AMBIT
Acumen at work

AMBIT ASSET MANAGEMENT

June 2021

MONTHLY NEWSLETTER

GOOD & CLEAN by AMBIT

COFFEE CAN PMS

EMERGING GIANTS by AMBIT

Ambit Good & Clean Midcap Portfolio **Ambit Coffee Can Portfolio** **Ambit Emerging Giants Portfolio**

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

Minimise downside to Maximise upside

Dear Patron,

It has been refreshing to see how companies have performed during the 4th quarter of the year. While it was the general feeling that covid was behind us, there came along a 2nd wave which caught most of us unaware. While equities have continued to perform as an asset class, the important thing remains to minimise downsides while maximising upside (in that order).Keeping this in mind the focus now is more on what lies ahead for companies which would, needless to say, go through one or more rounds of such disruption.

The approach that makes most sense to us (now) involves continuing meaningful asset allocation geared towards equities in order to protect (inflation, lack of alternatives) and grow capital. Further within our allocation to equities what remains of utmost importance is:*(1) Our respect for history in times of disruptions (like covid or others) (2)Focus on creating resilient portfolios by Construction+Composition and (3)Thinking Long term which helps deliver sustainable returns.*

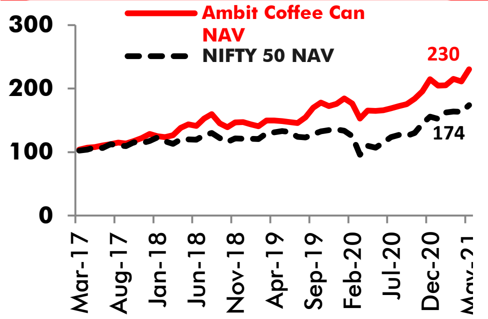
Good 4 Q Results: High expectations met!

Exhibit 1: Healthy growth in Revenue and EBITDA across portfolios in the aftermath of Covid 19

	Net Sales YoY%				EBITDA YoY%				PAT YoY%			
	Q4FY20	Q3FY21	Q4FY21	Q4FY21* (Adjusted)	Q4FY20	Q3FY21	Q4FY21	Q4FY21* (Adjusted)	Q4FY20	Q3FY21	Q4FY21	Q4FY21* (Adjusted)
Coffee Can PMS												
Weighted avg	-3%	12%	32%	30%	-2%	30%	29%	52%	-11%	33%	12%	31%
Median	0%	14%	25%	28%	4%	20%	26%	42%	-1%	19%	52%	39%
Nifty	-2%	-6%	14%	12%	-12%	8%	38%	21%	-16%	11%	51%	28%
Good & Clean PMS												
Weighted avg	-2%	9%	14%	17%	-6%	30%	31%	30%	-10%	34%	125%	63%
Median	-2%	11%	13%	17%	-1%	41%	23%	27%	-11%	7%	46%	54%
Nifty Midcap 100	-1%	5%	3%	2%	-27%	24%	84%	34%	-6%	27%	41%	33%
Ambit Emerging Giants PMS												
Weighted avg	-6%	6%	20%	13%	6%	21%	28%	42%	13%	12%	39%	58%
Median	-6%	4%	26%	16%	5%	6%	17%	0%	-9%	9%	37%	34%
BSE smallcap	-2%	4%	13%	11%	-48%	47%	184%	49%	-11%	27%	36%	21%

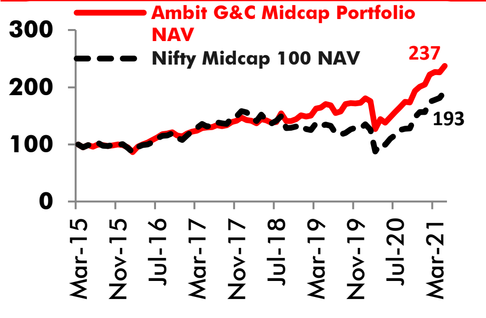
*Source: Ambit Asset management, Indices data is taken from Bloomberg, *Q4FY21 adjusted numbers show absolute growth over base of Q4FY19 instead of Q4FY20 which was impacted due to covid led disruptions as a comparison point, Note: Results of 3 G&C portfolio companies and 1 EG portfolio company is pending as on date of publishing*

Exhibit 2: Ambit Coffee Can returns vs Index



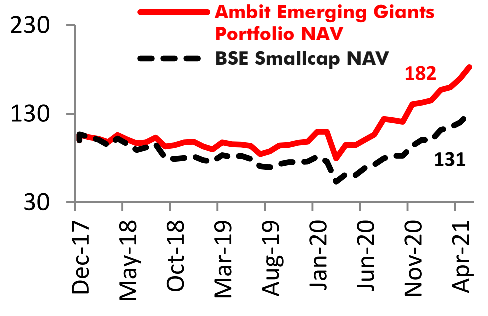
Source: Ambit Asset management

Exhibit 3: Ambit G&C returns vs Index



Source: Ambit Asset management

Exhibit 4: Ambit EG returns vs Index



Source: Ambit Asset management

The key to staying Disruption proof

1. Learning from history: Economic recovery follows every time!

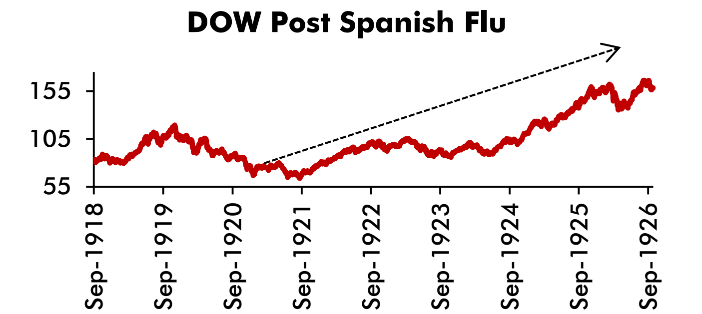
A. Instances of Non-Economic Disruptions

Exhibit 5: We have seen many non-economic disruptions with large impact affect us historically; interestingly impacts have been short lived followed by sharp recovery

	Spanish Flu	World War II	Swine Flu	COVID
Time Period	1918-20	1939-45	2009-10	2019 till date
Countries	India, Kenya, US, Europe	30 Countries	US, Mexico, Canada	US,India, Brazil
Deaths	40mn	70mn	0.3mn	3.6mn
Global GDP Impact	-6%	Germany Industrial output was down by 20%	-1%	-4.50%
India GDP Impact	-12.8% in 1918	India's per capita GDP declined by 9.9% from 1940-47	Grew 3.1% in 2009	-7.5% in FY21
Economic Recovery (US Real GDP Growth)	a) 1922: 6% b) 1923: 13% c) 1924: 4%	Germany's IIP by 1958 was 4x higher than by decade earlier	a) 2010: 2.6% b) 2011: 1.6% c) 2012: 2.2%	a) Q1CY21: 6.4% b) Q4CY20: 4.3%

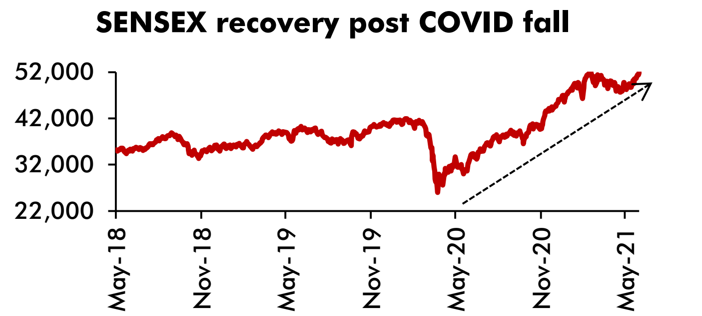
Source: Ambit Asset Management

Exhibit 6: The bounce back post the event and even during those periods seemed unbelievable but were a reality



Source: Ambit Asset Management, Bloomberg

Exhibit 7: This is something we are all now familiar with given the recent run up in the markets coinciding with the biggest disruption this century has seen



Source: Ambit Asset Management, Bloomberg

B. Instances of Economic Disruptions

Exhibit 8: Asia has grown sharply since the Asian crisis and India/US have recovered sharply both during and after the 2008 GFC

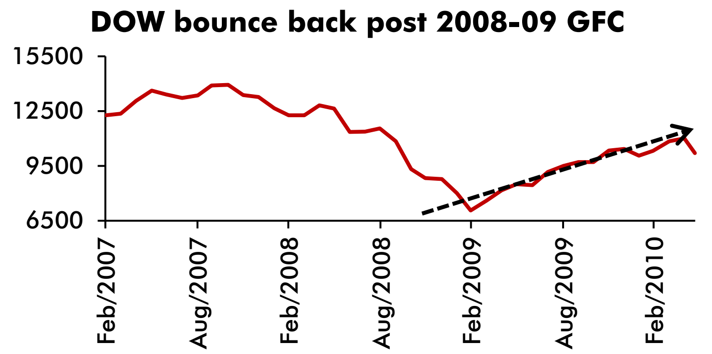
Financial Crisis	Asian Currency Crisis	Dotcom Bust	GFC
Time Period	1997-98	2000-02	2008-09
Economic Impact	From 1996 to 1997, the nominal GDP per capita dropped in a) Indonesia (43.2%), b) Thailand (21.2%), c) Malaysia (19%), d) South Korea (18.5%) e) Philippines (12.5%)		In US, from end of 2007 to Mar'09, a) Real GDP declined by 4.3% b) Unemployment increased from 5% to 10% c) Housing prices fell 32%
Economic Recovery	GFP of EM in East Asia & Pacific grew 10% in 2000 & 10.2% in 2001	US Real GDP grew by a) 2003: 2.9% b) 2004: 3.8% c) 2005: 3.5%	US Real GDP grew by a) 2010: 2.6% b) 2011: 1.6% c) 2012: 2.2%

Source: Ambit Asset Management, source

Exhibit 9: Looking beyond the times of crises, sharp and long term recovery trends are not unusual

Source: Ambit Asset Management, Bloomberg

Exhibit 10: Post GFC, the next 3 yrs were some of the most rewarding years for Investors



Source: Ambit Asset Management, Bloomberg

2. *Create resilient portfolios: Construction+Composition*

Exhibit 11: The focus on Formalization + Earning growth performance to ensure return maximization and strong Balance sheet + Management to ensure downside protection

	Formalisation	Earnings Growth	Strong Balance Sheet	Management Pedigree
WHO	Leadership & Pricing Power	Promising Earnings trajectory	Men vs. Boys	Effective and Complacent management
WHAT	Increase in Market Share	Sustainable earnings cash flows	Capital Allocation track record	Integrity & Honesty
HOW	Brand Equity & Distribution Reach	Sustainable business model	High asset turnover and low leverage	Past acumen and efficiency

Source: Ambit Asset Management

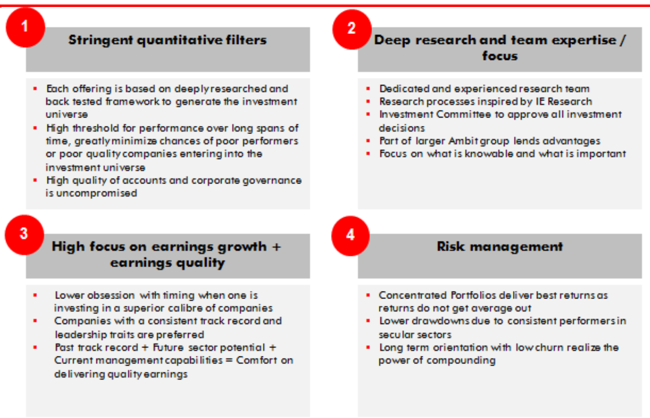
Exhibit 12: Selecting the right companies which deliver earnings consistently are likely to deliver maximum returns (Below is an analysis of our portfolio companies) and move up the ranks over the years while creating wealth for investors

Companies	Return CAGR	Transition from FY10 to FY20 based on Top 1000 companies by Market Cap				
	10 yr	1-100	101-250	251-500	501-1000	Beyond 1000
Chemical	49%					
Cooling	37%					
Innerwear	36%					
Chemical	36%					
CV & Vehicle Financier	35%					
Cinema Exhibition	30%					
Tiles	29%					
Footwear	27%					
Pipes & Value Added	25%					
Regional Bank	24%					
Pharma	22%					
Automobile	22%					
Enginnering	13%					
Large Bank	8%					
Pharma	6%					

Source: Ambit Asset Management

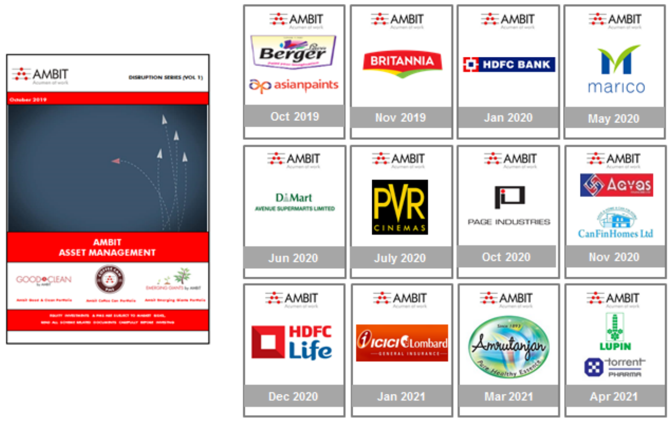
3. Thinking Long term delivers sustainable returns

Exhibit 13: Good return is an outcome of consistent good process and long term focus…



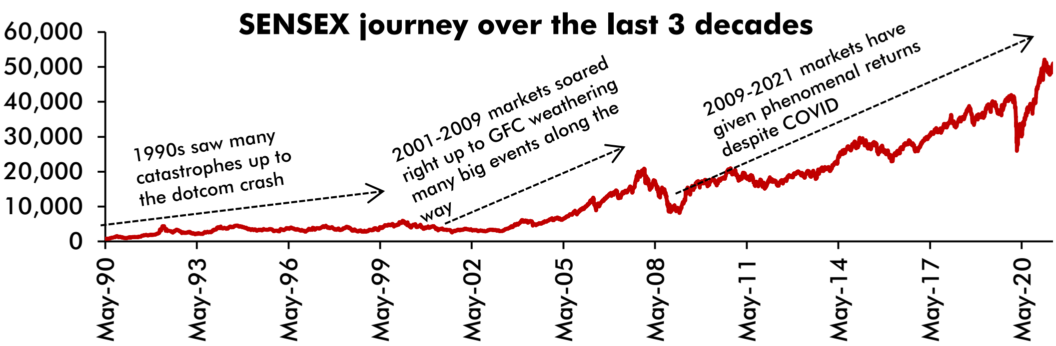
Source: Ambit Asset Management

Exhibit 14: …and we try and focus our process, writing and practice geared towards long term wealth creation



Source: Ambit Asset Management

Exhibit 15: as this is not just something that sounds good in theory but is supported by decades of data in practice where equities deliver over long term beyond short run disruptions

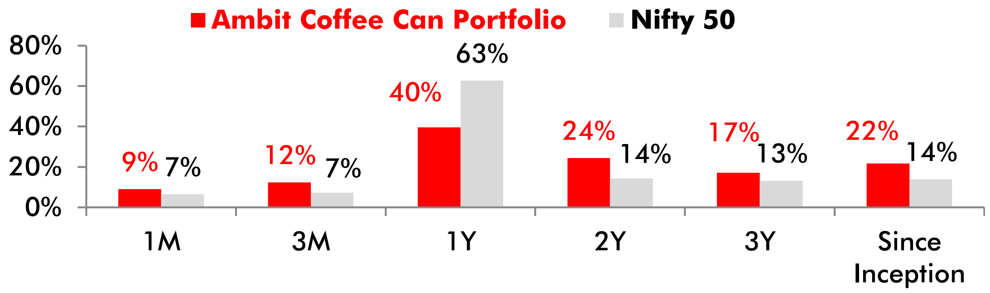


Source: Ambit Asset Management, Bloomberg, investing.com

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 16: Ambit's Coffee Can Portfolio performance update



Source: Ambit; Portfolio inception date is March 6, 2017; Returns as of 31st May, 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 Po\ol accounts excluding non-aligned portfolio, and returns post Apr'19 is based on TWRR returns of all the pool accounts.*

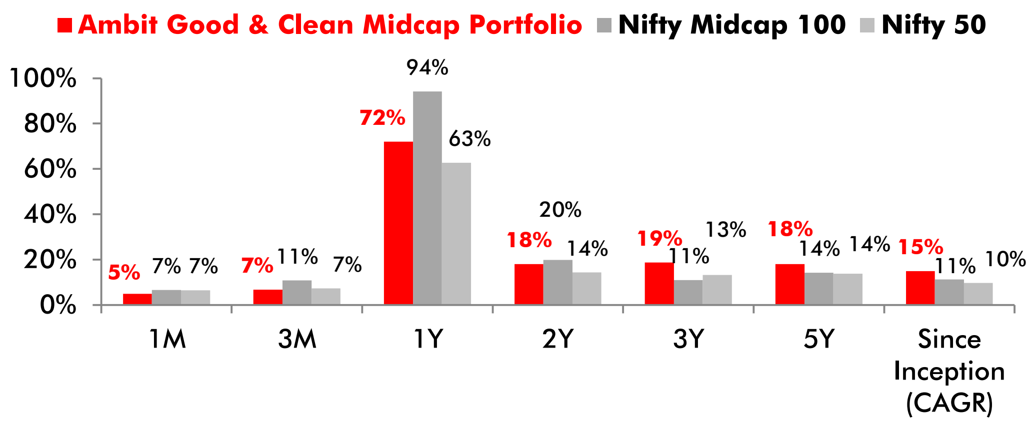
Ambit Good & Clean Midcap Portfolio

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.

Exhibit 17: Ambit's Good & Clean Midcap Portfolio performance update



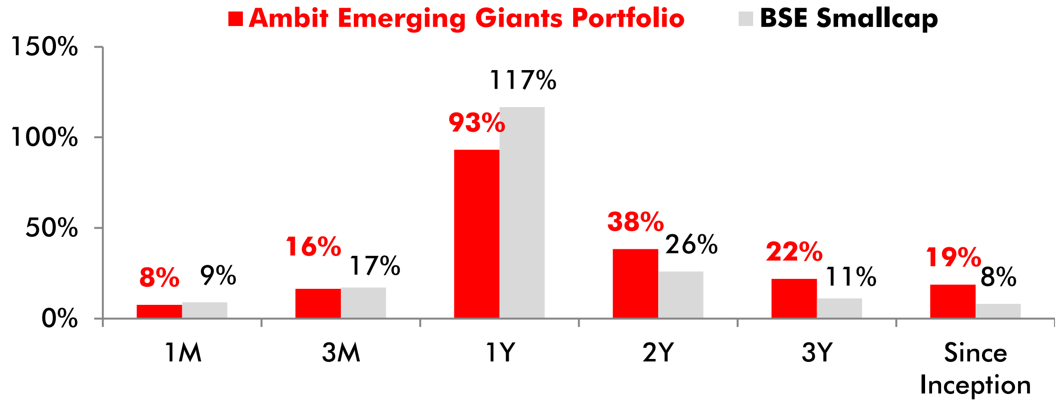
Source: Ambit; Portfolio inception date is March 12, 2015; Returns as of 31st May, 2021; All returns above 1 year are annualized. ***Returns are net of all fees and expenses***

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 18: Ambit Emerging Giants performance update



Source: Ambit; Portfolio inception date is December 1, 2017; Returns as of 31st Jan, 2021; All returns above 1 year are annualized. ***Returns are net of all fees and expenses***

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