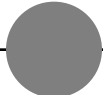


The Ambit framework for small-cap investing

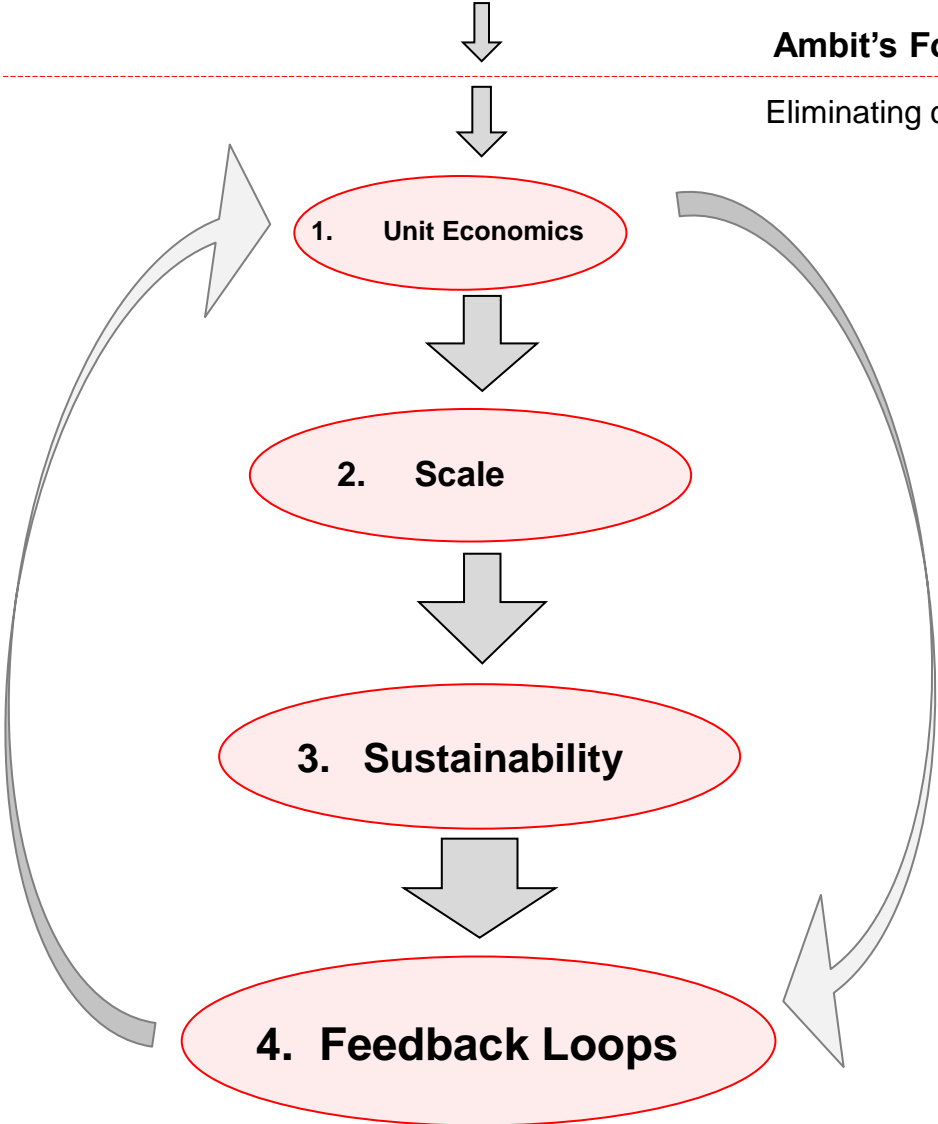


Small-cap Universe
Stocks with a Market Cap between INR1-25bn

~1300 stocks

Ambit's Forensic Accounting Screen

Eliminating companies with dubious accounting practices



Profitability per unit

- Do the unit economics make sense?

Growth runway

- How scalable are the company's operations?

Viability of underlying business model

- Does the company generate enough funds to sustain the business?

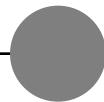
Cash generation

- Does sales growth translate into cash?

Virtuous cycle effect

- Is greater scale leading to greater asset efficiency?

Ambit's Forensic Accounting Framework (HAWK)

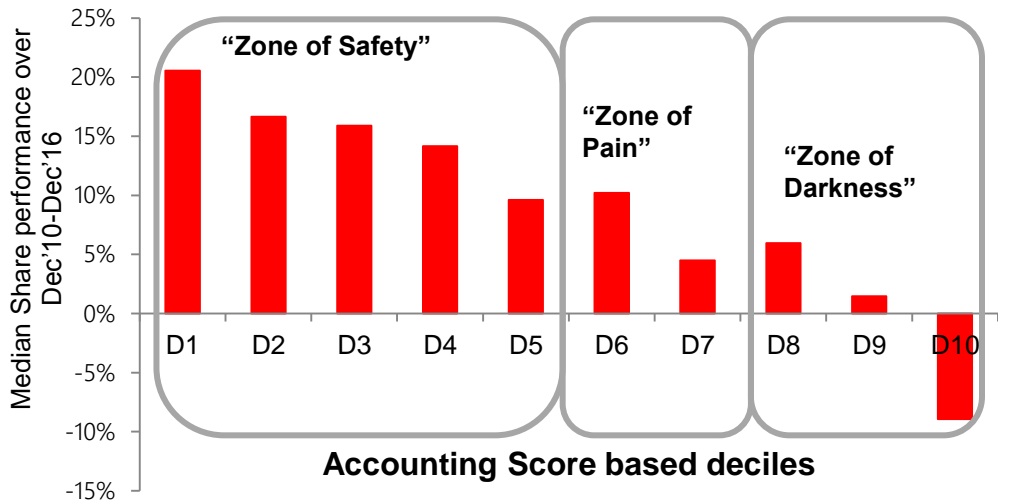


Ambit's forensic accounting framework helps steer clear of Small-caps with dubious financials

Category	Ratios
P&L misstatement checks	(1) CFO/EBITDA
	(2) Volatility in depreciation rate
	(3) Volatility in non-operating income (NoI) (as a percentage of net revenues)
	(4) Provisioning for doubtful debts as a proportion of debtors more than six months
Balance sheet misstatement checks	(1) Cash yield
	(2) Change in reserves (excluding share premium) to net income excluding dividends
	(3) Contingent liability as a proportion of net worth
Pilferage checks	(1) Miscellaneous expenses as a proportion of total revenues
	(2) CWIP to Gross Block
	(3) Cumulative CFO plus CFI to median revenues
Audit quality checks	(1) CAGR in auditors remuneration to CAGR in consolidated revenues

Methodology
 We look at six years of consolidated financials for the BSE500 universe of firms. We first rank stocks on each of the 11 ratios individually (outlined in the table on the left) within a sector. These ranks are then cumulated across parameters to give a final pecking order on accounting quality for stocks within each sector

Within sub-BSE500 firms, accounting quality drives investment performance



Source: Bloomberg, Ambit Capital research; Note: This chart plots the median share price performance of sub-BSE500 firms with median accounting scores for deciles constructed only on the basis of accounting quality. Period: Dec'10-Dec'16

Ambit's forensic accounting framework (HAWK) is a proprietary tool only available to Ambit's clients.

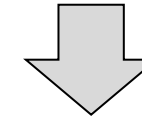
Small-cap Universe
Stocks with a Market Cap between INR1-25bn

Ambit's Forensic Accounting Screen

Eliminating companies with dubious accounting practices

❑ Filtering Process

1. **Ambit's Forensic Accounting Screen:** *Eliminating 'Zone of Darkness' candidates.*
2. **50th Percentile Hurdle on each of the 5 parameters:** *Selecting companies well rounded in each parameter.*
3. **Total Percentile Rank > 80%:** *An additional filter to make sure that only the best are selected.*
4. **RoCE > 12%:** *Eliminating companies struggling to cover their cost of capital.*
5. **Net Debt-Equity Ratio < 1.5x:** *Eliminating debt-laden companies.*



- 50%+ on each Parameter
- 80th Percentile Overall
- Filters for RoCE + Debt ratios



- Bottom-up stock research and industry analysis



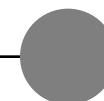
- Channel checks and management meets



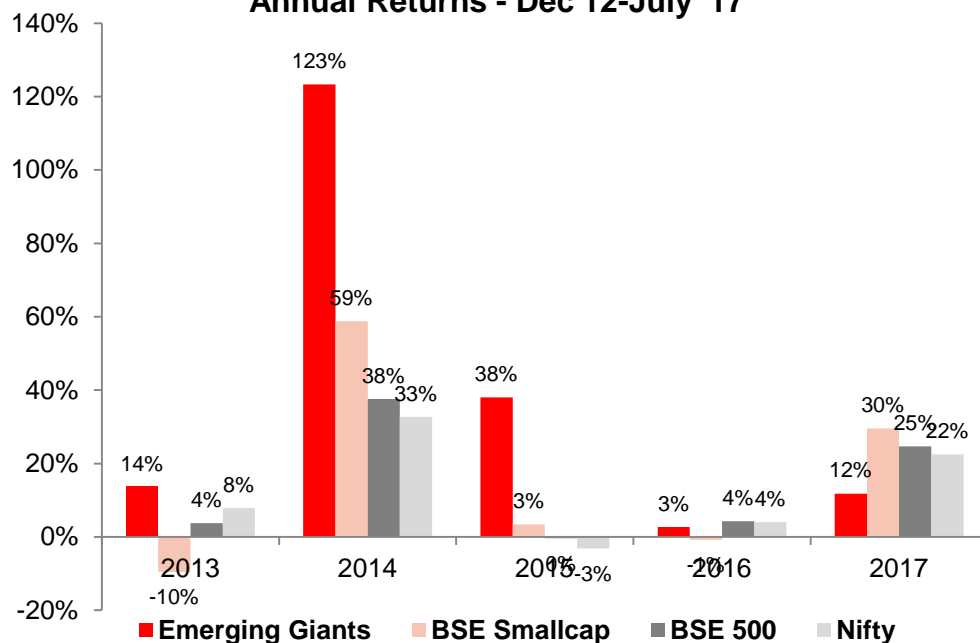
15 -20
stocks

**Emerging Giants:
G&C Small-cap**

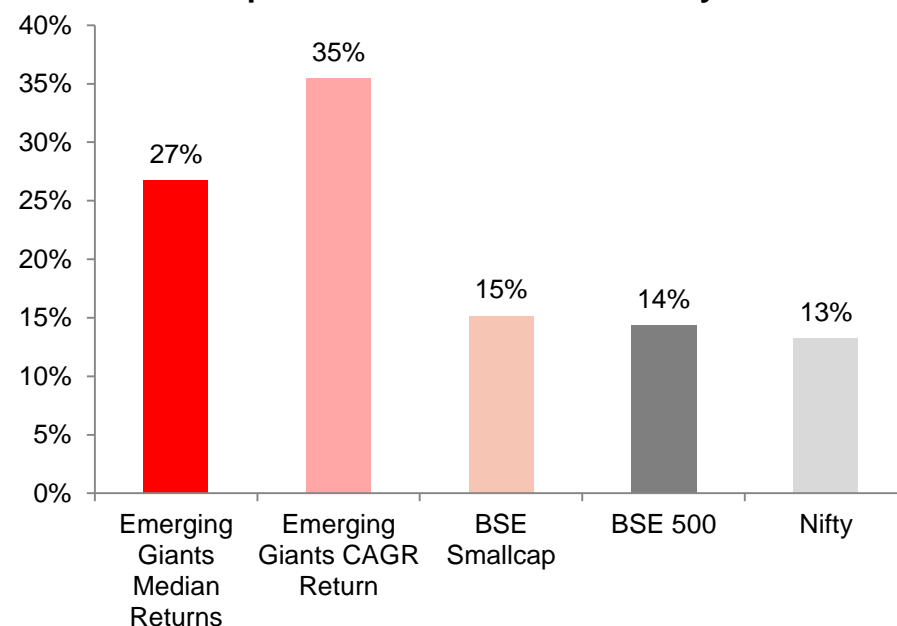
Backtest Results, Sharpe Ratio and Drawdown



Annual Returns - Dec'12-July '17



Compounded Returns - Dec'12-July'17

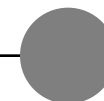


Source: Bloomberg, Ace Equity, Ambit Capital Research. *Median Returns are for the portfolio only. All returns are net of assumed transaction costs and include reinvested dividends.

Performance(2012-2017)	Net Returns* (CAGR)	Standard Deviation	Sharpe Ratio	Maximum Drawdown
Emerging Giants	35%	21%	1.49	-23%
BSE Smallcap	15%	20%	0.59	-27%
BSE 500	14%	14%	0.50	-20%
Nifty	13%	14%	0.39	-22%

- Method: Stocks are rebalanced December-end on an annual basis. Equal amounts are assumed to be allocated to each stock. Stocks are selected as per the model framework and filters. Results are calculated on a CAGR basis. Final Period ends on July31, 2017.
- Returns include dividends reinvested and are net of assumed transaction costs (3% for Portfolio & BSE Smallcap, 1% for the BSE500, and 0.5% for the NIFTY).

Consistent risk adjusted outperformance is arising because of...



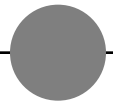
- ❑ **Ambit's Emerging Giants portfolio selects companies that exhibit:**
 - **Market Leadership:** More than half the companies in our portfolio dominate their market niche/geography or are among the top 2 players in the field.
 - **Focused Expertise:** Companies that relentlessly focus on a specific product/service, allowing them to excel within their circle of competence.
 - **Consistent financial performance:** Excellent financial track record with superior underlying fundamentals.
 - **Clean Accounting:** Use of our proprietary forensic accounting framework (HAWK) to filter out firms with suspect financials.
 - **No Operator activity:** Avoiding stocks that are associated with operators.

❑ **Ambit's Emerging Giants portfolio characteristics:**

- Low debt with the median portfolio company cash positive
- Reasonable valuations for quality stocks
- Stellar track records of capital allocation in terms of return on equity and capital
- Growth potential above the comparable index

Emerging Giants - Comparison to Indexes	Average Debt /Equity	P/E		Past 5Y Growth		RoE	
	FY2017	FY17	Blended Forward	Revenue	EPS	Past 5Y	Current
Emerging Giants	(-0.1x)	25x	21x	15%	26%	20	19
BSE Small cap	1.0x	151x	20x	4%	6%	0.2	4
Nifty	0.7x	23x	19x	9%	7%	16	13

▪ Source: Bloomberg, Company, Ambit Capital Research; Index statistics as per Bloomberg; All Portfolio statistics are medians except for Debt/equity & Growth ; Blended forwards are based on Ambit estimates, while Index estimates are based on Bloom estimates



- ❑ **Ambit's Emerging Giants portfolio's optimal fund size is Rs200 crore, in our view, to protect the interests of investors by:**
 - **Reducing liquidity constraints:**
 - **Minimizing transaction costs/impact costs:**
 - **Focused investment style supported by backed bottom up research, leading to concentrated portfolios**

- ❑ **Rs200 crore offers sizing flexibility:** At this level, we have the ability to own meaningful positions in firms with market capitalizations as low as Rs100-200 crore if need be, thereby fulfilling both our liquidity requirements as well as keeping with our fund's style.

Gaurav Mehta, CFA

With over 11 years of experience in Indian equities, Gaurav has been with Ambit for over 9 years now. Before moving to the Asset Management arm, he worked as Strategist with the Institutional Equities team of the firm, where he was consistently rated amongst India's best strategists. It is in that stint, that he incepted Ambit's Good & Clean investment philosophy which became very popular amongst institutional investors in India as well as globally. The same strategy now forms the core of the portfolio that Gaurav manages.

Before Ambit, Gaurav worked with Edelweiss Capital, a leading financial services firm in India, managing funds on their Proprietary Trading book delivering improved risk-adjusted returns.

Professional Qualification: He has a B.Tech. (Bachelor in Technology) from Indian Institute of Technology (IIT) Bombay, India's top ranked engineering college and a Post-graduate diploma in Management from Indian Institute of Management (IIM) Lucknow, India. Gaurav is also a CFA charter holder from CFA Institute, USA.

