From the Fund Manager's desk...

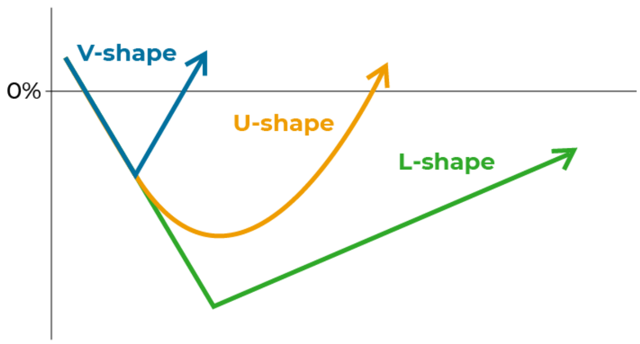
ReKovery: Separating the Men from the boys...

The only certainty in today's uncertain times has been that a recovery will come about at some point of time. While it is uncertain as to when this might happen, some try and analyse how this might happen. A simplified approach to answering the "How?" certainly has some merit while taking investment decisions today.

The range of outcomes have been fairly wide ranging right from the popular and over optimistic "V" shaped recovery to the more conservative "U" shape, "W" shape or "L" shape, speaking about the most popular ones. ***(Ref to Exhibit 1)***

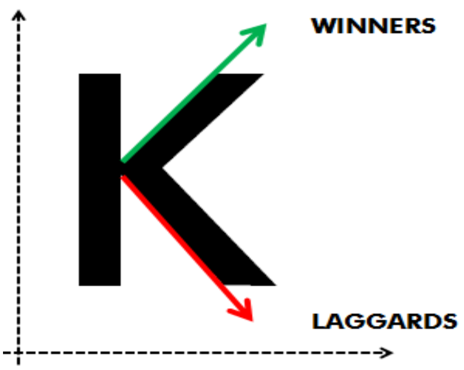
We have a different view and strongly believe that the recovery path will not be the same for all. A divergence between companies with winning traits and losing traits amidst the grave hardship in economic and business environment will become fairly evident going ahead. Interestingly to that effect we see a "K" shaped recovery is the most likely outcome. ***The "K" shaped recovery concept*** rests on the idea that while the fortunes of some in the economy have nearly or fully recovered (broadly defined), the fortunes of many are still declining, or at least failing to recover nearly as quickly. ***(Ref to Exhibit 2)***

Exhibit 1: Variety of shapes of recovery have been spoken about, popular ones include V, U and L...



Source: Ambit Asset Management

Exhibit 2: ...We have a different and polarising view, we see the recovery to be more K shaped above all



Source: Ambit Asset Management

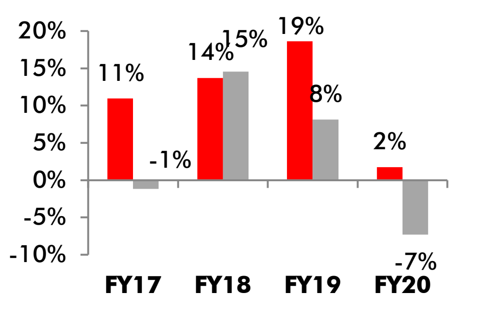
Over the past year we have seen how companies across our Emerging Giants fund, which we naturally believe to be stronger players vs their peer set have shown resilience in delivering stronger relative business performance ***(Ref to Exhibit 3,4)*** and consequently stronger return performance vs. the broader market. ***(Ref to Exhibit 5)***

A precondition to pinpoint and include such companies was the clear identification of characteristics of companies with The Right to Win ***(Ref to Exhibit 6).***A "K" shaped recovery thesis entirely rests on the divergence between Winners and Laggards going ahead.

Having identified companies in our portfolio scheme which we believe to have winning abilities or what some might consider strong market positioning, we go on to segregate these companies based on **Positioning** (formidable challenger, segmental/regional leader or an Industry leader) and **Peer dynamics** (Monopoly, Duopoly, Oligopoly and Fragmented Industry) ***(Ref to Exhibit 7)***

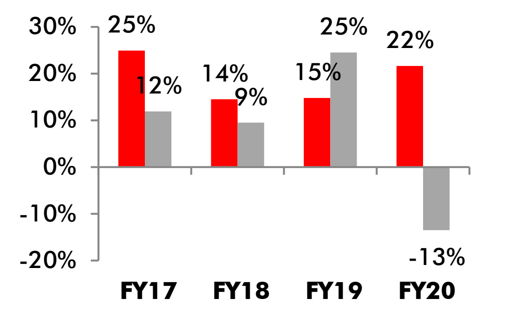
With the pain points likely to increase for the underlying economic and business landscape what we have seen as resilience so far in our portfolio companies will soon start to resemble a K shaped divergence as the heat is turned up!

Exhibit 3: Ambit EG portfolio Revenue divergence with benchmark Index since beginning of tough period (from FY17)



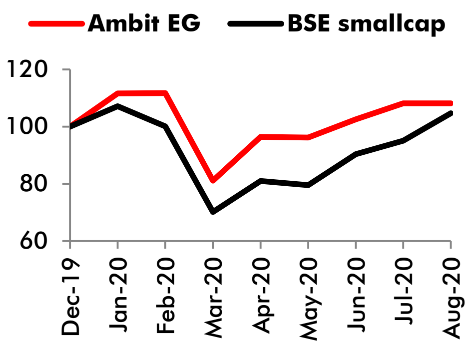
Source: Ambit Asset Management, Company, Index=S&P BSE smallcap

Exhibit 4: Ambit EG portfolio PAT divergence with benchmark Index since beginning of tough period (from FY17)



Source: Ambit Asset Management, Company, Index=S&P BSE smallcap

Exhibit 5: ...consequently the returns of Ambit EG CYTD have been good



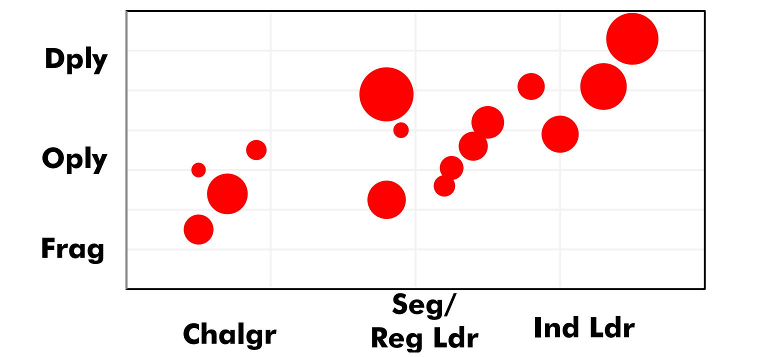
Source: Ambit Asset Management

Exhibit 6: Picking right to win companies, first identify winners vs. losers

Winners	Losers
Strong balance sheet	Weak balance sheet
Low D/E	High debt
Strong brand equity	Limited ability to raise funds
Strong distribution	Low scale and limited reach
Leadership position will help garner market share	Unorganised segment
Adaptability to changes	Low competitive advantage

Source: Ambit Asset Management

Exhibit 7: EG Right to Win Positioning +Peer dynamics

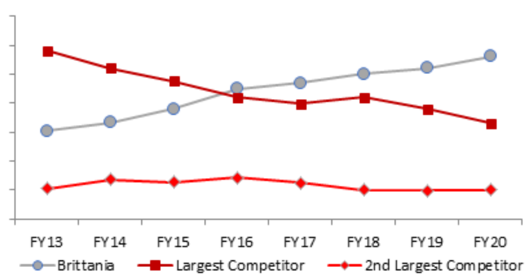


Source: Ambit Asset Management, Note: Size of Bubble=Market cap

History favours leaders, irrespective of size or sector...

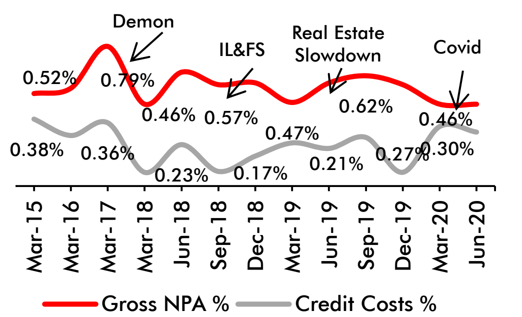
Let us take some examples of well-known companies to drive this point home. A lot can be learned from the leaders of our times, no matter the sector. It is tough to have a conversation about housing finance today while skipping out the phenomenal growth of Aavas Financiers. Similarly when it comes to biscuits, it is impossible to have a meaningful conversation without talking about Britannia Industries. Likewise in the radio segment

Exhibit 8: Britannia continued to gain Market share and deliver growth through periods of crisis (including today)



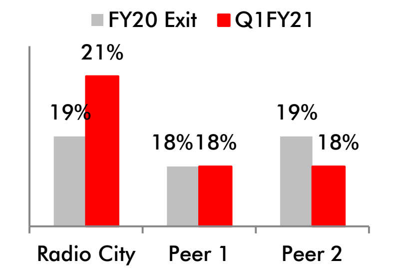
Source: Ambit Asset Management

Exhibit 9: Aavas kept tight control on credit costs ahead of peers through RERA, Demon, IL&FS and economic slowdown providing growth (MS gains)+safety



Source: Ambit Asset Management

Exhibit 10: Music Broadcast- gaining volume market share in tough times



Source: Ambit Asset Management

Britannia Industries: "Good days" (pun intended) in lockdown –Ref Exhibit 8

Many would characterise the last few years as economically challenging years with a series of disruptive events such as demonetisation, GST reforms and now Covid to name a few. However the biscuit manufacturer of choice, Britannia Industries has been marching to a different tune. Biscuit market share has increased to 36%, a gain of 400bps in the last 3 years itself. During this period the gap between Britannia and its peer set has considerably widened and that too with good reason.

a) Distribution has risen by 3x, direct reach now stands at 2.15mn outlets.

b) Product Launches & Re-launches were highest in the last 3 years

The market cap CAGR for the last 5 years has been 20% following closely a PAT CAGR of 21%.

1QFY21: In the more recent times too the company has gained from strength to strength and this is visible in Q1FY20 as well across the board. The company has gained market share and improved visibility in rural segment (16% QoQ) during lockdown and such depth led to overall growth for the biscuits segment ***(Ref Exhibit 8)***. Promising categories such as Milk shakes (Tetra Pack) now have 20% market share (No 2 brand) and Wafer Biscuits now 10% market share (No 3 brand) have also gained meaningfully in less than a year of launch.

Aavas Financiers:Focus on collection became currency for growth–Ref Exhibit 9

During FY16-20, both real estate & housing finance companies have been under severe stress due to events like RERA, Demon, IL&FS and an economic slowdown. During the same period Aavas financiers, a formidable housing finance player has seen its market share more than double from ~1.4% to ~2.9% in the affordable segment. This has been on the back of 47% CAGR in AUM versus a 23% growth in affordable housing finance industry, while overall housing finance industry growth has been even lower at just 14%.

1QFY21: The market share gains have continued even during the ongoing phase of Covid, as many Housing Financiers have become conservative in lending to new customers due to low liquidity levels. An interaction with the management revealed that, disbursements for July/Aug are back to ~90% of normal levels, ICRA has upgraded company rating from A+ to AA- in Aug'20 and the company has been able to raise capital at a cost which is as low as 6%, all this while peers are suffering.

Music Broadcast– Never let a crisis go to waste! (Ref Exhibit 10)

Music Broadcast has adopted a disciplined approach of profitable growth with focus on bottom-line. This has kept them away from poor capital allocation decisions like some of the peers. The company is profit leader in the industry and in tough times this allows it to gain over peers.

1QFY21: This profit leadership gives the company the right to win. It is directly visible in the volume share gains in Q1FY21 when the whole industry was suffering due to Covid. It achieved this by quickly re-inventing itself during this time and focusing on tactical deals like the Coronavirus awareness campaigns, special day promotions, etc., which helped garner >30% of Q1FY21 revenues across nearly 980 clients. Additionally of the new client base of 1,000 advertisers on radio MBL was able to capture the highest share of 36%.

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