

October 9, 2026

Dear Partners in AAFI,

The fund was down 3.8% during the quarter (down 4.5% net of fees and all expenses). We outperformed the NSE500 during the quarter by 0.4% on gross basis but underperformed by 0.3% on net basis.

Year to date the fund was up 25.5% (24.1% net of fees and all expenses) – outperforming the NSE500 by 18% & 16.5% respectively.

During the quarter 11 of the 23 companies in the portfolio outperformed the NSE500. Year to date 17 of the 23 companies outperformed, and inception to date 15 of the 23 companies outperformed.

This quarter we did not trim or sell any stocks. We added two new company to the portfolio (including Knack Packaging – who's IPO we participated in the anchor book and mentioned last quarter) and added to a few existing positions from the inflows we received during the quarter.

The fund had an average cash balance during the quarter of 0.6% (end of quarter cash was 0.4%).

Q2FY27	Returns	Excess Returns
AAFI - Gross returns	-3.8%	0.4%
AAFI - Returns net of fees & expenses	-4.5%	-0.3%
NSE 500	-4.2%	
One year	Returns	Excess Returns
AAFI - Gross returns	13.2%	16.1%
AAFI - Returns net of fees & expenses	10.8%	13.8%
NSE 500	-3.0%	
3 years	Returns (CAGR)	Excess Returns
AAFI - Gross returns	9.8%	1.3%
AAFI - Returns net of fees & expenses	6.9%	-1.6%
NSE 500	8.5%	
Since Inception	Returns (CAGR)	Excess Returns
AAFI - Gross returns	21.2%	8.8%
AAFI - Returns net of fees & expenses	18.3%	5.9%
NSE 500	12.4%	

** 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 114 management interactions and 4 site visits 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.

Portfolio ex-Financial companies

Growth (% YoY)	FY24	FY25	FY26	FY27E	FY28E	FY29E	CAGR (FY26-29)
Sales	7.7%	16.9%	16.8%	24.5%	19.4%	19.5%	21.1%
EBITDA	20.8%	21.8%	15.4%	24.5%	28.9%	21.8%	25.0%
PAT	36.2%	50.1%	9.3%	37.5%	42.8%	29.0%	36.3%
Margins							
EBITDA	13.4%	14.0%	13.8%	13.8%	14.9%	15.2%	
PAT	5.1%	6.5%	6.1%	6.7%	8.0%	8.6%	
Leverage ratios (x)							
Leverage (Net Debt to EBITDA)	0.9	0.8	0.7	0.6	0.4	0.2	
Leverage (Net Debt to Equity)	0.2	0.2	0.2	0.2	0.1	0.1	
Return ratios							
RoE	15.1%	14.7%	15.2%	15.0%	17.4%	18.9%	
RoCE	10.1%	10.7%	11.7%	13.2%	15.2%	16.6%	
Valuation Ratios (x)							
PE (i)	19.4	39.1	28.1	22.1	15.4	11.5	
PEG	0.5	0.8	3.0	0.6	0.4	0.4	
PB	5.4	4.6	3.5	3.0	2.6	2.2	
EV/EBITDA	23.1	18.2	15.7	12.4	9.1	6.9	
P/Sales	5.0	4.0	3.0	2.4	1.9	1.5	
FCF Yield (%) (ii)	1.2%	-0.1%	1.2%	1.7%	2.3%	3.8%	
Dividend Yield (%) (ii)	0.8%	0.6%	0.9%	1.0%	1.1%	1.2%	

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). Margins are likely to improve, thus driving strong EBITDA growth which is higher than revenue 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 (FY26-29)
AUM Growth	32%	26%	22%	23%	23%	24%	23%
NII Growth	29%	22%	18%	21%	21%	25%	22%
PPOP Growth	29%	19%	19%	22%	21%	27%	24%
PAT Growth	27%	-1%	30%	37%	21%	27%	28%
NIM	14.7%	14.7%	14.6%	14.6%	14.5%	14.3%	
PPOP	9.6%	8.5%	7.1%	7.5%	8.2%	8.4%	
Gross NPA	1.5%	3.5%	1.6%	1.6%	1.9%	2.0%	
Credit cost (ON AVG aum)	2.0%	8.6%	3.2%	1.8%	1.7%	1.5%	
ROA	5.8%	3.6%	3.3%	5.6%	5.9%	5.3%	
ROE	19.7%	10.9%	10.1%	18.3%	19.9%	18.4%	
Valuations							
PE	18.6	15.1	12.4	13.1	10.5	8.8	
PEG	0.7	-	0.4	0.4	0.5	0.3	
PB	3.2	3.2	2.5	2.3	1.9	1.6	

Note: We have excluded one company's P/E and ROE, as this company is making loss in FY26 which is distorting the peer-set averages.

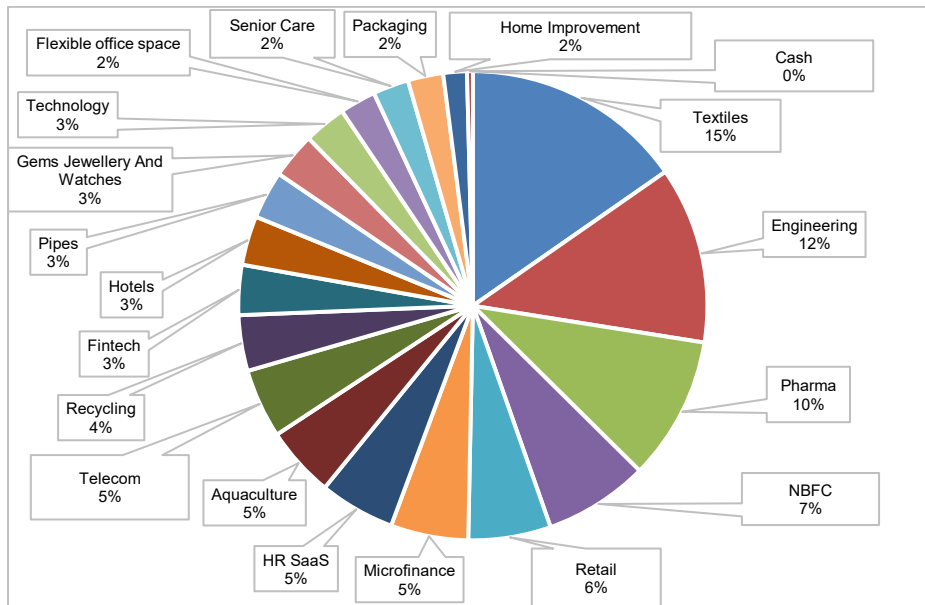
Similarly, if we analyse the table above for financial companies, it indicates that we own high growth lenders, with high margins, operating leverage (visible from PPOP growth higher than NII growth and high return ratios. Despite that - these companies are trading at attractive valuations.

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 Samhi Hotels. The company was started 15 years ago and is already the third largest hotel owner in the country by keys. More importantly, it is led by an exceptional management team that is driven by return ratios & cashflows (something quite rare in this industry; the hotel industry tends to attract a lot of vanity capital). The management reminds us a lot of ourselves – investors. The way we investors deeply analyse companies – Samhi's management has a solid track record to identify underperforming hotel assets, acquire them at an attractive valuation, quickly rebranded the property and bring in an international chain to operate them on its behalf.

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

Samhi Hotels Ltd (CMP: INR 142; Market Cap: INR 32 Bn; ADT: INR 176 mn)

Samhi Hotels, one of India's largest institutional hotel platforms, operates 31 hotels with 4,899 keys under Marriott, Hyatt, and IHG brands in core office markets. Having built ~82% of its portfolio through acquisitions and turnarounds, Samhi is now expanding through greenfield expansion/rebranding across Tier-1 and emerging office markets to capitalise on structural premiumisation in Indian hospitality.

Investment thesis:

Unlike listed owned/managed hotel players in India, Samhi follows a differentiated model: While traditionally, hotel owning companies in India grew predominantly through greenfield developments, Samhi **acquired** many hotels to rapidly scale up its operations, becoming one of the fastest growing hotel **owning** entities in India. Samhi owns hotels (~87% of inventory; remaining leased) but does not operate them. Within "owning", unlike other players who acquire land, build the asset, and then brand it under their name/multiple brands, Samhi acquires sub-optimally run and sometimes distressed assets (30-40% below replacement cost), refurbishes these properties in ~18-24 months and ties up with global brands to operate them. This also means it starts generating revenues from its properties a lot faster vs peer (who take 4-5 years assuming no time overruns in greenfield projects).

Samhi's acquisition and turnaround philosophy rests on four principles. First, it does not speculate on location. Hotels is a capital-intensive business where a hotel's location cannot be changed once built. So Samhi backs only micro-markets supported by hard data such as office space, airline traffic and urbanization, where demand is already established. Second, there must be a clear opportunity to differentiate through the product, meaning a significant upgrade in quality and positioning that creates real upside. Third, a strong brand is the bridge to the customer. Together, the right location, a major product upgrade and a strong brand can transform how an asset performs. The fourth principle is disciplined focus on returns. By acquiring at a 30-40% discount to replacement cost, Samhi can achieve ROCEs that are hard to achieve by building hotels from scratch.

Thesis in detail:

- **Asset owner with core presence in key corporate markets:** The portfolio is concentrated in high-demand commercial corridors, with ~86% of its keys across six tier-1 markets including Bengaluru (~22%), Hyderabad (~18%), Pune (~18%), Delhi NCR (~10%), Chennai (~9%) and Ahmedabad (~9%), where assets are deliberately positioned in strong micro-markets and across multiple price points to capture demand from different customer segments and support superior ADRs and occupancies, while the remaining ~14% of keys are allocated to tier-2 cities such as Goa, Visakhapatnam, Coimbatore, Jaipur, Kolkata and Nashik. Over the past decade, Samhi's key office markets have witnessed a structural demand-supply imbalance, with hotel room demand growing at 5% CAGR outpacing supply additions of 3% CAGR over FY15-25, translating into an average RevPAR CAGR of ~8% over the same period. This sustained gap between demand and supply has been a key tailwind for portfolio operating metrics and underpins the company's earnings trajectory.

Chart 1: Strategic focus on demand capture across price points and office markets

Key Cities and Micro-markets	Upscale+	Upper Mid-scale	Mid-scale
NCR			
Gurugram	Hyatt Place		HIEX
Delhi			
Noida			HIEX
Bangalore			
Whitefield	Westin Tribute Portfolio (Oct'24)	Fairfield	HIEX
City Centre		Fairfield	HIEX
Outer Ring Road	Courtyard	Fairfield	
North Bengaluru			
Electronic City			
Hyderabad			
HITEC City	W (Nov'24)		HIEX
Financial District	Sheraton	Fairfield	Mid-scale (Aug'25)
City Centre			HIEX
Airport			
Kokapet			
Pune			
North	Hyatt Regency Courtyard ¹	Fairfield	
Hinjewadi / Pimpri			HIEX
City Center			
Chakan			
Mumbai			
South Mumbai			
BKC			
Navi Mumbai	Westin ² (Oct'25)	Fairfield ² (Oct'25)	

Source: Company Presentation

- **Secondly**, significant upside through the product. Buying a hotel that is under-managed and under-built means the upside not only comes from rebranding and operational turnaround but by also adding new inventory. For example, In October 2024, SAMHI bought Innmar Tourism and Hotels for an enterprise value of Rs. 205 crore, which gave it the 142-room Trinity Hotel in Whitefield. The property was formerly managed by ITC under the Fortune brand and was a 4-star hotel running below its potential. Alongside the operating hotel came surplus land with room for a second hotel of 200-220 rooms. So, the ₹205 crore bought a distressed operating hotel and the right to build more, which is the second principle at work. On the existing rooms alone, ₹205 crore works out to about ₹1.44 crore per key (142 rooms). Once the 220 planned rooms are counted, the complex is about 362 keys and the land and existing-hotel cost drops significantly to about ₹0.56 crore per key, lowest in the industry.
- **Thirdly**, each asset is evaluated for its repositioning potential, specifically, whether the property has the physical attributes to support rebranding under an international flag, with a minimum threshold of 100 operational keys. SAMHI has consistently acquired properties at prices below their replacement cost and created value through rebranding and refurbishment.

Pivoting towards upper-upscale, big box hotels: As of FY26, upper midscale and midscale properties make up ~77% of SAMHI's room inventory, with upper upscale and upscale hotels contributing the remaining 23%. To rebalance this portfolio, SAMHI has proposed capital expenditure of around Rs22 bn over the next five years, covering brownfield owned developments, asset upgrades, and fit outs for leased properties. Of the planned addition of 1,647 rooms through greenfield projects and the lease model, ~1,037

keys will be in the upper upscale and upscale categories, while another 473 keys will be repositioned into upscale formats via rebranding. Consequently, the upper upscale and upscale segment is expected to represent roughly 40% of the total inventory by FY31, reaching about 2,633 keys vs 1,123 keys in FY26. The pipeline raises the upper-upscale and upscale mix from 23% in FY26 to ~35% by FY28E, with segment revenue growing at 24% CAGR over FY26-28E and contributing ~51% of revenue in FY28.

Chart 2: Operational impact of renovation and rebranding exercise at Sheraton Hyderabad/Holiday Inn Express and Marriott portfolio

Exhibit 9: Key operating metrics for Sheraton Hyderabad and Holiday Inn Express portfolio after renovation

	Pre-Renovation		After Renovation and Rebranding		
Sheraton Hyderabad	4QFY14	1QFY17	1QFY20	1QFY23	4QFY23
Number of Keys	158	216	272	272	272
Occupancy (%)	41%	28%	74%	75%	77%
Average Room Rate (Rs/day)	3,349	5,888	6,434	6,811	10,344
RevPAR (Rs/day)	1,377	1,668	4,786	5,124	7,938
Holiday Inn Express (10 hotels)	3QFY18			3QFY20	4QFY23
Number of Keys	1,319			1,427	1,427
Occupancy (%)	62%			67%	78%
Average Room Rate (Rs/day)	1,768			2,752	3,675
RevPAR (Rs/day)	1,095			1,852	2,883
Marriott Hotels (3 hotels)	3QFY18				4QFY23
Number of Keys	334				343
Occupancy (%)	45%				76%
Average Room Rate (Rs/day)	2,857				5,722
RevPAR (Rs/day)	1,279				4,369

Source: Company DHRP, Kotak Securities

- **Lastly**, focused on return on capital employed. Samhi, being an asset owner, has by far, the best return ratios on its matured assets. And the only way to be able to do this is by acquiring and turning around rather than keep building assets. For e.g., one of its Bangalore hotel's total cost would be atleast a 30-40% discount to replacement cost. The hotel generated 18%+ ROCE and is headed for 25% in the coming years.

Debt no longer an overhang

Samhi's gross and net debt stood at Rs21.3 bn and Rs20.6 bn, respectively, as of Mar'25. The GIC investment of ~Rs7.5 bn has helped reduce the gross debt and net debt to ~Rs17.1 bn and Rs15.1 bn, respectively in FY26. Accordingly, the net debt/EBITDA has come off from 5.1x to 3.5x in FY26. Going forward, we expect net debt to decline to Rs14.3 bn by FY28E, implying net debt/EBITDA of 2.5x, supported by asset stabilisation and incremental EBITDA from new hotels.

RARE acquisition:

Samhi's playbook has been to find under-valued or under-distributed assets and pair them with global brands. For a commitment of about ₹47 crore, Samhi gets a 70% stake in RARE India, a platform of heritage hotels, retreats and experiential stays. RARE has 67 hotels with 990 rooms across more than 15 Indian states, with a presence in Nepal and Bhutan. The partnership allows Samhi to expand its portfolio to about 100 hotels under ownership and affiliation. RARE would have exclusive rights to operate its portfolio under the Outdoor Collection brand by Marriott Bonvoy across India, Nepal, Bhutan and Sri Lanka, with access to Marriott's global distribution channels. The risk-reward is asymmetric. The downside is limited due to a small cheque, and the upside is a scalable, high-return platform in a growing segment.

Adding the leased model:

Samhi is adding long-term variable leases as a capital-light growth layer alongside its acquisition-led model. It has signed 2 deals so far. The rent is linked to revenue, so upfront capital is limited and the landlord shares the performance risk. Samhi targets core office micro-markets, where demand is already proven, and its lease deals add rooms in them quickly, with a short time to opening.

SamhiIntel:

Given the pace of expansion, scale and pan India footprint, Samhi has developed proprietary tools that helps it manage and improve the performance of its hotels. With these tools, it can leverage an extensive number of operating parameters and data that it has across its hotels and use data analytics to improve its operations and acquisition strategy. Further, its hotel portfolio is supported by shared service centres which improve the process and quality of its operations and business units.

Hotel Industry: Longer upcycle

Chart 3: Hotel industry over years

CAGR	Period	Room Demand	Rooms Supply	ARR	Occupancy	RevPAR
Phase 1	FY99-01	8.40%	6.90%	-1.20%	55.4%	-5.10%
Phase 2	FY01-08	10.50%	7.60%	15.30%	64.9%	18.40%
Phase 3	FY08-13	13.10%	17.10%	-6.30%	59.3%	-9.50%
Phase 4	FY13-17	11.00%	7.90%	-0.50%	61.6%	2.40%
Phase 5	FY17-20	6.10%	5.40%	2.40%	66.0%	3.40%
Covid Phase	FY20-22	-8.60%	4.70%	-10.30%	42.4%	-21.70%
Post Covid Phase	FY22-26	16.61%	8.15%	15.60%	68.5%	24.8%

Source: Investec Research

The upcoming pipeline is disciplined, not excessive

As of FY25, India's branded room inventory stood at 1,96,464 rooms (~209,200 rooms as of FY26 end). Over the next 4-5 years, we estimate ~90,570 rooms under active development will be delivered, taking total supply to ~2,87,034 rooms (46% expansion on the existing base). This translates into a supply growth of ~7.9% CAGR over FY25-30, meaningfully below the historical 9.2% supply CAGR (FY01–25) and well below the 17.1% CAGR during the FY08-13 oversupply cycle. Hence, the cycle risk from oversupply seem contained.

What sets this supply cycle apart is not just the quantum of rooms but how they are being added. Across the 12 major listed and institutional players, ~68% of the ~67,522-key pipeline is managed or franchised, with only 32% being owned or leased. This is a stark contrast to the FY05-08 capex boom, when the bulk of commitments were owner-driven, debt-funded, and carried full balance-sheet risk. IHCL, for instance, plans to add ~31,300 keys (as of FY26), of which ~25,000 (~80%) are managed or franchised. Lemon Tree's pipeline of ~10,770 rooms (as of FY26) are similarly dominated by managed properties (92%). Even historically asset-heavy operators like ITC and EIH are increasingly tilting toward management contracts for their incremental growth.

Samhi placing itself in undersupplied markets

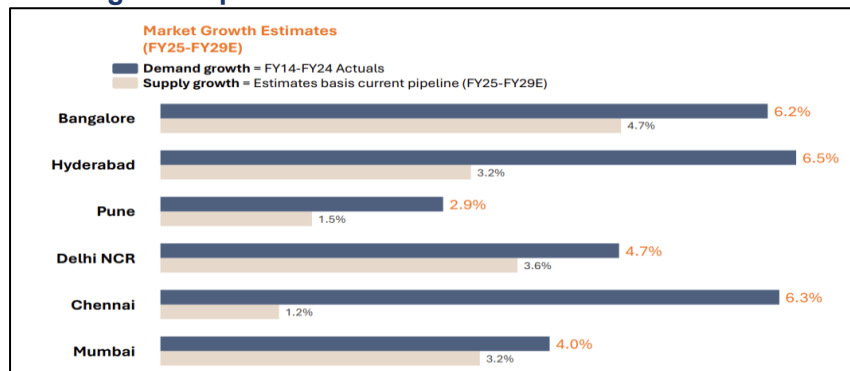
If you look closely at the 2 charts below, the geographic mix of supply has shifted. In FY08-13, 62% of new rooms were added in just six metros, creating oversupply and negative RevPAR, whereas in the current pipeline only ~20% of rooms are in the top six and ~30% in the top ten cities, with the rest spread across Tier-2-4 markets. Tier-1 is exactly where Samhi has placed its future supply, which will result in superior average daily rates (ADR) and occupancies for its properties.

Chart 4: Expected growth in hotel supply (FY25-FY30E)

Cities	Existing Supply 2024/25	Proposed Supply*	Increase in Future Supply	Active Development of Supply	Total Supply by 29/30	CAGR
Agra	2,429	1028	22%	524	2,953	4.0%
Ahmedabad	4,991	2,273	30%	1,500	6,491	5.4%
Amritsar	2,478	2,367	87%	2,154	4,632	13.3%
Bengaluru	16,667	8,684	42%	6,947	23,614	7.2%
Chandigarh	3,050	1772	45%	1,364	4,414	7.7%
Chennai	9,611	2317	17%	1,622	11,233	3.2%
Dehradun	1,541	1,698	87%	1,341	2,882	13.3%
Goa	10,999	3,247	23%	2,565	13,564	4.3%
Gurugram	6,942	2,264	23%	1,630	8,572	4.3%
Hyderabad	7,785	3,184	33%	2,547	10,332	5.8%
Jaipur	7,770	3,550	42%	3,302	11,072	7.3%
Kochi	2,989	896	30%	896	3,885	5.4%
Kolkata	5,111	1,704	24%	1,227	6,338	4.4%
Lucknow	2,385	3,353	124%	2,951	5,336	17.5%
Mumbai	15,287	4,641	28%	4,316	19,603	5.1%
Navi Mumbai	1,539	1,885	70%	1,074	2,613	11.2%
New Delhi	15,305	3,175	19%	2,953	18,258	3.6%
Noida	1,873	1,654	62%	1,158	3,031	10.1%
Pune	6,837	1147	17%	1,147	7,984	3.2%
Udaipur	3,040	2,275	73%	2,207	5,247	11.5%
Other Cities	67,835	63,709	69%	47,145	114,980	11.1%
Total	196,464	116,823	46%	90,570	287,034	7.9%

Source: Investec Research

Chart 5: Demand-supply gap widens, assuming 75% of proposed supply coming on stream given capital intensive sector and historic execution track record of industry



Source: Company Presentation

Why are Tier 1 cities not seeing enough supply of rooms? One of the reasons is land acquisition and development constraints. The most significant barrier to entry in the hospitality sector remains the scarcity and escalating cost of prime real estate in metropolitan markets. In Tier 1 cities such as Mumbai, Delhi, Bangalore, Hyderabad have witnessed land prices appreciate 12-15% annually over the past decade making hotel development economically challenging for new entrants.

Attractive Valuations

Company Name	CMP	Mcap (Mn)	PE			EV/EBITDA		
			FY27	FY28	FY29	FY27	FY28	FY29
Samhi Hotels	142	32,000	24	13	10	11	9	8
Indian Hotels	723	10,30,000	45	39	34	28	24	21
Chalet Hotels	824	1,81,400	29	26	21	17	15	13
Lemon Tree	111	87,700	29	22	18	15	13	11

Company Name	ROE		
	FY27	FY28	FY29
Samhi Hotels	7.3%	11.6%	13.9%
Indian Hotels	16.0%	16.5%	16.5%
Chalet Hotels	15.3%	14.9%	15.9%
Lemon Tree	18.9%	20%	19.8%

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Alpha