AMBIT
Acumen at work

AMBIT ASSET MANAGEMENT

December 2020

MONTHLY NEWSLETTER

GOOD & CLEAN by AMBIT

Ambit Good & Clean Portfolio

COFFEE CAN PMS

Ambit Coffee Can Portfolio

EMERGING GIANTS by AMBIT

Ambit Emerging Giants Portfolio

EQUITY INVESTMENTS & PMS ARE SUBJECT TO MARKET RISKS,
READ ALL SCHEME RELATED DOCUMENTS CAREFULLY BEFORE INVESTNG

The fruit of your patience is here

Dear Patron,

The time and the extent of both the fall (Till Mar-23) and the recovery (up till now) have been unprecedented. While we refrained from acting impulsively to short term data points and making numerous changes, we continued to calmly spend the time on studying change in risk reward arguments of our portfolio companies while trying to identify new contenders which may throw us some opportunity in the recent volatile market environment. Below lays the fruit of your patience.

1) Quarterly report card: 2Q result summary

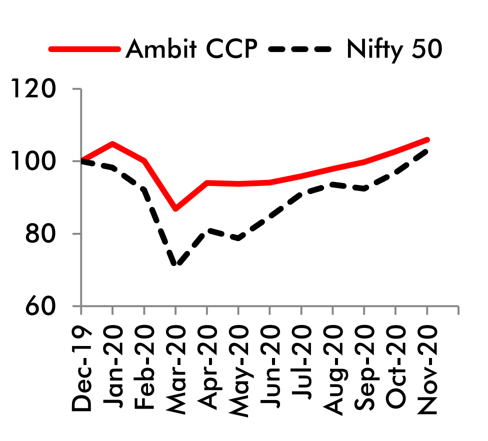
Exhibit 1: Strong recovery is visible in 2Q across our portfolios…

	Net Sales YoY%			EBITDA YoY%			PAT YoY%		
Ambit Coffee Can PMS	**2QFY20**	**1QFY21**	**2QFY21**	**2QFY20**	**1QFY21**	**2QFY21**	**2QFY20**	**1QFY21**	**2QFY21**
Weighted avg	8%	-18%	7%	14%	-24%	20%	42%	-25%	4%
Median	9%	-21%	9%	13%	-46%	18%	35%	-26%	6%
Nifty	-10%	-13%	-9%	-6%	-30%	-8%	12%	1%	-7%
Ambit Good & Clean PMS	**2QFY20**	**1QFY21**	**2QFY21**	**2QFY20**	**1QFY21**	**2QFY21**	**2QFY20**	**1QFY21**	**2QFY21**
Weighted avg	12%	-14%	4%	23%	-25%	14%	20%	-34%	85%
Median	6%	-4%	7%	17%	-10%	19%	24%	-15%	-5%
Nifty Midcap 100	0%	-26%	-4%	-6%	-35%	20%	-7%	-13%	9%
Ambit Emerging Giants PMS	**2QFY20**	**1QFY21**	**2QFY21**	**2QFY20**	**1QFY21**	**2QFY21**	**2QFY20**	**1QFY21**	**2QFY21**
Weighted avg	6%	-12%	4%	9%	20%	17%	28%	36%	4%
Median	6%	-22%	0%	7%	-30%	17%	21%	-32%	-7%
BSE smallcap	-9%	-38%	-5%	-24%	-60%	53%	-18%	-13%	34%

Source: Ambit Asset management, Indices data is taken from Bloomberg, NM=Not meaningful

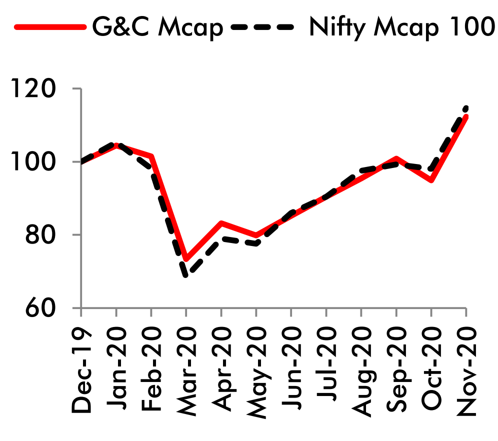
2) Portfolio performance summary

Exhibit 2: Ambit CCP returns CYTD



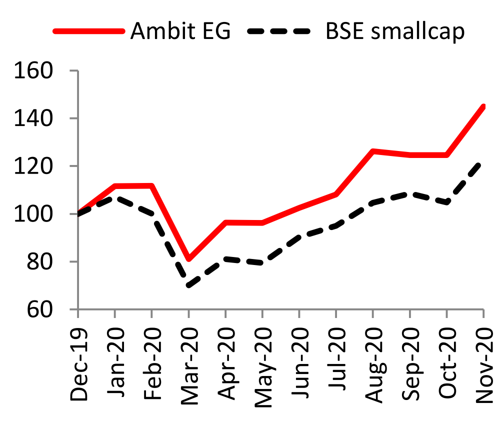
Source: Ambit Asset management

Exhibit 3: Ambit G&C returns CYTD



Source: Ambit Asset management

Exhibit 4: Ambit EG returns CYTD



Source: Ambit Asset management

All three portfolios have not only outperformed benchmark since inception but also defied gloom and doom to show resilience. In your journey to long term wealth creation it is important to choose quality and consistency as it leads to lower drawdowns and downside protection. This means that all your portfolios not only protect your principal and returns on the way down but also reduce volatility. The ability to protect downsides can be profound on portfolio performance over the combined periods of fall and recovery.

This is directly observable below:

1. 1st Jan-31st Mar: **Fall period**
2. 1st Apr-30th Nov: **Recovery period**
3. 1st Jan-30th Nov: **Fall & Recovery period combined**

Ambit Coffee Returns: ~4% outperformance

- **Fall period**: -13% vs. Nifty's -29%
- **Recovery period**: 28% vs. Nifty's 51%
- **Combined (F+R)**: 11% vs. Nifty's 7%

Ambit Good & Clean Returns: ~ -3% underperformance

- **Fall period**: -27% vs. Nifty Midcap 100's -32%
- **Recovery period**: 52% vs. Nifty Midcap 100's 68%
- **Combined (F+R)**: 12% vs. Nifty Midcap 100's 15%

Ambit Emerging Giants Returns: ~20% outperformance

- **Fall period**: -19% vs. BSE smallcap's -30%
- **Recovery period**: 76% vs. BSE smallcap's 76%
- **Combined (F+R)**: 43% vs. BSE smallcap's 23%

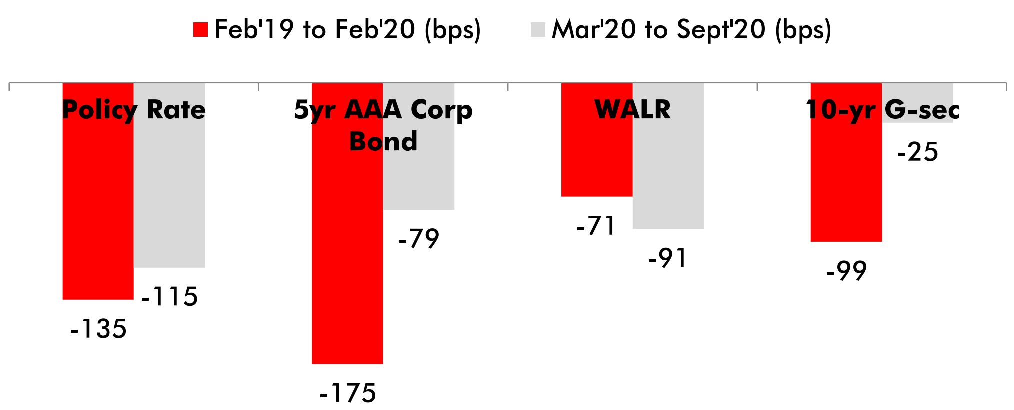
3) Credit & Consumerism commentary turned positive

Exhibit 5: Commentary from banking companies

Positives	Negatives
▪ **Strong Commentary:** Large Banks gave strong commentary & sounded confident to gain market share & continue to beat Industry credit growth rate (5.6% in October). ▪ **Collection Efficiencies:** Including arrears ranged from 90-97%. ▪ **ECLGS Scheme:** Provided relief to 5-12% of loan book. Lenders had sanctioned Rs2tn as of Oct-end. 5x multiplier effect as loans under ECLGS can be up to a maximum of 20% of o/s loans. ▪ **Provisions Buffer:** Large private banks are carrying 110-230bps of additional balance sheet provisions; most lenders insisted they hold enough provisions. ▪ **Liquidity**: Liquidity continues to be higher than the regulatory norm at 80% and will continue till Q4FY21. Impacted margins by 8-12bps.	▪ **NIM:** Most banks' NIMs compressed QoQ by 5 to 20bps due to fall in lending rate & drag due to higher liquidity on B/s. ▪ **CD Ratio:** Stable at 73.2% vs. 73.5% in Jun'20 ▪ **Potential Restructuring:** Ranged from 1-5% of loan book.

Source: Ambit Asset management

Exhibit 6: Commentary from banking companies



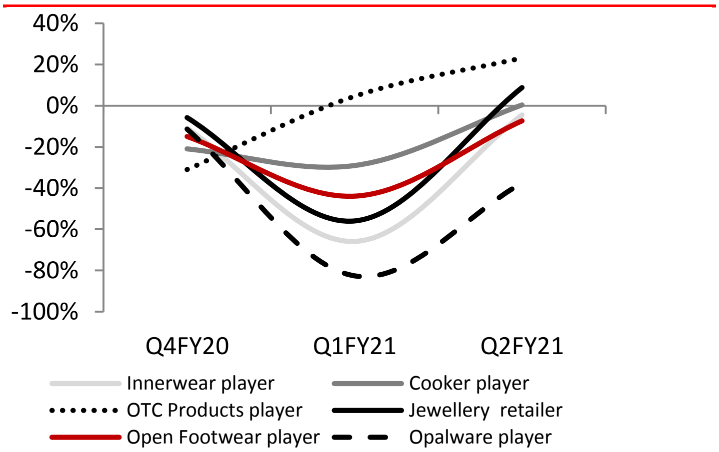
Source: Ambit Asset management

Exhibit 7: Commentary from FMCG & Consumer discretionary companies

	Positives	Negatives
FMCG	▪ **Sharp recovery:** Q2 sales recoveries for FMCG companies are much better than expectations. Retailer/pantry up-stocking, market share gains from smaller/unorganized players & new launches in the health & hygiene space are primary drivers. ▪ **Continuous traction towards Health & Hygiene:** Sales for immunity booster continues to see higher salience. Dabur (+49% in Q2), Emami (+53% in Q2) ▪ **Momentum of New Launches continues:** Most of the new launches continue in the Health & Hygiene space. The new product contribution (NPD) continues to be in range of 4-6% of sales for FMCG companies. ▪ **Benign Input Cost:** Dairy, Crude & Barley remained benign, some RM (Tea, Palm oil & agri-linked commodities) started witnessing price inflation. ▪ **Cost Savings:** Focus on stringent cost savings helped companies to improve EBIDTA margins. Certain savings (formulations changes, procurement efficiencies etc. are structural in nature) & some key costs (rent, travel costs) will come back to pre-COVID levels as sales normalize.	▪ **Decline in personal care:** Discretionary portfolio in personal care, such as Hair, Nourishment, Skin care, cosmetics & Hair Colour recorded a sharp decline.
Consumer Discretionary	▪ **Category based recovery:** Sales recovery for consumer discretionary companies depended on category. Within those, mass and casual products saw a faster recovery and increased sales traction. ▪ **Continuous traction towards Health & Hygiene**: For Consumer Durables, almost all categories, except AC and Coolers, have recovered to pre-COVID levels with increased preference for comfort and hygiene driving sales of items like Dishwashers / Washing Machines. ▪ **Organized to Unorganized shift:** This shift is visible in most of the categories. While the tertiary sales may not have gone up much, proportion of Distributor purchase have shifted to larger players that can provide extended credit. ▪ **Preference for established players:** In categories which declined, like Jewellery, leaders outperformed due to consumer's preference for them over local players citing hygiene comfort. ▪ **Cost Savings**: Savings in fixed cost, mainly Advertisement Expense, rent and travel cost provided a huge operating leverage.	▪ **Urban and metro focused companies lagging:** Companies with higher presence towards urban, especially metro areas are lagging in terms of recovery. ▪ **Supply Side Disruption:** Supply-side disruption initially impacted primary and secondary sales. ▪ **Slower pace of store addition:** Store addition / expansion and capex were lower in H1 due to lockdown and deferment of capacity utilization.

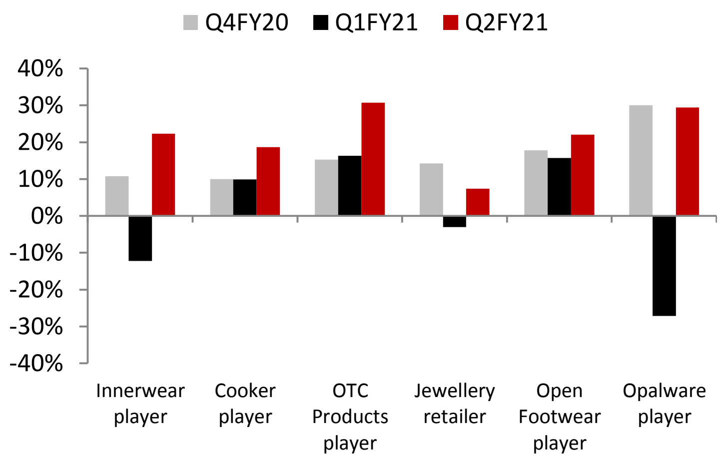
Source: Ambit Asset management

Exhibit 8: Revenue recovery of Consumer discretionary companies sheds light on the recovery...



Source: Ambit Asset management, Company

Exhibit 9:...as does the margin profile for some of these companies



Source: Ambit Asset management, Company

4) Economic commentary

Exhibit 10: Economic commentary showing signs of positivity

Key economic indicator	Specifics
GST Collection	▪ Oct'20 monthly GST collection at Rs 1052bn up 10% YoY & MoM. Collection level surpassed Feb'20 level of Rs 976bn
Transportation	▪ Diesel Consumption for Oct'20 up 7% YoY, first time positive growth trajectory after Feb'20. ▪ Petrol Consumption for Oct'20 up 3.8% YoY vs. 2% YoY in Sept'20 ▪ Fastag Collection for Oct'20 at Rs 2140cr up 10.3% MoM. Highest Fastag Collection since Jan'20 at Rs 1840cr
Electricity	▪ Consumption: Daily Average demand for Oct'20 at 3.6BU up 12% YoY. Consumption is at par to Feb'20 level. Nov consumption up 7.8% YoY in first fortnight at 50.15 units (BU). Oct'20 power consumption higher by 13.38% to 110.94 BU ▪ Generation: Sept'20 up 3.7% YoY turning positive after 6 months of decline
Industry inputs	▪ Steel Production: Turned positive in Sept 20 with growth at 0.9% YoY after 6 months ▪ Coal Production: Recorded strong growth at 21.2% in Sept vs. 3.7% in Aug'20.
Eight Core Industries Output	▪ Core sector output decline narrows to 0.8% YoY in Sept'20 vs. -7.3% in Aug'20
Unemployment	▪ Urban Unemployment: 8.5% in Sept vs. 8.7% in Feb'20 ▪ Rural Unemployment: 5.9% in Sept vs. 7.3% in Feb'20
PMI	▪ Manufacturing PMI at 58.9 for Oct'20 vs. 54.5 in Feb'20. Highest since mid-2008
E-commerce	▪ Firms sell $4.1bn goods in 1st week of festive sale (Oct 15-21)
CPI	▪ India's consumer price index (CPI) or retail inflation rose to 7.61% in October 2020, compared to 7.27% of the previous month. ▪ Food inflation jumps to 11.07% Inflation currently is the highest since May 2014 where the CPI stood at 8.3%. ▪ Urban inflation is likely due to supply chain issues but rural is possibly driven by MNREGA & PMGKY
Trade	▪ India Exports: Est. increased by 22.5% YoY in the period 1-7 Nov'2020 vs. -5.4% in Oct'20 ▪ India Imports: Est. increased by 13.6% YoY in Nov'20 vs. -11.6% in Oct'20 ▪ Trade Balance: $8.8bn trade surplus vs. $4.1bn in Sept'20.
Key takeaways from Retail shopping mall companies:	▪ DLF Retail Mall: : Footfall recover in the mall is 50% of pre-COVID levels on weekdays and 70% on weekends, Infinity Mall: Expected footfall recovery in 3QFY21 of 80-85% of pre-COVID level
VIX	▪ Volatility Index has drastically cooled off to 21.8 in Oct'20 vs. 64.4 in Mar'20 vs. 17.4 in Jan'20
MSP hike for Rabi Crops	▪ MSP for wheat for marketing season 2021-22 has been increased by Rs 50 per quintal to Rs 1975 per quintal. MSP for pulses and oilseeds have been raised to the highest in order to boost their production and reduce imports. ▪ Central govt has disbursed Rs 1.13trn as MSP to farmers for Rabi Crops. ▪ Mustard has seen increase of MSP by Rs 225 per quintal to Rs 4650 per quintal. ▪ Gram has gone up by Rs 225 per quintal to Rs 5100. ▪ Lentils has seen the highest increase of Rs 300 per quintal & cost Rs 5100 per quintal

Source: Ambit Asset management

5) Conclusion

- The signs of revival are not visible in all industries alike but the worst case scenarios that had gripped economy participants have clearly been exaggerated. While the economic recovery might still not be in sight, equity markets tend to look forward beyond the mess we know as Covid 19.

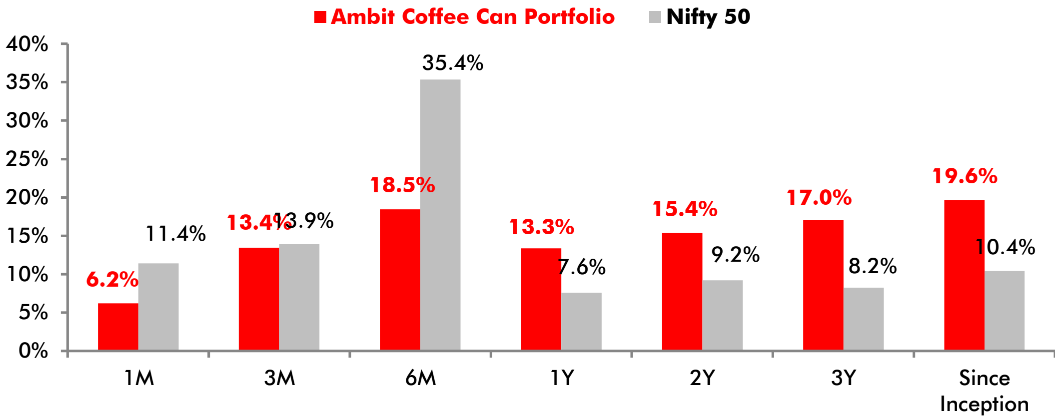
- Well run companies, with strong balance sheets in consolidating industries continue to be well placed (1) To capitalize on the opportunities that present themselves and (2) grab market share.

- Staying invested and continuing to invest in such businesses consistently will help generate returns in line with earnings growth over longer periods of time and timing entry exits can end up being costly mistakes.

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 & 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 performance update



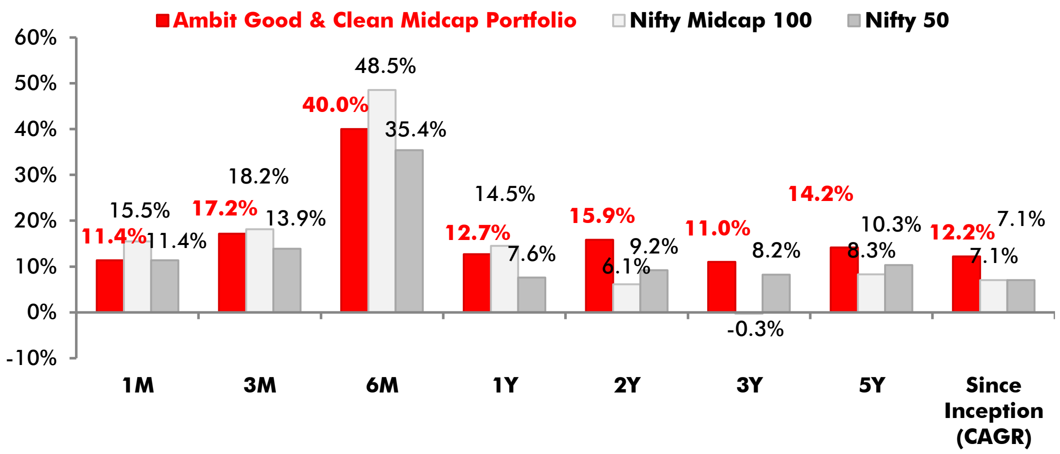
Source: Ambit; Portfolio inception date is March 6, 2017; Returns as of 30th Nov, 2020; All returns are post fees and expenses; Returns above 1 year are annualized; ***Note:*** *Returns prior to Apr'19 are returns of all the Pool accounts excluding non-aligned portfolio, and returns post Apr'19 is based on TWRR returns of all the pool accounts.*

Ambit Good & Clean 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 12: Ambit's Good & Clean Portfolio performance update



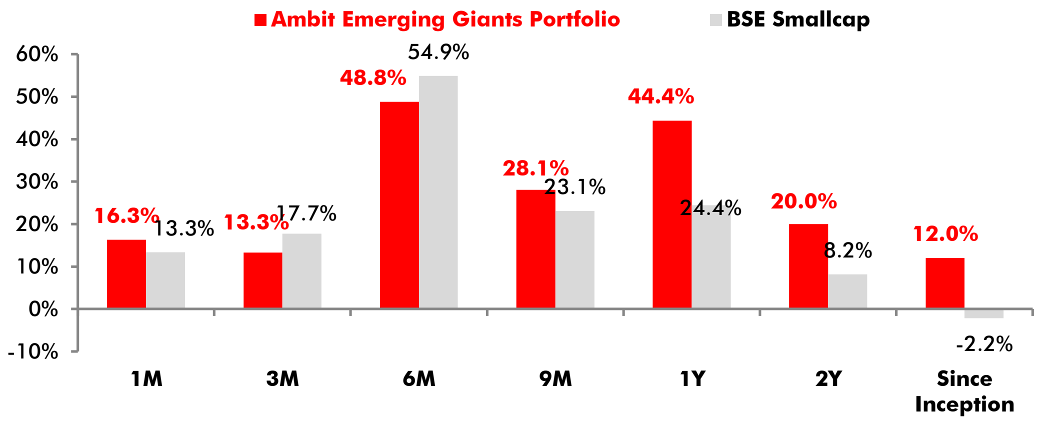
Source: Ambit; Portfolio inception date is March 12, 2015; Returns as of 30th Nov, 2020; All returns above 1 year are annualized. ***Returns are net of all fees and expenses***

Ambit Emerging Giants

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 13: Ambit Emerging Giants performance update



Source: Ambit; Portfolio inception date is December 1, 2017; Returns as of 30th Nov, 2020; All returns above 1 year are annualized. ***Returns are net of all fees and expenses***

For any queries, please contact:

Ashu Tomar - Phone: +91 22 6623 3244, Email - aiapms@ambit.co

Ambit Investment Advisors Private Limited -
Ambit House, 449, Senapati Bapat Marg,
Lower Parel, Mumbai - 400 013

Risk Disclosure & Disclaimer

Ambit Investment Advisors Private Limited ("Ambit"), is a registered Portfolio Manager with Securities and Exchange Board of India vide registration number INP000005059.

This presentation / newsletter / report is strictly for information and illustrative purposes only and should not be considered to be an offer, or solicitation of an offer, to buy or sell any securities or to enter into any Portfolio Management agreements. This presentation / newsletter / report is prepared by Ambit strictly for the specified audience and is not intended for distribution to public and is not to be disseminated or circulated to any other party outside of the intended purpose. This presentation / newsletter / report may contain confidential or proprietary information and no part of this presentation / newsletter / report may be reproduced in any form without its prior written consent to Ambit. All opinions, figures, charts/graphs, estimates and data included in this presentation / newsletter / report is subject to change without notice. This document is not for public distribution and if you receive a copy of this presentation / newsletter / report and you are not the intended recipient, you should destroy this immediately. Any dissemination, copying or circulation of this communication in any form is strictly prohibited. This material should not be circulated in countries where restrictions exist on soliciting business from potential clients residing in such countries. Recipients of this material should inform themselves about and observe any such restrictions. Recipients shall be solely liable for any liability incurred by them in this regard and will indemnify Ambit for any liability it may incur in this respect.

Neither Ambit nor any of their respective affiliates or representatives make any express or implied representation or warranty as to the adequacy or accuracy of the statistical data or factual statement concerning India or its economy or make any representation as to the accuracy, completeness, reasonableness or sufficiency of any of the information contained in the presentation / newsletter / report herein, or in the case of projections, as to their attainability or the accuracy or completeness of the assumptions from which they are derived, and it is expected each prospective investor will pursue its own independent due diligence. In preparing this presentation / newsletter / report, Ambit has relied upon and assumed, without independent verification, the accuracy and completeness of information available from public sources. Accordingly, neither Ambit nor any of its affiliates, shareholders, directors, employees, agents or advisors shall be liable for any loss or damage (direct or indirect) suffered as a result of reliance upon any statements contained in, or any omission from this presentation / newsletter / report and any such liability is expressly disclaimed. Further, the information contained in this presentation / newsletter / report has not been verified by SEBI.

You are expected to take into consideration all the risk factors including financial conditions, risk-return profile, tax consequences, etc. You understand that the past performance or name of the portfolio or any similar product do not in any manner indicate surety of performance of such product or portfolio in future. You further understand that all such products are subject to various market risks, settlement risks, economical risks, political risks, business risks, and financial risks etc. and there is no assurance or guarantee that the objectives of any of the strategies of such product or portfolio will be achieved. You are expected to thoroughly go through the terms of the arrangements / agreements and understand in detail the risk-return profile of any security or product of Ambit or any other service provider before making any investment. You should also take professional / legal /tax advice before making any decision of investing or disinvesting. The investment relating to any products of Ambit may not be suited to all categories of investors. Ambit or Ambit associates may have financial or other business interests that may adversely affect the objectivity of the views contained in this presentation / newsletter / report.

Ambit does not guarantee the future performance or any level of performance relating to any products of Ambit or any other third party service provider. Investment in any product including mutual fund or in the product of third party service provider does not provide any assurance or guarantee that the objectives of the product are specifically achieved. Ambit shall not be liable for any losses that you may suffer on account of any investment or disinvestment decision based on the communication or information or recommendation received from Ambit on any product. Further Ambit shall not be liable for any loss which may have arisen by wrong or misleading instructions given by you whether orally or in writing. The name of the product does not in any manner indicate their prospects or return.

The product 'Ambit Good & Clean 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.