



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	✓	↔	✓

ESG Disclosure Score

NEW

ESG RISK RATING 32.03
Updated Feb 08, 2022

High Risk

NEGL	LOW	MED	HIGH	SEVERE
0-10	10-20	20-30	30-40	40+

Source: Morningstar

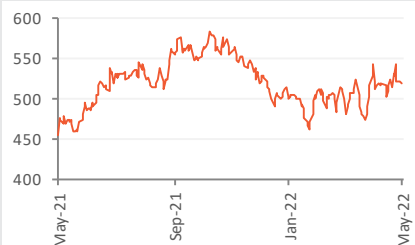
Company details

Market cap:	Rs. 67,283 cr
52-week high/low:	Rs. 606 / 416
NSE volume: (No of shares)	15.4 lakh
BSE code:	531642
NSE code:	MARICO
Free float: (No of shares)	52.4 cr

Shareholding (%)

Promoters	59.5
FII	25.5
DII	8.8
Others	6.3

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	-4.3	1.9	-6.7	14.3
Relative to Sensex	3.1	7.0	0.6	-0.1

Sharekhan Research, Bloomberg

Marico Ltd

Decent Q4; eyeing consistent growth in medium term

Consumer Goods

Sharekhan code: MARICO

Reco/View: Buy



CMP: Rs. 520

Price Target: Rs. 645



Upgrade



Maintain



Downgrade

Summary

- Marico's Q4FY2022 performance largely met expectations with revenues growing by 7.4% (flat sales volume y-o-y; two-year volume CAGR of 12%) to Rs. 2,161 crore; OPM stood flat at 16%; PAT grew by 6.6% to Rs. 257 crore.
- FY22 volumes grew by 7%. The company has maintained its medium term outlook of 5-7% volume growth for Parachute rigid pack, double digit volume growth for Value-added hair oil and double digit growth for Saffola franchise.
- Copra prices (50% of raw material cost) have corrected from its high and are expected to remain benign in FY2023. Vegetable oil and other crude link input prices likely to correct in H2FY2023. OPM is expected to remain high in FY2023.
- Relative better earnings visibility compared to peers and attractive valuations at 42.6x/36.2x its FY2023E/24E earnings makes it the best pick in the consumption space. We retain Buy on the stock with an unchanged price target of Rs. 645.

Q4FY2022 was largely in line with expectation with single digit revenue growth and flat OPM during the quarter. Consolidated revenues grew by 7.4% y-o-y to Rs. 2,161 crore with domestic sales volume remaining flat. Its India business grew by 5% (on high base of 25% growth in Q4FY2021) while international business grew by 12% on constant currency basis. A correction in copra prices helped gross margins improve to 33 bps y-o-y and 76 bps QoQ bps to 44.5%. Consolidated OPM stood at 16.0%. Adjusted PAT grew by 6.6% y-o-y to Rs. 257.0 crore in Q4. For FY2022, Marico's consolidated revenues grew by 18.2% with domestic and international business growing in high teens. Input cost inflation led to 200 bps decline in OPM to 17.7%. Adjusted PAT grew by 6.1% y-o-y to Rs. 1,255 crore.

Key positives

- Around 97% of portfolio gained market share, while 94% of portfolio gained penetration.
- Saffola foods grew by 17% in Q4 and 50% in FY2022 and achieved aspirational target of Rs. 450-500 crore of revenues.
- Premium personal care category revenues grew in high double digits with Livon Serum and Male Grooming growing by over 20% each.
- International business registered double-digit constant currency growth for fifth consecutive quarter.

Key negatives

- Parachute rigid pack sales volume decline by 1% on account of high base of 29% growth.
- Despite a sharp correction in copra prices, the gross margin expansion was just 33 bps due to inflation in the 50% of the raw material basket.

Management Commentary

- Despite uncertain demand environment, the management hopes to achieve volume growth ahead of industry growth on back of market share gains in key categories, distribution expansion, and improving penetration through market development and sustained investments behind brands.
- The company maintained its guidance of mid-teens revenue growth in the domestic business with volume growth of 8-10%. Parachute portfolio is likely to grow by 5-7%; VAHO to grow in double digits along with increase in contribution from new ventures.
- International business is expected to grow in double digits with geographies such as Bangladesh, South Africa and Vietnam expected to grow in double digit in the medium term.
- Copra prices (50% of raw material basket) were down by 31% y-o-y and 9%q-o-q. Management expects copra prices to remain benign in the onset of new flush season. On the other hand, vegetable oil prices and crude-linked input prices are expected to remain high due to global supply constraints. With price hikes in key categories and cost saving measures, the company expects OPM to remain flat in the near term. However, the same is expected to improve in H2FY2023 with expected reduction in the key input prices.
- Foods business will contribute Rs. 800-1,000 crore by FY2024 (Rs. 450-500 crore in FY2022) while digital brands to contribute Rs. 450-500 crore (Beardo to reach Rs. 180-200 crore in FY2022).

Revision in estimates – We have broadly maintained our earnings estimates FY2023 and FY2024 as results were largely in-line with expectation. The company is confident of domestic demand environment to revive in the second half of FY2023 along with a correction in the key input prices driving overall earnings growth.

Our Call

View: Retain Buy with an unchanged PT of Rs. 645: Marico is banking on 4Ds (Diversification, Distribution, Digital and Diversity) to drive consistent double digit earning growth in the medium to long term. Gaining market share in the core domestic portfolio through new launches, scaling up the foods business, and improving growth prospects in Bangladesh and Vietnam are some of the key growth levers for Marico in the near to medium term. With copra prices expected to remain benign, Marico's profitability is expected to be relatively better compared to its peers. The stock is currently trading at 42.6x/36.2x its FY2023/24E earnings. We like the company's focus on de-risking its business model by premiumisation of the core, expansion of foods portfolio, scaling up digital brands and cost management. We maintain Buy recommendation on the stock with an unchanged (PT) of Rs. 645.

Key Risks

A sharp increase in key input prices from current levels or heightened competition in core categories would act as a key risk to earnings estimates.

Valuation (Consolidated)

Particulars	FY21	FY22	FY23E	FY24E
Revenue	8,048	9,512	10,435	11,660
OPM (%)	19.7	17.7	20.2	20.8
Adjusted PAT	1,183	1,255	1,577	1,857
Adjusted EPS (Rs.)	9.2	9.7	12.2	14.4
P/E (x)	56.8	53.5	42.6	36.2
EV/EBIDTA (x)	41.5	39.2	31.3	27.0
RoNW (%)	37.8	38.1	44.4	45.2
RoCE (%)	41.0	41.4	51.5	55.2

Source: Company; Sharekhan estimates

Consolidated y-o-y revenue growth at 7%; margins remain stable y-o-y

Consolidated revenues grew by 7.4% y-o-y while two-year CAGR stood at 20% to Rs. 2,161 crore in Q4FY2022 led by 5% y-o-y growth in the India business and 12% y-o-y constant currency growth in the International business. Domestic sales volume growth stood at 1% in Q4FY2022, with two-year India volume CAGR at 12%. Parachute portfolio registered volume decline of 1% y-o-y in Q4FY2022. VAHO portfolio reported y-o-y growth of 3%. Saffola franchise revenue growth came in at 17% for the quarter. In the international business, South Africa grew by 20% y-o-y, Bangladesh by 16% y-o-y and MENA by 11% y-o-y in Q4FY2022. As copra prices remained soft, gross margins/OPM marginally improved by 33/16 bps y-o-y to 44.5%/16%, respectively. The operating profit grew by 8.5% y-o-y to Rs. 346 crore. This along with lower other income, higher interest costs led to 6.6% increase in adjusted PAT to Rs. 257 crore. For full year FY2022, consolidated revenue grew by 18.2% y-o-y to Rs. 9,512 crore led by domestic volume growth of 7% and 16% constant currency growth in the international business. Parachute reported value/volume growth of 11%/5%, respectively during the year. The VAHO portfolio grew by 14% y-o-y while Saffola Foods grew by ~50% in FY2022. In the international business, MENA grew by 27%, South Africa grew by 18% y-o-y and Bangladesh by 14% y-o-y in FY2022. OPM contracted by 199 bps y-o-y to 17.7% in FY2022 owing to 409 bps decline in gross margin coupled with higher advertisement spends (up by 14% y-o-y). Operating profit grew by 6.2% y-o-y to Rs. 1,681 crore. In line with growth in operating profit, Adjusted PAT grew by 6.1% y-o-y to Rs. 1,225 crore. The company strengthened its competitive position during the quarter with 97% portfolio winning market share and 94% portfolio gaining penetration in Q4FY2022.

Strong market share gains across categories in the domestic market

- ♦ **Coconut Oil – Parachute Rigids packs gained market share of 170 bps:** Parachute Rigids was down 1% in volume terms in Q4FY2022 on an elevated base of 29% growth in Q4FY2021. In full year FY2022, the brand grew 5% in volume terms, in line with medium-term aspirations of 5-7% growth. The volume market share of the brand rose by 170 bps in rigid packs, thereby maintaining its stronghold in the branded coconut oil category. The company has maintained medium term aspiration of achieving a 5-7% volume growth through focused distribution and driving penetration in both core & non-core markets. Copra prices remained soft during the quarter and are expected to remain range bound in near term.
- ♦ **VAHO portfolio gained value market share of ~90 bps:** Value added hair oils (VAHO) delivered value growth of 3% in Q4FY2022, maintaining the double-digit growth trajectory on a two-year CAGR basis. The company gained ~90 bps in value market share during the quarter. For FY2022, the franchise grew in double digits in both volume and value terms (value growth at 14% y-o-y). In VAHO, Marico aims to sustain double-digit value growth over the medium term. Driving value share gains ahead of volume share in the overall portfolio through mix improvement and innovations in the premium segment will be the company's key focus over the medium term.
- ♦ **Saffola registered 17% y-o-y growth across segments:** Saffola Edible Oils had a flat quarter in volume terms but grew in double-digits in value terms. The brand also ended flat in volume terms for FY2022 on a high base of 17% growth in FY2021, despite significant volatility in input costs and weak trade sentiment during the year. Saffola Oils grew in high single digits on 2-yr CAGR basis. Saffola Foods grew by 17% in Q4 and ~50% in FY2022 in value terms on the back of both core and new franchises growing healthily. As a result, the Foods portfolio met its aspiration of Rs. 450-500 crore topline in FY2022. The Saffola Oats franchise gained 512 bps in value market share to consolidate its No. 1 position with ~42% value market share in the overall oats category. Saffola Honey continued to consolidate its market share in MT and e-commerce channels and Saffola Mealmaker Soya Chunks scaled ahead of internal targets.

Both brands ended the year in the Rs. 50-100 crore range. During the quarter, the company continued to broaden its play in Foods with the launch of Saffola Peanut Butter (made with jaggery and no refined sugar) and Saffola Mayonnaise (eggless and with milk cream). Both offerings are available online and will be soon be present in offline channels as well. With these launches, Marico has further expanded the total addressable market of the brand 'Saffola' to ~Rs. 6,000 crore. In Saffola Edible Oils, the company expects to deliver high single-digit volume growth over the medium term. The Foods franchise had a robust year to end above Rs. 450 crore in revenues in the FY2022 and the company aims to scale this up to Rs. 850-1,000 crore by FY2024 on the back of innovation, distribution and market development.

- ♦ **Strong double-digit growth in premium personal care:** Premium personal care (contributing less than 5% of revenues) grew in high double digits in Q4FY2022 and full year FY2022, with both Livon Serums and Male Grooming growing over 20% each. Beardo crossed the Rs. 100 crore exit run rate and Just Herbs scaled up in line with expectations. Digital-first brands clocked Rs. 180-200 crore annual run rate on exit basis. Marico plans to build the premium personal care portfolios into growth engines of the future and deliver double-digit value growth over the medium term in these portfolios. The company aims to accelerate its digital transformation journey by building a portfolio of at least three digital brands, either organically or inorganically, with a combined turnover of Rs. 450-500 crore by FY2024.

International markets clock 12% y-o-y CC revenue growth

The International business delivered 12% y-o-y constant currency growth in Q4FY2022 led by 20% y-o-y growth in South Africa, 16% y-o-y growth in Bangladesh and 11% y-o-y growth in MENA in Q4FY2022. For full year FY2022, international business reported a CC y-o-y growth of 16% with MENA growing by 27% y-o-y, South Africa by 18% y-o-y and Bangladesh by 14% y-o-y. In Bangladesh, the competitive strength of the company's brands and its distribution reach in the region have enabled the business to stay firmly on its accelerated growth trajectory. Over the medium term, Marico aims to maintain the double-digit constant currency growth in the business. In Vietnam and MENA, Marico will now suitably replicate attributes from the strategy that has worked in Bangladesh, in order to build a sustained growth momentum in both businesses. The MENA market presents an attractive growth opportunity and the company will invest to grow in this market. In South Africa, Marico expects to protect the core franchise of ethnic hair care and health care over the medium term.

Other key highlights

- ♦ **Strong long-term outlook for domestic market:** In the domestic business, while near term demand outlook is uncertain, the company is confident of staying well-ahead of market growth and will continue maintain sharp focus on driving penetration and market share gains across portfolios aided by distribution expansion, aggressive cost controls, and sufficient investment in market development and brand building. Marico will closely watch rural growth and is hopeful of a recovery in demand in light of the good harvest season, normal monsoon forecast and government spending. The near term notwithstanding, the company remains confident of the medium term prospects of the FMCG sector once transient macro disturbances settle down and fundamental drivers of the India consumption story come to the fore.
- ♦ **Stable operating environment globally:** The International business has maintained a steady momentum of healthy profitable growth over the last five years. As the pandemic has subsided across regions, Marico expects the business environment in the markets, it operates in to remain stable, unless any major geo-political concerns flare up. Therefore, the company is confident of maintaining the double-digit growth momentum in the coming quarters.

- ♦ **Margins to remain relative better:** Copra prices (50% of raw material basket) were down by 31% y-o-y and 9% q-o-q. The management expects copra prices to remain benign in the onset of new flush season. On the other hand, vegetable oil prices and crude-linked input prices are expected to remain high due to global supply constraints. With price hikes in key categories and cost-saving measures, the company expects OPM to remain flat in the near term. However, the same is expected to improve in H2 with expected reduction in the key input prices.
- ♦ **Eyeing double-digit growth:** Over the medium term, Marico holds its aspiration to deliver 13-15% revenue growth on the back of 8-10% domestic volume growth in the domestic business and double-digit constant currency growth in the international business. The company aims to maintain consolidated operating margin above the threshold of 19% over the medium term.

Results (Consolidated)				Rs cr	
Particulars	Q4FY22	Q4FY21	y-o-y (%)	Q3FY22	q-o-q (%)
Net sales	2,161.0	2,012.0	7.4	2,407.0	-10.2
Raw Material Consumed	1,200.0	1,124.0	6.8	1,355.0	-11.4
Employee Expenses	139.0	150.0	-7.3	144.0	-3.5
Ad & Sales promotion expenses	204.0	173.0	17.9	223.0	-8.5
Other Expenses	272.0	246.0	10.6	254.0	7.1
Total Expenditure	1,815.0	1,693.0	7.2	1,976.0	-8.1
Operating profit	346.0	319.0	8.5	431.0	-19.7
Other income	24.0	29.0	-17.2	22.0	9.1
Interest expenses	11.0	10.0	10.0	10.0	10.0
Depreciation	37.0	36.0	2.8	36.0	2.8
PBT	322.0	302.0	6.6	407.0	-20.9
Tax	65.0	60.9	6.7	90.0	-27.8
Adjusted PAT (After MI)	257.0	241.1	6.6	317.0	-18.9
Extraordinary items	0.0	14.1	-	0.0	-
Reported PAT	257.0	227.0	13.2	317.0	-18.9
Adjusted EPS	2.0	1.9	6.6	2.5	-18.9
			bps		bps
GPM (%)	44.5	44.1	33	43.7	76
OPM (%)	16.0	15.9	16	17.9	-190
NPM (%)	11.9	12.0	-9	13.2	-128
Tax rate (%)	16.0	15.9	16	17.9	-190

Source: Company; Sharekhan Research

Result snapshot (Standalone)				Rs cr	
Particulars	Q4FY22	Q4FY21	y-o-y (%)	Q3FY22	q-o-q (%)
Net Sales	1,686.0	1,604.0	5.1	1,855.0	-9.1
Operating profit	247.0	234.0	5.6	299.0	-17.4
Adjusted PAT	293.0	271.0	8.1	278.0	5.4
			bps		bps
GPM (%)	39.0	38.7	31	38.5	54
OPM (%)	14.7	14.6	6	16.1	-147

Source: Company; Sharekhan Research

Outlook and Valuation

■ Sector View – Despite near-term weakness; long-term growth prospects intact

Slowdown in rural demand, consumer inflation and weakness in overall consumer sentiments will continue to impact overall consumption in the coming quarters. Intense summer season might push demand for summer products during the quarter. However, overall demand is expected to remain subdued. Revenue growth will largely be driven by price hikes in the respective portfolio to mitigate input cost inflation for the next 2-3 quarters. Global uncertainties will lead to volatile commodity prices. Commodity inflation is expected to settle in the next 6-8 months. Thus, margin pressure is likely to sustain in the near term. Better monsoon will play a major role in regaining momentum in rural demand and help in cooling off agri-commodity inflation. Though near-term headwinds will have a toll on the performance of consumer goods companies, long-term growth prospects remain intact. Low penetration levels in key categories (especially in rural India), lower per capita consumption compared to other countries, a large shift to branded products, and emergence of new channels such as e-Commerce/D2C provide a number of opportunities for achieving sustainable growth in the medium to long run.

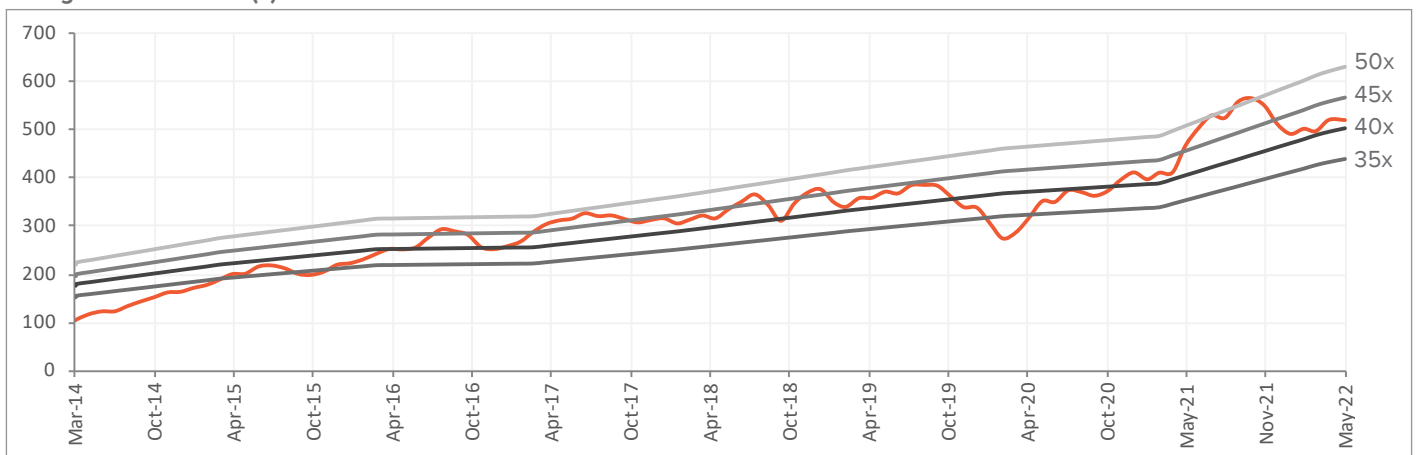
■ Company Outlook – Maintain volume growth target of 8-10% for the medium term

The company aims to deliver a 13-15% revenue growth due to 8-10% domestic volume growth in the domestic business and double-digit constant currency growth in the international business in the medium term. The core portfolio is expected to witness strong growth in the medium term with Parachute Rigids expected to deliver 5-7% volume growth, the VAHO portfolio to sustain double-digit value growth momentum, and Saffola oils to deliver high single-digit volume growth. Saffola Foods expected to achieve turnover of Rs. 850-1,000 crore by FY2024. Market share gains and increased distribution in rural India would help the company achieve steady growth in the medium term. Copra prices are expected to remain benign while other key inputs are expected to remain firm in the near term. However, management expects raw material inflation to cool-off in H2FY023. OPM would stand at 19-20% in the medium term.

■ Valuation – Retain Buy with an unchanged PT of Rs. 645

Marico is banking on 4Ds (Diversification, Distribution, Digital and Diversity) to drive consistent double digit earning growth in the medium to long term. Gaining market share in the core domestic portfolio through new launches, scaling up the foods business, and improving growth prospects in Bangladesh and Vietnam are some of the key growth levers for Marico in the near to medium term. With copra prices expected to remain benign, Marico's profitability is expected to be relatively better compared to its peers. The stock is currently trading at 42.6x/36.2x its FY2023/24E earnings. We like the company's focus on de-risking its business model by premiumisation of the core, expansion of foods portfolio, scaling up digital brands and cost management. We maintain Buy recommendation on the stock with an unchanged (PT) of Rs. 645.

One-year forward P/E (x) band



Source: Sharekhan Research

Peer Comparison

Particulars	P/E (x)			EV/EBIDTA (x)			RoCE (%)		
	FY22	FY23E	FY24E	FY22	FY23E	FY24E	FY22	FY23E	FY24E
Dabur	51.2	44.1	36.0	41.4	36.4	29.7	26.3	27.8	31.3
Hindustan Unilever	57.6	52.6	43.8	40.2	36.9	30.7	23.8	26.2	30.8
Marico	53.5	42.6	36.2	39.2	31.3	27.0	41.4	51.5	55.2

Source: Company, Sharekhan estimates

About company

Marico is one of India's leading consumer products companies in the domestic hair and wellness market with a turnover of over Rs. 9,500 crore. Marico is present in the categories of hair care, skin care, edible oils, health foods, and male grooming, with a vast portfolio of brands such as Parachute, Saffola, Hair & Care, Nihar, Livon, Kaya Youth, and Coco Soul. The company is currently present in 25 countries across emerging markets of Asia and Africa, including Middle East, Bangladesh, Vietnam, Egypt, and South Africa, which constitute 22% of the total revenue. The company has a retail reach of over 5 million outlets in the domestic market.

Investment theme

Marico is a leading player in the domestic hair and wellness market with a leadership position in categories such as coconut oils (~63% market share), value-added hair oils (~37% market share), and Parachute Rigid within Coconut Oils (~53% market share). The company has a three-pronged strategy of driving growth through key categories, innovations/entrance into the niche category, and scaling up its presence in international geographies. In recent times, the company has entered into niche categories such as male grooming, premium hair nourishment, and healthy foods, which will not only improve the revenue growth trajectory but would help in boosting margins in the long run due to their premium nature. Consistent innovations, a wide distribution network, and expansion in new-age channels such as modern trade and e-commerce would be key platforms to achieve good growth in the near term.

Key Risks

- ♦ **Demand slowdown:** Slowdown in key product categories would affect overall demand and revenue growth.
- ♦ **Higher input prices:** A significant increase in prices of key raw materials such as copra (~40% of input costs) would affect profitability and earnings growth.
- ♦ **Increased competition in highly penetrated categories:** Increased competition in highly penetrated categories such as VAHO and edible oils would threaten revenue growth.

Additional Data

Key management personnel

Harsh Mariwala	Chairman
Saugata Gupta	Managing Director and CEO
Pawan Agrawal	Chief Financial Officer
Vinay M A	Company Secretary & Compliance Officer

Source: Company Website

Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	First State Investment	7.00
2	First State Investment ICVC	5.62
3	Life Insurance Corp of India	3.70
4	Blackrock Inc	1.80
5	Vanguard Group Inc	1.36
6	UTI Asset Management Co Ltd	1.18
7	Norges Bank	0.72
8	Alliance Bernstein LP	0.62
9	FIL Ltd	0.60
10	Bank of Montreal	0.57

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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Registered Office: Sharekhan Limited, 10th Floor, Beta Building, Lodha iThink Techno Campus, Off. JVL R, 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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