

BASF India

Refer to important disclosures at the end of this report

A play on many variables

CMP: Rs 1,633
as of (August 24, 2020)

TP: Rs 1,484 (▲)
12 months

Rating: HOLD (■)

Upside: (9.1) %

- BASF in its annual analyst meet laid out its strategy which includes improving RoCE from ~6% to 10% in the next 2-3 years by cost optimization, improving product portfolio and increasing capacity utilization. The focus is on improving profitability in key segments.
- Management expects healthy volume growth in Agrochemicals in the coming quarters, which shall partially restrict weakness ensuing from Automotive, Construction and Refining sectors. BASF aims to launch 15 new products in Agrochemicals unit in the next 5 years.
- The Dahej plant, which was commercialized in Oct'14 (capex of Rs11bn), operated at the ~70% capacity utilization level for FY20 and reported sales of ~Rs13bn (17% of FY20 sales). The capacity expansion (2x) for polymer dispersions at the plant is underway.
- Overall balanced exposure for a business that encompasses numerous segments shall continue to deliver moderate growth in coming years. Margin volatility in Materials and Surface Tech remains a risk. We roll forward our valuations to Sept'22E earnings and raise our TP to Rs1,484 (28x Sept'22E EPS vs 24x earlier). We retain Hold and EW in EAP.

Focus on improving RoCE: In addition to improving margins by optimizing costs, moving toward a favorable product portfolio, increasing the capacity utilization levels, management's main focus would be to elevate RoCE from current ~6% levels to 10% in the next 2-3 years with better capital deployment strategies. The domestic business remains an average of many sectors, which may deliver in various cycles, and as a result, revenues are expected to grow ~10% (which is slightly above the Indian chemical market growth rate). BASF expects good traction from agrochemical to continue for the next few quarters, led by a better monsoon season and strong demand from the rural side. BASF is planning to launch 15 new products in the next 5 years in a phased manner, either through in-house manufacturing or licensing with third parties. However, it is closing monitoring weak sectors like automotive, paint and consumer durables where management expects slower recovery amid Covid-19.

Capacity utilization displays room to grow: Utilization levels continue to vary across periods and were 70-75% (with Dahej operating at 70%) in FY20 but still profitability was subdued. Q1FY21 was around – 25-30% (as compared to 75% last year). Revenues from the Dahej facility stood Rs13bn for FY20 (17% of FY20 revenues), dragged by low crude oil prices. BASF plans to double polymer dispersion capacity in the next 12-18 months with capex of ~Rs1.2bn. In FY20, revenue from in-house products stood at 55%, while balance 45% was from merchandise. In Q1FY21, the ratio stood 40:60, respectively.

Margin sustenance key; maintain Hold: Overall balanced exposure for a business that encompasses numerous segments shall continue to deliver moderate growth in the coming years. However, margin volatility in segments such as Materials and Surface Technologies remains key monitorable. We believe that robust volume growth in Agriculture Solutions is critical for the medium term. We roll forward our valuations to Sept'22E earnings and raise our TP to Rs1,484 (28x Sept'22E EPS vs 24x earlier). We retain Hold and EW stance in EAP.

Please see our sector model portfolio (Emkay Alpha Portfolio): [Speciality Chemicals \(page 9\)](#)

Financial Snapshot (Consolidated)

(Rs mn)	FY19	FY20	FY21E	FY22E	FY23E
Revenue	60,257	75,511	82,070	90,372	1,01,217
EBITDA	1,647	2,729	2,884	4,034	5,025
EBITDA Margin (%)	2.7	3.6	3.5	4.5	5.0
APAT	(443)	510	718	1,622	2,473
EPS (Rs)	(10.2)	11.8	16.6	37.5	57.1
EPS (% chg)	(150.4)	0.0	41.0	125.7	52.5
ROE (%)	(3.2)	3.6	5.1	10.7	14.5
P/E (x)	(157.5)	137.0	97.2	43.1	28.2
EV/EBITDA (x)	48.3	27.9	26.4	19.0	15.2
P/BV (x)	4.9	5.0	4.8	4.4	3.8

Source: Company, Emkay Research



Change in Estimates

EPS Chg FY21E/FY22E (%)	(21)/(12)
Target Price change (%)	25.2
Target Period (Months)	12
Previous Reco	HOLD

Emkay vs Consensus

EPS Estimates		
	FY21E	FY22E
Emkay	16.6	37.5
Consensus	32.7	47.5
Mean Consensus TP (12M)	Rs 1,118	

Stock Details

Bloomberg Code	BASF IN
Face Value (Rs)	10
Shares outstanding (mn)	43
52 Week H/L	1,874 / 795
M Cap (Rs bn/USD bn)	71 / 0.95
Daily Avg Volume (nos.)	1,01,147
Daily Avg Turnover (US\$ mn)	1.8

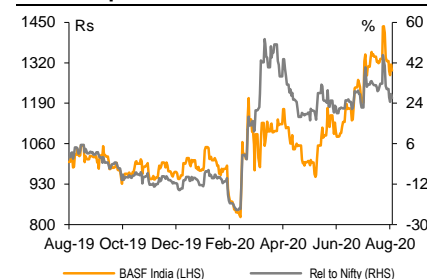
Shareholding Pattern Jun '20

Promoters	73.3%
FII	2.9%
DII	7.8%
Public and Others	16.0%

Price Performance

(%)	1M	3M	6M	12M
Absolute	22	55	97	59
Rel. to Nifty	19	22	103	51

Relative price chart



Source: Bloomberg

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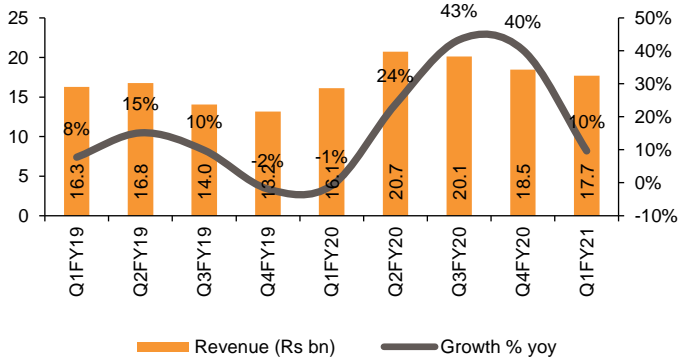
Rohit Sinha

rohit.sinha@emkayglobal.com

+91 22 6612 1306

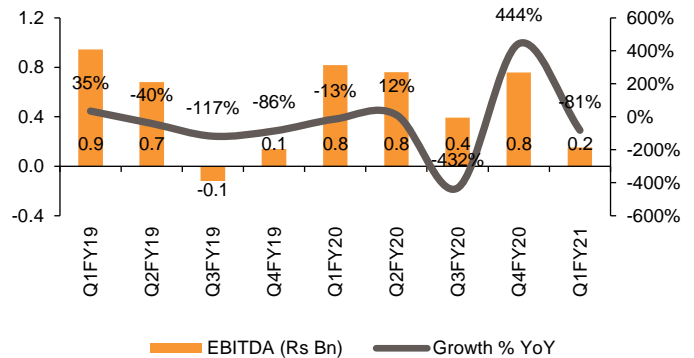
Story in Charts

Exhibit 1: Agro and Nutrition aid revenue growth



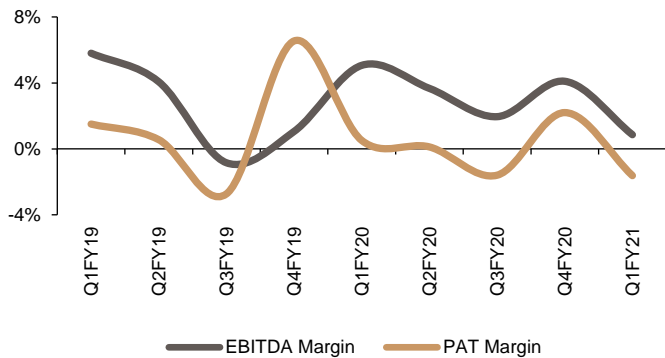
Source: Company, Emkay Research

Exhibit 2: EBITDA slips on higher input costs



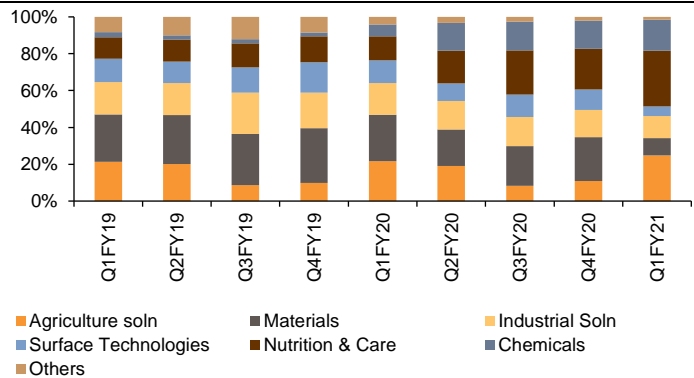
Source: Company, Emkay Research

Exhibit 3: Margins decline on losses from some segments



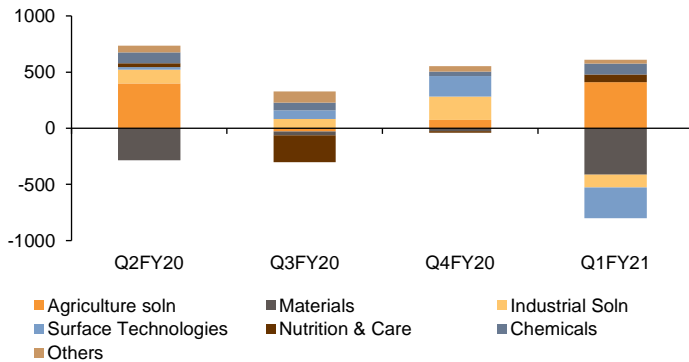
Source: Company, Emkay Research

Exhibit 4: Nutrition & Care and Agriculture grow yoy (Revenue contribution)



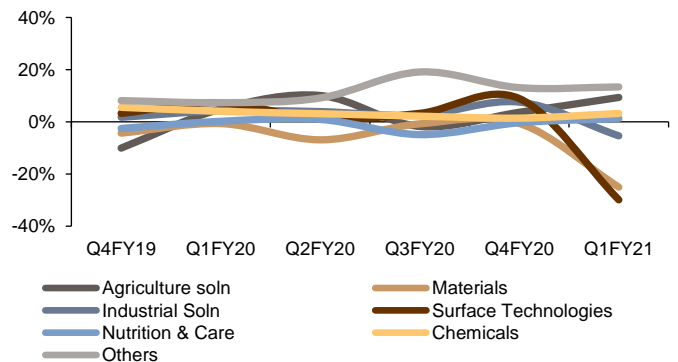
Source: Company, Emkay Research

Exhibit 5: Negative income for three segments (Rs mn)



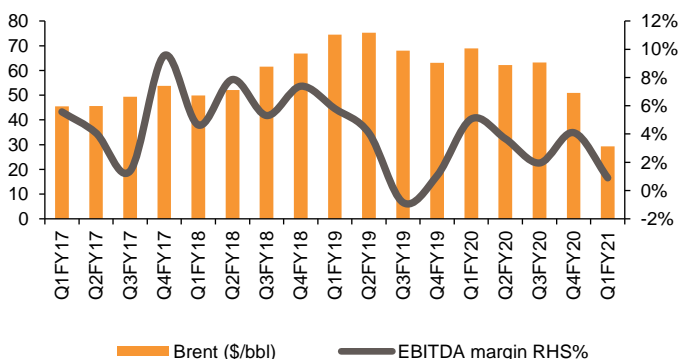
Source: Company, Emkay Research

Exhibit 6: Materials, Industrials and Surface post weak performance



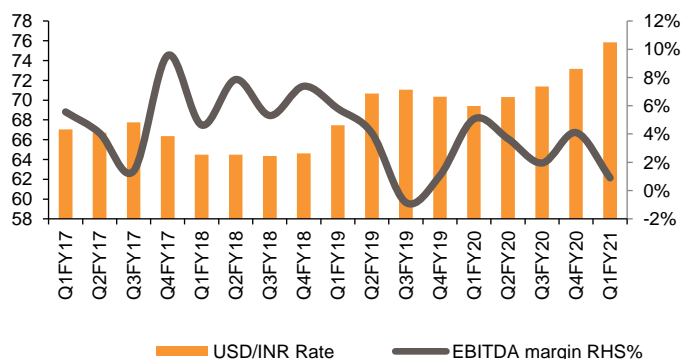
Source: Company, Emkay Research

Exhibit 7: Crude prices vital to margins



Source: Company, Industry, Emkay Research

Exhibit 8: USD/INR rate volatility hurts import-exports of RM/FG



Source: Company, Industry, Emkay Research

Exhibit 9: Quarterly performance

Rs mn	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21	YoY (%)	QoQ (%)
Revenue	16,138	20,743	20,144	18,486	17,697	9.7	(4.3)
Operating Expenditure	12,503	17,015	16,941	14,878	15,102	20.8	1.5
Gross Profit	3,634	3,728	3,203	3,608	2,595	(28.6)	(28.1)
as % of sales	22.5	18.0	15.9	19.5	14.7		
SG&A expenses	2,817	2,968	2,810	2,850	2,443	(13.3)	(14.3)
as % of sales	17.5	14.3	14.0	15.4	13.8		
EBITDA	817	761	393	758	152	(81.4)	(79.9)
Depreciation	455	456	465	424	427	(6.1)	0.7
EBIT	362	305	(72)	334	(275)	NA	NA
Other Income	55	63	38	121	20	(63.9)	(83.6)
Interest Expenses	242	226	207	159	122	(49.4)	(23.1)
PBT	176	141	(240)	295	(378)	NA	NA
Total Tax	31	8	(65)	(112)	(87)	NA	NA
Reported PAT	145	133	(175)	407	(292)	NA	NA
Extra ordinary items	63	110	149	3	-	NA	NA
Reported PAT	82	23	(324)	404	(292)	NA	NA
Adjusted PAT	82	23	(324)	404	(292)	NA	NA
Adjusted EPS	1.9	0.6	(7.4)	9.4	(6.6)	NA	NA

Margins (%)						(bps)	(bps)
EBITDA	5.1	3.7	2.0	4.1	0.9	-421	-324
EBIT	2.2	1.5	-0.4	1.8	-1.6	-380	-336
EBT	1.1	0.7	-1.2	1.6	-2.1	-322	-373
PAT	0.5	0.1	-1.6	2.2	-1.6	-216	-383
Effective Tax Rate	17.4	5.6	27.2	-37.8	22.9	551	6,070

Source: Company, Emkay Research

Exhibit 10: Segment-wise performance

Revenue (Rs mn)	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21	YoY (%)	QoQ (%)
Agriculture solutions	3,490	3,938	1,681	2,032	4,389	25.8	116.0
Materials	4,082	4,139	4,316	4,385	1,646	(59.7)	(62.5)
Industrial Solution	2,756	3,197	3,209	2,757	2,150	(22.0)	(22.0)
Surface Technologies	2,017	1,999	2,431	2,042	915	(54.6)	(55.2)
Nutrition & Care	2,092	3,658	4,851	4,094	5,357	156.0	30.8
Chemicals	1,024	3,144	3,133	2,860	2,976	190.7	4.1
Others	677	669	523	361	263	(61.1)	(27.1)

EBIT (Rs mn)							
Agriculture solutions	170.5	398	-30	74.3	410.4	140.7	452.4
Materials	(27.6)	-286	-33	(26.9)	(412.2)	NA	NA
Industrial Solution	116.3	125	82	208.5	(115.5)	NA	NA
Surface Technologies	147.6	21	79	182.2	(273.6)	NA	NA
Nutrition & Care	4.3	33	-238	(14.4)	68.6	1,495.3	NA
Chemicals	41.1	98	68	40.3	95.7	132.8	137.5
Others	49.7	61	100	47.3	35.2	(29.2)	(25.6)

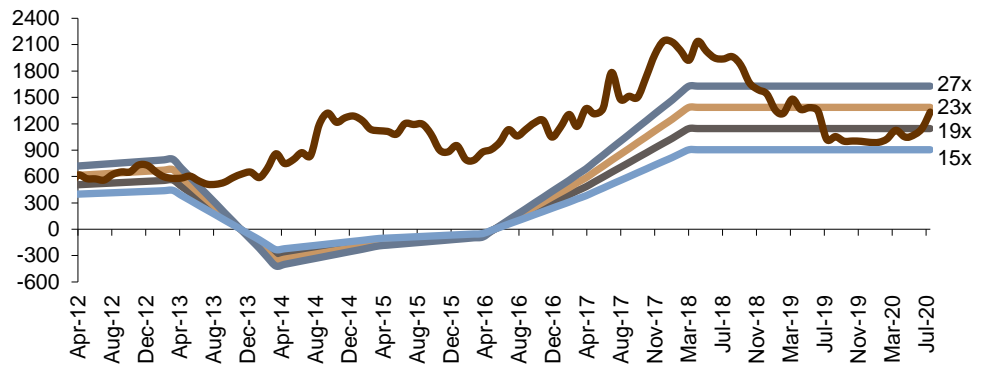
EBIT Margin (%)						(bps)	(bps)
Agriculture solutions	4.9	10.1	(1.8)	3.7	9.4	447	569
Materials	(0.7)	(6.9)	(0.8)	(0.6)	(25.0)	-2,436	-2,443
Industrial Solution	4.2	3.9	2.6	7.6	(5.4)	-959	-1,293
Surface Technologies	7.3	1.1	3.2	8.9	(29.9)	-3,722	-3,883
Nutrition & Care	0.2	0.9	(4.9)	(0.4)	1.3	108	163
Chemicals	4.0	3.1	2.2	1.4	3.2	-80	181
Others	7.3	9.1	19.1	13.1	13.4	603	27

Source: Company, Emkay Research

Concall Highlights

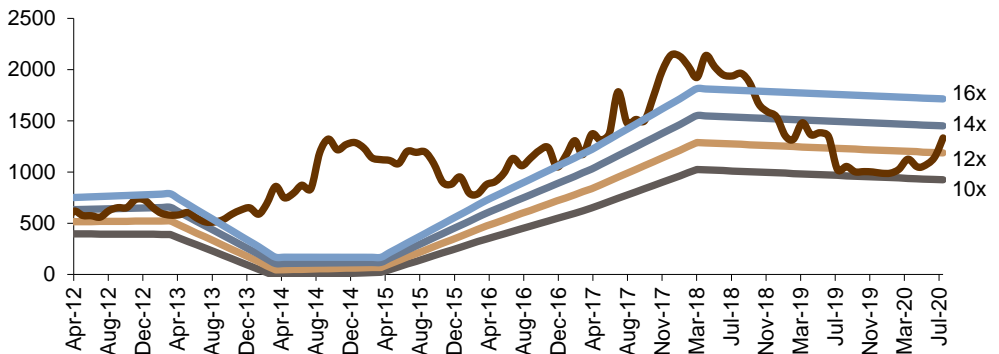
- Management expects good traction from agrochemical to continue in the next few quarters, which may partially offset weakness in other segments and help stave off the Covid-19-induced slowdown.
- The BASF India division remains an average of many sectors, many of which may deliver in varying cycles and periods and is expected to grow topline at an average of 10% (which is slightly above the Indian chemical market growth). It is supportive of Make in India policy, which in turn would benefit BASF India.
- Utilization levels continue to vary across periods. FY20 – 70-75% (with Dahej operating at 70%), while Q1FY21 – 25-30% vs. Q1FY20 – 75%. Revenues from the Dahej facility stood at Rs15bn for FY20 (20% of FY20 revenues).
- In addition to improving margins by optimizing costs, moving toward a favorable product portfolio, increasing the capacity utilization levels, the main focus would be to elevate RoCE from current ~6% levels to 10% in next few years, with better capital deployment strategies.
- The strategy in the agrochem sector includes product, crop and geography diversification, in addition to expanding the digital reach. It plans to introduce 15 new products in the next 5 years, either through in-house manufacturing or licensing with third parties.
- Gross block currently has slid in the past few years. Management believes that major capex shall be undertaken only in cases where there is large feedstock availability in domestic market, and large capacity commercialization would be absorbed.
- BASF parent continues to do business with other domestic specialty chemical companies (as opposed to BASF India) to source products, in case the parent company does not want to get involved in the value chain at a large scale.
- Exports have come down as a result of the sale of the Ankleshwar facility, which produced stilbene-based Optical Brightening Agents (OBA) business for paper and powder detergents in Dec'19. These products were initially exported.
- FY21 would be the first year which has revenue contribution from in-house manufacturing and merchandise models, where agency contribution is absent.
- In FY20, revenue from in-house products stood at 55%, while the balance 45% was from merchandise. In Q1FY21, the ratio was 40:60, respectively.
- The divested construction chemicals business delivered EBIT Rs500mn in FY20.

Exhibit 11: PE Band



Source: Company, Emkay Research

Exhibit 12: EV/EBITDA Band



Source: Company, Emkay Research

Exhibit 13: Changes in estimates

All fig in Rs mn	FY21E			FY22E			FY23E		
(Ex Margin/EPS)	Old	New	% Change	Old	New	% Change	Old	Old	% Change
Revenues	82,670	82,070	-0.7	91,002	90,372	-0.7	1,00,102	1,01,217	1.1
EBITDA	3,195	2,884	-9.7	4,502	4,034	-10.4	5,069	5,025	-0.9
EBITDA margins %	4.7	3.5	-120 bps	5.3	4.5	-90 bps	5.3	5.0	-30 bps
Net profits	910	718	-21.1	1,844	1,622	-12.1	2,404	2,473	2.9
EPS (Rs)	21.0	16.6	-21.0	42.5	37.5	-11.9	55.5	57.1	2.9

Source: Company, Emkay Research

Exhibit 14: Peer comparison

Company Name	Price (Rs)	Mkt Cap (Rs bn)	Reco	TP (Rs)	PE			PB (x)			EV/EBITDA		
					FY20	FY21e	FY22e	FY20	FY21e	FY22e	FY20	FY21e	FY22e
Advanced Enzyme Tech	240	27	Buy	238	20.7	20.3	17.0	3.2	2.8	2.4	13.0	12.4	10.1
Apcotex Industries	170	9	Hold	115	52.9	60.5	28.2	3.5	3.4	3.2	27.3	26.9	15.9
BASF India	1633	71	Hold	1484	137.0	97.2	43.1	5.0	4.8	4.4	27.9	26.4	19.0
Camlin Fine Sciences	94	11	Buy	115	37.6	21.7	14.8	2.8	2.3	2.0	12.1	10.8	8.5
GHCL	172	16	Buy	170	4.1	6.7	4.2	0.8	0.7	0.6	3.6	4.0	2.9
Navin Fluorine	2145	106	Buy	1925	26.0	50.2	39.7	7.5	6.8	6.0	39.3	35.3	28.4
SRF	4333	249	Buy	4156	27.2	29.7	20.8	5.0	4.4	3.6	19.3	16.5	12.2
Tata Chemicals	324	83	Hold	302	1.2	12.0	9.2	0.6	0.6	0.6	7.0	7.5	6.2
Vinati Organics	1132	116	Hold	1110	34.8	36.9	31.2	9.1	7.6	6.4	27.9	27.4	22.7

Source: Company, Emkay Research

Key Financials (Consolidated)**Income Statement**

Y/E Mar (Rs mn)	FY19	FY20	FY21E	FY22E	FY23E
Revenue	60,257	75,511	82,070	90,372	1,01,217
Expenditure	58,610	72,781	79,186	86,338	96,192
EBITDA	1,647	2,729	2,884	4,034	5,025
Depreciation	1,471	1,801	1,749	1,877	1,881
EBIT	176	929	1,135	2,157	3,143
Other Income	133	277	250	250	250
Interest expenses	851	834	569	564	583
PBT	(542)	371	816	1,843	2,810
Tax	(99)	(139)	98	221	337
Extraordinary Items	1,261	(325)	0	0	0
Minority Int./Income from Assoc.	0	0	0	0	0
Reported Net Income	817	185	718	1,622	2,473
Adjusted PAT	(443)	510	718	1,622	2,473

Balance Sheet

Y/E Mar (Rs mn)	FY19	FY20	FY21E	FY22E	FY23E
Equity share capital	433	433	433	433	433
Reserves & surplus	13,696	13,427	14,016	15,507	17,851
Net worth	14,129	13,860	14,449	15,940	18,284
Minority Interest	0	0	0	0	0
Loan Funds	9,811	7,128	6,628	7,028	7,028
Net deferred tax liability	0	0	0	0	0
Total Liabilities	23,940	20,988	21,076	22,967	25,311
Net block	9,992	9,639	8,360	7,483	6,802
Investment	1,782	792	792	792	792
Current Assets	26,101	34,580	34,113	37,175	42,379
Cash & bank balance	132	809	190	68	541
Other Current Assets	0	0	0	0	0
Current liabilities & Provision	13,936	24,023	22,189	22,483	24,662
Net current assets	12,166	10,557	11,924	14,693	17,717
Misc. exp	0	0	0	0	0
Total Assets	23,940	20,988	21,076	22,967	25,311

Cash Flow

Y/E Mar (Rs mn)	FY19	FY20	FY21E	FY22E	FY23E
PBT (Ex-Other income) (NI+Dep)	(675)	95	566	1,593	2,560
Other Non-Cash items	0	0	0	0	0
Chg in working cap	(1,751)	2,286	(1,986)	(2,890)	(2,551)
Operating Cashflow	626	3,947	481	609	1,803
Capital expenditure	133	(1,640)	(700)	(1,000)	(1,200)
Free Cash Flow	759	2,307	(219)	(391)	603
Investments	(335)	990	0	0	0
Other Investing Cash Flow	0	0	0	0	0
Investing Cashflow	(349)	(457)	(471)	(1,000)	(1,200)
Equity Capital Raised	0	0	0	0	0
Loans Taken / (Repaid)	(15)	(2,684)	(500)	400	0
Dividend paid (incl tax)	216	130	130	130	130
Other Financing Cash Flow	(447)	(2,943)	(760)	140	(260)
Financing Cashflow	(231)	(2,814)	(630)	270	(130)
Net chg in cash	46	677	(619)	(121)	473
Opening cash position	86	132	809	190	68
Closing cash position	132	809	190	68	541

Source: Company, Emkay Research

Key Ratios

Profitability (%)	FY19	FY20	FY21E	FY22E	FY23E
EBITDA Margin	2.7	3.6	3.5	4.5	5.0
EBIT Margin	0.3	1.2	1.4	2.4	3.1
Effective Tax Rate	18.2	(37.3)	12.0	12.0	12.0
Net Margin	(0.7)	0.7	0.9	1.8	2.4
ROCE	1.3	5.4	6.6	10.9	14.1
ROE	(3.2)	3.6	5.1	10.7	14.5
RoIC	0.8	4.5	5.8	10.2	13.6

Per Share Data (Rs)	FY19	FY20	FY21E	FY22E	FY23E
EPS	(10.2)	11.8	16.6	37.5	57.1
CEPS	23.7	53.4	57.0	80.8	100.6
BVPS	326.4	320.2	333.8	368.2	422.4
DPS	5.0	3.0	3.0	3.0	3.0

Valuations (x)	FY19	FY20	FY21E	FY22E	FY23E
PER	(157.5)	137.0	97.2	43.1	28.2
P/CEPS	68.0	30.2	28.3	20.0	16.0
P/BV	4.9	5.0	4.8	4.4	3.8
EV / Sales	1.3	1.0	0.9	0.8	0.8
EV / EBITDA	48.3	27.9	26.4	19.0	15.2
Dividend Yield (%)	0.3	0.2	0.2	0.2	0.2

Gearing Ratio (x)	FY19	FY20	FY21E	FY22E	FY23E
Net Debt/ Equity	0.7	0.5	0.4	0.4	0.4
Net Debt/EBITDA	5.9	2.3	2.2	1.7	1.3
Working Cap Cycle (days)	72.9	47.1	52.2	59.1	61.9

Growth (%)	FY19	FY20	FY21E	FY22E	FY23E
Revenue	7.9	25.3	8.7	10.1	12.0
EBITDA	(52.4)	65.7	5.7	39.9	24.5
EBIT	(90.9)	428.5	22.3	90.0	45.7
PAT	(66.8)	(77.3)	288.1	125.7	52.5

Quarterly (Rs mn)	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21
Revenue	16,138	20,743	20,144	18,486	17,697
EBITDA	817	761	393	758	152
EBITDA Margin (%)	5.1	3.7	2.0	4.1	0.9
PAT	82	23	(471)	404	(288)
EPS (Rs)	1.9	0.5	(10.9)	9.3	(6.6)

Source: Company, Emkay Research

Shareholding Pattern (%)	Jun-19	Sep-19	Dec-19	Mar-20	Jun-20
Promoters	73.3	73.3	73.3	73.3	73.3
FII	2.1	2.1	2.2	3.6	2.9
DII	9.0	9.1	9.1	7.7	7.8
Public and Others	15.6	15.5	15.4	15.4	16.0

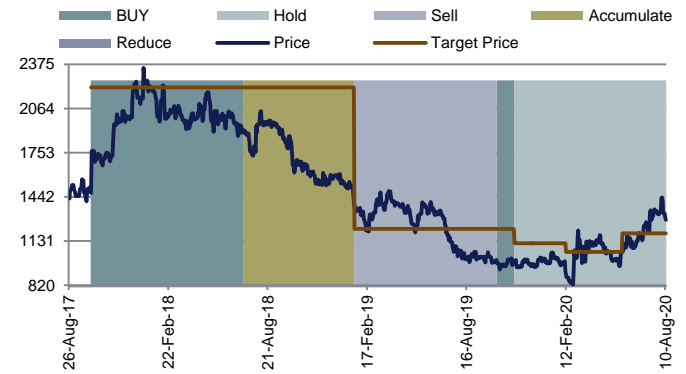
Source: Capitaline

RECOMMENDATION HISTORY TABLE

Date	Closing Price	TP	Period (months)	Rating	Analyst
07-Aug-20	1,326	1,185	12m	Hold	Rohit Sinha
24-May-20	1,054	1,185	12m	Hold	Rohit Sinha
16-Apr-20	1,110	1,055	12m	Hold	Rohit Sinha
12-Feb-20	892	1,055	12m	Hold	Rohit Sinha
07-Feb-20	980	1,115	12m	Hold	Rohit Sinha
06-Jan-20	982	1,115	12m	Hold	Rohit Sinha
11-Nov-19	990	1,115	12m	Hold	Rohit Sinha
10-Oct-19	977	1,217	12m	Buy	Rohit Sinha
30-Apr-19	1,364	1,217	12m	Sell	Amar Mourya
25-Jan-19	1,370	1,217	12m	Sell	Amar Mourya
30-Oct-18	1,656	2,212	12m	Accumulate	Amar Mourya
31-Jul-18	1,938	2,212	12m	Accumulate	Amar Mourya
09-Jul-18	1,894	2,212	12m	Accumulate	Amar Mourya
07-May-18	2,129	2,212	12m	Buy	Amar Mourya
06-Feb-18	1,972	2,212	12m	Buy	Amar Mourya
14-Nov-17	1,836	2,212	12m	Buy	Amar Mourya
05-Oct-17	1,469	2,212	12m	Buy	Amar Mourya

Source: Company, Emkay Research

RECOMMENDATION HISTORY CHART



Source: Bloomberg, Company, Emkay Research

Emkay Alpha Portfolio – Speciality Chemicals



Analyst: Rohit Sinha

Contact Details

rohit.sinha@emkayglobal.com
+91 22 6612 1306

Sector

Speciality Chemicals

Analyst bio

Rohit Sinha holds a CFA degree and comes with total four years of experience in the Specialty Chemicals sector. He currently covers nine stocks in the Specialty Chemicals space.

EAP sector portfolio

Company Name	BSE200 Weight	EAP Weight	OW/UW (%)	OW/UW (bps)	EAP Weight (Normalised)
Speciality Chemicals	0.19	0.19	-1%	0	100.00
Advanced Enzyme Tech	0.00	0.01	NA	1	3.36
Apcotex Industries	0.00	0.00	NA	0	2.18
BASF India	0.00	0.01	NA	1	3.14
Camlin Fine Sciences	0.00	0.01	NA	1	5.52
GHCL	0.00	0.01	NA	1	4.06
Navin Fluorine	0.00	0.05	NA	5	25.62
Orient Refractories	0.00	0.01	NA	1	3.96
SRF	0.19	0.08	-56%	-11	44.32
Tata Chemicals	0.00	0.01	NA	1	4.94
Vinati Organics	0.00	0.00	NA	0	1.77
Cash	0.00	0.00	NA	0	1.1

Source: Emkay Research

* Not under coverage: Equal Weight

■ High Conviction/Strong Over Weight ■ High Conviction/Strong Under Weight

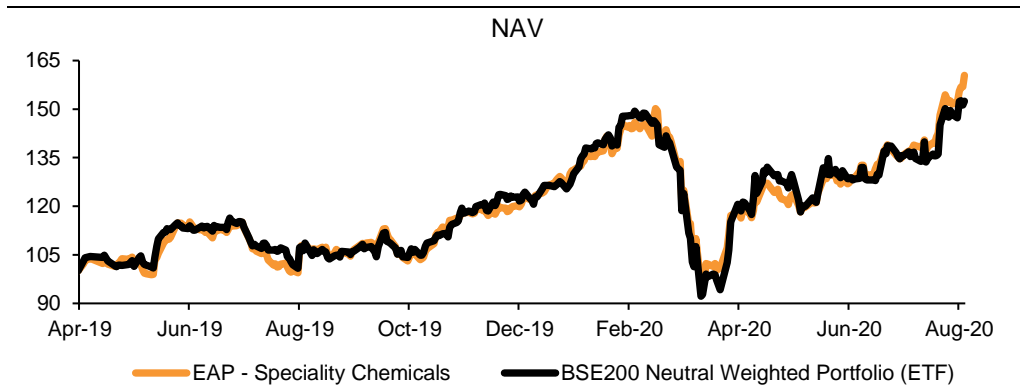
Sector portfolio NAV

	Base					Latest
	01-Apr-19	19-Nov-19	20-Feb-20	22-May-20	22-Jul-20	21-Aug-20
EAP - Speciality Chemicals	100.0	118.7	145.4	119.8	137.8	160.4
BSE200 Neutral Weighted Portfolio (ETF)	100.0	120.4	148.7	120.1	135.5	152.4

*Performance measurement base date 1st April 2019

Source: Emkay Research

NAV chart



Source: Emkay Research

Please see our model portfolio (Emkay Alpha Portfolio): [SMID](#)

Please see our model portfolio (Emkay Alpha Portfolio): [Nifty](#)

“Emkay Alpha Portfolio – SMID and Nifty are a supporting document to the Emkay Alpha Portfolios Report and is updated on regular intervals”

Emkay Rating Distribution

Ratings	Expected Return within the next 12-18 months.
BUY	Over 15%
HOLD	Between -5% to 15%
SELL	Below -5%

Completed Date: 25 Aug 2020 03:42:58 (SGT)

Dissemination Date: 25 Aug 2020 03:43:58 (SGT)

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Emkay Global Financial Services Ltd.

CIN - L67120MH1995PLC084899

7th Floor, The Ruby, Senapati Bapat Marg, Dadar - West, Mumbai - 400028. India

Tel: +91 22 66121212 Fax: +91 22 66121299 Web: www.emkayglobal.com