April 11, 2025

Dear Partners in AAFI,

Q4 was brutal! The fund was down 15.8% during the quarter (down 16.4% net of fees and all expenses) and we underperformed the Nifty during the quarter by 15.2% & 15.9% respectively. The 0.5% decline in the Nifty during the quarter does not reflect the pain in the broader market. Just to give you a flavour: 88% of the stocks in India underperformed the Nifty; 74% of the stocks were down double digits; 64% of the stocks were down more than 15%.

We want to take this opportunity to say that we truly appreciate that not a single one of you panicked and called to ask what is happening to the portfolio. Whatever conversations we had were about top ups. This shows that all of you are genuinely here with a long-term perspective and are aligned with the fund philosophy and strategy.

During the quarter 16 of the 20 companies in the portfolio underperformed the Nifty. We sold out of 3 companies. All the companies we sold underperformed the market during the quarter and since we bought them. We essentially cleaned out the tail of the portfolio that was underperforming our fundamental expectations and reallocated the proceeds (in addition to the net inflows we got during the quarter) to add to two existing companies. We also added a new company to the portfolio and converted our warrants in Niyogin Fintech into equity shares this quarter.

The fund had an average cash balance during the quarter of 1.6% (end of quarter cash was 1.9% after paying taxes on net realised gains for the year).

For the entire year, the fund has delivered a 5.1% return (2.8% net of fees and all expenses) underperforming the Nifty by 0.3% & 2.5% respectively. Average cash balance for the year was 2.7%. For the full year 10 out of the 20 companies in the portfolio outperformed the Nifty.

Portfolio turnover during the year was 30%. While this is lower than the previous year (44%), it is still at the higher end of where we expect this to be longer-term. Since we invest with a 3 year+ horizon, we expect the portfolio turnover to generally be below 30%. However, due to a bunch of stocks in the portfolio running way ahead of fundamentals in the first half of the year, we thought it prudent to sell those companies and reinvest the proceeds in more attractive investment opportunities, and live with a higher portfolio turnover.

Q4FY25 - Class A	**Returns**	**Excess Returns**
AAFI - Gross returns	-15.8%	-15.2%
AAFI - Returns net of fees & expenses	-16.4%	-15.9%
Nifty	-0.5%	
FY25 - Class A	**Returns**	**Excess Returns**
AAFI - Gross returns	5.1%	-0.3%
AAFI - Returns net of fees & expenses *	2.8%	-2.5%
Nifty	5.3%	
FY24 - Class A	**Returns**	**Excess Returns**
AAFI - Gross returns	49.0%	20.7%
AAFI - Returns net of fees & expenses *	39.5%	11.1%
Nifty	28.3%	
Since Inception - Class A	**Returns - CAGR**	**Excess Returns**
AAFI - Gross returns	25.1%	8.9%
AAFI - Returns net of fees & expenses *	19.8%	3.5%
Nifty	16.2%	

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

We had 66 management interactions and 2 site visits during the quarter. 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)*	FY23	FY24	FY25E	FY26E	FY27E	FY28E	CAGR (FY24-28e)
Sales	*12.4%*	*1.7%*	*11.6%*	*16.3%*	*17.0%*	*12.6%*	*14.4%*
EBITDA	*14.5%*	*11.2%*	*13.3%*	*27.8%*	*16.5%*	*12.5%*	*17.3%*
PAT	*36.6%*	*6.5%*	*14.5%*	*41.0%*	*22.3%*	*15.9%*	*23.0%*
Margins							
EBITDA	*11.5%*	*12.5%*	*12.7%*	*14.0%*	*13.9%*	*13.9%*	
PAT	*5.6%*	*5.9%*	*6.1%*	*7.3%*	*7.7%*	*7.9%*	
Leverage ratios							
Leverage (Net Debt to EBITDA)	*1.4*	*1.4*	*1.2*	*0.8*	*0.3*	*0.1*	
Leverage (Net Debt to Equity)	*0.4*	*0.4*	*0.3*	*0.2*	*0.1*	*0.0*	
Return ratios							
RoE	*12.8%*	*12.8%*	*12.1%*	*14.1%*	*16.0%*	*16.8%*	
RoCE	*11.6%*	*11.0%*	*11.4%*	*12.7%*	*14.5%*	*15.5%*	
Valuation Ratios (x)							
PE (i)	19.2	25.5	24.9	18.5	14.6	12.7	
PEG	0.5	3.9	1.7	0.5	0.7	0.8	
PB	2.0	2.4	2.3	2.1	1.8	1.6	
EV/EBITDA	7.7	9.2	10.6	8.6	7.1	6.0	
P/Sales	2.1	2.1	1.9	1.5	1.3	1.2	
FCF Yield (%)(ii)	5.0	0.9	-0.3	2.6	3.6	5.2	
Dividend Yield (%)(ii)	0.9	1.3	1.3	1.3	1.7	1.9	

Notes: (i) we have excluded two company's P/E for FY23 and 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 revenue growth companies, with attractive (and improving) return ratios and safe balance sheets (ie comfortable net debt to EBITDA ratios) that faced growth headwinds in FY24 which improved in FY25 and likely to improve further in the years ahead. Margins are also likely to improve in FY26 thus 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	FY23	FY24	FY25E	FY26E	FY27E	FY28E	CAGR (FY24-28)
AUM Growth	20%	14%	10%	13%	16%	17%	14%
NII Growth	30%	17%	13%	9%	14%	15%	13%
PPOP Growth	-26%	86%	12%	12%	16%	18%	15%
PAT Growth	68%	14%	1%	11%	17%	19%	12%
NIM	10.9%	10.9%	11.0%	10.6%	10.3%	10.1%	
PPOP	5.9%	6.8%	6.5%	6.0%	6.0%	6.1%	
Gross NPA	2.1%	1.7%	2.4%	2.0%	2.0%	2.1%	
Credit cost (on avg AUM)	0.6%	1.0%	3.6%	1.0%	0.8%	0.9%	
ROA	4.3%	4.4%	1.8%	3.9%	4.1%	4.1%	
ROE	17.7%	18.1%	6.8%	15.4%	16.7%	17.1%	
Valuations							
PE		16.4	13.2	12.9	10.3	8.5	
PEG		0.8	2.9	0.9	0.5	0.4	
PB		1.4	2.2	1.9	1.6	1.4	

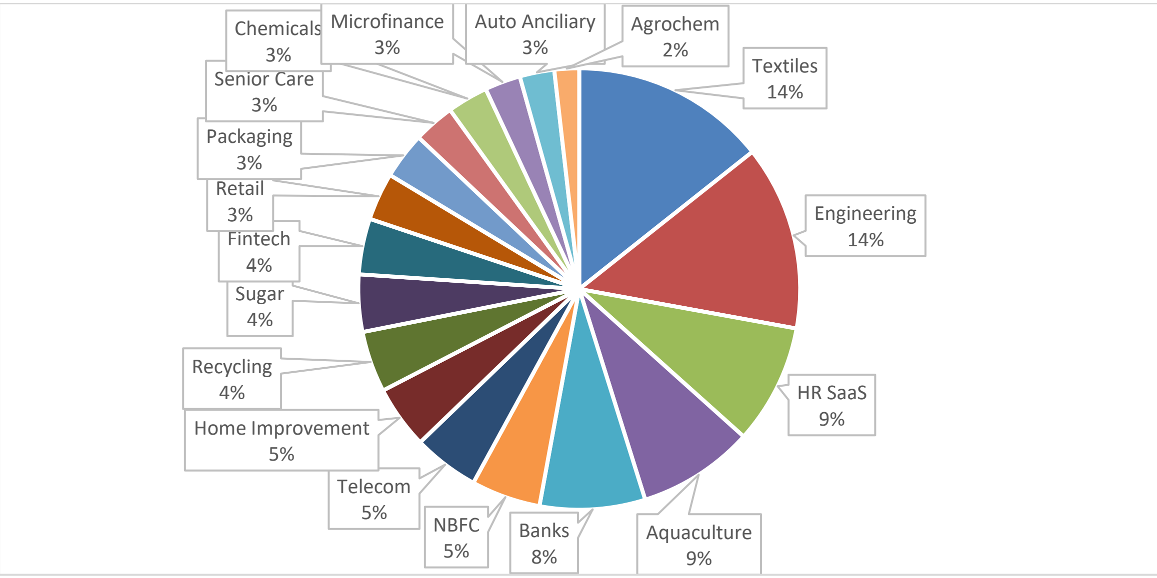
Notes: (i) One of the company in our BFSI basket IPOed less than a year ago and hence we do not have historic valuations.

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), declining GNPAs (after hitting an air pocket in FY25) and high return ratios. Despite that - these companies are trading at attractive valuations.

For the earnings growth and more importantly, quality of growth (ie growth coming without taking balance sheet risk, or diluting return ratios and generating strong FCF at the same time; low GNPAs / credit costs in the case of the lenders) we believe the portfolio's valuation is very 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 Bharti Airtel Ltd. We happened to buy Bharti (partly paid shares as upside on the partly paid is higher than the underlying) close to the peak of the markets. While the market has corrected 6% from when we bought the stock, Bharti is up 10% for us. In our view, Bharti could be a multiyear compounding story. Our core thesis is 1) The industry should see nominal price hikes every ~12 months 2) peak capex is behind us and 3) Given 1 & 2 FCF generation should rise significantly driving both rapid deleverage of the balance sheet and higher dividend payouts. If our thesis plays out, we believe that the valuation band for this company will be reset higher - which no one on the street is building as of now – and that is our key differentiated take on Bharti.

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

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Founder & CIO

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Annexure I

Bharti Airtel Ltd (CMP: 1,733; Market Cap: Rs 10.3tn; ADT: Rs 12bn)

Bharti Airtel (Airtel) is an integrated telecom service provider with operations in India, Sri Lanka, Bangladesh and Africa. Established in 1995, Airtel is the largest telecom company in terms of revenue market share. The company has a gamut of offerings for retail customers such as fiber internet, DTH, and digital payments; while offering connectivity, data centre services, cyber-security, and cloud-based communication for enterprise customers.

The key investment thesis lies in the fact that the telecom industry in India has undergone a landscape change after a mega consolidation phase over the last 10 years; marking the start of a tariff hike cycle with the era of peak capex behind for the surviving companies. Airtel will be a key beneficiary as it remains well capitalised and ahead of the curve in terms of spectrum deployment versus peers. Jio's rising focus on profitability and Vodafone Idea's (VI) continued market share loss coupled with its high spectrum dues to the government (starting this year) will lead to multiple tariff hikes going forward. We believe Airtel is a multi-year compounding story and offers an attractive FCF yield.

Investment Thesis:

We expect tariff hike to be an annual affair

Zooming out, counting only the industry-wide tariff hikes, there have been three significant rounds in the last decade: Dec'19, Dec'21, and Jul'24. Most recently, all three private operators – Airtel, Jio and VIL – announced tariff increases in Jul'24 in the range of 11–25% across plans, which has led to a revenue growth of 25%/11%/6% for Airtel, Jio and VI respectively. Notably, this round of price hikes encompassed raising prices in postpaid plans too, which is a positive.

Going forward, we believe that tariff hikes could be an annual affair as RIL at its Aug-24 AGM, mentioned that it aims to double its revenue and EBITDA over the next 3-4 years. In our view, at a revenue base of Rs1tn, Jio will require multiple tariff hikes to achieve this. Jio's recent lead in tariff hikes is a step in this direction and gives us confidence of another tariff hike taking place in mid-2025.

Moreover, VIL's continuous loss of subscriber market share coupled with high spectrum payments dues to the Government (starting FY27) will require the company to take tariff hikes to increase its cashflows.

Airtel has also consistently maintained its stance to take the ARPU to Rs300 in medium term to make reasonable return ratios. The abovementioned factors drive conviction in our thesis of multiple tariff hikes over the next few years.

Also, while this is not our core thesis, notably ARPU growth for the industry over the last 10 years has been a mere ~2.5% CAGR (ie way below inflation, thus indicating that ARPUs have declined in real terms over the last decade), even after the latest tariff hikes. Moreover, India ARPU of ~US$3 is significantly lower than other emerging markets since as China (US$12), Vietnam (US$4), Thailand (US$6.5) amongst others.

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Airtel – the winner of tariff hikes while maintaining subscriber quality

Historically, Airtel has been the biggest beneficiary of tariff hikes, and this time around was no different. In terms of key measurables, during tariff hike i.e 1) Subscriber gain/ loss, 2) Net ARPU increase (ie after factoring in reduction in dual sims and downtrading) and 3) Incremental EBITDA margin (%), Airtel has outperformed peers as evinced by the table below. This demonstrates that Airtet's customer base is far superior to that of its peers.

Table 2: Airtel leads the pack when it comes to subscriber performance

	3QFY24	4QFY24	1QFY25	2QFY25	3QFY25	YoY%	QoQ%
Overall subscribers at EoP (mn)							
Bharti (India business)	346	352	355	352	357	3.2%	1.4%
Jio	471	482	490	479	482	2.4%	0.7%
VIL	215	213	210	205	200	-7.2%	-2.5%
Net subscriber addition (mn)							
Bharti (India business)	3.3	6.7	2.3	-2.9	4.9		
Jio	11.2	10.9	7.9	-10.9	3.3		
VIL	-4.6	-2.6	-2.5	-5.1	-5.2		

Table 3: Tariff Hike translation to ARPU is the best for Airtel

	3QFY24	4QFY24	1QFY25	2QFY25	3QFY25	YoY%	QoQ%
ARPU (INR)							
Bharti (India business)	208	209	211	233	245	17.8%	5.2%
Jio	182	182	182	195	203	11.9%	4.2%
VIL	145	146	146	156	163	12.4%	4.5%

Table 4: Flow through of hikes to EBITDA is meaningfully higher for Airtel

	3QFY24	4QFY24	1QFY25	2QFY25	3QFY25
Incremental EBITDA margin (%)					
Bharti (India business)	53.8%	41.7%	57.3%	67.4%	89.8%
Jio (standalone)	55.3%	54.9%	57.7%	61.8%	52.1%
VIL	na	22.0%	133.1%	81.4%	87.8%

Source: Company data, Aionios Alpha

Capex intensity to moderate

Airtel's India wireless capex is expected to moderate sharply going forward with the completion of the first phase of pan-India 5G rollouts. Whilst some 5G densification and rural expansion shall continue, the peak levels are behind us as 1) 5G rollouts come to an end (as evinced by lower level of site adds) and 2) Coverage and capacity levels are adequate to service foreseeable future demand. This would mean higher translation of tariff hikes to free cash. Investments in enterprise businesses shall continue; but would be largely self-funding.

We expect Bharti's FCF to improve further, with the boost from recent tariff hikes and moderation in capex intensity.

Chart 1: Mobile capex has started to moderate considerably

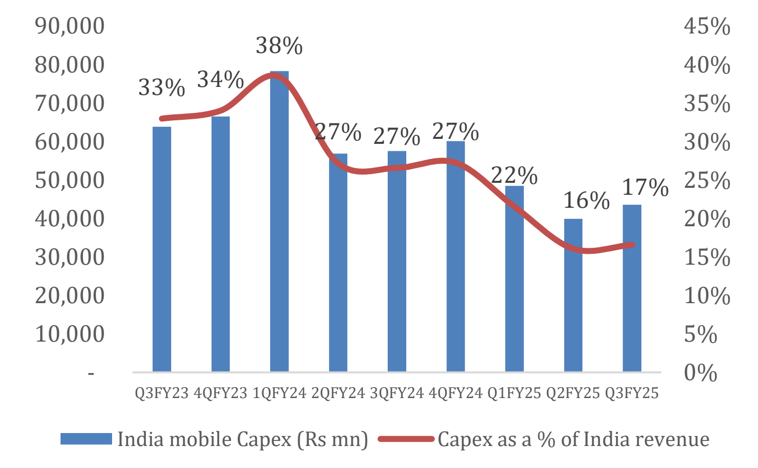
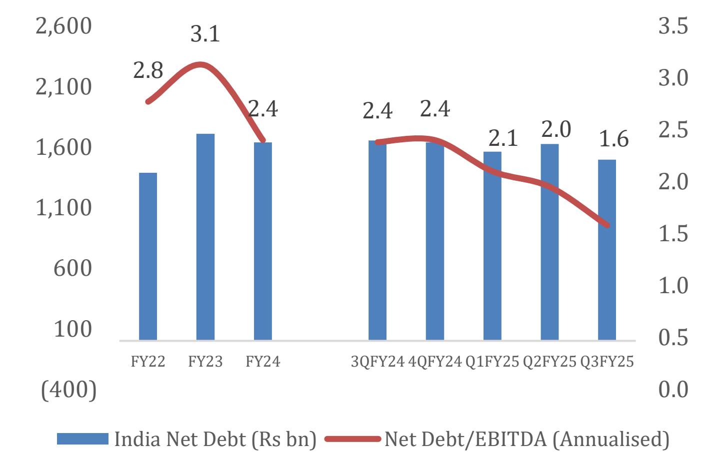


Chart 2: Bharti's India net debt to EBITDA further dipped to 1.6x as of Dec'24



Source: Company, Aionios Alpha

Deleveraging after several years of elevated capex levels leading to higher multiples

Over FY25-28E, Airtel is expected to generate significant cash flow, led by topline growth (due to tariff hikes) and lower incremental capex. The management has guided for significant debt reduction before making any meaningful capital allocation towards any other business. We also believe that multiples for the company should expand given that the sector is witnessing lower capex after several years of investments in spectrum portfolio and price wars.

Table 5: Healthy FCF generation to lead to deleveraging

Rs mn	FY23	FY24	FY25E	FY26E	FY27E	FY28E
OCF	5,77,260	7,10,430	9,12,583	10,60,806	11,21,314	12,41,873
Capex	(3,88,184)	(5,20,834)	(4,12,549)	(3,44,400)	(3,15,400)	(2,78,733)
FCF	1,89,076	1,89,596	5,00,034	7,16,406	8,05,914	9,63,139
Interest	(66,893)	(1,40,263)	(2,05,095)	(2,03,919)	(1,92,999)	(1,86,152)
FCF post Int.	1,22,183	49,333	2,94,939	5,12,488	6,12,915	7,76,988
Net Debt/ (cash)	20,78,316	19,88,905	15,88,124	12,46,346	8,72,424	3,34,430

Source: Company data, Aionios Alpha

Aionios Alpha