INSTITUTIONAL RESEARCH

HSIE Results Daily

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Results Reviews

- **Bharat Petroleum Corporation:** Our ADD rating on Bharat Petroleum (BPCL), with a target price of INR 390, is premised on robust refining and marketing margins, offset by elevated debt, owing to a rise in working capital requirement and capex. Q4FY23 EBITDA stood at INR 112bn, while APAT was at INR 65bn, coming in well above our estimates, supported by a better-than-expected performance from the marketing segment. Reported GRMs were at USD 20.6/bbl (+USD 5.3/bbl YoY, +USD 4.7/bbl QoQ, HSIE: USD 19.8/bbl).
- **Gail (India):** Our BUY recommendation on GAIL with a target price of INR 125 is based on (1) an increase in gas transmission volume to 123mmscmd by FY25 on the back of an increase in domestic gas production, (2) completion of major pipelines in eastern and southern India, and (3) expectation of improvement in earnings from the petchem segment. Q4FY23 reported EBITDA/PAT at INR 3.1/6bn, well below our estimates, impacted by one-offs amounting to INR 12bn in the gas transmission segment and inventory loss of INR 2.3bn in the marketing segment. Higher-than-expected other income of INR 10.1bn in Q4 supported earnings.
- **Vinati Organics:** Our SELL recommendation on Vinati Organics with a discounted cash flow-based target price of INR 1,512 (WACC 11%, terminal growth 5%) is driven by a shift in the revenue mix towards lower-margin iso butyl benzene (IBB), butyl phenol, and other products as compared to ATBS, which has a higher margin. We believe the current valuation is contextually high at ~32x FY25E EPS. Q4 EBITDA/APAT were 7/18% below our estimates, owing to higher-than-anticipated input cost and higher-than-expected tax outgo.
- **Aditya Birla Fashion and Retail:** ABFRL's Q4FY23 print disappointed in profitability. Q4 revenue grew 26% YoY to INR28.8bn (4-yr CAGR: 10.7%; HSIE: INR 27.6bn). Both Madura/Pantaloons grew ahead of estimates. However, the big disappointment was on the margins. Continued investments in new forays and brand investments kept margins sup-optimal (the miss was Madura-led). EBITDAM contracted 965bps YoY to 6.7% (HSIE: 9.3%). Investments are likely to continue. That coupled with elevated inventory levels and rising debt levels places ABFRL precariously as margin loss due to inventory liquidation (in the event of a slowdown) becomes a base-case probability. Consequently, we cut our FY24/25 EBITDA estimates by 5% each and downgrade the stock to REDUCE with a revised DCF-based TP of INR190/sh; implying 18x Jun-25 EV/EBITDA.
- **Crompton Consumer:** Crompton's Q4FY23 print surprised positively, largely on account of a decent ECD performance in a challenging environment. ECD revenue grew by 8% YoY (Havells/Orient dipped 14/20% YoY). ECD growth was led by appliances (+43%) and pumps (+15%) while fans were flat (premium fans +24%; BLDC fans up 2.5x). While maintaining its fans' market share in the mass segment, Crompton has gained market share in premium fans (#2 in BLDC). Lighting remained weak due to subdued B2B performance. The company is focusing on fixing white spaces by taking various corrective steps like (1) higher brand investments; (2) innovation and R&D; (3) expanding GTM reach; (4) new brand architecture in pumps; and (5)

HSIE Research Team
hdfcsec-research@hdfcsec.com

dedicated sales team in lighting. Current valuation is low (ECD business is valued at <INR 140bn for EBIT of INR 8bn in FY23 vs. Havells' implied ECD value of c.INR 200bn for EBIT of INR 4bn). If Crompton sustains a healthy trend for the ECD business, the valuation gap will narrow. We maintain our estimates and value the stock at 35x on Mar'25E EPS to derive a TP of INR 400. Maintain BUY.

- **JK Lakshmi Cement:** We maintain our BUY rating on JK Lakshmi Cement (JKLC) with a lower target price of INR 815/share (8x Mar-25E consolidated EBITDA). In Q4FY23, JKLC reported a subdued 3% YoY volume growth and even the EBITDA margin recovered a modest INR 40 per MT QoQ to INR 687. However, JKLC is confident of ramping up the margin to INR 800 per MT in FY24E and towards INR 1000 per MT by H2FY25E, driven by improving geo-mix, increasing trade sales, increasing green energy share, and optimisation of the supply chain. Cooling off energy prices should also boost the margin rebound. The upcoming Udaipur expansions in FY24E should boost volume growth.
- **Multi Commodity Exchange:** MCX reported a weak quarter as revenue declined 6.8% QoQ, while the margin dipped in Q4 due to higher payments to the technology vendor. Technology transition remains the key focus area for MCX and it has conducted several mock trading sessions in the last few months. The management is confident of completing the technology shift by June-23; however, we highlighted in our recent note that the shift will be delayed by at least one quarter. The options revenue declined 1% QoQ despite a +17% growth in notional ADTV, as the premium-notional turnover declined to 2.17% vs 2.53% in Q3FY23. We remain constructive on the options growth story on the back of continued traction in energy contracts, the launch of new contracts (mini and index options) and the pick-up in bullion volumes. We expect the options revenue to grow 42/19% and contribute 42/45% towards total revenues in FY24/25E. We keep revenue estimates unchanged and change the EPS estimate by -4.1/+0.9% for FY24/25E. We maintain our BUY rating and assign 25x P/E to FY25E core PAT and add net cash (ex-SGF) to arrive at a target price of INR 1,700.
- **Star Cement:** We maintain ADD on Star Cement with a revised TP of INR 130/share (8x its Mar-25E consolidated EBITDA). Star's reported a decent 7% YoY volume growth in Q4FY23. Despite a major fall in incentive accruals, its unit EBITDA recovered ~INR 150 per MT QoQ to INR 1346 per MT (industry best for the fourth consecutive quarter!) on better logistics management and op-lev gains. Star's 12MW WHRS has become operational in Q1FY24. This along with other productivity gains and energy cost tailwinds will keep the margin buoyant despite the GST incentives expiration. Star's ongoing expansion will increase capacity by 70% to 9.7mn MT by H1FY25E.

Bharat Petroleum Corporation

Marketing segment drives earnings

Our ADD rating on Bharat Petroleum (BPCL), with a target price of INR 390, is premised on robust refining and marketing margins, offset by elevated debt, owing to a rise in working capital requirement and capex. Q4FY23 EBITDA stood at INR 112bn, while APAT was at INR 65bn, coming in well above our estimates, supported by a better-than-expected performance from the marketing segment. Reported GRMs were at USD 20.6/bbl (+USD 5.3/bbl YoY, +USD 4.7/bbl QoQ, HSIE: USD 19.8/bbl).

- **Refining:** BPCL's reported crude throughput, including the Bina refinery, was at 10.63mmt, (+5% YoY, +13% QoQ, HSIE: 10.3mmt). The overall GRM stood at USD 20.6/bbl, with the Mumbai refinery GRM at USD 15.7/bbl, the Kochi refinery GRM at USD 22.5/bbl and the Bina refinery GRM at USD 26.1/bbl. We estimate GRM for FY24/25E at USD 9.3/9.3 per bbl for BPCL and USD 10/10 per bbl for the Bina refinery.
- **Marketing:** Domestic marketing sales volume was at 12.9mmt (+9% YoY, +1% QoQ). The blended gross marketing margin for the quarter stood at INR 4.3/lit, likely supported by higher margins for petrol and other products and recovery in marketing margins on diesel as crude oil prices moderated. We expect a blended gross margin of INR 3.1/3.1 per lit in FY24/25E respectively.
- **Key highlights:** BPCL's gross debt in Q4 declined to INR 359bn, down 11% QoQ; however, it remains elevated YoY due to higher working capital requirements and capex.
- **Change in estimates:** We revise upwards our FY24/25E EPS by 9.1/7% to INR 40.5/47.3, to factor in higher marketing margins, partially offset by higher other expenses, interest costs and lower other income, delivering a revised TP of INR 390/sh.
- **SOTP-based valuation: Our target price comes to INR 390/sh (5x Mar-24E EV/e for standalone refining business, 6x Mar-24E EV/e for marketing business and pipeline businesses, and INR 202/sh for other investments). The stock is currently trading at 8.9x on FY24E EPS.**

Standalone financial summary

YE March (INR bn)	Q4 FY23	Q3 FY23	QoQ (%)	Q4 FY22	YoY (%)	FY21*	FY22*	FY23P*	FY24E*	FY25E*
Revenues	1,181	1,192	(0.9)	1,041	13.5	2,302	3,468	4,732	5,045	5,103
EBITDA	112	42	163.4	58	91.2	213	191	109	169	184
APAT	78	20	300.0	24	228.8	162	117	21	86	101
AEPS (INR)	36.8	9.2	300.0	11.2	228.8	75.9	54.9	10.0	40.5	47.3
P/E (x)						4.8	6.6	36.1	8.9	7.6
EV/EBITDA (x)						5.2	6.4	11.7	8.3	7.4
RoE (%)						35.9	22.2	4.0	15.0	15.4

Source: Company, HSIE Research | *Consolidated

Change in estimates (consolidated)

	FY24E			FY25E		
	Old	New	Ch%	Old	New	Ch%
AEPS (INR/sh)	37.2	40.5	9.1	44.2	47.3	7.0

Source: Company, HSIE Research

ADD

CMP *(as on 22 May 23)*	INR 362
Target Price	INR 390
NIFTY	18,314

KEY CHANGES	OLD	NEW
Rating	ADD	ADD
Price Target	INR 380	INR 390
EPS %	FY24E	FY25E
	+9.1%	+7%

KEY STOCK DATA	
Bloomberg code	BPCL IN
No. of Shares (mn)	2,169
MCap (INR bn) / ($ mn)	784/9,592
6m avg traded value (INR mn)	1,219
52 Week high / low	INR 375/288

STOCK PERFORMANCE (%)	3M	6M	12M
Absolute (%)	12.8	17.8	8.7
Relative (%)	9.1	17.0	(5.4)

SHAREHOLDING PATTERN (%)	Dec-22	Mar-23
Promoters	52.98	52.98
FIs & Local MFs	23.05	22.59
FPIs	12.53	12.58
Public & Others	11.44	11.54
Pledged Shares	0.00	0.00

Source: BSE

Harshad Katkar
harshad.katkar@hdfcsec.com
+91-22-6171-7319

Nilesh Ghuge
nilesh.ghuge@hdfcsec.com
+91-22-6171-7342

Akshay Mane
akshay.mane@hdfcsec.com
+91-22-6171-7338

Rutvi Chokshi
rutvi.chokshi@hdfcsec.com
+91-22-6171-7356

Gail (India)

Earnings impacted by one-offs

Our BUY recommendation on GAIL with a target price of INR 125 is based on (1) an increase in gas transmission volume to 123mmscmd by FY25 on the back of an increase in domestic gas production, (2) completion of major pipelines in eastern and southern India, and (3) expectation of improvement in earnings from the petchem segment. Q4FY23 reported EBITDA/PAT at INR 3.1/6bn, well below our estimates, impacted by one-offs amounting to INR 12bn in the gas transmission segment and inventory loss of INR 2.3bn in the marketing segment. Higher-than-expected other income of INR 10.1bn in Q4 supported earnings.

- **NG marketing:** Q4 marketing volume stood at 96mmscmd (+2% YoY, +7% QoQ) and trading margin stood at INR 0.7/tscm (-68% YoY). The operating profit came in at INR 5.8bn (-68% YoY), impacted by inventory loss of INR 2.3bn due to fluctuation in spot LNG price. Inventory loss in FY23 stood at INR 13.3bn.
- **Petchem:** Revenue was reported at INR 14bn (-46% YoY, +81% QoQ), with improvement in sales volume at 118kT, (-45% YoY, +82% QoQ). Petchem production improved to 147kT (+2.1x YoY), implying capacity utilisation of 66% owing to a decline in spot LNG prices and allocation of HPHT gas. Revenue improved, owing to improvement in production; however, the realisation of INR 115/kg (-1% QoQ) remained muted, resulting in an operating loss of INR 2.6bn.
- **NG transmission:** Transmission segment volumes at 108.2mmscmd (+1% YoY, +4% QoQ) came in marginally above our estimates while transmission tariffs stood at INR 1,693/tscm (+3% YoY, -3% QoQ). EBITDA came in at INR 3bn (-74% YoY, -59% QoQ), impacted by a one-off expense of ~INR 12bn.
- **Key takeaways**: (1) The company has incurred a Capex of INR ~91bn in FY23; it aims to incur a Capex of INR 102bn in FY24. (2) Management has guided gas transmission volume to improve to 118mmscmd in FY24. (3) With unified pipeline tariffs implemented, management has guided incremental operating profits from the gas transmission segment of INR 15bn. (4) Gross debt increased to INR 178bn (+93% YoY), owing to higher working capital requirements.
- **Change in estimates:** We cut our FY24/25E EPS estimates by 8/3% to INR 12.7/13 to factor in higher other expenses employee cost, depreciation and interest cost, partially offset by higher marketing margins and higher petchem volumes. Our target price is revised to INR 125/sh, owing to rise in net debt.
- **Our SOTP, at INR 125/sh, is based on 7x Mar-24E EV/e for the stable natural gas and LPG transmission business, 6x EV/e for the gas marketing business, 5x EV/e for the cyclical petchem and LPG/LHC business, INR 34 for investments. The stock is currently trading at 8.3x FY24E EPS.**

Standalone financial summary

YE March (INR bn)	Q4 FY23	Q3 FY23	QoQ (%)	Q4 FY22	YoY (%)	FY21*	FY22*	FY23P*	FY24E*	FY25E*
Revenue	328	365	(9.9)	270	21.8	574	928	1,457	1,204	1,230
EBITDA	3	14	(77.4)	37	(91.7)	72	152	75	112	115
PAT	6	13	(55.2)	27	(77.5)	61	123	56	84	86
EPS (INR)	0.9	2.0	(55.2)	4.1	(77.5)	9.3	18.6	8.5	12.7	13.0
P/E (x)						11.2	5.6	12.3	8.3	8.1
EV / EBITDA (x)						10.4	5.0	11.6	7.8	7.6
RoE (%)						12.0	20.9	8.7	12.1	11.0

Source: Company, HSIE Research | *Consolidated

BUY

CMP *(as on 19 May 23)*	INR 105
Target Price	INR 125
NIFTY	18,203

KEY CHANGES	OLD	NEW
Rating	BUY	BUY
Price Target	INR 128	INR 125
	FY24E	FY25E
EPS change	-8%	-2.8%

KEY STOCK DATA	
Bloomberg code	GAIL IN
No. of Shares (mn)	6,575
MCap (INR bn) / ($ mn)	689/8,430
6m avg traded value (INR mn)	1,499
52 Week high / low	INR 114/83

STOCK PERFORMANCE (%)	3M	6M	12M
Absolute (%)	9.2	16.1	2.3
Relative (%)	8.0	16.0	(14.6)

SHAREHOLDING PATTERN (%)	Dec-22	Mar-23
Promoters	51.90	51.91
FIs & Local MFs	23.89	25.86
FPIs	18.04	16.41
Public & Others	6.17	5.83
Pledged Shares	0.0	0.0

Source : BSE

Harshad Katkar
harshad.katkar@hdfcsec.com
+91-22-6171-7319

Nilesh Ghuge
nilesh.ghuge@hdfcsec.com
+91-22-6171-7342

Akshay Mane
akshay.mane@hdfcsec.com
+91-22-6171-7338

Rutvi Chokshi
rutvi.chokshi@hdfcsec.com
+91-22-6171-7356

Vinati Organics

ATBS demand and margin under pressure

Our SELL recommendation on Vinati Organics with a discounted cash flow-based target price of INR 1,512 (WACC 11%, terminal growth 5%) is driven by a shift in the revenue mix towards lower-margin iso butyl benzene (IBB), butyl phenol, and other products as compared to ATBS, which has a higher margin. We believe the current valuation is contextually high at ~32x FY25E EPS. Q4 EBITDA/APAT were 7/18% below our estimates, owing to higher-than-anticipated input cost and higher-than-expected tax outgo.

- **Financial performance:** Q4 revenue remained flat QoQ/YoY at INR 5bn. EBITDA came in at INR 1.5bn (-7/+10% QoQ/YoY) with EBITDA margin deteriorating by 194bps sequentially to 30%, owing to higher input cost.
- **ATBS**: ATBS demand declined in Q4, owing to destocking happening at the company's customers' end. It contributed 44% to the Q4 topline (47% in Q3). ATBS' demand shall continue to remain weak, owing to destocking activities in FY24 and the company shall register a decline in its volume.
- **Iso butyl benzene (IBB)**: IBB witnessed robust demand in Q4. Revenue contribution came in at ~19% in Q4 (17% in Q3).
- **Butyl phenol**: The butyl phenol segment contributed 15% to the revenue in Q4 (15% in Q3) and the management expects the traction to continue.
- **Capex update**: (1) The **ATBS** capacity expansion from 40kTPA to 60kTPA is delayed by a quarter and shall come on stream in Mar-24. (2) **Veeral Additives** has started contributing to the revenue and we expect it to reach its optimum capacity by FY26. (3) Capex of INR 2.8bn in **Veeral Organics** to introduce 5-6 niche speciality chemical intermediates would come on stream in Mar-24. The company is aiming for 50% capacity utilisation in FY25. (4) It spent INR ~1.8bn in FY23 and plans to spend INR ~4bn in FY24.
- **Change in estimates:** We cut our FY24/25 EPS estimates by 15.2/17.2% to INR 45.5/60.7 to account for subdued demand and pressure on margins in ATBS, to factor in Capex execution and a higher tax rate assumption.

Financial summary (consolidated)

INR mn	Q4 FY23	Q3 FY23	QoQ (%)	Q4 FY22	YoY (%)	FY21	FY22	FY23P	FY24E	FY25E
Net Sales	5,034	5,087	(1.0)	4,861	3.6	9,543	16,155	20,847	22,863	30,145
EBITDA	1,523	1,638	(7.0)	1,388	9.8	3,525	4,341	5,954	6,164	8,417
APAT	1,154	1,254	(8.0)	1,011	14.1	2,693	3,466	4,580	4,673	6,239
AEPS (INR)	11.2	12.2	(8.0)	9.8	14.1	26.2	33.7	44.6	45.5	60.7
P/E (x)						73.7	57.3	43.3	42.5	31.8
EV/EBITDA(x)						55.8	45.8	33.0	31.8	22.9
RoE (%)						19.1	20.6	22.6	19.4	21.6

Source: Company, HSIE Research

Change in estimates (consolidated)

Y/E Mar	FY24E Old	FY24E New	% Ch	FY25E Old	FY25E New	% Ch
EBITDA (INR mn)	7,085	6,164	(13.0)	9,852	8,417	(14.6)
Adj. EPS (INR/sh)	53.6	45.5	(15.2)	73.3	60.7	(17.2)

Source: Company, HSIE Research

SELL

CMP *(as on 22 May 23)*	INR 1,794
Target Price	INR 1,512
NIFTY	18,314

KEY CHANGES	OLD	NEW
Rating	SELL	SELL
Price Target	INR 1,734	INR 1,512
	FY24E	FY25E
EPS %	-15.2%	-17.2%

KEY STOCK DATA	
Bloomberg code	VO IN
No. of Shares (mn)	103
MCap (INR bn) / ($ mn)	184/2,254
6m avg traded value (INR mn)	87
52 Week high / low	INR 2,377/1,693

STOCK PERFORMANCE (%)	3M	6M	12M
Absolute (%)	(4.4)	(13.0)	(14.9)
Relative (%)	(8.1)	(13.9)	(28.9)

SHAREHOLDING PATTERN (%)	Dec-22	Mar-23
Promoters	74.06	74.06
FIs & Local MFs	7.89	7.91
FPIs	4.81	4.79
Public & Others	13.24	13.24
Pledged Shares	0.00	0.00

Source: BSE

Nilesh Ghuge
nilesh.ghuge@hdfcsec.com
+91-22-6171-7342

Harshad Katkar
harshad.katkar@hdfcsec.com
+91-22-6171-7319

Rutvi Chokshi
rutvi.chokshi@hdfcsec.com
+91-22-6171-7356

Akshay Mane
akshay.mane@hdfcsec.com
+91-22-6171-7338

Aditya Birla Fashion and Retail

Profitability disappoints; precariously placed!

ABFRL's Q4FY23 print disappointed in profitability. Q4 revenue grew 26% YoY to INR28.8bn (4-yr CAGR: 10.7%; HSIE: INR 27.6bn). Both Madura/Pantaloons grew ahead of estimates. However, the big disappointment was on the margins. Continued investments in new forays and brand investments kept margins sup-optimal (the miss was Madura-led). EBITDAM contracted 965bps YoY to 6.7% (HSIE: 9.3%). Investments are likely to continue. That coupled with elevated inventory levels and rising debt levels places ABFRL precariously as margin loss due to inventory liquidation (in the event of a slowdown) becomes a base-case probability. Consequently, we cut our FY24/25 EBITDA estimates by 5% each and downgrade the stock to REDUCE with a revised DCF-based TP of INR190/sh; implying 18x Jun-25 EV/EBITDA.

- **Q4FY23 highlights**: Revenue grew by 26% YoY to INR 28.8bn (3-yr CAGR: 10.7%; HSIE: 27.6bn). Madura/Pantaloons clocked a 4-year CAGR of 11.5/6% resp in Q4 to INR19.27/7.98bn (HSIE: 18.52/7.17bn resp). Lifestyle brands fell short of expectations. While GM remained steady YoY at 55.8%, EBITDAM contracted 965bps YoY to 6.7% (HSIE: 9.3%). The big margin miss was led by (1) continued investments in new forays and elevated brand spending, (2) demand slowdown post-festive season kept unit economics in both flagships sub-optimal. On segmental margins, Lifestyle Brands/Pantaloons/ethnic wear/other businesses' margins clocked 14.7/8.9/-11.5/-7.7% EBITDAM (vs HSIE:15.5/8.0/-2.4/-8.5%) resp. Note: The base quarter also contained some offs like rental concessions. EBITDA declined 48% YoY to INR1.93bn (HSIE: 2.56bn). ABFRL added 128/54 (net) Lifestyle Brands/Pantaloons stores FY23 (total store count: 2,650/431 stores). Net losses for Q4 stood at –INR 1.95bn (HSIE: - INR 1.1 bn). Management highlighted that investments are likely to continue towards (1) a D2C foray – TMRW, (2) ethnic wear brands TASVA and (3) TCNS acquisition. FY24 capex is likely to be ~INR7bn. Net Debt stood at INR14.2bn and inventory/payable days stood at 124/113 days in FY23.
- **Outlook**: ABFRL's aggressive strategy of expansion (both organic and inorganic), the already rising debt, and elevated WC requirements make its balance sheet extremely prone to the vagaries of consumer demand—a slight misstep can lead to (1) inventory liquidation-led margin loss or (2) derailed growth. Consequently, we cut our FY24/25 EBITDA estimates by 5% each and downgrade the stock to REDUCE with a DCF-based TP of INR190/sh; implying 18x Jun-25 EV/EBITDA.

Quarterly financial summary

(Rs mn)	Q4FY23	Q4FY22	YoY (%)	Q3FY23	QoQ (%)	FY22	FY23	FY24E	FY25E	FY26E
Net Revenue	28,797	22,828	26	35,888	(20)	81,362	1,24,179	1,40,003	1,59,343	1,80,363
Adj EBITDA	1,928	3,730	(48)	4,356	(56)	10,999	14,936	18,362	22,092	26,182
APAT	(1,945)	319	(710)	112	(1,835)	(1,184)	(595)	(651)	1,558	3,657
EPS (Rs)	(2.05)	0.34	(703)	0.12	(1,835)	(1.3)	(0.6)	(0.6)	1.5	3.6
P/E (x)						(160.1)	(294.8)	(336.3)	131.6	43.1
EV/EBITDA (x)						77.6	31.1	24.9	20.1	15.3
Core RoCE(%)						1.3	2.3	3.9	8.4	11.1

Source: Company, HSIE Research, Standalone Financials

Change in estimates

(Rs mn)	FY23E			FY24E			FY25E		
	New	Old	Change (%)	New	Old	Change (%)	New	Old	Change (%)
Revenue	1,24,179	1,22,936	1.0	1,40,003	1,43,344	(2.3)	1,59,343	1,62,883	(2.2)
EBITDA	14,936	15,694	(4.8)	18,362	19,293	(4.8)	22,092	23,162	(4.6)
EBITDA margin (%)	12.0	12.8	(74 bps)	13.1	13.5	(34 bps)	13.9	14.2	(36 bps)

Source: Company, HSIE Research

REDUCE

CMP *(as on 22 May 23)*	INR 190
Target Price	INR 190
NIFTY	18,314

KEY CHANGES	OLD	NEW
Rating	ADD	REDUCE
Price Target	INR 210	INR 190
EBITDA %	FY24E	FY25E
	-4.8	-4.6

KEY STOCK DATA	
Bloomberg code	ABFRL IN
No. of Shares (mn)	949
MCap (INR bn) / ($ mn)	180/2,202
6m avg traded value (INR mn)	615
52 Week high / low	INR 360/188

STOCK PERFORMANCE (%)	3M	6M	12M
Absolute (%)	(19.0)	(38.6)	(30.0)
Relative (%)	(22.7)	(39.5)	(44.1)

SHAREHOLDING PATTERN (%)	Dec-22	Mar-23
Promoters	51.88	51.87
FIs & Local MFs	12.01	12.07
FPIs	20.13	19.95
Public & Others	15.98	16.11
Pledged Shares	0	0

Source : BSE

Pledged shares as % of total shares

Jay Gandhi
jay.gandhi@hdfcsec.com
+91-22-6171-7320

Riddhi Shah
riddhi.shah@hdfcsec.com
+91-22-6171-7359

Crompton Consumer

Taking steps in the right direction

Crompton's Q4FY23 print surprised positively, largely on account of a decent ECD performance in a challenging environment. ECD revenue grew by 8% YoY (Havells/Orient dipped 14/20% YoY). ECD growth was led by appliances (+43%) and pumps (+15%) while fans were flat (premium fans +24%; BLDC fans up 2.5x). While maintaining its fans' market share in the mass segment, Crompton has gained market share in premium fans (#2 in BLDC). Lighting remained weak due to subdued B2B performance. The company is focusing on fixing white spaces by taking various corrective steps like (1) higher brand investments; (2) innovation and R&D; (3) expanding GTM reach; (4) new brand architecture in pumps; and (5) dedicated sales team in lighting. Current valuation is low (ECD business is valued at <INR 140bn for EBIT of INR 8bn in FY23 vs. Havells' implied ECD value of c.INR 200bn for EBIT of INR 4bn). If Crompton sustains a healthy trend for the ECD business, the valuation gap will narrow. We maintain our estimates and value the stock at 35x on Mar'25E EPS to derive a TP of INR 400. Maintain BUY.

- **ECD revenue growth surprises positively:** Revenue grew by 16% YoY to INR 17.9bn (HSIE INR 17.4bn). Organic revenue (ex-Butterfly) grew by 4% YoY to INR 16bn (HSIE INR 15.5bn). ECD segment surprised positively, growing by 8% YoY (Havells/Orient fell by 14/20% YoY), led by appliances (+42%) and pumps (+15%) while fans' was flat (premium fans up 24%). Built-in kitchen revenue (launched 10 months ago) clocked a revenue of INR 130mn (exit monthly rate at INR 50mn). Lighting revenue fell 12% YoY due to lower B2B sales. Butterfly revenue fell 2% YoY. The retail channel continued to grow strongly across categories (+19% YoY). We model consolidated revenues to grow at 11% over FY23-25 with similar growth across segments.
- **GM improvement reinvested on A&P:** GM expanded by 170bps YoY to 31.5%, aided by stability in RM basket and value engineering. However, the EBITDA margin contracted by 300bps YoY due to higher A&P spending (3.9% vs 2% YoY), distribution and capability building. EBITDA fell 8% YoY. ECD margin fell by 210bps YoY to 16.4% (up 60bps QoQ) while the lighting margin fell 320bps YoY to 10.9% (up 60bps QoQ). The sequential improvement in margins is led by cost efficiencies and mix improvement. Butterfly reported an EBIT margin of 2%. ECD EBIT margin at 16.6% in FY23 is lower than 20% during pre-COVID; we model 17-18% EBIT margin for FY24/25. Pre-covid margin will be difficult due to rising spending on R&D and marketing.
- **Con call and BS/CF takeaways:** (1) BEE transition handling was better than the competition in H2FY23 (2) Of the 15% cost increase due to rating change in fans, Crompton saved 8-10% through Project Unnati (FY23 total savings at INR 2.4bn). (3) Maintained its fans' market share in the mass segment while increasing its share in the premium segment. (4) The company now has a separate lighting sales team which shall report to the BU head instead of the centralized sales head. (5) In FY23, FCF stood at INR 4.7bn vs INR 5.5bn YoY.

Quarterly/annual financial summary

YE Mar (INR mn)	Q4FY23	Q4FY22	YoY (%)	Q3FY23	QoQ (%)	FY22	FY23	FY24E	FY25E
Net Sales	17,910	15,479	15.7	15,162	18.1	53,941	68,696	76,817	85,379
EBITDA	2,114	2,288	(7.6)	1,524	38.7	7,695	7,705	9,519	11,098
APAT	1,316	1,694	(22.3)	882	49.2	5,829	4,764	6,004	7,258
Diluted EPS (INR)	2.05	2.67	(23.5)	1.39	46.9	9.2	7.5	9.5	11.5
P/E (x)						28.3	34.6	27.4	22.7
EV / EBITDA (x)						21.5	21.7	17.0	14.1
RoCE (%)						16.9	15.1	19.3	22.7

Source: Company, HSIE Research

BUY

CMP *(as on 22 May 23)*	INR 260
Target Price	INR 400
NIFTY	18,314

KEY CHANGES	OLD	NEW
Rating	BUY	BUY
Price Target	INR 400	INR 400
EPS %	FY24E	FY25E
	0%	0%

KEY STOCK DATA	
Bloomberg code	CROMPTON IN
No. of Shares (mn)	636
MCap (INR bn) / ($ mn)	165/2,020
6m avg traded value (INR mn)	666
52 Week high / low	INR 429/251

STOCK PERFORMANCE (%)	3M	6M	12M
Absolute (%)	(12.5)	(29.5)	(24.1)
Relative (%)	(16.2)	(30.4)	(38.2)

SHAREHOLDING PATTERN (%)	Dec-22	Mar-23
Promoters	0.00	0.00
FIs & Local MFs	44.75	44.40
FPIs	39.54	39.63
Public & Others	15.71	15.97
Pledged Shares	0.00	0.00

Source : BSE

Pledged shares as % of total shares

Naveen Trivedi
naveen.trivedi@hdfcsec.com
+91-22-6171-7324

Paarth Gala
paarth.gala@hdfcsec.com
+91-22-6171-7336

Riddhi Shah
riddhi.shah@hdfcsec.com
+91-22-6171-7359

JK Lakshmi Cement

Subdued margin expected to expand during FY24-25E

We maintain our BUY rating on JK Lakshmi Cement (JKLC) with a lower target price of INR 815/share (8x Mar-25E consolidated EBITDA). In Q4FY23, JKLC reported a subdued 3% YoY volume growth and even the EBITDA margin recovered a modest INR 40 per MT QoQ to INR 687. However, JKLC is confident of ramping up the margin to INR 800 per MT in FY24E and towards INR 1000 per MT by H2FY25E, driven by improving geo-mix, increasing trade sales, increasing green energy share, and optimisation of the supply chain. Cooling off energy prices should also boost the margin rebound. The upcoming Udaipur expansions in FY24E should boost volume growth.

- **Q4FY23 performance**: For Q4FY23, consolidated EBITDA missed ours/ consensus estimates by 18/20%, owing to higher-than-estimated energy/input costs. Cement volume grew 3/18% YoY/QoQ (in-line). Blended NSR rose 1% QoQ (+13% YoY). Adjusted for non-cement revenue, NSR rose 2/13% QoQ/YoY. Cement opex grew 1% QoQ in Q4 owing to a spike in input costs. Therefore, unitary EBITDA just rose by INR 40 per MT QoQ to INR 687 per MT.
- **Outlook**: It expects to deliver above 10% volume growth in FY24E, aided by clinker contribution from upcoming expansions in UCW in H2FY24. JKLC is also confident of ramping up the EBITDA margin to ~INR 800 per MT in FY24 and towards INR 1,000 by H2FY25, through its focus on geo-mix, enhancing trade sales, brand premiumisation and rising share of green energy. It expects its unit fuel cost to fall 5% QoQ in Q1FY24. Its UCW 1.5/ 2.5 mn MT clinker/ cement expansion is expected to be commissioned by Q3FY24/Q2FY25 respectively for a Capex of INR 16.5bn. By FY24-end, it plans to increase its green power/AFR consumption share to 50/10% respectively. Factoring in weak Q4 performance, we cut our FY24/25 EBITDA estimates by 7/4%.

Quarterly/annual financial summary (consolidated)

YE Mar (INR bn)	Q4 FY23	Q4 FY22	YoY (%)	Q3 FY23	QoQ (%)	FY21	FY22	FY23	FY24E	FY25E
Sales (mn MT)	3.39	3.29	*2.9*	2.88	*17.7*	10.45	11.20	11.82	12.76	13.78
NSR (INR/MT)	5,496	4,861	*13.1*	5,426	*1.3*	4,524	4,840	5,460	5,515	5,625
EBITDA(INR/MT)	687	987	*(30.4)*	644	*6.7*	898	849	710	822	922
Net Sales	18.62	16.00	*16.4*	15.62	*19.2*	47.27	54.20	64.52	70.37	77.52
EBITDA	2.33	3.25	*(28.3)*	1.85	*25.6*	9.39	9.51	8.39	10.48	12.71
APAT	1.10	2.38	*(53.7)*	0.76	*44.0*	4.43	4.91	3.59	5.14	6.20
AEPS (INR)	9.3	17.9	*(47.8)*	6.5	*44.0*	37.7	41.7	30.5	43.7	52.7
EV/EBITDA (x)						9.8	9.6	10.9	8.9	7.2
EV/MT (INR bn)						6.93	6.54	6.57	6.72	5.60
P/E (x)						19.2	17.3	23.7	16.6	13.7
RoE (%)						*23.4*	*21.1*	*13.3*	*16.7*	*17.2*

Source: Company, HSIE Research

Estimates revision summary

INR bn	FY24E Old	FY24E Revised	*Change %*	FY25E Old	FY25E Revised	*Change %*
Net Sales	70.6	70.4	*-0.4*	77.6	77.5	*-0.1*
EBITDA	11.26	10.48	*-6.9*	13.18	12.71	*-3.6*
APAT	5.71	5.14	*-9.9*	6.61	6.20	*-6.2*

Source: Company, HSIE Research

BUY

CMP *(as on 22 May 23)*	INR 724
Target Price	INR 815
NIFTY	18,314

KEY CHANGES	OLD	NEW
Rating	BUY	BUY
Price Target	INR 865	INR 815
EBITDA revision %	FY24E *(6.9)*	FY25E *(3.6)*

KEY STOCK DATA	
Bloomberg code	JKLC IN
No. of Shares (mn)	118
MCap (INR bn) / ($ mn)	85/1,042
6m avg traded value (INR mn)	355
52 Week high / low	INR 897/382

STOCK PERFORMANCE (%)	3M	6M	12M
Absolute (%)	(3.0)	14.9	46.7
Relative (%)	(6.7)	14.0	32.6

SHAREHOLDING PATTERN (%)	Dec-22	Mar-23
Promoters	46.31	46.31
FIs & Local MFs	25.57	27.95
FPIs	13.81	11.68
Public & Others	14.31	14.05
Pledged Shares	-	-

Source : BSE

Pledged shares as % of total shares

Rajesh Ravi
rajesh.ravi@hdfcsec.com
+91-22-6171-7352

Keshav Lahoti
Keshav.lahoti@hdfcsec.com
+91-22-6171-7353

Multi Commodity Exchange

Tech transition remains a key focus area

MCX reported a weak quarter as revenue declined 6.8% QoQ, while the margin dipped in Q4 due to higher payments to the technology vendor. Technology transition remains the key focus area for MCX and it has conducted several mock trading sessions in the last few months. The management is confident of completing the technology shift by June-23; however, we highlighted in our recent note that the shift will be delayed by at least one quarter. The options revenue declined 1% QoQ despite a +17% growth in notional ADTV, as the premium-notional turnover declined to 2.17% vs 2.53% in Q3FY23. We remain constructive on the options growth story on the back of continued traction in energy contracts, the launch of new contracts (mini and index options) and the pick-up in bullion volumes. We expect the options revenue to grow 42/19% and contribute 42/45% towards total revenues in FY24/25E. We keep revenue estimates unchanged and change the EPS estimate by -4.1/+0.9% for FY24/25E. We maintain our BUY rating and assign 25x P/E to FY25E core PAT and add net cash (ex-SGF) to arrive at a target price of INR 1,700.

- **Q4FY23 highlights**: MCX revenue declined 6.8% QoQ to INR 1.34bn (+25.6% YoY), in line with our estimate. Futures ADTV declined 13.6% QoQ to INR 206bn due to the decline across categories, partially offset by the increase in bullion volumes (+2.9% QoQ). EBITDA margin was down 2,126bps QoQ to 1.55% due to an additional payout made to 63moons. Options notional/premium ADTV stood at INR 457.10/9.90bn and it contributed ~INR 0.53bn (~39% of total revenue). Crude/natural gas/bullion contributed 81/11/8% to options volume. Options realisation stood at INR 10.5/mn, which is ~51% of futures realisation. The additional payout will impact profitability in Q1FY24. Cash and equivalents as of Mar-23 (ex-SGF) stood at INR 17.6bn (~27% of mcap).
- **Outlook:** We estimate a +2/44% futures/options ADTV CAGR over FY23-25E, resulting in +15/60% revenue/APAT CAGRs over FY23-25E. The core PAT CAGR is at 73% over FY23-25E.

Quarterly financial summary

YE March (INR mn)	Q4 FY23	Q4 FY22	YoY (%)	Q3 FY23	QoQ (%)	FY21	FY22	FY23	FY24E	FY25E
Net Sales	1,338	1,065	*25.6*	1,436	*(6.8)*	3,906	3,668	5,135	5,941	6,728
EBITDA	21	532	*(96.1)*	327	*(93.7)*	1,852	1,622	1,497	2,080	4,085
APAT	55	570	*(90.4)*	388	*(85.9)*	2,252	1,434	1,490	2,146	3,822
EPS (INR)	1.1	11.2	*(90.4)*	7.6	*(85.9)*	44.3	28.2	29.3	42.1	75.1
P/E (x)						30.5	48.0	46.2	32.1	18.0
EV / EBITDA (x)						31.1	34.6	40.7	28.4	14.2
RoE (%)						16.2	10.1	10.3	14.3	24.5

Source: Company, HSIE Research, Consolidated Financials

Change in estimates

YE March (INR mn)	FY24E Old	FY24E Revised	Change %	FY25E Old	FY25E Revised	Change %
Revenue	5,940	5,941	*0.0*	6,726	6,728	*0.0*
EBITDA	2,184	2,080	*-4.8*	4,078	4,085	*0.2*
EBITDA Margin (%)	36.8	35.0	-176bps	60.6	60.7	9bps
APAT	2,237	2,146	*-4.1*	3,786	3,822	*0.9*
EPS (Rs)	43.9	42.1	*-4.1*	74.4	75.1	*0.9*

Source: Company, HSIE Research

BUY

CMP *(as on 22 May 23)*	INR 1,320
Target Price	INR 1,700
NIFTY	18,314

KEY CHANGES	OLD	NEW
Rating	BUY	BUY
Price Target	INR 1,720	INR 1,700
	FY24E	FY25E
EPS %	-4.1	+0.9

KEY STOCK DATA	
Bloomberg code	MCX IN
No. of Shares (mn)	51
MCap (INR bn) / ($ mn)	67/823
6m avg traded value (INR mn)	466
52 Week high / low	INR 1,697/1,153

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	(4.4)	(12.3)	2.0
Relative (%)	(8.1)	(13.2)	(12.1)

SHAREHOLDING PATTERN (%)

	Dec-22	Mar-23
Promoters	0.00	0.00
FIs & Local MFs	52.82	52.71
FPIs	25.77	26.95
Public & Others	21.22	20.34
Pledged Shares	0.00	0.00

Source : BSE

Pledged shares as % of total shares

Amit Chandra
amit.chandra@hdfcsec.com
+91-22-6171-7345

Vivek Sethia
vivek.sethia@hdfcsec.com
+91-22-6171-7339

Star Cement

Industry-best margin for the fourth consecutive quarter

We maintain ADD on Star Cement with a revised TP of INR 130/share (8x its Mar-25E consolidated EBITDA). Star's reported a decent 7% YoY volume growth in Q4FY23. Despite a major fall in incentive accruals, its unit EBITDA recovered ~INR 150 per MT QoQ to INR 1346 per MT (industry best for the fourth consecutive quarter!) on better logistics management and op-lev gains. Star's 12MW WHRS has become operational in Q1FY24. This along with other productivity gains and energy cost tailwinds will keep the margin buoyant despite the GST incentives expiration. Star's ongoing expansion will increase capacity by 70% to 9.7mn MT by H1FY25E.

- **Q4FY23 performance:** Sales volume jumped 36% QoQ (+7% YoY) in Q4, driven by healthy demand in the northeast and the Siliguri plant ramp-up. Star operated its clinker/cement capacities at 111/87%. NSR declined 2% QoQ (up 3% YoY) on major incentives expiration in Jan-23. Opex cooled off 5% QoQ, driven by op-lev gains and freight cost savings (higher usage of own fleet led to lower costs in peak quarter). Unit energy costs remained flat QoQ. Thus, Star continued to deliver industry-leading margin: EBITDA went up INR 150 per MT QoQ to INR 1346 per MT (despite lower incentives).
- **Capex update and outlook**: Star's 12MW WHRS plant started operations in May 2022 (will save INR 400mn in annual opex). Additionally, increased own fleet usage, savings from new limestone mines, and energy cost reductions are expected to offset the impact of the sharp drop in incentives in FY24E. Star's expansions (total Capex ~INR 21bn) are on track to be fully commissioned in H1FY25E. These plants will further increase incentive accruals from FY25E onwards. We lower FY24E EBITDA by 3% to factor in lower incentives but increase FY25E EBITDA by 3% factoring in higher volumes. Factoring in strong working capital management and lower Capex outgo, we increase our target price to INR 130/sh (8x FY25E consolidated EBITDA).

Quarterly/annual financial summary (consolidated)

YE Mar (INR mn)	Q4 FY23	Q4 FY22	*YoY (%)*	Q3 FY23	*QoQ (%)*	FY21	FY22	FY23	FY24E	FY25E
Sales Vol (mn MT)	1.24	1.15	7.2	0.91	36.0	2.7	3.40	4.01	4.54	5.90
NSR (INR/MT)	6,680	6,504	2.7	6,823	(2.1)	6,220	6,527	6,739	6,536	6,438
EBITDA (INR/MT)	1,346	984	36.8	1,194	12.7	1,233	1,014	1,167	1,233	1,245
Net Sales	8,250	7,492	*10.1*	6,195	*33.2*	17,199	22,218	27,048	29,648	37,964
EBITDA	1,662	1,134	*46.6*	1,084	*53.3*	3,326	3,453	4,684	5,591	7,342
APAT	961	884	*8.7*	529	*81.8*	2,401	2,468	2,476	2,593	2,910
AEPS (INR)	2.4	2.2	*8.7*	1.3	*81.8*	5.8	6.1	6.1	6.4	7.2
EV/EBITDA (x)						13.9	12.5	9.3	9.7	7.7
EV/MT (INR bn)						11.2	9.9	8.9	9.3	7.7
P/E (x)						21.4	20.8	20.7	19.8	17.6
RoE (%)						*12.0*	11.6	10.8	*10.2*	*10.5*

Source: Company, HSIE Research

Consolidated Estimates revision summary

INR bn	FY24E Old	FY24E Revised	*Change %*	FY25E Old	FY25E Revised	*Change %*
Net Sales	30.4	29.6	*-2.4*	38.3	38.0	*-1.0*
EBITDA	5.77	5.59	*-3.1*	7.14	7.34	*2.9*
APAT	2.67	2.59	*-2.8*	2.19	2.91	*32.8*

Source: Company, HSIE Research

ADD

CMP *(as on 22 May 23)*	**INR 127**
Target Price	**INR 130**
NIFTY	**18,314**

KEY CHANGES	**OLD**	**NEW**
Rating	ADD	ADD
Price Target	INR 115	INR 130
EBITDA revision %	FY24E *(3.1)*	FY25E *2.9*

KEY STOCK DATA	
Bloomberg code	STRCEM IN
No. of Shares (mn)	404
MCap (INR bn) / ($ mn)	51/626
6m avg traded value (INR mn)	45
52 Week high / low	INR 133/81

STOCK PERFORMANCE (%)

	3M	**6M**	**12M**
Absolute (%)	16.2	23.4	40.4
Relative (%)	12.5	22.5	26.4

SHAREHOLDING PATTERN (%)

	Dec-22	**Mar-23**
Promoters	67.03	67.12
FIs & Local MFs	6.14	6.15
FPIs	0.53	0.63
Public & Others	26.29	26.10
Pledged Shares	0.00	0.00

Source : BSE

Pledged shares as % of total shares

Rajesh Ravi
rajesh.ravi@hdfcsec.com
+91-22-6171-7352

Keshav Lahoti
keshav.lahoti@hdfcsec.com
+91-22-6171-7353

Rating Criteria

BUY: >+15% return potential

ADD: +5% to +15% return potential

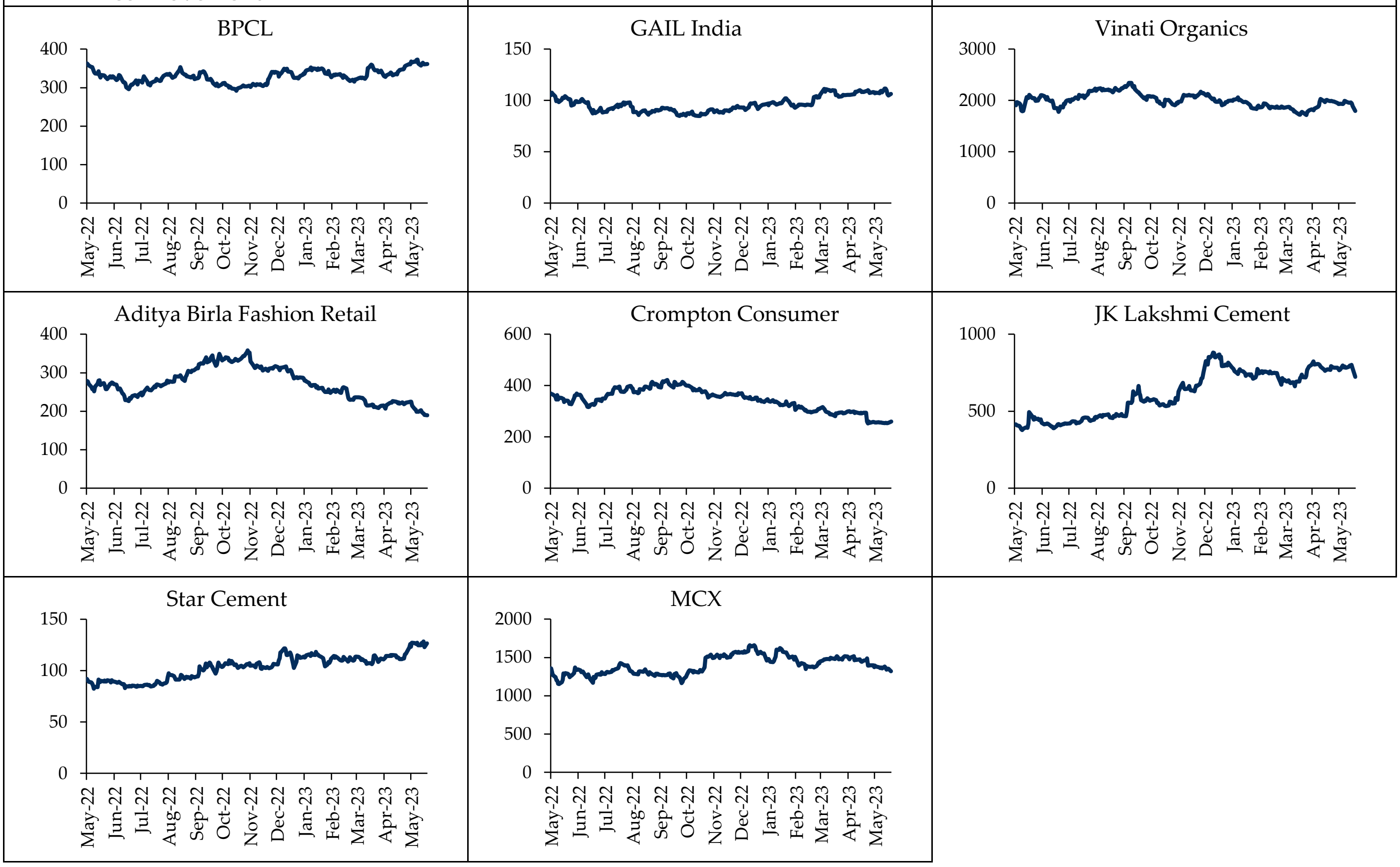
REDUCE: -10% to +5% return potential

SELL: > 10% Downside return potential

Disclosure:

Analyst	Company Covered	Qualification	Any holding in the stock
Harshad Katkar	Bharat Petroleum Corporation, Gail (India), Vinati Organics	MBA	NO
Nilesh Ghuge	Bharat Petroleum Corporation, Gail (India), Vinati Organics	MMS	NO
Akshay Mane	Bharat Petroleum Corporation, Gail (India), Vinati Organics	PGDM	NO
Rutvi Chokshi	Bharat Petroleum Corporation, Gail (India), Vinati Organics	CA	NO
Jay Gandhi	Aditya Birla Fashion and Retail	MBA	NO
Riddhi Shah	Aditya Birla Fashion and Retail, Crompton Consumer	MBA	NO
Naveen Trivedi	Crompton Consumer	MBA	NO
Paarth Gala	Crompton Consumer	BCom	NO
Rajesh Ravi	JK Lakshmi Cement, Star Cement	MBA	NO
Keshav Lahoti	JK Lakshmi Cement, Star Cement	CA	NO
Amit Chandra	Multi Commodity Exchange	MBA	NO
Vivek Sethia	Multi Commodity Exchange	CA	NO

1 Yr Price Movement



Disclosure:
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Compliance Officer: Murli V Karkera Email: complianceofficer@hdfcsec.com Phone: (022) 3045 3600
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HDFC securities
Institutional Equities
Unit No. 1602, 16th Floor, Tower A, Peninsula Business Park,
Senapati Bapat Marg, Lower Parel, Mumbai - 400 013
Board: +91-22-6171-7330 www.hdfcsec.com