ARDEKO Asset Management Quarterly Investor Letter Jun 26

Never let a good crisis go to waste.

-Winston Churchill

July 8th, 2026

Dear Investor,

In this letter, we begin with a quick re-cap of the market view and the theme that we had highlighted in the Q4 letter. Post that, we will be sharing our thoughts on the current scenario and the portfolio construct. Finally, we will be looking at the prospective returns from investing in a phase combining rupee depreciations + attractive market valuations.

A quick re-cap from March 2026: Ghayal Hu, Is Liye Ghatak Hu

We had argued strongly that the risk reward was highly favorable in early April 2026 (https://ardeko.in/wp-content/uploads/2026/04/Quarterly-Investor-Letter_Q4FY26.pdf). The broader market has seen a healthy bounce back in the past 3 months with a median rally of 16.0%/19.6% and positive returns in 85%/89% of the Top 500/1000 stocks. While this was an immediate vindication of the March end opportunity, we expect companies with sustainable earnings growth and reasonable valuations to outperform going ahead. Further, we are glad to share that market seems to be agreeing with the narrative surrounding high growth and positive energy related to the portfolio holding that we highlighted in our earlier letter.

Current Market Position and Thoughts on Portfolio Construct

Indian markets have faced **a time correction, a CAGR of ~1% for the past 2 years** while the economy has been relatively stable and NIFTY earnings have grown steadily, i.e. 16.6% absolute or ~8% CAGR in this period. There are several moving parts in global geopolitics and technology developments which will lead to large winners and losers.

We maintain our view on the attractiveness of the Indian Investing Construct given the Low Base of Traded Goods/Global Trade (1.8%)^, Domestic GDP/Global GDP (3.5%)^^ and Market Share in the Global Markets (~3.2%)^^^ + ~20% of Working Population and Contribution of ~18% to Incremental Global GDP. We strongly believe that these variables are precursors of a long term phenomena where India's share of global GDP rises given its diplomatic positioning, strong balance sheet and large consumption base.

Sources: ^PIB, ^^https://www.theglobaleconomy.com/rankings/gdp_share/, ^^^ARDEKO Research

The silver lining for the Indian economy continues to 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 + 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 is well placed to its objectives of 6-8% real GDP growth with controlled inflation.

Besides the above factors, there is a potential mean reversion amongst highly dislocated positioning of the following variables:

1) Oversold FIIs,
2) Oversold USD/INR.

We continue to believe in our construct of Starting Valuations, EPS growth and Starting Balance Sheet from the perspective of 3 years+ investing horizons. We have plotted the Portfolio %age reporting All Time High (ATH) Profits, the distance from ATH Market Cap and the expected compounding from the earlier achieved ATH level to FY27E in Exhibit 1. We would like to share that **80% of the companies are reporting ATH profits** with **impressive growth potential of 40%+ in FY27E** while their **existing market capitalizations are at a 22%+ discount to their life time highs** and these companies have **compounded their EBITDA/PAT at a median/stake adjusted growth rate of 19%/28% since then**.

Exhibit 1: Fundamental Compounding v/s Multiple Consolidation

Portfolio reporting ATH Profit in FY26/FY27	80%
Distance from ATH Market Cap till date	22%
Compounding Achieved from earlier ATH	28%

Source: ARDEKO Research

Most of our portfolio is comprised of Market Leaders or Established/Proven Players in their Key Sectors. These players have reported industry leading performance and have strong starting balance sheets. They are poised to benefit from 1) Bottoming Gross Margins, 2) Consolidation of respective Industry's performance, 3) Potential Rise in Operating Leverage and 4) Larger Capacities that have been expanded or are in final stages.

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 complex chemistry and pharma manufacturing platform transitioning from a largely API / specialty derivative business into a higher-quality CDMO-led platform.
- The company has gone through a heavy capex and absorption phase. FY26 profits were depressed due to new facility ramp-up costs, higher depreciation, finance cost, input/logistics shocks and FX losses. In our view, FY26 was more of a transition year than a normalized earnings year.
- The CDMO business has scaled from ~₹30 Cr in FY22 to ~₹275–300 Cr in FY26, and management has guided for 40–50% growth in FY27. The pipeline is now more late-stage/commercial manufacturing-led, which improves scale-up probability, though quarterly revenue could be lumpy.
- There is a large greenfield expansion with ~440–450 kl of multipurpose reactor capacity. As utilization improves, this can support CDMO and complex intermediates. Over time, dedicated blocks for long-visibility customer projects can improve asset turns and margins.
- The specialty derivative business remains the cash engine. Capacity is expanding from ~6,000 MTPA to ~9,000+ MTPA, and with current capacity already well utilized, this business can potentially cross ~₹1,000 Cr revenue over FY27/FY28. Non-China sourcing preference, tariff asymmetry and customer diversification can support demand here.
- The valuation is interesting because the market is still valuing the business on trough earnings. On FY26 depressed operating profit, the stock trades at roughly high-teens EV/EBITDA. If EBITDA normalizes toward ~₹600 Cr over the next two years through CDMO scale-up, specialty derivative expansion and API recovery, the implied multiple compresses toward low double digits even without assuming any market-cap appreciation.
- Current ROCE is depressed by the capex cycle; if utilization improves, return ratios can move back toward the mid-to-high teens over time.
- The key risks relate to lumpy CDMO and misses on ramp up/recovery of specialty derivative/API verticals.
- We believe the market is anchored to a weak recent P&L, while the forward operating engine has improved. This could lead to a positive surprise on Revenues, EBITDAMs and overall profitability as well as return ratios.

Apart from finding such opportunities with high growth and positive energy, we continue to 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 sectors which are central to India's growth and evolution.

The key characteristics of the portfolio can be seen below:

Exhibit 2: Key Portfolio Characteristics and Valuations

	FY26
# of stocks	28
Top 10 %age	58.9%
Portfolio P/E*	22.1x
Portfolio Median EPS growth*	20.6%
Small Cap Index P/E	35.5x
Portfolio P/B*	3.1x
Portfolio Median RoE (%age)*	14.03%
Small Cap Index P/B	3.7x
Small Cap Index RoE	10.53%

*The Portfolio Numbers are adjusted for Outliers.

At the portfolio level, we hold a high level of conviction that valuations of 22.1x P/E at 3.1x 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.

INR USD: A Challenge that has turned into an Opportunity

FY26 saw multiple challenges for Indian economy that impacted the currency and triggered heavy FII selling in the markets. These challenges related to 1) a pressure on the IT exports due to impact of the AI revolution, 2) spurt in precious metals and finally 3) a spike in crude oil due to the West Asian crisis. Due to this, there was heavy pressure on the INR in H2 FY26. The Indian government has taken several measures to support the INR from depreciation and woo the FIIs in this environment. This stance and chain of actions of RBI and Government is underlining the Churchill quote that is highlighted in the beginning of the article.

Table 1: INR Defense — Final Chronological Event List | April–July 2026

Background:

RBI net-sold $53.13B in the spot forex market in FY26, the highest annual net dollar sale by the central bank. The intervention intensity was already elevated before the April–July stress phase. Forex reserves had touched around $728.49B in late February, then fell as intervention and valuation effects moved against the reserve book. RBI Governor Sanjay Malhotra later said reserves were $697.1B as of April 3, still adequate but already below the February peak.

March 27: RBI capped banks' net open rupee FX positions at $100M by end of day, with compliance by April 10. The objective was to curb onshore/offshore arbitrage trades that were amplifying rupee volatility.

April 8–10: RBI clarified curbs were temporary as banks exited most arbitrage trades ahead of Apr 10 deadline.

April: RBI net-sold $8.94B — around 2x FY26 monthly average, acute intervention phase underway even before the May 20 record-low stress point.

May 13: Gold import duty was raised from 6% to 15%.

Mid-May: Retail fuel prices were raised to reduce OMC losses.

May 20: Rupee hit record low of 96.96 with pressure coming from oil, global bond yields, foreign outflows and dollar strength.

May 20: RBI announced $5B three-year USD/INR buy-sell swap, the swap got 2x subscription from banks.

May 20–22: RBI stepped up direct dollar sales through state-run banks. Reuters reported $2–3B of intervention, including around $500M pre-market, to force a rupee rally and break one-way speculative positioning. This led to the reserves dropping to $681.4B, a >1 year low.

June 5–6: The government exempted FIIs/FPIs from tax on interest income and capital gains from G-Secs from April 1, 2026. Fully Accessible Route (FAR) was expanded to include new 15Y, 30Y and 40Y G-Secs plus eligible sovereign green bonds; short-term, concentration and security-wise restrictions under the General Route were also removed, while overall caps remained.

June 8: RBI opened FCNR(B) and foreign-borrowing swap channels by introducing concessional swap support for 3–5 year FCNR(B) deposits mobilised until September 30, and also provided discounted swap support for eligible foreign-currency borrowings.

June Month: Reserves fell further to $666.93B in the week ended June 26th, RBI had stabilized the currency but the reserve rebuild remains to be watched. FIIs bought a record ~$3B of Indian government bonds through the FAR route in June, more than the January–May net inflow combined.

July Start: Market consensus shifted to “range-bound INR,” not sharp appreciation as Bloomberg Global Aggregate Consultation or Inclusion becomes the key forward event.

Source: ARDEKO Research

The above sequence of events and nature of responses indicate that the Indian government has taken several measures to stem the INR depreciation and stabilize the currency. We believe that the success of such measures could restore the faith in the currency and lead to a reversal of the FII flows. This would lead to superior returns for the existing investor.

We undertook a simple historical analysis of prospective 1-3 year returns post buying during a combination of currency and valuation dislocations# during the past 26 years^. Out of the 303 months covered i.e. the past 25 years and 1 quarter, one could have entered NIFTY @ <20 P/E + a month on month rupee depreciation of >2% in 21 months. The median/average annualized return of such opportunities comes to 30%/35.1% with 100% chance of >10% returns.

Exhibit 2: A look at the prospective returns from investing amidst the crisis periods

A) Valuation and Currency Dislocations# rarely occur, but can be quite rewarding

# of months covered	**303**	**%age**
Valuation + Currency Dislocation	21*	7%
>40% Periods	7	35%
30-40% Periods	3	15%
15-30% Periods	9	45%
10-15% Periods	1	5%
Open	1	NA
Average Return	**35.1%**	
Median Return	**30.0%**	

B) Select Months where Valuation and Currency Dislocation Co-existed

Apr-04	41%	Feb-09	78%	Feb-13	25%
May-04	44%	Aug-11	17%	May-13	21%
Oct-05	58%	Sep-11	17%	Jun-13	30%
May-06	40%	Nov-11	22%	Jul-13	34%
Aug-08	11%	Mar-12	17%	Aug-13	45%
Sep-08	30%	Apr-12	16%	Mar-20	71%
Oct-08	63%	May-12	22%	Mar-26	??

#Valuation Disruption is <20x P/E on Monthly Basis for NIFTY/Currency Dislocation is >2% INR depreciation on mom basis; *21st observation related to Mar 26 is yet to see the future playing out.

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.