

May 2021



MONTHLY NEWSLETTER

GOOD & CLEAN
by AMBIT



EMERGING GIANTS by AMBIT

Ambit Good & Clean Midcap Portfolio

Ambit Coffee Can Portfolio

Ambit Emerging Giants Portfolio

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

Don't despair, invest like tomorrow is there

Dear Patron,

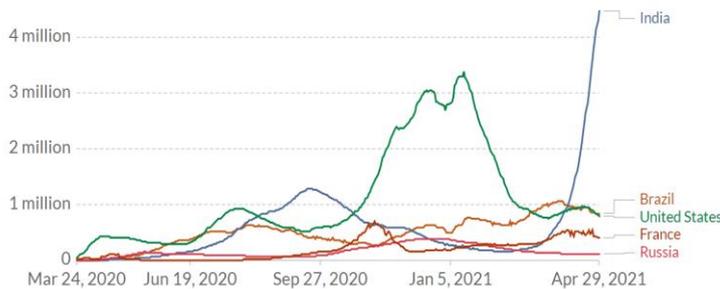
With many of us (and our near and dear) facing the wrath of this virus along with the rest of the nation. First and foremost we hope this newsletter finds you healthy (physically and mentally)!

Despite numerous rating agencies beginning their round of downward revisions on the GDP growth, news anchors shouting (not just that one fellow) about the gloom and doom-companies have reported good set of numbers as we dive into results season.

Of course the worry for the moment from an economic standpoint remains the future. The (economic) questions that race through our head include-ability of the nation to withstand a 2nd wave? The catastrophic impact if cases continue rising? How long will lockdowns last and most importantly this time it seems much worse not better?

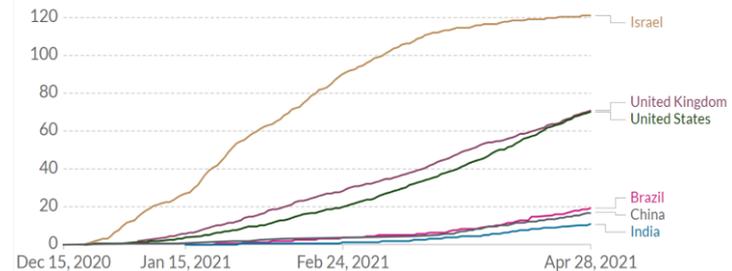
But first let us take a quick recap...

Exhibit 1: Main source of fear remains the rising cases which are burdening the poor healthcare system



Source: Ambit Asset Management, Bloomberg, ourworldindata.org

Exhibit 2: ...and a vaccination rate which is way too low for the population (Total number of vaccination doses administered per 100 people in the total population)



Source: Ambit Asset Management, Bloomberg, ourworldindata.org

Exhibit 3: State Governments are issuing lockdowns of differing degrees to contain the cases; these lockdowns however are not impacting most businesses as most have had a year of work from home practice to run things smoothly

States	Confirmed (000's)	Active (000's)	Norms
Maharashtra	4540	670	▪ Covid Curfew - From 14th April to 1st May and now extended till 15th May essentials from 5am to 11am
Uttar Pradesh	1218	309	▪ Weekend Lockdown till Monday and Night curfew from April 26th till 15th May
Karnataka	1475	349	▪ Covid Curfew- From 26th April till 12th May and essentials from 6am to 10am
Kerela	1534	284	▪ Covid Curfew- From 26th April till further notice
Chattisgarh	714	118	▪ Lockdown- From 9th April to 19th April and now extended till 5th May in 14 districts of Chattisgarh
Rajasthan	581	170	▪ Sec 144 to be imposed from 22nd April to 21st May
Gujarat	553	138	▪ Night Curfew- 8pm to 6am from 7th April to 5th may in 29 cities of Gujarat
Delhi	1122	98	▪ Lockdown- From 19th April to 26th April and now extended till 3rd May, only essentials allowed
Tamil Nadu	1148	113	▪ Night Curfew and complete lockdown on Sunday from - 26th April until further notice
Andhra Pradesh	1084	114	▪ Night Curfew- 10pm to 5am from 23rd April until further notice

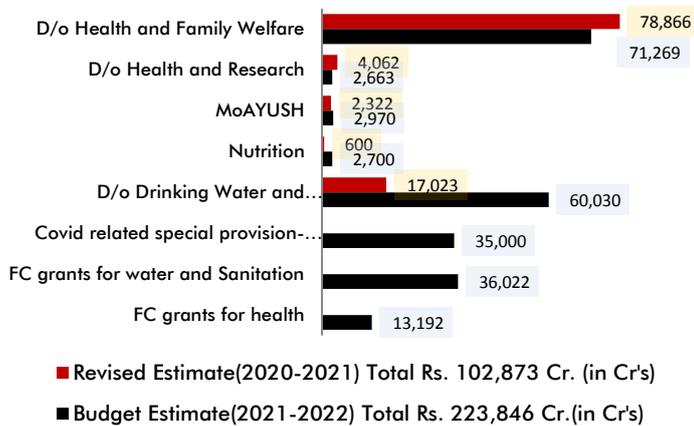
Source: Ambit Asset management, 30th April upto 1pm

Exhibit 4: As tough as it is this time we are as prepared as we could be- with high population and low medical infrastructure part of the pain we face was unavoidable to begin with-The silver lining this time vs last year could be...

Steps taken	Impact
Budget allocation for Healthcare	Rs 2.84 lakh crore, a rise of 137% over the previous budget (Ref to Exhibit 5)
Curb in personal expenses	Savings run-rate inched up to 21% during lockdown in April-May'20 which provided the public with buffer to navigate the uncertainty
Cost rationalization by companies	Rationalization of fixed expenses in light of lower revenue increased efficiency resulting in better operating leverage and higher margins once normalcy resumed
RBI's pro-activeness	Liquidity surplus improved from Rs3.8trn to average Rs 6.5trn for April to August 2020. During the COVID period, the forex reserves expanded \$107bn, this resulted in liquidity injection. RBI pumped in Rs8trn through forex operations apart from LTRO, OMOs. RBI did OMO of Rs 3trn in FY21. RBI bought moratorium leading to standstill NPA recognition & restructuring mechanism to avoid rising NPA for genuine customers.
Government's Emergency Credit Line Guarantee Scheme (ECLGS)	Government budgeted Rs3tn towards credit guarantee to MSME sector which was the most impacted following the lockdown, leading to sanctions of Rs1.6tn to 4.2mn MSME till Sept'20 One of the fastest rate of vaccination globally (~0.25Cr per day).
Vaccination	India will receive Sputnik V doses from May-1 Fast track emergency use approval for foreign made vaccines of companies like Pfizer, J&J and Moderna that have received similar approval abroad Serum Institute and Bharat Biotech to get 4500cr government advance for setting up capacities Current capacity of 75mn doses/month of two vaccines combined. Serum expects to ramp- up production from 70mn to 110mn per month from June & Bharat Biotech to increase from 5mn to 12mn per month from July.
Vaccine supply will ease once again soon	After May 1, vaccines will remain free to Indians over 45 and health care and frontline workers who receive them at government centers. Indians between ages 18 and 45 will have to pay for their vaccines "As high as 85-90% Covid-19 positives get mild or no symptoms. Therefore, there no need to hoard injections like remdesivir, or oxygen cylinders as it leads to unnecessary panic buying, and shortages. Most people get mild symptoms such as fever, cough, sore throat and need symptomatic treatment along with steam and yoga," said Dr Randeep Guleria, director, All India institute of Medical Sciences, Delhi.
Vaccination for all after 1st May should increase rate of vaccinations	Companies like Reliance, JSW steel, Tata steel pumping oxygen daily and supplying while others such as Tata group, Adani and ITC are importing necessary supplies (oxygen/cryogenic chambers). Entrepreneurs across the country have also joined in the efforts.
Oxygen supply update	

Source: Ambit Asset management

Exhibit 5: Some of the higher healthcare spends in the last financial budget and an improved...



Source: Ambit Asset Management, Bloomberg

Exhibit 6: ... vaccine situation once we realize at risk patients in crowded/urban areas can be vaccinated (2 doses) in 4 months

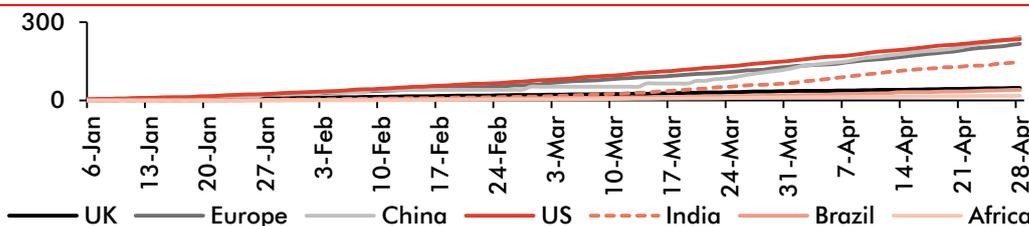
	In Cr.	% of total
Population	138	
20-45 Age Group	55.2	40%
Population in Urban areas	19.3	35%

2 dose vaccination for 20-45 age group in Urban areas

Scenario	Doses / day (cr.)	Months needed
Current / Pessimistic*	0.18	7
Base Case*	0.32	4
Optimistic*	0.47	3

Source: Ambit Asset Management estimate, Wikipedia, *Assumed 2/3rd of daily vaccines being administered are in Urban areas

Exhibit 7: Number of vaccine shots given are on a constant rise and India is not behind-simply outmatched with the high populations + low infrastructure



Source: Ambit Asset Management

Markets will look past the pain in the coming months...

Ever heard of the saying that you don't serve a sentence for the same crime twice then why should it be any different when it comes to investing...confused? Let me elaborate.

If markets bounced back the first time when we were caught off guard and in complete shock there should be no reason for the market to substantially correct this time around as we are much better prepared and have multiple vaccine candidates and 2 home grown vaccines too. **(Ref to Exhibit 6& 7)** In other words my fellow long term investors-covid cannot harm your returns this time and any attempt to time a correction to the tune of 10-15% might not necessarily bear fruit and might lead the timers of the market to lose out for the 2nd time in just little over a year.

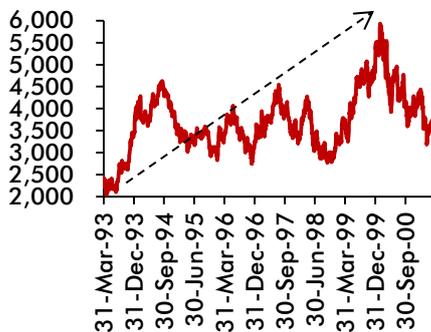
Some reassurance seems to be in order for the non-believers and look no further than the below **Exhibit 8**. We are reminded time and again that markets look past short term events. The longer and bigger picture like the one below helps give us perspective.

Exhibit 8: History is no stranger to periods of disproportionate market rally despite occurrence of large scale disruptions

1993-2001		2001-2009		2009-2021	
Year	Event	Year	Event	Year	Event
Mar-93	Bombay blasts	May-02	Communal riots	Jan/ Sep-16	Pathankot/ Surgical strikes 2
Jun-96	Vajpayee government falls	May-04	BJP loses elections	Nov-16	Demonetization
May-98	Nuclear tests	Nov-08	26/11 attacks	May/ Jun-17	RERA/GST
May-99	Kargil war	Sep-08	Lehman Brothers	Mar-20	COVID-19
				Apr-21	COVID-19 (2 nd wave)

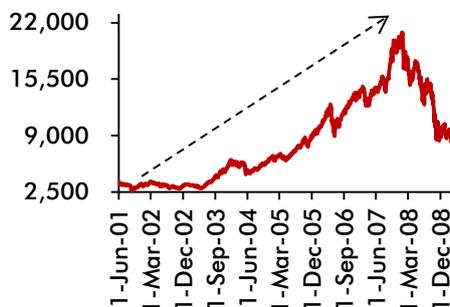
Source: Ambit Asset management

Exhibit 9: 1993-2001 saw many catastrophes upto the dotcom crash



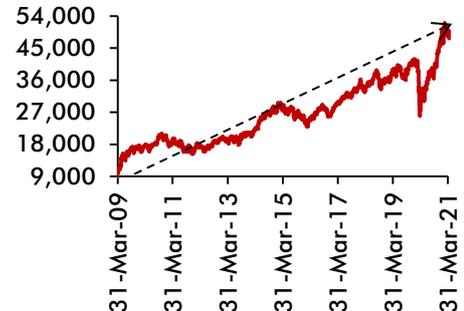
Source: Ambit Asset Management

Exhibit 10: 2001-2009 markets soared right upto 2008 GFC weathering many big events along the way



Source: Ambit Asset Management

Exhibit 11: 2009-2021 markets have given phenomenal returns despite COVID

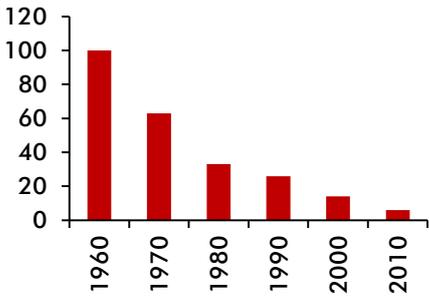


Source: Ambit Asset Management

...And so should you look past the pain by following these simple rules...

Read alongside Exhibit 12-18 below

Exhibit 12: Remain patient to build wealth as the market rewards rare habits in the long term (Pictured below avg holding period (months) of stocks on NYSE)



Source: Ambit Asset management, NYSE factbook

Exhibit 13: Invest in companies with winning traits

Winners	Losers
Strong Balance Sheet	Weak Balance Sheet
Low DE	High Debt
Strong brand equity	Low scale and limited reach
Leadership position will help garner market share	Unorganised segment
Adaptability to changes	Low competitive advantage

Source: Ambit Asset management

Exhibit 14: Build diversified portfolios with such companies and keep an eye on Sharpe ratios too

Fund/ benchmark	SD	Drawdown	Sharpe Ratio
Coffee Can	16%	-17%	0.80
Nifty	20%	-29%	0.28
G&C midcap	20%	-30%	0.37
Nifty midcap 100	23%	-45%	0.14
Emerging Giants	27%	-27%	0.36
BSE Smallcap	29%	-50%	-0.05

Source: Ambit Asset management, Sharpe ratio is a sign of risk adjusted returns-higher number indicates better risk adjusted return

Exhibit 15: REFLEXIVE brain obsesses about the immediate impact (price)



Source: Ambit Asset management

Exhibit 16: ...but the REFLECTIVE brain sees the "stock" for its true nature as an income generating business

Consolidated Statement of Profit and Loss

Particulars	Note	For the year ended 31 March 2020	For the year ended 31 March 2019
I. Revenue from operations	19	2,105,154	1,977,852
II. Other income	20	15,323	18,234
		2,120,477	1,996,146
III. Total income (I + II)			
IV. Expenses:			
Cost of materials and components consumed		1,304,234	1,223,063
Purchase of stock-in-trade		299,080	294,003
Changes in inventories of finished goods, stock-in-trade and work-in-progress	21	(87,807)	(77,651)
Employee benefit expenses	22	115,542	101,907
Finance costs	23	16,517	5,254
Depreciation and amortisation expense	24	34,796	16,284
Other expenses	25	223,057	237,851
		1,959,909	1,890,241
IV. Total expenses			

Source: Ambit Asset management

Exhibit 17: Do not think of past price as indicator of whether you will make or lose money. Look for valuation comfort not price!

The below do not influence stock performance and should be ignored

1. All time high price for a stock
2. 52W High/Low
3. Stocks highest price since your purchase
4. Your purchase price
5. Today's price

Source: Ambit Asset management

Exhibit 18: Take a longer term view and look past the noise-Price randomness in the short term can obscure long term growth in value

Short Term Price Randomness

Period	High	Low	Percentage Decrease
March 1973-January 1975	93	38	(59.1%)
10/2/87-10/27/87	4,250	2,675	(37.1%)
6/19/98-3/10/2000	80,900	41,300	(48.9%)
9/19/08-3/5/09	147,000	72,400	(50.7%)

Long Term Growth in Value

Compounded Annual Gain – 1965-2017 ...	20.9%
Overall Gain – 1964-2017	2,404,748%

Source: Ambit Asset Management, Berkshire Hathaway annual letters 2017

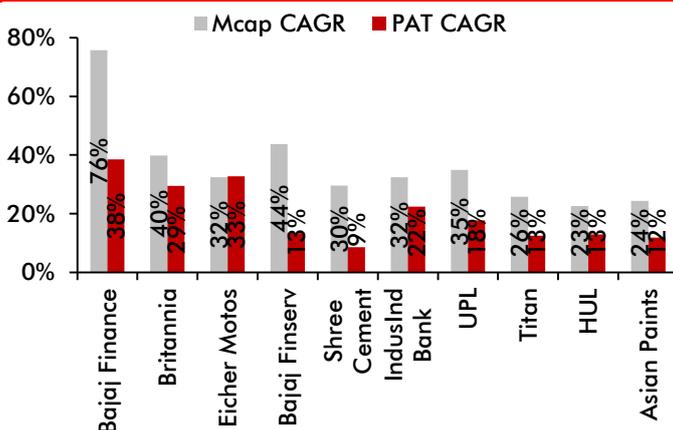
“The stock market is designed to transfer money from the active to the patient”

-Warren Buffet

Concluding remarks: Light at the end of the tunnel

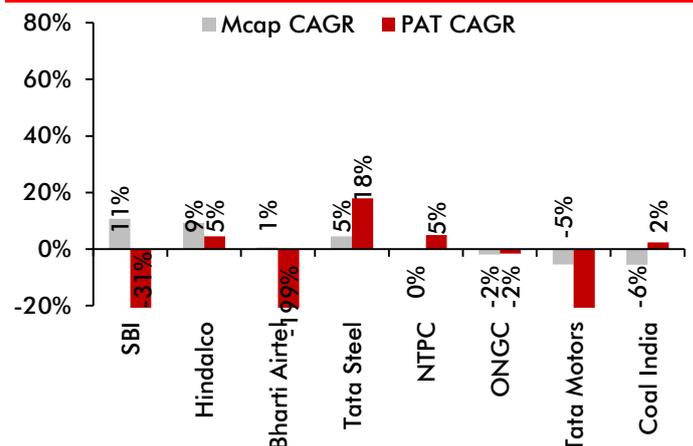
- 1. A more localized response rather than nation-wide lockdown:** While the 2nd wave may result in higher case than the previous peak, we feel a nation-wide lock-down is less likely. We expect a more localized response with hot spots or even high-risk states witnessing restrictions like night curfew or limitations on public gathering. ***This will limit the economic impact and incentivize people to be more cautious and take precautions.***
- 2. Covid recovery: delayed not denied:** While people’s lives may be impacted in the near-term due to restricted mobility the economic impact is likely to be short lived as the high risk urban populations above 45 are likely to get vaccinated in the next 3-4 months. GDP forecasts show 8-12% growth for the year FY22.
- 3. Large drawdowns in equity markets unlikely:** Equity markets are unlikely to react in the same manner as the country – and world, at large – is better prepared in terms of understanding of the virus, its death rate and preparedness of medical infrastructure. Most of these were big ‘unknowns’ last year. ***Ironically, the Indian markets started their up-move from 24th March 2020 – the 1st day of lockdown.***
- 4. Return to Quality/Continue focus on earnings for long term wealth creation:** We believe companies which deliver superior EPS growth will continue to outperform within their respective sectors and the index, as seen in the past (**Refer to Exhibit: 19 & 20**). This outperformance will be further propelled by the K-Shaped recovery currently underway.
- 5. Remain healthy and stay Optimistic:** Be mindful to avoid negative chatter, Call a friend/family member on video call, indoor exercise or do physical activities, do something you enjoy (music, reading, TV shows)

Exhibit 19: Top Nifty performers from FY12-19 witnessed strong EPS growth during that time period...



Source: Ambit Asset Management, Bloomberg

Exhibit 20: ...while the bottom performers witnessed EPS decline



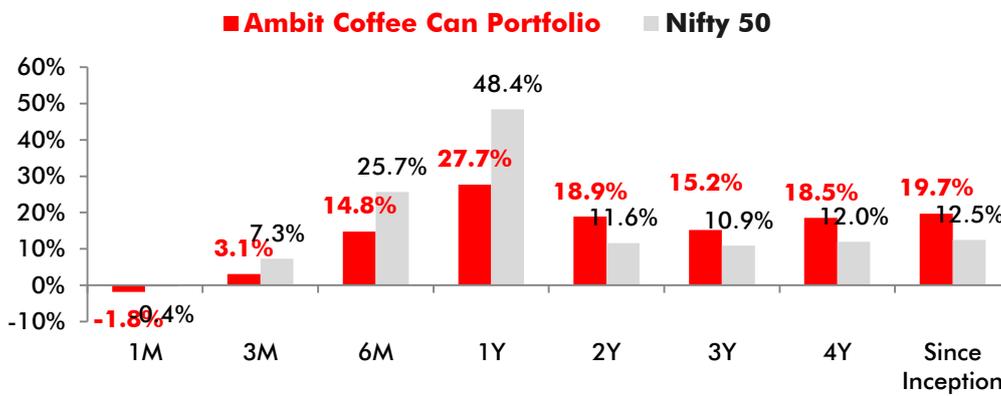
Source: Ambit Asset Management, Bloomberg

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 21: Ambit's Coffee Can Portfolio performance update



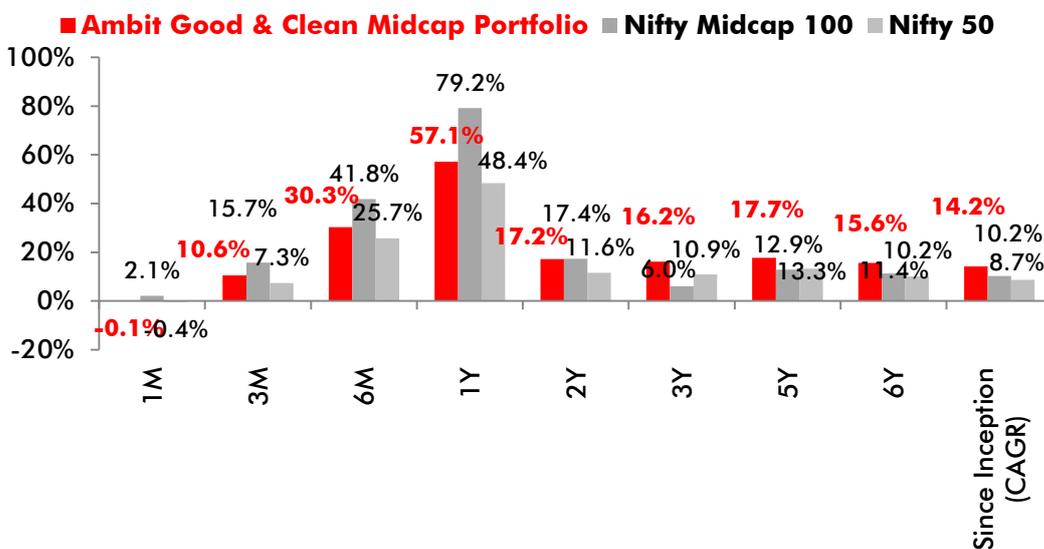
Source: Ambit; Portfolio inception date is March 6, 2017; Returns as of 30th April, 2021; All returns are post fees and expenses; Returns above 1 year are annualized; **Note:** Returns prior to Apr'19 are returns of all the Po\ol accounts excluding non-aligned portfolio, and returns post Apr'19 is based on TWRR returns of all the pool accounts.

Ambit Good & Clean Midcap 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 22: Ambit's Good & Clean Midcap Portfolio performance update



Source: Ambit; Portfolio inception date is March 12, 2015; Returns as of 30th April, 2021; All returns above 1 year are annualized. **Returns are net of all fees and expenses**

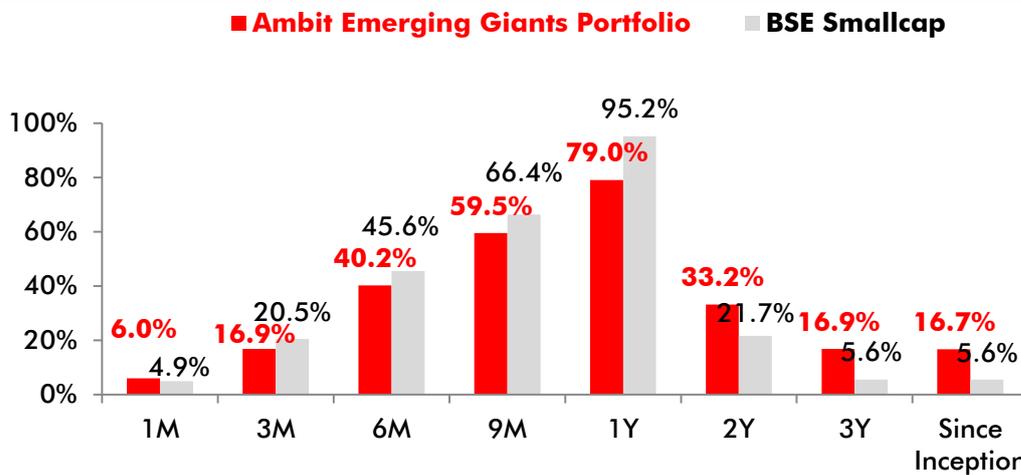
Ambit Emerging Giants

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 23: Ambit Emerging Giants performance update



Source: Ambit; Portfolio inception date is December 1, 2017; Returns as of 30th April 2021; All returns above 1 year are annualized. **Returns are net of all fees and expenses**

For any queries, please contact:

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