

December 2019



AMBIT ASSET MANAGEMENT

GOOD & CLEAN
by Ambit

Good & Clean Portfolio

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

Keep it simple!

Dear Investor,

While we are eternal believers in the Indian growth story we are cognizant that the domestic economic climate has been grim even if we believe India is on the (bumpy) path to progress. But before we delve into those details, you will be happy to know that in these challenging times your portfolio has delivered robust earnings growth.

Exhibit 1: In the latest 2QFY20 results earning growth of your schemes far exceeded both Sensex and Nifty companies...

	Net non BFSI Sales YoY%	EBITDA non BFSI YoY%	PAT YoY% (includes BFSI)*
Coffee Can PMS	2QFY20	2QFY20	2QFY20
CCP Median	9%	11%	35%
Nifty Median	4%	8%	25%
Good & Clean PMS			
G&C Median	6%	4%	23%
Nifty Mcap 100 Median	4%	7%	14%
Emerging Giants PMS			
EG Median	6%	-9%	24%
BSE smallcap Median	3%	7%	15%

Source: Ambit Asset management, Note:* PAT for 2Q has the impact of corporate tax cuts announced on September 20th

When the going gets tough...

Despite a recent series of fiscal stimulus, including cut in corporate taxes, the Indian economy has slowed for the sixth consecutive quarter in July-September to 4.5%. Whilst 'Government spending' picked up meaningfully 'Consumption' as a theme lost momentum as evinced by a drop in core CPI to a multi-year low.

Exhibit 2: An analysis of 15 high frequency indicators suggests that economic momentum weakened in 2QFY20

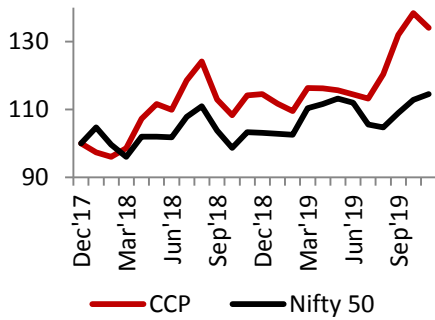
Indicator	Macro Indicator	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	Sequential change (2QFY20 vs 1QFY20)	Oct'19
Passenger Vehicles (Units)	Consumption	19.9%	-3.6%	-0.8%	-2.0%	-18.4%	-28.7%	-10.3%	0.3%
Two wheelers (Units)	Consumption	15.9%	4.9%	8.4%	-9.0%	-11.7%	-20.5%	-8.8%	-14.4%
Rural wages (Rs)	Consumption	3.3%	3.3%	3.8%	4.0%	4.0%	3.9%	-0.2%	NA
Petroleum Products Consumption (Tonnes)	Consumption	4.0%	2.3%	1.8%	6.4%	1.1%	2.2%	1.2%	-1.4%
Retail credit (Rs)	Consumption	17.9%	15.1%	17.0%	16.7%	15.1%	16.6%	1.5%	NA
Revox less interest payments (Rs.)	Consumption	6.0%	25.1%	0.5%	-13.4%	8.7%	25.1%	16.4%	NA
Coal (tonnes)	Investment	13.0%	6.2%	5.0%	6.2%	2.7%	-10.3%	-13.1%	NA
Electricity generation (GWh)	Investment	3.6%	4.5%	6.3%	-0.1%	6.4%	0.9%	-5.4%	-12.9%
Overall Bank credit (Rs.)	Investment	10.9%	12.5%	13.5%	13.3%	11.9%	8.7%	-3.1%	8.9%
Cement production (Tonnes)	Investment	15.9%	12.5%	12.9%	11.6%	1.1%	0.3%	-0.8%	NA
Bitumen Production (Tonnes)	Investment	13.0%	12.8%	4.7%	1.4%	-15.4%	12.5%	27.9%	NA
Central Govt. Capex (Rs)	Investment	27.3%	-3.1%	-45.5%	252.2%	-27.6%	64.6%	92.2%	NA
Core WPI (Index values)	Pricing	5.1%	5.8%	5.6%	3.4%	1.9%	-0.2%	-2.1%	-1.6%
Core CPI (Index)	Pricing	6.0%	5.7%	5.6%	5.0%	4.1%	3.9%	-0.3%	3.2%
Bank Deposits (Rs.)	Savings	6.8%	8.1%	7.9%	10.0%	10.4%	9.4%	-1.0%	10.3%

Source: Ambit Capital research

...the tough get going!

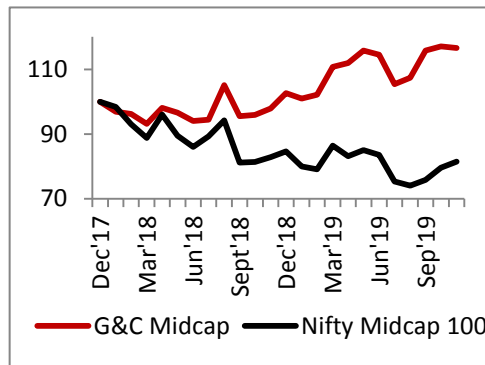
- While the overall outlook in the economy seems to be bleak, history teaches us that having a long term focus while investing remains rewarding.
- However having a long term focus need not always mean sacrificing near term performance. Even if we were to take the peak valuations of January 2018, your portfolio returns across all 3 schemes has been encouraging. **(Ref Exhibit 3,4,5)**
- In uncertain times many of your portfolio companies also continue to gain advantages over less well placed peers

Exhibit 3: Coffee can PMS returns since market peak (Jan 2018)



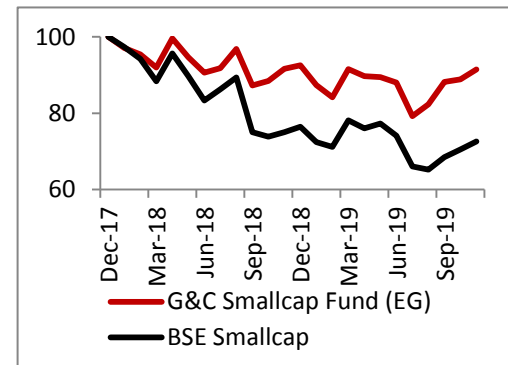
Source: Ambit Asset management, Note: data till November 30th

Exhibit 4: G&C midcap PMS returns since market peak (Jan 2018)



Source: Ambit Asset management, Note: data till November 30th

Exhibit 5: EG PMS returns since market peak (Jan 2018)



Source: Ambit Asset management, Note: data till November 30th

How do we achieve these returns?

- As you are aware at Ambit, we have a long-term orientation with focus on franchise strength, quality of management, superior underlying financials and secular growth.
- Our investment philosophy is based on companies that have consistently sustained their competitive advantages in core businesses despite being faced by disruptions at regular intervals.
- Most of such companies are either market leaders or share a big pie in their respective overall segment and hence have strong pricing power and ability to deliver healthy earnings growth over long periods of time.
- Through our process-oriented approach we invest in high quality businesses that have an impeccable track record of clean accounting, good governance, & prudent capital allocation.
- Essentially for well-run market-leading franchises, timing the entry is futile. Across all 3 schemes at Ambit we do not attempt to time commodity/investment cycles or political outcomes and prefer to opt for resilient franchises. In a way we look at investing into growth companies with high earnings potential.

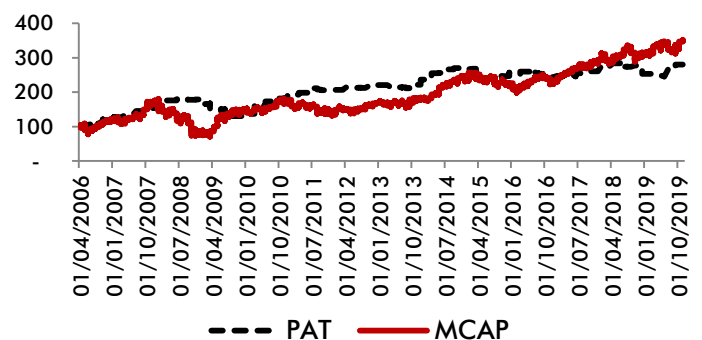
Why does investing in growth companies make sense over the long run?

Exhibit 6: In the latest 2QFY20 results earning growth of your schemes far exceeded both Sensex and Nifty companies...

Schemes	PAT YoY%			
	3QFY19	4QFY19	1QFY20	2QFY20
Coffee Can PMS				
Median	13%	10%	16%	35%
Nifty Index	-6%	20%	18%	25%
Good & Clean PMS				
Median	22%	14%	26%	23%
Nifty Mcap 100 Index	17%	15%	9%	14%
Emerging Giants PMS				
Median	21%	13%	17%	24%
BSE smallcap Index	8%	6%	0%	15%

Source: Ambit Asset management

Exhibit 7: ...this is important since over longer term earning growth & Market cap growth are highly correlated (Sensex PAT & MCAP show a correlation of 84.6%)



Source: Ambit Asset management

What this means for you?

- At Ambit Asset Management we believe in growth oriented investment strategy (rather than value investing). Given the long term approach to wealth creation, the belief is that stock price follows steady increase in earnings. As **Exhibit 6 shows**, all our three funds have witnessed their bottom-line grow at a median pace of mid-teens every single quarter. This ensures that portfolio continues to deliver returns even in an adverse economic environment thus minimizing the risk for the investors.
- Investing in high quality names never goes out of style. Great corporate governance, steady bottom-line growth and a light balance sheet are things that great investments are made of. This is one of the key success factors of long term wealth creation.

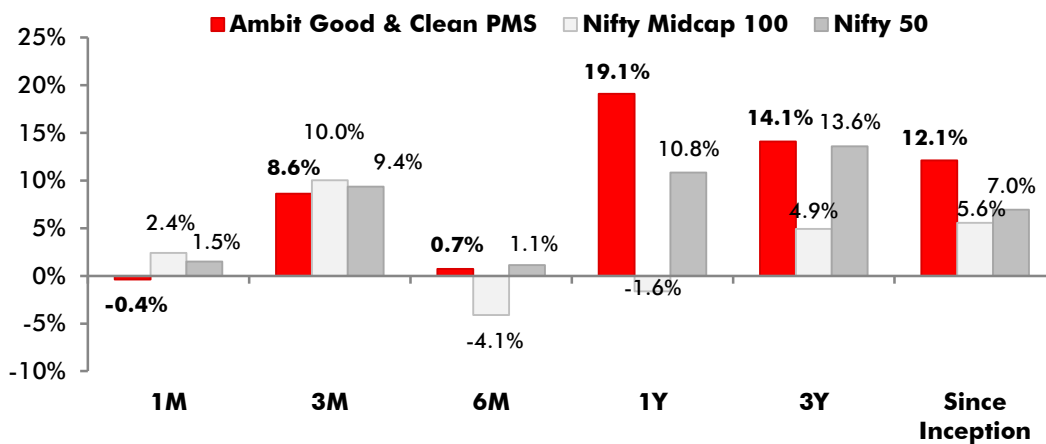
While a volatile portfolio seems very tempting when the cycle is on an upswing, it can be equally heartburning to live through the tough times. Staying invested longer in a steady return portfolio is always a more rewarding strategy.

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 8: Ambit's Good & Clean Portfolio performance update



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

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