INSTITUTIONAL RESEARCH

# HSIE Results Daily

## Contents

### Results Reviews

- **Gujarat Gas:** Our BUY recommendation on Gujarat Gas (GGL), with a price target of INR 575, is premised on (1) margin improvement; (2) portfolio of mature, semi-mature, and new geographical areas (GAs); and (3) compelling valuation, given superior return ratios among the city gas distribution players. Q1FY23 EBITDA/PAT at INR 6.1/3.8bn came in above our estimate, owing to lower-than-expected costs. Margin beat was driven by lower-than-expected gas cost due to lower offtake of expensive spot LNG gas by industrial/commercial customers, lower employee cost, and depreciation. However, volumes declined 3% YoY and 1% QoQ.
- **Aditya Birla Capital:** ABCL's journey to drive consolidated return ratios closer to franchise potential seems on track, with consistent execution across businesses. The lending businesses have gradually been repositioned towards retail and granular loans (two-third of NBFC AUM is towards Retail + SME + HNI; 39% of the HFC AUM is towards affordable segment), which is reflecting in sustained improvement in franchise earnings (RoA near FY24 target). The insurance businesses continued to build their profitability trajectory - the LI business, alongside healthy growth, witnessed better net VNB margins at 2.5% while the HI business is expected to break even by FY24E. We maintain BUY on ABCL, with a revised SOTP-based TP of INR163.
- **Brigade Enterprises:** Brigade Enterprises Ltd (BEL) reported resilient presales of 1.2msf (+58%/-20% YoY/QoQ), valued at INR 8.1bn (+70%/-21% YoY/QoQ). It took price hikes of 5-8% across the residential portfolio. During the quarter, the hospitality segment saw a strong revival, with revenue and occupancy surpassing the pre-COVID levels (32%/20% higher resp). ARR is near the pre-COVID level. Leasing activity in the office segment was also robust, with 0.4msf of new leasing and lease occupancy at c.80% (76% in Q4FY22). Retail segment consumption also exceeded the pre-COVID level (35% higher). Given BEL's strong cash position of INR 17bn, robust business development pipeline (added ~8mn sq. ft. of land in FY23TD with additional 5msf targeted for rest of FY23) and healthy balance sheet, we remain constructive. We reiterate BUY, with an unchanged TP to INR 619/sh.
- **BSE:** BSE's revenue decline of 8.7% QoQ and margin impact were more than expected. The drop in transaction revenue (-22.6% QoQ) was led by a steep decline in special rate revenue (-36% QoQ). Transaction revenue (~30% of revenue) has a high correlation with market activity and it is volatile. BSE continued to lose market share in the traditional cash and the derivative segment. StAR MF was flat QoQ due to realisation drop, and we expect it to propel growth, led by continued volume growth and steady realisation. New initiatives like the insurance platform, power exchange, INX, and gold spot exchange are promising but revenue timelines are not clear. We expect growth in transaction charges to moderate in FY23E and the listing revenue (annuity) will support growth with a differential pricing for exclusive securities. We lower our revenue/PAT estimates by ~1/4% for FY24E. We assign a SoTP-based target price of INR 700, by assigning 27x core P/E to Mar-24E PAT + CDSL stake + net cash ex SGF. The stock is trading at a P/E of 32/26x FY23/24E. Maintain ADD.

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- **Star Cement:** We maintain BUY on Star Cement with an unchanged TP of INR 115/share (8x its Mar-24E consolidated EBITDA). Star reported strong performance in Q1FY23, with its unitary EBITDA (INR 1267/MT up 4% YoY) topping the industry after two years. This is driven by healthy volume traction and Siliguri ramp-up, robust pricing recovery in the north-east region (NER) and low cost fuel sourcing (vs industry). The company's plans to increase its capacity by 70% to 9.7mn MT by end-FY24 has gained pace as it received environmental clearance (EC) for the clinker expansion. Robust current cash position and healthy cash flow outlook should keep balance sheet unstressed.
- **HG Infra:** HG Infra's (HG) revenue/EBITDA/APAT came in at INR 10.7/1.6/1bn, a beat of 3.9/3.6/7.2%. HG has reiterated its revenue guidance of INR 50/60bn for FY23/24 on the back of a robust OB. HG has also restated its EBITDA margin for FY23/24 to be at 15.5-16%. With order inflow (OI) of INR 49.7bn (including GST) vs. INR 90-100bn order inflow guidance for FY23, the order book (OB) stood at INR 115bn (the highest-ever) at Jun'22 end. The OB is well diversified geographically. The standalone gross/net debt increased to INR 4.5/4.4bn, as of Jun'22, vs. INR 3.1/1.6bn, as of Mar'22. HG has guided to bring the gross debt level to INR 3.5bn by Mar'23. It plans to monetise the three completed HAM projects and one HAM project is expected to be completed in H1FY23, by Mar-23. Given robust order inflows and strong execution, we maintain BUY, with an increased SOTP-based TP of INR 980 (14x Mar-24E EPS, HAM 0.8x P/BV) to factor in higher level of execution and better EBITDA margin.
- **J. Kumar Infraprojects:** JKIL reported a strong quarter, with revenue/EBITDA/APAT at 9.9/1.4/0.6bn, beating our estimates by 22.7/36.8/80.9%. JKIL reiterated its FY23 revenue guidance at 12-15% (over FY22 revenue), with EBITDA margin of 14-15%. The order inflow (OI) of INR 13.7bn in Q1FY23 took the order book (OB) to INR 121bn (~3.4x FY22 revenue). JKIL has bid for metro projects in Surat, Chennai, Mumbai, Agra, Kanpur, and Delhi. It has also submitted RFQs for the Goregoan-Mulund Link Road (GMLR). Consequently, it expects OI of INR 50bn in FY23, of which 27.4% orders were achieved in Q1FY23. The balance sheet continues to be robust with increased gross debt at INR 4.7bn (D/E at 0.22x). JKIL revised its FY23 Capex guidance upward to INR 1.3-1.5bn, with INR 310mn already incurred in Q1FY23. To factor in outperformance on execution, order inflow and balance sheet, we increase our valuation multiple from 8x to 9x. We maintain ADD, with a revised target price of INR 364 (9x Mar-24E EPS).

# Gujarat Gas

## Margins offset volume weakness

**BUY**

| | |
|---|---|
| CMP *(as on 3 Aug 2022)* | INR 463 |
| Target Price | INR 575 |
| NIFTY | 17,388 |

| KEY CHANGES | OLD | NEW |
|---|---|---|
| Rating | BUY | BUY |
| Price Target | INR 625 | INR 575 |
| EPS change % | FY23E | FY24E |
| | -4.8% | -4.2% |

| KEY STOCK DATA | |
|---|---|
| Bloomberg code | GUJGA IN |
| No. of Shares (mn) | 688 |
| MCap (INR bn) / ($ mn) | 319/4,282 |
| 6m avg traded value (INR mn) | 1,004 |
| 52 Week high / low | INR 787/404 |

| STOCK PERFORMANCE (%) | 3M | 6M | 12M |
|---|---|---|---|
| Absolute (%) | (6.7) | (31.8) | (39.4) |
| Relative (%) | (9.1) | (31.0) | (47.8) |

| SHAREHOLDING PATTERN (%) | Mar-22 | Jun-22 |
|---|---|---|
| Promoters | 60.89 | 60.89 |
| FIs & Local MFs | 9.53 | 10.02 |
| FPIs | 5.98 | 5.18 |
| Public & Others | 23.60 | 23.91 |
| Pledged Shares | 0.0 | 0.0 |

*Source : BSE*

**Our BUY recommendation on Gujarat Gas (GGL), with a price target of INR 575, is premised on (1) margin improvement; (2) portfolio of mature, semi-mature, and new geographical areas (GAs); and (3) compelling valuation, given superior return ratios among the city gas distribution players. Q1FY23 EBITDA/PAT at INR 6.1/3.8bn came in above our estimate, owing to lower-than-expected costs. Margin beat was driven by lower-than-expected gas cost due to lower offtake of expensive spot LNG gas by industrial/commercial customers, lower employee cost, and depreciation. However, volumes declined 3% YoY and 1% QoQ.**

- **Volumes:** Blended volume remained weak in Q1 at 9.8mmscmd (-3% YoY, -1% QoQ) and below our estimates, mainly due to lower-than-expected industrial demand of 6.6mmscmd (-15% YoY, -1% QoQ) and domestic PNG volume at 0.55mmscmd (-7% YoY, -33% QoQ). However, overall volumes were supported by CNG volumes at 2.44mmscmd (+57% YoY, +9% QoQ). Commercial PNG volumes stood at 0.13mmscmd (+48% YoY, -7% QoQ).
- **Margin:** Per unit gross spread, at INR 9.8/scm (-6% YoY, -8% QoQ), and EBITDA margin at INR 6.8/scm (-14% YoY, -13% QoQ) came in above our estimates. With margins protected due to weak demand of high cost LNG and strong growth in the high margin CNG segment, we expect EBITDA margin to improve to INR 6.8/7.3 per scm over FY23/24.
- **Change in estimates:** We reduce our EPS estimates for FY23/24E by 5/4% to INR 22.9/28.8, to factor in lower volume growth, higher other expenses and interest cost, which reduces our TP to INR 575/sh.
- **DCF-based valuation: Our target price of INR 575 is based on Mar-24E free cash flow (WACC 11%, terminal growth rate 3%). The stock is currently trading at 16.1x FY24E EPS – 23.9% below its 5-year average PER of 21.2x despite a strong RoE of ~25% over FY23/24.**

### Standalone financial summary

| YE March (INR bn) | Q1 FY23 | Q4 FY22 | *QoQ (%)* | Q1 FY22 | *YoY (%)* | FY20 | FY21 | FY22P | FY23E | FY24E |
|---|---|---|---|---|---|---|---|---|---|---|
| Revenue | 52 | 47 | 10.7 | 30 | 71.7 | 103 | 99 | 165 | 205 | 247 |
| EBITDA | 6 | 7 | (13.0) | 7 | (16.1) | 16 | 21 | 21 | 25 | 30 |
| APAT | 4 | 4 | (14.2) | 5 | (20.0) | 12 | 13 | 13 | 16 | 20 |
| AEPS (INR) | 5.5 | 6.5 | (14.2) | 6.9 | (20.0) | 17.2 | 18.4 | 18.5 | 22.9 | 28.8 |
| P/E (x) | | | | | | 26.9 | 25.1 | 25.0 | 20.2 | 16.1 |
| EV / EBITDA (x) | | | | | | 20.3 | 15.5 | 15.6 | 12.7 | 10.1 |
| RoE (%) | | | | | | 43.3 | 32.7 | 25.3 | 25.1 | 25.2 |

Source: Company, HSIE Research

### Change in estimates

| | FY23E | | | FY24E | | |
|---|---|---|---|---|---|---|
| | Old | New | Ch% | Old | New | Ch% |
| EBITDA (INR bn) | 26.0 | 25.1 | (3.7) | 31.3 | 30.5 | (2.6) |
| AEPS (INR/sh) | 24.1 | 22.9 | (4.8) | 30.1 | 28.8 | (4.2) |

Source: Company, HSIE Research

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# Aditya Birla Capital

## Execution remains well on track

**ABCL's journey to drive consolidated return ratios closer to franchise potential seems on track, with consistent execution across businesses. The lending businesses have gradually been repositioned towards retail and granular loans (two-third of NBFC AUM is towards Retail + SME + HNI; 39% of the HFC AUM is towards affordable segment), which is reflecting in sustained improvement in franchise earnings (RoA near FY24 target). The insurance businesses continued to build their profitability trajectory - the LI business, alongside healthy growth, witnessed better net VNB margins at 2.5% while the HI business is expected to break even by FY24E. We maintain BUY on ABCL, with a revised SOTP-based TP of INR163.**

- **Flagship NBFC delivers strong growth:** ABFL reported strong AUM growth (+26% YoY), largely driven by retail (+80% YoY), leading to further 10bps sequential reflation in NIM to 6.5%. The share of retail+SME continues to increase (~64%), driving higher yields, partially offset by higher opex intensity. Asset quality remained steady with GS-II/GS-III at 5.2%/3.2% (Q4FY22: 5.4%/3.1%). ABFL reported RoA of 2.5%, in the range of target RoA of 2.5-2.7% for FY24, largely aided by reflating NIM.
- **HFC business delivers RoA above expectations; incremental focus on growth:** ABHFL continued focusing on affordable housing, with its share in AUM increasing to 39% (FY22: 38%). NIM witnessed marginal reflation (7bps), driven by lower funding costs (22bps). Asset quality witnessed marginal deterioration with GS-III at 2.2% (Q4FY22: 2%), driving marginally higher credit costs (0.5%). ABHFL delivered RoA of 1.9% in Q1, above management guidance of 1.5-1.6%, indicating incremental focus towards growth which has remained muted (7% YoY) due to portfolio rebalancing.
- **Insurance businesses on the mend:** The life insurance business (ABSLI) clocked healthy individual APE growth (3-year CAGR at 12%); however, the share of high-margin protection dipped 20bps QoQ to 3.2% while NPAR savings shot up 838bps to 63.4% in the mix, driving higher net VNB margin at 2.5% (+440bps YoY). Retail GWP growth in ABHI was healthy (+43% YoY) despite a high base. Loss ratios were moderated to 55% (-1,300bps YoY).
- **AMC business (ABSLAMC):** Revenue clocked in at INR3.05bn (-5.9% QoQ), 3% below estimates. Core revenue yields dipped 0.5bps to 43.3bps despite a higher share of equity (39.9%; +56bps/-156bps QoQ) in the mix, as a result of deteriorating equity yields coupled with a shift in debt AUM towards low-yielding ultra-short-term schemes. Staff costs, at INR650mn (-6% YoY, -8% vs. estimates), and lower-than-estimated admin expenses cushioned weak revenues, driving in-line core operating profits to INR1.72bn (-1% QoQ) and APAT to INR1.03bn (-34% YoY).

### ABCL valuation - sum of the parts

| | ABCL Share (%) | ABCL stake (INR bn) | Value/sh (INR) | Comments |
|---|---|---|---|---|
| ABFL | 100% | 200 | 83 | RI-based multiple of 2x Mar-24E ABVPS |
| ABHFL | 100% | 30 | 12 | RI-based multiple of 1.6x Mar-24 ABVPS |
| ABSLI | 51% | 77 | 32 | 1.5x Mar-24E Embedded value |
| ABHI | 51% | 10 | 4 | 1.5x Mar-24 ABVPS |
| ABSLAMC | 50% | 90 | 37 | HSIE TP |
| Others | 100% | 6 | 2 | |
| **TOTAL** | | **412** | **170** | |
| Hold co. disc. | | | **7.3** | 10% for non-wholly owned subsidiaries |
| **SOTP** | | | **163** | |

Source: Company, HSIE Research

# BUY

| | |
|---|---|
| **CMP** *(as on 3 Aug 2022)* | **INR106** |
| **Target Price** | **INR163** |
| **NIFTY** | **17,388** |

| **KEY CHANGES** | **OLD** | **NEW** |
|---|---|---|
| Rating | BUY | BUY |
| Price Target | INR164 | INR163 |
| EPS % | FY23E | FY24E |
| | NA | NA |

| **KEY STOCK DATA** | |
|---|---|
| Bloomberg code | ABCAP IN |
| No. of Shares (mn) | 2,417 |
| MCap (INR bn) / ($ mn) | 257/3,447 |
| 6m avg traded value (INR mn) | 454 |
| 52 Week high / low | INR 139/86 |

| **STOCK PERFORMANCE (%)** | **3M** | **6M** | **12M** |
|---|---|---|---|
| Absolute (%) | (9.2) | (14.9) | (10.3) |
| Relative (%) | (11.6) | (14.1) | (18.7) |

| **SHAREHOLDING PATTERN (%)** | **Mar-22** | **Jun-22** |
|---|---|---|
| Promoters | 71.1 | 71.1 |
| FIs & Local MFs | 12.3 | 12.0 |
| FPIs | 2.4 | 2.6 |
| Public & Others | 14.2 | 14.4 |
| Pledged Shares | | 0.0 |

*Source : BSE*

Pledged shares as % of total shares

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# Brigade Enterprises

## Resilient performance

**Brigade Enterprises Ltd (BEL) reported resilient presales of 1.2msf (+58%/-20% YoY/QoQ), valued at INR 8.1bn (+70%/-21% YoY/QoQ). It took price hikes of 5-8% across the residential portfolio. During the quarter, the hospitality segment saw a strong revival, with revenue and occupancy surpassing the pre-COVID levels (32%/20% higher resp). ARR is near the pre-COVID level. Leasing activity in the office segment was also robust, with 0.4msf of new leasing and lease occupancy at c.80% (76% in Q4FY22). Retail segment consumption also exceeded the pre-COVID level (35% higher). Given BEL's strong cash position of INR 17bn, robust business development pipeline (added ~8mn sq. ft. of land in FY23TD with additional 5msf targeted for rest of FY23) and healthy balance sheet, we remain constructive. We reiterate BUY, with an unchanged TP to INR 619/sh.**

- **Financial highlights:** Revenue: INR 9bn (+2.4x/-4% YoY/QoQ, in-line estimate); revenue from real estate at INR 6.5bn (+2.5x/-9.7% YoY/QoQ), hospitality at INR 906mn (+4.6x/+74% YoY/QoQ) and leasing at INR 1.7bn (+1.5x/+5.5%YoY/QoQ). EBITDA: INR 2.3bn (+2.1x/+13% YoY/QoQ, 19% beat). EBITDA margin: 25.8% (-329/+400bps YoY/QoQ, vs 21.8% est.). RPAT: INR 877mn (INR (401) /325mn YoY/QoQ). Exceptional item: INR 97mn on account of certain write-offs, provisions and fair value gain. APAT: INR 804mn (INR (244)/474mn Q1FY22/Q4FY22, vs INR 432mn estimate).
- **Robust BD for the year:** BEL registered presales of 1.2msf (+58%/-20% YoY/QoQ), valued at INR 8.1bn (+70%/-21% YoY/QoQ). The average realisation came in at INR 6,589/sq. ft. (+4.3%/-3.8% YoY/QoQ). BEL took an average price hike of 5-8% across its portfolio. It has maintained the guidance of 20-25% growth in FY23 presales. During the quarter, BEL launched 0.51msf of project (1.9msf in Q4FY22), which includes 0.17msf of plotted development in Bengaluru. It has a strong launch pipeline of 9.5msf (including 2msf of plotted development) for residential portfolio and another 2msf for commercial portfolio. BEL finalised 6msf of JDA in Chennai, of which 2msf is already registered and 4msf will be registered by Q2FY23. Another 2msf has been identified in Bengaluru. In addition to these 8msf, 5msf more of BD projects are targeted for rest of the year.
- **Balance sheet comfortable:** Residential debt reduced by INR 590mn to INR 2.1bn on the back of strong residential collections at INR 8.7bn (INR 7.8bn in Q4FY22). The consolidated gross/net debt stood at INR 41/24bn (INR 41.2bn/25bn as at Mar-22). The net debt/equity stood at 0.66x (vs. 0.71x as of Mar-22). Total balance land payment was INR 10.9bn. These land payments except KIADB land worth INR 1.5bn (payment by Q1FY24) will be paid in FY23. This shall be funded largely through internal accruals. BEL has a strong cash position of INR 16.9bn, with INR 2.5bn of unused QIP money. The projected net cash inflow from sold/unsold units is INR 22bn. The exit rental for each Tech Garden and WTC Chennai is INR 1.3bn. This gives a LRD potential of INR 10-12bn from these two properties.

### Consolidated Financial Summary (INR mn)

| YE March | Q1FY23 | Q1FY22 | YoY (%) | Q4FY22 | QoQ (%) | FY21 | FY22 | FY23E | FY24E |
|---|---|---|---|---|---|---|---|---|---|
| Net Sales | 9,025 | 3,828 | *135.8* | 9,423 | *(4.2)* | 19,500 | 29,988 | 32,383 | 34,969 |
| EBITDA | 2,327 | 1,113 | *109.1* | 2,052 | *13.4* | 4,719 | 7,663 | 8,546 | 9,120 |
| APAT | 804 | (244) | *(429.3)* | 474 | *69.6* | (860) | (1,157) | 611 | 995 |
| EPS (INR) | 3.9 | (1.2) | *(429.3)* | 2.3 | *69.6* | (2.2) | 3.6 | 2.7 | 4.3 |
| P/E (x) | | | | | | (231) | 141 | 191 | 117 |
| EV/EBITDA (x) | | | | | | 32 | 20 | 19 | 18 |
| RoE (%) | | | | | | 0.2 | 8.8 | 2.1 | 3.4 |

Source: Company, HSIE Research

## BUY

| | |
|---|---|
| CMP *(as on 3 Aug 2022)* | INR 507 |
| Target Price | INR 619 |
| NIFTY | 17,388 |

| KEY CHANGES | OLD | NEW |
|---|---|---|
| Rating | BUY | BUY |
| Price Target | INR 619 | INR 619 |
| EPS Change % | FY23E<br>- | FY24E<br>- |

| KEY STOCK DATA | |
|---|---|
| Bloomberg code | BRGD IN |
| No. of Shares (mn) | 230 |
| MCap (INR bn) / ($ mn) | 117/1,568 |
| 6m avg traded value (INR mn) | 174 |
| 52 Week high / low | INR 555/292 |

| STOCK PERFORMANCE (%) | 3M | 6M | 12M |
|---|---|---|---|
| Absolute (%) | 11.1 | (3.6) | 46.5 |
| Relative (%) | 8.7 | (2.8) | 38.1 |

| SHAREHOLDING PATTERN (%) | Mar-22 | Jun-22 |
|---|---|---|
| Promoters | 43.88 | 43.85 |
| FIs & Local MFs | 23.86 | 24.70 |
| FPIs | 13.64 | 13.31 |
| Public & Others | 18.62 | 18.14 |
| Pledged Shares | - | - |

*Source: BSE*

Pledged shares as % of total shares

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# BSE

## Slowing down

**BSE's revenue decline of 8.7% QoQ and margin impact were more than expected. The drop in transaction revenue (-22.6% QoQ) was led by a steep decline in special rate revenue (-36% QoQ). Transaction revenue (~30% of revenue) has a high correlation with market activity and it is volatile. BSE continued to lose market share in the traditional cash and the derivative segment. StAR MF was flat QoQ due to realisation drop, and we expect it to propel growth, led by continued volume growth and steady realisation. New initiatives like the insurance platform, power exchange, INX, and gold spot exchange are promising but revenue timelines are not clear. We expect growth in transaction charges to moderate in FY23E and the listing revenue (annuity) will support growth with a differential pricing for exclusive securities. We lower our revenue/PAT estimates by ~1/4% for FY24E. We assign a SoTP-based target price of INR 700, by assigning 27x core P/E to Mar-24E PAT + CDSL stake + net cash ex SGF. The stock is trading at a P/E of 32/26x FY23/24E. Maintain ADD.**

- **Q1FY23 highlights**: Revenue was down 8.7% QoQ to INR 1.87bn, lower than our estimate of INR 1.96bn. Cash transaction revenue declined by 30.6% QoQ due to a decline in exclusive volume (-36% QoQ). StAR MF realisation stood at INR 2.5/order (-5% QoQ) and volume was up +68/5% YoY/QoQ, leading to a flat revenue of INR 0.15bn. Book building revenue was up 50.5% QoQ, offset by a 2.6% drop in listing revenue. INX ADTV stood at USD 7.5bn and the number of daily trades were at 0.16mn. EBITDA margin stood at 31.6% (-249 bps QoQ), impacted by higher technology expenses. The search for new MD & CEO is under process. Other income was impacted by M2M losses of INR ~0.16bn. Net cash stands at INR 22bn (~24% of market cap) and the dividend yield is at 2.2%.
- **Outlook:** We expect revenue growth of 2.1/14.5% and EBITDA margins of 28.3/31.4% in FY23/24E respectively. We are assuming StAR MF revenues of INR 0.72/1.02bn in FY23/24E. Core profits after taxes for FY23E/24E stand at INR 1.38/1.87bn.

### Quarterly Financial summary

| YE March (INR mn) | Q1 FY23 | Q1 FY22 | YoY (%) | Q4 FY22 | QoQ (%) | FY20 | FY21 | FY22 | FY23E | FY24E |
|---|---|---|---|---|---|---|---|---|---|---|
| Net Sales | 1,868 | 1,570 | *19.0* | 2,046 | *(8.7)* | 4,505 | 5,014 | 7,432 | 7,589 | 8,692 |
| EBITDA | 590 | 507 | *16.4* | 697 | *(15.4)* | 81 | 725 | 2,481 | 2,151 | 2,730 |
| APAT | 533 | 628 | *(15.1)* | 833 | *(36.0)* | 1,410 | 1,750 | 2,895 | 2,886 | 3,567 |
| EPS (INR) | 3.9 | 4.6 | *(15.1)* | 6.2 | *(36.0)* | 10.4 | 12.9 | 21.4 | 21.3 | 26.4 |
| P/E (x) | | | | | | 65.9 | 53.1 | 32.1 | 32.2 | 26.1 |
| EV / EBITDA (x) | | | | | | 925.4 | 105.1 | 28.3 | 33.2 | 26.1 |
| RoE (%) | | | | | | 5.8 | 7.0 | 10.9 | 11.0 | 13.6 |

Source: Company, HSIE Research

### Change in estimates

| YE March (INR mn) | FY23E Old | FY23E Revised | Change % | FY24E Old | FY24E Revised | Change % |
|---|---|---|---|---|---|---|
| Revenue | 7,747 | 7,589 | *(2.0)* | 8,774 | 8,692 | *(0.9)* |
| EBITDA | 2,257 | 2,151 | *(4.7)* | 2,715 | 2,730 | *0.5* |
| EBITDA margin (%) | 29.1 | 28.3 | -79bps | 30.9 | 31.4 | 47bps |
| APAT | 3,196 | 2,886 | *(9.7)* | 3,711 | 3,567 | *(3.9)* |
| EPS (INR) | 23.6 | 21.3 | *(9.7)* | 27.4 | 26.4 | *(3.9)* |

Source: Company, HSIE Research

## ADD

| | |
|---|---|
| CMP *(as on 3 Aug 2022)* | INR 687 |
| Target Price | INR 700 |
| NIFTY | 17,388 |

| KEY CHANGES | OLD | NEW |
|---|---|---|
| Rating | BUY | BUY |
| Price Target | INR 690 | INR 700 |
| | FY23E | FY24E |
| EPS % | -9.7 | -3.9 |

| KEY STOCK DATA | |
|---|---|
| Bloomberg code | BSE IN |
| No. of Shares (mn) | 135 |
| MCap (INR bn) / ($ mn) | 93/1,247 |
| 6m avg traded value (INR mn) | 2,111 |
| 52 Week high / low | INR 1,047/341 |

| STOCK PERFORMANCE (%) | 3M | 6M | 12M |
|---|---|---|---|
| Absolute (%) | (22.9) | (6.0) | 63.0 |
| Relative (%) | (25.3) | (5.2) | 54.6 |

| SHAREHOLDING PATTERN (%) | Mar-22 | Jun-22 |
|---|---|---|
| Promoters | 0.00 | 0.00 |
| FIs & Local MFs | 1.02 | 1.02 |
| FPIs | 12.77 | 11.02 |
| Public & Others | 86.21 | 87.96 |
| Pledged Shares | 0.00 | 0.00 |

*Source : NSE*

Pledged shares as % of total shares

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# Star Cement

## Industry-leading margin; healthy volume offtake

**We maintain BUY on Star Cement with an unchanged TP of INR 115/share (8x its Mar-24E consolidated EBITDA). Star reported strong performance in Q1FY23, with its unitary EBITDA (INR 1267/MT up 4% YoY) topping the industry after two years. This is driven by healthy volume traction and Siliguri ramp-up, robust pricing recovery in the north-east region (NER) and low cost fuel sourcing (vs industry). The company's plans to increase its capacity by 70% to 9.7mn MT by end-FY24 has gained pace as it received environmental clearance (EC) for the clinker expansion. Robust current cash position and healthy cash flow outlook should keep balance sheet unstressed.**

- **Q1FY23 performance:** Star's volume surged 29% YoY as NSR sales jumped 8% and continued Siliguri plant ramp-up drove up its east volumes by 110% YoY. Robust pricing gain QoQ in NER and small increase in energy costs QoQ buoyed unitary EBITDA by 29% YoY to INR 1,267 per MT (industry best—as the whole sector is hit hard on soaring fuel prices). The company has long term FSA whereby its landed fuel costs are currently ~40% cheaper vs the industry. Thus, it is back to its industry best margin after a gap of two years.
- **Capex update and outlook**: Star's expansion plans in the NER (total Capex INR 20bn) have gained pace as it has got the EC for the 3mn MT brownfield clinker. It would also be adding two SGUs in Assam. All these are expected to be operational by end FY24. Star is also adding 24MW WHRS (12/12 MW by Oct-22/end FY24). Further, it is increasing its distribution outside in east region to further bolster its trade sales share to more than 90%, which will aid premium cement sales and margin expansion. It increasing its capacity by 70% to 9.7mn MT (end FY24) would not strain its balance sheet at all due to healthy cash generation and large current cash balance. We up our EBITDA estimates for FY23/24E by 13/8% factoring in a robust Q1.

### Quarterly/annual financial summary (consolidated)

| YE Mar (INR mn) | Q1 FY23 | Q1 FY22 | *YoY (%)* | Q4 FY22 | *QoQ (%)* | FY20 | FY21 | FY22 | FY23E | FY24E |
|---|---|---|---|---|---|---|---|---|---|---|
| Sales Vol (mn MT) | 0.98 | 0.76 | 28.9 | 1.15 | (14.9) | 3.0 | 2.70 | 3.40 | 3.90 | 4.41 |
| NSR (INR/MT) | 6,796 | 6,725 | 1.1 | 6,504 | 4.5 | 5,912 | 6,220 | 6,529 | 6,790 | 6,926 |
| EBITDA (INR/MT) | 1,267 | 1,220 | 3.9 | 984 | 28.7 | 1,337 | 1,233 | 1,015 | 1,164 | 1,243 |
| Net Sales | 6,661 | 5,111 | *30.3* | 7,492 | *(11.1)* | 18,439 | 17,199 | 22,218 | 26,479 | 30,520 |
| EBITDA | 1,241 | 927 | *33.9* | 1,134 | *9.5* | 3,951 | 3,326 | 3,453 | 4,541 | 5,479 |
| APAT | 676 | 680 | *(0.6)* | 884 | *(23.6)* | 2,863 | 2,401 | 2,468 | 2,393 | 2,814 |
| AEPS (INR) | 1.6 | 1.6 | *(2.3)* | 2.2 | *(26.3)* | 6.9 | 5.8 | 6.1 | 5.9 | 7.0 |
| EV/EBITDA (x) | | | | | | 9.1 | 10.1 | 9.1 | 8.4 | 8.4 |
| EV/MT (INR bn) | | | | | | 10.0 | 8.1 | 7.2 | 8.2 | 9.4 |
| P/E (x) | | | | | | 13.3 | 15.8 | 15.4 | 15.9 | 13.5 |
| *RoE (%)* | | | | | | *15.4* | 12.0 | 11.6 | *10.5* | *11.3* |

Source: Company, HSIE Research

### Estimates revision summary

| INR mn | FY23E Old | FY23E Revised | *Change %* | FY24E Old | FY24E Revised | *Change %* |
|---|---|---|---|---|---|---|
| Net Sales | 25,970 | 26,479 | *2.0* | 30,227 | 30,520 | *1.0* |
| EBITDA | 4,031 | 4,541 | *12.6* | 5,080 | 5,479 | *7.9* |
| APAT | 2,665 | 2,393 | *-10.2* | 3,447 | 2,814 | *-18.4* |

Source: Company, HSIE Research

# BUY

| | |
|---|---|
| CMP *(as on 3 Aug 2022)* | INR 94 |
| Target Price | INR 115 |
| NIFTY | 17,388 |

| KEY CHANGES | OLD | NEW |
|---|---|---|
| Rating | BUY | BUY |
| Price Target | INR 115 | INR 115 |
| EBITDA revision % | FY23E *12.6* | FY24E *7.9* |

| KEY STOCK DATA | |
|---|---|
| Bloomberg code | STRCEM IN |
| No. of Shares (mn) | 404 |
| MCap (INR bn) / ($ mn) | 38/509 |
| 6m avg traded value (INR mn) | 12 |
| 52 Week high / low | INR 120/81 |

| STOCK PERFORMANCE (%) | 3M | 6M | 12M |
|---|---|---|---|
| Absolute (%) | 2.2 | (1.4) | (15.9) |
| Relative (%) | (0.2) | (0.7) | (24.3) |

| SHAREHOLDING PATTERN (%) | Mar-22 | Jun-22 |
|---|---|---|
| Promoters | 67.33 | 67.37 |
| FIs & Local MFs | 6.15 | 6.14 |
| FPIs | 0.20 | 0.28 |
| Public & Others | 26.32 | 26.21 |
| Pledged Shares | 0.13 | 0.09 |

*Source : BSE*

Pledged shares as % of total shares

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# HG Infra

## Robust execution

**HG Infra's (HG) revenue/EBITDA/APAT came in at INR 10.7/1.6/1bn, a beat of 3.9/3.6/7.2%. HG has reiterated its revenue guidance of INR 50/60bn for FY23/24 on the back of a robust OB. HG has also restated its EBITDA margin for FY23/24 to be at 15.5-16%. With order inflow (OI) of INR 49.7bn (including GST) vs. INR 90-100bn order inflow guidance for FY23, the order book (OB) stood at INR 115bn (the highest-ever) at Jun'22 end. The OB is well diversified geographically. The standalone gross/net debt increased to INR 4.5/4.4bn, as of Jun'22, vs. INR 3.1/1.6bn, as of Mar'22. HG has guided to bring the gross debt level to INR 3.5bn by Mar'23. It plans to monetise the three completed HAM projects and one HAM project is expected to be completed in H1FY23, by Mar-23. Given robust order inflows and strong execution, we maintain BUY, with an increased SOTP-based TP of INR 980 (14x Mar-24E EPS, HAM 0.8x P/BV) to factor in higher level of execution and better EBITDA margin.**

- **Financial highlights:** HG reported revenue of INR 10.7bn (16.6%/+3.9% YoY/QoQ, a beat of 6.7%). EBITDA came in at INR 1.6bn (+8%/+3.6% YoY/QoQ, a beat of 6%), resulting in an EBITDA margin of 15.2% (-122bps/-4bps YoY/QoQ, vs. our estimate of 15.4%). RPAT/APAT was INR 976mn (+9.8%/+7.2% YoY/QoQ, a beat of 11.6%).
- **Well diversified OB; robust bid pipeline:** During the quarter, HG was awarded an EPC order worth INR 49.7bn (including GST) vs. INR 90-100bn order inflow guidance for FY23. With this, the OB as of Jun'22 was at an all-time high of INR 115bn (~3.2x FY22 revenue) vs. INR 79.7bn at the end of Mar'22. The OB was well diversified at the client level with government/private orders contributing 58/42% of the OB. 64% of the OB consisted of EPC orders, whereas HAM orders formed 36% of it. Geography-wise, 40% orders were from Uttar Pradesh, followed by Odisha/Telangana/Delhi/Karnataka at 18/13/9/7%. The appointed date (AD) for three EPC projects is expected in Q2FY23. HG has a strong bid pipeline of ~INR 70bn for 1/1/1/3 bids for metro/railway/water/NHAI orders.
- **Balance sheet ratios to normalise by the year end:** The standalone gross/net debt increased to INR 4.5/4.4bn as of Jun'22 vs. INR 3.1/1.6bn as of Mar'22. HG has guided to bring the gross debt level to INR 3.5bn by Mar'23. It has guided for Mar'23 mobilisation advance of INR 5bn, backed by robust order inflows. HG has also guided for debtor days to reduce substantially by H1FY23. In nine HAM projects, equity invested as of Jun'22 stands at INR 5.3bn, of the total INR 11.4bn required by mid-FY25 and the pending equity requirement is INR 6.1bn (INR 2.9bn in balance nine months FY23, INR 2.1/1.1bn in FY24/25).

### Standalone financial summary – INR mn

| Particulars | 1QFY23 | 1QFY22 | YoY (%) | 4QFY22 | QoQ (%) | FY21 | FY22 | FY23E | FY24E |
|---|---|---|---|---|---|---|---|---|---|
| Net Sales | 10,657 | 9,136 | 16.6 | 10,259 | 3.9 | 25,275 | 36,152 | 44,468 | 47,136 |
| EBITDA | 1,625 | 1,504 | 8.0 | 1,568 | 3.6 | 4,107 | 5,847 | 6,704 | 7,047 |
| APAT | 976 | 889 | 9.8 | 911 | 7.2 | 2,110 | 3,388 | 3,897 | 3,984 |
| EPS (INR) | 15.0 | 13.6 | 9.8 | 14.0 | 7.2 | 32.4 | 52.0 | 59.8 | 61.1 |
| P/E (x) | | | | | | 18.2 | 11.3 | 9.7 | 9.5 |
| EV/EBITDA (x) | | | | | | 9.7 | 7.0 | 6.5 | 5.9 |
| RoE (%) | | | | | | 22.8 | 28.3 | 25.0 | 20.4 |

Source: Company, HSIE Research

### Standalone estimate change summary

| Particulars | FY23E | | | FY24E | | |
|---|---|---|---|---|---|---|
| | New | Old | % Chg | New | Old | % Chg |
| Revenues (Rs mn) | 44,468 | 41,142 | 8.1 | 47,136 | 46,285 | 1.8 |
| EBITDA (Rs mn) | 6,704 | 6,067 | 10.5 | 7,047 | 6,651 | 6.0 |
| Margins (%) | 15.1 | 14.7 | 2.2 | 14.9 | 14.4 | 4.0 |
| APAT (Rs mn) | 3,897 | 3,420 | 14.0 | 3,984 | 3,688 | 8.0 |

Source: Company, HSIE Research

## BUY

| | |
|---|---|
| CMP (*as on 3 Aug 2022*) | INR 583 |
| Target Price | INR 980 |
| NIFTY | 17,388 |

| KEY CHANGES | OLD | NEW |
|---|---|---|
| Rating | BUY | BUY |
| Price Target | INR 932 | INR 980 |
| EPS Change % | FY23E | FY24E |
| | +14 | +8 |

| KEY STOCK DATA | |
|---|---|
| Bloomberg code | HGINFRA |
| No. of Shares (mn) | 65 |
| MCap (INR bn) / ($ mn) | 38/510 |
| 6m avg traded value (INR mn) | 85 |
| 52 Week high / low | INR 831/481 |

| STOCK PERFORMANCE (%) | 3M | 6M | 12M |
|---|---|---|---|
| Absolute (%) | (4.4) | (0.6) | 6.2 |
| Relative (%) | (6.8) | 0.2 | (2.3) |

| SHAREHOLDING PATTERN (%) | Mar-22 | Jun-22 |
|---|---|---|
| Promoters | 74.53 | 74.53 |
| FIs & Local MFs | 14.07 | 14.16 |
| FPIs | 0.74 | 0.58 |
| Public & Others | 10.66 | 10.73 |
| Pledged Shares | - | - |

*Source: BSE*

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# J. Kumar Infraprojects

## Robust outperformance

**JKIL reported a strong quarter, with revenue/EBITDA/APAT at 9.9/1.4/0.6bn, beating our estimates by 22.7/36.8/80.9%. JKIL reiterated its FY23 revenue guidance at 12-15% (over FY22 revenue), with EBITDA margin of 14-15%. The order inflow (OI) of INR 13.7bn in Q1FY23 took the order book (OB) to INR 121bn (~3.4x FY22 revenue). JKIL has bid for metro projects in Surat, Chennai, Mumbai, Agra, Kanpur, and Delhi. It has also submitted RFQs for the Goregoan-Mulund Link Road (GMLR). Consequently, it expects OI of INR 50bn in FY23, of which 27.4% orders were achieved in Q1FY23. The balance sheet continues to be robust with increased gross debt at INR 4.7bn (D/E at 0.22x). JKIL revised its FY23 Capex guidance upward to INR 1.3-1.5bn, with INR 310mn already incurred in Q1FY23. To factor in outperformance on execution, order inflow and balance sheet, we increase our valuation multiple from 8x to 9x. We maintain ADD, with a revised target price of INR 364 (9x Mar-24E EPS).**

- **Quarterly performance:** Revenue: INR 9.9bn (+47.2%/-10.8% YoY/QoQ, a beat of 22.7%), with metro/flyover, bridges and roads/civil contributing 43/53/4%. EBITDA: INR 1.4bn (+45.1%/-11.8% YoY/QoQ, a beat of 36.8%), resulting in EBITDA margin of 14.1% (-21/-16 bps YoY/QoQ, vs. our estimate of 12.7%). RPAT/APAT: INR 619mn (+92.9%/-16.3% YoY/QoQ, a beat of 80.9%). As all contracts are protected by price escalation clauses, commodity price volatility has no major impact on margins. Consequently, EBITDA margin is expected to be in the range of 14-15%. JKIL has reiterated its target of achieving revenue of INR 50bn by FY25 and growing FY23 revenue by 12-15%.
- **Robust OB; revenue visibility over next 3-4 years:** JKIL received orders worth INR 13.7bn in Q1FY23, taking the OB (excluding GST) as of Jun'22 to INR 121bn (~3.4x FY22 revenue). Geographically, the OB has maximum exposure in Maharashtra (69%), with Delhi/Gujarat/UP contributing 23/7/1%. Business segment-wise underground metro/elevated metro/flyovers/roads and tunnels/water/civil contributed 27/30/22/14/7/2%. At the client level, NHAI/MMRDA/others contributed 12/36/52% to the OB. JKIL expects to complete the entire civil work for all Mumbai metro lines other than line 3 by end of Q3FY24. It reiterated its OI guidance for FY23 at INR 50bn, of which 27.4% orders were achieved in Q1FY23.
- **Comfortable debt level:** Gross debt increased marginally to INR 4.7bn as of Jun'22 vs. INR 4.3bn as of Mar'22, leading to a D/E of 0.22x (vs. 0.21x as at Mar'22). JKIL revised its FY23 Capex guidance upward to INR 1.3-1.5bn, with INR 310mn already incurred in Q1FY23. Strong cash position and fixed deposits of INR 1.4/3.8bn facilitate headroom for undertaking large projects and executing existing projects.

### Standalone financial summary (INR mn)

| YE March | 1QFY23 | 1QFY22 | YoY (%) | 4QFY22 | QoQ (%) | FY21 | FY22 | FY23E | FY24E |
|---|---|---|---|---|---|---|---|---|---|
| Net Sales | 9,938 | 6,751 | *47.2* | 11,145 | *(10.8)* | 25,708 | 35,272 | 40,433 | 46,498 |
| EBITDA | 1,404 | 968 | *45.1* | 1,592 | *(11.8)* | 3,114 | 5,046 | 5,743 | 6,528 |
| APAT | 619 | 321 | *92.9* | 740 | *(16.3)* | 639 | 2,059 | 2,553 | 3,060 |
| Diluted EPS (INR) | 8.2 | 4.2 | *92.9* | 9.8 | *(16.3)* | 8.4 | 27.2 | 33.7 | 40.4 |
| P/E (x) | | | | | | 39.9 | 12.4 | 7.2 | 6.0 |
| EV / EBITDA (x) | | | | | | 9.7 | 5.9 | 3.3 | 2.5 |
| RoE (%) | | | | | | 3.4 | 10.4 | 11.6 | 12.4 |

Source: Company, HSIE Research

## ADD

| | |
|---|---|
| CMP (as on 3 Aug 2022) | INR 332 |
| Target Price | INR 364 |
| NIFTY | 17,388 |

| KEY CHANGES | OLD | NEW |
|---|---|---|
| Rating | ADD | ADD |
| Price Target | INR 324 | INR 364 |
| EPS Change % | FY23E | FY24E |
| | - | - |

| KEY STOCK DATA | |
|---|---|
| Bloomberg code | JKIL IN |
| No. of Shares (mn) | 76 |
| MCap (INR bn) / ($ mn) | 25/338 |
| 6m avg traded value (INR mn) | 179 |
| 52 Week high / low | INR 352/149 |

**STOCK PERFORMANCE (%)**

| | 3M | 6M | 12M |
|---|---|---|---|
| Absolute (%) | 49.9 | 85.7 | 49.8 |
| Relative (%) | 47.4 | 86.4 | 41.4 |

**SHAREHOLDING PATTERN (%)**

| | Mar-22 | Jun-22 |
|---|---|---|
| Promoters | 46.65 | 46.65 |
| FIs & Local MFs | 10.55 | 13.24 |
| FPIs | 6.41 | 8.44 |
| Public & Others | 36.39 | 31.67 |
| Pledged Shares | 10.57 | 10.57 |

*Source: BSE*

Pledged shares as % of total shares

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**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 | Gujarat Gas | MBA | NO |
| Nilesh Ghuge | Gujarat Gas | MBA | NO |
| Akshay Mane | Gujarat Gas | PGDM | NO |
| Rutvi Chokshi | Gujarat Gas | CA | NO |
| Krishnan ASV | Aditya Birla Capital | PGDM | NO |
| Deepak Shinde | Aditya Birla Capital | PGDM | NO |
| Sahej Mittal | Aditya Birla Capital | ACA | NO |
| Neelam Bhatia | Aditya Birla Capital | PGDM | NO |
| Parikshit Kandpal | Brigade Enterprises, HG Infra, J. Kumar Infraprojects | CFA | NO |
| Manoj Rawat | Brigade Enterprises, HG Infra, J. Kumar Infraprojects | MBA | NO |
| Nikhil Kanodia | Brigade Enterprises, HG Infra, J. Kumar Infraprojects | MBA | NO |
| Amit Chandra | BSE | MBA | NO |
| Vivek Sethia | BSE | CA | NO |
| Rajesh Ravi | Star Cement | MBA | NO |
| Keshav Lahoti | Star Cement | CA | NO |

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