White Whale North Star Portfolio – 3Q FY25 Quarterly Letter

Dear Partners,

Greetings from White Whale Partners.

Portfolio Performance

The portfolio delivered healthy relative returns for the quarter and year to date. For 3QFY25, our portfolio was down -3.7%, vs. -8.3% for Nifty 50 TRI. For 9MFY25, the portfolio is up 9.6% vs the Nifty which is up 7.0%. On an annualized basis, since inception, the portfolio is up 15.3%[1], compared to 17.7% for the Nifty 50 TRI.

Figure 1

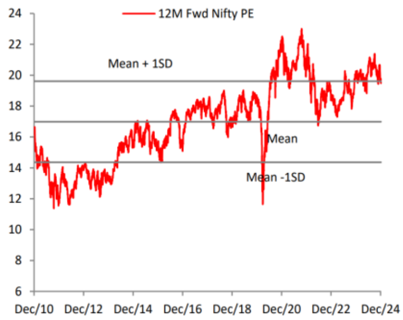
				Inception*	
	1 month	**3 months**	**9MFY25**	**Absolute**	**Annualised**
WW Northstar	0.4%	-3.7%	9.6%	80.1%	15.3%
Nifty 50 TRI	-2.0%	-8.3%	7.0%	96.3%	17.7%

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

The December quarter saw a healthy correction across the broader indices, driven by concerns around slowing economic growth as well as slower earnings growth expectations. In spite of the correction, from a valuation perspective, the markets still remain expensive compared to historical levels. The Nifty 50 Index is now trading at 20.3x forward earnings, at a 19% premium to its long-term average of 17x (See Figure 2). The NSE Midcap and Small cap indices are trading at 32x forward earnings and 23x forward earnings, respectively. (See Figure 3 and Figure 4). This is still at a significant premium of ~60% and ~43%, respectively to historic valuations as well.

Figure 2

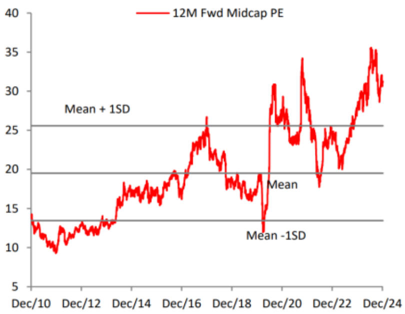
Nifty 50 Index 1 Year Forward PE



Source: Phillip Capital

Figure 3

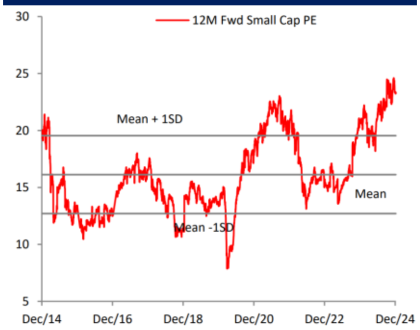
Nifty Midcap Index 1 Year Forward PE



Source: Phillip Capital

Figure 4

Nifty Smallcap Index 1 Year Forward



Source: Phillip Capital

While the domestic investor flows remain strong, foreign investors saw significant outflow in the quarter. While domestic mutual fund flows were healthy at $21.8bn, foreign investor outflows were at $14.4bn. As discussed in our previous letter, consensus future earnings expectations continue to be downgraded and GDP growth has also continuously decelerated over the last few quarters. While domestic flows remain strong, this is also being countered by rising supply of equity in the form of IPOs as well as insider selling from promoters and private equity. Tying all of this together in the context of the starting point of relatively high valuations, one needs to be careful on the path forward, with a focus on investing in strong bottom-up fundamental stories.

The fundamental performance of our portfolio, in terms of earnings growth, continues to trend well. This momentum is expected to be maintained in FY25 as well, with 18% revenue growth and 20% earnings growth on a weighted average basis for our portfolio (See Figure 5).

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[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 5

White Whale Portfolio Companies Performance					
Company Name	**Sector**	**Allocation**	**Revenue Growth***	**EBITDA Growth***	**PAT Growth***
Position 1	Banks	8.6%	15%	15%	15%
Position 2	Banks	7.7%	15%	10%	10%
Position 3	FMCG	7.6%	18%	11%	1%
Position 4	NBFC	7.2%	22%	23%	13%
Position 5	Hospitals	6.9%	17%	34%	93%
Position 6	NBFC	6.8%	26%	22%	23%
Position 7	NBFC	6.8%	23%	22%	24%
Position 8	Industrials	6.4%	8%	11%	9%
Position 9	Financial Services	6.4%	-22%	NA	NA
Position 10	Industrials	6.4%	24%	11%	6%
Position 11	Pharma	5.9%	50%	57%	-1%
Position 12	BFSI Services	4.9%	13%	6%	10%
Position 13	Consumer Discretionary	4.0%	17%	19%	28%
Position 14	Steel Tubes	3.0%	23%	13%	15%
Position 15	Internet	2.2%	32%	75%	99%
Position 16	Financial Services	1.9%	43%	43%	49%
Cash		7.5%			
Weighted Average* **		**100%**	**18%**	**20%**	**20%**

** YoY Growth Over FY24; ** FY25E ; *** Adjusted for Cash*

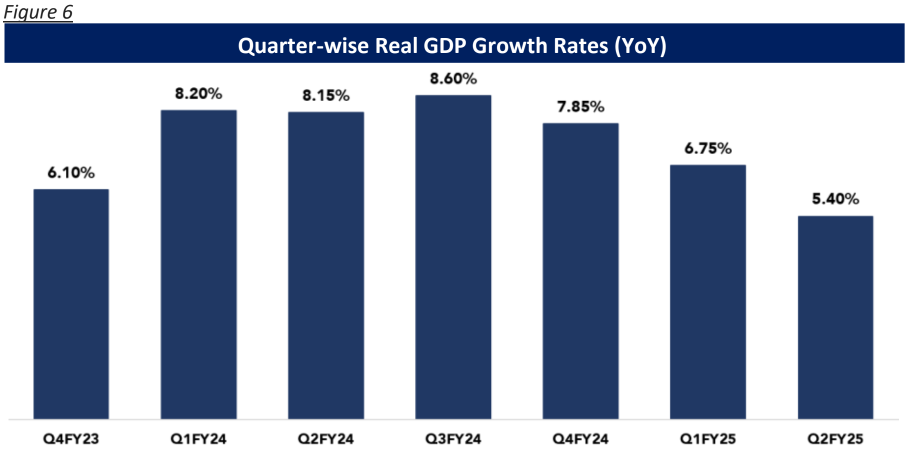
Source: Company Filings, White Whale Research

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

The recent Real GDP growth number for 2QFY25 at 5.4% confirmed the slowdown trends we were seeing through our checks on the ground. Over the last 6 quarters, Real GDP growth has slowed down from 8% to 5% currently (See Figure 6).

Figure 6



Source: MoSPI, White Whale Research

Part of this could be attributed to a slowdown in government expenditure around the time of election. Government expenditure (excluding interest payments) de-grew by 5% over the last six months, as compared to same period last year.

At the same time, there has also been a slowdown in rural and urban consumption as well, which is reflected in the recent results from FMCG companies, vehicle manufacturers as well as in certain consumer discretionary segments. Credit growth remains slow at around 13%. New private capex project announcements also remain materially below average run rate for last three years. Furthermore, there is also uncertainty around the policies that the new Trump administration will follow with regards to tariffs and economic sanctions.

However, while India is going through a near term cyclical slowdown, 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. Additionally, government initiatives such as manufacturing PLI, Atmanirbhar and green energy will require a significant pick up in investments from the corporate sector. It is also important to keep in mind that even at RBIs GDP growth projection of 6.6%, India would still be among the fastest growing emerging market and major economies. Inflation remains stable, with CPI at 5.2%, within the RBI target band of 2%-6%. The 10-year government bond has been largely stable around the 7% levels for several months now. Current Account Deficit for FY25 is expected to be at 1%-1.5%. Additionally, with India being a net-importer and a consumption driven economy, the impact of potential tariffs from the US would be limited. As valuations become more reasonable, we continue to focus on deep bottom-up research to identify investment ideas that would benefit from these structural tailwinds.

Portfolio Insights – Platform Businesses

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 pillars of this thesis is to look for incredible business that have a sustainable competitive advantage.

"Scalability becomes supercharged with "network effects". A network effect exists when assets become more valuable the more of them exist" – Jonothan Haskel, British Economist

One such advantage or moat that we actively look for is businesses that have a strong network effect. This essentially occurs when a product or service becomes more valuable to its users as more people use it. Historically, business such as stock exchanges (BSE, NSE, MCX) or payment networks (Visa, Mastercard) had such characteristics. Over the last couple of decades though, many businesses built on the digital economy have demonstrated strong network effects. These businesses are also referred to as platform businesses. Companies such as Google, Meta and Amazon have become multi-trillion dollar companies on the back of this. One of the key characteristics of such businesses is their ability to scale up dramatically, without any significant need for capital. In other words, businesses with strong network effects demonstrate an exponential growth in profitability, along with extremely high incremental return on capital employed.

Over the last decade, India has seen a rapid digitization of its economy driven by the JAM trinity – Jandhan bank accounts, Aadhar biometric authentication and mobile penetration. As a result of this, there have been several such platform businesses that have scaled up across different verticals. These businesses got a further impetus through Covid, driven by an increased pace of digitization and online penetration. This created significant hype around such businesses, which along with a change of regulation that allowed businesses with unprofitable histories to IPO, resulted in a slew of such IPOs in 2021 at astronomical valuations. Most of these businesses were down 50%-70% within 6 months of their IPO, given the normalization in growth trends post Covid as well as high expectations. However, over the last couple of years, many of these businesses have continued to strengthen their competitive positioning, accelerated their growth rates and are also now available at more reasonable valuations. We have been actively tracking these businesses, and invested into a couple of these businesses over the last six months. One such business that we entered into earlier this quarter was Cartrade Tech is discussed in more detail below.

Cartrade Tech (Market Cap – Rs6,345cr)

Cartrade a multi-channel auto sales discovery platform with extensive coverage and presence across various vehicle types and value-added services. Their platforms facilitate seamless transactions for both new and used automobile customers, as well as vehicle dealerships, OEMs, and other businesses. CarTrade generates revenues from: 1) online advertising solutions on its retail platforms Carwale, Bikewale; 2) lead generation for OEMs, dealers and financial institutions; 3) tech-based services to OEMs, dealers and financial institutions; 4) inspection and valuation services for OEMs and financial institutions; and 5) commission and fees from auction and remarketing services of used vehicles for retail customers, financial institutions, OEMs, leasing companies, and fleet and individual operators. It does not take any inventory risk, thus operates an asset light model, with majority of costs being marketing and people costs.

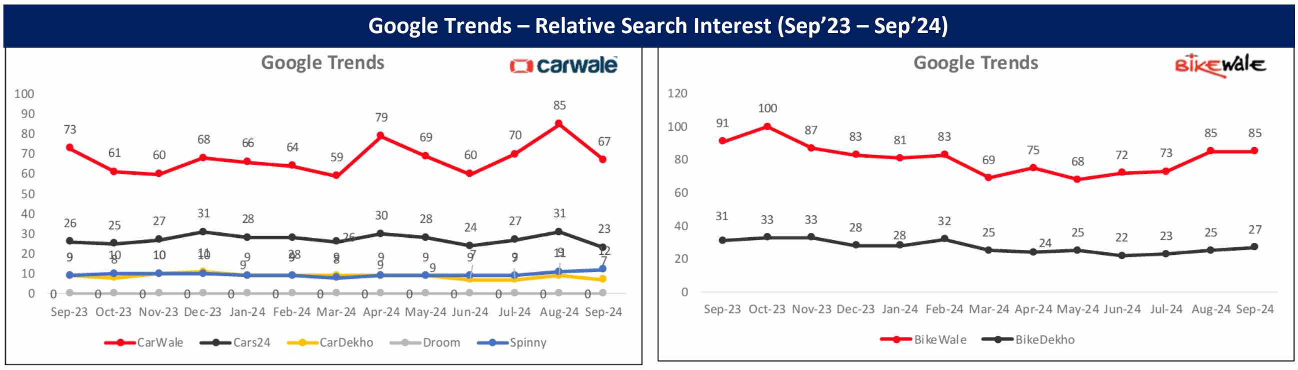
Business Segments

CarTrade operates 3 verticals - New Car Classifieds, OLX Classifieds and Vehicle Auction. These are all roughly 1/3rd of the business revenues currently.

1) **New Car Classifieds/Subscriptions (36% of Revenue):** This vertical runs a number of different online classified platforms (Carwale, Cartrade and Bikewale) that connect various dots in the auto ecosystem. These platforms are helpful for customers doing research online, reading expert reviews about new cars, locating car dealers, understanding the various features and comparing pricing. The company however mostly monetizes through dealers (pay per lead) and OEMs (advertising). Historically, auto manufacturers have spent most of their advertising dollars on TV and print. However, with 90%+ car buyers researching online prior to walking into a dealership, OEMs have started to shift their dollars to digital mediums. Today only 28% of advertising is spent via the digital medium in India (vs. China at ~55%). Therefore, there is significant room for the digital advertisement pie to grow.

   Of these digital-ad spends, 75-80% are done through social networking platforms such as Google and Facebook, while only ~20% are on platforms like Carwale/Bikewale and Cardekho/Bikedekho (the two leaders with equal share). The conversion ratios however on these platforms are significantly higher than the spends via Google, Facebook given that they are catering to a more targeted and motivated audience. Hence, even within digital spends, the share of these portals should keep increasing as well. Furthermore, Carwale/Bikewale are significantly ahead in Google Trends relative search index (See Figure 7)

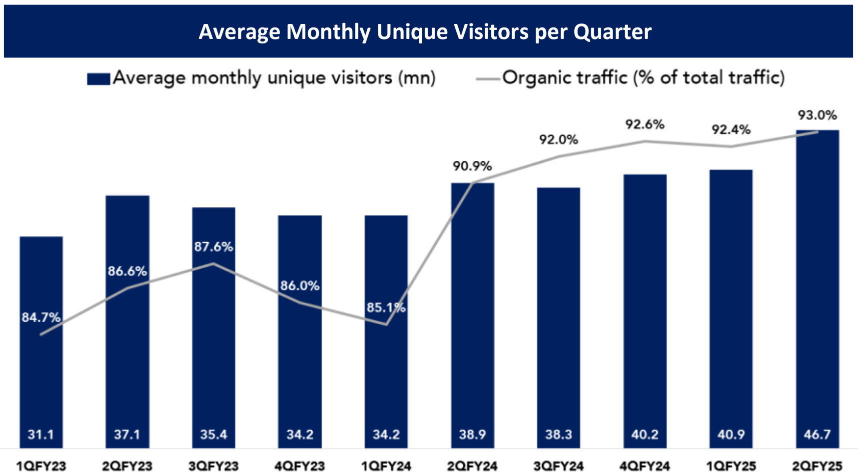
   Figure 7



   Source: Company, White Whale Research

   Over 90% of the company's unique visitors come to their platform organically. (See Figure 8). This significantly lowers customer acquisition costs for the company. Furthermore, these unique visitors themselves are growing at 20% YoY.

Figure 8



Source: Company, White Whale Research

The general market perception is that revenues in this segment will grow in line with auto industry. However, there are clear tailwinds from digital spend budgets and share gains within that due to higher conversion rates. Over the last 5 years this part of the business has had a revenue CAGR of 18% with EBITDA CAGR of 32%. Current EBITDA margins are ~23%, but given the inherent operating leverage this can grow to 40%+ in the next 3-5 years.

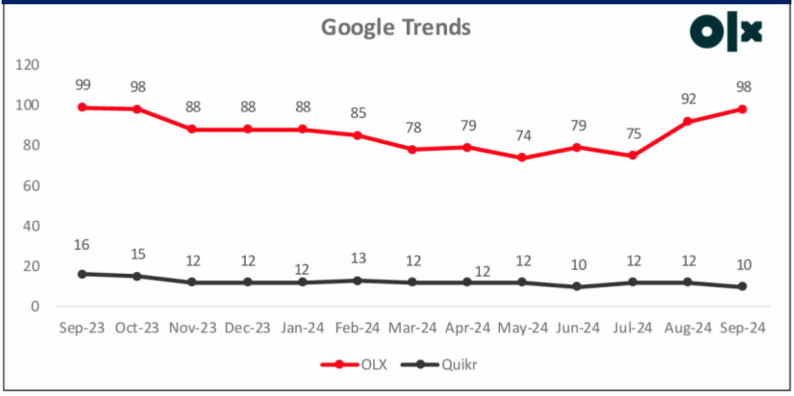
2) **OLX Classifieds (includes used car classifieds) (32% of Revenue):** Used car classifieds was the original business that the company was founded on, while the new car business was built via the acquisition of Automotive Exchange Pvt Ltd in 2016. Until a year ago, they were a duopoly business in the used cars classified business as well. However, with the acquisition of OLX, they have now become a monopoly in the used car classified space. OLX was globally held by Naspers, who made a strategic call to exit the transaction business worldwide. In order to sell the loss-making used car transaction business in India, they also sold their profitable classifieds business to CarTrade (for speedy execution and cash sale) at a very low valuation of 1.4x revenue or 10x PE. CarTrade then immediately shut down the transaction business and created a monopoly out of the used car classifieds business.

   They then further expanded it into a larger, non-auto used goods classifieds business to create the EBay of India. Currently OLX derives ~45% of its revenues from the auto classified business and ~55% from the non-auto business. On the back of heavy brand spend by Naspers over several years, the OLX brand name is now synonymous with selling any used goods online in India. The used car market size is estimated to be INR 2,00,000 crores, of which, assuming the used car dealer earns an average commission of 5-10%, the total commission pool that CarTrade is likely facilitating is in the range of INR 10,000 crores to INR 20,000 crores. Against this, they only generate revenues of approximately INR 110Cr, which is just 0.5% of the commission pool. Given that over 65% of all second-hand cars that are sold in the country are listed on either Cartrade or OLX, the value add that these platforms provide is significantly higher than the actual revenue that they capture. In our view, there is much more on the plate for the taking and over time, the company should be able to capture a significantly larger share of this commission pool. Naspers was managing this business with their global playbook, and had not customized the business for the Indian operating environment. We believe, this leaves a lot of low hanging fruit for CarTrade to capture. The tech transfer of this business has only just been done from Naspers to the CarTrade team in India, thus this story is only just getting started. There are several pricing, penetration and category expansion opportunities in this business which can create large optionality for the company.

Furthermore, on the non-auto space as well, there is a lot of scope for expansion, especially in the electronics space. Similar to Carwale/Bikewale, OLX is dominant on the Google Trends relative search interest, with Quickr being a distant second (See Figure 9).

Figure 9

Google Trends – Relative Search Interest (Sep'23 – Sep'24)



Source: Company, White Whale Research

As seen in the case of Naukri (owned by Info edge), monopolistic classifieds platforms can generate robust profitability margins due to the strong negotiating power and customer stickiness. This is currently a 20% CAGR business with 25% margins, which can again have significant operating leverage from pricing strategies and growth.

3) **Vehicle Auction (32% of Revenue):** This business caters to the repossessed cars by banks, NBFC's, insurance companies via an auction platform to sell two-wheelers, three-wheelers, cars, CVs, farm equipment, construction equipment, etc. There is an online and offline auction platform in JV with the Shriram Group (largest CV financier). CarTrade, via the JV, is one of the two organized yard providers in the country to the businesses needing space to park the vehicles prior to liquidation. This provides the company unique structural advantage of having first access to the inventory. Additionally, the company has a business agreement with Shriram Transport Finance as part of the JV agreement that makes them the captive B2B auction platform for repossessed inventory of Shriram Transport, which is a leading used vehicle financing platform in the country. The online auction platform is mainly used by consumers, business sellers, dealers and fleet owners to sell vehicles to automotive dealers and fleet owners. Besides, it offers ERP tools for automotive dealers to manage their processes around procurement, inventory management and CRM.

   This segment earns facilitation fees through a combination of (a) fees computed based on a certain fixed amount and (b) a percentage of the winning bid as commission payable by the seller. This part of the business is counter cyclical. The last few years have been extremely slow as reduced number of repossessions due to lower delinquencies in the system constrained supply. This segment, being counter-cyclical, offsets a potential slowdown in other segments. Covid disruptions to the supply chain also reduced supply of vehicles in the system, resulting in very healthy demand and quick turnaround for used vehicles. Over the last few months, delinquencies have been rising for vehicle loans. This actually bodes well for vehicle auction business, as it will lead to more supply coming through these auction platforms. In our view, growth can only accelerate from here. This segment has shown mid-single digit growth in Revenue and EBITDA through this time. However, normalizing for the cycle, this business should do a 12-15% revenue CAGR with an 18-20% EBITDA CAGR.

Valuation

CarTrade currently is valued at a 42x trailing twelve months EV/EBITDA. Naukri (Owned by Info Edge), which is a well-established platform business as a monopolistic online job/recruitment business operating in a mature/well penetrated market, growing at ~10-15% is valued at similar valuations (for its core business after stripping out investments). Thus, there seems to be a pricing dislocation here as the business is not well understood with a general perception that CarTrade will grow in line with the auto industry.

In our view, there are significant levers to growth, which will come along with operating leverage:

(i) New Car segment has tailwinds from OEM budgets increasing towards digital spends + should see an increased share of digital spend within these budgets given higher conversion rates due to motivated buyers on the platform
(ii) Used Car business has become a monopoly however pricing strategies are yet to kick in to reflect the value they add to the ecosystem
(iii) There is a larger used goods platform play (Ebay) which provides significant optionality
(iv) The Vehicle Auction segment is at its cyclical lows (facing the perfect storm of low supply due to Covid hangover and pristine credit quality) should revert back to mean and provide a kicker
(v) There is scope for them to create a facilitation platform for spares & servicing, finance & insurance as an extension to their offering without incremental capex

The business should deliver ~20% revenue growth over the next 3-5 years with EBITDA margin expansion to 40%+ from ~22% today. Thus a 50-60x EV/EBITDA multiple is warranted given that Naukri, a well-established, mature, well penetrated, low growth platform business trades at 40x. We believe the value of this business can double over the next couple of 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