

September 2019



**Asset Management**

GOOD & CLEAN  
by Ambit

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**Ambit Good & Clean Midcap Fund**

## Ambit's Investment Philosophy

### Investment offerings focusing on the **Quality**

- Companies with robust capital allocation track record and high quality of financial metrics
- High quality of their accounts and corporate governance.
- While the objective is to generate returns, the even bigger goal is to better manage drawdowns

### Process-Driven Approach

- Highly qualified team of MBA's, CA's & CFA's with deep-dive equity research experience & specializations across various sectors.
- 5-member highly experienced & distinguished Investment Committee in place to review all investment decisions.
- Full-fledged support of Ambit Group with over 230+ experienced employees spread across investment banking, institutional equities, equity capital markets, private equity, private wealth, among others.

## Multiple products as per the investment horizon of the investor



### Good & Clean India Fund

- Investment Horizon: 3-5 years
- Primarily Mid-cap stocks
- Cross cyclical winners with high ROE, high reinvestment companies



### Coffee Can PMS

- Investment Horizon: 8-10 years
- Primarily Large-cap stocks
- Great companies with proven track record of high ROE, high reinvestment companies



### Ambit Good & Clean Smallcap Fund (Emerging Giants)

- Investment Horizon: 5-6 years
- Primarily Small-cap stocks
- Finding the next Coffee Can companies

# What drives success for corporate India?

Our research over the past five years shows that over and above firm-specific competitive advantages, three factors are essential for a company to consistently outperform:



## **CLEAN ACCOUNTING**

The bottom 40% of the BSE500 stocks on accounting quality have underperformed the top 60% by a whopping 12% per annum since Nov 2010



## **CONSERVATIVE CAPITAL ALLOCATION**

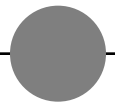
Indian companies are amongst the most aggressive capital allocators in the world and that aggression costs their shareholders dear.



## **GOOD GOVERNANCE & LACK OF POLITICAL CONNECTIVITY**

Firms whose central competitive advantage is political connectivity seldom outperform in India.

**Ambit's **Good & Clean** fund is your solution to identify these traits for sustainable wealth creation through Indian equities.**



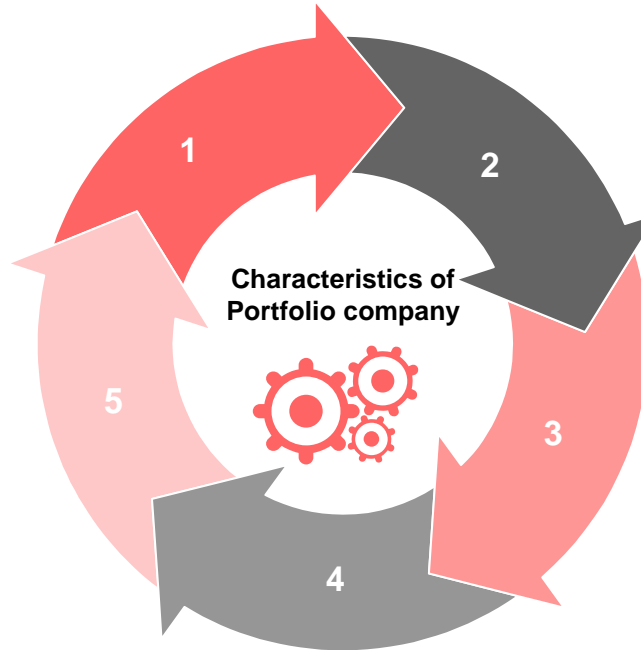
## 1 Consistent Track Record

- Delivers consistent **growth** while maintaining superior **return** ratios
- High **quality** entrepreneur and management team
- Operates in a niche / or high opportunity segment maintaining its competitive advantages



## 5 Power of compounding

- Concentrated portfolio with 15-20 stocks and intended churn of less than 2-3 stock per year on average
- This allows the portfolio to benefit from Power of Compounding



## 4 Clean Accounting

- Use our proprietary forensic accounting framework ( to filter out firms with suspect financials)



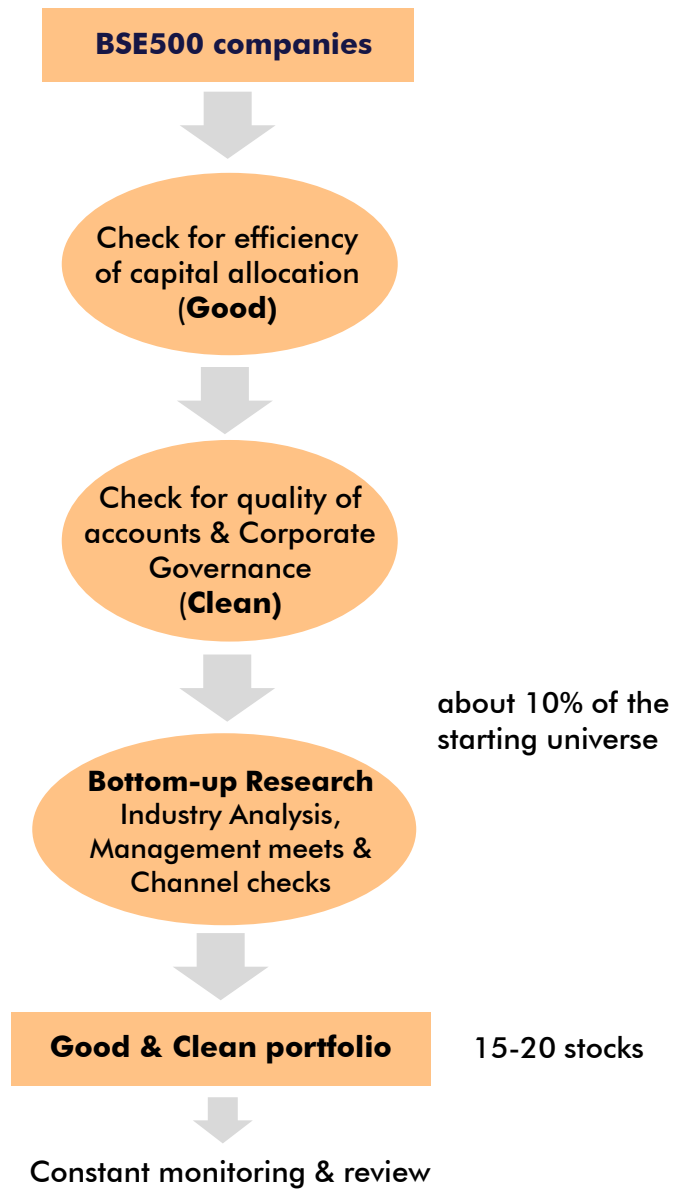
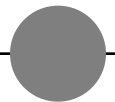
## 2 Strong Corporate Governance

- Well diversified and respected Board
- Minority friendly
- Dividend Policy
- Timely and robust disclosures on corporate governance issues



## 3 Market Leaders

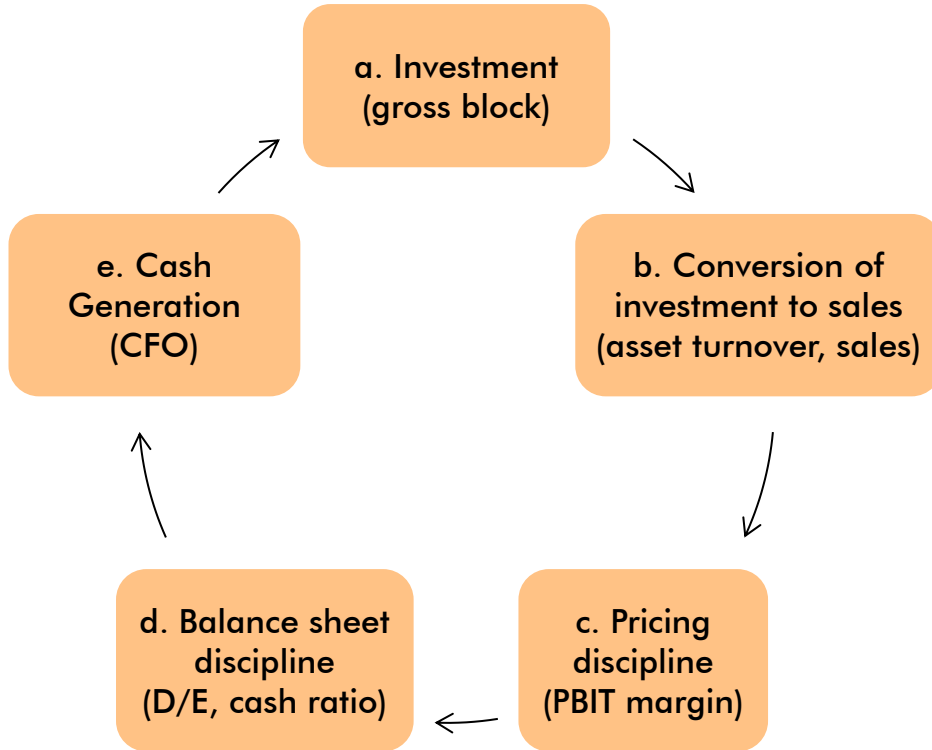
- Most companies in our portfolio companies dominate their market niche/ geographies
- Relentless focus on specific product/ service, allowing them to excel in their circle of competence



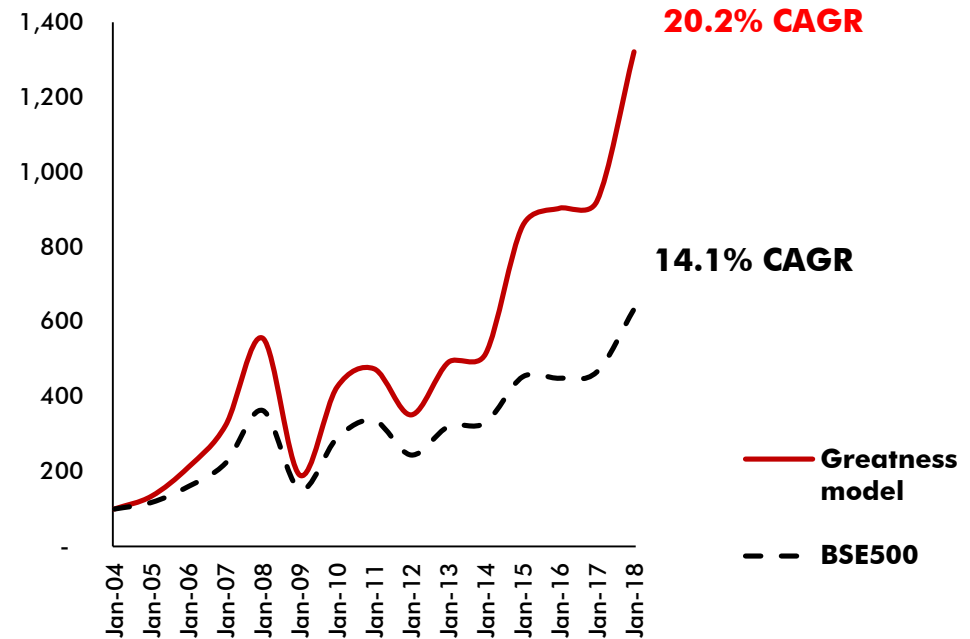
- Invest in firms which are:
  - (a) **Good** - On the basis of capital allocation track record and quality of improvement in financial metrics over the past six years, and
  - (b) **Clean** - Based on the quality of their accounts & corporate governance.
- The focus on 'good' helps **generate upside** while not compromising on 'clean' **reduces downside risk**. Essentially, while the objective is to generate returns, the even bigger goal is to better manage drawdowns because we believe doing the latter successfully is critically vital in achieving the former.
- 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 to consistent growth.
- The result is a **concentrated portfolio** of 15-20 stocks that **draws down lesser** than the market in corrections and has **low churn** (not more than 15-20% of portfolio in any year amounting to 2-3 holdings being replaced).

# Focus on 'good' helps generate upside

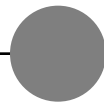
**Ambit's 'greatness' framework identifies efficient capital allocators in the country**



**Greatness model has outperformed BSE500 by a whopping 600bps annually**



Our greatness framework looks at holistic and consistent growth as the hallmarks of efficient capital allocation- a self sufficient growth engine without the need of tapping external capital frequently is key to long term wealth creation.



## Ambit's forensic accounting model helps steer clear firms with questionable accounts

### Accounting checks

#### P&L Mis-statement

- Abysmally low CFO/EBITDA ratio over a long run
- High volatility in Depreciation Rates
- Boasting earning through lower debtor provisioning

#### B/S Mis-statement

- Low Cash yield implying balance sheet misstatement
- Writing-off losses directly through balance sheet
- High contingent liability

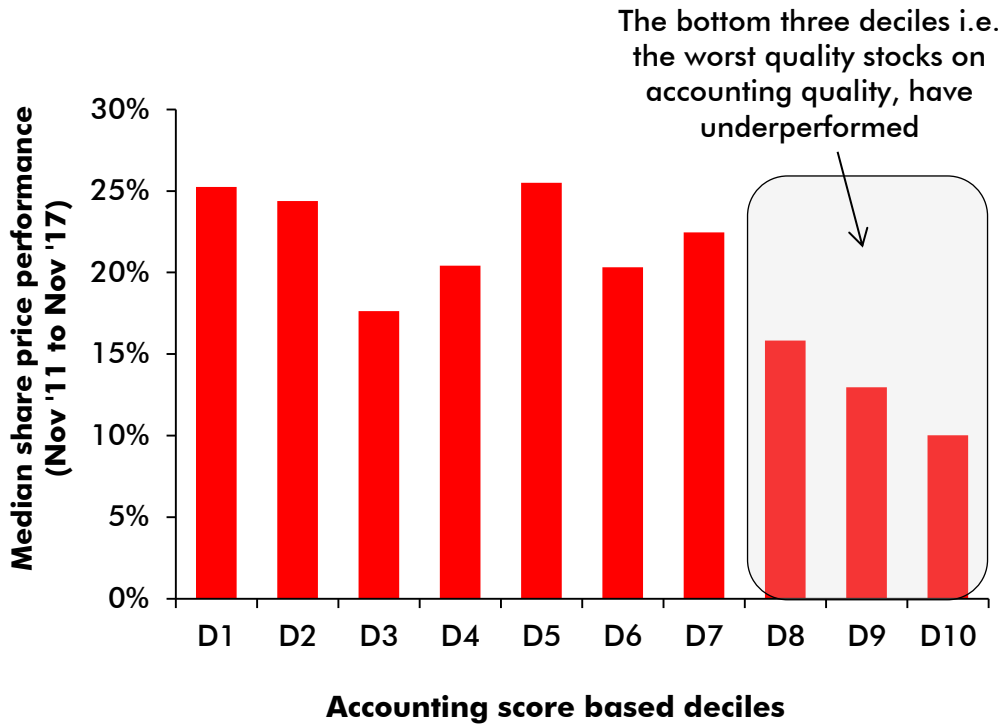
#### Pilferage Checks

- High Miscellaneous expenses
- Unsubstantiated capex or delay in plant commissioning
- Historically generating negative free cash flows
- Increasing advances to related party

#### Auditor Quality

- High auditor remuneration

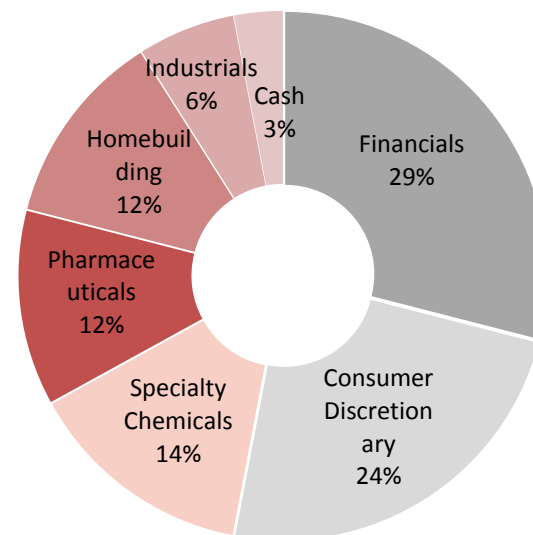
## Strong link between accounting quality and stock performance



Source: Ace Equity, Capitaline, Ambit Capital research; Note: Accounting score is based on annual financials over FY11-17; stock price performance is from Nov'11 to Nov'17 on a CAGR basis. Universe for this exhibit is BSE500 (ex-BFSI)

# Portfolio Composition & Characteristics

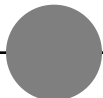
- ❑ Stellar track records of capital allocation in terms of RoE
- ❑ Low debt with the median portfolio company cash positive
- ❑ Median market cap of the portfolio is ~Rs15,000 cr.
- ❑ Growth potential above the comparable index
- ❑ Reasonable valuations for quality stocks



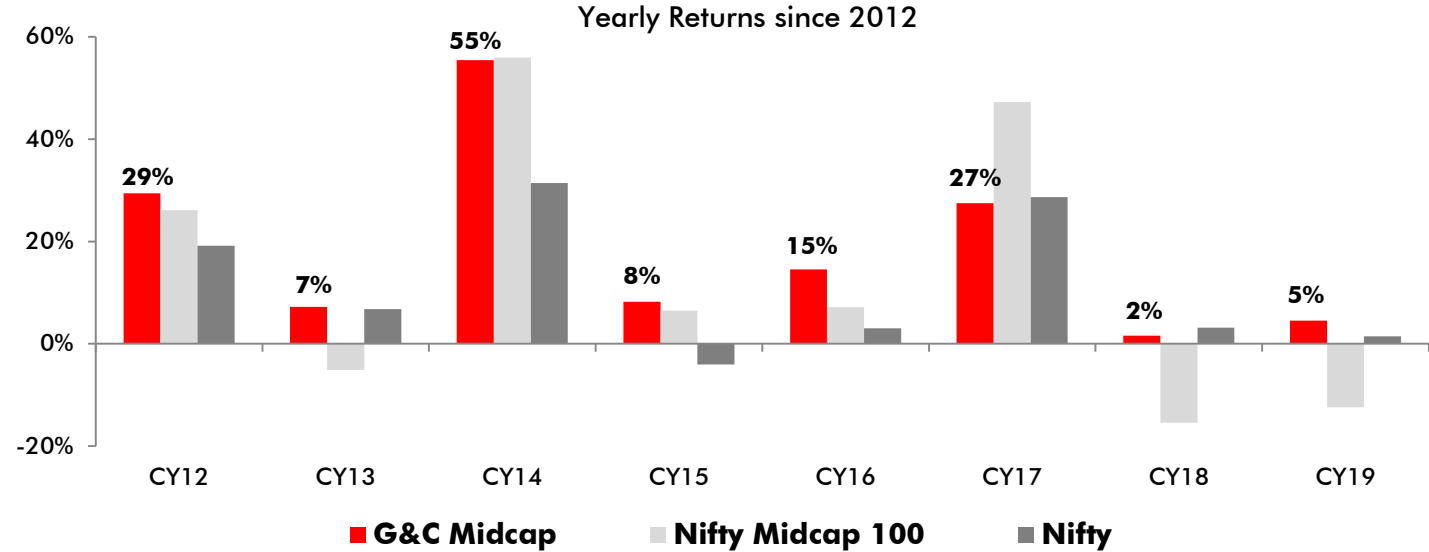
| Comparison with Indexes | Net Debt/Equity | P/E        |            | Past 3Y Growth |            | RoE        |
|-------------------------|-----------------|------------|------------|----------------|------------|------------|
|                         | FY18            | FY19       | FY20E      | Revenue        | PAT        | FY19       |
| <b>G&amp;C Midcap</b>   | <b>(-0.1x)</b>  | <b>37x</b> | <b>28x</b> | <b>14%</b>     | <b>23%</b> | <b>18%</b> |
| Nifty Midcap Index      | 1.9x            | 20x        | 16x        | 5%             | 6%         | 7%         |
| Nifty Index             | 1.2x            | 23x        | 18x        | 8%             | 5%         | 12%        |

Source: Ambit Capital Research;; All Portfolio statistics are weighted average except for Debt/equity; Blended forwards are based on Ambit estimates.





## Consistent performance - in both advisory and fund constructs



**In 10 years, Rs. 1cr invested with G&C portfolio would have become 3.62cr vs. 2.22cr with NIFTY**

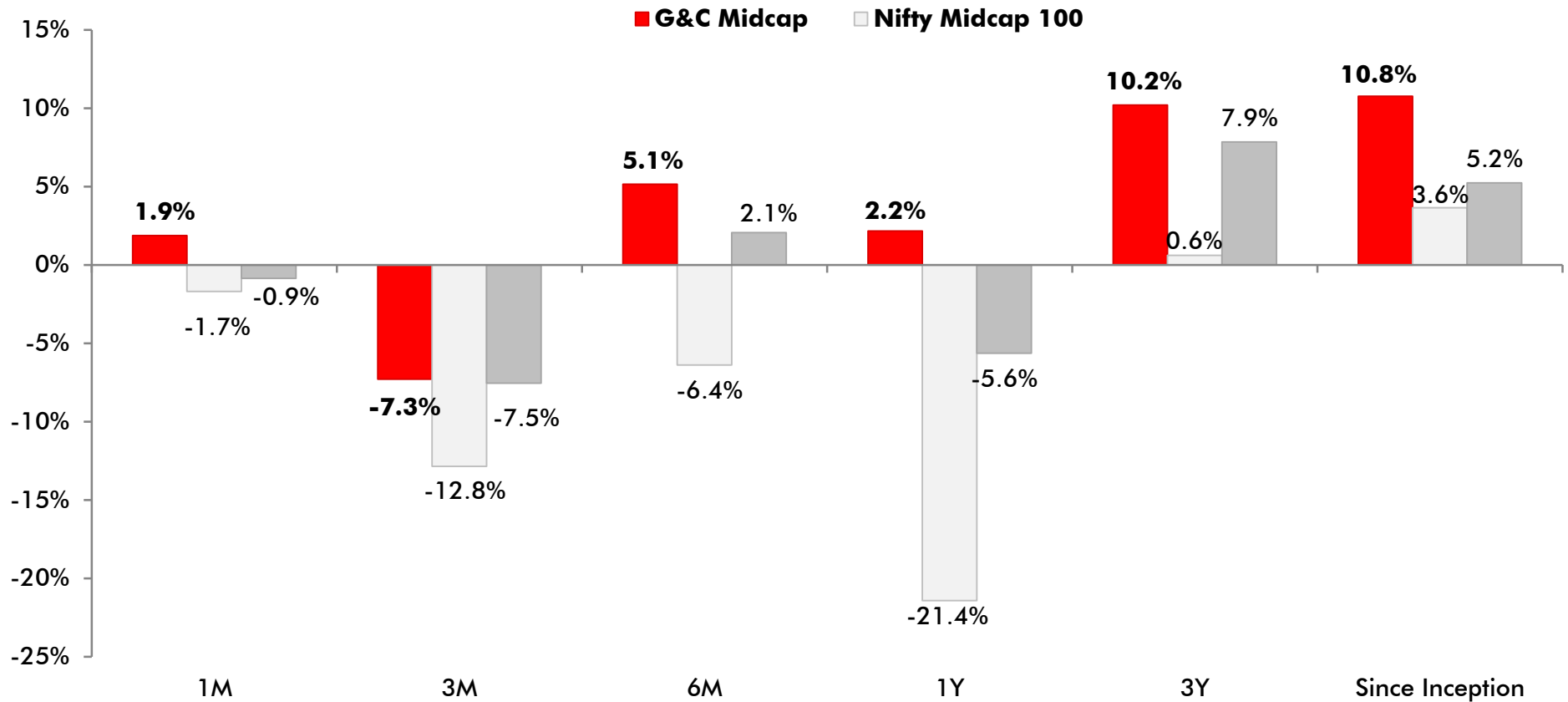
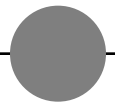
## Superior risk adjusted returns and drawdown track record

| Performance (since inception) | Net Returns (CAGR) | Standard Deviation | Sharpe Ratio | Maximum Drawdown |
|-------------------------------|--------------------|--------------------|--------------|------------------|
| G&C Midcap                    | 18.4%              | 13.9%              | 0.82         | -13%             |
| Nifty Midcap 100              | 11.7%              | 18.5%              | -0.25        | -26%             |

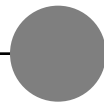
Source: Ambit

Note: **Performance is post all fees and charges;** Date of inception of the Good & Clean model portfolios is 19 Jan' 12, while that of the domestic fund is 12 Mar'15. Hence performance till 12Mar'15 is that of the model portfolio, and from 12Mar15 is that of the live fund. Return as of August 31, 2019.

# Live track record – Ambit Good & Clean MidCap Fund



Portfolio inception date is March 12, 2015; Returns as of August 31, 2019; Returns above one year is annualized; **Performance is post all fees and charges**



# Asset Management Team



**SUSHANT BHANSALI**  
CEO – Asset Management

- Sushant Bhansali is the CEO of Asset Management business and a member of Ambit's Executive Committee. He has been with the firm for more than 11 years with a total industry experience of 18 years.
- Prior to this, he was heading the Principal Investment business where he cut his teeth investing in listed equities from Ambit's Balance Sheet. During the six year period the team delivered superlative returns investing primarily in small and mid cap listed Indian companies surpassing benchmark returns by a mile. The team followed a highly concentrated portfolio strategy investing in high conviction ideas on an opportunistic basis.
- Sushant began his career at Ambit with the Group CEOs office where he spent close to five years working on various transactions advising clients on M&A and capital raise. He also participated in development of various new business verticals, hiring teams, joint ventures, leadership initiatives and maiden private equity capital raise for the firm.
- Before joining Ambit he worked with global firms such as MSCI Inc and PricewaterhouseCoopers for close to six years.
- Sushant is a rank holder qualified Chartered Accountant and a PGD in Business Management from Indian School of Business(ISB).



**SIDDHARTHA RASTOGI**  
Managing Director – Asset Management

- Siddhartha Rastogi, is Managing Director with AMBIT Asset Management. He has 2 decades of Financial Services experience and last ~10 years with Ambit. Siddhartha was the founding member of IIFL Wealth & prior to that was Branch Head of HSBC Peddar Road Branch, biggest Wealth Branch in the Country. Siddhartha has also worked with Citibank & UTI bank in Wealth Management & merchant banking roles.
- He is an Honors Graduate in Commerce from Delhi University, Company Secretary (Intermediate) and Post Graduate in Finance & strategy from Narsee Monjee Management Institute, Mumbai.

**Ambit Asset Management**



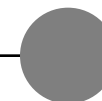
**AISHVARYA DADHEECH, CFA**  
Fund Manger – Asset Management

- With over 12 years of experience in Indian equities, Aishvarya has been managing Ambit Group's proprietary book for the last 2 years. He has a rich experience of fund management under Good & Clean Framework
- Prior to that he was with Reliance Life Insurance as Equity Fund manager managing their investments for almost 7 years. Being in Insurance his outlook was always long term and embedded with quality. There he had consistently outperformed the benchmark index and achieved internal targets. Prior to that he was with Crisil as a Equity and Credit Research Analyst for over 3 years
- He is a qualified Chartered Accountant (India, 2009) and MBA Finance. Aishvarya is also a CFA charter holder from CFA Institute, USA. He holds a bachelor degree in Accounting (Honors) from St. Xavier's College, Kolkata



**MANISH JAIN**  
Fund Manager - Asset Management

- Manish over 15 years of experience in deep dive equity research
- He has worked with Nomura for 10 years as lead analyst covering FMCG, electrical durable & retail Sectors. He was amongst the best performing analyst in the research team with consistently strong votes from ADIA, Capital World (Ranked No 1 for four years in running), Capital International (for strong corporate access), FIL, FMR, Wellington, William Blair, Mirae, UBS, Morgan Stanley, TIAA CREF, Putnam, GSAM, Allianz, Alliance Bernstein, Lion Global, ICICI MF, ICICI Life, SBI MF, Birla MF, DSP, Franklin Templeton, amongst others
- He holds an MBA in Finance



## **Construct & Structure**

|                           |  |
|---------------------------|--|
| Fund Type                 | SEBI Registered PMS  |
| Fund Tenure               | Open Ended   |
| Structure                 | Discretionary PMS  |
| Minimum investment        | INR 25 lacs  |
| Stock selection           | Investible universe is stocks that perform well on the two frameworks noted earlier. A further subjective assessment then leads to a more concentrated stock portfolio |
| Number of stocks          | <20  |
|                           | 25% per sector, 10% per stock  |
|                           | All cap with 'Nifty Midcap 100' as the benchmark   |
| Time horizon and turnover | The investment horizon is 1-3 years and longer; turnover therefore should not exceed 30-35% in a year  |
| Cash calls                | Not to take aggressive cash calls; this is keeping in mind the longer term investment horizon of the fund and is suitable from a taxation standpoint                   |

## Overview

- Founded in 1997 as a boutique M&A Advisory firm, added various offerings over two decades to become a full service India focused Investment Bank
- Deep coverage of large and mid-cap Indian Corporates and key India focused Global Corporates
- Strong corporate governance with clear demarcation between ownership, governance and management. Owned largely by employees
- Stable experienced team of 450+ employees
- Statutory Auditors: Deloitte Haskins & Sells
- Global presence with offices in Mumbai, Delhi, Bangalore, London, New York and Singapore

## Global Partnerships



Strategic business alliance for mergers and acquisitions advisory services in Indo-Japan corridor



Strategic partnership with QInvest offers a broad range of expertise to deliver high value service, seamlessly covering client needs across Middle East, Turkey, South and South East Asia, and Africa

## Business Verticals

### ASSET MANAGEMENT

- Portfolio Management Services

### CORPORATE FINANCE

- Mergers & Acquisitions (M&A) and Divestures
- Alternative Capital Raising
- Equity Capital Markets (ECM)

### INSTITUTIONAL EQUITIES

- Differentiated research/Bespoke strategies
- Derivatives and Technical analysis
- Block Trading

### PRINCIPAL INVESTMENT

- Investing in high potential value discovery stories
- Small-Cap and Mid-Cap Public Companies

### PRIVATE WEALTH

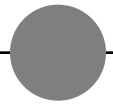
- Proprietary Investment Products
- Open Architecture Model
- Asset Allocation, Tax and Estate Planning

### SME FINANCE

- Small Business Loans
- Loans against Properties

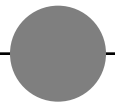
### STRUCTURED FINANCE

- Lending Solutions
- Loan Syndication



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