

September 2019



**Portfolio Management Services**

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



## 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

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



### Coffee Can PMS

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



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

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



## 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)



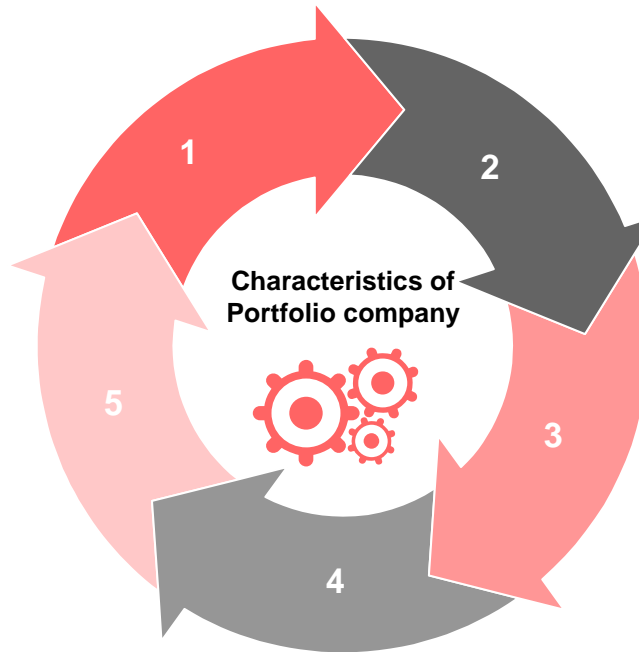
## 2 Strong Corporate Governance

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



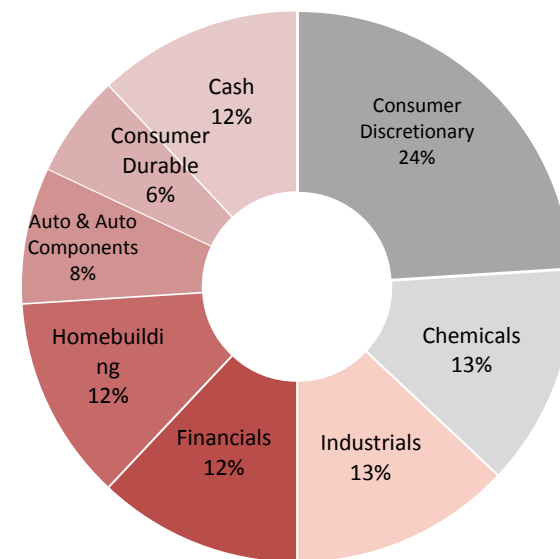
## 3 Market Leaders

- 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



# Portfolio Composition & Characteristics

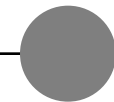
- ❑ Stellar track records of capital allocation in terms of RoE
- ❑ Low debt with the median portfolio company cash positive
- ❑ Median market cap of the portfolio is ~Rs1,700 cr.
- ❑ Growth potential above the comparable index
- ❑ Reasonable valuations for quality stocks



Comparison with Indexes	Net Debt/Equity	P/E		Past 5Y Growth		RoE
	FY18	FY19	FY20E	Revenue	PAT	Current
<b>Emerging Giants</b>	<b>(-0.1x)</b>	<b>25x</b>	<b>18x</b>	<b>10%</b>	<b>19%</b>	<b>20%</b>
BSE Smallcap	1.6x	21x	16x	4%	13%*	1.3%
Nifty	1.2x	23x	18x	8%	5%	12%

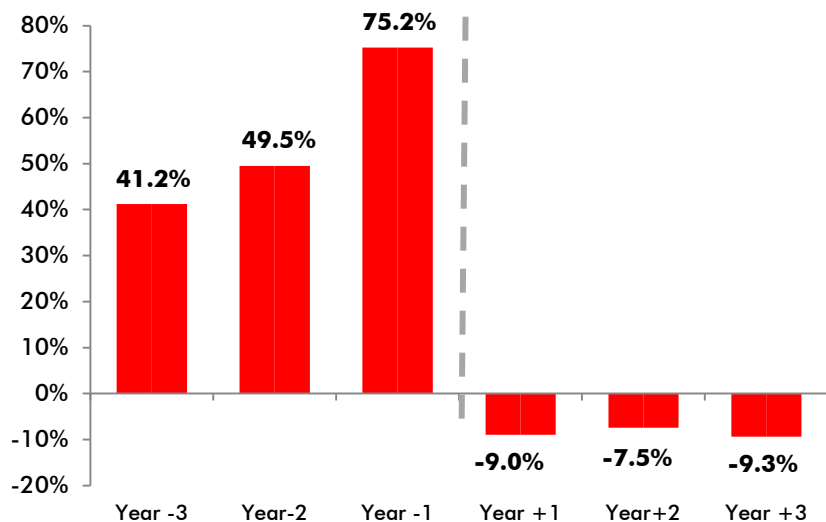
Source: Company, Ambit Capital Research; All Portfolio statistics are weighted average except for Debt/equity; Blended forwards are based on Ambit estimates, \* PAT growth for BSE Small Cap is based on positive earnings;

# Why Small caps?



- **The BSE500 experiences heavy annual churn:** On average, as much as 30% of the BSE 500 constituents get churned over a 5 year period\*
- Moreover, the bulk of the outperformance for BSE500 entrants **occurs prior** to their entry in the index!

## Relative performance of BSE500 inclusions pre and post inclusion



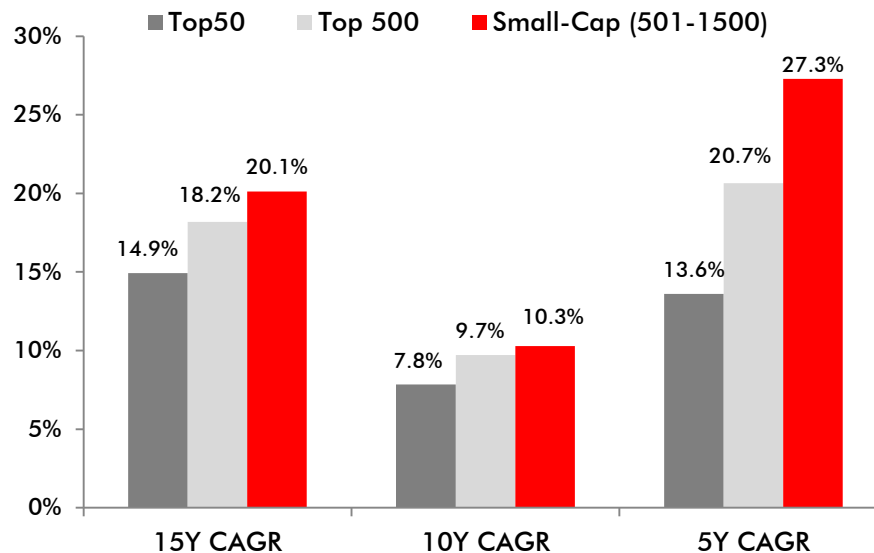
■ Median CAGR of BSE 500 Inclusions (Relative to BSE 500)

Source: Ace Equity, Ambit Capital Research. Relative returns (to BSE 500) are medians CAGR of stocks that have been included in the BSE 500. For prior returns, returns are measured until 1 quarter preceding the quarter of entry .

Period of BSE500 constituent data analyzed – 2002-2018. Only firms with both pre and & post inclusion pricing data are considered.

\*Annual 5 Year churn over 2002-2013 (closing period ends in 2018)

## Small caps have outperformed their larger peers historically in India

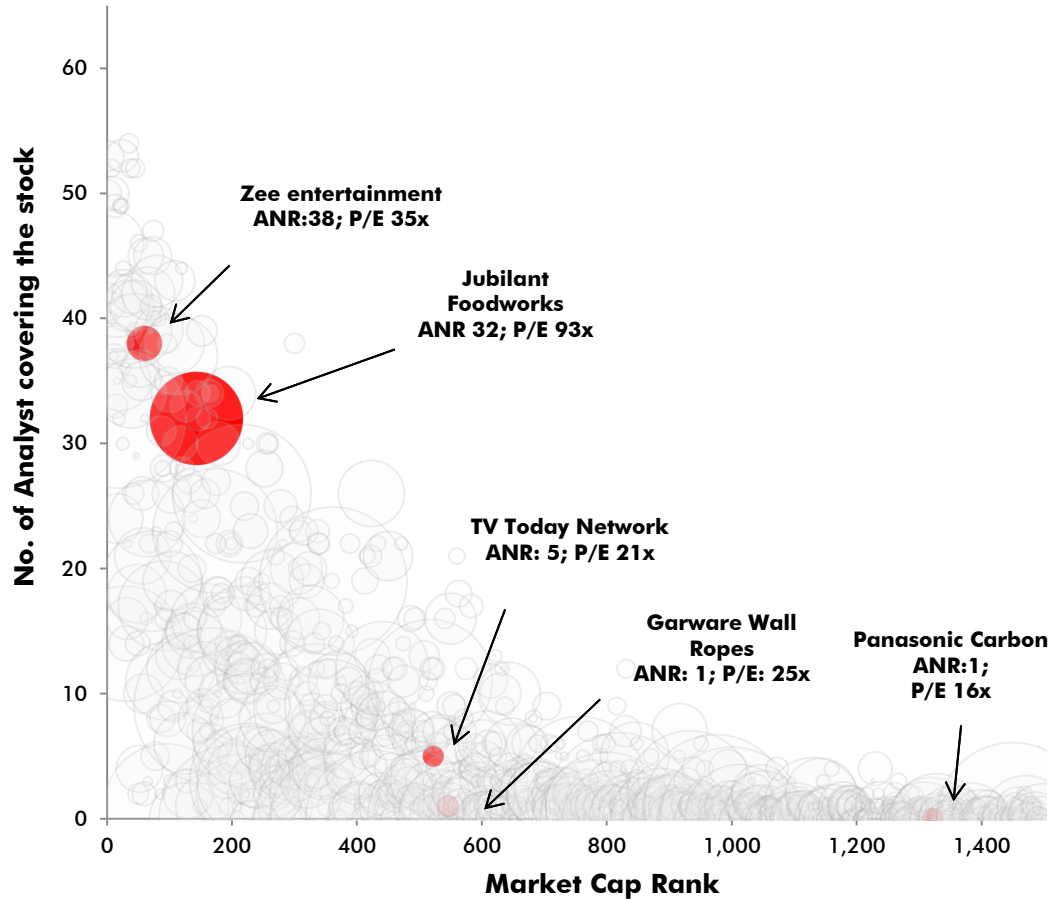


Source: Ace Equity, Ambit Capital Research. Ending Period June 30, 2018.

Method: We calculate returns by assuming a purchase of three baskets of stocks – Top 50 (largest 50 stocks by market-cap), Top 500 (largest 500 stocks by market-cap) and Small-caps (501-1500 ranked stocks by market-cap). Stocks are rebalanced annually each July end as per the bucket criteria over July'2003-June'2018. Equal amounts are assumed to be allocated to each stock. Dividends received are reinvested; Transaction costs assumed: 3% for Small-caps; 1% for Top500 and 0.5% for Top50;

# Price discovery is inefficient in small caps

Smallcaps are largely undiscovered with low analyst coverage and lower liquidity resulting in valuation disconnect with fundamentals



Size of Bubble signifies FY2018 P/E Ratio (x)  
ANR refers to No. of analyst covering a particular stock

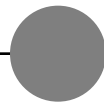
Source: Ambit Capital Research.

- ❑ **Under-owned with low Institutional ownership**  
Large-Caps, with an Institutional ownership of ~55% are over-owned by Mutual Funds & FII's vs. ~10% in case of Small-caps
- ❑ **Un-discovered with low analyst coverage:**  
On average only 1 analyst cover a small-cap stock vs. 37 analyst coverage for large-caps
- ❑ **Low Liquidity is a challenge**  
Daily Trade Volume of a Large-Cap company is Rs 300 Cr. whereas for small-cap its just Rs 1.3 Cr.



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

# The Ambit framework for small-cap investing

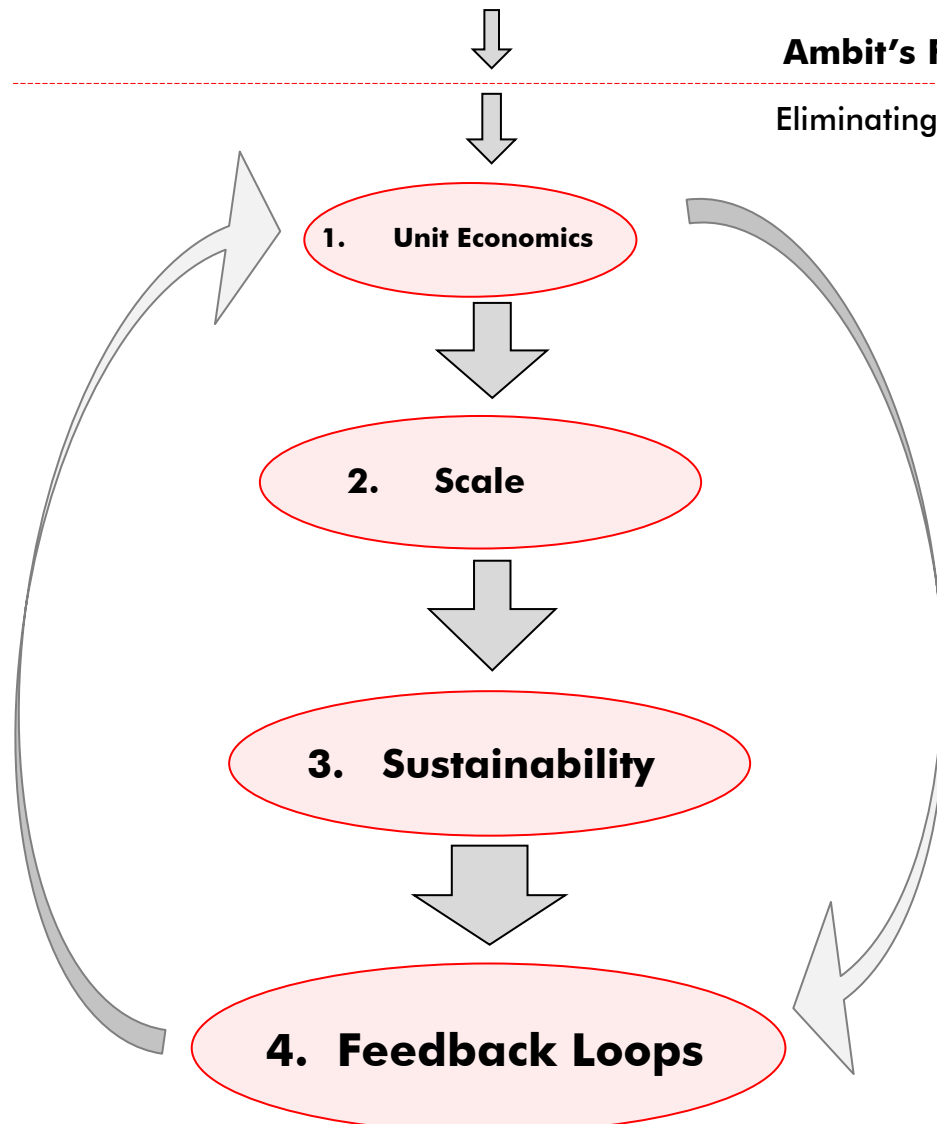


**Small-cap Universe**  
Stocks with a Market Cap between INR1-40bn

~1300 stocks

## Ambit's Forensic Accounting Screen

Eliminating companies with dubious accounting practices



### Profitability per unit

- Do the unit economics make sense?

### Growth runway

- How scalable are the company's operations?

### Viability of underlying business model

- Does the company generate enough funds to sustain the business?

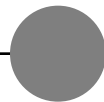
### Cash generation

- Does sales growth translate into cash?

### Virtuous cycle effect

- Is greater scale leading to greater asset efficiency?





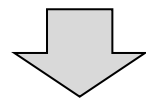
**Small-cap Universe**  
*Stocks with a Market Cap between INR1-40bn*

## Ambit's Forensic Accounting Screen

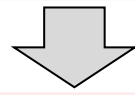
Eliminating companies with dubious accounting practices

### ❑ Filtering Process

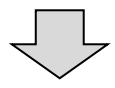
- 1. Ambit's Forensic Accounting Screen:** *Eliminating 'Zone of Darkness' candidates.*
- 2. 50<sup>th</sup> Percentile Hurdle on each of the 5 parameters:** *Selecting companies well rounded in each parameter.*
- 3. Total Percentile Rank > 80%:** *An additional filter to make sure that only the best are selected.*
- 4. RoCE > 12%:** *Eliminating companies struggling to cover their cost of capital.*
- 5. Net Debt-Equity Ratio < 1.5x:** *Eliminating debt-laden companies.*



- 50%+ on each Parameter
- 80<sup>th</sup> Percentile Overall
- Filters for RoCE +
- Debt ratios



- Bottom-up stock research
  - Industry analysis



- Channel checks & management meets

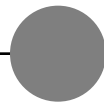


15 - 17 stocks

**Ambit G&C Smallcap (Emerging Giants)**

Constant monitoring & review

# Ambit's Forensic Accounting Framework



**Ambit's forensic accounting framework helps steer clear of Small-caps with dubious financials**

## 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

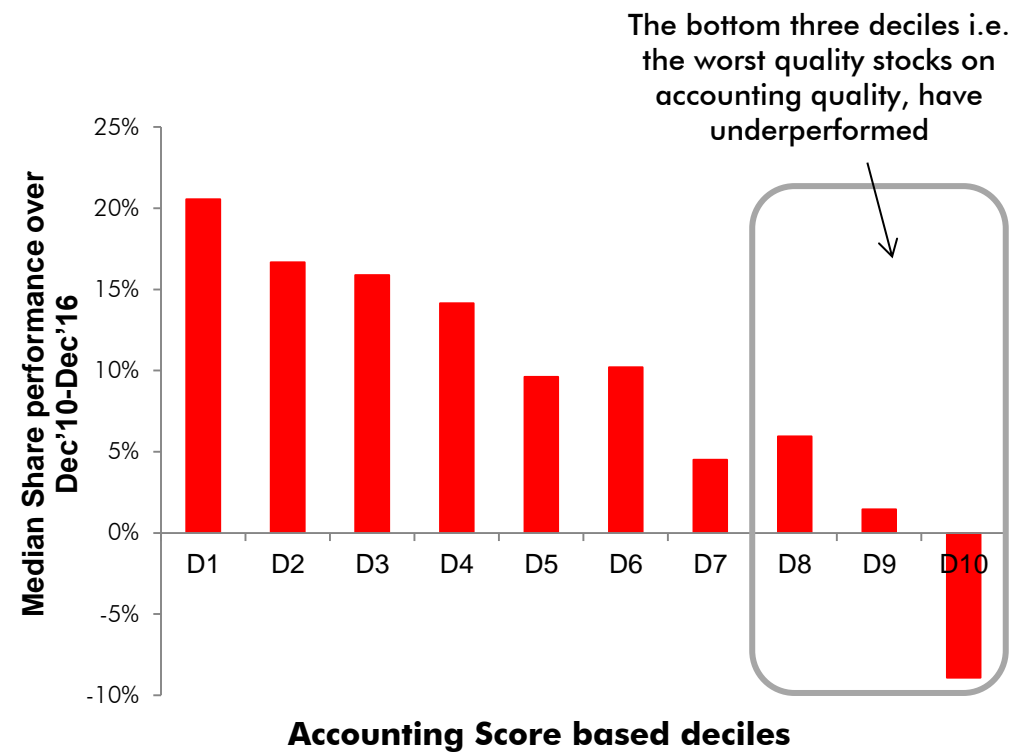
### Auditor Quality

- High auditor remuneration

### Methodology

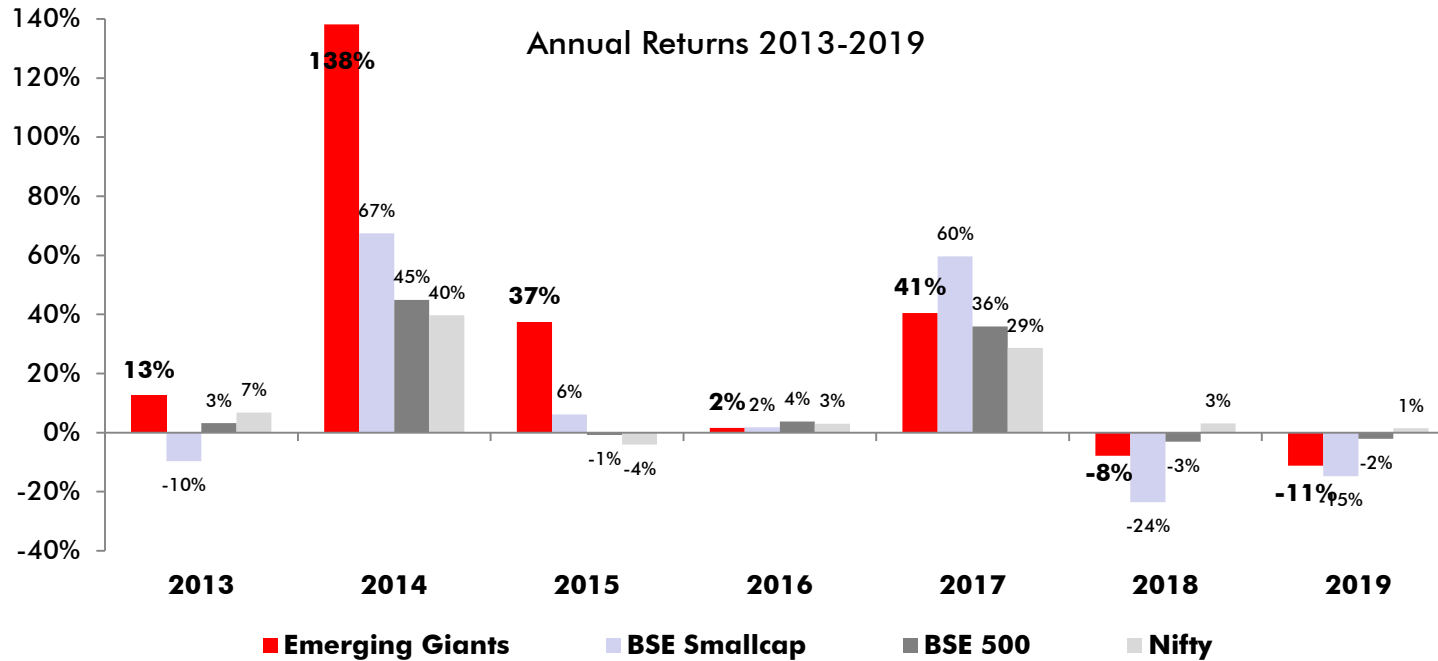
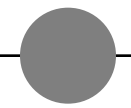
We look at six years of consolidated financials for the BSE500 universe of firms. We first rank stocks on each of the 11 ratios individually (outlined in the table on the left) within a sector. These ranks are then cumulated across parameters to give a final pecking order on accounting quality for stocks within each sector

**Within sub-BSE500 firms, accounting quality drives investment performance**



Source: Ambit Capital research; Note: This chart plots the median share price performance of sub-BSE500 firms with median accounting scores for deciles constructed only on the basis of accounting quality. Period: Dec'10-Dec'16

# Backtest Results, Sharpe Ratio and Drawdown

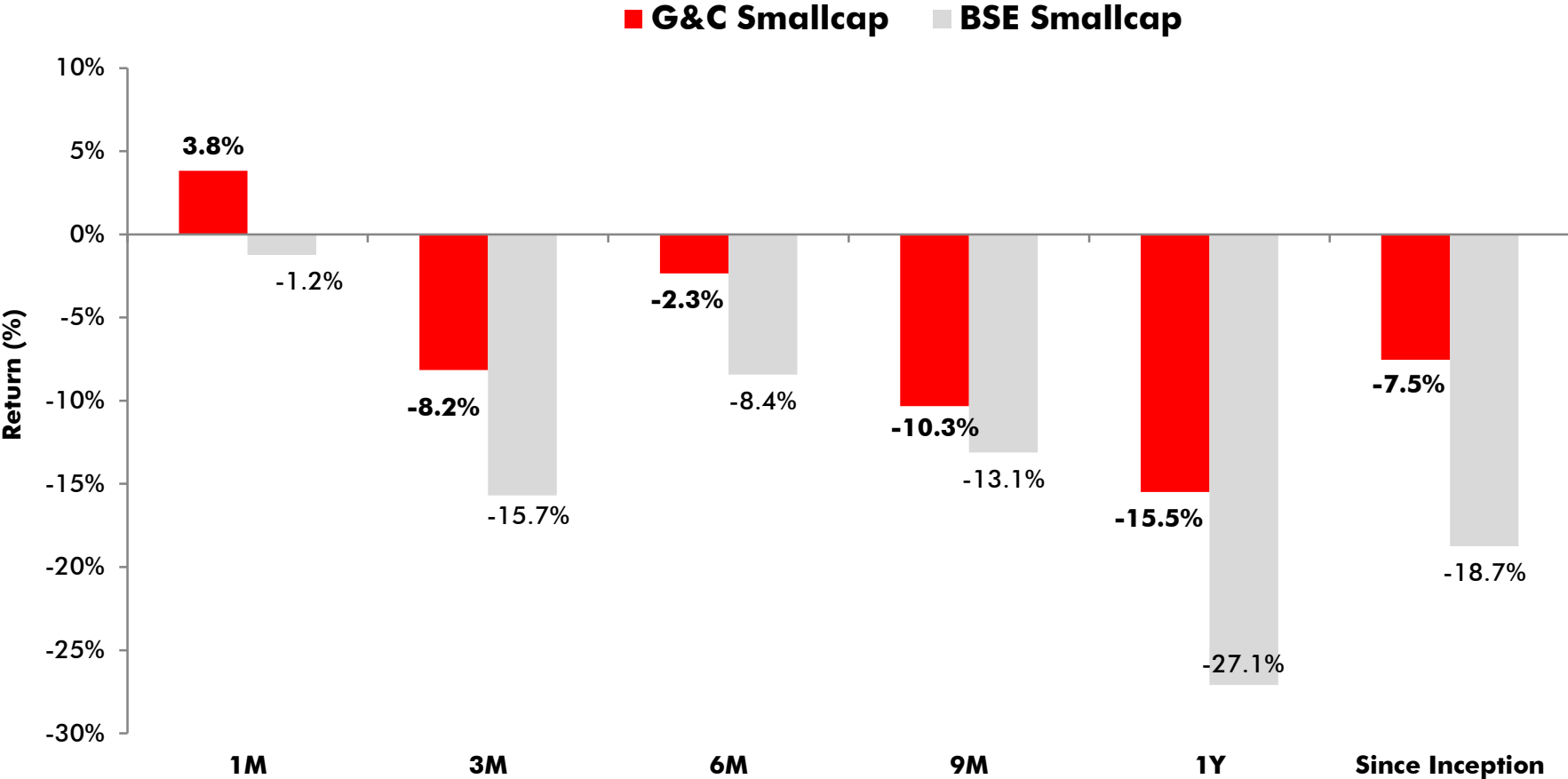
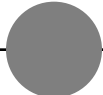


**In 10 years, Rs. 1cr invested with G&C portfolio would have become 8cr vs. 2.2cr with BSE Smallcap**

Performance (2013-19)	Net Returns* (CAGR)	Standard Deviation	Sharpe Ratio	Maximum Drawdown
Emerging Giants	23.2%	21%	0.76	-23%
BSE Smallcap	7.8%	20%	0.04	-35%
BSE 500	9.9%	14%	0.20	-20%
Nifty	9.8%	14%	0.21	-22%

- Method: Stocks are rebalanced December-end on an annual basis. Equal amounts are assumed to be allocated to each stock. Stocks are selected as per the model framework and filters. Results are calculated on a CAGR basis. Final Period ends on August' 31 2019.
- Returns include dividends reinvested and are net of assumed transaction costs (3% for Portfolio).

Source: Ace Equity, Ambit Capital Research. \*Median Returns are for the portfolio only. All returns are net of assumed transaction costs and include reinvested dividends.



Note: **Performance post all fees and charges**; Portfolio inception date is Dec 1, 2017; Returns as of August 31, 2019;



**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.



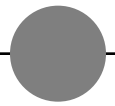
**AISHVARYA DADHEECH, CFA**  
Fund Manger – Asset Management

- 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



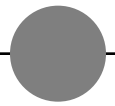
**MANISH JAIN**  
Fund Manager - Asset Management

- 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



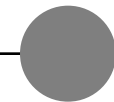
## **Construct & Structure**

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 BSE Smallcap 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

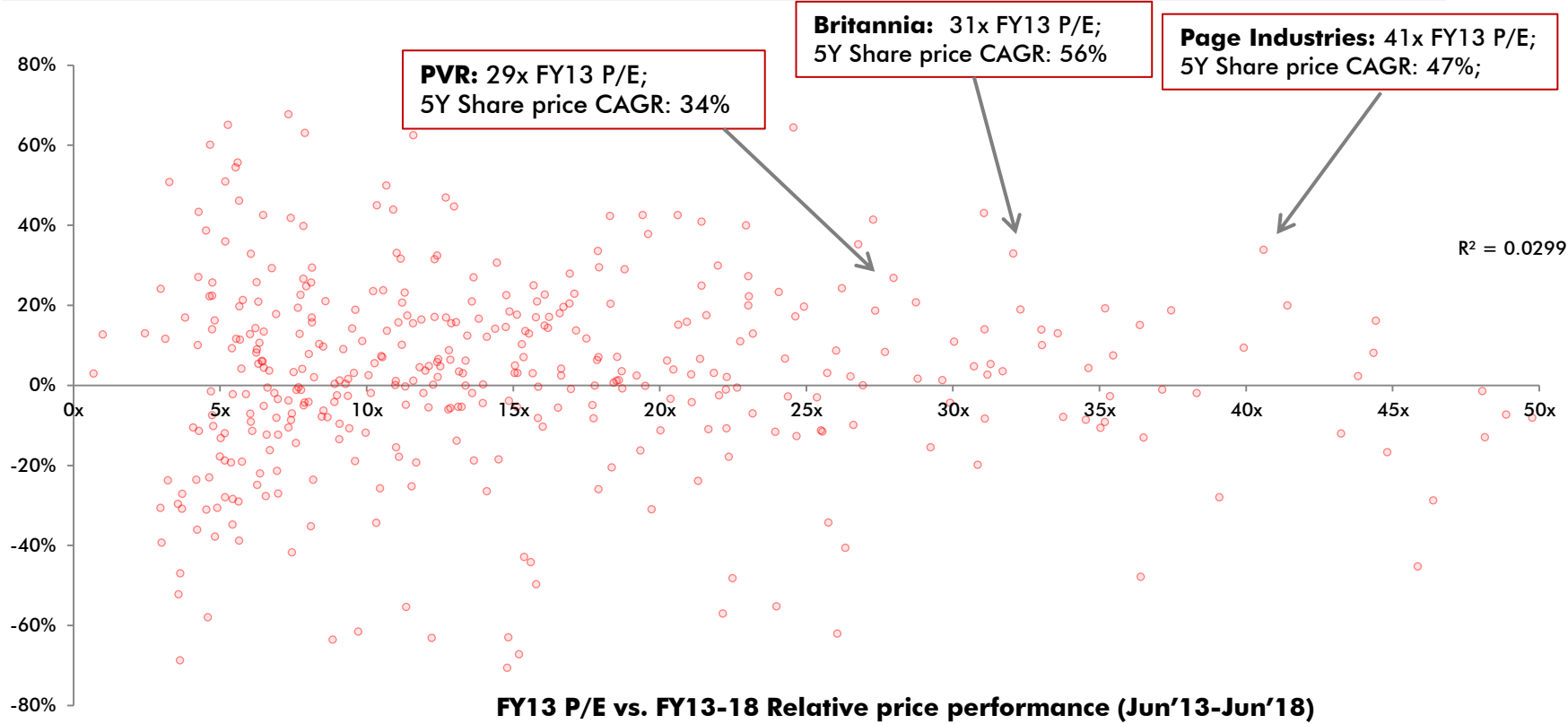


# Appendix

# For long term investors, valuations less meaningful for large cap investing



**A comprehensive analysis of Large cap stock returns reveal a poor correlation with starting valuations**

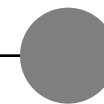


Source: Ace Equity

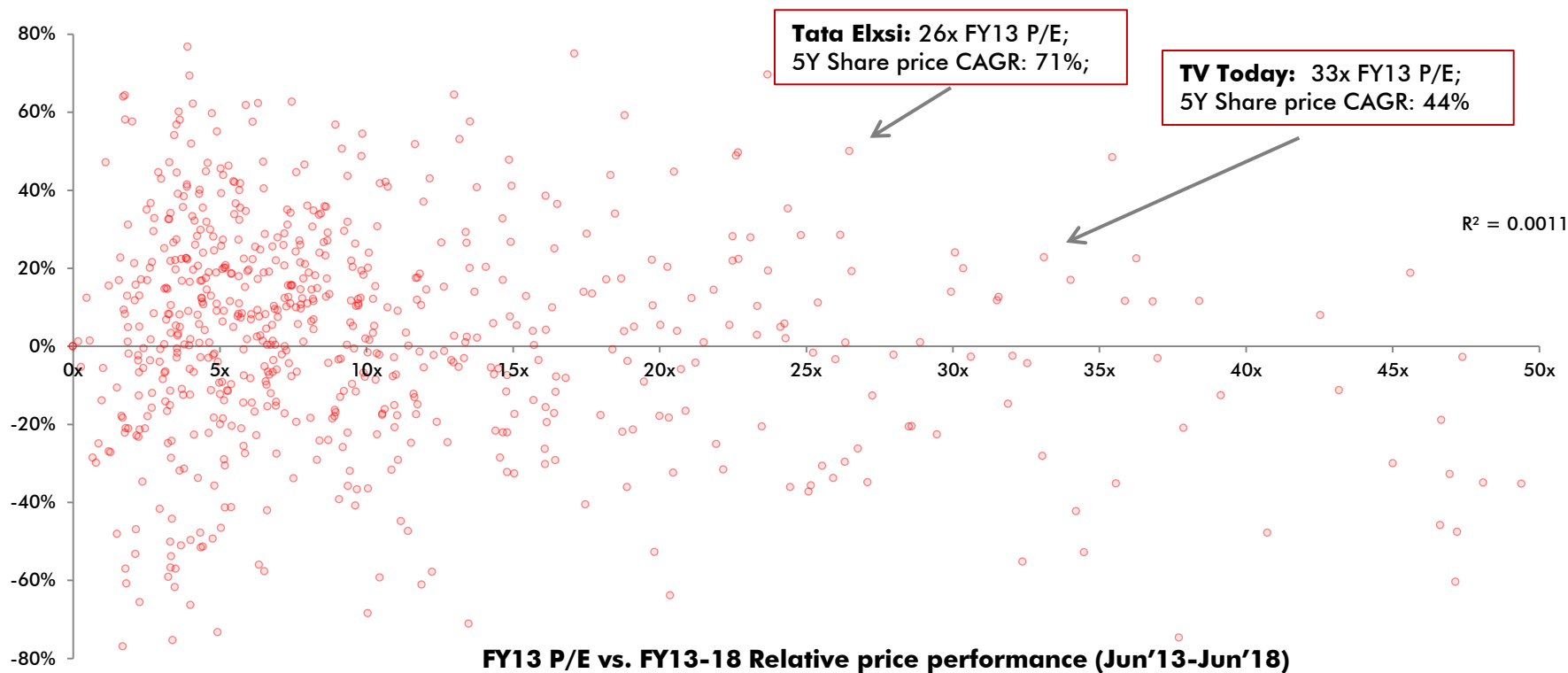
- Note: i) Large cap universe analyzed – Top 500 companies ranked by market cap;
- ii) Only positive P/Es were considered for this analysis; P/Es with a value greater than 100x are bounded at 100x;
- iii) Stock returns are 5Y CAGR price returns relative to that of the Nifty Index



# Similarly, for long term investors, valuations less relevant for small cap investing as well



**A comprehensive analysis of small cap stock returns reveal a poor correlation with starting valuations**



Source: Ace Equity

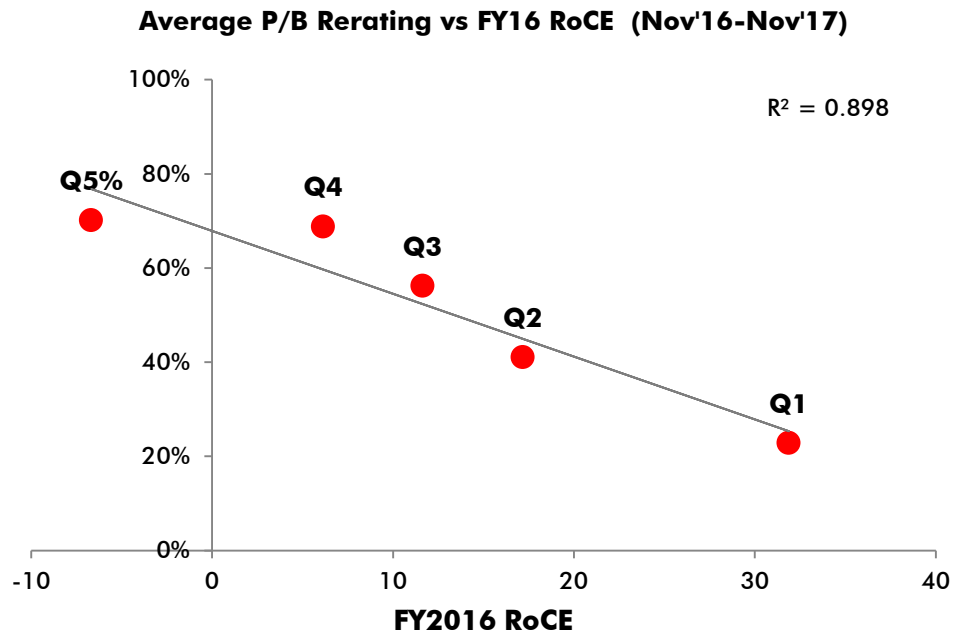
Note: i) Small cap universe analyzed – 500th-1500<sup>th</sup> ranked companies by market cap in India;

ii) Only positive P/Es were considered for this analysis; P/Es with a value greater than 100x are bounded at 100x;

iii) Stock returns are 5Y CAGR price returns relative to that of the BSE Small cap index

# The bulk of the run up in 2017 was in poor quality stocks..

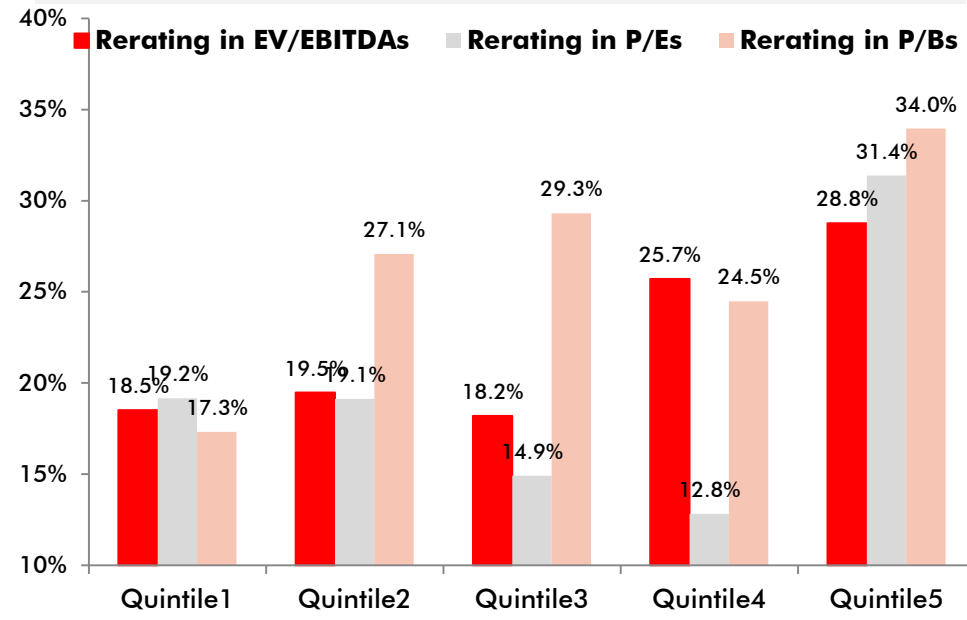
Moreover, the major small cap rerating this year has predominantly played out in firms with poor RoCEs



Source: Ace Equity; Note: (i) Universe – Ambit’s sub-BSE500 HAWK universe (~900 stocks); (ii) Q1 = Top 20% percentile in FY2016 RoCE; (iii) Negative P/B ratios are excluded;

- Poor quality firms (on FY2016 RoCEs) have seen the highest rerating, with the worst quintile seeing an ~80% jump in their multiples on average

Similarly, small caps with good accounting quality continue to be ignored in the current environment



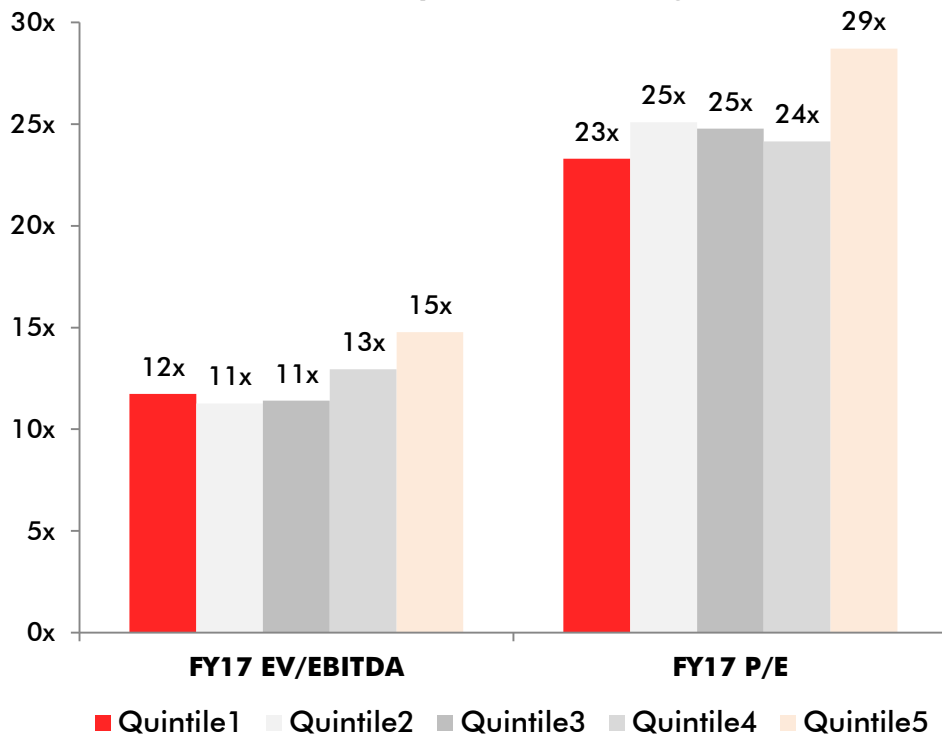
Source: Ace Equity; Note: (i) Universe – Ambit’s sub-BSE500 HAWK universe (~900 stocks); (ii) Q1 = Top 20% Accounting Quality; Period – Nov’16: Nov’17’. Figures are median reratings

- Firms with poor accounting have seen their stocks rerate the highest over the past year on a P/B, EV/EBITDA and P/E basis.

# ..while quality small caps remained reasonably priced

Small caps with good accounting quality trade at a discount to firms in the lowest quality quintile

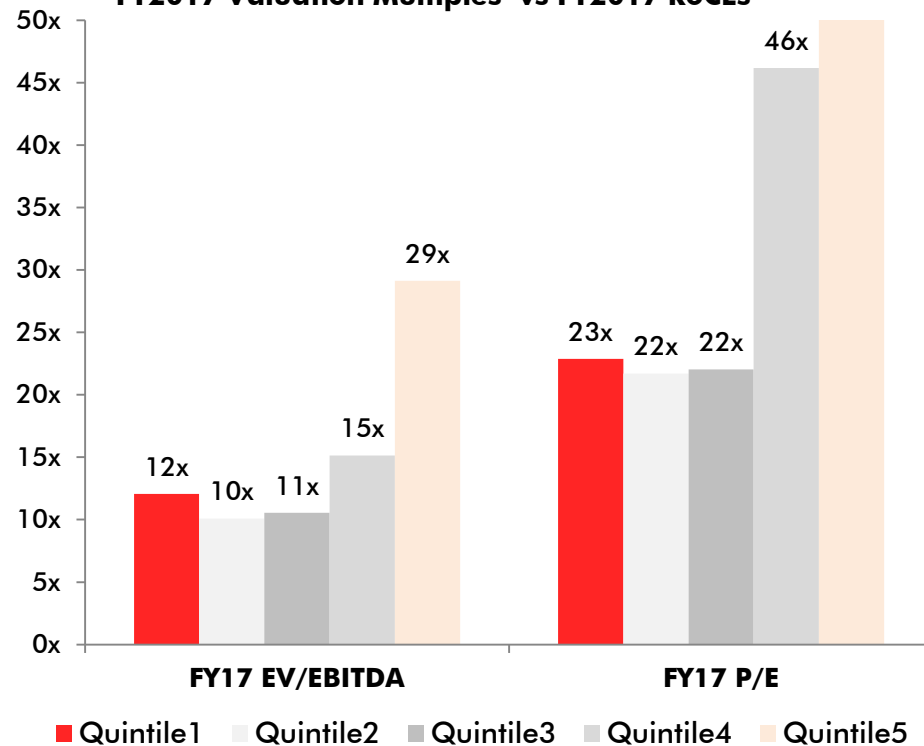
FY2017 Valuation Multiples vs Accounting Quintiles



Source: Ace Equity; Note: (i) Universe – Ambit’s sub-BSE500 HAWK universe (~900 stocks); (ii) Q1 = Top 20% Accounting Quality; (iii) Negative P/E and EV/EBITDA ratios are excluded; (iv) Data as of Nov 30 2017

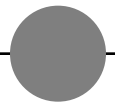
Similarly, small caps with high returns on capital remain amongst the least expensive

FY2017 Valuation Multiples vs FY2017 RoCEs

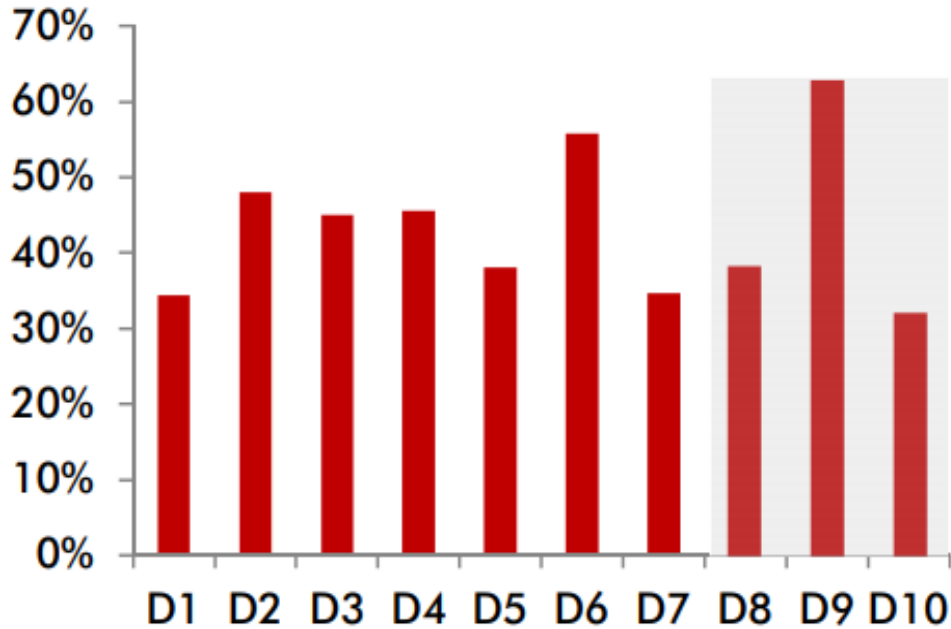


Source: Ace Equity; Note: (i) Universe – Ambit’s sub-BSE500 HAWK universe (~900 stocks); (ii) Q1 = Top 20% in RoCEs; (iii) Negative P/E and EV/EBITDA ratios are excluded; (iv) Data as of Nov 30 2017 (V). Quintile 5- P/E ratio stands at 211x

# Poor quality firms were massive underperformers in recent market correction

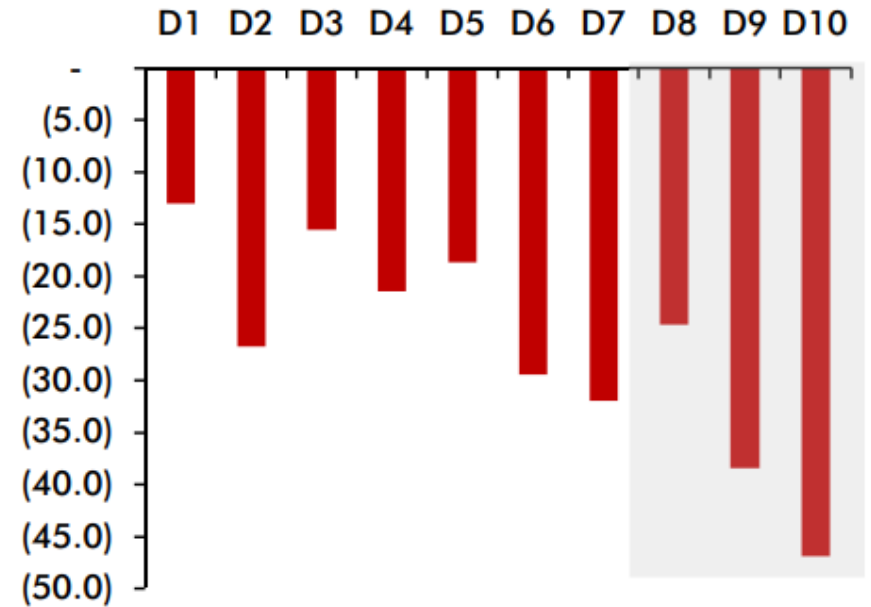


Investors shunned accounting quality during the liquidity-driven market rally of CY17...



Source: Ambit Capital research. Note: universe for this exhibit is the BSE500 ex-financial universe. Performance has been calculated from 15 Dec'16 to 15 Dec'17. These are average returns for the deciles.

...but firms with poor accounting quality corrected sharply in a more normal marker scenario of CY18



Source: Ambit Capital research. Note: universe for this exhibit is the BSE500 ex financial universe. Performance has been calculated from 20 Dec'17 to 07 Dec'18. These are average returns for the deciles.

## 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

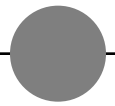
- Proprietary Investment Products
- Open Architecture Model
- Asset Allocation, Tax and Estate Planning

### SME FINANCE

- Small Business Loans
- Loans against Properties

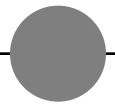
### STRUCTURED FINANCE

- Lending Solutions
- Loan Syndication



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