

January 8, 2026

Dear Partners in AAFI,

The fund was up 1.3% during the quarter (up 0.85% net of fees and all expenses). We underperformed the Nifty during the quarter by 4.8% & 5.3% respectively.

Year to date the fund was up 12.1% (10.5% net of fees and all expenses) – outperforming the Nifty by 1% on a gross basis but underperforming by 0.6% on a net basis.

5 of the 21 positions we held at the end of the quarter outperformed the Nifty during the quarter (Year to date this number is 9 out of 21). Inception to date 12 out of the 21 companies in the portfolio outperformed the Nifty.

We sold 1 company during the quarter and trimmed 2. From when we bought these companies, all 3 companies significantly outperformed the market.

We added 2 new companies to the portfolio and increased exposure to 2 existing companies.

The fund had an average cash balance of 1.2% during the quarter & quarter end cash balance of 0.4%.

<b>Q3FY26 - Class A</b>	<b>Returns</b>	<b>Excess Returns</b>
AAFI - Gross returns	1.3%	-4.8%
AAFI - Returns net of fees & expenses	0.9%	-5.3%
Nifty	6.1%	
<b>YTD FY26 - Class A</b>	<b>Returns</b>	<b>Excess Returns</b>
AAFI - Gross returns	12.1%	1.0%
AAFI - Returns net of fees & expenses	10.5%	-0.6%
Nifty	11.1%	
<b>FY25 - Class A</b>	<b>Returns</b>	<b>Excess Returns</b>
AAFI - Gross returns	5.1%	-0.3%
AAFI - Returns net of fees & expenses *	2.8%	-2.5%
Nifty	5.3%	
<b>FY24 - Class A</b>	<b>Returns</b>	<b>Excess Returns</b>
AAFI - Gross returns	49.0%	20.7%
AAFI - Returns net of fees & expenses *	39.5%	11.1%
Nifty	28.3%	
<b>Since Inception - Class A</b>	<b>Returns - CAGR</b>	<b>Excess Returns</b>
AAFI - Gross returns	22.7%	6.8%
AAFI - Returns net of fees & expenses	18.2%	2.3%
Nifty	15.9%	

\* 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 65 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	FY29E	CAGR (FY25-29)
Sales	10.9%	1.6%	10.2%	15.3%	17.2%	14.6%	13.6%	15.2%
EBITDA	10.8%	18.1%	11.3%	16.6%	35.2%	23.1%	17.4%	22.9%
PAT	39.8%	31.6%	25.1%	15.4%	53.2%	33.0%	21.7%	30.1%
<b>Margins</b>								
EBITDA	11.4%	13.2%	13.3%	13.5%	15.6%	16.7%	17.3%	
PAT	4.0%	5.2%	5.9%	5.9%	7.7%	9.0%	9.6%	
<b>Leverage ratios</b>								
Leverage (Net Debt to EBITDA)	1.7	1.4	1.5	1.0	0.5	0.3	0.1	
Leverage (Net Debt to Equity)	0.4	0.4	0.4	0.2	0.1	0.1	0.0	
<b>Return ratios</b>								
RoE	12.0%	13.5%	12.9%	13.7%	15.0%	16.9%	17.9%	
RoCE	11.2%	11.6%	10.7%	11.4%	13.6%	15.4%	16.3%	
<b>Valuation Ratios (x)</b>								
PE (i)	21.4	31.8	29.3	28.2	18.6	14.4	11.8	
PEG	0.5	1.0	1.2	1.8	0.3	0.4	0.5	
PB	2.6	5.2	4.6	3.5	3.0	2.6	2.2	
EV/EBITDA	14.4	13.3	21.4	12.3	9.4	7.7	6.4	
P/Sales	3.5	2.9	2.8	2.3	1.8	1.5	1.3	
FCF Yield (%) (ii)	3.9%	0.5%	-0.4%	2.0%	3.5%	5.1%	6.9%	
Dividend Yield (%) (ii)	3.4%	1.2%	1.0%	1.3%	1.7%	1.9%	2.0%	

Notes: (i) we have excluded two company's P/E, RoE and RoCE for FY23 and FY25 as these companies have gone from losses, to break even to small profits 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; 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	FY24E	FY25E	FY26E	FY27E	FY28E	FY29E	CAGR (FY25-29)
AUM Growth	21%	28%	-7%	1%	27%	28%	28%	20%
NII Growth	53%	35%	11%	-1%	16%	25%	25%	16%
PPOP Growth	55%	43%	-5%	-10%	22%	31%	32%	17%
PAT Growth	159%	34%	-161%	-220%	69%	24%	29%	NA
NIM	16.0%	16.4%	16.6%	16.8%	16.9%	16.4%	16.1%	
PPOP	9.4%	10.4%	8.9%	7.5%	8.0%	8.5%	9.1%	
Gross NPA	2.5%	2.1%	5.1%	2.4%	2.4%	2.9%	3.4%	
Credit cost (ON AVG aum)	1.6%	2.4%	12.1%	3.8%	1.8%	2.2%	1.9%	
ROA	5.9%	6.0%	-4.7%	3.0%	5.4%	5.3%	5.5%	
ROE	18.9%	18.8%	-27.6%	7.3%	15.4%	16.2%	18.3%	
Valuations								
PE		11.5	7.5	64.0	9.4	7.7	5.8	
PEG		0.3	0.3	-0.1	0.2	0.3	0.2	
PB		1.9	2.0	1.6	1.4	1.2	1.0	
Dividend Yield		-	-	-	-	-	-	

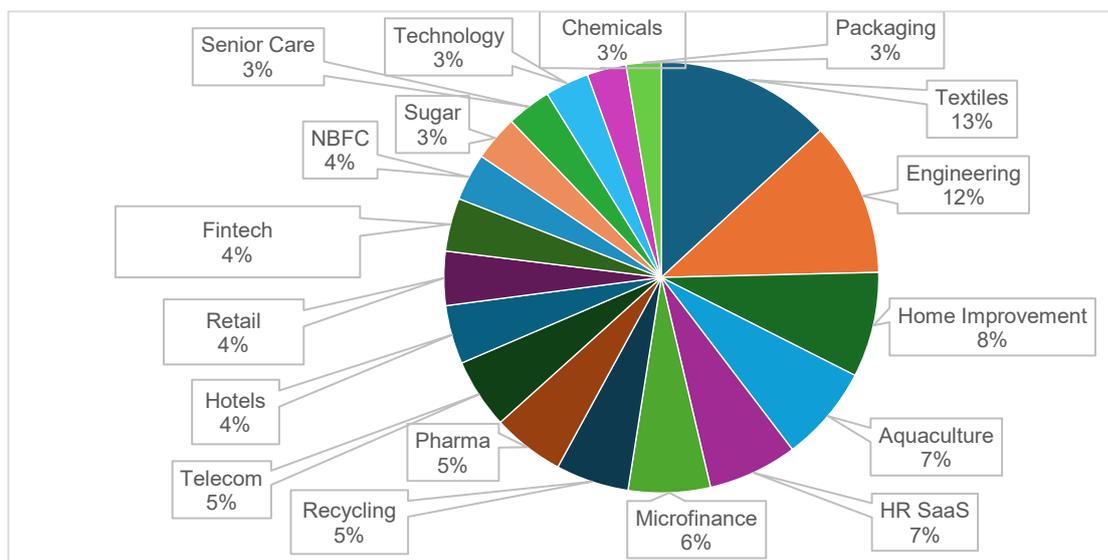
Notes: (i) One of the company in our BFSI basket IPOed less than a year ago and hence we do not have historic valuations.

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 GNPA's (and thus credit costs). This along with operating leverage (visible from PPOP growth higher than NII growth in FY28 Y FY29) is driving strong earnings growth & normalisation of return ratios. Despite this - 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 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 would like to talk about Pondy Oxide and Chemicals (POCL). We first bought POCL in Dec 2024 by participating in their QIP at 860. Soon after we made our investments the stock fell sharp as the markets sold off. We added 25% to our position in Jan 2025 ~20% below our initial purchase, as nothing had changed in our thesis. Thankfully not only did our thesis play out but earnings surprised positively in a meaningful way; FY26 earnings have been upgraded ~45% as the year has gone by. In Oct 2025 we trimmed 1/3rd of our position at ~1425 as POCL became our largest position. Given its an evolving industry with possible blind spots for us, we were not comfortable with POCL being a top position for us.

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

A handwritten signature in black ink that reads "Kuleen" in a cursive style, enclosed within a hand-drawn rectangular box.

Kuleen Tanna  
*Founder & CIO*

## Annexure I

### **Pondy Oxides and Chemicals (CMP: INR 1,454; Market Cap: INR 44bn; ADT: INR 633mn)**

**A sector (largely unorganised) that was historically ignored, untouched and struggled for growth capital**

- **Structural challenges & informality.** Lead recycling was long dominated by the unorganised sector, with weak compliance and cost advantages from tax evasion, undermining industry formalisation despite regulatory efforts since 2001.
- **Absence of meaningful value creation for listed players.** Discounted domestic scrap prices compressed margins for compliant players, and even by CY21 no listed company had demonstrated sustained value creation, thus leading to difficulty for companies to raise growth capital.
- **Exports and capturing global market share were more viable for the organised sector.** However, organised domestic players benefited from structurally lower conversion costs (vs global peers) and, in select cases (e.g., Gravita), built sourcing moats through overseas supply chains. Thus, global competitiveness, allowed players to export processed lead scrap despite resorting to relative costlier imports (vis-à-vis domestic scrap).
- **Capital as the binding constraint.** The business was working capital intensive (import lead scrap and export processed lead to global customers). Limited access to equity capital constrained scale and growth for domestic players. But that was about to ease.

#### **The turning point: What changed post CY21**

The status quo began to shift dramatically starting in 2022, driven by regulatory overhauls that addressed the core issues of **incentives, enforcement, and formalization**. The key catalyst was the introduction of the Battery Waste Management Rules (BWMR) 2022 by the Ministry of Environment, Forest and Climate Change. This unified framework replaced fragmented norms, covering all battery chemistries (including lead-acid) and imposing Extended Producer Responsibility (EPR) on manufacturers, importers, and brand owners. Under EPR, OEMs must now meet mandatory collection and recycling targets—starting at 70% of batteries sold and rising to 90% by 2027—tracked through a national digital portal with QR-coded labels for traceability. Producers are required to establish free take-back systems, set up collection points, and channel end-of-life batteries exclusively to registered recyclers, with penalties like environmental compensation or registration suspension for non-compliance.

- **Scrap flow formalisation.** Mandatory EPR and OEM take-back obligations were expected to divert a large share of battery scrap away from informal channels and toward registered recyclers, improving scrap availability and utilisation for organised players.
- **Pricing power via (future) EPR credits.** Organised recyclers could monetise compliance by issuing EPR certificates to OEMs, creating a new, predictable revenue stream beyond metal spreads.

- **The GST Council and government introduced a Reverse Charge Mechanism (RCM) on the supply of metal scrap**—including lead-acid battery scrap—effective **10 October 2024**. Under this rule, when a **registered buyer purchases metal scrap from an unregistered supplier**, the **buyer (recipient) must pay GST directly to the government**, instead of the seller collecting and remitting it. Informal scrap sellers previously avoided GST, creating a cost distortion versus compliant recyclers. RCM shifts tax liability to buyers and brings more transactions into the official tax net, narrowing that distortion. This is expected narrowed scrap price arbitrage (domestic scrap prices were always at a discount compared to imported lead scrap) and improved margins for compliant recyclers.

These regulations, thus raised hopes for i) better pricing for domestic scrap (domestic scrap availability was not a problem), pricing was at a discount to imported scrap prices; with this shift in regulations it was expected that gradually domestic scrap prices would converge with international scrap prices allowing organised players to source locally – thus significantly improving working capital cycle ii) Regulatory push towards formalisation could finally allow domestic companies to raise growth (equity) capital to expand. Both these outcomes were pointing towards significant value creation for organised sector players in the sector.

### **Scope for significant demand growth in domestic lead recycling as the sector becomes more organised**

As we scoped the sector, our working model on secondary lead scrap in India highlighted a potential significant demand growth for listed organised players like Gravita and Pandy Oxides (POCL).

Secondary lead supply comprises battery captives (e.g., Amara Raja, Exide), organised recyclers (e.g., Gravita, POCL), and unorganised sector; ~500 authorized recyclers with 2.1mtpa capacity imply max ~1.25mtpa production at full utilization (unorganised utilisation capped at ~50%).

Thus, even assuming a high single digit growth rate for Indian lead recycling industry, we were sensing a sustained high double-digit growth for POCL and Gravita over FY25-28E. Model assumed organised sector to capture larger share of incremental industry growth without requiring absolute volume decline from unorganised players.

Also, for battery OEMs (Like Amara Raja and Exide) we factored in growth of captive recycling as per company guidance and capex announcements. Both Amara Raja and Exide have announced expansion in recycling capex, and we saw adequate demand for secondary scrap recycling players like Gravita and POCL post that.

### **What made us to choose to invest in POCL over others**

**POCL stood at the confluence of powerful tailwinds, its steady, execution-focused management made it a very compelling investment opportunity for us**

- **Capital raise tailwind.** Renewed sector interest enabled POCL to raise >INR 3bn via preferential issue and QIP (~12% of market cap), strengthening the balance sheet and securing the necessary growth capital. We participated in the QIP.
- **Capacity expansion.** Capital funded brownfield expansion in secondary lead from 132,000 tpa to 204,000 tpa (two phases of 36,000 tpa; Phase I commissioned) at an efficient cost of INR 946mn.

- **Return accretion.** Capital-efficient brownfield expansion significantly improved RoCE potential. What further attracted us to POCL was its string of distressed assets acquisitions and opportunistic land purchase in Mundra which improved profitable growth optionality significantly.
- **Margin & growth optionality.** Stronger capital base enabled global growth via working capital, followed by selective move into higher-margin lead alloys as customer relationships deepened.

**Table 1: Peer valuations when we invested in POCL**

	EV/EBITDA				PE				PB			
	FY24	FY25E	FY26E	FY27E	FY24	FY25E	FY26E	FY27E	FY24	FY25E	FY26E	FY27E
POCL	16.3	22.3	15.6	9.8	77.5	43.8	27.4	15.2	6.9	4.2	3.3	2.7
Gravita India	20.8	17.7	14.7	12.4	28.8	23.6	19.3	16.7	17.1	13.0	10.1	8.2
Ganesh EcoSphere	17.9	22.4	19.3	13.4	61.1	45.7	36.1	22.3	2.5	3.7	3.4	3.0
Anthony Waste	8.1	9.1	7.6	6.3	15.2	16.2	13.5	11.3	2.3	2.2	1.9	1.7
	RoE				RoCE				Net Debt/EBITDA			
	FY24	FY25E	FY26E	FY27E	FY24	FY25E	FY26E	FY27E	FY24	FY25E	FY26E	FY27E
POCL	8.9	9.6	12.1	18.0	9.7	10.2	14.1	18.1	1.0	0.5	-0.3	0.1
Gravita India	29.5	26.4	24.4	22.0	22.8	22.8	22.1	21.6	0.8	0.8	0.8	0.4
Ganesh EcoSphere	4.8	8.3	9.8	14.1	5.0	8.1	8.5	11.3	1.6	2.4	2.3	1.4
Anthony Waste	18.9	18.0	19.3	19.5	12.1	11.8	13.3	13.5	1.84	2.01	1.98	1.99

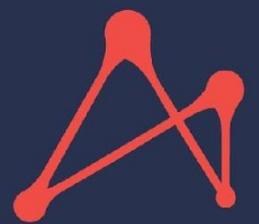
Source: Company data, Aionios Alpha

As highlighted in Table 1, POCL was available at attractive valuations relative to its growth profile. We were less comfortable with Gravita's sourcing strategy, particularly its cash-and-carry procurement in Africa. Our diligence included multiple discussions with POCL's business heads and its Indian customers, which validated our thesis on increasing sector formalisation and policy-driven convergence of domestic and international lead scrap prices. Customer interactions also confirmed POCL's differentiated lead alloy capabilities, which would be difficult for battery OEMs to replicate.

**FY26 earnings surprised leading to upfronting a part of the expected returns; but the story is far from over**

- **Margin inflection.** Post commissioning of Phase 1, improved working capital availability enabled aggressive overseas customer acquisition and higher lead alloy penetration, lifting EBITDA from ~INR 12/kg to ~INR 18/kg.
- **Growth drivers.** Higher Lead alloy mix in sales volume not only improved margins but also helped in working capital efficiency through lower inventory days, thereby making POCL a standout performer among its peers. Higher available liquidity also supported ramp-up of copper smelting, creating an additional growth lever.
- **Earnings & return.** Higher margins drive FY26E earnings growth of ~125% YoY, with RoCE expanding from 9.9% in FY25 to 18% in FY26E and a further ~200 bps expected by FY28E.
- **Valuation & optionality.** Despite the run-up, the stock trades at FY29E PE/EV-EBITDA of 18x/11.5x, offering a FY26–29E earnings CAGR of ~21%, with incremental upside from Harsha Exito, Mundra, and ongoing brownfield expansion.

Nionios



Alpha