



CARNELIAN BESPOKE PORTFOLIO

SEPTEMBER 2023

Firm Overview



- A boutique investment management firm founded by industry veterans in April 2019 with an aspiration to create a best-in-class asset management platform known for its **values, expertise and best practices**
- Specialize in Indian equity investments for HNI's, family offices, institutions & partners' own capital, across different strategies and caps & sectors
- Founding team of three motivated, passionate professionals with complementary skill sets & strong track record of building leadership businesses in the capital market domain and enduring research platform
- Supported by an equally motivated and passionate team of 31 professionals
- **100% founder owned** - reinforcing trust and value for all stakeholders; skin in the game
- Technology, risk & compliance and process driven DNA
- We believe in investing in "**quality at a reasonable price**" and "**risk diversification through forensic analysis**"

Founder's Profiles



VIKAS KHEMANI
(CA, CFA, CS)

- Chartered Accountant & CFA Charter holder, having ~ 26 years of capital markets experience, most recently as the CEO of Edelweiss Securities Ltd, where he spent 17 years incubating & building several businesses to leadership including Institutional Equities business and Equity Research
- Has a strong business acumen & deep understanding of Capital markets; enjoys strong reputation with Corporate India
- Associated with several industry bodies and committees:
 - Member of the CII National Council on Corporate Governance & FICCI Capital Markets Committee
 - Serving as an invited member of Executive Council of Bombay Management Association
 - Member of Young Presidents Organization (YPO) a global forum for entrepreneurs and CEOs



MANOJ BAHETY
(CA, CFA)

- ~ 26 years of financial services experience, most recently as the Dy. Head - Institutional Equity research, Head - forensic, thematic & mid cap research at Edelweiss Securities
- Known for his non-consensus research. Pioneered differentiated forensic research, popularly known as "Analysis Beyond Consensus" (ABC research)
- ABC research has helped investors across the globe to take informed investment decisions based on true numbers instead of reported numbers, thus "avoiding pitfalls"- one of Carnelian's virtues
- Has represented several committees of the CFA Institute including Chairperson of India advocacy committee and member of the US based global CDPC committee



SWATI KHEMANI
(CA)

- ~21 years of experience in the financial service industry including 7 years at Edelweiss Financial Services across Investment Banking & Institutional Equities businesses including Equity Research & Institutional Sales
- Actively covered the financial sponsor group (FSG) and enjoys a good relationship with the investor & corporate community
- Over the last couple of years, she has found interest in angel investing and been investing & mentoring in the start-up world

Board of Advisors



PATRICIA PEREZ-
COUTTS
(CFA)

- Patricia Perez-Coutts, CFA has a distinguished & extensive background with over 30 years of experience managing emerging market equities. She joined Westwood Holdings Group, Inc. in 2012 as a Senior Vice President & Portfolio Manager and led a team of analysts focused on managing emerging market equity strategies.
- Prior to that she worked at AGF Investments Management for over 10 years, also managing emerging market equity strategies
- She has won numerous industry accolades throughout her career, including six consecutive Morningstar Canadian Investment Awards as Senior Vice President and Portfolio Manager of the AGF Emerging Markets Fund
- Patricia is also an Impact investor, a philanthropist and is the Chair of the Board of Cuso International, a Canadian development organization and is also Chair of Viridis Terra International
- She has travelled extensively the world over the years and speaks four languages fluently



VIVEK CHHACHHI
(MBA)

- Vivek Chhachhi is a partner of CX Advisors LLP, and currently serves as the Chief Investment Officer also leading investments in healthcare and technology
- Vivek is serving/has served on the boards of several portfolio companies including Thyrocare, Nueclear, Thyrocare Gulf, Healthium Medtech, Natco, Veeda, Sekhmet Pharma and Anjan Drugs
- Prior to joining the Investment Advisor in 2010, he was a director with CVCI, where he had about 15 years of experience identifying, managing and exiting a large number of portfolio companies across a wide spectrum of industries
- Vivek holds a Master's degree in Management Studies from the Jamnalal Bajaj Institute of Management Studies, University of Mumbai and a B.Sc. degree in Computer Science from St. Stephen's College, Delhi University

Carnelian Competitive Advantage



Unique Approach, Unique Insights

Independent, entrepreneurial boutique with a reputed board of advisors
Long-term approach with high active share (differentiated portfolio)
Concentrated **QARP** portfolio - **Quality companies (Business & Management) at a Reasonable Price**
Offers a unique blend of companies with accelerated and sustainable growth
Proprietary forensic analysis
Known for identifying larger themes, trends /stocks early



PEOPLE

- Founders are Industry veterans with strong complementary skill sets
- Deep understanding of Capital markets & businesses
- Strong relations with corporate India/industry
- Team of 31 passionate/driven professionals
- 100% founder owned - skin in the game



PROCESS

- Unique forensic framework - **"CLEAR"**
- Focus on quality
- Screen for red flags
- Disciplined investment process
- Differentiated approach to risk management
- Processes driven by core values...

Bespoke Strategy (PMS)



- Customized long only portfolio for HNI's/Institutions tailored to suit client specific risk reward profile
 - Min. investment amount: INR 20cr
 - 50% of commitment amount to be paid upfront; balance commitment to be paid in 3 months
 - Min. tenure: 3 years
- Portfolio of 5 - 10 stocks
- Illustration of customized portfolios -
 - High Conviction Magic portfolio (accelerated growth),
 - High Conviction Thematic portfolio (theme/sector portfolio),
 - High Conviction Concentrated portfolio (5 / 10 stocks portfolio),
 - Shariah Compliant portfolio
- Quarterly portfolio review
- Fully aligned performance-based fee structure



Illustration of portfolios



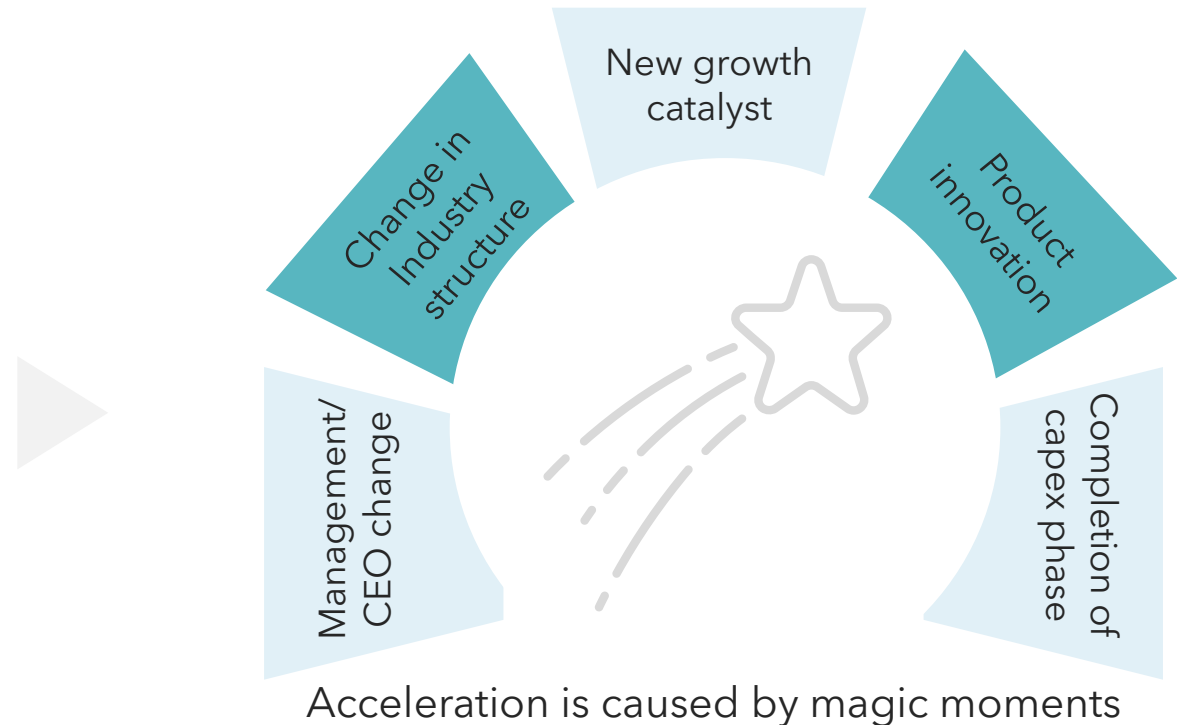
Illustration 1 - High Conviction Magic portfolio

Aims at capturing magic moments in the lifecycle of a company resulting in *Growth & Valuation re-rating*

Invest in businesses with significant acceleration in growth profile vis-à-vis historic growth trajectory with an objective to capture re-rating driven by the following magic moments which is yet to be recognized by the markets

Historically,

- Good business + **average management/CEO** e.g., ICICI Bank, Cipla, Max Life
- Good management + **industry facing structural headwinds** e.g., Mindtree, LTI, Aarti Industries
- Good management + **good business lacking growth** e.g., Praj
- Good management + **low returns due to long gestation investment** e.g., Biocon



Some examples of magic stocks



Sr. No.	Company	Event	PAT at the time bought (in crs.)	TTM PAT (in crs.)	Valuation at the time bought (times)	Current valuation (times)	Months held	Scrip Return (Times)
1	Praj Industries	Structural change in industry & change in leadership	46	184	27	37	26	5.3x
2	Tube Investment	Change in leadership, focus on growth/adding new businesses, improving efficiencies/margins.	178	1094	64	62	23	4.9x
3	L&T Technology Services	Industry structural shift.	736	827	20	65	16	3.8x
4	KPR Mills	China+1 & labour cost advantage	348	862	15	21	26	3.5x
5	Timken	China+1 & outsourcing to India. Strong parentage, technology leadership & lowest cost structure	199	407	45	65	25	2.9x
6	ICICI Bank	Change in CEO - Focus on risk calibrated growth	170	270	2.3	3.5	44	2.5x
7	Ratnamani Metals	Capex coming on stream	275	386	20	35	26	2.3x

Illustration 2 - High Conviction Thematic Portfolio



- Theme based portfolios - identifying sectors /themes that provide significant wealth creation opportunities through structural growth stories
- Concentrated portfolio of 5-10 stocks

Manufacturing - a structural Shift

- Govt push since last 5 yrs. + PLI incentives + China+1 shift has resulted in the revival of the overall capex in the country.
- Order-backlog across the core cap goods companies (ex L&T) are up 35% YoY -indicating a very serious manufacturing set-up getting created in the country. Many capex led plays available at lucrative valuations which can generated 3x-5x returns
- Curated basket of 5-7 manufacturing companies with a time horizon of 3-5 years

PSU's - value unlock theme

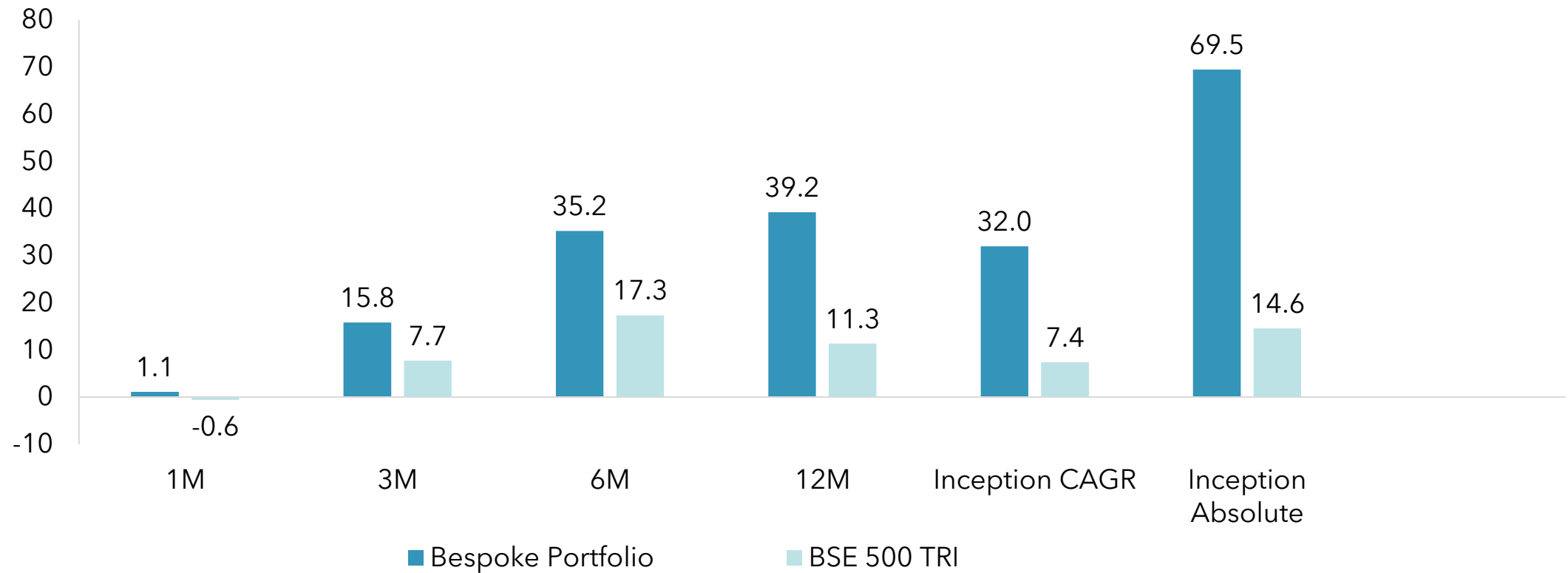
- Select PSUs can generate good returns driven by accelerated earning growth momentum due to business tailwinds, potential ownership change and P/E rerating.
- Ownership of strategic assets provides very strong business moat
- Divestment likely to result in significant value unlocking
- Available at lucrative valuations and dividend yield in the range 2-7%
- Curated basket of 5-7 PSU stocks with a time horizon of 2-3 years

Some examples of Thematic/PSUs stocks



Sr. No.	Script Name	Rationale
1	Apar Industries	Strong order booking in the conductor segment & increasing share of premiumization. Tapping exports opportunity -largely from US and Europe on the renewable energy side - driven by China +1 sentiment.
2	Kirloskar Pneumatic	Domestic market leader in gas compression segment; sector tailwind with a huge export opportunity because of China+1
3	Ratnamani Metals	Huge capex coming on stream with strong balance sheet position
4	Praj Industries	Structural change in industry and change in leadership
5	State Bank of India	Strong Franchise with power house of subsidiaries ready to capture impending credit growth. NPA cycle behind.
6	Bank of Baroda	Strong franchise with balance sheet in place to take advantage of rising interest rates and credit growth. NPA cycle behind.
7	Container Corporation	Monopolistic business and play on privatisation
8	Power Grid Corporation	Beneficiary of reforms in power sector coupled with investments in new age businesses like EV charging, battery energy storage etc.

Performance as on 31st August 2023



Note - Inception Date - 7th October 2021. Above returns are at strategy level, & net of all expenses. Above 1 year returns are annualized.

Portfolio Returns of some clients as on 31st August 2023



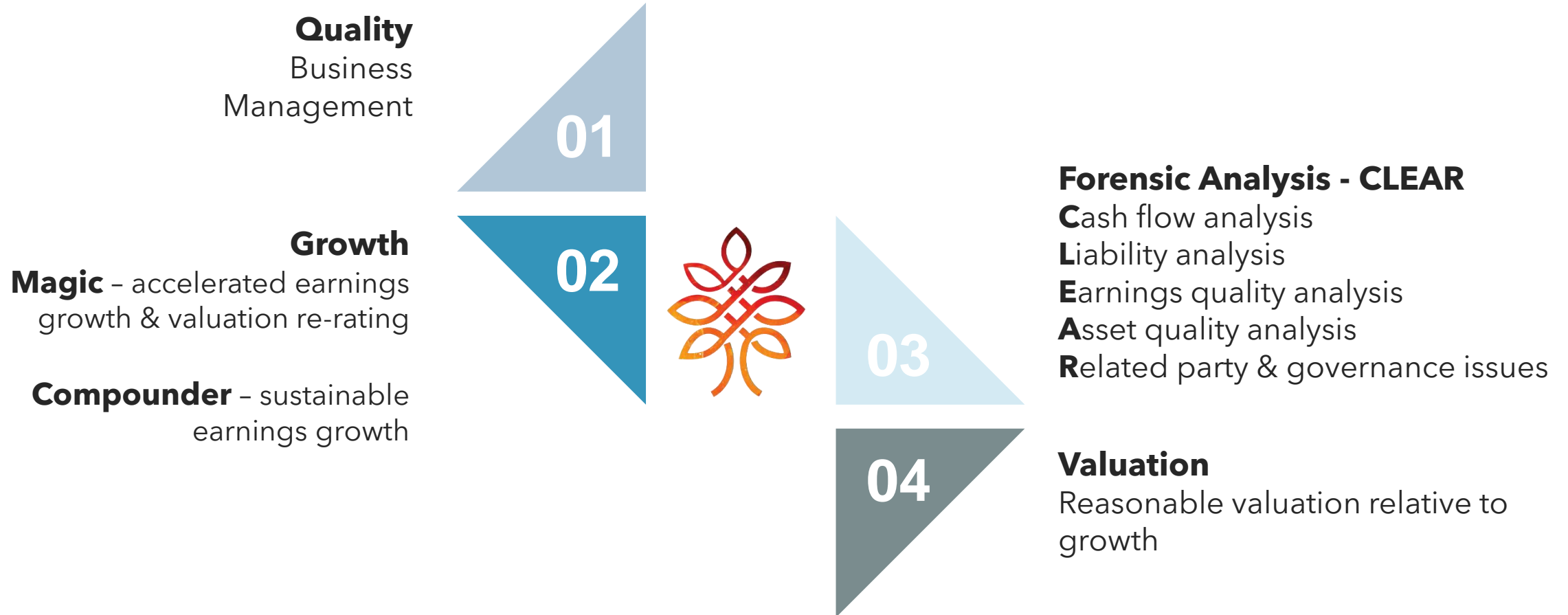
Account	Inception Date	Market Cap	Sector	No. of stock	Inception (%)
Client 1	07-07-2022	Multi Cap	Sector Agnostic	8 - 10	59.7
Benchmark					22.0
Client 2	05-04-2023	Multi Cap	Sector Agnostic	8 - 10	56.1
Benchmark					16.6
Client 3	24-03-2023	Multi Cap	Sector Agnostic	Flexible	49.1
Benchmark					18.2
Client 4	17-03-2022	Mid Cap	Sector Agnostic	Flexible	48.6
Benchmark					12.9
Client 5	07-10-2021	Multi Cap	Sector Agnostic	8 - 10	32.0
Benchmark					7.4

Note: Above 1 year returns are in CAGR



Carnelian Investment Framework

Investment Framework



Quality at a Reasonable Price



QUALITY

Margin of safety not only lies in the price, but also in the quality of business and management

Strong focus on sustainability & governance

Quality Business

- Profitable
- Free cash flow generation
- Incremental return on capital
- Opportunity & market size
- Sustainable moat
- Environment & socially conscious

Quality Management

- Integrity
- Passionate & driven
- Efficient capital allocator
- Skin in the game
- Strong risk management culture
- Strong governance



GROWTH

Investing for acceleration in growth yet to be factored in by market, leads to superior returns.

Magic - Accelerated Growth

Aims at capturing earnings growth & valuation re-rating

- Management/CEO change
- Industry structure change
- New growth catalyst
- Product innovation
- Completion of capex phase

Compounder - Sustainable Growth

Aims at capturing sustainable earnings growth

- Large & growing opportunity size
- Sustainable moat
- Robust free cash flow generation

Investment Framework - Forensic Analysis - "CLEAR"



FORENSIC ANALYSIS - CLEAR

No matter what your investing style is, forensic analysis can help avoid some of the pitfalls inherent in human misjudgment.

Cash flow analysis

- Earnings conversion; reported vs sustainable cash flows

Liability analysis

- True debt vs reported debt, contingent liability & likely impact on future earnings; payables vs acceptances

Earnings quality analysis

- True economic profit vs reported profit, discretionary vs non-discretionary profit, expense capitalization policy

Asset quality analysis

- Core vs non-core assets; intangible creation policy

Related party & governance issues

- Related party transaction, complex structures (JVs/subs), off BS arrangement - connecting the dots



VALUATION

“Value of an asset cannot, over the long term, grow faster than its earnings”

Multi-Faceted Valuation Approach

- P/E multiple
- P/B
- EV/EBITDA
- DCF

Identify companies with reasonable valuations in relation to growth prospects

Pay a reasonable price, avoid overvalued companies



RISK

We believe knowing the source of risk is the key to risk management.

We classify risk into 3 types based on the source of risk.

Type A - Capital Loss risk

- Inferior quality of management
- Disruption prone businesses

Type B - Volatility risk

- Temporary market dislocation
- Macro factors
- Geo-political/political issues
- Liquidity

Type C - Opportunity cost risk

- Lack of knowledge
- Human biases

Red Flags we avoid



RED FLAGS

"Invert, always invert"

- Carl Jacobi

- Aggressive accounting practices
- High financial leverage
- Low tax incidence
- Management having
 - no skin in the game / misaligned objective
 - a poor governance track record
 - hurry to create value



Awards & Testimonials

Awards and recognition



 **PMS AIF WORLD**
High Performance Investing

#2
In Top 30 PMSs Based on
the QRC Framework
Quality, Risk And
Consistency Attributes

Winner
Best PMS on Absolute Returns
And Best Theme Identification
(Post Pandemic Period)
Carnelian Asset Advisors
Shift Strategy
2021

What our investors say..



Farah Malik Bhanji, MD - Metro Brands

Vikas, Swati and the Carnelian team have done an excellent job managing our money. They have been one of the top performing funds in our portfolio for the year. Having been invested with them since inception, we have seen their strategy play out through the Covid period with great success. Carnelian's clarity and fidelity to their thesis and process inspires a lot of confidence and the results speak for themselves. I wish them all the best for their future endeavours and look forward to being a part of their journey.



Gopal Srinivasan, Chairman & Managing Director - TVS Capital Funds

Find a great manager like Vikas. I have invested in his funds and I think give people like him money because this requires a very strong navigation, break, clutch, acceleration and steering system to manage so that would be my advise to most people that there is alpha in the market and alpha can be best sought out in the hands of professionals like Vikas.



Abhishek Dalmia, Chairman - Renaissance Group

In investing, big money is made by being a contrarian. Humans derive comfort from being part of a crowd (group think). It is rare to find someone who has the conviction to stand apart from the crowd and is willing to bet money on his conviction. Vikas is that sort of guy. He bet on revival of Indian manufacturing at the peak of the first covid lockdown when he launched the Shift Strategy. The performance of the fund demonstrates that he got it right.



Chaitanya Desai, MD - Apar Industries

Carnelian tries to achieve an absolute long term consistent return with substantial alpha keeping in mind the risk reward ratio. They are pretty much modern in their investments but also traditional when it comes to capital protection utilising their expertise in Forensic Accounts.

Their culture is such that fiduciary duty to the clients is at the heart of all their actions and processes. We are definitely IMPRESS'ed by their approach to their investments.

What our investors say..



Apurva Parekh, Executive Director - Pidilite Industries

I am impressed by the fund's vision, investment philosophy, diligence process and long term approach. I have known Vikas Khemani for many years. He has deep domain knowledge and sound understanding of Indian businesses and economy. This has allowed Vikas to consistently identify superior businesses and trends ahead of the market.



Russell Mehta, MD - Rosy Blue India

Have known Vikas for many years now and I love/admire his enthusiasm, passion and aggression to invest which is very well and equally balanced with deep and meaningful research, level headedness and receptiveness. He has canny ability to foresee trends!



Yogesh Agrawal, MD - Ajanta Pharma

I was confident of Vikas' s ground up experience in investing which earned him sharp acumen in spotting the businesses that have potential to provide above index returns. Today, I can confidently say that Carnelian has lived up to the promise and delivered me sound and much above index returns so far. I am fully assured about the long term performance of Carnelian fund and would strongly recommend them to others. I wish team Carnelian all the best and healthy growth in future.



Yogesh Mahansaria, MD - Mahansaria Tyres India

Vikas and his team have a great passion for investing, clarity of thinking, and deep research capabilities - all of this gave us lot of confidence to be an early investor in Carnelian Funds. Their performance over time has validated our confidence, leading us to enhance our investments with them over time; one of the best performing funds in our portfolio.



Sohil Chand, Senior Advisor, NVP India

I have known Vikas for a while & been an investor since early days. It has been the best performing PMS in my portfolio over 20 PMSes!

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