

White Whale Portfolio Management – 1Q FY26 Quarterly Letter

Dear Partners,

Greetings from White Whale Partners.

Portfolio Performance – White Whale North Star

The **White Whale North Star** portfolio delivered healthy relative returns for the quarter as well as for the past one year. During the quarter, the portfolio gained 11.1%, outperforming the Nifty 50 TRI, which was up 9.0%. Over the last 12 months as well, the portfolio is up 11.3% vs the Nifty 50 TRI which is up 7.5%. On an annualized basis, since inception, the portfolio is up 15.2%¹, compared to 17.8% for the Nifty 50 TRI.

Figure 1

	3 months	6 months	1Yr	Inception*	
				Absolute	Annualised
WW Northstar	11.1%	7.0%	11.3%	92.9%	15.2%
Nifty 50 TRI	9.0%	8.7%	7.5%	113.3%	17.8%

*Adjusted for cash from 11th Nov'20 to 31st Dec'20

Portfolio Performance – White Whale Rising Star

We launched a new Strategy on 1st October, 2024, funded by partners' capital – **White Whale Rising Star**. The strategy invests across market cap with a concentrated portfolio of ~8-12 companies. This strategy's focus is on **Value and Special Situations**. To elaborate further, the goal is to *invest in value unlocking opportunities by identifying companies benefiting from change – either at the company or industry level*. These can include situations such as change of management, business turnarounds, mergers and acquisitions, demergers, spin-offs, entry into a new business vertical, regulatory change that structurally shifts industry dynamics, etc, that may cause transformation to businesses and thus unlock value. The Rising Star portfolio has delivered a healthy 11.5% return in the 9 months since inception, compared to Nifty 50 TRI returns of -0.3%.

Figure 2

	3 months	6 months	Inception*
			Absolute
WW Rising Star	12.9%	8.4%	11.5%
Nifty 50 TRI	9.0%	8.7%	-0.3%

*Since 1st October 2024

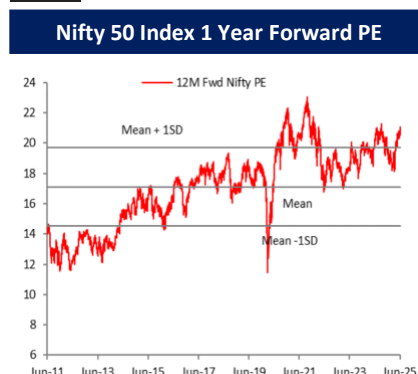
Post a six month correction, the Indian equity markets saw a healthy rally in the June quarter. The rally was quite broad based – while Nifty was up 9% for the quarter, the NSE Mid Cap 150 and NSE Small Cap 250 indices were up 15% and 17.8% respectively. While the quarter got off to a rough start, triggered by the US tariff announcements, the equity markets saw a healthy recovery, driven by a pause in the implementation of tariffs, improving macro-economic conditions, lower commodity prices, easing monetary policy and lower inflation.

However, from a valuation perspective, the broader markets are now expensive compared to historical levels. The Nifty 50 Index is trading at 21x forward earnings, at a 23% premium to its long-term average of 17x (See Figure 3). The NSE Mid Cap and Small Cap indices are trading at 27x forward earnings and 28x forward earnings, respectively. (See Figure 4 and Figure 5). This is still at a significant premium of ~35% and ~64% to historic valuations respectively as well. Furthermore, the small and mid-cap stocks are trading at over a 30% premium to the large cap stocks, compared to a discount

¹ Periodic portfolio performance information is calculated net of management and incentive fees. The information is unaudited and current year performance information is subject to change pending the completion of the current year audit. In addition, individual performance may vary based upon timing of contributions, withdrawals, participation in certain investments, and fee arrangements. For individual investor performance, investors should rely on information contained in account statements. The performance related information is not verified by SEBI.

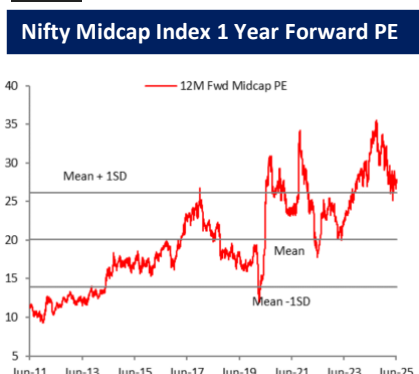
historically. While we continue to be circumspect about the valuations of the broader market, we used the recent correction to add selectively to investment ideas with attractive long-term business prospects, where valuations had corrected to a more comfortable level.

Figure 3



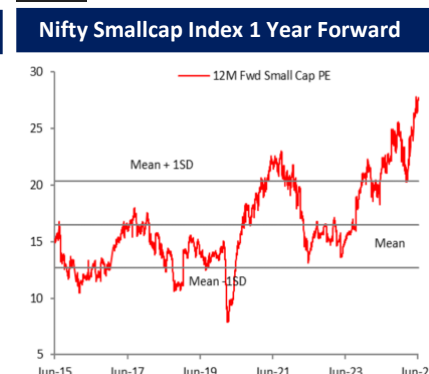
Source: Phillip Capital

Figure 4



Source: Phillip Capital

Figure 5



Source: Phillip Capital

In spite of a cyclical slowdown in GDP growth, the fundamental performance of our portfolio, continued to trend well in FY25, with revenue and earnings growth of around 20%. From a 3-year perspective as well, the companies in our portfolio have delivered very healthy earnings of over 20% (See Figure 6).

Figure 6

White Whale Portfolio Companies Performance						
Company Name	Sector	Allocation	Revenue CAGR*	EBITDA CAGR*	PAT CAGR*	ROE**
Position 1	NBFC	9.3%	28%	28%	34%	21%
Position 2	Banks	9.1%	18%	20%	26%	17%
Position 3	FMCG	8.5%	12%	13%	9%	7%
Position 4	NBFC	8.3%	29%	28%	27%	15%
Position 5	Banks	8.2%	18%	16%	22%	17%
Position 6	Pharma	7.9%	29%	28%	-3%	17%
Position 7	Hospitals	7.5%	19%	19%	43%	9%
Position 8	NBFC	7.4%	33%	30%	25%	15%
Position 9	Internet	5.4%	27%	50%	NA	NA
Position 10	Financial Services	5.4%	12%	NA	NA	NA
Position 11	Industrials	5.4%	22%	33%	34%	21%
Position 12	FMCG	5.3%	21%	25%	30%	27%
Position 13	ER & D Services	2.9%	34%	41%	45%	27%
Cash		9.5%				
Weighted Average***		100%	23%	24%	22%	14%

* CAGR FY22-25; ** Average FY22-25; *** Adjusted for Cash

Source: Company Filings, White Whale Research

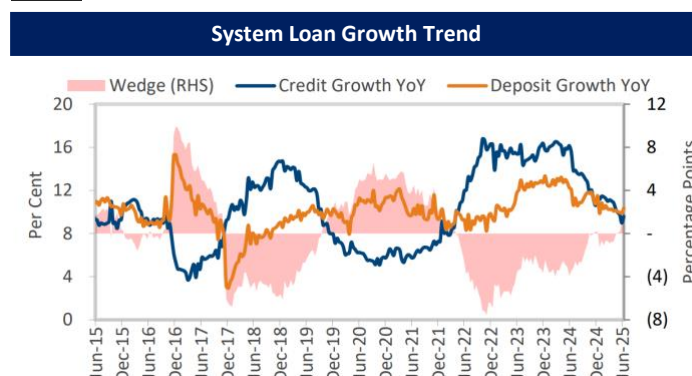
We believe our portfolio will continue to deliver around 20% annualized earnings growth over the next several years, given that most of our portfolio companies are either market leaders in nascent industries which are at an inflection point, or are well positioned to gain market share in established industries due to their unique competitive positioning. We remain excited about the growth prospects of India over the next decade and believe our portfolio is well-positioned for the long term.

Macroeconomic Developments

As discussed in our prior letter, we believe India is gradually coming out of the short term cyclical slowdown that the economy saw over the last few quarters. GDP in the March quarter improved to 7.4% compared to 6.0% in the December quarter. For the fiscal year 2025, GDP growth at 6.5% was very healthy. Retail inflation has fallen to a 6-year low of 2.1%, driven by lower food prices. Core inflation rate at 4.6% remains within the RBI target range of 2%-6%. In our opinion, weak commodity prices and a stable rupee alongside low inflation will allow the RBI to remain accommodative in its

monetary policy. Current account deficit at less than 1% and stable 10-year government yields at 6.3% further indicate a healthy macro environment. RBI has already cut interest rates by 100bps so far this year, while at the same time significantly boosting liquidity in the system. Government infrastructure spending is also starting to see a healthy pick up, with capex up 54% for the current fiscal year over the same timeframe last year. As per media reports, India and US are close to a trade deal, which if concluded, would ease the ongoing uncertainty. One area that remains weak is system credit growth, which is up only 9.6% until mid-June, compared to 19% a year ago (See Figure 7). Part of this is due to continued deleveraging among the private corporations, on the back of muted capital investment projects.

Figure 7



Source: RBI, IIFL Research, Note: Ex HDFC merger

That being said, we remain very positive on the macro-economic set up for India from a medium-term perspective. We continue to believe that we are still in the midst of a multi-year pick up in capex cycle driven by high-capacity utilization, healthy corporate balance sheets and low NPAs in the banking system. Government initiatives such as manufacturing PLI, Atmanirbhar and green energy will require a significant pick up in investments from the corporate sector. We continue to focus on deep bottom-up research to identify investment ideas that would benefit from these structural tailwinds.

Portfolio Insights

“Leaving the question of price aside, the best business to own is one that over an extended period can employ large amounts of incremental capital at very high rates of return.” – Warren Buffett

We remain steadfast in sticking to our core investment philosophy, which has been to identify incredible businesses backed by outstanding management teams that can compound capital over a long period of time. One of the key attributes of investing in incredible businesses is that they have sustainable competitive advantages that protect their earnings power and allow them to generate a high rate of return on invested capital (ROIC) over an extended period of time. These companies will generate a lot of free cash flow from ongoing business because of their high ROIC. This cash can be used either towards paying down debt, returning cash to shareholders through dividends or share buybacks, or reinvesting back into the business.

Great businesses that operate in a relatively mature market with high market share have limited opportunities to reinvest this capital. These companies are unlikely to compound their intrinsic value at a high rate, given limited opportunities to redeploy the excess capital generated. One can still make a healthy return from owning these companies if purchased at a fair price, by earning a great cash yield. Although, reinvesting this cash yield would be a separate challenge faced by the investor. Furthermore, company management could get tempted to deploy this cash into non-core businesses, where the competitive advantage is less clear. In our view, there are several companies in the FMCG space that fall into this bucket.

On the other hand, businesses that have a low market share in a very large addressable markets, with significant opportunity for growth are more ideally placed. The business can reinvest a large percentage of their earnings back into their existing business at a high incremental rate of return, possibly at a rate equal to or higher than the company's

current return on capital, for an extended period of time. This allows the company a large reinvestment runway. A company with a large reinvestment runway will be able to compound its intrinsic value and can produce excellent returns for investors, assuming management stick to its knitting and continues to reinvest into the runway versus diversifying into other non-core opportunities. Quoting Michael Mauboussin - *“the holy grail is large markets with attractive economics”*.

In our view, investment in a the hospital industry in India offers such an opportunity.

In our prior letters, we had written about Fortis Healthcare as one of the companies that we had invested in, which delivered good returns for the portfolio. More recently, we invested in another hospital company, Aster DM, which we believe can compound its intrinsic value at a healthy rate over a long period of time.

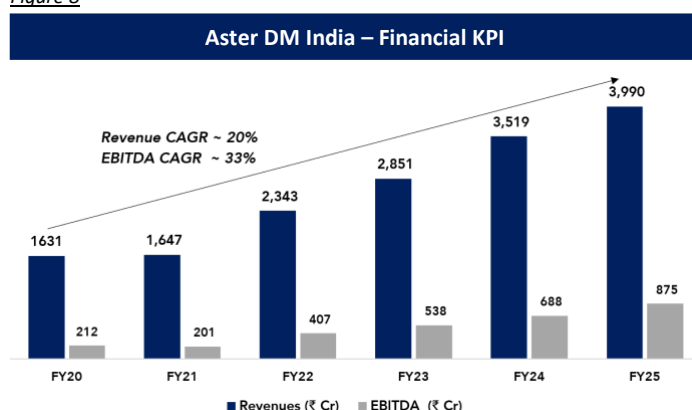
Aster DM Healthcare (Market Cap – Rs 31,000 Cr)

Aster DM Healthcare is amongst the top 5 healthcare service providers in India and is the second largest in South India, specifically. The company has 19 hospitals (six owned hospitals, nine leased hospitals, and four O&M ones) with over 5,000 beds, as of FY25. The domestic hospital business has seen a very strong revenue CAGR of 20% with an EBITDA CAGR of 35% over the past 6 years. The company saw its EBITDA margins expand from around 11% in FY19 to 22% in FY25, driven by its revenue per bed increasing by over 70% from Rs26,000 to Rs45,000 over the same time frame. In November 2024, Aster DM announced plans to merge their business with Blackstone and TPG backed Quality Care India Ltd, which would make the merged entity among the largest in the country in terms of bed capacity and revenue.

Business Restructuring with New Management

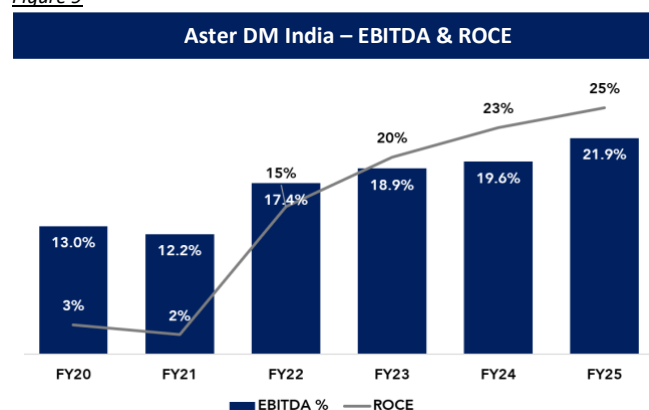
Aster DM was founded by Dr. Azad Moopen, as a single-doctor clinic in Dubai in 1987, and since then grew into a leading hospital chain across India and Middle East over the past 37 years. Under the leadership of the Moopen family, the company established a dominant presence in South India, where it is among the top-3 chain of hospitals. Over the last 6-years (since IPO) the company has done particularly well, focusing on higher Average Revenue Per Operating Bed (ARPOB) and utilization levels to drive strong revenues and EBITDA performance, alongside healthy ROCE (See Figure 8 and Figure 9). Furthermore, the company also divested its Middle East business in early 2024, as a result of which the company is now solely focused on the domestic business. We view this development positively given the large addressable opportunity available in India.

Figure 8



Source: Company, White Whale Research

Figure 9

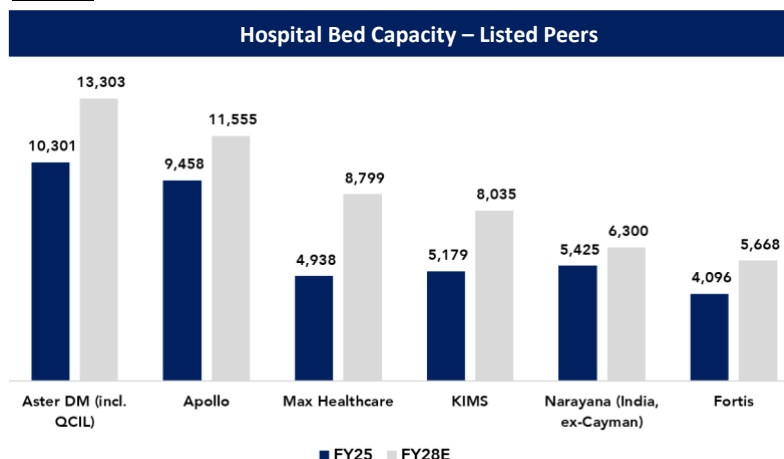


Source: Company, White Whale Research

Further to this, in November 2024, Aster DM (19 hospitals; 5,150 beds) and Quality Care India (19 hospitals; 5,150 beds) entered into a definitive agreement to merge both companies into Aster DM Quality Care, spanning across 38 hospitals and over 10,300 beds. The merged entity will be among the top 3 hospital chains in India (See Figure 10) and the largest in South India. We believe this to be a great fit for Aster, as even Quality Care India has almost two-thirds of its beds in

South India, with a stronger presence in Andhra Pradesh and Telangana. It will also significantly improve the company's therapy mix as well as drive synergies for margin improvement. More importantly, the merger will add depth to the management team, with Dr. Moopen, remaining as Executive Chairman of the company, while Mr Varun Khanna (current Managing Director of Quality Care) will take over as Managing Director of the merged entity. Blackstone (current owner of Quality Care) will jointly control the merged.

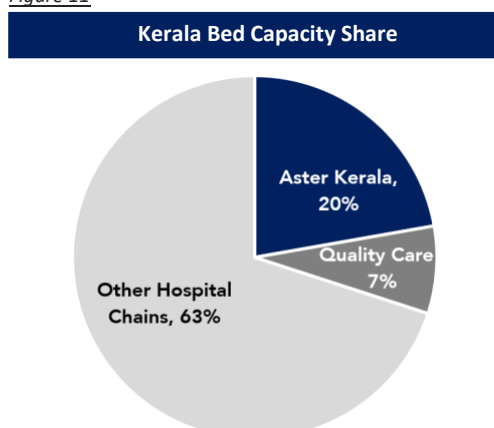
Figure 10



Margin Drivers through Scale and Synergy

One of the key factors that drives the success of a hospital chain is its ability to generate a network effect in a particular cluster. The merged entity will have a broader base of star senior specialists can create this network effect by helping maximising patient outreach as well as conversion. We have seen this play out very well for both Max Healthcare as well as Fortis. As discussed, the merged entity will significantly expand its presence in southern and central India region, with minimum overlap of hospitals. This will enhance the network-effect that hospitals benefit from, across Kerala, Andhra Pradesh, Telangana as well as parts of Karnataka. In Kerala itself, Aster already accounts for around 20% of the existing hospital beds, which will increase to 27% post-merger, making it the most dominant hospital chain in that state (See Figure 11)

Figure 11



Source: Company, White Whale Research

Costs synergies from rationalization of spends on consumables, benefits of economies of scale in purchase agreements, and lower overheads through optimization of corporate functions can drive further margins upside. This will enable to company to generate superior margins and ROIC.

Longevity

There is a very large latent demand for quality healthcare in India. Compared to an average of 2.9 beds per 1,000 people in USA and 4.3 beds per thousand in China, India just has 1.2 beds per thousand. With rising per capita GDP, increasing penetration of health insurance, as well as rising medical tourism – we believe that the industry has a long runway for growth. Given strong demand growth, we believe there is significant opportunity for Aster to continuously reinvest into this business. Aster has planned capacity addition of over 2,000 beds over FY25-28, of which ~684 beds are brownfield, and 100% of beds are in the existing cluster. Quality Care has an expansion plan to add over 1,200 beds over the same period, of which a large part will also be brownfield. This suggests that the merged entity will expand by over 3,200 beds, taking the total bed count to over 13,600 (30%+ growth), of which 60% will be brownfield (lower risk and enhancing network effect).

We expect the merged entity to see revenue CAGR of 15% and EBITDA CAGR of over 20% over the next three years, driven by EBITDA margin expansion of over 150bps from 20% in FY25. The company trades at 26x forward EV/EBITDA in line with industry average. A combination of strong earnings growth and improving ROCE should result in healthy compounded returns over the next several years.

Conclusion

In closing, we would like to thank you for your support and faith in the White Whale Portfolio Management Team. We look forward to a long and prosperous partnership together. If you have any questions, feedback, or suggestions, please always feel free to reach out. We look forward to hearing from you.

Sincerely,

White Whale Partners Team

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