AMBIT
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**MONTHLY NEWSLETTER**

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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,

The election of NDA 2.0 with a clean verdict provided a sigh of relief to financial market in India. Re-election of incumbent government with such a strong mandate will not only mean policy continuity and predictability but will also be an opportunity to carry out more challenging and significant reforms in ensuing years.

NDA 1.0 carried out massive structural reforms (GST, IBC, RERA, etc.) and boosted the economy through spending on infrastructure. We expect NDA 2.0 to continue on the reforms path and the infrastructure spent. Having earned a stronger mandate, the Government can deliver bolder reforms related to factor of production like Land & Labour.

The fruits of hardwork on reforms during the last five years should be visible in the next few years. Due to effective implementation of E-way bill and rationalization of GST rate, compliance should increase as implementations gets tighter and meaningful evasion becomes virtually impossible. We have already witnessed increased compliance in few sectors in the recent past. This should lead to streamlining of direct tax (with implementation of DTC) and indirect tax (with rationalization of GST), and will probably be on top agenda of government's budget framework during this tenure. Economy has been witnessing slowdown in the recent past, which manifests itself with the weakness in auto sales and now percolated in consumer space too. This is more on account of decline in domestic savings over last couple of years coupled with the stress in rural economy, leading to slower demand creation. Added to that, ongoing NBFC Crisis and liquidity crunch accentuated the consumer demand slowdown. We have seen this impacting our portfolio stock like Page Industries, where growth nosedived and margin slumped due to negative operating leverage.

The top priority for the new government will be to bring back the economy on track. The immediate task should be to fix liquidity conundrum, by accommodating more conducive monetary stimulus. Given the low expected inflation, we expect RBI to cut repo rates along with CRR cuts. Along with the rate cuts, RBI should also focus on injecting liquidity in the system by OMO or FX dollar swaps. This will not only take care of NBFC issues but will also help in reviving the economic growth. Any windfall from the outcome of Jalan committee will help government to inject liquidity or recapitalized PSU bank, leading to overall credit creation. With the electoral success of pro poor scheme and efficient DBT transfer, government will increase the existing schemes' reach and deploy more such schemes, which may help in revival of consumption in rural part of country.

The new government should also focus on creating liquidity through PSU privatization and other assets sales (e.g. SUUTI stakes). Steps to bring in more FDI/FPI will attract more foreign inflows, as India's political risk premium has shrunk. These flows will not only provide stability to Indian exchange rate, but will also help in bridging the gap of domestic saving decline. New elected governments can also revive capex by spending on infrastructure & housing, which can be a boon of economic growth revival. Government will also focus on reviving private capex by creating attractive proposition and focus more on ease of doing business in India. Given that rural stress and job creation will be atop govt's agenda, consumption could also pick up in after its recent weakness.

The Cement sector witnessed announcement of fresh capacity additions during the past few months after a reasonable gap. This aids to our belief that private capex should pick up soon as the capacities reach optimum utilization levels. The success of Make in India program will be tested in the form of FDI flows during next few years. Every global boardroom will probably deliberate on their 'India strategy' as against their 'China strategy' in the previous decade. A combination of domestic and FDI linked capex should boost the economy in the medium to long term.

We are of the opinion that polarization of performance in Indian markets (where 5-7 stocks contributed 80% of Nifty 50 return in FY19) will unwind, with money now chasing other large cap and selective good quality midcaps as they are available at attractive valuations. Broader market continues to underperform in last 15 months and this trend can see reversal in next one to two years because of expected fall in interest rates, easing of liquidity crisis, fixing of the NBFC mess and revival in earning growth with favorable base. We expect crude prices to hover around current levels. With increased FII flows in debt and interest rate cut, we may see sovereign yields below 7%. This money market buoyancy coupled with earning growth revival, could propel equity prices significantly higher in the medium to long term.

# Ambit Coffee Can Portfolio

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

**Coffee Can portfolio companies' growth slowed down during last quarter**

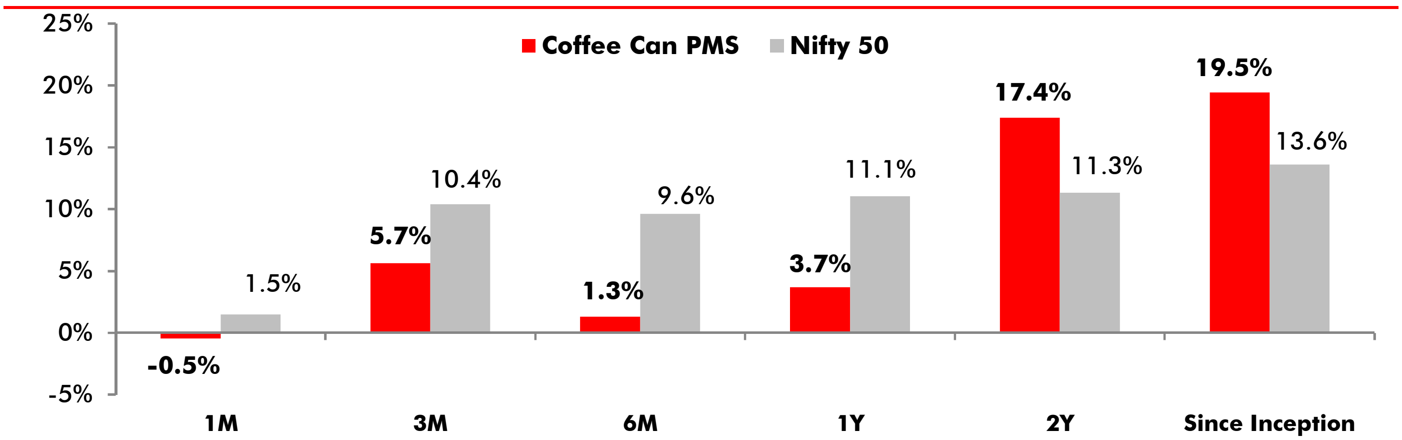
Coffee Can stocks delivered subdued results this quarter, due to consumption slowdown. As shown in the exhibit below, the portfolio companies showed an average Revenue/PAT growth of 11%/12%. **We believe the pricing power and competitive advantages enjoyed by our portfolio companies make them attractive for long term investment horizons no matter how heated or favorable the market conditions may seem.**

**Exhibit 1: Coffee Can Portfolio Companies Q4-19 Performance**

| Growth | FY19Q4 vs. FY18Q4 | | FY19 vs. FY18 | |
|---|---|---|---|---|
| | Avg. | Median | Avg. | Median |
| Revenue | 11% | 12% | 14% | 14% |
| EBITDA | 4% | 6% | 12% | 11% |
| PAT | 12% | 9% | 13% | 14% |

*Source: Ambit Capital Research; Note: For BFSI companies, Revenue/EBITDA growth represents growth in Interest Income/Pre-Provision income respectively; Average is computed by taking the current weights of portfolio stocks.*

**Exhibit 2: Ambit' Coffee Can Portfolio Performance Update**




*Source: Ambit; Portfolio inception date is March 6, 2017; Returns as of May 31, 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.*

## For any queries, please contact:

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