Debock Industries Limited

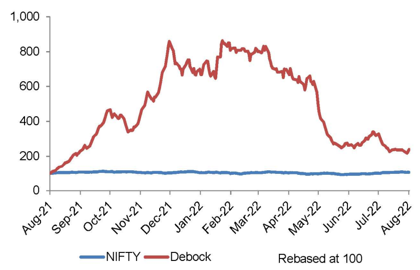
26 August 2022

Granite mining a game-changer, anchored by farm equipment

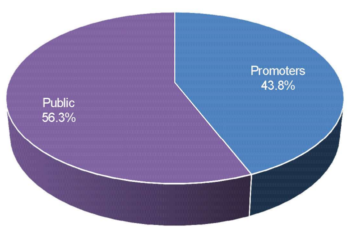
BUY

Sector	: Agriculture/Mining
Target Price	: ₹65
Last Closing Price	: ₹44
Market Cap	: ₹167 crore
52-week High/Low	: ₹161/17
Daily Avg Vol (12M)	: 1,05,474
Face Value	: ₹10
Beta	: 0.26
Pledged Shares	: 7.1%
Year End	: March
BSE Scrip Code	: NA
NSE Scrip Code	: DIL
Bloomberg Code	: DIL IN
Reuters Code	: NA
Nifty	: 17,522
BSE Sensex	: 58,775
Analyst	: Research Team

Price Performance



Shareholding Pattern



Initiating Coverage

Investment Summary

- Jaipur-headquartered Debock Industries operates across three verticals, viz. Farm Equipment & Seeds, Mining, and Hospitality. Currently 99% of the company's revenues comes from the farm equipment and seeds business with the small remainder contributed by hospitality.
- The agri-products (farm equipment and seeds) business is a steady and the main revenue generator for Debock, aided by its monopolistic power and subsidy. The Rajasthan government's 30% subsidy offer and 0% GST on farm equipment is a key driver for Debock's sales. The management observed that the company does not have any major competition in Rajasthan.
- Healthy growth in production, productivity and harvest price indicate an increasing trend in farm income in Rajasthan. With a widespread practice of mechanised agriculture and a well-established market for farm equipment (Rajasthan has higher-than-national average farm power availability, especially in the western part), the state presents a strong opportunity for farm equipment manufacturers and suppliers.
- Debock acquired 40 ha of land on lease for 99 years for granite mining, funded through a warrants issue of Rs 40 crore. Expected to commence in November, Debock's management expects the mining business to clock a revenue run-rate of Rs 100-150 crore annually. With mining's contribution is expected to go up to ~48% in FY24, its superior margin profile is seen to drive overall EBITDA margins from 10.9% in FY22 to 19.8% in FY24.
- The Debock stock currently trades at an attractive forward multiple of 5.4x FY24E EPS. With nearly a half of FY24E revenues forecast to come from mining, which is a completely new vertical for the company, we value Debock at a conservative P/E of 8.0x FY24E EPS @ Rs 65, informing an upside of 49% from current levels, as we initiate coverage on the company with a BUY rating.

Key Financial Metrics

Rs lakh	FY20A	FY21A	FY22A	FY23E	FY24E
Net operating revenue	1,867	3,078	9,737	14,472	23,038
Growth		*64.9%*	*216.3%*	*48.6%*	*59.2%*
EBITDA	163	424	1,058	2,741	4,562
EBITDA margin	*8.7%*	*13.8%*	*10.9%*	*18.9%*	*19.8%*
PAT	87	212	673	1,851	3,113
PAT margin	*4.6%*	*6.9%*	*6.9%*	*12.8%*	*13.5%*
Diluted EPS (Rs)	1.05	2.58	6.55	4.84	8.14

Source: Company data, Khambatta Research

Company Profile

Jaipur-headquarted Debock operates in the three verticals of Farm Equipment & Seeds, Mining, and Hospitality

The Debock Group was established in the year 2007 with the company being incorporated in 2008. The company listed on NSE Emerge in 2018 and subsequently migrated to the Main Board. Debock Industries is headquartered in Jaipur, Rajasthan. The company operates in three verticals, viz. Farm Equipment & Seeds, Mining, and Hospitality. Currently 99% of Debock's revenues comes from the farm equipment and seeds business with the small remainder contributed by hospitality.

Debock is a manufacturer (assembler) and supplier of agricultural equipment such as medium-duty cultivator, mounted-type disc cultivator, trailed-type disc harrow, MB plough, heavy-duty land levellers, double-spring cultivator, medium-duty (Rakab-type) cultivator, reversible land levellers, paddy harrow, and shrub master.

In the Hospitality vertical, Debock leases out properties to hotel operators that pay a fixed rental to Debock. The company owns a 30-room hotel and a 20-room resort at Deoli town in Rajasthan's Tonk district, situated about 160 km from Jaipur. Debock has acquired a land parcel in Jaipur and plans to develop it into a resort comprising 40 villas and 60 rooms.

Recently, Debock leased granite mines for 99 years. The company is awaiting permission from the government to start mining and expects to commence operations from 2H FY23.

Industry Overview

Agriculture

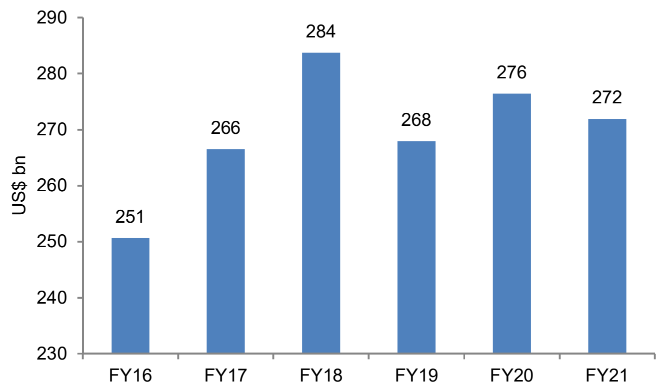
Agriculture and allied activities account for 19% of India's GVA

Agriculture plays a pivotal role in the Indian economy with 54.6% of the country's total workforce engaged in agriculture and allied sector activities *(source: Census 2011, Government of India)* and accounting for 18.8% (First Advance Estimates) of India's Gross Value Added (GVA) for the year 2021-22 (at current prices). India possesses the world's second-largest arable land resources and has 20 agri-climatic regions and 46 of the 60 soil types found in the world. Out of the country's total geographical area of 328.7 million hectares, the net sown area is 139.3 million hectares (42.4% of India's total geographical area) whilst the gross cropped area is 197.3 million with a cropping intensity of 141.6%. The net irrigated area is 71.6 million hectares. *(Source: Land Use Statistics 2018-19, Government of India)*

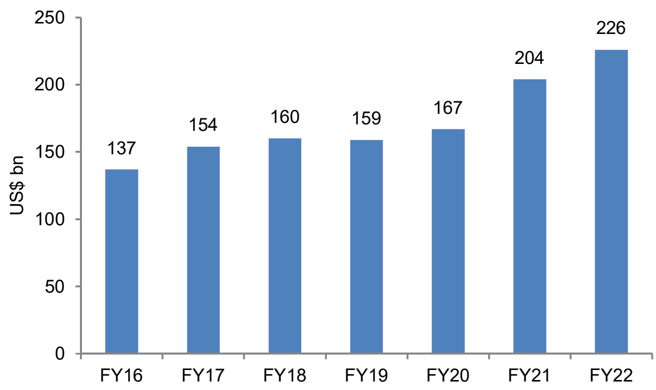
India is the world's largest producer of spices, pulses, milk, tea, cashew, and jute. It is the global second largest producer of wheat, rice, fruits and vegetables, sugarcane, cotton, and oilseeds. India is also the largest producer of mango and banana. During Crop Year (CrY) 2019-20, food grain production in India reached a record of 297 million tonnes. The Government of India (GoI) set a target of 3.9% growth in food grain production for FY 2021-22.

India's agricultural sector is seen to expand to US$ 24 bn by 2025. The Indian food and grocery market is the world's sixth largest with retail contributing 70% of its total sales. According to the GoI's second advance estimates, food grain production in India is estimated to be 316.1 MT in FY 2021-22.

GVA of agriculture and allied sectors

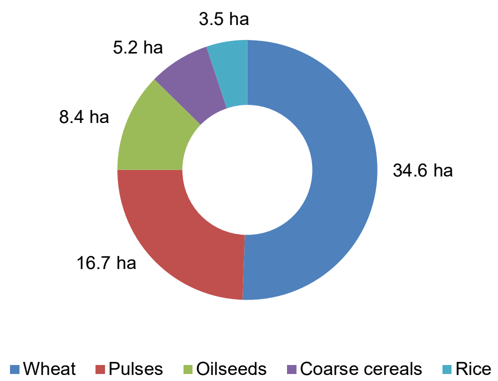


Outstanding credit to agriculture and allied activities

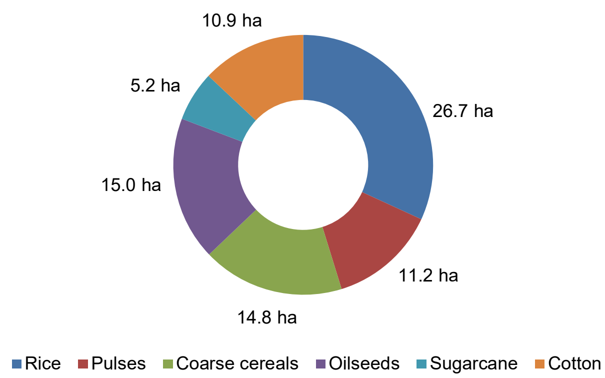


Source: IBEF

Rabi area sown in 2020-21 (as of Jan-21)



Kharif area sown in 2020-21 (as of Jul-20)



Source: IBEF

According to the World Trade Centre, India can be amongst the world's top five exporters of agro-commodities by reinforcing its focus on cultivation and effectively handholding farmers. India's export of agricultural and allied products stood at US$ 41.3 bn in FY21. The principal commodities that posted significant positive growth in exports between FY20 and FY21 are:

- Wheat and other cereals: 727% from Rs. 3,708 crore (US$ 505 million) to Rs. 5,860 crore (US$ 799 million)
- Non-Basmati rice: 132% from Rs. 13,130 crore (US$ 1,789) to Rs. 30,277 crore (US$ 4,126 million)
- Soya meal: 132% from Rs. 3,087 crore (US$ 421 million) to Rs. 7,224 crore (US$ 984 million)
- Raw cotton: 68% from Rs. 6,771 crore (US$ 923 million) to Rs. 11,373 crore (US$ 1,550 million)

India's export of agricultural and allied products stood at US$ 41.3 bn in FY21

- Sugar: 39.6% from Rs. 12,226 crore (US$ 1,666 million) to Rs. 17,072 crore (US$ 2,327 million)
- Spices: 11.5% from Rs. 23,562 crore (US$ 3,211 million) to Rs. 26,257 crore (US$ 3,578 million)

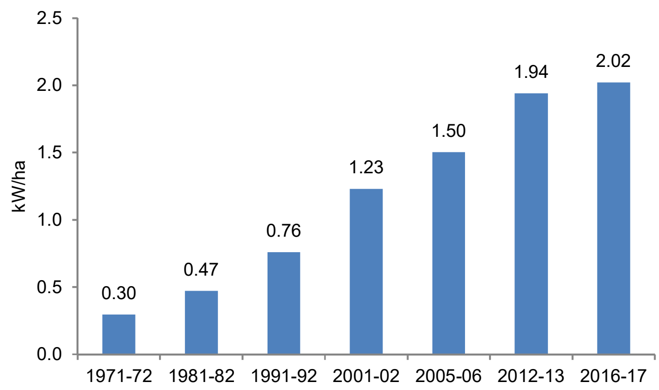
The Agriculture Export Policy 2018 set a target of increasing India's agricultural exports to Rs 4,19,340 crore (US$ 60 bn) by 2022. The GoI aims to expand Indian fishery exports to Rs. 1 lakh crore (US$ 14.31 billion) by 2024-25.

Farm Equipment

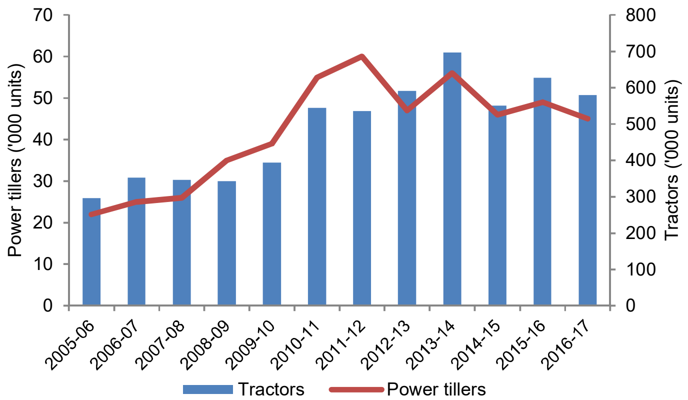
Farm mechanisation of 40%-45% in India is lower than in that in the US, Brazil and China

The Indian agriculture sector has witnessed a significant decline in the use of animal and human power in agriculture related activities over the past decades. With the proliferation of fossil fuel-driven agricultural machinery such as tractors, diesel engines and other machines, there has been a shift from traditional agricultural practices to more mechanised farming. Although farm mechanisation in India had reached 40%-45%, it was still low when compared to developed and other large developing countries such as the US (95%), Brazil (75%) and China (57%) *(source: Sectoral Paper on Farm Mechanization, NABARD, December 2018)*, presenting robust potential for the farm equipment industry to capitalize on a huge untapped market.

Average farm power availability in India



Sale of tractors and power tillers in India



Source: Sectoral Paper on Farm Mechanization, NABARD, Dec-18 / IndiaAgristat; State of Indian Agriculture 2017-18

The share of agricultural workers in the Indian workforce is anticipated to drop from 58.2% in 2001 to 25.7% by 2050

According to the World Bank's estimates, a half of India's population will be living in urban areas by 2050. The percentage of agricultural workers in the country's total workforce is anticipated to drop from 58.2% in 2001 to 25.7% by 2050. This is expected to drive farm mechanization in the country as the intensive involvement of human labour in various activities in farm operation and a shrinking rural workforce lead to increasing cost of production for many crops.

Abundant and cheap labour largely confined farm mechanisation in India to tractors and power tillers. Whilst tractors and power tillers still outsell other farm equipment such as paddy transplanters and combine harvesters, the gap has narrowed in recent years. Increased migration of working-age population to cities has created a big market for specialized agricultural machinery such as threshers, rotavator, transplanters, reapers, zero till drills, laser levellers and power weeders.

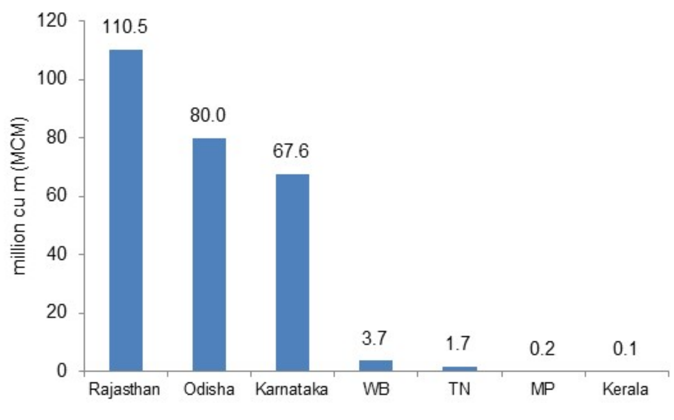
With the objective of boosting the income of farmers and growth of the farm sector, the GoI released funds in June 2021 for farm mechanisation such as establishment of custom hiring centres, farm machinery bank and high-tech hubs in different states.

Granite

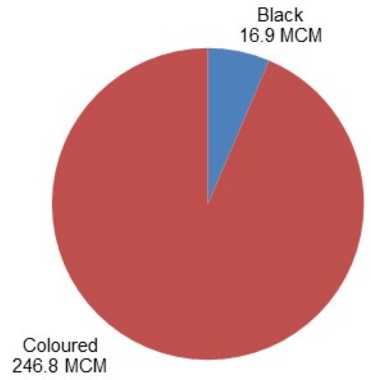
The Rs 25,000 crore Indian granite industry is backed by one of the world's largest reserves to the tune of 4 cu m

India is one of the largest producers and exporters of granite in the world. The Indian granite industry is worth Rs 25,000 crore as the country boasts of having one of the world's largest reserves to the tune of 4 trillion cubic metres (cu m). With only 3% of the overall Indian granite reserves been explored so far, there is virtually an unlimited source to tap for many years. Granite deposits are available in abundance in Tamil Nadu, Andhra Pradesh, Karnataka, Rajasthan and Odisha. With many unexplored mines, there is no risk of supply running out. Currently India contributes around 15% to the overall global production of granite. There are more than 100 varieties of different colours explored and mined so far in the country. Of these, nearly 60 varieties find applications in areas such as the construction of monuments, building slabs and floor tiles, and are exported in the global markets. The Indian granite industry provides employment to more than 1.5 million people.

Granite reserves in Indian states



Granite reserves in India by grade



Source: Indian Minerals Yearbook 2019, Ministry of Mines

85%-90% of the total granite produced in India is exported

With abundant reserve and varieties, the Indian granite industry has evolved into an export-oriented sector with about 85%-90% of the total granite produced in the country is exported. Granite is exported from India in various forms including crude or raw granite blocks, granite cut into blocks or slabs, granite for monumental or building stone, polished granite blocks and tiles, and carved or processed granite.

Over the years, India's granite industry has scaled new heights with sales to overseas markets growing by leaps and bounds. Today India is the world's largest exporter of raw granite and granite for monumental or building stone. Indian monumental granite is most famous across the globe.

India's biggest export markets for granite for monuments and buildings are the US, followed by Turkey, Germany, the UAE and the UK

India's biggest export markets for granite for monuments and buildings are the US, followed by Turkey, Germany, the UAE and the UK. The quality of Indian granite is superior compared to the Chinese stone, which is relatively inferior. Indian and Chinese granite dominate the market in Oman with 75% of sales in the country; the remainder comes from Brazil and Italy and is expensive compared to Indian and Chinese granite.

Granite today is used across application such as kitchen tops, floor tiles, house interiors as well as for styling bathrooms and offices. Buildings with stylish interiors and facades have created a huge demand for this natural stone that comes in a variety of shades such as blacks, cream, red and green. Granite is one of the hardest commercially-available stones. Besides possessing a smooth surface, it is known for having low permeability to oils and other liquids and being low-maintenance. Further, its resistance to scratches makes it an appropriate material for kitchen tops and flooring.

Besides being the world's top exporter of monumental granite, India is also the biggest exporter of raw granite blocks. The biggest export market for Indian raw granite blocks is China, accounting for nearly 80% of the total raw granite exports from the country. China processes a significant part of raw granite bought from India to further export processed granites to other countries.

Demand for processed granite is high in the global market with China, Brazil and Italy being the biggest players in the space. Global exports of processed granite in CY14 stood at over US$ 5.5 bn, out of which Chinese exports comprised US$ 3.5 bn, suggesting significant scope for India in processing and value addition.

(Source: The Dollar Business Magazine)

Investment Thesis

Agri-products / Farm Equipment:

The Rajasthan government's 30% subsidy on farm equipment is a key driver of Debock's sales

The agri-products business is a steady and the main revenue generator for Debock, aided by its monopolistic power and subsidy. Debock's largest strategic business unit (SBU) is the farm equipment and seeds (agri-products) business, contributing nearly 99% of the company's overall operating revenues. The company distributes its agri-products through stockists and dealers. The Rajasthan government offers 30% subsidy on farm equipment, which is a key driver of Debock's sales in the space. The dealer sells the equipment to the customer at the subsidised price and receives the subsidy from the government, which it subsequently transfers to the manufacturer. The subsidy amount is received from the government within 30 days on average. Further, agri-products including farm equipment enjoys 0% GST in Rajasthan, which is another key driver of Debock's sales in the state. The management observed that the company does not have any major competition in Rajasthan. With 15 to 20 people on payroll, the company employs another 30 to 35 contractual workers in the agri-products division. Debock has two yards for distribution of its products, one located in Jodhpur in West Rajasthan and the other one in Shekhawati in Northeast Rajasthan.

Debock's farm equipment workshop

Source: Debock Industries

Healthy farm sector KPIs and widespread mechanisation in agriculture in Rajasthan presents a strong opportunity for the farm equipment industry. With a total geographical area of 34.2 million ha, the cultivable area in Rajasthan is 25.6 million ha, which is 74.9% of the total geographical area, whilst the net sown area is 17.1 million ha or 66.7% of the cultivable area. The gross cropped area in the state is 21.7 million ha and the area sown more than once is 5.1 million hectare with a cropping intensity of 124.5%. The Index of Agricultural Production for all crops in Rajasthan increased from 145.62 in 2015-16 to 202.56 in 2019-20. Likewise, the Index of Agricultural Productivity also went up from 119.36 to 145.36 over the same period. The Index of Farm Harvest Price grew from 192.13 to 218.94 between 2016-16 and 2019-20. Healthy growth in production, productivity and harvest price indicate an increasing trend in farm income in Rajasthan.

Farm power availability in Rajasthan, especially in the western part of the state, is higher than the national average

Farm power availability in Rajasthan, especially in the western part of the state, is higher than the national average of 2.02 kW/ha (source: Operational Guidelines, Sub-mission on Agricultural Mechanization, Revised 2020-21, Ministry of Agriculture & Farmers' Welfare, Government of India). With a widespread practice of mechanized agriculture and a well-established market for farm equipment, Rajasthan presents a strong opportunity for farm equipment manufacturers and suppliers.

Granite Mining:

Mining operations are expected to commence in the second half of the current financial year. Debock acquired 40 ha of land on lease for 99 years for granite mining, which was funded through a warrants issue Rs 40 crore. Whilst mining is a new area of business for the company, its promoters' family has multi-generational experience in the space. Debock is expected to receive permission for carrying out quarrying on 20 ha of land in the first phase. The company will be seeking permission to mine the remaining 20 ha in the future. The royalty payable to the government for each tonne of granite mined, which commands a market rate of Rs 3,000 to Rs 4,000, is Rs 50 to Rs 60. Whilst Debock awaits permission from the government to start mining, operations are expected to begin from November of this year. The company's mining operations will comprise extraction of granite blocks of approximately 20 tonnes each from the quarry and selling them without any further processing. Wholesalers buying unprocessed granite blocks normally pay in advance and pick up the product directly from the quarry by sending their own transportation, consequently reducing working capital requirement for the miner. Debock's management expects an annual working capital requirement of Rs 4-5 crore, primarily for the payment of wages and salaries. The wage cost is a variable expense based on a per tonne rate, and is thus linked to the volume of stones extracted. The product that Debock will be supplying is black granite and the variety is known as Rajasthan Black.

Debock's management expects to commence mining in November after it receives the government's permission

Foray into mining is expected to be a game changer with it contributing a half of overall revenues and driving margins up to nearly 2x FY22 levels. Debock's management expects the mining business to clock a revenue run-rate of Rs 100-150 crore annually. With operations slated to start around November, mining will be contributing revenues for 4-5 months only in FY23 with full-year sales kicking in from FY24. Mining will be operational for about 8 months in a year as work remains suspended during the four months of monsoon. We have modelled a revenue run-rate of Rs 110 crore on a conservative basis in FY24, which will be the first full year of mining operations for the company, with an EBITDA margin of ~21%. With mining's contribution expected to go up to ~48% in FY24, the share of agri-products in overall revenues will drop from ~99% in FY22 to ~52% in FY24. The superior margin profile of mining is seen to drive overall EBITDA margins from 10.9% in FY22 to 19.8% in FY24.

Agri-products and mining revenues are expected to be equal revenue-contributors by FY24

Peer Comparison

Debock has many peers in the farm equipment space, both in the organised and unorganised segments of the market. By FY24, almost 50% of Debock's operating revenues are expected to come from granite mining where the company plans to start operations by November of this year. In the mining space too, Debock will be pitted against several organised and unorganised players. We compare Debock with the following listed companies (VST Tillers Tractors – farm equipment; ASI Industries and Pacific Industries – stone mining/processing) that do not necessarily compete with Debock directly.

Debock has several peers in both the organised and unorganised segments of the market

Peer Comparison: Key Financials Metrics, FY22

Rs crore	Debock Industries	VST Tillers Tractors	ASI Industries*	Pacific Industries
Operating revenue	97.4	853.9	226.8	282.0
EBITDA	10.6	124.2	36.6	26.5
EBITDA margin	*10.9%*	*14.5%*	*16.1%*	*9.4%*
PAT	6.7	99.3	11.9	9.4
PAT margin	*6.9%*	*11.6%*	*5.2%*	*3.3%*
Diluted EPS (Rs)	6.55	114.95	1.32	27.41
ROCE	13.7%	15.0%	3.8%	7.8%
ROE	9.7%	14.0%	3.5%	10.3%
Current market cap	166.6	2,074.1	174.3	156.9

**FY21 data used for the purpose of illustration as the company reported losses in FY22*
Source: Company data, Bloomberg, Khambatta Research

Valuation

The Debock stock currently trades at an attractive forward P/E level of 5.4x FY24E EPS

At 8.0x FY24E EPS, we initiate Debock with a BUY based on a price target of Rs 65 and an upside potential of 49%. Debock reported robust y-o-y growth and solid margin accretion in 1Q FY23. On a sequential basis, sales were largely flat whilst margins improved, albeit to a lower degree compared to the y-o-y change. We expect healthy growth in agri-products whilst the commencement of mining operations in November will drive topline expansion in FY23. FY24 will see a full year's contribution from mining, resulting in incremental revenue growth over the financial year. In line with 1Q FY23 and based on assumptions of incremental margin contribution by mining operations, we have modelled higher overall margins in FY23 and further improvement in FY24 resulting from operating leverage. The Debock stock currently trades at an attractive forward multiple of 5.4x FY24E EPS. With nearly a half of FY24E revenues forecast to come from mining, which is a completely new vertical for Debock, we assign a conservative target P/E multiple of 8.0x FY24E EPS to value Debock at Rs 65, informing an upside of 49% from current levels, as we initiate coverage on the company with a BUY rating.

1Q FY23 Financial Performance

Rs lakh	1Q FY22	4Q FY22	1Q FY23	Y-o-Y	Q-o-Q
Operating revenue	1,756.4	3,706.8	3,677.9	109.4%	-0.8%
EBITDA	112.2	625.7	710.9	533.7%	13.6%
EBITDA margin	*6.4%*	*16.9%*	*19.3%*	*1294 bps*	*245 bps*
PAT	78.5	443.1	513.5	554.4%	15.9%
PAT margin	*4.5%*	*12.0%*	*14.0%*	*949 bps*	*201 bps*
Diluted EPS (Rs)	0.96	4.31	3.06	218.8%	-29.0%

Source: Company data, Khambatta Research

Profit & Loss Account

Rs lakh	FY20A	FY21A	FY22A	FY23E	FY24E
Operating revenue	**1,866.8**	**3,078.0**	**9,736.7**	**14,472.3**	**23,037.9**
Growth		*64.9%*	*216.3%*	*48.6%*	*59.2%*
Cost of goods sold	1,623.1	2,599.3	8,518.7	11,475.5	18,054.2
Gross profit	243.7	478.6	1,218.0	2,996.7	4,983.7
Gross margin	*13.1%*	*15.6%*	*12.5%*	*20.7%*	*21.6%*
Operating expenses	80.8	54.7	160.2	256.0	421.5
EBITDA	**162.9**	**424.0**	**1,057.8**	**2,740.8**	**4,562.1**
EBITDA margin	*8.7%*	*13.8%*	*10.9%*	*18.9%*	*19.8%*
Depreciation & amortization	44.4	55.9	61.9	129.3	172.0
EBIT	118.5	368.1	995.9	2,611.5	4,390.1
Interest expense	91.9	91.9	104.5	143.1	240.0
PBT	29.9	276.2	895.8	2,468.4	4,150.1
Tax expense	(56.6)	64.0	223.2	617.1	1,037.5
PAT	**86.5**	**212.2**	**672.6**	**1,851.3**	**3,112.6**
PAT margin	*4.6%*	*6.9%*	*6.9%*	*12.8%*	*13.5%*
Diluted EPS (Rs)	**1.05**	**2.58**	**6.55**	**4.84**	**8.14**

Source: Company data, Khambatta Research

Abridged Balance Sheet

Rs lakh	FY20A	FY21A	FY22A	FY23E	FY24E
Paid-up capital	822.0	822.0	2,322.0	3,822.0	3,822.0
Total equity	2,341.1	2,545.9	6,969.0	10,695.3	13,807.9
Long-term debt	424.3	424.3	311.1	1,311.1	2,311.1
Short-term debt	827.4	1,699.4	1,151.2	1,147.6	1,805.4
Trade payables	2,687.2	200.3	4.1	11.5	18.1
Total equity & liabilities	**6,515.8**	**5,433.9**	**9,117.8**	**13,952.6**	**19,151.4**
Fixed assets	1,089.2	1,034.5	1,232.9	2,224.0	2,852.0
Inventory	827.9	697.4	1,457.6	2,295.1	3,610.8
Trade receivables	4,119.8	2,070.2	942.4	1,447.2	2,764.5
Cash & cash equivalents	39.6	3.9	267.4	938.5	1,341.8
Total assets	**6,515.8**	**5,433.9**	**9,117.8**	**13,952.6**	**19,151.4**

Source: Company data, Khambatta Research

Ratio Analysis

	FY20A	FY21A	FY22A	FY23E	FY24E
ROA	1.3%	3.9%	7.4%	13.3%	16.3%
ROCE	4.3%	12.3%	13.7%	21.7%	27.2%
ROE	3.7%	8.3%	9.7%	17.3%	22.5%
Long term debt-to-equity ratio	0.18x	0.17x	0.04x	0.12x	0.17x
Total debt-to-equity ratio	0.53x	0.83x	0.21x	0.23x	0.30x

Source: Company data, Khambatta Research

Key Risks

- Our growth forecasts are primarily driven by Debock's foray into and expansion of mining operations. Inability to execute the expansion in line with the company's plan presents risks to our forecasts.
- Debock's agri-products business is heavily dependent on government policies and subsidies. Any major changes in agriculture policies at either the central or state level have the potential to significantly impact the company's sales, competitiveness and profitability.
- Mining being a highly-regulated sector and subject to court/government orders including suspensions/bans, the performance of Debock's mining business is subject to these factors.
- Further severe waves of Covid-19 or it remaining around for an extended period of time can potentially affect the company's operations / supply chain and/or dampen demand for its products, leading to underperformance of our forecasts.
- Debock, in its FY21 audited financial statements, declared a contingent liability relating to claims by the Income Tax Department, which the company has disputed. In the event of the company's appeal being ultimately rejected and no option for further appeal/redress left for Debock, its financial performance and position will be significantly altered from our estimates.

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Guide to Khambatta's research approach

Valuation methodologies

We apply the following absolute/relative valuation methodologies to derive the 'fair value' of the stock as a part of our fundamental research:

DCF: The Discounted Cash Flow (DCF) method values an estimated stream of future free cash flows discounted to the present day, using a company's WACC or cost of equity. This method is used to estimate the attractiveness of an investment opportunity and as such provides a good measure of the company's value in absolute terms. There are several approaches to discounted cash flow analysis, including Free Cash Flow to Firm (FCFF), Free Cash Flow to Equity (FCFE) and the Dividend Discount Model (DDM). The selection of a particular approach depends on the particular company being researched and valued.

ERE: The Excess Return to Equity (ERE) method takes into consideration the absolute value of a company's return to equity in excess of its cost of equity discounted to the present day using the cost of equity. This methodology is more appropriate for valuing banking stocks than FCFF or FCFE methodologies.

Relative valuation: In relative valuation, various comparative multiples or ratios including Price/Earnings, Price/Sales, EV/Sales, EV/EBITDA, Price/Book Value are used to assess the relative worth of companies which operate in the same industry/industries and are thereby in the same peer group. Generally our approach involves the use of two multiples to estimate the relative valuation of a stock.

Other methodologies such as DuPont Analysis, CFROI, NAV and Sum-of-the-Parts (SOTP) are applied where appropriate.

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Buy recommendations are expected to improve, based on consideration of the fundamental view and the currency impact (where applicable) by at least 15%.

Hold recommendations are expected to improve, based on consideration of the fundamental view and the currency impact (where applicable) between 5% and 15%.

Sell recommendations are expected to improve up to 5% or deteriorate, based on consideration of the fundamental view and the currency impact (where applicable).

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