

DURO CAPITAL

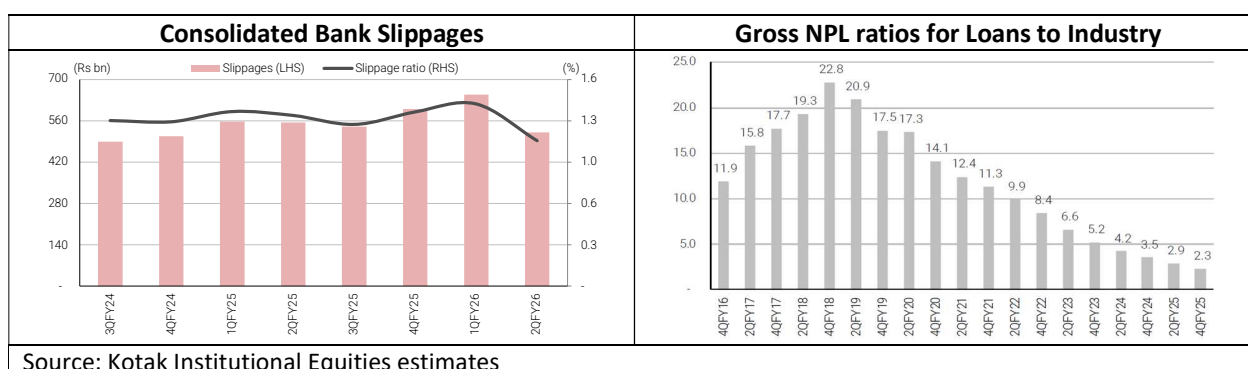
The purpose of this letter is to provide you, our partners, with deeper insights into our investment philosophy and portfolio positioning. By investing a significant portion of our own net worth into our funds, we ensure that our interests are fully aligned with our investor partners.

To understand the current Indian equity market landscape, it is essential to recognize the magnitude of India's recent underperformance versus global peers. As of September 2025, the MSCI India USD ETF had underperformed the MSCI Emerging Markets index by nearly 30% over the prior 12 months, the worst relative performance in the recorded history of India's BSE500 Index. This single-year gap has also erased all of India's celebrated outperformance versus Emerging Markets over the preceding three years.

This dislocation in markets can be attributed to a combination of factors: (1) an earnings and economic slowdown triggered in late 2023 by the Reserve Bank of India's aggressive monetary policy tightening, (2) the imposition of 50% US Tariffs on Indian goods imports, (3) large foreign capital outflows, (4) relatively higher valuations and (5) currency weakness, to name a few. While the extent of this underperformance gives the impression of a broken economy, we believe that we are instead approaching a cyclical low point in India's relative positioning. In fact, many of the factors driving this downturn are either temporary or already reversing. Notably, even through this period, India's Sensex ROE has remained roughly 250bps ahead of MSCI EM.

Aggressive RBI action successfully cooled systemwide credit growth from ~17% in mid-2023 to 11.5% today. As typically occurs during a credit squeeze, non-performing loans rose steadily from Q3 FY24 through Q1 FY26. However, this past September quarter marked the first meaningful reversal in this trend. Although a single quarter does not establish a new cycle, falling slippages are a classic leading indicator of improving asset quality, and often precede a recovery in credit growth as lenders regain confidence. This shift is also visible in management commentary. During its September 2025 earnings call, India's largest lender, State Bank of India, increased its FY2026 credit growth guidance to 12–14%, up from ~11%.

At the same time, despite the slowdown, corporate balance sheets remain exceptionally healthy: gross NPL ratios for industrial loans are still at decade-low levels.



The Reserve Bank of India also has meaningful room to cut interest rates further, given that CPI currently stands at 0.25%, the lowest reading since the current series began in 2012. Additionally, the Reserve Bank of India is yet to unwind 2023's risk-weight increases on consumer and credit-card loans as asset quality stabilizes. These levers provide additional avenues to accelerate credit growth.

Beyond monetary policy, fiscal actions are also starting to be used to support demand. The government's GST rate cut, effective September 22, 2025, has reduced unit prices by 10-13% across a wide range of goods, offering an immediate boost to consumption. Meanwhile, as trade negotiations with the U.S. continue, the government has approved a \$5.1 billion support package for small exporters adversely affected by the tariffs, aimed at enhancing SME competitiveness and improving credit access via a new guarantee scheme.

While we cannot precisely forecast the trajectory of the economy or equity markets, the combination of global indifference towards Indian equity markets, substantial foreign outflows, and early signs of a cyclical recovery is creating compelling opportunities. Against this backdrop, we have aggressively concentrated the portfolio into our highest conviction ideas. As of September 30, 2025, our top 5 positions comprised ~48% of our liquid portfolio, and that concentration has only increased since quarter end.

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Update to Indus Towers Thesis

Following its Q1FY26 results in July 2025, Indus Towers' stock corrected by ~25% from its pre-quarter high, driven by investor disappointment over the company delaying the resumption of its dividend payout (which had been suspended in FY23). Indus has long been perceived as a yield play given its strong free cash flow generation, net cash balance sheet (adjusted for lease liabilities) and substantial physical asset base; the latter two also providing ample capacity to leverage and sustain higher distributions. The stock selloff was therefore unsurprising, and reminiscent of the stock reaction two years ago when Indus suspended its dividend in FY23 (a period when we were short the stock).

In July 2025, the company cited three reasons for conserving cash: (1) Uncertainty around Vodafone Idea; (2) Inorganic growth opportunities, and (3) Upcoming capex requirements.

In our view, while the latter two reflect management's optimism that the telecom and tower sectors are re-entering a growth phase, the first reason, i.e. uncertainty around VI, signaled a more conservative stance. This uncertainty stems from the pending USD 1.9 billion payment due from VI to the Government of India in March 2026 (out of total dues of USD 22 billion), which remains unresolved and, if not addressed, has the potential to impair VI's ability to continue regular operations. We discuss each of these factors below.

Inorganic Growth Opportunities

As we had discussed in letter # 11, the Indian telecom industry has consolidated into two dominant players, Reliance Jio and Bharti Airtel, each having its own affiliated telecom tower company. Reliance Jio largely has single tenancy towers; but, Indus (majority owned by Bharti Airtel) has a long history of operating as an independent tower company with Bharti Airtel and VI as its primary customers. There also exist a handful of niche towers companies with regional operations in India. These niche players do not possess the scale to ever be able to list their shares publicly, making Indus the buyer of choice for these companies. In fact, telecom tower companies are likely to see an attractive set up over the next few years given the trend of rising ARPU in the Indian telecom industry. This makes it a good time for Indus to further consolidate the telecom towers space through an acquisition of a smaller telecom towers player.

African Expansion – Sensible Strategic Diversification

In September 2025, Indus announced its entry into three African markets — Nigeria, Uganda, and Zambia. The market's initial reaction was largely negative, reflecting concerns over geographic and execution risk.

However, we believe the move represents a well-calibrated growth initiative rather than a risky diversification play.

- **Anchor tenant advantage:** Airtel Africa, Indus' parent group (i.e. Bharti Airtel), has operated in Africa for over 15 years and now runs a profitable business across 14 African countries. Airtel Africa's ongoing network investments provide Indus' Africa foray with an immediate anchor tenant and tenancy visibility.
- **Attractive market dynamics:** African telecom markets are several years behind India in data adoption, with smartphone penetration at ~54% and data traffic growing at over 40% CAGR over the past four years.
- **Higher tenancy potential:** Each telecom circle in Africa typically has 3–5 wireless players (versus a largely duopoly structure in India), offering scope for structurally higher tenancy ratios for Indus Towers in Africa.
- **Manageable capital outlay:** While Indus has yet to outline a detailed capex plan, Airtel Africa's total annual capex was ~USD700 million across 14 markets over the last 12 months, ending September 2025. Given Indus is entering only three countries, and will only incur tower-related capex, the investment should be relatively modest and comfortably funded through Indus' annual cash flows.

Vodafone Idea-related Uncertainty

As mentioned above, the concern around VI stems from a USD 1.9 billion payment due from the company to the Government of India at the end of March 2026. Such dues have been deferred in the past, and we expect the government to provide a similar relief to VI again, most likely through a moratorium or partial haircut (the matter remains sub judice). Combined with ongoing telecom tariff hikes, this relief from the government should enable VI to sustain network investments, which in turn supports Indus' tenancy and cash flow visibility.

The Government of India holds a 49% equity stake in VI and has supported VI through multiple interventions over the past 2–3 years. More importantly, after the last few telecom price hikes in India, VI has firmly become operational cash flow (OCF) positive, with improving fundamentals and a credible path to sustaining network capex. VI's only major liabilities are fees and charges owed to the Government of India. This creates a rather elegant alignment of interests: the government is VI's largest shareholder and its largest creditor, making any decision on payment terms a conversation it is, in a sense, having with itself! We believe there is significant incentive for the government to provide VI with a payment plan for its dues. A viable VI in turn reduces the risk of operational disruption for Indus. Indus' decision to delay its dividend until the Government outlines a resolution for VI's dues therefore appears to be a prudent and conservative stance, rather than a sign of underlying business stress.

If VI were nevertheless required to make the full payment due in March 2026, default would be inevitable, because banks remain unwilling to extend new credit to VI without a revised Government payment plan. Such an event would push VI into bankruptcy, potentially disrupting wireless services for nearly 200 million VI subscribers — a systemic risk that the Government of India cannot afford. While India's insolvency framework has strengthened materially over the last decade and allows for orderly resolutions through the courts, telecom is a consumer-facing business with mobile number portability. The prospect of insolvency would likely prompt a customer exodus (with a majority most likely to move to Bharti Airtel), impairing VI's recoverable value. Given this backdrop, and considering the Government's multi-year effort to stabilize VI, including taking a 49% ownership stake, a restructuring/deferral of dues appears to be the most pragmatic course of action even from the government's perspective, particularly now that the underlying operating business has finally become OCF positive and the broader telecom sector is on a path of structural recovery. A sustainable payment schedule could also pave the way for major strategic investors to participate in VI's

eventual recapitalization, thereby providing a healthy exit to the government from its 49% stake in the company.

Portfolio Implications and Outlook:

We used the post-Q1FY26 results correction in July to materially increase our position in Indus, ***making it >12% of the portfolio***. At ~5.5x one-year forward EV/EBITDA and a 7%+ FCF yield, valuations were compelling. Our conviction was further reinforced as Bharti Airtel itself raised its stake in Indus by 1.03% (to 51.03%) in September 2025 through open-market purchases, reflecting Bharti's view that Indus' decision to delay its dividend did not amount to a threat to its future free cash flows, and in fact the selloff in Indus' stock price was excessive even in the eyes of a strategic shareholder like Bharti Airtel. More recently, Bharti Airtel passed a board resolution to acquire an additional 5% stake in Indus, explicitly signalling its belief that the market is mispricing both the company's current fundamentals and its future earnings power.

In late-October, the Supreme Court of India passed a ruling allowing the Government of India to revisit and potentially restructure the entire dues owed by VI to the government. This forms a necessary prerequisite for the government to implement a revised payment plan for VI's liabilities and, in our view, significantly reduces the probability of a default by VI on its \$1.9 billion payment to the government in March 2026. It also enhances the prospects for Indus to reinstate its dividend in March, thereby improving the expected return on our investment in Indus.

Moreover, with its African expansion, Indus is also transitioning from a steady dividend play to a growth-oriented business. Coupled with potential easing of VI's challenges through Government support, the stock could see a significant re-rating over the next few years. A return towards historical multiples of ~12x EV/EBITDA is possible, and a re-rating to even ~10x EV/EBITDA could generate IRRs exceeding 60% for our position.

Nishchay Goel
November 2025

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