

DURO CAPITAL

The purpose of this letter is to provide you, our partners, with deeper insights into our investment philosophy and portfolio positioning. By investing a significant portion of our own net worth into our funds, we ensure that our interests are fully aligned with our investor partners.

2024 Performance Overview

In 2024, the Duro India Opportunities Fund (DIOF) delivered a 16.1% net return after all fees, expenses and applicable capital gains taxes (realized and unrealized). In comparison, the MSCI India \$ ETF total return for 2024 was 8.6%. DIOF's returns include two late stage, pre-IPO private positions. These positions have not been marked up in 2024, thereby creating a drag on total Fund returns. DIOF's liquid portfolio (ex-privates) generated an 18.6% net return for 2024. Investors reserve the right to opt in/out of private investments. As of December 31, 2024, DIOF's total and liquid portfolios have outperformed the MSCI India \$ ETF total returns over 1-, 2- and 3-year periods. The outperformance has been particularly significant over the last 2 years, where the DIOF liquid portfolio and total portfolio have outperformed the MSCI India \$ ETF total returns by 900bps and 610bps, respectively, each year.

Individual stock selection and portfolio construction were critical in generating the outperformance in 2024. For the year, the portfolio had a batting average of 62% and a slugging ratio of 3.2x.

- The biggest contribution to returns came from Bharti Airtel, the Fund's largest position, which gained 54% in 2024.
- Other top-5 contributors to returns included Indigo Airlines, 360One, Max Healthcare and BSE.
- The biggest detractor from performance was our long position in Ujjivan Small Finance Bank, which fell close to 30% for the year largely due to stress in the microfinance sector. We discussed this investment in detail in our last letter. We continue to believe that the worst of the microfinance stress is behind us; Ujjivan shares are up 4% year to date in a relatively weak period for the broader Indian markets.



While individual stock selection remains central to our returns, we also recognize the importance of continuously refining our investment process to sustain long-term outperformance. In this letter, I want to highlight a broader transformation that we embarked upon at Duro two years ago using *agile frameworks*¹ with the help of a process coach.

Over the last two years, to enhance our decision-making capabilities, we have built upon our investment process to further improve idea generation, accelerate execution, and maximize the "return on our team's time invested." The goal is to ensure that every action we take contributes meaningfully to our core investment objective: to build a concentrated portfolio of 20-25 fairly-priced businesses, with a defensible right-to-win in their industries and that are undergoing structural changes, which enables these companies to compound earnings at ~25% over the Fund's holding period (typically, at least 3-4 years).

Duro's three-pillar investment framework (i.e. *Why, Why Now and Price/Value*) has been central to stock selection since the inception of our strategy 14+ years ago. We have now reinforced it with more systematic

¹ Agile frameworks provide a structured way for teams to work in an iterative and incremental manner, focusing on delivering value quickly and adapting to changing requirements.

and outcome-driven processes. By refining our workflows, we have significantly improved the way we identify, evaluate, and act on investment opportunities. For example, each year, we engage with over 300 companies, of which approximately 75 enter our formal sourcing pipeline for further evaluation. We have developed additional structured assessment tools, both quantitative and qualitative, that allow us to rapidly filter these opportunities through the lens of the Duro framework. This helps narrow the idea pool to 15-20 highest-priority companies that warrant deeper assessment through further diligence, extended site visits and a detailed valuation exercise. The result is a more disciplined and focused investment process, ensuring that the majority of the investment team's time is spent on businesses that have the highest probability of making it into the portfolio. We have also introduced clear checkpoints and structured timelines to accelerate decision-making without compromising depth. Every stage of the investment process is documented, ensuring consistency, transparency and accountability. By instilling this culture of accountability and measured execution, we have been able to make our process more reliable and repeatable. This has also increased the number of fully developed ideas (memo stage) that the investment team is able to deliver on an annual basis, a measurable outcome of one of the investment team's OKRs (Objectives and Key Results) in 2024. Our Investment Due Diligence Questionnaire covers some of our workflows and objectives. Please reach out in case you would like to receive a copy.

To sustain this level of efficiency, the team follows a structured approach to prioritization. At the beginning of each week, team members outline their most impactful tasks, ensuring that our efforts are directed toward the highest-value activities that directly influence portfolio performance. These priorities are revisited and refined throughout the week, ensuring agility while maintaining alignment with our long-term objectives. This approach has not only improved execution but also freed up time for creative investment thinking, an essential ingredient for differentiated returns.

The *agile frameworks* are not restricted to the investment side of the business. The non-investment team, too, has embraced tools to optimize our operational processes. A recent OKR for the non-investment team involved streamlining the flow of information between Duro and its service providers, enabling same day turnaround for investor requests to access Duro's data room.

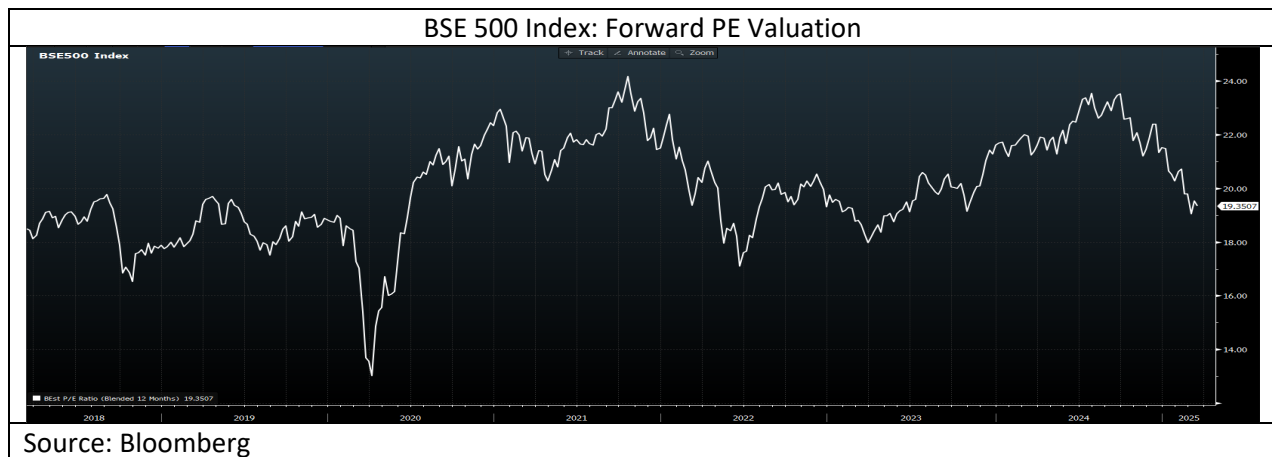
Key priorities, decisions, and progress markers are openly displayed in our office to foster alignment and information-sharing across the team. This transparency ensures that everyone remains focused on the bigger picture, i.e. delivering superior long-term investment returns through a well-defined and disciplined approach. We are confident that, over time, this rigorous and outcome-oriented mindset will continue to shape Duro's identity and become **the "Why" of Duro Capital**.



Coming back to markets, ***India's market capitalization has fallen by ~22% in USD terms since the correction in markets began at the end of September 2024.*** The Duro portfolio is down ~14.5% during the same period. The primary reason for the market correction can be attributed to a combination of slowing earnings growth (7% year-over-year for the quarter ended December 2024) and relatively high valuations (23.5x PE for BSE500 Index as of September 2024) in India. The correction has also been exacerbated by a shift in foreign investor appetite towards China over India since late-September 2024, when the government stimulus in China started taking shape. Foreign investors have pulled out over \$27 billion dollars from Indian markets since October 1, 2024.

Valuations, indeed, were excessive in some parts of the market. I had written about this in our Investor Letter #8, released in June 2024 – "...froth that has built up in certain pockets of the market, where stocks

are trading not based on earnings, but on narratives. These narratives have resulted in the market attributing the entire value of earnings that some businesses will generate in future years (and perhaps decades), to the underlying stocks today.” Not surprisingly, the most significant damage has happened in such narrative-driven stocks, some of which have lost >60% of their market value in the past 6 months. Post the recent correction, valuations for the broader BSE500 index, at 19.3x forward P/E, are now more in line with pre-covid levels, when the Indian economy was still struggling to come out of a slowdown driven by demonetization and the 2018 NBFC (non-banking finance company) crisis. However, forward 12 months earnings growth expectations for the BSE500 have fallen to 11%, implying a PEG of 1.8x for the broader market. In comparison, the Duro portfolio is expected to generate 27% earnings growth² over the same period and is currently trading at a PEG of 0.8x.



General economic activity in India had been slowing in 2024 because of both monetary and fiscal factors. In particular, growth was impacted negatively because of a very tight monetary stance embraced by the Reserve Bank of India in November 2023 which included higher rates, tight liquidity and regulatory pressure. This has now been reversed. Sanjay Malhotra was appointed as the 26th Governor of the Reserve Bank of India on December 11, 2024. Within three days of assuming his position, the new governor initiated action towards a far more accommodative monetary policy. Provided below is a list of select measures taken by the Reserve Bank of India to ease the monetary and liquidity environment in India over the last 3 months.

	Date	Quantum (Rs bn/ US\$ bn)
Reduction of Cash Reserve Ratio from 4.5% to 4.25%	14-Dec-24	~580/7
Reduction of Cash Reserve Ratio from 4.25% to 4%	28-Dec-24	~580/7
OMO purchase auctions of Rs 200 bn	30-Jan-25	~200/2
FX buy/sell swap auction of US\$5 bn for a tenor of six months	31-Jan-25	~430/5
RBI reduced repo rate by 25 bps to 6.25%	07-Feb-25	
56-day Variable rate repo (VRR) auction of Rs 500 bn	07-Feb-25	~500/6
OMO purchase auction of Rs 400 bn	13-Feb-25	~400/5
OMO purchase auction of Rs 400 bn	20-Feb-25	~400/5
Risk weight on microfinance loans within consumer credit reduced by 25 ppt	25-Feb-25	
Risk weight of bank loans to NBFCs reduced by 25 ppt	25-Feb-25	
FX buy/sell swap auction of US\$10 bn for a tenor of three years	28-Feb-25	~870/10
OMO purchase auction of Rs 400 bn	12-Mar-25	~500/6
OMO purchase auction of Rs 400 bn	18-Mar-25	~500/6
FX buy/sell swap auction of US\$10 bn for a tenor of three years	24-Mar-25	~870/10
Secondary market OMOs	Regularly	~100-150/1.5

Source: RBI, Kotak Institutional Equities

² According to portfolio weighted street estimates from Bloomberg

Just as monetary actions initiated in November 2023 led to a slowdown in activity (non-food credit growth slowed from 16.3% in November 2023 to 11.8% in November 2024); a reversal and loosening in monetary policy is expected to have the opposite effect, albeit slowly. Fortunately, economic data has been supportive of the RBI's latest actions, with inflation for February 2025 coming in at 3.62%, below RBI's targeted midpoint inflation level of 4%. We do not factor such macro trends in our bottom-up analyses of companies. Yet, an accommodative Reserve Bank of India stance is likely to lead to a better operating environment for Duro's investments, particularly within the lending sector.

In terms of economic activity, rural consumption has shown signs of improvement, driven by the government's welfare schemes, as indicated by the latest quarterly results of companies focused on the rural segment. Urban consumption, however, continues to lag. The central government has now used the annual Budget in February 2025 to announce a large tax cut amounting to INR1 trillion (0.5% of private consumption) by exempting all Indians earning less than INR1.2 million per annum from paying direct income taxes. This has the potential to marginally boost urban consumption. ~71% of India's GDP is driven by consumption.

Meanwhile, Indian companies are currently sitting on the strongest balance sheets they have had in over a decade. Over the last 4 years, corporates have effectively used the strong domestic demand, government policy support towards the capex cycle and the largesse demonstrated by investors in India to build resilient balance sheets. This should help provide a much-needed cushion as corporate India navigates the domestic economic revival in India amid global uncertainties, especially in the form of US-led tariffs. As for Duro's portfolio, apart from lenders, our companies have minimal leverage, with a portfolio weighted net debt to EBITDA of 0.16x.

The wait for a domestic economic recovery amid global uncertainty has the potential to create volatility in Indian markets. However, as history has shown, India tends to offer the most compelling investment opportunities during such periods of dislocation. In fact, every time that the BSE500 has corrected by >25%, investment returns for the broader market over the next 3 years have averaged >20% in USD terms. We have already initiated one new position in a communication services company where the market provided us an opportunity. The coming months may test investor patience; but the trifecta of attractive valuations, a weaker currency, and a stabilizing economy also sets the stage for asymmetric risk-reward opportunities for long-term investors. Our disciplined investment framework, now strengthened by our agile processes, positions us well to capitalize on these market inefficiencies.

Nishchay Goel
March 2025

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