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India's T-10 opportunity

A question of 'when' and not 'if'!

India's T-10 Opportunity – A question of 'When' and not 'If'!

Dear Patron,

Festive season has dawned upon us and markets are giving us more reasons to cheer, all of which is great news. Economy has certainly turned around with great agility and the way markets have acknowledged it, is something no one had anticipated. Directionally maybe not but the speed of the rally has defiantly caught everyone by surprise for sure. We believe that this is no flash in the pan and the momentum is just about getting started. All things remaining constant, markets should scale new, unprecedented and unimaginable highs in the coming years.

Overnight success is often everything but overnight, the hard laborious nights spent over the many years are often hidden from the common eye. This is something the spectators often remain oblivious to. As they say, great luck comes with a lot of hard work. Think of it like an ice-berg analogy, 10% of it is visible while the 90% is not. Whether it is Sportsperson (Ronaldo, Messi, Kohli, Dhoni, Jordan, the list goes on…), Companies (Wipro, HDFC Bank, Asian Paints, Apple), or even Countries (USA, Japan, China, S. Korea) overnight success takes decades of hard work.

India is currently ranked 5th in the world in terms of Nominal GDP at Current U.S. Dollar Exchange Rates and is a matter of time before we rise to the 4th position by dethroning Germany. In the last two decades, we have come a long way. So many fundamental reforms have happened and we have managed to achieve global leadership in many sectors.

The key question is – what next? Where are we headed from here? USA, China and Japan are the top-3 countries in the world by GDP and the only ones greater than US$5tn – a milestone which India has actively set its eyes from the medium term perspective. However, we believe that US$5tn is not a dream but a reality that we are knocking on the doors of. It's just a matter of time before we celebrate that milestone. The real question is – can we become a US$10tn economy in the next decade and half. We believe that this aspiration for India too is no different and it's not an 'if' question but a 'when'. The stage is set for India to achieve this milestone and the pieces of the puzzle we feel are beautifully falling into place.

Each of the earlier mentioned developed countries have had their share of issues and rough patches. The learning curves have always been fairly step – Japan, for e.g., was devastated by WWII while USA hugely benefited economically from the same. The German unification, Great Depression in the US are some of the eg. of the same.

India's story has been no different, full of ups and downs like a roller coaster. The early 2000's saw some massive fundamental changes in the Infrastructure sector with the commencement of the Golden Quadrilateral and the NS-EW corridor. This ushered an era of growth which saw the GDP compound at a CAGR of ~15% for the next decade in nominal terms. The growth momentum continued in the early 2010's.

However, post 2015, the momentum has been lost a little bit largely due to two main factors: **(a)** The economy entered a phase of structural reforms which have now set the foundation for strong sustainable growth. GST, Demonetisation are just some of the examples of the same, **(b)** Exogenous events like COVID -19 impacting growth.

However, we feel that the ground-work is now in place for a structural and more consistent long-term growth for India. For the first time in decades, the key cylinders of economic growth: **(1)** Capex Cycle, **(2)** Interest Rates, **(3)** Real Estate sector, and **(4)** Government reforms, are all positively aligned. This gives us the reason to believe that the Indian economy can grow much faster than it did historically. A mid-teens compounding of the nominal GDP is very easily achievable ushering in the US$10tn economy era in the 2030's.

In order to achieve the US$10tn milestone over the next decade and half, India's GDP would have to grow 10-12% at the current exchange rates ***(Refer to Exhibit: 2)***. A look at the past 5-year and 10-year period growth ***(Refer to Exhibit: 1)*** shows that India's Nominal GDP has been able to achieve these growth rates. *Therefore, expecting India to get there over the next 12-13 years will not be a wild assumption.*

Exhibit 1: India's nominal GDP growth in the previous 5/10-year period

5-year period		10-year period	
2007-12	15%	2002-12	14%
2008-13	15%	2003-13	15%
2009-14	15%	2004-14	15%
2010-15	14%	2005-15	15%
2011-16	13%	2006-16	14%

Source: Ambit Asset Management, CSO

Exhibit 2: The time it may take India to touch the $10tn mark under various scenarios/growth rates

Scenario	1	2	3	4
Current GDP ($ tn)	2.8	2.8	2.8	2.8
Growth	12%	13%	14%	15%
Years	13.5	12.3	11.4	10.5
GDP ($ tn)	10.0	10.0	10.0	10.0

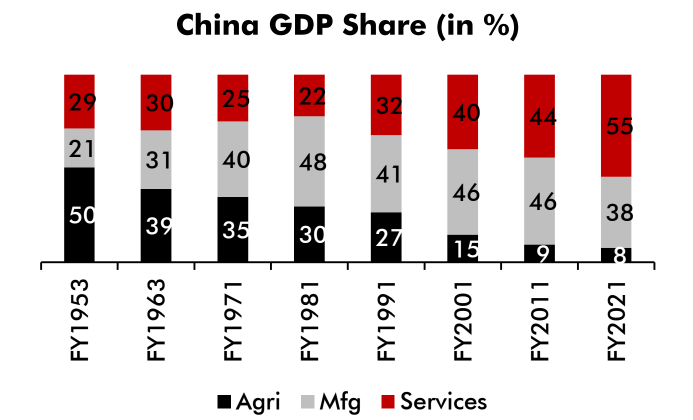
Source: Ambit Asset Management, Note: Nominal GDP growth, T12M GDP of Rs210tn as of Q1FY22 at USD/INR rate of Rs74.3. Assumed USD/INR depreciation of 2% per annum

The journey to $10tn mark is likely to result in a marked improvement in the business environment and likely growth opportunities available to companies looking to capitalise on it. We believe that there will be a shift from unorganised to organised leading to a ***K-shaped growth*** where the leaders prosper at the expense of the followers while the pool simultaneously grows larger. Also, dominant Mid and Small cap companies are likely to benefit much more than their large cap peers.

US$10tn milestone has been achieved before

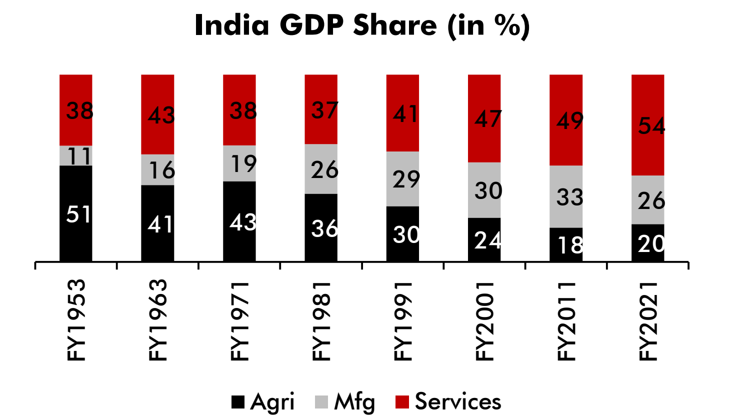
Currently, the US and China are the two largest economies in the world and have surpassed the US$10tn mark. Both these countries had a very different economic structure and subsequent trajectories. In the US, it is the much developed and technologically sophisticated services sector that accounts for ~75-80% of the total output. China, on the other hand, transformed from a rural-based economy – much like India – to a manufacturing kingpin, on the back of rapid infrastructure development, urbanization and rising per capita income, thus bringing a big shift in its GDP composition ***(Refer Exhibit: 3)***. Indian economy still has a huge share of Agri economy which employs >40% of the population (vs. 15% in China), but contributed ~20% to the economy ***(Refer Exhibit: 4)***. For India to achieve the $10tn milestone, this composition will have to change.

Exhibit 3: China's GDP has moved away from Agri to Services and Manufacturing…



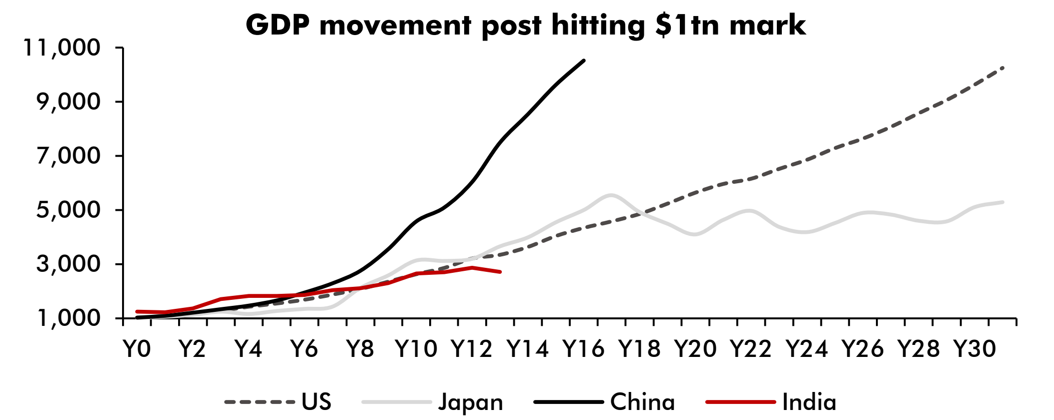
Source: Ambit Asset Management, CEIC, in RMB

Exhibit 4: …while India still has a large percentage of Agri contribution



Source: Ambit Asset Management, CEIC, in INR

Exhibit 5: Each of the major economy has had a different growth path/trajectory – While China saw superlative growth aided by government investments, US has witnessed a much gradual yet structural growth



Source: Ambit Asset Management, Bloomberg,
Note: Nominal GDP in USD for all. China, Japan, India – IMF Data. US – Bureau of Economic Analysis, Japan 1978-79 Data (Y0, Y1) from World Bank

Levers for a $10tn Economy

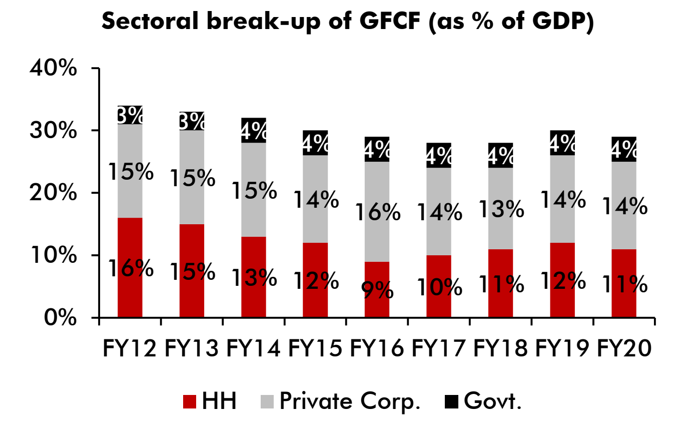
As mentioned earlier, the US$10tn aspiration has been achieved before and India is most likely to be only the third country in the world to get there. The journey which started 2 decades back has been not easy and neither consistent so far, however things seldom are. We believe that building blocks are well set in place and journey is about to start. Some of the key building blocks are:

1. **Manufacturing and Infrastructure sector –** India has over the years successfully transitioned from an agrarian economy to a primarily services driven economy. The current dispensation is very rightly focused on transforming India's manufacturing sector. We believe that the right steps are being taken in this direction.

A. **Turning Capex Cycle –** Being an Infrastructure-deficit country, Gross Fixed Capital Formation (GFCF) or Capex growth of India has been sub-par in the recent past, growing at ~7-8% from FY13-20. GFCF has three major contributors – **(1)** Private/Household capex which is largely property spend; **(2)** Private corporate capex, and **(3)** Government/Infrastructure capex. For the first time in many years, all three are showing signs of revival.

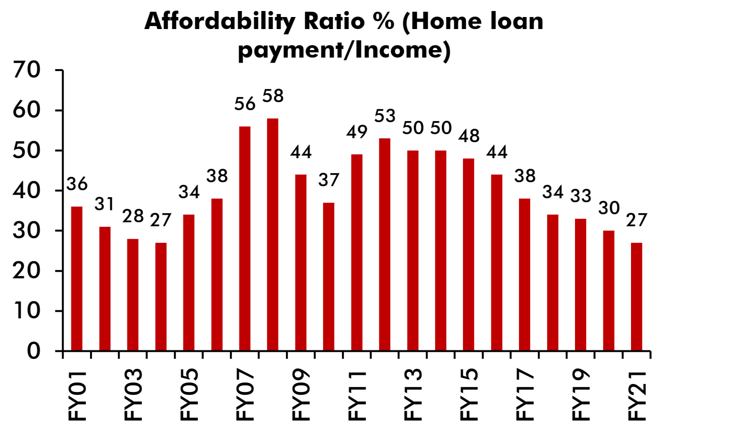
   a. **Private/Household capex –** Household capex is largely constituted by spending on property. The GDP contribution of HH capex shrunk to 11% in FY21 from 16% in FY12 ***(Refer Exhibit: 6)***, which is estimated to have dragged the GDP growth by 60-70bps/year over this period. However, this cycle is now turning, led by improvement in the housing market owing to sharp reduction in housing inventory – supporting developer price hike of upto 15% - and leading to pick up in new launches and subsequently sales.

Exhibit 6: Housing-cycle cool-off and decline in corporate capex impacted the overall GFCF



Source: Ambit Asset Management, MOSPI

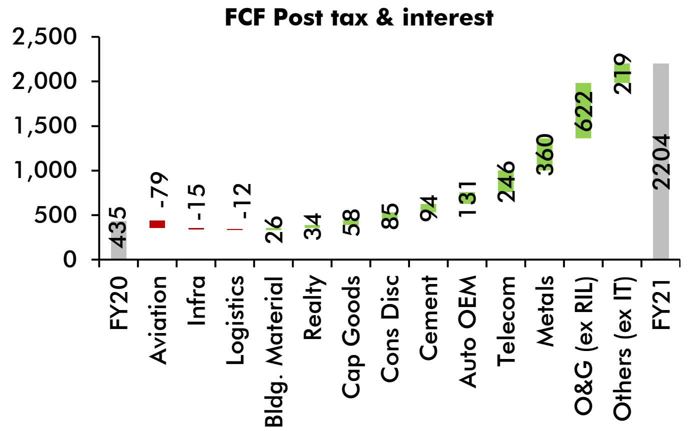
Exhibit 7: Home affordability levels is among the best it has been in last 2 decades



Source: Ambit Asset Management, HDFC, SBI

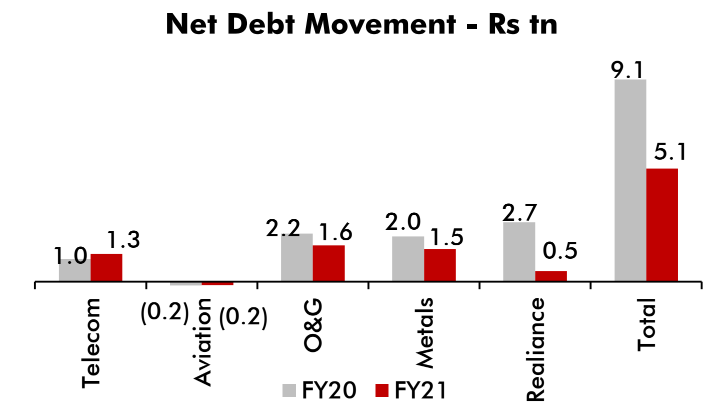
   b. **Private corporate capex –** Signs of improvement in private corporate capex is visible from capex announcements of >Rs3 Lac Cr in last 3-6 months, on the back of improving industrial capacity utilization supported by government measures like PLI Scheme ***(Refer Exhibit: 12)*** and easing of labour, land acquisition and environmental laws. This will further be aided by increased data centre-related spend which is expected to grow @ 22% for next 5 years to $8bn ***(Refer Exhibit: 11).*** Cash flow generation across companies (listed) improved substantially in FY21 which was used to strengthen balance sheet by reducing debt. Thus, balance sheet of major coporates are well positioned to undertake these capex spend ***(Refer Exhibit: 8, 9).***

Exhibit 8: Strong FCF generation across top listed companies...



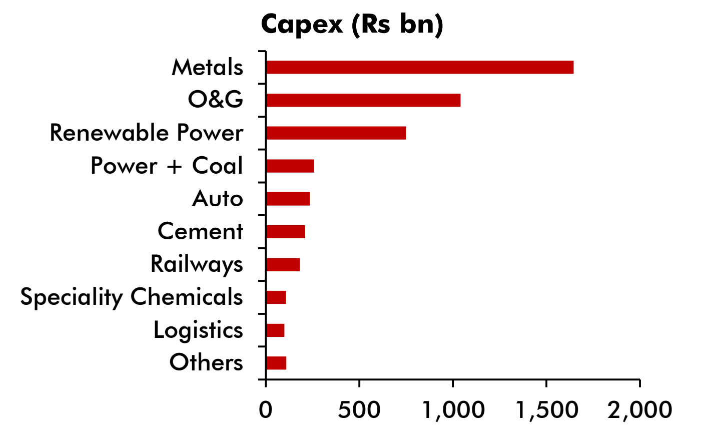
Source: Ambit Asset Management, Company data

Exhibit 9: ...which was used in overall net debt reduction to the tune of ~Rs4tn



Source: Ambit Asset Management, Company data

Exhibit 10: ~Rs4.5-5tn worth large capex has been announced so far by major companies across sectors



Source: Ambit Asset Management, Company data

Exhibit 11: ~Rs500bn/$7bn data centre-related investment announcements in recent months

Companies	Location	Investment
Yotta's Data Center (Hiranandani Group)	Chennai	$0.5 bn
	Mumbai	$1-2bn
Web Works	Delhi	NA
	Pune	NA
NTT Global Center	Mumbai	$2 bn
AWS Data Center	Hyderabad	~$2bn
NPCI Data Center	Vizag	$0.1-0.2bn
Nxtra Data Center	Mumbai & Pune	
Equinox	-	$0.16 bn

Source: Ambit Asset Management, News Agency

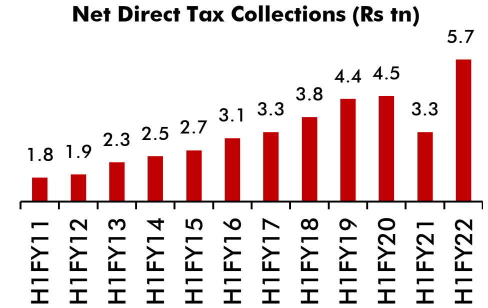
Exhibit 12: PLI will act as an important lever for improving in GFCF growth helping to garner >Rs1Lac Cr cumulative capex with est employment opportunity of >25Lac jobs

Category	PLI Incentive Committed (Rs bn)	Est. Investment / Capex (Rs bn)	Duration
Mobiles	410	100-110	FY22-FY27
Pharma	150	80-100	FY21-FY29
Pharma - API/KSM	63	50-60	
Pharma - Medical Devices	28	5-10	
IT Hardware	50	~25	FY21-FY25
White Goods & LED	62	80-90	FY22-FY27
Solar PV	45	170-180	
Telecom	122	30	FY22-FY27
Food	109	60-65	FY22-FY27
Specialty Steel	63	400-410	FY23-FY28
Textiles	107	190-200	FY23-FY28
Auto & Auto Components	285	200-210	
EV Battery	181	80-100	
Total	**1,675**	**1,400**	

*Source: Ambit Asset Management, Sector PLI Gazette Notification, News Articles, **Green** – PLI Mfg commenced / awarded, **AMBER** – PLI Awarding in-process, **RED** – PLI in discussion phase*

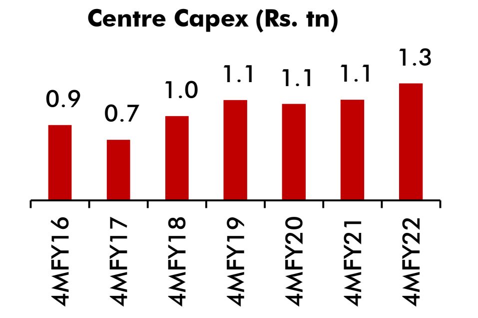
c. **Government capex –** Central government budget provision for capex was up 25% YoY. The government highlighted its Rs100tn National Infrastructure Plan (NIP) ***(Refer Exhibit: 15)*** which will act as the main kicker for government capex. Ongoing fiscal consolidation announced till FY26 implies an interim period of higher spending. Higher tax collection will provide further comfort on widening fiscal deficit resulting in a spending leeway.

Exhibit 13: Net direct tax collection 1/2-year CAGR was 27%/74% for H1FY22



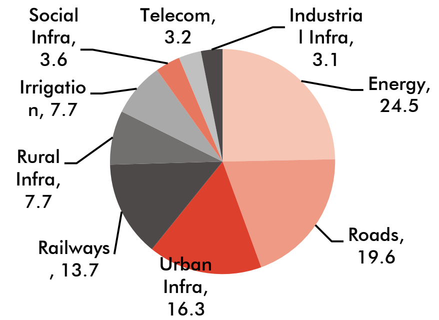
Source: Ambit Asset Management, PIB, Sep'21 data as on 22nd Sep 2021

Exhibit 14: Centre's capex spend over the last 2 years grew by 19%



Source: Ambit Asset Management, GOI

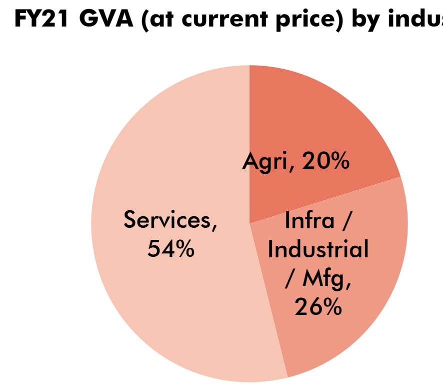
Exhibit 15: Break-up of the sector-wise allocation under NIP (Rs tn)



Source: Ambit Asset Management, GOI

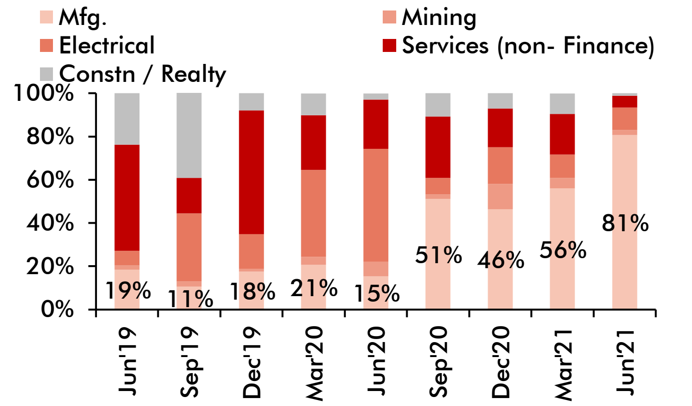
B. Increased scope for employment and Job creation – The Indian economy can be broadly divided into Agri, Manufacturing and Services sector. While the agri sector constitutes ~20% to the GDP, it supports >40% of population –which has been declining over last many decades. On the contrary, Services sector employs ~30% of the population, but contributes ~50-55% to the GDP, implying a positive productivity. Because of the highly knowledge intensive nature of Services sector, it will always enjoy higher productivity and may not be able to absorb the immense labour gap created by increased working population and movement of labour force away from Agri. Shifting focus from low to high-tech industries will prove critical. South Korea, whose per capita GDP grew 20x from 1963, has achieved this growth in part by developing the manufacturing capabilities essential for high-tech industries. Recent news of India-Taiwan collaboration on setting up a Chip manufacturing plant in India is a step in that direction to lure investments and know-how in high-technology area. Thus, the scope of such large job creation will fall on manufacturing sector propelled by increased industrial activity on the back of above mentioned improvement in spending.

Exhibit 16: GDP split by sector – Agri still constitutes 1/5th of GDP



Source: Ambit Asset Management, MOSPI

Exhibit 17: Higher proportion of Manufacturing in new investment announcements bodes well for job creation



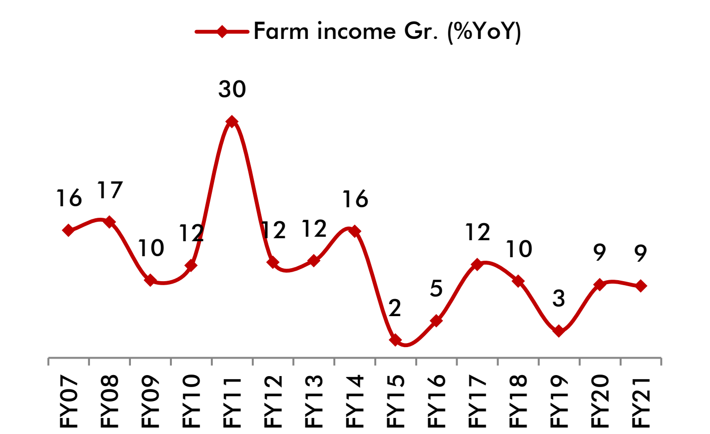
Source: Ambit Asset Management, CMIE Capex

As discussed above a lot of ground work has gone into the Infra and the manufacturing segment in the last five years. As always, structural reforms take time to show effect but the era of transition is probably well and truly behind us. Reforms, private capex and government capex are just some of the key contributing factors.

2. **Agriculture: The White Knight of Indian Economy -** Agriculture, as an industry, tends to have a multiplier effect on the economy, with >40% of population engaged in it. Auto industry's fortunes are linked to Agriculture as it tends to consume a lion's share of the utility vehicles and tractors. Similarly, Pipes, chemicals and fertilizer industry provide the input materials. Warehouses, labour and technology enable seamless process and finally the money in hand fuels consumption as it is spent largely on FMCG and discretionary consumption products. Thus, if India's economy is to experience exponential growth, Agriculture segment will be a key driving factor and will need to fire on all cylinders just like last couple of years now. Some of the levers for that will be:

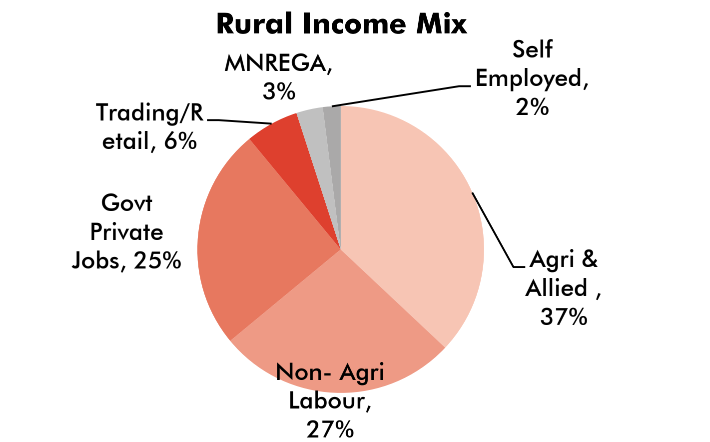
   a. **Improving farm income –** Despite economic headwinds, farm income grew 9% YoY for FY20 and 21, which kept the rural momentum strong. Additionally, revenue mix is diversifying for farmer and main agri now contributes only 37% of overall income mix, thus reducing dependence on farm output ***(Refer Exhibit: 19)***.
   b. **Improving labour force productivity and crop realization –** Higher MSP by the government, which resulted in crop diversification and import reduction, and improving labour productivity will provide further impetus to farm income and Agri sector. Moreover, increased exports procurement from the government is another positive sign.
   c. **Government reforms –** Government reforms like Pradhan Mantri Fasal Bima Yojana, Direct Benefit Transfer, APMC Act and PM Kisan Scheme to name a few, will help mitigate losses, provide financial assistance, improve productivity and provide higher in-hand income for farmers.

Exhibit 18: Farm income has grown over the last two years despite Macro-Economic headwinds



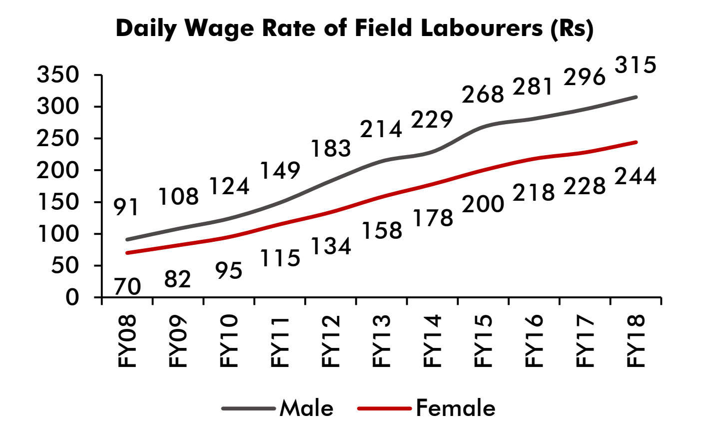
Source: Ambit Asset Management, Ministry of Agriculture

Exhibit 19: ...supported by changing rural income mix and reducing dependence on pure Agri income



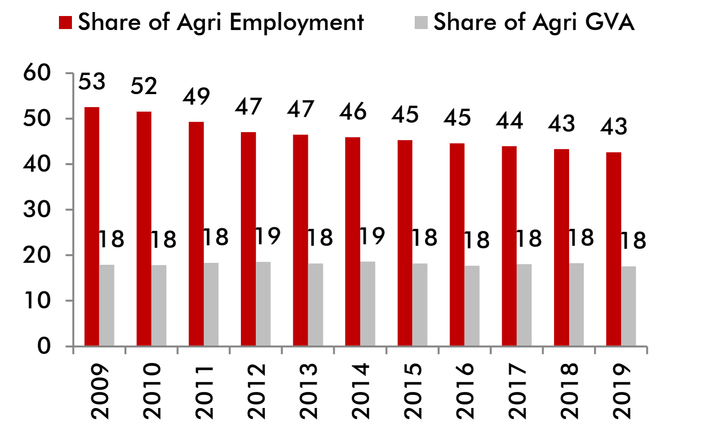
Source: Ambit Asset Management, NSO

Exhibit 20: Increasing overall daily wage rate of field labourers has led to better realization...



Source: Ambit Asset Management, Directorate of Economics & Statistics

Exhibit 21: ...which, coupled with direct employment decline led to better productivity for the sector

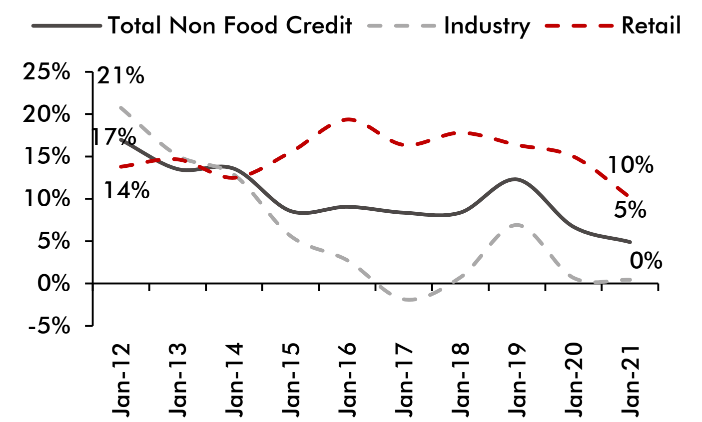


Source: Ambit Asset Management, NSO

Agri is undergoing a significant transformation which is largely being ignored by the markets. Slow as it may be, it remains quite significant. Changes in MSP pattern, improved productivity and increase spend of research will ensure a steady growth in the sector leading to the multiplier effect.

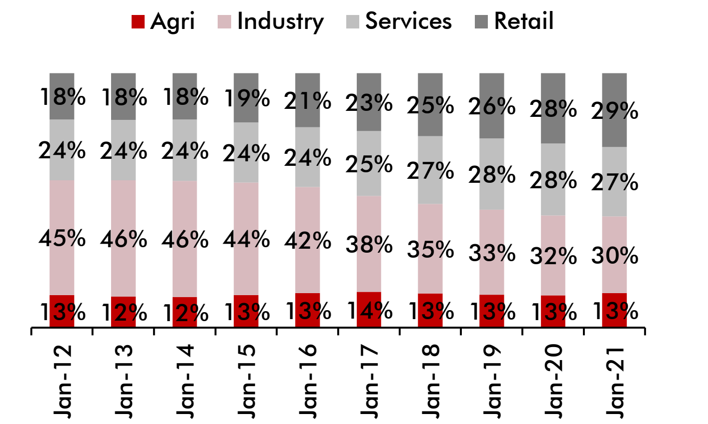
3. **Funding the US$10tn aspiration –** To achieve the US$10tn GDP target, India will need higher Foreign Direct Investment (FDI) — at least US$100bn/year – and government investment. Additionally, an increase in domestic investment hinges on more financial inclusion and circulation of savings in the economy – Credit Growth.
    a. **Declining credit growth:** With incremental credit growth plunging to 59-year low of 5% in FY21 ***(Refer Exhibit: 22)***, India's Credit-to-GDP ratio remains abysmally low at 58% when compared to peers. This can be largely attributed to declining share of industrial credit since FY14**,** during which the segment grew at just 2% CAGR. With banking bad loans cycle behind us and improvement in industrial capex (GFCF) cycle, surplus liquidity and relatively lower interest rates we can expect credit growth to pick up. Leverage in the financial system is at record lows, for both banks and NBFCs, and Tier-1 ratios have risen since FY19, putting them in a much better position to increase lending as compared to FY14.

Exhibit 22: Incremental credit growth over the last few years was driven by personal loans...



Source: Ambit Asset Management, RBI

Exhibit 23: ...which saw the share of industrial loans change in favour of personal loans



Source: Ambit Asset Management, RBI

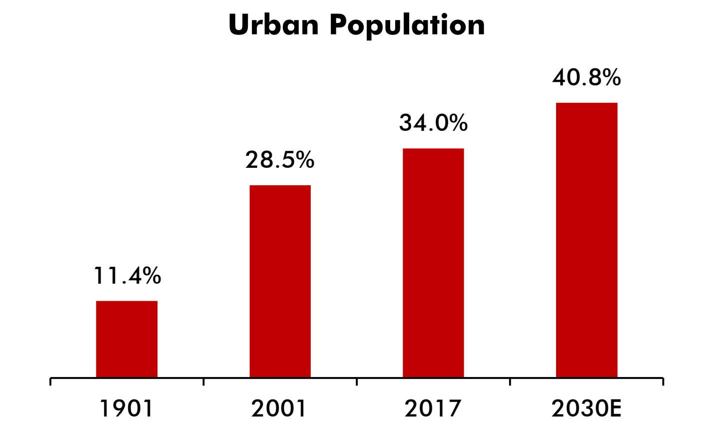
    b. **Financial inclusion and improving rural penetration:** PM Jan Dhan Yojana (PMJDY) was started in Aug-2014 with a target of financial inclusion for all. Till date, >43Cr new bank accounts have been opened under this scheme with ~100% household coverage in all the states/UTs. Of these, >55% are held by women and ~67% of the total account holders are in rural and semi-urban areas. These accounts are being used for DBT/Subsidy transfer, and helping in financial inclusion, plugging leakages in the system and expanding coverage of various financial services – like Insurance, pension and investment – to unbanked/under-banked areas. HDFC Bank, for e.g., recently announced its plan to double its rural reach to 2 Lac villages. In 7 years, the deposits under PMJDY has grown >6x and currently stands at Rs1.4 Lac Cr

4. **Demographic dividend –** India currently has one of the highest working age population, which can help transform India into an economic super power. This demographic advantage is what sets apart India from other global economies that are ageing fast.

    a. **Increased savings –** Several economies, such as Japan, South Korea, and China were able to benefit from the rise in their working population by engaging them in productive employment, ushering periods of sustained economic growth. Working ages also happen to be the prime years for savings, which is key to accumulation of capital and technological innovation.

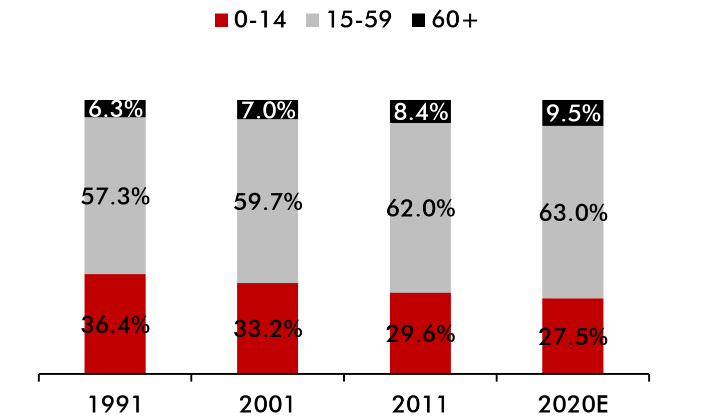
    b. **Rapid industrialization and urbanization –** Urbanization is crucial for India's economic growth. Cities occupy just 3% of the landmass, but contribute ~60% of the GDP. India is, however, transforming rapidly into an urban country and the pace of transformation is only expected to accelerate going forward, driven by the migration of labour from agriculture to urban-based industry and services and increased agricultural production.

Exhibit 24: Increasing urban population will bode well for the Indian economy…



Source: Ambit Asset Management, World Bank

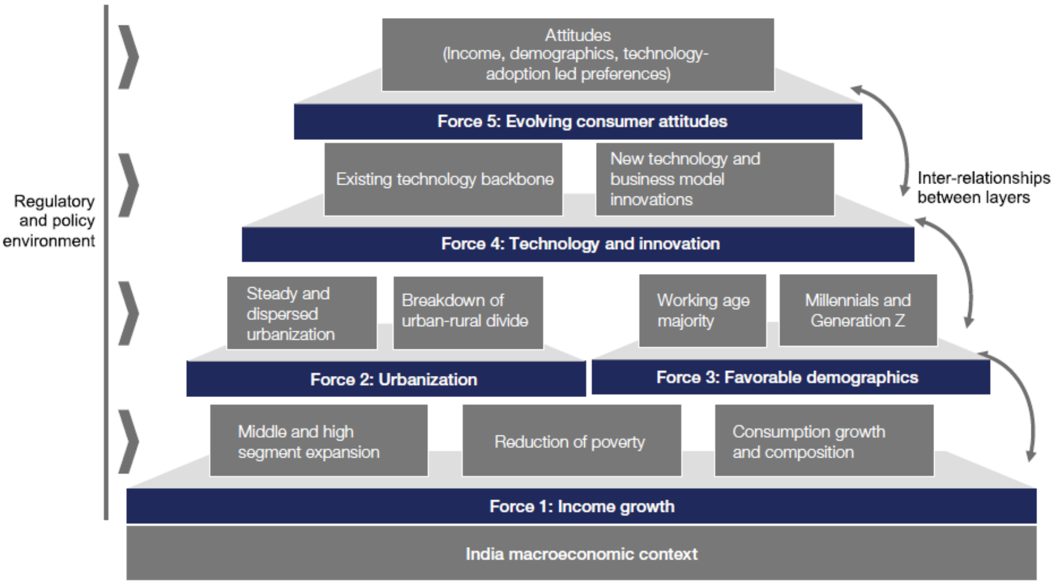
Exhibit 25: …with a huge chunk of this population being in the working age



Source: Ambit Asset Management, Census of India, United Nations Dept. of Economic and Social Affairs

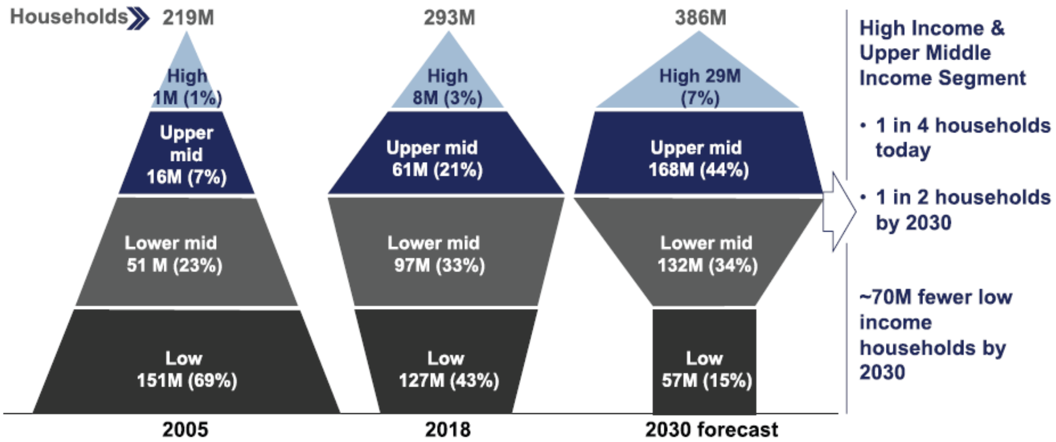
    c. **Powering domestic consumption –** The vision for the future of consumption in India is anchored in the growth of the upper-middle income and high-income segments. Share of upper-mid and high income households in India is expected to increase from 24% in 2018 to 51% in 2030 ***(Refer to Exhibit: 27)***. At the same time, India will also lift nearly 25 million households out of poverty which will reduce the share of households below the poverty line to 5%, down from 15% currently. Domestic consumption, which powers 60% of the GDP today, is expected to grow into a $6tn opportunity by 2030, supported by a 1.4 billion strong population that is younger than that of any other major economy. Household savings have historically been high as cautious Indian families put away >20% of their income for a rainy day. This buffer provides support to domestic consumption expenditure even through challenging cycles in economic activity.

Exhibit 26: Five forces driving future consumption in India



Source: Ambit Asset Management, WEF Analysis, Bain & Co

Exhibit 27: The emergence of a sizeable high income segment will lead to a significant shift in the discretionary consumption

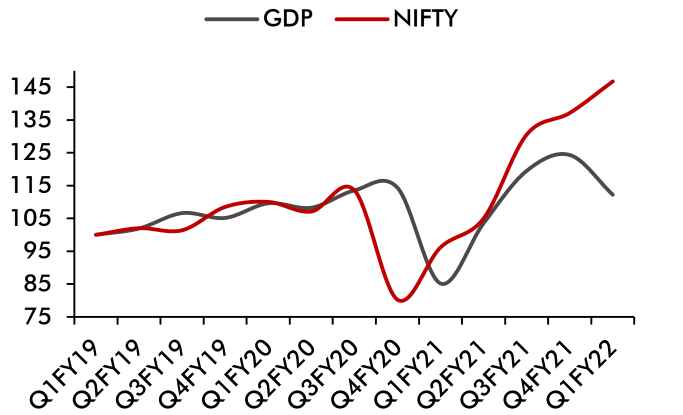


Source: Ambit Asset Management, WEF Note: Low income: <$4,000, Lower-mid: $4,000-8,500, Upper-mid: $8,500-40,000, High income: >$40,000 basis income per household in real terms;
Projections with annual GDP growth assumed at 7.5%
Source: PRICE Projections based on ICE 360o Surveys (2014, 2016, 2018)

With higher working population, low fertility rate and rapid urbanization, India is well poised to achieve strong economic growth over the coming decades. Improvement in women labour participation will provide a further push to India's growth journey.

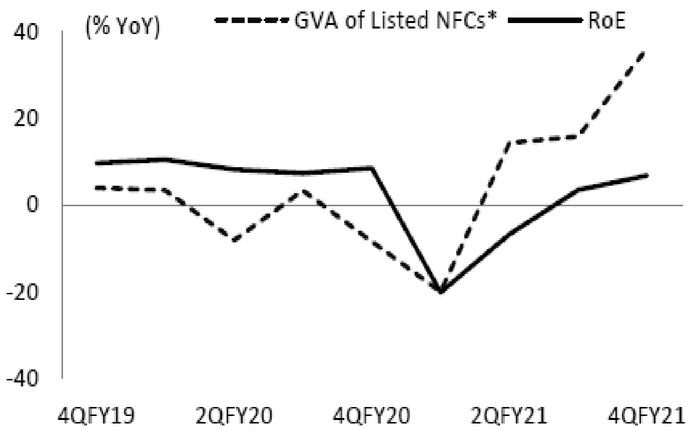
5. **Corporate India –** Often, the discussion around Corporate India is narrowed down to just the listed universe. But that comprises ~6,500 companies which constitute just ~0.5% of the 1.33mn registered companies in India. Recently, there has been a debate around the contrasting performance ***(Refer to Exhibit: 28)*** of the stock market – which comprises the companies in the listed universe – and the overall economy. This is because the listed companies actually performed better than the overall economy and their unlisted peers ***(Refer to Exhibit: 29)***. If India is to achieve the $10tn target, Corporate India, especially the unlisted universe will have to participate. Some of the triggers for the same include:

Exhibit 28: India GDP and Nifty performance based to Q1FY19 – Widening disconnect post-Covid



Source: Ambit Asset Management, MOSPI, Investing.in, GDP at Current Prices and NIFTY based to Q1FY19

Exhibit 29: Listed companies have performed much better than the rest of the economy

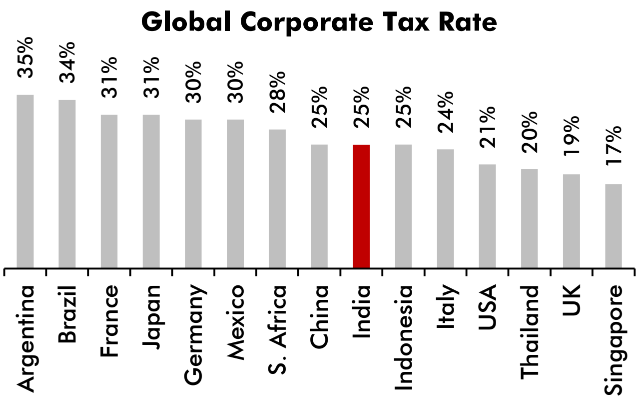


Source: Ambit Asset Management Note: NFCs GVA = Value of production – Cost of goods sold = Employee costs + Interest + Depreciation + Profit before taxes (PBT)
 # RoE (Rest of the economy) = National GVA – listed NFCs GVA

a) **Formalization –** Formalization of unorganized MSEs will go beyond the obvious impact of higher tax income to the exchequer and nudge these businesses towards better accountability, compliance, processes and eventually profitability. Moreover, a mere entry of this cohort in the formal sector will add a huge delta to the GDP base, as the current contribution goes unaccounted.

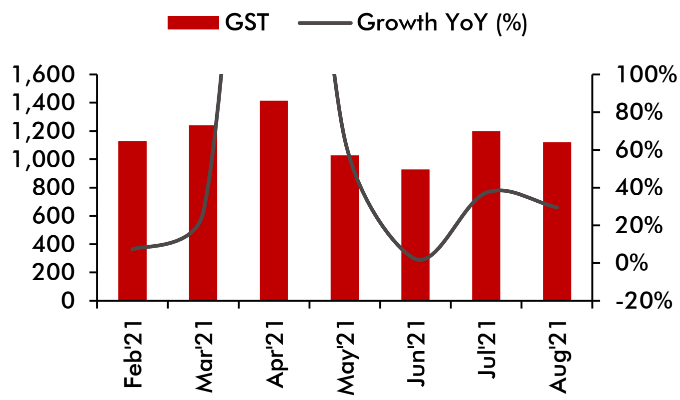
b) **Attractive corporate tax rates –** India's corporate tax rate, post the Sept-2019 cut, is amongst the most attractive in the world ***(Refer to Exhibit: 30)***. Moreover, provision of 15% tax rate (17.16% with cess and surcharge) applicable to new manufacturing companies is one of the lowest in the world. While GST has helped plug loophole and push towards formalization, lower tax rate will further act as an impetus, and reduce the risk-reward of remaining informal.

Exhibit 30: Corporate tax rate across countires



Source: Ambit Asset Management, CMIE

Exhibit 31: Strong GST collection despite Covid headwind

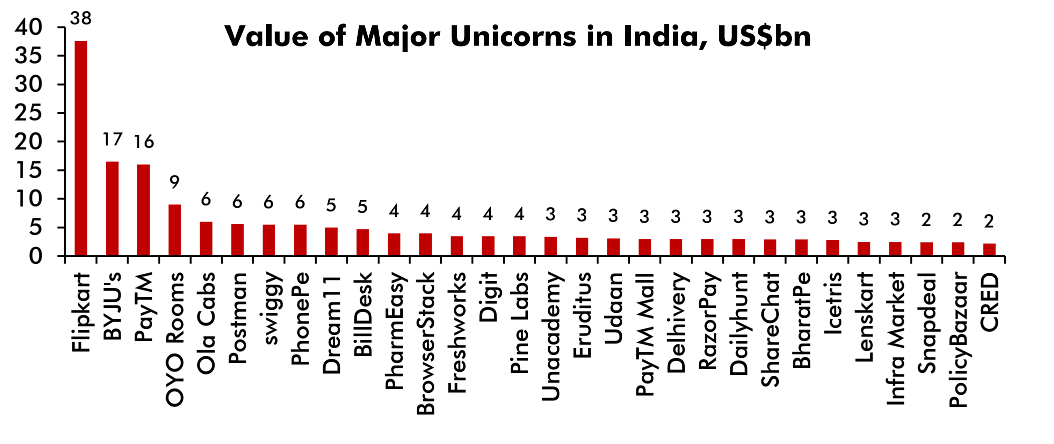


Source: Ambit Asset Management, CSO

c) **Expansion of the listed universe –** Although India's nominal GDP contracted for the first time in FY21 since the mid-1950s by 3% YoY, net profitability for listed companies grew by almost 60% in FY21. As per RBI data on ~2,700 non-government non-financial (NGNF), this was largely attributable to ~10% cost savings and better efficiency. Listing a company helps bring in more accountability and better efficiency, as the management is answerable to external investors. Over the next decade, expansion in the listed universe on the back of formalization would help improve productivity and profitability of a key GDP contributing sector. This will thus help improve India's Corporate Profitability.

d) **Start-ups/New-age companies –** India, with its start-up base of more than 50,000 home-grown entities, is one of the largest start-up ecosystems globally. It has the capacity to generate high volume of jobs needed each year to absorb the flood of job-market entrants and will also play an important role formalizing jobs in the gig-economy. Listing of these 'New-Age' companies is likely to add strong growth to India's market capitalization and absorb the huge flow on new retail-led participation and fund flow to the equity markets. Zomato listing has showed that market is ripe to absorb such listings and investors are savvy to value these business models; and that these companies have achieved decent scale.

Exhibit 32: Sizeable number of large unicorns that may come up for listing



Source: Ambit Asset Management, Venture Intelligence, Press articles, Tracxn

Small and Mid-Caps will be the key beneficiaries

The journey to $10tn mark is likely to result in a marked improvement in the business environment and likely growth opportunities available to companies looking to capitalise on it, especially Small and Mid-sized corporates operating in highly unorganized and fragmented sectors.

a. **Disproportionate opportunity+ K-shape growth for leaders:** There will be a combination of shifts from informal to formal, unorganised to organised, sub-scale businesses that either successfully scale or languish (consolidation) leading to a ***K-shaped*** growth where the bigger fish or leaders prosper at the expense of the smaller fish or followers while the pond (market) simultaneously grows larger.

b. **Under discovered + Lower liquidity=Under ownership in small/midcaps: Dominant Mid and Small cap companies are likely to benefit much more than their large cap peers** as most of these companies in some ways are both **(1)** Under discovered with lower analyst coverage, and **(2)** Have lower liquidity / daily trade volume compared to large-caps.The combination of the above leads to Under-ownership – especially Institutional (FII/DII) – of such companies. This provides a great opportunity to Investors today investing for the long term.

c. **Theory & Practice: *Successful identification of companies that can upgrade to a higher MCap bucket leads to disproportionate returns* –** Small/Mid-Cap Companies of yesterday (10 years back) that were able to scale-up with evolving trends generated better financial returns and stock returns and thus became Large-Caps of Today! ***(Refer to Exhibit: 33, 34).***

We analyzed the MCap movement of Top1000 listed companies from FY10 to FY20.

- *We ranked them as per there MCap in FY10 into 4 buckets: 1-100, 101-250, 251-500, 501-1000.*
- *We repeated this for FY20 and analyzed the movements across buckets and the subsequent returns generated by them over the 10 year period.*
- *For Eg, only 3% of the companies that ranked 501-1,000 based on their Mcap moved to rank 101-250 bucket in FY20* ***(Refer to Exhibit: 33)****, generating 37% CAGR return during that period* ***(Refer to Exhibit: 34).***

Exhibit 33: % of companies that shifted from one market capitalization bucket to another

% shift from one category to another		FY10			
		1-100	101-250	251-500	501-1000
FY20	1-100	53%	15%	3%	
	101-250	28%	24%	12%	3%
	251-500	6%	23%	32%	10%
	501-1000	8%	20%	23%	34%
	Exclusion	5%	18%	30%	53%

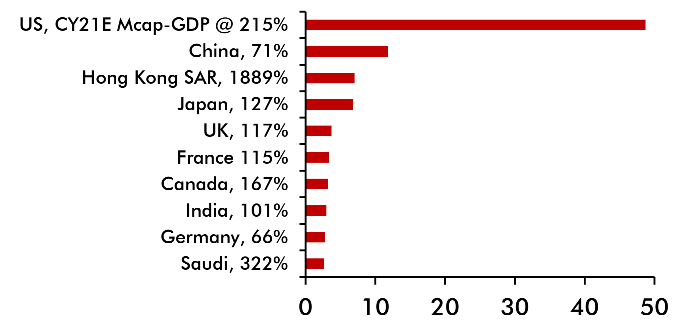
Source: Ambit Asset Management

Exhibit 34: Stock returns of companies that moved up the market cap. bucket was the highest

Avg. Performance CAGR %		FY10			
		1-100	101-250	251-500	501-1000
FY20	1-100	6%	21%	34%	
	101-250	-6%	9%	21%	37%
	251-500	-20%	-34%	6%	22%
	501-1000	-32%	-18%	-9%	5%

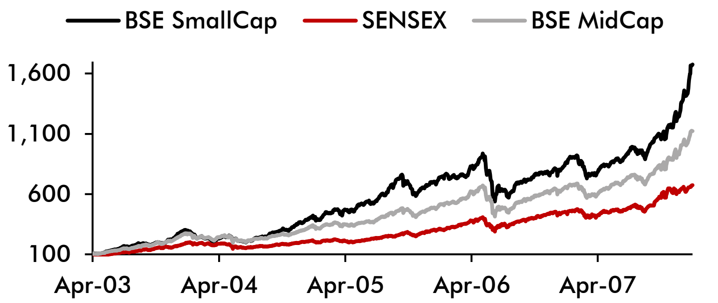
Source: Ambit Asset Management

Exhibit 35: MCap and MCap-to-GDP of the biggest economies in the world – India amongst the 3rd lowest



Source: Ambit Asset Management, CMIE, IMF

Exhibit 36: Mid / Small Cap generated 1.6x/2.5x better return than Sensex (large cap) during the 2003-2007 rally



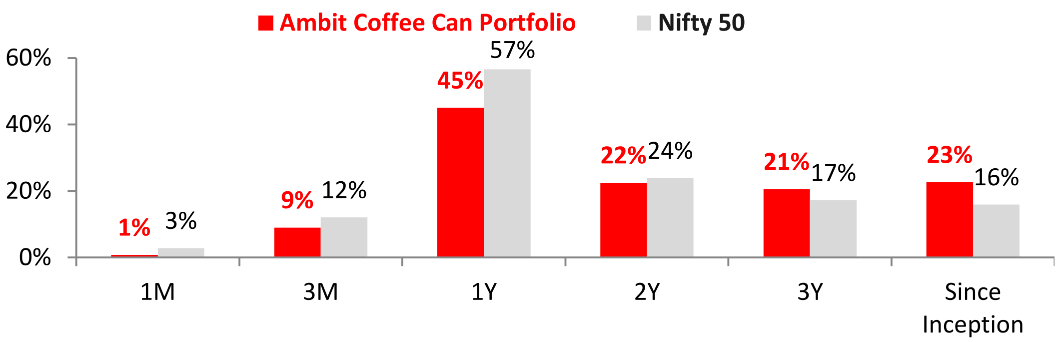
Source: Ambit Asset Management, Bloomberg

The journey from ~US$3tn to US$10tn GDP will require different segments of economy like, Manufacturing, Agri, Credit Growth, India Inc, to fire! We believe the groundwork is in place for the same. The Market Cap of listed universe will benefit from the resultant growth and MCap to GDP Expansion (Refer to Exhibit: 35) of which Mid & Small Cap will be the key beneficiary. Successful identification of companies that can upgrade to a higher MCap bucket would lead to disproportionate returns, just like in the past (Refer to Exhibit: 36).

Ambit Coffee Can Portfolio

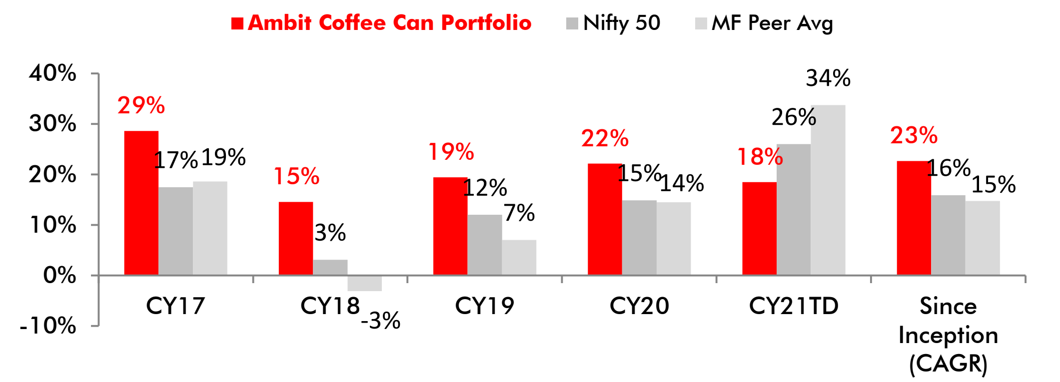
At Coffee Can Portfolio, we do not attempt to time commodity/investment cycles or political outcomes and prefer resilient franchises in the retail and consumption-oriented sectors. The Coffee Can philosophy has unwavering commitment to companies that have consistently sustained their competitive advantages in core businesses despite being faced by disruptions at regular intervals. As the industry evolves or is faced by disruptions, these competitive advantages enable such companies to grow their market shares and deliver long-term earnings growth.

Exhibit 37: Ambit's Coffee Can Portfolio point-to-point performance



Source: Ambit; Portfolio inception date is March 6, 2017; Returns as of 30th Sep, 2021; All returns are post fees and expenses; Returns above 1-year are annualized; ***Note:*** *Returns prior to Apr'19 are returns of all the Pool accounts excluding non-aligned portfolio, and returns post Apr'19 is based on TWRR returns of all the pool accounts.*

Exhibit38: Ambit's Coffee Can Portfolio calendar year performance



Source: Ambit; Portfolio inception date is March 6, 2017; Returns as of 30th Sep, 2021; All returns are post fees and expenses. ***Note:*** *Returns prior to Apr'19 are returns of all the Pool accounts excluding non-aligned portfolio, and returns post Apr'19 is based on TWRR returns of all the pool accounts.*

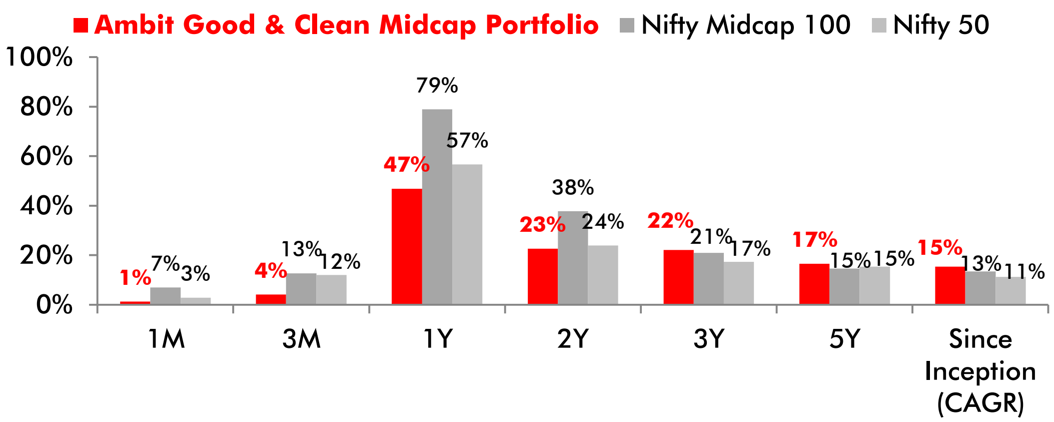
Ambit Good & Clean Midcap Portfolio

GOOD & CLEAN by AMBIT

Ambit's Good & Clean strategy provides long-only equity exposure to Indian businesses that have an impeccable track record of clean accounting, good governance, and efficient capital allocation. Ambit's proprietary 'forensic accounting' framework helps weed out firms with poor quality accounts, while our proprietary 'greatness' framework helps identify efficient capital allocators with a holistic approach for consistent growth. Our focus has been to deliver superior risk-adjusted returns with as much focus on lower portfolio drawdown as on return generation. Some salient features of the Good & Clean strategy are as follows:

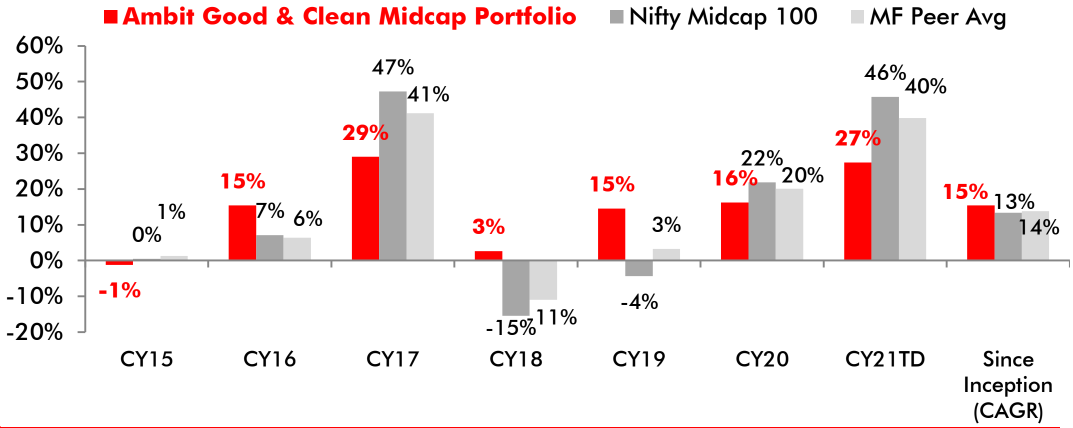
- **Process-oriented approach to investing**: Typically starting at the largest 500 Indian companies, Ambit's proprietary frameworks for assessing accounting quality and efficacy of capital allocation help narrow down the investible universe to a much smaller subset. This shorter universe is then evaluated on bottom-up fundamentals to create a concentrated portfolio of no more than 20 companies at any time.
- **Long-term horizon and low churn**: Our holding horizons for investee companies are 3-5 years and even longer with annual churn not exceeding 15-20% in a year. The long-term orientation essentially means investing in companies that have the potential to sustainably compound earnings, with this compounding earnings acting as the primary driver of investment returns over long periods.
- **Low drawdowns**: The focus on clean accounting and governance, prudent capital allocation, and structural earnings compounding allow participation in long-term return generation while also ensuring low drawdowns in periods of equity market declines.

Exhibit39: Ambit's Good & Clean Midcap Portfolio point-to-point performance



Source: Ambit; Portfolio inception date is March 12, 2015; Returns as of 30th Sep, 2021; All returns above 1 year are annualized. ***Returns are net of all fees and expenses***

Exhibit40: Ambit's Good & Clean Midcap Portfolio calendar year performance



Source: Ambit; Portfolio inception date is March 12, 2015; Returns as of 30th Sep, 2021. ***Returns are net of all fees and expenses***

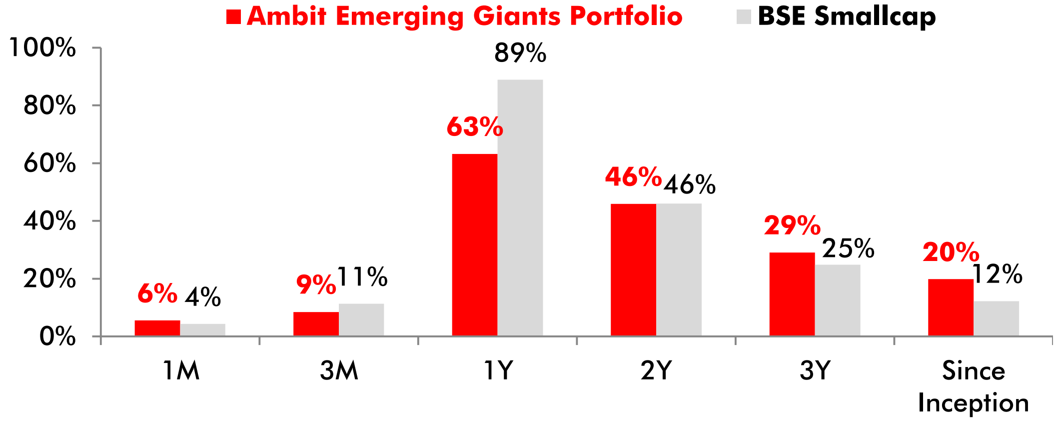
Ambit Emerging Giants Portfolio

EMERGING GIANTS by AMBIT

Smallcaps with secular growth, superior return ratios and no leverage

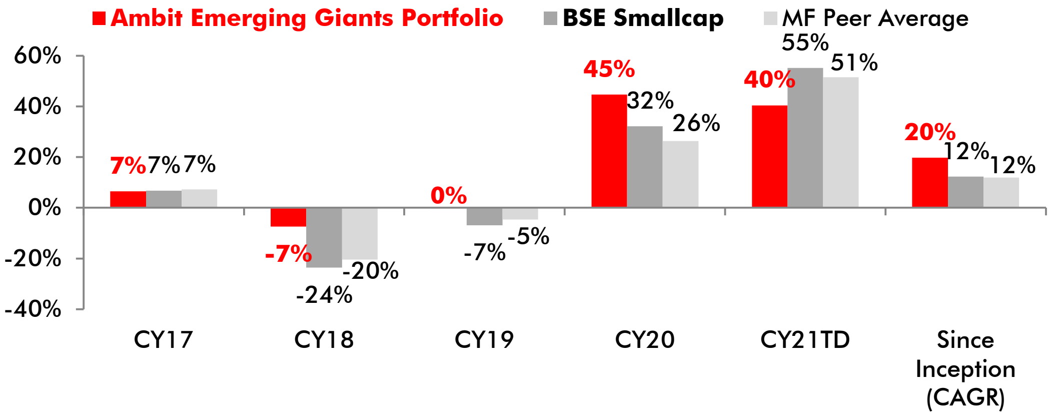
Ambit's Emerging Giants portfolio aims to invest in small-cap companies with market-dominating franchises and a track record of clean accounting, governance and capital allocation. The fund typically invests in companies with market caps less than Rs. 4,000cr. These companies have excellent financial track records, superior underlying fundamentals (high RoCE, low debt) and ability to deliver healthy earnings growth over long periods of time. However, given their smaller sizes, these companies are not well discovered, owing to lower institutional holdings and lower analyst coverage. Rigorous framework-based screening coupled with extensive bottom-up due diligence lead us to a concentrated portfolio of 15-16 emerging giants.

Exhibit 41: Ambit Emerging Giants Portfolio point-to-point performance



Source: Ambit; Portfolio inception date is December 1, 2017; Returns as of 30th Sep, 2021; All returns above 1 year are annualized. ***Returns are net of all fees and expenses***

Exhibit 42: Ambit Emerging Giants Portfolio calendar year performance



Source: Ambit; Portfolio inception date is December 1, 2017; Returns as of 30th Sep, 2021. ***Returns are net of all fees and expenses***

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Risk Disclosure & Disclaimer

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The product 'Ambit Coffee Can Portfolio' has been migrated from Ambit Capital Private Limited to Ambit Investments Advisors Private Limited. Hence some of the information in this presentation may belong to the period when this product was managed by Ambit Capital Private Limited.

You may contact your Relationship Manager for any queries.

The performance data for coffee can product between 6th march 2017 - 19th June 2017 represents model portfolio returns. First client was onboarded on 20th June 2017. The performance data for G&C product between 1st June 2016 to 1st April 2018 also includes returns for funds managed for an advisory offshore client. Returns are calculated using TWRR method as prescribed under revised SEBI (Portfolio Managers) Regulations, 2020