



Choice
Nurturing Financial Excellence

IPO REPORT

**“AVOID” to
Exxaro Tiles Ltd.**

Salient features of the IPO:

- **Exxaro Tiles Ltd.** (ETL), is coming up with an IPO to raise up to Rs. 161cr, which opens on 4th Aug. and closes on 6th Aug. 2021. The price band is Rs. 118 - 120 per share.
- The issue is a combination of fresh and OFS. The company will not receive any proceeds from the OFS portion. Of the net proceeds from the fresh issue, Rs. 50cr will be utilized to prepay/repay certain borrowings and another Rs. 45cr will be used to fund the working capital requirement of the company.

Key competitive strengths:

- State-of-the-art manufacturing facilities with strong focus on design and quality
- Widespread sales and dealers network
- Wide product portfolio comprising of 1,000+ designs
- Experienced management and dedicated employee base

Risk and concerns:

- Subdued economic activities especially, real estate sector
- Unfavorable movements in the raw material prices
- Working capital intensive business
- Rise in interest rates
- Competition

Below are the key highlights of the company:

- The size of domestic tile sector is estimated at Rs. 35,000-40,000cr in 2019, with exports comprising of close to 35%. Moreover, the sector is largely unorganized with over 55% contribution from the unorganized players. In 2020, the sector witnessed a contraction of around 10-12%, mainly due to the Covid-19 induced lockdown and restrictions.
- Aided by various government initiatives and revival in economic activities across the globe, the sector is expected to report a production growth of 14% and 10% in 2021 and 2022, respectively. With higher demand from the housing segment, consumption is likely to increase by 20% and 4% in the next two years.
- ETL is engaged in the manufacturing and marketing of vitrified tiles, which is mainly used for flooring applications. The company mainly deals into two categories, i.e. double charges vitrified tiles and glazed vitrified tiles. Currently, it has 1,000+ designs in the product basket, which are offered mainly in six different sizes and marketed under the brand name "Exxaro". According to the company, its well-known brand series includes Topaz, Galaxy, High Gloss series etc.
- As of 28th Jul. 2021, ETL had more than 2,000 registered dealers, spread across 24 states/union territories in India. Its major focus states are Gujarat, Karnataka, Maharashtra and Tamil Nadu, from where it generates major portion of business. Going forward, the company is looking to expand in states like Arunachal Pradesh, Uttarakhand and Puducherry. Internationally, ETL supplies products to over 12 countries including Poland, UAE, Italy, Bosnia etc. In FY21, the company generated 86.1% and 13.9% of the business from the domestic and overseas operations, respectively.

Recommendation	AVOID
Price band	Rs. 118 - 120 per share
Face value	Rs. 10
Shares for fresh issue	1.119cr shares
Shares for OFS	0.224cr shares
Fresh issue size	Rs. 132 - 134.2cr
OFS issue size	Rs. 26.4 - 26.9cr
Total issue size	1.342cr shares (Rs. 158.4 - 161.1cr)
Employee reservation	0.027cr shares
Net issue size	1.316cr shares (Rs. 155.2 - 157.9cr)
Bidding date	4 th Aug. - 6 th Aug. 2021
MCAP at higher price band	Rs. 537cr
Enterprise value at higher price band	Rs. 564cr
Book running lead manager	Pantomath Capital Advisors Pvt. Ltd.
Registrar	Link Intime India Pvt. Ltd.
Sector	Furniture, Furnishing, Paints
Promoters	Mr. Mukesh Kumar Patel, Mr. Kiran Kumar Patel, Mr. Dineshbhai Patel and Mr. Rameshbhai Patel

Issue breakup		
Category	Percent of issue (%)	Number of shares
QIB portion	Not more than 25%	0.329cr shares
Non institutional portion	Not less than 35%	0.460cr shares
Retail portion	Not less than 40%	0.526cr shares

Indicative IPO process time line	
Finalization of basis of allotment	11 th Aug. 2021
Unblocking of ASBA account	12 th Aug. 2021
Credit to demat accounts	13 th Aug. 2021
Commencement of trading	17 th Aug. 2021

Pre and post - issue shareholding pattern		
	Pre-issue	Post-issue
Promoter & promoter group	56.09%	42.07%
Public	43.91%	57.93%
Total	100.00%	100.00%

Retail application money at higher cut-off price per lot	
Number of shares per lot	125
Application money	Rs. 15,000 per Lot

Analyst	
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Key highlights of the company (Contd...):

Company name	Face value (Rs.)	CMP (Rs.)	MCAP (Rs. cr)	EV (Rs. cr)	Stock return (%)				FY21 operating revenue (Rs. cr)	FY21 EBITDA (Rs. cr)	FY21 PAT (Rs. cr)	FY21 EBITDA margin (%)	FY21 PAT margin (%)
					1 M	3 M	6 M	1 Y					
Exxaro Tiles Ltd.	10	120	537	564					255	47	15	18.6%	6.0%
Asian Granito India Ltd.	10	177	606	823	-47.0%	127.0%	-390.0%	-267.0%	1,292	136	57	10.5%	4.4%
Kajaria Ceramics Ltd.	1	994	15,816	15,465	1.5%	8.6%	20.6%	144.6%	2,781	509	308	18.3%	11.1%
Lexus Granito (India) Ltd.	10	11	21	76	1.4%	-26.9%	-47.2%	-41.3%	102	(34)	(49)	-33.4%	-47.9%
Murudeshwar Ceramics Ltd.	10	30	157	237	7.2%	52.8%	41.9%	85.4%	81	9	(12)	11.2%	-14.8%
Nitco Ltd.	10	26	183	628	-8.0%	32.2%	6.5%	56.1%	327	(49)	(137)	-14.9%	-41.9%
Orient Bell Ltd.	10	357	512	486	13.2%	65.1%	53.2%	373.6%	503	32	7	6.4%	1.4%
Somany Ceramics Ltd.	2	703	2,981	3,103	16.0%	66.4%	90.2%	462.4%	1,651	191	58	11.6%	3.5%
Average												1.4%	-12.0%

Company name	4Y Top-line growth (CAGR, %)	4Y EBITDA growth (CAGR, %)	4Y PAT growth (CAGR, %)	4Y average EBITDA margin (%)	4Y Average PAT margin (%)	4Y Capital employed growth (CAGR, %)	4Y CFO growth (CAGR, %)	4Y average fixed asset turnover (x)	4Y average total asset turnover (x)	4Y average RoE (%)	4Y average RoIC (%)
Exxaro Tiles Ltd.	5.1%	6.3%	18.5%	17.5%	4.6%	15.0%	183.5%	1.4	0.6	8.1%	9.1%
Asian Granito India Ltd.	3.3%	-0.7%	2.6%	9.8%	3.5%	9.8%	-7.5%	2.6	1.0	8.5%	10.4%
Kajaria Ceramics Ltd.	0.0%	3.7%	9.4%	16.2%	9.1%	7.8%	28.8%	2.4	1.2	15.8%	14.1%
Lexus Granito (India) Ltd.	-17.6%			2.5%	-11.4%	-19.2%		2.3	0.7		
Murudeshwar Ceramics Ltd.	-12.3%	-34.2%	-245.0%	20.1%	-1.5%	-1.9%	-53.3%	0.4	0.2	-0.1%	2.7%
Nitco Ltd.	-19.1%			-6.1%	-7.9%	-28.3%	-68.2%	1.0	0.4		-13.6%
Orient Bell Ltd.	-8.1%	-11.9%	-44.1%	6.4%	2.6%	3.5%	-12.0%	2.5	1.3	6.9%	5.4%
Somany Ceramics Ltd.	-1.9%	0.9%	-6.4%	10.0%	2.8%	2.0%	47.6%	2.3	1.0	7.7%	10.9%
Average	-7.9%	-8.5%	-56.7%	8.4%	-0.4%	-3.8%	-10.8%	1.9	0.8	7.8%	5.0%

Company Name	EPS (Rs.)	BVPS (Rs.)	DPS (Rs.)	Debt equity ratio	Total asset turnover ratio	RoE (%)	RoCE (%)	P / E (x)	P / B (x)	EV / Sales (x)	EV / EBITDA (x)	MCAP / Sales (x)	Earning yield (%)
Exxaro Tiles Ltd.	3.4	60.4	0.0	0.6	0.5	5.6%	9.3%	35.3	2.0	2.2	11.9	2.1	2.8%
Asian Granito India Ltd.	16.6	182.6	0.5	0.4	1.0	9.1%	13.3%	10.6	1.0	0.6	6.1	0.5	9.4%
Kajaria Ceramics Ltd.	19.4	117.5	10.0	0.1	1.1	16.5%	20.1%	51.3	8.5	5.6	30.4	5.7	1.9%
Lexus Granito (India) Ltd.	(25.4)	9.4	0.0	3.0	0.7				1.2	0.7		0.2	
Murudeshwar Ceramics Ltd.	(2.3)	63.7	0.0	0.2	0.2				0.5	2.9		2.0	
Nitco Ltd.	(19.1)	(10.1)	0.0	(6.3)	0.4					1.9		0.6	
Orient Bell Ltd.	4.9	173.5	0.5	0.1	1.1	2.8%	3.6%	73.2	2.1	1.0	15.1	1.0	1.4%
Somany Ceramics Ltd.	13.6	154.7	2.4	0.6	1.1	8.8%	13.2%	51.7	4.5	1.9	16.3	1.8	1.9%
Average			1.9	(0.3)	0.8	9.3%	12.6%	46.7	2.9	2.1	17.0	1.7	3.7%

Source: Choice Broking Research

- Presently, it operates two fully integrated manufacturing facilities with an installed capacity of 13.2mn sq. meters. Its units operated at a capacity utilization of around 70% in FY21. Going forward, to meet the increasing demand, the company is planning to setup a manufacturing capacity at Morbi and also outsource certain manufacturing to third parties. Further to improve the operational efficiencies, the company is in the process of setting up its own gas station for internal consumption, which will reduce the external dependency and aid in improving the operating margins.
- On financial performance front, ETL has reported a decent growth in the business with stability in the profitability. Over FY18-21, the company has reported a 5.1% CAGR rise in total revenue to Rs. 255.1cr in FY21. Total operating expenditure increased by 4.9% CAGR (lower than top-line growth), thereby leading to a 6.3% CAGR rise in EBITDA to Rs. 47.3cr in FY21. EBITDA margin expanded by 59bps over FY18-21 to at 18.6% in FY21. With lower effective tax rate, reported PAT was up 18.5% CAGR to at Rs. 15.2cr in FY21. PAT margin expanded by 180bps over the period to 6% in FY21. The company reported a positive operating cash flow with an average cash flow of Rs. 21.3cr during FY18-21. With robust cash flows in excess of the capex requirement, the company repaid financial liabilities, which declined by 5.1% CAGR over FY18-21. Consequently, debt to equity ratio improved from 1.9x in FY18 to 1.2x in FY21. RoIC and RoE were in increasing trend with an average of 9.8% and 9.4%, respectively.
- ETL's operation is highly working capital intensive. Cash conversion cycle increased by 1.8% CAGR to around 326 days in FY21. Since the company relied mainly on in-house production, inventories days were higher as compared to peers. Average debtor and payable days were 128 and 270 days, respectively, over FY18-21. As a percent of top-line, inventory and trade receivables were around 40% and 35%, respectively. Its current and quick ratio is around 1.3x and 0.7x, respectively. Thus any unfavorable change in the demand would hamper the business operations of the company.

Peer comparison and valuation: At higher price band of Rs. 120, the company is demanding a P/E valuation of 35.3x (to its restated FY21 EPS of Rs. 3.4). Considering the RoE of 5.6%, the demanded valuation seems to be highly stretched. There are already much better established peers in the listed space, which an investors can consider for investment. This we are assigning an **"AVOID"** rating for the issue.

About the issue:

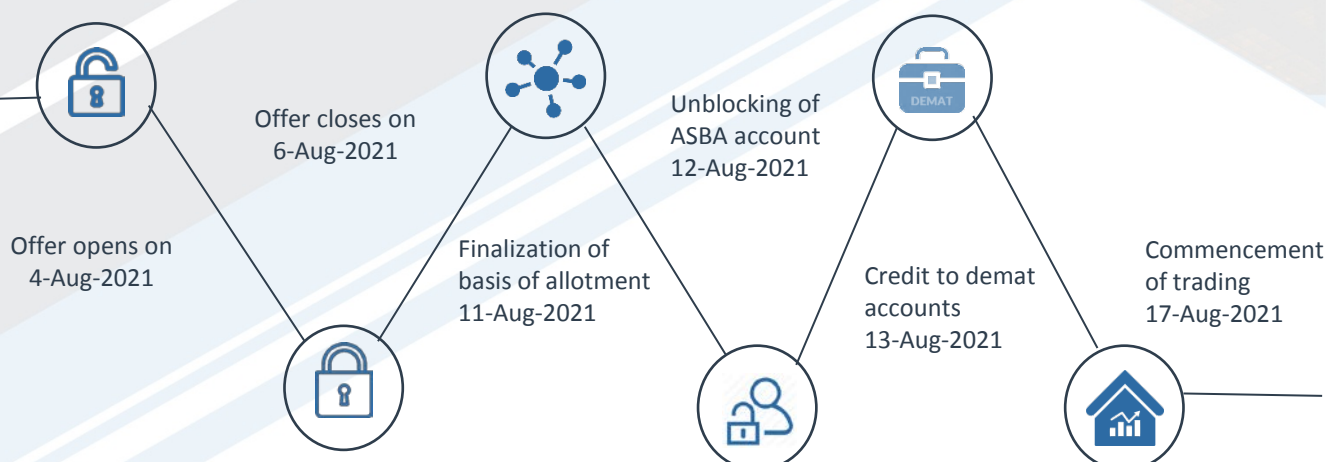
- ETL is coming up with an initial public offering (IPO) with 1.342cr shares (fresh issue: 1.119cr shares; OFS shares: 0.224cr shares) in offering. The offer represents around 30% of its post issue paid-up equity shares of the company. Total IPO size is Rs. 158.4 - 161.1cr.
- The issue will open on 4th Aug. 2021 and close on 6th Aug. 2021.
- The issue is through book building process with a price band of Rs. 118 - 120 per share.
- 0.027cr share are reserved for eligible employees. Thus the net issue size is Rs. 155.2 - 157.9cr.
- The company is offering a discount of up to 10% on the offer price to the eligible employees.
- The issue is a combination of fresh and OFS. The company will not receive any proceeds from the OFS portion. Of the net proceeds from the fresh issue, Rs. 50cr will be utilized to prepay/repay certain borrowing and another Rs. 45cr will be used to fund the working capital requirement of the company.
- Not more than 25% of the net issue are reserved for qualified institutional buyers, while not less than 35% and 40% of the net issue is reserved for non-institutional bidders and retail investors, respectively.
- Promoter currently holds 56.09% stake in the company and post-IPO this will come down to 42.07%. Public holding will increase from current 43.91% to 57.93%.

Pre and post-issue shareholding pattern (%)

	Pre-issue	Post-issue (at higher price band)
Promoter & promoter group (%)	56.09%	42.07%
Public (%)	43.91%	57.93%

Source: Choice Equity Broking

Indicative IPO process time line:



Financial performance:

Performance over FY18-21: On financial performance front, ETL has reported a decent growth in the business with stability in the profitability. Over FY18-21, the company has reported a 5.1% CAGR rise in total revenue to Rs. 255.1cr in FY21. Domestic business was flat, while overseas sales increased by 90.1% CAGR on a low base. In FY21, overseas business contributed 13.9% to the total revenue, while the rest was from domestic operations.

Total operating expenditure increased by 4.9% CAGR (lower than top-line growth, thereby leading to a 6.3% CAGR rise in EBITDA to Rs. 47.3cr in FY21. EBITDA margin expanded by 59bps over FY18-21 to at 18.6% in FY21.

Depreciation charge increased by 5% CAGR, while finance cost increased by 14.8% CAGR during the period. Consequently, pre-tax profit increased by 3.8% CAGR. With lower effective tax rate, reported PAT was up 18.5% CAGR to at Rs. 15.2cr in FY21. PAT margin expanded by 180bps over the period to 6% in FY21.

The company reported a positive operating cash flow with an average cash flow of Rs. 21.3cr during FY18-21. With robust cash flows in excess of the capex requirement, the company repaid financial liabilities, which declined by 5.1% CAGR over FY18-21. Consequently, debt to equity ratio improved from 1.9x in FY18 to 1.2x in FY21. RoIC and RoE were in increasing trend with an average of 9.8% and 9.4%, respectively.

Financial snapshot (Rs. cr)	FY18	FY19	FY20	FY21	CAGR over FY18-21 (%)	Y-o-Y (% Annual)
Revenue from operations	219.5	242.3	240.7	255.1	5.1%	6.0%
EBITDA	39.4	37.8	43.0	47.3	6.3%	10.2%
Reported PAT	9.1	8.9	11.3	15.2	18.5%	35.2%
Restated reported EPS	2.0	2.0	2.5	3.4	18.5%	35.2%
Cash flow from operating activities	1.7	40.8	4.9	37.8	183.5%	665.7%
NOPLAT	19.6	17.6	23.4	27.7	12.3%	18.4%
FCF		34.4	20.7	24.7		19.8%
RoIC (%)	8.3%	8.0%	10.5%	12.3%	403 bps	179 bps
Revenue growth rate (%)		10.3%	-0.6%	6.0%		
EBITDA growth rate (%)		-4.1%	13.6%	10.2%		
EBITDA margin (%)	18.0%	15.6%	17.8%	18.6%	59 bps	71 bps
EBIT growth rate (%)		-14.2%	20.7%	17.6%		
EBIT margin (%)	12.6%	9.8%	11.9%	13.2%	61 bps	131 bps
Restated reported PAT growth rate (%)		-2.5%	26.3%	35.2%		
Restated reported PAT margin (%)	4.2%	3.7%	4.7%	6.0%	180 bps	129 bps
Inventory days	464.4	324.2	473.3	453.6	-0.8%	-4.2%
Debtor days	114.8	114.8	136.2	133.4	5.1%	-2.1%
Payable days	(270.0)	(210.3)	(325.8)	(260.7)	-1.2%	-20.0%
Cash conversion cycle	309.2	228.7	283.7	326.2	1.8%	15.0%
Fixed asset turnover ratio (x)	1.1	1.3	1.4	1.6	12.6%	14.3%
Total asset turnover ratio (x)	0.6	0.7	0.6	0.7	5.1%	11.1%
Current ratio (x)	1.3	1.3	1.3	1.5	3.7%	11.6%
Total debt (Rs.)	194.8	171.2	182.5	166.6	-5.1%	-8.7%
Net debt (Rs.)	184.4	166.7	178.9	161.3	-4.4%	-9.8%
Debt to equity (x)	1.9	1.6	1.5	1.2	-14.2%	-19.0%
Net debt to EBITDA (x)	4.7	4.4	4.2	3.4	-10.0%	-18.2%
RoE (%)	9.1%	8.1%	9.3%	11.2%	209 bps	186 bps
RoA (%)	2.5%	2.5%	2.9%	4.1%	164 bps	121 bps
RoCE (%)	11.6%	10.7%	12.7%	14.8%	317 bps	207 bps

Source: Choice Equity Broking



Competitive strengths:

- State-of-the-art manufacturing facilities with strong focus on design and quality
- Widespread sales and dealers network
- Wide product portfolio comprising of 1,000+ designs
- Experienced management and dedicated employee base

Business strategy:

- Strengthening brand value
- Expand dealer network in existing markets and increase export presence
- Increase sales by enhancing manufacturing capacities and procuring materials on outsourced basis
- Continue to improve operating efficiencies through technology enhancements and setting up a gas station



Risk and concerns:

- Subdued economic activities especially, real estate sector
- Unfavorable movements in the raw material prices
- Working capital intensive business
- Rise in interest rates
- Competition

Financial statements:

Profit and loss statement (Rs. cr)

	FY18	FY19	FY20	FY21	CAGR over FY18 - 21 (%)	Annual growth over FY20 (%)
Revenue from operations	219.5	242.3	240.7	255.1	5.1%	6.0%
Cost of materials consumed	(97.1)	(83.7)	(94.9)	(78.0)	-7.1%	-17.9%
Purchase of stock-in-trade	(1.9)	(4.4)	(7.0)	(7.7)	58.3%	9.7%
Changes in inventories of finished goods, work-in-progress and stock-in-trade	28.8	(7.0)	30.6	1.3	-64.7%	-95.9%
Gross profit	149.2	147.2	169.4	170.7	4.6%	0.8%
Employee benefits expense	(30.3)	(29.1)	(26.5)	(19.3)	-14.1%	-27.4%
Other expenses	(79.5)	(80.2)	(100.0)	(104.1)	9.4%	4.2%
EBITDA	39.4	37.8	43.0	47.3	6.3%	10.2%
Depreciation and amortization expense	(11.8)	(14.1)	(14.3)	(13.6)	5.0%	-4.6%
EBIT	27.7	23.7	28.7	33.7	6.8%	17.6%
Finance costs	(14.0)	(17.8)	(19.7)	(21.3)	14.8%	7.8%
Other income	1.7	1.8	3.2	4.7	40.2%	46.1%
PBT	15.3	7.7	12.2	17.2	3.8%	41.0%
Tax expenses	(6.2)	1.2	(0.9)	(1.9)	-32.2%	112.9%
Reported PAT	9.1	8.9	11.3	15.2	18.5%	35.2%

Balance sheet statement (Rs. cr)

	FY18	FY19	FY20	FY21	CAGR over FY18 - 21 (%)	Annual growth over FY20 (%)
Equity share capital	33.6	33.6	33.6	33.6	0.0%	0.0%
Other equity	66.9	75.9	87.2	102.5	15.3%	17.5%
Non current borrowings	128.9	103.2	98.4	87.2	-12.2%	-11.4%
Other non current financial liabilities	2.4	2.0	0.7	0.4	-44.2%	-39.5%
Non current provisions	0.5	0.7	0.9	1.1	26.0%	17.2%
Non current net deferred tax liabilities	5.6	5.7	4.3	3.0	-19.0%	-30.5%
Current borrowings	50.1	55.4	75.7	73.5	13.6%	-3.0%
Other current financial liabilities	13.4	10.5	7.6	5.5	-25.7%	-27.9%
Trade payables	52.0	57.6	69.7	50.9	-0.7%	-27.0%
Current provisions	4.2	2.2	0.3	3.3	-7.8%	1216.4%
Net current tax liabilities	4.5	2.4	2.6	3.0	-13.0%	13.2%
Other current liabilities	6.8	9.1	6.0	5.5	-6.7%	-9.4%
Total liabilities	368.9	358.3	387.1	369.3	0.0%	-4.6%
Property, plant and equipment	195.8	184.7	171.9	159.4	-6.6%	-7.3%
Intangible assets	0.1	0.1				
Non current investments			1.4	1.4		0.0%
Other non current financial assets	1.3	1.4	1.3	1.2	-1.1%	-6.9%
Inventories	89.4	79.5	105.5	104.3	5.3%	-1.1%
Trade receivables	69.0	83.4	96.4	90.1	9.3%	-6.5%
Cash and cash equivalents	10.5	4.5	3.5	5.3	-20.2%	50.1%
Other current financial assets			0.0	0.2		670.0%
Current loans	0.1	0.0	0.1	0.1	-20.6%	0.0%
Other current assets	2.7	4.8	7.1	7.4	40.4%	4.4%
Total assets	368.9	358.3	387.1	369.3	0.0%	-4.6%

Source: Choice Equity Broking

Financial statements:

Cash flow statement (Rs. cr)

Particulars (Rs. mn)	FY18	FY19	FY20	FY21	CAGR over FY18 - 21 (%)	Annual growth over FY20 (%)
Cash flow before working capital changes	41.2	39.9	45.5	52.5	8.4%	15.2%
Working capital changes	(36.0)	1.7	(38.6)	11.7		
Cash flow from operating activities	1.7	40.8	4.9	37.8	183.5%	665.7%
Purchase of property , plant & equipment	(7.3)	(3.0)	(1.4)	(1.3)	-43.3%	-6.6%
Cash flow from investing activities	(14.2)	(4.9)	(1.7)	(1.7)	-50.6%	2.0%
Cash flow from financing activities	15.7	(38.2)	(4.2)	(34.4)	-229.8%	715.1%
Net cash flow	3.2	(2.3)	(1.0)	1.7	-19.9%	
Opening balance of cash	0.6	3.8	1.5	0.5	-4.4%	-64.6%
Closing balance of cash	3.8	1.5	0.5	2.2	-17.0%	312.3%

Financial ratios

Particulars (Rs. mn)	FY18	FY19	FY20	FY21
Revenue growth rate (%)		10.3%	-0.6%	6.0%
EBITDA growth rate (%)		-4.1%	13.6%	10.2%
EBITDA margin (%)	18.0%	15.6%	17.8%	18.6%
EBIT growth rate (%)		-14.2%	20.7%	17.6%
EBIT margin (%)	12.6%	9.8%	11.9%	13.2%
Restated adjusted PAT growth rate (%)		-2.5%	26.3%	35.2%
Restated adjusted PAT margin (%)	4.2%	3.7%	4.7%	6.0%

Turnover ratios

	FY18	FY19	FY20	FY21
Inventories turnover ratio (x)	2.5	2.9	2.6	2.4
Trade receivable turnover ratio (x)	3.2	3.2	2.7	2.7
Accounts payable turnover ratio (x)	4.2	4.4	3.8	4.2
Fixed asset turnover ratio (x)	1.1	1.3	1.4	1.6
Total asset turnover ratio (x)	0.6	0.7	0.6	0.7

Return ratios

	FY18	FY19	FY20	FY21
RoE (%)	9.1%	8.1%	9.3%	11.2%
RoA (%)	2.5%	2.5%	2.9%	4.1%
RoCE (%)	11.6%	10.7%	12.7%	14.8%

Per share data

	FY18	FY19	FY20	FY21
Restated adjusted EPS (Rs.)	2.0	2.0	2.5	3.4
DPS (Rs.)	0.0	0.0	0.0	0.0
BVPS (Rs.)	22.5	24.5	27.0	30.4
Operating cash flow per share (Rs.)	0.4	9.1	1.1	8.4
Free cash flow per share (Rs.)		7.7	4.6	5.5
Dividend payout ratio	0.0%	0.0%	0.0%	0.0%

Note: Ratios calculated on pre-issue data; Source: Choice Equity Broking

Disclaimer

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