



CARNELIAN BESPOKE STRATEGY

SEPTEMBER 2022

Carnelian – who are we?

- A boutique investment management firm founded by industry veterans in April 2019 with an aspiration to create a global scale asset management platform known for its “values & expertise”
- Specialize in Indian equity investments for HNI’s, family offices, institutions & partners’ own capital, across two strategies, across caps & sectors
- Founding team of four motivated, passionate professionals with complimentary skill set & 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 20 professionals
- Technology, risk & compliance and process driven DNA
- **We believe investing success is about generating “risk adjusted returns” “consistently” over “a long period of time”**



Founder's profile

(1)



Vikas Khemani

- Chartered Accountant & CFA Charter holder, having ~ 25 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
- He has a strong business acumen & deep understanding of Capital markets; enjoys strong reputation with Corporate India.
- He is Associated with several industry bodies and committees:
 - Served as a 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
- He was awarded the Young Professional Achievers Award for the service sector by the Institute of Chartered Accountants of India (ICAI) in 2014



Manoj Bahety

- Chartered Accountant & CFA Charter holder, having ~ 22 years of rich & diverse financial services experience with the marquee institutions - Edelweiss Securities, Morgan Stanley, RIL, HPCL
- Manoj has spent 11 years at Edelweiss Securities as Dy. Head - Institutional equity research, Head - forensic, thematic & mid cap research
- He is known in the industry 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
- Represented various committees of The CFA Institute, including Chairperson of India Advocacy Committee, member of US based global CDPC committee



Founder's profile

(2)



Sachin Jain

- Chartered Accountant, having ~ 18 years of diverse experience in the financial services domain having worked at reputed institutions like ICICI Bank, Edelweiss Securities and H&R Johnson India
- Sachin, Last worked at Edelweiss for over 11 years; last as the COO of the Capital Markets business overseeing Risk, Technology, HR, Strategy and Operations. A key member of the Management Committee, he founded one of the industry's best Prime Brokerage Business at Edelweiss, which under his able leadership, achieved significant scale and profitability. He was also a part of the Senior Leadership Group at Edelweiss, besides serving as a director in several group entities
- He believes in long term value investing and enjoys understanding different businesses
- He is an advisory member of "Leap for Word", an NGO aiming to resolve English literacy problem in rural Maharashtra
- An avid poker player, Sachin is fascinated by behavioral psychology and studies the impact of EQ on overall life in general and markets in particular



Swati Khemani

- Chartered Accountant, having ~12 years of experience in financial service industry including 7 years at Edelweiss Financial Services across Investment Banking and Institutional Equities businesses including equity research and institutional sales
- Swati has actively covered the Financial Sponsors and enjoys a good relationship with the investor & corporate community
- While on a break to look after family, she started her entrepreneurial journey with NewEdge Consulting (HR consultancy focused on financial services) and managing the family office
- Over the last couple of years, she has found interest in angel investing and been investing & mentoring in the start-up world
- Her strength lies in understanding businesses/investing and relationship building



Board of Advisors



Patricia Perez-Coutts

- Patricia Perez-Coutts, CFA has a distinguished and 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

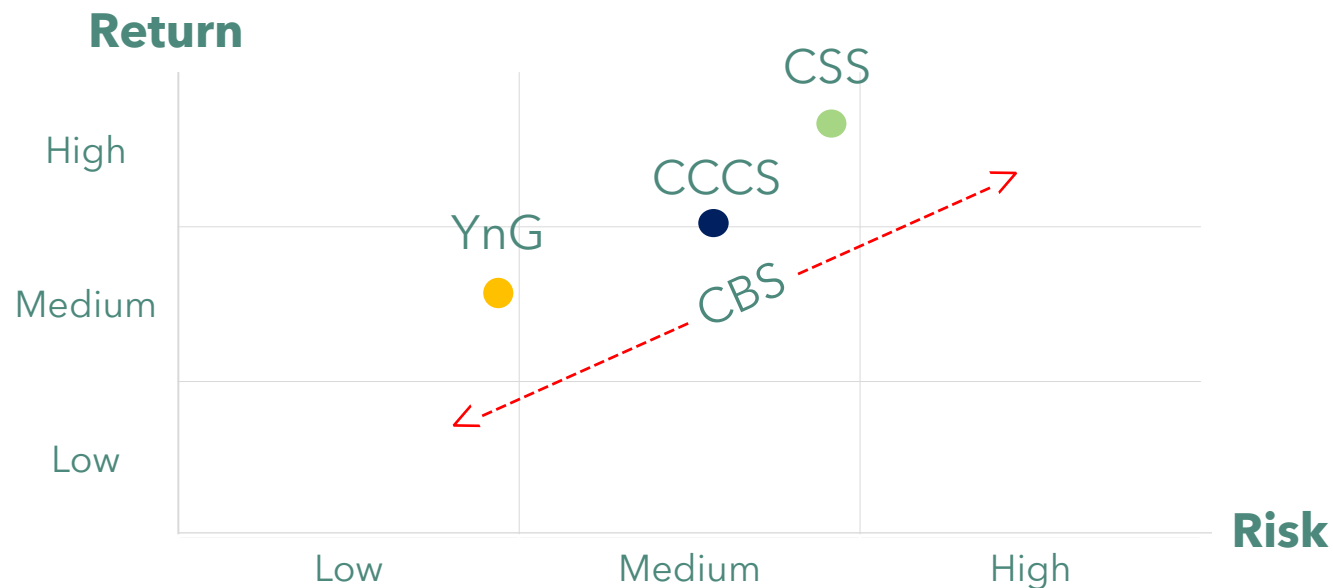
- Vivek Chhachhi is a partner of CX Advisors LLP, and currently serves as the Chief Investment Officer also leading investments in healthcare and technology.
- Vivek is serving/has served on the boards of several portfolio companies including Thyrocare, Nueclear, Thyrocare Gulf, Healthium Medtech, Natco, 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 EXISTING STRATEGIES

Carnelian strategies on the risk reward spectrum



Capital Compounder Strategy (CCCS) - Long only, multi-cap, sector agnostic strategy focusing on capturing India growth



Shift Strategy (CSS) - Long only, multi cap, thematic strategy designed to capture two major structural shifts Manufacturing and Technology



YnG Strategy (CYnGS) - A well diversified curated portfolio offering yield and growth with a blend of public and private sector companies



Bespoke Strategy (CBS) - A customized long only portfolio for HNI's/Institutions tailored to suit client specific risk reward profile



Carnelian strategies – performance at a glance as on 31.08.22

Carnelian Capital Compounder Fund-1 (Inception – 31.05.2019)

Long only, multi-cap, sector agnostic strategy focusing on capturing India growth

| Cumulative Performance (%) | | |
|----------------------------|-----------|---------------|
| Return | SI (CAGR) | SI (Absolute) |
| Compounder | 17.8% | 70.3% |
| BSE 200 | 14.7% | 56.2% |

| Portfolio attributes | |
|----------------------------------|-------|
| Portfolio ROE FY24E | 20.9% |
| Portfolio Earning CAGR (FY22-24) | 21.7% |
| Portfolio PE FY24E | 20.6x |
| Portfolio Beta | 0.91 |

Note: Portfolio level data excludes financials and outliers.

Carnelian Shift Strategy (Inception – 06.10.2020)

Long only, multi cap, thematic strategy designed to capture two major structural shifts Manufacturing and Technology

| Cumulative Performance (%) | | |
|----------------------------|-----------|---------------|
| Return | SI (CAGR) | SI (Absolute) |
| Shift Strategy | 48.2% | 111.4% |
| BSE 500 | 28.7% | 61.6% |

| Portfolio attributes | |
|----------------------------------|-------|
| Portfolio ROE FY24E | 19.4% |
| Portfolio Earning CAGR (FY22-24) | 23.2% |
| Portfolio PE FY24E | 21.6X |
| Portfolio Beta | 0.72 |

Note: Portfolio level data excludes financials and outliers.

Disclaimer: Investments are subject to market risk. Past performance figures is not verified by SEBI. Past performances are not indicative of future performance. Please refer risk associated with investment as published on our website. Above information should not be regarded as an official opinion or recommendation of any kind.



Why Bespoke?



Customised portfolio – concentrated and tailor made to client risk reward criteria



Unconventional proprietary investment frameworks – **MCO, PIU, MRFG**



Effective & proprietary risk management tools – **CLEAR**



Quarterly Portfolio Review



Fully aligned performance-based fee structure



Carnelian Bespoke Strategy

- Customized long only portfolio for HNI's/Institutions tailored to suit client specific risk reward profile
 - Min. investment amount: INR 10cr
 - 25% of commitment amount to be paid upfront; drawdown to made available on call
 - Min. tenure: 3 years
 - Limited Stock universe: 5 - 10 stocks
- Fundamental growth driven investing; bottom-up stock picking
- Absolute return-oriented *approach*
- Apply stringent Carnelian filters & forensic checks (CLEAR framework)
- **Illustration of customized portfolios -**
 - High Conviction Magic portfolio (accelerated growth),
 - High Conviction Thematic portfolio (theme/sector portfolio),
 - Passive++ portfolio
- Available in PMS format





Illustration of portfolios

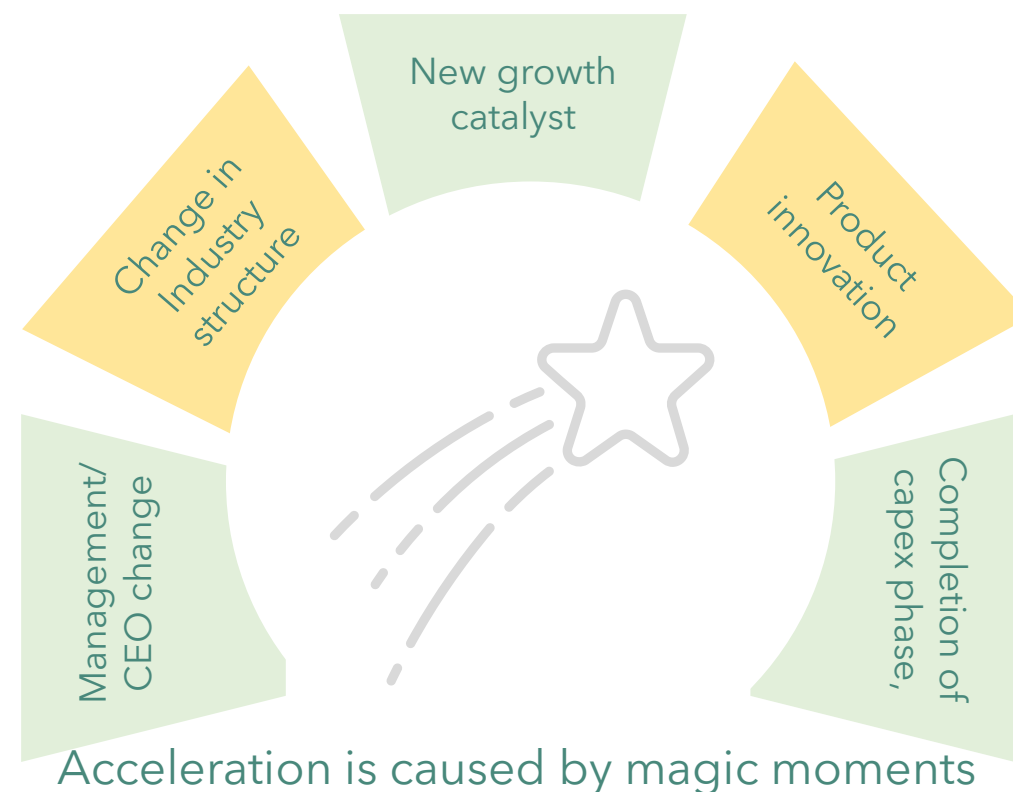
Illustration 1 - High Conviction Magic portfolio

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. | Script Name | Event | PAT at the time bought (in crs.) | TTM PAT (in crs.) | Valuation at the time bought (times) | Current valuation (times) | Months held | Script Return |
|---------|-----------------------------|-----------------------------------------------------------------|----------------------------------|-------------------|--------------------------------------|---------------------------|-------------|---------------|
| 1 | ICICI Bank Ltd | Change in CEO - Focus on risk calibrated growth | 4,254 | 21,239 | 1.5 | 2.7 | 27 | 87% |
| 2 | Max Financial Services Ltd | Axis coming on board as promoter and pledge becoming immaterial | 856 | 1357 | 1.3 | 3.3 | 29 | 138% |
| 3 | ICICI Securities Ltd | Change in CEO, strong industry tailwind | 470 | 1,258 | 16 | 20 | 26 | 238% |
| 4 | L&T Technology Services Ltd | Industry structural shift. Pure play for E&RD | 736 | 827 | 20 | 65 | 16 | 265% |
| 5 | Birlasoft Ltd | Change in CEO, strong industry tailwind | 320 | 412 | 25 | 30 | 11 | 125% |
| 6 | Praj Industries | Structural change in industry and Change in leadership | 46 | 136 | 26 | 49 | 13 | 379% |



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
- Limited life envisaged till the theme plays out

PSU's - Value unlock theme

- Envisaged for over next 2-3 years,
- Select PSUs can generate good returns driven by accelerated earning growth momentum, potential ownership change and P/E rerating.
- Business tailwinds likely to cause earning acceleration vis-a-vis history
- Inflationary environment provides tailwinds to asset owners (higher replacement cost)
- 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%

Portfolio Construct

- Curated basket of 5-7 PSU stocks with a time horizon of 2-3 years



Some examples of PSU stocks

| Sr. No. | Script Name | Rationale | Mcap (crs) | Div. Yield % | TTM PE | TTM P/B |
|---------|---------------------------|-------------------------------------------------------------------------------------------------------------------------------------|------------|--------------|--------|---------|
| 1 | State Bank of India | Strong Franchise with power house of subsidiaries ready to capture impending credit growth. NPA cycle behind. | 472,000 | 0.8% | 18x | 1.7x |
| 2 | Power Finance Corporation | Beneficiary of reforms in power sector. NPA cycle behind. | 36,000 | 9.5% | 4x | 0.6x |
| 3 | Bank of Baroda | Strong franchise with balance sheet in place to take advantage of rising interest rates and credit growth. NPA cycle behind. | 53,000 | - | 18x | 0.7x |
| 4 | BPCL | Best OMC company and play on privatization | 91,000 | 10.0% | 5x | 1.9x |
| 5 | Container Corporation | Monopolistic business and play on privatisation | 42,000 | 0.7% | 54x | 3.9x |
| 6 | Power Grid Corporation | Beneficiary of reforms in power sector coupled with investments in new age businesses like EV charging, battery energy storage etc. | 91,000 | 5.2% | 8x | 1.9x |



Illustration 3 – Passive++

- Benefits of active management at the cost of passive management
 - Objective to outperform index by 1-3% with investment in sub-set of 20-25 stocks from the index with an aim to create alpha vis a vis index
 - Long only, low churn portfolio
 - Lower cost to client; fees charged only on alpha generated
 - Suitable for clients wanting to have passive equity exposure





Carnelian Investment Framework

Carnelian Investment framework (PIU)

WE INVEST IN

Good Business PROFITS

Profitable
Robust cost leadership
Opportunity & market size
Free cash flow generation
Incremental return on capital
Time tested & easy to understand
Sustainable moat



Great Management IMPRESS

Integrity
Modesty & capability
Passionate & driven
Realistic but aggressive
Efficient capital allocator
Skin in the game
Strong governance & risk management culture



Favorable Risk Reward US

Upside potential
Safety margin encompassing

- Business risk
- Balance sheet risk
- Valuation risk



We stringently follow “Carnelian filters” and “forensic checks” to generate sustainable risk adjusted returns & alpha



Carnelian investment filters

Growth filters

- Minimum expected revenue growth (> nominal GDP growth) >12%
- Minimum expected EPS growth >15%

Capital allocation filters

- Minimum threshold ROCE/ROE >15%
- No significant deterioration in incremental ROCE/ROE

Cash flow filters

- OCF to EBITDA conversion >60%
- Source of OCF should be cash profits vis-à-vis increase in payables

Balance Sheet filter

- Debt/Equity <1.5x, Debt /EBITDA < 2x
- Total liabilities/equity <3x
- Asset quality ratios - non core assets as % of net worth <10%
- Asset/Liability mismatch - funding long term assets with short term liabilities

Governance filter

- Avoid companies with material related party transactions (off & on BS)
- Avoid companies with complex holding structure - many subsidiaries/JVs
- Low Direct and indirect tax incidence
- Auditors, Independent directors reputation



Carnelian forensic filters

Our forensic analysis involves a 2-step approach:

1. Carnelian forensic check

An automated template screening last 10 years of historical data, highlighting potential minesweepers, which get rejected at this stage.

2. Forensic deep dive - **CLEAR Framework**

Subsequently, our dedicated forensic team will deep dive/analyse the annual reports & financials which will be presented in a prescribed format to the Investment Committee (IC).

C - Cash flow Analysis, sustainable cash flows vs reported cash flows

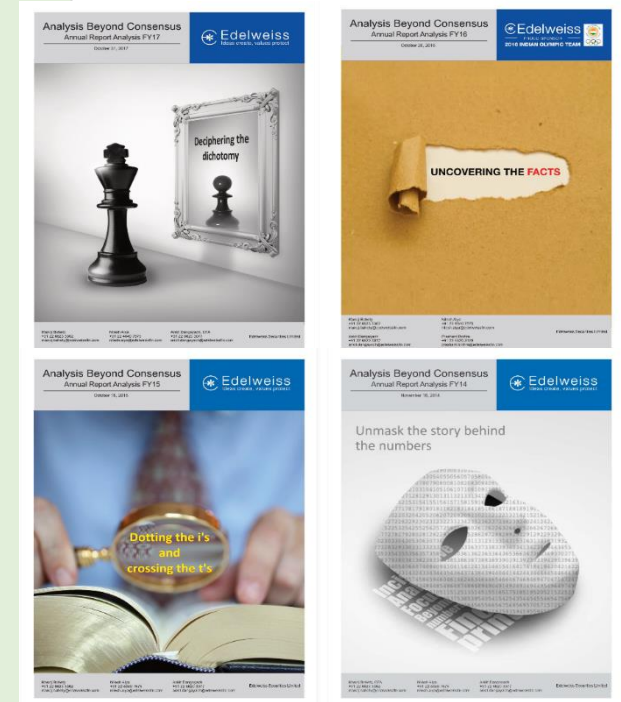
L - Liability Analysis, True debt vs reported debt, contingent liability & likely impact on future earnings

E - Earning Quality Analysis, True economic profit vs reported profit, discretionary vs non-discretionary profit

A - Asset Quality Analysis, core vs non-core assets

R - Related party transaction & Governance issues

Any stock not qualifying the above test, will be rejected by the IC





THOUGHT LEADERSHIP

Our letters

Below are the links to the some of our letter to the investors

1. **Embrace volatility & build this Vintage** - [click here](#)
2. **Manufacturing - All Stars Aligned** - [click here](#)
3. **Structural tailwinds vs Cyclical headwinds** - [click here](#)
4. **A "Magic"al Delivery!** - [click here](#)
5. **Fad-Fomo-Fade** - [click here](#)
6. **Next pot of Gold!** - [click here](#)
7. **"Who Stole My Returns - Me or Market?" A different perspective on risk** - [click here](#)
8. **7 major trends that will define Markets & Economy** - [click here](#)
9. **Carnelian Investing Principles - where is my profit vs what is my profit** - [click here](#)

To read all our letters to the investors [click here](#)



Awards and recognition



#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

The image features two golden laurel wreaths on a dark blue background with a subtle grid pattern. The left wreath is positioned around the text for the #2 award, and the right wreath is around the text for the Winner award. The text is white and gold, with the award titles in a larger, bold font. The background also includes a glowing horizontal line at the bottom of the wreaths.





CLIENT TESTIMONIALS

What our investors say..



Chaitanya Desai, MD - Apar Industries Ltd

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.

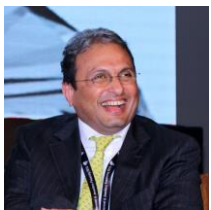


Apurva Parekh, Executive Director - Pidilite Industries Ltd

I have been an investor in Carnelian Capital Compounder Fund since inception.

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!



What our investors say..



Farah Malik Bhanji, MD - Metro Brands Ltd

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 Ltd.

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.



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.



What our investors say..



Yogesh Agrawal, MD - Ajanta Pharma

When Vikas decided to start Carnelian Capital, stock market was going through consolidation phase. But I had full trust in his skills & capabilities and I became one of the early investors in his fund. Later I increased the investment with him under PMS.

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.

Building a successful fund certainly requires expertise to balance the risk reward favourably. Team at Carnelian has demonstrated that fine skill by building a meticulously spread portfolio. Their efforts to engage & educate the investors through insightful and interactive sessions with the promoters of their investment companies has been really useful.

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.



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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