



3R MATRIX

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

+ Positive = Neutral - Negative

What has changed in 3R MATRIX

	Old		New
RS	■	↔	■
RQ	■	↔	■
RV	■	↔	■

Reco/View

	Change
Reco: Buy	↔
CMP: Rs. 886	
Price Target: Rs. 1,070	↔

↑ Upgrade
 ↔ Maintain
 ↓ Downgrade

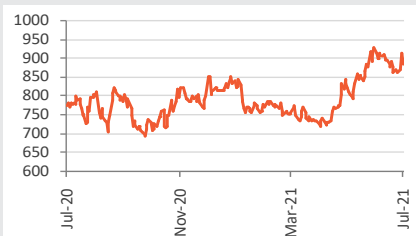
Company details

Market cap:	Rs. 26,004 cr
52-week high/low:	Rs. 956/682
NSE volume: (No of shares)	4.6 lakh
BSE code:	506395
NSE code:	COROMANDEL
Free float: (No of shares)	12.5 cr

Shareholding (%)

Promoters	58
FII	7
DII	22
Others	13

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	-3.2	22.9	7.2	14.3
Relative to Sensex	-2.9	17.2	-5.0	-22.3

Sharekhan Research, Bloomberg

Fertiliser

Sharekhan code: COROMANDEL

Result Update

Summary

- For Q1FY2022, Coromandel International Limited's PAT stood at Rs. 338 crore, up 34.8% y-o-y, and was 19% above our estimate, led by beat in OPM at 13.2% and higher other income. Revenue growth of 14% y-o-y was marginally above our estimate of 12.6% y-o-y growth.
- Strong margin performance was led by higher gross margin at 30.7% (up 170 bps and beat of 211 bps versus our estimate), supported by sharp hike in fertiliser subsidy on DAP, inventory gains, and benefit of backward integration.
- Fertiliser margin guidance of Rs. 4,000-4,250/tonne is encouraging (given high RM price) and would be aided by backward integration and recent price hike taken for some NPK grades. Double-digit growth outlook for CPC business to be supported by new generation products (launched six new products in June 2021 with one 9/(3) product registration).
- We retain our Buy rating on the stock with an unchanged PT of Rs. 1,070, as decent fertiliser margin (focus on NPK), and strong growth in the CPC business would drive a 15% PAT CAGR over FY2021-FY2024E with high RoE of 24%. Potential inorganic growth could further aid to growth. The stock trades at 14.7x/12.8x its FY2023E/FY2024E EPS.

Coromandel International Limited (Coromandel) reported strong Q1FY2022 results with 14% y-o-y revenue growth to Rs. 3,664 crore (1.3% above our estimate of Rs. 3,617 crore) and 113 bps beat in OPM at 13.2% (up 35 bps y-o-y; up 405 bps q-o-q). Revenue growth was supported by strong 9.4% y-o-y growth in revenue from nutrient and other allied segment business to Rs. 3,070 crore and 50.3% y-o-y rise (on low base of Q1FY2021 – utilisation of 79% versus only 45% in Q1FY2021) in revenue from the crop protection (CPC) business to Rs. 631 crore, supported by strong growth in exports (60% y-o-y growth) and domestic B2B business (50% y-o-y growth). Strong gross margin at 30.7% (up 170 bps y-o-y and beat of 211 bps versus our estimate of 28.6%) was driven by inventory gain and benefit of sharp 140% hike in the fertiliser subsidy on DAP to Rs. 24,000/tonne. However, total phosphatic (DAP + complex fertiliser) sales volume declined by 6.2% y-o-y to 7.8 lakh tonne due to constraint in raw-material supply and some impact from maintenance shutdown. Operating profit also grew strongly by 17.1% y-o-y to Rs. 483 crore, which was 11% above our estimate, led by strong margin performance. EBIT margin from nutrient and other allied business was largely flat y-o-y (improved 451 bps q-o-q) to 13% and crop protection EBIT margin was resilient at 13% (versus 12.9% in Q1FY2021). PAT at Rs. 338 crore (up 34.8% y-o-y) was also above our estimate of Rs. 285 crore, led by slightly better-than-expected revenue growth, beat in margin, higher other income (up 2x y-o-y), and lower depreciation cost (down 9.6% q-o-q). Management commentary was optimistic on strong fertiliser volume growth, given expectation of good monsoon (deficit of 1% as of July 26, 2021 to long-term average but likely to pick-up in the coming months) for the third consecutive year and low channel inventory. The company has guided to sustain fertiliser margin at normalised level of Rs. 4,000-4,250/tonne for FY2022 despite further sharp increase of 16% q-o-q in phosphoric acid price to \$1,160/tonne. The confidence on margin is backed by support of backward integration (large evaporator plant at Visakhapatnam to get commissioned in Q2FY2022 and it would improve the supply of concentrated phosphoric acid at Kakinada plant), recent price hike for some grades of NPK, and likely normalisation of raw-material price going forward. The CPC business outlook remains strong, and management has guided for high double-digit growth, led by launch of new generation products (introduced 6 new products - 4 insecticides, 1 herbicide, and 1 fungicide in June 2021), capacity enhancements, setting up of new multi-product plant, and expansion in formulation and technicals (looking to purchase land for the same). Overall, we believe good agronomics (expectation of above normal monsoon and good crop prices) and capex (Rs. 500 crore-600 crore for FY2022) would drive a 15% CAGR in PAT over FY2021-FY2024E along with high RoE of 24%. Strong balance sheet would help the company to pursue inorganic growth opportunities (looking to acquire an agri start-up company), which could accelerate growth in the medium to long term. Hence, we maintain a Buy rating on Coromandel with an unchanged PT of Rs. 1,070. At the CMP, the stock trades at 14.7x its FY2023E EPS and 12.8x its FY2024E EPS.

Key positives

- Better-than-expected gross and EBITDA margin at 30.7% (up 170 bps y-o-y and beat of 211bps versus our estimate) and 13.2% (up 35 bps y-o-y and beat of 113 bps versus our estimate) respectively.
- Market share increased to 18.1% in Q1FY2022 versus 16.4% in Q1FY2021.

Key negatives

- Total phosphatic (DAP + Complex fertilisers) sales volume declined by 6.2% y-o-y to 7.8 lakh tonne due to maintenance shutdown and constraint in raw-material supply.

Our Call

Valuation - Maintain Buy on Coromandel with an unchanged PT of Rs. 1,070: We largely maintain our FY2022-FY2024 earnings estimate. The sharp increase in fertiliser subsidy, recent price hike for some NPK grades, and benefit of backward integration would help sustain margin, while expectation of above normal monsoon, focus to grow in regions (outside Southern India), strong growth in the CPC business (new product launches), and capex plan (capacity expansion) would act as key drivers for earnings growth. Moreover, higher adoption of complex fertilisers (as compared to urea) by farmers bodes well for Coromandel. We expect revenue/operating profit/PAT to grow at 11%/12%/15% over FY2021-FY2024E along with a high RoE of 24%. Moreover, a strong balance sheet would help Coromandel pursue inorganic growth opportunities and post sustained strong growth over the medium to long term. Hence, we maintain a Buy rating on Coromandel with an unchanged PT of Rs. 1,070. At the CMP, the stock trades at 14.7x its FY2023E EPS and 12.8x its FY2024E EPS.

Key Risks

- Lower demand due to poor monsoons and regulatory changes might affect revenue growth momentum and 2) Adverse variations in raw-material prices, delay in the ability to pass on price hikes, and adverse currency fluctuations might affect margins.

Valuation

Particulars	FY20	FY21	FY22E	FY23E	FY24E
Revenue	13,137	14,213	15,957	17,481	19,442
OPM (%)	13.2	14.2	14.0	14.3	14.6
Adjusted Net Profit	1,065	1,329	1,573	1,771	2,026
% YoY growth	43.1	24.8	18.4	12.6	14.4
EPS (Rs.)	36.3	45.3	53.6	60.4	69.1
PER (x)	24.4	19.6	16.5	14.7	12.8
P/BV (x)	6.0	5.0	4.1	3.4	2.8
EV/EBITDA	15.9	12.5	11.1	9.4	7.8
ROE (%)	27.7	28.1	27.5	25.4	24.0
ROCE (%)	25.1	31.4	34.1	31.9	30.4

Source: Company; Sharekhan Research

Strong Q1FY2022 results led by sharp beat in margin

Coromandel reported strong Q1FY2022 results with 14% y-o-y revenue growth to Rs. 3,664 crore (1.3% above our estimate of Rs. 3,617 crore) and 113 bps beat in OPM at 13.2% (up 35 bps y-o-y; up 405 bps q-o-q). Revenue growth was supported by strong 9.4% y-o-y revenue growth from nutrient and other allied segment business to Rs. 3,070 crore and 50.3% y-o-y rise (on low base of Q1FY2022 – utilisation of 79% versus only 45% in Q1FY2021) in revenue from the crop protection business to Rs. 631 crore, supported by strong growth in exports (60% y-o-y growth) and domestic B2B business (50% y-o-y growth). Strong gross margin at 30.7% (up 170 bps y-o-y and beat of 211 bps versus our estimate of 28.6%) was driven by inventory gain and benefit of sharp 140% hike in the fertiliser subsidy on DAP to Rs. 24,000/tonne. However, total phosphatic (DAP + complex fertiliser) sales volumes declined by 6.2% y-o-y to 8.8 lakh tonne due to constraint in raw-material supply and some impact from maintenance shutdown. Consequently, operating profit also grew strongly by 17.1% y-o-y to Rs. 483 crore, which was 11% above our estimate, led by strong margin performance. EBIT margin from the nutrient and other allied business was largely flat y-o-y (improved 451 bps q-o-q) to 13% and crop protection EBIT margin was resilient at 13% (versus 12.9% in Q1FY2021). PAT at Rs. 338 crore (up 34.8% y-o-y) was also above our estimate of Rs. 285 crore, led by slightly better-than-expected revenue growth, beat in margin, higher other income (up 2x y-o-y), and lower depreciation cost (down 9.6% q-o-q).

Q1FY2022 conference call highlights

Industry performance and agro environment in India

- ◆ Phosphatic price continues to increase in Q2FY2022 and has settled at \$1,160 per metric tonne as compared to Q1 price of \$998 per metric tonne.
- ◆ The recent increase of fertiliser subsidy on DAP by 140% to Rs. 1,200 per 50 kg bag (or Rs. 24,000 per tonne) with effect from May 20, 2021, would help in cushioning margin of fertiliser players.
- ◆ Monsoon has been erratic in Q1 (led to deficit of 1% as of July 26, 2021 to long-term average). However, it has now recovered well and June forecast is more than the long-term average. Coromandel's key markets were not affected as Telangana received rainfall over 74%, AP received excess of 47%, Karnataka got 23%, and Maharashtra at 33%.
- ◆ Reservoir level in South and West India was above LPA. Crop sowing was down 9% and will catch up soon.
- ◆ DAP sales are down by 14% y-o-y at 42.7 lakh MT in Q1FY2022 versus 50.6Lakh MT in the same quarter last year. However, industry POS sales, which is a real indicator of consumption at farm level, were also down by 13% y-o-y in Q1FY2022 at 39.6Lakh MT versus 45.5Lakh MT in Q1FY2021.
- ◆ Primary sales of complex phosphatic fertilisers increased marginally by 3% y-o-y to 25.1 lakh tonne versus 24.4 lakh tonne in Q1FY2021.
- ◆ Major raw-material prices have firmed up after all the four major agri markets (Brazil, US, China, and India) have done well. Moreover, supply-side issues on raw materials such as ammonia and sulphur boosted raw-material price.

Company-specific highlights

- ◆ **Market share improved in Q1FY2022:** The company's market share increased to 18.1% in Q1FY2022 from 16.4% in Q1FY2021.
- ◆ **Plant utilisation rate and volume:** Coromandel's DAP and complex fertiliser plants operated at 73% capacity in Q1FY2022 because of annual maintenance turnaround and raw-material constraints versus 82% in Q4FY2021, 86% in Q3FY2021, 85% in Q2FY2021, and 65% in Q1FY2021. Phosphatic volume declined by 6.8% y-o-y to 7.8 lakh tonne in Q1FY2022 with manufactured product sales flat at 7.7 lakh tonne. SSP sales volumes grew by 44.2% y-o-y to 1.9 lakh tonne in Q1FY2022. Share of unique-grade sales stood at 30% in Q1FY2022 versus 52% in Q4FY2021 and 26% in Q1FY2021.
- ◆ **Subsidy/non-subsidy mix for revenue/EBITDA mix** - Subsidy/non-subsidy revenue mix was at 76:24 in Q1FY2022 versus 80:20 in Q1FY2021. Subsidy/non-subsidy EBITDA mix was at 74:26 in Q1FY2022 versus 79:21 in Q1FY2021.

- ◆ **Subsidy outstanding** was at Rs 1,149 crores as of 30 June 2021 versus Rs. 590 crore as of March 2021 and Rs 2,585 crores as of June 2020. Subsidy received from the government in Q1FY2022 was at Rs493 crore versus Rs513 crore in Q1FY2021.
- ◆ **Launch of new products** - Crop protection has launched six new molecules, which include four insecticides, one fungicide, and one herbicide during mid-June 2021. Out of the six new molecules, one was launched as an innovator - 9/(3) product registration and others are co-marketed.
- ◆ **Capex guidance** - The company has re-iterated its capex plan of Rs. 500 crore-600 crore for FY2022 with a focus to augment fertiliser capacities through debottlenecking and backward integration projects. A liquid fertiliser plant is coming up soon and the company is enhancing capacity in CPC. The company has planned to set-up a multi-product plant and expansion in formulation and technicals (looking to purchase land for the same) for CPC. A large evaporator plant is coming up at Vizag to improve availability of concentrated phosphoric acid.
- ◆ **Outlook** - Volume growth for Kharif season is expected to be good as its key markets have received normal monsoon and expect decent mid-single digit fertiliser volume growth for FY2022, given low channel inventory and good agronomics. The company has guided for Rs. 4,000-4,250/tonne of fertiliser margin because of backward integration, taken necessary pricing actions in some NPK grades, and likely normalisation of raw-material price going forward. The company expects high double-digit growth in CPC from both export and domestic market in medium to long term.

Results

Particulars	Rs cr				
	Q1FY22	Q1FY21	YoY (%)	Q4FY21	QoQ (%)
Net Sales	3,664	3,213	14.0	2,856	28.3
Total Expenditure	3,181	2,801	13.6	2,595	22.6
Reported operating profit	483	412	17.1	261	85.1
Adjusted operating profit	483	412	17.1	261	85.1
Other Income	22	11	103.5	16	38.1
EBITDA	505	423	19.3	277	82.4
Interest	17	43	-60.7	16	4.1
Depreciation	42	42	0.3	47	-9.6
Exceptional income/(expense)	0	0	NA		NA
Share of profit of JV	3	3	7.1	0	NA
Reported PBT	448	340	31.8	213	110.1
Adjusted PBT	448	340	31.8	213	110.1
Tax	110	90	23.2	57	92.1
Reported PAT	338	251	34.8	156	116.7
Adjusted PAT	338	251	34.8	156	116.7
Equity Cap (cr)	29	29		29	
Reported EPS (Rs.)	11.5	8.6	34.5	5.3	116.7
Adjusted EPS (Rs.)	11.5	8.6	34.5	5.3	116.7
Margins (%)			BPS		BPS
Adjusted OPM	13.2	12.8	34.7	9.1	404.7
Adjusted NPM	9.2	7.8	142.1	5.5	376.2

Source: Company; Sharekhan Research

Segmental Performance

Particulars	Q1FY22	Q1FY21	YoY (%)	Q4FY21	QoQ (%)
Segment Revenue					
Nutrient and other allied business	3,070	2,807	9.4%	2,365	29.8%
Crop protection	631	420	50.3%	515	22.6%
Total revenue	3,702	3,227	14.7%	2,880	28.5%
Less: Inter Segment revenue	38	14		24	
Net revenue	3,664	3,213	14.0%	2,856	28.3%
Segment EBIT					
Nutrient and other allied business	399	370	7.9%	201	98.8%
Crop protection	82	54	51.8%	65	27.4%
Total EBIT	481	424	13.5%	265	81.4%
EBIT margin (%)			BPS		BPS
Nutrient and other allied business	13.0	13.2	-18	8.5	451
Crop protection	13.0	12.9	13	12.5	49
Overall EBIT margin	13.1	13.2	-6	9.3	384

Source: Company; Sharekhan Research

Sales volume performance

Particulars	Q1FY22	Q1FY21	YoY (%)	Q4FY21	QoQ (%)
DAP	0.9	2.0	-53.0%	0.6	56.7%
Complex	6.8	6.3	8.8%	5.2	31.3%
Total Phosphatics	7.8	8.3	-6.2%	5.8	34.0%
			BPS		BPS
Unique grade share (%)	30.0	26.0	400	52.0	-2200
Manufactured Phosphatics	7.7	7.7	0.3%	5.1	50.4%
Imported Phosphatics	0.1	0.6	-84.4%	0.7	-85.7%
Urea	0.5	0.6	-18.6%	0.4	20.0%
MOP	0.2	0.3	-54.5%	0.9	-83.3%
SSP	1.9	1.3	44.2%	1.8	3.3%

Source: Company; Sharekhan Research

Outlook and Valuation

■ Sector view - Large addressable market

Agriculture plays an important role in the Indian economy as it contributes 18% to GDP, 8% to exports, and generates 44% of the employment. This is largely owing to India having the largest cropland globally and the largest irrigated area. Hence, India provides a large addressable market.

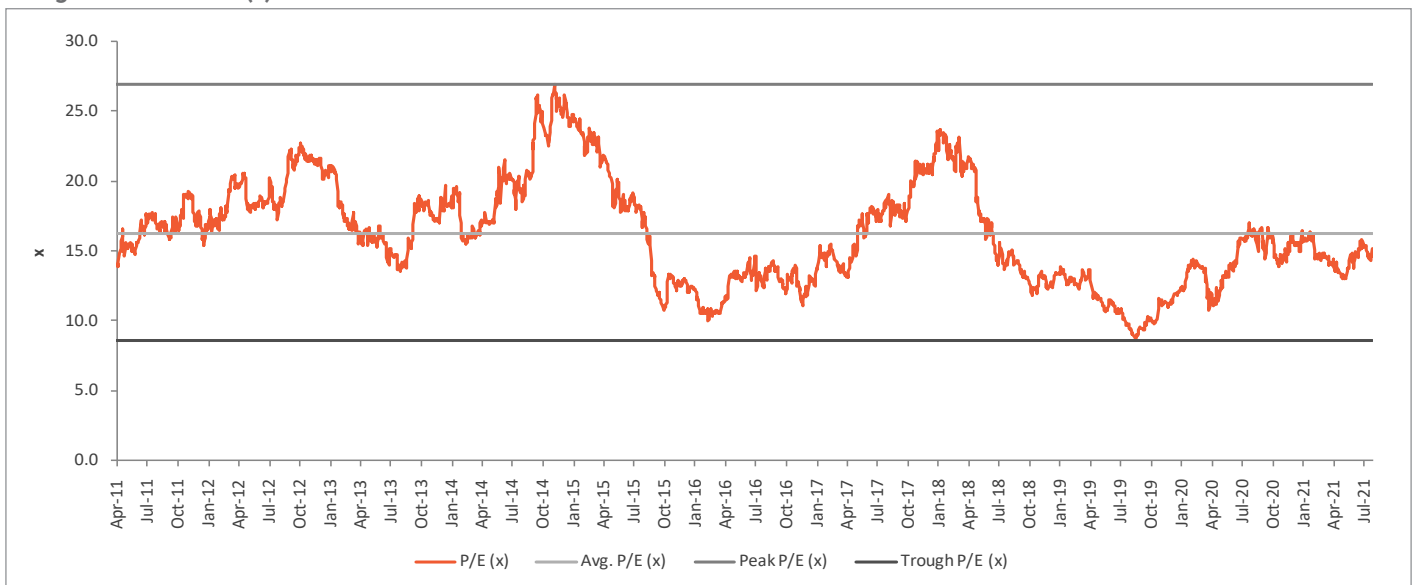
■ Company outlook - Good agronomics and capex plan to drive strong growth

The company has delivered a healthy CAGR of 9%, 20%, and 29% at revenue, EBITDA, and PAT level during FY2017-FY2021. We believe the trend of delivering higher growth in earnings than revenue will continue owing to rise in margins (given the focus on NPK). Close to 30-35 molecules in the agri-input space have gone off-patent recently or are likely to go off-patent soon. This provides Coromandel a strong growth opportunity and the company plans to set up multi-product plants (MPPs), which are capable of producing new-generation molecules. The company is also working with Japanese innovator for the 9/3 molecule, which is suitable for Indian markets.

■ Valuation - Maintain Buy on Coromandel with an unchanged PT of Rs 1,070

We largely maintain our FY2022-FY2024 earnings estimate. The sharp increase in fertiliser subsidy, recent price hike for some NPK grades, and benefit of backward integration would help sustain margin, while expectation of above normal monsoon, focus to grow in regions (outside Southern India), strong growth in the CPC business (new product launches), and capex plan (capacity expansion) would act as key drivers for earnings growth. Moreover, higher adoption of complex fertilisers (as compared to urea) by farmers bodes well for Coromandel. We expect revenue/operating profit/PAT to grow at 11%/12%/15% over FY2021-FY2024E along with a high RoE of 24%. Moreover, a strong balance sheet would help Coromandel pursue inorganic growth opportunities and post sustained strong growth over the medium to long term. Hence, we maintain a Buy rating on Coromandel with an unchanged PT of Rs. 1,070. At the CMP, the stock trades at 14.7x its FY2023E EPS and 12.8x its FY2024E EPS.

One-year forward P/E (x) band



Source: Sharekhan Research

About company

Coromandel was incorporated in 1961 by synergistic efforts of EID Parry Limited, a leading business house in India associated with agriculture and two major US companies namely Chevron Chemical Company and International Minerals and Chemicals Corporation. Coromandel is part of US\$5 billion Murugappa Group and is the 5th largest Indian agro chemical company. It is India's largest private sector phosphatic fertiliser company and the largest single super phosphate (SSP) company. It is also the pioneer and market leader in specialty nutrients. It is also the No. 1 organic manure player in India and has the largest rural retail chain across the country. The company's manufacturing facilities are in 16 locations. The company is also present across 81+ countries. The company has a strong distribution reach and caters to its customers through a strong 2,000+ market development team along with 20,000+ dealers and 750+ rural retail centres.

Investment theme

We like Coromandel because of its leadership position in key businesses, led by high backward integration through joint ventures for sourcing of key raw materials and strong distribution reach. This helps the company deliver healthy performance on a consistent and sustainable basis. The company has been generating healthy cash flows, which have helped the company to look for inorganic acquisition at different intervals in related businesses. Conservative and calibrated approach towards capital allocation in the right business has yielded synergies for the company and has helped the company to maintain a lean and strong balance sheet.

Key Risks

Lower demand offtake due to poor monsoon or regulatory changes might impact revenue growth momentum. Adverse variation in raw-material prices and delay in the ability to pass on price hikes coupled with adverse currency fluctuations might affect margins.

Additional Data

Key management personnel

M. M. Murugappan	Chairman
V Ravichandran	Vice Chairman
Sameer Goel	Managing Director
B V R Mohan Reddy	Director
M M Venkatachalam	Director
Prasad Chandran	Director
Sumit Bose	Director
Aruna B. Advani	Director
Nagarajan Ramamurthy	Director
Karat Venugopal Parameshwar	Director

Source: Company website

Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	Kotak Mahindra Asset Management Co. Ltd	4.0
2	DSP Investment Managers Pvt. Ltd	3.4
3	DSP Focus Fund	3.4
4	ICICI Prudential Life Insurance Co. Ltd	1.7
5	Groupe Chimique Tunisien SA	1.6
6	UTI Asset Management Co. Ltd	1.5
7	UTI Focussed Equity Fund	1.4
8	Life Insurance Corporation of India	1.3
9	Vanguard Group Inc.	1.2
10	Investor Education & Protection Fund	1.2

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;

For any queries or grievances kindly email igc@sharekhan.com or contact: myaccount@sharekhan.com

Registered Office: Sharekhan Limited, 10th Floor, Beta Building, Lodha iThink Techno Campus, Off. JVLR, Opp. Kanjurmarg Railway Station, Kanjurmarg (East), Mumbai – 400042, Maharashtra. Tel: 022 - 61150000. Sharekhan Ltd.: SEBI Regn. Nos.: BSE / NSE / MSEI (CASH / F&O / CD) / MCX - Commodity: INZ000171337; DP: NSDL/CDSL-IN-DP-365-2018; PMS: INP000005786; Mutual Fund: ARN 20669; Research Analyst: INH000006183;

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