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AMBIT
ASSET MANAGEMENT

Coffee Can Portfolio

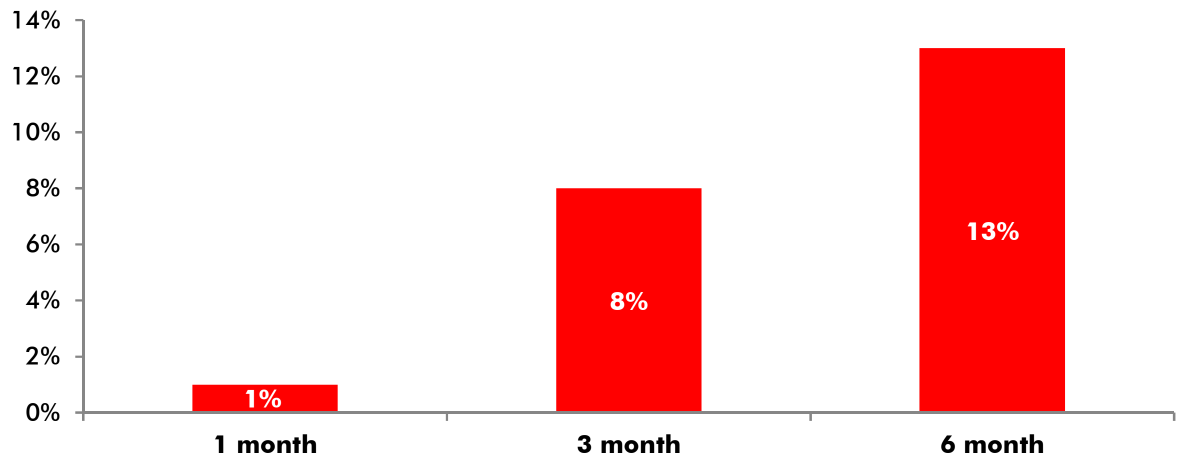
EQUITY INVESTMENTS & PMS ARE SUBJECT TO MARKET RISKS,
READ ALL SCHEME RELATED DOCUMENTS CAREFULLY BEFORE INVESTNG

Dear Investor,

In our recent interactions with you and company managements, a frequent area of discussion has been the probable outcome of ongoing elections and its impact on country's economic progress & stock market returns. Factoring in a stable majority government, markets are currently assuming robust economic development for the next five years. This is reflected in recent market performance, Nifty has already delivered 8% returns in the last three months and 13% in the last six month.

We believe that long-term development and economic progress does get impacted by elections albeit to a minor extent. Policy formulation, implementation and execution do take time but once implemented these are irreversible in nature. Such irreversibility also restricts deviations in project executions which in most cases run over years, thereby reducing the impact of change in government. This also ensures continuity in business operations for well-run business focused on capital allocation and profitability; this remains the core of our investment philosophy.

Exhibit 1: Nifty has a fairly strong run in the last few months!



Source: NSE

Consider the ongoing Dedicated Freight Corridor (DFC) project for railways, aimed at reducing logistics cost and transportation time on two congested rail routes, Delhi-Mumbai and Delhi-Howrah. The project was started in 2010 with completion expected by 2016-2017. However, the project is still ongoing with first sections of DFCs now completed. Delays in projects are largely due to hurdles in land acquisition, environmental clearance & slow pace of construction due to congestion on the routes. Clearly, incoming and outgoing governments have not derailed the project in the last eight years but have indeed made policy changes simplifying land acquisition process and faster environment clearances. To identify and address critical bottlenecks in development policies is the true role of the government and we have seen that occurring in the last two decades.

During the NDA government in 1999-2004, the two most successful projects were Golden Quadrilateral & the Pradhanmantri Gramin Sadak Yojna. Both projects had a multiplier effect on economy. Golden Quadrilateral project was launched in 2001 and completed in 2012 during the tenure of UPA-II.

During the UPA government in 2004-2014, focusing on rural growth, two long-term enabling schemes were National Rural Employment Guarantee Scheme (NREGA) and National Skill Development Mission. Both these schemes still continue and remain important for financial inclusion of rural India.

During the NDA government in 2014-2019, perhaps the most important reforms were passing of GST bill and implementation of Insolvency and Bankruptcy Code (IBC). Both reforms have faced multiple execution challenges which will get smoothened out over the course of next few years. In 2000, the then government set up a committee to design GST. In 2006, GST appeared for the first time in budget speech. In 2011, government tabled 115th constitution amendment bill in Lok Sabha for bringing GST. In 2015, Lok Sabha passes GST Constitutional Amendment Bill and in 2017, GST was finally rolled out. Clearly, this was a humongous effort and successive governments played a key role in finalizing the GST. Now, both reforms highlighted above are irreversible.

Similarly the Direct Benefit Transfer mechanism which was conceptualized in the UPA regime was successfully executed to a mass level by the outgoing NDA government aided by adoption of Aadhar and opening of Jan Dhan Bank accounts. The mechanism now covers 55 ministries and 440 schemes.

Further, roll back of few landmark reforms such as repealing of outdated laws, bidding based allocation of natural resources, RERA etc.; seems very difficult by any incoming government. The increase in tax base and resulting increase in direct and indirect tax collection will only increase and grow from here.

As highlighted above, economic progress and development continues irrespective of political outcomes. Well run businesses will adapt to short term challenges by varying capital allocation. Key themes that will drive business trajectory and will also require focus from the government will be:

- Stricter enforcement of E-way bill to ensure GST becomes a success
- Faster resolution of pending cases in IBC and in helping Banks to come out of the NPA cycle
- Completion of DFCs and increasing Waterway developments
- Reducing dependency on Crude Oil with increasing focus on renewable and nuclear energy
- Revival of public & private capital expenditure (capex) cycle
- Revival of Housing market
- Increasing focus on skilling youth in India

We believe that the above highlighted focus points are recognized by all political parties as key areas. Abovementioned focus areas are not short term resolution points; they are already work-in-progress points and will be executed in next 1-2 years irrespective on the outcome of central elections. Progressing on focus areas remain important to increase country's GDP growth to 9-10% and above.

Lastly, we would also highlight that India remains a domestic consumption story. With low per capita income but high savings rate, consumption theme will continue in India. Policy implementation will help in increasing the per capita income in medium to long term. Capex cycle recovery should add to the growth. These will be core drivers for the businesses in India and will determine our investment evaluation process of investible companies.

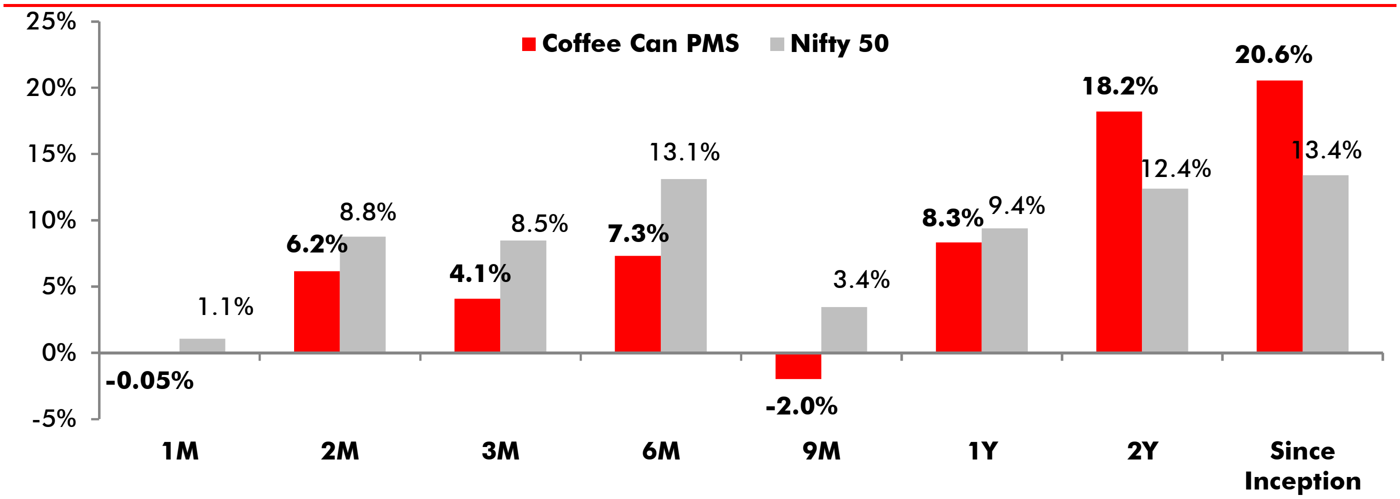
Ambit Coffee Can Portfolio

At Coffee Can Portfolio, we do not attempt to time commodity/investment cycles or political outcomes and prefer resilient franchises in the retail & consumption oriented sectors. **While the favorable macro-economic conditions are a near term positive, we believe the pricing power and competitive advantages enjoyed by our portfolio companies make them attractive for long term investment horizons no matter how heated or favorable the market conditions may seem.**

The Coffee Can philosophy has unwavering commitment to companies that have consistently sustained their competitive advantages in core businesses despite being faced by disruptions at regular intervals. As the industry evolves or is faced by disruptions, these competitive advantages enable such companies to grow their market shares and deliver long term earnings growth. As long as the company's fundamental story is intact we do not exit our investment based on short term aberrations.

Coffee Can Portfolio consists of 11 stocks that include 3 stocks in Home-building Sector, 4 stocks in Consumer Staples Sector, 2 stocks in Consumer Discretionary Sector, 1 stock in retail diagnostics and 1 stock in Banking Space.

Exhibit 2: Ambit' Coffee Can Portfolio Performance Update



Source: Ambit; Portfolio inception date is March 6, 2017; Returns as of April 30, 2019; All returns (except Since inception) are absolute returns net of fees & 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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