

January 2018



AMBIT
Acumen at work

Coffee Can PMS

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External disruptions

GST

Ecommerce

Demonetisation

RERA

Payment
banks

Corporate
Bond Mkt

Electric
Vehicles

Donald
Trump!

Internal disruptions

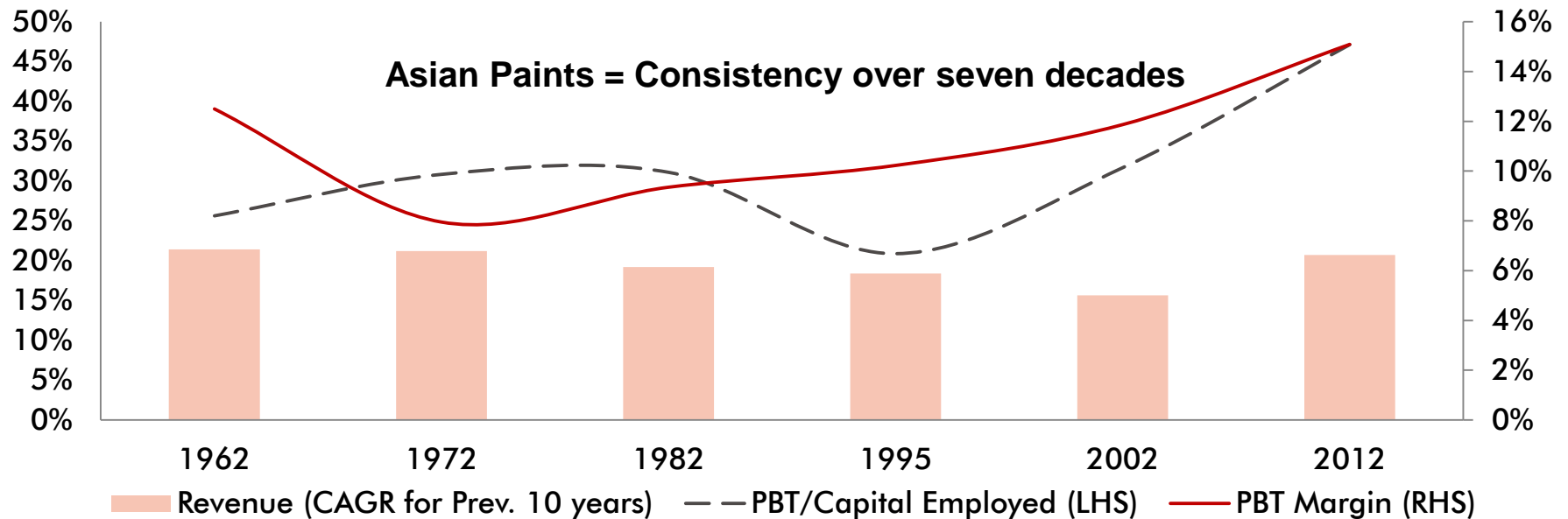
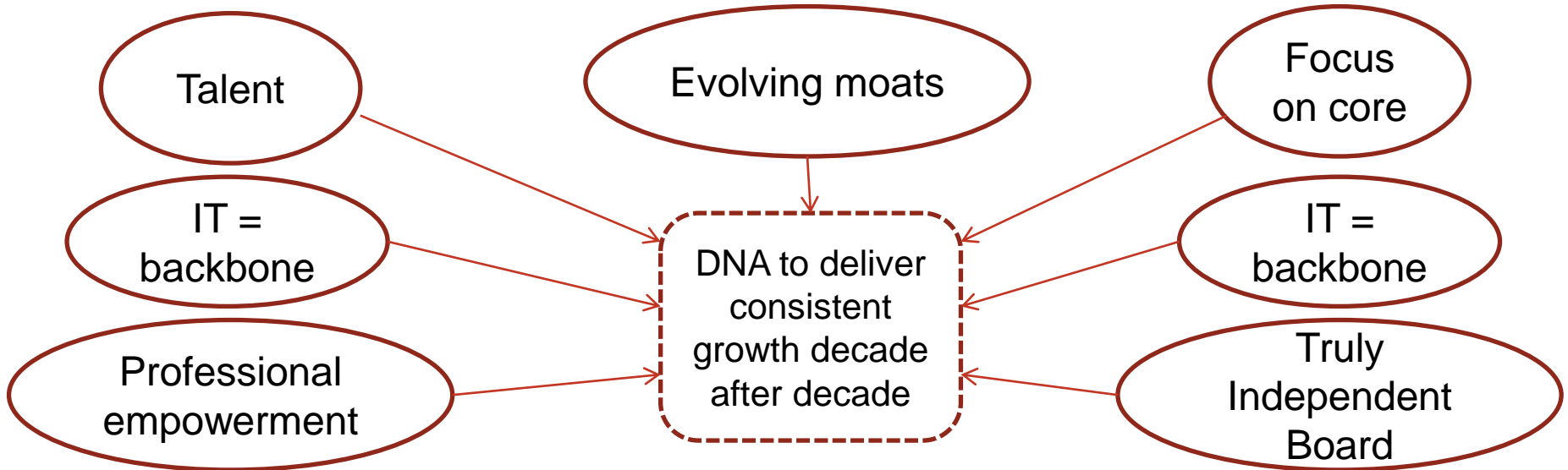
Promoter's
succession

Management
changes

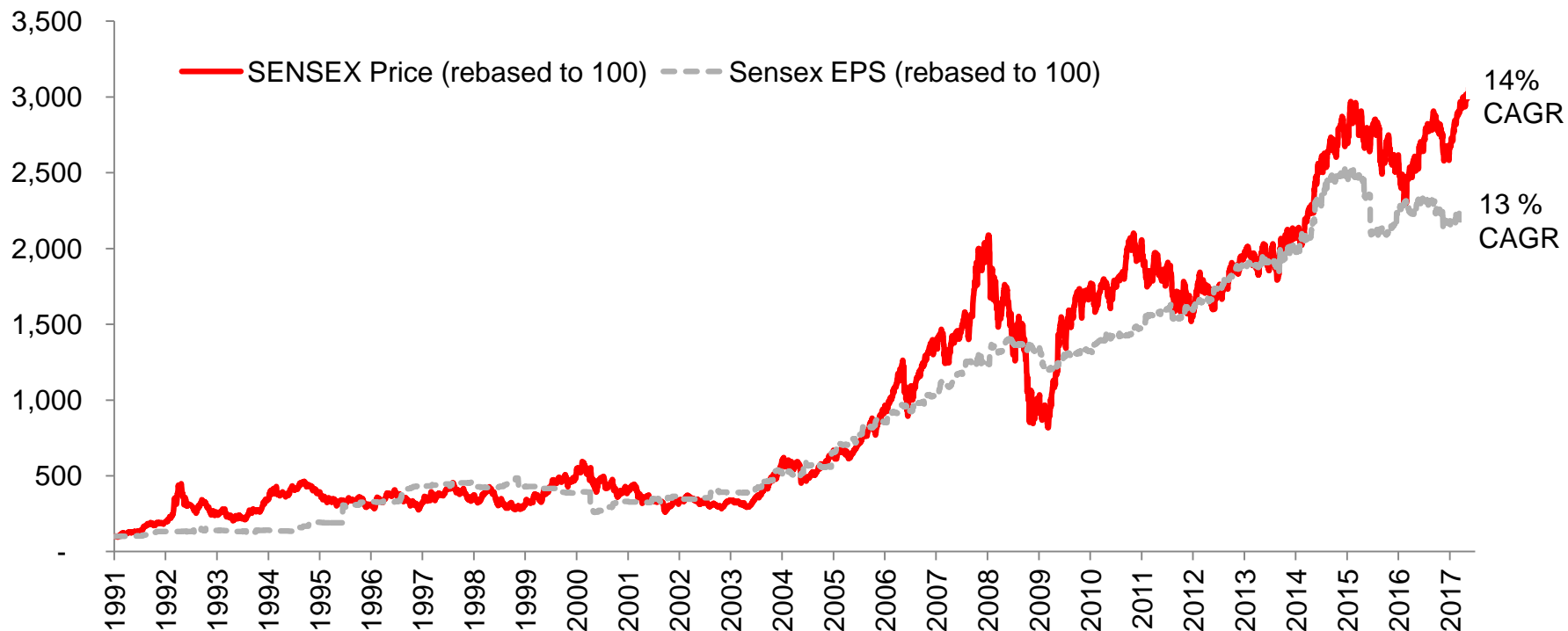
Lack of professional
empowerment

Complexities of scale –
poor systems / processes

Capital
misallocation



Earnings growth is the biggest driver of share prices



Period	Share price (Rs)	Mkt Cap (Rs cr)	Trailing EPS	Trailing P/E (x)
Jul-07	410	458	15	27
Jul-17	16,737	18,690	239	70
CAGR	45%	45%	32%	10%

Source: Bloomberg, Company, Ambit Capital

Earnings contributed to ~80% of the share price growth

“Which company’s stock should I buy?”

“For how long should I hold this stock?”

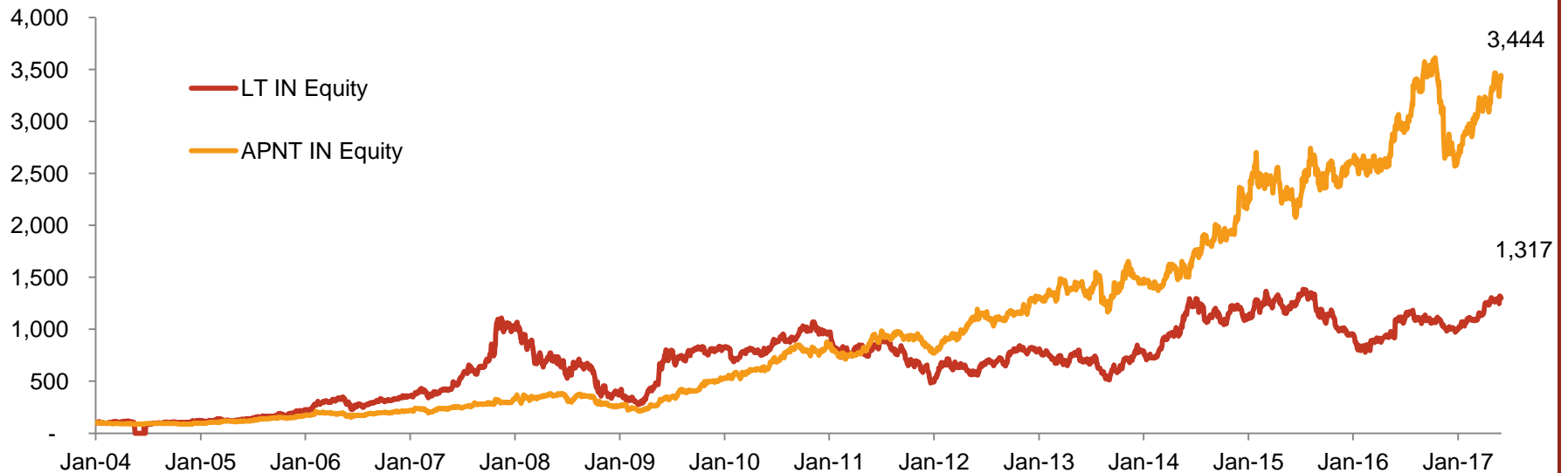
Type 1:

Volatile earnings
(could be due to
external or
internal factors)

Type 2:
Consistent
earnings

Type 1:
Time it well

Type 2:
Forever (as long
as its competitive
strengths
sustain)



Coverage universe = 35 stocks with > 10 years historical track record of consistency

Consistently > 10% YoY revenue growth

Consistently > 15% ROCE

Our competitive advantage = Deep understanding of organizational DNA

Will the firm sustain **CONSISTENCY** of growth in future (more than a decade)?

Marry valuations with longevity

Portfolio composition = Concentrated portfolio of 10-15 stocks

Churn = <1 stock per year on average

Prefer structural plays over cyclicals

- We CANNOT time commodity cycles
- We CANNOT time government capital expenditure cycles
- We CANNOT forecast macro-economics
- We UNDERSTAND micro-economics
- We UNDERSTAND Company Specific Growth Drivers

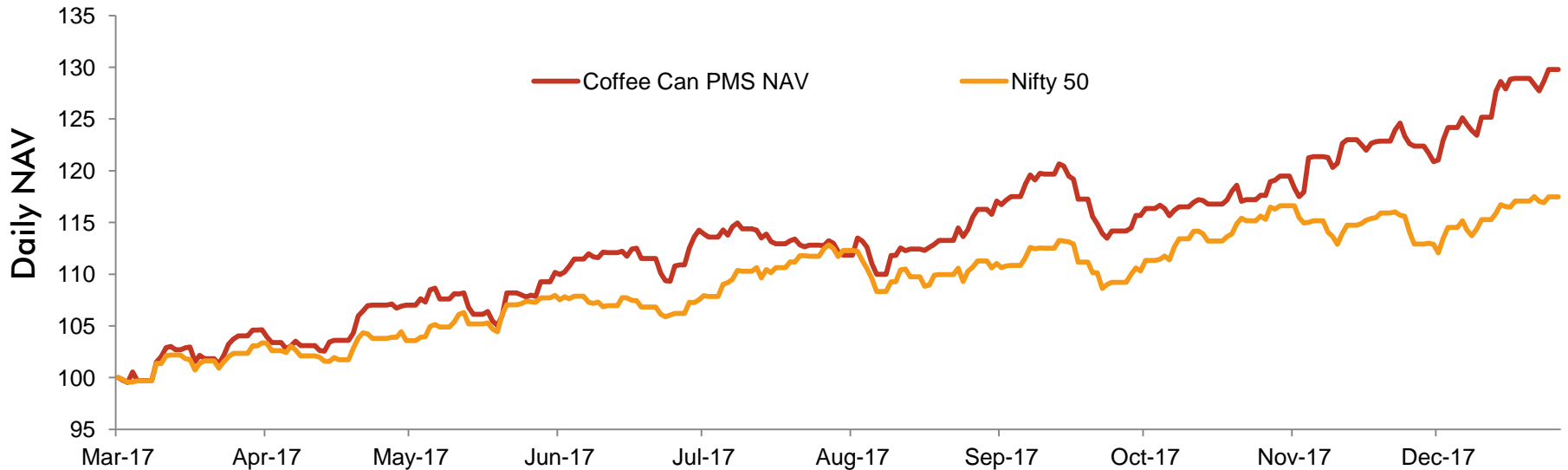
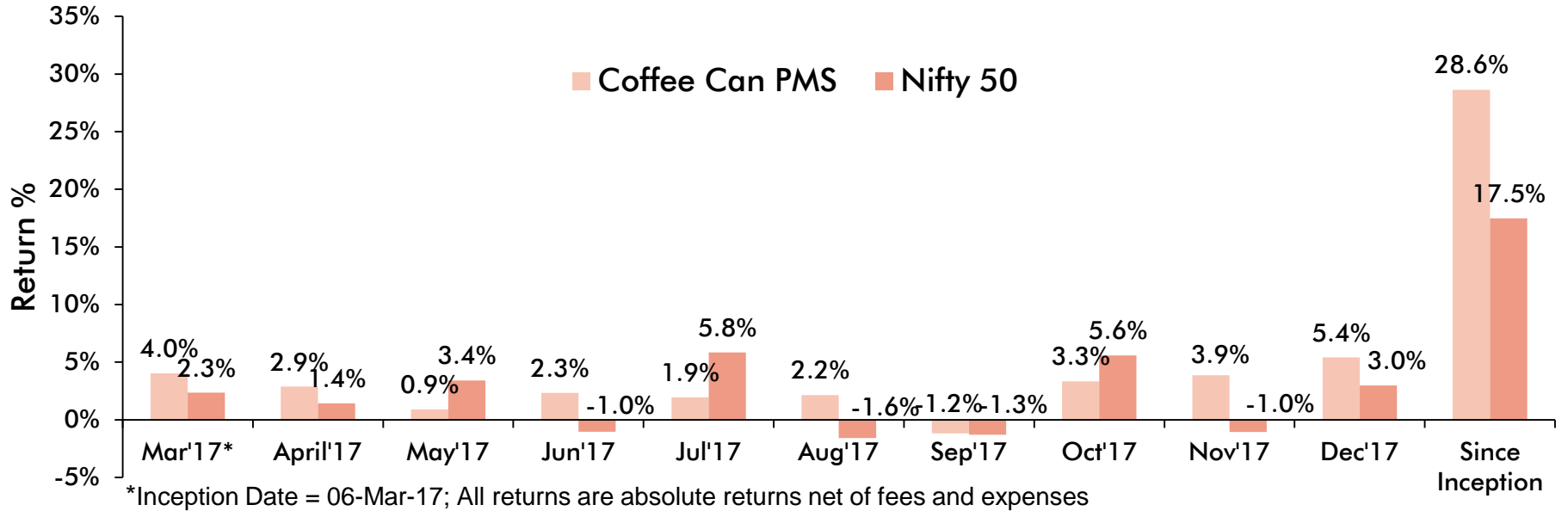
Avoid companies which 'NEED' leverage to grow

- Leverage is beneficial only if it improves capital efficiency
- Unlevered returns are a better measure of financial performance
- Changes to supply of credit in the economy can adversely affect ROCEs

Don't fear concentration

- 'Wide diversification is required when investors do not understand what they are doing'
- We prefer 10-15 stock portfolio given conviction on our deep dive research on selected stocks

Ambit's Coffee Can Performance - PMS (from Mar'17)



Ambit's Coffee Can Performance - Institutional (from July'14)

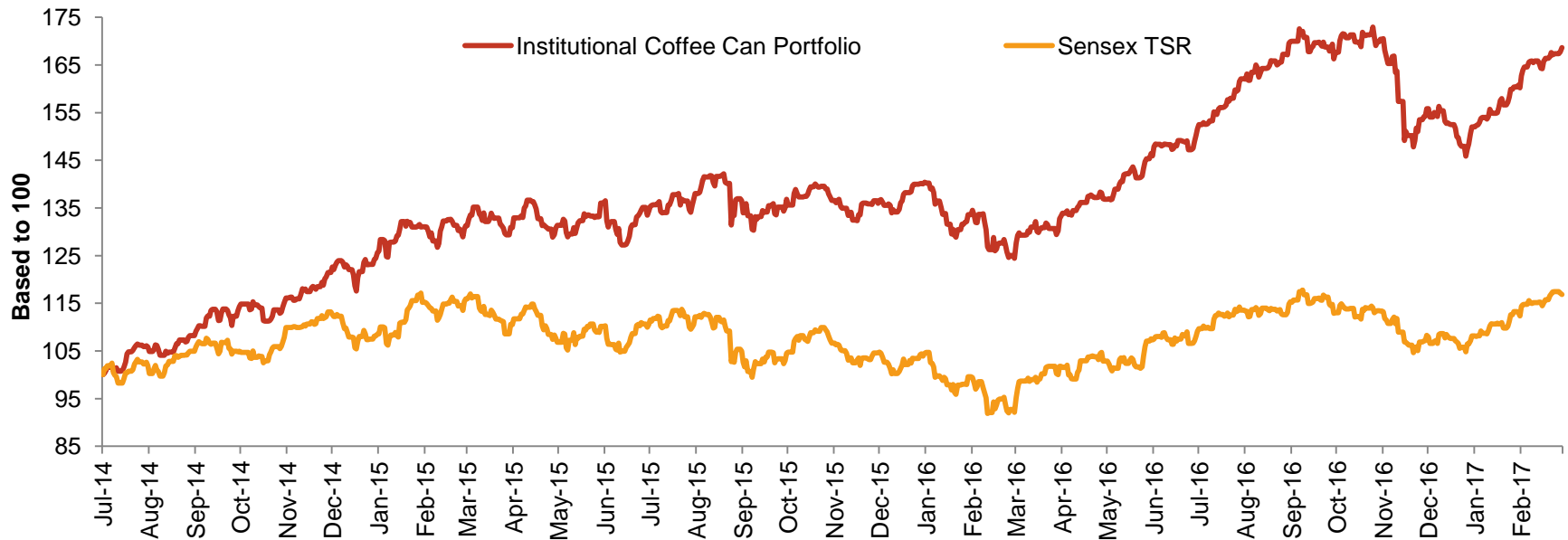
Annual Return

Start Date	CC Portfolio Return %	Sensex TSR *** %
Jul-14	34.3%	10.5%
Jul-15	12.0%	-2.1%
Jul-16*	10.6%	6.5%
CAGR since inception**	21.6%	6.0%

* Return for period starting July 2016 is absolute return till Feb 2017

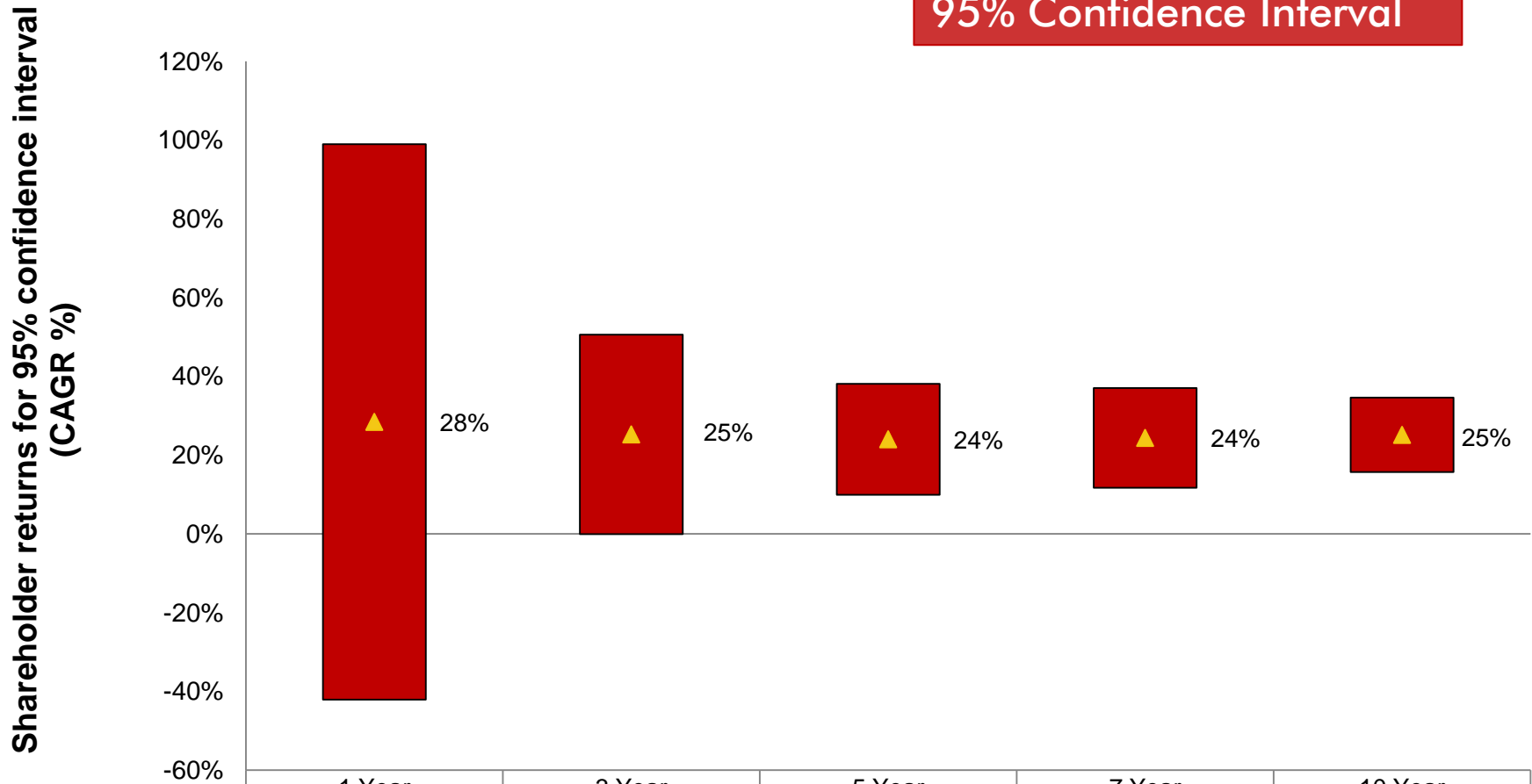
** Return from inception till Feb 2017

*** TSR = Total Shareholder Return which assumes that dividends received are reinvested



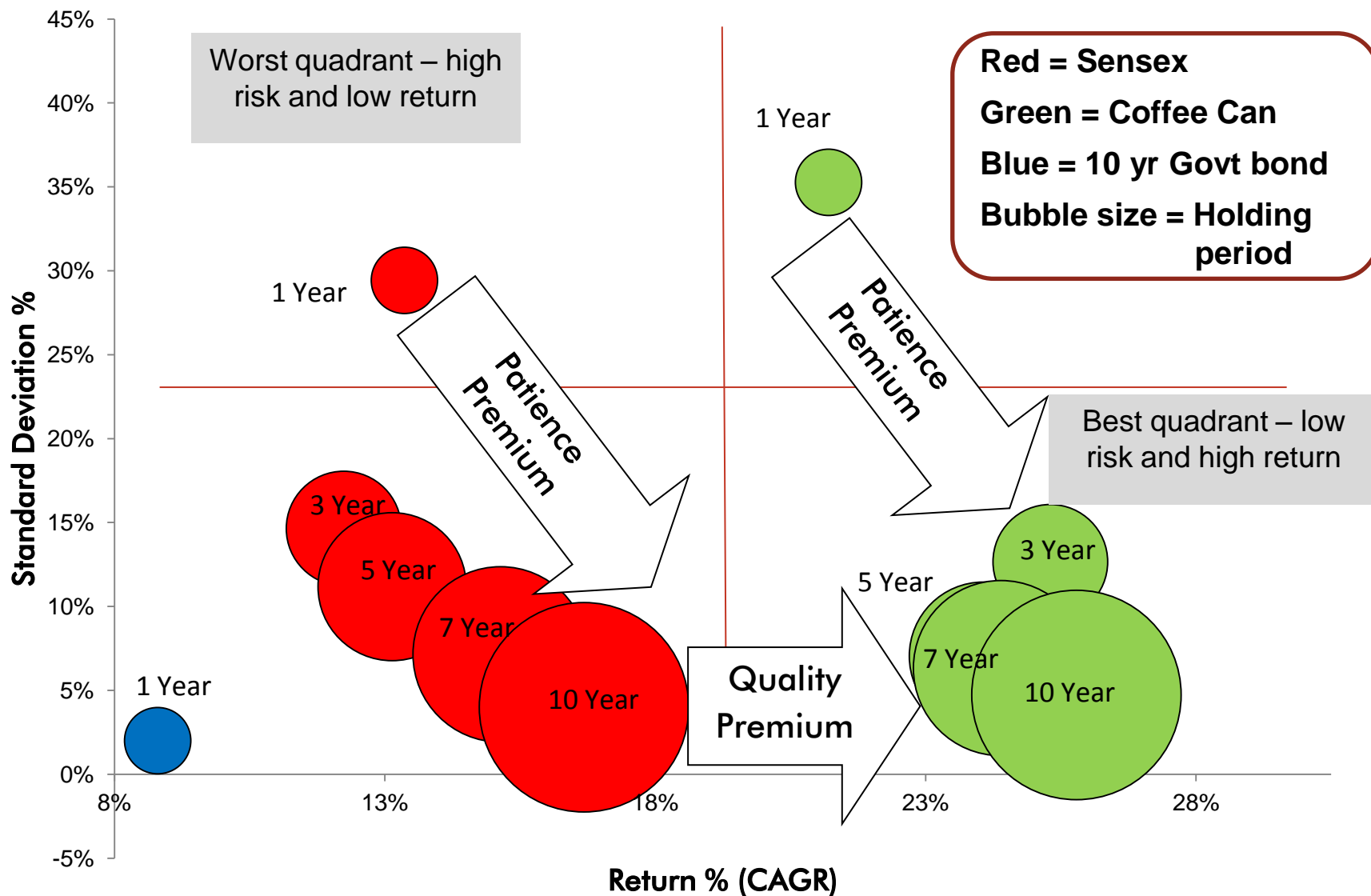
*From July 2014 to Feb 2017

95% Confidence Interval

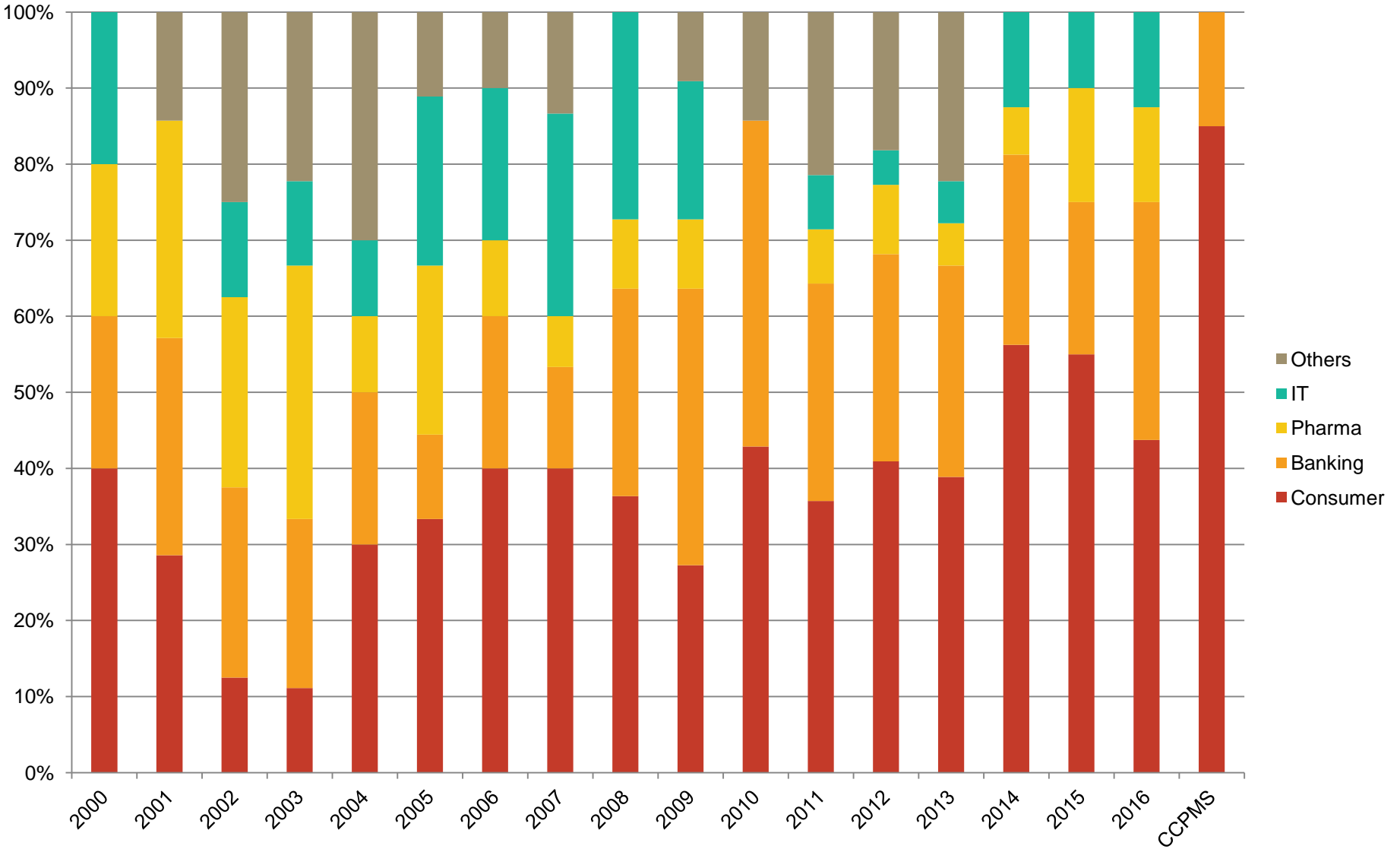


Source: Bloomberg, Ambit Capital

Risk-Return profile – CCP vs Sensex vs Govt. Bond



CCP approach loves B2C (Consumption and BFSI)



X% ROCE for next 20 yrs



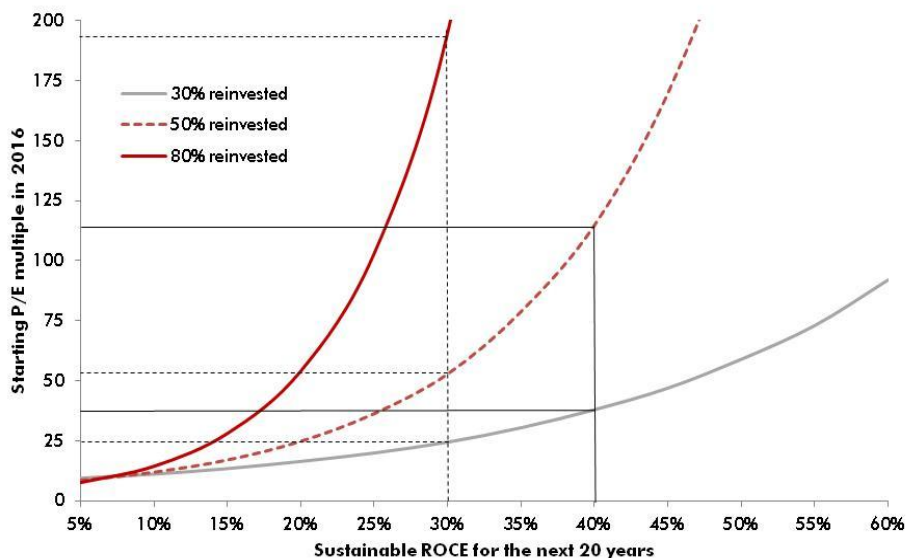
Cash Flow Reinvestment



2037 Exit P/E = 20x

Entry P/E to Outperform Sensex?

Starting P/E multiple in 2017 for a stock to deliver market average returns of 11% CAGR over the next 20 years assuming that the P/E multiple moderates gradually to 20x by 2037



Year	Earnings	Capital Employed	ROCE	Reinv. of Earnings	P / E	20 Year CAGR
0	100	250	40%	70%	50	
1	128	320	40%	70%	49	
2	164	410	40%	70%	47	
19	10,889	27,223	40%	70%	22	
20	13,938	34,845	40%	70%	20	22.8%

Coffee Can Stocks' resilience vs Sensex (1/2)

Sensex

Stock 1 (MC)

Sensex returns evenly spread

RHS skew of CCP histograms

More greens than reds

NEGATIVE RETURNS				POSITIVE RETURNS			
					FY98		
					FY05		
					FY07	FY94	
			FY97		FY08	FY00	
		FY95	FY99		FY11	FY04	
FY93		FY03	FY02	FY96	FY14	FY06	
FY09	FY01	FY12	FY16	FY13	FY17	FY15	FY10
Less than -30%	-20% to -30%	-10% to -20%	0% to -10%	0% to +10%	+10% to +20%	+20% to +30%	More than +30%

NEGATIVE RETURNS				POSITIVE RETURNS			
							FY99
						FY11	FY04
						FY02	FY12
						FY03	FY13
					FY98	FY07	FY16
FY00		FY09	FY01	FY14	FY08	FY17	FY15
Less than -30%	-20% to -30%	-10% to -20%	0% to -10%	0% to +10%	+10% to +20%	+20% to +30%	More than +30%

Stock 2 (BP)

Stock 3 (AP)

NEGATIVE RETURNS				POSITIVE RETURNS			
							FY94
							FY95
							FY98
							FY99
							FY00
							FY04
							FY05
							FY06
							FY10
							FY11
FY93		FY03			FY12		FY13
FY96	FY01	FY08			FY14		FY15
FY07	FY02	FY09	FY97	FY16			FY17
<< -30%	-20% to -30%	-10% to -20%	0% to -10%	0% to +10%	+10% to +20%	+20% to +30%	>> +30%

NEGATIVE RETURNS				POSITIVE RETURNS			
							FY94
							FY00
							FY02
							FY04
						FY95	FY06
						FY96	FY05
						FY98	FY11
					FY93	FY07	FY12
		FY97			FY03	FY07	FY13
FY09		FY99	FY01	FY16	FY14	FY17	FY15
<< -30%	-20% to -30%	-10% to -20%	0% to -10%	0% to +10%	+10% to +20%	+20% to +30%	>> +30%

Coffee Can Stocks' resilience vs Sensex (2/2)

Stock 4 (BT)

NEGATIVE RETURNS				POSITIVE RETURNS			
							FY94
							FY98
							FY99
							FY05
							FY05
	FY95				FY97		FY06
	FY96				FY01	FY04	FY12
FY93	FY02			FY08	FY10	FY16	FY14
FY00	FY07	FY13	FY03	FY09	FY11	FY17	FY15
<<	-20% to -30%	-10% to -20%	0% to -10%	0% to +10%	+10% to +20%	+20% to +30%	>>

Stock 5 (AB)

NEGATIVE RETURNS				POSITIVE RETURNS			
							FY95
							FY98
							FY99
							FY05
							FY06
							FY07
							FY08
							FY10
							FY12
FY93							
FY00							
FY01					FY02	FY94	FY13
FY03					FY16	FY04	FY14
FY09	FY96			FY97	FY17	FY11	FY15
<<	-20% to -30%	-10% to -20%	0% to -10%	0% to +10%	+10% to +20%	+20% to +30%	>>

RHS skew of CCP histograms

Stock 6 (RF)

NEGATIVE RETURNS				POSITIVE RETURNS			
							FY04
							FY10
							FY05
							FY13
							FY06
							FY14
							FY08
FY02				FY03			FY15
FY09			FY07	FY12	FY16	FY11	FY17
<<	-20% to -30%	-10% to -20%	0% to -10%	0% to +10%	+10% to +20%	+20% to +30%	>>

Stock 7 (HB)

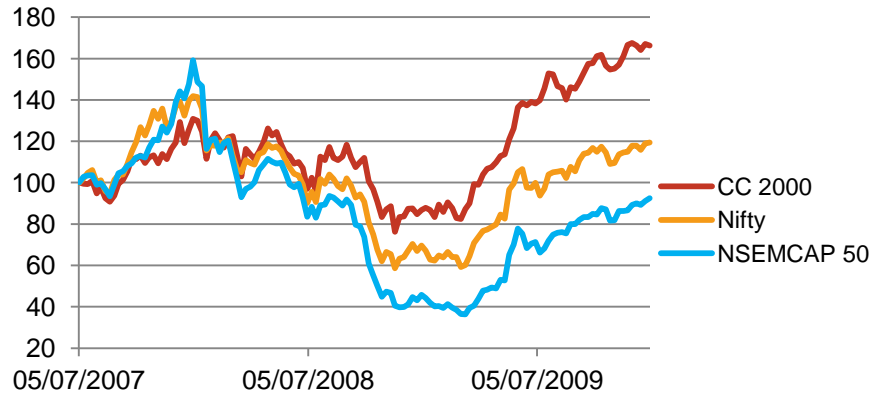
NEGATIVE RETURNS				POSITIVE RETURNS			
							FY97
							FY98
							FY00
							FY04
							FY05
							FY06
							FY08
							FY07
							FY10
							FY15
				FY99	FY02	FY12	FY11
				FY09	FY16	FY14	FY13
				FY01	FY03	FY16	FY17
<<	-20% to -30%	-10% to -20%	0% to -10%	0% to +10%	+10% to +20%	+20% to +30%	>>

More greens than reds

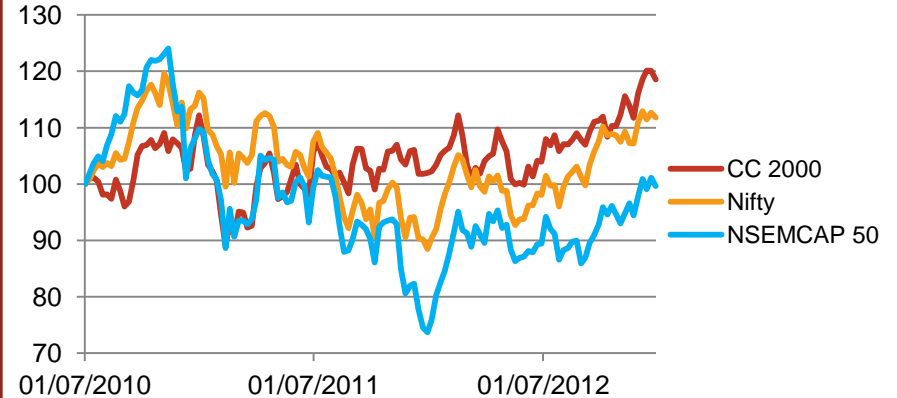


- CCP delivers outstanding outperformance during market crash
- CCP delivers healthy absolute returns pre-crash, despite underperforming mid-caps

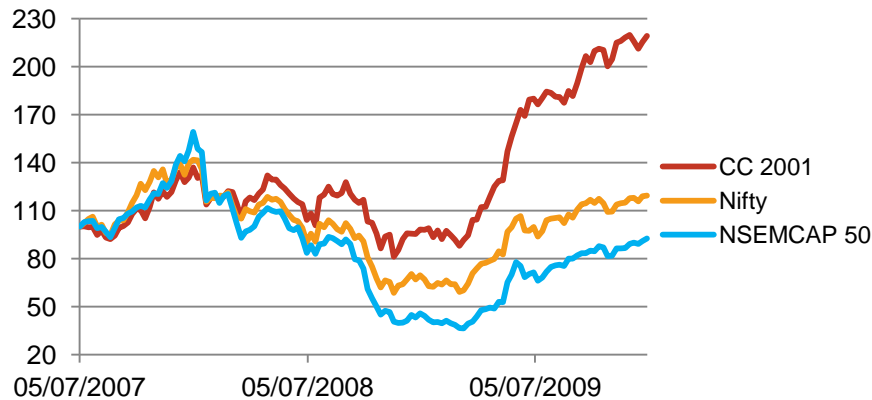
CC 2000 (2007-2009)



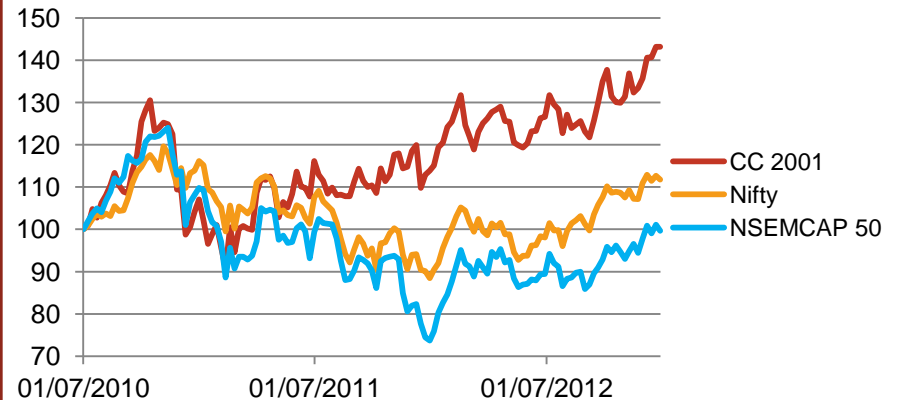
CC 2000 (2010-2012)



CC 2001 (2007-2009)

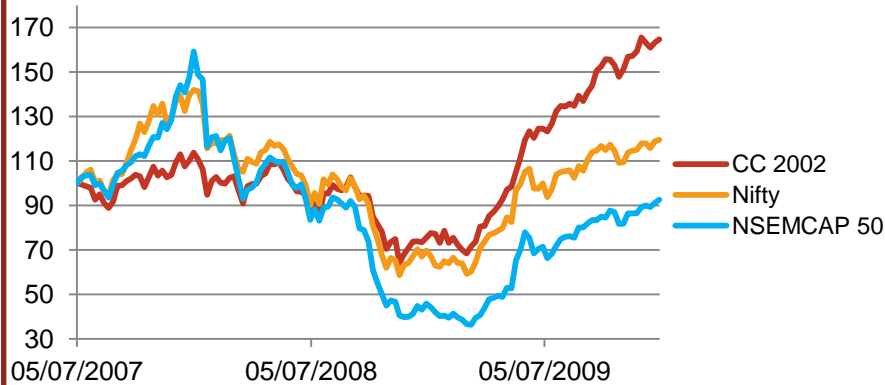


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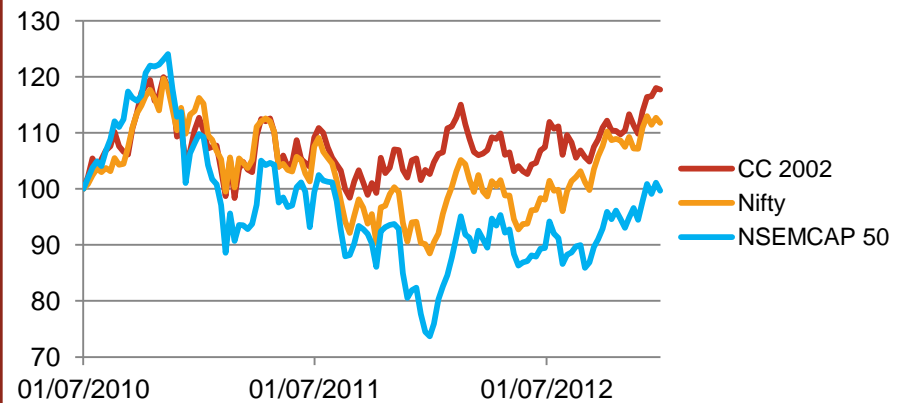


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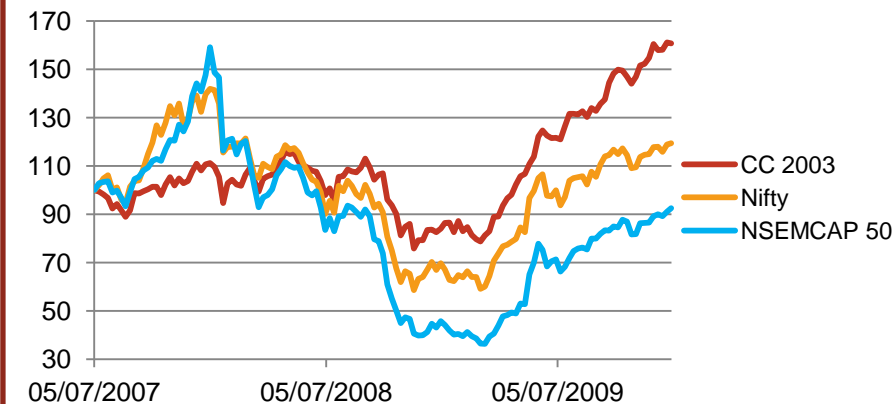
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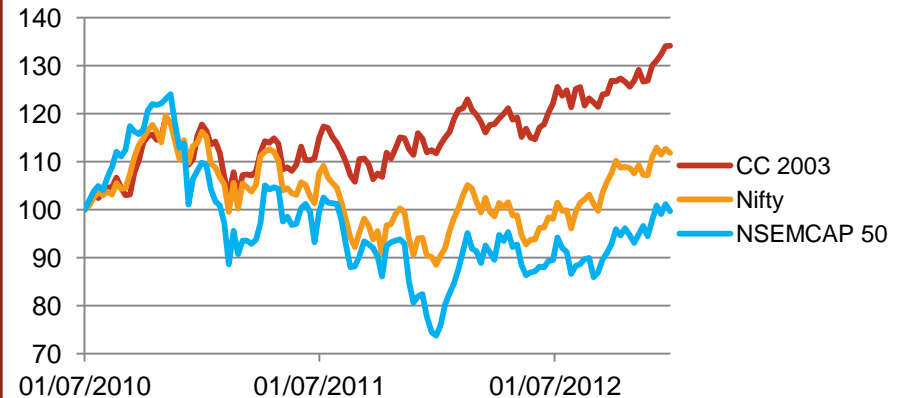
CC 2002 (2010-2012)



CC 2003 (2007-2009)

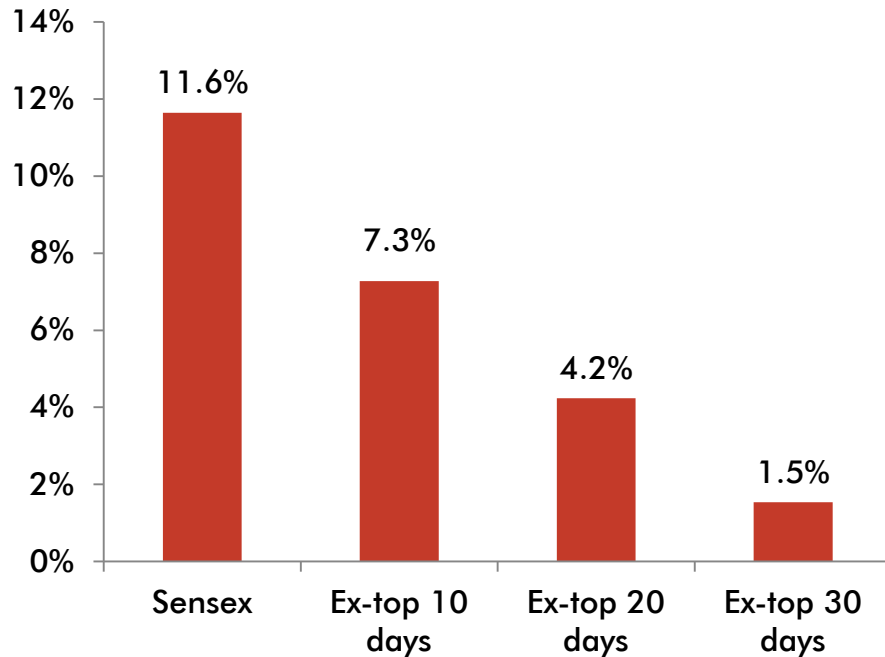


CC 2003 (2010-2012)

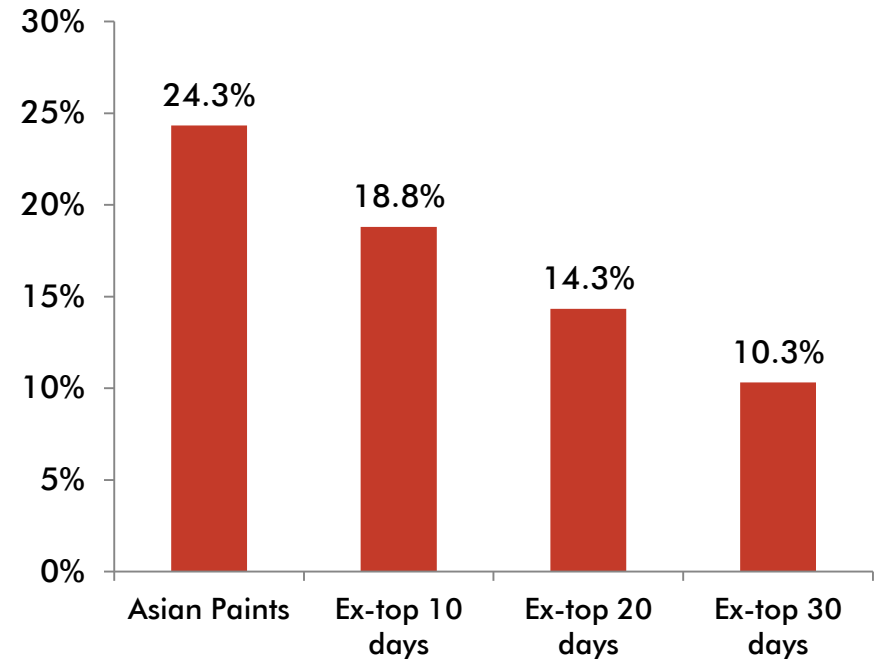


- Performance is adversely affected if one misses top 10, 20 or 30 performing days in the last 20 years

20 Yr Sensex CAGR (%)



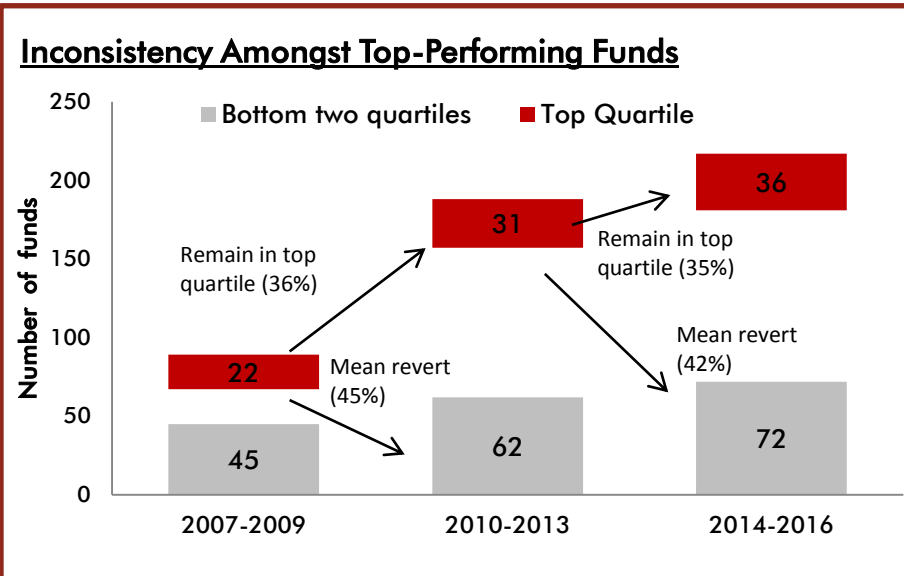
20 Yr Asian Paint CAGR (%)



Alpha of Large Cap Equity Mutual Funds is diminishing

Large Cap MFs : Pre 2010 (Jan'91 to Dec'09)				
	Rolling One year		Rolling Ten year	
	Equity MFs	BSE 100	Equity MFs	BSE 100
Avg. Returns (%)	21.8	15.3	17.4	13.3
Std. Dev. (%)	46	37	7	5

Large Cap MFs : Post 2010 (Jan'10 to Feb'17)				
	Rolling One year		Rolling Ten year	
	Equity MFs	BSE 100	Equity MFs	BSE 100
Avg. Returns (%)	16.6	13.4	15.8	15.8
Std. Dev. (%)	23	23	3	4



- Alpha of MFs for 1-year-rolling has shrunk from 6.5% (pre 2010) to 3.2% (post 2010)
- Alpha of MFs for 10-year-rolling has shrunk from 4.1% (pre 2010) to 0% (post 2010)
- Half of the top performing mutual funds mean revert every 3 years

Two components of our fee structure

- **Fixed** - Fixed % of daily weighted average corpus value. Fixed component is charged on a quarterly basis.
- **Variable** - We take a percentage share in annual returns that exceed a pre-decided hurdle rate. Variable component is charged on an annual basis (anniversary date of the portfolio). High-watermark is applicable on the variable component.

Option 1

- Fixed component = 2% per annum
- Variable component = 'ZERO'

Option 2

- Fixed component = 'ZERO'
- Variable component = 20% share in profits with hurdle rate of 8%, without catch-up

Returns computed for this calculation take into account dividends received and brokerage paid for all transactions.



Saurabh Mukherjee, CFA - CEO, Ambit Capital : Prior to joining Ambit, Saurabh co-founded an equity research firm, Clear Capital, and also built the Equities business for Execution Noble in India. Saurabh was voted as the No.1 Strategist in India in 2014, 2015 and in 2016 by Asiamoney. Under his leadership, Ambit got ranked as the 'Most Improved Brokerage' for 5 years and 'Most Independent Brokerage' in 2016

Saurabh, author of bestsellers – 'Gurus of Chaos' and 'Unusual Billionaires', also contributes monthly columns for Outlook Business, Wealth Insights and VC Circle besides writing several pieces for newspaper editorials. Saurabh has a BSc and MSc from the London School of Economics, London, UK and is a CFA charter holder



Rakshit Ranjan, CFA - Fund Manager, Coffee Can Portfolio: Before joining Ambit in 2011, Rakshit spent 6 years covering UK equities with Lloyds Bank (Director, Research) and Execution Noble (Sector Lead analyst). During these six years, he was consistently among the top-3 UK Insurance analysts (ranked by Thomson Reuters Extel survey) in the mid-cap space. Since 2011, Rakshit led Ambit's consumer research franchise which got voted as No.1 for Discretionary Consumer and within top-3 for Consumer Staples in 2015 and 2016. He has been managing Ambit's Coffee Can PMS since January 2017

Rakshit has a B.Tech from IIT (Delhi) and is a CFA charter holder



Kislay Upadhyay - Senior Analyst, Coffee Can Portfolio: Prior to joining Ambit, Kislay has worked at Synergy Consulting (Investment Banking Associate), Muthoot Finance (Valuation Advisor) and National Productivity Council. At Synergy Consulting, Kislay worked on M&A advisory and Deal Structuring. At Muthoot Finance, he worked directly with the Group Head on improvement and valuation of insurance broking division of Muthoot Finance. During his job tenure at National Productivity Council, Kislay determined financial strength of cooperative banks and did their Due Diligence for implementation of a 5-year Government of India project.

Kislay has a B.E. from Visvesvaraya Technological University and PGDM (Finance) from IIM Lucknow



Siddhartha Rastogi - Head, Ambit Asset Management : Before joining Ambit, Siddhartha cofounded IIFL Private wealth, setting up mutual fund and structured product distribution of IIFL. Prior to that, Siddhartha worked for HSBC Bank as Branch Head for Peddar Road Branch, which is the largest Wealth Branch in India, turning it into most profitable branch. Before that, Siddhartha was CitiGold Advisor with CitiBank, N.A. Prior to that, Siddhartha was a merchant banker with UTI Bank, handling fund raising for Mid sized corporates.

Siddhartha is an Honors Graduate in Commerce from Delhi University, Company Secretary (Intermediate) and has a PGDM from NMIMS, Mumbai.

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