

October 8, 2024

Dear Partners in AAFI,

Quarter 2 of year 2 was a tough one for us. The fund was up 1.3% during the quarter (up 0.8% net of fees and all expenses). We underperformed the Nifty during the quarter by 6.2% & 6.7% respectively.

Year to date the fund was up 27.5% (26.4% net of fees and all expenses) – outperforming the Nifty by 11.9% & 10.8% respectively.

8 of the 23 positions we held at the end of the quarter outperformed the Nifty during the quarter (Year to date this number is 16 out of 23). We sold 3 companies during the quarter (of which 1 we had bought during the quarter itself). All 3 companies we sold outperformed the market meaningfully during the quarter & year to date. However, from inception to date 2 of them meaningfully outperformed the market whereas 1 was a big underperformer. We decided to sell the company as our thesis was broken.

Inception to date 15 out of the 23 positions in the portfolio beat the Nifty.

The fund had an average cash balance during the quarter of 2.2% (end of quarter cash was 0.3%). Year to date average cash balance was 3.4%.

<b>Q2FY25 - Class A</b>	<b>Returns</b>	<b>Excess Returns</b>
AAFI - Gross returns	1.32%	-6.17%
AAFI - Returns net of fees & expenses	0.84%	-6.65%
Nifty	7.49%	
<b>YTD FY25 - Class A</b>	<b>Returns</b>	<b>Excess Returns</b>
AAFI - Gross returns	27.53%	11.93%
AAFI - Returns net of fees & expenses	26.36%	10.76%
Nifty	15.59%	
<b>FY24 - Class A</b>	<b>Returns</b>	<b>Excess Returns</b>
AAFI - Gross returns	49.01%	20.66%
AAFI - Returns net of fees & expenses *	39.48%	11.14%
Nifty	28.34%	

\* Please note that for the full year return net of fees & expenses we have factored in the impact of performance fees as well

During the quarter we made 3 new investments and added to 2 existing investments.

We had 98 management interactions during the quarter and 5 factory / facility visits. This is over and above dozens of earnings calls each of the six investment team members attended during results season and ad hoc calls hosted by companies.

Please find below the portfolio as if it were a single stock.

## Portfolio ex-Financial companies

Growth (% YoY)	FY22	FY23	FY24E	FY25E	FY26E	FY27E	CAGR (FY24-27)
Sales	38.6%	12.9%	1.9%	15.7%	16.2%	14.4%	15.5%
EBITDA	46.9%	12.6%	9.8%	41.2%	22.6%	16.7%	26.4%
PAT	225.3%	28.7%	10.9%	51.9%	32.8%	21.8%	35.0%
<b>Margins</b>							
EBITDA	10.9%	10.9%	11.7%	14.3%	15.1%	15.4%	
PAT	4.5%	5.1%	5.6%	7.3%	8.4%	8.9%	
<b>Leverage ratios</b>							
Leverage (Net Debt to EBITDA)	1.5	1.2	1.3	0.8	0.5	0.0	
Leverage (Net Debt to Equity)	0.4	0.3	0.3	0.2	0.2	0.0	
<b>Return ratios</b>							
RoE	7.4%	10.7%	13.7%	14.8%	18.0%	19.4%	
RoCE	9.1%	10.7%	10.1%	11.5%	14.1%	15.7%	
<b>Valuation Ratios (x)</b>							
PE <sup>(i)</sup>	25.7	27.2	26.2	24.8	20.6	15.7	
PEG	0.0	0.9	2.4	0.5	0.6	0.7	
PB	4.1	3.4	3.7	3.4	2.8	2.3	
EV/EBITDA	7.7	8.6	9.3	9.8	9.6	7.4	
P/Sales	4.9	3.4	3.2	2.6	1.9	1.6	
FCF Yield (%) <sup>(ii)</sup>	1.7	4.7	0.1	1.0	3.2	5.0	
Dividend Yield (%) <sup>(ii)</sup>	1.0	0.7	0.9	1.0	1.1	1.4	

Notes: (i) we have excluded four company's P/E for FY22 to FY24 as these companies have gone from losses, to break even to small profits in these four years which skews the data; (ii) we have excluded a fintech company for the purpose of calculating FCF since the business has a lending arm and for lending businesses FCF is meaningless.

If we analyse the table above, it indicates that we own steady growth companies, with steadily improving return ratios and safe balance sheets (ie comfortable net debt to EBITDA ratios) that faced growth headwinds in FY24 which we believe will normalise in FY25 and improve further in the years beyond. Margins are expected to increase meaningfully driving strong EBITDA growth. Further, the portfolio will witness balance sheet deleveraging leading to earnings growth which is even stronger than EBITDA growth.

## Financial companies

Fundamentals	FY22	FY23	FY24E	FY25E	FY26E	FY27E	CAGR (FY24-27)
AUM Growth	14%	20%	14%	15%	17%	17%	16%
NII Growth	14%	30%	16%	15%	17%	16%	16%
PPOP Growth	6%	-26%	86%	13%	22%	21%	19%
PAT Growth	97%	70%	14%	6%	20%	22%	16%
NIM	6.7%	7.6%	7.6%	7.7%	7.8%	7.7%	
PPOP	3.7%	4.0%	4.8%	4.8%	5.0%	5.1%	
Gross NPA	3.6%	2.4%	1.8%	3.5%	2.7%	2.4%	
Credit cost (on avg AUM)	2.3%	0.9%	1.2%	2.4%	1.1%	1.3%	
ROA	1.1%	2.7%	2.7%	1.8%	2.9%	2.8%	
ROE	8.9%	18.1%	17.3%	12.2%	16.9%	17.1%	
<b>Valuations</b>							
PE		27.0	13.4	15.5	9.8	8.0	
PEG		0.4	0.7	1.2	0.4	0.4	
PB		2.5	2.0	1.7	1.4	1.2	
Dividend Yield		0.0	0.0	0.0	0.0	0.0	

Notes: (i) One of the company in our BFSI basket IPOed less than a year ago and hence we do not have historic valuations.

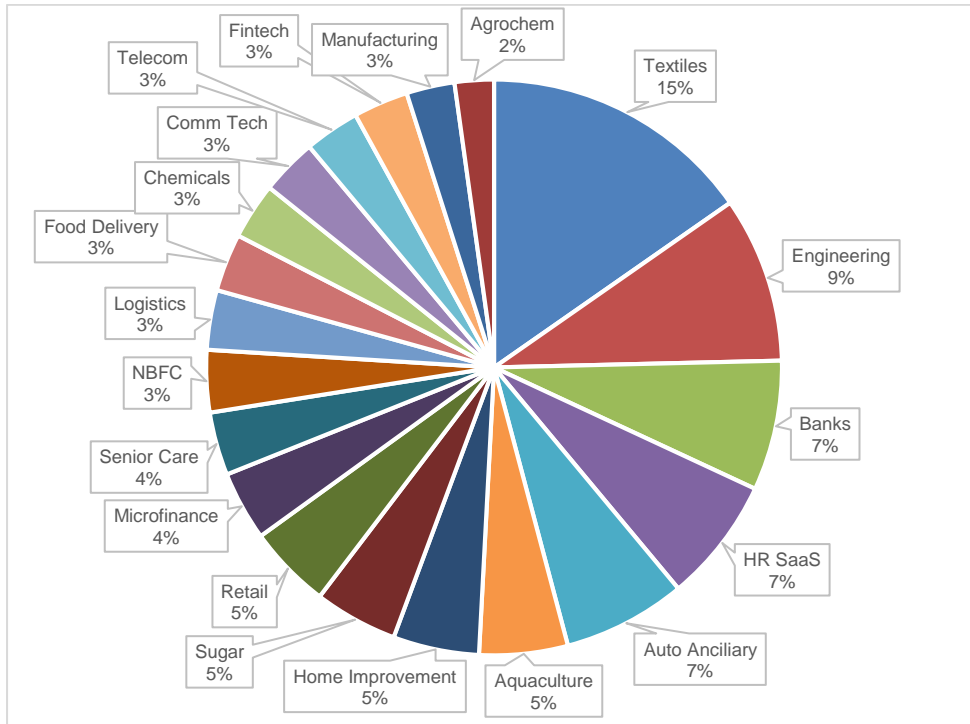
Similarly, if we analyse the table above for financial companies, it indicates that we own high growth lenders, with high margins, operating leverage (visible from PPOP growth higher than NII growth), low GNPA's and high return ratios. Despite that - these companies are trading at very attractive valuations.

For the growth rates and more importantly quality of growth (ie growth coming without taking balance sheet risk, or diluting return ratios and also generating strong FCF at the same time; and

low GNPA's / credit costs in the case of the lenders) we believe the portfolio's valuation is extremely attractive.

To give you more flavour of the portfolio, and to demonstrate how well diversified the portfolio is, we are sharing below a pie chart that shows our sector exposures.

### Sector exposure of AAIM



This quarter we are sharing our thoughts on SJS Enterprises. We bought this company in August 2023, and further added to it in April & May 2024 as our conviction increased. While the stock has done really well (up 67% since our first purchase), we are looking to add to this name on pull backs as we are very excited about what lies ahead for the company.

Do keep sharing your feedback and comments and we will try and incorporate as much as possible in our future letters.

We thank you for trusting us as stewards of your capital and assure you that we are working tirelessly to find the best investment opportunities for the long run.

Yours Sincerely



Kuleen Tanna  
Founder & CIO

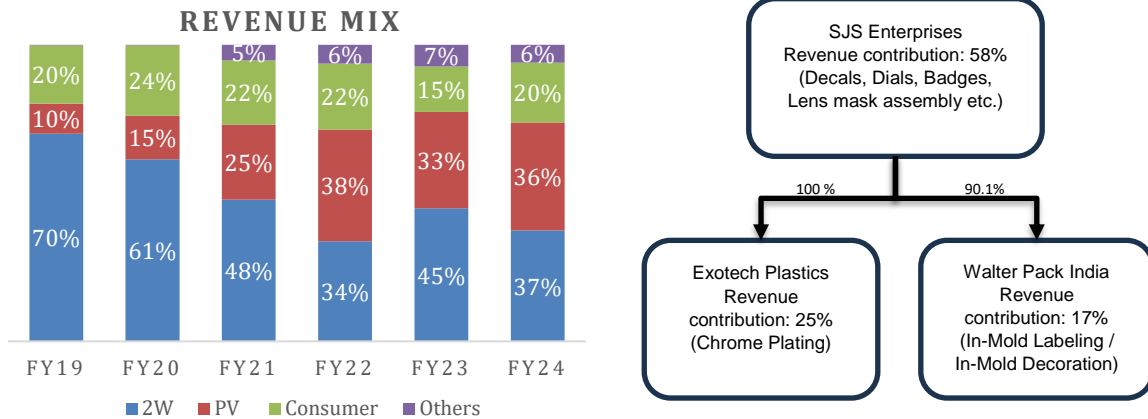
## **Annexure I**

### **SJS Enterprises (CMP: 1,002; Market Cap: Rs 31bn; ADT: Rs 147mn)**

SJS Enterprises is an Indian decorative aesthetics company with a unique ability to customize, design, develop and manufacture a diverse range of products for players in the automobile and consumer appliance industry. SJS has a diverse portfolio including decals, dials, domes, badges, front overlays, aluminum badges and several other products. The company has a unique ability to provide over 7,000 SKUs across approximately 13 product categories with all of them being under one roof.

**Diversification of product portfolio allows SJS to up-sell and cross-sell:** A four-wheeler provides more opportunity to an aesthetic solution provider as compared to a two-wheeler considering the size of vehicles and their prices. SJS Enterprises has been able to pivot its portfolio from two-wheeler heavy to four wheelers. Two wheelers contributed around 70% of its revenue in FY19, which has now reduced to 37.4%. This has been achieved on the back of acquisitions; namely Exotech Plastics (April 2021 – 100%) and Walter Pack India (April 2023 – 90.1%). Both these entities brought with them new products and technological expertise along with a new set of customers in the four-wheeler and consumer durable space. During this period organic growth also continued to be ahead of industry. Despite these acquisitions the company has negligible debt due to strong cash generation in its core business. Four-wheelers are expected to drive growth in the future as well, led by content per vehicle increase followed by the consumer appliance and two-wheelers segments. Their customers list includes the likes of Tata Motors, Mahindra & Mahindra, Stellantis group and Skoda in passenger vehicle space; TVS, Honda, Yamaha in the two-wheeler space and high-growth customers like Syrma and Dixon Technologies in consumer appliances segment. Exports also remain a strong driver for growth. The company has added Whirlpool, Ohio, USA as a customer, secured business with Alladio (Mabe group company - a leading manufacturer of consumer appliances in South America). Exports currently contribute only 8% of consolidated sales but is expected to increase as a percentage of sales. We expect SJS Enterprises to deliver 23% revenue CAGR from FY24-FY27E with underlying industry growth at high single digits.

**Charts: Reduction in 2W revenue contribution & Revenue contribution entity-wise**



**Increase in content per vehicle driven by organic and inorganic route:** A diversified portfolio leads to increase in content per vehicle (CPV) which aids growing faster than the industry. The average CPV in two-wheeler is around Rs. 300-500 for traditional products, Rs. 1,200-1,500 in passenger vehicles and Rs. 150-200 in consumer appliances. but with new products constantly being introduced the kit value for two-wheelers and consumer appliances is likely to increase 2-3x from current levels and in passenger vehicles it's expected to increase 7-8x. This process of CPV increase will be gradual and will aid the company to outperform the respective industry volume growth for a long period of time. Products like cover glass developed organically along with the customer (protective layer which sits on top of the infotainment screen in passenger vehicles is a Rs. 2,000-5,000/ vehicle opportunity)

**Wider product portfolio with no direct comparable peer:** Table below shows that SJS Enterprises has the widest range of products and that there is no other comparable peer which boasts of its entire product portfolio, giving the company a unique advantage of increasing wallet share with their existing customer and offering a wide variety to new customers. the company continues to develop new products like In-mold electronics (IME), Illuminated logos, cover glass technology among others.

**Table : Product portfolio of SJS Enterprises and their peers**

Peer companies	Decorative aesthetic product coverage										Application segment		
	Traditional aesthetic products						Advanced technology products						
Particulars	Logos	Decals	Stickers, aluminium badges	Chrome plated parts	2D Dials	Traditional Overlays	3D Dials	Capacitive Overlays	IML / IMD	Optical plastics	2W	PV	CD
Classic Stripes Pvt Ltd	✓	✓			✓	✓	✓	✓			✓	✓	✓
Galva Deco Parts Pvt Ltd	✓			✓							✓	✓	
Kongovi Pvt Ltd	✓			✓								✓	
Monochem Graphics Pvt Ltd	✓	✓	✓		✓	✓	*	*			✓	✓	✓
Polyplastics Industries India Pvt Ltd	✓			✓							✓	✓	
Pragati Industries Ltd	✓			✓							✓	✓	
PRS Permacel Pvt Ltd		✓	✓								✓	✓	
SJS Enterprises	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Unique Labels Pvt Ltd			✓		✓		*	*			✓	✓	

Source: Company's prospectus. \*\* Monochem graphics and Unique Labels website do not clearly specify if they offer 3D Dials and Capacitive Overlays in specific.

**Capital efficiency and valuations:** While there are no direct comparable listed peers, we compare SJS with other Auto components (since ~75-80% revenues are from auto segment) with similar capital efficiency. With 23%+ EBITDA margin profile and ROE's at 20%, we believe SJS is attractively priced. The company will also continue to generate strong cash flows which will be used to pursue inorganic opportunities.

Company	CMP	MCap INR mn	PE				EV/EBITDA			
			FY24	FY25	FY26	FY27	FY24	FY25	FY26	FY27
SJS Enterprises	950	29,486	35.4	23.5	20.2	16.8	20.0	13.6	11.9	10.0
Gabriel India	509	73,113	39.6	29.8	25.7	22.7	24.9	20.9	17.9	16.0
Lumax Auto Tech	560	38,192	29.3	22.3	16.9	14.3	12.3	10.6	8.6	7.4
Minda Corp	597	1,42,743	62.9	45.0	35.5	29.7	27.9	23.2	19.5	16.7
Suprajit Engineering	528	73,054	43.8	32.0	23.2	19.2	22.9	17.6	14.4	12.1
UNO Minda	1,118	6,38,292	72.9	57.7	46.5	38.1	41.6	33.4	27.9	23.6
Endurance Tech	2,393	3,37,413	49.5	37.5	29.9	26.4	25.0	20.0	16.7	15.1

	P / BV				Dividend yield (%)			
	FY24	FY25	FY26	FY27	FY24	FY25	FY26	FY27
SJS Enterprises	5.9	4.8	4.0	3.4	-	0.6	0.7	0.9
Gabriel India	7.8	6.6	5.6	4.8	0.5	0.6	0.7	0.8
Lumax Auto Tech	4.8	4.1	3.4	3.0	1.0	1.5	2.1	2.7
Minda Corp	7.2	6.3	5.5	4.7	0.2	0.3	0.4	0.5
Suprajit Engineering	5.4	4.8	4.1	3.4	0.4	0.5	0.7	0.8
UNO Minda	6.1	10.7	8.9	7.8	0.1	0.2	0.3	0.4
Endurance Technologies	6.8	5.9	5.1	4.4	0.4	0.5	0.6	0.6

	ROE (%)				FCFF Yield (%)			
	FY24	FY25	FY26	FY27	FY24	FY25	FY26	FY27
SJS Enterprises	16.8	20.4	19.9	20.2	2.7	1.9	3.6	4.8
Gabriel India	19.7	22.3	21.8	21.1	1.3	1.8	2.1	2.6
Lumax Auto Tech	17.9	18.5	20.2	20.2	2.6	2.5	4.4	6.6
Minda Corp	12.7	15.0	16.5	17.2	0.0	1.5	1.2	1.4
Suprajit Engineering	12.9	15.9	18.9	23.5	1.5	1.0	2.6	3.5
UNO Minda	19.4	19.6	20.3	20.9	-0.2	0.4	1.0	1.3
Endurance Technologies	14.4	16.8	18.3	17.9	0.6	1.4	2.4	2.6

Source: Aionios Alpha, Bloomberg

Nionios



Alpha