



## 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  
Updated Feb 08, 2022

17.73

## Low Risk

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

Source: Morningstar

## Company details

Market cap:	Rs. 36,297 cr
52-week high/low:	Rs. 840/ 495
NSE volume: (No of shares)	19.4 lakh
BSE code:	532343
NSE code:	TVSMOTOR
Free float: (No of shares)	22.7 cr

## Shareholding (%)

Promoters	50.8
FII	12.0
DII	28.5
Others	8.7

## Price chart



## Price performance

(%)	1m	3m	6m	12m
Absolute	23.2	42.8	12.2	17.7
Relative to Sensex	22.8	41.1	19.3	13.9

Sharekhan Research, Bloomberg

## TVS Motor Company Ltd

## Gearing up for next leg of growth

## Automobiles

## Sharekhan code: TVSMOTOR

## Reco/View: Buy



Upgrade



Maintain



Downgrade

CMP: Rs. 764

Price Target: Rs. 900



## Summary

- TVS Motor Company Ltd.'s (TVSM's) FY22 annual report highlighted the company's growth path in coming years, its renewed focus on technology in operations and product development.
- Aggressive product launches, foray into new markets and investments in newer and cleaner technologies with profitable growth would be the company's key growth drivers.
- Earnings growth is expected to witness a robust 33.4% CAGR during FY2022-FY2024E, led by 15.5% revenue growth and a 100-bps expansion in EBITDA margin, with RoE to sustain at over 20%.
- The stock trades below its historical average at P/E multiple of 22.1x and EV/EBITDA multiple of 12.1x its FY2024E estimates.

TVS Motor Company Ltd's (TVSM's) FY22 annual report highlighted the company's growth path, its renewed focus on technology in operations and product development. FY22 was another challenging year for the industry, as the two-wheeler (two-wheeler) industry witnessed COVID-induced lockdowns, continuous inflation of raw material costs, shortage of semi-conductor components, unavailability of containers and sluggish rural demand. Despite these serious impediments, the company continued to invest in technology, product development, new launches and capacity expansion with prime focus on electric vehicles (EVs). The company expects FY23 to be a better year for the industry, as it expects rural demand to pick-up strongly. The company continues to ramp-up its investments in the electric vehicle (EV) and connected technology over the past few quarters. We believe TVSM is well positioned to play on the adoption of EVs and evolving connected technology in scooter segments, given its focus on technology and tech start-ups. We expect TVSM to benefit from recovery in urban demand swiftly, led by gradual reopening of urban centres and product launches. Moreover, premium motorcycle segment is expected to do well in the near term. We maintain our Buy rating on the stock with a revised price target (PT) of Rs.900.

- FY22 - A year of challenges and hopes:** FY22 was marked by second wave of COVID-19 pandemic, supply chain disruptions and strong upcycle of commodity prices increased. Despite these serious impediment, TVSM performed better than the industry in FY22, through market share gains, product launches and cost cuts, while improving EBITDA margin to an all-time high in double-digits during the last three quarters of FY22.
- Electric vehicles remain the prime focus:** TVSM is ramping its investments in EVs and connected technologies through multiple routes – investments in R&D and auto technology start-ups. The management expects its EV capacity to improve to 10,000 units/month by January 2022 versus the current capacity of ~1,000 units/month. The company is expanding its distribution network to 33 cities by end-FY22. The company is also creating a separate subsidiary for EV business to increase focus, flexibility and investments.
- Strengthening exports and international business:** We expect TVSM to continue to perform strongly and gain market share in exports and international markets, driven by its wide and strong product portfolio and offerings and its focus on new product launches and entering new countries. TVSM's business in Bangladesh and other South Asian countries are improving from the impact of COVID-19.

## Our Call

**Valuation - Maintain Buy with a revised PT of Rs. 900:** TVSM has been increasing its market share in both domestic and export markets, aided by a strong product portfolio. We remain positive on the two-wheeler industry, owing to strong demand prospects despite the fear of the third wave of COVID. 2Ws are a more affordable choice for buyers as they prefer personal transport over public transport on safety concerns post the pandemic. Moreover, increased focus on premium and EV products provides ample room for growth in Indian and export markets. We expect TVSM to be a key beneficiary of two-wheeler demand, given its aggressive new product launches across its sub-segments. EBITDA margin is expected to improve and remain sustainable at 10-11% going forward, driven by increasing share of premium products, operating leverage and cost-control measures. Further, the company plans to create an EV subsidiary, which provides an opportunity for value unlocking for expansion of EV products and geographical reach. The company's stock trades below its historical average at a P/E multiple of 22.1x and EV/EBITDA multiple of 12.1x its FY2024E estimates. We maintain a Buy rating with a revised price target of Rs. 900.

## Key Risks

Geopolitical tensions can adversely affect commodity prices and supply constraints. Rising raw-material prices may pose a threat to profitability if commodity prices continue to rise for a longer period.

## Valuation

Particulars	FY21	FY22	FY23E	FY24E
Net sales	16,751	20,791	24,944	27,713
Growth (%)	2.0	24.1	20.0	11.1
EBITDA	1,429	1,962	2,537	2,880
OPM (%)	8.5	9.4	10.2	10.4
PAT	612	924	1,413	1,643
Growth (%)	3.3	50.9	53.0	16.3
FD EPS (Rs)	12.9	19.4	29.7	34.6
P/E (x)	59.3	39.3	25.7	22.1
P/BV (x)	9.0	7.7	6.4	5.3
EV/EBITDA (x)	26.5	18.9	14.3	12.1
RoE (%)	15.1	19.7	24.9	24.1
RoCE (%)	16.2	21.3	26.4	26.2

Source: Company; Sharekhan estimates

## Key takeaways

**TVS Motor Company Ltd.'s (TVSM's) FY22 annual report highlighted on the company's growth path in coming years, its renewed focus on technology in operations and product development. Year FY22 was another challenging year for the industry, as two-wheeler (two-wheeler) industry witnessed COVID-induced lockdowns, continuous inflation of raw material costs, shortage of semi-conductor components, unavailability of containers and sluggish rural demand. Despite these serious impediments, the company continued to invest in technology, product development, product launches and capacity expansion with prime focus on electric vehicles (EVs). The company expects FY23 to be a better year for the industry, as it expects rural demand to pick-up strongly, led by favourable Rabi crop, increase in crop prices and expectation of normal monsoon. The management also hopeful that the economy will grow strongly in FY23 in-line with RBI's projection of 7.2% GDP growth. The urban demand and customer footfalls are also expected to improve in FY23, aided by increasing COVID-vaccination coverage, ease of restrictions and in contact-intensive services. We continue to maintain our positive outlook on TVSM, driven by its focus on technology, increasing premiumization of products, aggressive foray into EVs and investments into tech start-ups. The key takeaways of the annual report FY22 are discussed below,**

### FY22 - A year of challenges and hopes

- ♦ FY22 was marked by second wave of COVID pandemic, supply chain disruptions and strong upcycle of commodity price increases. In Q4FY22, the war between Russia and Ukraine led to geopolitical unrest, further impacting supply chains globally and driving up commodity prices. The government's initiatives on increasing vaccination levels, easing lockdown restrictions, boosting spends and maintaining of low-interest rate regime, helped the economy to come out of woods on path of recovery and restrict the negative impact of second and third wave of COVID.
- ♦ Fuelled by government spending, low interest rate regime and strong pick-up in exports led to recovery in vehicle sales. Real GDP growth returned to pre-pandemic levels, though capacity utilization and consumer confidence are yet to reach pre-pandemic levels, signalling further growth potential.
- ♦ The domestic two-wheeler industry declined by 11% y-o-y in FY22, after a 13% y-o-y decline in FY21. The two-wheeler industry saw sharp changes in the growth momentum over the quarters. Q1FY22 grew by 85% y-o-y partially due to the low industry base of last year and all subsequent quarters witnessed declines, over the comparable periods of last year - Q2FY22 (down 12.5% y-o-y), Q3FY22 (down 25% y-o-y) and Q4FY22 (down 23.3% y-o-y).
- ♦ Compared to two-wheeler industry decline of 11% in FY22, TVSM's performance in domestic volumes was at 6%. Exports was a saviour for the industry and the company. TVSM's exports grew by robust 43% y-o-y to 10.9 lakh units versus 36% y-o-y growth in two-wheeler industry exports from India.
- ♦ Three-wheeler exports during the year reached 1.63 lakh units in FY22 and recorded a growth of 41% over FY21

### Timely launch of new and refreshed variants are key to TVSM's outpace industry growth rate

- ♦ TVSM focusing on introducing new brands as well as brand building through refreshes of existing brands. The company's new/refreshed variants in FY22 included its brand such TVS Raider, TVS Jupiter, TVS Apache, TVS XL100, TVS Ntorq and electric TVS iQube.
- ♦ TVS Raider was launched in September 2021 to cater to the aspirations of global customers. The Raider 125 (Sporty commuter motorcycle) received consumer's appreciation from across the country and global markets like South Asia and Latin America.
- ♦ TVS Apache 160 4V (the premium segment bike) was another successful premium product variant that was launched this year. Leading the segment with its technological prowess, the TVS Apache RTR 160 4V was introduced with first-in-class features - 3 ride modes (Urban, Rain, Sport), SmartXconnect and LED Headlamp with DRL. In addition, there was also the successful launch of Apache RTR 160 4V Special Edition in Matte Black. The TVS Apache RR310 continues to its footprints with premium dealership expansion and introduced TVS Build to Order (BTO), which allows customers to customize and personalize their bike with the web configurator or TVS ARIVE App.
- ♦ TVS Jupiter 125 (executive commuter scooter) is an extension of TVSM's leading Scooter Brand, TVS Jupiter. It was launched in October 2021. This variant has many new features, some of the key differentiator includes large size and space. The launch was a grand success, and the product has been gaining great acceptance in the market. Within 5 months of launch, Jupiter 125 has sold more than 93k units. In March 2022, the company launched TVS Jupiter ZX SmartConnect, offering fully digital console, navigation and voice assist feature in the 110 cc segment.

- ♦ In July 2021, TVS NTorq 125 Race XP was launched, with more than 10 PS power with dual ride modes and voice assist feature. In December 2021, TVSM announced the launch of Marvel Spider-Man and Thor inspired scooters under the TVS NTORQ 125 SuperSquad Edition. The new scooters will join the SuperSquad Edition inspired by Marvel Super Heroes - Iron Man, Black Panther, and Captain America, launched last year.
- ♦ TVS HLX 150, a 5 speed bike, is a strong product launch targeting African commercial market, where the company has strong market presence.

### **Strengthening relationship with BMW**

TVSM and BMW Motorrad (BMW's Indian arm for 2-wheelers) have further deepened their relationship and extended partnership to jointly develop new platforms and future technologies, including electric vehicles. The partners intend to co-develop, manufacture and export e-2Ws for both companies ranging from scooters to motorcycles, including innovations. TVSM's scope will include the design and development of future BMW Motorrad products and delivering world-class quality, supply chain management, and industrialization. Under this enhanced cooperation, both companies have identified a range of products and technologies to deliver significant business benefits. Exclusive products for both companies will be developed on these common platforms, and the companies will retail their products globally. The tie-up will continue to focus on premium and high e-scooters and e-motorcycles. TVSM and BMW had first signed their long-term strategic partnership in April 2013 to manufacture for global markets. Under this collaboration, they developed three products on 310cc platform, viz., BMW G 310 R, BMW 310 GS, and TVS Apache RR 310. Both the partners have a successful track record, and the new partnership is win-win situation for both partners.

### **A keen eye on EVs**

- ♦ TVSM continued its journey to expand its EV footprints, and help to build infrastructure and EV ecosystem, as this category attracts customers. TVSM has set up an electric vehicle (EV) vertical to rapidly ramp up its product pipeline and presence globally. The company aims to leverage PLI and FAME II initiatives of the government and aim to strategically build a sustained dominant EV player. The management expects the EV industry to grow rapidly in the medium term and is gearing itself to outpace industry growth.
- ♦ The Company has robust plans for this segment. In addition, TVSM will be exploring the joint design and development of urban EV options with BMW Motorrad for the global markets. The company has EV vertical with over 600 engineers and adopted the Centres of Competency (COCs) with agile working approach. The EV two-wheeler industry predominantly operates in the scooter form, and currently is today is ~10% of the total scooter Industry (ICE + EV). TVSM has sold more than 10,000 EV vehicles in FY22 with a geographical presence equivalent to 50%+ of the EV industry.
- ♦ Further, there have been alliances and joint initiatives with partners like TATA Power, JIO BP, BESCOM and others to expedite the creation of the charging infrastructure.
- ♦ The company is ramping its investments in EVs and connected technologies through multiple routes – investments in R&D and automobile tech start-ups. Electric TVS iQube was launched in January 2020 to mark its foray into EV segment. Management expects its EV capacity to improve to 10,000 units/month by Q1FY23E. TVSM has expanded its distribution network to 33 cities by FY2022-end, which it would further increase as EV production ramps up. The company continues to focus on EVs and has shared its plan to invest Rs. 1,000 crore in EVs. The company would share its EV expansion plan later in the year.
- ♦ The company achieved a 19% market share in the high-speed electric scooter segment in FY22. It further intends to consolidate position as a leader in the EV segment through aggressive product offerings and increasing distribution network presence pan-India.
- ♦ TVS will launch EV three-wheelers soon to further strengthen its EV portfolio. The company will launch a complete range of electric two-wheelers and three-wheelers with power output ranging from 5-25 kilowatts over the next two years.

### **Focus on Digital and AI technologies**

TVSM continues to invest in digitalizing company's operations from customer facing digital assets, retail management, manufacturing and supply chain and enterprise functions with the aim of improving customer experience, sales performance, dealer engagement, efficiency and transparency in operations. This year the company scaled customer-facing digital products by introducing capabilities such as virtual store and chatbot on the company's website and instrumenting clickstream data in website and consumer applications. Further, the company leveraged AI technologies to differentiate leads, both digital and dealer walk-ins, based on their propensity to buy. This has resulted in improving effectiveness in retail management.

**Strengthening exports and international business:** We expect TVSM to continue to perform strongly and gain market share in exports and international markets, driven by its wide and strong product portfolio and offerings, and its focus on product launches and entering new countries. TVSM's business in Bangladesh and other South Asian countries are improving from the impact of COVID. The company has laid down a strategy to boost its export volumes over the next 4-5 years through consolidating its position, where the company presence and entering new markets. The company plans to continue consolidating its export business across Africa and Latin America, while it will grow export shipments from Indonesia-based units. The company is increasing its distributors in new countries and strengthening its relationships with existing distributors. Exports are expected to continue their growth momentum, with monthly volumes of over 1 lakh units.

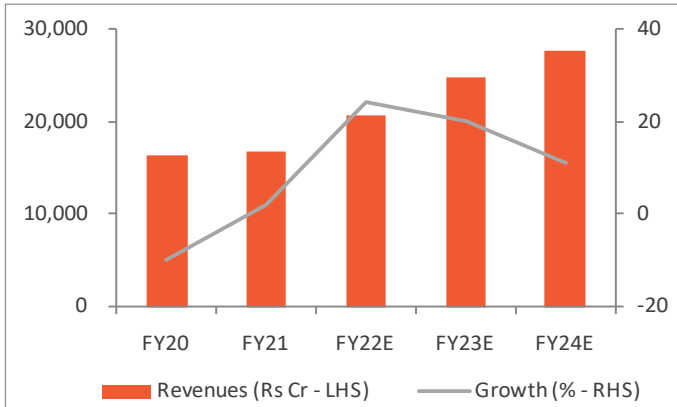
**Buoyant demand helping to take price hikes comfortably:** Key input costs continued to increase and put pressure on gross margins. Price hikes taken by the company during the past three-four quarters have helped it improve its operating profit margins (OPM). During Q4FY2022, the company took price hike of 1.5%. The company continues to focus on operational efficiencies and cost-reduction measures. Moreover, volumes have recovered in FY2022, driven by normalisation of business activity. We expect TVSM to sustain margin improvement going forward and expect OPM to improve by 100 bps to 10.4% in FY2024E from 9.4% in FY2022.

**Management Outlook:** Management has given a positive outlook for FY2023E growth, as the company expects strong recovery in demand from rural, semi-urban, and urban areas. IMD and Skymet have predicted a normal monsoon this year. If the monsoons arrive in a timely manner and is evenly distributed, this would be the fourth consecutive year of monsoon, leading to a buoyant rural sentiment. The management expects strong growth in the two-wheeler industry in the medium term and aims to outpace the industry's growth. Management's optimism for strong recovery is backed by the government's aggressive vaccination drive, good monsoon, festive season, and new launches. The company has maintained its double-digit EBITDA margin guidance, as volumes are expected to recover. Exports are expected to continue their growth momentum, with monthly volume in excess of 1 lakh units. Investments in EV product development and start-ups continue to remain the company's priority. With respect to semi-conductor shortage issue, management expects the situation to improve. The company has tied-up with new vendors, who have assured for semi-conductor supplies.

**Capex plans, investments in subsidiaries and EV plan:** TVS Motor has maintained its capex guidance at around Rs. 700 crore in FY2023E, which will include the e-mobility business. Funding of capex would be entirely from internal accruals. The company is well positioned to grow its business in both technologies – internal combustion engine and EV, where it sees faster growth and demand. The company is building capacity and investing in technology development. The company has a separate vertical for EV with more than 560 engineers working on the EV product portfolio. The company is working on the EV product portfolio for both two-wheelers and three-wheelers. During the quarter, the company invested ~Rs. 758 crore into subsidiaries.

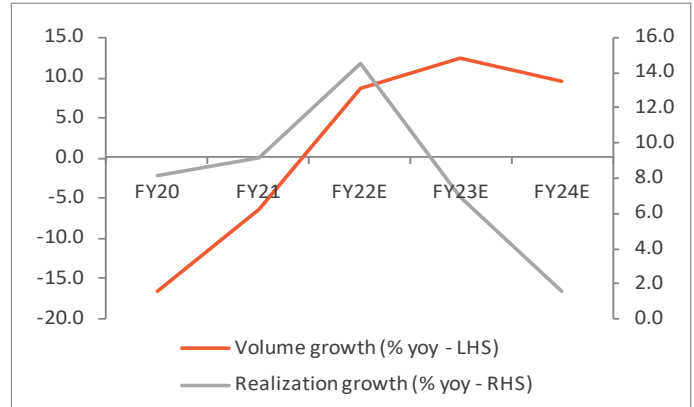
## Financials in charts

### Revenue and Growth Trend



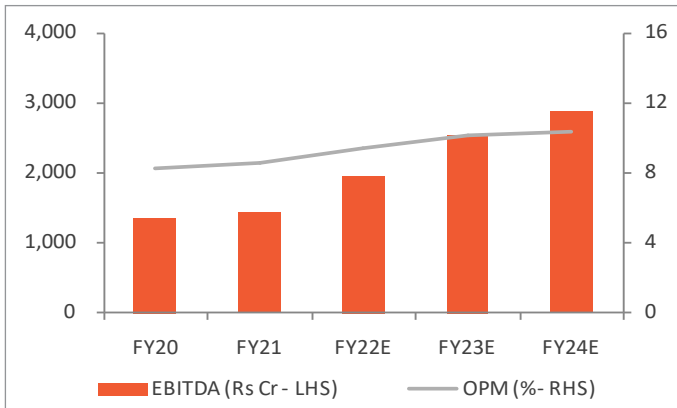
Source: Company, Sharekhan Research

### Volume and realisation growth



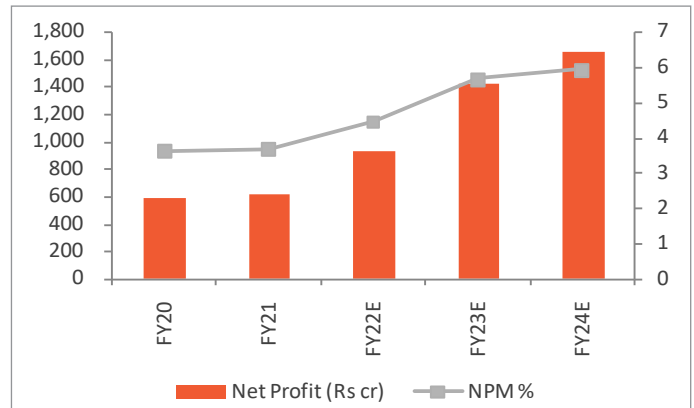
Source: Company, Sharekhan Research

### EBITDA and OPM Trend



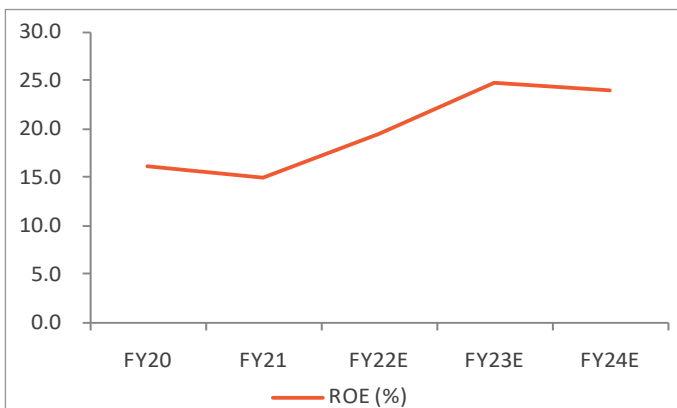
Source: Company, Sharekhan Research

### Net profit and Growth Trend



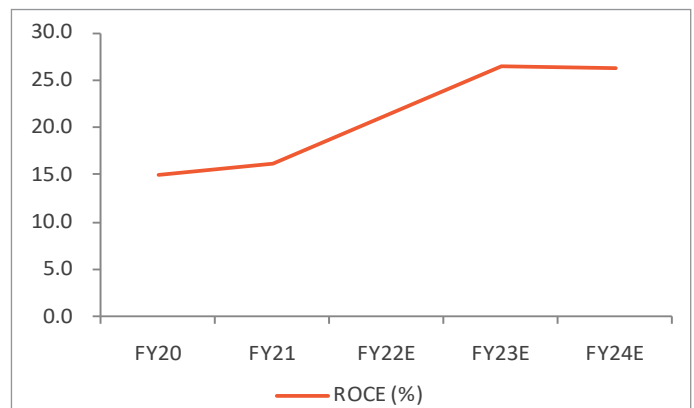
Source: Company, Sharekhan Research

### RoE trend



Source: Company, Sharekhan Research

### RoCE trend



Source: Company, Sharekhan Research



## Outlook and Valuation

### ■ Sector view - Sales volumes likely to improve

Two-wheeler demand is expected to recover strongly post normalisation of the economy, driven by pent-up demand and preference for personal mobility amidst COVID-19. Two-wheelers are also a more affordable option. We expect growth momentum to continue in FY2023E, driven by strong rural sentiments, supported by higher kharif sowing and positive outlook for monsoon this year. The government's reform measures coupled with increased preference for personal transport are expected to improve volumes. Export markets have witnessed notable recovery in volume sales offtake across regional markets – ASEAN, South Asia, Middle East, and Africa. Original equipment manufacturers (OEMs) are positive on recovery and expect these markets to improve. Companies having exposure to export markets are expected to do well.

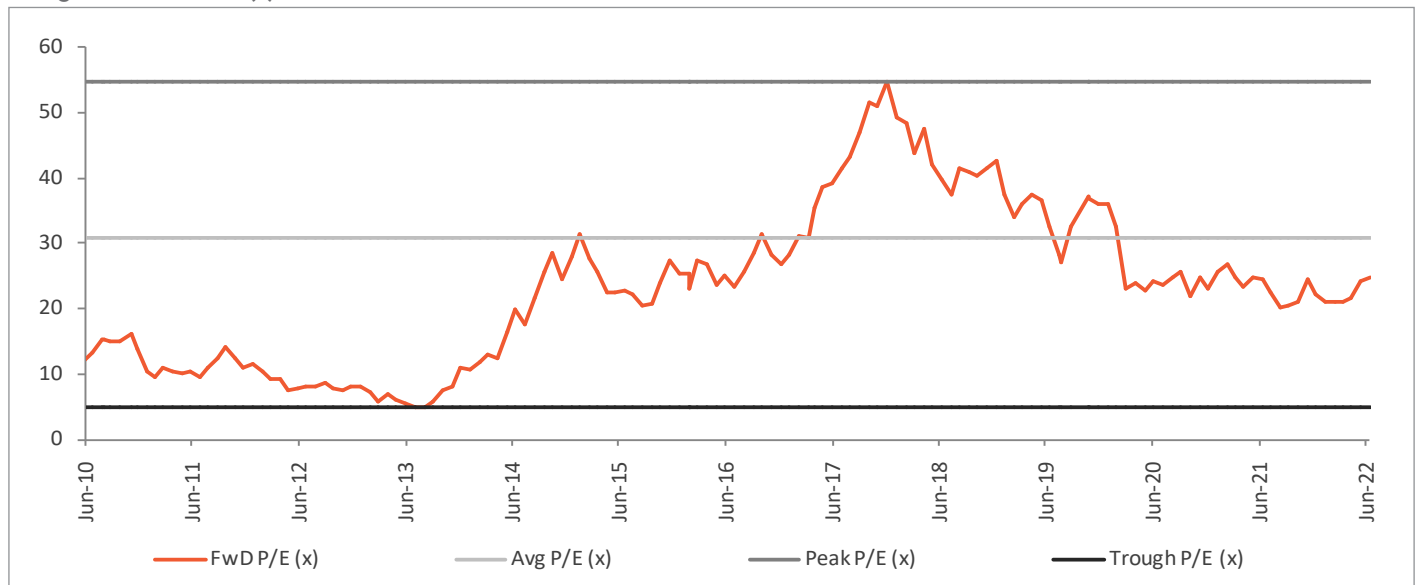
### ■ Company outlook - Company with the fastest earnings growth in the two-wheeler space

TVSM has gained market share in the two-wheeler industry, with the number rising from 11.8% in FY2014 to about 15.2% in FY2022, driven by successful new launches and a widening distribution network. Moreover, the company has been able to strengthen its presence in the high realisation scooters and motorcycles category. Cost-control measures, better vendor negotiations, and operating leverage benefits due to better scale have resulted in TVSM emerging as the two-wheeler maker to post the fastest earnings growth with a strong 15% earnings CAGR over FY2014-FY2021. TVSM is expected to remain the fastest-growing company going ahead in the two-wheeler segment, given its aggressive product launches, foray into new markets, and investments in newer and cleaner technologies. We expect robust earnings to report a 33.4% CAGR during FY2022-FY2024E, led by 15.5% revenue growth and a 100-bps expansion in EBITDA margin, with ROE to sustain over 20%.

### ■ Valuation - Maintain Buy with a revised PT of Rs. 900

TVSM has been increasing its market share in both domestic and export markets, aided by a strong product portfolio. We remain positive on the two-wheeler industry, owing to strong demand prospects despite the fear of the third wave of COVID. 2Ws are a more affordable choice for buyers as they prefer personal transport over public transport on safety concerns post the pandemic. Moreover, increased focus on premium and EV products provides ample room for growth in Indian and export markets. We expect TVSM to be a key beneficiary of two-wheeler demand, given its aggressive new product launches across its sub-segments. EBITDA margin is expected to improve and remain sustainable at 10-11% going forward, driven by increasing share of premium products, operating leverage and cost-control measures. Further, the company plans to create an EV subsidiary, which provides an opportunity for value unlocking for expansion of EV products and geographical reach. The company's stock trades below its historical average at a P/E multiple of 22.1x and EV/EBITDA multiple of 12.1x its FY2024E estimates. We maintain a Buy rating with a revised price target of Rs. 900.

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



Source: Sharekhan Research

### Peer Comparison

Companies	CMP (Rs cr)	P/E (x)			EV/EBITDA (x)			ROCE (%)		
		FY22	FY23E	FY24E	FY22	FY23E	FY24E	FY22	FY23E	FY24E
TVS Motor	764	39.3	25.7	22.1	18.9	14.3	12.1	21.3	26.4	26.2
Hero MotoCorp	2,603	21.0	17.1	13.8	13.0	9.6	7.2	20.1	21.1	22.0
Bajaj Auto	3,885	23.9	17.3	15.5	16.9	11.8	10.2	21.2	25.3	25.8

Source: Company; Sharekhan Research

## About company

TVSM is the flagship company of TVS Group and is the third largest two-wheeler manufacturer in the country. TVSM is the only manufacturer present across all three categories of two-wheeler, viz. motorcycles, scooters, and mopeds. Motorcycles and scooters contribute 40% and 33% to volumes, respectively, while mopeds constitute 23%. TVSM also manufactures Three-wheelers (5% of overall volumes) mainly for the export market. TVSM has been focusing on growing exports with the overseas market, contributing to about 25% of overall volumes.

## Investment theme

TVSM is one of the leading manufacturers in the two-wheeler industry, with products ranging from moped, scooters to motorcycles. The company has a capability to roll out new products and facelifts at regular intervals. Lately, the company has been focussing on technology platforms by investing in the company and start-ups. TVSM is expected to continue outpacing the industry, driven by new product launches and enhancing distribution network. Exports have picked up strongly, post August 2020, driven by recovery in key markets and tapping of new geographies. Margin improvement is expected to sustain given cost-control initiatives and benefits of operating leverage. TVSM is expected to remain the fastest-growing company among 2Ws, given its focus on exports, scooters, and bikes.

## Key Risks

- ♦ Geopolitical tensions globally can impact adversely to commodity prices and supply constraints.
- ♦ Rising input prices may affect margins if rising commodity costs are not passed on to customers. In a scenario of price competition, TVSM may not be in an advantageous position due to lower margins among peers.

## Additional Data

### Key management personnel

Venu Srinivasan	Chairman
Sudarshan Venu	Managing Director
K Gopala Desikan	Chief Financial Officer
K S Srinivasan	Company Secretary and Compliance Officer

Source: Company

### Top shareholders

Sr. No.	Holder Name	Holding (%)
1	Sundaram Clayton Ltd.	50.3%
2	ICICI Prudential Asset Management	9.8%
3	Life Insurance Corp of India	6.3%
4	Jwalamukhi Investment Holdings	4.3%
5	Mirae Asset Global Investments Co.	2.3%
6	SBI Mutual Fund	1.8%
7	Westbridge Aif I	1.5%
8	Tree Line Asia Master Fund (Singapore) Pte Ltd	1.4%

Source: Bloomberg

Sharekhan Limited, its analyst or dependant(s) of the analyst might be holding or having a position in the companies mentioned in the article.

## 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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