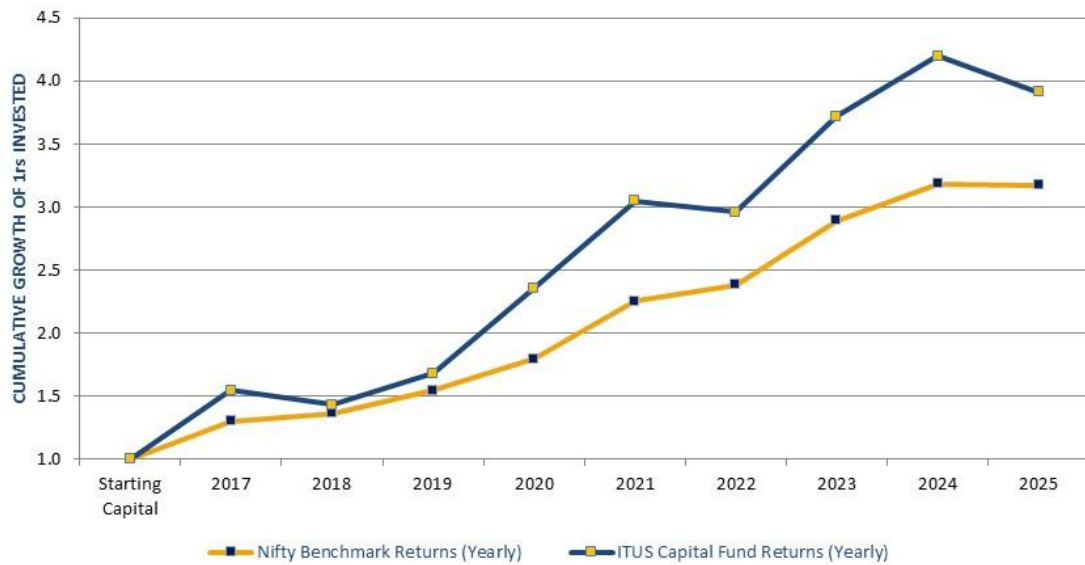


Dear Shareholders and Investors,

We are happy to share the quarterly letter of Itus Capital for the quarter ending March 2025. As of the end of 2025, 1 Cr invested in the fund since inception has grown at an annualized rate of 17.98% (since inception – Jan 2017). Over the same period, the benchmark Nifty50 has given an IRR of 15.03%. The below (Fig 1) gives an overview of how the capital has compounded over time for an investment in the Fund vs the Benchmark.

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



The portfolio investments split by market cap and sectors are broken down below.

*Fig 2: Market Cap Breakup*

Market Capitalization	Exposure
Small Cap	11.3%
Mid Cap	23.5%
Large Cap	58.6%
<b>CASH AND CASH EQUIVALENTS</b>	<b>6.65%</b>

*Fig 3: Sectoral Breakup*

Sector	% Allocation
Pharma	15.3%
Auto	8.2%
Non-Lending Financials	11.0%
Capital Goods	3.1%
Metals	5.8%
Building Materials	3.0%
Consumer	18.0%
Technology	2.0%
Hotels & Travel	2.0%
Banking	20.0%
Consumer Durables	3.5%
Chemicals	1.5%
<b>CASH AND CASH EQUIVALENTS</b>	<b>6.7%</b>

The last 6 months has seen a broad-based correction in the markets, which started off with earnings growth weakening in the Indian corporate numbers.

*Fig 4: Nifty50 EPS Estimates Trajectory in FY24-25 (Analyst projection)*

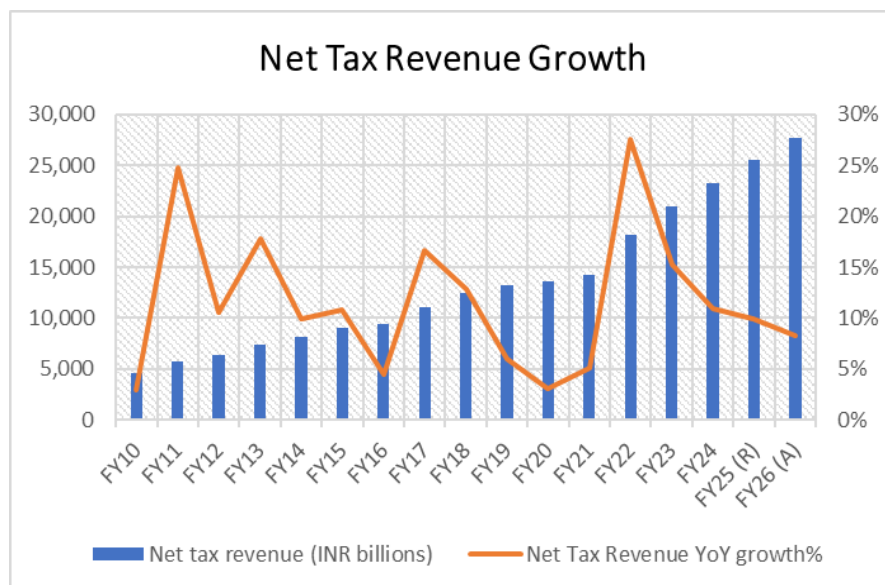
Nifty50 EPS Trajectory	May-24	Sep-24	Feb-25	Estimate Change(6M)
FY25	1142	1096	1047	-4.47%
FY26	1327	1280	1204	-5.94%
FY27		1465	1373	-6.28%

Currently, the numbers for FY26 and FY27 forecast a growth of 14% and 16% respectively, which in our mind have a risk of further downgrade revisions over the next 2 quarters. It is within this context that I would want to spend some time on the portfolio construct and the thought process today.

### Our current Macro:

Over the last 15 years, the net tax revenue for the government has grown at a CAGR of 9.2%. There have been periods of 3 years when the CAGR has been way above the mean (the 21-24 period saw the revenue grow by 19.2%, due to the base effect of 2020), but broadly the budget estimates for the government revolve around the number of high single digits around planning for the following year (Historical Numbers and growth shown in Fig 5).

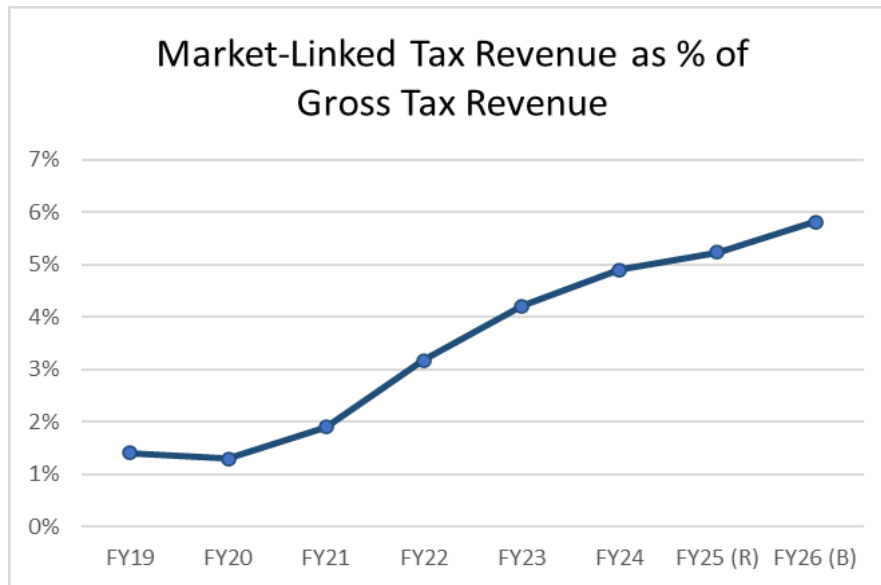
*Fig 5: Net Tax revenue for the Government*



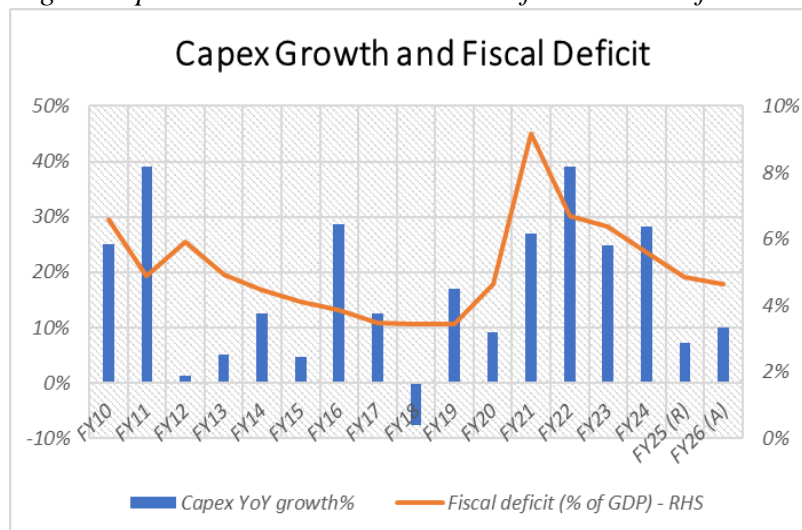
It's important to break down the components of the revenue and what contributes to this growth. One of the key contributions to the tax revenue has been income tax, and breaking this further, the market linked tax revenue, which contributes to the income tax. Historically, pre-2020, the contribution of market linked tax revenue (LTCG, STCG and STT) has been between 0.5% to 1.4% of the overall

tax revenue. However, as equity culture deepened and so did participation, and combining that with the bull market in India between 2021-24 meant that our current contribution of tax revenue from markets is at 5.2% of the total tax revenue. This is the first time in history we have had a high number of contribution from market based tax, and the relevance of this comes at a time when markets have fallen. There is a non-trivial probability that this number can be lower (contribution wise) in the next 2 years, which means that the budget estimates which factor a growth of 10% (meaning the market linked tax revenue also growing) may have a downward revision for FY25-26.

*Fig 6: Market-Linked Tax Revenue Contribution to the Gross Tax Revenue*



*Fig 7: Capex Growth and the Fiscal Deficit numbers for India*



The above scenario, if it materializes will have an impact on the government spending for FY25-26 and one area I believe it will have a natural impact on is the capex spending from the government in the coming year ( Fig 7 shows the growth of capex in the past vs the budget estimates for next year which factors a 10% growth, which could be at a risk of downward revision)

This feeds into the way I think about risk today, where the portfolio is underweight capex and government spending business as the tailwinds that existed over the last 4 years could potentially be headwinds over the next 5-6 quarters.

### **Portfolio Strategy and Positioning:**

In a market where macro could potentially act as headwinds, it's important to focus on sustainability and downside protection as the cornerstone of portfolio construction. We continue to have a 66% weight in large caps, more importantly in companies with market leadership with financials, consumer and pharma forming the 3 core sectors of the portfolio weights. While the mid-cap part of the portfolio construct forms 23%, this predominantly comes from financial services where the market leaders happen to be mid-caps today. Put another way, any category we buy today, I would want to ensure we buy leadership.

The key portfolio changes made recently are:

- a) Cut and reduce weights in PSUs, Capital goods and power
- b) Increase weight in banks (market leaders)
- c) Increase weight in staples (in companies which are building a direct GT model)
- d) Exited positions in IT
- e) Reduced exposure in Auto

The portfolio holdings have reduced in number over the last 6 months as we expect earnings growth to be narrower from here. Some tail holdings may also be further rationalized over time.

### **US Tariffs – The New World and its implications**

Historically, tariffs have the same effect of increasing taxes, which tends to bring down investment, growth and have had recessionary effects in the past. From the perspective of the largest economy in the world, they have continued to print capital over the last 17 years since the GFC and continued to increase the debt on the country's balance sheet (and run larger deficits over time).

To come out of this spiral, the current US government has taken the stance of administering tariffs as a way of increasing revenue and cutting the deficit. The thought process of the largest consumer having the say in setting prices does generally hold true, however in this case, there are ramifications of China, not wanting to budge either to the US demands. As we continue to hear more on how each country responds, I do not believe concluding that India is a beneficiary and will come out fine is just yet prudent, in the short term. While the first order thinking is to consider that India will cut some of our import tariffs in specific sectors (like auto, alcohol etc) and in turn have a few industries where we can increase our imports from the US (say import more oil from the US) will balance our deficit with the US, without hurting our trade is a reasonable assumption to make. So within the context of

the global economy, India as a country should not have trade related disruptions the way I see it. However, that this has done is to create uncertainty globally as the world order, the way we know it has changed, and this has increased the risk premium of assets globally. Over the next few weeks / months, we should have more headlines come through around how each country reacts to the tariffs they have been faced with, and these will have implications around the new order we could be potentially entering.

In this uncertain environment, it no longer is evident that the US will be the natural place to go to for capital (which was the case for multiple decades) and hence, US equities can continue to underperform. While I expect India to relatively outperform in this environment, I would look at the portfolio to be more domestically oriented where capex intensity is low.

From a valuation standpoint, Nifty 50 is trading at a 1Y forward multiple of 18x earnings and at this multiple, the risk reward continues to favour large caps. The recent fall in the gap between bond yields and earnings yields also signals a better risk reward to marginally invest here.

Annexure A details the fund portfolio, sectoral composition and a brief description of the thought process of our ownership in each as of March 31<sup>st</sup>, 2025.

We look forward to speaking with you **on our quarterly call at 16:00 PM on the 16<sup>th</sup> of April 2025.** **Thank you for your continued trust and partnership.** Please feel free to write to us on [info@itus-capital.com](mailto:info@itus-capital.com) for more information on the fund or for communicating any feedback.

From the desk of the CEO

Naveen Chandramohan

## Annexure A: Detailed Portfolio Positions

Name	Sector	Position	Weight	Comments
ICICI Bank Ltd. HDFC Bank Ltd. Total	<b>Banks</b>	<i>Underweight</i>	<b>17.0%</b>	<i>Bottoms-up outlook on lending growth</i>
Dr. Reddy's Laboratories Ltd. Aurobindo Pharma Ltd. Piramal Pharma Ltd. Others Total	<b>Healthcare</b>	<i>Overweight</i>	<b>15.3%</b>	<i>Strong growth outlook benefitting from low-cost manufacturing; lower price erosion in US pharma</i>
ITC Ltd. Marico Ltd. Gillette India Ltd. Total	<b>FMCG</b>	<i>Overweight</i>	<b>12.5%</b>	<i>Expecting Rural recovery to drive volume growth</i>
Bajaj Auto Ltd. Eicher Motors Ltd. TVS Motors Ltd. Total	<b>Consumer Discretionary - 2W</b>	<i>Neutral</i>	<b>8.2%</b>	<i>Strong OEM volume growth in 2Ws</i>
HDFC Asset Management Company Ltd. PB Fintech Ltd. Total	<b>Financial Services</b>	<i>Overweight</i>	<b>6.5%</b>	<i>Growing financialisation in the country</i>
Hindustan Copper Ltd. Vedanta Ltd. Total	<b>Mining &amp; Minerals</b>	<i>Neutral</i>	<b>5.8%</b>	<i>Rising demand for copper in manufacturing, batteries, etc.</i>
Titan Company Ltd. International Gemmological Institute (India) Ltd. Total	<b>Consumer Discretionary</b>	<i>Neutral</i>	<b>5.5%</b>	<i>Growth in discretionary consumption of jewellery in gold and LGD categories</i>
Havells India Ltd. Ultratech Cements Ltd. Total	<b>Building Materials</b>	<i>Overweight</i>	<b>5.0%</b>	<i>Cables volume growth from Power segment to aid growth</i>
ICICI Lombard General Insurance Company Ltd. Total	<b>Insurance</b>	<i>Overweight</i>	<b>4.5%</b>	<i>Low penetration of financial products; good growth prospects</i>
ABB India Ltd. Total	<b>Capital Goods</b>	<i>Neutral</i>	<b>3.1%</b>	<i>Good outlook for capex. Supportive policies, operating leverage</i>
Bajaj Finance Ltd. Total	<b>NBFCs</b>	<i>Neutral</i>	<b>3.0%</b>	<i>Bottoms-up outlook on lending growth</i>
KPIT Ltd. Total	<b>IT</b>	<i>Underweight</i>	<b>2.0%</b>	<i>Orderbook growth alongside hiring should lead to execution</i>
Interglobe Aviation Ltd. Total	<b>Hotels &amp; Travel</b>	<i>Neutral</i>	<b>2.0%</b>	<i>Fleet addition alongside high passenger load factor</i>
Blue Star Ltd. Total	<b>Consumer Durables</b>	<i>Overweight</i>	<b>1.5%</b>	<i>Strong volume growth across appliances</i>
PI Industries Ltd. Total	<b>Chemicals</b>	<i>Neutral</i>	<b>1.5%</b>	<i>Benefit from low cost of production and exports</i>

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