July 8, 2026

Dear Partners in AAFI,

We are glad to share that this was our best quarter since inception in terms of absolute returns (second best in terms of relative returns). The fund was up 30.4% (up 29.9% net of fees and all expenses). We outperformed the Nifty during the quarter by 23.6% & 23% respectively.

During the quarter 17 of the 21 companies in the portfolio outperformed the Nifty. We trimmed 4 companies to fund 2 additions to the portfolio (including an IPO – Knack Packaging which listed today). Since the fund started, this is the second IPO we applied for anchor allocation and got allotment as well.

Inception to date 14 out of the 21 companies in the portfolio beat the Nifty.

The fund had an average cash balance during the quarter of 0.7% (end of quarter cash was 1.8%; 1.4% was refund due for IPO application though).

| **Q1FY27** | **Returns** | **Excess Returns** |
|---|---|---|
| AAFI - Gross returns | 30.4% | 23.6% |
| AAFI - Returns net of fees & expenses | 29.9% | 23.0% |
| Nifty | 6.9% | |
| **One year** | **Returns** | **Excess Returns** |
| AAFI - Gross returns | 16.2% | 22.7% |
| AAFI - Returns net of fees & expenses | 14.3% | 20.7% |
| Nifty | -6.5% | |
| **3 years** | **Returns (CAGR)** | **Excess Returns** |
| AAFI - Gross returns | 20.7% | 13.2% |
| AAFI - Returns net of fees & expenses | 17.8% | 10.2% |
| Nifty | 7.5% | |
| **Since Inception** | **Returns (CAGR)** | **Excess Returns** |
| AAFI - Gross returns | 24.4% | 14.2% |
| AAFI - Returns net of fees & expenses | 21.5% | 11.3% |
| Nifty | 10.3% | |

** 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 41 management interactions and 1 site visit during the quarter. This is over and above dozens of earnings calls each of the seven 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.

**Aionios Alpha Investment Management LLP**
101, 1st floor, Dalamal House, Jamnalal Bajaj Marg, Nariman Point, Mumbai 400021
Email: kuleen.tanna@aioniosalpha.com
URL: www.aioniosalpha.com

### Portfolio ex-Financial companies

| Growth (% YoY) | FY24 | FY25 | FY26 | FY27E | FY28E | FY29E | CAGR (FY25-29) |
|---|---|---|---|---|---|---|---|
| Sales | 7.4% | 14.6% | 14.3% | 20.4% | 17.9% | 15.9% | 17.1% |
| EBITDA | 20.3% | 21.9% | 13.0% | 32.1% | 30.1% | 22.1% | 24.1% |
| PAT | 41.2% | 56.9% | 18.3% | 36.5% | 43.3% | 28.4% | 31.3% |
| **Margins** | | | | | | | |
| EBITDA | 14.5% | 15.4% | 15.2% | 16.7% | 18.4% | 19.4% | |
| PAT | 5.1% | 7.0% | 7.2% | 8.2% | 9.9% | 11.0% | |
| **Leverage ratios (x)** | | | | | | | |
| Leverage (Net Debt to EBITDA) | 0.9 | 0.8 | 0.9 | 0.8 | 0.5 | 0.3 | |
| Leverage (Net Debt to Equity) | 0.2 | 0.2 | 0.2 | 0.2 | 0.2 | 0.1 | |
| **Return ratios** | | | | | | | |
| RoE | 13.0% | 13.2% | 14.4% | 15.0% | 17.6% | 18.9% | |
| RoCE | 9.8% | 10.3% | 10.7% | 12.8% | 15.0% | 16.4% | |
| **Valuation Ratios (x)** | | | | | | | |
| PE (i) | 22.1 | 37.3 | 34.5 | 20.9 | 15.2 | 12.9 | |
| PEG | 0.5 | 0.7 | 1.9 | 0.6 | 0.4 | 0.5 | |
| PB | 5.6 | 4.9 | 3.9 | 3.3 | 2.8 | 2.4 | |
| EV/EBITDA | 14.3 | 14.3 | 13.5 | 10.4 | 8.1 | 6.5 | |
| P/Sales | 3.3 | 4.0 | 3.0 | 2.2 | 1.8 | 1.5 | |
| FCF Yield (%)(ii) | 1.1% | 0.1% | 1.3% | 2.4% | 3.2% | 4.7% | |
| Dividend Yield (%)(ii) | 0.9% | 0.7% | 0.9% | 1.0% | 1.1% | 1.3% | |

*Notes: (i) we have excluded two company's P/E & EV/EBITDA during the period when the company have gone from losses, to break even to small profits in our forecasted period 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 & FY26 and likely to improve further in the years ahead. Margins are likely to improve in the forecast years, 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

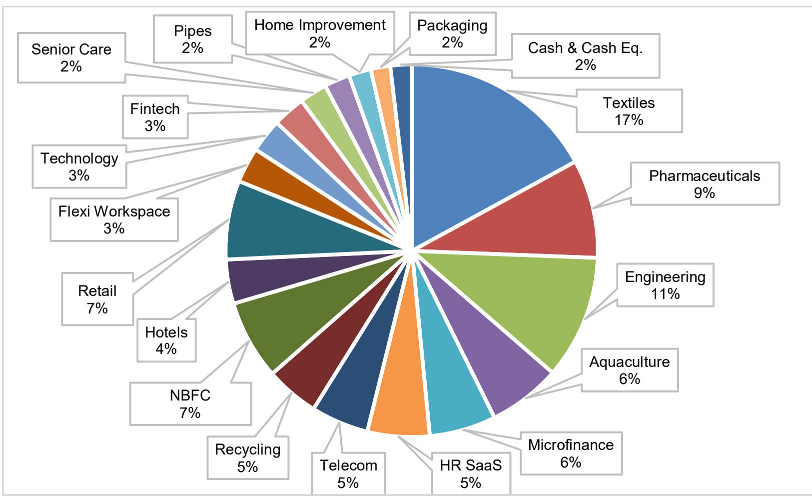
| Fundamentals | FY24 | FY25 | FY26 | FY27E | FY28E | FY29E | CAGR (FY25-29) |
|---|---|---|---|---|---|---|---|
| AUM Growth | 32% | 26% | 21% | 22% | 23% | 24% | 23% |
| NII Growth | 29% | 22% | 18% | 19% | 21% | 25% | 21% |
| PPOP Growth | 30% | 19% | 18% | 20% | 23% | 27% | 22% |
| PAT Growth | 27% | -4% | 33% | 32% | 24% | 27% | 29% |
| | | | | | | | |
| NIM | 14.8% | 14.8% | 14.7% | 14.7% | 14.6% | 14.5% | |
| PPOP | 9.7% | 8.6% | 7.1% | 7.4% | 8.2% | 8.4% | |
| Gross NPA | 1.6% | 3.7% | 1.7% | 1.7% | 2.0% | 2.1% | |
| Credit cost (ON AVG aum) | 2.1% | 9.0% | 3.3% | 1.8% | 1.7% | 1.5% | |
| ROA | 5.8% | -2.0% | 3.2% | 5.6% | 5.9% | 5.3% | |
| ROE | 19.6% | -14.0% | 9.7% | 17.9% | 19.7% | 18.2% | |
| | | | | | | | |
| **Valuations** | | | | | | | |
| PE | 18.0 | 14.4 | 111.2 | 11.7 | 9.2 | 7.9 | |
| PEG | 0.7 | n.a. | 3.4 | 0.4 | 0.4 | 0.3 | |
| PB | 3.1 | 3.1 | 2.5 | 2.0 | 1.7 | 1.4 | |

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 FY27 onwards) 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 Bajaj Finance. Bajaj Finance is by far the best run financial institution in the country. I have known this company and been meeting the management since over a decade. While I loved the business, valuations were something I was not comfortable with. In the market disruption in March we managed buying Bajaj Finance at a price where it first got to ~5 years ago! Over the same period, earnings & book value compounded at 30% & 25% respectively (put differently – earnings are up 4x & book value is up 3x over this period). Risk reward was significantly more favourable and hence I landed up buying this company for the first time in my career.

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

### Bajaj Finance Limited (CMP: INR 1,017; Market Cap: INR 6.3tn; ADT: INR 1,211mn)

**Bajaj Finance Ltd (BAF) is the largest and most diversified retail NBFC in the country with an AUM of Rs.5.1 trillion. Its focus on granular loans and product as well as geographic diversification have enabled it to build a strong customer franchise of 100mn+ in the last two decades. Its cross-sell strategy to mass and affluent customer segments has led to 25%+ AUM growth on a sustainable basis. Investment in technology and analytics has been a key moat for the company in driving operational efficiency and also maintaining asset quality across cycles.**

**What are BAF's key moats which differentiate it from peers?**

**Diversification across retail products as well as geographies**

Bajaj Finance (BAF) started as a captive auto financier to Bajaj Auto and diversified to other retail loan products like consumer durable loans, small business loans, mortgages, loans against securities, etc from 2008 onwards. It currently offers 45+ lending products across the retail segment with mass and mass affluent being the target customer base. BAF had the early mover advantage in consumer loans which banks were not tapping at the time and identifying that gap early on helped in scaling up faster and gaining market share as high as 60-65% in the segment.

**Product suite**

BAJAJ FINANCE

**BAJAJ FINANCE LIMITED**

| Consumer | MSME | Commercial | Rural | Deposits | Payments | Partnership & Services |
|---|---|---|---|---|---|---|
| 1. Consumer Durable Loans<br>2. Digital Product Loans<br>3. Lifestyle Product Loans<br>4. Lifecare financing<br>5. EMI Card<br>6. Retail spend financing<br>7. 2W and 3W financing<br>8. Personal Loan Cross-Sell<br>9. Salaried Personal Loans<br>10. E-Commerce financing<br>11. Retailer finance<br>12. Solar Financing | 1. Unsecured Working Capital Loans<br>2. Loans to Self employed & Professionals<br>3. Business Loans Secured<br>4. Used-car financing<br>5. Medical equipment<br>6. Loan against property<br>7. New car financing<br>8. Commercial vehicle<br>9. Auto leasing<br>10. Industrial Equipment financing | 1. Loan against securities<br>2. IPO financing<br>3. Large corporate lending<br>4. Mid-corporate lending<br>5. Emerging corporate lending | 1. Consumer Durable Loans<br>2. Digital Product Loans<br>3. Lifestyle Product Loans<br>4. Personal Loans Cross Sell Salaried<br>5. Personal Loans<br>6. Gold Loans<br>7. Loans to Professionals<br>8. Microfinance<br>9. Tractor finance<br>10. Affordable mortgage | 1. Retail Term Deposits<br>2. Corporate Term Deposits | **Issuance**<br>1. PPI<br>2. UPI<br>3. BBPS<br>4. FASTag<br>5. Bajaj Prime<br>**Acquiring**<br>1. Merchant QR<br>2. EDC machine | 1. Life Insurance Distribution<br>2. General Insurance Distribution<br>3. Health Insurance Distribution<br>4. Pocket Insurance<br>5. Financial Pulse Report |

**BAJAJ HOUSING FINANCE LIMITED**

| | | |
|---|---|---|
| 1. Salaried Home Loans<br>2. Salaried LAP<br>3. Near Prime & Affordable housing finance | 4. Loan Against Property<br>5. Self Employed HL<br>6. Lease Rental Discounting (LRD) | 7. Developer Finance<br>8. Construction Finance<br>9. Corporate LRD |

**BAJAJ FINANCIAL SECURITIES LIMITED**

| | | | |
|---|---|---|---|
| 1. Trading Account<br>2. Depository Services<br>3. Margin Trading Financing | 4. HNI Broking<br>5. Retail Broking<br>6. IPOs and OFS | 7. Distribution of MF<br>8. Distribution of PMS<br>9. Proprietary Trading | 10. ESOP financing |

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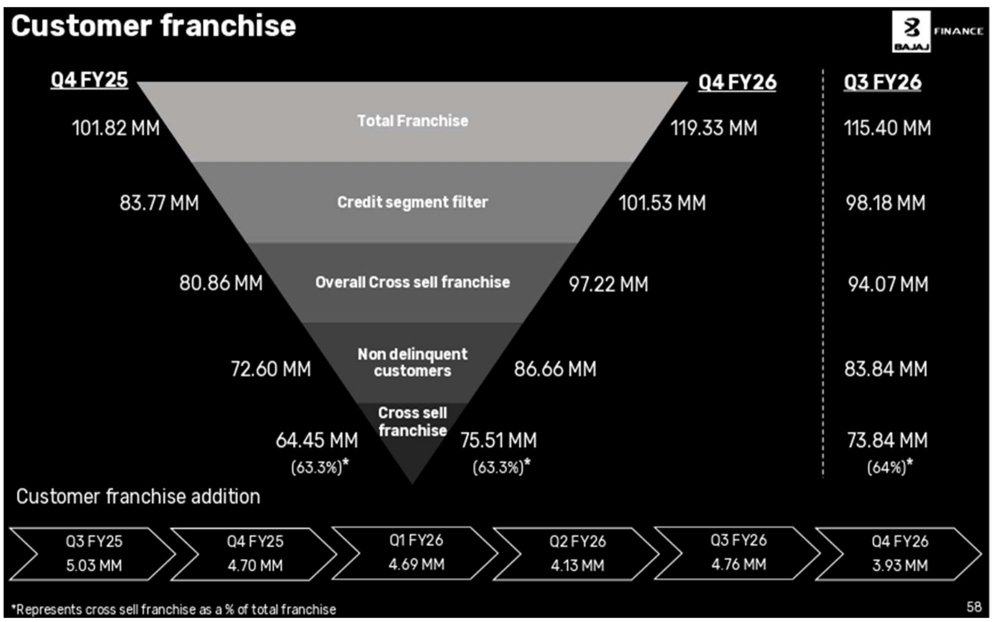
Source: Company

BAF's pan India presence has also helped in achieving AUM of ~Rs.5tn which is larger than some of the mid-tier banks in India. BAF has around ~4,100 branches in India across urban and rural areas and a very strong distribution network of ~2,42,000 which covers digital product stores, lifestyle stores, consumer durable stores, 2W/3W and car dealerships, etc.

## Large customer franchise and cross sell opportunities to increase wallet share

**BAF has a customer franchise of 119mn currently which has grown at a CAGR of 28% in the last 15 years while AUM has grown at a CAGR of 32% in this period, a feat achieved by no one in the lending space at this scale.** This strong customer franchise has created a funnel for cross selling different products to customers which have a good track record. Its current cross sell franchise stands at 75.5mn. BAF's focus to increase wallet share and products per customer has led to lower customer acquisition cost and helped in scaling its AUM and also generate fee income. BAF intends to scale this further through strategic partnerships and increase its total franchise to 200mn by 2030. Increasing wallet share has been the key driver for growth and increasing products per customer will help in sustaining AUM growth of 20%+. Further, given that almost two thirds of its customers are its existing customers, its customer acquisition cost comes down significantly.



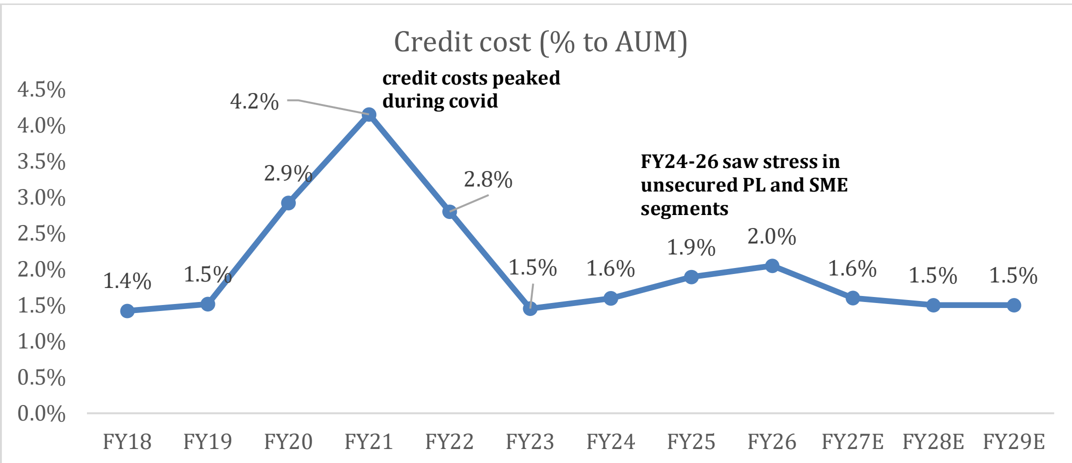

Source: Company

## Investment in technology and data analytics have been key for growth and asset quality

BAF has always remained ahead of peers in terms of adopting technology to improve customer experience, accelerate customer acquisition, launch new products and help in better underwriting. It invested in cloud-based Enterprise Data Warehouse (EDW) in 2017 which helped in processing of data of its ever-growing customer franchise. In FY20, company hired more than 100 data science and tech graduates from IITs and other premier institutes to deepen its analytics capabilities. Its strong and growing customer franchise of 100mn+ helps in creating a feedback loop as more customers get acquired, loans are disbursed, customer repayment behaviour is analysed, and good customers are cross sold multiple products. Thus, data analytics has played a crucial role in underwriting repeat loans to existing borrowers with good track record and thereby containing NPAs.

## Asset quality stress to abate

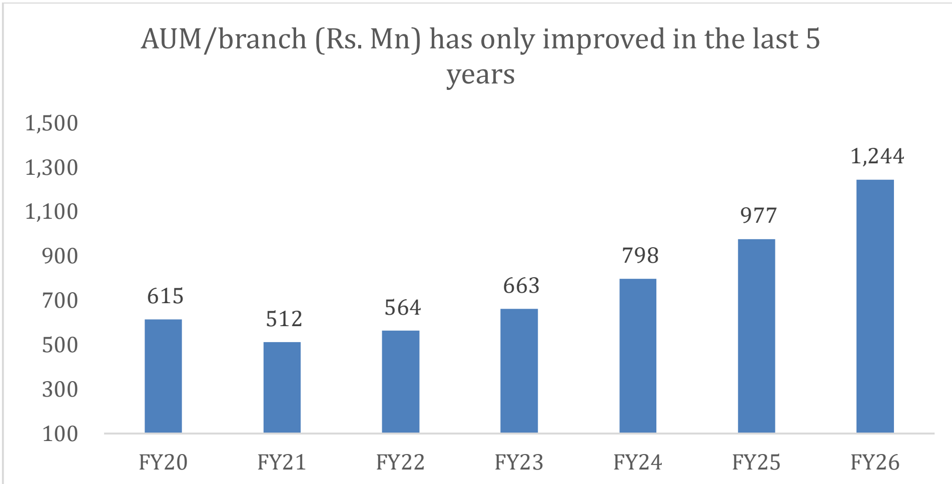
BAF's prudent management team and strong risk management framework has also helped in maintaining asset quality better than peers. Management has always focused on quality over growth and in times of distress in any segment, it usually prioritises collections and lowers disbursements. BAF has seen stress in its portfolio in FY24-26 when the industry witnessed stress in unsecured personal loans and SME loans. During this period, it slowed down growth in these segments, focused on collections and increased coverage. For instance, its overall PCR in FY26 was ~60% while certain segments like rural loans, MFI, and urban B2B saw higher provision coverage of ~85%. However, management believes that the stress in these segments in now behind and credit costs should incrementally trend downwards. This should further improve its RoA.




Source: Company, Aionios Alpha

## BAF 3.0 FINAI Strategy – driver for operating leverage

In FY25, the company launched its transformation strategy with AI being the focus. Its AI strategies are spread across all verticals – revenue generation, cost reduction, underwriting, customer experience, productivity etc. BAF's goal is for AI to deliver 5% of annual volumes, improve productivity by 12-15% and reduce credit costs by 5%. In FY26, it disbursed around Rs.55bn to leads generated through AI bots and expect this to more than double in FY27. While it continues to invest in AI and technology, improvement in productivity metrics is already visible. Going forward, opex to NII should keep falling and operating leverage would be a key driver for improving return ratios.




**Attractive valuations**

Bajaj Finance has always commanded premium valuations compared to its peers owing to its top quality management team, strong underwriting process leading to pristine asset quality across cycles and sustaining 20%+ AUM growth over a long period of time. Mr. Rajeev Jain has been key in transforming BAF to its current state of being a large well diversified lender vs a captive auto financier two decades ago. Despite reaching an AUM size of Rs.5 trillion, it is well poised to continue its growth trajectory of 20%+ and achieving RoE of 20%+. The recent correction in March due to geopolitics finally gave us an attractive valuation to buy this solid franchise.

Aionios Alpha