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MONTHLY NEWSLETTER

GOOD & CLEAN
by AMBIT

Ambit Good & Clean Portfolio



Ambit Coffee Can Portfolio



EMERGING GIANTS by AMBIT

Ambit Emerging Giants Portfolio

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Beyond Finance: The silver lining of our times!

Dear Investor,

As we move into what seems like another likely phase of the mega lockdown one thing is clear- Frustration and anxiety surrounding covid 19 and its likely aftermath are annoying to say the least. We want you to know that you are not alone in harboring this feeling. We share your frustration and so we decided to take a break from the negativity around us and focus on hope. Gloom and doom can wait!

Given that we have already assessed your portfolio to be well positioned to **Survive** through covid-19 and **Thrive** post covid-19 this month's iteration covers stories of positivity, hope and anything but finance allowing us to get fresh perspective.

1. Family time is all you ever wanted last year

Is this your story? Read carefully...

Local goons were causing a nuisance for a shopkeeper. They would spray-paint graffiti on a daily basis all over his store window

So the shopkeeper hatched a plan. The next day, he waited until the goons finished their dirty work and then he paid them Rs 1000 to thank them for their effort. The following day, he thanked them again but only paid Rs 500 this time. He continued to pay them to deface his property but the amount kept decreasing. Soon they were getting only Rs 10.

They stopped coming. Why bother doing all that work to abuse the shopkeeper for such little money?

You could argue that the local goons initially had an intrinsic motivation for graffiti. The clever shopkeeper subtly replaced their intrinsic motivation with an extrinsic motivation-money. And when that external reward dwindled, the goons didn't have a reason to continue their work.

Today one can argue that the reverse might be true- We all had an intrinsic motivation to spend time with family at home but we have let an extrinsic demotivator-covid to view this as "Being stuck at home with family".

Moral of the story: Sometimes we can't change the situation but we can definitely change our response and attitude. It is time to introduce positivity!

This story (alongside) is from the book The Knowledge Illusion. The author writes —

This imaginary tale is about what causes people to act and how you can modify their motivations, to make them think they're doing something for a different reason than they initially thought.

2. Work from home need not be negative either

Well now that you are thinking about reducing the negativity around WFH lets look at some positives if you are a business owner as there can be quite a few, take a closer look at what some companies say about it! (All this over and above the lower travel time, higher productivity, lower environmental footprint to name a few)

A. Wasn't the 21st century supposed to be about welcoming the future of technology? Japanese automotive paints company Nippon Paint (India) is closing its sales office in Mumbai but that's not a bad thing. The company was so taken with the success of 'work from home' that it is thinking of asking staff at other locations to continue doing this or to look at co-working spaces. Such measures are expected to help companies to save high rental costs, especially in cities like Mumbai. There is no doubt that employers are going to be more fiscally conservative for the next few years, as they stare at a possibly deep recession. More 'virtual' engagement programs, training initiatives, mental-health checks, and tele medicine calls with doctors will be rolled out by companies.

"We will all be facing a new normal when this crisis is over Ways of working are expected to evolve, as the long lockdown periods have dispelled many of the notions associated with effectiveness issues while working from home."

**- Suresh Narayanan
CMD, Nestle India**

B. Tech companies are excited to have realized how WFH makes lot of sense!

TCS: In a post earnings conference call TCS chief operating officer N Ganapathy Subramaniam said the company believes that it does not need to have more than 25% of workforce at their facilities in order to make all the 100% productive. Pointing out that every employee need not be present in the office all time and it is sufficient that they spend 25% of their time in the office. [source](#)

"It's clear that Covid has changed a lot about our lives, and that certainly includes the way that most of us work. Coming out of this period, I expect that remote work is going to be a growing trend as well."

Facebook: Similarly social media giant Facebook recently said that it would allow many employees to work from home permanently. Mark Zuckerberg, Facebook's chief executive, told workers during a staff meeting that was live streamed on his Facebook page that within a decade as many as half of the company's more than 48,000 employees would work from home. [source](#)

**-Mark Zuckerberg
Facebook**

Just like is evident in the previous story that spending time with Family can be a positive covid outcome, one needs to accept that work from home is not negative either. On the contrary many have already found value in it!

3. Keeping good company...

Right from the basics such as PPE suits to sanitizers and ventilators to the more advanced robotics- we live in a nation where companies are not just quick in their approach to respond to change but equally innovative too. We are like a startup capital of the world despite minimal capital to start up. "Jugaad" runs in our blood!

While this does makes our companies hungry for growth and focused on the bottom line above all but does not exclude us from being compassionate first. Many companies have showcased this fine spirit through the time of crisis and 2 examples that stood out for us were D mart and Asian Paints with their human and humane responses.

A. PPE kit growth from 47k per year to ~2 Lacs per day inspires:

Many small companies took it upon themselves to launch essential services and products or divert resources towards essential services and products. As India went through acute shortage of PPE kits the small company took head on the big challenge. From being a net importer in February the country now seeks to become an exporter of PPE kits as soon as the domestic demand is met. So far 80 lakh Made-in-India PPE suits have been delivered to medical professionals and 1.5 crore more are on the way.

B. Everyone's invited-From Parle G making sanitizers to TVS making ventilators:

At the beginning of 2020, India's hand sanitizer market had only 3-4 prominent players like HUL, Himalaya Drug Company, GCPL and Reckitt Benckiser. For most of these players, the sales of hand sanitizers made up only 1-2 percent of their overall revenues. You won't even believe the kind of companies going for manufacture of sanitizers nowadays. Some have moved beyond sanitizers to venture into ventilators too. Maruti aims to make 300 ventilators a day and 10,000 by May-end. [source](#)

A simple list of the names is intriguing enough to catch your attention (Ref to Exhibit 1)

Exhibit 1: Rush to respond: Companies diverting attention to sanitizers and ventilators

Company	Known for	Diverted to	Manufacturing facility being used
Parle-G	▪ Biscuits	▪ Sanitizers	▪ Newly set up
Paint companies Asian Paints (Viroprotek), Berger Paints, Shalimar Paints, JSW Paints (Securall)	▪ Paints	▪ Sanitizers	▪ Paints facilities or newly set up
ITC	▪ Cigarettes, Hotels, Others	▪ Sanitizers	▪ Set up using perfume facilities infrastructure
Deepak Fertilizers	▪ Fertilizers	▪ Sanitizers	▪ Newly set up

Alco beverage companies (Diageo, Bacardi and Anheuser-Busch)	▪ Spirit Distilleries	▪ Sanitizers	▪ NA
Mahindra and Mahindra	▪ Auto	▪ Ventilators, mask, PPE kits	▪ Design has been sourced from Ford, manufactured at Kandivali plant
Maruti Suzuki	▪ Auto	▪ 3-ply masks, PPE kits, ventilators	▪ Partnering with AgVa Healthcare and Krishna Maruti Limited
TVS Motor	▪ Auto-2 wheelers	▪ Ventilators	▪ partnered with Sundaram-Clayton Ltd (SCL) and Sastra University

Source: Ambit Asset management

C. Some companies went beyond ordinary measures one such company was **Asimov Robotics.** A company that deployed robots at office buildings entrance and other public places to dispense hand sanitizers and deliver public health messages about the virus. Similarly robots developed are being deployed in hospital isolation wards to carry food & medicines which eases the pressure on medical staff. [source](#)

“Our aim was to create a cost-effective model of a robot which can perform all the duties of nurses and sanitation workers inside the isolation wards, verbally converse with the patients, hand over food and medicines, and connect them with the doctors via video calls if they wish to speak”

**- Jayakrishnan T
CEO of Asimov Robotics**

D. Asian paints & Dmart take big steps in employee/retailer welfare

- a. **Asian paints working with retailers** helped them to restart their business by sanitizing their shops & offering medical insurance schemes for their workers. The company transferred Rs 40cr to about 52,000 contractors who needed the help.
- b. **Dmart: Grocery retailer took a fresh approach to dealing with employees**
 - Moved extremely critical non-store employees to WFH while back-up team for every store working team was created to take up in case the working team is quarantined.
 - Announced additional COVID-19 leave policy for employees who were tested positive or showing mild symptoms so that they don't hesitate to take a leave.
 - Announced a Hardship Allowance for all frontline staff who continued to work till 3rd May enabling them to earn at least double of their usual wage.
 - Activated separate cell to monitor every positive tested employee and take care of their family's needs.

Unconventional: Parle G enters hand sanitizers (L) and Maruti makes ventilators through tie up (R)

Pictured (L & R): Robots by Asimov Robotics, some also working in Kerala hospitals too in the fight against covid



Source: Ambit Asset management



Source: Ambit Asset management

These are just a few examples of companies around the country that are coming together in this time of solidarity to answer the call of this crisis through both novel and traditional means. All hands on deck!

"In a crisis you don't run a company you serve a family."

- Suresh Narayanan, CMD, Nestle India

4. Story in images: Embrace and accept!

Although human beings are hardwired to be a certain way we must admit that temporarily at least the world is not the same. A never before crisis needs a never before response and that is exactly what human kind is prepared to give it! A fun glimpse of these visuals on entertainment, entertaining and activities we engage in makes this most apparent!

Can't meet? No problem: Music Videos can be shot on zoom
too: Jonas Brothers ft. KAROL G - X (Official Video)



Source: Ambit Asset management, Youtube: [source](#)

We can travel once again: Images showing Indigo airhostess gearing up for their flights this month



Source: Ambit Asset management

Of course you can go to the Park... with a few modifications



Source: Ambit Asset management

Live streamed concert on Instagram by Vulture, Chris Martin, Miley Cyrus and John Legend (L) and drive in concerts by Mads Langer on 6th May (R)



Source: Ambit Asset management, Vulture ([source](#)), Mads Langer concert ([source](#))

Ways to graduate: expected (video call) and unexpected (attendance via tablets!)



Source: Ambit Asset management, Ohmnilabs tablets

Welcome to online fitness apps and online yoga sessions too



Source: Ambit Asset management, ([source](#))

5. No effort is small... All hands on deck!

While in our earlier points we saw how companies large and small are coming together to combat this crisis, the onus to help is not the exclusive jurisdiction of the rich or the big or the dominant. Everyone can help and although **we can't help everyone but everyone can help someone. Let us see this through a short but inspiring story...**

Resilient-This is the word one might use to describe Rekha Deshpande (55) a resident of Sadashiv Peth who runs a small catering business of tiffins.

"I have a small catering business of tiffins. When the lockdown was announced, I realized that there were many senior citizens living nearby, whose children were away. They were totally dependent on their maids and with the lockdown in effect, they had no way of getting food. That is when I started making tiffins for these people"

From 10-15 tiffins on March 25th, Rekha now delivers 118 tiffins to those senior citizens who need it the most post this lockdown. As the number of requests increased, to sustain her free tiffin service, Deshpande put into use a portion of the money that she had taken as loan from a bank for her daughter's wedding.

All her family members support her while cooking dal, rice and sabji. While her daughter looks after packaging, volunteers pitched in to deliver prepared food and many others who heard about this neighbourhood here chose to donate groceries and supplies as required.

Despite her sister passing away, she knew that there are 118 senior citizens and disabled families, who wait for her tiffin everyday so that they can have their medicines in time and sleep without being left hungry. Only when she was able to arrange for alternative arrangements did she set out for her sister's house in Dhankawadi for her last rites.

An ordinary life but an extraordinary effort is the stuff heroes are made off! Rekha Deshpande shows us that. We hope this story inspires you and shares the message of hope- We are not alone in our fight, we have one another. Stay sane and emotionally healthy and we will live to fight another day!

We could go on but would prefer to stop here-You get the drift...

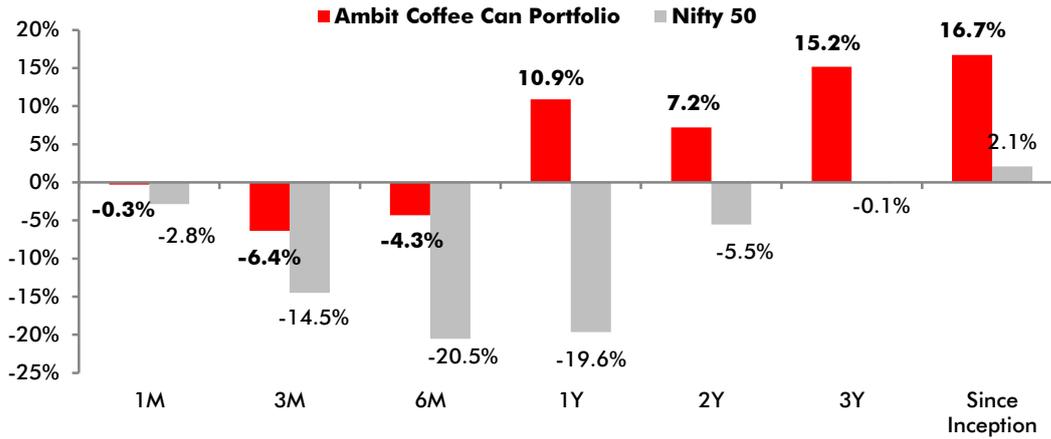
Sometimes we can't change the situation but we can definitely change our response and attitude. Be it spending time with family, working from home with a smile, taking inspiration from companies and people all around us or embracing our new life whole heartedly as it will be like this a 'little' longer :)



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 2: Ambit's Coffee Can Portfolio performance update



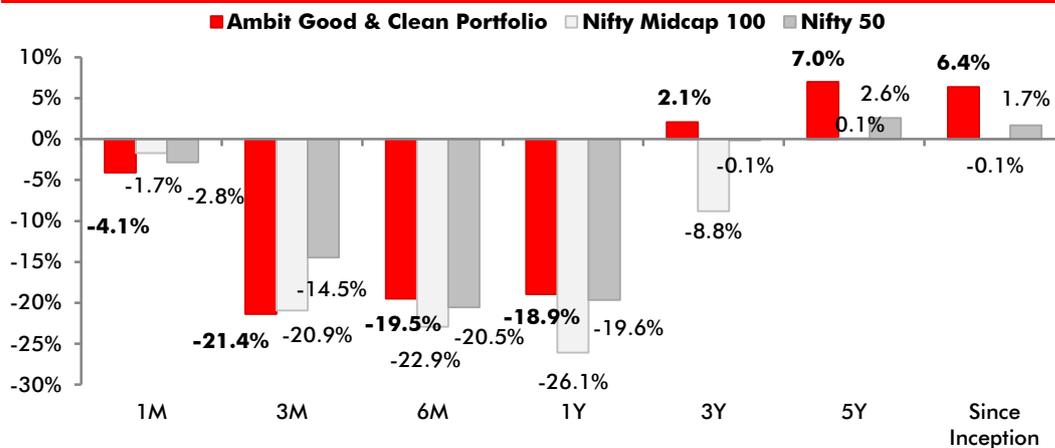
Source: Ambit; Portfolio inception date is March 6, 2017; Returns as of May 31st, 2020; All returns are post fees and expenses; Returns above 1 year are annualized; **Note:** Returns prior to Apr'19 are returns of all the Pool accounts excluding non-aligned portfolio, and returns post Apr'19 is based on TWRR returns of all the pool accounts.

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 3: Ambit's Good & Clean Portfolio performance update



Source: Ambit; Portfolio inception date is March 12, 2015; Returns as of May 31st, 2020; Returns above 1 year are annualized. **Returns are net of all fees and expenses**

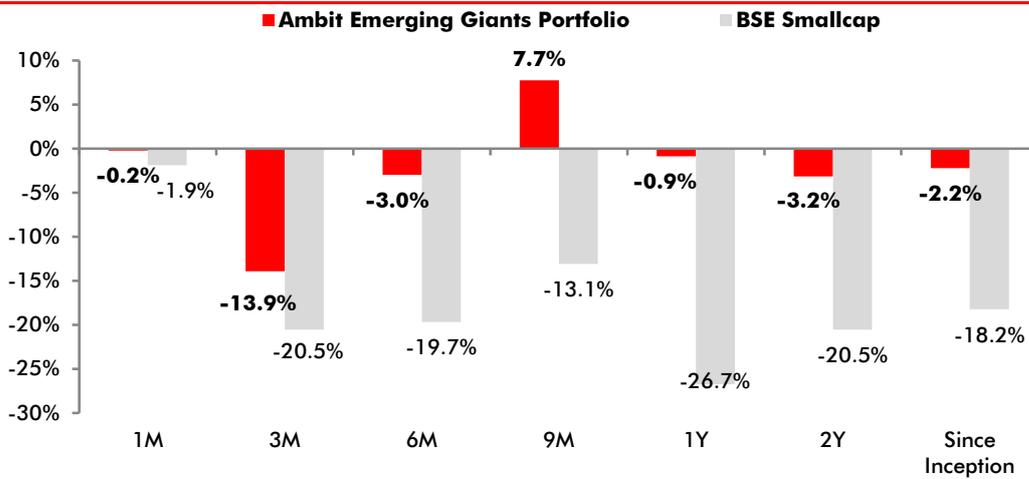


Ambit Emerging Giants

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 4: Ambit Emerging Giants performance update



Source: Ambit; Portfolio inception date is December 1, 2017; Returns as of May 31st, 2020; Returns above 1 year are annualized. **Returns are net of all fees and expenses**

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