

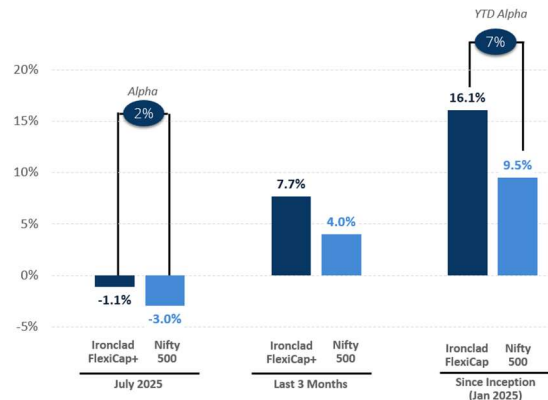
August 2025 Investor Update

Ironclad Asset Management | FlexiCap+ PMS Strategy

Dear Investors,

We hope this newsletter finds you and your family in good health and spirits. As we navigate through the second half of CY2025, equity markets continue a phase of consolidation. For long-term investors like us at Ironclad, such periods are less about reaction and more about reflection—reaffirming thesis, reassessing entry points, and reloading into quality at better risk-reward. We continue to stay true to our philosophy of investing in high-quality businesses with a “semi-permanent owner” mindset.

Performance Update



Ironclad PMS has delivered a return of **-1.1%** during the month, while the **NSE 500 declined -3.0%**, resulting in a relative outperformance of **~2%**. On a three-month basis, our portfolio has returned **+7.7%** vs **+4.0%** for the NSE 500. For the calendar year so far (Jan–Jul 2025), we have delivered **+16.1%** against the index’s **+9.5%**—a healthy outperformance of **+660 bps**.

While monthly performance is not our compass, we take greater comfort in the fact that this alpha was delivered during a month when benchmark indices were largely negative — reinforcing the resilience and discipline of our process-driven allocation. More importantly, the portfolio has delivered this return with high earnings visibility, low leverage, and sound governance—all critical components of our underwriting framework.

We remain on track to achieve our long-term return objective of **18–20% IRR** through cycles, and continue to hold a portfolio of 15–18 positions diversified across three core themes:

1. Financial and AuM-linked businesses
2. Brands across consumer and healthcare
3. Technology-driven product companies

India Macro and Market Landscape

India’s macro framework remains solid, even as headline indices consolidate. Q1FY26 GDP is tracking ~6.5% growth, supported by broad-based industrial recovery, higher private capex, and continued momentum in financials and manufacturing. The monsoon has been near normal thus far, which bodes well for rural demand normalization in H2.

RBI, in its latest monetary policy, maintained a pause but with a clearly dovish tilt. Retail inflation has moderated to **3.2%**, with core inflation below 4%, giving the central bank room for a potential rate cut before CY-end. The recent rupee stability and moderating global crude prices further aid macro stability. On the liquidity front, RBI’s balance sheet has grown meaningfully due to open market operations and higher forex reserves, leading to surplus banking system liquidity. This continues to support lower cost of capital for both corporates and consumers.

Trump Tariffs on India:

The U.S. administration has imposed 25%+ tariff on Indian exports—a development that has spooked markets and raised questions about the broader impact on India’s external trade dynamics. Our view remains measured: while the headlines are dramatic, the underlying economic impact—especially on our portfolio—is likely to be contained and transitory.

First, this is part of a broader global protectionist wave, not a country-specific move against only India. Similar tariffs, in varying degrees, have been applied to exports from China, Vietnam, and other manufacturing nations. When all global producers face similar barriers, the relative competitiveness of Indian exporters does not materially deteriorate.

Second, India is a largely domestic-facing economy, with exports constituting only ~20% of GDP. Moreover, the bulk of our exports to the U.S.—notably pharmaceuticals and IT services—have been kept outside the tariff ambit so far. These are strategic sectors for the U.S. economy, where reliance on India is deep and non-substitutable in the short to medium term.

Yes, certain sectors like textiles and gems/jewellery are adversely impacted. But these form a minuscule portion of the listed equity universe. In our view, the market’s reaction although limited, reflects sentiment. We see this as a short-term aberration—not a structural headwind and likely to be renegotiated through trade deal within months.

This episode further underscores our preference for brand-driven businesses over commodity businesses. Consumers buy brands for value and trust—not price. That (generally) insulates them far better from geopolitical shocks like tariffs. As an example let’s consider Himalaya Wellness - known for its herbal personal care products, OTC healthcare, and supplements. Despite any tariff-related price hikes, its Ayurveda-based brand identity, loyal diaspora following, and OTC positioning in U.S. pharmacies like CVS and Walgreens mean that its consumers are less likely to switch purely on cost. Compare this with say a generic cotton bedsheets or towels exported from India—often sold through mass retailers or as private labels in the U.S.—offer little to no brand differentiation where product is chosen almost entirely based on price, thread count and discounts.

In summary, while global risks haven’t vanished, India remains among the best-positioned large economies globally—owing to strong domestic demand, improving macro fundamentals, and political continuity post-election.

Portfolio Commentary

This month, we’d like to focus more deeply on one of our core investment themes: **Technology**. Within the Technology monolith, we believe the market today is split into two divergent realities:

1. IT Services – Facing Structural Headwinds from AI

The legacy Indian IT Services model—built on labor arbitrage and pyramid-style scaling—is being structurally challenged by the rapid adoption of Artificial Intelligence. Generative AI and workflow automation tools are increasingly handling repeatable, rule-based tasks across testing, customer support, data migration, and software development. This has dramatically reduced the demand elasticity for incremental “people headcount,” the historical growth driver of Indian IT.

While many Tier-1 IT firms have attempted to pivot through AI partnerships, platforming, or internal LLM investments, the pace of change in client behaviour outstrips their repositioning efforts. As contracts get renegotiated, we expect FTE count to decline, with potential margin compression and weaker pricing power in large, generic mandates.

To protect against this, we have **zero exposure** to large-cap IT services. Even our limited exposure to niche players has been fully exited this month. Our decision was based on the view that:

- The tide lowers all boats, and even niche service providers may not escape margin pressure.
- Valuations in the sector remain well above long-term medians (~28–35x vs 10Y median of ~20–22x), unjustified given growth moderation and long-term structural headwinds.

- While dividends and buybacks offer downside support, we are growth-focused investors, and this segment offers little visibility on compounding returns.

If evidence emerges of select mid-cap IT firms carving deep defensible niches or embracing verticalization with success, we may revisit this stance.

2. Product-Based Technology Firms – Gaining from AI Disruption

In contrast, AI is a tailwind—not a threat—for technology product companies. These are firms where headcount is a cost, not a revenue driver. As such, AI-led efficiencies directly impact the P&L in positive ways—whether through reduced support staff, faster deployment cycles, or leaner tech/product teams.

Take Zomato and Paytm—two much-debated names. Both have significantly reduced customer support headcount, with chatbot resolution and AI-trained models now handling over 80% of queries. Next in line are engineering and product teams—already leveraging AI copilots, automated test cases, and synthetic data models to cut cycle time by over 30–50%.

Globally, technology comprises ~50% of US market cap and ~35% in China. India will inevitably mirror this shift. Our equity markets, however, rarely welcome tech IPOs kindly — you can't blame them. Most tech companies come to market with steep valuations, negative cash flows, and low operating leverage. The result is a near-uniform correction post-listing, which serves two key functions:

- It forces management realignment: cutting cash burn, improving unit economics, and communicating profitability timelines more transparently.
- It creates better entry points from a valuation standpoint.

We believe this phase—where optimism has deflated and realism has entered boardrooms—is the right time to allocate meaningfully into the digital product economy. We have positions across consumer tech, fintech, and platform businesses that are at various stages of this transformation. In each case, we see a high revenue growth (20–40%), founder's clear articulation of path to profitability, operating leverage from reduced employee intensity and optionality in ecosystem plays.

Returns from this pocket may be non-linear and disproportionately large from the bottom. We benefited from this in fintech and consumer D2C brands in last few quarters. We continue to play technology product businesses across 2W EVs, consumer brands and fintech.

3. Brands and Financial Services – Our Core Pillars

Brands:

As highlighted in earlier updates, consumer and healthcare brands with 60–70% gross margins remain an integral part of our portfolio. These companies deliver consistency, pricing power, and high ROCE—all essential to building defensible wealth compounding engines. They may not double in 12 months but provide ballast to the portfolio and reduce drawdowns. This was instrumental in ensuring we fall less than broader market in July 2025.

Financials:

Financial sector continues to do well. Private lenders are seeing early signs of CASA growth amid excess liquidity. RBI's likely pivot towards rate cuts will support NBFCs via lower borrowing costs. We continue to hold both lending (banks/NBFCs) and non-lending (insurance, asset managers) financials—particularly AuM-linked businesses that benefit from both volume growth and mark to market led pricing growth.

Our Portfolio Philosophy: Staying the Course

Our portfolio today reflects high-conviction, bottom-up ideas—across product-based tech, financials, and brand-centric firms. We continue to avoid consensus trades and cyclical plays with poor capital discipline.

Roughly 75% of the portfolio is in steady-state growth businesses / compounders, with the balance allocated to opportunistic special situations or high-risk/high-reward turnarounds, with tight position sizing.

Why PMS? Why Ironclad?

We reiterate: a PMS structure offers flexibility and sharp execution in ways large mutual funds cannot. As mutual fund AUMs balloon, they struggle to take 3–5% positions in midcaps without impacting stock liquidity. We, on the other hand, can enter early and size meaningfully when the opportunity is right.

At Ironclad, our FlexiCap strategy is built for discerning investors looking to grow long-term wealth via deep diligence, thoughtful position sizing, and high-conviction bets—not index-hugging.

Our investment inspiration continues to be drawn from Buffett, Klarman, and Akre, and our execution remains firmly rooted in first principles.

Final Thoughts

The current environment is one of contrasts. AI is disrupting some sectors, while enhancing others. Liquidity is abundant, yet valuations remain bifurcated. Global risks remain, but India's resilience is unmistakable.

In times like these, we remain focused on execution, earnings, and entry price—and ignore sentiment, speculation, and social media noise. Thank you for your trust in Ironclad Asset Management.

We look forward to continuing this journey together.

Warm regards,

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