Investor letter – Apr - Jun 2025

Results:

	REFF I	NIFTY 500 TRI
FY24	79%	40.5%
FY25	11.3%	6.4%
YTD FY26	15.2%	11.1%
Cumulative Return* Since Inception	132.7%	70%
Annualised Return Since Inception	45.6%	26.6%

* Cumulative return for REFF I is from 28th March 2023 till end of Q1FY26.
REFF I Returns are post taxes and pre fees. Upon redemption, performance fees shall be deductible.

When everything goes wrong

Multi-baggers are birthed in one of two ways - when nothing goes wrong and when everything goes wrong.

An example of the former is HDFC Bank. It is a story of tremendous consistency in both growth as well as prudence. For years it was known as the "fixed deposit that yields 20%". However, companies of this sort number one in a thousand.

Sadly, the far more common birth of a multi-bagger is in extreme pessimism - when everything goes wrong. These are much more difficult to invest in as it requires a deep understanding of the business to know when recovery will take place. In the preceding quarter, we have invested in two such businesses.

The first is KRBL. KRBL is the largest basmati rice processor in India. A decade ago, it was a darling of the stock market - up 50 fold in a span of 7 years with category leading margins. Then the company encountered a perfect storm. The master distributor for its most profitable market, Saudi Arabia, parted ways acrimoniously. As a result, sales growth halted and RoCE fell from 22% in 2018 to 12% in 2025. The company was slapped with a GST demand of over INR 1000 cr which would have crippled its balance sheet. All this resulted in the stock price returning nothing in the ten years ending March 2025.

However, the company endured. It won on appeal against the income tax department. Even through this torrid time, KRBL's balance sheet strengthened as it paid down over INR 1000 cr of debt through internal accruals. The loss of the Saudi business caused the management to focus on the India business which has now grown to become the largest contributor of revenue and profitability.

KRBL has now emerged from the crucible as the domestic leader in branded basmati rice commanding a 10% premium over challenger brands with a clear path to grow at over 10% per annum over the next decade. We bought into at a valuation of 7x OCF with plenty of upside potential from both earnings growth and rerating.

The second is Tanla Platforms. Over the last decade, Tanla established itself as the leading CPaaS provider in India with dominant market share and multiple acquisitions. The markets rewarded its growth and Tanla shot up by over 50x from March 2020 to January 2022. Then the business was disrupted. WhatsApp launched APIs for messaging which resulted in businesses migrating from telcos to WhatsApp at a fraction of the cost - thereby reducing Tanla's margins by from 22% in 2022 to 17% in 2025. As a result, EBITDA remained stagnant the last 3 years and Tanla's share price fell 75 percent.

Over the last year, Tanla has successfully migrated a significant segment of its business to WhatsApp and Meta's pricing has also stabilised. With the worst being past, Tanla was available in April at 12x Free cash flow - a rare occurrence for a 30% RoCE business at the bottom of its cycle. Naturally, we were eager buyers along with the promoter who invested INR 100 cr at similar levels.

I'm sure all of us wish for stress-free multi-baggers like HDFC Bank. However, the reality is that nearly all multi baggers will emerge from fear and uncertainty. That is the price to be paid for great returns.

Regards,
The Rational Team