

September 2019



AMBIT ASSET MANAGEMENT



**Emerging Giants:
G&C Small Cap**

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READ ALL SCHEME RELATED DOCUMENTS CAREFULLY BEFORE INVESTING**

“Stock prices are slave to earning in long term”

Dear Investor,

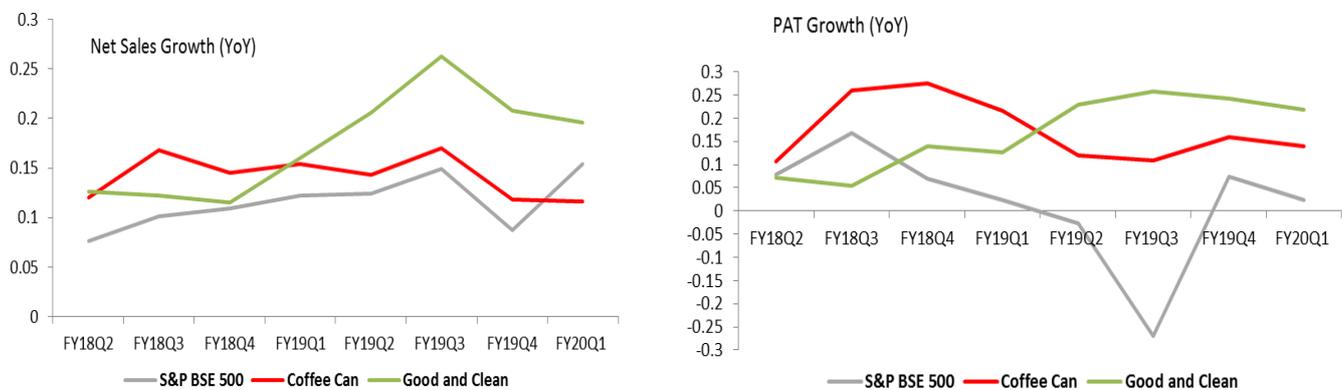
We, at Ambit Asset Management believe that equities can be one of the best investment avenues for long term wealth creation and the risk perceptions are exaggerated. As long as the portfolio companies continue to clock in steady growth, stock performance automatically follows. Hence, at Ambit Asset Management the endeavor always is to constantly monitor the structural attributes of the earnings growth of our portfolio companies to deliver steady long term returns of our investors.

Given the cyclical slowdown amid ongoing liquidity tightness, expectation of Q1FY20 was muted after a relatively weak Q4FY19. However, we are of view that Q1FY20 result were better than expectations. Sectors such as private banks, home building, pharma, consumer, cement etc., showed positive earnings momentum.

What adds to our optimism was the strong performance of our portfolio companies across all three schemes which outstripped the market growth. In spite of the weak economic background and crisis of confidence in financial market, our portfolio companies’ performance stood tall with encouraging topline as well as bottom line growth. We do believe this demonstrates our effective stock selection philosophy.

Our key investment hypotheses remains unchanged where we ensure that portfolio earnings grow at a consistent 18% to 20% over the medium term. The earnings momentum which has been building for the last few quarters has gathered more momentum in Q1FY20 and we are upbeat that this trajectory will continue in ensuing quarters.

Exhibit 1: Coffee Can and Good & Clean have had fairly consistent performance



A combination of strong business propositions combined with market share gains for the organized sector (as better GST compliance kicks in post e-way implementation) should keep portfolio earnings strong over the next few years in our view. On the flip side, any delay in economic recovery is bound to be accompanied with adverse sentiments. Therefore it is important to stick to Good & Clean companies.

An improving earnings environment will go a long way in correcting the perception of investors. A combination of improving earnings outlook and saner valuations augur well for broader markets and makes it an opportune time to invest.

Emerging Giants: G&C Small Cap



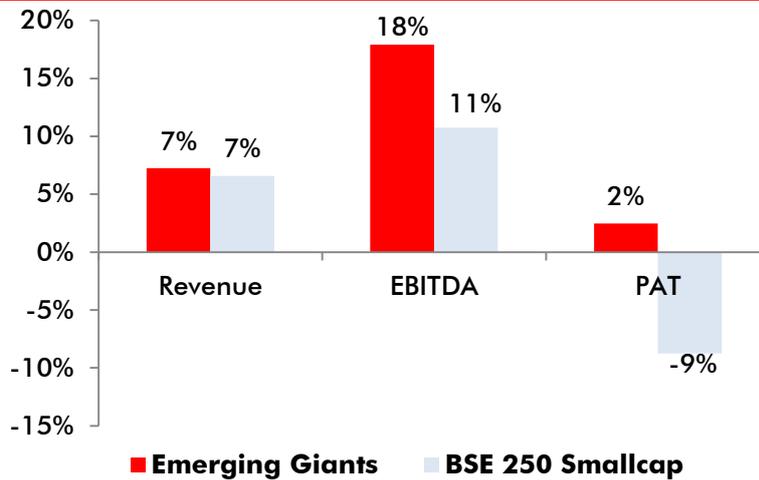
Smallcaps with secular growth, superior return ratios and no leverage

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.

EG portfolio companies continue to deliver healthy earnings growth

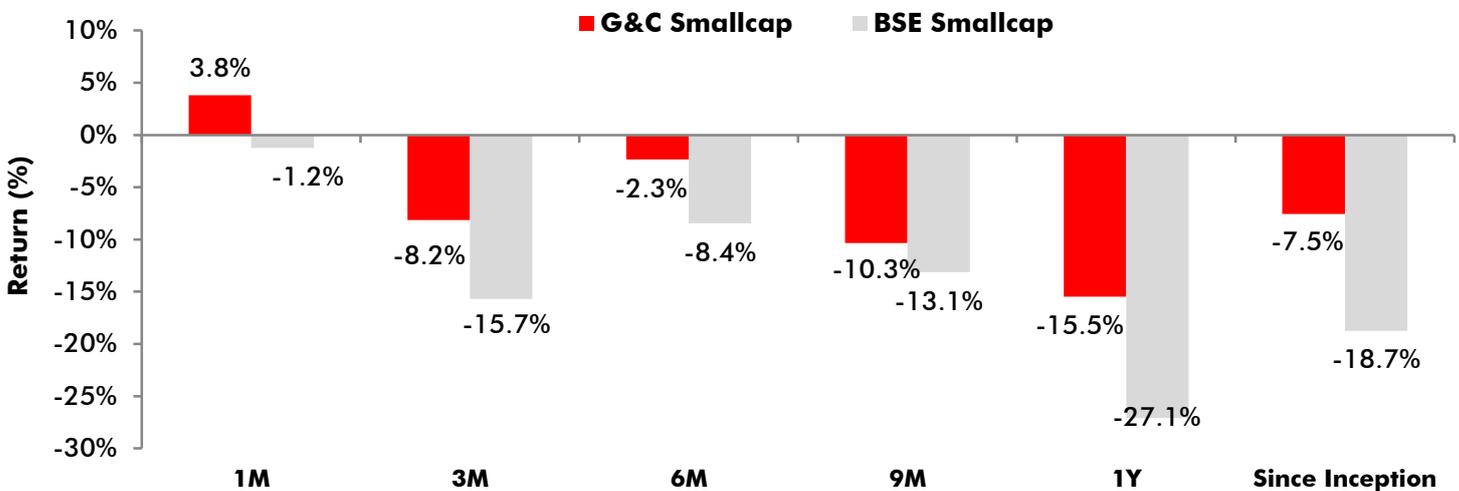
In FY20Q1, Emerging Giants portfolio companies delivered inline revenue growth and earnings, in the midst of economic slowdown. As shown in the graph below, portfolio companies delivered an average Revenue/PAT growth of 7%/3%. Profitability for a few companies was under pressure due to higher input costs, which we believe will be passed on to the buyer with a lag. We believe that the stock will continue to deliver strong number going ahead.

Exhibit 6: Emerging Giants Portfolio Companies Q1-FY20 Performance



Source: Ambit Capital Research; Note: For BFSI companies, Revenue/EBITDA growth represents growth in Net Interest Income/Pre-Provision income respectively;

Exhibit 7: Ambit's Emerging Giants: G&C Small Cap performance update



Source: Ambit; Portfolio inception date is December 1, 2017; Returns as of Aug 30, 2019; Since inception returns are annualized. Returns are net of all fees and expenses

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