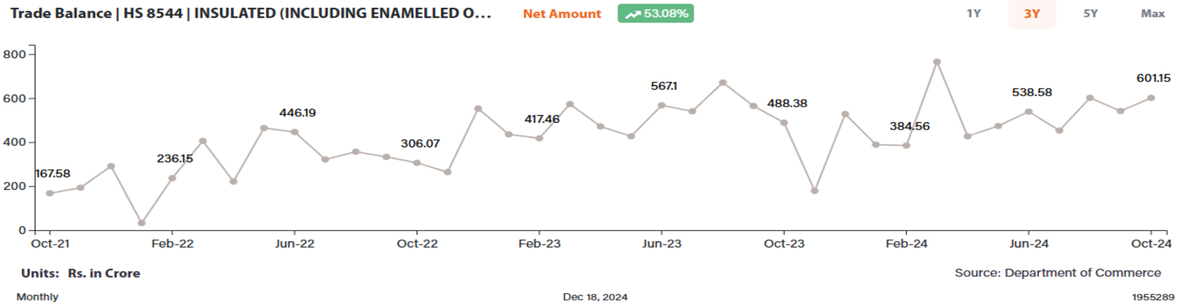
- Sole focus on the cable and wire business, this is different from the other companies in the industry who also offer electrical goods.

- Double digit revenue and profit growth with stable margins, this is in the backdrop of vola-tile input prices.

- Highest percentage increase in CAPEX albeit on lower base.

Another trend that we observe, and which will benefit the domestic cable and wire companies is the export opportunity. India is a net exporter of cables and wires, and export revenues of domes-tic companies is low in comparison to their overall revenues. KEI's export revenues in FY24 were 1,097 Cr, constituting 13% of their overall revenues and in the case of Polycab it was 1,383 Cr, 8.5% of their consolidated cable and wire revenues.

Fig 6: Trade balance (Exports – Imports) of cables & wires in the country

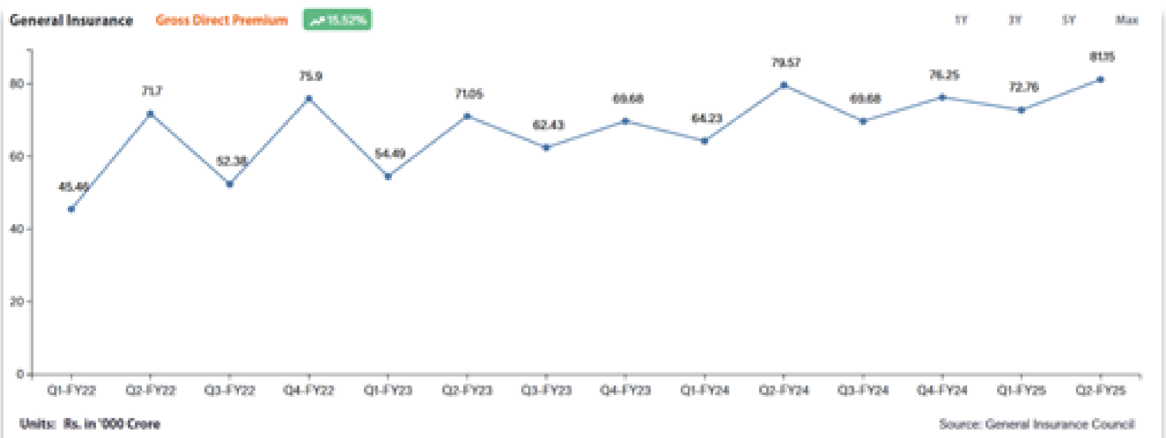


ICICI Lombard:

Our positioning in ICICI Lombard dates to 2022, stemming from a tough period for the company – with several new entrants to the general insurance space being aggressive at the cost of underwriting profit and a period of market share stagnation/decline.

In the last 2Y, General Insurance as an industry was seeing growth propelled by key initiatives in segments like Motor and Marine Cargo, where coverage was mandated/increased, leading to tail-winds for industry growth.

Fig 7: Premium (GDPI) growth for the overall General Insurance industry



Our exposure towards ICICI Lombard is reflected through relative distribution strength in segments like Motor, Fire and Marine Cargo, which we monitor through a two key metrics – market share based on Premiums, and how efficiently it managed its underwriting ratio.

The below charts (Fig 8 and Fig 9) highlight market share gains for ICICI Lombard while maintaining best-in-class underwriting ratios. With continued runway for premium growth coming from policy changes, we expect the general insurance industry and ICICI Lombard to sustain growth.

Fig 8: Market share of ICICI Lombard Gross Direct Premium Income (GDPI) as a % of Industry

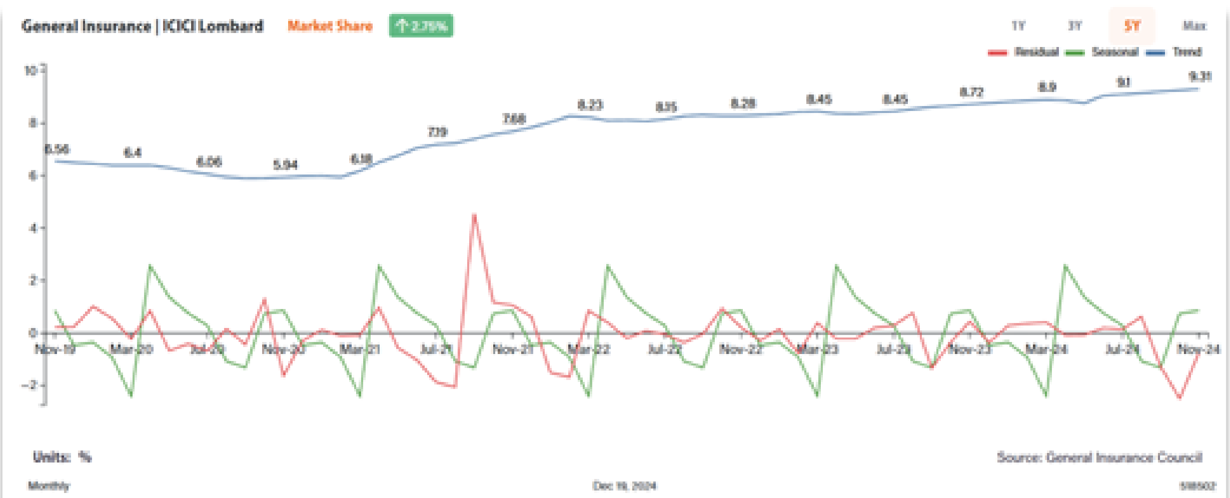
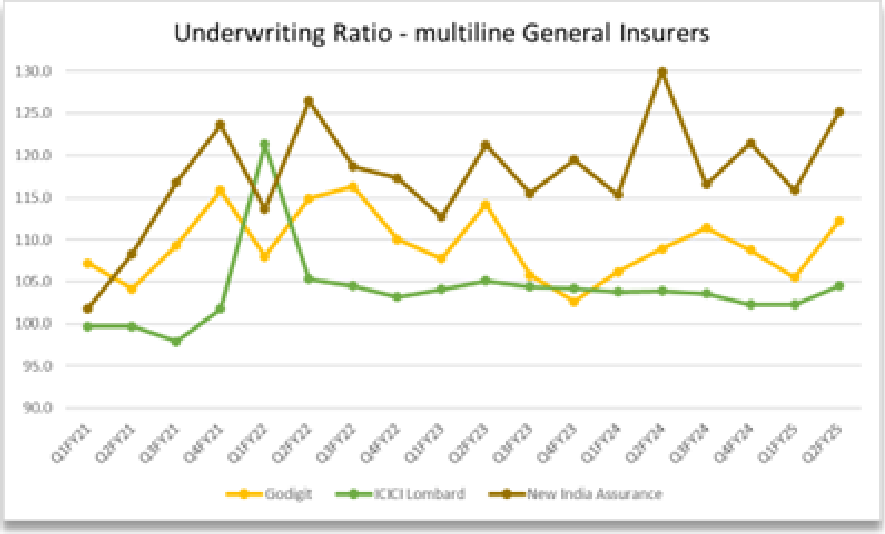


Fig 9: Underwriting ratio of listed General Insurers (lower is better)

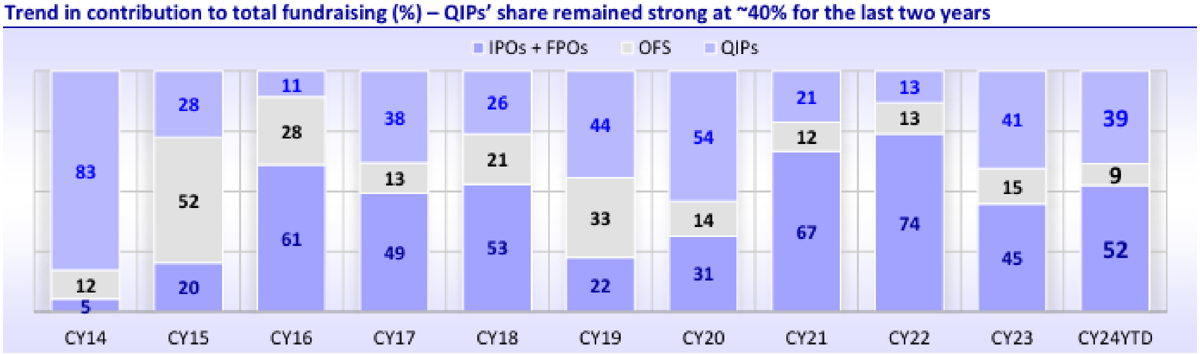


Our expectations for CY25

Before, we form a base line view for CY25, it is imperative that I share the data points we are looking at to form a basis for the view for the next year.

Flows:
While it’s clear that the flows into the market are being driven by domestics in a strong way, it is imperative to understand the supply side of the flows too.

Fig 10: Trend in Contribution to Total Fund Raising (%) – QIPs share remained strong at ~40% over the last 2 years



Source: *Motilal Oswal Strategy Report*

It is imperative to view the number in % terms to understand the historical context to the numbers. A few facts to present the same in absolute numbers is as below:

a) CY24 has been a blockbuster year for the Indian primary market, with INR1.8t raised through more than 317 IPOs to date – an all-time high that surpasses the previous record of INR1.3t set in CY21 and far exceeds last year's total of INR576b (Do note that in % terms we have had higher numbers in history as shown in Fig 2).
b) The contribution of new listings through IPOs to the Indian market capitalization witnessed an uptick of 2.9% vs. 1.4% in CY23. However, it still lags far behind the highs recorded in CY17 (+3.7%) and CY21 (+3.4%).
c) On an aggregate basis, IPOs have been oversubscribed by ~26.6x, attracting a subscription of INR46.7t vs. the offer size of INR1.8t. Notably, this ratio is the second highest in the decade, trailing only the high attained in CY23 (at 29.9%).
d) Among the 78 main-board IPOs listed so far, 54 (69%) are trading at a premium to their offer prices, with 11 of them trading at a premium of over 100% from their offer prices.

We expect the IPO issuance to continue to be robust in CY25, with a healthy pipeline of companies already filed or looking to file their DRHP.

Earnings:

Over the last 3 years, the earnings of corporate India were strong, broad based and this resulted in a strong RoCE accretion which was broad based. This has resulted in a broad-based rally in indices with small caps outperforming the most over the last 3 years (Shown in Table 4 Below).

Table 3: Returns of Indian Indices across time periods

Broad Indices	1 Month	3 Months	6 Months	1 Year	3 Years	5 Years	10 Years	15 Years
NIFTY 100 - TRI	-0.99	-4.19	6.47	25.74	14.31	16.76	12.70	12.93
NIFTY 200 - TRI	-0.77	-4.17	6.81	26.86	15.81	18.20	13.30	13.04
NIFTY 50 - TRI	-1.30	-3.91	7.07	21.49	13.59	16.21	12.23	12.48
NIFTY 500 - TRI	-0.40	-3.86	7.37	27.89	16.85	19.44	13.85	13.37
NIFTY LargeMidcap 250 - TRI	-0.36	-3.95	7.29	29.26	19.28	22.39	15.85	15.20
Nifty Midcap 150 - TRI	0.26	-3.73	8.06	32.71	24.20	28.00	18.81	17.58
NIFTY NEXT 50 - TRI	0.35	-5.45	4.33	49.90	20.06	20.83	15.52	15.35
Nifty Smallcap 250 - TRI	2.61	-1.84	12.75	35.95	25.57	30.76	16.71	15.71

Going forward, I expect the earnings to narrow into a smaller set of companies (with pricing power and an inherent edge – built from distribution, IP, Technology or operational excellence).

How does this impact our portfolio? Over 2024, our portfolio at Itus had a higher number of names with a tail exposure. I expect our tail to come down in the year, and the number of names to come down below 32. (The sweet spot being between 25-30 in terms of the number of names in the portfolio).

More importantly, since the earnings are no-longer broad based, I expect increase in volatility in CY25, which should give us opportunities to increase our allocation in the Top 10 positions in the portfolio. To summarise, my expectations in the year should translate to

a) Lower tail
b) Increased concentration in our Top positions

Both above, are aspects of risk we were not comfortable with in 2024.

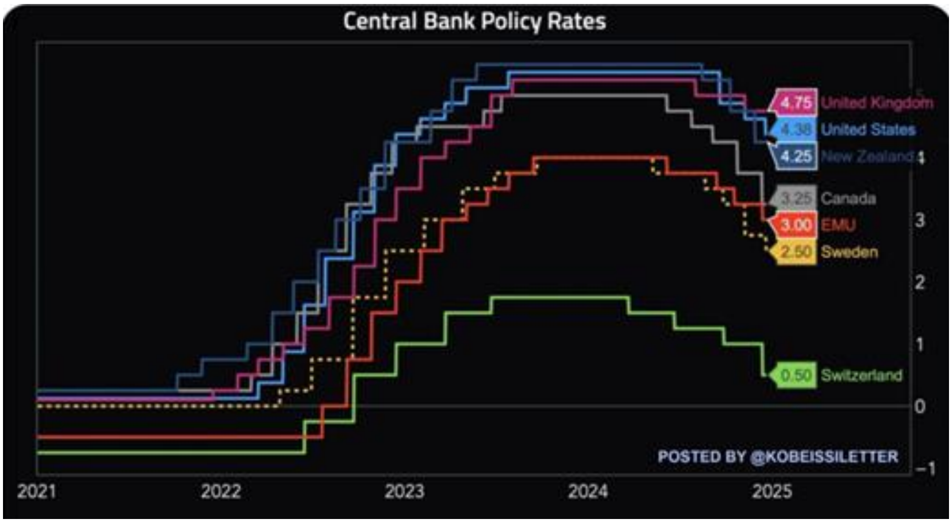
Macro

Macro is a dynamic subject and is always subject to a multi-dimensional thought process and can-not be constructed with a rigid mind. So, rather than give a strong view here, I aim to present the thought process and the risks I see today.

As can be seen below (in Fig 3), 74% of Central Banks have cut rates this year, the biggest share since 2021. There are Central Banks like Canada, ECB, Swiss who have lowered rates more than 4 times (> 100 bps in each of the instances).

All of this is happening at a time, when inflation continues to rebound. This continues to be one of the biggest risks going into 2025. I do not believe the case for continued rate cuts is sensible any-more, which effectively means global growth must rebound for us to have a strong macro. This dichotomy is a risk which we need to continue to monitor into 2025 (Shown in Fig 11).

Fig 11: Central Bank Policy Rates



Our expectations for 2025:

While we ended 2025 (with 2QFy25 earnings) being narrow and growth slowing down, I expect the 2H of Fy25 to be stronger (relatively). I expect 2025 to be a good year for equities (with the broader market up ~at the nominal growth rate, at 10%) with increased volatility through the year. This is not the market I would look at being bearish. Having said that, I believe 2025 will revolve around good portfolio positioning, risk management as the core themes. I would want the portfolio to not compromise on growth and continue to focus on companies that can raise prices (to protect margins). On the global macro side, I still believe that the US will have to relatively weaken their currency to inflate the value of the asset side of their balance sheet and this should be inflationary in nature for risk assets. Our positioning in the fund, will reflect this and we would continue to monitor earnings and global sentiment to validate each of our hypothesis.

Name	Sector	Position	Weight	Comments
Dr. Reddy's Laboratories Ltd. Aurobindo Pharma Ltd. Piramal Pharma Ltd. *Others* **Total**	***Healthcare***	*Overweight*	**19.1%**	*Strong growth outlook benefitting from low-cost manufacturing; lower price erosion in US pharma*
Havells India Ltd. KEI Industries Ltd. Ambuja Cements Ltd. **Total**	***Building Materials***	*Overweight*	**6.5%**	*Cables volume growth from Power segment to aid growth*
Bajaj Auto Ltd. Eicher Motors Ltd. TVS Motor Company Ltd. **Total**	***Auto & Auto Components***	*Neutral*	**6.5%**	*Strong OEM volume growth in 2Ws*
Marico Ltd. ITC Ltd. **Total**	***FMCG***	*Underweight*	**6.5%**	*Expecting Rural recovery to drive volume growth*
HDFC Asset Management Company Ltd. PB Fintech Ltd. **Total**	***Financial Services***	*Overweight*	**5.7%**	*Growing financialisation in the country*
ICICI Bank Ltd. HDFC Bank Ltd. **Total**	***Banks***	*Underweight*	**5.6%**	*Bottoms-up outlook on lending growth*
Reliance Industries Ltd. GAIL (India) Ltd. **Total**	***Oil & Gas***	*Neutral*	**5.5%**	*New pipelines, gas field discoveries and imports to aid volume growth*
Indian Energy Exchange Ltd. Power Grid Corporation Of India Ltd. **Total**	***Power***	*Overweight*	**4.5%**	*Growing power consumption trend; Addition of thermal capacity*
Larsen & Toubro Ltd. **Total**	***Construction & Realty***	*Neutral*	**4.5%**	*Increased project spends from State and Central Capex; GCC crude infrastructure spends*
ICICI Lombard General Insurance Company Ltd. **Total**	***Insurance***	*Overweight*	**4.0%**	*Low penetration of financial products; good growth prospects*
Tata Consultancy Services Ltd. **Total**	***IT***	*Underweight*	**4.0%**	*Orderbook growth alongside hiring should lead to execution*
Hindustan Copper Ltd. **Total**	***Mining & Minerals***	*Neutral*	**3.5%**	*Rising demand for copper in manufacturing, batteries, etc.*
ABB India Ltd. **Total**	***Capital Goods***	*Neutral*	**3.1%**	*Good outlook for capex. Supportive policies, operating leverage*
Blue Star Ltd. **Total**	***Consumer Durables***	*Overweight*	**3.0%**	*Strong volume growth across appliances*
Interglobe Aviation Ltd. **Total**	***Hotels & Travel***	*Overweight*	**2.5%**	*Significant fleet addition; aided by economy growth*
PI Industries Ltd. Advanced Enzyme Technologies Ltd. **Total**	***Chemicals***	*Overweight*	**2.3%**	*Benefit from low cost of production and exports*
Adani Ports and Special Economic Zones Ltd. **Total**	***Logistics***	*Overweight*	**2.0%**	*Manufacturing facing sectors to drive ExIm volumes*
Indus Towers Ltd. **Total**	***Telecom***	*Neutral*	**2.0%**	*ARPU growth should lead to increased Capex by Telecom providers*
PVR Inox Ltd. **Total**	***Consumer Discretionary***	*Underweight*	**1.5%**	*Rising discretionary spends on entertainment*

The above is our portfolio across all clients as of December 2024.

Note: The sum of above weights would not total up to 100%; remaining would be our cash holdings.

We look forward to speaking with you **on our call at 9:30 AM on the 18th January 2025. Thank you for your continued trust and partnership.**

From the desk of the CEO

Naveen Chandramohan

Risk Factors and Disclaimer

Risk arising from the investment objective, investment strategy and asset allocation.

Equities as an asset class carry a higher risk in comparison to debt. While risk cannot be totally eliminated, it can be mitigated through a well designed investment strategy. ITUS Capital seek to mitigate risk and deliver superior returns through research-based investing. However, this objective may not be fully achieved due to various reasons such as unfavourable market movements, misjudgement by portfolio manager, adverse political or economic developments etc. The PMS is run with an objective to achieve reasonable returns consistently. Given this background the investor investing in the PMS faces the following risks

i. Political, Economic and / or Related Risks

The Asset Value of the portfolio and the liquidity of the shares may be affected by changes in government policy, taxation, interest rates, social and religious instability and political, economic or other developments in or affecting India.

ii. Industry Risk

The value of shares of companies in a particular industry may be affected due to factors affecting the industry like changes in government policy on duties, FDI or a foreign country, which is a big market for the industry, may impose restrictions on import etc.

iii. The Indian Securities Market

The Indian stock markets in the past experienced substantial price volatility and no assurance can be given that such volatility will not occur in future. Actual market trend may be in variance with anticipated trends hence, the decisions of the Portfolio Manager may not be always profitable.

iv. Liquidity Risk

Some stocks that the investor might be invested in might not be highly liquid. Though it will be the PMS service providers endeavour to restrict investments in less liquid stocks to a lower limit, there is an exposure of liquidity risk to the investor

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