Quarterly Investor Letter Mar 26

> *There are decades when nothing happens; and there are weeks when decades happen.*
> *- Vladimir Lenin*

Dear Investor,

We are passing through a period of uncertainty due to the geopolitical disturbances and related supply chain disruptions. Fear and doubt creep deep in such times and we strongly believe in the power of knowledge led decision making and being equanimous in such times. While the tops and bottoms are one second ticks in the market, the journeys in between are long periods laced with overpowering greed and fear at different points of the cycle. In this letter, we will be looking at the history of market corrections and the prospective returns from such phases. We will be sharing our thoughts on the current scenario and will share the construct for one of our top holdings in the current environment. Finally, we would like to highlight that market disruptions present an opportunity to create a concentrated portfolio and lay the foundation for higher returns in the coming 3 year period.

EXHIBIT 1: PERFORMANCE TILL DATE:

Period	Portfolio*	S&P BSE 500 TRI	NSE Small Cap 250 TRI
23rd Jun to 30th Jun	1.58%	2.57%	5.22%
1st Jul to 30th Sep	-2.16%	-3.23%	-5.92%
1st Oct to 31st Dec	0.75%	5.02%	0.04%
1st Jan to 31st Mar	-15.06%	-13.94%	-14.28%
Performance FY 26	-14.95%	-10.30%	-15.12%

** Returns of individual clients will differ from the above numbers based on the timing of their investments. The above returns are on the consolidated pool of capital and are presented post fees. These returns have not been verified by SEBI.*

Quarterly Investor Letter Mar 26

OUR THOUGHTS ON THE MARKET:

The broader market has seen a healthy sell off in the past 9 months with a median correction of -17.5% and negative returns in ~70% in the Top 1000 stocks. Along with this, the NIFTY TTM P/E has dropped below 20x just recently. This is in the backdrop of improving earnings growth in the broader markets in Q2FY26 and Q3FY26 with median yoy growth of 12.6% and 16.2%.

The silver lining for the Indian economy stem from healthy balance sheets, a circumspect and strong banking system with sound asset quality. India's financial capital of a strong Government and Corporate balance sheet + low starting base of GDP contribution in the global GDP (3.5-4%) + one of the stronger diplomatic positioning pre and post war across the oil providing nations i.e. Middle East as well as Russia, makes us believe that India as a region has a fair chance of outperforming the global crisis. Of course, there would be near term disruptions and while certain corrections are over-done, several businesses are prone to medium term impacts on their business cycles.

The bull case rests on a war resolution in the coming 1-2 month period and a mean reversion amongst highly dislocated positioning of the following variables:

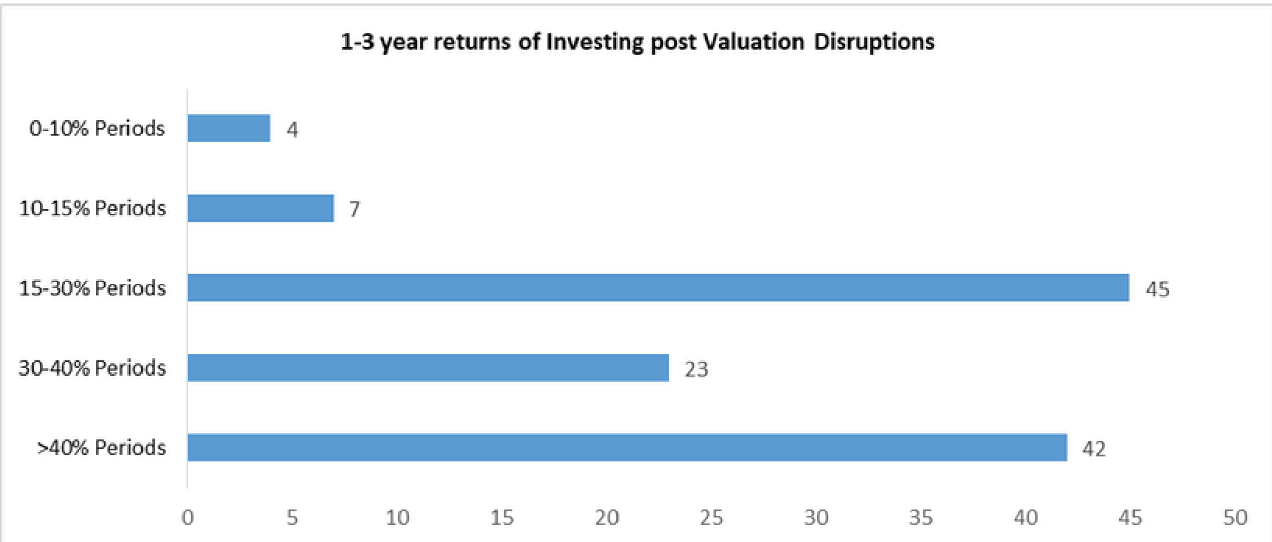
1. High Gold to NIFTY Ratio,
2. Oversold FIIs,
3. Oversold USD/INR.

While the rising trend of Open Market Buying by Promoters suggests a fair bit of conviction from Insiders on their own stock price, the low spread of <25 bps between Earning Yield of >5% and Policy Repo Rate of 5.25% suggests a fairly attractive risk reward for Indian Equities. The India Investing Construct remains attractive with a Low Base of Traded Goods/Global Trade (1.8%)^, Domestic GDP/Global GDP (3.5%)^^ and Market Share in the Global Markets (~3%)^^^ + ~20% of Working Population and Contribution of ~18% to Incremental Global GDP. We believe that India's share of global GDP is set to rise given its diplomatic positioning, strong balance sheet and large consumption base.

A simple historical analysis of prospective 1-3 year returns post buying during valuation dislocations# during the past 26 years# indicates a median/average annualized return of 31%/35% with >90% chance of >15% returns and 100% positive observations.

Out of the 300 months covered i.e. the past 25 years, **one could have entered NIFTY @ <20 P/E in 121 months**. Post the leadership transition in May 2014, NIFTY has given 17 such opportunities (including the current one) and the median/average annualized returns have been 32%/34% in this period.

EXHIBIT 2: INDIAN MARKET AT DISLOCATION: INSPITE OF THE **D*, GHAYAL HU, ISLIYE GHATAK HU



Average Return	**35.30%**	**Median Return**	**31.20%**

 # Valuation Disruption is <20x P/E on Monthly Basis for NIFTY; ^25 years covered from Apr 2001 to Mar 2025, since Mar 26 observation is yet to see the future playing out; Source: ARDEKO Research

Sources: ^PIB, ^^https://www.theglobaleconomy.com/rankings/gdp_share/, ^^^Motilal Oswal Report

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ALLOCATING CAPITAL AT THE PRESENT JUNCTURE

From a perspective of allocating capital at the present juncture, we note that broader market valuations are attractive, however there is a risk of further disruption. It will be critical to understand the interplay between valuations, business uncertainty and near term earnings trajectory in the underlying business. While larger corrections would be driven by a rise in uncertainties and particularly negative surprises on earnings, the uncertainty does recede over a few quarters and leads to a restoration of normalcy amidst business operations + a mean reversion of the valuation multiples. We would be looking to create a portfolio comprising solid businesses at attractive valuations + opportunistic positions that could benefit from a restoration of normalcy.

We continue to believe in our construct of Starting Valuations, EPS growth and Starting Balance Sheet from the perspective of 3 years+ investing horizons. Now, several stocks across major indices, broader markets and our portfolio have moved towards the Cheap to Reasonable Valuation zone. Most of the portfolio stocks are well placed to deliver 15%+ Earnings CAGR over the coming 2 years on a conservative basis and are trading at below average valuation multiples. Further, the sustainability and quality of the earnings growth is fairly robust with several market leaders and >15% ROE/ROICs.

We would like to highlight the construct for one of our Portfolio Holdings in the current environment. The key characteristics of this investment are:

- A rapidly growing Nutrition and Wellness brand portfolio with a potential to double their Revenues and Operating Profits in the coming 2 years + well placed to deliver 15%+ revenue growth in the medium term.

- The promoters are well known wealth creators and one of the respected business groups. They have taken advantage of a price correction in the last 2 years to up their holding towards ~70% levels. Several junior, mid and senior level employees have been buying in the Open Market in the past 2 months.

- The core portfolio has several leading sub brands and should deliver 10%+ 3 year Revenue CAGR on its FY26 base with product mix and operating leverage led margin expansion. This should support a 15%+ 3 year EBITDA CAGR for the core portfolio.

- The company has undertaken 2 significant growth focused acquisitions in the past 2 year period, the first in the Protein and Healthy Snacking segment and the second in the Vitamins, Mineral and Supplement segment. One can expect the share of these verticals to be >50% of the total portfolio by FY27 itself and should be growing at >20% on the FY27 base for the foreseeable future.

- These end verticals enjoy a strong narrative of Preventive Healthcare Adoption as the Global Millennials and Gen Zs shift from reactive to proactive healthcare. Further, these acquisitions have happened without dilution and the company has managed to refinance the acquisition debt at a lower cost in the current environment.

- The management had a tough time post a large acquisition in 2018-19 due to a summer heavy portfolio, raw material spikes and presence in several low growth categories that suffered from negative narratives. However, the management and group have focused on debt reduction and approached the legacy portfolio with a fresh focus on tapping into adjacencies and new product introduction drive. They are now well placed to optimize the margins as they balance the product mix and understand their end market better.

- We believe that the company is well placed to become sizeable in the Nutrition & Wellness play and will experience a combination of operating profit growth, high operating cash flow generation and valuation re-rating from the current levels.

Apart from finding such opportunities with high growth and positive energy, we also look for Value, Mean Reversion with a reasonable level of Quality and Growth in a bottom up sector & size agnostic manner with a focus on core 7 sectors: Paisa, Roti, Kapda, Makaan, Dava, Daaru Gaadi.

The key characteristics of the portfolio can be seen below:

EXHIBIT 3: KEY PORTFOLIO CHARACTERISTICS AND VALUATIONS

Particulars	**Q3 FY 26***	**Q4FY 26E***
# of stocks	26	23
Top 10 %age	50.20%	60.10%
Portfolio P/E	25.5x	20x
Portfolio Median EPS growth	21.20%	20.40%
Small Cap Index P/E	33x	29x
Portfolio P/B	2.8x	2.0x
Portfolio Median RoE (%age)	12.80%	11.90%
Small Cap Index P/B	4.6x	3.6x
Small Cap Index RoE	13%	13.10%

**The Portfolio Numbers are adjusted for Outliers. The Q3 numbers have been restated according to the median numbers rather than weighted numbers. This helps in avoiding the skew towards companies with larger absolute PAT. Incrementally this method will be used in further communications.*

At the portfolio level, we hold a high level of conviction that valuations of 20x P/E at 2x P/B across Market Leaders with clear growth drivers in FY27E should see low downside. We also expect the FY27E EPS growth and RoE to improve significantly from current levels and this make us fairly bullish on the re-rating potential if there is expected execution and general mean reversion of margins and subsequent multiples. On that note, we would like to conclude that the future holds a lot of promise and bottom up stock picking should be richly rewarded in the coming 3 year investment horizon.

ABOUT ARDEKO ASSET MANAGEMENT:

We follow a bottom up sector & size agnostic equity investment philosophy with a focus on market leadership or proven player with cheap to reasonable entry valuations + clear growth triggers based on compounding or mean reversion of the underlying variables.

Regards,
Devam Modi