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MONTHLY NEWSLETTER

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AMBIT
ASSET MANAGEMENT

Coffee Can Portfolio

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"Stock prices are slave to earning in long term"

Dear Investor,

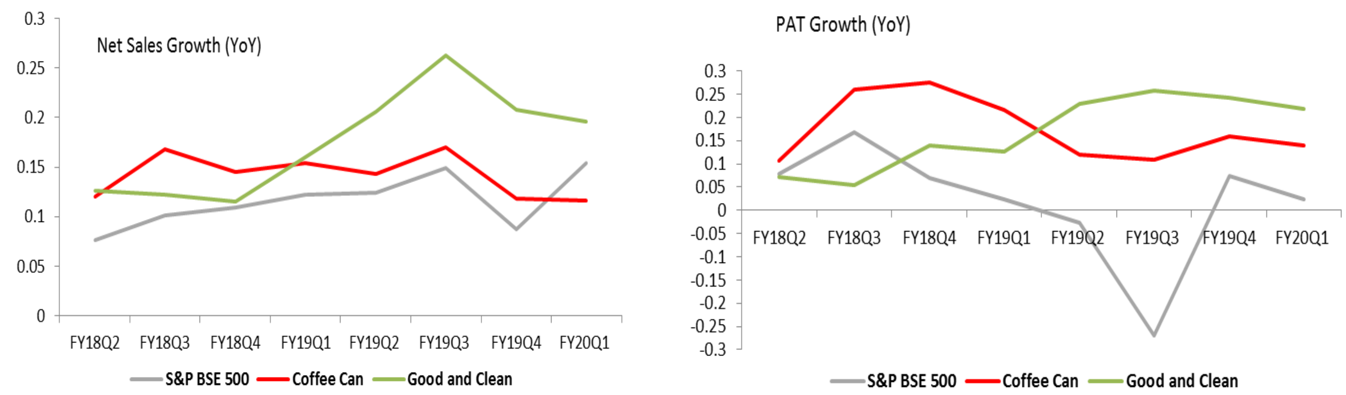
We, at Ambit Asset Management believe that equities can be one of the best investment avenues for long term wealth creation and the risk perceptions are exaggerated. As long as the portfolio companies continue to clock in steady growth, stock performance automatically follows. Hence, at Ambit Asset Management the endeavor always is to constantly monitor the structural attributes of the earnings growth of our portfolio companies to deliver steady long term returns of our investors.

Given the cyclical slowdown amid ongoing liquidity tightness, expectation of Q1FY20 was muted after a relatively weak Q4FY19. However, we are of view that Q1FY20 result were better than expectations. Sectors such as private banks, home building, pharma, consumer, cement etc., showed positive earnings momentum.

What adds to our optimism was the strong performance of our portfolio companies across all three schemes which outstripped the market growth. In spite of the weak economic background and crisis of confidence in financial market, our portfolio companies' performance stood tall with encouraging topline as well as bottom line growth. We do believe this demonstrates our effective stock selection philosophy.

Our key investment hypotheses remains unchanged where we ensure that portfolio earnings grow at a consistent 18% to 20% over the medium term. The earnings momentum which has been building for the last few quarters has gathered more momentum in Q1FY20 and we are upbeat that this trajectory will continue in ensuing quarters.

Exhibit 1: Coffee Can and Good & Clean have had fairly consistent performance



A combination of strong business propositions combined with market share gains for the organized sector (as better GST compliance kicks in post e-way implementation) should keep portfolio earnings strong over the next few years in our view. On the flip side, any delay in economic recovery is bound to be accompanied with adverse sentiments. Therefore it is important to stick to Good & Clean companies.

An improving earnings environment will go a long way in correcting the perception of investors. A combination of improving earnings outlook and saner valuations augur well for broader markets and makes it an opportune time to invest.

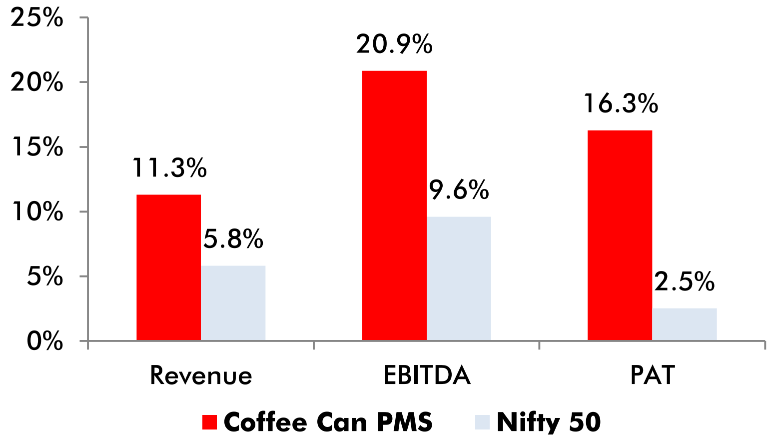
Ambit Coffee Can Portfolio

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 showed resilience during last quarter

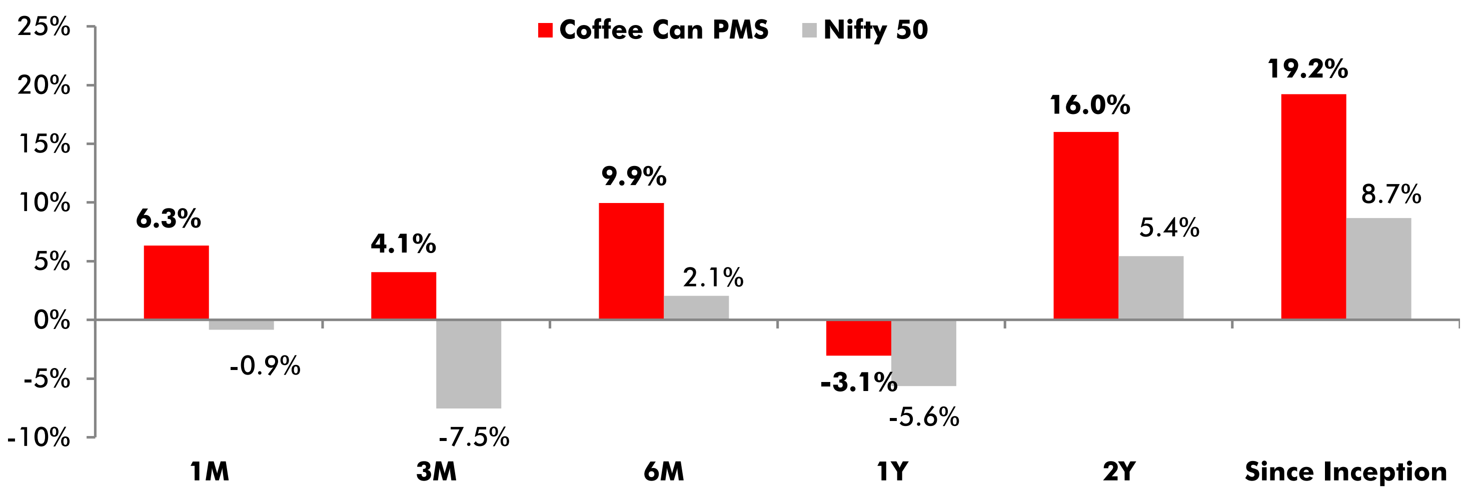
Coffee Can stocks delivered good results this quarter, in spite of consumption slowdown. As shown in Exhibit 1, the portfolio companies showed a median Revenue/PAT growth of 11%/16% YoY compared to Nifty 50 growth of 6%/3%. We believe the pricing power and competitive advantages enjoyed by our portfolio companies make them attractive for long term investment horizons no matter how muted or unfavorable the market conditions may seem.

Exhibit 2: Coffee Can Portfolio Companies Q1FY20 Performance



Source: Ambit Capital Research; Note: For BFSI companies, Revenue/EBITDA growth represents growth in Net Interest Income/Pre-Provision income respectively;

Exhibit 3: Ambit's Coffee Can Portfolio performance update



Source: Ambit; Portfolio inception date is March 6, 2017; Returns as of Aug 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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