Letter to Shareholders

Dear Shareholders,

In 2022, when AlphaFold solved a 50-year grand challenge by accurately predicting the structures of more than 200 million proteins (nearly all known to humankind), it was still arguable whether AI would fundamentally reshape scientific discovery. In 2026, it has become clear that AI is reshaping one scientific discipline after another. In September, Anthropic' s Claude produced the first complete computer-checked proof of Fermat's Last Theorem, a problem that defeated mathematicians for 358 years until Andrew Wiles solved it in 1995. It took Claude 11 days. Last month, on a single day, OpenAI published 722 manuscripts of new mathematical results from one unreleased model. AI is fundamentally adding to our understanding of the world.

Inside most businesses AI has accomplished far less. Nearly every large company now uses AI somewhere, but few have dramatically altered how they work because of it. Software is an exception: AI now writes a large share of the world's new code. Elsewhere, the way most companies price, plan and serve their customers looks much as it did four years ago.

The floodgates have not opened yet.

The models are getting more capable every week, and Epoch AI estimates that the cost of a fixed level of intelligence is falling by about 47% every quarter, or more than 90% a year. Within the next few quarters, we will cross a threshold where it will be irresponsible and downright risky for companies to leave their most important decisions unchanged. We are building Fractal for that moment.

What is possible and what is real

The gap between what AI can do and what it is doing is now the most important fact about the technology. This matters well beyond any one company. Gartner forecasts the world will spend about $2.6 trillion on AI this year, more than half of it on infrastructure. Much of that investment rests on the expectation that enterprises will put intelligence to work and earn a return from it.

Why the gap exists

Take a consumer goods company deciding next month's promotions. The model needs the plans, the prices, the inventory, the retailer's terms and what happened the last three times. The company needs to decide which of those decisions it will let the system make, who looks at the exceptions, and how the system learns when a promotion fails. Frontier models know the world. They don't know the company's retailers, its margins or its shoppers. Agents fail without that context. And even then, models are only a part of this solution.

AI is often compared with electricity and how it reshaped the industrial and information revolutions. The economists Ajay Agrawal, Joshua Gans and Avi Goldfarb describe what happened with electricity in their book, Power and Prediction. For decades factories swapped steam engines for electric motors and changed little else, because the plant was still built around a single power source.

The gains were small. The gains became large when each machine got its own motor, and the factory could be laid out around the flow of the work. Factories were rebuilt one machine at a time, until the whole plant looked different, and it took about forty years. With AI it should be much faster, but it has just begun. The return on the trillions being spent on AI will be earned in that rebuilding, one decision at a time.

That rebuilding is what we do.

What Fractal is

Frontier labs build general intelligence, and the world needs them. They push the frontiers of capability every few months. System integrators bring technology into large organizations. Think of Fractal as an enterprise AI lab. We build the intelligence for one enterprise at a time, and we redesign the business around it: the knowledge it needs, the tools and checks it works within, and the way people's work changes once it is there. We do this for some of the largest companies in the world, on the decisions that run them. We have worked on those decisions for twenty-six years, and we now bring our own models and products to them.

Engineers call the structure that lets a model do real work a harness, and we are building the harness for AI in the enterprise. It starts with what the business knows. For a global insurer, we mapped how each policy connects to its coverage, its exclusions and its past claims, and the rules underwriters follow when they decide. Then come the tools the AI is allowed to use and the checks on its work. Then the work of people changes: who reviews a decision, how an exception is handled, where human judgment matters most. With all of that in place, the insurer can give AI a real part in underwriting decisions, and every time the underlying models improve, those decisions get better too.

Our products are building the harness that many companies can reuse. PiEvolve does it for data science, carrying raw data through experiments to validated results; it ranks among the top agents on MLE-Bench. Asper does it for pricing and promotions in consumer companies. For a global coffee company, it built a promotion plan projected to deliver $4 million more gross profit from the same budget.

Vaidya.ai does it for clinical reasoning. Vaidya 2.0 was the first model to score above 50 on OpenAI's HealthBench Hard. Mumbai's public health system handles more than 16.8 million outpatient visits, and 3 million lab reports a year, and in August it began working with us. Patients can already message Vaidya on WhatsApp to understand a lab report in English or Marathi, or to find the right clinic. In the next phase, Vaidya 2.0 will prepare a case summary of each patient for the doctor before a consultation and give the city's health administrators an epidemiological view based on anonymized lab reports across Mumbai. The aim is one system serving the patient, the doctor and the city.

fractal

Letter to Shareholders

Cogentiq is our agentic AI platform that holds a company's knowledge, runs its agents and enforces the controls on them, helping our clients build their own applications on it. Every day a large company receives thousands of payments and must work out which invoice each one is paying. At one enterprise handling more than 3,000 transactions a day, cash application and reconciliation could remain open for more than 20 days. In a seven-day trial, Cogentiq's Invoice to Cash enabled 85%+ same-day application, while cutting manual effort by more than half.

What cheaper intelligence means for us

AI is getting cheaper and better at the same time, and that is good news for the world and for us. India has already seen what happens when something valuable becomes abundant and cheap: usage takes off. When the price of mobile data fell drastically, India quickly became one of the world's largest consumers of mobile data. This increase in usage created the conditions for the buildup of several industries. Intelligence will follow the same path. As the cost of intelligence falls, companies will make far more decisions with AI, in parts of the business where it was never worth trying before.

That is what the floodgates opening will look like.

I expect large companies to spend up to 2% of their revenue on AI over the next few years. This will be an enormous market. The firms that build intelligence, rather than supply the people to deploy it, will earn the largest share of it. That is the business we are building.

The half and the quarter

Our first-half revenue was ₹1,869 crore, up 20% in rupees and 10% in constant currency, all of it organic. Net income grew 114% to ₹151 crore, and adjusted EBITDA margin was 16.5%.

Q2 was our first quarter above $100 million in revenue, at ₹957 crore. Net income grew 139% to ₹79 crore and adjusted EBITDA margin reached 16.2%, up 123 basis points YoY. Healthcare and life sciences grew 79% and is now a quarter of our revenue. Banking, financial services and insurance grew 30%. Net revenue retention was 115%, and our net promoter score was 76. We ended September with ₹1,728 crore in cash and investments and no long-term debt.

Where we fell short

Ten percent constant-currency growth is below our ambition. TMT revenue grew 6% sequentially but fell 18% year on year. Excluding TMT, the group grew 33% in INR terms. Consumer goods and retail grew only 11% YoY, partly as inflation and consolidation squeeze the large companies in the sector. Our gross margins fell 225 basis points to 44%, mainly because we invested ahead of growth in AI engineering talent.

What excites me

As AI moves into the decisions that run a company, the work will go first to the firms already trusted with those decisions, and Fractal is one of them. Every decision we redesign for enterprises leaves behind knowledge and software that makes the next one easier to build.

Our products are beginning to compound on that base. They are at a run-rate of ₹153 crore a year, up 39% YoY. Cogentiq is adding clients around the world and especially in India.

We are adding a new client roughly every ten days. We are taking on larger programs, and our balance sheet lets us acquire the products and industry depth that would take years to build. And we are raising the bar on our leadership, with exceptional people choosing to build with us.

The same intelligence that has solved problems scientists worked on for decades is now available to every company on earth. Putting it to work inside those companies is the larger task, and it is the one Fractal has spent twenty-six years preparing for. I am excited about our future and how AI will reshape the world around us, including the enterprises we serve.

Thank you for your trust.

Srikanth Velamakanni

Co-Founder and Group CEO

Fractal