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AMBIT 365

THE SINE CURVE: KABHI HAAN KABHI NAA

NEWSLETTER • APRIL '24

"..IF THE ECONOMY EVOLVES BROADLY AS EXPECTED, IT WILL LIKELY BE APPROPRIATE TO BEGIN DIALING BACK POLICY RESTRAINT AT SOME POINT THIS YEAR," J POWELL, 20 MARCH '24.

While the dovish pivot by the US Fed during the March FOMC meeting was welcomed by the markets, over the last year the hot and cold over the rates outlook sounds like commitment-phobic young adults portrayed in the 1994 Bollywood hit – 'Kabhi haan kabhi naa' (sometimes yes, sometimes no). The strong manufacturing ISM print on April 1 is already dampening the enthusiasm. The market's expectation of a June rate cut had shot up to 70% after the comment by the Fed, which has cooled off to near 50% again. This drama still has many layers. Hot and cold outlook on US rates will continue to drive volatility.

Near consensus view on election outcome: This month India goes into a 2-month-long Central Government elections. The absence of any debate on the outcome this time is conspicuous. While we do note that Indian markets have always rallied into the election results, due to a near consensus on the outcome of the 2024 elections, the move may not be so linear.

Corporate performance dispersion to widen in the March quarter: The March quarter results season will start soon. We have been writing about how Nifty sales growth has been weak (5% for 9MF24) and 25% earnings growth is driven by margin expansion. Consumption weakness, which was earlier a rural phenomenon, is now trickling up to urban as well. March two wheeler volume growth is tepid at 6.7% YoY. M&M's PV & Eicher's Royal Enfield volume growth have also been modest for Mar '24 at 2.5% YoY & 4.6% respectively. Rising competitive intensity from smaller players coupled with lower margin levers- may result in earnings disappointments. Investment/capex-driven companies should continue to show strong growth. In parallel, weak performance by Accenture (flat revenue YoY, slowest in 14 quarters) and guidance cut by 100-200 bps for FY24 lead indicates weak results from Indian IT services companies.

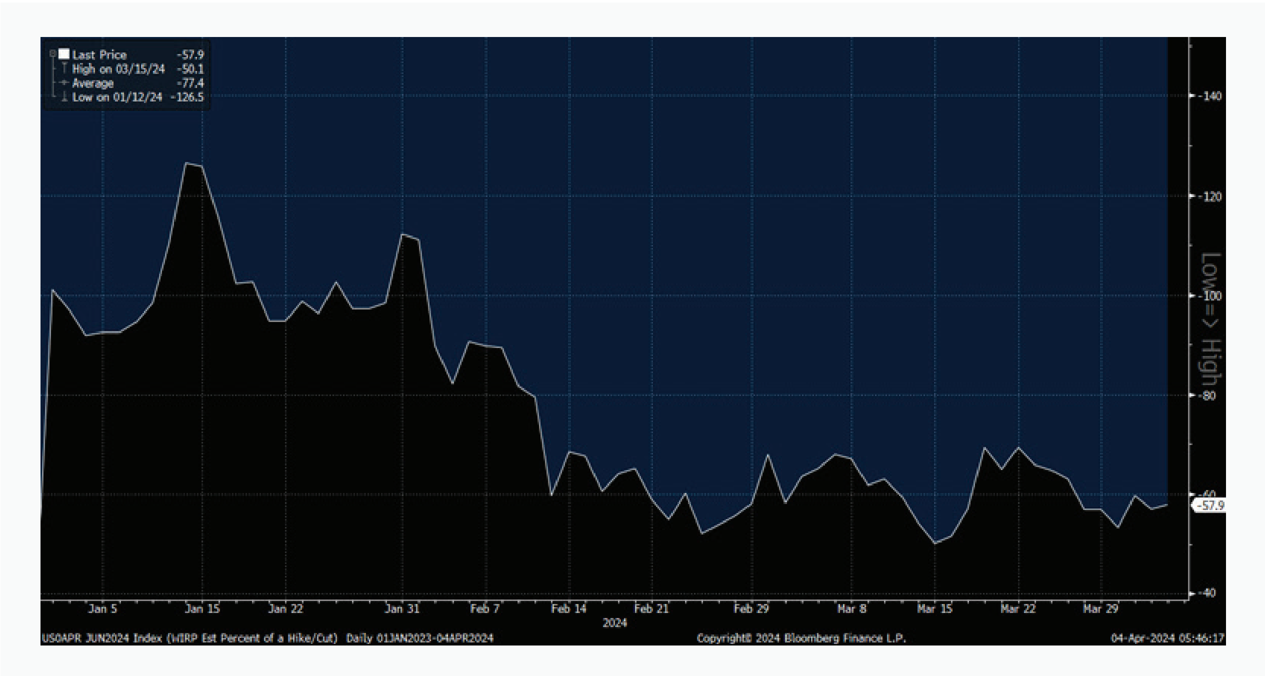
March volatility impacted some of our longs: March volatility was nasty. After trading up 1.5% during the start of the month, markets shed more than 3% into the Fed meeting and then recovered back to the peak, after the meeting. Some of our core long positions corrected 15-25% during this fall- and shorts saw a sharp rebound post the Fed. Yet, Ambit 365 did well to close the month with a gain, albeit small. **Ambit 365 returns for March were 0.13% and for the quarter 5% (gross returns, pre-fees, and taxes). Since its inception on 6 Oct 23, Ambit 365 has made gross returns of 9.1%.**

We continue to favour – capex plays in energy (BHEL, NTPC, ABB, PFC), Defense (BEL), and PSU banks (SBI). Most of these names corrected violently in March, but have since stabilised and resumed the upward journey. We are short on consumer plays (HUL, Asian Paints, Page, Jubilant), and IT services (LTI, Infosys, and Persistent).

Chart 1: Nifty: the March roller-coaster

Source: Bloomberg

Chart 2: Probability of June rate but by the Fed



Source: Bloomberg

THE QUARTER AND THE HALF GONE BY

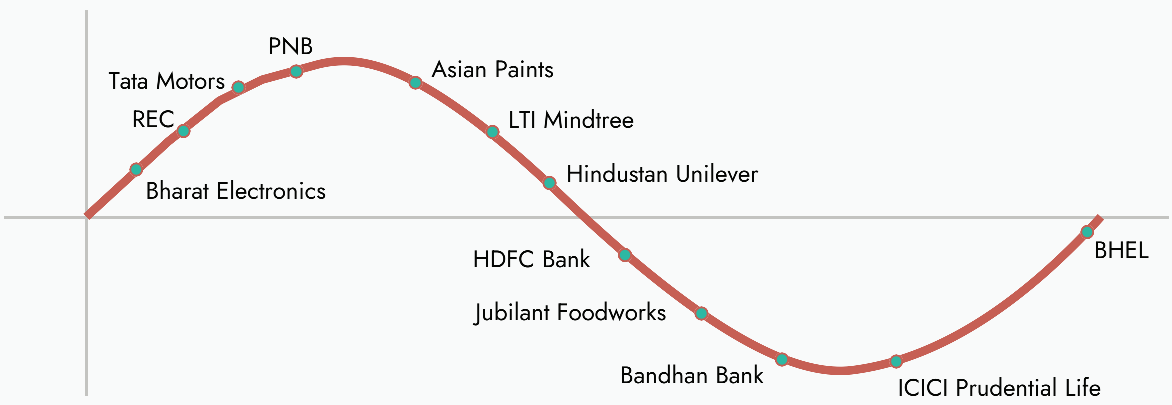
Ambit 365's long book performed consistently well during the 6 months ended March 24 (since the launch date of 6 Oct '23), while the stock book performance is a tale of 2 quarters. Attribution from the long book over this period is 9.2% (with maximum long exposure as per our framework is 50%), and the short book attribution is -0.9%. Given that during this period – the Nifty was up 13%, the short book performance is more than satisfactory, while our long book strongly beat the Nifty. While the markets have been up in the March quarter as well, it has been more non-linear, creating an ideal set-up for generating positive returns from both books. The 5% return for the March quarter is more evenly split. With long book contributing 60% of the gains and short book 40%.

Top contributors to the long and the short book (6 Oct '23 to 31 March '24)

Long book	bps
BHEL	112
REC Ltd	96
BPCL	85
Bharat Electronics	69
DLF	66

Short book	bps
Bandhan Bank	107
HUL	55
UPL	50
Jubilant Foodworks	45
ICICI Pru Life	22

THE SINE CURVE FRAMEWORK



BHEL: Order inflow at Rs600bn i.e. 2x of long-term average & 90GW Thermal capacity opportunity

Bharat Electronics: Book to Bill ratio at 3.9x with Earnings CAGR at +20%

REC: Power & Non-power credit demand opportunity at Rs50trn with AUM gg at 15-20%

Tata Motors: Automotive FCF in FY24 with JLR to turn net cash in FY25.

PNB: Recovery to Slippage ratio at +3x driving profitability.

Asian Paints: Value growth (4-5%) vs. Volume growth (10-12%) with weak earnings CAGR at 6% over FY24-26E

LTI Mind tree: Revenue growth deceleration from high mid-teens to mid-single digit.

HUL: Volume gg subdued (1-2%) with higher regional competitiveness, resulting into earnings cut.

HDFC Bank: Growth moderation from 20% to 14-15% with LDR & LCR at 110%; return matrix to moderate

Jubilant Foodworks: Revenue 4-yr CAGR for Q3 at 3% & LFL growth trend from positive to negative.

Bandhan Bank: Slippages > Recoveries & upgrades

WILL IT, WON'T IT?

The looming question is will we see a pre-election rally, as we have always seen? Mid and small performances seem to suggest that. NSE midcap 100 and NSE Smallcap 150 are on a tear again (up 4.6% & 6.4% respectively from the March lows), while the large caps are still in a struggle zone. FIIs have also seemed to join the party- increasing the SMID exposure while reducing the large. Last few months we have observed that in our book also; second-liners have done much better than the leaders in most sectors. For example - For Oct '23 to MArch '24 period PNB is +55%, while SBI is +25%. PNB has been one of the top performers for Ambit 365, and the stock went into correction mode last month. This is one name, we may build on again. Metals is one sector that has been very indecisive- but as we write, it seems that the sector is getting some lift from the US ISM data and signs of pick-up in the manufacturing sector in China. While our sine curve framework has always slotted NBFCs/ Bajaj Finance on the short side (valuation-growth mismatch), a softer interest rate outlook is near-term positive for the space. We booked our gains in Bajaj Finance short, and in one of the rare cases, have done a stop and reverse and have a tactical long here, which is doing well.

While we maintain our view that the markets will be non-linear this year- after a 3-month consolidation we may get a 5-10% rally into the election results. SMID space is certainly suggesting a risk-on environment. We have, for now, reduced our short book weight. We closed the month, with a net-long position in our stock book of 20.9% - which is at the higher end of the range we operate in. Of course, there are multiple moving parts, as discussed in this newsletter, and we will participate in the drama as it unfolds from the edge of our seats.

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