From the Fund Manager's desk...

Stay calm & start investing!

- The Indian economy has been under stress for the last few quarters with GDP growth coming under pressure. However, for the last couple of months, there have been some green shoots visible which give reassurance that things are now starting to stabilize.
- However, with the Coronavirus scare assuming pandemic status, a new challenge has now emerged. Disruptions along the supply chain are likely to have some adverse impact on India's growth in the current and upcoming quarters. China's share in Indian goods imported stands at 14%. While we do acknowledge the stress experienced due to potential impact on health, travel, business and logistics, we do believe that any stress that one experiences due to market volatility is unwarranted. The best strategy in these turbulent times is to invest more.
- As long as fundamentals remain intact, great businesses are best bought in bad times as their exists maximum mismatch between value and price.

While we do acknowledge the seriousness of the issue, the silver lining is that as compared to other major global health scares, the mortality rate remains fairly low.

How big is the Covid-19 threat?

- The virus has been spreading across the world fairly swiftly and at last count several countries including Italy, South Korea etc. have experienced a large number of cases.
- China has been as example for the world, showing the path to recovery. We do believe that the situation shall come under control sooner than what most people are anticipating at the moment. The key thing to realise is that it's a temporary situation and not a permanent one to panic over, as far as financial markets are concerned.

Exhibit 1: Covid 19 has the lowest mortality rates

Past instances	Timing	Cases	Est. Mortality Rate	Death Toll
Covid-19	March 12,2020	1,34,919 +	3.7%	4,990 (As on 12 Mar, 2020)
ARS	July, 2003	8,098	9.6%	774
MERS	Jan,2020	2,519	34.3%	858
Swine Flu	Apr 2009 to Aug 2010	Above 700M	0.02%	Above 1,50,000
Ebola	Dec 2014 to Feb 2014	3,444	50%	1722
Spanish Flu	Jan 1918 to Dec 1920	500 Million	10.00%	50 million

Source: Worldometer, WHO.

Assessing the economic impact of Covid-19

- Globally, with major economies of the world starting to issue travel advisory and travel ban, the economic impact shall be significant. Even several European countries like Italy, which are currently in a complete shutdown mode, will have significant impact.
- Moreover, economic and market impacts of coronavirus may be much larger than those of the 2003 SARS virus. Why? China is a much bigger part of the global economy than it was 17 years ago. **(Refer Exhibit 2)**
- However, as far as India is concerned we do anticipate negative impact on certain sectors like entertainment and Autos. China is one of the leading suppliers of auto components in India, accounting for 27% of the total imports.

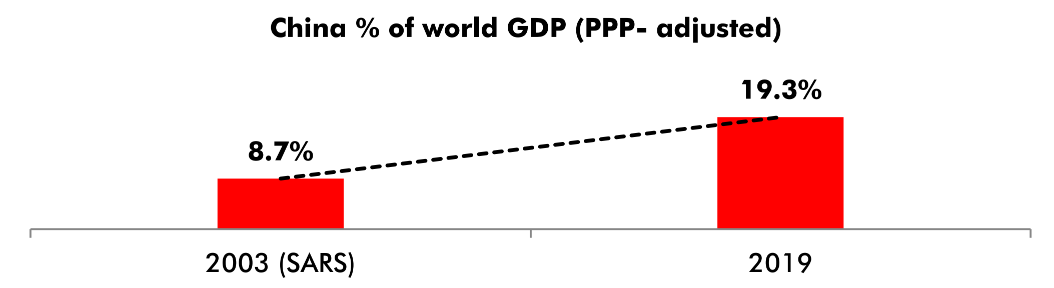
- We also believe that overall economy specific impact is going to be fairly limited. This view is firmed due to:

a) The fact that we are largely an inward looking economy and not really dependent on exports, which cushions the blow

b) With crude prices crashing the impact shall be positive on our fiscal deficit & balance of Payment. Even consumer companies shall witness margin accretion due to this phenomenon.

- Hence, overall, the impact on Indian economy can be limited due to counterbalancing factors**. *Fall in stock prices should be used as an opportunity to add high quality companies to our investment portfolio.***

Exhibit 2: Chinas increasing share in Global GDP and trade



Source: IMF, Deutsche Bank

Start to invest for the long term!

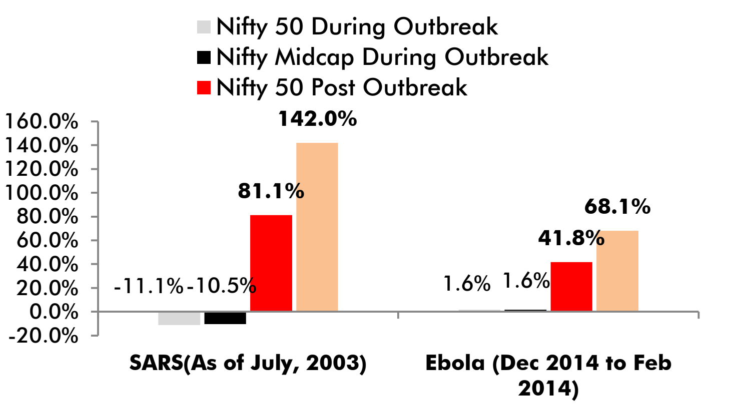
- We do believe that great companies are best bought in tough times, in essence what we call as breaking the cycle of fear. Stock markets had a similar reaction in late 2008, at the time of global financial crisis. The markets had corrected ~60% from the peak in the short span of less than one year.
- Now, we at Ambit believe, that there are two reaction to the issue:

a) To sit on the side lines and wait for a full recovery to happen

b) To invest at every fall and build a long term portfolio of resilient businesses. ***We believe the latter is always a better approach***.

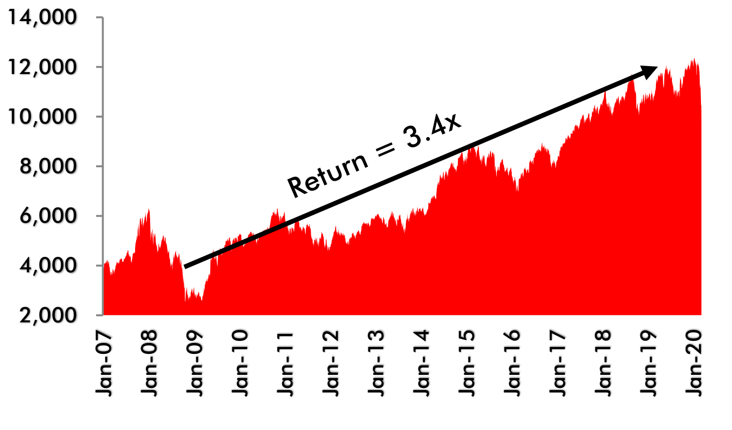
- Hypothetically, any investor who would have invested in Oct '08 (at the peak of the crisis) would have been sitting on 3.4x returns at the end of Dec '19. However someone waiting for a full blown recovery would have invested a year down the line and the return at index level would have been just 1.4x. So, buying great businesses at every major fall is a great long term portfolio building exercise, in our view.

Exhibit 3: The short lived panic caused by virus outbreaks has yielded exponential returns:



Source: Company, Ambit Capital research

Exhibit 4: Global financial crisis, if anything, was a great investment opportunity:



Source: Company, Ambit Capital research

Exhibit 5: Sectoral impact reiterated

Sector	Particulars	Impacted companies	Net Impact
INDUSTRIAL	▪ Uncertainty in Chinese steel sectors, 51% of global market share, uncertainty is having a downward pressure on global steel prices. A mildly positive impact for industrial companies due to availability of cheaper steel as raw material.	Leading GLE player, Mining equipment company	Mildly positive
AUTO AND ANCILLARY	▪ The shutdown has prohibited the imports of various components affecting both the Indian auto manufacturers and the auto component industry. ▪ Current levels of inventory seem to be sufficient for the Indian industry at the moment. Will disrupt the inventory management, if Covid-19 persists. ▪ As raw material sourcing becomes a challenge, post April/May there would be negative impact on CV and CV financiers as demand for logistics falls	2 wheeler company, Auto ancillary players, Tools company	Negative
FMCG	▪ Marginal benefit on FMCG due to drop in crude, offering cost benefits to players relying on crude and its derivatives.	Leading Paints players, Plastic pipes company	Mildly positive
BUILDING MATERIALS	▪ Impact on production in China will be net positive for Indian players, as most of the imports for unorganized players are from China.	Leading players in laminates, tiles and pipes	Positive
PHARMACEUTICALS	▪ India has a high dependence on fermentation-based APIs/ Intermediates namely antibiotics and vitamins. Prolonged supply disruptions will impact industry growth over the next quarters. Companies have been maintaining 2-3 months inventory of these APIs and Intermediates. ▪ Might force companies to think about increasing API manufacturing within India. Currently, such facilities are underutilized. ▪ Fall in crude price to reduce raw material cost of those companies which has less reliance on API supply from China.	Leading Pharma companies	Neutral
CHEMICALS	▪ Specialty and agro-chemicals players with global exports foot prints to benefit from hike in international prices. ▪ Supply disruptions of basic raw material and intermediates will lead to increased prices.	Leading ATBS player, pigments company	Mixed
	▪ Raw materials from alternative suppliers available. Currently, covered till April/May. ▪ Revenue from China is in single digits.	Leading Agro chemicals company	Long term Positive
	▪ Customers have 3-4 weeks of inventory hence the company has not witnessed any pick up in volume. ▪ In the recent past, the prices of methanol are stable, however if situation in china remains same then RM prices may increase.	Leading Amines player	Positive
FINANCIALS and IT	▪ Indian IT companies' ability to deliver services on-site could get severely impacted and the huge trade impact could also and a slowing global growth would add to the stress on the Indian corporate balance sheet and thereby on financial sector	-	Mildly negative

Source: Company, Ambit asset management

Conclusion – Tough times never last, Tough investors do!

In conclusion, we would like to reiterate that the fear in the market has been overdone and Indian economy should largely have minimal impact due to several counterbalancing factors. We would urge inventors not to panic and use this correction as an opportunity to add quality names into the portfolio. Remember, there is always light at the end of the tunnel and quality always stays afloat.

Exhibit 6: Corrections can be an opportunity in hindsight

Market Indices	Peak Date	Correction Since Peak
Nifty 50	14th Jan, 2020	-22.4%
Nifty Midcap 100	7th Feb, 2020	-22.5%
BSE Smallcap	27th Jan, 2020	-21.8%

Source: Company, Ambit asset management, As on 12th March, 2020

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