



CARNELIAN SHIFT STRATEGY PMS

MARCH 2024

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 40 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 growth 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 **QGARP** portfolio - **Quality Growth 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 40 passionate/driven professionals
- 100% founder owned - skin in the game



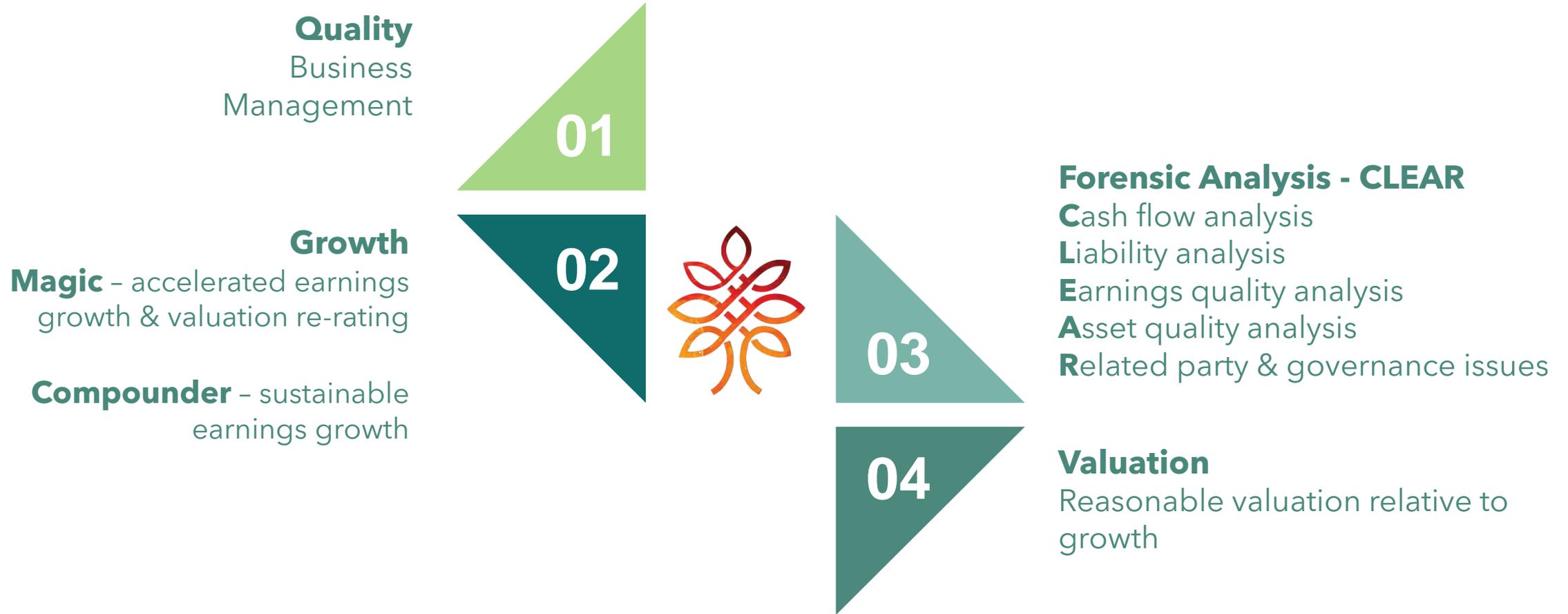
PROCESS

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



Carnelian Investment Framework

Investment Framework



Quality Growth 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

"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



CARNELIAN SHIFT STRATEGY

Shift Strategy (PMS)



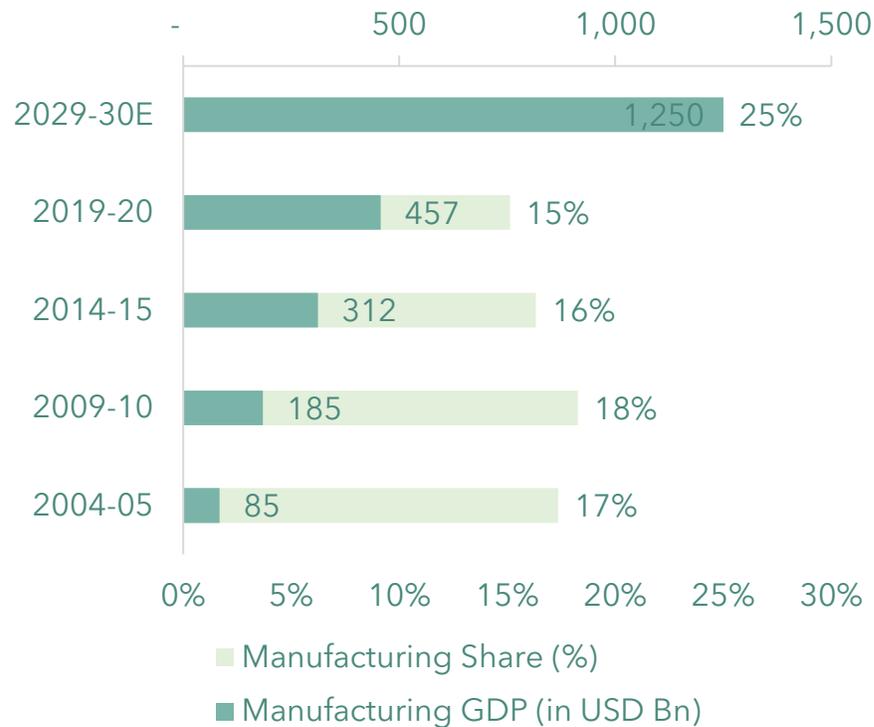
- Strategy designed to capture structural decadal shifts presenting large opportunity in
 - **Manufacturing** led by conducive regulatory and global environment
 - **Tech evolution** empowered by digitalization globally
- Concentrated **QGARP** (quality growth companies at a reasonable price) portfolio
 - Blend of mid & small cap listed companies having
 - niche core competence & large opportunity size
 - proven track record
 - impeccable management capabilities
- Stock holding : 20-25 ; Benchmark against BSE 500 TRI
- Subjected to stringent Carnelian filters & forensic checks (CLEAR framework)

Pandemic accelerated 2 structural shifts



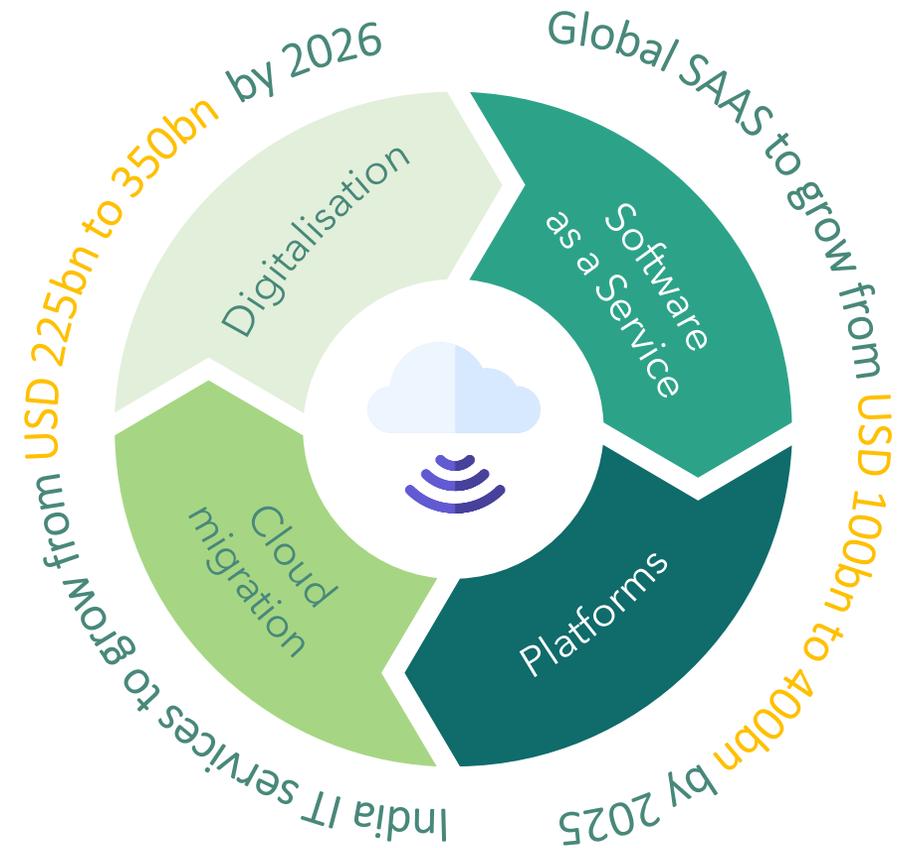
MANUFACTURING

Manufacturing GDP set to double over the next 5 years



Source: Carnelian Research, IBEF

TECHNOLOGY



Plethora of opportunities unfolding...

India on the cusp of **manufacturing** boom on account of

Govt. Reforms

- Focus on Atmanirbhar Bharat
- Manufacturing boost by production linked incentive schemes
- Tariff & non-tariff barriers
- State labour reforms

Cost Competitiveness

- Labour: 1/2-1/3x China
- Logistics & power costs = China
- Lowest tax rates globally @ 17%
- China's cost advantages have significantly narrowed down

Proven Entrepreneurship

China + 1 Shift

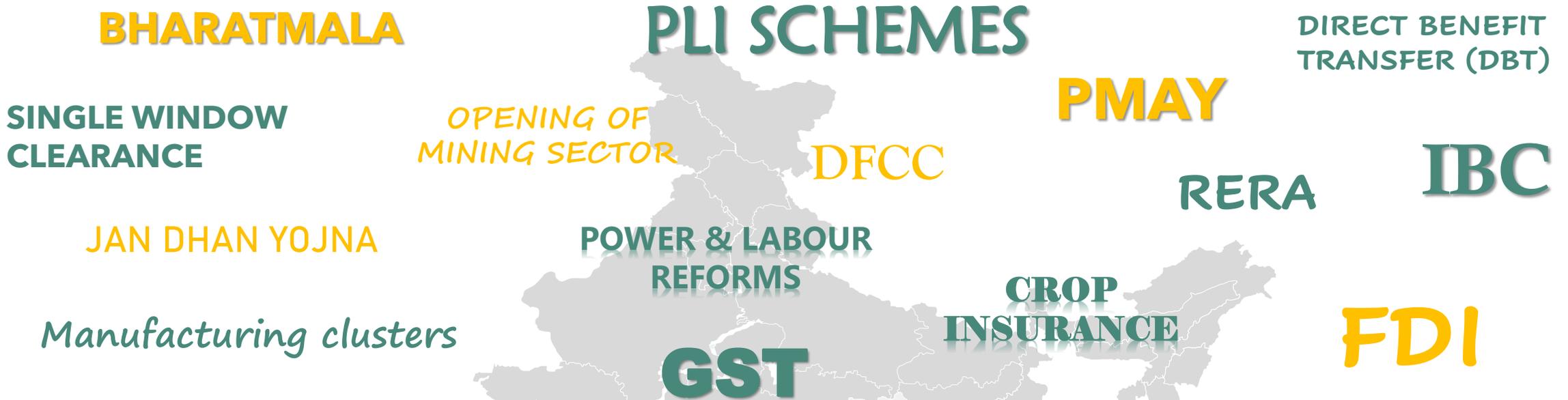
- Led by anti China sentiments
- Over dependence on China to create huge opportunity for China +1

Strong Domestic Markets

- Domestic markets + exports/ imports = economies of scale

Confluence of all the above factors creating momentum for manufacturing

Government initiatives and reforms

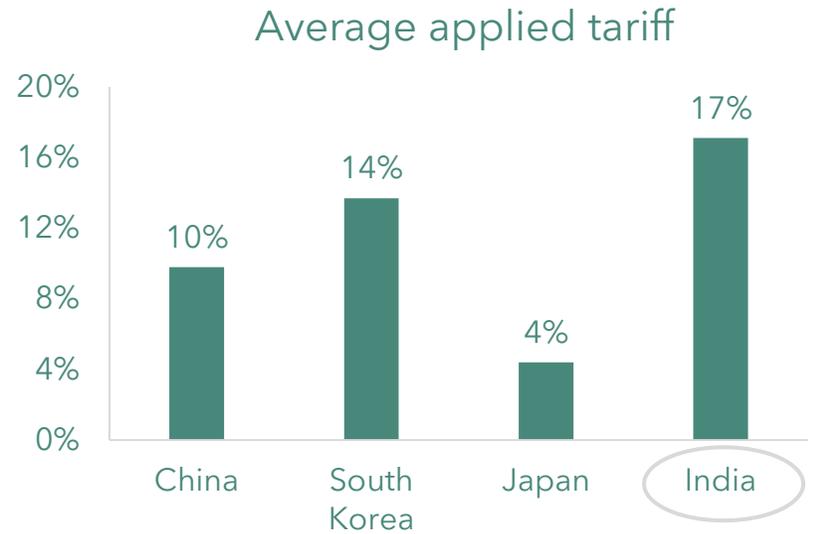


Enablers creating a business friendly & competitive environment supported by infrastructure development

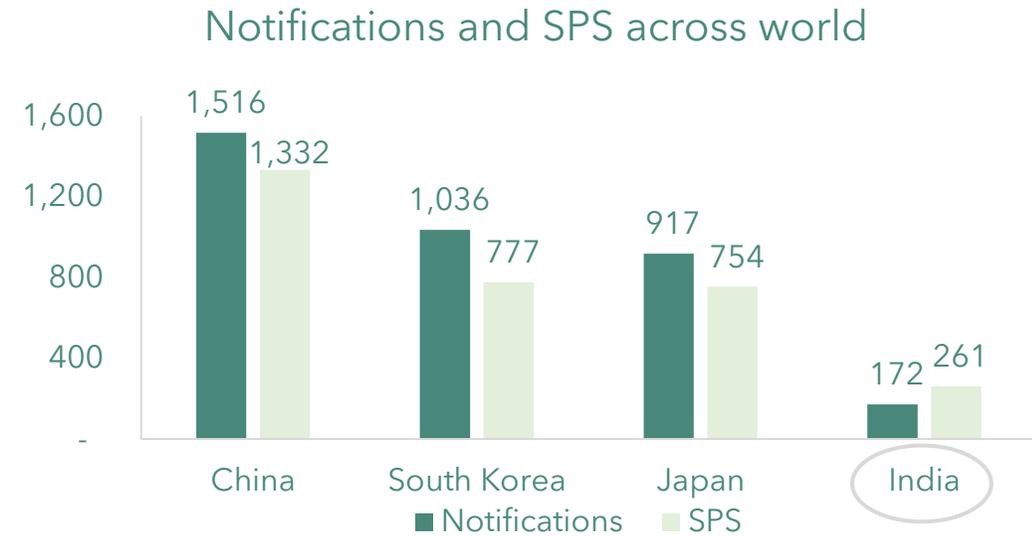
- Globally lowest tax rate at 17% GST - One Nation One Tax; Reduction in warehouses, efficient transportation and reduced costs
- Creation of 35,000 kms of road with capital outlay of USD 5 bn
- DFCC will result in logistic saving by 37%.
- Production linked incentives across sectors
- Opening mining sector to private & foreign players allowing capital & technology investment
- Increase in limits across sectors like contract manufacturing, defense, retail etc. with conditions of local manufacturing
- Creation of mega bulk drug parks, manufacturing clusters with common facilities and eco system development
- Direct hire of contractual workers for fixed tenure
- Threshold increased for lowering compliance
- Power reforms will lead to reduction in T&D losses thereby reducing power cost further



Further impetus through tariff & non-tariff barriers



Source: Ministry of commerce survey



Source: Ministry of commerce survey

India hardly used non-trade tariff barriers like China/other countries which is set to change;

- No global tenders less than INR 200 cr
- No automatic FDI approval to 200 countries sharing borders
- Special registration required for participating in contracts with neighboring countries

GOI has planned substantial changes on import policies including tariff & non-tariff barriers on imports



Aided by cost competitiveness

Labor Cost Comparison

Metric	China	India	Vietnam
USD / Mo wages	800	200	475
Productivity	1	2.5	1
Equalized Mo	800	500	712
Cost comparison	0	-37%	-11%

Logistics cost at a glance

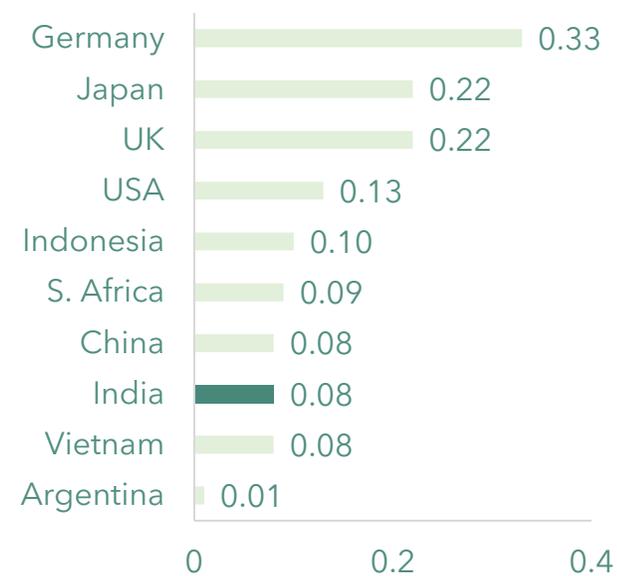
Cost	China	India	USA
Logistics performance index	3.6	3.2	3.9
Logistics spent as a % of GDP	18	14	8.5

Source: Worldbank, Industry

Components of logistic cost (as a % of GDP)

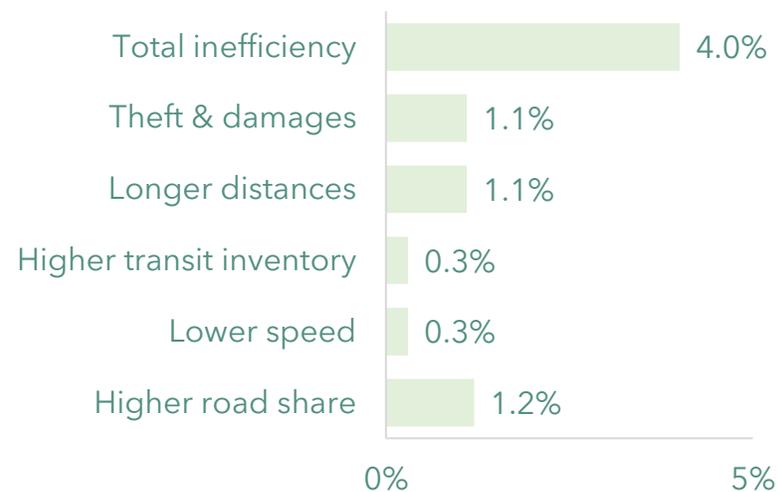
Cost	India	Developed countries
Transportation	7%	5-6%
Inventory cost	6.3%	2-3%
Administration	0.7%	0.5-1%

Power cost is same as China & Vietnam



Source: statista.com

Inefficiency set to go -DFC & infrastructure reforms



Source: Nuvama reports

Every small reform like fastag, etc. has a big impact on the logistics cost by reducing the time travel by ~15-20%. Opportunity to bring efficiency of 3-4% (GST, More efficient supply chain, Infrastructure)

India is becoming cost competitive at a global scale

China+1 shift will create big opportunities



Worlds over dependence on China currently



16% Global GDP



28% Global manufacturing
(ranked no. 1)



58% global footwear production
(Ranked no. 1)



70-85% World solar power components



36% World's chemical production
(ranked no. 1)



17% Capital goods exports as % of total export



35% Textile & clothing exports as a % of total exports



10% Auto component exports as a % of total auto component exports



60-65% Global electric vehicles

China will continue to be a big player; however small SHIFTs will create BIG opportunities for India



Which sectors will benefit

Metric	Import Substitution	Export Opportunity	Market Consolidation
Chemical, API & Pharma			
Capital goods			
Consumer Electronics & Durables			
Auto & Auto Ancillaries			
Defense			
Industrial Capex Ancillaries			
Building Materials			

Who will benefit - characteristics of companies

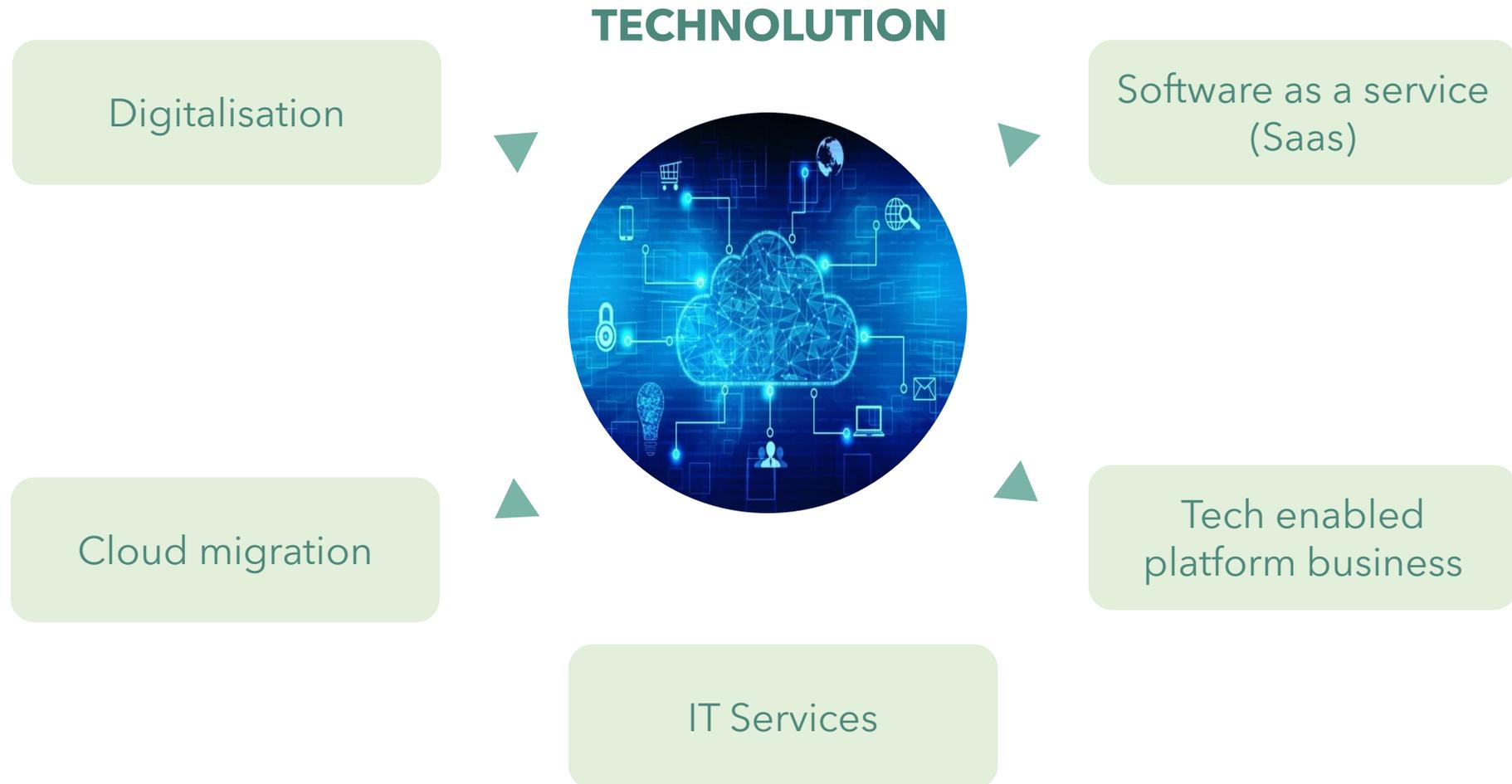
- Core competence/ niche capability
- Proven track record / platform
- Strong balance sheet
- Strong Governance
- Existing presence (market share)



Reliability factor
Cost effectiveness
Differentiated IPs
Customer base



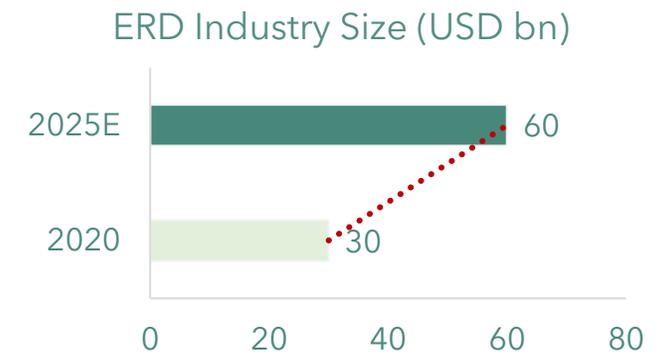
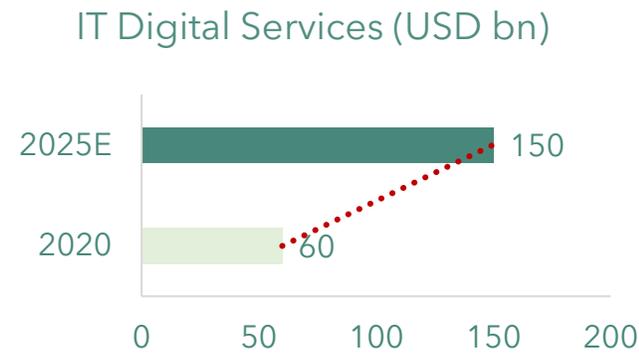
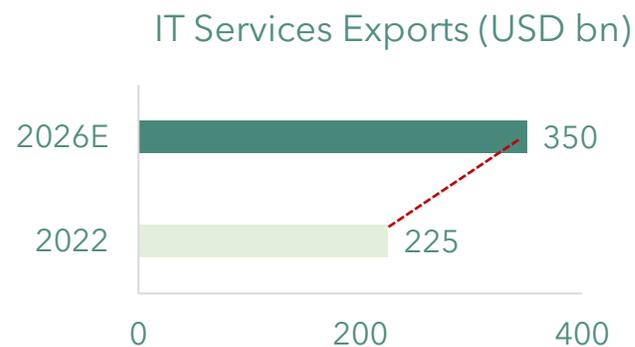
Key emerging tech shifts accelerated post pandemic



Technology - IT Services



- Covid has prompted companies worldwide to rethink & shift; Indian IT Tech companies an important cog in the wheel
- Demand for digital spending is “global” & supply is only “local”
- **IT services exports industry to grow from USD 225bn in 2022 to USD 350bn by 2026**
- 50% of the revenue getting spent as salaries/wages in the economy as first order effect which will boost consumption. Second and third order effect yet to follow.



Risk factors

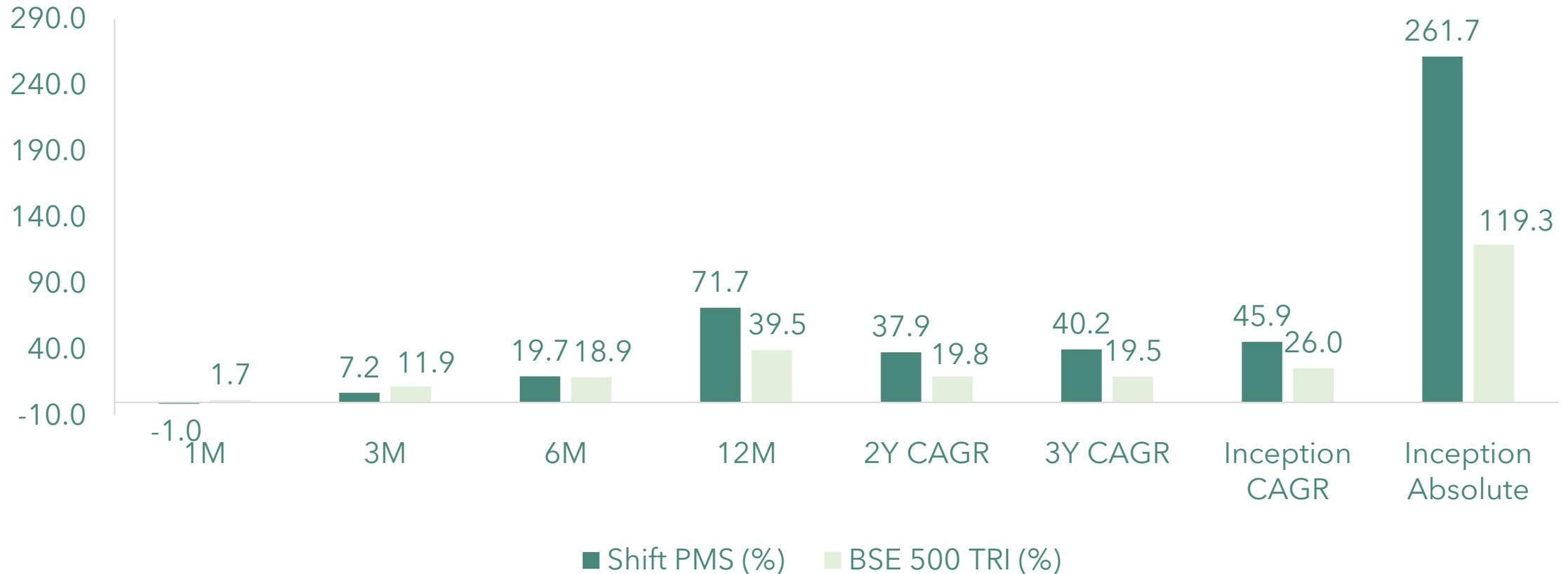


- Global meltdown of economy affecting overall demand
- World's softening stance against China
- Geo - Political risks
- Banking system risks
- Slowing down of reforms and change in government policies
- Significant currency appreciation



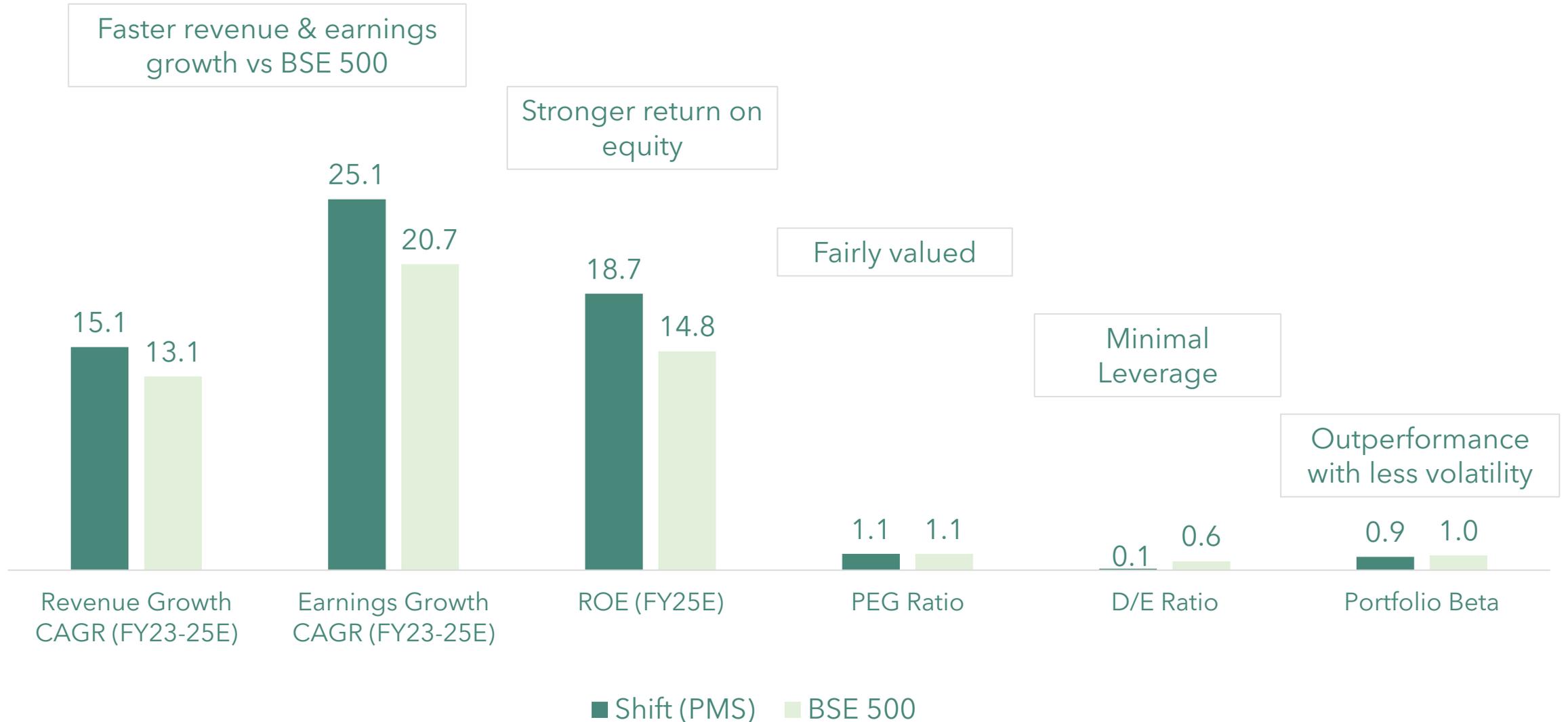
PORTFOLIO PERFORMANCE & ATTRIBUTES

Performance as on 29th February 2024



Note - Inception Date - 6th October 2020. Above returns are at strategy level, & net of all expenses. Above 1 year returns are annualized.

Faster, Stronger, Cheaper

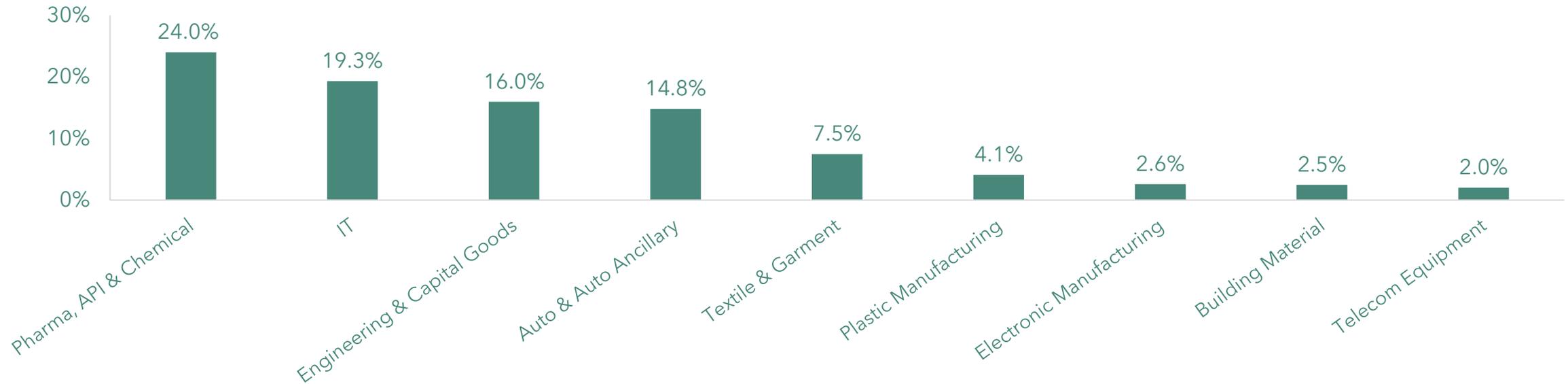


Source - Bloomberg consensus

Holdings as on 29th February 2024



Major Sector Allocation



Major Portfolio Holdings

Company	Sector	%	Company	Sector	%
Laurus Labs Ltd	Pharma, API & Chemical	5.7%	Syngene International Ltd	Pharma, API & Chemical	4.1%
Aarti Industries Ltd	Pharma, API & Chemical	5.3%	Shaily Engineering Plastics	Plastic Manufacturing	4.1%
The Anup Engineering Ltd	Engineering & Capital Goods	5.1%	Larsen & Toubro Ltd	Engineering & Capital Goods	4.0%
Phillips Carbon Black Ltd	Auto & Auto Ancillary	4.8%	Newgen Software Tech	IT	3.9%
Quick Heal Technologies Ltd	IT	4.8%	Ratnamani Metals & Tubes	Engineering & Capital Goods	3.8%



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 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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THANK YOU