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May 2024

G&C 19.1: Searching for "Value"

Research Analysts:

Bharat Arora, CFA
+91 22 66233278
bharat.Arora@ambit.co

Neeraj Makhijani
+91 22 66233272
neeraj.makhijani@ambit.co

Nitin Bhasin
+91 22 66233241
nitin.bhasin@ambit.co

Nikhil Pillai
+91 22 66233265
nikhil.pillai@ambit.co

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G&C 19.1: Searching for "Value"

Market momentum has continued in line as anticipated. 90% of NSE500 stocks rarely trade above 200 DMA, and even rarer that such strong momentum evaporates and 6M fwd returns turn negative. Now the tide is turning. This will be the second consecutive quarter of disappointment in earnings surprises. With the CPI-WPI Gap expected to compress, margin lever will recede and FY25 earnings estimate trajectory would normalize. Don't expect a repeat of FY21-24. With all equity cohorts trading expensive, searching for value is key. Prefer large-caps. We introduce two value investing frameworks based on Magic Formula and Piotroski Score. Banks stand out on "value perspective" with highest ever differential between PAT and MCap Contribution. "Excess returns" analysis of Banks suggests massive outperformance. Tactical Long FMCG: volume growth to improve, reasonable valuation, sectoral weight at 13-year low and seasonally strong quarter. Making 3 changes to the portfolio. What's in: Dabur, Infosys and M&M. What's out: ITC, TVS Motors and Dr. Reddy's.

State of the market

The market appears expensive even after accounting for lower COE. We note that even with rate cuts, Nifty remains overvalued on our excess RoE framework. However, beneath this overvaluation lies a stark divergence. Currently, Nifty ex-BFSI Universe trades at an ATH premium of 46% w.r.t BFSI on 12M fwd. P/E vs 5-year average of ~6%. Market is keenly watching election results. In case NDA wins the elections, Capital Goods, Infra, Defense, EMS and PSU companies can continue to do well. On the other hand, if INDIA wins the elections, all the above sectors can be big losers, and a defensive positioning would be beneficial.

Two frameworks for identifying 'value'

In this note, we discuss two back-tested frameworks for identifying value plays in the Indian stock market: (1) Joel Greenblatt's Magic formula and (2) Piotroski's F-Score. The two strategies have outperformed the market by 6% and 7% respectively since 2003. Along with analyst inputs, the list has been cleaned for suspect accounting in an attempt to weed out value traps.

Sectors to watch out for: Banks and FMCG

Banks stand out on our value screen, with the divergence between profit contribution and market contribution towards NSE500 at the highest level. Banks' underperformance w.r.t. Nifty on a 12-month rolling basis hit a peak and appears attractive on our "excess returns" framework. Historically, Banks have outperformed markets by average/median ~19% returns over the next 12 months. Additionally, Banks entry multiple appears attractive. FMCG weight in the NSE500 index at ~8.3% is currently at a 13-year low. However, this reporting season most FMCG firms pointed to an uptick in rural demand and accordingly are bullish on FY25 volume growth. Seasonally strong quarter and reasonable valuations are another fillip for the sector.

G&C portfolio positioning: Concentrated in large-caps (73%)

Since 24th April'24, our G&C portfolio outperformed NSE500 marginally by ~30bps (~1% outperformance since inception). Mid/small-cap allocation is 21%/6% and cash allocation is 1.8%. Key OWs: Auto, Banks and Metals. Key UWs: Capital Goods.

What's in: Dabur, Infosys and M&M.

What's out: ITC, TVS Motors and Dr. Reddy's.

Exhibit A: G&C 19.1 composition

Company	Mcap ($mn)
Large-Caps	
HDFC Bank	138,802
ICICI Bank	95,755
Infosys	73,187
HCL Technologies	43,924
Axis Bank	43,633
Sun Pharmaceutical	42,920
Tata Motors	42,377
Mahindra & Mahindra	38,601
Nestle India	28,629
Tata Steel	26,265
InterGlobe Aviation	19,769
Hindalco Industries	18,205
Bharat Petroleum Corp	17,073
Tech Mahindra	15,537
Dabur India	11,900
Shriram Finance	10,849
ICICI Prudential Life Insurance	10,050
Mid-Caps	
Hero MotoCorp	12,313
Info Edge India	9,864
Max Healthcare	9,232
PB Fintech	6,926
Federal Bank	4,796
Embassy Office Parks REIT	3,891
Narayana Hrudayalaya	3,081
Small-Caps	
Triveni Turbine	2,251
Affle India	2,071
Karur Vysya Bank	1,891
Kfin Technologies	1,536

Source: Bloomberg, Ambit Capital research

Research Analysts

Bharat Arora, CFA
+91 22 66233278
Bharat.Arora@ambit.co

Nitin Bhasin
+91 22 66233241
nitin.bhasin@ambit.co

Neeraj Makhijani
+91 22 66233272
neeraj.makhijani@ambit.co

Nikhil Pillai
+91 22 66233265
nikhil.pillai@ambit.co

What is Nifty EYBY Gap implied 'fair value'?

Nifty fair value is a function of valuation, yield and EPS estimate. Since March-24, valuation has moderated but the earnings estimate trajectory seems to have over the past two quarters worsened, with a number of companies posting positive earnings surprises declining. The outlook on yield has remained stable. We roll forward the Nifty target to March-25. Nifty consensus March-25 EPS estimate stands at INR1125. Our analysis indicates that Nifty earnings estimates have on average, been revised downwards by 8% from start to end of FY. Accordingly, we take Nifty March-25 EPS estimate of INR1035 (~8% cut). Our 10-year yield assumption continues to remain at 7%. We have been anti-consensus on yield since Sep-22 when we called that yields would not exceed 7.5%. For March-25, EYBY Gap implied Nifty fair value is 24k (a return of ~5%) at 7% yield, March-25 EPS (INR1035), and markets trading at LTA (-2.7).

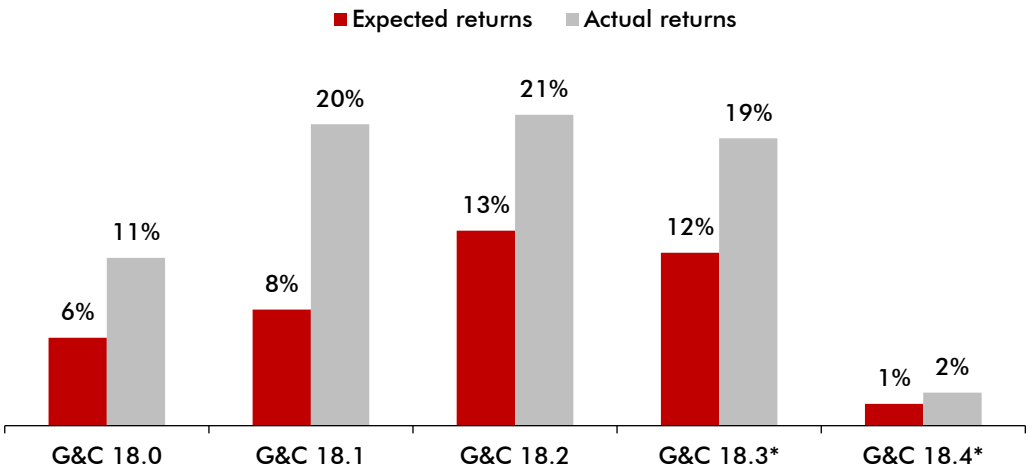
Exhibit 1: Implied Nifty (March-25) for different yields and earnings levels

10-year yield	Mar-25 EPS(INR)				
	1015	1025	1035	1045	1055
6.80%	24,756	25,000	25,244	25,488	25,732
6.90%	24,167	24,405	24,643	24,881	25,119
7.00%	23,605	23,837	**24,070**	24,302	24,535
7.10%	23,068	23,295	23,523	23,750	23,977
7.20%	22,556	22,778	23,000	23,222	23,444

Source: Bloomberg, Ambit Capital research. Note: Implied Nifty levels have been calculated under the assumptions: Nifty trades at LTA (-2.7), EPS and yield by equation EYBY Gap= (Earnings)/(Nifty Level) - Bond Yield

However, it is worth highlighting that actual returns have been significantly higher than expected returns of the EYBY model and if yields remain soft, then markets can go higher.

Exhibit 2: Actual returns have been higher than the "EYBY gap" model implied returns



*Source: Ace Equity, Bloomberg, Ambit Capital research, Note: *Indicates returns are calculated till date*

What can happen after the election results?

In the case of NDA winning the elections, we will see policy continuity. Capital Goods, Infra, Defence, EMS and PSU companies can continue to do well. On the other hand, if INDIA wins the elections, all the above sectors can be big losers; and having a defensive positioning would be beneficial. Sectors like FMCG, Private Banks, Healthcare and IT services can outperform. The de-rating can be significant especially with all equity cohorts trading at the higher end of the valuation range. Irrespective of the outcome, we believe in this expensive market, value tilt is key for outperformance and we explore two value investing frameworks in this note.

Excess ROE framework: Nifty currently trading above fair value

The P/E ratio is one of the most commonly used metrics to compare relative over/undervaluation of any security. The ratio essentially compared P/B (price to book) to RoE (Return on Equity).

$$\frac{\mathbf{P}}{\mathbf{E}} = \frac{\mathrm{P}}{BV} \times \frac{\mathrm{BV}}{\mathrm{E}}$$

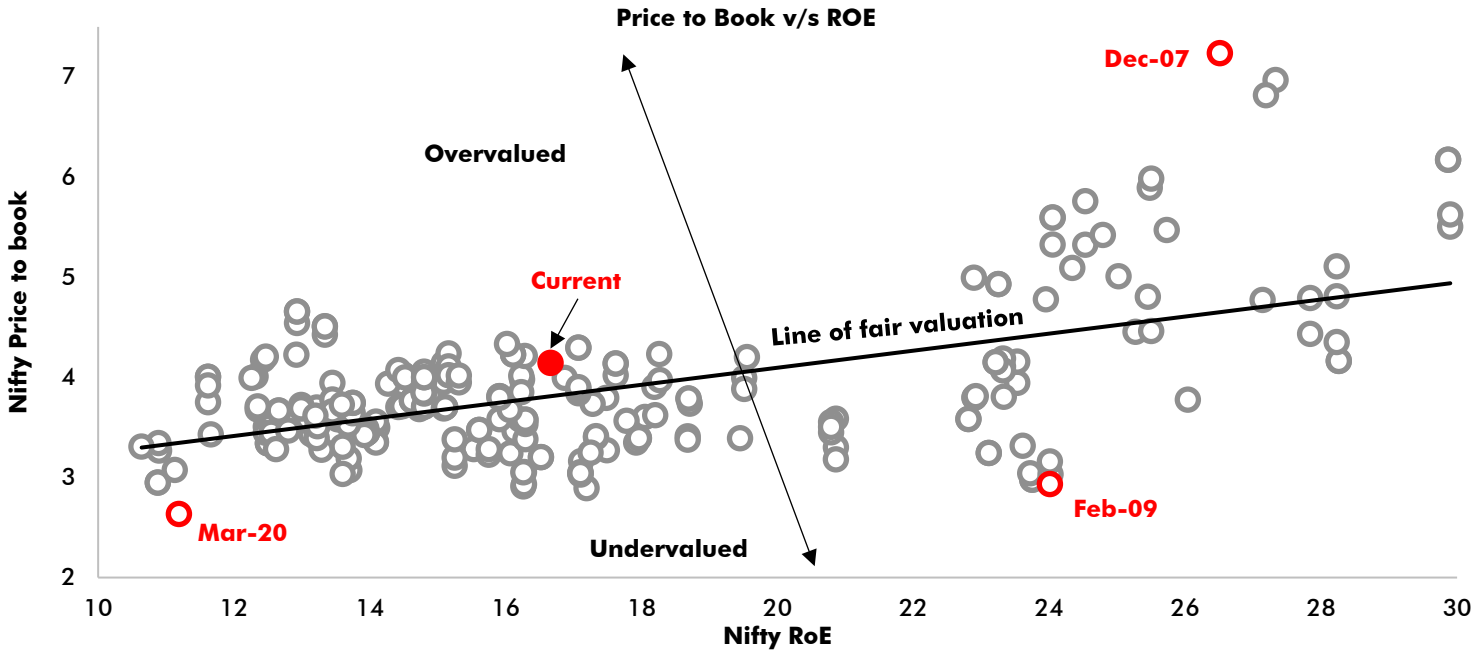
$$= \frac{\mathrm{P}}{BV} \times \frac{1}{\mathrm{ROE}}$$

$$= \frac{\mathrm{P}}{BV} \div \mathrm{ROE}$$

In the below exhibit, we look at Nifty valuations in terms of P/B relative to RoE (Return on Equity). Besides the current observation (red circle), we have marked (red circles) December 2007 (before the GFC crisis) and February 2009 (after the GFC crisis started).

Nifty appeared to be well above fair value in December 2007 and well below fair value in February 2009. Currently, Nifty appears to be expensive vis-à-vis past trends

Exhibit 3: Nifty appears overvalued on P/B v/s RoE metric



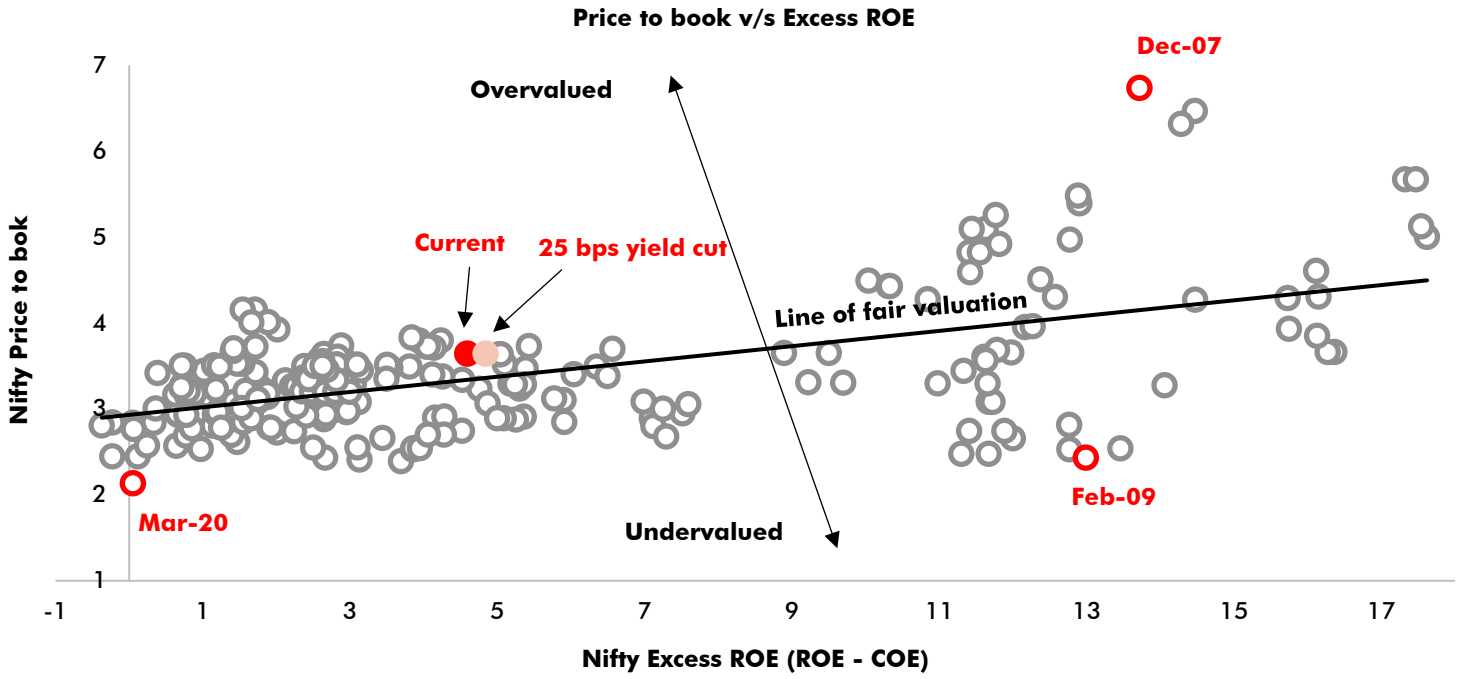
Source: Bloomberg, Ambit Capital research. Note: Cost of Equity = 10-year Gsec-yield + Market risk premium (5%)

However, the ratio fails to account for CoE (Cost of Equity). A lower ROE might suffice if CoE is trending lower as well. Analysing Nifty valuation without accounting for CoE might be futile.

While the market appears expensive even after accounting for lower COE, trading above the line of fair valuation, we run tests for market valuation in the event of a rate cut of 25bps. We note that Nifty remains overvalued, trading above the line of fair valuation. However, beneath this overvaluation, there lies a stark divergence.

The market appears expensive on all frameworks – Ambit India Valuation Index, EYBY Gap, P/S Valuation Distribution.

Exhibit 4: Markets appear overvalued even after accounting for lower COE

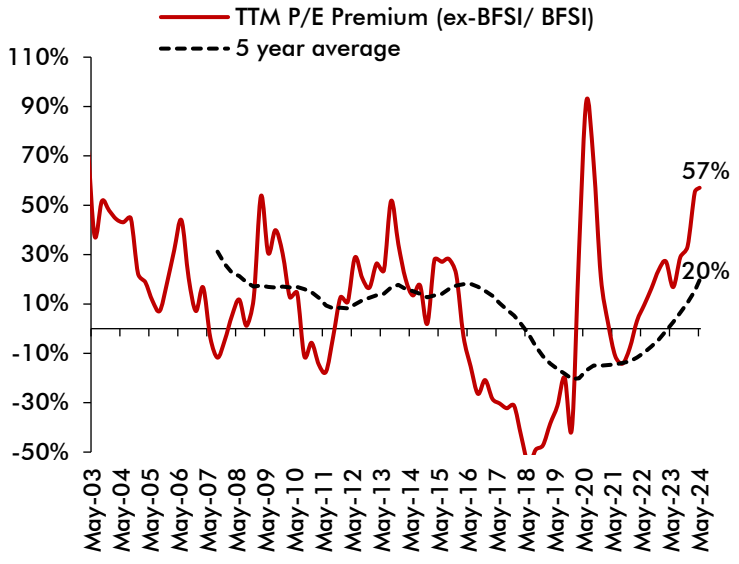


Source: Bloomberg, Ambit Capital research. Note: Cost of Equity = 10-year Gsec-yield + Market risk premium (5%)

Divergence between Ex-BFSI & BFSI Valuations at ATH

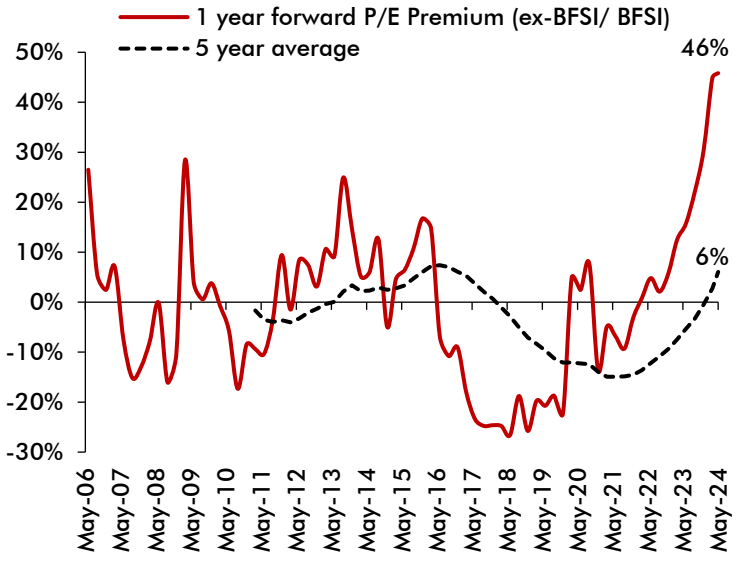
While all equity cohorts appear expensive, there is a significant divergence between Ex-BFSI and BFSI valuations, especially in large-caps. Currently, Nifty Ex-BFSI Universe trades at an ATH premium of 46% w.r.t BFSI on 12m fwd. P/E vs. 5-year average of ~6%. This implies significant earnings expectations being built in the ex-BFSI universe. Nonetheless, earnings sustenance would be key with markets appearing expensive from an entry multiples perspective.

Exhibit 5: While TTM P/E premium (Ex BFSI/BFSI) is considerably above the 5-year average...



Source: Bloomberg, Ambit Capital research

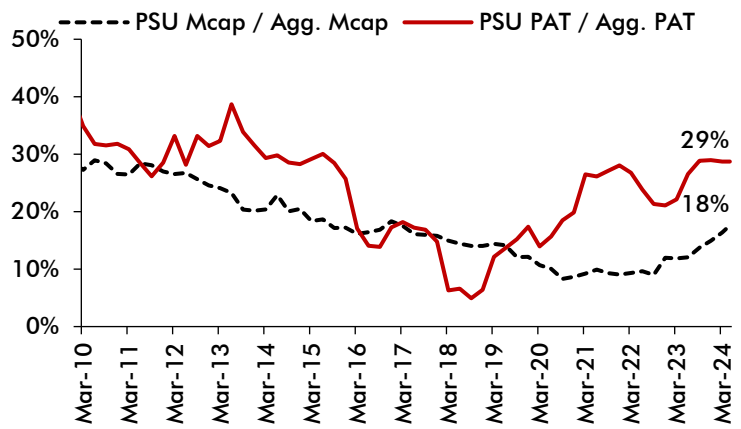
Exhibit 6: ...on 12m fwd. P/E, the premium is even higher at ~46% in May-24 (~12% in Mar-23)



Source: Bloomberg, Ambit Capital research

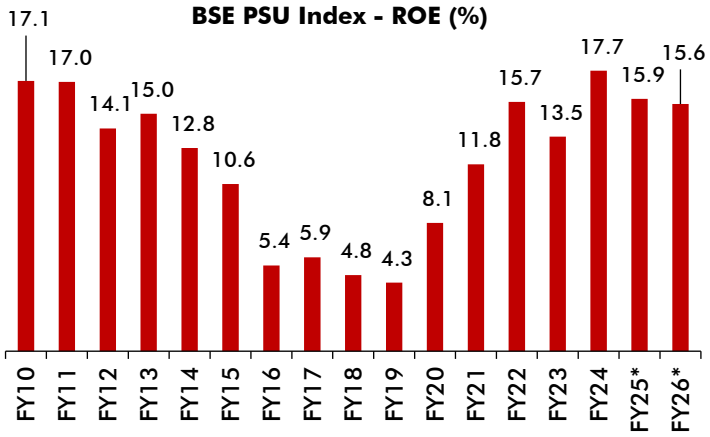
One of the questions we often get alongside BFSI/Ex-BFSI is on PSUs. Is the PSU rally driven by real profits? Is the rally sustainable? Currently, PSUs' PAT contribution towards NSE500 stands at 29%, which is the highest since Jun-15. On the other hand, the Mcap contribution stands at 18%. The attractiveness measured by the differential between PAT and Mcap contributions stands at 11%, which is one of the highest ever as compared to 2010-20. So, if RoE remains sustainable in line with consensus estimates, the rally can continue. Roughly, 50% of the current PSU profit pool is driven by financials and this would determine the trajectory of PSUs. We cover only a handful of them.

Exhibit 7: PSUPSUs rally is backed by real profits



Source: Bloomberg, Ace Equity, Ambit Capital research

Exhibit 8: Consensus expects RoE to stay above 15%



Source: Bloomberg, Ace Equity, Ambit Capital research

What are entry multiples telling us?

All equity cohorts – large-caps, mid-caps and small-caps trade at the higher end of the TTM P/B range and suggest muted returns from a year-perspective. For Nifty, the current TTM P/B multiple of 3.5x implies a paltry 5.6% 1-year forward return. Over a longer-term horizon (3-year, 5-year period), forward returns do improve, but fall short by a wide margin compared to returns delivered over the past 12 months (~23%).

Exhibit 9: Nifty: Current multiple of 3.5x implies 1-year forward return of 5.6%

TTM P/B range	Median returns (CAGR)					
	1 Year	3 Year	5 Year	7 Year	10 Year	15 Year
< 2.2	42.9%	27.3%	31.8%	23.9%	18.0%	16.3%
2.2 - 2.5	29.1%	16.3%	14.8%	13.4%	13.7%	14.4%
2.5 - 2.7	18.0%	13.9%	12.4%	12.3%	12.8%	13.9%
2.7 - 2.8	11.4%	13.4%	12.9%	12.4%	14.5%	13.4%
2.8 - 2.9	11.2%	10.7%	12.2%	12.1%	15.1%	13.2%
2.9 - 3	9.3%	9.4%	11.7%	11.5%	14.1%	13.0%
3 - 3.2	6.4%	7.7%	11.1%	9.6%	10.2%	12.1%
3.2 - 3.4	11.7%	6.1%	10.4%	9.8%	10.2%	11.8%
3.4 - 3.7	5.6%	11.7%	7.7%	9.5%	10.0%	11.1%
>= 3.7	17.7%	5.8%	4.6%	7.7%	8.4%	10.0%

Source: Bloomberg, Ambit Capital research

The 12m forward return forecast is much lower for mid-caps and small-caps compared to Nifty with the current multiple of 4.1x for mid-caps implying a 4.2% return over the next 12 months. Likewise for small-caps. The base rate analysis also points in a similar direction.

Exhibit 10: Mid-caps: The current multiple of 4.1x implies 1-year forward return of 4.2%

TTM P/B range	Median returns (CAGR)					
	1 Year	3 Year	5 Year	7 Year	10 Year	15 Year
< 1.6	31.9%	13.5%	13.1%	11.2%	12.7%	14.4%
1.6 - 1.9	17.2%	16.0%	11.8%	11.9%	12.8%	13.8%
1.9 - 2.1	13.5%	13.6%	11.6%	12.0%	11.0%	12.2%
2.1 - 2.3	7.1%	9.3%	10.6%	11.4%	9.5%	11.5%
2.3 - 2.4	10.9%	9.2%	11.4%	11.6%	9.6%	11.3%
2.4 - 2.6	7.4%	8.6%	11.1%	9.8%	9.7%	11.0%
2.6 - 2.9	10.2%	5.0%	9.8%	8.7%	8.3%	10.4%
2.9 - 3.3	7.2%	1.0%	5.7%	8.0%	7.4%	9.8%
3.3 - 4.1	4.2%	9.6%	6.9%	8.9%	9.3%	10.9%
>= 4.1	14.1%	7.1%	4.1%	7.4%	8.2%	9.8%

Source: Bloomberg, Ambit Capital research. Note: The Nifty Midcap 100 index has been considered

Exhibit 11: Small-caps: Current multiple of 4.2x implies 1-year forward return of 1.9%

TTM P/B range	Median returns (CAGR)					
	1 Year	3 Year	5 Year	7 Year	10 Year	15 Year
< 1	32.4%	12.7%	12.9%	11.8%	12.9%	N/A
1 - 1.3	10.2%	9.5%	11.8%	11.2%	11.8%	N/A
1.3 - 1.4	5.8%	8.4%	11.4%	11.2%	12.0%	N/A
1.4 - 1.5	10.9%	15.4%	12.8%	12.2%	12.6%	N/A
1.5 - 1.6	11.0%	14.5%	12.2%	12.1%	12.5%	N/A
1.6 - 1.8	3.0%	12.0%	11.5%	N/A	N/A	N/A
1.8 - 2.7	26.0%	15.6%	10.9%	N/A	N/A	N/A
2.7 - 3.1	15.6%	14.6%	N/A	N/A	N/A	N/A
3.1 - 3.8	5.5%	14.6%	N/A	N/A	N/A	N/A
>= 3.8	1.9%	N/A	N/A	N/A	N/A	N/A

Source: Bloomberg, Ambit Capital research. Note: The Nifty Small-cap 100 index has been considered

Base rate implies muted SMID returns

In G&C 18.3: Drivers are flashing risk (refer to page 29-32) we defined base rates as the mean of "10-year" returns (CAGR) delivered by Nifty over 2005-2023. The other proxy for "base rates" of Nifty annual returns can be earnings CAGR as earnings and price mirror each other in the long run. Both are in sync at around 10%. Our assumption for using a 10-year CAGR as the "base rate" of delivered returns is based on the premise that returns can be volatile in the short term. But over a longer horizon, volatility reduces, and stable returns are witnessed as the "entry multiple" effect becomes less prominent.

We note that a 2-sigma move over 3 years can weigh on forward returns (next 7 years). Historically, when small-caps have delivered returns far above base rates (>25%) over 3 years, the next 7-year forward returns have been abysmal (<6% CAGR). For mid-caps, it appears mixed with a period of sustained outperformance and muted returns. The 7-year forward return CAGR exceeding 15% for mid-caps even after a 2-sigma move are associated with isolated periods of 2004-05 when EPS growth was exceptional.

At the time of G&C 18.3, SMID 3-year trailing returns (CAGR) was ~35%. The same has declined since then and the divergence with base rates has diminished. Current 3-year trailing returns (CAGR) for small and mid-caps stands at ~26% CAGR. However, small-cap 7-year forward returns have always been subdued after such a sharp move. We prefer large-caps over small and mid-caps, especially with excess earnings growth differential between mid-caps and large-caps moving to negative territory.

The base rate of both mid-caps is ~15% whereas for small-caps stand at ~11%.

Putting things in perspective through the below equation:

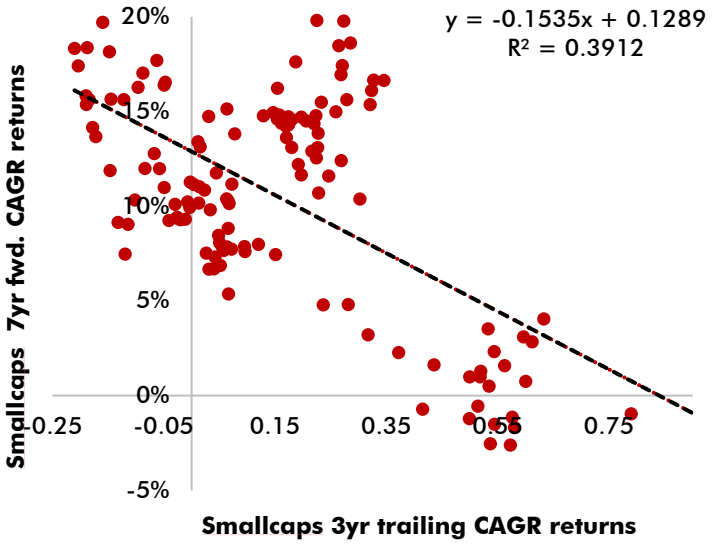
$$(1+x)^{10} = (1+y)^{3} * (1+z)^{7}$$

x is "base rate return" (10yr CAGR rolling returns over May'14-May'24)

y is "current 3yr return" (3yr CAGR trailing return over May'21-May'24)

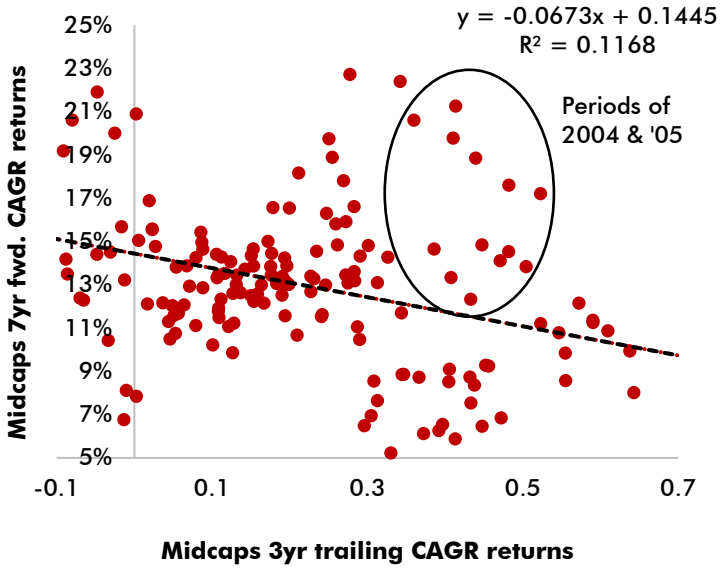
z is "implied 7yr forward return" (7-year forward returns over May'24-May'31)

Exhibit 12: Small-cap: strong returns over last 3 years (>35%) weighed on fwd. returns (<6% CAGR) over the next 7 years....



Source: Bloomberg, Ambit Capital research

Exhibit 13: .... while for mid-caps, the relation is mixed



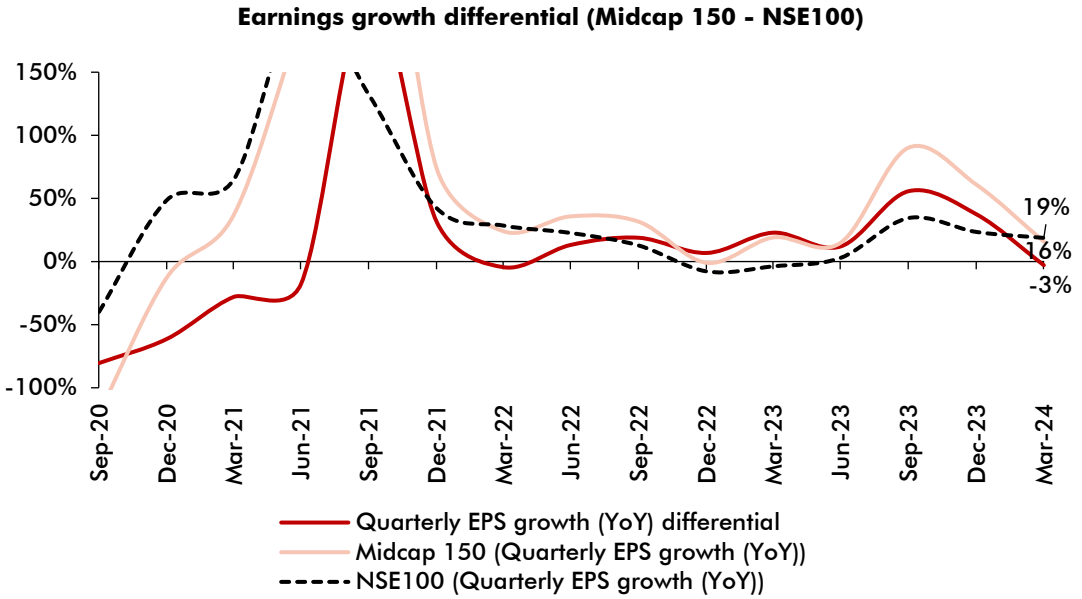
Source: Bloomberg, Ambit Capital research

Size preference: large-caps over SMID

Earnings growth differential: SMID earnings at risk

The excess earnings growth differential of mid-caps over large-caps declined over the last two quarters and currently stands at -3% (mid-caps – large-caps). The same for small-caps stands at -8%.

Exhibit 14: Midcap excess earnings growth over large-caps moved into negative territory



Source: Bloomberg, Ambit Capital research Note: NSE100 refers to large-cap, NSE Midcap 150 Index refers to mid-cap

In our note SMID – Where is the stress? We highlighted those stocks that are at an intersection of high DMF ownership and low return ratios. In a scenario of deteriorating SMID earnings, these stocks are likely to witness the highest exits from DMFs.

As highlighted in "G&C 18.4: The wind is changing", we prefer large-caps over SMID. Our rationale is as follows –

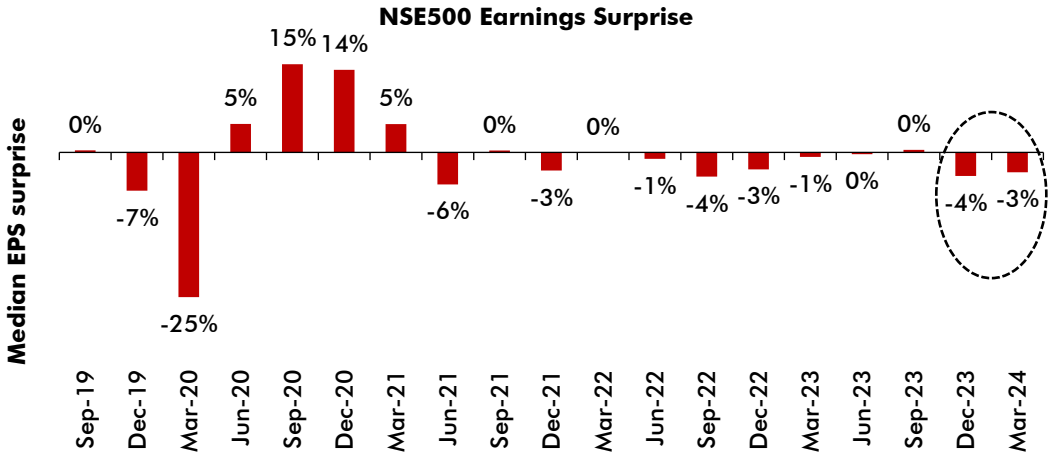
- **Valuation:** SMID valuation measured by trailing EYBY differential is close to the worst levels since 2005. The last time it happened in 2017, SMID underperformed large-caps significantly over the next 12 months.
- **Free-float Mcap contribution:** SMID universe FFMcap contribution is at an ATH of 33%. In previous instances of peak contributions in 2007 and 2017, both indices corrected in double digits over the next 12 months.
- **Earnings growth:** PAT growth distribution for SMIDs is nothing extraordinary to warrant such frothy valuations. With heavyweight sectors in SMID witnessing earnings downgrades, EPS estimates are more sustainable in large-caps.
- **Greed & Fear indicator:** Market sentiment measured by Nifty100 Value participation still signals extreme greed, indicating the likelihood of SMID underperformance over the next 12 months. If investors are scared, the bulk of NSE turnover would be in the top 100 stocks & vice versa.

For exhibits on these data points, please refer appendix

Earnings estimate trajectory to normalize

The 4QFY24 reporting season was weak, with the aggregate NSE500 earnings surprise at -3% so far. Earnings surprises were -3%, -5% & -2% in large-caps, mid-caps and small-caps respectively (refer to the appendix for exhibits). Negative earnings surprises are expected to continue with the "margin expansion" lever receding.

Exhibit 15: Earnings surprises have worsened over the past two quarters

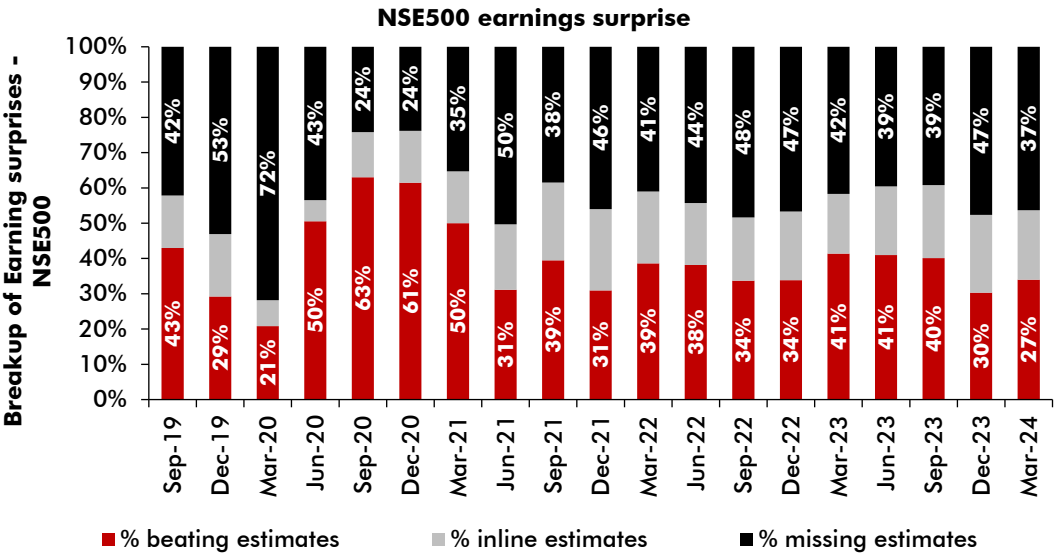


Source: Bloomberg, Ace Equity, Ambit Capital research

In 3QFY24, the number of companies delivering negative earnings surprise significantly exceeded those delivering positive earnings surprise. The percentage of companies delivering earnings surprise was the lowest since Mar-20. This is significantly worse as compared to recent history and the trend is on similar lines in 4QFY24.

In 4QFY24 so far, earnings surprises are the worst for mid-caps as compared to other equity cohorts as the % of companies beating estimates is at 25% v/s 31% and 26% for large-caps and small-caps respectively and 27% on aggregate. For midcaps positive surprises were the lowest since June-21. Mid-caps stand out on negative surprises as well with the % of companies missing estimates at 40% compared to 38% for large-caps, 33% for small-caps and 37% in aggregate.

Exhibit 16: The numberNumber of companies posting positive earnings surprises is reducing



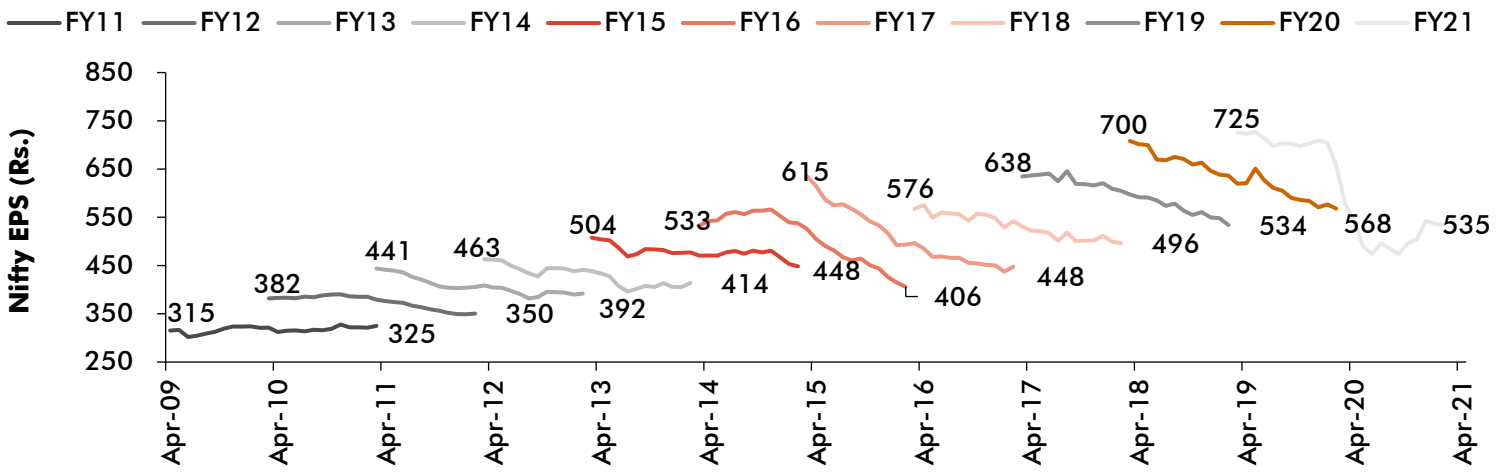
Source: Bloomberg, Ace Equity, Ambit Capital research. Note: Coverage of small-cap stocks is much lower than that of other equity cohorts. Note: For March-24, earnings surprises have been calculated only for those companies that have reported March-24 financials as of 24th May 2024.

Note: Positive or Negative Earnings surprise is calculated as >5% or <-5% difference in the quarterly estimate at the end of the quarter v/s the actual reported numbers for the NSE500 constituents as of every quarter end

Overoptimism on earnings likely to fade

Since FY12, Nifty earnings estimates have usually been revised downwards every year as we move into the year. Our analysis indicates that in any financial year, EPS estimates have, on average, been revised downwards by 16% over 2 years (t-24 to t) and by 8% on average over 1 year.

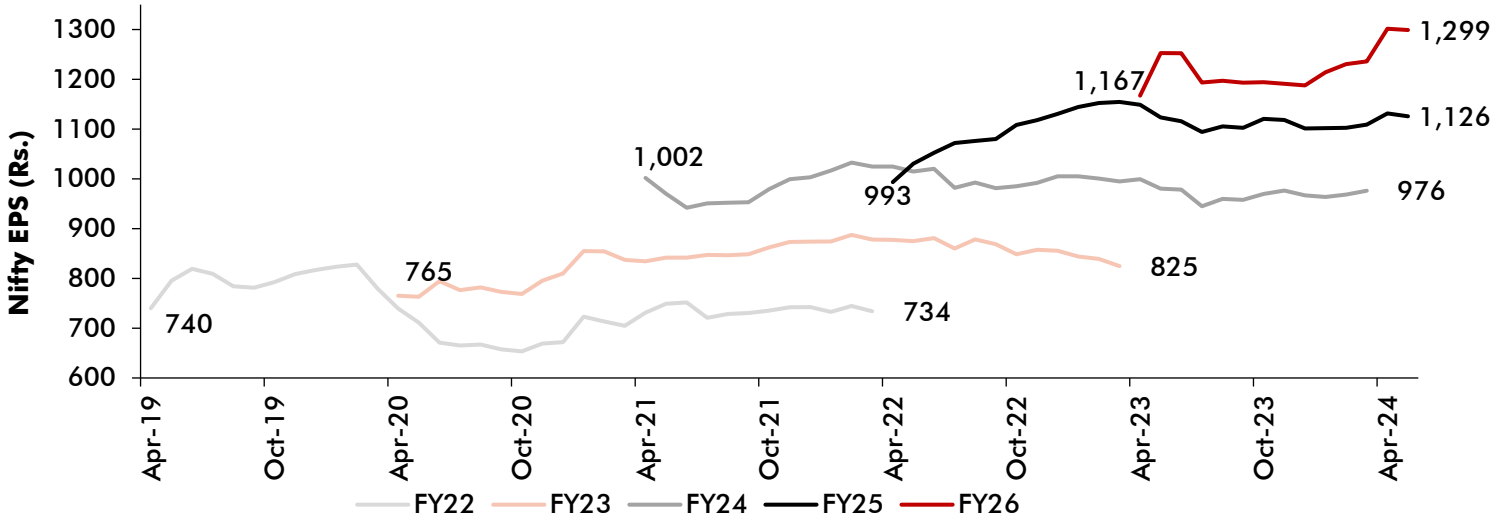
Exhibit 17: Historically, Nifty EPS estimates have been cut by 8% & 16% in 12 & 24 months respectively leading up to the FY



Source: Bloomberg, Ambit Capital research

However, earnings cuts were minimal in FY22 and FY24, and earnings were upgraded in FY23. Accordingly, FY25 and FY26 projected earnings have seen a steep uptick. However, with earnings surprises accelerating, the CPI-WPI spread is expected to compress and the margin lever is forecasted to recede, earnings are expected to normalize.

Exhibit 18: FY22-24 earnings trajectory was resilient and horizontal. FY25/26 can be different!

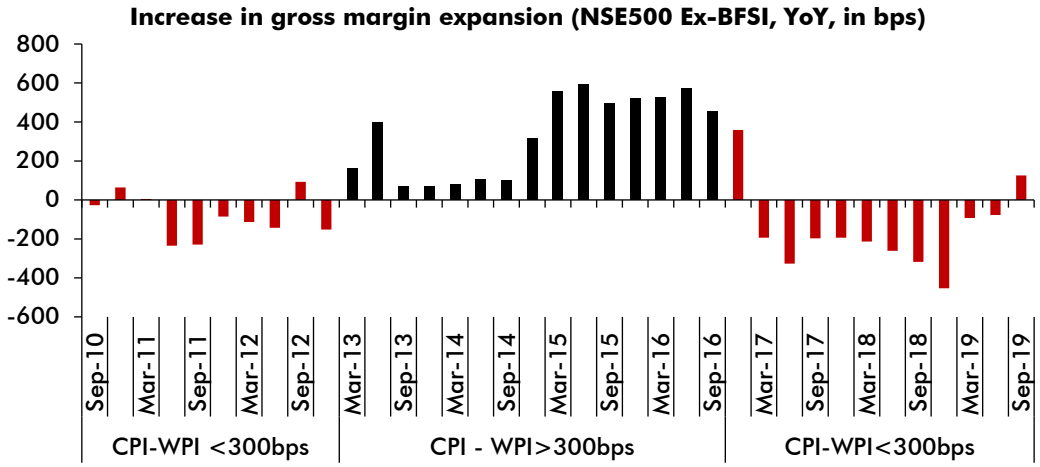


Source: Bloomberg, Ambit Capital research

Digging deeper: CPI-WPI spread is expected to compress

Our economy team, in Apr'23, highlighted that the difference between WPI (producer price index) inflation and CPI inflation tends to positively affect the gross margins of corporates.

Exhibit 19: A highHigh difference between CPI and WPI leads to an increase in gross margins



Source: ACE Equity, CEIC, MoSPI, Office of Economic Advisor, Ambit Capital research. Note- Data represents change in margin expansion on a YoY basis

Where do we go from here?

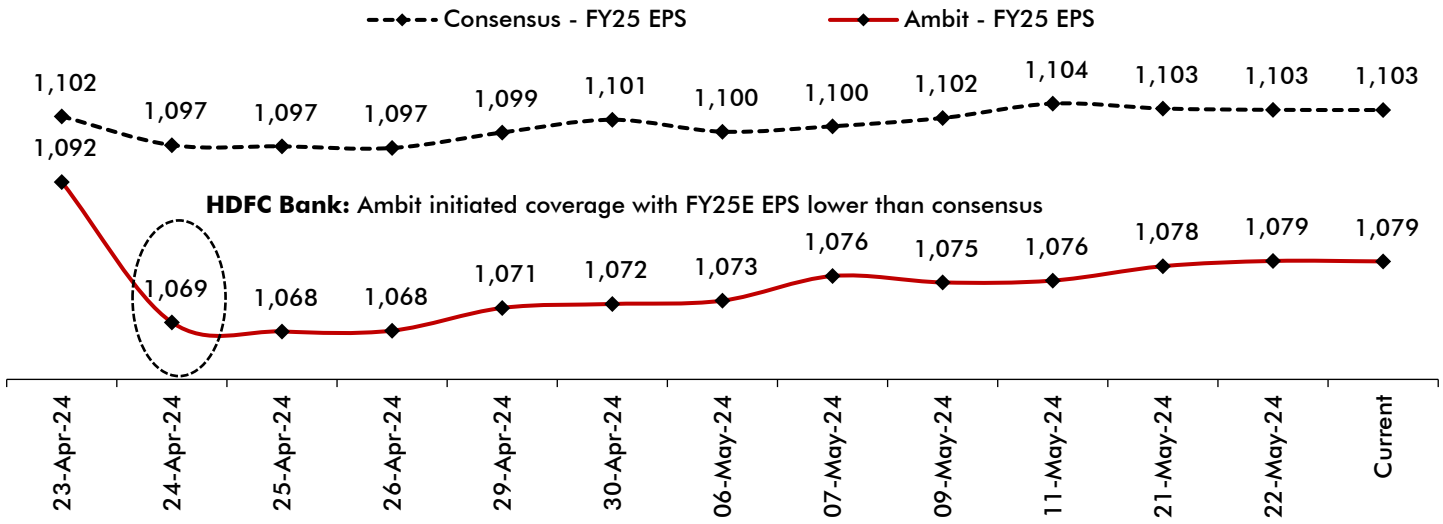
We expect CPI inflation to moderate to 4.5-5% in FY25. Similarly, WPI has returned to the inflationary zone in the last 6 months as the gap between CPI and WPI gap was at its lowest since Mar'23 (although the gap continues to remain >300bps). Further narrowing of this gap could lead to moderation in the gross margins of corporates as well and we expect this to flow towards the bottom-line. We expect to it compress hereon with FMCG, Consumer Durables, Cement and Building Materials margins to come under pressure. This can impact earnings estimate trajectory.

Evolution of our FY25/26 Nifty earnings estimates

On 24th April'24, we introduced our Nifty 50 FY25/26 earnings estimates using an investible factor weight approach at INR1,092/1,246 building ~14% annual growth, and were marginally lower than consensus. Since then, during this reporting season, our estimates have declined to INR1,079/1,234.

The biggest negative contributors were HDFC Bank, Axis Bank & Grasim Industries, whereas the biggest positive contributors were ICICI Bank, State Bank of India & JSW Steel.

Exhibit 20: Nifty FY25E earnings: Earnings estimate declined by ~1% in the current reporting season



Source: Bloomberg, Ambit Capital research. Note: Ambit initiated coverage on HDFC Bank the day after our note with a lower FY25E EPS estimate than consensus. This led to a ~11-point decline in our estimates. The other drivers of downgrades were Axis Bank, Grasim & Hindustan Unilever

The growth engine of Nifty earnings – BFSI is expected to slow down in FY25. While BFSI drove the bulk of FY24 earnings growth (+50%), it will contribute 29% of FY25 earnings growth. With Banks and the broader BFSI universe forecast to witness (10-15bps) NIM compression in FY25 owing to expected rate cuts, this is on expected lines (refer to G&C 18.4: The wind is changing page 43 to 48 for details). Despite this, Banks' earnings estimate trajectory is one of the best in a decade and also compared to that of other sectors and is the second highest contributor to Nifty FY25 earnings growth.

Other than BFSI, **Metals are expected** to be the key contributor (32%) to FY25 earnings growth followed by Telecom (13%).

Exhibit 21: BFSI and Metal expected to drive 61% of FY25 earnings growth

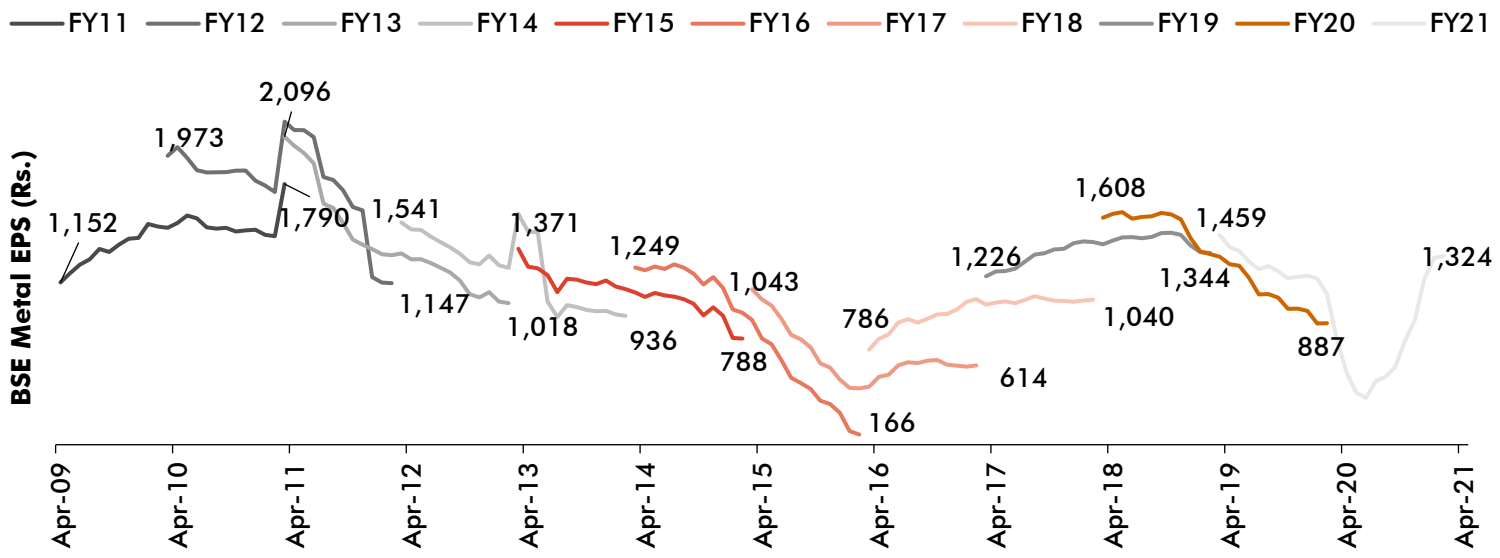
Sector	Free float weight	Contribution to Nifty EPS growth- Ambit estimates		
		FY24	FY25	FY26
BFSI	33%	50%	29%	48%
IT	12%	2%	5%	7%
Oil & Gas	12%	15%	6%	6%
Consumer	10%	4%	4%	4%
Auto / Auto Anc.	8%	27%	-3%	6%
E&C / Infra / Cap. Goods	6%	4%	4%	6%
Metals & Mining	4%	-4%	32%	9%
Utilities	3%	1%	3%	3%
Pharma	4%	2%	5%	2%
Cement	2%	1%	1%	2%
Telecom	4%	0%	13%	6%
Retail	1%	0%	1%	1%
Healthcare	1%	0%	1%	1%
Chemicals	0%	-3%	0%	0%

Source: Bloomberg, Ambit Capital research

Metals & Telecom: Earnings trajectory seems to be changing

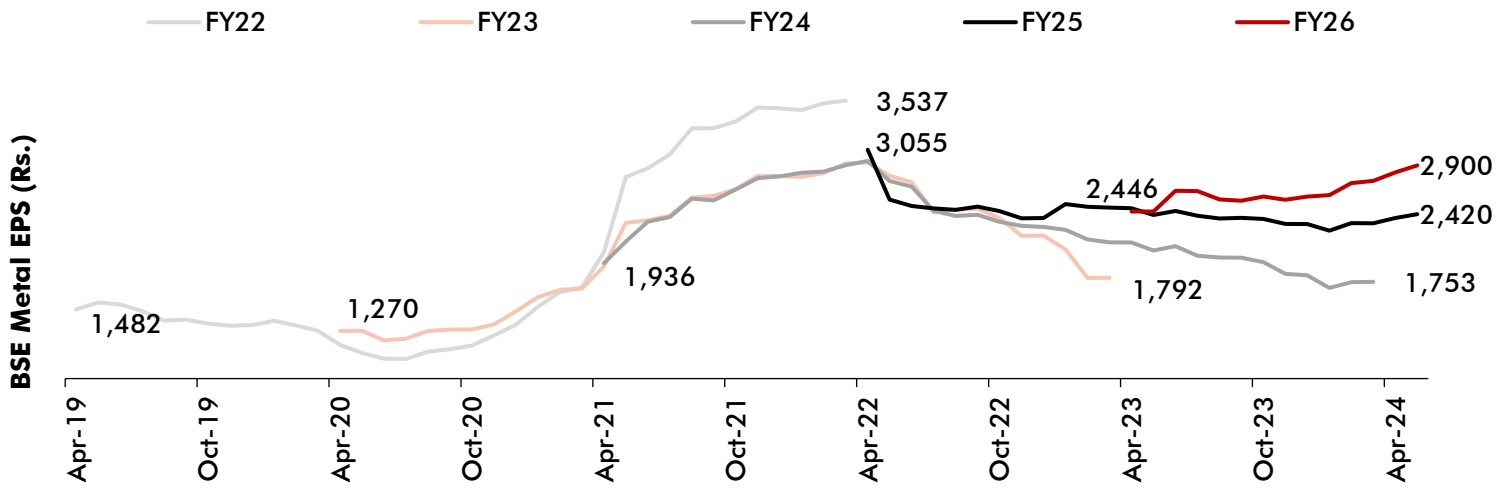
The earnings trajectory of Telecom and Metals seems to have changed over the past few years. Since 2012, earnings have been downgraded in almost every single year. However, for Telecom, the downgrades have decelerated (refer to the appendix for exhibits), while Metals witnessed upgrades in FY22 and FY23. But predicting the earnings trajectory of global cyclicals is a challenging task, a point which we had highlighted in our earlier note.

Exhibit 22: Metals: Since FY12, earnings were downgraded in every single year barring FY18 and FY19



Source: Bloomberg, Ambit Capital research. Note: Metals refer to the BSE Metal Index.

Exhibit 23: Metals: FY22 and FY23 witnessed earnings upgrades, while the outlook on FY26 remains positive



Source: Bloomberg, Ambit Capital research. Note: Metals refer to the BSE Metal Index.

NSE200: Sectoral upgrades and downgrades

Looking at earnings of the broader NSE200 universe, Telecom (18.7%), Autos (6.4%) and Metals & Mining (3.8%) witnessed the largest FY25 EPS upgrades in CY24TD, while New-age Tech (-58.9%), Chemicals (-31%) and Media (-16.3%) witnessed largest downgrades.

- **Change in earnings trajectory:** After consecutive downgrades since the start of the year, the earnings trajectory of Telecom seems to have changed with the sector witnessing earnings upgrades over the past two quarters.
- **Sectoral Upgrades:** Auto & Auto Anc. and Real Estate have witnessed FY25E earnings upgrades consecutively for the past 5 quarters.
- **Sectoral downgrades:** IT and Chemicals witnessed consecutive earnings downgrades through the year with downgrade since March'23 at -15.3% and -48.7% respectively.
- **Reporting season:** Telecom witnessed the largest upgrade this quarter so far at ~13% and is projected to be the 3rd largest contributor to Nifty FY25 EPS growth.

Exhibit 24: NSE200: Telecom, Autos & Utilities witnessed highest FY25 EPS growth in CY24TD

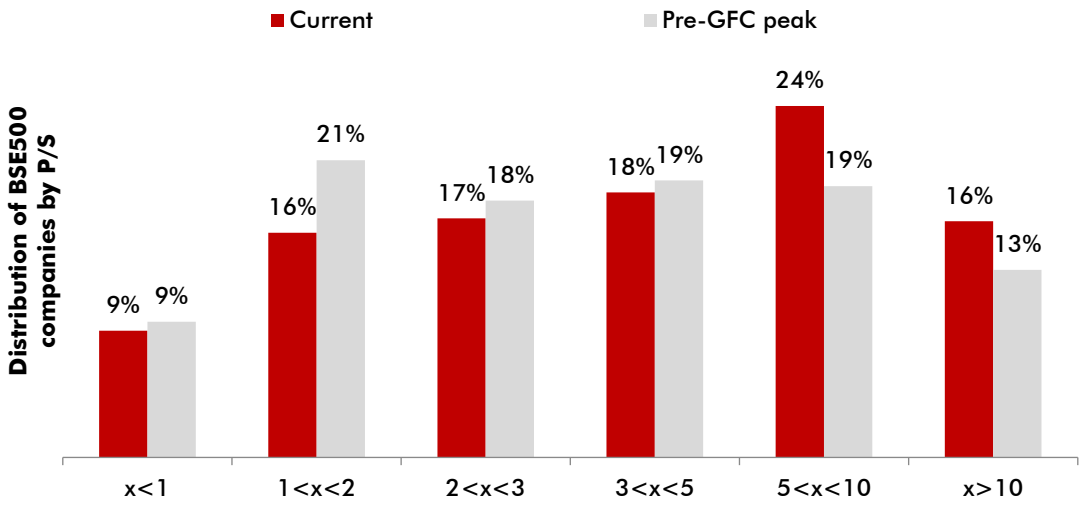
Sector	FY25 EPS growth (QoQ) - Sector-wise						
	Jun-23	Sep-23	Dec-23	Mar-24	May-24	Since Mar'23	CY24 YTD
Telecom	0%	-11%	-3%	5%	13%	2.9%	18.7%
Miscellaneous	-5%	15%	-2%	2%	8%	18.7%	10.4%
Auto & Auto Anc.	3%	7%	5%	3%	3%	23.1%	6.4%
Metals & Mining	-2%	-2%	0%	-1%	5%	-1.0%	3.8%
Utilities	0%	12%	2%	2%	2%	17.2%	3.4%
Real Estate	8%	1%	0%	2%	2%	13.3%	3.3%
Healthcare	-3%	3%	2%	0%	1%	2.0%	0.8%
BFSI	0%	5%	1%	-2%	2%	7.8%	0.6%
Capital Goods	5%	6%	0%	-1%	1%	11.3%	0.4%
Oil & Gas	-2%	-1%	2%	0%	0%	-2.1%	-0.3%
Consumer Durable	-7%	-4%	-2%	-6%	5%	-13.5%	-1.1%
FMCG	1%	-1%	-2%	-2%	0%	-2.7%	-1.8%
Consumer Discretionary	0%	0%	0%	-2%	-2%	-4.6%	-4.0%
IT	-6%	-3%	-3%	-2%	-4%	-15.3%	-5.5%
Cement & Building Materials	-2%	1%	1%	-7%	-3%	-9.3%	-9.5%
Media	-2%	-5%	1%	-13%	-4%	-21.9%	-16.3%
Chemicals	-7%	-7%	-14%	-24%	-9%	-48.7%	-31.0%
New-age tech	202%	126%	37%	-17%	-51%	284.5%	-58.9%

Source: Bloomberg, Ambit Capital research

Looking for value in an overheated market

With all equity cohorts trading at the higher end of the valuation range and earnings estimate trajectory expected to normalize, searching for value seems imperative. For the broader BSE500 universe, a comparison of TTM P/S distribution indicates that markets are quite expensive. The number of companies trading at P/S>5 is currently the highest ever at ~41% and is even higher than the pre-GFC peak (32%).

Exhibit 25: BSE500 valuation distribution is quite similar to the pre-GFC peak



Source: Bloomberg, Ace Equity, Ambit Capital research. TTM sales figures have been used. The universe is BSE500. BFSI stocks have been included in this analysis. Latest data as of 22nd May'24.

In such an environment, we highlight two value frameworks to navigate the markets during such times.

- Joel Greenblatt's 'Magic formula'
- Piotroski's F Score

1. Magic formula

Joel Greenblatt's Magic Formula (discussed in his 2006 book *'The Little Book that Beats the Market'*) ranks firms on a combination of the following two ratios:

(1) A firm's EBIT as a proportion of its Net Fixed Assets plus Net Working Capital; this ratio is akin to an adjusted RoCE; and

(2) The firm's EBIT as a proportion to its Enterprise Value; this ratio is akin to a firm's earnings yield adjusted for capital structure.

The 'magic' formula strikes a balance between quality and valuations

We modify these measures slightly to arrive at the following two measures for return ratio and earnings yield respectively:

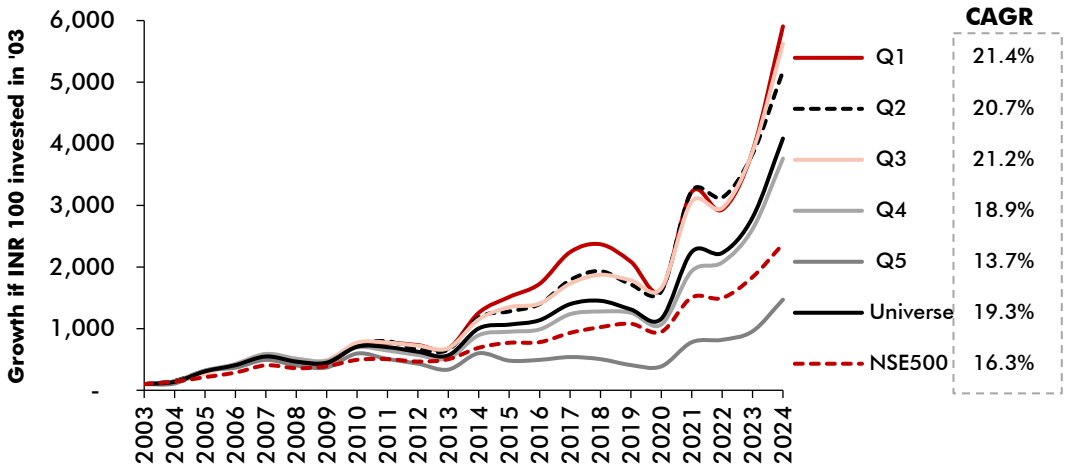
- Our **'return ratio'** is pre-tax RoCE which includes interest and dividend income along with EBIT in the numerator and total capital including cash in the denominator.
- Our **'earnings yield'** has the same numerator as pre-tax RoCE and the denominator is the market value of capital (debt plus equity *without* excluding cash).

We rank firms on both of these parameters individually and then add the two ranks to arrive at cumulative ranks for each firm. Thus, firms that receive high scores have both good return ratios and inexpensive valuations. Based on these scores, we then categorise the firms into quintiles.

Note: The Magic Formula cannot be applied to banks and NBFCs given the nature of the metrics given above.

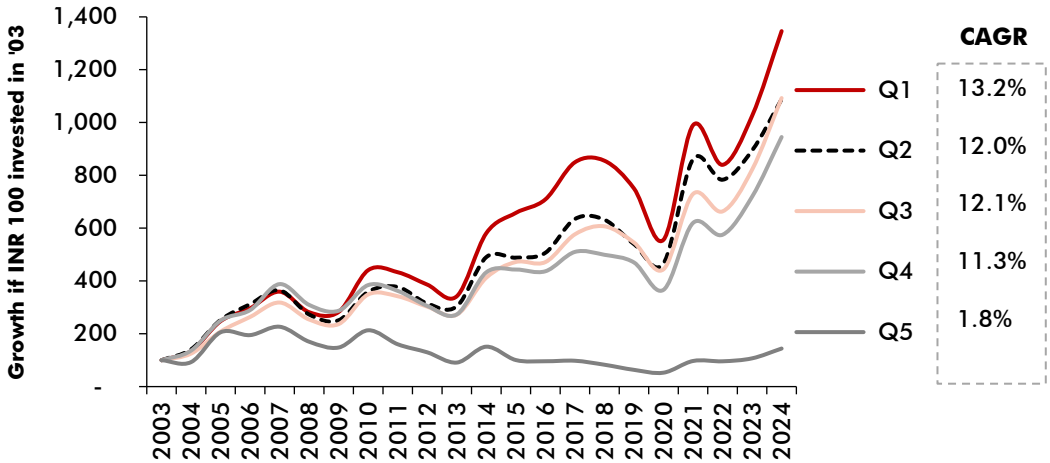
The '*magic*' does work

Exhibit 26: Top 3 quintiles have outperformed the benchmark significantly on a 21-year period



Source: Bloomberg, Ace Equity, Ambit Capital research. Note: Performance is based on average stock returns each year. Latest data as of 23rd May 2024.

Exhibit 27: Median return: The magic formula has worked over the last 21-year period



Source: Bloomberg, Ace Equity, Ambit Capital research. Note: Performance is based on median stock returns each year. Latest data as on 23rd May'24.

Current 'value' ideas

The current list of firms that do well on this framework from the NSE500 universe has been highlighted below. This list has been cleaned for suspect accounting in an attempt to weed out value traps (details on Ambit's accounting framework can be accessed here).

Note: Quintiles have been calculated using FY24 financials for companies that have reported financials in the current year. For those that have not reported, the same has been calculated using FY23 financials.

Exhibit 28: Top stocks as per the 'magic formula' from the NSE500 universe

Ticker	Company Name	Ambit Sector	Ambit Stance	MDVT - 3m (US$ mn)	Mcap (US$ mn)	FY24E P/E	FY25E P/E	FY25E P/B
PWGR IN	Power Grid Corp of India	Utilities	SELL	61	35,677	19	18	3.2
COAL IN	Coal India	Metals & Mining	NR	53	37,151	10	10	3.3
HNDL IN	Hindalco Industries	Metals & Mining	BUY	51	18,205	15	12	1.3
DRRD IN	Dr Reddy's Laboratories	Healthcare	BUY	25	11,774	18	17	3.0
NMDC IN	NMDC	Metals & Mining	SELL	46	9,447	13	12	2.6
DALBHARA IN	Dalmia Bharat	Cement & Building Materials	SELL	8	4,045	39	31	2.0
SAIL IN	Steel Authority of India	Metals & Mining	NR	65	8,423	35	17	1.2
INDUSTOW IN	Indus Towers	Telecom	NR	61	11,242	17	15	3.1
HPCL IN	Hindustan Petroleum Corp	Oil & Gas	NR	42	9,276	5	8	1.6
EXID IN	Exide Industries	Auto & Auto Anc.	NR	16	4,856	39	31	3.0
REDI IN	Redington	Miscellaneous	NR	5	1,941	13	12	1.9
CIEINDIA IN	CIE Automotive India	Auto & Auto Anc.	NR	3	2,531	25	22	3.1
GODPI IN	Godawari Power and Ispat	Metals & Mining	NR	4	1,516	13	10	2.1
FNXP IN	Finolex Industries	Miscellaneous	NR	3	2,397	45	33	3.4
CESC IN	CESC	Utilities	NR	8	2,313	13	12	1.6
JKLC IN	JK Lakshmi Cement	Cement & Building Materials	NR	1	1,140	21	16	2.5
CHMB IN	Chambal Fertilisers and Chemicals	Chemicals	NR	6	1,957	12	10	2.0
TRE IN	Triveni Engineering & Industries	FMCG	NR	2	908	17	16	2.3
EID IN	EID Parry India	Miscellaneous	NR	2	1,337	45	32	N/A
GESCO IN	Great Eastern Shipping Co	Miscellaneous	BUY	5	1,740	6	6	N/A

Source: Bloomberg, Ace Equity, Ambit Capital research. Note: FY24 P/E includes actuals for those companies that have reported results so far, otherwise estimates

2. F-Score

Joseph Piotroski, in his 2002 paper *'Value Investing - The use of historical financial statement information to separate winners from losers,'* showed that a measure of the financial health of a firm can be a powerful source of investment returns. To be specific, he used a nine-parameter approach to arrive at what he called the F-Score, his measure of the financial health of a firm. These nine parameters can be broadly classified into the following categories:

Piotroski combines nine measures of financial health to arrive at the F-Score

1. Profitability

- **Positive RoA:** This parameter looks at whether the firm produces positive returns on its assets. A positive RoA is scored as 1 whilst a negative RoA receives a score of 0.
- **Increasing RoA (YoY):** The objective here is to see if the return on assets has increased this year with respect to the last year. An increase in RoA is scored as 1 whilst a decline is scored as 0.
- **Positive CFO:** This variable receives a 1 score if the firm generates a positive cash flow from operations and 0 if the CFO is negative.
- **CFO greater than PAT:** The aim here is to ensure that the positive RoA is not just a function of creative accounting but are translating into positive cash flows for the firm. A CFO greater than PAT receives a 1 score whilst a CFO less than PAT leads to a score of 0.

2. Leverage, liquidity and source of funds

- **Declining D/E (YoY):** A decline in long-term debt to equity (D/E) is seen as being positive for the financial health of the firm. A declining D/E is scored as 1 and 0 otherwise.
- **Improving current ratio (YoY):** A current ratio (measured as current assets/current liabilities) greater than last year's is an indication of improving financial health & is scored as 1. A declining current ratio similarly is scored as 0.
- **No equity offering in the previous year:** Use of external financing is taken as a negative signal, as it implies a lack of internal fund generation ability. Hence, a firm that has raised equity in the last year receives a 0 here and 1 otherwise.

3. Operating efficiency

- **Improving gross margins (YoY):** Gross profit margins that have improved as compared to the previous year are positive for the firm's financial health and receive a 1 whilst declining margins are scored as 0.
- **Improving asset turnover (YoY):** An improvement in asset turnover (total sales by total assets) implies greater productivity from the asset base and hence is scored as 1 and 0 otherwise.

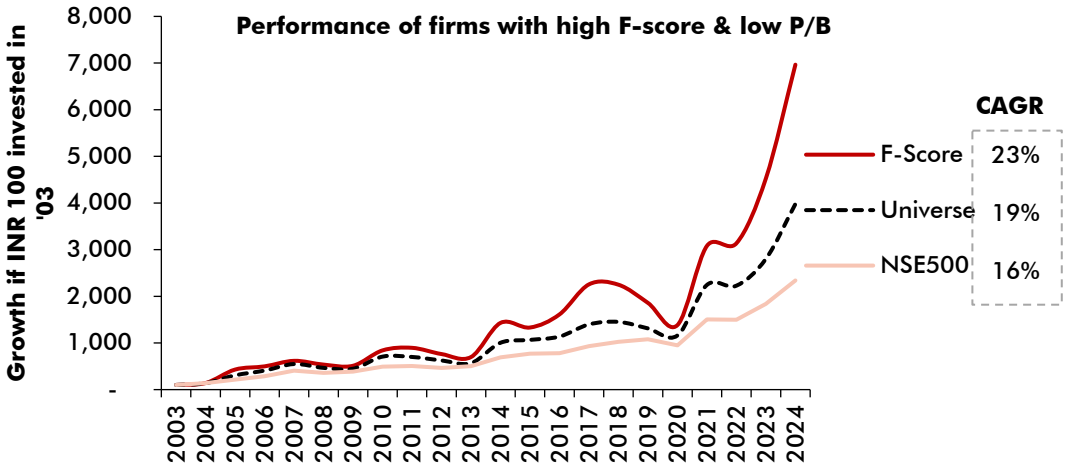
With each firm scoring a binary 1 or 0 on each of these variables, the F-Score will range between 0 and 9, with 9 being the best and 0 being the worst. Piotroski's F-Score therefore helps identify firms that have decent balance sheets and are showing financial improvements at the margin. A combination of high F-Scores and low P/B should help identify value stocks with decent financials whilst avoiding value traps.

A combination of low P/B and high F-Score allows identifying 'value' stocks without losing sight of financial health

Please note that the F-Score cannot be applied to banks and NBFCs given the nature of the metrics given above. Further, due to data limitations, we have looked at a decline in total debt:equity instead of a decline in long-term debt:equity (2(a)). Further, in 1(a) and 1(b) instead of RoA we have used RoCE as they better reflect operating performance.

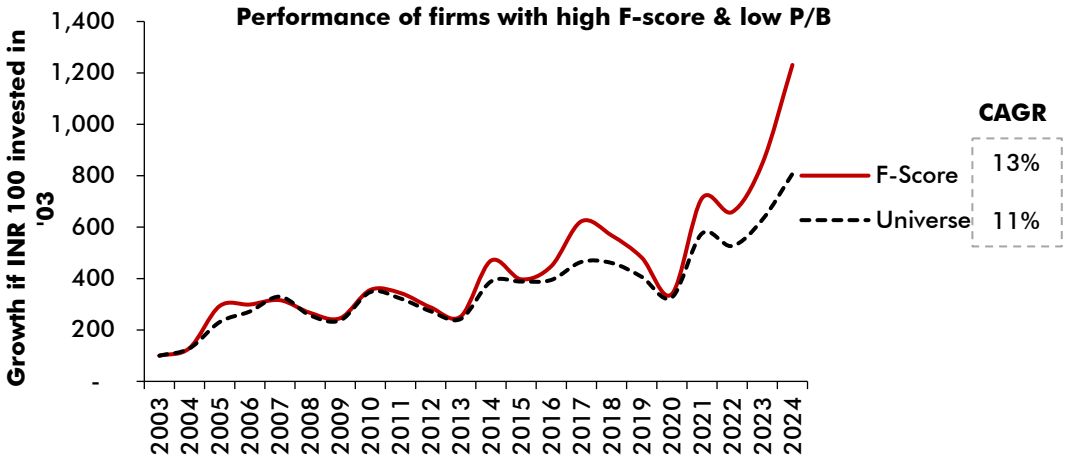
The performance of stocks that do well on a combination of low P/B (lowest 25% of the universe) and high F-Scores (6 or better) has been presented below –

Exhibit 29: F-Score has outperformed the benchmark over the last 21-year period



Source: Bloomberg, Ace Equity, Ambit Capital research. Note: Performance is based on average stock returns each year. Latest data as of 23rd May 2024.

Exhibit 30: Median Return: F-Score performance over the last 21-year period



Source: Bloomberg, Ace Equity, Ambit Capital research. Note: Performance is based on median stock returns each year. Latest data as of 23rd May 2024.

Current 'value' ideas

The current list of firms that do well on this framework (P/B amongst the lowest 25% and F-Score of 6 or higher) from the NSE500 universe is highlighted below. This list has been cleaned for suspect accounting in an attempt to weed out value traps (details on Ambit's accounting framework can be accessed here).

Note: F-Score has been calculated using FY24 financials for companies that have reported financials in the current year. For those that have not reported, the same has been calculated using FY23 financials.

Exhibit 31: Top stocks on F-Score from the NSE500 universe

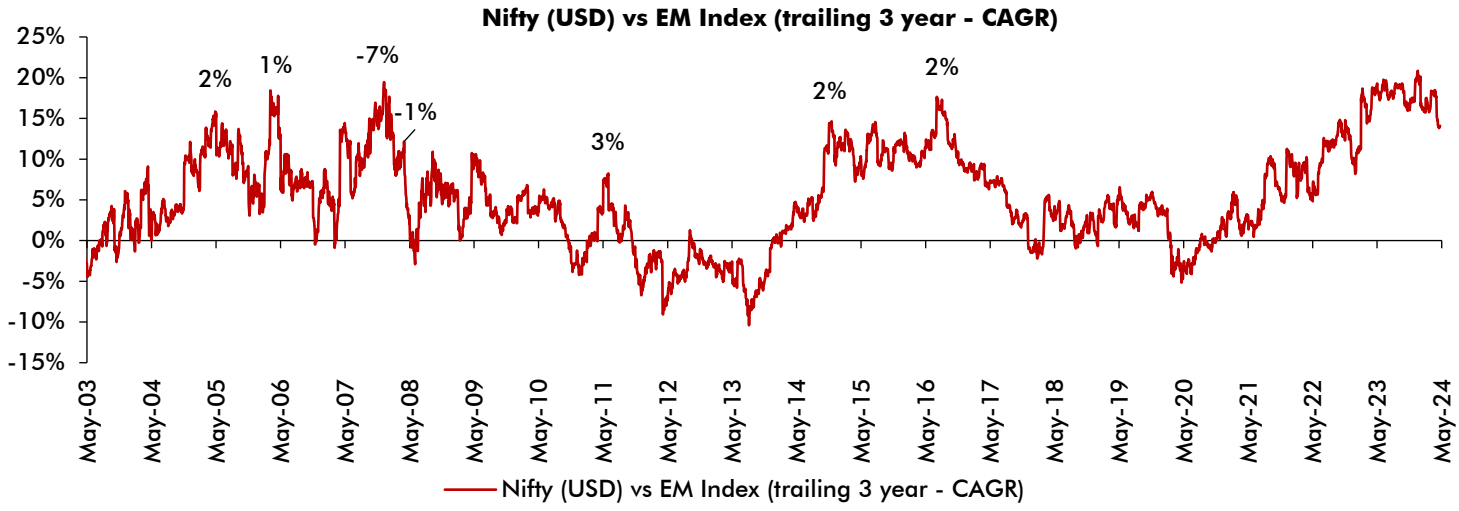
Ticker	Company Name	Ambit Sector	Ambit Stance	MDVT - 3m (US$ mn)	Mcap (US$ mn)	F-score	FY24E P/E	FY25E P/E	FY25E P/B
PWGR IN	Power Grid Corp of India	Utilities	SELL	61	35,677	8	19	18	3.2
HNDL IN	Hindalco Industries	Metals & Mining	BUY	51	18,205	7	15	12	1.3
DRRD IN	Dr Reddy's Laboratories	Healthcare	BUY	25	11,774	7	18	17	3.0
INDUSTOW IN	Indus Towers	Telecom	NR	61	11,242	6	17	15	3.1
MRF IN	MRF	Auto & Auto Anc.	NR	14	6,687	8	25	28	3.0
DALBHARA IN	Dalmia Bharat	Cement & Building Materials	SELL	8	4,045	6	39	31	2.0
HPCL IN	Hindustan Petroleum Corp	Oil & Gas	NR	42	9,276	6	5	8	1.6
PLNG IN	Petronet LNG	Oil & Gas	SELL	19	5,512	6	13	13	2.4
IGL IN	Indraprastha Gas	Oil & Gas	SELL	13	3,881	6	18	17	3.3
TTCH IN	Tata Chemicals	Chemicals	NR	24	3,324	6	23	30	1.2
APTY IN	Apollo Tyres	Auto & Auto Anc.	NR	11	3,681	8	16	16	2.0
GUJS IN	Gujarat State Petronet	Oil & Gas	NR	6	2,007	6	13	19	1.5
NUVOCO IN	Nuvoco Vistas Corp	Cement & Building Materials	SELL	1	1,373	6	64	39	1.2
CIEINDIA IN	CIE Automotive India	Auto & Auto Anc.	NR	3	2,531	8	25	22	3.1
CHMB IN	Chambal Fertilisers and Chemicals	Chemicals	NR	6	1,957	8	12	10	2.0
NLC IN	NLC India	Utilities	NR	13	3,889	6	N/A	14	1.8
FNXP IN	Finolex Industries	Miscellaneous	NR	3	2,397	7	45	33	3.4
CESC IN	CESC	Utilities	NR	8	2,313	6	13	12	1.6
JKLC IN	JK Lakshmi Cement	Cement & Building Materials	NR	1	1,140	7	21	16	2.5
GESCO IN	Great Eastern Shipping Co	Miscellaneous	BUY	5	1,740	6	6	6	N/A
MRPL IN	Mangalore Refinery & Petrochemicals	Oil & Gas	NR	13	4,611	8	11	14	2.6
BRCM IN	Balrampur Chini Mills	Miscellaneous	NR	6	943	8	15	15	2.1
BCORP IN	Birla Corp	Cement & Building Materials	NR	2	1,336	6	25	18	1.6
JKPAPER IN	JK Paper	Miscellaneous	NR	3	770	6	6	6	1.1
CEAT IN	Ceat	Auto & Auto Anc.	NR	4	1,155	7	14	14	2.1
AVNT IN	Avanti Feeds	Miscellaneous	NR	2	854	7	21	16	2.3
NJCC IN	NCC /India	Capital Goods	NR	19	2,130	6	23	18	2.3
GSFC IN	Gujarat State Fertilizers & Chemicals	Chemicals	NR	9	1,077	7	14	12	0.7
PIRPHARM IN	Piramal Pharma	Healthcare	NR	6	2,352	6	134	59	2.3
GODPI IN	Godawari Power and Ispat	Metals & Mining	NR	4	1,516	6	13	10	2.1
GMDC IN	Gujarat Mineral Development Corp	Miscellaneous	NR	10	1,567	7	22	20	2.0
MRL IN	Chennai Petroleum Corp	Oil & Gas	NR	11	1,746	7	5	7	N/A

Source: Bloomberg, Ace Equity, Ambit Capital research

India stands out amongst EM peers

The recent stellar run of Nifty has helped it outperform emerging markets in the vicinity of 14% on a 3-year basis. Historical evidence suggests such periods of outperformance can continue over the subsequent 12 months. The momentum can persist. Moreover, periods of Nifty underperformance compared to the EM index are few and far between. Especially over the past decade, Nifty rarely lagged the EM index as outperformance continued over extended periods.

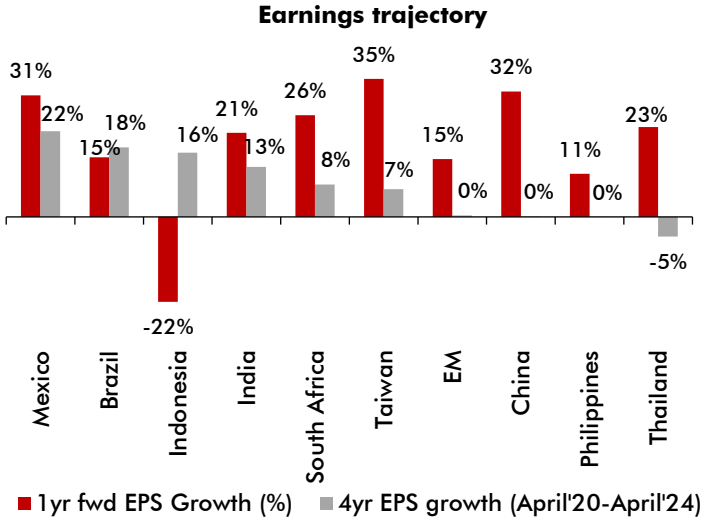
Exhibit 32: Nifty outperformance w.r.t EMs has often continued on a 3-year basis



Source: Bloomberg, Ambit Capital research

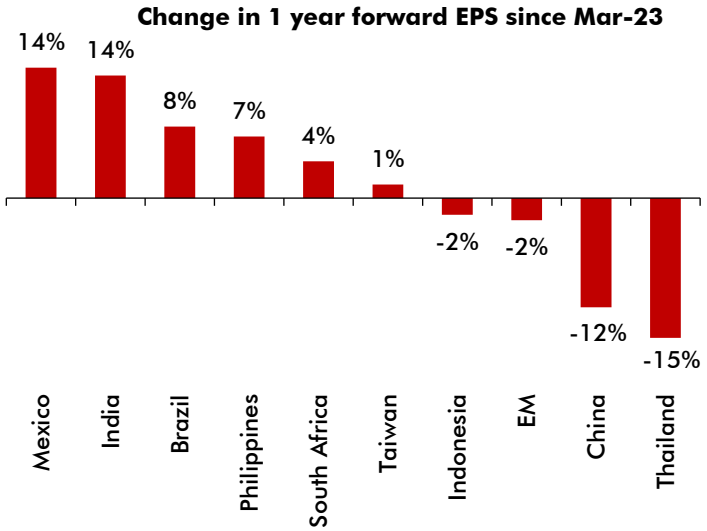
India stands out on EPS growth sustenance and continuity

Exhibit 33: India's forward earnings trajectory among the most sustainable



Source: Bloomberg, Ambit Capital research. Note: The following indices were used to represent each country - Nifty (India), SET Index (Thailand), Jakarta Composite Index (Indonesia), Ibovespa (Brazil), PSEi Index (Philippines), TWSE (Taiwan), Shanghai Composite (China), KOSPI (South Korea), S&P/BMV IPC (Mexico), FTSE/JSE Africa (South Africa).

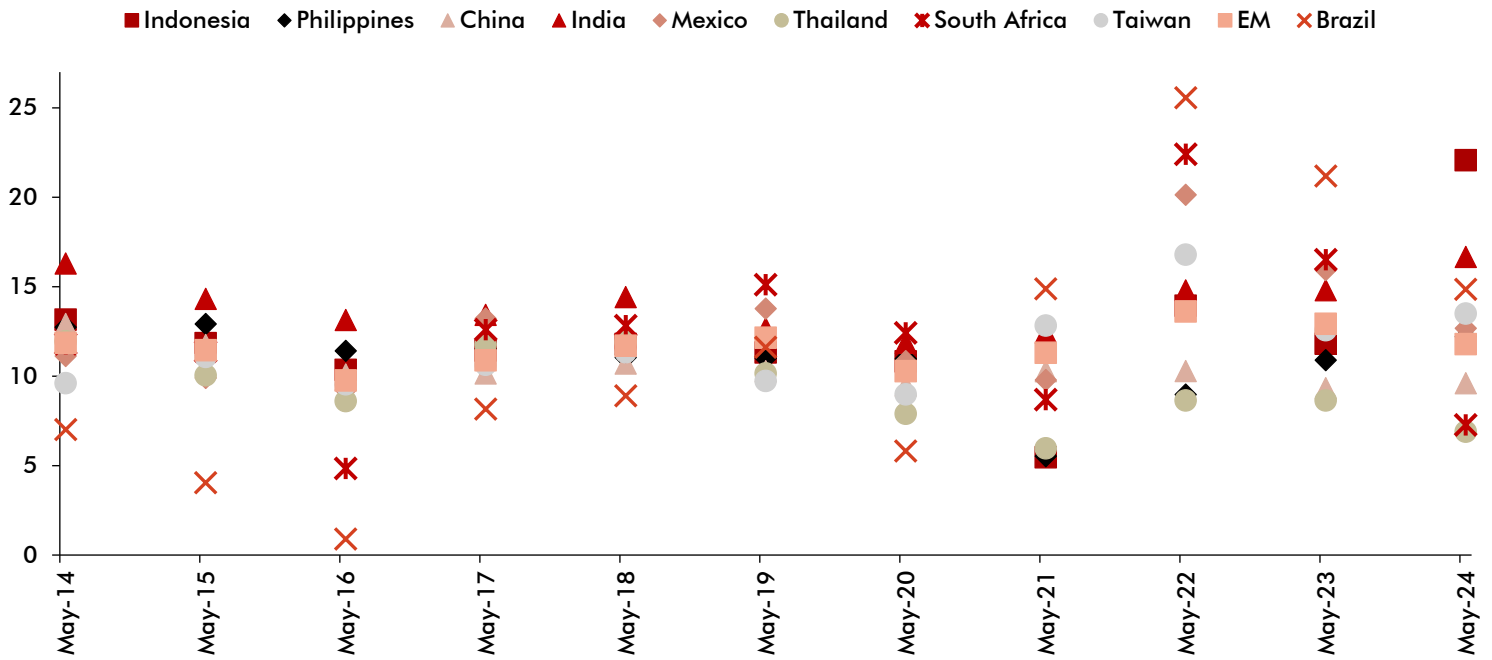
Exhibit 34: Earnings trajectory forecast to remain robust amidst elevated global uncertainty



Source: Bloomberg, Ambit Capital research. Note: The following indices were used to represent each country - Nifty (India), SET Index (Thailand), Jakarta Composite Index (Indonesia), Ibovespa (Brazil), PSEi Index (Philippines), TWSE (Taiwan), Shanghai Composite (China), KOSPI (South Korea), S&P/BMV IPC (Mexico), FTSE/JSE Africa (South Africa).

India stands out on RoE too compared to EM peers

Exhibit 35: Nifty has consistently delivered higher RoE than the EM index

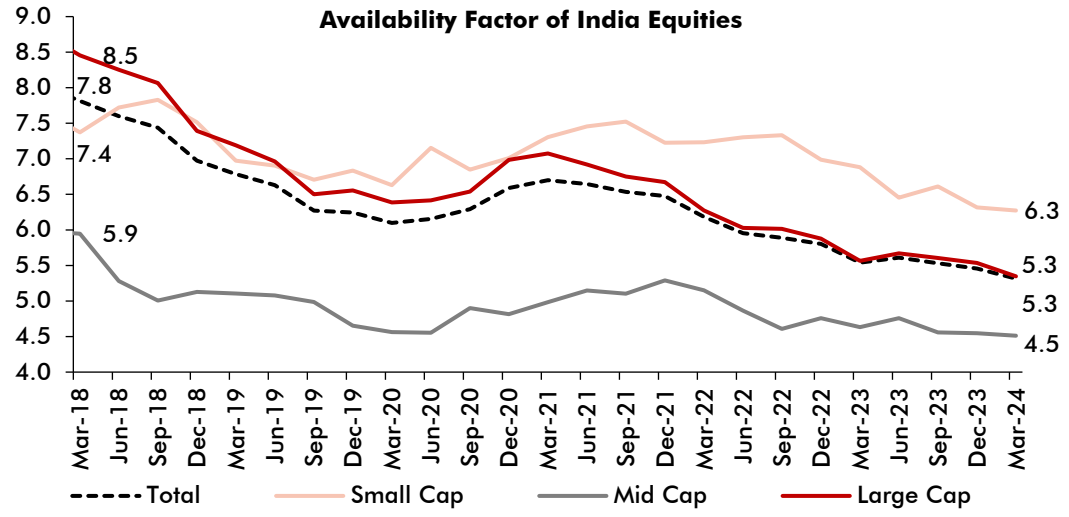


Source: Bloomberg, Ambit Capital research

The Availability Factor of Indian Equities is contracting!

- We define Availability Factor (AF) for DMFs as the free float of Indian equities (supply) divided by the AUM of DMFs (demand).
- "AF" has reduced significantly over the last 6 years as ownership value (26% CAGR) outpaced supply (18% CAGR). "AF" has shrunk the most for large-caps (37%) where the growth differential between DMF ownership value and free float over Mar18-24 is the highest.

Exhibit 36: Availability Factor of Indian Equities is contracting



Source: Bloomberg, Ambit Capital research

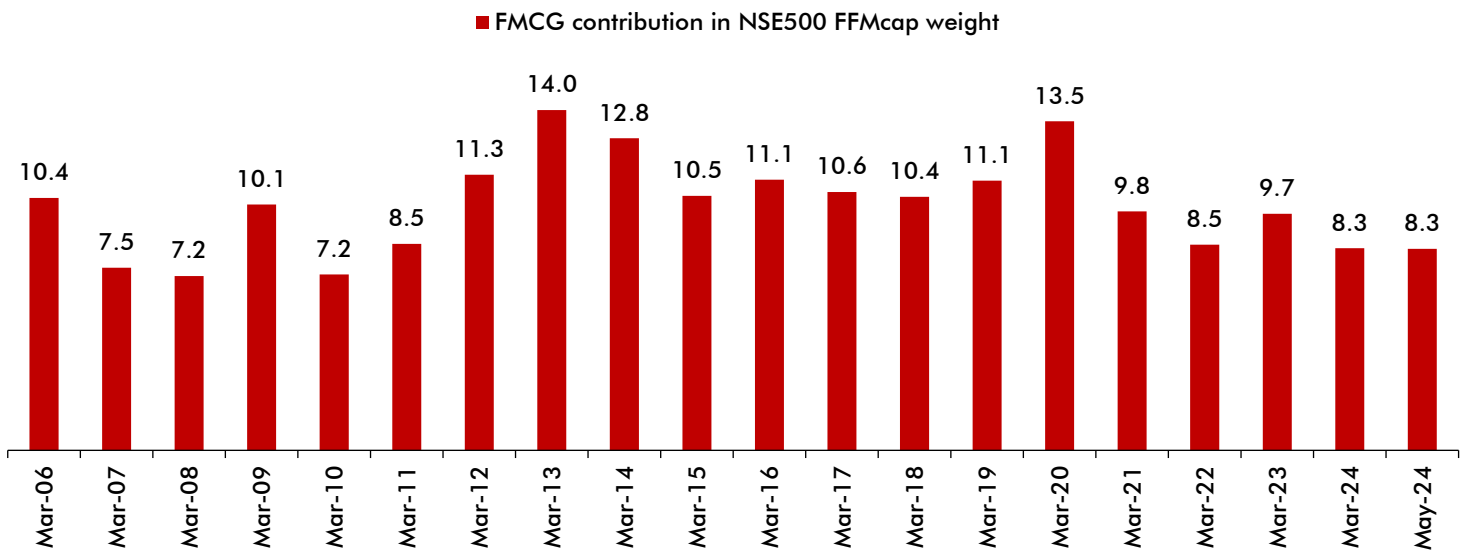
In addition to this, as highlighted in our previous G&C note, India's macro stands out w.r.t EM and India can lead EM outperformance over DM in the next decade. For details, please refer to the appendix.

Sectoral preference: FMCG and Banks

FMCG weight in NSE500 at a 13-year low

FMCG weight in the NSE500 index is currently at ~8.3%, the lowest since March-11.

Exhibit 37: FMCG weight in NSE500 is at a 13-year low of ~8.3%



Source: NSE, Ace Equity, Ambit Capital research

As FMCG firms reported their earnings in this reporting season, many pointed to a sequential uptick in rural demand that has been lagging urban markets for a while.

As per Nielsen's January-March data, the Indian FMCG industry saw a 6.5% YoY volume growth nationally, with rural consumption surpassing urban for the first time in 5 quarters.

Most companies are bullish on volume growth in FY25 based on either/a combination of rural recovery, price cuts taken over FY24, elevated marketing spends being done, or/and distribution expansion initiatives. For further details, refer to our flipbook (pages 3 & 4).

In our recent flipbook, we highlighted **tactical long call on FMCG** based on –

- **Seasonal Trend:** FMCG stocks deliver the best performance in the 2nd quarter of the calendar year with ~5% average/~9% median returns. We highlighted this seasonality last year as well and FMCG delivered 13.7% returns and outperformed Nifty by ~3%.
- **Reasonable valuations:** In CY24TD**,** FMCG underperformed NIFTY by ~8% given the uncertainty in near-term consumption revival at the start of the year, but the correction has been higher vs earnings cut. The multiples have derated significantly and stand at 40.4x TTMPE, in line with the 10-year average (40x TTM PE).
- **Excess returns:** Excess return of a sector index w.r.t market over a 12-month horizon can be a lead indicator for predicting future returns of the sector. "Extreme outperformance/underperformance can breed reversion to mean". While FMCG index excess returns are some distance away from historical troughs, excess returns turned negative in Feb'24, and were on a downward trajectory, with some improvement over the past couple of weeks. **Mean reversion is a possibility.**

Since our tactical call, the Nifty FMCG index has outperformed Nifty by ~2%. This tactical trade has got more legs especially with fundamentals aligning!

Exhibit 38: 2QCY has historically been the seasonally best quarter, especially since 2011

Years	Q1 (CY)	Q2 (CY)	Q3 (CY)	Q4 (CY)
2000	3.4	10.0	-18.4	5.8
2001	-4.8	-6.1	-7.4	8.3
2002	1.2	-9.6	-6.8	2.5
2003	-12.2	20.1	5.6	17.7
2004	-13.9	-13.5	12.0	16.7
2005	0.0	23.2	20.0	7.3
2006	33.4	-12.5	7.2	-6.4
2007	-8.7	5.0	16.1	10.0
2008	-8.1	-10.6	4.8	-6.6
2009	0.9	13.7	13.6	8.6
2010	0.9	15.6	13.9	-1.7
2011	-2.4	12.8	-4.1	2.7
2012	11.8	11.4	11.1	7.4
2013	1.0	8.9	5.7	-3.5
2014	6.2	-3.6	14.0	1.3
2015	-1.2	1.4	-1.0	1.2
2016	-2.1	9.3	-0.3	-3.7
2017	13.4	13.6	-8.5	9.7
2018	-2.7	10.9	2.7	2.6
2019	-0.6	-2.6	5.4	-3.3
2020	-9.3	10.0	-0.7	14.5
2021	2.2	3.3	12.0	-7.0
2022	-3.4	3.8	17.9	-0.5
2023	3.9	13.7	-1.1	10.4
2024	-5.3	2.8*		
Summary				
Average	0.1	5.3	4.7	3.9
Median	-0.6	8.9	5.5	2.6
Proportion of Positive return	48%	72%	63%	67%
Average (2011-2024)	1.3	7.2	4.1	2.4
Median (2011-2024)	-0.6	9.3	2.7	1.3
Proportion of Positive return (2011-2024)	46%	85%	54%	62%

*Source: Bloomberg, Ambit Capital research. Note – Quantiles are based on the calendar year. *performance as on 24th May 2024.*

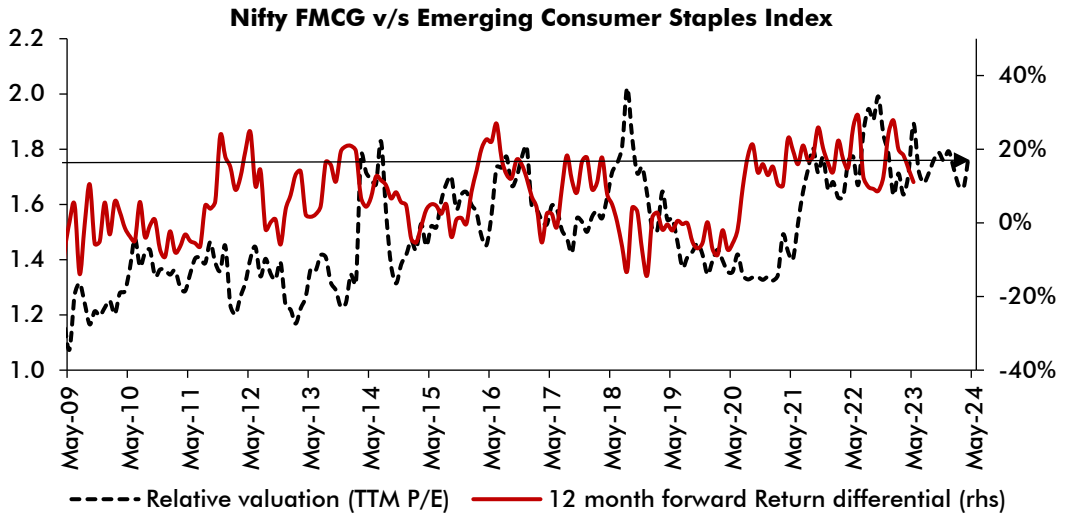
Query: Can expensive valuations stifle returns?

A query that we received from one of our clients was that Indian FMCG stocks trade at the higher end of the valuation range as compared to global peers. Will this weigh in on returns?

Our analysis suggests that the relative valuation of the Nifty FMCG index w.r.t Emerging Consumer Staples index currently stands at 1.8x, which is not alarming looking at historical multiples.

Almost every time the Nifty FMCG index has traded at current valuations, it has outperformed the EM index. For example, in Aug-21, at current multiples, Nifty FMCG outperformed the EM index by ~17%. Moreover, since July-2020, the 12M forward return differential of Nifty FMCG over the EM index is positive.

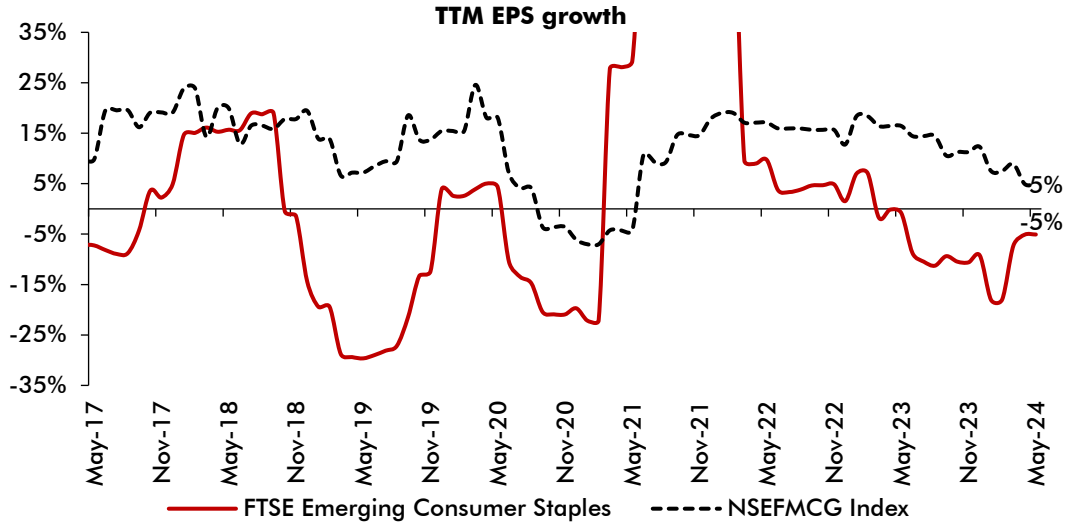
Exhibit 39: Nifty FMCG consistently outperformed the EM index since July-2021



Source: Bloomberg, Ambit Capital research

This has been backed by TTM earnings growth of 5% for Nifty FMCG as compared to negative TTM EPS growth for the FTSE index.

Exhibit 40: Nifty FMCG outperformance has been backed by TTM earnings growth



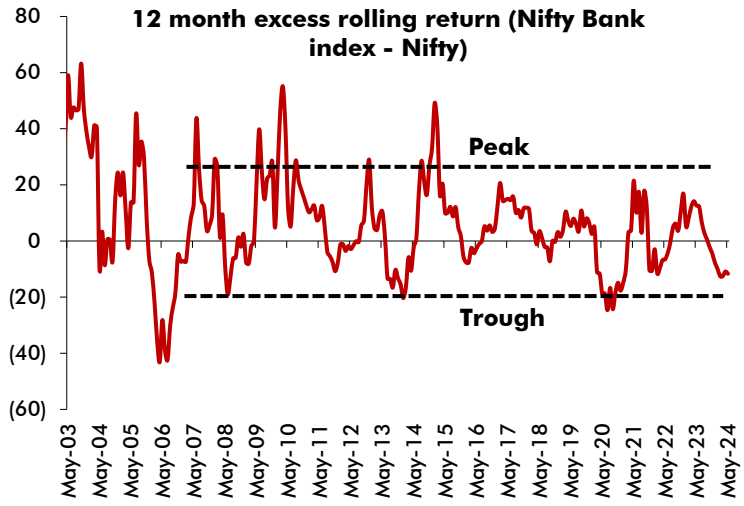
Source: Bloomberg, Ambit Capital research

Historically, higher multiples for FMCG firms have been driven by their higher growth profile. Over the past few years, on account of muted rural consumption growth, FMCG firms underperformed the benchmark. However, with rural consumption growth surpassing urban for the first time in five quarters, most firms are bullish on FY25 volume growth. There is no reason why India FMCG index can't outperform its EM peers. It has happened in the past and we expect it to last.

Excess returns of Banks close to historical trough

Bank Nifty excess return is near a historical trough and mean reversion is a possibility, especially as sector fundamentals remain healthy. Historically, when excess returns have been close to troughs, Banks outperformed the Nifty over the next 12 months with an average/median return of ~20%.

Exhibit 41: Excess return of Banks is close to historical trough



Source: Bloomberg, Ambit Capital research

Exhibit 42: Median return from trough instances is ~21%

Date	Trough Instances with 12m forward returns		
	Bank	Nifty	Differential (Bank – Nifty)
31-Jan-06	28.9	36.0	-7.1
30-Jun-08	46.0	6.2	39.8
31-Dec-13	64.6	31.4	33.2
31-May-20	84.1	62.7	21.4
28-Feb-22	11.2	3.0	8.2
Average			**19.1**
Median			**21.4**

Source: Bloomberg, Ambit Capital research

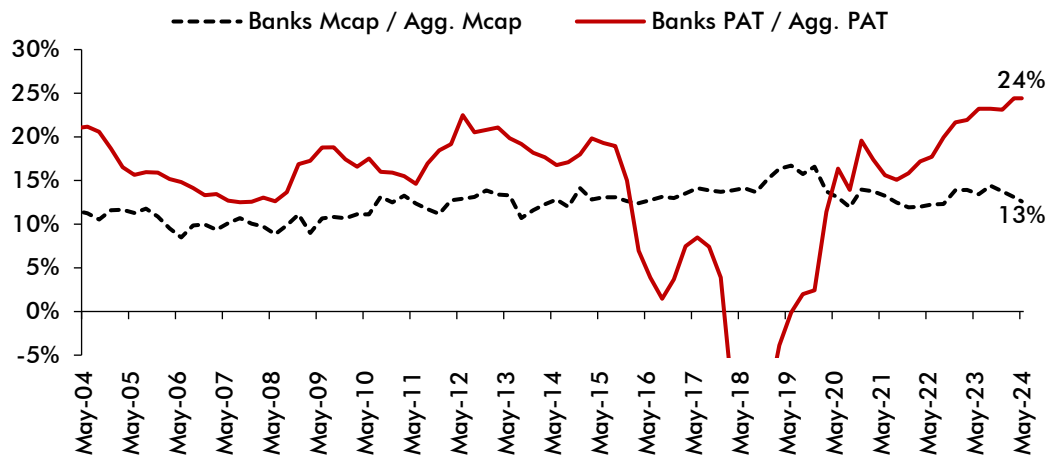
In our recent note G&C 18.4 – The wind is changing, we explained our thesis for banks:

- Our Banks team estimates a 50bps repo-rate cut in 2HFY25 will result in 10-15bps lower NIMs but overall NIMs remain healthy, credit costs remain low. Overall, NIM compression from 3QFY24 levels could be between 15-35bps depending on the trajectory of inflation and repo rate.
- Divergence between Banks' Mcap and PAT contribution is one of the highest in the decade.
- Attractiveness on the "excess returns" framework increased in recent months.
- Banks' earnings estimate trajectory is one of the best in a decade and also compared to other sectors.

Banks stand out on divergence between market-cap and PAT contribution to the NSE500 Universe market-cap and PAT pool. This is in contrast to other sectors where market-cap contribution to the NSE 500 has risen much faster than PAT contribution. For Banks, it appears that the market is yet to factor in its profitability and it is likely to outperform over the slightly longer term.

Our "sectoral attractiveness" framework comprises four parameters – 1. Excess returns, 2. Relative valuation, 3. Earnings estimate sustenance and 4. Ownership of the sector.

Exhibit 43: Banks are positioned to outperform from a medium-term perspective



Source: Ace Equity, Ambit Capital research. Note: Latest PAT data as of March'24 (rolling 4-quarter sum); For companies that have not reported March'24, PAT is considered as of Dec'23; Market cap data as of 23rd May'24

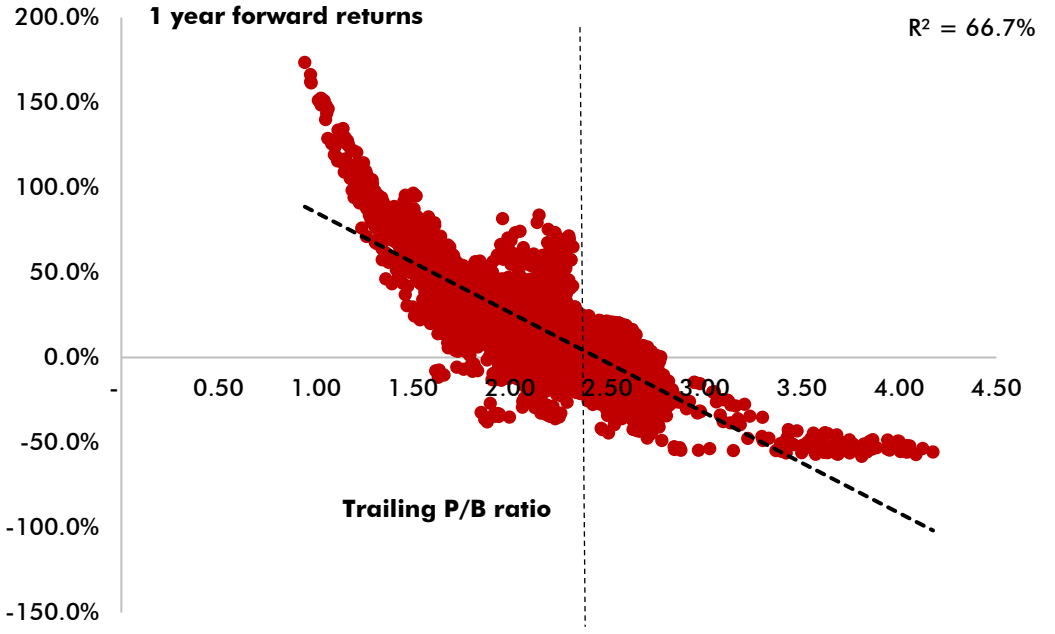
Entry multiples appear attractive as well

From an entry multiples perspective, we look at the empirical relationship between valuation and 12-month forward returns of the Bank Nifty index. Banks TTM P/B multiple and forward returns are negatively correlated, as evident in the negative slope of the regression line. This is on the expected lines of "lower is the entry multiple, higher is the expected returns".

Trailing price multiples (P/B) are a good predictor of 1-year forward returns. This reflects in higher explanatory power (R^2) of regression analysis between TTM PB and 12M fwd. returns.

At the current TTM P/B of~2.22x, the empirical relationship suggests 13.4% returns for Bank Nifty over the next 1 year. While multiples are a function of growth etc., fundamentals don't appear to be a concern. In fact, since 2010, SCB's NPAs have been close to an all-time low.

Exhibit 44: At current TTM P/B of~2.22x, the empirical relationship suggests 13.4% returns for Bank Nifty over the next 1 year



Source: Bloomberg, Ambit Capital research

Sectoral attractiveness framework

Our "sectoral attractiveness" framework comprises four parameters – 1. Excess returns, 2. Relative valuation, 3. Earnings estimate sustenance and 4. Ownership of the sector. In addition to this, we look at sector-specific intermarket relationships. In addition to the above parameters, Banks stand out on our sectoral attractiveness framework too. Kindly refer to the appendix for further details on the framework.

Exhibit 45: How sectors look on our framework and our stance

Sectors	Recent Excess Returns	Relative Valuation to Nifty	Earnings estimate trajectory	Ownership w.r.t NSE500 Sector weights	G&C Positioning	Comments
Auto	Very Unattractive	Unattractive	Robust	Overweight	OW	Driven by stock-specific calls
Banks	Very attractive	Attractive	Robust	Overweight	OW	In line with the framework
IT	Attractive	Very Unattractive	One of the worst since FY09*	Neutral	OW*	In line with the framework
Pharma	Unattractive	Attractive	Robust	Significantly Overweight	OW	In line with framework
FMCG	Attractive	Neutral	Robust	Significantly Underweight	UW**	In line with framework
Metals	Neutral	Unattractive	Robust	Significantly Underweight	OW	In line with framework
O&G	Very Unattractive	Very attractive	Robust	Significantly Underweight	UW***	Disproportionate OW in OMCs
Capital Goods	Very Unattractive	Very Unattractive	Robust	Underweight	UW	In line with the framework

*Source: Ambit Capital research. Bloomberg Note: Scores are assigned for excess returns, relative valuation and classified into 5 quintiles, 0-0.20 scores as very unattractive, 0.20- 0.40 as unattractive, 0.40-0.60 as Neutral,0.60-0.80 as attractive, and 0.80 to 1 as Very attractive. Ownership is calculated as the difference between Equity holdings of DMFs and NSE500 sector weights. +/- 5% are defined as neutral, 5-15% as underweight/overweight, and>15% are classified as significant OW/UW. Earnings estimate sustenance has been calculated based on a comparison of how earnings estimate evolution for the current FY and next FY. *marginal OW. **marginal UW. ***We have disproportionate OW in OMCs but don't own Reliance*

Reviewing our G&C 18.4 portfolio

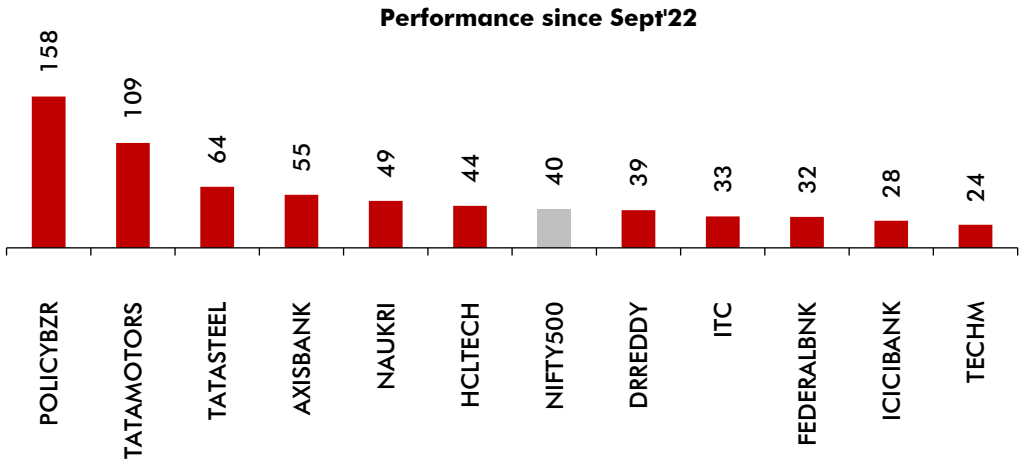
How is our portfolio's performance?

Our G&C 18.4 portfolio marginally outperformed the benchmark by ~0.3% since our last iteration (Estimating Nifty 50 FY25/26 earnings. Our thoughts!) and our overall outperformance is ~100bps w.r.t the benchmark.

Performance of stocks held for the longest duration

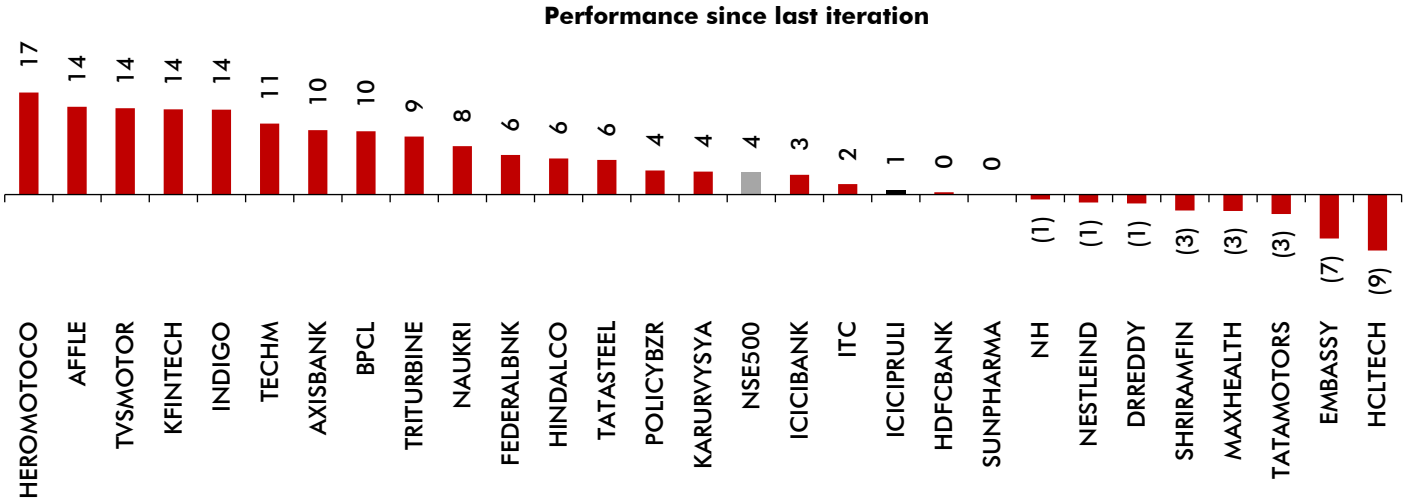
While 6/11 of the stocks in the portfolio since the G&C portfolio's inception outperformed the index, the extent of outperformance is significantly higher than the extent of underperformance. Within a year and a half since inception, PB Fintech and TATA Motors more than doubled while the biggest laggards were ICICI Bank and Tech Mahindra which underperformed the index significantly.

Exhibit 46: 4/11 stocks generated an alpha of >10% vs NSE500 since Sept'22



Source: Ace Equity, Ambit Capital research. Note: Performance of portfolio since inception.

Exhibit 47: 15/28 stocks outperformed the benchmark since Apr'24



Source: Ace Equity, Ambit Capital research. Note: Stocks marked in black are additions to the portfolio in the last iteration

Exhibit 48: Performance of our G&C 18.4 portfolio since 24th April 2024

Company Name	Equity Cohort	Sector	Absolute Price Performance	Contribution to G&C 18.4 performance
Axis Bank	Large Cap	Financials	10%	0.7%
InterGlobe Aviation	Large Cap	Miscellaneous	14%	0.6%
Hero MotoCorp	Mid Cap	Auto & Auto Anc.	17%	0.5%
TVS Motor Co	Large Cap	Auto & Auto Anc.	14%	0.5%
Bharat Petroleum Corp	Large Cap	Oil & Gas	10%	0.5%
Info Edge India	Mid Cap	Media	8%	0.3%
Tata Steel	Large Cap	Metals & Mining	6%	0.2%
Hindalco Industries	Large Cap	Metals & Mining	6%	0.2%
Tech Mahindra	Large Cap	IT	11%	0.2%
Kfin Technologies	Small Cap	Financials	14%	0.2%
PB Fintech	Mid Cap	New-age tech	4%	0.2%
Affle India	Small Cap	Media	14%	0.2%
Federal Bank	Mid Cap	Financials	6%	0.2%
ICICI Bank	Large Cap	Financials	3%	0.2%
Triveni Turbine	Small Cap	Capital Goods	9%	0.1%
ITC	Large Cap	FMCG	2%	0.1%
Karur Vysya Bank	Small Cap	Banks	4%	0.1%
ICICI Prudential Life Insurance	Large Cap	Financials	1%	0.0%
HDFC Bank	Large Cap	Financials	0%	0.0%
Sun Pharmaceutical Industries	Large Cap	Healthcare	0%	0.0%
Narayana Hrudayalaya	Mid Cap	Healthcare	-1%	0.0%
Nestle India	Large Cap	FMCG	-1%	0.0%
Dr Reddy's Laboratories	Large Cap	Healthcare	-1%	-0.1%
Max Healthcare Institute	Mid Cap	Healthcare	-3%	-0.1%
Embassy Office Parks REIT	Mid Cap	Miscellaneous	-7%	-0.1%
Shriram Finance	Large Cap	Financials	-3%	-0.1%
Tata Motors	Large Cap	Auto & Auto Anc.	-3%	-0.2%
HCL Technologies	Large Cap	IT	-9%	-0.4%
G&C 18.4 performance				**4.1%**
G&C 18.4 returns (incl. cash)				**4%**
Alpha v/s NSE500				**0.3%**

Source: Ace Equity, Ambit Capital research

What goes out and what comes in?

What goes out? We exclude three stocks, ITC, TVS Motors and Dr Reddy's from the G&C 18.4 portfolio.

What comes in? There are **three additions** to our portfolio – Dabur, Infosys, and Mahindra & Mahindra. These along with 25 existing stocks from G&C 18.4 comprise our latest G&C 19.1 portfolio.

Size allocation: Concentrated towards large-caps (73%). Mid-cap/small-cap allocations stand at 21%/6%. Cash allocation stands at 1.8%.

Since mid-caps and small-caps are included in the portfolio, NSE500 is our benchmark.

Exhibit 49: G&C 18.4: Composition and valuations

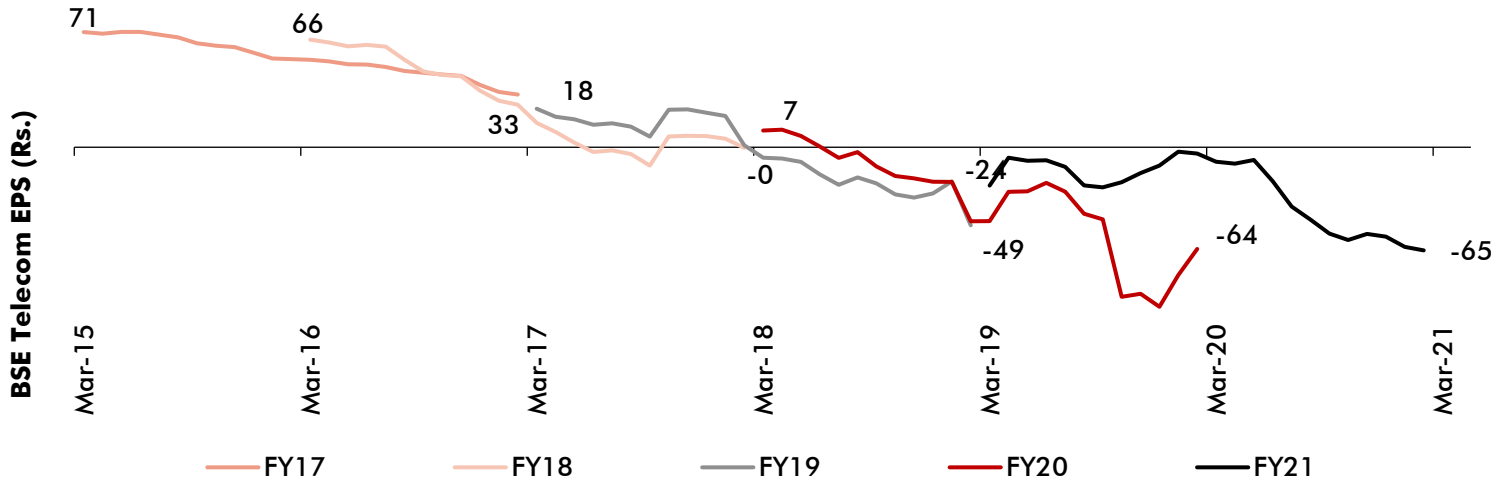
Company	Sector	Mcap	MDV-3m	Accounting Decile	Greatness Score	Ambit stance	P/E (x)		P/B (x)		ROCE/ ROA*
		($mn)	($mn)				FY25E	FY26E	FY25E	FY26E	FY24**
Tata Motors	Auto	42,377	119	D8	17%	NR	14.9	12.3	3.5	2.8	19.4
Mahindra & Mahindra	Auto	38,601	75	D8	50%	NR	25.9	22.7	5.0	4.3	21.1
Hero MotoCorp	Auto	12,313	36	D2	17%	NR	21.4	19.0	5.2	4.7	22.8
InterGlobe Aviation	Aviation	19,769	40	D1	42%	NR	20.0	20.7	16.4	9.2	24.2
Triveni Turbine Ltd	Capital Goods	2,251	7	D1	58%	NR	52.6	42.0	15.4	12.3	31.4
HDFC Bank	Financials	138,802	325	N/A	N/A	BUY	15.4	13.0	2.1	1.8	1.7
ICICI Bank	Financials	95,755	189	N/A	N/A	BUY	14.3	12.8	2.5	2.1	2.4
Axis Bank	Financials	43,633	124	N/A	N/A	BUY	12.5	10.4	1.9	1.6	1.8
Shriram Finance	Financials	10,849	37	N/A	N/A	BUY	10.2	8.5	1.6	1.4	3.3
ICICI Prudential Life Insurance	Financials	10,050	13	N/A	N/A	BUY	31.6	27.7	1.8	1.6	N/A
Federal Bank	Financials	4,796	24	N/A	N/A	BUY	9.9	8.6	1.2	1.1	1.3
Karur Vysya Bank	Financials	1,891	4	N/A	N/A	BUY	8.7	7.7	1.4	1.2	1.6
Kfin Technologies	Financials	1,536	3	N/A	N/A	BUY	42.5	34.7	N/A	N/A	N/A
Nestle India	FMCG	28,629	25	D3	50%	SELL	67.4	59.8	56.5	45.7	138.2
Dabur India	FMCG	11,900	13	D2	42%	BUY	48.9	42.8	9.4	8.6	17.4
Sun Pharmaceutical Industries	Healthcare	42,920	44	D8	83%	BUY	31.9	27.9	5.0	4.5	18.4
Max Healthcare	Healthcare	9,232	21	D10	83%	BUY	46.3	39.6	7.1	6.0	27.0
Narayana Hrudayalaya Ltd	Healthcare	3,081	4	D1	75%	BUY	28.6	25.5	7.1	5.9	29.0
Infosys	IT	73,187	126	D1	67%	SELL	24.6	22.4	6.2	5.5	38.7
HCL Technologies	IT	43,924	52	D3	58%	SELL	22.1	20.3	5.3	5.1	27.8
Tech Mahindra	IT	15,537	27	D6	50%	BUY	26.8	20.0	4.4	4.3	9.4
Info Edge India	Media	9,864	18	D8	75%	BUY	81.0	69.3	3.2	3.1	3.9
Affle India	Media	2,071	3	D4	50%	BUY	41.6	33.9	7.8	7.2	17.3
Tata Steel	Metals & Mining	26,265	106	D8	92%	BUY	15.9	11.2	2.1	1.9	7.6
Hindalco Industries	Metals & Mining	18,205	51	D5	92%	BUY	11.6	10.4	1.3	1.2	9.9
Embassy Office Parks REIT	Miscellaneous	3,891	3	N/A	N/A	BUY	32.3	24.8	1.4	1.5	4.5
PB Fintech	New-age tech	6,926	29	D5	33%	BUY	116.2	63.7	8.6	7.4	(4.8)
Bharat Petroleum Corp	Oil & Gas	17,073	59	D10	33%	NR	9.6	9.6	1.6	1.5	23.7

*Source: Ace Equity, Bloomberg, Ambit Capital research. Note: Latest data is as of 24th May'24. *considered ROA for Banks. **considered FY24 ROCE/ROA for companies that have reported results, for others considered FY23 ROCE/ROA. Estimates for NR companies are consensus estimates.*

Appendix

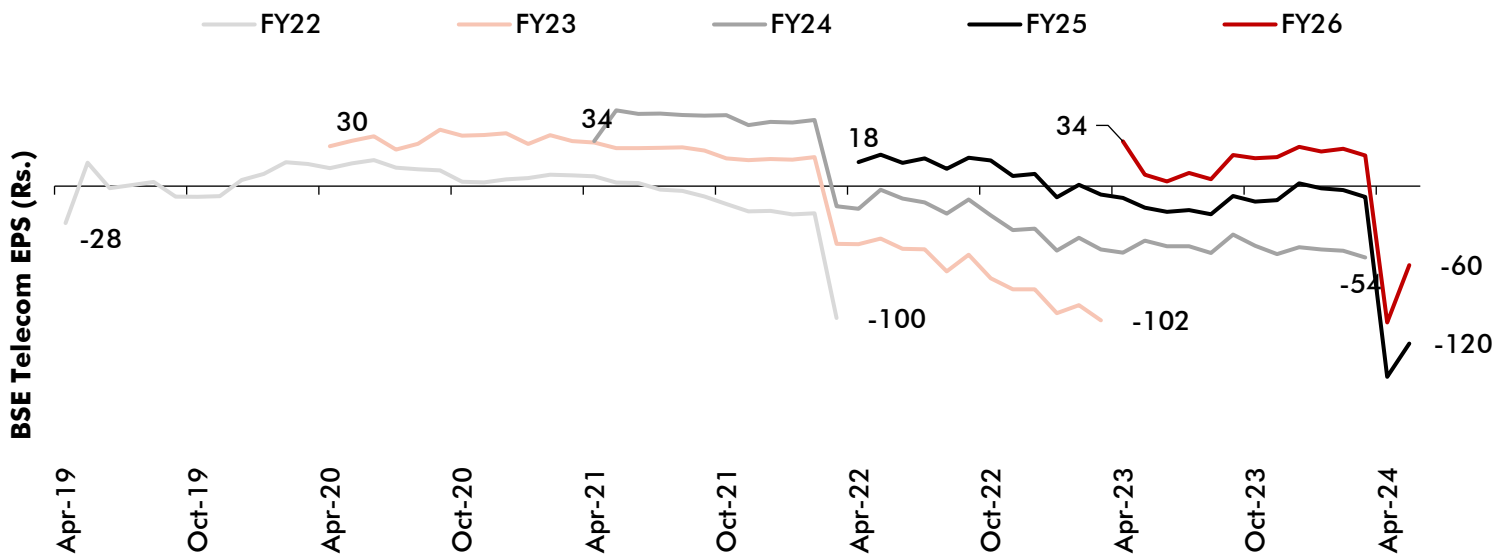
1. Telecom: Earnings trajectory seems to have changed

Exhibit 50: Telecom: Since FY17, earnings were downgraded in every single year



Source: Bloomberg, Ambit Capital research. Note: Telecom refers to the BSE Telecom Index

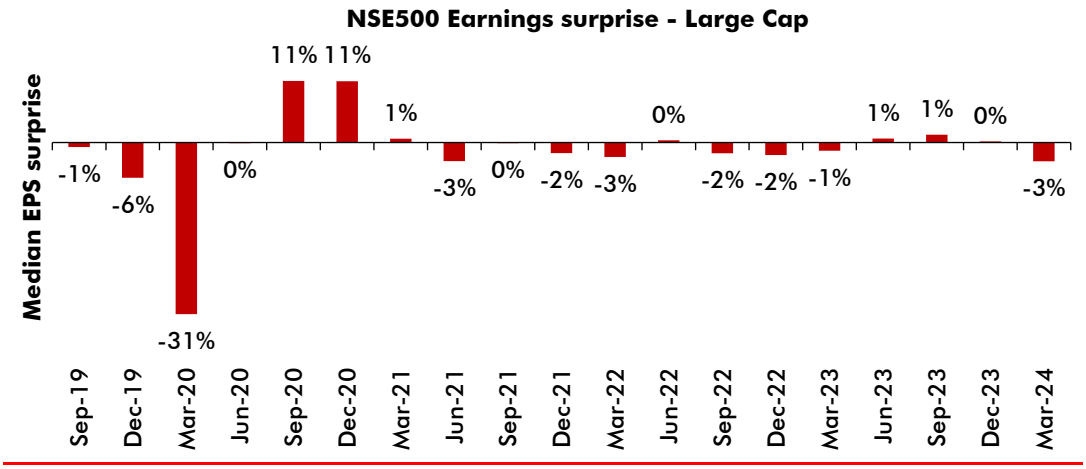
Exhibit 51: Telecom: While the downgrades continue, FY25 and FY26 earnings saw a recent uptick



Source: Bloomberg, Ambit Capital research. Note: Telecom refers to the BSE Telecom Index

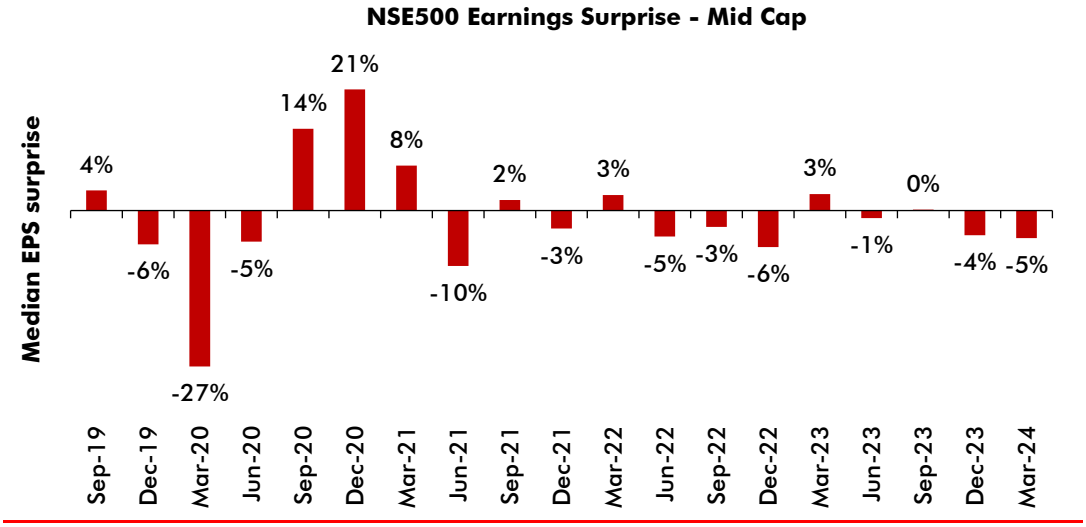
2. Earnings surprises

Exhibit 52: Large-caps: Earnings surprises were worse than aggregate at about -3%



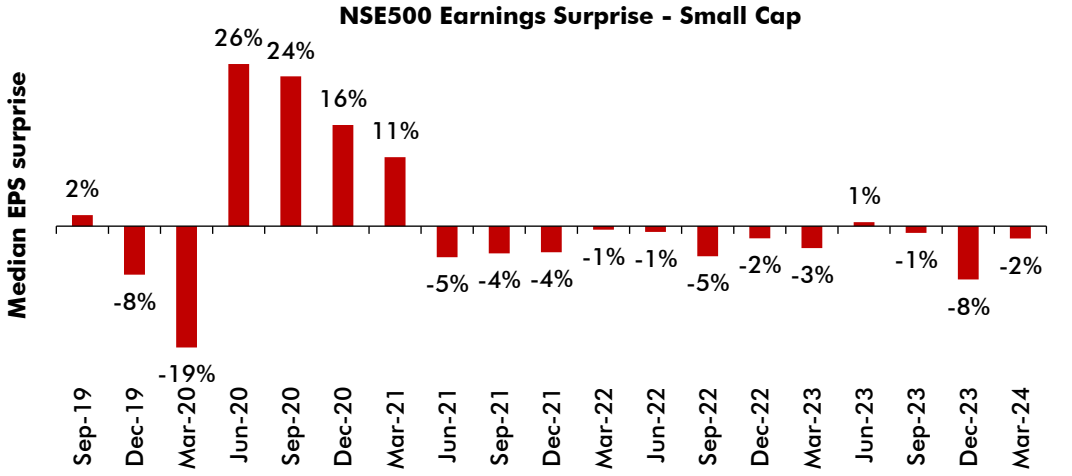
Source: Bloomberg, Ambit Capital research

Exhibit 53: Mid-caps: Earnings surprises worst amongst all equity cohorts at about -5%



Source: Bloomberg, Ambit Capital research

Exhibit 54: Small-caps: Earnings surprises were in line with aggregate at about -2%



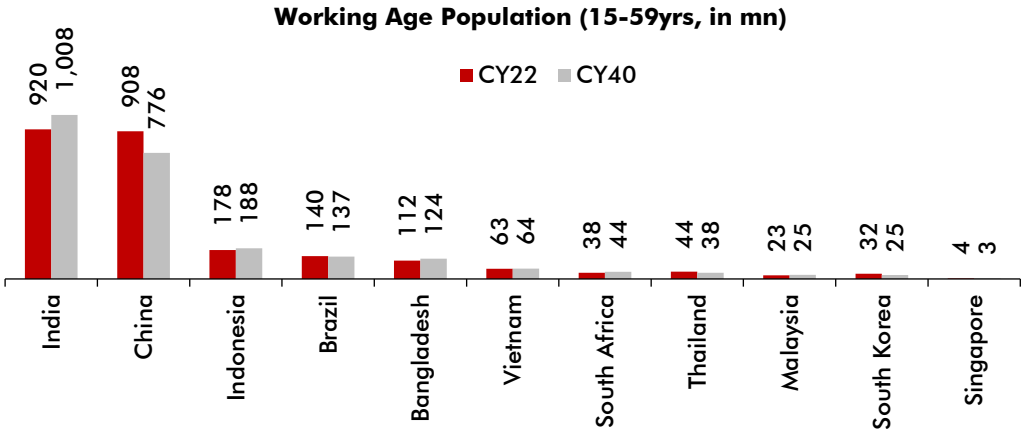
Source: Bloomberg, Ambit Capital research

3. Why EM outperformance can be led by India

i. Population dividend

According to **media reports**, India overtook China to become the most populous country in CY23. India's population, at 1.4bn, is also much younger than China as the median age in India is 28 vs 38 in China. Based on the UN's population forecasts, India's working-age population alone will cross a billion in the next 15 years, providing India with a significant population dividend.

Exhibit 55: Among major EMs, India will have the largest working-age population

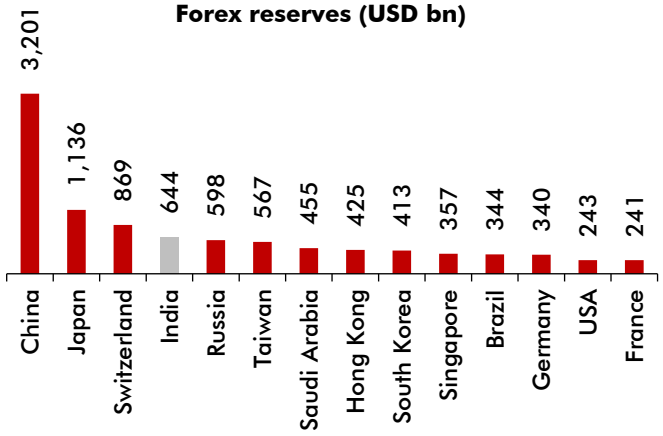


Source: UN Population Prospects, Ambit Capital research

ii. Strong external position

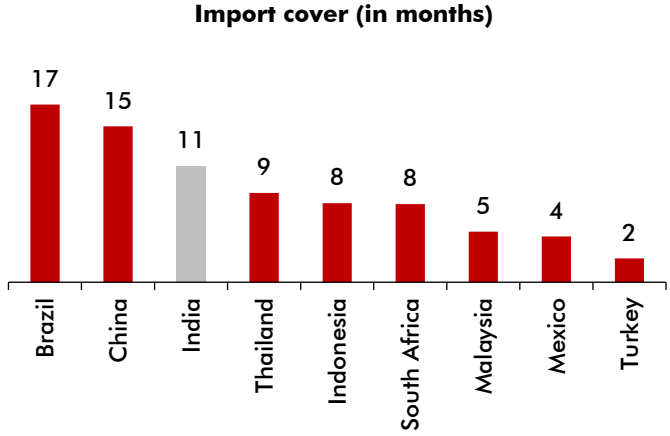
RBI has built huge forex reserves to protect the economy from external volatility, specifically hot EM flows and volatile dollar movements.

Exhibit 56: India has one of the largest forex reserves in the world...



Source: Bloomberg, Ambit Capital research. Note- Data as of end of Mar'24. Note – Data for India & Russia is as of 10-May'24

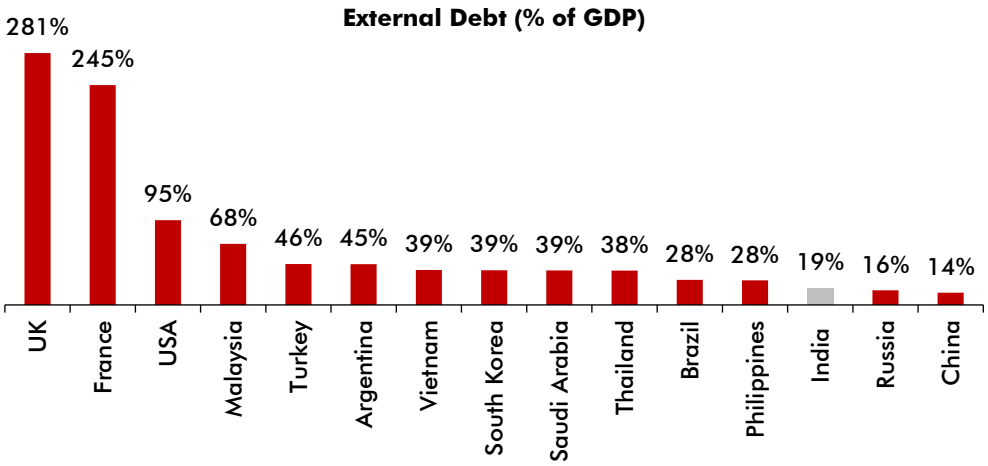
Exhibit 57: ... as it is in a stronger position against external vulnerabilities



Source: Bloomberg, Ambit Capital research. Note data as of end of Apr'24

The Indian government has been able to raise funds for its borrowing requirements domestically as there has historically been a discomfort related to foreign ownership of public debt. India's external general government debt is only ~5% of overall general government debt. By having a small proportion of external debt, the government is protected by currency bond risks.

Exhibit 58: India has one of the lowest external debts among EMs and DMs



Source: Media Articles, Ambit Capital research. Note – Data as of end of Dec'23

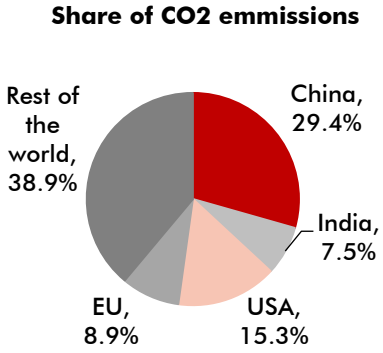
iii. China +1 opportunity

After the Covid-induced supply chain crunch, many countries, especially among DMs, realized they needed to diversify their manufacturing base and set up plants in other low-wage manufacturing countries. Among the countries that may benefit, India seems to be a major contender. Schemes such as PLI have already seen major manufacturing corporates such as Foxconn, Wistron, and Samsung increase their presence in India. China is the largest CO2 emitter and has been paying attention to its pollution problems in the last 5 years. It has taken several steps, including shutting down industries that don't comply with the environmental norms, to setting up carbon trading markets.

Exhibit 59: China's manufacturing wages are ~2x that of India

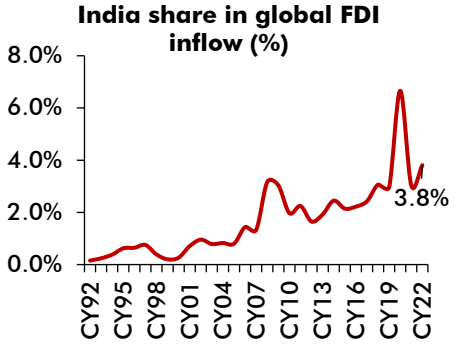
Source: Jetro Survey, Ambit Capital research

Exhibit 60: China is the largest emitter of carbon



Source: Carbon Project, Ambit Capital research

Exhibit 61: India has seen a rising share in global FDI inflows

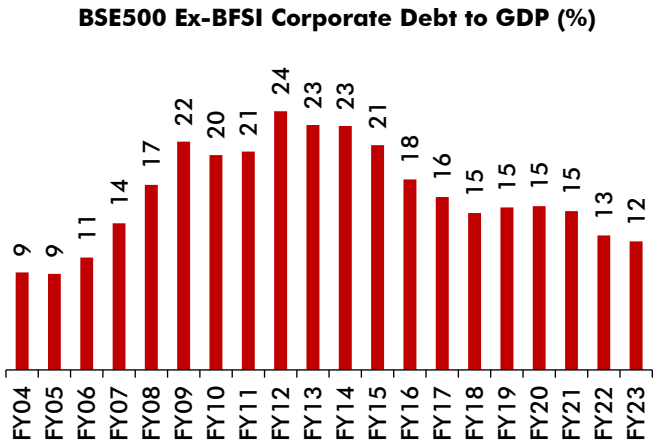


Source: World Investment Report, Ambit Capital research

iv. Corporates in a position to undertake huge capex

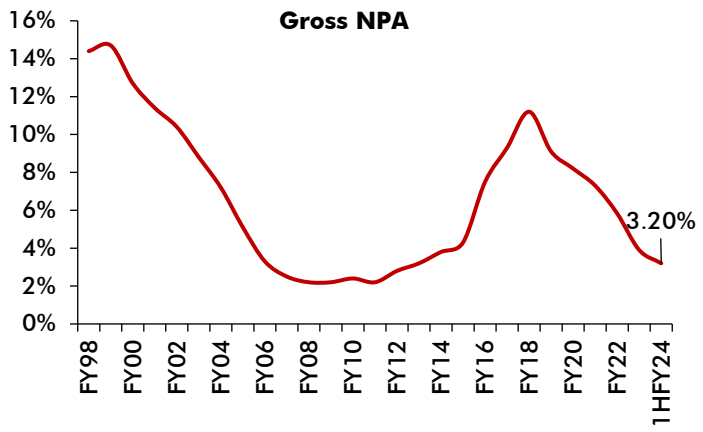
The question is not whether corporates can undertake capex; it is rather when they will undertake capex. As RBI reduced policy rates to a decadal low during Covid, corporates used it as an advantage to clear their debts and emerged out of the pandemic with stronger balance sheets. Similarly, during the IL&FS crisis in FY18, bank NPAs at 11.4% were the highest in almost 17 years. In the last few years, NPAs fell to record-low levels.

Exhibit 62: Corporate debt is lowest since FY07



Source: ACE equity, Ambit Capital research

Exhibit 63: GNPA was recorded at a decadal low

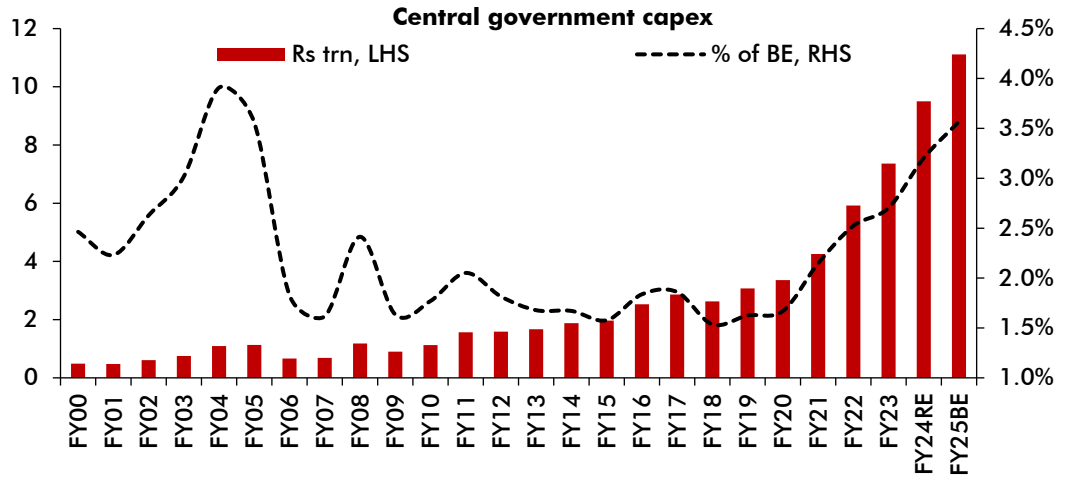


Source: RBI, Ambit Capital research

v. Central government capex: Focus on Infrastructure

Since FY21, the government has significantly increased its capex. While roads and railways have been the beneficiaries, ~8mn houses have been constructed under the Pradhan Mantri Awas Yojana. The government has doubled the capacity of ports and a number of operational airports in the last 9 years. Research suggests, capex has a huge multiplier effect as 1₹ of capex brings in benefit worth ₹2.45 to the GDP in the same year and ₹4.8 in the next 7 years

Exhibit 64: The Centre has increased its support to the economy through higher capex allocation

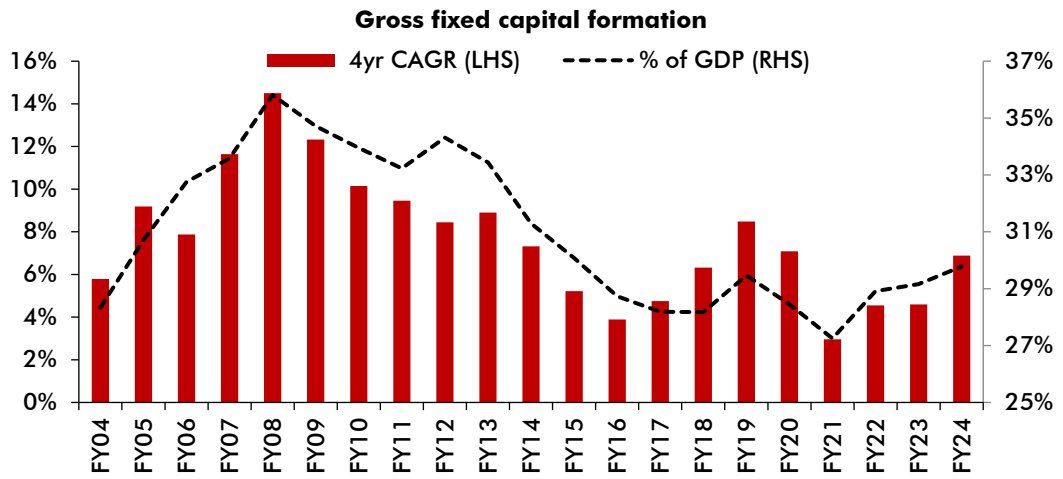


Source: Union Budget Documents, MoSPI, Ambit Capital research

vi. Gross Fixed Capital Formation on the rise

The Centre and states both have undertaken impressive capex in FY24YTD. Private capex too is seeing some green shoots. A major driver of gross fixed capital is the construction sector, driven not just by rail and roads but also by real estate projects which are on the rise due to rising demand from major urban cities.

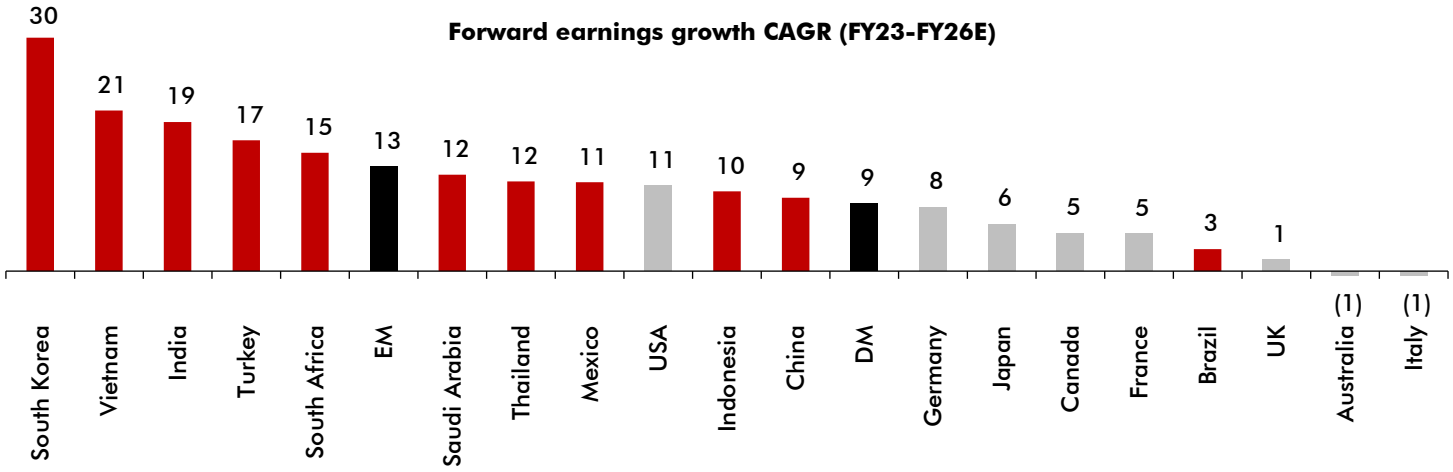
Exhibit 65: India is witnessing a rise in gross capital formation



Source: MoSPI, Ambit Capital research

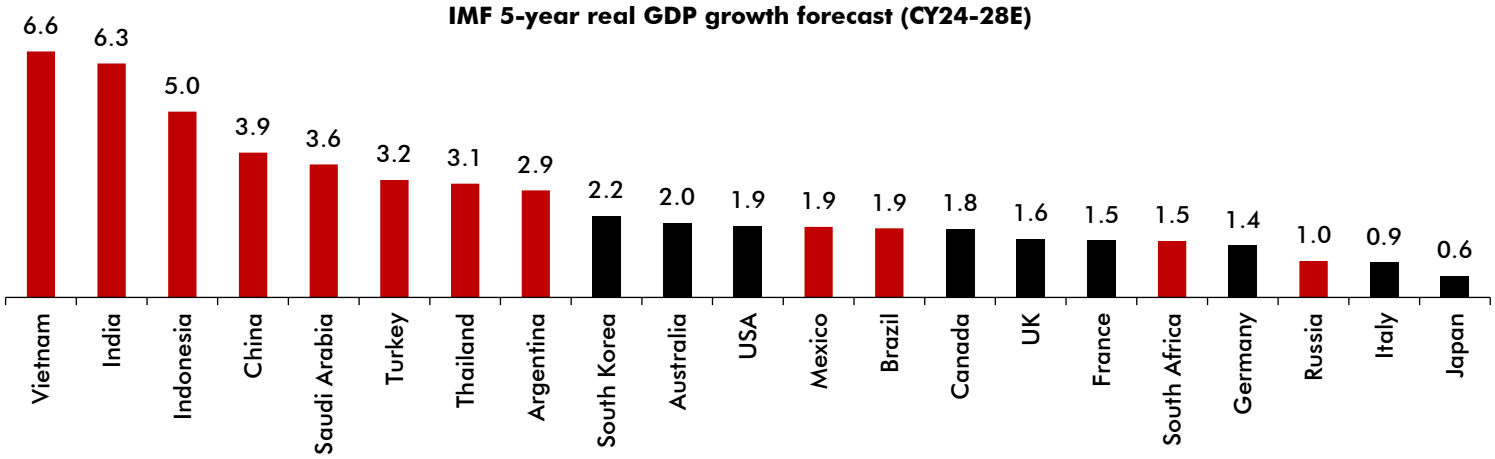
Earnings growth monitor

Exhibit 66: Majority of EMs are expected to do better than DMs



Source: Bloomberg, Ambit Capital research. Latest data as on 24th May'24. Note: Countries marked in red indicate EMs and those marked in grey indicate DMs

Exhibit 67: India is poised to be second-fastest growing economy over the next 5 years



Source: IMF, Ambit Capital research. Note: Countries marked in red indicate EMs and those marked in black indicate DMs

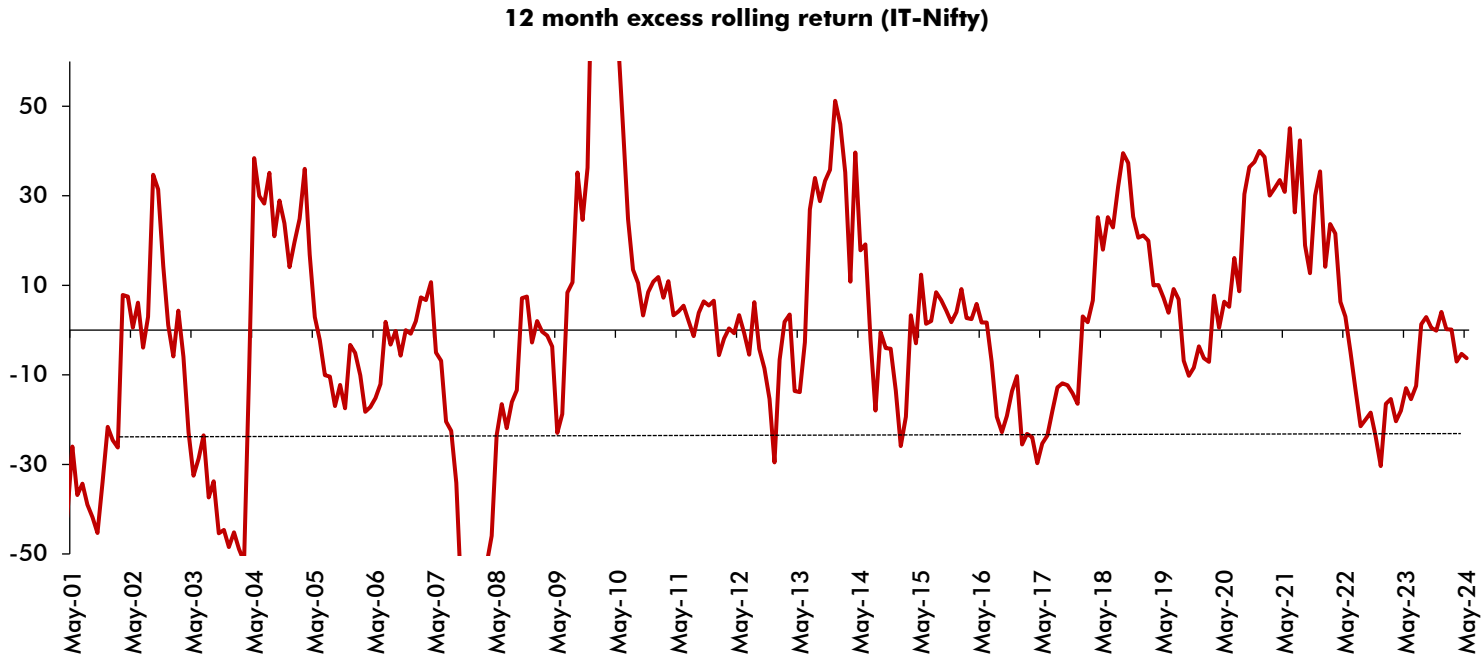
4. Sectoral Attractiveness Framework

"Sectoral attractiveness" determination is a key attribute for determining portfolio allocation. We evaluate sectoral attractiveness on four key parameters:

- **"Mean reversion" determined by excess returns**

We define excess returns of the sector as the 12-month rolling return differential of a sector w.r.t the market. The idea behind tracking these excess returns is that there is an anchoring bias in play and investors look at how much the sector has outperformed/underperformed Nifty over the last 1 year. "Extreme outperformance can breed reversion to mean and so does extreme underperformance". In May22 (see slides 30-33), we highlighted banks' underperformance w.r.t market is close to historical troughs and historically – this in itself serves as a great signalling tool. The key is to look at sectors at the turning points. The same was highlighted for IT in Nov-22.

Exhibit 68: Excess returns of the Nifty IT index reached a bottom in Dec-22 last year and IT rebounded thereafter

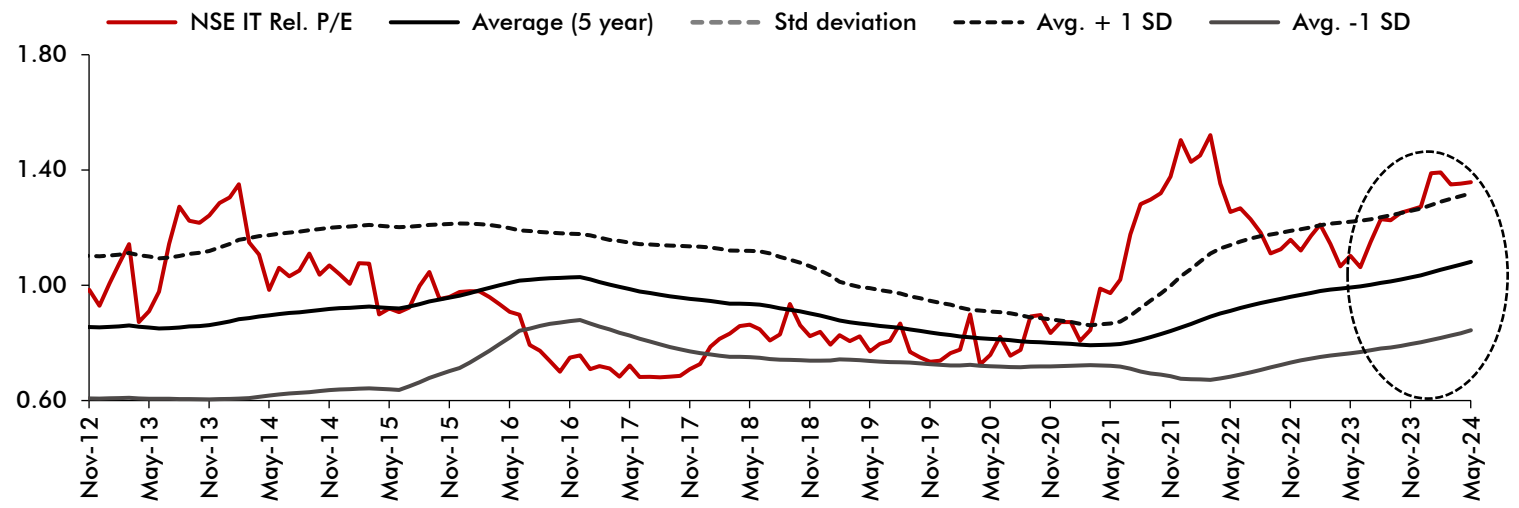


Source: Bloomberg, Ambit Capital research. Latest data as of 22 May'24

- **Relative valuations**

The relative valuation of the sector w.r.t market is the second variable for evaluating sector attractiveness. The crux is "Entry multiples matter." As highlighted in the Availability Factor (AF) note, AF of Indian equities is contracting as demand for Indian equities (26% CAGR since March-18) is outstripping supply of equities (18% CAGR since March-18), which has manifested in higher "trough multiples".

Exhibit 69: After the recent run, IT relative valuation Z-Score has touched +1.36



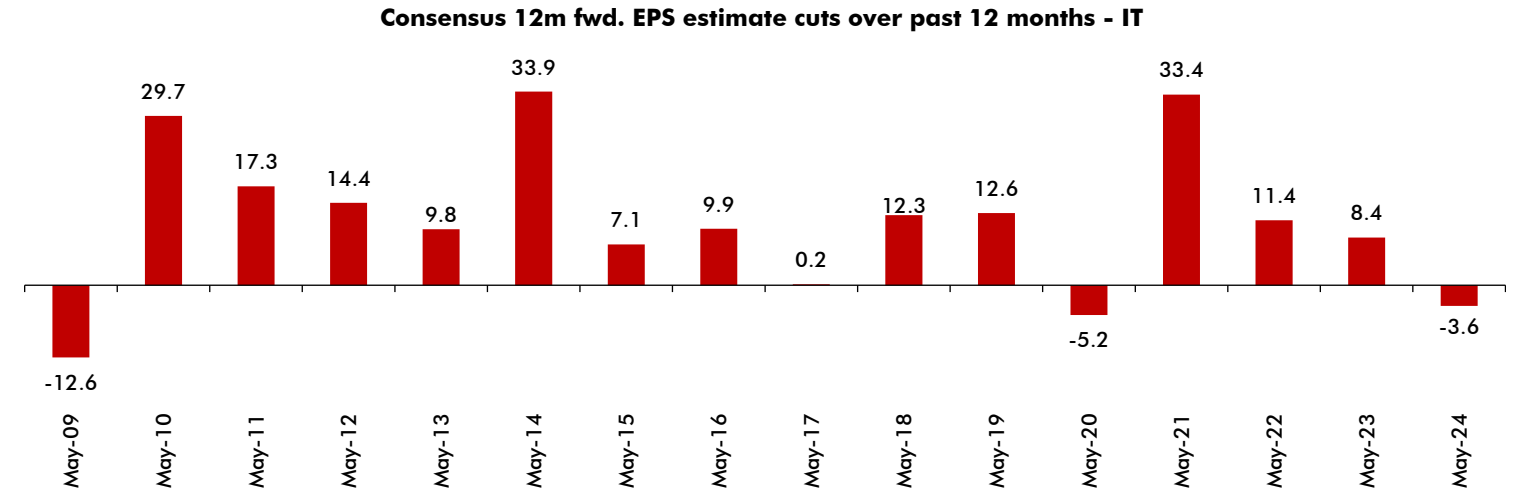
Source: Bloomberg, Ambit Capital research.

To account for this, it makes sense to look at relative valuations. Both the first and second variables are based on the principle of "mean reversion". The drawback with this analysis is that sometimes mean reversion can be slower, as seen in mid-caps in 2018-19.

- **Earnings estimate sustenance**

We look at earning estimate sustenance across sectors and compare it with the historical trends over the last decade. This gives us an idea of whether earnings cuts are reaching business cycle lows, estimates are robust, or already showing reversion. This is the third variable of our sectoral attractiveness framework.

Exhibit 70: Nifty IT earnings estimate trajectory is the worst since May-2020



Source: Bloomberg, Ambit Capital research. Latest data as of 22 May'24

- **Ownership**

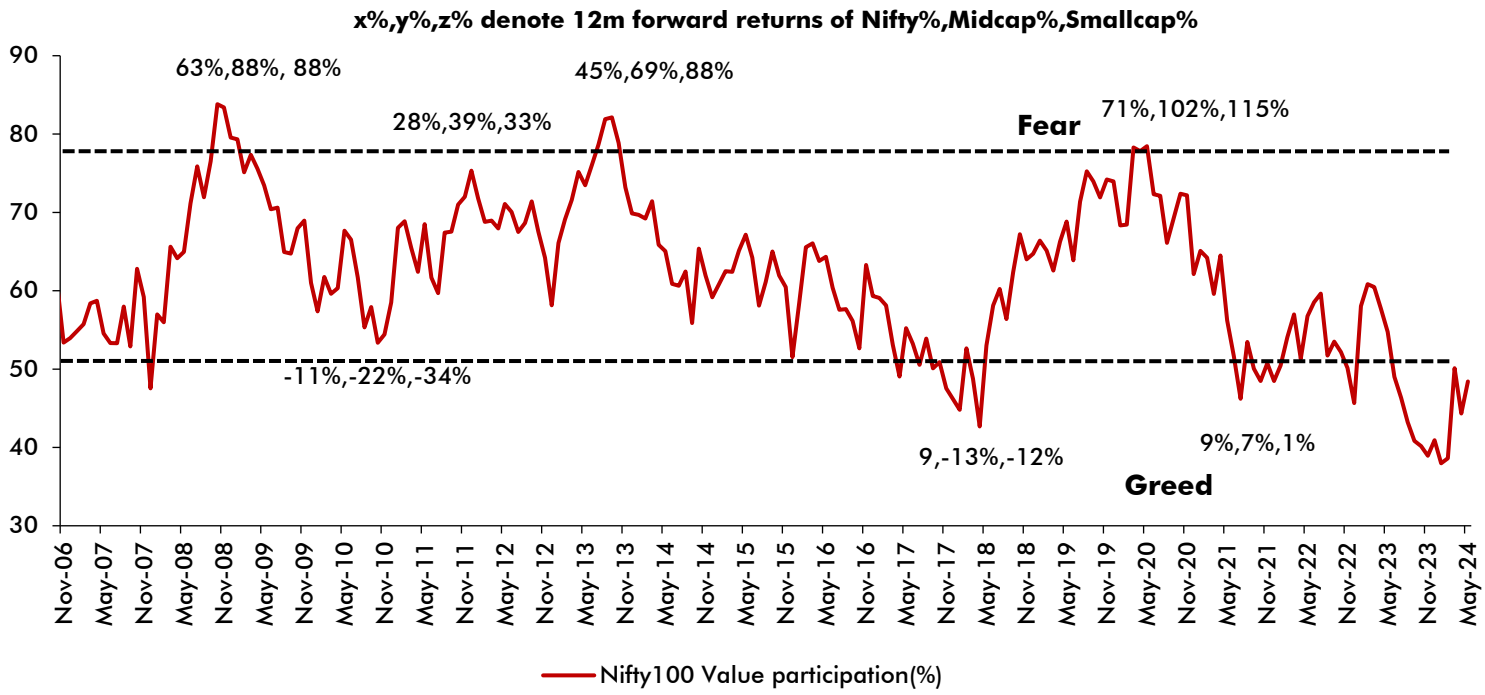
The ownership of the sector by DMF is the last variable of our sectoral evaluation. If the sector is under-owned and the mean reversion begins to manifest on price and valuation, this can add legs to the rally. We look at ownership of the sectors by comparing domestic MFs' allocation with index weights. The perfect way would be to compare the entire institutional investor ownership with the index weights, but since FII data comes with a lag, we have considered DMF as the representative.

This is how the sector looks like on our framework right now.

We want to highlight that our stock-specific calls have driven the OW in Auto. Our sectoral OW calls are on Banks, Healthcare, Metals and OMCs. We retain UW in Capital Goods and Cement.

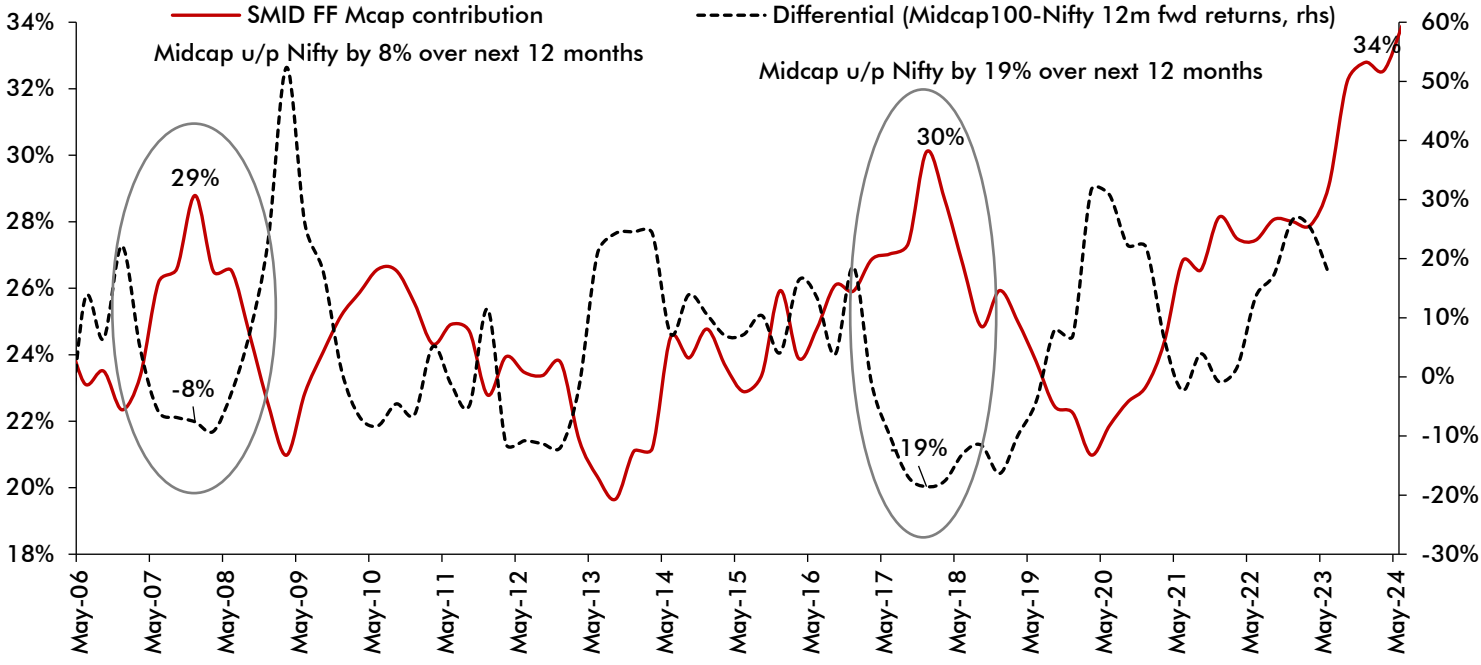
5. Why we don't like SMID

Exhibit 71: Greed & Fear Indicator has been a great predictor of size positioning



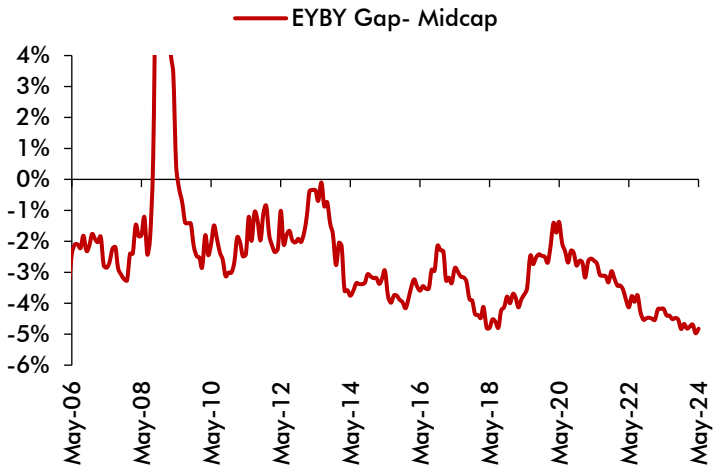
Source: NSE, Ace Equity, Ambit Capital research

Exhibit 72: SMIDs' share in total free float market-cap is at an ATH level of 34%



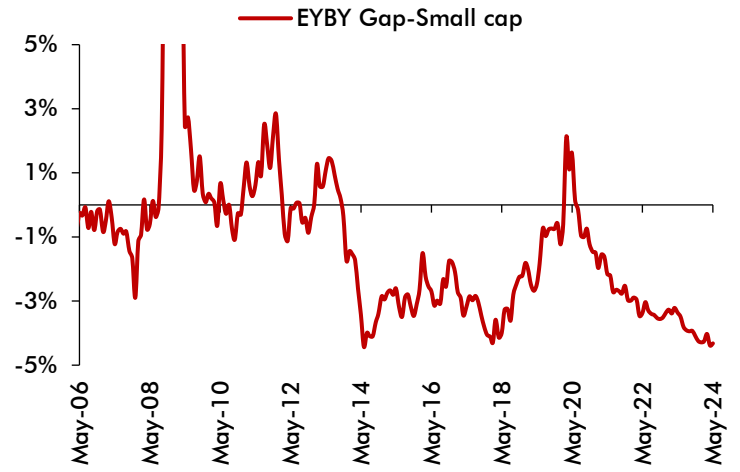
Source: Ambit Capital research, Bloomberg. Note: The above analysis is done quarterly for the entire listed universe, SMID includes companies ranked 101st onwards on market capitalization

Exhibit 73: Mid-cap EYBY gap stands at (-4.8) close to all-time worst levels. 10-year average stands at (-3.5)



Source: Ace Equity, Bloomberg, Ambit Capital research

Exhibit 74: Small-cap EYBY gap stands at (-4.3) close to all-time worst levels. The 10-year average stands at (-2.7)

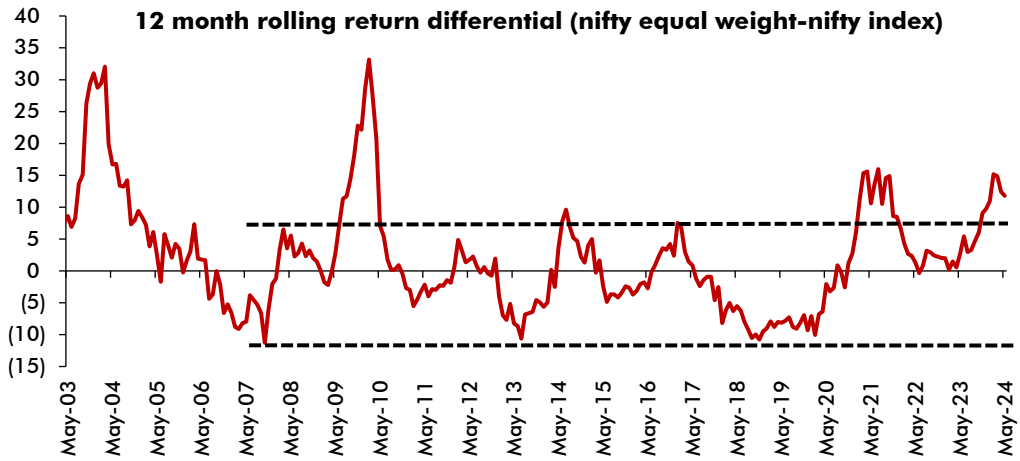


Source: Ace Equity, Bloomberg, Ambit Capital research

6. What are sectoral "Excess Returns" telling us?

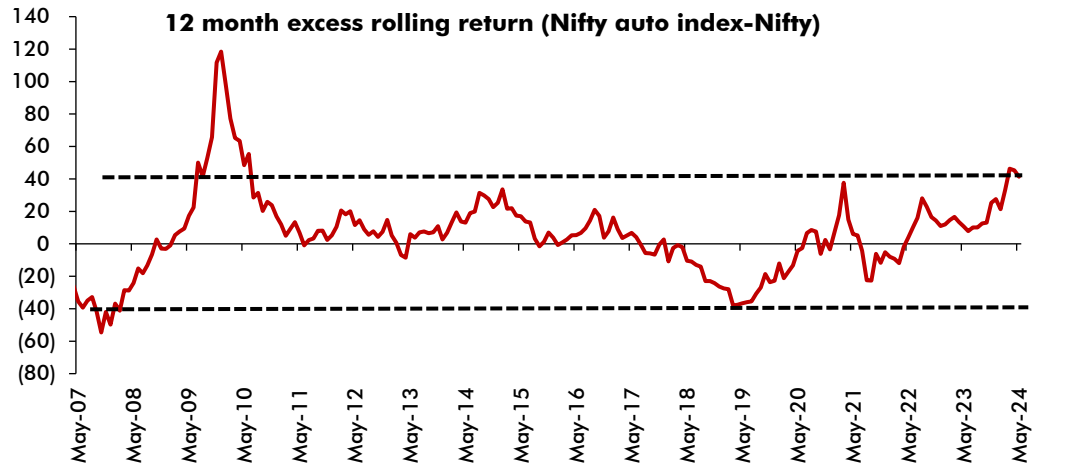
- **What is excess return?** The excess return of any sector index w.r.t market over a 12-month horizon can be a lead indicator for predicting future returns of the sector. The idea behind tracking these excess returns is that there is an anchoring bias at play and investors look at how much the sector has outperformed/underperformed Nifty over the last 1 year. "Extreme outperformance can breed reversion to mean and so can extreme underperformance".
- **Limitation**: Mean reversion will manifest but can take more time than anticipated. Additionally, excess returns have to be viewed in conjunction with relative valuation, earnings estimates sustenance and ownership of the sector. These form part of our sectoral attractiveness framework published in G&C 18.4: The wind is changing.
- **Where does it stand?** Nifty equal weight, Infra and Capital Goods excess returns are close to historical peaks while Banks also appear on excess returns. While Capital Goods and Infra have been big outperformers, mean reversion is a possibility especially after general elections when government capex usually slows down. In Nifty, heavyweights can outperform. Our recommendation as per our sectoral attractiveness framework: OW on Banks/Metals/OMCs, UW on Cap Goods. Prefer large-caps over SMIDs.

Exhibit 75: Nifty EW index



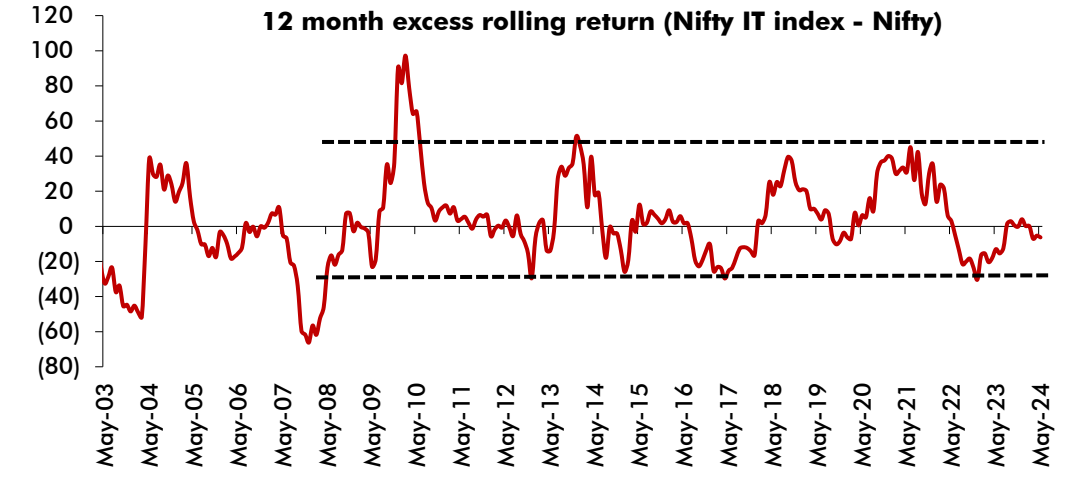
Source: Company, Ambit Capital research

Exhibit 76: Auto



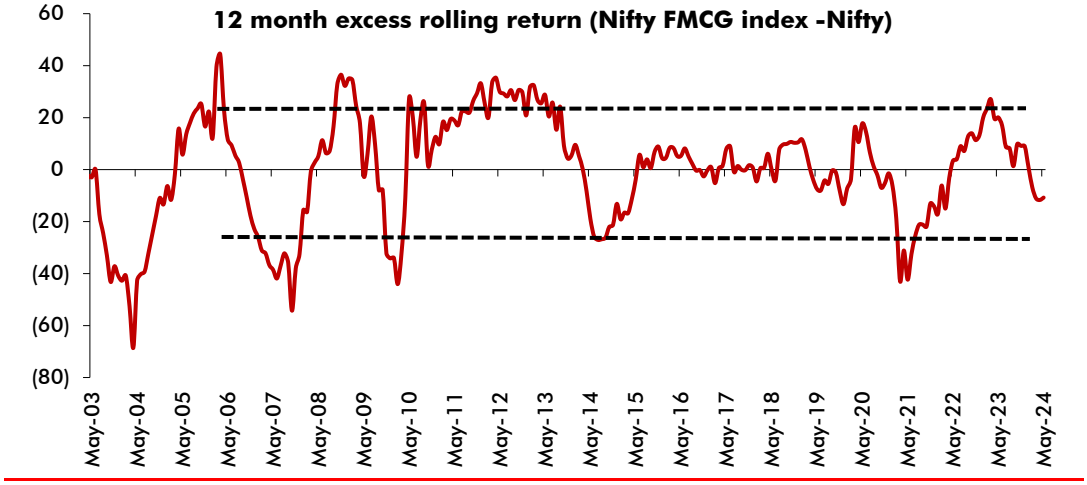
Source: Bloomberg, Ambit Capital research

Exhibit 77: IT



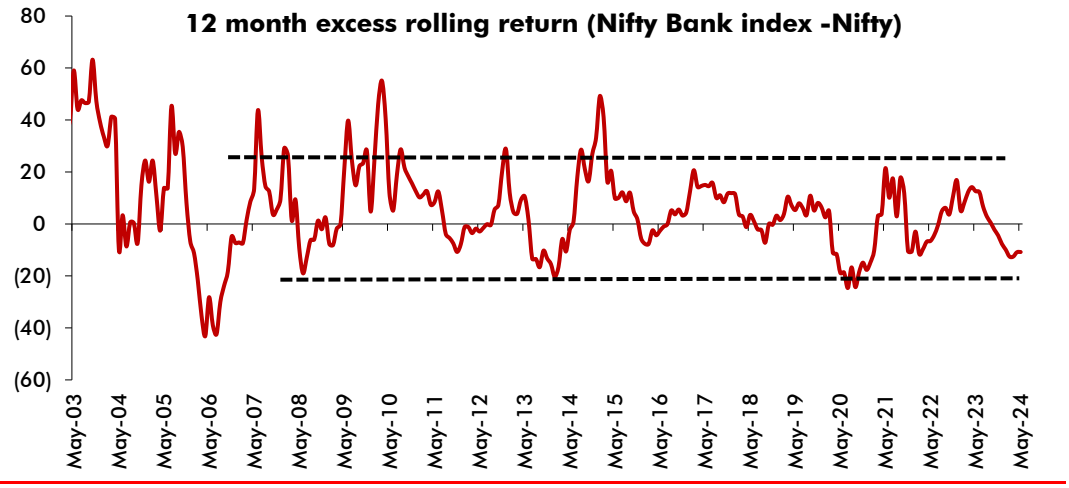
Source: Bloomberg, Ambit Capital research

Exhibit 78: FMCG



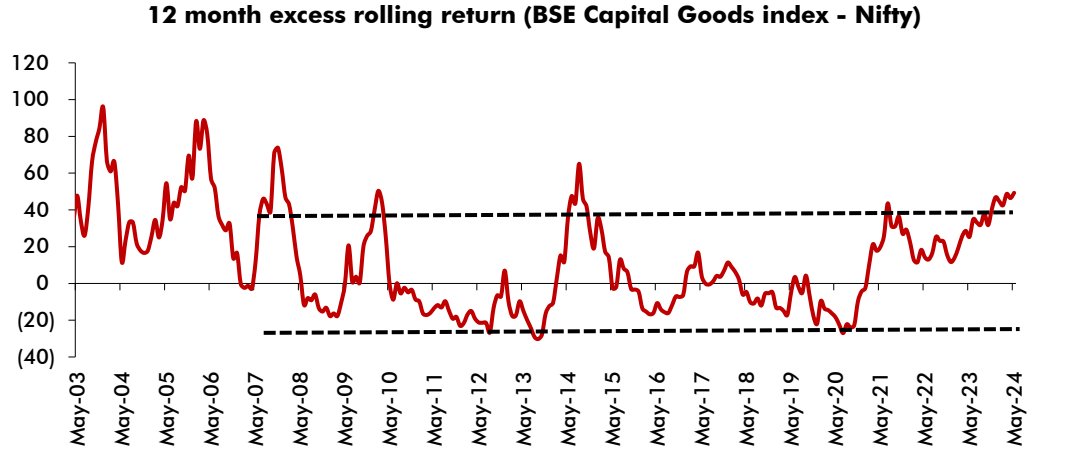
Source: Bloomberg, Ambit Capital research

Exhibit 79: Bank



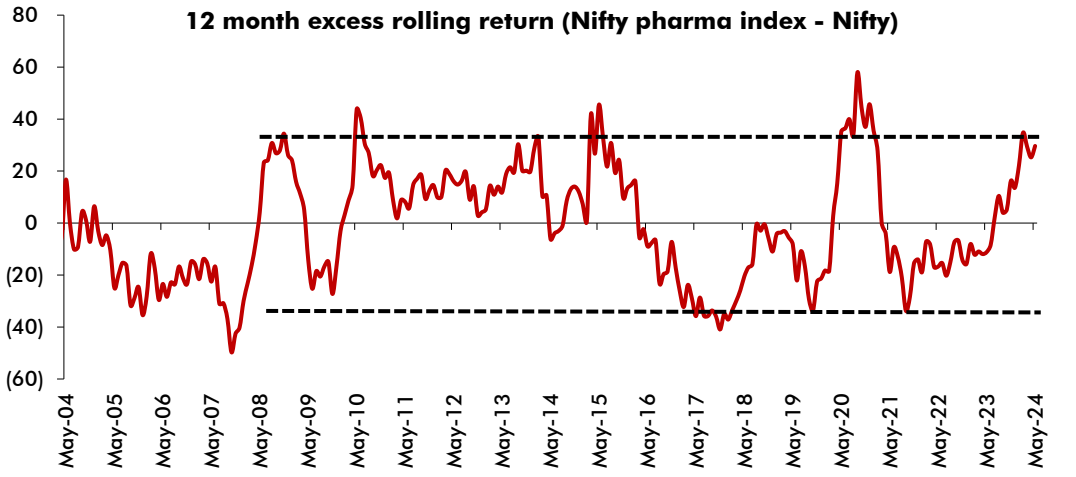
Source: Bloomberg, Ambit Capital research

Exhibit 80: Capital Goods



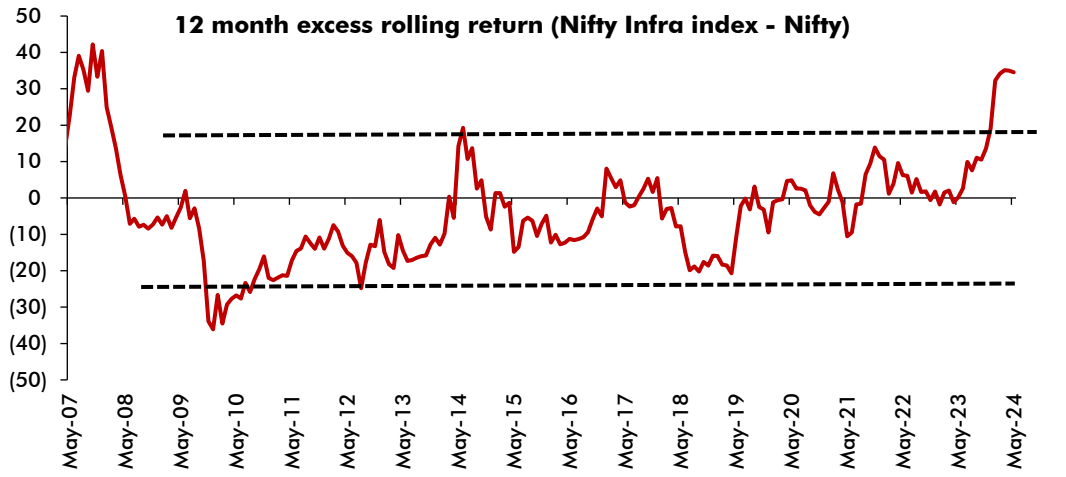
Source: Bloomberg, Ambit Capital research

Exhibit 81: Pharma



Source: Bloomberg, Ambit Capital research

Exhibit 82: Infra

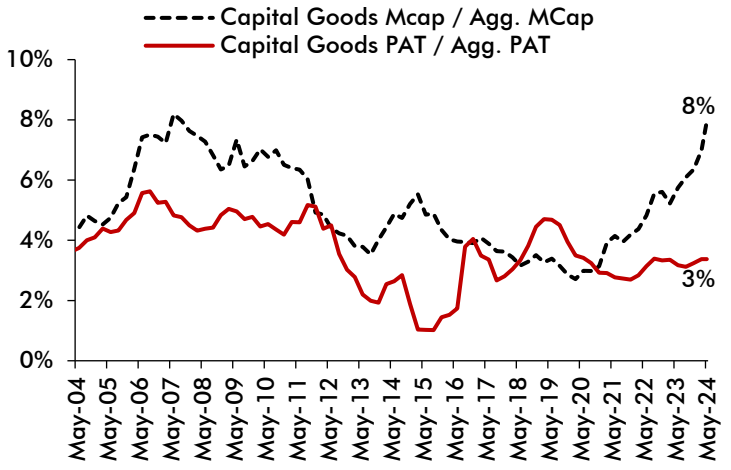


Source: Bloomberg, Ambit Capital research

7. Sectors: Contrasting Mcap and PAT contributions

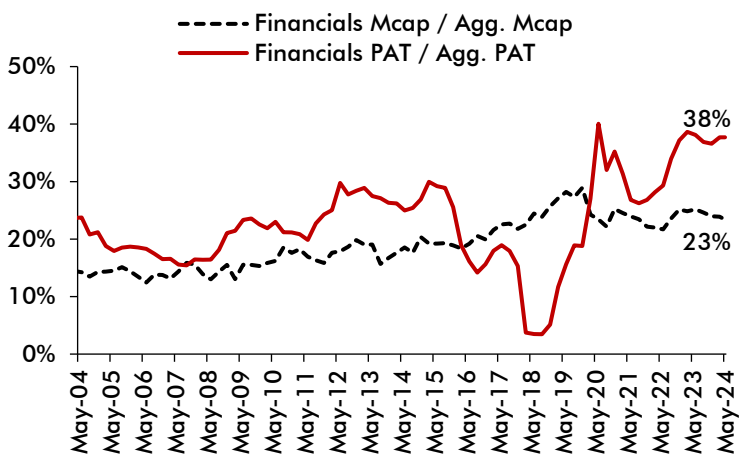
We look at sectors through the lens of PAT and market capitalization contribution towards a broader index, i.e. NSE500. While tracking Mcap contributions or sectoral weights can help screen excessive optimism/pessimism, contrasting it with PAT contribution can reveal interesting insights regarding the expectation of earnings built in. For instance, in Banks, we note that PAT contribution is close to ATH whereas Mcap contribution has not risen. Are the earnings going to collapse or are banks going to outperform? We think the stage is set for the latter, as explained earlier. Likewise, for Capital Goods, PAT contribution is not that high but Mcap contribution is significantly higher. Significant earnings expectations are built in.

Exhibit 83: Capital Goods



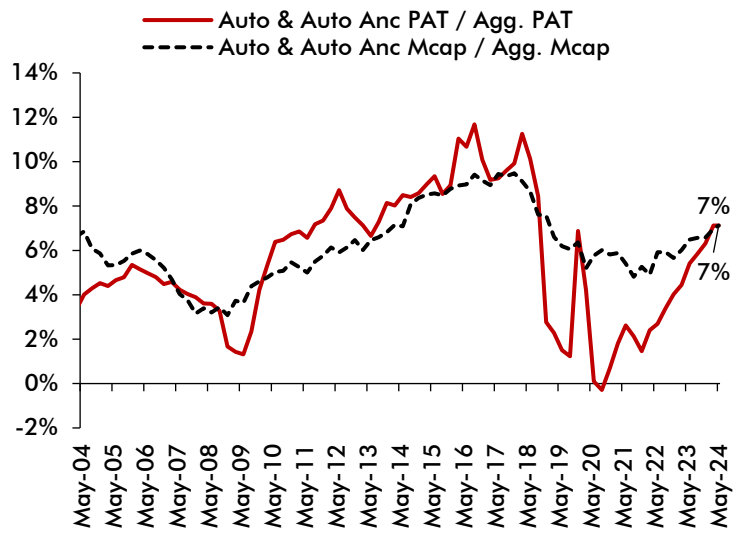
Source: Bloomberg, Ambit Capital research

Exhibit 84: Financials



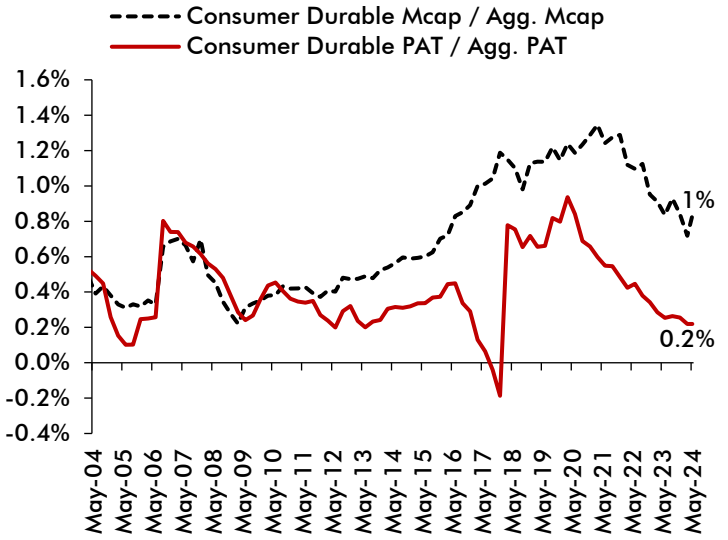
Source: Bloomberg, Ambit Capital research

Exhibit 85: Auto & Auto Anc.



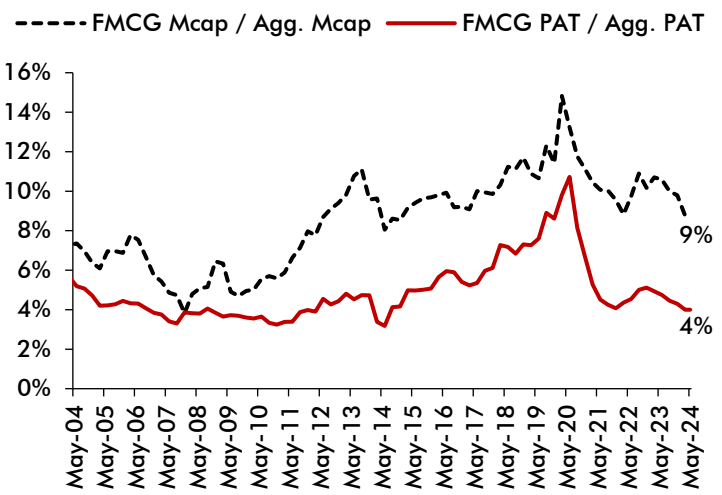
Source: Bloomberg, Ambit Capital research

Exhibit 86: Consumer Durable



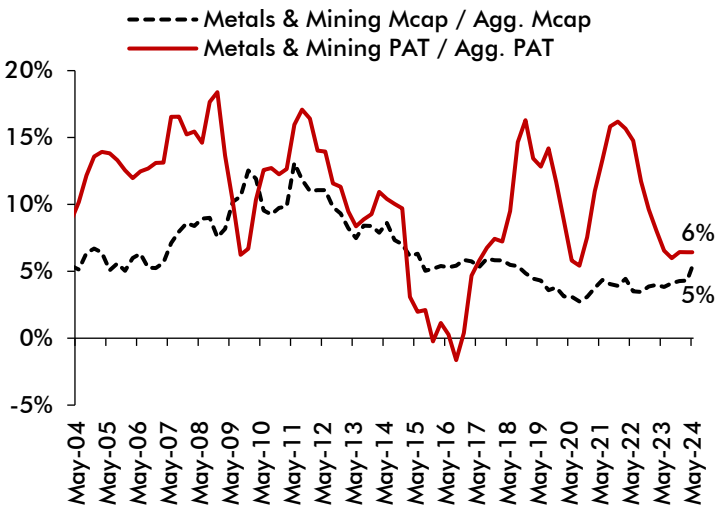
Source: Bloomberg, Ambit Capital research

Exhibit 87: FMCG



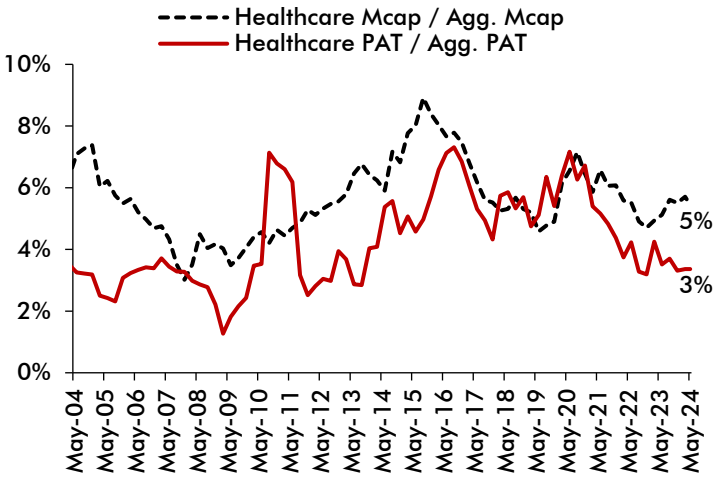
Source: Bloomberg, Ambit Capital research

Exhibit 88: Metals & Mining



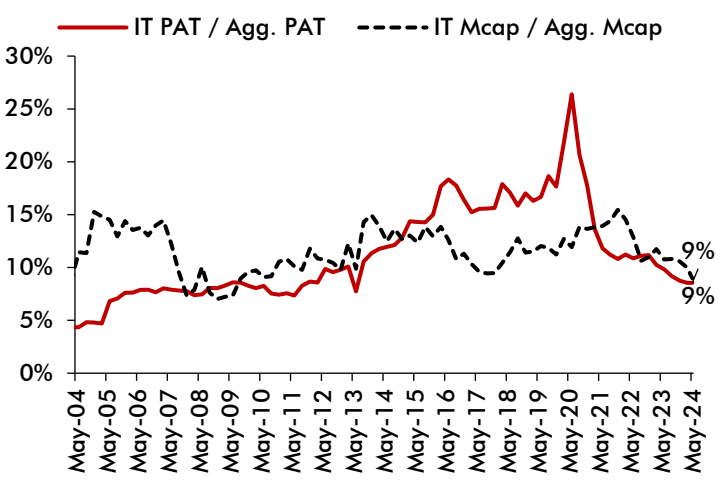
Source: Bloomberg, Ambit Capital research

Exhibit 89: Healthcare



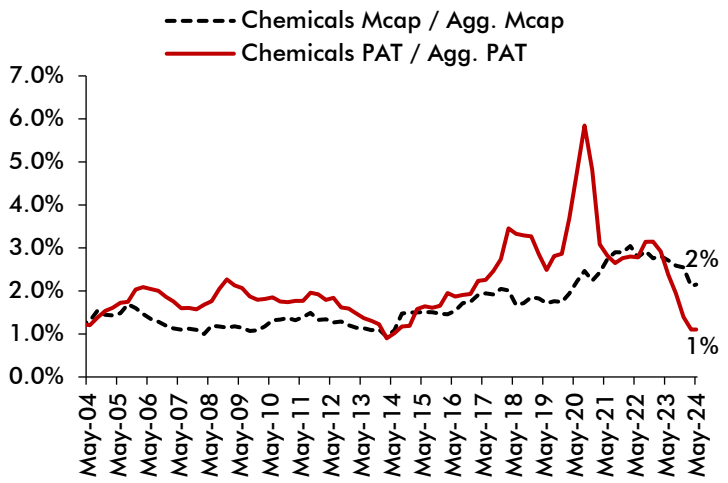
Source: Bloomberg, Ambit Capital research

Exhibit 90: IT



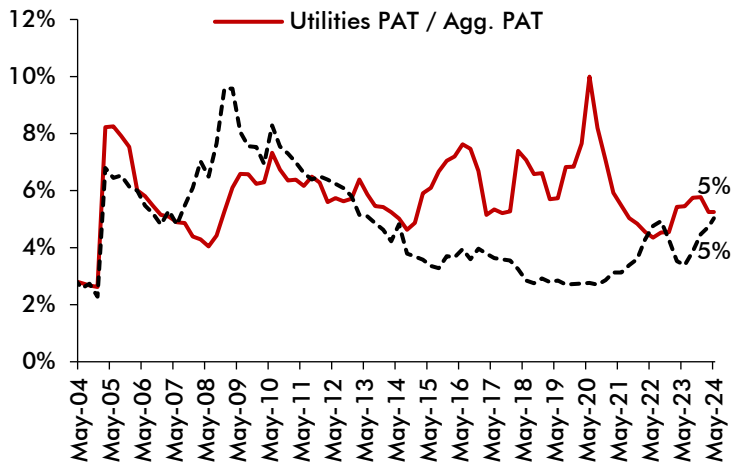
Source: Bloomberg, Ambit Capital research

Exhibit 91: Chemicals



Source: Bloomberg, Ambit Capital research

Exhibit 92: Utilities



Source: Bloomberg, Ambit Capital research

Institutional Equities Team

Research Analysts			
Name	**Industry Sectors**	**Desk-Phone**	**E-mail**
Nitin Bhasin – Head of Equities	Strategy / Accounting	(022) 66233241	nitin.bhasin@ambit.co
Ashwin Mehta, CFA - Head of Research	Technology	(022) 66233295	ashwin.mehta@ambit.co
Akash Nandy	Power	(022) 66233246	akash.nandy@ambit.co
Bharat Arora, CFA	Strategy	(022) 66233278	bharat.arora@ambit.co
Dhruv Jain	Mid-Caps / Home Building / Consumer Durables	(022) 66233177	dhruv.jain@ambit.co
Eashaan Nair	Economy / Strategy	(022) 66233033	eashaan.nair@ambit.co
Gaurav Jhunjhunuwala	Media / Telecom / Oil & Gas	(022) 66233227	gaurav.jhunjhunuwala@ambit.co
Jaiveer Shekhawat	Mid/Small-Caps	(022) 66233021	jaiveer.shekhawat@ambit.co
Jinesh Gandhi	Automobile & Automobile Components	(022) 66233028	jinesh.gandhi@ambit.co
Karan Khanna, CFA	Mid/Small-Caps / Hotels / Real Estate / Aviation	(022) 66233251	karan.khanna@ambit.co
Kumar Saumya	Chemicals	(022) 66233242	kumar.saumya@ambit.co
Kushal Chovatia	Healthcare	(022) 66233062	kushal.chovatia@ambit.co
Moez Chandani	Technology	(022) 66233299	moez.chandani@ambit.co
Moksh Mehta	Technology	(022) 66233101	moksh.mehta@ambit.co
Neeraj Makhijani	Strategy	(022) 66233272	neeraj.makhijani@ambit.co
Pankaj Agarwal, CFA	Banking / Financial Services	(022) 66233206	pankaj.agarwal@ambit.co
Parth Majithia	Strategy / Forensic Accounting	(022) 66233149	parth.majithia@ambit.co
Prabal Gandhi	Banking / Financial Services	(022) 66233206	prabal.gandhi@ambit.co
Prakhar Porwal	Metals & Mining / Cement	(022) 66233246	prakhar.porwal@ambit.co
Pratik Matkar	Banking / Financial Services	(022) 66233107	pratik.matkar@ambit.co
Prashant Nair, CFA	Healthcare	(022) 66233041	prashant.nair@ambit.co
Raghav Garg, CFA	Banking / Financial Services	(022) 66233206	raghav.garg@ambit.co
Rohit Bajaj	Automobile & Automobile Components	(022) 66233119	rohit.bajaj@ambit.co
Sanket Gharat	Consumer Staples / Consumer Discretionary	(022) 66233012	sanket.gharat@ambit.co
Saksham Mongia	Real Estate	(022) 66233145	saksham.mongia@ambit.co
Sanil Jain	Chemicals	(022) 66233242	sanil.jain@ambit.co
Satyadeep Jain, CFA	Metals & Mining / Cement / Power / Utilities	(022) 66233246	satyadeep.jain@ambit.co
Shubham Sandeep Gupta	Media / Telecom	(022) 66233209	shubhamsandeep.gupta@ambit.co
Sumit Shekhar	Economy / Strategy	(022) 66233229	sumit.shekhar@ambit.co
Supratim Datta	Banking / Insurance	(022) 66233252	supratim.datta@ambit.co
Videesha Sheth	Consumer Staples / Consumer Discretionary	(022) 66233264	videesha.sheth@ambit.co
Vinit Powle	Strategy / Forensic Accounting	(022) 66233149	vinit.powle@ambit.co
Viraj Sanghvi	Capital Goods / Infrastructure / QSR	(022) 66233212	viraj.sanghvi@ambit.co
Vivekanand Subbaraman, CFA	Media / Telecom / Oil & Gas	(022) 66233261	vivekanand.s@ambit.co
Yash Jain	Mid-Caps / Home Building / Consumer Durables	(022) 66233053	yash.jain@ambit.co
Sales			
Name	**Regions**	**Desk-Phone**	**E-mail**
Sujay Kamath – MD / Head of Sales	India / APAC / ME	(022) 66233127	sujay.kamath@ambit.co
Bhavin Shah	India	(022) 66233186	bhavin.shah@ambit.co
Dharmen Shah	India / Asia	(022) 66233289	dharmen.shah@ambit.co
Abhishek Raichura	UK / Europe	(022) 66233287	abhishek.raichura@ambit.co
Pranav Verma	Asia	(022) 66233214	pranav.verma@ambit.co
Anuj Jain	India	(022) 66233008	anuj.jain@ambit.co
Stuti Ahuja	India	(022) 66233289	stuti.ahuja@ambit.co
USA / Canada			
Abhishek Raichura	UK / Europe	(022) 66233287	abhishek.raichura@ambit.co
Sean Rodrigues	Americas	(022) 66233211	sean.rodrigues@ambit.co
Singapore			
Sundeep Parate	Singapore	+65 6536 1918	sundeep.parate@ambit.co
Pooja Narayanan	Singapore	+65 9800 3170	pooja.narayanan@ambit.co
Production			
Sajid Merchant	Production	(022) 66233247	sajid.merchant@ambit.co
Sharoz G Hussain	Production	(022) 66233183	sharoz.hussain@ambit.co
Jestin George	Editor	(022) 66233272	jestin.george@ambit.co
Richard Mugutmal	Editor	(022) 66233273	richard.mugutmal@ambit.co
Nikhil Pillai	Database	(022) 66233265	nikhil.pillai@ambit.co
Amit Tembhurnikar	Database	(022) 66233265	amit.tembhurnikar@ambit.co

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