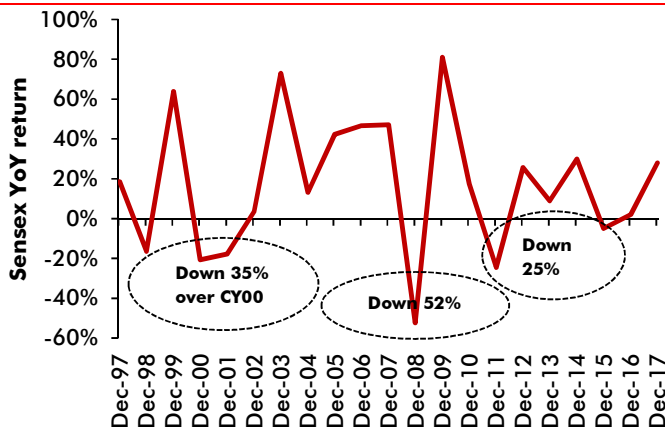


Emerging Giants (Good & Clean small cap) – May 2018

The Noise and the Signal

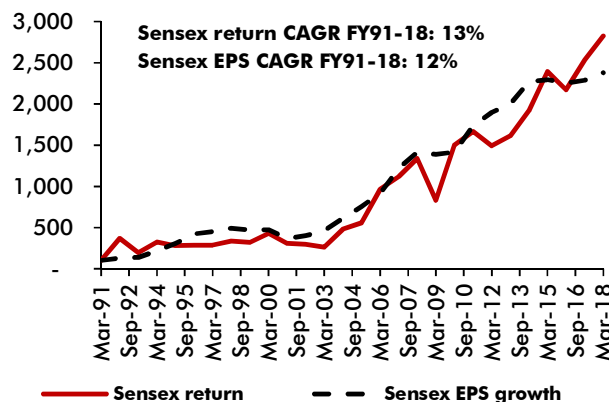
After a weak first quarter, Indian equity markets rebounded sharply in April 2018 with the Nifty rising 6.2% for the month. These periodic ups and downs only serve as reminders that volatility is an integral part of equity market investing. With the continued rise in bond yields, increasing cost of money should keep volatility elevated in our view. However, for long term investors most of this is irrelevant. Even with these periodic bouts of volatility impacting short term returns, long term equity returns are primarily governed by earnings growth. Therefore, the ability to see through the near term noise is critical to long term investment success.

Exhibit 1: Equity returns display intermittent periods of volatility...



Source: Bloomberg

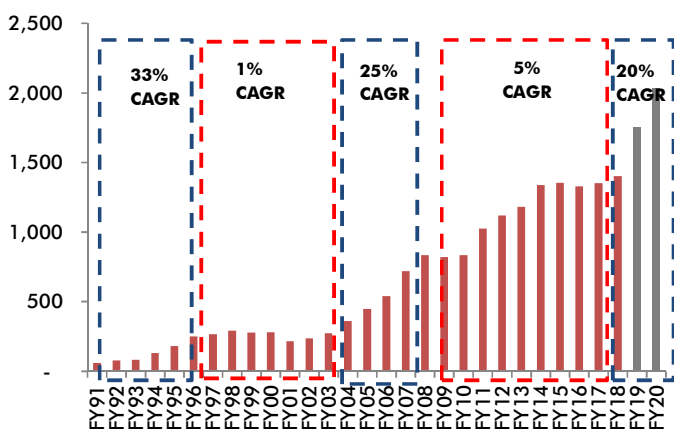
Exhibit 2: ...but eventually track earnings growth over the long term



Source: Bloomberg; Cumulative YoY Returns indexed to 100 (March 1991)

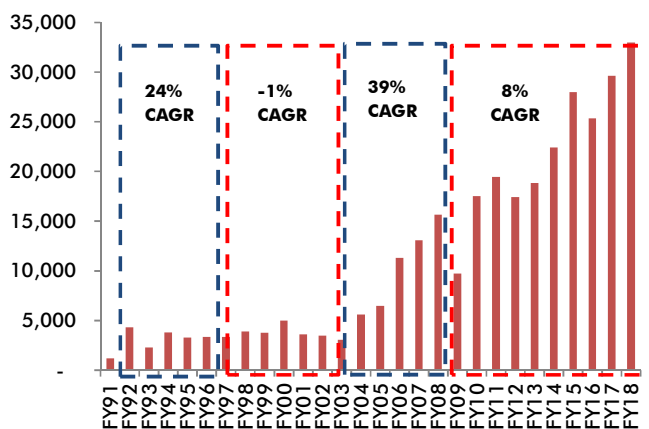
On the subject of earnings, we believe that after a prolonged period of suppressed growth (~5% CAGR on corporate earnings over FY08-18), growth is beginning to normalize. With disruption surrounding GST and demonetisation behind us, the recent government reforms (financialisation of savings, formalisation of the economy) should soon start reflecting in corporate earnings growth. High frequency indicators like the Index of Industrial Production (IIP), auto sales, SME credit growth, etc. are already indicating green-shoots of economic recovery.

Exhibit 3: Expect normalization in earnings growth...



Source: Bloomberg, Ambit; Earnings represented by Annual Sensex EPS (Rs) above

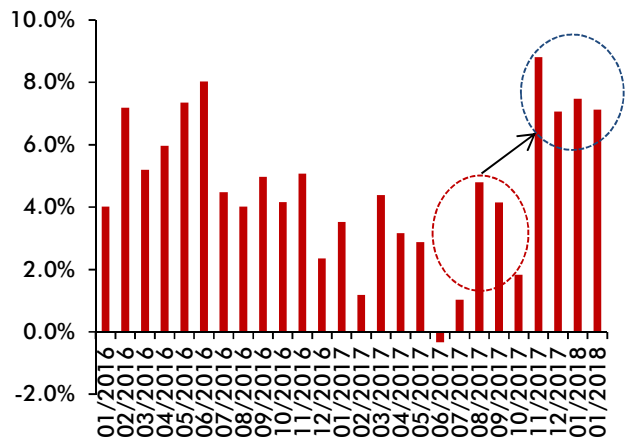
Exhibit 4: ...which in turn should drive equity returns



Source: Bloomberg; Equity represented by Sensex above

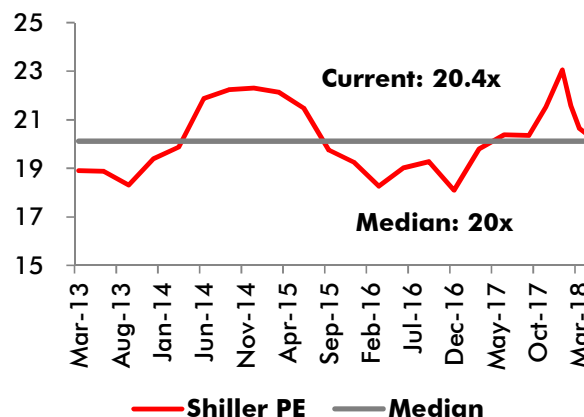
Finally, even with the equity market rally of the past eighteen months, long term valuation measures such as the cyclically- adjusted price-earnings (CAPE) ratio is still close to the long term historical median. This suggests that as earnings growth normalizes, the current valuations leave sufficient room for continued equity market upmove.

Exhibit 5: Rising IIP points to an economic recovery



Source: Bloomberg, Ambit

Exhibit 6: Long term valuation measures supportive of continued equity gains as earnings normalize



Source: Bloomberg, Ambit

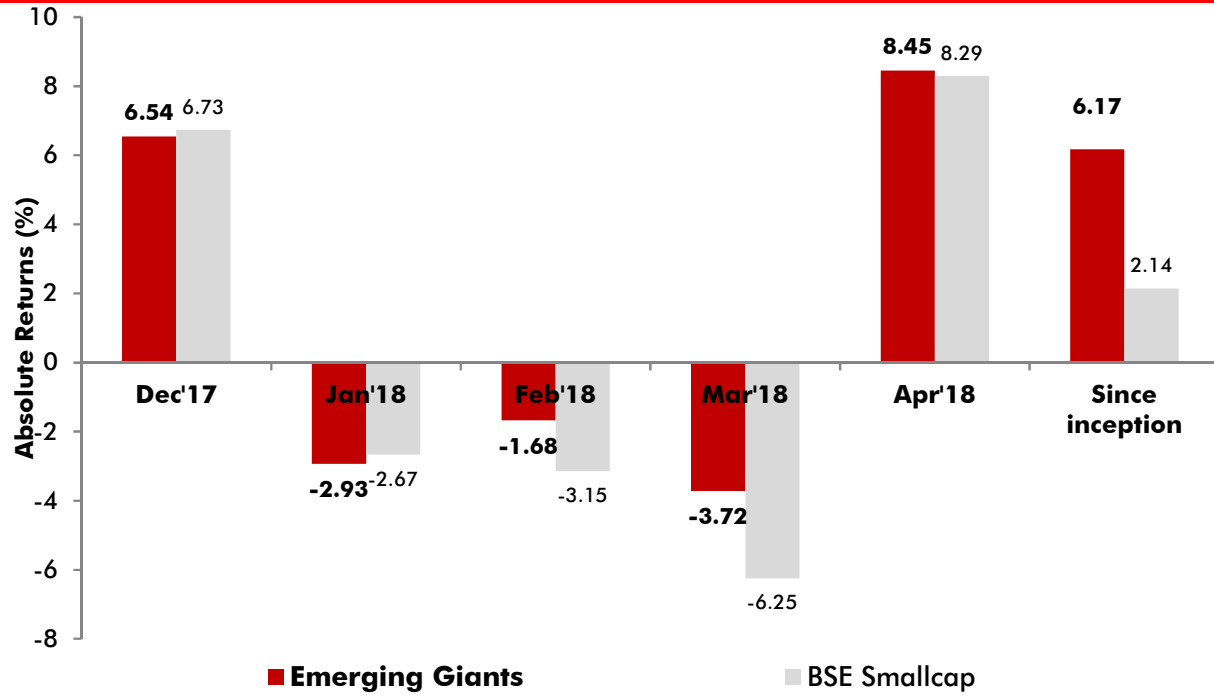
Investing in Ambit’s Emerging Giants Portfolio

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 2500cr. These companies have excellent financial track record, 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.

- **Rigorous stock selection process:** Starting at a relative large investible universe of about 1,300 small caps, Ambit’s proprietary frameworks along with extensive bottom-up research helps create a concentrated portfolio of 15-16 companies at any time. The process focuses on identifying companies which in addition to being clean on governance and accounting, have business models that are profitable, scalable, sustainable and self-funding for their growth requirements.
- **Long term horizon/low churn:** Our holding horizons for investee companies are 3-5 years and even longer with annual churn not exceeding 20-25% in a year. The long term orientation essentially means investing in companies that have the potential to sustainably compound earnings, with this earnings compounding acting as the primary driver of investment returns over long periods.

Please click [here](#) for a detailed presentation on the [fund](#)

Exhibit 7: Ambit's Emerging Giants performance update



Source: Ambit, Bloomberg *Date of inception=1st December 2017. Returns as of 30th April 2018

Disclaimer

Ambit Capital Private Limited ("Ambit") is a registered Portfolio Manager with Securities and Exchange Board of India vide registration number INP000002221.

This *presentation / newsletter / report* 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 / newsletter / report* may contain confidential or proprietary information and no part of this *presentation / newsletter / report* may be reproduced in any form without its prior written consent to Ambit. If you receive a copy of this *presentation / newsletter / report* 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 / newsletter / report* 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 / newsletter / report*, 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 / newsletter / report* and any such liability is expressly disclaimed.

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, and 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 / newsletter / report*.

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.