AMBIT
Acumen at work

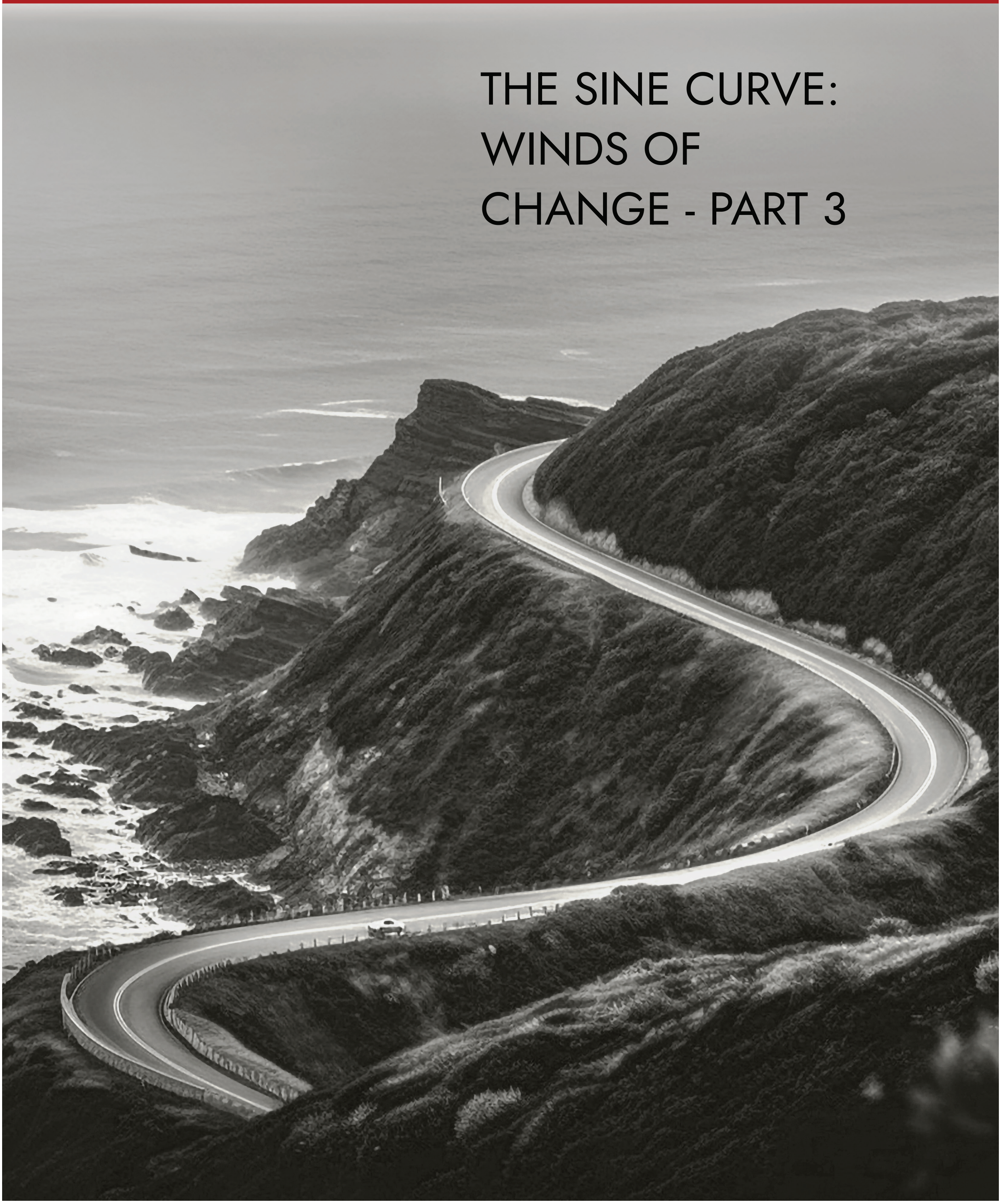
Asset Management

MONTHLY NEWSLETTER

Ambit 365

August 24

THE SINE CURVE: WINDS OF CHANGE - PART 3



BEING TOO FAR AHEAD OF YOUR TIME IS INDISTINGUISHABLE FROM BEING WRONG - HOWARD MARKS

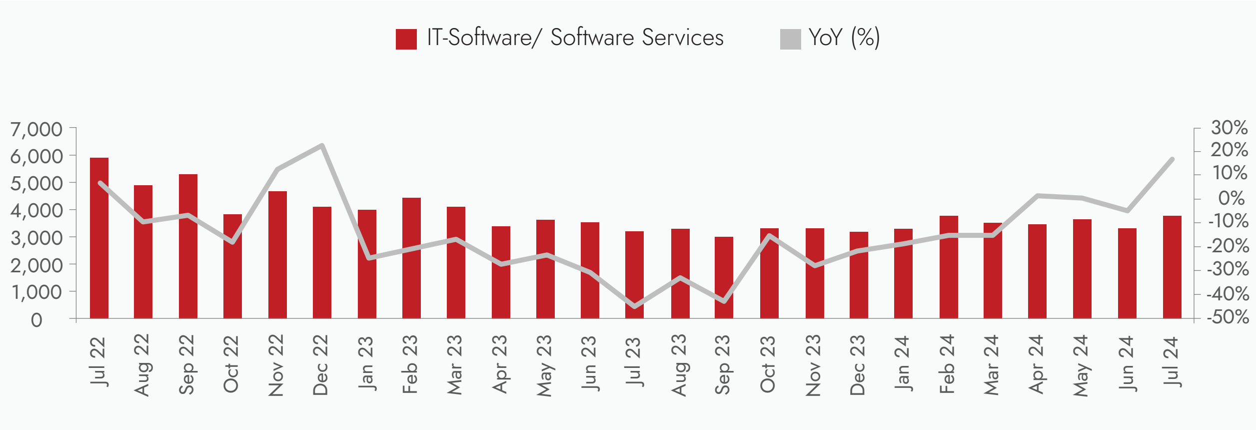
"…HE DIDN'T BELIEVE THERE WERE MANY, IF ANY, STRONG THREEQUELS OUT THERE, WITH THE EXCEPTION OF "ROCKY III" …" – LEGENDARY FILM DIRECTOR CHRISTOPHER NOLAN, COMMENTING ON THE MAKING OF 'THE DARK KNIGHT RISES' - THE THIRD SEQUEL OF THE BATMAN SERIES.

This is the last and final part of our Winds of Change trilogy. High volatility from January to June started the cycle rotation process, finding roots in June with the catalyst in the form of the Lok Sabha election results outcome. While our Sine Curve considers heightened volatility as a lead indicator of the market losing confidence in existing underlying trends and new trends emerging, we did not want to be early. Ambit 365 aligned the portfolio to Winds of Change in June 2024 – which worked well for us in July. The NAV was up 2.5% in July (pre-fees and taxes), and since inception return is 15.5% (inception date - 6 October 2023). The market was strong this month (Nifty up 3.9%). While most of our returns came from the long book, short book losses were minimal, which was heartening.

We wrote about the cycle upturn in two sectors: IT Services and Consumer. IT services contributed about half of the long-book performance. The up move in consumer companies has been slower, but we expect it to continue. We also wrote about consolidation in PSU banks and industrials. Our short book made positive returns from both, but a strong recovery in Nifty towards the end of the month neutralized these gains.

This newsletter will discuss the upturn in the IT and consumer sectors. Most IT majors beat analyst consensus estimates for the June quarter, and few guided towards better growth visibility, especially from the BFSI space. As we had expected, the Government did a balancing act during the budget presented on 23rd July 2024 and increased the revenue expenditure for FY25; the Government's revenue expenditure is now budgeted to grow at 6.4% for FY25, as compared to the interim budget (presented on 1st February 2024) plan of 3.2%. This additional spending is funded from the RBI dividend (which was 63% higher than the earlier estimates, hence providing the cushion) - and the Government did not deviate from the fiscal deficit target. This will help the rural consumption further - which has been showing signs of revival. Commentary by all consumer companies has been encouraging.

Chart 1: IT Services Hiring up-trend



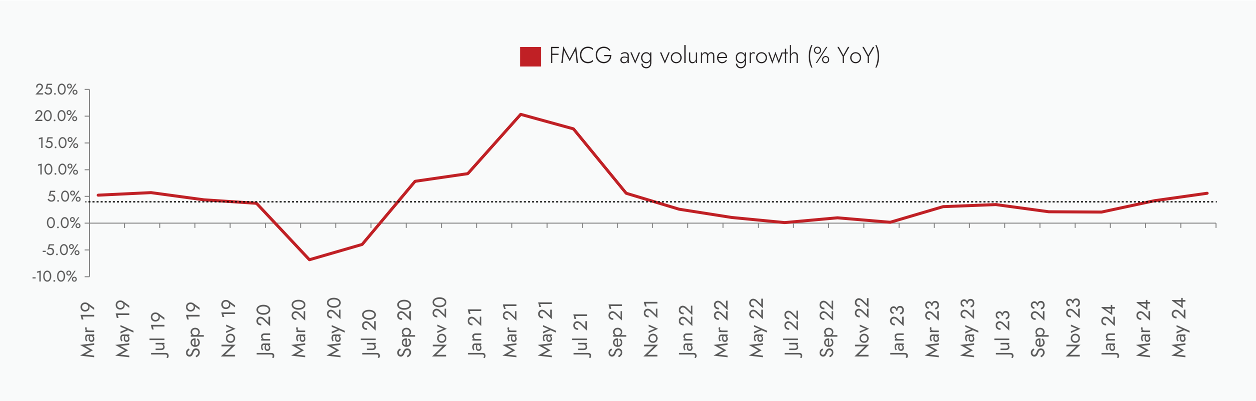
Source: Naukri Job speak Index

Table 1: IT Companies commentaries

Companies	Commentary in Q1FY25
TCS	Management mentioned the pace of discretionary projects cut was lower than the earlier quarters. Clients are neither going for large-scale capex initiatives nor ramping down on spending.
Infosys	In US, the BFSI recovery seen in cards and payments, mortgage and capital market segments. The BFSI pipeline is strong & spending is directed at GenAI for modernizing legacy platforms, fraud detection & credit process optimization.
HCL Tech	HCLT indicated weak demand from European Auto OEMs on the EV front. Management highlighted irrational competitive behavior in ADM & IMS contracts. Management indicated discretionary spending would be under pressure.
Wipro	Wipro anticipates better performance driven by strategic interventions & deal wins. Wipro called out early green shoots in BFSI in USA and hence increased the revenue growth guidance by 0.5% at both the ends.
Tech Mahindra	Management expressed FY25 expected to be better than FY24 led by BFSI vertical pick-up, improvement in communication vertical, margin uptick & improved deal win rate (led by increased investments in the sales.
LTI Mind tree	Management indicated some green shoots in key verticals like Financial Services and Hi-tech, as the pause on long-term transformational projects put through CY23 gets lifted.
Mphasis	Management foresee further acceleration in revenue growth & deal conversion as clients prioritize Gen AI adoption.

Source: Companies Earnings call & Financials

Chart 2: FMCG volume growth rising



Source: Average Volume growth of HUL, Dabur, Britannia, Colgate, Marico, Nestle & GCPL

Table 2: FMCG companies commentaries

Companies	Commentary in Q1FY25
HUL	In Q1FY25, rural grew faster than urban in volumes & pricing is likely to be low-single digit positive by end of FY25.
Dabur	Rural demand outpaced urban demand. Management is optimistic about further volume growth aided by distribution expansion, innovations and continued share gains in core categories
Britannia	Volume growth was in double-digit towards the end of Q1 and volume-value gap could converge in a quarter or so. BRIT anticipates inflation of 4-5%, which could necessitates some price hikes.
Colgate	A robust volume growth, led by continued rural demand pickup (outpaced rural for the second consecutive quarter). Growth was broad-based across toothpaste, toothbrush & Personal care.
Marico	Marico expects sectoral volume trends to sustain the improving trajectory, aided by stable retail inflation, a healthy progressing monsoon & the GoI's budgetary allocations for rural economy.
Nestle	The company highlighted lower volume growth of 1% was led by external challenges such lower consumption growth & concerns about continued food inflation.
GCPL	India business performed well with high-single digit organic volume & mid-single digit value growth. The growth is broad-based across both Home Care & Personal Care.

Source: Companies Earnings call & Financials

Table 3: Decline in PSU Banks & Industrials (peak to low, last 2 months)

BEL	-22%
ABB	-20%
HAL	-20%
BoB	-17%
Siemens	-17%
PNB	-11%
SBI	-10%

OUTLOOK

The world is very close to witnessing two significant monetary policy stance shifts. The Bank of Japan is ready to raise rates, while the USA's Federal Reserve is now close to start the rate-cut cycle. BOJ had announced plans to raise rates, but a sharp 12% appreciation in Yen and a 20% drop in the Topix forced them to backtrack (waiting for more stable conditions). US economic data has become weak, forcing the Fed closer to policy reversal. Global markets saw huge volatility during the first week of August- what appeared to be a 1987 Black Monday-type meltdown on Monday the 5th August 2024 seemed knee-jerk by Friday the 9th August 2024, as most markets clawed back the losses. Two questions will be the focus in the coming months: a) How large is the Yen carry trade globally and what kind of disruptions unwinding can cause as the yield gap between Japan and the USA narrows? b) Can the US economy avoid a hard landing, or will there be a deeper recession? We will follow these closely and be ready to shift our allocations.

Ambit 365 has been booking gains in IT services after a strong run (NSE IT index has rallied >30% from its low on 6 June to its high on 29 July). Fears of a US recession may result in some pullback here. After 10-20% correction from the peak, likely, the correction in PSU banks is over. We have started to build positions slowly. Through July, we also built longs in Pharma (Divi's Laboratories, Lupin, and Zydus Life science), which is doing well. We will cover pharma in detail in our following newsletter. For shorts, we have moved to more tactical positions rather than structural ones and will wait for a decisive turn in the overall market cycle to build structural short positions.

CLICK BELOW TO READ AND LISTEN TO DHIRAJ AGARWAL'S (MD, AMBIT INVESTMENT MANAGERS) INTERVIEW WITH CNBC-TV18.

Is it time to brace for a market correction?

For other queries, please contact:
Umang Shah - Phone: +91 22 6623 3281 | Email - AmbitIM@ambit.co
Registered Address: Ambit Investment Managers Private Limited
Ambit House, 449 Senapati Bapat Marg, Lower Parel, Mumbai - 400 013
Corporate Address: Ambit Investment Managers Private Limited
2103/2104, 21st Floor, One Lodha Place, Senapati Bapat Marg, Lower Parel, Mumbai - 400 013

RISK DISCLOSURE & DISCLAIMER

"AMBIT 365" is a scheme of "Ambit Investment Managers Trust" registered with SEBI as a Category-III Alternative Investment Fund. Ambit Investment Managers Private Limited (Ambit) is the Investment Manager to the scheme.

The purpose of this presentation is to provide general information of a product structure to prospective investors in a manner to assist them in understanding the product. This presentation / newsletter / report is strictly for information and illustrative purposes only and should not be considered to be an offer, or solicitation of an offer, to buy or sell any securities. This presentation / newsletter / report is prepared by Ambit strictly for the specified audience and is not intended for distribution to public and is not to be disseminated or circulated to any other party outside of the intended purpose. This presentation / newsletter / report may contain confidential or proprietary information and no part of this presentation / newsletter report may be reproduced in any form without its prior written consent to Ambit. All opinions, figures, charts/graphs, estimates and data included in this presentation / newsletter / report is subject to change without notice. This document is not for public distribution and if you receive a copy of this presentation newsletter / report and you are not the intended recipient, you should destroy this immediately. Any dissemination, copying or circulation of this communication in any form is strictly prohibited. This material should not be circulated in countries where restrictions exist on soliciting business from potential clients residing in such countries. Recipients of this material should inform themselves about and observe any such restrictions. Recipients shall be solely liable for any liability incurred by them in this regard and will indemnify Ambit for any liability it may incur in this respect.

Neither Ambit nor any of their respective affiliates or representatives make any express or implied representation or warranty as to the adequacy or accuracy of the statistical data or factual statement concerning India or its economy or make any representation as to the accuracy, completeness, reasonableness or sufficiency of any of the information contained in the presentation / newsletter / report herein, or in the case of projections, as to their attainability or the accuracy or completeness of the assumptions from which they are derived, and it is expected each prospective investor will pursue its own independent due diligence. In preparing this presentation / newsletter / report, Ambit has relied upon and assumed, without independent verification, the accuracy and completeness of information available from public sources. Accordingly, neither Ambit nor any of its affiliates, shareholders, directors, employees, agents or advisors shall be liable for any loss or damage (direct or indirect) suffered as a result of reliance upon any statements contained in, or any omission from this presentation / newsletter / report and any such liability is expressly disclaimed. Further, the information contained in this presentation / newsletter / report has not been verified by SEBI.

You are expected to take into consideration all the risk factors including financial conditions, risk-return profile, tax consequences, etc. You understand that the past performance or name of the portfolio or any similar product do not in any manner indicate surety of performance of such product or portfolio in future. You further understand that all such products are subject to various market risks, settlement risks, economical risks, political risks, business risks, and financial risks etc. and there is no assurance or guarantee that the objectives of any of the strategies of such product or portfolio will be achieved. You are expected to thoroughly go through the terms of the Private Placement Memorandum (PPM) / agreements and understand in detail the risk-return profile of any security or product of Ambit or any other service provider before making any investment. You should also take professional / legal /tax advice before making any decision of investing or disinvesting. The investment relating to any products of Ambit may not be suited to all categories of investors. Ambit or Ambit associates may have financial or other business interests that may adversely affect the objectivity of the views contained in this presentation / newsletter / report.

Ambit does not guarantee the future performance or any level of performance relating to any products of Ambit or any other third party service provider. Ambit shall not be liable for any losses that you may suffer on account of any investment or disinvestment decision based on the communication or information or recommendation received from Ambit on any product. Further Ambit shall not be liable for any loss which may have arisen by wrong or misleading instructions given by you whether orally or in writing. The name of the product does not in any manner indicate their prospects or return.

This presentation is qualified in its entirety by the Information Memorandum/PPM/Term Sheet/Contribution Agreement and other related documents, copies of which will be provided to prospective investors. All investors must read the detailed PPM including the Risk Factors and consult their tax advisors, before making any investment decision/contribution to AIF. Capitalized terms used herein shall have the meaning assigned to such terms in the PPM and other documents.

Strictly confidential for private circulation only, not for public distribution.

You may contact your Relationship Manager for any queries.