BURMAN
CAPITAL MANAGEMENT

Better Days Ahead?

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Summary

Headline indices in India are down between 5-12% from their Sep-24 peaks at a time when major Western markets such as US, Germany, and UK are up between 25-35% and Asian markets such as Japan, South Korea and Taiwan are up between 70-200%+ over the same period. Indian stock markets' relative underperformance during this period is one of the worst in the last 15 years. The reasons are well covered and well understood – (1.) high starting valuations, (2.) slowdown in earnings, (3.) high sensitivity to the Middle East war leading to macro concerns around inflation, exchange rate and growth and (4.) perception of India being an AI laggard.

As we look forward, some of these concerns are getting addressed but with caveats. Valuations while not cheap overall, are looking attractive in pockets and earnings across Indian corporates have picked-up materially in the last two quarters – although the full impact of increasing input prices due to the Middle East war on earnings is still unknown. As for AI, India is likely to benefit more in the implementation/service phase rather than the build-out phase going on currently (though there are some stock-specific beneficiaries).

In this newsletter, we focus on the improving earnings trajectory and war-related commentary given by Corporate India – here we leverage AI to parse through 994 Q4FY26 earnings transcripts. We also discuss latest developments in our portfolio companies.

Portfolio performance update

Over the last three months, i.e., Mar-May 2026, our portfolio has delivered returns of 1.0% vs -2.3% for our benchmark S&P BSE 500 TRI. Since inception i.e. Mar 23, 2021, our portfolio has delivered annualized returns of 20.7% vs. S&P BSE 500 TRI returns of 13.4%, delivering outperformance of more than 700 bps annualized.

Over the last five years, our returns have been 18.7% vs 12.3% annualized for our benchmark, an outperformance of close to 640bps annualized. However, in the last two years, our portfolio has delivered lesser returns of 2.9% vs 4.1% for our benchmark.

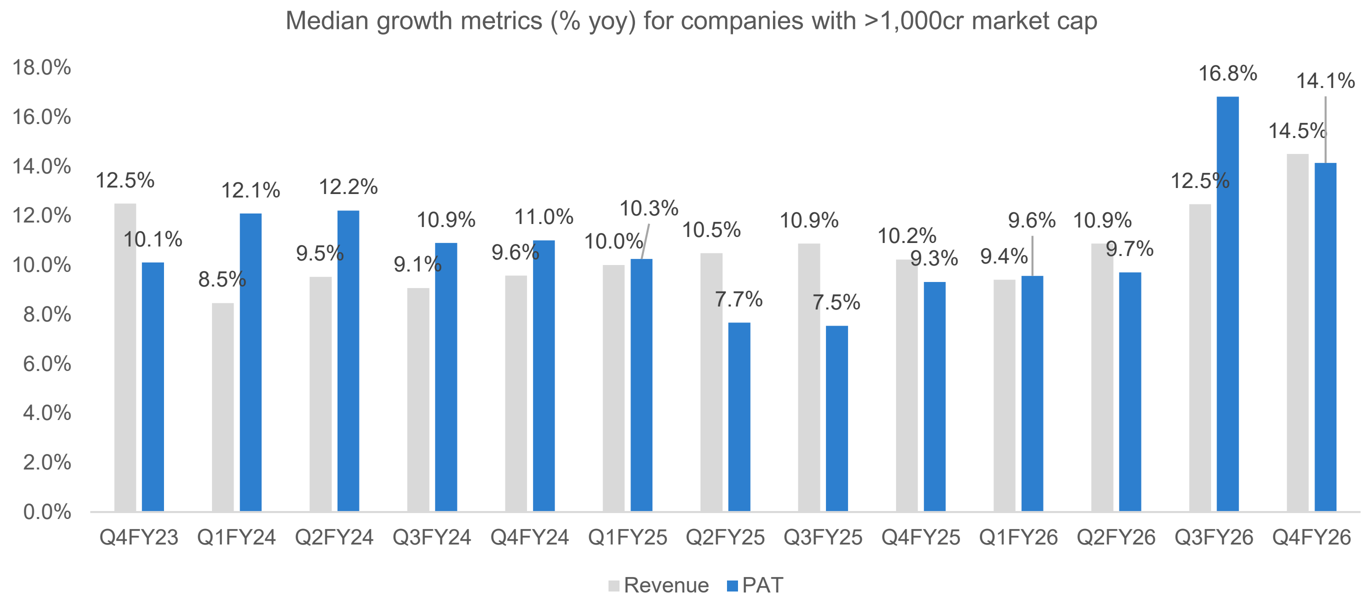
	1m	3m	6m	1yr	2yrs	3yrs	4yrs	5yrs	SI
Burman Capital Management	**-1.2**	**1.0**	**-9.3**	**-18.5**	**2.9**	**8.0**	**14.7**	**18.7**	**20.7**
S&P BSE 500 TRI	-0.2	-2.3	-5.4	-0.1	4.1	13.4	13.3	12.3	13.4

Monthly performance (Absolute returns %)	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
2021	NA	NA	0.7	6.5	5.7	-0.5	7.5	4.1	4.3	4.0	7.3	9.6
2022	0.2	-7.0	11.7	-2.5	-5.7	-2.8	9.3	8.7	4.5	4.1	-3.5	0.1
2023	-1.3	1.0	-0.5	9.0	7.1	3.6	1.7	6.8	0.8	0.0	8.7	0.6
2024	1.4	-3.5	-8.6	10.5	-5.1	10.3	4.9	6.9	3.1	-1.8	3.6	4.6
2025	-9.7	-6.5	2.1	2.2	8.8	2.6	2.0	-5.7	-2.9	-1.7	-4.6	-3.6
2026	-4.3	-2.7	-11.5	15.4	-1.2							

Note: All returns are net of fees and expenses (TWRR). Since inception, two-year and three-year returns are annualized; other time period returns are absolute. Benchmark changed effective from 1st April 2023 to S&P BSE 500 TRI from S&P BSE Small Cap Index, according to SEBI circular dated December 16, 2022.

Fundamentals improved in the last six months

In Q4FY26, Corporate India showed its strongest revenue growth trajectory in the last 13 quarters with median revenue growth for companies with market capitalization > 1,000 cr at 14.5% vs about 10.0% from Q2FY24 to Q2FY26. The acceleration was set in motion last quarter with growth of about 12.5%, the Q4FY26 print confirmed the trend. Please note that for Q4FY26, numbers are included for companies that reported earnings till May 31, 2026, and excludes the BFSI sector (Banking, Financial Services and Insurance).



Strong revenue growth drove strong profit growth as margins were largely protected. The 16.9%/14.1% earnings growth prints in Q3FY26/Q4FY26 are amongst the best post the COVID-19 low-base growth in FY22/FY23. Moreover, as per our analysis the trend in earnings uptick is secular across all major sectors including automobiles, consumer, healthcare, among others. However, the big unknown right now is the effect of the Middle East war on demand and earnings which we cover in the next section.

Management commentary on the Middle East war

Leveraging the power of Claude Cowork, we analysed 994 Q4FY26 transcripts of which 869 companies had substantive discussions on the implications of the Middle East war on business. Most of these calls happened between mid Apr-26 to end May-26, which is about 45-90 days since the war started. A few important takeaways

- Most managements did not change their outlook/guidance because of the war, only 5.4% cut their guidance, 8.1% withdrew guidance and 1% raised guidance on account of the war. Others either maintained guidance or did not attribute much change on their business because of the war.
- While cuts happened across industries, most were concentrated in Engineering & Capital Goods, Chemicals, Logistics and Auto Ancillary
- Guidance was raised largely by some defence and infrastructure focussed companies
- The key pain point highlighted was margin pressure and supply chain disruption rather than demand destruction

While management commentary overall is not too alarming yet, we remain watchful as events unfold. Net read as of today is that the revenue momentum will likely continue, margins may come under pressure depending on how long energy prices stay elevated.

Portfolio Update

As detailed in our previous newsletter, four of our key portfolio companies had faced business headwinds starting Q2FY26. Since then, we have taken appropriate portfolio actions including exiting one of the four. Update on the remaining three is as below

Affordable housing financier: The Q2FY26 weakness was driven by asset quality stress in three specific manufacturing clusters (Surat, Tirupur and Coimbatore) impacted by US tariffs. Q3FY26 and Q4FY26 results have confirmed that the stress is behind us with substantial asset quality improvement across all buckets. Moreover, disbursements picked up materially in Q4FY26 to 24% yoy, demonstrating the management's positive view on the credit environment.

A Leading Indian Recycler: The collapse in rPET demand due to the June regulatory relaxation led to an unexpected operating loss in Q2FY26 for the company. Q3FY26 showed the first signs of a "U-shaped" recovery and Q4FY26 confirmed reversal with the company's Q4FY26 profits back to previous year-level. Moreover, MoEF's rPET notification on Mar 31, 2026, confirms that the company's medium-term outlook has improved dramatically. While some risks with respect to its legacy business have emerged, we believe these are short-term in nature. Overall outlook looks promising.

A Leading Pharma API and Intermediates Manufacturer

In Q2FY26, we were negatively surprised by a sharp EBITDA decline caused by operating leverage drag and deferred shipments to Europe. Q3FY26 numbers indicated a reversal of this trend wherein the company reported a 600bps+ sequential expansion in EBITDA margins, recovering to the earlier 23-24% range. This was driven by strength in their core business and growth in the CDMO division. In Q4FY26, margins were maintained despite significant drag on costs from a new facility ramp-up. Moving forward, while the business outlook is very favourable – the management raised EBITDA growth guidance from 15% over three years to 15-18% and guided for 40-50% growth in CDMO – the next 1-2 quarters might see margin headwinds driven by new facilities ramping-up. We are positive on the stock from a medium-term timeframe.

Portfolio additions

We used the market correction in the past few months to build two new positions. Both are part of the manufacturing sector with (1.) the first one addressing industrial packaging needs of global conglomerates while also being a unique play on India's gas economy and (2.) the other providing critical systems for power generation including HRSG (Heat recovery steam generator) systems to global turbine majors.

Summary

The headwinds that hit our portfolio in Q2FY26 were sharp and unexpected but based on the last two quarters' reported numbers, appear to be largely behind us. The valuations of these companies have adjusted to the business weaknesses, and the operating performance in Q4FY26 confirms that the business fundamentals are improving. They currently trade at attractive valuation, and we believe have a bright future from here. Combined with the constructive earnings setup and our portfolio positioning, we believe we have entered the current financial year with the strongest portfolio risk-reward we have seen in the last eighteen months.

About Burman Capital Management

Burman Capital Management is a part of Burman Family Holdings, the strategic investment platform of the Burman Family, which over the last twenty years has invested over US $500 million in various businesses primarily in India and have partnered and joint ventured with many of the leading Fortune 100 companies from around the world. The Burman family are the control shareholders of the Dabur Group. Dabur was founded in 1884 by Dr. S.K. Burman and is today one of the largest Indian Fast Moving Consumer Good Company in India with over US$1 billion in revenue and a market capitalization of over US$8 billion.

At Burman Capital Management, we are long-term investors with deep passion for identifying and investing in exceptional businesses early. We are fundamentals-driven bottom-up investors and run concentrated portfolios focusing on small to mid-size companies. We are a SEBI-registered Portfolio Manager with registration number INP100007091.

For direct On-boarding, please write to us on: clientservicing@burmancapital.com.