October 8, 2025

Dear Partners in AAFI,

The fund was down 1.1% during the quarter (down 1.6% net of fees and all expenses). We outperformed the Nifty during the quarter by 2.4% & 1.9% respectively.

Year to date the fund was up 10.6% (9.6% net of fees and all expenses) – outperforming the Nifty by 6% & 4.9% respectively.

10 of the 20 positions we held at the end of the quarter outperformed the Nifty during the quarter (Year to date this number is same at 10 out of 20). Inception to date 15 out of the 20 companies in the portfolio beat the Nifty.

We sold 2 companies during the quarter (one of which we have featured in this newsletter). From when we bought these companies, both the companies we sold underperformed the market. One marginally and the other meaningfully.

We added 2 new companies to the portfolio. In addition to this we added to 3 existing companies. All three companies we added to have come off ~30% over the last several months due to trade uncertainties with the US. We believe that the impact on these businesses is significantly lower than feared by the market, even if a trade resolution with the US were to be long-drawn, and hence we used this opportunity to add to businesses we really like over the long-term.

The fund had an average & quarter end cash balance of 1%.

Q2FY26 - Class A	**Returns**	**Excess Returns**
AAFI - Gross returns	-1.1%	2.4%
AAFI - Returns net of fees & expenses	-1.6%	1.9%
Nifty	-3.6%	
YTD FY26 - Class A	**Returns**	**Excess Returns**
AAFI - Gross returns	10.6%	6.0%
AAFI - Returns net of fees & expenses	9.6%	4.9%
Nifty	4.6%	
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	24.6%	9.7%
AAFI - Returns net of fees & expenses *	19.8%	4.9%
Nifty	14.9%	

** 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 98 management interactions during the quarter and 2 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.

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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	*10.7%*	*1.4%*	*11.9%*	*17.1%*	*16.4%*	*13.6%*	*15.7%*
EBITDA	*11.2%*	*18.6%*	*14.1%*	*30.9%*	*15.3%*	*17.2%*	*20.9%*
PAT	*39.0%*	*28.7%*	*33.0%*	*35.7%*	*23.1%*	*22.8%*	*27.1%*
Margins							
EBITDA	*11.3%*	*13.2%*	*13.5%*	*15.0%*	*14.9%*	*15.4%*	
PAT	*4.5%*	*5.7%*	*6.8%*	*7.8%*	*8.3%*	*9.0%*	
Leverage ratios							
Leverage (Net Debt to EBITDA)	*1.7*	*1.5*	*1.5*	*0.7*	*0.2*	*-0.0*	
Leverage (Net Debt to Equity)	*0.5*	*0.4*	*0.4*	*0.2*	*0.1*	*-0.0*	
Return ratios							
RoE	*10.7%*	*9.8%*	*9.6%*	*11.7%*	*13.9%*	*15.0%*	
RoCE	*10.0%*	*9.8%*	*8.9%*	*10.7%*	*12.5%*	*13.6%*	
Valuation Ratios (x)							
PE [i]	25.3	25.2	31.1	24.8	17.9	15.0	
PEG	0.4	0.9	0.9	0.7	0.8	0.7	
PB	2.7	3.7	3.5	3.3	2.9	2.5	
EV/EBITDA	6.6	9.8	11.9	11.0	8.8	7.2	
P/Sales	2.8	2.8	2.5	2.0	1.7	1.5	
FCF Yield (%)[ii]	4.8	1.2	-0.5	2.8	3.8	5.0	
Dividend Yield (%)[ii]	0.8	1.2	1.1	1.1	1.4	1.6	

Notes: (i) we have excluded two 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 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 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	23%	30%	-3%	5%	27%	29%	20%
NII Growth	50%	35%	14%	2%	17%	25%	14%
PPOP Growth	50%	43%	0%	-5%	21%	31%	15%
PAT Growth	123%	35%	-128%	NA	55%	28%	NA
NIM	16.6%	16.8%	17.0%	17.0%	17.0%	16.5%	
PPOP	9.6%	10.5%	9.3%	8.0%	8.4%	8.8%	
Gross NPA	2.3%	2.0%	4.6%	2.3%	2.3%	2.7%	
Credit cost (on avg AUM)	1.5%	2.2%	10.5%	3.5%	1.7%	1.9%	
ROA	6.2%	6.3%	-2.9%	3.6%	5.7%	5.8%	
ROE	18.4%	18.6%	-21.3%	8.7%	15.6%	17.4%	
Valuations							
PE	14.5	13.5	9.3	60.3	9.6	7.3	
PEG	0.4	0.4	0.3	0.0	0.2	0.2	
PB	2.1	2.2	2.2	1.7	1.4	1.2	
Dividend Yield		-	-	-	-	-	

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 which faced some asset quality headwinds in FY25. However, asset quality is improving with declining GNPAs (and thus credit costs). This along with operating leverage (visible from PPOP growth higher than NII growth) is driving strong earnings growth & normalisation of return ratios. Despite this - these companies are trading at very attractive valuations.

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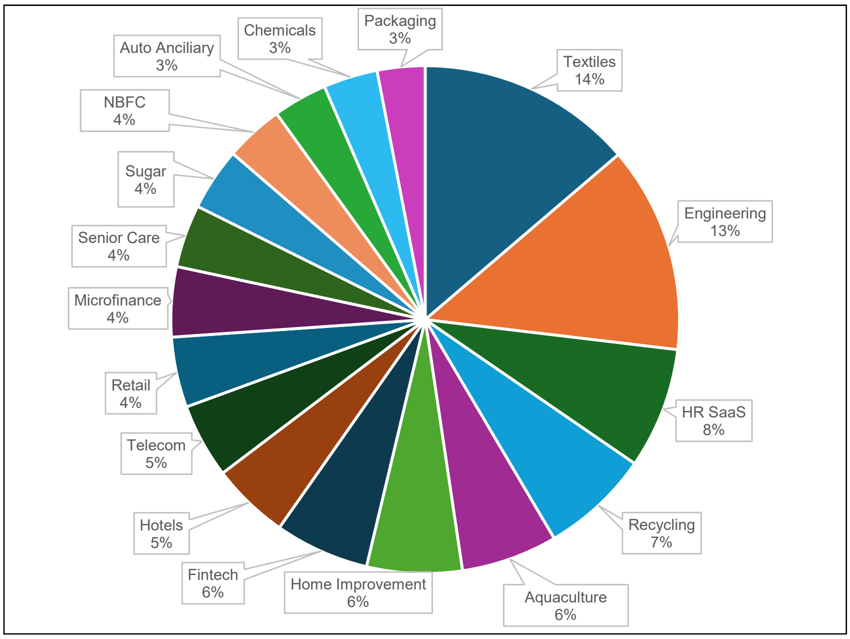
For the growth rates and more importantly quality of growth (ie growth coming without taking balance sheet risk, or diluting return ratios and also generating strong FCF at the same time (and declining GNPAs / credit costs in the case of the lenders); we believe the portfolio's valuation is extremely 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 thought we would talk about one of our mistakes – Best Agrolife (BAL). We first bought BAL in May 2023 and further added to it in Aug, Sept & Oct 2023 & Oct 2024. We fully exited this company in Sept 2025 and lost 59% of our investment in the company. When we invested, we really liked the novel & innovative portfolio BAL had & was further building out and drew a lot of comfort from the reasonable valuations. While we were cognisant of the volatile nature of the industry, we believed that the superior portfolio of the company would help trump industry cycle. We were clearly wrong and the impact of poor crop cycles was far worse than we anticipated. In addition there were some idiosyncratic factors that impact BAL even more than its peers. More details in the note below.

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

Best Agrolife (CMP: INR 360; Market Cap: INR 8.5 bn; ADT: INR 45.7mn)

Best Agrolife (BAL) is a domestic agrochemical player, incorporated in 1992. Initially focused on trading agrochemical products, the company evolved into a research-driven entity with in-house production of technicals, formulations, intermediates.

The investment theses

We first invested in BAL in May 2023. Key investment thesis was:

i) **BAL had consistently been at the forefront of innovation, with capabilities of manufacturing several advanced chemical combinations** (novel formulations created by blending multiple active ingredients for enhanced efficacy). These chemical combinations refer to synergistic pesticide formulations that target pests, fungi, and weeds more effectively while reducing resistance risks. e.g. Trifloxystrobin + Difenoconazole + Sulphur, which was launched in June 2023. This was the first indigenous manufactured ternary (three-ingredient) fungicide in India. It provides broad-spectrum control (prophylactic, curative, and eradicative) against diseases like sheath blight, powdery mildew, scab, and Alternaria in crops such as rice, tomato, grapes, chili etc.

ii) **Impressive track record of patented formulations** BAL had one of the highest number of patented formulations in the industry. BAL had two 20-year patented formulations in 2023 which expanded to 10 in 2024. BAL's Intellectual Property portfolio was expansive and growing rapidly, emphasizing ternary (three-ingredient) and binary formulations, process patents for intermediates, and novel herbicides/insecticides. This diversity came across as a strength/moat against competitors by covering multiple pest/disease targets and crop types (eg: soybean, cotton, rice, paddy). As India's first for several ternaries (eg: Trifloxystrobin + Difenoconazole + Sulphur), through these patents BAL gained 3-5 year exclusivity, resulting in an expected margin boost over generics. (EBITDA Margin for patented formulations was expected to be 500-1000bps higher than generics sales).

iii) **BAL continued to invest in building up R&D and distribution capabilities**. BAL was focussed on research-driven innovation, with investments in R&D and skilled manpower supporting its portfolio of multiple patented high-margin products. During FY23 BAL recruited four highly experienced senior R&D specialists for its subsidiary Best Crop Science. Mr. Pramod Karlekar (former head FMC India) was a notable addition to the talent pool. An augmented R&D led BAL’s manufacturing process expertise with capability spread across processes. This coupled with aggressive growth in distributors and initial product and regulatory success allowed BAL to ramp up sales and profit at a CAGR of 36/185% over FY20-23.

iv) **Reasonable valuations.** When we invested, BAL was trading at 13x trailing PE, and 10.6x 1 yr fwd (FY23E) PE**.** Trailing / 1 yr fwd EV/EBITDA was 5.8/4.6x. Trailing RoCE was 20%+. We valued BAL at 12x FY26E PE (3 yr fwd) in line with valuation of industry peers, and would have made significant returns of the numbers played out as expected.

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What played out after we bought the stock

Unfortunately, the business faced a series of headwinds. The first impact of lower Chinese agrochemical prices (driven by Chinese overcapacity in agrochemicals) manifested in the form of inventory write-down and significantly impacted FY23 and H1FY24 profitability. Volatility in monsoons and the propensity of the company to push for sales pre-season (mainly in Kharif) led to stress in the balance sheet (higher inventory and receivables). Returns of channel inventories post a weak Kharif and Rabi season led to FY24 profits declining 45% YoY; due to a combination of low rains, lower crop acreage (e.g. cotton which impacted sales of blockbuster patented formulations like Ronfen) and aggressive channel filling prior to the season which resulted in high returns as the season failed to deliver as expected. FY25 witnessed a further 34% YoY decline in PAT. BAL struggled with cashflows during that period, and net debt continued to increase. Management was prudent enough to change its stance of aggressive inventory buildup and aggressive channel push prior to season from FY26. Even with the business pivot the external uncertainties (like the ones listed above) continue to impact them.

Where we went wrong!

1) **Inherently volatile business model**. The domestic agrochemical industry is an extremely competitive space and agrochemical companies offer liberal payment terms to farmers. Farmers pay for the products once the cashflow from the crop cycle accrues to them. When crop output is impacted and farmer cashflows are strained, the pain is passed on down the value chain to agrochemical players like BAL. In times like these, superior product portfolio of BAL makes no difference and it suffers with stretched working capital cycle just like the rest of its peers.

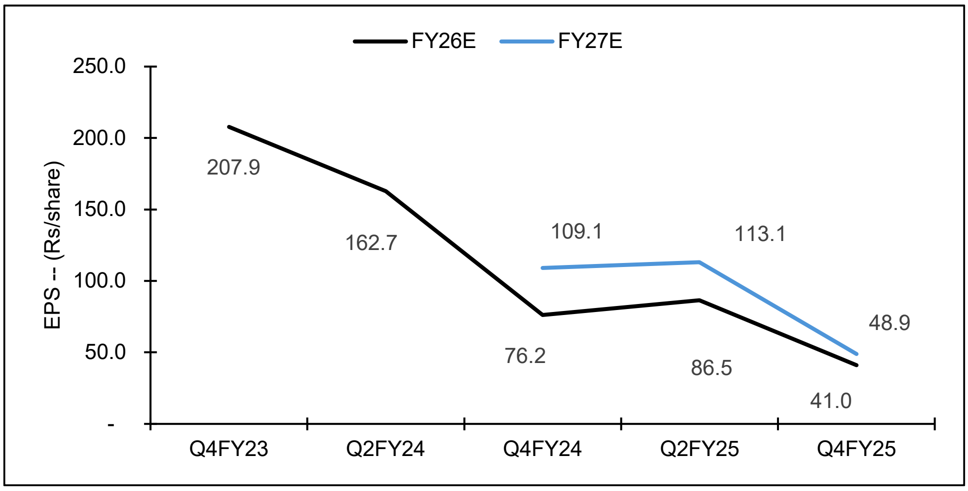
BAL actually suffered more than peers with sharply higher inventory levels & receivables. This was because the company built up inventories as it had a strong product launch cycle combined with a sharp increase in distribution reach. However, when the season failed, it was saddled with high levels of inventories & receivables. To make things worse, Chinese dumping led to inventory write-downs (which happened in FY24).

While we were cognisant of the volatile nature of the industry, we believed that the company's novel & fast growing portfolio & distribution reach would trump industry volatility. We were clearly wrong and under appreciated the impact a bad crop season could have on BAL.

2) **The external factors – the uncontrollable**. The reasons for a failed crop cycle for agrochemical players in India can be i) environmental (which includes both heavy rains and lack of rains) – Incidentally during our holding period we have seen both El Nino and La Nina conditions leading to lower than average and higher than average rainfall and both leading to crop losses and extended pain for the sector ii) pest and diseases turning out to be lower than expected leading to lower consumption of agrochem iii) agronomic factors – like lower crop prices leading to lower incentive for farmers to use agrochemicals in a controlled pest incidence scenario iv) specific crops to which products are targeted witnessed lower acreage and lower yield – case in point being cotton where improper use of BT cotton seeds has been leading to structurally lower yields and there by lower acreage. Some of these factors keep coming up from time to time and we anticipated it. However, we were unlucky as we had a deluge of these factors play out during our holding period.

To summarise, a combination of bad judgment (point 1) and a bit of bad luck (point 2) lead to a terrible investment outcome where we lost 59% of our investment in the company.

Chart 1: We witnessed continuous earnings downgrades for BAL over the investment horizon



Source: Company data, Aionios Alpha research

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