

April 2020



MONTHLY NEWSLETTER

GOOD & CLEAN
by AMBIT

Ambit Good & Clean Portfolio



Ambit Coffee Can Portfolio



EMERGING GIANTS by AMBIT

Ambit Emerging Giants Portfolio

**EQUITY INVESTMENTS & PMS ARE SUBJECT TO MARKET RISKS,
READ ALL SCHEME RELATED DOCUMENTS CAREFULLY BEFORE INVESTING**

Keep healthy to stay wealthy!

Dear Investor,

They say risk is derived from what you do not know (rather than the conventional measures like volatility/Beta). While there are plenty of things that are wrong with the world right now and uncertainty is at its highest, we take a hard look at what is knowable and important as this is within our control and worth focusing on.

This newsletter will not only give you some comfort on your portfolio stocks but also seek to share with you how staying safe, healthy and sane are equally important in these trying times. Before we jump into your portfolio health assessment (results of which are favorable) we hope to pause here to spend a few minutes on topics of personal health and well-being and share our experience with you all.

All work but know play!

It has now been close to 2 weeks that our Ambit asset management team has been working from home. As you streamline your work from home ritual (as we have now) you will find yourself with some spare time on your hands. A lot of us may find this situation hard to deal with but let's face it there is no choice here. We need to accept this change as we fight the biggest modern day attack on the human race.

The top most priority is not to lose hope, be positive and stay sane! This is the chance to do those things you have always wanted to do (No! Not just Netflix) but never got around to. Some of our team mates have kept themselves busy and sane by spending more time with loved ones, connecting with old friends, rationing the amount of news you watch, exercising, cooking and of course voraciously reading.

Books we are currently reading:

- Karmo ke Siddhanth by Haribhai Thakar
- Sapiens: a brief history of humankind by Yuval Noah Harari
- Rich dad, Poor dad by Robert Kiyosaki
- Into the Minds of Warren Buffet and Charlie Munger by Daniel Pecaut
- Thinking Fast and Slow by Daniel Kahneman
- Humans of Bombay by Karishma Mehta

Your Portfolio Company's immunity to operational jolts remains high in the face of uncertainty...

While we are all scrambling to improve our overall health and boost our immunity by any means necessary it only makes sense that we extend this practice of assessing chink's in one's armor in our professional scope of work too. With this guiding principle in mind we thought it prudent to do a stress test and health assessment of your portfolio stocks across our three schemes.

COVID 19 ASSESSMENT METHODOLOGIES:

Assessing your Non Financials Company's to withstand up to 6 months of such lockdown conditions

What we are assessing?

How we are going about this?

- | | |
|---|---|
| <ul style="list-style-type: none"> ▪ Liquidity position ▪ Ability to seek Financing ▪ The costs which will have to get paid out even when on lockdown or shutdown ▪ Would the leverage ratios be manageable if no Revenue is incurred for 6 months ▪ What has been the historic ability of the company to throw out cash ▪ For BFSI companies | <ul style="list-style-type: none"> ▪ Cash and marketable securities on hand, Number of months cash can be used to pay fixed costs ▪ Net Debt to Equity, Banking relationships, Pledge levels ▪ Fixed cost elements ▪ Adjusted Debt/Equity after making 6 months fixed cost payments ▪ CFO/EBITDA or cash flow conversion ▪ Capital adequacy ratio, Tier 1 capital, ALM mismatch if any, promoter pledge |
|---|---|

Source: Ambit Asset management, Note: Implied 6M DE stands for DE adjusted for additional debt taken over and above existing cash to pay for at least 6 months of fixed cost payment with no revenue

Assessing your BFSI Company's ability to withstand up to 6 months of such lockdown conditions

What we are assessing?

How we are going about this?

- | | |
|--|---|
| <ul style="list-style-type: none"> ▪ Banks financial health and adequacy of capital ▪ Liquidity position and ability to meet liabilities in a timely manner ▪ Ability to absorb potential defaults ▪ Additional checks | <ul style="list-style-type: none"> ▪ Capital adequacy ratio, Tier 1 capital ▪ ALM mismatch if any ▪ PPOP/Provision or Operating profits as a multiple of credit cost ▪ Pledge levels if any |
|--|---|

Source: Ambit Asset management

COVID 19 ASSESSMENT OUTCOME OVERVIEW:

Impact of Corona virus on Ambit Coffee can PMS

Color code	Number	Risk
GREEN	13	Low
AMBER	0	Average
RED	0	Above Average
Total	13	LOW

Source: Ambit Asset management, Note: Risk code assesses ability to withstand headwinds for 6 months

Impact of Corona virus on Ambit G&C midcap PMS

Color code	Number	Risk
GREEN	13	Low
AMBER	4	Average
RED	1	Above Average
Total	18	LOW/AVG

Source: Ambit Asset management, Note: The total number of companies show as 18 as they reflect assessment of both older and new client holdings, Also Note: Risk code assesses ability to withstand headwinds for 6 months

Impact of Corona virus on Ambit EG PMS

Color code	Number	Risk
GREEN	10	Low
AMBER	5	Average
RED	2	Above Average
Total	17	AVG

Source: Ambit Asset management, Note: The total number of companies show as 17 as they reflect assessment of both older and new client holdings, Also Note: Risk code assesses ability to withstand headwinds for 6 months

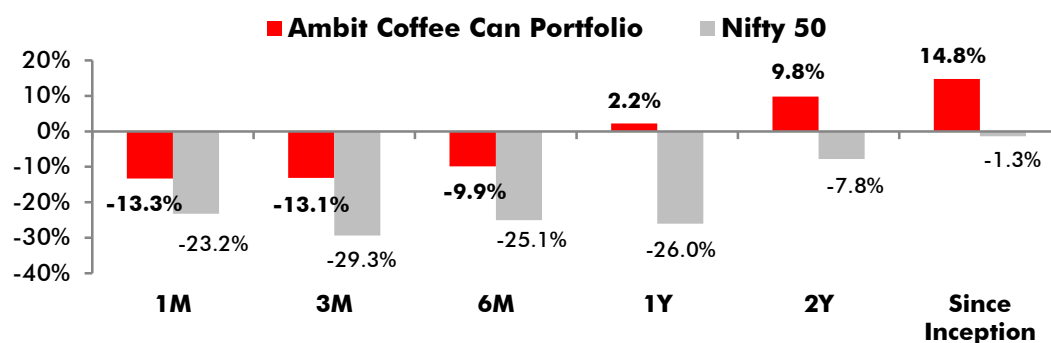
For detailed COVID 19 portfolio health cards Ref Exhibit > 1B&1C, 2B&2C, 3B&3 C



Ambit Coffee Can Portfolio

At Coffee Can Portfolio, we do not attempt to time commodity/investment cycles or political outcomes and prefer resilient franchises in the retail & consumption oriented sectors. The Coffee Can philosophy has unwavering commitment to companies that have consistently sustained their competitive advantages in core businesses despite being faced by disruptions at regular intervals. As the industry evolves or is faced by disruptions, these competitive advantages enable such companies to grow their market shares and deliver long-term earnings growth.

Exhibit 1A: Ambit's Coffee Can Portfolio performance update



Source: Ambit; Portfolio inception date is March 6, 2017; Returns as of Mar 31st, 2020; All returns (except 2Y and Since inception) are absolute returns net of fees & expenses; **Note:** Returns prior to Apr'19 are returns of all the Pool accounts excluding non-aligned portfolio, and returns post Apr'19 is based on TWRR returns of all the pool accounts.

Exhibit 1B: Ambit CCP Non Financials portfolio health card

Company /Risk code	Sector/Category	Fixed as % of Total Cost**	Cash Conversion Ratio (CFO/EBITDA)	No. of Months cash (Cash/FC per month)	Net DE (FY20)	Implied DE 6M	Promoter Pledge***	Bankers
1	Diagnostics/Leader	50%	77%	14	-0.6	-0.6	Nil	NA
2	Biscuits & Dairy/Leader	30%	85%	27	-0.2	0.2	Nil	Bank of America NA, Citibank, HDFC Bank, ICICI Bank, SBI
3	Nutrition & Packaged Foods/Leader	59%	81%	13	-1.1	0.0	Nil	Bank of America NA, Citibank NA, HDFC bank, ICICI Bank, SBI
4	Hair Oil & Foods/Leader	46%	83%	16	-0.3	0.1	Nil	Bank of America NA, Citibank NA, HDFC bank, ICICI Bank, SBI
5	Diversified/Leader	54%	94%	37	-0.3	0.0	Nil	SBI, Axis Bank, Citibank NA, HDFC Bank, ICICI Bank, KMB
6	Consumer/Leader	22%	38%	0	0.2	0.4	Nil	SBI, HDFC Bank, Standard Chartered Bank, Kotak Mahindra Bank, HSBC
7	Consumer Retail/Leader	7%	52%	40	-0.5	-0.5	Nil	HDFC Bank, Kotak Mahindra Bank, Axis Bank, ICICI Bank, HSBC
8	Consumer Discretionary/Leader	27%	37%	1	0.1	0.4	Nil	NA
9	Decorative Paints/Leader	12%	97%	11	-0.1	0.0	12.5%	NA
10	Decorative Paints/Follower	14%	94%	11	0.0	0.1	Nil	HDFC Bank, ICICI, Kotak, SBI, StanC, HSBC
11	Adhesive/Leader	21%	97%	10	-0.2	-0.1	Nil	ICICI, HDFC Bank, Citibank, Indian Overseas Bank, Corporation Bank

Source: Ambit Asset management, Note: ** Fixed cost percentage is as per our estimate based on FY19 Annual report data, actual data might differ significantly based on passage of time, ***Percentage of promoter holding, Note: Risk code assesses ability to withstand headwinds for 6 months, Green=Low Risk, Amber=Average Risk, Red=Above average Risk, Implied 6M DE stands for DE adjusted for at least 6 months of fixed cost payment with no revenue

Exhibit 1C: Ambit CCP BFSI portfolio health card

Company/Risk code	Sector/Category	CAR*	Tier-1 capital*	PPOP/ Provisions (FY20)	ALM -Q3FY20			Promoter Pledge***
					<1m	1-3m	3-6m	
12	Banking/Leader	18.5%	17.1%	4.3x	7.8%	16.2%	24.8%	9.04%
13	Banking/Fragmented Player	15.4%	14.8%	3.7x	12.2%	16.0%	19.7%	Nil

Source: Ambit Asset management, , Note: ALM Banks- Indicates cumulative advances only, Minimum Capital Requirement at 9% & including CCB of 2.5% at 11.5%, LCR for Company 13 for FY19, * stands for 3QFY20, ***Percentage of promoter holding, Note: Risk code assesses ability to withstand headwinds for 6 months, Green=Low Risk, Amber=Average Risk, Red=Above average Risk

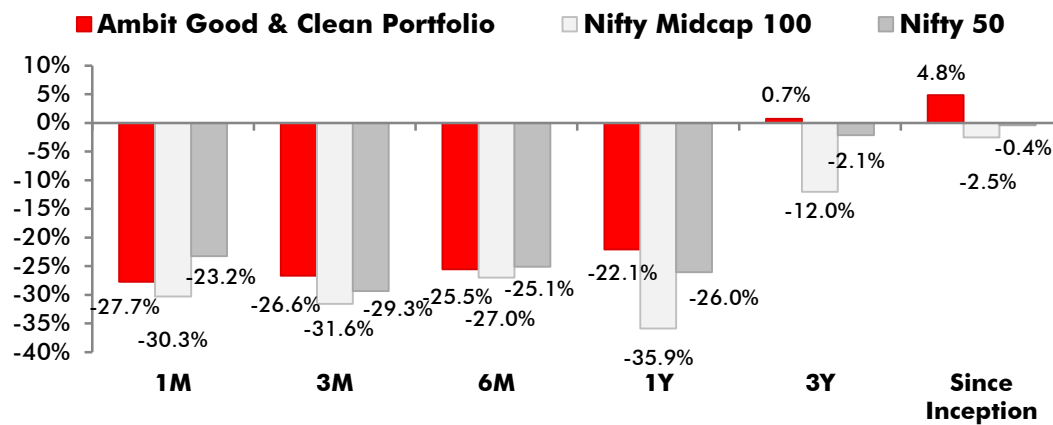


Ambit Good & Clean Portfolio

Ambit's Good & Clean strategy provides long-only equity exposure to Indian businesses that have an impeccable track record of clean accounting, good governance, and efficient capital allocation. 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 for consistent growth. Our focus has been to deliver superior risk-adjusted returns with as much focus on lower portfolio drawdown as on return generation. Some salient features of the Good & Clean strategy are as follows:

- **Process-oriented approach to investing:** Typically starting at the largest 500 Indian companies, Ambit's proprietary frameworks for assessing accounting quality and efficacy of capital allocation help narrow down the investible universe to a much smaller subset. This shorter universe is then evaluated on bottom-up fundamentals to create a concentrated portfolio of no more than 20 companies at any time.
- **Long-term horizon and low churn:** Our holding horizons for investee companies are 3-5 years and even longer with annual churn not exceeding 15-20% in a year. The long-term orientation essentially means investing in companies that have the potential to sustainably compound earnings, with this compounding earnings acting as the primary driver of investment returns over long periods.
- **Low drawdowns:** The focus on clean accounting and governance, prudent capital allocation, and structural earnings compounding allow participation in long-term return generation while also ensuring low drawdowns in periods of equity market declines.

Exhibit 2A: Ambit's Good & Clean Portfolio performance update



Source: Ambit; Portfolio inception date is March 12, 2015; Returns as of Mar 31st, 2020; since inception & 3Y returns are annualized returns. **Returns are net of all fees and expenses**

Exhibit 2B: Ambit Good & Clean Non Financials portfolio COVID 19 health card

Company/ Risk code	Sector/Category	Fixed as % of Total Cost**	Cash Conversion Ratio (CFO/EBITDA)	No. of Months cash (Cash/FC per month)	Net DE (FY20)	Implied DE 6M	Promoter Pledge***	Bankers
1	Chemicals/Leader	13%	88%	11	-0.2	-0.2	Nil	SBI, Axis Bank, Citibank NA, Standard Chartered Bank, HSBC (Mauritius)
2	Chemicals/Leader	14%	50%	0	-0.1	0.0	Nil	SBI, HDFC Bank, Citibank NA, Yes Bank
3	Consumer Discretionary/Leader	36%	45%	47	-0.4	-0.4	Nil	HDFC Bank
4	Pharmaceuticals/Challenger	43%	58%	6	0.4	0.4	Nil	NA
5	Consumer Discretionary/Leader	26%	105%	20	-0.2	-0.2	Nil	NA
6	Pharmaceuticals/Challenger	45%	92%	4	0.7	0.7	36.5%	NA
7	IT Services/Fragmented player	82%	78%	5	-0.4	-0.4	Nil	SBI, HDFC Bank, Barclays Bank, CITI Bank, Standard Chartered
8	Pipes/Leader	7%	100%	15	-0.1	-0.1	Nil	Axis Bank, ICIC Bank, Central Bank of India, BNP Paribas, Kotak, HDFC Bank
9	Tiles/Leader	13%	89%	11	-0.1	0.0	Nil	SBI, HDFC Bank, IDBI, Canara Bank
10	Multiplex/Leader	22%	87%	6	0.4	0.6	Nil	HDFC Bank, IndusInd, ICICI, Axis, Kotak
11	Consumer Discretionary/Leader	27%	37%	1	0.1	0.4	Nil	NA
12	Industrial/Leader	21%	108%	11	-0.4	-0.3	Nil	SBI, Citi Bank, HSBC, Axis, IDBI
13	Auto/Challenger	10%	132%	2	0.0	0.3	Nil	SBI

Source: Ambit Asset management, Note: ** Fixed cost percentage is as per our estimate based on FY19 Annual report data, actual data might differ significantly based on passage of time, ***Percentage of promoter holding, Note: Risk code assesses ability to withstand headwinds for 6 months, Green=Low Risk, Amber=Average Risk, Red=Above average Risk, Implied 6M DE stands for DE adjusted for at least 6 months of fixed cost payment with no revenue

Exhibit 2C: Ambit Good & Clean BFSI portfolio COVID 19 health card

Company/ Risk code	Sector/Category	CAR*	Tier-1 capital*	PPOP/ Provisions (FY20)	ALM -Q3FY20			Promoter Pledge***
					<1m	1-3m	3-6m	
14	Banking/Fragmented Player	15.4%	14.8%	3.7x	12.2%	16.0%	19.7%	Nil
15	Banking/Challenger	18.7%	15.5%	1.6x	5.0%	11.4%	16.2%	5.2%
16	Auto Financier/Leader	17%	13%	5x	10%	7%	34%	Nil
17	Affordable Housing/Leader	60%	58%	27x	NA	81%	62%	Nil
18	Banking/Follower	16.1%	15.0%	1.4x	14.2%	24.6%	34.7%	3.9%

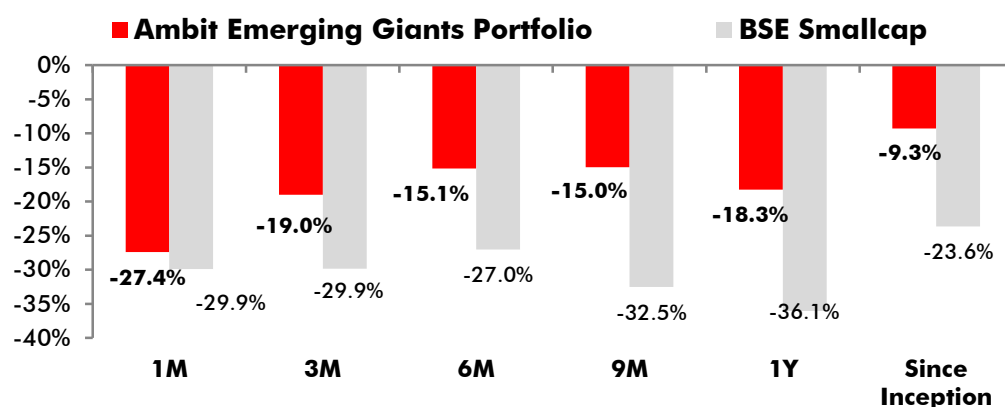
Source: Ambit Asset management, , Note: ALM Banks- Indicates cumulative advances only, Minimum Capital Requirement at 9% & including CCB of 2.5% at 11.5%, LCR for Company 14 for FY19, * stands for 3QFY20, ***Percentage of promoter holding, Note: Risk code assesses ability to withstand headwinds for 6 months, Green=Low Risk, Amber=Average Risk, Red=Above average Risk,

Ambit Emerging Giants



Smallcaps with secular growth, superior return ratios and no leverage
 Ambit's Emerging Giants portfolio aims to invest in small-cap companies with market-dominating franchises and a track record of clean accounting, governance and capital allocation. The fund typically invests in companies with market caps less than Rs. 4,000cr. These companies have excellent financial track records, superior underlying fundamentals (high RoCE, low debt) and ability to deliver healthy earnings growth over long periods of time. However, given their smaller sizes these companies are not well discovered, owing to lower institutional holdings and lower analyst coverage. Rigorous framework-based screening coupled with extensive bottom-up due diligence lead us to a concentrated portfolio of 15-16 emerging giants.

Exhibit 3A: Ambit Emerging Giants performance update



Source: Ambit; Portfolio inception date is December 1, 2017; Returns as of Mar 31st, 2020; since inception returns are annualized. Returns are net of all fees and expenses

Exhibit 3B: Ambit Emerging Giants Non Financials portfolio COVID 19 health card

Company /Risk code	Sector/Category	Fixed as % of Total Cost**	Cash Conversion Ratio (CFO/EBITDA)	No. of Months cash (Cash/FC per month)	Net DE (FY20)	Implied DE 6M	Promoter Pledge**	Bankers
1	Chemicals/Leader	50%	88%	5	0.4	0.5	Nil	SBI, Axis Bank, Citibank, Standard Chartered Bank
2	Chemicals/Fragmented sector player	22%	38%	6	-0.1	-0.1	Nil	Bank of India, HSBC
3	Auto & Auto components/Follower	17%	46%	0	0.3	0.5	Nil	SBI, HDFC Bank, Oriental Bank of Commerce
4	Auto & Auto components/Fragmented sector player	21%	77%	0	0.3	0.6	Nil	HSBC, Citibank, Standard Chartered Bank
5	Auto & Auto components/Fragmented sector player	20%	33%	12	1.1	1.1	Nil	SBI, HDFC Bank, Citibank NA, ICICI Bank, DBS Bank, Federal Bank
6	Consumer Durable/Leader	23%	-7%	3	-0.1	0.2	Nil	Bank of Baroda, PNB, Corporation Bank, Saraswat Co-op Bank
7	Consumer Discretionary/Challenger	23%	67%	20	-0.6	-0.6	Nil	HDFC Bank, YES Bank, PNB, ICICI Bank
8	Consumer Discretionary/Challenger	64%	68%	20	-0.3	-0.3	Nil	HDFC Bank
9	Consumer Discretionary/Leader	53%	15%	5	-0.1	-0.1	Nil	HDFC Bank, ICICI Bank, SBI, Standard Chartered
10	Consumer Discretionary/Leader	49%	45%	19	-0.2	-0.2	Nil	HDFC Bank, ICICI Bank, SBI
11	Sanitaryware/Leader	19%	85%	15	-0.2	-0.2	Nil	SBI, Yes Bank, Federal Bank
12	Laminates/Leader	20%	87%	1	0.3	0.5	Nil	IDBI Bank, ICICI, HDFC Bank, IDFC, Citi, HSBC
13	Industrials/Leader	32%	110%	4	-0.5	-0.3	Nil	HDFC Bank, HSBC Bank, Bank of Baroda, Bank of India, IDBI
14	Industrials/Leader	47%	92%	4	-0.5	-0.2	Nil	SBI, Axis Bank, Citi Bank

Source: Ambit Asset management, Note: ** Fixed cost percentage is as per our estimate based on FY19 Annual report data, actual data might differ significantly based on passage of time, ***Percentage of promoter holding, Note: Risk code assesses ability to withstand headwinds for 6 months, Green=Low Risk, Amber=Average Risk, Red=Above average Risk. Implied 6M DE stands for DE adjusted for at least 6 months of fixed cost payment with no revenue

Exhibit 3C: Ambit Emerging Giants BFSI portfolio COVID 19 health card

Company/ Risk code	Sector/Category	CAR*	Tier-1 capital*	PPOP/ Provisions (FY20)	ALM -Q3FY20			Promoter Pledge***
					<1m	1-3m	3-6m	
15	Housing Finance/Challenger	22%	20%	19x	Positive ALM			Nil
16	Wholesale Financier/Challenger	30%	29%	5x	Positive ALM			Nil
17	Banking/Fragmented Player	15.8%	12.3%	3.7x	2.6%	8.2%	12.2%	Nil

Source: Ambit Asset management, Note: ALM Banks- Indicates cumulative advances only, * stands for 3QFY20, ***Percentage of promoter holding, Note: Risk code assesses ability to withstand headwinds for 6 months, Green=Low Risk, Amber=Average Risk, Red=Above average Risk

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