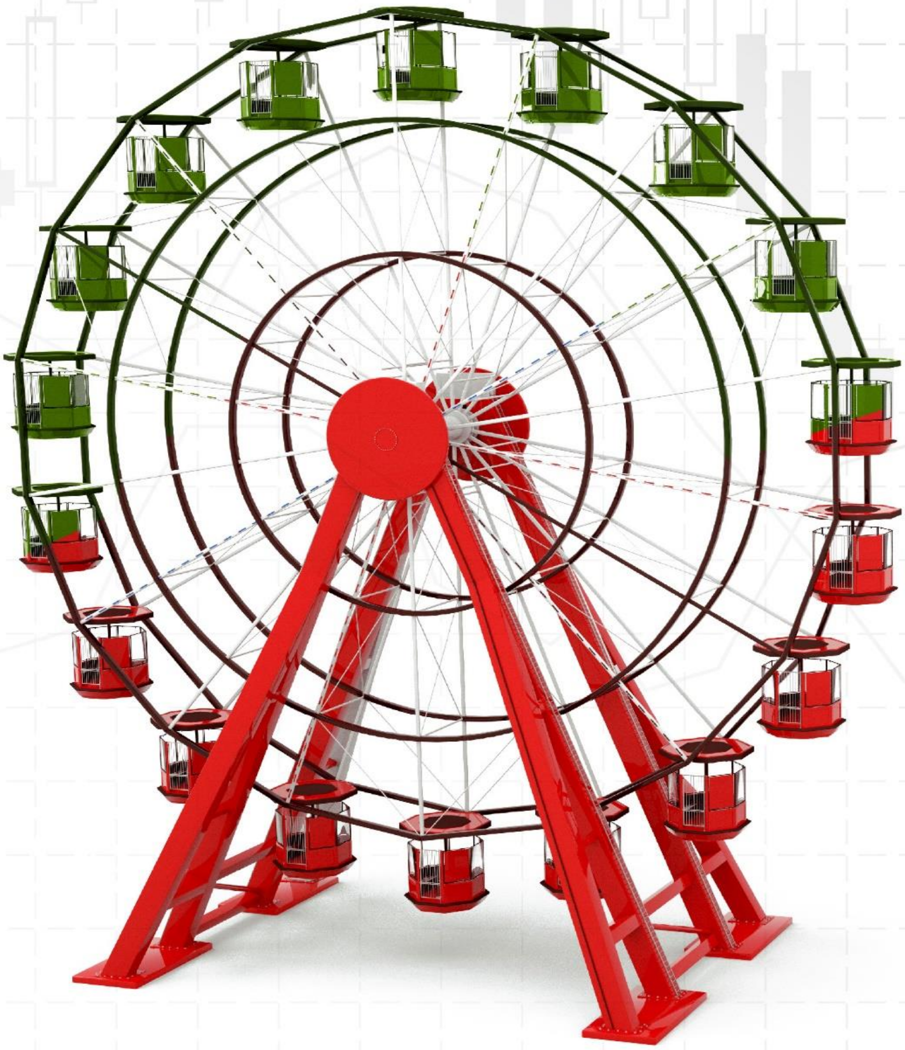
Ambit
Asset Management

MONTHLY NEWSLETTER

JUNE 2023

QUARTERLY SCORECARD: PERFORMANCE HIGHLIGHTS



4QFY23 – A Healthy Quarter

Dear Patron,

Q4FY23 co-incided with the latest IPL season. Amidst all this cricket buzz, it is difficult not to draw parallels between the game of Cricket and the recent earnings season. This IPL season had its share of 'fireworks' – from high-scoring games, nail-biting finish, magical turnarounds and even off-pitch drama – we saw it all! Similarly, 4QFY23 had its share of hits and misses. It started amidst a tough global macro environment with stress in US regional banks which was exacerbated by weak IT sector earnings. However, the quarter ended with decent double-digit growth for Nifty 50 aided by Financials and Auto with metals and Oil & Gas being the key laggards. All our portfolios saw healthy double digit growth with most of them outperforming their respective benchmarks. **In this newsletter, we take a look at how each of the sectors performed, the winners / laggards in each of them and what to expect going into the New Year!**

Exhibit 1: Healthy earnings across our portfolios during the quarter

	Net Sales YoY%			EBITDA YoY%			PAT YoY%		
Coffee Can Portfolio	**Q4FY23**	**Q3FY23**	**Q4FY22**	**Q4FY23**	**Q3FY23**	**Q4FY22**	**Q4FY23**	**Q3FY23**	**Q4FY22**
Weighted avg	15%	13%	14%	19%	7%	6%	18%	7%	9%
Median	17%	15%	14%	20%	12%	8%	20%	9%	7%
Good & Clean Portfolio	**Q4FY23**	**Q3FY23**	**Q4FY22**	**Q4FY23**	**Q3FY23**	**Q4FY22**	**Q4FY23**	**Q3FY23**	**Q4FY22**
Weighted avg	19%	22%	37%	24%	18%	31%	12%	28%	31%
Median	11%	19%	27%	20%	13%	24%	17%	20%	19%
Ambit Emerging Giants Portfolio	**Q4FY23**	**Q3FY23**	**Q4FY22**	**Q4FY23**	**Q3FY23**	**Q4FY22**	**Q4FY23**	**Q3FY23**	**Q4FY22**
Weighted avg	24%	20%	32%	41%	38%	11%	187%	46%	5%
Median	24%	20%	13%	18%	6%	14%	15%	12%	1%
Ambit TenX Portfolio	**Q4FY23**	**Q3FY23**	**Q4FY22**	**Q4FY23**	**Q3FY23**	**Q4FY22**	**Q4FY23**	**Q3FY23**	**Q4FY22**
Weighted avg	23%	22%	32%	37%	29%	16%	130%	32%	25%
Median	29%	25%	25%	22%	13%	24%	21%	19%	13%
Indices	**Q4FY23**	**Q3FY23**	**Q4FY22**	**Q4FY23**	**Q3FY23**	**Q4FY22**	**Q4FY23**	**Q3FY23**	**Q4FY22**
Nifty	13%	16%	17%	12%	8%	30%	16%	-3%	28%
Nifty Midcap 100	16%	16%	21%	6%	12%	12%	8%	3%	3%
BSE Smallcap	14%	15%	37%	13%	14%	6%	13%	18%	10%
BSE 400	44%	15%	17%	12%	23%	10%	10%	9%	15%
BSE 500	25%	21%	15%	12%	5%	4%	3%	-6%	20%

Source: Bloomberg, Ambit Asset Management, Note: for Nifty Midcap 100 we have taken median of Index constituents.

Performance of different sectors for the Q4FY23 quarter

Sector	Positives	Negatives	Key Winners	Key Laggards
IT Services	1) Recovery in UK / Continental Europe; Relative strength in Healthcare and Manufacturing vertical. 2) Declining attrition and subcontract costs which should aid margins in FY24	1) Growth slowdown across BFS, Retail, Telecom and Hi-Tech 2) Extended decision making leading to delay in deal closure 3) Margin pressure owing to uncertain demand environment leading to less agility in aligning cost structure	1) Persistent 2) Mastek	1) MphasiS 2) LTIMindtree 3) TCS
Healthcare	1) Strong growth by API companies with Gross Margin improvement as input prices ease 2) Signs of US price declining slowing down	1) Flattish QoQ growth for Diagnostic companies contrary to historical trends 2) Sharp decline in Africa tender business 3) Negative op. leverage owing to lower contribution from COVID products	1) Syngene 2) Suven Pharma	1) Laurus Labs 2) Dr Lal Pathlabs
Auto	1) Domestic volume growth remained strong despite inflationary price hikes. 4W's (ATH) and CV's (near ATH) reported strong volumes for the year. 2) Premiumization trend continuing with executive segment performing better than economy segment in 2w.	1) Export recovery weak due to geopolitical and weak macro environment. 2) Gross margin expansion likely to delayed due to high prices of certain RM's	1) Eicher Motors 2) TVS Motors 3) Suprajit Engineering	1) Sundram Fastners
FMCG	1) Urban consumption is steady. 2) inflation (yoy) is moderating due to a high base and led by sequential correction in some commodities from peaks	1) Rural recovery still muted with volume recovery expected by Q2FY24. 2) Unseasonal rain/weather damaged crops in certain places.	1) Nestle India 2) CCL Products 3) ITC	-
Building Materials	1) Strong real estate demand driving growth for most building material segments 2) Raw material deflation driving operating margins	1) Some sluggishness in rural demand still visible in certain pockets 2) Good monsoon a key driver for rural recovery going forward	1) Cera Sanitaryware 2) Greenlam Industries 3) Supreme Industries	1) Pidilite Industries
Chemicals	1) Non-generic Ag-chem contract manufacturers continue to ride tailwinds 2) Lower shipping rates and benign raw material costs to drive operating profits going forward for most chemical companies	1) Pressures continued to be faced by companies catering to dyes and pigments due to high channel inventory along with weak global demand scenario 2) High channel inventory impacting growth for both domestic and global ag-chem generic companies	1) PI Industries 2) Neogen Chemicals	1) Ultramarine 2) Aarti Industries
Consumer Discretionary & Retail	1) Re - affirmed K shaped growth. 2) Premiumization trend continue even after 1.5 years of covid. 3) With softening of input prices, witnessed some sequential recovery in gross margins across companies	1) Rural continue to be under pressure due to high inflation 2) QSR - Witnessed Demand moderation 3) Subdued volume growth & normalization of expenses leads to negative operative leverage	1) Titan 2) Safari 3) Trent	1) Page Industries

Sector	Positives	Negatives	Key Winners	Key Laggards
Consumer Durable ⇧	1) Strong growth in wires and cables segment with government housing push 2) AC market registered volume strong growth led by pre-season stocking	1) Consumer appliances mainly cooktop and cookware witnessed slowdown during the quarter which led to negative operating leverage 2) Fans segment witnessed muted quarter due to high channel inventory of Non BEE rated fans	1) KEI industries	1) Hawkins
Banks & Financials ⇧	1) Credit growth came in strong across sector 2) Earnings momentum continued along with margin expansion 3) Asset quality improved across sector	1) Deposit growth remained moderate 2) Interest rate uncertainty remains	1) HDFC Bank 2) ICICI Bank 3) Chola Investment Finance	-

CONCLUSION:

In 4QFY23, Financials, Auto, FMCG and Consumer Disc were key outperformers, while IT, Retail, Metals and Chemicals were key laggards. Overall Nifty ended FY23 with 19%/38% 2yr/3yr PAT CAGR which is quite strong given shaky global macros and indicates the resilience on Indian economy. Management across sectors have indicated softening of raw material prices and normalized supply chain which should aid sequential Gross Margin improvement. Regardless, we remain confident of India story going into FY24. However, US / EU inflation trajectory and containment of the rural bank contagion will be key to watch out for in CY23.

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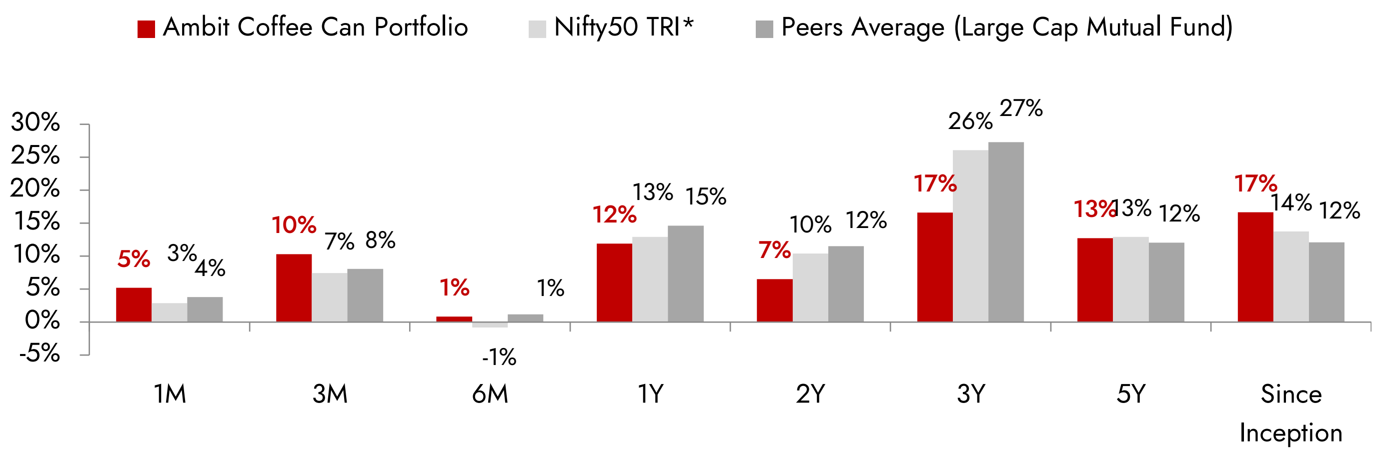
The result?

Consistent growth with an always-available service.

Ambit Coffee Can Portfolio

At Coffee Can Portfolio, we do not attempt to time commodity/investment cycles or political outcomes and prefer resilient franchises in the retail and consumption-oriented sectors. The Coffee Can philosophy has an unwavering commitment to companies that have consistently sustained their competitive advantages in core businesses despite being faced with disruptions at regular intervals. As the industry evolves or is faced with disruptions, these competitive advantages enable such companies to grow their market shares and deliver long-term earnings growth.

Exhibit 2: Ambit's Coffee Can Portfolio point-to-point performance

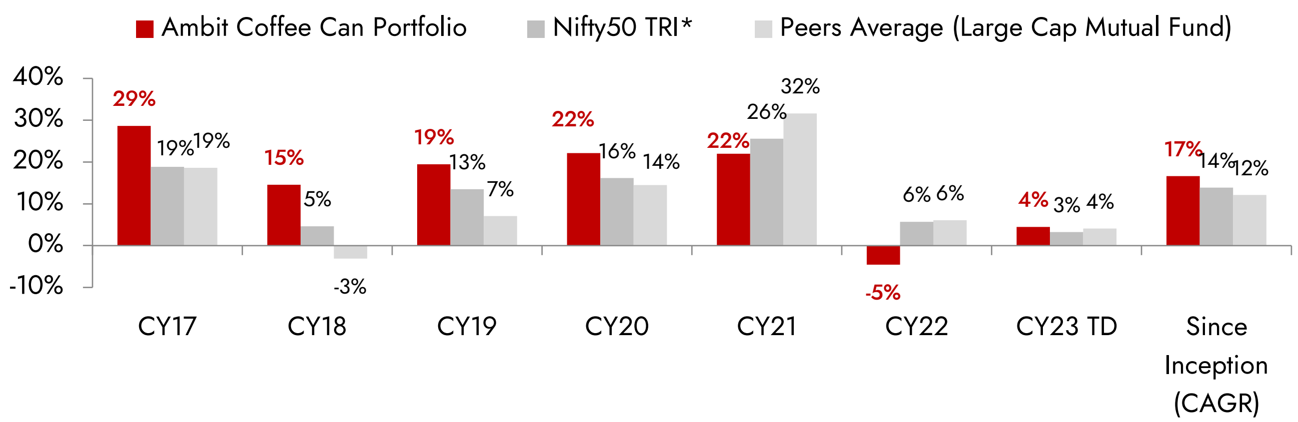


Source: Ambit; Portfolio inception date is March 6, 2017; Returns as of May 31st 2023; All returns are post fees and expenses; Returns above 1 year are annualized; Note: Returns prior to Apr'19 are returns of all the Pool accounts excluding non-aligned portfolio, and returns post Apr'19 is based on TWRR returns of all the pool accounts.

* Nifty 50 TRI is the selected benchmark for the Ambit Coffee Can Portfolio and the same is reported to SEBI. In addition to the same, we have included the MF peer average for information purpose only. The same should not be relied upon for performance benchmarking in any manner.

MF Peers include: Aditya Birla Sun Life MF, Franklin India MF, HDFC MF, ICICI Prudential MF, Nippon India MF, SBI MF.

Exhibit 3: Ambit's Coffee Can Portfolio calendar year performance



Source: Ambit; Portfolio inception date is March 6, 2017; Returns as of May 31st 2023; All returns are post fees and expenses. Note: Returns prior to Apr'19 are returns of all the Pool accounts excluding non-aligned portfolio, and returns post Apr'19 is based on TWRR returns of all the pool accounts.

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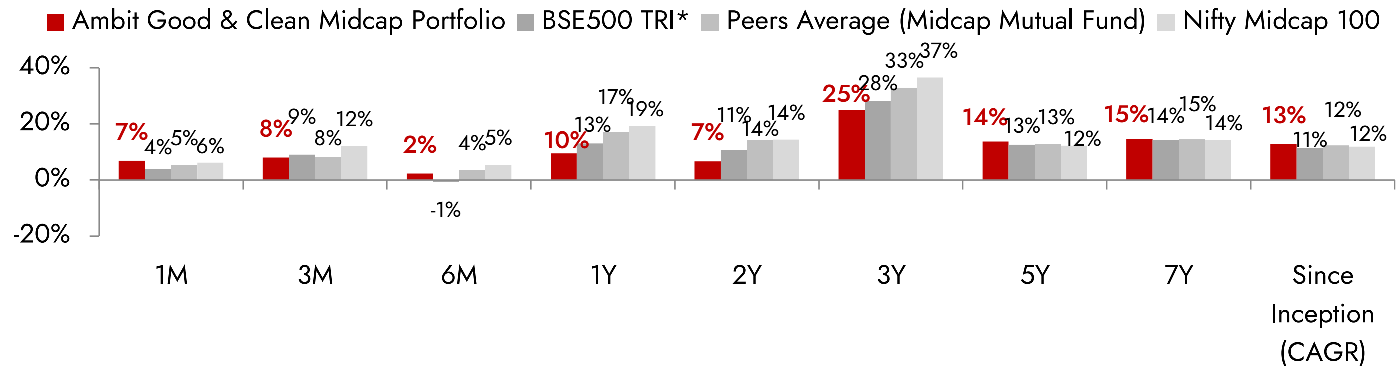
Ambit Good & Clean Midcap Portfolio

Ambit's Good & Clean strategy provides long-only equity exposure to Indian businesses that have an impeccable track record of clean accounting, good governance, and efficient capital allocation. Ambit's proprietary 'forensic accounting' framework helps weed out firms with poor quality accounts, while our proprietary 'greatness' framework helps identify efficient capital allocators with a holistic approach for consistent growth. Our focus has been to deliver superior risk-adjusted returns with as much focus on lower portfolio drawdown as on return generation. Some salient features of the Good & Clean strategy are as follows:

- Process-oriented approach to investing: Typically starting at the largest 500 Indian companies, Ambit's proprietary frameworks for assessing accounting quality and efficacy of capital allocation help narrow down the investible universe to a much smaller subset. This shorter universe is then evaluated on bottom-up fundamentals to create a concentrated portfolio of no more than 20 companies at any time.
- Long-term horizon and low churn: Our holding horizons for investee companies are 3-5 years and even longer with annual churn not exceeding 15-20% in a year. The long-term orientation essentially means investing in companies that have the potential to sustainably compound earnings, with these compounding earnings acting as the primary driver of investment returns over long periods.
- Low drawdowns: The focus on clean accounting and governance, prudent capital allocation, and structural earnings compounding allow participation in long-term return generation while also ensuring low drawdowns in periods of equity market declines.

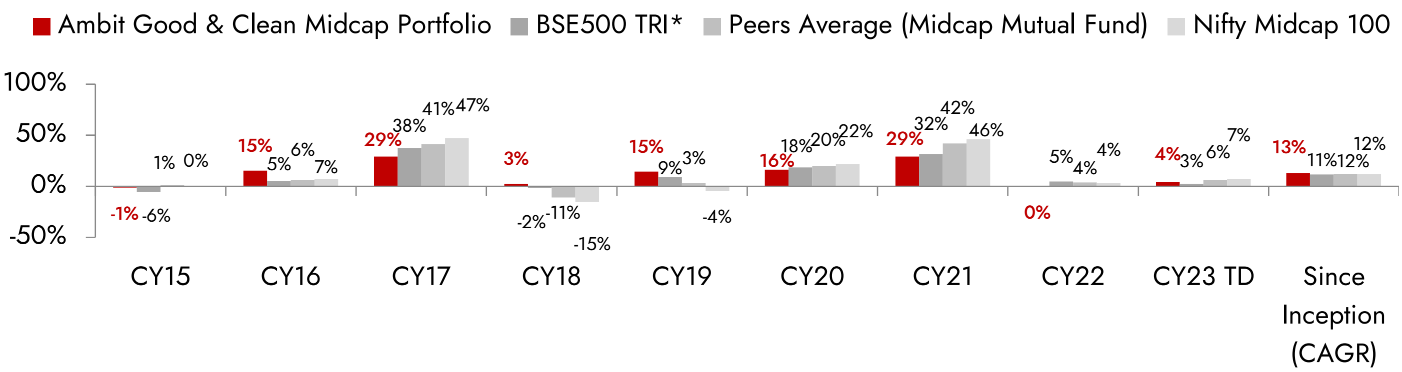
Exhibit 4: Ambit's Good & Clean Midcap Portfolio point-to-point performance



Source: Ambit; Portfolio inception date is March 12, 2015; Returns as of May 31st 2023; All returns above 1 year are annualized. Returns are net of all fees and expenses.

*BSE 500 TRI is the selected benchmark for the Ambit Good & Clean Midcap strategy and the same is reported to SEBI. In addition to the same, we have included the Nifty Midcap 100 and MF Peers for information purposes only. The same should not be relied upon for performance benchmarking in any manner. MF Peers: HDFC MF, Kotak MF, SBI MF, Franklin India MF, Aditya Birla Sunlife MF, Axis MF, L&T MF, MOSL MF, ICICI Prudential MF

Exhibit 5: Ambit's Good & Clean Midcap Portfolio calendar year performance



Source: Ambit; Portfolio inception date is March 12, 2015; Returns as of May 31st 2023. Returns are net of all fees and expenses.

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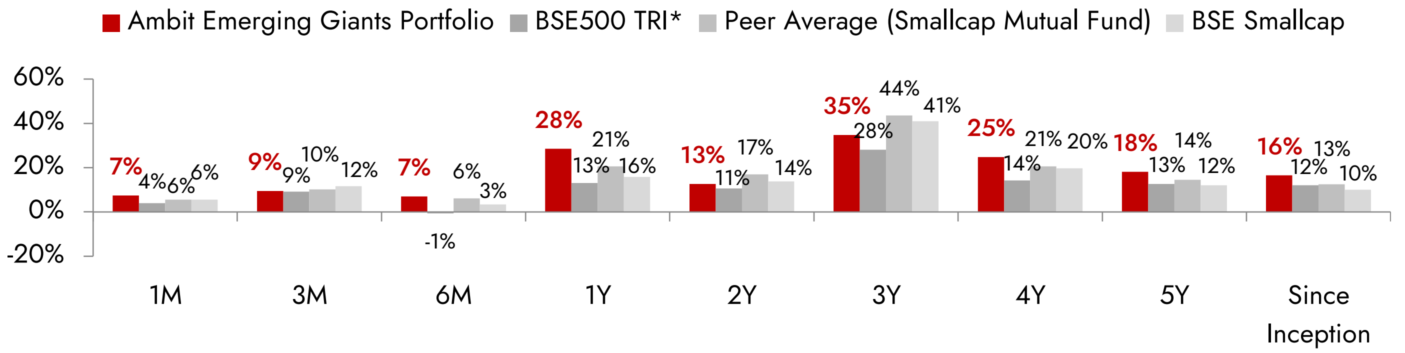
Ambit Emerging Giants Portfolio

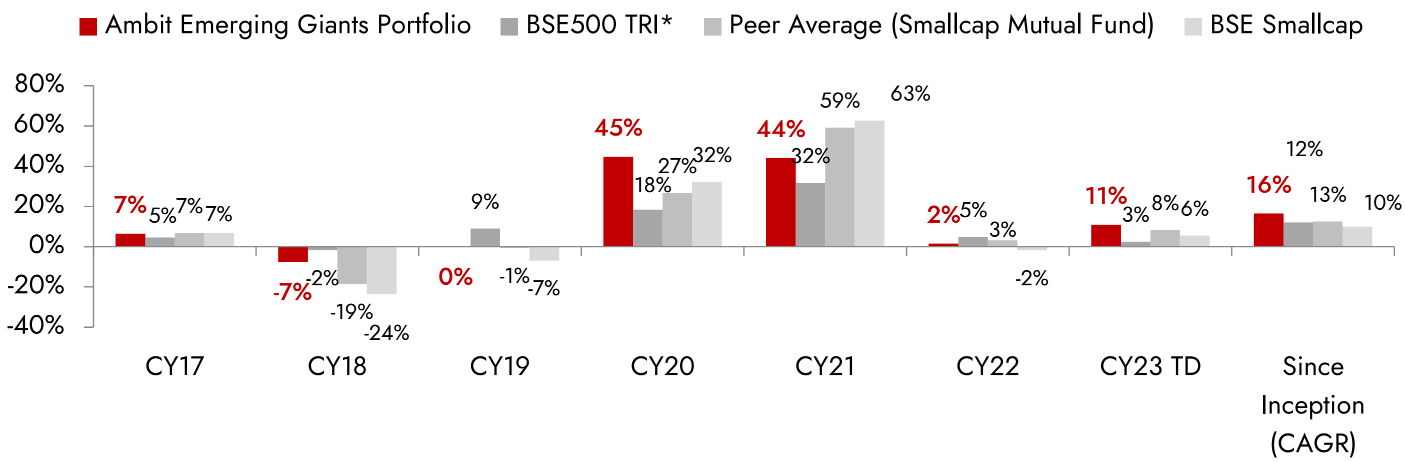
Small caps with secular growth, superior return ratios and no leverage – Ambit's Emerging Giants portfolio aims to invest in small-cap companies with market-dominating franchises and a track record of clean accounting, governance and capital allocation. The fund typically invests in companies with market caps less than Rs4,000cr. These companies have excellent financial track records, superior underlying fundamentals (high RoCE, low debt), and the ability to deliver healthy earnings growth over long periods of time. However, given their smaller sizes, these companies are not well discovered, owing to lower institutional holdings and lower analyst coverage. Rigorous framework-based screening coupled with extensive bottom-up due diligence lead us to a concentrated portfolio of 15-16 emerging giants.

Exhibit 6: Ambit Emerging Giants Portfolio point-to-point performance



Source: Ambit; Portfolio inception date is December 1, 2017; Returns as of May 31st 2023; All returns above 1 year are annualized. Returns are net of all fees and expenses.
*BSE 500 TRI is the selected benchmark for the Ambit Emerging Giants strategy and the same is reported to SEBI. In addition to the same, we have included the BSE Small cap and MF Peer group for information purpose only. The same should not be relied upon for performance benchmarking in any manner.
MF Peers Include: Nippon India MF, Franklin India MF, ICICI Prudential MF, DSP Blackrock MF, Kotak MF, HDFC MF, SBI MF, Aditya Birla Sun Life MF

Exhibit 7: Ambit Emerging Giants Portfolio calendar year performance



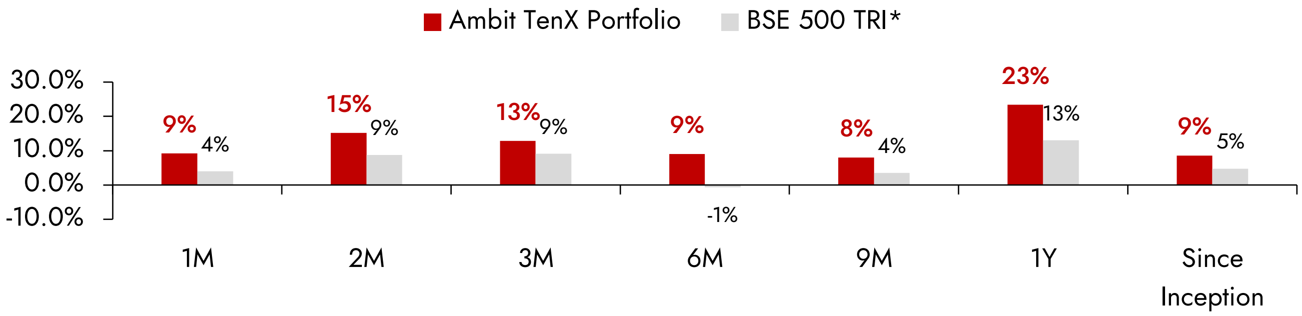
Source: Ambit; Portfolio inception date is December 1, 2017; Returns as of May 31st 2023. Returns are net of all fees and expenses.
*BSE 500 TRI is the selected benchmark for the Ambit Emerging Giants strategy and the same is reported to SEBI. In addition to the same, we have included the BSE Small cap Index and MF Peers for information purpose only. The same should not be relied upon for performance benchmarking in any manner.
MF Peers include: Nippon India MF, Franklin India MF, ICICI Prudential MF, DSP Blackrock MF, Kotak MF, HDFC MF, SBI MF, Aditya Birla Sun Life MF.

Ambit TenX Portfolio

Ambit TenX Portfolio gives investors an opportunity to participate in the India growth story as the Indian GDP heads towards a US$10tn mark over the next 12-15 years. Mid and Small corporates are expected to be the key beneficiaries of this growth. The portfolio intends to capitalize on this opportunity by identifying and investing in primarily mid & small cap companies that can grow their earnings 10x over the same period implying 18-21% CAGR. Key features of this portfolio would be as follow:

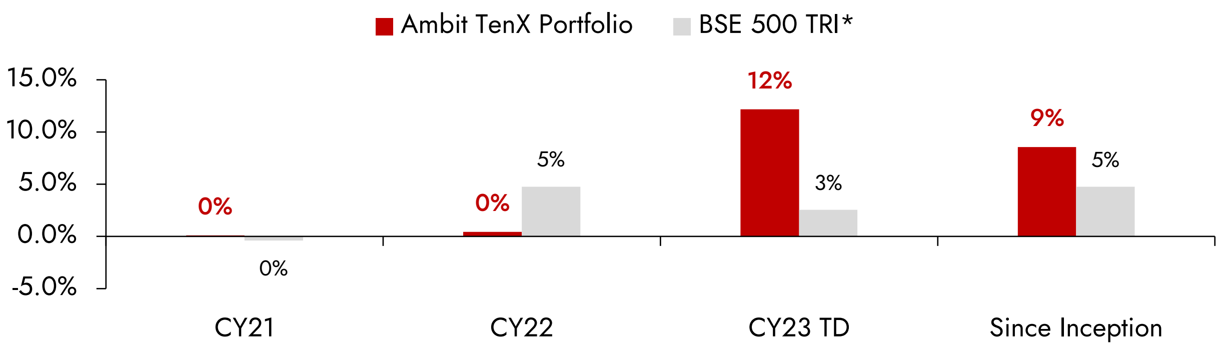
- Longer-term approach with a concentrated portfolio: Ideal investment duration of >5 years with 15-20 stocks.
- Key driving factors: Low penetration, strong leadership, light balance sheet
- Forward-looking approach: Relying less on historical performance and more on future potential while not deviating away from the Good & Clean philosophy.
- No Key-man risk: Process is the Fund Manager

Exhibit 8: Ambit TenX Portfolio point-to-point performance



Source: Ambit; Portfolio inception date is December 13, 2021; Returns as of May 31st 2023; Returns are net of all fees and expenses
*BSE 500 TRI is the selected benchmark for the Ambit TenX Portfolio and the same is reported to SEBI.

Exhibit 9: Ambit TenX Portfolio calendar year performance



Source: Ambit; Portfolio inception date is December 13, 2021; Returns as of May 31st 2023. Returns are net of all fees and expenses
*BSE 500 TRI is the selected benchmark for the Ambit TenX Portfolio and the same is reported to SEBI.

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You may contact your Relationship Manager for any queries.

The performance data for coffee can product between 6th march 2017 - 19th June 2017 represents model portfolio returns. First client was onboarded on 20th June 2017. The performance data for G&C product between 1st June 2016 to 1st April 2018 also includes returns for funds managed for an advisory offshore client. Returns are calculated using TWRR method as prescribed under revised SEBI (Portfolio Managers) Regulations, 2020