7-Mar-2025

Dear Investors,

Our performance as of last month is as follows (Exhibit 1).

Exhibit 1: TWRR Performance (after all fees and expenses) as of 28-Feb-2025

Investment Approach (Benchmark)	Inception Date	AUM (INR cr)	1M	3M	6M	1Y	Since Inception (Annualized)*
Large Midcap**	**11-Apr-23**	**80**	**-5.2 %**	**-9.1 %**	**-12.8 %**	**8.3 %**	**18.4 %**
(S&P BSE 500 TRI)			-7.7 %	-12.2 %	-16.1 %	-0.4 %	17.8 %
(Nifty 50 TRI)			-5.8 %	-8.1 %	-12.0 %	1.9 %	14.2 %
Small MidCap	**11-Dec-23**	**117**	**-17.8 %**	**-26.6 %**	**-32.4 %**	**3.9 %**	**9.4 %**
(S&P BSE 500 TRI)			-7.7 %	-12.2 %	-16.1 %	-0.4 %	5.8 %
(Nifty 50 TRI)			-5.8 %	-8.1 %	-12.0 %	1.9 %	5.7 %
Other AUM		**159**					
Total AUM		**356**					

**Returns for Large Midcap and Small Midcap are annualized as they have completed full year. However, returns for Blend are not annualized as it is yet to complete one full year.*

*** Large Midcap was earlier known as Flexicap.*

Q3 FY25 Earnings Review

- Corporate India faced growth challenges in Q3 FY25 (Exhibit 2) with weak revenue growth (+7% yoy) and stagnant margins.
- Banks, healthcare, telecommunication sector witnessed some growth, however, most consumer sectors such as automotive, consumer durables & staples reported margin contraction as shown in the Exhibit 3 and only handful of sectors drove earnings growth across large caps, mid and small cap in BSE 500. (Exhibit 4)
- Weak earnings, downgrades (Exhibit 5), worsening urban consumption, geopolitical instability, Trump's tariff threats, and very heavy FII selling leading to retail panic and capitulation caused the market to fall meaningfully in Feb.
- In these times, small and mid-caps face more downside risk due to higher valuations and higher retail holding. The combination of PE de-rating and earnings downgrades is a concern for some of the narrative driven stocks. Our focus remains on stock-specific opportunities as we reiterate our bottom-up strategy which is used to construct our portfolio. Our portfolios are far more concentrated as compared to index or a typical mutual fund strategy.
- India's GDP grew 6.2% in Q3 FY25, down from 9.5% last year, amid weak manufacturing and mining. However, tax cuts and lower risk weights for MFI and NBFC loans could boost consumption. With growth now projected at 6.5% for FY25, the worst may be behind us.
- While short-term predictions are challenging, we are confident about our stock picks, focusing on fundamentals and reasonable valuations for medium- to long-term horizon.

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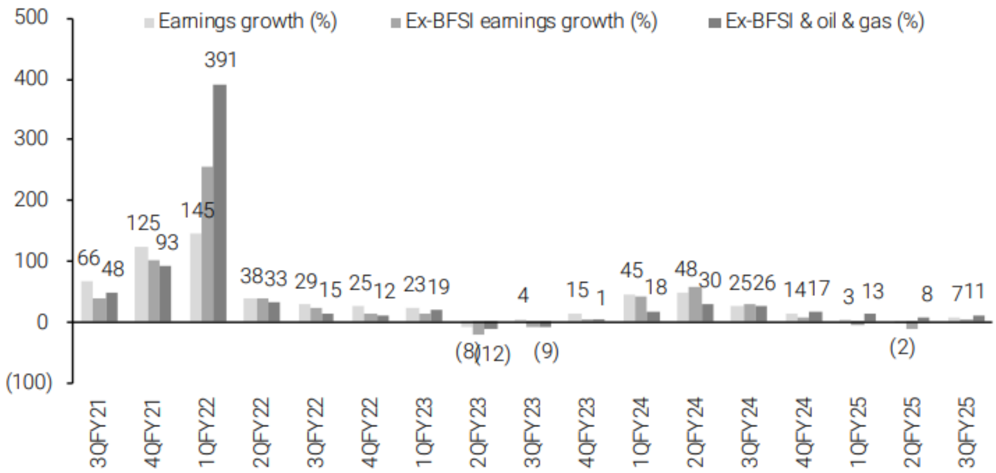
- We are betting on domestic growth, government capex revival, reduction of risk weight for MFI and NBFC loans (would free up capital and support credit growth as shown in Exhibit 6), and personal Income tax cuts to drive consumption. We remain optimistic.

Exhibit 2: BSE-500 Index companies witnessed 7% increase in PAT (YoY basis)



Notes:

(a) We have removed companies where historical data is not available for all the quarters.

Source: Capitaline, Kotak Institutional Equities

Exhibit 3: Sector- wise earnings growth of BSE-500 index (2021-25)

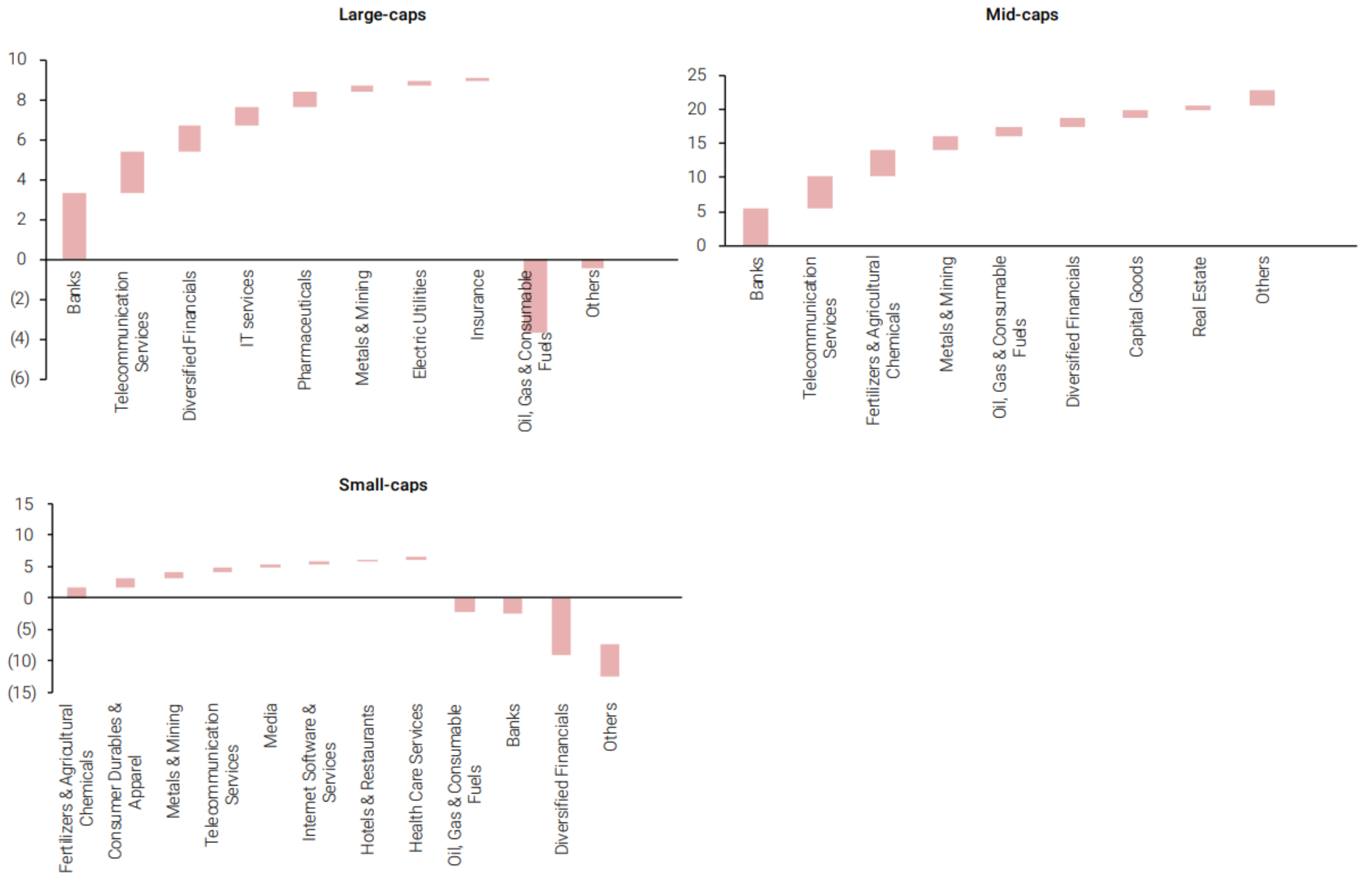
	Earnings growth (%)							
	3QFY21	3QFY22	3QFY23	3QFY24	4QFY24	1QFY25	2QFY25	3QFY25
Automobiles & Components	55	(50)	109	60	85	23	(1)	(0)
Banks	511	63	39	24	23	18	20	13
Building Products	84	16	(16)	19	0	3	(14)	(3)
Capital Goods	32	0	46	30	31	44	31	1
Capital Markets	46	7	(2)	56	85	49	56	14
Commercial & Professional Services	(29)	64	14	8	13	15	10	10
Commodity Chemicals	69	(12)	3	18	(15)	(15)	(21)	(16)
Construction Materials	101	(16)	(6)	31	29	(20)	(56)	(4)
Consumer Durables & Apparel	63	21	(46)	16	18	35	6	44
Consumer staples	6	10	14	8	7	10	4	(2)
Diversified Financials	(5)	28	33	13	34	16	(7)	5
Electronic Manufacturing Services	81	(11)	(16)	45	3	80	145	116
Electric Utilities	27	13	6	30	(13)	(12)	(14)	5
Fertilizers & Agricultural Chemicals	14	46	10	(96)	(53)	(23)	(12)	2,191
Gas Utilities	14	35	(49)	100	77	41	(1)	(29)
Health Care Services	77	59	2	14	23	33	25	29
Hotels & Restaurants	(134)	285	160	22	42	(1)	(12)	24
Insurance	246	(28)	70	8	1	31	22	12
Internet Software & Services	95	1,914	(85)	(27)	375	55	5	97
IT services	17	8	11	1	9	9	10	8
Media	12	4	(29)	(17)	1,507	(20)	(25)	31
Metals & Mining	293	50	(72)	89	(19)	21	58	13
Oil, Gas & Consumable Fuels	4	58	(8)	34	(11)	(40)	(50)	(17)
Pharmaceuticals	133	8	(6)	26	11	32	18	20
Real Estate	5	49	20	3	39	51	24	24
Retailing	13	73	(2)	25	28	16	(5)	8
Specialty Chemicals	9	62	(12)	(11)	(11)	12	7	(2)
Telecommunication Services	400	12	(29)	115	31	2	99	219
Transportation	(89)	931	50	74	39	12	(31)	(0)
Total	**66**	**29**	**4**	**25**	**14**	**3**	**(2)**	**7**
Total (ex-BFSI)	**37**	**23**	**(9)**	**28**	**9**	**(5)**	**(10)**	**4**
Total (ex-BFSI & oil & gas)	**48**	**15**	**(9)**	**26**	**17**	**13**	**8**	**11**

Notes:

(a) We have removed companies where historical data is not available for all the quarters.

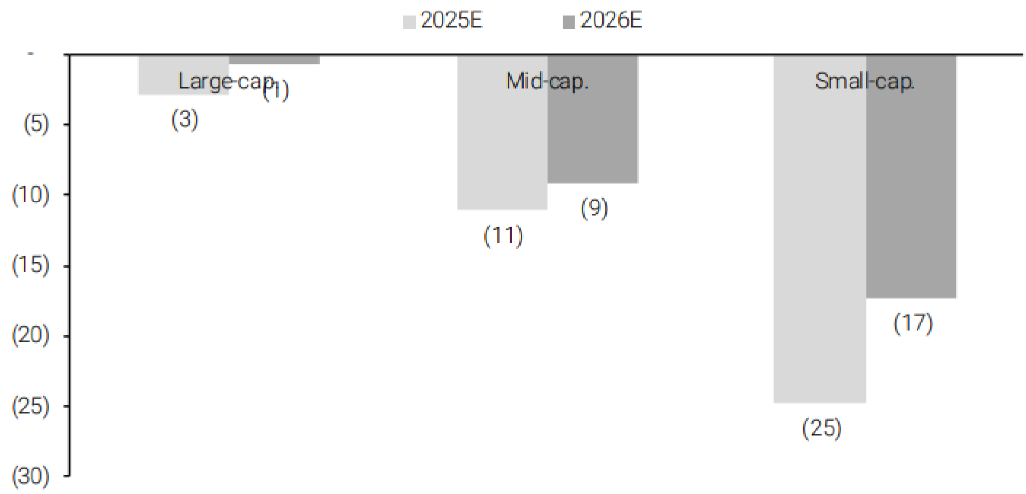
Source: Capitaline, Kotak Institutional Equities

Exhibit 4: Incremental earnings contribution of different sectors in BSE-500



Source: Capitaline, Kotak Institutional Equities

Exhibit 5: Mid-Cap and Small Cap stocks see massive cuts in earnings expectations in 11MFY25 as compared to Large-Cap stocks.

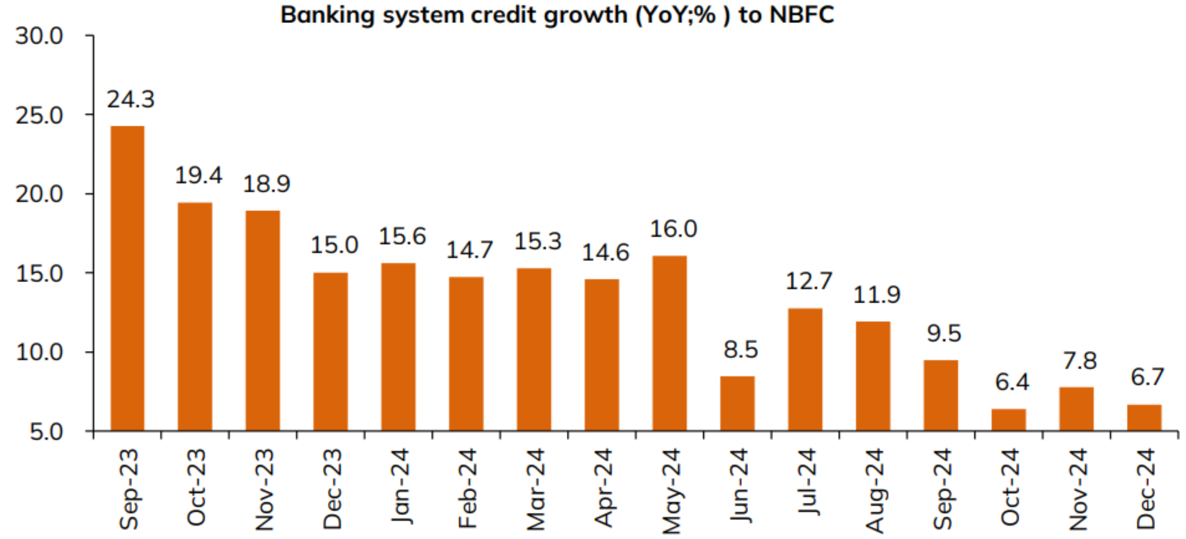


Notes:

(a) We have only considered companies with at least three analyst recommendations.

Source: Bloomberg, Kotak Institutional Equities

Exhibit 6: Banking system credit growth in NBFC has moderated to ~7% YoY

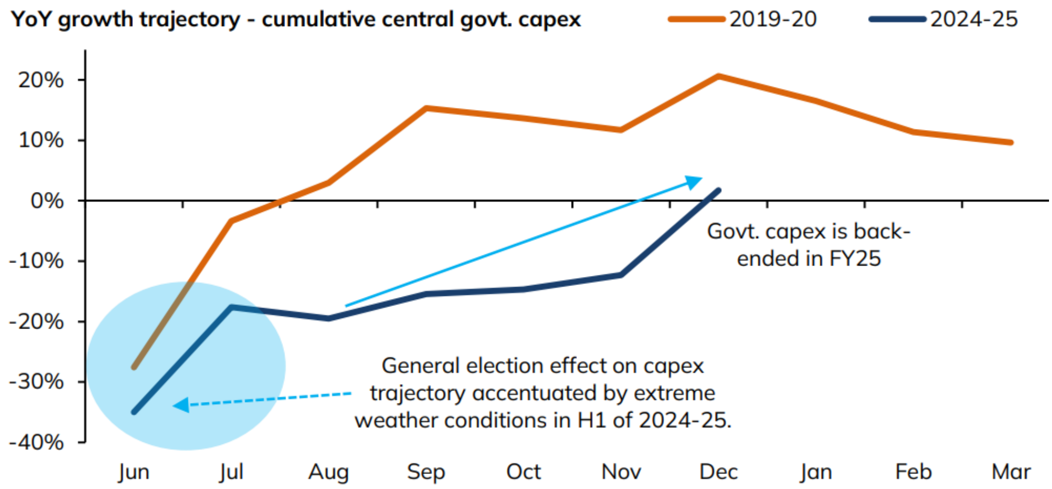


Source: I-Sec research, Company data

Govt Capex should surge in H2FY25, pessimism unwarranted

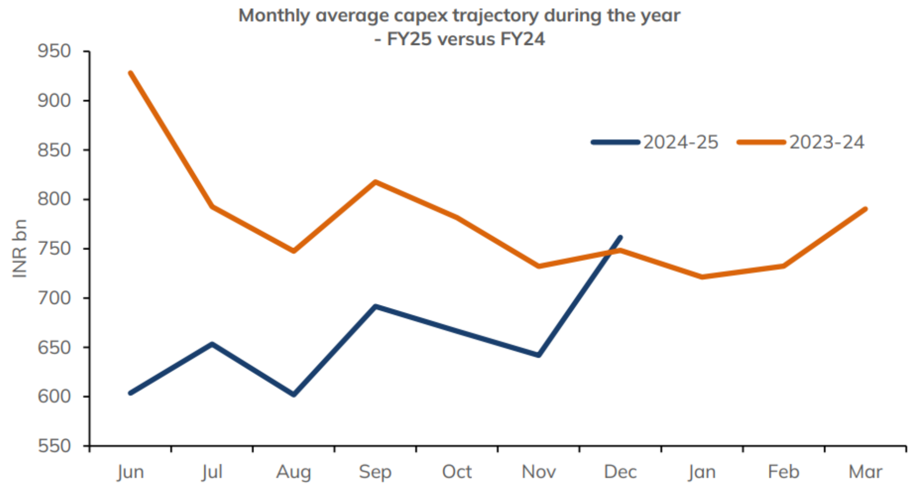
- Capex spending tends to be back ended during General elections year. The narrative around low capex in H1FY25 is way overblown and FY25 capex spending will be skewed to the latter half of FY25. (Exhibit 7)
- FY 26 capex spending should be high in H1 itself- being a non-election year. (Exhibit 8)

Exhibit 7: H2 FY25- Capex growth on upward March, like FY20



Source: CGA website, I-Sec research

Exhibit 8: H1CY25 Capex could be front ended

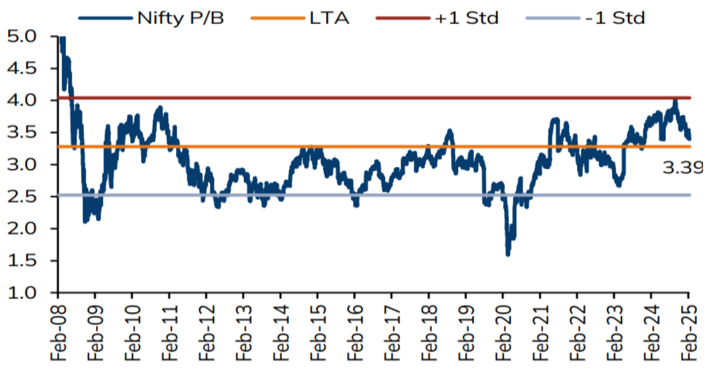


Source: CGA website, I-Sec research

Valuation moderates: good time to add in our view

- The correction in broader market indexes has reduced overall valuation (Exhibit 9 and 10) with Nifty P/B nearing long term average and Nifty forward PE has contracted.
- Despite the correction, the index is trading at a "fair" valuation, not "cheap." Mid and small-cap indexes remain expensive; however, we are finding value in some of our bottoms up names and have used the recent correction to deploy the >10% cash on hand to add these names.
- With improved growth prospects from monetary stimulus (rate cuts, CRR cuts, OMOs) and fiscal stimulus (INR 1tn tax cuts), rural recovery, and a positive capex outlook, P/E contraction may stabilize. This presents an opportunity to add quality stocks at fair valuations.
- The slowdown in earnings growth, high valuations of small and mid-caps, FII selling, uncertainty over Trump's tantrums over tariffs, (however majority of India's exports is IT service, so we are relatively well positioned compared to other countries like China, Mexico, etc (Exhibit 11)), and sluggish global economic growth are key risks to watch.
- Very interesting to notice how Financials, Energy have undergone decline in P/E despite increasing Profit pool% and vice versa for IT, Industrials and discretionary. (Exhibit 12)
- As things stand, the risks are well balanced with the rewards, but we expect more volatility in the near term.

Exhibit 9: Nifty P/B nearing LTA



Source: Bloomberg, I-Sec research

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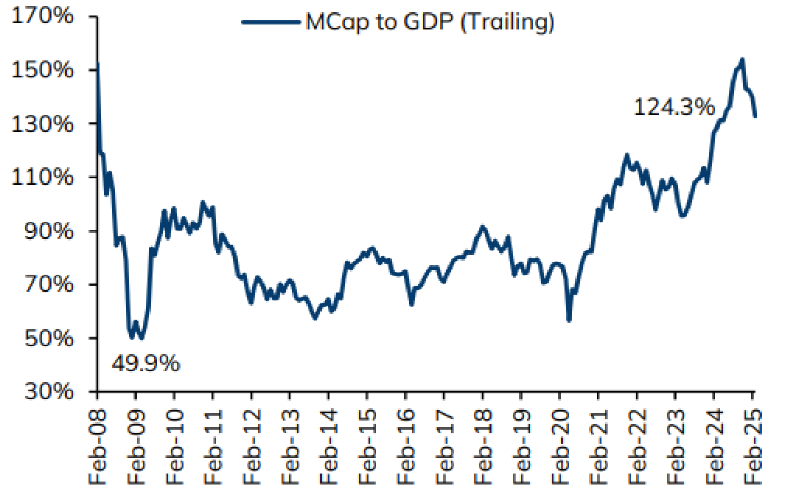
Exhibit 10: Mcap to GDP moderating



Source: Bloomberg, I-Sec research

Exhibit 11: US contributed ~18% of exports in FY24

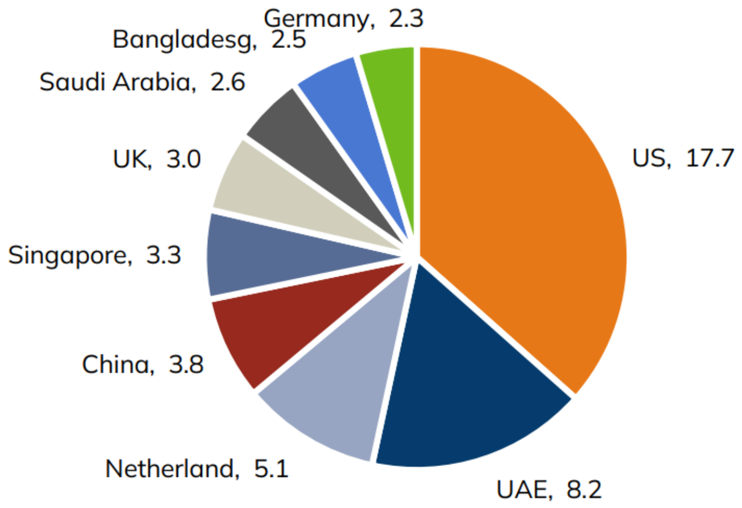


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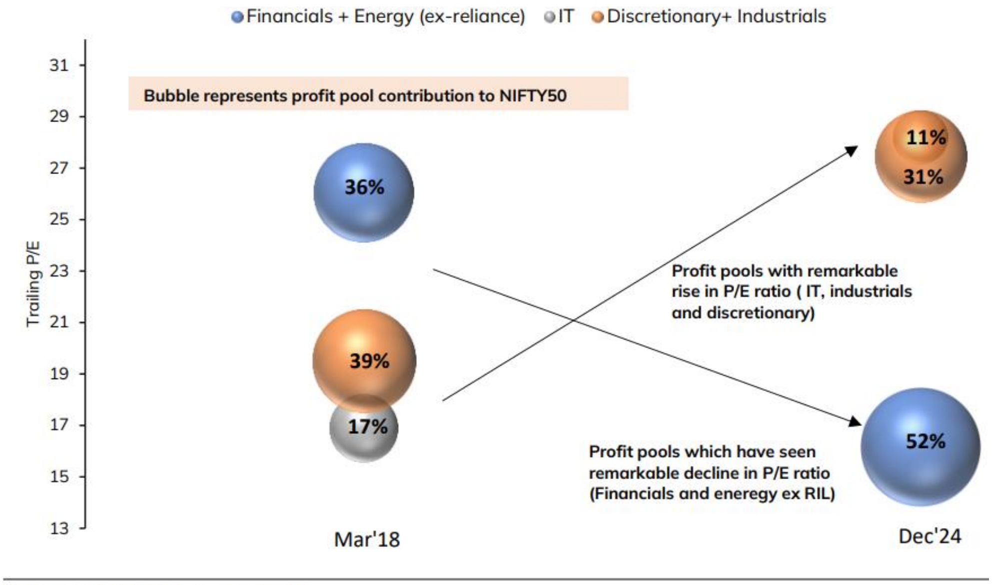
Exhibit 12: Sharp Movement in PE ratios- Largest profit pool sees sharp decline



Source: Capitaline, I-Sec research

Conclusion

- With such an unprecedented and significant boost to economic growth from the Union Budget, we feel that the pick-up in corporate earnings is round the corner. The result of this consumption and capex uptick will certainly be visible from Q1/Q2 results.
- The correction in market is largely led by excessive FPI selling, followed by retail panic.
- Trump tariff tantrum has become extremely volatile, and it is getting harder to keep track of constant changes that are taking place on the tariff policy.
- Having said that, we feel that the current market correction is offering an attractive opportunity to further accumulate quality names at attractive valuations. We can find many companies now trading at reasonable valuations. If the corporate earnings pick-up due to pick-up in both consumption and capex, and assuming market doesn't rally, the valuations will only become more attractive on an FY26 basis.

We are pleased to inform you that we are currently in the process of onboarding investors for our Category III public markets equity AIF. This offering will have a slightly different risk-reward profile. If there is any interest, kindly let us know.

We will be happy to have a quick call with you to discuss your portfolio. Also, we really appreciate the references you have shared thus far and would request you to continue to remain generous in sharing more references.

Warm regards,
MoneyGrow Team

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