White Whale Portfolio Management – 3Q FY26 Quarterly Letter

Dear Partners,

Greetings from White Whale Partners. We wish you and your family a very Happy New Year.

Portfolio Performance – White Whale North Star

White Whale North Star portfolio delivered healthy returns for the quarter as well as for the past one year. During the quarter, the portfolio gained 3.1%. Over the last 12 months, the portfolio is up 11.8% vs the Nifty 50 TRI which is up 11.9%. On an annualized basis, since inception, the portfolio is up 14.6%[1], compared to 16.5% for the Nifty 50 TRI.

Figure 1

	3 months	6 months	1Yr	Inception* Annualised
WW Northstar	3.1%	4.4%	11.8%	14.6%
Nifty 50 TRI	6.3%	2.9%	11.9%	16.5%

Portfolio Performance – White Whale Rising Star

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**. The Rising Star portfolio has delivered strong relative returns, and is up 11.4%[1] since inception, compared to Nifty 50 TRI which is up 2.1%, displaying a strong 9.3% outperformance.

Figure 2

	3 months	6 months	1 Yr	Inception Annualised
WW Rising Star	2.3%	2.7%	11.3%	11.4%
Nifty 50 TRI	6.3%	2.9%	11.9%	2.1%

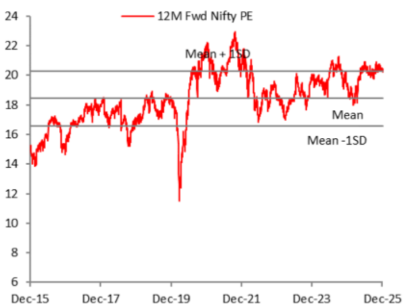
Following a sharp rally through 2023 and early 2024, Indian equity markets have continued in their consolidation phase for over a year now. However, the major indices mask a sharper correction amongst the broader market. Thus, while the Nifty 50 index ended the quarter at close to the peak levels hit in September 2024, the Mid Cap and Small Cap indices have declined 6% and 10% respectively. Post the recent consolidation, MSCI India has now underperformed vs the MSCI Emerging markets by 28% through 2025, the highest in the last 30 years. While the starting point of this correction was excessive valuations, a cyclical macro slowdown, alongside incessant FII selling (US$19 billion in 2025) further contributed to the price correction. This was partially offset by strong inflow from domestic investors (US$63 billion), which remains a structural story. We view this inflow to be critical to absorb the continued fresh supply of equity, as the IPO pipeline for the next 12 months remains very strong. FII ownership has now reached a decadal low, and is being replaced by more stable and sticky domestic flow.

Post the price and time correction seen over the last fifteen months, valuations are now more reasonable for the large cap companies. The Nifty 50 Index is trading at 19.8x forward earnings, at a ~9% premium to its 10 year average of 18.2x (See Figure 3). The NSE Mid Cap at 28.4x forward earnings (See Figure 4) is also now at just a ~9% premium to its 10-year average. The NSE Small Cap index though, at 24x forward earnings (See Figure 5) is at a ~40% premium to historic valuations. Furthermore, the small and mid-cap stocks are trading at over a 30% premium to the large cap stocks, compared to a discount historically. While we continue to be vary about valuations of the broader market, we focus on identifying investment ideas that look attractive from a bottom-up basis.

[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.

Figure 3

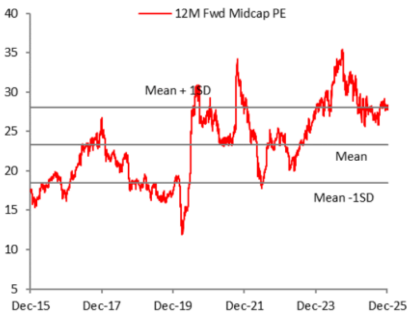
Nifty 50 Index 1 Year Forward PE



Source: Phillip Capital

Figure 4

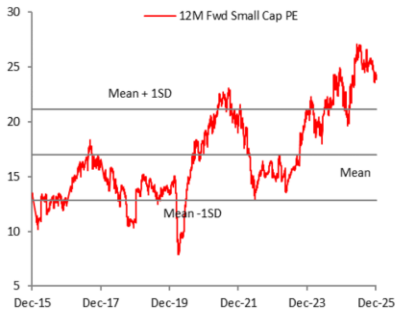
Nifty Midcap Index 1 Year Forward PE



Source: Phillip Capital

Figure 5

Nifty Smallcap Index 1 Year Forward



Source: Phillip Capital

The fundamental performance of our portfolio, in terms of revenue and earnings growth, continues to trend well. For 2QFY26, our portfolio delivered 16% revenue growth and 25% earnings growth on a weighted average basis (See Figure 6). We believe our portfolio will continue to deliver around 20% annualized earnings growth over the next several years, given that most of our 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.

Figure 6

White Whale Portfolio Companies Performance

Company Name	Sector	Allocation	Revenue Growth*	EBITDA Growth*	PAT Growth*	ROE**
Position 1	NBFC	9.3%	22%	21%	23%	20%
Position 2	Internet	8.6%	25%	73%	109%	9%
Position 3	Banks	7.6%	5%	13%	11%	14%
Position 4	Hospitals	7.3%	10%	14%	14%	12%
Position 5	NBFC	7.3%	24%	23%	17%	13%
Position 6	Financial Services	7.2%	24%	NA	NA	NA
Position 7	Pharma	6.7%	7%	9%	31%	15%
Position 8	FMCG	6.3%	2%	0%	20%	17%
Position 9	NBFC	6.3%	32%	49%	43%	16%
Position 10	Industrials	5.9%	18%	62%	56%	26%
Position 11	Consumer Discretionary	5.4%	6%	21%	16%	22%
Position 12	Banks	4.9%	8%	7%	7%	16%
Position 13	Hospitals	3.6%	17%	20%	-10%	9%
Position 14	ER&D	3.5%	8%	10%	-1%	24%
Position 15	Auto	3.1%	21%	22%	18%	20%
Position 16	Consumer Discretionary	3.0%	2%	-20%	-25%	18%
Position 17	Internet	2.5%	38%	123%	NA	NA
Cash		1.4%				
Weighted Average* **		**100%**	**16%**	**25%**	**25%**	**15%**

** YoY Growth Over Q2FY25; ** FY26E ; *** Adjusted for Cash*

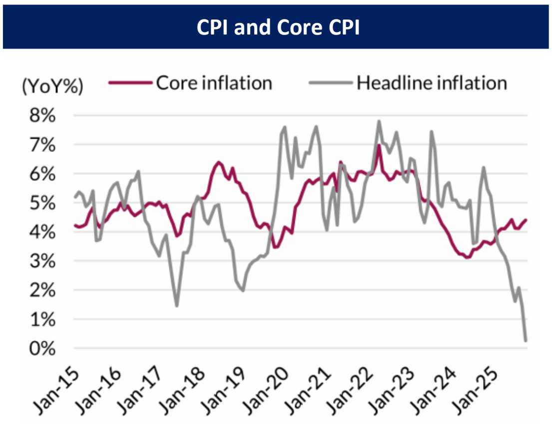
Source: Company Filings, White Whale Research

Macroeconomic Developments

From a macro-economic perspective India continues to emerge from a short-term cyclical slowdown. GDP in the September quarter further improved to 8.2% from 7.8% in June, 7.4% in March and 6.0% in December. More importantly, inflation, which had been a perennial problem for India, remains well under control. Retail inflation has fallen to 1.3% in December, driven by lower food prices (See Figure 7). While core inflation rate increased to 4.8%, it still remains within the RBI target range of 2%-6%. More importantly, excluding gold and silver, core inflation at 2.4% is well under control.

This will allow the RBI to remain accommodative in its monetary policy. While it has already cut interest rates by 125bps so far this year, consensus still expects another 50-75bps of easing.

Figure 7



Source: CEIC, Axis Capital

Current account deficit at less than 1% and stable 10-year government yields at 6.6% further indicate a healthy macro environment. System credit growth has also bottomed out and accelerated into double digits currently. While there is limited room in terms of fiscal policy, a stable regulatory environment, easing monetary policy and high capacity utilization should kickstart the long awaited private capex cycle. We remain very positive on the macro-economic set up for India from a medium-term perspective, and continue to believe that we are still in the midst of a multi-year pick up in capex cycle. One area of concern remains the sharp depreciation in the rupee, which has depreciated 4% against the USD, 16% against the Euro and 14% against the British pound over past one year. This was due to a combination of continued FII and FPI selling, alongside the high tariffs implemented by US. The rupee now appears undervalued on a Real Effective Exchange Rate (REER) basis, and could see a rebound on the announcement of any trade deal with the US.

Portfolio Insights – Structural moats in the paint industry

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 businesses typically demonstrate strong bargaining power over their suppliers or customers, which enables them to earn superior margins. This advantage could be driven through being the lowest cost producer for a B2B business or having a strong brand name in the case of a B2C business. These businesses either have a dominant market share that enables economies of scale, or are gaining disproportionate market share due to an innovative product or a differentiated distribution set up. Thereby, they garner the majority of the profit pool of that industry, making it difficult for incumbents to enter. They have a history of efficient capital allocation and balance sheet discipline. As a result of this, these companies have the ability to deliver sustained high ROIC and strong free cashflow through economic cycles.

Since these businesses enjoy returns on capital that are significantly above average, it invariably attracts the attention of competitors, who will then try to chip away at this competitive advantage. Further, the environment that the company is operating in is not static. New technology or product innovation can lead to new entrants who will then threaten the incumbent. As Greek philosopher Heraclitus put it best – "Change is the only constant in life." Therefore, sustaining this advantage over a long period of time can be challenging.

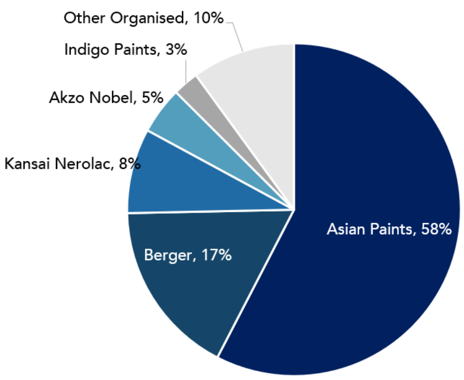
The paint industry went through a similar challenge over the last few years, ever since Grasim Industries announced a large Rs10,000cr investment plan to enter the paint industry.

Industry Set-up

The paint industry has been an oligopolistic industry for multiple decades now, with Asian Paints being by far the most dominant player. As on FY24, prior to Birla Opus's entry, the top 5 players commanded 90% market share of the organized decorative paints market (See Figure 8) . Furthermore, the organized sector is over 70% of the total paints industry, with limited scope for market share gains from the unorganized segment. More importantly, Asian Paints accounted for approximately 65% of the total profit pool of the organised industry (See Figure 9), which made it further challenging for a new disrupter to enter.

Figure 8

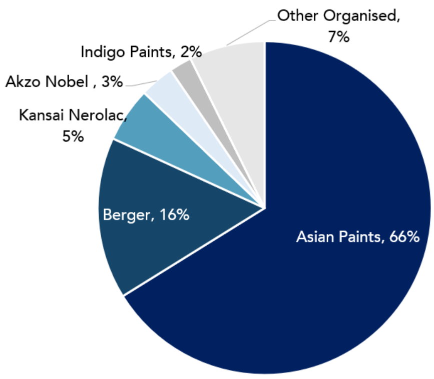
Revenue Market Share – FY24



Source: ACMIL, Company Disclosures

Figure 9

Operating Profit Share – FY24



Source: Decorative Paint Profits, White Whale Estimates

Of the total decorative paint demand in India, 80% of it comes from repainting of existing homes, while only 20% is from new home construction. Therefore, having a strong brand name and customer connect is critical. Furthermore, decorative paints as a product accounts for only 25% of the total cost of repainting the house, with labour accounting for 65%. Therefore, the painter is an important stakeholder in the industry, and developing painter loyalty would be a key demand driver. Apart from that, penetration of tinting machines among the retailers is critical to ensure timely availability of the end product. Most retailers have limited space in their stores and would not want to keep more than two tinting machines, thereby making distribution expansion challenging for an incumbent.

All of this created a stable oligopolistic structure within the industry, that enabled the top players to enjoy healthy growth and high return on capital for several years.

Birla Opus Entry

Backed by the Aditya Birla Group, Grasim announced a very large Rs10,000cr investment plan to disrupt this industry. Through their capex, they set up manufacturing capacity of 1.3 billion litres annually across the country, which would be almost 60% of Asian Paints total capacity. Apart from that, they also set aside a very large budget towards providing subsidized tinting machines to retailers. With rebates and discounts, their products were at a discount of over 10% to Asian Paints products, thereby attracting the price-sensitive customer segment. They launched an aggressive advertising and marketing campaign across the country, to drive brand recognition.

This understandably caused significant concerns for existing investors in paint companies, especially given the high valuations that the paint companies were trading at to begin with. As a result, large paint companies such as Asian Paints and Berger Paints went through a five year price and valuation correction.

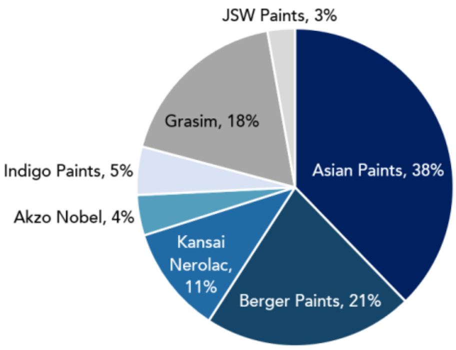
Competitive Advantage Sustaining

Birla Opus made strong in-roads through the first 18 months of their launch and managed to gain 7% market share (in overall decorative paints) over that time frame, through the aggressive campaign highlighted earlier. However, in our channel checks with paint distributors and competitors, we noticed that cracks were starting to appear in the second half of 2025.

The biggest challenge was on the distribution moat. It is important to note, historically Berger Paints always had over 50% of Asian Paints manufacturing capacity, as well as over 50% of the retail touch points and tinting machines (See Figure 10 & 11). In spite of that, its overall (including unorganised) market share was just at 12%, vs 40% for Asian Paints – essentially one third. Rolling out manufacturing plants and tinting machines does not lead to sustainable market share. From a retailer's perspective, Asian Paints tinting machines provide the bread and butter revenues to sustain their store given very high volume throughput. That, along with strong consumer and painter preference for Asian Paints brands, was resulting in high loyalty across the distribution base. This was also the case for other players such as Berger Paints. In fact, our channel checks suggested that some of the retailers that had been poached by Birla Opus were returning back to the original brands.

Figure 10

Installed Capacity Market Share – FY25



Source: Company disclosures, KIE

Figure 11

Distribution Strength

Dealer Network	Touchpoints In '000	Dealer Network Share	No of Tinting Machines In'000
Asian Paints	115	37%	86
Berger Paints	64	21%	48
Grasim	50	16%	38
Kansai Nerolac	33	11%	26
Akzo Nobel	23	7%	19
Indigo Paints	18	6%	11
JSW Paints	9	3%	9
Total	312	100%	237

Source: Company Disclosures, White Whale Research

Additionally, given the steep discounts and high trade margins to retailers/distributers - which were further rolled forward to customers - there was a perception among customers that Birla Opus was an economy brand. In our conversation with customers and painters, we realized that any significant price hike or roll back of discounts would lead a drop in volumes for Birla Opus and further pushout their market share and profitability targets. The company had already burnt through its initial Rs10,000cr outlay. Therefore, the rate of gain of market share for Birla Opus should come off going forward, unless its parent announces another large round of capital infusion into Birla Opus.

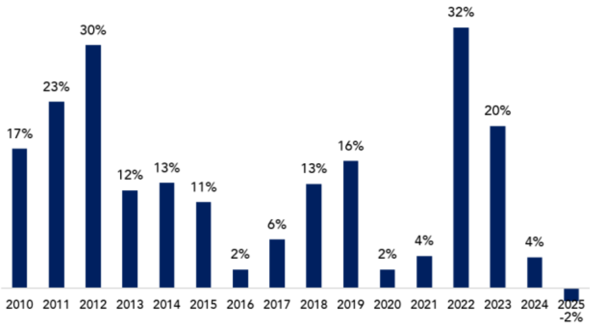
Furthermore, overall industry demand growth had slowed down to low single digits for the past two years (See Figure 12). Given healthy real estate sales, as well as pent-up repainting cycle, in our view the demand environment was poised for a turn going forward. Most importantly, in spite of the industry going through an almost perfect storm of slowing demand and rising competitive industry, both Asian Paints and Berger had managed to keep their margins within a reasonably narrow range, while at the same time sustaining very healthy return on capital (See Figure 13).

Figure 12

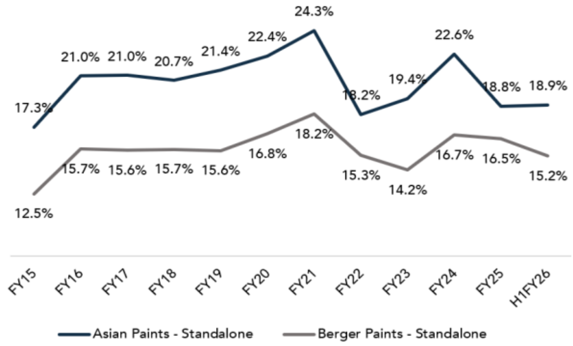
Paint Industry Value Growth – YoY (in %)

Figure 13

Decorative Paint Margins – Asian Paints & Berger



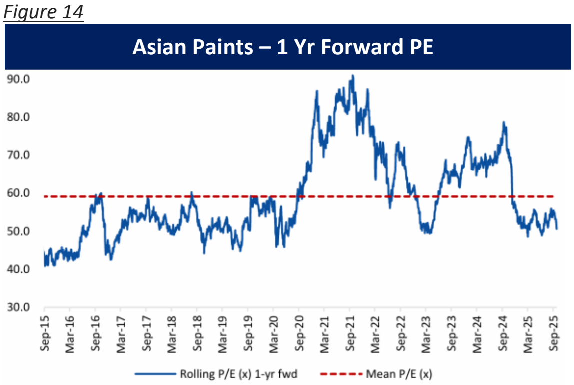
Source: ICICI Securities



Source: Company Disclosures

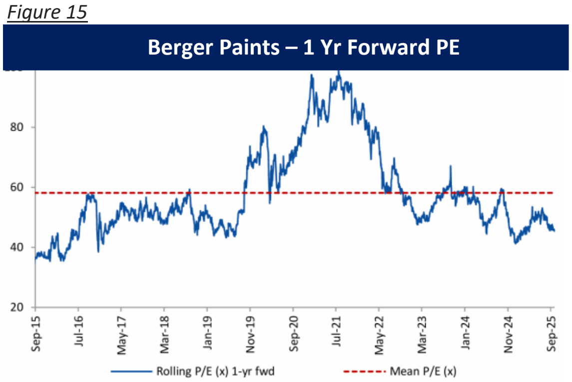
At the same time, they had seen a healthy correction in valuations with implied forward P/E one standard deviation below 10-year average (See Figure 14 and 15)

Figure 14



Source: Bloomberg, Systematix

Figure 15



Source: Bloomberg, Systematix

With increasing home penetration and shortening re-painting cycles, the paint industry is expected to grow at 1.5x nominal GDP for the next several years, or around 15%. With the competitive moat remaining strong, improving demand outlook and lower valuations, we believe the incumbents are in a very strong position. As a result, we invested in Asian Paints and Berger Paints in September 2025.

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
