AMBIT
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MONTHLY NEWSLETTER

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AMBIT
ASSET MANAGEMENT

GOOD & CLEAN
by Ambit

Good & Clean Portfolio

"Stock prices are slave to earning in long term"

Dear Investor,

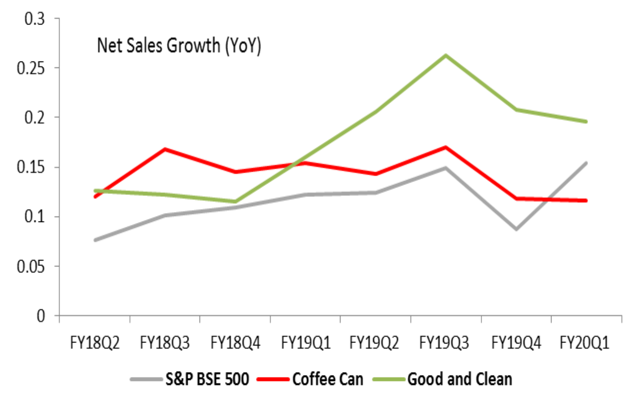
We, at Ambit AMC believe that equities can be one of the best investment avenues for long term wealth creation and the risk perceptions are exaggerated. As long as the portfolio companies continue to clock in steady growth, stock performance automatically follows. Hence, at Ambit AMC the endeavor always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

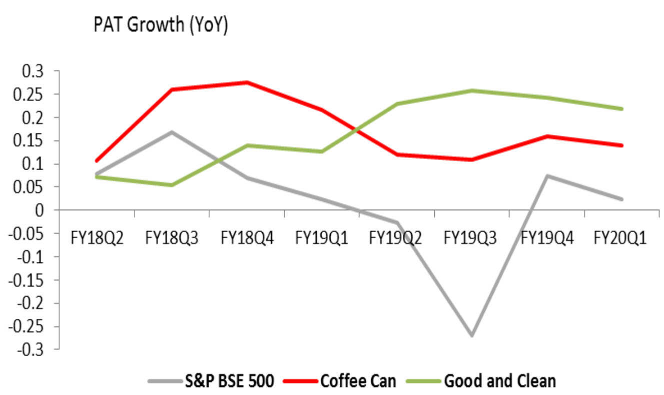
Given the cyclical slowdown amid ongoing liquidity tightness, expectation of Q1FY20 was muted after a relatively weak Q4FY19. However, we are of view that Q1FY20 result were better than expectations. Sectors such as private banks, home building, pharma, consumer, cement etc., showed positive earnings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

Ambit Good & Clean Portfolio

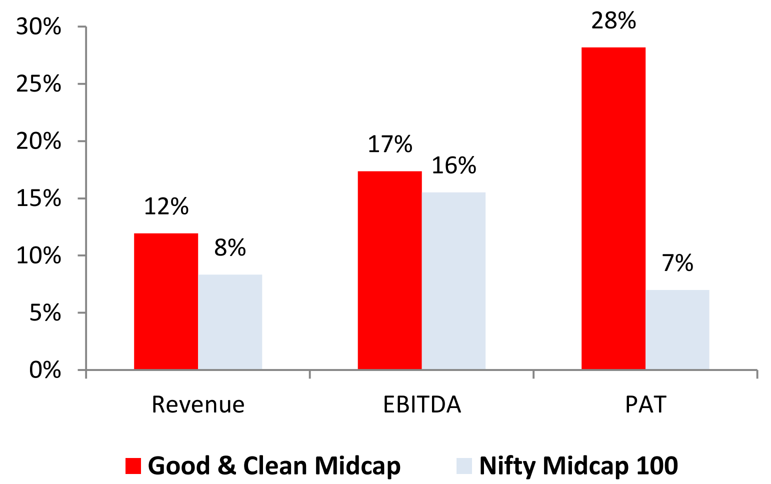
Ambit's Good & Clean strategy provides long-only equity exposure to Indian businesses that have an impeccable track record of clean accounting, good governance, and efficient capital allocation. Ambit's proprietary 'forensic accounting' framework helps weed out firms with poor quality accounts, while 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.

G&C portfolio companies continue to deliver healthy earnings growth

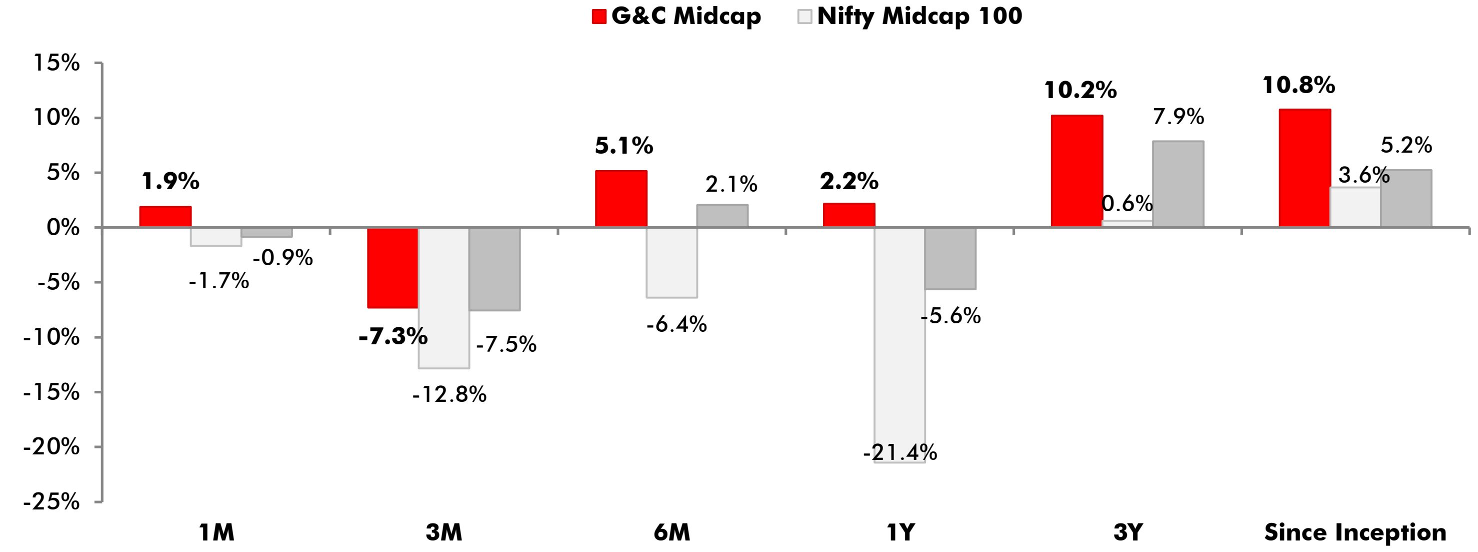
In continuation of strong 3QFY19 & 4QFY19 results, Q1FY20 saw the momentum gaining pace for the Good & Clean portfolio with healthy revenue growth and strong earnings. As shown in the graph below, the portfolio companies showed a median Revenue/EBITDA growth of 12%/28% YoY compared to Nifty midcap 100 growth of 8%/7%. We continue to believe that portfolio stocks will maintain this earing momentum in ensuing quarters.

Exhibit 2: G&C 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 3: Ambit's Good & Clean Portfolio performance update



Source: Ambit; Portfolio inception date is March 12, 2015; Returns as of Aug 30, 2019; Since inception & 3Y returns are annualized returns. ***Returns are net of all fees and expenses***

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