White Whale North Star Portfolio – 1Q FY22 Quarterly Letter

Dear Partners,

Greetings from White Whale Partners. We are pleased to update you on our performance for the quarter ended June 30, 2021.

Portfolio Performance

Our invested portfolio has delivered healthy absolute and relative returns since inception. For the quarter ended June 2021, the portfolio was up 7.0%, compared to 7.5% for the Nifty. Given that we had an average cash holding of 50% through November and December 2020 as we gradually built out the portfolio, the aggregate portfolio returns since inception (11 November 2020) is 18.2%[1], compared to the Nifty 50 TRI at 25.4%. However, after adjusting for cash through the period of deployment, the invested portfolio is up25.8 % (net of fees)[1], outperforming the Nifty, which was up 25.4% over the period. These returns are in line with our past track record of matching or slightly outperforming the benchmark when markets are up, while outperforming materially during market corrections.

Figure 1

	June	Q1 FY22	ITD*
WW North Star	2.7%	7.0%	25.8%
Nifty 50 TRI	1.1%	7.5%	25.4%

* Adjusted for cash from 11th November 2020 to 31st December 2020. Represents Absolute Returns.

If you can meet with Triumph and Disaster
And treat those two impostors just the same;

Rudyard Kipling

Sentiments in the stock market have swung sharply from a feeling of disaster in March 2020 to a feeling of triumph now. After a strong bounce back in the second half of 2020, indices have continued to rally in 2021, especially the mid-cap and small-cap indices (NSE Midcap up 30% and NSE small cap up 40% YTD), which are now trading at a 10%-15% premium to large cap stocks, versus a discount historically. Driven by unprecedented retail investor participation (over 14 million new demat accounts were opened in FY21, which is equal to the total number of accounts opened in the preceding four years!), as well as strong fund flows from foreign investors, the capital markets remain buoyant. However, there are enough tell-tale signs, including the recent IPO frenzy and multi-fold rally across penny stocks, that warrant caution going forward. As the rising tide of liquidity lifts all boats, we remain steadfast in our philosophy of backing outstanding management teams spearheading incredible businesses that have the ability to compound capital over a long period of time. This philosophy is essential towards ensuring healthy returns in the long term, while also ensuring capital protection, especially in times like these.

Macroeconomic Developments

The last fifteen months have been turbulent for the world to say the least, both from a humanitarian as well as economic perspective. The second wave was particularly devastating for India, resulting in large scale loss of lives and impacting the hinterland much more compared to last year. However, the economic impact of this seems to be lesser

[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.

than last year, partly because the country did not enter into a complete lockdown and also, more importantly, because businesses have now adapted much better to operating in such an environment. As we had discussed, the resilience and adaptability of entrepreneurs should not be underestimated, as was seen post demonetization and more recently through the hard lockdown in March/April 2020.

This resilience and adaptability is particularly noteworthy among several digital companies that have used the Covid induced lockdowns to turbocharge their business models and growth potential. One such example is the IPO-bound Zomato. Its upcoming listing will be a defining moment for the Indian start-up ecosystem and capital markets alike. But equally, it will be a litmus test for venture capital exits and for the receptivity in the public markets of a new breed of businesses - highly valued, loss-making start-ups with huge growth potential enabled by technology. Being the first one out of the gates, Zomato will certainly capitalize on scarcity value. While a successful listing is a foregone conclusion, the stock market journey for the company in the medium to long term is less predictable in our view, as it transitions from being growth focused to profitability focused, while adapting to the mindset of a new genre of investors. In the near term however, the flood gates for the larger of the Indian start-ups are certain to open, providing new opportunities and excitement into the market. Given White Whale's experience in investing in such companies through our private equity network, we believe we are well positioned to capitalize on the opportunities that this space will offer in the public markets over the next several years.

Though the pandemic has resulted in a huge global healthcare crisis, the development of several vaccines in record time as well as scaling up of the healthcare infrastructure has limited the loss of life when compared to the last global pandemic, around a 100 years ago. The developing countries are already opening up, while the developed countries should open up over the next few months, as the vaccine program is rolled out. This, combined with the liquidity infusion from RBI, fiscal stimulus from the government in the last budget as well as pick up in private sector capex, positions the economy well for a cyclical recovery. However, as the second wave in India has shown us, it is important to keep our guards up.

Portfolio Insights

We are firmly committed to our investment philosophy of backing outstanding management teams spearheading incredible businesses that have the ability to compound capital over a long period of time. In the current environment, where several fast growing "in the flavour" small and mid-cap companies, that possess little fundamental strengths, have rallied 50%-100%, we have stuck to our discipline and avoided following the herd. We have consciously done this, even at the cost of looking foolish in the near term, as we believe this is essential towards delivering strong differentiated returns in the longer term. By being true to our investment philosophy, and investing in strong businesses run by top management at a reasonable price, we are maximizing our probability of compounding capital at a healthy pace over the long term.

"Wild swings in market prices far above and below business value, do not change the final gains for owners in aggregate; in the end, investor gains must equal business gains." - Warren Buffett

We own businesses for the long run, and therefore view earnings growth as the primary driver for the portfolio's investment returns. From that perspective, our portfolio showed healthy growth in intrinsic value in spite of the significant challenges facing the economy. Our portfolio companies in aggregate delivered strong 18% revenue growth and 21% operating profit growth in the second half of FY21, compared to the same period last year. More importantly, on a two-year CAGR basis, aggregate revenues of our portfolio companies were up 24% and profits were up 27% over this period. For FY21, our portfolio companies in aggregate delivered 11% revenue growth and 10% operating profit growth, in spite of the country being under a lockdown for almost six months. We believe the antifragile[2] characteristics of the companies in our portfolio should enable them to continue to deliver over 20% earnings growth over the next several years.

[2] Author Nassim Taleb says defines the term antifragile - Antifragility is beyond resilience or robustness. The resilient resists shocks and stays the same; the antifragile gets better.

Given the accelerating pace of innovation, backing superb management teams becomes even more critical. Management actions in the face of disruption will play a critical part in preserving, widening or destroying the company's competitive advantages. We therefore view quality of management as the most important criteria in our investment philosophy. We believe it is critical to assess certain softer elements related to management teams - their motivation, commitment towards building a truly differentiated organization, their fit within the culture of the firm and ultimately, their alignment of interest with long term shareholders.

Short term pain is often times a price to pay for long term gain, and is a management virtue that greatly resonates with us. Bajaj Finance, under Sanjiv Bajaj and Rajeev Jain, has this virtue ingrained in its DNA. The company has always been lauded for being ahead of the curve in terms of its technology and digital capabilities, as compared to even the leading private sector banks in India. However, post the Covid induced lockdown, management was quick in identifying that the pace of technology adoption and digital payments usage by customers had significantly accelerated. Management quickly strategized and expedited the rollout plans for its digital payments app and financial services marketplace, shrinking a multi-year timeline to less than a year. The team also radically altered its operational processes through technology, thereby significantly reducing its fixed cost base. With a large repository of data across over 50 million customers, a frictionless user experience through its app and marketplace and an efficient cost structure, we believe the company is structurally very well positioned to compete with fintech players in the rapidly growing financial services industry.

As mentioned, in each quarterly letter we plan to discuss one idea that can provide a better perspective into our decision-making process.

Tata Consumer Products – a FMCG behemoth in the making

Tata Consumer Products was created in early 2020, when the consumer products division, predominantly in salt, was spun-off out of Tata Chemicals and into Tata Global Beverages, which holds the domestic and international tea business and Starbucks JV. The company was then renamed Tata Consumer Products, with the long-term vision of Tata Group of creating a diversified FMCG company under the Tata Group. We provide insights into our thesis below, resting on our 3-pillar evaluation approach: Stellar People, Incredible Business and Time.

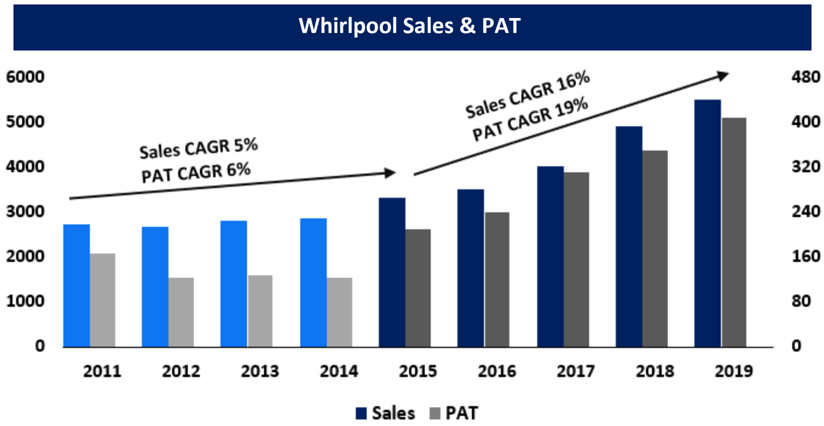
Stellar People

We have tracked Tata Group Chairman Chandrasekaran's career closely, right from the time when we first met him as the Chief Operating Officer of TCS in 2004. His clarity of thought, vision for TCS, as well as depth of knowledge across a broad array of subjects was what struck us most from that meeting. He was instrumental in transforming TCS into a growth as well as profitability leader in the IT services industry after he took over as CEO in 2009. Under his leadership, we believe the Tata Group is in its early stages of transformation across the different industries it is present in, with a particular focus on profitability and improving return on capital.

The Tata brand has consistently ranked number one across several surveys, including the renowned Brand Finance survey. However, in spite of this strong trust and connect with the Indian consumer, the group has had a very limited presence in the FMCG space, where its presence was segregated across group companies until last year. Our channel checks suggest there is a significant buy-in from Chandra to transform Tata Consumer Products into a leading, diversified FMCG company within the group.

To execute on this vision, Chandra has roped in Sunil D'Souza, ex-CEO of Whirlpool. Sunil has a stellar track record, and prior to Whirlpool, worked across organizations such as Pepsi, Coca Cola and Lipton/Brooke Bond Tea (Unilever). At Whirlpool, he rehauled the company's distribution network, increased throughput, was instrumental in improving product innovation, and in the process delivered significant shareholder value by achieving strong growth in both top line and bottom line (see Figure 2).

Figure 2



Source: Company

With this envious track record, we expect Sunil to (a) aggressively grow volumes at Tata Consumer by strengthening sales and distribution, (b) focus on cost efficiencies to be more competitive on pricing without compromising on profitability and (c) accelerate product launches/innovation with an eye on return on capital. We believe the new management team, further strengthened by key hires such as Deepika Bhan (Head, Packaged Foods) from HUL and TV Swaminathan (Chief Digital Officer) from Nissan, is highly capable of taking advantage of the latent opportunity that the Tata brand and the strong distribution reach provides.

Incredible Business

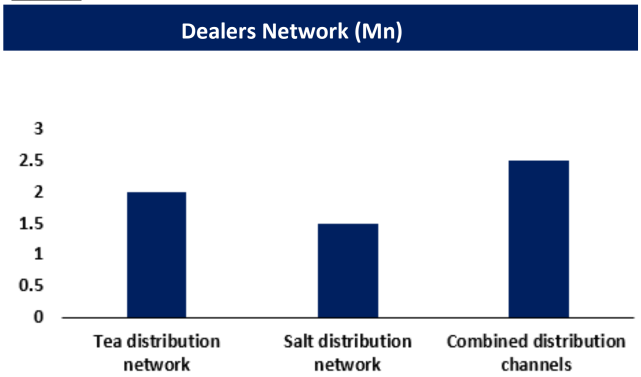
The most critical success factors for building a strong consumer goods business are distribution and branding - both of which are inherent in the business. Over and above this, they have strong cash flow and balance sheet positioning to back the development of new categories. The strong consumer connect with the Tata brand gives the company a natural right to win across different FMCG categories. The company already enjoys a large distribution infrastructure in India, reaching 2.5 million retail outlets, with a market share of 20% in Tea and 28% in Salt. Doubling the direct selling reach to these outlets, would help further increase market share in these categories.

The company is focusing on this distribution reach to introduce new products under the Tata Sampann brand, for the "in the kitchen" category. Its initiative in pulses and ready mix has seen strong initial success. Pulses is largely an unorganized market, sold loose through kiranas, with Tata Consumer being the first to try to create a national brand. The group has had strong success in the unorganized to organized theme with Tata Salt, Tata Tea and Tanishq being great examples. We believe the company can build on this further through pulses as well as packaged foods.

Time

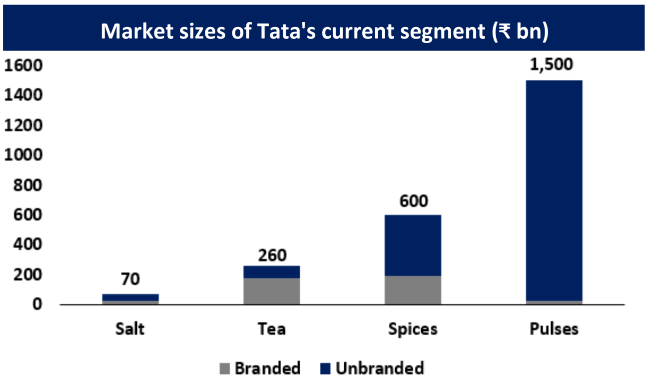
The pulses market alone is INR 1.5 lakh crore in size while Tata Consumer revenues from this business are less than INR 1,000cr, representing a sub-1% market share. The addressable market of pulses is 4x that of salt and tea combined - both categories where Tatas have managed to build dominant market share. In a similar category, ITC has been able to grow the Aashirvad atta brand sales to INR 6,000 Cr over the last 5 years. From a distribution perspective, the company is targeting to double its reach from 2.5 million currently to 5 million over next three years, which should further help in market share gains. Further, the company plans to rollout other packaged goods across its vast distribution network.

Figure 3



Source: Company

Figure 4



Source: Company

Unlike many FMCG companies we believe Tata Consumer can deliver 20%+ earnings growth for the next several years, given the ongoing transition. The company has multiple levers for earnings growth. The synergies across its different verticals can result in significant cost savings, providing upside to margins. At the same time, growth in distribution footprint, increase in direct distribution, new product introductions as well as supply chain efficiency can result in accelerating top line growth as well as operating leverage. We believe the company is still in the early stages of growing into one of the leading FMCG players in the country. Valuations at 45x forward earnings need to be seen in context of the long runway for growth ahead.

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 PMS Team