

Letter to Stakeholders

2025–26



"In the animal kingdom, the rule is, eat or be eaten; in the human kingdom, define or be defined."

— Thomas Szasz

Dear Investors,

Markets, like nature, are definitional. In every cycle, the same question is asked of every participant: will you define the moment, or will the moment define you? FY26 gave us the full version of that question — sentiment compressed, prices fell, and the narrative around our positions was written by others before the earnings could speak. We underperformed. We own that. But the investor who lets a difficult year define his thesis has already lost the more important contest. What follows is our definition of FY26 — written from the inside, not the headline.

There is a certain kind of test that does not announce itself. It arrives not as a single thunderclap but as a sequence of quiet, compounding stresses — each defensible in isolation, each absorbed without visible fracture — until you step back and realise that the compound weight of what has just happened is something the textbooks would call a stress test and the people living through it simply called FY26. As we speak, our investment approach, heavy on small caps, underperforms benchmark by approx. 500 bps. However, one year is no reference to our long-term track record.

This is that letter.

Six Compressions That Defined the Year

First: Income surrendered for demand. In February 2025, Finance Minister Sitharaman raised the zero-tax threshold to ₹12 lakh under the new regime — returning approximately ₹1 lakh crore of annual revenue to the hands of salaried Indians. The Finance Ministry subsequently confirmed to Parliament that nearly one crore taxpayers who previously paid between ₹20,000 and ₹80,000 in annual tax moved into the nil-tax bracket. The intent was to reanimate middle-class consumption, which had stalled. The outcome proved more complex: household bank deposits continued to grow at roughly 10–11% annually, while the share of household financial assets directed into capital markets — equities and mutual funds — climbed to approximately 15%, nearly double the proportion of two years prior. The savings impulse dominated the spending impulse, even as its composition shifted meaningfully toward markets.

Second: a structural subsidy shock. The fertiliser subsidy—budgeted at about ₹1.68–1.71 lakh crore for FY25—overshot its allocation significantly, with Parliament’s Supplementary Demands revising the final fertiliser appropriation to around ₹1.91 lakh crore.

The preceding two years had seen global urea prices roughly triple from their 2020 baseline—peaking near the low-\$900s per tonne in early 2022 before normalising—and the fiscal residue of that shock continued to burden the government’s subsidy envelope. By FY26, the government had estimated over ₹3.8 lakh crore across fertiliser, food, and petroleum support programmes before a single rupee was allocated to productive capital investment, underscoring the pressure on the fiscal space from non-capital transfers.

Third: The trade war arrived. On April 2, 2025 — "Liberation Day," as the White House named it — the US announced a 26% reciprocal tariff on Indian exports, against rates of 17–24% for several ASEAN peers. The rate structure subsequently evolved through the year, reaching a cumulative 50% effective tariff on India between August and early 2026 — the heaviest export burden Indian merchandise trade had faced from a single counterpart.

Fourth: GST reform, voluntarily absorbed. In September 2025, the GST Council rationalised four rate slabs into a streamlined two-rate structure — effective 22 September — absorbing a net revenue impact of approximately ₹48,000 crore. The right call for simplification and consumer sentiment; the worst possible moment for the fiscal arithmetic.

Fifth: The strait that changed prices overnight. Escalating US-Israeli-Iranian tensions led to Iran declaring the Strait of Hormuz closed to allied commercial traffic in early 2026. Brent crude, which had been tracking in the low \$70s through late February, crossed \$100 in the second week of March, reached an intraday peak above \$119 per barrel, and touched approximately \$128 in early April 2026 before retreating on ceasefire negotiations. For India — importing over 88% of its crude requirements — the closure landed directly on the balance of payments, the subsidy line, and the current account simultaneously.

The rupee: the ledger settling all five. The currency's near-10% depreciation during FY26 — its sharpest annual decline in 14 years, with the RBI reference rate closing at ₹93.88 on 24 March 2026 — was not a sixth independent shock. It was the external account settling the simultaneous weight of a wider current account deficit. The remarkable thing is not that markets were rattled. It is that the underlying economy held as well as it did.

As Stanley Druckenmiller observed: *"People always forget that 50% of a stock's move is the overall market, 30% is the industry group, and then maybe 20% is the extra alpha from stock picking. And stock picking is full of macro bets."* FY26 gave us the full-spectrum test of that framework. What follows is an honest account of what held, what is being held through, and why.

What We Own, and Why

Approximately 17% of this portfolio is allocated to energy — our single largest sectoral concentration, and a deliberate one. The thesis is not that energy will be volatile. It is that the infrastructure required to generate, transmit, trade, and move energy in India over the next decade is being rebuilt from first principles — and that the companies positioned at the critical nodes of that rebuild will compound returns that cyclical commodity exposure simply cannot.

A 120-year-old **power equipment company** is emerging from a decade-long capex drought with an order book that has roughly doubled over 18 months. The market still prices it as a thermal power relic. What it has become is India's only integrated supplier capable of manufacturing across five simultaneous energy transitions: coal-based supercritical boilers serving the domestic pipeline through 2030, small modular reactors under India's indigenisation programme targeting 1,000 MW by 2035, coal bed methane compression systems for India's CBM reserves, hydroelectric turbines for the tendered pipeline, and solar-thermal hybrids where it recently secured India's first storage-integrated order. The inflection is not aspiration — it is in the order book and in the quarterly execution data.

Every energy transition runs on pipe. Natural gas cannot move, water cannot reach hundreds of millions of rural households, and no LNG terminal gets built without large-diameter, high-specification steel pipeline. We are invested in a **multi-continent pipe manufacturer** whose US plant sits directly in the largest energy infrastructure buildout of this decade — American LNG export capacity expanding materially, with each incremental unit of capacity requiring hundreds of miles of new pipeline. AI data centres alone are estimated to require 8–10 bcf of incremental natural gas supply; the irony of artificial intelligence becoming a meaningful buyer of steel pipe is among the most underappreciated triangulations in current markets.

Our investee operates in the **integrated sugar and ethanol segment**. Its distilleries converting sugarcane into ethanol under the E20 mandate, which targets annual blending of over 10–11 billion litres and displaces millions of tonnes of crude imports each year. Its cogeneration units powered those distilleries on self-generated energy. When crude crosses \$80, Brazilian mills divert cane from sugar to ethanol — tightening global sugar supply instantly. This investee collects on both sides: stronger domestic ethanol procurement prices and improved international sugar realisations simultaneously. Beneath it all, priced at zero by the market, sits a precision naval turbine and defence gearing division with order visibility extending into the 2040s.

We revisited our investment in **Power Exchange**, which traded 141 billion units in FY26 (+17% YoY) while the market panicked over a regulatory coupling mechanism that may cause it to lose market share. Three structurally unpriced growth vectors remain: the Green Market (10.78 BU, +23% YoY) must double to meet the 500 GW renewable target; carbon credit trading, where CERC has mandated power exchanges as the designated venue for a market projected to reach ₹4 lakh crore by 2032 from ₹35,000 crore today. Four secular growth vectors — energy volumes, renewable transition, gas deepening, mandatory carbon compliance — from one asset-light, zero-debt platform. [Has IEX stock this week finally decoupled from Market coupling?](#)

The energy thesis does not end at India's borders. There is a larger physical truth that commodity super cycle sceptics consistently miss: the real economy is running out of capacity to make things. **Aluminium is the second most-used metal on earth** — structural skeleton of electric vehicles, frame of every solar panel, conductor replacing copper in transmission grids. We are invested in India's most backward-integrated, globally competitive aluminium capacity — positioned for the scarcity, not the cycle.

What makes aluminium singular among industrial metals: it is not extracted. It is manufactured from electricity, at 13–15 megawatt-hours per tonne. China produces close to 60% of global primary aluminium against a government-imposed production ceiling set in 2017 — a structural price floor the dominant producer cannot lift. Western capacity has not merely slowed; over 2 million tonnes of smelting capacity has gone permanently dark since 2021 as European energy costs rendered it unviable. Meanwhile, demand has turned secular. Electric vehicles use 20–40% more aluminium than combustion-engine counterparts. Copper traded at a ratio of 4.5–5x aluminium at various points during FY26 — near multi-decade highs — triggering broad industrial substitution across air conditioning, power cables, and electrical wiring. The supply constraint is structural, not cyclical. The opportunity in our investee is priced as neither.

Digital Portfolio

There is an infrastructure boom happening in India that does not appear in cement dispatches or power plant orders. It runs on mobile data and is measured not in megawatts but in transactions per second. In FY17, India's entire UPI system processed ₹6,952 crore over a full year. FY26 total: approximately ₹308 lakh crore across 241 billion transactions. India today handles roughly 50% of the world's real-time digital payment volume — having built, in nine years, one of the largest payments infrastructures ever assembled. UPI processed a record 22.6 billion transactions in March 2026 alone.

When 600 million Indians whose median age is 29 years & first financial instrument was a UPI QR code, first travel booking an app rather than a physical counter — came to the digital economy, they had no prior behaviour to replicate. No habits, no loyalty, no incumbency protecting anyone. The question we asked was precise: in a country where every economic behaviour is being formed for the first time. How will they behave?

The first investee is a **fintech platform** whose significance the market consistently underprices. Its 13 million merchants — each logging hundreds of UPI transactions monthly on point-of-sale devices — do not need bank loans requiring three years of ITR filings. They need ₹2 lakh for Diwali restocking, approved in 48 hours by a system that already knows their daily cash flows better than any branch ever could. This is one of the few entities in India that has built a real-time financial behavioural map of millions of small businesses at this scale. As AI-native credit underwriting demands structured, ground-level economic data, that behavioural map becomes the training corpus no model can fabricate. The AI wave does not displace this platform. It makes a decade of accumulated data the most valuable input in India's next generation of financial infrastructure.

The second company followed a similar logic on the application side in the form of what India's new digital middle class does the moment it has money and a smartphone: it moves. India's **online travel market** is approximately ₹1.9 lakh crore today, growing toward ₹3.2 lakh crore by 2031. But the number that matters most is not the market size — it is the geography of the growth: over two-thirds of online bus bookings originate from non-metro India, and the first-time traveller booking digitally. The platform we back owns this cohort. Its railway and bus inventory gives it distribution into towns the premium OTAs structurally cannot serve, and years of transaction data — origin-destination pairs, waitlist behaviour, price sensitivity by income cohort, booking lead times — have compounded into a proprietary demand intelligence layer that no new entrant can replicate through capital alone.

Our investee company is expanding into hotels and international corridors where its Bharat user base will spend next. The data asset underneath is worth multiples of what the market is pricing. A long-term compounder for our investors.

The Twenty Thousand Parts Nobody Talks About

India is the world's third-largest vehicle market, having firmly displaced Japan since 2022. Passenger vehicle sales reached a record 4.3 million units in FY25 alone. That sentence is a macro thesis. But the more interesting question — the one that led us to two precision auto-component positions — is not who makes the vehicles. It is who makes the 20,000 precision components inside each one of them, at the quality standard global OEMs require, at the cost structure India can offer.

The first is a **Shock Absorber manufacturer** quietly constructing one of the most ambitious corporate restructurings in the Indian auto history. The promoter family is consolidating drivetrains, adhesives, NVH solutions, e-axles, and sunroof systems under a single listed entity — building, asset by asset, a multi-segment auto-technology platform targeting significant combined group revenue by 2030. The entity being assembled is an auto-tech conglomerate, not merely a components supplier. Business consolidations have produced returns for the financial market investors.

The second is the Indian manufacturing arm of a **75-year-old German precision engineering group** whose bearings, engine components, and clutch systems are embedded in virtually every European vehicle. *The bearing knows the machine is failing before the machine does.* That lineage matters now more than ever — because Europe faces its two most capital-intensive transitions simultaneously: mandated vehicle electrification and the largest military rearmament in a generation. Exports form 15% of the India subsidiary's revenues, growing at a mid-to-high-teens CAGR over five years — not from cost arbitrage, but from a deliberate strategy of the parent to route precision manufacturing through its most competitive base. We do not own an Indian auto-component company. We own Germany's cost-competitive solution to two government-mandated, multi-decade transitions.

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The financialization of India's savings is underway at a scale that has no historical precedent in this economy. Professionally managed pools — mutual funds, pension funds, and insurance combined — now rival approximately three-quarters of scheduled commercial bank deposits in total assets under management. That ratio continues to climb each quarter. The era of bank dominance in India's household savings architecture is transitioning, and the institutions positioned at the intersection of this shift — those that participate simultaneously in *both traditional banking and capital-market franchises* — stand to compound far longer than the cycle.

A private sector bank that its critics spent years calling conservative has constructed **one of Asia's most formidable banking and capital-market franchises**. An institution that survived the departure of its founder and continued to compound — demonstrating institutional depth rather than personality dependence — while sustaining loan growth in the mid-teens. The subsidiary portfolio — life insurance, asset management, securities — contributes approximately 30% of consolidated earnings, with book value growing at roughly 15% annually. We expect return on assets of 2.0–2.1% in the medium term, marking the beginning of visible re-acceleration after years of conservatively building the foundation. [*The Sacred Trust: Forty Years of Institutional Longevity, A Lesson in Trusteeship and Patient Capital*](#)

India's inclusion in global bond index benchmarks has structurally altered demand for rated Indian debt. NITI Aayog's December 2025 report projects the corporate bond market — which stood at approximately ₹53.6 lakh crore in FY25, accounting for 15–16% of GDP — to exceed ₹100–120 lakh crore by 2030, toward the 38–79% of GDP that characterises peer markets in China, Malaysia, and South Korea. **Every incremental rupee of debt issuance requires a credit assessment.** Our investee credit rating agency has expanded its overall revenue market share to approximately 22–23% and holds a dominant share in infrastructure — the fastest-growing rating segment. It was the first domestic agency mandated for dollar-denominated bond ratings at GIFT City, from April 2025. The non-ratings business — ESG, analytics, sovereign assessments — is being built toward accounting for a materially larger share of revenues in the coming years.

Our investment in a leading **small finance bank** reflects a gradual transition from a concentrated legacy model toward a more diversified and resilient franchise. Group-lending exposure — once exceeding 60% of advances — has moderated to the mid-50s through FY26, indicating a measured shift toward secured retail lending. The secured portfolio grew ~35–40% year-on-year and now contributes ~30% of advances, supported by housing, MSME, and vehicle finance. Total deposits expanded ~25% year-on-year to ~₹33,000 crore, with CASA improving toward the mid-20s. While cost of funds remains relatively elevated at ~8%, early signs of stabilization are visible as the liability mix strengthens. The trajectory suggests a bank that is steadily repositioning its balance sheet while preserving growth momentum.

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The global pharmaceutical supply chain is undergoing a structural rupture that will reshape oncology drug manufacturing for the next two decades. Western regulators and innovators, watching a decade of China concentration in biologics manufacturing reach uncomfortable levels, are actively sourcing alternative high-specification facilities capable of handling the most complex compounds in medicine — antibody-drug conjugates, high-potency injectables, and recombinant proteins. The ADC CDMO market is estimated at approximately \$10 billion in 2025 and projected to expand toward \$29–30 billion by 2035. India produced the second-largest number of CDMO expansion announcements globally in 2025, yet almost none of those facilities can handle the OEB-5 containment standards required for ADC manufacturing. The barriers are not capital. They are years of regulatory trust, specialised bioconjugation expertise, and institutional patience that takes a decade to build.

Our long-term investee — a Karnataka-based oncology and CDMO platform — inaugurated India's only integrated high-potency ADC suite. That single capability is the entire thesis. Not because ADC manufacturing is fashionable, but because the infrastructure to execute it at regulated quality and commercial scale in India simply did not exist before this facility opened. This year also saw the monetisation of rights to an albumin drug with a global major, the launch of NorUDCA — India's first new chemical entity for metabolic liver disease — and an Aflibercept biosimilar licensed across 30 countries. These are not individual product bets. They are the harvest of a decade of deliberate depth-building in domains the broader Indian pharma sector was unwilling to fund. We own the scientist, not the factory.

Technology — Arbitrage That Reinvents Itself

For two decades, Indian IT was built on a simple formula—skilled engineers, cost arbitrage, and scale—creating a \$283B industry with \$224B in exports. That model is now under pressure. AI-driven automation is already causing 2–3% annual revenue deflation in core service lines like BPO, testing, and support, with estimates of 9–12% cumulative erosion over four years. The top firms have cut 42,000 employees even as revenues stagnated—the productivity shift is already underway. The most dangerous assumption in investing is that a business model that worked for thirty years will work for thirty-one.

However, the real story is divergence, not decline. The key test is whether firms can pivot from labour arbitrage to AI-led implementation at scale.

Large-cap incumbents face structural pressure in legacy services, while mid-tier specialists with domain depth are better positioned but still mispriced. At the top, hyperscalers capture infrastructure value; at the bottom, commoditized services erode. The battleground is the middle—AI implementation, modernization, and data engineering. The investment question is no longer survival, but speed and execution: which firms are already demonstrating intelligence arbitrage. The gap between disruption and reinvention is where outsized returns will be generated. [*The Future is calling: Indian IT Service in Age of AI*](#)

The history argues for patience over panic. In 2015–18, cloud migration, SaaS displacement, and RPA were simultaneously feared as existential for Indian IT — multiples compressed 15–25% over 2-2.5 years. By 2018–20, those same forces had become the largest outsourcing wave in the sector's history. The feared disruption became the demand engine. Current large-cap earnings yields of 4–6% already exceed the levels seen at the FY18 trough. Mid-cap multiples have compressed 15–40%. The risks are priced. The opportunity is not yet visible — but the sequencing is clear: deflation now, re-rating when FY28 growth visibility emerges in the second half of CY26. The sector is not dying. It is between the compression and the conversion, and patient capital has historically been rewarded precisely at this juncture.

An Honest Account of What Did Not Work

Every annual letter worth reading must account honestly for what did not work. FY26 gave us two distinct categories of disappointment.

The consumption thesis in progress: Almost 20% of our portfolio is tilted toward consumption — anchored in positions across branded footwear and India's largest premium automobile dealership network, a business positioned at the intersection of rising aspirational wealth and the structural formalisation of premium consumption in tier-1 India. The thesis across all three was never broken; it is delayed by a deeper household balance-sheet repair cycle than we initially assessed. FY26 taught us that nominal income growth does not always translate immediately into discretionary spending, households were in repair mode, not expansion mode. Our conviction remains that the consumer recovery will prove more durable than the false starts that preceded it, precisely because the underlying repair will already have been completed.

The ownership dislocation plays. Approximately 10% of the portfolio sat in two holdings that experienced sharp drawdowns caused entirely by shareholder-level events rather than anything in the underlying businesses. In the first case, the global parent reduced its India stake to manage holding-company balance-sheet priorities. In the second, the founding family undertook a partial dilution. The market, as it often does, conflated the seller's motivation with the company's health. The appliance business gained market share through the disruption, not lost it. The specialty chemicals company maintained gross margins at twice the industry average. Historical precedent is clear: when a large parent reduces an India stake, the re-rating that follows has been among the strongest return periods for patient holders.

What Comes Next

I want to close this letter not with a forecast, but with an honest assessment of where we stand and why, despite everything that FY26 brought, we enter FY27 with more conviction than we carried into the year that just passed.

The case that Indian markets are closer to a bottom than a top is built on evidence, not optimism. India's PE premium over MSCI EM has compressed from 1.57x at its 2022 peak to 0.38x today. The last time India traded at these relative valuations, in 2012 and 2013, the market delivered three to five times returns over the subsequent five years. We are not drawing a straight line from that episode to this one. We are observing that the same pattern a large, domestically-anchored economy being marked down by foreign flows while its underlying earnings continue growing has resolved the same way every time it has appeared in the data. [*Lessons from War — New Innings for Markets*](#)

Fourteen years of this fund. Every one of them has taught us something the previous one could not. Heraclitus was right, the river we step into in FY27 is not the river of FY26. The portfolio has been refined, the errors have been absorbed, and the conditions — valuation, breadth, positioning, rate cycle, domestic flows — are aligning in the configuration that has historically rewarded patient capital most generously.

Many commentators in recent times have raised doubts about the Indian corporate story. However, those who disbelieve it risk missing the forest for the trees by overlooking two critical points. The efforts of policymakers have opened more than ten new industries by removing regulatory cholesterol and providing fresh growth impetus to India. These new industries include Ethanol, Electronics Manufacturing Services (EMS), Capital Markets, Defence, PSU Banks, Renewables, Railways, Energy, and several others. These new frontiers have driven the expansion of market capitalisation not valuation multiple expansion. Lastly, Corporate India is a story, about universe of companies (>100 out of CNX Nifty 500) expanding earnings at 20% or more. Our endeavour is to find such companies based on our framework and invest. The macro tailwinds for FY27 are unusually well-defined and unusually concurrent. Each of these tailwinds was, in a precise sense, funded by the adversity of FY26. The fiscal hits absorbed last year have created the conditions for a more durable recovery this year and the next. The intersection of Micro and Macro will make sure that mix of top down and bottom up provides healthy returns to investors.

We remain your partners in this endeavour fully invested, fully committed, and grateful, always, for the trust you extend.

Regards



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