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MONTHLY NEWSLETTER

APRIL 2022

THE CHANGING LANDSCAPE OF THE ADVERTISING INDUSTRY

The Changing Landscape of Advertising Industry!

Dear Patron,

Back in 400 BC, Plato, a Greek philosopher, said "Those who tell stories rule society". Even after thousands of years, this remains extremely relevant. Companies have used this power of stories to engage with customers and drive action. Advertisements use stories to strengthen the emotional connection with the consumer, create brand awareness and ultimately influence customers to make a purchase.

Advertising has been around for centuries and has continuously evolved with technology and changing consumer behaviour. Print advertising started in 18th century in India with its first newspaper 'Bengal Gazette'. The industry then slowly shifted towards radio and then television during the latter half of 20th century as these forms of communication picked up. All these three channels are currently clubbed as traditional medium, post the advent of digital marketing in 21st century.

Digital advertising is an umbrella term for advertising on all online channels such as Google, Facebook, ecommerce, etc. It has grown at rapid 22% CAGR, while most traditional channels have declined ***(Refer to Exhibit: 1)***. Covid also gave a shot in the arm to digital advertising as offline retail got disrupted. **In this note, we take a closer look at the changing landscape in Advertising Industry with shift from Traditional forms (TV / Print) to Digital and how brands are adapting to that.**

Exhibit 1: Share of digital marketing has increased from 15% to ~33% over the last 5 years

Rs bn.	2016	2017	2018	2019	2020	2021	5yr CAGR
Digital	89	115	154	191	191	246	22%
TV	243	267	305	320	251	313	5%
Print	215	216	217	206	122	151	-7%
Radio	24	26	34	31	14	16	-8%
OOH	32	34	37	47	16	20	-9%
Total	**603**	**658**	**747**	**795**	**594**	**746**	**4%**

Source: FICCI, Ambit Asset Management

1. **TV Advertising:** TV has long remained the dominant medium for advertising. In fact, it was the only form of media consumption during 1980 and 1990. However, a lot has changed in last decade as consumers are switching to OTT and social media platforms to consume content, leading to subdued growth in TV advertising revenues.

   While the channel is slowly losing its relevance, it still provides few advantages compared to other channels. TV advertising gives an opportunity to reach mass audiences with a single ad spot. Reach along with the high time spent on TV, makes it a powerful form of advertising. Also, TV is a better medium to tell stories as it has both audio and video capabilities. Creative and engaging TV advertisements increase word of mouth marketing as everyone likes to share interesting stories. Advertisers can target consumers by purchasing ad spots during shows where intended demography is most active. Also, brands are using regional channels, which account for 56% of overall viewership in 2021 to improve their presence in those markets.

a. FMCG Industry:

Exhibit: 2 FMCG industry still dominates TV advertising

Product category	Share in 2017	Share in 2021
FMCG	51%	46%
E-com	4%	18%
Education	-	6%
Auto	8%	5%
Telecom	12%	4%
HH Durables	4%	4%
Real Estate	3%	3%
BFSI	2%	3%
Clothing Jewellery	3%	2%
Corporate	1%	1%
Retail	1%	1%
Alcoholic Beverages	1%	0%
Travel and Tourism	1%	0%
Others	9%	6%
Total	**100%**	**100%**

Source: FICCI, Ambit Asset Management

FMCG companies prefer TV advertising for following reasons:

- Brands such as Colgate, Britannia, Maggi are widely consumed across regions, age, gender and disposable income.
- These products require low level of consideration as they have small differences in specifications.
- While brands are well known, advertisement is mainly used to generate top of the mind recall.

Exhibit: 3 Advertisement spend of these 7 FMCG companies account for ~12% of the total industry

Ad Spends (Rs Mn)	FY16	FY17	FY18	FY19	FY20	FY21
HUL	36,000	34,700	41,530	46,070	47,130	47,540
Marico	6,927	6,595	5,856	6,590	7,270	6,980
Dabur	7,716	6,461	6,067	6,083	6,500	7,844
GCPL	6,694	7,181	8,103	8,393	7,391	7,332
Nestle	5,252	5,670	5,060	7,294	7,853	7,636
Britannia	4,461	3,850	4,113	5,008	4,754	4,515
Tata Consumer	5,775	5,847	5,089	5,475	6,767	7,263
FMCG Spend	**72,826**	**70,305**	**75,818**	**84,914**	**87,666**	**89,109**
YoY Growth %	-22%	-3%	8%	12%	3%	2%
Ad Spends % of Sales	10.50%	9.80%	9.70%	9.80%	9.60%	8.50%

Source: Company, Ambit Asset Management

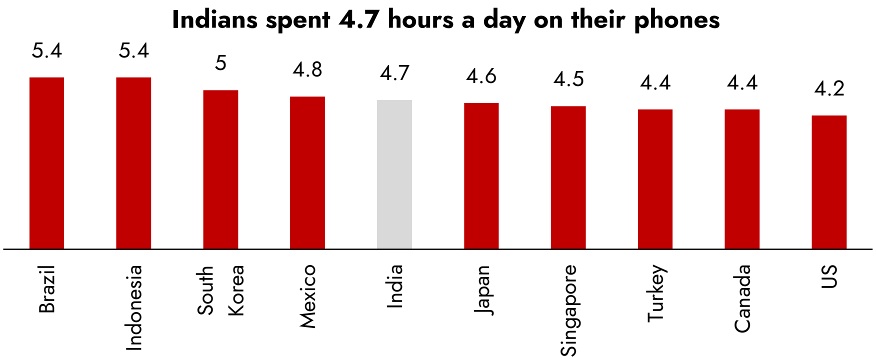
b. E-commerce: Share of ecommerce in TV advertising has increased at a rapid pace in last few years. Large digital companies are increasing their TV spends to generate higher traffic on their websites. Amazon and Flipkart use TV advertising as they have offerings across categories and are therefore relevant to the mass audience. Nykaa is using TV advertising to increase their top of the funnel. However, most small online retailers shy away from TV advertising as it requires a large advertising budget. Also it becomes difficult to target consumer as they cater to a niche segment. They, in turn, are moving towards Digital Advertising.

2. **Digital Advertising:** Digital marketing has grown at 22% CAGR in last 5 years on the back of lower data tariffs and affordable smartphones. Entry of Reliance Jio in 2016 has led to huge spike in data usage and a sharp decline in mobile tariffs. Currently, 1GB data costs $0.68 in India – one of the lowest in the world. Also, the average monthly mobile data usage per smartphone in India is 18.4GB per month. Spike in data usage was also aided by aggressive expansion of Chinese smartphones brands such as MI, VIVO which made those affordable.

   Post adoption of smartphones, buying journey of consumers has increasingly moved online. Consumer figures out the problem, finds the right product and compares various brands. They can either make the purchase online or locate a nearby point of sales. While the purchase in high ticket size, infrequently bought products largely takes place offline (cars, jewelry, white goods) the buying journey begins online.

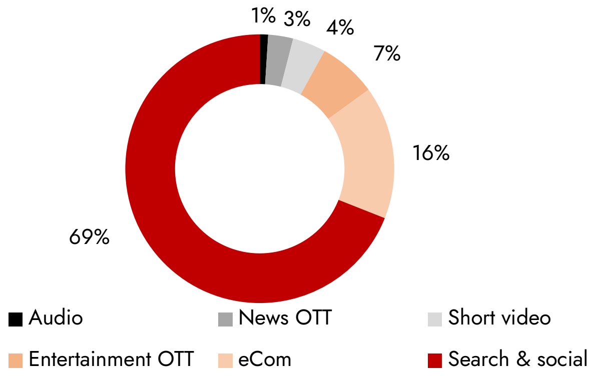
   Brands also like to advertise on digital platforms due to low cost, superior targeting capabilities and activity tracking features. This makes it much easier to measure ROI compared to other traditional channels. Audiences are also more engaged in the online platform as most consumers multi-task while watching TV.

Exhibit: 4 India ranks 5th among per user time spent on mobile phones



Source: FICCI, Ambit Asset Management

Exhibit: 5 Digital advertising is dominated by Google and Facebook, controlling ~70% share



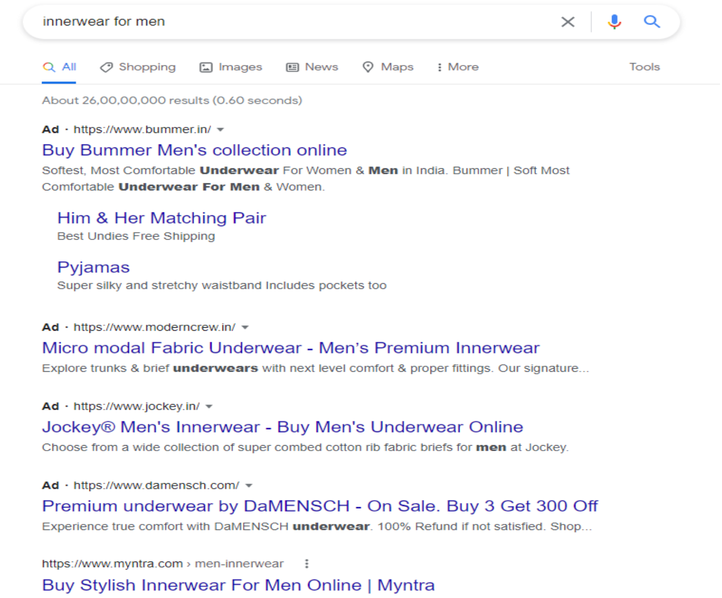
Source: EY, Ambit Asset Management

a) Google:

Google has become an advertising behemoth. The search engine has a massive customer base, which gets converted into business leads for companies. It is a flexible marketing platform where brands have full control over the budget of Google Ads campaigns. This makes it suitable for all kinds and size of companies. It is also easy to track the ROI as Google shares all relevant data such as keywords used, cost per click, etc.

Businesses prefer advertising on google as it is a non-intrusive medium. On the search engine, businesses are providing a specific solution to customer's problem. However, on social media, people are not looking for solutions to the issues that plague their lives. There is a good chance to get tuned down when we advertise to someone who doesn't want to be advertised to.

Exhibit: 6 Bummer got the top spot in the search result due to higher spend on keyword compared to other players



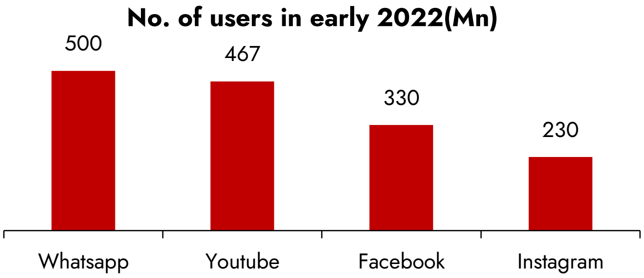
Source: Google, Ambit Asset Management

b. Social Media: Businesses are leveraging social media platforms such as Facebook, Instagram, YouTube etc. as they provide a wide reach of customers, which can be targeted based on their behavioural patterns. Brands can set their budgets, target audience and the length of campaign. Companies can target based on pages, interests, age, gender, location etc on Facebook. During the campaign, companies can track the number of impressions, clicks, actions, etc. and can continuously tweak any aspect of ads (headline, image).

While advertisements on social media remain intrusive, platforms have been able to integrate ad content in an effective way. Facebook has proven itself to be a targeted ad pioneer, which has helped in increasing the user experience and therefore the advertising spend.

"Our strategy is much less [about] increasing the volume of ads and much more about increasing the quality of the content and the quality of the targeting to get the right content to the right people," Mark Zuckerberg said in 2014.

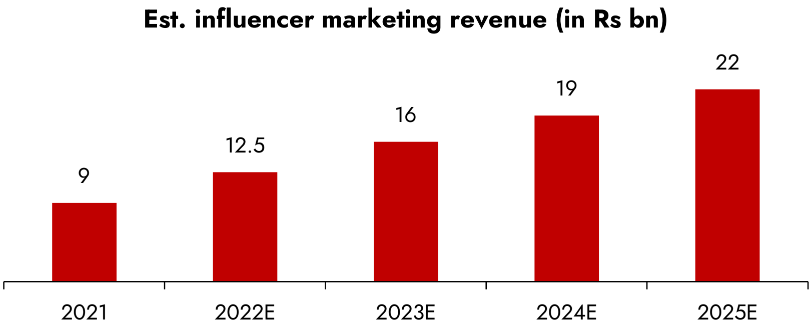
Exhibit: 7 Out of the total time spent online, ~50% is on social media platforms



Source: News Reports, Ambit Asset Management

c. **Influencer marketing:** As users spend more and more time on social media, influencer marketing has taken over like a storm. It is now a mainstream form of online marketing where brands run campaigns in collaborations with influencers instead of celebrities. Influencer is someone who acts as an expert and actively engages with the audience in a specific domain. Currently, the number of professional and semi-professional influencers who monetize their services is estimated to be 150,000.

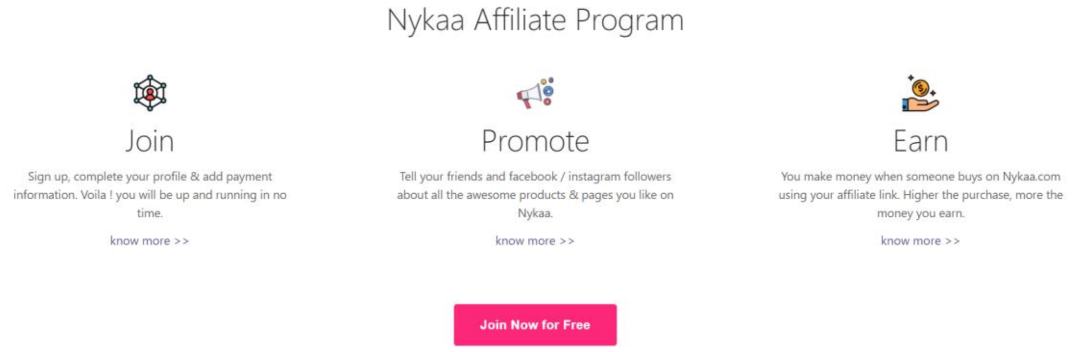
Exhibit: 8 Influencer marketing spend expected to explode in the coming years



Source: FICCI, Ambit Asset Management

Today's consumers don't like to be pushed and therefore brands need to find subtle ways to market their product. Beauty retailer, Nykaa has developed long-term relations with a network of influencers, which has helped them in growing at a breakneck pace.

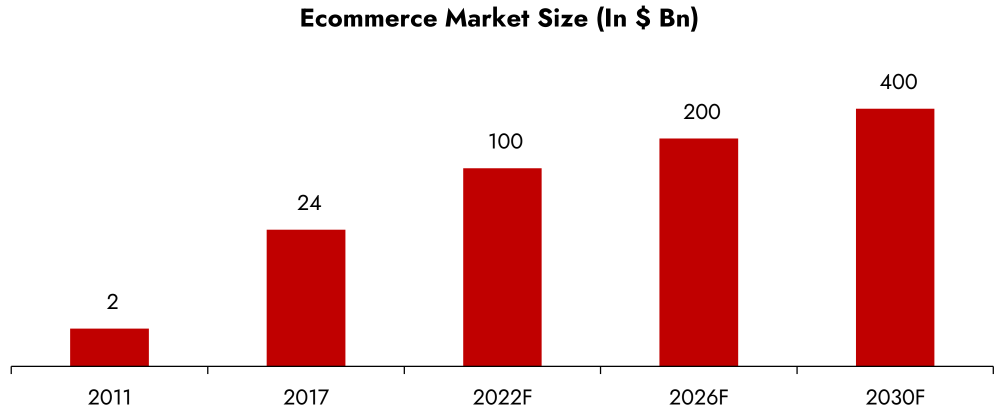
Exhibit: 9 Nykaa's affiliate programme helps mass recruitment of influencers



Source: Company, Ambit Asset Management

d. E-commerce: Share of ecommerce in digital advertising increased from 12% in 2020 to 16% in 2021. Merchants spend to appear in the top search results in ecommerce platforms such as Amazon, Flipkart, Ajio, Nykaa etc, where millions of customers visit every day. These platforms also generate revenue from displaying web and application-based banner ads. This is a form of performance-based marketing as these platforms are closest to the point of purchase. Thousands of D2C brands have mushroomed in last 5 years, who make majority of their sales (~70%) from ecommerce channels.

Exhibit: 10 The country's ecommerce market is estimated to grow at a CAGR of 19% till 2030



Source: Deloitte, Inc 42 Plus, Ambit Asset Management

CONCLUSION:

1. **Digital to gain while Print will continue to recede share:** World is swiftly moving towards digital advertising as people are spending more and more time online. Advertisement spends usually follow the time spent on platform. Currently time spent in India on digital is ~46% while digital ad spends account for 33%. In US, 51% time is spent on digital while ad spends account for 54%. Ecommerce is also growing at a much faster pace compared to overall retail market. In our previous newsletter, we highlighted that while **D2C brands** are reaching out directly to customers, ~70% of their sales still come from ecommerce platforms. **Therefore, we expect the share of digital advertising to increase from 33% currently to ~70% by 2030.**

   Print, however, is an expensive form of advertising. While we pay on the basis of clicks in digital advertising, money is spent upfront in print. It is also very hard to measure the effectiveness as we don't have any data on impressions, clicks etc. People now have a habit of consuming news on their smartphones for free rather than purchasing newspaper or magazines. Print currently accounts for 20% of advertisement spend, down from 35% in 2016. **The share of print is expected to come down further and would move to digital channel.**

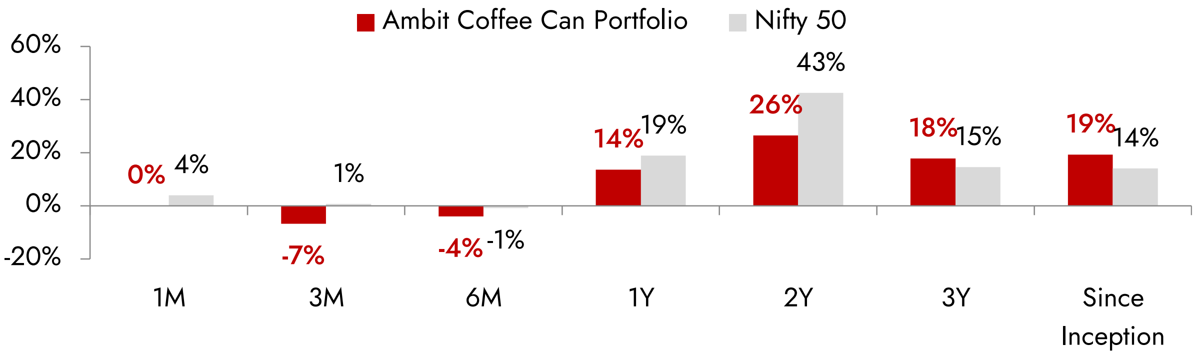
2. **Product is becoming more important than promotion:** Several brands such as D-mart, Go fashion, Zara, Naturals Ice cream, have been able to pull off spectacular results with little or no marketing. They have entirely focused on having a great product rather than communication. As the product clicked with people, consumers themselves marketed the product through word of mouth marketing. As the market has become crowded with several brands, people trust their social circle more than companies. We all check with our friends and colleagues before buying a smartphone, car, property etc.

   Interaction with our portfolio companies such as Astral, Pidilite, Asian Paints indicate that they have been allocating higher share of marketing budget towards digital spend. Companies in our portfolio are nimble footed in transitioning to digital platforms and have forged in deeper emotional connect with consumers.

Ambit Coffee Can Portfolio

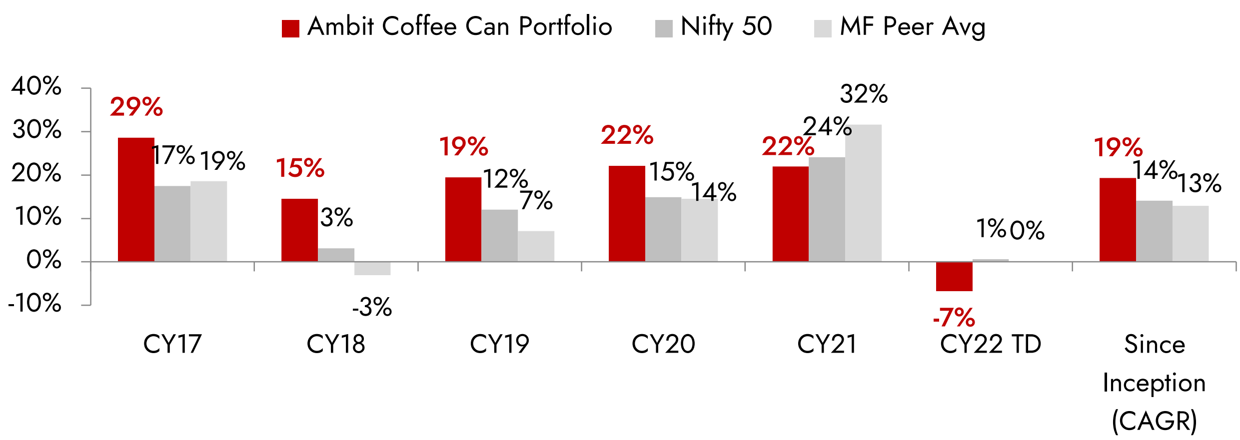
At Coffee Can Portfolio, we do not attempt to time commodity/investment cycles or political outcomes and prefer resilient franchises in the retail and consumption-oriented sectors. The Coffee Can philosophy has unwavering commitment to companies that have consistently sustained their competitive advantages 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 11: Ambit's Coffee Can Portfolio point-to-point performance



Source: Ambit; Portfolio inception date is March 6, 2017; Returns as of 31st Mar, 2022; 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.

Exhibit 12: Ambit's Coffee Can Portfolio calendar year performance



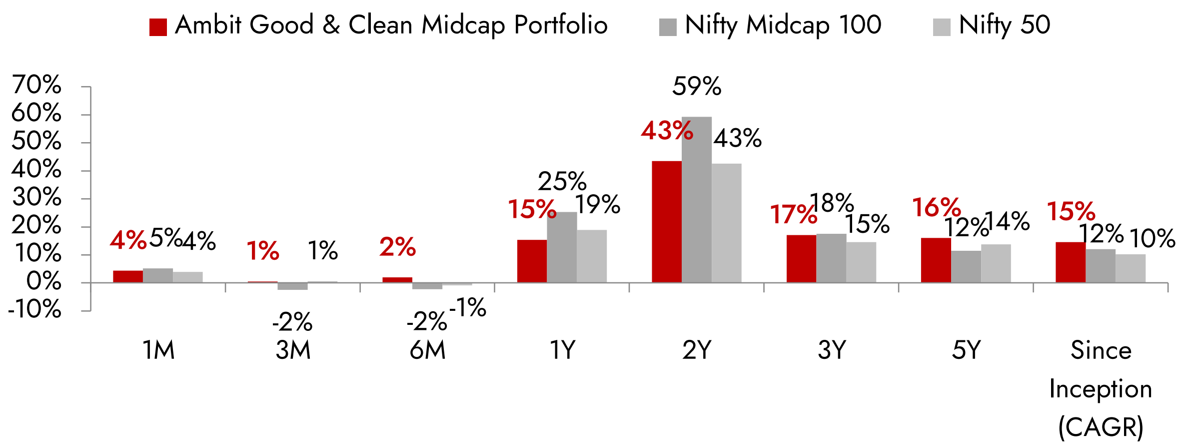
Source: Ambit; Portfolio inception date is March 6, 2017; Returns as of 31st Mar, 2022; All returns are post fees and expenses. Note: Returns prior to Apr'19 are returns of all the Pool accounts excluding non-aligned portfolio, and returns post Apr'19 is based on TWRR returns of all the pool accounts.

Ambit Good & Clean Midcap Portfolio

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:

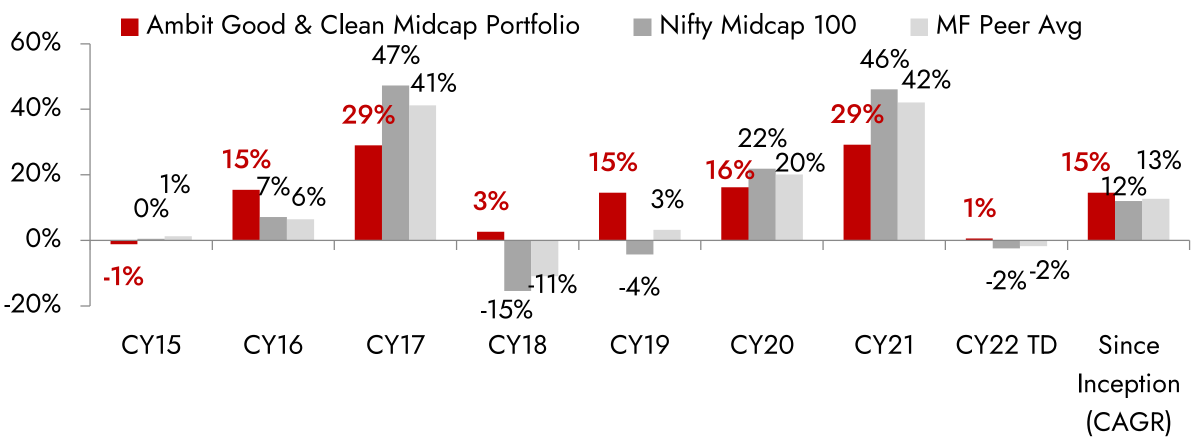
- **Process-oriented approach to investing:** Typically starting at the largest 500 Indian companies, Ambit's proprietary frameworks for assessing accounting quality and efficacy of capital allocation help narrow down the investible universe to a much smaller subset. This shorter universe is then evaluated 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.

Exhibit 13: Ambit's Good & Clean Midcap Portfolio point-to-point performance



Source: Ambit; Portfolio inception date is March 12, 2015; Returns as of 31st Mar, 2022; All returns above 1 year are annualized. Returns are net of all fees and expenses

Exhibit 14: Ambit's Good & Clean Midcap Portfolio calendar year performance

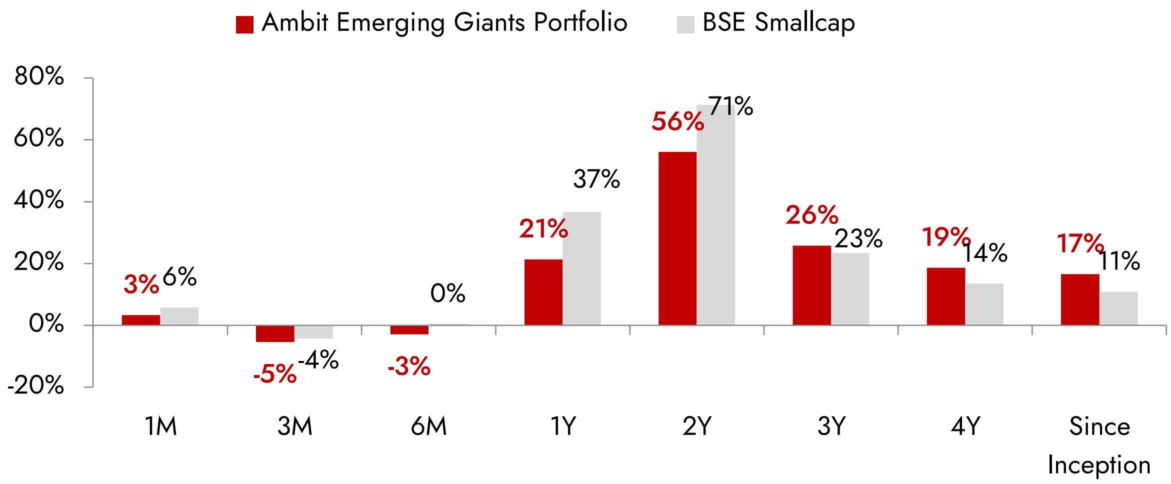


Source: Ambit; Portfolio inception date is March 12, 2015; Returns as of 31st Mar, 2022. Returns are net of all fees and expenses

Ambit Emerging Giants Portfolio

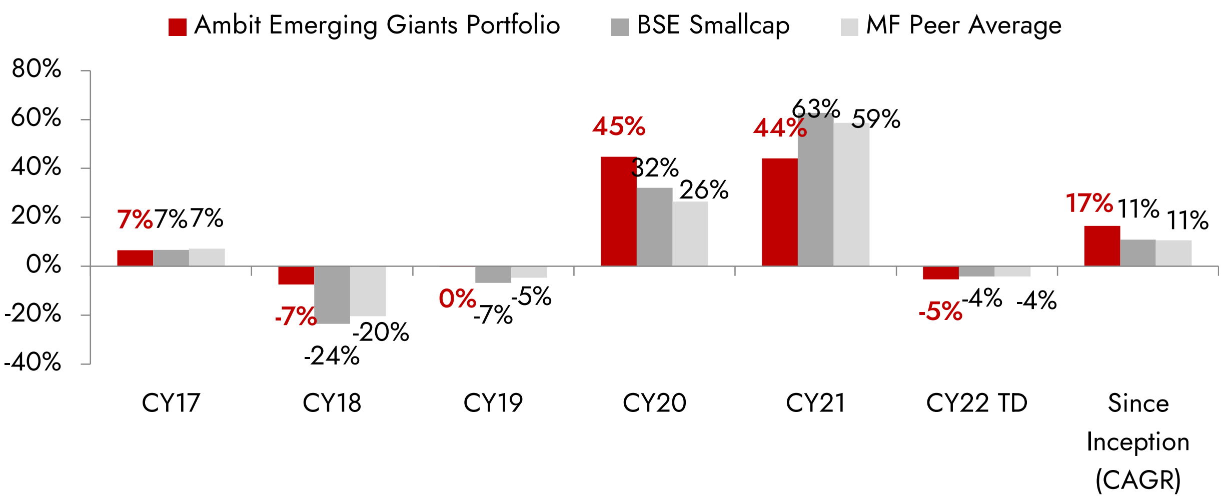
Smallcaps with secular growth, superior return ratios and no leverage Ambit's Emerging Giants portfolio aims to invest in small-cap companies with market-dominating franchises and a track record of clean accounting, governance and capital allocation. The fund typically invests in companies with market 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 15: Ambit Emerging Giants Portfolio point-to-point performance



Source: Ambit; Portfolio inception date is December 1, 2017; Returns as of 31st Mar, 2022; All returns above 1 year are annualized. Returns are net of all fees and expenses

Exhibit 16: Ambit Emerging Giants Portfolio calendar year performance



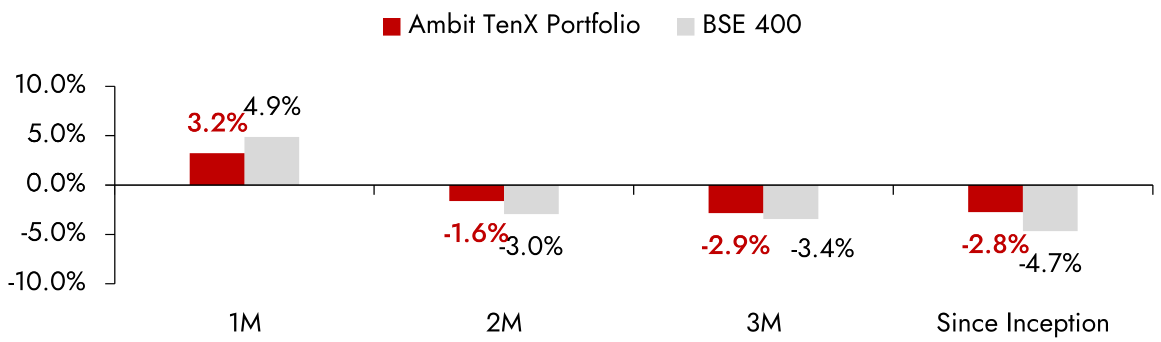
Source: Ambit; Portfolio inception date is December 1, 2017; Returns as of 31st Mar, 2022. Returns are net of all fees and expenses

Ambit TenX Portfolio

Ambit TenX Portfolio gives investors an opportunity to participate in the India growth story as the Indian GDP heads towards a US$10tn mark over the next 12-15 years. Mid and Small corporates are expected to be the key beneficiaries of this growth. The portfolio intends to capitalize on this opportunity by identifying and investing in primarily mid & small cap companies that can grow their earnings 10x over the same period implying 18-21% CAGR. Key features of this portfolio would be as follow:

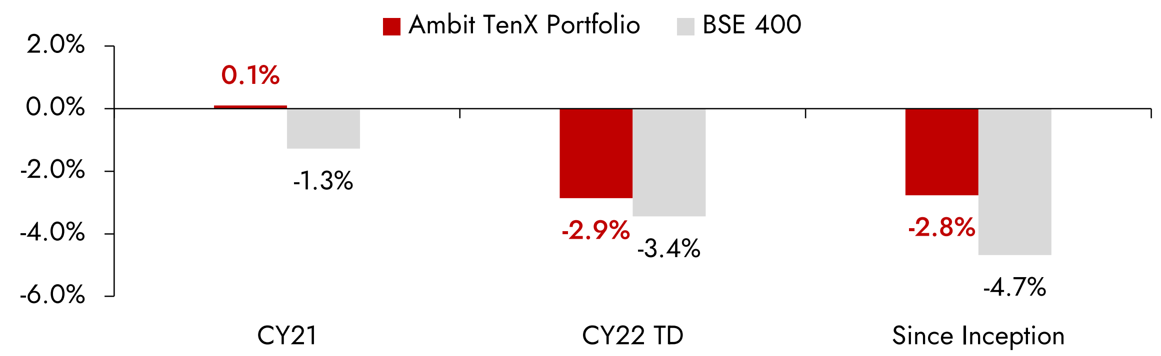
- **Longer-term approach with a concentrated portfolio:** Ideal investment duration of >5 years with 15-20 stocks.
- **Key driving factors:** Low penetration, strong leadership, light balance sheet
- **Forward-looking approach:** Relying less on historical performance and more on future potential while not deviating away from the Good & Clean philosophy.
- **No Key-man risk:** Process is the Fund Manager

Exhibit 17: Ambit TenX Portfolio point-to-point performance



Source: Ambit; Portfolio inception date is December 13, 2021; Returns as of 31st Mar, 2022; Returns are net of all fees and expenses

Exhibit 18: Ambit TenX Portfolio calendar year performance



Source: Ambit; Portfolio inception date is December 13, 2021; Returns as of 31st Mar, 2022. Returns are net of all fees and expenses

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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