AMBIT
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ASSET MANAGEMENT

MONTHLY NEWSLETTER

SEPTEMBER 2021

THE BALANCING ACT

Narrative & Numbers.

Dear Patron,

As discussed time and again 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. We use this newsletter to share some thoughts surrounding our equity decisions as well as talk about the quarterly earnings report posted by portfolio companies.

Since Equities is our preferred asset class to protect and grow capital, let us take a step further within our allocation to equities to understand what is of utmost importance here:

1. To avoid debt and overconfidence by focussing on creating resilient portfolios by Construction+Composition
2. Thinking Long term which helps deliver sustainable returns like in the case of Anne Scheiber (Refer to our short stories section)
3. Anticipate solutions to problems to make better investment decisions (Act to protect capital when risk might be rising by investing in strong balance sheet companies with a well-diversified approach, invest in companies/stay invested where demand might soon return or operating leverage might give rise to benefits).

SOME SHORT STORIES TO BETTER APPRECIATE THE NARRATIVE...

Let us illustrate the above with some instructive stories that helped us grasp these concepts better.

I. AVOID DEBT & OVER CONFIDENCE: FOCUS ON CREATING RESILIENT PORTFOLIOS BY CONSTRUCTION+COMPOSITION

After the crash of 1929 the market had a nice recovery (we have had a nice recovery since covid struck last year too). By April 1930 the market was up 41% from its low on November 13, 1929. Many believed the worst was over. One of those people was the legendary investor Benjamin Graham, the father of security analysis. In 1930 Graham was 36 years old, a millionaire and successful investor.

When warned by John Dix on the perils of having debt Graham full of "smug self-confidence" which he later admits to in his memoir he paid no heed. Graham frequently used a lot of debt in his investment fund to finance stock purchases.
He thanked the old man condescendingly (self admittedly as per his memoir) and went about his business.

Of course the words were proved right later on and Graham suffered mightily in 1930 (44% of his assets were financed by debt). He suffered losses of -20% in 1929 (vs -15% for the Dow Jones) and -50% in 1930 (vs. -25% for the Dow Jones). He lost 70% for the entire period between 1929-1932. The happy ending to this story was that Graham of course was able to recover over the years and fight his way back to good returns. It would be almost impossible for an average or even above average investor to stomach a 70% loss of capital and rebuild from there.

II. WHERE DID THE MONEY COME FROM? CASE STUDY OF ANNE SCHEIBER

Anne Schieber worked as a low level auditor with the US government. The highest salary she earned was $4000/year. She has no inheritance, never had a promotion, never owned a car, never married, lived her entire life in a small apartment and retired at age 51. Her saving at retirement was $21,000 but she died at the age of 101 with a portfolio at death of $22million.
Where did all that money come from? The question seems to be tough but the answer is really quite simple. $21,000 earning 14.9% CAGR for 50 years becomes $22million

III. FIND THE OPPORTUNITY IN A CRISIS: ANTICIPATING SOLUTIONS TO PROBLEMS

Every problem is an investment opportunity if you can anticipate the solution. There is a saying that goes "if not for thieves, who would buy locks?" Plainly this means if thieves (the problem) did not exist who would need a lock (solution). The one who benefits in this situation is often the one who makes the locks or in your case invested in a lock company. This year has been no different, don't believe me? Ask those Zoom shareholders?

Arguably the worst time for Investors has never been as pronounced as it was in 1929. While many faced almost certain ruin one story stands out, that of Floyd Odlum (More so because it was well documented-needless to say there were many others like him).In 1933 when the world seemed to be in pieces Odlum walked into his office looked at the faces of his glum partners and said he believed there was a better chance to make money now than ever before.

The lawyer and industrialist started his investing career in 1923 with $39,000 which he turned to $700,000 in a few years through some savvy investing by investing for devalued stocks and securities. His biggest score came after the 1929 crash when he bought bustled up investment trusts and became an overnight multimillionaire. In a span of 15 years he made $100 million. He built his wealth by anticipating the return to normalcy would have to come about post the 1929 crash and invested when others stayed away.

Source: Google

...COUPLED WITH A SHORT SYNOPSIS ON THE 1Q NUMBERS

The healthy growth trajectory exhibited by companies was in many cases reversed given the 2nd wave of covid played spoilt sport. While it was the general feeling that covid was behind us, there came along a 2nd wave which caught most of us unaware. As discussed in our previous quarterly newsletter this wave was bound to cause some temporary disruptions to companies' operations and consumer demand and it has.(Visible in the QoQ numbers below in Exhibit 1) However given the disruptions are likely to be temporary companies can hope to weather through. The high growth in Rev/EBITDA/PAT on YoY basis (Ref Exhibit 1) shows us that the worst of covid's financial impact on businesses is behind us.

All three portfolios exhibit healthy signs of recovery and growth in business and we remain confident that business and earnings will continue to improve in the coming quarters (barring any 3rd wave that might come about). The performance continues to speak for itself.
(Ref Exhibit 2-4)

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

	Net Sales YoY%`			QoQ%	EBITDA YoY%			QoQ%	PAT YoY%			QoQ%
Ambit Coffee Can Portfolio	Q1FY22	Q4FY21	Q1FY21	Q1FY22	Q1FY22	Q4FY21	Q1FY21	Q1FY22	Q1FY22	Q4FY21	Q1FY21	Q1FY22
Weighted Average	51%	29%	-18%	-14%	105%	47%	-24%	-23%	87%	76%	-25%	-33%
Median	37%	25%	-16%	-14%	89%	26%	-44%	-25%	29%	52%	-22%	-26%
Nifty	31%	14%	-26%	-10%	45%	38%	-28%	83%	45%	51%	-11%	-9%
Ambit Good & Clean Midcap Portfolio	Q1FY22	Q4FY21	Q1FY21	Q1FY22	Q1FY22	Q4FY21	Q1FY21	Q1FY22	Q1FY22	Q4FY21	Q1FY21	Q1FY22
Weighted Average	51%	23%	-9%	-9%	164%	44%	-19%	-17%	88%	142%	-27%	-36%
Median	29%	19%	-5%	2%	42%	35%	-10%	-2%	35%	63%	-14%	-19%
Nifty Midcap 100	13%	3%	-20%	-2%	53%	84%	-37%	93%	57%	41%	-10%	8%
Ambit Emerging Giants Portfolio	Q1FY22	Q4FY21	Q1FY21	Q1FY22	Q1FY22	Q4FY21	Q1FY21	Q1FY22	Q1FY22	Q4FY21	Q1FY21	Q1FY22
Weighted Average	66%	23%	-12%	-17%	98%	32%	17%	-25%	99%	42%	36%	-30%
Median	44%	15%	-3%	-11%	75%	17%	-42%	-21%	65%	38%	-32%	-34%
BSE Smallcap	47%	13%	-31%	-5%	137%	184%	-51%	92%	60%	36%	-18%	-6%

Source: Ambit Asset management, Indices data is taken from Bloomberg

Exhibit 2: Ambit Coffee Can portfolio returns vs Index

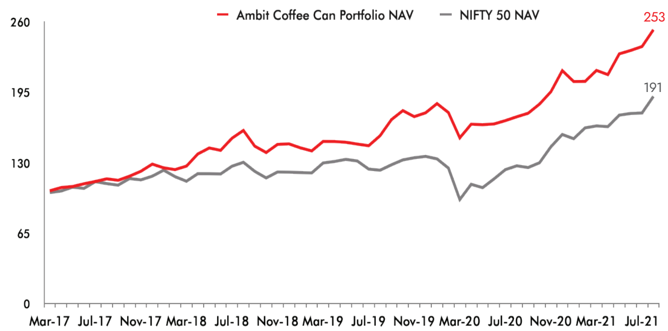


Exhibit 3: Ambit Good & Clean Midcap portfolio returns vs Index

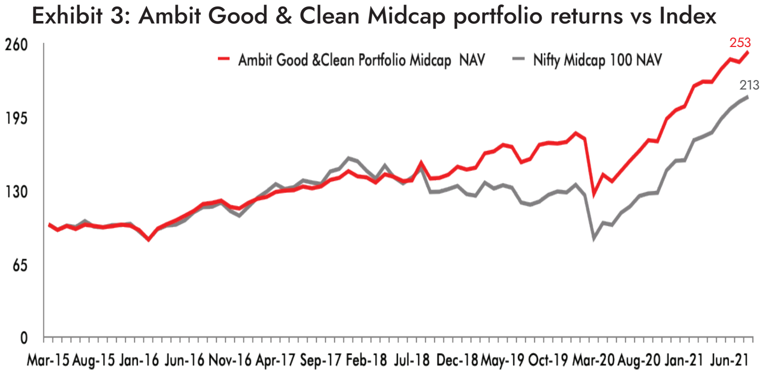
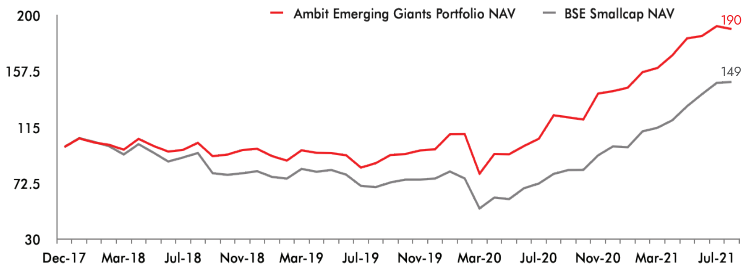


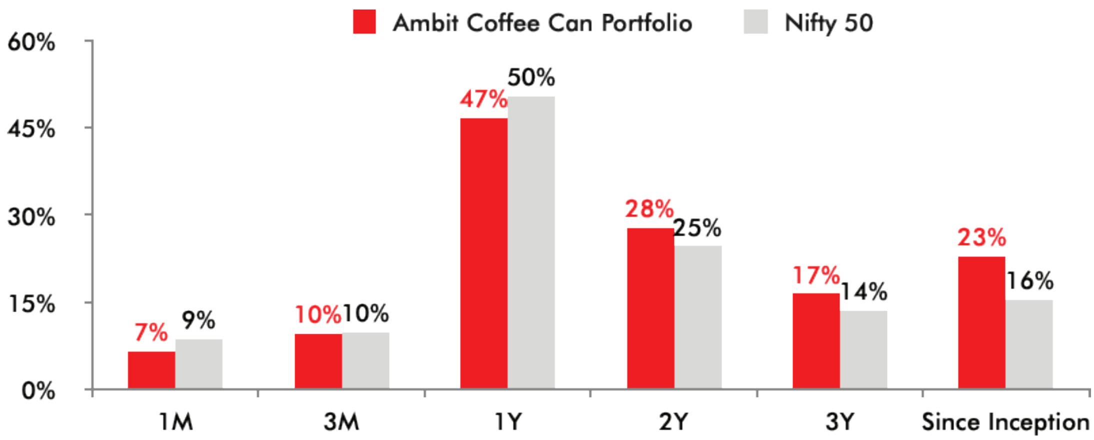
Exhibit 4: Ambit Emerging Giants portfolio returns vs Index



AMBIT COFFEE CAN PORTFOLIO

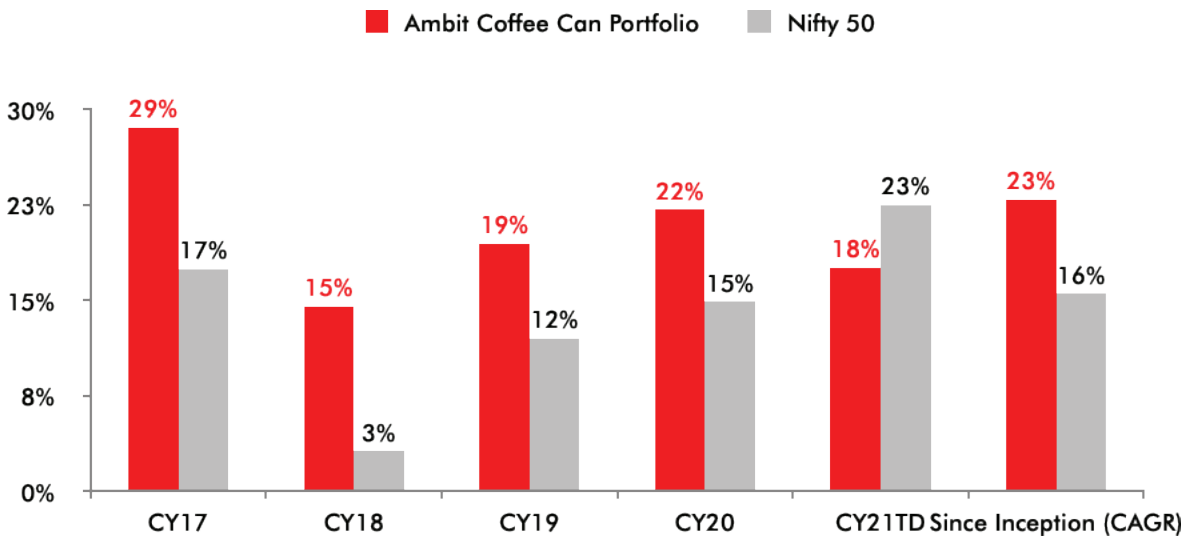
At Coffee Can Portfolio, we do not attempt to time commodity/investment cycles or political outcomes and prefer resilient franchises in the retail & consumption oriented sectors. The Coffee Can philosophy has unwavering commitment to companies that have consistently sustained their competitive advantages 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 5: Ambit Coffee Can Portfolio point-to-point performance



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

Exhibit 6: Ambit Coffee Can Portfolio calendar year performance



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

AMBIT GOOD & CLEAN MIDCAP PORTFOLIO

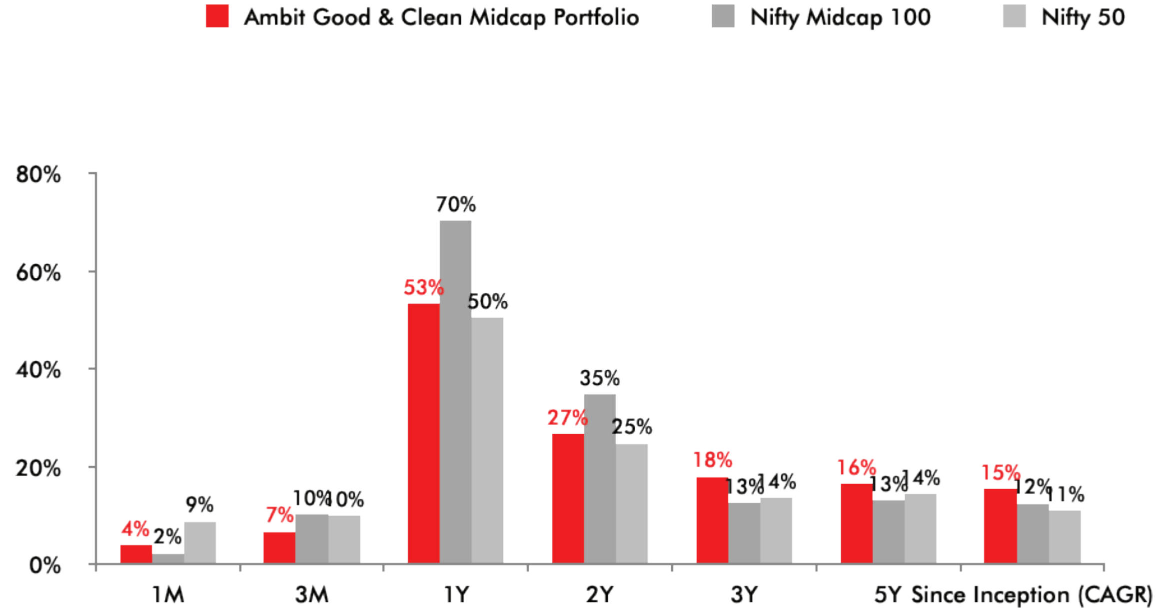
Ambit's Good & Clean strategy provides long-only equity exposure to Indian businesses that have an impeccable track record of clean accounting, good governance, and efficient capital allocation. Ambit's proprietary 'forensic accounting' framework helps weed out firms with poor quality accounts, while 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.

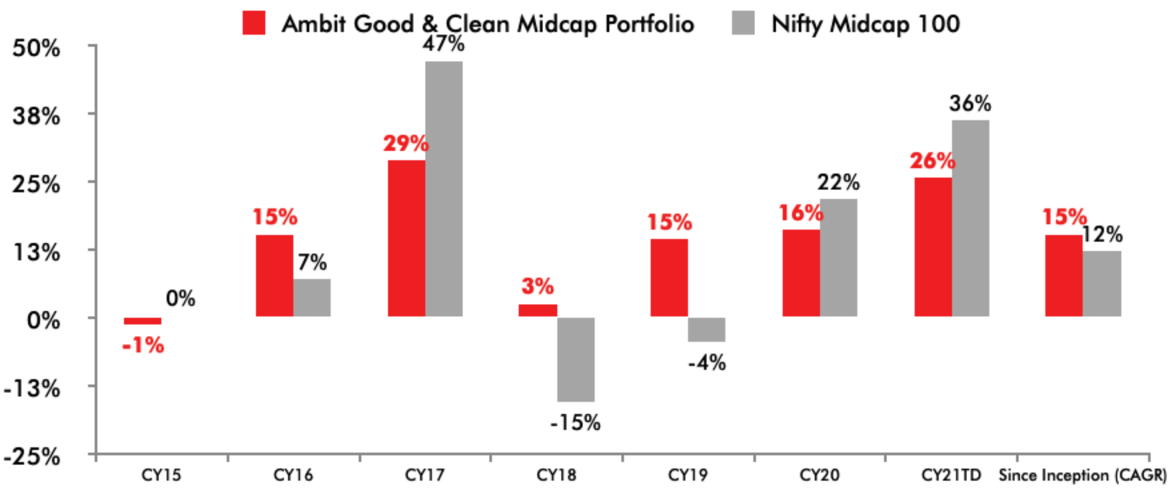
Low drawdowns: The focus on clean accounting and governance, prudent capital allocation, and structural earnings compounding allow participation in long-term return generation while also ensuring low drawdowns in periods of equity market declines.

Exhibit 7: Ambit Good & Clean Midcap Portfolio point-to-point performance



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

Exhibit 8: Ambit Good & Clean Midcap Portfolio calendar year performance



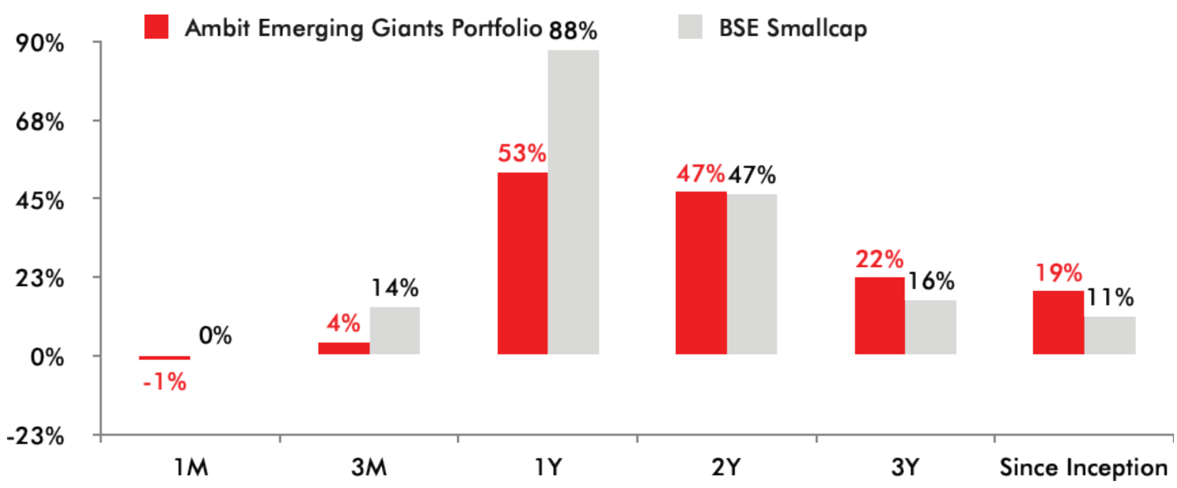
Source: Ambit; Portfolio inception date is March 12, 2015; Returns as of 31st Aug, 2021, All returns above 1 year are annualized. Returns are net of all fees and expenses

AMBIT EMERGING GIANTS

Smallcaps with secular growth, superior return ratios and no leverage

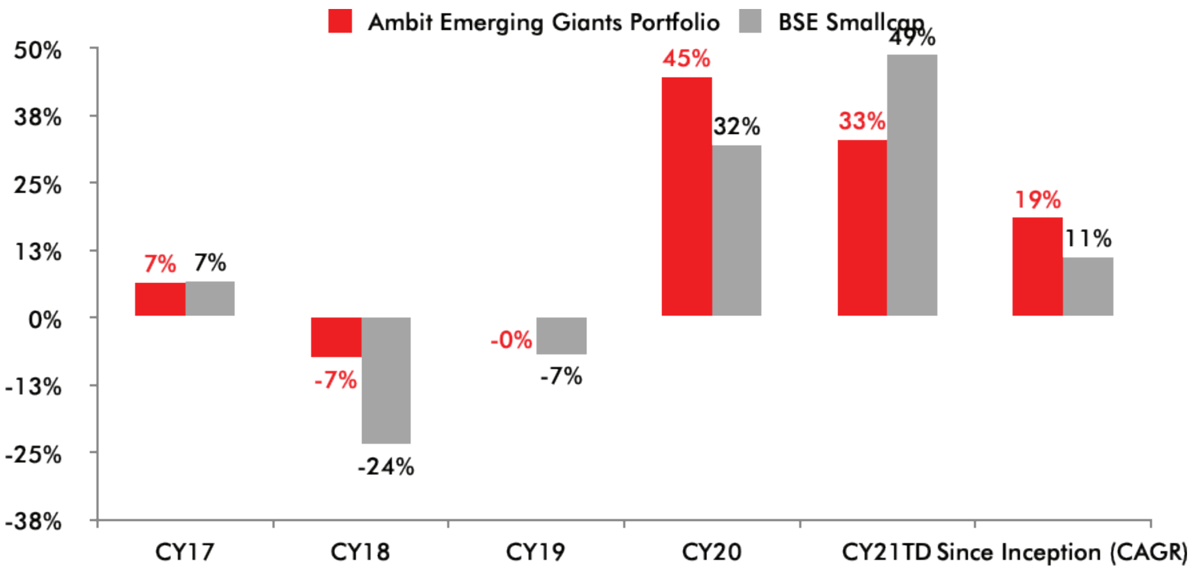
Ambit's Emerging Giants portfolio aims to invest in small-cap companies with market-dominating franchises and a track record of clean accounting, governance and capital allocation. The fund typically invests in companies with market caps less than Rs. 4,000cr. These companies have excellent financial 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 9: Ambit Emerging Giants Portfolio point-to-point performance



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

Exhibit 10: Ambit Emerging Giants Portfolio calendar year performance



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

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