AMBIT
Acumen at work

AMBIT ASSET MANAGEMENT

Ambit Coffee Can Portfolio

September 2020

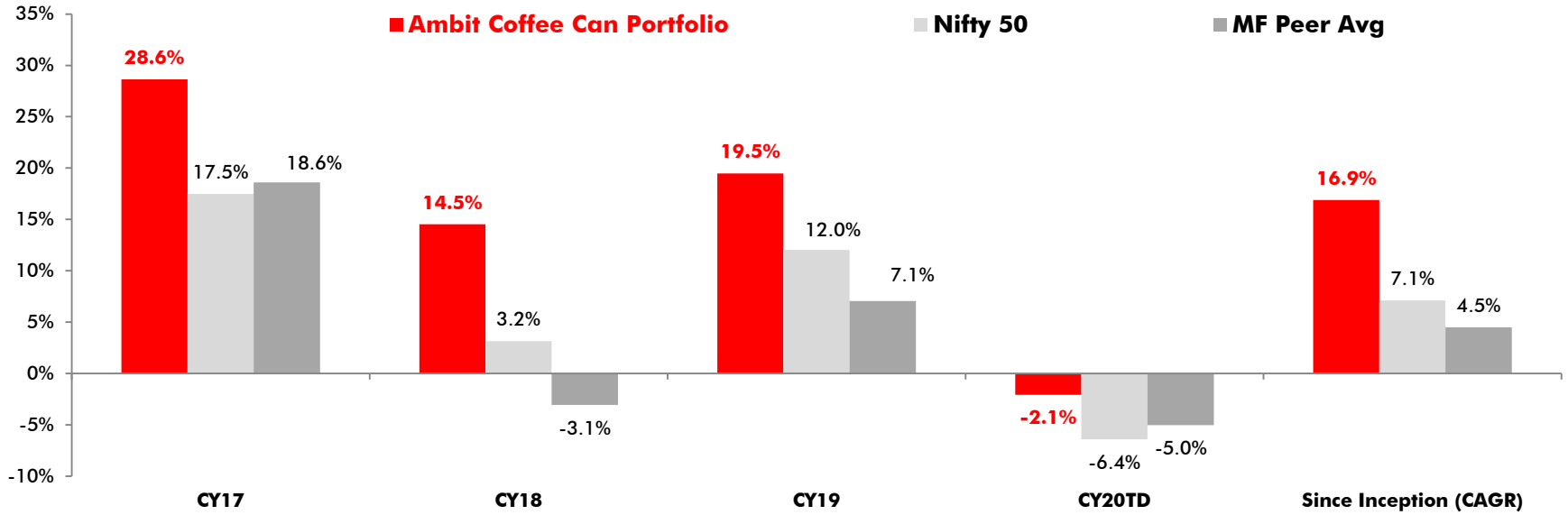
GOOD & CLEAN by AMBIT

COFFEE CAN PMS

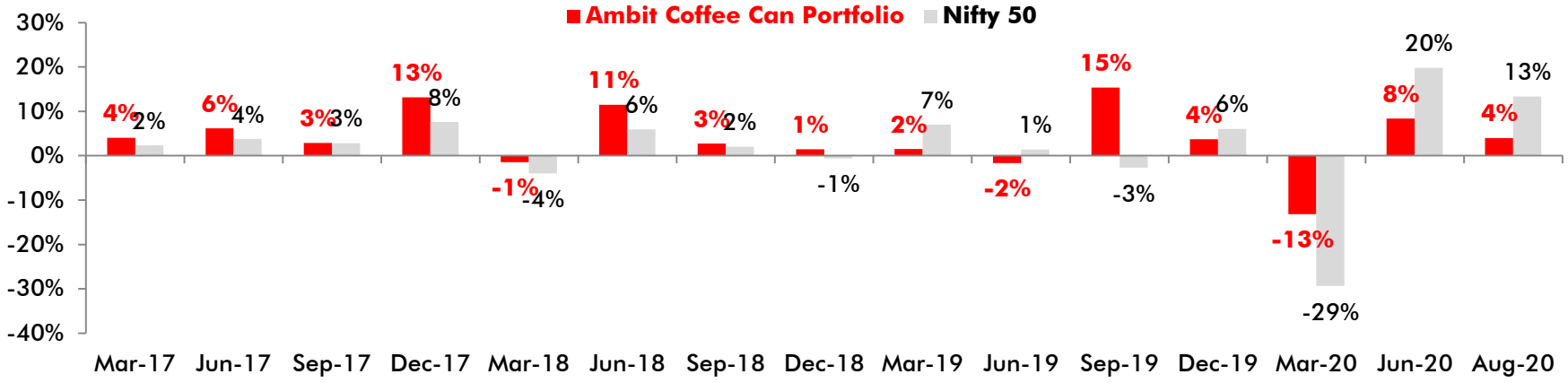
EMERGING GIANTS by AMBIT

Ambit Coffee Can Portfolio – Performance Track Record

CALENDAR YEAR RETURNS



QUARTERLY TRACK RECORD



Ambit Coffee Can Portfolio inception date is Mar 06, 2017; Returns as on 31st Aug, 2020
Returns are net of all fees and expenses; Regular growth schemes considered for MF peer group comparison;

How did we deliver this?

Good risk adjusted returns is an outcome of Good Processes characterized by:

1 Stringent quantitative filters

- Each offering is based on deeply researched and back tested framework to generate the investment universe
- High threshold for performance over long spans of time, greatly minimize chances of poor performers or poor quality companies entering into the investment universe
- High quality of accounts and corporate governance is uncompromised

2 Experienced team & deep-dive research

- Dedicated and experienced research team
- Research processes inspired by IE Research
- Investment Committee to approve all investment decisions
- Part of larger Ambit group lends advantages
- Focus on what is knowable and what is important

3 Focus on earnings growth + earnings quality

- Lower obsession with timing when one is investing in a superior calibre of companies
- Companies with a consistent track record and leadership traits are preferred
- Past track record + Future sector potential + Current management capabilities = Comfort on delivering quality earnings

4 Risk management

- Concentrated Portfolios deliver best returns as returns do not get average out
- Lower drawdowns due to consistent performers in secular sectors
- Long term orientation with low churn realize the power of compounding

Origins of Ambit's Coffee Can Portfolio

1 **Stringent quantitative filters**

ROBERT G KIRBY'S PAPER

The Journal of Portfolio Management

1984

Institutional Equities Research Team

2014

Asset Management

2017

The Coffee Can portfolio

You can make more money being passively active than actively passive.

Robert G. Kirby

76

During recent years, there has been a gradual but steady increase in the use of index funds by institutional investors. This disturbs me, because I believe that superior investment research and management can produce consistently above-average results. Even beyond that point, however, I am also bothered by the wide, unquestioning acceptance of a form of indexing that appears to be seriously flawed. Nevertheless, despite these complaints, I do not disagree out of hand with those who adopt indexed investment programs.

We all know that, in the aggregate, professional money managers do not produce a return superior to that of a broadly based, unmanaged portfolio. We ignore the data that show that a few money managers have done consistently better, and a few others have done consistently worse. This means that we should not be surprised when an investor who has been a client of a poor money manager decides that he would be better off with an index fund. To beat the market is not easy. In addition to a good investment manager, the investor needs perspective, patience, and courage — qualities that do not abound in today's intensely competitive world. For many investors, institutional and individual, an index fund may well be the best kind of common stock investment program.

WHY INDEX? AND WHY NOT?

Perhaps I have a suspicious and cynical mind. Each surge in the popularity of index funds seems to follow a period during which the S&P 500 has been an excellent performer. Most index funds are not set up to avoid inferior performance; their purpose is to secure superior performance — just as when an investor hires a new investment manager with a great recent record. These are the wrong reasons.

Other investors adopt index funds for the right reasons. They believe that (1) the market is efficient in pricing assets so that it is virtually impossible to achieve consistently superior returns, and (2) the underperformance of professional money managers is the result of futile transaction costs. I disagree with these assumptions, but they support a position that is logical and makes sense. The question that completely perplexes me is why, with this sensible and logical approach to equity investing, these people then choose to replicate the Standard & Poor's 500, which (1) is in reality actively managed, and (2) does not represent the market!

WHEN IS PASSIVE ACTIVE?

In case you're shocked, let's examine these two statements. First, on the point of active management, maybe you can accuse me of splitting hairs, because turnover in the S&P 500 is small in comparison to that of most "active" money managers. Even modest activity, however, if it occurs year after year, produces a substantial cumulative change in the portfolio. In the past 10 years, Standard & Poor's has made several hundred changes, both eliminations and additions, in their portfolio, and those changes have created transaction costs for holders of S&P 500 index funds. Further, the changes are not the result of a formula that produces a consistent, predictable kind of alteration: They represent individual judgments of the Standard & Poor's staff, based on a combination of research and intuition, just as old-fashioned, active portfolio managers do it. Yet many people who are

COFFEE CAN PMS

Ambit Asset Management launches Coffee Can Portfolio on PMS platform in March 2017

Our Time tested Framework

Coverage universe = Stocks with 10+ years of historical track record of consistency
> 10% YoY Revenue growth + > 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

↓

Concentrated portfolio of 10-15 stocks

↓

Monitor earnings potential of companies in portfolio

↓

Churn (if required) = <1 stock per year on average

Answering the obvious questions

'Timing' = Futile when earnings is consistent + strong

Total Shareholder Returns	=	Earnings Growth	x	Change in P/E

Scenarios	A	B	C	D
Starting P/E (x) - trailing	55	55	55	55
Ending P/E (x) - trailing	40	30	40	30
Number of years	10	10	3	3
EPS CAGR	**25%**	**25%**	**25%**	**25%**
Price CAGR	**21%**	**18%**	**12%**	**2%**

Which company's stock should I buy?

Type 1:
Consistent earnings

Type 2:
Volatile earnings (could be due to external or internal factors)

For how long should I hold this stock?

Type 1:
Forever (as long its competitive strengths sustain)

Type 2:
Time it well

Focus on sustainable earnings to create long term wealth

Coffee Can Portfolio Philosophy

Consistent Track Record

Companies having excellent financial track record of revenue growth and earnings for over 10-20 years with identifiable DNA

Long Term Wealth Creation

Coffee Can Portfolio intends to provide 20-25% Earnings CAGR over long term holding periods with volatility of portfolio similar to Govt. bonds (holding period>3 years)

Low/Negligible Churn

Coffee Can Portfolio is a highly concentrated portfolio with 10-15 stocks and intended churn of less than 1 stock per year on average. This allows the portfolio to benefit from "Power of Compounding"

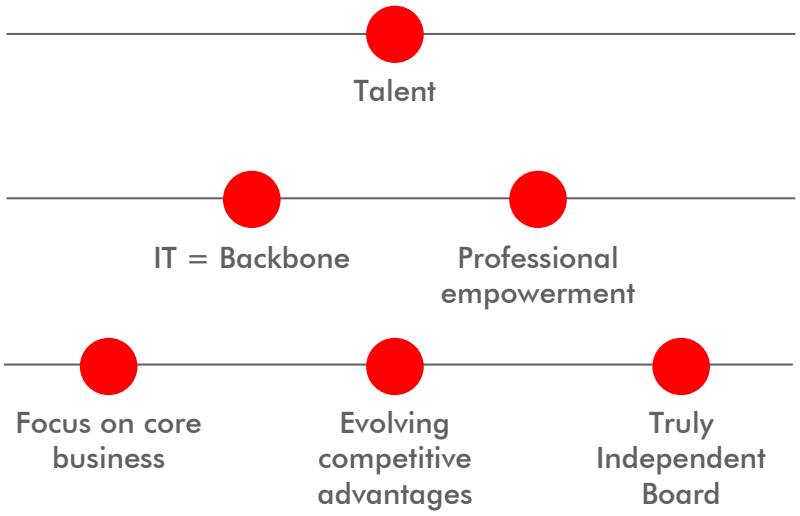
Do not "TIME" the market

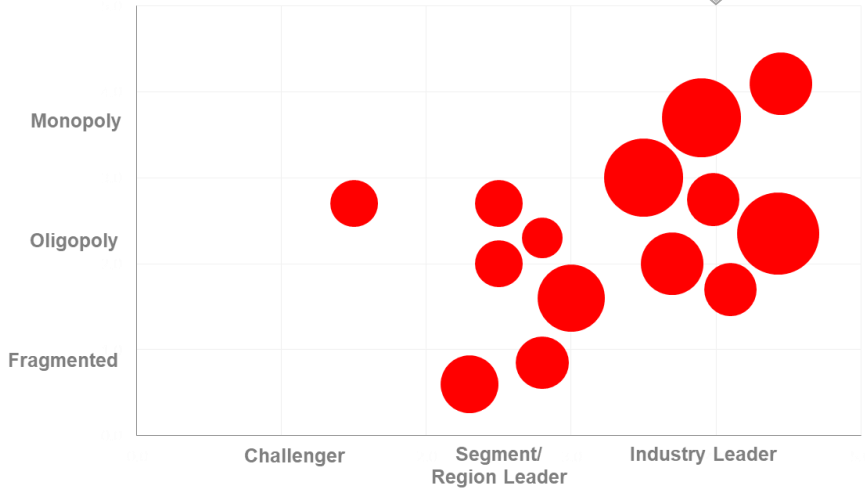
Do not attempt to time the market on the basis of speculation surrounding oil price, exchange rates, politics or other non-fundamental factors

Market Leaders in B2C Sectors

Most companies in Coffee Can Portfolio dominate their markets and possess unassailable competitive advantages in their core industries.

DNA to deliver consistent growth decade after decade





Bubbles refer to individual companies in Coffee Can Portfolio
Size of the bubble indicates Model Portfolio Weights

Asset Management Team

2 Experienced team & deep-dive research

Fund Management

Sushant Bhansali
Chief Executive Officer
CA, MBA | 18 Yrs | MSCI Inc, PwC

Aishvarya Dadheech
CA, CFA, MBA | 14 Yrs | Reliance Life, Crisil | Coverage: IT, Banks

Manish Jain
MBA | 16 Yrs | Nomura, Lehman Brothers, ICICI Securities, Motilal Oswal | Coverage: Consumers

Rahul Maheshwary
CA | 5 Yrs | TCG Asset Management, IDBI AMC | Coverage: BFSI, FMCG, TMT

Ronil Dalal
PG Finance, CFA | 7 Yrs | Ambit Capital, Entrepreneur | Coverage: Chemicals, Healthcare, Auto Anc

Hussain Kagzi
BMS | 4 Yrs | Entrepreneur, Prabhudas Lilladher | Coverage: Pharma, Consumer Discretionary

Zubin Pruseth
PGDM Finance, CFA (L2 Candidate) | 4 Yrs | Deloitte Haskins and Sells LLP | Coverage: Insurance, Retail

Meet Mandavia
PGDM Finance | 3 Yrs | Acuris Global

Ajit Agarwal
CA, CFA | 3 Yrs | HSBC | Coverage: Building Materials, Financials

Abhishek Vora
CA, CFA (L3 Candidate) | 1 Yr | - | Sector Coverage: Auto, Industrials

Sales

Siddhartha Rastogi
COO & Head of Sales
PGDM, CS (Inter), BCom | 18 Yrs | HSBC, IIFL, Citibank, UTI Bank

Mukesh Sharma
Channel Sales - West
MBA | 14 Yrs | Motilal Oswal AMC, BNP Paribas AMC

Timmanna Bokke
Channel Sales - South
MBA | 14 Yrs | Nippon India AMC

Ashu Tomar
Partner Engagement
MBA | 8 Yrs | Citibank

Umang Shah
Channel Sales - West
MBA | 11 Yrs | B&K Wealth

Operations

Ganesh Bendale
Associate Vice President - Operations
MBA Finance, CFP | 16 Yrs | ASK Inv Mgmt, Kotak Wealth, ING IM

Shrikrishna Wairkar
Assistant Manager – MIS & Finance
B Com | 15 Yrs | Standard Chartered Securities (India), J M Financial, K R Choksey, Bonanza Portfolio

Thirunavukkarasu Swami
Manager – Depository Operations
Undergrad | 20 Yrs | Motilal Oswal

Nanasaheb Gharge
Assistant Manager – PMS Operations
B Com | 17 Yrs | Standard Chartered Securities (India), CAMS

Uday Parab
Assistant Manager – Depository Operations
B Com | 13 Yrs | Centrum Broking

Ajit Deshmukh
Sr Executive – PMS Operations
BCom | 9 Yrs | Systematix Shares & Stock Brokers, Julius Baer, NSDL

Customer Service

Krupa V Daave
Customer Service
BCom | 11 Yrs | Ambit Capital, Religare Private Wealth

Valentina Dsouza
Customer Service
BCom | 9 Yrs | Ambit Capital, Religare Private Wealth

Indrajeet Ankalangi
Customer Service
BCom | 7 Yrs | Mirae AMC, Reliance AMC

Investment Process

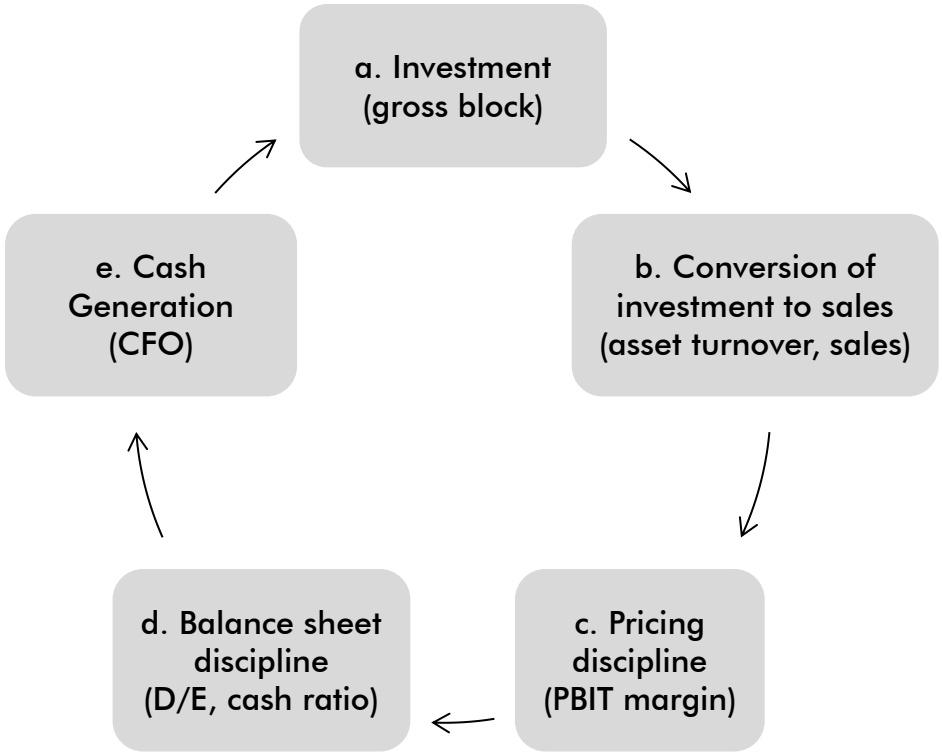
- Investment Universe is researched by Sector analysts
- Sector Analyst recommends to the Investment Committee
- Investment Committee approves all entry and exits from Portfolios

Investment Committee

- Senior Ambit Delegate
- Group Head – Risk
- Sushant Bhansali
- Manish Jain
- Aishvarya Dadheech

Ambit's proprietary Good & Clean research methodology

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



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

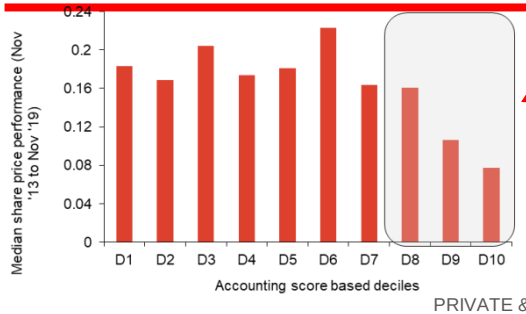
- Low Cash yield implying balance sheet misstatement
- Writing-off losses directly through balance sheet
- High contingent liability

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

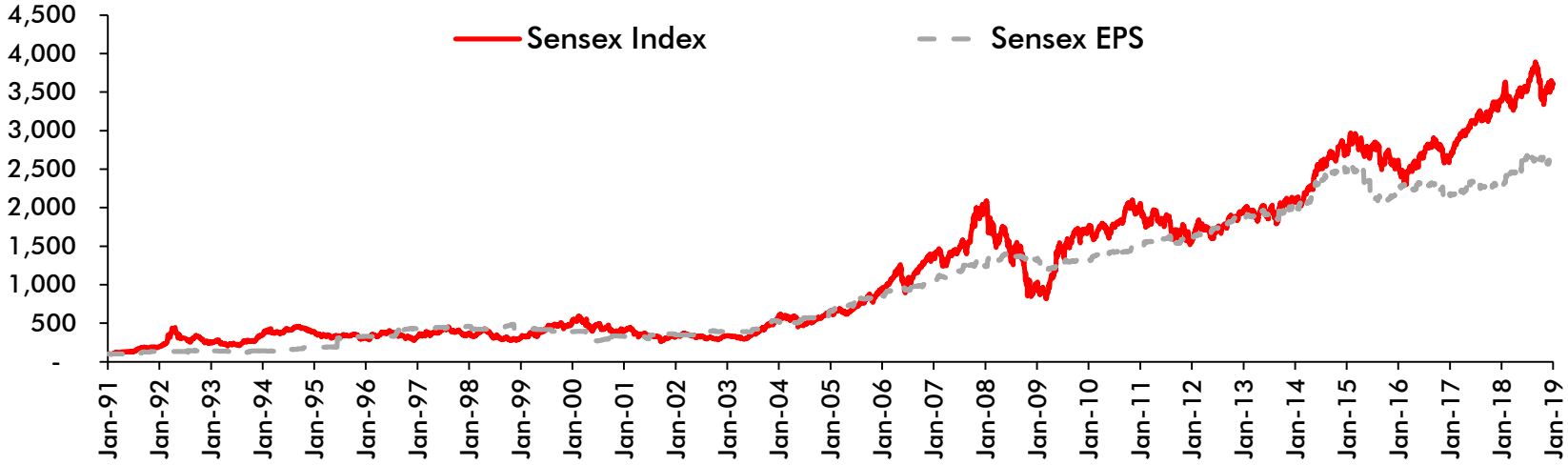
- High auditor remuneration



The bottom three deciles i.e. the worst quality stocks on accounting quality, have underperformed

Earnings growth is the only driver of share prices...

3 Focus on earnings growth + earnings quality



Source: BSE, Ambit Capital
Sensex Price and EPS are based to 100 on Jan 1991

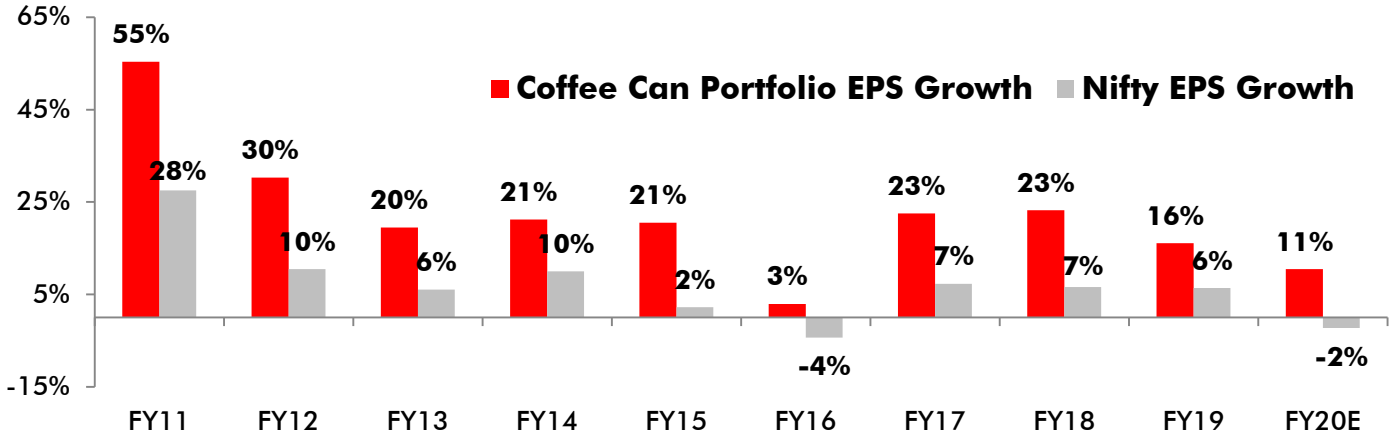
Page Industries	Mkt Cap (Rs cr)	Trailing EPS	Trailing P/E (x)
Apr-10	920	27	31
Apr-20	20,271	334	54
CAGR	**36%**	**29%**	**6%**

Source: Ambit Capital

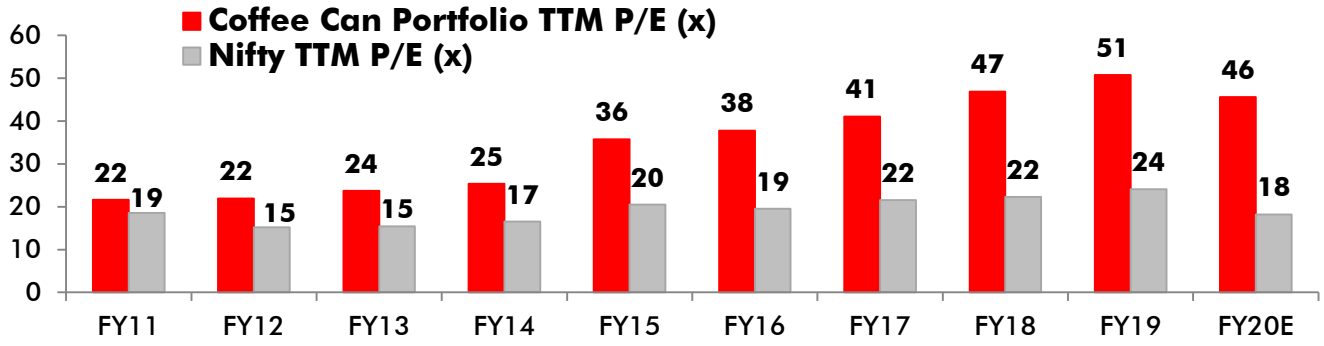
Earnings contributed to ~80% of the share price growth

Ambit Coffee Can Portfolio Earnings vs. Nifty Earnings

FY11-FY20 CAGR Coffee Can Portfolio 18% vs. Nifty 5%

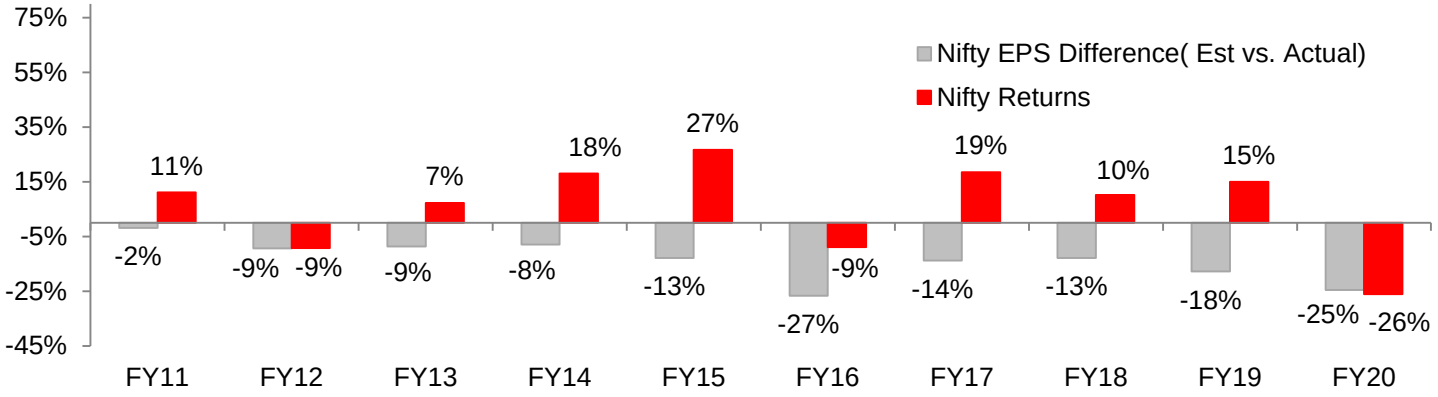


Quality always comes at a price: Higher EPS growth trajectory = Multiple Expansion

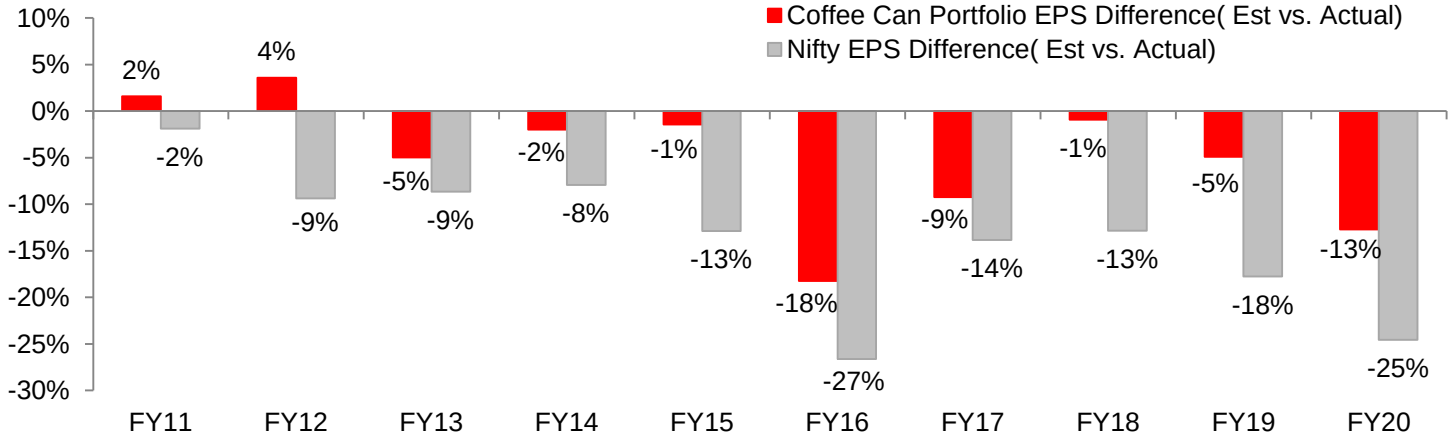


EPS Variance (Estimated vs. Actual)

Nifty Returns have been non-linear to the Nifty EPS performance (Estimated vs. Actual)



Coffee Can Portfolio have lower variance than Nifty every year



4 Risk Management

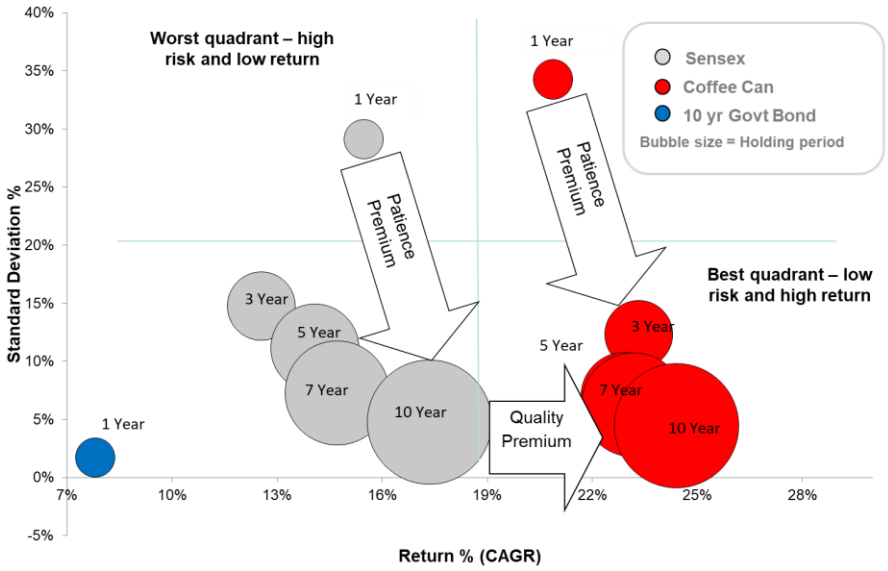
Sector Allocation	
Building Material	26%
Consumer Staples	24%
Financials	23%
Cons Disc	11%
Retail Diagnostics	6%
Retail	5%
Cash/Equivalent	5%

Segment Allocation	
Large Cap	72%
Mid Cap	23%
Small Cap	0%
Cash/Equivalent	5%

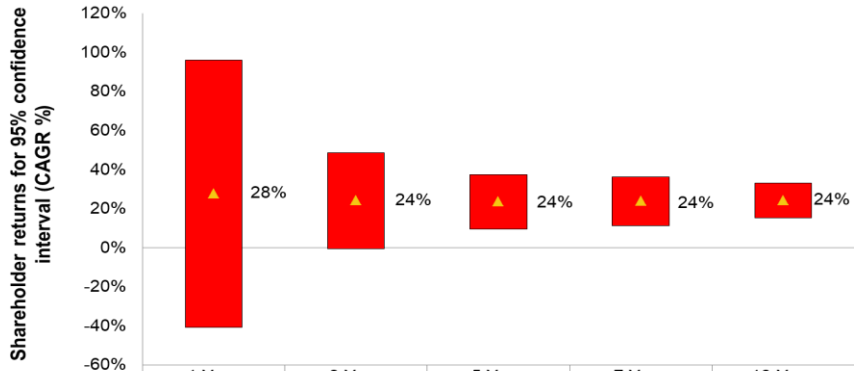
Risk Ratios	
Beta	0.57
Sharpe Ratio	0.62
Max Drawdown: Portfolio	-17%
Max Drawdown: Benchmark Index	-29%

Coffee Can Portfolio exhibits superior risk adjusted returns

Historical Coffee Can Portfolio vs Sensex vs Govt. Bond



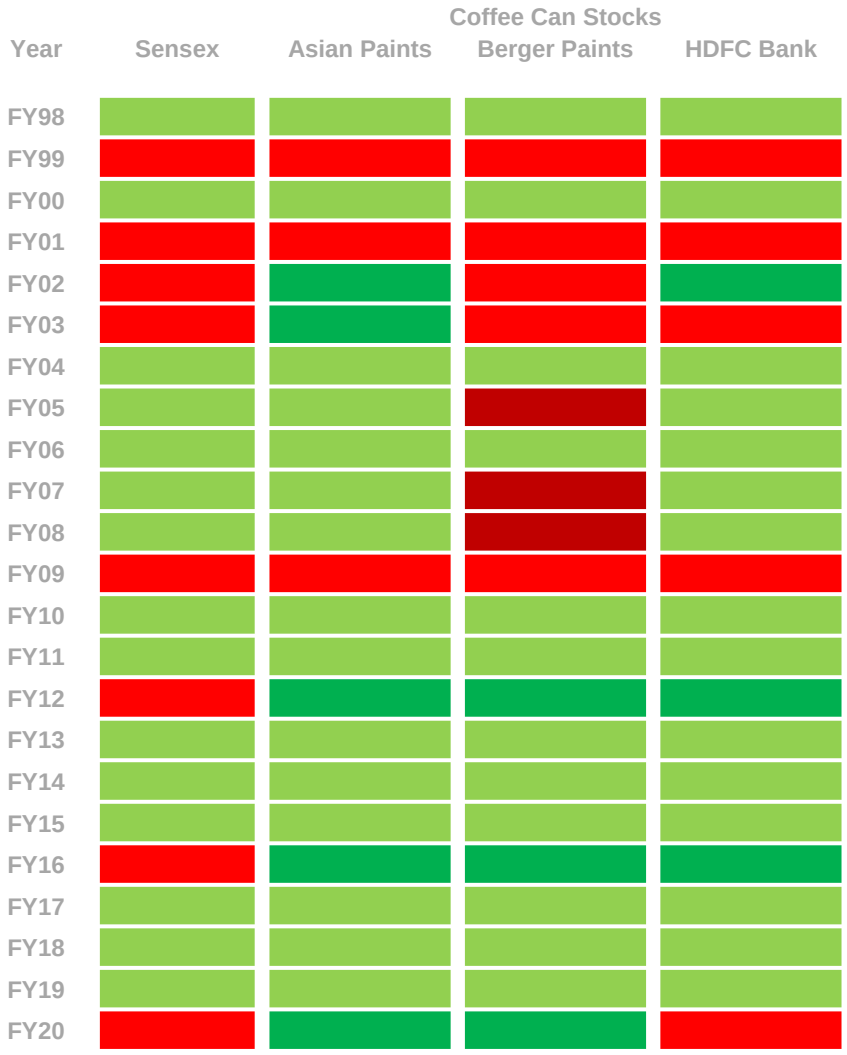
Historically Coffee Can Portfolio has provided capital protection for 3 yrs or longer holding period



	1 Year	3 Year	5 Year	7 Year	10 Year
Upper Bound of 95%	96%	49%	38%	36%	33%
Median	21%	23%	23%	23%	24%
▲Mean	28%	24%	24%	24%	24%
Lower Bound of 95%	-41%	0%	10%	11%	15%

Coffee Can Stocks' resilience vs Sensex

Dark Green reflects positive stock return in a year when Index was negative
Dark Red reflects negative stock return when Index return was positive



Deep dive research presented through our Disruption series…

- Besides thinking about the immediate next steps for your portfolio and **in keeping with our long term investment thesis** we like to stay adept with long term disruptions your companies can face in the future.
- We **regularly come out with our thoughts on disruptions** in our portfolio companies/ sectors.

AMBIT Acumen at work — Berger Paints, asianpaints — **Oct 2019**

AMBIT Acumen at work — BRITANNIA — **Nov 2019**

AMBIT Acumen at work — HDFC BANK — **Jan 2020**

AMBIT Acumen at work — marico — **May 2020**

AMBIT Acumen at work — D-Mart, AVENUE SUPERMARTS LIMITED — **Jun 2020**

Key Terms

Fund Type	SEBI Registered PMS
Fund Tenure	Open Ended
Structure	Discretionary PMS
Minimum investment	INR 50 lacs
Stock selection	Investible universe is stocks that perform well on the framework noted earlier. A further subjective assessment then leads to a more concentrated stock portfolio
Number of stocks	10 – 15
	33% per sector, 15% per stock
	Large cap biased with Nifty 50 as the benchmark
Time horizon and turnover	The investment horizon is 3-5 years and longer; turnover therefore should not exceed an average of 5-10%
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
Custodian & Fund Accountant	ICICI Bank Limited.
Brokers	Ambit Capital, Motilal Oswal, Kotak Securities
Depository Participant	Ambit Capital (Central Depository Services Limited)

Ambit Asset Management Overview

COFFEE CAN PMS

An absolute return product that aims to deliver steady returns with minimal risk to create wealth over the long-term

- Large-cap oriented portfolio
- Ideal investment horizon of 8-10 years
- Concentrated portfolio with low churn
- Great companies with a proven track record of consistent growth and high RoE

GOOD & CLEAN by AMBIT

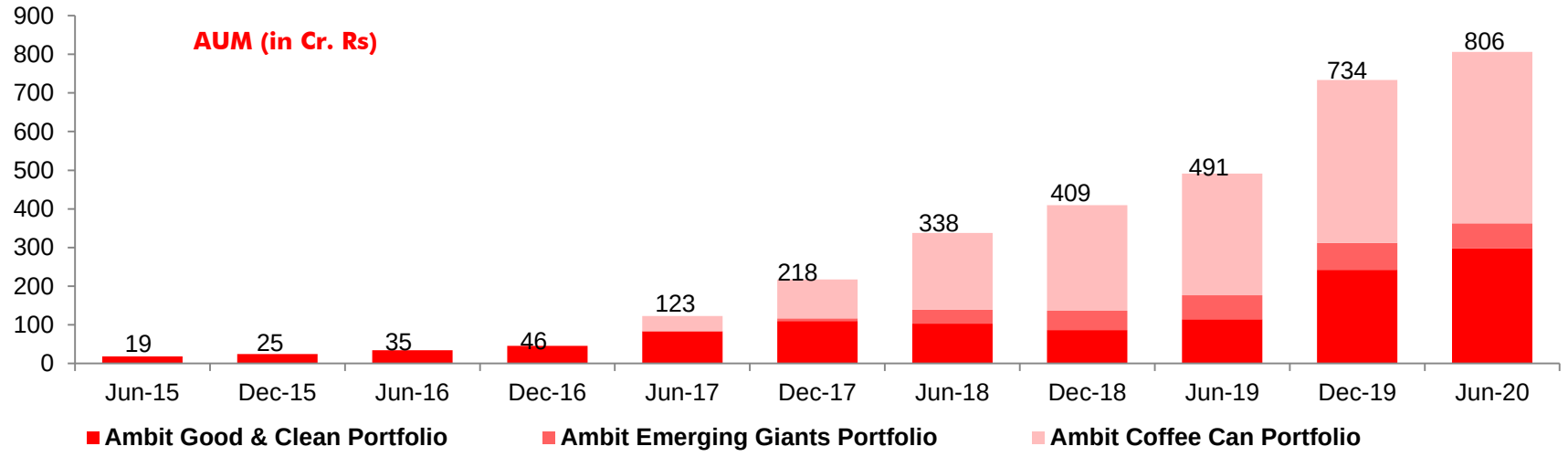
A portfolio of companies that have a proven track record of efficient capital allocation and high growth

- Mid-cap oriented portfolio
- Ideal investment horizon of 3-5 years
- Growth at reasonable valuation

EMERGING GIANTS by AMBIT

A portfolio of companies that aims to create wealth over long periods of time by investing in the leaders of tomorrow

- Small-cap oriented portfolio
- Ideal investment horizon of 5-6 years
- Aims to identify market leaders early
- Focused on finding the next Coffee Can companies



Ambit Overview

Pre-eminent full-service India focused Investment Bank

- Innovative solutions that reduce complexity
- Deep understanding of prevalent regulatory framework
- Broad range of tailor-made solutions for Business Owners, Corporates, Institutional Investors, Family Offices and High Net Worth Individuals (HNWIs)

Experienced and Professional pan-India Team

- Team of 450+
- 20 Offices in India, Singapore and USA

Successful Partnerships

- Strategic partnership with QInvest, Qatar
- Strategic business alliance with Daiwa, Japan for M&A

Proven Track Record

- Consistently ranked amongst the top 10 M&A advisory firms. Advised 175+ transactions with announced deal value of USD 20 bn+
- Increasingly a top 3 broker for top investors locally and globally. ***Consistently ranked in the top 3 Best Local Broker category*** in the **ASiAMONEY Brokers Polls.**
- In-depth and fundamental Research (Economy/strategy/sectoral)
- Manages wealth of 1800+ HNI families. Ambit Private Wealth adjudged Best Private Bank in India in the **ASIAMONEY Private Banking Polls** for four consecutive years from 2013 - 2016

CORPORATE FINANCE
- Mergers & Acquisitions (M&A) and Divestitures
- Equity Capital Markets (ECM)

CREDIT (AMBIT FINVEST)
- Structured Finance
- SME Finance

INSTITUTIONAL EQUITIES
- Differentiated and path breaking Research
- Equities Trading

ASSET MANAGEMENT
- Portfolio Management
- Offshore Advisory

GLOBAL PRIVATE CLIENT
- Investment Advisory
- Asset Allocation
- Tax and Estate Planning

Ambit Executive Committee

ASHOK WADHWA
Group CEO

Experience: 36 years
Ambit: 22 years
Formerly Managing Partner – Arthur Andersen

SANJAY SAKHUJA
Executive Chairman
Ambit Finvest

Experience: 36 years
Ambit: >17 years
Formerly with Lazard, Arthur Andersen, Citibank

GAUTAM GUPTE
Group COO

Experience: 27 years
Ambit: >19 years
Formerly with SBI Capital Markets

VIKAS KHATTAR
Managing Director and Head of Equity Capital Markets & Financial Sponsors Group

Experience: 22 years
Ambit: >2 year
Formerly with Jefferies, DSP Merrill Lynch, Citigroup, Morgan Stanley and HSBC

AUSANG SHUKLA
Managing Director and Head of Corporate Finance

Experience: 17 years
Ambit: >4 years
Formerly with Macquarie Capital, Lehman Brothers, Nomura and PricewaterhouseCoopers

SUSHANT BHANSALI
CEO
Asset Management

Experience: 18 years
Ambit: >12 years
Formerly with MSCI and PwC

SANJAY AGARWAL
CEO
Ambit Finvest

Experience: 23 years
Ambit: ~2 years
Formerly with Finmax, Yes Bank, Centurion Bank of Punjab and SBI Commercial & International Bank Ltd

VIKRANT NARANG
Dy CEO
Ambit Finvest

Experience: 18 years
Ambit: >3 years
Formerly with KKR, Barclays, ABN Amro and PwC

DHIRAJ AGARWAL
Co-Head of Institutional Equities
and Head of Equity Sales

Experience: 27 years
Ambit: >1 year
Formerly with Standard Chartered Securities, Sharekhan/SSKI, CLSA, Boyer Allan

SANJIT CHOWDHRY
Managing Director
Risk, Strategy, Corporate Communications

Experience: 25+ years
Ambit: 6 months
Formerly with BanyanTree Bank Ltd., RBL Bank, Barclays, Standard Chartered, ANZ Grindlays

AMRITA FARMAHAN
CEO
Global Private Client

Experience: 20 years
Ambit: >9 months
Formerly with Avendus, Reliance Private Client, Citibank (Citigold Private Client)

NITIN BHASIN
Co-Head of Institutional Equities and Head of Equity Research

Experience: 17 years
Ambit: >9 years
Formerly with SRF Limited, Emkay, Kotak Institutional Equities and Execution Noble

Risk Disclosure and Disclaimer

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