UTI INDIA INNOVATION FUND

June 2026- Commentary

Market Overview:
In June-26, the portfolio was up 2.2% (Net return, in USD) vs NIFTY 500 returns of 2.1% (USD). Overall macro concerns have receded with US-Iran truce (looks more credible this time) and resultant sharp pull-back in crude price. The global AI trade has also taken a pause, and it works in favour of India as it has been perceived as an anti-AI trade.

Portfolio Highlights

Top Performers:

- **Rategain** is a travel SaaS company, with increasingly full-stack technology solutions for hotels, car rentals, cruise lines, airlines and OTAs. After a weak FY26, the company has made a strong comeback with a solid order book and margin improvement plan. Unlike feared earlier, the company has been taking advantage of AI to make its products more effective.
- **FSN E-commerce (Nykaa)** is beauty, personal care (BPC) and fashion e-commerce platform. While the company has been consistently growing at 25-30% in BPC, it has demonstrated improved profitability and cash generation as well. Furthermore, the fashion business, that was an optionality, is gradually gaining critical mass.
- **Acutaas** is a CDMO company with strong execution and process innovation, working with pharma innovators on critical products. The company has built a strong pipeline of projects providing strong medium-term growth visibility.

Top Detractors:

- **Latent View**: Latent View has witnessed some moderation in its growth rates due to geopolitical uncertainty related decision-making delays. Yet, the business looks good to deliver a healthy growth in FY27.
- **PB Fintech**: There are near-term uncertainties related to reduction or deferral in commission by the insurers, which might impact the earnings of the company.
- **Info Edge**: Info Edge owns several classified platforms, including job classifieds platform – Naukri. The market is overly concerned on AI's impact on the platform as well as overall recruitment in the country. We believe at platform level, Info Edge has strong moats. Job growth may moderate somewhat, but that is more than factored into the current extremely cheap valuations.

Key Additions/Reductions:

- **Oracle Financial Services (OFSS)** is a banking software company with its strong core banking suite and digital banking add-on offerings. The company has a global sticky client base and with AI, there is a possibility of banks accelerating their modernisation journey (which has been delayed for many years).
- **Billionbrains Garage Ventures (Groww)**: Groww is a leading investment platform with a large and highly engaged user base. While the core business continues to do well, there is demonstration of successful monetisation of the users through new adjacent offerings, increasing the platform value. Financialisation of savings is a structural theme in India, offering long-term growth visibility.
- **TBO Tek** is travel tech platform for offline travel agents across the globe. The company has been gaining market share in a highly fragmented and large TAM global outbound travel market. The company has demonstrated 20-25% organic growth and high ROIC.

Key Sector Insight:

- **Quick Commerce** industry continues to expand with increasing customer adoption and larger product assortment. Though competitive intensity has increased due to recent fund raise by the second and third largest players and more aggression from traditional ecommerce players (Amazon and Flipkart), we believe Eternal is still the best positioned player to profit from this opportunity. Food Delivery growth has also picked up (closer to 20% levels) after last few quarters of moderation.
- Info Edge is a **classifieds** conglomerate, with leadership in recruitment and top-3 positions in real estate and matrimony. We believe Info Edge has diversified business across segments to deal with moderation in IT hiring (due to AI led productivity). Infoedge also has investments in several start-ups - while Eternal and PB Fintech have already been huge success, there have been a few more companies that can witness value unlocking through initial public offer. This gives more comfort on the optionality that Infoedge's investment book offers. The core business is now available at very attractive valuation.
- **Fintech:** We believe the regulatory environment has stabilised now and few companies have already demonstrated that the business can be grown profitably. We continue to play this theme through PayTM. PayTM offers several optionalities outside its core businesses and strong operating leverage in its business model.
- **CRDMO** (contract research, development and manufacturing outsourcing) is a structural theme wherein India has been gaining market share from China in a very large TAM industry. These companies work with global pharma innovators in their drug discovery and commercialisation journey. We are playing this theme through Acutaas.
- **Ad-tech** market continues to grow at a steady pace, and Affle has a differentiated offering in this industry. We expect steady 20%+ organic growth for Affle in the medium term.
- **Insure Tech**: Insurance penetration remains low within the country. PB Fintech has established itself as a dominant online insurance aggregating platform, with positive unit economics and end-to-end offering. We expect it to maintain high growth momentum with resulting operating leverage benefits in the margins. There are some concerns around reduction in commission by insurers, posing near-term uncertainty.

- **Software companies** such as Oracle Financial (OFSS), Newgen and Rategain have their own moats and are not easily disruptible. OFSS and Newgen operate in regulated industries (banking, financial services and insurance) and is itself a heavy adapter of AI. Rategain has predominantly an outcome-based business model and it has also built several AI tools.
- While India doesn't have any direct AI plays, there are a few credible indirect AI beneficiaries. MTAR is one such company. It makes critical component for Bloom Energy (energy solutions provider powering AI data centers).
- The export heavy sectors such as **IT services and engineering services** have witnessed near-term demand challenges due to overall uncertain environment globally. Furthermore, there has been a strong AI disruption narrative against the sector. We believe, in a large complex enterprise environment, contextual and domain knowledge matters a lot. IT and Engineering Services companies bring that knowledge. Simple plug-in of AI models/agents will not work, and systems integrators would be needed for enterprise-wide AI adoption. While the existing work may reduce due to AI-led productivity gains, there is a whole new addressable market that opens as AI adoption increases across the business functions within enterprises. Engineering services companies work at the intersect of software + hardware. We believe these companies are relatively immune to AI-related disruption.

Investment Strategy & Outlook

The fund's philosophy is to invest only in the companies that are innovators or disruptors in the space they operate or companies enabling innovation. We look for companies that can demonstrate significantly high growth over long term. These companies are primarily present in emerging technologies, consumer internet, clean technology/circular economy, gaming, SaaS/software, e-healthcare, automation, R&D support (including pharma) and in manufacturing.

Market Trends:

- Indian markets are battling with negative sentiments in the recent months due to AI disruption narrative and earnings uncertainty (due to high commodity prices and geopolitical uncertainty). We believe AI related narratives are misplaced across many companies with strong business models. On the other hand, if US-Iran truce holds up, the earnings uncertainty overhang will go away.
- After a surge of new listings in the last two years, the investible universe for this strategy has expanded. We have already observed the execution of some of these newly listed companies for a decent 12–24-month period. The universe is not just restricted to the typical consumer internet companies. We also have companies in manufacturing, analytics, tech enabled logistics, fintech, R&D support etc. We evaluate these companies based on the strength of the business model, attractiveness of industry structure and future earnings/cash generation potential.
- There has been increased focus on profitability among the new age companies, and it is evident in most of the portfolio companies, particularly in the consumer internet space. We believe this trend is going to continue.
- We believe the portfolio companies are well-positioned to deliver earnings growth significantly above market averages over the mid-to-long term. This confidence stems from their disruptive business models, dynamic leadership teams and ability to adapt quickly to changing market realities.

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