

July 8, 2025

Dear Partners in AAFI,

The fund was up 11.9% during the quarter (up 11.4% net of fees and all expenses). We outperformed the Nifty during the quarter by 3.4% & 2.9% respectively.

12 of the 20 companies we held at the end of the quarter outperformed the Nifty. During the quarter we subscribed to the rights issues for Max India & Fusion Finance. For Fusion we also converted our entire holding into the partly paid shares.

Inception to date 12 out of the 20 companies in the portfolio beat the Nifty.

The fund had an average cash balance during the quarter of 1.6% (end of quarter cash was 0.7%).

Q1FY26 - Class A	Returns	Excess Returns
AAFI - Gross returns	11.9%	3.4%
AAFI - Returns net of fees & expenses	11.4%	2.9%
Nifty	8.5%	
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	28.3%	9.8%
AAFI - Returns net of fees & expenses *	23.1%	4.6%
Nifty	18.6%	

* 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 60 management interactions during the quarter and 1 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)	FY23	FY24	FY25	FY26E	FY27E	FY28E	CAGR (FY25-28)
Sales	12.3%	1.8%	10.6%	14.6%	16.3%	14.2%	15.0%
EBITDA	14.6%	10.2%	7.8%	36.7%	12.2%	17.7%	21.8%
PAT	37.2%	4.3%	7.4%	51.7%	17.5%	22.8%	29.9%
Margins							
EBITDA	11.4%	12.4%	12.1%	14.4%	13.9%	14.3%	
PAT	5.6%	5.7%	5.6%	7.4%	7.4%	8.0%	
Leverage ratios							
Leverage (Net Debt to EBITDA)	1.4	1.4	1.4	0.7	0.3	0.1	
Leverage (Net Debt to Equity)	0.4	0.4	0.3	0.2	0.1	0.0	
Return ratios							
RoE	12.1%	11.5%	11.0%	13.0%	14.9%	16.0%	
RoCE	10.7%	10.0%	9.2%	11.4%	13.0%	14.2%	
Valuation Ratios (x)							
PE ⁽ⁱ⁾	20.1	29.8	28.1	20.7	15.8	13.3	
PEG	0.5	7.0	3.8	0.4	0.9	0.6	
PB	1.9	2.4	2.3	2.1	1.8	1.6	
EV/EBITDA	7.7	9.5	11.2	9.1	7.4	6.2	
P/Sales	2.3	2.2	2.0	1.7	1.4	1.2	
FCF Yield (%) ⁽ⁱⁱ⁾	4.4	0.7	0.2	2.4	3.0	4.6	
Dividend Yield (%) ⁽ⁱⁱ⁾	0.8	1.2	1.0	1.2	1.5	1.7	

Notes: (i) we have excluded three company's P/E for FY23 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 high growth companies, with sharply improving margins & return ratios and safe balance sheets (ie comfortable net debt to EBITDA ratios) that faced growth headwinds in FY24 which normalised in FY25 and is expected to 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	FY23	FY24	FY25	FY26E	FY27E	FY28E	CAGR (FY25-28)
AUM Growth	19%	14%	8%	13%	16%	17%	15%
NII Growth	30%	17%	9%	6%	14%	14%	11%
PPOP Growth	-25%	85%	13%	9%	15%	17%	14%
PAT Growth	69%	14%	2%	13%	12%	17%	14%
NIM	11.3%	11.4%	11.4%	11.1%	10.8%	10.6%	
PPOP	6.2%	7.2%	6.6%	5.8%	5.9%	6.2%	
Gross NPA	2.2%	1.8%	3.1%	2.2%	2.3%	2.5%	
Credit cost (on avg AUM)	0.9%	1.3%	6.0%	1.3%	1.1%	1.2%	
ROA	4.3%	4.4%	-0.6%	3.6%	3.9%	4.0%	
ROE	18.2%	18.3%	-4.3%	14.6%	15.5%	16.5%	
Valuations							
PE	23.9	14.5	11.7	14.6	11.4	9.2	
PEG	0.3	0.7	1.2	0.9	0.6	0.4	
PB	2.2	2.4	2.2	2.0	1.7	1.4	
Dividend Yield	0.0	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.

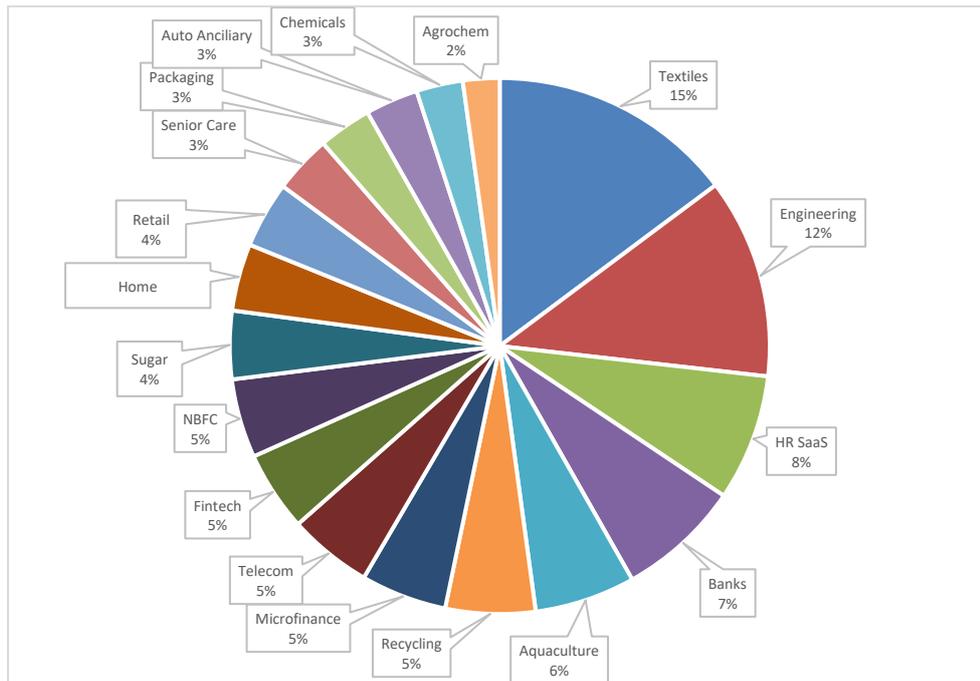
Similarly, if we analyse the table above for financial companies, it indicates that we own high growth lenders, with high margins, operating leverage (visible from PPOP growth higher than NII growth), declining GNPA's (and thus credit costs) and high return ratios. Despite that - these companies are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

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

declining 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 Avanti Feeds. We first bought this company in January 2024 and further added to it in April & July 2024. While the stock has done quite well for us, we believe the best is yet come. Not only are we in early cycle of recovery, but there are also a few optionalities that could drive strong earnings growth for a long-time to come.

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

Avanti Feeds Ltd (CMP: 740; Market Cap: Rs 100 bn; ADT: Rs 1 bn)

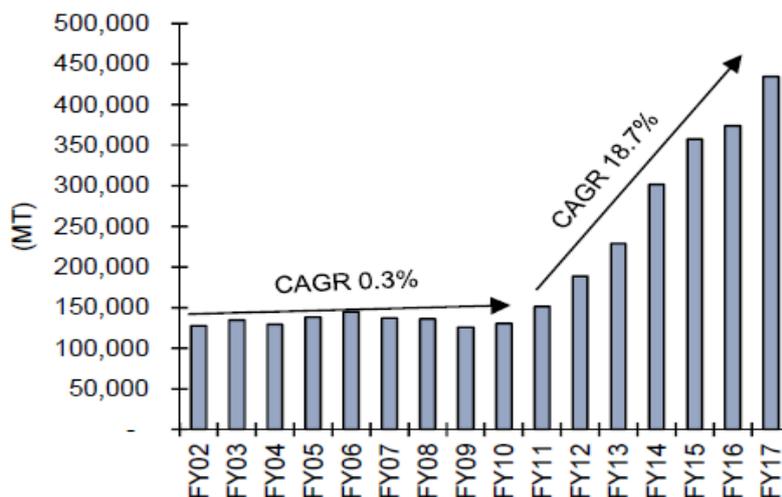
Hyderabad-based Avanti Feeds (Avanti) is the largest shrimp feed manufacturer (48% market share) and a high-value shrimp processor and exporter. The shrimp feed segment has a total capacity of 775,000 MT and processed shrimp segment has a total capacity of 29,000 MT. Avanti has a collaboration with Thai Group Plc (one of the largest producers of sea food globally) for technical upgradation and development of feed since 2002. Thai Union owns 24.2% of Avanti.

Shrimp industry's evolution in India:

2000-2010: The shrimp sector in India did not fare well. This was due to non-availability of quality seeds, multiple diseases, unfavorable climatic conditions, anti-dumping duty by US, high input costs and depressed international prices for shrimp, which made shrimp unviable for the farmers. As a result, shrimp export volumes rose at a paltry 0.3% CAGR during FY02-10.

2011-2017: After a long gap of 5 years, the aquaculture industry recovered from losses in 2011, and industry started looking bright. The outbreak of Early Mortality Syndrome (EMS) shrimp disease in 2013 in Thailand resulted in a steep decline in shrimp production. India stepped in and filled the slack from Thailand. Thailand's market share was at 25% in 2012 whereas India's share stood at 12% that year. With fall in Thailand's shrimp production, India's share expanded to 27% in 2016 whereas Thailand's share declined to 14%. Thailand's neighbouring country Indonesia also suffered from EMS and its share in global exports declined from 14% in 2012 to 9% in 2016. As a result, Vannamei shrimp exports from India grew at a 18.7% / 28.5% CAGR in volume / value over FY11-17.

Chart 1: India Shrimp Exports – Volume



Source: I-sec research

Perfect storm (2018-2023): Ecuador continuously increased its shrimp export volumes since 2010. Although at an equal pace with India earlier on in the period. However, in the last couple of years, Ecuador's growth rate has been exceptional. Ecuador's shrimp production increased from 0.5 MT in in 2018 to 1.2 MT in 2023 a CAGR of 19%. Demand, however, grew at 2.5% in the USA

(source: USDA) and 4% in China vs 6.5% in the USA and 9% in China during 2013-2017. The demand-supply mismatch created by Ecuador put pressure on global shrimp prices.

Additionally, fishmeal (one of the key raw materials to shrimp feed; ~30% of RM) increased 30%. This was due to global shortage by Peru – the biggest producer of fish meal (~20% mkt share), where volumes were down due to juvenile fish at the shore. This was caused by El-Nino phenomenon globally. Both these factors (RM and lower shrimp prices) impacted margins.

Table 1: Ecuador production over years

In MT	2010	2017	2018	2023	CAGR (2010-2017)	CAGR (2018-2023)
Ecuador Production	1,46,204	4,32,913	5,00,000	12,00,000	16.77%	19.14%

Chart 2: High fishmeal prices...

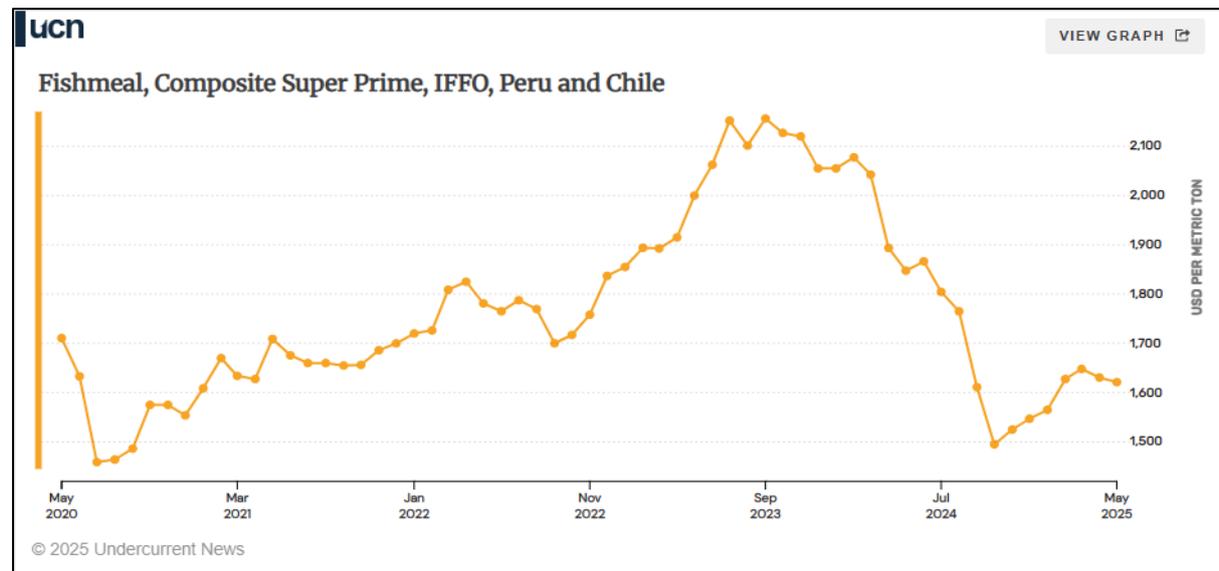


Table 2: ...impacting margins

Year	FY19	FY20	FY21	FY22	FY23	FY24
EBITDA (%)	11.7	10.8	11.3	6.4	7.8	8.5
Net Margin (%)	8.6	9.2	9.5	5.0	6.1	7.2

2024 onwards: Since early 2024 Ecuador is facing multiple headwinds. It declared nationwide emergency after numerous attacks by organized criminal gangs which in turn increased security, labour, and overheads by ~10-20%. Also, post withdrawal of diesel subsidies by the government in December 2022, energy costs went up by 25% compared to 2021. Despite cost of production going up, shrimp realisation has only declined over time. Ecuador also faces labour shortage, which means they will predominantly remain an exporter of basic head-on/shell-on shrimp, with limited downstream capacity. Any over capacity by them will impact their own margins.

What we think will likely happen: The demand-supply gap that has widened due to excess supply from Ecuador will reverse with some production slowdown in Ecuador (for reasons mentioned above), and demand coming back from USA, Europe, and China. This will lead to better shrimp prices globally, thereby improving farm-gate prices.

Some optionalities which are not part of our core thesis / assumptions:

- Avanti has recently announced its foray into fish feed and pet care business. With the help of Thai Unions technology, Avanti has started trading of pet care food under the brand “Avant Furst”. The product has received good response and with a JV between Bluefalo Co Ltd, Thailand (part of Thai Union) with equity investment and transfer of technology by them, Avanti is in the final stage of acquiring land and is planning to start construction from October 2025.
- **India-UK FTA:** India was the UK’s largest shrimp supplier until 2017. However, in 2017 the FTA between the two countries ended and India faced steep 12-20% tariffs whereas Vietnam and Ecuador paid none. India’s market share dropped from 35% to a 15%. With the FTA now back in place, we expect reasonable market share clawback by India.
- **India-US trade deal:** Currently, India has the lowest tariffs vs Vietnam, Thailand, and Indonesia. Any tariffs lower than the other countries will only help gain more market share in the US. Also, although Ecuador is not India’s competitor due to product mix, if at all duty stands at zero for India, we could also gain market share from Ecuador.

Healthy balance sheet and high ROIC

Avanti has ~Rs 20 Bn of net cash on its balance sheet (which is ~20% of its MCap) enabling it to incur capex via internal accruals and distribute dividends. ROIC is impressive at 30%+.

Table 3: Financials and valuation snapshot

(Rs mn)	FY22	FY23	FY24	FY25	FY26E	FY27E	FY28E	% CAGR (2025-28)
Sales	50,360	50,871	53,689	56,123	59,457	63,067	66,676	5.9%
<i>Growth rate</i>		1.0%	5.5%	4.5%	5.9%	6.1%	5.7%	
EBITDA	3,237	3,950	4,588	6,330	6,994	7,555	8,120	8.7%
<i>Growth rate</i>		22.0%	16.2%	38.0%	10.5%	8.0%	7.5%	
PAT	2,547	3,142	3,938	5,571	6,338	7,253	8,264	14.0%
<i>Growth rate</i>		23.4%	25.3%	41.5%	13.8%	14.4%	13.9%	
PE (x)	25.4	16.3	20.4	19.1	16.8	14.6	12.9	
EV/EBITDA (x)	13.7	9.8	12.8	12.9	10.7	9.1	7.3	
ROE	13.9%	15.7%	16.0%	20.5%	19.4%	18.4%	17.5%	
ROIC	20.9%	21.7%	24.9%	33.9%	34.1%	33.2%	34.5%	

Nionios



Alpha