

January 2019

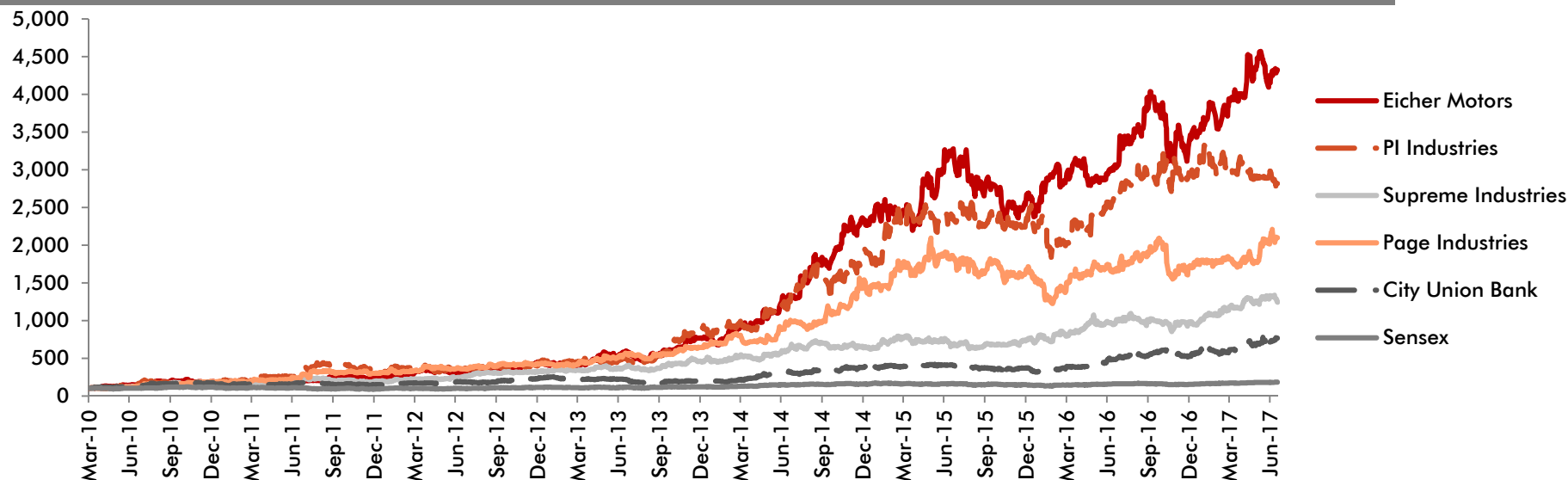


Asset Management

GOOD & CLEAN
by Ambit

Ambit Good & Clean Midcap Fund

What drives success for corporate India?



Source: Bloomberg, Ambit Capital research. Note: *Prices have been rebased to 100 as on 31 Mar 2010. Prices are in INR terms.

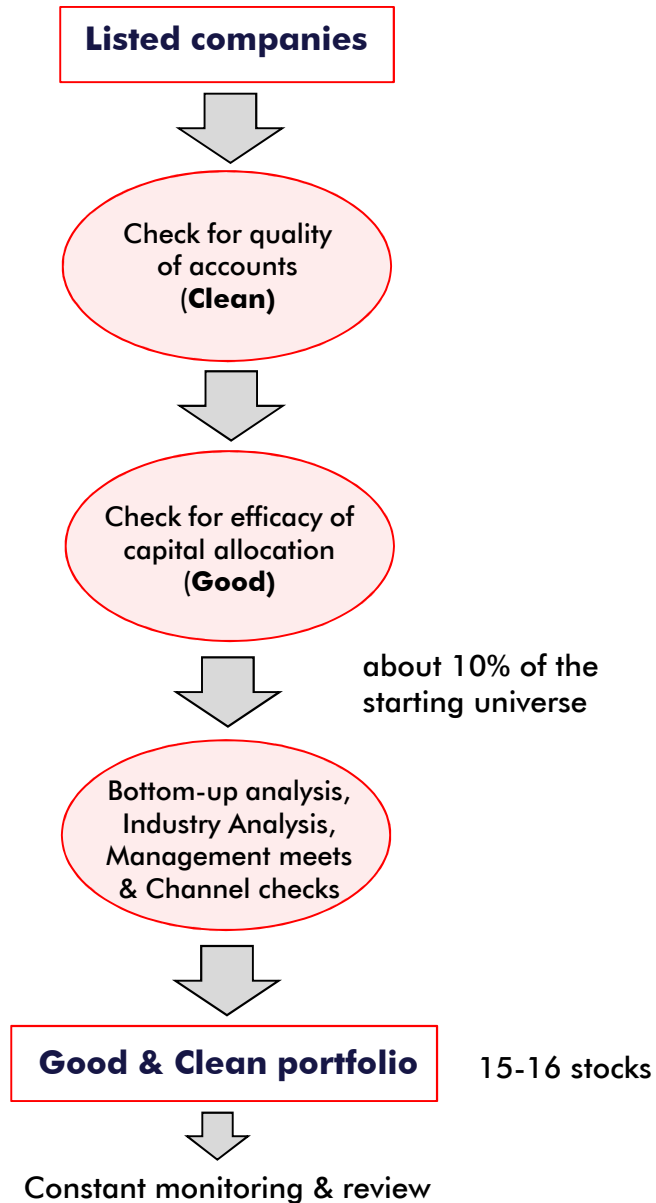
Three factors are common to successful Indian firms

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.
- **Lack of political connectivity:** Firms whose central competitive advantage is political connectivity seldom outperform in India.
- **Conservative capital allocation:** Indian companies are amongst the most aggressive capital allocators in the world and that aggression costs their shareholders dear.

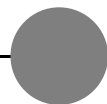
Our 'Good & Clean' (G&C) philosophy developed as a response to these central drivers of share prices in India.

Ambit's Good & Clean - Investment Process



- 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 and 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 15-16 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).

Ambit's Forensic Accounting framework

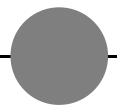


Ambit's forensic accounting model helps steer clear firms with questionable accounts

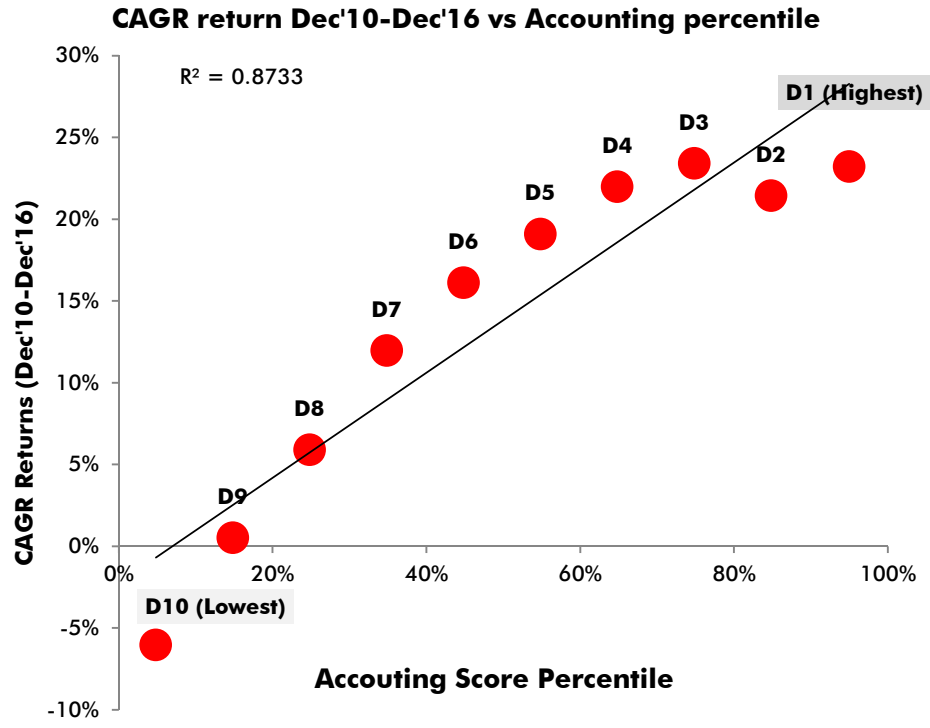
Category	Ratios	Rationale
P&L mis-statement checks	Cum. CFO/cum. EBITDA	<ul style="list-style-type: none"> Low ratio may be indicative of aggressive revenue recognition
	Volatility in depreciation rate	<ul style="list-style-type: none"> Constant playing around with depreciation rate may indicate intent to manage reported profits
	Provisioning for doubtful debts as a proportion of debtors more than six months	<ul style="list-style-type: none"> Low ratio raises concerns regarding earnings boost through aggressive provisioning practices
Balance sheet mis-statement checks	Cash yield	<ul style="list-style-type: none"> Low cash yield may either imply balance sheet misstatement or cash misutilisation
	Change in reserves (excluding share premium) over net income ex-dividends	<ul style="list-style-type: none"> A ratio less than 1 may imply direct knock-offs from equity without routing through P&L
	Contingent liability as a proportion of net worth	<ul style="list-style-type: none"> Indicative of the extent of off-balance sheet risk
Pilferage checks	Miscellaneous expenses as a proportion of total revenue	<ul style="list-style-type: none"> High ratio raises concerns regarding the authenticity of such expenses
	CWIP to Gross Block	<ul style="list-style-type: none"> High ratio could indicate unsubstantiated capex- may indicate funds being siphoned off
	Cumulative CFO plus CFI to median revenue	<ul style="list-style-type: none"> Check on ability to generate positive cash flows after investing activities
Audit quality checks	Related party advances as a proportion of cumulative CFO	<ul style="list-style-type: none"> Penalise firms where advances to related parties are high or increasing
	CAGR in auditors remuneration to CAGR in consolidated revenue	<ul style="list-style-type: none"> Check on the quality of audits

Source: Bloomberg, Ambit Capital research

Not compromising on 'clean' is critical to managing drawdowns

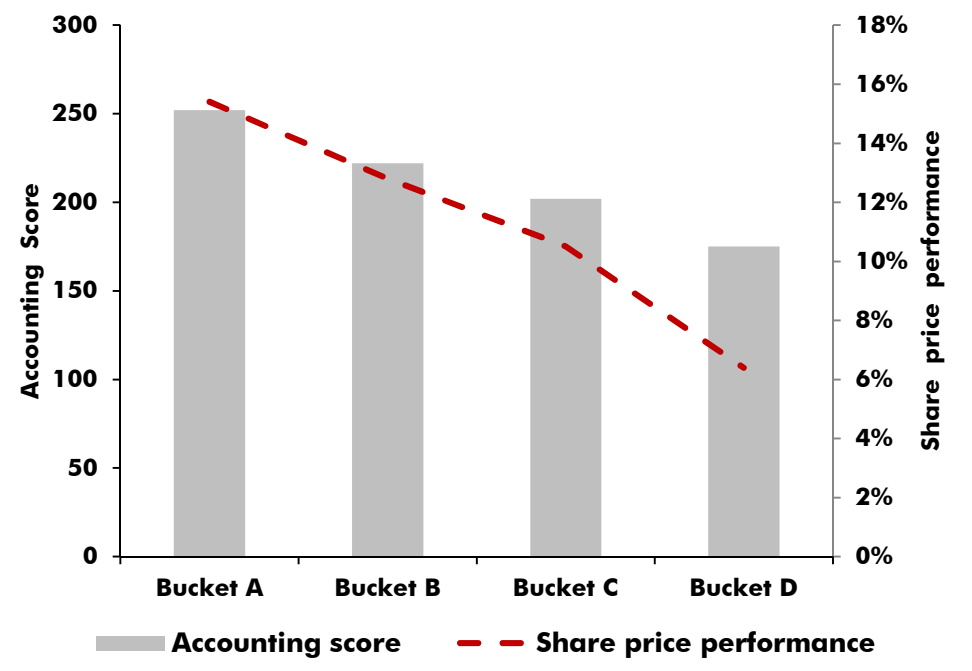


The firms in the highest accounting score decile outperform their bottom placed counterparts by 29%



Source: Bloomberg, Ambit Capital research; Note: This chart plots the median share price performance with median accounting scores for deciles constructed only on the basis of accounting quality. Share price returns are in INR terms.

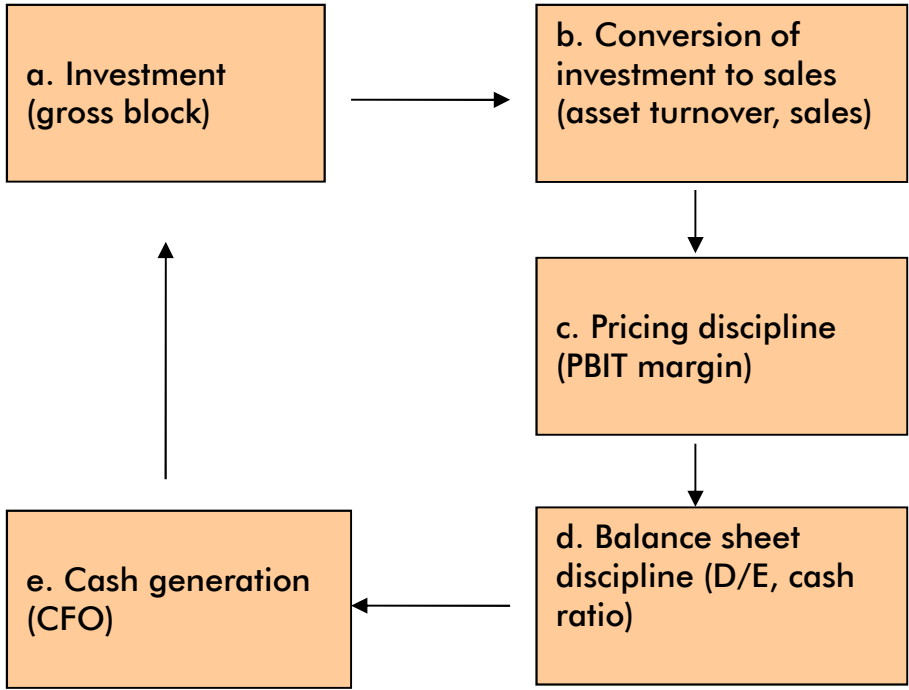
Sector neutral buckets show strong correlation between accounting and investment performance



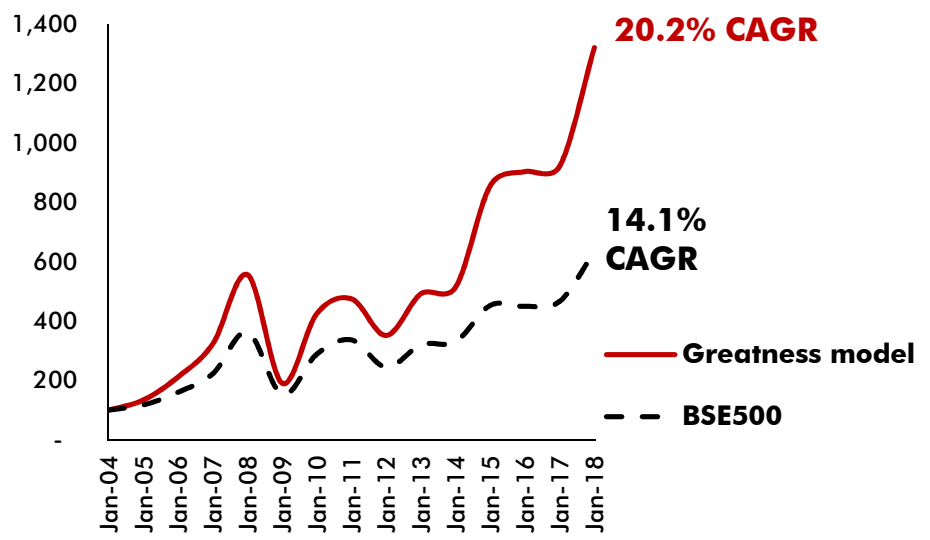
Source: Bloomberg, Ambit Capital research; Note: Sector-agnostic buckets constructed with homogenous sectoral make and differentiated only on accounting quality show accounting quality drives investment performance even after controlling for sector effects.

Focus on 'good' helps generate upside

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



Greatness model has outperformed BSE 500 by a whopping 600bps annually



Share price returns are in INR terms.

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.

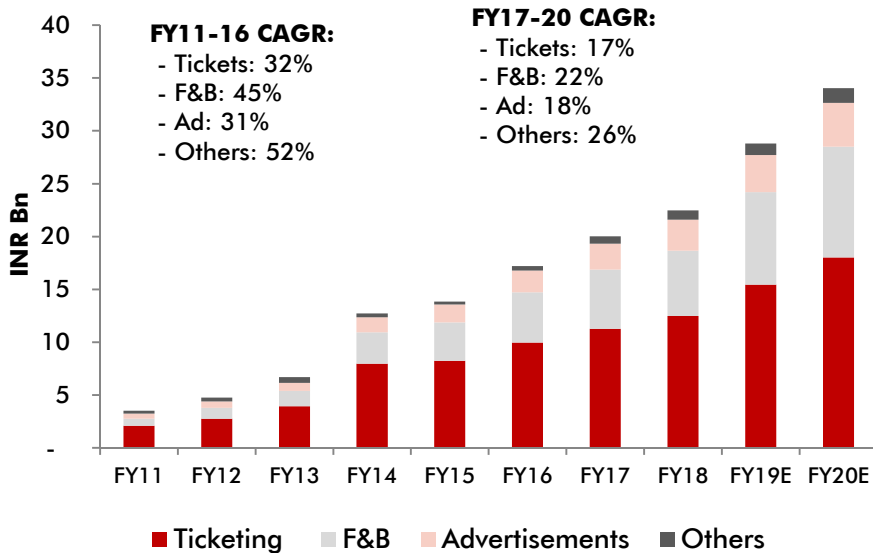


Who wins on Good & Clean?

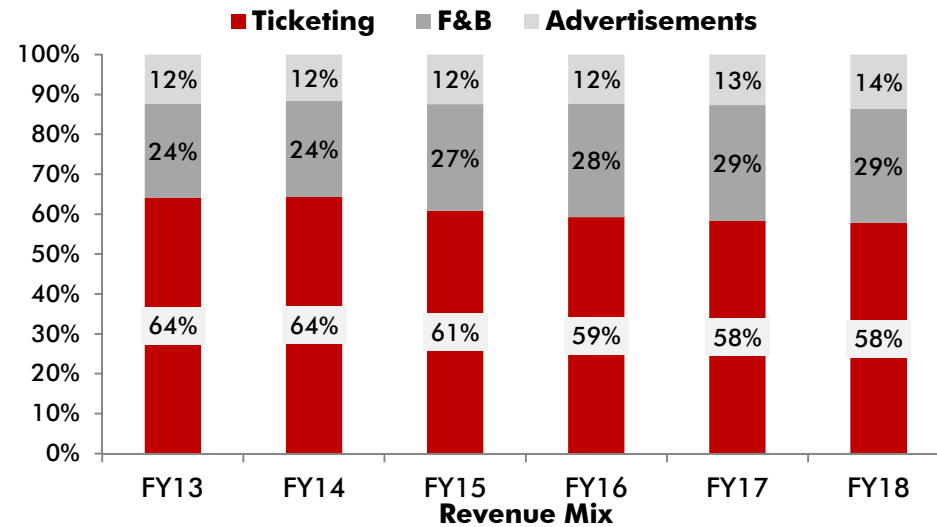
PVR – The largest entertainment play in India

PVR (PVRL IN) is the largest multiplex in India, with 600 screens across the country - ~25% more than the 2nd placed competitor.

All-round growth, non-ticket revenues rising faster



Diversifying content mix to boost footfalls and occupancy

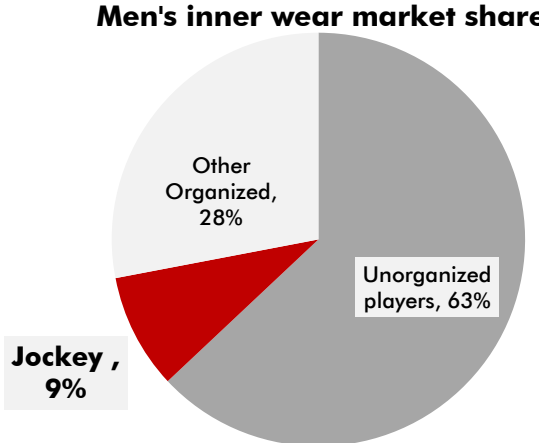


- **Improving construct for multiplexes given** (1) Market share gains for multiplexes (still only ~30% of screens, up from 15% in 2013); (2) Low penetration of screens per million at just ~8 compared to ~130 for the USA and ~16 for China and 3) Increase in share of Hollywood and regional cinema content driving footfalls and occupancy ratios.
- **Differentiated offering powered PVR to the top:** Best in class customer experience through innovation in audiovisual technologies, creative F&B menu and screens locations in premium malls has led to high pricing power: ~15-20% higher ATPs, spends per heads and ad yields.
- **PVR's premium positioning an ideal discretionary play:** Strong positioning for PVR given 60% screens are in top 8 cities of India whose per capita GDP is 7x that of India. Rising per capita income and growing aspirations should result in the leisure segment being the biggest beneficiary of the discretionary spend basket.
- **Fundamentals to improve further:** Increasing share of F&B (40% of ATP vs 60% for global leaders) and advertising revenue to aid operational margins while boosting growth. Similarly, the share of mature screens for PVR is now in excess of 70% vs 20% 10 years ago- implying high operating leverage and cash generation.

Page Industries- Aspirational yet affordable consumption play

Page Industries (PAG IN) is the dominant player in the underpenetrated branded innerwear category in India. Page's foundation is built on: a) 60-year association with Jockey; b) strong focus on capital allocation and ROCEs; and c) Incentivizing and empowerment of professionals

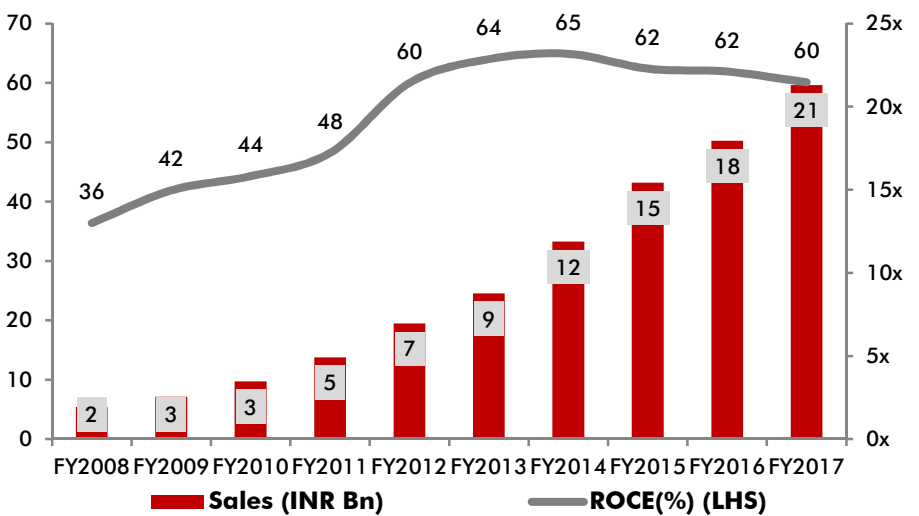
Large opportunity for share gains by "Jockey"



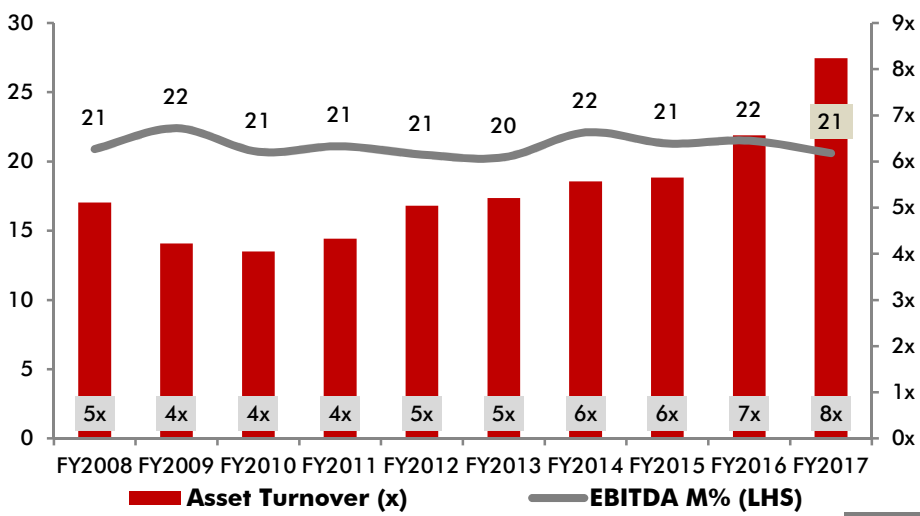
Investment Case

- **Structural growth potential immense:** Men's innerwear has a ~63% share of local/unorganised players which are losing share to national players. Page is gaining share from a low base of 9% (4.7% in 2010).
- **Women's innerwear ~(20% of sales) and leisurewear (30%) to aid growth:** With organized penetration in the women's innerwear segment at just 14%, Page is likely to continue gaining share (6% now vs 2.7% in 2010). Further, leisurewear has been growing as a share of the apparel market, providing an additional positive for Page. Both these segments are also higher in realizations, aiding margins.
- **Page's competitive advantages are centred on:** a) in-house manufacturing to deliver product differentiation in a labour-intensive industry; b) maintaining an aspirational connect with consumers; and c) an entrenched distribution channel spanning hosiery stores to exclusive brand outlets through distributors

Robust growth is underpinned by stellar RoCEs..



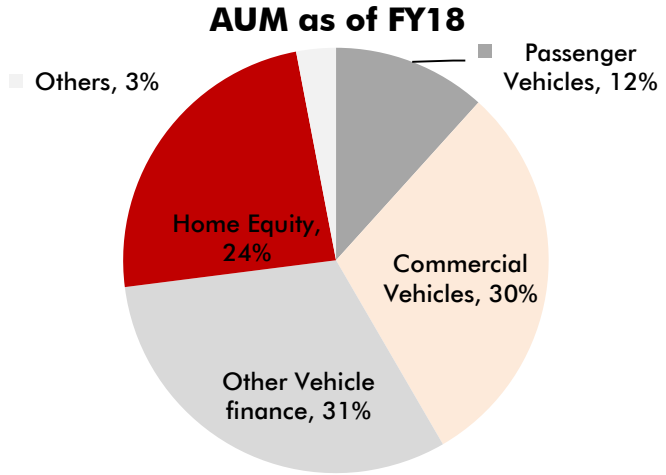
..due to high asset turns and strong, steady margins



Cholamandalam Finance- Financing the India growth story

Incorporated in 1978, Cholamandalam Investment and Finance Company (CIFIC IN) is primarily a vehicle financier with a rural focus. It operates over 700 branches across India and has an AUM of INR ~429bn. CIFIC also has a presence in the home equity loan segment.

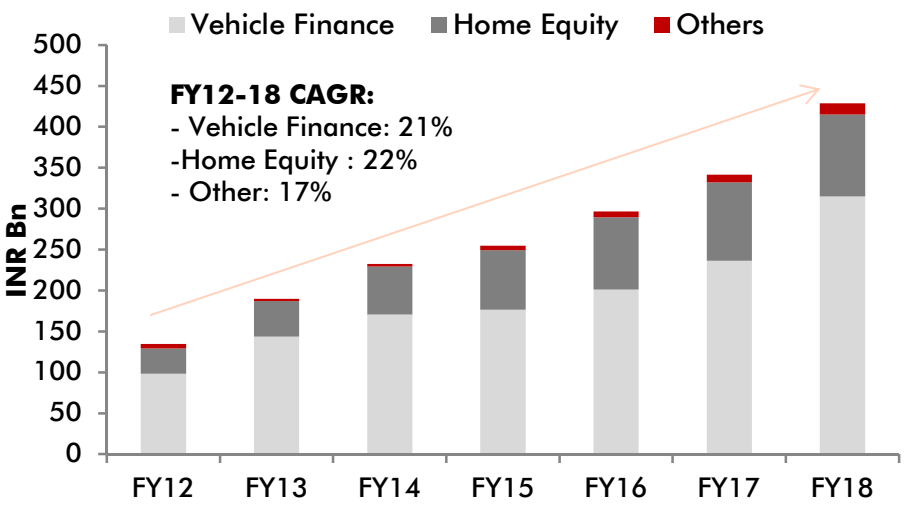
Play on Indian Infrastructure and Logistics



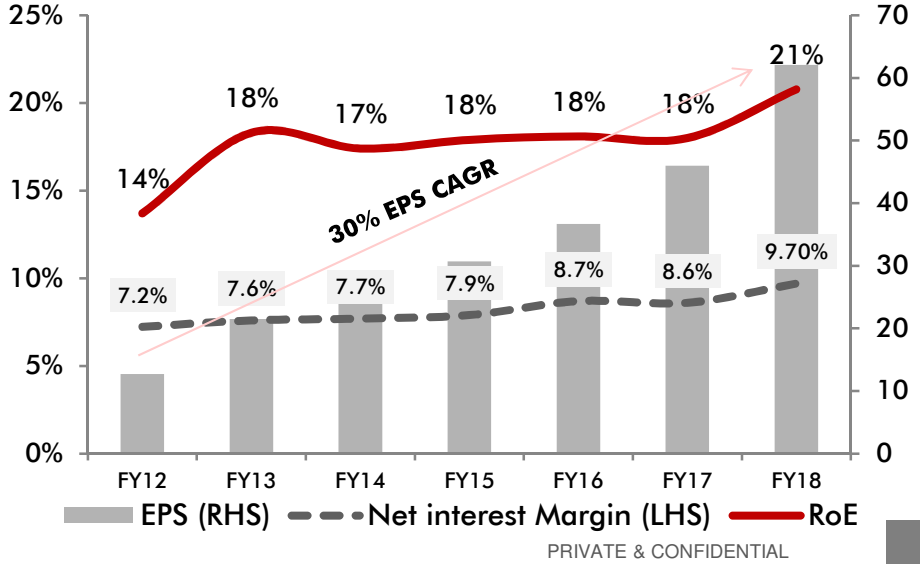
Investment Case

- **CIFIC's core competencies center on:** a) Prudent management of risk, as exhibited in their pullback from financing ahead of down cycles in commercial vehicles and real estate in the past b) Focus on technology to aid collection efficiency and speed up processes; c) Broad Pan-India distribution network and d) Ecosystem view of their customer base
- **Evolution into related segments to power growth:** CIFIC is evolving from an LCV/used-CV financier to a credible challenger in other auto segments such as tractors, HCVs and car financing (market share has already doubled this year). Additionally, CIFIC is scaling up other businesses such as housing loans, SME finance and trip financing.
- **Logistics to drive core segments:** Consolidation of India's logistics sector into a hub-and-spoke model due to the advent of GST would drive sales of CIFIC's core CV segment, which is CIFIC's key driver of profitability.

Robust growth driven by core business and home equity loans



Tight control on asset quality and margins have led to expanding RoEs

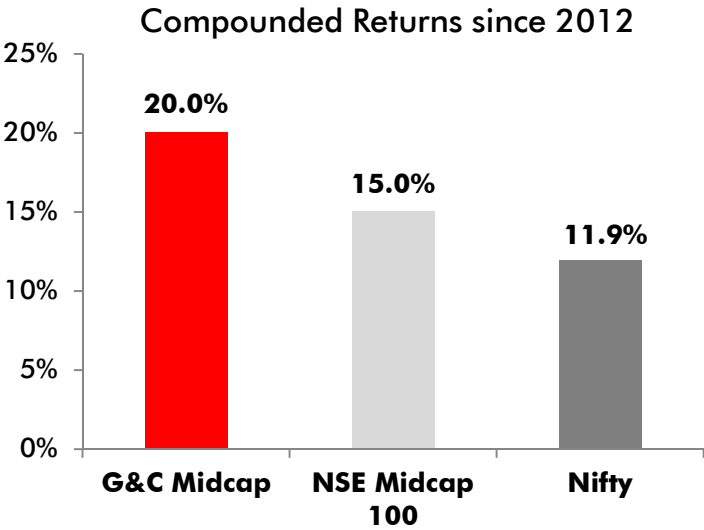
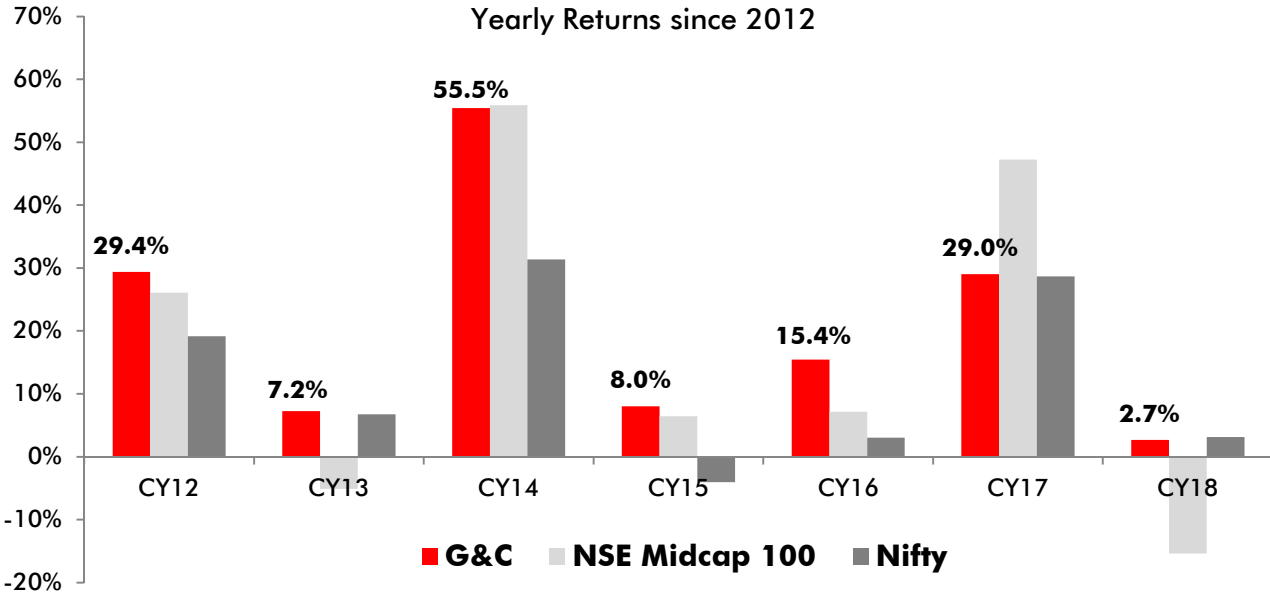




Good & Clean Midcap Fund's track record

Good & Clean philosophy delivers

Consistent performance - in both advisory and fund constructs



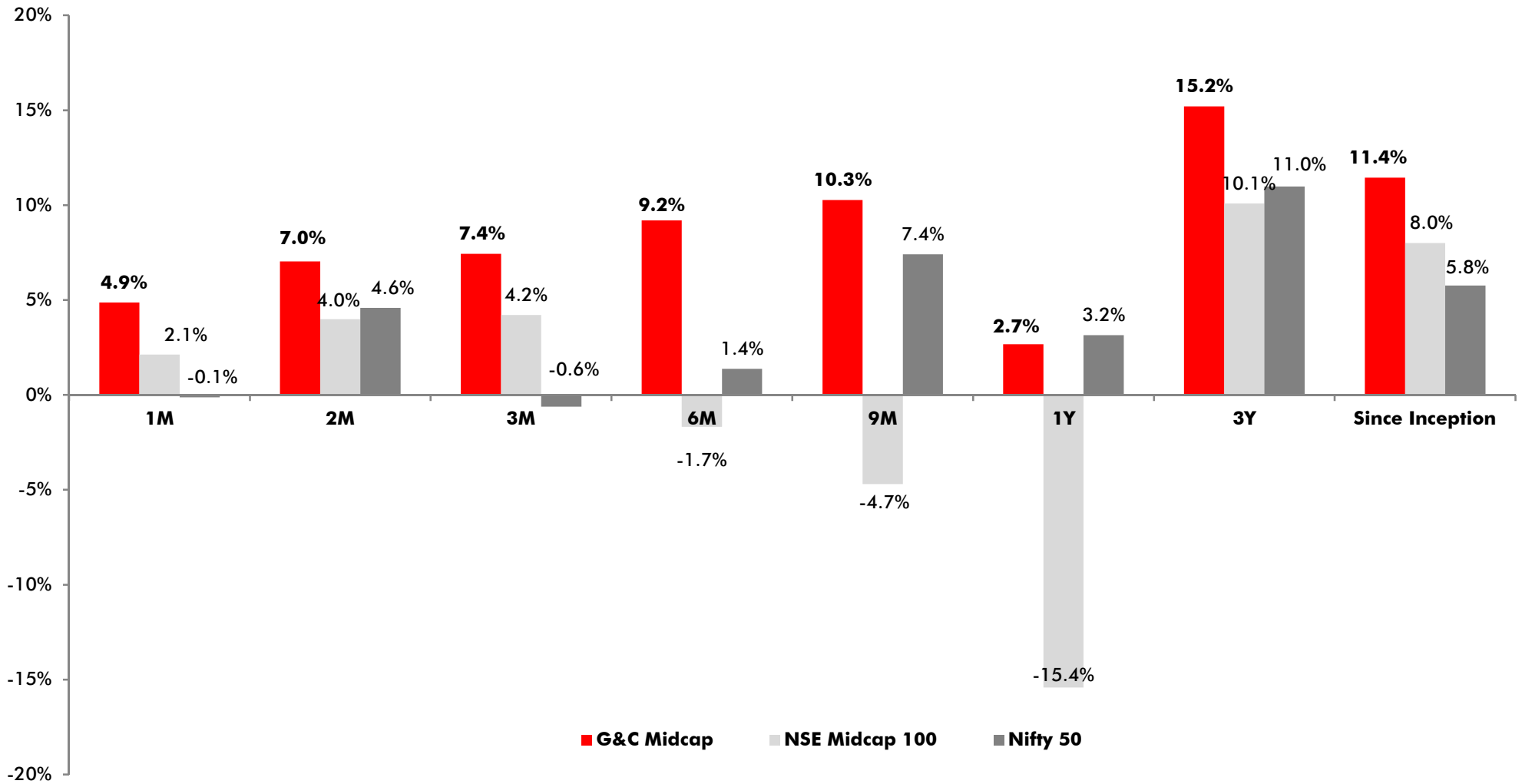
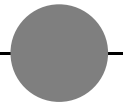
Superior risk adjusted returns and drawdown track record

Performance (since inception)	Net Returns (CAGR)	Standard Deviation	Sharpe Ratio	Maximum Drawdown
G&C Midcap	20.0%	14%	0.95	-13%
NSE Midcap 100	15.0%	18%	0.44	-23%

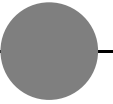
Source: Bloomberg, Ambit

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 December 31, 2018.

Live track record – Ambit Good & Clean MidCap Fund

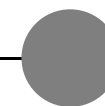


Portfolio inception date is March 12, 2015. Returns as of December 31, 2018. **Performance is post all fees and charges**



Portfolio Construct and Fee Structure

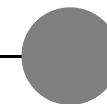
Construct & structure for Indian high net worth investors



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 'NSE 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

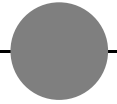
Ambit Good & Clean Midcap Fund - Fee structure



Fee Structure

	Entry Load	NIL
	Fixed	2% p.a.
Option 1	Variable	NIL
	Exit Load	NIL
	Fixed	1% p.a.
Option 2	Variable	20% of excess profits above a hurdle rate of 13% (High watermark applicable)
	Exit Load	NIL
	Fixed	NIL
Option 3	Variable	20% of excess profits above a hurdle rate of 8% (High watermark applicable)
	Exit Load	NIL

Fund Management Team



Aishvarya Dadheech, CFA – Fund Manager

- With over 12 years of experience in Indian equities, Aishvarya has been managing Ambit Group's proprietary book for the last 2 years.
- Prior to that he was with Reliance Life Insurance as Equity Fund manager managing their investments for almost 7 years. He has earlier worked with Crisil as a Equity and Credit Research Analyst for over 3 years.
- He is a CFA charterholder, Chartered Accountant and has completed MBA Finance.



Sameer Alodia – Senior Analyst

- Associated with Ambit for more than 3.5 years, he was lately managing Ambit's shareholder funds, where he invested in listed equities with a value investing approach. Prior to that, he was with the investment banking team at Ambit covering Chemicals & Healthcare sector. He has earlier worked with J.P. Morgan's Institutional Investor ranked equity research team covering US pharmaceutical sector for over three years.
- He holds an MBA from Indian School of Business (ISB) and is a graduate from IIT-Bombay.



Ajit Agrawal – Research Analyst

- Previously worked as an Analyst in the Credit Analysis Team of HSBC, covering banking companies across various geographies such as North America and Asia-Pacific. He is a Chartered Accountant & a Commerce Graduate from St. Xavier's College, Kolkata.



Siddhartha Rastogi – Managing Director (Head of Asset Management)

- With over 15 years of experience, he heads the Asset Management vertical for Ambit. He has spent 8 years with Ambit across various divisions including Advisory, fund raising, Private Wealth. Previously, he was the founding member of IIFL's Private wealth management business.
- He is an Commerce Graduate from Delhi University and has a Post Graduate Diploma in Business Administration from NMIMS, Mumbai.



Disclaimer

- Ambit Investment Advisors Private Limited (“Ambit”) is a registered Portfolio Manager with Securities and Exchange Board of India vide registration number INP000005059.
- This *presentation* is strictly for information and illustrative purposes only and should not be considered to be an offer, or solicitation of an offer, to buy or sell any securities or to enter into any Portfolio Management agreements. This *presentation / newsletter / report* is prepared by Ambit strictly for the specified audience and is not intended for distribution to public and is not to be disseminated or circulated to any other party outside of the intended purpose. This *presentation* may contain confidential or proprietary information and no part of this *presentation* may be reproduced in any form without its prior written consent to Ambit. If you receive a copy of this *presentation* and you are not the intended recipient, you should destroy this immediately. Any dissemination, copying or circulation of this communication in any form is strictly prohibited.
- Neither Ambit nor any of their respective affiliates or representatives make any express or implied representation or warranty as to the adequacy or accuracy of the statistical data or factual statement concerning India or its economy or make any representation as to the accuracy, completeness, reasonableness or sufficiency of any of the information contained in the *presentation* herein, or in the case of projections, as to their attainability or the accuracy or completeness of the assumptions from which they are derived, and it is expected each prospective investor will pursue its own independent due diligence. In preparing this *presentation*, Ambit has relied upon and assumed, without independent verification, the accuracy and completeness of information available from public sources. Accordingly, neither Ambit nor any of its affiliates, shareholders, directors, employees, agents or advisors shall be liable for any loss or damage (direct or indirect) suffered as a result of reliance upon any statements contained in, or any omission from this *presentation* and any such liability is expressly disclaimed.

Contd..

Disclaimer

- You are expected to take into consideration all the risk factors including financial conditions, Risk-Return profile, tax consequences, etc. You understand that the past performance or name of the portfolio or any similar product do not in any manner indicate surety of performance of such product or portfolio. You further understand that all such products are subject to various Market Risks, Settlement Risks, Economical Risks, Political Risks, Business Risks, Financial Risks etc. You are expected to thoroughly go through the terms of the arrangements / agreements and understand in detail the Risk-Return profile of any security or product of Ambit or any other service provider before making any investment. You should also take professional / legal /tax advice before making any decision of investing or disinvesting. Ambit or Ambit associates may have financial or other business interests that may adversely affect the objectivity of the views contained in this *presentation*.
- Ambit does not guarantee the future performance or any level of performance relating to any products of Ambit or any other third party service provider. Investment in any product including mutual fund or in the product of third party service provider does not provide any assurance or guarantee that the objectives of the product are specifically achieved. Ambit shall not be liable to client for any losses that you may suffer on account of any investment or disinvestment decision based on the communication or information or recommendation received from Ambit on any product. Further Ambit shall not be liable for any loss which may have arisen by wrong or misleading instructions given by you whether orally or in writing.
- The product 'Ambit Good & Clean Portfolio' has been migrated from Ambit Capital Private Limited to Ambit Investments Advisors Private Limited. Hence some of the information in this presentation may belong to the period when this product was managed by Ambit Capital Private Limited.

MUMBAI

Ambit House
449, Senapati Bapat Marg
Lower Parel
Mumbai - 400 013
Phone: +91 22 3982 1819

DELHI

310-313 Ashoka Estate
Barakhamba Road
New Delhi – 110003
Phone: +91 11 2332 9675

BANGALORE

"Empire Infantry", Unit No. 3
29 Infantry Road, 1st Floor
Bangalore - 560 001
Phone: +91 80 3055 4400