

Quarterly Investor Letter | Sep'26

“If you cannot tolerate me at my worst, you don't deserve me at my best.”
- Marilyn Monroe

Dear Investor,

In this letter, we have focused on our portfolio construction to begin with. We have then shared our thoughts on one of our top ideas and a recent exit taken by us. While most of the time across fund houses is spent on selection of portfolio holdings, we also dwell on exit and portfolio rationalization for managing the capital more efficiently. We are glad that the portfolio holding highlighted by us in the previous letter has delivered well and has been rewarding in an otherwise tough environment.

We would like to mention that there is a fair level of macro uncertainty and we are compensating the same by diving deeper in our existing and prospective portfolio companies. We have not attempted to predict the future of global yields or geopolitical developments; however, we continue to believe strongly in the India Investing Construct and expect near to mid-term headwinds to be neutralized by growth, capabilities and starting valuations. We would like to reiterate that we are clearly seeing a high commitment from domestic capital thru Mutual Funds, PMSEs, Family Offices and HNIs in the broader markets and this should ensure that companies with growth should be rewarded in the longer term.

Portfolio Construction amidst Volatile Global Environment

Our portfolio construction style is based on Starting Valuations, EPS growth and Starting Balance Sheet from the perspective of 3 years+ investing horizons. Based on the feedback loop from capital flows and global volatility, we align certain factors towards buying a company at a potential growth inflection. We would like to highlight Top 3 factors that we are tracking and observing with regards to our existing or prospective portfolio holdings:

1. Balance Sheet Positioning from Capital Efficiency Perspective: We do look at leverage and finance costs/sales here, however the most critical parts are 1) an assessment of the capacity utilization and ramp up of incremental capacities and, 2) ability of the company to manage working capital cycle efficiently across market cycles.

We form our opinion based on a mix of concrete factors like 1) demand-supply gaps, 2) capex efficiency and 3) capacity utilization and softer aspects like 1) management alertness amidst crisis, 2) working capital extension calls particularly for supporting vendor/customers in tough times or taking inventory build out calls.

2. Raw Material to Finished Goods Spreads: This is a fairly dynamic variable in the current times. We want to exercise caution on building weights in companies where the spreads are close to peaking out and there could be a cyclical top. At the same time, some of the quick returns have played out when we have invested in a company when the spreads have started to bottom out. It is important to note that we are looking at the spreads and not raw material prices alone. This is because it is highly possible that a change in finished goods prices may narrow, widen or maintain the spread and this could lead to a diametrically opposite conclusion if one just looks at raw material prices.

3. Growth Triggers: These triggers could relate to new orders, approvals, capacity commissioning, margin expansions, product mix changes, management changes and so on. One of the key softer aspects on this front would be management energies. This could be evident based on insider buying, increased management commitment, competitor reactions and so on.

To assess the Value at the Portfolio Level, 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 85% of the companies are reporting ATH profits with impressive growth potential of 40%+ in FY27E while their existing market capitalizations are at a 20%+ discount to their life time highs and these companies have compounded their EBITDA/PAT at a stake adjusted growth rate of 30%+ since then.

Exhibit 1: Fundamental Compounding v/s Multiple Consolidation

Portfolio reporting ATH Profit in FY26/FY27	85%+
Distance from ATH Market Cap till date	20%+
Compounding Achieved from earlier ATH	30%+

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 believe that bottom up investing in small companies where one can understand and assess the growth trajectory is particularly rewarding across market regimes. While there is high skepticism regarding the impact of factors like yield curve, geopolitics, crude and weak monsoon on the markets, we continue to believe in the resilience and resourcefulness of quality managements to steward their business thru such turbulence. In fact, we are fairly confident that managements with positive energy and superior balance sheet are well placed to take profitable market share in such times. Almost as if "*when the going gets tough, the tough get going*".

On that note, we would like to highlight the construct for one of our Portfolio Holdings below:

- A differentiated global precision-engineering franchise with a leadership in bearing cages, supported by deep process know-how, in-house tooling, automation and application-led product development.
- The platform has 7,500+ cage designs, five manufacturing facilities and 20+ warehouse locations across 25+ countries, creating meaningful customer stickiness and entry barriers.
- The company is scaling bushings, complex stampings and large-size cages, allowing it to deepen wallet share with existing global customers while entering adjacent applications such as industrial equipment, wind gearboxes, white goods, railways and mobility.
- The new domestic facility is being expanded across bushings, stampings and large cages. This facility has runway for expansion over the years. An overseas expansion in China should further broaden the product mix and contribute meaningfully from FY29 onwards.
- Capital efficiency should scale with higher earnings growth than revenue growth. This should be possible as new facilities achieve scale, loss-making overseas operations improve, product mix shifts toward higher-value adjacencies and raw-material pass-through normalizes.
- The valuation is interesting because the current performance is shadowed by some of the above factors and as they play out, one can expect healthy growth comprising both product breadth as well as deeper relationships. Given the secular nature of the underlying business, the stock could merit a higher multiple and should be a rewarding journey from here.
- The key risks relate to customer concentration and geopolitical upheavals.

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.

Exhibit 2: Key Portfolio Characteristics and Valuations

Sep 30 2026	
# of stocks	31
Top 10 %age	53.3%
Portfolio P/E	21.7x
Portfolio Median EPS growth	27.0%
Small Cap Index P/E	34.0x
Portfolio P/B	2.3x
Portfolio Median RoE (%age)	12.0%
Small Cap Index P/B	3.4x
Small Cap Index RoE	10.0%

At the portfolio level, we hold a high level of conviction that valuations of 21.7x P/E at 2.3x 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. This make us fairly bullish on the re-rating potential at the portfolio level.

Finally, We would also like to share one of our recent exit calls. Exits are primarily based on a) break-down of our investment thesis, b) topping out of valuations and, c) switching to a higher return alternate. The following exit is primarily based on break down of the thesis and partly by the attractive opportunities within multiple portfolio holdings.

- Exit from an Auto Ancillary with Rising Volumes and Heavy Margin Pressures.
- The investment thesis was built around rising content per vehicle and operating leverage from the ramp up of greenfield capacity.
- While content per vehicle was rising, utilization ramp up was more gradual and the operating leverage bridge crashed due to high raw material volatility and significant wage inflation in its core manufacturing regions.
- While commodity inflation is contractually recoverable with a lag, wage inflation is more difficult to pass through and could require the company to absorb a temporary P&L hit.
- Our channel checks suggested that traction for a key model of one of its major customers is weaker than expected, potentially delaying the ramp-up of the associated greenfield capacity.
- While these developments had occurred, the price had held up relatively high due to the market leadership and halo effect surrounding the management group.
- Given our concerns surrounding multiple points related to execution, contractual arrangements and cost pass through, we pulled a timely exit plug in this case.

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 and clear growth triggers based on compounding or mean reversion of the underlying variables.

Regards,
Devam Modi