

White Whale Portfolio Management – 4Q FY26 Quarterly Letter

Dear Partners,

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**. Over the last quarter, the Rising Star portfolio was in line with the market, delivering -14.8% compared to Nifty 50 TRI which was down -14.4%. On an annualized basis, since inception, the portfolio has delivered -1.7% vs. -8.3% for the Nifty 50 TRI, displaying a 6.6% annualized outperformance in weak equity markets.

Figure 1

	3 months	6 months	1 Yr	Inception* Annualised
WW Rising Star	-14.8%	-12.8%	-1.2%	-1.7%
Nifty 50 TRI	-14.4%	-9.0%	-4.0%	-8.3%

*Inception since 1st Oct'24

Portfolio Performance – White Whale North Star

White Whale North Star – The strategy invests in strong businesses with long term structural tailwinds run by exceptional management teams. During the quarter, the portfolio was down 19.0% vs. the Nifty 50 TRI which was down 14.4%. On an annualized basis, since inception, the portfolio is up 9.5%, compared to 12.4% for the Nifty 50 TRI.

Figure 2

	3 months	6 months	1Yr	Inception* Annualised
WW Northstar	-19.0%	-16.5%	-6.0%	9.5%
Nifty 50 TRI	-14.4%	-9.0%	-4.0%	12.4%

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

Markets have seen a sharp correction over the last quarter as the war in the Middle East had reached a boiling point. All indices felt the heat, with Nifty 50 down 14.4%, Nifty Midcap down 12.9% and Nifty Smallcap down 14.5% during this time. This has resulted in significant volatility and moderation of valuations across indices.

Figure 3

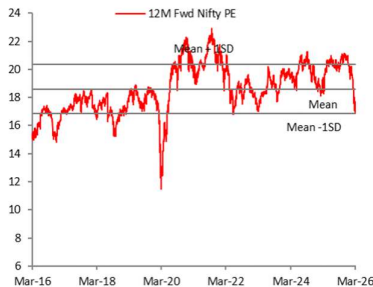


Source: TradingView

The Nifty 50 Index is now trading at 16.9x forward earnings, at an 8% discount to its 10-year average of 18.4x (See Figure 4). The NSE Mid Cap at 24.6x forward earnings (See Figure 5) is largely in line with its long-term average. The NSE Small Cap index, at 19.8x forward earnings (See Figure 6), is still at a 13% premium to historic valuations. While we keep an eye out for market dislocations in times of volatility, our focus remains on identifying investment ideas that are attractive on a bottom-up basis.

Figure 4

Nifty 50 Index 1 Year Forward PE



Source: Phillip Capital

Figure 5



Source: Phillip Capital

Figure 6

Nifty Smallcap Index 1 Year Forward PE



Source: Phillip Capital

In the near term, how stability evolves from the fallout from the war will determine the new normal and thus the extent of impact to India as an economy and the supply chains across industries. Thus, we continue to closely monitor the geopolitical situation and its impact on our portfolio companies.

Macroeconomic Developments

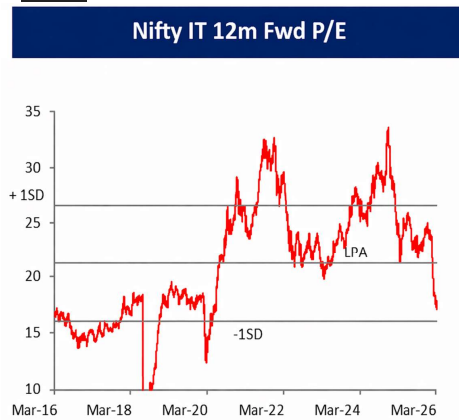
The last quarter has been dominated by the ongoing geopolitical conflict in the Middle East, where the war between US, Israel and Iran has taken centre stage and has caused supply chain disruptions all over the world. The Strait of Hormuz is an important choke-point where 25% of the world’s seaborne oil flows through, thus is an important source of energy for the global economy. 30% of India’s crude oil supplies and majority of its LPG imports are dependent on the Strait of Hormuz. Thus the impact to the Indian economy from the fallout of the war remains significant. An increase in oil and gas prices can have material inflationary impact, driven by higher input costs across freight, chemicals, plastics, and fertilizers. Further, fertilizer and petrochemical cost increases can impact food inflation, industrial margins and the current account deficit.

In addition to the geopolitics, there has been severe AI-led disruption in the technology world. Recent updates from Anthropic enabling AI agents to autonomously execute multi-hour workflows across large open-source codebases are making it easier for businesses to integrate AI into their operations. This has caused a shift in the technology landscape across the world with process-oriented tasks and businesses at most risk of being replaced by AI. Every business and every industry will have use cases where AI can replace tasks that were either manually done or took a much longer time to complete. While the extent of disruption and productivity gains will vary across industries and businesses, it is clear now that integration of AI into operational workflows is critical for future readiness.

AI-led restructuring is accelerating, so much so that India has officially become Claude’s second-largest market globally. The traditional Indian IT sector, which has historically relied on a linear "time-and-materials" billing model linked to headcount is experiencing severe pricing as well as volume pressure due to these advancements. The IT and outsourcing sector employs over 5–6 million people and contributes meaningfully to GDP (7-8%) and exports (25-30%) . The first-order impact of the AI driven disruption may result in significant headcount reductions and job losses, which could in turn have a cascading effect on the broader job market and the economy.

This threat of AI disruption has significantly hit the Indian IT sector as can be seen by the sharp drop in the valuations of the NIFTY IT index. (See Figure 7)

Figure 7



Source: Phillip Capital

We are tracking both these developments actively, and assessing the associated risks to our portfolio companies.

Portfolio Management Insights – Using volatility to reshape the portfolio

As portfolio managers, we are always weighing risk versus return within the frameworks that we have built internally. Our process entails building conviction in a business, industry or situation through detailed bottoms-up fundamental research, management meetings and primary checks. This process also helps us uncover potential risks that we believe are relevant to our portfolio companies over our investment horizon.

However, the art and science of investing is in identifying the price-value gap. The price being what you are paying for today, while value being what the business should be worth tomorrow. The risk here lies in what can change between today and tomorrow and how the business or management team is able to execute in the face of such changes. We constantly monitor our portfolio companies and investment universe through our risk-return frameworks to identify changes or dislocations in the price value gaps. This is the basis of our investment decision making.

In times of extreme volatility, like what we saw last quarter, the decision making is distilled down into three primary actions:

- (i) Identify what has changed in a business resulting from changes in the external environment. If we believe that the change is structural in nature and hence has heightened a particular risk in a business that could cause our investment thesis to break, it could lead to a SELL decision.
- (ii) If the volatility caused by market panic or herd behaviour is giving us an opportunity to invest in a business at an attractive price, it could lead to a BUY decision as long as we believe that the structural story is still in place
- (iii) If we believe that volatility has caused a dislocation in the risk-reward of a business, which may supersede that of a position in the portfolio, it may lead to replacement of positions in the portfolio.

Rising Star is our Value and Special Situations focused strategy that invests in businesses that are undergoing change at the corporate, business or industry level. Our work typically involves building conviction around the value that can be created from the change, and then being disciplined about the price we pay for the business. The volatility witnessed in the last quarter resulted in significant dislocations across businesses and provided us attractive prices to build positions in businesses we know well. Rising Star portfolio had 19% cash in the beginning of the quarter, which was fully deployed into the volatility. Furthermore, we replaced an existing position as we saw better risk-return alternatives.



We sold our position in CMS Infosystems. CMS is undergoing a transition from a cash-generating, high-ROCE but low growth core business – focused on deploying ATM solutions and cash logistics for banks – to building out multiple high growth technology led verticals such as remote monitoring, software, and related products leveraging its existing infrastructure. This business operates in a highly consolidated industry, where its largest competitor went belly up, opening up growth and market share momentum that was ripe for the taking because it already controls a large chunk of the profit pool of the industry. While we still like the business and the situation, execution continues to be a drag as it is highly dependent on public sector banks’ ability to make decisions and execute, which the company has no control over.

We decided to cut our position in CMS in favour of building out a position in a B2B corporate travel platform which was available at a very attractive price. Due to geopolitical uncertainty and high oil prices, all travel businesses had taken a severe hit. On top of that, the threat of AI had hit tech platform businesses, some more than others. However, in our view B2B businesses are less likely to be circumvented by AI and corporate travel is relatively least impacted within the travel industry. Further, the Indian travel industry has seen a change, transitioning from land-grab growth phase, to a focus on profitability phase, with consolidation evident across the industry. The Company itself has been implementing a shift in strategy having moved focus from B2C to B2B, where a duopoly is emerging as they consolidate an underpenetrated industry further. Having recently turned cash flow positive, we believe that it has crossed the tipping point for exponential profitability that you expect from platform businesses, with ~45%+ incremental ROCE. We saw a severe dislocation in the price-value gap and thus, we believe that this entry price would provide us a stronger risk-return trade-off than our position in CMS Infosystems.

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

Disclaimer & Disclosure:

Statutory Details: Portfolio Manager – White Whale Partners LLP (Registration No. INP000006970)

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Risk factors (For detailed risk factors, please refer the Disclosure Document on our website)

General risk factors

- A. Securities investments are subject to market risks and there is no assurance or guarantee that the objective of the investments will be achieved.*
- B. Past performance of the Portfolio Manager or its affiliates does not indicate its future performance.*
- C. Investors are not being offered any guaranteed or assured returns i.e. either of principal or appreciation on the Portfolio.*
- D. As with any investment in securities, value of the Client's Portfolio can go up or down depending on the factors and forces affecting the capital market.*
- E. The Portfolio Manager is neither responsible nor liable for any losses resulting from the operations of the Portfolios.*
- F. The investments made are subject to external risks such as war, natural calamities, and policy changes of local / international markets which affect stock markets.*