



Carnelian Thematic Mid & Small Cap

JUNE, 2021

Carnelian – who are we?

- A boutique investment management firm founded by industry veterans 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
- 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



Portfolio Introduction

- Long only, multi-cap, thematic portfolio designed to capture emerging structural themes.
- Mainly targeting mid cap & small cap companies with existing core competence/niche capability along with strong Balance Sheet, IMPRESSive management, governance and return ratios
- We believe that many of the small and mid cap companies will transition into large caps mainly fueled by economy tail winds , capable management and business Moat.
- Filtered Stock universe of 20-25 stocks out of midcap & small cap universe
- Objective of the above scheme is to catch aforesaid companies early in the wealth creation cycle.
- **Investment Advisor – Kunal Shah**
Kunal Shah is a rank holding chartered accountant with 10 years of professional experience. His experience in equity research spans across sectors like Banking, Insurance, Consumer, Auto's etc. and is passionate about understanding various businesses in depth and having special attention to risk and reward. He has experience researching business across market caps mixing top down and bottoms up approach towards fundamental investing. Prior to joining Carnelian, he was with Kotak Mahindra Bank.



Why Themes ?

- Themes captures emerging trends likely to last 5-7 years due to structural changes and creates significant wealth compounding opportunities if captured during initial wave.
- Carnelian thematic portfolio is designed to invest in emerging leaders within identified themes.
- Themes have outperformed broader markets & created massive wealth in the past :

Period	Theme	Catalysts	Alpha	Wealth creators
2001-2007	Infra and Industrial	Drop in global interest rates /massive infra spend commitment by Vajpayee government	7x for sector stocks vs 2.5x for market	Thermax-15x, L&T-8x
2008-2013	Consumption	Populist measure like NREGA, MSP increase led to rural income increase	3x for sector stocks vs 2x for market	Dabur & Marico-4x
2009-2016	IT	Global accelerated spending towards to IT Infrastructure	10x for sector stocks vs 3x for market	Tech Mahindra-16x
2009-2016	Pharma	Generics opportunity opening up in the global markets captured by Indian Companies	10x for sector stocks vs 3x for market	Aurobindo-20x, Lupin - 15x
2013-2019	Chemical	China rebalancing its economy leading to increased labour cost and stricter environmental norms benefitting Indian companies	5x vs 2.5x for market	Aarti Industries-18x, Sudarshan Chemicals-10x



Potential Themes

Some Potential themes:

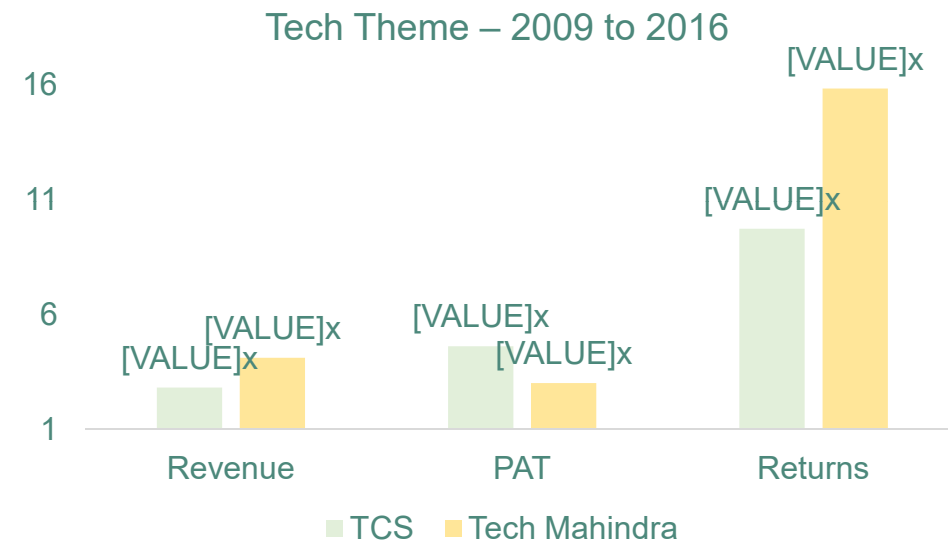
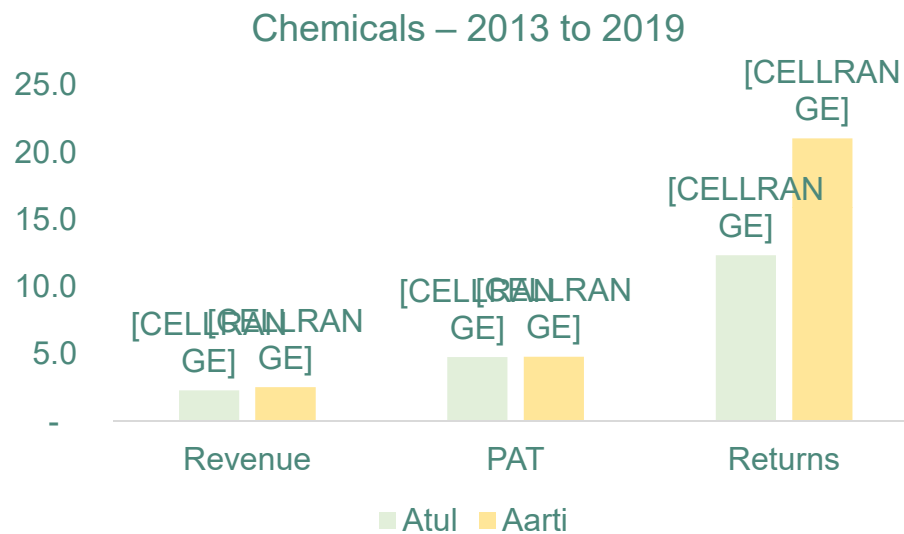
- **Manufacturing in India (Speciality Chemicals/APIs/Auto Ancs/Capital Goods)**
China+1 & government reforms will lead to accelerated surge in economic activity leading to manufacturing GDP to double over the next 5 years. We foresee accelerated growth in select sectors like API, Chemicals, Auto ancillaries, Pharma, Logistics and capital goods
- **Technology (IT services, Platforms)**
Due to pandemic there is acceleration in digitalisation across industries leading to surge in overall IT spending across the globe – India is at unique advantage with demand being global and supply local. We expect IT digital services industry will grow from USD 60bn to 150bn in next 5 years benefitting Indian IT companies.
- **Unorganised to organised & Consolidation in various sectors**
Over the years there have been multiple reforms carried out by the government which has led to unorganised sectors share drop and benefit organised sector across sectors like Real Estate, Building Materials, Consumer Durables etc.. This has led to consolidation in this sectors helping big players.

We foresee large wealth creation opportunity out of aforesaid themes



Why Mid Caps ?

- At the start of thematic upcycle midcaps are out of favor, hence offers better risk reward metrics vs established leaders
- Mid caps enjoys benefit of operating leverage & scale benefits leading to faster growth as compared to sectorial large caps
- Accelerated earning growth also leads to valuation multiple rerating for this mid cap companies
- Select mid caps have massively outperformed large caps led by earning growth and re-rating

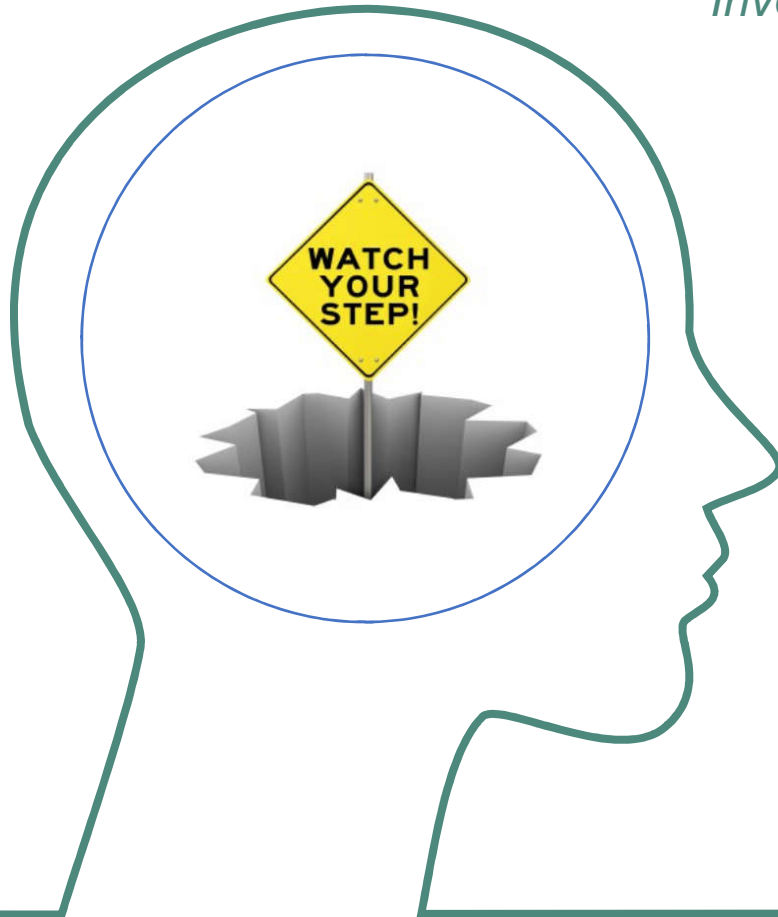


Key is to identify emerging leaders at an early stage and see them grow

Risk to hypothesis

"Invert, always invert. Tell me where I will die, I wont go there."

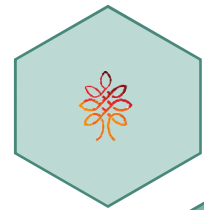
- Charlie Munger



- Global meltdown of economy affecting overall demand
- World's softening stance against China
- Geo – Political risks
- Banking system risks
- Slowing down of reforms and change in government policies
- Significant currency appreciation



Carnelian investment philosophy



We believe in investing in good growth businesses, managed by great managements at fair valuations



We obsess about risk reward and believe in risk adjusted returns



We believe there are certain catalytic moments in the life of a company which can catapult it into a different growth trajectory, if captured well, can generate superior risk adjusted returns



We are happy to be contrarian when risk reward is compelling: mimicking herd = regression to mean



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



We believe investing success is an outcome of making good decisions consistently over a long period.
Good decisions = “objective, free of any bias” + consider “probability of outcome” + factor “risk reward”.



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 track ~200 companies under this framework



**A glimpse at our
existing mid cap strategy returns
– offered under PMS category**

Carnelian Shift Strategy portfolio attributes

Performance chart since inception



Cumulative Performance (%)

Return	1M	3M	Inception*
SHIFT	13.8%	30.1%	70.8%
BSE 500	6.9%	8.7%	39.2%

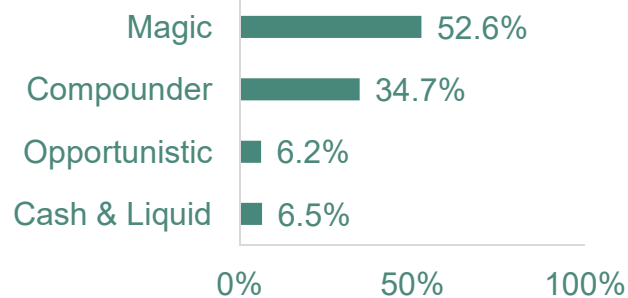
Absolute, non-annualised

Above mentioned returns are post management fees and pre tax.

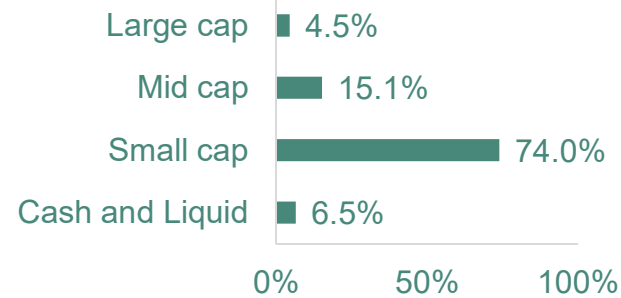
Portfolio Fundamentals

Portfolio ROE FY23E	20%
Portfolio Earning CAGR (FY21-23)	39%
Portfolio PE FY23E	22X
Portfolio Beta	0.77
PEG Ratio	0.56
Positive alpha / total month	75%
Max. Drawdown	-0.6%

Basket Allocation



Market cap allocation



Size	% Deployed	Average Market Cap*
Large cap	4.5%	28,240
Mid cap	15.1%	3,638
Small cap	74.0%	873
Cash and Liquid	6.5%	-
Total	100%	2,456

* Market cap is in USD mn.

Disclaimer

This document has been prepared by Carnelian Asset Advisors Private Limited (“Carnelian”) and is provided to you for information only. This document does not constitute a prospectus, offer, invitation or solicitation and is not intended to provide the sole basis for any evaluation of the investment product or any other matters discussed in this document. This document is made available to you because Carnelian believes that you have sufficient knowledge, experience and/or professional advice to understand and make your own independent evaluation of the risks and rewards of the investments and/or other matters discussed in this document and to make your own independent decision whether to implement the same. Any view expressed in the document is generic and not a personal recommendation and/or advice. It does not consider your risk tolerance, financial situation, knowledge and experience. Please discuss with your investment advisor if you seek advice on whether the proposed investment product are appropriate for you. The investments discussed in this document may not be suitable for all investors. Investments are subject to market risk. There can be no assurance or guarantee that any investment will achieve any specific return. Unless expressly stated, product performances are not guaranteed by Carnelian or their affiliates or any government entity. Past performance is not necessarily an indicator of future performance. Actual results may vary significantly from the forward-looking statements contained in this presentation due to various risks and uncertainties, including the effect of economic and political conditions in India and outside India, volatility in interest rates and the securities market, new regulations and government policies that may impact the business of Carnelian as well as its ability to implement the strategy. The information contained in this document has been obtained from sources that Carnelian believes are reliable, but Carnelian does not represent or warrant that it is accurate or complete, and such information may be incomplete or condensed. Neither Carnelian, nor any affiliate, nor any of their respective officers, directors, partners, or employees accepts any liability whatsoever for any direct or consequential loss arising from any upon this document or its contents, or for any omission. The views in this document are generally those of Carnelian and are subject to change without notice, and Carnelian has no obligation to update its views or the information in this document. Carnelian or its affiliates may have acted upon or have made use of material in this document prior to its publication. Carnelian does not provide legal or tax advice and should you deem it necessary to obtain such advice, you should approach independent professional tax or legal advisors to obtain the same. This document is confidential and may not be reproduced or disclosed (in whole or part) to any other person without our prior written permission. The manner of distribution of this document and the availability of the products may be restricted by law or regulation in certain countries and persons who come into possession of this document are required to inform themselves of and observe such restrictions. This document is not directed to, nor intended for distribution or use by, any person or entity in any jurisdiction or country where the publication or availability of this document or such distribution or use would be contrary to local law or regulation, including for the avoidance of doubt the US. The contents of this document have not been reviewed by any regulatory authority in India or in any other jurisdiction. If you have any doubt about any of the contents of this document, you should obtain independent professional advice. The name of the strategy does not in any manner indicate the quality of the strategy, its future prospects or returns. The product strategies mentioned in the document may change depending upon the market conditions and the same may not be relevant in future. The sector(s)/stock(s)/issuer(s) mentioned in this document do not constitute any recommendation of the same and the strategy may or may not have any future position in these sector(s)/stock(s)/issuer(s). This strategy and this presentation have been prepared for potential investors in India and may not be published or distributed in the United States. This strategy does not constitute an offer of units for sale or the solicitation of any offer to buy Units in any jurisdiction, including the United States.



Contact us



Carnelian Asset Advisors Private Limited,
B -1405, One BKC, G Block, Plot C-66
Bandra Kurla Complex, Bandra (East),
Mumbai-400051.



+91-22 6691 4023 / +91 – 22 6691 4024



www.carneliancapital.co.in



swati@carneliancapital.co.in

