White Whale North Star Portfolio – 4Q FY25 Quarterly Letter

Dear Partners,

Greetings from White Whale Partners.

Portfolio Performance

During the quarter, the portfolio was down 3.7%, compared to the Nifty 50 TRI, which declined by 0.3%. For FY25, the portfolio is up 5.6% vs the Nifty which is up 6.7%. On an annualized basis, since inception, the portfolio is up 13.4%[1], compared to 16.5% for the Nifty 50 TRI.

Figure 1

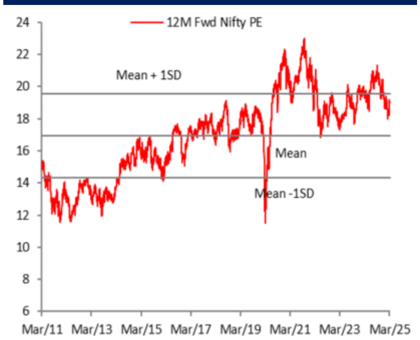
	1 month	3 months	6months	1Yr	Inception* Annualised
WW Northstar	7.6%	-3.7%	-7.2%	5.6%	13.4%
Nifty 50 TRI	6.3%	-0.3%	-8.5%	6.7%	16.5%

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

The correction in the Indian equities that began in September continued into the March quarter, more so in the mid and small cap stocks as compared to the large caps. Thus the NSE Mid cap and Small cap indices were down 10% and 15% respectively, compared to the Nifty index, which was down only 0.3%. The correction was driven mainly by continued concerns around the slowing economic growth as well as slower earnings growth expectations, which we discussed in the previous letter. While valuations have come off over the last six months, the markets still remain expensive compared to historical levels, more so in the mid and small cap stocks. The Nifty 50 Index is now trading at 19x forward earnings, at approximately a 10% premium to its long-term average of 17x (See Figure 2). The NSE Midcap and Small cap indices are trading at 26x forward earnings and 23x forward earnings, respectively. (See Figure 3 and Figure 4). This is still at a significant premium of ~30% and ~43% to historic valuations respectively as well.

Figure 2

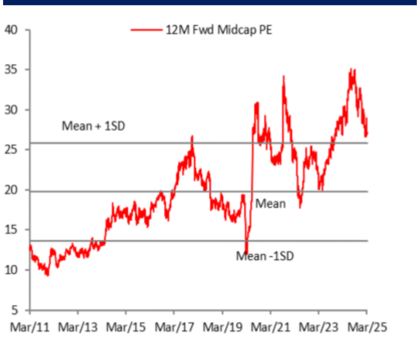
Nifty 50 Index 1 Year Forward PE



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

Volatility in the global equity markets, as well as Indian equity markets, has significantly increased since April 2nd, or the so-called "Liberation Day", with the United States threatening to increase tariffs significantly with all countries across the globe, most particularly China. The economic implications of this are discussed in more detail later in the letter.

However, it is important to note that our portfolio consists mainly of domestically focused businesses, given our view that India offers the most sustainable structural growth story over the next several years. **Exports to US account for less than 1% of our portfolio companies' weighted average revenues in aggregate.** Furthermore, our portfolio companies

[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.

have a sustainable competitive advantage, that would enable them to gain market share in periods of turmoil, such as now. We would view any substantial correction in the price of our portfolio companies as an opportunity to add to them. At the same time our pipeline consists of a list of companies with attractive long-term business prospects, but where valuations are still not within our comfortable zone. In periods of volatility, such as now, we are ready to act on any attractive opportunity that might present itself.

The fundamental performance of our portfolio, in terms of revenue and earnings growth, continues to trend well. For FY25, our portfolio is on track to deliver over 20% revenue and earnings growth on a weighted average basis (See Figure 5).

Figure 5

White Whale Portfolio Companies Performance						
Company Name	**Sector**	**Allocation**	**Revenue Growth***	**EBITDA Growth***	**PAT Growth***	**ROE****
Position 1	NBFC	9.7%	22%	23%	13%	19%
Position 2	Banks	9.3%	15%	15%	15%	17%
Position 3	FMCG	8.5%	18%	11%	1%	8%
Position 4	Banks	8.2%	15%	10%	10%	15%
Position 5	Pharma	7.3%	50%	57%	-1%	11%
Position 6	NBFC	6.7%	23%	22%	24%	17%
Position 7	Hospitals	6.7%	17%	34%	93%	7%
Position 8	NBFC	6.2%	26%	22%	23%	14%
Position 9	FMCG	5.8%	25%	20%	30%	19%
Position 10	Internet	5.8%	32%	75%	99%	6%
Position 11	Industrials	5.1%	8%	11%	9%	18%
Position 12	Financial Services	5.1%	-22%	NA	NA	NA
Position 13	Industrials	4.6%	24%	11%	6%	21%
Position 14	Consumer Discretionary	2.8%	17%	19%	28%	44%
Cash		8.2%				
Weighted Average***		**100.0%**	**20%**	**24%**	**24%**	**14%**

** 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 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.

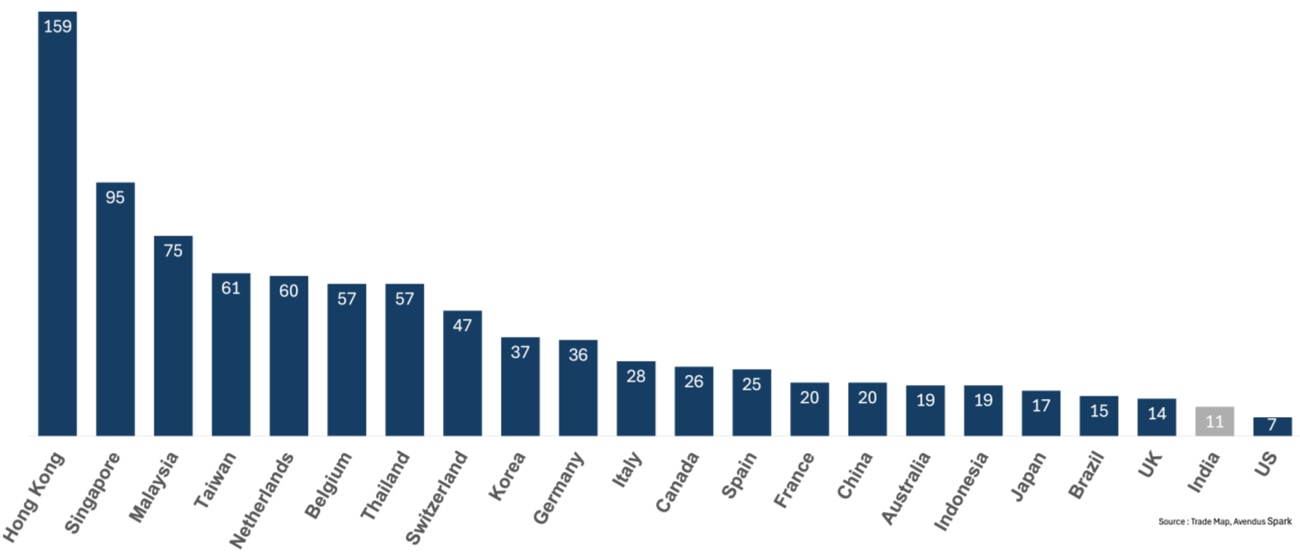
Macroeconomic Developments

On April 2nd, the United States announced “reciprocal tariffs” across all countries across the globe, ranging from a minimum of 10% to a maximum of 50%. Pursuant to this, in a trade war with China, both countries escalated their tariffs to well over 100%. This understandably created significant turmoil in the global equities, bonds, currency and commodities markets. A few days post the announcement, the United States has put a 90-day moratorium on implementing these tariffs (except on China) to allow for negotiations. We believe the significant uncertainty around global trade relations with the US threatens to significantly slowdown world GDP growth, and possibly even tip the US economy into a “stagflation” environment.

In our view, India is best placed on a relative basis, to withstand this global trade war. Goods exports are only 11% of overall GDP for India, significantly lower than most other countries (See Figure 6). Furthermore, US accounts for only around 18% of these exports (See Figure 7). In FY25, US goods exports accounted for only US$87 billion, which is a little over 2% of India’s overall GDP. In fact, the net trade surplus that India runs with the United States is just around US$40 billion or about 1% of GDP. Moreover, we believe that India stands to benefit vis-à-vis our closest export competitors, China and Vietnam, where tariffs announced as of now are likely higher than for India.

Figure 6

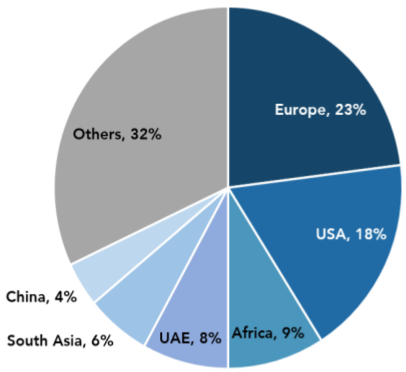
Goods Exports as a % of GDP



Source: TradeMap, AvendusSpark

Figure 7

India Merchandise Exports – By Country



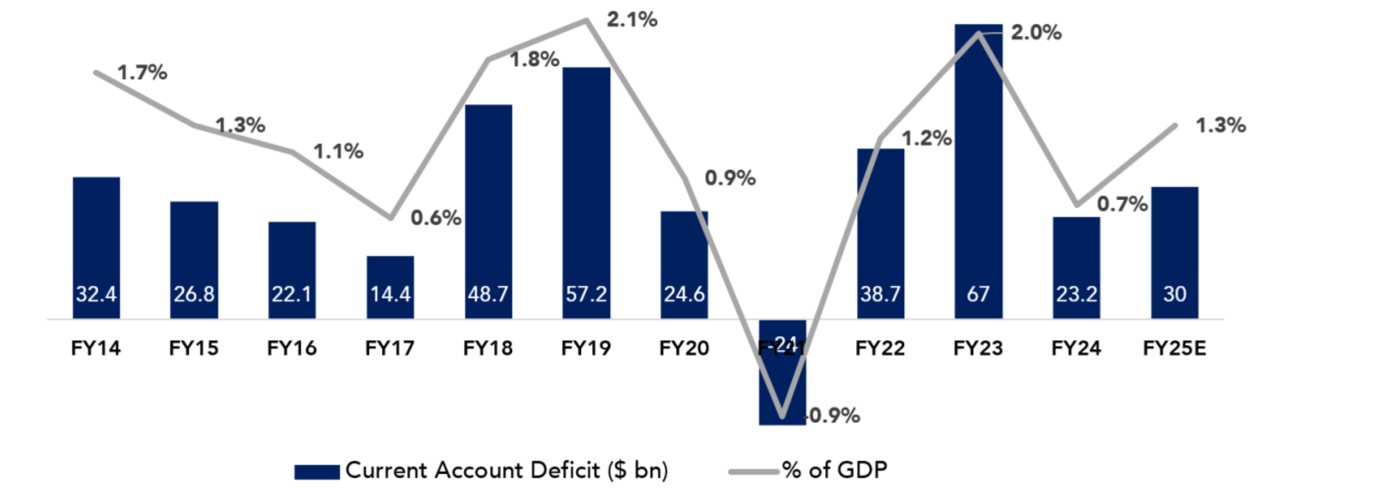
Source: Niryat Portal

On the back of the uncertainty on global economic growth, commodity prices have collapsed. India, being a net importer of these commodities, actually stands to benefit from this. For example, oil prices have fallen by over 10% since April 2nd, which in itself would be a big benefit for India. Oil imports were over US$190 billion in 2024 for India. The net savings from lower oil prices could actually outweigh possible impact of tariffs on US exports. Given that India has traditionally been running current account deficit itself (See Figure 8), lower commodity prices actually help in keeping this deficit in control.

While we recognize that there can be unintended second or third degree consequences to this trade war, in our view India is best positioned on a relative basis. Investors also seem to recognize this, as the Indian equity markets are already trading above the levels on April 2nd.

Figure 8

India's Current Account Deficit



Source: RBI, White Whale Research

As discussed in the previous letter, India has been going through a short term cyclical slowdown, with GDP growth slowing to 6% in the December quarter. At the same time, retail inflation fell to a five year low of 3.3%. Falling global commodity prices will further have a deflationary impact, going forward. In the last meeting, the RBI cut the repo rate by 25bps to 6.0% while changing its stance to "accommodative" from "neutral". We believe there is significant room for further monetary easing over the next twelve months. The 10-year government bond yield is reflecting this, having fallen to around 6.4% from 7% a few months ago. At the same time, the central bank has also taken several measures to boost liquidity in the system, which would help improve loan book growth. The government has increased spending on public infrastructure projects over last six months. All of this should help improve the growth outlook going forward.

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. 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

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. While we remain focused on investing in companies that have a sustainable competitive advantage or economic moat, this may no longer be sufficient to ensure long-term success. The pace of disruption is increasing rapidly and spreading to sectors that have traditionally experienced only slow and incremental change. In this evolving environment, an existing moat can rapidly disintegrate. Thus, our focus includes assessing a companies' ability to innovate. For example, FMCG companies that have held a long term competitive edge in distribution are seeing their moats disintegrate with improving reach and Quick Commerce. We are aware of a possible bias towards companies that have delivered strong results over a long period of time, which does not necessarily mean they have the ability to rapidly innovate. To assess their ability to innovate, we believe culture is key.

"Culture eats strategy for breakfast" – Peter Drucker,

A culture where employees have the leeway to try new things, without facing severe repercussions in case of failure, will encourage innovation. Management teams must foster this culture, keep customer needs at the forefront and demonstrate flexibility in deploying capital towards emerging trends and new challenges.

One such company, we believe that has a strong culture of execution, that we recently invested in is Varun Beverages.

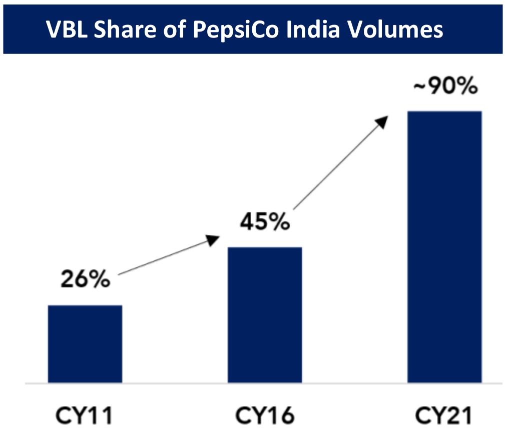
Varun Beverages (Market Cap – Rs1,84,988 Cr)

Varun Beverages is PepsiCo's second-largest bottler outside the U.S., accounting for 90%+ of PepsiCo's India business. It also distributes its energy drink (Sting), juices (Tropicana) as well as bottled water (Aquafina). Varun Beverages has steadily expanded its overseas footprint over the years in countries such as Zimbabwe, Morocco, Congo etc. More recently, it acquired Pepsi's South Africa bottling operations in 2024. We believe there are multiple drivers in place for Varun to sustain double-digit revenue in India as well as overseas. In CY2024 the company delivered Rs20,000 crore in revenues, up 25%, with profits of Rs4,711 crore, up 30%, and an ROE of over 20%

Stellar People

The management of Varun Beverages, under the leadership of Mr. Ravi Jaipuria, has steadily cemented their relationship with PepsiCo over the years. Back in 2011, the company accounted for around 26% of PepsiCo's India volumes. However, in geographies where Varun Beverages operated, Pepsi's market share was 5% higher than in the other geographies, reflecting Varun Beverages' execution prowess. As a result, over the subsequent decade, Pepsi facilitated Varun Beverages in consolidating the industry, enabling the company to control over 90% of volumes in India (See Figure 9). This is unlike Pepsi's global strategy of diversifying its bottling operations across several players in large geographies like India.

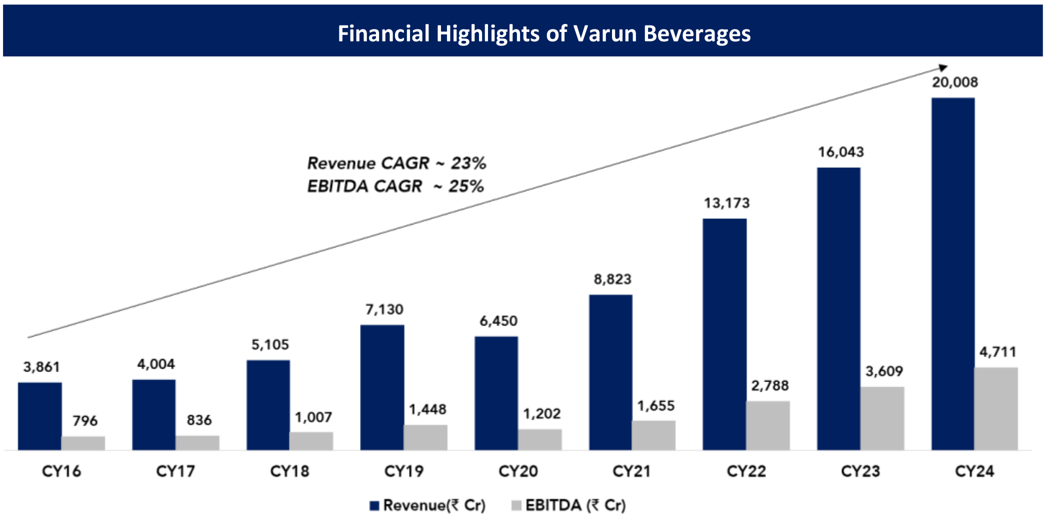
Figure 9



Source: Company, White Whale Research

Given the strong relationship, Pepsi also agreed to allow Varun Beverages to distribute its Tropicana juice brand, which was again a first. Globally, Pepsi has kept control over this aspect of this business. Continuing to build on this business, the company is also now expanding its relationship to the food business, by outsourcing distribution of packaged food such as Lays and Kurkure. The management's ability to continuously execute across geographies and products has enabled the company to deliver strong operating performance since IPO, with both revenues and profits growing at a CAGR of well over 20% over the last eight years.

Figure 10



Source: Company, White Whale Research

Incredible Business

Varun Beverages has demonstrated a strong embedded culture of execution over the last decade. Not only has it consistently gained market share, but it has been able to do it while sustaining very healthy profitability, with EBITDA margins of over 20%. Over the last eight years, the company has built a distribution network across the country that would be very difficult to replicate (See Figure 11).

Figure 11

Distribution Track Record

Key Parameters	CY16	CY24
No of Counties		
- Indian subcontinent	3	3
- Africa	2	11
No of states in India	17	26
No of production facilities	21	48
Owned Depots	71	130+
Owned Vehicles	2024	2600+
Primary Distributors	1186	2800+
Distribution Reach	<1mn	4mn+
Visi - coolers	0.46mn	1.15mn+

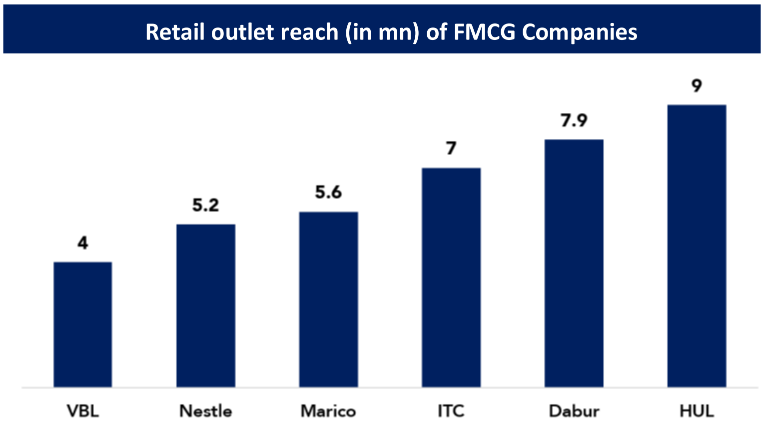
Source: Company, White Whale Research

However, its competitive advantage goes beyond just the distribution reach. The company has an innate culture of continuous innovation and introducing new products. Given its "on the ground" presence and close relationships with retailers and distributors, it has continuously shared valuable feedback with PepsiCo. This has allowed the company to introduce new innovative products that have been well received by the market. One of the early successes was Nimbooz – a fresh lime soda with an Indian twist. More recently, the energy drink Sting, which was introduced at a Rs20 price point has been a phenomenal success. It now has a 75% market share in the energy drink segment and accounts for 15% of Pepsi's overall volumes in the country. Such value-add inputs have solidified its relationship with PepsiCo, and resulted in a win-win partnership between the two companies that competitors find difficult to match.

Longevity

While Varun Beverages accounts for over 90% of Pepsi's distribution in India, we believe the runway for growth even in India is still very long. Unlike in other geographies, carbonated beverages market in India is still growing in mid-single digits. This is because penetration of visi-coolers into the semi-urban and rural areas is still rising. For example, even currently, Varun Beverages only reaches around 4 million outlets compared to 9 million outlets for Hindustan Unilever (See Figure 12). Furthermore, the reach for products such as juice and energy drinks is even lower. In addition, on the back on strong execution by Varun Beverages, Pepsi Co can continue to gain market share in the new geographies, such as South India, where Pepsi recently took over the bottling operations. Overall, we believe that within India itself, Varun Beverages can continue to grow its revenue in the mid-teens over the next several years.

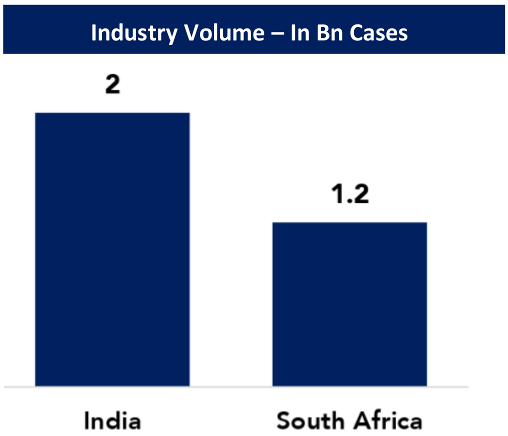
Figure 12



Source: Company, White Whale Research

Furthermore, we believe the company's diversification into Africa further adds a significant growth avenue for the company. While the company has been in several countries in Africa for a few years now, its recent acquisition of the bottling operations of Pepsi Co in South Africa is the most exciting. In terms of scale, South Africa is about 60% the size of India, but Pepsi Co only has a 2% market share in the country compared to 67% for Coca Cola. Given Varun Beverages track record, we believe with the right products and strong execution, the company should see strong double digit growth in Africa for several years to come, driven primarily by South Africa.

Figure 13



Source: Company, White Whale Research

The stock saw a sharp 30% correction from the beginning of this year on the back of concerns around pricing aggression by Reliance Industries owned brand – Campa Cola, which was offering a 200ml bottle for the price of Rs10. As per our channel checks, there is a marked difference in brand perception between Campa Cola and Pepsi/Coca Cola. While the aggressive pricing could result in market share shift away from the smaller regional brands, it would not be as disruptive to Pepsi/Coca cola. Furthermore, this price point was mainly an entry strategy for Campa Cola and not sustainable in the long run.

Post the price correction, the stock was trading at around 45x forward earnings, at a significant discount to other FMCG peers, which we used as an opportunity to build a position in the company. We expect the earnings to compound at over 20% over the next several years, with similar returns for the stock.

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