



CARNELIAN YNG STRATEGY

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 , 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...

YnG Strategy (PMS)



- A long only, multi-cap, well diversified portfolio designed to capture **yield n growth** across industrials, financials & services
- Blend of public & private sector companies
- Portfolio features
 - 5% - 7% dividend yield
 - 12 - 13% expected 3-yr earnings CAGR
 - 10 - 11x FY24 forward PE
 - 10 - 11% free cash flow (FCF) yield
- Portfolio of 10-15 ; benchmarked against BSE 500

A curated portfolio which offers ...



Reasonable dividend yield



Margin of safety on valuation



Moderate earnings growth
(favorable business cycle)



Potential re-rating catalysts



Hedge against inflation

YnG portfolio attributes



A well diversified portfolio across industrials, financials & services

Blend of public & private sector companies (40-50% each) providing

YIELD N GROWTH

5 - 7% dividend yield

12 - 13% expected 3-yr
revenue CAGR

12 - 13% expected 3-yr
earnings CAGR



Potential catalysts - divestment
/demerger/favourable cycle

10 - 11x FY24 forward PE

10 - 11% free cash flow (FCF) yield

YnG portfolio v/s Nifty50



YnG portfolio

Nifty50

5 - 7 %

3-yr average dividend yield

1 %

12 - 13 %

3-yr forecasted earnings growth

18 %

10 - 11_x

FY24 forward PE

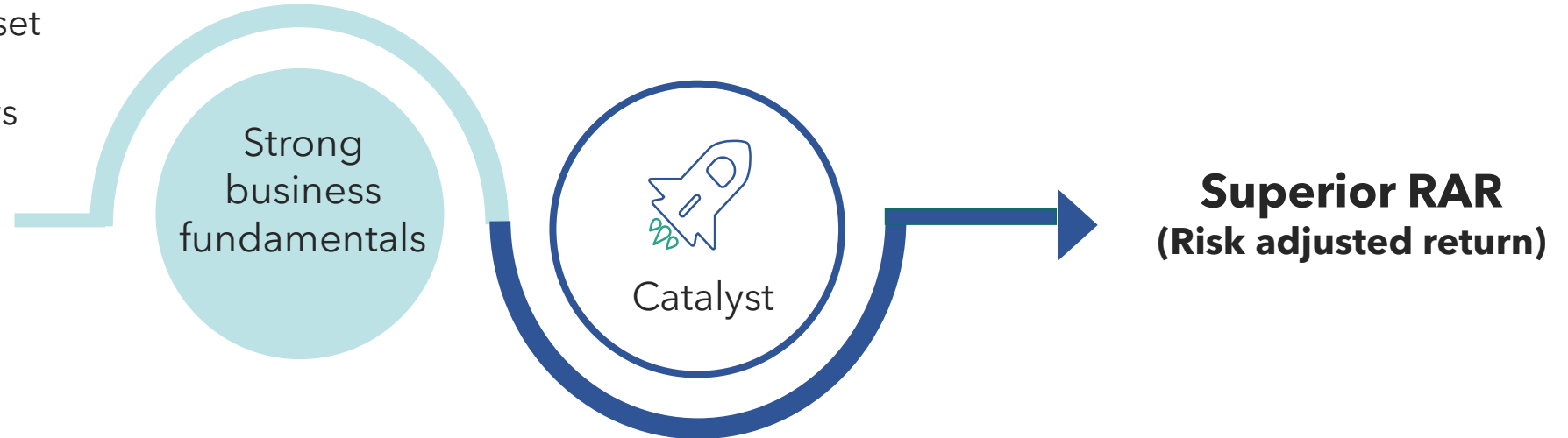
18 - 19_x

Possibility of re-rating on account of earnings growth/divestments and demerger

Recipe for returns in PSU...

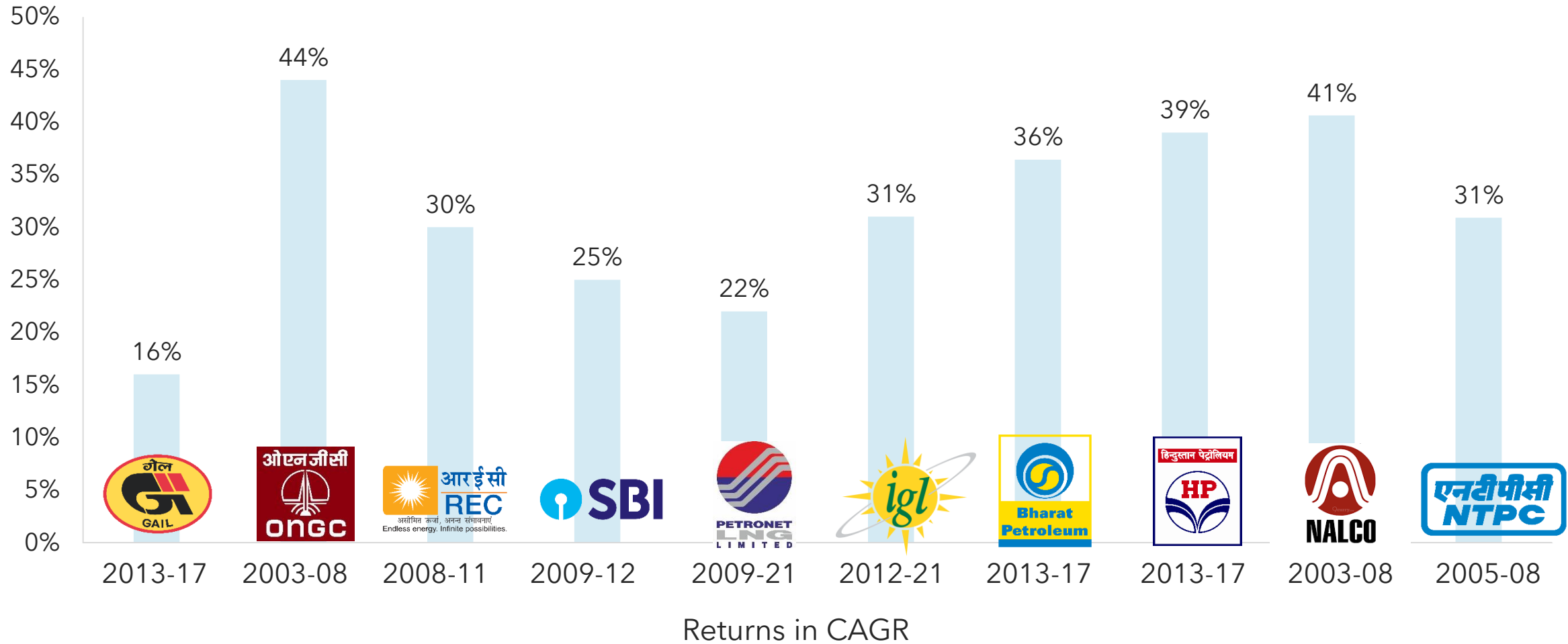


- Strategic asset ownership
- Irreplaceable asset
- Strong cash flows
- Entry barrier

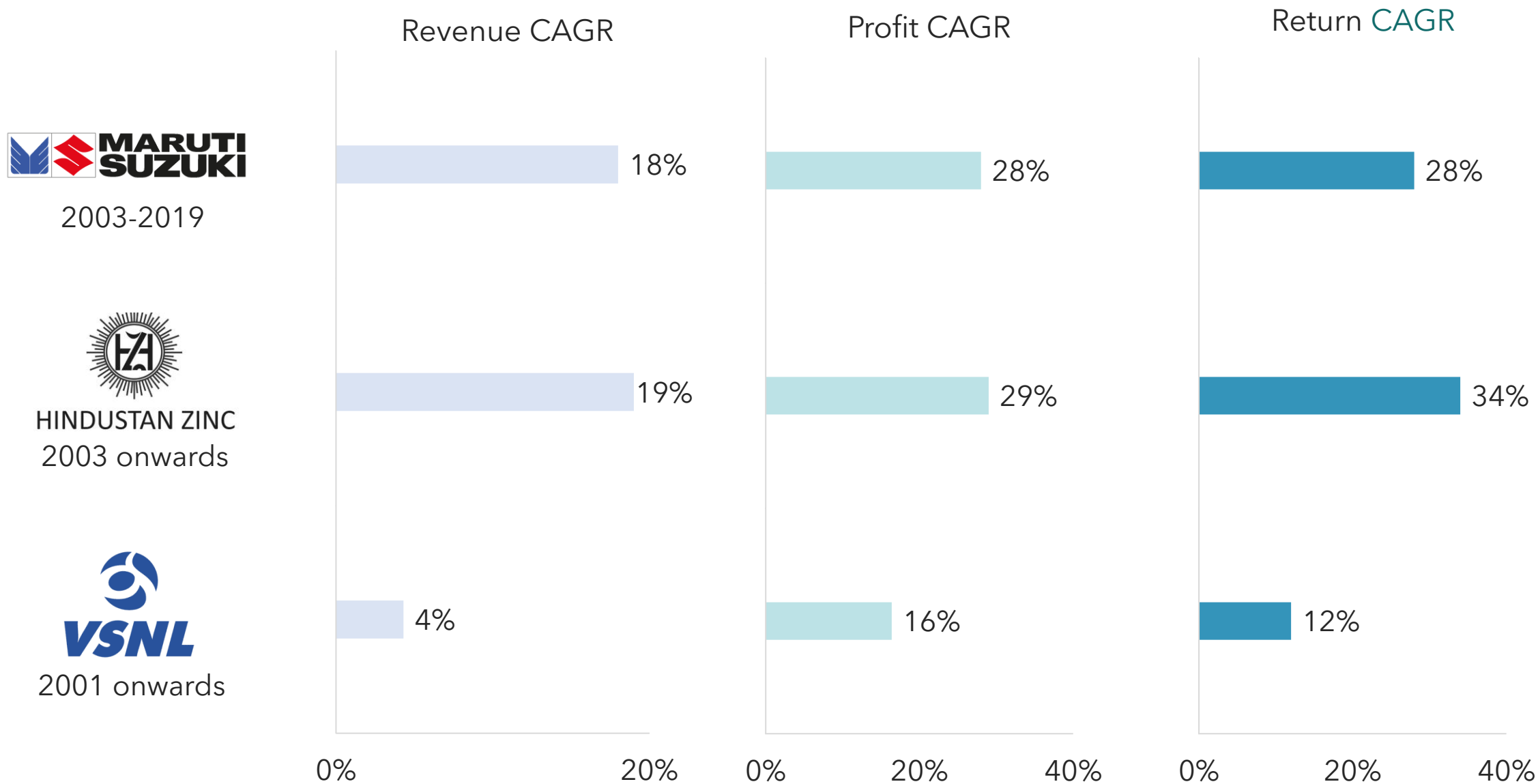


- Change in ownership / Privatization
- Favourable cycle
- Sectoral reforms

PSUs have delivered good returns in business upcycles



Divestment, a catalyst for wealth creation



Carnelian YnG Strategy



Strategy Details

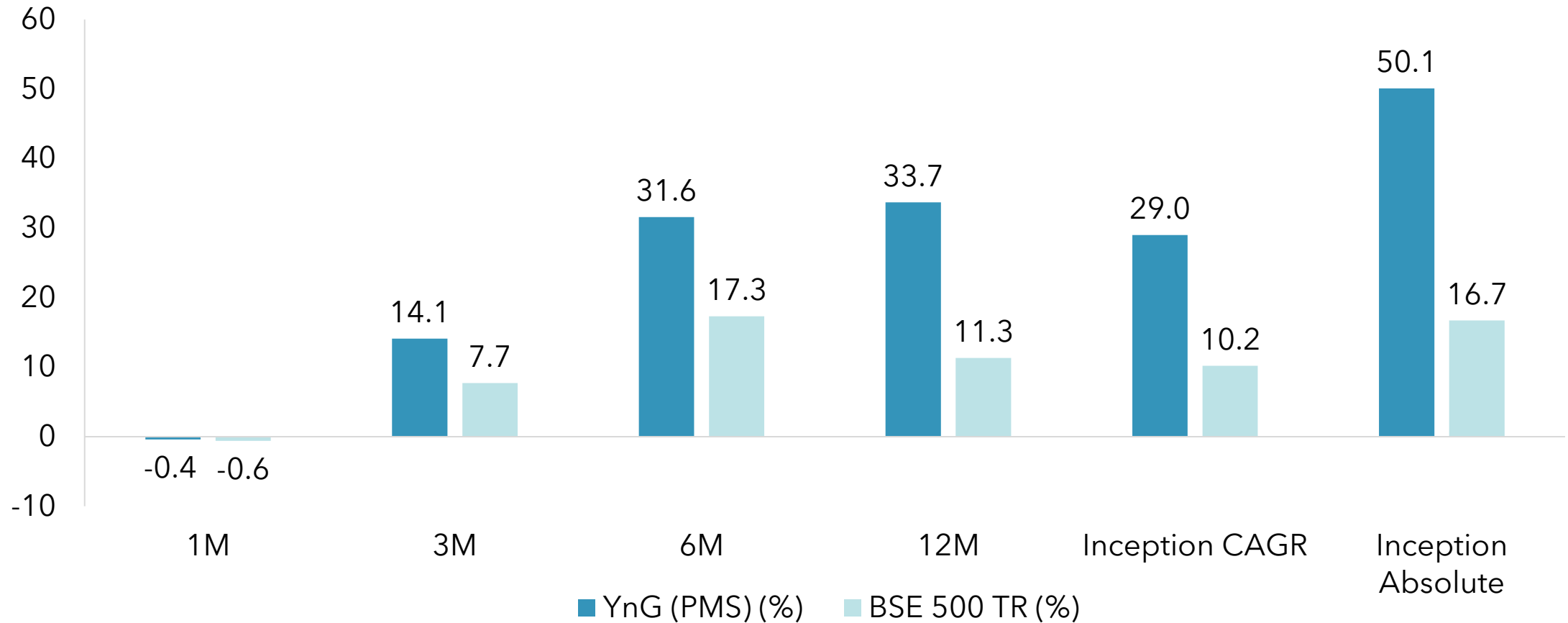
Strategy Name	Carnelian <i>YnG</i> Strategy
Investment Manager	Carnelian Asset Advisors Pvt
Benchmark	"S&P BSE India 10 Year Sovereign Bond" + 200 Bps
Custody	Edelweiss Custodial Services
Estimated duration	~3 years
Min. investment amount	INR 1 Crores
Exit load	1% at anytime before 3 years
Stock universe	12 - 15 stocks

- Fundamental growth driven investing; bottom-up stock picking
- Absolute return-oriented approach
- Blend of public & private sector companies (40-50% each)
- Apply stringent Carnelian filters & forensic checks (CLEAR framework)



PORTFOLIO PERFORMANCE & ATTRIBUTES

Performance as on 31st August 2023

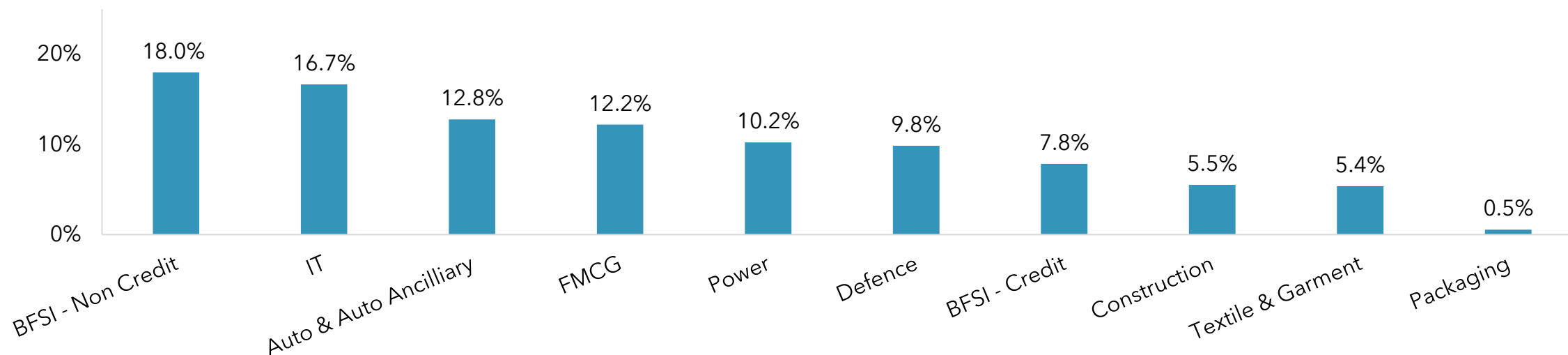


Note - Inception Date - 27th January 2022. Benchmark - S&P BSE 500 TRI

Holdings as on 31st August 2023



Sector Allocation



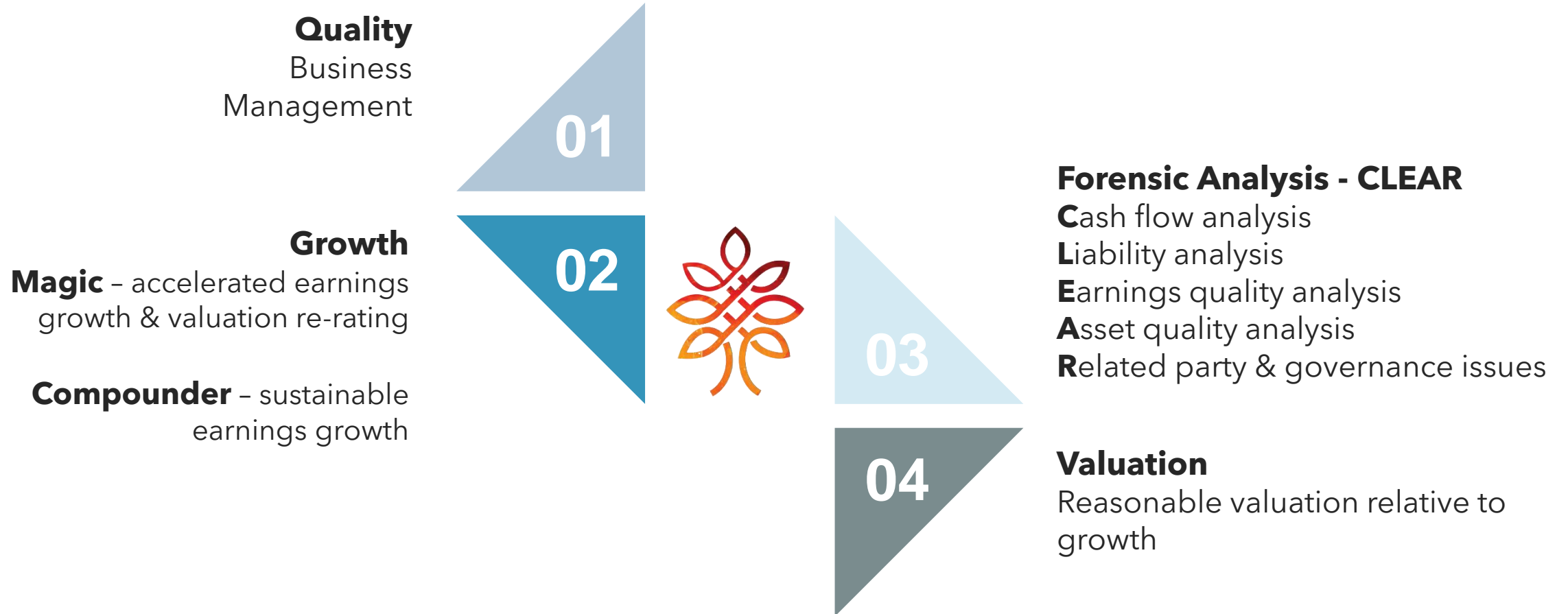
Major Portfolio Holdings

Security	Sector	%	Security	Sector	%
ITC	FMCG	12.2%	Oracle Financial Services Software	IT	6.3%
Hindustan Aeronautics	Defence	9.8%	CESC	Power	6.1%
Bajaj Auto	Auto & Auto Ancillary	8.2%	Monte Carlo Fashions	Textile & Garment	5.4%
Power Finance Corporation	BFSI - Credit	7.8%	ICICI Securities	BFSI - Non Credit	5.3%
HCL Technologies	IT	7.0%	360 One WAM	BFSI - Non Credit	4.6%



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.

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

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.

Capital Loss risk

- Inferior quality of management
- Disruption prone businesses

Volatility risk

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

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



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 a 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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