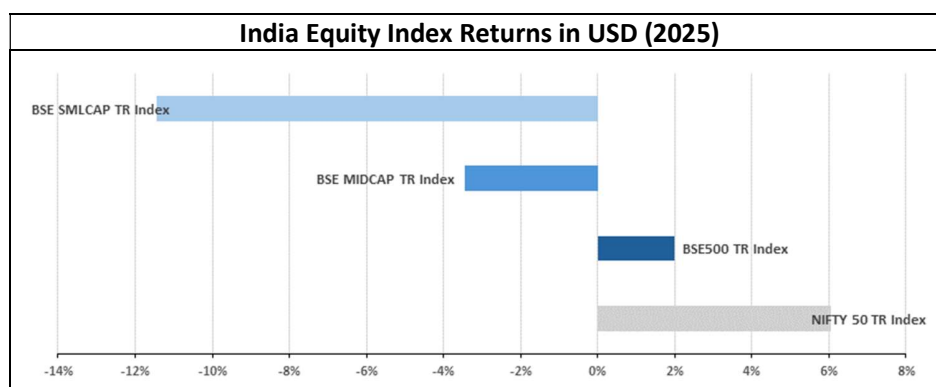


DURO CAPITAL

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.

2025 was an underwhelming year for Indian equities, particularly given the scale of domestic liquidity and policy support. Despite income-tax and goods & services tax (GST) cuts, strong domestic institutional inflows, and interest-rate cuts, market returns remained modest. Relatively high starting valuations, a steady downgrade cycle in earnings expectations, geopolitical concerns, and persistent Foreign Portfolio Investor (FPI) disinterest capped upside.

A defining feature of 2025 was the disconnect between headline index performance and the returns of the broader market, with index-level performance overstating the health of the average underlying stock. While benchmark indices delivered modestly positive returns in INR terms, underlying participation weakened meaningfully, with performance increasingly concentrated in a narrow set of large-cap stocks. Large caps outperformed, supported by a clear investor preference for stability and liquidity, while mid and small caps gave back a meaningful portion of gains from the prior cycle. Earnings dynamics were central to this outcome, with earnings expectations downgraded through the year, particularly for mid and small caps. Broader market earnings are now expected to grow at only ~5% in FY2026.



Importantly, 2025 was not a conventional risk-off year. Liquidity remained ample, domestic flows were strong, and there was no systemic stress. Yet, parts of the market where earnings failed to justify prior multiples were penalized sharply, while scale, balance-sheet strength, and business stability were rewarded. We believe such environments often create attractive long-term entry points, as market participants tend to apply similar outcomes across companies within a sector, despite significant differences in business quality and earnings durability.

Looking ahead, the setup for Indian equities in 2026 appears more constructive. Earnings growth is expected to recover, with FY2027 earnings projected to grow in the mid-teens, nearly 2.5x that of FY2026. Macro conditions should also become incrementally more supportive, as discussed in our previous letter. Geopolitics, driven by actions of the US President, is likely to remain a source of short-term volatility, which in our view tends to create opportunities to deploy capital selectively. Market returns over the next phase are more likely to be driven by earnings delivery rather than multiple expansion, a favourable backdrop for bottom-up, active managers.



Below, we discuss select portfolio companies that experienced material company-specific or industry developments during the December 2025 quarter, or where operating performance diverged from our expectations over the full year.

Indus Towers

Indus Towers experienced a material positive development on a key risk variable highlighted in our previous letter: the outlook for Vodafone Idea (VI) as a going concern.

One of the key pillars of our Indus investment thesis was our expectation that VI would remain operational despite the USD 1.9 billion payment due to the Government of India in March 2026, supported by continued regulatory intervention to preserve a three-player telecom market in India. In early January 2026, there was a meaningful and constructive update on this front.

Following a Supreme Court directive in October 2025 permitting the Government to revisit and potentially restructure VI's dues, the Department of Telecom (DoT) announced substantial relief on VI's Adjusted Gross Revenue (AGR) liabilities (~INR 800bn). The key elements of this relief include:

1. Freezing of AGR dues as of December 2025, with no further interest accrual
2. Only nominal cash payments through FY35, and
3. Deferral of the bulk of repayments to FY36–FY41, effectively creating a ~10-year moratorium

In addition, the DoT will constitute a committee to reassess the total AGR dues, with the potential for a downward revision in the absolute liability payable over FY36–FY41.

Based on our estimates, even assuming a conservative 25% haircut on the reassessed AGR dues, the net present value of VI's total AGR liability declines by approximately **80%** under this framework. More importantly, this resolution removes near-term solvency risk and materially improves VI's ability to accelerate network investments over the coming years. This has direct positive implications for Indus through higher tenancy additions, improved receivables visibility, and stronger medium-term cash flow certainty.

While VI's next meaningful government-related payments (spectrum instalments) begin toward the end of FY28, we believe the demonstrated regulatory support improves VI's ability to raise a mix of equity and debt well in advance of these obligations.

With the AGR overhang now substantially addressed, we expect Indus' previously conservative stance on not resuming dividends to reverse in the near term, potentially before the end of the current fiscal year. A resumption of dividend distributions would imply a sustainable 6%+ dividend yield as per our calculations. At the same time, improved visibility on VI's network expansion shifts the investment thesis on Indus from a stressed yield narrative to a more balanced growth plus cash-return profile.

Indus was a significant contributor to performance in the December quarter, driven by our conviction-led increase in position size during the stock's July–August 2025 dislocation. However, we believe current valuation does not fully reflect the improvement in underlying business fundamentals or the material

reduction in counterparty risk. With (1) uncertainty around VI meaningfully reduced, (2) incremental growth from higher domestic tenancy, (3) Indus' international expansion, and (4) the likely resumption of dividends, we see scope for a re-rating in valuation multiple toward ~9–10x EV/EBITDA. This remains well below historical peak multiples of 13–15x EV/EBITDA, implying meaningful upside from current levels (i.e. 7x EV/EBITDA).

Indus remains the largest position in the Fund.

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InterGlobe Aviation (IndiGo)

IndiGo experienced one of its most significant operational disruptions in December 2025 following the implementation of revised Flight Duty Time Limitation (FDTL) norms, which came into effect on November 1, 2025. These regulations mandate longer rest periods and fewer night landings for pilots.

While IndiGo's rostering systems were technically compliant, schedules were far too optimized with limited operational buffers. In early December, the system was stress-tested by the simultaneous occurrence of three unanticipated events: a cyclone in South India, a technology outage in Boeing's booking systems, and higher-than-expected pilot absenteeism. This convergence triggered network-wide disruptions that escalated rapidly.

The impact was amplified by IndiGo's operating model and market position. With ~65% domestic market share, a higher proportion of night flying (~25%), faster aircraft turnarounds, and thinner pilot reserves than peers, the airline's scale and efficiency - structural advantages under normal circumstances - heightened vulnerability during this specific shock, resulting in widespread delays and cancellations.

Management responded decisively with a full network reset on December 5, similar to actions taken by Ryanair (2017) and Southwest Airlines (2022) following large-scale disruptions. In parallel, the regulator deferred implementation of the revised FDTL norms until February 10, providing immediate relief. Operations stabilized meaningfully within a week: by December 8, IndiGo was operating ~1,800 flights (~80% of capacity) and achieving ~86% on-time performance, the highest among peers.

Regulatory action followed. The DGCA mandated a 10% cut in IndiGo's winter schedule capacity and, in January 2026, imposed total penalties of INR 22.2 crore for non-compliance, along with a directive to pledge INR 50 crore toward long-term systemic improvements. These amounts are not material relative to IndiGo's over INR13,000 crore unrestricted cash position.

From a financial perspective, we expect FY26 earnings to be negatively impacted by ~15%, driven by disruption-related costs and lost capacity, ongoing pilot constraints until additional crews are onboarded or wet-leased aircraft are scaled up, and residual operational inefficiencies during recovery. Over the long term, however, IndiGo's superior cost structure, driven by scale, fleet commonality, and operating discipline, provides ample headroom to absorb incremental pilot costs without compromising structural cost leadership.

The broader strategic question relates to rising policy scrutiny around market concentration, with IndiGo and Air India together controlling over 90% of India's domestic market. However, this remains an exceptionally challenging environment to launch new airlines given global aircraft delivery backlogs.

Importantly, IndiGo continues to receive a disproportionately higher share of new aircraft deliveries (55 in CY2025 - more than 2x all other Indian airlines combined), reinforcing its long-term capacity and cost advantage. Any meaningful reduction in IndiGo's capacity would more likely translate into higher fares rather than sustained market share loss.

IndiGo stock corrected ~15% from the onset of the disruption through year-end; however, it still delivered a double-digit return for 2025. At current levels, we view the risk-reward as increasingly attractive and would look to add on further weakness. We believe IndiGo shares can compound at 25%+ over the next 2-3 years, supported by 30%+ PBT growth over the next two fiscal years and a current forward P/E multiple of ~20x.



Two meaningful detractors to portfolio performance in 2025 were Concord Biotech and Five Star Business Finance. In both cases, while the long-term business quality and structural thesis remain intact, operating conditions evolved less favourably and more abruptly than we had anticipated. Each company went through a period of stress driven by industry- or cycle-specific factors that we did not fully underwrite for at the right time, resulting in earnings resets and valuation de-rating during the year.

Concord Biotech

Concord Biotech declined ~39% during 2025. Historically, the company has delivered a strong operating track record, compounding revenues at ~18% CAGR over the past decade with structurally high EBITDA margins (~40%+) and healthy returns on capital (~25% ROCE), supporting premium valuation multiples through much of the prior cycle. FY26, however, has been an aberration. H1 FY26 revenues declined 14% year-on-year, and two consecutive weak quarters led to earnings downgrades of over 20%, triggering a sharp derating following strong stock performance in 2024.

The primary driver has been industry-wide oversupply in immunosuppressant APIs, as capacity additions from Concord and its peers in 2023 coincided with slower-than-expected demand growth (~10–11% versus the typical 14-15%), leading to price declines of ~20–25%. H1 performance was further impacted by inventory normalization, temporary regulatory and tender delays, and start-up costs at the new injectable facility, which reduced margins to ~33%.

Management has prioritized long-term profitability over near-term volumes, maintaining pricing discipline and exiting lower-margin business. We view the slowdown as cyclical rather than structural. Entry barriers remain high, free cash flow generation is healthy, and no material incremental capex is required. We expect growth to resume from Q3 FY26 as inventories normalize, exports improve, and the first CDMO contract ramps up.

Five Star Business Finance

Five Star Business Finance declined ~29.5% during 2025, reflecting a reassessment of near-term asset quality and earnings expectations despite continued strength in the underlying franchise.

2025 marked the most challenging operating period in the company's history. After several years of benign credit conditions, borrower stress increased in select geographies and lower ticket-size cohorts, driven by

industry-wide over-leverage, the withdrawal of unsecured microfinance (MFI) lenders, and regulatory disruptions. As a result, delinquencies rose and credit costs moved meaningfully above historical levels.

While AUM continues to grow at ~20%+, profitability compressed due to higher provisioning, tighter underwriting, and an increased focus on collections. Even so, Five Star is expected to deliver ROE of ~17%+ in a stress year, with elevated provisions largely reflecting timing effects rather than principal losses.

The stock's valuation de-rated sharply as investors extrapolated near-term stress, despite the company maintaining secured lending discipline, strong AUM growth, and a declining cost of funds supported by its AA- rating. Management actions to tighten credit screens, shift to higher ticket sizes, and strengthen collections should stabilize asset quality through the end of FY2026, with credit costs peaking and normalizing thereafter.

Looking ahead, we believe the risk-reward across both Concord and Five Star has improved materially, and we increased our positions as valuations adjusted during the year. In each case, operating challenges that drove the 2025 drawdowns appear cyclical and self-correcting rather than structural, management actions are already visible in improving operating indicators. With earnings resets largely behind us, valuations meaningfully below historical norms, and long-term business quality intact, we expect both companies to deliver strong absolute and relative returns over the next 2–3 years as operating performance normalizes and investor confidence is restored.

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So how are we positioned heading into 2026?

We are running a concentrated portfolio, with our top five positions representing ~55% and the top ten positions close to 80% of the liquid portfolio, respectively. The Duro India Opportunities Fund portfolio is expected to grow earnings by 30%+ over the next 12 months and currently trades at a forward P/E of ~22x. This compares with ~15% expected EPS growth for the broader market at a similar valuation multiple.

Our portfolio concentration reflects bottom-up conviction in individual businesses rather than sector-level positioning. Accordingly, we remain meaningfully underweight banking, particularly large private-sector banks, where growth is likely to remain in the low double digits, returns are capped at ~13–16% ROE, and the scope for multiple expansion is limited given the degree of ownership across the investor base. In our view, such crowded setups increasingly rely on timing exits rather than durable portfolio value creation.

We remain anchored to our core philosophy: owning high-quality businesses at reasonable valuations, with a clear right-to-win in their industries and exposure to structural change. It is this combination that, in our experience, allows companies to compound earnings at ~25% over a 3–4 year holding period. We believe the current portfolio reflects this discipline and positions us well for attractive long-term outcomes.

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