

## 3R MATRIX

	+	=	-
Right Sector (RS)	✓	■	■
Right Quality (RQ)	✓	■	■
Right Valuation (RV)	✓	■	■

+ Positive = Neutral - Negative

## Reco/View

Reco: **Buy**CMP: **Rs. 269**Price Target: **Rs. 340**

## Company details

Market cap:	Rs. 3,969 cr
52-week high/low:	Rs. 285/118
NSE volume: (No of shares)	9.8 lakh
BSE code:	533229
NSE code:	BAJAJCON
Free float: (No of shares)	9.1 cr

## Shareholding (%)

Promoters*	38.0
FII	26.9
DII	17.0
Others	18.1

## Price chart



## Price performance

(%)	1m	3m	6m	12m
Absolute	7.0	33.3	49.2	93.8
Relative to Sensex	9.0	23.9	18.1	17.6

Sharekhan Research, Bloomberg

## Bajaj Consumer Care Limited

Light on valuations; strong on growth prospects

Consumer Goods

Sharekhan code: BAJAJCON

New Idea

## Summary

- We re-initiate coverage on Bajaj Consumer Care Limited (BCCL) with a Buy and a price target of Rs. 340. The stock's valuation is attractive at 14x its FY23E EPS versus the five-year historical average of 23x and peer average of 33x.
- Promoter has released all of its pledged shares a year ago, ending a major overhang. Enhanced focus on becoming multi-product company with regular new launches and higher dividend payout would help reduce valuation gap with close peers.
- BCCL has strong cash generation ability with negative working capital. Cumulative FCF is likely to be at Rs. 885 crore over FY2020-23 (22% of market capitalisation), which will be utilised for higher media/promotional activities of brands and potential acquisitions in hair care category.
- With redefined strategies supported by a strong balance sheet, BCCL is well-poised to achieve revenue and earning CAGR of 11.5% and 13.5% over FY2020-23.

Bajaj Consumer Care Limited (BCCL; formerly known as Bajaj Corp) is one of the leading hair oil manufacturers in India. The company's flagship brand Bajaj Almond Drops Hair Oil (ADHO) commands a market share of ~10% in the overall value-added hair oil industry (65% market share in the light hair oil category). BCCL's performance remained muted over FY2015-20. Revenue clocked a CAGR of ~2% while OPM declined owing to demonetisation and implementation of GST and a slowdown in consumer demand in the domestic markets (especially in rural India). The COVID-19 led lockdown at fag-end of Q4FY2020 also hit the growth in FY2020. The hair oil market posted a sharp recovery in Q3FY2021 with sales reaching pre-COVID levels after a sharp decline of 25% in Q1FY2021. This was mainly on account of significant recovery in rural India, which grew by 4.5% in Q3, while urban India registered a decline of 5.8% (recovering from sharp fall of 30.6% in Q1). Relaunch of key brands, filling the portfolio gaps by introducing key SKUs and widening distribution back to pre-COVID levels (by improving penetration in rural markets that fetch 50% of domestic revenues) helped BCCL's revenues grow by 18% y-o-y in Q3. The Almond Drops Hair Oil clocked a volume and value growth of 16% and 14%, respectively, while Bajaj Amla hair oil's market share improved to 2.3% in Q3FY2021 from 1.2% Q3FY2020 led by strong traction in focus markets with concentrated sales & marketing efforts. With rural growth expected to stay ahead of urban growth, a micro-sales strategy would help the company to maintain double-digit volume growth in the coming quarters (also backed by a favourable base). We believe that improving penetration in the rural markets through better distribution and introduction of small packs of Almond Drops Hair Oil and Bajaj Amla hair oil, improving market share of BAHO, new product launches in 2-3 quarters and higher e-Commerce sales (currently at 2.5% of sales) will be key growth drivers in the medium term. Though higher media and promotional spends would lead to lower OPM of 25-26% as compared to historical levels of over 30%, the focus remains on achieving good growth at operating level on an absolute basis by generating higher sales through increased media and distribution activities. We expect BCCL's revenues and PAT to grow at CAGR of 11.5% and 13.5% over FY2020-23. It has strong cash generation with negative working capital. Cumulative free cash flow over FY2016-20 stood at Rs. 1,140 crore (expected at Rs. 885 crore over FY2020-23). The company is planning to utilise incremental cash flows on higher investment behind brands, setting up new facilities for better supply of products and inorganic initiatives. Further, the company will also reward shareholders with higher dividend payouts in the coming years.

## Our Call

**View – Re-initiate coverage with Buy and Price Target of Rs. 340:** BCCL is currently trading at attractive valuation of 16.1x its FY2022E EPS and 14.2x its FY2023 earnings, which is at a stark discount to the historical five-year average multiple of 23x and a steep discount to its peers such as Marico/Dabur India trading at 32x/39x its FY2023E EPS. The promoter has released its entire pledged shares a year back, which was a major overhang on the stock. Enhanced focus on becoming multi-product company, potential acquisition in hair care category and higher dividend payout will be key re-rating factor for the stock going ahead. This along with better growth prospects and higher cash generation ability makes it a better pick in the small to mid cap FMCG space. We re-initiate our coverage on BCCL (earlier know as Bajaj Corp Limited) with a Buy rating assigning a price target of Rs. 340 (valuing the stock at 18x its FY2023E earnings).

## Key Risks

Slowdown in the volume growth of key revenue contributing product ADHO would impact revenue growth trajectory.

## Valuation (Standalone)

Particulars	FY19	FY20	FY21E	FY22E	FY23E
Revenue	909	844	913	1,050	1,170
OPM (%)	30.6	24.9	26.0	25.3	25.5
Adjusted PAT	226	191	218	244	278
% Y-o-Y growth	4.6	-15.7	14.6	12.0	13.8
Adjusted EPS (Rs.)	15.3	12.9	14.8	16.6	18.9
P/E (x)	17.6	20.8	18.2	16.2	14.3
P/B (x)	8.2	5.9	5.1	4.4	3.7
EV/EBIDTA (x)	12.9	16.3	14.1	12.1	10.2
RoNW (%)	45.7	32.8	31.5	31.2	31.8
RoCE (%)	56.2	37.8	36.3	36.9	37.7

Source: Company; Sharekhan estimates

### Key highlights of our interaction with BCCL's management

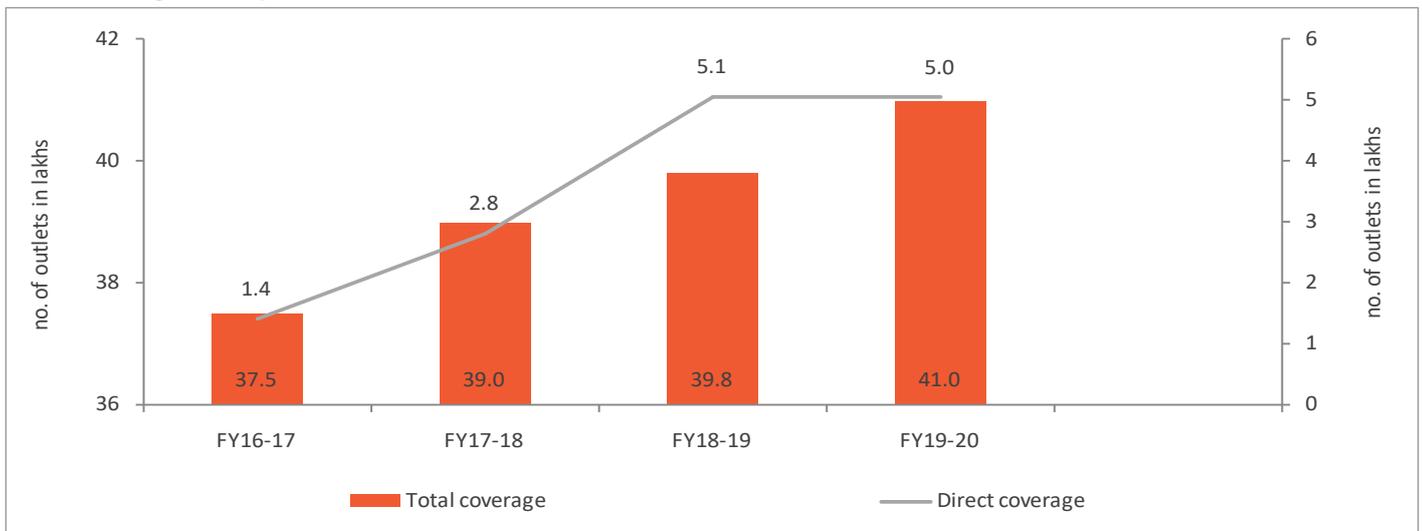
- ◆ Focus on achieving steady volume growth of 6-8% in the medium to long term by improving penetration in the rural markets through van operations, higher media spends through digital and print platform, increasing presence in the southern markets and new products launches in the hair care category.
- ◆ Company has distribution reach of 41 lakh outlets and direct distribution reach currently stands at nine lakh outlets.
- ◆ The company has become aggressive in supporting its core brands through higher media spends. Also plans to launch new products in the next 2-3 quarters. Thus advertisement spends will increase to 18-20% from 12-13 earlier. This would result in operating margin trajectory reducing to 25-26% over the next two years.
- ◆ Significant focus would be on improving revenue growth trajectory and derive better profits at operating level on absolute basis. Once new launches attain a certain scale, the OPM will gradually improve on back of better operating leverage.
- ◆ Nomarks remained on sidelines as large focus is on improving the growth prospects of hair oil products. The company might hive-off the brand if it gets better valuation for the same.
- ◆ The tax rate will continue under the MAT rate of 17.5-18.0% for the next 2-3 years as the company is generating tax benefits from some of its units.
- ◆ The company is planning to set up new facilities over the next 4-5 years to improve the supply of its products in key markets.
- ◆ The company is also scouting for inorganic initiatives (largely in hair care category) to improve its growth prospects in long run.
- ◆ The company has also maintained its thrust on rewarding its shareholder with higher dividend. It paid interim dividend of Rs. 6 per share in Q3FY2021, which is better than Rs. 2 per share full dividend paid in FY2020.
- ◆ The promoters of BCCL had sold ~22% stake in the secondary market in October 2019 for Rs. 700 crore. The promoters have repaid the entire personal debt using the proceeds of the sale and with that, there are no pledges remaining on the stock. Thus, after the stake sale, the promoter's shareholding has come down to 38% from 60% earlier with no pledges.
- ◆ The promoter has indicated of raising its holding to over 51% through creeping acquisition over a period.

### Key investment rationales

#### Enhancing direct distribution – Key to penetrate rural markets

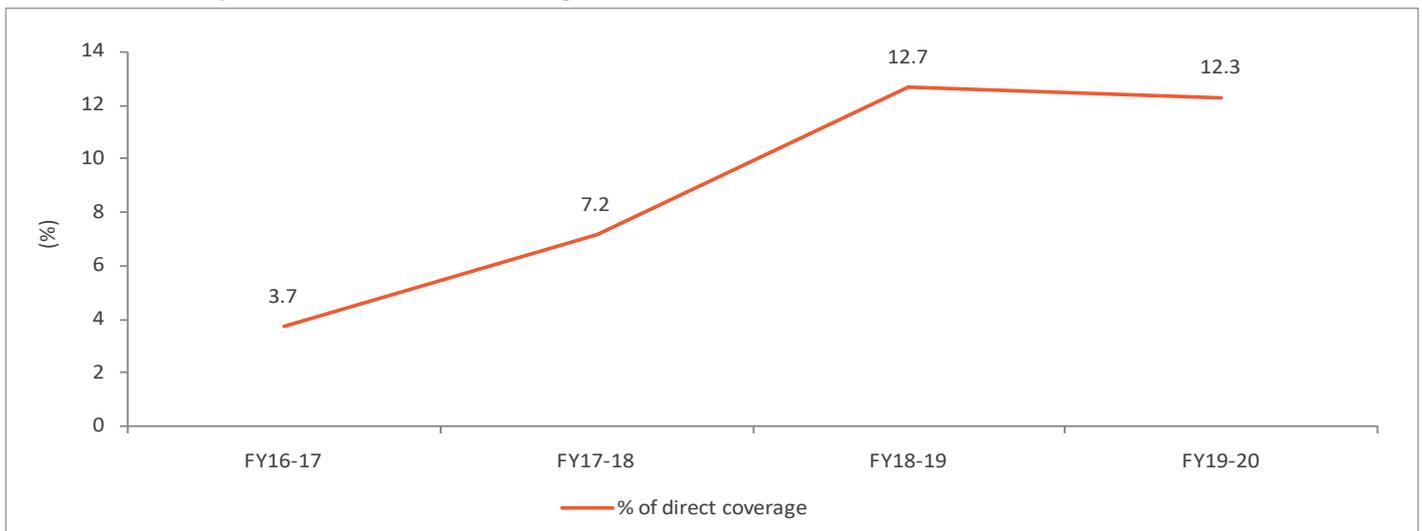
BCCL has been aggressively expanding its distribution reach over the years. As per Nielsen, the total coverage for Almond Drops Hair Oil has increased from 37.5 lakh outlets in FY2016-17 to 41.0 lakh retail outlets as of FY2020 serviced by 8,789 distributors across urban and rural geographies. However, the company has significantly reduced dependence on the wholesale channel with wholesale contribution coming down from 60% to 33% over the last two and a half years. Consequentially, the direct coverage has increased from 1.4 lakh outlets in FY2016-17 to 5.0 lakh outlets and the percentage of direct distribution has increased to 12.3% of the total distribution reach from 3.7% in FY2016-17. The company has been investing significantly in rural markets to increase penetration and drive range selling through van operations, which has partially offset the loss of wholesale from the urban cities. Through van operations (over 700 vans) BCCL is directly reaching more than 4 lakh retail outlets covering nearly all villages having population of more than 2,000 (in certain states coverage is in villages with 1500 population). The company is generating revenues of Rs. 10-12 crore per month through van operations with operating margins in the mid-teens. Overall, the company's direct reach coverage has increased to ~20% of total coverage. It has recently entered Andhra Pradesh and Karnataka through van operations. The company is targeting a direct distribution share of 25% in 2-3 years. Going ahead, expanding the distribution network will help the company to increase the penetration level of Almond Drops Hair Oil and other key brands especially in the rural markets.

**Direct coverage has improved to 5.0 lakh outlets**



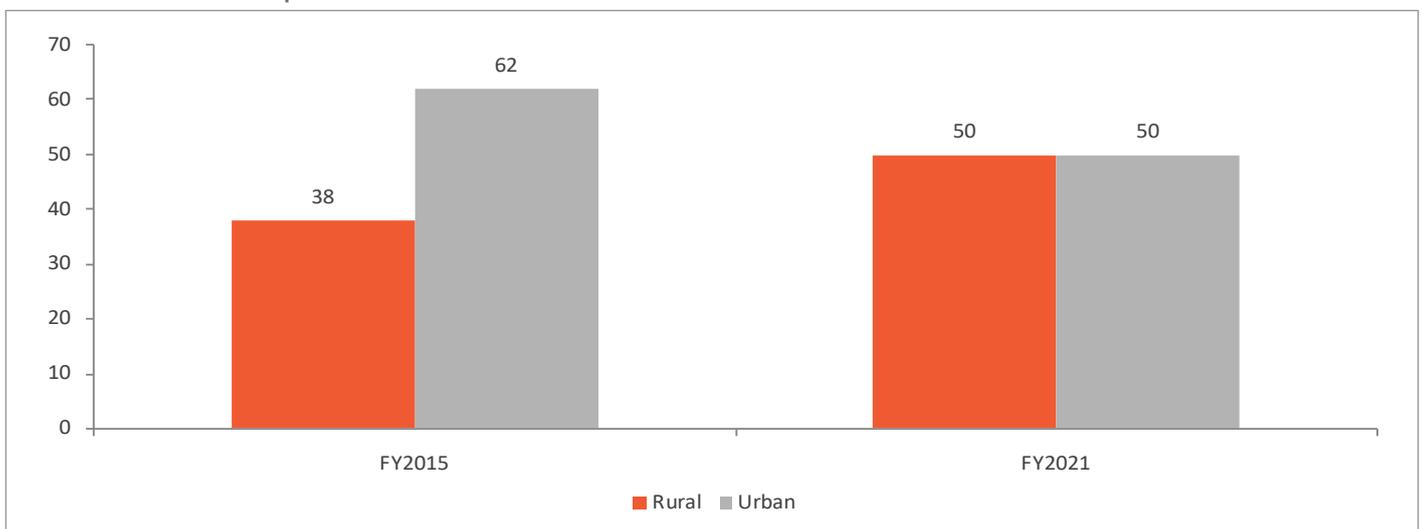
Source: Company; Sharekhan Research

**Direct reach has improved to 12.3% of total coverage**



Source: Company; Sharekhan Research

**Rural contribution has improved to 50% in the recent times**



Source: Company; Sharekhan Research

**ADHO restaged in Q2; market share recovered post the relaunch**

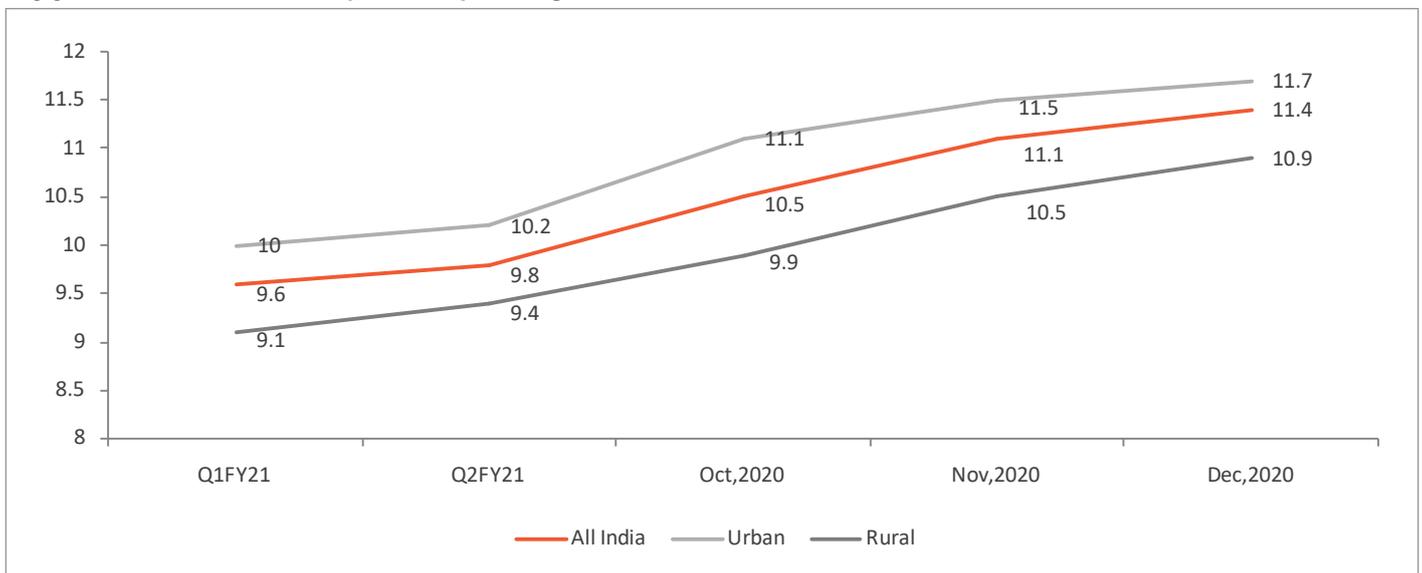
Almond Drops Hair Oil (ADHO), flagship brand of BCCL, is market leader in the light hair oil category with 65% market share and has 10.3% market share in the total hair oil industry. The product’s formulation was upgraded in Q2FY21 with 6X vitamin E. Formulation was supported by two new television commercials to restage the brand in the domestic market. The product is being advertised across different medium of TV, print, social media and Youtube with visibility across modern trade and general trade outlets. In line with its focus on improving penetration of brand (currently ~22%), it was made across three different price points across in last two quarters. The LUPs of ADHO were launched at Rs .5 and Rs. 20 price points to ensure that the entire price point range is completed and the consumer has a larger choice in terms of price. To leverage the consumer preference towards larger share SKUs the company has launched a modern trade only ADHO 650 ml pack for the channel in December. This aided market share recovery which was seen in Q2 to continue in Q3 as well. The brand registered a volume growth of 16% in Q3FY2021 better than the low single digit volume growth in Q2. We expect the double-digit volume growth sustain in the coming quarters on back of improving penetration (especially in the rural markets) and favorable base. However, we believe the brand has capability to deliver high single digit volume growth in the medium to long term.

**ADHO launched under various price points to bridge the gap**



Source: Company

**Bajaj hair oil’s market share improves sequentially**



Source: Company; Sharekhan Research

### BAHO's market share improved to 2.3% in Q3; expected to be key growth driver

Strong traction for value-added hair oil (including amla hair oil) was one of the key drivers for strong recovery in the hair oil segment in Q3FY2021. All the major hair companies including Marico and Dabur India have witnessed strong traction in the amla category during the last two quarters. BCCL's Bajaj Amla Hair Oil (BAHO) has seen good traction in focus markets with concentrated sales and marketing efforts. The product is restaged with different look and launched under various price points (largely to gain strong traction in the rural markets). BCCL supported brands by promoting it through various platforms and coming out with relevant consumer offers to drive sales in the rural markets of key focus states. Availability of the product has increased to 2.36 lakh outlets in December from 1.21 lakh outlets in December. BAHO's market share has improved to 2.3% in Q3FY21 up from 1.2% in corresponding quarter last year and 1.6% in the previous quarter of Q2. The brands total share of turnover is at 3-4%. With improved distribution reach and better market share, the contribution of the brand is expected to further improve in the coming years. The management expects BAHO to be one of the key growth driver and targets to be a Rs. 100 crore brand in next 1-2 years.

#### Bajaj Amla hair oil restaged to improve market share



Source: Company

### General trade continues to perform well; Modern trade recovering; e-Commerce gaining momentum

General trade (constitutes ~85% overall sales) registered a strong recovery in past two quarters with revenues growing by 9.6% and 17.1% in Q2 and Q3 respectively. Growth in general trade was all-round in nature with all the four regions growing by mid-teens during the quarter. Urban markets have showed signs of recovery with a 7% growth, while the rural market grew by 37%. Rural growth was supported by scale-up in van operations across the country. Retail royalty programme in select cities in urban has helped retail grow in Q3 after significant decline in H1. Modern trade channel has seen recovery in Q3 with return of footfalls to the stores though this channel still remains the most affected compared to the others. Ecommerce business maintained its growth momentum growing 3x in Q3 and now contribute 2.5% to total revenues (with an increase in contribution month on month). E-commerce will remain one of its key growth drivers and the company will continue to invest behind this channel through consumer-centric product innovations, digital marketing, infrastructure, and people capability to support the growing demand. Bajaj Anti-Grey, Zero Grey hair oil, is digital first brand has seen good online traction with demand steadily growing over the last three quarters. The product has been listed with major online retailers and was supported with digital and online search marketing in Q3.

#### Channel wise sales break up

Particulars	Rs cr					
	Q3FY21	Q3FY20	YoY %	9MFY21	9MFY20	YoY %
General Trade	203.7	173.9	17.1	566.0	559.0	1.3
Alternate Trade	32.6	26.0	25.4	72.4	72.0	0.6
<b>Total Domestic</b>	<b>236.3</b>	<b>199.9</b>	<b>18.2</b>	<b>638.4</b>	<b>631.0</b>	<b>1.2</b>
International business	6.5	5.6	16.1	17.6	18.1	-2.8
<b>Total revenues</b>	<b>242.8</b>	<b>205.5</b>	<b>18.2</b>	<b>656.0</b>	<b>649.1</b>	<b>1.1</b>

Source: Company; Sharekhan estimates

**Increase in advertisement and media spends to improve brand penetration and support new launches**

BCCL’s ad-spends as percentage to sales stood at 12-13% historically. However, in the recent the company has increased its focus on support its core products with adequate media and promotional spends by advertising them through all media platforms. Further, the company will be launching new products under the hair category over the next two to three quarters, which will also be supported with higher media spends, Thus advertisement spends as a percentage of sales increased to 20% in the recent times. This would help in better brand awareness both in the rural and urban markets and help in driving good sales in the coming years.

**Thrust on digital campaign**

**Social Media Campaigns** for Metros on both Facebook and Instagram targeted At Younger Audiences.

- Influencer Campaigns** on Instagram
- Tie up with More than 80 Influencers

- YouTube Campaigns** in Urban Markets
- Best in Class Ad Recall Lifts

Source: Company

**Operating margins to stay at around 25-26%**

Input prices have seen significant uptick in past two quarters. This along with a change in mix led to 365 bps decline in gross margins. The company has taken a price hike of ~2% to pass on the impact of a substantial increase in input prices and might further increase if raw material prices increases from the current level. BCCL’s OPM stood at 31-33% with advertisement spends staying at 12-13%. Supporting core brands and new launches with higher advertisement spends is one of the company’s core growth strategies. Hence the management indicated that the OPM would sustain at 25-26% and will gradually increase once the operating leverage comes into play. Focus in the near term would growing operating profits on absolute basis on back improved revenue growth.

**Cash flows continue to remain strong, working capital remained negative**

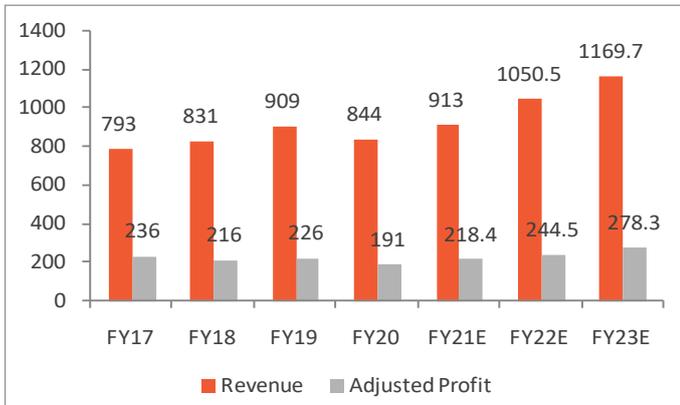
BCCL’s has negative working capital cycle with creditors days standing at 45-50 days. Cumulative free cash flow over FY2016-20 stood at Rs. 1140 crore. The company is planning to utilized incremental cash flows towards higher investment behind brands, setting up new facilities for better supply of products and inorganic initiatives. Further the company will also reward the shareholders with higher dividend payout in the coming years.

**Promoter level debt completely paid off, no more pledge on the stock remains**

Promoter level debt stood at Rs. 643 crore as on September 2019 with promoter’s pledge at 62.8% of its total shareholding. The promoters of BCCL had sold ~22% stake in the secondary market in October 2019 for Rs. 700 crore. The promoters have repaid the entire personal debt using the proceeds of the sale and with that, there are no pledges remaining on the stock. Thus, after the stake sale, the promoter’s shareholding has come down to 38% from 60% earlier with no pledges. However, the promoters have indicated of raising its holding to over 51% through creeping acquisition over a period of time. Also, the chairman has indicated that no further debt will be taken at the promoter group level and no more pledges on the stock will be done. With this, the overhang of promoter’s pledge on the stock is completely over.

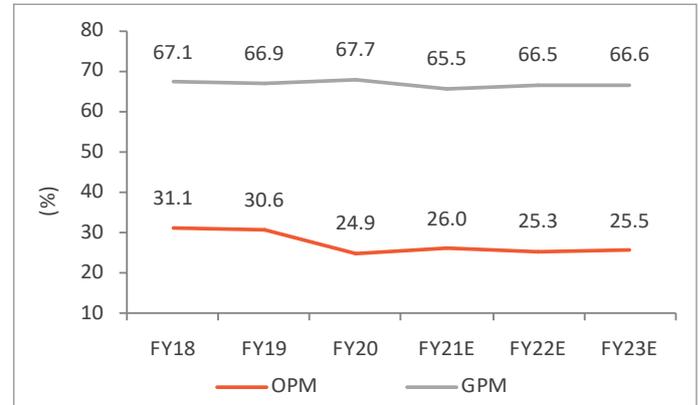
## Financials in charts

### Trend in revenues and PAT



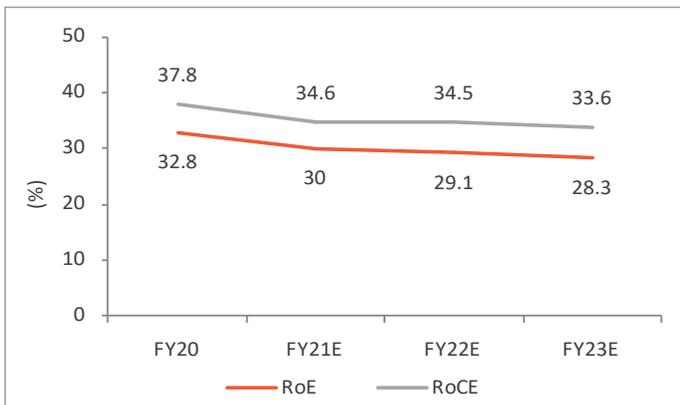
Source: Company, Sharekhan Research

### Trend in the gross margins and OPM



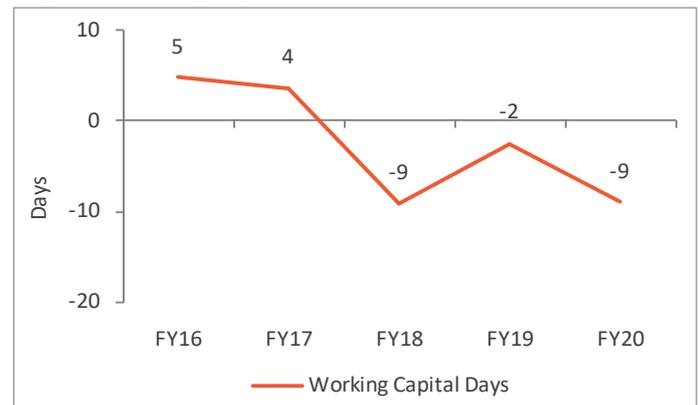
Source: Company, Sharekhan Research

### Trend in RoE and RoCE



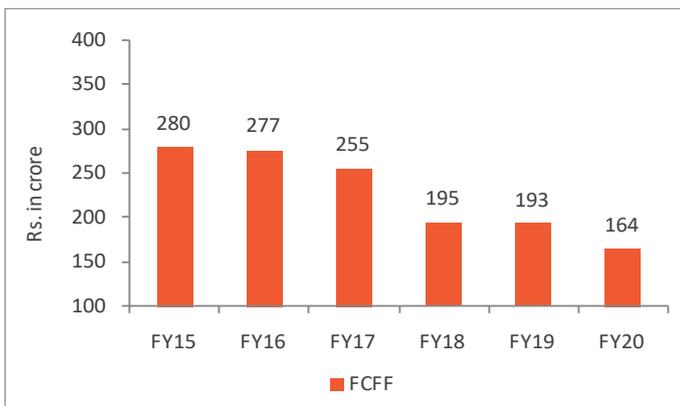
Source: Company, Sharekhan Research

### Negative working capital



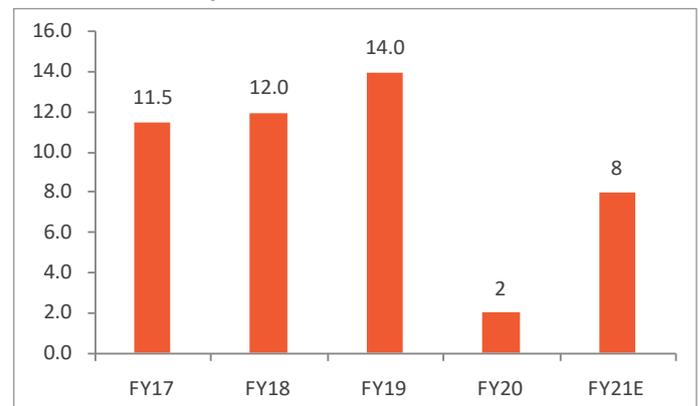
Source: Company, Sharekhan Research

### Trend in free cash flow



Source: Company, Sharekhan Research

### Trend in dividend per share



Source: Company, Sharekhan Research

## Outlook and Valuation

### ■ Sector view - hair care on recovery mode

The domestic FMCG market's growth recovered to 5% in Q3FY2021 from 1% in Q2FY2021. With a strong pick-up in rural demand, general trade seeing normalisation in the business and higher sales through online channels aided most consumer goods companies to recover sales to pre-COVID levels in most of the categories. Hair care products re-gaining momentum (especially at the bottom-of-the pyramid). The consumer shifting from loose to branded hair oil would help large companies to gaining market share. Hair oil category sales stood flat in Q3 recovered from -25.3% in Q1FY2021. This was mainly because of strong recovery in the rural demand. Increase in key input prices would be mitigated by judicious pricing and cost-saving initiatives in the coming quarters.

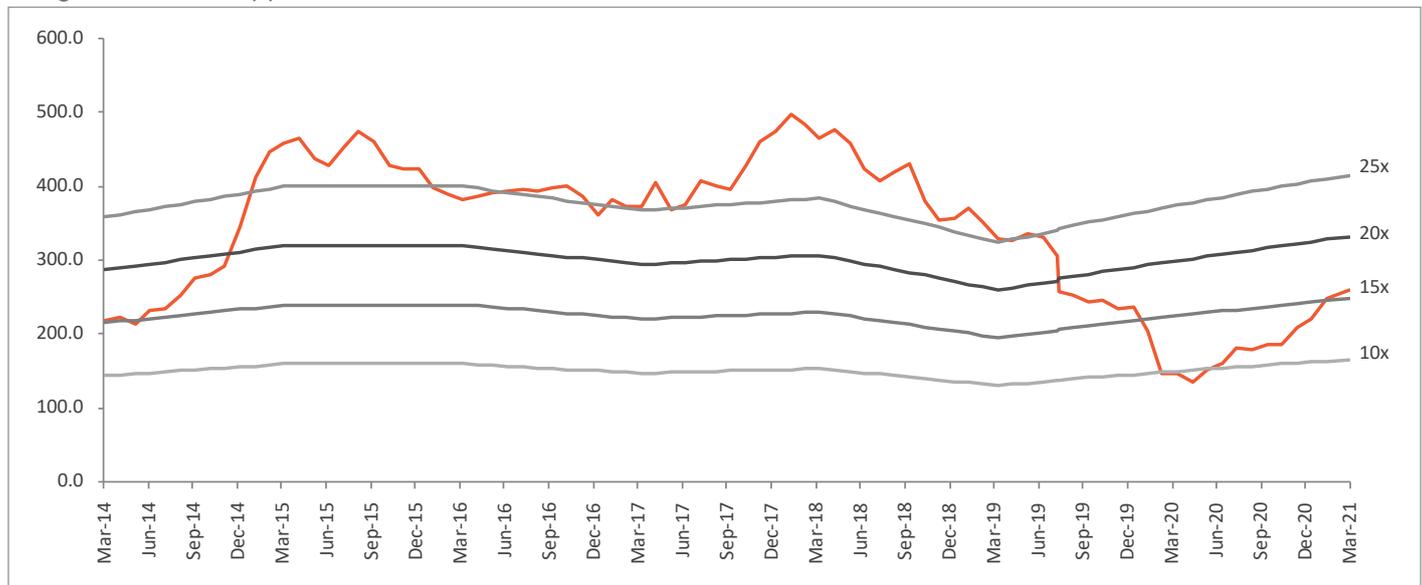
### ■ Company outlook - Near-term growth prospects intact

Relaunch of key brands, filling portfolio gaps by introducing key SKUs and distribution back to pre-COVID levels (with improving penetration in the rural markets; 50% of domestic revenues) helped BCCL's revenues to grow by 18%yoy in Q3. With rural growth expected to stay ahead of urban growth coupled with a micro-sales strategy would help company to maintain double-digit volume growth in the coming quarters (also backed by favorable base). Improvement in penetration in rural market through van operations and strong traction in new launches will help the company to maintain volume growth at high single in the medium term. Higher ad-spends would result in an OPM of 25-26%.

### ■ Valuation - Re-initiate coverage with Buy and Price Target of Rs. 340

BCCL is currently trading at attractive valuation of 16.1x its FY2022E EPS and 14.2x its FY2023 earnings, which is at a stark discount to the historical five-year average multiple of 23x and a steep discount to its peers such as Marico/ Dabur India trading at 32x/39x its FY2023E EPS. The promoter has released its entire pledged shares a year back, which was a major overhang on the stock. Enhanced focus on becoming multi-product company, potential acquisition in hair care category and higher dividend payout will be key re-rating factor for the stock going ahead. This along with better growth prospects and higher cash generation ability makes it a better pick in the small to mid cap FMCG space. We re-initiate our coverage on BCCL (earlier know as Bajaj Corp Limited) with a Buy rating assigning a price target of Rs. 340 (valuing the stock at 18x its FY2023E earnings).

#### One-year forward P/E (x) band



Source: Sharekhan Research

#### Peer Comparison

Particulars	P/E (x)			EV/EBIDTA (x)			RoCE (%)		
	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E
Dabur	54.1	44.9	38.7	43.8	36.1	30.8	27.4	29.3	28.9
Marico	43.1	37.0	32.1	31.0	27.0	23.4	45.7	52.1	54.4
Bajaj Consumer Care	18.2	16.2	14.3	14.1	12.1	10.2	34.6	34.5	33.6

Source: Company, Sharekhan estimates

## About company

BCCL is the second largest company in the Bajaj group established in 1953 to market and sell hair oils. It is one of the leading players in the hair oil category with brands such as Bajaj Almonds Drops Hair Oil (ADHO), Bajaj Brahmi Amla Hair Oil, Bajaj Jasmine Hair Oil, Bajaj Cool Almond Drop, etc. The company's flagship brand ADHO enjoys a leadership position in the premium segment and contributes ~96% of overall revenue. The company had acquired the Nomarks brand to expand into the Rs. . 9,000 crore skin care category with its range of skin care products. BCCL has an established direct distribution network of over 9 million outlets with a direct coverage of ~20%.

## Investment theme

BCCL is market leader in the light hair oil category with the market share of 65%. The company reduced dependence on the wholesale network and increasing share of direct distribution (with focus on penetrating deep in the rural markets) along with relaunch of core brands would key levers for achieving sustained volume growth (targets to achieve volume growth to 6-8% in the medium term). Further new product addition under the hair care category and focus on improving presence in the southern market will add-on to the growth in the coming years. Negative working capital and strong cash generation would help it to invest heavily behind core brands and new launches or go for any inorganic initiative in near future to improve growth prospects.

## Key Risks

- ◆ Slowdown in volume growth of key revenue contributing product ADHO would affect revenue growth.
- ◆ Heightened competition in key penetrated categories would result in market share loss affecting revenue growth.
- ◆ Any significant increase in key raw materials such as LLP and refined oil will be a threat to the profitability.

## Additional Data

### Key management personnel

Kushagra Nayan Bajaj	Non -executive chairman
Jaideep Nandi	Managing Director
Dilip Maloo	Chief Financial Officer
Chadresh Chaya	Company Secretary & Compliance officer

Source: Company

### Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	ICICI Prudential Asset Management	7.57
2	HDFC Asset Management Company	4.54
3	Nippon life India Asset Management	3.02
4	Jupiter Fund Management PLC	1.81
5	SAIF India V FII Holdings	1.68
6	Aditya Birla Sun Life Insurance	1.22
7	Vanguard Group Inc	1.21
8	Goldman sachs Group	1.12
9	Aditya Birla Sun Life Asset Mgmt	0.9
10	BlackRock Inc	0.86

Source: Bloomberg

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## Understanding the Sharekhan 3R Matrix

Right Sector	
Positive	Strong industry fundamentals (favorable demand-supply scenario, consistent industry growth), increasing investments, higher entry barrier, and favorable government policies
Neutral	Stagnancy in the industry growth due to macro factors and lower incremental investments by Government/private companies
Negative	Unable to recover from low in the stable economic environment, adverse government policies affecting the business fundamentals and global challenges (currency headwinds and unfavorable policies implemented by global industrial institutions) and any significant increase in commodity prices affecting profitability.
Right Quality	
Positive	Sector leader, Strong management bandwidth, Strong financial track-record, Healthy Balance sheet/cash flows, differentiated product/service portfolio and Good corporate governance.
Neutral	Macro slowdown affecting near term growth profile, Untoward events such as natural calamities resulting in near term uncertainty, Company specific events such as factory shutdown, lack of positive triggers/events in near term, raw material price movement turning unfavourable
Negative	Weakening growth trend led by led by external/internal factors, reshuffling of key management personal, questionable corporate governance, high commodity prices/weak realisation environment resulting in margin pressure and deteriorating balance sheet
Right Valuation	
Positive	Strong earnings growth expectation and improving return ratios but valuations are trading at discount to industry leaders/historical average multiples, Expansion in valuation multiple due to expected outperformance amongst its peers and Industry up-cycle with conducive business environment.
Neutral	Trading at par to historical valuations and having limited scope of expansion in valuation multiples.
Negative	Trading at premium valuations but earnings outlook are weak; Emergence of roadblocks such as corporate governance issue, adverse government policies and bleak global macro environment etc warranting for lower than historical valuation multiple.

Source: Sharekhan Research

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Compliance Officer: Mr. Joby John Meledan; Tel: 022-61150000; email id: [compliance@sharekhan.com](mailto:compliance@sharekhan.com);

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