



CARNELIAN *YNG* STRATEGY

FEBRUARY 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 10 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, FOUNDER

- 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
- His passion for investing took shape during his college days and continues to drive him. He is obsessed with risk reward spectrum
- Besides being an avid reader and poker player, Vikas enjoys yoga/meditation and has been running marathons since last 17 years

MANOJ BAHETY, CO-FOUNDER

- 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
- Manoj is a fitness freak and has been running marathons since the last 10 years



SACHIN JAIN, CO-FOUNDER

- 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, CO-FOUNDER

- 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
- Besides reading, Swati enjoys traveling, music and meeting people





CARNELIAN EXISTING STRATEGIES

Carnelian strategies – performance at a glance as on 31.01.22

Carnelian Capital Compounder Fund-1

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

Cumulative Performance (%)						
Return	3M	6M	12M	2Y	SI (CAGR)	SI (Absolute)
Compounder Strategy	-3.1%	6.9%	33.8%	20.3%	23.8%	77.0%
BSE 200	-1.7%	9.2%	29.8%	22.1%	16.5%	50.5%

Portfolio Fundamentals	
Portfolio ROE FY24E	19.1%
Portfolio Earning CAGR (FY21-24)	22.7%
Portfolio PE FY24E	19.1x
Portfolio Beta	0.85

Carnelian Shift Strategy

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

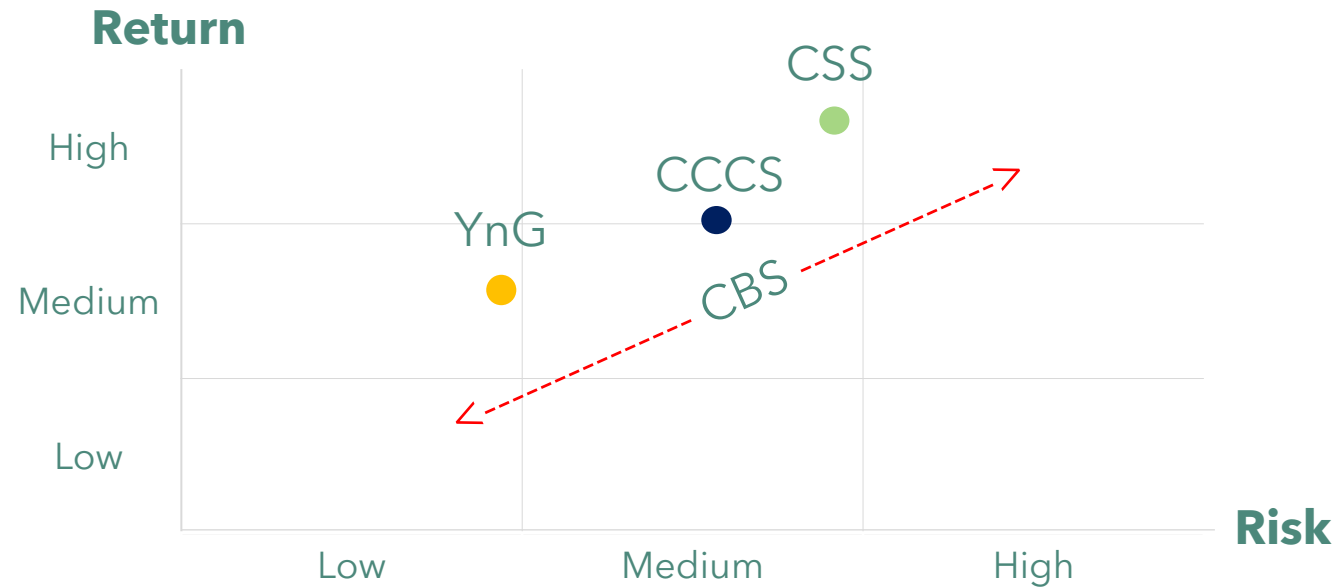
Cumulative Performance (%)						
Return	3M	6M	12M	2Y	SI (CAGR)	SI (Absolute)
Shift Strategy	1.7%	2.1%	66.7%	NA	70.5%	102.7%
BSE 500	-1.2%	9.0%	31.9%	NA	40.5%	56.8%

Portfolio Fundamentals	
Portfolio ROE FY24E	19.4%
Portfolio Earning CAGR (FY21-24)	24.9%
Portfolio PE FY24E	20.1X
Portfolio Beta	0.83

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.



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



Current investor mindset and need?



Elevated markets & valuations

Poor yields

Likely increase in interest rates

Inflationary pressures

Risk appetite : cautious





Which portfolio is best suited in the current environment?

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



Carnelian 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

Potential catalysts - divestment /demerger/favourable cycle

12 - 13% expected 3-yr revenue CAGR

12 - 13% expected 3-yr earnings CAGR

10 - 11x FY24 forward PE

10 - 11% free cash flow (FCF) yield



Carnelian 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

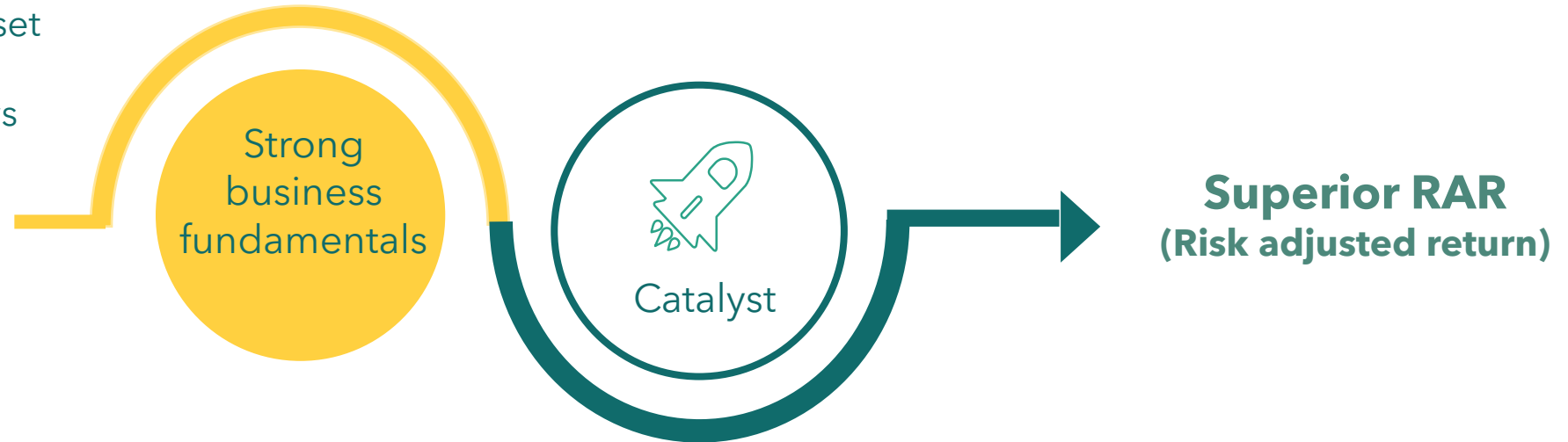
18 - 19 x

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

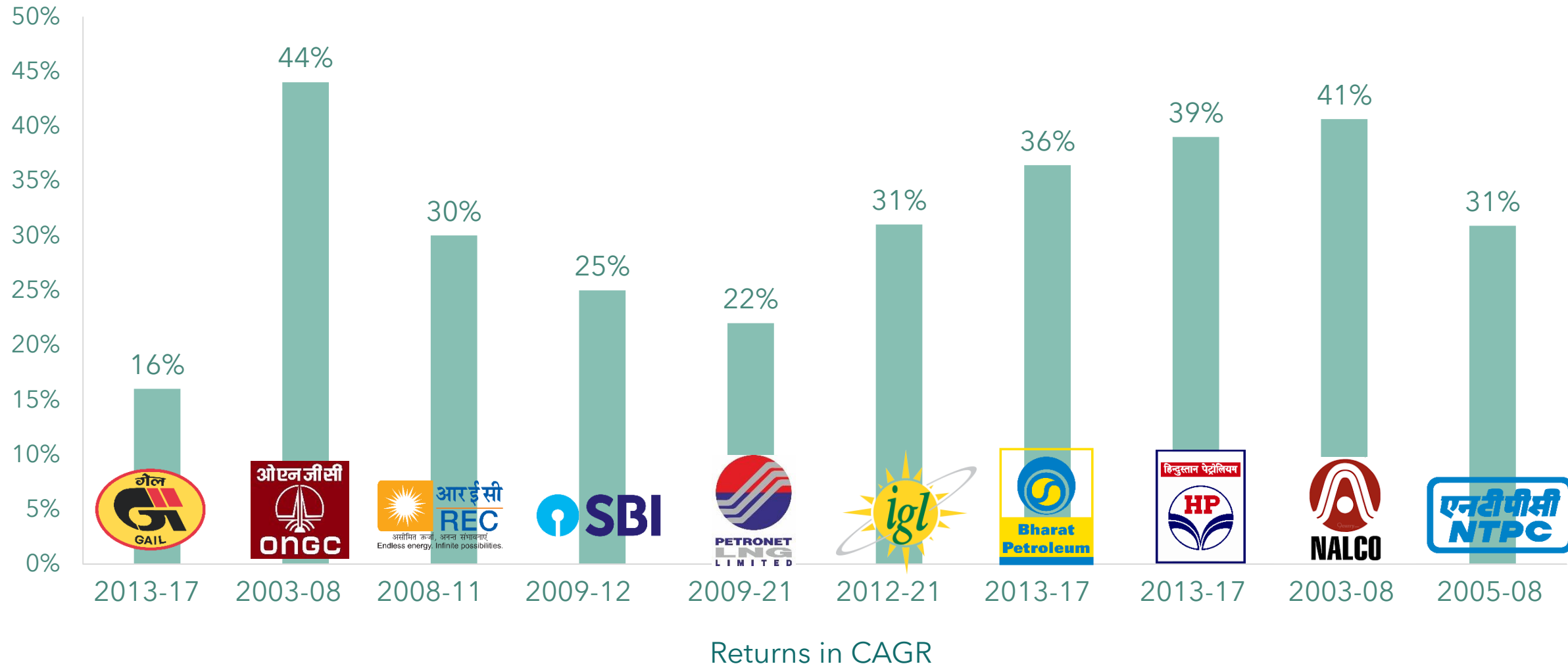


- Change in ownership / Privatization
- Favourable cycle
- Sectoral reforms

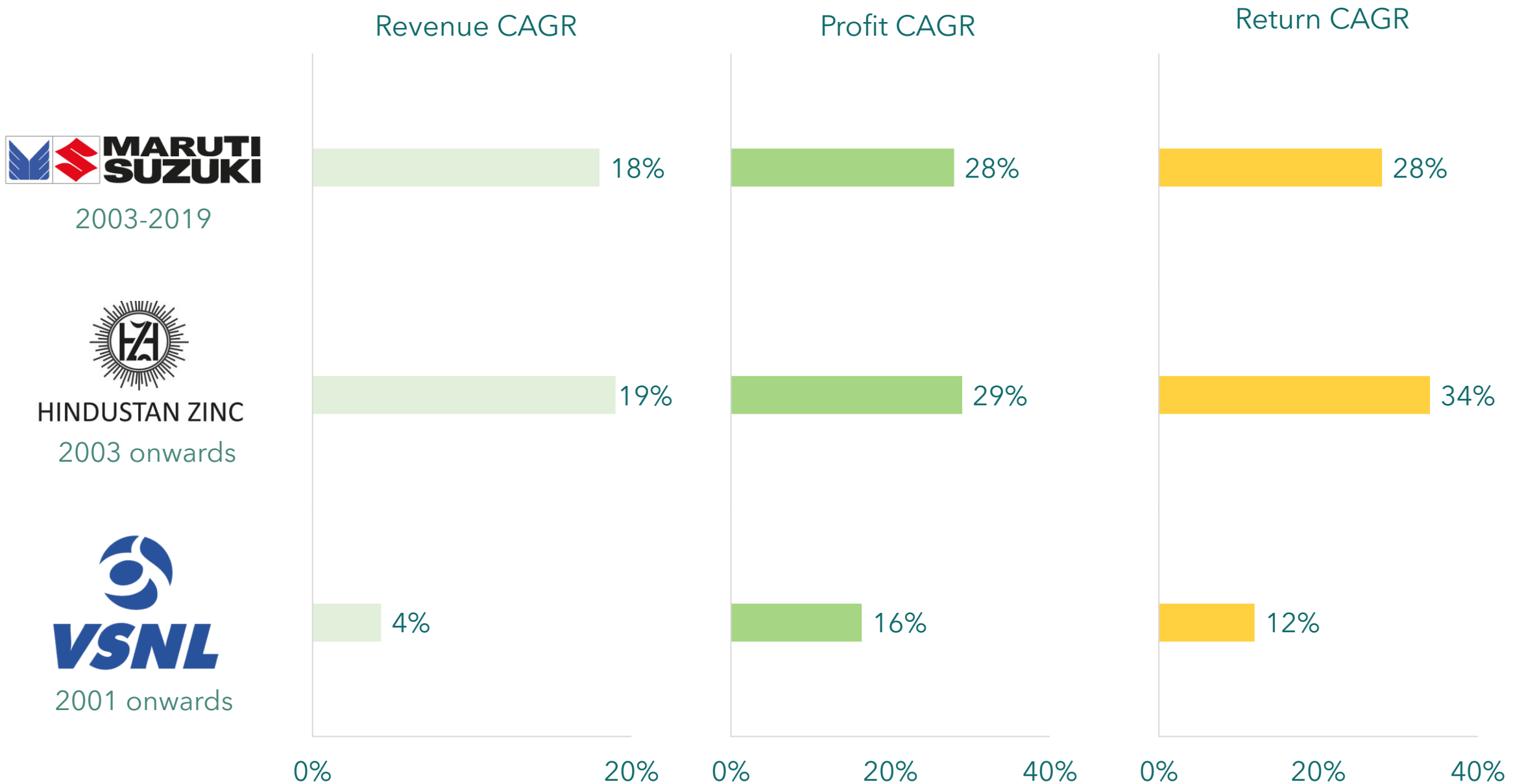
Supported by data



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 Ltd
Benchmark	"S&P BSE India 10 Year Sovereign Bond" + 200 Bps
Custody	Edelweiss Custodial Services Ltd
Estimated duration	~3 years
Min. investment amount	INR 1 Crores
Exit load	1% at anytime before 3 years
Stock universe:	12 - 15 stocks
<ul style="list-style-type: none">• 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)	





Illustration of companies

Illustration 1 – Large diversified IT services company

- One of the largest IT services company to benefit from digitalisation wave having diversified nature of business and clients
- Company has well-established infrastructure management practice, combined with its enterprise application Service practice, provides significant cross-selling opportunity for digital services
- Leader in fast growing ERD market focusing on four themes across 5G, IoT, data engineering and softwarization which is set to grow very fast
- Stock available at 20% ROE, P/E of 26x with future dividend yield of ~4%
- Significantly favorable risk reward (~60-80% upside over next 3 years)



Illustration 2 – Telecom focused infra company

- A large telecom tower company with strong anchor owner tenants
- Telecom regulatory reforms/tariff hike ensures a restrictive market = Higher tenancy & operating leverage
- Strong probability of earnings growth with telecom capex coming back over short term
- 5G Capex - will drive growth over medium term
- Similar listed global players trade at USD ~300k/ tower (3x replacement cost) in comparison to USD 76k (1.75x replacement cost)
- Dividend yield of 7% , ROE 34%, PE of 15x coupled with improving industry dynamics likely to result in re-rating in the coming months
- Significantly favorable risk reward (~50-60% upside over next 3 years)



Illustration 3 – NBFC focused on power sector

- Largest NBFC, focused on funding the power sector; set to benefit from undergoing structural reforms
- NPA cycle behind with stress in sector behind, adequate provision coverage
- With no new assets coming up and demand growing at 5% - 6%, ensures good utilisation of existing loaned assets
- 84% of loans backed by sovereign guarantee
- Growth in loan book on account of increased activity in renewable space. Loan book expected to grow at a CAGR of 12%.
- Stock available at 16% ROE, P/B of 0.6x and dividend yield of 8%
- Significantly favorable risk reward (~60-80% upside over next 3 years)



Illustration 4 - Oil marketing company

How market perceives	How Carnelian perceives
Value stock with no growth and no re-rating potential	Magic stock <ul style="list-style-type: none">• Strategic ownership of irreplaceable assets• Growth from new pet chem facility and entry into EV charging infra• Cherry on the cake - potential candidate for privatisation, improving inefficiencies (management/productivity)

- One of the most efficient and largest OMC's with strategic assets ownership
- Refining margins likely to double due to lack of new refineries, providing significant operating leverage and earnings growth (Golden era of refining)
- Commissioning of pet-chem facility, strong retail volumes likely to aid earning growth over medium term
- Stock available at 18% ROE , P/E of 8x and dividend yield of 6%
- Significantly favorable risk reward (~50-60% upside over next 3 years)





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 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

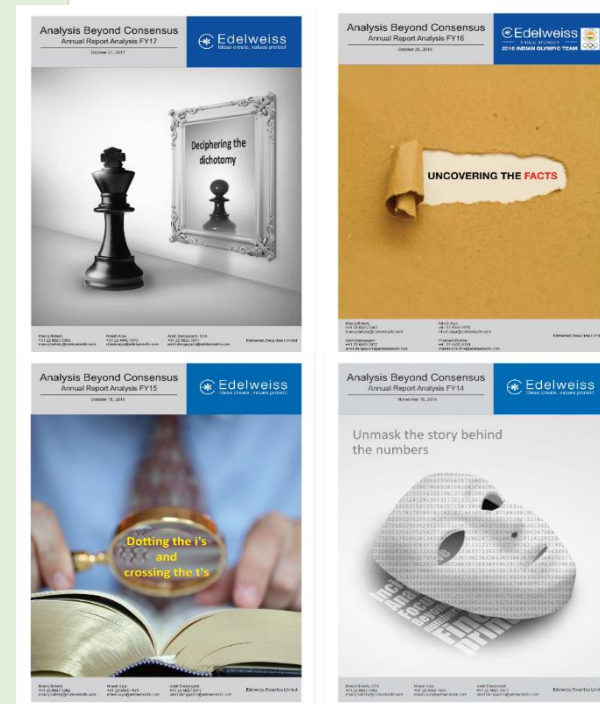
L - Liability Analysis, True debt vs reported debt, contingent liability & likely impact on future earnings

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. **A “Magic”al Delivery!** - [click here](#)
2. **Fad-Fomo-Fade** - [click here](#)
3. **Next pot of Gold!** - [click here](#)
4. **“Who Stole My Returns - Me or Market?” A different perspective on risk** - [click here](#)
5. **7 major trends that will define Markets & Economy** - [click here](#)
6. **Carnelian Investing Principles - where is my profit vs what is my profit** - [click here](#)

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





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.



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!



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.



Yogesh Agrawal, MD - Ajanta Pharma

When Vikas Khemani 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.



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